

**INVESTMENT ADVISER BROCHURE
PART 2A OF FORM ADV**

PROSPECT PARTNERS, L.L.C.

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This Investment Adviser Brochure (“Brochure”) provides information about the qualifications and business practices of Prospect Partners, L.L.C. (“Prospect Partners”). If you have any questions about the contents of this Brochure, please contact us at (312) 782-7400. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state authority.

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

Additional information regarding Prospect Partners is also available on the SEC’s website at www.adviserinfo.sec.gov.

MATERIAL CHANGES

Prospect Partners, L.L.C. (“**Prospect Partners**”) is a newly registered investment adviser and this is its initial Brochure. For future Brochures, this page will describe any material changes made since the previous Brochure.

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ADVISORY BUSINESS

Prospect Partners, L.L.C. (“**Prospect Partners**”), the registered investment adviser, is a Delaware limited liability company. Prospect Partners commenced operations in May, 1998. The following investment advisers are affiliated with Prospect Partners:

- Prospect Partners Management Group, L.P.
- Prospect Partners Management Group II, L.P.
- Prospect Partners Management Group III, L.P.

(each, a “**General Partner**” and together with Prospect Partners and their affiliated entities, “**Prospect**”)

Each General Partner listed above is registered under the Advisers Act pursuant to Prospect Partners’ registration in accordance with SEC guidance. This Brochure also describes the business practices of each General Partner, which operate as a single advisory business together with Prospect Partners.

Prospect provides discretionary investment advisory services to their clients, which consist of private investment-related funds. Prospect’s clients include the following (each, a “**Fund**,” and together with any future private investment fund to which Prospect provides investment advisory services, “**Funds**”):

- Prospect Partners, L.P. (“**Fund I**”)
- Prospect Partners II, L.P. (“**Fund II**”)
- Prospect Partners III, L.P. (“**Fund III**”)

Interests in the Funds are privately offered to qualified investors in the United States and elsewhere. The Funds are expected to invest through negotiated transactions in operating companies. Prospect’s investment advisory services to Funds consist of identifying and evaluating investment opportunities, negotiating the terms of investments, managing and monitoring investments and ultimately selling such investments. Investments are made predominantly in non-public companies, although investments in public companies are permitted in certain instances. From time to time, where such investments consist of portfolio companies, the senior principals or other personnel of Prospect may serve on such portfolio companies’ respective boards of directors or otherwise act to influence control over management of portfolio companies held by Funds.

Prospect’s advisory services for each Fund are detailed in the applicable offering memorandum (each, a “**Memorandum**”) and limited partnership agreements (each, a “**Limited Partnership Agreement**”) and together with the Memorandum, the “**Governing Documents**”) and are further described below under “Methods of Analysis, Investment Strategies and Risk of Loss.” Investors in Funds participate in the overall investment program for the applicable Fund, but may be excused from a particular investment due to legal, regulatory or other applicable

constraints. The Funds or Prospect may enter into side letters or similar agreements with certain investors that have the effect of establishing rights under, or altering or supplementing a Fund's Limited Partnership Agreement, including provisions relating to the Management Fee (as defined below) and distributions.

As of September 30, 2011, Prospect managed \$362,500,000 in client assets on a discretionary basis. Prospect Partners is principally owned by Richard C. Tuttle and Louis W. Kenter.

FEES AND COMPENSATION

In general, each General Partner receives a management fee and a carried interest in connection with advisory services. The General Partners or other Prospect entities or affiliates receive additional compensation in connection with management and other services performed for portfolio companies (*e.g.*, monitoring and other fees) of Funds and such additional compensation may offset in whole or in part the Management Fees (as defined below) otherwise payable to Prospect, as described in the Governing Documents. Investors in the Funds also bear certain fund expenses, as described below.

