

FORM ADV PART 2A: FIRM BROCHURE

Item 1: Cover Page

Solar Capital Partners, LLC  
500 Park Avenue  
New York, NY 10022  
(212) 993-1670  
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**This brochure provides information about the qualifications and business practices of Solar Capital Partners, LLC. If you have any questions about the contents of this brochure, please contact us at (212) 993-1670. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.**

**Additional information about Solar Capital Partners, LLC also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**Item 2: Material Changes**

This Form ADV Part 2A is our initial filing for this Form, so there are no material changes to note. If we make any material changes to this Brochure in the future, we will provide a summary of such changes in this Item 2.

### Item 3: Table of Contents

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#### **Item 4: Advisory Business**

Solar Capital Partners, LLC (“**Solar**”, “**we**”, “**our**” and “**us**”) is an investment advisory firm that currently provides discretionary portfolio services primarily to two business development companies, Solar Capital Ltd. (“**Solar Capital**”) and Solar Senior Capital Ltd. (“**Solar Senior**,” and together with Solar Capital, the “**BDCs**,” and each a “**BDC**”) and one private investment fund (the “**Fund**”) (the BDCs and the Fund are each a “**Client**” and collectively the “**Clients**”).

The principal owners of Solar are Michael Gross and Bruce Spohler.

We typically advise our Clients on U.S. middle-market private company investments in the form of senior secured loans, unsecured debt, subordinated debt and equity investments. The companies in which we advise our Clients to invest are typically leveraged, often as a result of leveraged buy-outs or other recapitalization transactions. We may also provide investment advice regarding high-yield debt, stressed and distressed debt, international debt, short opportunities, long- and short-term purchases of general equity securities (including exchange listed, over-the-counter and foreign-issued securities), U.S. government securities, warrants and options contracts on securities.

Our current advisory services are tailored to the needs of our Clients, based on the investment policies and restrictions contained in our Securities and Exchange Commission (“**SEC**”) registration statements or private offering documentation. As discussed more fully in Item 12, Clients may impose restrictions on investing in certain securities or types of securities.

We do not participate in any wrap fee program.

As of March 31, 2015, our assets under management (“**AUM**”) were approximately \$2.1 billion on a discretionary basis. We have no AUM on a non-discretionary basis.

#### **Firm Overview**

We are controlled and led by Michael Gross and Bruce Spohler. They are supported by a team of dedicated investment professionals. Our investment team has extensive experience in leveraged lending, fixed income, and private equity investing, as well as significant contacts with financial sponsors. Our senior investment professionals have been active participants in the primary and secondary leveraged credit markets throughout their careers. They have effectively managed portfolios of senior loans, subordinated securities, distressed debt, and equity investments as well as other investment types. The depth of their prior experience and credit market expertise has led them through various stages of economic cycles as well as several market disruptions.

Through March 31, 2015, our investment team has invested approximately \$4.7 billion in more than 190 different portfolio companies for Solar Capital and Solar Senior, involving an aggregate of more than 120 different financial sponsors. Since Solar Capital’s inception, our investment professionals have used their relationships in the

middle-market financial sponsor and financial intermediary community to generate deal flow.

As of May 7, 2015, Mr. Gross and Mr. Spohler beneficially owned, either directly or indirectly, approximately 5.3% and 5.0%, respectively, of the outstanding Solar Capital common stock and 6.8% and 4.3%, respectively, of Solar Senior's outstanding common stock.

## **Item 5: Fees and Compensation**

The compensation paid to Solar by each of Solar Capital and Solar Senior is set forth in the management agreements established between the respective BDCs and Solar and consists of two components— a base management fee and an incentive fee. Solar receives a base management fee based on each BDC's respective gross assets, as well as an incentive fee based on its performance. Management fees are earned from the BDCs and paid directly to Solar on a quarterly basis in arrears. Solar's base management fee for Solar Capital is calculated at an annual rate of 2.00% of Solar Capital's gross assets, which is Solar Capital's total assets as reflected on its balance sheet and includes any borrowings for investment purposes. Solar's base management fee for Solar Senior is calculated at an annual rate of 1.00% of Solar Senior's gross assets, which is Solar Senior's total assets as reflected on its balance sheet and includes any borrowings for investment purposes.

Solar's incentive fee for management of each of the BDCs consists of two parts. The first part for Solar Capital is calculated and payable quarterly in arrears and equals 20.0% of the BDCs' "pre-incentive fee net investment income" for the immediately preceding quarter, subject to a 1.75% preferred return, or "hurdle," and a 100% "catch up" feature. The first part for Solar Senior is calculated and payable quarterly in arrears and equals 20.0% of the BDCs' "pre-incentive fee net investment income" for the immediately preceding quarter, subject to a 1.75% preferred return, or "hurdle," and a 50% "catch up" feature. The second part for both BDCs is determined and payable in arrears as of the end of each calendar year (or upon termination of the management agreement) in an amount equal to 20.0% of each of the BDCs' realized capital gains, if any, on a cumulative basis from inception through the end of each calendar year, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fees.

Fees paid by the BDCs to Solar are described in more detail in the registration statements for the BDCs.

