



Prospect Capital Corporation
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This brochure provides information about the qualifications and business practices of Prospect Capital Management. If you have any questions about the contents of the brochure, please contact us at (212) 448 0702. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Prospect Capital Management also is available on the SEC's website at www.adviserinfo.sec.gov.

CONTENTS:

- I. Advisory Services and Fees
- II. Types of Clients
- III. Types of Investments
- IV. Methods of Analysis, Sources of Information and Investment Strategies
- V. Education and Business Standards
- VI. Education and Business Background
- VII. Other Business Activities
- VIII. Other Financial Industry Activities or Affiliations
- IX. Participation or Interest in Client Transactions
- X. Conditions for Managing Accounts
- XI. Review of Accounts
- XII. Investment or Brokerage Discretion
- XIII. Additional Compensation
- XIV. Balance Sheet

I. ADVISORY SERVICES AND FEES

Prospect Capital Management LLC serves as investment adviser to Prospect Capital Corporation (the “Corporation”) under the terms of an investment advisory agreement in which 100% of total advisory billings come from investment supervisory services offered by the applicant for a percentage of assets under management. For services rendered under this agreement, Prospect Capital Management charges a base management fee calculated at an annual rate of 2.00% of the Corporation’s gross assets. The base management fee is payable quarterly in arrears. The base management is calculated based on the average value of its gross assets at the end of the two most recently completed calendar quarters, and appropriately adjusted for any share issuances or repurchases during the current calendar quarter. Base management fees for any partial month or quarter are appropriately prorated.

For its services rendered under the investment advisory agreement, Prospect Capital Management also charges an incentive fee. The incentive fee consists of two parts, as follows: The first part is calculated and payable quarterly in arrears based on the Corporation’s pre-incentive fee net investment income for the immediately preceding calendar quarter. For this purpose, pre-incentive fee net investment income means interest income, dividend income and any other income (including any other fees (other than fees for providing managerial assistance), such as commitment, origination, structuring, diligence and consulting fees or other fees the Corporation receives from portfolio companies) accrued during the calendar quarter, minus operating expenses for the quarter (including the base management fee, any expenses payable under that certain Administration Agreement between the Corporation and Prospect Administration, LLC, an affiliate of Prospect Capital Management, and any interest expense and dividends paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-incentive fee net investment income includes, in the case of investments with a deferred interest feature (such as original issue discount, debt instruments with payment in kind interest and zero coupon securities), accrued income that the Corporation has not yet received in cash. Pre-incentive fee net investment income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation. Pre-incentive fee net investment income, expressed as a rate of return on the value of the Corporation’s net assets at the end of the immediately preceding calendar quarter, will be compared to a “hurdle rate” of 1.75% per quarter (7% annualized). Net investment income used to calculate this part of the incentive fee is also included in the amount of gross assets used to calculate the 2% base management fee. An incentive fee is paid by the Corporation to Prospect Capital Management with respect to pre-incentive fee net investment income in each calendar quarter as follows:

- no incentive fee in any calendar quarter in which pre-incentive fee net investment income does not exceed the hurdle rate;
- 100% of the Corporation’s pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 125% of the quarterly hurdle rate in any calendar quarter (8.75% annualized assuming an annualized hurdle rate of 7%). This portion of the Corporation’s pre-incentive fee net investment income (which exceeds the hurdle rate but is less than 125% of the quarterly hurdle rate) is referred to as the “catch up.” The “catch up” is meant to provide Prospect Capital Management with an incentive fee of 20% of the Corporation’s pre-incentive fee net investment income as if a hurdle rate did not apply if this net investment income exceeds 125% of the quarterly hurdle rate in any calendar quarter;

20% of the amount of the Corporation's pre-incentive fee net investment income, if any, that exceeds 125% of the quarterly hurdle rate in any calendar quarter (8.75% annualized assuming an annualized hurdle rate of 7%).