Management Fees

During a Fund's commitment period, the Fund generally will pay the relevant General Partner an annual management fee (the "**Management Fee**"), payable quarterly in advance, equal to 2.5% of aggregate commitments. Generally, commencing with the first Management Fee due date after the expiration of the commitment period or earlier upon the occurrence of certain events as set forth in the applicable Governing Documents until the tenth anniversary of the date set forth in the applicable Limited Partnership Agreement, the Management Fee will generally equal 2.5% of (i) the aggregate funded commitments, less (ii) an amount equal to the cost basis of investments that have been disposed of or completely written off (such amount of (i) less (ii), "**Remaining Capital**"). Thereafter, the Management Fee generally will be equal to the lesser of 1.5% of aggregate commitments and 2.5% of Remaining Capital. In addition, the Management Fee generally will be reduced by all or a portion of any transaction fees, directors' fees, financial consulting fees or advisory fees paid to, or earned by, the relevant General Partner or its affiliate with respect to any Fund investment and any break-up fees with respect to Fund transactions not completed that are paid to the relevant General Partner. The General Partners may elect to waive a portion of the Management Fee in exchange for a reduction in the General Partner's capital contribution obligation and/or a corresponding interest in Fund profits.

Generally, the Management Fee for a Fund will commence as of the date such Fund went effective based on aggregate commitments, regardless of when a Limited Partner is actually admitted. The Management Fee will be paid out of current income and disposition proceeds of the Fund and, in the General Partner's discretion, from drawdowns that will reduce unfunded commitments.

Carried Interest

Each General Partner generally will be entitled to a carried interest with respect to the relevant Fund equal to 20% of all realized profits, subject to a specified preferred return and a

related General Partner catch-up provision, as more fully described in the Governing Documents. The carried interest distributed to a General Partner is subject to a potential giveback at the end of the life of a Fund if the relevant General Partner has received excess cumulative distributions.

Other Information

The Funds generally invest on a long-term basis. Accordingly, investment advisory and other fees are expected to be paid, except as otherwise described in the Limited Partnership Agreement, over the term of the Funds and investors generally are not permitted to withdraw or redeem interests in the Funds.

Principals or other employees of Prospect may receive a portion of the Management Fee, carried interest or other compensation received by the General Partner.

In addition to the Management Fee and carried interest payable to the General Partners, each Fund bears certain expenses. Each Fund generally will pay all other costs and expenses of the Fund that are not reimbursed by portfolio companies, generally including legal, auditing, consulting, financing, accounting and custodian fees and expenses; expenses associated with the Fund's financial statements, tax returns and Schedule K-1s; out-of-pocket expenses incurred in connection with transactions not consummated; expenses of the advisory board and annual meetings of the limited partners; insurance; other expenses associated with the acquisition, holding and disposition of its investments, including extraordinary expenses (such as litigation, if any); and any taxes, fees or other governmental charges levied against the Fund. Brokerage fees may be incurred in accordance with the practices set forth in "Brokerage Practices."

PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

As described under "Fees and Compensation," each General Partner receives a carried interest allocation on certain realized profits in the Funds. A carried interest allocation represents an investment adviser's compensation based on a percentage of net profits of the funds it manages. Prospect does not advise Funds not subject to a carried interest. See "Methods of Analysis, Investment Strategies and Risk of Loss," for further discussion of conflicts of interest.

TYPES OF CLIENTS

Prospect provides investment advice to Funds. Funds may include investment partnerships or other investment entities formed under domestic or foreign laws and operated as exempt investment pools under the Investment Company Act of 1940, as amended. The investors participating in Funds may include individuals, banks or thrift institutions, other investment entities, pension and profit-sharing plans, trusts, estates or charitable organizations or other corporations or business entities and may include, directly or indirectly, principals or other employees of Prospect and its affiliates.

The Funds generally have minimum investment amounts between \$1 million and \$10 million for third-party investors. Generally, investors must be "accredited investors" as defined under Regulation D of the Securities Act of 1933, as amended, and may also be required to be either "qualified purchasers" or "knowledgeable employees" as defined under the Investment

Company Act of 1940, as amended. The General Partners may waive such minimum investment amounts and qualification requirements.

METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

General

Each active Fund is principally focused on management-led leveraged buyouts and recapitalizations of smaller lower middle-market companies.

