

Lone Star Investment Advisors LLC

Item 1: Cover Page

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This brochure provides information about the qualifications and business practices of Lone Star Investment Advisors LLC. If you have any questions about the contents of this brochure, please contact John McGuire at 972-702-7390. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

Lone Star Investment Advisors LLC is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training.

Additional information about Lone Star Investment Advisors LLC is available on the SEC’s website at www.advisorinfo.sec.gov.

Item 2-Material Changes

Lone Star Investment Advisors LLC, (the “Firm” or “Adviser”) is providing this annual update to the “Brochure” since its last update dated March 7, 2016. A summary of the material changes are as follows:

- The Firm designated a new Chief Compliance Officer, John McGuire, and has subsequently updated Form ADV Part 1 to reflect this change; and
- The description of the Firm’s advisory business in Item 4 now reflects assets under management as of December 31, 2016.

Pursuant to SEC Rules, we will continue to ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business’ fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

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Item 4-Advisory Business

The Adviser is a registered investment adviser located in Dallas, Texas. The Adviser provides investment advisory services on a discretionary basis to private investment limited partnerships (each a “Fund”, and together, the “Funds”). The Adviser was founded in 2005 by Mr. Arthur Hollingsworth.

The Adviser, on behalf of the Funds, generally invests in private companies in a variety of industry sectors including manufacturing, industrial, distribution, business, energy and utilities. The Fund’s investments are generally located in low- to moderate-income areas, and create employment opportunities and drive economic growth in their communities. As a result, investment in the Funds qualifies under the Community Reinvestment Act, which is a requirement for many of the Funds’ investors. The Adviser and its affiliates also may enter into side letter agreements with certain investors in the Funds, establishing rights under, or supplementing or altering the terms of, the applicable limited partnership agreements, limited liability company agreement, or other charter document and subscription agreements relating to such Funds with respect to such investors.

While each of its Funds will follow the general strategy stated above, the Adviser tailors the specific advisory services with respect to each Fund on the individual investment strategy of each Fund and the investment guidelines and restrictions stated in each Fund’s respective offering documents (the “Offering Documents”). The Adviser does not tailor its investment advisory services to individual limited partners in any of the Funds.

As of December 31, 2016, the Adviser managed approximately \$467.95 million in discretionary portfolios. The Adviser does not currently manage assets on a non-discretionary basis. The Adviser does not participate in wrap fee programs.

Item 5-Fees and Compensation

Below is a discussion of how the Adviser is compensated in connection with providing advisory services to a Fund. The Adviser enters into fee arrangements on a Fund by Fund basis.

For its services to the Funds, the Adviser generally receives a management fee at an annual rate of 2% of capital commitments, or the amount an investor has agreed to invest with the Fund. The fee is billed to investors semi-annually though the general partner of the Funds has the discretion to deduct the fee from distributable cash due investors.

The Funds, and therefore their investors, are also generally responsible for all Fund level expenses, including (i) investment costs, such as investment banking fees and brokerage and underwriting commissions, transfer taxes and finder's commissions; (ii) domestic and foreign taxes payable by the Funds; (iii) fees and disbursements of outside audits; (iv) fees and disbursements of attorneys, consultants and other professionals rendering services to or for the benefit of the Funds, including to the Adviser or the Fund's general partner for monitoring investments; (v) interest expenses; (vi) lender closing fees and lender legal fees and expenses; (vii) closing fees; (viii) any reasonable expenses of members of investor advisory board to the Fund; and (ix) any expenses related to any annual or special meeting of investors. Once the relevant Fund has been established and commenced operations, such compensation and expenses are generally not negotiable, although the Adviser may, from time to time, enter into side letters or other agreements with specific investors in certain Funds whereby such investors receive reductions of management fees or other compensation otherwise payable with respect to their investments in the Fund.

For a more complete discussion of the Adviser's fees and compensation, investors should refer to the Funds' respective Offering Documents.

Item 6-Performance Based Fees and Side-By-Side Management

The Adviser accepts performance-based fees in the form of a carried interest in the Funds. Such fees may create an incentive for the Adviser to recommend an investment that may carry a higher degree of risk to the Funds, and to favor Funds which have a greater performance-based fee. The Adviser has implemented procedures designed to mitigate such incentives, and allocates investment opportunities fairly and equally among the Funds.

