

Pharos Capital Group, LLC

One Burton Hills Boulevard
Suite 180
Nashville, Tennessee 37215

Telephone: 615-234-5522
Email: info@pharosfunds.com
Web Address: www.pharosfunds.com

Part 2A of Form ADV: Firm Brochure
September 15, 2011

This brochure provides information about the qualifications and business practices of Pharos Capital Group, LLC. If you have any questions about the contents of this brochure, please contact us at 615-234-5522 or info@pharosfunds.com. 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.

Additional information about Pharos Capital Group, LLC is also available on the SEC's website at www.adviserinfo.sec.gov.

Pharos Capital Group, LLC is an investment adviser registered with the SEC. Such registration does not imply a certain level of skill or training.

Item 2 – Material Changes

Not applicable

Item 3 - Table of Contents

	Page
Cover page	1
Item 2 – Material Changes	2
Item 3 – Table of Contents	3
Item 4 – Advisory Business	4
Item 5 – Fees and Compensation	5
Item 6 – Performance-Based Fees and Side-By-Side Management	6
Item 7 – Types of Clients	6
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss	6
Item 9 – Disciplinary Information	17
Item 10 – Other Financial Industry Activities and Affiliations	17
Item 11 – Code of Ethics, Participation or Interest in Client Transactions And Personal Trading	17
Item 12 – Brokerage Practices	20
Item 13 – Review of Accounts	20
Item 14 – Client Referrals and Other Compensation	21
Item 15 – Custody	21
Item 16 – Investment Discretion	21
Item 17 – Voting Client Securities	21
Item 18 – Financial Information	21

Item 4 - Advisory Business

Pharos Capital Group, LLC's ("Pharos") advisory service is managing private equity funds specializing in later-state investing and providing investment advice incidental thereto to Pharos' clients, including Pharos Capital Partners II-A, LP (the "Fund").

Pharos is an investment adviser with offices in Nashville, Tennessee, Dallas, Texas and Baltimore, Maryland. It was formed as a Delaware limited liability company in 2011. It is principally owned by Kneeland C. Youngblood, Pharos' Managing Partner.

Pharos provides investment advisory services to the Fund. The Fund is not registered under the Investment Company Act of 1940, as amended (the "Investment Company Act") and the securities purchased for the portfolio are not registered under the Securities Act of 1933, as amended.

As investment adviser, Pharos identifies investment opportunities and participates in the acquisition, management, monitoring and disposition of investments for the Fund. The Fund's objective is to achieve attractive risk-adjusted returns by investing in high-growth companies, primarily through equity and equity-related instruments, and Pharos manages the Fund's investments, on a discretionary basis, with that objective in mind. The Fund, and consequently Pharos, has a core focus on the healthcare and business service sectors.

The Fund's primary investment strategy is to partner with management teams to take a substantial or controlling equity position in portfolio companies' capital structure through buyouts, recapitalizations, or staged growth investments. The Fund will then use this position to assist the company in executing its growth strategy and to maximize the investment's exit value. Pharos provides advice and personnel necessary for the Fund to execute such strategies.

Pharos currently manages a total of \$268,277,608 of client assets, all of which are managed on a discretionary basis. Such amount is based upon the calculation of the Fund's net assets as of June 30, 2011, the most recent available calculation of the Fund's net assets as of the date hereof. The Fund is Pharos' only client as of the date hereof.

Item 5 – Fees and Compensation

As compensation for services rendered in the management of the Fund, the Fund's general partner, Pharos Capital Group II-A, LLC (the "General Partner"), pays advisory fees to Pharos pursuant to the terms of an investment advisory agreement. Advisory fees are paid quarterly in advance on the third business day of each calendar quarter. The advisory fees paid to Pharos are based upon a percentage of the management fees received by the General Partner, which management fees are similarly paid to the General Partner quarterly in advance on the third business day of each calendar quarter. The advisory fees paid by the General Partner to Pharos are contractual in nature and are not

expected to be negotiated further. Pharos expects that other clients will have similar arrangements or that Pharos will receive a fee based upon the client's net assets under Pharos' management. Such arrangements may be negotiated by Pharos and its clients. Pharos does not currently have a set fee schedule.

Based upon the limited partnership agreement's restrictions on the Fund's ability to terminate the services provided by the General Partner, there is not an occasion when the quarterly pre-paid fees are refunded by the General Partner to the Fund. As the advisory fees paid to Pharos are a percentage of the fees received by the General Partner, there is not an occasion when such quarterly fees are refunded by Pharos.

In accordance with the terms of the limited partnership agreement, during the period beginning July 1, 2009, the fees paid to the General Partner are 2% of aggregate dollars invested by the Fund less a) cost basis of disposed investments, b) cost basis of investments written off and c) with respect to any investment carried below cost, the amount by which the investment is carried below cost. The advisory agreement between the General Partner and Pharos specifies that, as of September 15, 2011, Pharos will receive 85% of such fees paid to the General Partner.

In addition to the advisory fees discussed above, Pharos may be entitled to certain expense reimbursements, which are disclosed in the advisory agreement.

Pharos does not receive any fees or payments from the Fund other than those described above. However, in some cases, Pharos may receive other fees, including transaction fees, monitoring fees, advisory fees, break-up fees and other similar fees, from a client or its portfolio companies, to the extent permitted by applicable law. Pharos anticipates that, if such fees are received, such fees and any directors' fees paid by a client's portfolio companies will be applied to reduce Pharos' advisory fee fee, after accounting for any unreimbursed expenses incurred by Pharos in connection with unconsummated transactions.

