

Capitala Investment Advisors, LLC
(“Capitala”)

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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 Capitala Investment Advisors, LLC (“Capitala”). If you have any questions about the contents of this brochure, please contact us at 704.376.5502. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

Capitala is a registered investment adviser. The term registered investment adviser reflects Capitala’s registration with the SEC and does not imply a certain level of skill or training.

Additional information about Capitala is also available on the SEC’s website at www.adviserinfo.sec.gov.

Item 2: Material Changes

This brochure is the initial investment adviser brochure filed by Capitala with the SEC. In the future, this Item 2 will discuss material changes that are made to our brochure and provide clients with a summary of such changes.

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Item 4: Advisory Business

A Description of Advisory Firm and Identity of Principal Owners

Capitala was formed as a Delaware limited liability company in November, 2012. Our principal executive offices are located at 4201 Congress Street, Suite 360, Charlotte, North Carolina 28209, and our main telephone number is 704.376.5502.

The sole owner of Capitala is Joseph B. Alala, III.

In October 2013, Capitala became adviser to the newly formed Capitala Finance Corp (“Capitala BDC”), a closed-end management investment company that has elected to be treated as a business development company (“BDC”) under the Investment Company Act of 1940 (“1940 Act”) and whose securities are registered under the Securities Act of 1933, as amended (the “Securities Act”). Capitala also serves as adviser to private investment funds (the “CSP Funds”). In addition, Capitala occasionally provides other investment advisory services, such as underwriting of investments and deal sourcing, to other private investment firms.

As a BDC, Capitala BDC is subject to continued regulation by the SEC. Capitala will tailor its advisory services to Capitala BDC’s needs based on the investment policies and restrictions contained in its SEC registration statements. Capitala BDC’s strategy is to invest primarily in mezzanine, senior subordinated and unitranche debt, as well as senior and second-lien loans, and to a lesser extent, equity securities issued by smaller and lower-middle market companies. In October 2013, Capitala BDC had an initial public offering (“IPO”) and its shares are traded on NASDAQ.

Certain CSP Funds are mezzanine funds that are licensed as small business investment companies (“SBICs”) by the Small Business Administration (“SBA”) and are subject to the rules and regulations promulgated under Title III of the Small Business Investment Company Act of 1958, as amended (the “SBIC Act”). Capitala BDC and the CSP Funds’ investments are generally structured to earn current income through cash interest payments and may also include return enhancements including: (i) paid-in-kind (“PIK”) interest, (ii) equity warrants, and/or (iii) other equity-linked securities.

Most of the CSP Funds are commingled funds with multiple investors, but the CSP Funds also include certain private investment vehicles formed for specific investors to invest alongside other CSP Funds. Though we have yet to engage in this practice, CSP Funds could also include special purpose vehicles formed to make specific individual investments, individually or alongside other CSP Funds. Most CSP Funds described in this paragraph would not be licensed SBICs subject to SBA approval or regulatory oversight.

Since Capitala BDC is a publically traded entity, it has a broad base of shareholders. The investors in the CSP Funds include high net worth individuals, banks, thrift institutions, pension and profit sharing plans, trusts, estates, corporations, limited partnerships and limited liability companies.

Currently, Capitala's advisory clients are Capitala BDC, the CSP Funds (individually a "Client" and together our "Clients").

B Types of Advisory Services Offered by Capitala

As the investment adviser for Capitala BDC, Capitala advises the Client on investment opportunities in smaller and lower middle-market companies. Under Capitala's direction, Capitala BDC focuses on seasoned, smaller and lower middle-market companies in underserved capital markets and offers flexible, customized financing solutions to provide attractive risk-adjusted returns. Capitala conducts disciplined underwriting policies, including an extensive due diligence process, which consists of a review of the operational, financial, legal and industry performance and outlook for the prospective investment, including the creditworthiness of the borrower and the potential upside. Capitala also monitors Capitala BDC's portfolio by conducting field examinations, reviewing all compliance certificates and covenants and regularly assessing the financial and business conditions and prospects of portfolio companies.

As the investment adviser for certain CSP Funds, Capitala provides various investment management services to each of those CSP Funds, including (i) sourcing of debt and equity transactions, (ii) conducting due diligence, (iii) structuring and consummating transactions, (iv) portfolio company management (when appropriate), (v) monitoring of financial and operational performance and compliance and (vi) structuring the disposition of investments. The primary focus of each CSP Fund is making privately-negotiated mezzanine debt and related equity investments in portfolio companies across various industries, including leverage acquisitions and recapitalizations, traditional buyouts and investments in growth companies. Capitala's investment advice for the CSP Funds is generally limited to these types of investments, though Capitala may cause any CSP Fund to make any investment that is consistent with the applicable CSP Fund's investment objectives and strategies.

Capitala provides investment advisory services to Capitala BDC pursuant to an investment advisory agreement. Capitala generally provides investment advisory services to each CSP Fund it advises pursuant to a separate management services' agreement (each, a "Management Agreement") or similar contractual agreement. Pursuant to regulations promulgated under the SBIC Act, each Management Agreement with a CSP Fund that is a licensed SBIC must be reviewed and approved by the SBA.

Capitala, or its related entities, may enter into side letter agreements with certain investors in the CSP Funds it manages, establishing rights under, or supplementing or altering the terms of, the applicable limited partnership agreements and subscription agreements relating to such CSP Fund. Except as may be specified in any given investor's side letter, Capitala and its related entities have no obligation to offer such additional or different rights, terms or conditions to any other investor in such CSP Fund. Once invested in a CSP Fund, investors cannot impose additional investment guidelines or restrictions on such CSP Fund.

