

**PART 2A OF FORM ADV: FIRM BROCHURE**

**NEW MOUNTAIN FINANCE ADVISERS BDC, L.L.C.**

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**<http://www.newmountaincapital.com>**

This brochure provides information about the qualifications and business practices of New Mountain Finance Advisers BDC, L.L.C. (“NMFA,” “we” or “us”). If you have any questions about the contents of this brochure, please contact NMFA at the telephone number and mailing address provided above or [compliance@newmountaincapital.com](mailto:compliance@newmountaincapital.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or any state securities authority.

NMFA is registered as an investment adviser with the SEC. Registration with the SEC or with any state securities authority does not imply any level of skill or training.

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

## **ITEM 2. MATERIAL CHANGES**

This brochure is our initial Form ADV Part 2A. Pursuant to SEC requirements and rules, you will receive a summary of any material changes to this brochure and subsequent brochures within 90 days of the close of our fiscal year. We will also provide ongoing disclosure about material changes as such changes may arise.

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## **ITEM 4. ADVISORY BUSINESS**

### **A. General Description of Advisory Firm**

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

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

In addition, as of March 20, 2017, NMFA also provides discretionary management services to each of New Mountain Guardian Partners II, L.P. (“Guardian II”), New Mountain Guardian Partners II Offshore, L.P. (“Guardian Offshore”), New Mountain Guardian II Master Fund-A, L.P. (“Guardian II Master A”) and New Mountain Guardian II Master Fund-B, L.P. (“Guardian II Master B”, and together with Guardian II, Guardian Offshore and Guardian II Master A, the “Guardian Funds”), each a private credit fund (together with NMFC, the “Clients”) for the purpose of making investments in a diversified portfolio of senior secured first lien loans or bonds on a leveraged basis. In accordance with our Clients’ respective investment objectives, investments may be made in companies doing business in a wide range of industries and sectors.

### **B. Description of Advisory Services, Investment Strategies & Types of Investments**

NMFA provides discretionary investment management services to its Clients. To service our Clients’ objectives and strategies, the members of NMFA’s investment team utilize the extensive and varied relevant experience of the investment professionals of New Mountain Capital, LLC, an advisory affiliate of NMFA that specializes in private equity investing (“NMC”). We refer to the consolidated investment advisory business of NMFA and our advisory affiliates as the “Firm”.

In providing advisory services to our Clients, NMFA is responsible for investigating, identifying and evaluating investment opportunities, structuring, negotiating and making (or recommending, as applicable) investments on behalf of our Clients, managing and monitoring the performance of such investments and disposing (or recommending the disposition) of such investments. NMFA also manages the portfolio of companies and other investments belonging to our Clients, including the purchase and disposition thereof, in accordance with our Clients’ investment objective and policies as stated in our Clients’ respective offering documents and the investment and other restrictions set forth in our Clients’ respective governing documents (“Governing Documents”).

NMFC, an advisory affiliate and Client of NMFA, also currently provides investment advisory services to a separate client that invests primarily in senior loans. NMFC, which trades publicly on the New York Stock Exchange under the ticker NMFC, also operates as an investment adviser and a BDC which makes debt and equity investments in middle-market companies. Accordingly, NMFC may invest in companies in which other Clients, including the Guardian Funds, may invest, or may wish to invest, subject to the restrictions of the 1940 Act. As a result, we may be restricted in our ability to direct our other Clients to ability to invest in certain companies in which NMFC presently holds an investment, or that NMFC has targeted for investment, to the extent it would result in a violation of the restrictions on transactions involving affiliates set forth in 1940 Act. NMFC and our other Clients will generally be permitted to co-invest in such companies where the only term being negotiated is price, or pursuant to terms and conditions of exemptive relief, if any, that may be granted to NMFC by the U.S. Securities and Exchange Commission (the "SEC"). NMFC's investment activities (i.e., those of the BDC) are managed by NMFA, and supervised by NMFC's board of directors, a majority of whom are independent of NMFA and its affiliates.

**C. Tailoring to Individual Needs and Investment Restrictions**

NMFA does not provide investment advisory services on a non-discretionary basis.

We tailor our investment advisory services to the individual needs of our Clients. With the exception of NMFC, each Client's Governing Documents provide a detailed description of such Client's investment objectives, and contain any specific investment guidelines, policies, or restrictions.

**D. Wrap Fee Programs**

NMFA does not participate in wrap fee programs.

**E. Assets Under Management**

As of March 31, 2017, NMFA managed \$1,790,768,007 of regulatory assets under management on a discretionary basis; this number includes \$1,656,018,007 of regulatory assets under management of NMFC as of December 31, 2016. NMFA managed \$0 of regulatory assets under management on a non-discretionary basis as of March 31, 2017.

## ITEM 5. FEES AND COMPENSATION

### A. Fees and Compensation & Payment of Fees

With the exception of NMFC, each Client's respective management fee, performance-based distributions, and other fees and expenses are set forth in its Governing Documents. Set forth below is a description of those fees and distributions applicable to the Guardian Funds.

