

Item 1 – Cover Page



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Part 2A of Form ADV: Firm Brochure
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This brochure provides information about the qualifications and business practices of 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 (“SEC”) 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 – Summary of Material Changes

Pharos Capital Group, LLC (“Pharos”) is providing this annual update to Form ADV Part 2A (the “Brochure”) for fiscal year ending December 31, 2022. There are no material changes to report regarding Pharos.

Future Brochure filings will address “material changes” since the date of this filing concerning Pharos. We will ensure you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of Pharos’ fiscal year. When necessary, we will further provide other ongoing disclosure information about material changes.

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Item 4 – Advisory Business

Pharos Capital Group, LLC (“Pharos”) manages private equity funds specializing in later-stage investing, and provides investment advice to Pharos’ clients: Pharos Capital Partners, LP, Pharos Capital Partners II-A, LP, Pharos Capital Partners III, LP, Pharos Capital Partners III-A, LP, Pharos Capital Partners IV, LP, and Pharos Capital Partners IV-A, LP (the “Funds”). Pharos’ investment advice is limited to the Funds.

Pharos is an investment adviser with offices in Brentwood, Tennessee, Dallas, Texas, and Baltimore, Maryland. Pharos was formed as a Delaware limited liability company in 2011 and is principally owned by Kneeland C. Youngblood, Pharos’ Managing Partner. Pharos is a certified Minority Business Enterprise (MBE).

Pharos provides discretionary portfolio management to the Funds. The Funds are not registered under the Investment Company Act of 1940, as amended (the “Investment Company Act”), and the securities issued by the Funds are not registered under the Securities Act of 1933, as amended (the “Securities Act”).

As an investment adviser, Pharos identifies investment opportunities and participates in the acquisition, management, monitoring and disposition of investments for the Funds. The Funds’ objective is to achieve attractive risk-adjusted returns by investing in high-growth companies, primarily through equity and equity-related instruments, as well as debt. In investing on behalf of the Funds, Pharos previously had a core focus on the healthcare and business service sectors, and now has a core focus on healthcare companies.

Within the healthcare industry, Pharos is focused on growing middle-market healthcare companies that aim to lower the cost of care, improve patient outcomes and/or expand access to care, predominantly in rural and underserved markets. Pharos seeks to make investments for the Funds that address one or more of the United Nations’ Sustainable Development Goals related to poverty, good health and well-being, inequality and sustainable communities and cities.

Pharos primarily seeks to partner with management teams to take a substantial or controlling equity position in Fund portfolio companies through buyouts, recapitalizations, or staged growth investments. The Funds 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 Funds to execute such strategies. The investment strategy of the Funds is not tailored to any particular investors, and investors cannot impose restrictions on any of the Funds’ investments.

Pharos currently manages a total of \$1,110,821,828 of client assets, all of which are managed on a discretionary basis. Such amount is based upon the calculation of the Funds’ regulatory assets under management as of December 31, 2022.

Item 5 – Fees and Compensation

Below is a discussion of how Pharos is generally compensated in connection with providing advisory services to the Funds. Please note, however, that Pharos is permitted to enter into different fee arrangements on a Fund-by-Fund basis. A potential investor in a Fund should carefully read and review any and all Fund organizational and disclosure documents in their entirety before making any investment in a Fund.

Pursuant to the terms of investment advisory agreements between Pharos and the respective general partners of Pharos Capital Partners, LP, Pharos Capital Partners II-A, LP, Pharos Capital Partners III, LP, and Pharos Capital Partners III-A, LP, Pharos Capital Partners IV, LP and Pharos Capital Partners IV-A, LP (each a “General Partner” and, collectively, the “General Partners,” and with Pharos, referred to collectively herein as “Pharos” unless otherwise indicated), Pharos is entitled to receive advisory fees in return for investment advisory services provided to the Funds. Advisory fees are paid quarterly in advance, typically within in the first five business days of each calendar quarter. With respect to the payment of advisory fees, Pharos, or the applicable General Partner, can draw-down capital commitments from the investors in the Fund, can directly deduct the fees from the Funds or draw down on a line of credit in order to meet the obligation to pay the management fee. The method of payment will depend on cash available in the bank account for each respective Fund. During the investment period, each Fund will pay a management fee to its General Partner based on a percentage, generally 2% of the Fund’s committed capital, as fully described in each Fund’s offering documents. Outside of the investment period, each Fund will pay a management fee to Pharos or its General Partner, generally calculated as a percentage of the cost of investments, less cost of investments distributed and written off. In the case of one Fund, the cost of investments written down further reduces the management fee. Management fee formulas are fully described in each Fund’s offering document. 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 can be negotiated by Pharos and its clients. Pharos does not currently have a set fee schedule.

