

Hudson Americas LLC
Part 2A of Form ADV
The Brochure for
Lone Star Fund V (U.S.), L.P.,
Lone Star Fund V (Bermuda), L.P.,
Lone Star Fund VI (U.S.), L.P.,
Lone Star Fund VI (Bermuda), L.P.,
Lone Star Fund VII (U.S.), L.P.,
Lone Star Fund VII (Bermuda), L.P.,
Lone Star Real Estate Fund (U.S.), L.P.,
Lone Star Real Estate Fund (Bermuda), L.P.,
Lone Star Real Estate Fund II (U.S.), L.P. and
Lone Star Real Estate Fund II (Bermuda), L.P.

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This brochure provides information about the qualifications and business practices of Hudson Americas LLC (“HAM”). 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 HAM is also available on the SEC’s website at: www.adviserinfo.sec.gov. HAM is a registered investment adviser. Registration as an investment adviser does not imply a certain level of skill or training.

Item 2: Material Changes

HAM's most recent Part 2A was filed on May 31, 2011. HAM is now updating Part 2A to make additional disclosures and clarify information previously included.

- Item 4 – Background information updated on (1) the relationship of Hudson Advisors LLC (“HAL”) with its Participating Affiliates (defined below in Section 4), and (2) to disclose the transfer of the Investment Committee (defined below in Section 4) and its functions from the GPs (defined below in Section 6) to Lone Star Global Acquisitions, Ltd..
- Item 5 – Additional information on HAL's expense allocation methods disclosed.
- Item 8 – Information updated to reflect risks related to the Private Funds' (defined below in Section 4) use of financing and leverage.
- Item 9 – Information on Korean securities matter involving a Private Fund investment disclosed.
- Item 10 – Information on HAM, HAL and LSGA's affiliations updated to reflect participating affiliate arrangements.
- Item 11 - Information on cross transactions updated to further explain investment opportunity allocations and cross transactions between Private Funds.
- Item 15 – Information on custody of the Private Funds' assets updated.

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Item 4: Advisory Business

Background of HAM and its clients

HAM exclusively provides non-discretionary and discretionary investment advisory and related services for the North American assets of a family of privately-offered funds generally referred to as the Lone Star Funds. HAM was formed in 2008 and is solely owned by Hudson Advisors LLC (“HAL”), which is also an SEC-registered investment adviser. HAL was formed in 1995 and is owned by Mr. John Patrick Grayken (99.9%) and Advisors GenPar, Inc. (0.10%). Advisors GenPar, Inc. is owned by Mr. Grayken.

Each of the Lone Star Funds is a closed-end, private equity, privately-placed limited partnership (each a “Private Fund” or “client”). Each Private Fund structure consists of a limited partnership organized in the United States under state law and a corresponding exempted limited partnership formed in Bermuda (such fund structure organization, the “US/Bermuda Private Funds”). When a Private Fund is investing, its US fund and its Bermuda fund will invest on a side-by-side basis in proportion to the respective capital commitments of each fund. Those Private Funds organized in the United States are not registered as investment companies in reliance upon either Section 3(c)(1) or 3(c)(7) of the Investment Company Act of 1940, as amended (“1940 Act”). The limited partnership interests of such Private Funds may be offered and sold only to “qualified purchasers” as defined in 1940 Act Section 2(a)(51)(A).

HAL has contracted with each of the Private Funds to provide the investment advisory and related services. In addition to HAM, HAL also has several subsidiaries domiciled in foreign jurisdictions, including Asia and the European Union (HAL, HAM and the other HAL subsidiaries are collectively referred to as “Hudson”). In providing services to the Private Fund, HAL relies on the resources of HAM as well as HAL’s non-U.S. subsidiaries that supply services pursuant to participating affiliate agreements (“Participating Affiliates”). HAL’s Participating Affiliates are further discussed in Item 10. HAL has entered into agreements with its subsidiaries to assist HAL in providing the services to the Private Funds; the subsidiaries perform these services on a regional basis.

HAM’s services are tailored to the needs of the Private Funds according to their respective investment objectives and restrictions as set forth in their respective limited partnership agreements. As described throughout this Brochure, HAM provides non-discretionary and, in certain cases, discretionary advice to each Private Fund on investments in a broad range of financial and other investment assets that are located in North America. These assets include, but are not limited to:

- equity and debt investments in distressed assets, including corporate, commercial real estate, single-family residential and consumer debt;
- real estate and real estate-related assets;
- controlling investments in operating companies and joint ventures; and
- securitized products such as residential mortgage-backed securities (“RMBS”), collateralized debt obligations (“CDOs”) the underlying assets of which generally consist of RMBS, and commercial mortgage-backed securities (“CMBS”).

The portfolio of each Private Fund may be invested in these assets directly or indirectly through the acquisition of debt and/or subscription of equity interests in partnerships, corporations or other entities that hold the assets, including certain special purpose vehicles formed by the relevant Private Fund for a specific investment opportunity (each such vehicle is referred to as an “SPV”).

Description of Services

HAM provides three categories of services to the Private Funds:

- Due diligence and analysis services,
- Asset management services, and
- Ancillary services.