#### *Management Fees*

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

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

Management fees charged may be reduced, waived or calculated differently in the sole discretion of NMFA. No general partner of a Guardian Fund (the "GII GP") shall bear any management fees. Additionally, the rate of management fees in respect of investors that are affiliates of New Mountain shall be reduced by 50%.

#### *Carried Interest.*

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

#### *Other Fees and Expenses*

In addition to the foregoing, investors in each of the Guardian Funds generally bear expenses relating to such Guardian Fund's operations. These expenses typically will include, among other things: the fees and expenses relating to consummated investments, proposed but unconsummated investments and temporary investments, including the fees and costs of any due

diligence performed or third party consultants retained in connection therewith, insurance premiums, legal, custodial and accounting expenses, including expenses associated with the preparation of the Guardian Funds' respective financial statements, tax returns and Schedule K-1s, auditing, interest expense on credit facilities utilized for the funds, banking and consulting expenses, appraisal expenses, extraordinary expenses, taxes and other governmental charges, indemnification expenses, reporting costs, and liquidation expenses. NMFA does not charge travel and annual meeting expenses to its investors; however, NMFA may change its policy related to these expenses in the future.

Investors in the Guardian Funds generally also bear expenses (up to a specified cap) relating to formation and the organization of the Guardian Funds and the offering and sale of the interests therein, including external legal and accounting expenses, printing costs, travel and certain out-of-pocket expenses incurred by NMFA.

Pursuant to the Governing Documents of each of the Guardian Funds, NMFA may receive directors' fees, transaction fees, investment banking fees, break-up fees, advisory fees, monitoring fees, credit guarantor fees<sup>1</sup> or other similar fees. A specified percentage of these fees, net of related expenses, is applied to reduce the management fees payable by the Guardian Funds. The Guardian Funds employ the use of several placement agents, and has and will continue to incur placement fees for the use of the placement agent during their fundraising period, which is still open.

## **B. Other Fees and Expenses**

Clients may incur certain charges imposed by custodians, administrators, brokers, and other third parties, including custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. NMFA's management fees are exclusive of such brokerage commissions, custody fees, transaction fees, and other related costs and expenses. For a detailed discussion of the factors that we consider in selecting or recommending broker-dealers for Client transactions and determining the reasonableness of commissions and compensation for such broker-dealers, please see Item 12, "Brokerage Practices."

## **ITEM 6. PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

As discussed under Item 5 – "Fees and Compensation" – above, the GII GP is entitled to performance-based allocations and distributions in the form of carried interest from its respective Guardian Fund.

Performance-based fee arrangements may create an incentive for us to recommend investments that may be riskier or more speculative than those that we may otherwise recommend under a different fee arrangement. In the allocation of investment opportunities, performance-based fee arrangements may also create an incentive for us (or our advisory affiliates) to favor Clients, including NMFC, that have higher performance or incentive fee

arrangements over Clients that are charged a lower performance fee or are not charged a performance fee at all.

As noted in Item 4 above, both NMFA on behalf of our Clients, and NMFC, on behalf of itself and on behalf of its Clients, make debt and equity investments in middle-market companies. Accordingly, NMFA is subject to side-by-side management conflicts of interest. NMFA and its advisory affiliates have adopted compliance policies and procedures, including an allocation policy to address potential conflicts, which is discussed more fully in Item 10, “Other Financial Industry Activities and Affiliations.”

## **ITEM 7. TYPES OF CLIENT**

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

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

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

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

NMFA’s investment objective is to generate current income and capital appreciation for its Clients through the sourcing and origination of debt securities at all levels of the capital structure, including first and second lien debt, notes, bonds and mezzanine securities. In some cases, our Clients' investments may also include equity interests. The primary focus is in the debt of defensive growth companies, which are defined as generally exhibiting the following characteristics: (i) sustainable secular growth drivers, (ii) high barriers to competitive entry, (iii) high free cash flow after capital expenditure and working capital needs, (iv) high returns on assets and (v) niche market dominance. Our Clients' respective portfolios may be concentrated in a limited number of industries.

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



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

## **B. Material Risks**

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

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

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

#### *Dodd-Frank Act*

The U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act (the “**Dodd-Frank Act**”) was enacted in July 2010. The Dodd-Frank Act has resulted in extensive rulemaking and regulatory changes that affect private fund managers, the funds that they manage and the financial industry as a whole. Under the Dodd-Frank Act, the U.S. Commodity Futures Trading Commission (the “**CFTC**”) and the SEC have mandated (and will mandate) new recordkeeping, reporting, central clearing and mandatory trading on electronic facilities requirements for investment advisers, which add costs to the legal, operational and compliance obligations of NMFA and the Guardian Funds and increase the amount of time that NMFA spends on non-investment-related activities. The Dodd-Frank Act affects a broad range of market participants with whom the Guardian Funds interacts or may interact, including banks, non-bank financial institutions, rating agencies, mortgage brokers, credit unions, insurance companies, payday lenders and broker-dealers, and may change the way in which NMFA conducts business with its counterparties. It may take years to understand the impact of the Dodd-Frank Act on the financial industry as a whole, and therefore, the continued uncertainty may make markets more volatile and make it difficult for NMFA to execute the investment strategy of the Guardian Funds.

