

New Mountain Finance Corp  
Form 497  
April 03, 2017

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**Filed Pursuant to Rule 497  
Securities Act File No. 333-213195**

**This preliminary prospectus supplement relates to an effective registration statement under the Securities Act of 1933, as amended, but the information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell and are not soliciting an offer to buy these securities in any jurisdiction where the offer and sale is not permitted.**

**Subject to Completion, Dated April 3, 2017**

**PRELIMINARY PROSPECTUS SUPPLEMENT  
(to Prospectus dated October 7, 2016)**

**5,000,000 Shares**

**New Mountain Finance Corporation**

**Common Stock**

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We are a Delaware corporation that was originally incorporated on June 29, 2010. We are a closed-end, non-diversified management investment company that has elected to be regulated as a business development company under the Investment Company Act of 1940, as amended. Our investment objective is to generate current income and capital appreciation through the sourcing and origination of debt securities at all levels of the capital structure, including first and second lien debt, notes, bonds and mezzanine securities. In some cases, our investments may also include equity interests. Our primary focus is in the debt of defensive growth companies, which are defined as generally exhibiting the following characteristics: (i) sustainable secular growth drivers, (ii) high barriers to competitive entry, (iii) high free cash flow after capital expenditure and working capital needs, (iv) high returns on assets and (v) niche market dominance.

The investments that we invest in are almost entirely rated below investment grade or may be unrated, which are often referred to as "leveraged loans", "high yield" or "junk" debt investments, and may be considered "high risk" or speculative compared to debt investments that are rated investment grade. Such issuers are considered more likely than investment grade issuers to default on their payments of interest and principal, and such risk of default could reduce our net asset value and income distributions. Our investments are also primarily floating rate debt investments that contain interest reset provisions that may make it more difficult for borrowers to make debt repayments to us if interest rates rise. In addition, some of our debt investments will not fully amortize during their lifetime, which could result in a loss or a substantial amount of unpaid principal and interest due upon maturity. Our debt investments may also lose significant market value before a default occurs. Furthermore, an active trading market may not exist for these securities. This illiquidity may make it more difficult to value our investments.

We are offering for sale 5,000,000 shares of our common stock. We have granted the underwriters a 30-day option to purchase up to 750,000 additional shares of our common stock at the public offering price, less underwriting discounts and commissions.

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Our common stock is listed on the New York Stock Exchange under the symbol "NMFC". On March 31, 2017, the last reported sales price on the New York Stock Exchange for our common stock was \$14.90 per share, and the net asset value per share of our common stock on December 31, 2016 (the last date prior to the date of this prospectus supplement on which we determined our net asset value per share) was \$13.46.

*An investment in our common stock is very risky and highly speculative. Shares of closed-end investment companies, including business development companies, frequently trade at a discount to their net asset value. In addition, the companies in which we invest in are subject to special risks. See "Risk Factors" beginning on page S-24 of this prospectus supplement and beginning on page 30 of the accompanying prospectus to read about factors you should consider, including the risk of leverage, before investing in our common stock.*

This prospectus supplement and the accompanying prospectus contain important information about us that a prospective investor should know before investing in our common stock. Please read this prospectus supplement and the accompanying prospectus before investing and keep it for future reference. We file annual, quarterly and current reports, proxy statements and other information with the United States Securities and Exchange Commission (<http://www.sec.gov>), which are available free of charge by contacting us by mail at 787 Seventh Avenue, 48th Floor, New York, New York 10019 or on our website at <http://www.newmountainfinance.com>. Information contained on our website is not incorporated by reference into this prospectus supplement and the accompanying prospectus, and you should not consider that information to be part of this prospectus supplement and the accompanying prospectus.

**Neither the United States Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities, or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

|   | Per Share | Total <sup>(1)</sup> |
|---|-----------|----------------------|
| Public Offering Price   | \$        | \$                   |
| Sales Load (Underwriting Discounts and Commissions) <sup>(2)(3)</sup> | \$        | \$                   |
| Proceeds to us (before expenses) <sup>(1)</sup>                       | \$        | \$                   |

(1) To the extent that the underwriters sell more than 5,000,000 shares of our common stock, the underwriters have the option to purchase up to an additional 750,000 shares of our common stock at the public offering price, less the sales load, within 30 days of the date of this prospectus supplement. If the underwriters exercise this option in full, the total public offering price, sales load and proceeds to us and will be \$ , \$ and \$ , respectively. See "Underwriting".

(2) See "Underwriting" for details of compensation to be received by the underwriters.

(3) We will incur approximately \$0.3 million of estimated expenses in connection with this offering.

The underwriters expect to deliver the shares against payment in New York, New York on or about \_\_\_\_\_, 2017.

*Joint-Lead Bookrunners*

**Wells Fargo  
Securities**

**Morgan Stanley**

**Goldman,  
Sachs & Co.**

**Keefe, Bruyette & Woods  
A Stifel Company**

*Lead Manager*

**Baird  
Co-Managers**

**Janney Montgomery Scott**

**Oppenheimer & Co.**



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**ABOUT THIS PROSPECTUS SUPPLEMENT**

**You should rely only on the information contained in this prospectus supplement and the accompanying prospectus. Neither we nor the underwriters have authorized any other person to provide you with different information from that contained in this prospectus supplement or the accompanying prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. This prospectus supplement and the accompanying prospectus do not constitute an offer to sell, or a solicitation of an offer to buy, any shares of our common stock by any person in any jurisdiction where it is unlawful for that person to make such an offer or solicitation or to any person in any jurisdiction to whom it is unlawful to make such an offer or solicitation. The information contained in this prospectus supplement and the accompanying prospectus is complete and accurate only as of their respective dates, regardless of the time of their delivery or sale of our common stock. This prospectus supplement supersedes the accompanying prospectus to the extent it contains information different from or additional to the information in that prospectus.**

This document is in two parts. The first part is this prospectus supplement, which describes the terms of this offering of common stock and also adds to and updates information contained in the accompanying prospectus. The second part is the accompanying prospectus, which gives more general information and disclosure. To the extent the information contained in this prospectus supplement differs from the information contained in the accompanying prospectus, the information in this prospectus supplement shall control. Please carefully read this prospectus supplement and the accompanying prospectus together with any exhibits and the additional information described under "Available Information" and in the "Prospectus Supplement Summary", "Prospectus Summary" and "Risk Factors" sections of this prospectus supplement and the accompanying prospectus before you make an investment decision. Unless otherwise indicated, all information included in this prospectus supplement assumes no exercise by the underwriters of their option to purchase up to an additional 750,000 shares of our common stock.

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**PROSPECTUS SUPPLEMENT SUMMARY**

*This summary highlights some of the information in this prospectus supplement and the accompanying prospectus. It may not contain all the information that is important to you. For a more complete understanding, we encourage you to read this entire prospectus supplement and the accompanying prospectus and the documents to which we have referred in this prospectus supplement, together with the accompanying prospectus, including the risks set forth under "Risk Factors" and the other information included in this prospectus supplement and the accompanying prospectus.*

*In this prospectus supplement, unless the context otherwise requires, references to:*

*"NMFC", the "Company", "we", "us" and "our" refers to New Mountain Finance Corporation, a Delaware corporation, which was incorporated on June 29, 2010, including, where appropriate, its wholly-owned direct and indirect subsidiaries;*

*"NMF Holdings" and "Predecessor Operating Company" refers to New Mountain Finance Holdings, L.L.C., a Delaware limited liability company.;*

*"NMF SLF" refers to New Mountain Finance SPV Funding, L.L.C., a Delaware limited liability company;*

*"SBIC GP" refers to New Mountain Finance SBIC G.P. L.L.C., a Delaware limited liability company;*

*"SBIC LP" refers to New Mountain Finance SBIC L.P., a Delaware limited partnership;*

*"Guardian AIV" refers to New Mountain Guardian AIV, L.P.;*

*"AIV Holdings" refers to New Mountain Finance AIV Holdings Corporation, a Delaware corporation which was incorporated on March 11, 2011, of which Guardian AIV was the sole stockholder;*

*"Investment Adviser" refers to New Mountain Finance Advisers BDC, L.L.C., our investment adviser;*

*"Administrator" refers to New Mountain Finance Administration, L.L.C., our administrator;*

*"New Mountain Capital" refers to New Mountain Capital Group, L.L.C. and its affiliates;*

*"Predecessor Entities" refers to New Mountain Guardian (Leveraged), L.L.C. and New Mountain Guardian Partners, L.P., together with their respective direct and indirect wholly-owned subsidiaries prior to our initial public offering;*

*"NMFC Credit Facility" refers to our Senior Secured Revolving Credit Agreement with Goldman Sachs Bank USA, Morgan Stanley Bank, N.A. and Stifel Bank & Trust, dated June 4, 2014, as amended (together with the related guarantee and security agreement);*



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*"Holdings Credit Facility" refers to NMF Holdings' Second Amended and Restated Loan and Security Agreement with Wells Fargo Bank, National Association, dated December 18, 2014;*

*"Predecessor Holdings Credit Facility" refers to NMF Holdings' Amended and Restated Loan and Security Agreement with Wells Fargo Bank, National Association, dated May 19, 2011, as amended;*

*"SLF Credit Facility" refers to NMF SLF's Loan and Security Agreement with Wells Fargo Bank, National Association, dated October 27, 2010, as amended;*

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*"Convertible Notes" refers to our 5.00% convertible notes due 2019 issued on June 3, 2014 and September 30, 2016 under an indenture dated June 3, 2014 (the "Indenture"), between us and U.S. Bank National Association, as trustee; and*

*"Unsecured Notes" refers to our 5.313% unsecured notes due May 15, 2021 issued on May 6, 2016 and September 30, 2016 to institutional investors in a private placement.*

*For the periods prior to and as of December 31, 2013, all financial information provided in this prospectus supplement and the accompanying prospectus reflect our organizational structure prior to the restructuring on May 8, 2014 described under "Description of Restructuring" in the accompanying prospectus, where NMF Holdings functioned as the operating company.*

### **Overview**

We are a Delaware corporation that was originally incorporated on June 29, 2010 and completed our initial public offering ("IPO") on May 19, 2011. We are a closed-end, non-diversified management investment company that has elected to be regulated as a business development company ("BDC") under the Investment Company Act of 1940, as amended (the "1940 Act"). As such, we are obligated to comply with certain regulatory requirements. We have elected to be treated, and intend to comply with the requirements to continue to qualify annually, as a regulated investment company ("RIC") under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code"). NMFC is also registered as an investment adviser under the Investment Advisers Act of 1940, as amended (the "Advisers Act").

The Investment Adviser is a wholly-owned subsidiary of New Mountain Capital. New Mountain Capital is a firm with a track record of investing in the middle market and with assets under management of approximately \$15.0 billion, which includes total assets held by us. New Mountain Capital focuses on investing in defensive growth companies across its private equity, public equity and credit investment vehicles. The Investment Adviser manages our day-to-day operations and provides us with investment advisory and management services. The Administrator, a wholly-owned subsidiary of New Mountain Capital, provides the administrative services necessary to conduct our day-to-day operations.

Our wholly-owned subsidiary, NMF Holdings, is a Delaware limited liability company whose assets are used to secure NMF Holdings' credit facility. For additional information about our organizational structure prior to May 8, 2014, see "Description of Restructuring" in the accompanying prospectus. NMF Ancora Holdings Inc. ("NMF Ancora"), NMF QID NGL Holdings, Inc. ("NMF QID") and NMF YP Holdings Inc. ("NMF YP"), our wholly-owned subsidiaries, are structured as Delaware entities that serve as tax blocker corporations which hold equity or equity-like investments in portfolio companies organized as limited liability companies (or other forms of pass-through entities). We consolidate our tax blocker corporations for accounting purposes. The tax blocker corporations are not consolidated for income tax purposes and may incur income tax expense as a result of their ownership of the portfolio companies. Additionally, our wholly-owned subsidiary, New Mountain Finance Servicing, L.L.C. ("NMF Servicing"), serves as the administrative agent on certain investment transactions. SBIC LP, and its general partner, SBIC GP, were organized in Delaware as a limited partnership and limited liability company, respectively. SBIC LP and SBIC GP are our consolidated wholly-owned direct and indirect subsidiaries. SBIC LP received a license from the United States ("U.S.") Small Business Administration (the "SBA") to operate as a small business investment company ("SBIC") under Section 301(c) of the Small Business Investment Act of 1958, as amended (the "1958 Act").

Our investment objective is to generate current income and capital appreciation through the sourcing and origination of debt securities at all levels of the capital structure, including first and second lien debt, notes, bonds and mezzanine securities. In some cases, our investments may also

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include equity interests. Our primary focus is in the debt of defensive growth companies, which are defined as generally exhibiting the following characteristics: (i) sustainable secular growth drivers, (ii) high barriers to competitive entry, (iii) high free cash flow after capital expenditure and working capital needs, (iv) high returns on assets and (v) niche market dominance. Similar to us, SBIC LP's investment objective is to generate current income and capital appreciation under our investment criteria. However, SBIC LP's investments must be in SBA eligible companies. Our portfolio may be concentrated in a limited number of industries. As of December 31, 2016, our top five industry concentrations were business services, software, consumer services, investment fund and education.

The investments that we invest in are almost entirely rated below investment grade or may be unrated, which are often referred to as "leveraged loans", "high yield" or "junk" debt investments, and may be considered "high risk" or speculative compared to debt investments that are rated investment grade. Such issuers are considered more likely than investment grade issuers to default on their payments of interest and principal, and such risk of default could reduce our net asset value and income distributions. Our investments are also primarily floating rate debt investments that contain interest reset provisions that may make it more difficult for borrowers to make debt repayments to us if interest rates rise. In addition, some of our debt investments will not fully amortize during their lifetime, which could result in a loss or a substantial amount of unpaid principal and interest due upon maturity. Our debt investments may also lose significant market value before a default occurs. Furthermore, an active trading market may not exist for these securities. This illiquidity may make it more difficult to value our investments.

As of December 31, 2016, our net asset value was \$938.6 million and our portfolio had a fair value of approximately \$1,558.8 million in 78 portfolio companies, with a weighted average yield to maturity at cost ("Yield to Maturity at Cost") of approximately 11.1%. This Yield to Maturity at Cost calculation assumes that all investments, including secured collateralized agreements, not on non-accrual are purchased at cost on the quarter end date and held until their respective maturities with no prepayments or losses and exited at par at maturity. This calculation excludes the impact of existing leverage. Yield to Maturity at Cost uses the London Interbank Offered Rate ("LIBOR") curves at each quarter's end date. The actual yield to maturity may be higher or lower due to the future selection of the LIBOR contracts by the individual companies in our portfolio or other factors.

### **Recent Developments**

#### ***SBA Green Light Letter***

On January 12, 2017, the SBA issued a "green light" letter inviting us to continue our application process to obtain a second license to form and operate a second SBIC subsidiary. If approved, the additional SBIC license would provide us with an incremental source of attractive long-term capital. Receipt of a green light letter from the SBA does not assure an applicant that the SBA will ultimately issue an SBIC license, and we have received no assurance or indication from the SBA that we will receive an additional SBIC license or of the timeframe in which we would receive an additional license, should one ultimately be granted.

#### ***Distribution***

On February 23, 2017, our board of directors declared a first quarter 2017 distribution of \$0.34 per share, which was paid on March 31, 2017 to holders of record as of March 17, 2017.

#### ***Appointment/Departure of Directors***

On March 13, 2017, our board of directors appointed Rome G. Arnold III as a Class III Director, whose term expires concurrent with the 2017 annual meeting of our stockholders.

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Additionally, Mr. Arnold was appointed to our audit committee, valuation committee, nominating and corporate governance committee and compensation committee. Mr. Arnold has replaced David R. Malpass, who resigned from our board of directors as of March 13, 2017. Mr. Malpass' resignation was not due to any disagreement with the Company.

Since January 2017, Mr. Arnold, 61, has served as a Senior Advisor at Rose and Co., a financial-technology startup company with a focus on digital media. From January 2012 through August 2016, Mr. Arnold was a Managing Director at UBS Securities in their Energy Group serving as the Head of Oil Field Services. In addition, Mr. Arnold currently serves as a director of Forbes Energy Services Ltd., an independent oilfield services contractor. Mr. Arnold received his B.A., cum laude, in Psychology and History of Art from Yale College. He received his M.B.A. from Harvard Business School, with High Distinction (Baker Scholar). Mr. Arnold brings his vast experience in investment banking and energy focus to our board of directors.

### ***Preliminary Estimates of Net Asset Value and Net Investment Income***

Set forth below is a preliminary estimate of our net asset value per share as of March 31, 2017 and a preliminary estimate of our net investment income per share range for the three months ended March 31, 2017. The following estimates are not a comprehensive statement of our financial condition or results for the period from December 31, 2016 through March 31, 2017. We advise you that our actual results for the three months ended March 31, 2017 may differ materially from these estimates, which are given only as of the date of this prospectus supplement, as a result of the completion of our financial closing procedures, final adjustments and other developments, including changes in interest rates, changes in the businesses to whom we have made loans or market and industry fluctuations, which may arise between now and the time that our financial results for the three months ended March 31, 2017 are finalized. This information is inherently uncertain.

As of the date of this prospectus supplement, we currently expect that our net investment income per share was between \$0.33 and \$0.34 for the three months ended March 31, 2017.

As of the date of this prospectus supplement, we estimate that our net asset value per share as of March 31, 2017 was approximately \$13.50 to \$13.60.

The preliminary financial estimates provided herein have been prepared by, and are the responsibility of, management. Neither Deloitte & Touche LLP, our independent registered public accounting firm, nor any other independent accountants have audited, reviewed, compiled, or performed any procedures with respect to the accompanying preliminary financial data. Accordingly, Deloitte & Touche LLP does not express an opinion or any form of assurance with respect thereto and assumes no responsibility for, and disclaims any association with, this information.

### **The Investment Adviser**

The Investment Adviser, a wholly-owned subsidiary of New Mountain Capital, manages our day-to-day operations and provides us with investment advisory and management services. In particular, the Investment Adviser is responsible for identifying attractive investment opportunities, conducting research and due diligence on prospective investments, structuring our investments and monitoring and servicing our investments. We currently do not have, and do not intend to have, any employees. As of March 31, 2017, the Investment Adviser was supported by over 120 staff members of New Mountain Capital, including approximately 75 investment professionals.

The Investment Adviser is managed by a five member investment committee (the "Investment Committee"), which is responsible for approving purchases and sales of our investments above \$10.0 million in aggregate by issuer. The Investment Committee currently consists of Steven B.

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Klinsky, Robert A. Hamwee, Adam B. Weinstein and John R. Kline. The fifth and final member of the Investment Committee will consist of a New Mountain Capital Managing Director who will hold the position on the Investment Committee on an annual rotating basis. Beginning in August 2016, Mathew J. Lori was appointed to the Investment Committee for a one year term. In addition, our executive officers and certain investment professionals of the Investment Adviser are invited to all Investment Committee meetings. Purchases and dispositions below \$10.0 million may be approved by our Chief Executive Officer. These approval thresholds are subject to change over time. We expect to benefit from the extensive and varied relevant experience of the investment professionals serving on the Investment Committee, which includes expertise in private equity, primary and secondary leveraged credit, private mezzanine finance and distressed debt.

**Competitive Advantages**

We believe that we have the following competitive advantages over other capital providers to middle market companies:

***Proven and Differentiated Investment Style With Areas of Deep Industry Knowledge***

In making its investment decisions, the Investment Adviser applies New Mountain Capital's long-standing, consistent investment approach that has been in place since its founding more than 15 years ago. We focus on companies in defensive growth niches of the middle market space where we believe few debt funds have built equivalent research and operational size and scale.

We benefit directly from New Mountain Capital's private equity investment strategy that seeks to identify attractive investment sectors from the top down and then works to become a well positioned investor in these sectors. New Mountain Capital focuses on companies and industries with sustainable strengths in all economic cycles, particularly ones that are defensive in nature, that have secular tailwinds and can maintain pricing power in the midst of a recessionary and/or inflationary environment. New Mountain Capital focuses on companies within sectors in which it has significant expertise (examples include software, education, niche healthcare, business services, federal services and distribution & logistics) while typically avoiding investments in companies with products or services that serve markets that are highly cyclical, have the potential for long-term decline, are overly-dependent on consumer demand or are commodity-like in nature.

In making its investment decisions, the Investment Adviser has adopted the approach of New Mountain Capital, which is based on three primary investment principles:

1. A generalist approach, combined with proactive pursuit of the highest quality opportunities within carefully selected industries, identified via an intensive and structured ongoing research process;
2. Emphasis on strong downside protection and strict risk controls; and
3. Continued search for superior risk adjusted returns, combined with timely, intelligent exits and outstanding return performance.

***Experienced Management Team and Established Platform***

The Investment Adviser's team members have extensive experience in the leveraged lending space. Steven B. Klinsky, New Mountain Capital's Founder, Chief Executive Officer and Managing Director and Chairman of our board of directors, was a general partner of Forstmann Little & Co., a manager of debt and equity funds totaling multiple billions of dollars in the 1980s and 1990s. He was also a co-founder of Goldman, Sachs & Co.'s Leverage Buyout Group in the period from 1981 to 1984. Robert A. Hamwee, our Chief Executive Officer and Managing Director of New Mountain Capital, was formerly President of GSC Group, Inc. ("GSC"), where he was the portfolio manager of

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GSC's distressed debt funds and led the development of GSC's CLOs. John R. Kline, our President and Chief Operating Officer and Managing Director of New Mountain Capital, worked at GSC as an investment analyst and trader for GSC's control distressed and corporate credit funds and at Goldman, Sachs & Co. in the Credit Risk Management and Advisory Group.

Many of the debt investments that we have made to date have been in the same companies with which New Mountain Capital has already conducted months of intensive acquisition due diligence related to potential private equity investments. We believe that private equity underwriting due diligence is usually more robust than typical due diligence for loan underwriting. In its underwriting of debt investments, the Investment Adviser is able to utilize the research and hands-on operating experience that New Mountain Capital's private equity underwriting teams possess regarding the individual companies and industries. Business and industry due diligence is led by a team of investment professionals of the Investment Adviser that generally consists of three to seven individuals, typically based on their relevant company and/or industry specific knowledge. Additionally, the Investment Adviser is also able to utilize its relationships with operating management teams and other private equity sponsors. We believe this differentiates us from many of our competitors.

***Significant Sourcing Capabilities and Relationships***

We believe the Investment Adviser's ability to source attractive investment opportunities is greatly aided by both New Mountain Capital's historical and current reviews of private equity opportunities in the business segments we target. To date, a significant majority of the investments that we have made are in the debt of companies and industry sectors that were first identified and reviewed in connection with New Mountain Capital's private equity efforts, and the majority of our current pipeline reflects this as well. Furthermore, the Investment Adviser's investment professionals have deep and longstanding relationships in both the private equity sponsor community and the lending/agency community which they have and will continue to utilize to generate investment opportunities.

***Risk Management through Various Cycles***

New Mountain Capital has emphasized tight control of risk since its inception and long before the recent global financial distress began. To date, New Mountain Capital has never experienced a bankruptcy of any of its portfolio companies in its private equity efforts. The Investment Adviser seeks to emphasize tight control of risk with our investments in several important ways, consistent with New Mountain Capital's historical approach. In particular, the Investment Adviser:

Emphasizes the origination or purchase of debt in what the Investment Adviser believes are defensive growth companies, which are less likely to be dependent on macro-economic cycles;

Targets investments in companies that are preeminent market leaders in their own industries, and when possible, investments in companies that have strong management teams whose skills are difficult for competitors to acquire or reproduce; and

Targets investments in companies with significant equity value in excess of our debt investments.

***Access to Non Mark to Market, Seasoned Leverage Facility***

The amount available under the Holdings Credit Facility is generally not subject to reduction as a result of mark to market fluctuations in our portfolio investments. None of our credit facilities mature prior to June 2019. For a detailed discussion of our credit facilities, see "Management's Discussion and Analysis of Financial Conditions and Results of Operations – Liquidity and Capital Resources" in this prospectus supplement.

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**Market Opportunity**

We believe that the size of the market for investments that we target, coupled with the demands of middle market companies for flexible sources of capital at competitive terms and rates, create an attractive investment environment for us.

*The leverage finance market has a high level of financing needs over the next several years due to significant bank debt maturities and significant amounts of private equity investable capital.* We believe that the large dollar volume of loans that need to be refinanced will present attractive opportunities to invest capital in a manner consistent with our stated objectives.

*Middle market companies continue to face difficulties in accessing the capital markets.* We believe opportunities to serve the middle market will continue to exist. While many middle market companies were formerly able to raise funds by issuing high-yield bonds, we believe this approach to financing has become more difficult in recent years as institutional investors have sought to invest in larger, more liquid offerings.

*Increased regulatory scrutiny of banks has reduced middle market lending.* We believe that many traditional bank lenders to middle market businesses have either exited or de-emphasized their service and product offerings in the middle market. These traditional lenders have instead focused on lending and providing other services to large corporate clients. We believe this has resulted in fewer key players and the reduced availability of debt capital to the companies we target.

*Attractive pricing.* Reduced access to, and availability of, debt capital typically increases the interest rates, or pricing, of loans for middle market lenders. Recent primary debt transactions in this market often include upfront fees, original issue discount, prepayment protections and, in some cases, warrants to purchase common stock, all of which should enhance the profitability of new loans to lenders.

*Conservative deal structures.* As a result of the credit crisis, many lenders are requiring larger equity contributions from financial sponsors. Larger equity contributions create an enhanced margin of safety for lenders because leverage is a lower percentage of the implied enterprise value of the company.

*Large pool of uninvested private equity capital available for new buyouts.* We expect that private equity firms will continue to pursue acquisitions and will seek to leverage their equity investments with mezzanine loans and/or senior loans (including traditional first and second lien, as well as unitranche loans) provided by companies such as ours.

**Operating and Regulatory Structure**

We are a closed-end, non-diversified management investment company that has elected to be regulated as a BDC under the 1940 Act and are required to maintain an asset coverage ratio, as defined in the 1940 Act, of at least 200.0%. We include the assets and liabilities of our consolidated subsidiaries for purposes of satisfying the requirements under the 1940 Act. See "Regulation" in the accompanying prospectus.

We have elected to be treated, and intend to comply with the requirements to continue to qualify annually, as a RIC under Subchapter M of the Code. See "Material Federal Income Tax Considerations" in the accompanying prospectus. As a RIC, we generally will not be subject to corporate-level U.S. federal income taxes on any net ordinary income or capital gains that we timely distribute to our stockholders as dividends if it meets certain source-of-income, distribution and





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asset diversification requirements. We intend to distribute to our stockholders substantially all of our annual taxable income except that we may retain certain net capital gains for reinvestment.

**Risks**

An investment in our securities involves risk, including the risk of leverage and the risk that our operating policies and strategies may change without prior notice to our stockholders or prior stockholder approval. See "Risk Factors" and the other information included in this prospectus supplement and the accompanying prospectus for a discussion of factors you should carefully consider before deciding to invest in our securities. The value of our assets, as well as the market price of our securities, will fluctuate. Our investments may be risky, and you may lose all or part of your investment. Investing in us involves other risks, including the following:

We may suffer credit losses;

We do not expect to replicate the Predecessor Entities' or the historical performance of other entities managed or supported by New Mountain Capital;

There is uncertainty as to the value of our portfolio investments because most of our investments are, and may continue to be, in private companies and recorded at fair value;

Our ability to achieve our investment objective depends on key investment personnel of the Investment Adviser. If the Investment Adviser were to lose any of its key investment personnel, our ability to achieve our investment objective could be significantly harmed;

The Investment Adviser has limited experience managing a BDC or a RIC, which could adversely affect our business;

We operate in a highly competitive market for investment opportunities and may not be able to compete effectively;

Our investments in securities rated below investment grade are speculative in nature and are subject to additional risk factors such as increased possibility of default, illiquidity of the security, and changes in value based on changes in interest rates;

Our business, results of operations and financial condition depend on our ability to manage future growth effectively;

We borrow money, which could magnify the potential for gain or loss on amounts invested in us and increase the risk of investing in us;

Changes in interest rates may affect our cost of capital and net investment income;

Regulations governing the operations of BDCs will affect our ability to raise additional equity capital as well as our ability to issue senior securities or borrow for investment purposes, any or all of which could have a negative effect on our investment objectives and strategies;

We may experience fluctuations in our annual and quarterly results due to the nature of our business;

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Our board of directors may change our investment objective, operating policies and strategies without prior notice or stockholder approval, the effects of which may be adverse to your interests;

We will be subject to corporate-level U.S. federal income tax on all of our income if we are unable to maintain RIC status under Subchapter M of the Code, which would have a material adverse effect on our financial performance;

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We may not be able to pay you distributions on our common stock, our distributions to you may not grow over time and a portion of our distributions to you may be a return of capital for U.S. federal income tax purposes;

Our investments in portfolio companies may be risky, and we could lose all or part of any of our investments;

The lack of liquidity in our investments may adversely affect our business;

Economic recessions, downturns or government spending cuts could impair our portfolio companies and harm our operating results;

The market price of our common stock may fluctuate significantly; and

Sales of substantial amounts of our common stock in the public market may have an adverse effect on the market price of our common stock.

**Company Information**

Our administrative and executive offices are located at 787 Seventh Avenue, 48th Floor, New York, New York 10019, and our telephone number is (212) 720-0300. We maintain a website at <http://www.newmountainfinance.com>. Information contained on our website is not incorporated by reference into this prospectus supplement or the accompanying prospectus, and you should not consider information contained on our website to be part of this prospectus supplement or the accompanying prospectus.

**Presentation of Historical Financial Information and Market Data**

***Historical Financial Information***

Unless otherwise indicated, historical references contained in this prospectus supplement and the accompanying prospectus for periods prior to and as of December 31, 2013 in "Selected Financial and Other Data", "Selected Quarterly Data", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Senior Securities" relate to NMF Holdings. The consolidated financial statements of New Mountain Finance Holdings, L.L.C., formerly known as New Mountain Guardian (Leveraged), L.L.C., and New Mountain Guardian Partners, L.P. are NMF Holdings' historical consolidated financial statements.

***Market Data***

Statistical and market data used in this prospectus supplement and the accompanying prospectus has been obtained from governmental and independent industry sources and publications. We have not independently verified the data obtained from these sources, and we cannot assure you of the accuracy or completeness of the data. Forward-looking information obtained from these sources is subject to the same qualifications and the additional uncertainties regarding the other forward-looking statements contained in this prospectus supplement and accompanying prospectus. See "Cautionary Statement Regarding Forward-Looking Statements" in this prospectus supplement and the accompanying prospectus.

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**THE OFFERING**

|  |  |
|--|--|
| Common Stock Offered                                       | We are offering 5,000,000 shares of our common stock. To the extent that the underwriters sell more than 5,000,000 shares of our common stock, the underwriters have the option to purchase up to an additional 750,000 shares of our common stock at the initial public offering price, less the underwriting discounts and commissions (sales load), within 30 days of the date of this prospectus supplement.   |
| Shares of Our Common Stock Currently Outstanding           | 69,821,693 shares.   |
| Shares of Our Common Stock Outstanding After This Offering | 74,821,693 shares, excluding 750,000 shares of common stock issuable pursuant to the option to purchase additional shares granted to the underwriters. This amount does not include any shares which may be issuable upon conversion of existing securities.   |
| Use of Proceeds  | Our net proceeds from this offering will be approximately \$            million, after deducting \$            million of sales load and estimated offering expenses of approximately \$0.3 million payable by us. If the underwriters' option to purchase additional shares is exercised in full, our net proceeds from this offering will be approximately \$            million, after deducting \$            million of sales load and estimated offering expenses of approximately \$0.3 million payable by us. We intend to use the net proceeds from this offering primarily for new investments in portfolio companies in accordance with our investment objective and strategies described in this prospectus supplement and the accompanying prospectus. We may also use a portion of the net proceeds from the sale of shares of our common stock sold in this offering for other general corporate purposes, including to temporarily repay indebtedness (which will be subject to reborrowing), and other working capital requirements. We are continuously identifying, reviewing and, to the extent consistent with our investment objective, funding new investments. As a result, we typically raise capital as we deem appropriate to fund such new investments. We expect that it will take up to three months for us to substantially invest the net proceeds of this offering, depending on the availability of attractive opportunities and market conditions. However, we can offer no assurance that we will be able to achieve this goal. Proceeds not immediately used for new investments or the temporary repayment of debt will be invested primarily in cash, cash equivalents, U.S. government securities and other high-quality investments that mature in one year or less from the date of the investment. These temporary investments are expected to provide a lower net return than we hope to achieve from our target investments and, accordingly, may result in lower distributions, if any, during such period. See "Use of Proceeds" in this prospectus supplement. |
| New York Stock Exchange Symbol                             | "NMFC"   |

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Investment Advisory Fees

We pay the Investment Adviser a fee for its services under an investment advisory and management agreement (the "Investment Management Agreement") consisting of two components—a base management fee and an incentive fee. Pursuant to the Investment Management Agreement, the base management fee is calculated at an annual rate of 1.75% of our gross assets, which equals our total assets on the Consolidated Statements of Assets and Liabilities, less (i) the borrowings under the SLF Credit Facility and (ii) cash and cash equivalents. The base management fee is payable quarterly in arrears, and is calculated based on the average value of our gross assets, which equals our total assets, as determined in accordance with accounting principles generally accepted in the United States of America ("GAAP"), less the borrowings under the SLF Credit Facility and cash and cash equivalents at the end of each of the two most recently completed calendar quarters, and appropriately adjusted on a pro rata basis for any equity capital raises or repurchases during the current calendar quarter. We have not invested, and currently do not invest, in derivatives. To the extent we invest in derivatives in the future, we will use the actual value of the derivatives, as reported on our Consolidated Statements of Assets and Liabilities, for purposes of calculating our base management fee. Since our IPO, the base management fee calculation has deducted the borrowings under the SLF Credit Facility. The SLF Credit Facility had historically consisted of primarily lower yielding assets at higher advance rates. As part of an amendment to our existing credit facilities with Wells Fargo Bank, National Association, the SLF Credit Facility merged with the Predecessor Holdings Credit Facility and into the Holdings Credit Facility on December 18, 2014. Post credit facility merger and to be consistent with the methodology since our IPO, the Investment Adviser will continue to waive management fees on the leverage associated with those assets that share the same underlying yield characteristics with investments leveraged under the legacy SLF Credit Facility. The Investment Adviser cannot recoup management fees that the Investment Adviser has previously waived. The incentive fee consists of two parts. The first part is calculated and payable quarterly in arrears and equals 20.0% of our "Pre-Incentive Fee Adjusted Net Investment Income" for the immediately preceding quarter, subject to a "preferred return", or "hurdle", and a "catch-up" feature each as described in the Investment Management Agreement. The second part will be determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Management Agreement) and will equal 20.0% of our "Adjusted Realized Capital Gains", if any, on a cumulative basis from inception through the end of the year, computed net of all "Adjusted Realized Capital Losses" and "Adjusted Unrealized Capital Depreciation" on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fee each as described in the Investment Management Agreement. See "Investment Management Agreement" in the accompanying prospectus.

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Administrator

The Administrator serves as our administrator and arranges our office space and provides us with office equipment and administrative services. The Administrator performs, or oversees the performance of, our financial records, prepares reports to our stockholders and reports filed by us with the SEC, monitors the payment of our expenses, and oversees the performance of administrative and professional services rendered to us by others. We reimburse the Administrator for our allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations to us under an administration agreement, as amended and restated (the "Administration Agreement"). For the year ended December 31, 2016, we incurred approximately \$1.6 million of indirect administrative expenses, of which \$0.7 million of indirect administrative expenses were waived by the Administrator. The Administrator cannot recoup any expenses that the Administrator has previously waived. For the year ended December 31, 2016, we reimbursed our Administrator approximately \$0.9 million, which represents approximately 0.1% of our gross assets on an annual basis. See "Administration Agreement" in the accompanying prospectus.

Distributions

We intend to pay quarterly distributions to our stockholders out of assets legally available for distribution. The quarterly distributions, if any, will be determined by our board of directors. The distributions we pay to our stockholders in a year may exceed our taxable income for that year and, accordingly, a portion of such distributions may constitute a return of capital, which is a return of a portion of a shareholder's original investment in our common stock, for U.S. federal income tax purposes. Generally, a return of capital will reduce an investor's basis in our stock for U.S. federal income tax purposes, which will result in a higher tax liability when the stock is sold. The specific tax characteristics of our distributions will be reported to stockholders after the end of the calendar year. See "Price Range of Common Stock and Distributions" in this prospectus supplement and the accompanying prospectus.

Taxation of NMFC

We have elected to be treated, and intend to comply with the requirements to continue to qualify annually, as a RIC under Subchapter M of the Code. As a RIC, we generally will not pay corporate-level U.S. federal income taxes on any net ordinary income or capital gains that are timely distributed to our stockholders as dividends. To maintain our RIC status, we must meet specified source-of-income and asset diversification requirements and distribute annually to our stockholders at least 90.0% of our net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any. See "Price Range of Common Stock and Distributions" in this prospectus supplement and in the accompanying prospectus and "Material Federal Income Tax Considerations" in the accompanying prospectus.

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|                            |  |
|----------------------------|--|
| Dividend Reinvestment Plan | We have adopted an "opt out" dividend reinvestment plan for our stockholders. As a result, if we declare a distribution, then your cash distributions will be automatically reinvested in additional shares of our common stock, unless you specifically "opt out" of the dividend reinvestment plan so as to receive cash distributions. Stockholders who receive distributions in the form of stock will be subject to the same U.S. federal income tax consequences as stockholders who elect to receive their distributions in cash. We will use only newly issued shares to implement the plan if the price at which newly issued shares are to be credited is equal to or greater than 110.0% of the last determined net asset value of our shares. We reserve the right to either issue new shares or purchase shares of our common stock in the open market in connection with our implementation of the plan if the price at which newly issued shares are to be credited to stockholders' accounts does not exceed 110.0% of the last determined net asset value of the shares. See "Dividend Reinvestment Plan" in the accompanying prospectus. |
| Trading at a Discount      | Shares of closed-end investment companies frequently trade at a discount to their net asset value. The possibility that our common stock may trade at a discount to our net asset value per share is separate and distinct from the risk that our net asset value per share may decline. We cannot predict whether our common stock will trade above, at or below net asset value.   |
| License Agreement          | We have entered into a royalty-free license agreement with New Mountain Capital, pursuant to which New Mountain Capital has agreed to grant us a non-exclusive license to use the names "New Mountain" and "New Mountain Finance". See "License Agreement" in the accompanying prospectus.   |
| Leverage                   | We expect to continue to use leverage to make investments. As a result, we may continue to be exposed to the risks of leverage, which include that leverage may be considered a speculative investment technique. The use of leverage magnifies the potential for gain and loss on amounts we invest and therefore, indirectly, increases the risks associated with investing in shares of our common stock. See "Risk Factors" in this prospectus supplement and the accompanying prospectus.   |
| Anti-Takeover Provisions   | Our board of directors is divided into three classes of directors serving staggered three-year terms. This structure is intended to provide us with a greater likelihood of continuity of management, which may be necessary for us to realize the full value of our investments. A staggered board of directors also may serve to deter hostile takeovers or proxy contests, as may certain other measures that we may adopt. These measures may delay, defer or prevent a transaction or a change in control that might otherwise be in the best interests of our stockholders. See "Description of Capital Stock - Delaware Law and Certain Certificate of Incorporation and Bylaw Provisions; Anti-Takeover Measures" in the accompanying prospectus.  |

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Available Information

We have filed with the SEC a registration statement on Form N-2 together with all amendments and related exhibits under the Securities Act of 1933, as amended (the "Securities Act"). The registration statement contains additional information about us and the shares of common stock being offered by this prospectus supplement and the accompanying prospectus.

We are required to file annual, quarterly and current reports, proxy statements and other information with the SEC under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). This information is available at the SEC's public reference room at 100 F Street, NE, Washington, District of Columbia 20549 and on the SEC's website at <http://www.sec.gov>. The public may obtain information on the operation of the SEC's public reference room by calling the SEC at 1-800-SEC-0330. This information is also available free of charge by contacting us at New Mountain Finance Corporation, 787 Seventh Avenue, 48th Floor, New York, New York 10019, by telephone at (212) 720-0300, or on our website at <http://www.newmountainfinance.com>. Information contained on our website or on the SEC's website about us is not incorporated into this prospectus supplement and the accompanying prospectus and you should not consider information contained on our website or on the SEC's website to be part of this prospectus supplement and the accompanying prospectus.

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**FEES AND EXPENSES**

The following table is intended to assist you in understanding the costs and expenses that you will bear directly or indirectly. We caution you that some of the percentages indicated in the table below are estimates and may vary. Except where the context suggests otherwise, whenever this prospectus supplement and the accompanying prospectus contains a reference to fees or expenses paid by "you", "NMFC", or "us" or that "we", "NMFC", or the "Company" will pay fees or expenses, we will pay such fees and expenses out of our net assets and, consequently, you will indirectly bear such fees or expenses as an investor in us. However, you will not be required to deliver any money or otherwise bear personal liability or responsibility for such fees or expenses.

|  |                 |
|--|-----------------|
| <b>Stockholder transaction expenses:</b>   |                 |
| Sales load borne by us (as a percentage of offering price)                           | %(1)            |
| Offering expenses borne by us (as a percentage of offering price)                    | %(2)            |
| Dividend reinvestment plan fees  | N/A(3)          |
| <b>Total stockholder transaction expenses (as a percentage of offering price)</b>    | <b>%</b>        |
| <b>Annual expenses (as a percentage of net assets attributable to common stock):</b> |                 |
| Base management fees   | 2.94%(4)        |
| Incentive fees payable under the Investment Management Agreement                     | 2.17%(5)        |
| Interest payments on borrowed funds  | 2.74%(6)        |
| Other expenses   | 0.74%(7)        |
| Acquired fund fees and expenses  | 0.48%(8)        |
| <b>Total annual expenses</b>   | <b>9.07%(9)</b> |

**Example**

The following example, required by the SEC, demonstrates the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in our common stock. In calculating the following expense amounts, we have assumed that our borrowings and annual operating expenses would remain at the levels set forth in the table above. See Note 6 below for additional information regarding certain assumptions regarding our level of leverage.

|   | 1 Year | 3 Years | 5 Years | 10 Years |
|---|--------|---------|---------|----------|
| You would pay the following expenses on a \$1,000 investment, assuming a 5.0% annual return | \$     | \$      | \$      | \$       |

**The example should not be considered a representation of future expenses, and actual expenses may be greater or less than those shown.**

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While the example assumes, as required by the applicable rules of the SEC, a 5.0% annual return, our performance will vary and may result in a return greater or less than 5.0%. The incentive fee under the Investment Management Agreement, which, assuming a 5.0% annual return, would either not be payable or would have an insignificant impact on the expense amounts shown above, is not included in the above example. The above illustration assumes that we will not realize any capital gains (computed net of all realized capital losses and unrealized capital depreciation) in any of the indicated time periods. If we achieve sufficient returns on our investments, including through the realization of capital gains, to trigger an incentive fee of a material amount, our expenses and returns to our investors would be higher. For example, if we assumed that we received our 5.0% annual return completely in the form of net realized capital gains on our investments, computed net of all cumulative unrealized depreciation on our investments, the projected dollar amount of total cumulative expenses set forth in the above illustration would be as follows:

|   | 1 Year | 3 Years | 5 Years | 10 Years |
|---|--------|---------|---------|----------|
| You would pay the following expenses on a \$1,000 investment, assuming a 5.0% annual return | \$     | \$      | \$      | \$       |

The example assumes a sales load borne by us of \_\_\_\_%. In addition, while the examples assume reinvestment of all distributions at net asset value, participants in our dividend reinvestment plan will receive a number of shares of our common stock determined by dividing the total dollar amount of the distribution payable to a participant by the market price per share of our common stock at the close of trading on the dividend payment date. The market price per share of our common stock may be at, above or below net asset value. See "Dividend Reinvestment Plan" in the accompanying prospectus for additional information regarding the dividend reinvestment plan.

- (1) Represents the sales load to be paid by us with respect to the shares of common stock to be sold by us in this offering for which the calculation is adjusted. There is no guaranty that there will be any sales of our common stock pursuant to this prospectus supplement or the accompanying prospectus.
- (2) The offering expenses of this offering are estimated to be approximately \$0.3 million.
- (3) The de minimis expenses of the dividend reinvestment plan are included in "other expenses".
- (4) The base management fee under the Investment Management Agreement is based on an annual rate of 1.75% of our average gross assets for the two most recent quarters, which equals our total assets on the Consolidated Statements of Assets and Liabilities, less (i) the borrowings under the SLF Credit Facility and (ii) cash and cash equivalents. We have not invested, and currently do not invest, in derivatives. To the extent we invest in derivatives in the future, we will use the actual value of the derivatives, as reported on our Consolidated Statements of Assets and Liabilities, for purposes of calculating our base management fee. Since our IPO, the base management fee calculation has deducted the borrowings under the SLF Credit Facility. The SLF Credit Facility had historically consisted of primarily lower yielding assets at higher advance rates. As part of an amendment to our existing credit facilities with Wells Fargo Bank, National Association, the SLF Credit Facility merged with the Predecessor Holdings Credit Facility and into the Holdings Credit Facility on December 18, 2014. Post credit facility merger and to be consistent with the methodology since our IPO, the Investment Adviser will continue to waive management fees on the leverage associated with those assets that share the same underlying yield characteristics with investments leveraged under the legacy SLF Credit Facility. The Investment Adviser cannot recoup management fees that the Investment Adviser has previously waived. The base management fee reflected in the table above is based on the year ended December 31, 2016 and is calculated without deducting any management fees waived. The annual base management fee after deducting the management fee waiver as a percentage of net assets would be 2.42% based on the year ended December 31, 2016. See "Investment Management Agreement" in the accompanying prospectus.

(5)

Assumes that annual incentive fees earned by the Investment Adviser remain consistent with the incentive fees earned by the Investment Adviser during the year ended December 31, 2016 and includes accrued capital gains incentive fee. These accrued capital gains incentive fees would be paid by us if we ceased operations on December 31, 2016 and liquidated our investments at the December 31, 2016 valuation. As we cannot predict whether we will meet the thresholds for incentive fees under the Investment Management Agreement, the incentive fees paid in subsequent periods, if any, may be substantially different than the fees incurred during the year ended December 31, 2016. For

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more detailed information about the incentive fee calculations, see the "Investment Management Agreement" section of the accompanying prospectus.

(6)

We may borrow funds from time to time to make investments to the extent we determine that additional capital would allow us to take advantage of additional investment opportunities or if the economic situation is otherwise conducive to doing so. The costs associated with these borrowings are indirectly borne by our stockholders. As of December 31, 2016, we had \$333.5 million, \$10.0 million, \$155.3 million, \$90.0 million and \$121.7 million of indebtedness outstanding under the Holdings Credit Facility, the NMFC Credit Facility, the Convertible Notes, the Unsecured Notes and the SBA-guaranteed debentures, respectively. For purposes of this calculation, we have assumed the December 31, 2016 amounts outstanding under the credit facilities, the Convertible Notes, the Unsecured Notes and the SBA-guaranteed debentures, and have computed interest expense using an assumed interest rate of 3.3% for the Holdings Credit Facility, 3.3% for the NMFC Credit Facility, 5.0% for the Convertible Notes, 5.313% for the Unsecured Notes and 3.2% for the SBA-guaranteed debentures, which were the rates payable as of December 31, 2016. See "Senior Securities" in this prospectus supplement and the accompanying prospectus.

(7)

"Other expenses" include our overhead expenses, including payments by us under the Administration Agreement based on the allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations to us under the Administration Agreement. Pursuant to the Administration Agreement, the Administrator may, in its own discretion, submit to us for reimbursement some or all of the expenses that the Administrator has incurred on our behalf during any quarterly period. As a result, the amount of expenses for which we will have to reimburse the Administrator may fluctuate in future quarterly periods and there can be no assurance given as to when, or if, the Administrator may determine to limit the expenses that the Administrator submits to us for reimbursement in the future. However, it is expected that the Administrator will continue to support part of our expense burden in the near future and may decide to not calculate and charge through certain overhead related amounts as well as continue to cover some of the indirect costs. The Administrator cannot recoup any expenses that the Administrator has previously waived. This expense ratio is calculated without deducting any expenses waived or reimbursed by the Administrator. Assuming the expenses waived or reimbursed by the Administrator at December 31, 2016, the annual expense ratio after deducting the expenses waived or reimbursed by the Administrator as a percentage of net assets would be 0.67%. For the year ended December 31, 2016, we reimbursed our Administrator approximately \$0.7 million, which represents approximately 0.09% of our net assets on an annualized basis. See "Administration Agreement" in the accompanying prospectus.

(8)

The holders of shares of our common stock indirectly bear the expenses of our investment in NMFC Senior Loan Program I, LLC ("SLP I") and NMFC Senior Loan Program II, LLC ("SLP II"). No management fee is charged on our investment in SLP I in connection with the administrative services provided to SLP I. As SLP II is structured as a private joint venture, no management fees are paid by SLP II. Future expenses for SLP I and SLP II may be substantially higher or lower because certain expenses may fluctuate over time.

(9)

The holders of shares of our common stock indirectly bear the cost associated with our annual expenses.

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**SELECTED FINANCIAL AND OTHER DATA**

The selected financial data should be read in conjunction with the respective consolidated financial statements and related consolidated notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this prospectus supplement and the accompanying prospectus. Financial information for the years ended December 31, 2016, December 31, 2015, December 31, 2014, December 31, 2013 and December 31, 2012 has been derived from the Predecessor Operating Company's and our financial statements and the related notes thereto that were audited by Deloitte & Touche LLP, an independent registered public accounting firm. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Senior Securities" in this prospectus supplement and the accompanying prospectus for more information.

The below selected financial and other data is for NMFC.

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(in thousands except shares and per share data)

**Years Ended December 31,**

| <b>New Mountain Finance Corporation</b>  | <b>2016</b>  | <b>2015</b>  | <b>2014</b>  | <b>2013</b> | <b>2012</b> |
|--|--------------|--------------|--------------|-------------|-------------|
| <b>Statement of Operations Data:</b>   |              |              |              |             |             |
| Investment income  | \$ 168,084   | \$ 153,855   | \$ 91,923    | \$          | \$          |
| Investment income allocated from NMF Holdings  |              |              | 43,678       | 90,876      | 37,511      |
| Net expenses   | 79,976       | 71,360       | 34,727       |             |             |
| Net expenses allocated from NMF Holdings   |              |              | 20,808       | 40,355      | 17,719      |
| Net investment income  | 88,108       | 82,495       | 80,066       | 50,521      | 19,792      |
| Net realized (losses) gains on investments   | (16,717)     | (12,789)     | 357          |             |             |
| Net realized and unrealized gains (losses) allocated from NMF Holdings   |              |              | 9,508        | 11,443      | 12,087      |
| Net change in unrealized appreciation (depreciation) of investments  | 40,131       | (35,272)     | (43,863)     |             |             |
| Net change in unrealized (depreciation) appreciation of securities purchased under collateralized agreements to resell | (486)        | (296)        |              |             |             |
| Net change in unrealized (depreciation) appreciation of investment in NMF Holdings                                     |              |              |              | (44)        | (95)        |
| Benefit (provision) for taxes  | 642          | (1,183)      | (493)        |             |             |
| Net increase in net assets resulting from operations   | 111,678      | 32,955       | 45,575       | 61,920      | 31,784      |
| <b>Per share data:</b>   |              |              |              |             |             |
| Net asset value  | \$ 13.46     | \$ 13.08     | \$ 13.83     | \$ 14.38    | \$ 14.06    |
| Net increase in net assets resulting from operations (basic)   | 1.72         | 0.55         | 0.88         | 1.76        | 2.14        |
| Net increase in net assets resulting from operations (diluted)(1)  | 1.60         | 0.55         | 0.86         | 1.76        | 2.14        |
| Distributions declared(2)  | 1.36         | 1.36         | 1.48         | 1.48        | 1.71        |
| <b>Balance sheet data:</b>   |              |              |              |             |             |
| Total assets(3)  | \$ 1,656,018 | \$ 1,588,146 | \$ 1,500,868 | \$ 650,107  | \$ 345,331  |
| Holdings Credit Facility   | 333,513      | 419,313      | 468,108      | N/A         | N/A         |
| Convertible Notes  | 155,523      | 115,000      | 115,000      | N/A         | N/A         |
| SBA-guaranteed debentures  | 121,745      | 117,745      | 37,500       | N/A         | N/A         |
| Unsecured Notes  | 90,000       |              |              | N/A         | N/A         |
| NMFC Credit Facility   | 10,000       | 90,000       | 50,000       | N/A         | N/A         |
| Total net assets   | 938,562      | 836,908      | 802,170      | 650,107     | 341,926     |
| <b>Other data:</b>   |              |              |              |             |             |
| Total return based on market value(4)  | 19.68%       | (4.00)%      | 9.66%        | 11.62%      | 24.84%      |
| Total return based on net asset value(5)   | 13.98%       | 4.32%        | 6.56%        | 13.27%      | 16.61%      |
| Number of portfolio companies at period end  | 78           | 75           | 71           | N/A         | N/A         |
| Total new investments for the period(6)  | \$ 558,068   | \$ 612,737   | \$ 720,871   | N/A         | N/A         |

|   |            |            |            |            |            |
|---|------------|------------|------------|------------|------------|
| Investment sales and repayments for the period(6)   | \$ 547,078 | \$ 483,936 | \$ 384,568 | N/A        | N/A        |
| Weighted average Yield to Maturity at Cost on debt portfolio at period end (unaudited)(7) | 11.1%      | 10.7%      | 10.7%      | N/A        | N/A        |
| Weighted average shares outstanding for the period (basic)                                | 64,918,191 | 59,715,290 | 51,846,164 | 35,092,722 | 14,860,838 |
| Weighted average shares outstanding for the period (diluted)                              | 72,863,387 | 66,968,089 | 56,157,835 | 35,092,722 | 14,860,838 |
| Portfolio turnover(6)   | 36.07%     | 33.93%     | 29.51%     | N/A        | N/A        |

(1)

In applying the if-converted method, conversion is not assumed for purposes of computing diluted earnings per share if the effect would be anti-dilutive. For the year ended December 31, 2015, there was anti-dilution. For the years ended December 31, 2016 and December 31, 2014, there was no anti-dilution. For the years ended December 31, 2013 and December 31, 2012, due to reflecting earnings for the full year of operations of the Predecessor Operating Company assuming 100.0% NMFC ownership of Predecessor Operating Company and assuming all of AIV Holdings units in the Predecessor Operating Company were exchanged for public shares of NMFC during the years then ended, the earnings per share would be \$1.79 and \$2.18, respectively.

(2)

Distributions declared in the year ended December 31, 2014 include a \$0.12 per share special dividend related to realized capital gains attributable to NMF Holdings' warrant investments in Learning Care Group (US), Inc. Distributions declared in the year ended December 31, 2013 include a \$0.12 per share special dividend related to a distribution received attributable to NMF Holdings' investment in YP Equity Investors LLC. Distributions declared in the year ended December 31, 2012 include a \$0.23 per share special dividend related to estimated realized capital gains attributable to NMF Holdings' investments in Lawson Software, Inc. and Infor Lux Bond Company and a \$0.14 per

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share special dividend intended to minimize to the greatest extent possible NMFC's U.S. federal income or excise tax liability.

- (3) On January 1, 2016, we adopted Accounting Standard Update No. 2015-03, *Interest Imputation of Interest Subtopic 835-30 Simplifying the Presentation of Debt Issuance Costs* ("ASU 2015-03"). Upon adoption, we revised our presentation of deferred financing costs from an asset to a liability, which is a direct deduction to our debt on the Consolidated Statements of Assets and Liabilities. In addition, as of December 31, 2015 and December 31, 2014, we retrospectively revised our presentation of \$14.0 million and \$14.1 million, respectively, of deferred financing costs that were previously presented as an asset, which resulted in a decrease to total assets and total liabilities as of December 31, 2015 and December 31, 2014. For the years ended December 31, 2013 and December 31, 2012, NMFC was a holding company with no direct operations of its own and its sole asset was its ownership in the Predecessor Operating Company and as such ASU 2015-03 did not apply to NMFC.
- (4) Total return is calculated assuming a purchase of common stock at the opening of the first day of the period and a sale on the closing of the last business day of the respective period ends. Dividends and distributions, if any, are assumed for purposes of this calculation, to be reinvested at prices obtained under our dividend reinvestment plan.
- (5) Total return is calculated assuming a purchase at net asset value on the opening of the first day of the period and a sale at net asset value on the last day of the period. Dividends and distributions, if any, are assumed for purposes of this calculation, to be reinvested at the net asset value on the last day of the respective quarter.
- (6) For the year ended December 31, 2014, amounts include our investment activity and the investment activity of the Predecessor Operating Company.
- (7) The weighted average Yield to Maturity at Cost calculation assumes that all investments, including secured collateralized agreements, not on non-accrual are purchased at cost on the respective period ends and held until their respective maturities with no prepayments or losses and exited at par at maturity.



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As of May 8, 2014, NMFC assumed all operating activities previously undertaken by NMF Holdings. The following table sets forth selected financial and other data for NMF Holdings when it was the Predecessor Operating Company.

*(in thousands except units and per unit data)*

|   | <b>Years Ended<br/>December 31,</b> |              |
|---|-------------------------------------|--------------|
| <b>New Mountain Finance Holdings, L.L.C.</b>  | <b>2013</b>                         | <b>2012</b>  |
| <b>Statement of Operations Data:</b>  |                                     |              |
| Total investment income   | \$ 114,912                          | \$ 85,786    |
| Net expenses  | 51,235                              | 40,569       |
| Net investment income   | 63,677                              | 45,217       |
| Net realized and unrealized gains (losses)  | 15,247                              | 28,779       |
| Net increase in net assets resulting from operations  | 78,924                              | 73,996       |
| <b>Per unit data:</b>   |                                     |              |
| Net asset value   | \$ 14.38                            | \$ 14.06     |
| Net increase in net assets resulting from operations (basic and diluted)                              | 1.79                                | 2.18         |
| Distributions declared <sup>(1)</sup>   | 1.48                                | 1.71         |
| <b>Balance sheet data:</b>  |                                     |              |
| Total assets  | \$ 1,147,841                        | \$ 1,025,564 |
| Holdings Credit Facility  | 221,849                             | 206,938      |
| SLF Credit Facility   | 214,668                             | 214,262      |
| Total net assets  | 688,516                             | 569,939      |
| <b>Other data:</b>  |                                     |              |
| Total return at net asset value <sup>(2)</sup>  | 13.27%                              | 16.61%       |
| Number of portfolio companies at period end   | 59                                  | 63           |
| Total new investments for the period  | \$ 529,307                          | \$ 673,218   |
| Investment sales and repayments for the period  | \$ 426,561                          | \$ 423,874   |
| Weighted average Yield to Maturity at Cost on debt portfolio at period end (unaudited) <sup>(3)</sup> | 11.0%                               | 10.3%        |
| Weighted average Yield to Maturity on debt portfolio at period end (unaudited) <sup>(4)</sup>         | 10.6%                               | 10.1%        |
| Weighted average common membership units outstanding for the period                                   | 44,021,920                          | 34,011,738   |
| Portfolio turnover  | 40.52%                              | 52.02%       |

(1) Distributions declared in the year ended December 31, 2013 include a \$0.12 per unit special dividend related to a distribution received attributable to NMF Holdings' investment in YP Equity Investors LLC. Distributions declared in the year ended December 31, 2012 include a \$0.23 per unit special dividend related to estimated realized capital gains attributable to NMF Holdings' investments in Lawson Software, Inc. and Infor Lux Bond Company and a \$0.14 per unit special dividend intended to minimize to the greatest extent possible NMFC's U.S. federal income or excise tax liability. Actual cash payments on the distributions declared to AIV Holdings only, for the quarters ended March 31, 2012, June 30, 2012, December 31, 2012 and March 31, 2013, were made on April 4, 2012, July 9, 2012, January 7, 2013 and April 5, 2013 respectively.

(2) Total return is calculated assuming a purchase at net asset value on the opening of the first day of the year and a sale at net asset value on the last day of the respective period ends. Dividends and distributions, if any, are assumed for purposes of this calculation, to be reinvested at the net asset value on the last day of the respective quarter. Dividends and distributions, if any, are assumed for purposes of this calculation, to be reinvested at the net asset value on the last day of the respective quarter.

(3)

The weighted average Yield to Maturity at Cost calculation assumes that all investments not on non-accrual are purchased at the adjusted cost on the respective period ends and held until their respective maturities with no

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prepayments or losses and exited at par at maturity. Adjusted cost reflects the GAAP cost for post-IPO investments and a stepped up cost basis of pre-IPO investments (assuming a step-up to fair market value occurred on the IPO date).

- (4) The weighted average Yield to Maturity calculation assumes that all investments not on non-accrual are purchased at fair value on the respective period ends and held until their respective maturities with no prepayments or losses and exited at par at maturity. The weighted average Yield to Maturity was not calculated subsequent to December 31, 2013.

Table of Contents**SELECTED QUARTERLY FINANCIAL DATA**

The selected quarterly financial data should be read in conjunction with our respective consolidated financial statements and related consolidated notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this prospectus supplement and the accompanying prospectus. The following table sets forth certain quarterly financial data for each of the quarters for the fiscal years ended December 31, 2016 and December 31, 2015. This data is derived from our unaudited financial statements. Results for any quarter are not necessarily indicative of results for the full year or for any future quarter. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Senior Securities" included in this prospectus supplement and the accompanying prospectus for more information.

The below selected quarterly financial data is for NMFC.

*(in thousands except for per share data)*

| Quarter Ended      | Total Investment Income |           | Net Investment Income |           | Total Net Realized Gains (Losses) and Net Changes in Unrealized Appreciation (Depreciation) of Investments <sup>(1)</sup> |           | Net Increase (Decrease) in Net Assets Resulting from Operations |           |
|--------------------|-------------------------|-----------|-----------------------|-----------|---|-----------|---|-----------|
|                    | Total                   | Per Share | Total                 | Per Share | Total   | Per Share | Total   | Per Share |
|                    |                         |           |                       |           |   |           |   |           |
| December 31, 2016  | \$ 43,784               | \$ 0.64   | \$ 22,980             | \$ 0.34   | \$ 10,875   | \$ 0.16   | \$ 33,855   | \$ 0.50   |
| September 30, 2016 | 41,834                  | 0.66      | 21,729                | 0.34      | 3,350   | 0.05      | 25,079  | 0.39      |
| June 30, 2016      | 41,490                  | 0.65      | 21,832                | 0.34      | 22,861  | 0.36      | 44,693  | 0.70      |
| March 31, 2016     | 40,976                  | 0.64      | 21,567                | 0.34      | (13,516)  | (0.21)    | 8,051   | 0.13      |
| December 31, 2015  | \$ 41,967               | \$ 0.66   | \$ 22,521             | \$ 0.35   | \$ (42,548)   | \$ (0.66) | \$ (20,027)   | \$ (0.31) |
| September 30, 2015 | 37,447                  | 0.64      | 20,659                | 0.35      | (10,855)  | (0.18)    | 9,804   | 0.17      |
| June 30, 2015      | 37,905                  | 0.65      | 20,253                | 0.35      | 11  |           | 20,264  | 0.35      |
| March 31, 2015     | 36,536                  | 0.63      | 19,062                | 0.33      | 3,852   | 0.07      | 22,914  | 0.40      |

(1)

Includes securities purchased under collateralized agreements to resell, benefit (provision) for taxes and the accretive effect of common stock issuances per share, if applicable.

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**RISK FACTORS**

*Investing in our securities involves a number of significant risks. In addition to the other information contained in this prospectus supplement and the accompanying prospectus, you should consider carefully the following risks before making an investment in our securities. The risks set out below are not the only risks we face and you should read the risks set out in "Risk Factors" beginning on page 30 of the accompanying prospectus. Additional risks and uncertainties not presently known to us or not presently deemed material by us might also impair our operations and performance. If any of the following events occur, our business, financial condition and results of operations could be materially and adversely affected. In such case, our net asset value and the trading price of our common stock could decline and you may lose all or part of your investment.*

**RISKS RELATED TO OUR BUSINESS AND STRUCTURE**

***Further downgrades of the U.S. credit rating, impending automatic spending cuts or another government shutdown could negatively impact our liquidity, financial condition and earnings.***

Recent U.S. debt ceiling and budget deficit concerns have increased the possibility of additional credit-rating downgrades and economic slowdowns, or a recession in the U.S. The federal debt limit was previously suspended since November 2, 2015, but the limit was reinstated on March 16, 2017. If legislation increasing the debt ceiling is not enacted, as needed, and the debt ceiling is reached, the U.S. federal government may stop or delay making payments on its obligations, which could negatively impact the U.S. economy and our portfolio companies. Multiple factors relating to the international operations of some of our portfolio companies and to particular countries in which they operate could negatively impact their business, financial condition and results of operations. In addition, disagreement over the federal budget has caused the U.S. federal government to shut down for periods of time. Continued adverse political and economic conditions could have a material adverse effect on our business, financial condition and results of operations.

***Global economic, political and market conditions may adversely affect our business, results of operations and financial condition, including our revenue growth and profitability.***

The current worldwide financial market situation, as well as various social and political tensions in the U.S. and around the world, may contribute to increased market volatility, may have long-term effects on the U.S. and worldwide financial markets, and may cause economic uncertainties or deterioration in the U.S. and worldwide. Since 2010, several European Union ("EU") countries, including Greece, Ireland, Italy, Spain, and Portugal, have faced budget issues, some of which may have negative long-term effects for the economies of those countries and other EU countries. There is continued concern about national-level support for the Euro and the accompanying coordination of fiscal and wage policy among European Economic and Monetary Union member countries. In June 2016, the United Kingdom ("U.K.") held a referendum in which voters approved an exit from the EU ("Brexit"), and, accordingly, on February 1, 2017, the U.K. Parliament voted in favor of allowing the U.K. government to begin the formal process of Brexit. Brexit created political and economic uncertainty and instability in the global markets (including currency and credit markets), and especially in the U.K. and the EU, and this uncertainty and instability may last indefinitely. In addition, the fiscal policy of foreign nations, such as Russia and China, may have a severe impact on the worldwide and U.S. financial markets. We cannot predict the effects of these or similar events in the future on the U.S. economy and securities markets or on our investments. We monitor developments and seek to manage our investments in a manner consistent with achieving our investment objective, but there can be no assurance that we will be successful in doing so.

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As a result of the 2016 U.S. election, the Republican Party currently controls both the executive and legislative branches of government, which increases the likelihood that legislation may be adopted that could significantly affect the regulation of U.S. financial markets. Areas subject to potential change, amendment or repeal include the Dodd-Frank Act and the authority of the Federal Reserve and the Financial Stability Oversight Council. The U.S. may also potentially withdraw from or renegotiate various trade agreements and take other actions that would change current trade policies of the U.S. We cannot predict which, if any, of these actions will be taken or, if taken, their effect on the financial stability of the U.S. Such actions could have a significant adverse effect on our business, financial condition and results of operations. We cannot predict the effects of these or similar events in the future on the U.S. economy and securities markets or on our investments. We monitor developments and seek to manage our investments in a manner consistent with achieving our investment objective, but there can be no assurance that we will be successful in doing so.

***Our ability to achieve our investment objective depends on key investment personnel of the Investment Adviser. If the Investment Adviser were to lose any of its key investment personnel, our ability to achieve our investment objective could be significantly harmed.***

We depend on the investment judgment, skill and relationships of the investment professionals of the Investment Adviser, particularly Steven B. Klinsky, Robert A. Hamwee and John R. Kline, as well as other key personnel to identify, evaluate, negotiate, structure, execute, monitor and service our investments. The Investment Adviser, as an affiliate of New Mountain Capital, is supported by New Mountain Capital's team, which as of March 31, 2017 consisted of over 120 staff members of New Mountain Capital and its affiliates to fulfill its obligations to us under the Investment Management Agreement. The Investment Adviser may also depend upon New Mountain Capital to obtain access to investment opportunities originated by the professionals of New Mountain Capital and its affiliates. Our future success depends to a significant extent on the continued service and coordination of the key investment personnel of the Investment Adviser. The departure of any of these individuals could have a material adverse effect on our ability to achieve our investment objective.

The Investment Committee, which provides oversight over our investment activities, is provided by the Investment Adviser. The Investment Committee currently consists of five members. The loss of any member of the Investment Committee or of other senior professionals of the Investment Adviser and its affiliates without suitable replacement could limit our ability to achieve our investment objective and operate as we anticipate. This could have a material adverse effect on our financial condition, results of operation and cash flows. To achieve our investment objective, the Investment Adviser may hire, train, supervise and manage new investment professionals to participate in its investment selection and monitoring process. If the Investment Adviser is unable to find investment professionals or do so in a timely manner, our business, financial condition and results of operations could be adversely affected.

***We borrow money, which could magnify the potential for gain or loss on amounts invested in us and increase the risk of investing in us.***

We borrow money as part of our business plan. Borrowings, also known as leverage, magnify the potential for gain or loss on invested equity capital and may, consequently, increase the risk of investing in us. We expect to continue to use leverage to finance our investments, through senior securities issued by banks and other lenders. Lenders of these senior securities have fixed dollar claims on our assets that are superior to claims of our common stockholders. If the value of our assets decreases, leveraging would cause our net asset value to decline more sharply than it otherwise would have had it not leveraged. Similarly, any decrease in our income would cause our

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net income to decline more sharply than it would have had it not borrowed. Such a decline could adversely affect our ability to make common stock dividend payments. In addition, because our investments may be illiquid, we may be unable to dispose of them or to do so at a favorable price in the event we need to do so if we are unable to refinance any indebtedness upon maturity and, as a result, we may suffer losses. Leverage is generally considered a speculative investment technique.

Our ability to service any debt that we incur depends largely on our financial performance and is subject to prevailing economic conditions and competitive pressures. Moreover, as the Investment Adviser's management fee is payable to the Investment Adviser based on gross assets, including those assets acquired through the use of leverage, the Investment Adviser may have a financial incentive to incur leverage which may not be consistent with our interests and the interests of our common stockholders. In addition, holders of our common stock will, indirectly, bear the burden of any increase in our expenses as a result of leverage, including any increase in the management fee payable to the Investment Adviser.

At December 31, 2016, we had \$333.5 million, \$10.0 million, \$155.3 million, \$90.0 million and \$121.7 million of indebtedness outstanding under the Holdings Credit Facility, the NMFC Credit Facility, the Convertible Notes, the Unsecured Notes and the SBA-guaranteed debentures, respectively. The Holdings Credit Facility, NMFC Credit Facility and the SBA-guaranteed debentures had weighted average interest rates of 2.8%, 3.0% and 3.1%, respectively, for the year ended December 31, 2016. The interest rate on the Convertible Notes is 5.0% per annum and the interest rate on the Unsecured Notes is 5.313% per annum. In order for us to cover our annual interest payments on our outstanding indebtedness at December 31, 2016, we must achieve annual returns on our December 31, 2016 total assets of at least 1.6%.

**Illustration.** The following table illustrates the effect of leverage on returns from an investment in our common stock assuming various annual returns, net of expenses and adjusted for unsettled securities purchased. The calculations in the table below are hypothetical. Actual returns may be higher or lower than those appearing below. The calculation assumes (i) \$1,656.0 million in total assets, (ii) a weighted average cost of borrowings of 3.6%, which assumes the weighted average interest rates as of December 31, 2016 for the Holdings Credit Facility, the NMFC Credit Facility and the SBA-guaranteed debentures and the interest rate as of December 31, 2016 for the Convertible Notes and Unsecured Notes, (iii) \$710.5 million in debt outstanding and (iv) \$938.6 million in net assets.

**Assumed Return on Our Portfolio  
(net of expenses)**

|                                     | (10.0)% | (5.0)%  | 0%     | 5.0% | 10.0% |
|-------------------------------------|---------|---------|--------|------|-------|
| Corresponding return to stockholder | (20.4)% | (11.6)% | (2.8)% | 6.1% | 14.9% |

***Our ability to enter into transactions involving derivatives and financial commitment transactions may be limited.***

The SEC has proposed a new rule under the 1940 Act that would govern the use of derivatives (defined to include any swap, security-based swap, futures contract, forward contract, option or any similar instrument) as well as financial commitment transactions (defined to include reverse repurchase agreements, short sale borrowings and any firm or standby commitment agreement or similar agreement) by BDCs. Under the proposed rule, a BDC would be required to comply with one of two alternative portfolio limitations and manage the risks associated with derivatives transactions and financial commitment transactions by segregating certain assets. Furthermore, a BDC that engages in more than a limited amount of derivatives transactions or that

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uses complex derivatives would be required to establish a formalized derivatives risk management program. If the SEC adopts this rule in the form proposed, our ability to enter into transactions involving such instruments may be hindered, which could have an adverse effect on our business, financial condition and results of operations.

**RISKS RELATED TO OUR OPERATIONS**

*The Investment Adviser has significant potential conflicts of interest with us and, consequently, your interests as stockholders which could adversely impact our investment returns.*

Our executive officers and directors, as well as the current or future investment professionals of the Investment Adviser, serve or may serve as officers, directors or principals of entities that operate in the same or a related line of business as we do or of investment funds managed by our affiliates. Accordingly, they may have obligations to investors in those entities, the fulfillment of which might not be in your interests as stockholders. Although we are currently New Mountain Capital's only vehicle focused primarily on investing in the investments that we target, in the future, the investment professionals of the Investment Adviser and/or New Mountain Capital employees that provide services pursuant to the Investment Management Agreement may manage other funds which may from time to time have overlapping investment objectives with our own and, accordingly, may invest in, whether principally or secondarily, asset classes similar to those targeted by us. If this occurs, the Investment Adviser may face conflicts of interest in allocating investment opportunities to us and such other funds. Although the investment professionals will endeavor to allocate investment opportunities in a fair and equitable manner, it is possible that we may not be given the opportunity to participate in certain investments made by the Investment Adviser or persons affiliated with the Investment Adviser or that certain of these investment funds may be favored over us. When these investment professionals identify an investment, they may be forced to choose which investment fund should make the investment.

While we may co-invest with investment entities managed by the Investment Adviser or its affiliates to the extent permitted by the 1940 Act and the rules and regulations thereunder, the 1940 Act imposes significant limits on co-investment. As a result, on September 12, 2016, we, the Investment Adviser and certain affiliates of the Investment Adviser applied for exemptive relief from the SEC under the 1940 Act, which, if granted, would allow additional latitude to co-invest. However, there is no assurance when, or even if, we will obtain such relief. In the event the SEC does not grant us relief, we will be limited in our ability to invest in certain portfolio companies in which the Investment Adviser or any of its affiliates are investing or are invested. Even if we are able to obtain exemptive relief, we will be unable to participate in certain transactions originated by our Investment Adviser or its affiliates prior to receipt of such relief.

If the Investment Adviser forms other affiliates in the future, we may co-invest on a concurrent basis with such other affiliates, subject to compliance with applicable regulations and regulatory guidance or an exemptive order from the SEC and our allocation procedures. In addition, we pay management and incentive fees to the Investment Adviser and reimburse the Investment Adviser for certain expenses it incurs. As a result, investors in our common stock invest in us on a "gross" basis and receive distributions on a "net" basis after our expenses. Also, the incentive fee payable to the Investment Adviser may create an incentive for the Investment Adviser to pursue investments that are riskier or more speculative than would be the case in the absence of such compensation arrangements. Any potential conflict of interest arising as a result of the arrangements with the Investment Adviser could have a material adverse effect on our business, results of operations and financial condition.



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***Regulations governing the operations of BDCs will affect our ability to raise additional equity capital as well as our ability to issue senior securities or borrow for investment purposes, any or all of which could have a negative effect on our investment objectives and strategies.***

Our business requires a substantial amount of capital. We may acquire additional capital from the issuance of senior securities, including borrowing under a credit facility or other indebtedness. In addition, we may also issue additional equity capital, which would in turn increase the equity capital available to us. However, we may not be able to raise additional capital in the future on favorable terms or at all.

We may issue debt securities, preferred stock, and we may borrow money from banks or other financial institutions, which we refer to collectively as "senior securities", up to the maximum amount permitted by the 1940 Act. The 1940 Act permits us to issue senior securities in amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200.0% after each issuance of senior securities. As a result of our SEC exemptive relief, we are permitted to exclude our SBA-guaranteed debentures from the definition of senior securities in the 200.0% asset coverage ratio we are required to maintain under the 1940 Act. If our asset coverage ratio is not at least 200.0%, we would be unable to issue senior securities, and if we had senior securities outstanding (other than any indebtedness issued in consideration of a privately arranged loan, such as any indebtedness outstanding under the Holdings Credit Facility and NMFC Credit Facility), we would be unable to make distributions to our stockholders. However, at December 31, 2016, our only senior securities outstanding were indebtedness under the Holdings Credit Facility, NMFC Credit Facility, Convertible Notes and Unsecured Notes. Therefore, at December 31, 2016, we would not have been precluded from paying distributions. If the value of our assets declines, we may be unable to satisfy this test. If that happens, we may be required to liquidate a portion of our investments and repay a portion of our indebtedness at a time when such sales may be disadvantageous.

The Holdings Credit Facility matures on December 18, 2019 and permits borrowings of \$495.0 million as of December 31, 2016. The Holdings Credit Facility had \$333.5 million in debt outstanding as of December 31, 2016. The NMFC Credit Facility matures on June 4, 2019 and permits borrowings of \$122.5 million as of December 31, 2016. The NMFC Credit Facility had \$10.0 million in debt outstanding as of December 31, 2016. The Convertible Notes mature on June 15, 2019. The Convertible Notes had \$155.3 million in debt outstanding as of December 31, 2016. The Unsecured Notes mature on May 15, 2021. The Unsecured Notes had \$90.0 million in debt outstanding as of December 31, 2016. The SBA-guaranteed debentures have ten year maturities and will begin to mature on March 1, 2025. As of December 31, 2016, \$121.7 million of SBA-guaranteed debentures were outstanding.

In addition, we may in the future seek to securitize other portfolio securities to generate cash for funding new investments. To securitize loans, we would likely create a wholly-owned subsidiary and contribute a pool of loans to the subsidiary. We would then sell interests in the subsidiary on a non-recourse basis to purchasers and we would retain all or a portion of the equity in the subsidiary. If we are unable to successfully securitize its loan portfolio, which must be done in compliance with the relevant restrictions in the Holdings Credit Facility, our ability to grow our business or fully execute our business strategy could be impaired and our earnings, if any, could decrease. The securitization market is subject to changing market conditions, and we may not be able to access this market when it would be otherwise deemed appropriate. Moreover, the successful securitization of our portfolio might expose us to losses as the residual investments in which we do not sell interests will tend to be those that are riskier and more apt to generate losses. The 1940 Act also may impose restrictions on the structure of any securitization.

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We may also obtain capital through the issuance of additional equity capital. As a BDC, we generally are not able to issue or sell our common stock at a price below net asset value per share. If our common stock trades at a discount to our net asset value per share, this restriction could adversely affect our ability to raise equity capital. We may, however, sell our common stock, or warrants, options or rights to acquire our common stock, at a price below our net asset value per share of the common stock if our board of directors and independent directors determine that such sale is in our best interests and the best interests of our stockholders, and our stockholders approve such sale. In any such case, the price at which our securities are to be issued and sold may not be less than a price that, in the determination of our board of directors, closely approximates the market value of such securities (less any underwriting commission or discount). If we raise additional funds by issuing more shares of our common stock, or if we issue senior securities convertible into, or exchangeable for, our common stock, the percentage ownership of our stockholders may decline and you may experience dilution.

***Changes in laws or regulations governing our operations may adversely affect our business or cause us to alter our business strategy.***

Changes in the laws or regulations or the interpretations of the laws and regulations that govern BDCs, RICs or non-depository commercial lenders could significantly affect our operations and our cost of doing business. Our portfolio companies are subject to U.S. federal, state and local laws and regulations. New legislation may be enacted or new interpretations, rulings or regulations could be adopted, any of which could materially adversely affect our business, including with respect to the types of investments we are permitted to make, and your interests as stockholders potentially with retroactive effect. In addition, any changes to the laws and regulations governing our operations relating to permitted investments may cause us to alter our investment strategy in order to avail ourselves of new or different opportunities. These changes could result in material changes to our strategies which may result in our investment focus shifting from the areas of expertise of the Investment Adviser to other types of investments in which the Investment Adviser may have less expertise or little or no experience. Any such changes, if they occur, could have a material adverse effect on our business, results of operations and financial condition and, consequently, the value of your investment in us.

Over the last several years, there has been an increase in regulatory attention to the extension of credit outside of the traditional banking sector, raising the possibility that some portion of the non-bank financial sector will be subject to new regulation. While it cannot be known at this time whether these regulations will be implemented or what form they will take, increased regulation of non-bank credit extension could negatively impact our operations, cash flows or financial condition, impose additional costs on us, intensify the regulatory supervision of us or otherwise adversely affect our business.

***The effect of global climate change may impact the operations of our portfolio companies.***

There may be evidence of global climate change. Climate change creates physical and financial risk and some of our portfolio companies may be adversely affected by climate change. For example, the needs of customers of energy companies vary with weather conditions, primarily temperature and humidity. To the extent weather conditions are affected by climate change, energy use could increase or decrease depending on the duration and magnitude of any changes. Increases in the cost of energy could adversely affect the cost of operations of our portfolio companies if the use of energy products or services is material to their business. A decrease in energy use due to weather changes may affect some of our portfolio companies' financial condition, through decreased revenues. Extreme weather conditions in general require more system

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backup, adding to costs, and can contribute to increased system stresses, including service interruptions.

