

# New Mountain Finance Advisers BDC, L.L.C.

## Part 2A of Form ADV

### The Brochure

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Updated: March 28, 2019

This brochure provides information about the qualifications and business practices of New Mountain Finance Advisers BDC, L.L.C. (“NMFA,” “we” or “us”). If you have any questions about the contents of this brochure, please contact us at 212-720-0300. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or any state securities authority. An investment adviser’s registration with the SEC does not imply any level of skill or training.

Additional information about NMFA also is available on the SEC website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **2. Material Changes**

No material changes.

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## **4. Advisory Business**

New Mountain Finance Advisers BDC, L.L.C. (“NMFA”), a Delaware limited liability company, commenced operations in 2011 with an office in New York, New York. NMFA registered as an investment adviser with the Securities and Exchange Commission on November 11, 2010.

NMFA currently provides discretionary investment management services to a closed-end, non-diversified management investment company that has elected to be regulated as a business development company (“BDC”) under the Investment Company Act of 1940, as amended (the “1940 Act”). As the investment advisor to a BDC, NMFA was previously exempt from preparing Part 2 of the Form ADV.

NMFA also provides discretionary management services to private credit funds for the purpose of making investments in a diversified portfolio of senior secured first lien loans or bonds on a leveraged basis.

In addition, NMFA also provides discretionary management services to private net lease funds for the purpose of making investments in commercial properties that are subject to “triple net” leases.

The sole member of NMFA is New Mountain Capital Group, L.P. (“NMC Group LP”) whose ultimate owners include Steven B. Klinsky and related and other vehicles. Steven B. Klinsky is the founder, Chief Executive Officer, and principal owner of NMFA. NMFA and other affiliated

investment advisers (including New Mountain Capital, LLC (“NMC”), New Mountain Vantage Advisers, LLC (“NMVA”), and New Mountain Finance Corporation (“NMFC”)) are collectively referred to herein as “New Mountain” or the “Firm”. Affiliates of NMFA serve as the general partner of the Funds (each a “GP” and collectively, the “GPs”).

In providing advisory services to the private credit funds, the private net lease funds and business development companies (the “Funds”), NMFA manages the portfolio of companies and other investments belonging to the Funds, including the purchase and disposition thereof, in accordance with each Fund’s investment objective and policies as stated in the Fund’s offering documents and the investment and other restrictions set forth in the Fund’s governing documents (“Governing Documents”).

As of December 31, 2018, NMFA managed \$3,640,607,474 of regulatory assets under management on a discretionary basis.

## **5. Fees and Compensation**

With the exception of the BDC, each Fund's respective management fee, performance-based distributions, and other fees and expenses are set forth in its Governing Documents.

Set forth below is a description of those management fees and distributions applicable to the private credit funds:

### *Management Fees*

As compensation for investment advisory services rendered to the Funds, NMFA's management fee is equal to 1.25% of its aggregate capital commitments during the investment period, less the sum of proceeds from the disposition of investments representing a return of capital and the cumulative amount of any write-downs on the investments. For the avoidance of doubt, the management fee is not calculated on any leverage employed in the investment strategy.

Management fees for each of the private credit Funds are generally charged semi-annually in advance from drawdowns of their respective limited partners’ unfunded capital commitments or out of proceeds from a Fund's investments that would otherwise be distributable to such partners. The management fee for each Fund is reduced by the amount of excess organizational expenses paid by investors in such Fund, as well as by a specified percentage of other fees received by NMFA as described in “Other Fees and Expenses” below.

Management fees charged may be reduced, waived or calculated differently in the sole discretion of NMFA. No general partner of a private credit fund shall bear any management fees. Additionally, the rate of management fees in respect of investors that are affiliates of New Mountain shall be reduced by 50%.

The management fees are generally subject to modification, waiver or reduction by NMFA in its sole discretion, both voluntarily and on a negotiated basis with selected investors. Management fees will often differ among Funds, as well as among investors in the same Fund. The fee structures described above will be modified from time to time.

### *Carried Interest*

As general partner, the applicable GP is entitled to performance-based allocations and distributions in the form of carried interest. A detailed description of the carried interest calculation methodology applicable to each Fund can be found in such Fund's Governing Documents. Generally, carried interest is calculated based on a percentage of the profits generated from a Fund's investments and is subject to the satisfaction of a preferred return, the recoupment of allocated losses and fees, if any, and expenses and other criteria set forth in such Fund's Governing Documents. The general partner may waive all or a portion of the carried interest. The existence of a general partners carried interest may create an incentive for the general partner to make riskier or more speculative investments on behalf of a Fund than would be the case in the absence of this arrangement.

Set forth below is a description of those management fees and distributions applicable to NMNLP:

### *Management Fees*

Generally, the management fee is equal to 1.75% of its aggregate capital commitments during the investment period, thereafter 1.75% per annum of the actively invested capital. Certain larger limited partners who were admitted in the initial closing as well as subsequent closings, will also receive a management fee discount.

Management fees for the Fund are generally charged semi-annually in advance (and in some cases, in arrears) from drawdowns of their respective limited partners' unfunded capital commitments or out of proceeds from the Fund's investments that would otherwise be distributable to such partners. The management fee for the Fund is reduced by the amount of excess organizational expenses paid by investors in the Fund, as well as by a specified percentage of other fees received by NMFA as described in "Other Fees and Expenses" below.

Management fees charged may be reduced, waived or calculated differently in the sole discretion of NMFA. 100% of all directors', transaction, investment banking, break-up, advisory, monitoring and other similar fees will reduce the amount of the management fee payable. Management fees charged may be reduced, waived or calculated differently in the sole discretion of NMFA. No general partner of the fund shall bear any management fees. Additionally, the rate of management fees in respect of investors that are affiliates of New Mountain shall be reduced by 50%.

The management fees are generally subject to modification, waiver or reduction by NMFA in its sole discretion, both voluntarily and on a negotiated basis with selected investors. Management fees will often differ among Funds, as well as among investors in the same Fund. The fee structures described above will be modified from time to time.

### *Carried Interest*

The general partner to the Fund is entitled to performance-based allocations and distributions in the form of carried interest. A detailed description of the carried interest calculation methodology applicable can be found in the Fund's Governing Documents. Generally, carried interest is calculated based on a percentage of the profits generated from the Fund's investments and is subject to the satisfaction of a preferred return, the recoupment of allocated losses and fees, if any, and expenses and other criteria set forth in the Governing Documents. The general partner may

waive all or a portion of the carried interest. The existence of a general partner's carried interest may create an incentive for the general partner to make riskier or more speculative investments on behalf of the Fund than would be the case in the absence of this arrangement.

Other Fees and Expenses related to private credit funds and NMNLP:

*Other Fees and Expenses*

In addition to the foregoing, as set forth in the Governing Documents of the applicable Fund, investors in the Funds generally bear expenses relating to the Funds' operations. These vary by Fund, but typically will include, among other things: out-of-pocket fees and expenses relating to consummated portfolio investments, proposed but unconsummated portfolio investments (such fees and expenses, "Broken Deal Expenses") and temporary investments, including the sourcing, bidding, evaluating, purchasing, trading, settling, maintaining custody, monitoring, acquisition, holding and sale of thereof, to the extent that such fees and expenses are not reimbursed by a portfolio company or other third person, including fees and expenses related to the organization or maintenance of any intermediate entity used to acquire, hold or dispose of any portfolio investment or otherwise facilitating the Fund's investment activities, including without limitation any overhead expenses related to such entity; *provided* that (i) expenses (including travel, meal and lodging expenses) incurred in connection with the preliminary investigation of potential investment opportunities to the extent not reimbursed by portfolio companies or other third persons or and (ii) travel, meal, lodging and other ordinary course of business expenses of monitoring of portfolio investments to the extent not reimbursed by portfolio companies or other third persons, shall be borne by the GPs, NMFA or its affiliates, or, in some cases, the Fund; (c) an amount equal to 100% of all premiums for insurance protecting the Fund and any covered persons from liabilities to third persons in connection with Fund affairs to the extent such premiums cover liabilities with respect to actions or omissions of the Fund or of any covered person that would otherwise be subject to indemnification by the Fund; (d) out-of-pocket legal, Fund-related, public relations, custodial and accounting expenses of third-party or affiliated service providers, including fees, costs and expenses associated with the preparation, printing and distribution of the Fund's financial statements, tax returns and Schedule K-1s, and any "Fund-Related Compliance Obligation Expenses" (it being understood that, where such Fund-Related Compliance Obligation Expenses relate to the Fund and other clients of New Mountain, such costs and expenses shall mean the Fund's allocable share thereof as determined in good faith by NMFA), and out-of-pocket expenses related to data rooms, investor portals or other websites and accounting systems; (e) interest on and fees and expenses arising out of all Fund indebtedness, including, but not limited to, the arranging thereof and the costs and expenses of any lenders, investment banks and other financing sources; (f) out-of-pocket auditing, accounting, banking, consulting and valuation expenses of affiliated or third-party service providers (including accounting, technology and environmental, social and governance consultants); (g) out-of-pocket appraisal expenses of third-party service providers; (h) out-of-pocket fees, costs and expenses of any third-party or affiliated administrators and deal finders; (i) expenses of the Advisory Committee (as defined below) of the Fund (including the reasonable costs of legal counsel, accountants, financial advisors and/or such other advisors and consultants engaged by the Advisory Committee of the Fund, if the applicable GP agrees to permit such engagement); (j) costs and expenses that are classified as extraordinary expenses under generally accepted accounting principles; (k) subject to the Governing Agreement, taxes and other governmental charges, fees and duties payable by the Fund, and costs and expenses associated

with third party tax advisors, tax return preparation or tax audits; *(l)* damages (including the costs of any indemnity or contribution right granted to any placement agent or third-party finder for interests engaged by the Fund or its affiliates); *(m)* costs of reporting to the partners and of the annual meeting of the Fund; *(n)* costs associated with any third-party examinations or audits (including other similar services) of the Fund or NMFA that are attributable to the operation of the Fund or requested by limited partners; *(o)* costs of winding up and liquidating a Fund; *(p)* expenses incurred in connection with complying with provisions in side letter agreements entered into with limited partners, including “most favored nations” provisions; *(q)* cost of operational and accounting software and related expenses; *(r)* the fees, costs and expenses of third-party software developers, hardware and software, including as related to risk, research and market data, operations, accounting and the tracking and monitoring of investments (*i.e.*, portfolio management software and general ledger software); and *(s)* fees and expenses of a Fund’s “Executive Advisory Council” (if any).

Fund-Related Compliance Obligation Expenses generally include costs and expenses of all legal and regulatory compliance obligations under U.S. federal, state, local, non-U.S. or other laws and regulations directly related to the making, holding or disposing of portfolio investments by the Fund (whether such compliance obligations are imposed on NMC, the PE GPs, their affiliates or the Funds), including, without limitation, the preparation and filing of *(a)* Form PF pursuant to the Investment Advisers Act of 1940, as amended (the “Advisers Act”), *(b)* Form 13F, Form 13H, Section 16 filings, Schedule 13D filings, Schedule 13G filings and other filings, *(c)* TIC Form SLT filings, *(d)* materials required under FATCA and FinCEN reporting requirements applicable to the Fund, *(e)* CFTC Form 4.13(a)(3), CPO-PQR, CTA PR and NFA Form PQR filings, *(f)* filings under the Hart-Scott-Rodino Antitrust Improvements Act and other antitrust laws and regulations and *(g)* any other forms, schedules or other filings with governmental and self-regulatory agencies directly related to the making, holding or disposing of Portfolio Investments by the Fund, and the costs and expenses of any custodian and/or depositary appointed by the applicable GP or its affiliates in relation to the safeguarding, administering and/or holding (or similar) of Portfolio Investments and/or the performance of any functions of a custodian and/or depositary contemplated by Directive 2011/61/EU of the European Parliament and of the European Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010 (the “AIFM Directive”) or any national private placement regime in any jurisdiction and incurred in connection with the applicable GP’s or any of its affiliates’ compliance with disclosure, reporting and other similar obligations pursuant to Governing Documents or under the AIFM Directive or any national private placement regime in any jurisdiction (including, for the avoidance of doubt any reporting required in connection with Annex IV of the AIFM Directive).

Investors in a Fund generally also bear expenses relating to formation and the organization of, and sale of interests in, the Fund, parallel funds and affiliated feeder funds, and the organization of the general partner, as determined by the general partner, including all out-of-pocket legal, tax, accounting, printing, data room, consultation, administrative, travel, meal, accommodation and U.S. and non-U.S. filing fees and expenses of the Fund, the applicable GP or NMFA (including with respect to any registration or licensing of the Fund for marketing under any national private placement or similar regime outside of the United States including those in member states of the European Union).

All organizational expenses and all Fund expenses shall be paid by the applicable Fund. To the extent that the GP, NMFA or any of their respective affiliates pays any organizational expenses or Fund expenses on behalf of a Fund, the Fund shall reimburse the GP, NMFA or such affiliate, as the case may be, upon request. All NMFA expenses shall be paid by NMFA or the GPs. The GPs may allocate any expenses that benefit a Fund and one or more feeder funds, alternative investment vehicles, parallel funds, intermediate entities, other New Mountain funds or co-investors among the Fund and the applicable persons in a manner that the GPs determine is fair and equitable. The applicable GP shall endeavor to cause each potential co-investor that is considering an investment alongside a Fund prior to the closing of the Fund's portfolio investment to bear its proportionate share of Broken Deal Expenses related to such potential portfolio investment, but to the extent not reimbursed by co-investors or other parties that may have invested in an unconsummated portfolio investment had it been consummated, Broken Deal Expenses may be borne entirely by the Fund and no share of such expense shall be required to be allocated to any such co-investors or other party; provided that no share of any break-up fees shall be allocated to any co-investor that is not bearing Broken Deal Expenses. There may be circumstances when NMFA has considered a potential credit investment in a portfolio company on behalf of a Fund, has determined not to make such credit investment and an investment is eventually made in such portfolio company by other investment vehicles or accounts sponsored by New Mountain. In these circumstances, such vehicles or accounts may benefit from research by NMFA's investment team and/or from costs borne by the Fund related to this research or otherwise occurred in pursuing the potential portfolio investment, but will not be required to reimburse the Fund for expenses incurred in connection with such investment. Travel and related expenses described herein include, without limitation, airfare not to exceed first class and/or business class rates, lodging, ground transportation, travel and meals. Travel and related expenses in connection with a trip taken by employees of NMFA and/or the GPs for purposes of multiple matters will be allocated by the GPs in its discretion (or as otherwise indicated in a Fund's Governing Documents). NMFA may cause the Funds' portfolio companies to enter into agreements regarding group procurement, benefits management, insurance policies (which will from time to time be pooled across portfolio companies and discounted due to scale) and other operational, administrative or management related matters from a third party or an NMFA affiliate. Fund expenses, including certain consultant expenses, may be charged directly to the Fund or may be borne by both NMFA and one or more portfolio companies. These programs may benefit NMFA, its affiliates, or New Mountain. Expenses related to these programs may be charged directly to Funds, clients, affiliated clients, New Mountain, or affiliated portfolio companies. Portfolio companies may continue to participate in and benefit from these group procurement programs even after they have been sold.