The following is a summary of the investment strategies and methods of analysis generally employed by Prospect on behalf of the Funds. There can be no assurance that Prospect will achieve the investment objectives of the Funds and a loss of investment is possible.

Investment and Operating Strategy

Prospect seeks smaller lower middle-market companies operating in a niche. Within this diverse marketplace, Prospect partners with management teams to acquire and to seek to build small niche leaders with revenues typically between \$10 million and \$75 million. In addition, for the active Funds, Prospect may pursue acquisitions of add-on companies with as little as \$2 million in revenue.

Generally, Prospect follows the below criteria when evaluating potential investments:

Types of Companies. Prospect seeks to partner with management teams to acquire and help build companies that occupy the smaller end of the lower middle-market. Prospect focuses on a market segment comprised of companies with revenues between \$10 million and \$75 million and EBITDA up to \$8 million at the time of a Fund's investment.

Prospect generally seeks to invest in smaller companies in a broad range of industries that it believes have growth potential. Prospect is also interested in smaller companies in a leadership position that can be built upon, as well as in those that have the potential to become niche market leaders.

Prospect seeks companies that it believes:

- are small and growth-ready;
- are in a niche market;
- have a strong and defensible market position;
- are in any of a broad range of markets, including consumer, commercial, manufacturing, distribution, and specialty business and consumer services; and
- are located in the United States.

Types of Investments. Prospect seeks to build companies from a platform business.

Prospect's primary focus is on building growing companies through fostering internal growth and participating in selective add-on acquisitions. In conjunction with strong, industry-knowledgeable management teams seeking an experienced financial partner, Prospect also pursues under-managed companies and leveraged recapitalizations.

Prospect has focused its efforts on the following six types of private equity investments in which it has extensive expertise, interest, and success:

1. Leveraged Recapitalizations
2. Industry Consolidations
3. Corporate Orphans
4. Transitional Sales
5. Under-Managed Companies
6. Backing Independent Equity Sponsors and Outside Operating Executives

Types of Situations. Over the past 25 years, the principals of Prospect have worked closely with business owners to help transition their businesses to the next phase. Prospect understands how important a closely held business is to its owner. Prospect has found three common themes encompassing the types of situations an owner may be in when seeking to transition his or her company to the next phase. The three themes are as follows:

1. Owners Seeking Retirement & Liquidity
2. Owner-Managers Seeking Some Liquidity & Capital for Expansion
3. Manager-Led Acquisitions

Risks of Investment

The Funds and their investors bear the risk of loss that Prospect's investment strategy entails. Although the following risk factors are generally applicable to Prospect's Funds, investors should also refer to each Fund's Memorandum for risk factors specific to their Fund. The risks involved with Prospect's investment strategy and an investment in the Funds include, but are not limited to:

Business Risks. Each Fund's investment portfolio will consist primarily of securities issued by privately held companies, and operating results in a specified period will be difficult to predict. Such investments involve a high degree of business and financial risk that can result in substantial losses.

Future and Past Performance. The performance of Prospect's prior investments is not necessarily indicative of a Fund's future results. While Prospect intends for the Funds to make investments that have estimated returns commensurate with the risks undertaken, there can be no assurances that positive returns will be achieved. On any given investment, loss of principal is possible.

Investment in Junior Securities. The securities in which the Funds will invest may be among the most junior in a portfolio company's capital structure and, thus, subject to the greatest risk of loss. Generally, there will be no collateral to protect an investment once made.

Concentration of Investments. The Funds will participate in a limited number of investments and may seek to make several investments in one industry or one industry segment. As a result, a Fund's investment portfolio could become highly concentrated, and the performance of a few holdings may substantially affect its aggregate return. Furthermore, to the extent that the capital raised is less than the targeted amount, the Funds may invest in fewer portfolio companies and thus be less diversified.

Lack of Sufficient Investment Opportunities. It is possible that a Fund will never be fully invested if enough sufficiently attractive investments are not identified. The business of identifying and structuring private equity transactions is highly competitive and involves a high degree of uncertainty. However, limited partners will be required to pay annual Management Fees during the commitment period based on the entire amount of their commitments.

