

Form ADV Part 2A: Firm Brochure

# Pathway Capital Management

MARCH 31, 2023





## Item 1. Cover Page

### Principal Office Location    Other Office Locations

#### CALIFORNIA

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This brochure provides information about the qualifications and business practices of Pathway Capital Management, LP ("Pathway"). If you have any questions about the contents of this brochure, please contact our chief compliance officer (CCO), Milt Best, at 949-622-1000 or at [miltbest@pathwaycapital.com](mailto:miltbest@pathwaycapital.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any state securities authority.

**Additional information about Pathway is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

Although Pathway is a registered investment adviser, registration does not imply a certain level of skill or training. The information provided herein is as of March 31, 2023.

## Item 2. Material Changes

The business practices of Pathway and its affiliates have not materially changed, and there have been no material substantive changes to the information contained in our brochure since the annual update of the brochure dated March 31, 2022, except as follows:

- Numerical data has been updated in Items 4 and 7.
- Pathway promoted Stefan Goettl and Bryan Nelson to be partners of Pathway and members of Pathway Capital Management GP, LLC.
- Effective April 30, 2023, Curtis Gerlach will retire and withdraw as a partner of Pathway and as a member of Pathway Capital Management GP, LLC.



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## Item 4. Advisory Business

Pathway was founded in 1991 to form and manage private market investment portfolios for its clients. Pathway's senior investment professionals have accumulated significant experience as a team, assisting clients through multiple market cycles worldwide. Pathway is an independent company, wholly owned by 23 senior professionals ("Partners"). Douglas K. Le Bon and James H. Reinhardt are its principal owners. Mr. Le Bon, Mr. Reinhardt, Karen J. Jakobi, James R. Chambliss, and Richard S. Mazer serve on the firm's Management Committee.

Pathway's sole business is providing private market investment management and advisory services, either as the adviser to client separate accounts or as the investment manager to funds of funds formed and advised by Pathway or one of its wholly owned subsidiaries. Although investors in Pathway's funds of funds are not considered Pathway's clients for regulatory purposes, Pathway sometimes refers to those investors as clients, and sometimes refers to its clients more broadly as "programs."

Pathway advises its funds of funds and advisory clients in their private market investments in investment partnerships or alternative investment vehicles ("**Underlying Funds**") managed by third-party investment managers ("**Fund Managers**") with respect to both investments made at the initial or subsequent closing of an Underlying Fund ("**Primary Investments**") and the purchase of partnership interests from existing investors in an Underlying Fund ("**Secondary Investments**"). Pathway also advises clients with respect to co-investments made alongside Underlying Funds, either directly in a portfolio company or through a special-purpose vehicle ("**Co-investments**"), and in certain circumstances, with respect to direct investments in portfolio companies that are not made alongside Underlying Funds ("**Direct Investments**"). Pathway focuses primarily on Underlying Funds with investment strategies that include but are not limited to venture capital, buyouts, subordinated debt, private credit, distressed debt, special situations, and infrastructure.

Pathway's private market investment management and advisory services consist primarily of (i) helping clients develop their investment goals, objectives, and policies; (ii) screening investments and conducting due diligence, including qualitative and quantitative analysis; (iii) structuring and negotiating legal documents; and (iv) ongoing monitoring and reporting on clients' investments.

Pathway has full discretion over investment decisions made on behalf of its discretionary clients, subject to client investment guidelines that are tailored to the needs of each client and mutually agreed upon by Pathway and the client. Any limitations with respect to Pathway's discretion, such as limited veto rights, are described in detail in the contracts. The investment guidelines may address the following:

- Size of Investments
- Total Annual Commitments
- Minimum or Maximum Number of Investments
- Geographic Exposure
- Industry Focus
- Diversification Requirements
- Strategy or Specific Investment Restrictions
- Restrictions on Primary Investments, Secondary Investments, Co-investments, and Direct Investments

Other than as set forth in client agreements and investment guidelines, Pathway's discretionary clients may not impose restrictions on investing in certain securities or types of securities.

Pathway and its non-discretionary clients also agree to client-specific investment guidelines, and Pathway's recommendations to such clients are made subject to such client investment guidelines.

As of December 31, 2022, Pathway's assets under management totaled \$88.0 billion, of which \$64.0 billion of client assets was managed on a discretionary basis and \$24.0 billion of client assets was managed on a non-discretionary basis. Client assets include net asset value, plus any uncalled capital commitments.

## Item 5. Fees and Compensation

Pathway charges its clients investment management or advisory fees of up to 1.0% of capital commitments and, in certain circumstances, a carried interest of up to 10%. Pathway's fees are negotiable, taking into consideration each client's total committed capital and the client's number and type of investment mandate(s) under Pathway's management. Certain

of Pathway's clients also reimburse Pathway for organizational, operational, and other expenses. Under a strategic alliance agreement with Tokio Marine Asset Management Co., Ltd. ("**Tokio Marine**"), a Japan-based investment adviser, management fees for certain funds of funds jointly established by Pathway and Tokio Marine are divided between Pathway and Tokio Marine in proportion to each party's advisory services and responsibilities relating to investors in such funds.

Pathway bills its clients or deducts fees from their accounts either quarterly in arrears or quarterly in advance, depending on the client's contractual arrangement. Client agreements set forth the circumstances under which such agreements may be terminated and the procedures for doing so. In the event of a termination, fees are generally prorated on a daily basis, and any fees paid but unearned at the time of termination are returned to the client. Under certain client agreements, Pathway will receive an additional fee at the time of termination.

Clients are responsible for the payment of third-party brokerage commissions, if any, related to the liquidation of in-kind distributions from Underlying Funds, Co-investments, or Direct Investments. The brokerage commissions charged are usual and customary given the nature of the services provided by a broker, and these charges are deducted from the sales proceeds. See Item 12, "Brokerage Practices," for further information on Pathway's use of brokers.

In addition to any brokerage commissions, investors in Pathway's funds of funds bear the funds of funds' organizational and operating expenses and, in some cases, management and performance-based fees. These expenses are set forth in detail in each fund of funds' governing documents and typically include some or all of the following:

- Management fees and performance-based fees
- Organizational costs, including travel, printing, legal, capital raising, licensing, marketing, registration, filing and accounting fees and expenses incurred in connection with the organization, and funding and start-up of the fund of funds and its related entities
- The preparation of, and negotiations with respect to, the fund of funds' governing documents (including side letters)
- Compliance with applicable laws or regulations and the offering of limited partner interests in the fund of funds or related entities
- Placement fees (subject to a corresponding offset to the management fees paid by the fund of funds)

- Costs and expenses incurred in or attributable to structuring, organizing, acquiring, holding, monitoring, winding-up, liquidating, and disposing of investments, whether or not ultimately consummated (including, but not limited to, costs and expenses passed through to the funds of funds as investors in Underlying Funds, Co-investments, and Direct Investments and costs incurred in connection with the formation or operation of any alternative vehicle, feeder fund, or aggregator vehicles), registration fees, expenses, finder fees, interest on borrowed money, bank fees, custodial fees, termination fees, broken-deal fees, reverse-termination fees, legal fees and expenses, and brokers' fees (including buy-side or sell-side broker fees in connection with secondary investments and purchase-price adjustments in connection with Co-investments and Direct Investments)
- Legal, accounting, administration, custodian, depository, banking, appraisal, finders, insurance, filing, printing, consulting, auditing, and other fees (including the fees associated with the preparation of quarterly and audited annual financial reports, Schedule K-1s, and tax returns)
- Litigation and indemnification costs, including legal fees and expenses, judgments, fines, damages or costs paid or incurred in prosecuting or defending administrative or legal proceedings brought by or against the fund of funds or any person indemnified by the fund of funds (or paid in any settlement thereof)
- Amounts paid or advanced by the fund of funds pursuant to its indemnification obligations
- Any taxes applicable to or payable by the fund of funds on account of its activities
- Costs of reporting to the investors in the fund of funds and all out-of-pocket fees and expenses incurred in connection with any investor meetings
- Premiums for insurance
- The costs of dissolving and winding up the fund of funds
- Costs related to defaulting investors, including any damages resulting from a default by an investor in the fund of funds
- Costs associated with the withdrawal of an investor in the fund of funds (including costs related to curing a condition that could require an investor's withdrawal)
- Administrative, regulatory, or other reporting or filing, including the ongoing registered office fees and filings fees in the jurisdiction of formation of any fund of funds or related entity
- Interest accumulated on a line of credit or other indebtedness, and all other costs and expenses associated with the initiation and maintenance of debt service obligations and credit facilities, including principal, interest, premiums, fees, expenses, and other amounts payable in respect of indebtedness of the fund of funds, and any fees related to legal opinions required by any creditors of the fund of funds
- Costs relating to compliance with ERISA, including any ERISA bonding requirements, if needed

Pathway does not accept compensation for the sale of securities or other investment products. Item 14, "Client Referrals and Other Compensation," addresses Pathway's business practices regarding compensation of third parties for client referrals.