Due Diligence/Analysis Services

HAL has contracted with each of the Private Funds to provide due diligence and analysis services to the Private Funds as they evaluate new investment opportunities. HAL has entered into an agreement with

HAM under which HAM assists HAL in providing the due diligence and analysis services, which HAM provides for potential investments by the Private Funds in North America.

Included within this category of services is the financial, physical and legal evaluation of a potential investment and analysis and advice with respect to the closing of the new investment. As noted below in Item 10, HAM will work together with the Lone Star Entities (as defined below in Item 10) to provide due diligence analysis to the Investment Committee at LSGA responsible for the relevant Private Fund that is currently in its investment period (the “Investment Committee”). The Investment Committee reviews the due diligence analysis in its review and potential approval of investments acquired by the Private Fund. Additionally, in connection with a Private Fund’s acquisition of an investment, HAM may prepare an initial acquisition plan that includes the preparations to onboard the investment into HAM’s day-to-day asset management services (such services collectively, the “Due Diligence/Analysis Services”).

Asset Management Services

HAL has contracted with each of the Private Funds to provide general asset management services with respect to the investments purchased by a Private Fund. HAL has entered into an agreement with HAM under which HAM assists HAL in providing general asset management services, which HAM provides for assets located in North America. In addition, HAM contracts directly with certain of the Private Fund’s SPVs to provide asset management services with respect to the investments held by the SPVs. These services include making recommendations and providing non-discretionary and, in certain cases, discretionary advice with respect to the investment, including recommending management, financing and disposition strategies, and providing investment reports with respect to such investment (all such services collectively, the “Asset Management Services”). The Asset Management Services include the development of a detailed business plan for each investment and the review of a business plan at least every 90 days.

As of December 31, 2010, HAM managed on behalf of its clients (1) \$9,334,159,685 of assets on a discretionary basis, which activities relate to the sale of securities on behalf of certain Private Funds and, solely for asset management purposes for certain CDO investments, the purchase of junior securities needed to liquidate the CDOs for which the purchase of the senior securities (and the junior securities acquisition strategy) were previously approved by the Private Fund’s Investment Committee, and (2) \$6,054,545,302 of assets on a non-discretionary basis.

Ancillary Services

During the life of a Private Fund, HAL provides the Private Fund with certain back office services including accounting and reporting, treasury and cash management, tax, legal/compliance, risk management, and operating company oversight (collectively, the “Ancillary Services”). HAL has contracted with each of the Private Funds to provide the Ancillary Services, and HAL has entered into an agreement with HAM under which HAM assists HAL in providing certain of such services, which HAM provides in North America. In addition, HAM contracts directly with the Private Fund’s SPV to provide Ancillary Services with respect to the investment held by the SPV.

Wrap Fee Program

HAM does not participate in wrap fee programs.

Item 5: Fees and Compensation

HAM will be delivering this brochure only to “qualified purchasers” as defined in 1940 Act Section 2(a)(51)(A).

As stated above, HAL has contracted with the Private Funds to provide the above-described services, and HAM assists HAL in providing those services in North America. HAL’s fees are typically payable on a monthly basis in arrears and are billed to the applicable Private Fund and/or its SPVs. A portion of the fees received by HAL will be paid to HAM as compensation for the services provided by HAM. HAM does not receive fees in advance from any client; therefore, refund procedures are not applicable. Certain assets held by the SPVs may be jointly owned by a Private Fund and a third party pursuant to a joint venture arrangement. The distributions received by such third party with respect to those assets will be net of the fees paid by the SPV to HAM.

HAL’s contract with a Private Fund typically provides termination rights for both the Private Fund and HAL upon thirty calendar days’ notice to the other party, with or without cause, and immediate termination in the event of the removal or withdrawal of the Private Fund’s GP (as defined below in Item 6). If a contract is terminated prior to month’s end, HAL is only entitled to compensation accrued up to the termination date and compensation related to services requested by the Private Funds and/or its SPVs after the termination date. HAM’s contract with HAL likewise provides termination rights for both parties upon thirty days’ notice to the other party, with or without cause, and payment of compensation accrued up to the termination date.

To the extent not paid by the Private Funds or their SPVs directly, the Private Funds reimburse HAL and HAM, as applicable, for out-of-pocket third party expenses incurred, including broker’s commissions, clearance charges, due diligence expenses, loan servicing fees, travel expenses, taxes, and all other expenses incident to the purchase and sale of investments by such Private Fund. The Private Funds also reimburse HAL and HAM, as applicable, for charges incurred in connection with the custody of investments, outside legal and accounting fees and other nonrecurring and extraordinary expenses. Item 12 describes factors that HAM considers in selecting or recommending broker-dealers for Private Fund transactions and determining the reasonableness of their compensation.

Certain expenses shared by one or more Private Funds may be paid by a single Private Fund, which is reimbursed by other Private Funds for their appropriate share of the relevant expenses. In such cases, HAL has implemented procedures designed to ensure that such allocations are based on a sound method whereby shared expenses are reimbursed to the Private Fund that paid them in the proper amount.

HAM and its supervised persons do not accept compensation from third parties with respect to the services provided to the Private Funds.