In December 2015 the United Nations, of which the U.S. is a member, adopted a climate accord (the "Paris Agreement") with the long-term goal of limiting global warming and the short-term goal of significantly reducing greenhouse gas emissions. The U.S. subsequently ratified the Paris Agreement, and it entered into force on November 4, 2016. As a result, our portfolio companies, particularly those operating in the energy sector, may be subject to new or strengthened regulations or legislation which could increase their operating costs and/or decrease their revenues.

**RISKS RELATING TO OUR INVESTMENTS**

*Our portfolio may be concentrated in a limited number of industries, which may subject us to a risk of significant loss if there is a downturn in a particular industry in which a number of our investments are concentrated.*

Our portfolio may be concentrated in a limited number of industries. For example, as of December 31, 2016, our investments in the business services and the software industries represented approximately 29.6% and 27.0%, respectively, of the fair value of our portfolio. A downturn in any particular industry in which we are invested could significantly impact the portfolio companies operating in that industry, and accordingly, the aggregate returns that we realize from our investment in such portfolio companies.

Specifically, companies in the business services industry are subject to general economic downturns and business cycles, and will often suffer reduced revenues and rate pressures during periods of economic uncertainty. In addition, companies in the software industry often have narrow product lines and small market shares. Because of rapid technological change, the average selling prices of products and some services provided by software companies have historically decreased over their productive lives. As a result, the average selling prices of products and services offered by software companies in which we invest may decrease over time. If an industry in which we have significant investments suffers from adverse business or economic conditions, as these industries have to varying degrees, a material portion of our investment portfolio could be affected adversely, which, in turn, could adversely affect our financial position and results of operations.

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**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus supplement and the accompanying prospectus contain forward-looking statements that involve substantial risks and uncertainties. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about us, our current and prospective portfolio investments, our industry, our beliefs, and our assumptions. Words such as "anticipate", "believe", "continue", "could", "estimate", "expect", "intend", "may", "plan", "potential", "project", "seek", "should", "target", "will", "would" or variations of these words and similar expressions are intended to identify forward-looking statements. The forward-looking statements contained in this prospectus supplement and the accompanying prospectus involve risks and uncertainties, including statements as to:

the preliminary estimates of our net asset value and net investment income;

our future operating results;

our business prospects and the prospects of our portfolio companies;

the impact of investments that we expect to make;

our contractual arrangements and relationships with third parties;

the dependence of our future success on the general economy and its impact on the industries in which we invest;

the ability of our portfolio companies to achieve their objectives;

our expected financings and investments;

the adequacy of our cash resources and working capital; and

the timing of cash flows, if any, from the operations of our portfolio companies.

These statements are not guarantees of future performance and are subject to risks, uncertainties, and other factors, some of which are beyond our control and difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements, including without limitation:

an economic downturn could impair our portfolio companies' ability to continue to operate, which could lead to the loss of some or all of our investments in such portfolio companies;

a contraction of available credit and/or an inability to access the equity markets could impair our lending and investment activities;

interest rate volatility could adversely affect our results, particularly if we elect to use leverage as part of our investment strategy;

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currency fluctuations could adversely affect the results of our investments in foreign companies, particularly to the extent that we receive payments denominated in foreign currency rather than U.S. dollars;

the risks, uncertainties and other factors we identify in "Risk Factors" and elsewhere in this prospectus supplement, the accompanying prospectus and in our filings with the SEC; and

the results of our financial closing procedures.

Although we believe that the assumptions on which these forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and as a result, the forward-looking statements based on those assumptions also could be inaccurate. Important assumptions include our ability to originate new loans and investments, certain margins and levels

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of profitability and the availability of additional capital. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this prospectus supplement or the accompanying prospectus should not be regarded as a representation by us that our plans and objectives will be achieved. These risks and uncertainties include those described or identified in "Risk Factors" and elsewhere in this prospectus supplement and the accompanying prospectus. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this prospectus supplement. However, we will update this prospectus supplement to reflect any material changes to the information contained herein. The forward-looking statements and projections contained in this prospectus supplement are excluded from the safe harbor protection provided by Section 27A of the Securities Act.

Table of Contents**CAPITALIZATION**

The following table sets forth our capitalization as of December 31, 2016:

on an actual basis;

on an as adjusted basis to give effect to the sale of 5,000,000 shares of our common stock by us in this offering at a public offering price of \$ per share, after deducting the estimated sales load (underwriting discounts and commissions) of approximately \$ million and estimated offering expenses of approximately \$0.3 million payable by us.

You should read this table together with "Use of Proceeds" and the financial statements and related notes thereto included elsewhere in this prospectus supplement.

|   | Actual              | As Adjusted<br>(unaudited) |
|---|---------------------|----------------------------|
|   | (in thousands)      |                            |
| <b>Assets:</b>  |                     |                            |
| Cash and cash equivalents   | \$ 45,928           | \$                         |
| Investments at fair value   | 1,558,817           |                            |
| Other assets  | 51,273              |                            |
| <b>Total assets</b>   | <b>\$ 1,656,018</b> | <b>\$</b>                  |
| <b>Liabilities:</b>   |                     |                            |
| Net borrowings  | \$ 696,740          | \$                         |
| Other liabilities   | 20,716              |                            |
| <b>Total liabilities</b>  | <b>\$ 717,456</b>   | <b>\$</b>                  |
| <b>Net assets</b>   | <b>\$ 938,562</b>   | <b>\$</b>                  |
| <b>Net assets:</b>  |                     |                            |
| Preferred stock, par value \$0.01 per share; 2,000,000 shares authorized, none issued   | \$                  | \$                         |
| Common stock, par value \$0.01 per share; 100,000,000 shares authorized, 69,755,387 shares issued and 69,717,814 shares outstanding |                     | 698                        |
| Paid in capital in excess of par  | 1,001,862           |                            |
| Treasury stock at cost, 37,573 shares held, respectively  | (460)               |                            |
| Accumulated undistributed net investment income   | 2,073               |                            |
| Accumulated undistributed net realized losses on investments  | (36,947)            |                            |
| Net unrealized (depreciation) appreciation (net of provision for taxes)   | (28,664)            |                            |
| <b>Total net assets</b>   | <b>938,562</b>      |                            |

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**USE OF PROCEEDS**

We estimate that we will receive net proceeds from the sale of the 5,000,000 shares of our common stock in this offering of approximately \$ million, after deducting underwriting discounts and commissions of approximately \$ million and estimated offering expenses of approximately \$0.3 million payable by us. If the underwriters' option to purchase additional shares is exercised in full, our net proceeds from this offering will be approximately \$ million, after deducting underwriting discounts and commissions of approximately \$ million and estimated offering expenses of approximately \$0.3 million payable by us.

We intend to use the net proceeds from this offering primarily for new investments in portfolio companies in accordance with our investment objective and strategies described in this prospectus supplement and the accompanying prospectus. We may also use a portion of the net proceeds from the sale of shares of our common stock sold in this offering for other general corporate purposes, including to temporarily repay indebtedness (which will be subject to reborrowing), and other working capital requirements. We are continuously identifying, reviewing and, to the extent consistent with our investment objective, funding new investments. As a result, we typically raise capital as we deem appropriate to fund such new investments.

We expect that it will take up to three months for us to substantially invest the net proceeds from this offering, depending on the availability of attractive opportunities and market conditions. However, we can offer no assurance that we will be able to achieve this goal.

Proceeds not immediately used for new investments or the temporary repayment of debt will be invested primarily in cash, cash equivalents, U.S. government securities and other high-quality investments that mature in one year or less from the date of investment. These temporary investments are expected to provide a lower net return than we hope to achieve from our target investments and, accordingly, may result in lower distributions, if any, during such period.



Table of Contents**PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS**

Our common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "NMFC". The following table sets forth, for each fiscal quarter during the last two fiscal years and the current fiscal year to date, the net asset value ("NAV") per share of our common stock, the high and low closing sale price for our common stock, the closing sale price as a percentage of NAV and the quarterly distributions per share.

| Fiscal Year Ended        | NAV<br>Per<br>Share <sup>(1)</sup> | Closing Sales<br>Price <sup>(2)</sup> |          | Premium<br>(Discount)<br>of<br>High<br>Closing<br>Sales to | Premium<br>(Discount)<br>of<br>Low Closing<br>Sales to | Declared<br>Distributions<br>Per Share <sup>(4)(5)</sup> |
|--------------------------|------------------------------------|---------------------------------------|----------|--|--|--|
|                          |                                    | High                                  | Low      | NAV <sup>(3)</sup>   | NAV <sup>(3)</sup>                                     |  |
| <b>December 31, 2017</b> |                                    |                                       |          |  |  |  |
| First Quarter            |                                    | * \$ 14.90                            | \$ 14.00 | *  | * \$   | 0.34   |
| <b>December 31, 2016</b> |                                    |                                       |          |  |  |  |
| Fourth Quarter           | \$ 13.46                           | \$ 14.30                              | \$ 13.20 | 6.24%  | (1.93)%  | \$ 0.34  |
| Third Quarter            | \$ 13.28                           | \$ 14.28                              | \$ 13.11 | 7.53%  | (1.28)%  | \$ 0.34  |
| Second Quarter           | \$ 13.23                           | \$ 12.90                              | \$ 12.10 | (2.49)%  | (8.54)%  | \$ 0.34  |
| First Quarter            | \$ 12.87                           | \$ 12.96                              | \$ 11.09 | 0.70%  | (13.83)%   | \$ 0.34  |
| <b>December 31, 2015</b> |                                    |                                       |          |  |  |  |
| Fourth Quarter           | \$ 13.08                           | \$ 14.17                              | \$ 12.15 | 8.33%  | (7.11)%  | \$ 0.34  |
| Third Quarter            | \$ 13.73                           | \$ 14.94                              | \$ 13.34 | 8.81%  | (2.84)%  | \$ 0.34  |
| Second Quarter           | \$ 13.90                           | \$ 15.14                              | \$ 14.49 | 8.92%  | 4.24%  | \$ 0.34  |
| First Quarter            | \$ 13.89                           | \$ 15.06                              | \$ 14.30 | 8.42%  | 2.95%  | \$ 0.34  |

- (1) NAV is determined as of the last date in the relevant quarter and therefore may not reflect the NAV per share on the date of the high and low closing sales prices. The NAVs shown are based on outstanding shares at the end of each period.
- (2) Closing sales price is determined as the high or low closing sales price noted within the respective quarter, not adjusted for distributions.
- (3) Calculated as of the respective high or low closing sales price divided by the quarter end NAV.
- (4) Represents the distributions declared or paid for the specified quarter.
- (5) Tax characteristics of all distributions paid are reported to stockholders on Form 1099 after the end of the calendar year. For the years ended December 31, 2016 and December 31, 2015, total distributions were \$88.8 million and \$81.0 million, respectively, of which the distributions were comprised of approximately 89.46% and 99.96%, respectively, of ordinary income, 0.00% and 0.00%, respectively, of long-term capital gains and approximately 10.54% and 0.04%, respectively, of a return of capital.

\*

Not determinable at the time of filing.

On March 31, 2017, the last reported sales price of our common stock was \$14.90 per share. As of March 31, 2017, we had approximately 17 stockholders of record and approximately one beneficial owner whose shares are held in the names of brokers, dealers, funds, trusts and clearing agencies.

Shares of BDCs may trade at a market price that is less than the value of the net assets attributable to those shares. The possibility that our shares of common stock will trade at a discount from NAV or at premiums that are unsustainable over the long term are separate and distinct from the risk that our NAV will decrease. Since our initial public offering on May 19, 2011, our shares of common stock have traded at times at both a discount and a premium to the net assets attributable to those shares. As of March 31, 2017, our shares of common stock traded at a premium of

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approximately 10.7% of the NAV attributable to those shares as of December 31, 2016. It is not possible to predict whether the shares offered hereby will trade at, above, or below NAV.

We intend to pay quarterly distributions to our stockholders in amounts sufficient to maintain our status as a RIC. We intend to distribute approximately our entire Adjusted Net Investment Income (defined as net investment income adjusted to reflect income as if the cost basis of investments held at the IPO date had stepped-up to fair market value as of the IPO date) on a quarterly basis and substantially all of our taxable income on an annual basis, except that we may retain certain net capital gains for reinvestment. The distributions we pay to our stockholders in a year may exceed our taxable income for that year and, accordingly, a portion of such distributions may constitute a return of capital, which is a return of a portion of a stockholders original investment in our common stock, for U.S. federal tax purposes. Generally, a return of capital will reduce an investor's basis in our stock for U.S. federal income tax purposes, which will result in a higher tax liability when the stock is sold. The specific tax characteristics of our distributions will be reported to stockholders after the end of the calendar year.

We apply the following in implementing the dividend reinvestment plan. If the price at which newly issued shares are to be credited to stockholders' accounts is equal to or greater than 110.0% of the last determined NAV of the shares, we will use only newly issued shares to implement the dividend reinvestment plan. Under such circumstances, the number of shares to be issued to a stockholder is determined by dividing the total dollar amount of the distribution payable to such stockholder by the market price per share of our common stock on the NYSE on the distribution payment date. Market price per share on that date will be the closing price for such shares on the NYSE or, if no sale is reported for such day, the average of their electronically reported bid and ask prices.

If the price at which newly issued shares are to be credited to stockholders' accounts is less than 110.0% of the last determined NAV of the shares, we will either issue new shares or instruct the plan administrator to purchase shares in the open market to satisfy the additional shares required. Shares purchased in open market transactions by the plan administrator will be allocated to a stockholder based on the average purchase price, excluding any brokerage charges or other charges, of all shares of common stock purchased in the open market. The number of shares of our common stock to be outstanding after giving effect to payment of the distribution cannot be established until the value per share at which additional shares will be issued has been determined and elections of our stockholders have been tabulated.

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The following table reflects the cash distributions, including dividends and returns of capital, if any, per share that have been declared by our board of directors for the two most recent fiscal years and the current fiscal year to date:

| <b>Date Declared</b> | <b>Record Date</b> | <b>Payment Date</b> | <b>Amount</b> |
|----------------------|--------------------|---------------------|---------------|
| February 23, 2017    | March 17, 2017     | March 31, 2017      | \$ 0.34       |
|                      |                    |                     | \$ 0.34       |
| November 4, 2016     | December 15, 2016  | December 29, 2016   | \$ 0.34       |
| August 2, 2016       | September 16, 2016 | September 30, 2016  | 0.34          |
| May 3, 2016          | June 16, 2016      | June 30, 2016       | 0.34          |
| February 22, 2016    | March 17, 2016     | March 31, 2016      | 0.34          |
|                      |                    |                     | \$ 1.36       |
| November 3, 2015     | December 16, 2015  | December 30, 2015   | \$ 0.34       |
| August 4, 2015       | September 16, 2015 | September 30, 2015  | 0.34          |
| May 5, 2015          | June 16, 2015      | June 30, 2015       | 0.34          |
| February 23, 2015    | March 17, 2015     | March 31, 2015      | 0.34          |
|                      |                    |                     | \$ 1.36       |

Tax characteristics of all distributions paid are reported to stockholders on Form 1099 after the end of the calendar year. For the years ended December 31, 2016 and December 31, 2015, total distributions were \$88.8 million and \$81.0 million, respectively, of which the distributions were comprised of approximately 89.46% and 99.96%, respectively, of ordinary income, 0.00% and 0.00%, respectively, of long-term capital gains and approximately 10.54% and 0.04%, respectively, of a return of capital. Future quarterly distributions, if any, will be determined by our board of directors.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The information contained in this section should be read in conjunction with the Selected Financial and Other Data and our Financial Statements and notes thereto appearing elsewhere in this prospectus supplement. For the periods prior to and as of May 8, 2014, all financial information provided in this section reflects our organizational structure prior to the restructuring on May 8, 2014 described under "Description of Restructuring" in the accompanying prospectus, where NMF Holdings functioned as the operating company. In addition to historical information, the following discussion and other parts of this prospectus supplement and the accompanying prospectus contain forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated by such forward-looking information due to the factors discussed under "Risk Factors" and "Cautionary Statement Regarding Forward-Looking Statements" appearing elsewhere in this prospectus supplement and the accompanying prospectus.*

**Overview**

We are a Delaware corporation that was originally incorporated on June 29, 2010 and completed our IPO on May 19, 2011. We are a closed-end, non-diversified management investment company that has elected to be regulated as a BDC under the 1940 Act. As such, we are obligated to comply with certain regulatory requirements. We have elected to be treated, and intend to comply with the requirements to continue to qualify annually, as a RIC under Subchapter M of the Code. NMFC is also registered as an investment adviser under the Advisers Act.

The Investment Adviser is a wholly-owned subsidiary of New Mountain Capital. New Mountain Capital is a firm with a track record of investing in the middle market and with assets under management of approximately \$15.0 billion, which includes total assets held by us. New Mountain Capital focuses on investing in defensive growth companies across its private equity, public equity and credit investment vehicles. The Investment Adviser manages our day-to-day operations and provides us with investment advisory and management services. The Administrator, a wholly-owned subsidiary of New Mountain Capital, provides the administrative services necessary to conduct our day-to-day operations.

Our wholly-owned subsidiary, NMF Holdings, is a Delaware limited liability company whose assets are used to secure NMF Holdings' credit facility. For additional information about our organizational structure prior to May 8, 2014, see "Historical Structure". NMF Ancora, NMF QID and NMF YP, our wholly-owned subsidiaries, are structured as Delaware entities that serve as tax blocker corporations which hold equity or equity-like investments in portfolio companies organized as limited liability companies (or other forms of pass-through entities). We consolidate our tax blocker corporations for accounting purposes. The tax blocker corporations are not consolidated for income tax purposes and may incur income tax expense as a result of their ownership of the portfolio companies. Additionally, our wholly-owned subsidiary, NMF Servicing, serves as the administrative agent on certain investment transactions. SBIC LP and its general partner, SBIC GP, were organized in Delaware as a limited partnership and limited liability company, respectively. SBIC LP and SBIC GP are our consolidated wholly-owned direct and indirect subsidiaries. SBIC LP received a license from the SBA to operate as a SBIC under Section 301(c) of the 1958 Act.

Our investment objective is to generate current income and capital appreciation through the sourcing and origination of debt securities at all levels of the capital structure, including first and second lien debt, notes, bonds and mezzanine securities. In some cases, our investments may also include equity interests. The primary focus is in the debt of defensive growth companies, which are defined as generally exhibiting the following characteristics: (i) sustainable secular growth drivers, (ii) high barriers to competitive entry, (iii) high free cash flow after capital expenditure and working

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capital needs, (iv) high returns on assets and (v) niche market dominance. Similar to us, SBIC LP's investment objective is to generate current income and capital appreciation under our investment criteria. However, SBIC LP's investments must be in SBA eligible companies. Our portfolio may be concentrated in a limited number of industries. As of December 31, 2016, our top five industry concentrations were business services, software, consumer services, investment fund and education.

The investments that we invest in are almost entirely rated below investment grade or may be unrated, which are often referred to as "leveraged loans", "high yield" or "junk" debt investments, and may be considered "high risk" or speculative compared to debt investments that are rated investment grade. Such issuers are considered more likely than investment grade issuers to default on their payments of interest and principal, and such risk of default could reduce our net asset value and income distributions. Our investments are also primarily floating rate debt investments that contain interest reset provisions that may make it more difficult for borrowers to make debt repayments to us if interest rates rise. In addition, some of our debt investments will not fully amortize during their lifetime, which could result in a loss or a substantial amount of unpaid principal and interest due upon maturity. Our debt investments may also lose significant market value before a default occurs. Furthermore, an active trading market may not exist for these securities. This illiquidity may make it more difficult to value our investments.

As of December 31, 2016, our net asset value was \$938.6 million and our portfolio had a fair value of approximately \$1,558.8 million in 78 portfolio companies, with a weighted average Yield to Maturity at Cost of approximately 11.1%.

**Historical Structure**

On May 19, 2011, we priced our IPO of 7,272,727 shares of common stock at a public offering price of \$13.75 per share. Concurrently with the closing of the IPO and at the public offering price of \$13.75 per share, we sold an additional 2,172,000 shares of our common stock to certain executives and employees of, and other individuals affiliated with, New Mountain Capital in a Concurrent Private Placement. Additionally, 1,252,964 shares were issued to the partners of New Mountain Guardian Partners, L.P. at that time for their ownership interest in the Predecessor Entities. In connection with our IPO and through a series of transactions, NMF Holdings acquired all of the operations of the Predecessor Entities, including all of the assets and liabilities related to such operations. NMF Holdings, formerly known as New Mountain Guardian (Leveraged), L.L.C., was originally formed as a subsidiary of Guardian AIV by New Mountain Capital in October 2008. Guardian AIV was formed through an allocation of approximately \$300.0 million of the \$5.1 billion of commitments supporting New Mountain Partners III, L.P., a private equity fund managed by New Mountain Capital. In February 2009, New Mountain Capital formed a co-investment vehicle, New Mountain Guardian Partners, L.P., comprising \$20.4 million of commitments. New Mountain Guardian (Leveraged), L.L.C. and New Mountain Guardian Partners, L.P., together with their respective direct and indirect wholly-owned subsidiaries, are defined as the "Predecessor Entities".

Until May 8, 2014, NMF Holdings was externally managed by the Investment Adviser and was regulated as a BDC under the 1940 Act. As such, NMF Holdings was obligated to comply with certain regulatory requirements. NMF Holdings was treated as a partnership for U.S. federal income tax purposes for so long as it had at least two members. With the completion of the underwritten secondary offering on February 3, 2014, NMF Holdings' existence as a partnership for U.S. federal income tax purposes terminated and NMF Holdings became an entity that is disregarded as a separate entity from its owner for U.S. federal tax purposes.

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Prior to December 18, 2014, NMF SLF was a Delaware limited liability company. NMF SLF was a wholly-owned subsidiary of NMF Holdings and thus our wholly-owned indirect subsidiary. NMF SLF was bankruptcy-remote and non-recourse to us. As part of an amendment to our existing credit facilities with Wells Fargo Bank, National Association, NMF SLF merged with and into NMF Holdings on December 18, 2014. See " Borrowings" for additional information about our borrowings.

Since our IPO, and through December 31, 2016, we raised approximately \$533.1 million in net proceeds from additional offerings of common stock and issued shares of common stock valued at approximately \$288.4 million on behalf of AIV Holdings for exchanged units. We acquired from NMF Holdings units of NMF Holdings equal to the number of shares of our common stock sold in additional offerings. With the completion of the final secondary offering on February 3, 2014, we owned 100.0% of the units of NMF Holdings, which became our wholly-owned subsidiary.

**Recent Developments**

On January 12, 2017, the SBA issued a "green light" letter inviting us to continue our application process to obtain a second license to form and operate a second SBIC subsidiary. If approved, the additional SBIC license would provide us with an incremental source of attractive long-term capital. Receipt of a green light letter from the SBA does not assure an applicant that the SBA will ultimately issue an SBIC license and we have received no assurance or indication from the SBA that we will receive an additional SBIC license, or of the timeframe in which we would receive an additional license, should one ultimately be granted.

On February 23, 2017, our board of directors declared a first quarter 2017 distribution of \$0.34 per share payable on March 31, 2017 to holders of record as of March 17, 2017.

**Critical Accounting Policies**

The preparation of financial statements and related disclosures in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the periods reported. Actual results could materially differ from those estimates. We have identified the following items as critical accounting policies.

***Basis of Accounting***

We consolidate our wholly-owned direct and indirect subsidiaries: NMF Holdings, NMF Servicing, SBIC LP, SBIC GP, NMF Ancora, NMF QID and NMF YP. Previously, we consolidated our wholly-owned indirect subsidiary NMF SLF until it merged with and into NMF Holdings on December 18, 2014. See " Borrowings" for additional information on our credit facilities. We are an investment company following accounting and reporting guidance as described in Accounting Standards Codification Topic 946, *Financial Services - Investment Companies*, ("ASC 946"). Prior to the restructuring, the Predecessor Operating Company consolidated its wholly-owned subsidiary, NMF SLF. NMFC did not consolidate the Predecessor Operating Company. Prior to the restructuring, NMFC applied investment company master-feeder financial statement presentation, as described in ASC 946, to its interest in the Predecessor Operating Company. NMFC observed that it is also industry practice to follow the presentation prescribed for a master fund-feeder fund structure in ASC 946 in instances in which a master fund is owned by more than one feeder fund and that such presentation provided stockholders of NMFC with a clearer depiction of their investment in the master fund.

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***Valuation and Leveling of Portfolio Investments***

At all times consistent with GAAP and the 1940 Act, we conduct a valuation of assets, which impacts our net asset value.

We value our assets on a quarterly basis, or more frequently if required under the 1940 Act. In all cases, our board of directors is ultimately and solely responsible for determining the fair value of our portfolio investments on a quarterly basis in good faith, including investments that are not publicly traded, those whose market prices are not readily available and any other situation where our portfolio investments require a fair value determination. Security transactions are accounted for on a trade date basis. Our quarterly valuation procedures are set forth in more detail below:

- (1) Investments for which market quotations are readily available on an exchange are valued at such market quotations based on the closing price indicated from independent pricing services.
- (2) Investments for which indicative prices are obtained from various pricing services and/or brokers or dealers are valued through a multi-step valuation process, as described below, to determine whether the quote(s) obtained is representative of fair value in accordance with GAAP.
  - a. Bond quotes are obtained through independent pricing services. Internal reviews are performed by the investment professionals of the Investment Adviser to ensure that the quote obtained is representative of fair value in accordance with GAAP and if so, the quote is used. If the Investment Adviser is unable to sufficiently validate the quote(s) internally and if the investment's par value or its fair value exceeds the materiality threshold, the investment is valued similarly to those assets with no readily available quotes (see (3) below); and
  - b. For investments other than bonds, we look at the number of quotes readily available and perform the following procedures:
    - i. Investments for which two or more quotes are received from a pricing service are valued using the mean of the mean of the bid and ask of the quotes obtained;
    - ii. Investments for which one quote is received from a pricing service are validated internally. The investment professionals of the Investment Adviser analyze the market quotes obtained using an array of valuation methods (further described below) to validate the fair value. If the Investment Adviser is unable to sufficiently validate the quote internally and if the investment's par value or its fair value exceeds the materiality threshold, the investment is valued similarly to those assets with no readily available quotes (see (3) below).
- (3) Investments for which quotations are not readily available through exchanges, pricing services, brokers, or dealers are valued through a multi-step valuation process:
  - a. Each portfolio company or investment is initially valued by the investment professionals of the Investment Adviser responsible for the credit monitoring;
  - b. Preliminary valuation conclusions will then be documented and discussed with our senior management;
  - c. If an investment falls into (3) above for four consecutive quarters and if the investment's par value or its fair value exceeds the materiality threshold, then at least once each fiscal year, the valuation for each portfolio investment for which we do not have a readily available market quotation will be reviewed by an independent valuation firm engaged by our board of directors; and





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d.

When deemed appropriate by our management, an independent valuation firm may be engaged to review and value investment(s) of a portfolio company, without any preliminary valuation being performed by the Investment Adviser. The investment professionals of the Investment Adviser will review and validate the value provided.

For investments in revolving credit facilities and delayed draw commitments, the cost basis of the funded investments purchased is offset by any costs/netbacks received for any unfunded portion on the total balance committed. The fair value is also adjusted for the price appreciation or depreciation on the unfunded portion. As a result, the purchase of a commitment not completely funded may result in a negative fair value until it is called and funded.

The values assigned to investments are based upon available information and do not necessarily represent amounts which might ultimately be realized, since such amounts depend on future circumstances and cannot be reasonably determined until the individual positions are liquidated. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments may fluctuate from period to period and the fluctuations could be material.

GAAP fair value measurement guidance classifies the inputs used in measuring fair value into three levels as follows:

**Level I** Quoted prices (unadjusted) are available in active markets for identical investments and we have the ability to access such quotes as of the reporting date. The type of investments which would generally be included in Level I include active exchange-traded equity securities and exchange-traded derivatives. As required by Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosures* ("ASC 820"), we, to the extent that we hold such investments, do not adjust the quoted price for these investments, even in situations where we hold a large position and a sale could reasonably impact the quoted price.

**Level II** Pricing inputs are observable for the investments, either directly or indirectly, as of the reporting date, but are not the same as those used in Level I. Level II inputs include the following:

Quoted prices for similar assets or liabilities in active markets;

Quoted prices for identical or similar assets or liabilities in non-active markets (examples include corporate and municipal bonds, which trade infrequently);

Pricing models whose inputs are observable for substantially the full term of the asset or liability (examples include most over-the-counter derivatives, including foreign exchange forward contracts); and

Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability.

**Level III** Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment.

The inputs used to measure fair value may fall into different levels. In all instances when the inputs fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level of input that is significant to the fair value measurement in its entirety. As such, a Level III fair value measurement may include inputs that are both observable and unobservable. Gains and losses for such assets categorized within the Level III table below may include changes in fair value that are attributable to both observable inputs and unobservable inputs.

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The inputs into the determination of fair value require significant judgment or estimation by management and consideration of factors specific to each investment. Changes in the observability of valuation inputs may result in the transfer of certain investments within the fair value hierarchy from period to period. Reclassifications impacting the fair value hierarchy are reported as transfers in/out of the respective leveling categories as of the beginning of the period in which the reclassifications occur.

The following table summarizes the levels in the fair value hierarchy that our portfolio investments fall into as of December 31, 2016:

| (in thousands)    | Total        | Level I | Level II   | Level III    |
|-------------------|--------------|---------|------------|--------------|
| First lien        | \$ 700,580   | \$      | \$ 169,979 | \$ 530,601   |
| Second lien       | 604,203      |         | 280,026    | 324,177      |
| Subordinated      | 66,559       |         | 41,906     | 24,653       |
| Equity and other  | 187,475      | 28      |            | 187,447      |
| Total investments | \$ 1,558,817 | \$ 28   | \$ 491,911 | \$ 1,066,878 |

We generally use the following framework when determining the fair value of investments where there are little, if any, market activity or observable pricing inputs. We typically determine the fair value of our performing debt investments utilizing an income approach. Additional consideration is given using a market based approach, as well as reviewing the overall underlying portfolio company's performance and associated financial risks. The following outlines additional details on the approaches considered:

**Company Performance, Financial Review, and Analysis:** Prior to investment, as part of our due diligence process, we evaluate the overall performance and financial stability of the portfolio company. Post investment, we analyze each portfolio company's current operating performance and relevant financial trends versus prior year and budgeted results, including, but not limited to, factors affecting its revenue and earnings before interest, taxes, depreciation, and amortization ("EBITDA") growth, margin trends, liquidity position, covenant compliance and changes to its capital structure. We also attempt to identify and subsequently track any developments at the portfolio company, within its customer or vendor base or within the industry or the macroeconomic environment, generally, that may alter any material element of our original investment thesis. This analysis is specific to each portfolio company. We leverage the knowledge gained from our original due diligence process, augmented by this subsequent monitoring, to continually refine our outlook for each of our portfolio companies and ultimately form the valuation of our investment in each portfolio company. When an external event such as a purchase transaction, public offering or subsequent sale occurs, we will consider the pricing indicated by the external event to corroborate the private valuation.

For debt investments, we may employ the Market Based Approach (as described below) to assess the total enterprise value of the portfolio company, in order to evaluate the enterprise value coverage of our debt investment. For equity investments or in cases where the Market Based Approach implies a lack of enterprise value coverage for the debt investment, we may additionally employ a discounted cash flow analysis based on the free cash flows of the portfolio company to assess the total enterprise value.

After enterprise value coverage is demonstrated for our debt investments through the method(s) above, the Income Based Approach (as described below) may be employed to estimate the fair value of the investment.

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**Market Based Approach:** We may estimate the total enterprise value of each portfolio company by utilizing market value cash flow (EBITDA) multiples of publicly traded comparable companies and comparable transactions. We consider numerous factors when selecting the appropriate companies whose trading multiples are used to value our portfolio companies. These factors include, but are not limited to, the type of organization, similarity to the business being valued, and relevant risk factors, as well as size, profitability and growth expectations. We may apply an average of various relevant comparable company EBITDA multiples to the portfolio company's latest twelve month ("LTM") EBITDA or projected EBITDA to calculate the enterprise value of the portfolio company. Significant increases or decreases in the EBITDA multiple will result in an increase or decrease in enterprise value, which may result in an increase or decrease in the fair value estimate of the investment. In applying the market based approach as of December 31, 2016, we used the relevant EBITDA multiple ranges set forth in the table below to determine the enterprise value of our portfolio companies. We believe these were reasonable ranges in light of current comparable company trading levels and the specific portfolio companies involved.

**Income Based Approach:** We also may use a discounted cash flow analysis to estimate the fair value of the investment. Projected cash flows represent the relevant security's contractual interest, fee and principal payments plus the assumption of full principal recovery at the investment's expected maturity date. These cash flows are discounted at a rate established utilizing a yield calibration approach, which incorporates changes in the credit quality (as measured by relevant statistics) of the portfolio company, as compared to changes in the yield associated with comparable credit quality market indices, between the date of origination and the valuation date. Significant increases or decreases in the discount rate would result in a decrease or increase in the fair value measurement. In applying the income based approach as of December 31, 2016, we used the discount ranges set forth in the table below to value investments in our portfolio companies.

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The unobservable inputs used in the fair value measurement of our Level III investments as of December 31, 2016 were as follows:

| (in thousands)<br>Type | Fair Value<br>as of  |                          | Unobservable<br>Input  | Range              |       | Weighted<br>Average |
|------------------------|----------------------|--------------------------|------------------------|--------------------|-------|---------------------|
|                        | December 31,<br>2016 | Approach                 |                        | Low                | High  |                     |
| First lien             | \$ 417,464           | Market & income approach | EBITDA multiple        | 2.0x               | 15.0x | 10.2x               |
|                        |                      |                          | Revenue multiple       | 0.5x               | 8.0x  | 3.0x                |
|                        |                      |                          | Discount rate          | 7.2%               | 12.3% | 9.7%                |
|                        |                      |                          | Broker quote           | N/A                | N/A   | N/A                 |
| Second lien            | 191,419              | Market & income approach | EBITDA multiple        | 5.3x               | 16.0x | 11.7x               |
|                        |                      |                          | Discount rate          | 8.7%               | 13.0% | 11.3%               |
|                        |                      |                          | Broker quote           | N/A                | N/A   | N/A                 |
|                        |                      |                          | Other                  | N/A <sup>(1)</sup> | N/A   | N/A                 |
| Subordinated           | 24,653               | Market & income approach | EBITDA multiple        | 4.5x               | 8.5x  | 7.1x                |
|                        |                      |                          | Revenue multiple       | 0.5x               | 1.0x  | 0.8x                |
|                        |                      |                          | Discount rate          | 8.7%               | 15.8% | 13.6%               |
|                        |                      |                          | Broker quote           | N/A                | N/A   | N/A                 |
| Equity and other       | 158,947              | Market & income approach | EBITDA multiple        | 2.5x               | 13.0x | 5.9x                |
|                        |                      |                          | Revenue multiple       | 0.5x               | 1.0x  | 0.8x                |
|                        |                      |                          | Discount rate          | 8.0%               | 18.9% | 14.5%               |
|                        |                      |                          | Expected life in years | 8.8                | 9.3   | 9.1                 |
|                        |                      |                          | Volatility             | 32.2%              | 43.8% | 36.4%               |
|                        |                      |                          | Discount rate          | 2.5%               | 2.5%  | 2.5%                |
|                        |                      |                          | Broker quote           | N/A                | N/A   | N/A                 |
|                        |                      |                          | Other                  | N/A <sup>(1)</sup> | N/A   | N/A                 |
|                        | \$ 1,066,878         |                          |                        |                    |       |                     |

(1)

Fair value was determined based on transaction pricing or recent acquisition or sale as the best measure of fair value with no material changes in operations of the related portfolio company since the transaction date.

**NMFC Senior Loan Program I LLC**

NMFC Senior Loan Program I LLC ("SLP I") was formed as a Delaware limited liability company on May 27, 2014 and commenced operations on June 10, 2014. SLP I is a portfolio company held by us. SLP I is structured as a private investment fund, in which all of the investors are qualified purchasers, as such term is defined under the 1940 Act. Transfer of interests in SLP I is subject to restrictions, and as a result, such interests are not readily marketable. SLP I operates under a limited liability company agreement (the "SLP I Agreement") and will continue in existence until June 10, 2019, subject to earlier termination pursuant to certain terms of the SLP I Agreement. The term may be extended for up to one year pursuant to certain terms of the SLP I Agreement. SLP I has a three year re-investment period. SLP I invests in senior secured loans issued by companies within our core industry verticals. These investments are typically broadly syndicated first lien loans.

SLP I is capitalized with \$93.0 million of capital commitments and \$275.0 million of debt from a revolving credit facility and is managed by us. Our capital commitment is \$23.0 million, representing less than 25.0% ownership, with third party investors representing the remaining capital commitment. As of December 31, 2016, SLP I had total investments with an aggregate fair value of approximately \$348.7 million, debt

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outstanding of \$256.5 million and capital that had been called and funded of \$93.0 million. As of December 31, 2015, SLP I had total investments with an aggregate fair value of approximately \$349.7 million, debt outstanding of \$267.6 million and capital

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that had been called and funded of \$93.0 million. Our investment in SLP I is disclosed on our Consolidated Schedules of Investments as of December 31, 2016 and December 31, 2015.

We, as an investment adviser registered under the Advisers Act, act as the collateral manager to SLP I and are entitled to receive a management fee for our investment management services provided to SLP I. As a result, SLP I is classified as our affiliate. No management fee is charged on our investment in SLP I in connection with the administrative services provided to SLP I. For the years ended December 31, 2016, December 31, 2015 and December 31, 2014, we earned approximately \$1.2 million, \$1.2 million and \$0.5 million, respectively, in management fees related to SLP I which is included in other income. As of December 31, 2016 and December 31, 2015, approximately \$0.3 million and \$0.3 million, respectively, of management fees related to SLP I was included in receivable from affiliates. For the years ended December 31, 2016, December 31, 2015 and December 31, 2014, we earned approximately \$3.7 million, \$3.6 million and \$1.1 million, respectively, of dividend income related to SLP I, which is included in dividend income. As of December 31, 2016 and December 31, 2015, approximately \$0.9 million and \$0.9 million, respectively, of dividend income related to SLP I was included in interest and dividend receivable.

***NMFC Senior Loan Program II LLC***

NMFC Senior Loan Program II LLC ("SLP II") was formed as a Delaware limited liability company on March 9, 2016 and commenced operations on April 12, 2016. SLP II is structured as a private joint venture investment fund between us and SkyKnight Income, LLC ("SkyKnight") and operates under a limited liability company agreement (the "SLP II Agreement"). The purpose of the joint venture is to invest primarily in senior secured loans issued by portfolio companies within our core industry verticals. These investments are typically broadly syndicated first lien loans. All investment decisions must be unanimously approved by the board of managers of SLP II, which has equal representation from us and SkyKnight. SLP II has a three year investment period and will continue in existence until April 12, 2021. The term may be extended for up to one year pursuant to certain terms of the SLP II Agreement.

SLP II is capitalized with equity contributions which are called from its members, on a pro-rata basis based on their equity commitments, as transactions are completed. Any decision by SLP II to call down on capital commitments requires approval by the board of managers of SLP II. We and SkyKnight have committed to provide \$79.4 million and \$20.6 million of equity to SLP II, respectively. As of December 31, 2016, we and SkyKnight have contributed \$71.5 million and \$18.5 million, respectively. Our investment in SLP II is disclosed on our Consolidated Schedule of Investments as of December 31, 2016.

On April 12, 2016, SLP II closed its \$275.0 million revolving credit facility with Wells Fargo Bank, National Association which matures on April 12, 2021 and bears interest at a rate of LIBOR plus 1.75% per annum. As of December 31, 2016, SLP II had total investments with an aggregate fair value of approximately \$361.7 million and debt outstanding under its credit facility of \$250.0 million.

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The following table is a listing of the individual loans in SLP II's portfolio as of December 31, 2016:

| Portfolio Company and Type of Investment        | Industry            | Interest Rate(1)        | Maturity Date | Principal Amount or Par Value<br>(in thousands) | Cost<br>(in thousands) | Fair Value(2)<br>(in thousands) |
|---|---------------------|-------------------------|---------------|---|------------------------|---------------------------------|
| <b>First lien:</b>                              |                     |                         |               |   |                        |                                 |
| ADG, LLC  | Healthcare Services | 5.75%<br>(L + 4.75%)    | 9/28/2023     | \$ 17,207                                       | \$ 17,040              | \$ 17,121                       |
| AssuredPartners, Inc.                           | Business Services   | 5.25%<br>(L + 4.25%)    | 10/21/2022    | 11,862  | 11,847                 | 12,058                          |
| Beaver-Visitec International Holdings, Inc.     | Healthcare Products | 6.00%<br>(L + 5.00%)    | 8/21/2023     | 14,962  | 14,819                 | 14,963                          |
| Coinstar, LLC                                   | Consumer Services   | 5.25%<br>(L + 4.25%)    | 9/27/2023     | 4,987   | 4,963                  | 5,054                           |
| Cvent, Inc.                                     | Software            | 6.00%<br>(L + 5.00%)    | 11/29/2023    | 10,000  | 9,901                  | 10,125                          |
| DigiCert Holdings, Inc.                         | Software            | 6.00%<br>(L + 5.00%)    | 10/21/2021    | 14,900  | 14,814                 | 14,881                          |
| Eiger Acquisition B.V. (Eiger Co-Borrower, LLC) | Software            | 6.25%<br>(L + 5.25%)    | 2/18/2022     | 10,507  | 10,350                 | 10,402                          |
| Emerald 2 Limited                               | Business Services   | 5.00%<br>(L + 4.00%)    | 5/14/2021     | 1,277   | 1,206                  | 1,174                           |
| Engility Corporation (fka TASC, Inc.)           | Federal Services    | 5.81%<br>(Base + 4.72%) | 8/14/2023     | 13,860  | 13,793                 | 14,080                          |
| Evo Payments International, LLC                 | Business Services   | 6.00%<br>(L + 5.00%)    | 12/22/2023    | 17,500  | 17,413                 | 17,602                          |
| Explorer Holdings, Inc.                         | Healthcare Services | 6.00%<br>(L + 5.00%)    | 5/2/2023      | 4,975   | 4,929                  | 5,028                           |
| Globallogic Holdings Inc.                       | Business Services   | 5.50%<br>(L + 4.50%)    | 6/20/2022     | 10,000  | 9,900                  | 10,013                          |
| GOBP Holdings Inc.                              | Retail              | 5.00%<br>(L + 4.00%)    | 10/21/2021    | 14,955  | 14,816                 | 14,985                          |
| Hyperion Insurance Group Limited                | Business Services   | 5.50%<br>(L + 4.50%)    | 4/29/2022     | 14,401  | 14,179                 | 14,476                          |
| J.D. Power and Associates                       | Business Services   | 5.25%<br>(L + 4.25%)    | 9/7/2023      | 9,975   | 9,927                  | 10,075                          |
| Kronos Incorporated                             | Software            | 5.00%<br>(L + 4.00%)    | 11/1/2023     | 10,000  | 9,951                  | 10,105                          |
| Masergy Holdings, Inc.                          | Business Services   | 5.50%<br>(L + 4.50%)    | 12/15/2023    | 7,500   | 7,463                  | 7,563                           |
| McGraw-Hill Global Education Holdings, LLC      | Education           | 5.00%<br>(L + 4.00%)    | 5/4/2022      | 9,950   | 9,905                  | 9,971                           |
| Ministry Brands, LLC                            | Software            | 6.00%<br>(L + 5.00%)    | 12/2/2022     | 7,846   | 7,807                  | 7,807                           |
| Mister Car Wash Holdings, Inc.                  | Consumer Services   | 5.25%<br>(L + 4.25%)    | 8/20/2021     | 8,312   | 8,250                  | 8,354                           |
| Navex Global, Inc.                              | Software            |                         | 11/19/2021    | 14,933  | 14,718                 | 14,858                          |



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5.99%  
(L + 4.75%)

|  |                     |                         |            |                   |                   |                   |
|--|---------------------|-------------------------|------------|-------------------|-------------------|-------------------|
| nThrive, Inc. (fka Precyse Acquisition Corp.)  | Healthcare Services | 6.50%<br>(L + 5.50%)    | 10/20/2022 | 9,950             | 9,813             | 10,083            |
| Poseidon Intermediate, LLC                     | Software            | 5.25%<br>(L + 4.25%)    | 8/15/2022  | 14,962            | 14,962            | 15,055            |
| Quest Software US Holdings Inc.                | Software            | 7.00%<br>(L + 6.00%)    | 10/31/2022 | 10,000            | 9,853             | 10,153            |
| Rocket Software, Inc.                          | Software            | 5.25%<br>(L + 4.25%)    | 10/14/2023 | 14,962            | 14,817            | 15,129            |
| SolarWinds Holdings, Inc.                      | Software            | 5.50%<br>(L + 4.50%)    | 2/3/2023   | 14,688            | 14,697            | 14,852            |
| TTM Technologies, Inc.                         | Business Products   | 5.25%<br>(L + 4.25%)    | 5/31/2021  | 13,548            | 13,444            | 13,599            |
| Vencore, Inc. (fka SI Organization, Inc., The) | Federal Services    | 5.75%<br>(L + 4.75%)    | 11/23/2019 | 10,801            | 10,780            | 10,942            |
| Vision Solutions, Inc.                         | Software            | 7.50%<br>(Base + 6.50%) | 6/16/2022  | 9,938             | 9,845             | 9,919             |
| Vivid Seats LLC                                | Business Services   | 6.75%<br>(L + 5.75%)    | 10/12/2022 | 4,000             | 3,922             | 3,985             |
| WD Wolverine Holdings, LLC                     | Healthcare Services | 6.50%<br>(L + 5.50%)    | 10/17/2023 | 10,200            | 9,900             | 9,894             |
| Zywave, Inc.                                   | Software            | 6.00%<br>(L + 5.00%)    | 11/17/2022 | 17,500            | 17,414            | 17,413            |
|  |                     |                         |            | <b>\$ 360,458</b> | <b>\$ 357,438</b> | <b>\$ 361,719</b> |

(1)

All interest is payable in cash unless otherwise indicated. A majority of the variable rate debt investments bear interest at a rate that may be determined by reference to the LIBOR (L), the Prime Rate (P) and the alternative base rate (Base). For each investment, the current interest rate provided reflects the rate in effect as of December 31, 2016.

(2)

Represents the fair value in accordance with ASC 820. Our board of directors does not determine the fair value of the investments held by SLP II.

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Below is certain summarized financial information for SLP II as of December 31, 2016 and for the year ended December 31, 2016:

|   | <b>December 31, 2016</b><br><b>(in thousands)</b> |
|---|---|
| <b>Selected Balance Sheet Information:</b>    |   |
| Investments at fair value (cost of \$357,438) | \$361,719   |
| Receivable from unsettled securities sold     | 1,007   |
| Cash and other assets                         | 10,138  |
| <b>Total assets</b>                           | <b>\$372,864</b>                                  |
|   |   |
| Credit facility                               | \$249,960   |
| Deferred financing costs                      | (2,565)   |
| Payable for unsettled securities purchased    | 24,862  |
| Distribution payable                          | 3,000   |
| Other liabilities                             | 3,350   |
| <b>Total liabilities</b>                      | <b>278,607</b>                                    |
| Members' capital                              | \$94,257  |
| <b>Total liabilities and members' capital</b> | <b>\$372,864</b>                                  |

|   | <b>Year Ended</b><br><b>December 31,</b><br><b>2016<sup>(1)</sup></b><br><b>(in thousands)</b> |
|---|--|
| <b>Selected Statement of Operations Information:</b>                |  |
| Interest income   | \$7,463  |
| Other income  | 572  |
| <b>Total investment income</b>                                      | <b>8,035</b>   |
| Interest and other financing expenses                               | 3,558  |
| Other expenses  | 650  |
| <b>Total expenses</b>   | <b>4,208</b>   |
| <b>Net investment income</b>  | <b>3,827</b>   |
| Net realized gains on investments                                   | 599  |
| Net change in unrealized appreciation (depreciation) of investments | 4,281  |
| <b>Net increase in members' capital</b>                             | <b>\$8,707</b>   |

- (1) For the year ended December 31, 2016, amounts reported relate to the period from April 12, 2016 (commencement of operations) to December 31, 2016.

For the year ended December 31, 2016, we earned approximately \$3.5 million of dividend income related to SLP II, which is included in dividend income. As of December 31, 2016, approximately \$2.4 million of dividend income related to SLP II was included in interest and dividend receivable.

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We have determined that SLP II is an investment company under ASC 946; however, in accordance with such guidance we will generally not consolidate our investment in a company other than a wholly-owned investment company subsidiary. Furthermore, Accounting Standards Codification Topic 810, *Consolidation*, concludes that in a joint venture where both members have equal decision making authority, it is not appropriate for one member to consolidate the joint venture since neither has control. Accordingly, we do not consolidate SLP II.

***New Mountain Net Lease Corporation***

New Mountain Net Lease Corporation ("NMNLC") was formed as a Maryland corporation on April 18, 2016 and commenced operations on August 12, 2016. NMNLC was formed to acquire commercial real properties that are subject to "triple net" leases and to qualify as a real estate investment trust, or REIT, within the meaning of Section 856(a) of the Code. As of December 31, 2016, NMNLC had assets of approximately \$75.5 million and non-recourse asset level debt outstanding of approximately \$47.9 million. We have contributed \$27.0 million to NMNLC as of December 31, 2016. Our investment in NMNLC is disclosed on our Consolidated Schedule of Investments as of December 31, 2016.

Below is certain summarized property information for NMNLC as of December 31, 2016:

| <b>Tenant</b>                        | <b>Lease<br/>Expiration<br/>Date</b> | <b>Location</b>                 | <b>Total<br/>Square Feet<br/>(in thousands)</b> | <b>Equity as of<br/>December 31,<br/>2016<br/>(in thousands)</b> |
|--------------------------------------|--------------------------------------|---------------------------------|---|--|
| A.P. Plasman, Inc.                   | 9/30/2031                            | Ontario, Canada                 | 436   | \$ 7,294   |
| Plasman Corp, LLC / A-Brite LP       | 9/30/2033                            | Fort Payne, AL<br>Cleveland, OH | 261   | 5,132  |
| FMH Conveyors, LLC                   | 10/31/2031                           | Jonesboro, AR                   | 195   | 5,136  |
| J.R. Automation<br>Technologies, LLC | 1/31/2031                            | Holland, MI                     | 88  | 2,061  |
| Kirlin Group, LLC                    | 6/30/2029                            | Rockville, MD                   | 95  | 7,547  |
|                                      |                                      |                                 |   | <b>\$ 27,170</b>   |

For the year ended December 31, 2016, we earned approximately \$0.5 million of dividend income related to NMNLC, which is included in dividend income. For the year ended December 31, 2016, New Mountain Capital reimbursed NMNLC approximately \$0.2 million in non-recurring organizational expenses incurred in connection with the formation and organization of NMNLC. As of December 31, 2016, approximately \$0.5 million of dividend income related to NMNLC was included in interest and dividend receivable.

***Collateralized agreements or repurchase financings***

We follow the guidance in Accounting Standards Codification Topic 860, *Transfers and Servicing - Secured Borrowing and Collateral*, ("ASC 860") when accounting for transactions involving the purchases of securities under collateralized agreements to resell (resale agreements). These transactions are treated as collateralized financing transactions and are recorded at their contracted resale or repurchase amounts, as specified in the respective agreements. Interest on collateralized agreements is accrued and recognized over the life of the transaction and included in interest income. As of December 31, 2016 and December 31, 2015, we held one collateralized agreement to resell with a cost basis of \$30.0 million and \$30.0 million, respectively, and a carrying value of \$29.2 million and \$29.7 million, respectively, and collateralized by a second lien bond in Northstar GOM Holdings Group LLC with a fair value of \$29.2 million and \$29.7 million, respectively. The collateralized agreement to resell is guaranteed by a private hedge fund with the most recently reported assets under management of approximately \$690.0 million and assets under management

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of approximately \$716.6 million as of December 31, 2015. Pursuant to the terms of the collateralized agreement, the private hedge fund is obligated to repurchase the collateral from us at the par value of the collateralized agreement once called upon by us or if the private hedge fund's total assets under management fall below the agreed upon thresholds. The collateralized agreement was called upon by us but the counterparty failed to repurchase the collateral at its par value in accordance with the terms of the collateralized agreement. As of December 31, 2016, litigation is on-going in the state of New York and the Cayman Islands to resolve this matter. The collateralized agreement earned interest at a weighted average rate of 16.0% and 15.0% per annum as of December 31, 2016 and December 31, 2015, respectively.

**Revenue Recognition**

*Sales and paydowns of investments:* Realized gains and losses on investments are determined on the specific identification method.

*Interest and dividend income:* Interest income, including amortization of premium and discount using the effective interest method, is recorded on the accrual basis and periodically assessed for collectability. Interest income also includes interest earned from cash on hand. Upon the prepayment of a loan or debt security, any prepayment penalties are recorded as part of interest income. We have loans and certain preferred equity investments in the portfolio that contain a payment-in-kind ("PIK") interest or dividend provision. PIK interest and dividends are accrued and recorded as income at the contractual rates, if deemed collectible. The PIK interest and dividends are added to the principal or share balances on the capitalization dates and generally due at maturity or when redeemed by the issuer.

Dividend income on common equity is recorded on the record date for private portfolio companies or on the ex-dividend date for publicly traded portfolio companies. Dividend income on preferred securities is recorded as dividend income on an accrual basis to the extent that such amounts are deemed collectible.

*Non-accrual income:* Investments are placed on non-accrual status when principal or interest payments are past due for 30 days or more and when there is reasonable doubt that principal or interest will be collected. Accrued cash and un-capitalized PIK interest or dividends are reversed when an investment is placed on non-accrual status. Previously capitalized PIK interest or dividends are not reversed when an investment is placed on non-accrual status. Interest or dividend payments received on non-accrual investments may be recognized as income or applied to principal depending upon management's judgment of the ultimate outcome. Non-accrual investments are restored to accrual status when past due principal and interest is paid and, in management's judgment, are likely to remain current.

*Other income:* Other income represents delayed compensation, consent or amendment fees, revolver fees, structuring fees, upfront fees, management fees from a non-controlled/affiliated investment and other miscellaneous fees received and are typically non-recurring in nature. Delayed compensation is income earned from counterparties on trades that do not settle within a set number of business days after trade date. Other income may also include fees from bridge loans. We may from time to time enter into bridge financing commitments, an obligation to provide interim financing to a counterparty until permanent credit can be obtained. These commitments are short-term in nature and may expire unfunded. A fee is received for providing such commitments. Structuring fees and upfront fees are recognized as income when earned, usually when paid at the closing of the investment, and are non-refundable.

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Prior to the Restructuring, our revenue recognition policies were as follows:

*Revenue, expenses, and capital gains (losses):* At each quarterly valuation date, the Predecessor Operating Company's investment income, expenses, net realized gains (losses), and net increase (decrease) in unrealized appreciation (depreciation) were allocated to us based on our pro-rata interest in the net assets of the Predecessor Operating Company. This was recorded on our Statements of Operations. Realized gains and losses are recorded upon sales of our investments in the Predecessor Operating Company. Net change in unrealized appreciation (depreciation) of investment in New Mountain Finance Holdings, L.L.C. is the difference between the net asset value per share and the closing price per share for shares issued as part of the dividend reinvestment plan on the dividend payment date. This net change in unrealized appreciation (depreciation) of investment in New Mountain Finance Holdings, L.L.C. includes the unrealized appreciation (depreciation) from the IPO. We used the proceeds from our IPO and Concurrent Private Placement to purchase units in the Predecessor Operating Company at \$13.75 per unit (our IPO price per share). At the IPO date, \$13.75 per unit represented a discount to the actual net asset value per unit of the Predecessor Operating Company. As a result, we experienced immediate unrealized appreciation on our investment.

All expenses were paid and recorded by the Predecessor Operating Company. Expenses were allocated to us based on pro-rata ownership interest. In addition, the Predecessor Operating Company paid all of the offering costs related to the IPO and subsequent offerings. We recorded our portion of the offering costs as a direct reduction to net assets and the cost of our investment in the Predecessor Operating Company.

**Monitoring of Portfolio Investments**

We monitor the performance and financial trends of our portfolio companies on at least a quarterly basis. We attempt to identify any developments within the portfolio company, the industry or the macroeconomic environment that may alter any material element of our original investment strategy.

We use an investment rating system to characterize and monitor the credit profile and expected level of returns on each investment in the portfolio. We use a four-level numeric rating scale as follows:

Investment Rating 1 Investment is performing materially above expectations;

Investment Rating 2 Investment is performing materially in-line with expectations. All new loans are rated 2 at initial purchase;

Investment Rating 3 Investment is performing materially below expectations and risk has increased materially since the original investment; and

Investment Rating 4 Investment is performing substantially below expectations and risks have increased substantially since the original investment. Payments may be delinquent. There is meaningful possibility that we will not recoup our original cost basis in the investment and may realize a substantial loss upon exit.

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The following table shows the distribution of our investments on the 1 to 4 investment rating scale at fair value as of December 31, 2016:

| Investment Rating   | Par Value <sup>(1)</sup> |         | As of December 31, 2016 |         |
|---------------------|--------------------------|---------|-------------------------|---------|
|                     |                          | Percent | Fair Value              | Percent |
| Investment Rating 1 | \$ 136.7                 | 9.1%    | \$ 136.9                | 8.8%    |
| Investment Rating 2 | 1,278.0                  | 84.7%   | 1,399.7                 | 89.8%   |
| Investment Rating 3 | 20.5                     | 1.4%    | 12.6                    | 0.8%    |
| Investment Rating 4 | 72.7                     | 4.8%    | 9.6                     | 0.6%    |
|                     | \$ 1,507.9               | 100.0%  | \$ 1,558.8              | 100.0%  |

(1)

Excludes shares and warrants.

As of December 31, 2016, all investments in our portfolio had an Investment Rating of 1 or 2 with the exception of four portfolio companies. As of December 31, 2016, two portfolio companies had an Investment Rating of 3 and three portfolio companies had an Investment Rating of 4, which includes a portfolio company that had a portion of our investment included in Investment Rating of 3 and a portion included in Investment Rating of 4.

During the fourth quarter of 2016, we placed a portion of our first lien position in Sierra Hamilton LLC / Sierra Hamilton Finance, Inc. ("Sierra") on non-accrual status due to its ongoing restructuring. As of December 31, 2016, the portion of Sierra first lien placed on non-accrual status represented an aggregate cost basis of \$8.2 million, an aggregate fair value of \$5.3 million and total unearned interest income of \$0.6 million for the year then ended.

During the third quarter of 2016, we placed our entire second lien position in Transtar Holding Company ("Transtar") on non-accrual status due to its ongoing restructuring. As of December 31, 2016, our investment in Transtar had an aggregate cost basis of \$31.2 million, an aggregate fair value of \$3.9 million and total unearned interest income of approximately \$4.0 million for the year then ended.

During the third quarter of 2016, we received notice that there would be no recovery of the outstanding principal and interest owed on our two super priority first lien positions in ATI Acquisition Company ("ATI"). As of June 30, 2016, our first lien positions in ATI had an aggregate cost of \$1.5 million and an aggregate fair value of \$0 and no unearned interest income for the period then ended. We wrote off our first lien positions in ATI and recognized an aggregate realized loss of \$1.5 million during the three months ended September 30, 2016. As of December 31, 2016, our preferred shares and warrants in Ancora Acquisition LLC, which were received as a result of our first lien positions in ATI, had an aggregate cost basis of \$0.1 million and an aggregate fair value of \$0.4 million.

During the second quarter of 2016, we placed a portion of our first lien position in Permian Tank & Manufacturing, Inc. ("Permian") on non-accrual status due to its ongoing restructuring. As of September 30, 2016, our investment in Permian had an aggregate cost basis of \$24.4 million, an aggregate fair value of \$7.1 million and total unearned interest income of \$1.3 million for the nine months then ended. In October 2016, Permian completed a restructuring which resulted in a material modification of the original terms and an extinguishment of our original investment in Permian. Prior to the extinguishment in October 2016, our original investment in Permian had an aggregate cost of \$25.0 million, an aggregate fair value of \$7.1 million and total unearned interest income of \$1.4 million for the year ended December 31, 2016. The extinguishment resulted in a realized loss of \$17.9 million. Post restructuring, our investments in Permian have been restored to full accrual status. As of December 31, 2016, our investments in Permian have an aggregate cost basis of \$9.0 million and an aggregate fair value of \$11.2 million.

Table of Contents**Portfolio and Investment Activity**

The fair value of our investments was approximately \$1,558.8 million in 78 portfolio companies at December 31, 2016, approximately \$1,512.2 million in 75 portfolio companies at December 31, 2015 and approximately \$1,424.7 million in 71 portfolio companies at December 31, 2014.

The following table shows our portfolio and investment activity for the years ended December 31, 2016, December 31, 2015 and December 31, 2014 :

| (in millions)  | Years Ended<br>December 31, |          |                     |
|--|-----------------------------|----------|---------------------|
|  | 2016                        | 2015     | 2014 <sup>(1)</sup> |
| New investments in 43, 36 and 43 portfolio companies, respectively                   | \$ 558.1                    | \$ 612.7 | \$ 720.9            |
| Debt repayments in existing portfolio companies                                      | 479.5                       | 400.8    | 267.5               |
| Sales of securities in 10, 15 and 14 portfolio companies, respectively               | 67.6                        | 83.1     | 117.0               |
| Change in unrealized appreciation on 71, 23 and 20 portfolio companies, respectively | 76.5                        | 44.7     | 21.2                |
| Change in unrealized depreciation on 24, 70 and 60 portfolio companies, respectively | (36.4)                      | (79.9)   | (63.9)              |

(1)

For the year ended December 31, 2014, amounts represent the investment activity of the Predecessor Operating Company through and including May 7, 2014 and our investment activity from May 8, 2014 through December 31, 2014.

At December 31, 2016 and December 31, 2015, our weighted average Yield to Maturity at Cost was approximately 11.1% and 10.7%, respectively.

#### Recent Accounting Standards Updates

In August 2014, the FASB issued Accounting Standards Update No. 2014-15, *Presentation of Financial Statements - Going Concern Subtopic 205-40 - Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* ("ASU 2014-15"). ASU 2014-15 will explicitly require management to assess an entity's ability to continue as a going concern, and to provide related footnote disclosure in certain circumstances. The new standard will be effective for all entities in the first annual period ending after December 15, 2016. Earlier adoption is permitted. We adopted ASU 2014-15 and the adoption did not have an impact on our consolidated financial statements and disclosures.

In February 2015, the FASB issued Accounting Standards Update No. 2015-02, *Consolidation Topic 810 - Amendments to the Consolidation Analysis* ("ASU 2015-02"), which modifies the consolidation analysis in determining if limited partnerships or similar type entities fall under the variable interest model or voting interest model, particularly those that have fee arrangements and related party relationships. ASU 2015-02 was effective for all public entities for interim and annual reporting periods beginning after December 15, 2015. Earlier adoption is permitted. On January 1, 2016, we adopted ASU 2015-02. The adoption did not have an impact on our consolidated financial statements and disclosures.

In April 2015, the FASB issued Accounting Standards Update No. 2015-03, *Interest - Imputation of Interest Subtopic 835-30 - Simplifying the Presentation of Debt Issuance Costs* ("ASU 2015-03"), which changed the presentation of debt issuance costs in financial statements. Under ASU 2015-03, an entity presents such costs on the statement of assets and liabilities as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs is reported as interest expense. The new standard was effective for all public entities for interim and annual reporting periods beginning after December 15, 2015. Earlier adoption is permitted. On January 1, 2016, we adopted ASU 2015-03. Upon adoption, we revised our presentation of deferred



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financing costs from an asset to a liability, which is a direct deduction to our debt on the Consolidated Statements of Assets and Liabilities. In addition, we retrospectively revised our presentation of \$13,992 of deferred financing costs that were previously presented as an asset as of December 31, 2015, which resulted in a decrease to total assets and total liabilities as of December 31, 2015.

In January 2016, the FASB issued Accounting Standards Update No. 2016-01, *Financial Instruments - Overall Subtopic 825-10 Recognition and Measurement of Financial Assets and Financial Liabilities* ("ASU 2016-01"). ASU 2016-01 amends certain aspects of recognition, measurement, presentation and disclosure of financial assets and liabilities. ASU 2016-01 is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The new guidance must be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption of ASU 2016-01. We are in the process of evaluating the impact that this guidance will have on our consolidated financial statements and disclosures.

**Results of Operations**

Under GAAP, our IPO did not step-up the cost basis of the Predecessor Operating Company's existing investments to fair market value at the IPO date. Since the total value of the Predecessor Operating Company's investments at the time of the IPO was greater than the investments' cost basis, a larger amount of amortization of purchase or original issue discount, and different amounts in realized gain and unrealized appreciation, may be recognized under GAAP in each period than if the step-up had occurred. This will remain until such predecessor investments are sold, repaid or mature in the future. We track the transferred (or fair market) value of each of the Predecessor Operating Company's investments as of the time of the IPO and, for purposes of the incentive fee calculation, adjusts income as if each investment was purchased at the date of the IPO (or stepped up to fair market value). The respective "Adjusted Net Investment Income" (defined as net investment income adjusted to reflect income as if the cost basis of investments held at the IPO date had stepped-up to fair market value as of the IPO date) is used in calculating both the incentive fee and dividend payments.

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The following table for the year ended December 31, 2016 is adjusted to reflect the step-up to fair market value and the allocation of the incentive fees related to hypothetical capital gains out of the adjusted post-incentive fee net investment income.

| (in thousands)   | Year Ended<br>December 31,<br>2016 | Stepped-up<br>Cost Basis<br>Adjustments | Incentive<br>Fee<br>Adjustments <sup>(1)</sup> | Adjusted<br>Year Ended<br>December 31,<br>2016 |
|--|------------------------------------|---|--|--|
| <b>Investment income</b>   |                                    |   |  |  |
| Interest income  | \$ 147,425                         | \$ (65)                                 | \$   | \$ 147,360                                     |
| Dividend income  | 11,200                             |   |  | 11,200   |
| Other income   | 9,459                              |   |  | 9,459  |
| <b>Total investment income<sup>(2)</sup></b>   | <b>168,084</b>                     | <b>(65)</b>                             |  | <b>168,019</b>                                 |
| Total expenses pre-incentive fee <sup>(3)</sup>  | 57,965                             |   |  | 57,965   |
| <b>Pre-Incentive Fee Net Investment Income</b>   | <b>110,119</b>                     | <b>(65)</b>                             |  | <b>110,054</b>                                 |
| Incentive fee  | 22,011                             |   |  | 22,011   |
| <b>Post-Incentive Fee Net Investment Income</b>  | <b>88,108</b>                      | <b>(65)</b>                             |  | <b>88,043</b>                                  |
| Net realized losses on investments <sup>(4)</sup>  | (16,717)                           | (151)                                   |  | (16,868)                                       |
| Net change in unrealized appreciation (depreciation) of investments <sup>(4)</sup>                                     | 40,131                             | 216                                     |  | 40,347   |
| Net change in unrealized (depreciation) appreciation of securities purchased under collateralized agreements to resell | (486)                              |   |  | (486)  |
| Benefit for taxes  | 642                                |   |  | 642  |
| Capital gains incentive fees   |                                    |   |  |  |
| <b>Net increase in net assets resulting from operations</b>  | <b>\$ 111,678</b>                  |   | <b>\$</b>                                      | <b>111,678</b>                                 |

(1) For the year ended December 31, 2016, we incurred total incentive fees of \$22.0 million, of which none was related to the capital gains incentive fee accrual on a hypothetical liquidation basis.

(2) Includes income from non-controlled/non-affiliated investments, non-controlled/affiliated investments and controlled investments.

(3) Includes expense waivers and reimbursements of \$0.7 million and management fee waivers of \$4.8 million.

(4) Includes net realized gains and losses on investments and net change in unrealized (depreciation) appreciation of investments from non-controlled/non-affiliated investments, non-controlled/affiliated investments and controlled investments.

For the year ended December 31, 2016, we had an approximately \$0.1 million adjustment to interest income for amortization, a decrease of approximately \$0.2 million to net realized losses and an increase of approximately \$0.2 million to net change in unrealized appreciation

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(depreciation) to adjust for the stepped-up cost basis of the transferred investments as discussed above. For the year ended December 31, 2016, total adjusted investment income of \$168.0 million consisted of approximately \$135.2 million in cash interest from investments, approximately \$4.3 million in PIK interest from investments, approximately \$4.9 million in prepayment fees, net amortization of purchase premiums and discounts of approximately \$3.0 million, approximately \$8.0 million in cash dividends from investments, \$3.2 million in PIK dividends from investments and approximately \$9.4 million in other income. Our Adjusted Net Investment Income was \$88.0 million for the year ended December 31, 2016.

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In accordance with GAAP, for the year ended December 31, 2016, we did not have an accrual for hypothetical capital gains incentive fee based upon the cumulative net Adjusted Realized Capital Gains and Adjusted Realized Capital Losses and the cumulative net Adjusted Unrealized Capital Appreciation and Adjusted Unrealized Capital Depreciation on investments held at the end of the period. Actual amounts paid to the Investment Adviser are consistent with the Investment Management Agreement and are based only on actual Adjusted Realized Capital Gains computed net of all Adjusted Realized Capital Losses and Adjusted Unrealized Capital Depreciation on a cumulative basis from inception through the end of each calendar year as if the entire portfolio was sold at fair value. As of December 31, 2016, no actual capital gains incentive fee was owed under the Investment Management Agreement, as cumulative net Adjusted Realized Gains did not exceed cumulative Adjusted Unrealized Depreciation.

The following table for the year ended December 31, 2015 is adjusted to reflect the step-up to fair market value and the allocation of the incentive fees related to hypothetical capital gains out of the adjusted post-incentive fee net investment income.

| (in thousands)   | Year Ended<br>December 31,<br>2015 | Stepped-up<br>Cost Basis<br>Adjustments | Incentive<br>Fee<br>Adjustments <sup>(1)</sup> | Adjusted<br>Year Ended<br>December 31,<br>2015 |
|--|------------------------------------|---|--|--|
| <b>Investment income</b>   |                                    |   |  |  |
| Interest income  | \$ 140,074                         | \$ (131)                                | \$   | \$ 139,943                                     |
| Dividend income  | 5,771                              |   |  | 5,771  |
| Other income   | 8,010                              |   |  | 8,010  |
| <b>Total investment income<sup>(2)</sup></b>   | <b>153,855</b>                     | <b>(131)</b>                            |  | <b>153,724</b>                                 |
| Total expenses pre-incentive fee <sup>(3)</sup>  | 50,769                             |   |  | 50,769   |
| <b>Pre-Incentive Fee Net Investment Income</b>   | <b>103,086</b>                     | <b>(131)</b>                            |  | <b>102,955</b>                                 |
| Incentive fee  | 20,591                             |   |  | 20,591   |
| <b>Post-Incentive Fee Net Investment Income</b>  | <b>82,495</b>                      | <b>(131)</b>                            |  | <b>82,364</b>                                  |
| Net realized losses on investments <sup>(4)</sup>  | (12,789)                           | (78)                                    |  | (12,867)                                       |
| Net change in unrealized (depreciation) appreciation of investments <sup>(4)</sup>                                     | (35,272)                           | 209                                     |  | (35,063)                                       |
| Net change in unrealized (depreciation) appreciation of securities purchased under collateralized agreements to resell | (296)                              |   |  | (296)  |
| Provision for taxes  | (1,183)                            |   |  | (1,183)  |
| Capital gains incentive fees   |                                    |   |  |  |
| <b>Net increase in net assets resulting from operations</b>  | <b>\$ 32,955</b>                   |   |  | <b>\$ 32,955</b>                               |

(1)

For the year ended December 31, 2015, we incurred total incentive fees of \$20.6 million, of which none was related to the capital gains incentive fee accrual on a hypothetical liquidation basis.

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- (2) Includes income from non-controlled/non-affiliated investments, non-controlled/affiliated investments and controlled investments.
- (3) Includes expense waivers and reimbursements of \$0.7 million and management fee waivers of \$5.2 million.
- (4) Includes net realized gains and losses on investments net change in unrealized (depreciation) appreciation of investments from non-controlled/non-affiliated investments, non-controlled/affiliated investments and controlled investments.

For the year ended December 31, 2015, we had a \$0.1 million adjustment to interest income for amortization, a decrease of \$0.1 million to net realized losses and an increase of \$0.2 million to net change in unrealized depreciation to adjust for the stepped-up cost basis of the transferred investments as discussed above. For the year ended December 31, 2015, total adjusted investment income of \$153.7 million consisted of approximately \$130.0 million in cash interest from investments, approximately \$3.9 million in PIK interest from investments, approximately \$3.6 million in prepayment fees, net amortization of purchase premiums and discounts of approximately \$2.4 million, approximately \$3.2 million in dividend income, \$2.6 million in PIK dividends from investments and approximately \$8.0 million in other income. Our Adjusted Net Investment Income was \$82.4 million for the year ended December 31, 2015.

In accordance with GAAP, for the year ended December 31, 2015, we did not have an accrual for hypothetical capital gains incentive fee based upon the cumulative net Adjusted Realized Capital Gains and Adjusted Realized Capital Losses and the cumulative net Adjusted Unrealized Capital Appreciation and Adjusted Unrealized Capital Depreciation on investments held at the end of each period. Actual amounts paid to the Investment Adviser are consistent with the Investment Management Agreement and are based only on actual Adjusted Realized Capital Gains computed net of all Adjusted Realized Capital Losses and Adjusted Unrealized Capital Depreciation on a cumulative basis from inception through the end of each calendar year as if the entire portfolio was sold at fair value. As of December 31, 2015, no actual capital gains incentive fee was owed under the Investment Management Agreement, as cumulative net Adjusted Realized Gains did not exceed cumulative Adjusted Unrealized Depreciation.

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The following table for the year ended December 31, 2014 is adjusted to reflect the step-up to fair market value and the allocation of the incentive fees related to hypothetical capital gains out of the adjusted post-incentive fee net investment income.

| (in thousands)  | Year Ended<br>December 31,<br>2014 | Stepped-up<br>Cost Basis<br>Adjustments | Incentive<br>Fee<br>Adjustments <sup>(1)</sup> | Adjusted<br>Year Ended<br>December 31,<br>2014 |
|---|------------------------------------|---|--|--|
| <b>Investment income</b>  |                                    |   |  |  |
| Interest income   | \$ 85,123                          | \$ (193)                                |  | \$ 84,930                                      |
| Dividend income   | 2,309                              |   |  | 2,309  |
| Other income  | 4,491                              |   |  | 4,491  |
| <b>Investment income allocated from NMF Holdings</b>  |                                    |   |  |  |
| Interest income   | 40,515                             |   |  | 40,515   |
| Dividend income   | 2,368                              |   |  | 2,368  |
| Other income  | 795                                |   |  | 795  |
| <b>Total investment income<sup>(2)</sup></b>  | <b>135,601</b>                     | <b>(193)</b>                            |  | <b>135,408</b>                                 |
| Total expenses pre-incentive fee <sup>(3)</sup>   | 43,766                             |   |  | 43,766   |
| <b>Pre-Incentive Fee Net Investment Income</b>  | <b>91,835</b>                      | <b>(193)</b>                            |  | <b>91,642</b>                                  |
| Incentive fee   | 11,769                             |   | 6,549  | 18,318   |
| <b>Post-Incentive Fee Net Investment Income</b>   | <b>80,066</b>                      | <b>(193)</b>                            | <b>(6,549)</b>                                 | <b>73,324</b>                                  |
| Net realized gains (losses) on investments  | 357                                | (456)                                   |  | (99)   |
| Net realized gains on investments allocated from NMF Holdings                                   | 8,568                              |   |  | 8,568  |
| Net change in unrealized (depreciation) appreciation of investments <sup>(4)</sup>              | (43,863)                           | 649                                     |  | (43,214)                                       |
| Net change in unrealized appreciation (depreciation) of investments allocated from NMF Holdings | 940                                |   |  | 940  |
| Provision for taxes   | (493)                              |   |  | (493)  |
| Capital gains incentive fees  |                                    |   | 6,549  | 6,549  |
| <b>Net increase in net assets resulting from operations</b>                                     | <b>\$ 45,575</b>                   |   |  | <b>\$ 45,575</b>                               |

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- (1) For the year ended December 31, 2014, we incurred total incentive fees of \$11.8 million, of which \$(6.5) million related to the reduction of the capital gains incentive fee accrual on a hypothetical liquidation basis.
- (2) Includes income from non-controlled/non-affiliated investments and non-controlled/affiliated investments.
- (3) Includes expense waivers and reimbursements of \$1.1 million and management fee waivers of \$0.7 million.
- (4)

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Includes net change in unrealized (depreciation) appreciation of investments from non-controlled/non-affiliated investments and non-controlled/affiliated investments.

For the year ended December 31, 2014, we had a \$0.2 million adjustment to interest income for amortization, a decrease of \$0.5 million to net realized gains and an increase of \$0.7 million to

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net change in unrealized depreciation to adjust for the stepped-up cost basis of the transferred investments as discussed above. For the year ended December 31, 2014, total adjusted investment income of \$135.4 million consisted of approximately \$114.5 million in cash interest from investments, approximately \$4.6 million in PIK interest from investments, approximately \$3.9 million in prepayment fees, net amortization of purchase premiums and discounts of approximately \$2.5 million, approximately \$4.6 million in dividend income and approximately \$5.3 million in other income. Our Adjusted Net Investment Income was \$73.3 million for the year ended December 31, 2014.

In accordance with GAAP, for the year ended December 31, 2014, we decreased our hypothetical capital gains incentive fee accrual by \$6.5 million based upon the cumulative net Adjusted Realized Capital Gains and Adjusted Realized Capital Losses and the cumulative net Adjusted Unrealized Capital Appreciation and Adjusted Unrealized Capital Depreciation on investments held at the end of each period. Actual amounts paid to the Investment Adviser are consistent with the Investment Management Agreement and are based only on actual Adjusted Realized Capital Gains computed net of all Adjusted Realized Capital Losses and Adjusted Unrealized Capital Depreciation on a cumulative basis from inception through the end of each calendar year as if the entire portfolio was sold at fair value. As of December 31, 2014, no actual capital gains incentive fee was owed under the Investment Management Agreement, as cumulative net Adjusted Realized Gains did not exceed cumulative Adjusted Unrealized Depreciation.

### **Results of Operations for the Years Ended December 31, 2016, December 31, 2015 and December 31, 2014**

#### *Revenue*

|  | <b>Years Ended December 31,</b> |                   |                   |
|--|---------------------------------|-------------------|-------------------|
| <b>(in thousands)</b>  | <b>2016</b>                     | <b>2015</b>       | <b>2014</b>       |
| Interest income  | \$ 147,425                      | \$ 140,074        | \$ 85,123         |
| Interest income allocated from the Predecessor Operating Company |                                 |                   | 40,515            |
| <b>Total interest income</b>                                     | <b>147,425</b>                  | <b>140,074</b>    | <b>125,638</b>    |
| Dividend income  | 11,200                          | 5,771             | 2,309             |
| Dividend income allocated from the Predecessor Operating Company |                                 |                   | 2,368             |
| <b>Total dividend income</b>                                     | <b>11,200</b>                   | <b>5,771</b>      | <b>4,677</b>      |
| Other income   | 9,459                           | 8,010             | 4,491             |
| Other income allocated from the Predecessor Operating Company    |                                 |                   | 795               |
| <b>Total other income</b>  | <b>9,459</b>                    | <b>8,010</b>      | <b>5,286</b>      |
| <b>Total investment income</b>                                   | <b>\$ 168,084</b>               | <b>\$ 153,855</b> | <b>\$ 135,601</b> |

Our total investment income increased by approximately \$14.2 million for the year ended December 31, 2016 as compared to the year ended December 31, 2015. The 9% increase in total investment income primarily results from an increase in interest income of approximately \$7.4 million from the year ended December 31, 2015 to the year ended December 31, 2016, which is attributable to larger invested balances and prepayment fees received associated with the early repayments of nine different portfolio companies held as of December 31, 2015. Our larger invested balances were driven by the proceeds from the October 2016 primary offering of our common stock, our May 2016 and September 2016 unsecured notes issuances and our September 2016



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convertible notes issuance, as well as our use of leverage from our revolving credit facilities and SBA-guaranteed debentures to originate new investments. The increase in dividend income of approximately \$5.4 million during the year ended December 31, 2016 as compared to the year ended December 31, 2015 was primarily attributable to distributions from our investments in SLP I, SLP II and NMNLC and PIK dividend income from an equity position. The increase in other income, which represents fees that are generally non-recurring in nature, of approximately \$1.4 million during the year ended December 31, 2016 as compared to the year ended December 31, 2015 was primarily attributable to structuring, upfront, amendment, consent and commitment fees received from 28 different portfolio companies and management fees from a non-controlled/affiliated portfolio company and a controlled portfolio company.

Our total investment income increased by approximately \$18.3 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. The 13% increase in total investment income primarily results from an increase in interest income of approximately \$14.4 million from the year ended December 31, 2014 to the year ended December 31, 2015, which is attributable to larger invested balances and prepayment fees received associated with the early repayments or partial repayments of nine different portfolio companies held as of December 31, 2014. Our larger invested balances were driven by the proceeds from the September 2015 primary offering of our common stock, our use of leverage from our revolving credit facilities, SBA-guaranteed debentures and the deployment of the June 2014 proceeds from the issuance of \$115.0 million of convertible notes to originate new investments. The increase in dividend income of approximately \$1.1 million during the year ended December 31, 2015 as compared to the year ended December 31, 2014 was primarily attributable to distributions from our investment in SLP I and PIK dividends income from an equity position. The increase in other income, which represents fees that are generally non-recurring in nature, of approximately \$2.7 million during the year ended December 31, 2015 as compared to the year ended December 31, 2014 was primarily attributable to structuring, upfront, amendment and consent fees received from 22 different portfolio companies, commitment fees received from three bridge facilities and management fees from a non-controlled/affiliated portfolio company.

