

Firm Brochure

(Part 2A of Form ADV)

HORIZON TECHNOLOGY FINANCE MANAGEMENT LLC

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This brochure provides information about the qualifications and business practices of HORIZON TECHNOLOGY FINANCE MANAGEMENT LLC. If you have any questions about the contents of this brochure, please contact us at: 860-676-8654 or by email at: jay@horizontechfinance.com. The information 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 HORIZON TECHNOLOGY FINANCE MANAGEMENT LLC is available on the SEC's website at www.adviserinfo.sec.gov and at HORIZON TECHNOLOGY FINANCE MANAGEMENT LLC's website at www.horizontechfinance.com.

MARCH 20, 2021

Material Changes

Annual Update

The Material Changes section of this brochure will be updated when material changes occur. An Annual update will be made as required by applicable SEC laws and regulations.

Material Changes since the Last Update

The ownership of HTFM changed and HTFM is owned by HORIZON TECHNOLOGY FINANCE PRINCIPALS LLC and HORIZON TECHNOLOGY EMPLOYEES LLC. No operational changes in the management or investment process occurred due to this change, as the same principals, Robert D. Pomeroy, Jr., HTFM's Chief Executive Officer, and Gerald A. Michaud, HTFM's President, continue to manage the day-to-day operations and investment decisions of HTFM.

Full Brochure Available

Whenever you would like to receive a complete copy of our latest brochure, please contact us by telephone at: 860-676-8654 or by email at: jay@horizontechfinance.com.

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Advisory Business

Firm Description

HTFM sources, invests and manages debt investments in development-stage companies in the technology, life science, healthcare information and services and sustainability industries, which we refer to as our “Target Industries.” HTFM’s investment objective is to maximize their investment portfolios’ total return by generating current income from debt investments and capital appreciation from the warrants and other equity received when making such debt investments. HTFM is focused on making secured debt investments, which we refer to as “Venture Loans,” to venture capital and private equity backed companies and publicly traded companies in its Target Industries, or “Venture Lending.” Debt investments are typically secured by first liens or first liens behind a secured revolving line of credit, or collectively, “Senior Term Loans.” Venture Lending is typically characterized by (1) the making of a secured debt investment after a venture capital or equity investment in the portfolio company has been made, which investment provides a source of cash to fund the portfolio company’s debt service obligations under the Venture Loan, (2) the senior priority of the Venture Loan which requires repayment of the Venture Loan prior to the equity investors realizing a return on their capital, (3) the amortization of the Venture Loan and (4) the lender’s receipt of warrants or other success fees with the making of the Venture Loan.

HTFM receives a fee based on assets under management, as well as certain incentive fees for performance. Depending on its written agreement with its clients, HTFM may receive a commission from its client for originating a loan for the client. Otherwise, HTFM does not receive commissions for purchasing or selling stocks, bonds, or other products. HTFM is not affiliated with entities that sell financial products or securities. HTFM does not receive finder’s fees.

With respect to its Clients that are business development companies (“BDCs”) or investment companies under the Investment Company Act of 1940, HTFM has final decision on investment selection, subject to supervision by such companies’ board of directors. With respect to its Clients that are not BDCs or investment companies, HTFM provides investment advice, with the Client making the final decision on investment selection.

Conflicts of interest will be disclosed to the Client in the unlikely event they should occur.

Principal Owners

HTFM is privately owned. Horizon Technology Finance Principals LLC (“HTFP”) owns 75% of HTFM and HTF Employees LLC (“HTFE”) owns 25% of HTFM. Horizon Anchor Holdings, LLC ownership interest in HTFM was terminated in March 2019. HTF is designated as the sole manager of HTF and has full authority to manage the operations and affairs of HTFM and to carry out its business. HTFP and HTFE are owned by Robert D. Pomeroy, Jr., HTFM’s Chief Executive Officer and Gerald A. Michaud, HTFM’s President.

Types of Advisory Services

HTFM provides investment advisory services, also known as asset management services, for its Clients; including identifying investment opportunities, conducting diligence on and valuing prospective investments, negotiating investments and managing diversified portfolios of Venture Loans. HTFM also provides advice and the sale or disposition of any warrants or equity obtained in connection with making Venture Loans. Its investment advice is limited to these types of investments.

As of December 31, 2020, HTFM managed approximately \$407,500,000 in assets for one Client, all on a discretionary basis.

Tailored Relationships

HTFM enters into investment management agreements or similar agreements that clearly set forth the types of investments HTFM will seek. To date all such agreements have set forth Venture Loans as the type of investments that HTFM will seek. Such agreements may impose restrictions on investing in certain types of investments or securities.

