

Phoenix Holdings – NC, Inc.
(“Phoenix”)

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Part 2A of Form ADV: Firm Brochure

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This brochure provides information about the qualifications and business practices of Phoenix Holdings – NC, Inc. (“Phoenix”). If you have any questions about the contents of this brochure, please contact us at 704.376.5502. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Phoenix is a registered investment adviser. The term registered investment adviser reflects Phoenix’s registration with the SEC and does not imply a certain level of skill or training.

Additional information about Phoenix is also available on the SEC’s website at www.adviserinfo.sec.gov.

Item 2: Material Changes

As noted in Item 4(A) below, Phoenix has recently begun to transition its investment advisory activities to an affiliated registered investment adviser. Except for changes describing or contemplating that transition, there have been no material changes to this brochure since it was last filed with the SEC on February 14, 2012.

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Item 4: Advisory Business

A Description of Advisory Firm and Identity of Principal Owner

Phoenix was formed as a North Carolina corporation in 2010.

Our principal executive offices are located at 4201 Congress Street, Suite 360, Charlotte, North Carolina 28209, and our main telephone number is 704.376.5502. Joseph B. Alala III owns all of the issued and outstanding stock of Phoenix.

In August of 2011, Phoenix took over the business operations of CapitalSouth Corporation, a private investment firm originally founded in 1998 and also owned entirely by Mr. Alala. The transition of our business operations from CapitalSouth Corporation to Phoenix did not involve or result in any change to the types of services we provide or how we provide them, and to the extent this Brochure describes business activities engaged in for periods prior to August of 2011, it should be read as describing the business of Phoenix's predecessor, CapitalSouth Corporation.

In November of 2012, we decided to begin transitioning our investment advisory business to a new affiliated investment adviser, Capitala Investment Advisors, LLC ("Capitala"), which became registered as an investment adviser with the SEC as of January 3, 2013. Since January 3, 2013, we have transferred the management of certain CSP Funds (as defined below) to Capitala, and we expect this transition to continue until Capitala serves as the investment adviser to all of the CSP Funds, at which time Phoenix will determine whether to withdraw its registration as an investment adviser. Like the transition of our business operations from CapitalSouth Corporation to Phoenix, the transition of our business operations from Phoenix to Capitala does not involve or result in any change to the types of services we provide or how we provide them.

Phoenix and Capitala provide investment advisory services to pooled investment vehicles (the "CSP Funds") that are not registered under the Investment Company Act of 1940, as amended (the "Investment Company Act"), and whose securities are not registered under the Securities Act of 1933, as amended (the "Securities Act"). They also occasionally provide other investment advisory services, such as underwriting of investments and deal sourcing, to other private investment firms.

As of the effective date of the annual amendment to the Form ADV for Phoenix, , Phoenix provides investment advisory services to six (6) CSP Funds, the majority of which are mezzanine funds that are licensed as small business investment companies ("SBICs") by the Small Business Administration ("SBA") and are subject to the rules and regulations promulgated under Title III of the Small Business Investment Company Act of 1958, as amended (the "SBIC Act"). Our investments are generally structured to earn current income through cash interest payments and may also include return enhancements including: (i) paid-in-kind ("PIK") interest, (ii) equity warrants, and/or (iii) other equity-linked securities. Licensed SBICs must comply with applicable regulations, accounting and valuation

guidelines, and management fee guidelines promulgated by the SBIC Act - some of which are different than the SEC's applicable rules and regulatory requirements.¹

The CSP Funds are commingled funds with multiple investors. The investors in the CSP Funds include high net worth individuals, banks, thrift institutions, pension and profit sharing plans, trusts, estates, corporations, limited partnerships and limited liability companies.

The only advisory clients of Phoenix are certain CSP Funds and occasionally, as described above, other private investment firms.

B Types of Advisory Services Offered by Phoenix

As the investment advisor for each CSP Fund, Phoenix provides various investment management services to each CSP Fund, including (i) sourcing of debt and equity transactions, (ii) conducting due diligence, (iii) structuring and consummating transactions, (iv) portfolio company management (when appropriate), (v) monitoring of financial and operational performance and compliance and (vi) structuring the disposition of investments. The primary focus of each CSP Fund is making privately-negotiated mezzanine debt and related equity investments in portfolio companies across various industries, including leverage acquisitions and recapitalizations, traditional buyouts and investments in growth companies. Phoenix's investment advice for the CSP Funds is generally limited to these types of investments, though Phoenix may cause any CSP Fund to make any investment that is consistent with the applicable CSP Fund's investment objectives and strategies.

Phoenix generally provides investment advisory services to each CSP Fund pursuant to a separate management services agreement (each, a "Management Agreement") or similar contractual agreement. Pursuant to regulations promulgated under the SBIC Act, each Management Agreement with a CSP Fund that is a licensed SBIC must be reviewed and approved by the SBA.

Phoenix, or its related entities, may enter into side letter agreements with certain investors in the CSP Funds, establishing rights under, or supplementing or altering the terms of, the applicable limited partnership agreements and subscription agreements relating to such CSP Fund. Except as may be specified in any given investor's side letter, Phoenix and its related entities have no obligation to offer such additional or different rights, terms or conditions to any other investor in such CSP Fund. Once invested in a CSP Fund, investors cannot impose additional investment guidelines or restrictions on such CSP Fund.