### *Systemic Risk*

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

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

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

### **Risks Relating to Management**

#### *No Operating History*

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

#### *Dependence on the Investment Manager*

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

#### *Dependence on Service Providers*

The Guardian Funds are also dependent upon their counterparties and the businesses that are not controlled by NMFA that provide services to the Guardian Funds (the "Service Providers"). Examples of Service Providers include the third-party Administrator, Legal Counsel and the Auditors. Errors are inherent in the business and operations of any business, and although NMFA will adopt measures to prevent and detect errors by, and misconduct of, counterparties and Service Providers, and transact with counterparties and Service Providers it believes to be reliable, such measures may not be effective in all cases. Errors or misconduct could have a material adverse effect on the Guardian Funds and the Limited Partners' investments therein.

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

#### *Retention and Motivation of Employees*

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

#### *Investment and Due Diligence Process*

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

### *Increased Regulatory Oversight*

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

### *Effect of Substantial Losses*

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

### *Increasing Assets Under Management*

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

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

### *Significant Fees and Expenses*

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

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

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

### *Limited Liquidity of Interests*

The Guardian Funds are intended for long-term investors who can accept the risks associated with investing primarily in securities that involve a high degree of financial risk and are potentially illiquid. There is no public market for the Interests, and no such market is expected to develop in the future. Limited Partners may not withdraw capital from the Guardian Funds. Without the written consent of the General Partner, which may be given or withheld in its sole discretion, a Limited Partner may not directly, indirectly or synthetically transfer, pledge, assign, hypothecate, sell, convey, exchange, reference under a derivatives contract or any other arrangement or otherwise dispose of or encumber all or any portion of its Interest to any other person (each, a “Transfer”), except by operation of law. Any attempted Transfer not made in accordance with the foregoing, to the fullest extent permitted by applicable law, will be null and void ab initio. No transferee of an Interest will be admitted as Limited Partner unless all of the conditions set forth in the Partnership Agreement have been satisfied.

### *Access to Information*

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

### *Delayed Schedules K-1*

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

### *Governmental Entity Investors*

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

Guardian Funds and/or NMFA to increased regulatory burdens and public disclosures about the Guardian Funds, their investors and its activities.

#### *In-Kind Distributions*

Limited Partners may receive securities in lieu of, or in combination with, cash. Such distributions may include interests in one or more special purpose vehicles holding securities owned by the Guardian Funds, or participations therein. To the extent a Limited Partner is distributed interests in special purpose vehicles, such Limited Partner will continue to be at risk with respect to the Guardian Funds's business. The value of the securities distributed in kind may increase or decrease before they are sold either by the Limited Partner, if received directly, or by NMFA or its affiliates, if held through a special purpose vehicle. In either case, the Limited Partner will incur transaction costs in connection with the sale of any such securities and, in the case of interests in a special purpose vehicle, will bear a proportionate share of the operating and other expenses borne by such vehicle. Securities distributed in kind may not be readily marketable. The risk of loss and delay in liquidating these securities will be borne by the Limited Partner, with the result that such Limited Partner may ultimately receive less cash than it would have received if it had been paid in cash. Furthermore, to the extent that a Limited Partner receives interests in special purpose vehicles, such Limited Partner will generally have no voting rights or any control over when and at what price the securities in which such vehicles have an interest are sold.

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

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

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

#### *Systems and Operational Risks Generally*

The Guardian Funds depend on NMFA to develop and implement appropriate systems for the Guardian Funds' activities. The Guardian Funds rely heavily and on a daily basis on financial, accounting and other data processing systems to evaluate certain investments, to monitor its portfolio and capital, and to generate risk management and other reports that are critical to oversight of the Guardian Funds' activities. In addition, the Guardian Funds relies on information systems to store sensitive information about the Guardian Funds, NMFA, their affiliates and the Limited Partners. Certain of the Guardian Funds' and NMFA's activities will be dependent upon systems operated by third parties, market counterparties and other Service Providers, and NMFA may not be in a position to verify the risks or reliability of such third-party systems. Disruptions in the Guardian Funds' operations may cause the Guardian Funds to suffer,

among other things, financial loss, the disruption of its business, liability to third parties, regulatory intervention or reputational damage. Any of the foregoing failures or disruptions could have a material adverse effect on the Guardian Funds and the Limited Partners' investments therein.

#### *Cybersecurity Risk*

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

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

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

#### *Valuation of Assets and Liabilities*

The Guardian Funds' assets and liabilities are valued in accordance with the Partnership Agreement. The valuation of any asset or liability involves inherent uncertainty. The value of a security determined in accordance with the Partnership Agreement may differ materially from the value that could have been realized in an actual sale or transfer for a variety of reasons, including the timing of the transaction and liquidity in the market. Uncertainties as to the

valuation of portfolio positions could have an impact on the net asset value of the Guardian Funds if the judgments of the Administrator regarding the appropriate valuation should prove to be incorrect.

