

**Item 1: Cover Page**

**Varagon Capital Partners, L.P.  
Form ADV, Part 2A  
(the “Brochure”)**

Varagon Capital Partners, L.P.  
299 Park Avenue, 3<sup>rd</sup> Floor  
New York, New York 10171  
212-235-2600  
[www.varagon.com](http://www.varagon.com)

March 29, 2019

This Brochure provides information about the qualifications and business practices of Varagon Capital Partners, L.P. (“Varagon” or the “Adviser”). If you have any questions about the contents of this Brochure, please contact Robert Bourgeois, Chief Compliance Officer, at 817-769-2307 or [rbourgeois@varagon.com](mailto:rbourgeois@varagon.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority. Additional information about Varagon also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Varagon may refer to itself as a “registered investment adviser”. An investment adviser’s registration with the SEC does not imply a certain level of skill or training.

## Item 2: Material Changes

Varagon is required to identify and discuss any material changes made to this Brochure since its last annual amendment. Accordingly, set out below are those changes that Varagon believes reflect material changes since its annual updating amendment filed on March 29, 2018:

- An increase in regulatory assets under management listed in Item 4 – *Advisory Business*;
- Certain routine updates related to the addition of new advisory clients, including revisions and/or additions to Item 4 – *Advisory Business*; and
- We added a discussion of the role of an affiliate of Varagon as administrative agent and its use of an agent account in servicing loans in light of recent SEC guidance clarifying that such arrangements may cause us to be deemed to have custody over client assets in such an account.

## Important Note about this Brochure

*This Brochure is not:*

- *an offer or agreement to provide advisory services to any person;*
- *an offer to sell interests (or a solicitation of an offer to purchase interests) in any pooled investment vehicle (each, a “Fund”) that Varagon advises; or*
- *a complete discussion of the features, risks or conflicts associated with any Varagon advisory service or any Fund that Varagon advises.*

*As required by the Investment Advisers Act of 1940, as amended (the “Advisers Act”), Varagon provides this Brochure to current and prospective clients. Varagon also, in its discretion, will provide this Brochure to current or prospective investors in a separately managed account or, directly or indirectly, in a Fund that Varagon advises, together with other relevant governing or disclosure documents, such as a Fund’s offering or private placement memorandum, prior to, or in connection with, such persons’ investment in the separately managed account or Fund. Additionally, this Brochure is available through the SEC’s Investment Adviser Public Disclosure website.*

*Persons who receive this publicly available Brochure (whether or not from Varagon) should be aware that it is designed solely to provide information about Varagon as necessary to respond to certain disclosure obligations under the Advisers Act. As such, the information in this Brochure may differ from information provided in other relevant documents. More complete information about each separately managed account and Fund is included in the relevant separately managed account or Fund documents, certain of which will be provided to current and eligible prospective investors only by Varagon or a party authorized by Varagon. To the extent that there is any conflict between discussions herein and similar or related discussions in such documents, the relevant Fund governing or disclosure documents shall govern and control.*

*This is not an offer to sell securities of any type. No offer or solicitation for a separately managed account or Fund by us will be made before the delivery of the applicable documents to a potential investor. You should read the client documents carefully and consult with tax, legal and financial advisors before making any investment decision.*

### **Item 3: Table of Contents**

Item 1: Cover Page.....	1
Item 2: Material Changes.....	2
Important Note about this Brochure .....	3
Item 3: Table of Contents .....	4
Item 4: Advisory Business .....	5
Item 5: Fees and Compensation.....	7
Item 6: Performance-Based Fees and Side-by-Side Management.....	11
Item 7: Types of Clients.....	13
Item 8: Methods of Analysis, Investment Strategies, and Risk of Loss .....	14
Item 9: Disciplinary Information .....	31
Item 10: Other Financial Industry Activities and Affiliations .....	31
Item 11: Code of Ethics, Participation or Interest in Client Transactions, and Personal Trading.....	32
Item 12: Brokerage Practices .....	39
Item 13: Review of Accounts .....	41
Item 14: Client Referrals and Other Compensation.....	42
Item 15: Custody.....	42
Item 16: Investment Discretion.....	44
Item 17: Voting Client Securities .....	45
Item 18: Financial Information .....	46

## Item 4: Advisory Business

### The Firm

Varagon Capital Partners, L.P. (“Varagon”) is an asset manager focused on directly-originated middle market credit. Varagon primarily invests in term loans sourced through its relationships with middle market companies and middle market financial sponsors, as well as through relationships with other lenders and other market participants. Varagon seeks to provide disciplined exposure to an attractive asset class by coupling its direct origination with an institutionalized credit process and active portfolio management.

Varagon is headquartered in New York, New York. Varagon managed regulatory assets under management of approximately \$2,587,700,000 on a discretionary basis and \$6,448,000,000 on a non-discretionary basis as of December 31, 2018.

### Clients and Advisory Services

Varagon currently provides investment advisory services to American International Group, Inc. (“AIG”) and certain of its wholly-owned insurance companies (such insurance companies, collectively, the “Initial SMA Clients”); and certain other third party insurance companies under separately managed accounts (such clients, collectively, the “Other SMA Clients”); the Senior Direct Lending Program, LLC and its wholly-owned financing subsidiaries (collectively, the “SDLP”), a joint venture; and Varagon Fund I, L.P. (“Fund I”), a pooled investment vehicle, each of which is described in more detail below. Varagon may serve as investment adviser to other separately managed accounts over time (any such accounts, together with AIG, the Initial SMA Clients, and the Other SMA Clients being referred to as “SMA Clients”) and also to other pooled investment vehicles (any such accounts, together with Fund I, being referred to as “Funds”). Collectively, the SMA Clients, Funds and the SDLP are referred to herein as “Clients” of Varagon.

For each Client, Varagon manages investments of such Client in accordance with the investment objectives, strategies, restrictions, and guidelines specified in the contracts, investment advisory agreements, governing documents, and disclosure materials applicable to such Client (collectively, the “Client Governing Documents”).

Varagon primarily invests in debt issued by privately-held middle market companies located in North America, but may provide financing to issuers outside these criteria. Varagon focuses on companies in a range of industries including business services; healthcare; technology, media, and telecommunications; and commercial and industrial. Varagon evaluates investments across the debt capital structure (including first-lien, unitranche, second-lien, and mezzanine debt) and invests in middle market credit through interests in term loans and through interests in securities backed by term loans. Varagon’s advice will generally be limited to these investments, but Varagon may expand its investment focus in the future. Varagon generally does not invest in publicly-traded securities.

### Separately Managed Account Clients (SMA Clients)

Varagon provides investment advice to SMA Clients based on the particular investment objectives, guidelines, and restrictions applicable to each such Client, as specified in the Client Governing

Documents. Investment decisions for the Initial SMA Clients are made by Varagon's Executive Credit Committee (the "ECC"), which is described in more detail in Item 13, below.

The Initial SMA Clients are subsidiaries of AIG and both AIG and the Initial SMA Clients can be represented in certain matters by a co-advisor that is also affiliated with AIG. Varagon has no discretionary authority as to either AIG's or the Other SMA Clients' investments.

The Client Governing Documents of the Initial SMA Clients provide such Clients the right to "opt-out" of an investment that has been approved by the ECC, either directly or by the co-advisor acting on behalf of such Clients. The Client Governing Documents of the Initial SMA Clients also include specified minimum management fees applied over a period of time.

As of the date of this Brochure, such "opt-out" right has not been utilized by any of the Initial SMA Clients and Varagon does not expect to provide similar rights to other Clients. See Items 10, 11 and 16, below.

#### *Senior Direct Lending Program (the "SDLP")*

The SDLP is a joint venture between Varagon and Ares Capital Corporation ("ARCC" and together with its affiliates, "Ares"). The SDLP invests in middle market credit, primarily through investments in unitranche term loans, in accordance with the investment objectives, policies, approvals and restrictions as outlined in its governing documents (the "SDLP Agreements").

The SDLP finances investments through the issuance of securities (the "SDLP Securities") backed by its loan portfolio, including, in order of seniority, senior notes (the "Senior Notes"), intermediate funding notes (the "IFNs"), and subordinated certificates (the "Subordinated Certificates"). Clients of Varagon have invested, and may in the future invest, in such SDLP Securities (or derivatives of such securities), provided that such investments are permitted by the terms of the applicable Client Governing Documents and by the SDLP Agreements. The SDLP structure also includes four related Delaware statutory trust entities, formed solely for transactional convenience, through which investors invest in the Senior Notes and IFNs. Unless otherwise noted, references herein to SDLP include the SDLP structure as a whole.

Varagon and Ares each have agreed to refer investments that meet specified criteria to the SDLP pursuant to sourcing agreements, but can also elect to refer other investments. All material investment decisions by the SDLP require the approval of both Varagon and Ares. In addition to their respective interests in SDLP Securities, both Varagon and Ares have the right, but not the obligation, to directly invest in a portion (the "Special Allocation") of each term loan in which the SDLP invests.

Decisions regarding Special Allocations are made independently by Varagon and Ares on a case-by-case basis. Varagon evaluates Special Allocations as separate term loan investments and can decline a Special Allocation associated with an investment made by the SDLP. Special Allocations approved by Varagon's ECC can, to the extent permitted, be placed in Varagon Clients' accounts.

The Initial SMA Clients, among others, have invested in the Senior Notes and the IFNs. Varagon SDLP, LLC ("Varagon SDLP"), an entity controlled and managed by Varagon, owns a portion of the Subordinated Certificates.

ARCC is a publicly-traded, closed-end, non-diversified specialty finance company that has elected to be treated as a business development company (“BDC”) under the Investment Company Act of 1940, as amended (the “1940 Act”). ARCC is currently managed by Ares Capital Management, LLC (“ACM”), which serves as a co-manager of the SDLP.

### Fund Clients

Varagon has formed Fund I, a private Fund that, among other investment strategies, invests in the Subordinated Certificates issued by the SDLP through ownership of all of the membership interests in Varagon SDLP.

The underlying investors in Fund I or any other Funds organized in the future (“Fund Investors”) shall not be considered Clients solely by virtue of such investment.

Varagon will not provide individualized advice to Fund Investors. Varagon’s advice to a Fund is generally not tailored to the individualized needs of any particular Fund Investor and an investment in a Fund will not, in and of itself, create an advisory relationship between the Fund Investor and Varagon. Fund Investors will be subject to the various risks described in the governing and offering documents and should determine whether such Fund meets their investment objectives and risk tolerance prior to investing.

### Varagon Ownership

Varagon is a Delaware limited partnership formed in October 2013. Varagon’s principal limited partners and investors in its general partner are American General Life Insurance Company, National Union Fire Insurance Company of Pittsburgh, PA, and Magna Carta I, LLC. Varagon Capital Management MGP, LLC (“Varagon GP”) is Varagon’s general partner. The principal members and investors in Varagon GP are American General Life Insurance Company, National Union Fire Insurance Company of Pittsburgh, PA, and Magna Carta I, LLC.

American General Life Insurance Company and National Union Fire Insurance Company of Pittsburgh, PA, are each subsidiaries of AIG (See Item 10 – *Other Financial Industry Activities and Affiliations*).

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

Varagon’s fees and other compensation, as well as the expenses borne by its Clients in connection with the advisory services Varagon provides, vary by Client and are described generally below. It should be noted that expenses include, without limitation, costs associated with dealing in and holding investments and are paid directly or indirectly by Clients. Please see Item 12 – *Brokerage Practices*, for a discussion of Varagon’s brokerage practices and related costs.

### SMA Clients

Varagon may receive management fees and incentive fees, for providing investment advisory services to its SMA Clients. Incentive fees, if any, paid by SMA Clients to Varagon are based on performance, as described in Item 6 – *Performance Based Fees and Side-by-Side Management*. Management fees

are generally based on the aggregate amount of investments in a Client account. Varagon does not receive any fees from AIG or the Other SMA Clients, each, in its respective capacity as an SMA Client.

For each investment approved by Varagon's ECC, Varagon's ECC sets a target hold size (excluding investments in SDLP Securities, which are governed separately). In the event the amount of an investment that is available to Varagon exceeds the aggregate target hold size set for its Clients, Varagon may elect to syndicate such excess amount to other lenders or offer an SMA Client the opportunity to co-invest in such investment alongside Varagon. See "*Co-investments*" in Item 11, below, for further information on co-investments.

Management fees (and, if earned, incentive fees) are generally invoiced quarterly in arrears and paid directly by the SMA Clients. Fee arrangements (including caps, minimums, and premiums with respect to particular investment opportunities including the SDLP Securities), likely will vary among SMA Clients as such arrangements are generally negotiated with each SMA Client.

In addition to management fees and incentive fees, Varagon may receive certain origination, amendment and other fees from underlying obligors in connection with arranging financings and other services it provides. Such fees are paid upon the closing of a financing or over time, including as original issue discounts. SMA Clients may receive an allocation of original issue discounts, if any, and generally retain prepayment fees associated with a loan but, as noted above, fee arrangements are expected to vary among SMA Clients.

SMA Clients are also responsible for paying or reimbursing Varagon for certain costs and expenses described in the applicable Client Governing Documents. The costs and expenses chargeable to each SMA Client will vary depending on the specific terms negotiated by such SMA Client and included in the applicable Client Governing Documents.

