



**NXT Capital Investment Advisers, LLC  
191 North Wacker Drive  
Suite 1200  
Chicago, IL 60606**

**DISCLOSURE BROCHURE  
April 1, 2013**

**This Disclosure Brochure (the “Brochure”) provides information about the qualifications and business practices of NXT Capital Investment Advisers, LLC. NXT Capital Investment Advisers LLC’s registration as an investment adviser does not imply a certain level of skill or training.**

**If you have any questions about the contents of this Brochure, please contact NXT Capital Investment Advisers LLC’s Chief Compliance Officer using the contact information listed below. The information contained 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 NXT Capital Investment Advisers, LLC is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**Contact Information**

Thomas J. Bax  
Chief Compliance Officer  
T: 312-450-8000  
F: 312-450-8100  
E: [chiefcomplianceofficer@nxtcapital.com](mailto:chiefcomplianceofficer@nxtcapital.com)

## **ITEM 2 – Material Changes**

NXT Capital Investment Advisers, LLC (“NXT Advisers”) filed its initial Brochure with the SEC on February 14, 2012. Please review carefully the following material changes to the Brochure that have occurred since February 14, 2012:

- NXT Capital Asset Management, LLC (“NXT Asset Management”) is considered a relying adviser of NXT Advisers in reliance on the position expressed in the response of the Officer of Investment Adviser Regulation Division of Investment Management dated January 18, 2012.
- The Summary of Material Risks section related to Corporate Finance Loans in Item 8, “Methods of Analysis, Investment Strategies and Risk of Loss”, now includes a description of risks related to investing in Second Lien Loans (as defined therein).
- The Summary of Material Risks section in Item 8, “Methods of Analysis, Investment Strategies and Risk of Loss”, now includes a description of risks related to Clients utilizing leverage and incurring indebtedness in connection with acquiring assets.

## **Important Note About This Brochure**

This Brochure is not:

- an offer or agreement to provide advisory services to any person
- an offer to sell interests (or a solicitation of an offer to purchase interests) in any Client (as defined in Item 4)
- a complete discussion of the features, risks or conflicts associated with any Client

As required by the Investment Advisers Act of 1940, as amended (“Advisers Act”), NXT Capital Investment Advisers, LLC and its relying adviser NXT Capital Asset Management, LLC (collectively, “we”, “us” or “our”) will provide this Brochure to current and prospective Clients and may also, in our discretion, provide this Brochure to current or prospective investors in a Client, together with other relevant governing documents and agreements (e.g. limited liability company agreement/limited partnership agreement/indenture/offering circular/private placement memorandum/investment management or similar agreement, etc.) (the “Client Agreements”) prior to, or in connection with, such persons’ investment in a Client. Additionally, this Brochure is available through the SEC’s Investment Adviser Public Disclosure website.

Although this publicly available Brochure describes the investment advisory services and products that we provide, persons who receive this Brochure (whether or not from us) should be aware that it is designed solely to provide information about us as necessary to respond to certain disclosure obligations under the Advisers Act. As such, the information in this Brochure may differ from the more specific and complete information about each Client included in the relevant Client Agreements, certain of which may be provided to current and eligible prospective investors only by us or another authorized party. To the extent that there is any conflict between discussions herein and similar or related discussions in any Client Agreements, the relevant Client Agreements shall govern and control.

### **ITEM 3 – Table of Contents**

<b>Item 1 – Cover Page.....</b>	<b>1</b>
<b>Item 2 – Material Changes .....</b>	<b>2</b>
<b>Important Note About This Brochure.....</b>	<b>2</b>
<b>Item 3 – Table of Contents.....</b>	<b>3</b>
<b>Item 4 - Advisory Business .....</b>	<b>4</b>
<b>Item 5 - Fees and Compensation .....</b>	<b>6</b>
<b>Item 6 - Performance-Based Fees and Side-by-Side Management .....</b>	<b>7</b>
<b>Item 7 - Types of Clients.....</b>	<b>7</b>
<b>Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss.....</b>	<b>8</b>
<b>Item 9 - Disciplinary Information.....</b>	<b>15</b>
<b>Item 10 - Other Financial Industry Activities and Affiliations .....</b>	<b>15</b>
<b>Item 11 - Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....</b>	<b>15</b>
<b>Item 12 - Brokerage Practices .....</b>	<b>17</b>
<b>Item 13 - Review of Accounts .....</b>	<b>18</b>
<b>Item 14 - Client Referrals and Other Compensation.....</b>	<b>19</b>
<b>Item 15 - Custody .....</b>	<b>19</b>
<b>Item 16 - Investment Discretion .....</b>	<b>20</b>
<b>Item 17 - Voting Client Securities .....</b>	<b>20</b>
<b>Item 18 - Financial Information .....</b>	<b>21</b>

#### **Item 4 - Advisory Business**

NXT Capital Investment Advisers, LLC (“NXT Advisers”) is a wholly-owned subsidiary of NXT Capital, LLC. NXT Capital, LLC is an indirect subsidiary of NXT Capital Holdings, L.P. and we refer to NXT Capital Holdings, L.P. and its direct and indirect subsidiaries collectively as “NXT Capital” throughout this Brochure.

The U.S. Small Business Administration approved the license application of NXT Capital SBIC, LP (“NXT SBIC”) to operate as a Small Business Investment Company under the provisions of Section 301(c) of the Small Business Investment Act of 1958, as amended, effective June 23, 2012. NXT Capital Asset Management, LLC (“NXT Asset Management”), a wholly-owned subsidiary of NXT Capital, LLC, is the investment adviser and management company for NXT SBIC and is considered a relying adviser of NXT Advisers in reliance on the position expressed in the response of the Officer of Investment Adviser Regulation Division of Investment Management dated January 18, 2012.