As noted above, Phoenix also occasionally provides other investment advisory services, such as underwriting of investments and deal sourcing, to other private investment firms. Such arrangements are generally very limited in scope and entered into primarily for business development or other strategic reasons and do not form a material portion of our business.

¹ For more information on the SBIC program, including the SBIC regulations, see www.sba.gov/inv.

C Tailoring of Services to Client and Restrictions on Investing in Certain Securities

Phoenix's advisory services are tailored to the needs of the CSP Funds. As noted above, the primary focus of the CSP Funds is making privately-negotiated mezzanine debt and related equity investments in portfolio companies, including leverage acquisitions and recapitalizations, traditional buyouts and investments in growth companies. Certain investment limitations are set forth in the governing documents of the CSP Funds, which are provided to and negotiated with the investors in each CSP Fund. In addition, in the case of a CSP Fund established for a particular investor as described above, the investor may have the right to reject individual investment opportunities or further limit or impose restrictions on the investments made by that CSP Fund.

Those CSP Funds that are licensed SBICs are subject to the SBIC Act and the rules and regulations promulgated thereunder by the SBA. The SBIC Act imposes certain restrictions on investing in certain securities or types of securities, including, but not limited to, compliance with size standards; prohibition against foreign investments; and prohibitions against self-dealings that prejudice a small business.

D Wrap-Fee Programs

Not applicable.

E Amount of Client Assets under Management

As of December 31, 2012, Phoenix managed a total of \$384,143,114 of client assets (\$381,580,156 of those assets constituted discretionary assets under management and \$2,562,968 of those assets constituted non-discretionary assets under management (because investors in one CSP Fund must approve investments selected for that CSP Fund)).

Item 5: Fees and Compensation

A Description of Compensation

The compensation paid to Phoenix by each of the CSP Funds is negotiated with the investors in the relevant CSP Fund and, as a result, varies from one CSP Fund to the next. Management fees payable by those CSP Funds that are licensed SBICs are further subject to SBA approval.

We have negotiated with investors in our licensed SBIC funds the ability to charge management fees up to the maximum amounts allowed by SBA policy, which generally permits SBICs such as our funds to charge management fees at a rate of (i) 2% per annum of the amount of capital commitments made to the SBIC Fund (to the extent such commitments qualify as "Regulatory Capital" of the SBIC Fund under the SBIC Act) plus assumed leverage of 2x such commitments for the "Initial Investment Period" as defined in the SBIC Act and (ii) 2% per annum of the capital (including actual leverage, but excluding write offs)

invested by the fund in active portfolio companies thereafter. See *Guidelines Concerning Allowable Management Expenses for Leveraged SBIC* – released in December 2003.

Management fees are generally payable – in advance – quarterly. The CSP Funds also reimburse Phoenix and its affiliates for certain expenses advanced by them on behalf of the funds. These expense reimbursements are disclosed to and negotiated with investors in the relevant offering documents and are in addition to the management advisory fees.

In addition, Phoenix or its affiliates may receive commitment fees, monitoring and directors’ fees and organization, financing, divestment and other similar fees in connection with portfolio investments of the CSP Fund as compensation for financial advisory or similar services provided to its portfolio companies. For most of the CSP Funds, all or a portion of most such fees relating to investments by that fund offset the management fee otherwise payable with respect to that fund.

Phoenix may, but is not required, to waive all or any portion of any management fees otherwise payable to it by a CSP Fund, and Phoenix and its affiliates have a history of granting substantial fee waivers. Clients should not assume, however, that Phoenix will in the future waive all or any portions of any management fees that may be due and owing to Phoenix.

See Item 6 below for a discussion of performance fees that may be earned by Phoenix and its affiliates with respect to the CSP Funds.

Where Phoenix provides other investment advisory services, such as underwriting of investments and deal sourcing, to other private investment firms, the compensation (if any) to be paid for such services is separately and specifically negotiated with the client and may include an economic interest in the client or a portion of the management fees paid to that private investment firm by its own funds.

B **Fee Collection Process**

Fees are paid to Phoenix by the CSP Funds as set forth in the governing documents for the relevant CSP Fund. When an installment of management fees is due and payable, Phoenix bills the relevant CSP Fund for it and then causes the fund to pay it. As noted above, management fees are generally paid by the CSP Funds quarterly in advance. Performance fees are generally paid as a fund’s investments are disposed of and the proceeds are distributed to the investors in the client fund.

C **Other Fees/Expenses**

In addition to our service fees, the CSP Funds may be assessed other fees by parties independent from us, including any and all out-of-pocket expenses associated with the operation of the relevant CSP Fund, including expenses incurred in connection with pursuing, consummating, managing and disposing of investments, and including legal, accounting and other fees of service providers. Any such fees, costs and expenses fees are exclusive of, and in addition to our compensation. The CSP Funds are solely and directly responsible for such items and reimburse Phoenix and its affiliates for them where Phoenix and its affiliates may pay them in advance for the funds. See Item 12 for a discussion of brokerage expenses.

D Fees Charged in Advance

As noted above, our advisory fees are generally charged quarterly in advance. Fees paid in advance are generally considered non-refundable unless the client's engagement of Phoenix is effectively terminated. Where an engagement is terminated prematurely, Phoenix would refund any prepaid management fees on a pro rated basis.