To address these conflicts of interest, the Adviser has implemented policies and procedures to ensure that all Funds receive equitable and fair treatment over time with respect to the allocation of investment opportunities. These policies and procedures require the Adviser to allocate investments among the Funds in a manner which it believes to be fair and equitable and prohibit the Adviser from basing an allocation decision on any of the following, or similar, reasons: (i) to generate higher fees paid by one Fund over another, or to produce greater fees to the Adviser or any of its affiliates; (ii) to develop a relationship with an existing or potential limited partner in a Fund; (iii) to compensate a limited partner in a Fund for past services or benefits rendered to the Adviser or any employee of the Adviser; or (iv) to induce future services or benefits to be rendered to the Adviser or any employee of the Adviser.

For a more complete discussion of the Adviser's performance-based fee arrangements, investors should refer to the Funds' offering documents, or constituent documents.

Item 7-Types of Clients

The Adviser provides investment advisory services on a discretionary basis to the Funds, which are private investment limited partnerships that focus on investing in private equity transactions. The minimum initial investment for the Funds is one million dollars (\$1,000,000), though lesser amounts may be accepted at the sole discretion of the respective Fund's general partner.

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

Investment Strategies

Communities

A key advantage to Adviser strategies is that investments impact low- to moderate-income communities. With over 20 years of experience, the Adviser has been able to identify and target investments that serve the dual bottom line of community development with top quartile returns. The Funds try, where possible, to marry investments with local redevelopment initiatives. The Funds are also able to attract financing from strategic banking partners who utilize the Funds to meet their mandated Community Reinvestment Act requirements for making investments and loans in these targeted areas. Because investments serve locally distressed communities and enhance local businesses, the management team has been recognized in the private equity and business community for its creative and innovative approach to private equity.

Companies

In order to best meet the needs of the targeted communities, the Adviser looks for companies with a strong historical track record and growth profile. It utilizes the investment and operating experience of its management team to identify those companies that have strong fundamentals and can fulfill an employment need in targeted communities. The Adviser's management team experience, along with its ability to tap several community and business professionals, enables the Funds to invest in a wide range of companies in various industries. Its due diligence process consists of evaluating overall industry trends, as well as company specific financial data points that support steady revenue growth. In addition, because the Adviser is looking for businesses that will serve as catalysts for community development, it targets businesses whose practices, efficiency, and growth can be optimized to spur sustainable employment.

Strong Management

The Adviser looks for strong management with a proven track record when evaluating potential portfolio acquisitions. Beyond the financial statements of the company, it is looking for leadership in the company that has a commitment to continued growth and performance of the company. While the Funds do provide substantial management support, the Adviser believes the managers of its portfolio companies need to possess the skills and competencies necessary to run efficient day-to-day operations. The Adviser usually looks to provide a substantial equity position to management in an effort to align the performance objectives of the company with those of the Fund.

The Deal

The Adviser's management has conducted over thirty transactions, all with varying business motivations and financial structuring. It has been able, on behalf of the Funds, to quickly deploy capital and close transactions. This is largely due to an innovative partnership structure that

eliminates lengthy approval processes and gives management the flexibility to access capital quickly. The Adviser's management's generalist experience is well suited to complete middle market transactions including management recapitalizations, buyouts, round B&C venture capital, and growth financing within the targeted geographic region. It also performs a thorough due diligence process that weighs the risk and return of each transaction on a case-by-case basis.

Ongoing Commitment

The Adviser has a multi-phased approach to supporting portfolio company management in their efforts to grow the business. The first area of this support is to develop individual performance metrics that allow both company and Fund level managers to monitor the weekly progress of the business. This enables portfolio companies to focus on their tactical day-to-day activities and gives Fund managers an avenue to provide strategic guidance for the business. Secondly, the Adviser has an in-house operations specialist who works in a consultative role for specific efficiency initiatives undertaken by Fund portfolio companies. Finally, Adviser management applies their financial skill and experience, along with their wide banking network, to advise companies on financing and risk hedging techniques.