The costs and expenses for which SMA Clients generally will be responsible for paying and reimbursing Varagon include informational, legal, regulatory, accounting, tax, administrative reporting or similar requests related to the structure of each SMA Client's portfolio, including, without limitation: (i) administrative expenses incurred in connection with the management of investments, including custodial, trustee, recordkeeping and other administration fees; (ii) taxes and other governmental charges levied against the portfolios; (iii) expenses incurred in connection with the winding up or liquidation of portfolios; (iv) expenses relating to defaults by SMA Clients in the payment of any funding contributions; (v) expenses incurred in connection with any restructuring of the portfolios or any amendments to the commitment agreements to accommodate tax, regulatory, administrative or other similar requirements of the SMA Client; and (vi) any expenses that the SMA Client otherwise approves as expenses with respect to the portfolios.

Each SMA Client is also generally responsible for paying or reimbursing Varagon for (i) all costs and expenses directly attributable to the investment activities of its respective portfolio (whether or not such investments are consummated), to the extent not otherwise borne by a third party, including, without limitation, expenses incurred in connection with the due diligence, evaluation (whether or not consummated), acquisition, carrying or disposition of investments (whether or not consummated), including private placement fees, sales commissions, appraisal fees, taxes, brokerage fees, underwriting commissions and discounts, and legal, accounting, investment banking, consulting, information services and professional fees; and (ii) all costs and expenses in connection with a default, breach of contract or restructuring by any borrower. Such expenses generally include those amounts incurred with respect to consultants, attorneys, investment bankers and other advisors, as well as



allocated expenses of internal lawyers and accountants employed by Varagon (including the allocable overhead with respect thereto).

### SDLP

Varagon has the right to receive member representative fees and expense reimbursements from SDLP. Such fees will be calculated by the trustee in accordance with the SDLP Agreements and paid quarterly directly to Varagon in accordance with, and subject to, the priority of payments set forth in the SDLP Agreements (See *Initial SMA Clients as Owners of Varagon* in Item 11, below).

In addition, the sourcing agreements with the SDLP allow Varagon to receive a portion of origination, syndication, and other fees associated with investments made by the SDLP.

Clients that invest into the SDLP will also bear, as investors in the SDLP, their applicable portion of the costs and expenses that are due and payable under the SDLP indenture.

Such amounts due and payable under the SDLP indenture will include, without limitation, fees, expenses, indemnities and other amounts payable to: (i) the SDLP trustee in all of its respective capacities under the SDLP indenture; (ii) the trustee for the SDLP trust entities for amounts incurred on behalf of the SDLP trust entities; (iii) the rating agency for amounts relating to the rating of the SDLP Notes and the certificates issued by the trust entities; (iv) the SDLP trust entities for certain of their respective administrative expenses; (v) the independent SDLP accountants; (vi) counsel and other advisors of the SDLP for fees and expenses incurred on behalf of the SDLP; (vi) Varagon and ARCC, for (x) non-overhead expenses incurred under the SDLP, including without limitation certain costs and expenses for legal advisors, consultants and other third party professionals retained by Varagon and ARCC and (y) expenses reasonably incurred by Varagon and ARCC in connection with the management, investment, acquisition or disposition, or proposed investment, acquisition or disposition, of any SDLP loans or the default or restructuring thereof, including brokerage commissions, research expenses, appraisal expenses, asset pricing and asset rating services, costs of environmental assessments, programming and data entry services, systems and software expenses and travel costs (airfare, meals, lodging and other transportation) and (vii) to any other person in respect of any other amounts permitted under the SDLP indenture and related SDLP documents including but not limited to, any amounts due in respect of the listing of the SDLP Notes on any stock exchange.

The fees and expenses related to the SDLP are set forth in the SDLP Agreements. Clients that are considering investing in any SDLP Securities should review the applicable SDLP disclosure documents.

### Fund I

Varagon receives management fees and performance-based compensation for providing investment advisory services to Fund I. Such performance-based compensation is described in Item 6 – *Performance Based Fees and Side-by-Side Management*. Management fees are generally based on the average of the value of Fund I's adjusted gross assets at the end of each of the two most recently completed fiscal quarters.

Management fees are generally payable quarterly in arrears, on or before the fifth business day of the first month of the succeeding fiscal quarter. Varagon reserves the right to waive, reduce or

calculate differently all or a portion of the management fees with respect to any investor in Fund I.

Fund I is also responsible for paying or reimbursing Varagon for certain costs and expenses, as described in more detail in the applicable Client Governing Documents.

Fund I generally bears its ratable share of all legal, offering and organizational expenses incurred by the General Partner, its affiliates and their respective advisors in forming Fund I and any parallel investment entities up to the lesser of (i) 1% of the aggregate commitments received (as adjusted for subsequent closings) or (ii) \$1.5 million.

Additionally, Fund I generally bears all costs and expenses (other than Varagon's routine overhead expenses) of Fund I's activities, operations and administration that Varagon determines in good faith to be reasonable ("Fund I Expenses"), including, without limitation: (A) administrative expenses incurred in connection with the management of portfolio investments, including custodial, trustee, record keeping, internal and external accounting expenses (including the cost of accounting software packages), auditing and tax preparation expenses, valuation expenses and other administration fees; (B) taxes and other governmental charges levied against Fund I or the portfolio investments; (C) expenses incurred in connection with the winding up or liquidation of the portfolio investments; (D) expenses relating to defaults by any limited partner in the payment of any capital contributions; (E) expenses incurred in connection with any restructuring of the portfolio investments; (F) any expenses incurred at the direction of Varagon as expenses of the portfolio investments, which can include expenses of third-party professionals, including, among other things, in connections with actions that are necessary to protect or enhance the value of an existing investment; (G) any expenses identified in the partnership agreement of Fund I as being borne by its limited partners; (H) any expenses identified in the SDLP Agreements or approved by the SDLP Investment Committee to be borne by, or in priority to, Fund I as an indirect holder of the Subordinated Certificates; (I) litigation, indemnification and contribution expenses of Fund I; (J) financing and hedging costs; (K) the reasonable expenses associated with the advisory board and meetings of the limited partners; (L) the expenses of a conversion or implementing an offering (whether or not such conversion or offering is consummated); (M) the management fee; and (N) any other expenses of the portfolio investments or Varagon approved by the advisory board. For the avoidance of doubt, Fund I will also bear its allocable share (based on invested capital) of any Fund I Expenses incurred by any subsidiary. Fund I will also be responsible for paying, or reimbursing Varagon for: (A) all costs and expenses directly attributable to portfolio investments (whether or not such investments are consummated), to the extent not otherwise borne by a third-party, including, without limitation, expenses incurred in connection with the evaluation, acquisition, carrying or disposition of portfolio investments (whether or not consummated), including sales commissions, appraisal fees, taxes, brokerage fees, underwriting commissions and discounts, travel expenses, and legal, accounting, consulting, information services and professional fees; and (B) all costs, expenses or other obligations owed to Varagon, Fund I and/or their respective affiliates defaulted on by borrowers or otherwise not paid to Varagon, Fund I and/or their respective affiliates due to a breach of contract by any borrower. For clarity, any expense reimbursement that Varagon receives from obligors for Fund I Expenses will correspondingly reduce the amount of such Fund I Expenses borne by Fund I.

Varagon is able to also benefit from fees paid by Fund I's underlying obligors, which are generally calculated on a loan by loan basis as described in Fund I's Confidential Private Placement Memorandum (as supplemented or amended from time to time, the "Fund I Memorandum"). Varagon can, at its election, reduce or calculate differently how such fees are allocated between Varagon and limited partners of Fund I.

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

"Side-by-side management" refers to the simultaneous management of multiple types of Client accounts and/or investment products. In such situations there likely will be differential fee arrangements (such as performance fees) that can create opportunity or incentive for a manager to favor certain accounts (or types of accounts) over others (including with respect to the time and attention to investment opportunities). Similar incentives are subject to arise where a manager or its personnel (including its officers and directors) or affiliates have different pecuniary interests (e.g., personal investments) in accounts.

The sections below describe these potential conflicts and matters in greater detail. With respect to each section below, also please see Item 10 – *Other Financial Industry Activities and Affiliations* and Item 11 – *Code of Ethics, Participation or Interest in Client Transactions and Personal Trading*, below, for a further discussion of these potential conflicts and the resolution thereof.

### *Incentive Fees*

Certain SMA Clients are required to pay an incentive fee to Varagon and the terms of such incentive fees for one SMA Client can differ from the incentive fee terms applicable for other SMA Clients (e.g., no fees, different rates and/or calculation formulas). SMA Clients that pay incentive fees based on net investment income are subject to a hurdle rate and catch-up. These are calculated and charged quarterly. The SDLP is not subject to an incentive fee. Incentive fees for Clients likely will vary and will be subject to negotiation with each particular Client. Fund Investors may also bear incentive fees.

Specifically, Fund I is generally subject to performance compensation based on (i) net investment income, subject to a hurdle rate and catch-up, and (ii) realized capital gains, each as further described in the Fund I Memorandum. Varagon may waive, reduce or calculate differently all or a portion of such performance compensation.

### *Equity Ownership*

As detailed in Item 10 below, AIG and the Initial SMA Clients are owners of, or affiliated with owners of, Varagon.

Varagon, its affiliates and their respective personnel, including those individuals that serve (x) on Varagon's board of directors, (y) on Varagon investment committees or (z) as portfolio managers to Clients, may (i) invest in Clients, including those Clients that are structured as private Funds, including having an interest in any such Fund's "general partner" or "managing member" and as such could benefit from related performance fees or "carried interest" from such Fund or (ii) have equity ownership interests in Varagon itself.

In particular, Varagon, its employees and various of its other stakeholders, can hold economic equity interests in the SDLP that entitle holders to a share of any assets remaining in SDLP following the repayment of the SDLP Notes and can also hold, separately, interests in SDLP Notes having different relative rights from an investment directly into the assets of the SDLP. Similarly, such persons are authorized to also hold interests in Fund I and other Funds formed by Varagon.

*Allocation and Side by Side Investment Opportunities, Time, Attention and Fiduciary Duties*

Varagon has adopted policies and procedures setting forth how opportunities among SMA Clients, the SDLP and the Funds are allocated fairly and equitably over time. For each investment approved, Varagon's ECC sets a target hold size which is generally allocated as follows:

1. *First, pro rata* based on each participating Client's respective capital available for investment limited by the target hold size for each Client and taking into account factors such as liquidity, the nature of the investment, and investment conditions;
2. *Second*, remaining available amounts (due to, for example, hold size limitations) are offered on a *pro rata* basis to any other Clients that are able to participate;
3. *Third*, in the event the amount of an investment available to Varagon exceeds the aggregate target hold size established by Varagon's ECC for Varagon's Clients in aggregate, excess amounts can be offered to related and/or third party co-investors.

Certain Clients (including the SDLP and certain Funds or joint ventures) can be granted, in the sole discretion of Varagon, special allocation rights. For example, as described in Item 4, above, Varagon will refer loans to the SDLP pursuant to a sourcing agreement and can also elect to refer other investments to the SDLP.

In accordance with the above, the Clients' available capital will be considered in the aggregate when determining the *pro rata* participation of each Client. The co-adviser of the Initial SMA Clients will determine the allocation of the investments amongst the Initial SMA Clients, and Varagon will determine the allocation of the investments between the Funds and amongst the Funds, the SDLP, the Initial SMA Clients and any other SMA Clients from time to time.

Once an investment is placed with any Client, regardless of financial incentives, (i) Varagon will devote, in all cases, the appropriate time and attention to such investment in order to maximize the value of such investment and (ii) Varagon will satisfy the fiduciary duties it has to each Client in its actions with respect to such investment.

*Speculative Investments*

The existence of performance-based compensation creates an incentive for Varagon to make or recommend more aggressive or speculative investments on behalf of certain Clients, and to spend more time on such investments, than would otherwise be the case in the absence of such performance-based compensation. Some Clients prefer performance-based compensation for alignment of interest with Varagon, despite this potential incentive for Varagon to make more

aggressive or speculative investments. Each Client should consider the risks and rewards inherent to performance-based compensation.

Client Governing Documents contain specific investment objectives, strategies, restrictions and guidelines that impact Varagon's ability to select or recommend investments. All investments for Fund I and the Initial SMA Clients are subject to the approval of the ECC.

The acquisition of investments on behalf of the SDLP will require either the direct unanimous approval of both Varagon SDLP and ARCC (acting in their capacity as managing members of the SDLP) or the unanimous approval of their respective representatives on the SDLP investment committee (the "SDLP Investment Committee").

See Item 11 – "*Initial SMA Clients as Owners of Varagon*" for a further discussion of the rights of the Initial SMA Clients with respect to Varagon, its investments and the ECC.

### Valuation

For certain Clients, Varagon's compensation could be reduced if Varagon determines to write-down the value of a portfolio investment, creating a disincentive for Varagon to do so. As a result, to the extent that Varagon values a portfolio investment higher than its current market value (or where such market values are unreliable), Varagon could benefit by receiving a management fee or incentive allocation that is increased by the impact, if any, of such valuation discrepancy. This benefit can create a potential or actual conflict of interest for Varagon.

