



## Form ADV Part 2A Brochure

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March 30, 2020

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

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

## **Item 2: Material Changes**

None.

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## **Item 4: Advisory Business**

### **Hudson**

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

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

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

### **Description of Services**

Hudson provides five categories of investment advisory services:

1. Advisory Services
2. Asset Management
3. REO Servicing
4. Hedging Services
5. Ancillary Services

Hudson provides services to certain LS Funds (as defined below) with respect to newly or recently originated corporate debt under the name LStar Capital ([www.lstarcap.com](http://www.lstarcap.com)).

Hudson also provides investor relations services to the LS Funds.

### ***Advisory Services***

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

### ***Asset Management***

Hudson provides ongoing discretionary or non-discretionary asset management with respect to investments acquired by its clients. Hudson provides oversight of single assets or pools of assets, including oversight of loan servicers, property managers, real estate brokers, and other applicable service providers. In some cases, Hudson directly provides servicing or special servicing with respect to loan portfolios. Hudson advises on and assists with the development of Business Plans (as defined in Item 8) or other guidelines governing management of client investments. Hudson manages and resolves client assets in accordance with such Business Plan or other client guidelines, and seeks client approval for asset dispositions or strategy changes as required by the client.

### ***REO Servicing***

Hudson provides services for U.S. residential REO assets held by certain of its clients through Hudson Homes Management LLC and/or its subsidiaries (together, “Hudson Homes”). Hudson Homes’ services include property preservation, oversight of renovation and repair, leasing, property disposition and other similar and related matters. Hudson Homes is a subsidiary of HAM.

### ***Hedging Services***

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

### ***Ancillary Services***

Hudson may provide certain ancillary back office services, including legal, compliance, audit, accounting, administration, reporting, cash management, tax, risk management advice, operating company oversight, communications, information technology development and other similar and related services. As part of Hudson’s ancillary services, it advises on the fair value of client investments, and also provides periodic financial reports on client investments, as discussed in Item 13.

### **Executive Committee**

Hudson has established a group of senior professionals (the “Executive Committee”) to oversee the operations of the firm. The Executive Committee includes the following Hudson officials: the Chairman and Chief Executive Officer, the Chief Operating Officer, the Global Head of CRE, the Chief Business Development Officer, and the General Counsel.

### **Lone Star**

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

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

### **Family Accounts**

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

### **Ownership**

The sole limited partner of HAL is Hudson Advisors Holdings L.P. The majority limited partner of Hudson Advisors Holdings L.P. is Hudson LP Holdings LLC. The general partner of Hudson Advisors Holdings L.P. is Hudson Advisors GenPar LLC, which is also the general partner of HAL. Hudson Advisors GenPar LLC is owned by Hudson LP Holdings LLC. The sole member of Hudson LP Holdings LLC is Hudson LP Holdings Ltd. The Hudson LP Holdings Trust is the 100% shareholder of Hudson LP Holdings Ltd. Minot Nevada PTC, Inc. serves as trustee for The Hudson LP Holdings Trust. Minot International Ltd. is the 100% shareholder of Minot Nevada PTC, Inc., and The Minot Purpose Trust is the 100% shareholder of Minot International Ltd. Conyers Trust Company (Bermuda) Limited serves as trustee for The Minot Purpose Trust. HAL directly or indirectly owns 100% of the filing adviser HAM.

### **Assets Under Management**

As of December 31, 2019, Hudson provided investment supervisory services with respect to approximately \$41,648,627,660 in assets of its clients, including unfunded commitments of the LS Funds, calculated in accordance with the methodology prescribed by the SEC for calculating Regulatory Assets Under Management.

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

### **A. Fees**

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

- **Asset Management Fees**

Hudson receives an asset management fee from clients to which it provides asset management services, including the LS Funds and others.

With respect to the LS Funds, the governing documents of each LS Fund detail the maximum asset management fee limits for various asset types for such LS Fund. The maximum asset management fee represents the maximum

amount to be paid by such LS Fund on an average basis, over the life of the LS Fund, which is determined using the aggregate net book value of the assets (i.e., cost of the assets net of any dispositions). Hudson fees for asset management services are negotiated periodically and will vary within the applicable maximum asset management fee limits based on the nature of the applicable LS Fund's investments (e.g., asset types) and investment Business Plans. To the extent that asset management services are rendered in connection with an asset that does not have a net book value (e.g., post-disposition collections, etc.), Hudson will charge a flat fee based on the estimated scope of work, as approved by Lone Star. Any such Hudson fees are subject to the maximum asset management fee limit. Hudson's fees are billed to the applicable LS Fund, to the LS Fund SPV (as defined below) that directly or indirectly owns the applicable investment, and/or to the applicable Portfolio Company (as defined in Item 11).

Hudson's actual fees and investment Business Plans for LS Fund investments are periodically reviewed and adjusted and are, therefore, subject to change. Lone Star and Hudson periodically benchmark the asset management fee caps against fees charged by third-party service providers.

With respect to any other client, the asset management fee is negotiated with such client and documented in the applicable client agreement.

- **REO Servicing Fees**

Hudson Homes receives fees for REO servicing with respect to certain U.S. residential REO assets. The REO servicing fees are generally charged as a fee based on the unpaid principal balance of the loan at the time of foreclosure, plus certain incentive fees. The advisory committees of certain of the LS Funds have approved certain limitations on the fees that Hudson Homes can charge the applicable LS Funds on the unpaid principal balance of the loan at the time of foreclosure and on the incentive fees that Hudson Homes can charge the applicable LS Funds.

Northsight Management, LLC and Northsight Management Solutions, LLC (together, "Northsight"), indirect subsidiaries of Hudson Homes, provide property preservation, maintenance, renovation and repair, and related services ("SFR Property Services") to clients, either directly or through Hudson Homes. The fees charged by Northsight for SFR Property Services are set forth in fee agreements with clients and are based on the type of SFR Property Service being provided and the geographic location of the property. The advisory committees of certain of the LS Funds have approved certain limitations on the fees that Northsight can charge the applicable LS Funds for SFR Property Services.

- **Advisory, Hedging, Due Diligence and Analysis, and Ancillary Services Fees**

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

As detailed in the offering documents of each of the LS Funds, Hudson's billing rates reflect the overhead cost of the resources deployed, including, but not limited to, the costs of employee compensation and benefits, office leases and occupancy costs, information technology and related support, regulatory compliance, human resources, accounting and internal audit, administrative costs relating to the employee co-investment program, services by certain internal professional personnel, insurance, taxes, and other operating costs. To the extent such overhead costs are incorporated into Hudson's billing rates, such costs will be borne by the applicable LS Fund (including in many instances indirectly through portfolio entities) and will not offset the management fee received by LSGA. Hudson billing rates do not include costs of the LS General Partners or LSGA. Lone Star and Hudson periodically benchmark the fees charged by Hudson for ancillary services and due diligence and analysis against fees charged by third-party service providers.

## **B. Billing Arrangements**

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

## **C. Expenses**

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

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

The expenses discussed above are typically incurred by a single client. In some instances, expenses may be shared by multiple clients. This creates conflicts of interest for Hudson in some instances, as the allocation of such expenses may impact the performance of different clients, as well as management fees and carried interest allocations. Hudson, in conjunction with its clients, allocates such expenses in good faith and consistent with its clients' policies. Hudson has implemented policies and procedures designed to ensure that expense allocations are equitable and consistent with the requirements of the applicable offering documents. Certain expenses shared by one or more clients may be initially paid by a single client, which is reimbursed by other clients for their appropriate share of the relevant expenses.