As noted above, Capitala's also occasionally provides other investment advisory services, such as underwriting of investments and deal sourcing, to other private investment firms. Such arrangements are generally very limited in scope and entered into primarily for business development or other strategic reasons and do not form a material portion of our business.

C Tailoring of Services to Client and Restrictions on Investing in Certain Securities

Capitala's advisory services are tailored to the needs of the Clients it manages, subject to applicable law. As noted above, the primary focus of Capitala BDC is investing in mezzanine, senior subordinated and unitranche debt, as well as senior and second-lien loans. Additionally, the primary focus of the CSP Funds is making privately-negotiated mezzanine debt and related equity investments in portfolio companies, including leverage acquisitions and recapitalizations, traditional buyouts and investments in growth companies. Certain investment limitations are set forth in the governing documents of the CSP Funds, which are provided to and negotiated with the investors in each CSP Fund. In addition, in the case of a CSP Fund established for a particular investor as described above, the investor may have the right to reject individual investment opportunities or further limit or impose restrictions on the investments made by that CSP Fund.

D Wrap-Fee Programs

Not applicable.

E Amount of Client Assets under Management

As of September 30, 2013, Capitala has a total of \$565,350,591 assets under management. Of the total assets under management, around \$2,000,000 is on a non-discretionary basis.

Item 5: Fees and Compensation

A Description of Compensation

The compensation paid to Capitala by Capitala BDC is set forth in the management agreement established between the two entities. Capitala will receive an annual base management fee based on Capitala BDC's gross assets, as well as an incentive fee based on its performance. The base management fee is calculated at an annual rate of 1.75% of Capitala BDC's gross assets. The incentive fee is 20% subject to a 2.0% hurdle after a catch-up. Additionally, at the end of each calendar year Capitala will receive 20.0% of Capitala BDC's realized capital gains.

The compensation paid to Capitala by each of the CSP Funds it advises is negotiated with the investors in the relevant CSP Fund and, as a result, varies from one CSP Fund to the next. Management fees payable by those CSP Funds that are licensed SBICs are further subject to SBA approval.

We have negotiated with investors in our licensed SBIC funds the ability to charge management fees up to the maximum amounts allowed by SBA policy, which generally permits SBICs such as our funds to charge management fees at a rate of (i) 2% per annum of the amount of capital commitments made to the SBIC fund (to the extent such commitments qualify as "Regulatory Capital" of the SBIC fund under the

SBIC Act) plus assumed leverage of 2x such commitments for the “Initial Investment Period” as defined in the SBIC Act and (ii) 2% per annum of the capital (including actual leverage, but excluding write offs) invested by the fund in active portfolio companies thereafter. See *Guidelines Concerning Allowable Management Expenses for Leveraged SBIC* – released in December 2003.

Management fees payable by the CSP Funds that are not licensed SBICs vary. For most, the fee is a percentage of total capital commitments during the first several years of the term of the fund – generally the period during which it is expected that the fund will be making new investments – and a percentage of invested capital thereafter. The fee may also, however, be a percentage of invested capital throughout the term of the fund, and the fee base may also include certain actual or assumed leverage, as negotiated with investors. One CSP Fund has a subsidiary that is a licensed SBIC, and the fees borne by investors in that fund are a combination of what is described above for SBIC licensees and what is described in this paragraph for non-licensees. Fee percentages for the CSP Funds that are not licensed SBICs range from 0.35% per annum to 2.0% per annum.

The Capitala BDC management and incentive fees are paid quarterly in arrears. The CSP management fees are generally payable quarterly in advance. The Clients also reimburse Capitala and its affiliates for certain expenses advanced by them on behalf of the funds. These expense reimbursements are disclosed to and negotiated with investors in the relevant offering documents and are in addition to the management advisory fees.

In addition, Capitala or its affiliates may receive commitment fees, monitoring and directors’ fees and organization, financing, divestment and other similar fees in connection with portfolio investments of a CSP Fund as compensation for financial advisory or similar services provided to its portfolio companies. For most of the CSP Funds, all or a portion of most such fees relating to investments by that fund offset the management fee otherwise payable with respect to that fund.

Capitala may, but is not required, to waive all or any portion of any management fees otherwise payable to it by a CSP Fund, and Capitala and its affiliates have a history of granting substantial fee waivers. Clients should not assume, however, that Capitala will in the future waive all or any portions of any management fees that may be due and owing to Capitala.

See Item 6 below for a discussion of performance fees that may be earned by Capitala and its affiliates with respect to the CSP Funds.

Where Capitala provides other investment advisory services, such as underwriting of investments and deal sourcing, to other private investment firms, the compensation (if any) to be paid for such services is separately and specifically negotiated with the Client and may include an economic interest in the Client or a portion of the management fees paid to that private investment firm by its own funds.

B **Fee Collection Process**

Fees are paid to Capitala by Capitala BDC and the CSP Funds as set forth in the governing documents for the relevant entity. When an installment of management fees is due and payable, Capitala bills Capitala

BDC or the relevant CSP Fund for it and then causes the entity to pay it. As noted above, the Capitala BDC management and incentive fees are generally paid quarterly in arrears and the CSP Funds' management fees are generally paid quarterly in advance. Performance fees owed by the CSP Funds are generally paid as a fund's investments are disposed of and the proceeds are distributed to the investors in the client fund.

C Other Fees/Expenses

In addition to our service fees, our Clients may be assessed other fees by parties independent from us, including any and all out-of-pocket expenses associated with the operation of Capitala BDC or the relevant CSP Fund, including expenses incurred in connection with pursuing, consummating, managing and disposing of investments, and including legal, accounting and other fees of service providers. Any such fees, costs and expenses are exclusive of, and in addition to our compensation. Our Clients are solely and directly responsible for such items and will reimburse Capitala and its affiliates for them where Capitala and its affiliates may pay them in advance for the funds. See Item 12 for a discussion of brokerage expenses.