Pursuant to the Governing Documents of a Fund, the GP can retain New Mountain or any of its affiliates to provide administrative services for the Fund (that would otherwise be performed by third-parties, including property management, accounting and operations), and New Mountain or such affiliate may separately charge fees to the Fund for such services, which fees would not be included in the Management Fee, so long as the GP determines in good faith that the fees charged for such services represent fully a allocated costs of New Mountain and its affiliates of providing such services, including the costs of employee compensation and related taxes, health insurance and other benefits, and such employees' allocable portion of overhead and rent; *provided* that, the amount of any such fees borne by the Fund shall not exceed the fees that would be charged for such services on an arms' length basis and on terms which are no less favorable to the Fund than

would be obtained in a transaction with an unaffiliated party, as determined by the general partner in good faith.

Pursuant to the Governing Documents of a Fund, New Mountain may receive directors' fees, transaction fees, investment banking fees, break-up fees, advisory fees, monitoring fees, credit guarantor fees or other similar fees. A limited partner's share (based on capital commitments) of a specified percentage of these fees, (varying from 50% to 100% depending on the Fund and the type of fee), net of related expenses, is applied to reduce the management fees payable by the applicable Fund. Management fees will not be reduced for any salary, benefits, directors' fees, stock options and other compensation granted or paid by portfolio companies to Senior Advisors for serving in portfolio company roles or any salary, benefits, directors' fees, stock options and other compensation granted or paid by portfolio companies to other personnel of the GPs or NMFA who serve in a bona fide management capacity at any such portfolio company. Moreover, NMC and its personnel can be expected to receive certain intangible and/or other benefits and/or perquisites arising or resulting from their activities on behalf of the Funds which will not be subject to the management fee offset or otherwise shared with the Funds, their investors and/or their portfolio companies. For example, airline travel or hotel stays incurred as fund expenses typically result in "miles" or "points" or credit in loyalty / status programs, and such benefits and/or amounts will, whether or not de minimis or difficult to value, inure exclusively to New Mountain and/or such personnel (and not the Funds, their investors and/or their portfolio companies) even though the cost of the underlying service is borne by the Funds and/or their portfolio companies.

NMFA will enter into placement agent agreements from time to time in connection with the offer and sale of interests in a Fund to certain potential investors. The management fees paid by a Fund will generally be reduced by the amount of fees paid by such Fund to persons acting as a placement agent. The manner of any such reduction, if any, is set forth in the Governing Documents of the applicable Fund.

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

As discussed under Item 5 – "Fees and Compensation" – above, the GPs are entitled to performance-based allocations and distributions in the form of carried interest from the applicable Funds.

Performance-based fee arrangements may create an incentive for us to recommend investments that may be riskier or more speculative than those that we may otherwise recommend under a different fee arrangement. In the allocation of investment opportunities, performance-based fee arrangements may also create an incentive for us (or our advisory affiliates) to favor Funds, including the BDC, that have higher performance or incentive fee arrangements over Funds that are charged a lower performance fee or are not charged a performance fee at all.

As noted in Item 4 above, both NMFA on behalf of our Funds, and the BDC, on behalf of itself and on behalf of its Fund, make debt and equity investments in middle-market companies. Accordingly, NMFA is subject to side-by-side management conflicts of interest. NMFA and its advisory affiliates have adopted compliance policies and procedures, including an allocation



policy to address potential conflicts, which is discussed more fully in Item 10, “Other Financial Industry Activities and Affiliations.”

## **7. Types of Clients**

The only investment advisory service provided by NMFA is in the capacity of acting as the investment adviser to its Funds. With the exception of the BDC, each Fund’s investors are “accredited investors,” as that term is defined by Rule 501 of Regulation D under the Securities Act of 1933 (the “Securities Act”) and in the case of Funds that rely on Section 3(c)(7), “qualified purchasers” under Section 2(a)(51)(A) of the 1940 Act. Certain Funds may rely on Section 3(c)(1) of the 1940 Act and, in such cases, would not require their investors to be “qualified purchasers”, but would limit the number of beneficial owners of their securities to 100 or less.

Details concerning applicable investor suitability criteria for each of the Funds are set forth in the respective offering documents and subscription materials. The offering documents of each of the Funds generally provide for a minimum investment amount (typically \$10 million), although such minimums may be waived.

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

### **No Assurance of Investment Return**

Investment in any Fund entails a high degree of risk. The general partner of each Fund, or their respective affiliates, can provide no assurance whatsoever that the Fund will be successful in choosing, making and realizing investments in any particular portfolio company or portfolio companies. There is no assurance that the Fund will be able to generate returns for its investors or that the returns will be commensurate with the risks of investing in the type of portfolio companies and transactions described in the Fund’s respective Governing Documents. There can be no assurance that any investment in a Fund will return any distribution from the Fund. Although the Fund expects to receive current income yields from investments over time, partial or complete sales, transfers or other dispositions of investments which may result in a return of capital or the realization of gains, if any, are generally not expected to occur for a number of years after an investment is made. Accordingly, an investment in the Fund should only be considered by persons for whom a speculative, illiquid and long-term investment is an appropriate component of a larger investment program and who can afford a loss of their entire investment. There can be no assurance that projected or targeted returns for any Fund will be achieved. Furthermore, a Fund’s use of a subscription line or other credit facility may affect its returns. **Past performance of investment entities associated with New Mountain and its affiliates is not necessarily indicative of future results. There can be no assurance that the Fund will achieve comparable results or that performance objectives of the Fund will be achieved.**

### **Methods of Analysis, Investment Strategies and Risk of Loss**

NMFA’s investment objective is to generate current income and capital appreciation through the sourcing and origination of debt securities at all levels of the capital structure, including first and

second lien debt, notes, bonds and mezzanine securities. The Fund's first lien debt may include traditional first lien senior secured loans or unitranche loans. Unitranche loans combine characteristics of traditional first lien senior secured loans as well as second lien and subordinated loans. Unitranche loans will expose the Funds to the risks associated with second lien and subordinated loans to the extent it invests in the "last out" tranche. In some cases, the investments may also include small equity interests. In the case of NMNLP, investments are generally in a diversified portfolio of long-term leased, operationally critical, primarily North American net lease real estate assets. The primary focus is in the debt or net lease properties of defensive growth companies, which are defined as generally exhibiting the following characteristics: (i) sustainable secular growth drivers, (ii) high barriers to competitive entry, (iii) high free cash flow after capital expenditure and working capital needs, (iv) high returns on assets and (v) niche market dominance. Our Funds' respective portfolios may be concentrated in a limited number of industries.

With the exception of NMFC, the governing documents for each Fund provide a detailed description of such Fund's specific investment objectives and may contain specific investment guidelines, policies, or restrictions. Except as may be set forth in the governing documents, NMFA may pursue a wide variety of investment strategies and may modify or depart from the investment strategy described above, if it identifies investment opportunities that it believes are sufficiently attractive for a Fund.

Investing in the Funds involves material risks, including the risk of loss. The following is a list of certain material risks that are generally applicable to investments in the Funds. However, investors should also review the offering documents of the Guardian Fund and NMNLP in which they may invest to understand the risks and potential conflicts of interest associated with an investment in such Guardian Fund and NMNLP.

### **Risks Relating to Private Investment Funds Generally**

#### *Legal and Regulatory Environment for Private Investment Funds and their Managers*

The legal, tax and regulatory environment worldwide for private investment funds (such as the Funds) and their managers is evolving. Changes in the regulation of private investment funds, their managers, and their trading and investing activities may have a material adverse effect on the ability of the Funds to pursue their investment program and the value of investments held by the Funds. There has been an increase in scrutiny of the private investment fund industry by governmental agencies and self-regulatory organizations. New laws and regulations or actions taken by regulators that restrict the ability of the Funds to pursue its investment program or employ brokers and other counterparties could have a material adverse effect on the Funds and the Limited Partners' investments therein. In addition, NMFA may, in its sole discretion, cause the Funds to be subject to certain laws and regulations if it believes that an investment or business activity is in the Funds' interest, even if such laws and regulations may have a detrimental effect on one or more Limited Partners.

#### *Dodd-Frank Act*

The U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") was enacted in July 2010. The Dodd-Frank Act has resulted in extensive rulemaking and regulatory changes that affect private fund managers, the funds that they manage and the financial industry

as a whole. Under the Dodd-Frank Act, the U.S. Commodity Futures Trading Commission (the “CFTC”) and the SEC have mandated (and will mandate) new recordkeeping, reporting, central clearing and mandatory trading on electronic facilities requirements for investment advisers, which add costs to the legal, operational and compliance obligations of NMFA and the Funds and increase the amount of time that NMFA spends on non-investment-related activities. The Dodd-Frank Act affects a broad range of market participants with whom the Funds interact or may interact, including banks, non-bank financial institutions, rating agencies, mortgage brokers, credit unions, insurance companies, payday lenders and broker-dealers, and may change the way in which NMFA conducts business with its counterparties. It may take years to understand the impact of the Dodd-Frank Act on the financial industry as a whole, and therefore, the continued uncertainty may make markets more volatile and make it difficult for NMFA to execute the investment strategy of the Funds.

#### *Systemic Risk*

Systemic risk is the risk of broad financial system stress or collapse triggered by the default of one or more financial institutions, which results in a series of defaults by other interdependent financial institutions. Financial intermediaries, such as clearing houses, banks, securities firms and exchanges with which the Funds interact, are all subject to systemic risk. A systemic failure could have material adverse consequences on the Funds and on the markets for the securities in which the Funds seek to invest.

#### *Assumption of Business, Terrorism and Catastrophe Risks*

The Funds may be subject to the risk of loss arising from exposure that it may incur, indirectly, due to the occurrence of various events, including, without limitation, hurricanes, earthquakes, and other natural disasters, terrorism and other catastrophic events. These risks of loss can be substantial and could have a material adverse effect on the Funds and the Limited Partners’ investments therein.

### **Risks Relating to Management**

#### *No Operating History*

The Funds are newly formed entities and do not have any operating history upon which prospective Limited Partners can evaluate their anticipated performance. The investment professionals of NMFA have been using investment strategies similar to the investment strategies described herein for several years. However, there can be no assurance that the Funds or NMFA will achieve results comparable to those that the investment professionals have achieved in the past.

#### *Dependence on the Investment Manager*

The success of the Funds is dependent upon the ability of NMFA to manage the Funds and effectively implement the Fund’s investment program. The Funds governing documents do not permit the Limited Partners to participate in the management and affairs of the Funds.

#### *Dependence on Service Providers*

The Funds are also dependent upon their counterparties and the businesses that are not controlled by NMFA that provide services to the Funds (the “Service Providers”). Examples of Service Providers include the third-party Administrator, Legal Counsel and the Auditors. Errors are

inherent in the business and operations of any business, and although NMFA will adopt measures to prevent and detect errors by, and misconduct of, counterparties and Service Providers, and transact with counterparties and Service Providers it believes to be reliable, such measures may not be effective in all cases. Errors or misconduct could have a material adverse effect on the Funds and the Limited Partners' investments therein.

As the Funds have no employees, the Funds are reliant on the performance of the Service Providers. Each Limited Partner's relationship in respect of its Interests is with the Funds only. Accordingly, absent a direct contractual relationship between the investor and the relevant Service Provider, no Limited Partner will have any contractual claim against any Service Provider for any reason related to its services to the Funds. Instead, the proper plaintiff in an action in respect of which a wrongdoing is alleged to have been committed against the Funds by the relevant Service Provider is, *prima facie*, the Funds.

#### *Retention and Motivation of Employees*

The success of the Funds is dependent upon the talents and efforts of highly skilled individuals employed by NMFA and NMFA's ability to identify and willingness to provide acceptable compensation to attract, retain and motivate talented investment professionals and other employees. We depend on the investment judgment, skill and relationships of the investment professionals of NMFA, particularly Steven B. Klinsky, Robert A. Hamwee, John R. Kline and Teddy Kaplan, as well as other key personnel, to identify, evaluate, negotiate, structure, execute, monitor and service our investments. NMFA, as an affiliate of New Mountain, is supported by New Mountain's team. NMFA will depend upon New Mountain to obtain access to investment opportunities originated by the professionals of New Mountain and its affiliates. There can be no assurance that NMFA's investment professionals will continue to be associated with NMFA throughout the life of the Funds, and the failure to attract or retain such investment professionals could have a material adverse effect on the Funds and the Limited Partners' investments therein. Competition in the financial services industry for qualified employees is intense and there is no guarantee that, if lost, the talents of NMFA's investment professionals could be replaced.

#### *Investment and Due Diligence Process*

Before making investments, NMFA will review and, to the extent it deems it necessary, update the existing research previously produced by New Mountain. New Mountain conducts due diligence that it deems reasonable and appropriate based on the facts and circumstances applicable to each investment. When conducting due diligence, NMFA and before it, New Mountain more generally, may be required to evaluate important and complex business, financial, tax, accounting and legal issues. When conducting due diligence and making an assessment regarding an investment, NMFA and New Mountain generally will rely on the resources reasonably available to them, respectively, which in some circumstances, whether or not known to NMFA or New Mountain (as applicable) at the time, may not be sufficient, accurate, complete or reliable. Due diligence may not reveal or highlight matters that could have a material adverse effect on the value of an investment. Further, it should be noted that the description of the investment and diligence process that is included in this Memorandum is illustrative only; NMFA's process may vary.

### *Increased Regulatory Oversight*

Increased regulation and regulatory oversight of private investment funds and their managers may impose administrative burdens on NMFA, including, without limitation, responding to examinations and other regulatory inquiries and implementing policies and procedures. Such administrative burdens may divert NMFA's time, attention and resources from portfolio management activities to responding to inquiries, examinations and enforcement actions (or threats thereof). Regulatory inquiries often are confidential in nature, may involve a review of an individual's or a firm's activities or may involve studies of the industry or industry practices, as well as the practices of a particular institution.

### *Effect of Substantial Losses*

If, due to extraordinary market conditions or other reasons, the Funds and other private investment funds managed by NMFA were to incur substantial losses, the revenues of NMFA may decline substantially. Such losses may hamper NMFA's ability to (i) retain employees, (ii) provide the same level of service to the Funds as it has in the past, and (iii) continue operations.

### *Increasing Assets Under Management*

The rates of return achieved by advisers or managers often diminish as the assets under their management increase. NMFA has not agreed to limit the amount of capital it will manage in the Funds, or generally.

## **Risks Relating to the Structure of the Fund**

### *Significant Fees and Expenses*

The fees and expenses of the Funds may be significant. The Funds must generate sufficient income to offset such fees and expenses to avoid a decrease in the net asset value of the Funds.

### *Absence of Regulatory Oversight Over the Fund*

The Funds and the Interests are not expected to be registered under the securities laws of any country. In particular, the Funds will not be registered as an investment company under the Company Act, and, therefore, will not be required to adhere to the restrictions and requirements under the Company Act. Accordingly, the provisions of the Company Act (which, among other things, require investment companies to have a majority of disinterested directors, require securities to be held in custody by a bank or broker in accordance with rules requiring the segregation of securities, prohibit investment companies from engaging in certain transactions with their affiliates and regulate the relationship between advisers and investment companies) are not applicable.