We provide investment advisory services to investment entities (each a “Client” and collectively “Clients”) that primarily invest in secured loans of the type originated or available for purchase by NXT Capital’s Corporate Finance Group (the “Corporate Finance Group” and “Corporate Finance Loans”) or secured loans originated by NXT Capital’s Venture Finance Group (the “Venture Finance Group”) which are typically structured with warrants or other equity investments related thereto (“Venture Finance Loans”). For purposes of this Brochure, “Loans” means collectively Corporate Finance Loans and Venture Finance Loans. Our investment advice is currently limited to Loans. Clients may invest in Loans by purchasing an assignment or participation in one or more Loans. Please see Item 8, “Methods of Analysis, Investment Strategies and Risk of Loss”.

Our Clients will generally consist of entities established in conjunction with structured finance transactions such as collateralized loan obligations, privately placed pooled investment vehicles, investment partnerships or separate investment accounts that primarily invest in Loans. Except as otherwise described herein, investments for a Client are managed in accordance with the Client’s particular investment objectives, strategies, restrictions and guidelines as outlined in the Client Agreements and are generally not tailored to the individualized needs of any particular investor of the Client. At inception, however, specific investment criteria may be established for a Client in consultation with prospective investors (*e.g.*, specific industry restrictions and concentrations, investment product type concentrations, geographic restrictions, investment size restrictions, etc.). Information about each Client, and the particular investment objectives, strategies, restrictions, guidelines and certain risks associated with an investment, is described in the Client Agreements, which are made available to investors only through us or another authorized party. Since we do not provide individualized advice to the investors (and an investment in a Client does not, in and of itself, create an advisory relationship between us and the investor), investors must consider whether a particular Client meets their investment objectives and risk tolerance prior to investing.

We may rely on the resources of NXT Capital to provide investment advisory services to our Clients.

NXT Capital provides structured financing solutions to middle market and emerging growth companies, as well as real estate investors, through its Corporate Finance, Venture Finance, Equipment Finance and Real Estate Finance groups. NXT Related Persons (as defined in Item 6, “Performance-Based Fees and Side-by-Side Management”) will generally retain a minimum amount of each Loan that it offers to our Clients and an individual Client of ours will generally not be allocated an amount that exceeds the total amount of the Loan retained by NXT Related Persons.

NXT Capital, which began operations in April 2010, was founded by its principal owner Stone Point Capital LLC (“Stone Point”), along with Robert Radway, NXT Capital’s President, Chief Executive Officer and Chairman and other members of NXT Capital's executive team. Stone Point is a private equity firm that focuses on making investments in the global financial services industry. Stone Point has raised and managed five private equity funds - the Trident Funds – with aggregate committed capital of \$9 billion.

Mr. Radway, and NXT Capital’s Chief Credit and Risk Officer, Michael Litwin, have experience in managing middle market lending activities by virtue of the executive positions they previously held at Merrill Lynch Capital and Heller Financial. Messrs. Radway and Litwin, along with NXT Capital’s Chief Financial and Administrative Officer, Neil Rudd, were the founding senior management members of Merrill Lynch Capital, a middle market focused commercial finance business that operated as a unit of Merrill Lynch Bank USA. Merrill Lynch Capital was sold to GE Capital in February 2008. Prior to forming Merrill Lynch Capital, Messrs. Radway and Litwin held senior executive positions and Mr. Rudd held a senior corporate development position with Heller Financial. Heller Financial was a NYSE-traded commercial finance company with approximately \$20 billion in assets that was sold to GE Capital in October 2001.

During their tenure at Merrill Lynch Capital and Heller Financial, as well as at NXT Capital, the current management team of NXT Capital and the Corporate Finance Group gained experience in originating and managing senior secured cash flow-based financings principally for private equity backed/owned middle market companies. The senior members of the Corporate Finance management team all have 12 to 25 years of industry experience and most have worked together at NXT Capital, Merrill Lynch Capital and Heller Financial. The Corporate Finance Group focuses primarily on financing U.S.-based companies with earnings before interest, taxes, depreciation and amortization (“EBITDA”) ranging from \$5 million to \$50 million that have characteristics including stable cash flows, leading market positions and experienced management teams.

In October 2011, NXT Capital formed the Venture Finance Group. The Venture Finance Group is led by Jan Haas, former President and CEO of Velocity Financial Group and a 15-year technology finance industry veteran. Mr. Haas was joined by additional members of the Velocity Financial Group team. The Venture Finance Group provides senior and subordinated secured term loans

from \$1 million to \$20 million to companies ranging from pre-revenue companies led by dedicated entrepreneurs to late-stage, proven businesses seeking more efficient growth capital. The Venture Finance Group primarily focuses on entities in the technology and life science sectors backed by proven venture capitalists and private equity sponsors. In addition to interest and fees, Venture Finance Loans are typically structured with warrants, other equity investments or success fees to increase the all-in return to a level commensurate with the risk profile of the opportunity. Venture Finance Loans will be secured by a first or second priority lien on all or certain assets of the borrower which may include intellectual property and other intangibles.

We may manage Client assets on both a discretionary and non-discretionary basis. As of March 31, 2013 NXT Advisers, directly and through its Relying Adviser NXT Asset Management, managed discretionary Client assets of approximately \$1.1 billion across two collateralized loan obligation issuers, one small business investment company and two separately managed accounts. We did not manage any Client assets on a non-discretionary basis as of March 31, 2013.