## **D. Co-Investors**

Certain employees, officers, directors, executives, members and contractors ("Key Employees") of Hudson, Lone Star, and their affiliates are given the opportunity to invest on a side-by-side basis with the LS Funds through employee investment vehicles (each of the Hudson and Lone Star vehicles, an "Employee Investment Vehicle"). Employee Investment Vehicles do not pay any fees to Lone Star, carried interest, or other LS Fund-level expenses. Employee Investment Vehicles do not pay any fees directly to Hudson, but receive distributions from the underlying investments net of fees paid to Hudson, transaction costs, and other fees and expenses allocated to the investment, including entity costs and costs related to audits. The Employee Investment Vehicles also bear a pro rata portion of the unconsummated transaction costs incurred by the corresponding LS Funds. Further information regarding the employee co-investment arrangements is discussed in Item 11 – Employee Investment Vehicles.

## **E. Family Accounts**

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



clients.

## **E. Fees Related Conflicts of Interest**

Hudson will receive fees from each LS Fund as set forth in its offering documents. By virtue of their or their associated entities' ownership interest in Hudson, certain of the Principals or their associated entities will benefit from Hudson's relationship with and its receipt of fees from the LS Funds. Such fees and relationship will enhance the value of Hudson, and the limited partners of the LS Funds (other than those limited partners holding direct or indirect interests in Hudson) will not participate in any increase in the value of Hudson by virtue of their ownership of an interest in an LS Fund.

Because of their interests in the LS General Partners (and in some cases, the Employee Investment Vehicles) of the LS Funds, members of management of LSGA are incentivized to monitor the cost incurred and quality of services received by the LS Funds, including from Hudson. LSGA and Hudson periodically review cost and efficiency metrics regarding the services provided by Hudson.

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

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

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

When providing services to other clients, Hudson negotiates the fee structures with the applicable client. Negotiated fee structures may include performance fees.

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

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

As noted in Item 4, Hudson provides investment advisory services to certain Family Accounts through separately managed accounts.

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

#### **A. Investment Strategies and Methods of Analysis**

##### ***I. Due Diligence***

Hudson's due diligence and analysis on investments generally includes assessment of current and future market conditions for specific assets, assessment of asset sellers and other counterparties, and identification of available financing opportunities from counterparties and third parties. When considering whether, and in what manner, an investment opportunity should be financed, Hudson may consider, among other things, the availability of financing opportunities, the cost of each opportunity, the duration of the financing, the relevant risks of each opportunity, and whether such financing is likely to be obtained, and obtained in a timely fashion.

When evaluating an investment, Hudson completes a financial review and valuation, in accordance with the applicable client's requirements, which may include a bottom-up, asset-based due diligence evaluation of the transaction. In providing these services, Hudson uses various methods of analysis, which utilize proprietary and third-party data, and are tailored to the type and location of the potential investment being evaluated.

## ***II. Asset Management and Exit Strategies***

In connection with the onboarding of a new investment, Hudson typically develops an initial business plan for the ongoing management of the investment (each, a "Business Plan"), in coordination with the client as applicable. Hudson conducts the asset management of each investment in accordance with the current Business Plan. Hudson periodically reviews the implementation and ongoing validity of the Business Plan; this review process is discussed further in Item 13. Senior management of Hudson, in consultation with the client as applicable, will determine the appropriate exit strategy for an investment, based on an ongoing analysis of buy versus hold scenarios, with a goal of maximizing overall risk-adjusted investor returns. Depending on the type of investment, Hudson will recommend a variety of exit strategies, including negotiated sales, private auctions, discounted payoffs, foreclosures, debt restructuring, public offerings, and business reorganization/recapitalization. The applicable client is ultimately responsible for approving any exit strategy for an investment recommended by Hudson.

## ***III. Single-Family Residential Mortgage-Backed Securities***

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

## ***IV. Corporate Equity and Debt***

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

value). Sensitivities are also run on a range of financial variables to evaluate the effects on returns.

## **V.      *Whole Loans***

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

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

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

## **VI.     *Commercial Real Estate Assets***

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

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

## **VII.    *Hedging Services***

Hudson provides market risk management and derivative advisory services to clients through market risk management advisory, trade execution, derivative valuations and reporting, hedge accounting, and derivative documentation negotiation. Hudson provides currency strategies that aim to reduce the foreign currency exposure of client investments. Similarly, where clients invest in assets that have identified interest rate exposures or other risks, Hudson may provide interest rate hedging services or other hedging services related to those investments where such hedging services are deemed appropriate and cost effective. Hudson may hedge less than the full amount of an investment's currency, interest rate, or other risk exposure or may decide not to hedge such exposure.

Hudson's foreign exchange and interest risk management services encompass hedging review, selection of hedging counterparties, trading and related accounting functions. Hudson implements client hedging activities through a variety of derivatives. In connection with non-U.S. dollar denominated investments, Hudson typically uses forward foreign exchange contracts and foreign currency options to manage foreign currency exposure. Additionally, if Hudson hedges the interest rate exposure of an investment, it typically uses interest rate swaps and interest rate options.

## **B. Risks**

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

### ***I. Material Risks Relating to Investment Strategies***

1. **Focused Investment Strategy.** The focused investment strategy utilized by Hudson on behalf of clients often does not incorporate consideration of other investments held in a client's investment portfolio. Accordingly, portfolio risk controls such as value at risk metrics, investment diversification across regions or industries or avoidance of risk concentration at the investment portfolio level are often not considered when assessing the merits of a potential investment. Instead, Hudson's investment strategy focuses on the expected returns of each potential investment on an individual basis. This focused investment strategy may result in a significantly higher risk profile compared to a strategy that actively diversifies investments across type, sector, location, and/or other risk factors.
2. **Risk of Limited Number of Investments.** As a result of Hudson's focused investment strategy, clients may participate in a limited number of investments or a limited number of asset classes and, as a consequence, the aggregate return of client portfolios may be substantially adversely affected by the unfavorable performance of even a single investment. In addition, to the extent a client participates in a limited number of investments, the diversification of the client's investments across asset classes and geographic regions could be limited.
3. **Limited Current Return.** The return of capital and the realization of gains, if any, will generally occur only upon the partial or complete disposition of a client's investment. Developments in global and U.S. financial markets over the past few years and new developments, if they occur, may adversely impact the ability of clients to dispose of investments at their expected returns. Current returns from investments may vary, as Hudson generally attempts to maximize realized returns on the disposition of client investments, and as such, will generally not favor early liquidation of an investment or foregoing potential disposition upside to maximize current returns.
4. **Investing in Troubled Assets.** Hudson may make investments in secured and unsecured non-performing loans or other troubled assets on behalf of clients that involve a significant degree of legal and financial risk and, particularly in the international context, political risks. Furthermore, investments in assets operating in workout modes or under bankruptcy reorganization laws may, in certain circumstances, be subject to certain additional potential liabilities that may exceed the value of a client's original investment. For example, under certain circumstances, lenders who have inappropriately exercised control of the management and policies of a debtor may have their claims subordinated or disallowed or counterclaims may be filed and lenders may be found liable for damages suffered by various parties as a result of such actions. In addition, under certain circumstances, payments to the client and distributions by the client may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment. Moreover, particularly with respect to international investments in secured and unsecured non-performing loans or other troubled assets, there are additional risks and uncertainties related to litigation, bankruptcy, and other laws and regulations affecting the rights and remedies of clients, which can create additional financial risks to clients.