E Additional Compensation

Item 5(E) of Form ADV Part 2 requires us to disclose whether we or any of our supervised persons accept compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds. Neither we, nor any of our supervised persons accept any such compensation, but see Item 5(A) above for a discussion of commitment fees, monitoring and directors' fees and organization, financing, divestment and other similar fees Phoenix and its affiliates may earn in connection with portfolio investments of the CSP Funds.

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

Each of the CSP Funds is subject to a "carried interest" (i.e. a performance fee) when the CSP Fund has returned to its investors certain amounts of capital contributed by them to the Fund and a specified "preferred return" thereon, as set forth in each CSP Fund's organizational documents. The carried interest is generally calculated as a percentage of the Fund's net profits – ranging from 10% to 20% – and is payable to the general partner or manager of the Fund, and each Fund's general partner or manager is an affiliate of Phoenix. The general partner or manager is not entitled to carried interest based on changes in investment valuations, but only in the event cash or other proceeds are realized by the Fund from underlying investment activity, and then only after certain distributions have been made to investors in the Fund.

We do not currently manage accounts that are charged a performance fee alongside other accounts that are not. However, we do currently manage multiple accounts that invest in the same types of securities, and often co-invest together in the same transactions, and these different accounts may bear carried interest at different rates or may be at different stages of their carried interest "waterfall," making them more or less likely to make carried interest distributions at any given point in time. This fact results in potential conflicts of interest in the allocation of new investment opportunities, and potentially also in connection with the management and disposition of investments because these allocations and other determinations could be affected by the likelihood that we will earn performance-based fees or the amount thereof. See Item 11(C) below for a discussion of investment allocations and related conflicts of interest.

Another potential conflict of interest that does arise from our charging performance-based fees is that it may create an incentive for us to cause the Funds to engage in riskier investment behavior due to the higher return potential.

Item 7: Types of Clients

As stated previously, our primary clients are the CSP Funds. For more information, see Item 4 – Advisory Business.

Although we do not impose minimum dollar values for client accounts, minimum investment commitments (waivable by the relevant CSP Fund’s general partner) may be established for investors in each CSP Fund, and a CSP Fund offering may also have a minimum aggregate commitments requirement in order to hold an initial closing.

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

A. Methods of Analysis and Investment Strategies - Mezzanine Investments

Phoenix primarily makes mezzanine debt and related equity investments in smaller middle market operating companies. In evaluating potential portfolio investments, Phoenix conducts extensive due diligence to analyze, among items, the prospective portfolio company’s operating cash flow and capacity to adequately service its debt obligations (senior and mezzanine), the market and competitive position, within the market the company’s cost and revenue structures, the company’s unique assets, such as brand strength, distribution capability and intellectual property, the company’s management team and compensation structure, the company’s contingent liabilities (e.g. environmental, regulatory, accounting, legal, etc.), the company’s potential growth opportunities and potential exit strategies.

Phoenix investments are typically sourced directly through its internal deal generation strategy and networks. Our underwriting and portfolio management functions are centralized at our Charlotte, North Carolina headquarters, while our investment professionals located there and in Louisville, Kentucky and Raleigh, North Carolina work closely with their geographic contacts to identify attractive investment opportunities. Our investment professionals also maintain relationships with various industry participants providing additional access to potential investment transactions.

The SBA’s rules and regulation require the CSP Funds that are SBICs to invest in companies that are primarily U.S. based. In each CSP Fund, Phoenix seeks to build a portfolio that is diversified with respect to transaction type, geographic exposure (as the same may be limited by the governing documents of the relevant CSP Fund) and sector. Phoenix also seeks to maintain investment balance across industries that it believes are stable or otherwise attractive and industries with attractive long-term growth trends. After a potential transaction has been identified as satisfying the initial screening process, Phoenix prepares a financial model and a company write-up to be shared with the entire investment advisory team. Each potential investment must not only pass operational and strategic hurdles, but must also pass a standardized financial model and matrix that reviews projected returns, leverage and fixed charge coverage ratios, and portfolio fit.

Phoenix (typically in conjunction with other transaction parties) will often engage independent industry specific consultants to conduct operational and financial due diligence, and in almost all cases will engage an outside consultant to perform an enterprise audit for a prospective transaction.

All of the CSP Funds are integrated through one centralized investment review process, from sourcing through portfolio management.

Investing in securities involves a risk of loss that the CSP Funds and the investors therein should be prepared to bear. Item 8(B) below explains in greater detail certain risks involved in our investment strategy and method of analysis.

B. Material Risks involved in Investment Strategy and Method of Analysis

The investment strategies described above involve a substantive degree of risk, and the CSP Funds may lose all or a substantial portion of the value of their investments. Certain additional material risks relating to the investment strategies and methods of analysis described above are as follows:

Our business is materially affected by conditions in the global financial market and general economic conditions, e.g. interest rates, credit availability, inflation, overall economic uncertainty, changes in laws and regulations, and national and international political circumstances (including wars, terrorist acts or security operations). These factors may affect the liquidity and value of investments

Phoenix expects that the CSP Funds will encounter competition from entities having similar investment objectives, certain of which may have competitive advantages over the CSP Funds in bidding for investments, including greater financial, technical, marketing and other resources, higher risk tolerances, different risk assessments, lower return thresholds, lower cost of capital and access to funding sources unavailable to the fund.

