



**NXT Capital Investment Advisers, LLC**  
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**Chicago, IL 60606**

**DISCLOSURE BROCHURE**  
**January 25, 2018**

This Disclosure Brochure (the “Brochure”) provides information about the qualifications and business practices of NXT Capital Investment Advisers, LLC. NXT Capital Investment Advisers LLC’s registration as an investment adviser does not imply a certain level of skill or training.

If you have any questions about the contents of this Brochure, please contact NXT Capital Investment Advisers LLC’s Chief Compliance Officer using the contact information listed below. The information contained in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

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

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## **ITEM 2 – Material Changes**

The following describes all material changes made since our most recent annual updating amendment which was filed on March 29, 2017:

- We will now provide investment advice to Clients who invest in Real Estate Loans (as defined herein)
- We have adopted a formal Expense Allocation Policy as further described in Item 5

## **Important Note About This Brochure**

This Brochure is not:

- an offer or agreement to provide advisory services to any person
- an offer to sell interests (or a solicitation of an offer to purchase interests) in any Client (as defined in Item 4)
- a complete discussion of the features, risks or conflicts associated with any Client

As required by the Investment Advisers Act of 1940, as amended (“Advisers Act”), NXT Capital Investment Advisers, LLC (“we”, “us” or “our”) will provide this Brochure to current and prospective Clients and may also, in our discretion, provide this Brochure to current or prospective investors in a Client, together with other relevant governing documents and agreements (*e.g.* limited liability company agreement/limited partnership agreement/indenture/offering circular/private placement memorandum/investment management or similar agreement, etc.) (the “Client Agreements”) prior to, or in connection with, such persons’ investment in a Client. Additionally, this Brochure is available through the SEC’s Investment Adviser Public Disclosure website.

Although this publicly available Brochure describes the investment advisory services and products that we provide, persons who receive this Brochure (whether or not from us) should be aware that it is designed solely to provide information about us as necessary to respond to certain disclosure obligations under the Advisers Act. As such, the information in this Brochure may differ from the more specific and complete information about each Client included in the relevant Client Agreements, certain of which may be provided to current and eligible prospective investors only by us or another authorized party. To the extent that there is any conflict between discussions herein and similar or related discussions in any Client Agreements, the relevant Client Agreements shall govern and control.

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#### **Item 4 - Advisory Business**

NXT Capital Investment Advisers, LLC (“NXT Advisers”) is a wholly-owned subsidiary of NXT Capital, LLC. NXT Capital, LLC is an indirect subsidiary of NXT Capital Holdings, L.P. and we refer to NXT Capital Holdings, L.P. and its direct and indirect subsidiaries collectively as “NXT Capital” throughout this Brochure.

We provide investment advisory services to investment entities (each a “Client” and collectively “Clients”) that invest in secured loans of the type originated or available for purchase by NXT Capital’s Corporate Finance Group (the “Corporate Finance Group” and such loans “CF Loans”), as well as first mortgage loans secured by various income-producing commercial and multifamily real estate properties originated by NXT Capital’s Real Estate Finance Group (the “Real Estate Finance Group” and such loans “RE Loans” and, together with CF Loans, “Loans”).

Our investment advice is currently limited to Loans. Clients generally invest in Loans by purchasing an assignment or participation in one or more Loans. For more information regarding Loans and their associated risks, please see Item 8, “Methods of Analysis, Investment Strategies and Risk of Loss”.

Our Clients will generally consist of entities established in conjunction with structured finance transactions such as collateralized loan obligations, privately placed pooled investment vehicles, investment partnerships, trusts or separate investment accounts that invest in Loans. At this time, we do not have any Clients that have been established to invest in both CF Loans and RE Loans although, in the future, Clients may invest in both types of Loans. Except as otherwise described herein, investments for a Client are managed in accordance with the Client’s particular investment objectives, strategies, restrictions and guidelines as outlined in the Client Agreements and are generally not tailored to the individualized needs of any particular investor of the Client. At inception, however, specific investment criteria may be established for a Client in consultation with prospective investors (e.g., specific industry or property type restrictions and concentrations, investment product type concentrations, geographic restrictions, investment size restrictions). Information about each Client, and the particular investment objectives, strategies, restrictions, guidelines and certain risks associated with an investment, is described in the Client Agreements, which are made available to investors only through us or another authorized party. Since we do not provide individualized advice to the investors (and an investment in a Client does not, in and of itself, create an advisory relationship between us and the investor), investors must consider whether a particular Client meets their investment objectives and risk tolerance prior to investing.

We rely on the resources of other entities within NXT Capital in providing investment advisory services to our Clients.

NXT Capital provides structured financing solutions to private equity, sponsor-owned and other middle market companies and commercial real estate investors through its Corporate Finance and Real Estate Finance Groups. NXT Related Persons (as defined in Item 6, “Performance-

Based Fees and Side-by-Side Management”) will generally retain a minimum amount of each CF Loan that it offers to our Clients that invest in CF Loans (“CF Client(s)”) and, except as otherwise agreed to with a particular CF Client, an individual CF Client of ours will generally not be allocated an amount that exceeds the total amount of the CF Loan retained by NXT Related Persons. NXT Related Persons will generally not retain any amount of an RE Loan sold to Clients that invest in RE Loans (“RE Client(s)”).

NXT Capital, which began operations in April 2010, was founded by its principal owner, funds managed by Stone Point Capital LLC (“Stone Point”), along with Robert Radway, NXT Capital’s Chairman and Chief Executive Officer, and other members of NXT Capital’s executive team. Stone Point is a private equity firm that focuses on making investments in the global financial services industry. Stone Point has raised and manages the Trident Funds – with aggregate committed capital of \$19 billion.

Prior to founding NXT, Mr. Radway, and Neil Rudd, NXT Capital’s Chief Financial and Administrative Officer, founded and served in the same positions at Merrill Lynch Capital, a middle market focused commercial finance business that operated as a subsidiary of Merrill Lynch Bank USA. Merrill Lynch Capital was sold to GE Capital in February 2008. Prior to forming Merrill Lynch Capital, Mr. Radway held a senior executive position and Mr. Rudd held a senior corporate development position with Heller Financial. Heller Financial was a NYSE-traded commercial finance company with approximately \$20 billion in assets that was sold to GE Capital in October 2001. Approximately half of NXT Capital’s employees also worked at Merrill Lynch Capital and Heller Financial.

During their tenure at Merrill Lynch Capital and Heller Financial, as well as at NXT Capital, the current management team of NXT Capital and the Corporate Finance Group gained experience in originating and managing senior secured cash flow-based financings principally for private equity backed/owned middle market companies. The senior members of the Corporate Finance Group management team all have 11 to 35 years of industry experience and most have worked together at NXT Capital, Merrill Lynch Capital and Heller Financial. The Corporate Finance Group focuses primarily on financing U.S.-based companies with earnings before interest, taxes, depreciation and amortization (“EBITDA”) ranging from \$5 million to \$75 million that have characteristics including stable cash flows, leading market positions and experienced management teams.