The second part of the incentive fee, the capital gains incentive fee, is determined and payable in arrears as of the end of each calendar year (or upon termination of the investment advisory agreement, as of the termination date), commencing on December 31, 2004, and equals 20.0% of the Corporation's realized capital gains for the calendar year, if any, computed net of all realized capital losses and unrealized capital depreciation at the end of such year; provided that the capital gains incentive fee determined as of December 31, 2004 will be calculated for a period of shorter than twelve calendar months to take into account any realized capital gains computed net of all realized capital losses and net unrealized capital depreciation for the period ending December 31, 2004. In determining the capital gains incentive fee payable to Prospect Capital Management, the aggregate realized capital gains, aggregate realized capital losses and aggregate unrealized capital depreciation, as applicable, are calculated with respect to each of the investments in the Corporation's portfolio. For this purpose, aggregate realized capital gains, if any, equal the sum of the differences between the net sales price of each investment, when sold, and the original cost of such investment since inception. Aggregate realized capital losses equals the sum of the amounts by which the net sales price of each investment, when sold, is less than the original cost of such investment since inception. Aggregate unrealized capital depreciation equals the sum of the differences, if negative, between the valuation of each investment as of the applicable date and the original cost of such investment. At the end of the applicable period, the amount of capital gains that will serve as the basis for the calculation of the capital gains incentive fee equals the aggregate realized capital gains less aggregate realized capital losses and less aggregate unrealized capital depreciation with respect to the Corporation's portfolio of investments. If this number is positive at the end of such period, then the capital gains incentive fee for such period are equal to 20% of such amount, less the aggregate amount of any capital gains incentive fees paid in respect of our portfolio in all prior periods.

Because of the structure of the incentive fee, it is possible that the Corporation may have to pay an incentive fee in a quarter where it incurs a loss. For example, if the Corporation receives pre-incentive fee net investment income in excess of the hurdle rate for a quarter, it will pay the applicable income incentive fee even if it has incurred a loss in that quarter due to realized or unrealized losses on its investments.

II. TYPES OF CLIENTS

Prospect Capital Management provides advisory services to investment companies.

III. TYPES OF INVESTMENTS

Prospect Capital Management is focused on middle market mezzanine and private equity investments. We offer advice on Equity Securities (exchanged-listed securities, securities traded over-the-counter, and foreign issues), Warrants, Corporate Debt Securities (other than commercial paper), Certificates of Deposit, Municipal Securities, Mutual Fund Shares, and the United States Government Securities. Prospect has options contracts on securities and commodities, futures contracts on intangibles, and interests in partnerships investing in real estate, oil and gas interests.

Prospect Capital Management offers advice on private investments in diversified fields. Such fields include those in energy, industrial and other infrastructure companies; healthcare; food; financial services; pharmaceuticals and other. Energy companies refer to companies in the direct energy value chain as well as companies that sell products and services to, or acquire products and services from, the direct energy value chain. In Prospect Capital Management's early years, the majority of the investments were focused on energy. In 2007, the company began to diversify away from energy to include the categories listed above. The company maintains its commitment to diversification.

IV. METHODS OF ANALYSIS, SOURCES OF INFORMATION AND INVESTMENT STRATEGIES

Prospect Capital Management consults financial newspapers and magazines, inspections of corporate activities, research material prepared by others, corporate rating services, annual reports, prospectuses, filings with the Securities and Exchange Commission, and Company press releases. Prospect is focused on both long and short term purchases, trading, and offers investment advice based on, but not exclusive to, principals of fundamental and value analysis with fundamental security analysis methods.

Prospect's clearly defined investment strategy has remained consistent over the years, focusing on inefficient markets and solid businesses with a value-oriented discipline.

- ★ Focus on Inefficient Markets

- Middle-market private companies (target <\$60M EBITDA)
 - Underserved sectors (expertise in energy, industrials and other markets)
 - Wide origination outreach built on ideas/relationships

- ★ Target Solid Businesses

- Infrastructure and business model barriers
 - Recurring, visible profitability
 - Experienced management

- ★ Maintain Value-Oriented Discipline

- Lending orientation, with equity flexibility
 - Conservative multiples/ratios, with yield protection
 - Flexibility to address both primary/secondary markets
 - Flexibility to address sponsor finance, direct lending, and control buyout strategies

V. EDUCATION AND BUSINESS STANDARDS

Prospect Capital requires an educational background of an undergraduate college degree or equivalent.

