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This brochure provides information about the qualifications and business practices of Prospect Capital Management L.P. (“Prospect Capital Management”). If you have any questions about the contents of the brochure, please contact us at (212) 448-0702. 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 Prospect Capital Management also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **ITEM 2. SUMMARY OF MATERIAL CHANGES**

The last annual updating amendment to Form ADV Part 2A was filed with the SEC in March 2023. Prospect Capital Management has made no material changes to the updating amendment filed in March 2023.

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## ITEM 4: ADVISORY BUSINESS

Prospect Capital Management is a Delaware limited partnership that has been registered as an investment adviser under the Investment Advisers Act of 1940 (the “Advisers Act”) since March 31, 2004.<sup>1</sup> Prospect Capital Management serves as investment adviser to Prospect Capital Corporation (the “Corporation”) under the terms of an investment advisory agreement in which 100% of total advisory billings come from investment supervisory services offered by the applicant for a percentage of assets under management. Prospect Capital Management is led by John F. Barry III and M. Grier Eliasek, two senior executives with significant investment advisory and business experience. Both Messrs. Barry and Eliasek spend a significant amount of their time in their roles at Prospect Capital Management working on behalf of its clients. Mr. Barry currently controls Prospect Capital Management. Prospect Capital Management also serves as investment adviser to Prospect Floating Rate and Alternative Income Fund, Inc. (“PFLOAT”).

Prospect Capital Management is a multi-strategy alternative investment management firm focused primarily on credit opportunities. Each of the firm’s strategies are discussed below. Prospect Capital Management’s and its affiliates’ clients include, or in the future may include, registered investment companies, business development companies, unregistered pooled investment vehicles and separate accounts.

Prospect Capital Management and its predecessor investment management companies commenced business in 1988 when several senior executives who managed the merchant bank and high yield units of Merrill Lynch formed Prospect Street Investment Management, succeeded by Prospect Capital Management today (together, “Prospect”). Since 1988, Prospect has specialized in a wide range of private debt and equity investments, including first and second lien loans, subordinated and mezzanine loans, growth and venture capital, and leveraged buyouts. Prospect Capital Management has made investments through multiple business and credit cycles and across all segments of the capital structure. Prospect Capital Management requires an educational background of at least an undergraduate college degree or equivalent.

The Corporation completed its initial public offering July 27, 2004 as a business development company making first lien, second lien, subordinated and mezzanine loans to middle market businesses, and also initiating and completing middle market control acquisitions for its own account.

Prospect Capital Management’s investment committee includes the following senior investment professionals:

**John F. Barry III** (born 1952): Mr. Barry is Chairman of the Board and Chief Executive Officer of the Corporation. Mr. Barry is also President and Secretary of Prospect Capital Management and President and Secretary of Prospect Administration, LLC. Mr. Barry has been an officer of Prospect Capital Management (and predecessors) since 1990 and is the chairman of the firm’s investment committee. In addition to overseeing the Corporation and Prospect Capital Management, Mr. Barry has served on the boards of directors of more than a dozen private and public portfolio companies, including as Chairman and Chief Executive Officer of Bondnet Trading Systems, Inc. Mr. Barry also has served on the Board of Advisors of USEC, Inc., a publicly-traded energy company. From 1988 to 1989, Mr. Barry managed the Corporate Finance Department of L.F. Rothschild & Company. From 1983 to 1988, Mr. Barry was an investment banker at Merrill Lynch & Co. From 1979 to 1983, Mr. Barry was an attorney at Davis Polk & Wardwell. From 1978 to 1979, Mr. Barry served as Law Clerk to Circuit Judge J. Edward Lumbard, formerly Chief Judge of the United States Court of Appeals for the Second Circuit in New York City. Mr. Barry served from 1999 until 2011 as Chairman of the Board of Directors of the Mathematics Foundation of America, a non-profit foundation that enhances opportunities in mathematics education for students from diverse backgrounds. Mr. Barry received his Bachelor

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<sup>1</sup> Registration as an investment adviser under the SEC does not imply a certain level of skill or training.

of Arts *magna cum laude* from Princeton University in 1974, where he was a University Scholar, and his J.D. *cum laude* from Harvard Law School in 1978, where he was an officer of the Harvard Law Review.

**M. Grier Eliasek** (born 1973): Mr. Eliasek is a Director, President, and Chief Operating Officer of the Corporation. Mr. Eliasek is also a Managing Director of Prospect Capital Management and Prospect Administration, LLC. Mr. Eliasek has worked in investment management since 1999. Prior to joining Prospect, Mr. Eliasek served as a consultant with Bain & Company from 1995 to 1998 where he managed engagements for companies in several different industries. At Bain, he analyzed new lines of businesses, developed market strategies, revamped sales organizations, and improved operational performance. Mr. Eliasek received his BS degree in Chemical Engineering with Highest Distinction from the University of Virginia (where he was a Jefferson Scholar and a Rodman Scholar) and his MBA from Harvard Business School.

**David L. Belzer** (born 1969): Mr. Belzer is a Managing Director with Prospect Capital Management and has been in the finance industry since 1998. He oversees Prospect's Direct Lending activities, which focus on private debt investments in non-sponsor owned middle market businesses. Mr. Belzer is also responsible for originating, executing, and managing debt and equity investments in the energy sector, including oil and gas exploration and production, oil and gas services, and pipelines. He is also responsible for managing many of Prospect's relationships with financial intermediaries. Prior to joining Prospect, Mr. Belzer was a member of the Structured Finance Group at GE Capital from 1998 to 1999, where he focused on originating and executing investments in the oil and gas sector. From 1996 to 1998, he worked at Wheelabrator Technologies, a developer of waste-to-energy plants. While at Wheelabrator, he focused on power plant acquisitions and development of the company's inside-the-fence cogeneration strategy in the northeast. Mr. Belzer received his BA from the University of Indiana and an MBA from the Olin School of Business at Washington University.