To the extent that Pathway's clients purchase secondary interests, they may incur fees and expenses related to (i) a broker who has assisted either the seller or buyer in consummating the transaction and (ii) transfer expenses (including legal and accounting fees) incurred by the Underlying Funds arising from or related to the secondary transaction. Such fees and expenses will be set forth in a contract with the broker or addressed in the purchase and sale agreement for the transaction.

## Item 6. Performance-Based Fees and Side-by-Side Management

On certain funds of funds, Pathway charges a performance-based fee specified in the limited partnership agreement. Because Pathway advises clients that pay performance-based fees and clients that do not pay performance-based fees, Pathway faces a potential conflict of interest: Pathway could have an incentive to favor clients from which it receives a performance-based fee. To address this potential conflict of interest, Pathway has adopted and adheres to the investment allocation policy described in Item 11. In addition, performance-based compensation may create an incentive for Pathway to recommend an investment that may carry a higher degree of risk to the client. Pathway recognizes that conflicts may arise in these instances and has developed allocation policies that are designed to enable Pathway to address such conflicts and to ensure that its clients are treated fairly and equitably.

## Item 7. Types of Clients

The types of clients to whom Pathway generally provides investment advice are set forth below.

### Breakdown of Current Clients<sup>a</sup>

	Number of Clients
Pension Fund	10
Insurance Company	2
State & Municipal Government	7
Fund of Funds <sup>b</sup>	88 <sup>c</sup>
<b>Total</b>	<b>107</b>

<sup>a</sup>As of December 31, 2022.

<sup>b</sup>Investors in Pathway's funds of funds include corporate and public pension plans, government entities, trusts, high-net-worth individuals, charities, and financial institutions in North America, Europe, and the Asia-Pacific region.

<sup>c</sup>Excludes alternative investment vehicles formed for structuring purposes.

Clients (and investors in Pathway's funds of funds) must meet certain suitability requirements prior to opening or maintaining an account with Pathway (or investing in a Pathway fund of funds). These requirements are determined by Pathway on a case-by-case basis but generally include requirements under applicable U.S. and non-U.S. securities laws or exemptions, know-your-client requirements, and other legal or regulatory rules. Pathway may also require a specific minimum investment amount with respect to its funds of funds or separate accounts, which it will determine in its discretion.

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

### Investment Philosophy

Pathway seeks to create diversified portfolios of Underlying Funds, Co-investments, and Direct Investments with high-quality managers in accordance with each client's investment guidelines.

Pathway's investment philosophy is guided by three key tenets:

1. **Focus on Manager Selection**—Pathway believes that Fund Manager selection is of primary importance when building a high-quality private market portfolio. Pathway dedicates substantial resources to sourcing, evaluating, accessing, and selecting pri-

vate market Fund Managers that Pathway believes are highly knowledgeable and capable and that have a demonstrated successful track record.

2. **Opportunistic Investment Approach**—Pathway endeavors to take advantage of prevailing market conditions and the availability of high-quality Underlying Funds by maintaining an investment approach that focuses on the quality of the Fund Manager, irrespective of the market environment.
3. **Construction of High-Conviction Portfolios**—Pathway seeks to construct high-conviction portfolios that are adequately diversified to mitigate risk yet sufficiently concentrated to avoid reversion to mean performance.

In creating a client portfolio, Pathway generally considers the following diversification characteristics:

- Strategy—Pathway generally seeks to invest in a broad spectrum of private market strategies and substrategies.
- Life Cycle—Pathway generally seeks to invest consistently over time to reduce exposure to any one particular generation of Underlying Funds or a particular economic cycle.
- Fund Manager—Pathway generally seeks to invest in multiple Fund Managers to mitigate the impact of the performance of any one Fund Manager on the client's portfolio.
- Geographic Region—Pathway generally seeks to invest in Underlying Funds that focus on investments in North America, as well as the developed markets of Europe, Asia, and other regions.
- Industry—Pathway generally seeks to invest in a variety of industries to minimize any effects associated with poor-performing industries.

### Investment Process for Primary Investments

Pathway's investment selection criteria for Primary Investments are based upon the principle that manager selection is paramount to building a high-quality private market portfolio. These criteria include

- stable and experienced management team;
- sound business model;

- proven access to high-quality investment opportunities;
- resources beyond those available to an average private market firm with a similar strategy;
- demonstrated strong historical performance;
- a focus on markets that support private market investing, including markets robust enough to support capital formation.

Each prospective Primary Investment opportunity is evaluated by a Pathway deal team that is led by at least two senior investment professionals. The deal team conducts a documented due diligence process involving evaluation of the Fund Manager, its strategy, the investment opportunity, and any prior fund performance. The due diligence process is set forth below. All Primary Investments require approval of Pathway's Investment Committee.

With respect to each prospective Primary Investment, the Pathway deal team reviews preliminary information provided by the Fund Manager in order to assess the investment opportunity and to make a preliminary assessment on whether the opportunity meets Pathway's investment selection criteria described above. Information considered by the deal team at this stage includes offering documents and other marketing materials provided by the Fund Manager, industry databases and other publicly available data, and Pathway's proprietary research and data.

If there is some interest in the investment opportunity, the deal team (and, in some cases, other members of Pathway's investment team) generally meet with the Fund Manager, either at Pathway's offices or at the Fund Manager's offices, early in the due diligence process. In certain cases, when a timely face-to-face meeting cannot be scheduled, a telephone or videoconference call may be conducted.

If there is further interest, the deal team can also be expanded to include other investment professionals to assist with conducting further analysis regarding the Fund Manager. The Fund Manager is asked to complete a detailed due diligence questionnaire designed to enable the deal team to develop a better understanding of the Fund Manager's investment track record, to conduct a detailed portfolio analysis, and to obtain necessary references. The deal team also creates an introductory memorandum to present to the Investment Committee to formally introduce the investment opportunity and to determine next steps.

For investment opportunities that reach the extensive due diligence phase, the deal team conducts in-depth financial analysis on the investment opportunity and evaluates other information presented by the Fund Manager or available through public databases. Among other things, the deal team checks references, considers the Underlying Fund's existing investors and compensation structure, evaluates the Fund Manager's internal compliance and financial controls, and ensures that required anti-money laundering checks have been conducted. The deal team may conduct additional meetings and/or conference calls with the Fund Manager.

For investment opportunities that progress to the formal investment decision stage, after the due diligence process is completed, the deal team provides a summary of its findings and a final recommendation to Pathway's Investment Committee, which makes the final investment decision. Once a Primary Investment is approved, the deal team and Pathway's legal staff negotiate, structure, and complete the Underlying Fund's governing documents, and the Primary Investment is allocated in accordance with Pathway's investment allocation policy for Primary Investments, as described in Item 11.

### **Investment Process for Secondary Investments**

Pathway's investment process for Secondary Investments supplements its due diligence process for Primary Investments. Each of Pathway's secondary deal teams includes at least two senior investment professionals. Other Pathway investment professionals support the secondary deal team as necessary.

Pathway's secondary deal team assesses the current status of a Secondary Investment opportunity using a wide variety of information, including publicly available information, an Underlying Fund's audited financial reports, Pathway's extensive industry knowledge, and Pathway's proprietary research. Based on this information, the secondary deal team performs a preliminary assessment of the attractiveness of a secondary opportunity. If Pathway determines that a potential Secondary Investment could generate an attractive long-term return, the secondary deal team conducts additional due diligence.

Pathway's secondary deal team incorporates this diligence information into a proprietary pricing model that incorporates a bottom-up analysis of the underlying investments in the portfolio—including current operating metrics and valuations, as well as the ultimate outcome expectations, provided by the Fund Manager—to help determine a target price that Pathway believes has the potential to generate an attractive risk-adjusted return.

A final recommendation of action is presented to and discussed with the Secondaries Investment Subcommittee, whose members are appointed by Pathway's Management Committee. Once a Secondary Investment has been approved and Pathway's bid has been accepted, the secondary deal team and Pathway's legal staff proceed with the negotiation, structuring, and completion of the purchase and sales agreements and transfer documents, and the Secondary Investment is allocated in accordance with Pathway's investment allocation policy for Secondary Investments, as described in Item 11.