Varagon's valuation policies are consistent with ASC Topic 820, requiring that Varagon assign a "fair value" to certain investments representing "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date."

When there is no or insufficient readily available market pricing information for an investment, Varagon's valuation policy requires personnel to assign a price to the investment based on various factors and inputs and taking into account a variety of relevant pricing methodologies, which include pre-determined valuation principles for certain investment types and the use of unaffiliated third party pricing services and, or third party or proprietary valuation models.

Investments that are fair valued in accordance with Varagon's valuation policies generally will not have reliable market values. The fair value assigned by Varagon to such investments, as determined in good faith by Varagon in accordance with its valuation policies and procedures, may not match the next available and reliable market price or empirical value and, in retrospect, may not have been the price at which the investment could have been purchased or sold.

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

Varagon provides investment advisory services to SMA Clients, which are separately managed accounts. The terms, guidelines, and objectives of each of these arrangements are negotiated at the time they were entered into with the SMA Clients and are set forth in the applicable Client

Governing Documents. Currently, each SMA Client is an insurance company or an insurance company affiliate.

Varagon also provides investment advisory services to the SDLP. Investors in the SDLP Securities are required to meet certain investor suitability criteria as set forth in the SDLP Agreements. The SDLP structure also includes four related Delaware statutory trust entities, formed solely for transactional convenience, through which investors invest in the senior note and intermediate funding note that have been issued by the SDLP.

Each of the Initial SMA Clients is an investor in the SDLP. Investors in the SDLP may or may not be Clients of Varagon, but shall not be deemed to be Clients solely by virtue of investing in the SDLP.

As discussed in Item 4, above, Varagon also provides investment advisory services to Fund I, which, among its various expected investment holdings, owns all of the membership interests in Varagon SDLP. Varagon SDLP is a Varagon-controlled and managed entity that owns a portion of the Subordinated Certificates that have been issued by the SDLP. Fund Investors may or may not become Clients of Varagon, but shall not be deemed to be Clients solely by virtue of investing in a Fund.

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

Varagon primarily invests in direct middle market loans on behalf of its Clients. Loans are primarily made to middle market companies in the following industries: business services; healthcare; technology, media, and telecommunications; and commercial and industrial. Varagon generally seeks to maximize its Client portfolios' risk-adjusted returns. Varagon utilizes multiple sources of information to inform its investment advice, including, but not limited to, quantitative and qualitative factors as well as its own methods of evaluation.

For each of the above-mentioned industries, Varagon has developed a Risk Acceptance Criteria Policy ("RAC") which details the strategy and assessment of the particular risk ratings in each respective industry. Each respective RAC defines the criteria for acceptable borrowers and financial sponsors and outlines the risk rating framework for the evaluation of potential investment opportunities. The RACs are reviewed periodically by the ECC to ensure that Varagon's criteria remain current and allow for acceptable transactions in approved sectors. Exceptions are made on occasion to the standards set forth in the respective RACs upon the review and approval of the ECC.

Notwithstanding Varagon's efforts to identify and mitigate risk, Varagon's investment activities involve a significant degree of risk of loss that Clients should be prepared to bear. This section contains a discussion of the primary risks associated with Varagon's investment activities. However, it is not possible to identify all of the risks associated with investing. Some of the risks applicable to a Client will depend on the nature of the Client, the investment strategy or strategies and the types of investments held.

While Varagon seeks to manage each Client's account so that risks are appropriate to the return potential for the strategy, it is often not possible or desirable to fully mitigate risks. Any investment includes the risk of complete loss and there can be no guarantee that a particular level of return will be achieved.

Clients should be aware that investment mandates are generally limited to certain types of investments (e.g., leveraged loans) and might not be diversified. Varagon does not provide a complete and diversified investment program for Clients and expects that the assets it manages do not represent all of the Client's or investor's assets. Clients are responsible for appropriately diversifying their assets to guard against the risk of loss.

With respect to each Client, a more complete description of risks is available in the applicable Client Governing Documents for such Clients. The discussion below should not be viewed as a substitute for careful review of the relevant and more specific applicable Client Governing Documents.

### ***General Investment Risks***

There can be no assurance that the Clients' investment objectives will be achieved or that Varagon's investment strategies will be able to avoid losses. Varagon reserves the right to utilize investment techniques which in certain circumstances can increase the adverse impact to Clients' portfolios. Clients also bear the risk that Varagon's investment style and selection process is out of favor in the market. All securities investments risk the loss of capital. The investment techniques and strategies and the nature of the securities to be purchased and traded by Varagon can increase this risk, and there can be no assurance that a Client will not incur losses. Many unforeseeable events cause sharp market fluctuations, which could adversely affect the Clients. The extent to which a Client will be able to achieve its investment objective will depend on the ability of Varagon to evaluate and develop the information it receives into a successful investment program.

### ***Limited Operating History***

Varagon has a limited prior operating history as an investment adviser. Accordingly, Varagon does not have a lengthy, independent performance history for Clients to consider and there is no assurance that Varagon will be able to generate returns for Clients or that the returns will be commensurate with the risks of investing in instruments and securities that Varagon recommends.

### ***Difficulty of Locating Suitable Investments***

The success of Varagon's investments will depend, in part, on its ability to source investments or originate loans on advantageous terms. There can be no assurance that Varagon will be able to identify a sufficient number of suitable investment opportunities to enable each Client to invest all of its funding commitments in opportunities that satisfy the Client's investment objectives or that such investment opportunities will lead to completed investments by such Client. The activity of identifying, completing and realizing an investment opportunity is highly competitive, requires a substantial amount of upfront work and involves a high degree of uncertainty. There can be no assurance that Varagon will be able to locate and complete portfolio investments which satisfy a Client's investment criteria and meet its rate of return objectives or that it will be able to invest

fully its available capital. It is possible that competition for appropriate investment opportunities increase, which can reduce the number of opportunities available to the Clients and/or adversely affect the terms upon which such investment can be made. Other public and private entities, including commercial banks, commercial financing companies, BDCs, insurance companies, alternative investment vehicles and other private investment funds compete with Varagon to make the types of investments that Varagon plans to make on behalf of its Clients. Certain of these competitors are substantially larger, have considerably greater financial, technical and marketing resources than Varagon will have and offer a wider array of financial services. Market disruptions can also prevent Varagon from obtaining suitable investments. If Varagon is not able to successfully source, close and service suitable financing and other opportunities, it will not be able to achieve the Clients' investment objectives.

### ***Concentration of Investments***

The Clients participate in a limited number of investments and their portfolios may not be widely diversified. Moreover, in the early stages of the investment of such portfolios, such portfolios will be concentrated in fewer investments, and thus, more exposed to the particular risks of an individual issuer or borrower, industry, geographic region or market. In addition, the ability of Varagon to diversify the risks of such portfolios' investments will depend upon the size, characteristics, types and class of investments available. Lack of diversification (or a limited degree of diversification) increases risk because the aggregate return of a portfolio can be substantially adversely affected by the unfavorable performance of even a single investment.

The investments in each portfolio are subject to liquidity, market value, credit, repricing, default, recovery, interest rate, reinvestment and certain other risks. It is anticipated that the investments pursued by Varagon generally will be subject to greater risks than investment grade corporate obligations. These risks could be exacerbated to the extent that a Client portfolio is concentrated in one or more particular types of loans.

While a limited amount of concentration of certain loans in a Client portfolio with respect to any particular borrower, region or industry is expected to exist from time to time, the disposition of an investment by Varagon and any subsequent reinvestment in other investments by Varagon can result in a greater concentration in any one borrower, region or industry, and such concentration could subject Clients to a greater degree of risk with respect to defaults by such borrower, and such concentration of the Client's portfolio in any one industry or region could subject the Client to a greater degree of risk with respect to economic downturns relating to such industry or region.

### ***Projections***

Varagon makes investments for Clients' portfolios relying upon projections developed by Varagon, a prospective issuer or borrower or other third party source concerning such company's future performance and cash flow. Projections are inherently subject to uncertainty and factors beyond the control of Varagon, the issuer or borrower or such other sources. The inaccuracy of certain assumptions, the failure to satisfy certain financial requirements and the occurrence of other unforeseen events could impair the ability of an issuer or borrower to repay indebtedness or realize projected values.



### ***Fraud by an Issuer or Borrower***

Of concern in investments in loans is the possibility of material misrepresentation or omission on the part of an issuer or borrower. As a consequence of such material misrepresentation or omission, the issuer's or borrower's ability to pay principal or interest under a loan and/or the collateral value can be different from that originally anticipated. Varagon will rely upon the accuracy and completeness of representations made by issuers or borrowers to the extent reasonable when it makes investments for Clients' portfolios, but cannot guarantee such accuracy or completeness. Under certain circumstances, payments to a Client's portfolio can be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

### ***General Market and Credit Risks of Debt Securities***

Debt portfolios are subject to credit and interest rate risk. "Credit risk" refers to the likelihood that an issuer will default in the payment of principal and/or interest on an instrument. Financial strength and solvency of an issuer are the primary factors influencing credit risk. In addition, subordination, lack or inadequacy of collateral or credit enhancement for a debt instrument affect its credit risk. Credit risk changes over the life of an instrument and securities which are rated by rating agencies are often reviewed and are subject to downgrade.

"Interest rate risk" refers to the risks associated with market changes in interest rates. Interest rate changes affect the value of a debt instrument indirectly. In general, rising interest rates will negatively impact the price of a fixed rate debt instrument and falling interest rates will have a positive impact on price. Adjustable rate instruments also react to interest rate changes in a similar manner although generally to a lesser degree (depending, however, on the characteristics of the reset terms, including the index chosen, frequency of reset and reset caps or floors, among other factors). Interest rate sensitivity is generally more pronounced and less predictable in instruments with uncertain payment or prepayment schedules.

### ***Bankruptcy Considerations***

Companies in which the Clients invest may experience bankruptcy. In the event of a Chapter 11 filing by a borrower, the Bankruptcy Code of 1978, as amended (the "Bankruptcy Code"), authorizes the borrower to use a creditor's collateral and to obtain additional credit by grant of a priority lien on its property, senior even to liens that were first in priority prior to the filing, as long as the borrower provides what the presiding bankruptcy judge considers to be "adequate protection" which may but need not always consist of the grant of replacement or additional liens or the making of cash payments to the affected secured creditor. The imposition of priority liens on a Client's collateral would adversely affect the priority of the liens and claims held by such Client and could adversely affect such Client's recovery on the affected loans.

The bankruptcy process has a number of significant inherent risks. Many events in a bankruptcy proceeding are the product of contested matters and adversary proceedings and are beyond the control of the creditors. A bankruptcy filing by a borrower can adversely and permanently affect the borrower. If the proceeding is converted to a liquidation, the value of the borrower may not equal the liquidation value that was believed to exist at the time of such Client's investment. The

duration of a bankruptcy proceeding is also difficult to predict, and a creditor's return on investment can be adversely affected by delays until a plan of reorganization or liquidation ultimately becomes effective. The administrative costs in connection with a bankruptcy proceeding are frequently high and would be paid out of the borrower's estate prior to any return to creditors. Because the standards for classification of claims under bankruptcy law are vague, a Client's influence with respect to the class of securities or other obligations it owns can be lost by increases in the number and amount of claims in the same class or by different classification and treatment.

The bankruptcy process can involve substantial legal, professional and administrative costs, be subject to unpredictable and lengthy delays and negatively impact the underlying collateral and a Client's return on that particular investment.

### ***Lender Liability and Equitable Subordination***

A number of judicial decisions in the United States have upheld the right of borrowers to pursue lending institutions and others on the basis of various evolving legal theories (collectively termed "lender liability"). Generally, lender liability is founded upon the premise that a lender has 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 that creates a fiduciary duty owed to the borrower or its other creditors or shareholders. Because of the nature of certain investments Varagon makes for Clients' portfolios, Varagon or the Clients could be subject to allegations of lender liability.

In addition, under common law principles in the United States that in some cases form the basis for lender-liability claims, if a lender (a) intentionally takes an action that results in the undercapitalization of a borrower or issuer to the detriment of other creditors of such borrower or issuer, (b) engages in other inequitable conduct to the detriment of such other creditors, (c) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (d) uses its influence as a stockholder to dominate or control a borrower or issuer to the detriment of other creditors of such borrower or issuer, a court can elect to subordinate the claim of the offending lender or bondholder to the claims of the disadvantaged creditor or creditors (a remedy called "equitable subordination"). Varagon does not intend to engage in, or cause the Clients to engage in, conduct that would form the basis for a successful cause of action for lender liability, including the equitable subordination doctrine; however, because of the nature of the debt obligations, Varagon or the Clients could be subject to claims from creditors of an obligor that debt obligations of such obligor which are held in Clients' portfolios should be equitably subordinated or that Varagon or the Clients should otherwise be liable for claims of lender liability.

The preceding discussion regarding lender liability is based upon principles of U.S. federal and state laws. With respect to investments in a non-U.S. issuer, laws of certain non-U.S. jurisdictions can also impose liability upon lenders or bondholders under factual circumstances similar to those described above, with consequences that might be analogous to those described above under U.S. federal and state laws.