Exit

The Adviser's ongoing commitment to Fund portfolio companies continues all the way through the exit process. It believes that the commitment of resources to company growth pays returns for all stakeholders: investors, company management, and targeted communities. A successful effort aligns the interests of all parties and provides the best opportunity for enhanced returns. By establishing strong working relationships, the Adviser is able to work with portfolio company management on the best approach to exit. In addition, the Adviser's management's 20-plus years of experience allows the firm to access a vast network of intermediaries to facilitate the sale of companies. Further, because it implements a best practices approach to monitoring portfolio companies, it is able to provide timely and accurate information to facilitate a seamless transaction.

Risk

The following is a summary of risks generally applicable to investors in the Funds. Investors should reference the applicable Offering Documents for a more complete description of the risks specifically applicable to that Fund.

Investments by a Fund in portfolio companies involve a high degree of business and financial risk that can result in substantial losses. Some of these risks include, without limitation, the following: a portfolio company may be in an early stage of development, may not have a proven operating history, may have products that are not yet developed or ready to be marketed or that have no established market, may be reliant on developing unproven technology, may be operating at a loss or have significant fluctuations in operating results, may be engaged in a rapidly changing business with products subject to a substantial risk of obsolescence, may require substantial additional

capital to support their operations, to finance expansion or to maintain their competitive position, or may otherwise have a weak financial condition.

Limited Partner Default

If limited partners in a Fund fail to fund their subscription obligations or make required capital contributions when due, the Fund's ability to complete its investment program or otherwise continue operations may be substantially impaired.

Private Equity Investment

Investments in privately held companies present challenges, including the lack of available information about these companies, a dependence on the talents and efforts of only a few key company personnel and a greater vulnerability to economic downturns. Generally, little public information exists about privately held companies, and will be required to rely on the ability of its investment professionals to obtain adequate information to evaluate the potential returns from investing in these companies.

A portfolio company may face intense competitive positioning, including competition from companies with greater financial resources, more extensive development, manufacturing, marketing and other capabilities, and a large number of qualified managerial and technical personnel.

Credit and Financing

Certain Funds may agree to arrange for and deliver financing and equity to a Fund's portfolio investment based on agreed to terms. However, because of changes in interest rates, market conditions, perceived risk, acquisitions and mergers of credit providers, and other related factors, the credit providers to the Adviser and the Funds could reduce or eliminate credit availability or seek to revise the terms made available. Such actions could make it difficult for the obligated parties to deliver on their agreements on favorable terms, if at all, and could have an adverse effect on the Funds. A portfolio company may also incur leverage that may have important adverse consequences. For example, a portfolio company may be subject to restrictive financial and operating covenants. As a result, a portfolio company may lack the flexibility to respond to changing business and economic conditions or to take advantage of business opportunities.

Illiquid Investments

Investments in private equity are not liquid, and there is no assurance that there will be a ready market for interests held by a Fund. The Funds generally will not be able to sell their equity investments publicly unless their sale is registered under applicable federal and state securities laws, or unless an exemption from such registration requirements is available, and may not be able to monetize its debt investments. It is unlikely that there will be a public market for these equity

investments. In addition, financial instruments held by the Funds may be such that they require a substantial length of time to liquidate.

Item 9-Disciplinary Information

The Adviser has no disciplinary information to report.

Item 10-Other Financial Industry Activities and Affiliations

The Adviser's related persons are the general partner each of the Funds. The Adviser and its related persons may spend substantially all of their business time on one or more of the Funds as required pursuant to the terms of each Fund's Offering Documents. This can create potential conflicts in the allocation of time, resources and investment opportunities among the Funds. Investors are requested to refer to the Offering Documents of each Fund for more complete information on the requisite time commitments (if any) of the Adviser and its related persons to the Funds.

The Adviser is not registered, and does not have an application pending to register, as a broker-dealer or registered representative thereof. Additionally, neither the Adviser nor any of its management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, commodity trading advisor, or an associated person thereof.

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

The Adviser has a fiduciary responsibility to treat clients fairly and avoid actual or potential conflicts of interest. The employees of the Adviser have an obligation to act solely in the best interests of clients, and to make full and fair disclosure of all material facts, particularly where the clients' interests may conflict with the interests of the Adviser or its employees.