**David C. Moszer** (born 1971): Mr. Moszer is a managing director with Prospect Capital Management and has been in the finance industry since 1993. He oversees Prospect's private equity sponsor coverage activities and in this capacity is responsible for originating, executing, and managing debt investments across a range of industries, including business services, chemicals, distribution, and food. Prior to joining Prospect, from 2007 to 2009, Mr. Moszer served as director of GSO Capital Partners where he executed middle market junior capital transactions. From 2004 to 2007, he was a Principal at Friedberg Milstein, a firm that he helped establish as a leading investor in middle market second lien and mezzanine debt transactions. From 1999 to 2004, Mr. Moszer was a principal of GarMark Partners, where he was involved in mezzanine investing activities. From 1995 to 1999, he was a member of the merchant banking group at Banque Paribas where he originated senior debt transactions for middle market leveraged buyouts. Mr. Moszer began his career at Bear Stearns in the investment banking group where he focused on Merger and Acquisition advisory activities. Mr. Moszer received his BA from the University of Virginia and his MBA from Columbia University.

**Theodore Fowler** (born 1946): Ted Fowler is a Managing Director at Prospect Capital Management and has worked in investment management and finance since 1986. He is responsible for overseeing Prospect's real estate investment strategy and portfolio. Prior to joining Prospect, Mr. Fowler spent the first half of his career working with Wall Street bulge bracket firms. He ran the real estate group at Credit Suisse First Boston before being named co-head of the investment and merchant banking department at Credit Suisse First Boston, from where he then joined Prudential-Bache as co-head of its investment and merchant banking departments. Thereafter he spent over 20 years focused on advising and raising capital for small and mid-cap companies, initially at his own firm and then at Laidlaw & Company, where he was the head of the firm's investment banking group. Mr. Fowler has been on numerous boards of directors and consummated private equity investment transactions across a broad range of industries, including real estate, healthcare, insurance, hospitality, technology and consumer

branded products. Mr. Fowler received his BA from Amherst College and his MBA from Columbia University.

**Jason Wilson** (born 1972): Jason Wilson is a Managing Director at Prospect Capital Management and has been in the finance industry since 1999. At Prospect, he is responsible for originating, executing, and managing investments across a variety of industries, including business services, consumer products, and media. Mr. Wilson is also responsible for managing many of Prospect's relationships with private equity sponsors. He is a director on the board of ReFuel and InterDent Inc. Prior to joining Prospect, he worked in investment banking for nine years at Lehman Brothers, Inc. and UBS Investment Bank. At UBS, he served as executive director and Head of Out-of-Home Entertainment, covering clients in the theme park, movie theatre, live entertainment and outdoor advertising sectors. Prior to investment banking, Mr. Wilson served as a senior project engineer at Exxon Corporation where he was responsible for reservoir development, production, and joint ventures involving oil and natural gas properties in West Texas and North Dakota. Mr. Wilson received his BS magna cum laude from the University of Notre Dame and his MBA from the University of Chicago Graduate School of Business.

The principal executive offices of Prospect Capital Management are 10 East 40th Street, 42nd Floor, New York, NY 10016.

Prospect Capital Management primarily focuses on lending to and investing in middle market privately-held companies. In this brochure, the term "middle market" refers to companies typically with annual revenues between \$50 million and \$2 billion. In particular, Prospect Capital Management's clients invest in senior and subordinated debt and equity of companies in need of capital for acquisitions, divestitures, growth, development, recapitalizations and other purposes. Prospect Capital Management works with the management teams or financial sponsors to seek investments with historical cash flows, asset collateral or contracted pro-forma cash flows.

Prospect Capital Management currently has nine strategies that guide its origination of investment opportunities: (1) lending to companies controlled by private equity sponsors, (2) lending to companies not controlled by private equity sponsors, (3) purchasing controlling equity positions and lending to operating companies, (4) purchasing controlling equity positions and lending to financial services companies, (5) purchasing controlling equity positions and lending to real estate companies, (6) purchasing controlling equity positions and lending to aircraft leasing companies, (7) investing in structured credit, (8) investing in syndicated debt and (9) investing in consumer and small business loans and asset-backed securitizations. Prospect Capital Management's clients may also invest in other strategies and opportunities from time to time that it views as attractive. Prospect Capital Management continues to evaluate other origination strategies in the ordinary course of business with no specific top-down allocation to any single origination strategy.

*Lending to Companies Controlled by Private Equity Sponsors* - Prospect Capital Management's clients make agented loans to companies which are controlled by private equity sponsors. This debt can take the form of first lien, second lien, unitranche or unsecured loans. These loans typically have equity subordinate to the loan position of Prospect Capital Management's clients.

*Lending to Companies not Controlled by Private Equity Sponsors* - Prospect Capital Management's clients make loans to companies which are not controlled by private equity sponsors, such as companies that are controlled by the management team, the founder, a family or public shareholders. This origination strategy may have less competition to provide debt financing than the private-equity-sponsor origination strategy because such company financing needs are not easily addressed by banks and often require more diligence preparation. This origination strategy can result in investments with higher returns or lower leverage than the private-equity-sponsor origination strategy.

