

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

PROSPECT PARTNERS, L.L.C.

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March 28, 2019

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 filed its most recent Form ADV Part 2 on March 22, 2018. This annual amendment updates the descriptions of the business practices of Prospect Partners and its affiliates.

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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 general partner entities 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 is subject to the Advisers Act pursuant to Prospect Partners’ registration in accordance with SEC guidance. This Brochure also describes the business practices of the General Partners, 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 private equity funds and invest through negotiated transactions in operating companies, generally referred to herein as “portfolio 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 to 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 agreed-upon

circumstances pursuant to the relevant Limited Partnership Agreement. 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 December 31, 2018, Prospect managed \$222,607,500 in client assets on a discretionary basis. Prospect Partners is principally owned by Richard C. Tuttle, Louis W. Kenter and William V. Glastris, Jr. and principally controlled by Messrs. Tuttle and 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. The limited partners of a Fund may be required to make a pro rata contribution according to their respective commitments to fund any contribution that would otherwise be required of the General Partner in connection with any such waiver or reduction as described above and, as a result, the exercise of such waiver or reduction may result in an acceleration (or delay) of investor capital contributions. Waived or reduced Management Fees are not subject to the Management Fee offsets described above, and the amount of such waived or reduced Management Fees has the potential to be significant.

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.

Prospect and/or its affiliates generally have discretion over whether to charge transaction fees to a portfolio company and, if so, the fee rate, method and/or amount of such compensation. In most circumstances, such compensation is not reviewed or approved by an independent third party. The receipt of transaction fees generally will give rise to potential conflicts of interest between the Funds, on the one hand, and Prospect and/or its affiliates on the other hand. Portfolio company-related fees may include amounts prepaid in anticipation of future services, which will be offset against the applicable Management Fee to the extent set forth in the relevant Limited Partnership Agreement.

Additionally, as further described below and in the applicable Memorandum and/or Partnership Agreement of each Fund, Prospect may retain certain operating partners to provide services to (or with respect to) certain portfolio companies in which one or more Funds invest. Such operating partners generally receive compensation and other amounts described herein **from the relevant portfolio companies or Funds to which they provide services**, but no such amounts will result in additional offsets to the Management Fee.

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 or at certain interim intervals to the extent provided in the applicable Governing Documents.

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 current or former employees of Prospect generally receive salaries and other compensation derived from, and in certain cases including 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, expenses, liabilities and obligations relating to such Fund's activities, investments and business (to the extent not borne or reimbursed by portfolio companies), generally including (i) all costs and expenses attributable to acquiring, holding, monitoring and disposing of the Partnership's investments (including interest on money borrowed by the Partnership, registration expenses and brokerage, finders', custodial and other fees); (ii) legal, accounting, auditing, consulting, financing, accounting and custodian fees and other fees and expenses (including expenses associated with negotiating, consummating, monitoring and disposing of such Fund's investments and the

preparation of the Fund's financial statements, tax returns and Schedule K-1s); (iii) extraordinary expenses of such Fund (including litigation costs and expenses and indemnification costs and expenses permitted by the terms of such Fund's Limited Partnership Agreement, judgments and settlements); (iv) the Management Fee; (v) expenses associated with developing, licensing, implementing, maintaining or upgrading any web portal, extranet tools, computer software or other administrative or reporting tools for the benefit of the Funds or the limited partners; (vi) all out-of-pocket fees and expenses incurred by such Fund or any General Partner, ultimate general partner, their affiliates and each of their respective managers, officers and employees, and direct and indirect partners, members, shareholders, in their capacity as such, relating to investment and disposition opportunities for such Fund not consummated (including legal, accounting, consulting and other fees and expenses, financing commitment fees, real estate title and appraisal costs, environmental audits, and printing); (vii) expenses of the advisory committee/board and annual meetings of the limited partners; (viii) insurance; and (ix) any taxes, fees or other governmental charges levied against the Fund. The Funds also bear expenses indirectly to the extent a portfolio company pays expenses, including expenses of Prospect and/or its affiliates. Brokerage fees may be incurred in accordance with the practices set forth in "Brokerage Practices."