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

The Fund allocates a portion of its investment profits to the General Partner, as carried interest, as set forth in the Fund's limited partnership agreement. Such carried interest is allocated to the General Partner after each investor receives 100% of its contributed capital plus an 8% per annum internal rate of return. Thereafter, the profit participation is 80% to investors and 20% to the General Partner. Such performance-based distributions may create an incentive for the General Partner to take risks in managing the Fund that it would not otherwise take in the absence of such arrangements.

At present, there are no arrangements pursuant to which Pharos will receive any portion of the performance-based fees paid to the General Partner in exchange for providing investment advisory services to the Fund. Further, there are no performance-based fee arrangements for side-by-side management of co-investment opportunities or friends and family funds (which co-investment opportunity participants or friends and family funds

are not, in any event, clients of Pharos). However, in the future, Pharos may negotiate for and receive performance-based fees from Pharos' clients, provided that the receipt of any such fees is permitted by applicable laws and SEC rules. Performance-based fees may create an incentive for Pharos to favor accounts with such fee structures. Performance-based fees may also create an incentive for Pharos to make investments that are riskier or more speculative than would be the case in the absence of such fee arrangements. Pharos maintains internal policies and procedures designed to address such conflicts of interest. Further, it is possible that the investment strategies and targets of Pharos' clients with performance fee arrangements may be entirely different than those clients without such fee arrangements, further reducing the chances of conflicts of interest.

Item 7 – Types of Clients

At the present time the Fund (a limited partnership) is Pharos' only client. Please see Item 10 – Other Financial Industry Activities and Affiliations for further details.

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

Pharos' clients primarily seek to provide capital to create substantial or controlling equity positions in established businesses. When evaluating an investment opportunity on behalf of its clients, Pharos performs a multi-faceted review of portfolio company related criteria and specific investment criteria. Company related criteria that Pharos reviews includes the target company's management, profitability, growth potential and scalability, and predictable risk exposure. The investment criteria Pharos reviews includes evaluating each opportunity to determine if Pharos' client can function as a lead or in a co-lead role in the investment. Pharos' clients seek to take a controlling position in its portfolio companies. In those cases where a client is not the majority shareholder at the time of its initial investment, the client will typically structure such investment to include negative control provisions and majority ownership of its class of stock, either independently or with its co-investment partners. Pharos believes in a conservative use of leverage. Pharos looks for opportunities for its clients to add value beyond the capital invested. The General Partner provides ongoing support and counsel to the Fund's portfolio companies through active board participation, usually taking a leadership role on the audit, compensation, and/or strategic planning committees. Pharos may provide additional support and counsel to the General Partner and/or to its other clients. Pharos plans to customize the structure of each investment to meet the risk and return objectives of its clients, using innovative deal structures. Finally, Pharos prefers to assist its clients in investing in portfolio companies that have several exit strategies. These exits may involve a financial buyer, an initial public offering, a recapitalization, or a sale to a strategic purchaser.

Material Risks of Significant Investment Strategies

The investments made by Pharos' clients entail a high degree of risk and investments in Pharos' clients are suitable only for sophisticated investors who fully understand and are capable of bearing the risks of an investment in such client. Prospective investors should carefully consider the following factors, among others, in making their investment

decision. There can be no assurance that Pharos' clients will be able to achieve their respective investment objectives or that investors will receive any return of capital.

- **Investment in Securities Risk** - Investing in securities involves risk of loss that Pharos' clients should be prepared to bear.
- **Nature of the Clients' Investments** - Many of Pharos' clients' investments typically will be highly illiquid, and there can be no assurance that Pharos' clients will be able to realize a return on such investments in a timely manner. Consequently, dispositions of such investments may require a lengthy time period or may result in distributions in kind to the investors of securities that may or may not be marketable. Additionally, Pharos' clients typically will acquire securities that cannot be sold except pursuant to a registration statement filed under the U.S. Securities Act of 1933, as amended (the "Securities Act"), or in a private placement or other transaction exempt from registration under the Securities Act and that complies with any applicable non-U.S. securities laws. The securities in which Pharos' clients will invest generally will be the most junior in what typically will be a complex capital structure, and thus will be the securities subject to the greatest risk of loss. Certain of Pharos' clients' investments may be in companies with high levels of debt. Certain of Pharos' clients' investments may be in leveraged buyouts; leveraged buyouts by their nature require companies to undertake a high ratio of fixed charges to available income. Such investments are inherently more sensitive to declines in revenues and to increases in expenses.
- **Lack of Diversification; Risk of Loss of Capital** - Investment in Pharos' clients involves a high degree of risk. Since Pharos' clients may only make a limited number of investments, and since Pharos' clients' investments generally will involve a high degree of risk, poor performance by a few of the investments could severely affect the total returns to the investors. There can be no assurance that the targeted IRR will be attained or that invested capital will be returned to the investors.
- **Restrictions on Transfer and Withdrawal** - An investment in Pharos' clients requires the financial ability and willingness to accept significant risk and illiquidity. An investment in Pharos' clients requires a long-term commitment, with no certainty of return. There most likely will be little or no near-term cash flow available to the investors. The interests have not been registered under the Securities Act or any other applicable securities laws. There is no public market for the interests and none is expected to develop. In addition, the interests are not transferable except with the consent of the General Partner, which generally may be withheld by the General Partner in its sole discretion, and are subject to the terms and conditions of the limited partnership agreement. Investors generally may not withdraw capital from Pharos' clients. Consequently, investors may not be able to liquidate their investments prior to the end of the client's term.
- **General Economic Conditions** - General economic conditions may affect the opportunities available to Pharos' clients. Interest rates, general levels of

economic activity, the price of securities and participation by other investors in the financial markets may affect the value and number of investments made by a client or considered for prospective investment. The U.S. and global market and economic conditions have been, and continue to be, difficult and volatile. In particular, the cost and availability of funding has been and may continue to be adversely affected by the illiquidity and widening credit spreads in the credit markets. Continued turbulence in the U.S. and international markets and economy, as well as changes in market, economic, political, technological, regulatory and social conditions and numerous other factors outside of the control of Pharos could materially and adversely affect the liquidity, financial condition, activities and prospects of Pharos' clients and their portfolio companies.