The due diligence process for Secondary Investments may vary from the process for Primary Investments due to a variety of factors, including where the Underlying Fund is in its life cycle, the length of time since Pathway conducted its due diligence process with respect to a Primary Investment with the Fund Manager, and certain limitations that arise in the investment process for Secondary Investments. For instance, a Secondary Investment may be presented as a sale of multiple Underlying Fund interests, including funds in which Pathway has not made a Primary Investment on behalf of its clients. In this case, Pathway will have limited information about certain Underlying Fund interests that make up the Secondary Investment. In addition, to the extent appropriate and available, the secondary deal team will consider the Fund Manager's policies with respect to publicly traded investments and other relevant factors that could impact the liquidity of underlying portfolio companies.

### Investment Process for Co-investments

Pathway's investment process for Co-investments generally relies on Pathway's previous review and analysis of the Fund Manager offering the Co-investment (or in some cases its clients' review of the Fund Manager), which is done in connection with a Primary Investment in an Underlying Fund.

The due diligence process for each Co-investment opportunity is led by a Co-investment team. Unless otherwise agreed upon with a client, Pathway will consider Co-investments only alongside Fund Managers that meet Pathway's and/or its clients' suitability requirements, including Pathway's ongoing assessment of the organization and of the Fund Manager's investment performance.

Pathway reviews the available diligence materials and investment documentation provided by the Fund Manager with respect to each Co-investment opportunity and screens such Co-investment opportunity for compatibility with a client's investment guidelines. In

addition, Pathway relies on its previous review and analysis of the Fund Manager in connection with a client's Primary Investment in an Underlying Fund or a client's determination that a Fund Manager is suitable for that client's Co-investment portfolio. Pathway will consider the economics of proposed Co-investments, including any management fees, carried interest, and expense allocations, to ensure that Pathway's client is not disadvantaged by the Co-investment structure.

A summary of the Co-investment team's analysis is provided to the Co-investment Investment Subcommittee, whose members are appointed by Pathway's Management Committee. Once a Co-investment has been approved, the Co-investment team and Pathway's legal counsel proceeds with negotiation, structuring, and completion of the Co-investment's transaction documents, and the Co-investment is allocated in accordance with Pathway's investment allocation policy for Co-investments, as described in Item 11.

### **General Risks of Pathway's Private Market Investment Strategy**

Investing in securities involves risks of loss that clients should be prepared to bear. Even after developing a well-diversified portfolio of high-quality Fund Managers, investing in private market Underlying Funds, Co-investments, and Direct Investments involves risks that cannot be eliminated, including the risk of partial or total loss of capital. There can be no assurance that Pathway will achieve its stated investment goals or that its clients or investors in its funds of funds will receive a return of their capital. Past performance is not indicative of future results.

The following summarizes the material risks involved in Pathway's investment strategy.

#### **Institutional Risks**

##### **Reliance on Pathway's Principals**

The success of Pathway's investment strategy depends upon, among other things, the skill and expertise of Pathway's investment professionals. There can be no assurance that Pathway's investment professionals will continue to be associated with Pathway or its clients' accounts. The loss of the services of Pathway's investment professionals could have a material adverse effect on the performance of its clients' portfolios.

##### **Competition for Investment Opportunities**

Identifying and completing attractive investments in private Underlying Funds, Co-investments, and Direct Investments is highly competitive and involves a high degree of

uncertainty. To the extent other firms currently in existence or organized in the future adopt, partially or totally, Pathway's strategy, such firms would compete directly with Pathway. If these firms have greater resources than Pathway and seek to make larger investments than Pathway, this could adversely affect the amount that Pathway's clients are allocated by Fund Managers and others to invest in Underlying Funds, Co-investments, or Direct Investments. There can be no assurance that Pathway will be able to identify and complete a sufficient amount of attractive investment opportunities.

### **Cybersecurity Risks**

Pathway and Fund Managers may face cybersecurity risks. Cybersecurity risks are evolving and include computer malware, viruses, spamming and phishing attacks, and other attempts to gain unauthorized access to sensitive information (including, without limitation, personally identifiable and other protected information and information regarding Pathway's clients, investors in Pathway funds of funds, and Pathway's investment activities). Cyberattacks can be carried out in a manner that does not require gaining unauthorized access, such as causing denial-of-service on systems or websites, rendering them unavailable. Failures of information technology systems can also be caused by various other factors, including power outages, catastrophic events, inadequate or ineffective redundancy, flaws in third-party software or services, or errors by employees or third-party service providers.

Pathway's controls and procedures, business continuity systems, and data security systems, as well as those of the Fund Managers and each of their service providers, could prove to be inadequate to prevent these risks.

Any cybersecurity risks affecting Pathway, its clients, or Fund Managers could lead to the loss of sensitive information, including information essential to such entities' operations, and could have a material adverse effect on their reputations, financial positions, or cash flows and lead to financial losses from remedial actions, loss of business, or potential liability, including from civil or criminal actions or regulatory fines.

### **Structural Risks**

#### **General Risks of Investment in a Pathway-Managed Fund of Funds**

Pathway's clients may invest in private funds of funds managed by Pathway. Investments in these fund-of-funds vehicles are subject to the risks inherent in investing in private market funds generally. Such risks include those related to (i) the quality of the management of the Underlying Funds, Co-investments, and Direct Investments in which a Pathway fund

of funds invests, (ii) the ability of Pathway and the Fund Managers to select successful investment opportunities, (iii) general economic conditions, and (iv) the ability of Pathway and the Fund Managers to liquidate their investments. There is no guarantee that a fund of funds managed by Pathway will be successful in meeting its performance objectives. In addition, the fund of funds, as well as the Underlying Funds, Co-investments, and Direct Investments, will impose certain fees, management charges, and other expenses. This can result in higher expenses than if Pathway's clients had invested directly in the Underlying Funds, Co-investments, or Direct Investments.

**Illiquidity of Investments**

A limited market exists for the sale of interests in Pathway's funds of funds, Underlying Funds, Co-investments, and Direct Investments in private companies, and the transferability of such interests is generally restricted. Pathway may not be able to liquidate a particular private market investment at the time and upon the terms it or its clients desire. Further, the timing of distributions from a Pathway fund of funds, an Underlying Fund, a Co-investment, or a Direct Investment, if any, will likely be at the discretion of the fund's manager or portfolio company board and may not occur at a desirable time.

**Reliance on Management of Underlying Funds and Co-investment Vehicles**

Pathway's clients invest in Underlying Funds and Co-investments held in special-purpose vehicles that are managed by Fund Managers that are unrelated to Pathway. Pathway will not have an active role in the day-to-day management of such Underlying Funds or special-purpose vehicles. Moreover, Pathway will not have an opportunity to evaluate specific investments made by blind-pool investment funds. As a result, the returns of a client's private market portfolio will depend in large part on the performance of these unrelated Fund Managers and could be substantially adversely affected by the unfavorable performance of a small number of these Fund Managers.

**Risk of Early Termination**

The governing documents of certain Underlying Funds, Co-investments, and Direct Investments include provisions that would enable the Fund Manager or a majority (or supermajority) in interest of their limited partners or members, under certain circumstances, to terminate such Underlying Fund, Co-investment, or Direct Investment special-purpose vehicle prior to the end of its stated term. An early termination may result in (i) the Underlying Fund, Co-investment, or Direct Investment distributing a portfolio of immature and illiquid securities or (ii) Pathway's inability to invest all of its clients' com-

mitted capital as anticipated, either of which could have a material adverse effect on the performance of a private market portfolio.

### **Indemnification Obligations**

The governing documents of Underlying Funds, Co-investments, and Direct Investments generally include provisions that would require indemnification of the Fund Manager and/or related parties for certain actions arising out of their activities on behalf of such Underlying Fund, Co-investment, or Direct Investment. Such indemnification obligations could decrease the returns to investors and, consequently, to Pathway's clients who are invested in such Underlying Funds, Co-investments, or Direct Investments. Furthermore, to the extent that the assets of any Underlying Fund, Co-investment, or Direct Investment are insufficient to satisfy any indemnification obligations, Pathway's clients may be liable for those obligations and may be required to return any previous distributions made by such Underlying Fund, Co-investment, or Direct Investment.