Operating Partners

Additionally, as further described herein and in the applicable Memorandum and/or Partnership Agreement of each Fund, Prospect may retain certain operating partners to provide services to (or with respect to) one or more Funds or certain current or prospective portfolio companies in which one or more Funds invest. Such operating partners generally provide services in relation to manufacturing, sales, marketing, technology, human resources, acquisition integration/rationalization and/or other operations services, acquisition or other due diligence, or similar services to the Funds or any portfolio company or prospective portfolio company of the Funds. Operating partners may receive compensation, including, but not limited to cash fees, retainers, transaction fees, a profits or equity interest in a portfolio company, profits or equity interests in one or more Funds or General Partners, remuneration from Prospect and/or its Funds or affiliates or other compensation, which typically are determined according to one or more methods, including the value of the time (including an allocation for overhead and other fixed costs) of such operating partners, a percentage of the value of the portfolio company, the invested capital exposed to such portfolio company, amounts charged by other providers for comparable services and/or a percentage of cash flows from such company. Operating partners also generally will be reimbursed for certain travel and other costs in connection with their services. As described above, no such amounts will offset the Management Fee. The use of operating partners subjects Prospect to conflicts of interest, as discussed under "Conflicts of Interest," below.

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. **Additionally, to the extent that Prospect personnel are assigned varying percentages of carried interest from the Funds, such personnel are subject to potential conflicts of interest,**

to the extent they are involved in identifying investment opportunities as appropriate for Funds from which they are entitled to receive a higher carried interest percentage.

Prospect seeks to address the potential for conflicts of interest in these matters with allocation policies and/or practices that provide that transactions and investment opportunities will be allocated to the Funds in accordance with each Fund's investment guidelines and Governing Documents, as well as other factors that do not include the amount of performance-based compensation received by Prospect or any personnel.

The existence of performance-based compensation has the potential to create an incentive for Prospect to make more speculative investments on behalf of a Fund than it would otherwise make in the absence of such arrangement, although Prospect generally considers performance-based compensation to better align its interests with those of its investors.

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 and members of their families, operating partners or other service providers retained by Prospect.

The Funds may include alternative investment vehicles established from time to time in order to permit one or more investors to participate in one or more particular investment opportunities in a manner desirable for tax, regulatory or other reasons. Alternative investment vehicle sponsors generally have limited discretion to invest the assets of these vehicles independent of limitations or other procedures set forth in the organizational documents of such vehicles and the related Fund.

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 is expected to 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 or within a short period of time. 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 the Fund will never be fully invested if enough sufficiently attractive investments are not identified. The business of identifying, structuring and completing private equity transactions is highly competitive and involves a high degree of uncertainty. However, limited partners will be required to bear annual Management Fees through the Fund during the investment period based on the entire amount of their Commitments and other expenses as set forth in the applicable Partnership Agreement.

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, including unfunded commitments.

Leveraged Investments. The Funds may make use of leverage by incurring or 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 (and such credit markets may be impacted by regulatory restrictions and guidelines), which state is difficult to accurately forecast, and at times 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 limited or costly 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. Furthermore, the companies in which the Fund will invest generally will not be rated by a credit rating agency.

A Fund may also borrow money or guaranty indebtedness (such as a guaranty of a portfolio company's debt) or otherwise be liable therefor, and in such situations, it is not expected that such Fund would be compensated for providing such guarantee or exposure to such liability. The use of leverage by a Fund also will result in interest expense and other costs to such Fund that may not be covered by distributions made to such Fund or appreciation of its investments. While Fund-level borrowings generally will be interim in nature, asset-level leverage generally will not be subject to any limitations regarding the amount of time such leverage may remain outstanding. A Fund may incur leverage on a joint and several basis with one or more other Funds and entities managed by Prospect or any of its affiliates and may have a right of contribution, subrogation or

reimbursement from or against such entities. In addition, to the extent a Fund incurs leverage (or provides such guaranties), such amounts may be secured by capital commitments made by such Fund's investors and such investors' contributions may be required to be made directly to the lenders instead of such Fund.