Fees and Compensation

HTFM is an SEC-registered adviser whose Clients are qualified purchasers as defined in Section 2(a)(51)(A) of the Investment Company Act and is not including its Fees and Compensation in this brochure. Such Fees and Compensation are described in the investment management or other written agreements entered into with HTFM's Clients. If any Client has questions about such Fees and Compensation please contact HTFM by the means set forth on the cover page to this brochure.

Performance-Based Fees

For its Clients that are not BDCs or investment companies, HTFM receives a performance-based fee as set forth in its investment management or other written agreements entered into with each Client. Typically, the performance-based fee is based on a percentage of cash flow from the investments made by the Client after the return to the Client of all capital invested by the Client and a certain preferred return. Such fees are described in the investment management or other written agreements entered into with HTFM's Clients. If any Client has questions about such fees please contact HTFM by the means set forth on the cover page to this brochure.

Types of Clients

HTFM provides investment advice to investment companies, private equity or hedge funds and other institutional clients.

Methods of Analysis, Investment Strategies and Risk of Loss

Methods of Analysis and Investment Strategies

HTFM uses a disciplined underwriting process that includes obtaining information validation from multiple sources, extensive knowledge of Target Industries, comparable industry valuation metrics, and sophisticated financial analysis related to development-stage companies. HTFM's due diligence on investment prospects includes obtaining and evaluating information on the prospective portfolio company's technology, market opportunity, management team, fund raising history, investor support, valuation considerations, financial condition and projections. The investment strategy of HTFM is described as follows:

- *Structured investments in the venture capital and private and public equity markets.* HTFM makes loans to development-stage companies within its Target Industries typically in the form of secured loans. The secured debt structure provides a lower risk strategy, as compared to equity or unsecured debt investments, to participate in the emerging technology markets because the debt structures HTFM typically utilizes provide collateral against the downside risk of loss, provide return of capital in a much shorter timeframe through current-pay interest and amortization of principal and have a senior position to equity in the borrower's capital structure in the case of insolvency, wind down or bankruptcy. Unlike venture capital and private equity investments, HTFM's investment returns and return of clients' capital do not require equity investment exits such as mergers and acquisitions or initial public offerings. Instead, return of capital on debt investments is primarily through regularly scheduled payments of principal and interest and, if necessary, liquidation of the collateral supporting the debt investment upon a default. Only the potential gains from warrants depend upon equity investment exits.
- *"Enterprise value" lending.* HTFM takes an enterprise value approach to structuring and underwriting loans. Enterprise value includes the implied valuation based upon recent equity capital invested as well as the intrinsic value of the applicable portfolio company's particular technology, service or customer base. Debt investments are secured against the enterprise value of each portfolio company.
- *Creative products with attractive risk-adjusted pricing.* Each of HTFM's existing and prospective portfolio companies has its own unique funding needs for the capital provided from the proceeds of Venture Loans. These funding needs include funds for additional development "runways", funds to hire or retain sales staff or funds to invest in research and development in order to reach important technical milestones in advance of raising additional equity. HTFM's loans include current-pay interest, commitment fees, end-of-term payments, or ETPs, pre-payment fees, success fees and non-utilization fees. HTFM believes it has developed pricing tools, structuring techniques and valuation metrics that

satisfy its portfolio companies' financing requirements while mitigating risk and maximizing returns on our investments.

- *Opportunity for enhanced returns.* To enhance debt investment portfolio returns, in addition to interest and fees, HTFM frequently obtains warrants to purchase the equity of its portfolio companies as additional consideration for making debt investments. The warrants generally include a "cashless exercise" provision to allow the exercise of these rights without requiring any additional cash investment. Obtaining warrants in portfolio companies provides participation in the equity appreciation of portfolio companies, which may generate higher returns for HTFM's investors.

- *Direct origination.* HTFM originates transactions directly with technology, life science, healthcare information and services and sustainability companies. These transactions are referred to HTFM from a number of sources, including referrals from, or direct solicitation of, venture capital and private equity firms, portfolio company management teams, legal firms, accounting firms, investment banks, portfolio company advisors and other lenders that represent companies within HTFM's Target Industries. HTFM has been the sole or lead originator in substantially all transactions in which the funds it manages have invested.

