



Form ADV Part 2A Brochure

2711 N. Haskell Avenue, Suite 1700

Dallas, TX 75204

214-754-8300

[www.lonestarfunds.com](http://www.lonestarfunds.com)

March 30, 2023

This brochure provides information about the qualifications and business practices of Lone Star Americas Acquisitions, Inc. ("LSAA"), an investment adviser registered with the United States Securities and Exchange Commission ("SEC"), and its relying advisers, including Lone Star Global Acquisitions, Ltd. ("LSGA"). Together, LSAA, its relying advisers, and its participating affiliates (*See* Item 10) are referred to herein as "Lone Star." If you have any questions about the contents of this brochure, please contact us at 214-754-8300. The information in this brochure has not been approved or verified by the SEC or by any state securities authority.

Additional information about Lone Star 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

This brochure, dated March 30, 2023, contains material changes from Lone Star’s previous annual update, dated March 31, 2022, namely organization (Item 4), certain additional risks (Item 8) and conflicts (Item 11), as well as legal and regulatory developments (Item 9). In addition, Lone Star routinely makes updates throughout the brochure to enhance the description of its business practices, compliance policies, and procedures, as well as to respond to evolving industry best practices.

## Item 3: Table of Contents

Item 2: Material Changes .....	2
Item 3: Table of Contents.....	2
Item 4: Advisory Business .....	3
Item 5: Fees and Compensation .....	5
Item 6: Performance-Based Fees and Side-by-Side Management .....	11
Item 7: Types of Clients .....	12
Item 8: Methods of Analysis, Investment Strategies and Risk of Loss .....	12
Item 9: Disciplinary Information .....	31
Item 10: Other Financial Industry Activities and Affiliations .....	32
Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....	34
Item 12: Brokerage Practices .....	62
Item 13: Review of Accounts.....	64
Item 14: Client Referrals and Other Compensation .....	65
Item 15: Custody .....	65
Item 16: Investment Discretion .....	65
Item 17: Voting Client Securities.....	66
Item 18: Financial Information.....	66

## **Item 4: Advisory Business**

For purposes of this brochure, “we,” “us,” “our,” “LSGA,” and “Lone Star” refer to LSAA, together with its relying advisers, including LSGA, and its participating affiliates (*See* Item 10).

### **A. Organization**

Founded in 1995, Lone Star is a global private equity firm advising Funds (as defined below) that invest globally in real estate, equity, credit and other financial assets. Lone Star provides investment advisory and related services to families of closed-end private funds (the “Funds”) and certain related investment vehicles as discussed under “Advisory Clients” below (which we refer to, collectively with the Funds, as our “Clients”) from offices in North America, Europe, and Asia.

LSGA, a Bermuda exempted limited company, was formed in 1998. LSGA is controlled by Mr. John Grayken and its principal owner is LSGA Investments, Ltd. LSGA directly or indirectly owns 100% of the filing adviser LSAA and each of the relying advisers and participating affiliates listed in Item 10.

Prior to 2007, the Funds made all of their investments in a single fund family. In 2007, Lone Star decided to utilize separate Funds, with one fund family for commercial real estate-related investments (generally known as its “Real Estate Funds”) and another fund family for other investment classes, including non-commercial real estate loans and securities (single-family residential, consumer, and corporate) and financial and other operating companies (generally known as its “Opportunity Funds”). In 2014, Lone Star organized the first in a fund series focused on U.S. single family residential mortgage loans and related investments (the “Residential Mortgage Funds”). In 2019, Lone Star organized the first in a fund series focused on value-add commercial real estate investments (the “Value-Add Funds”).

### **B. Advisory Clients**

As set forth below, our advisory Clients are the Funds. From time to time, we also raise capital around particular or multiple investment strategies or themes, or establish, for a specific investment, investment vehicles through which certain persons generally invest alongside one or more Funds (each, a “Co-Investment Vehicle”). Co-Investment Vehicles do not include the Employee Co-Investment Vehicles (as defined below). The investors in Co-Investment Vehicles may consist of investors in the respective Fund(s) as well as investors that have not invested in the respective Fund(s).

We generally provide investment advisory services to each Client pursuant to a separate investment advisory agreement, each of which we refer to as an “Advisory Agreement.” Each Client’s Advisory Agreement sets forth the terms of the investment advisory services we provide to the Client. Investment guidelines for each Client are generally established in each Fund’s organizational or offering documents and/or side letter agreements negotiated with its investors (collectively, together with any amendments, agreements, supplements and/or

restatements and relevant Advisory Committee (as defined below) consents, the “Governing Documents”). We provide investment advice directly to Clients, and not to their underlying investors.

### **C. Nature of Advisory Services**

The Funds invest in 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 detailed in each Fund’s Governing Documents. These assets include, but are not limited to:

- Equity and debt investments in value-oriented assets, including corporate, commercial and single family residential real estate and consumer debt;
- Direct and indirect equity investments in real estate and real estate-related assets;
- Control investments in financially-oriented and other operating companies; and
- Securitized products, such as residential mortgage-backed securities (“RMBS”), collateralized debt obligations (“CDOs”) (the underlying assets of which generally consist of RMBS), commercial mortgage-backed securities (“CMBS”), and other asset-backed securities (“ABS”).

A Fund may invest in assets directly or indirectly through the acquisition of debt and/or subscription of equity interests in partnerships, limited liability companies, corporations, or other entities that hold the assets (collectively, the “Fund Entities”).

### **D. Investment Process**

LSGA maintains an investment committee for each currently investing Fund that is responsible for evaluating potential investments for such Fund. If an investment is approved by the investment committee, it is presented to the general partner of the applicable Fund for final approval. The general partners of the Funds (each a “General Partner” and collectively the “General Partners”) are related persons of LSGA. The investment committee and investment approval process for each Fund is provided for in its Governing Documents.

### **E. Assets Under Management**

The right to manage, control and conduct the business and affairs of a Fund is vested solely in the Fund’s General Partner. As of December 31, 2022, Lone Star advised on a discretionary basis a total of approximately \$40,708,060,655 of Client assets. Please note that this figure has not been subject to audit.

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

### **A. Management Fees**

Clients generally pay a management fee to LSGA for its advisory services, which consist of origination, strategic oversight and investment advice, and certain investor relations services (“Management Fee”). Management Fees paid by Clients are indirectly borne by their investors. For certain Funds, Management Fees are based on the committed capital of investors to the relevant Fund or investors’ outstanding capital contributions, depending on the stage in the Fund’s life cycle. For other Funds, Management Fees are based on the invested capital of investors to the relevant Fund. The Funds and their limited partners continue to pay a Management Fee with respect to each investment that has not returned all of its capital or been written down as prescribed by the Funds’ Governing Documents. Accordingly, a lower aggregate Management Fee will likely be paid with respect to an investment that quickly returns capital than for an investment of similar size that does not return capital as quickly. Management Fees may be reduced during the life of a Fund. The fee structures described herein may be modified from time to time. Management Fees may differ from one Client to another, as well as among investors in the same Client. Each Client’s Governing Documents set forth the precise amount of, and the manner and calculation of, the Management Fees.

The Management Fees paid by a Fund will generally be offset by: (i) the amount of fees paid by such Fund to persons acting as a placement agent in connection with the offer and sale of interests in such Fund to certain potential investors, (ii) the fees and expenses incurred by LSGA or a Fund’s General Partner in connection with the formation, marketing, and closing of a Fund that exceed a dollar limit specified in such Fund’s Governing Documents and/or (iii) Additional Fees (as defined below). After any reimbursement to Lone Star or a Fund’s General Partner of expenses incurred on behalf of a Fund that are permitted to be reimbursed under the Fund’s Governing Documents, the Fund’s allocable share of the Management Fee will generally be reduced by amounts payable to Lone Star, a Fund’s General Partner, or their affiliates with respect to monitoring, transaction, closing, financial advisory, investment banking, director, break-up fees, or topping fees with respect to the business of a Fund, but excluding any fees payable to Hudson (as defined below), Lone Star, Affiliated Service Providers (as defined below) and their respective affiliates as provided in the applicable Fund’s Governing Documents (“Additional Fees”). Determinations as to whether the activities giving rise to potential Additional Fees fall within the above-referenced categories are made by the General Partners in their sole discretion. The amount and manner of such offsets and reductions, if any, are set forth in the Governing Documents of the applicable Fund.

### **B. Advisory Services and Administrative and Support or Ancillary Services**

The General Partner of each Fund expects to retain Hudson Advisors L.P. (“HAL”), a related person of Lone Star and an SEC-registered investment adviser in reliance on the registration of its wholly-owned subsidiary Hudson Americas L.P. (“HAM”), to provide investment advisory services (including, without limitation, asset management and underwriting) and administrative

and support or ancillary services to Clients and/or Fund Entities as set forth in the Client's Governing Documents. HAL, HAM, and HAM's relying advisers and participating affiliates (collectively, "Hudson") typically provide in-house underwriting/due diligence and analysis services with respect to potential Fund investments to support Lone Star's evaluation and execution of such investments, including (i) underwriting and valuation of potential investments, (ii) market assessments/research, (iii) development of models for evaluating potential investments, (iv) detailed business plan formulation, (v) capital expenditures assessment and planning, (vi) corporate governance and board structuring, (vii) assistance with negotiation and documentation of deal/financing terms, (viii) employment arrangements and management incentive plans, and (ix) full financial reviews and analysis and transaction execution, which includes a complete bottom-up, asset-based due diligence evaluation of the potential transaction. In some cases, certain of these services will be undertaken before a specific investment target has been identified. After an investment is acquired, Hudson is engaged to provide asset management services, which include a broad range of asset management activities across all asset types relevant to the Fund. Lone Star is not involved in the day-to-day asset management of Fund investments, but rather provides strategic oversight and advice with respect to the asset management and exit strategy of Fund investments. From initial due diligence of potential investments to final disposition of an investment, Hudson also provides certain administrative and support or ancillary services to the Funds and their investments that work in tandem with advisory services and include, among others, legal, compliance, audit, accounting, fund administration and support (including investor capital calls, Advisory Committee material preparation, quarterly investor report preparation, investor portal maintenance and access, research supporting fundraising, preparation of investor due diligence materials, and marketing material preparation), reporting, cash management, hedging, tax, risk management advice, communications, information technology development and support, and other similar and related services. For certain Funds, operating company oversight (if any) is classified as an asset management service, and for others it is classified as an ancillary service. Hudson also provides certain ancillary or administrative and support services directly to Lone Star in connection with Lone Star's business and general operations. Further information regarding Hudson and its services, including compensation paid to Hudson and associated conflicts of interest, may be found in Items 5, 10, and 11 and in the Form ADV Part 2A brochure for Hudson.

Hudson will receive fees from a Client or fund investment for such services as set forth in the Client's Governing Documents (such fees, "Hudson Fees"). The methodology for determining Hudson Fees for underwriting/due diligence and analysis and ancillary or administrative and support services for certain Clients is based on a cost plus methodology and for other Clients the relevant fees are charged at market-based rates. Hudson Fees for asset management services are negotiated periodically and the asset management fee limits set forth in a Client's Governing Documents are periodically benchmarked against fees charged by third-party service providers and will vary within the applicable maximum asset management fee limits

set forth in a Client's Governing Documents. Hudson's fees and investment business plans for Fund investments are periodically reviewed and adjusted and are, therefore, subject to change.

Hudson Fees are in addition to any other compensation Clients pay to LSGA or the General Partners (as applicable), including the Management Fee and Profits Interest (as defined below), and will not reduce or offset the Management Fee payable to LSGA or Profits Interest payable to a General Partner. Further information regarding Hudson Fees, including associated conflicts of interest is discussed in Item 11 – "Conflicts of Interest."

#### **C. Fees Charged by Affiliated Service Providers and Hudson Affiliates**

The General Partner of each Fund may engage service providers owned by one or more Funds or their affiliates ("Affiliated Service Providers") or affiliates of Hudson to provide services to the Fund as set forth in the Fund's Governing Documents. The fees that an Affiliated Service Provider and/or affiliates of Hudson will receive from a Fund are set forth in the Fund's Governing Documents. Fees paid to such Affiliated Service Providers and Hudson affiliates are in addition to any other compensation Clients pay to Lone Star and Hudson, including Management Fees and Hudson Fees, and will not reduce or offset such Management Fees or Hudson Fees. Further information regarding Affiliated Service Providers, including conflicts of interest associated with such arrangements, is discussed in Item 11 – "Conflicts of Interest."

#### **D. Expenses**

A Fund will pay or reimburse its General Partner, Lone Star, Hudson, and their affiliates for all expenses related to the Fund's operations. The Funds' expenses reduce the amount of capital available to be deployed by the Funds in investments and the actual returns realized by investors on their investments. Fund expenses include recurring and regular items, as well as extraordinary expenses which may be hard to budget or forecast. As a result, the amount of expenses ultimately borne by one or more of the Funds at any one time may exceed expectations.

In addition to the above-referenced fees, a Fund will pay or reimburse its General Partner, Lone Star, Hudson, and their affiliates for amounts they expend with respect to the organization, formation, marketing, offering, and closing of a Fund and any parallel investment entity (each, a "Parallel Investment Entity"), subject to any applicable limits prescribed in the Governing Documents, including but not limited to, the costs and expenses of all legal, travel, investor relations (including, but not limited to, preparation and review of marketing and other investor materials and information), potential investor diligence, placement agent diligence and engagement, investor side letter negotiations, and any other similar costs and expenses. Further information regarding placement agent compensation is discussed in Item 14 – "Client Referrals and Other Compensation."

As described further in each Fund's Governing Documents, whether the Fund makes any profits or not, the Fund will also pay and bear all expenses, either directly or indirectly related to its operations (including, without limitation, the operations and activities of special investment vehicles formed to consummate and hold certain investments (or restructure

existing investments) (“Special Investment Vehicles”)), the Fund Entities and the Fund’s investments), which encompass a broad range of expenses and include, but are not limited to, costs, fees, charges and/or expenses related to:

- developing, sourcing, bidding on, evaluating, negotiating, structuring, obtaining regulatory approvals for, purchasing, trading, settling, monitoring, operating, maintaining custody of, holding and disposing of actual or potential investments, including without limitation any financing, legal, accounting, tax, compliance, advisory and consulting expenses, property management expenses, and any travel, accommodation and other expenses (as more fully described below) in connection therewith, including any costs, fees, charges and/or expenses related to the syndication of a co-investment opportunity and any insurance, indemnity, litigation, investigation or similar expense;
- the organization, maintenance, and liquidation of any entity (including Fund Entities; corporations, feeder funds or any other holding or intermediate entities formed by the General Partner or any Affiliate thereof through which limited partners or their affiliates are permitted to invest in a Fund, Special Investment Vehicle or any investment (“Intermediate Entities”); or other vehicles through which the Fund or its limited partners directly or indirectly acquire, hold or dispose of any investment; or entities otherwise facilitating the Fund’s investment activities), including without limitation travel, accommodation and other expenses related to such entity, and costs and expenses (including airfare and lodging) of the meetings of officers, managers, directors, general partners or managing members of such entities, and costs and expenses associated with the leasing of office space for such entities, and the costs and expenses of insurance (including brokerage and placement thereof);
- attorneys, accountants, administrative services, auditors, advisors (including tax advisors) and administrative agents, in each case, whether in-house (with respect to Hudson) or external; expenses of depositaries, loan servicers, property managers, and other service providers (including Hudson and/or affiliated servicers), custodians, trustees and other third-party professionals; and valuation costs (including expenses incurred in connection with services performed by Hudson or any affiliate or independent valuation advisor);
- any consultants (including individuals consulted through expert network consulting firms), subscriptions, banks, investment banks, brokerage commissions and other commissions, the cost of trading (including trading errors), the cost of borrowings, guarantees (including expenses associated with any Fund’s general facility and any Fund’s working capital facility), and other financing or derivative transactions (including interest, fees and related legal expenses);
- hedging, foreign exchange and currency conversion;
- obtaining and maintaining technology (including the costs of any professional service providers) in connection with the Fund;
- on-going reporting, including investor reporting and any investor-related expenses, including but not limited to, fund investment and financial reports, capital account-related



activities, investor portal maintenance, Fund-level accounting, and responding to U.S. Freedom of Information Act (“FOIA”) or other disclosure requests;

- compliance matters and regulatory filings relating to the Fund and its activities (including, without limitation, expenses relating to the preparation of reports to be filed with the SEC, the U.S. Commodity Futures Trading Commission (the “CFTC”), the U.S. Bureau of Economic Analysis, the Federal Reserve, and the U.S. Department of Commerce; reports, disclosures, filings and notifications prepared in accordance with the Alternative Investment Fund Managers Directive (2011/61/EC); and/or other regulatory filings, notices or disclosures by LSGA and/or its affiliates relating to the Fund’s and any Parallel Investment Entity’s activities), any service providers appointed, in connection with the laws, rules, regulations or similar requirements of jurisdictions in which the Fund engages in activities (or in which any investor is resident or established), including any notices, reports, or filings (including those in connection with the offering of interests and costs associated with any related regulations, costs, expenses, charges or fees relating to the Fund, the Parallel Investment Entities, the Fund Entities, investments, and their activities);
- any insurance including general partnership liability or other insurance for the benefit of those persons entitled to indemnification by a Fund pursuant to its Governing Documents and other insurance of which Lone Star and its affiliates are beneficiaries;
- auditing, accounting, market data and research; reporting-related expenses, charges and related costs (including preparation and delivery of financial statements, tax returns, K-1s and other communications or notices relating to the Fund including investor reporting, notices and communications);
- any federal, state and/or other taxes and tax penalties, fees, or other governmental charges imposed on or assessed against the Fund; and
- ongoing compliance with the provisions of any side letters or other documents entered into with investors.

Each Fund will also bear any extraordinary expenses it may incur, including any litigation, arbitration or settlement expenses involving any such Fund, any investment or entities in which it has an investment or otherwise relating to such investment, and the amount of any judgments or settlements paid in connection therewith. Further, while the Funds do not pay or directly reimburse the general operating expenses of a Fund’s General Partner, Lone Star, Hudson, or their affiliates (including payroll and other overhead costs and taxes), Hudson’s, its affiliates and Affiliated Service Providers’ overhead costs of resources deployed are incorporated into the billing rates for certain Clients. To the extent such overhead is incorporated into Hudson Fees and Hudson’s billing rates and such overhead costs are incorporated into the fees and billing rates of other Affiliated Service Providers, such costs will be indirectly borne by the Funds (including in many instances indirectly through Fund Entities) and will not offset the Management Fee payable to LSGA.