#### *GAAP Net Asset Value Divergence*

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

#### *Counterparty Risk*

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

#### *Competition; Availability of Investments*

Certain markets in which the Guardian Funds may invest are extremely competitive for attractive investment opportunities. As a result, there can be no assurance that NMFA will be able to identify or successfully pursue attractive investment opportunities in such environments. Competition for suitable investments from a broad spectrum of competitors, including other pooled investment vehicles, commercial and investment banks, commercial financing companies, insurance companies and high-yield investors, some of which may be willing to lend money on terms more favorable to borrowers, may reduce the availability of investment opportunities or alter the terms on which the Guardian Funds are able to invest, making it difficult for the Guardian Funds to capitalize on investment opportunities or to originate or purchase investments at the Guardian Funds' initial projected risk-adjusted returns. For example, such competing lenders may have a lower cost of funds and access to funding sources that are not available to the Guardian Funds. In addition, some competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than the Guardian Funds. The Guardian Funds may also choose not to compete for investment opportunities based on interest rates. Ultimately, increased competition for, or a diminution in the available supply of, qualifying borrowers may result in lower yields on loans to such borrowers, which could reduce returns to the Guardian Funds. There can be no assurance that NMFA will be able to identify or successfully pursue attractive investment opportunities for the Guardian Funds.

#### *Credit Ratings*

In general, the credit rating assigned by a nationally recognized rating agency to a security represents such rating agency's opinion of the safety of the principal and interest payments of the rated instrument based on available information. Such ratings are relative and subjective; they



are not absolute standards of quality and do not evaluate the market value risk of such securities. Such ratings also do not reflect macroeconomic or systemic risk, including the risk of increased illiquidity in the credit markets. Further, credit ratings may change over time due to various factors, including changes in the creditworthiness of the issuer and/or changes in the rating agency's analytics and processes. It is possible that a rating agency might not change its rating of a particular issue on a timely basis to reflect subsequent events and, as a result, outstanding ratings may not reflect the issuer's current credit standing. The Guardian Funds may incur losses if it makes investments based on credit ratings that subsequently change in a way not favorable to the Guardian Funds' investment objective.

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

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

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

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

### **Risks Relating to Investment Strategies**

#### *Risk of Loss*

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

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

#### *Flexibility in Investment Objectives or Strategies*

Although the Guardian Funds (directly or through one or more subsidiaries) intend primarily to originate and invest in secured debt obligations, the Guardian Funds may also invest in other securities or instruments on an opportunistic basis. Markets change over time, and the General

Partner will seek to capitalize on what it perceives to be attractive opportunities, whatever they might be, and no prior notice to the Limited Partners or the Advisory Board, or approval of the Limited Partners or the Advisory Board, is or will be required in connection therewith. New investment strategies and techniques may not be thoroughly tested in the market before being employed and may have operational or theoretical shortcomings which could result in unsuccessful trades and, ultimately, losses to the Guardian Funds. In addition, any new investment strategy or technique developed by the Guardian Funds may be more speculative than earlier investment strategies and techniques and may involve material and as-yet-unanticipated risks that could increase the risk of an investment in the Guardian Funds.

#### *Loan Origination*

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

#### *Diversification and Concentration*

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

One or more subsidiaries of the Guardian Funds may offer to Other Accounts (including a subsidiary of the Offshore Fund) and may offer to third parties, participations in and/or assignments or sales of loans (or interests therein) that the subsidiaries have originated or purchased. In the event of such an offer, the price of the participation, assignment or sale will be based on the fair value of such loans. Further, the decision by such Other Accounts to accept or reject the relevant subsidiary's offer will be made by a party independent of NMFA, such as a loan acquisition committee. In determining the target amount to allocate to a particular loan origination, the relevant subsidiary will take into consideration the fact that it may be selling, assigning or offering participations in such investment to Other Accounts and third parties as described above. If the relevant subsidiary is not successful in selling such participations, assignments or sales, the relevant subsidiary will be forced to hold such excess until such time as it can be disposed. This may result in the Guardian Funds being "overweighted" with respect to a particular borrower.

#### *Licensing Requirements*

Certain Federal and local banking and regulatory bodies or agencies in or outside the United States may require the Guardian Funds (and/or a subsidiary), the General Partner, NMFA and/or certain employees of NMFA to obtain licenses or authorizations to engage in many types of

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

#### *Lack of Control*

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

#### *Follow-On Investments*

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

#### *General Credit Risks*

Although the Guardian Funds intends primarily to make loans (through its subsidiaries) and invest in other debt instruments or obligations secured by collateral and intends to focus on high quality businesses, the Guardian Funds may be exposed to losses resulting from default and

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

#### *Privately Held Companies*

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

#### *Business and Credit Risks*

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

#### *Inability to Deploy Committed Capital*

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

Partner may be unable to invest the net proceeds of this offering on acceptable terms within the time period anticipated or at all, which would reduce the returns to the Guardian Funds.

### *Leverage and Borrowing*

#### *Leverage for Investment Purposes*

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

#### *Borrowing for Cash Management Purposes*

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

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

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

#### *Costs*

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

#### *Potential Inability to Obtain Leverage*

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

### *Cross-Collateralization*

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

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

### *General Economic and Market Conditions*

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

### *Governmental Interventions*

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

### *Potential Interest Rate Increases*

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

### *Current Economic Conditions in European Countries*

Certain European countries, including Greece, Ireland, Italy, Portugal and Spain, are currently experiencing varying degrees of financial distress. Risks from the debt crisis in Europe as well as other changes in the European Union (including changes in respect of its membership) could result in a disruption of the financial markets, which could have a detrimental impact on global economic conditions. A significant deterioration of the European debt crisis or changes to the membership of the European Union could result in material reductions in the value of sovereign debt and other asset classes, disruptions in capital markets, widening of credit spreads, loss of investor confidence in the financial services industry, a slowdown in global economic activity, and other adverse developments that could negatively impact the performance of the Guardian Funds.