Pharos Capital Partners IV, LP and Pharos Capital Partners IV-A, LP each launched in 2021. During the investment period, each fund will pay Pharos or its General Partner a management fee, similar to that described above and as fully described in each Fund’s offering documents. Outside of the investment period, each Fund will pay a management fee to Pharos or its General Partner, generally calculated as a percentage of the cost of investments and in the case of one fund, less the cost basis of any investments written down by more than 85%.

The management fee obligation of any Fund, and its investors, can only be terminated or modified as provided by the respective offering documents of each Fund and the investment management agreement with Pharos. The management fee is calculated quarterly, and is pro-rated for partial periods.

In addition to the advisory fees discussed above, Pharos is entitled to certain expense reimbursements, which are disclosed in the Funds’ respective offering documents.

Pharos does not receive any fees or payments from the Funds other than those described above. However, in some cases, Pharos might receive other fees, including funding fees, transaction fees, monitoring fees, advisory fees, break-up fees, and other similar fees, from a Fund or its portfolio companies, to the extent permitted by contract. Pharos anticipates that, if such fees are received, such fees and any directors' fees paid by a Fund's portfolio companies will be applied to reduce Pharos' management fee. To the extent that Pharos determines it to be in the best interests of a Fund to hold back realized investment proceeds for follow-on investment or other purposes, additional investments made by the Fund with such proceeds will increase the capital basis on which the management fee for the Fund is charged.

Pharos Capital Partners III, LP, Pharos Capital Partners III-A, LP, Pharos Capital Partners IV, LP, Pharos Capital Partners IV-A, and subsequent Funds, will be charged for all fees, costs, and expenses incurred in connection with transactions that are not consummated ("Broken Deal Expenses"), in accordance with the applicable limited partnership agreement. In situations where more than one Fund participates in a transaction, Broken Deal Expenses will be allocated pro rata based on each Fund's committed capital inclusive of leverage issued by U.S. Government agencies, net of repayments. Co-investment opportunities (please see Item 6) are typically offered to limited partners and other persons when a transaction has neared completion. Because co-investors are asked to participate in a specific transaction on a case-by-case basis, in the event a transaction is not completed, these Broken Deal Expenses will not be charged to any co-investment vehicle. See also the Allocation of Investment Opportunities and Costs at Item 11 below.

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

Pharos Capital Partners, LP, Pharos Capital Partners II-A, LP, Pharos Capital Partners III, LP, and Pharos Capital Partners III-A, LP may be required to allocate a portion of their investment profits to the General Partners, as carried interest, as set forth in each Fund's respective limited partnership agreement. Such carried interest is allocated to the respective General Partner after each investor receives 100% of its contributed capital plus an 8% per annum internal rate of return, compounded annually. Thereafter, the profit participation is 80% to investors and 20% to the General Partner. Such performance-based distributions could create an incentive for the General Partners to make Fund investments that are riskier or more speculative than they would otherwise make in the absence of such arrangements.

For Pharos Capital Partners IV, LP and Pharos Capital Partners IV-A, LP, such carried interest is allocated to the respective General Partner after each investor receives 100% of its contributed capital plus an 8% internal rate of return per annum, compounded annually, in the case of Pharos Capital Partners IV, LP and 6% internal rate of return per annum compounded annually, in the case of Pharos Capital Partners IV-A, LP. Thereafter, the profit participation is 80% to investors and 20% to the General Partner.

There are no performance-based fee arrangements for side-by-side management of co-investment opportunities or friends and family funds. However, in the future, Pharos could negotiate for and

receive performance-based fees from its clients, provided that the receipt of any such fees is permitted by applicable law. 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 objectives of certain Funds with performance fee arrangements may be entirely different than other advisory clients without such fee arrangements, further reducing the chances of conflicts of interest.

As part of its investment management activities, Pharos can arrange opportunities for the Funds' limited partners or other persons to invest in portfolio companies alongside a Fund (a "Co-investment"). Pharos can permit one or more of the Funds' limited partners (but not necessarily all limited partners) and/or other persons to invest in securities issued by a portfolio company of a Fund. At its discretion, Pharos will allocate the available investment among the limited partners and other persons, if any, who are co-investing. The terms of a Co-investment could differ from those of the Funds or other co-investors, including with respect to the payment of carried interest and management fees; 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 Fund(s). See also the discussion of Side Letters at Item 8 below and the discussion of the Allocation of Investment Opportunities and Costs at Item 11 below.

Item 7 – Types of Clients

At the present time, Pharos provides investment advice to the Funds, whose investors are high net worth individuals, public and private pensions, banks, non-profits, insurance companies and other institutions. The minimum capital commitment for an investor is outlined in each Fund's offering documents, although lesser amounts can be accepted at the discretion of the Funds' General Partners.

Please see Item 10 – Other Financial Industry Activities and Affiliations for further details.