The current management team of NXT Capital and the Real Estate Finance Group also worked together at Merrill Lynch Capital and Heller Financial and have experience in originating first mortgages on institutional-quality real estate across all property types. The senior members of the Real Estate Finance Group management team all have 15 to 25 years of industry experience and most have worked together at NXT Capital, Merrill Lynch Capital and Heller Financial. The Real Estate Finance Group focuses primarily on extending RE Loans, ranging in size from \$10 million to \$50 million, to experienced middle-market real estate investors. These RE Loans are typically used for the acquisition or refinancing of multifamily, office, hotel, industrial and retail properties generally located in major markets with a population greater than one million.

We manage Client assets on both a discretionary and non-discretionary basis. As of November 30, 2017, NXT Advisers managed discretionary Client assets of approximately \$4,694,424,000 across nine pooled investment vehicles and four collateralized loan obligation issuers. We did not manage any Client assets on a non-discretionary basis as of November 30, 2017.

#### **Item 5 - Fees and Compensation**

Clients pay us asset management fees which are generally based on the actual amount of Client assets under management rather than the Client's total investment commitment. An additional asset management fee may be negotiated on a case by case basis with Clients based on the performance of the assets owned by the Client. Please see Item 6, "Performance-Based Fees and Side-by-Side Management". In addition to asset management fees paid to NXT Advisers, RE Clients may also agree to pay an origination fee to NXT Capital for each RE Loan originated for, or purchased by, an RE Client. All asset management and origination fees are specifically negotiated with each Client. We have no set fee schedules.

We will generally calculate these asset management fees and invoice our Clients for payment monthly or quarterly in arrears in accordance with the Client Agreements. Generally, Clients (and, indirectly, the investors therein) bear all expenses as defined in the Client Agreements, which expenses could include, without limitation, (i) organizational, offering, legal, filing, recording, auditing, consulting, administration, accounting, tax, insurance, banking and other professional fees and expenses; (ii) expenses associated with periodic reporting and any amendments to Client Agreements; (iii) expenses associated with financial statements and tax returns; (iv) insurance, interest and other expenses incurred in respect of borrowings, if any; (v) other expenses associated with the acquisition, credit ratings, holding, monitoring, settlement, workout and disposition of a Client's investments (including, without limitation, any brokerage, transaction, custody or hedging costs, and any other third party professional fees such as legal and consulting fees and valuation or appraisal fees); (vi) the costs and expenses of any custodians, lenders, independent review parties, fund administrators, investment banks and other financing or banking sources and providers; (vii) any indemnity expenses; and (viii) the costs and expenses of any litigation involving a Client.

Our Expense Allocation Policy requires that if any of the expenses outlined above are incurred by a Client, NXT Advisers, NXT Capital or NXT Related Persons and/or one or more other Clients managed by NXT Advisers, such expenses shall be allocated among the Client, NXT Advisers, NXT Capital or NXT Related Persons and such other Clients managed by NXT Advisers as the case may be, first, in accordance with any specific allocation methodology for expenses agreed to with our Clients and second, in a fair and equitable manner, as determined in accordance with our and NXT Capital's policies and procedures.

For a more complete discussion of Client fees, compensation and other expenses, please refer to the respective Client Agreements and Item 12, "Brokerage Practices".

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

“Side-by-side management” refers to the simultaneous management of multiple types of Client accounts and/or investment products. For example, we may manage Clients with similar, complementary or competing investment objectives, policies or strategies. Side-by-side management gives rise to a variety of potential and actual conflicts of interest for us, our affiliates, including NXT Capital, any persons under common control and NXT Capital employees who have directly or indirectly invested in a Client (“NXT Related Persons”), including, as discussed below, the incentive to favor certain accounts with performance-based fees or accounts in which NXT Related Persons have an economic interest.

As discussed in Item 5, “Fees and Compensation” and Item 11, “Code of Ethics, Participation or Interest in Client Transactions and Personal Trading”, NXT Related Persons could: (1) be entitled to a performance fee or an origination fee with respect to one or more Clients (we are not currently entitled to any performance fees with respect to our Clients); (2) directly or indirectly maintain investments in Loans for their own accounts; and (3) have directly or indirectly invested in a Client. Accordingly, we could face a conflict of interest when considering how to allocate limited investment opportunities among multiple Clients, each having different fee structures, and accounts in which NXT Related Persons have an economic interest. In addition, the existence of a performance fee may create an incentive for us to make more speculative investments on behalf of a Client than we would otherwise make in the absence of such performance-based compensation. Additionally, some investors that hold minority interests in NXT Capital partially or wholly own Clients of NXT Advisers. We could have a conflict of interest regarding investment decisions or trade allocations made on behalf of these Clients since we may have an incentive to favor a Client that is partially or wholly-owned by an investor in NXT Capital.

To assist in mitigating against the potential risks outlined above, the Client Agreements often contain one or more of the following requirements: (i) NXT Related Persons will generally retain a minimum amount of each CF Loan offered to a CF Client in an amount at least equal to the amount held by any CF Client, (ii) the Client may have discretion as to whether or not to purchase a Loan we offer to them and (iii) certain Loan eligibility criteria, concentration limitations and other criteria and restrictions. In addition, through our trade allocation policies and procedures, Code of Ethics and other policies and procedures, we seek to promote fair and equitable treatment of Clients on an overall basis, over time, based on considerations that are unrelated to our economic interests. Please see Item 12, “Brokerage Practices”.

Loans held by our Clients are not publicly traded and their fair values may not be readily determinable. Except as otherwise provided in a Client’s governing documents we, or NXT Capital, value the Loans, in good faith, pursuant to our and NXT Capital’s written valuation policies and procedures and in accordance with U.S. generally accepted accounting principles, which in the case of Loans that are held for investment purposes means using the historical cost method, including an allowance for loan loss reflecting anticipated inherent losses in the portfolio. Such valuation may comprise certain good faith determinations made by us, or NXT

Capital, which are subjective in nature. Actual amounts realized with respect to a Loan could vary significantly from the value at which the Loan is held at any time.

#### **Item 7 - Types of Clients**

Our Clients will generally consist of entities established in conjunction with structured finance transactions such as collateralized loan obligations, privately placed pooled investment vehicles, investment partnerships, trusts or separate investment accounts that invest in Loans. At this time, we do not have any Clients that have been established to invest in both CF Loans and RE Loans although, in the future, Clients may invest in both types of Loans. Except as otherwise described herein, investments for a Client are managed in accordance with the Client's particular investment objectives, strategies, restrictions and guidelines as outlined in the Client Agreements and are generally not tailored to the individualized needs of any particular investor of the Client. At inception, however, specific investment criteria may be established for a Client in consultation with prospective investors (*e.g.*, specific industry or property type restrictions and concentrations, investment product type concentrations, geographic restrictions, investment size restrictions, etc.). Investors in our Clients will generally consist of financial institutions, investment companies, insurance companies, corporate or public pension funds, endowments, foundations, family offices or individuals who are qualified purchasers and / or accredited investors. In addition, certain NXT Capital employees could have directly or indirectly invested in a Client and some investors that hold minority interests in NXT Capital partially or wholly own Clients of NXT Advisers - please see Item 6, "Performance-Based Fees and Side-by-Side Management".