### *Limited Liquidity of Interests*

The Funds are intended for long-term investors who can accept the risks associated with investing primarily in securities that involve a high degree of financial risk and are potentially illiquid. There is no public market for the Interests, and no such market is expected to develop in the future. Limited Partners may not withdraw capital from the Funds. Without the written consent of the general partner, which may be given or withheld in its sole discretion, a Limited Partner may not directly, indirectly or synthetically transfer, pledge, assign, hypothecate, sell, convey, exchange,

reference under a derivatives contract or any other arrangement or otherwise dispose of or encumber all or any portion of its Interest to any other person (each, a “Transfer”), except by operation of law. Any attempted Transfer not made in accordance with the foregoing, to the fullest extent permitted by applicable law, will be null and void ab initio. No transferee of an Interest will be admitted as Limited Partner unless all of the conditions set forth in the Partnership Agreement have been satisfied.

#### *Access to Information*

NMFA generally will not provide detailed information about the Funds’ portfolio or any advance notice of anticipated changes in the composition of the Funds’ portfolio. Furthermore, in response to questions and requests and in connection with due diligence meetings and other communications, the Funds and NMFA may provide additional information to certain Limited Partners and prospective Limited Partners that is not distributed to other Limited Partners and prospective Limited Partners. Such information may affect a prospective Limited Partner’s decision to invest in the Funds. Each Limited Partner is responsible for asking such questions as it believes are necessary in order to make its own investment decisions, must decide for itself whether the limited information provided by NMFA and the Funds is sufficient for its needs and must accept the foregoing risks.

#### *Delayed Schedules K-1*

The general partner will use its reasonable best efforts to prepare and deliver Schedules K-1 to the Limited Partners for any given fiscal year within 120 days after the end of each fiscal year of the Funds or as soon as reasonably practicable thereafter (subject to reasonable delays in the event of late receipt of necessary financial information, changes in law requiring additional analysis, etc.). Limited Partners may be required to obtain extensions of the filing date for their income tax returns at the U.S. Federal, state and local levels.

#### *Governmental Entity Investors*

Governmental entities, including, but not limited to, pension plans maintained by governmental agencies and instrumentalities, may invest in the Funds. Such investors may be subject to laws that affect the applicability or enforcement of certain terms generally governing the Funds. For example, exculpation, indemnification, confidentiality, choice of law and choice of venue provisions may be applied differently with respect to such investors. In addition, investment in the Funds by certain governmental entities may subject the Funds and/or NMFA to increased regulatory burdens and public disclosures about the Funds, their investors and its activities.

#### *In-Kind Distributions*

Limited Partners may receive securities in lieu of, or in combination with, cash. Such distributions may include interests in one or more special purpose vehicles holding securities owned by the Funds, or participations therein. To the extent a Limited Partner is distributed interests in special purpose vehicles, such Limited Partner will continue to be at risk with respect to the Funds’ business. The value of the securities distributed in kind may increase or decrease before they are sold either by the Limited Partner, if received directly, or by NMFA or its affiliates, if held through a special purpose vehicle. In either case, the Limited Partner will incur transaction costs in connection with the sale of any such securities and, in the case of interests in a special purpose vehicle, will bear a proportionate share of the operating and other expenses borne by such vehicle.

Securities distributed in kind may not be readily marketable. The risk of loss and delay in liquidating these securities will be borne by the Limited Partner, with the result that such Limited Partner may ultimately receive less cash than it would have received if it had been paid in cash. Furthermore, to the extent that a Limited Partner receives interests in special purpose vehicles, such Limited Partner will generally have no voting rights or any control over when and at what price the securities in which such vehicles have an interest are sold.

*Rebalancing Investments Among the Fund, the Offshore Fund, Feeder Funds and Other Parallel Funds*

As described in the Partnership Agreement, in order to allow the Funds, the Offshore Fund, Feeder Funds and/or other Parallel Funds to generally invest in the same investments, in proportion to the capital committed to each of the Funds, the Offshore Fund, Feeder Funds and/or other Parallel Funds, as applicable, interests in investments may be transferred among the Funds, the Offshore Fund, Feeder Funds and other Parallel Funds (or their subsidiaries). Each prospective Limited Partner should consult with its tax advisor regarding the U.S. Federal, state, local and non-U.S. tax aspects of an investment in the Funds.

**Risks Relating to the Operations and Investment Activities of the Funds**

*Systems and Operational Risks Generally*

The Funds depend on NMFA to develop and implement appropriate systems for the Funds' activities. The Funds rely heavily and on a daily basis on financial, accounting and other data processing systems to evaluate certain investments, to monitor its portfolio and capital, and to generate risk management and other reports that are critical to oversight of the Funds' activities. In addition, the Funds rely on information systems to store sensitive information about the Funds, NMFA, their affiliates and the Limited Partners. Certain of the Fund's and NMFA's activities will be dependent upon systems operated by third parties, market counterparties and other Service Providers, and NMFA may not be in a position to verify the risks or reliability of such third-party systems. Disruptions in the Funds' operations may cause the Funds to suffer, among other things, financial loss, the disruption of its business, liability to third parties, regulatory intervention or reputational damage. Any of the foregoing failures or disruptions could have a material adverse effect on the Funds and the Limited Partners' investments therein.

*Cybersecurity Risk*

As part of its business, NMFA processes, stores and transmits large amounts of electronic information, including information relating to the transactions of the Funds and personally identifiable information of the Limited Partners. Similarly, Service Providers of NMFA or the Funds, especially the Administrator, may process, store and transmit such information. NMFA has procedures and systems in place that it believes are reasonably designed to protect such information and prevent data loss and security breaches. However, such measures cannot provide absolute security. The techniques used to obtain unauthorized access to data, disable or degrade service, or sabotage systems change frequently and may be difficult to detect for long periods of time. Hardware or software acquired from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise information security. Network-connected services provided by third parties to NMFA may be susceptible to compromise, leading to a breach of NMFA's network. NMFA's systems or facilities may be susceptible to employee error or malfeasance, government surveillance, or other security threats.

Online services provided by NMFA to the Limited Partners may also be susceptible to compromise. Breach of NMFA's information systems may cause information relating to the transactions of the Funds and personally identifiable information of the Limited Partners to be lost or improperly accessed, used or disclosed.

The Service Providers of NMFA and the Funds are subject to the same electronic information security threats as NMFA. If a Service Provider fails to adopt or adhere to adequate data security policies, or in the event of a breach of its networks, information relating to the transactions of the Funds and personally identifiable information of the Limited Partners may be lost or improperly accessed, used or disclosed.

The loss or improper access, use or disclosure of NMFA's or the Funds' proprietary information may cause NMFA or the Funds to suffer, among other things, financial loss, the disruption of its business, liability to third parties, regulatory intervention or reputational damage. Any of the foregoing events could have a material adverse effect on the Funds and the Limited Partners' investments therein.

#### *Valuation of Assets and Liabilities*

The Funds' assets and liabilities are valued in accordance with the Partnership Agreement. The valuation of any asset or liability involves inherent uncertainty. The value of a security determined in accordance with the Partnership Agreement may differ materially from the value that could have been realized in an actual sale or transfer for a variety of reasons, including the timing of the transaction and liquidity in the market. Uncertainties as to the valuation of portfolio positions could have an impact on the net asset value of the Funds if the judgments of the Administrator regarding the appropriate valuation should prove to be incorrect.

#### *GAAP Net Asset Value Divergence*

Due to GAAP requirements, the net asset value of the Funds for purposes of GAAP-compliant financial reporting may diverge from the net asset value of the Funds for all other purposes, including, without limitation, for purposes of allocating gains and losses among the Limited Partners.

#### *Counterparty Risk*

The Funds expect to establish relationships to obtain financing and other services. However, there can be no assurance that the Funds will be able to establish or maintain such relationships. An inability to establish or maintain such relationships could limit the Funds' investment activities, create losses, preclude the Funds from engaging in certain transactions or prevent the Funds from trading at optimal rates and terms.

#### *Competition; Availability of Investments*

Certain markets in which the Funds may invest are extremely competitive for attractive investment opportunities. As a result, there can be no assurance that NMFA will be able to identify or successfully pursue attractive investment opportunities in such environments. Competition for suitable investments from a broad spectrum of competitors, including other pooled investment vehicles, commercial and investment banks, commercial financing companies, insurance companies and high-yield investors, some of which may be willing to lend money on terms more



favorable to borrowers, may reduce the availability of investment opportunities or alter the terms on which the Funds are able to invest, making it difficult for the Funds to capitalize on investment opportunities or to originate or purchase investments at the Funds' initial projected risk-adjusted returns. For example, such competing lenders may have a lower cost of funds and access to funding sources that are not available to the Funds. In addition, some competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than the Funds. The Funds may also choose not to compete for investment opportunities based on interest rates. Ultimately, increased competition for, or a diminution in the available supply of, qualifying borrowers may result in lower yields on loans to such borrowers, which could reduce returns to the Funds. There can be no assurance that NMFA will be able to identify or successfully pursue attractive investment opportunities for the Funds.

#### *Credit Ratings*

In general, the credit rating assigned by a nationally recognized rating agency to a security represents such rating agency's opinion of the safety of the principal and interest payments of the rated instrument based on available information. Such ratings are relative and subjective; they are not absolute standards of quality and do not evaluate the market value risk of such securities. Such ratings also do not reflect macroeconomic or systemic risk, including the risk of increased illiquidity in the credit markets. Further, credit ratings may change over time due to various factors, including changes in the creditworthiness of the issuer and/or changes in the rating agency's analytics and processes. It is possible that a rating agency might not change its rating of a particular issue on a timely basis to reflect subsequent events and, as a result, outstanding ratings may not reflect the issuer's current credit standing. The Funds may incur losses if it makes investments based on credit ratings that subsequently change in a way not favorable to the Funds' investment objective.

#### *Co-Investments with Third Parties*

The Funds may co-invest with third parties through joint ventures or other entities. Third-party involvement with an investment may negatively impact the returns of such investment if, for example, the third-party co-venturer has financial difficulties, has economic or business interests or goals that are inconsistent with those of the Funds or is in a position to take (or block) action in a manner contrary to the Funds' investment objective. In circumstances where such third parties involve a management group, such third parties may enter into compensation arrangements relating to such investments, including incentive compensation arrangements. Such compensation arrangements will reduce the returns to participants in the investments.

#### *Exposure to Material Non-Public Information*

From time to time, NMFA may receive material non-public information with respect to an issuer of publicly traded securities. In such circumstances, the Funds may be prohibited, by law, policy or contract, for a period of time from (i) unwinding a position in such issuer, (ii) establishing an initial position or taking any greater position in such issuer, and (iii) pursuing other investment opportunities related to such issuer.

## **Risks Relating to Investment Strategies**

### *Risk of Loss*

No guarantee or representation is made that the Funds' investment program will be successful. Investment results may vary substantially over time.

No assurance can be made that profits will be achieved or that substantial or complete losses will not be incurred. Past investment results of NMFA or its affiliates (or investments otherwise made by the investment professionals of NMFA or its affiliates) are not necessarily indicative of their future performance.

### *Flexibility in Investment Objectives or Strategies*

Although the Funds (directly or through one or more subsidiaries) intend primarily to originate and invest in secured debt obligations, the Funds may also invest in other securities or instruments on an opportunistic basis. Markets change over time, and the general partner will seek to capitalize on what it perceives to be attractive opportunities, whatever they might be, and no prior notice to the Limited Partners or the Advisory Board, or approval of the Limited Partners or the Advisory Board, is or will be required in connection therewith. New investment strategies and techniques may not be thoroughly tested in the market before being employed and may have operational or theoretical shortcomings which could result in unsuccessful trades and, ultimately, losses to the Funds. In addition, any new investment strategy or technique developed by the Funds may be more speculative than earlier investment strategies and techniques and may involve material and as-yet-unanticipated risks that could increase the risk of an investment in the Funds.

### *Loan Origination*

The Funds may participate (through one or more subsidiaries) in certain loan origination activities. If the Funds are unable to sell, assign or successfully close transactions for participations in the loans that it originates, the Funds will be forced to hold (indirectly) its excess interest in such loans for an indeterminate period of time.

### *Diversification and Concentration*

NMFA may select investments that are concentrated in a limited number or types of investments. In addition, the Funds' portfolio may become significantly concentrated in investments related to a single or a limited number of issuers, industries, sectors, strategies, countries or geographic regions. This limited diversification may result in the concentration of risk, which, in turn, could expose the Funds to losses disproportionate to market movements in general if there are disproportionately greater adverse price movements in such securities.

One or more subsidiaries of the Funds may offer to Other Accounts (including a subsidiary of the Offshore Fund) and may offer to third parties, participations in and/or assignments or sales of loans (or interests therein) that the subsidiaries have originated or purchased. In the event of such an offer, the price of the participation, assignment or sale will be based on the fair value of such loans. Further, the decision by such Other Accounts to accept or reject the relevant subsidiary's offer will be made by a party independent of NMFA, such as a loan acquisition committee. In determining the target amount to allocate to a particular loan origination, the relevant subsidiary will take into consideration the fact that it may be selling, assigning or offering participations in such investment

to Other Accounts and third parties as described above. If the relevant subsidiary is not successful in selling such participations, assignments or sales, the relevant subsidiary will be forced to hold such excess until such time as it can be disposed. This may result in the Funds being “overweighted” with respect to a particular borrower.

#### *Licensing Requirements*

Certain Federal and local banking and regulatory bodies or agencies in or outside the United States may require the Funds (and/or a subsidiary), the applicable general partner, NMFA and/or certain employees of NMFA to obtain licenses or authorizations to engage in many types of lending activities including, without limitation, the origination of loans. It may take a significant amount of time and expense to obtain such licenses or authorizations and the Funds may be required to bear the cost of obtaining such licenses and authorizations. There can be no assurance that any such licenses or authorizations would be granted or, if granted, whether any such licenses or authorizations would impose restrictions on the Funds. Such licenses may require the disclosure of confidential information about the Funds, its investors (including the Limited Partners) or their respective affiliates, including financial information and/or information regarding officers and directors or the general partner of certain significant investors. The Funds may not be willing or able to comply with these requirements. Alternatively, NMFA may be compelled to structure certain potential investments in a manner that would not require such licenses and authorizations, although such transactions may be inefficient or otherwise disadvantageous for the Funds and/or any relevant portfolio company. The inability of the Funds, the applicable general partner, or NMFA to obtain necessary licenses or authorizations, the structuring of an investment in an inefficient or otherwise disadvantageous manner, or changes in licensing regulations, could adversely affect the Funds’ ability to implement its investment program and achieve its intended results.

#### *Lack of Control*

The Funds may invest in debt instruments of companies that it does not control, which the Funds may acquire through market transactions or through purchases of securities directly from the issuer or other shareholders. Such securities will be subject to the risk that the issuer may make business, financial or management decisions with which the Funds does not agree or that the majority stakeholders or the management of the issuer may take risks or otherwise act in a manner that does not serve the Fund’s interests. The occurrence of any of the foregoing could have a material adverse effect on the Funds and the Limited Partners’ investments therein.

#### *Follow-On Investments*

For a variety of reasons, the general partner may decide not to invest in additional loans issued to, or make additional investments in the debt instruments of, companies in which the Funds already have an investment. The general partner may elect not to make such additional investments because, among other reasons, the Funds lack sufficient funds to do so or the general partner does not want to increase the concentration of the Funds’ investments. Declining to invest in such additional loans or make further investments could impair the value of such underlying company and, in turn, the value of the loans or debt instruments pertaining to such company that are owned by the Funds.