D Fees Charged in Advance

As noted above, our advisory fees associated with the CSP Funds are generally charged quarterly in advance. Fees paid in advance are generally considered non-refundable unless the Client's engagement of Capitala is effectively terminated. Where an engagement is terminated prematurely, Capitala would refund any prepaid management fees on a pro rated basis.

E Additional Compensation

Item 5(E) of Form ADV Part 2 requires us to disclose whether we or any of our supervised persons accept compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds. Neither we, nor any of our supervised persons accept any such compensation, but see Item 5(A) above for a discussion of commitment fees, monitoring and directors' fees and organization, financing, divestment and other similar fees Capitala and its affiliates may earn in connection with portfolio investments of Capitala BDC or the CSP Funds.

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

Capitala's majority owner and Manager, Joseph B. Alala, III, is also the Chief Executive Officer, President, and Chairman of the Board of Directors of Capitala BDC. Since we control Capitala BDC, there is a conflict of interest because we could direct Capitala BDC to follow our investment advice in a way which would generate fees for us but which might not be in its best interests. We address this conflict by implementing a number of controls between us and the Administrator and/or Sub Administrator. Item 12 below further describes the factors we consider in trade allocation.

Capitala BDC is subject to an incentive fee as mentioned in Item 5 above. Each of the CSP Funds is subject to a "carried interest" (i.e. a performance fee) when the CSP Fund has returned to its investors

certain amounts of capital contributed by them to the Fund and a specified “preferred return” thereon, as set forth in each CSP Fund’s organizational documents. The carried interest is generally calculated as a percentage of the Fund’s net profits – ranging from 10% to 20% – and is payable to the general partner or manager of the Fund, and each Fund’s general partner or manager is an affiliate of Capitala. The general partner or manager is not entitled to carried interest based on changes in investment valuations, but only in the event cash or other proceeds are realized by the Fund from underlying investment activity, and then only after certain distributions have been made to investors in the Fund.

We do not currently manage accounts that are charged a performance fee alongside other accounts that are not. However, we do currently manage multiple accounts that invest in the same types of securities, and often co-invest together in the same transactions, and these different accounts may bear carried interest at different rates or may be at different stages of their carried interest “waterfall,” making them more or less likely to make carried interest distributions at any given point in time. This fact results in potential conflicts of interest in the allocation of new investment opportunities, and potentially also in connection with the management and disposition of investments because these allocations and other determinations could be affected by the likelihood that we will earn performance-based fees or the amount thereof. See Item 11(C) below for a discussion of investment allocations and related conflicts of interest.

Another potential conflict of interest that does arise from our charging performance-based fees is that it may create an incentive for us to cause the Funds to engage in riskier investment behavior due to the higher return potential.

Item 7: Types of Clients

As stated previously, our primary clients are Capitala BDC and certain CSP Funds. For more information, see Item 4 – Advisory Business.

Although we do not impose minimum dollar values for client accounts, minimum investment commitments (waivable by the relevant CSP Fund’s general partner) may be established for investors in each CSP Fund, and a CSP Fund offering may also have a minimum aggregate commitments requirement in order to hold an initial closing.

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

A. Methods of Analysis and Investment Strategies

Capitala provides investment recommendations related to our Clients’ specific investment strategies. Capitala BDC primarily invests in mezzanine, senior subordinated and unitranche debt, as well as senior and second-lien loans, and to a lesser extent, equity securities issued by smaller and lower middle-market companies. It targets companies in a diverse range of industries with a focus on business services, manufacturing, consumer and retail, energy and health care industries. The CSP

funds primarily make mezzanine debt and related equity investments in smaller middle market operating companies. Newer CSP Funds may focus more on equity investments, and in particular, control equity investments, than previous CSP Funds. In evaluating potential portfolio investments, Capitala conducts extensive due diligence to analyze, among other things, the prospective portfolio company's operating cash flow and capacity to adequately service its debt obligations (senior and mezzanine), the market and competitive position, within the market the company's cost and revenue structures, the company's unique assets, such as brand strength, distribution capability and intellectual property, the company's management team and compensation structure, the company's contingent liabilities (e.g. environmental, regulatory, accounting, legal, etc.), the company's potential growth opportunities and potential exit strategies.

Capitala investments are typically sourced directly through its internal deal generation strategy and networks. Our underwriting and portfolio management functions are centralized at our Charlotte, North Carolina headquarters, while our investment professionals located there and in Louisville, Kentucky and Raleigh, North Carolina work closely with their geographic contacts to identify attractive investment opportunities. Our investment professionals also maintain relationships with various industry participants providing additional access to potential investment transactions.

CSP Funds subject to the SBA's rules and regulation are required to invest in companies that are primarily U.S. based. Capitala BDC and other CSP Funds may invest in companies that are located or headquartered outside the U.S.

In each Client it advises, Capitala seeks to build a portfolio that is diversified with respect to transaction type, geographic exposure (as the same may be limited by the governing documents of the relevant CSP Fund) and sector. Capitala also seeks to maintain investment balance across industries that it believes are stable or otherwise attractive and industries with attractive long-term growth trends. After a potential transaction has been identified as satisfying the initial screening process, Capitala prepares a financial model and a company write-up to be shared with the entire investment advisory team. Each potential investment must not only pass operational and strategic hurdles, but must also pass a standardized financial model and matrix that reviews projected returns, leverage and fixed charge coverage ratios, and portfolio fit.

Capitala (typically in conjunction with other transaction parties) will often engage independent industry specific consultants to conduct operational and financial due diligence, and in almost all cases will engage an outside consultant to perform an enterprise audit for a prospective transaction.