#### **Item 5 - Fees and Compensation**

Clients pay us asset management fees which are generally based on the actual amount of Client assets under management rather than the Client's total investment commitment. An additional asset management fee may be negotiated on a case by case basis with Clients based on the performance of the assets owned by the Client. Please see Item 6, "Performance-Based Fees and Side-by-Side Management". All asset management fees are specifically negotiated with each Client. We have no set fee schedule.

We will generally calculate these asset management fees and invoice our Client for payment monthly or quarterly in arrears in accordance with the Client Agreements.

Generally, Clients (and, indirectly, the investors therein) bear all expenses as defined in the Client Agreements, which expenses may include, without limitation, (i) legal, filing, auditing, consulting, administration, accounting and other professional fees and expenses; (ii) expenses associated with periodic reporting; (iii) expenses associated with financial statements and tax returns; (iv) insurance, interest and other expenses incurred in respect of borrowings, if any; (v) other expenses associated with the acquisition, holding, monitoring, settlement and disposition of a Client's investments (including, without limitation, any brokerage, transaction, custody or hedging costs); (vi) the costs and expenses of any custodians, lenders, investment banks and other financing or banking sources and providers; (vii) any indemnity expenses; and (viii) the costs and expenses of any litigation involving a Client. For a more complete discussion of Client fees, compensation and other expenses, please refer to the respective Client Agreements and Item 12, "Brokerage Practices".

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

“Side-by-side management” refers to the simultaneous management of multiple types of Client accounts and/or investment products. For example, we may manage Clients with similar, complementary or competing investment objectives, policies or strategies. Side-by-side management gives rise to a variety of potential and actual conflicts of interest for us, our affiliates, including NXT Capital, and any persons under common control (“NXT Related Persons”), including, as discussed below, the incentive to favor certain accounts with performance-based fees or accounts in which NXT Related Persons have an economic interest.

As discussed in Item 5, “Fees and Compensation” and Item 11, “Code of Ethics, Participation in Client Transactions and Personal Trading”, NXT Related Persons may: (1) be entitled to a performance fee with respect to one or more Clients; and (2) directly or indirectly maintain investments in Loans for their own accounts. Accordingly, we may face a conflict of interest when considering how to allocate limited investment opportunities among multiple Clients, each having different fee structures, and accounts in which NXT Related Persons have an economic interest. In addition, the existence of a performance fee may create an incentive for us to make more speculative investments on behalf of a Client than we would otherwise make in the absence of such performance-based compensation.

To assist in mitigating against the potential risks outlined above, the Client Agreements often contain one or more of the following requirements: (i) NXT Related Persons will generally retain a minimum amount of each Loan offered to a Client in an amount at least equal to the amount held by any Client, (ii) the Client may have discretion as to whether or not to purchase a Loan we offer to them, (iii) certain Loan eligibility criteria, concentration limitations and other criteria and restrictions and (iv) a minimum return hurdle before we are eligible to earn and receive a performance fee. In addition, through our trade allocation policies and procedures, Code of Ethics and other policies and procedures, we seek to promote fair and equitable treatment of Clients, over time, based on considerations that are unrelated to economic interests. Please see Item 12, “Brokerage Practices”.

## **Item 7 - Types of Clients**

Our Clients will generally consist of entities established in conjunction with structured finance transactions such as collateralized loan obligations, privately placed pooled investment vehicles, investment partnerships or separate investment accounts that primarily invest in Loans. Except as otherwise described herein, investments for a Client are managed in accordance with the Client’s particular investment objectives, strategies, restrictions and guidelines as outlined in the Client Agreements and are generally not tailored to the individualized needs of any particular investor of the Client. At inception, however, specific investment criteria may be established for a Client in consultation with prospective investors (e.g., specific industry restrictions and concentrations, investment product type concentrations, geographic restrictions, investment size restrictions, etc.). Investors in our Clients will generally consist of financial institutions, investment companies, insurance companies, corporate or public pension funds, foundations or family offices.

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

As described in Item 7, “Types of Clients”, our Clients will generally consist of entities established in conjunction with structured finance transactions such as collateralized loan obligations, privately placed pooled investment vehicles, investment partnerships or separate investment accounts that primarily invest in Loans. As investment manager we provide our Clients with certain investment advice and services as outlined in the Client Agreements. Investment advice and services generally consist of the selection, analysis, and due diligence of Loans before recommending for investment or disposition by the Client and other portfolio management, administrative and advisory functions for the Client.

### **Corporate Finance Loans - Methods of Analysis**

The Corporate Finance Group primarily originates and provides first lien and second lien senior secured Middle Market Loans, as defined below, (including term loans, delayed draw term loans, revolving credit facilities, uni-tranche loans, stretch senior loans, first lien term loans behind revolvers, and first lien last out term loans). These Middle Market Loans are made in combination with investments made by private equity sponsors in conjunction with buyouts, refinancings, recapitalizations and add-on acquisitions of U.S.-based companies with EBITDA ranging from \$5 million to \$50 million that have characteristics including stable cash flows, leading market positions and experienced management teams. The Corporate Finance Group may also selectively purchase similar Middle Market Loans from other loan originators.