5. **Risks of Investing in Real Estate-Related Assets.** Investments in real estate assets and real estate-related investments are subject to various risks associated with the real estate industry generally, including adverse changes in the financial conditions of tenants, buyers, and sellers of properties; the availability of financing; real estate taxes, interest rates and other operating expenses; insurance; environmental laws and regulations, zoning laws, and other governmental rules and fiscal policies; the relative popularity of certain property types and locations; and the availability of certain construction materials. Developments in global and local financial and real estate markets over the past few years, and new developments in those markets, if they occur, may result in reductions in the value of real property interests. The real estate assets associated with client investments may be or become non-performing after acquisition for a wide variety of reasons. Such non-performing real estate investments may require a substantial amount of workout negotiations and/or restructuring, which may entail, among other things, a substantial write-down of such loans or assets.
6. **Risks of Investing in Commercial Mortgage Loans.** The value of clients' commercial mortgage loans and the underlying real estate will be influenced by the historical rate of commercial mortgage loan delinquencies and defaults experienced on the commercial loans and by the severity of loss incurred as a result of such defaults. The factors influencing delinquencies, defaults, and loss severity include: (i) economic and real estate market conditions by industry sectors (e.g., multifamily, retail, office); (ii) the terms and structure of the mortgage loans; and (iii) any specific limits to legal and financial recourse upon a default under the terms of the mortgage loan. Commercial mortgage loans are generally viewed as exposing a lender to a greater risk of loss through delinquency and foreclosure than lending on the security of single-family residences. The ability of a borrower to repay a loan secured by income-producing property typically is dependent primarily upon the successful operation and operating income of such property (i.e., the ability of tenants to make lease payments, the ability of a property to attract and retain tenants, and the ability of the owner to maintain the property, minimize operating expenses, and comply with applicable zoning and other laws) rather than upon the existence of independent income or assets of the borrower. Most commercial mortgage loans provide recourse only to specific assets, such as the property, and not against the borrower's other assets or personal guarantees.
7. **Credit Risks.** A client's investment could lose money if the issuer or guarantor of a fixed income security is unable or unwilling, or is perceived by market participants, ratings agencies, pricing services or others as unable or unwilling to make timely principal and/or interest payments, or to otherwise honor its obligations. Securities are subject to varying degrees of credit risk, which are often reflected in their credit ratings. The downgrade of the credit of a security held by a client may decrease its value. "Opportunistic" assets are generally considered to have significant credit risk. With respect to the financing strategies and hedging services described above, clients may also be subject to the risk that a counterparty to a financing arrangement or derivatives contract may be unable or unwilling to honor its obligations as a result of the counterparty's financial condition or insolvency.
8. **Risks Associated with Mortgage-Backed Securities.** In general, risk factors discussed herein pertaining to mortgage loans (and the type of property securing such mortgage loans), would similarly pertain to any mortgage-backed security in which clients invest. Some or all of the potential mortgage-backed securities acquired by clients may not be rated, or may be rated lower than investment grade by one or more nationally recognized statistical rating organizations. The majority of the mortgage-backed securities acquired by clients are typically lower-rated or unrated, and the original ratings of many of these securities were withdrawn or downgraded to levels that are significantly below investment grade. Lower-rated or unrated mortgage-backed securities in which clients may invest have speculative characteristics that can involve substantial financial risks. Securities rated lower than "B" can be regarded as having extremely poor prospects of ever attaining any real investment standing and may be in default. Existing credit support and the owner's equity in the property may be insufficient to protect clients from loss. If clients invest in subordinated mortgage-backed securities in particular, clients will be first in line among debt holders to bear the risk of loss from collateral delinquencies and defaults. To the extent that the mortgage loans that

underlie specific mortgage-backed securities are prepayable, the value of such mortgage securities may be negatively affected by increasing prepayments, which generally occur when interest rates decline. Typically, commercial mortgage loans are not prepayable or are subject to prepayment penalties or interest rate adjustments.

9. **Risks Associated with Leveraged Buyouts.** A client may structure one or more of its operating company investments as a leveraged buyout, in which the acquisition is financed using substantial amounts of debt secured by the target company's cash flows or other assets. These investments are particularly sensitive to adverse economic factors and other risks associated with leverage generally, which magnify their volatility and may substantially increase the client's risk profile. In the event an operating company is unable to generate sufficient cash flow to meet the payment obligations associated with the related acquisition financing, the value of the client's equity position in such operating company could be significantly reduced or even eliminated. In addition, such investments are subject to risks generally associated with investments in operating companies, including, without limitation, the possibility that the operating company's management may have economic or business interests or goals which are inconsistent with those of the applicable client. Further, the exercise of control over an operating company, which often results from a leveraged buyout, imposes additional risks of liability for environmental damage, product defects, failure to supervise and other types of related liability. If such liabilities are to arise, the client may suffer a loss on its investment.
10. **International Investing.** Hudson performs services for clients on a global basis, and in particular, in North America, Europe, Asia Pacific and Latin America. Hudson may also make significant investments on behalf of clients in countries that are considered "emerging markets". Risks to clients' investments may result from differences between U.S. and non-U.S. countries, such as the absence of uniform accounting, auditing, and disclosure requirements; level of government oversight and other legal and regulatory differences, including weaker investor protections and fiduciary duties; less advanced bankruptcy laws; and difficulty in enforcing contractual obligations. Further risks may involve a country's potential economic, political, or social instability, which can lead to expropriation or confiscatory taxation, higher inflation, nationalization, confiscation without fair compensation, or war and can necessitate reliance on a country's diminished economic and physical infrastructure to support investment activity. In addition, in the changing global political realm, what appears to be a stable political situation at the time of an investment may change significantly before the client can dispose of such asset. Instability in a country may also lead to fluctuations in currency exchange rates that affect the value of a client's investments, and non-U.S. currency and other restrictions imposed to prevent capital flight, which may make it difficult or impossible to exchange or repatriate non-U.S. currency. The laws and regulations of non-U.S. countries may impose restrictions or approval requirements that do not exist in the United States and may require the use of financing and structuring alternatives that differ significantly from those customarily used in the United States. Foreign countries also may impose taxes on the clients and the activities of the clients. Hudson will analyze risks in the applicable non-U.S. countries before recommending investments therein, but no assurance can be given that a political or economic climate, or particular tax, legal, or regulatory risk might not adversely affect an investment by a client. Despite efforts by Hudson to mitigate some of the foregoing risks, these risks may ultimately limit a client's ability to dispose of certain investments or to dispose of certain investments profitably.
11. **Finance Companies and Other Regulated Institutions.** A client may invest in finance companies or other regulated institutions, which operate in a highly competitive environment and are subject to extensive regulation. Finance companies compete for loans, deposits, and other financial services with other finance companies as well as commercial banks, savings and loan associations, credit unions, mutual funds, insurance companies, brokerage and investment banking firms, and various other non-bank competitors, many of which may be subject to a lesser degree of governmental regulatory oversight and periodic examination than their competitors. Investments in certain types of institutions that provide secured and unsecured loans are highly speculative and subject to various risks, including adverse changes in national or international economic conditions; adverse local market conditions; changes in availability

of debt financing; changes in interest rates, governmental rules, and fiscal policies; risks due to dependence on cash flow; risks and operating problems arising out of acts of God and other unanticipated events; uninsurable losses; and other factors that are beyond the control of the client. In the event a finance company or similar institution forecloses on the properties, if any, securing its loans, such company would need to operate those properties, thus being subject to environmental and other risks associated with the ownership and operation of real property. Furthermore, there can be no assurance that such company would be able to sell such properties at a price that would result in a return on the loans.