Illiquidity; Lack of Current Distributions. An investment in a Fund should be viewed as illiquid. It is uncertain as to when profits, if any, will be realized. Losses on unsuccessful investments may be realized before gains on successful investments are realized. The return of capital and the realization of gains, if any, generally will occur only upon the partial or complete disposition of an investment. While an investment may be sold at any time, it is not generally expected that this will occur for a number of years after the initial investment. Before such time, there may be no current return on the investment. Furthermore, the expenses of operating a Fund (including the annual Management Fee payable to the General Partner) may exceed its income, thereby requiring that the difference be paid from a Fund's capital.

Leveraged Investments. The Funds may make use of leverage by having a portfolio company incur debt to finance a portion of its investment in such portfolio company. Leverage generally magnifies both a Fund's opportunities for gain and its risk of loss from a particular investment. The cost and availability of leverage is highly dependent on the state of the broader credit markets, which state is difficult to accurately forecast. During times when credit markets are tight, it may be difficult to obtain or maintain the desired degree of leverage. Leverage often imposes restrictive financial and operating covenants on a company, in addition to the burden of debt service, and may impair its ability to finance future operations and capital needs. The leveraged capital structure of portfolio companies will increase the exposure of a Fund's investments to any deterioration in a company's condition or industry, competitive pressures, an adverse economic environment or rising interest rates and could accelerate and magnify declines in the value of the Fund's investments in the leveraged portfolio companies in a down market. In the event any portfolio company cannot generate adequate cash flow to meet debt service, a Fund may suffer a partial or total loss of capital invested in the portfolio company, which could adversely affect the returns of the Fund. Furthermore, should the credit markets be tight at the time the Fund determines that it is desirable to sell all or a part of a portfolio company, the Fund may not achieve an exit multiple or enterprise valuation consistent with its forecasts. Moreover, the companies in which the Fund will invest generally will not be rated by a credit rating agency.

Restricted Nature of Investment Positions. Generally, there will be no readily available market for a substantial number of the Funds' investments, and hence, most of the Funds' investments will be difficult to value. Certain investments may be distributed in kind to the partners.

Reliance on the General Partner and Portfolio Company Management. Control over the operation of the Funds will be vested entirely with the General Partner, and a Fund's future profitability will depend largely upon the business and investment acumen of Prospect. The loss of service of one or more of the principals of Prospect could have an adverse effect on the Fund's ability to realize its investment objectives. Limited partners generally have no right or power to take part in the management of a Fund, and as a result, the investment performance of a Fund will depend entirely on the actions of the General Partner. Although the General Partners will monitor the performance of each Fund investment, it will primarily be the responsibility of each portfolio company's management team to operate the portfolio company on a day-to-day basis.

Projections. Projected operating results of a company in which a Fund invests normally will be based primarily on financial projections prepared by each company's management. In all cases, projections are only estimates of future results that are based upon information received from the company and assumptions made at the time the projections are developed. There can be no assurance that the results set forth in the projections will be attained, and actual results may be significantly different from the projections. Also, general economic factors, which are not predictable, can have a material effect on the reliability of projections.

Need for Follow-On Investments. Following its initial investment in a given portfolio company, a Fund may decide to provide additional funds to such portfolio company or may have the opportunity to increase its investment in a successful portfolio company. There is no assurance that a Fund will make follow-on investments or that the Fund will have sufficient funds to make all or any of such investments. Any decision by a Fund not to make follow-on investments or its inability to make such investments may have a substantial negative effect on a portfolio company in need of such an investment. Additionally, such failure to make such investments may result in a lost opportunity for the Fund to increase its participation in a successful portfolio company or the dilution of the Fund's ownership in a portfolio company if a third party invests in such portfolio company.