### ***Structural Subordination***

A portfolio company that a Client invests in can own some or all of its assets through subsidiaries, which can be pledged in favor of the senior lenders to such subsidiaries. Accordingly, any proceeds in case of a foreclosure by the senior lender, winding up or liquidation of such portfolio company's subsidiary must first be used to cover claims of the senior lenders to such subsidiaries. Such subsidiaries may not be special purpose bankruptcy remote entities and creditors, in addition to the senior lenders, can have claims to the assets of such subsidiaries, which can be senior to, pari passu with or subordinate to the claims of the related portfolio company and/or the applicable Clients. As a result, such Clients can therefore fail to realize any proceeds from the sale or the liquidation of any such subsidiary's assets in the case of a foreclosure, winding up, liquidation or a similar event with respect to such subsidiary.

### ***Litigation***

Lending can be contentious and adversarial. It is by no means unusual for participants to use the threat of, as well as actual, litigation as a negotiating technique. Varagon or the Clients risk being named as defendants in civil proceedings, and the expense of defending against claims by third parties and paying any amounts pursuant to settlements or judgments may be material.

### ***Private and Middle Market Companies***

Varagon originates loans to issuers, including, but not limited to, private and middle market companies, which involve a number of particular risks that do not exist in the case of large public companies, including that:

- these companies generally have more limited access to capital and higher funding costs, can be in a weaker financial position, could need more capital to expand or compete, and may be unable to obtain financing from public capital markets or from traditional sources, such as commercial banks, which increases the risk of their defaulting on their obligations, leaving creditors, such as Clients' portfolios, dependent on any guarantees or collateral they have obtained;
- these companies frequently have shorter operating histories, narrower product lines and smaller market shares than larger businesses, which render them more vulnerable to competitors' actions and market conditions, as well as general economic downturns;
- there would not be as much information publicly available about these companies as would be available for public companies and such information likely would not be of the same quality, and the Clients will rely on the ability of Varagon's investment professionals to obtain adequate information to evaluate the potential returns from investing in these companies. If they are unable to uncover all material information about these companies, Varagon risks not making an informed investment decision and losing money on the Clients' investments;
- these companies are more likely to depend on the management talents and efforts of a small group of persons; as a result, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on these companies' ability to meet their obligations;

- these companies generally have less predictable operating results, and from time to time can be parties to litigation, engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, and require substantial additional capital to support their operations, finance expansion or maintain their competitive position; and
- the frequency and volume of the trading of these companies can be substantially less than is typical of larger companies and as such it could be more difficult for Varagon to exit the investment in the company at its then fair value.

### ***Loan Origination***

Varagon originates loans, including, but not limited to, floating and fixed-rate, long-term, middle market, unitranche, and unleveraged loans, mezzanine investments and investments in other loan markets. Varagon can subsequently offer such investments for sale to third parties; *provided* that there is no assurance that Varagon will complete the sale of such an investment. In determining the target amount to allocate to such an investment, Varagon takes into consideration the fact that it may sell, assign or offer participations in such investment to the third parties described above. Accordingly, if Varagon is not successful in offering such participations, this could result in Clients' portfolios being "overweighted" with respect to a particular issuer or borrower.

### ***Senior Loans Risk***

Varagon invests the assets of Clients' portfolios opportunistically in senior secured loans. Senior secured loans are usually rated below investment grade or may also be unrated. As a result, the risks associated with senior secured loans are considered by credit rating agencies to be similar to the risks of below investment grade fixed income instruments, although senior secured loans are senior and secured in contrast to other below investment grade fixed income instruments, which are often subordinated or unsecured. Investment in senior secured loans rated below investment grade is considered speculative because of the credit risk of their issuers. Such companies are more likely than investment grade issuers to default on their payments of interest and principal owed to Clients' portfolios, and such defaults could have a material adverse effect on the performance of the investments.

An economic downturn would generally lead to a higher non-payment rate, and a senior secured loan can lose significant market value before a default occurs. Moreover, to the extent a Client invests in senior secured term debt, unitranche debt and second lien secured debt, it will generally take a security interest in the available assets of the applicable portfolio companies, including, in certain cases, equity interests in their subsidiaries. While the Clients directly or indirectly invest in secured loans that may be over-collateralized at the time of the investment, they can nonetheless be exposed to losses resulting from default and foreclosure, and there can be no assurance that the liquidation of any such collateral would satisfy the applicable portfolio company's obligation in the event of non-payment of scheduled interest or principal payments with respect to such investment, or that such collateral could be readily liquidated. In addition, in the event of bankruptcy of a portfolio company, a Client could experience delays or limitations with respect to its ability to realize the benefits of the collateral securing an investment. Under certain circumstances, collateral securing an investment can be released without the consent of Varagon. Moreover, a Client's investments in secured debt risk being unperfected for a variety of reasons,

including the failure to make required filings by lenders, trustees or other responsible parties and, as a result, such Client might not have priority over other creditors as anticipated. The Clients can also invest in high yield securities and other unsecured investments, each of which involves a higher degree of risk than senior secured loans. A Client's right to payment and its security interest, if any, can be subordinated to the payment rights and security interests of more senior creditors. Certain of these investments can have an interest-only payment schedule, with the principal amount remaining outstanding and at risk until the maturity of the investment. In this case, a portfolio company's ability to repay the principal of an investment can be dependent upon a liquidity event or the long-term success of the company, the occurrence of which is uncertain. Senior secured loans are subject to a number of risks described elsewhere in this Agreement, including liquidity risk and the risk of investing in below investment grade fixed income instruments.

There is less readily available and reliable information about most senior secured loans than is the case for many other types of securities, including securities issued in transactions registered under the U.S. Securities Act of 1933, as amended, or registered under the U.S. Securities Exchange Act of 1934, as amended. As a result, Varagon will rely primarily on its own evaluation of a borrower's credit quality rather than on any available independent sources. Therefore, Clients will be particularly dependent on the analytical abilities of Varagon.

### ***Investment Liquidity Risk***

In general, the secondary trading markets for Varagon's investments are not well developed. No active trading market may exist for certain investments, which makes it more difficult to value them. Illiquidity and adverse market conditions could mean that Varagon would not be able to sell investments quickly or at a fair price. To the extent that a secondary market does exist for certain investments, the market for them is subject to irregular trading activity, wide bid/ask spreads and extended trade settlement periods.

### ***Subordinated Loans or Securities***

Varagon may invest the assets of Clients' portfolios opportunistically in subordinated loans or securities or interests in pools of securities that are subordinated or could be subordinated in right of payment and ranked junior to other securities issued by, or loans made to obligors. If an obligor experiences financial difficulty, holders of its more senior securities will be entitled to payments in priority to such portfolios.

In addition, many of the obligors are highly leveraged and many of the investments made by Varagon will be in securities which are unrated or rated below investment grade. Such investments are subject to additional risks, including an increased risk of default during periods of economic downturn, the possibility that the obligor is not able to meet its debt payments and limited secondary market trading, among other risks.

During an economic downturn, a sustained period of rising interest rates, contraction of the loan market in response to regulatory changes, unconventional extreme economic conditions, deflation, inflation, an increase in commodities prices, or a period of fluctuating exchange rates (in respect of those obligors located in non-U.S. countries), such obligors are more likely to experience

financial stress and fail to meet their debt obligations due to the obligors' inability to meet specific projected business forecasts or the unavailability of financing. All risks associated with such investments will be materially borne by the Clients.

### ***No Restrictions on Credit Quality***

Other than Varagon's credit review processes, there are generally no restrictions on the credit quality of the investments of its Clients. Securities or loans in which the Clients invest can be deemed by rating companies to have substantial vulnerability to default in payment of interest and/or principal. Other securities and loans might be unrated. Lower-rated and unrated securities or loans in which a Client invests have large uncertainties or major risk exposures to adverse conditions, and are considered to be predominantly speculative. Generally, such securities and loans offer a higher return potential than higher-rated securities and loans, but involve greater volatility of price and greater risk of loss of income and principal.

The market values of certain of these unrated loans and securities also tend to be more sensitive to changes in economic conditions than rated debt securities. The value of such unrated loans or securities can also be affected by changes in the market's perception of the entity issuing or guaranteeing them, or by changes in government regulations and tax policies.

### ***Lack of Controlling Equity Interests***

Because Varagon does not generally expect its Clients to hold controlling equity interests in portfolio companies, the Clients will not typically be in a position to exercise control over their portfolio companies or to prevent decisions by management of portfolio companies that could decrease the value of the Clients' investments. Accordingly, the Clients are subject to the risk that a portfolio company makes business decisions with which Varagon disagrees, and the stockholders and management of a portfolio company could take risks or otherwise act in ways that are adverse to a Client's interests. Due to the lack of liquidity for the debt and equity investments that Varagon typically expects a Client to hold in portfolio companies and transfer restrictions imposed on such investments, Varagon might not be able to dispose of a Client's investments in the event Varagon disagrees with the actions of a portfolio company, and may therefore suffer a decrease in the value of such Client's investments.

### ***Taking Possession of Underlying Collateral***

The Clients might take possession of collateral including, without limitation, an asset or business, through a purchase or foreclosure action. There can be no assurance that Varagon or any management team established by Varagon will be able to successfully operate, hold or maintain the collateral in accordance with the Clients' expectations, or that a Client will be able to profit from its investment in such collateral.

### ***Risks Associated with Private Debt Investments***

Any private debt investments made by the Clients are likely to be below-investment grade. Such portfolio companies often face intense competition (including competition from companies with greater resources and capabilities), changing business and economic conditions or other developments which could adversely affect their performance. The success of such portfolio

companies will depend on their management, among other things, and there can be no assurance that their performance will meet any Client's expectations. When a Client holds a non-controlling interest in portfolio companies, it might have to rely solely on contractual covenants (which may not be available) to protect its position in such portfolio companies. In addition, if the private indebtedness is subordinated to senior indebtedness, the ability of a Client to influence a company's affairs, especially during periods of financial distress or following insolvency, is likely to be substantially less than that of senior creditors. There can be no assurance that a portfolio company will generate sufficient cash necessary to service its debt obligations, and, in any such case, such Client could suffer a partial or total loss of invested capital.

### ***Variable and Floating Rate Instruments***

The Clients invest in floating rate debt instruments ("floaters"). The interest rate on a floater is a variable rate which is tied to another interest rate, such as a money-market index or LIBOR. The interest rate on a floater resets periodically, typically every three months. Because of the interest rate reset feature, floaters provide the Clients with a certain degree of protection against rises in interest rates, although the Clients will participate in any declines in interest rates as well. The Clients also can invest in inverse floaters. An inverse floating rate instrument can exhibit greater price volatility than a fixed rate obligation of similar credit quality. In addition, some variable or floating rate instruments are structured with put features that permit holders to demand payment of the unpaid principal balance plus accrued interest from the issuers or certain financial intermediaries. Varagon is not required to hedge these risks. Therefore, such instruments risk not achieving their expected return.

### ***Loan Syndications***

The Clients invest in loans and other similar forms of debt either directly (by way of direct lending or assignment) or indirectly (by way of participation). Such forms of indebtedness are different from traditional debt securities in that debt securities are typically part of a large issue of securities to the public and loans and similar debt instruments may not be securities, but may represent a specific commercial loan to a borrower. The purchaser of an assignment typically succeeds to all the rights and obligations of the assigning institution and becomes a contracting party under the loan agreement with respect to the loan; however, its rights can be more restricted than those of the assigning institution. When purchasing indebtedness, a Client will assume the credit risk associated with the corporate borrower.

### ***Potential Failure to Syndicate or Sell Down Investment Allocations***

From time to time with the consent of the applicable Clients, Varagon accepts an investment allocation from a borrower that could exceed the aggregate target hold size set for such Clients. In any such event, Varagon can elect to syndicate such excess amount to other lenders or to offer a Client the opportunity to co-invest in such investment in excess of the initial investment, if any, allocated to that Client by Varagon in accordance with Varagon's allocation policies and procedures. To the extent Varagon ultimately is unable to syndicate or otherwise sell down any such excess allocation to other lenders, another Client or other market participants, one or more Clients might hold an allocation of such investment that is greater than initially anticipated, which could increase such Clients' risk. There is no guarantee that Varagon will be able to successfully syndicate such excess investment amounts on behalf of its Clients.

### ***General Risks Arising from Purchases of Debt on a Secondary Basis***

The Clients could invest in loans and debt securities acquired on a secondary basis. The Clients are unlikely to be able to negotiate the terms of such debt as part of its acquisition and, as a result, these investments might not include some of the covenants and protections the Clients generally seek. Even if such covenants and protections are included in the investments held by a Client, the terms of the investments can provide portfolio companies substantial flexibility in determining compliance with such covenants. In addition, the terms on which debt is traded on the secondary market tends to represent a combination of the general state of the market for such investments and either favorable or unfavorable assessments of particular investments by the sellers thereof.

### ***Risks of Mezzanine Debt***

The Clients might make or hold mezzanine debt investments, which will generally be subordinated to senior secured loans and will generally be unsecured or have a subordinated secured interest. This can result in an above average amount of risk and volatility or a loss of principal. These investments may involve additional risks that could adversely affect investment returns. To the extent interest payments associated with such debt are deferred, such debt can be subject to greater fluctuations in valuations, and such debt could subject the Clients to non-cash income. Since the Clients will not receive cash prior to the maturity of some of its mezzanine debt investments, such investments are of greater risk than cash paying loans.