12. **Financing and Use of Leverage.** A client may employ a substantial amount of leverage in connection with their investments. Such clients' ability to achieve or surpass target rates of return on the investments depends on its ability to access sufficient financing sources on desirable terms. Clients utilize various types of financing, such as repurchase agreements, loan facilities, swaps, and multi-tiered credit arrangements, many of which contain inherent risks. A client's investments are typically financed by initially borrowing under a general facility and/or third-party financing, subsequently to be replaced with financing that is secured by the specific investment that is being financed. This leverage will increase the exposure of such investments to adverse economic factors such as significantly rising interest rates, increased risk spreads, severe economic downturns, or deterioration in the condition of the investment or its corresponding market. Generally, the presence of leverage in a client's investments magnifies their volatility and may substantially increase the client's risk profile. In the event a specific investment is unable to generate sufficient cash flow to meet a principal or interest payment required to maintain the financing arrangement or a margin call related to an investment, the value of a client's equity position in that investment and other investments of the client could be significantly reduced or even eliminated. The amount and terms of financing available to a client could affect the returns generated by the client and the ability to structure potential transactions. While Hudson will take the availability and terms of financing into consideration when identifying, assessing, and structuring potential investments, a decrease in the ability of a client to leverage the investments could adversely affect the returns generated by the client and could result in fewer investments being made, therefore reducing the diversification of the portfolio. If interest rates rise, as anticipated, the cost of financing will increase. Further, deterioration in the ability of a client to leverage the investments could result in the aggregate return of the client being substantially adversely affected. As discussed above, the clients expect to use a variety of financing sources including, without limitation, repurchase agreements. The repurchase agreements used by the client for financing purposes may have various terms ranging from a month or less to five or more years. An inability of a client to re-lever or obtain take-out financing for client's investments at the end of the term of a given financing arrangement may have an adverse impact on the aggregate returns of such investment. Further, in the event that any given financing arrangement is terminated prior to its expected term, a client may not be able to refinance the underlying investment in a timely manner, or on the same terms as the prior financing arrangement, or on any terms. In addition to the enhanced portfolio volatility and risk that may arise from the use of leverage, financing instruments are generally subject to credit risks with respect to the counterparty. Financing transactions typically involve the transfer of legal title, pledge, or other encumbrance of the underlying investment of the client. Repurchase agreements may require the transfer of title to the underlying assets and may reduce the options available to resolve any issues with the counterparty involved in such repurchase agreements. The number of potential counterparties offering financing of the type desired by a client may be very limited, which may result in less attractive terms and conditions, and concentrations of financings with such counterparties. Accordingly, the insolvency or bankruptcy of a financing counterparty may result in legal action that impairs the value or marketability of the underlying investment, or a client's ownership rights. There can be no assurance that the client will recover all or any of the economic value of the investment under such circumstances, and any such recovery may require the payment of substantial legal costs.
13. **Illiquidity of Investments.** Most client investments are highly illiquid, and there can be no assurance that the clients will be able to realize these investments in a timely manner. While certain investments by the

clients may generate current income, the return of capital and the realization of gains, if any, with respect to certain other investments will generally occur only upon the partial or complete disposition of such investment. While an investment may be sold at any time, typically this will not occur until a number of years after the investment is made. It is unlikely that there will be a public market for most of the investments held by clients. Clients generally will not be able to sell securities held in their investment portfolios publicly unless their sale is registered under applicable securities laws, or unless an exemption from such registration requirements is available. In some cases clients may be prohibited by contract or regulatory requirements from selling investments for a period of time. In addition, the types of investments held by clients may be such that they require a substantial length of time to liquidate. In the event of a margin call or other loan repayment at a time in which a client does not have sufficient cash assets to cover such call or payment, clients may have to liquidate certain investments at less than their expected returns, thereby resulting in lower realized proceeds.

14. **Swaps and Derivative Investments.** Hudson may utilize swaps and other derivative transactions on behalf of clients to obtain a desired exposure and such transactions may expose clients to risk of loss. In addition, clients may take advantage of certain other customized instruments to create “synthetic” or derivative investments that are not presently contemplated for use by clients, or that are currently not available but that may be developed, to the extent such opportunities are both consistent with the clients’ investment objectives and legally permissible for the clients. To the extent clients invest in repurchase agreements, swaps, and other “synthetic” or derivative instruments, counterparty exposures can develop and clients take the risk of nonperformance by the other party on the contract. Transactions such as these, which are entered directly between two counterparties, may expose the parties to the risk of counterparty default. In addition, if clients were to invest in synthetic or derivative instruments that do not currently exist, certain other risks may apply in addition to the risks described herein. Derivatives are a financial contract with a value that depends on, or is derived from, an underlying product. Some of the risks generally associated with derivatives include the risks that: (1) the value of the derivative will change in a manner detrimental to clients; (2) another party to the derivative may fail to comply with the terms of the derivative contract; (3) the derivative may be difficult to purchase or sell; and (4) the derivative may involve indebtedness or economic leverage, such that adverse changes in the value of the underlying asset could result in a loss substantially greater than the amount invested in the derivative itself or in heightened price sensitivity to market fluctuations. Derivatives markets can be highly volatile. The profitability of investments by clients in derivatives depends on the ability of Hudson to correctly analyze these markets, which are influenced by, among other things, changing supply and demand relationships, governmental, commercial, and trade programs and policies designed to influence world political and economic events, and changes in interest rates. In addition, the assets of clients may be pledged as collateral in derivatives transactions. Thus, if clients default on such an obligation, the collateral may be at risk.
15. **Reuse of Collateral.** In connection with swaps and other derivative transactions, a client is frequently required to post collateral to transaction counterparties or clearing firms. The amount of such collateral may be material to the client’s account. Such collateral may, from time-to-time and without notice to Hudson or the client, be carried in the general account of the counterparty or clearing firm and may be sold, pledged, rehypothecated, assigned, invested, loaned, commingled or otherwise disposed of, or otherwise used in the business of the counterparty or clearing firm without any claim or right of any nature whatsoever of the client. A counterparty or clearing firm holding collateral in connection with a swap or other derivative transaction is obligated to return to the client assets equivalent to those provided as collateral. Although Hudson seeks to enter into transactions on behalf of clients with creditworthy counterparties and clearing firms on favorable terms, there can be no assurance that collateral posted to such parties will be returned to clients in a timely manner. The insolvency or bankruptcy of a counterparty or clearing firm may result in partial or full loss of collateral posted and may require the payment of substantial legal costs to enforce the right of clients to the return of equivalent assets.
16. **Use of SPVs.** Clients will often use various SPVs to hold investments. The use of these SPVs may involve additional costs of formation, structuring, and operating such entities. Because of the worldwide reach of