In September and October 2008, world financial markets experienced extraordinary market conditions, including, among other things, extreme losses and volatility in securities markets and the failure of credit markets to function. In reaction to these events, regulators in the United States and several other countries undertook unprecedented regulatory action. The U.S. Government and securities regulators of many other jurisdictions continue to consider and implement measures to stabilize U.S. and global financial markets. It is uncertain whether governmental actions will be able to prevent further losses and volatility in securities markets, or stimulate the credit markets. Pharos' clients may be adversely affected by the foregoing events, or by similar or other events in the future. In the longer term, there may be significant new regulations that could limit Pharos' clients' activities and investment opportunities or change the functioning of the capital markets. Consequently, Pharos' clients may not be capable of, or successful at, preserving the value of their assets, generating positive investment returns, or effectively managing risks.

- **General Regulatory and Legal Risks** - Pharos' clients expect to make investments in a number of different industries, some of which are or may become subject to regulation by one or more U.S. federal agencies and by various agencies of the states, localities and counties in which they operate. New and existing regulations, changing regulatory schemes and the burdens of regulatory compliance all may have a material negative impact on the performance of the client and the portfolio companies that operate in these industries.
- **Healthcare Regulation, Reimbursement and Reform** - Pharos' clients intend to make investments in healthcare-related companies. In recent years, numerous legislative proposals have been introduced or proposed in the U.S. Congress and in certain state legislatures that would effect major changes in the U.S. healthcare system at both the national and state levels. It is not clear at this time which proposals, if any, will be adopted or, if adopted, what effect such proposals would have on the healthcare industry. There can be no assurance that new legislation or regulation, including changes to existing laws and regulations, will not have a material negative impact on the performance of Pharos' clients' investments and the portfolio companies that operate in these industries. In addition, various segments of the healthcare industry are highly regulated at both the state and

federal levels, are subject to frequent regulatory change and may be dependent upon various state and federally funded reimbursement programs. While Pharos' clients intend to make investments in companies that comply with relevant state and federal laws, certain aspects of their operations may not have been subject to judicial or regulatory interpretation. An adverse review or determination by any one of such authorities, or adverse changes in the regulatory requirements or reimbursement programs, could have a material adverse effect on the operations of the healthcare-related companies in which Pharos' clients invest.

- **Competitive Nature of Pharos' Clients' Business** - The business of Pharos' clients is highly competitive. Pharos' clients will be competing for investments against other groups, including direct investment firms, merchant banks and industrial groups, and Pharos may be unable to identify a sufficient number of attractive investment opportunities for its clients to meet their investment objectives. Other investors may make competing offers for investment opportunities that are identified, and even after an agreement in principle has been reached with the board of directors or owners of an acquisition target, consummating the transaction is subject to myriad uncertainties, only some of which are foreseeable or within the control of Pharos.
- **Dependence on Key Personnel** - The success of Pharos' clients depends in substantial part on the skill and expertise of the employees of Pharos. There can be no assurance that these persons will continue to be employed by Pharos. The loss of key personnel could have a material adverse effect.
- **No Right to Control the Fund's Operations** - Investors will have no opportunity to control the day-to-day operations of Pharos' clients, including investment and disposition decisions. In order to safeguard their limited liability for the liabilities and obligations of a client, investors must rely entirely on Pharos to conduct and manage, respectively, the affairs of the client.
- **ERISA Considerations; Risk Arising from Provision of Managerial Assistance** - Pharos will use its reasonable best efforts to conduct the affairs and operations of its clients so as to either (i) qualify each client as a "venture capital operating company" ("VCOC") or (ii) limit investment in each client by "benefit plan investors" (within the meaning of regulations promulgated by the Department of Labor, as modified by section 3(42) of ERISA) to less than 25% of each class of equity interests in a particular client. If Pharos decides to qualify a client as a VCOC, then the client must obtain rights to participate substantially in and to influence substantially the conduct of the management of the majority (valued at cost) of the client's portfolio companies. Pharos' clients typically will designate directors to serve on the boards of directors of portfolio companies. The designation of representatives and other measures contemplated could expose the assets of Pharos' clients to claims by a portfolio company, its security holders and its creditors, including claims that Pharos' client is a controlling person and thus is liable for securities laws violations of a portfolio company. These measures also could result in certain liabilities in the event of the bankruptcy or

reorganization of a portfolio company; could result in claims against the client if the designated directors violate their fiduciary or other duties to a portfolio company or fail to exercise appropriate levels of care under applicable corporate or securities laws, environmental laws or other legal principles; and could expose the client to claims that it has interfered in management to the detriment of a portfolio company. While Pharos intends to provide investment advice to its clients in a way that will minimize the exposure to these risks, the possibility of successful claims cannot be precluded. In addition, as a VCOC, a client may be precluded from making certain investments and may be required to liquidate investments at a disadvantageous time, resulting in lower proceeds to the client than might have been the case without the need for such compliance.