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 and it may be difficult to liquidate the securities received at a price or within a time period that is determined to be ideal by such limited partners. After a distribution of securities is made to the limited partners, many limited partners may decide to liquidate such securities within a short period of time, which could have an adverse impact on the price of such securities. The price at which such securities may be sold by such limited partners may be lower than the value of such securities determined pursuant to the Limited Partnership Agreement, including the value used to determine the amount of carried interest available to the General Partner with respect to such investment.

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 portfolio company, whether for opportunistic reasons, to fund the needs of the business, as an equity cure under applicable debt documents or for other reasons. There is no assurance that 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 (including an event of default under applicable debt documents in the event an equity cure cannot be made). 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.

Material Non-Public Information; Other Regulatory Restrictions. As a result of the operations of Prospect and its affiliates, Prospect may come into possession of confidential or material non-public information. Therefore, Prospect and its affiliates may have access to material, non-public information that may be relevant to an investment decision to be made by a Fund. Consequently, a Fund may be restricted from initiating a transaction or selling an investment which, if such information had not been known to it, may have been undertaken on account of applicable securities laws or Prospect's internal policies.

Similarly, anti-money laundering, anti-boycott and economic and trade sanction laws and regulations in the United States and other jurisdictions may prevent Prospect or the Funds from entering into transactions with certain individuals or jurisdictions. The United States Department of the Treasury's Office of Foreign Assets Control ("OFAC") and other governmental bodies administer and enforce laws, regulations and other pronouncements that establish economic and trade sanctions on behalf of the United States. Among other things, these sanctions may prohibit transactions with or the provision of services to, certain individuals or portfolio companies owned or operated by such persons, or located in jurisdictions identified from time to time by OFAC. Additionally, antitrust laws in the United States and other jurisdictions give broad discretion to the U.S. Federal Trade Commission, the United States Department of Justice and other U.S. and non-U.S. regulators and governmental bodies to challenge, impose conditions on, or reject certain transactions. In certain circumstances, antitrust restrictions relating to one Fund's acquisition of a portfolio company may preclude other Funds from making an attractive acquisition or require one or more other Funds to sell all or a portion of certain portfolio companies owned by them.

As a result of any of the foregoing, a Fund may be adversely affected because of Prospect's inability or unwillingness to participate in transactions that may violate such laws or regulations, or by remedies imposed by any regulators or governmental bodies. Any such laws or regulations may make it difficult or may prevent a Fund from pursuing investment opportunities, require the sale of part or all of certain portfolio companies on a timeline or in a manner deemed undesirable by Prospect or may limit the ability of one or more portfolio companies from conducting their intended business in whole or in part. Consequently, there can be no assurance that any Fund will be able to participate in all potential investment opportunities that fall within its investment objectives.

Hedging Arrangements; Related Regulations. A General Partner may (but is not obligated to) endeavor to manage a Fund's or any portfolio company's currency exposures, interest rate exposures or other exposures, using hedging techniques where available and appropriate. A Fund may incur costs related to such hedging arrangements, which may be undertaken in exchange-traded or over-the-counter ("OTC") contexts, including futures, forwards, swaps, options and other instruments. There can be no assurance that adequate hedging arrangements will be available on an economically viable basis or that such hedging arrangements will achieve the desired effect, and in some cases hedging arrangements may result in losses greater than if hedging had not been used. In some cases, particularly in OTC contexts, hedging arrangements will subject the Fund to the risk of a counterparty's inability or refusal to perform under a hedging contract, or the potential loss of assets held by a counterparty, custodian or intermediary in connection with such hedging. OTC contracts may expose a Fund to additional liquidity risks if such contracts cannot be adequately settled. Certain hedging arrangements may create for a General Partner and/or one of its affiliates an obligation to register with the U.S. Commodity Futures Trading Commission (the

“CFTC”) or other regulator or comply with an applicable exemption. Losses may result to the extent that the CFTC or other regulator imposes position limits or other regulatory requirements on such hedging arrangements, including under circumstances where the ability of a Fund or a portfolio company to hedge its exposures becomes limited by such requirements.