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

As described in Item 7, "Types of Clients", our Clients will generally consist of entities established in conjunction with structured finance transactions such as collateralized loan obligations, privately placed pooled investment vehicles, investment partnerships, trusts or separate investment accounts that invest in Loans. As investment manager we provide our Clients with certain investment advice and services as outlined in the Client Agreements. Investment advice and services generally consist of the selection, analysis, and due diligence of Loans before recommending for investment or disposition by the Client and other portfolio management, administrative and advisory functions for the Client.

#### **Corporate Finance Group - Methods of Analysis**

The Corporate Finance Group primarily originates and provides first lien and second lien senior secured Middle Market Loans, as defined below, (including term Loans, delayed draw term Loans, revolving credit facilities, uni-tranche Loans, stretch senior Loans, first lien term Loans behind revolvers, split lien Loans and last out term Loans). These Middle Market Loans are made to private equity sponsored-owned and other U.S.-based companies with EBITDA typically ranging from \$5 million to \$75 million that have characteristics including stable cash flows, leading market positions and experienced management teams. The Corporate Finance



Group will also selectively purchase similar Middle Market Loans from other loan originators. We look to partner with experienced sponsors and quality management teams.

The Corporate Finance Group and its investment professionals evaluate each investment opportunity relative to defined credit policies and criteria which have been established and refined based on lessons learned over the past 25 years. The Corporate Finance Group does not invest in technically complex sectors in which they do not have experience or expertise (i.e. Oil & Gas) and morally sensitive / headline risk situations (i.e. guns, payday loans, etc.).

CF Loans will generally have at least one financial covenant. Financial covenants, in the event of a covenant default, provide a mechanism for the senior lenders to approach the private equity sponsor to facilitate corrective actions at the underlying borrower (including capital support) before enterprise value declines below the amount of debt capital at risk. On a limited basis, the Corporate Finance Group may originate “covenant lite” loans.

The Corporate Finance Group focuses on building a highly diversified, low volatility portfolio with high recovery rates in the event of default. Regular reviews of obligor, product, sponsor and industry concentrations are conducted by NXT Capital’s Corporate Finance Investment Committee and portfolio limits are set or adjusted as appropriate.

#### **Real Estate Finance Group - Methods of Analysis**

The Real Estate Finance Group focuses primarily on extending RE Loans, ranging in size from \$10 million to \$50 million, to experienced middle-market real estate investors. These RE Loans are typically used for the acquisition or refinancing of multifamily, office, hotel, industrial and retail properties generally located in major markets with a population greater than one million.

The Real Estate Finance Group and its investment professionals evaluate each investment opportunity relative to defined credit policies and criteria which have been established and refined based on lessons learned over the past 25 years.

The Real Estate Finance Group focuses on building a highly diversified, low volatility portfolio with high recovery rates in the event of default. Regular reviews of obligor, product type, sponsor, property type and geographic concentrations are conducted by NXT Capital’s Real Estate Investment Committee and portfolio limits are set or adjusted as appropriate.

#### **Summary of Material Risks**

Our investment activities involve a significant degree of risk of loss that a Client and its investors should be prepared to bear. As it is not possible to identify all of the risks associated with investing, this section contains a discussion of certain primary risks associated with our investment activities. The particular risks applicable to a Client will depend on the nature of its investment strategy or strategies and the types of investments held by it. Investors in a Client should review the applicable private placement memorandum or similar offering document or the applicable Client Agreements for specific information regarding the risks associated with an investment in a specific Client.

While we seek to manage Clients so that risks are appropriate to the return potential for the strategy, it is often not possible to fully mitigate risks. Any investment includes the risk of loss and there can be no guarantee that a particular level of return will be achieved. Mandates may be limited to certain types of securities (e.g., Loans) and may not be diversified. Moreover, the Clients are generally not intended to provide a complete investment program for investors and we expect that the assets we manage do not represent all of an investor's assets. Investors are responsible for appropriately diversifying their assets to guard against the risk of loss.

The value of Loans will generally fluctuate with, among other things, the financial condition of the obligors of a CF Loan, the financial performance of the property securing an RE Loan, general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry or geographic area and changes in prevailing interest rates.

*Risks Associated with Loans Originated by the Corporate Finance Group*

The Corporate Finance Group primarily originates and provides Middle Market Loans. "Middle Market Loans" are typically defined as debt issued as part of a Loan facility to companies with EBITDA typically ranging from \$5 million to \$75 million that is not broadly syndicated to institutional investors. Middle Market Loans share many of the same characteristics as more broadly syndicated loans, including, in most cases, a senior secured position in the company's capital structure and floating rate interest payments. Middle Market Loans tend to be privately held and are often not publicly rated. Because a more limited number of investors participate in Middle Market Loans, the trading volume for Middle Market Loans is likely to be smaller than that for broadly syndicated Loans. The risks of Middle Market Loans include (among others): (i) limited liquidity and secondary market support, (ii) the possibility that earnings of the obligor are insufficient to meet its debt service, (iii) the declining creditworthiness and potential for insolvency of the obligor of such Middle Market Loan during periods of economic downturn and (iv) the obligor generally is a small or mid-size company representing only local or regional interests. Middle Market Loans are generally subject to market value volatility that may not be apparent from historical volatility studies and that could be significant at times. An economic downturn could severely disrupt the market for Middle Market Loans and adversely affect the value of outstanding Middle Market Loans and the ability of the obligors thereof to repay principal and interest. Moreover, the default history for Middle Market Loans is limited, actual defaults could be greater than indicated by historical data and the timing of defaults could vary significantly from historical observations.

"Second Lien Loans" are secured by liens on the collateral securing a Middle Market Loan that are subordinated to the liens of at least one other class of obligations of the related obligor, and thus, the ability of the second lien lender to exercise remedies after a Second Lien Loan becomes a defaulted Loan is subordinated to, and limited by, the rights of the senior creditors holding such other classes of obligations. In many circumstances, the holder of the Second Lien Loan may be prevented from foreclosing on the collateral securing the Second Lien Loan until the related senior loan is paid in full. Moreover, any

amounts that might be realized as a result of collection efforts or in connection with a bankruptcy or insolvency proceeding involving a Second Lien Loan must generally be turned over to the senior secured lender until the senior secured lender has realized the full value of its own claims. In addition, a Second Lien Loan may contain provisions requiring the Second Lien Loan's interest in the collateral to be released in certain circumstances. These lien and payment obligation subordination provisions could materially and adversely affect the ability to realize value from Second Lien Loans.

"First Lien Term Loans Behind a Revolver" are term Middle Market Loans that typically have a first lien on the obligor's non-current and related assets and, as additional collateral, typically have a second lien on an obligor's current and related assets (the associated revolver carries a first lien on the obligor's current and related assets). For such First Lien Term Loans Behind a Revolver, the risks relating to a holder's second lien on the obligor's current assets are similar to the risks relating to Second Lien Loans. In such cases, the creditors holding the revolver will have a senior security interest in an obligor's current assets.