All of the Clients are integrated through one centralized investment review process, from sourcing through portfolio management.

Investing in securities involves a risk of loss that Capitala BDC, the CSP Funds and the investors therein should be prepared to bear. Item 8(B) below explains in greater detail certain risks involved in our investment strategy and method of analysis.

B. Material Risks involved in Investment Strategy and Method of Analysis

The investment strategies described above involve a substantive degree of risk, and Capitala or the CSP Funds may lose all or a substantial portion of the value of their investments. Certain additional material risks relating to the investment strategies and methods of analysis described above are as follows:

Our business is materially affected by conditions in the global financial market and general economic conditions, e.g. interest rates, credit availability, inflation, overall economic uncertainty, changes in laws and regulations, and national and international political circumstances (including wars, terrorist acts or security operations). These factors may affect the liquidity and value of investments. Capitala expects that our Clients will encounter competition from entities having similar investment objectives, certain of which may have competitive advantages over our Clients in bidding for investments, including greater financial, technical, marketing and other resources, higher risk tolerances, different risk assessments, lower return thresholds, lower cost of capital and access to funding sources unavailable to the BDC or the fund.

Our Clients may be affected by reduced opportunities to exit and realize value from their investments and by the fact that we may not be able to find suitable investments for the investment funds to effectively deploy capital. During difficult market conditions or slowdowns in a particular business sector, our Clients may experience difficulty in the companies in which they invest, e.g. decreased revenues, financial losses, difficulty in obtaining access to financing and increased funding costs. During such periods, these companies may be unable to meet their debt service obligations or other expenses as they become due, including interest expenses payable to our Clients. Such economic conditions would also increase the risk of default with respect to our Clients' mezzanine debt investments.

An important aspect of the long term strategy is the use of leverage, including leverage obtained from the SBA by the CSP Funds that are licensed SBICs (the "Leverage Program"). The use of leverage may exacerbate losses and increase volatility because it will enable the CSP Funds, through the Leverage Program, to take positions that are in excess of the equity contributed to the CSP Funds by their investors. In addition, the CSP Funds need operating revenues to make required payments of principal and interest on the loans from the SBA. Losses on a small percentage of a CSP Fund's investments made in the Leverage Program can result in a much larger percentage reduction in its investment returns. SBA and most other leverage providers require that interest be paid on a current basis and the income from investments may not be sufficient to make the required payments. Thus, it may be necessary from time to time to use capital contributions or additional leverage to make these interest payments. Investments in leveraged entities are inherently more sensitive to declines in revenues, increases in expenses and interest rates, adverse economic, market and industry developments.

An SBA license does not ensure that the applicable CSP Fund will be able to obtain funds from the SBA in the amounts and in the times required to optimize investment returns. There can be no assurance that there will be sufficient SBA leverage available to satisfy the CSP Fund's demands. Certain of the CSP Funds, other than the licensed SBICs, also may incur indebtedness from other sources in an effort to use leverage when making investments. There can be no assurance that debt financing will be available in acceptable amounts or on acceptable terms, if at all. The inability to raise debt financing could negatively affect the projected returns of any CSP Fund.

We may lose investment opportunities in the future if we do not match investment prices, structures and terms offered by competitors. Alternatively, we may experience decreased rates of return and increased risks of loss if we match investment prices, structures and terms offered by competitors. In addition, if interest rates were to rise or there were to be a prolonged positive market for equities, the attractiveness of our investments funds relative to investments in other investment products could decrease. This competitive pressure may adversely affect our ability to make successful investments, which may adversely impact our business, revenue, results of operations and cash flow.

Our asset management activities involve investments in relatively high-risk, illiquid assets, and we may fail to realize any profits from these activities for a considerable period of time or lose some or all of our Clients' principal investments.

We generally establish the capital structure of companies in which a fund invests on the basis of financial projections for such companies, which normally are based primarily on management judgments. Projections are only estimates of future results that are based upon assumptions made at the time that the projections are developed, there can be no assurance that the projected results will be obtained, and actual results may vary significantly from the projections.

If any of the portfolio companies in which our funds invest are unable to protect its proprietary, technological, and other intellectual property rights, our Clients' investment could be harmed. If the portfolio companies are required to devote significant resources to protecting their intellectual property rights, the value of our Clients' investment could be reduced.

Although Capitala makes every effort to conduct appropriate due diligence prior to making an investment, the due diligence process may be subjective at times, may be required to be undertaken on an expedited basis in order to take advantage of available investment opportunities and may require a fund to rely on limited resources available to it including information provided by the target of the investment and third-party consultants, legal advisers, accountants and investment banks. As a result, the due diligence investigation may not reveal or highlight all relevant facts that may be necessary or helpful in evaluating such investment opportunity.

The success of Capitala BDC and each CSP Fund for which Capitala serves as investment adviser will depend in large part on the skill and expertise of Capitala and its personnel, and there can be no assurance that any individual Capitala professional will continue to be associated with the funds. We depend on our founder and other key personnel, the loss of whose services would have a material adverse effect on our business, investment strategy and financial condition.

While diversification is a fund objective, there is no assurance as to the degree of diversification that will actually be achieved in Capitala BDC's or any particular CSP Fund's investment portfolio. Any lack of diversification among our Clients' portfolio companies may result in significant losses if one or more of these companies default on its obligations under any of its debt instruments. Our Clients' portfolios may also be concentrated in a limited number of industries, which may result in significant loss if there is a downturn in a particular industry. While we strive for each of our Clients to have a diverse portfolio within the class of assets in which that Client invests (i.e., mezzanine debt and related equity investments in privately held smaller middle-market companies), our investment strategy does not involve diversification across asset classes and an investment with our Firm should not be viewed as a complete

or comprehensive investment program. Each CSP Fund may also have limited geographic investment diversification.