- **Risks Upon Disposition of Investments** - Pharos' clients may invest in securities, instruments and assets that are not, and are not expected to become, publicly traded. Pharos' clients will generally not be able to sell securities publicly unless the sale is registered under applicable securities laws, or unless an exemption from such registration requirements is available. In many cases, Pharos' clients may also be prohibited by contract from selling its investments for a period of time or otherwise be restricted from disposing of its investments. Furthermore, the types of investments made may require a substantial length of time to realize a return or fully liquidate. Pharos' clients may exit some investments through distributions in kind to the investors, after which investors will bear the risk of holding the securities and must make their own disposition decisions. Pharos' clients may invest in the most junior securities of a company with a complex capital structure, which are subject to the greatest risk of loss.

In connection with the disposition of an investment in a portfolio company, Pharos' clients 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, or may be responsible for the contents of disclosure documents under applicable securities laws. Although Pharos attempts to structure transactions so that they do not have to do so, Pharos' clients may also be required to indemnify the purchasers of such investment or underwriters to the extent that any such representations or disclosure documents turn out to be incorrect, inaccurate or misleading. These arrangements may result in contingent liabilities, which might ultimately have to be funded by the investors. Pharos' clients' governing documents usually contain provisions to the effect that if there is any such claim in respect of a portfolio company, it will be funded by the investors to the extent that they have received distributions from the client, subject to certain limitations.

The General Partner may determine to delay realization events to the Fund's investors as a result of general economic conditions, illiquidity of portfolio investments, contractual prohibitions or other reasons, and Pharos or its clients' general partners will make similar determinations with respect to Pharos' other clients. While under normal circumstances distributions will be made in cash, it is possible that certain distributions to Pharos' clients' investors may be made in

kind and could constitute securities for which there is no readily available public market and with respect to which there are substantial transfer restrictions.

- **Consequences of Default** - In the event that an investor fails to fund any portion of its capital commitment when due or purports to transfer or encumber its interest in a Pharos client other than in accordance with the client's governing documents, the General Partner may exercise a number of remedies, including (i) seeking specific performance of such investor's payment obligations or other damages, (ii) causing the defaulting investor to forfeit up to 50% of future distributions that would have been made to it by the client, (iii) causing the defaulting investor to be excluded from voting or participating in future investments or (iv) causing a forced sale of the defaulting investor's interest in the client. Unless the General Partner elects to terminate a portion of a defaulting investor's unfunded commitment, the defaulting investor will continue to remain obligated to make capital contributions to the client up to the full amount of its unfunded commitment (which obligations may be offset by amounts otherwise distributable to such investor).
- **Performance Allocations** - The fact that Pharos, either directly or indirectly through its advisory fee arrangement with its clients' general partner, is entitled to distributions based on the performance of Pharos' clients may create an incentive for Pharos to cause its clients to make investments that are more speculative than would be the case in the absence of performance-based distribution. However, this incentive may be tempered somewhat by the fact that losses will reduce Pharos' clients' performance and thus distributions to Pharos or any affiliate of Pharos.
- **Absence of Regulatory Oversight** - The securities of the portfolio companies have not been and will not be registered under the laws of any jurisdiction (including the Securities Act, the laws of any state of the United States, or the laws of any non-U.S. jurisdiction), and are being offered in reliance upon an exemption from such laws. Pharos' clients have not been and are not expected to be recommended by any U.S. federal or state, or any non-U.S., securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of the clients' offering documents.
- **Investments in Debt** - Pharos' clients may invest in certain debt instruments, including bank loans and unsecured bonds. Such investments may be below investment grade or unrated, and therefore face ongoing uncertainties and exposure to adverse business, financial or economic conditions. It is possible that any such economic downturn could adversely affect the ability of the issuers of such investments to repay principal and pay interest thereon and increase the incidence of default of such investments.
- **Bankruptcy of Portfolio Companies** - Pharos' clients may make investments in portfolio companies that may experience financial difficulties and become

insolvent or file for bankruptcy protection. Various U.S. federal and state and non-U.S. laws in connection with such bankruptcy proceedings could operate to the detriment of Pharos' clients. There is also a risk that a court may subordinate Pharos' clients' investment to other creditors or require Pharos' clients to return amounts previously paid by a portfolio company that became insolvent or files for bankruptcy, a risk that could increase if a Pharos client has management rights in such portfolio company.

- **Unforeseen Events Risk** - Portfolio companies may be subject to catastrophic events and other force majeure events such as fires, earthquakes, adverse weather conditions, changes in law, eminent domain, riots, terrorist attacks, epidemics and similar risks. In addition, depending on the country in which a portfolio company is located, the risk of adverse political developments may exist, including nationalization, confiscation without fair compensation or war. These events could result in the partial or total loss of a portfolio investment or significant down time, resulting in lost revenues, among other potentially detrimental effects.
- **Risks Relating to Non-U.S. Investments** - Certain non-U.S. investments involve risks and special considerations not typically associated with U.S. investments. Such risks may include but are not limited to (i) differing business cultures and legal regimes, (ii) the risk of expropriation of assets or confiscatory taxation, (iii) social, economic and political uncertainty, including war and revolution, (iv) dependence on exports and the corresponding importance of international trade, (v) greater price fluctuations and market volatility, less liquidity and smaller capitalization of securities markets, (vi) currency exchange rate fluctuations, (vii) higher rates of inflation, (viii) controls on, and changes in controls on, non-U.S. investment and limitations on repatriation of invested capital and on Pharos' clients' ability to exchange local currencies for United States dollars, (ix) governmental involvement in and control over the economies, (x) governmental decisions to discontinue support of economic reform programs generally and to impose centrally planned economies, (xi) differences in auditing and financial reporting standards which may result in the unavailability of material information about issuers, (xii) less extensive regulation of the securities markets, (xiii) longer settlement periods for securities transactions (xiv) differences in tax regimes and changes in tax treaties and (xv) less developed corporate laws regarding fiduciary duties and the protection of investors.
- **Foreign Currency and Exchange Risks** - To the extent that a Pharos client directly or indirectly holds assets in local currencies in countries outside the United States, the client will be exposed to a degree of currency risk that may adversely affect performance. Changes in foreign currency exchange rates may materially affect the value of securities in the client's portfolio. In addition, the client will incur costs in connection with conversions between various currencies.
- **Unspecified Use of Proceeds** - Pharos' clients will be dependent upon the judgment and ability of Pharos in investing and managing their capital. No

assurance can be given that Pharos' clients will be successful in obtaining suitable investments, or that if such investments are made, the objectives of the Pharos' clients will be achieved.