### *Brexit*

In June 2016, the United Kingdom voted to leave the European Union. If, as expected, the United Kingdom triggers the withdrawal procedures in Article 50 of the Treaty of Lisbon, there will be a two-year period (or longer) during which the arrangements for exit will be negotiated. This vote and the withdrawal process could cause an extended period of uncertainty and market volatility, not just in the United Kingdom but throughout the European Union, the European Economic Area and globally. It is not possible to ascertain the precise impact these events may have on the Guardian Funds or NMFA from an economic, financial or regulatory perspective but any such impact could have material consequences for the Guardian Funds.

### *U.S. Financial Regulatory Environment*

As a result of the 2016 U.S. election, the Republican Party currently controls both the executive and legislative branches of government, which increases the likelihood that legislation may be adopted that could significantly affect the regulation of U.S. financial markets. Areas subject to potential change, amendment or repeal include the Dodd-Frank Act and the authority of the Federal Reserve and the Financial Stability Oversight Council. The United States may also potentially withdraw from or renegotiate various trade agreements and take other actions that would change current trade policies of the United States. It is impossible to predict which, if any, of these actions will be taken or, if taken, their effect on the financial stability of the United States. Such actions could have a significant adverse effect on NMFA's or the Guardian Funds'

business, financial condition and results of operations. It is impossible to predict the effects of these or similar events in the future on the U.S. economy and securities markets or on the Guardian Funds' investments. NMFA monitors developments and seeks to manage the Guardian Funds's investments in a manner consistent with achieving the Guardian Funds' investment objective, but there can be no assurance that NMFA or the Guardian Funds will be successful in doing so.

## **Risks Relating to Portfolio Companies**

### *Portfolio Company Management*

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

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

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

## **Risks Relating to Specific Investments**

### *Loans and Participations*

The Guardian Funds originate loans and otherwise will invest in loans and participations. These obligations are subject to unique risks, including: (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws; (ii) so-called lender-liability claims by the issuer of the obligations; (iii) environmental liabilities that may arise with respect to collateral securing the obligations; (iv) limitations on the ability of the Guardian Funds to directly enforce its rights with respect to participations; and (v) possible claims for the return of some or all payments in a debt made within 90 days (and in some cases, within one year) of the date of the issuer's/borrower's insolvency came under Title 11 of the United States Code (the "US Code") and under certain state laws. In analyzing each loan or participation, NMFA compares the relative significance of the risks against the expected benefits of the investment.



Successful claims by third parties arising from these and other risks will be borne by the Guardian Funds. In purchasing a participation, the Guardian Funds generally would have no right to enforce compliance by the obligor with the terms of the loan or credit agreement or other instrument evidencing such loan obligation, nor any rights of set-off against the obligor, and the Guardian Funds may not directly benefit from the collateral supporting the loan obligation in which it has purchased the participation. As a result, the Guardian Funds would assume the credit risk of both the obligor and the selling institution, which would remain the legal owner of record of the applicable loan. In the event of the insolvency of the selling institution, the Guardian Funds may be treated as a general creditor of the selling institution in respect of the participation, may not benefit from any set-off exercised by the selling institution against the obligor and may be subject to any set-off exercised by the obligor against the selling institution. Assignments and participations are typically sold strictly without recourse to the selling institution, and the selling institution will generally make no representations or warranties about the underlying loan, the portfolio companies, the terms of the loans or any collateral securing the loans. Certain loans have restrictions on assignments and participations which may negatively impact the Guardian Funds' ability to exit from all or part of its investment in a loan.

The Guardian Funds (through one or more subsidiaries) may originate loans but it may also (directly or through one or more subsidiaries) invest in loans through the secondary markets. As secondary-market trading volumes increase, new loans are frequently adopting standardized documentation to facilitate loan trading, which may improve market liquidity. There can be no assurance, however, that future levels of supply and demand in loan trading will provide an adequate degree of liquidity. Because of the provision to holders of such loans of confidential information relating to the borrower, the unique and customized nature of the loan agreement, and the private syndication of the loan, loans are not as easily purchased or sold as a publicly traded security, and historically the trading volume in the loan market has been small relative to other markets.

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

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

### *Participation and Other Indirect Economic Interests*

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

### *Loan Investments*

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

#### *Leveraged Loans*

“Leveraged loans” are loans made to companies with a below investment-grade rating from any nationally recognized rating agency. Such loans may be performing poorly when the Guardian Funds acquire them. There is no assurance that NMFA will correctly evaluate the value of the assets collateralizing such loans or the prospects for distribution on or repayment of such loans. The Guardian Funds may lose its entire investment or may be required to accept cash, property or securities with a value less than the Guardian Funds' original investment and/or may be required to accept payment over an extended period of time.