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

HAM does not charge any performance-based fees to the Private Funds. The general partner entities of each of the Private Funds (the “GPs”), each of which is an affiliate of HAM, generally receives a management fee from each of the respective Private Funds, as well as a carried interest in such Private Fund based on the actual return of each investment made by the Private Fund. The GPs’ fees are in addition to any asset management fees paid to HAM. The amount of carried interest may change over time based on the performance of the Private Fund’s investments and may be considered a performance-based fee. The GP of each Private Fund will be entitled to receive its carried interest at the appropriate payment level within such Private Fund’s distribution hierarchy (i.e., waterfall), as set forth in the Private Fund’s limited partnership agreements. Payment of the respective GP’s carried interest will generally occur on an

investment-by-investment basis after all capital is returned and a specific preferred return on such investment is realized and paid to such Private Fund's limited partners.

While the Private Funds have typically been structured such that only one Private Fund is investing at any given time, Lone Star Fund VII and Lone Star Real Estate Fund II (the most recently formed Lone Star Funds) are each currently in their investment period. HAM does not, however, decide or make any recommendations regarding whether Lone Star Fund VII or Lone Star Real Estate Fund II should choose a particular investment. The limited partnership agreement of each of these Private Funds provides contractual safeguards regarding how a potential investment is chosen by a particular fund. Specifically, each of the limited partnership agreements specifies the types of investments that each of these Private Funds can make without any overlap between the funds. Lone Star Fund VII is permitted to invest in distressed loans and securities including single family, corporate and consumer debt products, and control investments in banks, financially-oriented and asset rich operating companies. Lone Star Real Estate Fund II is permitted to invest in distressed commercial real estate debt products and equity. In situations where a potential investment portfolio contains assets that may be suitable for both Private Funds, each of the limited partnership agreements clarifies that the portfolio may be purchased by the Private Fund whose permitted investments are most closely aligned with the predominant asset class of the potential investment portfolio (even though the portfolio may contain some assets that could be eligible investments of the other Private Fund). For example, if the predominant asset class of the prospective investment portfolio is commercial real estate debt products, Lone Star Real Estate Fund II will make the investment. The investing fund may retain or sell, transfer or participate the non-predominant assets of the investment portfolio to any third party, including the other fund. In the case of a sale, transfer or participation to the other fund, such transaction would have to be approved by the Advisory Committee of each Private Fund. The "Advisory Committee" is the committee created pursuant to a Private Fund's limited partnership agreement that is comprised of representatives of certain of the Private Fund's investors. The Advisory Committee meets with the Private Fund's GP several times during the year to consider and advise on conflicts of interest, the Private Fund's investment strategy and other matters relating to the business of the Private Fund. Neither HAM nor any of its supervised persons serve on the Advisory Committee of any of the Private Funds.

Additionally, as described above, when a Private Fund invests, its US fund and its Bermuda fund invest on a side-by-side basis in proportion to the respective capital commitments of each fund. This investment structuring prevents any investment allocation conflict issues between the respective US fund and Bermuda fund. The limited partnership agreements of each of the Private Funds require such Private Fund's Advisory Committee's approval for all affiliate transactions proposed to be entered into by such Private Fund.

In light of the facts noted above, HAM believes there are sufficient safeguards to protect against investment allocation conflict issues, particularly with respect to investment purchase opportunities by the Private Funds.

There may be, however, limited situations in which HAM may concurrently assist two clients in sales of similar investments (such as the same tranche of CDO bonds). To address this potential conflict, HAM has procedures implemented to require that all clients be treated fairly and equally. See Item 11 for further details regarding HAM's procedures.

Item 7: Types of Clients

For purposes of this brochure, the Private Funds, and not the investors in the Private Funds, are considered HAM's clients. HAM provides investment advisory services only to the Private Funds, either directly or indirectly through the Private Fund's SPVs. As noted above, investors in each Private Fund are Qualified Purchasers as defined in the 1940 Act. Each Private Fund sets its own minimum investment requirements

for investors, which is generally ten million U.S. dollars. The GP of a Private Fund may, in its sole discretion, waive the investment minimum.

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

All investments involve the risk of loss that clients and investors in the Private Funds should be prepared to bear. As discussed below, HAM provides Due Diligence/Analysis Services and Asset Management Services for the North American assets of the Private Funds. These services include making recommendations as well as effecting certain trades and financing transactions on behalf of the Private Funds' SPVs. The methods of analysis and asset management HAM employs to provide advisory services to the Private Funds may cause the Private Funds to lose money over short or long periods. As a result, as well as due to other risks inherent in investments generally, there can be no assurance that HAM's recommendations and asset management strategies will satisfy the investment objectives of any particular Private Fund or that any Private Fund will be able to carry out its investment strategy successfully.

Below are the methods of analysis, investment strategies and associated risks for the general types of investments that the Private Funds purchase. A more detailed discussion of the risks relating to an investment in one of the Private Funds can be found in the Private Fund's offering documents, including its private placement memorandum and governing documents.