- **Exculpation; Indemnification; Return of Distributions** - Typically, Pharos' clients will be required to indemnify the General Partner and each other covered person for liabilities incurred in connection with the client's governing documents and the activities of such client, except under certain circumstances. Such liabilities may be material and may have an adverse effect on the client's returns to the investors.
- **Follow-on Investments** - Pharos' clients may be called upon to provide follow up funding for their portfolio companies or have the opportunity to increase their investment in such portfolio companies. There can be no assurance that Pharos' clients will wish to make follow-on investments or that it will have sufficient funds to do so. Any decision by Pharos not to make follow-on investments or Pharos' clients' inability to make them may have a substantial negative impact on a portfolio company in need of such an investment or may diminish the client's ability to influence the portfolio company's future development.
- **Side Letters** - The General Partner or Pharos' clients may enter into other written agreements ("Side Letters") with one or more investors. These Side Letters may entitle an investor to make an investment in the client on more favorable terms than those offered to other investors. If the General Partner or the client enters into a Side Letter entitling an investor to opt out of a particular investment, any election to opt out by such investor may increase other investor's pro rata interests in that particular investment.
- **Risk of Dilution** - Investors admitted to a Pharos client at subsequent closings will generally participate in existing investments of the client, diluting the interests of existing investors therein. Although such investors will generally contribute an amount equal to their pro rata share of capital contributions previously made, there can be no assurance that this payment will reflect the fair value of the client's existing investments at the time such additional investors are admitted.
- **Reliance on Management of Portfolio Companies** - While it is the intent of Pharos to invest in companies with proven operating management in place, there can be no assurance that such management will continue to operate successfully. Although Pharos will monitor the performance of each investment, each client will rely upon management to operate the portfolio companies on a day-to-day basis.
- **Compliance with Anti-Money Laundering Requirements** - In response to increased regulatory concerns with respect to the sources of funds used in investments and other activities, Pharos' clients may request investors to provide additional documentation verifying, among other things, such investors' identity

and source of funds used to purchase interest in Pharos' clients. The General Partner may decline to accept a subscription if this information is not provided or on the basis of such information that is provided. Requests for documentation and additional information may be made at any time during which an investor holds an interest in a client. The General Partner may be required to provide this information, or report the failure to comply with such requests, to appropriate governmental authorities, in certain circumstances without notifying the investors that the information has been provided. The General Partner will take such steps as it determines are necessary to comply with applicable law, regulations, orders, directives or special measures. Governmental authorities are continuing to consider appropriate measures to implement and at this point it is unclear what steps the General Partner, or possibly Pharos, may be required to take; however, these steps may include prohibiting an investor from making further contributions of capital to a client, depositing distributions to which an investor would otherwise be entitled to in an escrow account or causing the withdrawal of an investor from such client.

- **Increased Regulatory Scrutiny** - The financial services industry generally and the activities of private investment funds and their managers, in particular, have been subject to intense and increasing regulatory oversight. Such scrutiny may increase Pharos' and its clients' exposure to potential liabilities and to legal, compliance and other related costs. Increased regulatory oversight may impose administrative burdens on Pharos, including, without limitation, responding to investigations and implementing new policies and procedures. Such burdens may divert Pharos' time, attention and resources from portfolio management activities. It is anticipated that, in the normal course of business, Pharos' officers will have contact with governmental authorities and/or be subjected to responding to inquiries or examinations. Pharos' clients and affiliates may also be subject to regulatory inquiries concerning their securities positions and trading.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") aims to reform various aspects of the U.S. financial markets. In connection with the Dodd-Frank Act, there has been and will continue to be extensive rulemaking and regulatory changes that will affect private fund managers, the funds that they manage and the financial industry as a whole. Expected to be included in those changes are new recordkeeping and reporting requirements that will add costs to the legal, operations and compliance obligations of Pharos and its clients' general partners and increase the amount of time that Pharos spends on non-investment related activities. Until the new requirements are fully implemented, it is not known how burdensome such requirements will be. Until the implementation of such regulatory changes, it is difficult to anticipate the effect on Pharos and its clients. It may take years to understand the effect of the Dodd-Frank Act on the financial industry as a whole, and therefore, the continued uncertainty may make markets more volatile, and it may be more difficult for Pharos to execute the investment strategy of its clients.

- **Use of Quantitative Analytics and Financial Models, Valuation Methodologies** - In providing investment advice to its clients, Pharos uses sophisticated quantitative metrics and financial models (as discussed below). These metrics and models are proprietary in nature, and have been developed over time by Pharos' affiliates and personnel. Although Pharos believes in such analytical tools, there is no guaranty that they will accurately state a particular investment's true worth or potential risks, or that such analytical tools will correctly forecast a particular investment's actual returns on investment. Additionally, the stress tests and other tests performed by Pharos may not be able to accurately account for every possible contingency with respect to a potential portfolio company's business and operations.