Table of Contents*Operating Expenses*

| (in thousands)  | Years Ended December 31, |           |           |
|---|--------------------------|-----------|-----------|
|   | 2016                     | 2015      | 2014      |
| Management fee  | \$ 27,551                | \$ 25,858 | \$ 13,593 |
| Management fee allocated from Predecessor Operating Company                             |                          |           | 5,983     |
| Less: management fee waiver   | (4,824)                  | (5,219)   | (686)     |
| Total management fee  | 22,727                   | 20,639    | 18,890    |
| Incentive fee   | 22,011                   | 20,591    | 12,070    |
| Incentive fee allocated from Predecessor Operating Company                              |                          |           | 6,248     |
| Total incentive fee   | 22,011                   | 20,591    | 18,318    |
| Capital gains incentive fee <sup>(1)</sup>  |                          |           | (8,573)   |
| Capital gains incentive fee allocated from Predecessor Operating Company <sup>(1)</sup> |                          |           | 2,024     |
| Total capital gains incentive fee <sup>(1)</sup>  |                          |           | (6,549)   |
| Interest and other financing expenses   | 28,452                   | 23,374    | 13,269    |
| Interest and other financing expenses allocated from Predecessor Operating Company      |                          |           | 4,764     |
| Total interest and other financing expenses   | 28,452                   | 23,374    | 18,033    |
| Professional fees   | 3,087                    | 3,214     | 2,390     |
| Professional fees allocated from Predecessor Operating Company                          |                          |           | 1,238     |
| Total professional fees   | 3,087                    | 3,214     | 3,628     |
| Administrative fees   | 2,683                    | 2,450     | 1,470     |
| Administrative expenses allocated from Predecessor Operating Company                    |                          |           | 761       |
| Total administrative expenses   | 2,683                    | 2,450     | 2,231     |
| Other general and administrative expenses   | 1,589                    | 1,665     | 1,138     |
| Other general and administrative expenses allocated from Predecessor Operating Company  |                          |           | 555       |
| Total other general and administrative expenses   | 1,589                    | 1,665     | 1,693     |
| Total expenses  | 80,549                   | 71,933    | 56,244    |
| Less: expenses waived and reimbursed  | (725)                    | (733)     | (1,145)   |
| Net expenses before income taxes  | 79,824                   | 71,200    | 55,099    |
| Income tax expense  | 152                      | 160       | 436       |
| Net expenses after income taxes   | \$ 79,976                | \$ 71,360 | \$ 55,535 |

(1)

Capital gains incentive fee accrual assumes a hypothetical liquidation basis.

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Our total net operating expenses increased by approximately \$8.6 million for the year ended December 31, 2016 as compared to the year ended December 31, 2015. Our management fee increased by approximately \$2.1 million, net of a management fee waiver, and incentive fees increased by approximately \$1.4 million for the year ended December 31, 2016 as compared to the year ended December 31, 2015. The increase in management fee and incentive fee from the year ended December 31, 2015 to the year ended December 31, 2016 was attributable to larger invested balances, driven by the proceeds from the October 2016 primary offering of our common stock, our May 2016 and September 2016 unsecured notes issuances and our September 2016 convertible notes issuance and our use of leverage from our revolving credit facilities and SBA-guaranteed

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debentures to originate new investments. No capital gains incentive fee was accrued for the year ended December 31, 2016.

Interest and other financing expenses increased by approximately \$5.1 million during the year ended December 31, 2016, primarily due to our issuance of our unsecured notes and additional issuance of our convertible notes and higher drawn balances on our SBA-guaranteed debentures and NMFC Credit Facility (as defined below). Our total professional fees, total administrative expenses, net of expenses waived and reimbursed, and total other general and administrative expenses remained relatively flat for the year ended December 31, 2016 as compared to the year ended December 31, 2015.

Our total net operating expenses increased by approximately \$15.8 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. Our management fee increased by approximately \$1.7 million, net of a management fee waiver, and incentive fees increased by approximately \$2.3 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. The increase in management fee and incentive fee from the year ended December 31, 2014 to the year ended December 31, 2015 was attributable to larger invested balances, driven by the proceeds from the September 2015 primary offering of our common stock, our use of leverage from our revolving credit facilities, SBA-guaranteed debentures and the deployment of the June 2014 Proceeds from the issuance of \$115.0 million of convertible notes to originate new investments. No capital gains incentive fee was accrued for the year ended December 31, 2015.

Interest and other financing expenses increased by approximately \$5.3 million during the year ended December 31, 2015, primarily due to our issuance of \$115.0 million of convertible notes, the closing of the NMFC Credit Facility (as defined below) during the second quarter of 2014 and the drawing on SBA-guaranteed debentures beginning in the fourth quarter of 2014. Our total professional fees, total administrative expenses and total other general and administrative expenses marginally decreased by approximately \$0.2 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. Our expenses waived and reimbursed decreased by approximately \$0.4 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014 due to the expiration of the expense cap on March 31, 2014.

Table of Contents*Net Realized Gains (Losses) and Net Change in Unrealized Appreciation (Depreciation)*

| (in thousands)   | Years Ended December 31, |             |             |
|--|--------------------------|-------------|-------------|
|  | 2016                     | 2015        | 2014        |
| Net realized (losses) gains on investments   | \$ (16,717)              | \$ (12,789) | \$ 357      |
| Net realized gains on investments allocated from Predecessor Operating Company   |                          |             | 8,568       |
| Total realized (losses) gains on investments   | (16,717)                 | (12,789)    | 8,925       |
| Net change in unrealized appreciation (depreciation) of investments  | 40,131                   | (35,272)    | (43,863)    |
| Net change in unrealized appreciation (depreciation) of investments allocated from Predecessor Operating Company       |                          |             | 940         |
| Total change in unrealized appreciation (depreciation) of investments  | 40,131                   | (35,272)    | (42,923)    |
| Net change in unrealized (depreciation) appreciation of securities purchased under collateralized agreements to resell | (486)                    | (296)       |             |
| Benefit (provision) for taxes  | 642                      | (1,183)     | (493)       |
| Total net realized gains (losses) and net change in unrealized appreciation (depreciation) of investments              | \$ 23,570                | \$ (49,540) | \$ (34,491) |

Our net realized losses and unrealized gains resulted in a net gain of approximately \$23.6 million for the year ended December 31, 2016 compared to the net realized and unrealized losses resulting in a net loss of approximately \$49.5 million for the same period in 2015. We look at net realized and unrealized gains or losses together as movement in unrealized appreciation or depreciation can be the result of realizations. The net gain for the year ended December 31, 2016 was primarily driven by the overall increase in the market prices of our investments during the period and sales or repayments of investments with fair values in excess of December 31, 2015 valuations, resulting in net realized gains being greater than the reversal of the cumulative net unrealized gains for those investments. The net gain was offset by a \$17.9 million realized loss on an investment resulting from the modification of terms on a portfolio company that was accounted for as an extinguishment. The benefit for income taxes was primarily attributable to three equity investments that are held in our three tax blocker corporations as of December 31, 2016.

The net loss of approximately \$49.5 million for the year ended December 31, 2015 compared to the net realized gains and unrealized losses resulting in a net loss of approximately \$34.5 million for the same period in 2014. We look at net realized and unrealized gains or losses together as movement in unrealized appreciation or depreciation can be the result of realizations. The net loss for the year ended December 31, 2015 was primarily driven by the overall decrease in the market prices of our investments during the period and \$29.7 million of realized losses on investments resulting from the modification of terms on three portfolio companies that were accounted for as extinguishments. These losses were partially offset by sales or repayments of investments with fair values in excess of December 31, 2014 valuations, resulting in net realized gains being greater than the reversal of the cumulative net unrealized gains for those investments which included the sale of two portfolio companies resulting in realized gains of approximately \$14.2 million. The provision for income taxes was primarily attributable to three equity investments that are held in our three tax blocker corporations as of December 31, 2015.

The net loss for the year ended December 31, 2014 was primarily driven by the overall decrease in the market prices of our investments during the period and the partial write-down related to two portfolio companies. These losses were partially offset by a \$5.6 million gain from the sale of NMF Holdings' warrant investments in one portfolio company and sales or repayments of

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investments with fair values in excess of December 31, 2013 valuations, resulting in net realized gains being greater than the reversal of the cumulative net unrealized gains for those investments. The provision for income taxes was attributable to one warrant investment that is held in a tax blocker corporation as of December 31, 2014.

**Liquidity and Capital Resources**

The primary use of existing funds and any funds raised in the future is expected to be for repayment of indebtedness, investments in portfolio companies, cash distributions to our stockholders or for other general corporate purposes.

Since our IPO, and through December 31, 2016, we raised approximately \$533.1 million in net proceeds from additional offerings of common stock and issued shares valued at approximately \$288.4 million on behalf of AIV Holdings for exchanged units. We acquired from the Predecessor Operating Company units of the Predecessor Operating Company equal to the number of shares of our common stock sold in the additional offerings.

On October 28, 2016, we completed a public offering of 5,750,000 shares of common stock (including 750,000 shares of common stock that were issued pursuant to the full exercise of the option granted to the underwriters to purchase additional shares) at a public offering price of \$13.50 per share. The Investment Adviser paid all of the underwriters' sales load and an additional supplemental payment of \$0.25 per share, which reflects the difference between the public offering price of \$13.50 per share and the net proceeds of \$13.75 per share. All payments made by the Investment Adviser are not subject to reimbursement by us. We received net proceeds from this offering of approximately \$79.1 million.

Our liquidity is generated and generally available through advances from the revolving credit facilities, from cash flows from operations, and, we expect, through periodic follow-on equity offerings. In addition, we may from time to time enter into additional debt facilities, increase the size of existing facilities or issue additional debt securities, including unsecured debt and/or debt securities convertible into common stock. Any such incurrence or issuance would be subject to prevailing market conditions, our liquidity requirements, contractual and regulatory restrictions and other factors. In accordance with the 1940 Act, with certain limited exceptions, we are only allowed to borrow amounts such that our asset coverage, calculated pursuant to the 1940 Act, is at least 200.0% after such borrowing.

At December 31, 2016, December 31, 2015 and December 31, 2014, we had cash and cash equivalents of approximately \$45.9 million, \$30.1 million and \$23.4 million, respectively. Our cash provided by (used in) operating activities during the years ended December 31, 2016, December 31, 2015 and December 31, 2014, was approximately \$60.5 million, \$(63.3) million and \$(289.6) million, respectively. We expect that all current liquidity needs will be met with cash flows from operations and other activities.

***Borrowings***

***Holdings Credit Facility*** On December 18, 2014 we entered into the Second Amended and Restated Loan and Security Agreement (the "Holdings Credit Facility"), among us, as the Collateral Manager, NMF Holdings as the Borrower, Wells Fargo Securities, LLC as the Administrative Agent and Wells Fargo Bank, National Association, as the Lender and Collateral Custodian, which is structured as a revolving credit facility and matures on December 18, 2019.

Immediately prior to amending the Holdings Credit Facility, NMF SLF merged with and into NMF Holdings. The Holdings Credit Facility effectively amended and restated the Predecessor

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Holdings Credit Facility (as defined below), merged with the SLF Credit Facility (as defined below), and combined the amount of borrowings previously available.

The maximum amount of revolving borrowings available under the Holdings Credit Facility is \$495.0 million, which is the aggregate of the \$280.0 million previously available under the Predecessor Holdings Credit Facility (as defined below) and the \$215.0 million previously available under the SLF Credit Facility (as defined below). Under the Holdings Credit Facility, NMF Holdings is permitted to borrow up to 25.0%, 45.0% or 70.0% of the purchase price of pledged assets, subject to approval by Wells Fargo Securities, LLC. The Holdings Credit Facility is non-recourse to us and is collateralized by all of the investments of NMF Holdings on an investment by investment basis. All fees associated with the origination or upsizing of the Holdings Credit Facility are capitalized on our Consolidated Statement of Assets and Liabilities and charged against income as other financing expenses over the life of the Holdings Credit Facility. The Holdings Credit Facility contains certain customary affirmative and negative covenants and events of default. In addition, the Holdings Credit Facility requires us to maintain a minimum asset coverage ratio. The covenants are generally not tied to mark to market fluctuations in the prices of NMF Holdings investments, but rather to the performance of the underlying portfolio companies.

Effective January 1, 2016, the Holdings Credit Facility bears interest at a rate of LIBOR plus 1.75% per annum for Broadly Syndicated Loans (as defined in the Loan and Security Agreement) and LIBOR plus 2.50% per annum for all other investments. Previously, the Holdings Credit Facility bore interest at a rate of LIBOR plus 2.00% per annum for Broadly Syndicated Loans (as defined in the Loan and Security Agreement) and LIBOR plus 2.75% per annum for all other investments. The Holdings Credit Facility also charges a non-usage fee, based on the unused facility amount multiplied by the Non-Usage Fee Rate (as defined in the Loan and Security Agreement).

Prior to December 18, 2014, the Loan and Security Agreement, as amended and restated, dated May 19, 2011 (the "Predecessor Holdings Credit Facility") among NMF Holdings as the Borrower and Collateral Administrator, Wells Fargo Securities, LLC as the Administrative Agent, and Wells Fargo Bank, National Association, as the Collateral Custodian, was structured as a revolving credit facility and would mature on October 27, 2016.

The maximum amount of revolving borrowings available under the Predecessor Holdings Credit Facility was \$280.0 million. Until December 18, 2014, NMF Holdings was permitted to borrow up to 45.0% or 25.0% of the purchase price of pledged first lien or non-first lien debt securities, respectively, and up to 70.0% and 45.0% of the purchase price of specified first lien debt securities and specified non-first lien debt securities, respectively, subject to approval by Wells Fargo Bank, National Association. The Predecessor Holdings Credit Facility was amended and restated on May 6, 2014 and as a result, it was non-recourse to us and was collateralized by all of the investments of NMF Holdings on an investment by investment basis. All fees associated with the origination or upsizing of the Predecessor Holdings Credit Facility were capitalized on our Consolidated Statement of Assets and Liabilities and charged against income as other financing expenses over the life of the Predecessor Holdings Credit Facility. The Predecessor Holdings Credit Facility contained certain customary affirmative and negative covenants and events of default, including the occurrence of a change in control. In addition, the Predecessor Holdings Credit Facility required us to maintain a minimum asset coverage ratio. However, the covenants were generally not tied to mark to market fluctuations in the prices of NMF Holdings' investments, but rather to the performance of the underlying portfolio companies.

The Predecessor Holdings Credit Facility bore interest at a rate of LIBOR plus 2.75% per annum and charged a non-usage fee, based on the unused facility amount multiplied by the Non-Usage Fee Rate (as defined in the Loan and Security Agreement).

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The following table summarizes the interest expense, non-usage fees and amortization of financing costs incurred, together, on the Holdings Credit Facility and the Predecessor Holdings Credit Facility for the years ended December 31, 2016, December 31, 2015 and December 31, 2014.

| (in millions)                   | Years Ended<br>December 31, |          |          |
|---------------------------------|-----------------------------|----------|----------|
|                                 | 2016                        | 2015     | 2014     |
| Interest expense                | \$ 9.5                      | \$ 10.5  | \$ 7.1   |
| Non-usage fee                   | \$ 0.8                      | \$ 0.5   | \$ 0.2   |
| Amortization of financing costs | \$ 1.6                      | \$ 1.6   | \$ 0.9   |
| Weighted average interest rate  | 2.8%                        | 2.6%     | 2.9%     |
| Effective interest rate         | 3.5%                        | 3.2%     | 3.4%     |
| Average debt outstanding        | \$ 341.1                    | \$ 394.9 | \$ 244.6 |

As of December 31, 2016, December 31, 2015 and December 31, 2014, the outstanding balance on the Holdings Credit Facility was \$333.5 million, \$419.3 million and \$468.1 million, respectively, and NMF Holdings was in compliance with the applicable covenants in the Holdings Credit Facility on such dates.

**SLF Credit Facility** NMF SLF's Loan and Security Agreement, as amended and restated, dated October 27, 2010 (the "SLF Credit Facility") among NMF SLF as the Borrower, NMF Holdings as the Collateral Administrator, Wells Fargo Securities, LLC as the Administrative Agent, and Wells Fargo Bank, National Association, as the Collateral Custodian, was structured as a revolving credit facility and was set to mature on October 27, 2016. The maximum amount of revolving borrowings available under the SLF Credit Facility was \$215.0 million. The SLF Credit Facility was non-recourse to us and secured by all assets of NMF SLF on an investment by investment basis. All fees associated with the origination or upsizing of the SLF Credit Facility were capitalized on our Consolidated Statement of Assets and Liabilities and charged against income as other financing expenses over the life of the SLF Credit Facility. The SLF Credit Facility contained certain customary affirmative and negative covenants and events of default, including the occurrence of a change in control. The covenants were generally not tied to mark to market fluctuations in the prices of NMF SLF's investments, but rather to the performance of the underlying portfolio companies. NMF SLF was not restricted from the purchase or sale of loans with an affiliate. Therefore, specified loans could be moved as collateral between the Holdings Credit Facility and the SLF Credit Facility. The SLF Credit Facility merged with the Holdings Credit Facility on December 18, 2014.

Until December 18, 2014, the SLF Credit Facility permitted borrowings of up to 70.0% of the purchase price of pledged first lien debt securities and up to 25.0% of the purchase price of specified second lien loans, of which, up to 25.0% of the aggregate outstanding loan balance of all pledged debt securities in the SLF Credit Facility was allowed to be derived from second lien loans, subject to approval by Wells Fargo Bank, National Association.

The SLF Credit Facility bore interest at a rate of LIBOR plus 2.00% per annum for first lien loans and LIBOR plus 2.75% per annum for second lien loans, respectively. A non-usage fee was paid, based on the unused facility amount multiplied by the Non-Usage Fee Rate (as defined in the Loan and Security Agreement).



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The following table summarizes the interest expense, non-usage fees and amortization of financing costs incurred on the SLF Credit Facility for the years ended December 31, 2016, December 31, 2015 and December 31, 2014.

| (in millions)                   | Years Ended<br>December 31, |                     |                     |
|---------------------------------|-----------------------------|---------------------|---------------------|
|                                 | 2016 <sup>(1)</sup>         | 2015 <sup>(1)</sup> | 2014 <sup>(2)</sup> |
| Interest expense                | \$                          | \$                  | \$ 4.5              |
| Non-usage fee                   | \$                          | \$                  | \$ <sup>(3)</sup>   |
| Amortization of financing costs | \$                          | \$                  | \$ 0.8              |
| Weighted average interest rate  |                             | %                   | 2.2%                |
| Effective interest rate         |                             | %                   | 2.6%                |
| Average debt outstanding        | \$                          | \$                  | \$ 209.3            |

- (1) Not applicable, as the SLF Credit Facility merged with and into the Holdings Credit Facility on December 18, 2014.
- (2) For the year ended December 31, 2014, amounts reported relate to the period from January 1, 2014 to December 17, 2014 (date of merger).
- (3) For the year ended December 31, 2014, the total non-usage fee was less than \$50 thousand.

As of December 31, 2014, the SLF Credit Facility had merged with the Holdings Credit Facility.

**NMFC Credit Facility** The Senior Secured Revolving Credit Agreement, as amended, dated June 4, 2014 (together with the related guarantee and security agreement, the "NMFC Credit Facility"), among us as the Borrower, Goldman Sachs Bank USA as the Administrative Agent and Collateral Agent, and Goldman Sachs Bank USA, Morgan Stanley Bank, N.A. and Stifel Bank & Trust as Lenders, is structured as a senior secured revolving credit facility and matures on June 4, 2019. The NMFC Credit Facility is guaranteed by certain of our domestic subsidiaries and proceeds from the NMFC Credit Facility may be used for general corporate purposes, including the funding of portfolio investments.

As of December 31, 2016, the maximum amount of revolving borrowings available under the NMFC Credit Facility was \$122.5 million. We are permitted to borrow at various advance rates depending on the type of portfolio investment as outlined in the Senior Secured Revolving Credit Agreement. All fees associated with the origination of the NMFC Credit Facility are capitalized on our Consolidated Statement of Assets and Liabilities and charged against income as other financing expenses over the life of the NMFC Credit Facility. The NMFC Credit Facility contains certain customary affirmative and negative covenants and events of default, including certain financial covenants related to asset coverage and liquidity and other maintenance covenants.

The NMFC Credit Facility generally bears interest at a rate of LIBOR plus 2.50% per annum or the prime rate plus 1.50% per annum, and charges a commitment fee, based on the unused facility amount multiplied by 0.375% per annum (as defined in the Senior Secured Revolving Credit Agreement).

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The following table summarizes the interest expense, non-usage fees and amortization of financing costs incurred on the NMFC Credit Facility for the years ended December 31, 2016, December 31, 2015 and December 31, 2014.

| (in millions)                   | Years Ended<br>December 31, |         |                     |
|---------------------------------|-----------------------------|---------|---------------------|
|                                 | 2016                        | 2015    | 2014 <sup>(1)</sup> |
| Interest expense                | \$ 2.0                      | \$ 1.7  | \$ 0.2              |
| Non-usage fee                   | \$ 0.2                      | \$ 0.1  | \$ 0.1              |
| Amortization of financing costs | \$ 0.4                      | \$ 0.4  | \$ 0.1              |
| Weighted average interest rate  | 3.0%                        | 2.7%    | 2.7%                |
| Effective interest rate         | 3.8%                        | 3.5%    | 3.4%                |
| Average debt outstanding        | \$ 66.9                     | \$ 60.5 | \$ 11.2             |

(1) For the year ended December 31, 2014, amounts reported relate to the period from June 4, 2014 (commencement of the NMFC Credit Facility) to December 31, 2014.

As of December 31, 2016, December 31, 2015 and December 31, 2014, the outstanding balance on the NMFC Credit Facility was \$10.0 million, \$90.0 million and \$50.0 million, respectively, and NMFC was in compliance with the applicable covenants in the NMFC Credit Facility on such dates.

**Convertible Notes** On June 3, 2014, we closed a private offering of \$115.0 million aggregate principal amount of unsecured convertible notes (the "Convertible Notes"), pursuant to an indenture, dated June 3, 2014 (the "Indenture"). The Convertible Notes were issued in a private placement only to qualified institutional buyers pursuant to Rule 144A under the Securities Act. As of the first anniversary, June 3, 2015, of the Convertible Notes, the restrictions under Rule 144A under the Securities Act were removed, allowing the Convertible Notes to be eligible and freely tradable without restrictions for resale pursuant to Rule 144(b)(1) under the Securities Act. On September 30, 2016, the Company closed a public offering of an additional \$40.3 million aggregate principal amount of the Convertible Notes. These additional Convertible Notes constitute a further issuance of, rank equally in right of payment with, and form a single series with the \$115.0 million aggregate principal amount of Convertible Notes that the Company issued on June 3, 2014.

The Convertible Notes bear interest at an annual rate of 5.0%, payable semi-annually in arrears on June 15 and December 15 of each year, which commenced on December 15, 2014. The Convertible Notes will mature on June 15, 2019 unless earlier converted or repurchased at the holder's option.

The following table summarizes certain key terms related to the convertible features of our Convertible Notes as of December 31, 2016.

|   | December 31,<br>2016       |              |
|---|----------------------------|--------------|
|   | Initial conversion premium |              |
| Initial conversion rate <sup>(1)</sup>                  |                            | 62.7746      |
| Initial conversion price                                | \$                         | 15.93        |
| Conversion premium at December 31, 2016                 |                            | 11.7%        |
| Conversion rate at December 31, 2016 <sup>(1)(2)</sup>  |                            | 63.2794      |
| Conversion price at December 31, 2016 <sup>(2)(3)</sup> | \$                         | 15.80        |
| Last conversion price calculation date                  |                            | June 3, 2016 |

(1) Conversion rates denominated in shares of common stock per \$1.0 thousand principal amount of the Convertible Notes converted.



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(2) Represents conversion rate and conversion price, as applicable, taking into account certain de minimis adjustments that will be made on the conversion date.

(3) The conversion price in effect at December 31, 2016 was calculated on the last anniversary of the issuance and will be calculated again on the next anniversary, unless the exercise price shall have changed by more than 1.0% before the anniversary.

The conversion rate will be subject to adjustment upon certain events, such as stock splits and combinations, mergers, spin-offs, increases in dividends in excess of \$0.34 per share per quarter and certain changes in control. Certain of these adjustments, including adjustments for increases in dividends, are subject to a conversion price floor of \$14.05 per share. In no event will the total number of shares of common stock issuable upon conversion exceed 71.1893 per \$1.0 thousand principal amount of the Convertible Notes. We have determined that the embedded conversion option in the Convertible Notes is not required to be separately accounted for as a derivative under GAAP.

The Convertible Notes are unsecured obligations and rank senior in right of payment to our existing and future indebtedness that is expressly subordinated in right of payment to the Convertible Notes; equal in right of payment to our existing and future unsecured indebtedness that is not so subordinated; effectively junior in right of payment to any of our secured indebtedness (including existing unsecured indebtedness that we later secure) to the extent of the value of the assets securing such indebtedness; and structurally junior to all existing and future indebtedness (including trade payables) incurred by our subsidiaries and financing vehicles. The issuance is considered part of the if-converted method for calculation of diluted earnings per share.

We may not redeem the Convertible Notes prior to maturity. No sinking fund is provided for the Convertible Notes. In addition, if certain corporate events occur, holders of the Convertible Notes may require us to repurchase for cash all or part of their Convertible Notes at a repurchase price equal to 100.0% of the principal amount of the Convertible Notes to be repurchased, plus accrued and unpaid interest through, but excluding, the repurchase date.

The Indenture contains certain covenants, including covenants requiring us to provide financial information to the holders of the Convertible Note and the Trustee if we cease to be subject to the reporting requirements of the Exchange Act. These covenants are subject to limitations and exceptions that are described in the Indenture.

The following table summarizes the interest expense and amortization of financing costs incurred on the Convertible Notes for the years ended December 31, 2016, December 31, 2015 and December 31, 2014.

|                                 | <b>Years Ended December 31,</b> |             |                           |
|---------------------------------|---------------------------------|-------------|---------------------------|
| <b>(in millions)</b>            | <b>2016</b>                     | <b>2015</b> | <b>2014<sup>(1)</sup></b> |
| Interest expense                | \$ 6.3                          | \$ 5.8      | \$ 3.3                    |
| Amortization of financing costs | \$ 0.9                          | \$ 0.7      | \$ 0.4                    |
| Amortization of premium         | \$ <sup>(2)</sup>               | \$          | \$                        |
| Effective interest rate         | 5.7%                            | 5.6%        | 5.6%                      |
| Average debt outstanding        | \$ 125.2                        | \$ 115.0    | \$ 115.0                  |

(1) For the year ended December 31, 2014, amounts reported relate to the period from June 3, 2014 (commencement of the Convertible Notes) to December 31, 2014.

(2) For the year ended December 31, 2016, the total amortization of premium was less than \$50 thousand.

As of December 31, 2016, December 31, 2015 and December 31, 2014, the outstanding balance on the Convertible Notes was \$155.3 million, \$115.0 million and \$115.0 million, respectively, and NMFC was in compliance with the terms of the Indenture on such dates.



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**Unsecured Notes** On May 6, 2016, we issued \$50.0 million in aggregate principal amount of five-year unsecured notes that mature on May 15, 2021 (the "Unsecured Notes"), pursuant to a note purchase agreement, dated May 4, 2016, to an institutional investor in a private placement. On September 30, 2016, we entered into an amended and restated note purchase agreement (the "NPA") and issued an additional \$40.0 million in aggregate principal amount of Unsecured Notes to institutional investors in a private placement. The NPA provides for future issuances of Unsecured Notes in separate series or tranches. The Unsecured Notes are equal in priority with our other unsecured indebtedness, including our Convertible Notes.

The Unsecured Notes bear interest at an annual rate of 5.313%, payable semi-annually on May 15 and November 15 of each year, which commenced on November 15, 2016. This interest rate is subject to increase in the event that: (i) subject to certain exceptions, the Unsecured Notes or we cease to have an investment grade rating or (ii) the aggregate amount of our unsecured debt falls below \$150.0 million. In each such event, we have the option to offer to prepay the Unsecured Notes at par, in which case holders of the Unsecured Notes who accept the offer would not receive the increased interest rate. In addition, we are obligated to offer to prepay the Unsecured Notes at par if the Investment Adviser, or an affiliate thereof, ceases to be our investment adviser or if certain change in control events occur with respect to the Investment Adviser.

The NPA contains customary terms and conditions for unsecured notes issued in a private placement, including, without limitation, an option to offer to prepay all or a portion of the Unsecured Notes at par (plus a make-whole amount, if applicable), affirmative and negative covenants such as information reporting, maintenance of our status as a BDC under the 1940 Act and a RIC under the Internal Revenue Code, minimum stockholders' equity, minimum asset coverage ratio, and prohibitions on certain fundamental changes or any subsidiary guarantor, as well as customary events of default with customary cure and notice, including, without limitation, nonpayment, misrepresentation in a material respect, breach of covenant, cross-default under our other indebtedness or certain significant subsidiaries, certain judgments and orders, and certain events of bankruptcy.

The following table summarizes the interest expense and amortization of financing costs incurred on the Unsecured Notes for the years ended December 31, 2016, December 31, 2015 and December 31, 2014.

| (in millions)                   | Years Ended December 31, |                     |                     |
|---------------------------------|--------------------------|---------------------|---------------------|
|                                 | 2016 <sup>(1)</sup>      | 2015 <sup>(2)</sup> | 2014 <sup>(2)</sup> |
| Interest expense                | \$ 2.3                   | \$                  | \$                  |
| Amortization of financing costs | \$ 0.2                   | \$                  | \$                  |
| Effective interest rate         | 5.8%                     | %                   | %                   |
| Average debt outstanding        | \$ 65.5                  | \$                  | \$                  |

(1) For the year ended December 31, 2016, amounts reported relate to the period from May 6, 2016 (issuance of the Unsecured Notes) to December 31, 2016.

(2) Not applicable, as the Unsecured Notes were issued on May 6, 2016.

As of December 31, 2016, the outstanding balance on the Unsecured Notes was \$90.0 million and we were in compliance with the terms of the NPA.

**SBA-guaranteed debentures** On August 1, 2014, SBIC LP received an SBIC license from the SBA.

The SBIC license allows SBIC LP to obtain leverage by issuing SBA-guaranteed debentures, subject to the issuance of a capital commitment by the SBA and other customary procedures.

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SBA-guaranteed debentures are non-recourse to us, interest only debentures with interest payable semi-annually and have a ten year maturity. The principal amount of SBA-guaranteed debentures is not required to be paid prior to maturity but may be prepaid at any time without penalty. The interest rate of SBA-guaranteed debentures is fixed on a semi-annual basis at a market-driven spread over U.S. Treasury Notes with ten year maturities. The SBA, as a creditor, will have a superior claim to the assets of SBIC LP over our stockholders in the event SBIC LP is liquidated or the SBA exercises remedies upon an event of default.

The maximum amount of borrowings available under current SBA regulations for a single licensee is \$150.0 million as long as the licensee has at least \$75.0 million in regulatory capital, receives a capital commitment from the SBA and has been through an examination by the SBA subsequent to licensing.

As of December 31, 2016 and December 31, 2015, SBIC LP had regulatory capital of approximately \$75.0 million and \$72.4 million, respectively, and SBA-guaranteed debentures outstanding of \$121.7 million and \$117.7 million, respectively. The SBA-guaranteed debentures incur upfront fees of 3.425%, which consists of a 1.00% commitment fee and a 2.425% issuance discount, which are amortized over the life of the SBA-guaranteed debentures. The following table summarizes our SBA-guaranteed debentures as of December 31, 2016.

| (in millions)<br>Issuance Date          | Maturity<br>Date  | Debenture<br>Amount | Interest<br>Rate | SBA Annual<br>Charge |
|---|-------------------|---------------------|------------------|----------------------|
| <b>Fixed SBA-guaranteed debentures:</b> |                   |                     |                  |                      |
| March 25, 2015                          | March 1, 2025     | \$ 37.5             | 2.517%           | 0.355%               |
| September 23, 2015                      | September 1, 2025 | 37.5                | 2.829%           | 0.355%               |
| September 23, 2015                      | September 1, 2025 | 28.8                | 2.829%           | 0.742%               |
| March 23, 2016                          | March 1, 2026     | 13.9                | 2.507%           | 0.742%               |
| September 21, 2016                      | September 1, 2026 | 4.0                 | 2.051%           | 0.742%               |
| <b>Total SBA-guaranteed debentures</b>  |                   | <b>\$ 121.7</b>     |                  |                      |

Prior to pooling, the SBA-guaranteed debentures bear interest at an interim floating rate of LIBOR plus 0.30%. Once pooled, which occurs in March and September each year, the SBA-guaranteed debentures bear interest at a fixed rate that is set to the current 10-year treasury rate plus a spread at each pooling date.

The following table summarizes the interest expense and amortization of financing costs incurred on the SBA-guaranteed debentures for the years ended December 31, 2016, December 31, 2015 and December 31, 2014.

| (in millions)                   | Years ended December 31, |         |                     |
|---------------------------------|--------------------------|---------|---------------------|
|                                 | 2016                     | 2015    | 2014 <sup>(1)</sup> |
| Interest expense                | \$ 3.8                   | \$ 1.7  | \$ (2)              |
| Amortization of financing costs | \$ 0.4                   | \$ 0.2  | \$ (2)              |
| Weighted average interest rate  | 3.1%                     | 2.4%    | 0.9%                |
| Effective interest rate         | 3.5%                     | 2.7%    | 1.3%                |
| Average debt outstanding        | \$ 119.8                 | \$ 71.9 | \$ 29.2             |

(1) For the year ended December 31, 2014, amounts reported relate to the period from August 1, 2014 (receipt of the SBIC license) to December 31, 2014. The initial SBA-guaranteed debenture borrowing occurred on November 17, 2014.

(2) For the year ended December 31, 2014, the total interest expense and amortization of financing costs were less than \$50 thousand.

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The SBIC program is designed to stimulate the flow of private investor capital into eligible small businesses, as defined by the SBA. Under SBA regulations, SBIC LP is subject to regulatory requirements, including making investments in SBA-eligible businesses, investing at least 25.0% of its investment capital in eligible smaller businesses, as defined under the 1958 Act, placing certain limitations on the financing terms of investments, regulating the types of financing, prohibiting investments in small businesses with certain characteristics or in certain industries and requiring capitalization thresholds that limit distributions to us. SBIC LP is subject to an annual periodic examination by an SBA examiner to determine SBIC LP's compliance with the relevant SBA regulations and an annual financial audit of its financial statements that are prepared on a basis of accounting other than GAAP (such as ASC 820) by an independent auditor. As of December 31, 2016, December 31, 2015 and December 31, 2014, SBIC LP was in compliance with SBA regulatory requirements.

### ***Off-Balance Sheet Arrangements***

We may become a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financial needs of our portfolio companies. These instruments may include commitments to extend credit and involve, to varying degrees, elements of liquidity and credit risk in excess of the amount recognized in the balance sheet. As of December 31, 2016 and December 31, 2015, we had outstanding commitments to third parties to fund investments totaling \$44.3 million and \$26.3 million, respectively, under various undrawn revolving credit facilities, delayed draw commitments or other future funding commitments.

We may from time to time enter into financing commitment letters or bridge financing commitments, which could require funding in the future. As of December 31, 2016 and December 31, 2015, we had commitment letters to purchase investments in aggregate par amount of \$14.8 million and \$0, respectively. As of December 31, 2016 and December 31, 2015, we had not entered into any bridge financing commitments which could require funding in the future.

As of December 31, 2016 and December 31, 2015, we had unfunded commitments related to our equity investment in SLP II of \$7.9 million and \$0, respectively, which may be funded at our discretion.

### ***Contractual Obligations***

A summary of our significant contractual payment obligations as of December 31, 2016 is as follows:

#### **Contractual Obligations Payments Due by Period**

| (in millions)                            | Total           | Less than<br>1 Year | 1 - 3<br>Years  | 3 - 5<br>Years | More than<br>5 Years |
|--|-----------------|---------------------|-----------------|----------------|----------------------|
| Holdings Credit Facility <sup>(1)</sup>  | \$ 333.5        | \$                  | \$ 333.5        | \$             | \$                   |
| Convertible Notes <sup>(2)</sup>         | 155.3           |                     | 155.3           |                |                      |
| SBA-guaranteed debentures <sup>(3)</sup> | 121.7           |                     |                 |                | 121.7                |
| Unsecured Notes <sup>(4)</sup>           | 90.0            |                     |                 | 90.0           |                      |
| NMFC Credit Facility <sup>(5)</sup>      | 10.0            |                     | 10.0            |                |                      |
| <b>Total Contractual Obligations</b>     | <b>\$ 710.5</b> | <b>\$</b>           | <b>\$ 498.8</b> | <b>\$ 90.0</b> | <b>\$ 121.7</b>      |

(1) Under the terms of the \$495.0 million Holdings Credit Facility, all outstanding borrowings under that facility (\$333.5 million as of December 31, 2016) must be repaid on or before December 18, 2019. As of December 31, 2016, there was approximately \$161.5 million of possible capacity remaining under the Holdings Credit Facility.

(2) The \$155.3 million Convertible Notes will mature on June 15, 2019 unless earlier converted or repurchased at the holder's option.



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- (3) Our SBA-guaranteed debentures will begin to mature on March 1, 2025.
- (4) The \$90.0 million Unsecured Notes will mature on May 15, 2021 unless earlier repurchased.
- (5) Under the terms of the \$122.5 million NMFC Credit Facility, all outstanding borrowings under that facility (\$10.0 million as of December 31, 2016) must be repaid on or before June 4, 2019. As of December 31, 2016, there was approximately \$112.5 million of possible capacity remaining under the NMFC Credit Facility.

We have entered into the Investment Management Agreement with the Investment Adviser in accordance with the 1940 Act. Under the Investment Management Agreement, the Investment Adviser has agreed to provide us with investment advisory and management services. We have agreed to pay for these services (1) a management fee and (2) an incentive fee based on our performance.

We have also entered into an Administration Agreement with the Administrator. Under the Administration Agreement, the Administrator has agreed to arrange office space for us and provide office equipment and clerical, bookkeeping and record keeping services and other administrative services necessary to conduct our respective day-to-day operations. The Administrator has also agreed to perform, or oversee the performance of, our financial records, our reports to stockholders and reports filed with the SEC.

If any of the contractual obligations discussed above are terminated, our costs under any new agreements that are entered into may increase. In addition, we would likely incur significant time and expense in locating alternative parties to provide the services we expect to receive under the Investment Management Agreement and the Administration Agreement.

**Distributions and Dividends**

Distributions declared and paid to stockholders for the year ended December 31, 2016 totaled \$88.8 million.

The following table reflects cash distributions, including dividends and returns of capital, if any, per share that have been declared by our board of directors for the years ended December 31, 2016 and December 31, 2015:

| <b>Fiscal Year Ended</b>        | <b>Date Declared</b> | <b>Record Date</b> | <b>Payment Date</b> | <b>Per Share Amount</b> |
|---------------------------------|----------------------|--------------------|---------------------|-------------------------|
| <b><i>December 31, 2016</i></b> |                      |                    |                     |                         |
| Fourth Quarter                  | November 4, 2016     | December 15, 2016  | December 29, 2016   | \$ 0.34                 |
| Third Quarter                   | August 2, 2016       | September 16, 2016 | September 30, 2016  | 0.34                    |
| Second Quarter                  | May 3, 2016          | June 16, 2016      | June 30, 2016       | 0.34                    |
| First Quarter                   | February 22, 2016    | March 17, 2016     | March 31, 2016      | 0.34                    |
|                                 |                      |                    |                     | \$ 1.36                 |
| <b><i>December 31, 2015</i></b> |                      |                    |                     |                         |
| Fourth Quarter                  | November 3, 2015     | December 16, 2015  | December 30, 2015   | \$ 0.34                 |
| Third Quarter                   | August 4, 2015       | September 16, 2015 | September 30, 2015  | 0.34                    |
| Second Quarter                  | May 5, 2015          | June 16, 2015      | June 30, 2015       | 0.34                    |
| First Quarter                   | February 23, 2015    | March 17, 2015     | March 31, 2015      | 0.34                    |
|                                 |                      |                    |                     | \$ 1.36                 |

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Tax characteristics of all distributions paid are reported to stockholders on Form 1099 after the end of the calendar year. For the years ended December 31, 2016 and December 31, 2015, total distributions were \$88.8 million and \$81.0 million, respectively, of which the distributions were comprised of approximately 89.46% and 99.96%, respectively, of ordinary income, 0.00% and 0.00%, respectively, of long-term capital gains and approximately 10.54% and 0.04%, respectively,

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of a return of capital. Future quarterly distributions, if any, will be determined by our board of directors.

We intend to pay quarterly distributions to our stockholders in amounts sufficient to maintain our status as a RIC. We intend to distribute approximately all of our Adjusted Net Investment Income on a quarterly basis and substantially all of our taxable income on an annual basis, except that we may retain certain net capital gains for reinvestment.

We maintain an "opt out" dividend reinvestment plan on behalf of our common stockholders, pursuant to which each of our stockholders' cash distributions will be automatically reinvested in additional shares of common stock, unless the stockholder elects to receive cash.

**Related Parties**

We have entered into a number of business relationships with affiliated or related parties, including the following:

We have entered into the Investment Management Agreement with the Investment Adviser, a wholly-owned subsidiary of New Mountain Capital. Therefore, New Mountain Capital is entitled to any profits earned by the Investment Adviser, which includes any fees payable to the Investment Adviser under the terms of the Investment Management Agreement, less expenses incurred by the Investment Adviser in performing its services under the Investment Management Agreement.

We have entered into an Administration Agreement with the Administrator, a wholly-owned subsidiary of New Mountain Capital. The Administrator arranges our office space and provides office equipment and administrative services necessary to conduct our respective day-to-day operations pursuant to the Administration Agreement. We reimburse the Administrator for the allocable portion of overhead and other expenses incurred by it in performing its obligations to us under the Administration Agreement, which includes the fees and expenses associated with performing administrative, finance, and compliance functions, and the compensation of our chief financial officer and chief compliance officer and their respective staffs. Pursuant to the Administration Agreement and further restricted by us, the Administrator may, in its own discretion, submit to us for reimbursement some or all of the expenses that the Administrator has incurred on our behalf during any quarterly period. As a result, the amount of expenses for which we will have to reimburse the Administrator may fluctuate in future quarterly periods and there can be no assurance given as to when, or if, the Administrator may determine to limit the expenses that the Administrator submits to us for reimbursement in the future. However, it is expected that the Administrator will continue to support part of our expense burden in the near future and may decide to not calculate and charge through certain overhead related amounts as well as continue to cover some of the indirect costs. The Administrator cannot recoup any expenses that the Administrator has previously waived. For the year ended December 31, 2016, approximately \$1.6 million of indirect administrative expenses were included in administrative expenses, of which \$0.7 million were waived by the Administrator. As of December 31, 2016, no indirect administrative expenses were payable to the Administrator.

We, the Investment Adviser and the Administrator have entered into a royalty-free Trademark License Agreement, as amended, with New Mountain Capital, pursuant to which New Mountain Capital has agreed to grant us, the Investment Adviser and the Administrator, a non-exclusive, royalty-free license to use the name "New Mountain" and "New Mountain Finance".

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In addition, we have adopted a formal code of ethics that governs the conduct of our officers and directors. These officers and directors also remain subject to the duties imposed by the 1940 Act, the Delaware General Corporation Law and the Delaware Limited Liability Company Act.

The Investment Adviser and its affiliates may also manage other funds in the future that may have investment mandates that are similar, in whole and in part, to our investment mandates. The Investment Adviser and its affiliates may determine that an investment is appropriate for us and for one or more of those other funds. In such event, depending on the availability of such investment and other appropriate factors, the Investment Adviser or its affiliates may determine that we should invest side-by-side with one or more other funds. Any such investments will be made only to the extent permitted by applicable law and interpretive positions of the SEC and its staff, and consistent with the Investment Adviser's allocation procedures. On September 12, 2016, we filed an exemptive application with the SEC to permit us to co-invest with funds or entities managed by the Investment Adviser or its affiliates in certain negotiated transactions where co-investing would otherwise be prohibited under the 1940 Act. Any such order, if granted by the SEC, will be subject to certain terms and conditions. Furthermore, there is no assurance when, or if, this application for exemptive relief will be granted by the SEC.

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Information about our senior securities as of December 31, 2016, December 31, 2015 and December 31, 2014 and information about NMF Holdings' senior securities as of December 31, 2013, 2012, 2011, 2010 and 2009 are shown in the following table. The report of Deloitte & Touche LLP, an independent registered public accounting firm, on the senior securities table as of December 31, 2016, 2015, 2014, 2013, 2012, 2011, 2010 and 2009 is attached, or incorporated by reference, as an exhibit to the registration statement of which this prospectus supplement and accompanying prospectus are a part.

| <b>Class and Year<sup>(1)</sup></b>    | <b>Total Amount<br/>Outstanding Exclusive<br/>of Treasury Securities<sup>(2)</sup></b><br><b>(in millions)</b> | <b>Asset<br/>Coverage<br/>Per Unit<sup>(3)</sup></b> | <b>Involuntary<br/>Liquidating<br/>Preference<br/>Per Unit<sup>(4)</sup></b> | <b>Average<br/>Market<br/>Value<br/>Per<br/>Unit<sup>(5)</sup></b> |
|--|--|--|--|--|
| <b>December 31, 2016</b>               |  |  |  |  |
| Holdings Credit Facility               | \$ 333.5   | \$ 2,593   | \$   | N/A  |
| Convertible Notes                      | 155.3  | 2,593  |  | N/A  |
| Unsecured Notes                        | 90.0   | 2,593  |  | N/A  |
| NMFC Credit Facility                   | 10.0   | 2,593  |  | N/A  |
| <b>December 31, 2015</b>               |  |  |  |  |
| Holdings Credit Facility               | 419.3  | 2,341  |  | N/A  |
| Convertible Notes                      | 115.0  | 2,341  |  | N/A  |
| NMFC Credit Facility                   | 90.0   | 2,341  |  | N/A  |
| <b>December 31, 2014</b>               |  |  |  |  |
| Holdings Credit Facility               | 468.1  | 2,267  |  | N/A  |
| Convertible Notes                      | 115.0  | 2,267  |  | N/A  |
| NMFC Credit Facility                   | 50.0   | 2,267  |  | N/A  |
| <b>December 31, 2013</b>               |  |  |  |  |
| Holdings Credit Facility               | 221.8  | 2,577  |  | N/A  |
| SLF Credit Facility                    | 214.7  | 2,577  |  | N/A  |
| <b>December 31, 2012</b>               |  |  |  |  |
| Holdings Credit Facility               | 206.9  | 2,353  |  | N/A  |
| SLF Credit Facility                    | 214.3  | 2,353  |  | N/A  |
| <b>December 31, 2011</b>               |  |  |  |  |
| Holdings Credit Facility               | 129.0  | 2,426  |  | N/A  |
| SLF Credit Facility                    | 165.9  | 2,426  |  | N/A  |
| <b>December 31, 2010<sup>(6)</sup></b> |  |  |  |  |
| Holdings Credit Facility               | 59.7   | 3,074  |  | N/A  |
| SLF Credit Facility                    | 56.9   | 3,074  |  | N/A  |
| <b>December 31, 2009<sup>(6)</sup></b> |  |  |  |  |
| Holdings Credit Facility               | 77.7   | 4,080  |  | N/A  |

(1)

We have excluded our SBA-guaranteed debentures from this table as a result of the SEC exemptive relief that permits us to exclude such debentures from the definition of senior securities in the 200.0% asset coverage ratio we are required to maintain under the 1940 Act. At December 31, 2016, December 31, 2015 and December 31, 2014, we had \$121.7 million, \$117.7 million and \$37.5 million, respectively, in SBA-guaranteed debentures outstanding. At December 31, 2013, 2012, 2011, 2010 and 2009, we had no outstanding SBA-guaranteed debentures. Total asset coverage per unit including the SBA-guaranteed debentures as of December 31, 2016, December 31, 2015 and December 31, 2014 is \$2,320, \$2,128 and \$2,196, respectively, and unchanged for the prior years.

(2)

Total amount of each class of senior securities outstanding at the end of the period presented.

- (3) Asset coverage per unit is the ratio of the carrying value of our total assets, less all liabilities excluding indebtedness represented by senior securities in this table, to the aggregate amount of senior securities representing indebtedness.

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Asset coverage per unit is expressed in terms of dollar amounts per \$1,000 of indebtedness and is calculated on a consolidated basis.

- (4) The amount to which such class of senior security would be entitled upon the voluntary liquidation of the issuer in preference to any security junior to it. The " " in this column indicates that the SEC expressly does not require this information to be disclosed for certain types of senior securities.
- (5) Not applicable because the senior securities are not registered for public trading.
- (6) Prior to NMFC's IPO on May 19, 2011, these credit facilities existed at the Predecessor Entities.

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**UNDERWRITING**

We and the underwriters named below have entered into an underwriting agreement with respect to the shares being offered. Subject to certain conditions, each underwriter has severally agreed to purchase the number of shares indicated in the following table. Wells Fargo Securities, LLC, Morgan Stanley & Co. LLC and Goldman, Sachs & Co. are the representatives of the underwriters.

| <b>Underwriter</b>                 | <b>Number<br/>of Shares</b> |
|------------------------------------|-----------------------------|
| Wells Fargo Securities, LLC        |                             |
| Morgan Stanley & Co. LLC           |                             |
| Goldman, Sachs & Co.               |                             |
| Keefe, Bruyette & Woods, Inc.      |                             |
| Robert W. Baird & Co. Incorporated |                             |
| Janney Montgomery Scott LLC        |                             |
| Oppenheimer & Co. Inc.             |                             |
| <b>Total</b>                       | <b>5,000,000</b>            |

The underwriters are committed to take and pay for all of the shares being offered, if any are taken, other than the shares covered by the option described below unless and until this option is exercised.

If the underwriters sell more shares than the total number set forth in the table above, the underwriters have an option to buy up to an additional 750,000 shares from us. They may exercise that option for 30 days. If any shares are purchased pursuant to this option, the underwriters will severally purchase shares in approximately the same proportion as set forth in the table above.

The following table shows the per share and total underwriting discounts and commissions (sales load) to be paid to the underwriters. Such amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase 750,000 additional shares.

**Sales Load by Us**

|           | <b>No Exercise</b> | <b>Full Exercise</b> |
|-----------|--------------------|----------------------|
| Per Share | \$                 | \$                   |
| Total     | \$                 | \$                   |

Because the Financial Industry Regulatory Authority, or FINRA, views the common stock offered hereby as interests in a direct participation program, the offering is being made in compliance with the requirements of FINRA Rule 2310. Investor suitability with respect to the common stock should be judged similarly to suitability with respect to other securities that are listed for trading on a national securities exchange.

In the ordinary course of their various business activities, the underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the issuer. The underwriters and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.



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Shares sold by the underwriters to the public will initially be offered at the public offering price set forth on the cover of this prospectus supplement. Any shares sold by the underwriters to securities dealers may be sold at a discount of up to \$ per share from the public offering price. If all the shares are not sold at the initial offering price, the representatives may change the public offering price and the other selling terms. The offering of the shares by the underwriters is subject to receipt and acceptance and subject to the underwriters' right to reject any order in whole or in part.

We, each of our officers and directors and each of the members of the Investment Adviser's investment committee have agreed with the underwriters, subject to certain exceptions, not to dispose of or hedge any shares of our common stock or securities convertible into or exchangeable for shares of our common stock during the period from the date of this prospectus supplement continuing through the date 45 days after the date of this prospectus supplement, except with the prior written consent of Wells Fargo Securities, LLC, Morgan Stanley & Co. LLC and Goldman, Sachs & Co.

Our common stock is listed on the New York Stock Exchange under the symbol "NMFC".

In connection with the offering, the underwriters may purchase and sell shares of common stock in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater number of shares than they are required to purchase in the offering. "Covered" short sales are sales made in an amount not greater than the underwriters' option to purchase additional shares from us in the offering. The underwriters may close out any covered short position by either exercising their option to purchase additional shares or purchasing shares in the open market. In determining the source of shares to close out the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase additional shares pursuant to the option granted to them. "Naked" short sales are any sales in excess of such option. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common stock in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of various bids for or purchases of common stock made by the underwriters in the open market prior to the completion of the offering.

The underwriters may also impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased shares sold by or for the account of such underwriter in stabilizing or short covering transactions.

Purchases to cover a short position and stabilizing transactions, as well as other purchases by the underwriters for their own account, may have the effect of preventing or retarding a decline in the market price of the company's stock, and together with the imposition of the penalty bid, may stabilize, maintain or otherwise affect the market price of the common stock. As a result, the price of the common stock may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued at any time. These transactions may be effected on the New York Stock Exchange, in the over-the-counter market or otherwise.

The underwriters do not expect sales to discretionary accounts to exceed five percent of the total number of shares offered.

We estimate that the offering expenses that will be borne by us in connection with the sale of shares of our common stock offered by us in this offering will be approximately \$0.3 million.

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We have agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act.

The underwriters and their respective affiliates are full-service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. Certain of the underwriters and their respective affiliates may, from time to time, perform various financial advisory and investment banking services for us, for which they will receive customary fees and expenses. In addition, an affiliate of Wells Fargo Securities, LLC is a lender under the Holdings Credit Facility and affiliates of Goldman, Sachs & Co., Morgan Stanley & Co. LLC and Keefe, Bruyette & Woods, Inc. are lenders under the NMFC Credit Facility. Certain directly or indirectly held registered broker dealers, investment advisors, and bank subsidiaries of Wells Fargo & Company, an affiliate of Wells Fargo Securities, LLC an underwriter in this offering, hold approximately 8.7% of our common stock.

In the ordinary course of their various business activities, the underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and such investment and securities activities may involve securities and/or instruments of the issuer. The underwriters and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

We intend to use the net proceeds from the sale of shares of our common stock sold in this offering primarily for new investments in portfolio companies in accordance with our investment objective and strategies described in this prospectus supplement and the accompanying prospectus. We may also use a portion of the net proceeds from the sale of shares of our common stock sold in this offering for other general corporate purposes, including to temporarily repay indebtedness (which will be subject to reborrowing), and other working capital needs. Affiliates of Wells Fargo Securities, LLC are lenders under the Holdings Credit Facility and affiliates of Goldman, Sachs & Co., Morgan Stanley & Co. LLC and Keefe, Bruyette & Woods, Inc. are lenders under the NMFC Credit Facility. Accordingly, affiliates of Wells Fargo Securities, LLC, Morgan Stanley & Co. LLC, Goldman, Sachs & Co. and Keefe, Bruyette & Woods, Inc. may receive more than 5.0% of the net proceeds of this offering to the extent such proceeds are used to temporarily repay outstanding indebtedness under the Holdings Credit Facility or the NMFC Credit Facility.

The principal business address of Wells Fargo Securities, LLC is 550 South Tryon Street, Charlotte, North Carolina 28202, the principal business address of Morgan Stanley & Co. LLC is 1585 Broadway, New York, New York 10036, and the principal business address of Goldman, Sachs & Co. is 200 West Street, New York, New York 10282.

Each of the underwriters may arrange to sell common shares offered hereby in certain jurisdictions outside the United States, either directly or through affiliates, where they are permitted to do so. In that regard, Wells Fargo Securities, LLC may arrange to sell shares in certain jurisdictions through an affiliate, Wells Fargo Securities International Limited, or WFSIL. WFSIL is a wholly-owned indirect subsidiary of Wells Fargo & Company and an affiliate of Wells Fargo Securities, LLC. WFSIL is a United Kingdom incorporated investment firm regulated by the Financial Conduct Authority. Wells Fargo Securities is the trade name for certain corporate and investment banking services of Wells Fargo & Company and its affiliates, including Wells Fargo Securities, LLC and WFSIL.

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***Hong Kong***

The shares may not be offered or sold in Hong Kong by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32 of the Laws of Hong Kong) ("Companies (Winding Up and Miscellaneous Provisions) Ordinance") or which do not constitute an invitation to the public within the meaning of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) ("Securities and Futures Ordinance"), or (ii) to "professional investors" as defined in the Securities and Futures Ordinance and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance, and no advertisement, invitation or document relating to the shares may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to shares which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" in Hong Kong as defined in the Securities and Futures Ordinance and any rules made thereunder.

***Singapore***

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the shares may not be circulated or distributed, nor may the shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor (as defined under Section 4A of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA")) under Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA, in each case subject to conditions set forth in the SFA.

Where the shares are subscribed or purchased under Section 275 of the SFA by a relevant person which is a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor, the securities (as defined in Section 239(1) of the SFA) of that corporation shall not be transferable for 6 months after that corporation has acquired the shares under Section 275 of the SFA except: (1) to an institutional investor under Section 274 of the SFA or to a relevant person (as defined in Section 275(2) of the SFA), (2) where such transfer arises from an offer in that corporation's securities pursuant to Section 275(1A) of the SFA, (3) where no consideration is or will be given for the transfer, (4) where the transfer is by operation of law, (5) as specified in Section 276(7) of the SFA, or (6) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore ("Regulation 32").

Where the shares are subscribed or purchased under Section 275 of the SFA by a relevant person which is a trust (where the trustee is not an accredited investor (as defined in Section 4A of the SFA)) whose sole purpose is to hold investments and each beneficiary of the trust is an accredited investor, the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferable for 6 months after that trust has acquired the shares under Section 275 of the SFA except: (1) to an institutional investor under Section 274 of the SFA or to a relevant person (as defined in Section 275(2) of the SFA), (2) where such transfer arises from an offer that is made on

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terms that such rights or interest are acquired at a consideration of not less than \$200,000 (or its equivalent in a foreign currency) for each transaction (whether such amount is to be paid for in cash or by exchange of securities or other assets), (3) where no consideration is or will be given for the transfer, (4) where the transfer is by operation of law, (5) as specified in Section 276(7) of the SFA, or (6) as specified in Regulation 32.

**LEGAL MATTERS**

Certain legal matters regarding the shares of common stock offered hereby will be passed upon for us by Eversheds Sutherland (US) LLP, Washington, District of Columbia. Certain legal matters in connection with the shares of common stock offered hereby will be passed upon for the underwriters by Fried, Frank, Harris, Shriver & Jacobson LLP, New York, New York. Fried, Frank, Harris, Shriver & Jacobson LLP represents New Mountain Capital, L.L.C. and its portfolio companies from time to time in the ordinary course of business.

**INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The consolidated financial statements and the related information included in the Senior Securities table and the effectiveness of internal control over financial reporting, included in this prospectus supplement and the accompanying prospectus, have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their reports appearing herein and elsewhere in the registration statement. Such financial statements and information included in the Senior Securities table have been so included in reliance upon the reports of such firm, given their authority as experts in accounting and auditing.

The principal business address of Deloitte & Touche LLP is 30 Rockefeller Center Plaza, New York, New York 10112.

**AVAILABLE INFORMATION**

We have filed with the SEC a registration statement on Form N-2, together with all amendments and related exhibits, under the Securities Act, with respect to the shares of common stock offered by this prospectus supplement and the accompanying prospectus. The registration statement contains additional information about us and the shares of common stock being offered by this prospectus supplement and the accompanying prospectus.

We are required to file with or submit to the SEC annual, quarterly and current reports, proxy statements and other information meeting the informational requirements of the Exchange Act. You may inspect and copy these reports, proxy statements and other information, as well as the registration statement and related exhibits and schedules, at the Public Reference Room of the SEC at 100 F Street, N.E., Washington, District of Columbia 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site that contains reports, proxy and information statements and other information filed electronically by us with the SEC, which are available on the SEC's website at <http://www.sec.gov>. Copies of these reports, proxy and information statements and other information may be obtained, after paying a duplicating fee, by electronic request at the following e-mail address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or by writing the SEC's Public Reference Section, 100 F Street, N.E., Washington, District of Columbia 20549. This information will also be available free of charge by contacting us at 787 Seventh Avenue, 48th Floor, New York, New York 10019, by telephone at (212) 720-0300, or on our website at <http://www.newmountainfinance.com>. Information contained on our website or on the SEC's website about us is not incorporated into this prospectus supplement and the accompanying prospectus and you should not consider information contained on our website or on the SEC's website to be part of this prospectus supplement and the accompanying prospectus.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of  
New Mountain Finance Corporation

We have audited the accompanying consolidated statements of assets and liabilities of New Mountain Finance Corporation and subsidiaries (the "Company"), including the consolidated schedules of investments, as of December 31, 2016 and 2015, and the related consolidated statements of operations, changes in net assets, and cash flows for each of the three years in the period ended December 31, 2016 and the consolidated financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of investments as of December 31, 2016 and 2015, by correspondence with the custodian, loan agents and borrowers; where replies were not received we performed other auditing procedures. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements and consolidated financial highlights referred to above present fairly, in all material respects, the financial position of New Mountain Finance Corporation and subsidiaries as of December 31, 2016 and 2015, and the results of their operations, changes in their net assets, and their cash flows for each of the three years in the period ended December 31, 2016 and the financial highlights for each of the five years in the period then ended in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2016, based on the criteria established in Internal Control Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2017, expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

New York, New York  
February 28, 2017

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## New Mountain Finance Corporation

## Consolidated Statements of Assets and Liabilities

(in thousands, except shares and per share data)

|  | December 31,<br>2016 | December 31,<br>2015 |
|--|----------------------|----------------------|
| <b>Assets</b>  |                      |                      |
| Investments at fair value  |                      |                      |
| Non-controlled/non-affiliated investments (cost of \$1,379,603 and \$1,438,415, respectively)  | \$ 1,346,556         | \$ 1,377,515         |
| Non-controlled/affiliated investments (cost of \$54,996 and \$89,047, respectively)  | 57,440               | 87,287               |
| Controlled investments (cost of \$140,579 and \$41,254, respectively)  | 154,821              | 47,422               |
| Total investments at fair value (cost of \$1,575,178 and \$1,568,716, respectively)  | 1,558,817            | 1,512,224            |
| Securities purchased under collateralized agreements to resell (cost of \$30,000 and \$30,000, respectively)   | 29,218               | 29,704               |
| Cash and cash equivalents  | 45,928               | 30,102               |
| Interest and dividend receivable   | 17,833               | 13,832               |
| Receivable from unsettled securities sold  | 990                  |                      |
| Receivable from affiliates   | 346                  | 360                  |
| Other assets   | 2,886                | 1,924                |
| <b>Total assets</b>  | <b>\$ 1,656,018</b>  | <b>\$ 1,588,146</b>  |
| <b>Liabilities</b>   |                      |                      |
| <b>Borrowings</b>  |                      |                      |
| Holdings Credit Facility   | \$ 333,513           | \$ 419,313           |
| Convertible Notes  | 155,523              | 115,000              |
| SBA-guaranteed debentures  | 121,745              | 117,745              |
| Unsecured Notes  | 90,000               |                      |
| NMFC Credit Facility   | 10,000               | 90,000               |
| Deferred financing costs (net of accumulated amortization of \$12,279 and \$8,822, respectively)   | (14,041)             | (13,992)             |
| Net borrowings   | 696,740              | 728,066              |
| Management fee payable   | 5,852                | 5,466                |
| Incentive fee payable  | 5,745                | 5,622                |
| Interest payable   | 3,172                | 2,343                |
| Payable for unsettled securities purchased   | 2,740                | 5,441                |
| Deferred tax liability   | 1,034                | 1,676                |
| Payable to affiliates  | 136                  | 564                  |
| Other liabilities  | 2,037                | 2,060                |
| <b>Total liabilities</b>   | <b>717,456</b>       | <b>751,238</b>       |
| <b>Commitments and contingencies (See Note 9)</b>  |                      |                      |
| <b>Net assets</b>  |                      |                      |
| Preferred stock, par value \$0.01 per share, 2,000,000 shares authorized, none issued  |                      |                      |
| Common stock, par value \$0.01 per share, 100,000,000 shares authorized, 69,755,387 and 64,005,387 shares issued, respectively, and 69,717,814 and 64,005,387 shares outstanding, respectively | 698                  | 640                  |
| Paid in capital in excess of par   | 1,001,862            | 899,713              |
| Treasury stock at cost, 37,573 and 0 shares held, respectively   | (460)                |                      |

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|  |              |              |
|--|--------------|--------------|
| Accumulated undistributed net investment income  | 2,073        | 4,164        |
| Accumulated undistributed net realized (losses) gains on investments   | (36,947)     | 1,342        |
| Net unrealized (depreciation) appreciation (net of provision for taxes of \$1,034 and \$1,676, respectively) | (28,664)     | (68,951)     |
| <b>Total net assets</b>  | \$ 938,562   | \$ 836,908   |
| <b>Total liabilities and net assets</b>  | \$ 1,656,018 | \$ 1,588,146 |
| Number of shares outstanding   | 69,717,814   | 64,005,387   |
| <b>Net asset value per share</b>   | \$ 13.46     | \$ 13.08     |

The accompanying notes are an integral part of these consolidated financial statements.



Table of Contents**New Mountain Finance Corporation****Consolidated Statements of Operations**

(in thousands, except shares and per share data)

|  | <b>Years Ended December 31,</b> |                |                |
|--|---------------------------------|----------------|----------------|
|  | <b>2016</b>                     | <b>2015</b>    | <b>2014</b>    |
| <b>Investment income(1)</b>  |                                 |                |                |
| From non-controlled/non-affiliated investments:                                  |                                 |                |                |
| Interest income  | \$ 140,983                      | \$ 132,665     | \$ 85,123      |
| Dividend income  | 220                             | (407)          | 1,243          |
| Other income   | 7,708                           | 5,996          | 4,023          |
| From non-controlled/affiliated investments:                                      |                                 |                |                |
| Interest income  | 4,538                           | 5,402          |                |
| Dividend income  | 3,884                           | 3,619          | 1,066          |
| Other income   | 1,193                           | 1,965          | 468            |
| From controlled investments:   |                                 |                |                |
| Interest income  | 1,904                           | 2,007          |                |
| Dividend income  | 7,096                           | 2,559          |                |
| Other income   | 558                             | 49             |                |
| <b>Investment income allocated from New Mountain Finance Holdings, L.L.C.(2)</b> |                                 |                |                |
| Interest income  |                                 |                | 40,515         |
| Dividend income  |                                 |                | 2,368          |
| Other income   |                                 |                | 795            |
| <b>Total investment income</b>   | <b>168,084</b>                  | <b>153,855</b> | <b>135,601</b> |
| <b>Expenses</b>  |                                 |                |                |
| Incentive fee(1)   | 22,011                          | 20,591         | 12,070         |
| Capital gains incentive fee(1)   |                                 |                | (8,573)        |
| <b>Total incentive fees(1)</b>   | <b>22,011</b>                   | <b>20,591</b>  | <b>3,497</b>   |
| Management fee(1)  | 27,551                          | 25,858         | 13,593         |
| Interest and other financing expenses(1)   | 28,452                          | 23,374         | 13,269         |
| Professional fees(1)   | 3,087                           | 3,214          | 2,390          |
| Administrative expenses(1)   | 2,683                           | 2,450          | 1,470          |
| Other general and administrative expenses(1)                                     | 1,589                           | 1,665          | 1,138          |
| Net expenses allocated from New Mountain Finance Holdings, L.L.C.(2)             |                                 |                | 20,808         |
| <b>Total expenses</b>  | <b>85,373</b>                   | <b>77,152</b>  | <b>56,165</b>  |
| Less: management fee waived (see Note 5)(1)                                      | (4,824)                         | (5,219)        | (686)          |
| Less: expenses waived and reimbursed (see Note 5)(1)                             | (725)                           | (733)          | (380)          |

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|   |           |                |                  |                  |
|---|-----------|----------------|------------------|------------------|
| Net expenses  |           | 79,824         | 71,200           | 55,099           |
| Net investment income before income taxes                                 |           | 88,260         | 82,655           | 80,502           |
| Income tax expense(1)   |           | 152            | 160              | 436              |
| <b>Net investment income</b>  |           | <b>88,108</b>  | <b>82,495</b>    | <b>80,066</b>    |
| Net realized (losses) gains:  |           |                |                  |                  |
| Non-controlled/non-affiliated investments(1)                              |           | (16,717)       | (12,789)         | 357              |
| Investments allocated from New Mountain Finance Holdings, L.L.C.(2)       |           |                |                  | 8,568            |
| Net change in unrealized appreciation (depreciation):                     |           |                |                  |                  |
| Non-controlled/non-affiliated investments(1)                              |           | 30,742         | (40,807)         | (43,324)         |
| Non-controlled/affiliated investments(1)                                  |           | 1,315          | (633)            | (539)            |
| Controlled investments(1)   |           | 8,074          | 6,168            |                  |
| Securities purchased under collateralized agreements to resell(1)         |           | (486)          | (296)            |                  |
| Investments allocated from New Mountain Finance Holdings, L.L.C.(2)       |           |                |                  | 940              |
| Benefit (provision) for taxes(1)  |           | 642            | (1,183)          | (493)            |
| <b>Net realized and unrealized gains (losses)</b>                         |           | <b>23,570</b>  | <b>(49,540)</b>  | <b>(34,491)</b>  |
| <b>Net increase in net assets resulting from operations</b>               | <b>\$</b> | <b>111,678</b> | <b>\$ 32,955</b> | <b>\$ 45,575</b> |
| Basic earnings per share  | \$        | 1.72           | \$ 0.55          | \$ 0.88          |
| Weighted average shares of common stock outstanding basic (See Note 12)   |           | 64,918,191     | 59,715,290       | 51,846,164       |
| Diluted earnings per share  | \$        | 1.60           | \$ 0.55          | \$ 0.86          |
| Weighted average shares of common stock outstanding diluted (See Note 12) |           | 72,863,387     | 66,968,089       | 56,157,835       |
| Distributions declared and paid per share                                 | \$        | 1.36           | \$ 1.36          | \$ 1.48          |

(1) For the year ended December 31, 2014, the amounts reported relate to the period from May 8, 2014 to December 31, 2014.

(2) For the year ended December 31, 2014, the amounts reported relate to the period from January 1, 2014 to May 7, 2014.

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**New Mountain Finance Corporation****Consolidated Statements of Changes in Net Assets****(in thousands, except share data)**

|   | <b>Years Ended December 31,</b> |                   |                   |
|---|---------------------------------|-------------------|-------------------|
|   | <b>2016</b>                     | <b>2015</b>       | <b>2014</b>       |
| <b>Increase (decrease) in net assets resulting from operations:</b>   |                                 |                   |                   |
| Net investment income <sup>(1)</sup>  | \$ 88,108                       | \$ 82,495         | \$ 57,196         |
| Net investment income allocated from New Mountain Finance Holdings, L.L.C. <sup>(2)</sup>   |                                 |                   | 22,870            |
| Net realized (losses) gains on investments <sup>(1)</sup>   | (16,717)                        | (12,789)          | 357               |
| Net realized gains on investments allocated from New Mountain Finance Holdings, L.L.C. <sup>(2)</sup>                                   |                                 |                   | 8,568             |
| Net change in unrealized appreciation (depreciation) of investments <sup>(1)</sup>  | 40,131                          | (35,272)          | (43,863)          |
| Net change in unrealized (depreciation) appreciation of securities purchased under collateralized agreements to resell <sup>(1)</sup>   | (486)                           | (296)             |                   |
| Net change in unrealized appreciation (depreciation) of investments allocated from New Mountain Finance Holdings, L.L.C. <sup>(2)</sup> |                                 |                   | 940               |
| Benefit (provision) for taxes <sup>(1)</sup>  | 642                             | (1,183)           | (493)             |
| <b>Net increase in net assets resulting from operations</b>   | <b>111,678</b>                  | <b>32,955</b>     | <b>45,575</b>     |
| <b>Capital transactions</b>   |                                 |                   |                   |
| Net proceeds from shares sold   | 79,063                          | 79,415            | 141,157           |
| Deferred offering costs allocated from New Mountain Finance Holdings, L.L.C. <sup>(2)</sup>   |                                 |                   | (250)             |
| Deferred offering costs <sup>(1)</sup>  | (328)                           | (285)             | (476)             |
| Value of shares issued for exchanged units  |                                 |                   | 38,840            |
| Distributions declared to stockholders from net investment income   | (88,764)                        | (81,002)          | (71,365)          |
| Distributions declared to stockholders from net realized gains  |                                 |                   | (6,247)           |
| Reinvestment of distributions   | 2,953                           | 3,655             | 4,829             |
| Repurchase of shares under repurchase program   | (2,948)                         |                   |                   |
| <b>Total net (decrease) increase in net assets resulting from capital transactions</b>  | <b>(10,024)</b>                 | <b>1,783</b>      | <b>106,488</b>    |
| <b>Net increase in net assets</b>   | <b>101,654</b>                  | <b>34,738</b>     | <b>152,063</b>    |
| <b>Net assets at the beginning of the period</b>  | <b>836,908</b>                  | <b>802,170</b>    | <b>650,107</b>    |
| <b>Net assets at the end of the period<sup>(3)</sup></b>  | <b>\$ 938,562</b>               | <b>\$ 836,908</b> | <b>\$ 802,170</b> |
| <b>Capital share activity</b>   |                                 |                   |                   |
| Shares sold   | 5,750,000                       | 5,750,000         | 9,775,000         |
| Shares issued for exchanged units   |                                 |                   | 2,671,938         |
| Shares issued from reinvestment of distributions  |                                 | 257,497           | 326,197           |
| Shares reissued from repurchase program in connection with reinvestment of distributions  | 210,926                         |                   |                   |
| Shares repurchased under repurchase program   | (248,499)                       |                   |                   |
| <b>Net increase in shares outstanding</b>   | <b>5,712,427</b>                | <b>6,007,497</b>  | <b>12,773,135</b> |

- (1) For the year ended December 31, 2014, the amounts reported relate to the period from May 8, 2014 to December 31, 2014.
- (2) For the year ended December 31, 2014, the amounts reported relate to the period from January 1, 2014 to May 7, 2014.
- (3) For the years ended December 31, 2016, December 31, 2015 and December 31, 2014, includes accumulated undistributed net investment income of \$2,073, \$4,164 and \$2,530, respectively.

The accompanying notes are an integral part of these consolidated financial statements.

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## New Mountain Finance Corporation

## Consolidated Statements of Cash Flows

(in thousands)

|  | Years Ended December 31, |           |           |
|--|--------------------------|-----------|-----------|
|  | 2016                     | 2015      | 2014      |
| <b>Cash flows from operating activities</b>  |                          |           |           |
| Net increase in net assets resulting from operations   | \$ 111,678               | \$ 32,955 | \$ 45,575 |
| Adjustments to reconcile net (increase) decrease in net assets resulting from operations to net cash (used in) provided by operating activities: |                          |           |           |
| Net investment income allocated from New Mountain Finance Holdings, L.L.C.(2)  |                          |           | (22,870)  |
| Net realized losses (gains) on investments(1)  | 16,717                   | 12,789    | (357)     |
| Net realized gains on investments allocated from New Mountain Finance Holdings, L.L.C.(2)  |                          |           | (8,568)   |
| Net change in unrealized (appreciation) depreciation of investments(1)   | (40,131)                 | 35,272    | 43,863    |
| Net change in unrealized depreciation (appreciation) of securities purchased under collateralized agreements to resell                           | 486                      | 296       |           |
| Net change in unrealized (appreciation) depreciation of investments allocated from New Mountain Finance Holdings, L.L.C.(2)                      |                          |           | (940)     |
| Amortization of purchase discount(1)   | (3,096)                  | (2,511)   | (1,721)   |
| Amortization of deferred financing costs(1)  | 3,457                    | 2,955     | 1,713     |
| Amortization of premium on Convertible Notes(1)  | (28)                     |           |           |
| Non-cash investment income(1)  | (7,644)                  | (5,978)   | (3,479)   |
| <b>(Increase) decrease in operating assets:</b>  |                          |           |           |
| Cash and cash equivalents from New Mountain Finance Holdings, L.L.C.(3)  |                          |           | 957       |
| Purchase of investments and delayed draw facilities(1)   | (557,897)                | (609,667) | (529,540) |
| Proceeds from sales and paydowns of investments(1)   | 547,078                  | 483,936   | 261,747   |
| Cash received for purchase of undrawn portion of revolving credit or delayed draw facilities(1)  | 177                      | 157       | 29        |
| Cash paid for purchase of drawn portion of revolving credit facilities(1)  | (348)                    | (3,227)   | (2,548)   |
| Cash paid for drawn revolvers(1)   | (11,651)                 | (4,376)   |           |
| Cash repayments on drawn revolvers(1)  | 10,202                   | 6,052     | 380       |
| Cash paid for securities purchased under collateralized agreements to resell(1)  |                          |           | (30,000)  |
| Interest and dividend receivable(1)  | (4,001)                  | (2,088)   | (207)     |
| Receivable from affiliates(1)  | 14                       | 130       | (106)     |
| Receivable from unsettled securities sold(1)   | (990)                    | 8,912     | (8,912)   |
| Other assets(1)  | (1,080)                  | (156)     | 196       |
| Purchase of investment in New Mountain Finance Holdings, L.L.C.(2)   |                          |           | (58,644)  |
| Distributions from New Mountain Finance Holdings, L.L.C.(2)  |                          |           | 15,247    |
| <b>Increase (decrease) in operating liabilities(1):</b>  |                          |           |           |
| Incentive fee payable  | 123                      | 819       | (1,522)   |

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|  |                  |                  |                  |
|--|------------------|------------------|------------------|
| Management fee payable   | 386              | 322              | (911)            |
| Payable for unsettled securities purchased                       | (2,701)          | (21,019)         | 17,054           |
| Interest payable   | 829              | 991              | 1,259            |
| Deferred tax liability   | (642)            | 1,183            | 493              |
| Payable to affiliates  | (428)            | (258)            | 589              |
| Capital gains incentive fee payable                              |                  |                  | (8,573)          |
| Other liabilities  | (2)              | (836)            | 225              |
| <b>Net cash flows provided by (used in) operating activities</b> | <b>60,508</b>    | <b>(63,347)</b>  | <b>(289,571)</b> |
| <b>Cash flows from financing activities</b>                      |                  |                  |                  |
| Net proceeds from shares sold                                    | 79,063           | 79,415           | 141,157          |
| Distributions paid   | (85,811)         | (77,347)         | (72,783)         |
| Offering costs paid(1)   | (261)            | (325)            | (478)            |
| Proceeds from Holdings Credit Facility(1)                        | 177,600          | 400,355          | 384,721          |
| Repayment of Holdings Credit Facility(1)                         | (263,400)        | (449,150)        | (314,400)        |
| Proceeds from Convertible Notes(1)                               | 40,552           |                  | 115,000          |
| Proceeds from SBA-guaranteed debentures(1)                       | 4,000            | 80,245           | 37,500           |
| Proceeds from Unsecured Notes                                    | 90,000           |                  |                  |
| Proceeds from NMFC Credit Facility(1)                            | 166,500          | 148,800          | 72,000           |
| Repayment of NMFC Credit Facility(1)                             | (246,500)        | (108,800)        | (22,000)         |
| Proceeds from SLF Credit Facility(1)                             |                  |                  | 21,255           |
| Repayment of SLF Credit Facility(1)                              |                  |                  | (37,700)         |
| Deferred financing costs paid(1)                                 | (3,477)          | (3,189)          | (11,256)         |
| Repurchase of shares under repurchase program                    | (2,948)          |                  |                  |
| <b>Net cash flows (provided by) used in financing activities</b> | <b>(44,682)</b>  | <b>70,004</b>    | <b>313,016</b>   |
| <b>Net increase in cash and cash equivalents</b>                 | <b>15,826</b>    | <b>6,657</b>     | <b>23,445</b>    |
| <b>Cash and cash equivalents at the beginning of the period</b>  | <b>30,102</b>    | <b>23,445</b>    |                  |
| <b>Cash and cash equivalents at the end of the period</b>        | <b>\$ 45,928</b> | <b>\$ 30,102</b> | <b>\$ 23,445</b> |

**Supplemental disclosure of cash flow information**

|  |           |           |          |
|--|-----------|-----------|----------|
| Cash interest paid   | \$ 23,768 | \$ 18,683 | \$ 9,924 |
| Income taxes paid  | 85        | 217       | 437      |
| <b>Non-cash operating activities:</b>  |           |           |          |
| Non-cash activity on investments   | \$ 7,186  | \$ 60,652 | \$       |
| <b>Non-cash financing activities:</b>  |           |           |          |
| Value of shares reissued from repurchase program in connection with dividend reinvestment plan                   | \$ 2,953  | \$        | \$       |
| Value of shares issued in connection with dividend reinvestment plan   |           | 3,655     | 4,829    |
| Accrual for offering costs(1)  | 598       | 638       | 516      |
| Accrual for deferred financing costs(1)  | 99        | 81        | 375      |
| Deferred offering costs allocated from New Mountain Finance Holdings, L.L.C(2)                                   |           |           | (250)    |
| SLF Credit Facility merger with the Holdings Credit Facility(1)  |           |           | 198,555  |
| New Mountain Finance AIV Holdings Corporation exchange of New Mountain Finance Holdings, L.L.C. units for shares |           |           | 38,840   |

- (1) For the year ended December 31, 2014, the amounts reported relate to the period from May 8, 2014 to December 31, 2014.
- (2) For the year ended December 31, 2014, the amounts reported relate to the period from January 1, 2014 to May 7, 2014.
- (3) Represents the cash and cash equivalent balance of New Mountain Finance Holdings, L.L.C.'s at the date of restructuring. See Note 1. *Formation and Business Purpose*.