### **Consequences of Default**

Underlying Funds, Co-investments, or Direct Investment made through special-purpose vehicles require capital calls from their investors over an extended period of time. A default by a substantial number of investors, or by one or more investors that have made substantial commitments to an Underlying Fund, Co-investment, or Direct Investment, would limit opportunities for investment diversification and would likely reduce returns to Pathway's clients that are invested in such Underlying Fund, Co-investment, or Direct Investment. In addition, if a client defaults on its commitment to an Underlying Fund, Co-investment, or Direct Investment, the governing documents would likely impose various penalties, including forfeiture of its interest in the Underlying Fund, Co-investment, or Direct Investment.

### **Portfolio Valuation**

Investments in Underlying Funds, Co-investments, and Direct Investments will generally be valued in accordance with the valuations reported by Fund Managers or portfolio companies, although Pathway retains the discretion to use valuations other than those reported by such Fund Managers or portfolio companies when it believes it is appropriate to do so. Fund Managers and portfolio companies use different valuation methods and determine the value of their Underlying Funds, Co-investments, or Direct Investments at different times, and there can be no assurance that any such valuations are accurate. In addition, certain valuations will be based on interim unaudited financial statements,

and these figures are subject to potential upward or downward adjustments following an audit. Further, actual realized returns on investments will depend on various factors, including future operating results, market conditions at the time of disposition, legal and contractual restrictions on transfer that may limit liquidity, any related transaction costs, and the timing and manner of disposition, all of which may differ from assumptions and circumstances on which prior unrealized valuations were based. Accordingly, the actual realized returns on investments can differ materially from the returns indicated by unrealized valuations.

## **Risks Related to Investing in Particular Private Market Strategies**

### **Nature of Equity or Equity-Related Investments**

A substantial portion of Pathway's clients' investments will be in equity or equity-related investments that by their nature involve business, financial, market, and/or legal risks. While such investments offer the opportunity for significant capital gains, they also involve a high degree of risk that may result in substantial losses. There can be no assurance that Pathway or any Fund Manager will correctly evaluate the nature and magnitude of the various factors that could affect the value of such investments. Prices of equity investments may be volatile, and a variety of other factors that are inherently difficult to predict, such as domestic or international economic and political developments, can significantly affect the results of an Underlying Fund's or an underlying portfolio company's activities. As a result, performance of Underlying Funds or Fund Managers over a particular period is not necessarily indicative of the results that may occur in future periods.

### **Nature of Venture Capital Investments**

Certain Underlying Funds are devoted to venture capital investments, which is a segment of private market investing that has a high degree of investment risk. Typically, the companies in which such Underlying Funds invest have unproven technology, untested management, and unknown future capital requirements and also lack operating history. These companies can face intense competition, often from established companies with much greater financial, manufacturing, and technical resources; more marketing and service capabilities; and a greater number of qualified personnel. These companies often operate at a loss or with significant fluctuations in operating performance. To the extent that there is a public market for the securities of these companies, these securities may be subject to abrupt and erratic market-price movements. There can be no assurance that venture-backed companies will be able to predict accurately their future capital requirements, or that capital will be available. Underlying Funds that focus on venture capital

make highly speculative investments that can result in the loss of capital contributions from Pathway's clients.

### Nature of Leveraged Buyout Investments

Certain Underlying Funds are devoted to leveraged acquisitions, growth capital investments, and restructurings. While the companies in which such Underlying Funds invest offer the opportunity for capital appreciation, they also involve a high degree of risk. These portfolio companies typically use high degrees of leverage, which could magnify losses incurred by these Underlying Funds. Losses can occur as a result of recessions, operating problems, or other general business or economic risks. Also, increased interest rates generally increase the portfolio companies' interest expenses. In the event that any portfolio company cannot generate adequate cash flow to meet debt service, the Underlying Fund, and Pathway's funds of funds holding such Underlying Fund, may suffer a partial or total loss of capital invested.

### Nature of Distressed Debt Investments

Underlying Funds focused on the distressed debt market invest in debt securities and other obligations of portfolio companies that are undergoing, are likely to undergo, or have undergone (i) reorganization under U.S. federal bankruptcy law or similar laws in other countries or (ii) other extraordinary transactions, such as debt restructurings, reorganizations, and liquidations outside of bankruptcy. Such portfolio companies may have capital structures with significant leverage, which makes such investments inherently more sensitive to declines in revenues and to increases in expenses and interest rates. Additionally, the securities acquired by such Underlying Funds are often the most junior in what is typically a complex capital structure, and thus are subject to the greatest risk of loss. Furthermore, there are a number of significant risks when Underlying Funds invest in portfolio companies that are involved in bankruptcy proceedings. Investments in Underlying Funds focused on investments of this type are highly speculative and can result in the loss of capital contributions.

### Nature of Private Credit Investments

Underlying Funds and Direct Investments that are focused on private credit invest in debt-related securities issued by privately held companies, including first-lien debt instruments, unitranche debt instruments, and second-lien or other junior debt instruments. These private credit investments may offer a greater interest rate and higher fees than traditional, marketable debt securities but may also entail additional risks. Private credit investments are gen-

erally illiquid and non-marketable with no, or only limited, secondary trading market. The lack of an active secondary market may make it difficult to determine fair value for private credit investments or to exit at a fair price. Adverse changes in the financial condition of the obligor or in general economic conditions (including, for example, a substantial period of rising interest rates or declining earnings) or both may impair the ability of the obligor to make payment of principal and interest. Overall adverse conditions in the below-investment-grade bond and other markets may adversely affect such issuers by inhibiting their ability to refinance their debt at maturity. Other risk factors for private credit investments include the following: (i) the return of principal will depend on the credit-worthiness and financial strength of the issuers; (ii) they may become non-performing for a variety of reasons, including inadequate cash flow to meet debt service; (iii) they may be detrimentally affected if there is insufficient collateral; and (iv) the market value may be volatile and generally will fluctuate due to a variety of factors that are inherently difficult to predict.

### Nature of Infrastructure Investments

Certain Underlying Funds will hold infrastructure investments, which operate in industries with high barriers to entry and are generally characterized by long-term cash flows, inflation-correlated revenues, and high operating margins. Due to their nature, these investment will be subject to the risks incidental to the ownership and operation of infrastructure projects, including risks associated with the general economic climate, fluctuation in commodity markets, currency risk and the use of hedging instruments, changes in the political or regulatory environment, and fluctuations in interest rates. Such risks can result in the loss of capital contributions from Pathway's clients. In certain circumstances, the characteristics of infrastructure assets can support high degrees of leverage, which can magnify losses. Accordingly, Pathway's clients could suffer a partial or total loss of capital invested (directly or indirectly) in such companies.

### Nature of Special Situation Investments

Certain Underlying Funds will invest in special situation investments, such as investments in specific industries (e.g., energy and debt-related investments) or in Underlying Funds that implement a hybrid investment strategy (e.g., both venture and buyout strategies). The portfolios of these Underlying Funds may include a small number of large positions or may be concentrated in one industry. Any adverse change in one or more of such portfolio investments or industries could have a material adverse effect on the Underlying Fund, and returns to Pathway's clients may be lower than if they had invested in an Underlying Fund with a more diversified portfolio. These Underlying Funds

will also be more susceptible to market or industry-segment volatility. Various other factors, including prevailing market and regulatory conditions and a lack of available investment opportunities, may prevent these Underlying Funds from diversifying their investment portfolios.

### Nature of Secondary Investments

From time to time, Secondary Investments include the opportunity to acquire a portfolio of Underlying Funds from a seller on an “all or nothing” basis. Certain of the Underlying Fund interests in such a portfolio may be less attractive than others, and certain of the Fund Managers of such Underlying Funds may be less familiar to Pathway than others or may be less experienced or less highly regarded than others. Pathway may not be able to carve out from such purchases those investments that Pathway considers (for commercial, tax, legal, or other reasons) less attractive.

### Costs and Liabilities Associated with Secondary Investments

In a Secondary Investment, Pathway’s clients typically acquire any contingent liabilities of the seller and are generally required to pay expenses related to the transfer, including legal, brokerage, and accounting expenses (including such costs of the Fund Manager in connection with documenting and approving the transfer). These liabilities and expenses are not typically incurred in a Primary Investment. For instance, if the seller has received distributions from an Underlying Fund and is required to return such distributions to the Underlying Fund after the transfer, Pathway’s clients (as the purchaser of the interest) could be obligated to return to the Underlying Fund monies equivalent to such distributions. In such circumstances, Pathway could have a claim against the seller for any such monies. However, there can be no assurances that it would have the ability to make such a claim, that it would prevail on such claim, or that the seller could make any payment. Moreover, in a Secondary Investment, Pathway’s clients may be required to make representations typical of those made in connection with the purchase of a Primary Investment and to indemnify the Underlying Fund and/or the seller of the secondary interest to the extent that any such representations turn out to be incorrect. In certain circumstances, an Underlying Fund could recall or withhold distributions to meet the liabilities of Pathway’s clients.