Expenses described herein include, without limitation, first class and/or business class airfare (and/or private charter, as may be permitted by the respective policies of Lone Star, Hudson

and/or their affiliates), conference and seminar fees, first class lodging, ground transportation, premium meals (including, as applicable, closing dinners and meals outside normal business hours), mementos, transportation, and social and entertainment events with portfolio company employees, customers, clients, investors, borrowers, brokers and service providers and related costs and expenses incidental thereto.

Item 12 - “Brokerage Practices” - discusses Lone Star’s practices for choosing brokers and certain other counterparties.

From time to time, a General Partner, Lone Star, or Hudson will be required to decide whether fees, costs, and expenses are to be borne by a Client or an affiliate, on the one hand, or Lone Star, Hudson, a General Partner, or one or more LS Affiliated Clients (as defined in Item 11) or Co-Investment Vehicles, on the other, and, if so, whether and how certain costs and expenses should be allocated among those parties. With the exception of certain co-investment-related expenses, expenses that are attributable to or for the benefit of multiple LS Affiliated Clients or Co-Investment Vehicles will generally be allocated on a pro rata basis on the relative size of the LS Affiliated Client’s or Co-Investment Vehicle’s participation in an investment opportunity, but may be allocated in a different manner if the General Partner determines in good faith that doing so is more equitable or appropriate under the circumstances. Each General Partner, Lone Star, and Hudson will make such allocation judgments in its fair and reasonable discretion, notwithstanding its interest in the outcome, and may make corrective allocations should it determine that such corrections are necessary or advisable. There can be no assurance that a different manner of allocation would not result in one or more Clients bearing more (or less) expenses. If the expenses incurred in connection with a particular matter should be borne in part by a Fund and in part by a Fund’s General Partner or Lone Star, then such expenses will be allocated among such parties as determined by the General Partner and/or Lone Star in good faith to be equitable.

#### **E. Fees and Expenses Paid by Co-Investment Vehicles**

Fee and expense arrangements for investors in Co-Investment Vehicles are often different from those of investors in the Funds, and Management Fees, Hudson or other affiliated servicer fees, Profits Interest, costs and expenses, and other amounts may be reduced or waived for the benefit of one or more Co-Investment Vehicles and/or co-investors. A Fund may bear the full amount of any upfront payment or expense of any co-investment. While unlikely, it is possible that if a Fund initially funds such payment or expense, the co-investors could default on their obligation (if any) to reimburse the Fund. In addition, in the event that a Co-Investment Vehicle or other similar vehicle is created to invest alongside a Fund in connection with a particular investment, expenses incurred solely for the benefit of the Co-Investment Vehicle or the co-investor(s), as well as expenses incurred in connection with making and holding an investment, may be borne by a Fund and not by the Co-Investment Vehicle or co-investor(s). A Fund may bear these expenses whether or not an investment is consummated; however, it is particularly likely to occur when a co-investment contemplated for a proposed transaction is ultimately not consummated, in which case, the full amount of any co-investment-related expenses relating

to such proposed but unconsummated transaction will be borne by the Fund and not by the Co-Investment Vehicle or other co-investor(s). Co-investment-related expenses include, but are not limited to, organization and formation and other expenses; underwriting costs; Hudson Fees; legal, accounting, advisory, consulting or other third-party expenses; any travel and travel-related expenses; all fees, costs and expenses of lenders, investment banks and other financing sources in connection with arranging financing for a proposed investment (including commitment fees); any break-up fees, reverse termination fees, topping, termination or other similar fees; extraordinary expenses such as litigation costs, settlements, and judgments and other expenses; and any deposits or down payments of cash or other property which are forfeited in connection with a proposed investment that is not consummated. Even if a co-investment is consummated, the General Partner of a Fund may agree with potential co-investors that a Fund will bear more than its pro rata share of certain co-investment expenses. Further information regarding Co-Investment Vehicles and Unconsummated Transaction (as defined below) expenses is discussed in Item 11 – “Conflicts of Interest.”

#### **F. Fees and Expenses Paid by Employee Co-Investment Vehicles**

Certain of those persons designated as “Principals” in a Fund’s Governing Documents and certain officers, directors, executives, members, contractors, and employees of Lone Star, Hudson, and their affiliates (“Key Employees”) are given the opportunity to participate with Clients in investments by Clients through employee co-investment vehicles (each, an “Employee Co-Investment Vehicle”). Employee Co-Investment Vehicles do not pay any fees to Lone Star, Profits Interest, or other Fund-level expenses, but do bear a portion of the expenses associated with the investments and Unconsummated Transaction expenses incurred by the corresponding Client(s). Employee Co-Investment Vehicles do not directly pay any Hudson Fees, but receive distributions from the underlying investments net of Hudson Fees, transaction costs, and other fees and expenses allocated to the investment. Further information regarding the Employee Co-Investment arrangements is discussed in Item 11 – “Conflicts of Interest.”

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

The General Partner of each Fund receives a profits interest, which is a certain percentage of the actual returns of each investment made by the relevant Fund provided that certain performance hurdles are achieved (“Profits Interest”). Certain associated persons of Lone Star and Hudson have interests in one or more of the General Partners and receive a portion of such Profits Interest. Payment of the General Partner’s Profits 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 Fund's limited partners. Further, the allocation of Profits Interest at different rates, or subject to different hurdle rates, creates an incentive for Lone Star or its affiliates to disproportionately allocate time, services or functions to vehicles allocating Profits Interests at a higher rate (or subject to a lower hurdle rate), or to allocate investment opportunities to such vehicles. Additionally, the existence of the General Partners’ Profits Interest creates an incentive

for the General Partners to cause such Funds to make more speculative investments than they would otherwise make in the absence of performance-based compensation. The specific structure of each Fund's Profits Interest is detailed in its Governing Documents. Further information regarding Profits Interest and potential conflicts of interest are discussed in Item 11 – "Conflicts of Interest."

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

See Item 4 – "Advisory Business."

LSGA currently provides investment services to the Clients. The other relying advisors (as well as LSAA) and participating affiliates listed in Item 10 below provide advisory services to LSGA.

Interests in the Clients are offered pursuant to applicable exemptions from registration under the U.S. Securities Act of 1933, as amended (the "Securities Act") and the U.S. Investment Company Act of 1940, as amended (the "Investment Company Act"). Investors in the Clients are generally "accredited investors" within the meaning of Regulation D promulgated under the Securities Act and "qualified purchasers" as defined in the Investment Company Act, and may include, among others, corporate and public pension funds, sovereign wealth funds, university endowments, foundations, funds of funds and high net worth individuals.

Lone Star does not have a minimum size for a Client, but minimum investment commitments may be established for investors in the Clients. The General Partner of each Client may in its sole discretion permit investments below the minimum amounts set forth in the Governing Documents of such Client.

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

### **A. Methods of Analysis**

Lone Star has wide ranging expertise originating investments. To identify potential investment opportunities for the Funds, Lone Star monitors target markets for potential sales of assets within the investment objectives of the Funds. Typically, Lone Star will seek potential investment opportunities from institutions such as banks, corporate sellers, or government agencies. The investment professionals at Lone Star responsible for the origination of these investment opportunities rely on their experience in and significant knowledge of the various asset markets, along with new and existing relationships with many of the potential counterparties in those markets, to identify potential investment opportunities. Lone Star's initial due diligence and analysis 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, a potential investment opportunity should be financed, Lone Star 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 potential investment opportunities or markets, Lone Star generally engages Hudson to complete a preliminary underwriting of investment opportunities or market assessment followed, as appropriate, by a full financial review and valuation, which includes a complete bottom-up, asset-based due diligence evaluation of the transaction. Once commercially appropriate due diligence and analysis has been completed for a potential investment meriting such review, the proposed investment, or, in the case of programmatic investments, the establishment of an investment program, including any associated financing strategies for the potential investment or investment program, is presented for approval by the relevant Fund's investment committee and, if approved, to the Fund's General Partner for final approval.

In connection with the acquisition of an investment, Hudson prepares an initial acquisition plan that contains a summary of the investment, potential action items to maximize value (including, but not limited to, as applicable, potential future add-on investments, physical or operational improvements, lease-up, repositioning work, capital structure optimization or financial optimization), and a plan to assimilate the acquisition into Hudson's asset management program. Senior management of Hudson, with strategic oversight and investment advice from Lone Star, advises on the appropriate exit, based on the ongoing analysis of buy versus hold scenarios in an effort to achieve overall maximum risk-adjusted limited partner returns. In analyzing the optimal exit strategy of each asset, a variety of possible disposition alternatives are considered based on a given asset's underlying characteristics.

## **B. Investment Strategies**

### **1. Opportunity Funds**

The Opportunity Funds target opportunistic investments in a broad range of financial and other investment assets predominantly consisting of assets other than commercial real estate investments. The Opportunity Funds will invest, directly or indirectly, in single asset transactions or portfolios of assets. Subject to the leverage limitations set forth in the relevant Governing Documents, an Opportunity Fund, directly or through Fund Entities, may use a substantial amount of direct or indirect leverage in connection with its investments.

### **2. Real Estate Funds**

The Real Estate Funds target opportunistic commercial real estate investments and for certain Funds opportunistic and value-add commercial real estate investments through the acquisition of a broad range of financial and other investment assets in single asset transactions or portfolios of assets. The Real Estate Funds may use a substantial amount of direct or indirect leverage in connection with their investments, subject to any leverage limitations set forth in a Real Estate Fund's Governing Documents.

### **3. Residential Mortgage Funds**

The Residential Mortgage Funds target investments in assets predominantly comprised of, or relating to, U.S. single family residential real estate and related assets. The Residential Mortgage Funds, directly or through Fund Entities, are expected to deploy a substantial amount of direct or indirect leverage in connection with their investments, including through the use of securitizations.

### **4. Value-Add Funds**

The Value-Add Funds target investments that the General Partner has determined, in its sole discretion, consist of commercial real estate investments with value-add characteristics, in each case, that the General Partner expects will generate a gross internal rate of return below the opportunistic target return of the Real Estate Funds. The Value-Add Funds may finance their investments in a manner that creates a substantial amount of direct or indirect leverage.

## **C. Risks**

All investments involve the risk of loss that the Clients and their underlying investors should be prepared to bear. Not all possible risks are described below, and the risks described below may not be applicable to all Clients. A more detailed discussion of the risks relating to an investment in a Client can be found in the applicable Client's Governing Documents.

- 1. Opportunistic Investment Strategy.** The opportunistic investment strategy utilized by Lone Star on behalf of certain of the Funds generally does not incorporate consideration of other investments held in a Fund'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 typically not considered when assessing the merits of a potential investment. Instead, certain Funds are agnostic as to location and asset type and such Funds' investment strategy focuses on single asset transactions or portfolios of assets that a General Partner expects will collectively generate Fund level returns on a levered basis over the life of the relevant Fund that are consistent with the Fund's opportunistic investment strategy. This opportunistic investment strategy may result in a significantly higher risk profile for these Funds compared to a strategy that actively diversifies investments across type, sector, location, and/or other risk factors.
- 2. Limited Number of Investments.** A Fund may participate in a limited number of investments or a limited number of asset classes, and, as a consequence, the aggregate return of a Fund may be substantially adversely affected by the unfavorable performance of even a single investment. In addition, while a Fund's Governing Documents may provide limitations on the size of an investment that is an individual asset or a portfolio of assets (which portfolio of assets may include a single company comprised of separate subsidiaries and/or divisions engaged in multiple product lines, segments and/or geographies), such limitations may be waived by an advisory committee of investors created pursuant to a Fund's Governing Documents ("Advisory Committee"). Further, to the extent a Fund participates in a limited

number of investments, the diversification of the Fund's investments across asset classes and geographic regions could be limited. A Fund limited to primarily one product line, such as a Residential Mortgage Fund, is particularly susceptible to this risk.

- 3. Troubled Assets.** Certain Funds may make investments in secured and unsecured non-performing loans or other value-oriented or deep-value assets, including but not limited to, operating companies, non-performing and sub-performing corporate debt, consumer debt, and single-family residential real estate-secured debt 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 Fund'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 Funds and distributions by the Funds to investors 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 the Funds, which can create additional financial risks to the Funds.
- 4. Real Estate-Related Assets.** Certain Funds may make investments in real estate assets and real estate-related investments, including debt secured by real estate assets or operating companies with significant real estate assets. Such assets are subject to various risks associated with the real estate industry generally. Risks include, but are not limited to, those associated with the burdens of ownership of real property; general and local economic conditions; environmental, zoning and building laws and regulations (including changes thereto); environmental liabilities; casualty or condemnation losses; regulatory limitations on rents; decreases in asset values; changes in the appeal of assets to tenants; changes in supply of and demand for competing assets in an area (as a result, for instance, of overbuilding); fluctuations in the average occupancy, operating income and room rates for hotel assets; foreclosure and eviction moratoriums; the financial resources of tenants; changes in (including increases in) interest or other borrowing rates and changes to the availability of debt financing, which may render the sale or refinancing of investments difficult or impracticable; energy and supply shortages and disruptions; various uninsured or uninsurable risks; natural disasters; political events; other governmental rules and fiscal policies, including changes thereto (such as rent control); changes in real property tax rates and operating expenses; increased mortgage defaults; negative developments in the economy or political climate that depress travel activity; contingent liabilities on disposition of assets; acts of God; pandemics or health emergencies; terrorist attacks; war; the availability of

certain construction materials; and other factors that are beyond the control of Lone Star. 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. No assurance can be given that real estate or real estate-related assets can be acquired or disposed of at favorable prices or that the market for such assets will either remain stable or, as applicable, recover or improve, since this will depend, in part, upon events and factors outside the control of Lone Star. In addition, there can be no assurance that current market conditions may not deteriorate during the life of a Fund, which could have a materially adverse effect on the assets of such Fund. Actual or perceived trends in real estate markets do not guarantee, predict or forecast future events, which may differ significantly from those implied by such trends. There can be no assurance that Lone Star's view of the market will materialize.

The real estate assets included within the Funds' investments may be or become non-performing after acquisition for a wide variety of reasons. Such non-performing real estate assets may require a substantial amount of workout negotiations and/or restructuring, which may entail, among other things, a substantial write-down of such assets. However, even if an asset is performing as expected, a risk exists that, upon maturity of financing, replacement "takeout" financing will not be available or will not be available on attractive terms. It is possible that Lone Star, Hudson, Affiliated Service Providers or other servicers to the Funds would find it necessary or desirable to foreclose on some of the collateral securing one or more investments, but such remedy may not be available in the jurisdiction where the property is located, or if available, may not be comparable to a foreclosure action in the United States. Even if foreclosure is an option, the foreclosure process can be lengthy and expensive. At any time during the foreclosure proceedings, the borrower may file for bankruptcy, which may have the effect of further delaying the foreclosure process. Under certain circumstances, payments to the Funds and distributions by the Funds to their partners may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment. If foreclosure litigation were brought against a Fund with respect to such Fund's investments, such litigation could create a negative public image of the Fund or the collateral property and may result in disrupting ongoing leasing and management of the property.

5. **Credit Risks.** A Fund's investments 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 Fund may decrease its value. "Opportunistic" assets, such as those invested in by certain Funds, are generally considered to have significant credit risk. With respect to the financing strategies and hedging services that may be employed with respect to the Funds, the Funds 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.

- 6. Mortgage-Backed Securities.** Certain of the Funds may invest in mortgage-backed securities, including subordinated tranches of such securities. In general, risks pertaining to mortgage loans (and the type of property securing such mortgage loans), would similarly pertain to any mortgage-backed security in which certain Funds invest. Some or all of the mortgage-backed securities acquired or held by the Funds may not be rated, may be rated lower than investment grade securities, or their rating may be withdrawn or downgraded, by one or more nationally recognized statistical rating organizations. The majority of the mortgage-backed securities acquired by certain Funds 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 the Funds 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 the Funds from loss. If a Fund invests in subordinated mortgage-backed securities in particular, the Funds 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. With respect to commercial mortgage loans in which certain Funds may invest, these are typically not prepayable or are subject to prepayment penalties or interest rate adjustments.
- 7. Leveraged Buyouts.** A Fund may structure an operating company investment 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 Fund'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 Fund'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 Fund. 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 Fund may suffer a loss on its investment.

- 8. Finance Companies and other Regulated Institutions.** Certain Funds may invest in finance companies or other regulated institutions, which operate in a highly competitive environment and are subject to extensive regulation. An investment in such a company or institution may be subject to regulatory consent from the regulator(s) of such company or institution, which may not be granted, or may take substantial time to obtain, or may be granted subject to compliance by the Fund with conditions imposed by the regulator(s) on the Fund. As a condition to such regulatory consent, the applicable regulator will likely perform due diligence on the Fund and its limited partners. If requested by the regulator, the Fund will be required to provide information about the limited partners including information regarding the identities of the underlying beneficial owners. It is also possible that limited partners may have to provide additional information to the Fund in order to enable it to respond to the applicable regulator. Finance companies compete for loans, deposits, and other financial services with other finance companies including 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 finance companies or 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 a Fund's General Partner, Lone Star or the Fund. 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.
- 9. Leverage.** The Funds and Fund Entities employ a substantial amount of leverage in connection with their investments, including for certain Funds through the use of securitizations. The Funds' ability to achieve or surpass target rates of return on the investments depends on their ability to access sufficient financing sources on desirable terms. The Funds and Fund Entities utilize various types of financing, which may include repurchase agreements, loan facilities, swaps, and multi-tiered credit arrangements, and for certain Funds securitizations, many of which contain inherent risks.