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

Methods of Analysis and Investment Strategies

Pharos Capital Partners III, LP, Pharos Capital Partners III-A, LP, Pharos Capital Partners IV, LP and Pharos Capital Partners IV-A, LP primarily seek to provide capital to create substantial or controlling equity positions in established healthcare businesses. When evaluating an investment opportunity on behalf of a Fund, Pharos performs a multi-faceted review of portfolio company-related criteria and other specific investment and impact criteria. Company-related criteria that Pharos reviews include the target company's management, profitability, growth potential and scalability, and predictable risk exposure. The investment criteria Pharos reviews include

evaluating each opportunity to determine if the Fund can function as a lead or in a co-lead role in the investment. The impact criteria that Pharos reviews include an assessment of: whether the investment will lower the cost of care, improve patient outcomes and/or expand access to care; whether the investment will serve underserved areas and populations, and/or small and complex populations, particularly in urban and rural communities; and whether the investment addresses one or more of the United Nations' Sustainable Development Goals related to poverty, good health and well-being, inequality, and sustainable communities and cities. In addition to these impact criteria, Pharos also incorporates other environmental, social and governance ("ESG") considerations in its investment analysis and decision-making processes for the Funds, including but not limited to those related to a company's energy efficiency, water and waste management, climate change, disaster recovery, jobs creation, gender and diversity inclusion practices, workplace and product safety, audit practices, culture of compliance, and cybersecurity controls.

Pharos Capital Partners III, LP, Pharos Capital Partners III-A, LP, Pharos Capital Partners IV, LP and Pharos Capital Partners IV-A, LP seek to take a controlling position in its portfolio companies. In those cases where a Fund is not the majority shareholder at the time of its initial investment, the Fund 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 looks for opportunities for the Funds to add value beyond the capital invested. The General Partners provide ongoing support and counsel to the Funds' portfolio companies through active board participation, usually taking a leadership role on the audit, compensation, and/or strategic planning committees. Pharos might provide additional support and counsel to the General Partners and/or to the Funds. This support may be provided directly to the Funds' portfolio companies and may include, without limitation, locating, analyzing and negotiating acquisitions, financial modeling and budgeting assistance, negotiating key strategic agreements, recruiting management or additional healthcare providers, raising capital and, when necessary, developing strategies for corporate restructurings. Pharos plans to customize the structure of each investment to meet the risk and return objectives of the Funds, using innovative deal structures. Finally, Pharos prefers to assist the Funds in investing in portfolio companies that have several exit strategies. These exits could involve a financial buyer, an initial public offering, a recapitalization, or a sale to a strategic purchaser.

Pharos expects Fund portfolio companies to respect the human rights of those affected by their business activities and to comply with all laws related to the environment, labor, and ethical business practices, and Pharos encourages continual improvement in Fund portfolio companies' ESG performance. Fund portfolio companies are expected to adopt ESG policies and procedures that are consistent with Pharos' ESG policies and procedures and appropriate for the company's business model, industry and location.

Material Risks of Significant Investment Strategies

The investments made by the Funds entail a high degree of risk and investments in the Funds are suitable only for sophisticated investors who fully understand and are capable of bearing the risk of loss that comes with an investment in such Funds. Prospective investors should carefully consider the following factors, among others, in making their investment decision. There can be

no assurance that the Funds 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 the Funds' investors should be prepared to bear.
- **Nature of the Funds' Investments** - Many of the Funds' investments typically will be highly illiquid, and there can be no assurance that a Fund will be able to realize a return on such investments in a timely manner. Consequently, dispositions of such investments could require a lengthy time period or could result in distributions in kind to the investors of securities that might or might not be marketable. Additionally, the Funds typically will acquire securities that cannot be sold except pursuant to a registration statement filed under the Securities Act of 1933, 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. While Pharos mostly invests in convertible notes, the securities in which the Funds will invest could occasionally 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 the Funds' investments could be in companies with high levels of debt. Certain of the Funds' investments could 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 the Funds involves a high degree of risk. Since the Funds can only make a limited number of investments, and since the Funds' 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 the Funds requires the financial ability and willingness to accept significant risk and illiquidity. An investment in the Funds 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. In addition, the interests are not transferable except with the consent of the General Partners, which generally can be withheld by the respective General Partner in its sole discretion, and are subject to the terms and conditions of the limited partnership agreement. Investors generally cannot withdraw capital from a Fund. Consequently, investors might not be able to liquidate their investments prior to the end of a Fund's term.
- **General Economic Conditions** - General economic conditions can affect the opportunities available to the Funds. Interest rates, general levels of economic activity, the price of securities and participation by other investors in the financial markets can affect the value and number of investments made by a Fund 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 can 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 the Funds and their portfolio companies.