Non-U.S. Investments. The Funds may invest in portfolio companies that are organized or have substantial sales or operations outside of the United States, its territories, and possessions. Such investments may be subject to certain additional risk due to, among other things, potentially unsettled points of applicable governing law, the risks associated with fluctuating currency exchange rates, capital repatriation regulations (as such regulations may be given effect during the term of a Fund), the application of complex U.S. and foreign tax rules to cross-border investments, possible imposition of foreign taxes on a Fund and/or the partners with respect to the Fund's income, and possible foreign tax return filing requirements for the Fund and/or the partners.

Additional risks include: (a) risks of economic dislocations in the host country; (b) less publicly available information; (c) less well-developed regulatory institutions; and (d) greater difficulty of enforcing legal rights in a non-U.S. jurisdiction. Moreover, non-U.S. companies

may not be subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable to those that apply to U.S. companies.

Director Liability. The Funds will often obtain the right to appoint a representative to the board of directors of the companies in which it invests. Serving on the board of directors of a portfolio company exposes a Fund's representatives, and ultimately such Fund, to potential liability. Not all portfolio companies may obtain insurance with respect to such liability, and the insurance that portfolio companies do obtain may be insufficient to adequately protect officers and directors from such liability.

Conflicts of Interest

During the commitment period of a Fund, Prospect pursues all appropriate investment opportunities exclusively through such Fund, subject to certain limited exceptions, as described in the applicable Limited Partnership Agreement. However, Prospect may manage other investment funds and investments similar to those in which the Funds invest, and may direct certain relevant investment opportunities to those investment funds and investments. Prospect's investment staff will continue to manage and monitor such investment funds and investments. Prospect's significant investment in a Fund, as well as Prospect's interest in the carried interest with respect to such Fund, operate to align, to some extent, the interest of Prospect with the interest of the partners of such Fund, although Prospect may have economic interests in such other investment funds and investments as well and receive Management Fees and carried interests relating to such interests. Such other investment funds and investments that Prospect may control may compete with a Fund or companies acquired by such Fund. Following the commitment period of a Fund, Prospect may, and likely will, focus its investment activities on other opportunities and areas unrelated to such Fund's investments.

From time to time, Prospect may be presented with investment opportunities that would be suitable for more than one of the Funds and/or other investment vehicles operated by advisory affiliates of Prospect. In determining which investment vehicles should participate in such investment opportunities, Prospect and its affiliates are subject to conflicts of interest among the investors in such investment vehicles. Prospect attempts to resolve such conflicts of interest in light of its obligations to investors in its Funds and the obligations owed by Prospect's advisory affiliates to investors in investment vehicles managed by them, and attempts to allocate investment opportunities among such entities in a fair and equitable manner. Where necessary, Prospect consults and receives consent to conflicts from an advisory board consisting of limited partners of the applicable Fund(s) and such other investment vehicles, if any.

Because each General Partner's carried interest is based on a percentage of net realized profits of a Fund, it may create an incentive for Prospect to cause such Fund to make riskier or more speculative investments than would otherwise be the case. However, Prospect believes that the carried interest does not create a conflict of interest with respect to the Funds and instead operates to align the interests of Prospect with that of the Funds.

Since the General Partners are permitted to retain certain fees (as described under "Fees and Compensation") in connection with Fund investments, Prospect could have a conflict of interest in connection with approving transactions. Prospect manages such conflicts by

offsetting the Management Fee by a specified percentage of such fees and by a General Partner's interest in the carried interest of a Fund. In addition, the potential conflict is further mitigated by the fact that such fees generally are negotiated with the applicable portfolio company's management team.

DISCIPLINARY INFORMATION

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

OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

As described under "Advisory Business" above, Prospect Partners is affiliated with the General Partners, which are registered with the SEC under the Advisers Act pursuant to Prospect Partners' registration in accordance with SEC guidance. The General Partners operate as a single advisory business together with Prospect Partners and serve as general partners of the Funds and other pooled vehicles and may share common owners, officers, partners, employees, consultants or persons occupying similar positions.