The Funds typically obtain one or more general facilities for funding expenses and working capital, to bridge capital calls, to provide interim bridge financing and capital, and/or for other permitted purposes and may from time to time procure one or more working capital facilities in order to fund expenses, to provide general working capital to the Funds, to finance investments, and/or for other permitted Fund purposes. Generally, the Funds incur

indebtedness and enter into guarantees for any purpose related to the operation of the Funds (whether in connection with a general facility or a working capital facility), including without limitation, to fund investments, cover Fund expenses, organizational expenses and Management Fees, provide permanent financing or refinancing, provide cash collateral to secure outstanding letters of credit, provide funds for distributions to investors, and for other reasons. A Fund's borrowings and guarantees may be deal-by-deal or on a portfolio basis, and may be on a joint, several, joint and several or cross-collateralized basis (which may be on an investment-by-investment or portfolio-wide basis) with the Parallel Investment Entities, the Special Investment Vehicles, Co-Investment Vehicles, or one or more affiliates of one or more other funds advised by Lone Star, Hudson, and/or their affiliates (including the Funds) (such funds, together with other persons advised by Lone Star, Hudson, and/or their affiliates, the Funds, and their affiliates, "Lone Star Affiliated Entities"). Such arrangements will not necessarily impose joint and several obligations on such other vehicles that mirror the obligations of the relevant Fund, though in the case of collectively financing the assets of a transaction with other Lone Star Affiliated Entities, the relevant Funds and such other Lone Star Affiliated Entities (or their operating companies) shall generally split the economic interests in the acquired assets in a manner consistent with their respective investment parameters and/or in accordance with Lone Star's Allocation Policy, as determined in Lone Star's sole discretion and each shall bear its share of the costs and expenses of such transaction in proportion to such economic allocation. Other than with regard to Lone Star Affiliated Entities as described in the preceding sentence, the interest expense of any such borrowings will generally be allocated among the relevant Fund and such other vehicles or funds pro rata (and therefore indirectly to the relevant Funds' limited partners pro rata) based on principal amount outstanding, but other fees and expenses, including upfront fees and origination costs, could be allocated by a different methodology, including entirely to the relevant Fund or to such other vehicles or Funds. If a Parallel Investment Entity or any other vehicle or Fund defaults on its obligations, a Fund could be required to contribute amounts in excess of its pro rata share of the indebtedness, including additional capital to make up for any shortfall if the other joint and several obligors are unable to repay their pro rata share of such indebtedness. A Fund could lose its interests in performing investments in the event such performing investments are cross-collateralized with poorly performing or non-performing investments of the Fund and such other vehicles.

A Fund's investments are typically financed by initially borrowing under the Fund's general facility and/or third-party financings entered into by a Fund Entity, subsequently to be replaced in full or in part with investment level financing that is secured by the specific investment that is being financed. This leverage will increase the exposure of such investments to adverse economic factors such as significantly rising interest rates, increased risk spreads, severe economic downturns, or deterioration in the condition of the investment or its corresponding market. Generally, the presence of leverage in a Fund's investments will magnify their volatility and may substantially increase the Fund'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 Fund's equity position in that investment and other investments of the Fund could be significantly reduced or even eliminated. There are generally no limitations in the Governing Documents on the amount of leverage that the Funds can use with respect to any particular transaction. In using leverage, a Fund's investments may be subject to terms and conditions that include restrictive financial and operating covenants, which may impair the Fund's ability to finance or otherwise pursue the investment's future operations or otherwise satisfy additional capital needs.

To the extent there is not ample availability of financing for leveraged transactions (e.g., due to adverse changes in economic or financial market conditions or a decreased appetite for risk by lenders) a Fund's ability to consummate certain transactions could be impaired. Principal and interest payments on indebtedness (including mortgages having "balloon" payments) will have to be made regardless of the sufficiency of cash flow from investments. Mortgages requiring "balloon" payments may involve greater risks than mortgages where the principal amount is fully amortized over the term of the loan, since the ability to repay the outstanding principal amount of a "balloon" loan may be dependent upon the ability to obtain adequate replacement financing, which will, in turn, be dependent upon interest rates and lenders' policies at the time of refinancing, economic conditions in general and the value of the investments in particular. There is no assurance that replacement financing will be available to make "balloon" payments or that any replacement financing available will be on favorable terms.

The amount and terms of financing available to a Fund or its investments, as applicable, could affect the returns generated by the Fund and the ability to structure potential transactions. While Lone Star will take the availability and terms of financing into consideration when identifying, assessing, and structuring potential investments, a decrease in the ability of a Fund or Fund Entities to leverage the investments could adversely affect the returns generated by the Fund and could result in fewer investments being made, therefore reducing the diversification of the portfolio. The volatility of the global credit markets could make it more difficult to obtain favorable financing for investments. During periods of volatility, which often occur during economic downturns, generally credit spreads widen, interest rates rise, and investor demand for high yield debt declines. These trends result in reduced willingness by investment banks and other lenders to finance new private equity investments and deterioration of available terms. A Fund's ability to generate attractive investment returns for its partners will be adversely affected to the extent the Fund is unable to obtain favorable financing. Moreover, to the extent that such marketplace events are not temporary, they could have an adverse impact on the availability of credit to businesses generally and could lead to an overall weakening of the economy, which could restrict the ability of the Fund to sell or liquidate investments at favorable times or for favorable prices or otherwise may have an adverse impact on the business and operations of the Fund.

The extent to which the Funds or their investments use leverage may have the following consequences to the Funds' partners, including, but not limited to: (i) greater fluctuations in the net assets of the Funds, (ii) use of cash flow for debt service rather than distributions, capital expenditures or other purposes, (iii) an obligation of the Funds' partners to contribute capital in order to satisfy margin calls or to remedy an actual or potential covenant breach related to such indebtedness and (iv) in certain circumstances the Funds may be required to liquidate investments prematurely or on adverse terms to service their debt obligations. There can also be no assurance that the Funds or the Fund Entities, as applicable, will have sufficient cash flow to meet debt service obligations. As a result, the Funds' exposure to losses may be increased due to the illiquidity of their investments generally.

As discussed above, the Funds and their investments, as applicable, expect to use a variety of financing sources including, without limitation, repurchase agreements and, for certain Funds, securitizations. The repurchase agreements used for financing purposes will generally have various terms ranging from a month or less to five or more years. Securitizations are expected to provide long term financing, the structures of which may be re-levered to improve effective leverage. The inability of a Fund or its investments to re-lever or obtain take-out financing for Fund 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, the Fund 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 Fund. 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 Fund and its investments 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 Fund's ownership rights. There can be no assurance that the Fund will recover all or any of the economic value of the investment under such circumstances, and any such recovery may require the payment of substantial legal costs.

- 10. Lack of Liquidity.** Many of the Funds' investments are highly illiquid, and there can be no assurance that the Funds will be able to realize returns on or liquidate these investments in a timely manner. While certain investments of the Funds 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. A Fund's assets are expected to be relatively illiquid in that there may not be ready buyers available and willing to pay fair value at the time the Fund desires to sell. Moreover, an investment that initially consists of an interest in assets may be exchanged, contributed or otherwise converted into private or publicly-traded stock of a corporation, interests in a limited liability company or other interests or assets (and vice-versa), and any such exchange, contribution or conversion will likely not constitute a disposition as determined by the General Partner of the type that results in investors receiving distributions, whether in-kind or otherwise. The Funds generally will not be able to sell their investments publicly unless their sale is registered under applicable securities laws, or unless an exemption from such registration requirements is available. In some cases, the Funds may be prohibited by contract or regulatory requirements from selling investments for a period of time. In addition, the types of investments held by the Funds may be such that they require a substantial length of time to liquidate.

Hudson, with oversight from Lone Star, actively manages the cash and credit arrangements of the Funds with the goal of efficiently matching available liquidity to anticipated obligations. There can be no assurance, however, that sufficient liquidity will be available to the Funds on favorable or any terms in all situations. In the event of a margin call or other loan repayment at a time when a Fund does not have sufficient cash assets to cover such call or payment, the Fund may have to liquidate certain investments at less than their expected returns, thereby resulting in lower realized proceeds to the Fund. Moreover, a Fund may make investments which may not be advantageously disposed of prior to the date that such Fund is dissolved, either by expiration of the Fund's term or otherwise. Although Lone Star expects that investments will either be disposed of prior to dissolution or may be suitable for in-kind distribution at dissolution, the Funds may have to sell, distribute, or otherwise dispose of investments at a disadvantageous time as a result of dissolution. For certain Funds, current returns from investments may vary because Lone Star generally attempts to maximize realized returns on the disposition of a Fund's investments, and as such, will generally not favor early liquidation of an investment or foregoing potential disposition upside to maximize current returns.

- 11. Swaps and Derivative Investments.** The Funds may utilize swaps and other derivative transactions to obtain a desired exposure, and such transactions may expose the Funds to risk of loss. In addition, the Funds may take advantage of certain other customized instruments to create "synthetic" or derivative investments that are not presently contemplated for use by the Funds, or that are currently not available but that may be developed, to the extent such opportunities are both consistent with the Funds' investment objectives and legally permissible for the Funds. To the extent the Funds invest in repurchase agreements, swaps, and other "synthetic" or derivative instruments, or enter into "reference transactions," counterparty exposures can develop and the Funds take the risk of nonperformance by the

other party on the contract. Transactions such as these, which are entered into directly between two counterparties, may expose the parties to the risk of counterparty default. In addition, if the Funds 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 whose value depends on, or is derived from, an underlying product. Some of the risks generally associated with derivatives include, for example, the risks that: (i) the value of the derivative will change in a manner detrimental to the Funds; (ii) another party to the derivative may fail to comply with the terms of the derivative contract; (iii) the derivative may be difficult to purchase or sell; and (iv) 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. Derivative markets can be highly volatile. The profitability of investments by the Funds in derivatives depends on the ability of Lone Star and Hudson to correctly analyze these markets, which are influenced by, among other things, changing supply and demand relationships, governmental, commercial, and trade programs, policies designed to influence world political and economic events, pandemics, and changes in interest rates. In addition, the assets of the Funds may be pledged as collateral in derivatives transactions. Thus, if the Funds default on such an obligation, the collateral may be at risk.

The use of derivative instruments presents various risks. For example, when used for hedging or synthetic investment purposes, an imperfect or variable degree of correlation between price movements of the derivative instrument and the underlying investment sought to be hedged or tracked may prevent a Fund from achieving the intended hedging effect or expose the Fund to the risk of loss. Derivative instruments, especially when traded in large amounts, may not be liquid in all circumstances, so that in volatile markets a Fund may not be able to close out a position without incurring a loss. In addition, daily limits on price fluctuations and speculative position limits imposed by regulators, exchanges, or other trade execution facilities on which a Fund may conduct its transactions in derivative instruments may prevent prompt liquidation of positions, subjecting the Fund to the potential of greater losses. Derivative instruments that may be purchased or sold by a Fund may include instruments not traded on an exchange or centrally cleared. Derivative instruments not traded on exchanges or centrally cleared are also not subject to the same type of government regulation as exchange-traded or cleared instruments, and many of the protections afforded to participants in a regulated environment may not be available in connection with such transactions. The risk of nonperformance by the obligor on such an instrument may be greater and the ease with which a Fund can dispose of or enter into closing transactions with respect to such an instrument may be less than in the case of an exchange-traded or cleared instrument. In addition, significant disparities may exist between “bid” and “asked” prices for derivative instruments that are not traded on an exchange or similar trade execution facility.

**12. Reuse of Collateral.** In connection with swaps and other derivative transactions, a Fund is frequently required to post collateral to transaction counterparties or clearing firms. The amount of such collateral may be material to the Fund. Such collateral may, from time to time and without notice to the Fund, 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 Fund. A counterparty or clearing firm holding collateral in connection with a swap or other derivative transaction is obligated to return to the Fund assets equivalent to those provided as collateral. Although the Funds seek to enter into transactions with creditworthy counterparties and clearing firms on favorable terms, there can be no assurance that collateral posted to such parties will be returned to the Funds 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 the Funds to the return of equivalent assets.

**13. Investments through Partnerships, Joint Ventures and Co-Investments.** The Funds will generally make investments through Fund Entities, and may also make investments alongside joint venturers, co-investment entities or other entities (which may include Lone Star Affiliated Entities) (collectively, “Investment Parties”). Such investments may involve risks not present in direct investments, including, for example, the possibility that an Investment Party may commit fraud, become bankrupt, or have economic or business interests or goals which are inconsistent with those of a Fund, or take action contrary to a Fund’s objectives. If neither a Fund nor an Investment Party unilaterally controls an investment, deadlocks may occur, making it difficult to act quickly in connection with a potential acquisition or disposition. If there is a governance impasse under the terms of the investment that results in an acquisition or disposition, a Fund may be forced to sell its interest in the investment, or buy an Investment Party’s share of the investment, at a time when it would not otherwise be in the Fund’s best interest to do so. Moreover, an Investment Party may have economic or other interests that are inconsistent with the interests of a Fund, including interests relating to the financing, management, operating, leasing or sale of the assets in the joint venture arrangement. For example, if the Investment Party charges fees or profits interest to the joint venture arrangement, the Investment Party could have an incentive to hold assets longer or otherwise behave to maximize fees and profits interest paid, even when doing so is not in the best interests of the Fund. If an Investment Party that is a Lone Star Affiliated Entity has different expected termination dates, investment periods and/or investment objectives (including return profiles, status and maturity of its investment portfolio) than another Fund, Lone Star may have conflicting goals and fiduciary duties with respect to the price and timing of further investment, disposition or restructuring opportunities. Furthermore, if an Investment Party defaults on its funding obligations, including under any indemnification agreement or back-to-back guarantee, it may be difficult for the Fund to make up the shortfall from other sources. The limited partners of the Fund



may be required to make additional contributions to replace such shortfall, thereby reducing the diversification of their investments. Any default by such Investment Party could have an extremely deleterious effect on the Fund, its assets, and the interests of its limited partners. In addition, a Fund may be liable for actions of its Investment Parties. While each Fund's General Partner will attempt to limit the liability of the Fund by reviewing the qualifications and previous experience of Investment Parties, it does not expect generally to obtain financial information from, or to undertake private investigations with respect to, prospective Investment Parties. Finally, any negative market or industry perception with respect to an Investment Party may negatively impact a Fund.

**14. Hedging Transactions.** In connection with the services they provide to the Funds, each of Lone Star, Hudson or their respective affiliates may recommend that a Fund, or Fund Entity, enter into hedging and similar transactions with respect to non-U.S. currency, interest rate, and other risks where deemed appropriate and cost effective. The Fund will bear the cost of any hedging transactions entered into on its behalf. There is no assurance that foreign exchange risk, interest rate risk, and/or such other risks 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, interest rate, hedging, and other policies only serve to minimize or reduce these risks, but not to eliminate them completely. There can be no assurance that a Fund will have sufficient liquidity or credit capacity to support the hedging services, and no assurance that hedging techniques will be available, be available at a reasonable cost, or be sufficient to eliminate these risks. In addition, Lone Star, Hudson, or their respective affiliates may recommend that a Fund, or Fund Entity, hedge an 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 Fund 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 is a risk that the counterparty will not perform as expected. There may also be complications enforcing hedging transactions in the event of partial or total dissolution of a currency block such as the Euro or the imposition of currency controls or similar currency market disruption to a hedged currency, and litigation between the Funds (and/or Fund Entities) and the hedging counterparty may result from such complications. Such a disruption to the currency markets may also cause the Funds, or Fund Entities, to be unable to implement hedging transactions in the affected markets for an indefinite period of time.

The successful utilization of hedging and risk management strategies requires different skills than used in selecting and monitoring investments and such transactions may entail greater than ordinary investment risks. Additionally, costs related to derivatives and other hedging arrangements (including legal expenses) will be borne by the relevant Fund(s). There can be no assurance that any derivatives and other hedging transactions will be effective in mitigating risk in all market conditions or against all types of risk, thereby resulting in losses to a Fund. Engaging in derivatives and other hedging transactions may result in a poorer

overall performance for a Fund than if it had not engaged in any such transaction. Lone Star, Hudson and their respective affiliates may not be able to effectively hedge against, or choose not to hedge or mitigate, certain risks that may adversely affect a Fund's investment portfolio. In addition, a Fund's investment portfolio will always be exposed to certain risks that cannot be fully or effectively hedged, such as credit risk relating both to particular securities and counterparties as well as interest rate and foreign exchange risks. Each Fund will utilize derivatives and other hedging transactions only as determined by its General Partner in its sole discretion, but is under no obligation to do so.

- 15. Due Diligence and Underwriting.** When evaluating potential investment opportunities, the Funds generally request Hudson to conduct underwriting/due diligence and analysis that they deem reasonable, appropriate and applicable to such investment based on the facts and circumstances known at that time. Underwriting/due diligence and analysis may entail evaluation of important and complex business, financial, tax, accounting, environmental, social, governance, compliance and legal issues. When conducting underwriting/due diligence and analysis and making an assessment regarding a potential investment, the General Partner, Lone Star, Hudson and their affiliates will rely on the resources available to them, including information provided by the target of the investment, and, in some circumstances, third-party investigations. Representations made by a counterparty could be inaccurate, and third-party investigations may not uncover risks. The due diligence investigation that the General Partner, Lone Star, Hudson and/or their affiliates carry out with respect to any investment opportunity may not reveal or highlight all relevant facts that may be necessary or helpful in evaluating such investment opportunity. The underwriting of investments is based upon the results of the due diligence conducted and includes assumptions that are based on the then current expectations, estimates, projections, regulatory matters, client/customer relationships, equipment functionality, opinions, and/or beliefs of the General Partner, Lone Star, Hudson and their affiliates. As a result, the due diligence process and underwriting may be subjective and will not necessarily result in the investment being successful.

Specifically with respect to operating companies and other portfolio companies, there can be no assurance that a Fund will be able to detect or prevent irregular accounting, employee misconduct or other fraudulent practices during the due diligence phase or during its efforts to monitor the investment on an ongoing basis or that any risk management procedures implemented by a Fund will be adequate. A Fund will rely upon the accuracy and completeness of representations made by operating companies and/or their former owners in the due diligence process to the extent reasonable when it makes its investments but cannot guarantee such accuracy or completeness. Moreover, under certain circumstances, payments to a Fund may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment. There can be no assurance that any such losses will be offset by gains (if any) realized on a Fund's other investments.

Investment analyses, recommendations and/or decisions by Lone Star, Hudson and their affiliates may frequently be required to be undertaken on an expedited basis, as may investment decisions made by the Funds' investment committees and General Partners, to take advantage of investment opportunities. In such cases, the information available to Lone Star, Hudson and their affiliates at the time of an investment analysis or recommendation may be limited, and Lone Star, Hudson and their affiliates 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, Lone Star, Hudson and their affiliates 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 Lone Star, Hudson and their affiliates will have knowledge of all circumstances that may adversely affect an investment. In addition, Lone Star, Hudson and their affiliates may rely upon independent consultants and 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 the Funds may incur liability as a result of their actions.

