

**INVESTMENT ADVISER BROCHURE**

**LIONSTONE PARTNERS, LTD.**

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**August 29, 2016**

**This Investment Adviser Brochure (“Brochure”) provides information about the qualifications and business practices of Lionstone Partners, Ltd., a Texas limited partnership (“Lionstone Partners”). If you have any questions about the contents of this Brochure, please contact us at 713-533-5860 or [jenerson@lionstoneinvestments.com](mailto:jenerson@lionstoneinvestments.com). 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 authority.**

**Lionstone Partners is an investment adviser registered with the SEC under the Investment Advisers Act of 1940, as amended (the “Advisers Act”). However, such registration does not imply a certain level of skill or training.**

**Additional information regarding Lionstone is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## **TABLE OF CONTENTS**

	<b><u>Page</u></b>
<b>Material Changes .....</b>	<b>1</b>
<b>Advisory Business .....</b>	<b>1</b>
<b>Fees and Compensation.....</b>	<b>4</b>
<b>Performance-Based Fees and Side-By-Side Management .....</b>	<b>5</b>
<b>Types of Clients.....</b>	<b>5</b>
<b>Methods of Analysis, Investment Strategies and Risk of Loss.....</b>	<b>6</b>
<b>Disciplinary Information.....</b>	<b>26</b>
<b>Other Financial Industry Activities and Affiliations.....</b>	<b>27</b>
<b>Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....</b>	<b>27</b>
<b>Brokerage Practices .....</b>	<b>28</b>
<b>Review of Accounts .....</b>	<b>30</b>
<b>Client Referrals and Other Compensation.....</b>	<b>31</b>
<b>Custody .....</b>	<b>31</b>
<b>Investment Discretion .....</b>	<b>32</b>
<b>Voting Client Securities.....</b>	<b>32</b>
<b>Financial Information.....</b>	<b>32</b>
<b>Supplemental Information About Certain Principals of Lionstone Partners.....</b>	<b>33</b>

## MATERIAL CHANGES

This Brochure has been revised since the version dated March 30, 2016 to reflect certain information regarding the reorganization of Lionstone Partners effective as of August 1, 2016.

## ADVISORY BUSINESS

Lionstone Investments is a private investment management firm, including a registered investment advisory entity and other organizations affiliated with Lionstone Partners, Ltd., a Texas limited partnership (“**Lionstone Partners**” and, together with such affiliated organizations, collectively, “**Lionstone**”). Effective August 1, 2016, Lionstone Partners, Ltd. (“Lionstone Partners”) reorganized its ownership structure and, as part of this reorganization, six senior Lionstone executives became partners. Ownership of Lionstone Partners, Ltd. was consolidated into Lionstone GP, LLC (“Lionstone GP”) (a very small portion of the ownership of Lionstone GP is held by Glenn Lowenstein, Dan Dubrowski and Tom Bacon through a separate vehicle that has no control of Lionstone Partners). Glenn Lowenstein, Dan Dubrowski and Tom Bacon remain the majority owners of Lionstone GP, LLC. Jane Page, Bryan Sanchez, Tom Paterson, Andrew Bruce, Andrew Lusk and John Enerson have become owners of Lionstone GP, LLC. Lionstone GP, and effectively Lionstone Partners, will be managed by a nine member Executive Management Committee consisting of each Lionstone Partner – Glenn Lowenstein, Dan Dubrowski, Tom Bacon, Jane Page, Bryan Sanchez, Tom Paterson, Andrew Bruce, Andrew Lusk, and John Enerson (collectively, the “Managing Partners”).

Lionstone Partners is a registered investment adviser that commenced operations in October 2001.

Lionstone Partners and its affiliated investment advisers, Cash Flow Asset Management, L.P. (“**CFAM**”), Lionstone CFRE II Real Estate Advisory, LLC (“**CFRE REA**”), Lionstone LORE One Limited Partnership (“**LORE One GP**”), Lionstone CFO Two Limited Partnership (“**CFO Two GP**”), Lionstone CFRE Partners One, L.P. (“**CFRE One GP**”), Lionstone CFRE II Real Estate Capital, L.P. (“**CFRE Two GP**”), Lionstone UC One, L.P. (“**LUI One GP**”), Lionstone UC Two, L.P. (“**LUI Two GP**”), Lionstone U.S. Land One GP, L.L.C. (“**USL One GP**”), and Lionstone U.S. Land Two GP, L.L.C. (“**USL Two GP**”), and Lionstone VA Four, L.P. (“**LVA Four GP**” and together with LORE One GP, CFO Two GP, CFRE One GP, CFRE Two GP, LUI One GP, LUI Two GP, USL One GP and USL Two GP, the “**General Partners**”, and together with Lionstone Partners and CFAM and CFRE REA, collectively, the “**Advisers**”) provide investment advisory services to private investment funds and a managed account. Each General Partner is registered under the Advisers Act pursuant to Lionstone Partners’ registration in accordance with SEC guidance and operates as a single advisory business together with Lionstone Partners.

LORE One GP, a Texas limited partnership, is the general partner of Lionstone Oregon Real Estate One, LP, a Texas limited partnership (formerly known as Lionstone Cash Flow Office One, L.P.) (together with any feeder vehicles, alternative investment vehicles and other special purpose entities, “**LORE One**”).

CFO Two GP, a Texas limited partnership, is the manager of Lionstone Cash Flow Office Two, LLC, a Texas limited liability company (together with any feeder vehicles, alternative investment vehicles and other special purpose entities, “**CFO Two**”).

CFRE One GP, a Delaware limited partnership, is the general partner of Lionstone Cash Flow Real Estate Partners One, L.P., a Delaware limited partnership (together with any feeder vehicles, alternative investment vehicles and other special purpose entities, “**CFRE**”).

CFRE Two GP, a Delaware limited partnership, is the general partner of Lionstone-Hermes Real Estate Venture, L.P., a Delaware limited partnership (together with any feeder vehicles, alternative investment vehicles and other special purpose entities, “**LHREV**”).

LUI One GP, a Delaware limited partnership, is the general partner of Lionstone Urban Investments One, L.P., a Delaware limited partnership (together with any feeder vehicles, alternative investment vehicles and other special purpose entities, “**LUI One**”).

LUI Two GP, a Delaware limited partnership, is the general partner of Lionstone Urban Investments Two, L.P., a Delaware limited partnership (together with any feeder vehicles, alternative investment vehicles and other special purpose entities, “**LUI Two**”).

USL One GP, a Delaware limited partnership, is the general partner of Lionstone U.S. Land One, L.P., a Delaware limited partnership (together with any feeder vehicles, alternative investment vehicles and other special purpose entities, “**USL One**”).

USL Two GP, a Delaware limited partnership, is the general partner of Lionstone U.S. Land Two, L.P., a Delaware limited partnership (together with any feeder vehicles, alternative investment vehicles and other special purpose entities, “**USL Two**”).

LVA Four GP, a Delaware limited partnership, is the general partner for Lionstone U.S. Value-Add Four, L.P., a Delaware limited partnership (together with any feeder vehicles, alternative investments vehicles and other special purpose entities, “**LVA Four**”).

The Managing Partners own 100% of the controlling interests (directly or indirectly) in each General Partner.

Lionstone Partners, through its shared control of each General Partner, manages the business and affairs of LORE One, CFO Two, CFRE, LHREV, LUI One, LUI Two, USL One, USL Two and LVA Four (each, a “**Fund**,” collectively, the “**Funds**” and together with any future private investment fund managed by Lionstone Partners, the “**Private Investment Funds**”). The investors of the Funds (other than the General Partners), as applicable, are referred to herein as “**Limited Partners**” and together with the General Partners, the “**Partners**”. Lionstone also manages the business and affairs of CFAM and CFRE REA.

The Funds invest through negotiated transactions in real estate assets, securities and operating entities (which, collectively, may be referred to herein as “portfolio companies”) in accordance with the investment criteria and limitations set forth in the each Fund’s limited partnership agreement (“**Limited Partnership Agreement**”) or limited liability company agreement (“**Limited Liability Company Agreement**”). Lionstone Partners’ investment

advisory services to the Funds consist of identifying and evaluating investment opportunities, negotiating the terms of investments, managing and monitoring investments and achieving dispositions for such investments. From time to time, where such investments consist of portfolio companies or other entities, the senior principals or other personnel of Lionstone may serve on such entities' respective boards of directors (or other governing body) or otherwise act to influence control over management of entities in which the Funds have invested.

Lionstone's advisory services are detailed in the applicable private placement memoranda and the supplements thereto (each, a "**Private Placement Memorandum**" and, collectively, the "**Private Placement Memoranda**") and/or the Limited Partnership Agreement, Limited Liability Company Agreements or Investment Management Agreement of the Funds, as applicable, and are further described below under "Methods of Analysis, Investment Strategies and Risk of Loss." Investors in the Private Investment Funds participate in the overall investment program for the applicable Private Investment Fund, but may be excused from a particular investment due to legal, regulatory or other agreed-upon circumstances pursuant to the relevant Limited Partnership Agreement. The Private Investment Funds or the Advisers may enter into side letters or other similar agreements with certain investors that have the effect of establishing rights (including economic or other terms) under, or altering or supplementing the terms of, the relevant Limited Partnership Agreement with respect to such investors.

Additionally, from time to time, the Advisers may provide (or agree to provide) certain investors or other persons, including other sponsors, market participants, finders, consultants and other service providers, Lionstone's personnel and/or certain other persons associated with Lionstone (to the extent not prohibited by the applicable Limited Partnership Agreement), co-investment opportunities (including the opportunity to participate in co-invest vehicles) that will invest in certain investments alongside a Private Investment Fund. Such co-investments, if any, typically involve investment and disposal of interests in the applicable investment at the same time and on the same terms as the Private Investment Fund making the investment. However, from time to time, for strategic and other reasons, a co-investor or co-invest vehicle may purchase a portion of an investment from a Private Investment Fund after such Private Investment Fund has consummated its investment (also known as a post-closing sell-down or transfer). Any such purchase from a Private Investment Fund by a co-investor or co-invest vehicle generally occurs shortly after the Private Investment Fund's completion of the investment to avoid any changes in valuation of the investment, and the co-investor or co-invest vehicle may be charged interest on the purchase to compensate the relevant Private Investment Fund for the holding period, and generally will be required to reimburse the relevant Private Investment Fund for related costs.

As of December 31, 2015, Lionstone Partners managed \$2,936,189,760 in client assets on a discretionary basis. Lionstone currently provides to one client, and may in the future provide to more clients, non-discretionary advice with respect to one or more specific investments as agreed between Lionstone and such clients. As of December 31, 2015, Lionstone Partners managed approximately \$127,311,225 on a non-discretionary basis.

## FEES AND COMPENSATION

In general, Lionstone Partners receives a management fee (“**Management Fee**”) paid by the Funds in connection with advisory services it provides. These Management Fees are different for each Fund and include fee structures based on a percentage of asset value, cash flow and/or invested or committed capital. In addition, Lionstone Partners or other Lionstone entities or affiliates receive additional compensation in connection with management and other services performed on behalf of the Funds, including fees in connection with the acquisition and disposition of certain investments. Although these fees are in addition to the Management Fees, such fees may offset in whole or in part the Management Fee otherwise payable to Lionstone Partners. In addition, Lionstone may receive compensation for management and other services performed in connection with co-investments made in portfolio companies of the Funds. Limited Partners in the Funds also bear certain fund expenses. Lionstone Partners does not require prepayment of management fees more than six months in advance or have any other events requiring disclosure under this item of the Brochure.