The Corporate Finance Group evaluates an investment opportunity and makes its decision to invest based on the relative strength of three key considerations:

#### **Company Characteristics**

- Sound Business Value, in particular, the predictability of future cash flow. This assessment is made by considering factors such as product differentiation, industry barriers to entry, customer diversity and retention, product diversity and historical financial performance
- Acceptable Strategic and Execution Risk Based on Post-Close Business Plan of the Private Equity Sponsor and Management

#### **Loan Structure**

- Multiple Based on Size of Business, Cash Flow Stability, Industry, Market Size, and Capital Structure
- Covenant Levels are Set Tightly to Quickly Begin Negotiations with Management and Private Equity Sponsor if Performance Declines
- Bankruptcy Considerations (license, contracts)

#### **Quality of Sponsorship**

- Ownership Control
- Track Record (Breadth, Success, Beta)
- Past Experience with Private Equity Sponsor and Their Particular Industry Expertise
- Quality of Management and Alignment of Interest with Private Equity Sponsor



The company assessment is the most important of these three considerations. The Corporate Finance Group performs a detailed analysis to determine whether the company has “fundamental” or “actuarial” business value.

The Corporate Finance Group focuses on creating a well-diversified Loan portfolio. Regular reviews of obligor, product, sponsor and industry concentrations are conducted with NXT Capital’s Chief Credit and Risk Officer and portfolio limits are set or adjusted as appropriate.

### **Venture Finance Group - Methods of Analysis**

The Venture Finance Group provides senior and subordinated secured term loans from \$1 million to \$20 million to companies ranging from pre-revenue companies led by dedicated entrepreneurs to late-stage, proven businesses seeking more efficient growth capital. The Venture Finance Group primarily focuses on entities in the technology and life science sectors backed by proven venture capitalists and private equity sponsors.

The Venture Finance Group evaluates a different set of criteria for each investment opportunity depending on the stage of growth that a company has reached in its lifecycle:

- For Early Stage opportunities where the company has only been in existence for one to three years and has yet to establish a meaningful revenue base, the Venture Finance Group focuses its underwriting/investment decisions on the following key factors: (i) quality and track record of the venture capitalists and private equity sponsors, (ii) quality and track record of the management team, (iii) business concept and market opportunity and (iv) loan structure, downside protections and upside potential.
- For Later Stage companies with substantial and growing revenue, numerous customers, a demonstrated business model and companies that have a clear path to being cash flow positive without the need for material future equity capital, the Venture Finance Group focuses its underwriting/investment decisions on the following key factors: (i) company fundamentals, (ii) deal structure, yield, upside, (iii) the value of intellectual property and other collateral securing the Loan and (iv) strength of venture capitalists and private equity sponsors/assessment of financing risk.

The Venture Finance Group also focuses on creating a well-diversified and liquid Loan portfolio. Regular reviews of obligor, product, venture capitalist and private equity sponsor and industry concentrations are conducted with NXT Capital’s Chief Credit and Risk Officer and portfolio limits are set or adjusted as appropriate.

### **Summary of Material Risks**

Our investment activities involve a significant degree of risk of loss that a Client and its investors should be prepared to bear. This section contains a discussion of certain primary risks associated with our investment activities. The particular risks applicable to a Client will depend on the nature of its investment strategy or strategies and the types of investments held by it. While we seek to manage Clients so that risks are appropriate to the return potential for the

strategy, it is often not possible to fully mitigate risks. Any investment includes the risk of loss and there can be no guarantee that a particular level of return will be achieved. Mandates may be limited to certain types of securities (e.g., Loans) and may not be diversified. Moreover, the Clients are generally not intended to provide a complete investment program for investors and we expect that the assets we manage do not represent all of an investor's assets. Investors are responsible for appropriately diversifying their assets to guard against the risk of loss.

Loans are subject to credit, liquidity and interest rate risks. The value of Loans will generally fluctuate with, among other things, the financial condition of the obligors of the Loan, general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates.

#### *Credit Risk*

Loans may default for a variety of reasons. Defaulted Loans may require substantial workout negotiations or a restructuring that may entail, among other things, a substantial reduction in the interest rate and/or a substantial write-down of the principal of the Loan. Loans have significant credit risks and material losses may occur. As with other debt obligations, claims and collateral may be difficult to enforce in the event of a default. In addition, a Client may incur additional expenses to the extent it is required to seek recovery upon a default or to participate in the restructuring of a Loan. No assurance can be made that full or significant recovery of principal and/or interest will be received or that any collateral realized will be sufficient to recover the full amount of the Client's investment in a Loan.

#### *Liquidity Risk*

The majority of the Loans purchased by our Clients will have a very limited trading market. A Client's investment in illiquid Loans may restrict its ability to dispose of Loans in a timely fashion and at a fair price. In addition, Clients may be invested in privately-placed Loans that may or may not be freely transferable under applicable securities laws or due to contractual restrictions on resale, and even if such privately-placed Loans are transferable, the prices realized from their sale could be less than those originally paid by the Client. Loans may also have been purchased with the seller retaining a right of first refusal on a subsequent sale by our Client. Trading in Loans is subject to delays due to their unique and customized nature, and transfers may require additional documentation, the payment of fees and the consent of an agent bank for the lender group or consent of the underlying borrower under such Loan.

#### *Interest Rate Risk*

Corporate Finance Loans generally contain a floating interest rate and may include terms that, upon certain conditions, allow the spread over the floating rate index to change, including upon a change in credit quality. Significant increases in the floating interest rate index or in the spread over the floating rate index would significantly increase the debt service requirements for the underlying obligor, which may cause the Loan to become delinquent or default. Corporate Finance Loans may contain a floor on the floating rate

index which could limit the borrower's ability to benefit from a reduction in market interest rates.

Venture Finance Loans generally contain a fixed interest rate, so the debt service coverage for the underlying obligor would not be impacted during an increasing interest rate environment. The value of Venture Finance Loans would be impacted by changes in market interest rates, declining in value as interest rates rise and increasing in value as interest rate decline.

#### Prepayment Risk

Underlying obligors may repay a Loan prior to its stated maturity, which repayment may or may not be subject to a prepayment fee. Such early repayment on one or more Loans may reduce the anticipated return to a Client with no assurance that the Client will be able to reinvest such proceeds in similarly yielding assets.