### *General Credit Risks*

Although the Funds intends primarily to make loans (through its subsidiaries) and invest in other debt instruments or obligations secured by collateral and intends to focus on high quality businesses, the Funds may be exposed to losses resulting from default and foreclosure of any such loans or interests in loans in which it has invested. Therefore, the value of underlying collateral, the creditworthiness of borrowers and the priority of liens are each of great importance in determining the value of the Funds' investments. No guarantee can be made regarding the adequacy of the protection of the Funds' security in the loans or other debt instruments in which it invests. Moreover, in the event of foreclosure, the Funds or an affiliate thereof may assume direct ownership of any assets collateralizing such foreclosed loans. The liquidation proceeds upon the sale of such assets may not satisfy the entire outstanding balance of principal and interest on such foreclosed loans, resulting in a loss to the Funds. Any costs or delays involved in the effectuation of loan foreclosures or liquidation of the assets collateralizing such foreclosed loans will further reduce proceeds associated therewith and, consequently, increase possible losses to the Funds. In addition, no assurances can be made that borrowers or third parties will not assert claims in connection with foreclosure proceedings or otherwise, or that such claims will not interfere with the enforcement of the Funds' rights.

### *Privately Held Companies*

The Funds intend to invest primarily in privately held companies. There is generally little public information about these companies, and, as a result, Limited Partners must rely on the ability of NMFA to obtain adequate information to evaluate the potential returns from, and risks related to, investing in these companies. If NMFA is unable to uncover all material information about these companies, NMFA may not make a fully informed investment decision, which will impact the returns on the Funds' investments in such companies. Also, privately held companies frequently have less diverse product lines and smaller market presence than larger competitors. They are, thus, generally more vulnerable to economic downturns and may experience substantial variations in operating results. These factors could adversely affect the investment returns of the Funds.

### *Business and Credit Risks*

Investments made by the Funds will generally involve a significant degree of financial and/or business risk. The Funds may invest a portion of its capital in fixed-income securities, including subordinated debt, preferred securities, convertible securities, participations and other fixed-income securities and obligations. Fixed-income securities are subject to the risk of the issuer's inability to meet principal and interest payments on its obligations (*i.e.*, credit risk) and are also subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (*i.e.*, market risk).

### *Inability to Deploy Committed Capital*

Delays in investing the net proceeds of this offering may cause the Funds' performance to be worse than the performance of other investment vehicles with investment programs that are similar to the investment program of the Funds. NMFA may not be able to identify a sufficient number of investments that meet the Funds' investment objectives or ensure that any investment that the Funds makes will produce a positive return. The general partner may be unable to invest the net

proceeds of this offering on acceptable terms within the time period anticipated or at all, which would reduce the returns to the Funds.

## **Leverage and Borrowing**

### *Leverage for Investment Purposes*

The use of leverage will allow the Funds to make additional investments, thereby increasing its exposure to assets, such that its total assets may be greater than its capital. However, leverage will also magnify the volatility of changes in the value of the Funds' portfolio. The effect of the use of leverage by the Funds in a market that moves adversely to its investments could result in substantial losses to the Funds, which would be greater than if the Funds were not leveraged.

### *Borrowing for Cash Management Purposes*

The Funds has the authority to borrow for cash management purposes. The rates at and terms on which the Funds can borrow will affect the operating results of the Funds.

### *Collateral and General Leverage-Related Risks*

The instruments and borrowings utilized by the Funds to leverage investments may be collateralized by all or a portion of the Fund's portfolio. Accordingly, the Funds may pledge its securities in order to borrow or otherwise obtain leverage for investment or other purposes. Further, there can be no assurance that the Funds will be able to secure or maintain adequate financing.

### *Costs*

Borrowings will be subject to interest, transaction and other costs, and other types of leverage also involve transaction and other costs. Any such costs may or may not be recovered by the return on the Funds' portfolio.

### *Potential Inability to Obtain Leverage*

The credit markets remain volatile and the availability of, and commercially reasonable terms associated with, indebtedness may be difficult to ascertain. Because of this, there can be no assurance that the Funds will be able to obtain indebtedness or that indebtedness will be accessible by the Funds at any time. If indebtedness is available to the Funds, there can be no assurance that such indebtedness will be on terms favorable to the Funds and/or terms comparable to terms obtained by competitors, including with respect to interest rates.

### *Cross-Collateralization*

The Funds may engage in portfolio financings where several investments are cross-collateralized with certain Other Accounts, pursuant to which multiple investments may be subject to the risk of loss. As a result, the Funds could lose their interests in performing investments in the event such investments are cross-collateralized with poorly performing or non-performing investments.

## **Risks Relating to Market Conditions Generally**

### *General Economic and Market Conditions*

The success of the Funds' activities will be affected by general economic and market conditions. The U.S. and global capital markets have experienced periods of disruption characterized by the freezing of available credit, a lack of liquidity in the debt capital markets, significant losses in the principal value of investments, the re-pricing of credit risk in the broadly syndicated credit market, the failure of certain major financial institutions and general volatility in the financial markets. During these periods of disruption, general economic conditions deteriorated with material and adverse consequences for the broader financial and credit markets, and the availability of debt and equity capital for the market as a whole, and financial services firms in particular, was reduced significantly. These conditions may reoccur for a prolonged period of time or materially worsen in the future. In addition, signs of deteriorating sovereign debt conditions in Europe and concerns of economic slowdown in China create uncertainty that could lead to further disruptions and instability. New Mountain may in the future have difficulty accessing debt and equity capital, and a severe disruption in the global financial markets, deterioration in credit and financing conditions or uncertainty regarding U.S. government spending and deficit levels, European sovereign debt, Chinese economic slowdown or other global economic conditions could have a material adverse effect on New Mountain's overall business, financial condition and results of operations.

### *Governmental Interventions*

Extreme volatility and illiquidity in markets has in the past led to, and may in the future lead to, extensive governmental interventions in equity, credit and currency markets. Generally, such interventions are intended to reduce volatility and precipitous drops in value. In certain cases, governments have intervened on an "emergency" basis, suddenly and substantially eliminating market participants' ability to continue to implement certain strategies or manage the risk of their outstanding positions. In addition, these interventions have typically been unclear in scope and application, resulting in uncertainty. It is impossible to predict when these restrictions will be imposed, what the interim or permanent restrictions will be and/or the effect of such restrictions on the Funds' strategies.

### *Potential Interest Rate Increases*

The United States is experiencing historically low interest rate levels. However, the continued recovery of the U.S. economy and recent and potential future changes in U.S. government policy, including the tapering of the U.S. Federal Reserve Board's quantitative easing program, increase the risk that interest rates will rise in the near future. Any future interest rate increases may result in periods of volatility and cause the value of the fixed income securities held by the Funds to decrease, which may result in negatively impacting the performance of the Funds.

### *Global Economic, Political and Market Conditions*

The current worldwide financial market situation, as well as various social and political tensions in the U.S. and around the world, may contribute to increased market volatility, may have long-term effects on the U.S. and worldwide financial markets, and may cause economic uncertainties or deterioration in the U.S. and worldwide. Since 2010, several European Union ("EU") countries, including Greece, Ireland, Italy, Spain, and Portugal, have faced budget issues, some of which may have negative long-term effects for the economies of those countries and other EU

countries. There is continued concern about national-level support for the Euro and the accompanying coordination of fiscal and wage policy among European Economic and Monetary Union member countries. In June 2016, the United Kingdom (“U.K.”) held a referendum in which voters approved an exit from the EU (“Brexit”), and, accordingly, on February 1, 2017, the U.K. Parliament voted in favor of allowing the U.K. government to begin the formal process of Brexit. The initial negotiations on Brexit commenced in June 2017. Brexit created political and economic uncertainty and instability in the global markets (including currency and credit markets), and especially in the United Kingdom and the European Union, and this uncertainty and instability may last indefinitely. Because the U.K. Parliament rejected Prime Minister Theresa May’s proposed Brexit deal with the European Union in January 2019, there is increased uncertainty on the outcome of Brexit. In addition, the fiscal policy of foreign nations, such as Russia and China, may have a severe impact on the worldwide and U.S. financial markets. NMFA cannot predict the effects of these or similar events in the future on the U.S. economy and securities markets or on our fund’s investments. We monitor developments and seek to manage our investments in a manner consistent with achieving our investment objective, but there can be no assurance that we will be successful in doing so.

The Republican Party currently controls the executive branch and the Senate portion of the legislative branch of government, which increases the likelihood that legislation may be adopted that could significantly affect the regulation of U.S. financial markets. Areas subject to potential change, amendment or repeal include the Dodd-Frank Act and the authority of the Federal Reserve and the Financial Stability Oversight Council. For example, in March 2018, the U.S. Senate passed a bill that eased financial regulations and reduced oversight for certain entities. The U.S. may also potentially withdraw from or renegotiate various trade agreements and take other actions that would change current trade policies of the U.S. We cannot predict which, if any, of these actions will be taken or, if taken, their effect on the financial stability of the U.S. Such actions could have a significant adverse effect on our business, financial condition and results of operations. NMFA cannot predict the effects of these or similar events in the future on the U.S. economy and securities markets or on our fund’s investments. We monitor developments and seek to manage our investments in a manner consistent with achieving our investment objective, but there can be no assurance that we will be successful in doing so.

## **Risks Relating to Portfolio Companies**

### *Portfolio Company Management*

Each portfolio company’s day-to-day operations will be the responsibility of such portfolio company’s management team. Although NMFA will be responsible for monitoring the performance of each portfolio investment, there can be no assurance that the existing management team, or any successor, will be able to successfully operate the portfolio company in accordance with NMFA’s expectations. The success of each portfolio company depends in substantial part upon the skill and expertise of each portfolio company’s management team. Additionally, portfolio companies will need to attract, retain and develop executives and members of their management teams. The market for executive talent is, notwithstanding general unemployment levels or developments within a particular industry, extremely competitive. There can be no assurance that portfolio companies will be able to attract, develop, integrate and retain suitable members of its management team and, as a result, the Funds may be adversely affected thereby.

### *Operating and Financial Risks of Portfolio Companies*

Companies in which the Funds invest could deteriorate as a result of, among other factors, an adverse development in their business, a change in the competitive environment, or an economic downturn. As a result, companies which NMFA expects to be stable may operate, or expect to operate, at a loss or have significant variations in operating results, may require substantial additional capital to support their operations or to maintain their competitive position, or may otherwise have a weak financial condition or be experiencing financial distress.

## **Risks Relating to Specific Investments**

### *Loans and Participations*

The Funds originate loans and otherwise will invest in loans and participations. These obligations are subject to unique risks, including: (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws; (ii) so-called lender-liability claims by the issuer of the obligations; (iii) environmental liabilities that may arise with respect to collateral securing the obligations; (iv) limitations on the ability of the Funds to directly enforce its rights with respect to participations; and (v) possible claims for the return of some or all payments in a debt made within 90 days (and in some cases, within one year) of the date of the issuer's/borrower's insolvency came under Title 11 of the United States Code (the "US Code") and under certain state laws. In analyzing each loan or participation, NMFA compares the relative significance of the risks against the expected benefits of the investment. Successful claims by third parties arising from these and other risks will be borne by the Funds. In purchasing a participation, the Funds generally would have no right to enforce compliance by the obligor with the terms of the loan or credit agreement or other instrument evidencing such loan obligation, nor any rights of set-off against the obligor, and the Funds may not directly benefit from the collateral supporting the loan obligation in which it has purchased the participation. As a result, the Funds would assume the credit risk of both the obligor and the selling institution, which would remain the legal owner of record of the applicable loan. In the event of the insolvency of the selling institution, the Funds may be treated as a general creditor of the selling institution in respect of the participation, may not benefit from any set-off exercised by the selling institution against the obligor and may be subject to any set-off exercised by the obligor against the selling institution. Assignments and participations are typically sold strictly without recourse to the selling institution, and the selling institution will generally make no representations or warranties about the underlying loan, the portfolio companies, the terms of the loans or any collateral securing the loans. Certain loans have restrictions on assignments and participations which may negatively impact the Funds' ability to exit from all or part of its investment in a loan.

The Funds (through one or more subsidiaries) may originate loans but it may also (directly or through one or more subsidiaries) invest in loans through the secondary markets. As secondary-market trading volumes increase, new loans are frequently adopting standardized documentation to facilitate loan trading, which may improve market liquidity. There can be no assurance, however, that future levels of supply and demand in loan trading will provide an adequate degree of liquidity. Because of the provision to holders of such loans of confidential information relating to the borrower, the unique and customized nature of the loan agreement, and the private



syndication of the loan, loans are not as easily purchased or sold as a publicly traded security, and historically the trading volume in the loan market has been small relative to other markets.

#### *Priority of Debt Instruments and Loans*

The Funds may invest in secured debt issued by companies that have or may incur additional debt that is senior to the secured debt owned by the Funds. In the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of any such company, the owners of senior secured debt (*i.e.*, the owners of first priority liens) generally will be entitled to receive proceeds from any realization of the secured collateral until they have been reimbursed. At such time, the owners of junior secured debt (including, in certain circumstances, the Funds) will be entitled to receive proceeds from the realization of the collateral securing such debt. There can be no assurances that the proceeds, if any, from the sale of such collateral would be sufficient to satisfy the loan obligations secured by subordinate debt instruments. To the extent that the Funds own secured debt that is junior to other secured debt, the Funds may lose the value of its entire investment in such secured debt.

#### *Participation and Other Indirect Economic Interests*

A portion of the assets of the Funds may consist of participation interests or other indirect economic interests in loans or other debt obligations. In such circumstances, the Funds will not directly own the debt obligations underlying such participation or other economic interests and/or have custody thereof. As a result, the Funds will be exposed to the risk that the assets of the holder/custodian of any such underlying debt obligation may be subject to the claims of third-party creditors or other parties. In addition, as an owner of participation interests or other indirect economic interests (including as a member of a loan syndicate), the Funds may not be able to assert any rights against borrowers of the underlying indebtedness, and may need to rely on the holder/custodian (or other financial institution) issuing the participation interests or such other entity charged with the responsibility for asserting such rights, if any. Such holders/custodians and financial institutions or other entities may have reasons not to assert their rights, whether due to a limited financial interest in the outcome, other relationships with the underlying defaulting borrowers, the threat of potential counterclaims or other reasons, that may differ from the interests of the Funds. The failure of such holders/custodians and financial institutions or other entities to assert their rights (on behalf of the Funds) or the insolvency of such entities could materially adversely affect the value of the assets of the Funds.

#### *Loan Investments*

The Funds' success in the area of loan investing will depend, in part, on its ability to obtain loans on advantageous terms. In purchasing loans, the Funds will compete with a broad spectrum of investors and institutions. Increased competition for, or a diminution in the available supply of, qualifying loans could result in lower yields on such loans, which could reduce returns to investors.

#### *Leveraged Loans*

"Leveraged loans" are loans made to companies with a below investment-grade rating from any nationally recognized rating agency. Such loans may be performing poorly when the Funds acquire them. There is no assurance that NMFA will correctly evaluate the value of the assets collateralizing such loans or the prospects for distribution on or repayment of such loans. The Funds may lose its entire investment or may be required to accept cash, property or securities with

a value less than the Funds' original investment and/or may be required to accept payment over an extended period of time.