Although it is the intention of Capitala to ensure that fund portfolio companies have strong management teams, there can be no assurance that any portfolio company's management team will be able to operate successfully.

The financial services industry in general, and the activities of private investment funds and their managers, in particular, has been subject to increasing regulatory oversight. Such scrutiny may increase Capitala's and its Clients' exposure to potential liabilities and to legal, compliance and other related costs. Increased regulatory oversight may impose administrative burdens on Capitala, including, without limitation, responding to investigations and implementing new policies and procedures. Such burdens may divert Capitala's time, attention and resources from portfolio management activities. It is anticipated that, in the normal course of business, the officers of Capitala may have contact with government authorities and/or be subject to responding to inquiries or examinations.

In connection with the disposition of an investment in a portfolio company, our Clients may be required to make representations about the business and financial affairs of the portfolio company typical of those made in connection with the sale of any business and may be responsible for the content of disclosure documents under applicable securities laws. Capitala BDC or a CSP Fund may be required to indemnify the purchasers of such investments to the extent that any such representations or disclosure documents turn out to be inaccurate. These arrangements may result in contingent liabilities of one of our Clients.

Our Clients may co-invest with third parties and those investments may involve risks in connection with such third-party involvement, including the potential that the third-party investor may have financial, legal or regulatory difficulties, negatively affecting such investment, may have economic or business interests or goals that are inconsistent with those of the fund or may be in a position to take (or block) action in a manner contrary to our Clients' investment objectives.

Newer CSP Funds may focus more on equity investments and, in particular, control equity investments, than previous CSP Funds. These equity investments are expected to be illiquid, and any returns on them may be subject to the portfolio company's repayment of a substantial amount of debt. Accordingly, these equity investments may be more susceptible to economic downturns. In addition, a CSP Fund will typically not be contractually entitled to receive cash payments by any certain time and will not be entitled to a pre-determined cash return in respect of its equity investments. Because it will be required to repay the SBIC program and any other leverage used by it to purchase those investments on a certain date, the making of equity investments by any SBIC fund will increase the chances that it will be unable to pay back all of this leverage when due.

Additional risks are discussed in Capitala BDC's offering documents and the offering documents pursuant to which interests in certain of the CSP Funds are offered.

C. Material Risks involved in Particular Security Types

We invest primarily in mezzanine debt and related equity securities of privately held smaller middle-

market companies. In addition to the risks described above, certain additional risks relating to such securities are as follows:

Investments in smaller companies of the type our Clients target may be riskier in general than investments in larger companies, and any historical outperformance of investments in smaller companies may relate to this increased risk. In general, as compared to larger companies, lower middle-market companies of the type in which our Clients invest may have more limited financial resources and borrowing options, may be more exposed to general economic downturns, and may be more susceptible to acute financial damage resulting from relatively unpredictable one-time events, such as litigation or the death of a company's founder. We may also have less information about the historical performance and operations of its portfolio companies than would be the case if we invested in larger companies.

Our Clients typically make current-pay, interest or dividend-bearing subordinated note or preferred stock investments with stated maturities of not less than one year to small businesses that may have limited financial resources and are able to obtain only limited financing from traditional sources. Our Clients' investments may or may not be secured by the assets of the portfolio company. Deterioration in the financial condition and prospects of one of our Clients' portfolio companies usually will be accompanied by deterioration of their ability to pay the interest or dividends on the funds' investments in them and of the value of the funds' investments or any collateral that the funds hold. In most cases, the companies in which our investment funds invest will have indebtedness or equity securities, or may be permitted to incur indebtedness or to issue equity securities, that rank senior to our mezzanine and equity investments. After repaying senior security holders, the company may not have any remaining assets to use for repaying amounts owed in respect of our Clients' investment. Also, many of the loans in which our investment funds invest will not be fully amortizing and if a borrower cannot repay or refinance such loans, our results will suffer.

The mezzanine loans made by our Clients will generally bear interest at fixed rates and, as a result, the value of these investments will be negatively affected by any increases in market interest rates. In addition, increases in interest rates could make it more expensive for our Clients to borrow, including in the case of any SBICs the SBIC program because interest rates charged in respect of SBIC debentures fluctuate based on market demand for SBA-guaranteed debentures. Conversely, decreases in market interest rates could require one of our Clients to accept lower interest payments with respect to the loans it makes to portfolio companies, and could also result in its portfolio companies prepaying amounts previously lent to them by the fund. In the event of such prepayments, one of our Clients may not be able to reinvest the proceeds that it receives in investments that are as profitable as the investments that were prepaid.

Investments by our Clients will likely include debt instruments and equity securities of companies that we do not control, and such investments will be subject to the investment decisions of the controlling equity holders of the related portfolio companies. The investment decisions made by such controlling equity holders could be different than those that would be made by us if the Clients were the controlling equity holders and such decisions could materially and adversely affect the Clients' investment strategy and results with respect to any certain portfolio company.

Lack of control over a portfolio company reduces our ability to take actions that might be in the best interests of our Clients and their investors. Where one of our Clients does exercise control over a

portfolio company borrower, the fund may be subject to lender liability claims for actions taken by it with respect to a borrower's business or instances. It is possible that one of our Clients could become subject to a lender's liability claim, including as a result of actions taken in rendering significant managerial assistance. The likelihood of one of our Clients being subject to such a claim may be increased to the extent it co-invests with other funds managed by Capitala and its affiliates.