#### Participation Interests

A Client may acquire interests in Loans either directly (by way of "Assignment") or indirectly (by way of a "Participation Interest"). The purchaser of an Assignment in a Loan typically succeeds to all the rights and obligations of the selling institution (a "Selling Institution") and becomes a lender under the loan or credit agreement with respect to the Loan. In contrast, a Participation Interest acquired by a Client in a portion of a Loan held by a Selling Institution typically results in contractual privities only with such Selling Institution, not with the borrower under the Loan. While this structure may constitute a true sale for accounting purposes, a Client will generally have the right to receive payments of principal, interest and any fees to which it is entitled under the Participation Interest only from the Selling Institution and only upon receipt by the Selling Institution of such payments from the borrower. As a result, the Client may assume the credit risk of both the borrower and the Selling Institution, which will remain the legal owner of record of the applicable loan. In the event of the insolvency of the Selling Institution, a Client may be treated as a general unsecured creditor of the Selling Institution in respect of the Participation Interest, may not benefit from any set-off exercised by the Selling Institution against the borrower and may be subject to any set-off exercised by the borrower against the Selling Institution. In purchasing a Participation Interest, a Client generally will have no or limited rights to enforce compliance by the borrower with the terms of the loan or credit agreement or other instrument evidencing such Loan, and the Client may not directly benefit from the collateral supporting the Loan in which it has purchased the Participation Interest; although most underlying agreements with respect to any Loan do provide that the Selling Institution shall obtain the participant's consent prior to voting on any amendment, modification or waiver that forgives principal, interest or fees, reduces principal, interest or fees that are payable, postpones any payment of principal, interest or fee or releases any material guarantee or collateral. Please also see "Limited Control of the Administration and Amendment of Loans" below.

### Corporate Finance Loans

The Corporate Finance Group primarily originates and provides Middle Market Loans. “Middle Market Loans” are typically defined as debt issued as part of a Loan facility to companies with EBITDA ranging from \$5 million to \$50 million that is not broadly syndicated to institutional investors. Middle Market Loans share many of the same characteristics as more broadly syndicated loans, including, in most cases, a senior secured position in the company’s capital structure and floating rate interest payments. Middle Market Loans tend to be privately held and are often not publicly rated. Because a more limited number of investors participate in Middle Market Loans, the trading volume for Middle Market Loans is likely to be smaller than that for broadly syndicated Loans. The risks of Middle Market Loans include (among others): (i) limited liquidity and secondary market support, (ii) the possibility that earnings of the obligor may be insufficient to meet its debt service, (iii) the declining creditworthiness and potential for insolvency of the borrower of such Middle Market Loan during periods of economic downturn and (iv) the obligor generally is a small or mid-size company representing only local or regional interests. Middle Market Loans are generally subject to market value volatility that may not be apparent from historical volatility studies and that could be significant at times. An economic downturn could severely disrupt the market for Middle Market Loans and adversely affect the value of outstanding Middle Market Loans and the ability of the borrowers thereof to repay principal and interest. Moreover, the default history for Middle Market Loans is limited, actual defaults may be greater than indicated by historical data and the timing of defaults may vary significantly from historical observations.

Second lien senior secured Loans (“Second Lien Loans”) are secured by liens on the collateral securing a Loan that are subordinated to the liens of at least one other class of obligations of the related obligor, and thus, the ability to exercise remedies after a Second Lien Loan becomes a defaulted Loan is subordinated to, and limited by, the rights of the senior creditors holding such other classes of obligations. In many circumstances, the holder of the Second Lien Loan may be prevented from foreclosing on the collateral securing the Second Lien Loan until the related senior loan is paid in full. Moreover, any amounts that might be realized as a result of collection efforts or in connection with a bankruptcy or insolvency proceeding involving a Second Lien Loan must generally be turned over to the senior secured lender until the senior secured lender has realized the full value of its own claims. In addition, a Second Lien Loan may contain provisions requiring the Second Lien Loan’s interest in the collateral to be released in certain circumstances. These lien and payment obligation subordination provisions may materially and adversely affect the ability to realize value from Second Lien Loans.

### Venture Finance Loans

Venture Finance Loans are generally made to emerging growth companies, which may have relatively limited operating histories. Compared with growth stage or publicly-traded companies, the revenues, income (or losses) and valuations of emerging growth companies can and often do fluctuate suddenly and dramatically. Furthermore, macroeconomic and microeconomic forces may result in a rapid shift in demand for an emerging growth

company's products or services. This may place further strain on an emerging growth company's operating cash flow and also the timing of sustained profitability. These and other risk factors may rapidly affect the ability of an emerging growth company to meet their debt obligations, which in turn could materially and adversely affect the investment made by our Clients.

Given the rapid change in markets in which many emerging growth companies target, they often experience unexpected sales, operational or management problems, which cannot be adequately solved in short order without a significant capital infusion or major personnel changes. Should these problems arise, existing equity investors may make a decision to continue or suspend their future funding of operations. Should the existing investors decline to provide additional support, the company will require outside sources of capital such as bridge financing or new equity, which may be priced and structured at terms highly unfavorable to the company's existing equity and debt providers and materially and adversely affect the investment made by our Clients.

Investments in more mature companies also involve substantial risks. Such companies typically have obtained late-stage capital in the form of debt and/or equity to expand rapidly, reorganize operations, acquire other businesses or develop new products and markets. These activities by definition involve a significant amount of change in a company and a failure to execute these changes could give rise to significant problems in sales, manufacturing, and general management of these activities resulting in material changes to the creditworthiness of the company, and could materially and adversely affect the investment made by our Clients.