Fees for the Fund are as stated in the limited partnership agreement established between Solar and the investors in the Fund. Currently for the Fund, there is (i) an incentive-based performance allocation of 20% of net profits above a 7% hurdle and a 100% "catch-up" feature, distributed to Solar by the Fund on a quarterly basis and (ii) a capital gains allocation of 20% of cumulative realized gains less realized and unrealized losses distributed on an annual basis. Subject to the discretion of Solar and other conditions

detailed in the limited partnership agreement, the Fund may charge a 1.75% management fee on gross assets.

We may negotiate separate fees for certain accounts rather than adhering to a rigid fee schedule. Negotiated fees may be based on a percentage of the assets which the Client has under management. Fixed fees, administrative fees and such other fees which may be negotiated with the Client. Such fees may be affected by the amount of funds under management, the Client's investment objective and the manner in which funds are invested.

For the BDCs, our billing is handled through Solar Capital Management LLC (the "**Administrator**"). If the account has been under management for less than the full quarter, the fee is prorated for the partial period. If we are unable to collect the account's final fee payment through the Client's custodial service provider (e.g. because the Client's custodial account has been terminated), we reserve the right to bill the Client directly for the assessed amount of the final fee. For the Fund, fees are deducted from the Fund.

Our advisory fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which may be incurred by the Client. Clients may incur certain charges imposed by custodians, brokers, third party investment advisers and other third parties such as fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions.

Management fees and incentive fees are deducted directly from the relevant account rather than billed separately.

Item 12 below further describes the factors that we consider in selecting or recommending broker-dealers for Client transactions and determining the reasonableness of their compensation (e.g., commissions).

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

Solar is controlled and led by Michael Gross, the Chief Executive Officer and Chairman of the Board of Directors of each of the BDCs and Bruce Spohler, the Chief Operating Officer and a Director of each of the BDCs. Since we and our Clients are under common management, there is a conflict of interest because we could direct Clients to follow our investment advice in a way which would generate fees, or higher fees, for us but which might not be in the Clients' best interests. We address this conflict by implementing a number of controls. Item 12 below further describes the factors we consider in trade allocation.

The BDCs and the Fund are subject to incentive fees as mentioned in Item 5 above. We do not currently manage accounts that are charged a performance fee alongside other accounts that do 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 incentive fees at different rates. 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 12(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, which in turn may result in higher fees paid to us.

### **Item 7: Types of Clients**

Currently Solar provides investment advice to Solar Capital and Solar Senior, two BDCs, and to the Fund. The BDCs are publicly traded. There is a \$10 million minimum investment in the Fund, although we, as the general partner (the “General Partner”) have the right to waive that amount. All investors in the Fund must meet certain regulatory qualifications set out in the Fund’s subscription documents.

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

Our Clients have similar investment objectives and strategies. Because the principals of Solar are the portfolio managers of the BDCs and the Fund, an absolute level of independent judgment as it relates to matters affecting each Client may be absent under certain circumstances. While the Clients have similar investment strategies, the Fund has the authority to make investments which are not consistent with the strategy or the regulatory restrictions of the BDCs. Other situations may occur where the Fund could be disadvantaged because of the investment activities we conduct for the BDCs or for other accounts that we may advise (or vice versa). We address this conflict by implementing a number of controls. Item 12 below further describes the factors we consider in trade allocation.

The BDCs invest primarily in U.S. middle market companies, where we believe the supply of primary capital is limited and investment opportunities are most attractive. Solar Capital’s investment objective is to generate both current income and capital appreciation through debt and equity investments. Solar Capital invests primarily in leveraged middle-market companies in the form of senior secured loans, unitranche loans, subordinated debt, and equity securities. Solar Senior’s investment objective is to seek to maximize current income consistent with the preservation of capital. Solar Senior seeks to achieve its investment objective by investing primarily in senior loans, including first-lien, uni-tranche, and second lien debt instruments, made to private middle-market companies whose debt is rated below investment grade, which it refers to collectively as “senior loans.” From time to time, the BDCs may each invest in public companies.

The Fund primarily makes equity and debt investments.

Our goal is to provide the Clients with attractive returns with less risk than many corporate fixed income alternatives such as high-yield bonds and liquid leveraged loan funds. However, there is no guarantee that we will be successful in achieving this goal. We endeavor to do so by using a private equity style underwriting approach, which includes extensive due diligence and active negotiation of deal terms and legal documentation.

We have identified several criteria that we believe are important in identifying and investing in prospective portfolio companies. These criteria provide general guidelines for our investment decisions; however, not all of these criteria will be met by each prospective portfolio company in which we choose to invest.

- Stable earnings and strong free cash flow
- Value orientation
- Value of assets
- Strong competitive position in industry
- Diversified customer and supplier base
- Exit strategy
- Experienced and committed management
- Strong sponsorship
- Stable returns on invested capital

## **Risks**

An investment in our Clients involves a risk of the loss of that entire investment, which investors must be prepared to bear.

Our prospectuses for the BDCs and the subscription agreement for the Fund give a detailed description of risks to be aware of when investing in each of our respective Clients. Please see those documents for a more detailed description of the risks relating to such an investment. We are providing a summary of those risks below, but these will not be a complete or detailed list of the risks involved in investing in Solar's Clients.