- *Disciplined and balanced underwriting and portfolio management.* HTFM uses a disciplined underwriting process that includes obtaining information validation from multiple sources, extensive knowledge of its Target Industries, comparable industry valuation metrics and sophisticated financial analysis related to development-stage companies. HTFM's due diligence on investment prospects includes obtaining and evaluating information on the prospective portfolio company's technology, market opportunity, management team, fund raising history, investor support, valuation considerations, financial condition and projections. HTFM seeks to balance its investment portfolios to reduce the risk of down-market cycles associated with any particular industry or sector, development-stage or geographic area by quarterly reviewing each criteria and, in the event there is an overconcentration, seeking investment opportunities to reduce such overconcentration. HTFM employs a "hands on" approach to portfolio management, requiring private portfolio companies to provide monthly financial information and to participate in regular updates on performance and future plans. For public companies, HTFM typically relies on publicly reported quarterly financials.

Risk of Loss

All investment programs have certain risks that are borne by the investor. HTFM's investment approach constantly keeps the risk of loss in mind. Investors face the following investment risks:

Most portfolio companies will need additional capital, which may not be readily available.

Portfolio companies will typically require substantial additional financing to satisfy their continuing working capital and other capital requirements and service the interest and principal payments on our investments. HTFM cannot predict the circumstances or market conditions under which portfolio companies will seek additional capital. Each round of institutional equity financing is typically intended to provide a company with only enough capital to reach the next stage of development. It is possible that one or more of our portfolio companies will not be able to raise additional financing or may be able to do so only at a price or on terms that are unfavorable to the portfolio company, either of which would negatively impact investment returns. Some of these companies may be unable to obtain sufficient financing from private investors, public capital markets or lenders thereby requiring these companies to cease or curtail business operations. Accordingly, investing in these types of companies generally entails a higher risk of loss than investing in companies that do not have significant incremental capital raising requirements.

Economic recessions or downturns could adversely affect portfolio companies.

Many portfolio companies may be susceptible to economic slowdowns or recessions and may be unable to repay their Venture Loans during these periods. Adverse economic conditions also may decrease the value of collateral securing some of Venture Loans and the value of related equity investments. Economic slowdowns or recessions could lead to financial losses in and a decrease in value of HTFM's Clients' portfolios.

A portfolio company's failure to satisfy financial or operating covenants imposed by HTFM or other lenders could lead to defaults and, potentially, termination of its loans and foreclosure on its secured assets, which could trigger cross-defaults under other agreements and jeopardize the portfolio company's ability to meet its obligations under the Venture Loans held by Clients of HTFM. Clients may incur expenses to the extent necessary to recover their investments upon default or to negotiate new terms with a defaulting portfolio company.

Investments in development-stage companies in Target Industries are subject to many risks, including volatility, intense competition, shortened product life cycles and periodic downturns, and are typically rated below "investment grade".

HTFM invests, under normal circumstances, most of the value of Clients' total assets in development-stage companies, which may have relatively limited operating histories. Many of these companies may have narrow product lines and small market shares, compared to larger established publicly-owned firms, which tend to render them more vulnerable to competitors' actions and market conditions, as well as general economic downturns. The revenues, income (or losses) and valuations of development-stage companies in Target Industries can and often do fluctuate suddenly and dramatically. For these reasons, investments in portfolio companies, if rated by one or more ratings agency, would typically be rated below "investment grade," which refers to securities rated by

ratings agencies below the four highest rating categories. These companies may also have more limited access to capital and higher funding costs. In addition, development-stage technology markets are generally characterized by abrupt business cycles and intense competition, and the competitive environment can change abruptly due to rapidly evolving technology. Therefore, portfolio companies may face considerably more risk than companies in other industry sectors. Accordingly, these factors could impair their cash flow or result in other events, such as bankruptcy, which could limit their ability to repay their obligations to Clients and may materially adversely affect the return on, or the recovery of, Clients' investments in these businesses.

Because of rapid technological change, the average selling prices of products and some services provided by development-stage companies in Target Industries have historically decreased over their productive lives. These decreases could adversely affect portfolio companies' operating results and cash flow, their ability to meet obligations under their debt securities and the value of their equity securities. This could, in turn, materially adversely affect Clients' investments.

If the assets securing the Venture Loans decrease in value, there may not be sufficient collateral to cover losses and Clients may experience losses upon foreclosure of such assets.

HTFM believes portfolio companies generally will be able to repay their Venture Loans from their available capital, from future capital-raising transactions or from cash flow from operations. However, to mitigate credit risks, Clients typically take a security interest in all or a portion of the assets of portfolio companies, including the equity interests of their subsidiaries. There is a risk that the collateral securing the Venture Loans may decrease in value over time, may be difficult to appraise or sell in a timely manner and may fluctuate in value based upon the business and market conditions, including as a result of the inability of the portfolio company to raise additional capital, and, in some circumstances, Clients' liens could be subordinated to claims of other creditors. In addition, deterioration in a portfolio company's financial condition and prospects, including its inability to raise additional capital, may be accompanied by deterioration in the value of the collateral for the Venture Loan. Consequently, although such Venture Loan is secured the Client may not receive principal and interest payments according to the Venture Loan's terms and the value of the collateral may not be sufficient to recover the Client's investment should it be forced to enforce its remedies.