In addition to the management fees and any carried interest allocation as described below, investors in the Funds will bear indirectly (to the extent not reimbursed by a portfolio company) the fees and expenses charged to the Funds. Those fees and expenses will vary by Fund, but typically will include, among other things: fees associated with the acquisition, holding and disposition of investments, broken deal expenses, financing, legal, auditing, consulting, and accounting fees and expenses, interest on fees and expenses arising out of all borrowings made by the Funds, and expenses of the Advisory Boards for the Funds and meetings of the Limited Partners.

The types of fees and expenses that will be charged to the Funds in relation to the acquisition, holding and disposition of investments, include, where contemplated by the applicable Partnership Agreement, among other things: meals, entertainment, lodging and travel expenses (which may, on occasion, include the use of non-commercial planes, in which case the actual allocable cost of such chartered jet travel will be charged to the Funds in accordance with the applicable Limited Partnership Agreement). Furthermore, a portfolio company or other entity in which one or more Private Investment Funds may invest may reimburse Lionstone or service providers retained at Lionstone’s discretion for expenses (including without limitation travel expenses) incurred by Lionstone or such service providers in connection with its performance of services for such entity and these reimbursements may create conflicts of interest. However, as more fully described in **Conflicts of Interest** under **METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**, Lionstone believes that the existence of certain factors help mitigate these conflicts.

In certain circumstances, Lionstone advances amounts related to the expenses of the Fund(s) and receives reimbursement from the Funds to which such expenses relate.

As described above, in certain circumstances, the relevant General Partner is expected to permit certain investors to co-invest in investments alongside one or more Funds, subject to Lionstone’s related policies and the relevant Limited Partnership Agreement(s) and/or side letter(s) or similar arrangements. Where a co-invest vehicle is formed, such entity will bear expenses related to its formation and operation, many of which are similar in nature to those

borne by the Funds. In the event that a transaction in which a co-investment was planned, including a transaction for which a co-investment was believed necessary in order to consummate such transaction, ultimately is not consummated, all fees and expenses, or other liabilities or obligations, incurred for transactions not consummated (“**Broken Deal Expenses**”) relating to such unconsummated transaction will be borne by the Fund(s), and not by any prospective co-investors, that were to have participated in such transaction. However, to the extent that such co-investors have already invested in a co-investment or other vehicle in connection with such transaction, such vehicle is expected to bear its share of such Broken Deal Expenses.

Fees and compensation related to the Funds are detailed in the Limited Partnership Agreement, Limited Liability Company Agreement, or Investment Management Agreement of the Funds, as the case may be, and/or the Private Placement Memorandum of the relevant Fund. Investors should review all fees charged by Lionstone, its affiliates, and others to fully understand the total amount of fees to be paid by the Funds and, indirectly, their limited partners.

#### **PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

Lionstone Partners does not directly receive a carried interest allocation (“**Carried Interest**”) for its advisory services to the Funds. Rather, each of LORE One GP, CFO Two GP, CFRE One GP, CFRE Two GP, LUI One GP, LUI Two GP, USL One GP, USL Two GP and LVA Four GP receive a Carried Interest from each of LORE One, CFO Two, CFRE, LHREV, LUI One, LUI Two, USL One, USL Two and LVA Four, respectively, as more fully described in the Fund’s Limited Partnership Agreement, Limited Liability Company Agreement, or Investment Management Agreement of the Funds, as applicable. The Managing Partners are also investors in each of the foregoing Funds, indirectly through the General Partner of such Funds, and the Managing Partners and certain Lionstone employees may also participate in the Carried Interest of a Fund. The receipt of Carried Interest by Lionstone Partners’ affiliates may create an incentive for Lionstone to make investments on behalf of the Funds that are riskier or more speculative than would be the case in the absence of such compensation. However, Lionstone seeks to treat all its clients in a fair and equitable manner over time and will act in a manner that it believes to be in the best interests of its clients.

#### **TYPES OF CLIENTS**

Lionstone Partners provides investment advice to Private Investment Funds. Private Investment Funds may include investment partnerships or other investment entities formed under domestic laws and operated as exempt investment pools under the Investment Company Act of 1940, as amended. The investors participating in Private Investment Funds may include individuals, banks or thrift institutions, other investment entities, university endowments, sovereign wealth funds, family offices, pension and profit-sharing plans, trusts, estates, endowments, charitable organizations, corporations or other business and investment entities and may include, directly or indirectly, employees of Lionstone Partners and its affiliates and members of their families and other service providers retained by Lionstone.

Lionstone Partners, through affiliated entities, also provides discretionary or non-discretionary advice to one or more managed accounts (“**Accounts**”) through an investment

management agreement or similar arrangement (“**Investment Management Agreement**”) with respect to ownership of certain real estate properties and assets, as well as provide management services with respect to certain of such properties.

Interests in each existing Fund were offered and sold solely to “accredited investors” as defined in Regulation D promulgated under the U.S. Securities Act of 1933, as amended (the “**Securities Act**”) and other sophisticated and institutional investors. The Funds have only investors who are “qualified purchasers” as that term is defined under the U.S. Investment Company Act of 1940, as amended.

## **METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### **General**

Lionstone is a privately owned real estate investment firm that specializes in researching, conceptualizing and executing national investment strategies based upon proprietary data and ideas. The primary emphasis of the firm is to seek to carefully identify and manage the risks inherent in real estate investing while producing attractive risk-adjusted returns through the Funds.

The Advisers provide investment advisory services to the applicable Funds. As described below and in the applicable Limited Partnership Agreement, Limited Liability Company Agreement and Investment Management Agreement, each Fund has a unique investment methodology and strategy. There can be no assurance that the Advisers will achieve the investment objectives of each of the Funds and a loss of investment may be possible.

### **Investment and Operating Strategies**

The Funds typically pursue their investment strategies by investing through one or more limited partnerships, limited liability companies or other entities that, in turn, invest in the properties described below. Moreover, certain Accounts may also follow one or more of the following investment strategies.

#### ***The Cash Flow Office Strategy***

The Cash Flow Office Strategy, applicable to LORE One and CFO Two (the “**CFO Funds**”), invests in multi-tenanted office buildings in areas close to amenities with good demographics and strong infrastructure (the strategy also allows for a retail component and a development component as described in the applicable Limited Partnership Agreements). The CFO Funds invest only in the United States.

#### ***The Cash Flow Real Estate Strategy***

The Cash Flow Real Estate Strategy is the thematic precursor of the Cash Flow Office Strategy and is applicable to CFRE and LHREV. Each of CFRE and LHREV generally invests in multi-tenanted office buildings, multi-family complexes, industrial warehouse and retail centers in areas close to amenities with good demographics and strong infrastructure (the



strategy also allows for a development component). Each of CFRE and LHREV invests only in the United States.

### ***The Urban Core Strategy***

The Urban Core Strategy, applicable to LUI One and LUI Two (the “**LUI Funds**”), invests in underdeveloped properties in geographically specific areas in select U.S. cities (such investments, “**LUI Projects**”). LUI Projects fall into one of two broad categories: (a) investments designed to increase the cash flow stream associated with the asset through improved management, strengthening market conditions or repositioning, or (b) investments that aim to reduce the risk profile of the assets by redeveloping the asset to a higher and better use, developing new product to meet current market needs, or remarketing the asset to meet current user/developer needs. The LUI Funds invest only in the United States.

### ***The US Land Strategy***

The US Land Strategy, applicable to USL One and USL Two (the “**USL Funds**”), invests in larger land tracts and sell smaller, more liquid tracts with multiple uses and a much broader acceptance at premium prices (such investments, “**USL Projects**”). The strategy for USL Two has expanded to also include a development component.

### ***The Value-Add Strategy***

The Value-Add Strategy, applicable to LVA Four, is a value-add real estate investment strategy that uses a systematic approach to target transitional real estate investments that Lionstone believes will capitalize on imbalances in supply and demand to generate disproportionate rent growth and appreciation.

## **Risks of Investment**

Each Fund and its investors bear the risk of loss that the applicable Advisers’ investment strategy entails. Investors should review each Fund’s Private Placement Memoranda and each Fund’s Limited Partnership Agreement, Limited Liability Company Agreement or Investment Management Agreement, as applicable, for additional information regarding risks specific to each Fund. An investment in the Funds involves a high degree of risk and, therefore, should be undertaken only by qualified investors whose financial resources are sufficient to enable them to assume these risks and to bear the loss of all or part of their investment.

In general, the risks involved with the Adviser’s investment strategy and an investment in the Funds include the risks discussed below. The following risk factors should be considered carefully, but are not meant to be an exhaustive listing of all potential risks associated with an investment in the Funds. Investors should consult with their own financial, legal and tax advisors prior to investing in the Funds.

### **General Real Estate Risks**

An investment in the Funds is subject to risks inherent in real estate investments generally. These risks include adverse consequences resulting from the availability of capital,

lease-up risks, changes in the value of land and/or the improvements thereon, tenant defaults, changes in tax laws and accounting principles, lending regulations and reserve requirements, national and international events, energy supplies, the federal government's economic and fiscal policies, interest rates, environmental, health and safety laws, handicapped and accessibility codes and requirements, trends towards corporate downsizing, job-sharing and telecommuting, competition with other properties, competition with non-real estate alternative investment opportunities in the capital markets, casualty and condemnation risks, acts of terrorism and acts of God. Insurance against certain risks, such as acts of terrorism, earthquakes, hurricanes or floods, may be unavailable, available at significantly increased cost, available in amounts that are less than the full market value or replacement costs of investment properties or subject to a large deductible. In addition, there is no assurance that particular risks that are currently insurable will continue to be insurable on an economically feasible basis. There is no assurance that the operations of the Funds will be profitable or that cash from operations will be available for distribution to Limited Partners. Because real estate, like many other types of long-term investments, historically has experienced significant fluctuation and cycles in value, specific market conditions may result in occasional or permanent reductions in the value of the real estate investments of the Funds. The marketability and value of the investments depends on many factors beyond the control of the Funds, including, without limitation, those enumerated above. There is no assurance that there will be a ready market for the Funds' investments because investments in real estate generally are not liquid. General economic conditions in the United States and abroad, as well as conditions of domestic and international financial markets, may adversely affect operations of the Funds. Unemployment, inflation, local recessions or other economic events resulting in a reduction in the value of land and/or improvements thereon, a reduction, of income or the number of tenants of properties or the financial failure of one or more tenants of properties constituting investments of the Funds could have a material adverse effect on the value of such investments and consequently, the financial position of the Funds. Fluctuation in interest rates or other financial market volatility may restrict the availability of financing for future prospective purchasers of investments held by the Funds and could significantly reduce the value of such investments.

#### *Future Investments Unspecified*

The business of identifying, structuring and completing real estate transactions is highly competitive and involves a high degree of uncertainty. Furthermore, the availability of investment opportunities generally is subject to market conditions. In particular, in light of changes in such conditions, certain types of investments may not be available to the Funds on terms as attractive as those available in the past. In addition, the Funds may face increasing competition for attractive investments from existing and new real estate investors with similar investment objectives. Accordingly, the Funds may be unable to find a sufficient number of attractive opportunities that meet their investment objectives to invest fully their committed capital.

#### *Lack of Current Distributions*

It is uncertain as to when profits, if any, will be realized by the Funds. Losses on unsuccessful investments may be realized before gains on successful investments are realized. Even if any of the Funds' investments prove successful, they are unlikely to produce a realized

return to Limited Partners for a period of several years. The return of capital and the realization of gains, if any, generally occur only upon the partial or complete disposition of an investment. While an investment may be sold at any time by the Funds, it is not generally expected that this will occur for a number of years after the initial investment. Prior to such time, there may be no current return on the Funds' investments. Furthermore, the expenses of operating the Funds (including any acquisition fees payable to the General Partner) may exceed their income, thereby requiring that the difference be paid from the Funds' capital.