## **Conflicts of Interest Generally**

### **Management of Multiple Accounts by the Investment Manager**

We (including our affiliates, principals and employees) have established, and may in the future establish, sponsor, or be affiliated with, other accounts that engage in the same or similar businesses as the Clients and use the same or similar investment strategies. We may own all or a portion of another account.

The portfolio strategies we use for other accounts could conflict with the transactions and strategies employed in managing our Clients' investments and affect the prices and availability of the financial instruments in which the current Clients invest. Situations could occur in which a Client could be disadvantaged because of the investment



activities we conduct for other accounts. In addition, we have a conflict of interest in rendering advice to a Client because the financial benefit from managing some other Client's account may be greater (e.g., such account generates higher fees for us), which provides an incentive to favor the other account.

We have a conflict of interest in deciding whether a given investment opportunity will be provided to a particular Client. Investment opportunities appropriate for more than one Client will be allocated on the basis of several factors, including relative capital, tax and regulatory considerations, specific investment guidelines and composition of the investment pools at the time of purchase.

When we place the same or similar orders at or about the same time for our Clients, all these accounts may be competing for the same or similar positions and some accounts may be disadvantaged relative to other accounts we manage. Factors that result in differences in allocations of securities, or the price received on such securities, among Clients include the size of an order, a previous history of purchasing securities through a particular broker or dealer and the timing of the placement of the orders.

### **Our Investments**

Solar invests for its Clients primarily in unitranche, first lien, second lien, subordinated debt, as well as public and private equity investments. Our Clients have similar investment objectives and strategies. Because the principals of Solar are the portfolio managers of the BDCs and the Fund, an absolute level of independent judgment as it relates to matters affecting each Client may be absent under certain circumstances.

### **Allocation of Investment Opportunities**

When we determine that it would be appropriate for one or more of our Clients to participate in an investment opportunity, all of these Clients will be competing for the same or similar opportunities. We have the authority to combine orders and allocate the securities or proceeds arising out of those transactions (and the related transactional expenses).

We give advice and recommendations to, or buy securities for, some Clients which may differ from advice given to or securities recommended for other Clients. Many of the Securities in which we invest are limited availability investments. Accordingly, we might not be able to allocate investments that are suitable for more than one Client proportionately among different Clients, and we are not committed to allocating opportunities among the Clients in any particular proportion.

### **Allocation of Investment Manager Time and Resources**

We are not obligated to devote any specific amount of time, effort and/or resources to the affairs of any Client and are not required to accord exclusivity to any Client in the event of limited investment opportunities arising from the application of speculative position limits or other factors. Our personnel devote such time to the affairs of each

Client as they, in their discretion, determine to be necessary for the conduct of the business of the Clients.

**We operate in a highly competitive market for investment opportunities.**

A number of entities compete with us to make the types of investments that we target in leveraged companies. We compete with other BDCs, public and private funds, commercial and investment banks, commercial financing companies, and private equity funds. Many of our competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do.

**Our investments are very risky and highly speculative.**

We invest primarily in senior secured term loans, subordinated debt and preferred securities, and select equity investments issued by leveraged companies.

**Senior Secured Loans.** When we make a senior secured term loan investment in a portfolio company, we generally take a security interest in the available assets of the portfolio company, including the equity interests of it and its subsidiaries, which we expect to help mitigate the risk that we will not be repaid. However, there is a risk that the collateral securing our loans may decrease in value over time, may be difficult to sell in a timely manner, may be difficult to appraise and may fluctuate in value based upon the success of the business and market conditions.

**Subordinated Debt and Preferred Securities.** Our subordinated debt and preferred investments are generally subordinated to senior loans and are generally unsecured. As such, other creditors may rank senior to us in the event of an insolvency. This may result in an above average amount of risk and loss of principal.

**Equity Investments.** The equity interests we receive may decline in value. Accordingly, we may not be able to realize gains from our equity interests, and any gains that we do realize on the disposition of any equity interests may not be sufficient to offset any other losses we experience.

**The lack of liquidity in our investments may adversely affect our business.**

We generally make investments in private companies. We invest and expect to continue investing in companies whose securities have no established trading market and whose securities are and will be subject to legal and other restrictions on resale or whose securities are and will be less liquid than are publicly-traded securities. The illiquidity of our investments may make it difficult for us to sell such investments if the need arises. In addition, if we are required to liquidate all or a portion of our Clients' portfolio quickly, we may realize significantly less than the value at which we have previously recorded our investments.

**Our Clients' portfolios are concentrated in a limited number of portfolio companies and industries, which will subject them to a risk of significant loss if any**

**of these companies performs poorly or defaults on its obligations under any of its debt instruments or if there is a downturn in a particular industry.**

For the BDCs, we do not have fixed guidelines for diversification other than the asset diversification requirements associated with their qualification as a regulated investment companies under Subchapter M of the Internal Revenue Code. While we are not targeting any specific industries for the BDCs' investments, our investments may be concentrated in relatively few industries or portfolio companies. As a result, the aggregate returns we realize may be significantly adversely affected if a small number of investments perform poorly or if we need to write down the value of any one investment. Additionally, a downturn in any particular industry in which we are invested could also significantly impact the aggregate returns we realize.