### *Hung Loans*

The term "hung loan" commonly refers to a loan that has been made (or has been committed to be made), and the lender is not able to syndicate the loan on the originally anticipated terms. Hung loans are illiquid and lack readily ascertainable market values; there is no assurance that the price to be paid for hung loans by the Funds will reflect a discounted price that should allow the Funds to achieve a positive return on such loans or avoid losses. Since the price of the loans to be purchased is expected to continue to be significantly impacted by, in addition to the specific circumstances relating to each loan (*e.g.*, in the case of a loan relating to a leveraged buyout ("LBO"), the financial condition of the target), global and macro-economic conditions (*e.g.*, monetary policy, changes to currency exchange rates, governmental intervention or changes to existing laws, international geo-political events, etc.) as well as other systemic factors, it is possible that loans purchased by the Funds will suffer significant impairments in value as a result of events not predicted by the Funds. The Funds may also face difficulties in disposing of or leveraging such loans, or in doing so without incurring losses. The markets in which hung loans are purchased and sold have been volatile and are likely to continue to be volatile in the future.

### *Bank Loans*

Bank loans are subject to unique risks, including: (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws; (ii) so-called lender-liability claims by the issuer of the obligations; (iii) environmental liabilities that may arise with respect to collateral securing the obligations; and (iv) limitations on the ability of the Funds to directly enforce its rights with respect to participations. Successful claims by third parties arising from these and other risks will be borne by the Funds.

As secondary market trading volumes increase, new loans are frequently adopting standardized documentation to facilitate loan trading, which may improve market liquidity. There can be no assurance, however, that future levels of supply and demand in loan trading will provide an adequate degree of liquidity or that the current level of liquidity will continue. Because of the provision to holders of such loans of confidential information relating to the borrower, the unique and customized nature of the loan agreement, and the private syndication of the loan, loans are not as easily purchased or sold as a publicly traded security, and historically the trading volume in the loan market has been small relative to the high-yield debt market.

### *Second-Lien Loans*

The Funds may invest in loans that are secured by a second-lien on assets. Second-lien loans have been a developed market for a relatively short period of time, and there is limited historical data on the performance of second-lien loans in adverse economic circumstances. In addition, second-lien loan products are subject to intercreditor arrangements with the holders of first lien indebtedness, pursuant to which the second-lien holders have waived many of the rights of a secured creditor, and some rights of unsecured creditors, including rights in bankruptcy that can materially affect recoveries. While there is broad market acceptance of some second-lien intercreditor terms, no clear market standard has developed for certain other material intercreditor terms for second-lien loan products. This variation in key intercreditor terms may result in dissimilar recoveries across otherwise similarly situated second-lien loans in insolvency or

distressed situations. While uncertainty of recovery in an insolvency or distressed situation is inherent in all debt instruments, second-lien loan products carry more risks than certain other debt products. Beginning in August 2007, the market for many loan products, including second-lien loans, contracted significantly, which made virtually all leveraged loan products, particularly second-lien loan products, less liquid or illiquid. Many participants ceased underwriting and purchasing certain second-lien loan products. There can be no assurance that the market for second-lien loans will not contract further.

### *Bridge Loans*

It is a common practice for financial institutions to commit to providing bridge loans to facilitate acquisitions, including LBOs, where they serve as advisers to the purchaser. Bridge loans are frequently made because, for timing or market reasons, longer-term financing is not available at the time the Funds are needed, which is often at the time of the closing of an acquisition. In the past, these commitments were not frequently drawn upon due to the availability of other sources of financing; however, due to market conditions affecting the availability of these other sources of financing (principally high-yield bond transactions), bridge loan commitments have been and may be drawn upon more regularly. Since these commitments were not regularly drawn upon in the past, there is little history for investors to rely upon in evaluating investments in bridge loans. Bridge loans often have shorter maturities. Borrowers and lenders typically agree to shorter maturities based on the anticipation that the bridge loans will be replaced with other forms of financing within such shorter time period. However, the source and timing of such replacement financing may be uncertain and can be affected by, among other things, market conditions and the financial condition of the borrower at the maturity date of the bridge. If the borrower is unable to obtain replacement financing and repay the bridge loan at maturity, the terms of the bridge loan may provide for the bridge loan to be converted to a longer-term loan. If bridge loans are not repaid (or cannot be disposed of on favorable terms) on the dates projected by NMFA, there may be an adverse effect upon the ability of NMFA to manage the assets of the Funds in accordance with its models and projections or an adverse effect upon the Funds' performance and ability to make distributions.

### *Fraud Associated with Loans*

Of paramount concern in loan investments is the possibility of material misrepresentation or omission on the part of the borrower or loan seller. Such inaccuracy or incompleteness may adversely affect the valuation of the collateral underlying the loans or may adversely affect the ability of the Funds to perfect or effectuate a lien on the collateral securing the loan. The Funds will rely upon the accuracy and completeness of representations made by borrowers to the extent reasonable, but cannot guarantee such accuracy or completeness. Under certain circumstances, payments to the Funds may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

Additionally, the Funds may invest in debt that is guaranteed by a subsidiary of the issuer. In some circumstances, guarantees of secured debt issued by subsidiaries of a portfolio company and held by the Funds may be subject to fraudulent conveyance or similar avoidance claims made by other creditors of such subsidiaries under applicable insolvency laws. As a result, such creditors may take priority over the claims of the Funds under such guarantees. Under Federal or state fraudulent transfer law, a court may void or otherwise decline to enforce such secured debt and the Funds

would no longer have any claim against such portfolio company or the applicable guarantor. In addition, the court might direct the Funds to disgorge any amounts already received from the portfolio company or a guarantor. In some cases, significant subsidiaries of a portfolio company may not guarantee the obligations of the portfolio company; in other cases, a portfolio company may have the ability to release subsidiaries as guarantors of the portfolio company's obligations. The repayment of such investments may depend on cash flow from subsidiaries of a portfolio company that are not themselves guarantors of the portfolio company's obligations.

#### *Debt Securities*

Debt securities of all types of issuers may have speculative characteristics, regardless of whether they are rated. The issuers of such instruments (including sovereign issuers) may face significant ongoing uncertainties and exposure to adverse conditions that may undermine the issuer's ability to make timely payment of interest and principal in accordance with the terms of the obligations.

#### *Dealer Market Making*

The value of the Funds' fixed-income investments will be affected by general fixed income market conditions, such as the volatility and liquidity of the fixed income market, which are affected by the ability of dealers to "make a market" in fixed-income investments. In recent years, the market for bonds has significantly increased while dealer inventories have significantly decreased, relative to market size. This reduction in dealer inventories may be attributable to regulatory changes, such as capital requirements, and is expected to continue. As dealers' inventories decrease, so does their ability to make a market (and, therefore, create liquidity) in the fixed income market. Especially during periods of rising interest rates, this could result in greater volatility and illiquidity in the fixed income market, which could impair the Funds' profitability or result in losses.

#### *Interest Rate Risk*

Changes in interest rates can affect the value of the Funds' investments in fixed-income instruments. Increases in interest rates may cause the value of the Funds' debt investments to decline. The Funds may experience increased interest rate risk to the extent it invests, if at all, in lower-rated instruments, debt instruments with longer maturities, debt instruments paying no interest (such as zero-coupon debt instruments) or debt instruments paying non-cash interest in the form of other debt instruments.

#### *Prepayment Risk*

The frequency at which prepayments (including voluntary prepayments by the obligors and accelerations due to defaults) occur on debt instruments will be affected by a variety of factors, including the prevailing level of interest rates and spreads as well as economic, demographic, tax, social, legal and other factors. Generally, obligors tend to prepay their fixed rate obligations when prevailing interest rates fall below the coupon rates on their obligations. Similarly, floating rate issuers and borrowers tend to prepay their obligations when spreads narrow.

In general, "premium" securities (securities whose market values exceed their principal or par amounts) are adversely affected by faster-than-anticipated prepayments, and "discount" securities (securities whose principal or par amounts exceed their market values) are adversely affected by slower-than-anticipated prepayments. Since many fixed rate obligations will be discount instruments when interest rates and/or spreads are high, and will be premium instruments when

interest rates and/or spreads are low, such debt instruments may be adversely affected by changes in prepayments in any interest rate environment.

The adverse effects of prepayments may impact the Funds' portfolio in two ways. First, particular investments may experience outright losses, as in the case of an interest-only instrument in an environment of faster actual or anticipated prepayments. Second, particular investments may underperform relative to hedges that NMFA may have constructed for these investments, resulting in a loss to the Funds' overall portfolio. In particular, prepayments (at par) may limit the potential upside of many instruments to their principal or par amounts, whereas their corresponding hedges often have the potential for unlimited loss.

#### *Future Funding Obligations*

The Funds may from time to time incur funding obligations that may arise in the future in connection with an investment. For example, NMFA may cause the Funds to purchase from a lender a revolving credit facility that has not yet been fully drawn. If the borrower subsequently draws down on the facility, the Funds would be obligated to fund the amounts due. If the Funds is unable to pay its obligations when due, the Funds could face significant penalties that could materially adversely affect its returns. The Funds may also enter into agreements pursuant to which it agrees to assume responsibility for default risk presented by a third party, and may, on the other hand, enter into agreements through which third parties offer default protection to the Funds.

#### *Corporate Debt*

Bonds, notes and debentures issued by corporations may pay fixed, variable or floating rates of interest, and may include zero-coupon obligations. Corporate debt instruments may be subject to credit ratings downgrades. Other instruments may have the lowest quality ratings or may be unrated. In addition, the Funds may be paid interest in kind in connection with its investments in corporate debt and related financial instruments (*e.g.*, the principal owed to the Funds in connection with a debt investment may be increased by the amount of interest due on such debt investment). Such investments may experience greater market value volatility than debt obligations that provide for regular payments of interest in cash and, in the event of a default, the Funds may experience substantial losses.

#### *Syndication and/or Transfer of Debt Instruments*

The Funds (through one or more subsidiaries) intend to originate secured debt obligations and purchase secured debt obligations (including participation interests or other indirect economic interests) with Fund capital. The Funds expect that in certain instances it will (through one or more subsidiaries) originate or purchase secured debt obligations and may syndicate and/or otherwise transfer a significant portion thereof, including to one or more affiliated entities. In such instances, the Funds will bear the risk of any decline in value prior to such syndication and/or other transfer. In addition, the Funds will also bear the risk of any inability to syndicate or otherwise transfer such secured debt obligations or such amount thereof as originally intended, which could result in the Funds owning (indirectly) a greater interest therein than anticipated.

#### *Weak Economy Could Trigger Defaults*

Any substantial economic slowdown could increase delinquencies, defaults and foreclosures, and adversely affect the Funds' portfolio of loans and/or the Funds' ability (through one or more

subsidiaries) to originate loans. Periods of economic slowdown or recession may be accompanied by decreased demand for consumer credit, decreased asset values (including real estate values) and an increased rate of delinquencies, defaults and foreclosures. Any material decline in asset values would increase the loan-to-value ratios on loans that the Funds hold, weaken the Funds' collateral coverage and increase the possibility and severity of a loss if a borrower defaults. A lack of equity in a property may reduce the incentive a borrower has to meet its payment obligations during periods of financial hardship, which might result in higher delinquencies, defaults and foreclosures. These factors would reduce the Funds' ability (through one or more subsidiaries) to originate loans and increase its losses on loans.

#### *Recharacterization*

Under Title 11 of the U.S. Code, a court may use its equitable powers to "recharacterize" the claim of a lender, *i.e.*, notwithstanding the characterization by the lender and borrower of a loan advance as a "debt," to find that the advance was in fact a contribution of equity. Typically, recharacterization occurs when an equity holder asserts a claim based on a loan made to the borrower at the time the borrower was in such poor financial condition so that other lenders would not make such a loan. In effect, a court that recharacterizes a claim makes a determination that the original circumstance of the contribution warrants treating the holder's advance not as debt but rather as equity. In determining whether recharacterization is warranted in any given circumstance, courts look to the following factors: (i) the names given to the instruments (if any) evidencing the indebtedness; (ii) the presence or absence of a fixed maturity or scheduled payment; (iii) the presence or absence of a fixed rate of interest and interest payments; (iv) the source of repayments; (v) the adequacy or inadequacy of capital; (vi) the identity of interest between the creditor and the equity holders; (vii) the security (if any) for the advances; (viii) the borrower's ability to obtain financing from outside lending institutions; (ix) the extent to which the advances were subordinated to the claims of outside creditors; (x) the extent to which the assets were used to acquire capital assets; and (xi) the presence or absence of a sinking fund to provide for repayment. These factors are reviewed under the circumstances of each case, and no one factor is controlling. The Funds may be subject to claims from creditors of an obligor that debt obligations of such obligor which are held by the Funds should be recharacterized.

#### *Contingent Liabilities*

From time to time, the Funds may incur contingent liabilities in connection with an investment or loan. For example, the Funds may invest in a revolving credit facility that has not yet been fully drawn. If a borrower subsequently draws on the facility, the Funds would be obligated to fund the amounts due. The Funds may also enter into agreements pursuant to which it agrees to assume responsibility for default risk presented by a third party or, conversely, pursuant to which third parties offer default protection to the Funds.

#### *Insufficient Collateral*

As the Funds originate loans based partly upon the adequacy of the borrower's collateral, an incorrect valuation of such collateral may result in unforeseen losses. Despite performing due diligence on the collateral, including, where appropriate, by engaging third-party independent valuers to estimate the value of the collateral pledged by the borrower, the inherent uncertainty of valuation of collateral may result in values that differ significantly from the values that can ultimately be obtained for such collateral. In addition, even if collateral is initially valued correctly,

changes in market conditions, regulations or other circumstances, or changes directly related to such collateral, may materially adversely affect the value thereof.

#### *Lender Liability*

The Funds may incur liability as a result of its lending activities or the lending activities of the sellers that have originated the loans. In past years, a number of judicial decisions have upheld the right of borrowers to sue on the basis of various evolving legal theories, collectively termed “lender liability.” Generally, lender liability is founded on the premise that a lender has either violated a duty, whether implied or contractual, of good faith and fair dealing owed to the borrower or has assumed a degree of control over the borrower resulting in the creation of a fiduciary duty owed to the borrower, its other creditors or shareholders, or third parties harmed by the borrower. Even if the Funds purchases its loans in the ordinary course of its investment activities, the Funds may be subject to allegations of lender liability by reason of the actions of the sellers that originated those loans. NMFA cannot assure investors that these claims will not arise, or that the Funds will not be subject to significant liability if a claim of this type were to arise.

#### *Litigation and Collection Costs*

Should the Funds need to collect on a defaulted loan, litigation could result. There is a high cost associated with any litigation and the results of litigation are always uncertain. Even before litigation is commenced, the Funds could experience substantial costs in trying to collect on defaulted investments, such as legal fees, collection agency fees, or discounts related to the assignment of a defaulted loan to a third party.

#### *Incurrence of Additional Debt by Borrowers*

There can be no assurance that the borrower will not incur further debt in addition to the loans. Any such increase of debt levels could impair the ability of borrowers to service their loans, which, in turn, could result in higher rates of delinquency and loss on the loans originated by one or more subsidiaries of the Funds or otherwise underlying the Funds’ investments.