In addition, a substantial portion of the assets securing Clients' investments may be in the form of intellectual property, if any, inventory, equipment, cash and accounts receivables. Intellectual property, if any, which secures a Venture Loan, could lose value if the portfolio company's rights to the intellectual property are challenged or if the company's license to the intellectual property is revoked or expires. In addition, in lieu of a security interest in the intellectual property Client's may sometimes obtain a security interest in all assets of the portfolio company other than intellectual property and also obtain a commitment by the portfolio company not to grant liens to any other creditor on the company's intellectual property. In these cases, Clients may have additional difficulty recovering principal in the event of a foreclosure. Similarly, any equipment securing

Venture Loans may not provide the anticipated collateral value if there are changes in technology or advances in new equipment that render the particular equipment obsolete or of limited value or if the portfolio company fails to adequately maintain or repair the equipment. Any one or more of the preceding factors could materially impair a Client's ability to recover principal in a foreclosure.

HTFM may choose to waive or defer enforcement of covenants.

HTFM structures debt investments in portfolio companies to include business and financial covenants placing affirmative and negative obligations on the operation of such companies' business and financial condition. However, from time-to-time HTFM may elect to waive breaches of these covenants, including the right to payment, or waive or defer enforcement of remedies, such as acceleration of obligations or foreclosure on collateral, depending upon the financial condition and prospects of the particular portfolio company. These actions may reduce the likelihood of receiving the full amount of future payments of interest or principal and be accompanied by a deterioration in the value of the underlying collateral as many of these companies may have limited financial resources, may be unable to meet future obligations and may go bankrupt. These events could harm our financial condition and operating results.

Portfolio companies may incur debt that ranks equally with, or senior to, a Client's investments in such companies.

HTFM plans to seek investments primarily in Venture Loans issued by its Clients' portfolio companies. Some portfolio companies will be permitted to have other debt that ranks equally with, or senior to, Clients' Venture Loans. By their terms, these debt instruments may provide that the holders thereof are entitled to receive payment of interest or principal on or before the dates on which Clients are entitled to receive payments in respect of their Venture Loans. These debt instruments may prohibit the portfolio companies from paying interest on or repaying Clients' investments in the event of, and during, the continuance of a default under the debt instruments. In addition, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company, holders of debt instruments ranking senior to Client's investment in such portfolio company would typically be entitled to receive payment in full before a Client receives any payment in respect of its investment. After repaying senior creditors, a portfolio company may not have any remaining assets to use for repaying its Venture Loan. In the case of debt ranking equally with Clients' Venture Loans, Clients would have to share on an equal basis any distributions with other creditors holding such debt in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy.

There may be circumstances where Venture Loans could be subordinated to claims of other creditors or Clients could be subject to lender liability claims.

Even though HTFM may structure certain of its Clients' investments as senior loans, if a portfolio company were to go bankrupt, depending on the facts and circumstances, including the extent to which HTFM actually provided managerial assistance to that portfolio company, a bankruptcy court might recharacterize Clients' debt investment and

subordinate all or a portion of its claim to that of other creditors. A Client may also be subject to lender liability claims for actions taken by HTFM with respect to a portfolio company's business, including in rendering significant managerial assistance or instances where HTFM or its Client exercises control over the portfolio company.

An investment strategy focused primarily on privately held companies presents certain challenges, including the lack of available information about these companies, a dependence on the talents and efforts of only a few key portfolio company personnel and a greater vulnerability to economic downturns.

HTFM plans to invest its Clients' funds primarily in privately held companies. Generally, very little public information exists about these companies. If HTFM is unable to uncover all material information about these companies, it may not make a fully informed investment decision or recommendation, and its Client may lose money on its investments. Also, privately held companies frequently have less diverse product lines and a 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 affect Clients' investment returns.

In addition, portfolio companies' success depends, in large part, upon the abilities of the key management personnel of such portfolio companies, who are responsible for day-to-day operations. Competition for qualified personnel is intense at any stage of a company's development. The loss of one or more key managers can hinder or delay a company's implementation of its business plan and harm its financial condition. Portfolio companies may not be able to attract and retain qualified managers and personnel. Any inability to do so may negatively affect investment returns.

Government regulations, priorities and resources impacting the industries in which portfolio companies operate may change.