Unfunded Pension Liabilities of Portfolio Companies. Certain court decisions have found that, where an investment fund owns 80% or more (or under certain circumstances less than 80%) of a portfolio company, such fund (and any other 80%-owned portfolio companies of such fund) might be found liable for certain pension liabilities of such a portfolio company to the extent the portfolio company is unable to satisfy such liabilities. Although Prospect intends to manage each Fund’s investments to minimize any such exposure, a Fund may, from time to time, invest in a portfolio company that has unfunded pension fund liabilities, including structuring the investment in a manner where such Fund may own an 80% or greater interest in such a portfolio company. If such Fund (or other 80%-owned portfolio companies of such Fund) were deemed to be liable for such pension liabilities, this could have a material adverse effect on the operations of the Fund and the companies in which such Fund invests. This discussion is based on current court decisions, statute and regulations regarding control group liability under the Employee Retirement Income Security Act of 1974, as amended, as in effect as of the date of this Brochure, which may change in the future as the case law and guidance develops.

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.

Cybersecurity Risks. Recent events have illustrated the ongoing cybersecurity risks to which operating companies are subject, particularly operating companies in historically vulnerable industries such as the food services and retail industries. To the extent that a portfolio company is subject to cyber-attack or other unauthorized access is gained to a portfolio company’s systems, such portfolio company may be subject to substantial losses in the form of stolen, lost or corrupted

(i) customer data or payment information; (ii) customer or portfolio company financial information; (iii) portfolio company software, contact lists or other databases; (iv) portfolio company proprietary information or trade secrets; or (v) other items. In certain events, a portfolio company's failure or deemed failure to address and mitigate cybersecurity risks may be the subject of civil litigation or regulatory or other action. Any of such circumstances could subject a portfolio company, or the Funds, to substantial losses. In addition, in the event that such a cyber-attack or other unauthorized access is directed at Prospect or one of its service providers holding financial or investor data, Prospect, its affiliates or the Funds may also be at risk of loss.

Valuation of Assets. There is not expected to be an actively traded market for most of the securities owned by the Funds. When estimating fair value, the relevant General Partner will apply a methodology it determines to be appropriate based on accounting guidelines and the applicable nature, facts and circumstances of the respective investments. However, the process of valuing securities for which reliable market quotations are not available is based on inherent uncertainties and the resulting values may differ from values that would have been determined had an active market existed for such securities and may differ from the prices at which such securities ultimately may be sold. The exercise of discretion in valuation by the General Partners may give rise to conflicts of interest, including in connection with determining the amount and timing of distributions of carried interest and the calculation of Management Fees.

Conflicts of Interest

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

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 and Prospect's allocation policies. 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. Except as required by the relevant Governing Documents, Prospect is not obligated to recommend any investment to any particular investment vehicle. 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.

Prospect must first determine which Fund(s) will, or are required to, participate in the relevant investment opportunity. Prospect generally assesses whether an investment opportunity is appropriate for a particular Fund based on the Fund's Limited Partnership Agreement, as well as factors including but not limited to: investment objectives, strategies, life-cycle, structure and other relevant factors. For example, a newly organized Fund generally will seek to purchase a disproportionate amount of investments until it is substantially invested. A Fund may invest together with other Funds advised by an affiliated adviser of Prospect in the manner set forth in the relevant Partnership Agreements and the Prospect investment allocation policy. Prospect will determine the allocation of investment opportunities among Funds in a manner that it believes is fair and equitable consistent with Prospect's obligations and may take into consideration factors such as those set forth above.

Following such determination of allocation among Funds, Prospect will determine if the amount of an investment opportunity in which one or more Funds will invest exceeds the amount that would be appropriate for such Fund(s) and any such excess may be offered to one or more potential co-investors, including third parties, as determined by the Funds' Limited Partnership Agreements, side letters and Prospect's procedures regarding allocation. Prospect's procedures permit it to take into consideration a variety of factors in making such determinations. Decisions regarding whether and to whom to offer co-investment opportunities may be made by Prospect and its related persons in consultation with other participants in the relevant transactions, such as a co-sponsor. Although a prospective co-investor's willingness to invest in future Funds may be considered by Prospect, it generally will not be the sole determining factor considered by Prospect in identifying co-investors.