### Nature of Direct Investments and Co-investments

Direct Investments and Co-investments will generally be in a single portfolio company and will not have access to additional investment opportunities (other than potential add-on investments). Accordingly, if the portfolio company has a material loss, then re-

turns to Pathway's clients invested in the Direct Investment or Co-investment may be lower than if they had invested in a well-diversified portfolio. Further, Direct Investments and Co-investments may be subject to greater market fluctuations than an investment in a portfolio of securities representing a broader range of industries or companies. Co-investments involve investments in third-party-sponsored Co-investment vehicles and direct Co-investments (which may be held indirectly through holding vehicles) in securities of portfolio companies. Neither Pathway nor its clients control or have an active role in the day-to-day management of a Direct Investment or Co-investment vehicle or a portfolio company or have the ability to negotiate the terms of such investments. Accordingly, the returns of a specific Direct Investment or Co-investment will depend primarily on the performance of the portfolio company and could be substantially adversely affected by the unfavorable performance of the company's management. The success of a Direct Investment or Co-investment depends, in part, on the ability of the third-party Fund Manager or portfolio company management to transform, grow, and/or improve the business and operations of a portfolio company. The activity of identifying and implementing operating improvements in a portfolio company entails a high degree of uncertainty. There can be no assurance that the Fund Manager will be able to successfully identify and implement such improvements. In addition, there can be no assurance that the existing management team, or any new one, will be able to operate the portfolio company successfully.

### Direct Investment and Co-investment Portfolio Company Risks

A Direct Investment or Co-investment in a single portfolio company can involve a significant degree of financial and/or business risk, including legal and tax changes, excessive or very limited regulatory oversight, currency fluctuations, risks associated with the use of leverage, financial or industry market turmoil, litigation risks, indemnification requirements, lack of market liquidity, devaluations and enhanced volatility in global equity, inflation, fuel and energy costs, lack of available credit, the state of interest and tax rates, demand for services, anti-money laundering risks, operating and technical risks, force majeure risks, pandemic risks, environmental liabilities, and work-force and labor disruptions. Any one of these factors could have a material adverse effect on the portfolio company's condition and results of operations. If any such slowdown or adverse development occurs, the investment by Pathway's clients could be adversely impacted, and the investment could decline in value or experience a complete loss of capital.

### Direct Investment and Co-investment Terms and Minority Rights

The purchase price paid at the closing of a Direct Investment or Co-investment will generally be subject to adjustment downward or upward, both at closing and after closing. In the event of an upward post-closing price adjustment, a portfolio company would pay the sellers the amount of the upward adjustment. In the event of a downward post-closing price adjustment, certain escrowed funds would be released to the portfolio company. In connection with the disposition of a Direct Investment or Co-investment, investors may be required to make representations about the business and financial affairs of the portfolio company or may be responsible for the contents of disclosure documents under applicable securities laws. Investors may also be required to indemnify purchasers of the portfolio company or underwriters involved in any offering of the portfolio company's securities, which may result in contingent liabilities that could ultimately have to be funded by proceeds that include a return of capital from the investors.

Direct Investors and Co-investors may be called upon to provide additional follow-on capital for a portfolio company or to increase their investment in the portfolio company. There can be no assurance that Pathway's clients will wish to make additional follow-on investments or that they will be able to do so. Any decision not to make follow-on investments, or a client's inability to make them, could have a substantial negative impact on a portfolio company in need of such an investment or could diminish the returns on the Direct Investment or Co-investment.

If Direct Investments and Co-investments are structured as joint ventures, partnerships, or consortium arrangements, the sale or transfer of interests in some of the operations may be subject to rights of first refusal or first offer, tag-along rights, or drag-along rights, and some agreements may provide for buy-sell or similar arrangements. Such rights may be triggered at a time when Pathway's clients may not want them to be exercised, and such rights may inhibit the ability to sell the interest in an entity within the desired time frame, at the desired price, or on any other desired basis. Pathway's clients will likely own minority positions in certain portfolio companies. Consequently, prior to and after the acquisition of these investments, Pathway's clients will have limited access to the management and documentary records of these companies. The inability of Pathway to exercise significant influence over the operations, strategies, and policies of the portfolio companies in which its clients have a minority interest means that decisions could be made by such portfolio companies that could adversely affect the investment results of Pathway's clients.

### Lack of Available Information; Limited Review

Direct Investments and Co-investments in privately held companies present certain challenges, including a lack of available information about these companies and uncertainty about the market value of the investments. Pathway may not have the same access to information or the same ability to negotiate terms of a Direct Investment or Co-investment that it would have if Pathway were leading the negotiation of the terms of such Direct Investment or Co-investment. Therefore, Pathway may not have the opportunity to evaluate all aspects of the specific Direct Investment or Co-investment and may not have the ability to conduct a qualitative review or analysis of the merits of a particular Direct Investment or Co-investment. Because the level of diligence will vary, there is no assurance that any such diligence will be thorough or conclusive or that all material risks in potential Direct Investments and Co-investments will be identified. Pathway's review of a Co-investment may be limited to (i) its previous review and analysis of the Fund Manager in connection with a Primary Investment and (ii) a review of compliance with its client's investment guidelines. Moreover, the information Pathway receives about a Direct Investment or Co-investment will be prepared by third parties and will not be independently verified by Pathway. If such information is inaccurate, Pathway may approve a Direct Investment or Co-investment that it would not have otherwise approved, which could negatively impact the financial returns of Pathway's clients.

### Non-U.S. Investments

Certain Underlying Funds, Direct Investments, or Co-investments are formed, or have significant exposure to entities whose principal executive offices or corporate headquarters are, outside the United States. Investing in non-U.S. securities can involve greater risks than investing in U.S. securities. In particular, the value of investments in non-U.S. securities is affected by changes in currency exchange rates, which can be volatile, and non-U.S. investments are subject to additional regulatory and tax risks. There can be no assurance that Pathway will be able to evaluate these risks or that adverse developments with respect to such risks will not adversely affect the value or realization of non-U.S. investments.

## Item 9. Disciplinary Information

There are no legal or disciplinary events that are material to a client's or prospective client's evaluation of Pathway's advisory business or the integrity of its management.

## Item 10. Other Financial Industry Activities and Affiliations

### Relationship with Pathway Funds of Funds

Pathway or one of its wholly owned affiliates is the manager of, and provides advisory services to, multiple funds of funds. The names of Pathway's funds of funds and their managers are available in Part 1 of Pathway's Form ADV. The purpose of each fund of funds is to invest in Underlying Funds, Co-investments, and/or Direct Investments. Pathway does not receive any compensation from the Underlying Funds, Co-investments, or Direct Investments that it recommends to its clients or in which it invests on behalf of its clients.

To enhance alignment with investors in Pathway's funds of funds, and only with the prior consent (or at the request) of such investors, Pathway contributes up to one percent (1%) of the total capital commitment made by investors to certain Pathway funds of funds. These contributions are generally made by a limited partnership owned solely by Pathway's principals and certain other Pathway employees (any such fund, a "PPEF Principals Fund"). A PPEF Principals Fund receives a percentage of the income, loss, and distributions of a fund of funds as a limited partner, commensurate with its ownership interest in the Pathway fund of funds. As a result, Pathway and its principals may have an incentive to offer investment opportunities to the funds of funds in which a PPEF Principals Fund is invested rather than to Pathway's other clients. In light of this conflict of interest, Pathway has adopted and adheres to the investment allocation policy described in Item 11. A PPEF Principals Fund has the right to vote in the fund of funds alongside other investors but typically cannot participate in certain investor votes that give rise to a conflict of interest or, if it does participate, would not sway the outcome of a vote given its relatively small ownership percentage (less than 1%).

### Relationship with Subsidiaries and Strategic Alliance Partners

Pathway's wholly owned subsidiary Pathway Capital Management (UK) Limited is authorized and regulated in the United Kingdom by the UK Financial Conduct Authority and provides advisory services solely to its parent in the form of client introductions and assistance with due diligence on potential investments.

Pathway's wholly owned subsidiary Pathway Capital Management (HK) Limited is licensed and regulated in Hong Kong by the Hong Kong Securities and Futures Commission and

provides advisory services solely to its parent in the form of assistance with due diligence on potential investments and with client introductions.