A "Last Out Term Loan" is a senior secured Middle Market Loan that is generally fully subordinated in right of payment or application of proceeds (other than permitted interest and principal payments) to the related senior secured loans of the same obligor until such related senior secured loans are paid in full. There is a risk that those lenders whose loans are part of the "last out" portion of such credit facility may not receive payment in full if there are insufficient amounts available to pay both the senior and subordinate portions of such credit facility.

#### *Risks Associated with Loans Originated by the Real Estate Finance Group*

Real estate properties have historically experienced significant fluctuations and cycles in values, which may result in reductions in the value of an RE Loan. If the value of the property securing an RE Loan has declined significantly since the RE Loan was originated the likelihood of a Client incurring a loss on an RE Loan increases as the value of the property may be insufficient to cover the remaining obligation due on the RE Loan.

RE Loans are typically structured without recourse to the investor and borrowing entity and in the event of a default there will generally be recourse only against the specific properties and other assets that have been pledged to secure such RE Loan. Therefore, the ability of an investor to repay an RE Loan is dependent primarily upon the successful operation of such property rather than upon the existence of independent income or assets of the investor. If the net operating income of the property declines (for example, if rental rates/lease rates or occupancy rates decline or real estate tax rates or other operating expenses increase), the investor's ability to repay the RE Loan may be impaired. The value of an income producing property is directly related to the net operating income derived from such property. Net operating income of an income producing property can be impacted by, among other things, tenant mix, success of tenant businesses (for properties other than multifamily properties), property management decisions (including responding

to changing market conditions, planning and implementing rental or pricing structures and causing maintenance and capital improvements to be carried out in a timely fashion), capital requirements, property location and condition, competition from comparable types of properties, changes in laws that increase operating expenses or limit rents/lease rates that may be charged, any need to address environmental contamination at the property and the occurrence of any uninsured casualty at the property. Furthermore, the value of any commercial property and the net operating income may be adversely affected by risks generally incident to interests in property, including various events which the related investor and/or manager of the commercial property may be unable to predict or control, such as changes in general or local economic conditions and/or specific industry segments, declines in real estate values, declines in rental or occupancy rates, increases in interest rates, real estate tax rates and other operating expenses, changes in governmental rules, regulations and fiscal policies, including environmental legislation, acts of God, environmental hazards, and social unrest and civil disturbances.

Certain RE Loans represent financings of properties that are currently undergoing, or are expected to undergo in the future, renovations, construction and/or re-tenanting or other repositioning. For these properties, the initial RE Loan amount is based on underwritten as-is cash flows and a future funding amount for the RE Loan is established based on underwritten stabilized cash flows and stabilized appraised values. The stabilized cash flow and stabilized net operating income for such properties have been underwritten based on certain assumptions, including assumptions regarding the renovations, lease-up, occupancy and rental/lease rates. If the operating performance of such properties does not improve to the underwritten stabilized levels, or if required debt service payments increase (resulting from increases in LIBOR, for example) then (i) some investors may be unable to make required debt service payments on their RE Loans and/or (ii) some investors may find it more difficult to refinance their RE Loans or sell their properties at prices sufficient to pay their respective balloon payments at maturity. In addition, there can be no assurance that current or planned renovations, construction and/or re-tenanting or other repositioning will be completed, that such renovations, construction and/or re-tenanting or other repositioning will be completed in the time frame contemplated or that, when and if such renovations, construction and/or re-tenanting or other repositioning is completed, it will improve the operations at, or increase the value of, the related property. Failure of any of the foregoing to occur could have a material adverse impact on the related RE Loan, which could affect the ability of the related investor to repay the related RE Loan.

#### Credit Risk

Loans can default for a variety of reasons. Defaulted Loans may require substantial workout negotiations or a restructuring that may entail, among other things, a substantial reduction in the interest rate, a substantial write-down of principal and a substantial change in the terms, conditions and covenants with respect to such defaulted Loan. Loans have significant credit risks and material losses could occur. As with other debt obligations, claims and collateral may be difficult to enforce in the event of a default. In addition, a Client may incur additional expenses to the extent it is required to seek recovery upon a

default or to participate in the restructuring of a Loan. No assurance can be made that full or significant recovery of principal and/or interest will be received or that any collateral realized will be sufficient to recover the full amount of the Client's investment in a Loan.

#### Bankruptcy Risk

Bankruptcy of one or more obligors could reduce or eliminate the return on a Loan. There is a significant risk that one or more of the obligors to Loans owned by our Clients could enter bankruptcy proceedings. Such proceedings might result in, among other things, a substantial reduction in the interest rate and a substantial write down of the principal of the related Loan(s). There are several significant risks inherent in the bankruptcy process. First, rulings in a bankruptcy case are the product of adversarial proceedings determined by a court with equitable powers, and are beyond the control of specific creditors. Second, a bankruptcy filing may adversely and permanently affect the obligor making such filing. The obligor could lose its market position, key tenants, key employees, relationships with important suppliers, access to the capital markets or other sources of liquidity and otherwise become incapable of restoring itself as a viable entity. If for this or any other reason, a Chapter 11 reorganization is converted to or becomes a liquidation, the liquidation value of the obligor or property may not equal the liquidation value that was believed to exist at the time the Loan was acquired by our Client. Third, the duration of a bankruptcy case is difficult to predict. A creditor's return on investment can be adversely affected by delays while a plan of reorganization is being negotiated, approved by parties in interest and confirmed by the bankruptcy court until it ultimately becomes effective. For example, in general, unsecured creditors' claims for interest accrued between the bankruptcy filing and a reorganization plan's consummation are not allowed. Fourth, the administrative costs of the debtor and official committees in connection with the bankruptcy case are frequently high and will be paid out of the debtor's estate prior to any return to general unsecured creditors. If the bankruptcy case involves protracted or difficult litigation, or turns into a liquidation, substantial assets may be devoted to such administrative costs; a creditor's costs in monitoring and enforcing its investment also may substantially increase. Certain claims that have priority by law (for example, claims for taxes) could also be significant. Finally, under certain circumstances, creditors' claims against bankrupt or insolvent entities may be subject to equitable subordination or recharacterization as equity (particularly where the creditor is an insider or otherwise controls the debtor), and transfers made to creditors may be subject to avoidance and disbursement as preferences or fraudulent conveyances as described above.

#### Liquidity Risk

There is typically no established trading market for the majority of the Loans owned by our Clients. Such Loans are not generally traded in organized exchange markets but may be traded by banks and other institutional investors engaged in loan syndications. Because Loans are privately syndicated and Loan agreements are privately negotiated and customized, Loans are not purchased or sold as easily as publicly traded securities. Historically the trading volume in the market for loans such as the Loans has been small relative to the high-yield debt securities market. In addition, both RE Loans and CF Loans are

less liquid and, unlike more broadly syndicated loans, have no established trading market. Given the limited trading market for Loans, and the uncertainty as to their fair value at any point in time, if a Client seeks to sell a Loan it may not be able to do so at a favorable price or at all.