*Purchasing Controlling Equity Positions and Lending to Operating Companies* - This strategy involves purchasing yield-producing debt and controlling equity positions in non-financial-

services operating companies. Prospect Capital Management believes that its clients can provide enhanced certainty of closure and liquidity to sellers and such clients look for management to continue on in their current roles.

*Purchasing Control Equity Positions and Lending to Financial Services Companies* - This strategy involves purchasing yield-producing debt and control equity investments in financial services companies, including consumer direct lending, sub-prime auto lending and other strategies. These investments are often structured as tax-efficient partnerships, enhancing returns.

*Purchasing Controlling Equity Positions and Lending to Real Estate Companies* - Prospect Capital Management's clients make investments in real estate. Real estate investments are in various classes of developed and occupied real estate properties that generate current yields, including multi-family properties, student housing, and self-storage. Prospect Capital Management seeks to identify properties that have historically significant occupancy rates and recurring cash flow generation. Prospect Capital Management's clients generally co-invest with established and experienced property management teams that manage such properties after acquisition.

*Purchasing Controlling Equity Positions and Lending to Aircraft Leasing Companies* - Prospect Capital Management's clients invest in debt as well as equity in companies with aircraft assets subject to commercial leases to airlines across the globe. These investments can present attractive return opportunities due to cash flow consistency from long-term leases coupled with hard asset residual value. Prospect Capital Management believes that these investment companies seek to deliver risk-adjusted returns with strong downside protection by analyzing relative value characteristics across a variety of aircraft types and vintages.

*Investing in Structured Credit* - Prospect Capital Management's clients make investments in CLOs, often taking a significant position in the subordinated interests (equity) and debt of the CLOs. The underlying portfolio of each CLO investment is diversified across approximately 100 to 200 broadly syndicated loans and does not have direct exposure to real estate, mortgages, or consumer-based credit assets. The CLOs in which Prospect Capital Management's clients invest are managed by established collateral management teams with many years of experience in the industry.

*Investing in Syndicated Debt* - On a primary or secondary basis, Prospect Capital Management's clients purchase primarily senior and secured loans and high yield bonds that have been sold to a club or syndicate of buyers. These investments are often purchased with a long term, buy-and-hold outlook, and Prospect Capital Management's clients often look to provide significant input to the transaction by providing anchoring orders.

*Investing in Consumer and Small Business Loans and Asset-Backed Securitizations* - Prospect Capital Management's clients purchase loans originated by certain consumer and small-and-medium-sized business ("SME") loan platforms. Prospect Capital Management's clients generally purchase each loan in its entirety (*i.e.*, a "whole loan") and invest in asset-backed securitizations collateralized by consumer or small business loans. The borrowers are consumers and SMEs. The loans are typically serviced by the facilitators of the loans.



## ITEM 5: FEES AND COMPENSATION

*Management Fees* – Prospect Capital Management and its affiliates receive management fees from clients. The specific payment terms and other conditions of the management fee available to Prospect Capital Management and its affiliates are set forth in the relevant governing documents of their clients or in the management agreements with their clients. Prospect Capital Management generally deducts fees directly from client accounts. Fees are generally payable by clients monthly, quarterly or annually in arrears as set forth in the applicable management agreement. For services rendered under the management agreement with the Corporation, Prospect Capital Management charges a base management fee calculated at an annual rate of 2.00% of the Corporation's gross assets. The base management fee is payable quarterly in arrears. The base management fee is calculated based on the average value of its gross assets at the end of the two most recently completed calendar quarters, and appropriately adjusted for any share issuances or repurchases during the current calendar quarter. Base management fees for any partial month or quarter are appropriately prorated. Fees charged are not refundable. Clients pay their own operating expenses including, but not limited, to brokerage commissions, custody fees and third-party administrator fees. Prospect Capital Management does not receive brokerage commissions.

*Performance Fees* – Prospect Capital Management and its affiliates may receive performance-based compensation (e.g., carried interest). The specific payment terms and other conditions of the carried interest compensation available to Prospect Capital Management and its affiliates are set forth in the relevant governing documents of their clients or in the management agreements with their clients. All performance-based compensation payable to the general partners or investment managers of their clients will be consistent with the requirements of Section 205 of the Advisers Act and Rule 205-3 thereunder. Generally, performance-based compensation payable to the applicable general partner, Prospect Capital Management or its affiliates is payable quarterly, annually or more frequently in arrears on a deal-by-deal basis.

For its services rendered under the investment advisory agreement with the Corporation, Prospect Capital Management charges an incentive fee. The incentive fee consists of two parts, as follows: The first part is calculated and payable quarterly in arrears based on the Corporation's pre-incentive fee net investment income for the immediately preceding calendar quarter. For this purpose, pre-incentive fee net investment income means interest income, dividend income and any other income (including any other fees (other than fees for providing managerial assistance), such as commitment, origination, structuring, diligence and consulting fees or other fees the Corporation receives from portfolio companies) accrued during the calendar quarter, minus operating expenses for the quarter (including the base management fee, any expenses payable under that certain Administration Agreement between the Corporation and Prospect Administration, LLC, an affiliate of Prospect Capital Management, and any interest expense and dividends paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-incentive fee net investment income includes, in the case of investments with a deferred interest feature (such as original issue discount, debt instruments with payment in kind interest and zero coupon securities), accrued income that the Corporation has not yet received in cash. Pre-incentive fee net investment income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation. Pre-incentive fee net investment income, expressed as a rate of return on the value of the Corporation's net assets at the end of the immediately preceding calendar quarter, will be compared to a "hurdle rate" of 1.75% per quarter (7% annualized). Net investment income used to calculate this part of the incentive fee is also included in the amount of gross assets used to calculate the 2% base management fee. An incentive fee is paid by the Corporation to Prospect Capital Management with respect to pre-incentive fee net investment income in each calendar quarter as follows:

- no incentive fee in any calendar quarter in which pre-incentive fee net investment income



does not exceed the hurdle rate;

- 100% of the Corporation's pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 125% of the quarterly hurdle rate in any calendar quarter (8.75% annualized assuming an annualized hurdle rate of 7%). This portion of the Corporation's pre-incentive fee net investment income (which exceeds the hurdle rate but is less than 125% of the quarterly hurdle rate) is referred to as the "catch up." The "catch up" is meant to provide Prospect Capital Management with an incentive fee of 20% of the Corporation's pre-incentive fee net investment income as if a hurdle rate did not apply if this net investment income exceeds 125% of the quarterly hurdle rate in any calendar quarter;

20% of the amount of the Corporation's pre-incentive fee net investment income, if any, that exceeds 125% of the quarterly hurdle rate in any calendar quarter (8.75% annualized assuming an annualized hurdle rate of 7%).

The second part of the incentive fee, the capital gains incentive fee, is determined and payable in arrears as of the end of each calendar year (or upon termination of the investment advisory agreement, as of the termination date), commencing on December 31, 2004, and equals 20.0% of the Corporation's realized capital gains for the calendar year, if any, computed net of all realized capital losses and unrealized capital depreciation at the end of such year; provided that the capital gains incentive fee determined as of December 31, 2004 will be calculated for a period of shorter than twelve calendar months to take into account any realized capital gains computed net of all realized capital losses and net unrealized capital depreciation for the period ending December 31, 2004. In determining the capital gains incentive fee payable to Prospect Capital Management, the aggregate realized capital gains, aggregate realized capital losses and aggregate unrealized capital depreciation, as applicable, are calculated with respect to each of the investments in the Corporation's portfolio. For this purpose, aggregate realized capital gains, if any, equal the sum of the differences between the net sales price of each investment, when sold, and the original cost of such investment since inception. Aggregate realized capital losses equals the sum of the amounts by which the net sales price of each investment, when sold, is less than the original cost of such investment since inception. Aggregate unrealized capital depreciation equals the sum of the differences, if negative, between the valuation of each investment as of the applicable date and the original cost of such investment. At the end of the applicable period, the amount of capital gains that will serve as the basis for the calculation of the capital gains incentive fee equals the aggregate realized capital gains less aggregate realized capital losses and less aggregate unrealized capital depreciation with respect to the Corporation's portfolio of investments. If this number is positive at the end of such period, then the capital gains incentive fee for such period are equal to 20% of such amount, less the aggregate amount of any capital gains incentive fees paid in respect of our portfolio in all prior periods.

Because of the structure of the incentive fee, it is possible that the Corporation may have to pay an incentive fee in a quarter where it incurs a loss. For example, if the Corporation receives pre-incentive fee net investment income in excess of the hurdle rate for a quarter, it will pay the applicable income incentive fee even if it has incurred a loss in that quarter due to realized or unrealized losses on its investments.

*Other Fees* – Prospect Capital Management or its affiliates may also receive fees for providing consulting or other services to their clients' portfolio companies and Prospect Capital Management employees may receive directors' fees for serving on the boards of its clients' portfolio companies. For certain clients, these fees may be shared with the relevant client through reductions or off-sets against management fees that would otherwise be applicable. Such offsets or reductions, if any, are described in the offering materials, disclosure documents, investment management agreements and/or governing documents of the relevant client.

*Expenses* – All investment professionals of Prospect Capital Management and its staff, when and to the extent engaged in providing investment advisory and management services, and the compensation and routine overhead expenses of such personnel allocable to such services, will be provided and paid for by Prospect Capital Management. Prospect Capital Management’s clients generally bear all other costs and expenses of their operations and transactions, including those relating to: organization and offering; calculation of our net asset value (including the cost and expenses of any independent valuation firms); expenses incurred by Prospect Capital Management payable to third parties, including agents, consultants or other advisers (such as independent valuation firms, accountants and legal counsel), in monitoring our financial and legal affairs and in monitoring our investments and performing due diligence on prospective portfolio companies; interest payable on debt, if any, and dividends payable on preferred stock, if any, incurred to finance investments; offerings of debt, preferred shares, common stock and other securities of its clients; investment advisory fees; fees payable to third parties, including agents, consultants or other advisors, relating to, or associated with, evaluating and making investments; transfer agent and custodial fees; registration fees; listing fees; taxes; independent directors’ fees and expenses; costs of preparing and filing reports or other documents with the SEC; the costs of any reports, proxy statements or other notices to stockholders, including printing costs; a client’s allocable portion of the fidelity bond, directors and officers/errors and omissions liability insurance, and any other insurance premiums; direct costs and expenses of administration, including auditor and legal costs; and all other expenses incurred by clients, by Prospect Capital Management or by Prospect Administration, LLC in connection with administering client business, such as a client’s allocable portion of overhead under the Administration Agreement, including rent and an allocable portion of the costs of the client’s Chief Compliance Officer and Chief Financial Officer and his or her staff.