### ***Private Debt Terms***

A private debt investment might have a contractual return that is not paid entirely in cash, but rather partially or wholly in-kind or as an accreting liquidation preference, thus lengthening the time before cash is received, and increasing a Client's risk exposure to the portfolio company. While Varagon seeks to achieve a Client's targeted returns for a given investment, including private debt, other factors, such as overall economic conditions, the competitive environment and the availability of potential purchasers of the debt, can shorten or lengthen such Client's holding period and some investments can take several additional years from the initial investment date to achieve a realization. In some cases, a Client can be prohibited by contract from selling or assigning certain loans for a period of time. If a Client is required to liquidate all or a portion of its portfolio positions quickly, then such Client can realize significantly less than the value at which such Client previously recorded those investments.

### ***Convertible Securities***

Convertible securities are bonds, debentures, notes, preferred stocks or other securities that can be converted into or exchanged for a specified amount of common stock of the same or a different issuer within a particular period of time at a specified price or formula. A convertible security entitles its holder to receive interest that is generally paid or accrued on debt or a dividend that is paid or accrued on preferred stock until the convertible security matures or is redeemed, converted or exchanged. Convertible securities have unique investment characteristics in that they generally (i) have higher yields than common stocks but lower yields than comparable non-convertible securities, (ii) are less subject to fluctuation in value than the underlying common stock due to their fixed-income characteristics and (iii) provide the potential for capital appreciation if the market price of the underlying common stock increases.



The value of a convertible security is a function of its “investment value” (determined by its yield in comparison with the yields of other securities of comparable maturity and quality that do not have a conversion privilege) and its “conversion value” (the security’s worth, at market value, if converted into the underlying common stock). The investment value of a convertible security is influenced by changes in interest rates, with investment value declining as interest rates increase and increasing as interest rates decline. The credit standing of the issuer and other factors also have an effect on the convertible security’s investment value. The conversion value of a convertible security is determined by the market price of the underlying common stock. If the conversion value is low relative to the investment value, the price of the convertible security is governed principally by its investment value. To the extent the market price of the underlying common stock approaches or exceeds the conversion price, the price of the convertible security will be increasingly influenced by its conversion value. A convertible security generally will sell at a premium over its conversion value by the extent to which investors place value on the right to acquire the underlying common stock while holding a fixed-income security. Generally, the amount of the premium decreases as the convertible security approaches maturity.

A convertible security can be subject to redemption at the option of the issuer at a price established in the convertible security’s governing instrument. If a convertible security held by a Client is called for redemption, such Client will be required to permit the issuer to redeem the security, convert it into the underlying common stock or sell it to a third party. Any of these actions could have an adverse effect on a Client’s ability to achieve its investment objective.

### ***Equity Investments***

A Client can make selected equity investments in connection with its debt-related investment strategy. In addition, when a Client invests in mezzanine debt or senior secured loans, such Client can acquire warrants to purchase equity investments from time to time. Varagon will generally seek to ultimately dispose of these equity investments and realize gains upon the disposition of such interests. However, the equity investments a Client receives might not appreciate in value and, in fact, can decline in value. Accordingly, such Client might not be able to realize gains from its equity investments, and any gains that such Client does realize on the disposition of any equity investments might not be sufficient to offset any other losses it experiences.

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

Investing in companies outside of the United States involves certain considerations not usually associated with investing in the United States, 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 evolving and unsophisticated laws and regulations applicable to secured lending in certain countries; fluctuations in the rate of exchange between currencies and costs associated with currency conversion; and certain government policies that can restrict a Client’s 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, a Client could be unable to structure its transactions to achieve the intended

results or to mitigate all risks associated with such markets. It could also be difficult to enforce a Client's rights in such markets. For example, certain protections accorded to a Client under U.S. laws and regulations are unavailable for transactions with certain non-U.S. counterparties.

### ***Multiple Layers of the Capital Structure***

Varagon has the ability to invest in multiple layers of the capital structure of the same issuer, including senior debt, subordinated or junior debt or equity, and holders of such tranches can have diverging economic interests. In the case of a non-performing issuer, this could create a variety of conflicts to be resolved by the ECC, on behalf of the Clients or the SDLP Investment Committee, on behalf of the SDLP.

Furthermore, different Clients of Varagon could be invested in different layers of the capital structure of the same issuer, which could again create various conflicts and as such Varagon can vote or take other actions differently with respect to each Client's interest depending on what part or parts of such issuer's capital structure Varagon has invested into on behalf of a particular Client.

Where appropriate, the ECC or SDLP Investment Committee, as applicable, will use independent directors and/or third party advisors (including an advisory board) to help resolve such conflicts.

See Item 11 – *Code of Ethics, Participation or Interest in Client Transactions and Personal Trading*, below.

### ***Use of Leverage***

Varagon can utilize leverage as a part of a Client's investment strategy. Although the use of leverage can enhance returns and increase the number of investments that can be made, it also substantially increases the risk of loss. Amounts borrowed by a Client will be subject to interest costs, which will be an expense of such Client, and, to the extent not covered by income attributable to the assets acquired, will adversely affect the operating results of such Client. If a Client defaults on a borrowing, the lender will be entitled to liquidate the assets pledged to secure the loan on such terms as the lender determines.

### ***Leveraged Nature of Portfolio Companies***

The companies in which the Clients invest could employ considerable leverage, a significant portion of which can be at floating interest rates. The leveraged capital structure of the portfolio companies will increase the sensitivity of the Clients' investments to any deterioration in a company's revenues, condition or industry, competitive pressures, an adverse economic environment or rising interest rates. In the event any such portfolio company cannot generate adequate cash flow to meet debt service, the Clients might suffer a partial or total loss of capital invested in the portfolio company, which, given the size of the Clients' investments, could adversely affect the investment returns of the Clients.

### ***Exposure to Financial Institutions***

Varagon has the ability to invest in financial instruments issued by financial institutions, such as investment and commercial banks, insurance companies, savings and loan associations, mortgage

originators and other companies engaged in the financial services industry (collectively, “financial institutions”). In addition, financial institutions will act as counterparties to Varagon’s Clients in connection with such Client’s investment activities and can provide certain services to such Client. Clients can also gain exposure to these entities through derivative transactions, including, without limitation, options, credit default swaps and credit linked notes, and through long and short strategies. In the course of conducting their business operations, financial institutions are exposed to a variety of risks that are inherent to the financial services industry. Significant risks that could affect the financial condition and results of operations of financial institutions include, but are not limited to, fluctuations in interest rates, exchange rates, equity and commodity prices and credit spreads caused by global and local market and economic conditions; credit-related losses that can occur as a result of an individual, counterparty or issuer being unable or unwilling to honor its contractual obligations; the potential inability to repay short-term borrowings with new borrowings or assets that can be quickly converted into cash while meeting other obligations; operational failures or unfavorable external events; potential changes to the established rules and policies of various U.S. and non-U.S. legislative bodies and regulatory and exchange authorities, such as federal and state securities, bank regulators and industry participants; risks associated with litigation, investigations and/or proceedings by private claimants and governmental and self-regulatory agencies arising in connection with a financial institution’s activities; and its continuing ability to compete effectively in the market.

### ***State Licensing Requirements***

Varagon could be required to obtain various state licenses in respect of a Client in order to, among other things, originate or acquire commercial loans, and could also be required to obtain similar licenses from other authorities, including outside the United States in connection with one or more investments. Applying for and obtaining required licenses can be costly and take several months. There is no assurance that Varagon will obtain all of the licenses that it needs on a timely basis. Furthermore, a Client will be subject to various information and other requirements in order to obtain and maintain these licenses, and there is no assurance that such Client will satisfy those requirements. The failure to obtain or maintain licenses might restrict investment options and have other adverse consequences.

### ***General Economic Conditions***

Various sectors of the global financial markets have experienced an extended period of adverse conditions. Market uncertainty increased dramatically, particularly in the United States and Europe, and adverse market conditions expanded to other markets. These conditions resulted in periods of reduced liquidity, greater volatility, general widening of credit spreads and a lack of price transparency following the 2009 financial crisis.

These difficult global credit market conditions adversely affected the market values of equity, fixed-income and other securities and these circumstances can continue or even deteriorate further. The short-term and long-term impact of these events is uncertain, but could have a material effect on general economic conditions, consumer and business confidence and market liquidity.

Investments made by Varagon can be sensitive to the performance of the overall economy. A negative impact on economic fundamentals and consumer and business confidence would likely

increase market volatility and reduce liquidity, both of which could have an adverse effect on the performance of Clients' portfolios and these or similar events can affect Varagon's ability to execute its investment strategies.

### ***Historically Low Interest Rate Environment in the U.S.***

Interest rates in the United States are at, or near, historic lows, which increase the exposure of the Clients to risks associated with rising interest rates. Moreover, interest rate levels recently have been impacted by extraordinary monetary policy initiatives the effect of which is impossible to predict with certainty. Certain changes in interest rates could have a material adverse effect on the Clients.

### ***Business and Market Risks***

The investments made by Clients' portfolios involve a high degree of business and financial risk that can result in substantial losses. In particular, these risks could arise from changes in the financial condition or prospects of the entity in which the investment is made, for example, as a result of unexpected litigation against any such entity; changes in the value of collateral; changes in national or international economic and market conditions including, for example, interest rates, inflation rates, industry conditions, competition, technological developments, political events and trends, changes to tax laws and innumerable other factors; and changes in laws, regulations, fiscal policies, or political conditions of countries in which investments are made, including the risks of war and the effects of terrorist attacks and security operations. Any of the preceding factors can substantially and adversely affect the performance of Varagon and, thereby, the Clients. None of these conditions will be within the control of Varagon.

In addition, Varagon's ability to successfully implement its strategy can entail a high degree of uncertainty. The possibility of partial or total loss of capital will exist and Clients should not invest unless they can readily bear the consequences of such loss.

### ***Follow-On Investments***

Varagon may have the opportunity to provide follow-on funding for an investment or to increase the Clients' original investment. There can be no assurance that Varagon will wish to make follow-on investments or that the Clients will have sufficient funds to do so. Any decision by Varagon not to make follow-on investments or its inability to make them can have a substantial negative impact on an investment or diminish Varagon's ability to influence the borrower's future development. Follow-on investments can create certain conflicts of interest, as described in Item 11 – *Code of Ethics, Participation or Interest in Client Transactions and Personal Trading*, below.

### ***Asset Valuation***

A significant portion of the assets in which Varagon invests are not readily marketable securities for which prices are available from third parties. Independent quotations for such positions will not necessarily be available, and, where available, will not necessarily provide a reliable indication of current value. Such quotations will not assure that the asset is as liquid as investments in the secondary market for more traditional investments, such as stocks and bonds.

As a result, if the Clients are forced to sell any such asset prematurely, they might not be able to realize the potential underlying value of such investment, and, in some cases, have to sell such investment at a loss. Assets that do not constitute liquid assets will generally be priced for trading purposes at market value as determined in good faith by Varagon, in accordance with its then-current valuation policies and procedures. In the absence of bad faith or manifest error, the value determinations of Varagon will be conclusive and binding on the Clients. There can be no assurance that the value assigned to an investment at a certain time will equal the value that the Clients are ultimately able to realize. See Item 6 – *Performance Fees and Side-by-Side Management*, above.

### ***Legal, Regulatory and Tax Risks***

Legal, regulatory and tax changes have occurred and could occur in the future that adversely affect the Clients. For example, Varagon may make investments for Clients' portfolios in a number of different industries, some of which are or may become subject to regulation by one or more U.S. federal agencies and by various agencies of the states, localities and counties in which they operate. New and existing regulations, changing regulatory schemes and the burdens of regulatory compliance all can have a material negative impact on the performance of issuers that operate in these industries. For example, tax reforms passed in 2017 imposed additional limitations on the deductibility or the disallowance of interest deductions for debt, which could lead to reduced appetite for financing by privately-held middle market companies in which Varagon typically makes investments for Clients' portfolios.

Varagon cannot predict whether further new legislation or regulation governing those industries or the U.S. tax code will be enacted by legislative bodies or governmental agencies, nor can it predict what effect any such legislation or regulation might have, directly or indirectly, on the issuers of investments typically made by Varagon, the Clients' investments or the availability of investment opportunities in the middle market. There can be no assurance that new legislation or regulation, including changes to existing laws and regulations, will not have a material negative impact on the value of investments typically made by Varagon, the Clients' investment performance or any related investment opportunities.

### ***Political Uncertainty Risk***

The United States markets, as well as non-U.S. markets in which Clients invest in the future or to which Clients or borrowers are exposed, are likely to experience political uncertainty and/or change (e.g., Trump administration and Brexit) that can subject investments to heightened risks. These heightened risks include, but are not limited to: greater fluctuations in currency exchange rates; increased risk of default (by both government and private issuers); greater social, economic, and political instability (including the risk of war or terrorist activity); greater governmental involvement in the economy; less governmental supervision and regulation of the securities markets and market participants; controls or restrictions on foreign investment, capital controls and limitations on repatriation of invested capital and on the ability to exchange currencies; inability to purchase and sell investments or otherwise settle security or derivative transactions (i.e., a market freeze); unavailability of currency hedging techniques; and slower clearance.