#### *Limited Control of the Administration and Amendment of Loans*

As discussed in Item 17, "Voting Client Securities", we may on behalf of a Client exercise or enforce, or refrain from exercising or enforcing, any or all of a Client's rights in connection with Loans or any related documents or may refuse amendments or waivers of the terms of any Loan and related documents in accordance with our customary business practices. Our authority to change the terms of the Loans will generally be documented in the Client Agreements. As a result, a Client may be relying on our customary business practices with respect to the management of Loans. A Client may not have any right to compel us to take or refrain from taking any actions other than in accordance with our customary business practices and the provisions of the respective Client Agreement.

In addition, the terms and conditions of the underlying agreements with respect to any syndicated Loan may be amended, modified or waived only by the agreement of the requisite percentage of lenders under the related Loan agreement with limited exceptions. Generally, any such amendment, modification or waiver must include a majority or a super majority (measured by outstanding loans or commitments) or, in certain circumstances, a unanimous vote of the lenders. Consequently, the terms and conditions of the payment obligation and collateral rights arising from the underlying agreements with respect to any Loan could be amended, modified or waived in a manner contrary to our preferences or the

preferences of a Client, as the case may be, if a sufficient number of the other lenders concurred with such modification, amendment or waiver. There can be no assurance that any rights or obligations arising from the underlying agreements with respect to any Loan will maintain the terms and conditions to which we or our Client originally agreed. The exercise of remedies may also be subject to the vote of a specified percentage of the lenders under the underlying agreements with respect to any Loan and we and our Clients may not be in total control of this specified percentage, which may cause remedies to be exercised differently than desired for us and our Clients.

We may also have the authority under certain Client Agreements to (i) elect to exercise remedies with respect to the obligor of a Loan or the collateral securing such Loan without the consent of the Client or its investors and (ii) (A) without the consent of the Client or its investors or (B) in some instances with the consent of an independent investment professional authorized to act on behalf of the Client, cause a Client to consent to all or certain amendments, waivers or modifications to the Loans requested by obligors or the lead agents for syndicated loans. Such authority may cause a Client to extend or defer the maturity, adjust the outstanding balance of any Loan, reduce or forgive interest or fees, release material collateral or guarantees, or otherwise amend, modify or waive the terms of any related Loan agreement, including the payment terms thereunder. Any amendment, waiver or modification of a Loan could postpone the expected maturity of the Loan and/or reduce the likelihood of timely and complete payment of interest or principal under the Loan. We will make any such determinations in accordance with our customary business practices and the terms of the Client Agreements.

#### Leverage Risk

A Client may utilize leverage and incur indebtedness in connection with acquiring assets. The greater the total borrowings of a Client relative to its investments, the greater will be its risk of loss and possibility of gain. In addition, money borrowed by a Client will be subject to interest costs, which will be a direct expense of such Client, and, to the extent not covered by income attributable to the investments acquired, may adversely affect the operating results of the Client.

The use of leverage magnifies the potential for gain or loss on amounts invested. The use of leverage is generally considered a speculative investment technique and increases the risks of a Client. Under the terms of any credit facility or other debt instrument a Client enters into, the Client is likely to be required by its terms to use the net proceeds of certain or any investments that it sells to repay amounts borrowed under such facility or instrument before applying such net proceeds to any other uses.

If the value of the assets held by a Client decrease, leveraging would cause net asset value to decline more sharply than it otherwise would have had the Client not leveraged, thereby magnifying losses or eliminating the Client's stake in a leveraged asset. Similarly, any decrease in Client income will cause its net income to decline more sharply than it would have had the Client not borrowed. A Client's ability to service its debt will depend largely

on its financial performance and will be subject to prevailing economic conditions and competitive pressures.

**Item 9 - Disciplinary Information**

Not Applicable.

**Item 10 - Other Financial Industry Activities and Affiliations**

Neither NXT Advisers, NXT Asset Management, NXT Capital nor any of their employees are registered, or have a pending application to register, as a (i) broker-dealer, (ii) representative of a broker-dealer, (iii) futures commission merchant, (iv) commodity pool operator, (v) commodity trading advisor, or (vi) an associated person of the foregoing entities. Stone Point, NXT Capital's principal owner, manages private equity funds that invest in companies operating in the following sectors of the financial services industry:

- Outsourcing service providers to financial institutions
- Banks and depository institutions
- Specialty lending and other credit opportunities
- Insurance underwriting
- Mortgage services
- Asset management
- Insurance distribution
- Employee benefits and healthcare

Neither NXT Advisers, NXT Asset Management or NXT Capital have any relationships or arrangements with Stone Point, or companies owned or controlled either directly by, or through funds managed by, Stone Point that would be considered material to our investment advisory business or would be considered to cause a conflict of interest with our Clients. NXT Capital will not offer to any Client a Loan made to any portfolio companies owned or controlled by Stone Point.

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

**Code of Ethics**

We and NXT Capital have adopted a Code of Ethics in accordance with Rule 204A-1 under the Advisers Act covering such matters as (1) general standards of business and personal conduct; (2) the proper use and safeguarding of confidential information; (3) prohibitions against securities transactions when in possession of material, nonpublic information; (4) personal conflicts of interest, including outside activities and gifts; and (5) personal securities transactions policies (the "Code of Ethics").

The Code of Ethics states that no Access Person (as defined under the Advisers Act) shall purchase or sell any security listed on the restricted list or acquire a security in an initial public offering or in a limited offering without obtaining prior approval for such purchase or sale from our Chief Compliance Officer. The Chief Compliance Officer will be responsible for determining if we or any NXT Related Party have access to any material non-public information regarding the security before approving the proposed purchase or sale.