Securities

- *Methods of Analysis/Investment Strategy*

In evaluating investments related to mortgage-backed securities and CDOs backed primarily by mortgage-backed securities, HAM uses a loan-level model that assigns the probability of future defaults, prepayments and loss severities to the underlying loan collateral. For example, the model considers borrower characteristics and the particular attributes of the loans underlying the securities, as well as projected future home prices and interest rates. The resulting projections of future loan performance derived from the first model are then applied to the mortgage-backed security's payment hierarchy (i.e., waterfall), and the projected cash flow of the security being valued is extracted. In the case of a CDO, HAM then assigns the cash flow from each security backing the CDO to the CDO's waterfall and extracts the cash flow of the CDO being valued. HAM also evaluates the resulting prepayment, default and severity assumptions under more stressful scenarios to account for macroeconomic uncertainty and various home price depreciation paths.

When valuing mortgage-backed securities and CDOs, HAM uses market information such as home price depreciation, rent, replacement costs, new and existing home sales and data from loan servicers regarding modifications. Additionally, HAM evaluates data from vendors including CoreLogic, Intex, and Bloomberg, as well as public data from trustees and servicers.

- *Material Risks Involved*

The material risks related to valuing these securities at the loan level using a credit-based model include (1) changes affecting the model inputs used to project loan 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 or legislative or regulatory changes) to impact actual loan performance. To address these risks, HAM performs regular model validation tests and adjusts the model to account for changes in the market, including credit trends, servicing trends and legislative and regulatory developments.

Other material risks related to valuing 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, HAM performs multi-scenario valuations (including what HAM believes to be 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 various classes of notes of the CDO. To help mitigate these risks, HAM works with internal counsel and, when appropriate, engages external counsel to review associated documents and evaluate these potential risks.

Whole Loan Assets

- *Methods of Analysis/Investment Strategy*

In evaluating investments related to non-performing mortgage loans backed primarily by residential properties, HAM uses a loan-level model that generates and projects loan level cash flows taking into account the borrower's credit profile and the projected cash flows of the underlying collateral under various probability-weighted liquidation scenarios. For example, 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 home price projections based on the property's specific geographical area and property type. Additionally, advance balances, foreclosure timeline, property marketing timeline, and various liquidation expenses are factored into the model assumptions. When valuing these loans, HAM also uses market information such as home price depreciation reports and home sales reports, as well as real-time empirical data from a related captive loan servicer regarding modifications and liquidation strategies.

HAM stress tests the resulting collateral cash flow projections to account for various factors including macroeconomic uncertainty, various home price depreciation paths, and asset management strategies.

- *Material Risks Involved*

The material risks related to valuing non-performing residential mortgage loans using a liquidation model include (1) changes affecting the model inputs used to project loan performance and (2) the potential for new variables to significantly impact the liquidation path. To address these risks, HAM performs regular model validation tests and adjusts the model to account for changes in the market, including housing trends. HAM performs multi-scenario valuations 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, HAM engages third-party due diligence vendors to review a sample of loans purchased.

Commercial Real Estate and Real Estate-related Assets

- *Methods of Analysis/Investment Strategy*

HAM uses similar methods of analysis and investment strategies for CMBS, commercial real estate loans and commercial real estate properties. HAM first analyzes the property itself by employing traditional real estate valuation methods, including the comparable sales approach, the income approach and the replacement cost 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, HAM has developed a model 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 its evaluation, HAM reviews the underlying collateral and conducts a fundamental analysis and valuation of the collateral. HAM evaluates data from vendors including CoreLogic, Intex, and Bloomberg as well as public data from trustees and servicers. HAM also uses Intex and Argus, both third party solutions, to perform necessary analytics. HAM utilizes the Bloomberg application to obtain the latest market pricing of certain securities, interest rate curves, interest rate projections by market participants, and general sentiments regarding market pricing. For real estate loans, HAM also evaluates real time empirical results. HAM also cultivates relationships with a network of local sales/leasing brokers and real estate developers who are knowledgeable regarding the local market. Additionally, HAM runs sensitivities to comprehend the effects of volatilities should events turn out differently than projected.

- *Material Risks Involved*

The material risks related to valuing CMBS, commercial real estate loans and properties using a liquidation model include (1) changes affecting the model inputs used in the valuations and (2) the potential for new variables to significantly impact the liquidation path. To assess these risks, HAM uses on-going surveillance of the market to adjust the model for a particular investment, and HAM performs multi-scenario valuations in an attempt to assess downside risk. Commercial real estate loans and properties also have increased risk of litigation in connection with the foreclosure process. To help mitigate this risk, HAM engages third-party due diligence vendors to review a sample of loans purchased.

Use of Financing and Leverage in Investment Strategy

- *Material Risks Involved*

Each Private Fund may finance investments by incurring a substantial amount of direct or indirect leverage, and the Private Funds' ability to achieve or surpass target rates of return on the investments recommended by the Lone Star Entities may depend on the ability to access sufficient financing sources on desirable terms. The Private Funds' investments are typically financed by initially borrowing under the lines of credit of such Private Funds and/or third party financings typically at the SPVs. 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 the Private Funds' portfolios will magnify their volatility and may substantially increase the Private Funds' risk profile. In the event a specific investment is unable to generate sufficient cash flow to meet principal and interest payments required to maintain the financing arrangements related to that investment, the value of a Private Fund's equity position in that investment could be significantly reduced or even eliminated.