The Funds will engage Hudson to evaluate each investment (whether such evaluation is performed directly by Hudson or by overseeing third parties). For certain investments, outside consultants, legal advisors, accountants, investment banks and other third parties may be involved in the underwriting/due diligence and analysis process to varying degrees depending on the type of investment, the costs of which will be borne by the applicable Fund. Such involvement of third-party advisors or consultants may present a number of risks primarily relating to Lone Star's reduced control of the functions that are outsourced. In addition, if a General Partner, Lone Star, Hudson and their affiliates are unable to timely engage third-party providers, their ability to evaluate and acquire more complex targets could be adversely affected.

- 16. Reliance on Models.** Lone Star utilizes certain proprietary models to evaluate investments for the Funds. There are material risks in relying on models, including: (i) changes affecting the model inputs used to project performance (such as prepayment speeds, delinquency rates, loss severities and interest rate assumptions); and (ii) the potential for new variables (such as foreclosure moratoriums, new governmental programs, and legislative or regulatory changes) that can impact actual performance. Other material risks related to evaluating potential investments by the Funds 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. Lone Star generally will establish the capital structure of an investment and the terms and targeted returns of such investment on the basis of financial, macroeconomic, and other applicable projections. Projected results will normally be based primarily on investment judgments or third-party advice and reports. All projections are only estimates of future results that are based upon,

among other considerations, assumptions made at the time that the projections are developed, including assumptions regarding the performance of Fund assets, the amount and terms of available financing and the manner and timing of dispositions, including possible asset recovery, all of which are subject to significant uncertainty. Assumptions or projections about asset lives; the stability, growth, or predictability of costs; demand; or revenues generated by an investment or other factors associated therewith may, due to various risks and uncertainties including those described herein, differ materially from actual results. There can be no assurance that the projected results will be obtained, and actual results may vary significantly from the projections. General economic conditions and other events, which are not predictable and may not have been anticipated, can have a material adverse impact on the reliability of such projections. Moreover, other experts may disagree regarding the feasibility of achieving projected returns. The Funds will make investments which may have different degrees of associated risk. The actual realized returns on unrealized investments may differ materially from projected returns.

- 17. Litigation Risks.** In the course of doing business, Lone Star, Hudson, the Lone Star Affiliated Entities and their investments, the Funds, the General Partners, the Principals of the Funds, their respective affiliates and related parties, and the respective employees, officers and directors of the foregoing (the “Potential Parties”) are, and may in the future become, subject to disputes, litigation, investigations, proceedings, inquiries, or other potential claims, material or otherwise. Such matters could arise as a result of investment activities, vendor relationships, competitor activities, employee-related matters, matters related or unrelated to the business of the Potential Parties, or otherwise. Any such matter can be expected to generate negative publicity. A negative outcome with respect to any such matter could have a material adverse effect on the applicable Potential Party, and by virtue of the relationship among them, the other Potential Parties, including the Funds. However, even a successful outcome with respect to any such matter may not mitigate the adverse publicity relating to such matter, which could harm the reputation of the applicable Potential Party, and by virtue of the relationship among them, the other Potential Parties, including the Fund, and have a deleterious effect on the Fund’s business.

Responding to such matters can be expected to be expensive and time consuming and may continue without resolution for long periods of time. The time and resources deployed to respond to such matters may be disproportionate to the amount at stake. Payment of any such costs could adversely impact the Potential Parties, which could in turn negatively impact the Funds. Under the relevant Governing Documents, the Funds will generally be responsible for indemnifying those Potential Parties who are persons entitled to indemnification by a Fund pursuant to its Governing Documents for the costs they may incur for liabilities incurred in connection with the affairs of a Fund, and such indemnification could be expensive.

- 18. Reliance on Hudson.** The Funds will engage Hudson to provide advisory services (including, without limitation, asset management and underwriting) and administrative and

support or ancillary services similar to those that Hudson has historically provided. In 2021, Hudson launched its own fund vehicle and may in the future provide services to third parties that are not affiliated with Lone Star. As a result, it is possible that Hudson may not be able to provide certain services to the Funds due to conflicts with its own fund and such third party clients. The success of the Funds is in part based on Hudson's expertise and relationships throughout the world. If Hudson were not able to provide a fulsome set of services to the Funds, it could have a material impact on the Funds' ability to achieve their investment objectives and target returns. There can be no assurance that Hudson will always be willing or able to provide services to the Funds and to the assets of the Funds or on pricing and other terms which the Funds consider competitive.

**19. Reliability of Environmental, Social and Governance (“ESG”) Factors.** In originating and advising with respect to certain investments by certain Funds, Lone Star takes into account those sustainability risks it believes are relevant under the circumstances as part of its overall risk management process. The ESG risks relevant to a particular investment will depend on the nature of the investment, but may encompass environmental risks (such as environmental damage, land use and pollution), social risks (including public health and safety) and governance risks (including board structure and approach to anti-bribery and anti-corruption). Reliability of ESG factors and ESG policies and practices are qualitative and subjective by nature, and there is no guarantee that any criteria utilized or judgment exercised by Lone Star or Hudson will reflect the beliefs, values, policies, practices, or objectives of any one particular investor or that the ESG risk described herein will be applicable to each investment. ESG practices differ by region and the ESG factors considered differ by asset. ESG risk is only one of many considerations that Lone Star and Hudson take into account when making investment recommendations and providing asset management services, as applicable, and other considerations can be expected in certain circumstances to outweigh ESG risk considerations. In addition, there is no assurance that any ESG policies and practices of Lone Star or Hudson will be successful. Any information provided regarding ESG is intended to provide an indication of the ESG considerations Lone Star and Hudson may apply when seeking to evaluate and/or improve the ESG characteristics of an asset as part of the larger goal of maximizing financial returns on investments. Accordingly, certain investments may exhibit characteristics that are inconsistent with ESG principles. An ESG risk, including, but not limited to sustainability risk, is an ESG event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of a portfolio investment. The factors used to evaluate progress or achievement of a standard, objective, or a goal may be in development or subject to certain assumptions or change and may be beyond the control of Lone Star or Hudson.

While Lone Star and Hudson primarily use their own due diligence to identify ESG risks relevant to a potential investment, Lone Star and Hudson may also use third-party ESG data when considering as part of a Fund's investment process ESG risks and their potential impact on the Fund's returns. Third-party ESG data may be difficult to obtain and/or incomplete, estimated, out of date or otherwise inaccurate. In particular, data may be more readily available and/or reliable in certain countries, markets and/or industries where a Fund invests,

making direct comparison of the ESG risks relevant to different investments difficult. In addition, Lone Star's and Hudson's own due diligence relies on the availability and accuracy of various sources, such as company disclosures and other third-party information, or subjective judgments, which may include forward looking statements of intent and are not necessarily fact-based or objectively measurable. Each of the foregoing means that an ESG risk relevant to a particular investment may not be identified prior to the investment being made and losses may be suffered as a result. The Funds will provide limited partners with information regarding ESG risks in accordance with Lone Star's ESG policies and procedures.

An investment may still be acquired for a Fund where Lone Star believes that any such risks can be effectively managed or mitigated and/or the potential returns outweigh the possible ESG risks. The investments of the Funds do not take into account the European Union criteria for environmentally sustainable economic activities.

**20. Interest Rate Risks.** Changes in interest rates could have an adverse impact on the operations of the Funds. Market interest rates are beyond Lone Star's control, and can fluctuate in response to general economic conditions and the policies of various governmental and regulatory agencies. Changes in monetary policy, including changes in interest rates, will influence market rates, prices for loan originations and purchases of loans, and financings. Rising or falling interest rate environments also entice customers to refinance. The Funds regularly seek to implement financing (which may include mark-to-market financing) and refinance existing debt, and significant declines in pricing of debt securities or increases in interest rates, or other disruptions in the credit markets, would make it difficult to carry on normal financing activities, such as obtaining committed debt financing for acquisitions, bridge financings or permanent financings. Mark-to-market financing is particularly sensitive to interest rate movements. Tightening of loan underwriting standards, which often occur during market disruptions, can have a negative impact including through reduction of permitted leverage levels and increased requirements for borrower quality. The Funds' ability to make investments and/or generate attractive investment returns will be adversely affected by any worsening of financing terms and availability.

**21. Custody and Banking Risks.** The Funds maintain funds with one or more banks or other depository institutions ("banking institutions"), which may include U.S. and non-U.S. banking institutions, and may enter into credit facilities or have other financial relationships with banking institutions. The distress, impairment or failure of one or more banking institutions with whom the Funds, their investments, the General Partners and/or Lone Star transact may inhibit the ability of the Funds or their investments to access depository accounts or lines of credit at all or in a timely manner. In such cases, the Funds may be forced to delay or forgo investments or to call capital when it is not desirable to do so, resulting in lower performance for the Funds. In the event of such a failure of a banking institution where a Fund or one or more of its investments holds depository accounts, access to such accounts could be restricted and U.S. Federal Deposit Insurance Corporation ("FDIC") protection may not be available for balances in excess of amounts insured by the FDIC (and similar considerations may apply to banking institutions in other jurisdictions

not subject to FDIC protection). In such instances, the Funds and their affected investments may not recover such excess, uninsured amounts and instead, would only have an unsecured claim against the banking institution and participate pro rata with other unsecured creditors in the residual value of the banking institution's assets. The loss of amounts maintained with a banking institution or the inability to access such amounts for a period of time, even if ultimately recovered, could be materially adverse to the Funds or their investments. One or more investors or a Fund's General Partner could also be similarly affected and unable to fund capital calls, further delaying or deferring new investments. In addition, a Fund's General Partner may not be able to identify all potential solvency or stress concerns with respect to a banking institution or to transfer assets from one bank to another in a timely manner in the event a banking institution comes under stress or fails.

**22. Other Risks.** Set forth below is a non-exhaustive list of additional risks related to one or more Clients (some of which may not apply to a particular Client):

- Use of Special Investment Vehicles and Intermediate Entities
- Market Risks
- Tax Treatment of Profits Interest
- Regulatory Risks
- Cyber Security Breaches, Identity Theft Breaches, and Other Threats
- International Investing
- Currency Risks
- Tax Liability
- Risk of Environmental Liabilities
- Risks Related to LIBOR
- COVID-19
- Public Health Risks
- Ukraine Conflict
- Risks Arising from Current Economic Conditions

## Item 9: Disciplinary Information

Except as described below, LSGA does not have any legal, financial or other "disciplinary" event to report. As a registered investment adviser, LSGA is obligated to disclose any legal disciplinary event that would be material to a Client when evaluating LSGA's advisory business or the integrity of its management.

On September 12, 2022, without admitting or denying any wrongdoing, LSGA and HAL each consented to the entry of an order to cease and desist from committing or causing any violations and future violations of Sections 206(2) and 206(4) of the Investment Advisers Act of 1940, as amended (the "Advisers Act"), and Rules 206(4)-7 and 206(4)-8 thereunder. According to the SEC order, with respect to certain private equity funds, LSGA and HAL did not fully disclose the methodology used to calculate and charge HAL's ancillary and underwriting fees paid by such funds prior to 2018. The order also found that LSGA and HAL did not adopt and implement written compliance policies or procedures regarding the foregoing. LSGA and HAL agreed as part of the settlement to pay a civil monetary penalty of \$11.2 million. No disgorgement was paid as part of the resolution in light of the fact that LSGA and HAL identified the disclosure deficiency and the relevant funds were fully reimbursed prior to contact by the SEC in the relevant matter.

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

### **A. CFTC**

LSGA is registered with the CFTC as a commodity pool operator and is a member of the National Futures Association (the “NFA”).

### **B. Relying Advisers**

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

- Lone Star Global Acquisitions, Ltd.
- Lone Star Global Acquisitions, LLC
- Lone Star Americas Acquisitions, LLC
- Acquisitions Lone Star Canada S.R.I.

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

### **C. Participating Affiliates**

The below direct or indirect subsidiaries of LSGA established outside of North America assist LSGA 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 LSGA’s oversight, its Code of Ethics and other compliance policies and procedures adopted pursuant to the requirements of the Advisers Act, as applicable (in addition to applicable local laws and regulations).

- Lone Star Asia-Pacific Acquisitions (Singapore) Pte. Ltd. (licensed for fund management and dealing in capital markets products with the Monetary Authority of Singapore)
- Lone Star Europe Acquisitions Limited (registered as a corporate finance advisory firm with the U.K. Financial Conduct Authority)
- Lone Star France Acquisitions SARL
- Lone Star Germany Acquisitions GmbH
- Lone Star Japan Acquisitions Ltd. (registered as an investment adviser with the Kanto Financial Bureau, which operates under the authority of the Japan Financial Services Agency)
- Lone Star Spain Acquisitions S.L.U.
- Lone Star Asia Consulting Co. Ltd.



#### **D. General Partners**

As noted in Item 6 above, the General Partners of each Fund are related persons of Lone Star. The General Partners have, on behalf of each of the relevant Funds, granted to LSGA the authority to provide advisory and certain other services to the Funds.

#### **E. Hudson**

As noted in Item 5 above, Hudson, or its affiliates, have been engaged to provide advisory (including, without limitation, asset management and underwriting) and administrative and support or ancillary services to the Funds. HAL and the following direct or indirect subsidiaries of HAL that provide such services are related persons of Lone Star:

- Hudson Americas L.P.
- Hudson Advisors Asia-Pacific, Limited
- Hudson Advisors Asia-Pacific, Limited (Singapore Branch)
- Hudson Assessoria Brazil Limitada
- Hudson Advisors Europe Designated Activity Company
- Hudson Advisors France S.a.r.l
- Hudson Advisors Germany GmbH
- Hudson Advisors (India) Private Limited
- Hudson Advisors Ireland Designated Activity Company
- Hudson Japan KK (registered as an investment advisor and investment manager with the Japan Financial Services Agency)
- Hudson Advisors Luxembourg S.a r.l.
- Hudson Advisors Netherlands B.V.
- Hudson Advisors Portugal, Unipessoal, Lda.
- Hudson Advisors (Shanghai) Co., Ltd.
- Hudson Advisors (Shanghai) Co., Ltd. (Beijing Branch)
- Hudson Advisors Spain, S.L.U.
- Hudson Advisors UK Limited (registered as a corporate finance advisory firm with the U.K. Financial Conduct Authority)

Please see Item 11 – “Conflicts of Interest” – below for a discussion of the conflicts of interest created by our relationship with Hudson.

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

### **A. Code of Ethics**

Lone Star has adopted an Advisers Act Compliance Manual that sets forth certain standards for its directors, Principals, partners, officers, employees, and other designated persons (collectively “Supervised Persons”), including a Code of Ethics. The Code of Ethics, which is designed to comply with Rule 204A-1 under the Advisers Act, emphasizes Lone Star’s fiduciary duty, including personal trading procedures.

Under the Code of Ethics, Supervised Persons also are required to file certain periodic reports with the compliance department as required by Rule 204A-1 under the Advisers Act. These records will not be open to inspection by Fund investors. Lone Star’s management may from time to time implement additional internal policies or restrictions on trading by Supervised Persons and their immediate family and/or household, which are in addition to the requirements of our Code of Ethics.

Lone Star will provide a copy of the Code of Ethics to any Client or prospective client upon written request.

### **B. Participation or Interest in Client Transactions**

None of Lone Star, its employees, Hudson, or their related persons invest in opportunities recommended to the Funds, except for:

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

Hudson or its affiliates may, from time-to-time and in limited circumstances, advance funds to the Funds as necessary for the relevant Fund to pay operating expenses and/or satisfy margin calls or other financing needs. Hudson does not make advances for investment purchases by a Fund. Additionally, any such advances by Hudson or its affiliates will not be included in the Funds’ assets under management for purposes of calculating Hudson Fees for asset management services.

Hudson and its affiliates do not receive any interest with respect to such advances, but are generally entitled to seek reimbursement. Such advances are at Hudson’s or its affiliates’ sole discretion, and there can be no assurance that Hudson or its affiliates will continue to provide

such advances in the future. If Hudson or its affiliates are unwilling or unable to make such advances to a Fund in the future, a 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.

### **C. Principal Transactions**

Section 206 under the Advisers Act regulates principal transactions among an investment adviser and its affiliates, on the one hand, and the clients thereof, on the other hand. Very generally, if Lone Star and/or its affiliates propose to purchase a security from, or sell a security to, a Client (a “Principal Transaction”), Lone Star must disclose the material terms of the proposed transaction to the Client and obtain the Client’s consent to the proposed transaction. In connection with Lone Star’s advisory services for the Funds, Lone Star may engage in Principal Transactions. Lone Star maintains certain policies and procedures to monitor and document Principal Transactions as well as provide notice to the Client(s) of the material terms of any Principal Transactions.

### **D. Conflicts of Interest**

Lone Star has conflicts of interest, or conflicting loyalties, as a result of the numerous activities and relationships of Lone Star, Hudson, the General Partners, Affiliated Service Providers, its Clients, and affiliates, partners, members, shareholders, officers, directors, and employees of the foregoing, some of which are described herein. Not all potential, apparent and actual conflicts of interest are included herein and additional conflicts of interest could arise as a result of new activities, transactions, or relationships commenced in the future.

Lone Star will take such actions as may be required by the Governing Documents of the applicable Clients to fully or partially mitigate potential conflicts.

- 1. Specific Asset Management Companies and Service Providers.** A Fund and its Fund Entities will engage Hudson or its affiliates as well as Affiliated Service Providers to provide certain services as set forth in a Fund’s Governing Documents. Similarly, a Fund and its portfolio companies may engage portfolio companies of another Fund to provide certain services. Although Lone Star selects service providers and vendors it believes are most appropriate in the circumstances based on its knowledge of such service providers and vendors (which knowledge is generally greater in the case of service providers and vendors that have other relationships to Lone Star), the relationship of service providers and vendors to Lone Star as described herein may influence Lone Star in deciding whether to select, recommend or engage such service provider or vendor to perform services for the relevant Fund and its investments, the cost of which will generally be borne directly or indirectly by said Fund, and may incentivize Lone Star to engage such service provider over a third-party, utilize the services of such service providers and vendors more frequently than would be the case absent the conflict, or to pay such service providers and vendors higher fees or commissions than would be the case absent the conflict. The relevant Fund receiving such services and its limited partners typically will not share in any fees, economics, equity or other benefits accruing to these companies, and such fees, economics, equity or other benefits

will not offset the Management Fee payable to LSGA. The benefits received by a company providing a service may be greater than those received by the Fund(s) and/or its portfolio companies receiving the service.