#### *Speculative Nature of Investments*

The investments to be made by the Funds are speculative in nature and the possibility of partial or total loss of capital will exist. Limited Partners should not subscribe to or invest in a Fund unless they can readily bear the consequences of such loss. Limited Partners, as partners, will neither participate in decisions related to making investments nor personally evaluate economic, financial and other information used by management in the selection, monitoring and disposition of investments. Management has the authority and ability to identify and make investments consistent with the Partnership's investment strategy.

#### *Portfolio Concentration*

Although the General Partners intend to focus the investments on various real estate assets, there can be no assurance as to the degree of diversification that will actually be achieved in the investments. In addition, the Funds intend to focus on investments located in the U.S. The Funds' portfolios may include a small number of investments, each with a significant portion of the Funds' aggregate commitments invested. An adverse change in one or more of the investments or their tenant industries could have a material adverse effect on a Funds due to the concentrated nature of the Fund's portfolio. Therefore, a material loss in any one investment will yield a return to the Limited Partners that may be lower than if the Fund had invested in a more diversified portfolio. Accordingly, general fluctuations in the demand for real estate assets could have a material adverse effect on the Fund's financial results.

#### *Highly Competitive Market for Investment Opportunities*

The activity of identifying, completing and realizing attractive private equity real estate investments is highly competitive and involves a high degree of uncertainty. There can be no assurance that the General Partners will be able to locate and complete investments which satisfy the Funds' objectives, realize the value of these investments or fully invest the Limited Partners' commitments. However, Limited Partners will be required to bear Management Fees through the Funds during the investment period based on commitments and other expenses as set forth in the applicable Limited Partnership Agreements. As a result of such competition, the Funds may have difficulty in making certain real estate investments or, alternatively, the Funds may be required to make investments on economic terms less favorable than anticipated. If a Fund fails to make new investments or makes investments on less favorable terms, the Fund's financial condition and results of operations could be materially and adversely affected.

#### *Risks Associated with Future Acquisitions*

Acquisitions involve a number of risks, including: the possibility that an affiliate or subsidiary of a Fund which makes an acquisition, as a successor owner, may be legally and financially responsible for liabilities of the prior owner's assets; the possibility that a Fund may encounter unanticipated difficulties and expenditures relating to any acquired properties, including contingent liabilities; the possibility that a Fund pays more than the acquired investment or assets are worth and the additional expense associated with completing an acquisition and amortizing any acquired intangible assets. These risks and difficulties, if they materialize, could disrupt a Fund's ongoing business, distract management, result in the loss of key personnel, increase expenses and otherwise have a material adverse effect on the Fund's financial condition and results.

#### *Investment in Land, New Development*

A Fund may acquire direct or indirect interests in undeveloped land or underdeveloped real property on such land or real property, which is adjacent to an existing investment of the Fund and which may often be non-income producing. To the extent that a Fund invests in such assets, it will be subject to the risks normally associated with such assets and development activities. Such risks include, without limitation, risks relating to the availability and timely receipt of zoning, building, land use and other regulatory approvals, the cost and timely completion of construction (including risks beyond the control of the Fund, such as weather or labor conditions or material shortages) and the availability of both construction and permanent financing on favorable terms. These risks could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent completion of development activities once undertaken, any of which could have an adverse effect on the Fund. Properties under development or properties acquired to be developed may receive little or no cash flow from the date of acquisition through the date of completion of development and may experience operating deficits after the date of completion. In addition, market conditions may change during the course of development which make such development less attractive than at the time it was commenced.

#### *Follow-On Investments*

Following the initial investment in a company or property, a Fund may be called upon to provide additional capital or have the opportunity to increase its investment in such company or property (whether for opportunistic reasons, to fund the needs of the business, as an equity cure under applicable debt documents or for other reasons). There is no assurance that the Fund will make follow-on investments or that the Fund will have sufficient capital to make all such investments. Any decision by the Fund not to make follow-on investments or its inability to make them may have a substantial negative impact on the company or property in need of such investment (including an event of default under applicable debt documents in the event an equity cure cannot be made).

#### *Illiquidity*

A Partner investing in the Funds bears the risks of such investment for an extended and indefinite period of time. A Partner may be unable to liquidate its investment in the Funds prior to the termination of the Funds. The amount and timing of distributions, if any, a Partner

receives from the Funds is uncertain. In addition, cash flow available for distribution during the terms of the Funds cannot be predicted. The Funds' portfolio of assets are illiquid. Liquidity relates to the ability of the owner to dispose of assets readily and the price to be paid for them. Such illiquidity could prevent the sale by the Funds of assets at a time when it otherwise might be desirable to do so. These factors may have an adverse impact on the value of the Funds.

In addition, less marketable or illiquid assets may be more difficult to value due to the unavailability of reliable market quotations. The sale of less marketable assets may require more time and result in lower prices, due to higher brokerage charges and other selling expenses, than the sale of more marketable assets.

#### *Restrictions on Transferability*

The Limited Partnership Agreements impose numerous restrictions on a Limited Partner's ability to transfer or otherwise dispose of its partnership interests. Limited Partners will be unable to sell, assign, or transfer all or a portion of their partnership interests without the prior written consent of the applicable General Partner, which may be granted under certain circumstances in accordance with the applicable Limited Partnership Agreement. The partnership interests have not been registered with the SEC under the Securities Act or under the securities laws of any states, and were being offered and sold in reliance on exemptions from the registration requirements of the Securities Act and such state laws. The partnership interests are subject to restrictions on transferability and resale, and may not be transferred or resold except as permitted under the Securities Act and such applicable state securities laws, pursuant to registration or exemption therefrom. There is no public or other market for these securities. Therefore, investors should be aware that they may be required to bear the financial risks of this investment for an indefinite period of time. Limited Partners will not have the right to require the registration of the partnership interests under the Securities Act.

#### *Valuations*

In most circumstances, a Fund's investments will be presented in the financial statements on a "fair market value" basis as determined by its General Partner, or in other circumstances, by an independent appraiser. Given the nature of the investments, the valuation of the investments may be difficult. There may be a relative scarcity of market comparables on which to base the value of the Fund's assets. As such, any such valuations could prove to be incorrect. Accordingly, Limited Partners will need to rely on the judgment of the General Partner (or such independent appraiser) for valuing and pricing the investments.

In addition, less marketable or illiquid assets may be more difficult to value due to the unavailability of reliable market quotations. Unlike exchange-listed and other readily tradable securities, real estate assets generally cannot be marked to an established market. Instead, an appraisal or a valuation is only an estimate of value and is not a precise measure of realizable value. Real estate valuations are subject to numerous assumptions and limitations. Ultimate realization of the market value of a real estate asset depends to a great extent on economic and other conditions beyond the control of a Fund and its General Partner. Further, appraised or otherwise determined values do not necessarily represent the price at which a real estate investment would sell since market prices of real estate investments can only be determined by

negotiation between a willing buyer and seller. Generally, appraisals will consider the financial aspects of a property, market transactions and the relative yield for an asset measured against alternative investments. Valuations of real properties should be considered only estimates of value and not measures of realizable value with respect to such properties. As a result, if a Fund were to liquidate a particular real estate investment, the realized value may be more or less than the appraised value or valuation of such asset. Broker charges and other selling expenses may also contribute to the realized value being less than the appraised value.

#### *Yield Assessment Risk*

Before pursuing any investment, the General Partners consider the expected yield of the investment and the factors that may influence the yield actually obtained on such investment. These considerations affect the Funds' decision whether to pursue acquisition of such an investment and the price offered for such an investment. Despite management's experience in evaluating potential investments, no assurances can be given that the Funds can make an accurate assessment of the yield to be produced by an investment. Many factors beyond the control of the Funds are likely to influence the yield on the Funds' investments, including, but not limited to, competitive conditions in the local real estate market, and local and general economic conditions.

#### *Leverage*

The Funds leverage most of their investments and anticipate continuing to do so. There can be no assurance, however, as to the availability of leverage on acceptable terms. The cost and availability of leverage is highly dependent on the state of the broader credit markets (and such credit markets may be impacted by regulatory restrictions and guidelines), which state is difficult to accurately forecast. During times when credit markets are limited or costly, it may be difficult to obtain or maintain the desired degree of leverage. Depending on interest rates and the Funds' hedging strategies, such leverage could either favorably or negatively impact returns to Partners as well as increase the risk of the investment. The leveraged capital structure of the Funds' investments will increase the exposure of the Funds' investments to any deterioration in an investment's condition, competitive pressures, an adverse economic environment or rising interest rates and could accelerate and magnify declines in the value of the Funds' investments in a down market. In the event any investment cannot generate adequate cash flow to meet debt service, the Funds may suffer a partial or total loss of capital invested in the investment, which could adversely affect the returns of the Funds.

The Funds also expect to liquidate their portfolios by the end of their respective terms. The availability of debt and the prevailing interest rate climate at the time of such liquidation could materially affect the Funds' ability to liquidate their investments in a timely and profitable manner. In the event there are borrowings under a credit facility that is secured by, among other things, the Limited Partners' interests in the Funds and obligations to make capital contributions, any inability of the Funds to repay such borrowings could enable a lender to take action against any Limited Partner or its interest in the Funds.

As outlined in the Limited Partnership Agreements, certain Funds may, from time to time, borrow at the Fund level. It is expected that this indebtedness, if incurred, will be secured

primarily by the commitments of the Limited Partners. In addition, the General Partners intend to evaluate whether it is prudent and appropriate to incur this leverage and there can be no assurance that leverage will be incurred given that adverse economic factors, such as a significant rise in interest rates, may cause the General Partners, in their discretion, to elect not to incur such leverage. As a result, a Fund's exposure to losses may be increased due to the illiquidity of its investments generally. Finally, Limited Partners whose commitments have been pledged may be called upon to fund their entire commitments to repay indebtedness, and the failure of other Limited Partners to honor their funding obligations pursuant to their commitments may result in a Limited Partner's payments exceeding its pro rata share of the indebtedness that has been obtained by a Fund.

#### Potential Restrictive Covenants

As indicated above, a Fund may enter into a credit facility with one or more lenders in order to finance the acquisition of investments. It is anticipated that any such credit facility will contain a number of covenants that, among other things, might restrict the ability of the Fund and a subsidiary, if applicable, to: (i) acquire or dispose of assets or businesses; (ii) incur additional indebtedness; (iii) make capital expenditures; (iv) make cash distributions; (v) create liens on assets; (vi) enter into leases, investments or acquisitions; (vii) engage in mergers or consolidations; (viii) make capital calls to the Limited Partners; (ix) amend certain documents, such as the Fund Agreement, subscription agreements and a subsidiary's organizational documents, if applicable; or (x) engage in certain transactions with affiliates, and otherwise restrict activities of the Fund (including its ability to acquire additional investments, businesses or assets, or effect certain changes of control or asset sale transactions) without the consent of the lenders. In addition, such a credit facility may require a Fund to maintain specified financial ratios and comply with tests, including minimum interest coverage ratios, maximum leverage ratios, minimum net worth and minimum equity capitalization requirements. A Fund may incur indebtedness under such credit facility that bears interest at a variable rate. Economic conditions could result in higher interest rates, which could increase debt service requirements on variable rate debt and could reduce the amount of cash available for various Fund purposes.