- **Environmental, Social and Governance Investing Risks** – The consideration of the impact and other ESG factors discussed above could cause a Fund to invest in, forgo investing in, or exit a position in a company, which would negatively impact the Fund’s performance, including relative to other healthcare-focused private equity funds that do not consider any impact and/or ESG criteria or, that do consider such criteria but make different investment decisions than Pharos with respect thereto.
- **General Regulatory and Legal Risks** - The Funds expect to make investments in the healthcare industry, which might 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 could have a material negative impact on the performance of the Funds and the portfolio companies that operate in these industries.
- **Competitive Nature of the Funds’ Business** - The business of the Funds is highly competitive. The Funds will be competing for investments against other groups, including direct investment firms, merchant banks and industrial groups, and Pharos might be unable to identify a sufficient number of attractive investment opportunities for the Funds to meet their investment objectives. Other investors might 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 the Funds 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 Funds’ Operations** - Investors will have no opportunity to control the day-to-day operations of the Funds, including investment and disposition decisions. In order to safeguard their limited liability for the liabilities and obligations of a Fund, investors must rely entirely on Pharos to conduct and manage, respectively, the affairs of the Fund.
- **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 could be precluded from making certain investments and could 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** - The Funds will invest in securities, instruments and assets that are not, and are not expected to become, publicly traded. The Funds 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, the Funds could 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 could require a substantial length of time to realize a return or fully liquidate. The Funds might 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.

In connection with the disposition of an investment in a portfolio company, the Funds might 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 might 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, the Funds might 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 might result in contingent liabilities, which might ultimately have to be funded by the investors. The Funds' 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 a Fund, subject to certain limitations.

The General Partners might delay realization events to the Funds' investors as a result of general economic conditions, illiquidity of portfolio investments, contractual prohibitions or other reasons. While under normal circumstances distributions will be made in cash, it is possible that certain distributions to the Funds' investors could 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 Fund other than in accordance with the Fund's governing documents, the respective General Partner can 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 Fund, (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 Fund. Unless the respective 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 Fund up to the full amount of its unfunded commitment (which obligations could 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 the Funds' general partners, is, or might be in the future, entitled to distributions based on the performance of the Funds, could create an incentive for Pharos to cause the Funds to make investments that are more speculative than would be the case in the absence of performance-based distribution. However, this incentive could be tempered somewhat by the fact that losses will reduce the Funds' performance and thus distributions to 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. The Funds 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 Funds' offering documents.
- **Investments in Debt** - The Funds might invest in certain debt instruments, including bank loans and unsecured bonds. Such investments might 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** - The Funds might make investments in portfolio companies that 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 the Funds. There is also a risk that a court could subordinate the Funds' investment to other creditors or require the Funds to return amounts

previously paid by a portfolio company that became insolvent or files for bankruptcy, a risk that could increase if a Fund has management rights in such portfolio company.

- **Use of Leverage** – Pharos might make use of leverage by incurring debt to finance a portion of a Fund’s investment in a given asset. Leverage generally magnifies both a Fund’s opportunities for gain and its risk of loss from a particular investment. Pharos has historically taken a very conservative approach to leverage, viewing it as an incremental rather than essential tool to enhance returns. Most of Pharos’ investments to date have not required any leverage. In cases where leverage is used, Pharos looks to maintain a ratio of debt to total capitalization below 50%. Pharos’ investment team runs sensitivity analyses prior to committing to an investment, stress testing key growth assumption and rigorously vetting the company’s ability to meet debt covenants under a wide range of scenarios. Due to Pharos’ conservative use of leverage, none of Pharos’ portfolio companies have experienced a significant negative impact from contractions of the credit markets.

Additionally, the Funds might acquire securities of companies which are leveraged. Such companies’ securities and the ability of such companies to pay debts could be adversely affected by interest rate movements, changes in the general economic climate or by economic factors affecting a particular industry.

- **Unforeseen Events Risk** - Pharos and its portfolio companies could 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 might 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 Associated with Epidemics, Pandemics, Outbreaks of Disease and Public Health Issues** - Pharos’ business activities as well as the Funds and their operations and investments, could be materially adversely affected by pandemics, epidemics and outbreaks of disease in Asia, Europe, North America and/or globally or regionally, such as novel coronavirus, or COVID-19, Ebola, H1N1 flu, H7N9 flu, H5N1 flu, Severe Acute Respiratory Syndrome, or SARS, and/or other epidemics, pandemics, outbreaks of disease, viruses and/or public health issues. Specifically, novel coronavirus, or COVID-19, spread rapidly around the world since its initial emergence in China in December 2019 and severely negatively affected the global economy and equity markets (including, in particular, equity markets in Asia, Europe and the United States). Although the long-term effects or consequences of novel coronavirus (or COVID-19) and/or other epidemics, pandemics and outbreaks of disease cannot currently be predicted, previous occurrences of other pandemics, epidemics and other outbreaks of disease, such as H5N1 flu, H1N1 flu, SARS and the Spanish flu, had a material adverse effect on the economies and markets of those countries and regions in which they were most prevalent. Any occurrence or recurrence of an outbreak of any kind of epidemic, communicable disease or virus or major public health issue could cause a slowdown in the levels of economic activity generally (or cause the global economy to enter into a recession or depression), which would adversely affect the business, financial condition and

operations of Pharos and the Funds. Should these or other major public health issues, including pandemics, arise or spread, Pharos and the Funds could be adversely affected by more stringent travel restrictions, additional limitations on Pharos' operations or business and/or governmental actions limiting the movement of people between regions and other activities or operations (or to otherwise stop the spread or continued spread of any disease or outbreak).