**Our Clients' investments in securities rated below investment grade are speculative in nature and are subject to additional risk factors such as increased possibility of default, illiquidity of the security, and changes in value based on changes in interest rates.**

The securities that we invest in are typically rated below investment grade. Securities rated below investment grade are often referred to as "leveraged loans," "high yield" or "junk" securities, and may be considered "high risk" compared to debt instruments that are rated investment grade. During periods of economic downturn or rising interest rates, issuers of below investment grade instruments may experience financial stress that could adversely affect their ability to make payments of principal and interest and increase the possibility of default.

**Price declines and illiquidity in the corporate debt or equity markets may adversely affect the fair value of our Clients' portfolio investments, reducing their net asset value through increased net unrealized depreciation. This could reduce their income available for distribution and could adversely affect their ability to service their outstanding borrowings.**

The BDCs and the Fund are required to carry our investments at market value or, if no market value is ascertainable, at fair value as determined in good faith by or under the direction of their respective Board of Directors. Decreases in the market values or fair values of our investments are recorded as unrealized depreciation. Any unrealized depreciation in our loan portfolio could be an indication of a portfolio company's inability to meet its repayment obligations to us with respect to the affected loans. This could result in realized losses in the future and ultimately in reductions of our income available for distribution in future periods and could materially adversely affect our ability to service our outstanding borrowings.

**Capital markets have recently been in a period of disruption and instability. These market conditions have materially and adversely affected the global debt and equity capital markets, which had, and may in the future have, a negative impact on our Clients' businesses and operations.**

The global capital markets have recently been in a period of disruption as evidenced by a lack of liquidity in the debt capital markets, significant write-offs in the financial services sector, the re-pricing of credit risk in the broadly syndicated credit market and the failure of certain major financial institutions. These conditions could continue for a prolonged period of time or worsen in the future. While these conditions persist, our Clients, as companies in the financial services sector, will have difficulty raising debt and equity capital.

**If we cannot obtain additional capital because of either regulatory or market price constraints, we could be forced to curtail or cease our Clients' new lending and investment activities, their net asset values could decrease and their level of distributions and liquidity could be affected adversely.**

Our ability to secure additional financing and satisfy our Clients' financial obligations under indebtedness outstanding from time to time will depend upon their future operating performance, which is subject to economic and credit market conditions, and financial, business and other factors, many of which are beyond our control. The prolonged continuation or worsening of current economic and capital market conditions could have a material adverse effect on their ability to secure financing on favorable terms, if at all.

**Economic recessions or downturns could impair our Clients' portfolio companies and harm their operating results.**

Many of our Clients' portfolio companies may be susceptible to economic slowdowns or recessions and may be unable to repay our loans during these periods. Therefore, our non-performing assets may increase and the value of our Clients' portfolios may decrease during these periods as we are required to record the values of our investments. Adverse economic conditions also may decrease the value of collateral securing some of our loans and the value of our equity investments at fair value. Economic slowdowns or recessions could lead to financial losses in our Clients' portfolio and a decrease in revenues, net income and assets. These events could harm our operating results.

**Our Clients may suffer a loss if a portfolio company defaults on a loan and the underlying collateral is not sufficient.**

In the event of a default by a portfolio company on a secured loan, our Clients will only have recourse to the assets collateralizing the loan. If the underlying collateral value is less than the loan amount, our Clients will suffer a loss. In addition, we sometimes make loans on behalf of our Clients that are unsecured, which are subject to the risk that other lenders may be directly secured by the assets of the portfolio company. In the event of a default, those collateralized lenders would have priority over us with respect

to the proceeds of a sale of the underlying assets. If a portfolio company defaults on our loan or on debt senior to our loan, or in the event of a portfolio company bankruptcy, our loan will be satisfied only after the senior debt receives payment. If the value of collateral underlying our loan declines or interest rates increase during the term of our loan, a portfolio company may not be able to obtain the necessary funds to repay our loan at maturity through refinancing. Decreasing collateral value and/or increasing interest rates may hinder a portfolio company's ability to refinance our loan because the underlying collateral cannot satisfy the debt service coverage requirements necessary to obtain new financing. If a borrower is unable to repay our loan at maturity, the Client could suffer a loss which may adversely impact its financial performance.

**The business, financial condition and results of operations of our Clients' portfolio companies could be adversely affected by worldwide economic conditions, as well as political and economic conditions in the countries in which they conduct business.**

The business and operating results of our portfolio companies may be impacted by worldwide economic conditions. Although the U.S. economy has in recent quarters shown signs of recovery from the 2008–2009 global recession, the strength and duration of any economic recovery will be impacted by worldwide economic growth. Multiple factors relating to the international operations of some of our Clients' portfolio companies and to particular countries in which they operate could negatively impact their business, financial condition and results of operations.