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**New Mountain Finance Corporation****Consolidated Schedule of Investments**

December 31, 2016

(in thousands, except shares)

| Portfolio Company, Location and Industry(1)                                      | Type of Investment | Interest Rate(9)        | Maturity/Expiration Date | Principal Amount, Par Value or Shares | Cost             | Fair Value       | Percent of Net Assets |
|--|--------------------|-------------------------|--------------------------|---------------------------------------|------------------|------------------|-----------------------|
| <b>Non-Controlled/Non-Affiliated Investments</b>                                 |                    |                         |                          |                                       |                  |                  |                       |
| <b>Funded Debt Investments Australia</b>   |                    |                         |                          |                                       |                  |                  |                       |
| Project Sunshine IV Pty Ltd**<br>Media   | First lien(2)      | 8.00%<br>(L + 7.00%/M)  | 9/23/2019                | \$ 6,012                              | \$ 5,992         | \$ 6,005         | 0.64                  |
| <b>Total Funded Debt Investments Australia</b>                                   |                    |                         |                          | <b>\$ 6,012</b>                       | <b>\$ 5,992</b>  | <b>\$ 6,005</b>  | <b>0.64</b>           |
| <b>Funded Debt Investments Luxembourg</b>  |                    |                         |                          |                                       |                  |                  |                       |
| Pinnacle Holdco S.à.r.l. / Pinnacle (US)<br>Acquisition Co Limited**<br>Software | Second lien(2)     | 10.50%<br>(L + 9.25%/Q) | 7/30/2020                | \$ 24,630                             | \$ 24,362        | \$ 18,103        |                       |
|  | Second lien(3)     | 10.50%<br>(L + 9.25%/Q) | 7/30/2020                | 8,204                                 | 8,332            | 6,030            |                       |
|  |                    |                         |                          | 32,834                                | 32,694           | 24,133           | 2.57                  |
| <b>Total Funded Debt Investments Luxembourg</b>                                  |                    |                         |                          | <b>\$ 32,834</b>                      | <b>\$ 32,694</b> | <b>\$ 24,133</b> | <b>2.57</b>           |
| <b>Funded Debt Investments Netherlands</b>                                       |                    |                         |                          |                                       |                  |                  |                       |
| Eiger Acquisition B.V. (Eiger<br>-Borrower, LLC)**<br>Software                   | Second lien(3)     | 10.13%<br>(L + 9.13%/Q) | 2/17/2023                | \$ 10,000                             | \$ 9,371         | \$ 9,799         | 1.04                  |
| <b>Total Funded Debt Investments Netherlands</b>                                 |                    |                         |                          | <b>\$ 10,000</b>                      | <b>\$ 9,371</b>  | <b>\$ 9,799</b>  | <b>1.04</b>           |
| <b>Funded Debt Investments United Kingdom</b>                                    |                    |                         |                          |                                       |                  |                  |                       |
| Er Newco LLC**<br>Software   | Second lien(3)     | 10.50%<br>(L + 9.50%/Q) | 1/31/2023                | \$ 32,500                             | \$ 31,814        | \$ 29,514        | 3.14                  |
|  |                    |                         |                          | <b>\$ 32,500</b>                      | <b>\$ 31,814</b> | <b>\$ 29,514</b> | <b>3.14</b>           |



| Total Funded Debt Investments  | United Kingdom |                 |                            |            |           |           |             |
|--|----------------|-----------------|----------------------------|------------|-----------|-----------|-------------|
| Funded Debt Investments  | United States  |                 |                            |            |           |           |             |
| BCO Software Inc.<br>Software  |                | First lien(2)   | 6.50%<br>(L + 5.50%/M)     | 12/4/2020  | \$ 29,475 | \$ 28,444 | \$ 29,634   |
|  |                | Subordinated(3) | 11.38%/S                   | 12/1/2021  | 15,000    | 14,659    | 15,038      |
|  |                |                 |                            |            | 44,475    | 43,103    | 44,672 4.76 |
| Avex Global, Inc.<br>Software  |                | First lien(4)   | 5.99%<br>(L + 4.75%/Q)     | 11/19/2021 | 4,563     | 4,530     | 4,540       |
|  |                | First lien(2)   | 5.99%<br>(L + 4.75%/Q)     | 11/19/2021 | 2,583     | 2,563     | 2,570       |
|  |                | Second lien(4)  | 10.31%<br>(L + 8.75%/Q)    | 11/18/2022 | 18,187    | 17,984    | 17,823      |
|  |                | Second lien(3)  | 10.31%<br>(L + 8.75%/Q)    | 11/18/2022 | 19,813    | 19,282    | 19,417      |
|  |                |                 |                            |            | 45,146    | 44,359    | 44,350 4.73 |
| Call International, Inc.<br>Business Services                                |                | First lien(2)   | 7.75%<br>(L + 6.75%/Q)     | 9/28/2020  | 41,544    | 41,150    | 41,543 4.43 |
| MeasuredPartners, Inc.<br>Business Services                                  |                | Second lien(3)  | 10.00%<br>(L + 9.00%/M)    | 10/20/2023 | 20,200    | 19,480    | 20,394      |
|  |                | Second lien(2)  | 10.00%<br>(L + 9.00%/M)    | 10/20/2023 | 20,000    | 19,282    | 20,192      |
|  |                |                 |                            |            | 40,200    | 38,762    | 40,586 4.32 |
| Manawa Resource Holdings LLC(13)<br>Manawa Resource Management LLC<br>Energy |                | First lien(3)   | 10.50%<br>(Base + 8.00%/Q) | 5/12/2019  | 40,000    | 39,903    | 39,825 4.24 |
| Monos Incorporated<br>Software   |                | Second lien(2)  | 9.25%<br>(L + 8.25%/Q)     | 11/1/2024  | 36,000    | 35,458    | 37,159 3.96 |
| NetVet Care Centers LLC<br>Consumer Services                                 |                | Second lien(3)  | 10.25%<br>(L + 9.25%/Q)    | 6/17/2021  | 24,000    | 23,820    | 24,240      |
|  |                | Second lien(3)  | 10.50%<br>(L + 9.50%/Q)    | 6/17/2021  | 6,500     | 6,444     | 6,565       |
|  |                | Second lien(3)  | 9.50%<br>(L + 8.50%/Q)     | 6/17/2021  | 6,000     | 5,910     | 5,910       |
|  |                |                 |                            |            | 36,500    | 36,174    | 36,715 3.91 |

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The accompanying notes are an integral part of these consolidated financial statements.

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## New Mountain Finance Corporation

## Consolidated Schedule of Investments (Continued)

December 31, 2016

(in thousands, except shares)

| Portfolio Company, Location and Industry(1)            | Type of Investment         | Interest Rate(9)        | Maturity/Expiration Date | Principal Amount, Par Value or Shares | Cost            | Fair Value      | Percent of Net Assets |
|--|----------------------------|-------------------------|--------------------------|---------------------------------------|-----------------|-----------------|-----------------------|
| Ascend Learning, LLC<br>Education                      | Second lien(3)             | 9.50%<br>(L + 8.50%/Q)  | 11/30/2020               | \$ 35,227                             | \$ 34,895       | \$ 34,963       | 3.73%                 |
| Weston Solutions, Inc.<br>Business Services            | First lien(2)              | 10.50%<br>(L + 9.50%/M) | 12/31/2020               | 34,821                                | 34,821          | 34,821          | 3.71%                 |
| Redbox Automated Retail, LLC<br>Consumer Services      | First lien(2)              | 8.50%<br>(L + 7.50%/Q)  | 9/27/2021                | 33,469                                | 32,987          | 32,601          | 3.47%                 |
| Valet Waste Holdings, Inc.<br>Business Services        | First lien(2)              | 8.00%<br>(L + 7.00%/Q)  | 9/24/2021                | 29,625                                | 29,320          | 29,625          |                       |
|  | First lien(3)(11)<br>Drawn | 8.00%<br>(L + 7.00%/Q)  | 9/24/2021                | 2,250                                 | 2,222           | 2,250           |                       |
|  |                            |                         |                          | 31,875                                | 31,542          | 31,875          | 3.40%                 |
| VetCor Professional Practices LLC<br>Consumer Services | First lien(4)              | 7.25%<br>(L + 6.25%/Q)  | 4/20/2021                | 19,306                                | 19,159          | 19,306          |                       |
|  | First lien(2)              | 7.25%<br>(L + 6.25%/Q)  | 4/20/2021                | 7,793                                 | 7,652           | 7,793           |                       |
|  | First lien(4)              | 7.25%<br>(L + 6.25%/Q)  | 4/20/2021                | 2,677                                 | 2,655           | 2,677           |                       |
|  | First lien(4)(11)<br>Drawn | 7.25%<br>(L + 6.25%/Q)  | 4/20/2021                | 373                                   | 365             | 373             |                       |
|  |                            |                         |                          | 30,149                                | 29,831          | 30,149          | 3.21%                 |
| Integro Parent Inc.<br>Business Services               | First lien(2)              | 6.75%<br>(L + 5.75%/Q)  | 10/31/2022<br>10/30/2023 | 19,806<br>10,000                      | 19,463<br>9,910 | 19,607<br>9,750 |                       |

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|  |                |                         |            |  |        |        |        |       |
|--|----------------|-------------------------|------------|--|--------|--------|--------|-------|
|  | Second lien(3) | 10.25%<br>(L + 9.25%/Q) |            |  | 29,806 | 29,373 | 29,357 | 3.13% |
| ProQuest LLC<br>Business Services                    | Second lien(3) | 10.00%<br>(L + 9.00%/M) | 12/15/2022 |  | 28,700 | 28,188 | 28,700 | 3.06% |
| CRGT Inc.<br>Federal Services                        | First lien(2)  | 7.50%<br>(L + 6.50%/M)  | 12/19/2020 |  | 27,409 | 27,252 | 27,478 | 2.93% |
| Evo Payments International, LLC<br>Business Services | First lien(2)  | 6.00%<br>(L + 5.00%/M)  | 12/22/2023 |  | 2,500  | 2,487  | 2,515  |       |
|  | Second lien(2) | 10.00%<br>(L + 9.00%/M) | 12/23/2024 |  | 25,000 | 24,813 | 24,813 |       |
|  |                |                         |            |  | 27,500 | 27,300 | 27,328 | 2.91% |
| Severin Acquisition, LLC<br>Software                 | Second lien(4) | 9.75%<br>(L + 8.75%/Q)  | 7/29/2022  |  | 15,000 | 14,873 | 15,000 |       |
|  | Second lien(4) | 9.75%<br>(L + 8.75%/Q)  | 7/29/2022  |  | 4,154  | 4,118  | 4,154  |       |
|  | Second lien(4) | 10.25%<br>(L + 9.25%/Q) | 7/29/2022  |  | 3,273  | 3,243  | 3,305  |       |
|  | Second lien(3) | 10.00%<br>(L + 9.00%/Q) | 7/29/2022  |  | 2,361  | 2,338  | 2,384  |       |
|  | Second lien(3) | 10.25%<br>(L + 9.25%/Q) | 7/29/2022  |  | 1,825  | 1,807  | 1,843  |       |
|  | Second lien(4) | 10.25%<br>(L + 9.25%/Q) | 7/29/2022  |  | 300    | 297    | 303    |       |
|  |                |                         |            |  | 26,913 | 26,676 | 26,989 | 2.88% |
| Marketo, Inc.<br>Software                            | First lien(3)  | 10.50%<br>(L + 9.50%/Q) | 8/16/2021  |  | 26,820 | 26,442 | 26,418 | 2.81% |
| Ansira Holdings, Inc.<br>Business Services           | First lien(2)  | 7.50%<br>(L + 6.50%/Q)  | 12/20/2022 |  | 26,182 | 26,051 | 26,051 | 2.78% |
| Pelican Products, Inc.<br>Business Products          | Second lien(3) | 9.25%<br>(L + 8.25%/Q)  | 4/9/2021   |  | 15,500 | 15,506 | 15,170 |       |
|  | Second lien(2) | 9.25%<br>(L + 8.25%/Q)  | 4/9/2021   |  | 10,000 | 10,107 | 9,788  |       |
|  |                |                         |            |  | 25,500 | 25,613 | 24,958 | 2.66% |
| DigiCert Holdings, Inc.<br>Software                  | First lien(2)  |                         | 10/21/2021 |  | 24,750 | 24,134 | 24,719 | 2.63% |

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|  |                |                  |           |        |        |        |       |  |
|--|----------------|------------------|-----------|--------|--------|--------|-------|--|
|  |                | 6.00%            |           |        |        |        |       |  |
|  |                | (L + 5.00%/Q)    |           |        |        |        |       |  |
| Thrive, Inc. (fka Precyse Acquisition Corp.) |                |                  |           |        |        |        |       |  |
| Healthcare Services                          | Second lien(2) | 10.75%           | 4/20/2023 | 25,000 | 24,593 | 24,711 | 2.63% |  |
|  |                | (L + 9.75%/M)    |           |        |        |        |       |  |
| AAC Holding Corp.                            |                |                  |           |        |        |        |       |  |
| Education                                    | First lien(2)  | 8.25%            | 9/30/2020 | 23,918 | 23,637 | 23,918 | 2.55% |  |
|  |                | (L + 7.25%/M)    |           |        |        |        |       |  |
| Ryan, LLC                                    |                |                  |           |        |        |        |       |  |
| Business Services                            | First lien(2)  | 6.75%            | 8/7/2020  | 23,927 | 23,656 | 23,785 | 2.53% |  |
|  |                | (L + 5.75%/M)    |           |        |        |        |       |  |
| EN Engineering, LLC                          |                |                  |           |        |        |        |       |  |
| Business Services                            | First lien(2)  | 7.00%            | 6/30/2021 | 21,107 | 20,940 | 21,107 |       |  |
|  |                | (L + 6.00%/Q)    |           |        |        |        |       |  |
|  | First lien(2)  | 7.78%            | 6/30/2021 | 2,189  | 2,170  | 2,189  |       |  |
|  |                | (Base + 5.55%/Q) |           |        |        |        |       |  |
|  |                |                  |           | 23,296 | 23,110 | 23,296 | 2.48% |  |

The accompanying notes are an integral part of these consolidated financial statements.

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## New Mountain Finance Corporation

## Consolidated Schedule of Investments (Continued)

December 31, 2016

(in thousands, except shares)

| Portfolio Company, Location and Industry(1)   | Type of Investment | Interest Rate(9)          | Maturity/Expiration Date | Principal Amount, Par Value or Shares | Cost      | Fair Value | Percent of Net Assets |
|---|--------------------|---------------------------|--------------------------|---------------------------------------|-----------|------------|-----------------------|
| TWDiamondback Holdings Corp.(15)<br>Diamondback Drugs of Delaware, L.L.C.<br>TWDiamondback II Holdings LLC)<br>Distribution & Logistics | First lien(4)      | 9.75%<br>(L + 8.75%/Q)    | 11/19/2019               | \$ 19,895                             | \$ 19,895 | \$ 19,895  |                       |
|   | First lien(3)      | 9.75%<br>(L + 8.75%/Q)    | 11/19/2019               | 2,158                                 | 2,158     | 2,158      |                       |
|   | First lien(4)      | 9.75%<br>(L + 8.75%/Q)    | 11/19/2019               | 605                                   | 605       | 605        |                       |
|   |                    |                           |                          | 22,658                                | 22,658    | 22,658     | 2.41%                 |
| Vision Solutions, Inc.<br>Software  | First lien(2)      | 7.50%<br>(Base + 6.50%/Q) | 6/16/2022                | 22,359                                | 22,153    | 22,317     | 2.38%                 |
| KeyPoint Government Solutions, Inc.<br>Federal Services   | First lien(2)      | 7.75%<br>(L + 6.50%/Q)    | 11/13/2017               | 22,411                                | 22,312    | 22,299     | 2.38%                 |
| TW-NHME Holdings Corp.(20)<br>National HME, Inc.<br>Healthcare Services   | Second lien(4)     | 10.25%<br>(L + 9.25%/Q)   | 7/14/2022                | 21,500                                | 21,268    | 21,500     |                       |
|   | Second lien(3)     | 10.25%<br>(L + 9.25%/Q)   | 7/14/2022                | 500                                   | 494       | 500        |                       |
|   |                    |                           |                          | 22,000                                | 21,762    | 22,000     | 2.34%                 |
| T'SUGAR LLC<br>Retail   | First lien(4)      | 10.50%<br>(L + 9.50%/Q)   | 10/23/2019               | 20,790                                | 20,189    | 20,467     | 2.18%                 |
| First American Payment Systems, L.P.<br>Business Services   | Second lien(2)     | 10.75%<br>(L + 9.50%/M)   | 4/12/2019                | 18,643                                | 18,483    | 18,643     | 1.99%                 |

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|  |                               |                          |            |        |        |        |       |
|--|-------------------------------|--------------------------|------------|--------|--------|--------|-------|
| DCA Investment Holding, LLC                                    |                               |                          |            |        |        |        |       |
| Healthcare Services  | First lien(2)                 | 6.25%<br>(L + 5.25%/Q)   | 7/2/2021   | 17,632 | 17,493 | 17,632 |       |
|  | First<br>lien(3)(11)<br>Drawn | 8.00%<br>(P + 4.25%/Q)   | 7/2/2021   | 752    | 744    | 752    |       |
|  |                               |                          |            | 18,384 | 18,237 | 18,384 | 1.96% |
| AgKnowledge Holdings Company, Inc.                             |                               |                          |            |        |        |        |       |
| Business Services  | Second<br>lien(2)             | 9.25%<br>(L + 8.25%/M)   | 7/23/2020  | 18,500 | 18,379 | 18,046 | 1.92% |
| Project Alpha Intermediate Holding, Inc.                       |                               |                          |            |        |        |        |       |
| Software   | First lien(2)                 | 9.25%<br>(L + 8.25%/M)   | 8/22/2022  | 17,955 | 17,784 | 17,775 | 1.89% |
| Pipeline, Inc. (Internet Pipeline, Inc.)                       |                               |                          |            |        |        |        |       |
| Software   | First lien(4)                 | 8.25%<br>(L + 7.25%/Q)   | 8/4/2022   | 17,775 | 17,626 | 17,775 | 1.89% |
| Sierra Hamilton LLC / Sierra Hamilton<br>Finance, Inc.         |                               |                          |            |        |        |        |       |
| Energy   | First lien(2)                 | 12.25%/S(8)              | 12/15/2018 | 25,000 | 25,000 | 16,012 |       |
|  | First lien(3)                 | 12.25%/S(8)              | 12/15/2018 | 2,660  | 2,231  | 1,704  |       |
|  |                               |                          |            | 27,660 | 27,231 | 17,716 | 1.89% |
| Greenway Health, LLC (fka Vitera Healthcare<br>Solutions, LLC) |                               |                          |            |        |        |        |       |
| Software   | First lien(2)                 | 6.00%<br>(L + 5.00%/Q)   | 11/4/2020  | 1,891  | 1,880  | 1,865  |       |
|  | Second<br>lien(2)             | 9.25%<br>(L + 8.25%/Q)   | 11/4/2021  | 14,000 | 13,448 | 13,650 |       |
|  |                               |                          |            | 15,891 | 15,328 | 15,515 | 1.65% |
| PYP Holdings LLC / Print Media<br>Holdings LLC(12)             |                               |                          |            |        |        |        |       |
| PYP LLC / Print Media LLC                                      |                               |                          |            |        |        |        |       |
| Media  | First lien(2)                 | 12.25%<br>(L + 11.00%/M) | 6/4/2018   | 15,267 | 15,197 | 15,191 | 1.62% |
| Netsmart Inc. / Netsmart Technologies, Inc.                    |                               |                          |            |        |        |        |       |
| Healthcare Information Technology                              | Second<br>lien(2)             | 10.50%<br>(L + 9.50%/Q)  | 10/19/2023 | 15,000 | 14,648 | 14,944 | 1.59% |
| Event, Inc.  |                               |                          |            |        |        |        |       |
| Software   | First lien(3)                 | 6.00%<br>(L + 5.00%/Q)   | 11/29/2023 | 5,000  | 4,963  | 5,064  |       |
|  | Second<br>lien(3)             | 11.00%<br>(L + 10.00%/Q) | 5/29/2024  | 10,000 | 9,851  | 9,850  |       |
|  |                               |                          |            | 15,000 | 14,814 | 14,914 | 1.59% |

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The accompanying notes are an integral part of these consolidated financial statements.

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## Consolidated Schedule of Investments (Continued)

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(in thousands, except shares)

| Portfolio Company, Location and Industry(1)                  | Type of Investment | Interest Rate(9)        | Maturity/Expiration Date | Principal Amount, Par Value or Shares | Cost      | Fair Value | Percent of Net Assets |
|--|--------------------|-------------------------|--------------------------|---------------------------------------|-----------|------------|-----------------------|
| Merijet Holdings, Inc.<br>Distribution & Logistics           | First lien(4)      | 9.00%<br>(L + 8.00%/M)  | 7/15/2021                | \$ 12,536                             | \$ 12,449 | \$ 12,442  |                       |
|  | First lien(4)      | 9.00%<br>(L + 8.00%/M)  | 7/15/2021                | 2,089                                 | 2,075     | 2,074      |                       |
|  |                    |                         |                          | 14,625                                | 14,524    | 14,516     | 1.55                  |
| W Holdings, LLC<br>Business Services                         | Second lien(4)     | 9.75%<br>(L + 8.75%/Q)  | 12/30/2021               | 14,265                                | 14,147    | 14,265     | 1.52                  |
| Seidon Intermediate, LLC<br>Software                         | Second lien(2)     | 9.50%<br>(L + 8.50%/Q)  | 8/15/2023                | 13,000                                | 12,829    | 13,000     | 1.39                  |
| Wave, Inc.<br>Software                                       | Second lien(4)     | 10.00%<br>(L + 9.00%/Q) | 11/17/2023               | 11,000                                | 10,918    | 10,918     | 1.16                  |
| Tricent Technologies<br>Business Services                    | Second lien(2)     | 9.50%<br>(L + 8.50%/Q)  | 4/14/2022                | 12,500                                | 12,316    | 10,719     | 1.14                  |
| McKissock Investment, LLC(14)<br>McKissock, LLC<br>Education | First lien(2)      | 7.50%<br>(L + 6.50%/Q)  | 8/5/2019                 | 6,463                                 | 6,421     | 6,463      |                       |
|  | First lien(2)      | 7.50%<br>(L + 6.50%/Q)  | 8/5/2019                 | 3,081                                 | 3,064     | 3,081      |                       |
|  | First lien(2)      | 7.50%<br>(L + 6.50%/Q)  | 8/5/2019                 | 994                                   | 988       | 994        |                       |
|  |                    |                         |                          | 10,538                                | 10,473    | 10,538     | 1.12                  |
| Quest Software US Holdings Inc.<br>Software                  | First lien(2)      |                         | 10/31/2022               | 10,000                                | 9,854     | 10,152     | 1.08                  |

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|  |                   |                  |            |        |       |        |      |  |
|--|-------------------|------------------|------------|--------|-------|--------|------|--|
|  |                   | 7.00%            |            |        |       |        |      |  |
|  |                   | (L + 6.00%/Q)    |            |        |       |        |      |  |
| Energy Holdings, Inc.                          |                   |                  |            |        |       |        |      |  |
| Business Services                              | Second lien(2)    | 9.50%            |            |        |       |        |      |  |
|  |                   | (L + 8.50%/Q)    | 12/16/2024 | 10,000 | 9,938 | 10,000 | 1.07 |  |
| PowerPlan Holdings, Inc.                       |                   |                  |            |        |       |        |      |  |
| Software                                       | Second lien(2)    | 10.00%           |            |        |       |        |      |  |
|  |                   | (L + 9.00%/M)    | 2/23/2023  | 10,000 | 9,916 | 10,000 | 1.07 |  |
| R Arsenal Holdings II Corp.                    |                   |                  |            |        |       |        |      |  |
| Business Services                              | First lien(2)     | 8.25%            |            |        |       |        |      |  |
|  |                   | (L + 7.25%/Q)    | 9/8/2022   | 9,975  | 9,879 | 9,875  | 1.05 |  |
| American Tire Distributors, Inc.               |                   |                  |            |        |       |        |      |  |
| Distribution & Logistics                       | Subordinated(3)   | 10.25%/S         |            |        |       |        |      |  |
|  |                   |                  | 3/1/2022   | 9,700  | 9,523 | 9,353  | 1.00 |  |
| Harley Marine Services, Inc.                   |                   |                  |            |        |       |        |      |  |
| Distribution & Logistics                       | Second lien(2)    | 10.50%           |            |        |       |        |      |  |
|  |                   | (L + 9.25%/Q)    | 12/20/2019 | 9,000  | 8,897 | 8,640  | 0.92 |  |
| Industry Brands, LLC                           |                   |                  |            |        |       |        |      |  |
| Software                                       | First lien(3)(11) | 6.00%            |            |        |       |        |      |  |
|  | Drawn             | (L + 5.00%/Q)    | 12/2/2022  | 350    | 348   | 348    |      |  |
|  | Second lien(3)    | 10.25%           |            |        |       |        |      |  |
|  |                   | (L + 9.25%/Q)    | 6/2/2023   | 7,840  | 7,782 | 7,781  |      |  |
|  |                   |                  |            | 8,190  | 8,130 | 8,129  | 0.87 |  |
| Monestar Intermediate Super Holdings, LLC      |                   |                  |            |        |       |        |      |  |
| Business Services                              | Subordinated(3)   | 10.00%           |            |        |       |        |      |  |
|  |                   | (L + 9.00%/M)    | 8/31/2021  | 7,000  | 6,934 | 7,210  | 0.77 |  |
| D. Power and Associates                        |                   |                  |            |        |       |        |      |  |
| Business Services                              | Second lien(3)    | 9.50%            |            |        |       |        |      |  |
|  |                   | (L + 8.50%/Q)    | 9/7/2024   | 7,000  | 6,898 | 7,035  | 0.75 |  |
| Monfie Seguros Holding II Co.                  |                   |                  |            |        |       |        |      |  |
| Consumer Services                              | Second lien(2)    | 10.25%           |            |        |       |        |      |  |
|  |                   | (L + 9.00%/M)    | 5/8/2019   | 6,957  | 6,952 | 6,919  | 0.74 |  |
| Solera Defense Solutions, Inc. (Global Defense |                   |                  |            |        |       |        |      |  |
| Technology & Systems, Inc.)                    |                   |                  |            |        |       |        |      |  |
| Federal Services                               | First lien(2)     | 9.00%            |            |        |       |        |      |  |
|  |                   | (L + 7.50%/Q)    | 4/21/2017  | 6,396  | 6,389 | 6,300  | 0.67 |  |
| Solera LLC / Solera Finance, Inc.              |                   |                  |            |        |       |        |      |  |
| Software                                       | Subordinated(3)   | 10.50%/S         |            |        |       |        |      |  |
|  |                   |                  | 3/1/2024   | 5,000  | 4,768 | 5,650  | 0.60 |  |
| MF Holding Corp.                               |                   |                  |            |        |       |        |      |  |
| Software                                       | Second lien(3)    | 10.00%           |            |        |       |        |      |  |
|  |                   | (L + 9.00%/Q)    | 6/28/2024  | 5,000  | 4,952 | 4,950  | 0.53 |  |
| MDG, LLC                                       |                   |                  |            |        |       |        |      |  |
| Healthcare Services                            | Second lien(3)    | 10.00%           |            |        |       |        |      |  |
|  |                   | (L + 9.00%/Q)    | 3/28/2024  | 5,000  | 4,926 | 4,925  | 0.53 |  |
| Encore, Inc. (fka The SI Organization Inc.)    |                   |                  |            |        |       |        |      |  |
| Federal Services                               | Second lien(3)    | 9.75%            |            |        |       |        |      |  |
|  |                   | (L + 8.75%/Q)    | 5/23/2020  | 4,000  | 3,928 | 4,039  | 0.43 |  |
| Manstar Holding Company                        |                   |                  |            |        |       |        |      |  |
| Distribution & Logistics                       | Second lien(3)    | 13.50%           |            |        |       |        |      |  |
|  |                   | (P + 9.75%/Q)(8) | 10/9/2019  | 36,112 | 3,155 | 2,167  |      |  |

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|                |                  |           |        |        |       |        |                   |
|----------------|------------------|-----------|--------|--------|-------|--------|-------------------|
| Second lien(2) | 13.50%           |           |        |        |       |        |                   |
|                | (P + 9.75%/Q)(8) | 10/9/2019 | 28,300 | 28,011 | 1,698 |        |                   |
|                |                  |           |        |        |       | 64,412 | 31,166 3,865 0.41 |

The accompanying notes are an integral part of these consolidated financial statements.

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## New Mountain Finance Corporation

## Consolidated Schedule of Investments (Continued)

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(in thousands, except shares)

| io Company, Location and Industry(1)        | Type of Investment  | Interest Rate(9)                       | Maturity/ Expiration Date | Principal Amount, Par Value or Shares | Cost                | Fair Value          | Per of Ass |
|---|---------------------|--|---------------------------|---------------------------------------|---------------------|---------------------|------------|
| isk Services Holding Corp.                  |                     |  |                           |                                       |                     |                     |            |
| ss Services                                 | Subordinated(3)     | 8.50%/S                                | 10/1/2022                 | \$ 3,000                              | \$ 3,000            | \$ 2,520            |            |
| ble S Merger Sub, Inc.                      |                     |  |                           |                                       |                     |                     |            |
| re  | Subordinated(3)     | 9.00%/S                                | 9/30/2023                 | 2,000                                 | 1,939               | 2,135               |            |
| on Management Corporation(19)               |                     |  |                           |                                       |                     |                     |            |
| on Management II LLC                        |                     |  |                           |                                       |                     |                     |            |
| on  | First lien(2)       | 5.50%<br>(L + 4.50%/Q)                 | 7/2/2020                  | 250                                   | 239                 | 61                  |            |
|   | First lien(3)       | 5.50%<br>(L + 4.50%/Q)                 | 7/2/2020                  | 141                                   | 136                 | 35                  |            |
|   | First lien(2)       | 8.50%<br>(L + 1.00% +<br>6.50% PIK/Q)* | 7/2/2020                  | 467                                   | 416                 | 22                  |            |
|   | First lien(3)       | 8.50%<br>(L + 1.00% +<br>6.50% PIK/Q)* | 7/2/2020                  | 263                                   | 235                 | 12                  |            |
|   |                     |  |                           | 1,121                                 | 1,026               | 130                 |            |
| <b>unded Debt Investments United States</b> |                     |  |                           | <b>\$ 1,339,099</b>                   | <b>\$ 1,290,033</b> | <b>\$ 1,261,394</b> | <b>13</b>  |
| <b>unded Debt Investments</b>               |                     |  |                           | <b>\$ 1,420,445</b>                   | <b>\$ 1,369,904</b> | <b>\$ 1,330,845</b> | <b>14</b>  |
| <b>United States</b>                        |                     |  |                           |                                       |                     |                     |            |
| a Resource Holdings LLC(13)                 |                     |  |                           |                                       |                     |                     |            |
| GL LLC                                      |                     |  |                           |                                       |                     |                     |            |
|   | Ordinary shares(7)  |  |                           | 5,290,997                             | \$ 5,291            | \$ 6,434            |            |
| mondback Holdings Corp.(15)                 |                     |  |                           |                                       |                     |                     |            |
| ation & Logistics                           | Preferred shares(4) |  |                           | 200                                   | 2,000               | 2,664               |            |
| HME Holdings Corp.(20)                      |                     |  |                           |                                       |                     |                     |            |
| are Services                                | Preferred shares(4) |  |                           | 100                                   | 1,000               | 1,497               |            |
|   |                     |  |                           | 16                                    | 158                 | 236                 |            |

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|                                      |                      |            |           |                  |                        |
|--------------------------------------|----------------------|------------|-----------|------------------|------------------------|
|                                      | Preferred shares(4)  |            |           |                  |                        |
|                                      | Preferred shares(4)  |            | 6         | 68               | 91                     |
|                                      |                      |            |           | 1,226            | 1,824                  |
| <b>Acquisition LLC</b>               |                      |            |           |                  |                        |
| on                                   | Preferred shares(6)  |            | 372       | 83               | 393                    |
| <b>on Management Corporation(19)</b> |                      |            |           |                  |                        |
| on                                   | Preferred shares(2)  |            | 3,331     | 200              | 1                      |
|                                      | Preferred shares(3)  |            | 1,879     | 113              | 1                      |
|                                      | Ordinary shares(2)   |            | 2,994,065 | 100              | 18                     |
|                                      | Ordinary shares(3)   |            | 1,688,976 | 56               | 10                     |
|                                      |                      |            |           | 469              | 30                     |
| <b>Shares</b>                        | <b>United States</b> |            | <b>\$</b> | <b>9,069</b>     | <b>\$ 11,345</b>       |
| <b>nts United States</b>             |                      |            |           |                  |                        |
| <b>dings LLC / Print Media</b>       |                      |            |           |                  |                        |
| <b>gs LLC(12)</b>                    |                      |            |           |                  |                        |
| <b>ity Investors LLC</b>             |                      |            |           |                  |                        |
|                                      | Warrants(5)          | 5/8/2022   | 5         | \$               | \$ 2,966               |
| <b>AR LLC</b>                        |                      |            |           |                  |                        |
|                                      | Warrants(3)          | 10/23/2025 | 94,672    | 817              | 549                    |
| <b>CG Holdings, Inc.</b>             |                      |            |           |                  |                        |
| on                                   | Warrants(3)          | 5/5/2026   | 622       | 37               | 949                    |
| <b>Acquisition LLC</b>               |                      |            |           |                  |                        |
| on                                   | Warrants(6)          | 8/12/2020  | 20        |                  |                        |
| <b>Warrants</b>                      | <b>United States</b> |            | <b>\$</b> | <b>854</b>       | <b>\$ 4,464</b>        |
| <b>Funded Investments</b>            |                      |            | <b>\$</b> | <b>1,379,827</b> | <b>\$ 1,346,654 14</b> |

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|--|------------------------------|------------------|--------------------------|---------------------------------------|---------|------------|-----------------------|
| <b>Unfunded Debt Investments United States</b>         |                              |                  |                          |                                       |         |            |                       |
| Master Car Wash Holdings, Inc.<br>Consumer Services    | First lien(3)(11)<br>Undrawn |                  | 12/14/2017               | \$ 1,667                              | \$ (13) |            | 8                     |
| CA Investment Holding, LLC<br>Healthcare Services      | First lien(3)(11)<br>Undrawn |                  | 7/2/2021                 | 1,348                                 | (13)    |            |                       |
| Pipeline, Inc. (Internet Pipeline, Inc.)<br>Software   | First lien(3)(11)<br>Undrawn |                  | 8/4/2021                 | 1,000                                 | (10)    |            |                       |
| Planet Waste Holdings, Inc.<br>Business Services       | First lien(3)(11)<br>Undrawn |                  | 9/24/2021                | 1,500                                 | (19)    |            |                       |
| NetCor Professional Practices LLC<br>Consumer Services | First lien(3)(11)<br>Undrawn |                  | 4/20/2021                | 2,700                                 | (27)    |            |                       |
|  | First lien(4)(11)<br>Undrawn |                  | 3/30/2018                | 127                                   | (3)     |            |                       |
|  | First lien(2)(11)<br>Undrawn |                  | 6/22/2018                | 1,644                                 | (33)    |            |                       |
|  |                              |                  |                          | 4,471                                 | (63)    |            |                       |
| Reston Solutions, Inc.<br>Business Services            | First lien(3)(11)<br>Undrawn |                  | 12/31/2020               | 10,000                                |         |            |                       |
| Wave, Inc.<br>Software                                 | First lien(3)(11)<br>Undrawn |                  | 11/17/2022               | 2,000                                 | (15)    |            | (15)                  |
| Sisira Holdings, Inc.<br>Business Services             | First lien(3)(11)<br>Undrawn |                  | 12/20/2018               | 3,818                                 | (19)    |            | (19)                  |
| Marketo, Inc.  |                              |                  |                          |                                       |         |            |                       |

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|  |                                  |                  |                     |                     |                  |                  |              |
|--|----------------------------------|------------------|---------------------|---------------------|------------------|------------------|--------------|
| Software   | First lien(3)(11)<br>Undrawn     | 8/16/2021        | 1,788               | (27)                | (27)             |                  |              |
| Ministry Brands, LLC                                   |                                  |                  |                     |                     |                  |                  |              |
| Software   | First lien(3)(11)<br>Undrawn     | 12/2/2022        | 650                 | (3)                 | (3)              |                  |              |
|  | First lien(3)(11)<br>Undrawn     | 12/2/2017        | 5,169               | (26)                | (26)             |                  |              |
|  | Second<br>lien(3)(11)<br>Undrawn | 12/2/2017        | 2,160               | (16)                | (16)             |                  |              |
|  |                                  |                  | 7,979               | (45)                | (45)             | (0.01)           |              |
| <b>Total Unfunded Debt Investments</b>                 | <b>United States</b>             |                  | <b>\$ 35,571</b>    | <b>(224)</b>        | <b>\$ (98)</b>   | <b>(0.01)</b>    |              |
| <b>Total Non-Controlled/Non-Affiliated Investments</b> |                                  |                  | <b>\$ 1,379,603</b> | <b>\$ 1,346,556</b> | <b>143.47%</b>   |                  |              |
| <b>Non-Controlled/Affiliated Investments(21)</b>       |                                  |                  |                     |                     |                  |                  |              |
| <b>Total Funded Debt Investments</b>                   | <b>United States</b>             |                  |                     |                     |                  |                  |              |
| Momentum Ultimate Holdings, LLC(16)                    |                                  |                  |                     |                     |                  |                  |              |
| Education  | Subordinated(3)                  | 8.50%<br>PIK/Q*  | 6/9/2020            | \$ 4,124            | \$ 4,118         | \$ 4,124         |              |
|  | Subordinated(2)                  | 10.00%<br>PIK/Q* | 6/9/2020            | 15,163              | 15,163           | 12,814           |              |
|  | Subordinated(3)                  | 10.00%<br>PIK/Q* | 6/9/2020            | 3,730               | 3,730            | 3,152            |              |
|  |                                  |                  |                     | 23,017              | 23,011           | 20,090           | 2.14%        |
| Armenian Holdco 1, Inc.(10)                            |                                  |                  |                     |                     |                  |                  |              |
| Armenian Holdco 2, Inc.                                |                                  |                  |                     |                     |                  |                  |              |
| Energy   | Subordinated(3)                  | 14.00%<br>PIK/Q* | 10/15/2021          | 1,749               | 1,749            | 1,749            | 0.19%        |
| <b>Total Funded Debt Investments</b>                   | <b>United States</b>             |                  |                     | <b>\$ 24,766</b>    | <b>\$ 24,760</b> | <b>\$ 21,839</b> | <b>2.33%</b> |

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| Portfolio Company, Location and Industry(1)               | Type of Investment      | Interest Rate(9) | Maturity/ Expiration Date | Principal Amount, Par Value or Shares | Cost      | Fair Value | Percentage of Net Assets |
|---|-------------------------|------------------|---------------------------|---------------------------------------|-----------|------------|--------------------------|
| <b>Equity Investments - United States</b>                 |                         |                  |                           |                                       |           |            |                          |
| Plato Senior Loan Program I LLC**                         | Membership interest(3)  |                  |                           |                                       | \$ 23,000 | \$ 23,000  | 2.1                      |
| Plato Holdco 1, Inc.(10)                                  | Preferred shares(3)(17) |                  |                           | 1,394,237                             | 5,866     | 7,668      |                          |
|   | Ordinary shares(3)      |                  |                           | 1,366,452                             | 1,350     | 1,776      |                          |
|   |                         |                  |                           |                                       | 7,216     | 9,444      | 1.1                      |
| Plato Ultimate Holdings, LLC(16)                          | Ordinary shares(3)      |                  |                           | 123,968                               | 11        | 1,693      |                          |
|   | Ordinary shares(2)      |                  |                           | 107,143                               | 9         | 1,464      |                          |
|   |                         |                  |                           |                                       | 20        | 3,157      | 0.3                      |
| <b>Equity Investments - United States</b>                 |                         |                  |                           |                                       |           |            |                          |
| <b>Unfunded Debt Investments - United States</b>          |                         |                  |                           |                                       |           |            |                          |
| Plato Ultimate Holdings, LLC(16)                          |                         |                  |                           |                                       |           |            |                          |
| Plato, Inc. (fka Plato, Inc.) (Archipelago Holding, Inc.) | Second lien(3)(11)      |                  |                           |                                       |           |            |                          |
|   | Undrawn                 |                  | 6/9/2020                  | \$ 4,881                              | \$        | \$         |                          |
| Plato Holdco 1, Inc.(10)                                  |                         |                  |                           |                                       |           |            |                          |
| Plato Holdco 2, Inc.                                      | Subordinated(3)(11)     |                  |                           |                                       |           |            |                          |
|   | Undrawn                 |                  | 10/15/2021                | 1,025                                 |           |            |                          |
| <b>Unfunded Debt Investments - United States</b>          |                         |                  |                           |                                       |           |            |                          |
|   |                         |                  |                           | \$ 5,906                              | \$        | \$         |                          |



|  |                            |  |           |                   |                   |                  |
|--|----------------------------|--|-----------|-------------------|-------------------|------------------|
| <b>Non-Controlled/Affiliated Investments</b> |                            |  |           | <b>\$ 54,996</b>  | <b>\$ 57,440</b>  | <b>6</b>         |
| <b>Controlled Investments(22)</b>            |                            |  |           |                   |                   |                  |
| <b>Funded Debt Investments United States</b> |                            |  |           |                   |                   |                  |
| Peak Global Services, Inc.                   |                            |  |           |                   |                   |                  |
| Business Services                            | First lien(2)              | 8.50%<br>(L + 7.50%/Q)                 | 1/13/2019 | \$ 10,846         | \$ 10,846         | \$ 11,063        |
|  | First lien(2)              | 9.50%<br>(L + 7.50% +<br>1.00% PIK/Q)* | 1/13/2019 | 4,784             | 4,784             | 4,879            |
|  | Subordinated(2)            | 15.00% PIK/Q*                          | 7/13/2019 | 1,726             | 1,726             | 1,760            |
|  | Subordinated(3)            | 15.00% PIK/Q*                          | 7/13/2019 | 1,032             | 1,032             | 1,054            |
|  |                            |  |           | 18,388            | 18,388            | 18,756           |
| <b>Funded Debt Investments United States</b> |                            |  |           | <b>\$ 18,388</b>  | <b>\$ 18,388</b>  | <b>\$ 18,756</b> |
| <b>Equity United States</b>                  |                            |  |           |                   |                   |                  |
| C Senior Loan Program II LLC**               |                            |  |           |                   |                   |                  |
| Investment Fund                              | Membership<br>interest(3)  |  |           | \$ 71,460         | \$ 71,460         | 7                |
| Peak Global Services, Inc.                   |                            |  |           |                   |                   |                  |
| Business Services                            | Preferred<br>shares(2)(18) |  |           | 19,048,426        | 16,668            | 17,207           |
|  | Preferred<br>shares(3)(18) |  |           | 5,264,079         | 4,606             | 4,755            |
|  | Ordinary<br>shares(2)      |  |           | 2,096,477         | 1,925             | 12,256           |
|  | Ordinary<br>shares(3)      |  |           | 579,366           | 532               | 3,387            |
|  |                            |  |           |                   | 23,731            | 37,605           |
| Mountain Net Lease Corporation               |                            |  |           |                   |                   |                  |
| Lease  | Ordinary<br>shares(3)      |  |           | 270,000           | 27,000            | 27,000           |
| <b>Shares United States</b>                  |                            |  |           | <b>\$ 122,191</b> | <b>\$ 136,065</b> | <b>14</b>        |
| <b>Funded Investments</b>                    |                            |  |           | <b>\$ 140,579</b> | <b>\$ 154,821</b> | <b>16</b>        |

The accompanying notes are an integral part of these consolidated financial statements.

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## New Mountain Finance Corporation

## Consolidated Schedule of Investments (Continued)

December 31, 2016

(in thousands, except shares)

| Portfolio Company, Location and Industry(1)          | Type of Investment | Interest Rate(9) | Maturity/Expiration Date | Principal Amount, Par Value or Shares | Cost         | Fair Value | Percent of Net Assets |
|--|--------------------|------------------|--------------------------|---------------------------------------|--------------|------------|-----------------------|
| <b>Unfunded Debt Investments United States</b>       |                    |                  |                          |                                       |              |            |                       |
| UniTek Global Services, Inc.                         |                    |                  |                          |                                       |              |            |                       |
| Business Services                                    |                    |                  |                          |                                       |              |            |                       |
|  | First lien(3)(11)  |                  |                          |                                       |              |            |                       |
|  | Undrawn            |                  | 1/13/2019                | \$ 2,048                              | \$           |            |                       |
|  | First lien(3)(11)  |                  |                          |                                       |              |            |                       |
|  | Undrawn            |                  | 1/13/2019                | 758                                   |              |            |                       |
|  |                    |                  |                          | 2,806                                 |              |            | %                     |
| <b>Total Unfunded Debt Investments United States</b> |                    |                  |                          |                                       |              |            |                       |
|  |                    |                  |                          | \$ 2,806                              | \$           |            | %                     |
| <b>Total Controlled Investments</b>                  |                    |                  |                          |                                       |              |            |                       |
|  |                    |                  |                          | \$ 140,579                            | \$ 154,821   |            | 16.50%                |
| <b>Total Investments</b>                             |                    |                  |                          |                                       |              |            |                       |
|  |                    |                  |                          | \$ 1,575,178                          | \$ 1,558,817 |            | 166.09%               |

(1) New Mountain Finance Corporation (the "Company") generally acquires its investments in private transactions exempt from registration under the Securities Act of 1933, as amended (the "Securities Act"). These investments are generally subject to certain limitations on resale, and may be deemed to be "restricted securities" under the Securities Act.

(2) Investment is pledged as collateral for the Holdings Credit Facility, a revolving credit facility among the Company as Collateral Manager, New Mountain Finance Holdings, L.L.C. ("NMF Holdings") as the Borrower, Wells Fargo Securities, LLC as the Administrative Agent, and Wells Fargo Bank, National Association, as the Lender and Collateral Custodian. See Note 7. *Borrowings*, for details.

(3)

Investment is pledged as collateral for the NMFC Credit Facility, a revolving credit facility among the Company as the Borrower and Goldman Sachs Bank USA as the Administrative Agent and the Collateral Agent and Goldman Sachs Bank USA, Morgan Stanley Bank, N.A. and Stifel Bank & Trust as Lenders. See Note 7. *Borrowings*, for details.

- (4) Investment is held in New Mountain Finance SBIC, L.P.
- (5) Investment is held in NMF YP Holdings, Inc.
- (6) Investment is held in NMF Ancora Holdings, Inc.
- (7) Investment is held in NMF QID NGL Holdings, Inc.
- (8) Investment or a portion of the investment is on non-accrual status. See Note 3. *Investments*, for details.
- (9) All interest is payable in cash unless otherwise indicated. A majority of the variable rate debt investments bear interest at a rate that may be determined by reference to the London Interbank Offered Rate (L), the Prime Rate (P) and the alternative base rate (Base) and which resets monthly (M), quarterly (Q), semi-annually (S) or annually (A). For each investment the current interest rate provided reflects the rate in effect as of December 31, 2016.
- (10) The Company holds preferred and common equity in Permian Holdco 1, Inc., as well as subordinated notes in Permian Holdco 2, Inc., a wholly-owned subsidiary of Permian Holdco 1, Inc.
- (11) Par Value amounts represent the drawn or undrawn (as indicated in type of investment) portion of revolving credit facilities or delayed draws. Cost amounts represent the cash received at settlement date net the impact of paydowns and cash paid for drawn revolvers or delayed draws.
- (12) The Company holds investments in three related entities of YP Holdings LLC/Print Media Holdings LLC. The Company directly holds warrants to purchase a 4.96% membership interest of YP Equity Investors, LLC (which at closing represented an indirect 1.0% equity interest in YP Holdings LLC) and holds an investment in the Term Loan B loans issued by YP LLC and Print Media LLC, wholly-owned subsidiaries of YP Holdings LLC and Print Media Holdings LLC, respectively.

The accompanying notes are an integral part of these consolidated financial statements.

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**New Mountain Finance Corporation**

**Consolidated Schedule of Investments (Continued)**

**December 31, 2016**

**(in thousands, except shares)**

- (13) The Company holds investments in two related entities of Tenawa Resource Holdings LLC. The Company holds 4.77% of the common units in QID NGL LLC (which at closing represented 98.1% of the ownership in the common units in Tenawa Resource Holdings LLC) and holds a first lien investment in Tenawa Resource Management LLC, a wholly-owned subsidiary of Tenawa Resource Holdings LLC.
- (14) The Company holds investments in QC McKissock Investment, LLC and one related entity of QC McKissock Investment, LLC. The Company holds a first lien term loan in QC McKissock Investment, LLC (which at closing represented 71.1% of the ownership in the Series A common units of McKissock Investment Holdings, LLC) and holds a first lien term loan and a delayed draw term loan in McKissock, LLC, a wholly-owned subsidiary of McKissock Investment Holdings, LLC.
- (15) The Company holds investments in TWDiamondback Holdings Corp. and one related entity of TWDiamondback Holdings Corp. The Company holds preferred equity in TWDiamondback Holdings Corp. and holds a first lien last out term loan and a delayed draw term loan in Diamondback Drugs of Delaware LLC, a wholly-owned subsidiary of TWDiamondback Holdings Corp.
- (16) The Company holds investments in Edmentum Ultimate Holdings, LLC and its related entities. The Company holds subordinated notes and ordinary equity in Edmentum Ultimate Holdings, LLC and holds a second lien revolver in Edmentum, Inc. and Archipelago Learning, Inc., which are wholly-owned subsidiaries of Edmentum Ultimate Holdings, LLC.
- (17) The Company holds preferred equity in Permian Holdco 1, Inc. that is entitled to receive cumulative preferential dividends at a rate of 12.0% per annum payable in additional shares.
- (18) The Company holds preferred equity in UniTek Global Services, Inc. that is entitled to receive cumulative preferential dividends at a rate of 13.5% per annum payable in additional shares.
- (19) The Company holds investments in Education Management Corporation and one related entity of Education Management Corporation. The Company holds series A-1 convertible preferred stock and common stock in Education Management Corporation and holds a tranche A first lien term loan and a tranche B first lien term loan in Education Management II LLC, which is an indirect subsidiary of Education Management Corporation.
- (20)

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The Company holds an equity investment in TW-NHME Holdings Corp., as well as a second lien term loan investment in National HME, Inc., a wholly-owned subsidiary of TW-NHME Holdings Corp.

- (21) Denotes investments in which the Company is an "Affiliated Person", as defined in the Investment Company Act of 1940, as amended, due to owning or holding the power to vote 5.0% or more of the outstanding voting securities of the investment but not controlling the company. Fair value as of December 31, 2015 and December 31, 2016 along with transactions during the year ended December 31, 2016 in which the issuer was a non-controlled/affiliated investment is as follows:

| Portfolio Company(1)                               | Fair Value at December 31, 2015 | Gross Additions  | Gross Redemption (By) | Net Change           |  | Fair Value at December 31, 2016 | Interest Income | Dividend Income | Other Income |
|--|---------------------------------|------------------|-----------------------|----------------------|--|---------------------------------|-----------------|-----------------|--------------|
|  |                                 |                  |                       | Realized Gain (Loss) | Unrealized Appreciation (Depreciation) |                                 |                 |                 |              |
| Edmentum Ultimate Holdings, LLC/Edmentum Inc.      | \$ 22,782                       | \$ 6,147         | \$ (4,002)            | \$ (1,680)           | \$ 23,247                              | \$ 2,254                        | \$              | \$              | \$           |
| NMFC Senior Loan Program I LLC                     | 21,914                          |                  |                       | 1,086                | 23,000                                 |                                 | 3,728           | 1,163           |              |
| Permian Holdco 1, Inc. / Permian Holdco 2, Inc.    |                                 | 8,965            |                       | 2,228                | 11,193                                 | 41                              | 156             | 5               |              |
| Tenawa Resource Holdings LLC                       | 42,591                          | 16               | (42,288)              | (319)                |  | 2,243                           |                 | 25              |              |
| <b>Total Non-Controlled/Affiliated Investments</b> | <b>\$ 87,287</b>                | <b>\$ 15,128</b> | <b>\$ (46,290)</b>    | <b>\$ 1,315</b>      | <b>\$ 57,440</b>                       | <b>\$ 4,538</b>                 | <b>\$ 3,884</b> | <b>\$ 1,193</b> |              |

- (A) Gross additions include increases in the cost basis of investments resulting from new portfolio investments, payment-in-kind ("PIK") interest or dividends, the amortization of discounts, reorganizations or restructurings and the movement at fair value of an existing portfolio company into this category from a different category.

The accompanying notes are an integral part of these consolidated financial statements.

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## New Mountain Finance Corporation

## Consolidated Schedule of Investments (Continued)

December 31, 2016

(in thousands, except shares)

(B)

Gross reductions include decreases in the cost basis of investments resulting from principal collections related to investment repayments or sales, reorganizations or restructurings and the movement of an existing portfolio company out of this category into a different category.

(22)

Denotes investments in which the Company is in "Control", as defined in the Investment Company Act of 1940, as amended, due to owning or holding the power to vote 25.0% or more of the outstanding voting securities of the investment. Fair value as of December 31, 2015 and December 31, 2016 along with transactions during the year ended December 31, 2016 in which the issuer was a controlled investment is as follows:

| Portfolio Company(1)                    | Fair<br>Value at<br>December 31,<br>2015 | Gross<br>Additions<br>(A) | Gross<br>Redemptions<br>(B) | Net<br>Change<br>In<br>Net<br>Realized<br>Gain<br>(C) |                                   | Fair<br>Value at<br>December 31,<br>2016 | Interest<br>Income | Dividend<br>Income | Other<br>Income |
|---|--|---------------------------|-----------------------------|---|-----------------------------------|--|--------------------|--------------------|-----------------|
|   |  |                           |                             | Realized<br>Gain<br>(D)                               | Unrealized<br>Appreciation<br>(E) |  |                    |                    |                 |
| New Mountain Net<br>Lease Corporation   | \$                                       | \$ 27,000                 | \$                          | \$  | \$                                | \$ 27,000                                | \$                 | \$ 540             | \$              |
| NMFC Senior Loan<br>Program II LLC      |  | 71,460                    |                             |   |                                   | 71,460                                   |                    | 3,533              |                 |
| UniTek Global<br>Services, Inc.         | 47,422                                   | 3,464                     | (2,599)                     |   | 8,074                             | 56,361                                   | 1,904              | 3,023              | 558             |
| <b>Total Controlled<br/>Investments</b> | <b>\$ 47,422</b>                         | <b>\$ 101,924</b>         | <b>\$ (2,599)</b>           | <b>\$</b>   | <b>\$ 8,074</b>                   | <b>\$ 154,821</b>                        | <b>\$ 1,904</b>    | <b>\$ 7,096</b>    | <b>\$ 558</b>   |

(A)

Gross additions include increases in the cost basis of investments resulting from new portfolio investments, PIK interest or dividends, the amortization of discounts, reorganizations or restructurings and the movement at fair value of an existing portfolio company into this category from a different category.

(B)

Gross reductions include decreases in the cost basis of investments resulting from principal collections related to investment repayments or sales, reorganizations or restructurings and the movement of an existing portfolio

company out of this category into a different category.

\*

All or a portion of interest contains PIK interest.

\*\*

Indicates assets that the Company deems to be "non-qualifying assets" under Section 55(a) of the Investment Company Act of 1940, as amended. Qualifying assets must represent at least 70.00% of the Company's total assets at the time of acquisition of any additional non-qualifying assets. As of December 31, 2016, 9.9% of the Company's total assets were non-qualifying assets.

The accompanying notes are an integral part of these consolidated financial statements.

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## New Mountain Finance Corporation

## Consolidated Schedule of Investments (Continued)

December 31, 2016

| Investment Type          | December 31, 2016<br>Percent of Total<br>Investments at Fair Value |
|--------------------------|--|
| First lien               | 44.94%   |
| Second lien              | 38.76%   |
| Subordinated             | 4.27%  |
| Equity and other         | 12.03%   |
| <b>Total investments</b> | <b>100.00%</b>   |

| Industry Type                     | December 31, 2016<br>Percent of Total<br>Investments at Fair Value |
|-----------------------------------|--|
| Business Services                 | 29.64%   |
| Software                          | 27.00%   |
| Consumer Services                 | 6.82%  |
| Investment Fund                   | 6.06%  |
| Education                         | 6.04%  |
| Energy                            | 4.82%  |
| Healthcare Services               | 4.61%  |
| Distribution & Logistics          | 3.96%  |
| Federal Services                  | 3.86%  |
| Net Lease                         | 1.73%  |
| Business Products                 | 1.60%  |
| Media                             | 1.55%  |
| Retail                            | 1.35%  |
| Healthcare Information Technology | 0.96%  |
| <b>Total investments</b>          | <b>100.00%</b>   |

| Interest Rate Type       | December 31, 2016<br>Percent of Total<br>Investments at Fair Value |
|--------------------------|--|
| Floating rates           | 93.16%   |
| Fixed rates              | 6.84%  |
| <b>Total investments</b> | <b>100.00%</b>   |



The accompanying notes are an integral part of these consolidated financial statements.

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## New Mountain Finance Corporation

## Consolidated Schedule of Investments

December 31, 2015

(in thousands, except shares)

| Portfolio Company, Location and Industry(1)                       | Type of Investment | Interest Rate(10)       | Maturity/Expiration Date | Principal Amount, Par Value or Shares | Cost             | Fair Value       | Percent of Net Assets |
|---|--------------------|-------------------------|--------------------------|---------------------------------------|------------------|------------------|-----------------------|
| <b>Non-Controlled/Non-Affiliated Investments</b>                  |                    |                         |                          |                                       |                  |                  |                       |
| <b>Funded Debt Investments</b>                                    |                    |                         |                          |                                       |                  |                  |                       |
| <b>Australia</b>  |                    |                         |                          |                                       |                  |                  |                       |
| Project Sunshine IV Pty Ltd**                                     |                    |                         |                          |                                       |                  |                  |                       |
| Media   | First lien(2)      | 8.00%<br>(L + 7.00%/M)  | 9/23/2019                | \$ 10,800                             | \$ 10,752        | \$ 10,314        | 1.23%                 |
| <b>Total Funded Debt Investments</b>                              |                    |                         |                          | <b>\$ 10,800</b>                      | <b>\$ 10,752</b> | <b>\$ 10,314</b> | <b>1.23%</b>          |
| <b>Australia</b>  |                    |                         |                          |                                       |                  |                  |                       |
| <b>Funded Debt Investments</b>                                    |                    |                         |                          |                                       |                  |                  |                       |
| <b>Luxembourg</b>   |                    |                         |                          |                                       |                  |                  |                       |
| Pinnacle Holdco S.à.r.l. / Pinnacle (US) Acquisition Co Limited** |                    |                         |                          |                                       |                  |                  |                       |
| Software  | Second lien(2)     | 10.50%<br>(L + 9.25%/Q) | 7/30/2020                | \$ 24,630                             | \$ 24,339        | \$ 19,581        |                       |
|   | Second lien(3)     | 10.50%<br>(L + 9.25%/Q) | 7/30/2020                | 8,204                                 | 8,324            | 6,522            |                       |
|   |                    |                         |                          | 32,834                                | 32,663           | 26,103           | 3.12%                 |
| <b>Total Funded Debt Investments</b>                              |                    |                         |                          | <b>\$ 32,834</b>                      | <b>\$ 32,663</b> | <b>\$ 26,103</b> | <b>3.12%</b>          |
| <b>Luxembourg</b>   |                    |                         |                          |                                       |                  |                  |                       |
| <b>Funded Debt Investments</b>                                    |                    |                         |                          |                                       |                  |                  |                       |
| <b>Netherlands</b>  |                    |                         |                          |                                       |                  |                  |                       |
| Eiger Acquisition B.V. (Eiger Co-Borrower, LLC)**                 |                    |                         |                          |                                       |                  |                  |                       |
| Software  | Second lien(3)     | 10.13%<br>(L + 9.13%/Q) | 2/17/2023                | \$ 10,000                             | \$ 9,303         | \$ 9,049         | 1.08%                 |
| <b>Total Funded Debt Investments</b>                              |                    |                         |                          | <b>\$ 10,000</b>                      | <b>\$ 9,303</b>  | <b>\$ 9,049</b>  | <b>1.08%</b>          |
| <b>Netherlands</b>  |                    |                         |                          |                                       |                  |                  |                       |

**Funded Debt Investments United Kingdom**

## Air Newco LLC\*\*

|          |                |                         |           |           |           |           |       |
|----------|----------------|-------------------------|-----------|-----------|-----------|-----------|-------|
| Software | Second lien(3) | 10.50%<br>(L + 9.50%/Q) | 1/31/2023 | \$ 32,500 | \$ 31,736 | \$ 31,363 | 3.75% |
|----------|----------------|-------------------------|-----------|-----------|-----------|-----------|-------|

**Total Funded Debt Investments****United Kingdom****\$ 32,500 \$ 31,736 \$ 31,363 3.75%****Funded Debt Investments United States**

## Deltak, Inc.

|          |                |                        |           |           |           |           |       |
|----------|----------------|------------------------|-----------|-----------|-----------|-----------|-------|
| Software | Second lien(3) | 9.50%<br>(L + 8.50%/Q) | 6/26/2023 | \$ 21,000 | \$ 20,972 | \$ 20,948 |       |
|          | Second lien(2) | 9.50%<br>(L + 8.50%/Q) | 6/26/2023 | 20,000    | 19,619    | 19,950    |       |
|          |                |                        |           | 41,000    | 40,591    | 40,898    | 4.89% |

## TIBCO Software Inc.

|          |                 |                        |           |        |        |        |       |
|----------|-----------------|------------------------|-----------|--------|--------|--------|-------|
| Software | First lien(2)   | 6.50%<br>(L + 5.50%/M) | 12/4/2020 | 29,775 | 28,508 | 27,021 |       |
|          | Subordinated(3) | 11.38%/S               | 12/1/2021 | 15,000 | 14,611 | 12,600 |       |
|          |                 |                        |           | 44,775 | 43,119 | 39,621 | 4.73% |

## AssuredPartners, Inc.

|                   |                |                         |            |        |        |        |       |
|-------------------|----------------|-------------------------|------------|--------|--------|--------|-------|
| Business Services | Second lien(2) | 10.00%<br>(L + 9.00%/Q) | 10/20/2023 | 20,000 | 19,212 | 19,600 |       |
|                   | Second lien(3) | 10.00%<br>(L + 9.00%/Q) | 10/20/2023 | 20,000 | 19,212 | 19,600 |       |
|                   |                |                         |            | 40,000 | 38,424 | 39,200 | 4.68% |

## Kronos Incorporated

|          |                |                        |           |        |        |        |       |
|----------|----------------|------------------------|-----------|--------|--------|--------|-------|
| Software | Second lien(2) | 9.75%<br>(L + 8.50%/Q) | 4/30/2020 | 32,641 | 32,443 | 32,546 |       |
|          | Second lien(3) | 9.75%<br>(L + 8.50%/Q) | 4/30/2020 | 5,000  | 4,961  | 4,985  |       |
|          |                |                        |           | 37,641 | 37,404 | 37,531 | 4.48% |

## Hill International, Inc.

|                   |               |                        |           |        |        |        |       |
|-------------------|---------------|------------------------|-----------|--------|--------|--------|-------|
| Business Services | First lien(2) | 7.75%<br>(L + 6.75%/Q) | 9/28/2020 | 37,056 | 36,752 | 36,779 | 4.39% |
|-------------------|---------------|------------------------|-----------|--------|--------|--------|-------|

## ProQuest LLC

|                   |                |                         |            |        |        |        |       |
|-------------------|----------------|-------------------------|------------|--------|--------|--------|-------|
| Business Services | Second lien(3) | 10.00%<br>(L + 9.00%/M) | 12/15/2022 | 35,000 | 34,302 | 34,300 | 4.10% |
|-------------------|----------------|-------------------------|------------|--------|--------|--------|-------|

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The accompanying notes are an integral part of these consolidated financial statements.

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## New Mountain Finance Corporation

## Consolidated Schedule of Investments (Continued)

December 31, 2015

(in thousands, except shares)

| Portfolio Company, Location and Industry(1)               | Type of Investment         | Interest Rate(10)       | Maturity/Expiration Date | Principal Amount, Par Value or Shares | Cost     | Fair Value | Percent of Net Assets |
|---|----------------------------|-------------------------|--------------------------|---------------------------------------|----------|------------|-----------------------|
| Navex Global, Inc.<br>Software                            | First lien(4)              | 5.75%<br>(L + 4.75%/Q)  | 11/19/2021               | \$ 4,610                              | \$ 4,570 | \$ 4,471   |                       |
|   | First lien(2)              | 5.75%<br>(L + 4.75%/Q)  | 11/19/2021               | 2,610                                 | 2,587    | 2,531      |                       |
|   | Second lien(4)             | 9.75%<br>(L + 8.75%/Q)  | 11/18/2022               | 17,879                                | 17,683   | 17,343     |                       |
|   | Second lien(3)             | 9.75%<br>(L + 8.75%/Q)  | 11/18/2022               | 10,121                                | 10,001   | 9,817      |                       |
|   |                            |                         |                          | 35,220                                | 34,841   | 34,162     | 4.08%                 |
| Ascend Learning, LLC<br>Education                         | Second lien(3)             | 9.50%<br>(L + 8.50%/Q)  | 11/30/2020               | 34,727                                | 34,352   | 33,077     | 3.95%                 |
| CRGT Inc.<br>Federal Services                             | First lien(2)              | 7.50%<br>(L + 6.50%/Q)  | 12/19/2020               | 33,261                                | 33,030   | 32,928     | 3.93%                 |
| Physio-Control International, Inc.<br>Healthcare Products | Second lien(2)             | 10.00%<br>(L + 9.00%/Q) | 6/5/2023                 | 30,000                                | 29,426   | 27,451     |                       |
|   | Second lien(3)             | 10.00%<br>(L + 9.00%/Q) | 6/5/2023                 | 4,000                                 | 3,703    | 3,660      |                       |
|   |                            |                         |                          | 34,000                                | 33,129   | 31,111     | 3.72%                 |
| Valet Waste Holdings, Inc.<br>Business Services           | First lien(2)              | 8.00%<br>(L + 7.00%/Q)  | 9/24/2021                | 29,925                                | 29,564   | 29,505     |                       |
|   | First lien(3)(11)<br>Drawn | 8.00%<br>(L + 7.00%/Q)  | 9/24/2021                | 1,500                                 | 1,481    | 1,479      |                       |
|   |                            |                         |                          | 31,425                                | 31,045   | 30,984     | 3.70%                 |

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|  |                  |                         |            |        |        |        |       |
|--|------------------|-------------------------|------------|--------|--------|--------|-------|
| Rocket Software, Inc.                      |                  |                         |            |        |        |        |       |
| Software                                   | Second lien(2)   | 10.25%<br>(L + 8.75%/Q) | 2/8/2019   | 30,875 | 30,781 | 30,759 | 3.68% |
| TASC, Inc.                                 |                  |                         |            |        |        |        |       |
| Federal Services                           | First lien(2)    | 7.00%<br>(L + 6.00%/Q)  | 5/22/2020  | 28,314 | 28,001 | 28,396 |       |
|  | Second lien(3)   | 12.00%/Q                | 5/21/2021  | 2,000  | 1,964  | 2,062  |       |
|  |                  |                         |            | 30,314 | 29,965 | 30,458 | 3.64% |
| Pittsburgh Glass Works, LLC(24)            |                  |                         |            |        |        |        |       |
| Manufacturing                              | First lien(2)    | 10.13%<br>(L + 9.13%/M) | 11/25/2021 | 30,000 | 29,852 | 29,850 | 3.57% |
| Integro Parent Inc.                        |                  |                         |            |        |        |        |       |
| Business Services                          | First lien(2)    | 6.75%<br>(L + 5.75%/Q)  | 10/31/2022 | 17,370 | 17,029 | 16,980 |       |
|  | First lien(2)    | 6.75%<br>(L + 5.75%/M)  | 10/31/2022 | 2,630  | 2,578  | 2,570  |       |
|  | Second lien(3)   | 10.25%<br>(L + 9.25%/Q) | 10/30/2023 | 10,000 | 9,901  | 9,625  |       |
|  |                  |                         |            | 30,000 | 29,508 | 29,175 | 3.49% |
| CompassLearning, Inc.(15)                  |                  |                         |            |        |        |        |       |
| Education                                  | First lien(2)    | 8.00%<br>(L + 6.75%/Q)  | 11/26/2018 | 30,000 | 29,531 | 28,471 | 3.40% |
| Ryan, LLC                                  |                  |                         |            |        |        |        |       |
| Business Services                          | First lien(2)    | 6.75%<br>(L + 5.75%/M)  | 8/7/2020   | 27,300 | 26,918 | 26,583 | 3.18% |
| McGraw-Hill Global Education Holdings, LLC |                  |                         |            |        |        |        |       |
| Education                                  | First lien(2)(9) | 9.75%/S                 | 4/1/2021   | 24,500 | 24,378 | 26,093 | 3.12% |
| KeyPoint Government Solutions, Inc.        |                  |                         |            |        |        |        |       |
| Federal Services                           | First lien(2)    | 7.75%<br>(L + 6.50%/M)  | 11/13/2017 | 25,876 | 25,636 | 25,747 | 3.08% |
| DigiCert Holdings, Inc.                    |                  |                         |            |        |        |        |       |
| Software                                   | First lien(2)    | 6.00%<br>(L + 5.00%/Q)  | 10/21/2021 | 25,000 | 24,268 | 24,375 | 2.91% |
| Pelican Products, Inc.                     |                  |                         |            |        |        |        |       |
| Business Products                          | Second lien(3)   | 9.25%<br>(L + 8.25%/Q)  | 4/9/2021   | 15,500 | 15,519 | 14,764 |       |
|  | Second lien(2)   | 9.25%<br>(L + 8.25%/Q)  | 4/9/2021   | 10,000 | 10,115 | 9,524  |       |
|  |                  |                         |            | 25,500 | 25,634 | 24,288 | 2.90% |
| Confie Seguros Holding II Co.              |                  |                         |            |        |        |        |       |
| Consumer Services                          |                  |                         | 5/8/2019   | 18,886 | 18,789 | 18,673 |       |

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|                   |                         |          |        |        |        |       |
|-------------------|-------------------------|----------|--------|--------|--------|-------|
| Second<br>lien(2) | 10.25%<br>(L + 9.00%/M) |          |        |        |        |       |
| Second<br>lien(3) | 10.25%<br>(L + 9.00%/M) | 5/8/2019 | 5,571  | 5,648  | 5,508  |       |
|                   |                         |          | 24,457 | 24,437 | 24,181 | 2.89% |

The accompanying notes are an integral part of these consolidated financial statements.

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## Consolidated Schedule of Investments (Continued)

December 31, 2015

(in thousands, except shares)

| Portfolio Company, Location and Industry(1)             | Type of Investment         | Interest Rate(10)       | Maturity/ Expiration Date | Principal Amount, Par Value or Shares | Cost      | Fair Value | Percent of Net Assets |
|---|----------------------------|-------------------------|---------------------------|---------------------------------------|-----------|------------|-----------------------|
| AAC Holding Corp.<br>Education                          | First lien(2)              | 8.25%<br>(L + 7.25%/M)  | 9/30/2020                 | \$ 25,000                             | \$ 24,640 | \$ 24,110  | 2.88%                 |
| Transtar Holding Company<br>Distribution & Logistics    | Second lien(2)             | 10.00%<br>(L + 8.75%/Q) | 10/9/2019                 | 28,300                                | 27,974    | 23,630     | 2.82%                 |
| PetVet Care Centers LLC<br>Consumer Services            | Second lien(3)             | 9.75%<br>(L + 8.75%/Q)  | 6/17/2021                 | 24,000                                | 23,789    | 23,149     | 2.77%                 |
| EN Engineering, L.L.C.<br>Business Services             | First lien(2)              | 7.00%<br>(L + 6.00%/Q)  | 6/30/2021                 | 21,321                                | 21,121    | 20,554     |                       |
|   | First lien(2)(11)<br>Drawn | 8.50%<br>(P + 5.00%/Q)  | 6/30/2021                 | 1,223                                 | 1,211     | 1,179      |                       |
|   |                            |                         |                           | 22,544                                | 22,332    | 21,733     | 2.60%                 |
| Aricent Technologies<br>Business Services               | Second lien(2)             | 9.50%<br>(L + 8.50%/M)  | 4/14/2022                 | 20,000                                | 19,881    | 19,133     |                       |
|   | Second lien(3)             | 9.50%<br>(L + 8.50%/M)  | 4/14/2022                 | 2,550                                 | 2,558     | 2,440      |                       |
|   |                            |                         |                           | 22,550                                | 22,439    | 21,573     | 2.58%                 |
| McGraw-Hill School Education Holdings, LLC<br>Education | First lien(2)              | 6.25%<br>(L + 5.00%/M)  | 12/18/2019                | 21,560                                | 21,408    | 21,237     | 2.54%                 |
| VetCor Professional Practices LLC<br>Consumer Services  | First lien(4)              | 7.00%<br>(L + 6.00%/Q)  | 4/20/2021                 | 19,502                                | 19,324    | 19,254     |                       |
|   | First lien(4)(11)<br>Drawn | 7.00%<br>(L + 6.00%/Q)  | 4/20/2021                 | 1,753                                 | 1,736     | 1,731      |                       |



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|  |                   |               |            |        |        |        |       |
|--|-------------------|---------------|------------|--------|--------|--------|-------|
|  |                   |               |            | 21,255 | 21,060 | 20,985 | 2.51% |
| IT'SUGAR LLC                                   |                   |               |            |        |        |        |       |
| Retail   | First lien(4)     | 10.50%        |            |        |        |        |       |
|  |                   | (L + 9.50%/Q) | 10/23/2019 | 21,000 | 20,215 | 20,183 | 2.41% |
| Weston Solutions, Inc.                         |                   |               |            |        |        |        |       |
| Business Services                              | Subordinated(4)   | 16.00%/Q      | 7/3/2019   | 20,000 | 20,000 | 19,430 | 2.32% |
| TWDiamondback Holdings Corp.(18)               |                   |               |            |        |        |        |       |
| Diamondback Drugs of Delaware, L.L.C.          |                   |               |            |        |        |        |       |
| (TWDiamondback II Holdings LLC)                |                   |               |            |        |        |        |       |
| Distribution & Logistics                       | First lien(4)     | 9.75%         |            |        |        |        |       |
|  |                   | (L + 8.75%/Q) | 11/19/2019 | 19,895 | 19,895 | 19,117 | 2.28% |
| Severin Acquisition, LLC                       |                   |               |            |        |        |        |       |
| Software                                       | Second lien(4)    | 9.25%         |            |        |        |        |       |
|  |                   | (L + 8.25%/Q) | 7/29/2022  | 15,000 | 14,857 | 14,272 |       |
|  | Second lien(4)    | 9.75%         |            |        |        |        |       |
|  |                   | (L + 8.75%/Q) | 7/29/2022  | 4,154  | 4,113  | 4,112  |       |
|  |                   |               |            | 19,154 | 18,970 | 18,384 | 2.20% |
| First American Payment Systems, L.P.           |                   |               |            |        |        |        |       |
| Business Services                              | Second lien(2)    | 10.75%        |            |        |        |        |       |
|  |                   | (L + 9.50%/M) | 4/12/2019  | 18,643 | 18,423 | 18,362 | 2.20% |
| DCA Investment Holding, LLC                    |                   |               |            |        |        |        |       |
| Healthcare Services                            | First lien(2)     | 6.25%         |            |        |        |        |       |
|  |                   | (L + 5.25%/Q) | 7/2/2021   | 17,811 | 17,645 | 17,632 |       |
|  | First lien(3)(11) | 7.75%         |            |        |        |        |       |
|  | Drawn             | (P + 4.25%/Q) | 7/2/2021   | 53     | 52     | 52     |       |
|  |                   |               |            | 17,864 | 17,697 | 17,684 | 2.11% |
| YP Holdings LLC / Print Media Holdings LLC(12) |                   |               |            |        |        |        |       |
| YP LLC / Print Media LLC                       |                   |               |            |        |        |        |       |
| Media  | First lien(2)     | 8.00%         |            |        |        |        |       |
|  |                   | (L + 6.75%/M) | 6/4/2018   | 18,320 | 18,182 | 17,679 | 2.11% |
| iPipeline, Inc. (Internet Pipeline, Inc.)      |                   |               |            |        |        |        |       |
| Software                                       | First lien(4)     | 8.25%         |            |        |        |        |       |
|  |                   | (L + 7.25%/Q) | 8/4/2022   | 17,955 | 17,783 | 17,550 | 2.10% |
| AgKnowledge Holdings Company, Inc.             |                   |               |            |        |        |        |       |
| Business Services                              | Second lien(2)    | 9.25%         |            |        |        |        |       |
|  |                   | (L + 8.25%/M) | 7/23/2020  | 18,500 | 18,352 | 17,066 | 2.04% |
| Vertafore, Inc.                                |                   |               |            |        |        |        |       |
| Software                                       | Second lien(2)    | 9.75%         |            |        |        |        |       |
|  |                   | (L + 8.25%/M) | 10/27/2017 | 13,855 | 13,848 | 13,844 |       |
|  | Second lien(3)    |               | 10/27/2017 | 2,000  | 2,016  | 1,999  |       |

9.75%  
(L + 8.25%/M)

15,855 15,864 15,843 1.89%

The accompanying notes are an integral part of these consolidated financial statements.