#### Interest Rate Risk

Loans owned by our Clients generally contain a floating interest rate typically based on LIBOR and could also include terms that, under certain circumstances, allow the spread over the floating rate index to increase or decrease, including in the event of a change in credit quality. Rising interest rates may render some obligors unable to pay interest on their Loans. To the extent interest rates increase above any applicable interest rate floor, periodic interest obligations owed by the related obligors will also increase. As prevailing interest rates increase, some obligors may not be able to make the increased interest payments on Loans or refinance their balloon and bullet Loans, resulting in payment defaults and defaulted Loans. Conversely if interest rates decline, obligors could refinance or reprice their Loans at lower interest rates potentially increasing prepayment risk (see “Prepayment Risk” below). In the event of a significant increase in interest rates, Loan defaults may increase and result in credit losses that would adversely affect a Client’s performance.

An increase in LIBOR will increase the financing costs of any credit facility a Client has. Many of the CF Loans, and some of the RE Loans, owned by our Clients are subject to a LIBOR floor. It is possible that, in the event of an increase in LIBOR, the rate of increase of the Client’s financing costs may outpace, possibly for an extended period, increases in the rate of income from Loan investments. In the event that the Client’s interest expense was to increase relative to income, the Client’s return on investments and cash available for distribution would be reduced.

#### Prepayment Risk

CF Loans are generally prepayable in whole or in part at any time at the option of the obligor thereof at par plus accrued unpaid interest thereon and without any additional prepayment fee or penalty. RE Loans are generally prepayable in whole or in part at any time at the option of the obligor thereof at par plus accrued unpaid interest thereon and typically contain an exit fee and/or minimum interest requirement that is payable at the time an RE Loan is repaid. The rate of prepayments, refinancings, amortization, defaults and recoveries with respect to Loans may be influenced by various factors including:

- changes in obligor or property performance and requirements for capital;
- the level of interest rates and the shape of the yield curve;
- the availability of credit being extended and/or credit underwriting standards applied in the commercial and/or real estate lending industries;
- natural disasters such as hurricanes, earthquakes, floods or other natural disasters, which may result in uninsured losses; and
- changes in the overall economic environment.

We cannot predict the actual rate of prepayments, refinancing, accelerated amortization or defaults and recoveries which will be experienced with respect to the Loans held by our Clients. Consequently, there exists a risk that Loans acquired by a Client at a price greater than par could experience a capital loss as a result of such a prepayment. Any inability of NXT Advisers to reinvest payments or other proceeds in Loans with comparable interest rates in an expedient manner may result in a Client realizing a return that is less than the return the Client would have realized with respect to the prepaid Loan had such Loan been held to maturity. There is no assurance that a Client will be able to reinvest proceeds in Loans with comparable interest rates or (if it is able to make such reinvestments) as to the length of any delays before such investments are made. In addition, certain of the Loans could include excess cash flow capture and other mandatory prepayment provisions which may accelerate the amortization of the applicable Loans.

#### *Maturity Repayment Risk*

A significant portion of the Loans owned by our Clients will have most or all of the principal due at maturity. The ability of an obligor to make such a large payment upon maturity typically depends upon its ability either to refinance the Loan prior to maturity, generate sufficient cash flow to repay the Loan at maturity or to engage in a sale of all or a portion of the business securing a CF Loan or the property securing an RE Loan. The ability of an obligor to accomplish any of these goals will be affected by many factors, including the availability of financing at acceptable rates to such obligor, the financial condition of such obligor or property, the marketability of the collateral (if any) securing such Loan, the operating history of the related property, business, tax laws and the prevailing general economic conditions. Consequently, such obligor may not have the ability to repay the Loan at maturity and, unless it is able to refinance such debt, it could default in payment at maturity, which could result in losses to our Clients.

Significant numbers of obligors on CF Loans may face the need to refinance their debt over the next few years, and significant numbers of collateralized loan obligation transactions (historically an important source of funding for CF Loans) have reached or are close to reaching the end of their reinvestment periods or the final maturities of their own debt. As a result, there could be significant pressure on the ability of obligors on CF Loans to refinance their debt over the next few years unless the volume of new collateralized loan obligation transactions or other sources of funding exist at such time to provide such refinancing. If such sources of funding do not exist, significant defaults in CF Loans could occur, and there could be downward pressure on the prices and markets for debt instruments, including CF Loans.

Real estate investors have historically utilized Fannie Mae and Freddie Mac to refinance their RE Loans secured by multifamily properties and have also utilized real estate securitization transactions to refinance RE Loans secured by multifamily and other property types. If these sources of funding did not exist or were significantly curtailed, significant maturity defaults in RE Loans could occur, and there could be downward pressure on the price and liquidity of RE Loans.

*Investing in Loans Indirectly by Participation Interests or Directly by Assignment*

A Client generally acquires interests in Loans either directly (by way of “Assignment”) or indirectly (by way of a “Participation Interest”). As described in more detail below, holders of Participation Interests are subject to additional risks not applicable to a holder of an Assignment.

The purchaser of an Assignment in a Loan typically succeeds to all the rights and obligations of the assigning selling institution (a “Selling Institution”) and becomes a lender under the loan or credit agreement with respect to that Loan. In contrast, a Participation Interest acquired by a Client in a Selling Institution’s portion of a Loan typically results in a contractual arrangement only with such Selling Institution, not with the obligor under the Loan. In the case of a Participation Interest, a Client will generally have the right to receive payments of principal, interest and any fees to which it is entitled only from the Selling Institution and only upon receipt by the Selling Institution of such payments from the obligor. As a result, the Client will assume the credit risk of both the obligor and the Selling Institution, which will remain the legal owner of record of the applicable Loan. In the event of the insolvency of the Selling Institution, a Client, by owning a Participation Interest, could be treated as a general unsecured creditor of the Selling Institution and may not benefit from any set-off between the Selling Institution and the obligor. In purchasing a Participation Interest, a Client generally will have no or limited rights to enforce compliance by the obligor with the terms of the loan or credit agreement or other instrument evidencing such Loan, and the Client may not directly benefit from the collateral supporting the Loan in which it has purchased the Participation Interest; although most underlying agreements with respect to any Loan do provide that the Selling Institution shall obtain the participant’s consent prior to voting on any amendment, modification or waiver that forgives principal, interest or fees, reduces principal, interest or fees that are payable, postpones any payment of principal, interest or fee or releases any material guarantee or collateral. Please also see “Client’s Limited Control of the Administration and Amendment of Loans” below.

*Client’s Limited Control of the Administration and Amendment of Loans*

As discussed in Item 17, “Voting Client Securities”, we may on behalf of a Client exercise or enforce, or refrain from exercising or enforcing, any or all of a Client’s rights in connection with Loans or any related documents or may refuse amendments or waivers of the terms of any Loan and related documents in accordance with our customary business practices. Our authority to change the terms of the Loans will generally be documented in the Client Agreements. As a result, a Client may be relying on our customary business practices with respect to the management of Loans. A Client may not have any right to compel us to take or refrain from taking any actions other than in accordance with our customary business practices and the provisions of the respective Client Agreement.