- **Unspecified Use of Proceeds** - The Funds will be dependent upon the judgment and ability of Pharos in investing and managing their capital. No assurance can be given that the Funds will be successful in obtaining suitable investments, or that if such investments are made, the objectives of the Funds will be achieved.

- **Exculpation; Indemnification; Return of Distributions** - Typically, the Funds will be required to indemnify the General Partners and each other covered person for liabilities incurred in connection with the Funds' governing documents and the activities of the Funds, except under certain circumstances. Such liabilities might be material and might have an adverse effect on the Funds' returns to the investors.

- **Follow-on Investments** - The Funds could 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 the Funds 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 the Funds' inability to make them could have a substantial negative impact on a portfolio company in need of such an investment or could diminish the Funds' ability to influence the portfolio company's future development.

- **Side Letters** - The General Partners or the Funds might enter into other written agreements ("Side Letters") with one or more investors. These Side Letters could entitle an investor to make an investment in the Fund on more favorable terms than those offered to other investors. If the General Partners or the Fund enters into a Side Letter entitling an investor to opt out of a particular investment, any election to opt out by such investor could increase other investor's pro rata interests in that particular investment.

- **Risk of Dilution** - Investors admitted to a Fund at subsequent closings will generally participate in existing investments of the Fund, 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 Fund'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 Fund will rely upon management to operate the portfolio companies on a day-to-day basis. Furthermore, employees and related persons of Pharos have made or could make capital investments in certain investments alongside a Fund. While such

investments by related persons generally incentivize management performance and alignment, in some instances, related persons might hold securities at a different level of a portfolio company's capital structure and, therefore, conflicts might arise. As noted in Item 11 (Co-Investments by Pharos Management Personnel) below, Pharos implements policies and procedures to address such conflicts.

- **SBA Investments** - Certain Funds and private investment vehicles advised by Pharos are Small Business Investment Companies ("SBICs"). SBICs are licensed by the U.S. Small Business Administration and must abide by the regulations governing the SBIC program, which includes restricting their investments to qualifying small businesses. Therefore, an SBIC could be prevented from investing in a portfolio company, or could be required to sell an existing portfolio company, if that company does not fit the criteria of the SBIC program. This could influence Pharos' decision-making with respect to the SBIC's investments.
- **RBIC Investments** – A certain Fund advised by Pharos is a Rural Business Investment Company ("RBIC"). RBICs are licensed by the U.S. Department of Agriculture and must abide by the regulations governing the RBIC program, which includes restricting a percentage of investments to qualifying rural communities. Therefore, an RBIC could be prevented from investing in a portfolio company, or could be required to sell an existing portfolio company if that company does not fit the criteria of the RBIC program. This could influence Pharos' decision-making with respect to the RBIC's investments.
- **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 could increase Pharos' and the Funds' exposure to potential liabilities and to legal, compliance and other related costs. Increased regulatory oversight could impose administrative burdens on Pharos, including, without limitation, responding to investigations and implementing new policies and procedures. Such burdens could 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. The Funds and their related persons could also be subject to regulatory inquiries concerning their securities positions and trading.
- **Use of Quantitative Analytics and Financial Models, Valuation Methodologies** - In providing investment advice to the Funds, 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. 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 might 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 in Risk Management Section below) when making determinations with respect to the price the Funds 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 might be subtle or significant differences applicable to the target company that Pharos might not be able to predict or that might 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 could increase the price a Fund would ultimately pay for a portfolio company and that might adversely impact the Fund's return on investment upon the Fund'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 Fund 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 the Funds.

- **Cybersecurity Risk** - Pharos, the Funds' service providers, and other market participants increasingly depend on complex information technology and communications systems to conduct business functions. These systems are subject to a number of different threats or risks that could adversely affect the Funds and its investors, despite the efforts of Pharos and the Funds' service providers to adopt technologies, processes and practices intended to mitigate these risks and protect the security of their computer systems, software, networks and other technology assets, as well as the confidentiality, integrity and availability of information belonging to the Fund and its investors. For example, unauthorized third parties might attempt to improperly access, modify, disrupt the operations of, or prevent access to these systems of Pharos, the Funds' service providers, counterparties or data within these systems. Third parties might also attempt to fraudulently induce employees, customers, third-party service providers or other users of the Pharos' systems to disclose sensitive information in order to gain access to the Pharos' data or that of the Funds' investors. A successful penetration or circumvention of the security of Pharos' systems could result in the loss or theft of an investor's data or Funds, the inability to access electronic systems, loss or theft of proprietary information or corporate data, physical damage to a computer or network system or costs associated with system repairs. Such incidents could cause the Funds, Pharos or its service providers to incur regulatory penalties, reputational damage, additional compliance costs or financial loss.