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## New Mountain Finance Corporation

## Consolidated Schedule of Investments (Continued)

December 31, 2015

(in thousands, except shares)

| Portfolio Company, Location and Industry(1)         | Type of Investment | Interest Rate(10) | Maturity/ Expiration Date | Principal Amount, Par Value or Shares | Cost      | Fair Value | Percent of Net Assets |
|---|--------------------|-------------------|---------------------------|---------------------------------------|-----------|------------|-----------------------|
| GSDM Holdings Corp.                                 |                    |                   |                           |                                       |           |            |                       |
| Healthcare Services                                 | Subordinated(4)    | 10.00%/M          | 6/23/2020                 | \$ 15,000                             | \$ 14,880 | \$ 15,000  | 1.79%                 |
| MailSouth, Inc. (d/b/a Mspark)                      |                    |                   |                           |                                       |           |            |                       |
| Media   | First lien(2)      | 6.75%             |                           |                                       |           |            |                       |
|   |                    | (L + 5.00%/Q)     | 12/14/2016                | 14,998                                | 14,736    | 14,586     | 1.74%                 |
| TW-NHME Holdings Corp.(23)                          |                    |                   |                           |                                       |           |            |                       |
| National HME, Inc.                                  |                    |                   |                           |                                       |           |            |                       |
| Healthcare Services                                 | Second lien(4)     | 10.25%            |                           |                                       |           |            |                       |
|   |                    | (L + 9.25%/Q)     | 7/14/2022                 | 14,000                                | 13,833    | 13,825     | 1.65%                 |
| Sierra Hamilton LLC / Sierra Hamilton Finance, Inc. |                    |                   |                           |                                       |           |            |                       |
| Energy  | First lien(2)      | 12.25%/S          | 12/15/2018                | 25,000                                | 25,000    | 12,251     |                       |
|   | First lien(3)      | 12.25%/S          | 12/15/2018                | 2,660                                 | 2,064     | 1,302      |                       |
|   |                    |                   |                           | 27,660                                | 27,064    | 13,553     | 1.62%                 |
| Vision Solutions, Inc.                              |                    |                   |                           |                                       |           |            |                       |
| Software  | Second lien(2)     | 9.50%             |                           |                                       |           |            |                       |
|   |                    | (L + 8.00%/M)     | 7/23/2017                 | 14,000                                | 13,978    | 12,740     | 1.52%                 |
| SW Holdings, LLC                                    |                    |                   |                           |                                       |           |            |                       |
| Business Services                                   | Second lien(4)     | 9.75%             |                           |                                       |           |            |                       |
|   |                    | (L + 8.75%/Q)     | 12/30/2021                | 13,500                                | 13,373    | 12,701     | 1.52%                 |
| Poseidon Intermediate, LLC                          |                    |                   |                           |                                       |           |            |                       |
| Software  | Second lien(2)     | 9.50%             |                           |                                       |           |            |                       |
|   |                    | (L + 8.50%/Q)     | 8/15/2023                 | 13,000                                | 12,811    | 12,427     | 1.49%                 |
| American Tire Distributors, Inc.                    |                    |                   |                           |                                       |           |            |                       |
| Distribution & Logistics                            | Subordinated(3)    | 10.25%/S          | 3/1/2022                  | 13,000                                | 12,798    | 11,960     | 1.43%                 |
| PowerPlan Holdings, Inc.                            |                    |                   |                           |                                       |           |            |                       |
| Software  | Second lien(2)     | 10.75%            |                           |                                       |           |            |                       |
|   |                    | (L + 9.75%/M)     | 2/23/2023                 | 10,000                                | 9,907     | 9,573      | 1.14%                 |
| Permian Tank & Manufacturing, Inc.                  |                    |                   |                           |                                       |           |            |                       |
| Energy  | First lien(2)      | 10.50%/S          | 1/15/2018                 | 24,357                                | 24,493    | 9,377      | 1.12%                 |
| TTM Technologies, Inc.**                            |                    |                   |                           |                                       |           |            |                       |
| Business Products                                   | First lien(2)      | 6.00%             |                           |                                       |           |            |                       |
|   |                    | (L + 5.00%/Q)     | 5/31/2021                 | 9,980                                 | 9,554     | 9,132      | 1.09%                 |

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|  |                            |  |            |        |        |       |       |
|--|----------------------------|--|------------|--------|--------|-------|-------|
| Smile Brands Group Inc.  |                            |  |            |        |        |       |       |
| Healthcare Services  | First lien(2)              | 9.00%<br>(L + 6.25% +<br>1.50% PIK/Q)* | 8/16/2019  | 12,204 | 12,091 | 8,878 | 1.06% |
| Harley Marine Services, Inc.   |                            |  |            |        |        |       |       |
| Distribution & Logistics   | Second lien(2)             | 10.50%<br>(L + 9.25%/Q)                | 12/20/2019 | 9,000  | 8,868  | 8,865 | 1.06% |
| QC McKissock Investment, LLC(17)   |                            |  |            |        |        |       |       |
| McKissock, LLC   |                            |  |            |        |        |       |       |
| Education  | First lien(2)              | 7.50%<br>(L + 6.50%/Q)                 | 8/5/2019   | 4,875  | 4,838  | 4,707 |       |
|  | First lien(2)              | 7.50%<br>(L + 6.50%/Q)                 | 8/5/2019   | 3,148  | 3,124  | 3,039 |       |
|  | First lien(2)(11)<br>Drawn | 7.50%<br>(L + 6.50%/Q)                 | 8/5/2019   | 1,016  | 1,007  | 981   |       |
|  |                            |  |            | 9,039  | 8,969  | 8,727 | 1.04% |
| Greenway Health, LLC (fka Vitera<br>Healthcare Solutions, LLC)                   |                            |  |            |        |        |       |       |
| Software   | First lien(2)              | 6.00%<br>(L + 5.00%/Q)                 | 11/4/2020  | 1,960  | 1,946  | 1,877 |       |
|  | Second lien(2)             | 9.25%<br>(L + 8.25%/Q)                 | 11/4/2021  | 7,000  | 6,917  | 6,720 |       |
|  |                            |  |            | 8,960  | 8,863  | 8,597 | 1.03% |
| Novitex Acquisition, LLC (fka<br>ARSloane Acquisition, LLC)                      |                            |  |            |        |        |       |       |
| Business Services  | First lien(2)              | 7.50%<br>(L + 6.25%/Q)                 | 7/7/2020   | 7,242  | 7,064  | 6,807 | 0.81% |
| Sotera Defense Solutions, Inc.<br>(Global Defense Technology &<br>Systems, Inc.) |                            |  |            |        |        |       |       |
| Federal Services   | First lien(2)              | 9.00%<br>(L + 7.50%/M)                 | 4/21/2017  | 6,859  | 6,828  | 6,344 | 0.76% |
| Brock Holdings III, Inc.   |                            |  |            |        |        |       |       |
| Industrial Services  | Second lien(2)             | 10.00%<br>(L + 8.25%/Q)                | 3/16/2018  | 7,000  | 6,953  | 5,443 | 0.65% |
| Packaging Coordinators, Inc.(13)   |                            |  |            |        |        |       |       |
| Healthcare Products  | Second lien(3)             | 9.00%<br>(L + 8.00%/Q)                 | 8/1/2022   | 5,000  | 4,957  | 4,925 | 0.59% |
| Immucor, Inc.  |                            |  |            |        |        |       |       |
| Healthcare Services  | Subordinated(2)(9)         | 11.13%/S                               | 8/15/2019  | 5,000  | 4,963  | 4,575 | 0.55% |

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December 31, 2015

(in thousands, except shares)

| Portfolio Company, Location and Industry(1)                              | Type of Investment | Interest Rate(10)                           | Maturity/ Expiration Date | Principal Amount, Par Value or Shares | Cost     | Fair Value | Percent of Net Assets |
|--|--------------------|---|---------------------------|---------------------------------------|----------|------------|-----------------------|
| GCA Services Group, Inc.<br>Business Services                            | Second lien(3)     | 9.25%<br>(L + 8.00%/Q)                      | 11/2/2020                 | \$ 4,000                              | \$ 3,973 | \$ 3,950   | 0.47%                 |
| York Risk Services Holding Corp.<br>Business Services                    | Subordinated(3)    | 8.50%/S                                     | 10/1/2022                 | 3,000                                 | 3,000    | 2,471      | 0.30%                 |
| Synarc-Biocore Holdings, LLC<br>Healthcare Services                      | Second lien(3)     | 9.25%<br>(L + 8.25%/Q)                      | 3/10/2022                 | 2,500                                 | 2,479    | 2,313      | 0.28%                 |
| Ensemble S Merger Sub, Inc.<br>Software                                  | Subordinated(3)    | 9.00%/S                                     | 9/30/2023                 | 2,000                                 | 1,933    | 1,940      | 0.23%                 |
| Education Management Corporation(22)<br>Education Management II LLC      | First lien(2)      | 5.50%<br>(L + 4.50%/Q)                      | 7/2/2020                  | 250                                   | 238      | 69         |                       |
|  | First lien(3)      | 5.50%<br>(L + 4.50%/Q)                      | 7/2/2020                  | 141                                   | 134      | 39         |                       |
|  | First lien(2)      | 8.50%<br>(L + 1.00% + 6.50%<br>PIK/Q)*      | 7/2/2020                  | 437                                   | 375      | 46         |                       |
|  | First lien(3)      | 8.50%<br>(L + 1.00% + 6.50%<br>PIK/Q)*      | 7/2/2020                  | 247                                   | 212      | 26         |                       |
|  |                    |   |                           | 1,075                                 | 959      | 180        | 0.02%                 |
| ATI Acquisition Company (fka Ability Acquisition, Inc.)(14)<br>Education | First lien(2)      | 17.25%<br>(P + 10.00% + 4.00%<br>PIK/Q)(8)* | 6/30/2012<br>Past Due     | 1,665                                 | 1,434    |            |                       |
|  | First lien(2)      | 17.25%<br>(P + 10.00% + 4.00%               | 6/30/2012<br>Past Due     | 103                                   | 94       |            |                       |

|  |                          | PIK/Q)(8)*                              |                     |                     |                 |
|--|--------------------------|---|---------------------|---------------------|-----------------|
|  |                          | 1,768                                   | 1,528               |                     | %               |
| <b>Total Funded Debt Investments United States</b> |                          | <b>\$ 1,314,464</b>                     | <b>\$ 1,297,775</b> | <b>\$ 1,237,175</b> | <b>147.83%</b>  |
| <b>Total Funded Debt Investments</b>               |                          | <b>\$ 1,400,598</b>                     | <b>\$ 1,382,229</b> | <b>\$ 1,314,004</b> | <b>157.01%</b>  |
| <b>Equity United Kingdom</b>                       |                          |   |                     |                     |                 |
| Packaging Coordinators, Inc.(13)                   |                          |   |                     |                     |                 |
| PCI Pharma Holdings UK Limited**                   |                          |   |                     |                     |                 |
| Healthcare Products                                | Ordinary shares(2)       | 19,427                                  | \$ 578              | \$ 1,612            | 0.19%           |
| <b>Total Shares</b>                                | <b>United Kingdom</b>    | <b>\$</b>                               | <b>578</b>          | <b>\$ 1,612</b>     | <b>0.19%</b>    |
| <b>Equity United States</b>                        |                          |   |                     |                     |                 |
| Crowley Holdings Preferred, LLC                    |                          |   |                     |                     |                 |
| Distribution & Logistics                           | Preferred shares(3)(20)  | 12.00%<br>(10.00% +<br>2.00%<br>PIK/Q)* | 52,058              | \$ 51,518           | \$ 51,911 6.20% |
| TWDiamondback Holdings Corp.(18)                   | Distribution & Logistics | Preferred shares(4)                     | 200                 | 2,000               | 2,000 0.24%     |
| TW-NHME Holdings Corp.(23)                         | Healthcare Services      | Preferred shares(4)                     | 100                 | 1,000               | 1,000 0.12%     |
| Ancora Acquisition LLC(14)                         | Education                | Preferred shares(6)                     | 372                 | 83                  | 393 0.05%       |
| Education Management Corporation(22)               | Education                | Preferred shares(2)                     | 3,331               | 200                 | 10              |
|  |                          | Preferred shares(3)                     | 1,879               | 113                 | 5               |
|  |                          | Ordinary shares(2)                      | 2,994,065           | 100                 | 202             |
|  |                          | Ordinary shares(3)                      | 1,688,976           | 56                  | 114             |
|  |                          |   |                     | 469                 | 331 0.04%       |
| <b>Total Shares</b>                                | <b>United States</b>     | <b>\$</b>                               | <b>55,070</b>       | <b>\$ 55,635</b>    | <b>6.65%</b>    |
| <b>Total Shares</b>                                |                          | <b>\$</b>                               | <b>55,648</b>       | <b>\$ 57,247</b>    | <b>6.84%</b>    |

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The accompanying notes are an integral part of these consolidated financial statements.

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## New Mountain Finance Corporation

## Consolidated Schedule of Investments (Continued)

December 31, 2015

(in thousands, except shares)

| Portfolio Company, Location and Industry(1)    | Type of Investment   | Interest Rate(10) | Maturity/ Expiration Date | Principal Amount, Par Value or Shares | Cost                | Fair Value          | Percent of Net Assets |
|--|----------------------|-------------------|---------------------------|---------------------------------------|---------------------|---------------------|-----------------------|
| <b>Warrants United States</b>                  |                      |                   |                           |                                       |                     |                     |                       |
| YP Holdings LLC / Print Media Holdings LLC(12) |                      |                   |                           |                                       |                     |                     |                       |
| YP Equity Investors, LLC                       |                      |                   |                           |                                       |                     |                     |                       |
| Media  | Warrants(5)          |                   | 5/8/2022                  | 5 \$                                  | \$                  | 5,304               | 0.63%                 |
| IT'SUGAR LLC                                   |                      |                   |                           |                                       |                     |                     |                       |
| Retail   | Warrants(3)          |                   | 10/23/2025                | 94,672                                | 817                 | 817                 | 0.10%                 |
| ASP LCG Holdings, Inc.                         |                      |                   |                           |                                       |                     |                     |                       |
| Education                                      | Warrants(3)          |                   | 5/5/2026                  | 622                                   | 37                  | 610                 | 0.07%                 |
| Ancora Acquisition LLC(14)                     |                      |                   |                           |                                       |                     |                     |                       |
| Education                                      | Warrants(6)          |                   | 8/12/2020                 | 20                                    |                     |                     | %                     |
| <b>Total Warrants</b>                          | <b>United States</b> |                   |                           |                                       | <b>\$ 854</b>       | <b>\$ 6,731</b>     | <b>0.80%</b>          |
| <b>Total Funded Investments</b>                |                      |                   |                           |                                       | <b>\$ 1,438,731</b> | <b>\$ 1,377,982</b> | <b>164.65%</b>        |
| <b>Unfunded Debt Investments</b>               |                      |                   |                           |                                       |                     |                     |                       |
| <b>United States</b>                           |                      |                   |                           |                                       |                     |                     |                       |
| DCA Investment Holdings, LLC                   |                      |                   |                           |                                       |                     |                     |                       |
| Healthcare Services                            | First lien(3)(11)    |                   |                           |                                       |                     |                     |                       |
|  | Undrawn              |                   | 7/2/2021                  | \$ 2,047                              | \$ (20)             | (20)                | %                     |
| iPipeline, Inc. (Internet Pipeline, Inc.)      |                      |                   |                           |                                       |                     |                     |                       |
| Software                                       | First lien(3)(11)    |                   |                           |                                       |                     |                     |                       |
|  | Undrawn              |                   | 8/4/2021                  | 1,000                                 | (10)                | (23)                | %                     |
| Valet Waste Holdings, Inc.                     |                      |                   |                           |                                       |                     |                     |                       |
| Business Services                              | First lien(3)(11)    |                   |                           |                                       |                     |                     |                       |
|  | Undrawn              |                   | 9/24/2021                 | 3,000                                 | (38)                | (42)                | %                     |
| VetCor Professional Practices LLC              |                      |                   |                           |                                       |                     |                     |                       |
| Consumer Services                              | First lien(3)(11)    |                   |                           |                                       |                     |                     |                       |
|  | Undrawn              |                   | 4/20/2021                 | 2,700                                 | (27)                | (34)                |                       |



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|  |                                 |            |                     |                     |                |                |
|--|---------------------------------|------------|---------------------|---------------------|----------------|----------------|
|  | First<br>lien(4)(11)<br>Undrawn | 4/20/2021  | 947                 | (9)                 | (12)           |                |
|  |                                 |            | 3,647               | (36)                | (46)           | (0.01)%        |
| <b>QC McKissock Investment, LLC(17)</b>                                      |                                 |            |                     |                     |                |                |
| <b>McKissock, LLC</b>  |                                 |            |                     |                     |                |                |
| Education  | First<br>lien(2)(11)<br>Undrawn | 12/31/2015 | 1,862               | (19)                | (64)           | (0.01)%        |
| <b>MailSouth, Inc. (d/b/a Mspark)</b>  |                                 |            |                     |                     |                |                |
| Media  | First<br>lien(3)(11)<br>Undrawn | 12/14/2016 | 1,900               | (181)               | (79)           | (0.01)%        |
| <b>EN Engineering, L.L.C.</b>  |                                 |            |                     |                     |                |                |
| Business Services  | First<br>lien(2)(11)<br>Undrawn | 12/30/2016 | 2,348               | (12)                | (85)           | (0.01)%        |
| <b>TWDiamondback Holdings Corp.(18)</b>                                      |                                 |            |                     |                     |                |                |
| <b>Diamondback Drugs of Delaware, L.L.C. (TWDiamondback II Holdings LLC)</b> |                                 |            |                     |                     |                |                |
| Distribution & Logistics   | First<br>lien(3)(11)<br>Undrawn | 2/16/2016  | 2,158               |                     | (84)           |                |
|  | First<br>lien(4)(11)<br>Undrawn | 2/16/2016  | 605                 |                     | (24)           |                |
|  |                                 |            | 2,763               |                     | (108)          | (0.01)%        |
| <b>Total Unfunded Debt Investments</b>                                       |                                 |            | <b>\$ 18,567</b>    | <b>(316)\$</b>      | <b>(467)</b>   | <b>(0.05)%</b> |
| <b>Total Non-Controlled/Non-Affiliated Investments</b>                       |                                 |            |                     |                     |                |                |
|  |                                 |            | <b>\$ 1,438,415</b> | <b>\$ 1,377,515</b> | <b>164.60%</b> |                |

The accompanying notes are an integral part of these consolidated financial statements.

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## New Mountain Finance Corporation

## Consolidated Schedule of Investments (Continued)

December 31, 2015

(in thousands, except shares)

| Portfolio Company, Location and Industry(1)        | Type of Investment     | Interest Rate(10)          | Maturity/Expiration Date | Principal Amount, Par Value or Shares | Cost             | Fair Value       | Percent of Net Assets |
|--|------------------------|----------------------------|--------------------------|---------------------------------------|------------------|------------------|-----------------------|
| <b>Non-Controlled/Affiliated Investments(25)</b>   |                        |                            |                          |                                       |                  |                  |                       |
| <b>Funded Debt Investments United States</b>       |                        |                            |                          |                                       |                  |                  |                       |
| Tenawa Resource Holdings LLC(16)                   |                        |                            |                          |                                       |                  |                  |                       |
| Tenawa Resource Management LLC                     |                        |                            |                          |                                       |                  |                  |                       |
| Energy   | First lien(3)          | 10.50%<br>(Base + 8.00%/Q) | 5/12/2019                | \$ 40,000                             | \$ 39,869        | \$ 38,813        | 4.64%                 |
| Edmentum Ultimate Holdings, LLC(19)                |                        |                            |                          |                                       |                  |                  |                       |
| Education  | Subordinated(3)        | 8.50% PIK/Q*               | 6/9/2020                 | 3,786                                 | 3,778            | 3,622            |                       |
|  | Subordinated(2)        | 10.00% PIK/Q*              | 6/9/2020                 | 13,715                                | 13,715           | 10,547           |                       |
|  | Subordinated(3)        | 10.00% PIK/Q*              | 6/9/2020                 | 3,374                                 | 3,374            | 2,595            |                       |
|  |                        |                            |                          | 20,875                                | 20,867           | 16,764           | 2.00%                 |
| <b>Total Funded Debt Investments United States</b> |                        |                            |                          | <b>\$ 60,875</b>                      | <b>\$ 60,736</b> | <b>\$ 55,577</b> | <b>6.64%</b>          |
| <b>Equity United States</b>                        |                        |                            |                          |                                       |                  |                  |                       |
| NMFC Senior Loan Program I LLC**                   |                        |                            |                          |                                       |                  |                  |                       |
| Investment Fund                                    | Membership interest(3) |                            |                          |                                       | \$ 23,000        | \$ 21,914        | 2.62%                 |
| Edmentum Ultimate Holdings, LLC(19)                |                        |                            |                          |                                       |                  |                  |                       |
| Education  | Ordinary shares(3)     |                            |                          | 123,968                               | 11               | 3,341            |                       |
|  | Ordinary shares(2)     |                            |                          | 107,143                               | 9                | 2,888            |                       |
|  |                        |                            |                          |                                       | 20               | 6,229            | 0.74%                 |
| Tenawa Resource Holdings LLC(16)                   |                        |                            |                          |                                       |                  |                  |                       |
| QID NGL LLC  |                        |                            |                          |                                       |                  |                  |                       |
| Energy   | Ordinary shares(7)     |                            |                          | 5,290,997                             | 5,291            | 3,778            | 0.45%                 |

|                     |                      |  |  |  |  |  |  |  |  |                  |                  |              |
|---------------------|----------------------|--|--|--|--|--|--|--|--|------------------|------------------|--------------|
| <b>Total Shares</b> | <b>United States</b> |  |  |  |  |  |  |  |  | <b>\$ 28,311</b> | <b>\$ 31,921</b> | <b>3.81%</b> |
|---------------------|----------------------|--|--|--|--|--|--|--|--|------------------|------------------|--------------|

**Unfunded Debt Investments****United States**

Edmentum Ultimate

Holdings, LLC(19)

Edmentum, Inc. (fka Plato, Inc.)

(Archipelago Learning, Inc.)

Education

Second  
lien(3)(11)

Undrawn

6/9/2020

\$

4,881 \$

\$

(211) (0.02)%

**Total Unfunded Debt Investments**

\$

**4,881 \$**

\$

**(211) (0.02)%****Total Non-Controlled/Affiliated Investments****\$ 89,047 \$ 87,287 10.43%****Controlled Investments(26)****Funded Debt Investments United States**

UniTek Global Services, Inc.

Business Services

First lien(2)

8.50%

(L + 7.50%/Q)

1/13/2019

\$

6,786 \$

6,786 \$

6,640

First lien(3)

8.50%

(L + 7.50%/Q)

1/13/2019

4,060

4,060

3,973

First lien(3)

9.50%

(L + 7.50% +

1.00% PIK/Q)\*

1/13/2019

7,323

7,323

7,257

Subordinated(2)

15.00% PIK/Q\*

7/13/2019

1,487

1,487

1,417

Subordinated(3)

15.00% PIK/Q\*

7/13/2019

890

890

848

20,546

20,546

20,135 2.40%

**Total Funded Debt Investments****United States**

\$

**20,546 \$****20,546 \$****20,135 2.40%**

The accompanying notes are an integral part of these consolidated financial statements.

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## New Mountain Finance Corporation

## Consolidated Schedule of Investments (Continued)

December 31, 2015

(in thousands, except shares)

| Portfolio Company, Location and Industry(1)    | Type of Investment        | Interest Rate(10) | Maturity/Expiration Date | Principal Amount, Par Value or Shares | Cost                | Fair Value          | Percent of Net Assets |
|--|---------------------------|-------------------|--------------------------|---------------------------------------|---------------------|---------------------|-----------------------|
| <b>Equity United States</b>                    |                           |                   |                          |                                       |                     |                     |                       |
| UniTek Global Services, Inc.                   |                           |                   |                          |                                       |                     |                     |                       |
| Business Services                              | Preferred shares(2)(21)   |                   |                          | 16,680,037                            | \$ 14,299           | \$ 13,870           |                       |
|  | Preferred shares(3)(21)   |                   |                          | 4,609,569                             | 3,952               | 3,833               |                       |
|  | Ordinary shares(2)        |                   |                          | 2,096,477                             | 1,925               | 7,528               |                       |
|  | Ordinary shares(3)        |                   |                          | 579,366                               | 532                 | 2,081               |                       |
|  |                           |                   |                          |                                       | 20,708              | 27,312              | 3.26%                 |
| <b>Total Shares</b>                            | <b>United States</b>      |                   |                          |                                       | <b>\$ 20,708</b>    | <b>\$ 27,312</b>    | <b>3.26%</b>          |
| <b>Total Funded Investments</b>                |                           |                   |                          |                                       | <b>\$ 41,254</b>    | <b>\$ 47,447</b>    | <b>5.66%</b>          |
| <b>Unfunded Debt Investments United States</b> |                           |                   |                          |                                       |                     |                     |                       |
| UniTek Global Services, Inc.                   |                           |                   |                          |                                       |                     |                     |                       |
| Business Services                              | First lien(3)(11) Undrawn |                   | 1/13/2019                | \$ 2,048                              | \$                  | (18)                |                       |
|  | First lien(3)(11) Undrawn |                   | 1/13/2019                | 758                                   |                     | (7)                 |                       |
|  |                           |                   |                          | 2,806                                 |                     | (25)                | %                     |
| <b>Total Unfunded Debt Investments</b>         |                           |                   |                          | <b>\$ 2,806</b>                       | <b>\$</b>           | <b>(25)</b>         | <b>%</b>              |
| <b>Total Controlled Investments</b>            |                           |                   |                          |                                       | <b>\$ 41,254</b>    | <b>\$ 47,422</b>    | <b>5.66%</b>          |
| <b>Total Investments</b>                       |                           |                   |                          |                                       | <b>\$ 1,568,716</b> | <b>\$ 1,512,224</b> | <b>180.69%</b>        |

- (1) New Mountain Finance Corporation (the "Company") generally acquires its investments in private transactions exempt from registration under the Securities Act of 1933, as amended (the "Securities Act"). These investments are generally subject to certain limitations on resale, and may be deemed to be "restricted securities" under the Securities Act.
- (2) Investment is pledged as collateral for the Holdings Credit Facility, a revolving credit facility among the Company as Collateral Manager, New Mountain Finance Holdings, L.L.C. ("NMF Holdings") as the Borrower, Wells Fargo Securities, LLC as the Administrative Agent, and Wells Fargo Bank, National Association, as the Lender and Collateral Custodian. See Note 7. *Borrowings*, for details.
- (3) Investment is pledged as collateral for the NMFC Credit Facility, a revolving credit facility among the Company as the Borrower and Goldman Sachs Bank USA as the Administrative Agent and the Collateral Agent and Goldman Sachs Bank USA, Morgan Stanley Bank, N.A. and Stifel Bank & Trust as Lenders. See Note 7. *Borrowings*, for details.
- (4) Investment is held in New Mountain Finance SBIC, L.P.
- (5) Investment is held in NMF YP Holdings, Inc.
- (6) Investment is held in NMF Ancora Holdings, Inc.
- (7) Investment is held in NMF QID NGL Holdings, Inc.
- (8) Investment or a portion of the investment is on non-accrual status. See Note 3. *Investments*, for details.
- (9) Securities are registered under the Securities Act.
- (10) All interest is payable in cash unless otherwise indicated. A majority of the variable rate debt investments bear interest at a rate that may be determined by reference to the London Interbank Offered Rate (L), the Prime Rate (P) and the alternative base rate (Base) and which resets monthly (M), quarterly (Q), semi-annually (S) or annually (A). For each investment the current interest rate provided reflects the rate in effect as of December 31, 2015.
- (11) Par Value amounts represent the drawn or undrawn (as indicated in type of investment) portion of revolving credit facilities or delayed draws. Cost amounts represent the cash received at settlement date net the impact of paydowns and cash paid for drawn revolvers or delayed draws.

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The accompanying notes are an integral part of these consolidated financial statements.

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**New Mountain Finance Corporation**

**Consolidated Schedule of Investments (Continued)**

**December 31, 2015**

**(in thousands, except shares)**

- (12) The Company holds investments in three related entities of YP Holdings LLC/Print Media Holdings LLC. The Company directly holds warrants to purchase a 4.96% membership interest of YP Equity Investors, LLC (which at closing represented an indirect 1.0% equity interest in YP Holdings LLC) and holds an investment in the Term Loan B loans issued by YP LLC and Print Media LLC, wholly-owned subsidiaries of YP Holdings LLC and Print Media Holdings LLC, respectively.
- (13) The Company holds investments in Packaging Coordinators, Inc. and one related entity of Packaging Coordinators, Inc. The Company has a debt investment in Packaging Coordinators, Inc. and holds ordinary equity in PCI Pharma Holdings UK Limited, a wholly-owned subsidiary of Packaging Coordinators, Inc.
- (14) The Company holds investments in ATI Acquisition Company and Ancora Acquisition LLC. The Company has debt investments in ATI Acquisition Company and preferred equity and warrants to purchase units of common membership interests of Ancora Acquisition LLC. The Company received its investments in Ancora Acquisition LLC as a result of its investments in ATI Acquisition Company.
- (15) The Company holds an investment in CompassLearning, Inc. that is structured as a first lien last out term loan.
- (16) The Company holds investments in two related entities of Tenawa Resource Holdings LLC. The Company holds 5.25% of the common units in QID NGL LLC (which at closing represented 98.1% of the ownership in the common units in Tenawa Resource Holdings LLC) and holds a first lien investment in Tenawa Resource Management LLC, a wholly-owned subsidiary of Tenawa Resource Holdings LLC.
- (17) The Company holds investments in QC McKissock Investment, LLC and one related entity of QC McKissock Investment, LLC. The Company holds a first lien term loan in QC McKissock Investment, LLC (which at closing represented 71.1% of the ownership in the Series A common units of McKissock Investment Holdings, LLC) and holds a first lien term loan and a delayed draw term loan in McKissock, LLC, a wholly-owned subsidiary of McKissock Investment Holdings, LLC.
- (18) The Company holds investments in TWDiamondback Holdings Corp. and one related entity of TWDiamondback Holdings Corp. The Company holds preferred equity in TWDiamondback Holdings Corp. and holds a first lien last out term loan and a delayed draw term loan in Diamondback Drugs of Delaware LLC, a wholly-owned subsidiary of TWDiamondback Holdings Corp.

- (19) The Company holds investments in Edmentum Ultimate Holdings, LLC and its related entities. The Company holds subordinated notes and ordinary equity in Edmentum Ultimate Holdings, LLC and holds a second lien revolver in Edmentum, Inc. and Archipelago Learning, Inc., which are wholly-owned subsidiaries of Edmentum Ultimate Holdings, LLC.
- (20) Total shares reported assumes shares issued for the capitalization of PIK interest. Actual shares owned total 50,000 as of December 31, 2015.
- (21) The Company holds preferred equity in UniTek Global Services, Inc. that is entitled to receive cumulative preferential dividends at a rate of 13.5% per annum payable in additional shares.
- (22) The Company holds investments in Education Management Corporation and one related entity of Education Management Corporation. The Company holds series A-1 convertible preferred stock and common stock in Education Management Corporation and holds a tranche A first lien term loan and a tranche B first lien term loan in Education Management II LLC, which is an indirect subsidiary of Education Management Corporation.
- (23) The Company holds an equity investment in TW-NHME Holdings Corp., as well as a second lien term loan investment in National HME, Inc., a wholly-owned subsidiary of TW-NHME Holdings Corp.
- (24) The Company holds an investment in Pittsburgh Glass Works, LLC that is structured as a first lien last out term loan.

The accompanying notes are an integral part of these consolidated financial statements.



Table of Contents**New Mountain Finance Corporation****Consolidated Schedule of Investments (Continued)****December 31, 2015****(in thousands, except shares)**

(25) Denotes investments in which the Company is an "Affiliated Person", as defined in the Investment Company Act of 1940, as amended, due to owning or holding the power to vote 5.0% or more of the outstanding voting securities of the investment but not controlling the company. Fair value as of December 31, 2014 and December 31, 2015 along with transactions during the year ended December 31, 2015 in which the issuer was a non-controlled/affiliated investment is as follows:

| Portfolio Company(1)                               | Fair Value at December 31, 2014 | Gross Additions  | Gross Reductions (ReDEMPTIONS) | Net Change           |  | Fair Value at December 31, 2015 | Interest Income | Dividend Income | Other Income    |
|--|---------------------------------|------------------|--------------------------------|----------------------|--|---------------------------------|-----------------|-----------------|-----------------|
|  |                                 |                  |                                | Realized Gain (Loss) | Unrealized Appreciation (Depreciation) |                                 |                 |                 |                 |
| Edmentum Ultimate Holdings, LLC/Edmentum Inc.      | \$                              | \$ 23,937        | \$ (3,050)                     | \$                   | \$ 1,895                               | \$ 22,782                       | \$ 1,171        | \$              | \$              |
| NMFC Senior Loan Program I LLC                     | 22,461                          |                  |                                |                      | (547)                                  | 21,914                          |                 | 3,619           | 1,215           |
| Tenawa Resource Holdings LLC                       |                                 | 44,572           |                                |                      | (1,981)                                | 42,591                          | 4,231           |                 | 750             |
| <b>Total Non-Controlled/Affiliated Investments</b> | <b>\$ 22,461</b>                | <b>\$ 68,509</b> | <b>\$ (3,050)</b>              | <b>\$</b>            | <b>(633)</b>                           | <b>\$ 87,287</b>                | <b>\$ 5,402</b> | <b>\$ 3,619</b> | <b>\$ 1,965</b> |

(A) Gross additions include increases in the cost basis of investments resulting from new portfolio investments, payment-in-kind ("PIK") interest or dividends, the amortization of discounts, reorganizations or restructurings and the movement at fair value of an existing portfolio company into this category from a different category.

(B) Gross reductions include decreases in the cost basis of investments resulting from principal collections related to investment repayments or sales, reorganizations or restructurings and the movement of an existing portfolio company out of this category into a different category.

(26)

Denotes investments in which the Company is in "Control", as defined in the Investment Company Act of 1940, as amended, due to owning or holding the power to vote 25.0% or more of the outstanding voting securities of the investment. Fair value as of December 31, 2014 and December 31, 2015 along with transactions during the year ended December 31, 2015 in which the issuer was a controlled investment is as follows:

| Portfolio Company(1)                | Fair Value at December 31, 2014 | Gross Additions (A) | Gross Reductions (B) | Net Change In               |  | Fair Value at December 31, 2015 | Interest Income | Dividend Income | Other Income |
|-------------------------------------|---------------------------------|---------------------|----------------------|-----------------------------|--|---------------------------------|-----------------|-----------------|--------------|
|                                     |                                 |                     |                      | Realized Gains (Losses) (C) | Unrealized Appreciation (Depreciation) (D) |                                 |                 |                 |              |
| UniTek Global Services, Inc.        | \$                              | \$ 42,780           | \$ (1,526)           | \$                          | \$ 6,168                                   | \$ 47,422                       | \$ 2,007        | \$ 2,559        | \$ 49        |
| <b>Total Controlled Investments</b> | <b>\$</b>                       | <b>\$ 42,780</b>    | <b>\$ (1,526)</b>    | <b>\$</b>                   | <b>\$ 6,168</b>                            | <b>\$ 47,422</b>                | <b>\$ 2,007</b> | <b>\$ 2,559</b> | <b>\$ 49</b> |

(A)

Gross additions include increases in the cost basis of investments resulting from new portfolio investments, PIK interest or dividends, the amortization of discounts, reorganizations or restructurings and the movement at fair value of an existing portfolio company into this category from a different category.

(B)

Gross reductions include decreases in the cost basis of investments resulting from principal collections related to investment repayments or sales, reorganizations or restructurings and the movement of an existing portfolio company out of this category into a different category.

\*

All or a portion of interest contains PIK interest.

\*\*

Indicates assets that the Company deems to be "non-qualifying assets" under Section 55(a) of the Investment Company Act of 1940, as amended. Qualifying assets must represent at least 70.00% of the Company's total assets at the time of acquisition of any additional non-qualifying assets. As of December 31, 2015, 6.8% of the Company's total assets were non-qualifying assets.

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**New Mountain Finance Corporation****Consolidated Schedule of Investments (Continued)**

December 31, 2015

| <b>Investment Type</b>   | <b>December 31, 2015<br/>Percent of Total<br/>Investments at Fair Value</b> |
|--------------------------|---|
| First lien               | 44.31%  |
| Second lien              | 41.79%  |
| Subordinated             | 5.75%   |
| Equity and other         | 8.15%   |
| <b>Total investments</b> | <b>100.00%</b>  |

| <b>Industry Type</b>     | <b>December 31, 2015<br/>Percent of Total<br/>Investments at Fair Value</b> |
|--------------------------|---|
| Software                 | 24.53%  |
| Business Services        | 24.36%  |
| Education                | 10.97%  |
| Distribution & Logistics | 7.76%   |
| Federal Services         | 6.31%   |
| Consumer Services        | 4.52%   |
| Energy                   | 4.33%   |
| Healthcare Services      | 4.18%   |
| Media                    | 3.16%   |
| Healthcare Products      | 2.49%   |
| Business Products        | 2.21%   |
| Manufacturing            | 1.98%   |
| Investment Fund          | 1.45%   |
| Retail                   | 1.39%   |
| Industrial Services      | 0.36%   |
| <b>Total investments</b> | <b>100.00%</b>  |

| <b>Interest Rate Type</b> | <b>December 31, 2015<br/>Percent of Total<br/>Investments at Fair Value</b> |
|---------------------------|---|
| Floating rates            | 86.26%  |
| Fixed rates               | 13.74%  |
| <b>Total investments</b>  | <b>100.00%</b>  |

The accompanying notes are an integral part of these consolidated financial statements.

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation**

**December 31, 2016**

**(in thousands, except share data)**

**Note 1. Formation and Business Purpose**

***New Mountain Finance Corporation***

New Mountain Finance Corporation ("NMFC" or the "Company") is a Delaware corporation that was originally incorporated on June 29, 2010 and completed its initial public offering ("IPO") on May 19, 2011. NMFC is a closed-end, non-diversified management investment company that has elected to be regulated as a business development company ("BDC") under the Investment Company Act of 1940, as amended (the "1940 Act"). As such, NMFC is obligated to comply with certain regulatory requirements. NMFC has elected to be treated, and intends to comply with the requirements to continue to qualify annually, as a regulated investment company ("RIC") under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code"). NMFC is also registered as an investment adviser under the Investment Advisers Act of 1940, as amended (the "Advisers Act").

New Mountain Finance Advisers BDC, L.L.C. (the "Investment Adviser") is a wholly-owned subsidiary of New Mountain Capital, L.L.C. ("New Mountain Capital", defined as New Mountain Capital Group, L.L.C. and its affiliates). New Mountain Capital is a firm with a track record of investing in the middle market. New Mountain Capital focuses on investing in defensive growth companies across its private equity, public equity and credit investment vehicles. The Investment Adviser manages the Company's day-to-day operations and provides it with investment advisory and management services. New Mountain Finance Administration, L.L.C. (the "Administrator"), a wholly-owned subsidiary of New Mountain Capital, provides the administrative services necessary to conduct the Company's day-to-day operations.

The Company's wholly-owned subsidiary, New Mountain Finance Holdings, L.L.C. ("NMF Holdings" or the "Predecessor Operating Company"), is a Delaware limited liability company whose assets are used to secure NMF Holdings' credit facility. For additional information about the Company's historical organizational structure prior to May 8, 2014, see "Historical Structure". NMF Ancora Holdings Inc. ("NMF Ancora"), NMF QID NGL Holdings, Inc. ("NMF QID") and NMF YP Holdings Inc. ("NMF YP"), the Company's wholly-owned subsidiaries, are structured as Delaware entities that serve as tax blocker corporations which hold equity or equity-like investments in portfolio companies organized as limited liability companies (or other forms of pass-through entities). The Company consolidates its tax blocker corporations for accounting purposes. The tax blocker corporations are not consolidated for income tax purposes and may incur income tax expense as a result of their ownership of portfolio companies. Additionally, the Company has a wholly-owned subsidiary, New Mountain Finance Servicing, L.L.C. ("NMF Servicing") that serves as the administrative agent on certain investment transactions. New Mountain Finance SBIC, L.P. ("SBIC LP") and its general partner, New Mountain Finance SBIC G.P., L.L.C. ("SBIC GP"), were organized in Delaware as a limited partnership and limited liability company, respectively. SBIC LP and SBIC GP are consolidated wholly-owned direct and indirect subsidiaries of the Company. SBIC LP received a license from the United States ("U.S.") Small Business Administration (the "SBA") to operate as a small business investment company ("SBIC") under Section 301(c) of the Small Business Investment Act of 1958, as amended (the "1958 Act").

The Company's investment objective is to generate current income and capital appreciation through the sourcing and origination of debt securities at all levels of the capital structure, including

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**(in thousands, except share data)**

**Note 1. Formation and Business Purpose (Continued)**

first and second lien debt, notes, bonds and mezzanine securities. In some cases, the Company's investments may also include equity interests. The primary focus is in the debt of defensive growth companies, which are defined as generally exhibiting the following characteristics: (i) sustainable secular growth drivers, (ii) high barriers to competitive entry, (iii) high free cash flow after capital expenditure and working capital needs, (iv) high returns on assets and (v) niche market dominance. Similar to the Company, SBIC LP's investment objective is to generate current income and capital appreciation under the investment criteria used by the Company, however, SBIC LP's investments must be in SBA eligible companies. The Company's portfolio may be concentrated in a limited number of industries. As of December 31, 2016, the Company's top five industry concentrations were business services, software, consumer services, investment fund and education.

**Historical Structure**

On May 19, 2011, NMFC priced its IPO of 7,272,727 shares of common stock at a public offering price of \$13.75 per share. Concurrently with the closing of the IPO and at the public offering price of \$13.75 per share, NMFC sold an additional 2,172,000 shares of its common stock to certain executives and employees of, and other individuals affiliated with, New Mountain Capital in a concurrent private placement (the "Concurrent Private Placement"). Additionally, 1,252,964 shares were issued to the partners of New Mountain Guardian Partners, L.P. at that time for their ownership interest in the Predecessor Entities (as defined below). In connection with NMFC's IPO and through a series of transactions, NMF Holdings acquired all of the operations of the Predecessor Entities, including all of the assets and liabilities related to such operations. NMF Holdings, formerly known as New Mountain Guardian (Leveraged), L.L.C., was originally formed as a subsidiary of New Mountain Guardian AIV, L.P. ("Guardian AIV") by New Mountain Capital in October 2008. Guardian AIV was formed through an allocation of approximately \$300.0 million of the \$5.1 billion of commitments supporting New Mountain Partners III, L.P., a private equity fund managed by New Mountain Capital. In February 2009, New Mountain Capital formed a co-investment vehicle, New Mountain Guardian Partners, L.P., comprising \$20.4 million of commitments. New Mountain Guardian (Leveraged), L.L.C. and New Mountain Guardian Partners, L.P., together with their respective direct and indirect wholly-owned subsidiaries, are defined as the "Predecessor Entities".

Until May 8, 2014, NMF Holdings was externally managed by the Investment Adviser and was regulated as a BDC under the 1940 Act. As such, NMF Holdings was obligated to comply with certain regulatory requirements. NMF Holdings was treated as a partnership for U.S. federal income tax purposes for so long as it had at least two members. With the completion of the underwritten secondary offering on February 3, 2014, NMF Holdings' existence as a partnership for U.S. federal income tax purposes terminated and NMF Holdings became an entity that is disregarded as a separate entity from its owner for U.S. federal tax purposes.

Until April 25, 2014, New Mountain Finance AIV Holdings Corporation ("AIV Holdings") was a Delaware corporation that was originally incorporated on March 11, 2011. Guardian AIV, a Delaware limited partnership, was AIV Holdings' sole stockholder. AIV Holdings was a closed-end, non-diversified management investment company that was regulated as a BDC under the 1940 Act.

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**Note 1. Formation and Business Purpose (Continued)**

As such, AIV Holdings was obligated to comply with certain regulatory requirements. AIV Holdings was treated, and complied with the requirements to qualify annually, as a RIC under the Code. AIV Holdings was dissolved on April 25, 2014.

Prior to May 8, 2014, NMFC and AIV Holdings were holding companies with no direct operations of their own, and their sole asset was their ownership in NMF Holdings. In connection with the IPO, NMFC and AIV Holdings each entered into a joinder agreement with respect to the Limited Liability Company Agreement, as amended and restated (the "Operating Agreement"), of NMF Holdings, pursuant to which NMFC and AIV Holdings were admitted as members of NMF Holdings. NMFC acquired from NMF Holdings, with the gross proceeds of the IPO and the Concurrent Private Placement, common membership units ("units") of NMF Holdings (the number of units were equal to the number of shares of NMFC's common stock sold in the IPO and the Concurrent Private Placement). Additionally, NMFC received units of NMF Holdings equal to the number of shares of common stock of NMFC issued to the partners of New Mountain Guardian Partners, L.P. Guardian AIV was the parent of NMF Holdings prior to the IPO and, as a result of the transactions completed in connection with the IPO, obtained units in NMF Holdings. Guardian AIV contributed its units in NMF Holdings to its newly formed subsidiary, AIV Holdings, in exchange for common stock of AIV Holdings. AIV Holdings had the right to exchange all or any portion of its units in NMF Holdings for shares of NMFC's common stock on a one-for-one basis at any time.

The original structure was designed to generally prevent NMFC from being allocated taxable income with respect to unrecognized gains that existed at the time of the IPO in the Predecessor Entities' assets, and rather such amounts would be allocated generally to AIV Holdings. The result was that any distributions made to NMFC's stockholders that were attributable to such gains generally were not treated as taxable dividends but rather as return of capital.

Since NMFC's IPO, and through December 31, 2016, NMFC raised approximately \$533,103 in net proceeds from additional offerings of common stock and issued shares of its common stock valued at approximately \$288,416 on behalf of AIV Holdings for exchanged units. NMFC acquired from NMF Holdings units of NMF Holdings equal to the number of shares of NMFC's common stock sold in the additional offerings. With the completion of the final secondary offering on February 3, 2014, NMFC owned 100.0% of the units of NMF Holdings, which became a wholly-owned subsidiary of NMFC.

***Restructuring***

As a BDC, AIV Holdings had been subject to the 1940 Act, including certain provisions applicable only to BDCs. Accordingly, and after careful consideration of the 1940 Act requirements applicable to BDCs, the cost of 1940 Act compliance and a thorough assessment of AIV Holdings' business model, AIV Holdings' board of directors determined that continuation as a BDC was not in the best interest of AIV Holdings and Guardian AIV. Specifically, given that AIV Holdings was formed for the sole purpose of holding units of NMF Holdings and AIV Holdings had disposed of all of the units of NMF Holdings that it was holding as of February 3, 2014, the board of directors of AIV Holdings approved and declared advisable at an in-person meeting held on March 25, 2014 the withdrawal of AIV Holdings' election to be regulated as a BDC under the 1940 Act. In addition, the

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**Note 1. Formation and Business Purpose (Continued)**

board of directors of AIV Holdings approved and declared advisable for AIV Holdings to terminate its registration under Section 12(g) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and to dissolve AIV Holdings under the laws of the State of Delaware.

Upon receipt of the necessary stockholder consent to authorize the board of directors of AIV Holdings to withdraw AIV Holdings' election to be regulated as a BDC, the withdrawal was filed and became effective upon receipt by the U.S. Securities and Exchange Commission ("SEC") of AIV Holdings' notification of withdrawal on Form N-54C on April 15, 2014. The board of directors of AIV Holdings believed that AIV Holdings met the requirements for filing the notification to withdraw its election to be regulated as a BDC, upon the receipt of the necessary stockholder consent. After the notification of withdrawal of AIV Holdings' BDC election was filed with the SEC, AIV Holdings was no longer subject to the regulatory provisions of the 1940 Act applicable to BDCs generally, including regulations related to insurance, custody, composition of its board of directors, affiliated transactions and any compensation arrangements.

In addition, on April 15, 2014, AIV Holdings filed a Form 15 with the SEC to terminate AIV Holdings' registration under Section 12(g) of the Exchange Act. After these SEC filings and any other federal or state regulatory or tax filings were made, AIV Holdings proceeded to dissolve under Delaware law by filing a certificate of dissolution in Delaware on April 25, 2014.

Until May 8, 2014, as a BDC, NMF Holdings had been subject to the 1940 Act, including certain provisions applicable only to BDCs. Accordingly, and after careful consideration of the 1940 Act requirements applicable to BDCs, the cost of 1940 Act compliance and a thorough assessment of NMF Holdings' current business model, NMF Holdings' board of directors determined at an in-person meeting held on March 25, 2014 that continuation as a BDC was not in the best interests of NMF Holdings.

At the joint annual meeting of the stockholders of NMFC and the sole unit holder of NMF Holdings held on May 6, 2014, the stockholders of NMFC and the sole unit holder of NMF Holdings approved a proposal which authorized the board of directors of NMF Holdings to withdraw NMF Holdings' election to be regulated as a BDC. Additionally, the stockholders of NMFC approved a new investment advisory and management agreement between NMFC and the Investment Adviser. Upon receipt of the necessary stockholder/unit holder approval to authorize the board of directors of NMF Holdings to withdraw NMF Holdings' election to be regulated as a BDC, the withdrawal was filed and became effective upon receipt by the SEC of NMF Holdings' notification of withdrawal on Form N-54C on May 8, 2014.

Effective May 8, 2014, NMF Holdings amended and restated its Operating Agreement such that the board of directors of NMF Holdings was dissolved and NMF Holdings remained a wholly-owned subsidiary of NMFC with the sole purpose of serving as a special purpose vehicle for NMF Holdings' credit facility, and NMFC assumed all other operating activities previously undertaken by NMF Holdings under the management of the Investment Adviser (collectively, the "Restructuring"). After the Restructuring, all wholly-owned direct and indirect subsidiaries of NMFC are consolidated with NMFC for both 1940 Act and financial statement reporting purposes, subject to any financial



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**Note 1. Formation and Business Purpose (Continued)**

statement adjustments required in accordance with accounting principles generally accepted in the United States of America ("GAAP"). NMFC continues to remain a BDC under the 1940 Act.

Also, on May 8, 2014, NMF Holdings filed Form 15 with the SEC to terminate NMF Holdings' registration under Section 12(g) of the Exchange Act. As a special purpose entity, NMF Holdings is bankruptcy-remote and non-recourse to NMFC. In addition, the assets held at NMF Holdings will continue to be used to secure NMF Holdings' credit facility.

Prior to December 18, 2014, New Mountain Finance SPV Funding, L.L.C. ("NMF SLF") was a Delaware limited liability company. NMF SLF was a wholly-owned subsidiary of NMF Holdings and thus a wholly-owned indirect subsidiary of the Company. NMF SLF was bankruptcy-remote and non-recourse to NMFC. As part of an amendment to the Company's existing credit facilities with Wells Fargo Bank, National Association, NMF SLF merged with and into NMF Holdings on December 18, 2014. See Note 7. *Borrowings*, for details.

**Note 2. Summary of Significant Accounting Policies**

**Basis of accounting** The Company's consolidated financial statements have been prepared in conformity with GAAP. The Company is an investment company following accounting and reporting guidance in Accounting Standards Codification Topic 946, *Financial Services Investment Companies*, ("ASC 946"). NMFC consolidates its wholly-owned direct and indirect subsidiaries: NMF Holdings, NMF Servicing, SBIC LP, SBIC GP, NMF Ancora, NMF QID and NMF YP. Previously, the Company consolidated its wholly-owned indirect subsidiary NMF SLF until it merged with and into NMF Holdings on December 18, 2014. See Note 7. *Borrowings*, for details. Prior to the Restructuring, the Predecessor Operating Company consolidated its wholly-owned subsidiary, NMF SLF. NMFC and AIV Holdings did not consolidate the Predecessor Operating Company. Prior to the Restructuring, NMFC and AIV Holdings applied investment company master-feeder financial statement presentation, as described in ASC 946 to their interest in the Predecessor Operating Company. NMFC and AIV Holdings observed that it was also industry practice to follow the presentation prescribed for a master fund-feeder fund structure in ASC 946 in instances in which a master fund was owned by more than one feeder fund and that such presentation provided stockholders of NMFC and AIV Holdings with a clearer depiction of their investment in the master fund.

The Company's consolidated financial statements reflect all adjustments and reclassifications which, in the opinion of management, are necessary for the fair presentation of the results of operations and financial condition for all periods presented. All intercompany transactions have been eliminated. Revenues are recognized when earned and expenses when incurred. The financial results of the Company's portfolio investments are not consolidated in the financial statements.

The Company's consolidated financial statements are prepared in accordance with GAAP and pursuant to the requirements for reporting on Form 10-K and Article 6 of Regulation S-X. In the opinion of management, all adjustments, consisting solely of normal recurring accruals considered necessary for the fair presentation of financial statements have been included.

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**Note 2. Summary of Significant Accounting Policies (Continued)**

**Investments** The Company applies fair value accounting in accordance with GAAP. Fair value is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investments are reflected on the Company's Consolidated Statements of Assets and Liabilities at fair value, with changes in unrealized gains and losses resulting from changes in fair value reflected in the Company's Consolidated Statements of Operations as "Net change in unrealized appreciation (depreciation) of investments" and realizations on portfolio investments reflected in the Company's Consolidated Statements of Operations as "Net realized gains (losses) on investments".

The Company values its assets on a quarterly basis, or more frequently if required under the 1940 Act. In all cases, the Company's board of directors is ultimately and solely responsible for determining the fair value of the portfolio investments on a quarterly basis in good faith, including investments that are not publicly traded, those whose market prices are not readily available and any other situation where its portfolio investments require a fair value determination. Security transactions are accounted for on a trade date basis. The Company's quarterly valuation procedures are set forth in more detail below:

- (1) Investments for which market quotations are readily available on an exchange are valued at such market quotations based on the closing price indicated from independent pricing services.
- (2) Investments for which indicative prices are obtained from various pricing services and/or brokers or dealers are valued through a multi-step valuation process, as described below, to determine whether the quote(s) obtained is representative of fair value in accordance with GAAP.
  - a. Bond quotes are obtained through independent pricing services. Internal reviews are performed by the investment professionals of the Investment Adviser to ensure that the quote obtained is representative of fair value in accordance with GAAP and, if so, the quote is used. If the Investment Adviser is unable to sufficiently validate the quote(s) internally and if the investment's par value or its fair value exceeds the materiality threshold, the investment is valued similarly to those assets with no readily available quotes (see (3) below); and
  - b. For investments other than bonds, the Company looks at the number of quotes readily available and performs the following procedures:
    - i. Investments for which two or more quotes are received from a pricing service are valued using the mean of the mean of the bid and ask of the quotes obtained.
    - ii. Investments for which one quote is received from a pricing service are validated internally. The investment professionals of the Investment Adviser analyze the market quotes obtained using an array of valuation methods (further described below) to validate the fair value. If the Investment Adviser is unable to sufficiently validate the quote internally and if the investment's par

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**Note 2. Summary of Significant Accounting Policies (Continued)**

value or its fair value exceeds the materiality threshold, the investment is valued similarly to those assets with no readily available quotes (see (3) below).

(3)

Investments for which quotations are not readily available through exchanges, pricing services, brokers, or dealers are valued through a multi-step valuation process:

a.

Each portfolio company or investment is initially valued by the investment professionals of the Investment Adviser responsible for the credit monitoring;

b.

Preliminary valuation conclusions will then be documented and discussed with the Company's senior management;

c.

If an investment falls into (3) above for four consecutive quarters and if the investment's par value or its fair value exceeds the materiality threshold, then at least once each fiscal year, the valuation for each portfolio investment for which the Company does not have a readily available market quotation will be reviewed by an independent valuation firm engaged by the Company's board of directors; and

d.

When deemed appropriate by the Company's management, an independent valuation firm may be engaged to review and value investment(s) of a portfolio company, without any preliminary valuation being performed by the Investment Adviser. The investment professionals of the Investment Adviser will review and validate the value provided.

For investments in revolving credit facilities and delayed draw commitments, the cost basis of the funded investments purchased is offset by any costs/netbacks received for any unfunded portion on the total balance committed. The fair value is also adjusted for the price appreciation or depreciation on the unfunded portion. As a result, the purchase of a commitment not completely funded may result in a negative fair value until it is called and funded.

The values assigned to investments are based upon available information and do not necessarily represent amounts which might ultimately be realized, since such amounts depend on future circumstances and cannot be reasonably determined until the individual positions are liquidated. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of the Company's investments may fluctuate from period to period and the fluctuations could be material.

Prior to the Restructuring, NMFC was a holding company with no direct operations of its own, and its sole asset was its ownership in the Predecessor Operating Company. Prior to the completion of the underwritten secondary public offering on February 3, 2014, AIV Holdings was a holding company with no direct operations of its own, and its sole asset was its ownership in the Predecessor Operating Company. NMFC's and AIV Holdings' investments in the Predecessor Operating Company were carried at fair value and represented the respective pro-rata interest in the net assets of the Predecessor Operating Company as of the applicable reporting date. NMFC and AIV Holdings valued their ownership interest on a quarterly basis, or more frequently if required under the 1940 Act.

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**Note 2. Summary of Significant Accounting Policies (Continued)**

See Note 3. *Investments*, for further discussion relating to investments.

***Collateralized agreements or repurchase financings*** The Company follows the guidance in Accounting Standards Codification Topic 860, *Transfers and Servicing Secured Borrowing and Collateral*, ("ASC 860") when accounting for transactions involving the purchases of securities under collateralized agreements to resell (resale agreements). These transactions are treated as collateralized financing transactions and are recorded at their contracted resale or repurchase amounts, as specified in the respective agreements. Interest on collateralized agreements is accrued and recognized over the life of the transaction and included in interest income. As of December 31, 2016 and December 31, 2015, the Company held one collateralized agreement to resell with a cost basis of \$30,000 and \$30,000, respectively, and a carrying value of \$29,218 and \$29,704, respectively, and collateralized by a second lien bond in Northstar GOM Holdings Group LLC with a fair value of \$29,218 and \$29,704, respectively. The collateralized agreement to resell is guaranteed by a private hedge fund with the most recently reported assets under management of approximately \$690,000 and assets under management of approximately \$716,590 as of December 31, 2015. Pursuant to the terms of the collateralized agreement, the private hedge fund is obligated to repurchase the collateral from the Company at the par value of the collateralized agreement once called upon by the Company or if the private hedge fund's total assets under management fall below the agreed upon thresholds. The collateralized agreement was called upon by the Company but the counterparty failed to repurchase the collateral at its par value in accordance with the terms of the collateralized agreement. As of December 31, 2016, litigation is on-going in the state of New York and the Cayman Islands to resolve this matter. The collateralized agreement earned interest at a weighted average rate of 16.0% and 15.0% per annum as of December 31, 2016 and December 31, 2015, respectively.

***Cash and cash equivalents*** Cash and cash equivalents include cash and short-term, highly liquid investments. The Company defines cash equivalents as securities that are readily convertible into known amounts of cash and so near maturity that there is insignificant risk of changes in value. These securities have original maturities of three months or less. The Company did not hold any cash equivalents as of December 31, 2016 and December 31, 2015.

***Revenue recognition***

***Sales and paydowns of investments:*** Realized gains and losses on investments are determined on the specific identification method.

***Interest and dividend income:*** Interest income, including amortization of premium and discount using the effective interest method, is recorded on the accrual basis and periodically assessed for collectability. Interest income also includes interest earned from cash on hand. Upon the prepayment of a loan or debt security, any prepayment penalties are recorded as part of interest income. The Company has loans and certain preferred equity investments in the portfolio that contain a payment-in-kind ("PIK") interest or dividend provision. PIK interest and dividends are accrued and recorded as income at the contractual rates, if deemed collectible. The PIK interest

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**Note 2. Summary of Significant Accounting Policies (Continued)**

and dividends are added to the principal or share balances on the capitalization dates and are generally due at maturity or when redeemed by the issuer.

Dividend income on common equity is recorded on the record date for private portfolio companies or on the ex-dividend date for publicly traded portfolio companies. Dividend income on preferred securities is recorded as dividend income on an accrual basis to the extent that such amounts are deemed collectible.

*Non-accrual income:* Investments are placed on non-accrual status when principal or interest payments are past due for 30 days or more and when there is reasonable doubt that principal or interest will be collected. Accrued cash and un-capitalized PIK interest or dividends are reversed when an investment is placed on non-accrual status. Previously capitalized PIK interest or dividends are not reversed when an investment is placed on non-accrual status. Interest or dividend payments received on non-accrual investments may be recognized as income or applied to principal depending upon management's judgment of the ultimate outcome. Non-accrual investments are restored to accrual status when past due principal and interest is paid and, in management's judgment, are likely to remain current.

*Other income:* Other income represents delayed compensation, consent or amendment fees, revolver fees, structuring fees, upfront fees, management fees from a non-controlled/affiliated investment and other miscellaneous fees received and are typically non-recurring in nature. Delayed compensation is income earned from counterparties on trades that do not settle within a set number of business days after trade date. Other income may also include fees from bridge loans. The Company may from time to time enter into bridge financing commitments, an obligation to provide interim financing to a counterparty until permanent credit can be obtained. These commitments are short-term in nature and may expire unfunded. A fee is received by the Company for providing such commitments. Structuring fees and upfront fees are recognized as income when earned, usually when paid at the closing of the investment and are non-refundable.

Prior to the Restructuring, NMFC's revenue recognition policies were as follows:

*Revenue, expenses, and capital gains (losses):* At each quarterly valuation date, the Predecessor Operating Company's investment income, expenses, net realized gains (losses), and net increase (decrease) in unrealized appreciation (depreciation) were allocated to NMFC based on its pro-rata interest in the net assets of the Predecessor Operating Company. This was recorded on NMFC's Statements of Operations. Realized gains and losses were recorded upon sales of NMFC's investments in the Predecessor Operating Company. Net change in unrealized appreciation (depreciation) of investment in New Mountain Finance Holdings, L.L.C. was the difference between the net asset value per share and the closing price per share for shares issued as part of the dividend reinvestment plan on the dividend payment date. This net change in unrealized appreciation (depreciation) of investment in New Mountain Finance Holdings, L.L.C. included the unrealized appreciation (depreciation) from the IPO. NMFC used the proceeds from its IPO and Concurrent Private Placement to purchase units in the Predecessor Operating Company at \$13.75 per unit (its IPO price per share). At the IPO date, \$13.75 per unit represented a discount to the

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**Note 2. Summary of Significant Accounting Policies (Continued)**

actual net asset value per unit of the Predecessor Operating Company. As a result, NMFC experienced immediate unrealized appreciation on its investment.

All expenses, including those of NMFC, were paid and recorded by the Predecessor Operating Company. Expenses were allocated to NMFC based on its pro-rata ownership interest. In addition, the Predecessor Operating Company paid all of the offering costs related to the IPO and subsequent offerings. NMFC recorded its portion of the offering costs as a direct reduction to net assets and the cost of its investment in the Predecessor Operating Company.

**Interest and other financing expenses** Interest and other financing fees are recorded on an accrual basis by the Company. See Note 7. *Borrowings*, for details.

**Deferred financing costs** The deferred financing costs of the Company consists of capitalized expenses related to the origination and amending of the Company's borrowings. The Company amortizes these costs into expense over the stated life of the related borrowing. See Note 7. *Borrowings*, for details. On January 1, 2016, the Company adopted Accounting Standards Update No. 2015-03, *Interest Imputation of Interest Subtopic 835-30-Simplifying the Presentation of Debt Issuance Costs* ("ASU 2015-03"). Upon adoption, the Company revised its presentation of deferred financing costs from an asset to a liability, which is a direct deduction to its debt on the Consolidated Statements of Assets and Liabilities. In addition, the Company retrospectively revised its presentation of \$13,992 of deferred financing costs that were previously presented as an asset as of December 31, 2015, which resulted in a decrease to total assets and total liabilities as of December 31, 2015.

**Deferred offering costs** The Company's deferred offering costs consist of fees and expenses incurred in connection with equity offerings and the filing of shelf registration statements. Upon the issuance of shares, offering costs are charged as a direct reduction to net assets. Deferred offering costs are included in other assets on the Company's Consolidated Statements of Assets and Liabilities.

**Income taxes** The Company has elected to be treated, and intends to comply with the requirements to qualify annually, as a RIC under subchapter M of the Code. As a RIC, the Company is not subject to U.S. federal income tax on the portion of taxable income and gains timely distributed to its stockholders.

To continue to qualify and be subject to tax as a RIC, the Company is required to meet certain income and asset diversification tests in addition to distributing at least 90.0% of its investment company taxable income, as defined by the Code. Since U.S. federal income tax regulations differ from GAAP, distributions in accordance with tax regulations may differ from net investment income and realized gains recognized for financial reporting purposes.

Differences between taxable income and the results of operations for financial reporting purposes may be permanent or temporary in nature. Permanent differences are reclassified among capital accounts in the financial statements to reflect their tax character. Differences in classification may also result from the treatment of short-term gains as ordinary income for tax purposes.

For U.S. federal income tax purposes, distributions paid to stockholders of the Company are reported as ordinary income, return of capital, long term capital gains or a combination thereof.

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**Note 2. Summary of Significant Accounting Policies (Continued)**

The Company will be subject to a 4.0% nondeductible federal excise tax on certain undistributed income unless the Company distributes, in a timely manner as required by the Code, an amount at least equal to the sum of (1) 98.0% of its respective net ordinary income earned for the calendar year and (2) 98.2% of its respective capital gain net income for the one-year period ending October 31 in the calendar year.

Certain consolidated subsidiaries of the Company are subject to U.S. federal and state income taxes. These taxable entities are not consolidated for income tax purposes and may generate income tax liabilities or assets from permanent and temporary differences in the recognition of items for financial reporting and income tax purposes.

For the year ended December 31, 2016, the Company recognized a total income tax benefit of approximately \$490 for the Company's consolidated subsidiaries. For the year ended December 31, 2016, the Company recorded current income tax expense of approximately \$152 and deferred income tax benefit of approximately \$642. For the year ended December 31, 2015, the Company recognized a total provision for income taxes of \$1,343 for the Company's consolidated subsidiaries. For the year ended December 31, 2015, the Company recorded current income tax expense of approximately \$160 and deferred income tax expense of approximately \$1,183. For the year ended December 31, 2014, the Company recognized a total provision for income taxes of \$929 for the Company's consolidated subsidiaries. For the year ended December 31, 2014, the Company recorded current income tax expense of approximately \$436 and deferred income tax expense of approximately \$493.

As of December 31, 2016 and December 31, 2015, the Company had \$1,034 and \$1,676, respectively, of deferred tax liabilities primarily relating to deferred taxes attributable to certain differences between the computation of income for U.S. federal income tax purposes as compared to GAAP. As of December 31, 2015, the Company had a deferred tax asset of \$520 attributable to one of the Company's consolidated subsidiaries primarily related to net operating losses. The Company determined that it was more likely than not that the subsidiary would have insufficient taxable income to realize some portion or all of the deferred tax asset. As such, as of December 31, 2015, a full valuation allowance of \$520 has been recorded against the deferred tax asset.

The Company has adopted the Income Taxes topic of the Accounting Standards Codification Topic 740 ("ASC 740"). ASC 740 provides guidance for income taxes, including how uncertain income tax positions should be recognized, measured, and disclosed in the financial statements. Based on its analysis, the Company has determined that there were no uncertain income tax positions that do not meet the more likely than not threshold through December 31, 2016. The 2013 through 2016 tax years remain subject to examination by the U.S. federal, state, and local tax authorities.

**Distributions** Distributions to common stockholders of the Company are recorded on the record date as set by the board of directors. The Company intends to make distributions to its stockholders that will be sufficient to enable the Company to maintain its status as a RIC. The Company intends to distribute approximately all of its adjusted net investment income (see

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2016**

**(in thousands, except share data)**

**Note 2. Summary of Significant Accounting Policies (Continued)**

Note 5. *Agreements*) on a quarterly basis and substantially all of its taxable income on an annual basis, except that the Company may retain certain net capital gains for reinvestment.

The Company has adopted a dividend reinvestment plan that provides on behalf of its stockholders for reinvestment of any distributions declared, unless a stockholder elects to receive cash.

The Company applies the following in implementing the dividend reinvestment plan. If the price at which newly issued shares are to be credited to stockholders' accounts is equal to or greater than 110.0% of the last determined net asset value of the shares, the Company will use only newly issued shares to implement its dividend reinvestment plan. Under such circumstances, the number of shares to be issued to a stockholder is determined by dividing the total dollar amount of the distribution payable to such stockholder by the market price per share of the Company's common stock on the New York Stock Exchange ("NYSE") on the distribution payment date. Market price per share on that date will be the closing price for such shares on the NYSE or, if no sale is reported for such day, the average of their electronically reported bid and ask prices.

If the price at which newly issued shares are to be credited to stockholders' accounts is less than 110.0% of the last determined net asset value of the shares, the Company will either issue new shares or instruct the plan administrator to purchase shares in the open market to satisfy the additional shares required. Shares purchased in open market transactions by the plan administrator will be allocated to a stockholder based on the average purchase price, excluding any brokerage charges or other charges, of all shares of common stock purchased in the open market. The number of shares of the Company's common stock to be outstanding after giving effect to payment of the distribution cannot be established until the value per share at which additional shares will be issued has been determined and elections of the Company's stockholders have been tabulated.

**Share repurchase program** On February 4, 2016, the Company's board of directors authorized a program for the purpose of repurchasing up to \$50,000 worth of the Company's common stock. Under the repurchase program, the Company was permitted, but was not obligated to, repurchase its outstanding common stock in the open market from time to time provided that it complied with the Company's code of ethics and the guidelines specified in Rule 10b-18 of the Exchange Act, including certain price, market volume and timing constraints. In addition, any repurchases were conducted in accordance with the 1940 Act. On December 23, 2016, the Company's board of directors extended the Company's repurchase program and the Company expects the repurchase program to be in place until the earlier of December 31, 2017 or until \$50,000 of its outstanding shares of common stock have been repurchased. During the year ended December 31, 2016, the Company repurchased a total of 248,499 shares of the Company's common stock in the open market for \$2,948, including commissions paid.

**Earnings per share** The Company's earnings per share ("EPS") amounts have been computed based on the weighted-average number of shares of common stock outstanding for the period. Basic EPS is computed by dividing net increase (decrease) in net assets resulting from operations by the weighted average number of shares of common stock outstanding during the period of computation. Diluted EPS is computed by dividing net increase (decrease) in net assets



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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2016**

**(in thousands, except share data)**

**Note 2. Summary of Significant Accounting Policies (Continued)**

resulting from operations by the weighted average number of shares of common stock assuming all potential shares had been issued, and its related net impact to net assets accounted for, and the additional shares of common stock were dilutive. Diluted EPS reflects the potential dilution, using the as-if-converted method for convertible debt, which could occur if all potentially dilutive securities were exercised.

**Foreign securities** The accounting records of the Company are maintained in U.S. dollars. Investment securities denominated in foreign currencies are translated into U.S. dollars based on the rate of exchange of such currencies on the date of valuation. Purchases and sales of investment securities and income and expense items denominated in foreign currencies are translated into U.S. dollars based on the rate of exchange of such currencies on the respective dates of the transactions. The Company does not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with "Net change in unrealized appreciation (depreciation) of investments" and "Net realized gains (losses) on investments" in the Company's Consolidated Statements of Operations.

Investments denominated in foreign currencies may be negatively affected by movements in the rate of exchange between the U.S. dollar and such foreign currencies. This movement is beyond the control of the Company and cannot be predicted.

**Use of estimates** The preparation of the Company's consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the Company's consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Changes in the economic environment, financial markets, and other metrics used in determining these estimates could cause actual results to differ from the estimates used, and the differences could be material.

Dividend income recorded related to distributions received from flow-through investments is an accounting estimate based on the most recent estimate of the tax treatment of the distribution. During the year ended December 31, 2015, the Company adjusted accounting estimates related to the classification of dividend income for distributions received from three of the Company's equity investments. Based on updated tax projections received during the year ended December 31, 2015, the Company decreased dividend income by \$533, which decreased the equity investments cost basis by \$3 and increased the realized gain by \$530 to agree to the tax treatment on the equity investments.

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2016**

**(in thousands, except share data)**

**Note 3. Investments**

At December 31, 2016, the Company's investments consisted of the following:

**Investment Cost and Fair Value by Type**

|                          | <b>Cost</b>         | <b>Fair Value</b>   |
|--------------------------|---------------------|---------------------|
| First lien               | \$ 706,140          | \$ 700,580          |
| Second lien              | 638,347             | 604,203             |
| Subordinated             | 68,341              | 66,559              |
| Equity and other         | 162,350             | 187,475             |
| <b>Total investments</b> | <b>\$ 1,575,178</b> | <b>\$ 1,558,817</b> |

**Investment Cost and Fair Value by Industry**

|                                   | <b>Cost</b>      | <b>Fair Value</b> |
|-----------------------------------|------------------|-------------------|
| Business Services                 | \$ 446,008       | \$ 461,997        |
| Software                          | 424,965          | 420,896           |
| Consumer Services                 | 105,868          | 106,392           |
| Investment Fund                   | 94,460           | 94,460            |
| Education                         | 93,651           | 94,168            |
| Energy                            | 81,390           | 75,168            |
| Healthcare Services               | 70,731           | 71,844            |
| Distribution & Logistics          | 88,768           | 61,696            |
| Federal Services                  | 59,881           | 60,116            |
| Net Lease                         | 27,000           | 27,000            |
| Business Products                 | 25,613           | 24,958            |
| Media                             | 21,189           | 24,162            |
| Retail                            | 21,006           | 21,016            |
| Healthcare Information Technology | 14,648           | 14,944            |
| <b>Total investments</b>          | <b>1,575,178</b> | <b>1,558,817</b>  |

At December 31, 2015, the Company's investments consisted of the following:

**Investment Cost and Fair Value by Type**

**Cost                      Fair Value**

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|                   |    |           |    |           |
|-------------------|----|-----------|----|-----------|
| First lien        | \$ | 711,601   | \$ | 670,023   |
| Second lien       |    | 656,165   |    | 631,985   |
| Subordinated      |    | 95,429    |    | 87,005    |
| Equity and other  |    | 105,521   |    | 123,211   |
| Total investments | \$ | 1,568,716 | \$ | 1,512,224 |

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2016**

**(in thousands, except share data)**

**Note 3. Investments (Continued)****Investment Cost and Fair Value by Industry**

|                          | <b>Cost</b>         | <b>Fair Value</b>   |
|--------------------------|---------------------|---------------------|
| Software                 | \$ 384,805          | \$ 370,892          |
| Business Services        | 367,109             | 368,409             |
| Education                | 167,222             | 165,947             |
| Distribution & Logistics | 123,053             | 117,375             |
| Federal Services         | 95,459              | 95,477              |
| Consumer Services        | 69,250              | 68,269              |
| Energy                   | 96,717              | 65,521              |
| Healthcare Services      | 66,923              | 63,255              |
| Media                    | 43,489              | 47,804              |
| Healthcare Products      | 38,664              | 37,648              |
| Business Products        | 35,188              | 33,420              |
| Manufacturing            | 29,852              | 29,850              |
| Investment Fund          | 23,000              | 21,914              |
| Retail                   | 21,032              | 21,000              |
| Industrial Services      | 6,953               | 5,443               |
| <b>Total investments</b> | <b>\$ 1,568,716</b> | <b>\$ 1,512,224</b> |

During the fourth quarter of 2016, the Company placed a portion of its first lien position in Sierra Hamilton LLC / Sierra Hamilton Finance, Inc. ("Sierra") on non-accrual status due to its ongoing restructuring. As of December 31, 2016, the portion of Sierra first lien placed on non-accrual status represented an aggregate cost basis of \$8,169, an aggregate fair value of \$5,315 and total unearned interest income of \$553 for the year then ended.

During the third quarter of 2016, the Company placed its entire second lien position in Transtar Holding Company ("Transtar") on non-accrual status due to its ongoing restructuring. As of December 31, 2016, the Company's investment in Transtar had an aggregate cost basis of \$31,166, an aggregate fair value of \$3,865 and total unearned interest income of \$3,963 for the year then ended.

During the second quarter of 2016, the Company placed a portion of its first lien position in Permian Tank & Manufacturing, Inc. ("Permian") on non-accrual status due to its ongoing restructuring. As of September 30, 2016, the Company's investment in Permian had an aggregate cost basis of \$24,444, an aggregate fair value of \$7,064 and total unearned interest income of \$1,273 for the nine months then ended. In October 2016, Permian completed a restructuring which resulted in a material modification of the original terms and an extinguishment of the Company's original investment in Permian. Prior to the extinguishment in October 2016, the Company's original investment in Permian had an aggregate cost of \$25,047, an aggregate fair value of \$7,064 and total unearned interest income of \$1,422 for the year ended December 31, 2016. The extinguishment resulted in a realized loss of \$17,983. Post restructuring, the Company's investments in Permian have been restored to full accrual status. As of December 31, 2016, the

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2016**

**(in thousands, except share data)**

**Note 3. Investments (Continued)**

Company's investments in Permian have an aggregate cost basis of \$8,965 and an aggregate fair value of \$11,193.

During the third quarter of 2016, the Company received notice that there would be no recovery of the outstanding principal and interest owed on its two super priority first lien positions in ATI Acquisition Company ("ATI"). As of June 30, 2016, the Company's first lien positions in ATI had an aggregate cost of \$1,528 and an aggregate fair value of \$0 and no unearned interest income for the period then ended. The Company wrote off its first lien positions in ATI and recognized an aggregate realized loss of \$1,528 during the three months ended September 30, 2016. As of December 31, 2016, the Company's preferred shares and warrants in Ancora Acquisition LLC, which were received as a result of the Company's first lien positions in ATI, had an aggregate cost basis of \$83 and an aggregate fair value of \$393.

During the first quarter of 2015, the Company placed a portion of its second lien position in Edmentum, Inc. ("Edmentum") on non-accrual status due to its ongoing restructuring. As of March 31, 2015, the Company's investment in Edmentum had an aggregate cost basis of \$30,771, an aggregate fair value of \$15,575 and total unearned interest income of \$438 for the three months then ended. In June 2015, Edmentum completed a restructuring which resulted in a material modification of the original terms and an extinguishment of the Company's original investment in Edmentum. Prior to the extinguishment in June 2015, the Company's original investment in Edmentum had an aggregate cost of \$31,636, an aggregate fair value of \$16,437 and total unearned interest income of \$851 for the six months ended June 30, 2015. The extinguishment resulted in a realized loss of \$15,199. Post restructuring, the Company's investments in Edmentum have been restored to full accrual status. As of December 31, 2016, the Company's investments in Edmentum have an aggregate cost basis of \$23,031 and an aggregate fair value of \$23,247.

During the first quarter of 2015, the Company's first lien position in Education Management LLC ("EDMC") was non-income producing as a result of the portfolio company undergoing a restructuring. As of December 31, 2014, the Company's investment in EDMC had an aggregate cost basis of \$2,987, an aggregate fair value of \$1,376 and no unearned interest income for the three months then ended. In January 2015, EDMC completed a restructuring which resulted in a material modification of the original terms and an extinguishment of the Company's original investment in EDMC. Prior to the extinguishment in January 2015, the Company's original investment in EDMC had an aggregate cost of \$2,987, an aggregate fair value of \$1,376 and no unearned interest income for the period then ended. The extinguishment resulted in a realized loss of \$1,611. Post restructuring, the Company's investments in EDMC are income producing. As of December 31, 2016, the Company's investments in EDMC have an aggregate cost basis of \$1,495 and an aggregate fair value of \$160.

During the third quarter of 2014, the Company placed a portion of its first lien position in UniTek Global Services, Inc. ("UniTek") on non-accrual status in anticipation of a voluntary petition for a "Pre-Packaged" Chapter 11 Bankruptcy in the U.S. Bankruptcy Court for the District of Delaware which was filed on November 3, 2014. As of December 31, 2014, the Company's investments in UniTek had an aggregate cost basis of \$47,357, an aggregate fair value of \$35,227 and total unearned interest income of \$975 for the year then ended. In January 2015, UniTek

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2016**

**(in thousands, except share data)**

**Note 3. Investments (Continued)**

emerged from "Pre-Packaged" Chapter 11 Bankruptcy and completed its restructuring. The restructuring resulted in a material modification of the original terms and an extinguishment of the Company's original investments in UniTek. Prior to the extinguishment in January 2015, the Company's original investments in UniTek had an aggregate cost of \$52,902, an aggregate fair value of \$40,137 and total unearned interest income of \$68 for the period then ended. The extinguishment resulted in a realized loss of \$12,765. Post restructuring, the Company's investments in UniTek have been restored to full accrual status. As of December 31, 2016, the Company's investments in UniTek have an aggregate cost basis of \$42,119 and an aggregate fair value of \$56,361.

As of December 31, 2016, the Company had unfunded commitments on revolving credit facilities and bridge facilities of \$27,915 and \$0, respectively. As of December 31, 2016, the Company had unfunded commitments in the form of delayed draws or other future funding commitments of \$16,368. The unfunded commitments on revolving credit facilities and delayed draws are disclosed on the Company's Consolidated Schedule of Investments as of December 31, 2016.

As of December 31, 2015, the Company had unfunded commitments on revolving credit facilities and bridge facilities of \$17,576 and \$0, respectively. As of December 31, 2015, the Company had unfunded commitments in the form of delayed draws or other future funding commitments of \$8,678. The unfunded commitments on revolving credit facilities and delayed draws are disclosed on the Company's Consolidated Schedule of Investments as of December 31, 2015.

***NMFC Senior Loan Program I LLC***

NMFC Senior Loan Program I LLC ("SLP I") was formed as a Delaware limited liability company on May 27, 2014 and commenced operations on June 10, 2014. SLP I is a portfolio company held by the Company. SLP I is structured as a private investment fund, in which all of the investors are qualified purchasers, as such term is defined under the 1940 Act. Transfer of interests in SLP I is subject to restrictions, and as a result, such interests are not readily marketable. SLP I operates under a limited liability company agreement (the "SLP I Agreement") and will continue in existence until June 10, 2019, subject to earlier termination pursuant to certain terms of the SLP I Agreement. The term may be extended for up to one year pursuant to certain terms of the SLP I Agreement. SLP I has a three year re-investment period. SLP I invests in senior secured loans issued by companies within the Company's core industry verticals. These investments are typically broadly syndicated first lien loans.

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2016**

**(in thousands, except share data)**

**Note 3. Investments (Continued)**

SLP I is capitalized with \$93,000 of capital commitments and \$275,000 of debt from a revolving credit facility and is managed by the Company. The Company's capital commitment is \$23,000, representing less than 25.0% ownership, with third party investors representing the remaining capital commitment. As of December 31, 2016, SLP I had total investments with an aggregate fair value of approximately \$348,672, debt outstanding of \$256,517 and capital that had been called and funded of \$93,000. As of December 31, 2015, SLP I had total investments with an aggregate fair value of approximately \$349,704, debt outstanding of \$267,617 and capital that had been called and funded of \$93,000. The Company's investment in SLP I is disclosed on the Company's Consolidated Schedules of Investments as of December 31, 2016 and December 31, 2015.

The Company, as an investment adviser registered under the Advisers Act, acts as the collateral manager to SLP I and is entitled to receive a management fee for its investment management services provided to SLP I. As a result, SLP I is classified as an affiliate of the Company. No management fee is charged on the Company's investment in SLP I in connection with the administrative services provided to SLP I. For the years ended December 31, 2016, December 31, 2015 and December 31, 2014, the Company earned approximately \$1,163, \$1,215 and \$468, respectively, in management fees related to SLP I which is included in other income. As of December 31, 2016 and December 31, 2015, approximately \$286 and \$311, respectively, of management fees related to SLP I was included in receivable from affiliates. For the years ended December 31, 2016, December 31, 2015 and December 31, 2014, the Company earned approximately \$3,728, \$3,619 and \$1,066, respectively, of dividend income related to SLP I, which is included in dividend income. As of December 31, 2016 and December 31, 2015, approximately \$861 and \$918, respectively, of dividend income related to SLP I was included in interest and dividend receivable.

***New Mountain Net Lease Corporation***

New Mountain Net Lease Corporation ("NMNLC") was formed as a Maryland corporation on April 18, 2016 and commenced operations on August 12, 2016. NMNLC was formed to acquire commercial real properties that are subject to "triple net" leases and to qualify as a real estate investment trust, or REIT, within the meaning of Section 856(a) of the Code. As of December 31, 2016, NMNLC had assets of approximately \$75,544 and non-recourse asset level debt outstanding of approximately \$47,936. The Company has contributed \$27,000 to NMNLC as of December 31, 2016. The Company's investment in NMNLC is disclosed on the Company's Consolidated Schedule of Investments as of December 31, 2016.