The Private Funds use a variety of financing sources including, without limitation, bank loans and repurchase agreements. The repurchase agreements used by the Private Funds for financing purposes may have various terms ranging from a month or less to over a year. In the event that any given financing arrangement is terminated prior to its expected term, the Private Funds 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 of

the Private Fund. 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 Private Fund's ownership rights. There can be no assurance that the Private Fund will recover all or any of the economic value of the investment under such circumstances, and any such recovery may require the payment of substantial legal costs.

Item 9: Disciplinary Information

In October 2003, Lone Star Fund IV (U.S.), L.P. and Lone Star Fund IV (Bermuda), L.P. (“Investing Funds”), 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. The Investing Funds held their interest in KEB through a special purpose vehicle, LSF-KEB Holdings, SCA (“KEB Holdings”), whose statutory manager was LSF KEB Management SPRL. The permanent representative of LSF KEB Management SPRL was Michael Thomson, Executive Vice President and General Counsel of HAL. After KEB Holdings assumed control of KEB, several persons affiliated with KEB Holdings were elected to the Board of Directors of KEB, including Paul Yoo, Ellis Short, Michael Thomson, and Steven Lee (“Lone Star Directors”).

In November 2003, the Board of Directors of KEB considered the acquisition of KEB’s credit card affiliate (“KEB Credit”), in order to avert its impending insolvency. The KEB Board of Directors, recognizing that a merger of KEB and KEB Credit was the only viable solution for the massive fiscal problems faced by KEB Credit, resolved to pursue a merger, provided that the details of the merger plan, including a possible capital reduction of KEB Credit to reflect the precise value of KEB Credit, would be approved by the KEB Board of Directors in the future. If the capital reduction were to occur, it could impair the rights of shareholders of KEB Credit in a merger with KEB. KEB publicly disclosed this resolution to the Korea Stock Exchange (“KSE”) as required by the KSE rules, and also made a press release to the same effect. The Board of Directors of KEB ultimately resolved, however, to merge with KEB Credit without such a capital reduction.

In 2006, the Korean Supreme Prosecutor’s Office charged KEB, KEB Holdings, and Paul Yoo, who was also a senior officer of LSGA’s Korean subsidiary, Lone Star Advisors Korea, L.L.C., with violations of the Korean Securities and Exchange Act (“SEA”) in connection with KEB’s merger with KEB Credit. The charges alleged in part that the Lone Star Directors conspired to release the press release and discuss the capital reduction of KEB Credit, when they had no actual intent to consider and proceed with a capital reduction of KEB Credit. In addition, the charges alleged that the Lone Star Directors released the press release with the knowledge that it might decrease the stock price of KEB Credit, for the purpose of enabling KEB to merge with KEB Credit on more favorable terms. In October 2011, after several decisions and appeals, KEB Holdings and Paul Yoo were found by the Seoul High Court to have violated the SEA. Paul Yoo was sentenced to three years imprisonment. The Seoul High Court also imposed a criminal fine of KRW 25 billion (approximately USD 22.4 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. HAM 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.

Item 10: Other Financial Industry Activities and Affiliations

Neither HAM nor any of its management persons is registered, or currently has an application pending to register, as a broker-dealer, a futures commission merchant, a commodity pool operator, or a commodity trading adviser.

HAM's parent entity, HAL, is the parent entity of a number of other subsidiaries, including the Participating Affiliates. With respect to HAL's advisory services, each Participating Affiliate is registered, or believes it is exempt from registration, under the laws of the jurisdiction in which it is located. The Participating Affiliates are (1) Hudson Advisors Luxembourg S.A.R.L., (2) Hudson Advisors Ireland Limited, (3) Hudson Advisors Germany GmbH, (4) Hudson Advisors UK Limited, (5) Hudson Japan K.K., and (6) Hudson Advisors Servicing Co., Ltd.

As noted above in Item 4, HAM has a material business relationship with HAL because HAL has sub-contracted to HAM certain contractual obligations HAL owes to the Private Funds. Specifically, HAL has entered into an agreement with HAM to provide Due Diligence/Analysis Services, Asset Management Services and Ancillary Services, which HAM provides with respect to the Private Funds' investments located in North America. Additionally, HAL and HAM share office space in their Dallas and New York office locations, and HAL provides technology resources to HAM in all of HAM's offices.

HAL and HAM are also under common control with LSGA and its affiliated entities. LSGA has a subsidiary domiciled in the United States, Lone Star U.S. Acquisitions, LLC ("LSUS"). LSGA and LSUS have filed a joint application for registration with the SEC as investment advisers. In addition to LSUS, LSGA has several subsidiaries domiciled in non-U.S. jurisdictions, including Asia and the European Union. In providing services to the Private Funds, LSGA relies on the resources of LSUS as well as the non-U.S. subsidiaries that supply services pursuant to participating affiliate arrangements. LSGA's participating affiliates are (1) Lone Star Japan Acquisitions Ltd., (2) Lone Star Management Europe, Ltd., (3) Lone Star Management Europe Limited, and (4) Lone Star Germany GmbH (collectively with LSGA and LSUS, the "Lone Star Entities").