In certain cases, Prospect will have the opportunity (but, subject to any applicable restrictions or procedures in the relevant Fund's Limited Partnership Agreement, no obligation) to identify one or more secondary transferees of interests in a Fund. In such cases, Prospect will not receive compensation for identifying such transferees, and unless required by the relevant Fund's Limited Partnership Agreement, will not determine whether the opportunity to receive a transfer of Fund interests should be offered to one or more existing Fund investors.

Subject to any relevant restrictions or other limitations contained in the Limited Partnership Agreements of the Funds, Prospect will allocate fees and expenses in a manner that it believes in good faith is fair and equitable to its clients under the circumstances and considering such factors

as it deems relevant, but in its sole discretion. In exercising such discretion, Prospect may be faced with a variety of potential conflicts of interest.

As a general matter, Fund expenses typically will be allocated among all relevant Funds or co-invest vehicles eligible to reimburse expenses of that kind. In all such cases, subject to applicable legal, contractual or similar restrictions, expense allocation decisions will generally be made by Prospect or its affiliates using its reasonable judgment, considering such factors as it deems relevant, but in its sole discretion. The allocations of such expenses may not be proportional, and any such determinations involve inherent matters of discretion, e.g., in determining whether to allocate pro rata based on number of Funds or co-invest vehicles receiving related benefits or proportionately in accordance with asset size, or in certain circumstances determining whether a particular expense has greater benefit to a Fund or Prospect. The Funds have different expense reimbursement terms, including with respect to Management Fee offsets, which may result in the Funds bearing different levels of expenses with respect to the same investment.

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

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

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 and setting such compensation. 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.

As a result of the Funds' controlling interests in portfolio companies, Prospect and/or its affiliates typically have the right to appoint board members to such portfolio companies (including current or former Prospect personnel or persons serving at their request), or to influence their appointment, and to determine or influence a determination of their compensation. From time to time, portfolio company board members approve compensation and/or other amounts payable to Prospect and/or its affiliates.

Prospect and/or its affiliates may also, from time to time, employ personnel with pre-existing ownership interests in portfolio companies owned by the Funds or other investment vehicles advised by Prospect and/or its affiliates; conversely, current or former personnel or executives of Prospect and/or its affiliates may serve in significant management roles at portfolio companies or service providers recommended by Prospect. Similarly, Prospect, its affiliates and/or personnel maintain relationships with (or may invest in) financial institutions, service providers and other market participants, including but not limited to managers of private funds, banks, brokers, advisors, consultants, finders (including executive finders and portfolio company finders), executives, attorneys, accountants, institutional investors, family offices, lenders, current and former employees, and current and former portfolio company executives, as well as certain family members or close contacts of these persons. Certain of these persons or entities will invest (or will be affiliated with an investor) in, engage in transactions with and/or provide services (including services at reduced rates) to, Prospect and/or its affiliates, and/or the Funds or other investment vehicles they advise. Prospect may have a conflict of interest with a Fund in recommending the retention or continuation of a third-party service provider to such Fund or a portfolio company if such recommendation, for example, is motivated by a belief that the service provider or its affiliate(s) will continue to invest in one or more Funds, will provide Prospect information about markets and industries in which Prospect operates (or is contemplating operations) or will provide other services that are beneficial to Prospect. Prospect may have a conflict of interest in making such recommendations, in that Prospect has an incentive to maintain goodwill between it and the existing and prospective portfolio companies for a Fund, while the products or services recommended may not necessarily be the best available to the portfolio companies held by a Fund.

Prospect, its affiliates, and equity holders, officers, principals and employees of Prospect and its affiliates may buy or sell securities or other instruments that Prospect has recommended to a Fund. In addition, officers, principals and employees may buy securities in transactions offered to but rejected by a Fund. Such transactions are subject to any restrictions in the Fund's Governing Documents and any policies and procedures set forth in Prospect's Code of Ethics. The investment policies, fee arrangements and other circumstances of these investments generally vary from those of any Fund. Employees and related persons of Prospect have, and are expected to continue to have, capital investments in or alongside certain Funds, or in prospective portfolio companies directly or indirectly, as well as in investment vehicles (including private funds) sponsored by potential competitors, and therefore may have additional conflicting interests in connection with these investments.