Additionally, Pharos employs a variety of valuation methodologies (discussed below) when making determinations with respect to the price its clients should pay in order to make any particular investment. Further, although Pharos seeks to use as reliable information as possible, there is no guaranty that the information provided by third parties, including the possible acquisition targets, for use in Pharos' discounted cash flow analysis will be accurate. Additionally, although Pharos will seek to analyze data regarding companies as analogous as possible to a potential investment target, there may be subtle or significant differences applicable to the target company that Pharos may not be able to predict or that may not be easily fit into Pharos' models. Any or all of these possible conditions mean that there is no guaranty that such methodologies, individually or as a whole, will generate an accurate valuation for a potential investment. A valuation that comes out too high may increase the price a Pharos client may ultimately pay for a portfolio company and that may adversely impact the client's return on investment upon the client's exit. A valuation of a portfolio company that is too low, particularly with respect to a potential investment that is also being pursued by other investors, could result in a Pharos client abandoning its pursuit of a potential investment and missing an opportunity. Pharos seeks to minimize these risks by obtaining data and information that is as reliable and as current as possible, and through the conduct of Pharos' pre-investment due diligence on behalf of its clients.

Risk Management

Pharos' approach towards risk management is best characterized as emphasizing loss avoidance. In addition to being highly selective in the transactions Pharos chooses to pursue on behalf of its clients, Pharos seeks to limit the risk profile on an investment upfront through the use of creative structures and securities that increase the Fund's protection and limit its downside risk. Pharos makes use of a highly analytical proprietary approach to derive the risk/return profile for each investment and tailors the structure of each investment accordingly. In most cases, Pharos uses senior liquidation preferences or full-ratchet anti-dilution protection to reduce the risk profile of its investments. Additionally, Pharos intends to structure investments to carry a minimum preferred return and, in many cases, to have a participating preferred structure. Pharos

also strives, where possible, to structure investments with redemption rights. By including redemption rights, exit potential and visibility are improved even if the capital markets are closed. Funding investments in tranches tied to performance metrics further reduces risks by allowing Pharos to more efficiently allocate investment capital to the firms that can best utilize it at each point in their lifecycles.

Pharos derives a consistent advantage in deal evaluation and negotiation through its sophisticated quantitative analytics. For each investment opportunity that reaches the term sheet stage, a proprietary financial model is built by the deal team, which is used to stress test the forecasted financial results of the prospective business. These stress tests, which include sensitivity analyses on the key variables believed to drive the financial performance of the business, can then be used to determine the risk/return benefits of pursuing the investment opportunity, and ultimately guide valuation and deal structure. Pharos believes this rigorous, quantitative methodology has improved its ability to both avoid losses and enhance returns by identifying the deal terms and operational risks that matter most. When coupled with Pharos' experience in navigating complex situations, deals can be structured in a precise manner such that all key terms (as determined through quantitative analysis) favor Pharos' clients and only minor points are ceded. After the transaction is consummated, these tools can be converted for use by management teams to add visibility into their respective businesses.

Pharos will use a number of different valuation methodologies to determine the price it is willing to pay for a prospective investment. These methodologies include (i) discounted cash flow analysis, (ii) comparable company multiple analysis, taking industry appropriate public market multiples with respect to historical and projected financial results (revenues, EBITDA, net income, book value) and (iii) comparable company M&A analysis, taking multiples paid for the acquisition of similar private or public companies and applying appropriate discounts and premiums. When considering these methodologies, Pharos will seek to determine the price that it believes will generate the targeted return on investment (ROI) at the projected time of exit, taking into account a range of possible performance results for the company.

Item 9 – Disciplinary Information

Pharos has no disciplinary events to disclose.

Item 10 – Other Financial Industry Activities and Affiliations

Pharos' affiliates may from time to time also allocate and establish, on a transaction-by-transaction basis, co-investment opportunities to strategic and other investors, lenders, and current investors and their affiliates. Co-investment opportunities may be made available through limited partnerships or other entities formed to make such investments. In addition, Pharos' affiliates may form one or more "friends and family" co-investment vehicles to invest side-by-side in each investment made by the Fund. The terms of co-investments may differ from those of the Pharos client in question; however, each investment in a portfolio company by a co-investment vehicle generally will be on economic terms no more favorable than those received by the Pharos client.

Messrs. Kneeland C. Youngblood, D. Robert Crants, III., Michael W. Devlin and James W. Phillips are the owners of, and collectively control, Pharos. They also own and control the General Partner and the general partner and sponsor (collectively, the “Other GPs”) of each of Pharos Capital Partners, L.P. (“Fund I”), Pharos Capital Partners II, L.P. (“Fund II”) and Pharos Capital Partners III, L.P. (“Fund III”), making the General Partner and Other GPs related persons of Pharos. Funds I, II and III (collectively, the “Other Pharos Funds”) are private, pooled investment vehicles not required to be registered as investment companies under the Investment Company Act of 1940, as amended, and have investment objectives similar to those of the Fund. Please see Item 11 - Conflicts of Interest, below, for a discussion of how Pharos affiliates deal with any conflicts related to such common ownership and control that may arise.

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

Code of Ethics

Pursuant to SEC Rule 204A-1 under the Investment Advisers Act of 1940, as amended, Pharos has adopted a comprehensive Code of Ethics and Code of Conduct that is applicable to all of its officers and employees. The Code of Ethics and Code of Conduct are fundamental to Pharos’ values and essential to achieving its mission to lead in the investment profession by setting high standards of education, integrity and professional excellence. Clear guidelines are established for professional conduct, personal trading procedures (including pre-clearance and reporting obligations of employees and their families), prohibition of use of non-public information, confidentiality and privacy, conflicts of interest and reporting of political and charitable contributions and gifts.