**Our failure to make follow-on investments in our Clients' portfolio companies could impair the value of our portfolio.**

Following an initial investment in a portfolio company, we may make additional investments on behalf of our Clients in that portfolio company as "follow-on" investments, in order to: (i) increase or maintain in whole or in part our equity ownership percentage; (ii) exercise warrants, options or convertible securities that were acquired in the original or subsequent financing; or (iii) attempt to preserve or enhance the value of our investment. We may elect not to make follow-on investments or otherwise lack sufficient funds to make those investments. We will have the discretion to make any follow-on investments, subject to the availability of capital resources. The failure to make follow-on investments may, in some circumstances, jeopardize the continued viability of a portfolio company and our initial investment, or may result in a missed opportunity for us to increase our participation in a successful operation.

**Where our Clients do not hold controlling equity interests in our portfolio companies, we may not be in a position to exercise control over those portfolio companies or to prevent decisions by management of Clients' portfolio companies that could decrease the value of our investments.**

Although our Clients hold controlling equity positions in some of their portfolio companies, they do not currently hold controlling equity positions in the majority of their portfolio companies. As a result, we and our Clients are subject to the risk that a

portfolio company in which we do not have a controlling interest may make business decisions with which we disagree, and that the management and/or stockholders of such portfolio company may take risks or otherwise act in ways that are adverse to our Clients' interests. Due to the lack of liquidity of the debt and equity investments that we typically hold in our portfolio companies, we may not be able to dispose of our investments in the event we disagree with the actions of a portfolio company and may therefore suffer a decrease in the value of our investments.

**Prepayments of our Clients' debt investments by their portfolio companies could adversely impact our Clients' results of operations and reduce their return on equity.**

Our Clients are subject to the risk that the investments we make on behalf of Clients in our portfolio companies may be prepaid prior to maturity. When this occurs, we may reduce our borrowings outstanding or reinvest these proceeds in temporary investments, pending their future investment in new portfolio companies. These temporary investments, if any, will typically have substantially lower yields than the debt investment being prepaid and we could experience significant delays in reinvesting these amounts. Any future investment in a new portfolio company may also be at lower yields than the debt investment that was prepaid. As a result, our results of operations could be materially adversely affected if one or more of our portfolio companies elect to prepay amounts owed to us.

**We may choose to waive or defer enforcement of covenants in the debt securities held in our Clients' portfolio, which may cause them to lose all or part of our investment in these companies.**

We structure the debt investments in our Clients' portfolio companies to include business and financial covenants placing affirmative and negative obligations on the operation of the company's business and its financial condition. However, from time to time we may elect to waive breaches of these covenants, including our right to payment, or waive or defer enforcement of remedies, such as acceleration of obligations or foreclosure on collateral, depending upon the financial condition and prospects of the particular portfolio company. These actions may reduce the likelihood of our receiving the full amount of future payments of interest or principal for our Clients and be accompanied by a deterioration in the value of the underlying collateral as many of these companies may have limited financial resources, may be unable to meet future obligations and may go bankrupt.

**An investment strategy focused primarily on privately held companies presents certain challenges, including the lack of available information about these companies, a dependence on the talents and efforts of only a few key portfolio company personnel and a greater vulnerability to economic downturns.**

Our Clients invest primarily in privately held companies. Generally, little public information exists about these companies, and our Clients are required to rely on our ability to obtain adequate information to evaluate the potential returns from investing in

these companies. If we are unable to uncover all material information about these companies, we may not make a fully informed investment decision, and we may lose money on our investments. Also, smaller privately held companies frequently have less diverse product lines and smaller market presence than larger competitors. These factors could adversely affect our investment returns as compared to companies investing primarily in the securities of public companies.

**Our investments in foreign securities involve significant risks in addition to the risks inherent in U.S. investments.**

Our Clients' investment strategies contemplate potential investments in debt securities of foreign companies. Investing in foreign companies expose our Clients to additional risks not typically associated with investing in U.S. companies. These risks include changes in exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the case in the United States, higher transaction costs, less government supervision of exchanges, brokers and issuers, less developed bankruptcy laws, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility.

**We expose our Clients to risks if we engage in hedging transactions.**

If we engage in hedging transactions, we may expose our Clients to risks associated with such transactions. We have the authority to utilize instruments such as forward contracts, currency options and interest rate swaps, caps, collars and floors to seek to hedge against fluctuations in the relative values of our portfolio positions from changes in currency exchange rates and market interest rates. Hedging against a decline in the values of our portfolio positions does not eliminate the possibility of fluctuations in the values of such positions or prevent losses if the values of such positions decline. However, such hedging can establish other positions designed to gain from those same developments, thereby offsetting the decline in the value of such portfolio positions. To the extent we engage in hedging transactions, our Clients also face the risk that counterparties to the derivative instruments we hold may default, which would expose us to unexpected losses from positions where we believed that our risk had been appropriately hedged.

**We may not be able to achieve the same or similar returns as those achieved by our senior investment professionals while they were employed at prior positions.**

Although in the past our senior investment professionals held positions at a number of investment firms, their track record and achievements are not necessarily indicative of future results that will be achieved by our investment adviser. In their roles at such other firms, our senior investment professionals were part of investment teams, and they were not solely responsible for generating investment ideas. In addition, such investment teams arrived at investment decisions by consensus.