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

Prospect has adopted a Prospect Code of Ethics and Securities Trading Policy (the "Code"), which sets forth standards of conduct that are expected of Prospect principals and employees and addresses certain conflicts that may arise from personal securities trading. The Code requires Prospect personnel to:

- report their personal securities transactions;
- pre-clear any proposed purchase of any initial public offering or limited offering; and
- comply with policies and procedures reasonably designed to prevent the misuse of, or trading upon, material non-public information.

A copy of the Code will be provided to any investor or prospective investor upon request to the Prospect Chief Compliance Officer at (312) 782-7400. Personal securities transactions by Prospect personnel are required to be conducted in a manner that prioritizes the client's interests in client eligible investments.

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

Accordingly, should Prospect or any of its affiliated persons come into possession of material nonpublic or other confidential information with respect to any public company,

Prospect would be prohibited from communicating such information to clients, and Prospect will have no responsibility or liability for failing to disclose such information to clients as a result of following their policies and procedures designed to comply with applicable law. Similar restrictions may be applicable as a result of Prospect personnel serving as directors of public companies and may restrict trading on behalf of clients, including the Funds.

Principals and employees of Prospect and its affiliates may directly or indirectly own an interest in the Funds or certain co-investment vehicles. To the extent that co-investment vehicles exist, such vehicles may invest in one or more of the same portfolio companies as the Funds.

The Funds may invest together with other Funds advised by an affiliated adviser of Prospect in the manner set forth in the Limited Partnership Agreements. Prospect will allocate investment opportunities or advisory recommendations on a fair and equitable basis, consistent with its fiduciary obligations, the underlying documents for the relevant Fund and the Prospect investment allocation policy.

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

BROKERAGE PRACTICES

Prospect focuses on securities transactions of private companies and generally purchases and sells such companies through privately-negotiated transactions in which the services of a broker-dealer may be retained. However, Prospect may also distribute securities to investors in the Funds or sell such securities, including through using a broker-dealer, if a public trading market exists. Although Prospect does not intend to regularly engage in public securities transactions, to the extent it does so, it follows the brokerage practices described below.

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

Prospect has no duty or obligation to seek in advance competitive bidding for the most favorable commission rate applicable to any particular client transaction or to select any broker on the basis of its purported or “posted” commission rate, but will endeavor to be aware of the current level of the charges of eligible brokers and to reduce the expenses incurred for effecting client transactions to the extent consistent with the interests of such clients. Although Prospect generally seeks competitive commission rates, it may not necessarily pay the lowest commission or commission equivalent. Transactions may involve specialized services on the part of the

broker involved and thereby entail higher commissions or their equivalents than would be the case with other transactions requiring more routine services.

Consistent with Prospect seeking to obtain best execution, brokerage commissions on client transactions may be directed to brokers in recognition of research furnished by them, although Prospect generally does not make use of such services at the current time. As a general matter, research provided by these brokers would be used to service all of Prospect's Funds. However, each and every research service may not be used for the benefit of each and every Fund managed by Prospect, and brokerage commissions paid by one Fund may apply towards payment for research services that might not be used in the service of such Fund.

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

Prospect does not anticipate engaging in significant public securities transactions; however, to the extent that Prospect engages in any such transactions, orders for purchase or sale of securities placed first will be executed first, and within a reasonable amount of time of order receipt. To the extent that orders for any Funds are completed independently, Prospect may also purchase or sell the same securities or instruments for several Funds simultaneously. From time to time, Prospect may, but is not obligated to, purchase or sell securities for several client accounts at approximately the same time. Such orders may be combined or "batched" to facilitate obtaining best execution and/or to reduce brokerage commissions or other costs.

When an aggregated order is filled in its entirety, each participating Fund generally will receive the average price obtained on all such purchases or sales made during such trading day.

When an aggregate order is partially filled, the securities purchased or sold will normally be allocated on a *pro rata* basis to each Fund participating in such buy or sell order. Each Fund generally will receive the average price obtained on all such purchases or sales made during such trading day. Exceptions to *pro rata* allocations are permissible provided they are fair and equitable to the Funds over time.