Similar types of operational and technology risks are also present for the companies in which the Funds invest, which could have material adverse consequences for such companies, and could cause the Funds' investments to lose value.

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 the

Funds, Pharos seeks to limit the risk profile on an investment upfront through the use of creative structures and securities that increase the Funds' 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 debt instruments including secured debt, unsecured debt with warrants, and convertible debt, as well as preferred shares in order to mitigate risk. 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 aims to derive 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 the Funds 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

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of Pharos and/or the integrity of Pharos' management.

Pharos has no legal or disciplinary events to disclose.

Item 10 – Other Financial Industry Activities and Affiliations

Kneeland C. Youngblood, D. Robert Crants, III, and James W. Phillips are the owners of, and collectively control, Pharos. They also own and control, where applicable, the General Partners and sponsors of each Fund, thus making each such General Partner, which may earn performance-based fees in the form of carried interest, a related person of Pharos.

Pharos' Senior Advisors and Operating Partners provide Pharos with strategic insight on potential business opportunities. These advisors and partners earn consulting fees in certain circumstances.

In addition, Pharos maintains a network of external partners that are known as "Entrepreneurs-in-Residence ("EIRs"). These EIRs are healthcare industry executives who share Pharos' healthcare investment philosophy/vision: lowering the total cost of care, improving patient outcomes and/or expanding access to care. Pharos' EIRs provide expertise during the due diligence process by assisting Pharos in determining the strength of potential portfolio companies. Concurrent with the due diligence process, Pharos evaluates the EIR for suitability as an executive of the portfolio company. EIRs are maintained on a pro bono basis during the due diligence process. In certain circumstances, Pharos invites EIRs to join the executive team of the portfolio company for which the EIR assisted in performing due diligence. The EIR then becomes a consultant and is paid by Pharos. If the portfolio acquisition is consummated, the EIR's consulting fees are reimbursed by the portfolio company in the transaction's closing. If the portfolio company transaction is unconsummated, the EIR's consulting fees are a broken deal expense of the relevant funds, split pro rata to capital commitment, inclusive of leverage issued by a government agency.

Please see Item 11 - Conflicts of Interest, below, for a discussion of how Pharos deals with any conflicts related to such common ownership and control that might 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 (the "Advisers Act"), 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 the use of material non-public information, confidentiality and privacy, disclosure of 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 (current or prospective) or investor (current or prospective) upon request.

Conflicts of Interest

Potential investors should be aware that there will be situations where Pharos could encounter potential conflicts of interest in connection with the Funds' investment activities and otherwise. The following discussion details certain potential conflicts of interest which should be carefully considered.

In certain circumstances, the General Partners or their related persons might make personal loans to the Fund(s) or personally guarantee the liabilities of the Fund(s). Such loans and guarantees will be made at below-market rates. With respect to such transactions, and any other material conflicts of interest that might arise, the applicable Fund Advisory Committee will be alerted, all conflicts of interest will be disclosed, and approval will be sought as required by the Funds' offering documents.

- **Allocation of Investment Opportunities and Costs** - As discussed above, Pharos concurrently manages the Funds, whose general partners are related persons of Pharos. The Funds have similar investment objectives and a Fund might invest either concurrently with, or subsequent or prior to the investment by, another Fund. Allocation of available investment opportunities between the Funds will be made by the managing members of Pharos and the other GPs, who could be the same individuals, in their discretion.

The Firm may allocate co-investment opportunities to strategic and other investors, lenders, limited partners, "friend and family" and similar vehicles, only if such opportunity for co-investment does not preclude or restrict in any way a Fund's ability to participate in the investment, and only on terms fair to the affected Fund(s) and its investors.

With respect to any investment opportunity that meets the objectives of multiple Funds, Pharos will allocate the investment opportunity among the Funds in a manner that the General Partner believes to be fair and reasonable (taking into account, among other things, the capital available for investment for each Fund (and any parallel fund or co-investment vehicle), the prospects for future investment opportunities and other investment constraints in each case, as determined by the General Partner in good faith). Subject to legal, tax, regulatory, or other similar considerations, any investment made by a parallel fund or co-investment vehicle shall be on substantially the same terms as and on economic terms that are no more favorable than those received by the Fund. Fund investments in the same securities are generally made on the same terms, with differences only in the size of the investment, driven by each Fund's size.

To the extent that different Funds invest in different securities of the same portfolio company, with different terms and preferences, the Pharos will manage and disclose potential conflicts that may arise, with consent from the applicable Fund Advisory Committees as appropriate.

The appropriate allocation between the Funds 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 compliance with the Funds' offering documents and in Pharos' good faith discretion. Deal costs and expenses are allocated pro-rata among participating Funds based on the funding split. See also the discussion of Broken Deal Expenses at Item 5 above.