Fund Advisory Boards

In connection with the Adviser's fiduciary responsibility to its clients, each Fund has an Advisory Board consisting of members appointed by the Adviser and certain Fund limited partners (referred to herein as the "Advisory Boards"). The Advisory Boards will provide advice and counsel as is requested by the Adviser in connection with the Funds' investments, potential conflicts of interest and other matters related to the Funds. In accordance with each Fund's limited partnership agreements, the Adviser will act on the consent of the Advisory Boards.

Code of Ethics

The Adviser has adopted a Code of Ethics which describes the general standards of conduct that the Adviser expects of all employees and focuses on three specific areas where employee conduct has the potential to adversely affect the clients: misuse of confidential information, personal securities trading and outside business activities. Failure to uphold the Code of Ethics may result in disciplinary sanctions, including termination of an employee by the Adviser. Any client or prospective client may request a copy of the Adviser's Code of Ethics.

Misuse of Nonpublic Information

The Code of Ethics contains a policy against the use of material, nonpublic information in conducting business for the Adviser. Employees may not convey nonpublic information nor depend upon it in placing personal securities trades.

Personal Securities Trading

The Adviser has adopted personal trading policies and procedures to prevent conflicts of interest with its clients. The Adviser maintains a restricted list of securities that the Adviser and its employees may not trade in order to avoid the misuse of material non-public information or confidential client information. The Adviser's Chief Compliance Officer, John McGuire, periodically reviews the personal accounts of the Adviser's employees for compliance with these policies and procedures.

Outside Business Activities

The Adviser's Chief Compliance Officer must pre-approve all outside activities conducted by an Adviser employee. If any activities are deemed to be in conflict with the Adviser's clients, such conflicts will be fully disclosed.

Arthur Hollingsworth is an equity owner in Access Bank Texas, a limited partner in Lone Star Opportunities Fund V, LP.

Participation or Interest in Client Transactions

The Adviser does not manage a principal account and does not conduct cross trading among the Funds. In the future, the Adviser may, to the extent permitted under applicable law, effect client cross- transactions where the Adviser causes a transaction to be effected between the Fund and another account advised by it or any of its affiliates. In the event of such a transaction, the Adviser will comply with the disclosure and consent requirements of Section 206(3) of the Advisors Act.

Item 12-Brokerage Practices

As an investment adviser to private equity funds, the Adviser does not interact with broker-dealers to effect client transactions.

Item 13-Review of Accounts

The Adviser monitors the Funds' investments in portfolio companies on a daily basis and provides the Funds' limited partners with quarterly unaudited financial information and audited annual financial statements. The Adviser's management team performs the reviews of Client accounts.

Item 14-Client Referrals and Other Compensation

The Adviser does not pay inside or outside parties for referring investors to the Funds.

Item 15-Custody

The Adviser may be deemed under Rule 206(4)-2 of the Advisers Act to have custody of the assets of the Funds by virtue of its control of the General Partner of each Fund. All assets and securities of the Funds are held by qualified custodians with the exception of assets that are considered to be “privately offered securities” under Rule 206(4)-2(b). Fund limited partners receive annual financial statements audited by an independent public accounting firm within 120 days. Fund limited partners are urged to carefully review such statements.

Item 16-Investment Discretion

The Adviser has investment discretion over the Funds' portfolios. However, the limited partnership agreements of those Funds, between the Funds and the Adviser, contain significant restrictions and require consent from the Funds Advisory Boards on the investments purchased or sold. The Adviser exercises its discretion in a manner consistent with those agreements. Limited partners in the Funds may also negotiate with the general partners in side letters or other written agreements for more specific limitations applicable to the limited partner, such as prohibited investments in specified countries.

Item 17-Voting Client Securities

The Adviser does not generally manage assets that come with proxy voting rights. As a result, the Adviser does not receive proxies on behalf of the Funds.

Item 18-Financial Information

There is no financial condition that is reasonably likely to impair Adviser's ability to continue to meet its contractual commitments and provide services to its Clients.