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

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

## ***II. Material Risks of Loss Related to Methods of Analysis***

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

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

2. **Asset Management and Exit Strategies.** Hudson seeks to perform reasonable and proper asset management including exit strategies for each investment in accordance with its Business Plan. Due to risks inherent in investments generally, there can be no assurance that Hudson's asset management and exit strategies will satisfy the investment objectives of any particular client or that any client will be able to carry out its investment strategy successfully.
3. **Single Family Residential Mortgage-Backed Securities.** The material risks related to evaluating mortgage-backed securities and CDOs backed primarily by mortgage-backed securities, using a credit-based model, include: (1) changes affecting the model inputs used to project performance (such as prepayment speeds, delinquency rates, loss severities and interest rate assumptions); and (2) the potential for new variables (such as foreclosure moratoriums, new governmental programs, and legislative or regulatory changes) to impact actual performance. To address these risks, regular model validation tests are performed and the models are adjusted to account for changes in the market, including credit trends, servicing trends and legislative and regulatory developments. Other material risks related to evaluating mortgage-backed securities and CDOs include events that either diminish the total recovery amount on the underlying asset or significantly extend the timing of collection of such recovery amount from the sale of the underlying property. To assess these risks, multi-scenario valuations are performed (including stress-case valuations) in an attempt to determine potential downside risks of the investment. These securities also carry the risk of document ambiguities, errors or omissions. Additionally, investments in CDOs include the risk of potential conflicts of interest among the holders of various classes of notes of the CDO. To help mitigate these risks, internal counsel and, when appropriate, external counsel are engaged to review associated documents and evaluate these potential risks.
4. **Corporate Equity and Debt.** The material risks related to evaluating corporate equity and debt include: (1) changes affecting the model inputs used in the discounted cash flow method and the multiple methods (i.e. price to earnings, price-to-book, EBITDA, etc.); and (2) the potential for new variables to significantly impact the ability to realize a profit on the investment. To assess these risks, sensitivity analyses are run on a range of financial variables to evaluate the effects on returns, amongst others.
5. **Whole Loans.** The material risks related to evaluating loans include: (1) changes affecting the model inputs used to project loan performance; and (2) the potential for new variables to significantly impact the likelihood of loan repayment. To address these risks, periodic model validation tests are performed and the models are adjusted to account for changes in the market, including housing trends. Multi-scenario valuations are performed in an attempt to assess downside risk. Non-performing residential mortgage loans also have increased risk of litigation in connection with the foreclosure process. To help mitigate this risk, third-party due diligence vendors may be engaged to review a sample of loans.
6. **Commercial Real Estate Assets.** The material risks related to evaluating CMBS, commercial real estate loans and properties include: (1) changes affecting the model inputs used in the valuations; and (2) the potential for new variables to significantly impact the ability to realize a profit on the investment. To assess these risks, on-going surveillance of the market is used to adjust the model for a particular investment, and multi- scenario valuations are performed in an attempt to assess downside risk. Commercial real estate loans and CMBS also have increased risk of litigation in connection with the foreclosure process. To help mitigate this risk, third- party due diligence vendors may be engaged to review a sample of loans.
7. **Hedging Services.** Hudson may recommend that a client enter into hedging and similar transactions with respect to foreign currency, interest rate, and other risks where deemed appropriate and cost effective. There is, however, no assurance that foreign exchange risk and/or interest rate risk can be perfectly hedged or minimized where the magnitude and timing of future cash flows can only be estimated and not known with certainty. Thus, prudent currency and interest rate hedging policies only serve to minimize or reduce these risks, but not to eliminate them completely. There can be no assurance that a client will have sufficient liquidity or credit capacity to support the hedging services provided by Hudson, and no

assurance that hedging techniques will be available, be available at a reasonable cost, or be sufficient to eliminate these risks. In addition, Hudson may recommend that a client hedge the investment's currency or interest rate exposure at an amount less than the expected value of that investment or not at all. In such cases, the client may suffer losses from changes in foreign exchange rates or interest rates that may have been recouped through hedging transactions if the investment had been fully hedged. With any hedging transaction there exists a risk that any counterparty to a hedging transaction will not perform as expected. There may also be complications in the enforcement of hedging transactions in the event of partial or total dissolution of a currency block such as the Euro, the imposition of currency controls, or similar currency market disruption to a hedged currency, and litigation between clients and the hedging counterparty may result from such complications. Such a disruption to the currency markets may also cause clients to be unable to implement hedging transactions in the affected markets for an indefinite period of time.

8. **Valuation.** Client investments include numerous illiquid, subordinate, non-traded, or lightly traded investments held in a variety of countries for which market values are not readily available and fair values may be difficult to estimate. Hudson could be motivated to misstate the value of investments in clients' accounting records or on investor reports in order to improve the performance presented to clients or investors (or potential clients or investors) or to minimize write-downs impacting incentive allocations and management fee payments.

In order to address these risks, Hudson employs rigorous valuation policies and procedures. All client investments are reported at fair value in accordance with applicable accounting standards. If reliable market quotations are readily available, securities and other instruments will generally be valued at their market price. Otherwise, investments will be fair valued using methodologies deemed by management to be most appropriate for the investment type and market conditions. When available, methodologies are used that maximize the use of observable inputs. Due to the nature of the clients' investments, valuations are often based on discounted cash-flow projections, market multiples, or other valuation methodologies that rely heavily on management judgement and estimates of unobservable inputs. There can be no assurances such valuations, or their underlying assumptions, will prove to be accurate.

### **III. General Risk Factors**

1. **Market Risks.** Clients may make investments that are publicly traded or traded in active private markets. The values of such investments are particularly susceptible to fluctuations based on market trends. Further changes in stock prices, interest rates, currency exchange rates, or commodity prices could result in changes in the broader marketplace that adversely affect the value of publicly traded investments, particularly with respect to investments located in emerging markets or traded on relatively volatile exchanges. Clients may invest in publicly traded securities on markets that are relatively illiquid or volatile. The values of such investments are particularly susceptible to fluctuations based on market trends. Hudson may have difficulty disposing of such investments at a price and on terms that are attractive to clients.
2. **Currency Risk.** Clients may make investments in assets denominated or valued in non-U.S. currencies. To the extent that clients invest in securities or assets denominated in or indexed to foreign currencies, changes in currency exchange rates bring an added dimension of risk. Currency fluctuations could negatively impact investment gains or add to investment losses. Although Hudson may attempt to hedge against currency risk, the hedging instruments may not always perform as Hudson expects and could produce losses. Suitable hedging instruments may not be available for currencies of emerging market countries, and an investment may not be adequately hedged with respect to its currency exposure even if suitable hedging instruments are available.
3. **Taxation.** Investments in real estate, equity, credit, and other financial assets may be subject to various taxes and duties imposed by the jurisdiction in which such assets reside or operate. Depending on the

jurisdiction, some investors in an LS Fund may be required to take into account their allocable share of the LS Fund's current year activity, without regard to whether the investor has received or will receive any distributions from the LS Fund. Accordingly, an investor's tax liability for any taxable year associated with an investment in an LS Fund may exceed cash distributed to that investor during the taxable year. Hudson endeavors to structure each investment to comply with all applicable laws and regulations. However, taxing authorities may challenge a structure and, if successful, additional tax may be owed. Additionally, tax laws in any jurisdiction in which clients invest are subject to changes or revocations which may expose clients to unexpected taxation and reduce their returns.