In certain circumstances, current or former Prospect personnel may serve in interim or part-time roles at a portfolio company, or may provide services to a portfolio company as a secondee or in similar capacities. Under such arrangements, Prospect and/or the relevant portfolio company may pay all or a portion of the personnel costs of such employee, or supervise or oversee such employee. These arrangements have the potential to create conflicts of interest, in that amounts

paid by a portfolio company in connection with seconded relationships will not result in additional offsets to the Management Fee. Due to the nature of seconded relationships, which are often initiated to meet a temporary portfolio company need, the arrangements between such employees and the related portfolio company are expected to change over time, and in many cases will be terminated when the portfolio company is sold. Employees may or may not return to Prospect at the end of such seconded arrangement.

In addition, as described above, portfolio companies may pay certain fees to operating partners and other consultants (including consultants introduced or arranged by Prospect and/or its affiliates that regularly provide services to one or more portfolio companies), and such fees do not offset the Management Fee as described herein. Operating partners may make use of Prospect's resources or otherwise are associated with Prospect. Prospect and/or its affiliates may agree to compensate certain of such persons to the extent portfolio company-related compensation falls below certain specified levels on an aggregate annualized basis, or provide other compensation. Operating partners may receive investment opportunities, reimbursements and other compensation that do not offset the Management Fee of any Fund, as described herein. Although the use of operating partners and the allocation of compensation paid to them by Prospect, its affiliates and/or the portfolio companies subjects Prospect and/or its affiliates to potential conflicts of interest, Prospect believes that such potential conflicts may be reduced by the anticipated cost savings to portfolio companies (which is expected to be to the benefit of the applicable Fund(s)) that will result if the cost of the operating partner is lower than market rates for the services provided and/or if the services of the operating partner align with Prospect's model for the portfolio company and improve portfolio company performance. Although Prospect seeks to retain operating partners with a view to reducing costs to portfolio companies (and, ultimately, the Funds) and/or improving portfolio company performance, a number of factors may result in limited or no cost savings from such retention. Prospect also seeks to reduce potential conflicts of interest resulting from such arrangements by structuring compensation packages for such persons in a manner that Prospect believes will align such persons' interests with those of the Funds' limited partners, and seeks to retain only operating partners and service providers which it believes provide a level of service at a value generally consistent with other relevant market alternatives. However, there can be no assurance that no other service provider is more qualified to provide the applicable services or could provide such services at lesser cost.

Prospect has incentives to use or to recommend products or services of one portfolio company to another, which may involve fees, commissions, servicing payments or other compensation. Potential conflicts of interest arise in making such recommendations, as Prospect has incentives to maintain goodwill between it and its former, existing and prospective portfolio companies, and as a result the products or services recommended may not necessarily be the best or lowest cost option. Prospect may also utilize the goods produced by and/or the services provided by portfolio companies owned by the Funds, which subjects Prospect and/or its affiliates to potential conflicts of interest. Prospect, however, believes that such potential conflicts are mitigated by the anticipated cost savings to portfolio companies (which is expected to be to the benefit of the applicable Fund(s)) that will result if the negotiated discount rates for goods and services are discounted relative to those widely available in the market. Discounted prices or better terms offered by a portfolio company to Prospect, any other portfolio company or third parties may affect the returns of the portfolio company.

Any of these situations subjects Prospect and/or its affiliates to potential conflicts of interest. 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 a Fund, other Funds and such investment vehicles in a fair and equitable manner. To the extent that an investment or relationship raises particular conflicts of interest, Prospect will review the circumstances of such investment or relationship with a view to addressing and reducing the potential for conflict. Where necessary, Prospect consults and receives consent to conflicts from an advisory committee consisting of limited partners of the relevant Fund and such other investment vehicles.

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. These entities 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 provide certain business or consulting services to companies in a Fund's portfolio and receive compensation from these companies in connection with such services. As described in the Governing Documents, this compensation will, 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 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:

- The Northern Trust Company, 50 S. LaSalle Street, Chicago, IL 60610
- Delaware Trust Company, One Little Falls Centre, 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, for example, 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. Clients or investors that would like a copy of Prospect's complete Proxy Policy or information regarding how Prospect voted proxies for particular portfolio companies may contact the Prospect Chief Compliance Officer at (312) 782-7400, and it will be provided 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.