VI. EDUCATION AND BUSINESS BACKGROUND

Prospect Capital Management, which manages Prospect Capital Corporation and other investment vehicles, and its predecessor investment companies commenced business in 1988 when several senior executives who managed the merchant bank and high yield units of Merrill Lynch formed Prospect Street Investment Management, succeeded by Prospect Capital Management today (together, "Prospect"). Since 1988, Prospect has specialized in a wide range of private equity investments, including first and second lien, subordinated and mezzanine loans, growth and venture capital, and leveraged buyouts.

Prospect Capital Corporation ("PSEC") completed its initial public offering July 27, 2004 as a Business Development Company making first and second lien, subordinated and mezzanine loans to middle market businesses, and also initiating and completing control acquisitions for its own account.

Prospect Capital Management's investment committee consists of the following senior investment professionals:

John F. Barry III (born 1952): Mr. Barry is Chairman of the Board and Chief Executive Officer of the Corporation. Mr. Barry is also President and Secretary of Prospect Capital Management and President, Secretary and Managing Director of Prospect Administration, LLC. Mr. Barry has been a senior investment professional at Prospect and affiliated entities since 1990 and is the chairman of the firm's investment committee. Mr. Barry graduated magna cum laude with a B.A. from Princeton University in 1974. He graduated cum laude with a J.D. degree from Harvard Law School in 1978, where he was an editor of the Harvard Law Review.

M. Grier Eliasek (born 1973): Mr. Eliasek is a director, President, and Chief Operating Officer of the Corporation. Mr. Eliasek is also a Managing Director of Prospect Capital Management and Prospect Administration, LLC. He has served as a senior investment professional at Prospect since 1999. Prior to joining Prospect, Mr. Eliasek assisted the chief financial officer of Amazon.com in 1999 in corporate strategy, customer acquisition, and new product launches. Mr. Eliasek received his MBA from Harvard Business School. Mr. Eliasek received his Bachelor of Science in Chemical Engineering with Highest Distinction from the University of Virginia, where he was a Jefferson Scholar and a Rodman Scholar.

Mr. Brian H. Oswald (born 1961): Mr. Oswald is the Chief Financial Officer and Chief Compliance Officer of Prospect Capital Corporation and a Managing Director of Prospect Administration LLC, responsible for all finance and compliance functions. Mr. Oswald is also the Secretary and Treasurer for the corporation. Prior to joining Prospect, Mr. Oswald worked at various financial institutions including the Structured Finance Division of GSC Group; Capital Trust, Inc., a self-managed finance and investment management REIT; Corporate Controller for Magic Solutions, Inc.; Director of Financial Reporting and Subsidiary Accounting for River Bank America; Executive Vice President and President of Gloversville Federal Savings and Loan Association; and senior manager in KPMG Peat Marwick's financial institutions group. Mr. Oswald holds a B.A. degree in Accounting from Moravian College and is a licensed Certified Public Accountant in the States of New York and Pennsylvania and is a Certified Management Accountant.

David L. Belzer (born 1969): Mr. Belzer is a Managing Director with Prospect Capital Management LLC and has over ten years of experience in energy finance. Mr. Belzer is a senior member of the investment committee focusing on origination and other investment activities. Prior to joining Prospect in November 2004, Mr. Belzer provided investment consulting services to

Sheridan Road Capital; served as Vice President, first at Fieldstone Private Capital Group and then at Blaylock & Partners. Prior to Fieldstone, Mr. Belzer was a member of the Structured Finance Group at General Electric Capital Corporation and worked for Wheelabrator Technologies Inc., a developer of waste-to-energy plants. Mr. Belzer graduated from the University of Indiana with a B.A. in Economics and Environmental Studies. Subsequently, Mr. Belzer received his M.B.A. from the Olin School of Business at Washington University. Mr. Belzer also holds a NASD Series 7 license.

Bart J. de Bie (born 1972): Mr. de Bie is a Managing Director with Prospect Capital Management LLC and has over ten years experience as an investment banker, primarily focused on energy industry clients. From August 2003 through August 2004, Mr. de Bie was a director at Cenatar Advisory Group, an advisory boutique that provided capital formation and advisory services and focused on the energy and utility sector clients. Prior to Cenatar, Mr. de Bie spent January through July 2003 as an independent consultant. From September 1997 through December 2002, Mr. de Bie was an investment banker with J.P.Morgan & Co. Mr. de Bie graduated from the University of Wisconsin with a B.A. in Economics. Subsequently Mr. de Bie received his J.D. from the George Washington University Law School. Mr. de Bie has been admitted to the New York Bar and holds NASD Series 24, 63 and 7 licenses. Mr. de Bie has been with Prospect Management since September 2004.