Some portfolio companies operate in industries that are highly regulated by federal, state and/or local agencies. Changes in existing laws, rules or regulations, or judicial or administrative interpretations thereof, or new laws, rules or regulations could have an adverse impact on the business and industries of portfolio companies. In addition, changes in government priorities or limitations on government resources could also adversely impact portfolio companies. HTFM is unable to predict whether any such changes in laws, rules or regulations will occur and, if they do occur, the impact of these changes on portfolio companies and investment returns.

We may hold the debt securities of leveraged companies that may, due to the significant volatility of such companies, experience bankruptcy or similar financial distress.

Leveraged companies may experience bankruptcy, receivership or similar financial distress. The debt investments of distressed companies may not produce income, may require us to bear certain expenses or to make additional advances in order to protect our investment and may subject us to uncertainty as to when, in what manner (e.g., through

liquidation, reorganization, receivership or bankruptcy) and for what value such distressed debt will eventually be satisfied. In the event that a plan of reorganization is adopted or a receivership is established, in exchange for a debt investment, the Client may receive non-cash proceeds, including equity securities or license or royalty agreements with contingent payments, which may require significantly more of management's time and attention. In addition, if the Client takes control of a distressed company in connection with a reorganization, it could require additional costs and significant amounts of management's time and attention.

If a portfolio company enters a bankruptcy process, the investment will be subject to a number of significant inherent risks. Many events in a bankruptcy proceeding are the product of contested matters and adversarial proceedings and are beyond the control of the creditors. A bankruptcy filing by an issuer may adversely and permanently affect the issuer. If the proceeding is converted to a liquidation, the value of the issuer may not equal the liquidation value that was believed to exist at the time of the investment. The duration of a bankruptcy proceeding is also difficult to predict, and a creditor's return on investment can be adversely affected by delays until the plan of reorganization or liquidation ultimately becomes effective. The administrative costs of a bankruptcy proceeding are frequently high and would be paid out of the debtor's estate prior to any return to creditors. Because the standards for classification of claims under bankruptcy law are vague, our influence with respect to the class of securities or other obligations we own may be lost by increases in the number and amount of claims in the same class or by different classification and treatment. In the early stages of the bankruptcy process, it is often difficult to estimate the extent of, or even to identify, any contingent claims that might be made. In addition, certain claims that have priority by law (for example, claims for taxes) may be substantial.

Portfolio companies operating in the technology industry are subject to risks particular to that industry.

Companies in the technology industry face intense competition as their businesses are rapidly evolving and intensely competitive, and are subject to changing technology, shifting user needs, and frequent introductions of new products and services. The growth of certain technology sectors (such as communications, networking, data storage, software, cloud computing, and internet and media) into a variety of new fields implicates new regulatory issues and may result in portfolio companies in such sectors being subject to new regulations.

Portfolio companies in the technology industry may also have a limited number of suppliers of necessary components or a limited number of manufacturers for their products, and therefore face a risk of disruption to their manufacturing process if they are unable to find alternative suppliers when needed. In addition, litigation regarding intellectual property rights is common in the sectors of the technology industry. Any of these factors could materially and adversely affect the operations of a portfolio company in this industry and, in turn, impair their ability to timely pay principal and interest.

Portfolio companies operating in the life science industry are subject to extensive government regulation and certain other risks particular to that industry.

Companies in the life science industry are subject to extensive regulation by the Food and Drug Administration and to a lesser extent, other federal and state agencies. If any of these portfolio companies fail to comply with applicable regulations, they could be subject to significant penalties and claims that could materially and adversely affect their operations. In addition, new laws, regulations or judicial interpretations of existing laws and regulations might adversely affect a portfolio company in this industry.

The successful and timely implementation of the business model of life science companies depends on their ability to adapt to changing technologies and introduce new products. The success of new product offerings will depend, in turn, on many factors, including the ability to properly anticipate and satisfy customer needs, obtain regulatory approvals on a timely basis, develop and manufacture products in an economic and timely manner, obtain or maintain advantageous positions with respect to intellectual property, and differentiate products from those of competitors.

Further, the development of products (including medical devices or drugs) by life science companies requires significant research and development, clinical trials and regulatory approvals. The results of product development efforts may be affected by a number of factors, including the ability to innovate, develop and manufacture new products, complete clinical trials, obtain regulatory approvals and reimbursement by insurers in the United States (including Medicare and Medicaid) and abroad, or gain and maintain market approval of products. In addition, patents attained by others can preclude or delay the commercialization of a product. There can be no assurance that any products now in development will achieve technological feasibility, obtain regulatory approval, or gain market acceptance. Failure can occur at any point in the development process, including after significant funds have been invested. Products may fail to reach the market or may have only limited commercial success because of efficacy or safety concerns, failure to achieve positive clinical outcomes, inability to obtain necessary regulatory approvals, failure to achieve market adoption, limited scope of approved uses, excessive costs to manufacture, failure to establish or maintain intellectual property rights, infringement by others of a company's intellectual property rights, or infringement by a company of intellectual property rights of others.