Table of Contents**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)****December 31, 2016****(in thousands, except share data)****Note 3. Investments (Continued)**

Below is certain summarized property information for NMNLC as of December 31, 2016:

| <b>Tenant</b>                     | <b>Lease<br/>Expiration<br/>Date</b> | <b>Location</b> | <b>Total<br/>Square Feet</b> | <b>Equity as of<br/>December 31,<br/>2016</b> |
|-----------------------------------|--------------------------------------|-----------------|------------------------------|---|
| A.P. Plasman, Inc.                | 9/30/2031                            | Ontario, Canada | 436                          | \$ 7,294                                      |
| Plasman Corp, LLC / A-Brite LP    | 9/30/2033                            | Fort Payne, AL  | 261                          | 5,132   |
|                                   |                                      | Cleveland, OH   |                              |   |
| FMH Conveyors, LLC                | 10/31/2031                           | Jonesboro, AR   | 195                          | 5,136   |
| J.R. Automation Technologies, LLC | 1/31/2031                            | Holland, MI     | 88                           | 2,061   |
| Kirlin Group, LLC                 | 6/30/2029                            | Rockville, MD   | 95                           | 7,547   |
|                                   |                                      |                 |                              | <b>\$ 27,170</b>                              |

For the year ended December 31, 2016, the Company earned approximately \$540 of dividend income related to NMNLC, which is included in dividend income. For the year ended December 31, 2016, New Mountain Capital reimbursed NMNLC approximately \$189 in non-recurring organizational expenses incurred in connection with the formation and organization of NMNLC. As of December 31, 2016, approximately \$540 of dividend income related to NMNLC was included in interest and dividend receivable.

***Unconsolidated Significant Subsidiaries***

In accordance with Regulation S-X Rules 3-09 and 4-08(g), the Company evaluates its unconsolidated controlled portfolio companies as significant subsidiaries under the respective rules. As of December 31, 2016, the following portfolio companies were considered significant unconsolidated subsidiaries under Regulation S-X Rule 4-08(g). Based on the requirements under Regulation S-X Rule 4-08(g), the summarized consolidated financial information of these portfolio companies is shown below:

***NMFC Senior Loan Program II LLC***

NMFC Senior Loan Program II LLC ("SLP II") was formed as a Delaware limited liability company on March 9, 2016 and commenced operations on April 12, 2016. SLP II is structured as a private joint venture investment fund between the Company and SkyKnight Income, LLC ("SkyKnight") and operates under a limited liability company agreement (the "SLP II Agreement"). The purpose of the joint venture is to invest primarily in senior secured loans issued by portfolio companies within the Company's core industry verticals. These investments are typically broadly syndicated first lien loans. All investment decisions must be unanimously approved by the board of managers of SLP II, which has equal representation from the Company and SkyKnight. SLP II has a three year investment period and will continue in existence until April 12, 2021. The term may be extended for up to one year pursuant to certain terms of the SLP II Agreement.

SLP II is capitalized with equity contributions which are called from its members, on a pro-rata basis based on their equity commitments, as transactions are completed. Any decision by SLP II to



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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2016**

**(in thousands, except share data)**

**Note 3. Investments (Continued)**

call down on capital commitments requires approval by the board of managers of SLP II. The Company and SkyKnight have committed to provide \$79,400 and \$20,600 of equity to SLP II, respectively. As of December 31, 2016 the Company and SkyKnight have contributed \$71,460 and \$18,540, respectively. The Company's investment in SLP II is disclosed on the Company's Consolidated Schedule of Investments as of December 31, 2016.

On April 12, 2016, SLP II closed its \$275,000 revolving credit facility with Wells Fargo Bank, National Association which matures on April 12, 2021 and bears interest at a rate of the London Interbank Offered Rate ("LIBOR") plus 1.75% per annum. As of December 31, 2016, SLP II had total investments with an aggregate fair value of approximately \$361,719 and debt outstanding under its credit facility of \$249,960.

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2016**

(in thousands, except share data)

**Note 3. Investments (Continued)**

The following table is a listing of the individual loans in SLP II's portfolio as of December 31, 2016:

| Portfolio Company and Type of Investment        | Industry            | Interest Rate(1)        | Maturity Date | Principal Amount or Par Value | Cost      | Fair Value(2) |
|---|---------------------|-------------------------|---------------|-------------------------------|-----------|---------------|
| <b>First lien:</b>                              |                     |                         |               |                               |           |               |
| ADG, LLC  | Healthcare Services | 5.75%<br>(L + 4.75%)    | 9/28/2023     | \$ 17,207                     | \$ 17,040 | \$ 17,121     |
| AssuredPartners, Inc.                           | Business Services   | 5.25%<br>(L + 4.25%)    | 10/21/2022    | 11,862                        | 11,847    | 12,058        |
| Beaver-Visitec International Holdings, Inc.     | Healthcare Products | 6.00%<br>(L + 5.00%)    | 8/21/2023     | 14,962                        | 14,819    | 14,963        |
| Coinstar, LLC                                   | Consumer Services   | 5.25%<br>(L + 4.25%)    | 9/27/2023     | 4,987                         | 4,963     | 5,054         |
| Cvent, Inc.                                     | Software            | 6.00%<br>(L + 5.00%)    | 11/29/2023    | 10,000                        | 9,901     | 10,125        |
| DigiCert Holdings, Inc.                         | Software            | 6.00%<br>(L + 5.00%)    | 10/21/2021    | 14,900                        | 14,814    | 14,881        |
| Eiger Acquisition B.V. (Eiger Co-Borrower, LLC) | Software            | 6.25%<br>(L + 5.25%)    | 2/18/2022     | 10,507                        | 10,350    | 10,402        |
| Emerald 2 Limited                               | Business Services   | 5.00%<br>(L + 4.00%)    | 5/14/2021     | 1,277                         | 1,206     | 1,174         |
| Engility Corporation (fka TASC, Inc.)           | Federal Services    | 5.81%<br>(Base + 4.72%) | 8/14/2023     | 13,860                        | 13,793    | 14,080        |
| Evo Payments International, LLC                 | Business Services   | 6.00%<br>(L + 5.00%)    | 12/22/2023    | 17,500                        | 17,413    | 17,602        |
| Explorer Holdings, Inc.                         | Healthcare Services | 6.00%<br>(L + 5.00%)    | 5/2/2023      | 4,975                         | 4,929     | 5,028         |
| Globallogic Holdings Inc.                       | Business Services   | 5.50%<br>(L + 4.50%)    | 6/20/2022     | 10,000                        | 9,900     | 10,013        |
| GOBP Holdings Inc.                              | Retail              | 5.00%<br>(L + 4.00%)    | 10/21/2021    | 14,955                        | 14,816    | 14,985        |
| Hyperion Insurance Group Limited                | Business Services   | 5.50%<br>(L + 4.50%)    | 4/29/2022     | 14,401                        | 14,179    | 14,476        |
| J.D. Power and Associates                       | Business Services   | 5.25%<br>(L + 4.25%)    | 9/7/2023      | 9,975                         | 9,927     | 10,075        |
| Kronos Incorporated                             | Software            | 5.00%<br>(L + 4.00%)    | 11/1/2023     | 10,000                        | 9,951     | 10,105        |

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|  |                     |                         |            |        |        |        |
|--|---------------------|-------------------------|------------|--------|--------|--------|
| Masergy Holdings, Inc.                         | Business Services   | 5.50%<br>(L + 4.50%)    | 12/15/2023 | 7,500  | 7,463  | 7,563  |
| McGraw-Hill Global Education Holdings, LLC     | Education           | 5.00%<br>(L + 4.00%)    | 5/4/2022   | 9,950  | 9,905  | 9,971  |
| Ministry Brands, LLC                           | Software            | 6.00%<br>(L + 5.00%)    | 12/2/2022  | 7,846  | 7,807  | 7,807  |
| Mister Car Wash Holdings, Inc.                 | Consumer Services   | 5.25%<br>(L + 4.25%)    | 8/20/2021  | 8,312  | 8,250  | 8,354  |
| Navex Global, Inc.                             | Software            | 5.99%<br>(L + 4.75%)    | 11/19/2021 | 14,933 | 14,718 | 14,858 |
| nThrive, Inc. (fka Precyse Acquisition Corp.)  | Healthcare Services | 6.50%<br>(L + 5.50%)    | 10/20/2022 | 9,950  | 9,813  | 10,083 |
| Poseidon Intermediate, LLC                     | Software            | 5.25%<br>(L + 4.25%)    | 8/15/2022  | 14,962 | 14,962 | 15,055 |
| Quest Software US Holdings Inc.                | Software            | 7.00%<br>(L + 6.00%)    | 10/31/2022 | 10,000 | 9,853  | 10,153 |
| Rocket Software, Inc.                          | Software            | 5.25%<br>(L + 4.25%)    | 10/14/2023 | 14,962 | 14,817 | 15,129 |
| SolarWinds Holdings, Inc.                      | Software            | 5.50%<br>(L + 4.50%)    | 2/3/2023   | 14,688 | 14,697 | 14,852 |
| TTM Technologies, Inc.                         | Business Products   | 5.25%<br>(L + 4.25%)    | 5/31/2021  | 13,548 | 13,444 | 13,599 |
| Vencore, Inc. (fka SI Organization, Inc., The) | Federal Services    | 5.75%<br>(L + 4.75%)    | 11/23/2019 | 10,801 | 10,780 | 10,942 |
| Vision Solutions, Inc.                         | Software            | 7.50%<br>(Base + 6.50%) | 6/16/2022  | 9,938  | 9,845  | 9,919  |
| Vivid Seats LLC                                | Business Services   | 6.75%<br>(L + 5.75%)    | 10/12/2022 | 4,000  | 3,922  | 3,985  |
| WD Wolverine Holdings, LLC                     | Healthcare Services | 6.50%<br>(L + 5.50%)    | 10/17/2023 | 10,200 | 9,900  | 9,894  |
| Zywave, Inc.                                   | Software            | 6.00%<br>(L + 5.00%)    | 11/17/2022 | 17,500 | 17,414 | 17,413 |

**\$ 360,458 \$ 357,438 \$ 361,719**

(1)

All interest is payable in cash unless otherwise indicated. A majority of the variable rate debt investments bear interest at a rate that may be determined by reference to the LIBOR (L), the Prime Rate (P) and the alternative base rate (Base). For each investment, the current interest rate provided reflects the rate in effect as of December 31, 2016.

(2)

Represents the fair value in accordance with Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosures* ("ASC 820"). The Company's board of directors does not determine the fair value of the investments held by SLP II.



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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2016**

(in thousands, except share data)

**Note 3. Investments (Continued)**

Below is certain summarized financial information for SLP II as of December 31, 2016 and for the year ended December 31, 2016:

|   | <b>December 31, 2016</b> |                |
|---|--------------------------|----------------|
| <b>Selected Balance Sheet Information:</b>    |                          |                |
| Investments at fair value (cost of \$357,438) | \$                       | 361,719        |
| Receivable from unsettled securities sold     |                          | 1,007          |
| Cash and other assets                         |                          | 10,138         |
| <b>Total assets</b>                           | <b>\$</b>                | <b>372,864</b> |
|   |                          |                |
| Credit facility                               | \$                       | 249,960        |
| Deferred financing costs                      |                          | (2,565)        |
| Payable for unsettled securities purchased    |                          | 24,862         |
| Distribution payable                          |                          | 3,000          |
| Other liabilities                             |                          | 3,350          |
| <b>Total liabilities</b>                      |                          | <b>278,607</b> |
| <b>Members' capital</b>                       | <b>\$</b>                | <b>94,257</b>  |
| <b>Total liabilities and members' capital</b> | <b>\$</b>                | <b>372,864</b> |

|   | <b>Year Ended<br/>December 31, 2016<sup>(1)</sup></b> |              |
|---|---|--------------|
| <b>Selected Statement of Operations Information:</b>                |   |              |
| Interest income   | \$  | 7,463        |
| Other income  |   | 572          |
| <b>Total investment income</b>                                      |   | <b>8,035</b> |
| <b>Interest and other financing expenses</b>                        |   | <b>3,558</b> |
| Other expenses  |   | 650          |
| <b>Total expenses</b>   |   | <b>4,208</b> |
| <b>Net investment income</b>  |   | <b>3,827</b> |
| Net realized gains on investments                                   |   | 599          |
| Net change in unrealized appreciation (depreciation) of investments |   | 4,281        |

|                                  |    |       |
|----------------------------------|----|-------|
| Net increase in members' capital | \$ | 8,707 |
|----------------------------------|----|-------|

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(1) For the year ended December 31, 2016, amounts reported relate to the period from April 12, 2016 (commencement of operations) to December 31, 2016.

For the year ended December 31, 2016, the Company earned approximately \$3,533 of dividend income related to SLP II, which is included in dividend income. As of December 31, 2016,

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2016**

**(in thousands, except share data)**

**Note 3. Investments (Continued)**

approximately \$2,382 of dividend income related to SLP II was included in interest and dividend receivable.

The Company has determined that SLP II is an investment company under ASC 946, however, in accordance with such guidance the Company will generally not consolidate its investment in a company other than a wholly-owned investment company subsidiary. Furthermore, Accounting Standards Codification Topic 810, *Consolidation*, concludes that in a joint venture where both members have equal decision making authority, it is not appropriate for one member to consolidate the joint venture since neither has control. Accordingly, the Company does not consolidate SLP II.

**UniTek Global Services, Inc.**

UniTek Global Services, Inc. ("UniTek") is a full service provider of technical services to customers in the wireless telecommunications, public safety, satellite television and broadband cable industries in the U.S. and Canada. UniTek's customers are primarily satellite television, broadband cable and other telecommunications companies, their contractors, and municipalities and related agencies. UniTek's customers utilize its services to build and maintain their infrastructure and networks and to provide residential and commercial fulfillment services, which is critical to their ability to deliver voice, video and data services to end users.

Below is certain summarized financial information for UniTek:

| <b>Balance Sheet:</b>    | <b>December 31, 2016</b> |                | <b>December 31, 2015</b> |                |
|--------------------------|--------------------------|----------------|--------------------------|----------------|
| Current assets           | \$                       | 94,499         | \$                       | 78,202         |
| Noncurrent assets        |                          | 114,116        |                          | 125,241        |
| <b>Total assets</b>      | <b>\$</b>                | <b>208,615</b> | <b>\$</b>                | <b>203,443</b> |
| Current liabilities      |                          | 47,105         |                          | 36,167         |
| Noncurrent liabilities   |                          | 113,781        |                          | 123,361        |
| <b>Total liabilities</b> | <b>\$</b>                | <b>160,886</b> | <b>\$</b>                | <b>159,528</b> |
| <b>Total equity</b>      | <b>\$</b>                | <b>47,729</b>  | <b>\$</b>                | <b>43,915</b>  |

**Years Ended December 31,**

| <b>Summary of Operations:</b>  | <b>2016</b> |               |           | <b>2015</b>    |           |                 | <b>2014</b> |  |  |
|--|-------------|---------------|-----------|----------------|-----------|-----------------|-------------|--|--|
| <b>Net sales</b>   | \$          | 286,748       | \$        | 269,893        | \$        | 334,139         |             |  |  |
| Cost of goods sold   |             | 224,800       |           | 218,331        |           | 291,672         |             |  |  |
| <b>Gross profit</b>  |             | <b>61,948</b> |           | <b>51,562</b>  |           | <b>42,467</b>   |             |  |  |
| Other expenses   |             | 58,965        |           | 58,863         |           | 116,612         |             |  |  |
| <b>Net income (loss) from continuing operations before extraordinary items</b> |             | <b>2,983</b>  |           | <b>(7,301)</b> |           | <b>(74,145)</b> |             |  |  |
| <b>Net income (loss)</b>   | <b>\$</b>   | <b>2,983</b>  | <b>\$</b> | <b>(7,301)</b> | <b>\$</b> | <b>(74,145)</b> |             |  |  |





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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2016**

**(in thousands, except share data)**

**Note 3. Investments (Continued)**

**Investment risk factors** First and second lien debt that the Company invests in is entirely, or almost entirely, rated below investment grade or may be unrated. Debt investments rated below investment grade are often referred to as "leveraged loans", "high yield" or "junk" debt investments, and may be considered "high risk" compared to debt investments that are rated investment grade. These debt investments are considered speculative because of the credit risk of the issuers. Such issuers are considered more likely than investment grade issuers to default on their payments of interest and principal and such risk of default could reduce the net asset value and income distributions of the Company. In addition, some of the Company's debt investments will not fully amortize during their lifetime, which could result in a loss or a substantial amount of unpaid principal and interest due upon maturity. First and second lien debt may also lose significant market value before a default occurs. Furthermore, an active trading market may not exist for these first and second lien debt investments. This illiquidity may make it more difficult to value the debt.

Subordinated debt is generally subject to similar risks as those associated with first and second lien debt, except that such debt is subordinated in payment and /or lower in lien priority. Subordinated debt is subject to the additional risk that the cash flow of the borrower and the property securing the debt, if any, may be insufficient to meet scheduled payments after giving effect to the senior secured and unsecured obligations of the borrower.

The Company may directly invest in the equity of private companies or, in some cases, equity investments could be made in connection with a debt investment. Equity investments may or may not fluctuate in value resulting in recognized realized gains or losses upon disposition.

**Note 4. Fair Value**

Fair value is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 establishes a fair value hierarchy that prioritizes and ranks the inputs to valuation techniques used in measuring investments at fair value. The hierarchy classifies the inputs used in measuring fair value into three levels as follows:

**Level I** Quoted prices (unadjusted) are available in active markets for identical investments and the Company has the ability to access such quotes as of the reporting date. The type of investments which would generally be included in Level I include active exchange-traded equity securities and exchange-traded derivatives. As required by ASC 820, the Company, to the extent that it holds such investments, does not adjust the quoted price for these investments, even in situations where the Company holds a large position and a sale could reasonably impact the quoted price.

**Level II** Pricing inputs are observable for the investments, either directly or indirectly, as of the reporting date, but are not the same as those used in Level I. Level II inputs include the following:

Quoted prices for similar assets or liabilities in active markets;

Table of Contents**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)****December 31, 2016****(in thousands, except share data)****Note 4. Fair Value (Continued)**

Quoted prices for identical or similar assets or liabilities in non-active markets (examples include corporate and municipal bonds, which trade infrequently);

Pricing models whose inputs are observable for substantially the full term of the asset or liability (examples include most over-the-counter derivatives, including foreign exchange forward contracts); and

Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability.

*Level III* Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment.

The inputs used to measure fair value may fall into different levels. In all instances when the inputs fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level of input that is significant to the fair value measurement in its entirety. As such, a Level III fair value measurement may include inputs that are both observable and unobservable. Gains and losses for such assets categorized within the Level III table below may include changes in fair value that are attributable to both observable inputs and unobservable inputs.

The inputs into the determination of fair value require significant judgment or estimation by management and consideration of factors specific to each investment. Changes in the observability of valuation inputs may result in the transfer of certain investments within the fair value hierarchy from period to period. Reclassifications impacting the fair value hierarchy are reported as transfers in/out of the respective leveling categories as of the beginning of the quarter in which the reclassifications occur.

The following table summarizes the levels in the fair value hierarchy that the Company's portfolio investments fall into as of December 31, 2016:

|                          | <b>Total</b>        | <b>Level I</b> | <b>Level II</b>   | <b>Level III</b>    |
|--------------------------|---------------------|----------------|-------------------|---------------------|
| First lien               | \$ 700,580          | \$             | \$ 169,979        | \$ 530,601          |
| Second lien              | 604,203             |                | 280,026           | 324,177             |
| Subordinated             | 66,559              |                | 41,906            | 24,653              |
| Equity and other         | 187,475             | 28             |                   | 187,447             |
| <b>Total investments</b> | <b>\$ 1,558,817</b> | <b>\$ 28</b>   | <b>\$ 491,911</b> | <b>\$ 1,066,878</b> |

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2016**

(in thousands, except share data)

**Note 4. Fair Value (Continued)**

The following table summarizes the levels in the fair value hierarchy that the Company's portfolio investments fall into as of December 31, 2015:

|                          | Total               | Level I       | Level II          | Level III         |
|--------------------------|---------------------|---------------|-------------------|-------------------|
| First lien               | \$ 670,023          | \$            | \$ 329,133        | \$ 340,890        |
| Second lien              | 631,985             |               | 449,227           | 182,758           |
| Subordinated             | 87,005              |               | 33,546            | 53,459            |
| Equity and other         | 123,211             | 316           | 15                | 122,880           |
| <b>Total investments</b> | <b>\$ 1,512,224</b> | <b>\$ 316</b> | <b>\$ 811,921</b> | <b>\$ 699,987</b> |

The following table summarizes the changes in fair value of Level III portfolio investments for the year ended December 31, 2016, as well as the portion of appreciation (depreciation) included in income attributable to unrealized appreciation (depreciation) related to those assets and liabilities still held by the Company at December 31, 2016:

|   | Total               | First Lien        | Second Lien       | Subordinated     | Equity and other  |
|---|---------------------|-------------------|-------------------|------------------|-------------------|
| <b>Fair value, December 31, 2015</b>                                      | \$ 699,987          | \$ 340,890        | \$ 182,758        | \$ 53,459        | \$ 122,880        |
| Total gains or losses included in earnings:                               |                     |                   |                   |                  |                   |
| Net realized gains (losses) on investments                                | 2,259               | (482)             | 113               | 119              | 2,509             |
| Net change in unrealized appreciation (depreciation) of investments       | 9,491               | 16,016            | (16,049)          | 1,802            | 7,722             |
| Purchases, including capitalized PIK and revolver fundings <sup>(1)</sup> | 411,500             | 157,164           | 140,089           | 4,273            | 109,974           |
| Proceeds from sales and paydowns of investments <sup>(1)</sup>            | (203,431)           | (102,308)         | (10,469)          | (35,000)         | (55,654)          |
| Transfers into Level III <sup>(2)</sup>                                   | 156,122             | 119,321           | 36,785            |                  | 16                |
| Transfers out of Level III <sup>(2)</sup>                                 | (9,050)             |                   | (9,050)           |                  |                   |
| <b>Fair value, December 31, 2016</b>                                      | <b>\$ 1,066,878</b> | <b>\$ 530,601</b> | <b>\$ 324,177</b> | <b>\$ 24,653</b> | <b>\$ 187,447</b> |

Unrealized appreciation (depreciation) for the period relating to those Level III assets that were still held by the Company at the end of the period:

|  |          |           |             |          |          |
|--|----------|-----------|-------------|----------|----------|
|  | \$ 7,657 | \$ 13,205 | \$ (16,049) | \$ 1,351 | \$ 9,150 |
|--|----------|-----------|-------------|----------|----------|

(1)

Includes reorganizations and restructurings.

(2)

As of December 31, 2016, the portfolio investments were transferred into Level III from Level II and out of Level III into Level II at fair value as of the beginning of the period in which the reclassifications occurred.

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2016**

(in thousands, except share data)

**Note 4. Fair Value (Continued)**

The following table summarizes the changes in fair value of Level III portfolio investments for the year ended December 31, 2015, as well as the portion of appreciation (depreciation) included in income attributable to unrealized appreciation (depreciation) related to those assets and liabilities still held by the Company at December 31, 2015:

|  | Total      | First<br>Lien | Second<br>Lien | Subordinated | Equity<br>and<br>other |
|--|------------|---------------|----------------|--------------|------------------------|
| <b>Fair value, December 31, 2014</b>                               | \$ 419,681 | \$ 169,180    | \$ 134,406     | \$ 35,470    | \$ 80,625              |
| Total gains or losses included in earnings:                        |            |               |                |              |                        |
| Net realized (losses) gains on investments                         | (12,730)   | (10,895)      | (14,542)       |              | 12,707                 |
| Net change in unrealized appreciation(depreciation) of investments | 12,348     | 7,048         | 6,575          | (4,797)      | 3,522                  |
| Purchases, including capitalized PIK and revolver fundings         | 418,208    | 237,731       | 116,135        | 23,709       | 40,633                 |
| Proceeds from sales and paydowns of investments                    | (205,103)  | (84,346)      | (105,227)      | (923)        | (14,607)               |
| Transfers into Level III <sup>(1)(2)</sup>                         | 95,190     | 49,779        | 45,411         |              |                        |
| Transfers out of Level III <sup>(1)</sup>                          | (27,607)   | (27,607)      |                |              |                        |
| <b>Fair value, December 31, 2015</b>                               | \$ 699,987 | \$ 340,890    | \$ 182,758     | \$ 53,459    | \$ 122,880             |

|  |          |            |            |            |           |
|--|----------|------------|------------|------------|-----------|
| Unrealized (depreciation) appreciation for the period relating to those Level III assets that were still held by the Company at the end of the period: | \$ (999) | \$ (4,332) | \$ (7,384) | \$ (4,797) | \$ 15,514 |
|--|----------|------------|------------|------------|-----------|

(1)

Includes reorganizations and restructurings.

(2)

As of December 31, 2015, the portfolio investments were transferred into Level III from Level II or Level I and out of Level III into Level II at fair value as of the beginning of the quarter in which the reclassifications occurred.

Except as noted in the tables above, there were no other transfers in or out of Level I, II, or III during the years ended December 31, 2016 and December 31, 2015. Transfers into Level III occur as quotations obtained through pricing services are not deemed representative of fair value as of the balance sheet date and such assets are internally valued. As quotations obtained through pricing services are substantiated through additional market sources, investments are transferred out of Level III. In addition, transfers out of Level III and transfers into Level III occur based on the increase or decrease in the availability of certain observable inputs.

The Company invests in revolving credit facilities. These investments are categorized as Level III investments as these assets are not actively traded and their fair values are often implied by the term loans of the respective portfolio companies.



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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2016**

**(in thousands, except share data)**

**Note 4. Fair Value (Continued)**

The Company generally uses the following framework when determining the fair value of investments where there are little, if any, market activity or observable pricing inputs. The Company typically determines the fair value of its performing debt investments utilizing an income approach. Additional consideration is given using a market based approach, as well as reviewing the overall underlying portfolio company's performance and associated financial risks. The following outlines additional details on the approaches considered:

**Company Performance, Financial Review, and Analysis:** Prior to investment, as part of its due diligence process, the Company evaluates the overall performance and financial stability of the portfolio company. Post investment, the Company analyzes each portfolio company's current operating performance and relevant financial trends versus prior year and budgeted results, including, but not limited to, factors affecting its revenue and earnings before interest, taxes, depreciation, and amortization ("EBITDA") growth, margin trends, liquidity position, covenant compliance and changes to its capital structure. The Company also attempts to identify and subsequently track any developments at the portfolio company, within its customer or vendor base or within the industry or the macroeconomic environment, generally, that may alter any material element of its original investment thesis. This analysis is specific to each portfolio company. The Company leverages the knowledge gained from its original due diligence process, augmented by this subsequent monitoring, to continually refine its outlook for each of its portfolio companies and ultimately form the valuation of its investment in each portfolio company. When an external event such as a purchase transaction, public offering or subsequent sale occurs, the Company will consider the pricing indicated by the external event to corroborate the private valuation.

For debt investments, the Company may employ the Market Based Approach (as described below) to assess the total enterprise value of the portfolio company, in order to evaluate the enterprise value coverage of the Company's debt investment. For equity investments or in cases where the Market Based Approach implies a lack of enterprise value coverage for the debt investment, the Company may additionally employ a discounted cash flow analysis based on the free cash flows of the portfolio company to assess the total enterprise value.

After enterprise value coverage is demonstrated for the Company's debt investments through the method(s) above, the Income Based Approach (as described below) may be employed to estimate the fair value of the investment.

**Market Based Approach:** The Company may estimate the total enterprise value of each portfolio company by utilizing market value cash flow (EBITDA) multiples of publicly traded comparable companies and comparable transactions. The Company considers numerous factors when selecting the appropriate companies whose trading multiples are used to value its portfolio companies. These factors include, but are not limited to, the type of organization, similarity to the business being valued, and relevant risk factors, as well as size, profitability and growth expectations. The Company may apply an average of various relevant comparable company EBITDA multiples to the portfolio company's latest twelve month ("LTM") EBITDA or projected EBITDA to calculate the enterprise value of the portfolio company. Significant increases or decreases in the EBITDA multiple will result in an increase or decrease in enterprise value, which

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2016**

**(in thousands, except share data)**

**Note 4. Fair Value (Continued)**

may result in an increase or decrease in the fair value estimate of the investment. In applying the market based approach as of December 31, 2016 and December 31, 2015, the Company used the relevant EBITDA multiple ranges set forth in the table below to determine the enterprise value of its portfolio companies. The Company believes this was a reasonable range in light of current comparable company trading levels and the specific portfolio companies involved.

**Income Based Approach:** The Company also may use a discounted cash flow analysis to estimate the fair value of the investment. Projected cash flows represent the relevant security's contractual interest, fee and principal payments plus the assumption of full principal recovery at the investment's expected maturity date. These cash flows are discounted at a rate established utilizing a yield calibration approach, which incorporates changes in the credit quality (as measured by relevant statistics) of the portfolio company, as compared to changes in the yield associated with comparable credit quality market indices, between the date of origination and the valuation date. Significant increases or decreases in the discount rate would result in a decrease or increase in the fair value measurement. In applying the income based approach as of December 31, 2016 and December 31, 2015, the Company used the discount ranges set forth in the table below to value investments in its portfolio companies.



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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2016**

**(in thousands, except share data)**

**Note 4. Fair Value (Continued)**

The unobservable inputs used in the fair value measurement of the Company's Level III investments as of December 31, 2016 were as follows:

| Type             | Fair Value as of<br>December 31,<br>2016 | Approach                    | Unobservable<br>Input     | Range                     |                    | Weighted<br>Average |       |
|------------------|--|-----------------------------|---------------------------|---------------------------|--------------------|---------------------|-------|
|                  |  |                             |                           | Low                       | High               |                     |       |
| First lien       | \$ 417,464                               | Market & income<br>approach | EBITDA multiple           | 2.0x                      | 15.0x              | 10.2x               |       |
|                  |  |                             | Revenue multiple          | 0.5x                      | 8.0x               | 3.0x                |       |
|                  |  |                             | Discount rate             | 7.2%                      | 12.3%              | 9.7%                |       |
|                  |  | 86,801                      | Market quote              | Broker quote              | N/A                | N/A                 | N/A   |
| 26,336           | Other                                    | N/A <sup>(1)</sup>          | N/A                       | N/A                       | N/A                |                     |       |
| Second lien      | 191,419                                  | Market & income<br>approach | EBITDA multiple           | 5.3x                      | 16.0x              | 11.7x               |       |
|                  |  |                             | Discount rate             | 8.7%                      | 13.0%              | 11.3%               |       |
|                  |  |                             | Broker quote              | N/A                       | N/A                | N/A                 |       |
|                  |  | 96,315                      | Market quote              | Broker quote              | N/A                | N/A                 | N/A   |
| 36,443           | Other                                    | N/A <sup>(1)</sup>          | N/A                       | N/A                       | N/A                |                     |       |
| Subordinated     | 24,653                                   | Market & income<br>approach | EBITDA multiple           | 4.5x                      | 8.5x               | 7.1x                |       |
|                  |  |                             | Revenue multiple          | 0.5x                      | 1.0x               | 0.8x                |       |
|                  |  |                             | Discount rate             | 8.7%                      | 15.8%              | 13.6%               |       |
| Equity and other | 158,947                                  | Market & income<br>approach | EBITDA multiple           | 2.5x                      | 13.0x              | 5.9x                |       |
|                  |  |                             | Revenue multiple          | 0.5x                      | 1.0x               | 0.8x                |       |
|                  |  |                             | Discount rate             | 8.0%                      | 18.9%              | 14.5%               |       |
|                  |  | 1,498                       | Black Scholes<br>analysis | Expected life in<br>years | 8.8                | 9.3                 | 9.1   |
|                  |  |                             |                           | Volatility                | 32.2%              | 43.8%               | 36.4% |
|                  |  |                             |                           | Discount rate             | 2.5%               | 2.5%                | 2.5%  |
|                  |  | 2                           | Market quote              | Broker quote              | N/A                | N/A                 | N/A   |
|                  |  |                             |                           | Other                     | N/A <sup>(1)</sup> | N/A                 | N/A   |
| 27,000           |  |                             |                           |                           |                    |                     |       |
|                  | \$ 1,066,878                             |                             |                           |                           |                    |                     |       |

(1)

Fair value was determined based on transaction pricing or recent acquisition or sale as the best measure of fair value with no material changes in operations of the related portfolio company since the transaction date.



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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2016**

(in thousands, except share data)

**Note 4. Fair Value (Continued)**

The unobservable inputs used in the fair value measurement of the Company's Level III investments as of December 31, 2015 were as follows:

| Type             | Fair Value as of<br>December 31,<br>2015 | Approach                        | Unobservable<br>Input     | Range              |       | Weighted<br>Average |
|------------------|--|---------------------------------|---------------------------|--------------------|-------|---------------------|
|                  |  |                                 |                           | Low                | High  |                     |
| First lien       | \$ 292,507                               | Market & income<br>approach     | EBITDA multiple           | 4.5x               | 15.5x | 10.0x               |
|                  |  |                                 | Discount rate             | 7.3%               | 13.9% | 11.0%               |
|                  |  | 30,719 Market quote             | Broker quote              | N/A                | N/A   | N/A                 |
|                  | 17,664                                   | Other                           | N/A <sup>(1)</sup>        | N/A                | N/A   | N/A                 |
| Second lien      | 88,977                                   | Market & income<br>approach     | EBITDA multiple           | 6.5x               | 16.0x | 12.3x               |
|                  |  |                                 | Discount rate             | 10.0%              | 14.2% | 12.7%               |
|                  |  | 41,544 Market quote             | Broker quote              | N/A                | N/A   | N/A                 |
|                  | 52,237                                   | Other                           | N/A <sup>(1)</sup>        | N/A                | N/A   | N/A                 |
| Subordinated     | 38,459                                   | Market & income<br>approach     | EBITDA multiple           | 4.5x               | 9.0x  | 7.6x                |
|                  |  |                                 | Discount rate             | 10.0%              | 19.4% | 17.7%               |
|                  |  | 15,000                          | Other                     | N/A <sup>(1)</sup> | N/A   | N/A                 |
| Equity and other | 121,453                                  | Market & income<br>approach     | EBITDA multiple           | 2.5x               | 12.0x | 6.3x                |
|                  |  |                                 | Discount rate             | 8.0%               | 21.3% | 14.6%               |
|                  |  | 1,427 Black Scholes<br>analysis | Expected life in<br>years | 9.8                | 10.3  | 10                  |
|                  |  |                                 | Volatility                | 27.0%              | 30.3% | 28.9%               |
|                  |  |                                 | Discount rate             | 2.1%               | 2.1%  | 2.1%                |
|                  | \$ 699,987                               |                                 |                           |                    |       |                     |

(1)

Fair value was determined based on transaction pricing or recent acquisition or sale as the best measure of fair value with no material changes in operations of the related portfolio company since the transaction date.

Based on a comparison to similar BDC credit facilities, the terms and conditions of the Holdings Credit Facility and the NMFC Credit Facility (as defined in Note 7. *Borrowings*) are representative of market. The carrying values of the Holdings Credit Facility and NMFC Credit Facility approximate fair value as of December 31, 2016, as the facilities are continually monitored and examined by both the borrower and the lender. The carrying value of the SBA-guaranteed debentures approximate fair value as of December 31, 2016 based on a comparison of market interest rates for the Company's borrowings and similar entities. On September 30, 2016, additional Unsecured Notes (as defined in Note 7.

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*Borrowings*) were issued and, as such, the carrying value approximates fair value as of December 31, 2016. The fair value of the Holdings Credit Facility, NMFC Credit Facility, SBA-guaranteed debentures and Unsecured Notes are considered Level III. The fair value of the Convertible Notes (as defined in Note 7. *Borrowings*) as of December 31, 2016 was \$159,034, which was based on quoted prices and considered Level II. See Note 7. *Borrowings*, for details. The carrying value of the collateralized agreement approximates fair value as of December 31, 2016 and is considered Level III. The fair value of other financial assets and liabilities approximates their carrying value based on the short-term nature of these items.

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2016**

**(in thousands, except share data)**

**Note 4. Fair Value (Continued)**

**Fair value risk factors** The Company seeks investment opportunities that offer the possibility of attaining substantial capital appreciation. Certain events particular to each industry in which the Company's portfolio companies conduct their operations, as well as general economic and political conditions, may have a significant negative impact on the operations and profitability of the Company's investments and/or on the fair value of the Company's investments. The Company's investments are subject to the risk of non-payment of scheduled interest or principal, resulting in a reduction in income to the Company and their corresponding fair valuations. Also, there may be risk associated with the concentration of investments in one geographic region or in certain industries. These events are beyond the control of the Company and cannot be predicted. Furthermore, the ability to liquidate investments and realize value is subject to uncertainties.

**Note 5. Agreements**

NMF Holdings entered into an investment advisory and management agreement, as amended and restated with the Investment Adviser on May 19, 2011. Until May 8, 2014, under the investment advisory and management agreement, the Investment Adviser managed the day-to-day operations of, and provided investment advisory services to, NMF Holdings. For providing these services, the Investment Adviser received a fee from NMF Holdings, consisting of two components a base management fee and an incentive fee.

On May 6, 2014, the stockholders of NMFC approved a new investment advisory and management agreement (the "Investment Management Agreement") with the Investment Adviser which became effective on May 8, 2014 and was most recently re-approved by the Company's board of directors on February 8, 2017. Under the Investment Management Agreement, the Investment Adviser manages the day-to-day operations of, and provides investment advisory services to, the Company. For providing these services, the Investment Adviser receives a fee from the Company, consisting of two components a base management fee and an incentive fee.

Pursuant to the Investment Management Agreement, the base management fee is calculated at an annual rate of 1.75% of the Company's gross assets, which equals the Company's total assets on the Consolidated Statements of Assets and Liabilities, less (i) the borrowings under the SLF Credit Facility (as defined in Note 7, *Borrowings*) and (ii) cash and cash equivalents. The base management fee is payable quarterly in arrears, and is calculated based on the average value of the Company's gross assets, which equals the Company's total assets, as determined in accordance with GAAP, less the borrowings under the SLF Credit Facility and cash and cash equivalents at the end of each of the two most recently completed calendar quarters, and appropriately adjusted on a pro rata basis for any equity capital raises or repurchases during the current calendar quarter. The Company has not invested, and currently is not invested, in derivatives. To the extent the Company invests in derivatives in the future, the Company will use the actual value of the derivatives, as reported on the Consolidated Statements of Assets and Liabilities, for purposes of calculating its base management fee.

Since the IPO, the base management fee calculation has deducted the borrowings under the SLF Credit Facility. The SLF Credit Facility had historically consisted of primarily lower yielding assets at higher advance rates. As part of an amendment to the Company's existing credit facilities

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2016**

**(in thousands, except share data)**

**Note 5. Agreements (Continued)**

with Wells Fargo Bank, National Association, the SLF Credit Facility merged with the Predecessor Holdings Credit Facility and into the Holdings Credit Facility on December 18, 2014 (as defined in Note 7, *Borrowings*). Post credit facility merger and to be consistent with the methodology since the IPO, the Investment Adviser will continue to waive management fees on the leverage associated with those assets that share the same underlying yield characteristics with investments leveraged under the legacy SLF Credit Facility, which as of December 31, 2016, December 31, 2015 and December 31, 2014 was approximately \$297,323, \$304,899 and \$313,455, respectively. The Investment Adviser cannot recoup management fees that the Investment Adviser has previously waived. For the years ended December 31, 2016, December 31, 2015 and December 31, 2014, management fees waived were approximately \$4,824, \$5,219 and \$686, respectively.

The incentive fee consists of two parts. The first part is calculated and payable quarterly in arrears and equals 20.0% of the Company's "Pre-Incentive Fee Adjusted Net Investment Income" for the immediately preceding quarter, subject to a "preferred return", or "hurdle", and a "catch-up" feature. "Pre-Incentive Fee Net Investment Income" means interest income, dividend income and any other income (including any other fees (other than fees for providing managerial assistance), such as commitment, origination, structuring, upfront, diligence and consulting fees or other fees that the Company receives from portfolio companies) accrued during the calendar quarter, minus the Company's operating expenses for the quarter (including the base management fee, expenses payable under an administration agreement, as amended and restated (the "Administration Agreement"), with the Administrator, and any interest expense and distributions paid on any issued and outstanding preferred stock (of which there are none as of December 31, 2016), but excluding the incentive fee). Pre-Incentive Fee Net Investment Income includes, in the case of investments with a deferred interest feature (such as original issue discount, debt instruments with PIK interest and zero coupon securities), accrued income that the Company has not yet received in cash. Pre-Incentive Fee Net Investment Income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation.

Under GAAP, NMFC's IPO did not step-up the cost basis of the Predecessor Operating Company's existing investments to fair market value at the IPO date. Since the total value of the Predecessor Operating Company's investments at the time of the IPO was greater than the investments' cost basis, a larger amount of amortization of purchase or original issue discount, as well as different amounts in realized gain and unrealized appreciation, may be recognized under GAAP in each period than if the step-up had occurred. This will remain until such predecessor investments are sold, repaid or mature in the future. The Company tracks the transferred (or fair market) value of each of its investments as of the time of the IPO and, for purposes of the incentive fee calculation, adjusts Pre-Incentive Fee Net Investment Income to reflect the amortization of purchase or original issue discount on the Company's investments as if each investment was purchased at the date of the IPO, or stepped up to fair market value. This is defined as "Pre-Incentive Fee Adjusted Net Investment Income". The Company also uses the transferred (or fair market) value of each of its investments as of the time of the IPO to adjust capital gains ("Adjusted Realized Capital Gains") or losses ("Adjusted Realized Capital Losses") and unrealized capital appreciation ("Adjusted Unrealized Capital Appreciation") and unrealized capital depreciation ("Adjusted Unrealized Capital Depreciation").

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2016**

**(in thousands, except share data)**

**Note 5. Agreements (Continued)**

Pre-Incentive Fee Adjusted Net Investment Income, expressed as a rate of return on the value of the Company's net assets at the end of the immediately preceding calendar quarter, will be compared to a "hurdle rate" of 2.0% per quarter (8.0% annualized), subject to a "catch-up" provision measured as of the end of each calendar quarter. The hurdle rate is appropriately pro-rated for any partial periods. The calculation of the Company's incentive fee with respect to the Pre-Incentive Fee Adjusted Net Investment Income for each quarter is as follows:

No incentive fee is payable to the Investment Adviser in any calendar quarter in which the Company's Pre-Incentive Fee Adjusted Net Investment Income does not exceed the hurdle rate of 2.0% (the "preferred return" or "hurdle").

100.0% of the Company's Pre-Incentive Fee Adjusted Net Investment Income with respect to that portion of such Pre-Incentive Fee Adjusted Net Investment Income, if any, that exceeds the hurdle rate but is less than or equal to 2.5% in any calendar quarter (10.0% annualized) is payable to the Investment Adviser. This portion of the Company's Pre-Incentive Fee Adjusted Net Investment Income (which exceeds the hurdle rate but is less than or equal to 2.5%) is referred to as the "catch-up". The catch-up provision is intended to provide the Investment Adviser with an incentive fee of 20.0% on all of the Company's Pre-Incentive Fee Adjusted Net Investment Income as if a hurdle rate did not apply when the Company's Pre-Incentive Fee Adjusted Net Investment Income exceeds 2.5% in any calendar quarter.

20.0% of the amount of the Company's Pre-Incentive Fee Adjusted Net Investment Income, if any, that exceeds 2.5% in any calendar quarter (10.0% annualized) is payable to the Investment Adviser once the hurdle is reached and the catch-up is achieved.

The second part of the incentive fee will be determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Management Agreement) and will equal 20.0% of the Company's Adjusted Realized Capital Gains, if any, on a cumulative basis from inception through the end of each calendar year, computed net of all Adjusted Realized Capital Losses and Adjusted Unrealized Capital Depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fee.

In accordance with GAAP, the Company accrues a hypothetical capital gains incentive fee based upon the cumulative net Adjusted Realized Capital Gains and Adjusted Realized Capital Losses and the cumulative net Adjusted Unrealized Capital Appreciation and Adjusted Unrealized Capital Depreciation on investments held at the end of each period. Actual amounts paid to the Investment Adviser are consistent with the Investment Management Agreement and are based only on actual Adjusted Realized Capital Gains computed net of all Adjusted Realized Capital Losses and Adjusted Unrealized Capital Depreciation on a cumulative basis from inception through the end of each calendar year as if the entire portfolio was sold at fair value.

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2016**

(in thousands, except share data)

**Note 5. Agreements (Continued)**

The following table summarizes the management fees and incentive fees incurred by the Company for the years ended December 31, 2016, December 31, 2015 and December 31, 2014.

|   | Years Ended December 31, |           |            |
|---|--------------------------|-----------|------------|
|   | 2016                     | 2015      | 2014       |
| Management fee  | \$ 27,551                | \$ 25,858 | \$ 13,593  |
| Management fee allocated from NMF Holdings  |                          |           | 5,983      |
| Less: management fee waiver   | (4,824)                  | (5,219)   | (686)      |
| <b>Total management fee</b>   | 22,727                   | 20,639    | 18,890     |
| Incentive fee, excluding accrued capital gains incentive fees                             | \$ 22,011                | \$ 20,591 | \$ 12,070  |
| Incentive fee, excluding accrued capital gains incentive fees allocated from NMF Holdings |                          |           | 6,248      |
| <b>Total incentive fee</b>  | 22,011                   | 20,591    | 18,318     |
| Accrued capital gains incentive fees <sup>(1)</sup>                                       | \$                       | \$        | \$ (8,573) |
| Accrued capital gains incentive fees allocated from NMF Holdings <sup>(1)</sup>           |                          |           | 2,024      |
| <b>Total accrued capital gains incentive fees</b>   |                          |           | (6,549)    |

(1)

As of December 31, 2016, December 31, 2015 and December 31, 2014, no actual capital gains incentive fee was owed under the Investment Management Agreement by the Company, as cumulative net Adjusted Realized Capital Gains did not exceed cumulative Adjusted Unrealized Capital Depreciation.



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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2016**

(in thousands, except share data)

**Note 5. Agreements (Continued)**

The Company's Consolidated Statements of Operations below are adjusted as if the step-up in cost basis to fair market value had occurred at the IPO date, May 19, 2011.

The following Consolidated Statement of Operations for the year ended December 31, 2016 is adjusted to reflect this step-up to fair market value.

|  | Year Ended<br>December 31,<br>2016 | Stepped-up<br>Cost Basis<br>Adjustments | Adjusted<br>Year Ended<br>December 31,<br>2016 |
|--|------------------------------------|---|--|
| <b>Investment income</b>   |                                    |   |  |
| Interest income <sup>(1)</sup>   | \$ 147,425                         | \$ (65)                                 | \$ 147,360                                     |
| Dividend income <sup>(2)</sup>   | 11,200                             |   | 11,200   |
| Other income   | 9,459                              |   | 9,459  |
| <b>Total investment income<sup>(3)</sup></b>   | <b>168,084</b>                     | <b>(65)</b>                             | <b>168,019</b>                                 |
| Total expenses pre-incentive fee <sup>(4)</sup>  | 57,965                             |   | 57,965   |
| <b>Pre-Incentive Fee Net Investment Income</b>   | <b>110,119</b>                     | <b>(65)</b>                             | <b>110,054</b>                                 |
| Incentive fee <sup>(5)</sup>   | 22,011                             |   | 22,011   |
| <b>Post-Incentive Fee Net Investment Income</b>  | <b>88,108</b>                      | <b>(65)</b>                             | <b>88,043</b>                                  |
| Net realized losses on investments <sup>(6)</sup>  | (16,717)                           | (151)                                   | (16,868)                                       |
| Net change in unrealized appreciation (depreciation) of investments <sup>(6)</sup>                                     | 40,131                             | 216                                     | 40,347   |
| Net change in unrealized (depreciation) appreciation of securities purchased under collateralized agreements to resell | (486)                              |   | (486)  |
| Benefit for taxes  | 642                                |   | 642  |
| <b>Net increase in net assets resulting from operations</b>  | <b>\$ 111,678</b>                  |   | <b>\$ 111,678</b>                              |

(1) Includes \$4,270 in PIK interest from investments.

(2) Includes \$3,178 in PIK dividends from investments.

(3)

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Includes income from non-controlled/non-affiliated investments, non-controlled/affiliated investments and controlled investments.

(4) Includes expense waivers and reimbursements of \$725 and management fee waivers of \$4,824.

(5) For the year ended December 31, 2016, the Company incurred total incentive fees of \$22,011, of which none was related to the capital gains incentive fee accrual on a hypothetical liquidation basis.

(6) Includes net realized gains and losses on investments and net change in unrealized (depreciation) appreciation of investments from non-controlled/non-affiliated investments, non-controlled/affiliated investments and controlled investments.

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2016**

(in thousands, except share data)

**Note 5. Agreements (Continued)**

The following Consolidated Statement of Operations for the year ended December 31, 2015 is adjusted to reflect this step-up to fair market value.

|  | Year Ended<br>December 31,<br>2015 | Stepped-up<br>Cost Basis<br>Adjustments | Adjusted<br>Year Ended<br>December 31,<br>2015 |
|--|------------------------------------|---|--|
| <b>Investment income</b>   |                                    |   |  |
| Interest income <sup>(1)</sup>   | \$ 140,074                         | \$ (131)                                | \$ 139,943                                     |
| Dividend income <sup>(2)</sup>   | 5,771                              |   | 5,771  |
| Other income   | 8,010                              |   | 8,010  |
| <b>Total investment income<sup>(3)</sup></b>   | <b>153,855</b>                     | <b>(131)</b>                            | <b>153,724</b>                                 |
| Total expenses pre-incentive fee <sup>(4)</sup>  | 50,769                             |   | 50,769   |
| <b>Pre-Incentive Fee Net Investment Income</b>   | <b>103,086</b>                     | <b>(131)</b>                            | <b>102,955</b>                                 |
| Incentive fee <sup>(5)</sup>   | 20,591                             |   | 20,591   |
| <b>Post-Incentive Fee Net Investment Income</b>  | <b>82,495</b>                      | <b>(131)</b>                            | <b>82,364</b>                                  |
| Net realized losses on investments <sup>(6)</sup>  | (12,789)                           | (78)                                    | (12,867)                                       |
| Net change in unrealized (depreciation) appreciation of investments <sup>(6)</sup>                                     | (35,272)                           | 209                                     | (35,063)                                       |
| Net change in unrealized (depreciation) appreciation of securities purchased under collateralized agreements to resell | (296)                              |   | (296)  |
| Provision for taxes  | (1,183)                            |   | (1,183)  |
| <b>Net increase in net assets resulting from operations</b>  | <b>\$ 32,955</b>                   |   | <b>\$ 32,955</b>                               |

(1) Includes \$3,942 in PIK interest from investments.

(2) Includes \$2,559 in PIK dividends from investments

(3) Includes income from non-controlled/non-affiliated investments, non-controlled/affiliated investments and controlled investments.

- (4) Includes expense waivers and reimbursements of \$733 and management fee waivers of \$5,219.
- (5) For the year ended December 31, 2015, the Company incurred total incentive fees of \$20,591, of which none was related to the capital gains incentive fee accrual on a hypothetical liquidation basis.
- (6) Includes net change in unrealized (depreciation) appreciation of investments from non-controlled/non-affiliated investments, non-controlled/affiliated investments and controlled investments.

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2016**

(in thousands, except share data)

**Note 5. Agreements (Continued)**

The following Consolidated Statement of Operations for the year ended December 31, 2014 is adjusted to reflect this step-up to fair market value.

|   | <b>Year Ended<br/>December 31,<br/>2014</b> | <b>Stepped-up<br/>Cost Basis<br/>Adjustments</b> | <b>Adjusted<br/>Year Ended<br/>December 31,<br/>2014</b> |
|---|---|--|--|
| <b>Investment income</b>  |   |  |  |
| Interest income <sup>(1)</sup>  | \$ 85,123                                   | \$ (193)   | \$ 84,930  |
| Dividend income   | 2,309                                       |  | 2,309  |
| Other income  | 4,491                                       |  | 4,491  |
| <b>Investment income allocated from NMF Holdings</b>  |   |  |  |
| Interest income <sup>(1)</sup>  | 40,515                                      |  | 40,515   |
| Dividend income   | 2,368                                       |  | 2,368  |
| Other income  | 795   |  | 795  |
| <b>Total investment income<sup>(2)</sup></b>  | <b>135,601</b>                              | <b>(193)</b>                                     | <b>135,408</b>   |
| Total expenses pre-incentive fee <sup>(3)</sup>   | 43,766                                      |  | 43,766   |
| <b>Pre-Incentive Fee Net Investment Income</b>  | <b>91,835</b>                               | <b>(193)</b>                                     | <b>91,642</b>  |
| Incentive fee <sup>(4)</sup>  | 11,769                                      |  | 11,769   |
| <b>Post-Incentive Fee Net Investment Income</b>   | <b>80,066</b>                               | <b>(193)</b>                                     | <b>79,873</b>  |
| Net realized gains (losses) on investments  | 357   | (456)  | (99)   |
| Net realized gains on investment allocated from NMF Holdings                                    | 8,568                                       |  | 8,568  |
| Net change in unrealized (depreciation) appreciation of investments <sup>(5)</sup>              | (43,863)                                    | 649  | (43,214)   |
| Net change in unrealized appreciation (depreciation) of investments allocated from NMF Holdings | 940   |  | 940  |
| Provision for taxes   | (493)                                       |  | (493)  |
| <b>Net increase in net assets resulting from operations</b>                                     | <b>\$ 45,575</b>                            |  | <b>\$ 45,575</b>   |

(1) Includes \$4,644 in PIK interest from investments.

(2)

Includes income from non-controlled/non-affiliated investments.

(3)

Includes expense waivers and reimbursements of \$1,145 and management fee waivers of \$686.

(4)

For the year ended December 31, 2014, the Company and the Predecessor Operating Company incurred total incentive fees of \$11,769, of which \$(6,549) is related to a decrease of the capital gains incentive fee accrual on a hypothetical liquidation basis.

(5)

Includes net change in unrealized (depreciation) appreciation of investments from non-controlled/non-affiliated and non-controlled/affiliated investments.

Table of Contents**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)****December 31, 2016****(in thousands, except share data)****Note 5. Agreements (Continued)**

The Company has entered into an Administration Agreement with the Administrator under which the Administrator provides administrative services. The Administrator performs, or oversees the performance of, the Company's consolidated financial records, prepares reports filed with the SEC, generally monitors the payment of the Company's expenses and watches the performance of administrative and professional services rendered by others. The Company will reimburse the Administrator for the Company's allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations to the Company under the Administration Agreement. Pursuant to the Administration Agreement and further restricted by the Company, expenses payable to the Administrator by the Company as well as other direct and indirect expenses (excluding interest, other financing expenses, trading expenses and management and incentive fees) had been capped at \$4,250 for the time period from April 1, 2013 to March 31, 2014. The expense cap expired on March 31, 2014. Thereafter, the Administrator may, in its own discretion, submit to the Company for reimbursement some or all of the expenses that the Administrator has incurred on behalf of the Company during any quarterly period. As a result, the amount of expenses for which the Company will have to reimburse the Administrator may fluctuate in future quarterly periods and there can be no assurance given as to when, or if, the Administrator may determine to limit the expenses that the Administrator submits to the Company for reimbursement in the future. However, it is expected that the Administrator will continue to support part of the expense burden of the Company in the near future and may decide to not calculate and charge through certain overhead related amounts as well as continue to cover some of the indirect costs. The Administrator cannot recoup any expenses that the Administrator has previously waived. For the years ended December 31, 2016, December 31, 2015 and December 31, 2014, approximately \$1,641, \$1,431 and \$1,395, respectively, of indirect administrative expenses were included in administrative expenses of which \$725, \$733 and \$770, respectively, of indirect administrative expenses were waived by the Administrator. As of December 31, 2016 and December 31, 2015, \$0 and \$374, respectively, of indirect administrative expenses were included in payable to affiliates as the expenses were payable to the Administrator.

The Company incurred the following expenses, which were waived by the Administrator or were in excess of the expense cap, for the years ended December 31, 2016, December 31, 2015 and December 31, 2014:

|   | <b>Years Ended<br/>December 31,</b> |               |                 |
|---|-------------------------------------|---------------|-----------------|
|   | <b>2016</b>                         | <b>2015</b>   | <b>2014</b>     |
| Administrative expenses                             | \$ 725                              | \$ 733        | \$ 380          |
| Administrative expenses allocated from NMF Holdings |                                     |               | 390             |
| Professional fees                                   |                                     |               |                 |
| Professional fees allocated from NMF Holdings       |                                     |               | 375             |
| <b>Total expense reimbursement</b>                  | <b>\$ 725</b>                       | <b>\$ 733</b> | <b>\$ 1,145</b> |

As of December 31, 2016, December 31, 2015 and December 31, 2014, no expense waivers and reimbursements were receivable from an affiliate.

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2016**

**(in thousands, except share data)**

**Note 5. Agreements (Continued)**

The Company, the Investment Adviser and the Administrator have also entered into a Trademark License Agreement, as amended, with New Mountain Capital, pursuant to which New Mountain Capital has agreed to grant the Company, the Investment Adviser and the Administrator, a non-exclusive, royalty-free license to use the "New Mountain" and the "New Mountain Finance" names. Under the Trademark License Agreement, as amended, subject to certain conditions, the Company, the Investment Adviser and the Administrator will have a right to use the "New Mountain" and "New Mountain Finance" names, for so long as the Investment Adviser or one of its affiliates remains the investment adviser of the Company. Other than with respect to this limited license, the Company, the Investment Adviser and the Administrator will have no legal right to the "New Mountain" or the "New Mountain Finance" names.

**Note 6. Related Parties**

The Company has entered into a number of business relationships with affiliated or related parties.

The Company has entered into the Investment Management Agreement with the Investment Adviser, a wholly-owned subsidiary of New Mountain Capital. Therefore, New Mountain Capital is entitled to any profits earned by the Investment Adviser, which includes any fees payable to the Investment Adviser under the terms of the Investment Management Agreement, less expenses incurred by the Investment Adviser in performing its services under the Investment Management Agreement.

The Company has entered into an Administration Agreement with the Administrator, a wholly-owned subsidiary of New Mountain Capital. The Administrator arranges office space for the Company and provides office equipment and administrative services necessary to conduct their respective day-to-day operations pursuant to the Administration Agreement. The Company reimburses the Administrator for the allocable portion of overhead and other expenses incurred by it in performing its obligations to the Company under the Administration Agreement which includes the fees and expenses associated with performing administrative, finance and compliance functions, and the compensation of the Company's chief financial officer and chief compliance officer and their respective staffs.

The Company, the Investment Adviser and the Administrator have entered into a royalty-free Trademark License Agreement, as amended, with New Mountain Capital, pursuant to which New Mountain Capital has agreed to grant the Company, the Investment Adviser and the Administrator, a non-exclusive, royalty-free license to use the name "New Mountain" and "New Mountain Finance".

The Company has adopted a formal code of ethics that governs the conduct of its officers and directors. These officers and directors also remain subject to the duties imposed by the 1940 Act, the Delaware General Corporation Law and the Delaware Limited Liability Company Act.

The Investment Adviser and its affiliates may also manage other funds in the future that may have investment mandates that are similar, in whole and in part, to the Company's investment mandates. The Investment Adviser and its affiliates may determine that an investment is appropriate for the Company or for one or more of those other funds. In such event, depending on the



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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2016**

**(in thousands, except share data)**

**Note 6. Related Parties (Continued)**

availability of such investment and other appropriate factors, the Investment Adviser or its affiliates may determine that the Company should invest side-by-side with one or more other funds. Any such investments will be made only to the extent permitted by applicable law and interpretive positions of the SEC and its staff and consistent with the Investment Adviser's allocation procedures. On September 12, 2016, the Company filed an exemptive application with the SEC to permit the Company to co-invest with funds or entities managed by the Investment Adviser or its affiliates in certain negotiated transactions where co-investing would otherwise be prohibited under the 1940 Act. Any such order, if granted by the SEC, will be subject to certain terms and conditions. Furthermore, there is no assurance when, or if, this application for exemptive relief will be granted by the SEC.

**Note 7. Borrowings**

**Holdings Credit Facility** On December 18, 2014 the Company entered into the Second Amended and Restated Loan and Security Agreement (the "Holdings Credit Facility"), among the Company, as the Collateral Manager, NMF Holdings as the Borrower, Wells Fargo Securities, LLC as the Administrative Agent and Wells Fargo Bank, National Association, as the Lender and Collateral Custodian, which is structured as a revolving credit facility and matures on December 18, 2019.

Immediately prior to amending the Holdings Credit Facility, NMF SLF merged with and into NMF Holdings. The Holdings Credit Facility effectively amended and restated the Predecessor Holdings Credit Facility (as defined below), merged with the SLF Credit Facility (as defined below), and combined the amount of borrowings previously available.

The maximum amount of revolving borrowings available under the Holdings Credit Facility is \$495,000, which is the aggregate of the \$280,000 previously available under the Predecessor Holdings Credit Facility (as defined below) and the \$215,000 previously available under the SLF Credit Facility (as defined below). Under the Holdings Credit Facility, NMF Holdings is permitted to borrow up to 25.0%, 45.0% or 70.0% of the purchase price of pledged assets, subject to approval by Wells Fargo Securities, LLC. The Holdings Credit Facility is non-recourse to the Company and is collateralized by all of the investments of NMF Holdings on an investment by investment basis. All fees associated with the origination or upsizing of the Holdings Credit Facility are capitalized on the Company's Consolidated Statement of Assets and Liabilities and charged against income as other financing expenses over the life of the Holdings Credit Facility. The Holdings Credit Facility contains certain customary affirmative and negative covenants and events of default. In addition, the Holdings Credit Facility requires the Company to maintain a minimum asset coverage ratio. The covenants are generally not tied to mark to market fluctuations in the prices of NMF Holdings investments, but rather to the performance of the underlying portfolio companies.

Effective January 1, 2016, the Holdings Credit Facility bears interest at a rate of LIBOR plus 1.75% per annum for Broadly Syndicated Loans (as defined in the Loan and Security Agreement) and LIBOR plus 2.50% per annum for all other investments. Previously, the Holdings Credit Facility bore interest at a rate of LIBOR plus 2.00% per annum for Broadly Syndicated Loans (as defined in the Loan and Security Agreement) and LIBOR plus 2.75% per annum for all other investments. The

Table of Contents**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)****December 31, 2016****(in thousands, except share data)****Note 7. Borrowings (Continued)**

Holdings Credit Facility also charges a non-usage fee, based on the unused facility amount multiplied by the Non-Usage Fee Rate (as defined in the Loan and Security Agreement).

Prior to December 18, 2014, the Loan and Security Agreement, as amended and restated, dated May 19, 2011 (the "Predecessor Holdings Credit Facility") among NMF Holdings as the Borrower and Collateral Administrator, Wells Fargo Securities, LLC as the Administrative Agent, and Wells Fargo Bank, National Association, as the Collateral Custodian, was structured as a revolving credit facility and would mature on October 27, 2016.

The maximum amount of revolving borrowings available under the Predecessor Holdings Credit Facility was \$280,000. Until December 18, 2014, NMF Holdings was permitted to borrow up to 45.0% or 25.0% of the purchase price of pledged first lien or non-first lien debt securities, respectively, and up to 70.0% and 45.0% of the purchase price of specified first lien debt securities and specified non-first lien debt securities, respectively, subject to approval by Wells Fargo Bank, National Association. The Predecessor Holdings Credit Facility was amended and restated on May 6, 2014 and as a result, it was non-recourse to the Company and was collateralized by all of the investments of NMF Holdings on an investment by investment basis. All fees associated with the origination or upsizing of the Predecessor Holdings Credit Facility were capitalized on the Company's Consolidated Statement of Assets and Liabilities and charged against income as other financing expenses over the life of the Predecessor Holdings Credit Facility. The Predecessor Holdings Credit Facility contained certain customary affirmative and negative covenants and events of default, including the occurrence of a change in control. In addition, the Predecessor Holdings Credit Facility required the Company to maintain a minimum asset coverage ratio. However, the covenants were generally not tied to mark to market fluctuations in the prices of NMF Holdings' investments, but rather to the performance of the underlying portfolio companies.

The Predecessor Holdings Credit Facility bore interest at a rate of LIBOR plus 2.75% per annum and charged a non-usage fee, based on the unused facility amount multiplied by the Non-Usage Fee Rate (as defined in the Loan and Security Agreement).

The following table summarizes the interest expense, non-usage fees and amortization of financing costs incurred, together, on the Holdings Credit Facility and the Predecessor Holdings Credit Facility for the years ended December 31, 2016, December 31, 2015 and December 31, 2014.

**Years Ended December 31,**

|                                 | <b>2016</b> | <b>2015</b> | <b>2014</b> |
|---------------------------------|-------------|-------------|-------------|
| Interest expense                | \$ 9,546    | \$ 10,512   | \$ 7,147    |
| Non-usage fee                   | \$ 772      | \$ 500      | \$ 243      |
| Amortization of financing costs | \$ 1,615    | \$ 1,612    | \$ 893      |
| Weighted average interest rate  | 2.8%        | 2.6%        | 2.9%        |
| Effective interest rate         | 3.5%        | 3.2%        | 3.4%        |
| Average debt outstanding        | \$ 341,055  | \$ 394,945  | \$ 244,598  |

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2016**

**(in thousands, except share data)**

**Note 7. Borrowings (Continued)**

As of December 31, 2016, December 31, 2015 and December 31, 2014, the outstanding balance on the Holdings Credit Facility was \$333,513, \$419,313 and \$468,108, respectively, and NMF Holdings was in compliance with the applicable covenants in the Holdings Credit Facility on such dates.

**SLF Credit Facility** NMF SLF's Loan and Security Agreement, as amended and restated, dated October 27, 2010 (the "SLF Credit Facility") among NMF SLF as the Borrower, NMF Holdings as the Collateral Administrator, Wells Fargo Securities, LLC as the Administrative Agent, and Wells Fargo Bank, National Association, as the Collateral Custodian, was structured as a revolving credit facility and was set to mature on October 27, 2016. The maximum amount of revolving borrowings available under the SLF Credit Facility was \$215,000. The SLF Credit Facility was non-recourse to the Company and secured by all assets of NMF SLF on an investment by investment basis. All fees associated with the origination or upsizing of the SLF Credit Facility were capitalized on the Company's Consolidated Statement of Assets and Liabilities and charged against income as other financing expenses over the life of the SLF Credit Facility. The SLF Credit Facility contained certain customary affirmative and negative covenants and events of default, including the occurrence of a change in control. The covenants were generally not tied to mark to market fluctuations in the prices of NMF SLF's investments, but rather to the performance of the underlying portfolio companies. NMF SLF was not restricted from the purchase or sale of loans with an affiliate. Therefore, specified loans could be moved as collateral between the Holdings Credit Facility and the SLF Credit Facility. The SLF Credit Facility merged with the Holdings Credit Facility on December 18, 2014.

Until December 18, 2014, the SLF Credit Facility permitted borrowings of up to 70.0% of the purchase price of pledged first lien debt securities and up to 25.0% of the purchase price of specified second lien loans, of which, up to 25.0% of the aggregate outstanding loan balance of all pledged debt securities in the SLF Credit Facility was allowed to be derived from second lien loans, subject to approval by Wells Fargo Bank, National Association.

The SLF Credit Facility bore interest at a rate of LIBOR plus 2.00% per annum for first lien loans and LIBOR plus 2.75% per annum for second lien loans. A non-usage fee was paid, based on the unused facility amount multiplied by the Non-Usage Fee Rate (as defined in the Loan and Security Agreement).

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2016**

(in thousands, except share data)

**Note 7. Borrowings (Continued)**

The following table summarizes the interest expense, non-usage fees and amortization of financing costs incurred on the SLF Credit Facility for the years ended December 31, 2016, December 31, 2015 and December 31, 2014.

|                                 | <b>Years Ended December 31,</b> |                           |                           |
|---------------------------------|---------------------------------|---------------------------|---------------------------|
|                                 | <b>2016<sup>(1)</sup></b>       | <b>2015<sup>(1)</sup></b> | <b>2014<sup>(2)</sup></b> |
| Interest expense                | \$                              | \$                        | \$ 4,549                  |
| Non-usage fee                   | \$                              | \$                        | \$ 28                     |
| Amortization of financing costs | \$                              | \$                        | \$ 846                    |
| Weighted average interest rate  |                                 | %                         | 2.2%                      |
| Effective interest rate         |                                 | %                         | 2.6%                      |
| Average debt outstanding        | \$                              | \$                        | \$ 209,333                |

- (1) Not applicable, as the SLF Credit Facility merged with and into the Holdings Credit Facility on December 18, 2014.
- (2) For the year ended December 31, 2014, amounts reported relate to the period from January 1, 2014 to December 17, 2014 (date of merger).

As of December 31, 2014, the SLF Credit Facility had merged with the Holdings Credit Facility..

**NMFC Credit Facility** The Senior Secured Revolving Credit Agreement, as amended, dated June 4, 2014 (together with the related guarantee and security agreement, the "NMFC Credit Facility"), among the Company as the Borrower, Goldman Sachs Bank USA as the Administrative Agent and Collateral Agent, and Goldman Sachs Bank USA, Morgan Stanley Bank, N.A. and Stifel Bank & Trust as Lenders, is structured as a senior secured revolving credit facility and matures on June 4, 2019. The NMFC Credit Facility is guaranteed by certain domestic subsidiaries of the Company and proceeds from the NMFC Credit Facility may be used for general corporate purposes, including the funding of portfolio investments.

As of December 31, 2016, the maximum amount of revolving borrowings available under the NMFC Credit Facility was \$122,500. The Company is permitted to borrow at various advance rates depending on the type of portfolio investment, as outlined in the Senior Secured Revolving Credit Agreement. All fees associated with the origination of the NMFC Credit Facility are capitalized on the Company's Consolidated Statement of Assets and Liabilities and charged against income as other financing expenses over the life of the NMFC Credit Facility. The NMFC Credit Facility contains certain customary affirmative and negative covenants and events of default, including certain financial covenants related to asset coverage and liquidity and other maintenance covenants.

The NMFC Credit Facility generally bears interest at a rate of LIBOR plus 2.50% per annum or the prime rate plus 1.50% per annum, and charges a commitment fee, based on the unused facility amount multiplied by 0.375% per annum (as defined in the Senior Secured Revolving Credit Agreement).

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2016**

(in thousands, except share data)

**Note 7. Borrowings (Continued)**

The following table summarizes the interest expense, non-usage fees and amortization of financing costs incurred on the NMFC Credit Facility for the years ended December 31, 2016, December 31, 2015 and December 31, 2014.

|                                 | <b>Years Ended December 31,</b> |             |                           |
|---------------------------------|---------------------------------|-------------|---------------------------|
|                                 | <b>2016</b>                     | <b>2015</b> | <b>2014<sup>(1)</sup></b> |
| Interest expense                | \$ 2,011                        | \$ 1,653    | \$ 175                    |
| Non-usage fee                   | \$ 183                          | \$ 104      | \$ 86                     |
| Amortization of financing costs | \$ 378                          | \$ 360      | \$ 121                    |
| Weighted average interest rate  | 3.0%                            | 2.7%        | 2.7%                      |
| Effective interest rate         | 3.8%                            | 3.5%        | 3.4%                      |
| Average debt outstanding        | \$ 66,876                       | \$ 60,477   | \$ 11,227                 |

(1) For the year ended December 31, 2014, amounts reported relate to the period from June 4, 2014 (commencement of the NMFC Credit Facility) to December 31, 2014.

As of December 31, 2016, December 31, 2015 and December 31, 2014, the outstanding balance on the NMFC Credit Facility was \$10,000, \$90,000 and \$50,000, respectively, and NMFC was in compliance with the applicable covenants in the NMFC Credit Facility on such dates.

**Convertible Notes** On June 3, 2014, the Company closed a private offering of \$115,000 aggregate principal amount of unsecured convertible notes (the "Convertible Notes"), pursuant to an indenture, dated June 3, 2014 (the "Indenture"). The Convertible Notes were issued in a private placement only to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"). As of the first anniversary, June 3, 2015, of the Convertible Notes, the restrictions under Rule 144A under the Securities Act were removed, allowing the Convertible Notes to be eligible and freely tradable without restrictions for resale pursuant to Rule 144(b)(1) under the Securities Act. On September 30, 2016, the Company closed a public offering of an additional \$40,250 aggregate principal amount of the Convertible Notes. These additional Convertible Notes constitute a further issuance of, rank equally in right of payment with, and form a single series with the \$115,000 aggregate principal amount of Convertible Notes that the Company issued on June 3, 2014.

The Convertible Notes bear interest at an annual rate of 5.0%, payable semi-annually in arrears on June 15 and December 15 of each year, which commenced on December 15, 2014. The Convertible Notes will mature on June 15, 2019 unless earlier converted or repurchased at the holder's option.

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2016**

(in thousands, except share data)

**Note 7. Borrowings (Continued)**

The following table summarizes certain key terms related to the convertible features of the Company's Convertible Notes as of December 31, 2016.

**December 31, 2016**

|   |              |
|---|--------------|
| Initial conversion premium                              | 12.5%        |
| Initial conversion rate <sup>(1)</sup>                  | 62.7746      |
| Initial conversion price                                | \$15.93      |
| Conversion premium at December 31, 2016                 | 11.7%        |
| Conversion rate at December 31, 2016 <sup>(1)(2)</sup>  | 63.2794      |
| Conversion price at December 31, 2016 <sup>(2)(3)</sup> | \$15.80      |
| Last conversion price calculation date                  | June 3, 2016 |

- (1) Conversion rates denominated in shares of common stock per \$1 principal amount of the Convertible Notes converted.
- (2) Represents conversion rate and conversion price, as applicable, taking into account certain de minimis adjustments that will be made on the conversion date.
- (3) The conversion price in effect at December 31, 2016 was calculated on the last anniversary of the issuance and will be calculated again on the next anniversary, unless the exercise price shall have changed by more than 1.0% before the anniversary.

The conversion rate will be subject to adjustment upon certain events, such as stock splits and combinations, mergers, spin-offs, increases in dividends in excess of \$0.34 per share per quarter and certain changes in control. Certain of these adjustments, including adjustments for increases in dividends, are subject to a conversion price floor of \$14.05 per share. In no event will the total number of shares of common stock issuable upon conversion exceed 71.1893 per \$1 principal amount of the Convertible Notes. The Company has determined that the embedded conversion option in the Convertible Notes is not required to be separately accounted for as a derivative under GAAP.

The Convertible Notes are unsecured obligations and rank senior in right of payment to the Company's existing and future indebtedness that is expressly subordinated in right of payment to the Convertible Notes; equal in right of payment to the Company's existing and future unsecured indebtedness that is not so subordinated; effectively junior in right of payment to any of the Company's secured indebtedness (including existing unsecured indebtedness that the Company later secures) to the extent of the value of the assets securing such indebtedness; and structurally junior to all existing and future indebtedness (including trade payables) incurred by the Company's subsidiaries and financing vehicles. As reflected in Note 12. *Earnings Per Share*, the issuance is considered part of the if-converted method for calculation of diluted earnings per share.

The Company may not redeem the Convertible Notes prior to maturity. No sinking fund is provided for the Convertible Notes. In addition, if certain corporate events occur, holders of the Convertible Notes may require the Company to repurchase for cash all or part of their Convertible Notes at a repurchase price equal to 100.0% of the principal amount of the Convertible Notes to be repurchased, plus accrued and

unpaid interest through, but excluding, the repurchase date.

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2016**

(in thousands, except share data)

**Note 7. Borrowings (Continued)**

The Indenture contains certain covenants, including covenants requiring the Company to provide financial information to the holders of the Convertible Note and the Trustee if the Company ceases to be subject to the reporting requirements of the Exchange Act. These covenants are subject to limitations and exceptions that are described in the Indenture.

The following table summarizes the interest expense and amortization of financing costs incurred on the Convertible Notes for the years ended December 31, 2016, December 31, 2015 and December 31, 2014.

|                                 | <b>Years Ended December 31,</b> |             |                           |
|---------------------------------|---------------------------------|-------------|---------------------------|
|                                 | <b>2016</b>                     | <b>2015</b> | <b>2014<sup>(1)</sup></b> |
| Interest expense                | \$ 6,259                        | \$ 5,750    | \$ 3,322                  |
| Amortization of financing costs | \$ 859                          | \$ 743      | \$ 432                    |
| Amortization of premium         | \$ (28)                         | \$          | \$                        |
| Effective interest rate         | 5.7%                            | 5.6%        | 5.6%                      |
| Average debt outstanding        | \$ 125,227                      | \$ 115,000  | \$ 115,000                |

(1)

For the year ended December 31, 2014, amounts reported relate to the period from June 3, 2014 (issuance of the Convertible Notes) to December 31, 2014.

As of December 31, 2016, December 31, 2015 and December 31, 2014, the outstanding balance on the Convertible Notes was \$155,250, \$115,000 and \$115,000, respectively, and NMFC was in compliance with the terms of the Indenture on such dates.

**Unsecured Notes** On May 6, 2016, the Company issued \$50,000 in aggregate principal amount of five-year unsecured notes that mature on May 15, 2021 (the "Unsecured Notes"), pursuant to a note purchase agreement, dated May 4, 2016, to an institutional investor in a private placement. On September 30, 2016, the Company entered into an amended and restated note purchase agreement (the "NPA") and issued an additional \$40,000 in aggregate principal amount of Unsecured Notes to institutional investors in a private placement. The NPA provides for future issuances of Unsecured Notes in separate series or tranches. The Unsecured Notes are equal in priority with the Company's other unsecured indebtedness, including the Company's Convertible Notes.

The Unsecured Notes bear interest at an annual rate of 5.313%, payable semi-annually on May 15 and November 15 of each year, which commenced on November 15, 2016. This interest rate is subject to increase in the event that: (i) subject to certain exceptions, the Unsecured Notes or the Company cease to have an investment grade rating or (ii) the aggregate amount of the Company's unsecured debt falls below \$150,000. In each such event, the Company has the option to offer to prepay the Unsecured Notes at par, in which case holders of the Unsecured Notes who accept the offer would not receive the increased interest rate. In addition, the Company is obligated to offer to prepay the Unsecured Notes at par if the Investment Adviser, or an affiliate thereof, ceases to be the Company's investment adviser or if certain change in control events occur with respect to the Investment Adviser.



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New Mountain Finance Corporation (Continued)****December 31, 2016****(in thousands, except share data)****Note 7. Borrowings (Continued)**

The NPA contains customary terms and conditions for unsecured notes issued in a private placement, including, without limitation, an option to offer to prepay all or a portion of the Unsecured Notes at par (plus a make-whole amount, if applicable), affirmative and negative covenants such as information reporting, maintenance of the Company's status as a BDC under the 1940 Act and a RIC under the Code, minimum stockholders' equity, minimum asset coverage ratio, and prohibitions on certain fundamental changes at the Company or any subsidiary guarantor, as well as customary events of default with customary cure and notice, including, without limitation, nonpayment, misrepresentation in a material respect, breach of covenant, cross-default under other indebtedness of the Company or certain significant subsidiaries, certain judgments and orders, and certain events of bankruptcy.

The following table summarizes the interest expense and amortization of financing costs incurred on the Unsecured Notes for the years ended December 31, 2016, December 31, 2015 and December 31, 2014.

|                                 | <b>Years Ended December 31,</b> |                           |                           |
|---------------------------------|---------------------------------|---------------------------|---------------------------|
|                                 | <b>2016<sup>(1)</sup></b>       | <b>2015<sup>(2)</sup></b> | <b>2014<sup>(2)</sup></b> |
| Interest expense                | \$ 2,271                        | \$                        | \$                        |
| Amortization of financing costs | \$ 202                          | \$                        | \$                        |
| Effective interest rate         | 5.8%                            | %                         | %                         |
| Average debt outstanding        | \$ 65,500                       | \$                        | \$                        |

(1)

For the year ended December 31, 2016, amounts reported relate to the period from May 6, 2016 (issuance of the Unsecured Notes) to December 31, 2016.

(2)

Not applicable, as the Unsecured Notes were issued on May 6, 2016.

As of December 31, 2016, the outstanding balance on the Unsecured Notes was \$90,000 and the Company was in compliance with the terms of the NPA.

**SBA-guaranteed debentures** On August 1, 2014, SBIC LP received an SBIC license from the SBA.

The SBIC license allows SBIC LP to obtain leverage by issuing SBA-guaranteed debentures, subject to the issuance of a capital commitment by the SBA and other customary procedures. SBA-guaranteed debentures are non-recourse to the Company, interest only debentures with interest payable semi-annually and have a ten year maturity. The principal amount of SBA-guaranteed debentures is not required to be paid prior to maturity but may be prepaid at any time without penalty. The interest rate of SBA-guaranteed debentures is fixed on a semi-annual basis at a market-driven spread over U.S. Treasury Notes with ten year maturities. The SBA, as a creditor, will have a superior claim to the assets of SBIC LP over the Company's stockholders in the event SBIC LP is liquidated or the SBA exercises remedies upon an event of default.

The maximum amount of borrowings available under current SBA regulations for a single licensee is \$150,000 as long as the licensee has at least \$75,000 in regulatory capital, receives a



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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2016**

**(in thousands, except share data)**

**Note 7. Borrowings (Continued)**

capital commitment from the SBA and has been through an examination by the SBA subsequent to licensing.

As of December 31, 2016 and December 31, 2015, SBIC LP had regulatory capital of approximately \$75,000 and \$72,402, respectively, and SBA-guaranteed debentures outstanding of \$121,745 and \$117,745, respectively. The SBA-guaranteed debentures incur upfront fees of 3.425%, which consists of a 1.00% commitment fee and a 2.425% issuance discount, which are amortized over the life of the SBA-guaranteed debentures.