Our investment funds may be affected by reduced opportunities to exit and realize value from our investments and by the fact that we may not be able to find suitable investments for the investment funds to effectively deploy capital. During difficult market conditions or slowdowns in a particular business sector, our clients may experience difficulty in the companies in which they invest, e.g. decreased revenues, financial losses, difficulty in obtaining access to financing and increased funding costs. During such periods, these companies may be unable to meet their debt service obligations or other expenses as they become due, including interest expenses payable to the CSP Funds. Such economic conditions would also increase the risk of default with respect to our clients' mezzanine debt investments.

An important aspect of the long term strategy is the use of leverage, including leverage obtained from the SBA by the CSP Funds we advise (the "Leverage Program"). The use of leverage may exacerbate losses and increase volatility because it will enable the CSP Funds, through the Leverage Program, to take positions that are in excess of the equity contributed to the CSP Funds by their investors. In addition, the CSP Funds need operating revenues to make required payments of principal and interest on the loans from the SBA. Losses on a small percentage of a CSP Fund's investments made in the Leverage Program can result in a much larger percentage reduction in its investment returns. SBA and most other leverage

providers require that interest be paid on a current basis and the income from investments may not be sufficient to make the required payments. Thus, it may be necessary from time to time to use capital contributions or additional leverage to make these interest payments. Investments in leveraged entities are inherently more sensitive to declines in revenues, increases in expenses and interest rates, adverse economic, market and industry developments.

An SBA license does not ensure that the applicable CSP Fund will be able to obtain funds from the SBA in the amounts and in the times required to optimize investment returns. There can be no assurance that there will be sufficient SBA leverage available to satisfy the CSP Fund's demands. Certain of the CSP Funds, other than the licensed SBICs, also may incur indebtedness from other sources in an effort to use leverage when making investments. There can be no assurance that debt financing will be available in acceptable amounts or on acceptable terms, if at all. The inability to raise debt financing could negatively affect the projected returns of any CSP Fund.

We may lose investment opportunities in the future if we do not match investment prices, structures and terms offered by competitors. Alternatively, we may experience decreased rates of return and increased risks of loss if we match investment prices, structures and terms offered by competitors. In addition, if interest rates were to rise or there were to be a prolonged positive market for equities, the attractiveness of our investments funds relative to investments in other investment products could decrease. This competitive pressure may adversely affect our ability to make successful investments, which may adversely impact our business, revenue, results of operations and cash flow.

Our asset management activities involve investments in relatively high-risk, illiquid assets, and we may fail to realize any profits from these activities for a considerable period of time or lose some or all of our principal investments.

We generally establish the capital structure of companies in which a fund invests on the basis of financial projections for such companies, which normally are based primarily on management judgments. Projections are only estimates of future results that are based upon assumptions made at the time that the projections are developed, there can be no assurance that the projected results will be obtained, and actual results may vary significantly from the projections.

Although Phoenix makes every effort to conduct appropriate due diligence prior to making an investment, the due diligence process may be subjective at times, may be required to be undertaken on an expedited basis in order to take advantage of available investment opportunities and may require a fund to rely on limited resources available to it including information provided by the target of the investment and third-party consultants, legal advisers, accountants and investment banks. As a result, the due diligence investigation may not reveal or highlight all relevant facts that may be necessary or helpful in evaluating such investment opportunity.

A CSP Fund's success will depend in large part on the skill and expertise of Phoenix and its personnel, and there can be no assurance that any individual Phoenix professional will continue to be associated with the funds. We depend on our founder and other key personnel, the loss of whose services would have a material adverse effect on our business, investment strategy and financial condition.

While diversification is a fund objective, there is no assurance as to the degree of diversification that will actually be achieved in any particular CSP Fund's investment portfolio. Also, while we strive for each CSP Fund to have a diverse portfolio within the class of assets in which that CSP Fund invests (i.e., mezzanine debt and related equity investments in privately held smaller middle-market companies), our investment strategy does not involve diversification across asset classes and an investment with our Firm should not be viewed as a complete or comprehensive investment program.

Although it is the intention of Phoenix to ensure that fund portfolio companies have strong management teams, there can be no assurance that any portfolio company's management team will be able to operate successfully.

The financial services industry in general, and the activities of private investment funds and their managers, in particular, has been subject to increasing regulatory oversight. Such scrutiny may increase Phoenix's and the CSP Funds' exposure to potential liabilities and to legal, compliance and other related costs. Increased regulatory oversight may impose administrative burdens on Phoenix, including, without limitation, responding to investigations and implementing new policies and procedures. Such burdens may divert Phoenix's time, attention and resources from portfolio management activities. It is anticipated that, in the normal course of business, the officers of Phoenix may have contact with government authorities and/or be subject to responding to inquiries or examinations.

In connection with the disposition of an investment in a portfolio company, a CSP Fund may be required to make representations about the business and financial affairs of the portfolio company typical of those made in connection with the sale of any business and may be responsible for the content of disclosure documents under applicable securities laws. A CSP Fund may be required to indemnify the purchasers of such investments to the extent that any such representations or disclosure documents turn out to be inaccurate. These arrangements may result in contingent liabilities of a fund.