The managers, officers, and employees of each of Hudson, its affiliates and Affiliated Service Providers will devote such time as the applicable entity, in its sole discretion, deems necessary to perform its obligations under its agreements with a Client. The managers, officers, and employees of Hudson, its affiliates, and Affiliated Service Providers will also perform services for other unrelated customers and conflicts of interest may arise in allocating management time, services, or functions among Clients and other customers of such entities. Conflicts are also expected to arise in determining whether Hudson, its affiliates, or an Affiliated Service Provider has performed its obligations to a Fund and/or its investments, and/or whether Hudson, its affiliates or an Affiliated Service Provider is entitled to be indemnified pursuant to the provisions contained in a Fund's Governing Documents and any other agreement between such entities and a Fund.

- a. Hudson.** As noted in Item 5, the General Partner of each Fund will retain Hudson to provide advisory services (including, without limitation, asset management and underwriting) and administrative and support or ancillary services to the Funds and their investments. We believe that the use of Hudson as a service provider to the Funds provides several benefits, including cost, quality of service, and speed of execution. However, the use of Hudson also presents certain conflicts of interest for Lone Star and the Funds.

As described in Item 5, Hudson will receive Hudson Fees from each Client as set forth in its Governing 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 Hudson Fees from the Clients. Such Hudson Fees and relationship will enhance the value of Hudson, and the limited partners of the Clients (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 a Client.

Similarly, certain General Partners have the right to contract with Hudson Homes Management LLC (together with its successors and assigns, "Hudson Homes") for servicing, leasing, disposition, property preservation, oversight of maintenance, renovation and repair, property management and other related matters of U.S. residential REO assets. Certain General Partners will also have the right to contract, directly or indirectly, with Northsight Management, LLC and Northsight Management Solutions, LLC (together, "Northsight"), subsidiaries of Hudson Homes, for single-family residential property preservation, management, maintenance, renovation and repair, property administration and related services with respect to U.S. residential assets directly or indirectly owned by certain Funds. Hudson Homes is an indirect subsidiary of HAL and, as such, Hudson Homes, Northsight, and Hudson will benefit from their relationship and receipt of fees from the Funds. Such fees and relationship will enhance the value of

Hudson, Hudson Homes, and Northsight, and limited partners of the Funds (other than those limited partners holding direct or indirect interests in Hudson, Hudson Homes and Northsight) will not participate in any increase in the value of Hudson, Hudson Homes, or Northsight by virtue of their ownership of an interest in a Client.

- b. Affiliated Service Providers.** Affiliated Service Providers are sometimes engaged to provide services to Funds. The fees paid by the Funds receiving services under such arrangements ultimately benefit both the Affiliated Service Provider and the owner(s) of such Affiliated Service Provider (which may be one or more other Funds). Such fees and relationship will enhance the value of an Affiliated Service Provider, and investors in the Funds that do not own such Affiliated Service Provider will not participate in any increase in the value of such Affiliated Service Provider. The fees that an Affiliated Service Provider will receive from a Fund are set forth in the Fund's Governing Documents or have been approved by the Advisory Committee of the relevant Funds. Further information regarding fees charged by Affiliated Service Providers and potential conflicts of interest may be found in Item 5 above.

- 2. Employee Co-Investment Vehicles.** Hudson and/or Lone Star have established and expect to continue to establish co-investment programs to allow Key Employees to indirectly co-invest in investments of Funds. The Employee Co-Investment Vehicles are not Clients of Lone Star for purposes of Item 4 – “Advisory Clients.” The terms of the corresponding Employee Co-Investment Vehicles are disclosed in a Fund's Governing Documents. Although the purpose of the employee co-investment program is to align the interests of the Key Employees with those of the Funds, the program will also present conflicts of interest. For example, one or more of the Employee Co-Investment Vehicles may be structured as an incentive program, and in connection therewith, Hudson, Lone Star, or one or more of their affiliates, and/or a third-party lender may own interests in such vehicles and/or provide all or a portion of the funding related to the interests held by the Key Employees participating in such vehicles. Because Lone Star, Hudson, and/or the Key Employees participating in the Employee Co-Investment Vehicles will typically decide whether to participate and the extent of the participation following the final closing of a Fund (subject to the minimum required participation set forth in the relevant Fund's Governing Documents), LSGA, Hudson, 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 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 a Fund, and may, at such time, have information regarding potential investments that is more comprehensive than information known by the Funds' investors at the time they made their investments; provided, however, that ownership by the Employee Co-Investment Vehicles in existing investments will not be subject to further adjustment. Prior to a Fund's final closing and until commitments are received from the Employee Co-Investment Vehicles,

LSGA, Hudson, 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 Co-Investment(s) in existing investments as well as future investments to be made by the Fund. Participation in the Employee Co-Investment Vehicles will be determined by Lone Star and/or Hudson by investment, region, investment type, or otherwise in an effort to incentivize Key Employees and align their interests with the interests of the relevant Fund. LSGA and/or Hudson (and not the individual Key Employees) will determine the aggregate co-investment percentage for investments by Employee Co-Investment Vehicles based on the foregoing and will adjust the ownership of the Employee Co-Investment Vehicles in the existing investments. The maximum contribution the Employee Co-Investment Vehicles can make to an investment is immaterial in relation to the total investment made by the relevant Fund. At the time that LSGA and/or Hudson determines the initial co-investment percentage, LSGA and/or Hudson will adjust the ownership of the Employee Co-Investment Vehicles in the existing investments. Such adjustments will be made using the cost basis to the 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 Co-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 Fund. If Lone Star and/or Hudson structure one or more Employee Co-Investment Vehicles as an incentive program, the Key Employees participating in such Employee Co-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 Co-Investment, the Key Employees, or their affiliates to fund all or a portion of the Key Employees' investment. The financing provided to Key Employees, the Employee Co-Investment Vehicles, or their affiliates 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. LSGA and Hudson have implemented policies and procedures that are designed to help mitigate these conflicts. Financing may be provided by Hudson, Lone Star, any of their affiliates, and/or a third party. Any such third party will not consider the interests of the Funds when instituting default remedies, or when otherwise dealing with the Employee Co-Investment Vehicles' or Key Employees' debt obligations. Such remedies (which could include foreclosing on the Employee Co-Investment Vehicles' or Key Employees' interest or seizing the related distributions, among other things) could impact a Key Employee's alignment with the Funds, which could, in turn, negatively impact the Funds.

Also, consistent with an applicable Fund's Governing Documents, a Fund typically temporarily funds the entire cost of the acquisition of investments, subject to the relevant

Employee Co-Investment's obligation to reimburse the Fund, including Unconsummated Transaction expenses. The Employee Co-Investment share in the risks and benefits of any hedging and financing transactions that occur prior to reimbursement of the Fund, although the Fund is directly exposed to the Key Employees' share of these risks, as well as investment-related risks, prior to reimbursement. The Employee Co-Investment Vehicles are not responsible for any portion of the Management Fees payable to LSGA and other general Fund expenses (including accounting and audit costs). Employee Co-Investment Vehicles invest on a side-by-side basis with the applicable Fund pursuant to co-investment agreements. The expenses of an investment transaction may be paid by a Fund or a Fund vehicle and subject to reimbursement from any associated Employee Co-Investment Vehicle. The Fund or Fund vehicle that has paid these expenses bears the risk that the Employee Co-Investment Vehicle will not have sufficient capital to reimburse the expenses in a timely fashion, or at all.

- 3. Investment Allocation.** The Principals and their affiliates currently have and are likely in the future to acquire other investments, organize other funds advised by Lone Star, or manage certain investments held by third parties with investment objectives or strategies that overlap, perhaps substantially, with those of the Funds (collectively, the "LS Affiliated Clients"). In connection with these activities, conflicts are likely to develop with respect to the allocation of investments when a prospective investment, or a portion of such investment, meets the investment objectives or strategies of one or more Funds and one or more other LS Affiliated Clients. Such conflicts may include whether to allocate a particular investment, or a portion of such investment, to one Fund or to another Fund or LS Affiliated Clients, including without limitation, (i) such Fund's or LS Affiliated Clients related investment entities (including special or alternative investment vehicles, feeder funds, or Parallel Investment Entities formed to invest with such Fund or LS Affiliated Client), (ii) any Co-Investment Vehicle formed to invest with a Fund in a particular transaction and/or a specific investment strategy, or (iii) a Fund established for the purpose of participating in a "continuation transaction." Investors in such LS Affiliated Clients and their related entities may include limited partners of one or more Funds or their affiliated entities.

The Funds and the LS Affiliated Clients are subject to provisions in their respective Governing Documents that prescribe the applicable Fund's investment objective, investment limitations and parameters, and exclusivity requirements (the "Contractual Investment Guidelines"). When making allocation decisions, Lone Star is guided by the Contractual Investment Guidelines of the Funds and/or the LS Affiliated Clients, as well as its internal allocation procedures and principles. For each investment allocation decision, Lone Star first applies the relevant Contractual Investment Guidelines; however, in some circumstances the Contractual Investment Guidelines will not be determinative, and in such situations, a portion of an investment may fall within the Contractual Investment Guidelines, or overlap with the Contractual Investment Guidelines, of one or more Funds or LS Affiliated Clients. In cases where a particular investment, or a portion of an investment, falls within the Contractual

Investment Guidelines of more than one Fund or LS Affiliated Client, Lone Star will apply its internal allocation principles to determine whether the investment, or a portion of such investment, should be made by the Fund, one or more LS Affiliated Clients, or a combination thereof. In addition, Lone Star has established an allocation committee (the “Allocation Committee”) comprised of senior Lone Star professionals to oversee the application of Lone Star’s internal allocation principles. Lone Star’s internal allocation principles reflect considerations that we determine in good faith to be fair and reasonable, including, but not limited to:

- The Contractual Investment Guidelines;
- The nature of the asset;
- The nature of the market;
- The anticipated source of returns; and
- The investment opportunity’s risk profile and other relevant factors.

While we seek to apply a generally consistent framework and approach when making allocation decisions, the application of Lone Star’s allocation principles is a fact-intensive exercise. The relevance of each allocation principle will vary based on the investment opportunity, with no single factor consistently outweighing the others. Furthermore, the weight Lone Star ascribes to certain considerations will evolve over time in response to, among other things, changes in market conditions, the competition for investments and the mix of opportunities available to the Funds and LS Affiliated Clients. When considering the potential return of an investment, the Allocation Committee determines allocations based on the base-case scenario of the underwritten returns at the time the allocation is determined. Furthermore, decisions made by Lone Star with respect to the structuring of a potential investment (including, for example, leverage levels) are made in its sole discretion and those decisions may influence, for example, whether an investment opportunity is considered to have satisfied such underwriting criteria, and accordingly whether it is allocated to a Fund or another LS Affiliated Client. In a facts and circumstances analysis, it is difficult to mitigate conflicts of interest, because such an approach is inherently subjective. The Allocation Committee will be tasked with seeking to mitigate this conflict. Further, allocation decisions are based on the information available at the time the investment is initially originated and evaluated for investment. This information may prove, in retrospect, to be incomplete or otherwise flawed. There can be no assurance that actual returns for any such investment will meet Lone Star’s expectations, and certain investments allocated to a Fund may have different returns than Lone Star’s projected returns.

To the extent the Funds or other LS Affiliated Clients or any Co-Investment Vehicles have different fee, expense, and compensation structures, Lone Star will have an incentive to allocate an investment opportunity based on factors such as whether a particular Fund or LS Affiliated Client or Co-Investment Vehicle would generate a higher fee, result in the payment of more Profits Interest or other compensation, and/or would cause the payments of either of



the foregoing to be made sooner. In addition, the Principals, other Lone Star senior management, and the Key Employees will generally participate directly or indirectly in investments made by the Funds and/or LS Affiliated Clients in which they invest. Such individuals would obtain greater financial benefit if an investment opportunity were allocated to a Fund or LS Affiliated Client in which they hold an interest (or allocated to a LS Affiliated Client in which the individual holds a greater interest than such individual's interest in another LS Affiliated Client). These interests present conflicts of interest in determining how much, if any, of certain investment opportunities to allocate to a Fund or LS Affiliated Client. Such considerations are not permitted to be explicitly considered in making allocation decisions and Lone Star expects that its procedures and internal principles will help mitigate the risk that these incentives influence investment allocation decisions.

An allocation decision may result in a Fund being allocated an entire investment opportunity, or the Fund and one or more LS Affiliated Clients and/or Co-Investment Vehicles sharing an investment opportunity on a basis consistent with Lone Star's internal allocation principles. If the decision is made to allocate all or any portion of an investment opportunity to, for example, an LS Affiliated Client rather than a Fund, the amount of the investment opportunity available to such Fund will be correspondingly reduced and may result in the Fund not receiving any portion of an investment opportunity that contains some assets that would be qualified investments under the applicable Fund's Governing Documents. In certain cases, a Fund's General Partner may decline to pursue an investment opportunity if it determines that a Fund's allocation is too small to be appropriate for the Fund to invest.

In certain cases, Lone Star may not determine final allocations among Funds or LS Affiliated Clients until after certain expenses or other amounts have already become due and payable. In these circumstances, a Fund may initially bear the full amount of an upfront payment or expense, even if other LS Affiliated Clients ultimately participate in the investment. In such a circumstance, the LS Affiliated Clients will in some (but not all) cases be responsible for reimbursing the Fund for their proportionate share of such payment or expense when Lone Star determines the final allocation of the investment opportunity among such Funds and LS Affiliated Clients. While unlikely, it is possible that if a Fund initially funded such payment or expense, the other LS Affiliated Clients could default on their obligation to reimburse such Fund.

A Fund may participate in the acquisition or disposition of portfolios of assets in conjunction with other LS Affiliated Clients. While it is anticipated that such joint transactions will benefit such Fund, there can be no assurance that such a benefit will materialize, and such transactions create conflicts of interest for the General Partner and Lone Star. There may be circumstances, including, for example, when a seller seeks to dispose of a pool or combination of assets, securities or instruments, and a Fund participates in a single or series of related transaction(s) with such seller and certain of the assets, properties, securities, or instruments related to such transaction(s) are specifically allocated (in whole or in part) to the Fund and one or more LS Affiliated Clients. The allocation of such specific items

generally would be based on Lone Star's evaluation of the expected returns and risk profile of such items and whether such items fit the Contractual Investment Guidelines of the relevant Funds or LS Affiliated Clients, and in any such case the combined purchase price paid to a seller would be allocated among the multiple assets, properties, securities, or instruments based on a determination by Lone Star, the seller, and/or by a third-party valuation firm. Similarly, there will likely be circumstances, including in the case where there is a single buyer who is seeking to purchase a pool or combination of assets, properties, securities or instruments, where one or more Funds and one or more LS Affiliated Clients participate in a single or related transaction(s) with such buyer where certain of such assets, properties, securities, or instruments are owned (in whole or in part) by one or more of the LS Affiliated Clients. The allocation of such specific items generally would be based on Lone Star's determination of the expected returns for such items, and in any such case the combined purchase price paid by such buyer would be allocated among the multiple assets, properties, securities, or instruments based on a determination by Lone Star, such buyer, and/or by a third-party valuation firm. There can be no assurance that the relevant investment will not be valued or allocated a purchase price that is higher or lower than it might otherwise have been allocated or received if the various assets of such investment were sold independently rather than as a component of a portfolio sale that contains investments sold by other LS Affiliated Clients.

4. **Co-Investments.** A Fund's investment activities may generate the opportunity for certain persons or entities to co-invest in such investments alongside the Fund in Co-Investment Vehicles. Unless otherwise agreed with an investor or required by a Fund's Governing Documents, the General Partner of a Fund will have no obligation to offer the right to co-invest to any limited partner; provided that, if a co-investment opportunity arises in connection with the Fund's investment activity, as determined by the General Partner in its sole discretion, the General Partner will initially offer the right to co-invest pursuant to the Fund's Governing Documents. There can be no guarantee, prediction or projection of the availability to limited partners of the Funds of future co-investment opportunities. Where a co-investment opportunity is offered, a General Partner of a Fund shall determine the structure and timing on which such co-investment will be offered in its sole and absolute discretion. The performance of co-investments is not aggregated with that of the Funds, including for purposes of determining a General Partner's Profits Interest or Management Fees payable to LSGA. The allocation of co-investment opportunities may involve a benefit to Lone Star and/or Hudson including, without limitation, performance-based compensation from the co-investment opportunity. There can be no assurances with respect to the amount of any investment opportunity that will be allocated to a Fund.

Limited partners of the Funds are not required to participate in co-investments offered by the Funds' General Partners. Moreover, transaction-specific returns, and a limited partner's overall returns from its exposure to a Fund's investments, may be affected significantly by the extent to which limited partners are offered and choose to participate in co-investment opportunities. The actual number of co-investment opportunities made available to the

limited partners may be different than those made available in connection with such limited partner's investment in another Fund. In addition to the co-investment program for Key Employees, Lone Star and Hudson personnel and their affiliates are permitted to co-invest with a Fund.

Potential co-investors may have a variety of different relationships with the Funds, the General Partners, or Lone Star and/or Hudson, creating potential conflicts of interest in determining any co-investment strategy. As noted above in Item 5, fee and expense arrangements for co-investors are often different from those of the Funds, and the General Partners of the Funds in their sole discretion on a case-by-case basis, may charge, reduce or waive any or all Management Fees, Hudson or other affiliated servicer fees, Profits Interest and other amounts and/or enter into preferential economic arrangements (including, but not limited to the cross promote of any co-investments) for the benefit of one or more co-investors, which may impact decisions on how to allocate. Furthermore, in the event a co-investment is contemplated to invest alongside a Fund in a particular investment, expenses incurred solely for the benefit of the Co-Investment Vehicle or the co-investor(s), as well as expenses incurred in connection with making and holding an investment, may be borne by a Fund and not by the Co-Investment Vehicle or co-investor(s).

Additionally, the Funds and co-investors will often have different investment objectives and limitations, such as return objectives and maximum hold periods. Lone Star and/or Hudson, as a result, will have conflicting incentives in making decisions with respect to such opportunities. Even if a Fund and any such parties invest in the same assets on similar terms, conflicts of interest will still arise as a result of differing investment profiles of the investors, among other items. Furthermore, it is possible a Fund's interest may be subordinated or otherwise adversely affected by virtue of such co-investors' involvement and actions relating to its investment.