#### *Hung Loans*

The term “hung loan” commonly refers to a loan that has been made (or has been committed to be made), and the lender is not able to syndicate the loan on the originally anticipated terms. Hung loans are illiquid and lack readily

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

#### *Bank Loans*

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

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

#### *Second-Lien Loans*

The Guardian Funds may invest in loans that are secured by a second-lien on assets. Second-lien loans have been a developed market for a relatively short period of time, and there is limited historical data on the performance of second-lien loans in adverse economic circumstances. In addition, second-lien loan products are subject to intercreditor arrangements with the holders of first lien

indebtedness, pursuant to which the second-lien holders have waived many of the rights of a secured creditor, and some rights of unsecured creditors, including rights in bankruptcy that can materially affect recoveries. While there is broad market acceptance of some second-lien intercreditor terms, no clear market standard has developed for certain other material intercreditor terms for second-lien loan products. This variation in key intercreditor terms may result in dissimilar recoveries across otherwise similarly situated second-lien loans in insolvency or distressed situations. While uncertainty of recovery in an insolvency or distressed situation is inherent in all debt instruments, second-lien loan products carry more risks than certain other debt products. Beginning in August 2007, the market for many loan products, including second-lien loans, contracted significantly, which made virtually all leveraged loan products, particularly second-lien loan products, less liquid or illiquid. Many participants ceased underwriting and purchasing certain second-lien loan products. There can be no assurance that the market for second-lien loans will not contract further.

### *Bridge Loans*

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

### *Fraud Associated with Loans*

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

Additionally, the Guardian Funds may invest in debt that is guaranteed by a subsidiary of the issuer. In some circumstances, guarantees of secured debt issued by subsidiaries of a portfolio company and held by the Guardian Funds may be subject to fraudulent conveyance or similar avoidance claims made by other creditors of such subsidiaries under applicable insolvency laws. As a result, such creditors may take priority over the claims of the Guardian Funds under such guarantees. Under Federal or state fraudulent transfer law, a court may void or otherwise decline to enforce such secured debt and the Guardian Funds would no longer have any claim against such portfolio company or the applicable guarantor. In addition, the court might direct the Guardian Funds to disgorge any amounts already received from the portfolio company or a guarantor. In some cases, significant subsidiaries of a portfolio company may not guarantee the obligations of the portfolio company; in other cases, a portfolio company may have the ability to release subsidiaries as guarantors of the portfolio company's obligations. The repayment of such investments may depend on cash flow from subsidiaries of a portfolio company that are not themselves guarantors of the portfolio company's obligations.

### *Debt Securities*

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

### *Dealer Market Making*

The value of the Guardian Funds' fixed-income investments will be affected by general fixed income market conditions, such as the volatility and liquidity of the fixed income market, which are affected by the ability of dealers to "make a market" in fixed-income investments. In recent years, the market for bonds has significantly increased while dealer inventories have significantly decreased,

relative to market size. This reduction in dealer inventories may be attributable to regulatory changes, such as capital requirements, and is expected to continue. As dealers' inventories decrease, so does their ability to make a market (and, therefore, create liquidity) in the fixed income market. Especially during periods of rising interest rates, this could result in greater volatility and illiquidity in the fixed income market, which could impair the Guardian Funds' profitability or result in losses.

#### *Interest Rate Risk*

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

#### *Prepayment Risk*

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

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

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

principal or par amounts, whereas their corresponding hedges often have the potential for unlimited loss.

#### *Future Funding Obligations*

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

#### *Corporate Debt*

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

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

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

### *Weak Economy Could Trigger Defaults*

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

### *Recharacterization*

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

### *Contingent Liabilities*

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



third party or, conversely, pursuant to which third parties offer default protection to the Guardian Funds.

#### *Insufficient Collateral*

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

#### *Lender Liability*

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

#### *Litigation and Collection Costs*

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

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

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

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

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

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

### *Currencies*

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

investments in foreign markets. As a result, the Guardian Funds could realize a net loss on an investment, even if there were a gain on the underlying investment before currency losses were taken into account.

## Potential Conflicts of Interest

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

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

There are currently four advisory affiliates of NMFA which manage public equity funds, private equity funds, the BDC and a senior loan program. For more information regarding our advisory affiliates, please see Item 10, “Other Financial Industry Activities and Affiliations.”

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

NMFC may invest in companies in which other Clients, including the Guardian Funds, may invest, or may wish to invest, subject to the restrictions of the 1940 Act. As a result, our other Clients may be restricted in their ability to invest in certain companies in which NMFC presently holds an investment, or that NMFC has targeted for investment, to the extent it would result in a violation of the restrictions on transactions involving affiliates set forth in 1940 Act. Accordingly, NMFC and our other Clients will generally be permitted to co-invest in such companies where the only term being negotiated is price, or pursuant to terms and conditions of exemptive relief, if any, that may be granted to NMFC by the SEC. In addition, while NMFC and its advisory affiliates are generally prohibited from investing in different parts of the capital

structure of an issuer at the same time, there have been instances where NMFC has invested in an issuer, the debt and/or public equity of which was previously held by another Client or a Fund managed by an advisory affiliate.