Pharos will provide a copy of its Code of Ethics and Code of Conduct to any client or investor upon request.

Conflicts of Interest

Potential investors should be aware that there will be situations where Pharos and its affiliates may encounter potential conflicts of interest in connection with Pharos’ clients’ investment activities and otherwise. The following discussion details certain potential conflicts of interest which should be carefully considered.

- **Management of the Fund** - The managing members of Pharos will devote substantially all of their business time and efforts to providing investment advisory services to Pharos’ clients and to the Other Pharos Funds, as such managing members deem necessary and appropriate.
- **Relationship with Other Pharos Funds** - As discussed above, affiliates of Pharos currently manage the Other Pharos Funds, which are non-registered funds whose general partners are related persons of Pharos. The Other Pharos Funds have investment objectives similar to those of the Fund. The Fund may invest in

portfolio companies in which one or more Other Pharos Funds also have invested, and may invest either concurrently with, or subsequent or prior to the investment by, an Other Pharos Fund. Allocation of available investment opportunities between such clients will be made by the managing members of Pharos and the Other GPs, who the same individuals, in their sole discretion.

The appropriate allocation between Pharos' clients of expenses and fees generated in the course of evaluating and making investments that are not consummated, such as out-of-pocket fees associated with due diligence, attorney fees and the fees of other professionals, will be determined by Pharos in its good faith discretion.

- **Legal Representation** - Counsel to Pharos may represent Pharos, the General Partner and/or the Other GPs, the Other Pharos Funds and Pharos' clients and affiliates from time to time in a variety of different matters. Pharos' clients will generally engage common legal counsel to represent them in a particular transaction, including a transaction in which different clients may have conflicting interests because they are investing in different classes of securities of the same portfolio company. Although separate counsel may be engaged from time to time in the sole discretion of the General Partner and/or Other GPs as applicable, such entities and Pharos believe that the time and cost savings and other efficiencies and advantages of having a common counsel for its clients usually outweigh the disadvantages. In the event of a significant dispute or divergence of interests between one client and another client, typically in a workout or other distressed situation, separate representation may become desirable, and in litigation and other circumstances, separate counsel may be essential. Pharos and/or the General Partner and Other GPs, as applicable, will resolve any such issues in its good faith discretion.

Pharos and its clients' legal counsel do not represent or owe any duty to any or all of the clients' investors. Legal counsel represents Pharos, including with respect to Pharos' role in relation to the client. It is not anticipated that, in connection with the organization or operation of a client, Pharos or the General Partner or Other GPs will have the client engage counsel separate from counsel to Pharos. In no event will legal counsel engaged by a client be acting as counsel for the investors. Furthermore, in the event a conflict of interest or dispute arises between Pharos and a client or any investors, it will be accepted that legal counsel is counsel to Pharos and not counsel to the client or investors, notwithstanding the fact that, in certain cases, legal counsel's fees are or may be paid through or by the client. Other matters may exist that could have a bearing on a client, Pharos or its affiliates as to which legal counsel has not been consulted. In addition, legal counsel has not undertaken to monitor the compliance of Pharos with the investment program, valuation procedures and other guidelines and terms set forth in the offering documents and limited partnership agreement, nor does legal counsel monitor compliance with applicable laws. Legal counsel has not investigated or verified the accuracy or completeness of the information set forth

in the offering documents concerning Pharos' clients or Pharos and their affiliates and personnel.

- **Resolution of Conflicts with the Fund** - The Fund has an Advisory Committee consisting of representatives of investors not affiliated with Pharos or the General Partner. The Advisory Committee will meet as required to consult with Pharos as to, among other things, potential conflicts of interest. On any issue involving actual conflicts of interest, Pharos and/or the General Partner, as applicable, will be guided by its good faith discretion. In the event that any matter arises that Pharos or the General Partner determines constitutes an actual conflict of interest between a client, on the one hand, and Pharos or its affiliates, on the other hand, Pharos and/or the General Partner may take such actions as it deems necessary or appropriate in good faith to ameliorate the conflict (and, upon taking such actions approved by the Advisory Committee, Pharos and the General Partner will be relieved of any responsibility for the conflict of interest). These actions may include disposing of the security held by a client giving rise to the conflict of interest or appointing an independent fiduciary. Pharos will retain ultimate responsibility for all decisions relating to the execution of the Fund's investment program and decisions, while the General Partner will retain ultimate responsibility for all decisions relating to the operation and management of the Fund. Pharos may or may not retain more or less responsibility with respect to other clients, as determined at the time at which Pharos is hired as their investment adviser.
- **Diverse Limited Partner Group** - Pharos' clients' investors are expected to include U.S. taxable and tax-exempt entities, and institutions from jurisdictions outside of the United States. Such investors may have conflicting investment, tax and other interests with respect to their investments in Pharos' clients. The conflicting interests of individual investors may relate to or arise from, among other things, the nature of investments made by the client, the structuring of the acquisition of investments and the timing of the disposition of investments. As a consequence, conflicts of interest may arise in connection with decisions made by Pharos, including with respect to the nature or structuring of investments, that may be more beneficial for one investor than for another investor, especially with respect to investors' individual tax situations. In selecting and structuring investments appropriate for its clients, Pharos will consider the investment and tax objectives of the client and the investors as a whole, not the investment, tax or other objectives of any investor individually.

By acquiring an interest in a client of Pharos, each investor will be deemed to have acknowledged the existence of such actual and potential conflicts of interest and to have waived any claim with respect to any liability arising from the existence of any such conflict of interest.