## ITEM 6: PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

As discussed in Item 5, Prospect Capital Management and its affiliates may receive performance-based fees from their clients. Performance-based fees may be subject to hurdles and/or other conditions, depending, among other things, on the strategy and structure of the client. Specific details regarding performance-based fees, if any, are set out in the offering materials, disclosure documents, investment management agreements and/or governing documents of the relevant client. Because the amount and/or existence of performance-based fees may vary among Prospect Capital Management's clients, conflicts may arise regarding the allocation of investments or opportunities among its clients. Prospect Capital Management intends to allocate investment opportunities in a fair and equitable manner consistent with each client's investment objectives and strategies so that clients are not disadvantaged in relation to any other client. Prospect Capital Management will consider a variety of factors, including but not limited to, the investment objectives, size of transaction, investable assets, alternative investments potentially available, prior allocations, liquidity, maturity, expected holding period, diversification, lender covenants and other client-specific limitations. Investments that are suitable for one client may not be suitable for another client. In certain cases, investment opportunities may be made other than on a pro rata basis. For example, one client may desire to retain an asset at the same time that another client desires to sell it or one client may not have additional capital to invest at a time when another client does have available capital. Investment opportunities in certain privately placed securities will be subject to allocation pursuant to the terms of a co-investment exemptive order issued by the SEC under the Investment Company Act of 1940 (the "1940 Act") applicable to certain funds managed by Prospect Capital Management and its affiliates.

There may be situations in which one or more of our clients might invest in different securities issued by the same company. It is possible that if the company's financial performance and condition deteriorates such that one or both investments are or could be impaired, Prospect Capital Management might face a conflict of interest given the difference in seniority of the respective investments. In such situations, Prospect Capital Management would review the conflict on a case-by-case basis and implement procedures consistent with its fiduciary duty to enable it to act fairly to each client in the circumstances. Any procedures implemented by Prospect Capital Management will take into consideration the interests of the affected clients, the circumstances giving rise to the conflict, the procedural efficacy of various methods of addressing the conflict and applicable legal requirements.

## ITEM 7: TYPES OF CLIENTS

Currently, Prospect Capital Management provides advisory services to the Corporation, a business development company regulated under the 1940 Act, and non-discretionary advisory services to pooled investment vehicles with respect to discrete identified assets. Prospect Capital Management may provide investment advice to other clients in the future, including registered investment companies, other business development companies, other pooled investment vehicles and separate accounts.

## ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

Prospect Capital Management consults financial newspapers and magazines, inspections of corporate activities, research material prepared by others, corporate rating services, annual reports, prospectuses, filings with the SEC, and company press releases. Prospect Capital Management is focused on both long and short term purchases, trading, and offers investment advice based on, but not exclusive to, principals of fundamental and value analysis with fundamental security analysis methods.

Prospect Capital Management's clearly defined investment strategy has remained consistent over the years, focusing on inefficient markets and solid businesses with a value-oriented discipline.

### ✦ Focus on Inefficient Markets

Middle market private companies  
Underserved sectors (expertise in financial services, industrials and other markets)  
Wide origination outreach built on ideas/relationships

### ✦ Target Solid Businesses

Infrastructure and business model barriers  
Recurring, visible profitability  
Experienced management

### ✦ Maintain Value-Oriented Discipline

Lending orientation, with equity flexibility  
Conservative multiples/ratios, with yield protection  
Flexibility to address both primary/secondary markets  
Flexibility to address sponsor finance, direct lending, and control buyout strategies

Investing in securities involves risk of loss which clients should be prepared to bear. Material risks associated with investment in each of Prospect Capital Management's clients are summarized below and, to the extent applicable, set forth in the public filings, private placement memorandum or prospectus for each client.

The risks involved with an investment in the Corporation can be found in the Corporation's most recently filed registration statement and other public filings. Each of Prospect Capital Management's investment strategies entails a high degree of risk. There can be no assurance that Prospect Capital Management's clients will be able to achieve their investment objectives or that holders of equity interests in its clients will recoup any or all of their investment in the client or receive a positive return on their capital. Furthermore, any returns generated by clients may not adequately compensate investors for the business and financial risks assumed upon making an investment in such clients. An investment in the equity interests of Prospect Capital Management's clients may not be appropriate for all prospective investors. A prospective investor should carefully review the risk factors described in each client's disclosure documents and consider his or her ability to assume these risks before making an investment in any Prospect Capital Management client.

## **ITEM 9: DISCIPLINARY INFORMATION**

There are no legal or disciplinary events required to be disclosed pursuant to Item 9.

## ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Prospect Capital Management is the financial advisor to the Corporation and its affiliate Prospect Capital Funding LLC (“PCF”). Prospect Capital Management’s objective with respect to the Corporation and PCF is to generate both current income and long-term capital appreciation through debt and equity investments.

Prospect Capital Management, whose clients include the Corporation and PFLOAT, is also the operating member of one other investment adviser, Priority Senior Secured Income Management, LLC (“PSSIM”). PSSIM is the registered investment adviser to one client, Priority Income Fund, Inc. (“PRIS”), a non-traded closed-end investment company. Prospect Capital Management shares employees with PSSIM, and these employees perform portfolio management functions for each of the Corporation, PFLOAT and PRIS. These relationships may create a conflict of interest with the Corporation since PFLOAT and PRIS each pursue investment opportunities similar to a portion of the types of investment opportunities that the Corporation pursues. Additionally, different fee arrangements are in place with respect to each of the Corporation, PFLOAT and PRIS, which may create an incentive to favor one of these funds over another.

Prospect Capital Management may also, from time to time, enter into non-discretionary investment advisory agreements with third parties, which may be pooled investment vehicles or institutions, that govern advice with respect to one or more identified investments sourced by Prospect Capital Management. These investment opportunities are generally similar to certain of the types of investment opportunities pursued by the Corporation, PFLOAT and/or PRIS. The fee arrangements in place with respect to these clients may similarly create an incentive to favor one of these third parties clients over the Corporation, PFLOAT and/or PRIS, or the Corporation, PFLOAT and/or PRIS over one of these third party clients.