#### Tax Considerations

Complex federal, state and local tax laws and regulations, all of which are subject to change, govern a Limited Partner's investment in the Funds. The Funds do not take into account any prospective investor's particular financial or tax situation and assumes an investor is sophisticated in tax matters or is able to retain and consult with a knowledgeable tax advisor. Investors are urged to consult their own tax advisors regarding the possible federal, state and local tax consequences of an investment in the Funds. All statements contained in a Fund's Private Placement Memoranda concerning the federal income tax consequences of an investment in such Fund are based upon existing law, at the time of such Private Placement Memoranda, as contained in the United States Code, the related regulations and administrative and judicial interpretations thereof. Therefore, no assurance can be given that the income tax treatment of an investment in the Funds will not be modified by legislative, judicial or administrative changes, possibly with retroactive effect, to the detriment of the Partners.

### Environmental Considerations

The Funds conduct customary due diligence to determine whether each prospective investment is impacted by environmental conditions and either do not purchase such property or take such conditions into account in their purchase price for such investment. It is possible, however, that undisclosed and unknown environmental conditions could arise that would materially impact the value of a given property and its suitability for financing, or that changes in environmental laws could give rise to additional liabilities for real estate owners that cannot be fully passed on to the tenants of a given investment.

### Dilution

Limited Partners admitted or that increase their respective commitments to a Fund at each subsequent closing will participate in then-existing investments of the Fund, thereby diluting the interest of existing Limited Partners in such investments. Each such Limited Partner subscribing for Fund interests at any subsequent closing will pay to the Fund an additional amount as provided in the relevant Limited Partnership Agreement from the date such amount would have been due if such Limited Partner had been admitted as such for its full commitment on the initial closing date. Such payment(s) will inure to the benefit of then existing Limited Partners, but will then participate in existing investments as if it had become a Limited Partner on the date of the initial closing, thereby diluting the Interests of existing Limited Partners. Any Limited Partner admitted at a subsequent closing will also be required to bear its portion of the Management Fee from the initial closing, other Fund expenses from the date of the Fund's formation and all organizational expenses whenever incurred. Although each such additional Limited Partner will contribute such payments, there can be no assurance that the amounts contributed by the additional Limited Partners and distributed to the existing Limited Partners will reflect the fair value of the Fund's existing investments at the time of such contributions.

### Past Results Not Indicative of Future Results, Forward Looking Statements

The Funds do not own any interest in any other Fund or the investments made by any prior Funds, and therefore, the results of each Fund will differ from the results of such prior Funds. There can be no assurance that the Funds will achieve similar results to those achieved by the prior Funds. Past, targeted or projected performance is not necessarily indicative of future results, and there can be no assurance that targeted or projected returns will be achieved, that the Funds will achieve comparable results or that the Funds will be able to implement their investment strategies or achieve their investment objectives.

Certain fund documents, due diligence materials and other information prepared by or on behalf of the General Partners regarding the Funds' existing or contemplated future investments contain forward looking statements. While the General Partners believe the expectations reflected in any forward looking statements are reasonable, no assurance can be given that such expectations can be obtained. Factors that could cause actual results to differ materially from the General Partners' expectations include each of the various risk factors identified herein. The Limited Partners have each been given the opportunity to review such statements in detail, to discuss the same with the General Partners and to satisfy themselves as to the information contained therein. The General Partners and the Funds make no commitment to disclose any



revisions to such statements, or any facts, events or circumstances after the date of the documents that may bear upon any such statements.

#### *Lack of Diversification*

The Funds may invest in a limited number of properties, and as a consequence, the aggregate returns realized by the Partners may be adversely affected by the unfavorable performance of a small number of investments. Most of the Funds have diversification criteria; however, some Funds may make investments that may not be diversified geographically, and poor conditions in a particular market where the Funds have multiple investments could significantly affect the total returns to the Partners.

#### *Dependence upon Key Management*

The success of the Funds is dependent upon the continued personal efforts of certain key personnel of Lionstone Partners, including Thomas Bacon, Glenn Lowenstein and Daniel Dubrowski, as well as the other Managing Partners. The Funds are managed exclusively by Lionstone Partners, and Limited Partners will not be able to make any investment or other decision on behalf of the Funds. Although Lionstone maintains key-man life insurance on each of Tom Bacon, Glenn Lowenstein and Dan Dubrowski, it may not be possible to replace these individuals or any other Managing Partner, should one or more of them become incapacitated or in some other way cease to be involved with the Funds, and in such an event the Funds' performance could be materially adversely affected through a diminished capacity to obtain investment opportunities and to structure and execute the Funds' investments.

#### *Reliance on Lionstone Partners*

The Funds are managed exclusively by Lionstone Partners. The Funds' Limited Partners will not make decisions with respect to the acquisition, management, disposition or other realization of any investment, or other decisions regarding the Funds' business and affairs.

#### *General Partner's Carried Interest*

The General Partners' Carried Interest may create an incentive to make investments that are riskier or more speculative than would be the case if the General Partners were not receiving such performance-based compensation. Also, because there may be a fixed investment period after which capital from investors in a Fund may only be drawn down and because Management Fees are, at certain times during the life of the Fund, based upon capital invested by the Fund, this fee structure may create an incentive to deploy capital when Lionstone may not otherwise have done so. Since Lionstone is permitted to retain certain additional compensation in connection with Fund investments, it could have a conflict of interest in connection with approving transactions and setting such compensation. In addition, the method of calculating the General Partners Carried Interest may result in conflicts of interest between the General Partners and the Limited Partners with respect to the management and disposition of investments and the determination of the timing and amount of distributions by the Funds.

### *Absence of Recourse to General Partner*

The Limited Partnership Agreement, Limited Liability Company Agreement or Investment Management Agreement, as applicable, limit the circumstances under which the General Partners can be held liable to the Funds. As a result, investors may have a more limited right of action in certain cases than they would in the absence of this provision.

### *Uncertain Economic, Social and Political Environment*

Consumer, corporate and financial confidence may be adversely affected by current or future tensions around the world, fear of terrorist activity and/or military conflicts, localized or global financial crises or other sources of political, social or economic unrest. Such erosion of confidence may lead to or extend a localized or global economic downturn. A climate of uncertainty may reduce the availability of potential investment opportunities, and increases the difficulty of modeling market conditions, potentially reducing the accuracy of financial projections. In addition, limited availability of credit for consumers, homeowners and businesses, including credit used to acquire real estate assets, in an uncertain environment or economic downturn may have an adverse effect on the economy generally and on the ability of a Fund and its investments to execute their respective strategies and to receive an attractive multiple of earnings on the disposition of investments. This may slow the rate of future investments by such Fund and result in longer holding periods for investments. Furthermore, such uncertainty or general economic downturn may have an adverse effect upon a Fund's investments.

### *Market Conditions*

Governmental measures (whether regulatory or financial in nature) undertaken in response to the volatility of capital markets and financial turmoil may have a negative effect on market conditions. Economic conditions generally may reduce the availability of attractive investment opportunities for the Funds and may affect the Funds' ability to make investments. Instability in the securities markets and economic conditions generally (including a slow-down in economic growth and/or changes in interest rates) may also increase the risks inherent in the Funds' investments and could have a negative impact on the performance and/or valuation of the investments. The Funds' performance can be affected by deterioration in the capital markets and by market events, such as the onset of the credit crisis in the summer of 2007 or the downgrading of the credit rating of the U.S. in 2011. Volatility and illiquidity in the financial sector may have an adverse effect on the ability of the Fund to sell and/or partially dispose of its investments. Such adverse effects may include the requirement of a Fund to pay break-up, termination or other fees and expenses in the event the Fund is not able to close a transaction (whether due to the lenders' unwillingness to provide previously committed financing or otherwise) and/or the inability of a Fund to dispose of investments at prices that its General Partner believes reflect the fair value of such investments. The impact of market and other economic Events may also affect a Fund's ability to raise funding to support its investment objective.

### *Deterioration of Credit Markets May Affect Ability to Finance and Consummate Investments*

A deterioration of the global credit markets may make it more difficult for real estate investment funds such as the Funds to obtain favorable financing for investments. A widening of credit spreads, potentially coupled with the deterioration of the sub-prime and global debt markets and a rise in interest rates, may dramatically reduce investor demand for high yield debt and senior bank debt, which in turn may lead some investment banks and other lenders to be unwilling to finance new private equity real estate investments or to only offer committed financing for investments on unattractive terms. A Fund's ability to generate attractive investment returns may be adversely affected to the extent the Fund is unable to obtain favorable financing terms for their investments. Moreover, to the extent that such marketplace events are not temporary and continue, they may have an adverse impact on the availability of credit to businesses generally and could lead to an overall weakening of the U.S. and global economies. Such marketplace events also may restrict the ability of a Fund to realize its investments at favorable times or for favorable prices.

### *Additional Government or Market Regulation*

Market disruptions and the dramatic increase in the capital allocated to alternative asset management during recent years have led to increased governmental as well as self-regulatory organization scrutiny of the private partnership industry in general. In addition, certain legislation proposing greater regulation of the industry is in the process of being (and some which has already been) enacted by Congress, as well as the governing bodies of various jurisdictions. It is impossible to predict what, if any, changes in the regulations applicable to the Funds, the General Partners, the markets in which they invest or the counterparties with which they do business may be instituted in the future. Any such regulation could have a material adverse impact on the profit potential of the Funds, as well as require increased transparency as to the identity of the Limited Partners.

### *Risks of Multi-Step Acquisitions*

In the event a General Partner elects for a Fund to effect a transaction by means of a multi-step acquisition, there can be no assurance that the remainder can be successfully acquired. This could result in the Fund having only partial control over the investment or partial access to its cash flow to service debt incurred in connection with the acquisition.

### *Operational Risk*

The long-term profitability of the assets in which the Funds invest will be dependent upon the efficient operation and maintenance of such assets. Inefficient operations and maintenance may reduce returns to Limited Partners.

### *Risk of Unsuccessful Exit Strategies*

A General Partner may cause a Fund to opportunistically sell or otherwise dispose of investments at any time. It is not possible to predict whether an exit strategy will be advantageous or available at the appropriate time. If a Fund fails to execute an exit strategy

successfully prior to the liquidation of the Fund, the Fund may be forced to liquidate its assets on terms less favorable than anticipated and the proceeds from these investments and the remaining investments may be materially and adversely affected.

### *Hedging and Interest Rate Risks*

Changes in interest rates may adversely affect the investments of the Funds. Changes in the general level of interest rates can affect the Funds' income by affecting the spread between the income on their assets and the expense of their interest-bearing liabilities, as well as, among other things, the value of their interest-earning assets, the capitalization rate at which their real estate assets are valued in the market and their ability to realize gains from the sale of assets. Interest rates are highly sensitive to many factors, including governmental, monetary and tax policies, domestic and international economic and political considerations, fiscal deficits, trade surpluses or deficits, regulatory requirements and other factors beyond the control of the Funds. Certain funds may finance their activities with both fixed and floating rate debt. With respect to their floating rate debt, the Funds' performance may be affected adversely if the Funds fail to limit the effects of changes in interest rates on their operations by employing an effective hedging strategy, including engaging in interest rate swaps, caps, floors or other interest rate contracts, or buying and selling interest rate futures or options on such futures. Should the Funds so elect (and they may be under no obligation to do so), the use of these instruments to hedge a portfolio carries certain risks, including the risk that losses on a hedge position will reduce the Funds' earnings and funds available for distribution to investors and that such losses may exceed the amount invested in such instruments.

### *Contingent Liabilities on Disposition of Investments*

In connection with the disposition of an investment, a Fund and its General Partner may be required to make (and/or be responsible for another person's or entity's breach of) representations and warranties about such investment, including, without limitation, such investment's business and financial affairs, the condition of its assets and the extent of its liabilities, in each case generally in the nature of representations and warranties typically made in connection with the sale of similar investments. They also may be required to indemnify the purchaser(s) of such investment to the extent that any such representations, warranties or disclosure documents are determined to be inaccurate. These arrangements may result in the incurrence of contingent liabilities, which would be borne by a Fund and, ultimately, its investors, for which its General Partner may establish reserves or escrow accounts.