We will provide our Code of Ethics to any Client or prospective Client upon request. Such request should be made to our Chief Compliance Officer using the contact information provided on the Cover Page.

#### **Certain Conflicts of Interest Involving NXT Related Persons**

Various potential and actual conflicts of interest may arise from the overall investment activity of NXT Related Persons. NXT Related Persons originate and/or acquire for their own account, in the ordinary course of business, existing and new Loans. The following briefly summarizes some of these conflicts, but is not intended to be an exhaustive list of all such conflicts.

As further described below, we may affect principal transactions where a Client may invest in Loans of obligors in which an NXT Related Person has a debt, equity or participation interest, in each case in accordance with applicable law. We will provide disclosures to and obtain the consent and approval of the Client or the Client's designated representative in accordance with Section 206 of the Advisers Act for these principal transactions. All Client purchases of Loans will be executed on an arm's length basis.

NXT Related Persons may invest, or have already invested, for their own account in investments that are senior or junior to or pari passu with investments of the same obligor that are held by our Clients. In addition, NXT Related Persons may serve as a general partner, adviser, officer, director, sponsor or manager of other entities that invest in Loans. In such instances NXT Related Persons may take action with respect to such Loans which may differ from the timing or nature of any action taken with respect to the investments of a Client. As a result of such advice or actions, the prices and availability of investments in which a Client invests or may seek to invest, and the performance of the investment owned by a Client, may be materially adversely affected.

NXT Related Persons may from time to time come into possession of material nonpublic information that limits our ability to effect a transaction for a Client, and the Client's investments may be constrained as a consequence of our inability to use such information to effect transactions that otherwise may have been initiated on behalf of our Clients. We may refrain from directing the purchase or sale hereunder of Loans issued by persons about whom NXT Related Persons have information that they determine might prohibit them from trading such Loans in accordance with applicable law. In addition, NXT Related Persons may elect not to receive material non-public information with respect to various obligors. As a result, NXT Related Persons may not have access to information relating to obligors of Loans that is or may be known to other persons who are investing in the same Loan.



## **Item 12 - Brokerage Practices**

### **Selecting or Recommending Broker-Dealers**

Client transactions involving Corporate Finance Loans generally do not require the engagement of a broker-dealer. We have engaged a broker-dealer for one Client that is investing in Venture Finance Loans and we are paying all fees and expenses charged by this broker-dealer for these Venture Loan transactions.

If we were required to use a broker-dealer for any Client Loan transaction where the Client would be incurring the broker-dealer fees and expenses, we would be subject to our fiduciary duty to seek the best possible execution for the Client's transaction. Factors we would consider in selecting a broker-dealer if required for such Client Loan transactions may include, without limitation:

- The price at which the transaction may be executed
- Certainty of execution of transaction with broker-dealer
- Commission rates and any other related expenses
- Financial strength of broker-dealer
- Any potential conflicts of interest with broker-dealer

Although we would generally not place portfolio transactions with those brokers and dealers who also furnish research, execution and other services in a formal soft dollar arrangement with us or a Client, any broker-dealer we select may, from time to time, provide unsolicited, proprietary research at no stated cost or requirement of executing a particular amount of transactions.

### **Aggregation and Allocation of Investment Opportunities**

We and NXT Capital have policies and procedures in place with respect to the fair and equitable allocation of investment opportunities to our Clients and other third party accounts. The investment objectives and parameters of each of our Clients are different and may prevent a Client from being able to participate in all or a portion of an aggregated investment purchase or sale opportunity. A Client may also be prevented from being able to participate in all or a portion of an aggregated investment purchase or sale opportunity by regulatory, tax or legal requirements. A Client that retains the discretionary authority over investments will also have the ability to approve or decline an investment opportunity presented to them and creates a risk that their delay in approving an investment opportunity may cause them to not receive an allocation.

NXT Related Persons will generally retain a minimum amount of each Loan that it originates or purchases. Our Clients and other third party accounts that are able to invest in Loans may be offered the opportunity to invest in the amount of any Loan that exceeds the amount retained by NXT Related Persons.

When the amount of aggregated demand from our Clients and other third party accounts for an investment opportunity offered by NXT Capital exceeds the total amount available for allocation, we and NXT Capital believe that it is fair and equitable and in the long-term best interests of each Client and other third party account over time to allocate the specific investment opportunity between Clients and other third party accounts (i) first, to meet any minimum allocation rights or other allocation requirements a Client may have under Client Agreements and (ii) second, equitably among our Clients and other third party accounts according to our and NXT Capital's policies and procedures. An individual Client will generally not be allocated an amount that exceeds the total amount of the Loan retained by NXT Related Persons.

An investment opportunity may be allocated on a basis different than specified above if such deviation is determined to be fair and equitable to all of our Clients and third party accounts over time and the reasons for the deviation for investment opportunities not eligible for the NXT SBIC are documented and approved by (i) the respective Group Head or Group Senior Credit Officer and (ii) our Chief Compliance Officer. The reasons for the deviation for investment opportunities eligible for the NXT SBIC must be documented and approved by the NXT SBIC Investment Committee.

Our and NXT Capital's policies and procedures strictly prohibit the allocation of an aggregated investment opportunity to a Client solely based on the expected returns of the investment opportunity, the amount or structure of the asset management fees, the existence of any performance fees, the direct or indirect participation of NXT Related Person in either of the foregoing or the Client itself, or whether the Client's investment entity is public or private, proprietary or third party.