- **Legal Representation** - Counsel to Pharos might represent Pharos, the General Partners the Funds and their related persons from time to time in a variety of different matters. The Funds will generally engage common legal counsel to represent them in a particular transaction, including a transaction in which different Funds might have conflicting interests because they are investing in different classes of securities of the same portfolio company. Although separate counsel could be engaged from time to time at the discretion of the General Partners 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 the Funds usually outweigh the disadvantages. In the event of a significant dispute or divergence of interests between one Fund and another Fund, typically in a workout or other distressed situation, separate representation might become desirable, and in litigation and other circumstances, separate counsel might be essential. Pharos and/or the General Partners and other GPs, as applicable, will resolve any such issues in its good faith discretion.

Pharos and the Funds' legal counsel do not represent or owe any duty to any or all of the Funds' investors. Legal counsel represents Pharos, including with respect to Pharos' role in relation to a Fund. It is not anticipated that, in connection with the organization or operation of a Fund, Pharos or the General Partners or other GPs will have the Fund engage counsel separate from counsel to Pharos. In no event will legal counsel engaged by a Fund be acting as counsel for the investors. Furthermore, in the event a conflict of interest or dispute arises between Pharos and a Fund or any investors, it will be accepted that legal counsel is counsel to Pharos and not counsel to the Fund or investors, notwithstanding the fact that, in certain cases, legal counsel's fees are or could be paid through or by the Fund. Other matters might exist that could have a bearing on a Fund 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 the Funds or Pharos.

- **Resolution of Conflicts with the Funds** - The Funds have Advisory Committees consisting of representatives of investors not affiliated with Pharos or the General Partners. The Advisory Committees will meet as required to consult with Pharos as to, among other things, conflicts of interest. On any issue involving actual conflicts of interest, Pharos and/or the General Partners, as applicable, will be guided by its good faith discretion. In the event that any matter arises that Pharos or the General Partners determines constitutes an actual conflict of interest between a Fund, on the one hand, and Pharos, on the other hand, Pharos and/or the General Partners can take such actions as it deems necessary or appropriate in good faith to ameliorate the conflict and/or as approved by a Fund Advisory Committee. These actions could include disposing of the security held by a Fund 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 Funds' investment program and decisions, while the General Partners will retain ultimate responsibility for all decisions relating to the operation and management of the Funds. Pharos might or might 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** - The Funds' investors include and are expected to include U.S. taxable entities, U.S. tax-exempt entities, and entities and/or investors from jurisdictions outside of the United States. Such investors could have conflicting investment, tax and other interests with respect to their investments in the Funds. The conflicting interests of individual investors could relate to or arise from, among other things, the nature of investments made by a Fund, the structuring of the acquisition of investments and the timing of the disposition of investments. As a consequence, conflicts of interest can arise in connection with decisions made by Pharos, including with respect to the nature or structuring of investments, that might 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 each Fund, Pharos will consider the investment and tax objectives of the Fund and the investors as a whole, not the investment, tax or other objectives of any investor individually.

By acquiring an interest in a Fund, 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 will 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 are in the best interests of the portfolio company might not be in the best interests of a Fund, and vice versa. Accordingly, in these situations, there might 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 could decide to recuse himself or herself from the decision-making process, if necessary.

- **Investments in Portfolio Companies of the Other Pharos Funds** - A Fund might invest in debt or equity of companies in which other Funds hold securities, including equity securities. In the event that such investments are made, the interests of one Fund might be in conflict with the interests of one or more other Funds, particularly in circumstances where the underlying company is facing financial distress. If a portfolio company in which one Fund has a debt investment and in which another Fund has an equity or senior debt investment becomes distressed or defaults on its obligations under the debt investment, Pharos could have conflicting loyalties between the respective Fund and, possibly, the portfolio company. In that regard, actions might be taken for one Fund that are averse to another Fund, or actions might or might not be taken by one Fund due to such other Fund's investment, which action or failure to act could be averse to the Fund. In addition, it is possible that in a bankruptcy proceeding one Fund's interest could be subordinated

or otherwise adversely affected by virtue of such another Fund'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 Fund might be prohibited from exercising any voting rights, and might 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 Fund. 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 Fund will not have an adverse effect on the investments made by another Fund.

- **Co-Investments by Pharos Management Personnel** – As discussed in Item 6, Pharos can arrange for co-investment opportunities to be made directly with portfolio companies alongside the Funds. Certain co-investments could be made by Pharos' management personnel, which could create a conflict of interest if a member of Pharos' management has an interest in a portfolio company investment that differs from that of the Fund. Pharos monitors these potential conflicts and requires the pre-clearance of all employees' investments and divestitures in private placements.