David C. Moszer (born 1971): Mr. Moszer has 15 years of experience investing and structuring debt securities in private companies. At Prospect Capital, Mr. Moszer is responsible for transaction execution and portfolio management. Prior to joining Prospect Capital, Mr. Moszer spent two years at GSO Capital Partners. From 2004 to 2007, Mr. Moszer was a Principal at FriedbergMilstein. From 1999 to 2004, Mr. Moszer was a Principal at GarMark Partners. From 1995 to 1999, Mr. Moszer was a member of the merchant banking group at Banque Paribas. Mr. Moszer began his career at Bear Stearns in 1993 in the investment banking group where he focused on merger & acquisition advisory activities. Mr. Moszer holds an MBA from Columbia University with a concentration in Finance and a Bachelor of Arts from the University of Virginia where he majored in Physics.

Richard T. Carratu (born 1962): Mr. Carratu is a managing director at Prospect Capital Management and has over 27 years of financial experience in transaction origination, deal structuring, portfolio management, restructurings and turnarounds. He has invested over \$2.0 billion in middle market debt and equity transactions in diverse industries, such as energy, transportation, infrastructure, chemical, aerospace and general manufacturing. At Prospect, Mr. Carratu is responsible for originating, evaluating and monitoring Prospect's senior, mezzanine and equity investments. He serves on the Board of Directors of AIRMALL USA, Inc and Nupla Corporation. Most recently, Mr. Carratu served as a Managing Director in GE Capital's Structured Finance Group. Prior to joining GE, Mr. Carratu worked at the Polish-American Enterprise Equity Fund. Before that, he served as a Vice President and Chief Financial Officer at Joseph Littlejohn & Levy. Mr. Carratu's background includes GAAP and SEC financial reporting, along with M&A and restructuring advisory services. Mr. Carratu started his career at Coopers and Lybrand (now PricewaterhouseCoopers). Mr. Carratu holds an MBA from Columbia Business School, where he became a member of the Beta Gamma Sigma honor society, and a BS in Accounting from Long Island University School of Professional Accountancy. He is a Certified Public Accountant and a member of the American Institute of Certified Public Accountants.

Benton P. Cummings (born 1971): Benton Cummings has 14 years of professional experience including 11 years of buy-side, middle-market investing experience. Mr. Cummings is a Managing

Director at Prospect Capital and focuses on originating, evaluating and monitoring Prospect's senior, mezzanine and equity investments. Until 2009, Mr. Cummings was a Managing Director and head of Allied Capital's private finance effort in New York. Prior to Allied Capital, Mr. Cummings was an Associate with Morgan Stanley where he was responsible for analyzing and managing public equity and debt offerings as well as M&A transactions. Mr. Cummings received a BA from Dartmouth College and a MBA from the Kenan-Flagler Business School (UNC).

Jason Wilson (born 1972): Jason Wilson is a Principal at Prospect and focuses on origination, execution and restructuring of investment opportunities. Prior to joining Prospect, Mr. Wilson worked in investment banking for nine years at Lehman Brothers, Inc. and UBS Investment Bank as well as serving as a Senior Project Engineer at Exxon Corporation. Most recently, Mr. Wilson served as Executive Director and Head of Out-of-Home Entertainment at UBS. Mr. Wilson has executed M&A transactions valued at over \$11 billion in aggregate and has raised over \$12 billion of capital in aggregate for clients including the Walt Disney Company, NBC Universal, Clear Channel Outdoor and Gemstar-TV Guide. Mr. Wilson graduated magna cum laude with a BS in mechanical engineering from the University of Notre Dame and graduated with an MBA from the University of Chicago Graduate School of Business

VII. OTHER BUSINESS ACTIVITIES

Prospect Capital Management does not participate in any other business activities.

VIII. OTHER FINANCIAL INDUSTRY ACTIVITIES OR AFFILIATIONS

Prospect Capital Management is the financial advisor to Prospect Capital Corporation ("PCC") and its affiliate Prospect Capital Funding LLC ("PCF"). Prospect Capital Management's objective with respect to PCC and PCF is to generate both current income and long-term capital appreciation through debt and equity investments. It focuses on making investments in private and microcap public companies.