### *Litigation*

In the ordinary course of its business, any Fund or its investments may be subject to litigation from time to time. The outcome of any such proceedings may materially adversely affect the value of a Fund and may continue without resolution for long periods of time. Any litigation may consume substantial amounts of the Lionstone's and its officers' time and attention, and that time and the devotion of these resources to litigation may, at times, be disproportionate to the amounts at stake in the litigation.

### Third Party Involvement

A Fund may co-invest through or invest in limited liability companies, partnerships, joint ventures or other entities with third parties that may have economic or business interests or objectives, including exit strategies, that are different than or conflict with those of the Fund or that may be in a position to take action contrary to the Fund's objectives. In certain circumstances a Fund may be liable for actions of its co-venturers or partners. In addition, a Fund may rely upon the abilities and management expertise of a co-venturer or partner. It may also be more difficult for a Fund to sell its interest in any joint venture, partnership or entity with other owners than to sell its interest in other types of investments. A Fund may grant co-venturers or partners joint approval rights with respect to major decisions concerning the management and disposition of the investment, which would increase the risk of deadlocks. A deadlock could delay the execution of the business plan for the investment or require a Fund to engage in a buy-sell of the venture with the co-venturer or partner or conduct the forced sale of such investment. As a result of these risks, a Fund may be unable to fully realize its expected return on any such investment.

### Effect of Fees and Expenses on Returns

The Funds will bear all expenses related to its operations. Such expenses, and certain Limited Partners' payments of Management Fees to the General Partner are expected to reduce the actual returns to Limited Partners. Most of the fees and expenses will be paid regardless of whether a Fund produces positive investment returns. If a Fund does not produce significant positive investment returns, these fees and expenses could reduce the amount of the investment recovered by a Limited Partner to an amount less than the amount of capital invested by such Limited Partner in the Fund.

### Reinvestment

During the Investment Period and to the extent provided in a Fund's Limited Partnership Agreement, proceeds distributable (or previously distributed) to the Fund's Limited Partners that constitute a return of capital contributions may be permitted to be reinvested (or recalled for reinvestment) by the Fund's General Partner. Accordingly, in such circumstances, a Limited Partner may, in effect, be required to contribute to the Fund an aggregate amount in excess of its commitment, but at no time will a Limited Partner have aggregate capital at risk in excess of the sum of its commitment and any proceeds distributed to such Limited Partner in respect of its commitment.

### Loss of Limited Liability

Although a Fund's Limited Partnership Agreement may provide that Limited Partners will have no right to participate in the management or day-to-day operations of the Fund or to make any decisions with respect to the Fund (other than with respect to specific votes of the Limited Partners as called for in such Limited Partnership Agreement), such Limited Partners are likely to lose their limited liability in certain circumstances if they are deemed to have taken part in the control or management of the business of the Fund. Limited liability may also be lost as a result of false statements in documents filed under, or other non-compliance with, legislation

governing limited partnerships and in jurisdictions where there is a risk of non-recognition of the protection of limited liabilities with respect to creditors of a Fund whose claims derive from liabilities incurred in such jurisdictions.

#### *Liability for Return of Distributions*

Under applicable law, if a Fund is otherwise unable to meet its obligations, the Limited Partners may be obligated to return cash distributions with interest previously received by them if such distributions are deemed to be wrongfully paid to them and such Limited Partners knew at the time of such distributions that they were wrongfully paid. In addition, a Limited Partner may be liable under applicable federal or state bankruptcy laws to return a distribution made during the Fund's insolvency.

#### *Recourse to Assets*

Each Fund's assets, including any investments made by the Fund, are available to satisfy all liabilities and other obligations of the Fund. If a Fund becomes subject to a liability, parties seeking to have the liability satisfied may have recourse to the Fund's assets generally and may not be limited to any particular asset, such as the asset representing the investment giving rise to the liability.

#### *Exculpation and Indemnification*

Certain exculpation and indemnification provisions contained in the Limited Partnership Agreements may limit the rights of action otherwise available to Limited Partners and other parties against the General Partner, the Management Company, their affiliates, and their respective partners, members, shareholders, directors, officers, employees, agents and affiliates and the Funds' respective advisory boards, absent such a limitation in the applicable Limited Partnership Agreement. In addition, each Fund will be obligated to indemnify its General Partner, its affiliates, and their respective partners, members, shareholders, directors, officers, employees, agents and affiliates and the Fund's advisory board, in respect of the operations of the Fund, subject to certain limited exceptions.

#### *Failure to Make Capital Contributions*

If any Limited Partner fails to contribute to a Fund its subscription obligation or make required capital contributions when due, the Fund's ability to complete its investment strategy or otherwise continue operations may be substantially impaired. A default by a substantial number of Limited Partners could leave a Fund with less than sufficient capital to meet its Fund obligations, and, as described above, would limit opportunities for investment diversification and likely reduce returns to the Fund. Any Limited Partner that defaults in making a required capital contribution may be subject to certain material adverse consequences pursuant to the provisions of the applicable Limited Partnership Agreement. In addition, in the event of such a default, a Fund's General Partner may, in addition to pursuing all other available legal or equitable remedies, elect to cause each of the other Limited Partners to contribute additional capital to the Fund (provided that no Limited Partner generally will be required to contribute to the Fund an amount greater than its commitment). Furthermore, a Fund may be subjected to significant

penalties that could materially adversely affect the returns to all Limited Partners (including non-defaulting Limited Partners).

### *Common Legal Counsel for Funds and General Partners*

Certain law firms acted as legal counsel to the Funds and the General Partners in connection with the private placement offerings of the Funds. In each such case, the applicable law firm did not act as legal counsel for any Limited Partner or potential investor and such persons are strongly advised to retain and consult with their own legal counsel. It is possible that in the future, the interests of the Funds and the General Partners may preclude such firms from representing both parties. In such a circumstance, additional legal counsel may need to be retained in order to assure all parties that their respective legal interests are adequately represented.

### **Conflicts of Interest**

Lionstone and its related entities engage in a broad range of advisory and non-advisory activities, including investment activities for their own account and for the account of other Private Investment Funds and Accounts, and providing transaction-related, legal, management and other services to Private Investment Funds and Accounts and to or with respect to portfolio companies and investments. Lionstone will devote such time, personnel and internal resources as are necessary to conduct the business affairs of the Private Investment Funds and Accounts in an appropriate manner, as required by the relevant Limited Partnership Agreement, Limited Liability Company Agreement or other governing documents, although the Private Investment Funds, Accounts and their respective investments will place varying levels of demand on these over time. In the ordinary course of Lionstone conducting its activities, the interests of a Private Investment Fund or Account may conflict with the interests of Lionstone, one or more other Private Investment Funds, Accounts, portfolio companies or their respective affiliates or other investments. Certain of these conflicts of interest are discussed herein.

As a general matter, Lionstone will determine all matters relating to structuring transactions and operations using its best judgment considering all factors it deems relevant, but in its sole discretion, subject in certain cases to the required approvals by the advisory committees of the participating Private Investment Funds or by Account clients.

Lionstone and its principals currently, and will continue to, manage and monitor other Private Investment Funds or Accounts advised by Lionstone. Thus, conflicts of interest may arise in allocating management time, services or functions with respect to certain Private Investment Funds and Accounts and other Private Investment Funds and Accounts advised by Lionstone. Lionstone and its principals may direct certain relevant investment opportunities to certain of such Private Investment Funds and Accounts based upon Lionstone's current investment rotation policy. In addition, Lionstone and its principals may spend a portion of their business time and attention pursuing investment opportunities for certain Private Investment Funds and Accounts that do not fall within the investment objectives of other Private Investment Funds and Accounts. Lionstone will determine the amount of any suitable investment opportunity for the Private Investment Funds and Accounts and their respective allocations of such investment opportunity. The investment of Lionstone's principals and officers in the Private Investment Funds, as well as

their interest in any carried interest, operate to align the interest of the officers with the interest of the investors in such Private Investment Funds and Accounts, even though the principals and officers have or may have economic interests in other Private Investment Funds and Accounts advised by Lionstone as well and receive management fees and carried interests relating to these interests. A conflict may exist where management fees and carried interests differ amongst other Private Investment Funds and Accounts advised by Lionstone, as that may lead Lionstone to favor certain other Private Investment Funds and Accounts advised by Lionstone, especially if any of them is deemed more profitable to Lionstone. Lionstone seeks to mitigate this risk by appropriately staffing the management of each Private Investment Fund and Account so as to achieve Lionstone's applicable key man provisions and Lionstone's objective of building long-term relationships with each of its investors by maintaining consistent and high fiduciary standards.

Subject to any limitations contained in the Limited Partnership Agreement, Limited Liability Company Agreement or other governing document of any Private Investment Fund or other agreement governing the management of any Account, none of Lionstone, its principals and officers shall be precluded from (i) investing in, funding follow-on investments in, or receiving interests from, a person or entity in which any of them held a direct or indirect investment on the initial closing of any Private Investment Fund or the establishment of any Account or by a successor to such person or entity or Account, (ii) receiving interests distributed to them from any Private Investment Fund or Account or a Private Investment Fund or Account described in clause (v) below, (iii) investing in publicly traded securities, (iv) investing through a blind-pool investment vehicle or a discretionary brokerage account in which a person or entity other than Lionstone, its principals or officers makes investment decisions with respect to specific investments, (v) investing in an investment through multiple Private Investment Funds or Accounts advised by Lionstone or subsequent investment fund formed by Lionstone or any of its affiliates, members or partners that is not prohibited from being formed pursuant to any of the Limited Partnership Agreements, Limited Liability Company Agreements or other agreements governing any of such Private Investment Funds or Accounts; provided that, each such investment, to the extent reasonably practical, is made on substantially the same terms and at substantially the same time as the corresponding investment by all investing Private Investment Funds or Accounts, subject to any tax, regulatory, accounting, legal or other considerations that may limit the timing, amount or type of investment by the Partnership or such other fund, (vi) receiving interests as compensation (or in lieu of cash compensation) in connection with any investment banking, financial advisory, consulting or other similar services provided to such person or entity, or (vii) receiving interests upon disposition or exchange of any interests referred to in clauses (i) through (vi). Lionstone and its principals and officers may also engage directly or indirectly in any other business or activity, including exercising investment advisory and management responsibility and buying, selling or otherwise dealing with investments for their own accounts, for the accounts of their family members and estate or wealth planning vehicles, and for the accounts of other funds.

From time to time, Lionstone will be presented with investment opportunities that would be suitable not only for a Private Investment Fund or Account, but also for other Private Investment Funds, Accounts, and other investment vehicles operated by advisory affiliates of Lionstone. In determining which investment vehicles should participate in such investment



opportunities, Lionstone and its affiliates are subject to conflicts of interest among the investors in such investment vehicles. Investments by more than one client of Lionstone in an investment may also raise the risk of using assets of a client of Lionstone to support positions taken by other clients of Lionstone.

Lionstone must first determine which Private Investment Fund(s) or Account(s) will, or are required to, participate in the relevant investment opportunity. Lionstone generally assesses whether an investment opportunity is appropriate for a particular Private Investment Fund based on the Private Investment Fund's Limited Partnership Agreement or Account's governing agreement (or other governing documents), investment objectives, strategies, life-cycle and structure.