We may also have the authority under certain Client Agreements to (i) elect to exercise remedies with respect to the obligor of a Loan or the collateral securing such Loan without



the consent of the Client or its investors and (ii) (A) without the consent of the Client or its investors or (B) in some instances with the consent of an independent investment professional authorized to act on behalf of the Client, cause a Client to consent to all or certain amendments, waivers or modifications to the Loans requested by obligors or the lead agents for syndicated loans. Such authority may cause a Client to extend or defer the maturity, adjust the outstanding balance of any Loan, reduce or forgive interest or fees, release material collateral or guarantees, or otherwise amend, modify or waive the terms of any related Loan agreement, including the payment terms thereunder. Any amendment, waiver or modification of a Loan could postpone the expected maturity of the Loan and/or reduce the likelihood of timely and complete payment of interest or principal under the Loan. We will make any such determinations in accordance with our customary business practices and the terms of the Client Agreements.

#### *Syndicated Loan Risk*

A Client's Assignment or Participation Interest in a CF Loan is often a part of a syndicated bank facility, that is, a loan offered by a group of lenders providing funds to an obligor. The terms and conditions of the underlying agreements with respect to any syndicated CF Loan may be amended, modified or waived only by the agreement of the requisite percentage of lenders under the related CF Loan agreement with limited exceptions. Generally, any such amendment, modification or waiver must include a majority or a super majority (measured by outstanding loans or commitments) or, in certain circumstances, a unanimous vote of the lenders. Consequently, the terms and conditions of the payment obligation and collateral rights arising from the underlying agreements with respect to any CF Loan could be amended, modified or waived in a manner contrary to our preferences or the preferences of a CF Client, as the case may be, if a sufficient number of the other lenders voted in favor of such modification, amendment or waiver. There can be no assurance that any rights or obligations arising from the underlying agreements with respect to any CF Loan will maintain the terms and conditions to which we or our CF Client originally agreed. Similarly, the exercise of remedies could be subject to the vote of a specified percentage of the lenders under the underlying agreements with respect to any CF Loan and we and our CF Clients may not be in total control of this specified percentage, which may cause remedies to be exercised differently than desired for us and our CF Clients.

#### *Agented Loan Risk – CF Loans*

The CF Loans purchased by our CF Clients are expected to consist substantially of agented Loans. Under the underlying documents with respect to agented CF Loans, a financial institution or other entity (including NXT Related Persons) may be designated as the administrative agent and/or collateral agent or a person acting in a similar capacity. Under these arrangements, the obligor grants a lien to the agent on behalf of the holders of the associated indebtedness and directs payments to the agent, which, in turn, will distribute payments to the holders of the associated indebtedness, including our CF Clients. As is typical in such agency arrangements, the agent is the party responsible for administering and enforcing the CF Loan and generally may take actions only in accordance with the instructions of a majority or super majority in commitments and/or principal amount of the

associated indebtedness. In the case of CF Loans that are part of a capital structure that includes both senior and subordinated indebtedness, the agent may take such action in accordance with the instructions of one or more senior tranches of the related indebtedness without any right to vote or consent (except in certain limited circumstances) by the subordinated tranches of the related indebtedness. In many cases, the CF Loans held by our CF Clients represent less than the amount of associated indebtedness sufficient to direct actions with respect to such CF Loans or represent subordinated debt which is precluded from acting and, consequently, we would be able to direct such actions only if our instructions were made in conjunction with other holders of associated indebtedness that together with our CF Clients compose the requisite percentage of the related indebtedness then entitled to direct such action. Conversely, if holders of the required amount of the associated indebtedness other than our CF Clients desire to take certain actions, such actions may be taken even if we did not support such actions. Furthermore, if a CF Loan is subordinated to one or more senior loans made to the obligor, our ability to exercise such rights may be subordinated to the exercise of such rights by the senior lenders. However, as is typical for such CF Loans, certain actions, including amendments to the payment terms of the CF Loans, typically may not be taken without consent of all holders of the related indebtedness, including our CF Clients. If the CF Loan is a syndicated revolving loan or delayed draw term loan, other lenders may fail to satisfy their full contractual funding commitments for such CF Loan, which could create a breach of contract resulting in a lawsuit by the obligor against the lenders and may adversely affect the fair market value of such CF Loan.

There is a risk that a loan agent becomes bankrupt or insolvent. Such an event would delay, and possibly impair, any enforcement actions undertaken by holders of the associated indebtedness, including attempts to realize upon the collateral securing the CF Loan and/or direct the agent to take actions against the related obligor or the collateral securing a CF Loan and actions to realize on proceeds of payments made by obligors that are in the possession or control of such loan agent.

In addition, agented CF Loans typically allow for the agent to resign with certain advance notice. Such CF Loans may not, however, contain provisions for holders of the associated indebtedness to remove the agent thereunder. Therefore, under circumstances where removal of the agent would be in the best interests of the holders of the associated indebtedness (including our CF Clients), the underlying loan documents would have to be amended by the requisite holders of the associated indebtedness with the agreement of the agent to remove the agent thereunder.

#### Leverage Risk

A Client may utilize leverage and incur indebtedness in connection with acquiring Loans. The greater the total borrowings of a Client relative to its investments, the greater will be its risk of loss and possibility of gain. In addition, money borrowed by a Client will be subject to interest costs, which will be a direct expense of such Client, and, to the extent not

covered by income attributable to the investments acquired, may adversely affect the operating results of the Client.

The use of leverage magnifies the potential for gain or loss on amounts invested. The use of leverage is generally considered a speculative investment technique and increases the risks of a Client. Under the terms of any credit facility or other debt instrument a Client enters into, the Client is likely to be required by its terms to use the net proceeds of certain or any investments that it sells to repay amounts borrowed under such facility or instrument before applying such net proceeds to any other uses.

If the value of the assets held by a Client decreases, leveraging would cause net asset value to decline more sharply than it otherwise would have had the Client not leveraged, thereby magnifying losses or eliminating the Client's stake in a leveraged Loan. Similarly, any decrease in a Client's income will cause its net income to decline more sharply than it would have had the Client not borrowed. A Client's ability to service its debt will depend largely on its financial performance and will be subject to prevailing economic conditions and competitive pressures.

*Political Uncertainty Risk.*

Markets in which Clients are invested or to which Clients are exposed may experience political uncertainty (e.g., Brexit), that subjects investments to heightened risks, even when made in established markets. These risks include: greater fluctuations in currency exchange rates; increased risk of default (by both government and private issuers); greater social, economic, and political instability (including the risk of war or natural disaster); increased risk of nationalization, greater governmental involvement in the economy; less governmental supervision and regulation of the securities markets and participants in those markets; controls on foreign investment, capital controls and limitations on repatriation of invested capital and on the Clients' ability to exchange currencies; inability to purchase and sell investments or otherwise settle security or derivative transactions (i.e., a market freeze); unavailability of currency hedging techniques; slower clearance; and difficulties in obtaining and/or enforcing legal judgments.

During times of political uncertainty the securities, derivatives and currency markets may become volatile. There also may be a lower level of monitoring and regulation of markets while a country is experiencing political uncertainty, and the activities of investors in such markets and enforcement of existing regulations may be extremely limited.

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

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

**Item 9 - Disciplinary Information**

Not Applicable.