There will be no public market for the investments made by the CSP Funds. Such investments will typically be highly illiquid and the relevant CSP Fund may not be able to realize any return on its equity investments until a sale or initial public offering of the portfolio company occurs. Even if such equity investments prove successful, they are unlikely to produce a realized return to the Fund or its investors for a number of years.

Item 9: Disciplinary Information

There have been no legal or disciplinary events that are material to an evaluation of the advisory business of Capitala or the integrity of the management of Capitala.

Item 10: Other Financial Industry Activities and Affiliations

Neither Capitala nor any of its management persons is registered as a broker-dealer, nor do any such parties have an application pending or are otherwise in the process of seeking to register as a broker-dealer. None of our management persons are registered as or currently seeking registration as a registered representative of a broker-dealer. Neither Capitala nor any of its management persons is registered, or has an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities. None of our management persons are registered as or currently seeking registration as associated persons of any of these type firms.

Except for the fact that the directors and officers of Capitala BDC and the general partners and managers of the CSP Funds, which could be viewed as the sponsors of the funds, are related parties of Capitala, neither Capitala nor any of its management persons has any relationship or arrangement that is material to its advisory business or its Clients with any related person that is a broker-dealer, municipal securities dealer, or government securities dealer or broker; an investment company or other pooled investment vehicle; another investment adviser or financial planner; a futures' commission merchant, introducing broker, commodity pool operator, or commodity trading advisor; a banking or thrift institution; an accountant or accounting firm; a lawyer or law firm; an insurance company or agency; a pension consultant; a real estate broker or dealer; or a sponsor or syndicator of limited partnerships. Capitala does not view its relationships with the directors and officers of Capitala BDC and the general partners or managers of the CSP Funds as creating any conflicts of interest, except as noted in Item 6 above.

Capitala does not recommend or select other investment advisers for its Clients.

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

A. Code of Ethics

Capitala has a comprehensive Code of Ethics that is applicable to all of their officers and employees to help avoid insider trading and otherwise to ensure that the firm and its employees act in an ethical manner and in accordance with applicable securities laws. In general the Code of Ethics provides for the following:

- Standards of conduct required of employees, reflecting the fiduciary duties owed by Capitala and its employees to Clients;
- Compliance with applicable securities laws, including those pertaining to insider trading;
- Reporting by Capitala's employees of (and pre-clearance with respect to certain types of) personal securities holdings and transactions;
- Compliance with certain policies and procedures relating to political contributions and gifts and entertainment;
- The reporting of violations of the Code of Ethics; and
- Educating employees about the Code of Ethics.

Capitala maintains the Code of Ethics at their corporate headquarters. Each of our employees has been furnished with a copy of and has acknowledged his or her understanding of our Code of Ethics, and Capitala will provide a copy of its Code of Ethics to any current and/or prospective client upon request.

B. Investments in Securities in which Capitala has an Interest

Except as disclosed in Item 11(C) below, neither Capitala nor any of its related persons recommends to our Clients, or buys or sells for our Client accounts, securities in which Capitala or any of its related persons has a material financial interest.

C. Investment in Same Securities or Related Securities Recommended

Capitala and its related persons do not invest in the same securities (or related securities) as Capitala recommends to its Clients (and Capitala places limitations, subject to review by the Chief Compliance Officer, on its supervised persons and other employees from personally trading in the securities of Capitala BDC or CSP Fund portfolio companies), except that Capitala often may cause one of the

Clients it advises to invest in the same securities or related securities, such as warrants or other securities of the same issuer, that another one of its Clients holds or is considering for investment. This practice of permitting co-investments raises certain conflicts of interest, particularly in the areas of allocating investment opportunities and taking action with respect to portfolio company investments.

In resolving these sorts of conflicts, Capitala and its affiliates may consider many factors, including the interests of each Client with respect to the immediate issue and/or with respect to the longer term course of dealing among the funds. In the case of many conflicts involving its Clients, Capitala's and its affiliates' determination as to which factors are relevant, and the resolution of such conflicts, will be made in Capitala's and its affiliates' sole discretion.

The following factors may alleviate, but will not eliminate, conflicts of interest among Capitala BDC and the CSP Funds:

- Neither Capitala BDC nor a CSP Fund for which Capitala serves as investment adviser will make any investment unless Capitala and Capitala BDC's board of directors or the CSP Fund's general partner or manager believes that such investment is an appropriate investment considered solely from the viewpoint of Capitala BDC or such CSP Fund;
- Many important conflicts of interest will be resolved pursuant to set procedures, restrictions or other provisions contained in a Clients' relevant offering and/or organizational documents, some of which require the approval of the investors in or the limited partner advisory committee of the relevant CSP Fund for certain conflict of interest transactions;
- Even where not required to pursuant to a Clients' offering and/or organizational documents, Capitala may determine to consult with the independent directors of Capitala BDC or the limited partner advisory committee for a CSP Fund, whose members are not affiliated with Capitala, on conflict of interest issues, and in such cases Capitala may permit the advisory committee to resolve conflicts of interest by approving or disapproving decisions; and
- When Capitala deems it appropriate, in its sole discretion, unaffiliated third-parties may be used to help resolve conflicts. In addition, the willingness of a third party to make an investment on the same or similar terms or take the same action with respect to an investment as one of our Clients may demonstrate the fairness of the transaction or other action to such Client.
- One of the CSP Funds is a licensed leveraged SBIC and, as such, is precluded from making investments that give rise to certain conflicts of interest. In general, a conflict of interest may arise if an affiliate of the SBIC has or makes an investment in a prospective portfolio company or serves as one of its officers or directors prior to the investment or would otherwise benefit from the financing. Joint investments with a related SBIC fund may be made on terms and conditions that are fair and equitable to the SBIC, taking into account timing differences, and may require pre-investment approval by the SBA (although if the related fund is a leveraged SBIC, and the two SBICs are investing on the same terms and conditions, no pre-investment approval of the SBA is required for such a co-investment, and the terms will be presumed fair and equitable to both SBICs).