IX. PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS

Prospect Capital Management permits its officers, members, and employees to engage in personal securities transactions. These officers, members, and employees may buy or sell securities or other instruments that Prospect Capital Management has recommended to or purchased on behalf of the Corporation and may engage in transactions for their own accounts in a manner that is inconsistent with recommendations that Prospect Capital Management may make to the Corporation. A personal securities transaction by an officer, member, or employee may raise potential conflicts of interest when such transaction involves a security that the Corporation owns, or that Prospect Capital Management is considering or recommending for purchase or sale to the Corporation. Prospect Capital Management has adopted and implemented a Code of Ethics that contains policies procedures and sets forth standards of conduct that are reasonably designed to prevent and detect such conflicts of interest. If or when conflicts of interest arise, they will not affect the transactions

or economic interests of the Corporation in a manner inconsistent with Prospect Capital Management's fiduciary duty to the Corporation, any other clients it may have in the future and in accordance with applicable law. A copy of Prospect Capital Management's Code of Ethics is available free of charge upon request by contacting Daria Becker by email at daria@prospectstreet.com or by telephone at 212-448-0702.

X. CONDITIONS FOR MANAGING ACCOUNTS

Prospect Capital Management does not provide investment supervisory services, manage investment advisory accounts, or hold itself out as providing financial planning.

XI. REVIEW OF ACCOUNTS

Prospect Capital Management reviews the portfolio of Prospect Capital Corporation, currently its sole client, quarterly. Investments will be reviewed first by an investment professional familiar with the investment, then the investment committee. The senior members of the investment committee consist of the following investment professionals: John F. Barry (Chief Executive Officer and Chairman of the Board of Prospect Capital Corporation and President and a control person of Prospect Capital Management), M. Grier Eliasek (director, President and Chief Operating Officer of Prospect Capital Corporation and Managing Director of Prospect Capital Management), Brian Oswald (Chief Financial Officer, Chief Compliance Officer, Treasurer and Secretary of Prospect Capital Corporation), David L. Belzer and Bart J. de Bie.

Prospect Capital Corporation is subject to the Securities Exchange Act of 1934, as amended. Pursuant to Prospect Capital Corporation's reporting obligations under the Securities Exchange Act, stockholders of Prospect Capital Corporation receive annual reports, including audited financial statements of Prospect Capital Corporation for the fiscal year covered by the report.

XII. INVESTMENT OR BROKERAGE DISCRETION

Prospect Capital Management determines the securities to be bought and sold and the amount of securities to be bought and sold for the Corporation based on the Corporation's investment objectives and policies and subject to certain investment restrictions relating to diversification and types of investments as may be requested by the Corporation from time to time. Prospect Capital Management's investment discretion is not otherwise limited other than by restrictions imposed by applicable law.

Since the Corporation will generally acquire and dispose of investments in privately negotiated transactions, the Corporation will infrequently use brokers in the normal course of its business. Subject to policies established by the Corporation's board of directors, Prospect Capital Management will be primarily responsible for the execution of the publicly traded securities portion of the Corporation's portfolio transactions and the allocation of brokerage commissions. Prospect Capital Management does not expect to execute transactions through any particular broker or dealer, but will seek to obtain the best net results for its client, taking into account such factors as price (including the applicable brokerage commission or dealer spread), size of order, difficulty of execution, and operational facilities of the firm and the firm's risk and skill in positioning blocks of securities. While Prospect Capital Management will generally seek reasonably competitive trade execution costs, the Corporation will not necessarily pay the lowest spread or commission

available. Subject to applicable legal requirements, Prospect Capital Management may select a broker based partly upon brokerage or research services provided to Prospect Capital Management and the Corporation and any other clients Prospect Capital Management may have in the future. In return for such services, the Corporation may pay a higher commission than other brokers would charge if Prospect Capital Management determines in good faith that such commission is reasonable in relation to the services provided.

Prospect Capital Management will not effect any principal transactions for its clients' accounts with any broker-dealers that are affiliated with Prospect Capital Management. However, Prospect Capital Management may purchase for its clients' accounts securities which are offered in underwritings in which Prospect Capital Management's affiliated broker-dealers are participants in accordance with the procedures and requirements set forth in Rule 10f-3 under the Investment Company Act of 1940.