Furthermore, decisions regarding whether and to whom to offer co-investment opportunities may be made by Lionstone or its related persons in consultation with other participants in the relevant transactions, such as a co-sponsor. Co-investment opportunities may, and typically will, be offered to some and not to other Lionstone investors. When and to the extent that employees and related persons of Lionstone and its affiliates make capital investments in or alongside certain Private Investment Funds, Lionstone and its affiliates are subject to conflicting interests in connection with these investments. There can be no assurance that any Private Investment Fund's return from a transaction would be equal to and not less than another Private Investment Fund participating in the same transaction or that it would have been as favorable as it would have been had such conflict not existed.

Lionstone's allocation of investment opportunities among the persons and in the manner discussed herein may not, and often will not, result in proportional allocations among such persons, and such allocations may be more or less advantageous to some such persons relative to others. While Lionstone will allocate investment opportunities in a manner that it believes in good faith is fair and equitable to its clients under the circumstances over time and considering relevant factors, there can be no assurance that a Private Investment Fund's or Account's actual allocation of an investment opportunity, if any, or the terms on which that allocation is made, will be as favorable as they would be if the conflicts of interest to which Lionstone may be subject, discussed herein, did not exist.

Subject to relevant restrictions or other limitations contained in the Partnership Agreements or other governing documents of the Private Investment Funds or Accounts, Lionstone will allocate fees and expenses in a manner that it believes in good faith is fair and equitable to its clients under the circumstances and considering such factors as it deems relevant, but in its sole discretion. In exercising such discretion, Lionstone may be faced with a variety of potential conflicts of interest.

As a general matter, expenses typically will be allocated among all relevant Private Investment Funds and Accounts or co-invest vehicles eligible to reimburse expenses of that kind. In all such cases, subject to applicable legal, contractual or similar restrictions, expense allocation decisions will generally be made by Lionstone or its affiliates using their best judgment, considering such factors as they deem relevant, but in their sole discretion. The allocations of such expenses may not be proportional. The Private Investment Funds and

Accounts have different expense reimbursement terms, including with respect to management fee offsets, which may result in the Private Investment Funds and Accounts bearing different levels of expenses with respect to the same investment.

As a result of the Funds' controlling interests in investments, Lionstone typically has the right to appoint portfolio company board members, managers or other representatives with respect to such investments or to influence their appointment, and to determine or influence a determination of their compensation. Such amounts will be in addition to any Management Fees or Carried Interest paid by a Fund to Lionstone.

Additionally, a portfolio company or other entity in which one or more Private Investment Funds may invest may reimburse Lionstone or service providers retained at Lionstone's discretion for expenses (including without limitation travel expenses) incurred by Lionstone or such service providers in connection with its performance of services for such entity. This subjects Lionstone and its affiliates to conflicts of interest because the Private Investment Funds generally do not have an interest or share in these reimbursements, and the amount of such reimbursements may be substantial. Lionstone determines the amount of these reimbursements for such services in its own discretion, subject to its internal reimbursement policies and practices. Although the amount of individual reimbursements typically is not disclosed to investors in any Private Investment Fund, their effect is reflected in each Private Investment Fund's audited financial statements, and any fee paid or expense reimbursed to Lionstone or such service providers generally is subject to: agreements with sellers, buyers and management teams; the review and supervision of the board of directors of or lenders to portfolio companies; and/or third party co-investors in its transactions. These factors help to mitigate related conflicts of interest.

Lionstone generally exercises its discretion to recommend to an Account, Private Investment Fund or to a portfolio company or other entity in which any of them invest that it contracts for services with (i) Lionstone or a related person of Lionstone (which may include a portfolio company or other entity in which any of them invest), (ii) an entity with which Lionstone or its (current or former) personnel has a relationship or from which Lionstone or its personnel otherwise derives financial or other benefit or (iii) certain limited partners or their affiliates. For example, Lionstone may be presented with opportunities to receive financing and/or other services in connection with a Private Investment Fund's investments from certain limited partners or their affiliates that are engaged in lending or related business. This subjects Lionstone to conflicts of interest, because although Lionstone selects service providers that it believes are aligned with its operational strategies and will enhance investment performance and, relatedly, returns of the relevant Account or Private Investment Fund, Lionstone may have an incentive to recommend the related or other person because of its financial or other business interest. There is a possibility that Lionstone, because of such belief or for other reasons (including whether the use of such persons could establish, recognize, strengthen and/or cultivate relationships that have the potential to provide longer-term benefits to the relevant Funds or Lionstone), may favor such retention or continuation even if a better price and/or quality of service could be obtained from another person. Whether or not Lionstone has a relationship or receives financial or other benefit from recommending a particular service provider, there can be

no assurance that no other service provider is more qualified to provide the applicable services or could provide such services at lesser cost.

A Fund or Account may from time to time engage in certain transactions with Lionstone and its affiliates. Lionstone and its affiliates may perform services to the Funds and Accounts and their affiliates that would otherwise be performed by third parties (including, but not limited to, administrative, legal, marketing, leasing, hedging and other services) on such terms and conditions that Lionstone determines are fair and reasonable, provided, however, that the fees earned by Lionstone and its affiliates for such services shall not exceed the rate that would be payable if such services were provided by third parties in the business of providing comparable services on an arm's-length basis.

Lionstone may also, from time to time, employ personnel or retain service providers with pre-existing ownership interests in investments owned by the Private Investment Funds or other Accounts or investment vehicles advised by Lionstone; conversely, former personnel or executives of Lionstone may serve in significant management roles with respect to investments or service providers recommended by Lionstone. Similarly, Lionstone and/or its personnel maintain relationships with (or may invest in) financial institutions, service providers and other market participants, including managers of private funds, banks and brokers. Certain of these persons or entities will invest (or will be affiliated with an investor) in, engage in transactions with and/or provide services (including services at reduced rates) to, Lionstone and/or the Private Investment Funds or other Accounts or investment vehicles they advise. Lionstone may have a conflict of interest with a Private Investment Fund or Account in recommending the retention or continuation of a third-party service provider to a Private Investment Fund, Account or an investment if such recommendation, for example, is motivated by a belief that the service provider or its affiliate(s) will continue to invest in one or more Private Investment Funds or Accounts, will provide Lionstone information about markets and industries in which Lionstone operates (or is contemplating operations) or will provide other services that are beneficial to Lionstone. Lionstone may have a conflict of interest in making such recommendations, in that Lionstone has an incentive to maintain goodwill between it and the existing and prospective entities in which and with which it invests, while the products or services recommended may not necessarily be the best available to the investment invested in by Lionstone entities.

Lionstone and its equityholders, officers, principals and employees may buy or sell investments that Lionstone has recommended to an Account or Private Investment Fund. In addition, officers, principals and employees may buy investments in transactions offered to but rejected by an Account or Private Investment Fund. Such transactions are subject to the policies and procedures set forth in Lionstone's Code of Ethics. The investment policies, fee arrangements and other circumstances of these investments may vary from those of any Account or Private Investment Fund.

Because certain expenses are paid for by an Account, Private Investment Fund and/or its portfolio companies or, if incurred by Lionstone, are reimbursed by an Account, Private Investment Fund and/or its portfolio companies, Lionstone may not necessarily seek out the lowest cost options when incurring (or causing an Account, Private Investment Fund or its portfolio companies to incur) such expenses.

Because a General Partner's Carried Interest is based on a percentage of net realized (and, in certain cases, unrealized) profits, it may create an incentive for Lionstone to cause a Private Investment Fund to make riskier or more speculative investments than would otherwise be the case. Also, because there may be a fixed investment period after which capital from investors in a Fund may only be drawn down and because Management Fees are, at certain times during the life of a Fund, based upon capital invested by such Fund, this fee structure may create an incentive to deploy capital when Lionstone may not otherwise have done so. Since Lionstone is permitted to retain certain additional compensation in connection with Private Investment Fund investments, it could have a conflict of interest in connection with approving transactions and setting such compensation.

The Limited Partners of the Funds include taxable and tax-exempt entities and include persons or entities organized in various jurisdictions. The Limited Partners of the Funds may have conflicting investment, tax and other interests with respect to their investments in the Funds. The conflicting interests of individual Limited Partners may relate to or arise from, among other things, the nature of investments made by the Funds, the structuring of the acquisition of Funds investments and the timing of disposition of investments. Such structuring of Fund investments may result in different returns being realized by different Limited Partners in any Fund. As a result, conflicts of interest may arise in connection with decisions made by Lionstone being more beneficial for one type of Limited Partner than for another type of Limited Partner. In selecting investments appropriate for the Funds and deciding upon the structure of Fund investments, Lionstone will consider the investment and tax objectives of the Fund as a whole in the event there are conflicts among the Limited Partners. Where such conflicts do not exist, Lionstone will consider the tax and other objectives of specific Limited Partners.

Lionstone may enter into side letter arrangements with certain investors in a Private Investment Fund, providing such investors with different or preferential rights or terms, including but not limited to different fee structures, information rights, co-investment rights, and liquidity or transfer rights.

Any of these situations subjects Lionstone to potential conflicts of interest. Lionstone attempts to resolve such conflicts of interest in light of its obligations to investors in its Private Investment Funds and the obligations owed by Lionstone to investors in other investment vehicles and Accounts managed by them, and attempts to allocate investment opportunities among a Private Investment Fund, other Private Investment Funds and such investment vehicles or Accounts in a fair and equitable manner. To the extent that an investment or relationship raises particular conflicts of interest, Lionstone will review the circumstances of such investment or relationship with a view to addressing and reducing the potential for conflict. Where necessary, Lionstone consults and receives consent to conflicts from an advisory committee consisting of limited partners of the relevant Private Investment Fund and such other investment vehicles.

#### **DISCIPLINARY INFORMATION**

Lionstone Partners and its management persons have not been subject to any material legal or disciplinary events required to be discussed in this Brochure.

## **OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Lionstone Partners is affiliated with other Lionstone investment advisers registered with the SEC under the Advisers Act pursuant to Lionstone Partners' registration in accordance with SEC guidance. These advisers include the entities listed in Section 7.A of Schedule D of the Adviser's Form ADV Part 1A. These affiliated investment advisers operate as a single advisory business together with Lionstone Partners and serve as managers or general partners of Private Investments Funds and other pooled vehicles and generally share common owners, officers, partners, employees, consultants or persons occupying similar positions.

## **CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

The Advisers have adopted the Lionstone Code of Ethics and Securities Trading Policy and Procedures (the "**Code**"), which sets forth standards of conduct that are expected of Lionstone principals and employees and addresses conflicts that arise from personal trading. The Code requires certain Lionstone personnel to report their personal securities transactions. The Code also requires pre-clearance for Lionstone personnel from directly or indirectly acquiring beneficial ownership or disposing of securities in an initial public offering and a private placement offering, and prohibits Lionstone personnel from directly or indirectly acquiring beneficial ownership of these securities without first obtaining approval from the Lionstone Chief Compliance Officer. In addition, the Code requires such personnel to comply with procedures designed to prevent the misuse of, or trading upon, material non-public information. A copy of the Code will be provided to any Limited Partner or prospective limited partner upon request to John Enerson, the Lionstone Chief Compliance Officer, at 713-533-5860. Personal securities transactions by employees who manage client accounts are required to be conducted in a manner that prioritizes the client's interests in client eligible investments.

The Advisers and their affiliated persons may come into possession, from time to time, of material nonpublic or other confidential information about public companies which, if disclosed, might affect an investor's decision to buy, sell or hold a security. Under applicable law, the Advisers and their affiliated persons would be prohibited from improperly disclosing or using such information for their personal benefit or for the benefit of any person, regardless of whether such person is a client of the Advisers.

Accordingly, should the Advisers or any of their affiliated persons come into possession of material nonpublic or other confidential information with respect to any public company, the Advisers would be prohibited from communicating such information to clients, and the Advisers will have no responsibility or liability for failing to disclose such information to clients as a result of following their policies and procedures designed to comply with applicable law. Similar restrictions may be applicable as a result of the Advisers' personnel serving as directors of public companies and may restrict trading on behalf of clients, including the Funds.