Portfolio companies in the life science industry may also have a limited number of suppliers of necessary components or a limited number of manufacturers for their products, and therefore face a risk of disruption to their manufacturing process if they are unable to find alternative suppliers when needed. Any of these factors could materially and adversely affect the operations of a portfolio company in this industry and, in turn, impair their ability to timely pay principal and interest payments.

Portfolio companies operating in the healthcare information and services industry are subject to extensive government regulation and certain other risks particular to that industry.

Companies in the healthcare information and services industry provide technology to companies that are subject to extensive regulation, including Medicare and Medicaid payment rules and regulation, the False Claims Act and federal and state laws regarding the collection, use and disclosure of patient health information and the storage, handling and administration of pharmaceuticals. If any of such portfolio companies or the companies to which they provide such technology fail to comply with applicable regulations, they could be subject to significant penalties and claims that could materially and adversely affect their operations. Portfolio companies in the healthcare information or services industry are also subject to the risk that changes in applicable regulations will render their technology obsolete or less desirable in the marketplace.

Portfolio companies in the healthcare information and services industry may also have a limited number of suppliers of necessary components or a limited number of manufacturers for their products, and therefore face a risk of disruption to their manufacturing process if they are unable to find alternative suppliers when needed. Any of these factors could materially and adversely affect the operations of a portfolio company in this industry and, in turn, impair their ability to timely pay principal and interest payments.

Investments in the sustainability industry are subject to many risks, including volatility, intense competition, unproven technologies, periodic downturns and potential litigation.

Investments in sustainability companies are subject to substantial operational risks, such as underestimated cost projections, unanticipated operation and maintenance expenses, loss of government subsidies, and inability to deliver cost-effective alternative energy solutions compared to traditional energy products. In addition, energy companies employ a variety of means of increasing cash flow, including increasing utilization of existing facilities, expanding operations through new construction or acquisitions, or securing additional long-term contracts. Thus, some energy companies may be subject to construction risk, acquisition risk or other risks arising from their specific business strategies. Furthermore, production levels for solar, wind and other renewable energies may be dependent upon adequate sunlight, wind, or biogas production, which can vary from market to market and period to period, resulting in volatility in production levels and profitability. In addition, our sustainability companies may have narrow product lines and small market shares, which tend to render them more vulnerable to competitors' actions and market conditions, as well as to general economic downturns. The revenues, income (or losses) and valuations of sustainability companies can and often do fluctuate suddenly and dramatically and the markets in which sustainability companies operate are generally characterized by abrupt business cycles and intense competition. Demand for sustainability and renewable energy is also influenced by the available supply and prices for other energy products, such as coal, oil and natural gas. A decrease in prices in these energy products could reduce demand for alternative energy. Sustainability companies face potential litigation, including significant warranty and product liability claims, as

well as class action and government claims. Such litigation could adversely affect the business and results of operations of sustainability portfolio companies.

Sustainability companies are subject to extensive government regulation and certain other risks particular to the sectors in which they operate and our business and growth strategy could be adversely affected if government regulations, priorities and resources impacting such sectors change or if our portfolio companies fail to comply with such regulations.

Portfolio companies in sustainability sectors may be subject to extensive regulation by foreign, U.S. federal, state and/or local agencies. Changes in existing laws, rules or regulations, or judicial or administrative interpretations thereof, uncertainty regarding such changes or new laws, rules or regulations could have an adverse impact on their business and industries. In addition, changes in government priorities or limitations on government resources could also adversely impact them. HTFM is unable to predict whether any such changes in laws, rules or regulations will occur and, if they do occur, the impact of these changes on its portfolio companies and investment returns. Furthermore, if portfolio companies fail to comply with applicable regulations, they could be subject to significant penalties and claims that could materially and adversely affect their operations. Portfolio companies may be subject to the expense, delay and uncertainty of the regulatory approval process for their products and, even if approved, these products may not be accepted in the marketplace.

In particular, there is considerable uncertainty about whether foreign, U.S., state and/or local governmental entities will enact or maintain legislation or regulatory programs that mandate reductions in greenhouse gas emissions or provide incentives for sustainability companies. Without such regulatory policies, investments in sustainability companies may not be economical and financing for sustainability companies may become unavailable, which could materially adversely affect their ability to repay their debt. Any of these factors could materially and adversely affect the operations and financial condition of a portfolio company and, in turn, the ability of the portfolio company to repay their debt.