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

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

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

## **ITEM 9. DISCIPLINARY INFORMATION**

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

## **ITEM 10. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

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

### *Advisory Affiliates*

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

NMFC and NMFA), we expect to rely heavily on the extensive expertise and industry relationships developed by the employees of these advisory affiliates to identify and evaluate potential investment opportunities for our Clients.

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

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

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

NMFA sets high ethical and professional standards for employee conduct. In connection with NMFA's fiduciary obligations to our Client, NMFA has adopted a Code of Business Conduct and Ethics (the "Code"), which covers a wide range of business activities, practices and procedures. It does not cover every issue that may arise in the course of NMFA's business activities, but it sets out basic principles designed to guide employees, officers and directors of NMFA. All employees, officers and directors must conduct themselves in accordance with this Code, and seek to avoid even the appearance of improper behavior.

In accordance with Rule 204A-1 under the Advisers Act, NMFA has in place personal securities trading policies and procedures relating to personal securities transactions, insider trading and other ethical considerations (the "Personal Securities Trading Policy"). The Personal Securities Trading Policy is intended to identify and prevent actual conflicts of interest with our Client and to resolve such conflicts appropriately if they do occur.

In conformity with the Advisers Act, the Personal Securities Trading Policy contains provisions regarding employee trading, reporting requirements and supervisory procedures that are designed to address potential conflicts of interest with respect to employee transactions, activities, and relationships that might interfere or appear to interfere with making decisions in the best interest of our Client, and together with the Code of Business Conduct and Ethics

(referred to collectively as the “Code”), requires employees to comply with the federal securities laws and regulations, as well as fiduciary principles applicable to NMFA’s business, including that employees must avoid placing their own personal interests ahead of our Client’s interests.

NMFA’s Personal Securities Trading Policy requires that employees conduct all of their personal investment transactions in a manner that is consistent with federal securities laws, the insider trading policy and other policies of NMFA. These requirements include reporting of personal investment accounts, pre-clearance of personal trading in investment transactions, as well as reporting investment transactions. Additionally, all violations of NMFA’s Personal Securities Trading Policy must be promptly reported to NMFA’s Chief Compliance Officer (or his designees, together referred to as the “CCO”). The Personal Securities Trading Policy also generally prohibits employees from acquiring securities in initial public offerings, and it contains prohibitions against profiting from short-term trading, subject to very limited exceptions. The policies also impose “blackout” periods on certain employees, including particular portfolio management personnel, prohibiting transactions in certain securities during time periods surrounding transactions in the same securities by our Client. Moreover, the Personal Securities Trading Policy and other policies contain provisions that are designed to detect and mitigate conflicts of interest relating to the use of inside information and to serving as a director to outside entities.

Employees who fail to observe NMFA’s policies may be subject to remedial action, including but not limited to disgorgement of profits, imposition of fine, censure, demotion, suspension or dismissal. The Personal Securities Trading Policy may be made available to our Client or prospective client upon request, subject to certain confidentiality restrictions.

Employees receive new hire training directly from the Chief Compliance Officer on the Code and other material compliance policies and procedures – generally within ten (10) days of hire, and all Access Persons are required to attend at least one mandatory annual training session on the Code (and other policies).

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

## **ITEM 12. BROKERAGE PRACTICES**

Our Clients typically invest in private securities and do not ordinarily transact with financial intermediaries, such as broker-dealers, in public securities. To the extent our Clients transact in public securities, if at all, and subject to the terms of the applicable Investment Management Agreement, NMFA typically has the authority to determine, the type and amount of securities to be bought or sold, the broker or dealer used and the commission rates paid or discount to purchase applied. In making its decisions regarding the allocation of brokerage transactions, NMFA would seek to obtain best execution, taking into account the following factors: (i) the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any); (ii) the operational efficiency with which transactions are effected (such as prompt and accurate confirmation and delivery), taking into account the size of order and difficulty of execution; (iii) the financial strength, integrity and stability of the broker-dealer; (iv) the quality, comprehensiveness and frequency of available

research services considered to be of value to NMFA and our Clients; (v) the value of brokerage services over and above trade execution provided to NMFA and our Clients; (vi) the competitiveness of commission rates in comparison with other broker-dealers satisfying NMFA's other selection criteria; and (vii) any other factors NMFA considers to be in the best interest of our Clients. Although NMFA generally seeks competitive commission rates and commission equivalents, it will not necessarily pay the lowest commission or equivalent. Among other reasons, transactions may involve specialized services on the part of a broker-dealer, which may justify higher commissions and equivalents than would be the case for more routine services.

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

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

NMFA has no written, Third party "soft dollars" arrangement with any broker-dealer at present. In the event that NMFA does enter into a "soft dollars" arrangement, the following policy will apply to NMFA's "soft dollars" practices:

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

#### *Broker Selection*

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

### **ITEM 13. REVIEW OF ACCOUNTS**



Portfolio companies under NMFA's management/in which NMFA Clients invest are monitored on a regular basis by each of the portfolio management deal teams, which are led by one or more Firm Managing Directors and Directors, and are also subject to review by the NMFA's management team on a monthly basis, in advance of providing updated reporting to our Client. Additionally, certain documents and records relating to Client accounts (i.e. financial, accounting, etc.) are prepared, maintained and reviewed in more detail by NMFA's Chief Financial Officer, Controller and Accounting Team, as appropriate. The CCO also performs a variety of periodic account reviews as part of the Firm's overall Advisers Act Rule 206(4)-7 annual compliance review.