During times of political uncertainty the global securities, derivatives and currency markets often become more volatile. There also could be a lower level of monitoring and regulation of markets while

a country is experiencing political uncertainty, and the activities of investors in such markets and enforcement of existing regulations are prone to becoming more limited.

Markets experiencing political uncertainty can have substantial, and in some periods extremely high, rates of inflation for many years. Inflation and rapid fluctuations in inflation rates have negative effects on such countries' economies and securities markets.

There can be no assurance that political changes or policy decisions, directly or indirectly, will not cause a Client to suffer a loss of any or all of its investments or, in the case of fixed income investments, interest thereon.

### ***LIBOR Risk***

In 2017, the Financial Conduct Authority ("FCA") announced its intention to cease sustaining LIBOR from the end of 2021. The FCA's intention is that after 2021, it will no longer be necessary for the FCA to persuade or compel banks to submit to LIBOR due to the development of alternative benchmark rates, which the FCA suggested should be based on transactions and not on reference rates that do not have active underlying markets to support them. As of the date hereof, no specific alternative rates have been generally agreed upon in the loan market or the collateralized loan obligation ("CLO") market. As such, if LIBOR in its current form does not survive, it could cause a disruption in the credit markets generally. Such disruptions related to loans and/or other CLOs in the marketplace could have a material adverse effect on our ability to enter into loans in the future and can have a material adverse effect on the investment returns of Clients.

### ***Information Technology Risks***

Varagon is heavily reliant on its information technology infrastructure, processes and procedures, and it has devoted significant resources to achieving competitive informational technology systems. Information technology changes rapidly, however, and Varagon risks not being able to stay ahead of such advances. Moreover, Varagon might find itself a target of cybersecurity attacks. While steps have been taken to mitigate the risk of such attacks, no system is fully attack-proof, and cybersecurity attack can have an impact on Varagon and the Clients.

### ***Relationships with Private Equity Sponsors***

In addition to sourcing investments through middle market companies directly, Varagon relies on relationships with private equity sponsors. If the private equity sponsors with whom Varagon has relationships find new sources of debt financing that are more advantageous, or if Varagon suffers reputational harm that causes sponsors not to want to work with Varagon, Varagon might be unable to source sufficient investments of suitable quality.

Additionally, private equity sponsors can suffer financial distress and, if so, be unable to provide the same level of managerial, operating or financial support to their portfolio companies that have borrowed from Varagon. Where an investment has been subject to a recapitalization subsequent to a borrowing, the sponsor's net investment in the borrower can be reduced and the sponsor might be less willing to provide ongoing financial or other support to the borrower. This could result in increased risk of default.

### ***Indirect Interests***

The SDLP issues various types of SDLP securities. Each SDLP security has different rights and features. The SDLP Notes (see Item 4 above) have different return priorities and the Subordinated Certificates, which will be held in part by Varagon SDLP, are subordinated to the SDLP Notes. Each Client considering investing into the SDLP should carefully review the SDLP indenture, return priorities (commonly referred to as the waterfall) and related documentation for each type of investment.

The risk return profile of an investment in the SDLP differs greatly from that of a direct investment in the assets owned directly by the SDLP.

### **Item 9: Disciplinary Information**

Not Applicable.

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

**Certain insurance companies are equity owners of Varagon and these insurance company owners, and certain of their affiliates, are SMA Clients:** American General Life Insurance Company (“AGLIC”) and National Union Fire Insurance Company of Pittsburgh, PA, each a subsidiary of AIG: (i) is an Initial SMA Client (as defined below), (ii) owns an equity stake in Varagon and (iii) has certain representatives that serve on the board of directors of Varagon. Lexington Insurance Company and The Variable Annuity Life Insurance Company, each AIG affiliates, are also Initial SMA Clients (collectively with American General Life Insurance Company and National Union Fire Insurance Company of Pittsburgh, PA, defined in Item 4 above as the Initial SMA Clients). The Initial SMA Clients, as well as their affiliated co-advisor, together have designated two voting representatives to the ECC, which representatives are appointed by Varagon’s board of directors to the ECC. The Initial SMA Clients and their affiliated co-advisor have direct voting rights on the ECC solely for approval of investments contemplated for purchase for the Initial SMA Clients.

The Client Governing Documents applicable to the Initial SMA Clients provide such Clients the right to “opt-out” of an investment that has been approved by the ECC. Such right is exercisable directly by their co-advisor, which is an affiliate of the Initial SMA Clients. Varagon does not expect other Clients will have similar rights. As of the date of this Brochure, the “opt-out” right has not been utilized by any Initial SMA Client. See Items 11 and 16, below.

Moreover, AIG, the indirect parent company of the Initial SMA Clients, is an SMA Client.

AIG Asset Management (U.S.) LLC, an AIG subsidiary and registered investment adviser, is the entity that currently serves as co-advisor to AIG and the Initial SMA Clients.

Further information about certain potential conflicts related to the Initial SMA Clients’ ownership interests in Varagon can be found in Item 11, below. See in particular, “*Initial SMA Clients as Owners of Varagon*”, below.

AGLIC has, in addition to AIG, the other Initial SMA Clients and their co-advisor, a variety of other affiliates engaged in financial industry activities, but Varagon does not have business dealings or other relationships with such entities that are currently expected to be material to Varagon's business or to create a material conflict of interest with other Clients. Varagon is authorized to purchase insurance products from AGLIC and its affiliates so long as they are at generally competitive rates.

See also "*Equity Ownership*" in Item 6, above, for a further discussion of these issues.

**Certain Varagon Equity Owners are or have been Associated with another Investment Adviser:** Certain current and former employees of Oak Hill Capital Management, LLC ("OHCM"), an independent registered investment adviser that is separately managed and operated, participated in the founding and formation of Varagon. At this time, employees of OHCM represent approximately twenty percent of the beneficial ownership of Varagon. These persons invested in Varagon (through various partnerships) in his or her individual capacity. OHCM itself does not own interests in Varagon. In addition, two current employees/advisers of OHCM serve on Varagon's board in their individual capacity. A few employees of Varagon have investments in private equity funds managed by OHCM.

Historically, Varagon has not invested in the debt of OHCM's portfolio companies. However, in the future, Varagon could elect to invest in the debt of portfolio companies of OHCM's funds, subject to implementing reasonable and appropriate safeguards to mitigate conflicts of interest of Varagon or its personnel.

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

### *Outside Activities*

Varagon, its affiliates, and their respective employees, officers and directors engage in other business activities, including personal, family and proprietary investments, which might be similar to or different from businesses and investments engaged in by Varagon and its Clients. Such persons from time to time may serve as officers, directors, or paid advisors or perform comparable management functions for companies in which Clients invest, and receive compensation in connection therewith, unless inconsistent with applicable law, Varagon's policies and procedures or the terms of relevant contractual arrangements.

When acting in such a capacity, such persons will be required to make decisions that consider the best interests of the party for whom they are acting (which could include a portfolio company or borrower). In situations involving bankruptcy or near-insolvency, the interests of a portfolio company or borrower can diverge from a Client's interest.

Where such a person encounters a conflict that cannot be resolved through application of Varagon's written policies and procedures, such person is required to inform Varagon's chief compliance officer (the "CCO"), who will determine (in consultation with Varagon's board of directors or such other persons as the CCO deems appropriate) how the conflict should be resolved.

As of the date of this Brochure, Varagon has no loans outstanding to portfolio companies in which a Varagon employee or a Varagon equity owner has a position or interest. If a loan were to be extended



to a company in which a Varagon employee or equity owner has a position or other interest, additional approvals and controls, including CCO review would be required.

### *Code of Ethics and Personal Investments*

Varagon's policies and procedures, including its code of ethics, personal trading policies and procedures and insider trading policies, have been reasonably designed to address potential conflicts of interests that arise in connection with Varagon's business. Among other things, the code of ethics requires that employees act with integrity, place the interests of Clients above their own, avoid actual and potential conflicts of interest and comply with applicable provisions of the federal securities laws.

As Varagon personnel are permitted, subject to Varagon's policies and procedures described above, to invest in publicly-traded securities or other financial instruments in accounts in which they have direct or indirect beneficial ownership or control, there is a possibility that Varagon could recommend to Clients the purchase or sale of securities of issuers in which Varagon personnel have a financial interest. This is generally not expected as Varagon's loans are generally extended to private companies where there are no public holders of equity or debt; however, it could arise, for example, if a borrower subsequently goes public (and Varagon personnel purchase stock in such company with the approval of the CCO) or is acquired by a public company in which Varagon personnel have an interest or if a loan is extended to a public company. Circumstances also might arise in which certain Varagon personnel are offered opportunities to co-invest in the equity of a private company to which Clients extend a loan. Under these limited circumstances, the investments of Varagon personnel could differ from, or be contrary to, those taken by Varagon on behalf of Clients.

To help identify and mitigate potential conflicts of interest involving personal trades, Varagon's investment professionals are required periodically to report certain securities holdings and transactions and to pre-clear certain transactions in securities (including private placements) with the CCO.

Varagon believes the restrictions on personal trading and extensive pre-approval and reporting requirements included in its code of ethics, and Varagon's expectation that personnel who are called upon to make a decision with respect to a company in which they have a direct or indirect financial interest will inform the CCO of the conflict and take steps such as recusal of conflicted personnel from the decision, will generally be sufficient to mitigate such conflicts and preserve Varagon's ability to discharge the fiduciary duties it owes to its Clients in the Clients' best interests.

Should a potential conflict of interest arise that is not directly addressed by the code or other relevant policies and procedures or if a Varagon employee believes that a violation of the code or other relevant policies may have occurred, Varagon personnel are expected to consult with the CCO.

A copy of Varagon's code of ethics will be provided to any Client or prospective Client, as well as to actual or prospective Fund Investors, upon request of such Client or prospective Client.

*Conflicts Related to Varagon's Ownership Structure, Products, Clients and Affiliates*  
*Principal and Cross Trades*

Cross trades are generally private transactions, executed off market and without a specific open market reference for pricing. Cross trades may enable Varagon to purchase and sell a block of securities or other assets at a set price, as determined in a manner consistent with Varagon's valuation policies, which can be beneficial to Clients. For example, a cross trade can result in a more favorable purchase or sale price than could be obtained on the open market, or avoid an unfavorable price movement created through entrance into the market with such purchase or sell orders.

Varagon may cause Clients to enter into cross trades and Varagon affiliates may act as an agent or counterparty in connection with a Client transaction. Where a Client that is, or is affiliated with, one of Varagon's owners, or Varagon itself or an affiliate, is party to a cross trade, such transaction constitutes a principal trade. Similarly, where Varagon or an affiliate acts as agent for compensation in connection with a Client transaction, such transaction constitutes an agency cross trade. Principal and agency-cross trades require the consent of participating Clients in accordance with Section 206(3) of the Advisers Act. Other cross trades also create conflicts of interest but do not require such consent. Certain Clients can negotiate certain direct consent and other rights with respect to certain cross and principal trades that Varagon effectuates. In respect of Fund I, Varagon may only effectuate certain cross and principal trades with the consent of Fund I's advisory board.

The acquisition of any asset by the SDLP requires either the direct unanimous approval of both Varagon SDLP and ARCC (acting in their capacity as managing members of the SDLP) or the unanimous approval of their respective representatives on the SDLP Investment Committee. Moreover, Varagon will follow all required steps under the Advisers Act, and relevant contractual requirements, with respect to the sale of investments by any Clients to the SDLP.

*Initial SMA Clients as Owners of Varagon*

As detailed in Item 10 above, certain Initial SMA Clients currently have a direct interest in Varagon. AIG, the Initial SMA Clients, and their respective co-advisor, are affiliated with each other.

The Initial SMA Clients who participated in the warehousing of loans for the formation of the SDLP are receiving an anchor investor fee from Varagon for a limited period of time.

While such Initial SMA Clients do not currently control a majority of the seats on Varagon's board of directors, such Initial SMA Clients, as well as their affiliated co-advisor, together have appointed two voting representatives to the ECC and as such they have direct voting rights on the ECC for approval of investments contemplated for purchase solely for the Initial SMA Client accounts as to which the ECC has approval rights. As such, they could be in a position to: (i) exert influence over Varagon's investment strategy, (ii) impact or block action by the ECC, solely as it relates to the Initial SMA Clients' investments, (iii) opt out of investments, making it more difficult to effectuate such investments, (iv) impact Varagon's management of the SDLP, and (v) impact changes to the SDLP or the purchase of investments by the SDLP.

### Potential Investments in OHCM Portfolio Companies

As detailed in Item 10 “*Certain Varagon Equity Owners are also Associated with another Investment Adviser*”, above, two current employees/advisers of OHCM serve as directors of Varagon and certain current and former employees of OHCM have invested, indirectly, in Varagon. Such persons may also have pecuniary interests in OHCM or private equity funds managed by OHCM. In the future, Varagon, for one or more of its Clients’ accounts, might invest in loans to portfolio companies of OHCM’s funds. Although OHCM and Varagon are separate businesses with no overlapping investment authority, to the extent that Varagon personnel have financial or other interests in OHCM or OHCM funds, Varagon has an incentive to: favor investments in portfolio companies of OHCM funds over similar investment opportunities; offer more favorable terms with respect to investments in such portfolio companies; and refrain from taking action with respect to an investment in any such portfolio company, when such action might harm the interest of such portfolio company.