Prospect Capital Management addresses these conflicts through the implementation of policies and procedures that are designed to reasonably ensure that investment opportunities are allocated fairly and equitably among affiliated funds and other clients over time and in a manner that is consistent with applicable laws, rules and regulations. Additionally, the Corporation has received a co-investment exemptive order from the SEC (the “Order”) granting the Corporation the ability to negotiate terms other than price and quantity of co-investment transactions with other funds managed or owned by Prospect Capital Management or certain affiliates, including PFLOAT and PRIS, subject to the conditions included therein. Under the terms of the Order, a “required majority” (as defined in Section 57(o) of the 1940 Act) of the Corporation’s independent directors must make certain conclusions in connection with a co-investment transaction, including that (1) the terms of the proposed transaction, including the consideration to be paid, are reasonable and fair to the Corporation and its stockholders and do not involve overreaching of the Corporation or its stockholders on the part of any person concerned and (2) the transaction is consistent with the interests of the Corporation’s stockholders and is consistent with its investment objective and strategies. In certain situations where co-investment with one or more funds managed or owned by Prospect Capital Management or its affiliates is not covered by the Order, such as when there is an opportunity to invest in different securities of the same issuer, the personnel of Prospect Capital Management or its affiliates will need to decide which fund will proceed with the investment. Such personnel will make these determinations based on policies and procedures, which are designed to reasonably ensure that investment opportunities are allocated fairly and equitably among affiliated funds and other clients over time and in a manner that is consistent with applicable laws, rules and regulations. Moreover, except in certain circumstances, when relying on the Order, the Corporation will be unable to invest in any issuer in which one or more funds managed by Prospect Capital



Management or its affiliates has previously invested.

## ITEM 11: CODE OF ETHICS, PARTICIPATION, OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

Prospect Capital Management has adopted a code of ethics, which includes its policy regarding insider trading. The Code of Ethics also lays out general principles of fiduciary duty to which all of Prospect Capital Management's employees must adhere and also sets out various reporting requirements and securities trading restrictions applicable to Prospect Capital Management employees and, indirectly, members of their immediate family.

Prospect Capital Management permits its officers, members, and employees to engage in personal securities transactions. These officers, members, and employees may buy or sell securities or other instruments that Prospect Capital Management has recommended to or purchased on behalf of the Corporation and/or its other clients and may engage in transactions for their own accounts in a manner that is inconsistent with recommendations that Prospect Capital Management may make to the Corporation and/or its other clients. A personal securities transaction by an officer, member, or employee may raise potential conflicts of interest when such transaction involves a security that the Corporation or another clients owns, or that Prospect Capital Management is considering or recommending for purchase or sale to the Corporation or another client. Prospect Capital Management has adopted and implemented a Code of Ethics that contains policies and procedures and sets forth standards of conduct that are reasonably designed to prevent and detect such conflicts of interest. If or when conflicts of interest arise, they will not affect the transactions or economic interests of the Corporation or another client in a manner inconsistent with Prospect Capital Management's fiduciary duty to the Corporation, any other clients it may have presently or in the future and in accordance with applicable law. A copy of Prospect Capital Management's Code of Ethics is available free of charge upon request by contacting Trisha Blackman by email at [tblackman@prospectcap.com](mailto:tblackman@prospectcap.com) or by telephone at 212-448-0702.

## ITEM 12. BROKERAGE PRACTICES

Prospect Capital Management determines the securities to be bought and sold and the amount of securities to be bought and sold for the Corporation based on the Corporation's investment objectives and policies and subject to certain investment restrictions relating to diversification and types of investments as may be requested by the Corporation from time to time. Prospect Capital Management's investment discretion with respect to the Corporation is not otherwise limited other than by restrictions imposed by applicable law.

Since the Corporation will generally acquire and dispose of investments in privately negotiated transactions, the Corporation will infrequently use brokers in the normal course of its business. Subject to policies established by the Corporation's board of directors, Prospect Capital Management will be primarily responsible for the execution of the publicly traded securities portion of the Corporation's portfolio transactions and the allocation of brokerage commissions. Prospect Capital Management does not expect to execute transactions through any particular broker or dealer, but will seek to obtain the best net results for its client, taking into account such factors as price (including the applicable brokerage commission or dealer spread), size of order, difficulty of execution, and operational facilities of the firm and the firm's risk and skill in positioning blocks of securities. While Prospect Capital Management will generally seek reasonably competitive trade execution costs, the Corporation will not necessarily pay the lowest spread or commission available. Subject to applicable legal requirements, Prospect Capital Management may select a broker based partly upon brokerage or research services provided to Prospect Capital Management and the Corporation and any other clients Prospect Capital Management may have in the future. In return for such services, the Corporation may pay a higher commission than other brokers would charge if Prospect Capital Management determines in good faith that such commission is reasonable in relation to the services provided.

Prospect Capital Management will not affect any principal transactions for its clients' accounts with any broker-dealers that are affiliated with Prospect Capital Management. However, Prospect Capital Management may purchase for its clients' accounts securities which are offered in underwritings in which Prospect Capital Management's affiliated broker-dealers are participants in accordance with the procedures and requirements set forth in Rule 10f-3 under the 1940 Act.

### Notes on Proxy Policy

Please see Item 17.

### Privacy Policy

It is our policy to safeguard the privacy of nonpublic, personal information regarding our individual shareholders.