A CSP Fund may co-invest with third parties and those investments may involve risks in connection with such third-party involvement, including the potential that the third-party investor may have financial, legal or regulatory difficulties, negatively affecting such investment, may have economic or business interests or goals that are inconsistent with those of the fund or may be in a position to take (or block) action in a manner contrary to the CSP Fund's investment objectives.

Additional risks are discussed in the offering documents pursuant to which interests in certain of the CSP Funds are offered.

C. Material Risks involved in Particular Security Types

We invest primarily in mezzanine debt and related equity securities of privately held smaller middle-market companies. In addition to the risks described above, certain additional risks relating to such securities are as follows:

Investments in smaller companies of the type the CSP Funds target may be riskier in general than investments in larger companies, and any historical outperformance of investments in smaller companies may relate to this increased risk. In general, as compared to larger companies, lower middle-market

companies of the type in which the CSP Funds invest may have more limited financial resources and borrowing options, may be more exposed to general economic downturns, and may be more susceptible to acute financial damage resulting from relatively unpredictable one-time events, such as litigation or the death of a company's founder. We may also have less information about the historical performance and operations of its portfolio companies than would be the case if we invested in larger companies.

The CSP Funds typically make current-pay, interest or dividend-bearing subordinated note or preferred stock investments with stated maturities of not less than one year to small businesses that may have limited financial resources and are able to obtain only limited financing from traditional sources. The CSP Funds' investments may or may not be secured by the assets of the portfolio company. Deterioration in the financial condition and prospects of a CSP Fund's portfolio companies usually will be accompanied by deterioration of their ability to pay the interest or dividends on the funds' investments in them and of the value of the funds' investments or any collateral that the funds hold. In most cases, the companies in which our investment funds invest will have indebtedness or equity securities, or may be permitted to incur indebtedness or to issue equity securities, that rank senior to our mezzanine and equity investments. After repaying senior security holders, the company may not have any remaining assets to use for repaying amounts owed in respect of our investment.

The mezzanine loans made by the CSP Funds will generally bear interest at fixed rates and, as a result, the value of these investments will be negatively affected by any increases in market interest rates. In addition, increases in interest rates could make it more expensive for the CSP Fund to borrow, including in the case of any SBICs the SBIC program because interest rates charged in respect of SBIC debentures fluctuate based on market demand for SBA-guaranteed debentures. Conversely, decreases in market interest rates could require a CSP Fund to accept lower interest payments with respect to the loans it makes to portfolio companies, and could also result in its portfolio companies prepaying amounts previously lent to them by the fund. In the event of such prepayments, a CSP Fund may not be able to reinvest the proceeds that it receives in investments that are as profitable as the investments that were prepaid.

Investments by the CSP Funds will likely include debt instruments and equity securities of companies that we do not control, and such investments will be subject to the investment decisions of the controlling equity holders of the related portfolio companies. The investment decisions made by such controlling equity holders could be different than those that would be made by us if the CSP Funds were the controlling equity holders and such decisions could materially and adversely affect the CSP Funds' investment strategy and results with respect to any certain portfolio company.

Lack of control over a portfolio company reduces our ability to take actions that might be in the best interests of our clients and their investors. Where a CSP Fund does exercise control over a portfolio company borrower, the fund may be subject to lender liability claims for actions taken by it with respect to a borrower's business or instances. It is possible that a CSP Fund could become subject to a lender's liability claim, including as a result of actions taken in rendering significant managerial assistance. The likelihood of a CSP Fund being subject to such a claim may be increased to the extent it co-invests with other funds managed by Phoenix.

There will be no public market for the investments made by the CSP Funds. Such investments will typically be highly illiquid and the relevant CSP Fund may not be able to realize any return on its equity investments until a sale or initial public offering of the portfolio company occurs. Even if such equity investments prove successful, they are unlikely to produce a realized return to the Fund or its investors for a number of years.

Item 9: Disciplinary Information

There have been no legal or disciplinary events that are material to an evaluation of the advisory business of Phoenix or the integrity of the management of Phoenix

Item 10: Other Financial Industry Activities and Affiliations

Neither Phoenix nor any of its management persons is registered as a broker-dealer, nor do any such parties have an application pending or are otherwise in the process of seeking to register as a broker-dealer. None of our management persons are registered as or currently seeking registration as a registered representative of a broker-dealer.

Neither Phoenix nor any of its management persons is registered, or has an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities. None of our management persons are registered as or currently seeking registration as associated persons of any of these type firms.

Except for the fact that the general partners or managers of the CSP Funds, which could be viewed as the sponsors of the funds, are related parties of Phoenix, neither Phoenix nor any of its management persons has any relationship or arrangement that is material to its advisory business or its clients with any related person that is a broker-dealer, municipal securities dealer, or government securities dealer or broker; an investment company or other pooled investment vehicle; another investment adviser or financial planner; a futures commission merchant, introducing broker, commodity pool operator, or commodity trading advisor; a banking or thrift institution; an accountant or accounting firm; a lawyer or law firm; an insurance company or agency; a pension consultant; a real estate broker or dealer; or a sponsor or syndicator of limited partnerships.

Phoenix does not recommend or select other investment advisers for its clients.