While a Private Fund is in its investment period, the Lone Star Entities provide investment origination sourcing services to such Private Fund (such Private Funds are also clients of HAM) and work together with HAM to provide Due Diligence/Analysis Services in connection with the review and potential approval of investments that are acquired by the Private Funds. Specifically, while the Lone Star Entities are responsible for originating an investment, HAM is responsible for providing the Due Diligence and Analysis Services with respect to investments located in North America. The information resulting from HAM's Due Diligence and Analysis Services is provided to the Investment Committee of the relevant Private Fund that is currently in its investment period.

While HAM does not receive compensation from third party service providers who provide services on behalf of the Private Funds, HAM receives research materials from various broker-dealers free of charge. See Item 12 for more information regarding the selection of broker-dealers.

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

Code of Ethics Adopted Pursuant to SEC Rule 204A-1

HAM has adopted the following three codes (together, the “Code”), which set forth certain standards for HAM employees and certain other persons subject to the Code (“Covered Persons”): (1) a Code of Ethics applicable to all “supervised persons” as defined in the Investment Advisers Act of 1940, as amended (the “Advisers Act”), (2) a Supplemental Code of Ethics applicable to all “access persons” as defined in the Advisers Act, and (3) the Insider Trading Policy and Procedures. HAM adopted the Code in accordance with Advisers Act Section 204A. The Code covers personal securities transactions and is intended to promote ethical conduct and to provide guidelines and reporting requirements to help ensure compliance by HAM and its employees with applicable federal and state securities laws and regulations. The Code is intended to reinforce the fiduciary principles that govern the conduct of HAM and related advisory personnel.

HAM’s clients and HAM’s employees may invest, or have already invested, in obligations and/or other securities that are identical to or senior to, or have interests different from or adverse to, eligible client investments. To address potential conflicts of interest regarding personal trading, the Code includes certain provisions regarding transactions in certain securities and other investments (“Reportable Securities”) by Covered Persons. The Code, among other things, restricts the purchase and sale by Covered Persons for their own account of Reportable Securities that are purchased by clients. It requires access persons to pre-clear certain personal securities transactions, particularly initial public offerings and limited offerings or private placement securities. Requests for trading authorization will be denied when, among other reasons, the proposed personal transaction would be contrary to the provisions of the Code. Access persons are required to provide initial and annual reports of holdings of Reportable Securities and quarterly reports of transactions involving Reportable Securities. Transactions in Reportable Securities are reviewed for compliance with the Code. In addition, the Code requires disclosure by HAM personnel of potential conflicts of interest with respect to HAM’s clients, restricts HAM personnel from investing in certain securities for themselves or their clients based on material, nonpublic information, and establishes policies regarding other matters such as the giving or receiving of gifts and entertainment.

HAM may, from time to time, come into possession of material, nonpublic and other confidential information which, if disclosed, might affect an investor’s decision to buy, sell or hold a security. Under applicable law, HAM and its related personnel are prohibited from improperly disclosing or using this information for their personal benefit or for the benefit of any other person, regardless of whether such other person is an advisory client. Accordingly, should HAM and/or its personnel come into possession of material, nonpublic or other confidential information with respect to any company, they may be prohibited from communicating such information to, or using such information for the benefit of, their respective clients. HAM and its personnel have no obligation to disclose the information to or use such information for the benefit of clients. HAM and its personnel also do not have any responsibility or liability for failing to disclose such information to clients as a result of following HAM’s policies and procedures designed to ensure that HAM and its personnel comply with their obligations with respect to such information.

Further, by reason of its responsibilities to the Private Funds, and notwithstanding procedural safeguards including restricted securities lists, HAM may come into possession of confidential or material nonpublic information that would limit its ability to direct the purchase or sale of certain investments. HAM may therefore be restricted from initiating transactions in certain securities or selling certain investments, in each case on a client’s behalf, due to the acquisition of confidential or material nonpublic information, at a time when action would otherwise be taken.

The Code establishes procedures to prevent the misuse of material information by all HAM employees, officers, directors and certain other persons. Any member, officer, director, or employee of HAM who fails to observe the above-described policies risks serious sanctions, including dismissal and personal liability.

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

Participation or Interest in Client Transactions

Various potential and actual conflicts of interest may arise from the overall advisory, investment and other activities of HAM and its employees with respect to the management of the Private Funds. The following briefly summarizes HAM's known conflicts of interest.

HAM acts as investment adviser to several Private Funds. Except for the co-investment opportunity described below, HAM and its employees do not themselves invest in opportunities recommended to the Private Fund.

Co-Investment Opportunity.

Certain key employees of HAM and other members of Hudson and the Lone Star Entities (as applicable) are given the opportunity to co-invest side-by-side with the Private Funds, and on the same economic terms (pro rata taking into account the size of the investment), in each investment that the Private Funds acquire. Key employees who participate in such co-investment opportunities provide their consent to the terms of such co-investment transaction. The co-investments are typically structured through co-investment vehicles (often limited partnerships), with HAL or affiliates of HAL often acting as the general partner and/or managing member of such co-investment vehicles. Any distributions to the key employees who participate in a co-investment opportunity will be net of the asset management fees for such investment. Key employees who participate in a co-investment opportunity are required to fund their weighted average share of unconsummated transaction costs.