The following table summarizes the Company's SBA-guaranteed debentures as of December 31, 2016.

| <b>Issuance Date</b>                    | <b>Maturity Date</b> | <b>Debenture<br/>Amount</b> | <b>Interest<br/>Rate</b> | <b>SBA Annual<br/>Charge</b> |
|---|----------------------|-----------------------------|--------------------------|------------------------------|
| <b>Fixed SBA-guaranteed debentures:</b> |                      |                             |                          |                              |
| March 25, 2015                          | March 1, 2025        | \$ 37,500                   | 2.517%                   | 0.355%                       |
| September 23, 2015                      | September 1, 2025    | 37,500                      | 2.829%                   | 0.355%                       |
| September 23, 2015                      | September 1, 2025    | 28,795                      | 2.829%                   | 0.742%                       |
| March 23, 2016                          | March 1, 2026        | 13,950                      | 2.507%                   | 0.742%                       |
| September 21, 2016                      | September 1, 2026    | 4,000                       | 2.051%                   | 0.742%                       |
| <b>Total SBA-guaranteed debentures</b>  |                      | <b>\$ 121,745</b>           |                          |                              |

Prior to pooling, the SBA-guaranteed debentures bear interest at an interim floating rate of LIBOR plus 0.30%. Once pooled, which occurs in March and September each year, the SBA-guaranteed debentures bear interest at a fixed rate that is set to the current 10-year treasury rate plus a spread at each pooling date.

The following table summarizes the interest expense and amortization of financing costs incurred on the SBA-guaranteed debentures for the years ended December 31, 2016, December 31, 2015 and December 31, 2014.

**Years Ended December 31,**

|                                 | <b>2016</b> | <b>2015</b> | <b>2014<sup>(1)</sup></b> |
|---------------------------------|-------------|-------------|---------------------------|
| Interest expense                | \$ 3,758    | \$ 1,701    | \$ 34                     |
| Amortization of financing costs | \$ 403      | \$ 240      | \$ 12                     |
| Weighted average interest rate  | 3.1%        | 2.4%        | 0.9%                      |
| Effective interest rate         | 3.5%        | 2.7%        | 1.3%                      |
| Average debt outstanding        | \$ 119,819  | \$ 71,921   | \$ 29,167                 |

(1)

For the year ended December 31, 2014, amounts reported relate to the period from August 1, 2014 (receipt of the SBIC license) to December 31, 2014. The initial SBA-guaranteed debenture borrowing occurred on November 17, 2014.

## Edgar Filing: New Mountain Finance Corp - Form 497

The SBIC program is designed to stimulate the flow of private investor capital into eligible small businesses, as defined by the SBA. Under SBA regulations, SBIC LP is subject to regulatory

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2016**

**(in thousands, except share data)**

**Note 7. Borrowings (Continued)**

requirements, including making investments in SBA-eligible businesses, investing at least 25.0% of its investment capital in eligible smaller businesses, as defined under the 1958 Act, placing certain limitations on the financing terms of investments, regulating the types of financing, prohibiting investments in small businesses with certain characteristics or in certain industries and requiring capitalization thresholds that limit distributions to the Company. SBIC LP is subject to an annual periodic examination by an SBA examiner to determine SBIC LP's compliance with the relevant SBA regulations and an annual financial audit of its financial statements that are prepared on a basis of accounting other than GAAP (such as ASC 820) by an independent auditor. As of December 31, 2016, December 31, 2015 and December 31, 2014, SBIC LP was in compliance with SBA regulatory requirements.

**Leverage risk factors** The Company utilizes and may utilize leverage to the maximum extent permitted by the law for investment and other general business purposes. The Company's lenders will have fixed dollar claims on certain assets that are superior to the claims of the Company's common stockholders, and the Company would expect such lenders to seek recovery against these assets in the event of a default. The use of leverage also magnifies the potential for gain or loss on amounts invested. Leverage may magnify interest rate risk (particularly on the Company's fixed-rate investments), which is the risk that the prices of portfolio investments will fall or rise if market interest rates for those types of securities rise or fall. As a result, leverage may cause greater changes in the Company's net asset value. Similarly, leverage may cause a sharper decline in the Company's income than if the Company had not borrowed. Such a decline could negatively affect the Company's ability to make dividend payments to its stockholders. Leverage is generally considered a speculative investment technique. The Company's ability to service any debt incurred will depend largely on financial performance and will be subject to prevailing economic conditions and competitive pressures.

**Note 8. Regulation**

The Company has elected to be treated, and intends to comply with the requirements to continue to qualify annually, as a RIC under Subchapter M of the Code. In order to continue to qualify and be subject to tax as a RIC, among other things, the Company is required to timely distribute to its stockholders at least 90.0% of investment company taxable income, as defined by the Code, for each year. The Company, among other things, intends to make and will continue to make the requisite distributions to its stockholders, which will generally relieve the Company from U.S. federal, state, and local income taxes (excluding excise taxes which may be imposed under the Code).

Additionally, as a BDC, the Company must not acquire any assets other than "qualifying assets" specified in the 1940 Act unless, at the time the acquisition is made, at least 70.0% of its total assets are qualifying assets (with certain limited exceptions). In addition, the Company must offer to make available to all eligible portfolio companies managerial assistance.

Table of Contents**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)****December 31, 2016****(in thousands, except share data)****Note 9. Commitments and Contingencies**

In the normal course of business, the Company may enter into contracts that contain a variety of representations and warranties and which provide general indemnifications. The Company may also enter into future funding commitments such as revolving credit facilities, bridge financing commitments or delayed draw commitments. As of December 31, 2016, the Company had unfunded commitments on revolving credit facilities of \$27,915, no outstanding bridge financing commitments and other future funding commitments of \$16,368. As of December 31, 2015, the Company had unfunded commitments on revolving credit facilities of \$17,576, no outstanding bridge financing commitments and other future funding commitments of \$8,678. The unfunded commitments on revolving credit facilities and delayed draws are disclosed on the Company's respective Consolidated Schedules of Investments.

The Company also has revolving borrowings available under the Holdings Credit Facility and the NMFC Credit Facility as of December 31, 2016 and December 31, 2015. See Note 7. *Borrowings*, for details.

The Company may from time to time enter into financing commitment letters. As of December 31, 2016 and December 31, 2015, the Company had commitment letters to purchase investments in the aggregate par amount of \$14,818 and \$0, respectively, which could require funding in the future.

As of December 31, 2016 and December 31, 2015, the Company had unfunded commitments related to an equity investment in SLP II of \$7,940 and \$0, respectively, which may be funded at the Company's discretion.

**Note 10. Distributions**

Differences between taxable income and the results of operations for financial reporting purposes may be permanent or temporary in nature. Permanent differences are reclassified among capital accounts in the financial statements to reflect their tax character. Differences in classification may also result from the treatment of short-term gains as ordinary income for tax purposes. During the years ended December 31, 2016, December 31, 2015 and December 31, 2014, the Company's reclassifications of amounts for book purposes arising from permanent book/tax differences related to return of capital distributions were as follows:

|   | <b>Years Ended December 31,</b> |             |             |
|---|---------------------------------|-------------|-------------|
|   | <b>2016</b>                     | <b>2015</b> | <b>2014</b> |
| Undistributed net investment income           | \$ (1,435)                      | \$ 141      | \$ (6,171)  |
| Distributions in excess of net realized gains | (21,572)                        |             | 6,397       |
| Additional paid-in-capital                    | 23,007                          | (141)       | (226)       |

For U.S. federal income tax purposes, distributions paid to stockholders of the Company are reported as ordinary income, return of capital, long term capital gains or a combination thereof. The

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2016**

**(in thousands, except share data)**

**Note 10. Distributions (Continued)**

tax character of distributions paid by the Company for the years ended December 31, 2016, December 31, 2015 and December 31, 2014 were estimated to be as follows:

|                                 | <b>Years Ended December 31,</b> |                  |                  |
|---------------------------------|---------------------------------|------------------|------------------|
|                                 | <b>2016</b>                     | <b>2015</b>      | <b>2014</b>      |
| Ordinary income (non-qualified) | \$ 79,415                       | \$ 80,967        | \$ 73,968        |
| Ordinary income (qualified)     |                                 |                  | 664              |
| Capital gains                   |                                 |                  | 2,754            |
| Return of capital               | 9,349                           | 35               | 226              |
| <b>Total</b>                    | <b>\$ 88,764</b>                | <b>\$ 81,002</b> | <b>\$ 77,612</b> |

As of December 31, 2016, December 31, 2015 and December 31, 2014, the costs of investments for the Company for tax purposes were \$1,602,607, \$1,587,189 and \$1,474,075, respectively.

|  | <b>December 31, 2016<sup>(1)</sup></b> | <b>December 31, 2015<sup>(1)</sup></b> |
|--|--|--|
| Tax cost                                     | \$ 1,602,607                           | \$ 1,587,189                           |
| Gross unrealized appreciation on investments | 42,335                                 | 40,294                                 |
| Gross unrealized depreciation on investments | (56,907)                               | (85,555)                               |
| <b>Total investments at fair value</b>       | <b>\$ 1,588,035</b>                    | <b>\$ 1,541,928</b>                    |

(1)

Includes securities purchased under collateralized agreement to resell.

At December 31, 2016, December 31, 2015 and December 31, 2014, the components of distributable earnings on a tax basis differ from the amounts reflected per the Company's Consolidated Statements of Assets and Liabilities by temporary book/tax differences primarily arising from differences between the tax and book basis of the Company's investment in securities held directly as well as through the Predecessor Operating Company and undistributed income.

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2016**

(in thousands, except share data)

**Note 10. Distributions (Continued)**

As of December 31, 2016, December 31, 2015 and December 31, 2014, the Company's components of accumulated earnings (deficit) on a tax basis were as follows:

|  | <b>Years Ended December 31,</b> |                    |                         |
|--|---------------------------------|--------------------|-------------------------|
|  | <b>2016</b>                     | <b>2015</b>        | <b>2014</b>             |
| Accumulated capital gains (capital loss carryforwards) | \$ (39,517)                     | \$ (19,081)        | \$                      |
| Other temporary differences                            | 2,072                           | 2,991              | 4,775                   |
| Undistributed ordinary income                          |                                 |                    |                         |
| Unrealized (appreciation) depreciation                 | (26,093)                        | (57,424)           | (30,383) <sup>(1)</sup> |
| <b>Total</b>   | <b>\$ (63,538)</b>              | <b>\$ (73,514)</b> | <b>\$ (25,608)</b>      |

(1)

Prior to the Restructuring, the Company's only investment was its investment in the Predecessor Operating Company. After the Restructuring, the Company directly holds the Predecessor Operating Company's investments. As a result, included in unrealized (appreciation) depreciation is \$(10,069) of timing differences attributable to deferred offering costs, built-in gains and other book/tax differences impacting the tax basis of the Predecessor Operating Company's investments. These differences were carried over to the Company, as the new operating company, from the Predecessor Operating Company.

The Company is subject to a 4.0% nondeductible federal excise tax on certain undistributed income unless the Company distributes, in a timely manner as required by the Code, an amount at least equal to the sum of (1) 98.0% of its net ordinary income earned for the calendar year and (2) 98.2% of its capital gain net income for the one-year period ending October 31 in the calendar year. For the year ended December 31, 2016, the Company does not expect to incur any excise taxes. For the years ended December 31, 2015 and December 31, 2014, the Company did not incur any excise taxes.

The following information is hereby provided with respect to distributions declared during the calendar years ended December 31, 2016, December 31, 2015 and December 31, 2014:

|   | <b>Years Ended December 31,</b> |             |             |
|---|---------------------------------|-------------|-------------|
| <b>(unaudited)</b>                                | <b>2016</b>                     | <b>2015</b> | <b>2014</b> |
| Distributions per share                           | \$ 1.36                         | \$ 1.36     | \$ 1.48     |
| Ordinary dividends                                | 89.46%                          | 99.96%      | 96.16%      |
| Long-term capital gains                           | %                               | %           | 3.55%       |
| Qualified dividend income                         | %                               | %           | 0.89%       |
| Dividends received deduction                      | %                               | %           | %           |
| Interest-related dividends <sup>(1)</sup>         | 89.78%                          | 90.71%      | 89.11%      |
| Qualified short-term capital gains <sup>(1)</sup> | %                               | %           | 0.47%       |
| Return of capital                                 | 10.54%                          | 0.04%       | 0.29%       |



(1)

Represents the portion of the taxable ordinary dividends eligible for exemption from U.S. withholding tax for nonresident aliens and foreign corporations.

Dividends and distributions that were reinvested through the Company's dividend reinvestment plan are treated, for tax purposes, as if they had been paid in cash. Therefore, stockholders who participated in the dividend reinvestment plan should also refer to the information as provided in the table above.

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2016**

(in thousands, except share data)

**Note 11. Net Assets**

The table below illustrates the effect of certain transactions on the net asset accounts of the Company:

|  | <b>Common Stock<br/>Shares</b> | <b>Common Stock<br/>Par<br/>Amount</b> | <b>Treasury<br/>Stock<br/>at Cost</b> | <b>Paid in<br/>Capital in<br/>Excess of<br/>Par</b> | <b>Accumulated<br/>Undistributed<br/>Net<br/>Investment<br/>Income</b> | <b>Accumulated<br/>Undistributed<br/>Net<br/>Realized<br/>Gains<br/>(Losses)</b> | <b>Net<br/>Unrealized<br/>Appreciation<br/>(Depreciation)</b> | <b>Total<br/>Net<br/>Assets</b> |
|--|--------------------------------|--|---------------------------------------|---|--|--|---|---------------------------------|
| Balance at<br>December 31,<br>2013   | 45,224,755                     | \$ 452                                 |                                       | \$ 633,383  |  | \$ 5,056   | \$ 11,216   | \$ 650,107                      |
| Issuances of<br>common stock   | 12,773,135                     | 128                                    |                                       | 184,698   |  |  |   | 184,826                         |
| Deferred<br>offering costs<br>allocated from<br>New Mountain<br>Finance<br>Holdings,<br>L.L.C. |                                |  |                                       | (250)   |  |  |   | (250)                           |
| Deferred<br>offering costs   |                                |  |                                       | (476)   |  |  |   | (476)                           |
| Distributions<br>declared  |                                |  |                                       |   | (71,365)   | (6,247)  |   | (77,612)                        |
| Net increase in<br>net assets<br>resulting from<br>operations                                  |                                |  |                                       |   | 80,066   | 8,925  | (43,416)  | 45,575                          |
| Tax<br>reclassifications<br>related to return<br>of capital<br>distributions<br>(See Note 10)  |                                |  |                                       | (226)   | (6,171)  | 6,397  |   |                                 |
| Balance at<br>December 31,<br>2014   | 57,997,890                     | \$ 580                                 |                                       | \$ 817,129  | \$ 2,530   | \$ 14,131  | (\$ 32,200)   | \$ 802,170                      |
|  | 6,007,497                      | 60                                     |                                       | 83,010  |  |  |   | 83,070                          |

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|  |            |        |         |              |          |          |          |          |            |
|--|------------|--------|---------|--------------|----------|----------|----------|----------|------------|
| Issuances of common stock  |            |        |         |              |          |          |          |          |            |
| Deferred offering costs  |            |        | (285)   |              |          |          | (285)    |          |            |
| Distributions declared   |            |        |         | (81,002)     |          |          | (81,002) |          |            |
| Net increase (decrease) in net assets resulting from operations                |            |        |         | 82,495       | (12,789) | (36,751) | 32,955   |          |            |
| Tax reclassifications related to return of capital distributions (See Note 10) |            |        | (141)   | 141          |          |          |          |          |            |
| Balance at December 31, 2015   | 64,005,387 | \$ 640 | \$      | 899,713      | \$       | 4,164    | \$ 1,342 | (68,951) | \$ 836,908 |
| Issuances of common stock  | 5,750,000  | 58     |         | 79,005       |          |          |          |          | 79,063     |
| Repurchases of common stock  | (248,499)  |        | (2,948) |              |          |          |          |          | (2,948)    |
| Reissuance of common stock   | 210,926    |        | 2,488   | 465          |          |          |          |          | 2,953      |
| Deferred offering costs  |            |        |         | (328)        |          |          |          |          | (328)      |
| Distributions declared   |            |        |         |              | (88,764) |          |          |          | (88,764)   |
| Net increase (decrease) in net assets resulting from operations                |            |        |         | 88,108       | (16,717) | 40,287   |          |          | 111,678    |
| Tax reclassifications related to return of capital distributions (See Note 10) |            |        | 23,007  | (1,435)      | (21,572) |          |          |          |            |
| Balance at December 31, 2016   | 69,717,814 | \$ 698 | (460)   | \$ 1,001,862 | \$       | 2,073    | (36,947) | (28,664) | \$ 938,562 |

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2016**

**(in thousands, except share data)**

**Note 12. Earnings Per Share**

The following information sets forth the computation of basic and diluted net increase in the Company's net assets per share resulting from operations for the years ended December 31, 2016, December 31, 2015 and December 31, 2014:

|  | <b>Years Ended December 31,</b> |             |             |
|--|---------------------------------|-------------|-------------|
|  | <b>2016</b>                     | <b>2015</b> | <b>2014</b> |
| <b>Earnings per share basic</b>                                      |                                 |             |             |
| Numerator for basic earnings per share:                              | \$ 111,678                      | \$ 32,955   | \$ 45,575   |
| Denominator for basic weighted average share:                        | 64,918,191                      | 59,715,290  | 51,846,164  |
| Basic earnings per share:  | \$ 1.72                         | \$ 0.55     | \$ 0.88     |
| <b>Earnings per share diluted<sup>(1)</sup></b>                      |                                 |             |             |
| Numerator for increase in net assets per share                       | \$ 111,678                      | \$ 32,955   | \$ 45,575   |
| Adjustment for interest on Convertible Notes and incentive fees, net | 5,007                           | 4,600       | 2,658       |
| Numerator for diluted earnings per share:                            | \$ 116,685                      | \$ 37,555   | \$ 48,233   |
| Denominator for basic weighted average share                         | 64,918,191                      | 59,715,290  | 51,846,164  |
| Adjustment for dilutive effect of Convertible Notes                  | 7,945,196                       | 7,252,799   | 4,311,671   |
| Denominator for diluted weighted average share                       | 72,863,387                      | 66,968,089  | 56,157,835  |
| Diluted earnings per share   | \$ 1.60                         | \$ 0.55     | \$ 0.86     |

(1)

In applying the if-converted method, conversion is not assumed for purposes of computing diluted earnings per share if the effect would be anti-dilutive. For the year ended December 31, 2015, there was anti-dilution. For the years ended December 31, 2016 and December 31, 2014, there was no anti-dilution.

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2016**

**(in thousands, except share data)**

**Note 13. Financial Highlights**

The following information sets forth the financial highlights for the Company for the years ended December 31, 2016, December 31, 2015, December 31, 2014, December 31, 2013 and December 31, 2012.

**Years Ended December 31,**

|   | <b>2016</b> |    | <b>2015</b> |    | <b>2014</b> |    | <b>2013</b> |    | <b>2012</b> |
|---|-------------|----|-------------|----|-------------|----|-------------|----|-------------|
| <b>Per share data(1):</b>   |             |    |             |    |             |    |             |    |             |
| Net asset value at the beginning of the period  | \$ 13.08    | \$ | \$ 13.83    | \$ | \$ 14.38    | \$ | \$ 14.06    | \$ | \$ 13.60    |
| Net investment income   | 1.36        |    | 1.38        |    | 1.10        |    |             |    |             |
| Net realized and unrealized gains (losses)(2)   | 0.38        |    | (0.77)      |    | (0.80)      |    |             |    |             |
| <b>Net increase (decrease) in net assets resulting from operations allocated from NMF Holdings:</b> |             |    |             |    |             |    |             |    |             |
| Net investment income(3)  |             |    |             |    | 0.44        |    | 1.45        |    | 1.33        |
| Net realized and unrealized gains (losses)(2)(3)  |             |    |             |    | 0.19        |    | 0.35        |    | 0.84        |
| Total net increase  | 1.74        |    | 0.61        |    | 0.93        |    | 1.80        |    | 2.17        |
| Distributions declared to stockholders from net investment income                                   | (1.36)      |    | (1.36)      |    | (1.36)      |    | (1.45)      |    | (1.28)      |
| Distributions declared to stockholders from net realized gains                                      |             |    |             |    | (0.12)      |    | (0.03)      |    | (0.43)      |
| Net asset value at the end of the period  | \$ 13.46    | \$ | \$ 13.08    | \$ | \$ 13.83    | \$ | \$ 14.38    | \$ | \$ 14.06    |
| <b>Per share market value at the end of the period</b>  |             |    |             |    |             |    |             |    |             |
|   | \$ 14.10    | \$ | \$ 13.02    | \$ | \$ 14.94    | \$ | \$ 15.04    | \$ | \$ 14.90    |
| <b>Total return based on market value(4)</b>  |             |    |             |    |             |    |             |    |             |
|   | 19.68%      |    | (4.00)%     |    | 9.66%       |    | 11.62%      |    | 24.84%      |
| <b>Total return based on net asset</b>  |             |    |             |    |             |    |             |    |             |
|   | 13.98%      |    | 4.32%       |    | 6.56%       |    | 13.27%      |    | 16.61%      |

value(5)

|  |            |            |            |            |            |
|--|------------|------------|------------|------------|------------|
| Shares outstanding at end of period                | 69,717,814 | 64,005,387 | 57,997,890 | 45,224,755 | 24,326,251 |
| Average weighted shares outstanding for the period | 64,918,191 | 59,715,290 | 51,846,164 | 35,092,722 | 14,860,838 |
| Average net assets for the period                  | \$ 863,193 | \$ 832,805 | \$ 749,732 | \$ 502,822 | \$ 196,312 |
| Ratio to average net assets(6):                    |            |            |            |            |            |
| Net investment income                              | 10.21%     | 9.91%      | 10.68%     | 10.10%     | 9.53%      |
| Total expenses, before waivers/reimbursements      | 9.91%      | 9.28%      | 7.65%      | 8.53%      | 9.61%      |
| Total expenses, net of waivers/reimbursements      | 9.27%      | 8.57%      | 7.41%      | 8.13%      | 8.55%      |

(1) Per share data is based on weighted average shares outstanding for the respective period (except for distributions declared to stockholders which is based on actual rate per share).

(2) Includes the accretive effect of common stock issuances per share, which for the years ended December 31, 2016, December 31, 2015, December 31, 2014, December 31, 2013 and December 31, 2012 were \$0.02, \$0.06, \$0.05, \$0.04 and \$0.03, respectively.

(3) For the years ended December 31, 2014, December 31, 2013 and December 31, 2012, per share data is based on the summation of the per share results of operations items over the outstanding shares for the period in which the respective line items were realized or earned.

(4) Total return is calculated assuming a purchase of common stock at the opening of the first day of the period and a sale on the closing of the last business day of the respective period ends. Dividends and distributions, if any, are assumed for purposes of this calculation, to be reinvested at prices obtained under the Company's dividend reinvestment plan.

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2016**

(in thousands, except share data)

**Note 13. Financial Highlights (Continued)**

- (5) Total return is calculated assuming a purchase at net asset value on the opening of the first day of the period and a sale at net asset value on the last day of the period. Dividends and distributions, if any, are assumed for purposes of this calculation, to be reinvested at the net asset value on the last day of the respective quarter.
- (6) Ratio to average net assets for the years ended December 31, 2014, December 31, 2013 and December 31, 2012 is based on the summation of the results of operations items over the net assets for the period in which the respective line items were realized or earned. For the year ended December 31, 2014, the Company is reflecting its net investment income and expenses as well as its proportionate share of the Predecessor Operating Company's net investment income and expenses. For the years ended December 31, 2013 and December 31, 2012, the Company is reflecting its proportionate share of the Predecessor Operating Company's net investment income and expenses.

The following information sets forth the financial highlights for the Company for the years ended December 31, 2016, December 31, 2015 and December 31, 2014 and NMF Holdings for the years ended December 31, 2013 and December 31, 2012.

|                                     |  | NMFC<br>Years Ended<br>December 31, |            |            | NMF Holdings<br>Years Ended<br>December 31, |            |  |
|-------------------------------------|--|-------------------------------------|------------|------------|---|------------|--|
|                                     |  | 2016                                | 2015       | 2014       | 2013  | 2012       |  |
| Average debt outstanding            | Holdings Credit Facility <sup>(1)</sup>  | \$ 341,055                          | \$ 394,945 | \$ 243,693 | \$ 184,124                                  | \$ 133,600 |  |
| Average debt outstanding            | SLF Credit Facility <sup>(2)</sup>       |                                     |            | 208,377    | 214,317                                     | 181,395    |  |
| Average debt outstanding            | Convertible Notes <sup>(3)</sup>         | 125,227                             | 115,000    | 115,000    |   |            |  |
| Average debt outstanding            | SBA-guaranteed debentures <sup>(4)</sup> | 119,819                             | 71,921     | 29,167     |   |            |  |
| Average debt outstanding            | Unsecured Note <sup>(5)</sup>            | 65,500                              |            |            |   |            |  |
| Average debt outstanding            | NMFC Credit Facility <sup>(6)</sup>      | 66,876                              | 60,477     | 11,227     |   |            |  |
| Asset coverage ratio <sup>(7)</sup> |  | 259.34%                             | 234.05%    | 226.70%    | 257.73%                                     | 235.31%    |  |
| Portfolio turnover <sup>(8)</sup>   |  | 36.07%                              | 33.93%     | 29.51%     | 40.52%                                      | 52.02%     |  |

- (1) For the year ended December 31, 2014, average debt outstanding represents the Company's average debt outstanding as well as the Company's proportionate share of the Predecessor Operating Company's average debt outstanding. The average debt outstanding for the year ended December 31, 2014 at the Holdings Credit Facility was \$244.598.
- (2)

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For the year ended December 31, 2014, average debt outstanding represents the Company's average debt outstanding as well as the Company's proportionate share of the Predecessor Operating Company's average debt outstanding for the period January 1, 2014 to December 17, 2014 (date of SLF Credit Facility merger with and into the Holdings Credit Facility). The average debt outstanding for the period January 1, 2014 to December 17, 2014 at the SLF Credit Facility was \$209.333.

(3)

For the year ended December 31, 2014, average debt outstanding represents the period from June 3, 2014 (issuance of the Convertible Notes) to December 31, 2014.

(4)

For the year ended December 31, 2014, average debt outstanding represents the period from November 17, 2014 (date of initial SBA-guaranteed debenture borrowing) to December 31, 2014.

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2016**

(in thousands, except share data)

**Note 13. Financial Highlights (Continued)**

- (5) For the year ended December 31, 2016, average debt outstanding represents the period from May 6, 2016 (issuance of the Unsecured Notes) to December 31, 2016.
- (6) For the year ended December 31, 2014, average debt outstanding represents the period from June 4, 2014 (commencement of the NMFC Credit Facility) to December 31, 2014.
- (7) On November 5, 2014, the Company received exemptive relief from the SEC allowing the Company to modify the asset coverage requirement to exclude the SBA-guaranteed debentures from this calculation.
- (8) For the year ended December 31, 2014, portfolio turnover represents the investment activity of the Predecessor Operating Company and the Company.

**Note 14. Selected Quarterly Financial Data (unaudited)**

The below selected quarterly financial data is for the Company.

(in thousands except for per share data)

| Quarter Ended      | Total Investment Income |           | Net Investment Income |           | Total Net Realized Gains (Losses) and Net Changes in Unrealized Appreciation (Depreciation) of Investments <sup>(1)</sup> |           | Net Increase (Decrease) in Net Assets Resulting from Operations |           |
|--------------------|-------------------------|-----------|-----------------------|-----------|---|-----------|---|-----------|
|                    | Total                   | Per Share | Total                 | Per Share | Total   | Per Share | Total   | Per Share |
| December 31, 2016  | \$ 43,784               | \$ 0.64   | \$ 22,980             | \$ 0.34   | \$ 10,875   | \$ 0.16   | \$ 33,855   | \$ 0.50   |
| September 30, 2016 | 41,834                  | 0.66      | 21,729                | 0.34      | 3,350   | 0.05      | 25,079  | 0.39      |
| June 30, 2016      | 41,490                  | 0.65      | 21,832                | 0.34      | 22,861  | 0.36      | 44,693  | 0.70      |
| March 31, 2016     | 40,976                  | 0.64      | 21,567                | 0.34      | (13,516)  | (0.21)    | 8,051   | 0.13      |
| December 31, 2015  | \$ 41,967               | \$ 0.66   | \$ 22,521             | \$ 0.35   | \$ (42,548)   | \$ (0.66) | \$ (20,027)   | \$ (0.31) |
| September 30, 2015 | 37,447                  | 0.64      | 20,659                | 0.35      | (10,855)  | (0.18)    | 9,804   | 0.17      |
| June 30, 2015      | 37,905                  | 0.65      | 20,253                | 0.35      | 11  |           | 20,264  | 0.35      |
| March 31, 2015     | 36,536                  | 0.63      | 19,062                | 0.33      | 3,852   | 0.07      | 22,914  | 0.40      |
| December 31, 2014  | \$ 36,748               | \$ 0.65   | \$ 25,919             | \$ 0.46   | \$ (34,865)   | \$ (0.62) | \$ (8,946)  | \$ (0.16) |
| September 30, 2014 | 34,706                  | 0.67      | 20,800                | 0.40      | (13,389)  | (0.26)    | 7,411   | 0.14      |

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|                |        |      |        |      |       |      |        |      |
|----------------|--------|------|--------|------|-------|------|--------|------|
| June 30, 2014  | 33,708 | 0.65 | 17,289 | 0.34 | 6,373 | 0.12 | 23,662 | 0.46 |
| March 31, 2014 | 30,439 | 0.65 | 16,058 | 0.34 | 7,390 | 0.16 | 23,448 | 0.50 |

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(1)

Includes securities purchased under collateralized agreements to resell, benefit (provision) for taxes and the accretive effect of common stock issuances per share, if applicable.

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2016**

**(in thousands, except share data)**

**Note 15. Recent Accounting Standards Updates**

In August 2014, the FASB issued Accounting Standards Update No. 2014-15, *Presentation of Financial Statements - Going Concern Subtopic 205-40 Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* ("ASU 2014-15"). ASU 2014-15 will explicitly require management to assess an entity's ability to continue as a going concern, and to provide related footnote disclosure in certain circumstances. The new standard will be effective for all entities in the first annual period ending after December 15, 2016. Earlier adoption is permitted. The Company adopted ASU 2014-15 and the adoption did not have an impact on the Company's consolidated financial statements and disclosures as of December 31, 2016.

In February 2015, the FASB issued Accounting Standards Update No. 2015-02, *Consolidation Topic 810 Amendments to the Consolidation Analysis* ("ASU 2015-02"), which modifies the consolidation analysis in determining if limited partnerships or similar type entities fall under the variable interest model or voting interest model, particularly those that have fee arrangements and related party relationships. ASU 2015-02 was effective for all public entities for interim and annual reporting periods beginning after December 15, 2015. On January 1, 2016, the Company adopted ASU 2015-02. The adoption did not have an impact on the Company's consolidated financial statements and disclosures.

In April 2015, the FASB issued Accounting Standards Update No. 2015-03, *Interest Imputation of Interest Subtopic 835-30 Simplifying the Presentation of Debt Issuance Costs* ("ASU 2015-03"), which changes the presentation of debt issuance costs in financial statements. Under ASU 2015-03, an entity presents such costs on the statement of assets and liabilities as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs is reported as interest expense. The new standard was effective for all public entities for interim and annual reporting periods beginning after December 15, 2015. On January 1, 2016, the Company adopted ASU 2015-03. Upon adoption, the Company revised its presentation of deferred financing costs from an asset to a liability, which is a direct deduction to its debt on the Consolidated Statements of Assets and Liabilities. In addition, the Company retrospectively revised its presentation of \$13,992 of deferred financing costs that were previously presented as an asset as of December 31, 2015, which resulted in a decrease to total assets and total liabilities as of December 31, 2015.

In January 2016, the FASB issued Accounting Standards Update No. 2016-01, *Financial Instruments - Overall Subtopic 825-10 Recognition and Measurement of Financial Assets and Financial Liabilities* ("ASU 2016-01"). ASU 2016-01 amends certain aspects of recognition, measurement, presentation and disclosure of financial assets and liabilities. ASU 2016-01 is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The new guidance must be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption of ASU 2016-01. The Company is in the process of evaluating the impact that this guidance will have on the Company's consolidated financial statements and disclosures.

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**Notes to the Consolidated Financial Statements of  
New Mountain Finance Corporation (Continued)**

**December 31, 2016**

**(in thousands, except share data)**

**Note 16. Subsequent Events**

On January 12, 2017, the SBA issued a "green light" letter inviting the Company to continue its application process to obtain a second license to form and operate a second SBIC subsidiary. If approved, the additional SBIC license would provide the Company with an incremental source of attractive long-term capital. Receipt of a green light letter from the SBA does not assure an applicant that the SBA will ultimately issue an SBIC license and the Company has received no assurance or indication from the SBA that it will receive an additional SBIC license, or of the timeframe in which it would receive an additional license, should one ultimately be granted.

On February 23, 2017, the Company's board of directors declared a first quarter 2017 distribution of \$0.34 per share payable on March 31, 2017 to holders of record as of March 17, 2017.

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**PROSPECTUS**

\$250,000,000

**New Mountain Finance Corporation**

Common Stock  
Preferred Stock  
Subscription Rights  
Warrants  
Debt Securities

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New Mountain Finance Corporation ("NMFC", the "Company", "we", "us" and "our") is a Delaware corporation that was originally incorporated on June 29, 2010. We are a close-end, non-diversified management investment company that has elected to be regulated as a business development company under the Investment Company Act of 1940, as amended. Our investment objective is to generate current income and capital appreciation through the sourcing and origination of debt securities at all levels of the capital structure, including first and second lien debt, notes, bonds and mezzanine securities. In some cases, our investments may also include equity interests. Our primary focus is in the debt of defensive growth companies, which are defined as generally exhibiting the following characteristics: (i) sustainable secular growth drivers, (ii) high barriers to competitive entry, (iii) high free cash flow after capital expenditure and working capital needs, (iv) high returns on assets and (v) niche market dominance.

The investments that we invest in are almost entirely rated below investment grade or may be unrated, which are often referred to as "leveraged loans", "high yield" or "junk" debt investments, and may be considered "high risk" or speculative compared to debt investments that are rated investment grade. Such issuers are considered more likely than investment grade issuers to default on their payments of interest and principal and such risk of default could reduce our net asset value and income distributions. Our investments are also primarily floating rate debt investments that contain interest reset provisions that may make it more difficult for borrowers to make debt repayments to us if interest rates rise. In addition, some of our debt investments will not fully amortize during their lifetime, which could result in a loss or a substantial amount of unpaid principal and interest due upon maturity. Our debt investments may also lose significant market value before a default occurs. Furthermore, an active trading market may not exist for these securities. This illiquidity may make it more difficult to value our investments.

We may offer, from time to time, in one or more offerings or series, up to \$250,000,000 of common stock, preferred stock, subscription rights to purchase shares of common stock, debt securities or warrants, which we refer to, collectively, as the "securities". The preferred stock, subscription rights, debt securities and warrants offered hereby may be convertible or exchangeable into shares of common stock. The securities may be offered at prices and on terms to be described in one or more supplements to this prospectus.

In the event we offer common stock, the offering price per share of our common stock less any underwriting discounts or commissions will generally not be less than the net asset value per share of our common stock at the time we make the offering. However, we may issue shares of our common stock pursuant to this prospectus at a price per share that is less than its net asset value per share (i) in connection with a rights offering to our existing stockholders, (ii) with the prior approval of the majority of our common stockholders or (iii) under such other circumstances as the United States Securities and Exchange Commission may permit.

The securities may be offered directly to one or more purchasers, or through agents designated from time to time by us, or to or through underwriters or dealers. Each prospectus supplement relating to an offering will identify any agents or underwriters involved in the sale of the securities, and will disclose any applicable purchase price, fee, discount or commissions arrangement between us and our agents or underwriters or among our underwriters or the basis upon which such amount may be calculated. See "Plan of Distribution". We may not sell any of the securities through agents, underwriters or dealers without delivery of this prospectus and a prospectus supplement describing the method and terms of the offering of such securities.

Our common stock is traded on the New York Stock Exchange under the symbol "NMFC". On October 4, 2016, the last reported sales price on the New York Stock Exchange for our common stock was \$13.79 per share.

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*An investment in our common stock is very risky and highly speculative. Shares of closed-end investment companies, including business development companies, frequently trade at a discount to their net asset value. In addition, the companies in which we invest are subject to special risks. See "Risk Factors" beginning on page 30 to read about factors you should consider, including the risk of leverage, before investing in our common stock.*

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**Neither the United States Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

**This prospectus may not be used to consummate sales of our securities unless accompanied by a prospectus supplement.**

Please read this prospectus and any accompanying prospectus supplements before investing and keep each for future reference. This prospectus and any accompanying prospectus supplements contain important information about us that a prospective investor ought to know before investing in our securities. We file annual, quarterly and current reports, proxy statements and other information with the United States Securities and Exchange Commission (<http://www.sec.gov>), which is available free of charge by contacting us by mail at 787 Seventh Avenue, 48th Floor, New York, New York 10019 or on our website at <http://www.newmountainfinance.com>.

October 7, 2016

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You should rely only on the information contained in this prospectus and any accompanying prospectus supplement. We have not authorized any dealer, salesman or other person to give any information or to make any representation other than those contained in this prospectus or any prospectus supplement to this prospectus. You must not rely upon any information or representation not contained in this prospectus or any such supplements as if we had authorized it. This prospectus and any such supplements do not constitute an offer to sell or a solicitation of any offer to buy any security other than the registered securities to which they relate, nor do they constitute an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction. The information contained in this prospectus and any such supplements is accurate as of the dates on their covers. Our business, financial condition, results of operations and prospects may have changed since then.

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**ABOUT THIS PROSPECTUS**

This prospectus is part of a registration statement that we have filed with the United States Securities and Exchange Commission ("SEC"), using the "shelf" registration process. Under the shelf registration process, which constitutes a delayed offering in reliance on Rule 415 under the Securities Act of 1933, as amended (the "Securities Act"), we may offer, from time to time, in one or more offerings, up to \$250,000,000 of common stock, preferred stock, subscription rights to purchase shares of common stock, debt securities or warrants, on terms to be determined at the time of the offering. The securities may be offered at prices and on terms described in one or more supplements to this prospectus. This prospectus provides you with a general description of our offerings of securities that we may conduct pursuant to this prospectus. Each time we use this prospectus to offer securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. A prospectus supplement may also add, update or change information contained in this prospectus.

Please carefully read this prospectus and any such supplements together with any exhibits and the additional information described under "Available Information" and in the "Summary" and "Risk Factors" sections before you make an investment decision.



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**PROSPECTUS SUMMARY**

*The following summary contains basic information about offerings pursuant to this prospectus. It may not contain all the information that is important to you. For a more complete understanding of offerings pursuant to this prospectus, we encourage you to read this entire prospectus and the documents to which we have referred in this prospectus, together with any accompanying prospectus supplements, including the risks set forth under the caption "Risk Factors" in this prospectus and any accompanying prospectus supplement and the information set forth under the caption "Available Information" in this prospectus.*

In this prospectus, unless the context otherwise requires, references to:

*"NMFC", the "Company", "we", "us" and "our" refers to New Mountain Finance Corporation, a Delaware corporation, which was incorporated on June 29, 2010, including, where appropriate, its wholly-owned direct and indirect subsidiaries;*

*"NMF Holdings" and "Predecessor Operating Company" refers to New Mountain Finance Holdings, L.L.C., a Delaware limited liability company. References to NMF Holdings include its wholly-owned subsidiary, NMF SLF, unless the context otherwise requires. References to NMF Holdings exclude NMF SLF when referencing NMF Holdings' common membership units, board of directors, and credit facility or leverage;*

*"NMF SLF" refers to New Mountain Finance SPV Funding, L.L.C., a Delaware limited liability company;*

*"SBIC GP" refers to New Mountain Finance SBIC G.P. L.L.C., a Delaware limited liability company;*

*"SBIC LP" refers to New Mountain Finance SBIC L.P., a Delaware limited partnership;*

*"Guardian AIV" refers to New Mountain Guardian AIV, L.P.;*

*"AIV Holdings" refers to New Mountain Finance AIV Holdings Corporation, a Delaware corporation which was incorporated on March 11, 2011, of which Guardian AIV was the sole stockholder;*

*"Investment Adviser" refers to New Mountain Finance Advisers BDC, L.L.C., our investment adviser;*

*"Administrator" refers to New Mountain Finance Administration, L.L.C., our administrator;*

*"New Mountain Capital" refers to New Mountain Capital Group, L.L.C. and its affiliates;*

*"Predecessor Entities" refers to New Mountain Guardian (Leveraged), L.L.C. and New Mountain Guardian Partners, L.P., together with their respective direct and indirect wholly-owned subsidiaries prior to our initial public offering;*

*"NMFC Credit Facility" refers to our Senior Secured Revolving Credit Agreement with Goldman Sachs Bank USA, Morgan Stanley Bank, N.A. and Stifel Bank & Trust, dated June 4, 2014, as amended (together with the related guarantee and security agreement);*

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*"Holdings Credit Facility" refers to NMF Holdings' Second Amended and Restated Loan and Security Agreement with Wells Fargo Bank, National Association, dated December 18, 2014;*

*"Predecessor Holdings Credit Facility" refers to NMF Holdings' Amended and Restated Loan and Security Agreement with Wells Fargo Bank, National Association, dated May 19, 2011, as amended;*

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*"SLF Credit Facility" refers to NMF SLF's Loan and Security Agreement with Wells Fargo Bank, National Association, dated October 27, 2010, as amended;*

*"Convertible Notes" refers to our 5.00% convertible notes due 2019 issued on June 3, 2014 and September 30, 2016 under an indenture dated June 3, 2014 (the "Indenture"), between us and U.S. Bank National Association, as trustee; and*

*"Unsecured Notes" refers to our unsecured notes issued on May 6, 2016 under a note purchase agreement, dated May 4, 2016, to an institutional investor in a private placement together with our unsecured notes issued on September 30, 2016 under an amended and restated note purchase agreement, dated September 30, 2016, to institutional investors in a private placement.*

*For the periods prior to and as of December 31, 2013, all financial information provided in this prospectus reflects our organizational structure prior to the restructuring on May 8, 2014 described under "Description of Restructuring", where NMF Holdings functioned as the operating company.*

## **Overview**

### ***New Mountain Finance Corporation***

We are a Delaware corporation that was originally incorporated on June 29, 2010. We are a closed-end, non-diversified management investment company that has elected to be regulated as a business development company ("BDC") under the Investment Company Act of 1940, as amended (the "1940 Act"). As such, we are obligated to comply with certain regulatory requirements. We have elected to be treated, and intend to comply with the requirements to continue to qualify annually, as a regulated investment company ("RIC") under Subchapter M of the Internal Revenue Code of 1986, as amended, (the "Code"). We are also registered as an investment adviser under the Investment Advisers Act of 1940, as amended (the "Advisers Act").

On May 19, 2011, we priced our initial public offering (the "IPO") of 7,272,727 shares of common stock at a public offering price of \$13.75 per share. Concurrently with the closing of the IPO and at the public offering price of \$13.75 per share, we sold an additional 2,172,000 shares of our common stock to certain executives and employees of, and other individuals affiliated with, New Mountain Capital in a concurrent private placement (the "Concurrent Private Placement"). Additionally, 1,252,964 shares were issued to the partners of New Mountain Guardian Partners, L.P. at that time for their ownership interest in the Predecessor Entities. In connection with our IPO and through a series of transactions, NMF Holdings acquired all of the operations of the Predecessor Entities, including all of the assets and liabilities related to such operations.

### ***New Mountain Finance Holdings, L.L.C.***

NMF Holdings is a Delaware limited liability company. Until May 8, 2014, NMF Holdings was externally managed and was regulated as a BDC under the 1940 Act. As such, NMF Holdings was obligated to comply with certain regulatory requirements. NMF Holdings was treated as a partnership for United States ("U.S.") federal income tax purposes for so long as it had at least two members. With the completion of the underwritten secondary offering on February 3, 2014, NMF Holdings' existence as a partnership for U.S. federal income tax purposes terminated and NMF Holdings became an entity that is disregarded as a separate entity from its owner for U.S. federal tax purposes. See "Material Federal Income Tax Considerations". For additional information on our organizational structure prior to May 8, 2014, see "Description of Restructuring".

Until May 8, 2014, NMF Holdings was externally managed by the Investment Adviser. As of May 8, 2014, the Investment Adviser serves as our external investment adviser. The Administrator provides the administrative services necessary for operations. The Investment Adviser and

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Administrator are wholly-owned subsidiaries of New Mountain Capital. New Mountain Capital is a firm with a track record of investing in the middle market and with assets under management totaling more than \$15.0 billion<sup>(1)</sup>, which includes total assets held by us. New Mountain Capital focuses on investing in defensive growth companies across its private equity, public equity, and credit investment vehicles. NMF Holdings, formerly known as New Mountain Guardian (Leveraged), L.L.C., was originally formed as a subsidiary of Guardian AIV by New Mountain Capital in October 2008. Guardian AIV was formed through an allocation of approximately \$300.0 million of the \$5.1 billion of commitments supporting New Mountain Partners III, L.P., a private equity fund managed by New Mountain Capital. In February 2009, New Mountain Capital formed a co-investment vehicle, New Mountain Guardian Partners, L.P., comprising \$20.4 million of commitments.

Prior to December 18, 2014, NMF SLF was a Delaware limited liability company. NMF SLF was a wholly-owned subsidiary of NMF Holdings and thus a wholly-owned indirect subsidiary of us. NMF SLF was bankruptcy-remote and non-recourse to us. As part of an amendment to our existing credit facilities with Wells Fargo Bank, National Association, NMF SLF merged with and into NMF Holdings on December 18, 2014. See "Management's Discussion and Analysis of Financial Conditions and Results of Operations – Liquidity and Capital Resources – Borrowings" for additional information on our borrowings.

***Current Organization***

Our wholly-owned subsidiaries, NMF Ancora Holdings Inc. ("NMF Ancora"), NMF QID NGL Holdings, Inc. ("NMF QID") and NMF YP Holdings Inc. ("NMF YP"), are structured as Delaware entities that serve as tax blocker corporations which hold equity or equity-like investments in portfolio companies organized as limited liability companies (or other forms of pass-through entities). We consolidate our tax blocker corporations for accounting purposes. The tax blocker corporations are not consolidated for income tax purposes and may incur income tax expense as a result of their ownership of the portfolio companies. Additionally, our wholly-owned subsidiary, New Mountain Finance Servicing, L.L.C. ("NMF Servicing") serves as the administrative agent on certain investment transactions. SBIC LP, and its general partner, SBIC GP, were organized in Delaware as a limited partnership and limited liability company, respectively. SBIC LP and SBIC GP are our consolidated wholly-owned direct and indirect subsidiaries. SBIC LP received a license from the U.S. Small Business Administration (the "SBA") to operate as a small business investment company ("SBIC") under Section 301(c) of the Small Business Investment Act of 1958, as amended (the "1958 Act").

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(1) Includes amounts committed, not all of which have been drawn down and invested to-date, as of June 30, 2016, as well as amounts called and returned since inception.

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The diagram below depicts our organizational structure as of October 4, 2016.

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\*

Includes partners of New Mountain Guardian Partners, L.P.

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NMFC is the sole limited partner of SBIC LP. NMFC, directly or indirectly through SBIC GP, wholly-owns SBIC LP. NMFC owns 100.0% of SBIC GP which owns 1.0% of SBIC LP. NMFC owns 99.0% of SBIC LP.

Our investment objective is to generate current income and capital appreciation through the sourcing and origination of debt securities at all levels of the capital structure, including first and second lien debt, notes, bonds and mezzanine securities. In some cases, our investments may also include equity interests. The primary focus is in the debt of defensive growth companies, which are defined as generally exhibiting the following characteristics: (i) sustainable secular growth drivers, (ii) high barriers to competitive entry, (iii) high free cash flow after capital expenditure and working capital needs, (iv) high returns on assets and (v) niche market dominance. Similar to us, SBIC LP's investment objective is to generate current income and capital appreciation under our investment criteria. However, SBIC LP's investments must be in SBA eligible companies. Our portfolio may be concentrated in a limited number of industries. As of June 30, 2016, our top five industry concentrations were business services, software, education, federal services and distribution & logistics.

The investments that we invest in are almost entirely rated below investment grade or may be unrated, which are often referred to as "leveraged loans", "high yield" or "junk" debt investments, and may be considered "high risk" or speculative compared to debt investments that are rated investment grade. Such issuers are considered more likely than investment grade issuers to default on their payments of interest and principal and such risk of default could reduce our net asset value and income distributions. Our investments are also primarily floating rate debt investments that contain interest reset provisions that may make it more difficult for borrowers to make debt repayments to us if interest rates rise. In addition, some of our debt investments will not fully amortize during their lifetime, which could result in a loss or a substantial amount of unpaid principal and interest due upon maturity. Our debt investments may also lose significant market value before a default occurs. Furthermore, an active trading market may not exist for these securities. This illiquidity may make it more difficult to value our investments.

As of June 30, 2016, our net asset value was \$843.3 million and our portfolio had a fair value of approximately \$1,498.1 million in 72 portfolio companies, with a weighted average yield to maturity at cost ("Yield to Maturity at Cost") of approximately 10.3%. This Yield to Maturity at Cost

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calculation assumes that all investments, including secured collateralized agreements, not on non-accrual are purchased at the adjusted cost on the quarter end date and held until their respective maturities with no prepayments or losses and exited at par at maturity. Adjusted cost reflects the accounting principles generally accepted in the United States of America ("GAAP") cost for post-IPO investments and a stepped up cost basis of pre-IPO investments (assuming a step-up to fair market value occurred on the IPO date). This calculation excludes the impact of existing leverage. Yield to Maturity at Cost uses the London Interbank Offered Rate ("LIBOR") curves at each quarter's end date. The actual yield to maturity may be higher or lower due to the future selection of the LIBOR contracts by the individual companies in our portfolio or other factors.

**Recent Developments**

***Appointment of President***

John R. Kline was promoted to be our President on July 19, 2016 in addition to maintaining his role as our Chief Operating Officer. Robert A. Hamwee, who previously held the title of President and Chief Executive Officer ("CEO"), will continue in his capacity as our CEO.

***Distribution***

On August 2, 2016, our board of directors declared a third quarter 2016 distribution of \$0.34 per share, which was paid on September 30, 2016 to holders of record as of September 16, 2016.

***New Mountain Net Lease Corporation***

New Mountain Net Lease Corporation ("NMNLC") was formed as a Maryland corporation on April 18, 2016 and commenced operations on August 12, 2016. NMNLC was formed to acquire commercial real properties that are subject to "triple net" leases and to qualify as a real estate investment trust (a "REIT") within the meaning of Section 856(a) of the Code. We have determined that NMNLC is not an investment company under Accounting Standards Codification Topic 946, *Financial Services - Investment Companies* and in accordance with such guidance we will generally not consolidate our investment in a company other than a wholly-owned investment company subsidiary. Accordingly, NMNLC is a wholly-owned non-consolidated portfolio company of NMFC.

***Convertible Notes Offering***

On September 30, 2016, we closed a public offering of an additional \$40.25 million in aggregate principal amount (including \$5.25 million in aggregate principal amount issued pursuant to the underwriters' overallotment option) of our Convertible Notes. These additional Convertible Notes constitute a further issuance of, rank equally in right of payment with, and form a single series with the \$115.0 million in aggregate principal amount of the Convertible Notes that we issued on June 3, 2014, pursuant to the Indenture. See "Management's Discussion and Analysis of Financial Conditions and Results of Operations - Liquidity and Capital Resources - Borrowings" for a discussion of the terms of the Convertible Notes.

***Unsecured Notes***

On September 30, 2016, we entered into an amended and restated note purchase agreement (the "Amended Note Purchase Agreement") related to our existing Unsecured Notes. The Amended Note Purchase Agreement amends and restates the Note Purchase Agreement dated May 4, 2016 (the "Existing NPA"), pursuant to which we issued \$50.0 million in aggregate principal amount of the Unsecured Notes in May 2016. The Amended Note Purchase Agreement was entered into in connection with the issuance of an additional \$40.0 million in aggregate principal amount of the

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Unsecured Notes to institutional investors in a private placement, which closed on September 30, 2016. The Amended Note Purchase Agreement also amended and restated the Existing NPA to provide for future issuances of Unsecured Notes in separate series or tranches under the Amended Note Purchase Agreement and supplements thereto. See "Management's Discussion and Analysis of Financial Conditions and Results of Operations Liquidity and Capital Resources Borrowings" for a discussion of the terms of the Unsecured Notes.

**The Investment Adviser**

The Investment Adviser, a wholly-owned subsidiary of New Mountain Capital, manages our day-to-day operations and provides us with investment advisory and management services. In particular, the Investment Adviser is responsible for identifying attractive investment opportunities, conducting research and due diligence on prospective investments, structuring our investments and monitoring and servicing our investments. We currently do not have, and do not intend to have, any employees. As of June 30, 2016, the Investment Adviser was supported by approximately 100 staff members of New Mountain Capital, including approximately 60 investment professionals.

The Investment Adviser is managed by a five member investment committee (the "Investment Committee"), which is responsible for approving purchases and sales of our investments above \$10.0 million in aggregate by issuer. The Investment Committee currently consists of Steven B. Klinsky, Robert A. Hamwee, Adam B. Weinstein and John R. Kline. The fifth and final member of the Investment Committee will consist of a New Mountain Capital Managing Director who will hold the position on the Investment Committee on an annual rotating basis. Beginning in August 2016, Mathew J. Lori was appointed to the Investment Committee for a one year term. In addition, our executive officers and certain investment professionals of the Investment Adviser are invited to all Investment Committee meetings. Purchases and dispositions below \$10.0 million may be approved by our Chief Executive Officer. These approval thresholds are subject to change over time. We expect to benefit from the extensive and varied relevant experience of the investment professionals serving on the Investment Committee, which includes expertise in private equity, primary and secondary leveraged credit, private mezzanine finance and distressed debt.

**Competitive Advantages**

We believe that we have the following competitive advantages over other capital providers to middle market companies:

***Proven and Differentiated Investment Style With Areas of Deep Industry Knowledge***

In making its investment decisions, the Investment Adviser applies New Mountain Capital's long-standing, consistent investment approach that has been in place since its founding more than 15 years ago. We focus on companies in defensive growth niches of the middle market space where we believe few debt funds have built equivalent research and operational size and scale.

We benefit directly from New Mountain Capital's private equity investment strategy that seeks to identify attractive investment sectors from the top down and then works to become a well positioned investor in these sectors. New Mountain Capital focuses on companies and industries with sustainable strengths in all economic cycles, particularly ones that are defensive in nature, that have secular tailwinds and can maintain pricing power in the midst of a recessionary and/or inflationary environment. New Mountain Capital focuses on companies within sectors in which it has significant expertise (examples include software, education, niche healthcare, business services, federal services and distribution & logistics) while typically avoiding investments in companies with products or services that serve markets that are highly cyclical, have the potential for long-term decline, are overly-dependent on consumer demand or are commodity-like in nature.

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In making its investment decisions, the Investment Adviser has adopted the approach of New Mountain Capital, which is based on three primary investment principles:

1. A generalist approach, combined with proactive pursuit of the highest quality opportunities within carefully selected industries, identified via an intensive and structured ongoing research process;
2. Emphasis on strong downside protection and strict risk controls; and
3. Continued search for superior risk adjusted returns, combined with timely, intelligent exits and outstanding return performance.

***Experienced Management Team and Established Platform***

The Investment Adviser's team members have extensive experience in the leveraged lending space. Steven B. Klinsky, New Mountain Capital's Founder, Chief Executive Officer and Managing Director and Chairman of our board of directors, was a general partner of Forstmann Little & Co., a manager of debt and equity funds totaling multiple billions of dollars in the 1980s and 1990s. He was also a co-founder of Goldman, Sachs & Co.'s Leverage Buyout Group in the period from 1981 to 1984. Robert A. Hamwee, our Chief Executive Officer and Managing Director of New Mountain Capital, was formerly President of GSC Group, Inc. ("GSC"), where he was the portfolio manager of GSC's distressed debt funds and led the development of GSC's CLOs. John R. Kline, our President and Chief Operating Officer and Managing Director of New Mountain Capital, worked at GSC as an investment analyst and trader for GSC's control distressed and corporate credit funds and at Goldman, Sachs & Co. in the Credit Risk Management and Advisory Group.

Many of the debt investments that we have made to date have been in the same companies with which New Mountain Capital has already conducted months of intensive acquisition due diligence related to potential private equity investments. We believe that private equity underwriting due diligence is usually more robust than typical due diligence for loan underwriting. In its underwriting of debt investments, the Investment Adviser is able to utilize the research and hands-on operating experience that New Mountain Capital's private equity underwriting teams possess regarding the individual companies and industries. Business and industry due diligence is led by a team of investment professionals of the Investment Adviser that generally consists of three to seven individuals, typically based on their relevant company and/or industry specific knowledge. Additionally, the Investment Adviser is also able to utilize its relationships with operating management teams and other private equity sponsors. We believe this differentiates us from many of our competitors.

***Significant Sourcing Capabilities and Relationships***

We believe the Investment Adviser's ability to source attractive investment opportunities is greatly aided by both New Mountain Capital's historical and current reviews of private equity opportunities in the business segments we target. To date, a significant majority of the investments that we have made are in the debt of companies and industry sectors that were first identified and reviewed in connection with New Mountain Capital's private equity efforts, and the majority of our current pipeline reflects this as well. Furthermore, the Investment Adviser's investment professionals have deep and longstanding relationships in both the private equity sponsor community and the lending/agency community which they have and will continue to utilize to generate investment opportunities.



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***Risk Management through Various Cycles***

New Mountain Capital has emphasized tight control of risk since its inception and long before the recent global financial distress began. To date, New Mountain Capital has never experienced a bankruptcy of any of its portfolio companies in its private equity efforts. The Investment Adviser seeks to emphasize tight control of risk with our investments in several important ways, consistent with New Mountain Capital's historical approach. In particular, the Investment Adviser:

Emphasizes the origination or purchase of debt in what the Investment Adviser believes are defensive growth companies, which are less likely to be dependent on macro-economic cycles;

Targets investments in companies that are preeminent market leaders in their own industries, and when possible, investments in companies that have strong management teams whose skills are difficult for competitors to acquire or reproduce; and

Targets investments in companies with significant equity value in excess of our debt investments.

***Access to Non Mark to Market, Seasoned Leverage Facility***

The amount available under the Holdings Credit Facility is generally not subject to reduction as a result of mark to market fluctuations in our portfolio investments. None of our credit facilities mature prior to June 2019. For a detailed discussion of our credit facilities, see "Management's Discussion and Analysis of Financial Conditions and Results of Operations – Liquidity and Capital Resources".

**Market Opportunity**

We believe that the size of the market for investments that we target, coupled with the demands of middle market companies for flexible sources of capital at competitive terms and rates, create an attractive investment environment for us.

*The leverage finance market has a high level of financing needs over the next several years due to significant bank debt maturities and significant amounts of private equity investable capital.* We believe that the large dollar volume of loans that need to be refinanced will present attractive opportunities to invest capital in a manner consistent with our stated objectives.

*Middle market companies continue to face difficulties in accessing the capital markets.* We believe opportunities to serve the middle market will continue to exist. While many middle market companies were formerly able to raise funds by issuing high-yield bonds, we believe this approach to financing has become more difficult in recent years as institutional investors have sought to invest in larger, more liquid offerings.

*Increased regulatory scrutiny of banks has reduced middle market lending.* We believe that many traditional bank lenders to middle market businesses have either exited or de-emphasized their service and product offerings in the middle market. These traditional lenders have instead focused on lending and providing other services to large corporate clients. We believe this has resulted in fewer key players and the reduced availability of debt capital to the companies we target.

*Attractive pricing.* Reduced access to, and availability of, debt capital typically increases the interest rates, or pricing, of loans for middle market lenders. Recent primary debt transactions in this market often include upfront fees, original issue discount, prepayment

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protections and, in some cases, warrants to purchase common stock, all of which should enhance the profitability of new loans to lenders.

*Conservative deal structures.* As a result of the credit crisis, many lenders are requiring larger equity contributions from financial sponsors. Larger equity contributions create an enhanced margin of safety for lenders because leverage is a lower percentage of the implied enterprise value of the company.

*Large pool of uninvested private equity capital available for new buyouts.* We expect that private equity firms will continue to pursue acquisitions and will seek to leverage their equity investments with mezzanine loans and/or senior loans (including traditional first and second lien, as well as unitranche loans) provided by companies such as ours.

**Operating and Regulatory Structure**

We are a closed-end, non-diversified management investment company that has elected to be regulated as a BDC under the 1940 Act and are required to maintain an asset coverage ratio, as defined in the 1940 Act, of at least 200.0%. We include the assets and liabilities of our consolidated subsidiaries for purposes of satisfying the requirements under the 1940 Act. See "Regulation Senior Securities" in this prospectus.

We have elected to be treated, and intend to comply with the requirements to continue to qualify annually, as a RIC under Subchapter M of the Code. See "Material Federal Income Tax Considerations" in this prospectus. As a RIC, we generally will not be subject to corporate-level U.S. federal income taxes on any net ordinary income or capital gains that we timely distribute to our stockholders as dividends if it meets certain source-of-income, distribution and asset diversification requirements. We intend to distribute to our stockholders substantially all of our annual taxable income except that we may retain certain net capital gains for reinvestment.

**Risks**

An investment in our securities involves risk, including the risk of leverage and the risk that our operating policies and strategies may change without prior notice to our stockholders or prior stockholder approval. See "Risk Factors" and the other information included in this prospectus for a discussion of factors you should carefully consider before deciding to invest in our securities. The value of our assets, as well as the market price of our securities, will fluctuate. Our investments may be risky, and you may lose all or part of your investment. Investing in us involves other risks, including the following:

We may suffer credit losses;

We do not expect to replicate the Predecessor Entities' nor our historical performance or the historical performance of other entities managed or supported by New Mountain Capital;

There is uncertainty as to the value of our portfolio investments because most of our investments are, and may continue to be in private companies and recorded at fair value;

Our ability to achieve our investment objective depends on key investment personnel of the Investment Adviser. If the Investment Adviser were to lose any of its key investment personnel, our ability to achieve our investment objective could be significantly harmed;

The Investment Adviser has limited experience managing a BDC or a RIC, which could adversely affect our business;

We operate in a highly competitive market for investment opportunities and may not be able to compete effectively;



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Our investments in securities rated below investment grade are speculative in nature and are subject to additional risk factors such as increased possibility of default, illiquidity of the security, and changes in value based on changes in interest rates;

Our business, results of operations and financial condition depends on our ability to manage future growth effectively;

We borrow money, which could magnify the potential for gain or loss on amounts invested in us and increase the risk of investing in us;

Changes in interest rates may affect our cost of capital and net investment income;

Regulations governing the operations of BDCs will affect our ability to raise additional equity capital as well as our ability to issue senior securities or borrow for investment purposes, any or all of which could have a negative effect on our investment objectives and strategies;

We may experience fluctuations in our annual and quarterly results due to the nature of our business;

Our board of directors may change our investment objective, operating policies and strategies without prior notice or stockholder approval, the effects of which may be adverse to your interests;

We will be subject to corporate-level U.S. federal income tax on all of our income if we are unable to maintain RIC status under Subchapter M of the Code, which would have a material adverse effect on our financial performance;

We may not be able to pay you distributions on our common stock, our distributions to you may not grow over time and a portion of our distributions to you may be a return of capital for U.S. federal income tax purposes;

Our investments in portfolio companies may be risky, and we could lose all or part of any of our investments;

The lack of liquidity in our investments may adversely affect our business;

Economic recessions, downturns or government spending cuts could impair our portfolio companies and harm our operating results;

The market price of our common stock may fluctuate significantly; and

Sales of substantial amounts of our common stock in the public market may have an adverse effect on the market price of our common stock.

### **Company Information**

Our administrative and executive offices are located at 787 Seventh Avenue, 48th Floor, New York, New York 10019, and our telephone number is (212) 720-0300. We maintain a website at [www.newmountainfinance.com](http://www.newmountainfinance.com). Information contained on our website is not incorporated

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by reference into this prospectus, and you should not consider information contained on our website to be part of this prospectus.

### **Presentation of Historical Financial Information and Market Data**

#### ***Historical Financial Information***

Unless otherwise indicated, historical references contained in this prospectus for periods prior to and as of December 31, 2013 in "Selected Financial and Other Data", "Selected Quarterly Data", "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Senior

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Securities" and "Portfolio Companies" relate to NMF Holdings. The consolidated financial statements of New Mountain Finance Holdings, L.L.C., formerly known as New Mountain Guardian (Leveraged), L.L.C., and New Mountain Guardian Partners, L.P. are NMF Holdings' historical consolidated financial statements.

***Market Data***

Statistical and market data used in this prospectus has been obtained from governmental and independent industry sources and publications. We have not independently verified the data obtained from these sources, and we cannot assure you of the accuracy or completeness of the data. Forward-looking information obtained from these sources is subject to the same qualifications and the additional uncertainties regarding the other forward-looking statements contained in this prospectus. See "Cautionary Statement Regarding Forward-Looking Statements".

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**THE OFFERING**

We may offer, from time to time, up to \$250,000,000 of common stock, preferred stock, subscription rights to purchase shares of common stock, debt securities or warrants, on terms to be determined at the time of each offering. We will offer our securities at prices and on terms to be set forth in one or more supplements to this prospectus. The offering price per share of our securities, less any underwriting commissions or discounts, generally will not be less than the net asset value per share of our securities at the time of an offering. However, we may issue securities pursuant to this prospectus at a price per share that is less than our net asset value per share (i) in connection with a rights offering to our existing stockholders, (ii) with the prior approval of the majority of our common stockholders or (iii) under such other circumstances as the SEC may permit. Any such issuance of shares of our common stock below net asset value may be dilutive to the net asset value of our common stock. See "Risk Factors - Risks Relating to Offerings Pursuant to this Prospectus".

Our securities may be offered directly to one or more purchasers, or through agents designated from time to time by us, or to or through underwriters or dealers. The prospectus supplement relating to an offering will identify any agents or underwriters involved in the sale of our securities, and will disclose any applicable purchase price, fee, commission or discount arrangement between us and our agents or underwriters or among our underwriters or the basis upon which such amount may be calculated. See "Plan of Distribution". We may not sell any of our securities through agents, underwriters or dealers without delivery of this prospectus and a prospectus supplement describing the method and terms of the offering of securities.

Set forth below is additional information regarding offerings of securities pursuant to this prospectus:

Use of Proceeds

Unless otherwise specified in a prospectus supplement, we intend to use the net proceeds from the sale of our securities for new investments in portfolio companies in accordance with our investment objective and strategies described in this prospectus, to temporarily repay indebtedness (which will be subject to reborrowing), to pay our operating expenses and distributions to our stockholders and for general corporate purposes, and other working capital needs. Proceeds not immediately used for new investments or the temporary repayment of debt will be invested in cash, cash equivalents, U.S. government securities and other high-quality investments that mature in one year or less from the date of the investment. These securities may have lower yields than the types of investments we would typically make in accordance with our investment objective and, accordingly, may result in lower distributions, if any, during such period. Each supplement to this prospectus relating to an offering will more fully identify the use of the proceeds from such offering. See "Use of Proceeds".

New York Stock Exchange Symbol

"NMFC"

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## Investment Advisory Fees

We pay the Investment Adviser a fee for its services under an investment advisory and management agreement (the "Investment Management Agreement") consisting of two components—a base management fee and an incentive fee. Pursuant to the Investment Management Agreement, the base management fee is calculated at an annual rate of 1.75% of our gross assets, which equals our total assets on the Consolidated Statements of Assets and Liabilities, less (i) the borrowings under the SLF Credit Facility and (ii) cash and cash equivalents. The base management fee is payable quarterly in arrears, and is calculated based on the average value of our gross assets, which equals our total assets, as determined in accordance with GAAP, less the borrowings under the SLF Credit Facility and cash and cash equivalents at the end of each of the two most recently completed calendar quarters, and appropriately adjusted on a pro rata basis for any equity capital raises or repurchases during the current calendar quarter. We have not invested, and currently do not invest, in derivatives. To the extent we invest in derivatives in the future, we will use the actual value of the derivatives, as reported on our Consolidated Statements of Assets and Liabilities, for purposes of calculating our base management fee. Since our IPO, the base management fee calculation has deducted the borrowings under the SLF Credit Facility. The SLF Credit Facility had historically consisted of primarily lower yielding assets at higher advance rates. As part of an amendment to our existing credit facilities with Wells Fargo Bank, National Association, the SLF Credit Facility merged with the Predecessor Holdings Credit Facility and into the Holdings Credit Facility on December 18, 2014. Post credit facility merger and to be consistent with the methodology since our IPO, the Investment Adviser will continue to waive management fees on the leverage associated with those assets that share the same underlying yield characteristics with investments leveraged under the legacy SLF Credit Facility. The Investment Adviser cannot recoup management fees that the Investment Adviser has previously waived. The incentive fee consists of two parts. The first part is calculated and payable quarterly in arrears and equals 20.0% of our "Pre-Incentive Fee Adjusted Net Investment Income" for the immediately preceding quarter, subject to a "preferred return", or "hurdle", and a "catch-up" feature each as described in the Investment Management Agreement. The second part will be determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Management Agreement) and will equal 20.0% of our "Adjusted Realized Capital Gains", if any, on a cumulative basis from inception through the end of the year, computed net of all "Adjusted Realized Capital Losses" and "Adjusted Unrealized Capital Depreciation" on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fee each as described in the Investment Management Agreement. See "Investment Management Agreement".



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|                  |   |
|------------------|---|
| Administrator    | <p>The Administrator serves as our administrator and arranges our office space and provides us with office equipment and administrative services. The Administrator performs, or oversees the performance of, our financial records, prepares reports to our stockholders and reports filed by us with the SEC, monitors the payment of our expenses, and oversees the performance of administrative and professional services rendered to us by others. We reimburse the Administrator for our allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations to us under an administration agreement, as amended and restated (the "Administration Agreement"). For the six months ended June 30, 2016, we incurred approximately \$0.9 million of indirect administrative expenses, of which \$0.3 million of indirect administrative expenses were waived by the Administrator. The Administrator cannot recoup any expenses that the Administrator has previously waived. For the six months ended June 30, 2016, we reimbursed our Administrator approximately \$0.6 million, which represents approximately 0.1% of our gross assets on an annualized basis. See "Administration Agreement".</p> |
| Distributions    | <p>We intend to pay quarterly distributions to our stockholders out of assets legally available for distribution. The quarterly distributions, if any, will be determined by our board of directors. The distributions we pay to our stockholders in a year may exceed our taxable income for that year and, accordingly, a portion of such distributions may constitute a return of capital, which is a return of a portion of a shareholder's original investment in our common stock, for U.S. federal income tax purposes. Generally, a return of capital will reduce an investor's basis in our stock for U.S. federal income tax purposes, which will result in a higher tax liability when the stock is sold. The specific tax characteristics of our distributions will be reported to stockholders after the end of the calendar year. See "Price Range of Common Stock and Distributions".</p>  |
| Taxation of NMFC | <p>We have elected to be treated, and intend to comply with the requirements to continue to qualify annually, as a RIC under Subchapter M of the Code. As a RIC, we generally will not pay corporate-level U.S. federal income taxes on any net ordinary income or capital gains that are timely distributed to our stockholders as dividends. To maintain our RIC status, we must meet specified source-of-income and asset diversification requirements and distribute annually to our stockholders at least 90.0% of our net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any. See "Price Range of Common Stock and Distributions" and "Material Federal Income Tax Considerations".</p>   |

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|                            |   |
|----------------------------|---|
| Dividend Reinvestment Plan | We have adopted an "opt out" dividend reinvestment plan for our stockholders. As a result, if we declare a distribution, then your cash distributions will be automatically reinvested in additional shares of our common stock, unless you specifically "opt out" of the dividend reinvestment plan so as to receive cash distributions. Stockholders who receive distributions in the form of stock will be subject to the same U.S. federal income tax consequences as stockholders who elect to receive their distributions in cash. We will use only newly issued shares to implement the plan if the price at which newly issued shares are to be credited is equal to or greater than 110.0% of the last determined net asset value of our shares. We reserve the right to either issue new shares or purchase shares of our common stock in the open market in connection with our implementation of the plan if the price at which newly issued shares are to be credited to stockholders' accounts does not exceed 110.0% of the last determined net asset value of the shares. See "Dividend Reinvestment Plan". |
| Trading at a Discount      | Shares of closed-end investment companies frequently trade at a discount to their net asset value. The possibility that our common stock may trade at a discount to our net asset value per share is separate and distinct from the risk that our net asset value per share may decline. We cannot predict whether our common stock will trade above, at or below net asset value.  |
| License Agreement          | We have entered into a royalty-free license agreement with New Mountain Capital, pursuant to which New Mountain Capital has agreed to grant us a non-exclusive license to use the names "New Mountain" and "New Mountain Finance". See "License Agreement".   |
| Leverage                   | We expect to continue to use leverage to make investments. As a result, we may continue to be exposed to the risks of leverage, which include that leverage may be considered a speculative investment technique. The use of leverage magnifies the potential for gain and loss on amounts we invest and therefore, indirectly, increases the risks associated with investing in shares of our common stock. See "Risk Factors".  |
| Anti-Takeover Provisions   | Our board of directors is divided into three classes of directors serving staggered three-year terms. This structure is intended to provide us with a greater likelihood of continuity of management, which may be necessary for us to realize the full value of our investments. A staggered board of directors also may serve to deter hostile takeovers or proxy contests, as may certain other measures that we may adopt. These measures may delay, defer or prevent a transaction or a change in control that might otherwise be in the best interests of our stockholders. See "Description of Capital Stock - Delaware Law and Certain Certificate of Incorporation and Bylaw Provisions; Anti-Takeover Measures".  |

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Available Information

We have filed with the SEC a registration statement on Form N-2 together with all amendments and related exhibits under the Securities Act. The registration statement contains additional information about us and the securities being offered by this prospectus. We are required to file annual, quarterly and current reports, proxy statements and other information with the SEC under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). This information is available at the SEC's public reference room at 100 F Street, NE, Washington, District of Columbia 20549 and on the SEC's website at <http://www.sec.gov>. The public may obtain information on the operation of the SEC's public reference room by calling the SEC at 1-800-SEC-0330. This information is also available free of charge by contacting us at New Mountain Finance Corporation, 787 Seventh Avenue, 48th Floor, New York, New York 10019, by telephone at (212) 720-0300, or on our website at [www.newmountainfinance.com](http://www.newmountainfinance.com). Information contained on our website or on the SEC's web site about us is not incorporated into this prospectus and you should not consider information contained on our website or on the SEC's website to be part of this prospectus.

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**FEES AND EXPENSES**

The following table is intended to assist you in understanding the costs and expenses that you will bear directly or indirectly. We caution you that some of the percentages indicated in the table below are estimates and may vary. Except where the context suggests otherwise, whenever this prospectus contains a reference to fees or expenses paid by "you", "NMFC", or "us" or that "we", "NMFC", or the "Company" will pay fees or expenses, we will pay such fees and expenses out of our net assets and, consequently, you will indirectly bear such fees or expenses as an investor in us. However, you will not be required to deliver any money or otherwise bear personal liability or responsibility for such fees or expenses.

|  |                             |
|--|-----------------------------|
| <b>Stockholder transaction expenses:</b>   |                             |
| Sales load (as a percentage of offering price)                                       | N/A <sup>(1)</sup>          |
| Offering expenses borne by us (as a percentage of offering price)                    | N/A <sup>(2)</sup>          |
| Dividend reinvestment plan fees  | N/A <sup>(3)</sup>          |
| <b>Total stockholder transaction expenses (as a percentage of offering price)</b>    | <b>%</b>                    |
| <b>Annual expenses (as a percentage of net assets attributable to common stock):</b> |                             |
| Base management fees   | 3.25% <sup>(4)</sup>        |
| Incentive fees payable under the Investment Management Agreement                     | 2.57% <sup>(5)</sup>        |
| Interest payments on borrowed funds  | 3.37% <sup>(6)</sup>        |
| Other expenses   | 0.98% <sup>(7)</sup>        |
| Acquired fund fees and expenses  | 0.53% <sup>(8)</sup>        |
| <b>Total annual expenses</b>   | <b>10.70%<sup>(9)</sup></b> |

**Example**

The following example, required by the SEC, demonstrates the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in our common stock. In calculating the following expense amounts, we have assumed that our borrowings and annual operating expenses would remain at the levels set forth in the table above. In the event that shares to which this prospectus relates are sold to or through underwriters, a corresponding prospectus supplement will restate this example to reflect the applicable sales load and offering expenses. See Note 6 below for additional information regarding certain assumptions regarding our level of leverage.

|   | <b>1 Year</b> | <b>3 Years</b> | <b>5 Years</b> | <b>10 Years</b> |
|---|---------------|----------------|----------------|-----------------|
| You would pay the following expenses on a \$1,000 investment, assuming a 5.0% annual return | \$ 81         | \$ 235         | \$ 379         | \$ 695          |

**The example should not be considered a representation of future expenses, and actual expenses may be greater or less than those shown.**

While the example assumes, as required by the applicable rules of the SEC, a 5.0% annual return, our performance will vary and may result in a return greater or less than 5.0%. The incentive fee under the Investment Management Agreement, which, assuming a 5.0% annual return, would either not be payable or would have an insignificant impact on the expense amounts shown above, is not included in the above example. The above illustration assumes that we will not realize any capital gains (computed net of all realized capital losses and unrealized capital depreciation) in any of the indicated time periods. If we achieve sufficient returns on our investments, including through the realization of capital gains, to trigger an incentive fee of a material amount, our expenses and

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returns to our investors would be higher. For example, if we assumed that we received our 5.0% annual return completely in the form of net realized capital gains on our investments, computed net of all cumulative unrealized depreciation on our investments, the projected dollar amount of total cumulative expenses set forth in the above illustration would be as follows:

|   | 1 Year | 3 Years | 5 Years | 10 Years |
|---|--------|---------|---------|----------|
| You would pay the following expenses on a \$1,000 investment, assuming a 5.0% annual return | \$ 90  | \$ 260  | \$ 414  | \$ 743   |

The example assumes no sales load. In addition, while the examples assume reinvestment of all distributions at net asset value, participants in our dividend reinvestment plan will receive a number of shares of our common stock determined by dividing the total dollar amount of the distribution payable to a participant by the market price per share of our common stock at the close of trading on the dividend payment date. The market price per share of our common stock may be at, above or below net asset value. See "Dividend Reinvestment Plan" for additional information regarding the dividend reinvestment plan.

- (1) In the event that the shares to which this prospectus relates are sold to or through underwriters, a corresponding prospectus supplement will disclose the applicable sales load.
- (2) The prospectus supplement corresponding to each offering will disclose the applicable estimated amount of offering expenses of the offering and the offering expenses borne by us as a percentage of the offering price.
- (3) The de minimis expenses of the dividend reinvestment plan are included in "other expenses."
- (4) The base management fee under the Investment Management Agreement is based on an annual rate of 1.75% of our average gross assets for the two most recent quarters, which equals our total assets on the Consolidated Statements of Assets and Liabilities, less (i) the borrowings under the SLF Credit Facility and (ii) cash and cash equivalents. We have not invested, and currently do not invest, in derivatives. To the extent we invest in derivatives in the future, we will use the actual value of the derivatives, as reported on our Consolidated Statements of Assets and Liabilities, for purposes of calculating our base management fee. Since our IPO, the base management fee calculation has deducted the borrowings under the SLF Credit Facility. The SLF Credit Facility had historically consisted of primarily lower yielding assets at higher advance rates. As part of an amendment to our existing credit facilities with Wells Fargo Bank, National Association, the SLF Credit Facility merged with the Predecessor Holdings Credit Facility and into the Holdings Credit Facility on December 18, 2014. Post credit facility merger and to be consistent with the methodology since our IPO, the Investment Adviser will continue to waive management fees on the leverage associated with those assets that share the same underlying yield characteristics with investments leveraged under the legacy SLF Credit Facility. The Investment Adviser cannot recoup management fees that the Investment Adviser has previously waived. The base management fee reflected in the table above is based on the six months ended June 30, 2016 and is calculated without deducting any management fees waived. The annual base management fee after deducting the management fee waiver as a percentage of net assets would be 2.69% based on the six months ended June 30, 2016. See "Investment Management Agreement."
- (5) Assumes that annual incentive fees earned by the Investment Adviser remain consistent with the incentive fees earned by the Investment Adviser during the six months ended June 30, 2016 and includes accrued capital gains incentive fee. These accrued capital gains incentive fees would be paid by us if we ceased operations on June 30, 2016 and liquidated our investments at the June 30, 2016 valuation. As we cannot

predict whether we will meet the thresholds for incentive fees under the Investment Management Agreement, the incentive fees paid in subsequent periods, if any, may be substantially different than the fees incurred during the six months ended June 30, 2016. For more detailed information about the incentive fee calculations, see the "Investment Management Agreement" section of this prospectus.

(6)

We may borrow funds from time to time to make investments to the extent we determine that additional capital would allow us to take advantage of additional investment opportunities or if the economic situation is otherwise conducive to doing so. The costs associated with these borrowings are indirectly borne by our stockholders. As of June 30, 2016, we had \$348.0 million, \$87.0 million, \$115.0 million, \$50.0 million and \$121.7 million of indebtedness outstanding under the Holdings Credit Facility, the NMFC Credit Facility, the Convertible Notes, the Unsecured Notes and the SBA-guaranteed debentures, respectively. For purposes of this calculation, we have assumed the June 30, 2016 amounts outstanding under the credit facilities and SBA-guaranteed debentures, and have computed interest expense using an assumed interest rate of 2.7% for the Holdings Credit Facility, 3.0% for the NMFC Credit Facility and

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3.1% for the SBA-guaranteed debentures, which were the rates payable as of June 30, 2016. See "Senior Securities" in this prospectus. In addition, for the purposes of this calculation, we have assumed \$155.25 million of Convertible Notes outstanding and \$90.0 million of Unsecured Notes outstanding, and have computed interest expense using 5.0% for the Convertible Notes and 5.313% for the Unsecured Notes. The outstanding balances for the Convertible Notes and Unsecured Notes are inclusive of the issuances that closed on September 30, 2016.