Pathway has a strategic alliance agreement with Tokio Marine for the purpose of jointly establishing one or more funds of funds in which certain qualified Japanese and other Asian investors may invest. Under the strategic alliance agreement with Tokio Marine, management fees are divided between Pathway and Tokio Marine in proportion to each party's advisory services and responsibilities relating to investors in funds of funds jointly established by Pathway and Tokio Marine.

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

**Code of Ethics.** Pathway's Code of Ethics (the "**Code**") applies to all Partners and employees of Pathway. The Code sets forth a standard of conduct expected of all Partners and employees and addresses other matters, including the misuse of nonpublic information; prohibitions on insider trading; gifts and entertainment; and political contributions. The Code also reminds employees and Partners of their duty to disclose potential and actual conflicts of interest when dealing with Pathway's clients and the investors in the funds of funds and of their obligations to comply with federal securities laws.

The Code provides a procedure for reporting violations of the Code to Pathway's CCO. It is prohibited and a breach of the Code for Pathway to retaliate against any Partner or employee who reports a violation, and anyone participating in retaliation will be subject to discipline, up to and including termination of employment. Each Partner and employee of Pathway is provided online access to the Code and any amendments and is required to acknowledge receipt of the Code and certify compliance with the Code on an annual basis. A copy of Pathway's Code will be provided to any client or prospective client upon request.

**Conflicts of Interest.** Pathway maintains policies and procedures that address actual and potential conflicts of interest. In the event a conflict of interest arises, Pathway will generally attempt to resolve such conflict according to such policies and procedures and in a fair and equitable manner, on a case-by-case basis. Pathway will take into account the interests of the relevant parties and the circumstances giving rise to the conflict in

its resolution of a conflict. When resolving conflicts among clients, investors in the funds of funds, and Pathway, Pathway may consider various factors, including the immediate and/or longer-term interests of its clients, investment guidelines agreed upon with a client, and other terms set forth in the governing documents of a client or a fund of funds. The determination of which factors are relevant, and the resolution of such conflicts, will be made by Pathway in its sole discretion. These resolutions include, without limitation, refraining from investing in or disposing of an investment; seeking client or investor consent; requesting that a third party, such as a Fund Manager, make a determination or resolve a conflict; or abstaining from a vote or consent. There can be no assurance that actions taken by Pathway with respect to a particular client will not have an adverse effect on the investments made by that client or another client, and there can be no assurance that any actual or potential conflict of interest will not result in a less favorable outcome for Pathway's client than if such conflict of interest did not exist.

**Allocation of Investment Opportunities.** The market for investment opportunities is competitive, and Pathway may not always be able to secure an allocation to an Underlying Fund, Co-investment, or Direct Investment sufficient to ensure that all of Pathway's clients that wish to participate in such investment opportunity are able to invest at their desired level of capital commitment. Moreover, in the future, Pathway expects that it will have new clients with investment objectives substantially similar to those of its current clients and that such future clients will wish to participate in the same investment opportunities. In addition, a PPEF Principals Fund has an interest in certain funds of funds that participate in various investment opportunities. As a result, Pathway has a variety of potential conflicts of interest when it makes investment allocation decisions. These include (i) clients with differing fee, expense, and compensation structures; (ii) clients with differing account structures; (iii) clients of differing size, type, and tenure, with differing investment objectives, guidelines, policies, and governance strategies; and (iv) the interests of Pathway's principals and employees holding interests in a PPEF Principals Fund.

Pathway adheres to separate investment allocation policies for Primary Investments, Secondary Investments, Co-investments, and Direct Investments that are designed to ensure that all clients and the investors in its funds of funds are treated in a fair and equitable manner. However, Pathway does not allocate investment opportunities on a pro-rata basis. Rather, under its allocation policies adopted and overseen by its Portfolio Construction Committee, Pathway allocates investment opportunities in its discretion, taking into account certain factors, including

- the amount a client has available for investment;
- the client's target investment pace;
- the relative amount of capital commitments and the amounts that clients have committed to predecessor funds managed by a particular Fund Manager, related Underlying Funds, and other Underlying Funds;
- the size, type, timing, investment objectives, investment strategies, and investment policies of an Underlying Fund (considered both generally and in relation to other investments in which Pathway's clients have invested or might subsequently invest);
- the economic and other terms of an investment;
- the investment objectives, guidelines, and contractual requirements (including tax and regulatory requirements) of Pathway's clients and restrictions directly or indirectly imposed by its clients;
- the suitability of an investment for a client's portfolio from a strategic or diversification perspective;
- such other factors as Pathway deems relevant.

The application of Pathway's allocation policies may at times result in a client getting access to an investment opportunity that it otherwise would not have, or receiving a smaller or larger share of an investment opportunity than would otherwise be the case, if Pathway had applied a pro-rata allocation policy across its client accounts. Clients should be aware that, under Pathway's allocation policies, (i) no investor will receive an allocation in every investment opportunity made available to Pathway and (ii) there is no assurance that a client will receive an allocation with respect to any particular Primary Investment, Secondary Investment, Co-investment, or Direct Investment made available to Pathway.

Pathway's allocation policies are based upon and consistent with the premise that the Fund Manager of an Underlying Fund or Co-investment has an interest in developing and maintaining long-term relationships with its investors. Accordingly, a Fund Manager may give investors in its prior funds preferred access to its future funds or may direct an allocation in a particular Underlying Fund or Co-investment to a specific investor. Under Pathway's allocation policies, investors in a prior Underlying Fund managed by a particular Fund Manager can receive preference in order to maintain the same relative ownership percentage in the successor fund as the investor or its related parties had in the prior fund. For Co-investments, investors in the related Underlying Fund can receive preference based on their ownership interest in such Underlying Fund and their desired Co-investment allocation request.

Investors that are not prior investors in an Underlying Fund managed by a particular Fund Manager, or current investors in an Underlying Fund managed by such Fund Manager, may not receive any allocation to a new investment opportunity presented by that Fund Manager.

**Activities of Pathway and Its Affiliates.** As discussed in Item 10, “Other Financial Industry Activities and Affiliations,” Pathway or one of its wholly owned affiliates is the general partner or manager of a number of funds of funds in which a PPEF Principals Fund co-invests. The investment strategies pursued and the types of investments made by Pathway’s funds of funds and other client accounts can be similar to one another. Therefore, certain Pathway funds of funds and other client accounts compete with other Pathway funds of funds or other client accounts in identifying and making investments. Pathway and its affiliates might have an incentive to favor certain Pathway funds of funds over other Pathway funds of funds. For example, in regard to the allocation of investment opportunities that have limited investment capacity, Pathway may have an incentive to favor Pathway funds of funds in which a PPEF Principals Fund is invested so that Pathway’s Partners or employees may indirectly participate in those Underlying Funds, or Pathway may have an incentive to favor Pathway funds of funds or client accounts that pay higher fees, including performance-based fees, or where Pathway is not required to bear certain expenses on behalf of the fund of funds or other account. Pathway recognizes that conflicts may arise in these instances and has developed allocation policies that are designed to enable Pathway to address such conflicts and to ensure that its clients are treated fairly and equitably.

**Time Commitment.** The Partners and employees of Pathway and its affiliates are actively engaged in the private equity business. As a result of such current and future other business activities, there may arise potential conflicts of interest with respect to the manner in which certain of these Partners and employees allocate their time among the business and affairs of Pathway.

**Client Investments outside Pathway.** Pathway’s clients or their related parties may invest in Underlying Funds, Co-investments, or Direct Investments independent of Pathway (either on their own or through another adviser). Accordingly, a conflict may result if Pathway is negotiating a potential investment in an Underlying Fund, Co-investment, or Direct Investment on behalf of certain clients and such potential investment is adverse to the interests of another Pathway client or its related parties that independently invested

in the same Underlying Fund, Co-investment, or Direct Investment. In such situation, Pathway has an obligation to act in the best interests of the clients making such investment through Pathway.