### **Real Property Risks**

#### *Risk of Fluctuations in Capitalization Rates*

NMNLP is expected to acquire properties at negotiated prices that, among other factors, are likely to reflect prevailing market capitalization rates at the time of the acquisition. If market conditions cause capitalization rates at the sale of a Fund property to be higher than at the acquisition of such asset, the value of such property would be affected negatively. Even if such property is not sold, such higher capitalization rate would also have a negative impact on NMNLP’s net asset value and the ability to refinance indebtedness secured by the property. In this regard, increases in interest rate levels tend to be associated with an increase in capitalization rates for properties, so NMNLP could be adversely affected by an increase in general levels of interest rates.

#### *Risks of Non-Investment Grade Tenants*

NMNLP will target tenants which are not evaluated or ranked by credit rating agencies, or are ranked below “investment grade.” While leases with such tenants typically have higher contractual rents, NMNLP’s leases with these tenants poses a higher risk of default than would leases with investment grade tenants or tenants whose credit potential has already been recognized by the

market; in the event of a default by such a tenant, NMNLP's cash flow and the value of the affected property could be adversely affected. In addition, properties with such tenants may be more difficult to finance or refinance.

*Competition for Tenants; Reliance on Limited Number of Tenants*

NMNLP's properties and tenants may face competition that may affect tenants' ability to pay rent. NMNLP's properties typically are, and NMNLP expects properties NMNLP acquires in the future will be, located in developed areas. Therefore, there are and will be numerous other properties within the market area of each of NMNLP's properties that will compete with NMNLP for tenants. The number of competitive properties could have a material effect on NMNLP's ability to rent space at NMNLP's properties and the amount of rents charged. NMNLP could be adversely affected if additional competitive properties are built in locations competitive with NMNLP's properties, causing increased competition for customer traffic and creditworthy tenants. Tenants may also face competition from such properties if they are leased to tenants in a similar industry. For example, retail tenants face competition from numerous retail channels such as discount or value retailers, factory outlet centers and wholesale clubs. Retail tenants may face additional competition from alternative retail channels as mail order catalogs and operators, television shopping networks and shopping via the internet. Competition that NMNLP faces from other properties within NMNLP's market areas, and competition NMNLP's tenants face from tenants in such properties could result in decreased cash flow from tenants and may require NMNLP to make capital improvements.

NMNLP may be subject to tenant credit concentrations that make NMNLP more susceptible to adverse events with respect to those tenants. The financial failure of a major tenant is likely to have a material adverse effect on NMNLP's results of operations and NMNLP's financial condition. In addition, the value of NMNLP's investment in a real estate asset is historically driven by the credit quality of the underlying tenant, and an adverse change in a major tenant's financial condition or a decline in the credit rating of such tenant may result in a decline in the value of NMNLP's investments and have a material adverse effect on NMNLP's results of operations.

The inability of a tenant in a single tenant property to pay rent may materially reduce NMNLP's revenues. Each of NMNLP's properties is expected to be occupied by a single tenant and, therefore, the success of NMNLP's investments is materially dependent on the financial stability of these individual tenants. A default of a tenant on its lease payments to NMNLP would cause NMNLP to lose the revenue from that property and cause NMNLP to have to find an alternative source of revenue to meet any mortgage obligation and prevent a foreclosure if the property is subject to a mortgage. In the event of a default, NMNLP may experience delays in enforcing NMNLP's rights as landlord and may incur substantial costs in protecting NMNLP's investment and reletting NMNLP's property. If a lease is terminated, there is no assurance that NMNLP will be able to lease the property for the rent previously received or sell the property without incurring a loss. A default by a tenant, the failure of a guarantor to fulfill its obligations or other premature termination of a lease, or a tenant's election not to extend a lease upon its expiration, could have an adverse effect on NMNLP's financial condition and NMNLP's ability to pay dividends. See also "Risks of Non-Investment Grade Tenants" above.



### *Investment in Troubled Assets*

While NMNLP will primarily acquire existing stabilized properties, NMNLP may, in limited circumstances, make investments in underperforming or undercapitalized real estate companies or other troubled assets which involve a degree of financial risk. The success of such investments may hinge on the general partner's ability to reposition such assets so as to increase returns to NMNLP. There can be no assurance the general partner or NMNLP may be successful in such endeavors. The investments may have been originated by financial institutions that are insolvent, in serious financial difficulty, or no longer in existence; and, as a result, the standards by which such investments were originated, the recourse to the selling institution, or the standards by which such investments are being serviced or operated may be adversely affected. For example, under U.S. law, in certain circumstances, lenders that have inappropriately exercised control of the management and policies of a debtor may have their claims subordinated or disallowed or may be found liable for damages suffered by parties as a result of such actions. In addition, under certain circumstances under U.S. law, payments to NMNLP and distributions by NMNLP to the Limited Partners may be required to be returned if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment. Non-U.S. jurisdictions may present analogous or different credit issues. Bankruptcy laws may delay the ability of NMNLP to realize on collateral for loan positions held by it or may adversely affect the priority of such loans through doctrines such as equitable subordination. To the extent non-U.S. laws and regulations do not provide NMNLP with equivalent rights and privileges necessary to promote and protect its interest in any such proceeding, NMNLP's investments in any such portfolio entity may be adversely affected. Bankruptcy laws may, in certain jurisdictions, result in a restructuring of the debt without NMNLP's consent under the "cramdown" provisions of applicable bankruptcy laws and may also result in a discharge of all or part of the debt without payment to NMNLP. The success of such investments may hinge on the general partner's ability to reposition such assets so as to increase returns to NMNLP. There can be no assurance the general partner or NMNLP may be successful in such endeavors.

### *Risks Associated with Leases of Long Duration*

Long-term leases may result in income lower than short-term leases. NMNLP generally seeks to enter into long-term leases with NMNLP's tenants. Leases of long duration, or with renewal options that specify a maximum rate increase, may not result in fair market lease rates over time if NMNLP does not accurately judge the potential for increases in market rental rates. Certain of NMNLP's leases may not contain any rent escalation provisions. As a result, NMNLP's income may be lower than it would otherwise be if NMNLP did not lease properties through long-term leases. Upon or pending the expiration of leases, NMNLP may be required to make rent or other concessions to tenants, or accommodate requests for renovations, remodeling and other improvements, in order to retain and attract tenants. Further, if NMNLP's properties are leased for long-term leases at below market rental rates, NMNLP's properties will be less attractive to potential buyers, which could affect NMNLP's ability to sell the property at an advantageous price. See also "Risk of Fluctuations in Capitalization Rates" above. There can be no assurance that leases will be renewed or that NMNLP will be able to lease or re-lease the properties on favorable terms, or at all, or that lease terminations will not cause NMNLP to sell the properties at a loss.

Some properties may be suitable for only one use and may be costly to refurbish if a lease is terminated. The properties NMNLP purchases may be designed for a particular type of tenant or

tenant use. If a tenant of such property does not renew its occupancy or defaults on its lease, the property might not be marketable without substantial capital improvements. The cost of such improvements may reduce the amount of cash available for distributions to NMNLP's investors. An attempt to lease or sell the property without such improvements could also result in a lower rent or selling price and may also reduce the amount of cash available for distributions to NMNLP's investors.

NMNLP may be unable to secure funds for future tenant improvements or capital needs, which could impact the value of the applicable property or NMNLP's ability to lease the applicable property on favorable terms. If a tenant does not renew its lease or otherwise vacate its space, NMNLP may be required to expend substantial funds for tenant improvements and tenant refurbishments to the vacated space. NMNLP may incur all of the costs of ownership for a property that is vacant.

Properties that have vacancies for a significant period of time could be difficult to sell, which could diminish the return on investment. A property may experience vacancies either by the continued default of tenants under their leases or the expiration of tenant leases. Properties that are vacant will produce no revenue, and the cost of owning the property may be substantial. Vacancies will result in less cash being available to be distributed to investors. In addition, because properties' market values depend principally upon the value of the properties' leases, the resale value of properties with prolonged vacancies would be lower.

#### *Risk of Tenant Bankruptcy*

If a tenant files for bankruptcy, NMNLP may be precluded from collecting all sums due to NMNLP. If a tenant, or the guarantor of a lease of a tenant, commences, or has commenced against it, any legal or equitable proceeding under any bankruptcy, insolvency, receivership or other debtor's relief statute or law (a "Bankruptcy Proceeding"), NMNLP may be unable to collect all sums due to NMNLP under that tenant's lease. Any or all of the lease obligations of NMNLP's tenants, or any guarantor of NMNLP's tenants, could be subject to a Bankruptcy Proceeding which may bar NMNLP's efforts to collect pre-bankruptcy debts from these entities or their properties, unless NMNLP is able to obtain an enabling order from the bankruptcy court. If NMNLP's lease is rejected by a tenant in bankruptcy, NMNLP may only have a general unsecured claim against the tenant and may not be entitled to any further payments under the lease. A Bankruptcy Proceeding could hinder or delay NMNLP's efforts to collect past due balances and ultimately preclude collection of these sums, resulting in a decrease or cessation of rental payments and reducing returns to NMNLP's investors. In the event of a bankruptcy, there can be no assurance that the tenant or its trustee will assume NMNLP's lease.

If a sale-leaseback transaction is recharacterized in a tenant's bankruptcy proceeding, NMNLP's financial condition and ability to pay dividends to investors could be adversely affected. NMNLP may enter into sale-leaseback transactions whereby NMNLP would purchase a property and then lease the same property back to the person from whom NMNLP purchased it. In the event of the bankruptcy, the transaction may be re-characterized as either a financing or a joint venture. If the sale-leaseback was re-characterized as a financing, NMNLP might not be considered the owner of the property, and as a result would have the status of a creditor, not a property owner, in relation to the tenant. In that event, NMNLP would no longer have the right to sell or encumber NMNLP's

ownership interest in the property. Instead, NMNLP would have a claim against the tenant for the amounts owed under the lease. The tenant/debtor might have the ability to propose a plan restructuring the term, interest rate and amortization schedule of its outstanding balance. If such a plan is confirmed by the bankruptcy court, NMNLP could be bound by the new terms. If the sale-leaseback were characterized as a joint venture, NMNLP's lessee and NMNLP could be treated as co-venturers with regard to the property. As a result, NMNLP could be held liable, under some circumstances, for debts incurred by the lessee relating to the property.

#### *Potential Inability to Obtain Mortgages*

NMNLP may be unable to obtain the necessary debt or equity financing to consummate an acquisition or, if obtainable, financing may not be on satisfactory terms. If mortgage debt is unavailable at reasonable rates, NMNLP may not be able to finance NMNLP's new properties on a long-term basis, which could reduce the number of properties NMNLP can acquire and the amount of cash distributions NMNLP can make. NMNLP expects to continue to finance most of NMNLP's property purchases with mortgage debt, either at the time of purchase or to repay revolving loans under NMNLP's line of credit. By incurring mortgage debt on NMNLP's properties, NMNLP also risks not being able to refinance the properties when the loans become due or to refinance on favorable terms. If interest rates are higher when NMNLP desires to refinance the properties, NMNLP's cash flow could be reduced. If this occurs, it would reduce cash available for distribution to NMNLP's investors. Decreased distributable cash may make it more difficult to raise additional equity.

An inability to refinance existing mortgage debt as it matures could impact distributions to investors. Since the mortgage loans often amortize over a period longer than their maturity, NMNLP will owe substantial amounts of principal on the maturity of these loans. If NMNLP cannot refinance the loans on favorable terms, more of NMNLP's cash from operations may be required to service NMNLP's loans, properties may have to be sold to fund debt principal repayments, or properties may be lost to foreclosure. This could reduce cash available for distributions and/or the value of interests in NMNLP.

#### *Real Estate Operating Risks*

Rising expenses could reduce cash flow and adversely affect NMNLP's ability to make future acquisitions. Any properties that NMNLP owns now or buys in the future are and will be subject to operating risks common to real estate in general, any or all of which may negatively affect NMNLP. If any property is not fully occupied or if rents are being paid in an amount that is insufficient to cover operating expenses, NMNLP could be required to expend funds with respect to that property for operating expenses. The properties will be subject to increases in tax rates, utility costs, operating expenses, insurance costs, repairs and maintenance and administrative expenses. Renewals of leases or future leases may not be negotiated on that basis, in which event NMNLP may have to pay those costs. If NMNLP is unable to lease properties on a triple-net-lease basis or on a basis requiring the tenants to pay all or some of such expenses, or if tenants fail to pay required tax, utility and other impositions, NMNLP could be required to pay those costs which would, among other things, adversely affect funds available for future acquisitions.

Additional risks include unexpected expenditures for capital improvements, including requirements to bring properties into compliance with applicable federal, state and local laws. In addition, NMNLP will likely be responsible for any major structural repairs, such as repairs to the

foundation, exterior walls and rooftops, even if NMNLP's leases with tenants require tenants to pay routine property maintenance costs. NMNLP will have to obtain financing from sources, such as cash flow from operations or property sales to fund these capital requirements. If NMNLP cannot procure additional funding for capital improvements, the value of the applicable property or NMNLP's ability to lease the applicable property on favorable terms could be adversely impacted.

#### *Insurance*

The insurance NMNLP purchases for NMNLP's properties might not be adequate to cover losses NMNLP incurs. Although the Manager will arrange for, or will require tenants to maintain, comprehensive insurance coverage on NMNLP's properties, some catastrophic losses (such as wars, natural disasters, terrorist attacks, or other similar events) may be either uninsurable or insurable at such high rates that to maintain such coverage would cause an adverse impact on the related investments. If a disaster occurs, NMNLP could suffer a complete loss of capital invested in, and any profits expected from, the affected properties. If uninsured damages to a property occur and NMNLP does not have adequate cash to fund repairs, NMNLP may be forced to sell the property at a loss or to borrow capital to fund the repairs. In addition, although NMNLP obtains title insurance policies of NMNLP's properties to protect NMNLP and NMNLP's properties against unknown title defects (such as claims of ownership, liens or other encumbrances), there may be certain title defects that NMNLP's title insurance will not cover. If a material title defect related to any of NMNLP's properties is not adequately covered by a title insurance policy, NMNLP could lose some or all of NMNLP's invested capital and anticipated profits from such property, and cause a financial misstatement or lead to reputational damage for the company

#### *Property-Related Expenses*

Under the terms of the net leases, in addition to satisfying their rent obligations, tenants generally are responsible for the payment or reimbursement of property expenses such as real estate taxes, insurance and ordinary maintenance and repairs. However, under the provisions of certain leases that NMNLP may enter into in the future with potential tenants, NMNLP may be required to pay some or all of the expenses of the property, such as the costs of environmental liabilities, roof and structural repairs, real estate taxes, insurance, certain non-structural repairs and maintenance. If NMNLP's properties incur significant expenses that must be paid by NMNLP under the terms of NMNLP's leases, NMNLP's business, financial condition and results of operations may be adversely affected and the amount of cash available to meet expenses may be reduced.