For each co-investment opportunity, HAL or an affiliate will make available financing to the key employees participating in such co-investment. The financing is provided through a promissory note that typically bears interest at LIBOR plus 3%. Additionally, the financing is made on a full recourse basis with the key employee's interest in the co-investment as collateral. The amounts borrowed will generally be repaid from any and all distributions from the co-investment. With respect to the Private Funds that are currently in their investment period (Lone Star Fund VII and Lone Star Real Estate Fund II), HAL and/or one of its subsidiaries will provide the financing to the key employees.

This co-investment program is designed to align the interests of HAM's personnel with those of its clients, the Private Funds. The employees of HAM who participate in the co-investment program have their personal monies at risk alongside the investors of the Private Fund, thereby creating an alignment of interests with the investors of the Private Fund. These arrangements do, however, also present certain conflicts of interest. For example, HAM personnel who participate in a co-investment may have an incentive to recommend the disposition of assets based on their personal interests rather than the best interests of the applicable Private Fund. HAM has implemented policies and procedures, including the Code, that are reasonably designed to ensure that HAM personnel act in the best interests of HAM's clients at all times.

Investment Opportunity Allocations and Cross Transactions

When a Private Fund invests, its U.S./Bermuda Private Funds invest on a side-by-side basis in proportion to the respective capital commitments of each fund pursuant to a side-by-side investment agreement. Likewise, the U.S./Bermuda Private Funds enter into a co-investment agreement with HAL whereby the Co-Investment Vehicles invest on a side-by-side basis with the U.S./Bermuda Private Funds. Pursuant to these agreements, certain expenses of an investment transaction may be paid by one of the U.S./Bermuda Private Funds, and subject to reimbursement by the other U.S./Bermuda Private Fund and any associated Co-Investment Vehicle. In such circumstances, the U.S./Bermuda Private Fund that has paid these expenses bears the risk that the other U.S./Bermuda Private Fund or the Co-Investment Vehicle will not have sufficient capital to reimburse the expenses in a timely fashion, or at all. The limited partnership agreements of the Private Funds currently in their investment periods provide contractual safeguards regarding how a potential investment is chosen for a particular Private Fund. Specifically, each of the limited partnership agreements describes the types of investments that each of the Private Funds can make without overlap between them. In situations where a potential investment portfolio contains assets that may be suitable for more than one Private Fund, each Private Fund's respective limited partnership agreement clarifies that the portfolio may be purchased by the Private Fund whose permitted investments are most closely aligned with the predominant asset class of the potential investment portfolio (even though the portfolio may contain some assets that could be purchased by the other Private Fund).

In limited circumstances, a Private Fund may sell or transfer to, or participate in, the assets of the investment portfolio of another Private Fund. For example, in limited situations a Hudson entity may concurrently assist two clients in sales of similar investments (such as the same tranche of CDO bonds), and a Lone Star Entity may provide advice with respect to such a transaction. To address potential conflicts, HAL has implemented procedures to require that all clients be treated fairly and equally. Furthermore, the limited partnership agreement of each applicable Private Fund requires prior approval of all conflicts of interest between a Lone Star Entity and a Private Fund or among Private Funds, including proposed cross or principal transactions, by the Advisory Committee(s) of the applicable Private Fund(s). The Advisory Committee of each Private Fund is created pursuant to its limited partnership agreement and is comprised of representatives of the Private Fund's investors (the "Advisory Committee"). Neither HAL nor any of its supervised persons serve on the Advisory Committee of any of the Private Funds.

The Advisory Committee meets with the Private Fund's General Partner throughout the year to consider and advise on conflicts of interest, the Private Fund's investment strategy and other matters relating to the business of the Private Fund. When a conflict of interest is presented, including a prospective cross or principal transaction, information on the transaction is presented to the Advisory Committee(s) of the Private Fund(s) involved to determine if the transaction is in the best interest of the Private Fund(s), and the Advisory Committee approves or rejects the transaction. If there is a purchase by one Private Fund of another Private Fund's assets, it is contemplated that a Lone Star Entity, a Hudson entity and/or a third party would determine the fair market value of the assets involved, subject to the review and approval of the Advisory Committee of each Private Fund.

Item 12: Brokerage Practices

Selection of Broker-Dealers

In general, in selecting a broker to execute client transactions for which HAM provides discretionary management, HAM considers a variety of factors, including (i) prompt execution of orders, (ii) the reliability, integrity, financial condition and execution capability of the firm being considered for effecting transactions in light of the size and difficulty of executing the order, and (iii) the price. HAM has no duty or obligation to seek in advance competitive bidding for the most favorable commission rate applicable to

any particular client transaction or to select any broker on the basis of its purported or “posted” commission rate. Although HAM generally seeks competitive commission rates, it will not necessarily pay the lowest commission or commission equivalent. Transactions may involve specialized services or considerations (such as financing) on the part of the broker involved and thereby entail higher commissions or their equivalents than would be the case with other transactions requiring more routine services.

HAM does receive research from the broker-dealers with which it conducts business. HAM does not, however, pay increased commissions in order to obtain this research and HAM does not select a broker-dealer based on its receipt of this research.

In selecting broker-dealers, HAM does not consider whether HAM or a related person receives client referrals from a broker-dealer or third party, as HAM does not receive any such referrals.

HAM does not participate in directed brokerage arrangements. Further, HAM will not accept directed brokerage instructions from any investor.