**Participation on Advisory Committees.** Individual representatives of Pathway often serve on the advisory committees of the Underlying Funds in which Pathway's clients invest. As a result, these representatives may receive information other investors may not and may be asked to review or approve certain material transactions, conflicts, or valuations of an Underlying Fund. While Pathway believes that its services on these advisory committees benefit its clients by allowing it to more effectively monitor the activities of these Underlying Funds, its participation on these advisory committees could create certain potential conflicts of interest. Additionally, where Pathway holds one advisory committee seat on behalf of multiple clients, the representative may have a conflict of interest in discharging such representative's duties and responsibilities in respect of a particular Underlying Fund to the extent that the multiple Pathway clients themselves have conflicts of interests in respect of such Underlying Fund. For example, Pathway's clients may invest in the same Underlying Funds but may have different investment horizons or objectives. This can give rise to a conflict of interest where Pathway's representative can cast only one vote that affects all of Pathway's clients. In addition, any compensation that Pathway or its individual representatives receive for serving on advisory committees, other than reimbursements for out-of-pocket expenses, is offset against the management fees paid by its clients that are invested in the Underlying Fund.

**Restriction on Personal Trading of Securities.** Pathway restricts the trading of securities by Partners and employees in order to minimize the possibility or perception of conflicts of interest with its clients. Subject to certain limited exceptions, Partners and employees of Pathway, including their families and trusts in which any member of their immediate family is a trustee or in which any such family member has a beneficial interest, are prohibited from trading, exchanging, or otherwise acquiring or disposing of publicly traded or privately placed stocks, securities, or similar investments.

**Allocation of Expenses.** Pathway is required to decide whether certain fees, costs, and expenses should be borne by its clients or by Pathway and/or whether certain fees, costs, and expenses should be allocated between or among Pathway's clients and/or other parties. In exercising its discretion to allocate fees and expenses, Pathway is faced with a variety of potential conflicts of interest. For example, in allocating fees and expenses

among clients relating to a particular investment, certain of such fees and expenses could be allocated to a specific client or allocated among all clients participating in the investment. Such allocation determinations are inherently subjective and give rise to potential conflicts of interest.

**Side Letters.** Pathway may enter into side letters and other agreements and arrangements with certain clients, including, without limitation, in connection with transfer or withdrawal rights, information and notification rights, due diligence reviews, and certain investment restrictions. Pursuant to such side letters, a client may receive certain rights or benefits (including additional reports and access to certain information) that might not be generally available to other clients.

**Diverse Client Interests.** Pathway's clients may have conflicting investment, tax, regulatory, domicile, and other interests with respect to their investments. The conflicting interests of individual clients may relate to or arise from, among other things, the nature of their investments, the structuring or acquisition of investments, and the timing of disposition of their investments. As a consequence, potential conflicts of interests may arise in connection with decisions made by Pathway, including with respect to the nature, structuring, or timing of investments, which may be more beneficial for one client than for another client, especially with respect to a client's individual tax or regulatory situation. In selecting and structuring investments appropriate for multi-investor funds of funds, Pathway will consider the investment and tax objectives of the multi-investor fund of funds as a whole, not the investment, tax, or other objectives of any individual investor in the multi-investor fund of funds. In selecting and structuring investments appropriate for single-investor funds of funds or separate account clients, Pathway will implement the investment and tax requirements negotiated with the investor or client in the respective agreements.

**Exits at Different Times and on Different Terms May Result in Different Returns.**

If multiple accounts or products advised by Pathway invest in a particular investment, Pathway will typically seek to exit the investment at the same time and on the same terms for all such accounts and products. However, it is possible that such accounts or products may have different investment objectives and time horizons, which may make such consistent exits difficult to implement. There can be no assurance that the return on a client's investments will not be less than the returns obtained by another client participating in the transaction. Pathway will determine all matters relating to structuring transactions and

capitalizing portfolio companies, including the amount, terms, and allocation of securities among the involved investors, using its good-faith judgment in considering all factors it deems relevant, but in its sole discretion. Investors in Underlying Funds may be offered the opportunity to participate in a rollover transaction (i.e., the opportunity to elect to (i) sell for cash all or a portion of its indirect investment in an underlying portfolio company, (ii) continue to hold such indirect investment by acquiring interests in a special-purpose investment vehicle that will hold such indirect investment, or (iii) some combination of (i) and (ii)). In making its investment recommendation or investment decision with respect to a rollover transaction, Pathway may face conflicts of interest if the transaction lengthens the hold time of certain underlying investments (thus extending the term of a Pathway fund of funds or extending fees associated therewith).

**Use of Placement Agent.** Pathway engages a placement agent in respect of certain of its offerings to prospective investors in its funds of funds. Any such placement agent will act for Pathway and not as an investment adviser to prospective clients in connection with the offering. Prospective investors are made aware that any placement agent is paid a placement fee based on the amount of commitments to Pathway by investors that such placement agent introduces to Pathway. Prospective clients are also made aware that at various times, such placement agent may act as placement agent for other fund-of-funds sponsors and funds, including fund-of-funds sponsors and funds not affiliated with Pathway, which may offer interests that are similar to those offered by Pathway. Such unaffiliated fund sponsors may pay placement fees on terms different from the fees placement agents may receive in respect of a commitment to Pathway, and such differences in fees may influence a placement agent's decision to introduce prospective investors to Pathway.

**Principal and Cross Transactions.** In connection with Pathway's management of a client's assets, Pathway and its affiliates may engage in principal transactions. Pathway has established certain policies and procedures to comply with the requirements of the Investment Advisers Act of 1940 (the "**Advisers Act**") as they relate to principal transactions, including that the disclosures required by Section 206 of the Advisers Act be made to the applicable client(s) regarding any proposed principal transactions and that such client or clients consent to the transaction prior to its execution. In addition, in certain cases at the request of a client, Pathway may cause the client to purchase investments from another client or cause a client to sell investments to another client. Additionally, in connection with such transactions, Pathway may have a direct or indirect interest in the investment

(such as through certain other participations in the investment). Pathway and its affiliates may receive management or other fees in connection with their management of client accounts involved in such a transaction. In addition, a potential conflict may arise between clients in a fund of funds in the event that a client requests to transfer its interest in such fund of funds through a secondary transaction. If circumstances warrant Pathway pursuing the transaction, Pathway will get the consent of all relevant entities in such transactions. However, in other circumstances, Pathway may be prohibited by applicable laws from initiating a transaction to purchase a secondary interest from another Pathway client, and as a result, Pathway's clients may not be able to initiate a secondary transaction that they otherwise might have initiated, which could impact their financial performance.

**Overlapping Investments.** From time to time, the Primary Investments, Secondary Investments, Co-investments, and Direct Investments that Pathway manages on behalf of other investment vehicles or other managed accounts may result in conflicts with respect to the competing interests of Pathway's various mandates. For example, a client may invest in a Co-investment or Direct Investment alongside other Pathway clients or alongside an Underlying Fund in which other Pathway clients have invested, some of whom have differing requirements and specifications that impact Pathway's ability to negotiate terms for a particular client. In addition, such clients may invest in such underlying portfolio companies at different levels of the company's capital structure, which raises additional potential conflicts. Questions may arise about whether payment obligations and covenants should be enforced, modified, or waived or whether debt should be refinanced. Decisions about what action should be taken in a troubled situation, including whether to enforce claims, whether to advocate or initiate a restructuring or liquidation inside or outside of bankruptcy, and the terms of any work-out or restructuring, raise potential conflicts of interest, particularly among clients that have invested in different securities within the same portfolio company. Although Pathway seeks to mitigate these potential conflicts by adopting appropriate policies, due to the number of clients Pathway advises, these conflicts may not be able to be mitigated in a manner preferable to all Pathway clients.

**Engaging Third-Party Advisers.** Certain advisers and other service providers (including, without limitation, accountants, administrators, lenders, bankers, brokers, attorneys, consultants, and certain other advisers and agents) to a client, Pathway, and/or certain entities in which a client has an investment, or affiliates of such advisers or service providers, may also provide goods or services to, or have business, financial, or other relationships with, Pathway, its affiliates, or Pathway-managed funds or accounts, or with their re-

spective portfolio companies. These service providers and their affiliates may contract or enter into any custodial, financial, banking, advising or brokerage, placement agency, or other arrangement or transaction with a client, the Fund Manager of an Underlying Fund, Pathway, or any portfolio company in which a Pathway client has made an investment. These relationships may influence Pathway in deciding whether to select or recommend such a service provider to perform services for a client, the cost of which may be borne directly or indirectly by such client. Pathway will generally engage common legal counsel and other advisers to represent all of its clients entering into a particular transaction, including a transaction in which the clients have conflicting interests because they are investing in different securities of a single portfolio company. In the event of a significant dispute or divergence of interest between one or more clients, such as in a work-out or other distressed situation, separate representation may become desirable, in which case Pathway may hire separate counsel in its sole discretion. In litigation and other circumstances, separate representation may be required.