### Varagon Has a Variety of Advisory & Governance Roles with the SDLP, SMA Clients and Fund I

While different securities in the SDLP will be issued and held by Varagon and its Clients, Varagon’s role as adviser to the SDLP requires it to make decisions with respect to the SDLP’s investments in a manner that is consistent with its duties to the SDLP as a whole.

Varagon, in its capacity as a founding member of SDLP with ARCC, serves in a material governance role with respect to the SDLP. Pursuant to the terms of the SDLP’s governing documents, certain conflicts of interest related to the SDLP require the approval of the holders of a majority of interests in the SDLP, including the SMA Clients that are investors in the SDLP. In some cases, independent third party review of SDLP conflict situations will be sought.

Additionally, the organizational, ownership and investment structure of Varagon, the SDLP trust entities and Fund I is complex and involves a number of roles and relationships that give rise to conflicts of interest. In certain instances, the interests of holders of the certificates issued by the SDLP trust entities will differ from the interests of Fund I, including with respect to the votes required with respect to the SDLP and its loans, the timing and amount of distributions to Fund I, the indirect investment by Fund I in the SDLP and the reinvestment of returns generated by investments by the SDLP.

See “*Resolving Conflicts*”, below, for a discussion of Varagon’s fiduciary duties and how Varagon seeks to resolve conflicts related thereto.

### Allocation of Opportunities

The SDLP invests in loans pursuant to sourcing agreements (the “SDLP Sourcing Agreements”) entered into with each of Varagon and ARCC. Under the terms of the SDLP’s Sourcing Agreement with Varagon, Varagon will offer the SDLP the opportunity to invest in loans originated by Varagon that meet certain investment criteria. In addition, Varagon can, but is not obligated to, offer to the SDLP the opportunity to invest in loans originated by Varagon that do not meet such investment criteria.

Varagon can decide to retain such interests (or interests in other loans declined, in whole or part, by the SDLP or in loans not required to be shared with the SDLP) because of economic or other benefit to Varagon or any other reason. For example, with respect to loans sourced for the SDLP, Varagon and ARCC can exercise their right to the Special Allocation as described in Item 4 above.

Similarly, Varagon can elect to structure a loan as a non-unitranche loan or unitranche loan for any reason, including market demand, Varagon's own economic preferences or the demands of any borrower. See also Item 12 – *Brokerage Practices*, below.

Varagon can establish new Clients that receive a priority interest in available opportunities of a specific or general nature, just as the SDLP and AIG each has a current right to a portion of certain types of loans sourced by Varagon. The establishment of such Clients would potentially reduce opportunities for other Clients existing at such time. However, the increased scale can have a net benefit as the absolute dollar amount of opportunities available to all Clients increases. For example, by aggregating the demand of all Clients, Varagon likely could attract larger investment opportunities, greater investment volume, and more attractive investment terms.

Certain conflicts arising from overlapping opportunities are partially mitigated through structural limitations on the ability of a Client to invest in certain opportunities or requirements to obtain the approval of a Client for such investments. Nonetheless, investment opportunities are frequently appropriate for more than one Client. Such investment opportunities will be allocated among Clients as described in Item 12 – *Brokerage Practices*, below.

#### *Overlapping Investments in the Same Issuer*

Overlapping opportunities include situations where multiple Clients invest in a common issuer (i) in the same or similar classes of loans or securities and loans or securities that have similar terms or (ii) in different loans or securities including loans and securities which have different terms (including seniority). Such investments might be made at the same or different times and/or prices, and such investments might not have been coordinated. Varagon may invest in a manner that causes its various Clients to hold overlapping investments.

Particularly when they own different layers of the capital structure, Clients will not always have the same economic interests or investment objectives with respect to the issuer, including with respect to views on the operations or activities of the issuer, the targeted returns for the investment, the timeframe for, and method of, exiting the investment, and the exercise of voting or similar rights, or the exercise of remedies following any default of the issuer.

Co-investments made available to Clients by Varagon will also create situations that involve overlapping investments that are potentially adverse to one another. Such overlapping investments would include investments in the equity of an existing obligor of a Client, which can result in Clients with opposing interests in respect of such obligor's operations and management. Furthermore, Varagon might provide such potentially adverse co-investment opportunities to one or more Clients consisting of, among other investors, employees and partners of Varagon. This will create potential conflicts of interest for Varagon as adviser. Please see "*Resolving Conflicts*", below.

### *Inconsistent Timing*

Conflicts can arise when a position is established or disposed of for one Client ahead of, or contemporaneously with, similar portfolio decisions or strategies for another Client. Market impact, liquidity constraints, or other factors could result in one or more Clients receiving less favorable trading results, the costs of implementing such portfolio decisions or strategies could be increased, such Clients could be diluted, the values, prices or investment strategies of another Client could be impaired or such Clients could otherwise be disadvantaged.

For example, one Client sells an investment and other Clients maintain or even add to their position in the same investment or a different investment in the same issuer. The initial sale could result in a decrease in the price of the investment that the other Clients continue to hold, and, as a result, the value of an investment by such other Clients could decrease, depending on the market impact of such sale.

Subsequent investments by Clients in a common issuer (*e.g.*, when a Client that did not previously hold an interest in an issuer invests in an issuer, but Clients that were existing holders lack sufficient assets to make a related follow on investment) can harm Clients that are existing holders through diluting or otherwise disadvantaging the value of investments held by existing holders or impacting the cost to existing holders of implementing portfolio decisions or strategies.

In other cases, a subsequent investment might have the effect of increasing the value of the existing holders' interests in the issuer but, in hindsight, have provided little or no benefit to new holders. Although subsequent investments can improve the prospects of the issuer (or even be necessary to prevent the issuer from failing), in determining to make an investment or in negotiating the terms and conditions of any such investment, or subsequent amendments or waivers, or in voting proxies or exercising rights with respect to such investments, Varagon might find that its own interests, the interests of a Client, and/or the interests of one or more other Clients, could conflict.

In cases where an issuer in which multiple Clients hold interests acquired at different points in time or in different positions within the issuer's capital structure experiences financial distress, decisions over the terms of any workout will raise conflicts of interest (including, for example, conflicts over proposed waivers and amendments to debt covenants). For example, the holder of a more senior position in an issuer could be better served by the liquidation of the issuer in which it is paid in full whereas holders of more junior positions might prefer a reorganization that holds the potential to create or preserve value for equity holders.

Please see "*Resolving Conflicts*", below.

### *Resolving Conflicts*

Varagon owes independent fiduciary duties to each of its Clients. Depending on the nature of the opportunity or investments, and of the potential actions that Varagon takes in connection therewith, Varagon, acting in a fiduciary capacity, could take an investment position or action for certain Clients that is different from, or inconsistent with, an action or position taken for other Clients having different investment objectives or different circumstances, or investments and actions may overlap or compete with other Clients.

Because conflicts vary based on the particular circumstances that exist at the time the conflict arises and must be resolved, it is anticipated that most conflicts will be resolved on a case-by-case basis pursuant to general fiduciary principles, under which Varagon will seek to resolve potential conflicts associated with overlapping opportunities (including those described herein) in the best interests of each Client without consideration of Varagon's own interests, or the interests of other Clients.

However, even if a particular Client is situated similarly to a different Client with respect to a particular investment, Varagon reserves the right to take different voting or other actions with respect to each similarly situated Client if Varagon determines it is in the overall best interest of such Client.

In resolving conflicts, Varagon will utilize, to varying degrees as appropriate, inside and outside counsel, independent directors, third party experts and outside accounting firms.

See also "*Allocation of Opportunities*", above, for a further discussion on this topic.

#### Co-investments

Varagon can provide co-investment opportunities to any persons, including some or all of the Clients, investors in other Clients, strategic relationships, lenders and related persons and in allocating co-investment opportunities can consider any factors it deems relevant, including, without limitation, the sophistication, transaction speed, tenure as a Client, commitment to making co-investment funds available, commitment to invest in future Varagon products, or strategic expertise of the prospective co-investor. Varagon takes on commitments, from time to time, to provide specific levels of co-investment opportunities to various Clients.

Co-investment arrangements will vary for each Client and will be negotiated by Varagon and such Client in the applicable Client Governing Documents. Co-investment opportunities could serve to induce additional investments from existing Clients or attract new Clients or investors.

Absent agreements to the contrary (including those described herein), no person (including any Client or any investor in a Client) is guaranteed access to any (or any particular) co-investment opportunities. Moreover, no Client or any other person should have any expectation of receiving a co-investment opportunity or to be owed any duty or obligation in connection therewith. Subject to any specific agreements otherwise, Varagon can use co-investment opportunities to benefit the growth of its franchise or for its own account.

#### ***Material Non-Public Information***

By reason of their responsibilities in connection with Varagon's investment activities or otherwise, and notwithstanding procedural safeguards including, but not limited to, information barriers and restricted securities lists, Varagon personnel might acquire confidential or material, non-public information that would limit Varagon's ability to buy and sell certain of its or its Clients' investments. Varagon and its personnel can receive such material non-public information in connection with Varagon's lending and advisory activities with respect to borrowers or others.

As of the date of this Brochure, no Varagon employee sits on a creditor committee or serves as a director of a privately held or publicly traded company for which Varagon has originated or manages a loan on behalf of a Client. However, certain of Varagon's employees, officers and directors could at some point serve on various creditor committees or as directors of privately held or publicly traded companies, including those in which Varagon originates or manages loans on behalf of its Clients. Service on these committees or boards also can result in the receipt of material nonpublic information.

When Varagon is in possession of material non-public information about an issuer, it can be precluded from effecting discretionary transactions on its own behalf or on behalf of its Clients in certain securities of these issuers, or advising Clients as to such transactions, when it otherwise might take or advise action, absent its possession of material non-public information.

## **Item 12: Brokerage Practices**

As a firm that is focused on investing in and acquiring, originating, and structuring corporate debt, loans and other financial instruments related primarily to private companies, Varagon's typical acquisition of an investment involves a privately negotiated transaction and does not ordinarily involve the services of a broker or dealer. For such private transactions, Varagon seeks to negotiate and execute the transaction in an efficient manner and consistent with the fiduciary duties it owes to its Clients.

To the extent that Varagon is called upon to dispose of a security that becomes publicly traded (or, in the future event that Varagon were to purchase a security that is publicly traded), Varagon will select broker-dealers in a manner consistent with its duty to seek best execution. In many cases, however, Varagon expects that frequently there will be only one broker-dealer (or, in some cases, a limited number of broker-dealers) capable of executing such a transaction. In such cases, Varagon will attempt to negotiate the best possible rates under the circumstances. When Varagon considers a broker to provide services to a Client, Varagon's determination to select such broker generally will take into account past, present and future services by such broker for such Client.

Varagon considers various factors when there are multiple broker-dealers capable of executing a Client's portfolio transaction with the ultimate aim being to execute the transaction in such a manner that the Client's total costs or proceeds in each transaction, as well as the quality of the service provided by the broker-dealer, is optimized. The determinative factor for this is whether the transaction appears to represent the best qualitative execution and not just whether transaction costs are lowest.

As such, Varagon will consider the full range and quality of the broker-dealer's service, including the ability to execute large or specialized transactions. As such, a Client will not always pay the lowest commission rate or spread that might be available. Varagon might also consider research and brokerage services provided to Varagon. However, Varagon does not enter into formal "soft dollars" arrangements in its formal allocation decisions.

Where Varagon has determined that more than one broker-dealer is capable of providing best execution for a particular transaction, it could select a broker-dealer that has, or whose affiliates

or registered representatives have, referred or recommended investors to Varagon or which are or are affiliated with a Client or an investor in a Client. Varagon does not recommend, request or require that a Client direct Varagon to execute transactions through a specified broker-dealer.

#### Aggregation and Allocation Policy

As noted in Item 6 above, when an investment is appropriate for multiple Clients, Varagon can cause such Clients to invest in an aggregate transaction and allocate the results of the transaction based on a target hold size approved by Varagon's ECC. The approved target hold size is generally allocated:

1. *First*, pro rata based on each participating Client's respective capital available for investment limited by the target hold size for each Client and taking into account factors such as liquidity, the nature of the investment, and investment conditions;
2. *Second*, remaining available amounts (due to, for example, hold size limitations) are offered on a pro rata basis to any other Clients that are able to participate;
3. *Third*, in the event the amount of an investment available to Varagon exceeds the aggregate target hold size established by Varagon's ECC for Varagon's Clients in aggregate, excess amounts are permitted to be offered to related and/or third party co-investors.

In accordance with the above, the Clients' available capital will be considered in the aggregate when determining the *pro rata* participation of each Client. The co-adviser of the Initial SMA Clients will determine the allocation of the investments amongst the Initial SMA Clients, and Varagon will determine the allocation of the investments between the Funds and amongst the Funds, the SDLP, the Initial SMA Clients and any other SMA Clients from time to time.