4. **Risks of Environmental Liabilities.** Under various laws, ordinances, and regulations, an owner or operator of real property may become liable for the costs of removal or remediation of certain hazardous substances and other environmental pollutants (including, without limitation, petroleum products, asbestos, and polychlorinated biphenyls) released on, about, under, or in the property. Environmental laws often impose this liability without regard to whether the owner or operator knew of, or was responsible for, the release of hazardous substances or other environmental pollutants. The presence of hazardous substances or other environmental pollutants, or the failure to remediate hazardous substances or other environmental pollutants properly, may adversely affect the owner's ability to sell or use real estate or to borrow outside funds using real estate as collateral. In addition, some environmental laws create a lien on contaminated property in favor of the government for costs it incurs in connection with the contamination. In addition to cleanup actions brought by governmental agencies and private parties, the presence of hazardous substances or other environmental pollutants on a property may lead to claims of personal injury, property damage, or other claims by private plaintiffs. Environmental liabilities with respect to a specific real estate asset may exceed the value of such asset, and under certain circumstances, subject the other assets of clients to such liabilities.
5. **Regulatory Risks.** There is no assurance that the LS Funds, the LS General Partners, Hudson, any of the SPVs, or any LS Fund entities will be able to: (i) obtain all required regulatory approvals not yet acquired, or that may need to be acquired in the future; (ii) obtain any necessary modifications to existing regulatory approvals; or (iii) maintain required regulatory approvals. Delay in obtaining or failure to obtain and maintain in full force and effect any regulatory approvals, or amendments thereto, or delay or failure to satisfy any regulatory conditions or other applicable requirements could prevent operations of a portfolio company, impede the development of real estate assets, delay the completion of a previously announced acquisition or disposition, cause the client to be subject to regulatory actions, or otherwise result in additional costs to a portfolio company, or other investment, and in turn clients. The global investment strategies of Hudson are subject to complex, changing, and sometimes competing legal, tax, and regulatory regimes throughout the world, including the EU tax regulatory regime which requires certain entities registered in all major offshore jurisdictions, including Bermuda, to maintain an economic presence and satisfy economic substance requirements in such jurisdictions, and there is a possibility that new or changing regulatory requirements could potentially have direct or indirect adverse effects on clients.

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

6. **Pandemic Risks.** Disease outbreaks that affect local economies or the global economy may materially and adversely impact our business. For example, the recent global outbreak of the 2019 novel coronavirus ("COVID-19"), together with resulting restrictions on travel and quarantines imposed, has meaningfully disrupted the global economy and markets. Although the long-term economic fallout of COVID-19 is

difficult to predict, it has and is likely to contribute to market volatility and is also likely to lead to an economic slowdown given the disruption to supply chains across sectors and industries worldwide, which may reduce market activity more generally and materially and adversely affect our clients.

## **Item 9: Disciplinary Information**

Lone Star Fund IV (U.S.), L.P. and Lone Star Fund IV (Bermuda), L.P. (together, “LSF IV”), together with certain co-investors, purchased, through various non-U.S. entities, a controlling interest in Korea Exchange Bank (“KEB”), a South Korean commercial bank in 2003. Several persons affiliated with Lone Star were elected to the Board of Directors of KEB (together, the “Lone Star Directors”), including Paul Yoo, a senior officer of Lone Star’s subsidiary in Korea at the time, Lone Star Advisors Korea, L.L.C (“LSAK”). Shortly thereafter, KEB, with the unanimous authorization of its Board of Directors, rescued its failing credit card affiliate (“KEB Credit”), in order to avert the latter’s impending insolvency, by merging it into the bank.

In late 2006 and early 2007, the Korean Supreme Prosecutor’s Office (“SPO”) charged Paul Yoo, and, vicariously, KEB and its LSF IV-affiliated controlling shareholder with violations of the Korean Securities and Exchange Act in connection with KEB’s merger with KEB Credit, alleging essentially that Mr. Yoo and the other Lone Star Directors conspired to unlawfully drive down the share price of KEB Credit’s shares in advance of the merger, to enable KEB to merge with KEB Credit on more favorable terms. Ultimately (in late 2011 and early 2012), after several decisions and appeals, Paul Yoo and, vicariously, the LSF IV-affiliated controlling shareholder, were convicted of this charge. Paul Yoo was also found guilty of various other charges relating to (i) failure to appear before the Korean National Assembly, (ii) breach of fiduciary duty relating to manipulation of the reported rates of return for certain investments made in Korea by certain prior LS Funds, and (iii) tax evasion relating to the transactions involved in clause (ii) above. Paul Yoo was sentenced to three years imprisonment and a fine of KRW 4.295 billion (approximately USD 3.6 million, which was suspended). The court also imposed a criminal fine of KRW 25 billion (approximately USD 21 million) on the LSF IV-affiliated controlling shareholder of KEB.

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

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

The FSC imposed the sanction of “suspension of payment of service fees to non-residents for one year” on HAK and LSAK for their alleged violations of the FETA relating to the former employee’s improper offshore money transfers. As background, the FETA requires that a Korean resident who makes a third-party payment must submit

a report thereof to the Governor of the Bank of Korea, and submit certain documents to the president of a foreign exchange bank. The FSC determined that HAK and LSAK violated these provisions because they made some third-party payments without submitting a report to the Governor of the Bank of Korea and submitted a forged consulting agreement with a non-resident to the president of a foreign exchange bank.

In addition, the SPO charged (i) Mr. H.C. Cheong, the President of HAK, with breach of fiduciary duty for manipulation of the reported rates of return for certain investments made in Korea by certain prior LS Funds (similar to the charge above against Mr. Yoo), embezzlement and tax evasion, and (ii) an entity that was 50% owned by Lone Star Fund III (U.S.), L.P. and Lone Star Fund III (Bermuda), L.P. (together, “LSF III”), vicariously for Mr. Cheong’s tax evasion charge. Although Mr. Cheong was acquitted on most of these charges, including the one for which the LSF III investment affiliate was vicariously charged, he has been convicted of certain of the breach of fiduciary duty charges and certain of the tax evasion charges.

On November 21, 2012, Lone Star initiated arbitration against the government of the Republic of Korea with the International Center for Settlement of Investment Disputes, claiming damages suffered as a result of the Korean government’s unlawful interference with Lone Star’s rights as the major shareholder of KEB and other Korean companies Lone Star acquired in the early 2000s. The claims arise out of the government’s failure to comply with its obligations under the investment treaty between Belgium and South Korea. The final hearing before the appointed arbitration tribunal was held in June 2016.

## **Item 10: Other Financial Industry Activities and Affiliations**

### **CFTC**

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

### **Relying Advisers**

The following entity is registered with the SEC in reliance on the investment adviser registration of HAM:

- Hudson Advisors L.P.

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

### **Participating Affiliates**

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

- Hudson Advisors Argentina S.R.L.
- Hudson Advisors Asia-Pacific, Limited
- Hudson Assessoria Brazil Limitada
- Hudson Advisors Europe Designated Activity Company
- Hudson Advisors France
- Hudson Advisors Germany GmbH

- Hudson Advisors (India) Private Limited
- Hudson Advisors Ireland Designated Activity Company
- Hudson Japan KK (registered as an investment adviser and investment manager with the Japan Financial Services Agency)
- Hudson Advisors Luxembourg S.a r.l.
- Hudson Advisors Netherlands B.V.
- Hudson Advisors Portugal, Unipessoal Lda
- Hudson Puerto Rico, LLC
- Hudson Advisors (Shanghai) Co., Ltd.
- Hudson Advisors Spain, S.L.U.
- Hudson Advisors UK Limited (registered as a corporate finance advisory firm with the U.K. Financial Conduct Authority)

### **Lone Star**

As noted above, Hudson has been engaged to provide due diligence and analysis, asset management, and ancillary services to the LS Funds. LSGA is registered with the CFTC as a commodity pool operator and is also a member of the NFA. LSGA and the following affiliates of LSGA that provide investment advice with respect to the LS Funds are related persons of Hudson:

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

Please see Item 11 below for a discussion of certain conflicts of interest created by our relationship with Lone Star.

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

### **Code of Ethics**

Hudson has adopted a global regulatory compliance manual that sets forth certain standards for its employees, including a Code of Ethics which contains the following policies: Code of Conduct, Gifts and Entertainment Policy, Outside Business Activities Policy, Personal Trading Policy, Market Abuse Policy, and Political Activities Policy (collectively, the “Code”). Hudson adopted the Code in accordance with Section 204A of the Advisers Act.