HAM often engages other service providers on behalf of clients, such as prime brokers and real estate brokers and agents. These service providers are subject to similar selection criteria as broker-dealers, but may also be selected based on the geographic location of the assets and the service provider’s experience with the type of assets involved.

Securities

In regards to securities, HAM’s recommendations generally relate to distressed RMBS, CDOs and asset-backed securities for which there is not a liquid market and for which many of the securities are closely held by a small number of broker-dealers or other investment structures.

In selecting a broker-dealer for the purchase of a security, a factor that HAM considers is the broker-dealer’s willingness to provide the clients with financing on the securities being purchased. HAM assists the Private Funds in their purchase of securities through the larger broker-dealers that have previously established securities repurchase facilities with the client and are willing to finance the clients’ purchase of the securities through the repurchase facility.

In selling securities, HAM will typically conduct a bid wanted in competition (“BWIC”) in which the various broker-dealers that HAM transacts with will be invited to bid on the securities being offered for sale. The securities will be sold to the highest bidder. Additionally, HAM may work directly with a single broker-dealer in a negotiated transaction based on HAM’s past experience with the broker-dealer and if HAM believes that it can receive a higher purchase price for the security than if offered in a BWIC.

Generally, HAM does not pay commissions in connection with the purchase or sale of a security. But in limited cases where HAM is seeking to purchase a highly illiquid and closely-held security, HAM will pay what it determines to be a reasonable commission in light of the security being purchased and the work involved in locating the security. HAM endeavors to be aware of current charges of eligible broker-dealers and to minimize the expense incurred for effecting portfolio transactions.

Whole Loan Assets

In regards to the sale of residential mortgage whole loans on behalf of clients, HAM may from time to time utilize third-party brokers to facilitate such sales (HAM does not generally employ brokers for purchases). Because the scope of the residential whole loan market is very wide, including many types of products (performing, non-performing, re-performing, first liens, second liens) and a very wide investor base (from

small banks to opportunity funds to very small niche buyers), the use of brokers helps HAM expand its reach within this market. This broker relationship is a compliment to the wide scope of direct relationships HAM relies on to effect most of its whole loan sales, and because pricing widely varies even within similar products, this broker compliment provides HAM with additional price discovery and helps HAM obtain the best execution when these sales occur.

HAM only works with a small number of brokers that are experienced in the whole loan sales market and are reputable. These brokers are paid a market commission for a successful introduction that leads to a deal closing. HAM does not receive referrals or other services in return for selecting a particular broker.

Purchase Aggregation

Except as disclosed herein, HAM generally does not aggregate orders for client accounts because it executes orders on an investment-by-investment basis and the Private Funds do not typically invest together.

Item 13: Review of Accounts

HAM reviews investments in the account of each Private Fund that HAM manages on a quarterly basis and such reports are presented to the head of asset management for the asset class being reviewed for approval prior to being presented to the client. HAM analyzes whether the investment is performing as anticipated, highlights any positive or negative information related to the investment and takes any necessary action based on its analysis. In addition to the quarterly reviews, HAM may, and frequently does, review the investments on a more frequent basis to look for financing opportunities, sales opportunities or to develop additional asset management strategies for the investments. The persons at HAM who are involved in the review process are certain officers at the level of Vice President and above.

HAM has no discretion to execute transactions other than the sale of securities on behalf of certain of the Private Funds and, solely for asset management purposes for certain CDO investments, the purchase of junior securities needed to liquidate the CDOs for which the purchase of the senior securities (and the junior securities acquisition strategy) were previously approved by the Investment Committee of the applicable Private Fund. HAM prepares reports for the client regarding actions recommended by HAM and any sales transactions executed by HAM under its discretionary authority.

Investors are provided an unaudited balance sheet, statement of operations, portfolio cash flow summary and status report of the client's investments and activities during the applicable period, including summary descriptions of new acquisitions and dispositions, on a quarterly basis within 60 days after the end of the quarter. In addition, investors receive audited financial statements within 120 days after the Private Fund's fiscal year end.

Item 14: Client Referrals and Other Compensation

HAM does not receive economic benefits from a non-client for providing investment advice or other advisory services to its clients.

Also, neither HAM nor its related persons directly or indirectly compensate any third party for client referrals.

Item 15: Custody

Hudson generally has custody (as defined in the Advisers Act) of the assets of the Private Funds. The Private Funds and their underlying investors receive annual audited financial statements from the Private Funds' auditor.

Item 16: Investment Discretion

In general, HAM does not provide discretionary Asset Management Services. However, there are certain circumstances for which HAM has the discretionary authority to

- Sell securities;
- Assist Private Funds' SPVs in obtaining financing for investments and, in the case of RMBS and CDOs, execute financings on behalf of Private Fund SPVs;
- In certain cases, purchase securities on behalf of clients following receipt of the Investment Committee's approval; and
- Select the broker or dealer or other financial institution through which securities and real estate assets are bought or sold.

HAM's discretionary authority to manage securities for certain SPVs has been granted pursuant to contracts with such SPVs.

Item 17: Voting Client Securities

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

Item 18: Financial Information

HAM does not require or solicit prepayment of fees. HAM 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.