- **Portfolio Companies** - Investment professionals of Pharos may serve as directors of certain portfolio companies and, in that capacity, will be required to make decisions that they consider to be in the best interests of the portfolio company.

In certain circumstances, for example in situations involving bankruptcy or near insolvency of the portfolio company, actions that may be in the best interests of the portfolio company may not be in the best interests of a client of Pharos, and vice versa. Accordingly, in these situations, there may be conflicts of interests between such individual's duties as an officer or employee of Pharos and such individual's duties as a director of the portfolio company. In such situations, the individual will use his best business judgment to determine how to act in his or her capacity as a director of the portfolio company, and may or may not recuse himself or herself from the decision-making process, if necessary.

- **Investments in Portfolio Companies of the Other Pharos Funds** - A Pharos client may invest in debt or equity of companies in which other clients hold securities, including equity securities. In the event that such investments are made, the interests of one client may be in conflict with the interests of one or more other clients, particularly in circumstances where the underlying company is facing financial distress. If a portfolio company in which one client has a debt investment and in which another client has an equity or senior debt investment becomes distressed or defaults on its obligations under the debt investment, Pharos may have conflicting loyalties between the respective clients and, possibly, the portfolio company. In that regard, actions may be taken for one client that are adverse to another client, or actions may or may not be taken by one client due to such other client's investment, which action or failure to act may be adverse to the client. In addition, it is possible that in a bankruptcy preceding one client's interest may be subordinated or otherwise adversely affected by virtue of such another client's involvement and actions relating to its investment. Further, the involvement of funds managed by Pharos at both the equity and debt levels could inhibit strategic information exchanges among fellow creditors. In certain circumstances, one client may be prohibited from exercising any voting rights, and may be subject to claims by other creditors that its rights should be subordinated to the rights of such other creditors, in respect of the debt securities that it holds of an issuer because of the equity investment in such issuer made by another client. Pharos will attempt to resolve any such conflicts of interest in good faith, but there can be no assurance that such conflicts of interest or actions taken by Pharos in respect of any one client will not have an adverse effect on the investments made by another client.

Item 12 – Brokerage Practices

Not applicable

Item 13 – Review of Accounts

Review of Accounts

The investment portfolio of Pharos' clients is generally private, illiquid and long-term in nature; accordingly, Pharos' review of them is not directed towards a short-term decision to dispose of securities. However, Pharos continually reviews and analyzes existing

portfolio companies and maintains an ongoing oversight position in such portfolio companies to identify issues early on and take action when necessary.

Reporting

The portfolio companies are valued quarterly in accordance with Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures, which define fair value and establishes a framework for measuring fair value in accordance with accounting principals generally accepted in the United States. Pharos' clients undergo an annual audit conducted by Ernst & Young LLP and Pharos provides audited financial statements to investors on an annual basis, which will be delivered to Pharos' clients (and/or their investors, as necessary under applicable law and SEC rules) within 120 days of the end of the client's fiscal year. Unaudited financial statements are provided on a quarterly basis. Pharos' clients' investors' capital account balances are provided on a quarterly basis. In addition, such investors receive an investor newsletter describing the performance of the respective client. U.S. Federal income tax information is provided annually. Other reports are provided as requested by Pharos' clients on behalf of their investors.

Item 14 – Client Referrals and Other Compensation

Not applicable.

Item 15 – Custody

Pharos has custody of its clients' funds and private, illiquid securities. Please see Item 13 – Review of Accounts regarding reporting to Pharos' clients' investors and the annual audit conducted by Ernst & Young LLP.

Item 16 – Investment Discretion

Pursuant to the Fund's limited partnership agreement, the management and operation of the Fund and the formulation of its investment policy is vested exclusively in the General Partner. Pursuant to a written agreement, the General Partner has hired Pharos to, among other things, provide and execute securities investment advice on a discretionary basis. However, Pharos' discretionary authority is limited by the terms of the Fund's limited partnership agreement and by any instructions from the General Partner. Examples of the limitations on Pharos' discretionary authority from the Fund's limited partnership agreement include limitations on the amount of the Fund's assets that may be invested in a single portfolio company, in foreign entities, in specific types of financings and in real estate and oil and gas reserves.

Pharos anticipates that it will have discretionary authority with respect to other clients' securities investment portfolios, subject to the same or similar limitations on such discretionary authority. Pharos will review any such limitations prior to accepting discretionary authority over its clients' investments.

Item 17 – Voting Client Securities

The General Partner has been delegated the authority to vote proxies regarding securities held by the Fund, and such authority has not been assumed by Pharos. Pharos may or may not accept such authority with respect to other clients, as determined on a case-by-case basis. Pharos has adopted and implemented policies and procedures reasonably designed to ensure that Pharos votes proxies in the best interest of its clients. In exercising its voting discretion, Pharos seeks to avoid any direct or indirect conflict of interest between Pharos' clients and Pharos' voting decision. The guiding principle by which Pharos votes all proxies is the maximization of the ultimate long term economic value of the relevant client holdings. Pharos does not permit proxy voting decisions to be influenced in any manner that is contrary to or dilutive of this guiding principle.

Clients, on their own or on behalf of their investors, may request proxy voting information by contacting the Chief Compliance Officer at 214-855-0194 or 615-234-8855 or by writing to Pharos Capital Group, LLC, ATTN: Chief Compliance Officer, One Burton Hills Boulevard, Suite 180, Nashville, Tennessee 37215.

Item 18 – Financial Information

No financial condition presently exists that is reasonably likely to impair Pharos' contractual commitments to its clients.