The Code emphasizes Hudson's fiduciary duty to place the interests of clients ahead of the interests of Hudson and its employees, including proper management of conflicts of interest.

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

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

### **Participation or Interest in Fund Transactions**

#### ***Participation or Interest in General***

None of Hudson's employees or its related persons invest in opportunities recommended to clients, except for:

- Investments in the Employee Investment Vehicles;
- Interests held directly by LS General Partners in the corresponding LS Funds;
- Limited partnership and other ownership interests in the LS General Partners held by certain associated persons of Lone Star and Hudson; and
- Limited partnership interests in certain LS Funds held by certain associated persons of Lone Star and Hudson.

Hudson will not, as principal, transact in securities with clients without first disclosing in writing Hudson's role in the transaction and obtaining the consent of the relevant client(s), including the advisory committee(s) of any applicable LS Funds.

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

#### ***Advancement of Funds***

HAL or an affiliated entity may, from time to time and in limited circumstances, advance funds to an LS Fund as necessary for the LS Fund to pay its operating expenses and/or satisfy margin calls or other financing needs. HAL does not make advances for investment purchases. Additionally, any such advances by HAL or an affiliated entity are not included in assets under management for purposes of calculating fees for asset management services.

HAL and its affiliates do not receive any interest with respect to such advances, but are generally entitled to seek reimbursement at times when the applicable LS Fund has sufficient working capital and the payment of such reimbursement would not require it to liquidate any of its investments that it would not otherwise liquidate. The right of HAL and its affiliates to be repaid any outstanding advances will be senior in priority to investors' distribution rights from the applicable LS Fund. Such advances are at HAL's or its affiliates' sole discretion, and there can be no assurance that HAL or its affiliates will continue to provide such advances in the future. If HAL and its affiliates are unwilling or unable to make such advances to an LS Fund in the future, such LS Fund may be required to seek other sources of funds in order to meet its financing needs, and may be required to pay interest on such funds.



### ***Employee Investment Vehicles***

Hudson and/or Lone Star have established and are expected to continue to establish co-investment programs to allow Key Employees to indirectly co-invest in investments of the LS Funds. The terms of the corresponding Employee Investment Vehicles are disclosed in the LS Fund's offering documents. Although the purpose of the employee co-investment program is to align the interests of the Key Employees with those of the LS Funds, the program will also present conflicts of interest. For example, one or more of the Employee Investment Vehicles may be structured as an incentive program, and in connection therewith, Hudson, LSGA, or one or more of their affiliates may own interests in such vehicles and/or provide all of the funding related to the interests held by the Key Employees participating in such vehicles. Because Hudson, Lone Star, and/or the Key Employees participating in the Employee Investment Vehicles will typically decide whether to participate and the extent of the participation following the final closing of an LS Fund (subject to the minimum required participation set forth in the relevant LS Fund's offering documents), Hudson, LSGA, and the Key Employees may, at the time such decisions are made, have information regarding potential investments and the projected profitability of current investments that may be more comprehensive than information known by the LS Funds' investors at the time they made their investments. Key Employees may also be given or offered the opportunity to initiate or increase their participation in future investments during the investment period of an LS Fund, and may, at such time, have information regarding potential investments that is more comprehensive than information known by the LS Funds' investors at the time they made their investments; provided, however, ownership by the Employee Investment Vehicles in existing investments will not be subject to further adjustment. Prior to an LS Fund's final closing and until commitments are received from the Employee Investment Vehicles, Hudson, LSGA, and/or one or more of their affiliates will initially fund the minimum co-investment amount. Following a Fund's final closing, Key Employees will be given the opportunity to participate through one or more Employee Investment Vehicle(s) in existing investments as well as future investments to be made by the LS Fund. Participation in the Employee Investment Vehicles will be determined by Hudson and/or LSGA by investment, region, investment type, or otherwise in an effort to incentivize Key Employees and align their interests with the interests of the relevant LS Fund. Hudson and/or LSGA (and not the individual Key Employees) will determine the aggregate co-investment percentage for investments by Employee Investment Vehicles based on the foregoing and will adjust the ownership of the Employee Investment Vehicles in the existing investments. Accordingly, the maximum contribution the Employee Investment Vehicles can make to an investment is immaterial in relation to the total investment made by the relevant LS Fund. At the time that Hudson and/or LSGA determines the initial co-investment percentage, Hudson and/or LSGA will adjust the ownership of the Employee Investment Vehicles in the existing investments. Such adjustments will be made using the cost basis to the LS Fund, which may be lower than the fair market value of the investments at the time the adjustments are made.

The Key Employees participating in the Employee Investment Vehicles may have an incentive to recommend the acquisition or disposition of assets based on their personal interests rather than the best interests of the LS Fund. If Hudson and/or LSGA structure one or more Employee Investment Vehicles as an incentive program, the Key Employees participating in such Employee Investment Vehicles will not have their own assets at risk, which could exacerbate the likelihood that the recommendations they make entail a higher level of risk. In addition, Key Employees who are not participating in the incentive program and have their own assets at risk may not be financially able to meet capital calls. Financing or other funding arrangements may be made available to the Employee Investment Vehicle or to the Key Employees to fund all or a portion of the Key Employees' investment. The financing provided to Key Employees or to the Employee Investment Vehicle on their behalf may be extensive, and to the extent such financing is recourse, may have a significant effect on the net worth of the Key Employees, and whether recourse or non-recourse may influence the Key Employees responsible for the provision of investment advice to recommend higher risk investments than they otherwise would. Hudson and LSGA have implemented policies and procedures that are designed to help mitigate these conflicts.

Also, consistent with an applicable LS Fund's offering documents, an LS Fund typically temporarily funds the entire cost of the acquisition of investments, subject to the relevant Employee Investment Vehicle's obligation to reimburse the LS Fund, including Unconsummated Transaction Expenses. Amounts temporarily funded by an LS

Fund accrue interest that is paid to the LS Fund, together with the reimbursement of capital. The Employee Investment Vehicle shares in the risks and benefits of any hedging and financing transactions that occur prior to reimbursement of the LS Fund, although the LS Fund is directly exposed to the Key Employees' share of these risks, as well as investment-related risks, prior to reimbursement. The Employee Investment Vehicles are not responsible for any portion of the management fees payable to LSGA and other general LS Fund costs (including accounting and audit costs).

### ***Provision of Services to Multiple Clients***

Hudson is in the business of providing a variety of services to multiple clients, and conflicts of interest may arise with respect to Hudson providing services to multiple clients. As part of Hudson's compliance program, Hudson maintains policies and procedures designed to identify and manage these conflicts of interest. To the extent a conflict of interest arises with respect to Hudson's engagement to provide services to one or more clients, Hudson will either (i) provide services with respect to the client who initially requested such services, or (ii) to the extent Hudson determines that it can provide those services to each applicable client consistent with its policies and procedures to each such client, provide services to each such client. Potential mitigation could include, among other things, obtaining waivers from clients, establishing ethical walls between teams, or other mitigating steps.

### ***Cross Transactions***

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

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

### ***Portfolio Company Services***

In certain cases, an operating company owned by one or more LS Funds ("Portfolio Company") may be engaged to provide services to one or more other clients, Hudson, or Lone Star. As an example, Portfolio Companies that provide loan servicing or property management have been engaged to provide services with respect to assets owned by clients that do not own the Portfolio Companies. Such arrangements pose conflicts of interest similar to cross or principal transactions. In order to address this conflict of interest, Hudson has implemented policies and procedures that address Portfolio Company engagements, requiring that such arrangements be on arms-length terms and that all clients be treated fairly and equitably. The offering documents of certain LS Funds approve such arrangements provided these arrangements do not exceed certain dollar amounts and are on terms that are commensurate with those that would be negotiated on an arm's-length terms by third parties. Otherwise, such arrangements may be required to be approved by the advisory committee(s) of the relevant LS Fund(s). In some cases, such arrangements are disclosed to prospective investors or clients during the offering of an LS Fund or advisory service.