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

A. Code of Ethics

Phoenix has established a comprehensive Code of Ethics that is applicable to all of its officers and employees (collectively “Phoenix Personnel”) to help avoid insider trading and otherwise to ensure that the firm and its employees act in an ethical manner and in accordance with applicable securities laws. In general the Code of Ethics provides for the following:

- Standards of conduct required of employees, reflecting the fiduciary duties owed by Phoenix and its employees to clients;
- Compliance with applicable securities laws, including those pertaining to insider trading;
- Reporting by Phoenix’s employees of (and pre-clearance with respect to certain types of) personal securities holdings and transactions;
- Compliance with certain policies and procedures relating to political contributions and gifts and entertainment;
- The reporting of violations of the Code of Ethics; and
- Educating employees about the Code of Ethics.

Phoenix maintains its Code of Ethics at its corporate headquarters. Each of our employees has been furnished with a copy of and has acknowledged his or her understanding of our Code of Ethics, and Phoenix will provide a copy of its Code of Ethics to any current and/or prospective client upon request.

B. Investments in Securities in which Phoenix has an Interest

Except as disclosed in Item 11(C) below, neither Phoenix nor any of its related persons recommends to our clients, or buys or sells for our client accounts, securities in which Phoenix or any of its related persons has a material financial interest.

C. Investment in Same Securities or Related Securities Recommended

Phoenix and its related persons do not invest in the same securities (or related securities) as Phoenix recommends to its clients (and Phoenix prohibits its supervised persons and other employees from personally trading in the securities of CSP Fund portfolio companies), except that Phoenix often may cause a CSP Fund to invest in the same securities or related securities, such as warrants or other securities of the same issuer, that another CSP Fund holds or is considering for investment. This practice of permitting co-investments raises certain conflicts of interest, particularly in the areas of allocating investment opportunities and taking action with respect to portfolio company investments.

In resolving these sorts of conflicts, Phoenix may consider many factors, including the interests of each CSP Fund with respect to the immediate issue and/or with respect to the longer term course of dealing among the funds. In the case of many conflicts involving the CSP Funds, Phoenix's determination as to which factors are relevant, and the resolution of such conflicts, will be made in Phoenix's sole discretion.

The following factors may alleviate, but will not eliminate, conflicts of interest among CSP Funds:

- A CSP Fund will not make any investment unless Phoenix and the CSP Fund's general partner or manager believes that such investment is an appropriate investment considered solely from the viewpoint of such CSP Fund;
- Many important conflicts of interest will be resolved pursuant to set procedures, restrictions or other provisions contained in the relevant offering and/or organizational documents for the CSP Funds, which require the approval of the investors in or the limited partner advisory committee of the relevant CSP Fund for certain conflict of interest transactions;
- Even where not required to pursuant to a CSP Fund's offering and/or organizational documents, Phoenix may determine to consult with the limited partner advisory committee for a CSP Fund, whose members are not affiliated with Phoenix, on conflict of interest issues, and in such cases Phoenix may permit the advisory committee to resolve conflicts of interest by approving or disapproving decisions; and
- When Phoenix deems it appropriate, in its sole discretion, unaffiliated third-parties may be used to help resolve conflicts. In addition, the willingness of a third party to make an investment on the same or similar terms or take the same action with respect to an investment as a CSP Fund may demonstrate the fairness of the transaction or other action to such CSP Fund.
- Most of the CSP Funds are licensed leveraged SBICs and, as such, are precluded from making investments that give rise to certain conflicts of interest. In general, a conflict of interest may arise if an affiliate of the SBIC has or makes an investment in a prospective portfolio company or serves as one of its officers or directors prior to the investment or would otherwise benefit from the financing. Joint investments with a related SBIC fund may be made on terms and conditions that are fair and equitable to the SBIC, taking into account timing differences, and may require pre-investment approval by the SBA (although if the related fund is a leveraged SBIC, and the two SBICs are investing on the same terms and conditions, no pre-investment approval of the SBA is required for such a co-investment, and the terms will be presumed fair and equitable to both SBICs).

In connection with its investment activities, Phoenix may encounter situations in which it must determine how to allocate investment opportunities among various CSP Funds and other persons. Phoenix has discretion as to how it allocates investment opportunities among the CSP Funds, except where a CSP Fund has been established for the specific purpose of co-investing alongside another CSP Fund in some or all of its investments according to predetermined criteria.

Phoenix has basically unfettered discretion in the allocation of co-investment opportunities to investors in the CSP Funds (“CSP Investors”) and other third parties. Specifically, and subject to any restrictions contained in the offering and/or organizational documents of the relevant CSP Fund or any side-letter entered into with a CSP Investor, (i) no CSP Investor in its capacity as such has a right to participate in any co-investment opportunity, (ii) decisions regarding whether and to whom to offer co-investment opportunities to CSP Investors and other third parties are made in the sole discretion of Phoenix or its related persons, (iii) co-investment opportunities may be offered to some and not other CSP Investors, in the sole discretion of Phoenix, and (iv) third parties other than CSP Investors may be offered co-investment opportunities, in the sole discretion of Phoenix.