In connection with its investment activities, Capitala and its affiliates, may encounter situations in which they must determine how to allocate investment opportunities among its various Clients. Capitala and its affiliates have discretion as to how they allocate investment opportunities among Clients, except where a CSP Fund has been established for the specific purpose of co-investing alongside another CSP Fund in some or all of its investments according to predetermined criteria.

Capitala and its affiliates have basically unfettered discretion in the allocation of co-investment opportunities to investors in the CSP Funds (“CSP Investors”) and other third parties. Specifically, and subject to any restrictions contained in the offering and/or organizational documents of the relevant CSP Fund or any side-letter entered into with a CSP Investor, (i) no CSP Investor in its capacity as such has a right to participate in any co-investment opportunity, (ii) decisions regarding whether and to whom to offer co-investment opportunities to CSP Investors and other third parties are made in the sole discretion of Capitala or its related persons, (iii) co-investment opportunities may be offered to some and not other CSP Investors, in the sole discretion of Capitala and its affiliates, and (iv) third parties other than CSP Investors may be offered co-investment opportunities, in the sole discretion of Capitala and its affiliates.

Subject to its fiduciary duties and applicable law, as well as any relevant restrictions or other limitations contained in the offering and organizational documents for Capitala BDC and the CSP Funds or side letters relating thereto, Capitala and its affiliates will determine how to allocate investment opportunities using their best judgment, considering such factors as they deem relevant, but in their sole discretion. In exercising its discretion, Capitala may be faced with a variety of potential conflicts of interest. For example, in allocating an investment opportunity among Capitala BDC or the CSP Funds with different fee, expense and compensation structures or with different performance characteristics, Capitala may have an incentive to allocate investment opportunities to the Client from which Capitala or its related persons expect to derive, directly or indirectly, a higher fee, compensation or other benefit.

In exercising their discretion to decide how to allocate investment opportunities among Clients, Capitala and its affiliates may consider some or all of a variety of factors, including, but not limited to, the following:

- Each Client’s investment objective and investment focus;
- Each Client’s liquidity and reserves;
- Each Client’s portfolio diversification;
- The amount of capital available to each Client for investment, as well as its projected future capacity for investment;
- Each Client’s targeted rate of return;
- The stage of development of the prospective portfolio company or other investment;

- The composition of each Client's portfolio;
- The availability of other suitable investments for each Client;
- Risk considerations;
- Cash flow considerations;
- Asset class restrictions, including whether the investment opportunity meets the definition of a "small business" under the SBIC Act and related rules and regulations;
- Legal, contractual or regulatory constraints; and
- Any other relevant limitations imposed by or conditions set forth in the applicable offering and organizational documents.

Capitala and its affiliates reserve the right to make independent decisions about when the Clients they advise should purchase and sell investments. As a result, one Client may be purchasing an investment at a time when another Client is selling the same or similar investment, or vice versa. A Client may invest in an opportunity that other Clients have declined, and likewise, a Client may decline to invest in opportunities in which other Clients have invested.

Conflicts may arise when a Client makes investments in conjunction with an investment being made by another Client or in a company in which another Client has already made an investment. Investment opportunities may be appropriate for one or more Clients at different or overlapping levels of a portfolio company's capital structure. Conflicts may also arise in determining the terms of investments, especially when Capitala controls the structure of a transaction and its capitalization. There can be no assurance that the return on a Client's investments will not be less than the returns obtained by other Clients participating in a given transaction. Capitala will determine all matters relating to structuring transactions and capitalizing portfolio companies, including the amount and terms of securities and allocation of securities among its Clients, using its best judgment considering all factors it deems relevant, but in its sole discretion. The allocation of securities among Clients and as between one Client and another Client may be affected by a fund's stage in its lifecycle. For example, a newly organized fund may seek to purchase a disproportionate amount of investments until it is subsequently invested.

Further conflicts may arise when one Client has made an investment in a company in which another Client has also invested. For example, questions may arise as to whether payment obligations and covenants should be enforced, modified or waived, or whether debt should be refinanced. Decisions about what action should be taken in a troubled situation, including whether or not to enforce claims, whether or not to advocate or initiate a restructuring or liquidation inside or outside of bankruptcy, and the terms of any work-out or restructuring, may raise conflicts of interest. If additional capital is necessary as a result of financial or other difficulties or to finance growth or other opportunities, Clients may or may not provide such additional capital, and if provided, each Client will supply such additional capital and in such amounts, if any, as determined by Capitala in its sole discretion. Capitala will resolve all

such conflicts using its best judgment but in its sole discretion, subject in certain cases to approval by the advisory committee of the participating Client.

Clients may participate in re-leveraging and recapitalization transactions involving portfolio companies in which other Clients have invested or will invest. Recapitalizations may present conflicts of interest, including determinations of whether existing investors are being cashed out at a price that is higher or lower than market value and whether new investors are paying too high or too low a price for the company or purchasing securities with terms that are more or less favorable than the prevailing market terms. Capitala will resolve all such conflicts using its best judgment but in its sole discretion, subject in certain cases to approval by the respective advisory committee of the participating investment funds.

In general, Capitala and its affiliates do not effect cross transactions between Clients; however, such cross transactions may be effected in rare circumstances. In the event that Capitala and its affiliates do effect cross transactions between Clients, Capitala and its affiliates will seek to ensure that such transactions and related disclosures are made consistent with applicable laws and agreements and Capitala's and its affiliates' policies and procedures. In particular, Capitala and its affiliates will seek to ensure that the transaction is:

- In the judgment of Capitala and its affiliates, in the best interest of each Client involved in the transaction;
- In compliance with any investment guidelines or restrictions for each Client involved, and
- Entered into only after obtaining any required advisory committee approvals of the material terms and conditions of the transaction.