In connection with co-investment opportunities, some co-investors (which may include one or more investors in a Fund) may be provided with the opportunity to serve as members of investment or advisory committees or boards of directors or advisors to a given portfolio company. Such positions provide co-investors with voting rights, access to information and the ability to influence the operations and decision making of the portfolio company that are not available to other investors. In certain cases, co-investors may have contractual rights that require the approval of the co-investors for certain major actions relating to the applicable portfolio company. Such rights may limit the ability of Lone Star and/or Hudson to take actions with respect to the portfolio company that Lone Star and/or Hudson consider to be in the best interests of the Funds.

- 5. Syndication.** A Fund may acquire an investment and subsequently syndicate, or sell some or all of it, to Lone Star Affiliated Entities, joint venture partners, or affiliates or related parties of the foregoing, to "strategic" partners, to limited partners or other third parties, thus diluting a Fund's interest in the co-investment. Similarly, Lone Star Affiliated Entities, joint venture partners, or affiliates or related parties of the foregoing could acquire an

investment as principal and subsequently sell some or all of it to another Fund in an affiliate transaction. A Fund's General Partner may cause these transfers to be made at cost, or cost plus an interest rate or carrying cost charged from the time of acquisition to the time of transfer, notwithstanding that the fair market value of any such investments may have declined below or increased above cost from the date of acquisition to the time of such transfer. The General Partner may also determine another methodology for pricing these transfers, including fair market value at the time of transfer. Also, the Fund may charge fees on these transfers to the parties to them. Conflicts of interest are expected to arise in connection with these affiliate transactions, including with respect to timing, structuring, pricing and other terms. For example, a Fund's General Partner will have a conflict of interest when the General Partner receives fees, including Profits Interest, from an LS Affiliated Client or Co-Investment Vehicle acquiring from or transferring to another Fund all or a portion of an investment.

- 6. Unconsummated Transaction Expenses.** A Fund will pay or reimburse its General Partner, Lone Star, Hudson, and their affiliates for expenses incurred in pursuit of investments that upon initial review appeared to meet the Fund's investment guidelines and the Fund undertook efforts in furtherance of investing in (including in anticipation of allocating a portion thereof as a co-investment opportunity), but which did not become an investment of the Fund ("Unconsummated Transaction"). Examples of such Unconsummated Transaction expenses include, but are not limited to, organization and formation and other expenses; all fees, costs and expenses of lenders, investment banks and other financing sources in connection with arranging financing for a proposed investment (including commitment fees); any break-up fees, reverse termination fees, topping, termination or other similar fees; extraordinary expenses such as litigation costs, settlements and judgments, travel and entertainment expenses incurred; legal, accounting, advisory, tax, underwriting and other due diligence and pursuit costs and expenses, including fees and expenses paid or reimbursed to Hudson, and to consultants or other third-parties; and any deposits or down payments of cash or other property which are forfeited in connection with a proposed investment that is not consummated. We employ the same principles as described above under "Investment Allocation" when allocating Unconsummated Transaction expenses. With respect to such expenses, we generally make such allocation decisions while a transaction is pending based on our best judgment as to the Client to which we will ultimately allocate the transaction. This judgment is necessarily subjective, especially when a transaction is terminated at a particularly early stage. When we abandon an opportunity, absent a factual development to the contrary, we will allocate the fees and expenses for such transaction to such Client or Clients. The allocation of fees and expenses among Clients may not be proportional. As discussed above in Item 5, in certain instances we will evaluate investment opportunities that, if consummated, we would likely offer in part to prospective co-investors. If such potential investment is not consummated, the full amount of any expenses related to such potential but not consummated investment and co-investment (including, but not limited to, reverse

termination fees, extraordinary expenses such as litigation costs and judgments and other expenses) may be borne entirely by the Client (and any related Clients that would have participated in such investment), rather than by any co-investment vehicle or co-investor(s). The financial position of the relevant Clients may give us an incentive to allocate such fees and expenses to one such Client and not another. For example, it would be advantageous to allocate Unconsummated Transaction expenses to a Client or other vehicle that is not expected to pay Profits Interest to its General Partner, as the fees and expenses would not affect the amount of Profits Interest paid and it typically would be disadvantageous as an economic matter to allocate Unconsummated Transaction expenses to a Client that is paying Profits Interest, as doing so would delay and reduce the amount of Profits Interest paid to the relevant General Partner. A Fund's General Partner is not required to and in most circumstances will not seek reimbursement of Unconsummated Transaction expenses from third parties, including potential counterparties to the potential transaction or potential co-investors. Any such Unconsummated Transaction expenses could, in the sole discretion of the General Partner, be allocated solely to one Fund and not to one or more other Funds or Co-Investment Vehicles that could have made the investment, even when such other Funds or Co-Investment Vehicles commonly invest alongside a Fund in its investments or alongside the other Fund in its investments. In such cases, a Fund's share of expenses would increase. In the event Unconsummated Transaction expenses are allocated to a Fund or a Co-Investment Vehicle, the General Partner or a Fund may advance such fees and expenses without charging interest until paid by the other Fund or Co-Investment Vehicle, as applicable.

- 7. Rates of Third-Party Advisors and Other Conflicts Relating to Service Providers.** Lone Star, Hudson, their personnel, and the Lone Star Affiliated Entities and their portfolio companies from time to time engage common service providers. In certain circumstances, advisers and other service providers may charge rates or establish other terms for advice and services provided to Lone Star, Hudson, their personnel, or any of their respective affiliates that are different from and more favorable than those charged in respect of advice and services provided to Funds and their investments. Moreover, whereas rates or amounts payable for such services are often negotiated on a matter-specific basis, the Clients from time to time pay higher rates or amounts than Lone Star or Hudson would for such services.

This creates a conflict of interest between Lone Star and its personnel and affiliates, on the one hand, and the Funds and/or portfolio companies, on the other hand, in determining whether to engage such service providers, including the possibility that Lone Star will favor the engagement or continued engagement of such persons if it, or its personnel, receives a benefit from such service providers, such as lower fees, that it would not receive absent the engagement of such service provider by the Funds and/or its investments or portfolio companies. Neither the Funds nor their limited partners will receive the benefit of any such favorable rate or discount provided to Lone Star, its personnel or its affiliates, and the

Management Fee paid by any Fund will not be reduced in connection with such favorable rate or discount.

Additionally, employees of Lone Star or its affiliates, and/or their family members or relatives may have ownership, employment, or other economic or other interests in certain service providers. These relationships can influence Lone Star in determining whether to select, or recommend such service provider to perform services for a Fund or a portfolio company. Although Lone Star selects service providers that it believes will enhance portfolio company performance (and, in turn, the performance of the relevant Fund(s)), there is a possibility that Lone Star, because of financial, business interest, or other reasons, may favor such retention or continuation even if a better price and/or quality of service could be obtained from another person.

Lone Star and the Funds will generally engage common legal counsel and other service providers in a particular transaction, including a transaction in which there may be conflicts of interest. Members of the law firms engaged to represent the Funds may be investors in a Fund, and may also represent one or more portfolio companies or investors in a Fund. In the event of a significant dispute or divergence of interest between Funds, Lone Star and/or its affiliates, the parties may engage separate counsel in the sole discretion of Lone Star and its affiliates, and in litigation and other circumstances separate representation may be required.

- 8. Transactions with Limited Partners and Investors.** The Funds or Fund Entities may occasionally enter into transactions with limited partners or investors in the Funds. For example, a limited partner or investor may be permitted to bid on an asset being sold by a Fund or to joint venture on an asset purchased by a Fund. Such transactions create potential conflicts of interest for Lone Star, which may be motivated to confer a benefit on a limited partner or investor in order to encourage investment in future Funds or gain support on matters requiring investor approval. Lone Star has implemented policies and procedures designed to ensure that any such transactions are in the best interests of the applicable Funds.
- 9. Transactions with and Between Related Funds.** Transactions with and between Funds may be approved as set forth in a Fund's Governing Documents or may be required to be approved by consent of each Fund's Advisory Committee. Additionally, Lone Star, in limited circumstances, may cause a Fund to sell assets to, purchase assets from, or otherwise share in an investment transaction with another Lone Star Affiliated Entity. These transactions create conflicts of interest because, by not exposing any such transactions to market forces, a Fund may not receive the best terms otherwise possible, or Lone Star might have an incentive to improve the performance of one Fund by selling underperforming assets to another Fund in order, for example, to earn fees. To address conflicts of interest, Lone Star has implemented policies and procedures to address such transactions. Subject to certain exceptions, a Fund's Governing Documents generally require its Advisory Committee's prior approval of conflicts of interest between Lone Star and a Fund or among Funds, including proposed cross or principal transactions.

Examples of certain transactions between Funds that are approved by the Governing Documents of certain Funds are set forth below.

- In the event a Fund owns or invests in an entity, such entity may transact business with one or more other Lone Star Affiliated Entities (including their fund entities) provided that such transaction is in the ordinary course of business of both entities (including financing transactions where one entity is in the business of lending or arranging finance) and on financial terms that are commensurate with those that would be negotiated on an “arm’s length” basis by third parties (any such transaction, an “Operating Company Transaction”).
- In addition, a Fund and/or the Fund Entities may (i) jointly bid on a potential transaction, (ii) enter into a joint venture agreement for the purpose of acquiring the assets comprising such transaction, and/or (iii) collectively finance the assets of a transaction, in each case with a Lone Star Affiliated Entity, provided that in each case the economic interests in the assets shall be allocated between the Fund and such other Lone Star Affiliated Entity in accordance with Lone Star’s Allocation Policy, as determined in Lone Star’s sole discretion and each shall bear its share of the costs and expenses of such transaction in proportion to such economic allocation (in the case of subsection (i), (ii), or (iii), a “Joint Fund Transaction”).
- A Fund may also invest in or through, or acquire entities (directly or indirectly) that provide services to, or are used for investing (“Investment Platforms”) by one or more other Lone Star Affiliated Entities, provided that the investment in, or purchase of, such Investment Platform (including any investment in or purchase of such Investment Platforms from one or more other Lone Star Affiliated Entities) satisfies the requirements of a Fund related entity (as described in the Fund’s Governing Documents), the economic interests, costs, expenses and liabilities of such entities are reasonably allocated among the Funds and such other persons holding interests in such entities; and appropriate reciprocal indemnification and risk-sharing provisions are put in place between the Funds and such other persons holding interests in such entities (“Investment Platform Transactions”).
- A Fund may engage certain affiliates of one or more other Lone Star Affiliated Entities to provide goods and/or services to the Fund and/or its investments, and similarly, a Fund and/or its investments may undertake the same for one or more affiliates of one or more other Lone Star Affiliated Entities (such transactions, “Related Party Transactions”).

For certain fund structures with vehicles investing on a side-by-side basis, certain expenses of an investment transaction may be paid by one Fund vehicle and subject to reimbursement by the other Fund vehicle(s). In such circumstances, the Fund vehicle that has paid these expenses bears the risk that the other Fund vehicle(s) will not have sufficient capital to reimburse the expenses in a timely fashion, or at all.

Funds may invest in conjunction with an investment being made by other Funds or in a transaction where another Fund has already made an investment. For example, a Fund may invest in bank debt and securities of companies in which another Fund holds securities, including equity securities. Conflicts may arise in connection with such investments. Investment opportunities are from time to time appropriate for more than one Fund at the same, different or overlapping levels of a portfolio company's capital structure. Conflicts arise in determining the terms of investments, particularly where these Clients may invest in different types of securities in a single portfolio company. Questions arise as to whether payment obligations and covenants should be enforced, modified or waived, or whether debt should be refinanced. Decisions about what action should be taken in a troubled situation, including whether or not to enforce claims, whether or not to advocate or initiate a restructuring or liquidation inside or outside of bankruptcy, and the terms of any work-out or restructuring raise conflicts of interest. The involvement of such persons at both the equity and debt levels could inhibit strategic information exchanges among fellow creditors. In certain circumstances, Funds may be prohibited from exercising voting or other rights, and may be subject to claims by other creditors with respect to the subordination of their interest. In the event that one Fund has a controlling or significantly influential position in a portfolio company, it will have the ability to elect some or all of the board of directors of such a portfolio company, thereby controlling the policies and operations, including the appointment of management, future issuances of securities, payment of dividends, incurrence of debt and entering into extraordinary transactions. In addition, a controlling Fund is likely to have the ability to determine, or influence, the outcome of operational matters and to cause, or prevent, a change in control of such a company. Such management and operational decisions may, at times, be in direct conflict with other Funds that have invested in the same portfolio company that do not have the same level of control or influence over the portfolio company.

- 10. Material Non-Public Information.** Lone Star and Hudson periodically come into possession of material, nonpublic information with respect to investment targets and other public companies in connection with advising the Funds as well as other LS Affiliated Clients and/or providing services to such Clients. Lone Star and Hudson maintain policies and procedures designed to (i) protect such information in accordance with applicable regulations, including maintenance of an internal restricted list, (ii) seek to ensure the confidentiality of Client information generally and (iii) 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 of Lone Star's Clients and a Hudson client unrelated to Lone Star, Hudson will either (i) provide services with respect to the client who initially requested such services, or (ii) determine if it can provide those services to each applicable client consistent with its policies and procedures. Potential mitigation could include, among other things, obtaining waivers from clients, establishing ethical walls between teams, or other mitigating steps. Further, Lone Star and Hudson generally do not maintain formal information barriers between their operations or different groups. As a result, possession



of material, nonpublic information by Lone Star and/or Hudson will generally limit the ability of a Fund to buy or sell the applicable company's securities even if such information was not obtained on behalf of the Fund. In addition, the LS Affiliated Clients 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.

Also, Fund Entities that hold interests in investments on behalf of a Fund may be controlled by boards of directors, one or more members of which may, for tax, regulatory, or other reasons, not be affiliated with Lone Star or Hudson or subject to their (or their affiliates') supervision and control. Such directors may be exposed to material nonpublic information with respect to investments held by the Fund Entities.

- 11. Valuation.** The Funds' investments are anticipated to 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 and rely heavily on management judgement and estimates of unobservable inputs.

The fair value of all investments or of any asset received in exchange for any investment will ultimately be determined by personnel of Lone Star and Hudson, in conjunction with and using information provided by Hudson. It may be the case that the carrying value of an investment may not reflect the price at which the investment is ultimately sold in the market, and the difference between carrying value and the ultimate sales price could be material. The valuation methodologies used to value any investment will involve subjective judgments and projections and may not be accurate. Valuation methodologies will also involve assumptions and opinions about future events, which may or may not turn out to be correct. Ultimate realization of the value of an asset depends to a great extent on economic, market and other conditions beyond Lone Star's control. There will be no retroactive adjustment in the valuation of any investment, or the Profits Interest paid to the General Partner, or Management Fees paid to LSGA to the extent any valuation proves to not accurately reflect the realizable value of an asset in a Fund.

There may be circumstances where Lone Star or Hudson is incentivized to determine valuations that are higher than the actual fair value of investments in the Fund's accounting records or on investor reports in order to improve the performance presented to the Funds' limited partners, prospective investors, or to minimize write-downs impacting allocations of the General Partner's Profits Interest and Lone Star's Management Fee payments. Although Lone Star and the General Partners, supported by Hudson, have implemented valuation policies and procedures designed to mitigate these risks, there can be no assurances such valuations, or their underlying assumptions, will prove to be accurate. The valuation of investments will in certain circumstances affect the amount and timing of a General Partner's Profits Interest and the amount of Management Fees paid to LSGA. The valuation of investments of LS Affiliated Clients may affect the decision of investors to subscribe for interests in a Fund. Similarly, the valuation of investments of a Fund may affect the ability

of Lone Star to form and attract capital to LS Affiliated Clients. As a result, the valuation of investments of the Funds and LS Affiliated Clients, which generally remains in the sole discretion of Lone Star, as supported by Hudson, involves conflicts.

We generally determine, in our discretion, the fair value of each Client's assets. While we follow rigorous valuation methodologies and procedures that are designed to ensure that our fair value determinations are strictly the product of the application of U.S. generally accepted accounting principles (in particular, Financial Accounting Standards Board Accounting Standards Codification Topic 820, Fair Value Measurement), we have incentives to arrive at higher valuations. First, we are obligated under the Funds' relevant Governing Documents to write down assets upon a determination by the relevant General Partner(s), that the value (net of any debt encumbering such investment) of an investment (with respect to that portion of the investment as to which a disposition of such investment has not occurred as of such date) is less than investors' aggregate capital contributions with respect to such remaining investment (i.e., the portion of the investment that has not been disposed). A decision not to write down an investment would avoid or delay potential negative impacts on the amount of Profits Interest due to the General Partner and potentially the amount of Management Fees paid to LSGA. Second, the rate of Profits Interest allocated to the General Partners of certain Clients depends on whether the Client achieves a certain rate of return. Higher valuations could facilitate the Client's achievement of a rate of return that would result in the receipt by the corresponding General Partner of a greater amount of Profits Interest than if the valuations were lower. Third, we regularly report to investors in the Funds and prospective investors in the Funds metrics of the Clients' performance, such as rates of return and multiples-of-money, whose calculation depends on the value of the Clients' investments, including unrealized investments. These reports are an indication of the overall health of the Funds and are important to our efforts to attract investors to the Funds. An objective of our valuation methodologies and procedures is to mitigate any influence these incentives may have on our fair value determinations.

Our valuations will be based to a large extent on our estimates, projections, comparisons and qualitative evaluations of private information, which may be incomplete or inaccurate. Lone Star does not typically engage third-party valuation agents. To the extent that Lone Star does engage a third-party valuation agent, such agent may not be able to replicate our methodology or to value accurately the Funds' investments. The amount of judgment and discretion inherent in valuing assets renders valuations uncertain and susceptible to material fluctuations over possibly short periods of time; substantial write-downs and earnings volatility are possible. Our determination of an investment's fair value may differ materially from the value that would have been determined if a ready market for the securities had existed and the valuations the managers of other funds or other third parties ascribe to the same investment. Our valuation of an investment at a measurement date may also differ materially from the value that is obtained upon the investment's exit.