Principals and employees of the Advisers and their affiliates may directly or indirectly own an interest in Private Investment Funds, including certain co-investment vehicles. To the extent that co-investment vehicles exist, such vehicles may invest in one or more of the same portfolio companies as the Funds. Co-invest opportunities may also be presented to certain

affiliates of the Advisers, as well as third party investors and other persons, and such co-investments may be effected through co-investment vehicles or directly in a particular portfolio company. The Private Investment Funds could, with investor consent, invest together with other funds advised by an affiliated adviser of Lionstone Partners in the manner set forth in their Limited Partnership Agreements, Limited Liability Company Agreement or Investment Management Agreement, as applicable. The Advisers will determine the allocation of investment opportunities in a manner that it believes is fair and equitable to its clients consistent with the Advisers' obligations and may take into consideration factors such as the following: the client's investment restrictions and objectives (including those set forth in the relevant client's governing documents, where applicable), investment and operating guidelines, diversification limitations, tax and regulatory considerations, minimum dollar limits and other relevant factors, including risk.

The Advisers and their affiliates, principals and employees may carry on investment activities for their own account and for family members, friends or others who do not invest in the Funds, and may give advice and recommend securities to vehicles which may differ from advice given to, or securities recommended or bought for the Funds even though their investment objectives may be the same or similar.

The operative documents and investment programs of certain vehicles sponsored by Lionstone (the "**Reference Funds**") may restrict, limit or prohibit, in whole or subject to certain procedural requirements, investments of certain other vehicles in issuers held by such Reference Funds or may give priority with respect to investments to such Reference Funds. Some of these restrictions could be waived by Limited Partners (or their representatives) in such Reference Funds.

From time to time, the Advisers may borrow funds on behalf of the Private Investment Funds and contribute such borrowed amounts to the relevant Private Investment Fund as a special capital contribution for investment, to be redeemed at a later date. Interest in connection with such borrowing is borne by the relevant Private Investment Fund as a fund expense, consistent with the Limited Partnership Agreement (or other governing document) of such Fund. In borrowing on behalf of a Private Investment Fund, the Advisers are subject to conflicts of interest between repaying its obligations and retaining such borrowed amounts for the benefit of such Private Investment Fund, as applicable. The Advisers will effect such borrowings in a manner they believe to be fair and equitable to such Private Investment Fund and consistent with the Adviser's obligations under the Limited Partnership Agreement (or other governing document).

### **BROKERAGE PRACTICES**

The Advisers focus on real estate and real estate related transactions. To date, none of these transactions have involved publicly traded securities or other securities in which the services of a broker-dealer has been retained. However, in the future, the Advisers may distribute securities to investors in a Fund or sell securities, including through using a broker-dealer, if a public trading market exists. Although the Advisers do not intend to regularly engage in public securities transactions, to the extent they do so, they follow the brokerage practices described below.

If any Adviser sells publicly traded securities for a Fund, it is responsible for directing orders to broker-dealers to effect securities transactions for accounts managed by the Adviser. In such event, the Adviser will seek to select brokers on the basis of best price and execution capability. In selecting a broker to execute client transactions, the Advisers may consider a variety of factors, including: (i) execution capabilities with respect to the relevant type of order; (ii) commissions charged; (iii) the reputation of the firm being considered; and (iv) responsiveness to requests for trade data and other financial information.

The Advisers have 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, but will endeavor to be aware of the current level of the charges of eligible brokers and to reduce the expenses incurred for effecting client transactions to the extent consistent with the interests of such clients. Although the Advisers anticipate that they would, in the context of any public securities transactions, generally seek competitive commission rates, they also anticipate that they might not necessarily pay the lowest commission or commission equivalent. Such transactions may involve specialized services 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.

Consistent with the Advisers seeking best execution, any such brokerage commissions on client transactions might be directed to brokers in recognition of research furnished by them, although the Advisers generally do not make use of such services at the current time and have not made use of such services since their inception. Such research services could include economic research, market strategy research, industry research, company research, fixed income data services, computer-based quotation equipment and research services and portfolio performance analysis. As a general matter, it is expected that research provided by these brokers would be used to service all of the Advisers’ Private Investment Funds. However, each and every research service might not be used for the benefit of each and every Private Investment Fund managed by the Advisers, and brokerage commissions paid by one Private Investment Fund might apply towards payment for research services that might not be used in the service of such Private Investment Fund. Research services might be shared among the Advisers and their affiliates.

The Advisers do not anticipate employing any agreement or formula for the allocation of brokerage business on the basis of research services; however, the Advisers may, in their discretion, cause the Private Investment Funds to pay such brokers a commission for effecting portfolio transactions in excess of the amount of commission another broker adequately qualified to effect such transactions would have charged for effecting such transactions. This may be done where the Advisers have determined in good faith that such commission is reasonable in relation to the value of brokerage and research services received. In reaching such a determination, the Advisers would not be required to place or attempt to place a specified dollar value on the brokerage or research services provided by such broker.

To the extent brokers are used, the Advisers will periodically determine which brokers have provided research that has been helpful in the management of Private Investment Funds. To the extent consistent with the Advisers’ goal to seek best execution for the Funds, the

Advisers may seek to place a portion of the trades that they direct with the brokers who are identified through this process.

To the extent that the Adviser allocates brokerage business on the basis of research services, it may have an incentive to select or recommend broker-dealers based on the interest in receiving such research or other products or services, rather than based on its Private Investment Funds' interest in receiving most favorable execution.

The Advisers do not anticipate engaging in public securities transactions; however, to the extent that the Advisers engage in any such transactions, orders for purchase or sale of securities placed first will be executed first, and within a reasonable amount of time of order receipt. To the extent that orders for Private Investment Funds are completed independently, the Advisers may also purchase or sell the same securities or instruments for several Private Investment Funds simultaneously. From time to time, the Advisers may, but are not obligated to, purchase or sell securities for several client accounts at approximately the same time. Such orders may be combined or "batched" to facilitate obtaining best execution and/or to reduce brokerage commissions or other costs. Batched transactions are executed in a manner intended to ensure that no participating Private Investment Fund of the Advisers is favored over any other Private Investment Fund. When an aggregated order is filled in its entirety, each participating Private Investment Fund generally will receive the average price obtained on all such purchases or sales made during such trading day. To the extent such orders are not batched, they may have the effect of increasing brokerage commissions or other costs.

When an aggregate order is partially filled, the securities purchased or sold will normally be allocated on a *pro rata* basis to each Private Investment Fund participating in such buy or sell order in accordance with the amount of securities originally requested for such Private Investment Funds.

Each Private Investment Fund generally will receive the average price obtained on all such purchases or sales made during such trading day. Exceptions to *pro rata* allocations are permissible provided they are fair and equitable to Private Investment Funds over time.

In any private company securities transactions engaged in by the Advisers on behalf of the Private Investment Funds or Accounts, the Advisers may retain one or more broker-dealers or investment banks, the costs of which will be borne by the relevant Account, Private Investment Fund and/or its portfolio companies. In determining to retain such parties, the Advisers may consider a variety of factors, including: (i) capabilities with respect to the type of transaction being contemplated; (ii) commissions or fees charged; (iii) reputation of the firm being considered; and (iv) responsiveness to requests for information. As a result, although the Advisers generally will seek reasonable rates for such services, the market for such services involves more subjective evaluations than public securities brokerage transactions, and the Private Investment Funds may not pay the lowest commission or fee for such services.

## **REVIEW OF ACCOUNTS**

The investments made by the Funds are generally private, illiquid and long-term in nature. Accordingly, the review process is not directed toward a short-term decision to dispose



of investments. However, Lionstone Partners closely monitors its investments, and the Lionstone Chief Compliance Officer periodically checks to confirm that each Private Investment Fund is maintained in accordance with its stated objectives.

Each Fund will provide to each of its Limited Partners (i) annual GAAP audited and quarterly unaudited financial statements, (ii) annual tax information necessary for each Limited Partner's tax return and (iii) at the time of delivery of the financial statements, reports providing a description of all investments held by the Funds and a narrative summary of the status of each such investment. An Adviser may agree to different reporting for any investor in any Account.

#### **CLIENT REFERRALS AND OTHER COMPENSATION**

Lionstone Partners and/or its affiliates may provide certain business or consulting services to companies in each Fund's portfolio and may receive compensation from these companies in connection with such services. As described in the Funds' Limited Partnership Agreements, Limited Liability Company Agreements or Investment Management Agreement, as applicable, this compensation may, in many cases, offset a portion of the management fees paid by Funds. However, in other cases (*e.g.*, reimbursements for out of pocket expenses directly related to a portfolio company), these fees may be in addition to management fees.

The Advisers may enter into solicitation arrangements pursuant to which they compensate third parties for referrals that result in a potential Limited Partner becoming a Limited Partner in a Fund or other Private Investment Fund. Any such fees and expenses payable to any such placement agents will be borne by Lionstone Partners, although related expenses incurred pursuant to the relevant placement agent or similar agreement, including but not limited to placement agent travel, meal and entertainment expenses, typically are borne by the relevant Private Investment Fund.

#### **CUSTODY**

In connection with the management of investments for the Funds, Lionstone may have, or may be deemed to have, custody of a Fund's assets. Rule 206(4)-2 under the Advisers Act (the "Custody Rule"), defines custody as holding client securities or assets or having any authority to obtain possession of them, including the authority to withdraw funds or securities from a client's accounts or ownership of or access to client funds or securities (such as through fee deductions).

Lionstone expects that each Private Investment Fund for which it is deemed to have custody will: (i) be audited at least annually by an independent public accountant; and (ii) its audited financial statements prepared in accordance with generally accepted accounting principles will be distributed to investors within 120 days of its fiscal year-end.

Each Fund (other than any Account) will provide to each of its Limited Partners (i) annual GAAP audited and quarterly unaudited financial statements, (ii) annual tax information necessary for each Limited Partner's tax return and (iii) at the time of delivery of the financial statements, reports providing a description of all investments held by the Funds and a narrative summary of the status of each such investment. An Adviser may agree to different reporting for any investor in any Account.

## INVESTMENT DISCRETION

Lionstone Partners has discretionary authority to manage the investments on behalf of each Fund pursuant to the Limited Partnership Agreement, Limited Liability Company Agreement or Investment Management Agreement, as applicable, described under “Advisory Business.” As a general policy, the Advisers do not allow clients to place limitations on this authority. Pursuant to the terms of the Limited Partnership Agreements, Limited Liability Company Agreements or Investment Management Agreement, as applicable, the Advisers may enter into “side letter” arrangements with certain Limited Partners whereby the terms applicable to such Limited Partners’ investment in a Fund may be altered or varied, including, in some cases, the right to opt-out of certain investments for legal, tax, regulatory or other similar reasons.

## VOTING CLIENT SECURITIES

Although the Advisers have no investments that require proxy voting, in the event they do so in the future, the Advisers have adopted Proxy Voting Policies and Procedures (the “**Proxy Policy**”) to address how they will vote proxies, as applicable, for each Fund’s (and any Private Investment Fund’s) portfolio investments. The Proxy Policy seeks to ensure that the Advisers vote proxies (or similar instruments) in the best interest of the Funds, including where there may be material conflicts of interest in voting proxies. Each of the Advisers generally believes its interests are aligned with those of the Funds’ Limited Partners, for example, through the principals’ beneficial ownership interests in the Funds and therefore will not seek Limited Partner approval or direction when voting proxies. In the event that there is or may be a conflict of interest in voting proxies, the Proxy Policy provides that the Adviser may address the conflict using several alternatives, including by seeking the approval or concurrence of a Fund’s advisory board on the proposed proxy vote or through other alternatives set forth in the Proxy Policy. Additionally, a Fund’s advisory board may approve the Adviser’s vote in a particular solicitation. The Advisers do not consider service on portfolio company boards by Lionstone personnel or their receipt of management or other fees from portfolio companies to create a material conflict of interest in voting proxies with respect to such companies. In addition, the Proxy Policy sets forth certain specific proxy voting guidelines followed by the Advisers when voting proxies on behalf of the Funds. If you would like a copy of the Adviser’s complete Proxy Policy or information regarding how the Advisers voted proxies for particular portfolio companies, please contact John Enerson, the Lionstone Chief Compliance Officer, at 713-533-5860 and it will be provided to you at no charge.