If portfolio companies are unable to commercialize their technologies, products, business concepts or services, the returns on investments could be adversely affected.

The value of investments in portfolio companies may decline if portfolio companies are not able to commercialize their technology, products, business concepts or services. Additionally, although some portfolio companies may already have a commercially successful product or product line at the time of our investment, technology-related products and services often have a more limited market or life span than products in other industries. Thus, the ultimate success of these companies often depends on their ability to continually innovate in increasingly competitive markets. If they are unable to do so, investment returns could be adversely affected and portfolio companies' ability to service their debt obligations over the life of each Technology Loan could be impaired. Portfolio

companies may be unable to successfully acquire or develop new technologies and the intellectual property they currently hold may not remain viable. Even if portfolio companies are able to develop commercially viable products, the market for new products and services is highly competitive and rapidly changing. Neither portfolio companies nor HTFM will have any control over the pace of technology development. Commercial success is difficult to predict, and the marketing efforts of portfolio companies may not be successful.

If portfolio companies are unable to protect their intellectual property rights, and if portfolio companies are required to devote significant resources to protecting their intellectual property rights, the value of Clients' investments could be reduced.

The success and competitive position of portfolio companies will depend in part upon their ability to obtain, maintain and protect proprietary technology used in their products and services. The intellectual property held by portfolio companies often represents a substantial portion of the collateral securing Clients' investments and/or constitutes a significant portion of the portfolio companies' value that may be available in a downside scenario to repay Venture Loans. Portfolio companies will rely, in part, on patent, trade secret and trademark law to protect that technology, but competitors may misappropriate their intellectual property, and disputes as to ownership of intellectual property may arise. Portfolio companies may, from time to time, be required to institute litigation to enforce their patents, copyrights or other intellectual property rights, protect their trade secrets, determine the validity and scope of the proprietary rights of others or defend against claims of infringement. Such litigation could result in substantial costs and diversion of resources. Similarly, if a portfolio company is found to infringe or misappropriate a third party's patent or other proprietary rights, it could be required to pay damages to the third party, alter its products or processes, obtain a license from the third party and/or cease activities utilizing the proprietary rights, including making or selling products utilizing the proprietary rights. Any of the foregoing events could negatively affect both the portfolio company's ability to service its Venture Loan and the value of any related debt and equity securities that Clients own, as well as any collateral securing such Venture Loan.

HTFM does not expect to control any of our portfolio companies.

HTFM does not expect nor does it expect its Clients will control any portfolio companies, even though the debt agreements for Venture Loans may contain certain restrictive covenants that limit the business and operations of portfolio companies. HTFM also does not intend that its Clients will maintain a control position to the extent they own equity interests in any portfolio company. As a result, each of Clients will be subject to the risk that a portfolio company in which it invests may make business decisions with which it disagrees and the management of such company, as representatives of the holders of their common equity, may take risks or otherwise act in ways that do not serve such Client's interests as debt investors. Due to the lack of liquidity of the investments that typically held by Clients in our portfolio companies, Clients may not be able to dispose of their investments in the event they disagree with the actions of a portfolio company and they may therefore, suffer a decrease in the value of their investments.

HTFM may invest in foreign portfolio companies or secure its investments with the assets of our portfolio companies' foreign subsidiaries.

HTFM may invest Clients' funds in securities of foreign companies. Additionally, certain debt investments consisting of secured loans to portfolio companies with headquarters and primary operations located within the United States may be secured by the assets of a portfolio company's foreign subsidiary. Investments involving foreign companies may involve greater risks. These risks include: (i) less publicly available information; (ii) varying levels of governmental regulation and supervision; and (iii) the difficulty of enforcing legal rights in a foreign jurisdiction and uncertainties as to the status, interpretation and application of laws. Moreover, foreign companies are generally not subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable to those applicable to United States companies. Debt investments secured by the assets of a portfolio company's foreign subsidiary may be subject to various laws enacted in their home countries for the protection of debtors or creditors, which could adversely affect our ability to recover amounts owed. These insolvency considerations will differ depending on the country in which each foreign subsidiary is located and may differ depending on whether the foreign subsidiary is a non-sovereign or a sovereign entity. The economies of individual non-U.S. countries may also differ from the U.S. economy in such respects as growth of gross domestic product, rate of inflation, volatility of currency exchange rates, depreciation, capital reinvestment, resources self-sufficiency and balance of payments position. Accordingly, debt investments secured by the assets of a portfolio company's foreign subsidiary could face risks which would not pertain to debt investments solely in U.S. portfolio companies.