### **Item 13 - Review of Accounts**

We have established policies and procedures to monitor and manage the individual investments in, and the overall investment objectives of, each Client. Policies and procedures related to the review of individual Loans are described in Item 8, "Methods of Analysis, Investment Strategies and Risk of Loss".

The overall investment objectives of each Client are generally managed and monitored by the completion of periodic tests, performed by Directors in our Finance or Operations or Funding and Asset Management group, to ensure compliance with the investment objectives and requirements outlined in the Client Agreements. For certain clients, a trustee acting on behalf of the Client will run periodic tests to ensure compliance with the investment objectives and requirements outlined in the Client Agreements. These tests are generally performed when a new investment is made by the Client and on required reporting dates. We have developed policies and procedures to ensure that these tests are completed as required. In addition, NXT Capital's loan review function will periodically review a sample of the completed tests for timely completion and accuracy.

The Client Agreements also outline our specific reporting requirements, which may consist of monthly and/or quarterly written reports to the Client describing, among other items, the current characteristics of the collateral, a summary of compliance requirements and cash distributions made by or on behalf of the Client. We have developed policies and procedures and appropriate systems and controls to ensure that we are able to meet the specific reporting requirements outlined in the Client Agreements.

#### **Item 14 - Client Referrals and Other Compensation**

Other than the fees disclosed in Item 5, “Fees and Compensation”, we and NXT Capital do not receive any compensation, or other economic benefits, for providing investment advisory services.

We and NXT Capital may enter into agreements to compensate non-related third parties for Client referrals or solicitations.

- NXT Capital entered into an agreement with BTIG, LLC (“BTIG”), a registered broker-dealer, to assist NXT Capital in securing commitments for one of our Clients and BTIG secured all the current commitments for this Client. BTIG may also assist in securing commitments for future Clients. The agreement provides that BTIG will be compensated through a combination of an up-front fee plus a percentage of the asset management fees earned during the time that the Client has investments outstanding. Any compensation to BTIG will be paid directly by NXT Capital.
- NXT Capital entered into an agreement with Berenson & Company (“Berenson”), a registered broker-dealer, to assist NXT Capital in securing commitments for one of our Clients and Berenson secured current commitments for this Client. Berenson was compensated by an up-front fee paid directly by NXT Capital.

#### **Item 15 - Custody**

Due to certain arrangements, we may be deemed to have “custody” of Client accounts within the meaning of Rule 206(4)-2 under the Advisers Act because we may have access to or authority over Client funds and/or securities. If we are deemed to have such custody over a Client’s funds and/or securities, a custodian will be hired and will be required to send a Client periodic account statements (generally on a quarterly basis) indicating the amounts of any funds and/or securities in their account as of the end of the statement period and any transactions in the account during the statement period. All Clients will be advised to review these statements carefully. Additionally, Clients should immediately contact our Chief Compliance Officer using the contact information provided on the Cover Page if they do not receive account statements from such custodian on at least a quarterly basis or if they should discover any discrepancy between the account statements and the reports we may provide the Client, if any.

Alternatively, under certain circumstances, we may comply with Rule 206(4)-2 under the Advisers Act by providing investors in the Client with audited financial statements within 120 days following the Client's fiscal year end instead of the arrangement described above. Investors should review any audited financial statements they receive carefully. If an investor in a Client has not timely received audited financial statements, please contact our Chief Compliance Officer using the contact information provided on the Cover Page.

As noted in Item 13, "Review of Accounts", we may provide investors in a Client, separately, with reports or account statements providing information about the account. Investors in a Client should compare these reports or account statements carefully to the account statements they receive from a custodian or the audited financial statements they receive from us, if any.

#### **Item 16 - Investment Discretion**

We may have discretionary authority to manage the investments owned by our Clients. The Client Agreements negotiated with each such Client establish our discretionary authority and any limitations on this authority such as investment parameters, restrictions and limitations. At a Client's inception, specific investment criteria may be established for a Client in consultation with prospective investors (*e.g.*, specific industry restrictions and concentrations, investment product type concentrations, geographic restrictions, investment size restrictions, etc.) that may limit our discretionary authority.

#### **Item 17 - Voting Client Securities**

The assets owned by each Client we manage generally consist of Loans that are privately negotiated transactions; however, a Client may, from time to time, own equity securities in which it has the right to vote via shareholder proxy. The Client Agreements may provide us the authority to vote any shareholder proxy on behalf of the Client.

Our Compliance Manual contains policies and procedures relating to voting shareholder proxies for our Clients ("Proxy Voting Policies and Procedures"). These Proxy Voting Policies and Procedures are designed to reasonably ensure that we vote shareholder proxies in the best economic interests of the Client. The general policy is to vote proxies in a manner that serves the best economic interest of the Client we manage, as we determine in our discretion, taking into account relevant factors, including the impact on the value of the returns of the Client and industry and business practices.

The Proxy Voting Policies and Procedures are designed to identify conflicts or potential conflicts that could arise between our interests and those of the Client. If it is determined that any such conflict or potential conflict is not material, we may vote the proxy notwithstanding the existence of the conflict. If the conflict of interest or potential conflict of interest is determined to be material, one or more methods may be used to resolve the conflict, including (i) disclosing the conflict to the Client and obtaining their consent as outlined in the Client Agreements

before voting, (ii) engaging a third party to recommend a vote with respect to the proxy or (iii) such other method as is deemed reasonable under the circumstances.

We will provide a copy of our Proxy Voting Policies and Procedures and of our proxy voting records to any Client upon request. Such request should be made to our Chief Compliance Officer using the contact information provided on the Cover Page.

**Item 18 - Financial Information**

Not Applicable.