Subject to its fiduciary duties and applicable law, as well as any relevant restrictions or other limitations contained in the offering and organizational documents for the CSP Funds or side letters relating thereto, Phoenix will determine how to allocate investment opportunities using its best judgment, considering such factors as it deems relevant, but in its sole discretion. In exercising its discretion, Phoenix may be faced with a variety of potential conflicts of interest. For example, in allocating an investment opportunity among CSP Funds with different fee, expense and compensation structures or with different performance characteristics, Phoenix may have an incentive to allocate investment opportunities to the CSP Funds or other vehicles from which Phoenix or its related persons expects to derive, directly or indirectly, a higher fee, compensation or other benefit.

In exercising its discretion to decide how to allocate investment opportunities among the CSP Funds, Phoenix may consider some or all of a variety of factors, including, but not limited to, the following:

- Each CSP Fund’s investment objective and investment focus;
- Each CSP Fund’s liquidity and reserves;
- Each CSP Fund’s portfolio diversification;
- The amount of capital available to each CSP Fund for investment, as well as its projected future capacity for investment;
- Each CSP Fund’s targeted rate of return;
- The stage of development of the prospective portfolio company or other investment;
- The composition of each CSP Fund’s portfolio;
- The availability of other suitable investments for each CSP Fund;
- Risk considerations;
- Cash flow considerations;

- Asset class restrictions, including whether the investment opportunity meets the definition of a “small business” under the SBIC Act and related rules and regulations;
- Legal, contractual or regulatory constraints; and
- Any other relevant limitations imposed by or conditions set forth in the applicable offering and organizational documents.

Phoenix reserves the right to make independent decisions about when a CSP Fund and other CSP Funds should purchase and sell investments. As a result, a CSP Fund may be purchasing an investment at a time when another CSP Fund is selling the same or similar investment, or vice versa. A CSP Fund may invest in an opportunity that other CSP Funds have declined, and likewise, a CSP Fund may decline to invest in opportunities in which other CSP Funds have invested.

Conflicts may arise when a CSP Fund makes investments in conjunction with an investment being made by another CSP Fund or in a company in which another CSP Fund has already made an investment. Investment opportunities may be appropriate for one or more CSP Funds at different or overlapping levels of a portfolio company’s capital structure. Conflicts may also arise in determining the terms of investments, especially when Phoenix controls the structure of a transaction and its capitalization. There can be no assurance that the return on a CSP Fund’s investments will not be less than the returns obtained by other CSP Funds participating in a given transaction. Phoenix will determine all matters relating to structuring transactions and capitalizing portfolio companies, including the amount and terms of securities and allocation of securities among the CSP Funds, using its best judgment considering all factors it deems relevant, but in its sole discretion. The allocation of securities among CSP Funds and as between CSP Funds and other CSP Funds may be affected by a fund’s stage in its lifecycle. For example, a newly organized fund may seek to purchase a disproportionate amount of investments until it is subsequently invested.

Further conflicts may arise when one CSP Fund has made an investment in a company in which another CSP Fund has also invested. For example, questions may 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, may raise conflicts of interest. If additional capital is necessary as a result of financial or other difficulties or to finance growth or other opportunities, CSP Funds may or may not provide such additional capital, and if provided, each CSP Fund will supply such additional capital and in such amounts, if any, as determined by Phoenix in its sole discretion. Phoenix will resolve all such conflicts using its best judgment but in its sole discretion, subject in certain cases to approval by the advisory committee of the participating CSP Fund.

CSP Funds may participate in re-leveraging and recapitalization transactions involving portfolio companies in which other CSP Funds have invested or will invest. Recapitalizations may present conflicts of interest, including determinations of whether existing investors are being cashed out at a price that is higher or lower than market value and whether new investors are paying too high or too low a price for the company or purchasing securities with terms that are more or less favorable than the prevailing

market terms. Phoenix will resolve all such conflicts using its best judgment but in its sole discretion, subject in certain cases to approval by the respective advisory committee of the participating investment funds.

In general, Phoenix does not effect cross transactions between CSP Funds; however, such cross transactions may be effected in rare circumstances. In the event that Phoenix does effect cross transactions between CSP Funds, Phoenix will seek to ensure that such transactions and related disclosures are made consistent with applicable laws and agreements and Phoenix's policies and procedures. In particular, Phoenix will seek to ensure that the transaction is:

- in Phoenix's judgment, in the best interest of each CSP Fund involved in the transaction;
- in compliance with any investment guidelines or restrictions for each CSP Fund involved, and
- entered into only after obtaining any required advisory committee approvals of the material terms and conditions of the transaction.

Investors in the CSP Funds are encouraged to contact Phoenix with questions or for further information about how Phoenix addresses these and other conflicts of interest.

D. Contemporaneous Securities Transactions.

See item 11(C) above.

Item 12: Brokerage Practices

In general, Phoenix does not utilize broker-dealers for transaction related services. In the event that we require the services of a broker-dealer, Phoenix will consider various factors, including the reputation, experience and financial ability of the broker-dealer, as well as the experience each broker-dealer has in closing certain transactions. We do not have any agreements in place that require us to use any specific broker-dealer, and we select broker-dealers that we believe best serve the interests of our clients given the circumstances under which the security is being sold or traded. We do not receive any "soft dollar" benefits, do not receive client referrals from brokers, and are not subject to directed brokerage activities. In instances where we deem it appropriate for multiple clients to acquire or sell the same security at the same time, we would typically aggregate the purchase and sale for both accounts.