Investors in Clients are encouraged to contact Capitala with questions or for further information about how Capitala addresses these and other conflicts of interest.

D. Contemporaneous Securities Transactions.

See item 11(C) above.

Item 12: Brokerage Practices

In general, Capitala does not utilize broker-dealers for transaction related services. In the event that we require the services of a broker-dealer, Capitala will consider various factors, including the reputation, experience and financial ability of the broker-dealer, as well as the experience each broker-dealer has in closing certain transactions. We do not have any agreements in place that require us to use any specific broker-dealer, and we select broker-dealers that we believe best serve the interests of our Clients given the circumstances under which the security is being sold or traded. We do not receive any "soft dollar" benefits, do not receive client referrals from brokers, and are not subject to directed brokerage activities. In instances where we deem it appropriate for multiple Clients to acquire or sell the same security at the

same time, we would typically aggregate the purchase and sale for both accounts.

Capitala will evaluate the overall reasonableness of the brokerage commissions and negotiated terms paid to or made with broker-dealers with respect to Client transactions, by, among other things, seeking to compare such commissions and terms with the commission rates and negotiated terms being charged by and entered into with other comparable broker-dealers. Capitala may also periodically review the past performance of the broker-dealers with whom it has placed orders to execute Client transactions in light of the factors discussed above.

Capitala does not consider in selecting or recommending broker-dealers whether Capitala or any of its related persons receives client referrals from the broker-dealer or other third party. Capitala also does not engage in directed brokerage practices.

Item 13: Review of Accounts

Capitala constantly monitors and proactively manages all of the investments made by each Client it advises. Each month, we conduct a full portfolio review during which the portfolio manager, together with other team members, including the Clients' Chief Executive Officer and Chief Financial Officer, reviews every investment each of our Clients has made. The securities in the investment portfolios of our Clients are generally private, illiquid and long-term in nature; accordingly, Capitala's review of them is not based on a short-term perspective to dispose of such securities. However, Capitala closely monitors the portfolio companies of the Clients it advises and generally maintains oversight or advisory positions in such portfolio companies.

Also, with respect to investments such as loan, financings and related credit, Capitala's professionals continually review and analyze existing positions in an attempt to proactively identify issues and take appropriate action as required. Specific employees of Capitala tasked with overseeing particular investments meet periodically with other members of Capitala's investment team to update them on such portfolio positions and related matters.

We prepare written quarterly and annual reports for each of our Clients. They generally include financial statements (which, in the case of annual statements, are audited) and summaries of new investments, investment performance, and other matters of interest to our Clients and their investors and are distributed to investors in the relevant Client.

Item 14: Client Referrals and Other Compensation

Capitala does not currently compensate or receive any economic benefit from anyone other than our clients for providing investment advice or other advisory services to our clients. In addition, we do not compensate any person who is not our supervised person for client referrals.

Item 15: Custody

Capitala (or the general partners or managers of the Funds, which are our related parties) has custody of the assets of the CSP Funds for which Capitala serves as investment adviser and maintains them with one or more qualified custodians as and to the extent required by SEC Rule 206(4)-2 under the Investment Advisers Act. We have the qualified custodians send account statements, at least quarterly, to each of the Clients for which it maintains funds or securities. Clients should carefully review these statements and are urged to compare them to any account statements or similar reports they receive from Capitala and its affiliates.

Capitala does not have custody of Capitala BDC's assets.

Item 16: Investment Discretion

We provide investment advice to each Client for which we serve as investment adviser on a discretionary basis. With the exception of one CSP Fund in which the investors have the right to approve or disapprove of new investments, investors in our Clients do not participate in investment decisions. This discretionary authority and any investment restrictions or other limitations on that authority are memorialized in the legal and other offering documents for the relevant Client Fund, which are negotiated with investors prior to their making a commitment to invest.

Item 17: Voting Client Securities

We (or the general partners or managers of the CSP Funds, which are our related parties) have the authority to vote all securities held by the CSP Funds, which we do in accordance with a proxy voting policy we adopted in accordance with SEC Rule 206(4)-6 under the Investment Advisers Act. Pursuant to our proxy voting policy, we vote the CSP Funds' securities in accordance with what we consider to be in the best interests of the CSP Fund owning such securities, taking into account such factors as we deems relevant under the circumstances. The CSP Funds and investors in the funds do not have the ability to direct how we vote fund securities.

If a conflict of interest were to arise between Capitala and a CSP Fund when voting the fund's securities, we would nevertheless vote in the CSP Fund's best interests. In determining what is in the best interest of a CSP Fund, the primary consideration is the financial interest of the CSP Fund, and we would generally vote in the manner we believe to be most likely to enhance the value of the securities held by the CSP Fund. We would also be sure to act in conformity with any applicable requirements of the Fund's governing documents and might consult with, or seek approval of the voting decision from, the Fund's limited partner advisory committee.

Any of the CSP Funds are able to obtain a copy of our written proxy voting policies and procedures and information about how we have voted its securities upon request by contacting the chief compliance officer as follows: Michael S. Marr, 704.936.4923; mmarr@capitalsouthpartners.com.

Item 18: Financial Information

Capitala does not require or solicit prepayment of fees six months or more in advance, has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to Clients, and has not been the subject of any bankruptcy proceeding.

Item 19: Requirements for State-Registered Advisers

Capitala is not registered, nor required to be registered as an investment adviser in any state. Therefore, Item 19 is not applicable to Capitala.