## **Item 9: Disciplinary Information**

There have been no material legal or disciplinary events to be disclosed.

## **Item 10: Other Financial Industry Activities and Affiliations**

Our Clients are Solar Capital Ltd., Solar Senior Capital Ltd., which are BDCs, and Solar Commercial Finance, L.P., a Delaware limited partnership of which Solar is the general partner. Mr. Gross is the Chief Executive Officer and Chairman of the Boards of Directors of the BDCs and a Managing Member of the General Partner of the Fund. Mr. Spohler is the Chief Operating Officer and Director of the BDCs and a Managing Member of the General Partner of the Fund.

Since we and our Clients are under common management, there is a conflict of interest because we could direct the Client to follow our investment advice in a way which would generate fees, or higher fees, for us but which might not be in the Client's best interests. We address this conflict by implementing a number of controls. Item 12 below further describes the factors we consider in trade allocation.

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

**Participation or Interest in Client Transactions:** We have adopted a Joint Code of Ethics that governs all "**Access Persons**" of Solar (the "**Joint Code**"). The purpose of the Joint Code is to establish standards and procedures for the detection and prevention of activities by which persons having knowledge of the investments and investment intentions of the Client may not abuse their fiduciary duty to our Clients, and otherwise to deal with the types of conflict of interest situations addressed by Rule 17j-1 under the 1940 Act and Rule 204A-1 of the Investment Advisers Act of 1940.

The Joint Code is based on the principle that our managers, officers and employees who provide services to a Client owe a fiduciary duty to the Client to conduct their personal securities transactions in a manner that does not interfere with the Client's transactions or otherwise take unfair advantage of their relationship with the Client. All directors, managers, partners, officers, and employees of Solar Capital Partners LLC and Solar Capital Management LLC ("**Covered Personnel**" or "**Access Persons**") are expected to adhere to this general principle and to comply with all of the specific provisions of the Joint Code that are applicable to them.

Covered Personnel may not engage in any investment transaction which will interfere with the purchase or sale of investments by the Client or benefit the Covered Personnel to the detriment of the Client. Furthermore, Covered Personnel may not use information concerning the investments or investment intentions of the Client, or their ability to influence such investment intentions, for personal gain or in a manner detrimental to the interests of the Client. Covered Personnel may not engage in conduct that is deceitful, fraudulent or manipulative, or that involves false or misleading statements, in connection with the purchase or sale of investments by the Client.



**Prohibited Transactions:** An Access Person may not purchase or otherwise acquire direct or indirect beneficial ownership of any covered security as defined in the Joint Code (“**Covered Security**”) that is on the restricted list as defined in the Joint Code (“**Restricted List**”), and may not sell or otherwise dispose of any Covered Security that is on the Restricted List. The Restricted List is updated as needed and made available to all Access Persons on the internal computer network, and quarterly trading activity is provided by Access Persons and checked by the Chief Compliance Officer.

Personnel of Solar Capital Partners LLC and or Solar Capital Management LLC must obtain approval from our Chief Compliance Officer in any securities in an initial public offering (or other type of offering).

No Access Person shall recommend any transaction in any Covered Securities by the Client without having disclosed to the Chief Compliance Officer his or her interest, if any, in such Covered Securities or the issuer thereof, including: the Access Person’s beneficial ownership of any Covered Securities of such issuer; any contemplated transaction by the Access Person in such Covered Securities; any position the Access Person has with such issuer; and any present or proposed business relationship between such issuer and the Access Person (or a party in which the Access Person has a significant interest).

**Reports by Access Persons:** All Access Persons are required quarterly to report securities transactions and annually to disclose securities holdings to the Chief Compliance Officer for all Covered Securities in which they have a beneficial ownership.

**Additional Prohibitions:** All information concerning the securities being considered for purchase or sale by the Client shall be kept confidential by all Covered Personnel and disclosed by them only on a “need to know” basis. It is the responsibility of the Chief Compliance Officer to report any inadequacy found in this regard to the directors of the Client.

**Annual Certification:** Access Persons of Solar Capital Partners LLC must certify annually that they have read the Joint Code, that they understand it, and that they recognize that they are subject to it, and that they have complied with its requirements.

At least annually, we must furnish our Clients’ board of directors or general partner written report that: (A) describes any issues arising under the Joint Code or procedures since the last report to the board, including, but not limited to, information about material violations of the Joint Code or procedures and sanctions imposed in response to such violations; and (B) certifies that we have adopted procedures reasonably necessary to prevent Access Persons from violating the Joint Code.

A copy of our Joint Code s will be provided upon request to any Client, prospective client, investor or prospective investor in any fund that we manage or advise.