**Follow-on Investments.** Follow-on investments involving multiple clients present potential conflicts of interest, including determining the equity and other terms of the new financing. In addition, a client may participate in re-leveraging and recapitalization transactions involving portfolio companies in which other clients have invested or will invest. Recapitalization transactions may present potential conflicts of interest, including determinations of whether existing clients are being cashed out at a price that is higher or lower than market value and whether new clients are paying too high or too low a price for the company or purchasing securities, with terms that are more favorable or less favorable than the prevailing market terms. Pathway will resolve all such conflicts using its good-faith judgment in its sole discretion.

**Investments in Fund Managers.** From time to time, Pathway clients, as well as funds of funds that have a PPEF Principals Fund as an investor, have the opportunity to make Co-investments or Direct Investments in Fund Managers. These investments present potential conflicts of interest because Pathway could have an incentive to make Primary Investments on behalf of clients in funds managed by Fund Managers in which a PPEF Principals Fund has an indirect interest. Pathway will resolve all such conflicts using its good-faith judgment in its sole discretion.

**Differing Advice to Investors.** Pathway may give advice to and recommend investments for one client that may differ from advice given to or investments recommended to or

made by another client. A client may pursue a transaction with an entity in which another client has a preexisting investment. Such transactions (including, for example, a recapitalization led by one client in a fund in which another client has a preexisting investment) may give rise to potential conflicts of interest, and in certain circumstances, such transaction may preclude a client from taking actions it would otherwise have taken.

## Item 12. Brokerage Practices

Pathway uses brokers to liquidate any exchange-traded securities (i) distributed in-kind to Pathway's clients from Underlying Funds or Co-investments in which its clients are invested or (ii) held by clients in Direct Investments. These sales may be executed in one block or in several smaller blocks, depending on the size of the holding and the potential impact of its sale on the market price. Clients can also elect to receive the distributed securities and manage the liquidation themselves. Pathway may also have the ability to select a broker when an Underlying Fund, Co-investment, or Direct Investment offers to assist in the liquidation of securities that would otherwise be distributed in-kind to Pathway's clients. In each case, Pathway will seek best execution of such transactions. In light of its obligation to seek best execution, Pathway considers the following factors in selecting brokers for client transactions: (i) whether the broker can execute orders in a timely manner; (ii) the broker's back-office capabilities, including the ease of the settlement process and the accuracy of settlement information; (iii) the cost of service; (iv) the restrictions imposed on the distributed securities; (v) the broker's trade execution capabilities; (vi) whether there will be a significant delay in the transfer of restricted securities to a selling broker (if the selling broker is not the distributing broker); and (vii) the broker's experience handling private market distributions.

Pathway receives no other products, compensation, services, or soft-dollar benefits from the brokers it selects. No client has directed Pathway to use a specific broker. Pathway does not receive client referrals from the brokers it selects.

Pathway engages in block trading (the bunching of transactions) with respect to the sale of securities distributed in-kind by the Underlying Funds, Co-investments, and Direct Investments in which Pathway's clients are invested. All sales are allocated pro rata, based on the number of shares received, among Pathway's clients who participated in the distribution.

## Item 13. Review of Accounts

Pathway is actively involved in reviewing client accounts and the activity of the Underlying Funds, Co-investments, or Direct Investments in which they are invested. Accounts are reviewed quarterly and whenever there is a distribution from a portfolio investment, a capital call by a portfolio investment, an amendment of a limited partnership agreement (or other transaction document) to which a client is a party, or termination of an investment.

Pathway's Management Committee establishes and reviews criteria utilized by all reviewers of client accounts. Accounts are reviewed by Pathway professionals, including one or more senior managing directors, managing directors, or directors. Pathway's review process includes the following objectives:

- **Assessing Performance**—Pathway's professionals review the Underlying Fund's, Co-investment's, or Direct Investment's financial statements, review portfolio investments (where provided), and measure performance over the life of the investment.
- **Reviewing Manager Compliance with Governing Documents**—Pathway reviews the limited partnership agreements (or other transaction documents) and, as appropriate, monitors provisions, including those related to distributions, investment strategy, and investment pace.
- **Solidifying Relationships**—Pathway's professionals maintain regular contact with fund managers and seek to provide guidance and assistance whenever possible. Pathway's professionals also seek to solidify relationships by actively participating on fund advisory committees.

Pathway provides its clients (and investors in Pathway's funds of funds) with written quarterly reports regarding their private market fund investments. Subject to confidentiality restrictions, the detailed quarterly performance report includes updated valuations and performance figures. Pathway's quarterly reports are typically prepared and delivered between 45 and 90 business days from the end of the quarter using the prior quarter's financial information (the most-recent information available). Reports may be delayed if Underlying Funds or portfolio companies are delayed in providing information to Pathway. Pathway also provides a private market environment report to clients and investors each quarter.

Clients (and investors in Pathway's funds of funds) also have access to Pathway's Online Management System (POMS™), which keeps clients and investors informed on the

progress of their portfolios. General information provided on POMST<sup>™</sup> includes commitment levels, investment activity, portfolio diversification, performance data, and quarterly capital account information.

## Item 14. Client Referrals and Other Compensation

Other than the management fees paid by Pathway funds of funds and direct advisory clients, Pathway does not currently receive income from any sources or relationships related to its management of client accounts, including from brokers, Underlying Funds, placement agents, or other third parties. Occasionally, Pathway may receive compensation for serving on advisory committees of the Underlying Funds in which Pathway's clients invest. For any compensation that Pathway receives for serving on these advisory committees, other than reimbursements for actual out-of-pocket expenses, Pathway offsets its management fee for its clients that are invested in the Underlying Fund.

## Item 15. Custody

Pathway maintains custody of the assets held by the funds of funds it manages and assets held for certain other clients. All client assets (other than interests in private market funds) are held by qualified custodians selected either by Pathway or by the client. The qualified custodians, which include both banking and brokerage accounts, deliver original statements directly to clients at least quarterly, which clients should carefully review. Client assets are held in individual accounts, in the name of the client, and are not commingled. Pathway recommends that clients compare the information provided to them by Pathway with the statements they receive directly from qualified custodians.

## Item 16. Investment Discretion

Pathway has discretion to make private market investments for the majority of its clients. Pathway invests in and manages private market Underlying Fund interests, Co-investments, and Direct Investments on behalf of its clients, subject to specific guidelines (where appropriate) established by the client's contract. Any limitations with respect to Pathway's discretion, such as limited veto rights, are described in detail in the contracts.

Guidelines may address the following:

- Size of Investments
- Total Annual Commitments
- Minimum or Maximum Number of Investments
- Geographic Exposure
- Industry Focus
- Diversification Requirements
- Strategy or Specific Investment Restrictions
- Restrictions on Primary Investments, Secondary Investments, Co-investments, and Direct Investments

Pathway is generally granted discretionary authority in client agreements through a power of attorney or as general partner or manager of the funds of funds. In some cases, a stand-alone power of attorney or letter agreement is used to augment or clarify Pathway's discretionary authority.

## Item 17. Voting Client Securities

Generally, Pathway votes proxies in accordance with its own policies, but clients that are not in a Pathway fund of funds may, at their discretion, elect to provide Pathway with their written proxy voting guidelines. In those instances, Pathway will, to the best of its ability, follow the client's guidelines. In the absence of such guidelines, Pathway will exercise its fiduciary obligation to vote the client's proxy in the best interest of such client in accordance with Pathway's specific policies, unless doing so would violate a client's investment guidelines. Pathway will monitor corporate actions and conduct such due diligence as deemed necessary to fulfill its fiduciary obligation to vote the client's proxy. Pathway does not utilize a proxy voting service.

In the event that Pathway has a conflict of interest with a client, Pathway will disclose the nature of the conflict of interest to such client and will obtain the client's written consent before voting such client's proxy. For example, Pathway would require client consent in the event that a proxy vote was being taken by any company that Pathway also provides investment advisory services to. In addition, Pathway would require client consent in the event that it becomes aware that a proxy vote was taken by any company that any

Partner or employee of Pathway has a significant personal or business relationship with. Pathway will provide a copy of Pathway's Proxy Voting Policy upon request. In addition, any client may request from Pathway information regarding how its securities were voted. Such request should be directed to Pathway's chief compliance officer using the contact information for the Irvine office set forth in Item 1.

## Item 18. Financial Information

This item is inapplicable to Pathway because (i) Pathway does not require or solicit payment of more than \$1,200 in fees per client six months or more in advance, (ii) Pathway has no financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients, and (iii) Pathway has not been the subject of a bankruptcy petition at any time during the past 10 years.