#### *Impairment Charges*

NMNLP periodically evaluates Portfolio Investments for impairment indicators. The judgment regarding the existence of impairment indicators is based on factors such as market conditions and tenant performance. For example, the early termination of, or default under, a lease by a tenant may lead to an impairment charge. Since NMNLP's investment focus is on properties net leased to a single tenant, the financial failure of, or other default by, a single tenant under its lease may result in a significant impairment loss. If NMNLP determines that an impairment has occurred, NMNLP would be required to make a downward adjustment to the net carrying value of the property, which could have a material adverse effect on NMNLP's results of operations in the period in which the impairment charge is recorded. Negative developments in the real estate market may cause management to reevaluate the business and macro-economic assumptions used

in its impairment analysis. Changes in management's assumptions based on actual results may have a material impact on financial statements.

#### *Unknown Liabilities*

NMNLP may assume existing liabilities, some of which may have been unknown or unquantifiable at the time of the transaction. Unknown liabilities might include liabilities for cleanup or remediation of undisclosed environmental conditions, claims of tenants or other persons dealing with prior owners of the properties, tax liabilities, employment-related issues, and accrued but unpaid liabilities whether incurred in the ordinary course of business or otherwise. If the magnitude of such unknown liabilities is high, either singly or in the aggregate, it could adversely affect NMNLP's business, financial condition, liquidity and results of operations.

#### *Risks Relating to Due Diligence of and Conduct at Portfolio Companies; Property as Operationally Critical to a Tenant*

Before making a Portfolio Investment in a property, the general partner and/or the Manager will typically conduct due diligence that they deem reasonable and appropriate based on the facts and circumstances applicable to such Portfolio Investment. Due diligence may entail evaluation of important and complex business, financial, tax, accounting, environmental, social, governance and legal issues. When conducting due diligence and making an assessment regarding a Portfolio Investment in a property, the general partner and/or the Manager will rely on the resources available to it, including information provided by the property and, in some circumstances, third-party investigations. The due diligence investigation that the general partner and/or the Manager carries out with respect to any investment opportunity may not reveal or highlight all relevant facts that may be necessary or helpful in evaluating such investment opportunity. Moreover, such an investigation will not necessarily result in the Portfolio Investment in the property being successful.

As an important aspect of due diligence, the general partner and/or the Manager will seek to determine whether a property is considered to be operationally critical to the business operations of the tenant. There can be no assurance that NMNLP's determinations will be accurate and in the event such determination is not accurate, it will increase the risk that NMNLP may lose some or all of NMNLP's invested capital in the property as well as the loss of rental income from that property.

In the event of fraud by the seller of any property, NMNLP may suffer a partial or total loss of capital invested in that property. An additional concern is the possibility of material misrepresentation or omission on the part of the seller. Such inaccuracy or incompleteness may adversely affect the value of NMNLP's investment in such property. NMNLP will rely upon the accuracy and completeness of representations made by the property's former owners in the due diligence process to the extent reasonable when it makes its investments, but cannot guarantee such accuracy or completeness.

Consultants, legal advisors, appraisers, accountants, investment banks and other third parties may be involved in the due diligence process and/or the ongoing operation of NMNLP's Portfolio Companies to varying degrees. For example, certain asset or property management, finance, administrative and other similar functions may be outsourced to a third-party service provider or

an affiliate of NMFA, whose fees and expenses will be borne by such Portfolio Company or NMNLP and will not offset the Management Fee. Involvement of third-party advisors or consultants may present a number of risks primarily relating to the general partner's reduced control of the functions that are outsourced.

NMNLP generally obtains only limited warranties when NMNLP purchases a property and therefore has only limited recourse if NMNLP's due diligence does not identify any issues that lower the value of NMNLP's property, which could adversely affect NMNLP's financial condition and ability to pay dividends to investors. NMNLP has acquired, and may continue to acquire, properties in "as is" condition on a "where is" basis and "with all faults," without any warranties of merchantability or fitness for a particular use or purpose. In addition, purchase agreements may contain only limited warranties, representations and indemnifications that will only survive for a limited period after the closing. The purchase of properties with limited warranties increases the risk that NMNLP may lose some or all of NMNLP's invested capital in the property as well as the loss of rental income from that property.

#### *Currency and Exchange Rate Risks*

A portion of NMNLP's Portfolio Investments, and the income received by NMNLP with respect to such Portfolio Investments, may be denominated in currencies other than U.S. dollars. However, the books of NMNLP will be maintained, and capital contributions to and distributions from NMNLP generally will be made, in U.S. dollars. Accordingly, changes in currency exchange rates may adversely affect the dollar value of Portfolio Investments, interest and dividends received by NMNLP, gains and losses realized on the sale of investments and the amount of distributions, if any, to be made by NMNLP. Recent events have exacerbated the volatility of certain currency exchange rates, which may adversely affect NMNLP. In addition, NMNLP will incur costs in converting investment proceeds from one currency to another. The general partner may enter into hedging transactions designed to reduce such currency risks. See also "Hedging Policies/Risks" below. Furthermore, Interests are denominated in U.S. dollars. Investors subscribing for Interests in any country in which U.S. dollars are not the local currency, should note that changes in the value of exchange between U.S. dollars and such currency may have an adverse effect on the value, price or income of the investment to such investor. There may be foreign exchange regulations applicable to investments in foreign currencies in certain jurisdictions. Each prospective investor should consult with its own counsel and advisors as to all legal, tax, financial and related matters concerning an investment in the Interests.

#### *Force Majeure Risk*

Portfolio Companies may be affected by force majeure events (i.e., events beyond the control of the party claiming that the event has occurred, including, without limitation, civil unrest, acts of God, fire, flood, earthquakes, hurricanes and other natural disasters, including extreme weather events from possible future climate change, outbreaks of an infectious disease, pandemic or any other serious public health concern, war, terrorism and labor strikes). Some force majeure events may adversely affect the ability of a party (including a Portfolio Company or a counterparty to NMNLP or a Portfolio Company) to perform its obligations until it is able to remedy the force majeure event. In addition, the cost to a Portfolio Company or NMNLP of repairing or replacing damaged assets resulting from such force majeure event could be considerable. Certain force majeure events (such as war or an outbreak of an infectious disease) could have a broader negative

impact on the world economy and international business activity generally, or in any of the countries in which NMNLP may invest specifically.

## **Risks Relating to Non-U.S. Investments and Non-U.S. Jurisdictions**

### *Non-U.S. Investments*

The Funds will invest principally in the U.S. and North America, but may also invest outside the U.S. Investing in the securities of companies (and, from time to time, governments) outside of the United States involves certain considerations not usually associated with investing in securities of U.S. companies or the U.S. government, including political and economic considerations, such as greater risks of expropriation, nationalization, confiscatory taxation, imposition of withholding or other taxes on interest, dividends, capital gains, other income or gross sale or disposition proceeds, limitations on the removal of assets and general social, political and economic instability; the relatively small size of the securities markets in such countries and the low volume of trading, resulting in potential lack of liquidity and in price volatility; the evolving and unsophisticated laws and regulations applicable to the securities and financial services industries of certain countries; fluctuations in the rate of exchange between currencies and costs associated with currency conversion; and certain government policies that may restrict the Funds' investment opportunities. In addition, accounting and financial reporting standards that prevail outside of the U.S. generally are not as high as U.S. standards and, consequently, less information is typically available concerning companies located outside of the U.S. than for those located in the U.S. As a result, the Funds may be unable to structure its transactions to achieve the intended results or to mitigate all risks associated with such markets. It may also be difficult to enforce the Funds' rights in such markets. For example, securities traded on non-U.S. exchanges and the non-U.S. persons that trade these instruments are not subject to the jurisdiction of the SEC or the CFTC or the securities and commodities laws and regulations of the U.S. Accordingly, the protections accorded to the Funds under such laws and regulations are unavailable for transactions on non-U.S. exchanges and with non-U.S. counterparties.

### *Currencies*

Although the Funds intend primarily to make loans that are denominated in U.S. dollars, the Funds may, on an opportunistic basis, invest in loans, secured debt or other investments that are denominated in a currency other than the U.S. dollar. In such an event, the prices of such investments will be determined with reference to currencies other than the U.S. dollar but the Funds will value its securities and other assets in U.S. dollars. To the extent that the Funds make investments that are denominated in a currency other than the U.S. dollar, the Funds generally expect to hedge its foreign currency exposure. However, to the extent that the Funds' foreign currency exposure is not hedged, the value of the Funds' assets will fluctuate with U.S. dollar exchange rates as well as the price changes of the Funds' investments. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation, and political developments. An increase in the value of the U.S. dollar compared to the other currencies in which the Funds makes their investments will reduce the effect of increases and magnify the effect of decreases in the prices of the Funds' investments in foreign markets. As a result, the Funds could realize a net loss on an investment, even if there were a gain on the underlying investment before currency losses were taken into account.

## Potential Conflicts of Interest

Investors should be aware that there will be occasions when NMFA (including officers, directors, employees and agents of the Firm) and its affiliates may encounter potential conflicts of interest in connection with the performance of advisory services to our Funds including (as described in more detail below and elsewhere herein) with respect to other investment vehicles managed by the Firm, and relationships and allocations of investment opportunities, allocation of personnel, and conflicts of interest related to being in possession of material non-public information which may restrict the ability of NMFA to enter into certain transactions on behalf of our Funds.

In the event of a conflict of interest, NMFA will take actions as in our good faith judgment are necessary or appropriate to ameliorate such conflicts of interest. These actions may, but are not required to, include (i) disposing of the investment giving rise to the conflict of interest or (ii) in connection with a matter giving rise to a conflict of interest with respect to an investment, consulting with the relevant Fund(s) regarding the conflict of interest and either obtaining a waiver of the conflict of interest or acting in a manner, or pursuant to standards or procedures, approved by our CCO with respect to such conflict of interest. NMFA intends to consult with our CCO with respect to any matter as to which it determines in good faith that a material conflict of interest exists.

There are currently three advisory affiliates of NMFA which manage public equity funds, private equity funds, a senior loan program and real estate investment trust. For more information regarding our advisory affiliates, please see Item 10, "Other Financial Industry Activities and Affiliations."

Subject to restrictions in our Funds' applicable Governing Documents, the Firm may raise other public and private funds and other investment vehicles in the future, and such funds may from time-to-time make investments that would be suitable for our Funds. In particular, certain debt investments that our Funds would otherwise be able to make may be allocated to other funds or other funds. In addition, there may be circumstances when NMFA has considered a potential private equity investment in a portfolio company for a Fund but has determined not to make such private equity investment and an investment is eventually made in such portfolio company by another investment vehicle or vehicles sponsored by the Firm. In these circumstances, other Fund(s) or other funds managed by the Firm may benefit from research by NMFA's investment team and/or from costs borne by a Fund in exploring the potential portfolio investment but will not be required to reimburse the expenses incurred in connection with such investment.

NMFC may invest in companies in which other funds, including the private credit funds, may invest, or may wish to invest, subject to the restrictions of the 1940 Act. As a result, our other funds may be restricted in their ability to invest in certain companies in which the BDC presently holds an investment, or that the BDC has targeted for investment, to the extent it would result in a violation of the restrictions on transactions involving affiliates set forth in 1940 Act. Accordingly, the BDC and our other funds will generally be permitted to co-invest in such companies where the only term being negotiated is price, or pursuant to terms and conditions of exemptive relief, that was granted to NMFC by the SEC in December 18, 2017. In addition, while NMFC and its



advisory affiliates are generally prohibited from investing in different parts of the capital structure of an issuer at the same time, there have been instances where NMFC has invested in an issuer, the debt and/or public equity of which was previously held by another Fund or a Fund managed by an advisory affiliate.

The portfolio companies in which our Funds invest may transact business with (or otherwise provide services and/or products to) one another. Those same portfolio companies may also transact business with NMFA's advisory affiliates, funds, employees and/or agents. Such arrangements will generally be negotiated and executed at arm's length, but certain factors may lead a portfolio company to pay higher fees in connection with the services and/or products provided as compared to other similar providers. Those factors include, without limitation, the complexity of the services and/or products being provided, the reputation of the portfolio company in providing such services and/or products, and the ability of the portfolio to meet specified time, budget or other constraints.

NMFA personnel may work on projects unrelated to our Funds, and conflicts in the allocation of management resources may arise as a result of such other activities. Additionally, from time to time, NMFA personnel may make personal investments in entities owned or controlled by other employees or agents of our advisory affiliates (and/or their related funds). All such investments are subject to our Code of Business Conduct and Ethics, which requires, among other things, pre-clearance by the Chief Compliance Officer as well as vetting for any perceived or actual conflicts of interests.

There can be no assurance that NMFA will resolve all conflicts of interest in a manner that is favorable to our Funds.

## **9. Disciplinary Information**

NMFA and its management persons have not been involved in any legal or disciplinary events that would be material to our Funds' or a prospective Fund's evaluation of NMFA's advisory business or the integrity of its management.

## **10. Other Financial Industry Activities and Affiliations**

The members of NMFA's investment team are also responsible for managing NMFC and an NMFC portfolio company which invests primarily in senior secured first lien loans or bonds. As a result, it is possible that the personnel of NMFA may face, in certain circumstances, competing fiduciary duties between and among our Funds and between our Funds and NMFC and its funds.

### *Affiliated Advisers*

New Mountain Vantage Advisers, L.L.C., NMFC and NMC (the "Affiliated Advisers") are advisory affiliates of NMFA and serve as the respective managers to public equity funds, a senior loan program and real estate investment trust, and several private equity funds. Each of our advisory affiliates is separately registered with the SEC pursuant to the Investment Advisers Act of 1940, as amended (the "Advisers Act"). Although the investment strategies of the Funds managed by NMFA are different from the strategies of the vehicles managed by our advisory

affiliates (other than NMFC), we expect to rely heavily on the extensive expertise and industry relationships developed by the employees and Senior Advisors of these Affiliated Advisers to identify and evaluate potential investment opportunities for our Funds. Research from New Mountain's private equity strategy will be used to benefit other New Mountain strategies and their clients.

The activities of these advisory affiliates may give rise to certain conflicts of interest as described herein.

#### *Other Financial Industry Activities and Affiliations*

NMFA and/or its affiliates may and will utilize products and services, including discounted products and services, provided by New Mountain's private equity portfolio companies.

NMFA has adopted an allocation policy to address conflicts of interest in connection with the allocation of investment opportunities. NMFA seeks to allocate investment opportunities among advisory Funds in a fair and equitable manner. When allocating investment opportunities to more than one Fund, each available investment opportunity will be allocated based on the provisions governing allocations of such investment opportunities in the relevant organizational documents, if any. In the absence of such provisions, the portfolio manager will determine the allocation by considering, among other things, the following factors and the weight that should be given with respect thereto, as applicable: (1) the investment guidelines and/or restrictions set forth in the applicable organizational documents; (2) the risk and return profile of the Fund entity; (3) the suitability/priority of a particular investment for the Fund entity; (4) if applicable, the target position size of the investment for the Fund entity; (5) the level of available cash for investment with respect to the particular Fund entity; (6) the total amount of funds committed to the Fund entity, and (7) the age and remaining term of the Fund's investment period, if any. The allocation of a partially filled order will be made on a pro-rata basis in the same proportion as the original aggregated order. Whenever reasonable business judgment is used and a non-pro rata allocation is made, a brief description of how the position was allocated and the reasoning for such allocation will be documented.