Varagon can establish new Clients that receive a priority interest in available opportunities of a specific or general nature, just as the SDLP has a current right to a portion of certain loans sourced by Varagon. The establishment of such Clients would potentially reduce opportunities for other Clients existing at such time. However, the increased scale can have a net benefit as the absolute dollar amount of opportunities available to all Clients increases. For example, by aggregating the demand of all Clients, Varagon is more likely to attract larger investment opportunities, greater investment volume and more attractive investment terms.

The scope and applicability of certain fees payable to Varagon with respect to such co-investment arrangements with Clients varies. Such arrangement with Clients will vary and will be negotiated by Varagon and the applicable Client in the applicable Client Governing Documents.

Moreover, as noted in Item 4, above, with respect to loans sourced for the SDLP, Varagon or ARCC can exercise their right to the Special Allocation.

See Item 11 – *Code of Ethics, Participation or Interest in Client Transactions and Personal Trading*, above.



## Item 13: Review of Accounts

### SMA Clients and Fund Clients

The ECC bears the primary responsibility for confirming that Varagon advises AIG, the SMA Clients and Fund I in accordance with the investment objectives and guidelines set forth in the applicable Client Governing Documents.

All investments are required to be carefully reviewed and approved by the ECC prior to the effectuation on any such investment.

For each investment approved, Varagon's ECC sets a target hold size which is generally allocated as follows:

1. *First*, pro rata based on each participating Client's respective capital available for investment limited by the target hold size for each Client and taking into account factors such as liquidity, the nature of the investment, and investment conditions;
2. *Second*, remaining available amounts (due to, for example, hold size limitations) are offered on a pro rata basis to any other Clients that are able to participate;
3. *Third*, in the event the amount of an investment available to Varagon exceeds the aggregate target hold size established by Varagon's ECC for Varagon's Clients in aggregate, excess amounts are permitted to be offered to related and/or third party co-investors.

In accordance with the above, the Clients' available capital will be considered in the aggregate when determining the *pro rata* participation of each Client. The co-adviser of the Initial SMA Clients will determine the allocation of the investments amongst the Initial SMA Clients, and Varagon will determine the allocation of the investments between the Funds and amongst the Funds, the SDLP, the Initial SMA Clients and any other SMA Clients from time to time.

The ECC also performs quarterly portfolio reviews of the investments in the Initial SMA Client and Fund I accounts and performs written reporting consistent with industry standards for similar Client accounts. The SMA Clients' investments will be subject to Varagon's quarterly valuation process, which is governed by Varagon's valuation policy and procedures.

See "*Initial SMA Clients as Owners of Varagon*" in Item 11, above, for a further discussion of the rights of the Initial SMA Clients with respect to Varagon, its investments and the ECC.

Fund Investors in Fund I will receive (i) quarterly, unaudited financial statements, and (ii) annually, annual audited financial statements, in each case, prepared in accordance with U.S. generally accepted accounting principles, and (iii) tax information necessary for the completion of tax returns, in such detail as Varagon will determine.

### SDLP

The SDLP has adopted investment guidelines governing the type of investments that the SDLP desires to acquire. Prior to the acquisition of any investment by the SDLP, the SDLP Investment

Committee is responsible for confirming that such investment comports with the SDLP investment guidelines.

All SDLP investments require the direct unanimous approval of both Varagon SDLP and ARCC via their respective representatives on the SDLP Investment Committee. The SDLP investment guidelines can be changed by mutual agreement of all representatives on the SDLP Investment Committee.

The independent trustee will be required under the SDLP indenture to deliver detailed written reports on a monthly basis. These monthly indenture written reports contain detail on each investment owned by the SDLP, as well as other details with respect to the performance of the SDLP, the SDLP Notes and other securities. All investors in the SDLP, including each of the certain SMA Clients that are invested in the SDLP, will have access to these monthly indenture written reports.

The ECC also performs quarterly portfolio reviews of the investments in the SDLP and performs written reporting consistent with industry standards for similar Client accounts.

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

As discussed in Item 5 above, agreements with certain Clients will entitle Varagon to receive or retain certain amounts related to its lending activities. Additionally, Varagon or an affiliate may receive compensation from borrowers for serving as an agent for a particular investment. Any such other compensation will not generally impact the management and other fees that Varagon will earn with respect to the management of Client accounts. However, the terms governing the fees and other compensation earned by Varagon with respect to a Client account will vary and will depend on the precise terms negotiated between Varagon and such Client.

In certain circumstances, Varagon might, pursuant to a written agreement and in accordance with applicable law, pay cash consideration to a third party for soliciting investors in a Fund managed by Varagon.

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

To the extent required by Rule 206(4)-2 under the Advisers Act (the “Custody Rule”), Client funds (*i.e.*, cash) and securities will be held by qualified custodians (*e.g.*, banks or broker-dealers). Except as discussed below with respect to one or more “Agency Accounts” (as defined below), Clients are generally responsible for selecting their own custodian(s).

While Varagon generally will not have physical custody of Client assets (except with respect to certain privately offered securities), Varagon may be deemed to have custody of Clients’ accounts for purposes of the Custody Rule. Such Clients will receive quarterly account statements from their qualified custodian(s).

Clients should carefully review the custodian statements and, to the extent such Clients also receive account statements from Varagon, should compare the Varagon statements with those received

from the qualified custodian. Clients who fail to receive statements from the qualified custodian or who have any questions about the statements they receive should promptly contact Varagon using the contact information provided on the cover of this Brochure.

Varagon may also be deemed to have custody of the accounts of any Fund (including Fund I) for which Varagon or an affiliate acts as the Fund's general partner or managing member. For Funds, Varagon will comply with the Custody Rule through the provision, on an annual basis, of audited financial statements to Fund Investors in any applicable Funds.

Audits will be performed by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board. Audited financial statements will be prepared in accordance with U.S. Generally Accepted Accounting Principles. Investors that do not receive such financial statements timely (generally, within 120 days after the relevant Fund's fiscal year end), should promptly contact Varagon using the contact information provided on the cover of this Brochure.

In addition, an affiliate of Varagon acts as loan administrative agent (the "Administrative Agent") for certain senior loans held by loan syndicates in which both Clients and non-client lenders participate. Where the Administrative Agent performs servicing functions (as described below) with respect to a loan in which Clients invest (a "Client Loan") funds contributed or due to each Client ("Client Funds") are directed to or from an account maintained by the Administrative Agent, with a qualified custodian, in the Administrative Agent's name (each such account, an "Agency Account"), and commingled with funds contributed by or due to non-Client syndicate lenders ("Other Funds", and the portion of loans related to these lenders, "Other Loans"). No loans or securities are held in any Agency Account and the purpose of each Agency Account is to receive and disburse of funds to and from the applicable borrower(s), syndicate lenders and others, as described below. As such, while an Agency Account commingles Clients Funds with Other Funds, the Agency Account only includes funds contributed by or due to participants in a loan syndicate. No account statements relating to any Agency Account are provided to any Client or other syndicate member.

In its role as administrative agent, our affiliate performs a variety of traditional services pursuant to the credit agreements governing each loan and loan syndicate, including performing loan servicing activities in accordance with negotiated guidelines regarding the movement of funds into and out of the relevant Agency Account for such purposes as collecting and distributing loan proceeds or payments and the Administrative Agent may receive payments in the Agency Account solely as agent for all the members of the loan syndicate. While the Administrative Agent must apply the terms of the relevant agreements and servicing guidelines, and maintains practices and procedures regarding servicing activities reasonably designed to assure proper receipt and distribution of funds, nothing other than its internal practices and controls, prevents the Administrative Agent or any of its personnel from withdrawing cash from an Agency Account for purposes other than those related to the loan syndicate. In light of recent SEC Staff guidance, Varagon now considers itself to have custody over the Client Funds in the Agency Account in the Agency Accounts for purposes of the Custody Rule.

## Item 16: Investment Discretion

Investments on behalf of Client accounts are made pursuant to each Client's Governing Documents. These Client Governing Documents confer investment authority and often limit the scope of such authority, including by imposing investment objectives, guidelines and restrictions that limit Varagon's freedom of action with respect to investments as well as requiring consultation or agreement with a co-advisor or other party prior to Varagon making or disposing of an investment.

It is often the case that Varagon's advice would not be implemented without the approval of another party and/or such advice requires the approval of a committee where Varagon does not constitute all or a sufficient number of the members to control the effectuation of such approval. These limitations restrict Varagon's investment discretion on behalf of such Client accounts and thus could have an adverse impact on the performance of Varagon with respect to such Client accounts.

### SMA Clients

Varagon has discretionary authority as to the Initial SMA Clients' investments but, as detailed in Item 10 above, shares authority with a co-advisor affiliated with the Initial SMA Clients in respect of investments purchased on behalf of the Initial SMA Clients. Varagon has no discretionary authority either as to AIG's or the Other SMA Clients' investments.

As detailed in Item 13, above, the ECC is the Varagon special committee that is required to approve all investments purchased on behalf of all SMA Clients as to which Varagon exercises discretionary authority.

See "*Initial SMA Clients as Owners of Varagon*" in Item 11, above, for a further discussion of the rights of the Initial SMA Clients with respect to Varagon, its investments and the ECC.

### SDLP

The respective SDLP Sourcing Agreements that each of Varagon and ARCC has entered into with the SDLP govern the independent investment sourcing activity undertaken by each of Varagon and ARCC on behalf of SDLP. However, the acquisition of investments on behalf of the SDLP will require the direct unanimous approval of both Varagon SDLP and ARCC via their respective representatives on the SDLP Investment Committee.

Varagon (through Varagon SDLP) and ARCC each have appointed two members to the SDLP Investment Committee. The SDLP Investment Committee will meet as needed to discuss new investment prospects, structuring and execution of investments under consideration, monitoring current investments and other management decisions. If the SDLP Investment Committee is unable to agree on a decision or course of action with respect to certain discrete matters (principally related to portfolio management matters), then such matters can be referred to an independent third party for resolution.

See "*Initial SMA Clients as Owners of Varagon*" in Item 11, above, for a further discussion of the rights of the Initial SMA Clients with respect to Varagon, its investments and the ECC.

### Funds

Varagon has discretionary authority as to Fund I's investments pursuant to the investment management agreement entered into with Fund I. The affiliated general partner of Fund I has ultimate responsibility for the investment advisory activity of Fund I. As stated above, such investment discretion is subject to the investment objectives, guidelines and restrictions set forth in Fund I's Client Governing Documents. It is expected that any future Funds will be similarly structured with respect to Varagon's discretionary authority.

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

Varagon invests almost exclusively in private, U.S. middle market companies, which typically do not issue proxies. However, from time to time, it is possible that Varagon receives proxies in connection with a publicly listed company and Varagon is asked to exercise consent rights in connection with a publicly listed company loan or other debt instrument.

Varagon has adopted policies and procedures reasonably designed to assure that consents and, if the situation arises, proxies, are handled in the best economic interests of its Clients. Decisions with respect to consents and proxies can give rise to a potential conflict of interest. Varagon's policies and procedures are designed to reduce the likelihood of any such conflict, and to resolve any such conflict in its Clients' interest by ensuring that Varagon votes the equity proxies of its Clients in each such Client's best overall interests.

Pursuant to Varagon's policies and procedures, all proxy materials received by Varagon are forwarded to the CCO or his or her designee. The CCO records on a log the name of the company to which the proxy materials relate, the date the proxy materials are received and the date by which the proxy needs to be voted.

Upon completion of a reconciliation process, the CCO forwards the proxy materials to the ECC for voting. The ECC shall vote all proxies in the best interests of Varagon's Clients pursuant to and in accordance with the investment strategy of each Client. The ECC will follow the procedures set forth in the policies and procedures in order to ensure that proxies are voted in the best economic interests of its Clients.

Prior to exercising voting authority on any other matter, the ECC shall review the proxy materials and undertake a reasonable investigation to determine whether any of the matters to be voted on present a material conflict of interest between Varagon and the interests of its Clients.

Where the ECC determines that a material conflict of interest exists, it shall take reasonable steps to ensure that the conflict does not influence the ECC to vote a proxy in a manner that is not in the best interests of its Clients. These steps can include, but are not limited to any one or a combination of the following: (i) consulting with Varagon's outside counsel to determine how to vote in a manner that will be in the best interests of its Clients; and (ii) erecting information barriers around conflicted personnel to ensure that they do not influence the voting decision.

The ECC shall make and maintain a record describing any steps taken to prevent a potential material conflict of interest from causing a proxy to be voted in a manner that is not in the best economic interest of its Clients. Where the ECC determines that no material conflict of interest exists, the matter shall

be analyzed based on its specific facts and circumstances and the ECC shall vote on the matter in the best interests of its Clients.

Clients and Fund Investors may contact Varagon's CCO using the contact information provided on the cover of this Brochure for a copy of the policy or information with respect to a specific proxy or consent.

Under the terms of the SDLP, any exercise of consent rights or proxy votes will be undertaken by the SDLP Investment Committee and the SDLP Investment Committee will take those actions which they determine are in the overall best interest of the SDLP. Varagon, with respect to the voting rights it is entitled to through its representation on the SDLP Investment Committee, will use the policies and procedures described above in this Item 17 in determining what proxy or consent actions that it will vote to take on behalf of the SDLP.

## **Item 18: Financial Information**

Not Applicable.