**Item 10 - Other Financial Industry Activities and Affiliations**

Neither NXT Advisers, NXT Capital nor any of their employees are registered, or have a pending application to register, as a (i) broker-dealer, (ii) representative of a broker-dealer, (iii) futures commission merchant, (iv) commodity pool operator, (v) commodity trading advisor, or (vi) an associated person of the foregoing entities.

Our parent company, NXT Capital, LLC, and the general partners of four of our Clients have filed notices of exemption from registration as commodity pool operators pursuant to Commodity Futures Trading Commission Regulation 4.13. NXT Capital, LLC does not provide any hedging products to our Clients. We rely on the resources of other entities within NXT Capital in providing investment advisory services to our Clients. We do not believe that our relationships with these entities would be considered to cause a conflict of interest with our Clients.

Stone Point, NXT Capital's principal owner, manages private equity funds that invest in companies operating in the following sectors of the financial services industry:

- Banks and depository institutions
- Outsourcing service providers to financial institutions
- Specialty lending and other credit opportunities
- Mortgage services
- Asset management
- Insurance underwriting
- Insurance distribution
- Employee benefits and healthcare

Neither NXT Advisers nor NXT Capital have any relationships or arrangements with Stone Point, or companies owned or controlled either directly by, or through funds managed by, Stone Point that would be considered material to our investment advisory business or would be considered to cause a conflict of interest with our Clients. NXT Capital will not offer to any Client a Loan made to any portfolio company owned or controlled by Stone Point.

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

We and NXT Capital have adopted a Code of Ethics in accordance with Rule 204A-1 under the Advisers Act covering such matters as (1) general standards of business and personal conduct; (2) the proper use and safeguarding of confidential information; (3) prohibitions against securities transactions when in possession of material, nonpublic information; (4) personal

conflicts of interest, including outside activities and gifts; and (5) personal securities transactions policies (the “Code of Ethics”).

The Code of Ethics states that no Access Person (as defined under the Advisers Act) shall purchase or sell any security listed on our restricted list or acquire a security in an initial public offering or in a limited offering without obtaining prior approval for such purchase or sale from our Chief Compliance Officer. The Chief Compliance Officer will be responsible for determining if the Access Person has access to any material non-public information regarding the security before approving the proposed purchase or sale.

We will provide our Code of Ethics to any Client or prospective Client upon request. Such request should be made to our Chief Compliance Officer using the contact information provided on the Cover Page.

#### **Certain Conflicts of Interest Involving NXT Related Persons**

Various potential and actual conflicts of interest may arise from the overall investment activity of NXT Related Persons. NXT Related Persons originate and/or acquire for their own account, in the ordinary course of business, existing and new Loans. In addition, certain NXT Capital employees could have directly or indirectly invested in a Client. The following briefly summarizes some of these conflicts, but is not intended to be an exhaustive list of all such conflicts. Investors in a Client should review the applicable private placement memorandum or similar offering document or the applicable Client Agreements for specific information regarding the conflicts of interest relating to a specific Client.

As further described below, we may affect principal transactions where a Client would invest in Loans of obligors in which an NXT Related Person has a debt, equity or Participation Interest, in each case in accordance with applicable law. We will provide disclosures to and obtain the consent and approval of the Client or the Client’s designated representative in accordance with Section 206 of the Advisers Act for these principal transactions. All Client purchases of Loans will be executed on an arm’s length basis.

NXT Related Persons could invest, or have already invested, for their own account in investments that are senior or junior to or pari passu with investments of the same obligor that are held by our Clients. In addition, NXT Related Persons may serve as a general partner, adviser, officer, director, sponsor or manager of other entities that invest in Loans. In such instances NXT Related Persons could take action with respect to such Loans which may differ from the timing or nature of any action taken with respect to the investments of a Client. As a result of such actions, the prices and availability of investments in which a Client invests or could seek to invest, and the performance of the investment owned by a Client, may be materially adversely affected.

From time to time, certain NXT Capital employees could be allowed to directly or indirectly invest in certain Clients. If such NXT Capital employees are also providing investment advisory services on our behalf to a Client, they could have a conflict of interest in connection with

investment decisions or trade allocations made on behalf of a Client since they may have an incentive to favor a Client in which they have directly or indirectly invested.

Some investors that hold minority interests in NXT Capital partially or wholly own Clients of NXT Advisers. We could have a conflict of interest regarding investment decisions or trade allocations made on behalf of these Clients since we may have an incentive to favor a Client that is partially or wholly-owned by an investor in NXT Capital.

NXT Related Persons could from time to time come into possession of material nonpublic information that limits our ability to effect a transaction for a Client, and the Client's investments may be constrained as a consequence of our inability to use such information to effect transactions that otherwise may have been initiated on behalf of our Clients. We may refrain from directing the purchase or sale hereunder of Loans issued by persons about whom NXT Related Persons have information that they determine might prohibit them from trading such Loans in accordance with applicable law. In addition, NXT Related Persons may elect not to receive material non-public information with respect to various obligors. As a result, NXT Related Persons may not have access to information relating to obligors of Loans that is or may be known to other persons who are investing in the same Loan.

NXT Capital or NXT Related Persons sometimes act as servicers, administrative agents or in similar capacities, and receive compensation from borrowers or investors for such services. Such compensation does not offset any other fees paid to us.

## **Item 12 - Brokerage Practices**

### **Selecting or Recommending Broker-Dealers**

Client transactions involving Loans generally do not require the engagement of a broker-dealer.

If we were required to use a broker-dealer for any Client Loan transaction where the Client would be incurring the broker-dealer fees and expenses, we would be subject to our fiduciary duty to seek the best possible execution for the Client's transaction. Factors we would consider in selecting a broker-dealer if required for such Client Loan transactions could include, without limitation:

- The price at which the transaction may be executed
- Certainty of execution of transaction with broker-dealer
- Commission rates and any other related expenses
- Financial strength of broker-dealer
- Any potential conflicts of interest with broker-dealer

Although we would generally not place portfolio transactions with those brokers and dealers who also furnish research, execution and other services in a formal soft dollar arrangement with us or a Client, any broker-dealer we select could, from time to time, provide unsolicited,

proprietary research at no stated cost or requirement of executing a particular amount of transactions.

### **Aggregation and Allocation of Investment Opportunities**

We and NXT Capital have policies and procedures in place with respect to the fair and equitable allocation of investment opportunities to our Clients on an overall basis over time. The investment objectives and parameters of each of our Clients are different and may prevent a Client from being able to participate in all or a portion of an investment purchase or sale opportunity. A Client may also be prevented from being able to participate in all or a portion of an investment purchase or sale opportunity by regulatory, tax or legal requirements. A Client that retains the discretionary authority over investments will have the ability to approve or decline an investment opportunity presented to them. Such Clients should understand that delays in approving such an investment opportunity could result in an allocation not being available.

NXT Related Persons will generally retain a minimum amount of each CF Loan that it offers to our CF Clients and, except as otherwise agreed to with a particular CF Client, any individual CF Client of ours will generally not be allocated an amount that exceeds the total amount of the CF Loan retained by NXT Related Persons. CF Clients may be offered the opportunity to invest in the amount of any CF Loan that exceeds the amount retained by NXT Related Persons.