In addition, as noted in Item 8 above, on December 18, 2017, the SEC issued an exemptive order (the "Exemptive Order"), which superseded a prior order issued on June 5, 2017, which permits NMFA's Funds to co-invest in portfolio companies with certain funds or entities managed by NMFA or its affiliates in certain negotiated transactions where co-investing would otherwise be prohibited under the 1940 Act, subject to the conditions of the Exemptive Order.

## **11. Code of Ethics, Participation or Interest in Fund Transactions and Personal Trading**

#### *Code of Ethics/Personal Trading*

The Firm has adopted a formal code of ethics and insider trading policies and procedures (the "Code") to address and avoid potential conflicts of interest as required under Rule 204A-1 of the Advisers Act ("Rule 204A-1"). For purposes of Rule 204A-1, all New Mountain employees are designated as "access persons" ("Access Persons"). Based on relevant risk-based assessments,

NMC also designates certain non-employee consultants, including New Mountain Senior Advisors<sup>1</sup>, as Access Persons for purposes of Rule 204A-1.

Rule 204A-1 requires NMFA to adopt a code of ethics that sets forth a standard of business conduct and compliance with federal securities laws by all of the Firm's Access Persons. Policies and procedures have been adopted to ensure compliance with the provisions of the Code, including pre-approval of personal securities transactions and a 60-day holding requirement for all positions requiring pre-approval (other than NMFC, which is subject to a longer holding period), annual affirmations of compliance (such as disclosure of disciplinary history, conflicts of interest, etc.) and regular reviews of holdings and transactions. The Firm and its Access Persons are generally not permitted to trade in securities maintained on the Firm's restricted list except in some very limited circumstances that require pre-approval by the Chief Compliance Officer (or Compliance Representative). The Firm has retained Compliance Science, a third-party technology vendor, to assist Compliance in the periodic review of all Access Persons' brokerage statements and other related investment reports.

Further, the principals of the Firm, its employees and New Mountain Senior Advisors may sit on boards of public companies, including those in which the Funds are invested. Board service is subject to the approval of the Firm to allow Compliance to identify any actual or potential conflicts.<sup>2</sup>

By reason of their responsibilities in connection with their other New Mountain activities, the Firm's personnel may acquire confidential or material non-public information or be restricted from initiating transactions in certain securities. The Firm may not be free to act upon any such information. Due to these restrictions, NMFA may not be able to initiate a transaction that it otherwise might have initiated and may not be able to sell an investment that it otherwise might have sold.

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<sup>1</sup> Generally, New Mountain Senior Advisors are similar to "Operating Partners" who provide general or specific industry expertise on particular projects or transactions. A majority of New Mountain's Senior Advisors are designated as "access persons" pursuant to Rule 204A-1 and are subject to New Mountain's Code of Ethics, which therefore allows them to be fully included in New Mountain's investment reviews. Based on a variety of factors, certain Senior Advisors are designated as "non-access persons" and are not subject to New Mountain's Code of Ethics, which results in more limited or specialized roles. There is no guarantee that New Mountain will continue to employ or engage these Senior Advisors, and New Mountain may hire or engage additional Senior Advisors in the future, who may be full time employees, or consultants. Where engaged as the latter, based on individual circumstances, these individuals may, at New Mountain's discretion, be designated as either "access" or "non-access" for purposes of Rule 204A-1. Similar to New Mountain employees, New Mountain Senior Advisors may, in connection with activities related or unrelated to New Mountain, also serve as directors of unaffiliated public companies with the notification or approval of Compliance (see footnote 4 for additional details). Senior Advisors may also hold senior management or operating positions at portfolio companies advised by one or more Funds. Management Fees will not be offset by any salary, benefits, directors' fees, stock options and other compensation granted or paid by portfolio companies to (i) non-employee Senior Advisors for serving on boards of directors, serving in executive management roles or performing the functional equivalent of such roles (and New Mountain may reduce the compensation paid by the Manager to Senior Advisors who serve in roles) or (ii) other New Mountain personnel in respect of services performed in an executive management role at a portfolio company during a period in which such other personnel was not an employee of New Mountain.

<sup>2</sup> All employees must notify the Chief Compliance Officer of all outside corporate board memberships and pre-clear such memberships with Compliance. New Mountain Senior Advisors are required to notify the Chief Compliance Officer of all corporate board memberships upon engaging with New Mountain, and prior to accepting such membership if already engaged by New Mountain.

A copy of the Firm's Code is available upon request to: Chief Compliance Officer, New Mountain, 787 7th Avenue, 49th Floor, New York, NY 10019.

### Participation or Interest in Client Transactions

#### *Principal Transactions and Cross Trades*

At times, NMFA may enter into cross trades or other transactions between Funds where the ownership interest in a Fund by NMFA or its personnel could be viewed as a principal transaction. In such cases, NMFA would affect such transaction only if NMFA were to first determine that such trade is in the best interests of the affected Funds and then only in compliance with the requirements of Section 206(3) of the Advisers Act or similar applicable law, and the Governing Documents of the affected Funds, including obtaining any required informed consent from the Board or Advisory Committee or a majority in interest of the investors in the applicable Fund. In addition, as a general matter, no Fund may engage in transactions with affiliates, except for those transactions provided for in the Governing Documents, approved by the Advisory Committee or a majority in interest of the investors of the applicable Fund or executed pursuant to the Exemptive Order.

#### *Financial Interests in Fund Transactions*

As described in Item 5 – “Fees and Compensation,” in addition to management fees and carried interest, NMFA and its affiliates may receive directors' fees, transaction fees, investment banking fees, break-up fees, advisory fees, monitoring fees or other similar fees with respect to advisory and related services provided in connection with investments by the Funds.

NMFA may have a conflict of interest to the extent that it has an opportunity to earn a fee from an acquisition or disposition by a Fund. However, NMFA believes that the management fee offset provisions described in Item 5 and the substantial equity commitment by NMFA and its affiliates to the Funds substantially mitigates this incentive.

#### *Allocation of Investments*

When allocating investment opportunities across Funds, there could be differences in the financial structure of the Funds potentially participating in the opportunity that could introduce an incentive for NMFA to favor one Fund over another. However, allocation of investments among parallel and successor Funds are subject to allocation procedures set forth in the Governing Documents of the applicable Fund. In addition, NMFA generally does not introduce successor Funds until it is permitted to do so pursuant to the requirements set forth in the respective Governing Documents. NMFA expects to be presented with investment opportunities that fall within the investment objective of multiple Funds, and in such circumstances, to the extent permitted by the Governing Agreements, NMFA shall allocate such opportunities (including any related co-investment opportunities) among the Funds on a basis that the applicable general partner determines in good faith to be fair and reasonable taking into account all factors as the applicable general partner deems relevant, including the sourcing of the transaction, the nature of the investment objective, investment focus, mandate or policies, target return profile or projected hold period, focus of each such other investment fund and/or managed account, the relative amounts of capital available for investment, the nature and extent of involvement in the transaction on the part of the respective

teams of investment professionals for the Funds and other considerations deemed relevant by the applicable general partner “in good faith.”

In addition to NMFA’s ability to invest in investments made by the Fund, the Governing Documents of the Funds may permit NMFA to make available co-investment opportunities to strategic investors, lenders, non-employee Senior Advisors of New Mountain, limited partners and/or other investors. NMFA applies its discretion when allocating such opportunities to strategic investors, lenders, non-employee Senior Advisors of New Mountain, limited partners and/or other investors, taking into account facts and circumstances which may include the nature of the transaction, speed of execution required, tax considerations, familiarity with and history of investing in the relevant industry, ability to provide strategic insights and other factors believed relevant. NMFA endeavors to keep itself informed regarding investor interest in co-investment by maintaining records of those investors who have expressed interest in co-investments.

## **12. Brokerage Practices**

Our Funds typically invest in private securities and do not ordinarily transact with financial intermediaries, such as broker-dealers, in public securities. To the extent our Funds transact in public securities, if at all, and subject to the terms of the applicable Investment Management Agreement, NMFA typically has the authority to determine, the type and amount of securities to be bought or sold, the broker or dealer used and the commission rates paid or discount to purchase applied. In making its decisions regarding the allocation of brokerage transactions, NMFA would seek to obtain best execution, taking into account the following factors: (i) the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any); (ii) the operational efficiency with which transactions are effected (such as prompt and accurate confirmation and delivery), taking into account the size of order and difficulty of execution; (iii) the financial strength, integrity and stability of the broker-dealer; (iv) the quality, comprehensiveness and frequency of available research services considered to be of value to NMFA and our Funds; (v) the value of brokerage services over and above trade execution provided to NMFA and our Funds; (vi) the competitiveness of commission rates in comparison with other broker-dealers satisfying NMFA’s other selection criteria; and (vii) any other factors NMFA considers to be in the best interest of our Funds. Although NMFA generally seeks competitive commission rates and commission equivalents, it will not necessarily pay the lowest commission or equivalent. Among other reasons, transactions may involve specialized services on the part of a broker-dealer, which may justify higher commissions and equivalents than would be the case for more routine services.

Additionally, NMFA may receive an economic benefit by having fees waived or by not being charged for utilizing specialized services, which may include investment adviser electronic information downloads, access to specialized institutional brokerage trading and customer service teams, and/or specialized batched statements. NMFA believes that by utilizing these services, NMFA is able to more efficiently manage its Funds’ portfolios and execute its fiduciary duties in connection therewith.

#### *Research and Other Soft Dollar Benefits*

NMFA has no written, Third party “soft dollars” arrangement with any broker-dealer at present, but it or one or more of its related persons may utilize both third party and proprietary research and cause clients to pay commissions (or markups or markdowns) higher than those charged by other broker dealers in return for proprietary soft dollar benefits. In so doing, NMFA or its affiliates have an incentive to select or recommend the broker-dealer based on its or their interest in receiving research or other products or services and because neither NMFA nor its affiliates would have to pay for such research or services directly.

NMFA’s and its affiliates’ clients may and will bear more or less of the costs of soft dollar or other research than other clients who benefit from such products or services. These research products or services may and will also benefit and be used to assist clients of NMFA’s investment advisory affiliates. Research generated for NMFA’s credit strategy will be used to benefit other New Mountain investment strategies.

In the event that NMFA does enter into a “soft dollars” arrangement, the following policy will apply to NMFA’s “soft dollars” practices:

As discussed above, in selecting a broker for any transaction or series of transactions, NMFA may consider a number of factors. Where best execution may be obtained from more than one broker, NMFA may purchase and sell securities through brokers that provide research, statistical and other information, although our Funds may not, in every instance, be the direct beneficiary of the research services provided. Research furnished by brokers may include, but is not limited to, information on the economy, industries, groups of securities, individual companies, statistical information, accounting and tax law interpretations, political developments, legal developments affecting portfolio securities, technical market action, pricing and appraisal services, credit analysis, risk measurement analysis, performance analysis and analysis of corporate responsibility issues. Such research services are received primarily in the form of written reports, telephone contacts and personal meetings with security analysts.

#### *Broker Selection*

In selecting a broker, NMFA makes a good faith determination that the amount of such transaction fee charges is reasonable in comparison to the value of the research services provided and that such research benefits (either alone or together with other investment vehicles managed by NMFA and its affiliates) our Fund for which securities transactions are placed. NMFA’s acceptance of research from brokers is done in accordance with the provisions of Section 28(e) of the Securities Exchange Act of 1934.

### **13. Review of Accounts**

Portfolio companies in which NMFA Funds invest are monitored on a regular basis by each of the portfolio management deal teams, which are led by one or more Firm Managing Directors and Directors and are also subject to review by the NMFA’s management team, in advance of providing updated reporting to our Fund. Additionally, certain documents and records relating to Fund accounts (i.e. financial, accounting, etc.) are prepared, maintained and reviewed in more detail by respective Fund’s Chief Financial Officer, Controller and Accounting Team, as

appropriate. The CCO also performs a variety of periodic account reviews as part of the Firm's overall Advisers Act Rule 206(4)-7 annual compliance review.

For the private credit Funds, NMFA does not expect to provide reports to the Fund. Rather, the Fund to which NMFA provides investment advice furnishes each investor in the Fund with a quarterly report and annual audited financial statements (please see Item 15, "Custody" below).

## **14. Client Referrals and Other Compensation**

NMFA does not receive any economic benefit (including commissions, equipment or non-research services) from a non-Fund for providing investment advice or other advisory services to one of our Funds.

NMFA has paid placement agent and other similar fees to third parties for soliciting or referring prospective investors to it in accordance with applicable state and local laws, and U.S. SEC rules and regulations during relevant fundraising periods for Funds. In these instances, any placement or other similar fees paid by NMC to third parties may offset the asset-based management fee with respect to such Fund as discussed under Item 5 – "Fees and Compensation" above.

## **15. Custody**

NMFA is deemed to have custody of client funds or securities because it or its related persons serve as the investment manager or general partner of each Fund and hence have access to client funds or securities. Investors will not receive statements from the custodian. Instead, the Funds are subject to an independent annual audit. The audited financial statements are prepared by the Funds in accordance with generally accepted accounting principles and are audited by an independent auditor in accordance with generally accepted auditing standards and are generally distributed within 90 days or less of the applicable Fund's fiscal year end, pursuant to such Fund's Governing Documents.

## **16. Investment Discretion**

NMFA provides discretionary investment advisory services to our Funds. Generally, this discretion is subject only to the investment guidelines set forth in the Governing Documents of the applicable Fund and certain investor imposed restrictions.

## **17. Voting Fund Securities**

In accordance with its fiduciary duty to clients and Rule 206(4)-6 of the Advisers Act, NMFA is charged with identifying the proxies upon which NMFA will vote, voting the proxies in the best interest of clients, and submitting the proxies promptly and properly. All proxies that NMFA receives will be treated in accordance with these policies and procedures.

NMFA's policy is to vote client proxies in what it determines to be in the interest of maximizing investor value. To that end, NMFA will vote in a way that it believes is consistent with its fiduciary duty, and in a way that NMFA believes will cause the issue to increase the most or decline the least in value as a result of the vote. Consideration will be given to both the short-term and long-term implications of the proposal to be voted on when considering the optimal vote.

When voting proxies, NMFA will take steps to detect and address conflicts of interest between the interests of its clients and the interests of NMFA, its employees, and its affiliates. Investment professionals will be responsible for escalating any conflicts of interest to Compliance. Compliance will be responsible for determining the proper course of action for handling the conflict, and may resolve such conflict by relying on the recommendation of a disinterested third-party, seeking the direction of the affected client, or abstaining from voting. Any conflicts escalated to Compliance will be documented along with the course of action taken to resolve such conflicts.

Each Fund's organizational documents include provisions for the identification and mitigation of conflicts of interest. The organizational documents for certain Funds may also provide for an Advisory Committee comprised of a small group of investors who are convened at NMFA's request to address conflicts. In these cases, conflict resolution will be addressed with the Advisory Committee as contemplated in the organizational documents.

You may obtain, without charge, information regarding how NMFA voted proxies with respect to portfolio investments by making a written request for proxy voting information to: Chief Compliance Officer, 787 Seventh Avenue, 49th Floor, New York, New York 10019.

## **18. Financial Information**

NMFA is not currently aware of any financial condition that is reasonably likely to impair its ability to meet contractual commitments to our Funds.