### **What We Do To Protect Personal Information of Our Shareholders.**

We protect personal information provided to us by our shareholders according to strict standards of security and confidentiality. These standards apply to both our physical facilities and any online services we may provide. We maintain physical, electronic and procedural safeguards to protect consumer information and regularly review and update our systems to keep them current. We permit only authorized individuals, who are trained in the proper handling of shareholder information and who need to know this information to do their jobs, to have access to this information.

## **Personal Information That We Collect And May Disclose**

As part of providing our shareholders with investment products or services, we may obtain the following types of nonpublic personal information:

- information we receive from shareholders in subscription documents, on applications or other forms, such as their name, address, telephone number, social security number, occupation, assets and income; and
- information about the value of a shareholder's investment, account activity and payment history.

## **When We May Disclose Personal Information About Our Shareholders To Unaffiliated Third Parties**

We will not share nonpublic personal information about our shareholders collected, as described above, with unaffiliated third parties except:

- at a shareholder's request;
- when a shareholder authorizes us to process or service a transaction, for example in connection with an initial or subsequent investment (unaffiliated third parties in this instance may include service providers such as a custodian, data processor or printer);
- with companies that perform marketing services on our behalf or to other financial institutions with whom we have joint marketing agreements and who agree to use the information only for the purposes for which we disclose such information to them; or
- when required by law to disclose such information to appropriate authorities.

We do not otherwise provide nonpublic information about our shareholders to outside firms, organizations or individuals except to our attorneys, accountants and auditors and as permitted by law. We never sell information about shareholders or their accounts.

## **What We Do With Personal Information About Our Former Shareholders**

If a shareholder decides to no longer do business with us, we will continue to follow this privacy policy with respect to the information we have in our possession about such shareholder and his/her account.

## ITEM 13. REVIEW OF ACCOUNTS

Prospect Capital Management reviews the portfolio of the Corporation and PFLOAT, and any non-discretionary assets it manages, on a quarterly basis. Investments will be reviewed first by an investment professional familiar with the investment, then the investment committee. The senior members of the investment committee include the following investment professionals: John F. Barry (Chief Executive Officer and Chairman of the Board of the Corporation and President, Secretary and a control person of Prospect Capital Management), M. Grier Eliasek (director, President and Chief Operating Officer of the Corporation, Chairman of the Board, Chief Executive Officer and President of PFLOAT, and Managing Director of Prospect Capital Management), David L. Belzer, David C. Moszer, Theodore Fowler and Jason Wilson.

The Corporation and PFLOAT are subject to the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Pursuant to the Corporation’s and PFLOAT’s reporting obligations under the Exchange Act, stockholders of the Corporation and PFLOAT receive annual reports, including audited financial statements of the Corporation and PFLOAT for the fiscal year covered by the report.

## **ITEM 14. CLIENT REFERRALS AND OTHER COMPENSATION**

Prospect Capital Management does not receive an economic benefit from a person who is not a client for providing investment advice to a client or investor.

Prospect Capital Management and/or its affiliates may, in the future, enter into agreements with third parties that may introduce prospective investors to one of its clients. None of Prospect Capital Management and/or its affiliates are currently a party to any such agreements. It is expected that such parties will not be related to the operations of Prospect Capital Management's clients and any fee paid will be disclosed to the investors introduced by such third parties. Prospect Capital Management and its affiliates may pay such commissions or fees out of their own funds or directly charge investors that were introduced through such arrangements.

## ITEM 15. CUSTODY

Prospect Capital Management does not currently have custody of any client assets and, to the extent required by law, such assets are maintained with a qualified custodian.



## **ITEM 16. INVESTMENT DISCRETION**

Prospect Capital Management generally has, but does not always have, discretionary investment authority over client accounts, subject to the investment strategy, objectives and restrictions applicable to each client as described in each client's private placement memorandum, prospectus, organizational documents and/or investment management agreement.

## ITEM 17. VOTING CLIENT SECURITIES

As of the date hereof, Prospect Capital Management has accepted authority to vote proxies on behalf of its clients, or its investment advisory agreements with clients provide for it to make recommendations with respect to voting. As an investment adviser registered under the Advisers Act, Prospect Capital Management has a fiduciary duty to act solely in the best interests of its clients. As part of this duty, Prospect Capital Management recognizes that it must vote (or provide advice with respect to voting) client securities in a timely manner free of conflicts of interest and in the best interests of its clients. These policies and procedures for voting proxies for Prospect Capital Management's investment advisory clients are intended to comply with Section 206 of, and Rule 206(4)-6 under, the Advisers Act.

*Proxy policies.* These policies are designed to be responsive to the wide range of subjects that may be the subject of a proxy vote. These policies are not exhaustive due to the variety of proxy voting issues that Prospect Capital Management may be required to consider. In general, Prospect Capital Management will vote proxies in accordance with these guidelines unless: (1) Prospect Capital Management has determined to consider the matter on a case-by-case basis (as is stated in these guidelines), (2) the subject matter of the vote is not covered by these guidelines, (3) a material conflict of interest is present, or (4) Prospect Capital Management might find it necessary to vote contrary to its general guidelines to maximize stockholder value and vote in its clients' best interests. In such cases, a decision on how to vote will be made by the Proxy Voting Committee (as described below). In reviewing proxy issues, Prospect Capital Management will apply the following general policies:

*Elections of directors.* In general, Prospect Capital Management will vote in favor of the management-proposed slate of directors. If there is a proxy fight for seats on the board of directors or Prospect Capital Management determines that there are other compelling reasons for withholding votes for directors, the Proxy Voting Committee will determine the appropriate vote on the matter. Prospect Capital Management believes that directors have a duty to respond to stockholder actions that have received significant stockholder support. Prospect Capital Management may withhold votes for directors that fail to act on key issues such as failure to implement proposals to declassify boards, failure to implement a majority vote requirement, failure to submit a rights plan to a stockholder vote and failure to act on tender offers where a majority of stockholders have tendered their shares. Finally, Prospect Capital Management may withhold votes for directors of non-U.S. issuers where there is insufficient information about the nominees disclosed in the proxy statement.