REVIEW OF ACCOUNTS

The investments made by the Funds are generally private, illiquid and long-term in nature. Accordingly, the review process is not directed toward a short-term decision to dispose of securities. However, Prospect closely monitors companies in which the Funds invest, and the Chief Compliance Officer periodically checks to confirm that each Fund is managed in accordance with its stated objectives.

Prospect will generally provide to its limited partners (i) audited financial statements annually, (ii) unaudited financial statements for the first three quarters of each fiscal year, (iii) annual tax information necessary for each partner's U.S. tax returns, and (iv) descriptive investment information for each portfolio company periodically.

CLIENT REFERRALS AND OTHER COMPENSATION

Prospect and/or its affiliates may provide certain business or consulting services to companies in a Fund's portfolio and may receive compensation from these companies in connection with such services. As described in the Governing Documents, this compensation may, in certain circumstances, offset a portion of the Management Fees paid by a Fund. However, in other circumstances, these fees are in addition to the Management Fees. Prospect or certain of its affiliates may have the right to receive certain non-investment advisory fees in connection with the Funds' investments and portfolio companies. For example, Prospect may be entitled to receive (i) certain professional services or related fees from a portfolio company in connection with certain transactions and (ii) certain monitoring or consulting fees from a portfolio company for services provided to the portfolio company. A portion of such fees may be offset against the Management Fee. See "Fees and Compensation."

From time to time, Prospect may enter into solicitation arrangements pursuant to which it compensates third parties for referrals that result in a potential investor becoming a limited partner in a Fund. Any fees and expenses payable to any such placement agents generally will be borne by Prospect directly or indirectly through an offset against the Management Fee.

CUSTODY

As required by the Advisers Act, Prospect has established an account with the following qualified custodians to hold funds and securities on behalf of the Funds:

- JP Morgan Chase Bank, N.A., 10 S. Dearborn Street, Chicago, IL 60603
- CSC Trust Company of Delaware, Little Falls Centre One, 2711 Centerville Road, Wilmington, DE 19808

INVESTMENT DISCRETION

Prospect has discretionary authority to manage investments on behalf of the Funds. As a general policy, Prospect does not allow clients to place limitations on this authority. Pursuant to the terms of the Limited Partnership Agreements, however, Prospect may enter into side letter arrangements with certain limited partners whereby the terms applicable to such limited partner's investment in a Fund may be altered or varied, including, in some cases, the right to opt out of certain investments for legal, tax, regulatory or other agreed-upon reasons. Prospect assumes this discretionary authority pursuant to the terms of the Governing Documents.

VOTING CLIENT SECURITIES

Prospect has adopted Proxy Voting Policies and Procedures (the "**Proxy Policy**") to address how it will vote proxies, as applicable, for a Fund's portfolio investments. The Proxy Policy seeks to ensure that Prospect votes proxies (or similar instruments) in the best interest of the Funds, including where there may be material conflicts of interest in voting proxies. Prospect generally believes its interests are aligned with those of a Fund's investors through the principals' beneficial ownership interests in the Funds and therefore will not seek investor approval or direction when voting proxies. In the event that there is or may be a conflict of

interest in voting proxies, the Proxy Policy provides that Prospect may address the conflict using several alternatives, including by seeking the approval or concurrence of a Fund's advisory board on the proposed proxy vote or through other alternatives set forth in the Proxy Policy. Additionally, a Fund's advisory board may approve Prospect's vote in a particular solicitation. Prospect does not consider service on portfolio company boards by Prospect personnel or Prospect's receipt of management or other fees from portfolio companies to create a material conflict of interest in voting proxies with respect to such companies. In addition, the Proxy Policy sets forth certain specific proxy voting guidelines followed by Prospect when voting proxies on behalf of a Fund. If you would like a copy of Prospect's complete Proxy Policy or information regarding how Prospect voted proxies for particular portfolio companies, please contact the Prospect Chief Compliance Officer at (312) 782-7400, and it will be provided to you at no charge.

FINANCIAL INFORMATION

Prospect does not require prepayment of Management Fees more than six months in advance or have any other events requiring disclosure under this item of the Brochure.