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

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

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

NMFA has in the past and may in the future enter into solicitation agreements with third parties, including placement agents, pursuant to which we may compensate persons who are not our supervised persons for introductions to persons who become Clients. We may make cash payments to such solicitors. Rule 206(4)-3 under the Advisers Act (the "Cash Solicitation Rule"), applies to an adviser who engages a person (i.e., a placement agent) to solicit prospective investors who become Clients. We have adopted a "Solicitors and Placement Agents Policy" to ensure that placement agents and other solicitors disclose the nature of their relationship and compensation to our Clients.

NMFA will only pay a cash fee, directly or indirectly, to a solicitor of a Client pursuant to a written agreement. Our CCO oversees these solicitation arrangements, including the formation of new relationships. We typically will only engage registered broker-dealers to conduct solicitation activities on our behalf. The CCO determines the eligibility of prospective solicitors and will ensure that each solicitor complies with the terms of the written solicitation agreement.

NMFA does not make any indirect payments to marketing intermediaries such as pension consultants for the referral of Clients, and will comply in all respects with applicable "pay to play" legislation and rule-making.

Placement agents that solicit or refer potential investors to us are subject to a conflict of interest because they will be compensated in connection with their solicitation activities.

#### **ITEM 15. CUSTODY**

Rule 206(4)-2, promulgated under the Advisers Act, (the "Custody Rule") imposes specific conditions on investment advisers who have actual or deemed custody of client assets.

NMFA is deemed to have custody of our Clients' funds and securities pursuant to the Custody Rule because we may debit fees directly from the accounts of and calculate the fees for our Clients, and therefore we must meet the applicable conditions of the Custody Rule in such instances. For each such Client, the custodian of each account sends quarterly, or more frequent, account statements directly to such Client. Clients should carefully review these statements, and we urge Clients to compare the account statements they receive from their custodian with any they receive from us or our other outside vendors.

Custody of the Client's assets is maintained in compliance with applicable rules and regulations set forth in the Advisers Act. Where required, cash and securities are maintained at a financial institution meeting the definition of "qualified custodian" under the Advisers Act. NMFA has access to client accounts since it or an affiliate serves as NMFA or general partner of each Client. Investors in our Clients will not receive statements from the custodian. Instead, each Client is subject to an independent annual audit. The audited financial statements are prepared by the Client in accordance with generally accepted accounting principles, are audited by an independent auditor in accordance with generally accepted auditing standards and are generally distributed within 90 days of the applicable Client's fiscal year end, pursuant to such Client's Governing Documents.

#### **ITEM 16. INVESTMENT DISCRETION**

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

#### **ITEM 17. VOTING CLIENT SECURITIES**

As an investment adviser registered under the Advisers Act, NMFA has a fiduciary duty to act solely in the best interests of its Clients. As part of this duty, we recognize that we must vote Client securities in a timely manner free of conflicts of interest and in the best interests of our Client. Accordingly, NMFA has adopted proxy voting policies and procedures for voting proxies that are intended to comply with Section 206 of, and Rule 206(4)-6 under, the Advisers Act. Because NMFA's investment program primarily involves investing through privately negotiated transactions, NMFA typically is not presented with traditional proxy votes.

NMFA may, however, be required to consider proposed waivers or amendments to debt instruments held by Clients from time to time. On such occasions, NMFA will seek to vote Client proxies in the best interest of our Clients. We will review on a case-by-case basis each proposal submitted for approval, consent or waiver to determine its impact on the portfolio securities held by our Clients. Although NMFA will generally vote against proposals that may have a negative impact on our Clients' portfolio securities, it may vote for such a proposal if there exists compelling long-term reasons to do so.

The proxy voting decisions of NMFA are made by our senior officers who are responsible for monitoring our Clients' investments. To ensure that our vote is not the product of a conflict of interest, we will require that anyone involved in the decision making process

disclose to our CCO 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.

NMFA has identified one potential conflict of interest between our Clients' interests and our own arising from our proxy voting process. From time to time, NMFA may be in a position where it must vote to approve certain directors' participation on the boards of public companies in which our Clients may invest. Since the Firm's employees are permitted to participate on public company boards (upon notification to, or approval by the CCO), there may be situations where NMFA has a decision as to whether to vote in favor of, or against, a public company director that is also compensated as an employee. If NMFA determines that we may have, or are perceived to have, a conflict of interest when voting proxies, NMFA will either (i) convene our Proxy Voting Committee, which is comprised of a combination of the CCO (or Compliance Representative), the Operations Manager and at least one other NMFA investment professional with a title of Managing Director or senior management, to address conflicts or (ii) refrain from voting when doing so is in our Client's best interest.

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

#### **ITEM 18. FINANCIAL INFORMATION**

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

#### **ITEM 19. REQUIREMENTS FOR STATE-REGISTERED ADVISERS**

Not applicable.