When the amount of aggregated demand from our CF Clients for an investment opportunity offered by NXT Capital relating to a CF Loan exceeds the total amount available for allocation, we and NXT Capital believe that it is fair and equitable and in the long-term best interests of each CF Client over time to allocate the specific investment opportunity between CF Clients first, to meet any minimum allocation rights or other allocation requirements a CF Client has under Client Agreements and second, equitably among our CF Clients according to our and NXT Capital's policies and procedures.

All investment allocations of CF Loans are reviewed and approved by our Chief Compliance Officer before the closing of each CF Loan. An investment opportunity may be allocated on a basis different than specified above if such deviation is determined to be fair and equitable to all of our CF Clients over time and the reasons for the deviation are documented and approved by our Chief Compliance Officer before the CF Loan is closed.

RE Clients will be offered the opportunity to invest in RE Loans that NXT Capital does not have the right to retain for its own account in accordance with the respective Client Agreements. NXT Related Persons will generally not retain any amount of an RE Loan sold to an RE Client.

Our and NXT Capital's policies and procedures strictly prohibit the allocation of an investment opportunity to a Client solely based on the expected returns of the investment opportunity, the amount or structure of the asset management fees, the existence of any performance fees, the direct or indirect participation of NXT Related Persons in either of the foregoing or the Client itself, or whether the Client's investment entity is public or private, proprietary or third party.

### **Item 13 - Review of Accounts**

We have established policies and procedures to monitor and manage the individual investments in, and the overall investment objectives of, each Client. Policies and procedures related to the review of individual Loans are described in Item 8, “Methods of Analysis, Investment Strategies and Risk of Loss”.

The overall investment objectives of each Client are generally managed and monitored by the completion of periodic tests, performed by Managing Directors or Directors in our Finance, Operations or Asset Management Groups, to ensure compliance with the investment objectives and requirements outlined in the Client Agreements. For certain Clients, a trustee acting on behalf of the Client will run periodic tests to ensure compliance with the investment objectives and requirements outlined in the Client Agreements. These tests are generally performed when a new investment is made by the Client and on required reporting dates outlined in the Client Agreements. The Client Agreements also outline our specific reporting requirements, which generally consist of monthly and/or quarterly written reports to the Client describing, among other items, the current characteristics of the assets owned by the Client, a summary of compliance requirements and cash distributions made by or on behalf of the Client. We have developed policies and procedures and appropriate systems and controls to ensure that we are able to meet the specific reporting requirements outlined in the Client Agreements. In addition, NXT Capital’s loan review function will periodically review a sample of the completed tests for timely completion and accuracy.

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

Other than the fees disclosed in Item 5, “Fees and Compensation”, and Item 6, “Performance Based Fees and Side-by-Side Management”, we and NXT Capital do not receive any compensation, or other economic benefits, for providing investment advisory services.

NXT Capital has entered into agreements to compensate non-related third parties for (i) Client referrals or solicitations or (ii) identifying and placing interests in our Clients with investors.

- NXT Capital entered into agreements with BTIG, LLC (“BTIG”), a registered broker-dealer, to assist NXT Capital in securing commitments for four of our Clients and BTIG has secured commitments for certain of these Clients. BTIG may also assist in securing commitments for future Clients. The agreements provide that BTIG will be compensated through an up-front fee paid directly by NXT Capital.
- NXT Capital entered into an agreement with Berenson & Company (“Berenson”), a registered broker-dealer, to assist NXT Capital in securing commitments for one of our Clients and Berenson has secured current commitments for these Clients. Berenson may also assist in securing commitments for future Clients. Berenson was compensated by an up-front fee paid directly by NXT Capital.



**Item 15 - Custody**

We could be deemed to have “custody” of Client accounts within the meaning of Rule 206(4)-2 under the Advisers Act because we may have access to or authority over Client funds and/or securities. If we are deemed to have such custody over a Client’s funds and/or securities, a custodian will be hired and will be required to send a Client periodic account statements (generally on a quarterly basis) indicating the amounts of any funds and/or securities in their account as of the end of the statement period and any transactions in the account during the statement period. All Clients will be advised to review these statements carefully. Additionally, Clients should immediately contact our Chief Compliance Officer using the contact information provided on the Cover Page if they do not receive account statements from such custodian on at least a quarterly basis or if they should discover any discrepancy between the account statements and the reports we may provide the Client, if any.

Alternatively, under certain circumstances, we are able to comply with Rule 206(4)-2 under the Advisers Act by providing investors in the Client with audited financial statements within 120 days following the Client’s fiscal year end instead of the arrangement described above. Investors should review any audited financial statements they receive carefully. If an investor in a Client has not timely received audited financial statements, please contact our Chief Compliance Officer using the contact information provided on the Cover Page.

As noted in Item 13, “Review of Accounts”, we may provide investors in a Client, separately, with reports or account statements providing information about the account. Investors in a Client should compare these reports or account statements carefully to the account statements they receive from a custodian or the audited financial statements they receive from us, if any.

**Item 16 - Investment Discretion**

Our Clients may grant us discretionary authority to manage the investments owned by our Clients. The Client Agreements negotiated with each such Client establish our discretionary authority and any limitations on this authority such as investment parameters, restrictions and limitations. At a Client’s inception, specific investment criteria may be established for a Client in consultation with prospective investors (*e.g.*, specific industry or property type restrictions and concentrations, investment product type concentrations, geographic restrictions, investment size restrictions, etc.) that would limit our discretionary authority.

**Item 17 - Voting Client Securities**

The assets owned by each Client we manage generally consist of Loans that are privately negotiated transactions; however, a Client could, from time to time, own equity securities in which it has the right to vote via shareholder proxy. The Client Agreements may provide us the authority to vote any shareholder proxy on behalf of the Client.

Our Compliance Manual contains policies and procedures relating to voting shareholder proxies for our Clients (“Proxy Voting Policies and Procedures”). These Proxy Voting Policies and

Procedures are designed to reasonably ensure that we vote shareholder proxies in the best economic interests of the Client. The general policy is to vote proxies in a manner that serves the best economic interest of the Client we manage, as we determine in our discretion, taking into account relevant factors, including the impact on the value of the returns of the Client and industry and business practices.

The Proxy Voting Policies and Procedures are designed to identify conflicts or potential conflicts that could arise between our interests and those of the Client. If it is determined that any such conflict or potential conflict is not material, we may vote the proxy notwithstanding the existence of the conflict. If the conflict of interest or potential conflict of interest is determined to be material, one or more methods may be used to resolve the conflict, including (i) disclosing the conflict to the Client and obtaining their consent as outlined in the Client Agreements before voting, (ii) engaging a third party to recommend a vote with respect to the proxy or (iii) such other method as is deemed reasonable under the circumstances.

We will provide a copy of our Proxy Voting Policies and Procedures and of our proxy voting records to any Client upon request. Such request should be made to our Chief Compliance Officer using the contact information provided on the Cover Page.

**Item 18 - Financial Information**

Not Applicable.