## Item 12: Brokerage and Allocation Practices

Since we generally acquire and dispose of our investments in privately negotiated transactions, we infrequently use brokers in the normal course of our business. We are primarily responsible for the execution of the publicly traded securities portion of our portfolio transactions and the allocation of brokerage commissions. We do not expect to execute transactions through any particular broker or dealer, but we seek to obtain the best net results for our Clients, taking into account such factors as price (including the applicable brokerage commission or dealer spread), size of order, difficulty of execution, and operational facilities of the brokerage firm and the firm's risk and skill in positioning blocks of securities. While we generally seek reasonably competitive trade execution costs, we will not necessarily pay the lowest spread or commission available. Subject to applicable legal requirements, we have the authority to select a broker based partly upon brokerage or research services provided to our Client and us. In return for such services, we may pay a higher commission than other brokers would charge if we determine in good faith that such commission is reasonable in relation to the services provided and we do, from time to time, pay such higher commissions. Such practice is known as "**soft dollar arrangements.**" While we have authority to enter into soft dollar arrangements, we have elected not to do so at this time.

We do not receive Client referrals from broker-dealers or third parties.

We do not recommend, request or require Client direction regarding broker-dealers.

Solar serves as investment adviser to its Clients, which currently consist of two BDCs and the Fund. We and our principals and affiliates may in the future act in a variety of discretionary capacities, including investment adviser, general partner, or investment manager, for other Clients. Solar is a fiduciary to each Client, owes a duty of loyalty to each Client and must treat each Client fairly and equitably over time. The following are the core principles governing our trading activities and the allocation of potential investment opportunities to Clients.

As a general matter, we provide individual advice and treatment to each Client based on the Client's investment objectives, restrictions, risk profile and other relevant characteristics. From time to time we become aware of investment opportunities which are appropriate for multiple Clients or groups of Clients. Moreover, because our Clients may have similar or overlapping investment objectives, restrictions, risk profiles and other characteristics, an investment may be held in or considered for multiple Clients contemporaneously. For this reason, we will frequently be in the position of seeking to acquire or sell the same securities for more than one Client (or group of Clients) at the same time while, at other times, we may determine that a particular opportunity is appropriate for only a sub-set of the Clients initially considered (or that the opportunity is more appropriate for such Clients than others) based on the factors described below.

The purpose of our Investment Allocation Policy ("Policy") is to ensure that investment opportunities are allocated fairly and equitably among our Clients over time. The Policy also seeks to achieve reasonable efficiency and provides the flexibility to allocate

investments among Clients in a manner that is consistent with the particular investment strategy and Client base. Solar's employees who are responsible for allocating investment opportunities among Client accounts must ensure that allocations comply with the requirements of the Policy, applicable law, regulations and any exemptive relief, and the terms of each relevant Client agreement.

The following principles and procedures have been compiled to ensure that each Client is, at all times, treated fairly in respect of the allocation of investment opportunities.

## **A. General Principles**

Solar seeks to allocate investment opportunities among Clients fairly and equitably over time. When making investment allocation decisions, we may consider a variety of factors, among others, on a relative, or absolute basis and may, as discussed below, establish ratios, formulas or similar metrics to assist in making allocation decisions when the opportunity being considered may be appropriate for two or more Clients utilizing a similar investment strategy. The factors we consider when determining investment allocations include, but are not limited to:

- investment objectives or strategies for particular accounts;
- tax considerations of an account;
- risk, diversification or investment concentration parameters for a Client (including fixed or floating rate requirements, industry categories and credit rating requirements);
- supply or demand for a security at a given price level;
- size of available investment;
- available liquidity (including through borrowings or sales of liquid assets) and liquidity requirements for accounts;
- regulatory or Client-imposed restrictions;
- minimum investment size for a Client;
- relative total assets; and
- such other factors as may be relevant to a particular transaction.

However, we will not make investment allocation decisions based on any of the following considerations:

- to unduly favor one Client at the expense of another, including any proprietary or personal accounts of Solar or its employees, over time;
- to generate higher fees paid by one Client over another or to produce greater performance compensation to Solar;
- to develop or enhance a relationship with a Client or prospective Client;
- to compensate a Client for past services or benefits rendered to us or to induce future services or benefits to be rendered to us; and
- to manage or equalize investment performance among different Clients.

## **B. Allocation Procedures**

All allocations will be subject, where relevant, to compliance constraints or other factors identified under "Section A. General Principles" above. If the aggregate amount of securities available in an investment opportunity is less than the amount proposed to be invested by all of our Clients, each Client will be allocated a pro rata share of the investment opportunity based on the amount of each Client's capital available for investment in the asset class being allocated, up to the amount proposed to be invested by each. All Clients participating in the same investment opportunity will participate on the same terms, conditions, price, class of securities to be purchased, settlement date and registration rights, unless otherwise directed by the Client.

If we, on behalf of a Client, desire to make a "follow-on investment" (i.e., an additional investment in an issuer) in the securities, or to exercise warrants or other rights, of an issuer whose securities were previously acquired and allocated in accordance with the Policy, we will allocate all follow-on investments in the same manner as it would allocate a new investment opportunity, except as otherwise instructed by the Client.

If we, on behalf of a Client, desire to sell, exchange, or otherwise dispose of an interest in a security of an issuer that was previously acquired and allocated in accordance with the Policy, we will determine whether the interest in the security should be disposed of by all Clients that hold such interest. If we determine that more than one Client should dispose of the interest, each Client will participate in the disposition on a proportionate basis, based on the amount of the interest available for sale by each Client and the total amount to be sold by all Clients, at the same price and on the same terms and conditions, except as otherwise instructed by the Client.