Disciplinary Information

HTFM and its employees have not been involved in legal or disciplinary events related to past or present Clients.

Other Financial Industry Activities and Affiliations

Financial Industry Activities

HTFM is registered as an investment advisor under the Investment Advisers Act of 1940.

Affiliations

HTFM is the external manager of the investment activities of Horizon Technology Finance Corporation ("HRZN"), a publicly traded non-diversified closed-end management investment company that has elected to be regulated as a business development company under the Investment Company Act.

Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Code of Ethics

HTFM has adopted a Code of Ethics pursuant to SEC Rule 204A-1. The Code of Ethics, among other things, provides: (1) a standard of business conduct for employees, which reflects HTFM's and its employees' fiduciary obligations to Clients; (2) requires all employees to comply with applicable federal securities laws; (3) requires all employees with access to certain information to report, and HTFM's Chief Compliance Officer to review, their personal securities transactions and holdings periodically; (4) requires all employees to report any violations of the Code of Ethics promptly to HTFM's Chief Compliance Officer; and (5) requires HTFM to provide each employee with a copy of HTFM's Code of Ethics and any amendments, and requires all employees to provide HTFM with a written acknowledgment of their receipt of the Code of Ethics and any amendments.

HTFM will provide a copy of the Code of Ethics to any Client or prospective Client upon request.

Participation or Interest in Client Transactions

Other than sales on behalf of Clients, HTFM and its employees do not buy or sell securities that are held by Clients.

Brokerage Practices

HTFM may recommend brokerage firms to its Clients when executing the sale of equity interests obtained by its Clients, but Clients make the selection. HTFM bases its recommendation on the ability of the broker to handle the sale in a timely and cost-efficient manner. HTFM receives no benefits from any brokers that execute trades for its Clients. HTFM reviews the execution of all trades.

Review of Accounts

Periodic Reviews

HTFM reviews investments in Clients' accounts monthly and provides detailed quarterly reports to its Clients on all investments in their accounts.

Regular Reports

The management of accounts is the responsibility of HTFM's executive officers and its investment committee who work with credit officers of HTFM. HTFM provides a written quarterly portfolio report to its Clients.

At least quarterly, HTFM contacts portfolio companies for operational and financial updates by phone and typically performs onsite reviews on an annual basis. HTFM may contact portfolio companies deemed to have greater credit risk on a monthly

basis. HTFM requires all private companies to provide financial statements on a monthly basis. For public companies, HTFM typically relies on publicly reported quarterly financials.

HTFM has developed a proprietary credit rating system to analyze the quality of loans. Using this system, HTFM analyzes and then rates the credit risk within the portfolio on a monthly basis. Each portfolio company is rated on a 1 through 4 scale, with 3 representing the rating for a standard level of risk. A rating of 4 represents an improved and better credit quality. A rating of 2 or 1 represents a deteriorating credit quality and increasing risk. Newly funded investments are typically assigned a rating of 3, unless extraordinary circumstances require otherwise. HTFM closely monitors portfolio companies rated a 1 or 2 for adverse developments. These investment ratings are generated internally by HTFM, and HTFM cannot guarantee that others would assign the same ratings to portfolio investments.

Client Referrals and Other Compensation

HTFM has not received nor made Client referrals and does not receive or pay for Client referrals.

Custody

For certain Clients for which HTFM maintains self-custody of assets, such assets are held in compliance with SEC laws and regulations.

Investment Discretion

Discretionary Authority for Trading

HTFM accepts discretionary authority to manage assets on behalf of its BDC Client. For its BDC Client, HTFM has the authority to determine, without obtaining specific Client consent, the assets to be bought or sold. For all other Clients, HTFM does not have the authority to determine, without obtaining specific Client consent, the assets to be bought or sold.

For Clients' accounts over which HTFM has discretionary authority or for which it has been instructed to purchase or sell a security, HTFM has trading authorization for this purpose.

Voting Client Securities

For its BDC Client, HTFM has discretion to vote proxies on securities. HTFM has voting policies and procedures in place for voting Clients' proxies on securities. HTFM's policy is to vote proxies in the best interests of its Clients. HTFM carefully reviews on a case-by-case basis each proposal submitted to a Client to vote to determine its impact on the portfolio securities held by Clients. Although HTFM generally votes against proposals that may have a negative impact on a Client's

portfolio securities, HTFM may vote for such a proposal if there exists compelling long-term reasons to do so. Proxy vote decisions are made HTFM's senior management who are responsible for monitoring Clients' investments.

For all other Clients, HTFM votes proxies on securities only at the direct instruction of such Clients.

Financial Information

HTFM does not have any financial impairment that will preclude the firm from meeting contractual commitments to Clients.