Item 12 – Brokerage Practices

Pursuant to Pharos' investment strategy as detailed in Item 4, Pharos does not generally select or recommend broker-dealers for the purchase or sale of securities. In limited circumstances, however, Pharos might utilize the service of a broker-dealer to sell or hedge publicly traded positions held by the Funds. In the event such transaction takes place, Pharos will determine the reasonableness of the broker-dealer's compensation and will seek to obtain "best execution" on all circumstances occurring at the time including, but not limited to, commission costs. In selecting broker-dealers to effect portfolio transactions, Pharos might cause a Fund to enter into arrangements pursuant to which the Fund pays transaction costs in an amount greater than would be incurred if another broker-dealer were used. Pharos does not permit clients to direct brokerage to a specified broker-dealer. For purposes of clarification, all brokerage transactions will be executed through the broker-dealer selected by Pharos. Pharos is not required to solicit competitive bids or seek the lowest available commission or transaction costs.

In situations where Pharos sells or hedges its publicly traded positions held by the Funds, Pharos would seek to aggregate these sales to the extent possible. Any decisions to aggregate or not aggregate would be dependent on market conditions and other factors deemed material to the management team.

Pharos does not currently use soft dollars received from broker-dealers for the purchase or sale of securities. To the extent Pharos decides to use soft dollars, it intends to limit such use to services that fall within the safe harbor afforded by Section 28(e) of the U.S. Securities Exchange Act of 1934, as amended, or such services that are otherwise reasonably related to the investment decision-making process.

Item 13 – Review of Accounts

Review of Accounts

The investment portfolios of the Funds are generally private, illiquid and long-term in nature; accordingly, Pharos' review of such portfolios 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. Pharos' investment and operational staff participate in the ongoing monitoring of Fund portfolios, although responsibilities vary by individual.

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 principles generally accepted in the United States. The Funds undergo an annual audit conducted by an independent accounting firm that is registered with and subject to review by the Public Company Accounting Oversight Board, in accordance with the U.S. Generally Accepted Accounting Principles (U.S. GAAP). Pharos provides these audited financial statements to investors on an annual basis, which will be delivered to the Funds (and/or their investors, as necessary under applicable law and SEC rules) within 120 days of the end of the Fund's fiscal year. Unaudited financial statements are provided on a quarterly basis. Fund investors' capital account balances are provided on a quarterly basis. In addition, such investors receive a semi-annual investor newsletter describing the performance of the Fund. U.S. federal income tax information is provided annually. Other reports are provided as requested by the Funds on behalf of their investors.

Item 14 – Client Referrals and Other Compensation

Compensation by Non-Clients

Other than discussed in Item 5, Pharos does not receive any economic benefit, including sales awards or prizes, from any third party.

Compensation for Client Referrals

Neither Pharos nor any related persons directly or indirectly receive compensation for client referrals.

Item 15 – Custody

Pharos is deemed under Rule 206(4)-2 of the Advisers Act to have custody of the Funds' assets. However, in accordance with this Rule, the Funds' assets are maintained by "qualified custodians" as defined in Rule 206(4)-2. Please see Item 13 – Review of Accounts regarding reporting to the Funds' investors and the annual audit.

Item 16 – Investment Discretion

Pursuant to the Funds' limited partnership agreements, the management and operation of each of the Funds and the formulation of its investment policy is vested exclusively in the General Partners. Pursuant to written agreements, the General Partners have hired Pharos to, among other things, provide and execute securities investment advice on a discretionary basis. Pharos accepts discretionary authority to manage the Funds on behalf of the General Partners.

However, Pharos' discretionary authority is limited by the terms of each Fund's limited partnership agreement and by any instructions from the General Partners. Examples of the limitations on Pharos' discretionary authority include limitations on the amount of the Funds' assets that can 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 Partners have the authority to vote proxies regarding securities held by the Funds, 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. Furthermore, Pharos' investment strategy involves private equity investments and, as a result, Pharos and the General Partners do not generally receive proxies on behalf of Funds.

Rule 206(4)-6 of the Advisers Act requires and adviser that exercises voting authority over client proxies to vote proxies in the best interest of its clients. In furtherance of such objective, Pharos has adopted and implemented policies and procedures reasonably designed to ensure that Pharos votes proxies in the best interest of its clients where necessary. In exercising its voting discretion, Pharos seeks to avoid any direct or indirect conflict of interest between Pharos' clients and Pharos' voting decision. If a material conflict of interest with respect to a particular vote is encountered, Pharos will determine how to vote the proxy consistent with the best interest of its clients and in a manner consistent with its fiduciary responsibility. 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. Pharos reserves the right to abstain or otherwise withhold its vote or consent on any matter if Pharos determines that such abstention or withholding is advisable and in the best interest of the Funds.

You may request proxy voting information by writing to Pharos Capital Group, LLC, 5511 Virginia Way, Suite 180, Brentwood, Tennessee 37027.

Item 18 – Financial Information

Pharos does not require or solicit pre-payment of any fees more than six months in advance. Pharos does not believe it has any financial condition that is reasonably likely to impair its ability to meet its contractual commitments to the Funds. Further, Pharos has not been the subject of a bankruptcy petition at any time during the past ten years.