### ***Positions with Portfolio Companies.***

Certain personnel of Hudson or its affiliates are from time to time temporarily seconded to or otherwise engaged by certain portfolio companies on either a full-time or a part-time basis to provide services to such portfolio

companies. In such instances, the portfolio companies will reimburse such person's directors' fees, salaries, consultant fees, other cash compensation, stock options, other equity grants or other compensation and incentives and may reimburse Hudson or its affiliates for any travel costs or other out-of-pocket expenses incurred in connection with the provision of their services. Any compensation customarily paid directly by Hudson or its affiliates to such persons will typically be reduced to reflect amounts paid directly or indirectly by the portfolio company even though the fees paid to Hudson will not be reduced. All or a portion of any such compensation and incentives will be borne by the LS Fund, directly or indirectly, via its ownership interest in such portfolio company. In certain instances, whether an individual who provides services to a portfolio company should be characterized as an industry specialist, an employee or former employee of Hudson, or a seconded employee may be unclear. In such cases, Hudson and Lone Star will make a determination in good faith based on its evaluation of the relevant facts and circumstances.

### ***Possession of Material Non-Public Information***

Hudson may periodically come into possession of material, nonpublic information with respect to investment targets and other public companies in connection with advising clients. Hudson maintains policies and procedures designed to protect such information in accordance with applicable regulations, including maintenance of internal watch and restricted lists. Hudson also maintains policies and procedures designed to ensure the confidentiality of client information generally. However, Hudson generally does not maintain formal "information barriers" between different groups. As a result, possession of material, nonpublic information by Hudson will generally limit the ability of client accounts advised by Hudson to buy or sell the applicable company's securities. In addition, Hudson, clients, or their affiliates sometimes enter into confidentiality agreements that include provisions, such as "standstills", that limit the ability of affected entities to buy or sell certain securities, potentially for extended periods.

### ***Family Accounts***

As discussed above, Family Accounts advised by HAL do not engage in transactions related to other Hudson clients and do not invest in the same types of assets as such clients.

## **Item 12: Brokerage Practices**

### **Counterparty Selection**

Hudson seeks to trade assets on behalf of its clients in a manner that is fair and equitable to all clients, and to exercise diligence and care throughout the transaction process. The majority of client assets are not market-traded instruments and even in the limited circumstances where a client invests in market-traded instruments, often these are unique assets that are only available from one or a limited number of counterparties (i.e., there is no meaningful market). The investment counterparty for LS Funds is typically chosen as part of the investment committee's approval of the investment, and Hudson then assists in implementing the investment decision. For other clients, this will be negotiated on a case by case basis. Therefore, the traditional best execution concepts that apply to market-traded instruments do not easily apply to the majority of the assets that Hudson trades on behalf of its clients.

In those cases where Hudson selects broker-dealers or other counterparties for transactions in market-traded instruments on behalf of its clients, Hudson will do so consistent with its duty of best execution. Hudson defines "best execution" as seeking to obtain the best terms for its clients under the particular circumstances occurring at the time of a transaction and taking into account the overall objective for the investment to which the transaction relates. It is the policy of Hudson to seek to achieve the best qualitative execution under the circumstances. Best execution does not require Hudson to obtain the lowest possible price, commission or transaction cost. Transactions may involve specialized services or considerations (such as the type of assets the client is seeking to purchase or sell, or the availability of financing opportunities to the applicable client) that must be considered

when selecting a counterparty, and thereby entail higher markups or commissions than would be the case with transactions that do not involve any specialized services or considerations. Furthermore, because Hudson's clients typically invest in assets that may be purchased from only one or a small number of counterparties, Hudson may not be able to obtain terms that are as favorable as those that may be available in a market with more potential counterparties.

In seeking best execution, Hudson may consider the full range and quality of a counterparty's services, including, among other things, one or more of the following factors, as applicable:

- the counterparty's ability to present Hudson with a transaction that meets the investment objectives of the relevant client for whom the transaction is executed, including a counterparty's ability to source unique assets that may be held by a limited number of entities or by a single entity;
- the best price possible under the particular circumstances of the transaction (for example, for a sale transaction, Hudson may determine that the best price may be obtained through a competitive auction process open to a number of counterparties or, alternatively, Hudson may determine that the best price may be achieved through price negotiations with a limited number of counterparties);
- the ability of the counterparty to provide financing on the assets purchased, including either bridge financing until permanent financing can be obtained or long-term financing at inception on terms which Hudson believes are in the best interests of the relevant client (which considerations may include, amongst others, rate, term, recourse and asset management flexibility) (for a sale transaction, Hudson may take any breakage costs related to a financing and the willingness of a counterparty to waive such breakage costs into consideration);
- the counterparty's credit terms prior to requiring the posting of margin;
- the counterparty's ability to commit capital needed to execute the transaction;
- the ability and history of the counterparty to maintain confidentiality of a transaction (or prior transactions);
- the ability of the counterparty to execute quickly and the ability to commit capital and/or financing quickly in light of the size of the transaction;
- the reliability, integrity, reputation and execution capability of the counterparty for effecting transactions in light of the size and difficulty of executing the order;
- the financial strength and creditworthiness of the counterparty; and
- the counterparty's specialized knowledge or experience in a particular market.

### **Research, Other Soft Dollar Arrangements, Client Referrals and Directed Brokerage**

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

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

### **Other Third Parties**

In addition to transactions with banks and broker-dealers, Hudson may engage other service providers on behalf of clients with respect to the execution of transactions, such as lenders and real estate brokers and agents. These service providers are subject to similar selection criteria as described above for counterparties, but may also be selected based on the geographic location of the assets and the service provider's experience with the type of assets involved.

### **Aggregation of Client Transactions**

Hudson will generally aggregate client trades in the same instrument as part of the same strategy if it believes doing so is consistent with its obligation to seek best execution for all clients. If client trades are aggregated, each client shares pro rata in the average cost and expenses of the applicable transaction(s). There may be situations in which aggregation of client trades is not possible or practical because of client restrictions or trade logistics, which may increase transaction costs and/or result in different pricing.

### **Trade Errors**

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

### **Item 13: Review of Accounts**

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

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

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

#### **Item 14: Client Referrals and Other Compensation**

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

Neither Hudson nor its related persons directly or indirectly compensate any third party for advisory client referrals. Hudson or Lone Star may enter into placement agent arrangements with unaffiliated third parties regarding the solicitation of investors for compensation. All fees and expenses paid to the placement agent are ultimately the responsibility of the applicable LS General Partner, as governed by the provisions of the applicable LS Fund’s offering documents. The placement agent is paid a fee based on the amount of capital committed by each investor solicited by the placement agent and accepted by the LS General Partner of the applicable LS Fund.

#### **Item 15: Custody**

Hudson frequently has custody (as defined in the Advisers Act) of the assets of its clients. For clients that are private funds, their underlying investors receive annual audited financial statements.

#### **Item 16: Investment Discretion**

Hudson provides investment advisory services to many of its clients involving a significant amount of investment discretion. Clients typically communicate guidelines through client review of Business Plans or inclusion of client guidelines in the applicable services agreement.

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

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

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

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

#### **Item 18: Financial Information**

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

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