Notes on Proxy Policy

Regarding proxies, the CCO will consult with Prospect Capital Management's investment professionals, taking into account the interests of the Corporation and its investors as well as any potential conflicts of interest. Where a potential conflict of interest exists, Prospect Capital Management may resolve it by following the recommendation of a disinterested third party, by seeking the direction of the independent directors of the business development company or, in extreme cases, by abstaining from voting. While Prospect Capital Management may retain an outside service to provide voting recommendations and to assist in analyzing votes, Prospect Capital management will not delegate its voting authority to any third party.

Prospect Capital Management will keep a written record of how all such proxies are voted and will retain records of:

- Proxy voting policies and procedures;
- All proxy statements received (or it may rely on proxy statements filed on the SEC's EDGAR system in lieu thereof);
- All votes cast;
- Investor requests for voting information; and
- Any specific documents prepared or received in connection with a decision on a proxy vote.

If it uses an outside service, Prospect Capital Management may rely on such service to maintain copies of proxy statements and records, so long as such service will provide a copy of such documents promptly upon request.

In reviewing proxy issues, Prospect Capital Management generally will use the following guidelines:

- Elections of Directors: if a proxy fight develops for directors seats on the board, Prospect Capital Management will determine the appropriate vote on the matter. Prospect Capital Management may withhold votes for directors that fail to act on key issues, such as failure to: (1) implement proposals to declassify a board; (2) implement a majority vote requirement; (3) submit a rights plan to a shareholder vote; or (4) act on tender offers where a majority of shareholders have tendered their shares. Finally, Prospect Capital

Management may withhold votes for directors of non-US. issuers where there is insufficient information about the nominees disclosed in the proxy statement.

- Appointment of Auditors: Prospect Capital Management generally supports management's recommendation in this regard.

Prospect Capital Management -ensure that clients are aware of their right to vote proxies of securities held in their account, and where clients have delegated proxy voting to Prospect Capital Management, to vote such proxies in a manner that is consistent with the interests of the clients.

Privacy Policy

It is our policy to safeguard the privacy of nonpublic, personal information regarding our individual shareholders.

What We Do To Protect Personal Information of Our Shareholders.

We protect personal information provided to us by our shareholders according to strict standards of security and confidentiality. These standards apply to both our physical facilities and any online services we may provide. We maintain physical, electronic and procedural safeguards to protect consumer information and regularly review and update our systems to keep them current. We permit only authorized individuals, who are trained in the proper handling of shareholder information and who need to know this information to do their jobs, to have access to this information.

Personal Information That We Collect And May Disclose

As part of providing our shareholders with investment products or services, we may obtain the following types of nonpublic personal information:

- information we receive from shareholders in subscription documents, on applications or other forms, such as their name, address, telephone number, social security number, occupation, assets and income; and
- information about the value of a shareholder's investment, account activity and payment history.

When We May Disclose Personal Information About Our Shareholders To Unaffiliated Third Parties

We will not share nonpublic personal information about our shareholders collected, as described above, with unaffiliated third parties except:

- at a shareholder's request;
- when a shareholder authorizes us to process or service a transaction, for example in connection with an initial or subsequent investment (unaffiliated third parties in this instance may include service providers such as a custodian, data processor or printer);
- with companies that perform marketing services on our behalf or to other financial institutions with whom we have joint marketing agreements and who agree to use the information only for the purposes for which we disclose such information to them; or
- when required by law to disclose such information to appropriate authorities.

We do not otherwise provide nonpublic information about our shareholders to outside firms, organizations or individuals except to our attorneys, accountants and auditors and as permitted by law. We never sell information about shareholders or their accounts.

What We Do With Personal Information About Our Former Shareholders

If a shareholder decides to no longer do business with us, we will continue to follow this privacy policy with respect to the information we have in our possession about such shareholder and his/her account.

XIII. ADDITIONAL COMPENSATION

Prospect Capital Corporation provides no additional compensation.

XIV. BALANCE SHEET

Prospect Capital Management does not have custody of client funds or securities, nor does it require a prepayment of more than \$500 in fees per client and 6 or more months in advance.