## **C. Subject to Client Approval**

The above requirements are subject to further or overriding instructions from a Client, as specified in the applicable agreement between Solar and the Client. As such, a Client may determine not to participate in an investment opportunity identified by us for which the Client would otherwise be eligible. In the event that a Client opts not to participate in an investment opportunity, other Clients shall not be restricted from participating in such opportunity. If a Client does not participate in an initial investment opportunity, we are not required to include such Client in future follow-on investments in such issuer as specified in the Policy.

## **D. Compliance with Exemptive Relief**

To maximize the ability of the Clients to co-invest with each other, Solar has obtained exemptive relief from the SEC, which imposes certain requirements on the allocation of investment opportunities among Clients. Solar and the Clients will comply with all conditions or requirements, including those related to the allocation of investment opportunities, our allocation procedures will be interpreted in light of these conditions.

## **Item 13: Review of Accounts**

We manage our Clients' accounts on a daily basis. In addition, each Client's account is reviewed on an ongoing basis (at least quarterly) to assess performance. The purpose of the review is to ensure that our investment policies are reflected in the management of the account. The reviewers are Michael Gross and Bruce Spohler, investment committee members. We discuss performance with the members of the Board of Directors of the BDCs at least quarterly.

As a general policy, we provide the Fund with a statement at least quarterly which includes information regarding the net asset value of the Fund and a summary of its investments.

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

We do not accept economic benefits of any kind from any parties other than our Clients.

We do not compensate any person whom we do not supervise for any Client referrals.

#### **Item 15: Custody**

As previously stated, we have been engaged to serve as the investment manager for the Fund. Further, we also serve as the General Partner of the Fund and are responsible for managing the business and investments of the Fund. As such, we are deemed to have custody of client funds and securities of the Fund.

We generally open accounts with custodians on the Clients' behalf. When we open a custody account on behalf of a Client, we comply with the notification requirements under the Custody Rule, as applicable. We would require each qualified custodian to send us copies of Client account statements at least quarterly. We maintain copies of such statements or representations, directly or through an agent, in accordance with our general recordkeeping obligations. We rely on the Client's custodians to also send account statements directly to the Client. We may also send quarterly account statements showing positions and market values. Either we or the Client's custodian will send notifications and account statements to an independent representative, if so instructed in writing by the Client. We ensure that the independent representative meets the requirements of Rule 206(4)-2(c)(2). Upon determining that the independent representative meets these requirements, account statements and notifications will be sent only to the designated independent representative until such time as the Client may revoke the designation. Independent representatives may not control, be controlled by, or be under common control with Solar Capital Partners, LLC, nor may they have or have had a material business relationship with us within the past two years.

We do not have custody of the BDC's funds or securities, which are held pursuant to a custody agreement with a qualified custodian in accordance with the 1940 Act.

#### **Item 16: Investment Discretion**

We have discretion to make investment decisions with respect to the assets in our Clients' accounts funds.

Decisions regarding the purchase and sale of securities on behalf of our Clients are deliberated by the investment committee. We have the authority to purchase or sell securities subject to the investment policies and restrictions described in the BDC's registration statement, the provisions of the 1940 Act applicable to BDC's and to the Fund's limited partnership agreement.

We may cause our Clients to pay a broker-dealer who furnishes brokerage and/or research services a commission that is in excess of the commission another broker-dealer would have received for executing the transaction if it is determined that such commission is reasonable in relation to the value of the brokerage and/or research services which have been provided to Solar as a whole. We believe that all such services qualify as bona fide research and trading services in compliance with Section 28(e) of the Securities Act of 1934.

### **Item 17: Voting Client Securities**

We have adopted written proxy voting policies and procedures, as required by Rule 206(4)-6, governing conflict of interest resolution, disclosure, reporting and recordkeeping relating to voting proxies. While the securities in which we invest do not typically solicit proxies, when we have the opportunity to vote proxies relating to portfolio securities, we will vote in what we perceive to be the best interest of our Clients' shareholders. We review on a case-by-case basis each proposal submitted to a shareholder vote to determine its impact on the portfolio securities held by our Client. Although we will generally vote against proposals that may have a negative impact on our Clients' portfolio securities, we may in the future vote for such a proposal if we believe there exist compelling long-term reasons to do so. Clients may not direct us to vote a proxy in any particular manner.

Our proxy voting decisions are made by senior management who are responsible for monitoring each of the Client's investments. To ensure that our vote is not the product of a conflict of interest, we require that: (1) anyone involved in the decision making process disclose to the Chief Compliance Officer any potential conflict of which he or she is aware, and any contact that he or she has had with any interested party regarding a proxy vote; and (2) in order to reduce any attempted influence from interested parties, employees involved in the decision making process or vote administration are prohibited from revealing how we intend to vote on a proposal.

On request, we provide our Client a copy of our proxy voting policies and procedures and/or information about how we have voted securities in their account. We do not disclose proxy votes for a Client to other Clients or third parties unless specifically requested, in writing, by the Client.

### **Item 18: Financial Information**

Our fees are assessed and collected in arrears.

There are no financial conditions reasonably likely to impair our ability to meet our contractual commitments to our Client.