Phoenix will evaluate the overall reasonableness of the brokerage commissions and negotiated terms paid to or made with broker-dealers with respect to client transactions, by, among other things, seeking to compare such commissions and terms with the commission rates and negotiated terms being charged by and entered into with other comparable broker-dealers. Phoenix may also periodically review the past performance of the broker-dealers with whom it has placed orders to execute CSP Fund transactions in light of the factors discussed above.

Phoenix does not consider in selecting or recommending broker-dealers whether Phoenix or any of its related persons receives client referrals from the broker-dealer or other third party. Phoenix also does not engage in directed brokerage practices.

Item 13: Review of Accounts

Phoenix constantly monitors and proactively manages all of the investments made by the CSP Funds. Each month, we conduct a full portfolio review during which the portfolio manager, together with other team members, including the CSP Funds' Chief Executive Officer and Chief Financial Officer, reviews every investment each of our clients has made. The securities in the investment portfolios of the CSP Funds are generally private, illiquid and long-term in nature; accordingly, Phoenix's review of them is not based on a short-term perspective to dispose of such securities. However, Phoenix closely monitors the portfolio companies of CSP Funds and generally maintains oversight or advisory positions in such portfolio companies.

Also, with respect to investments such as loan, financings and related credit, Phoenix's professionals continually review and analyze existing positions in an attempt to proactively identify issues and take appropriate action as required. Specific employees of Phoenix tasked with overseeing particular investments meet periodically with other members of Phoenix's investment team to update them on such portfolio positions and related matters.

We prepare written quarterly and annual reports for each of the CSP Funds. They generally include financial statements (which, in the case of annual statements, are audited) and summaries of new investments, investment performance, and other matters of interest to our clients and their investors and are distributed to investors in the relevant CSP Fund.

Item 14: Client Referrals and Other Compensation

Phoenix does not currently compensate or receive any economic benefit from anyone other than our clients for providing investment advice or other advisory services to our clients. In addition, we do not compensate any person who is not our supervised person for client referrals.

Item 15: Custody

Phoenix (or the general partners or managers of the Funds, which are our related parties) has custody of the assets of the Funds and maintains them with one or more qualified custodians as and to the extent required by SEC Rule 206(4)-2 under the Investment Advisers Act.

Consistent with SBA requirements for licensed SBICs (which require the reporting of investments valued at cost, subject to certain limited deviations), we have not historically provided GAAP audited financial statements to the CSP Funds or their investors. Accordingly, to the extent we maintain assets with a qualified custodian pursuant to SEC Rule 206(4)-2 under the Investment Advisers Act, we will have the qualified custodian send account statements, at least quarterly, to each of the clients for which it maintains funds or securities (and, in the case of a client that is a fund, to each investor in the fund), identifying the amount of funds and of each security in the account at the end of the period and setting forth all transactions in the account during that period. Clients and investors should carefully review these statements and are urged to compare them to any account statements or similar reports they receive from Phoenix.

Phoenix may elect going forward to cause GAAP audited financial statements to be prepared for some or all of the CSP Funds. Should we do so, should such statements be prepared by an independent accounting firm registered with and subject to oversight by the PCAOB, should the statements be provided to the investors in each Fund within 120 days after the end of the fiscal year, we will not be not subject to the notice, account statement and surprise audit requirements that otherwise apply to registered investment advisers with custody of client assets.

Item 16: Investment Discretion

We provide investment advice to each CSP Fund on a discretionary basis. With the exception of one CSP Fund in which the investors have the right to approve or disapprove of new investments, investors in the CSP Funds do not participate in investment decisions. This discretionary authority and any investment restrictions or other limitations on that authority are memorialized in the legal and other offering documents for the relevant Fund, which are negotiated with investors prior to their making a commitment to invest in the Fund.

Item 17: Voting Client Securities

We (or the general partners or managers of the CSP Funds, which are our related parties) have the authority to vote all securities held by the CSP Funds, which we do in accordance with a proxy voting policy we adopted in accordance with SEC Rule 206(4)-6 under the Investment Advisers Act. Pursuant to our proxy voting policy, we vote the CSP Funds' securities in accordance with what we consider to be in the best interests of the CSP Fund owning such securities, taking into account such factors as we deems relevant under the circumstances. The CSP Funds and investors in the funds do not have the ability to direct how we vote fund securities.

If a conflict of interest were to arise between Phoenix and a CSP Fund when voting the fund's securities, we would nevertheless vote in the client's best interests. In determining what is in the best interest of a CSP Fund, the primary consideration is the financial interest of the CSP Fund, and we would generally vote in the manner we believe to be most likely to enhance the value of the securities held by the CSP

Fund. We would also be sure to act in conformity with any applicable requirements of the Fund's governing documents and might consult with, or seek approval of the voting decision from, the Fund's limited partner advisory committee.

Any of our clients is able to obtain a copy of our written proxy voting policies and procedures and information about how we have voted the client's securities upon request by contacting the chief compliance officer as follows: Michael S. Marr, 704.936.4923; mmarr@capitalsouthpartners.com.

Item 18: Financial Information

Phoenix does not require or solicit prepayment of fees six months or more in advance, has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of any bankruptcy proceeding.

Item 19: Requirements for State-Registered Advisers

Phoenix is not registered, nor required to be registered as an investment adviser in any state. Therefore, Item 19 is not applicable to Phoenix.