## FINANCIAL INFORMATION

Lionstone Partners does not require prepayment of management fees more than six months in advance or have any other events requiring disclosure under this item of the Brochure.

## **SUPPLEMENTAL INFORMATION ABOUT CERTAIN PRINCIPALS OF LIONSTONE PARTNERS**

### **Thomas G. Bacon**

#### ***Educational Background and Business Experience***

Thomas G. Bacon, born 1955, is a founding partner of Lionstone. Mr. Bacon is a member of Lionstone's Executive Management Committee and its Investment Committee. Mr. Bacon oversees all of Lionstone's development activities and high net worth strategies. Prior to forming Lionstone in 2001, Mr. Bacon was a senior officer with Hines. Mr. Bacon is a graduate of the University of Texas School of Architecture and received his MBA from Rice University.

#### ***Disciplinary History***

There are no legal or disciplinary events to disclose with respect to Mr. Bacon.

#### ***Other Business Activities***

Mr. Bacon is not engaged in any investment-related business outside of his roles with Lionstone Partners and its affiliates.

#### ***Additional Compensation***

Mr. Bacon does not receive any additional compensation that is required to be disclosed.

#### ***Supervision***

As a partner of Lionstone, Mr. Bacon is responsible for implementing and overseeing the investment strategy of its clients. Mr. Bacon is subject to the supervision of Lionstone's Chief Executive Officer and, with respect to compliance matters, Lionstone's Chief Compliance Officer.

## **Glenn L. Lowenstein**

### ***Educational Background and Business Experience***

Glenn L. Lowenstein, born 1959, is a founding partner of Lionstone and serves as its Chairman and Co-Chief Investment Officer. Mr. Lowenstein is a member of Lionstone's Executive Management Committee and its Investment Committee. Prior to forming Lionstone in 2001, Mr. Lowenstein was a senior officer at Hines. Mr. Lowenstein is a graduate of Georgetown University and received an MBA from New York University.

### ***Disciplinary History***

There are no legal or disciplinary events to disclose with respect to Mr. Lowenstein.

### ***Other Business Activities***

Mr. Lowenstein is not engaged in any investment-related business outside of his roles with Lionstone Partners and its affiliates.

### ***Additional Compensation***

Mr. Lowenstein does not receive any additional compensation that is required to be disclosed.

### ***Supervision***

As a partner of Lionstone, Mr. Lowenstein is responsible for implementing and overseeing the investment strategy of its clients. Mr. Lowenstein is subject to the supervision of Lionstone's Executive Management Committee and, with respect to compliance matters, the Lionstone Chief Compliance Officer.

## **Daniel R. Dubrowski**

### ***Educational Background and Business Experience***

Daniel R. Dubrowski, born 1963, is a founding partner of Lionstone. Mr. Dubrowski is a member of Lionstone's Executive Management Committee and its Investment Committee. He serves as a Portfolio Manager for Lionstone's core, core plus and value add funds. Prior to forming Lionstone in 2001, Mr. Dubrowski was a senior officer with Hines. Mr. Dubrowski is a graduate of Georgetown University and received his MBA from Harvard Business School.

### ***Disciplinary History***

There are no legal or disciplinary events to disclose with respect to Mr. Dubrowski.

### ***Other Business Activities***

Mr. Dubrowski is not engaged in any investment-related business outside of his roles with Lionstone Partners and its affiliates.

### ***Additional Compensation***

Mr. Dubrowski does not receive any additional compensation that is required to be disclosed.

### ***Supervision***

As a partner of Lionstone, Mr. Dubrowski is responsible for implementing and overseeing the investment strategy of its clients. Mr. Dubrowski is subject to the supervision of Lionstone's Chief Executive Officer and, with respect to compliance matters, Lionstone's Chief Compliance Officer.

## **Jane Page**

### ***Educational Background and Business Experience***

Jane Page, born 1960, is a partner of Lionstone and serves as its Chief Executive Officer. Ms. Page is a member of Lionstone's Executive Management Committee and its Investment Committee and is responsible for the overall management of Lionstone. Prior to joining Lionstone in 2012, Ms. Page spent 10 years as a Managing Director for Crescent Real Estate Equities. Prior to Crescent, Ms. Page spent 15 years with Metropolitan Life where she served as Regional Manager of Real Estate Investments. Ms. Page is a graduate of the Point Loma College and received her MBA from the University of San Francisco.

### ***Disciplinary History***

There are no legal or disciplinary events to disclose with respect to Ms. Page.

### ***Other Business Activities***

Ms. Page is not engaged in any investment-related business outside of his roles with Lionstone Partners and its affiliates.

### ***Additional Compensation***

Ms. Page does not receive any additional compensation that is required to be disclosed.

### ***Supervision***

Ms. Page is responsible for the overall management of Lionstone as well as implementing and overseeing the investment strategy of its clients. Ms. Page is subject to the supervision of

Lionstone's Executive Management Committee and, with respect to compliance matters, the Lionstone Chief Compliance Officer.

## **Bryan Sanchez**

### ***Educational Background and Business Experience***

Bryan Sanchez, born 1976, is a partner of Lionstone and serves as an Executive Vice President. Mr. Sanchez is a member of Lionstone's Executive Management Committee and its Investment Committee and is Lionstone's Co-Chief Investment Officer. Prior to joining Lionstone in 2005, Mr. Sanchez was a development associate with Verde Realty and worked in the international energy industry. Mr. Sanchez is a graduate of Georgetown University and received his MBA from Harvard University.

### ***Disciplinary History***

There are no legal or disciplinary events to disclose with respect to Mr. Sanchez.

### ***Other Business Activities***

Mr. Sanchez is not engaged in any investment-related business outside of his roles with Lionstone Partners and its affiliates.

### ***Additional Compensation***

Mr. Sanchez does not receive any additional compensation that is required to be disclosed.

### ***Supervision***

As a partner of Lionstone, Mr. Sanchez is responsible for implementing and overseeing the investment strategy of its clients. Mr. Sanchez is subject to the supervision of Lionstone's Chief Executive Officer and, with respect to compliance matters, Lionstone's Chief Compliance Officer.

## **Thomas Paterson**

### ***Educational Background and Business Experience***

Tom Paterson, born 1978, is a partner of Lionstone and serves as an Executive Vice President. Mr. Paterson is a member of Lionstone's Executive Management Committee and its Investment Committee and is a Portfolio Manager for Lionstone's core and value-add funds. Prior to joining Lionstone in 2007, Mr. Paterson spent four years at PriceWaterhouseCoopers. Mr. Paterson is a graduate of the University of Texas and received his MBA from the University of Texas.

### ***Disciplinary History***

There are no legal or disciplinary events to disclose with respect to Mr. Paterson.

### ***Other Business Activities***

Mr. Paterson is not engaged in any investment-related business outside of his roles with Lionstone Partners and its affiliates.

### ***Additional Compensation***

Mr. Paterson does not receive any additional compensation that is required to be disclosed.

### ***Supervision***

As a partner of Lionstone, Mr. Paterson is responsible for implementing and overseeing the investment strategy of its clients. Mr. Paterson is subject to the supervision of Lionstone's Chief Executive Officer and, with respect to compliance matters, Lionstone's Chief Compliance Officer.



## **Andrew Bruce**

### ***Educational Background and Business Experience***

Andrew Bruce, born 1972, is a partner of Lionstone and serves as its Chief Financial Officer. Mr. Bruce is a member of Lionstone's Executive Management Committee and its Investment Committee. As Chief Financial Officer, Mr. Bruce is responsible for management and oversight of Lionstone's accounting and reporting, risk management, information technology, human resources and debt capital market functions. Prior to joining Lionstone in 2014, Mr. Bruce was Chief Financial Officer for Behringer Harvard Opportunity REIT I and III. Prior to his time at Behringer, Mr. Bruce was Chief Financial Officer of AMLI Residential Properties Trust. Mr. Bruce is a graduate of Western Michigan University and received his MBA from the University of Chicago.

### ***Disciplinary History***

There are no legal or disciplinary events to disclose with respect to Mr. Bruce.

### ***Other Business Activities***

Mr. Bruce is not engaged in any investment-related business outside of his roles with Lionstone Partners and its affiliates.

### ***Additional Compensation***

Mr. Bruce does not receive any additional compensation that is required to be disclosed.

### ***Supervision***

As a partner of Lionstone, Mr. Bruce is responsible for implementing and overseeing the investment strategy of its clients. Mr. Bruce is subject to the supervision of Lionstone's Chief

Executive Officer and, with respect to compliance matters, Lionstone's Chief Compliance Officer.

## **Andrew Lusk**

### ***Educational Background and Business Experience***

Andrew Lusk, born 1980, is a partner of Lionstone and serves as an Executive Vice President and Head of Investments. Mr. Lusk is a member of Lionstone's Executive Management Committee and its Investment Committee. As Head of Investments, Mr. Lusk is responsible for leading all Lionstone acquisitions. Prior to joining Lionstone in 2011, Mr. Lusk worked in the Real Estate Investment Banking Group of Goldman, Sachs & Co. and in the acquisitions group of LaSalle Investment Management. Mr. Lusk is a graduate of Dartmouth College and received his MBA from the University of Texas.

### ***Disciplinary History***

There are no legal or disciplinary events to disclose with respect to Mr. Lusk.

### ***Other Business Activities***

Mr. Lusk is not engaged in any investment-related business outside of his roles with Lionstone Partners and its affiliates.

### ***Additional Compensation***

Mr. Lusk does not receive any additional compensation that is required to be disclosed.

### ***Supervision***

As a partner of Lionstone, Mr. Lusk is responsible for implementing and overseeing the investment strategy of its clients. Mr. Lusk is subject to the supervision of Lionstone's Chief

Executive Officer and, with respect to compliance matters, Lionstone's Chief Compliance Officer.

## **John Enerson**

### ***Educational Background and Business Experience***

John Enerson, born 1961, is a partner of Lionstone and serves as Chief Legal Counsel and Chief Compliance Officer. Mr. Enerson is a member of Lionstone's Executive Management Committee and its Investment Committee. As Chief Legal Counsel, he is responsible for managing all legal matters of Lionstone and its investment vehicles. Prior to joining Lionstone in 2006, Mr. Enerson spent 8 years at Enron Corp co-managing a debt and equity portfolio and he practiced law at Baker Botts and other national law firms. Mr. Enerson is a graduate of Fairfield University and received his law degree from Villanova University.

### ***Disciplinary History***

There are no legal or disciplinary events to disclose with respect to Mr. Enerson.

### ***Other Business Activities***

Mr. Enerson is not engaged in any investment-related business outside of his roles with Lionstone Partners and its affiliates.

### ***Additional Compensation***

Mr. Enerson does not receive any additional compensation that is required to be disclosed.

### ***Supervision***

As a partner of Lionstone, Mr. Enerson is responsible for implementing and overseeing the investment strategy of its clients. Mr. Enerson is subject to the supervision of Lionstone's Chief Executive Officer.