**12. Profits Interest.** The allocation of Profits Interests at different rates, or subject to different hurdle rates, creates an incentive for us or our affiliates to disproportionately allocate time, services or functions to vehicles allocating Profits Interests at a higher rate (or subject to a lower hurdle rate), or to allocate investment opportunities to such vehicles. As noted above in “Investment Allocation” we have adopted policies and procedures that, among other things, seek to ensure that investment opportunities are allocated in a manner that we believe is consistent with the relevant Governing Documents and otherwise fair and reasonable under the circumstances, considering such factors as we deem relevant, but in our sole discretion. We also have an incentive to dispose of a Fund’s investments at a time and in a sequence that would generate the most Profits Interest, even if it would not be in the Client’s interest to dispose of the investments in that manner. In addition, recently enacted U.S. tax legislation requires an investment to be held for more than three years to be treated as long-term capital gains for tax purposes. Although the General Partners generally do not consider this holding period when making a decision on the disposal of an investment, there is a risk that this requirement may create a conflict between the interests of a Fund’s General Partner and the interests of the Fund’s limited partners because it may create an incentive for the General Partner to make different decisions regarding the timing and manner of disposal of an investment, including making a decision that takes the General Partner’s own tax consequences into consideration. This could motivate the General Partner to hold a Fund’s investments for longer than three years in order to obtain lower tax rates on Profits Interest gains even if there are attractive realization opportunities earlier. Additionally, the existence of the General Partners’ Profits Interest creates an incentive for the General Partners to cause such Funds to make more speculative investments than they would otherwise make in the absence of performance-based compensation.

**13. Outside Activities of Principals and Other Personnel and their Related Parties.** The Principals and/or other employees of Lone Star or Hudson may be subject to a variety of conflicts of interest relating to their responsibilities to the Funds, Lone Star Affiliated Entities and their respective investments, co-investment vehicles and their outside business activities as members of investment or advisory committees or boards of directors or advisors to investment funds, corporations, foundations or other organizations (including but not limited to certain private and/or public companies in which a Fund or any other Lone Star Affiliated Entity has an interest) with or without compensation. In addition, any such person who so serves will devote a portion of their time in the future to their duties associated with such positions. The Principals are also investors in certain other investments and have the right, as described in the relevant Fund’s Governing Documents, to make certain investments for their own benefit. The Principals will devote a portion of their time in the future to the management of such investments. Also, subject to the relevant Fund’s Governing Documents and Lone Star’s and Hudson’s policies and procedures, Lone Star and Hudson personnel may be permitted to invest in alternative investment funds, real estate funds, hedge funds and other investment vehicles, as well as securities of other companies, some of which may be competitors of one or more Funds. Investors in the relevant Fund will not receive any benefit

from any such investments, and the financial incentives of Lone Star or Hudson personnel in such other investments could be greater than their financial incentives in relation to said Fund.

Such positions create a conflict if such other entities have interests that are adverse to those of the Funds, including if such other entities compete with the Funds for investment opportunities or other resources. The Lone Star or Hudson personnel in question may have a greater financial interest in the performance of the other entities than the performance of the Funds. This involvement may create conflicts of interest in making investments on behalf of the Funds and such other funds, accounts and other entities. Although Lone Star will generally seek to minimize the impact of any such conflicts, there can be no assurance they will be resolved favorably for the Funds.

Lone Star, Hudson, and their affiliates may from time to time hire short-term or long-term personnel (or interns) who are relatives of or are otherwise associated with an investor, operating company, service provider, or other Lone Star or Hudson personnel. Although reasonable efforts are made to mitigate any potential conflicts of interest with respect to each particular situation, there is no guarantee all such potential conflicts will be mitigated, or there may continue to be an ongoing appearance of a conflict of interest. Additionally, certain personnel and other professionals of Lone Star have family members or relatives who are actively involved in industries and sectors in which the Funds invest or have business, personal, financial or other relationships with companies in such industries and sectors, which gives rise to potential or actual conflicts of interest. For example, such family members or relatives might be officers, directors, personnel or owners of companies or assets which are potential or actual service providers to the Funds, Lone Star, or Hudson, or actual or potential investments of the Funds or other counterparties of the Funds and their investments. Moreover, in certain instances, the Funds or their Fund Entities may purchase or sell companies or assets from or to, or otherwise transact with, companies that are owned by such family members or relatives or in respect of which such family members or relatives have other involvement. In these circumstances, the relevant Fund's Governing Documents may not preclude said Fund from undertaking any of these investment activities or transactions. To the extent Lone Star determines appropriate, conflict mitigation strategies may be put in place with respect to a particular circumstance, such as recusal, disclosure or other steps determined appropriate by Lone Star. The investors in the relevant Fund rely on Lone Star to manage these conflicts in its sole discretion.

- 14. Personnel Moves.** Certain employees and former employees of Lone Star, Hudson, and their affiliates have in the past and may in the future transition, fully or partially, to new roles with Lone Star, Hudson, other operating entities or investments/investment platforms owned by the Funds or Affiliated Service Providers. Such personnel moves are typically made to account for changes in job roles, changing resource/expertise requirements at Lone Star, Hudson, or the applicable entity, or licensing/regulatory or other compliance reasons. Such a transition may have the effect of shifting, directly or indirectly, the burden of the

compensation of such employees from Lone Star, Hudson or their affiliates to the applicable Fund and/or its portfolio companies and, in the case of a transfer to Hudson or its affiliates, may result in Hudson or its affiliates earning a profit margin in respect of such transferred employee which will be borne in whole or in part by Clients. For continuity and other reasons, Lone Star and Hudson and/or other applicable entities, in some cases, enter into secondment or other arrangements between Lone Star, Hudson and/or other applicable entities. Conflicts may arise in connection with allocating the costs, expenses and liabilities of such entities between Lone Star, Hudson and the applicable entity, including in negotiating appropriate reciprocal indemnification and risk-sharing provisions. To the extent that personnel transitions impact, directly or indirectly, fees borne by a Fund (e.g., Lone Star personnel moving to Hudson or the applicable entity), Lone Star and Hudson have put in place policies and procedures to confirm that relevant employees' work (i) does not fall within the scope of LSGA's services for which it earns the Management Fee and (ii) is properly allocated as between Lone Star, Hudson, and the Funds, including review of personnel transitions by Lone Star and/or Hudson compliance. While Lone Star and Hudson have put in place certain controls relating to such transitions, there is no assurance that the potential conflicts associated with such moves, including potential fee and expense-related impacts to the Funds, will be fully mitigated.

- 15. Providers of Operations Support.** Lone Star, Hudson, their affiliates, the Funds and/or the Funds' portfolio companies may from time to time, directly or indirectly, retain other companies and individuals ("Operating Partners"), which could include (i) former employees of Lone Star, affiliates of Lone Star, or portfolio companies of the Funds, or (ii) third-party consultants (including specialized consultants, advisers, industry specialists, external executives, industry advisory roundtable members, and similar professionals).

The Operating Partners are engaged to provide operational support, due diligence, research, specialized operations and consulting services and similar or related services to the Funds, or in connection with one or more portfolio companies or prospective portfolio companies in relation to the diligence, structuring, valuation, acquisition, holding, improvement and disposition of such portfolio companies (such services collectively, "Operating Partner Services"). These services may include support to a Fund's General Partner on behalf of the Fund, or to portfolio companies regarding, among other things, the portfolio company's management (including serving in management positions or participating in determining corporate strategy), serving on a portfolio company's board of directors, the company's supply chain, revenue and margin management (including determining sales/marketing strategy and retail strategy), data intelligence, finance (including generating metrics and reporting and business restructuring), human capital management (including recruiting personnel and determining executive/incentive compensation), information technology, corporate communications, customer service, sustainability (including, strategy, policy and reporting development), real estate matters and similar operational matters.

The nature of the relationship with each such Operating Partner and the time devotion requirements of each such Operating Partner may vary significantly. Certain Operating Partners may be subject to contractual obligations to exclusively provide certain services to the Funds and/or the portfolio companies. These arrangements may be memorialized in a formal written agreement or may be informal and are negotiated individually, depending upon the anticipated Operating Partner Services to be provided. Operating Partners may under certain circumstances be offered the ability to invest in a Fund (or may under certain circumstances have a preferred right) to co-invest alongside Funds or may under certain circumstances be offered the opportunity directly by the portfolio company to invest in the company, including in investments in which such Operating Partner is involved or participates in the management thereof.

Pursuant to the Governing Documents of the Funds, fees, compensation, expenses and any attributable overhead associated with Operating Partner Services (collectively, “Operations Expenses”) are paid and/or reimbursed by Lone Star, Hudson, portfolio companies and/or the Funds. Operations Expenses (including Operations Expenses incurred in connection with an Operating Partner that is a former employee of Lone Star or its affiliates) will be determined at the discretion of a Fund’s General Partner, taking into account the particular Operating Partner Services, and may include reimbursement of an allocable portion of an affiliated Operating Partner’s compensation (including, without limitation, salary, bonus, payroll taxes and benefits) (including vacation time and sick leave) and overhead (including, without limitation, rent, property taxes and utilities allocable to the Operating Partner’s workspaces), an annual fee or retainer, a discretionary bonus, a success fee (in the form of cash or equity) based on predetermined targets or milestones, a profits or equity interest in the Funds and/or portfolio company or other incentive-based compensation to the Operating Partner, and will generally be determined according to one or more methods, including the value of the time (including an allocation for overhead and other fixed costs) of the Operating Partner, a percentage of the value of the portfolio company, the invested capital exposed to such portfolio company, amounts charged by other providers for comparable services and/or a percentage of cash flows from such companies. The determination of whether a service is an Operating Partner Service will be made by a Fund’s General Partner, in its good faith discretion. Operations Expenses will, from time to time, also be incurred in respect of portfolio companies prior to the closing of a Fund’s investment in such portfolio company. To the extent Operating Partner Services are provided for the benefit of a Fund without reference to a particular portfolio company, Operations Expenses incurred in connection with such Operating Partner Services are borne by the Fund and, indirectly, the investors in such Fund. In the event one or more Operating Partners (directly or indirectly) is providing Operating Partner Services with respect to more than one Fund, such Operations Expenses will be allocated among the applicable Funds as determined by Lone Star, consistent with the Governing Documents of the applicable Funds and as described above. To the extent any such Operations Expenses are payable to any unaffiliated or disaffiliated Operating Partner, as determined

by the relevant General Partner(s) in its sole discretion, by the Funds or a portfolio company, such Operations Expenses will be retained by such Operating Partner and will not offset the Management Fee payable to the Funds and will not benefit a Fund or its investors, even if the Operations Expenses paid by a Fund or a portfolio company have the effect of reducing any retainers or minimum amounts otherwise payable by Lone Star. The determination of whether an Operations Expense is paid by a portfolio company, a Fund, or Lone Star will be made by Lone Star in its sole discretion. Over time, certain former employees of Lone Star (including senior personnel) may transition to an Operating Partner role, which will shift the burden of compensating such persons from Lone Star to the applicable Fund and/or its portfolio companies and any fees received by such persons will not reduce the Management Fee payable to the Fund.

- 16. Use of Subscription Lines and other Borrowings.** The General Partners have used and may use general credit facilities for working capital, including to fund Management Fees and other partnership expenses, to finance investments, to bridge capital calls, to provide interim bridge financing and capital, and for other permitted purposes. Certain borrowings under the general credit facilities must be repaid or replaced with alternative financing or funding within the time periods specified in a Fund's Governing Documents. The use of a general facility will delay calling capital from investors, which increases the internal rate of return ("IRR") of an investment and reduces the potential preferred return. It also increases the probability of the Fund making a Profits Interest payment to a General Partner. In addition, the existence of the general facility (which is secured in part by a pledge of the partners' capital commitments) may impair a limited partner's ability to transfer its interest in a Fund as a result of restrictions imposed on such transfers by the general facility lender. The Funds will pay interest expenses and other expenses incurred in relation to the general credit facilities.

The General Partner has incentives to engage in fund-level borrowing notwithstanding the expense and risks that accompany it. For example, certain performance metrics, such as certain net IRR and capital return multiples, are presented in the Funds' periodic reports and marketing materials. These performance metrics measure investors' actual cash outlays to, and returns from, the Funds and thus depend on the amount and timing of investor capital contributions to the Funds and the Funds' distributions to investors. To the extent the Funds use borrowed funds in advance or in lieu of calling capital, investors make correspondingly later or smaller capital contributions. As a result, the use of borrowed funds generally results in the presentation of higher performance metrics than simply calling capital, even after accounting for the attendant interest expense.

Fund-level borrowing can also affect the preferred return that investors in a Fund must receive before the Fund's General Partner accrues Profits Interest, as well as the Profits Interest the General Partner receives, as preferred return and Profits Interest generally depend on the amount and timing of capital contributions and distributions of proceeds. In particular, the preferred return typically begins to accrue after capital contributions are made (regardless of when a Fund borrows, makes the relevant investment, or pays expenses) and ceases to

accrue upon return of such capital contributions. Using borrowing to shorten the period between calling and returning capital limits the amount of time the preferred return will accrue. Since a Fund generally does not pay preferred return on funds borrowed in advance or in lieu of calling capital, fund-level borrowing will therefore reduce the amount of preferred return to which a Fund's investors would otherwise be entitled had the Fund called capital in lieu of borrowing on the general facility, and thus could allow the Fund's General Partner to receive Profits Interest sooner than it would without borrowing. The General Partner therefore have an incentive to cause the Funds to borrow money for investments and expenses in larger amounts or over longer periods of time.

Borrowing by a Fund will generally be secured by capital commitments made by the limited partners to the Fund and/or by the Fund's assets. To the extent a Fund's general facility is secured in part by the commitments of the Fund's limited partners, each limited partner will be required, among other things, to agree to certain provisions in the Fund's Governing Documents and may be required to execute an acknowledgement letter to the credit provider confirming its commitment to the Fund and agreeing to various other matters required by the credit provider, including agreeing to honor capital calls made by such credit provider, providing financial information (including in some cases evidence of creditworthiness or a guaranty of creditworthiness), confirming that any claims that they may have against the Fund or its General Partner shall be subordinate to all payments due under the general facility, and agreeing not to pledge, collaterally assign, grant a security interest in or a lien on or otherwise encumber its interest as a limited partner.

**17. Conflicts Related to the Withholding of Certain Information.** The Governing Documents of certain Funds generally permit each such Fund's General Partner to withhold information from certain limited partners or investors in such Fund in certain circumstances. For instance, information will at times be withheld from limited partners that are subject to FOIA or similar requirements, or from limited partners under circumstances where the General Partner believes the information, if disclosed, could be harmful to the Fund, its affiliates and/or their trade secret information. The General Partner will also from time to time elect to withhold certain information from such limited partners for reasons relating to the General Partner's public reputation or overall business strategy, despite the potential benefits to such limited partners of receiving such information.

**18. Conflicts Related to the Interpretation of Governing Documents and Other Legal Requirements.** The Governing Documents of each Fund and related documents are detailed agreements that establish complex arrangements among the limited partners, the Fund, the General Partner and other entities and individuals. Questions arise under these agreements regarding the parties' rights and obligations in certain situations, some of which will not have been contemplated at the time of the agreements' drafting and execution. In these instances, the operative provisions of the agreements, if any, may be broad, general, ambiguous or conflicting, and may permit more than one reasonable interpretation. At times there will not



be a provision directly applicable to the situation. While the Fund, the General Partner, and/or Lone Star will construe the relevant agreements in good faith and in a manner consistent with their legal obligations (and, when appropriate, in consultation with external legal counsel), the interpretations we adopt will not necessarily be, and need not be, the interpretations that are the most favorable to the Funds or their investors.

**19. Management of the Funds.** The right to manage, control and conduct the business and affairs of a Fund is vested solely in a Fund's General Partner. Pursuant to the Funds' Governing Documents, LSGA has been engaged to provide certain investment advisory services to the Funds. Lone Star advises a number of Funds that have investment objectives similar to each other. Lone Star expects that it or its personnel will in the future establish one or more additional investment funds with investment objectives substantially similar to, or different (and potentially conflicting) from, those of the current Funds. The ultimate success of the Funds is dependent on the Principals and the officers and employees of Lone Star. Such persons will devote such time as the applicable General Partner, in its sole discretion, deems necessary to carry out the operations of each of the Funds effectively. However, the Principals of one Fund may have an obligation to devote significant time working on matters related to one or more other Funds or other LS Affiliated Clients, including funds raised in the future or to proprietary investments made by Lone Star and/or its principals of the type made by a Fund. Conflicts of interest arise in allocating time, services or functions of Principals and the officers and employees of Lone Star. Such persons have an incentive to allocate more time, services or functions to Funds from which such personnel derive a higher economic benefit and/or better-performing Funds. Lone Star personnel may also work on other projects, serve on other committees and source potential investments for and otherwise assist the investment programs of LS Affiliated Clients and their investments. Time spent on these other initiatives diverts attention from the activities of the Funds, which could negatively impact a Fund and its limited partners. In addition, should any of the Principals become incapacitated or in some way cease to participate in a Fund, its performance could be adversely affected. Furthermore, Lone Star and certain Lone Star personnel derive financial benefit from these other activities, including fees and performance-based compensation. These and other factors create conflicts of interest in the allocation of time by Lone Star personnel. Subject to the Governing Documents of each Fund, Lone Star's determination of the amount of time necessary to conduct a Fund's activities will be conclusive, and limited partners of such Funds will rely on Lone Star's judgment in this regard. Lone Star may from time to time modify its investment process and procedures, including by changing the number and composition of a Fund's investment committee or other Lone Star committees.

Investment decisions are initially made by a Fund's investment committee. Discussion and debate among them are generally helpful to the investment decision making process but excessive disagreement could adversely impact a Fund. If an investment is approved by a

Fund's investment committee, it is then presented to the Fund's General Partner for final approval.