*Appointment of auditors.* Prospect Capital Management believes that the company remains in the best position to choose the auditors and will generally support management's recommendation.

*Changes in capital structure.* Changes in a company's charter, articles of incorporation or by-laws may be required by state or U.S. Federal regulation. In general, Prospect Capital Management will cast its votes in accordance with the company's management on such proposal. However, the Proxy Voting Committee will review and analyze on a case-by-case basis any proposals regarding changes in corporate structure that are not required by state or U.S. federal regulation.

*Corporate restructurings, mergers and acquisitions.* Prospect Capital Management believes proxy votes dealing with corporate reorganizations are an extension of the

investment decision. Accordingly, the Proxy Voting Committee will analyze such proposals on a case-by-case basis.

*Proposals affecting the rights of stockholders.* Prospect Capital Management will generally vote in favor of proposals that give stockholders a greater voice in the affairs of the company and oppose any measure that seeks to limit those rights. However, when analyzing such proposals, Prospect Capital Management will weigh the financial impact of the proposal against the impairment of the rights of stockholders.

*Corporate governance.* Prospect Capital Management recognizes the importance of good corporate governance in ensuring that management and the Board of Directors fulfill their obligations to the stockholders. Prospect Capital Management favors proposals promoting transparency and accountability within a company.

*Anti-takeover measures.* The Proxy Voting Committee will evaluate, on a case-by-case basis, proposals regarding anti-takeover measures to determine the measure's likely effect on stockholder value dilution.

*Stock splits.* Prospect Capital Management will generally vote with the management of the company on stock split matters.

*Limited liability of directors.* Prospect Capital Management will generally vote with management on matters that would affect the limited liability of directors.

*Social and corporate responsibility.* The Proxy Voting Committee may review and analyze on a case-by-case basis proposals relating to social, political and environmental issues to determine whether they will have a financial impact on stockholder value. Prospect Capital Management may abstain from voting on social proposals that do not have a readily determinable financial impact on stockholder value.

*Proxy voting procedures.* Prospect Capital Management will generally vote proxies in accordance with these guidelines. In circumstances in which (1) Prospect Capital Management has determined to consider the matter on a case-by-case basis (as is stated in these guidelines), (2) the subject matter of the vote is not covered by these guidelines, (3) a material conflict of interest is present, or (4) Prospect Capital Management might find it necessary to vote contrary to its general guidelines to maximize stockholder value and vote in its clients' best interests, the Proxy Voting Committee will vote the proxy.

*Proxy voting committee.* Prospect Capital Management has formed a proxy voting committee to establish general proxy policies and consider specific proxy voting matters as necessary. In addition, members of the committee may contact the management of the company and interested stockholder groups as necessary to discuss proxy issues. Members of the committee will include relevant senior personnel. The committee may also evaluate proxies where we face a potential conflict of interest (as discussed below). Finally, the committee monitors adherence to guidelines, and reviews the policies contained in this statement from time to time.

*Conflicts of interest.* Prospect Capital Management recognizes that there may be a potential conflict of interest when it votes a proxy solicited by an issuer that is its advisory client or a client or customer of one of our affiliates or with whom it has another business or personal relationship that may affect how it votes on the issuer's proxy.

Prospect Capital Management believes that adherence to these policies and procedures ensures that proxies are voted with only its clients' best interests in mind. To ensure that its votes are not the product of a conflict of interests, Prospect Capital Management requires that: (i) anyone involved in the decision making process (including members of the Proxy Voting Committee) disclose to the chairman of the Proxy Voting Committee any potential conflict that he or she is aware of and any contact that he or she has had with any interested party regarding a proxy vote; and (ii) employees involved in the decision making process or vote administration are prohibited from revealing how Prospect Capital Management intends to vote on a proposal in order to reduce any attempted influence from interested parties.

*Proxy voting.* Each account's custodian will forward all relevant proxy materials to Prospect Capital Management, either electronically or in physical form to the address of record that Prospect Capital Management has provided to the custodian.

*Proxy recordkeeping.* Prospect Capital Management must retain the following documents pertaining to proxy voting:

- copies of its proxy voting policies and procedures;
- copies of all proxy statements;
- records of all votes cast by Prospect Capital Management;
- copies of all documents created by Prospect Capital Management that were material to deciding how to vote proxies or that memorializes the basis for that decision; and
- copies of all written client requests for information about how Prospect Capital Management voted proxies on behalf of the client as well as any written responses provided.

All of the above-referenced records will be maintained and preserved for a period of not less than five years from the end of the fiscal year during which the last entry was made. The first two years of records must be maintained at our office.

*Proxy voting records.* Clients may obtain information about how Prospect Capital Management voted proxies on their behalf by making a written request for proxy voting information to: Chief Compliance Officer, Prospect Capital Management L.P., 10 East 40th Street, 42nd Floor, New York, NY 10016.

## **ITEM 18. FINANCIAL INFORMATION**

There are no financial conditions that are reasonably likely to impair Prospect Capital Management's ability to meet contractual commitments to its clients.