**20. Side Letters; Advisory Committee Rights.** The General Partner of each Fund has entered into side letters with certain limited partners in connection with their admission to the Fund without the approval of any other limited partner, which has the effect of establishing rights (other than as set forth in the Funds' Governing Documents as a general matter) under or altering or supplementing the terms of the Governing Documents with respect to such limited partners in a manner more favorable to such limited partners than those applicable to other limited partners. Such rights or terms in any such side letter or other similar agreement may include, without limitation, (i) excuse or exclusion rights applicable to particular investments (which, if triggered, will increase the percentage interest (as calculated pursuant to the Governing Documents) of the other limited partners in, and contribution obligations of the other limited partners with respect to, such investments and dilute the percentage interest of the other limited partners in, and decrease the contribution obligations of the other limited partners with respect to, subsequent investments, while simultaneously increasing the percentage interest and contribution obligations of any prior-excused or prior-excluded limited partners, with respect to subsequent investments), (ii) the General Partner's agreement to extend information rights or reporting to such limited partner, including, without limitation, to accommodate special regulatory or other circumstances of such limited partner, (iii) waiver or modification of certain confidentiality obligations and/or documentation that might be requested by the General Partner for the benefit of lenders or other persons extending credit to or arranging financing for the Fund, (iv) consent of the General Partner to certain transfers by such limited partner or other exercises by the General Partner of its discretionary authority under the Governing Documents for the benefit of such limited partner, (v) withdrawal rights (subject to the consent of the General Partner) due to legal, regulatory or policy matters, including matters related to political contributions, gifts and other such policies, which may materially increase the percentage interest of other limited partners in, and their contribution obligations for, future investments and expenses, and reduce the overall size of the Fund, (vi) other rights or terms necessary in light of particular legal, regulatory or internal policy or procedure characteristics of a limited partner, (vii) matters regarding such limited partner's rights and priorities to participate in co-investment opportunities, (viii) additional obligations and restrictions of the Fund with respect to the structuring of any investment (including with respect to Special Investment Vehicles and Intermediate Entities), (ix) waivers, or modifications, to venue, submission to jurisdiction, choice of law, agreement to arbitration, conflicts waivers or other provisions of the Governing Documents, (x) sovereign immunity or other provisions applicable to certain governmental, sovereign, or other similar types of limited partners (which could, for example, limit the ability to initiate or maintain legal proceedings against such limited partners in certain jurisdictions), (xi) rights to consent to certain actions otherwise within the discretion of the General Partner, (xii) economic rights, or (xiii) other matters as agreed with the General Partner. Such side

letters may permit such limited partners to take actions on the basis of information not available to other limited partners that do not have the benefit of such agreements. Any rights or terms established in a side letter with a limited partner will govern solely with respect to such limited partner (and any of such limited partner's assignees or transferees if so specified in the side letter) and will not require the approval of any other limited partner notwithstanding any other provision of the Governing Documents. As a general matter, limited partners have no recourse against a Fund, its General Partner, Lone Star or any of their respective affiliates in the event that certain limited partners have received additional and/or different rights and/or terms as a result of such other limited partners' side letters.

Each Fund has established an Advisory Committee, consisting of representatives of investors. A conflict of interest exists when some, but not all limited partners are permitted to designate a member to the Advisory Committee. The Advisory Committee may also have the ability to approve conflicts of interest with respect to Lone Star and the applicable Fund, which could be disadvantageous to the investors, including those investors who do not designate a member to the Advisory Committee. Representatives of the Advisory Committee from time to time have various business and other relationships with Lone Star and its partners, employees and affiliates. These relationships may influence the decisions made by such members of the Advisory Committee.

In addition, a member of one Fund's Advisory Committee may from time to time also be a member of another Fund's Advisory Committee. In such instances, a conflict of interest exists because the Funds on which such overlapping Advisory Committee members serve may have conflicting interests, and such Advisory Committee members may be requested to provide their consent with respect to such conflicts of interest and will not recuse themselves from any such vote. Additionally, an Advisory Committee member may consider its own interests above those of the applicable Fund or another investor in the Fund.

**21. Gifts and Entertainment and Other Benefits.** The gifts and entertainment policy of LSGA requires the approval and/or reporting of the receipt or provision of certain business gifts and entertainment, including meals and hospitality, by employees of LSGA and members of their households. Nonetheless, these policies do not prohibit the Principals or other employees, officers, or directors of LSGA, or other individuals acting on behalf of a Fund from accepting gifts or entertainment from current or potential counterparties, including brokers and other providers of goods and services to a Fund. The receipt of such gifts and entertainment could cause employees of LSGA to view relevant counterparties more favorably than others and, therefore, will give rise to conflicts of interest related to the operation of a Fund and its investment activities. Lone Star, its affiliates and its personnel and related parties will receive intangible and other benefits, discounts and perquisites arising or resulting from their activities on behalf of the Funds, which will not offset or reduce Management Fees or otherwise be shared with the Funds, Fund Entities,

or their investors. For example, airline travel or hotel stays will result in “miles” or “points” or credit in loyalty or status programs, and such benefits will, whether or not *de minimis* or difficult to value, inure exclusively to the benefit of Lone Star, Hudson, their affiliates or their personnel or related parties receiving them, even though the cost of the underlying service is borne by a Fund as partnership expenses or by its Fund Entities. For certain Funds, limited partners consent to the existence of these arrangements and benefits.

- 22. Insurance.** The Funds will purchase or bear premiums, fees, costs and expenses (including any expenses or fees of insurance brokers) with respect to general partnership liability insurance insuring the Funds and the Fund Entities, as well as the General Partners and persons entitled to indemnification from the Funds, for management liability and professional liability in connection with the activities of the Funds. The general partnership liability insurance policies cover one or more of the Funds and LS Affiliated Clients (and their respective Fund Entities), their General Partners, Lone Star, Hudson and their affiliates (including their respective directors, officers, employees, agents and representatives, and persons entitled to indemnification). Hudson, in consultation with Lone Star, will make judgments about the allocation of premiums, fees, costs and expenses for said policies among one or more of the Funds, LS Affiliated Clients, the General Partner, Lone Star, Hudson and their affiliates on a fair and reasonable basis, in its sole discretion. Additionally, insurance coverage limits may be exhausted in paying claims that are unrelated to one or more Funds and therefore insurance proceeds may not be available to pay claims related to those Funds.

The Funds and LS Affiliated Clients (and their respective investments) may jointly maintain asset level insurance programs to take advantage of improved coverage and unit pricing that are available to insurance programs with greater economies of scale. Additionally, the Funds and LS Affiliated Clients (and their respective Fund Entities) may jointly contribute to a pool of funds that may be used to pay losses that are subject to the deductibles or self-insured retentions on any group insurance policies), which contributions may similarly be allocated in accordance with the exposure information that is customarily used to underwrite the overarching insurance program, including but not limited to the relative values of the respective assets that are insured under property insurance policies (or other factors that Lone Star may reasonably determine). In respect of such insurance arrangements, Lone Star may make corrective allocations from time to time should it determine subsequently that such adjustments are necessary or advisable based on changes to exposure information or other information presented to Lone Star after the initial allocation.

- 23. Use of Investment Data and Operating Company Data.** Lone Star, Hudson, and their affiliates receive various kinds of investment information and operating company data and information (including information they will receive from investments reviewed by and purchased by the Funds), including without limitation data and information relating to business operations, trends, budgets, customers and other metrics. As a result, Lone Star

may be better able to anticipate macroeconomic and other trends, and otherwise develop investment themes or strategies, as a result of information learned from a particular investment transaction or portfolio company. In furtherance of the foregoing, Lone Star and/or Hudson have received and shared information and expect to continue doing so, and they may in the future enter into information sharing and use arrangements with each other and with portfolio companies. Lone Star believes that access to this information furthers the interests of the Funds by providing opportunities for operational improvements across the Funds' investments and in connection with the Funds' investment management activities. Lone Star, however, has and expects to utilize such information outside of the Funds' activities in a manner that may provide a material benefit to other LS Affiliated Clients, Lone Star or Hudson or their affiliates without compensating or otherwise benefiting the Funds. This sharing and use of such data and other information presents potential conflicts of interest. Lone Star has an incentive to pursue certain investments based on their data and information and/or the ability to utilize such information in a manner that benefits persons other than the Funds, such as the LS Affiliated Clients, Lone Star, Hudson or their affiliates. Any corresponding/resulting benefits received by the LS Affiliated Clients, Lone Star or Hudson or their affiliates will not be subject to the Management Fee offset provisions or otherwise shared with the limited partners.

- 24. Continuation Transactions.** From time to time Lone Star may determine that it is in the best interest of a Fund holding an investment (the "selling Fund") to transact with another Fund (the "purchasing Fund," which could be an existing Fund or a newly-formed Fund) in order to provide the selling Fund's investors with an option to either: (i) receive cash proceeds from the selling Fund's sale or transfer of such investment and/or (ii) "roll" (i.e., retain) their interest in such investment by investing in the purchasing Fund. These types of transactions are often referred to as "continuation transactions." In connection with such continuation transactions, Lone Star may require the investors in the purchasing Fund to make an additional investment in a Fund or commit to invest a future Fund. In addition to those conflicts of interest described above for transactions between related Funds, conflicts of interest arise in these continuation transactions because (i) Lone Star and its affiliates may charge investors in the purchasing Fund a Management Fee and Profits Interest (which economics could be different than the selling Fund) and the transactions have the potential to result in the receipt of additional Management Fees and Profits Interest by Lone Star and its affiliates; (ii) Lone Star and its personnel are expected to have the ability to make material investments in the purchasing Fund, which may cause them to take actions that benefit the purchasing Fund; (iii) Lone Star will be actively involved in negotiating the terms of the sale on behalf of the selling Fund, on the one hand, and the purchasing Fund, on the other hand (including allocation of expenses incurred in the transaction); and/or (iv) because Lone Star could require an investor in the purchasing Fund to make an investment in a Fund or a commitment to invest in a future Fund, which (a) incentivizes Lone Star to favor such investors because of the potential for Lone Star and its affiliates to earn additional Management Fees and/or Profits Interest with respect to any such investment or

commitment to invest, and (b) could affect the price such investors offer to purchase the asset from the selling Fund. Additionally, conflicts of interest arise in continuation transactions as a result of the allocation of fees and expenses, because fees and expenses will be incurred in connection with the potential transaction, and Lone Star might determine to allocate such fees and expenses solely to selling investors, including in the situation where a continuation transaction is not ultimately consummated, and not to the “rolling investors” or “new investors” in the purchasing Fund, or vice versa.

To the extent not addressed in a Fund’s Governing Documents, Lone Star will address conflicts of interest that arise in connection with continuation transactions in accordance with the Contractual Investment Guidelines of the Funds, as well as our internal allocation procedures and principles.

## **Item 12: Brokerage Practices**

### **A. Counterparty Selection**

We seek to trade assets on behalf of 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 the Funds’ assets are not market-traded instruments and even in the limited circumstances where a Fund invests in market-traded instruments, often these are unique assets that are only available from one or a limited number of counterparties (i.e., there is no meaningful market). The investment counterparty is typically chosen as part of a Fund’s investment committee’s and General Partner’s approval of the investment, and Hudson then assists in implementing the investment decision. Therefore, the traditional best execution concepts that apply to market-traded instruments do not easily apply to the majority of the assets that we trade on behalf of Clients.

In those cases where LSGA selects broker-dealers or other counterparties for transactions in market-traded instruments on behalf of its Clients, we will do so consistent with our duty of best execution. LSGA defines “best execution” as seeking to obtain the best terms for its clients under the circumstances in existence at the time of a transaction and taking into account the overall objective for the investment to which the transaction relates. It is our policy to seek to achieve the best qualitative execution under the circumstances. Best execution does not require LSGA 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 our Clients typically invest in assets that may be purchased from only one or a small number of counterparties, we 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, we 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 Lone Star with a transaction that meets the investment objectives of the relevant Client for which the transaction is executed, including a counterparty's ability to transact in unique or difficult-to-trade assets that may be traded by a limited number of counterparties;
- the best price possible under the particular circumstances of the transaction (for example, for a sale transaction, we may determine that the best price may be obtained through a competitive auction process open to counterparties or, alternatively, we 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 we believe 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, Lone Star may consider any breakage costs related to a financing and the willingness of a counterparty to waive such breakage costs);
- the counterparty's credit terms prior to requiring the posting of margin;
- the counterparty's ability and willingness to commit the capital needed to execute the transaction;
- the ability and history of the counterparty in maintaining the confidentiality of transactions;
- the ability of the counterparty to execute quickly and the ability to commit capital or financing 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.

#### **B. Research, Other Soft Dollar Arrangements and Investor Referrals**

We receive proprietary research and other services from certain broker-dealers, which we may use to service one or more of the Funds. We do not, however, cause the Funds to pay increased commissions in order to obtain the research and services provided by broker-dealers, and we do not consider the provision of such research and services in the recommendation or selection of broker-dealers. We may, however, as discussed above, select a broker-dealer based on its ability to source investments for the Funds. We do not enter into commission sharing

agreements with broker-dealers relating to transactions executed for the benefit of the Funds, or participate in directed brokerage arrangements. Further, we will not accept directed brokerage instructions from the Funds or their underlying investors.

Further information regarding use of placement agents is discussed in Item 14 – “Client Referrals and Other Compensation.”

#### **C. Other Third Parties**

In addition to transactions with banks and broker-dealers, we may engage other service providers on behalf of the Funds 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 broker-dealers, but may also be selected based on the geographic location of the assets and the service provider’s experience with the type of assets involved.

#### **D. Aggregation of Client Transactions**

We generally do not aggregate orders for the Funds, although Lone Star does aggregate the transactions of a Fund among its U.S./Bermuda Funds (if applicable), Co-Investment Vehicles and Employee Co-Investment Vehicle(s).

#### **E. Trade Errors**

Although we seek to exercise diligence and care when trading assets on behalf of the Funds, errors may occur during the trading process. We attempt to minimize trade errors by promptly reconciling confirmations with trade tickets or similar transaction documentation. To the extent that a trade error occurs, we work 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 Fund(s) will retain the gain. As described in the applicable Fund’s Governing Documents, any loss caused by a trade error will be borne by the affected Fund(s) unless the error is the result of bad faith, gross negligence or willful misconduct by LSGA. We do not use commitments of future brokerage business to compensate any broker-dealer for absorbing the cost of a trade error. However, to the extent we can demonstrate that a counterparty was partly or entirely responsible for a trade error, we may ask that counterparty to bear part or all of the cost of the error.

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

The Clients’ investment portfolios are generally private, illiquid and long- or medium-term in nature; accordingly, our review of them is not directed toward a short-term decision to dispose of securities. However, we generally maintain ongoing strategic oversight with regard to Client investments. The Lone Star originations and Hudson asset management teams meet periodically with Lone Star’s executive leadership and others to update them on investment performance and related matters.



We generally do not provide formal written reports to any Client unless specifically requested by the relevant General Partner. We report to investors in a Client in accordance with the applicable Governing Documents.

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

We do not receive economic benefits from a non-client for providing investment advice or other advisory services to its clients. Any Additional Fees will be offset against Management Fees or expenses payable by the affected Fund(s) to LSGA.

Lone Star does not have advisory Clients other than the Funds and certain related entities. Neither Lone Star nor its related persons directly or indirectly compensate any third party for Client referrals. We from time to time enter into placement agent arrangements with unaffiliated third parties regarding the solicitation of investors to the Funds for compensation. LSGA has entered into placement agent agreements for certain Funds with respect to solicitation of investors in certain regions or globally, and each such placement agent is paid a fee that is typically based on the amount of capital committed by each investor solicited by the placement agent and accepted by the General Partner of the applicable Fund. All fees paid to the placement agent are ultimately the responsibility of the General Partner of the applicable Fund, as governed by the provisions of the applicable Fund's Governing Documents but the General Partners may cause the applicable Fund to pay placement fees with such payments being offset on a dollar-for-dollar basis against the Management Fees. In addition, in certain circumstances, the Funds will be obligated to indemnify, directly or indirectly, Lone Star and/or any placement agent and such indemnification will not offset Management Fees.

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

Not applicable.

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

We provide investment advisory services involving investment discretion to the Funds. The right to manage, control and conduct the business and affairs of a Fund is vested solely in the Fund's General Partner. As such, each General Partner may impose restrictions on LSGA, although it is not anticipated that a General Partner would do so.

Pursuant to the Advisory Agreement of each Fund and certain Co-Investment Vehicles, and subject to the direction and control of the General Partner of such Fund or Co-Investment Vehicle, we generally perform certain origination, strategic oversight and investment advice, consulting (for certain Funds), and certain investor relations services for each such Fund and Co-Investment Vehicle in accordance with the terms and conditions of the Advisory Agreement and Governing Documents of such Fund or Co-Investment Vehicle. Some Co-Investment Vehicles are established to invest alongside one or more Funds in one or more particular investment opportunities. Because a Co-

Investment Vehicle is typically contractually required, as a condition of its investment, to exit its investment in the particular investment opportunity at the same time and on the same terms as the applicable Fund that also is invested in the particular investment opportunity, we generally will not have any discretion to invest the assets of such Co-Investment Vehicles independently of such contractual requirements.

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

Lone Star has established written policies and procedures setting forth the principles and procedures by which Lone Star votes or gives consent with respect to securities owned by the Funds for which Lone Star exercises voting authority (“Vote(s)”). In executing Votes, Lone Star seeks to maximize the economic value of relevant Funds’ holdings, taking into account the Funds’ investment horizon, the relevant Governing Documents, and any other facts and circumstances Lone Star determines to be appropriate at the time of the Votes. Funds generally cannot direct Lone Star’s Vote.

It is Lone Star’s general policy to vote or give consent on all matters presented to security holders in any Vote. But Lone Star reserves the right to abstain on any particular Vote or otherwise withhold its consent on any matter if Lone Star determines that the costs associated with the Vote outweigh the benefits to the relevant Funds or if the circumstances make such an abstention or withholding otherwise advisable and in the best interests of the relevant Funds.

Initially, all Votes are referred to Hudson’s Legal Department. Hudson’s Legal Department is responsible for executing Votes. In so doing, Hudson’s Legal Department will consult with Lone Star’s Legal Department and may rely on available information and research.

Hudson’s and Lone Star’s Legal Departments have the responsibility to monitor Votes for potential conflicts of interest, regardless of whether such conflicts are actual or perceived. Upon identifying a potential conflict of interest, the Lone Star and Hudson Legal Departments will refer the Vote for review by the Lone Star Chief Compliance Officer, including a determination as to whether Lone Star, Hudson, or any investment professional or other person recommending how to Vote has a potential conflict of interest. Lone Star’s Chief Compliance Officer, in consultation with Lone Star’s Legal Department, will use his best judgment to ensure that the potential conflict is resolved based on an independent assessment of the best interests of the Funds.

Copies of relevant Vote-related documentation, identifying how Votes were voted in connection with a Fund and copies of Vote-related policies are available to any Client or prospective client upon written request to Lone Star’s Chief Compliance Officer.

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

LSGA does not require or solicit prepayment of fees. LSGA has never filed for bankruptcy, and we are not aware of any financial condition that is expected to adversely affect or is reasonably likely to impair LSGA’s ability to meet contractual obligations to Clients.