(7)

"Other expenses" include our overhead expenses, including payments by us under the Administration Agreement based on the allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations to us under the Administration Agreement. Pursuant to the Administration Agreement, the Administrator may, in its own discretion, submit to us for reimbursement some or all of the expenses that the Administrator has incurred on our behalf during any quarterly period. As a result, the amount of expenses for which we will have to reimburse the Administrator may fluctuate in future quarterly periods and there can be no assurance given as to when, or if, the Administrator may determine to limit the expenses that the Administrator submits to us for reimbursement in the future. However, it is expected that the Administrator will continue to support part of our expense burden in the near future and may decide to not calculate and charge through certain overhead related amounts as well as continue to cover some of the indirect costs. The Administrator cannot recoup any expenses that the Administrator has previously waived. This expense ratio is calculated without deducting any expenses waived or reimbursed by the Administrator. Assuming the expenses waived or reimbursed by the Administrator at June 30, 2016, the annual expense ratio after deducting the expenses waived or reimbursed by the Administrator as a percentage of net assets would be 0.89%. For the six months ended June 30, 2016, we reimbursed our Administrator approximately \$0.6 million, which represents approximately 0.14% of our net assets on an annualized basis. See "Administration Agreement."

(8)

The holders of shares of our common stock indirectly bear the expenses of our investment in NMFC Senior Loan Program I, LLC ("SLP I") and NMFC Senior Loan Program II, LLC ("SLP II"). No management fee is charged on our investment in SLP I in connection with the administrative services provided to SLP I. As SLP II is structured as a private joint venture, no management fees are paid by SLP II. Future expenses for SLP I and SLP II may be substantially higher or lower because certain expenses may fluctuate over time.

(9)

The holders of shares of our common stock indirectly bear the cost associated with our annual expenses.

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**SELECTED FINANCIAL AND OTHER DATA**

The selected financial data should be read in conjunction with the respective consolidated financial statements and related consolidated notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this prospectus. Financial information for the years ended December 31, 2015, December 31, 2014, December 31, 2013, December 31, 2012 and December 31, 2011 has been derived from the Predecessor Operating Company and our financial statements and the related notes thereto that were audited by Deloitte & Touche LLP, an independent registered public accounting firm. The financial information at and for the six months ended June 30, 2016 was derived from our unaudited consolidated financial statements and related consolidated notes. In the opinion of management, all adjustments, consisting solely of normal recurring accruals, considered necessary for the fair presentation of financial statements for the interim periods, have been included. Our results for the interim periods may not be indicative of our results for any future interim period or the full year. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Senior Securities" in this prospectus for more information.



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The below selected financial and other data is for NMFC.

*(in thousands except shares and per share data)*

| New Mountain<br>Finance<br>Corporation   | Six<br>Months<br>Ended<br>June 30, | Years Ended December 31, |           |        |        | Period from<br>May 19, 2011<br>(commencement<br>of operations)<br>to December 31, |
|--|------------------------------------|--------------------------|-----------|--------|--------|---|
|  | 2016                               | 2015                     | 2014      | 2013   | 2012   | 2011  |
| <b>Statement of Operations Data:</b>   |                                    |                          |           |        |        |   |
| Investment income  | \$ 82,466                          | \$ 153,855               | \$ 91,923 | \$     | \$     | \$  |
| Investment income allocated from NMF Holdings                                      |                                    |                          | 43,678    | 90,876 | 37,511 | 13,669  |
| Net expenses   | 39,067                             | 71,360                   | 34,727    |        |        |   |
| Net expenses allocated from NMF Holdings   |                                    |                          | 20,808    | 40,355 | 17,719 | 5,324   |
| Net investment income  | 43,399                             | 82,495                   | 80,066    | 50,521 | 19,792 | 8,345   |
| Net realized gains (losses) on investments   | 1,041                              | (12,789)                 | 357       |        |        |   |
| Net realized and unrealized gains (losses) allocated from NMF Holdings             |                                    |                          | 9,508     | 11,443 | 12,087 | (4,235)   |
| Net change in unrealized appreciation (depreciation) of investments                | 7,570                              | (35,272)                 | (43,863)  |        |        |   |
| Net change in unrealized (depreciation) appreciation of securities purchased under | (74)                               | (296)                    |           |        |        |   |

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|  |              |              |              |            |            |    |         |
|--|--------------|--------------|--------------|------------|------------|----|---------|
| collateralized agreements to resell  |              |              |              |            |            |    |         |
| Net change in unrealized (depreciation) appreciation of investment in NMF Holdings |              |              |              | (44)       | (95)       |    | 6,221   |
| Benefit (provision) for taxes  | 808          | (1,183)      | (493)        |            |            |    |         |
| Net increase in net assets resulting from operations                               | 52,744       | 32,955       | 45,575       | 61,920     | 31,784     |    | 10,331  |
| <b>Per share data:</b>   |              |              |              |            |            |    |         |
| Net asset value  | \$ 13.23     | \$ 13.08     | \$ 13.83     | \$ 14.38   | \$ 14.06   | \$ | 13.60   |
| Net increase in net assets resulting from operations (basic)                       | 0.83         | 0.55         | 0.88         | 1.76       | 2.14       |    | 0.97    |
| Net increase in net assets resulting from operations (diluted)(1)                  | 0.77         | 0.55         | 0.86         | 1.76       | 2.14       |    | 0.38    |
| Dividends declared(2)  | 0.68         | 1.36         | 1.48         | 1.48       | 1.71       |    | 0.86    |
| <b>Balance sheet data:</b>   |              |              |              |            |            |    |         |
| Total assets   | \$ 1,584,601 | \$ 1,602,138 | \$ 1,514,920 | \$ 650,107 | \$ 345,331 | \$ | 145,487 |
| Holdings Credit Facility   | 348,013      | 419,313      | 468,108      | N/A        | N/A        |    | N/A     |
| SBA-guaranteed debentures  | 121,745      | 117,745      | 37,500       | N/A        | N/A        |    | N/A     |
| Convertible Notes  | 115,000      | 115,000      | 115,000      | N/A        | N/A        |    | N/A     |
| NMFC Credit Facility   | 87,000       | 90,000       | 50,000       | N/A        | N/A        |    | N/A     |
| Unsecured Notes  | 50,000       |              |              | N/A        | N/A        |    | N/A     |
| Total net assets   | 843,325      | 836,908      | 802,170      | 650,107    | 341,926    |    | 145,487 |
| <b>Other data:</b>   |              |              |              |            |            |    |         |
| Total return based on market value(3)  | 4.36%        | (4.00)%      | 9.66%        | 11.62%     | 24.84%     |    | 4.16%   |
| Total return based on net asset value(4)   | 6.50%        | 4.32%        | 6.56%        | 13.27%     | 16.61%     |    | 2.82%   |

|   |            |            |            |            |            |            |
|---|------------|------------|------------|------------|------------|------------|
| Number of portfolio companies at period end   | 72         | 75         | 71         | N/A        | N/A        | N/A        |
| Total new investments for the period(5)   | \$ 163,845 | \$ 612,737 | \$ 720,871 | N/A        | N/A        | N/A        |
| Investment sales and repayments for the period(5)   | \$ 198,211 | \$ 483,936 | \$ 384,568 | N/A        | N/A        | N/A        |
| Weighted average Yield to Maturity at Cost on debt portfolio at period end (unaudited)(6) | 10.3%      | 10.7%      | 10.7%      | N/A        | N/A        | N/A        |
| Weighted average shares outstanding for the period (basic)                                | 63,887,036 | 59,715,290 | 51,846,164 | 35,092,722 | 14,860,838 | 10,697,691 |
| Weighted average shares outstanding for the period (diluted)                              | 71,164,167 | 66,968,089 | 56,157,835 | 35,092,722 | 14,860,838 | 10,697,691 |
| Portfolio turnover(5)   | 10.97%     | 33.93%     | 29.51%     | N/A        | N/A        | N/A        |

(1)

In applying the if-converted method, conversion is not assumed for purposes of computing diluted earnings per share if the effect would be anti-dilutive. For the year ended December 31, 2015, there was anti-dilution. For the six months ended June 30, 2016 and the year ended December 31, 2014, there was no anti-dilution. For the years ended December 31, 2013 and December 31, 2012, due to reflecting earnings for the full year of operations of the Predecessor Operating Company assuming 100.0% NMFC ownership of Predecessor Operating Company and assuming all of AIV Holdings units in the Predecessor Operating Company were exchanged for public shares of NMFC during the years then ended, the earnings per share would be \$1.79 and \$2.18, respectively.

(2)

Dividends declared in the year ended December 31, 2014 include a \$0.12 per share special dividend related to realized capital gains attributable to NMF Holdings' warrant investments in Learning Care Group (US), Inc. Dividends declared in the year ended December 31, 2013 include a \$0.12 per share special dividend related to a distribution received attributable to NMF Holdings' investment in YP Equity Investors LLC. Dividends declared in the year ended December 31, 2012 include a \$0.23 per share special dividend related to estimated realized capital gains attributable to NMF Holdings' investments in Lawson Software, Inc. and Infor Lux Bond Company and a \$0.14 per share special dividend intended to minimize to the greatest extent possible NMFC's U.S. federal income or excise tax liability.



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- (3) For the six months ended June 30, 2016 and the years ended December 31, 2015, December 31, 2014, December 31, 2013, December 31, 2012 and for the period May 19, 2011 to December 31, 2011, total return is calculated assuming a purchase of common stock at the opening of the first day of the period and assuming a purchase of common stock at our IPO, respectively, and a sale on the closing of the last day of the respective period ends. Dividends and distributions, if any, are assumed for purposes of this calculation, to be reinvested at prices obtained under our dividend reinvestment plan.
- (4) Total return is calculated assuming a purchase at net asset value on the opening of the first day of the period and a sale at net asset value on the last day of the period. Dividends and distributions, if any, are assumed for purposes of this calculation, to be reinvested at the net asset value on the last day of the respective quarter.
- (5) For the year ended December 31, 2014, amounts include our investment activity and the investment activity of the Predecessor Operating Company.
- (6) The weighted average Yield to Maturity at Cost calculation assumes that all investments, including secured collateralized agreements, not on non-accrual are purchased at the adjusted cost on the respective period ends and held until their respective maturities with no prepayments or losses and exited at par at maturity. Adjusted cost reflects the GAAP cost for post-IPO investments and a stepped up cost basis of pre-IPO investments (assuming a step-up to fair market value occurred on the IPO date).

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As of May 8, 2014, NMFC assumed all operating activities previously undertaken by NMF Holdings. The following table sets forth selected financial and other data for NMF Holdings when it was the Predecessor Operating Company.

*(in thousands except units and per unit data)*

| New Mountain Finance Holdings, L.L.C.   | Years Ended December 31, |              |                           |
|---|--------------------------|--------------|---------------------------|
|   | 2013                     | 2012         | 2011                      |
| <b>Statement of Operations Data:</b>  |                          |              |                           |
| Total investment income   | \$ 114,912               | \$ 85,786    | \$ 56,523                 |
| Net expenses  | 51,235                   | 40,569       | 17,998                    |
| Net investment income   | 63,677                   | 45,217       | 38,525                    |
| Net realized and unrealized gains (losses)  | 15,247                   | 28,779       | (6,848)                   |
| Net increase in net assets resulting from operations  | 78,924                   | 73,996       | 31,677                    |
| <b>Per unit data:</b>   |                          |              |                           |
| Net asset value   | \$ 14.38                 | \$ 14.06     | \$ 13.60                  |
| Net increase in net assets resulting from operations (basic and diluted)                              | 1.79                     | 2.18         | 1.02                      |
| Dividends declared <sup>(1)</sup>   | 1.48                     | 1.71         | 0.86                      |
| <b>Balance sheet data:</b>  |                          |              |                           |
| Total assets  | \$ 1,147,841             | \$ 1,025,564 | \$ 730,579                |
| Holdings Credit Facility  | 221,849                  | 206,938      | 129,038                   |
| SLF Credit Facility   | 214,668                  | 214,262      | 165,928                   |
| Total net assets  | 688,516                  | 569,939      | 420,502                   |
| <b>Other data:</b>  |                          |              |                           |
| Total return at net asset value <sup>(2)</sup>  | 13.27%                   | 16.61%       | 10.09%                    |
| Number of portfolio companies at period end   | 59                       | 63           | 55                        |
| Total new investments for the period  | \$ 529,307               | \$ 673,218   | \$ 493,331                |
| Investment sales and repayments for the period  | \$ 426,561               | \$ 423,874   | \$ 231,962                |
| Weighted average Yield to Maturity at Cost on debt portfolio at period end (unaudited) <sup>(3)</sup> | 11.0%                    | 10.3%        | 10.3%                     |
| Weighted average Yield to Maturity on debt portfolio at period end (unaudited) <sup>(4)</sup>         | 10.6%                    | 10.1%        | 10.7%                     |
| Weighted average Adjusted Yield to Maturity on debt portfolio at period end (unaudited)               | (5)                      | (5)          | 13.1%                     |
| Weighted average common membership units outstanding for the period                                   | 44,021,920               | 34,011,738   | 30,919,629 <sup>(6)</sup> |
| Portfolio turnover  | 40.52%                   | 52.02%       | 42.13%                    |

(1) Dividends declared in the year ended December 31, 2013 include a \$0.12 per unit special dividend related to a distribution received attributable to NMF Holdings' investment in YP Equity Investors LLC. Dividends declared in the year ended December 31, 2012 include a \$0.23 per unit special dividend related to estimated realized capital gains attributable to NMF Holdings' investments in Lawson Software, Inc. and Infor Lux Bond Company and a \$0.14 per unit special dividend intended to minimize to the greatest extent possible NMFC's U.S. federal income or excise tax liability. Actual cash payments on the dividends declared to AIV Holdings only, for the quarters ended March 31, 2012, June 30, 2012, December 31, 2012 and March 31, 2013, were made on April 4, 2012, July 9, 2012, January 7, 2013 and April 5, 2013 respectively.

(2) For years ended December 31, 2013 and December 31, 2012, total return is calculated assuming a purchase at net asset value on the opening of the first day of the year and a sale at net asset value on the last day of the respective period ends. Dividends and distributions, if any, are assumed for purposes of this calculation, to be reinvested at the net asset value on the last day of the respective quarter. For the year ended December 31, 2011, total return is calculated in two parts: (1) from the opening of the first day of the year to NMFC's IPO date, total return is calculated



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based on net income over weighted average net assets and (2) from NMFC's IPO date to the last day of the year, total return is calculated assuming a purchase at net asset value on NMFC's IPO date and a sale at net asset value on the last day of the year. Dividends and distributions, if any, are assumed for purposes of this calculation, to be reinvested at the net asset value on the last day of the respective quarter.

- (3) The weighted average Yield to Maturity at Cost calculation assumes that all investments not on non-accrual are purchased at the adjusted cost on the respective period ends and held until their respective maturities with no prepayments or losses and exited at par at maturity. Adjusted cost reflects the GAAP cost for post-IPO investments and a stepped up cost basis of pre-IPO investments (assuming a step-up to fair market value occurred on the IPO date). The weighted average Yield to Maturity at Cost was not calculated prior to NMFC's IPO.
- (4) The weighted average Yield to Maturity calculation assumes that all investments not on non-accrual are purchased at fair value on the respective period ends and held until their respective maturities with no prepayments or losses and exited at par at maturity. The weighted average Yield to Maturity was not calculated subsequent to December 31, 2013.
- (5) "Adjusted Yield to Maturity" assumes that the investments in NMF Holdings' portfolio are purchased at fair value on the respective period ends and held until their respective maturities with no prepayments or losses and exited at par at maturity. This calculation excludes the impact of existing leverage, except for the non-recourse debt of NMF SLF. NMF SLF is treated as a fully levered asset of NMF Holdings, with NMF SLF's net asset value being included for yield calculation purposes.
- (6) Weighted average common membership units outstanding presented from May 19, 2011 to December 31, 2011, as the fund became unitized on May 19, 2011, the IPO date.



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The selected quarterly financial data should be read in conjunction with our respective consolidated financial statements and related consolidated notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this prospectus. The following table sets forth certain quarterly financial data for the quarters ended June 30, 2016 and March 31, 2016 and each of the quarters for the fiscal years ended December 31, 2015 and December 31, 2014. This data is derived from our unaudited financial statements. Results for any quarter are not necessarily indicative of results for the full year or for any future quarter. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Senior Securities" included in this prospectus for more information.

The below selected quarterly financial data is for NMFC.

*(in thousands except for per share data)*

| Quarter Ended      | Total Investment Income |           | Net Investment Income |           | Total Net Realized Gains (Losses) and Net Changes in Unrealized Appreciation (Depreciation) of Investments <sup>(1)</sup> |           | Net Increase (Decrease) in Net Assets Resulting from Operations |           |
|--------------------|-------------------------|-----------|-----------------------|-----------|---|-----------|---|-----------|
|                    | Total                   | Per Share | Total                 | Per Share | Total   | Per Share | Total   | Per Share |
| June 30, 2016      | \$ 41,490               | \$ 0.65   | \$ 21,832             | \$ 0.34   | \$ 22,861   | \$ 0.36   | \$ 44,693   | \$ 0.70   |
| March 31, 2016     | 40,976                  | 0.64      | 21,567                | 0.34      | (13,516)  | (0.21)    | 8,051   | 0.13      |
| December 31, 2015  | \$ 41,967               | \$ 0.66   | \$ 22,521             | \$ 0.35   | \$ (42,548)   | \$ (0.66) | \$ (20,027)   | \$ (0.31) |
| September 30, 2015 | 37,447                  | 0.64      | 20,659                | 0.35      | (10,855)  | (0.18)    | 9,804   | 0.17      |
| June 30, 2015      | 37,905                  | 0.65      | 20,253                | 0.35      | 11  | 0.00      | 20,264  | 0.35      |
| March 31, 2015     | 36,536                  | 0.63      | 19,062                | 0.33      | 3,852   | 0.07      | 22,914  | 0.40      |
| December 31, 2014  | \$ 36,748               | \$ 0.65   | \$ 25,919             | \$ 0.46   | \$ (34,865)   | \$ (0.62) | \$ (8,946)  | \$ (0.16) |
| September 30, 2014 | 34,706                  | 0.67      | 20,800                | 0.40      | (13,389)  | (0.26)    | 7,411   | 0.14      |
| June 30, 2014      | 33,708                  | 0.65      | 17,289                | 0.34      | 6,373   | 0.12      | 23,662  | 0.46      |
| March 31, 2014     | 30,439                  | 0.65      | 16,058                | 0.34      | 7,390   | 0.16      | 23,448  | 0.50      |

- (1) Includes securities purchased under collateral agreements to resell, benefit (provision) for taxes and the accretive effect of common stock issuances per share, if applicable.

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**DESCRIPTION OF RESTRUCTURING**

***New Mountain Finance Corporation***

NMFC is a Delaware corporation that was originally incorporated on June 29, 2010. NMFC is a closed-end, non-diversified management investment company that has elected to be regulated as a BDC under the 1940 Act. As such, NMFC is obligated to comply with certain regulatory requirements. NMFC has elected to be treated, and intends to comply with the requirements to continue to qualify annually, as a RIC under Subchapter M of the Code. NMFC is also registered as an investment adviser under the Advisers Act.

On May 19, 2011, NMFC priced the IPO of 7,272,727 shares of common stock at a public offering price of \$13.75 per share. Concurrently with the closing of the IPO and at the public offering price of \$13.75 per share, NMFC sold an additional 2,172,000 shares of its common stock to certain executives and employees of, and other individuals affiliated with, New Mountain Capital in the Concurrent Private Placement. Additionally, 1,252,964 shares were issued to the partners of New Mountain Guardian Partners, L.P. at that time for their ownership interest in the Predecessor Entities. In connection with NMFC's IPO and through a series of transactions, the NMF Holdings acquired all of the operations of the Predecessor Entities, including all of the assets and liabilities related to such operations.

***New Mountain Finance Holdings, L.L.C***

NMF Holdings is a Delaware limited liability company. Until May 8, 2014, NMF Holdings was externally managed and was regulated as a BDC under the 1940 Act. As such, NMF Holdings was obligated to comply with certain regulatory requirements. NMF Holdings was treated as a partnership for U.S. federal income tax purposes for so long as it had at least two members. With the completion of the underwritten secondary offering on February 3, 2014, NMF Holdings' existence as a partnership for U.S. federal income tax purposes terminated and NMF Holdings became an entity that is disregarded as a separate entity from its owner for U.S. federal tax purposes. See "Material Federal Income Tax Considerations".

Until May 8, 2014, NMF Holdings was externally managed by the Investment Adviser. As of May 8, 2014, the Investment Adviser now serves as the external investment adviser to NMFC. The Administrator provides the administrative services necessary for operations. The Investment Adviser and Administrator are wholly-owned subsidiaries of New Mountain Capital. New Mountain Capital is a firm with a track record of investing in the middle market and with assets under management totaling more than \$15.0 billion<sup>(1)</sup>, which includes total assets held by us. New Mountain Capital focuses on investing in defensive growth companies across its private equity, public equity, and credit investment vehicles. NMF Holdings, formerly known as New Mountain Guardian (Leveraged), L.L.C., was originally formed as a subsidiary of Guardian AIV by New Mountain Capital in October 2008. Guardian AIV was formed through an allocation of approximately \$300.0 million of the \$5.1 billion of commitments supporting New Mountain Partners III, L.P., a private equity fund managed by New Mountain Capital. In February 2009, New Mountain Capital formed a co-investment vehicle, New Mountain Guardian Partners, L.P., comprising \$20.4 million of commitments.

***New Mountain Finance AIV Holdings Corporation***

Until April 25, 2014, AIV Holdings was a Delaware corporation that was originally incorporated on March 11, 2011. AIV Holdings was dissolved on April 25, 2014. Guardian AIV, a Delaware limited

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(1) Includes amounts committed, not all of which have been drawn down and invested to-date, as of June 30, 2016, as well as amounts called and returned since inception.

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partnership, was AIV Holdings' sole stockholder. AIV Holdings was a closed-end, non-diversified management investment company that was regulated as a BDC under the 1940 Act. As such, AIV Holdings was obligated to comply with certain regulatory requirements. AIV Holdings was treated, and complied with the requirements to qualify annually, as a RIC under the Code.

***Structure***

Prior to the Restructuring (as defined below) on May 8, 2014, NMFC and AIV Holdings were holding companies with no direct operations of their own, and their sole asset was their ownership in NMF Holdings. In connection with the IPO, NMFC and AIV Holdings each entered into a joinder agreement with respect to the Limited Liability Company Agreement, as amended and restated, of NMF Holdings, pursuant to which NMFC and AIV Holdings were admitted as members of NMF Holdings. NMFC acquired from NMF Holdings, with the gross proceeds of the IPO and the Concurrent Private Placement, common membership units ("units") of NMF Holdings (the number of units were equal to the number of shares of NMFC's common stock sold in the IPO and the Concurrent Private Placement). Additionally, NMFC received units of NMF Holdings equal to the number of shares of common stock of NMFC issued to the partners of New Mountain Guardian Partners, L.P. Guardian AIV was the parent of NMF Holdings prior to the IPO and, as a result of the transactions completed in connection with the IPO, obtained units in NMF Holdings. Guardian AIV contributed its units in NMF Holdings to its newly formed subsidiary, AIV Holdings, in exchange for common stock of AIV Holdings. AIV Holdings had the right to exchange all or any portion of its units in NMF Holdings for shares of NMFC's common stock on a one-for-one basis at any time.

The original structure was designed to generally prevent NMFC from being allocated taxable income with respect to unrecognized gains that existed at the time of the IPO in the Predecessor Entities' assets, and rather such amounts would be allocated generally to AIV Holdings. The result was that any distributions made to NMFC's stockholders that were attributable to such gains generally were not treated as taxable dividends but rather as return of capital. See "Material Federal Income Tax Considerations" included in this prospectus.

Since the IPO through February 3, 2014, NMFC completed five underwritten secondary offerings of its common stock on behalf of AIV Holdings as the selling stockholder. In connection with these five secondary offerings, AIV Holdings tendered an aggregate of 20,221,938 units of NMF Holdings held by AIV Holdings to NMFC in exchange for the net proceeds (after deducting underwriting discounts and commissions) of these five secondary offerings and NMFC issued an aggregate of 20,221,938 shares of its common stock directly to the underwriters for these five secondary offerings. AIV Holdings distributed all of the net proceeds from these five secondary offerings to its sole stockholder, Guardian AIV. With the completion of the final secondary offering on February 3, 2014, NMFC now owns 100.0% of the units of NMF Holdings, which is now a wholly-owned subsidiary of NMFC.

***Restructuring***

As a BDC, AIV Holdings had been subject to the 1940 Act, including certain provisions applicable only to BDCs. Accordingly, and after careful consideration of the 1940 Act requirements applicable to BDCs, the cost of 1940 Act compliance and a thorough assessment of AIV Holdings' business model, AIV Holdings' board of directors determined that continuation as a BDC was not in the best interests of AIV Holdings and Guardian AIV. Specifically, given that AIV Holdings was formed for the sole purpose of holding units of NMF Holdings and AIV Holdings had disposed of all of the units of NMF Holdings that it was holding as of February 3, 2014, the board of directors of AIV Holdings approved and declared advisable at an in-person meeting held on March 25, 2014 the withdrawal of AIV Holdings' election to be regulated as a BDC under the 1940 Act. In addition, the board of directors of AIV Holdings approved and declared advisable for AIV Holdings to terminate

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its registration under Section 12(g) of the Exchange Act and to dissolve AIV Holdings under the laws of the State of Delaware.

Upon receipt of the necessary stockholder consent to authorize the board of directors of AIV Holdings to withdraw AIV Holdings' election to be regulated as a BDC, the withdrawal was filed and became effective upon receipt by the SEC of AIV Holdings' notification of withdrawal on Form N-54C on April 15, 2014. The board of directors of AIV Holdings believed that AIV Holdings met the requirements for filing the notification to withdraw its election to be regulated as a BDC, upon the receipt of the necessary stockholder consent. After the notification of withdrawal of AIV Holdings' BDC election was filed with the SEC, AIV Holdings was no longer subject to the regulatory provisions of the 1940 Act applicable to BDCs generally, including regulations related to insurance, custody, composition of its board of directors, affiliated transactions and any compensation arrangements.

In addition, on April 15, 2014, AIV Holdings filed a Form 15 with the SEC to terminate AIV Holdings' registration under Section 12(g) of the Exchange Act. After these SEC filings and any other federal or state regulatory or tax filings were made, AIV Holdings proceeded to dissolve under Delaware law by filing a certificate of dissolution in Delaware on April 25, 2014.

Until May 8, 2014, as a BDC, NMF Holdings had been subject to the 1940 Act, including certain provisions applicable only to BDCs. Accordingly, and after careful consideration of the 1940 Act requirements applicable to BDCs, the cost of 1940 Act compliance and a thorough assessment of NMF Holdings' current business model, NMF Holdings' board of directors determined at an in-person meeting held on March 25, 2014 that continuation as a BDC was not in the best interests of NMF Holdings.

At the 2014 joint annual meeting of the stockholders of NMFC and the sole unit holder of NMF Holdings held on May 6, 2014, the stockholders of NMFC and the sole unit holder of NMF Holdings approved a proposal which authorized the board of directors of NMF Holdings to withdraw NMF Holdings' election to be regulated as a BDC. Additionally, the stockholders of NMFC approved a new investment advisory and management agreement between NMFC and the Investment Adviser. Upon receipt of the necessary stockholder/unit holder approval to authorize the board of directors of NMF Holdings to withdraw NMF Holdings' election to be regulated as a BDC, the withdrawal was filed and became effective upon receipt by the SEC of NMF Holdings' notification of withdrawal on Form N-54C on May 8, 2014.

Effective May 8, 2014, NMF Holdings amended and restated its Limited Liability Company Agreement, (as amended and restated, the "Operating Agreement") such that the board of directors of NMF Holdings was dissolved and NMF Holdings remained a wholly-owned subsidiary of NMFC with the sole purpose of serving as a special purpose vehicle for NMF Holdings' credit facility, and NMFC assumed all other operating activities previously undertaken by NMF Holdings under the management of the Investment Adviser (collectively, the "Restructuring"). After the Restructuring, all wholly-owned direct and indirect subsidiaries of NMFC are consolidated with NMFC for both 1940 Act and financial statement reporting purposes, subject to any financial statement adjustments required in accordance with GAAP. NMFC continues to remain a BDC regulated under the 1940 Act.

Also, on May 8, 2014, NMF Holdings filed Form 15 with the SEC to terminate NMF Holdings' registration under Section 12(g) of the Exchange Act. As a special purpose entity, NMF Holdings is bankruptcy-remote and non-recourse to NMFC. In addition, the assets held at NMF Holdings will continue to be used to secure NMF Holdings' credit facility.

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The diagram below depicts our organizational structure as of October 4, 2016.

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\*

Includes partners of New Mountain Guardian Partners, L.P.

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NMFC is the sole limited partner of SBIC LP. NMFC, directly or indirectly through SBIC GP, wholly-owns SBIC LP. NMFC owns 100.0% of SBIC GP which owns 1.0% of SBIC LP. NMFC owns 99.0% of SBIC LP.

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**RISK FACTORS**

*Investing in our securities involves a number of significant risks. In addition to the other information contained in this prospectus and any accompanying prospectus supplement, you should consider carefully the following information before making an investment in our securities. The risks set out below are not the only risks we face. Additional risks and uncertainties not presently known to us or not presently deemed material by us might also impair our operations and performance. If any of the following events occur, our business, financial condition and results of operations could be materially and adversely affected. In such case, our net asset value and the trading price of our common stock could decline or the value of our preferred stock, subscription rights, warrants or debt securities may decline, and you may lose all or part of your investment.*

**Risks Related to our Business and Structure**

***Global capital markets could enter a period of severe disruption and instability. These market conditions have historically and could again have a materially adverse effect on debt and equity capital markets in the U.S., which could have, a materially negative impact on our business, financial condition and results of operations.***

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

***Further downgrades of the U.S. credit rating, impending automatic spending cuts or another government shutdown could negatively impact our liquidity, financial condition and earnings.***

Recent U.S. debt ceiling and budget deficit concerns have increased the possibility of additional credit-rating downgrades and economic slowdowns, or a recession in the U.S. Although U.S. lawmakers passed legislation to raise the federal debt ceiling on multiple occasions, ratings agencies have lowered or threatened to lower the long-term sovereign credit rating on the U.S. The impact of this or any further downgrades to the U.S. government's sovereign credit rating or its perceived creditworthiness could adversely affect the U.S. and global financial markets and economic conditions. Absent further quantitative easing by the Federal Reserve, these developments could cause interest rates and borrowing costs to rise, which may negatively impact our ability to access the debt markets on favorable terms. In addition, disagreement over the federal budget has caused the U.S. federal government to shut down for periods of time. Continued adverse political and economic conditions could have a material adverse effect on our business, financial condition and results of operations.

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***Global economic, political and market conditions may adversely affect our business, results of operations and financial condition, including our revenue growth and profitability.***

The current worldwide financial market situation, as well as various social and political tensions in the U.S. and around the world, may contribute to increased market volatility, may have long-term effects on the U.S. and worldwide financial markets, and may cause economic uncertainties or deterioration in the U.S. and worldwide. Since 2010, several European Union ("EU") countries, including Greece, Ireland, Italy, Spain, and Portugal, have faced budget issues, some of which may have negative long-term effects for the economies of those countries and other EU countries. There is continued concern about national-level support for the Euro and the accompanying coordination of fiscal and wage policy among European Economic and Monetary Union member countries. In addition, the fiscal policy of foreign nations, such as Russia and China, may have a severe impact on the worldwide and U.S. financial markets. We cannot predict the effects of these or similar events in the future on the U.S. economy and securities markets or on our investments. We monitor developments and seek to manage our investments in a manner consistent with achieving our investment objective, but there can be no assurance that we will be successful in doing so.

***We may suffer credit losses.***

Investments in small and middle market businesses are highly speculative and involve a high degree of risk of credit loss. These risks are likely to increase during volatile economic periods, such as the U.S. and many other economies have recently been experiencing.

***We do not expect to replicate the Predecessor Entities' historical performance or the historical performance of other entities managed or supported by New Mountain Capital.***

We do not expect to replicate the Predecessor Entities' historical performance or the historical performance of New Mountain Capital's investments. Our investment returns may be substantially lower than the returns achieved by the Predecessor Entities. Although the Predecessor Entities commenced operations during otherwise unfavorable economic conditions, this was a favorable environment in which the Predecessor Operating Company could conduct its business in light of its investment objectives and strategy. In addition, our investment strategies may differ from those of New Mountain Capital or its affiliates. We, as a BDC and as a RIC, are subject to certain regulatory restrictions that do not apply to New Mountain Capital or its affiliates.

We are generally not permitted to invest in any portfolio company in which New Mountain Capital or any of its affiliates currently have an investment or to make any co-investments with New Mountain Capital or its affiliates, except to the extent permitted by the 1940 Act. This may adversely affect the pace at which we make investments. Moreover, we may operate with a different leverage profile than the Predecessor Entities. Furthermore, none of the prior results from the Predecessor Entities were from public reporting companies, and all or a portion of these results were achieved in particularly favorable market conditions for the Predecessor Operating Company's investment strategy which may never be repeated. Finally, we can offer no assurance that our investment team will be able to continue to implement our investment objective with the same degree of success as it has had in the past.

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***There is uncertainty as to the value of our portfolio investments because most of our investments are, and may continue to be in private companies and recorded at fair value. In addition, the fair values of our investments are determined by our board of directors in accordance with our valuation policy.***

Some of our investments are and may be in the form of securities or loans that are not publicly traded. The fair value of these investments may not be readily determinable. Under the 1940 Act, we are required to carry our portfolio investments at market value or, if there is no readily available market value, at fair value as determined in good faith by our board of directors, including to reflect significant events affecting the value of our securities. We value our investments for which we do not have readily available market quotations quarterly, or more frequently as circumstances require, at fair value as determined in good faith by our board of directors in accordance with our valuation policy, which is at all times consistent with GAAP.

Our board of directors utilizes the services of one or more independent third-party valuation firms to aid it in determining the fair value with respect to our material unquoted assets in accordance with our valuation policy. The inputs into the determination of fair value of these investments may require significant management judgment or estimation. Even if observable market data is available, such information may be the result of consensus pricing information or broker quotes, which include a disclaimer that the broker would not be held to such a price in an actual transaction. The non-binding nature of consensus pricing and/or quotes accompanied by disclaimers materially reduces the reliability of such information.

The types of factors that the board of directors takes into account in determining the fair value of our investments generally include, as appropriate: available market data, including relevant and applicable market trading and transaction comparables, applicable market yields and multiples, security covenants, call protection provisions, information rights, the nature and realizable value of any collateral, the portfolio company's ability to make payments, its earnings and discounted cash flows and the markets in which it does business, comparisons of financial ratios of peer companies that are public, comparable merger and acquisition transactions and the principal market and enterprise values. Since these valuations, and particularly valuations of private securities and private companies, are inherently uncertain, may fluctuate over short periods of time and may be based on estimates, our determinations of fair value may differ materially from the values that would have been used if a ready market for these securities existed.

Due to this uncertainty, our fair value determinations may cause our net asset value, on any given date, to be materially understated or overstated. In addition, investors purchasing our common stock based on an overstated net asset value would pay a higher price than the realizable value that our investments might warrant.

We may adjust quarterly the valuation of our portfolio to reflect our board of directors' determination of the fair value of each investment in our portfolio. Any changes in fair value are recorded in our statement of operations as net change in unrealized appreciation or depreciation.

***Our ability to achieve our investment objective depends on key investment personnel of the Investment Adviser. If the Investment Adviser were to lose any of its key investment personnel, our ability to achieve our investment objective could be significantly harmed.***

We depend on the investment judgment, skill and relationships of the investment professionals of the Investment Adviser, particularly Steven B. Klinsky and Robert A. Hamwee, as well as other key personnel to identify, evaluate, negotiate, structure, execute, monitor and service our investments. The Investment Adviser, as an affiliate of New Mountain Capital, is supported by New Mountain Capital's team, which as of June 30, 2016 consisted of approximately 100 staff members of New Mountain Capital and its affiliates to fulfill its obligations to us under the Investment



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Management Agreement. The Investment Adviser may also depend upon New Mountain Capital to obtain access to investment opportunities originated by the professionals of New Mountain Capital and its affiliates. Our future success depends to a significant extent on the continued service and coordination of the key investment personnel of the Investment Adviser. The departure of any of these individuals could have a material adverse effect on our ability to achieve our investment objective.

The Investment Committee, which provides oversight over our investment activities, is provided by the Investment Adviser. The Investment Committee currently consists of five members. The loss of any member of the Investment Committee or of other senior professionals of the Investment Adviser and its affiliates without suitable replacement could limit our ability to achieve our investment objective and operate as we anticipate. This could have a material adverse effect on our financial condition, results of operation and cash flows. To achieve our investment objective, the Investment Adviser may hire, train, supervise and manage new investment professionals to participate in its investment selection and monitoring process. If the Investment Adviser is unable to find investment professionals or do so in a timely manner, our business, financial condition and results of operations could be adversely affected.

***The Investment Adviser has limited experience managing a BDC or a RIC, which could adversely affect our business.***

Other than us, the Investment Adviser has not previously managed a BDC or a RIC. The 1940 Act and the Code impose numerous constraints on the operations of BDCs and RICs that do not apply to the other investment vehicles previously managed by the investment professionals of the Investment Adviser. For example, under the 1940 Act, BDCs are required to invest at least 70.0% of their total assets primarily in securities of qualifying U.S. private or thinly traded companies, cash, cash equivalents, U.S. government securities and other high quality debt investments that mature in one year or less. Moreover, qualification for taxation as a RIC under subchapter M of the Code requires satisfaction of source-of-income, asset diversification and annual distribution requirements. The failure to comply with these provisions in a timely manner could prevent us from qualifying as a BDC or as a RIC and could force us to pay unexpected taxes and penalties, which would have a material adverse effect on our performance. The Investment Adviser's lack of experience in managing a portfolio of assets under the constraints applicable to BDCs and RICs may hinder its ability to take advantage of attractive investment opportunities and, as a result, achieve our investment objective. If we fail to maintain our status as a BDC or as a RIC, our operating flexibility could be significantly reduced.

***We operate in a highly competitive market for investment opportunities and may not be able to compete effectively.***

We compete for investments with other BDCs and investment funds (including private equity and hedge funds), as well as traditional financial services companies such as commercial banks and other sources of funding. Many of our competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. For example, some competitors may have a lower cost of capital and access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments than us. Furthermore, many of our competitors have greater experience operating under, or are not subject to, the regulatory restrictions that the 1940 Act imposes on us as a BDC or the source-of-income, asset diversification and distribution requirements that we must satisfy to maintain our RIC status. These characteristics could allow our competitors to consider a wider variety of investments, establish more relationships and offer better pricing and more flexible structuring than we are able to do.

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We may lose investment opportunities if our pricing, terms and structure do not match those of our competitors. With respect to the investments that we make, we do not seek to compete based primarily on the interest rates we may offer, and we believe that some of our competitors may make loans with interest rates that may be lower than the rates we offer. In the secondary market for acquiring existing loans, we expect to compete generally on the basis of pricing terms. If we match our competitors' pricing, terms and structure, we may experience decreased net interest income, lower yields and increased risk of credit loss. If we are forced to match our competitors' pricing, terms and structure, we may not be able to achieve acceptable returns on our investments or may bear substantial risk of capital loss. Part of our competitive advantage stems from the fact that we believe the market for middle market lending is underserved by traditional bank lenders and other financial sources. A significant increase in the number and/or the size of our competitors in this target market could force us to accept less attractive investment terms. We may also compete for investment opportunities with accounts managed by the Investment Adviser or its affiliates. Although the Investment Adviser allocates opportunities in accordance with its policies and procedures, allocations to such other accounts reduces the amount and frequency of opportunities available to us and may not be in our best interests and, consequently, our stockholders. Moreover, the performance of investment opportunities is not known at the time of allocation. If we are not able to compete effectively, our business, financial condition and results of operations may be adversely affected, thus affecting our business, financial condition and results of operations. Because of this competition, there can be no assurance that we will be able to identify and take advantage of attractive investment opportunities that we identify or that we will be able to fully invest our available capital.

***Our business, results of operations and financial condition depend on our ability to manage future growth effectively.***

Our ability to achieve our investment objective and to grow depends on the Investment Adviser's ability to identify, invest in and monitor companies that meet our investment criteria. Accomplishing this result on a cost-effective basis is largely a function of the Investment Adviser's structuring of the investment process, its ability to provide competent, attentive and efficient services to us and its ability to access financing on acceptable terms. The Investment Adviser has substantial responsibilities under the Investment Management Agreement and may also be called upon to provide managerial assistance to our portfolio companies. These demands on the time of the Investment Adviser and its investment professionals may distract them or slow our rate of investment. In order to grow, we and the Investment Adviser may need to retain, train, supervise and manage new investment professionals. However, these investment professionals may not be able to contribute effectively to the work of the Investment Adviser. If we are unable to manage our future growth effectively, our business, results of operations and financial condition could be materially adversely affected.

***The incentive fee may induce the Investment Adviser to make speculative investments.***

The incentive fee payable to the Investment Adviser may create an incentive for the Investment Adviser to pursue investments that are risky or more speculative than would be the case in the absence of such compensation arrangement, which could result in higher investment losses, particularly during cyclical economic downturns. The incentive fee payable to the Investment Adviser is calculated based on a percentage of our return on investment capital. This may encourage the Investment Adviser to use leverage to increase the return on our investments. In addition, because the base management fee is payable based upon our gross assets, which includes any borrowings for investment purposes, but excludes borrowings under the SLF Credit Facility and cash and cash equivalents for investment purposes, the Investment Adviser may be further encouraged to use leverage to make additional investments. Under certain circumstances,

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the use of leverage may increase the likelihood of default, which would impair the value of our common stock.

The incentive fee payable to the Investment Adviser also may create an incentive for the Investment Adviser to invest in instruments that have a deferred interest feature, even if such deferred payments would not provide the cash necessary to pay current distributions to our stockholders. Under these investments, we would accrue the interest over the life of the investment but would not receive the cash income from the investment until the end of the investment's term, if at all. Our net investment income used to calculate the income portion of the incentive fee, however, includes accrued interest. Thus, a portion of the incentive fee would be based on income that we have not yet received in cash and may never receive in cash if the portfolio company is unable to satisfy such interest payment obligations. In addition, the "catch-up" portion of the incentive fee may encourage the Investment Adviser to accelerate or defer interest payable by portfolio companies from one calendar quarter to another, potentially resulting in fluctuations in timing and dividend amounts.

***We may be obligated to pay the Investment Adviser incentive compensation even if we incur a loss.***

The Investment Adviser is entitled to incentive compensation for each fiscal quarter in an amount equal to a percentage of the excess of our Pre-Incentive Fee Adjusted Net Investment Income for that quarter (before deducting incentive compensation) above a performance threshold for that quarter. Accordingly, since the performance threshold is based on a percentage of our net asset value, decreases in our net asset value make it easier to achieve the performance threshold. Our Pre-Incentive Fee Adjusted Net Investment Income for incentive compensation purposes excludes realized and unrealized capital losses or depreciation that it may incur in the fiscal quarter, even if such capital losses or depreciation result in a net loss on our statement of operations for that quarter. Thus, we may be required to pay the Investment Adviser incentive compensation for a fiscal quarter even if there is a decline in the value of our portfolio or we incur a net loss for that quarter.

***The incentive fee we pay to the Investment Adviser with respect to capital gains may be effectively greater than 20.0%.***

As a result of the operation of the cumulative method of calculating the capital gains portion of the incentive fee we pay to the Investment Adviser, the cumulative aggregate capital gains fee received by the Investment Adviser could be effectively greater than 20.0%, depending on the timing and extent of subsequent net realized capital losses or net unrealized depreciation. We cannot predict whether, or to what extent, this payment calculation would affect your investment in our common stock.

***We borrow money, which could magnify the potential for gain or loss on amounts invested in us and increase the risk of investing in us.***

We borrow money as part of our business plan. Borrowings, also known as leverage, magnify the potential for gain or loss on invested equity capital and may, consequently, increase the risk of investing in us. We expect to continue to use leverage to finance our investments, through senior securities issued by banks and other lenders. Lenders of these senior securities have fixed dollar claims on our assets that are superior to claims of our common stockholders. If the value of our assets decreases, leveraging would cause our net asset value to decline more sharply than it otherwise would have had it not leveraged. Similarly, any decrease in our income would cause our net income to decline more sharply than it would have had it not borrowed. Such a decline could adversely affect our ability to make common stock dividend payments. In addition, because our

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investments may be illiquid, we may be unable to dispose of them or to do so at a favorable price in the event we need to do so if we are unable to refinance any indebtedness upon maturity and, as a result, we may suffer losses. Leverage is generally considered a speculative investment technique.

Our ability to service any debt that we incur depends largely on our financial performance and is subject to prevailing economic conditions and competitive pressures. Moreover, as the Investment Adviser's management fee is payable to the Investment Adviser based on gross assets, including those assets acquired through the use of leverage, the Investment Adviser may have a financial incentive to incur leverage which may not be consistent with our interests and the interests of our common stockholders. In addition, holders of our common stock will, indirectly, bear the burden of any increase in our expenses as a result of leverage, including any increase in the management fee payable to the Investment Adviser.

At June 30, 2016, we had \$348.0 million, \$87.0 million, \$115.0 million, \$50.0 million and \$121.7 million of indebtedness outstanding under the Holdings Credit Facility, the NMFC Credit Facility, the Convertible Notes, the Unsecured Notes and the SBA-guaranteed debentures, respectively. The Holdings Credit Facility had a weighted average interest rate of 2.7% for the six months ended June 30, 2016, the NMFC Credit Facility had a weighted average interest rate of 2.9% for the six months ended June 30, 2016 and the SBA-guaranteed debentures had a weighted average interest rate of 3.1% for the six months ended June 30, 2016. The interest rate on the Convertible Notes is 5.0% per annum and the interest rate on the Unsecured Notes is 5.313% per annum. In order for us to cover our annual interest payments on our outstanding indebtedness at June 30, 2016, we must achieve annual returns on our June 30, 2016 total assets of at least 1.6%.

**Illustration.** The following table illustrates the effect of leverage on returns from an investment in our common stock assuming various annual returns, net of expenses and adjusted for unsettled securities purchased. The calculations in the table below are hypothetical. Actual returns may be higher or lower than those appearing below. The calculation assumes (i) \$1,584.6 million in total assets, (ii) a weighted average cost of borrowings of 3.3%, which assumes the weighted average interest rates as of June 30, 2016 for the Holdings Credit Facility, the NMFC Credit Facility and the SBA-guaranteed debentures and the interest rate as of June 30, 2016 for the Convertible Notes and Unsecured Notes, (iii) \$721.7 million in debt outstanding and (iv) \$843.3 million in net assets.

**Assumed Return on Our Portfolio  
(net of expenses)**

|                                     | (10.0)% | (5.0)%  | 0%     | 5.0% | 10.0% |
|-------------------------------------|---------|---------|--------|------|-------|
| Corresponding return to stockholder | (21.6)% | (12.2)% | (2.8)% | 6.6% | 15.9% |

***If we are unable to comply with the covenants or restrictions in our borrowings, our business could be materially adversely affected.***

The Holdings Credit Facility includes covenants that, subject to exceptions, restrict our ability to pay distributions, create liens on assets, make investments, make acquisitions and engage in mergers or consolidations. The Holdings Credit Facility also includes a change of control provision that accelerates the indebtedness under the facility in the event of certain change of control events. Complying with these restrictions may prevent us from taking actions that we believe would help us grow our business or are otherwise consistent with our investment objective. These restrictions could also limit our ability to plan for or react to market conditions or meet extraordinary capital needs or otherwise restrict corporate activities. In addition, the restrictions contained in the Holdings Credit Facility could limit our ability to make distributions to our stockholders in certain

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circumstances, which could result in us failing to qualify as a RIC and thus becoming subject to corporate-level U.S. federal income tax (and any applicable state and local taxes).

The NMFC Credit Facility includes customary covenants, including certain financial covenants related to asset coverage and liquidity and other maintenance covenants, as well as customary events of default.

Our Convertible Notes are subject to certain covenants, including covenants requiring us to provide financial information to the holders of the Convertible Notes and the trustee if we cease to be subject to the reporting requirements of the Exchange Act. These covenants are subject to limitations and exceptions. In addition, if certain corporate events occur, holders of the Convertible Notes may require us to repurchase for cash all or part of their Convertible Notes at a repurchase price equal to 100.0% of the principal amount of the Convertible Notes to be repurchased, plus accrued and unpaid interest through, but excluding, the repurchase date.

Our Unsecured Notes are subject to certain covenants, including covenants such as information reporting, maintenance of our status as a BDC under the 1940 Act and a RIC under the Internal Revenue Code, minimum stockholders' equity, minimum asset coverage ratio, and prohibitions on certain fundamental changes, as well as customary events of default with customary cure and notice, including, without limitation, nonpayment, misrepresentation in a material respect, breach of covenant, cross-default under our other indebtedness or certain significant subsidiaries, certain judgments and orders, and certain events of bankruptcy. In addition, we are obligated to offer to prepay the Unsecured Notes at par if the Investment Adviser, or an affiliate thereof, ceases to be our investment adviser or if certain change in control events occur with respect to the Investment Adviser.

The breach of any of the covenants or restrictions, unless cured within the applicable grace period, would result in a default under the applicable credit facility that would permit the lenders thereunder to declare all amounts outstanding to be due and payable. In such an event, we may not have sufficient assets to repay such indebtedness. As a result, any default could have serious consequences to our financial condition. An event of default or an acceleration under the credit facilities could also cause a cross-default or cross-acceleration of another debt instrument or contractual obligation, which would adversely impact our liquidity. We may not be granted waivers or amendments to the credit facilities if for any reason we are unable to comply with it, and we may not be able to refinance the credit facilities on terms acceptable to us, or at all.

***We may enter into reverse repurchase agreements, which are another form of leverage.***

We may enter into reverse repurchase agreements as part of our management of our investment portfolio. Under a reverse repurchase agreement, we will effectively pledge our assets as collateral to secure a short-term loan. Generally, the other party to the agreement makes the loan in an amount equal to a percentage of the fair value of the pledged collateral. At the maturity of the reverse repurchase agreement, the payor will be required to repay the loan and correspondingly receive back its collateral. While used as collateral, the assets continue to pay principal and interest which are for our benefit.

Our use of reverse repurchase agreements, if any, involves many of the same risks involved in our use of leverage, as the proceeds from reverse repurchase agreements generally will be invested in additional securities. There is a risk that the market value of the securities acquired with the proceeds of a reverse repurchase agreement may decline below the price of the securities that we have sold but remain obligated to repurchase under the reverse repurchase agreement. In addition, there is a risk that the market value of the securities effectively pledged by us may decline. If a buyer of securities under a reverse repurchase agreement were to file for bankruptcy or experience insolvency, we may be adversely affected. Also, in entering into reverse repurchase

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agreements, we would bear the risk of loss to the extent that the proceeds of such agreements at settlement are more than the fair value of the underlying securities being pledged. In addition, due to the interest costs associated with reverse repurchase agreements transactions, our net asset value would decline, and, in some cases, we may be worse off than if such instruments had not been used.

***If we are unable to obtain additional debt financing, or if our borrowing capacity is materially reduced, our business could be materially adversely affected.***

We may want to obtain additional debt financing, or need to do so upon maturity of our credit facilities, in order to obtain funds which may be made available for investments. The revolving period under the Holdings Credit Facility ends on December 18, 2017, and the Holdings Credit Facility matures on December 18, 2019. The NMFC Credit Facility, the Convertible Notes and the Unsecured Notes mature on June 4, 2019, June 15, 2019 and May 15, 2021, respectively. The SBA-guaranteed debentures have ten year maturities and will begin to mature on March 1, 2025. If we are unable to increase, renew or replace any such facilities and enter into new debt financing facilities or other debt financing on commercially reasonable terms, our liquidity may be reduced significantly. In addition, if we are unable to repay amounts outstanding under any such facilities and are declared in default or are unable to renew or refinance these facilities, we may not be able to make new investments or operate our business in the normal course. These situations may arise due to circumstances that we may be unable to control, such as lack of access to the credit markets, a severe decline in the value of the U.S. dollar, a further economic downturn or an operational problem that affects us or third parties, and could materially damage our business operations, results of operations and financial condition.

***We may need to raise additional capital to grow.***

We may need additional capital to fund new investments and grow. We may access the capital markets periodically to issue equity securities. In addition, we may also issue debt securities or borrow from financial institutions in order to obtain such additional capital. Unfavorable economic conditions could increase our funding costs and limit our access to the capital markets or result in a decision by lenders not to extend credit to us. A reduction in the availability of new capital could limit our ability to grow. In addition, we are required to distribute at least 90.0% of our net ordinary income and net short-term capital gains in excess of net long-term capital losses, if any, to our stockholders to maintain our RIC status. As a result, these earnings will not be available to fund new investments. If we are unable to access the capital markets or if we are unable to borrow from financial institutions, we may be unable to grow our business and execute our business strategy fully, and our earnings, if any, could decrease, which could have an adverse effect on the value of our securities.

***A renewed disruption in the capital markets and the credit markets could adversely affect our business.***

As a BDC, we must maintain our ability to raise additional capital for investment purposes. If we are unable to access the capital markets or credit markets, we may be forced to curtail our business operations and may be unable to pursue new investment opportunities. The capital markets and the credit markets have experienced extreme volatility in recent periods, and, as a result, there have been and will likely continue to be uncertainty in the financial markets in general. Disruptions in the capital markets in recent years increased the spread between the yields realized on risk-free and higher risk securities, resulting in illiquidity in parts of the capital markets. In addition, a prolonged period of market illiquidity may cause us to reduce the volume of loans that we originate and/or fund and adversely affect the value of our portfolio investments. Unfavorable

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economic conditions could also increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. These events could limit our investment originations, limit our ability to grow and negatively impact our operating results. Ongoing disruptive conditions in the financial industry and the impact of new legislation in response to those conditions could restrict our business operations and, consequently, could adversely impact our business, results of operations and financial condition.

If the fair value of our assets declines substantially, we may fail to maintain the asset coverage ratios imposed upon us by the 1940 Act and contained in the Holdings Credit Facility, the NMFC Credit Facility and the Unsecured Notes. Any such failure would result in a default under such indebtedness and otherwise affect our ability to issue senior securities, borrow under the Holdings Credit Facility and NMFC Credit Facility and pay distributions, which could materially impair our business operations. Our liquidity could be impaired further by our inability to access the capital or credit markets. For example, we cannot be certain that we will be able to renew our credit facilities as they mature or to consummate new borrowing facilities to provide capital for normal operations, including new originations, or reapply for SBIC licenses. In recent years, reflecting concern about the stability of the financial markets, many lenders and institutional investors have reduced or ceased providing funding to borrowers. This market turmoil and tightening of credit have led to increased market volatility and widespread reduction of business activity generally in recent years. In addition, adverse economic conditions due to these disruptive conditions could materially impact our ability to comply with the financial and other covenants in any existing or future credit facilities. If we are unable to comply with these covenants, this could materially adversely affect our business, results of operations and financial condition.

***Changes in interest rates may affect our cost of capital and net investment income.***

To the extent we borrow money to make investments, our net investment income depends, in part, upon the difference between the rate at which we borrow funds and the rate at which we invest those funds. As a result, a significant change in market interest rates may have a material adverse effect on our net investment income in the event we use debt to finance our investments. In periods of rising interest rates, our cost of funds would increase, which could reduce our net investment income. We may use interest rate risk management techniques in an effort to limit our exposure to interest rate fluctuations. These techniques may include various interest rate hedging activities to the extent permitted by the 1940 Act.

***SBIC LP is licensed by the SBA and is subject to SBA regulations.***

On August 1, 2014, our wholly-owned direct and indirect subsidiary, SBIC LP, received its license to operate as an SBIC under the 1958 Act and is regulated by the SBA. The SBA places certain limitations on the financing terms of investments by SBICs in portfolio companies, regulates the types of financings, prohibits investing in small businesses with certain characteristics or in certain industries and requires capitalization thresholds that limit distributions to us. Compliance with SBIC requirements may cause SBIC LP to invest at less competitive rates in order to find investments that qualify under the SBA regulations.

The SBA regulations require, among other things, an annual periodic examination of a licensed SBIC by an SBA examiner to determine the SBIC's compliance with the relevant SBA regulations, and the performance of a financial audit by an independent auditor. If SBIC LP fails to comply with applicable regulations, the SBA could, depending on the severity of the violation, limit or prohibit SBIC LP's use of the debentures, declare outstanding debentures immediately due and payable, and/or limit SBIC LP from making new investments. In addition, the SBA could revoke or suspend SBIC LP's license for willful or repeated violation of, or willful or repeated failure to observe, any provision of the 1958 Act or any rule or regulation promulgated thereunder. These actions by the SBA would, in turn, negatively affect us because SBIC LP is our wholly-owned direct and indirect subsidiary.

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SBA-guaranteed debentures are non-recourse to us, have a ten year maturity, and may be prepaid at any time without penalty. Pooling of issued SBA-guaranteed debentures occurs in March and September of each year. The interest rate of SBA-guaranteed debentures is fixed at the time of pooling at a market-driven spread over ten year U.S. Treasury Notes. The interest rate on debentures issued prior to the next pooling date is LIBOR plus 30 basis points. Leverage through SBA-guaranteed debentures is subject to required capitalization thresholds. Current SBA regulations limit the amount that any single SBIC may borrow to two tiers of leverage capped at \$150.0 million, where each tier is equivalent to the SBIC's regulatory capital, which generally equates to the amount of equity capital in the SBIC. In December 2015, the 2016 omnibus spending bill approved by the U.S. Congress and signed into law by the President increased the amount of SBA-guaranteed debentures that affiliated SBIC funds can have outstanding from \$225.0 million to \$350.0 million, subject to SBA approval.

**Risks Related to Our Operations**

*Because we intend to distribute substantially all of our income to our stockholders to obtain and maintain our status as a RIC, we will continue to need additional capital to finance our growth. If additional funds are unavailable or not available on favorable terms, our ability to grow may be impaired.*

In order for us to qualify for the tax benefits available to RICs and to avoid payment of excise taxes, we intend to distribute to our stockholders substantially all of our annual taxable income. As a result of these requirements, we may need to raise capital from other sources to grow our business.

As a BDC, we are required to meet a coverage ratio of total assets, less liabilities and indebtedness not represented by senior securities and excluding SBA-guaranteed debentures as permitted by exemptive relief obtained from the SEC, to total senior securities, which includes all of our borrowings with the exception of SBA-guaranteed debentures, of at least 200.0%. This requirement limits the amount that we may borrow. Since we continue to need capital to grow our investment portfolio, these limitations may prevent us from incurring debt and require us to raise additional equity at a time when it may be disadvantageous to do so. While we expect that we will be able to borrow and to issue additional debt securities and expect that we will be able to issue additional equity securities, which would in turn increase the equity capital available to us, we cannot assure you that debt and equity financing will be available to us on favorable terms, or at all. In addition, as a BDC, we generally are not permitted to issue equity securities priced below net asset value without stockholder approval. If additional funds are not available us, we may be forced to curtail or cease new investment activities, and our net asset value could decline.

*SBIC LP may be unable to make distributions to us that will enable us to meet or maintain our RIC status.*

In order for us to continue to qualify for tax benefits available to RICs and to minimize corporate-level U.S. federal income tax, we must distribute to our stockholders, for each taxable year, at least 90.0% of our "investment company taxable income", which is generally our net ordinary income plus the excess of realized net short-term capital gains over realized net long-term capital losses, including investment company taxable income from SBIC LP. We will be partially dependent on SBIC LP for cash distributions to enable us to meet the RIC distribution requirements. SBIC LP may be limited by SBA regulations governing SBICs from making certain distributions to us that may be necessary to maintain our status as a RIC. We may have to request a waiver of the SBA's restrictions for SBIC LP to make certain distributions to maintain our RIC status. We cannot assure you that the SBA will grant such waiver and if SBIC LP is unable to obtain a waiver, compliance with the SBA regulations may result in corporate-level U.S. federal income tax.



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***Our ability to enter into transactions with our affiliates is restricted.***

As a BDC, we are prohibited under the 1940 Act from participating in certain transactions with our affiliates without the prior approval of our independent directors and, in some cases, the SEC. Any person that owns, directly or indirectly, 5.0% or more of our outstanding voting securities is an affiliate of ours for purposes of the 1940 Act. We are generally prohibited from buying or selling any securities (other than our securities) from or to an affiliate. The 1940 Act also prohibits certain "joint" transactions with an affiliate, which could include investments in the same portfolio company (whether at the same or different times), without prior approval of independent directors and, in some cases, the SEC. If a person acquires more than 25.0% of our voting securities, we are prohibited from buying or selling any security (other than our securities) from or to such person or certain of that person's affiliates, or entering into prohibited joint transactions with such persons, absent the prior approval of the SEC. Similar restrictions limit our ability to transact business with our officers or directors or their affiliates. As a result of these restrictions, we may be prohibited from buying or selling any security from or to any portfolio company of a private equity fund managed by any affiliate of the Investment Adviser without the prior approval of the SEC, which may limit the scope of investment opportunities that would otherwise be available to us.

***The Investment Adviser has significant potential conflicts of interest with us and, consequently, your interests as stockholders which could adversely impact our investment returns.***

Our executive officers and directors, as well as the current or future investment professionals of the Investment Adviser, serve or may serve as officers, directors or principals of entities that operate in the same or a related line of business as we do or of investment funds managed by our affiliates. Accordingly, they may have obligations to investors in those entities, the fulfillment of which might not be in your interests as stockholders. Although we are currently New Mountain Capital's only vehicle focused primarily on investing in the investments that we target, in the future, the investment professionals of the Investment Adviser and/or New Mountain Capital employees that provide services pursuant to the Investment Management Agreement may manage other funds which may from time to time have overlapping investment objectives with our own and, accordingly, may invest in, whether principally or secondarily, asset classes similar to those targeted by us. If this occurs, the Investment Adviser may face conflicts of interest in allocating investment opportunities to us and such other funds. Although the investment professionals endeavor to allocate investment opportunities in a fair and equitable manner, it is possible that we may not be given the opportunity to participate in certain investments made by the Investment Adviser or persons affiliated with the Investment Adviser or that certain of these investment funds may be favored over us. When these investment professionals identify an investment, they may be forced to choose which investment fund should make the investment.

If the Investment Adviser forms other affiliates in the future, we may co-invest on a concurrent basis with such other affiliate, subject to compliance with applicable regulations and regulatory guidance or an exemptive order from the SEC and our allocation procedures. In addition, we pay management and incentive fees to the Investment Adviser and reimburse the Investment Adviser for certain expenses it incurs. As a result, investors in our common stock invest in us on a "gross" basis and receive distributions on a "net" basis after our expenses. Also, the incentive fee payable to the Investment Adviser may create an incentive for the Investment Adviser to pursue investments that are riskier or more speculative than would be the case in the absence of such compensation arrangements. Any potential conflict of interest arising as a result of the arrangements with the Investment Adviser could have a material adverse effect on our business, results of operations and financial condition.

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***The Investment Committee, the Investment Adviser or its affiliates may, from time to time, possess material non-public information, limiting our investment discretion.***

The Investment Adviser's investment professionals, Investment Committee or their respective affiliates may serve as directors of, or in a similar capacity with, companies in which we invest. In the event that material non-public information is obtained with respect to such companies, or we become subject to trading restrictions under the internal trading policies of those companies or as a result of applicable law or regulations, we could be prohibited for a period of time from purchasing or selling the securities of such companies, and this prohibition may have an adverse effect on us and our stockholders.

***The valuation process for certain of our portfolio holdings creates a conflict of interest.***

Some of our portfolio investments are made in the form of securities that are not publicly traded. As a result, our board of directors determines the fair value of these securities in good faith. In connection with this determination, investment professionals from the Investment Adviser may provide our board of directors with portfolio company valuations based upon the most recent portfolio company financial statements available and projected financial results of each portfolio company. In addition, Steven B. Klinsky, a member of our board of directors, has an indirect pecuniary interest in the Investment Adviser. The participation of the Investment Adviser's investment professionals in our valuation process, and the indirect pecuniary interest in the Investment Adviser by a member of our board of directors, could result in a conflict of interest as the Investment Adviser's management fee is based, in part, on our gross assets and incentive fees are based, in part, on unrealized gains and losses.

***Conflicts of interest may exist related to other arrangements with the Investment Adviser or its affiliates.***

We have entered into a royalty-free license agreement with New Mountain Capital under which New Mountain Capital has agreed to grant us a non-exclusive, royalty-free license to use the name "New Mountain". In addition, we reimburse the Administrator for the allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations to us under the Administration Agreement, such as, but not limited to, the allocable portion of the cost of our chief financial officer and chief compliance officer and their respective staffs. This could create conflicts of interest that our board of directors must monitor.

***The Investment Management Agreement with the Investment Adviser and the Administration Agreement with the Administrator were not negotiated on an arm's length basis.***

The Investment Management Agreement and the Administration Agreement were negotiated between related parties. In addition, we may choose not to enforce, or to enforce less vigorously, our respective rights and remedies under these agreements because of our desire to maintain our ongoing relationship with the Investment Adviser, the Administrator and their respective affiliates. Any such decision, however, could cause us to breach our fiduciary obligations to our stockholders.

***The Investment Adviser's liability is limited under the Investment Management Agreement, and we have agreed to indemnify the Investment Adviser against certain liabilities, which may lead the Investment Adviser to act in a riskier manner than it would when acting for its own account.***

Under the Investment Management Agreement, the Investment Adviser does not assume any responsibility other than to render the services called for under that agreement, and it is not responsible for any action of our board of directors in following or declining to follow the Investment

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Adviser's advice or recommendations. Under the terms of the Investment Management Agreement, the Investment Adviser, its officers, members, personnel, any person controlling or controlled by the Investment Adviser are not liable for acts or omissions performed in accordance with and pursuant to the Investment Management Agreement, except those resulting from acts constituting gross negligence, willful misconduct, bad faith or reckless disregard of the Investment Adviser's duties under the Investment Management Agreement. In addition, we have agreed to indemnify the Investment Adviser and each of its officers, directors, members, managers and employees from and against any claims or liabilities, including reasonable legal fees and other expenses reasonably incurred, arising out of or in connection with our business and operations or any action taken or omitted pursuant to authority granted by the Investment Management Agreement, except where attributable to gross negligence, willful misconduct, bad faith or reckless disregard of such person's duties under the Investment Management Agreement. These protections may lead the Investment Adviser to act in a riskier manner than it would when acting for its own account.

***The Investment Adviser can resign upon 60 days' notice, and a suitable replacement may not be found within that time, resulting in disruptions in our operations that could adversely affect our business, results of operations and financial condition.***

Under the Investment Management Agreement, the Investment Adviser has the right to resign at any time upon 60 days' written notice, whether a replacement has been found or not. If the Investment Adviser resigns, we may not be able to find a new investment adviser or hire internal management with similar expertise and ability to provide the same or equivalent services on acceptable terms within 60 days, or at all. If a replacement is not able to be found on a timely basis, our business, results of operations and financial condition and our ability to pay distributions are likely to be materially adversely affected and the market price of our common stock may decline. In addition, if we are unable to identify and reach an agreement with a single institution or group of executives having the expertise possessed by the Investment Adviser and its affiliates, the coordination of its internal management and investment activities is likely to suffer. Even if we are able to retain comparable management, whether internal or external, their integration into our business and lack of familiarity with our investment objective may result in additional costs and time delays that may materially adversely affect our business, results of operations and financial condition.

***The Administrator can resign upon 60 days' notice from its role as Administrator under the Administration Agreement, and a suitable replacement may not be found, resulting in disruptions that could adversely affect our business, results of operations and financial condition.***

The Administrator has the right to resign under the Administration Agreement upon 60 days' written notice, whether a replacement has been found or not. If the Administrator resigns, it may be difficult to find a new administrator or hire internal management with similar expertise and ability to provide the same or equivalent services on acceptable terms, or at all. If a replacement is not found quickly, our business, results of operations and financial condition, as well as our ability to pay distributions, are likely to be adversely affected, and the market price of our common stock may decline. In addition, the coordination of our internal management and administrative activities is likely to suffer if we are unable to identify and reach an agreement with a service provider or individuals with the expertise possessed by the Administrator. Even if a comparable service provider or individuals to perform such services are retained, whether internal or external, their integration into our business and lack of familiarity with our investment objective may result in additional costs and time delays that may materially adversely affect our business, results of operations and financial condition.

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***If we fail to maintain our status as a BDC, our business and operating flexibility could be significantly reduced.***

We qualify as a BDC under the 1940 Act. The 1940 Act imposes numerous constraints on the operations of BDCs. For example, BDCs are required to invest at least 70.0% of their total assets in specified types of securities, primarily in private companies or thinly-traded U.S. public companies, cash, cash equivalents, U.S. government securities and other high quality debt investments that mature in one year or less. Failure to comply with the requirements imposed on BDCs by the 1940 Act could cause the SEC to bring an enforcement action against us and/or expose us to claims of private litigants. In addition, upon approval of a majority of our stockholders, we may elect to withdraw their respective election as a BDC. If we decide to withdraw our election, or if we otherwise fail to qualify, or maintain our qualification, as a BDC, we may be subject to the substantially greater regulation under the 1940 Act as a closed-end investment company. Compliance with these regulations would significantly decrease our operating flexibility and could significantly increase our cost of doing business.

***If we do not invest a sufficient portion of our assets in qualifying assets, we could be precluded from investing in certain assets or could be required to dispose of certain assets, which could have a material adverse effect on our business, financial condition and results of operations.***

As a BDC, we are prohibited from acquiring any assets other than "qualifying assets" unless, at the time of and after giving effect to such acquisition, at least 70.0% of our total assets are qualifying assets. We may acquire in the future other investments that are not "qualifying assets" to the extent permitted by the 1940 Act. If we do not invest a sufficient portion of our assets in qualifying assets, we would be prohibited from investing in additional assets, which could have a material adverse effect on our business, financial condition and results of operations. Similarly, these rules could prevent us from making follow-on investments in existing portfolio companies (which could result in the dilution of our position) or could require us to dispose of investments at inopportune times in order to come into compliance with the 1940 Act. If we need to dispose of these investments quickly, it may be difficult to dispose of such investments on favorable terms. For example, we may have difficulty in finding a buyer and, even if a buyer is found, it may have to sell the investments at a substantial loss.

***Our ability to invest in public companies may be limited in certain circumstances.***

To maintain our status as a BDC, we are not permitted to acquire any assets other than "qualifying assets" specified in the 1940 Act unless, at the time the acquisition is made, at least 70.0% of our total assets are qualifying assets (with certain limited exceptions). Subject to certain exceptions for follow-on investments and distressed companies, an investment in an issuer that has outstanding securities listed on a national securities exchange may be treated as qualifying assets only if such issuer has a common equity market capitalization that is less than \$250.0 million at the time of such investment.

***Regulations governing the operations of BDCs will affect our ability to raise additional equity capital as well as our ability to issue senior securities or borrow for investment purposes, any or all of which could have a negative effect on our investment objectives and strategies.***

Our business requires a substantial amount of capital. We may acquire additional capital from the issuance of senior securities, including borrowing under a credit facility or other indebtedness. In addition, we may also issue additional equity capital, which would in turn increase the equity capital available to us. However, we may not be able to raise additional capital in the future on favorable terms or at all.

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We may issue debt securities, preferred stock, and we may borrow money from banks or other financial institutions, which we refer to collectively as "senior securities", up to the maximum amount permitted by the 1940 Act. The 1940 Act permits us to issue senior securities in amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200.0% after each issuance of senior securities. As a result of our SEC exemptive relief, we are permitted to exclude our SBA-guaranteed debentures from the definition of senior securities in the 200.0% asset coverage ratio we are required to maintain under the 1940 Act. If our asset coverage ratio is not at least 200.0%, we would be unable to issue senior securities, and if we had senior securities outstanding (other than any indebtedness issued in consideration of a privately arranged loan, such as any indebtedness outstanding under the Holdings Credit Facility and NMFC Credit Facility), we would be unable to make distributions to our stockholders. However, at June 30, 2016, our only senior securities outstanding were indebtedness under the Holdings Credit Facility, NMFC Credit Facility, Convertible Notes and Unsecured Notes and therefore at June 30, 2016, we would not have been precluded from paying distributions. If the value of our assets declines, we may be unable to satisfy this test. If that happens, we may be required to liquidate a portion of our investments and repay a portion of our indebtedness at a time when such sales may be disadvantageous.

The Holdings Credit Facility matures on December 18, 2019 and permits borrowings of \$495.0 million as of June 30, 2016. The Holdings Credit Facility had \$348.0 million in debt outstanding as of June 30, 2016. The NMFC Credit Facility matures on June 4, 2019 and permits borrowings of \$122.5 million as of June 30, 2016. The NMFC Credit Facility had \$87.0 million in debt outstanding as of June 30, 2016. The Convertible Notes mature on June 15, 2019. The Convertible Notes had \$115.0 million in debt outstanding as of June 30, 2016. The Unsecured Notes mature on May 15, 2021. The Unsecured Notes had \$50.0 million in debt outstanding as of June 30, 2016. The SBA-guaranteed debentures have ten year maturities and will begin to mature on March 1, 2025. As of June 30, 2016, \$121.7 million of SBA-guaranteed debentures were outstanding.

In addition, we may in the future seek to securitize other portfolio securities to generate cash for funding new investments. To securitize loans, we would likely create a wholly-owned subsidiary and contribute a pool of loans to the subsidiary. We would then sell interests in the subsidiary on a non-recourse basis to purchasers and we would retain all or a portion of the equity in the subsidiary. If we are unable to successfully securitize its loan portfolio, which must be done in compliance with the relevant restrictions in the Holdings Credit Facility, our ability to grow our business or fully execute our business strategy could be impaired and our earnings, if any, could decrease. The securitization market is subject to changing market conditions, and we may not be able to access this market when it would be otherwise deemed appropriate. Moreover, the successful securitization of our portfolio might expose us to losses as the residual investments in which we do not sell interests will tend to be those that are riskier and more apt to generate losses. The 1940 Act also may impose restrictions on the structure of any securitization.

We may also obtain capital through the issuance of additional equity capital. As a BDC, we generally are not able to issue or sell our common stock at a price below net asset value per share. If our common stock trades at a discount to our net asset value per share, this restriction could adversely affect our ability to raise equity capital. We may, however, sell our common stock, or warrants, options or rights to acquire our common stock, at a price below our net asset value per share of the common stock if our board of directors and independent directors determine that such sale is in our best interests and the best interests of our stockholders, and our stockholders approve such sale. In any such case, the price at which our securities are to be issued and sold may not be less than a price that, in the determination of our board of directors, closely approximates the market value of such securities (less any underwriting commission or discount). If we raise additional funds by issuing more shares of our common stock, or if we issue senior

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securities convertible into, or exchangeable for, our common stock, the percentage ownership of our stockholders may decline and you may experience dilution.

***Our business model in the future may depend to an extent upon our referral relationships with private equity sponsors, and the inability of the investment professionals of the Investment Adviser to maintain or develop these relationships, or the failure of these relationships to generate investment opportunities, could adversely affect our business strategy.***

If the investment professionals of the Investment Adviser fail to maintain existing relationships or develop new relationships with other sponsors or sources of investment opportunities, we may not be able to grow our investment portfolio. In addition, individuals with whom the investment professionals of the Investment Adviser have relationships are not obligated to provide us with investment opportunities, and, therefore, there is no assurance that any relationships they currently or may in the future have will generate investment opportunities for us.

***We may experience fluctuations in our annual and quarterly results due to the nature of our business.***

We could experience fluctuations in our annual and quarterly operating results due to a number of factors, some of which are beyond our control, including the ability or inability of us to make investments in companies that meet our investment criteria, the interest rate payable on the debt securities acquired and the default rate on such securities, the level of our expenses, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which we encounter competition in the markets in which we operate and general economic conditions. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods.

***Our board of directors may change our investment objective, operating policies and strategies without prior notice or stockholder approval, the effects of which may be adverse to your interests as stockholders.***

Our board of directors has the authority, except as otherwise provided in the 1940 Act, to modify or waive certain of our operating policies and strategies without prior notice and without stockholder approval. As a result, our board of directors may be able to change our investment policies and objectives without any input from our stockholders. However, absent stockholder approval, we may not change the nature of our business so as to cease to be, or withdraw our election as, a BDC. Under Delaware law, we also cannot be dissolved without prior stockholder approval. We cannot predict the effect any changes to our current operating policies and strategies would have on our business, operating results and the market price of our common stock. Nevertheless, any such changes could adversely affect our business and impair our ability to make distributions to our stockholders.

***We will be subject to corporate-level U.S. federal income tax on all of our income if we are unable to maintain RIC status under Subchapter M of the Code, which would have a material adverse effect on our financial performance.***

Although we intend to continue to qualify annually as a RIC under Subchapter M of the Code, no assurance can be given that we will be able to maintain our RIC status. To maintain RIC status and be relieved of U.S. federal income taxes on income and gains distributed to our stockholders, we must meet the annual distribution, source-of-income and asset diversification requirements described below.

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The annual distribution requirement for a RIC will be satisfied if we distribute (or are deemed to distribute) to our stockholders on an annual basis at least 90.0% of our net ordinary income plus the excess of realized net short-term capital gains over realized net long-term capital losses, if any. Because we use debt financing, we are subject to an asset coverage ratio requirement under the 1940 Act, and we are subject to certain financial covenants contained in the Holdings Credit Facility and other debt financing agreements (as applicable). This asset coverage ratio requirement and these financial covenants could, under certain circumstances, restrict us from making distributions to our stockholders, which distributions are necessary for us to satisfy the distribution requirement. If we are unable to obtain cash from other sources, and thus are unable to make sufficient distributions to our stockholders, we could fail to qualify for RIC tax treatment and thus become subject to certain corporate-level U.S. federal income tax (and any applicable state and local taxes).

The source-of-income requirement will be satisfied if at least 90.0% of our allocable share of our gross income for each year is derived from dividends, interest payments with respect to loans of certain securities, gains from the sale of stock or other securities, net income from certain "qualified publicly traded partnerships" or other income derived with respect to our business of investing in such stock or securities.

The asset diversification requirement will be satisfied if we meet certain asset diversification requirements at the end of each quarter of our taxable year. To satisfy this requirement, at least 50.0% of the value of our assets must consist of cash, cash equivalents, U.S. government securities, securities of other RICs, and other such securities if such other securities of any one issuer do not represent more than 5.0% of the value of our assets or more than 10.0% of the outstanding voting securities of the issuer; and no more than 25.0% of the value of our assets can be invested in the securities, other than U.S. government securities or securities of other RICs, of one issuer, of two or more issuers that are controlled, as determined under applicable Code rules, by it and that are engaged in the same or similar or related trades or businesses or of certain "qualified publicly traded partnerships". Failure to meet these requirements may result in us having to dispose of certain investments quickly in order to prevent the loss of our RIC status. Because most of our investments are intended to be in private companies, and therefore may be relatively illiquid, any such dispositions could be made at disadvantageous prices and could result in substantial losses.

If we fail to qualify for or maintain our RIC status for any reason, and we do not qualify for certain relief provisions under the Code, we would be subject to corporate-level U.S. federal income tax (and any applicable state and local taxes). In this event, the resulting taxes could substantially reduce our net assets, the amount of income available for distribution and the amount of our distributions, which would have a material adverse effect on our financial performance.

***You may have current tax liabilities on distributions you reinvest in our common stock.***

Under the dividend reinvestment plan, if you own shares of our common stock registered in your own name, you will have all cash distributions automatically reinvested in additional shares of our common stock unless you opt out of the dividend reinvestment plan by delivering notice by phone, internet or in writing to the plan administrator at least three days prior to the payment date of the next dividend or distribution. If you have not "opted out" of the dividend reinvestment plan, you will be deemed to have received, and for U.S. federal income tax purposes will be taxed on, the amount reinvested in our common stock to the extent the amount reinvested was not a tax-free return of capital. As a result, you may have to use funds from other sources to pay your U.S. federal income tax liability on the value of the common stock received.

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***We may not be able to pay you distributions on our common stock, our distributions to you may not grow over time and a portion of our distributions to you may be a return of capital for U.S. federal income tax purposes.***

We intend to pay quarterly distributions to our stockholders out of assets legally available for distribution. We cannot assure you that we will continue to achieve investment results that will allow us to make a specified level of cash distributions or year-to-year increases in cash distributions. If we are unable to satisfy the asset coverage test applicable to us as a BDC, or if we violate certain covenants under the Holdings Credit Facility, the NMFC Credit Facility or the Unsecured Notes, our ability to pay distributions to our stockholders could be limited. All distributions are paid at the discretion of our board of directors and depend on our earnings, financial condition, maintenance of our RIC status, compliance with applicable BDC regulations, compliance with covenants under the Holdings Credit Facility, the NMFC Credit Facility and the Unsecured Notes, and such other factors as our board of directors may deem relevant from time to time. The distributions that we pay to our stockholders in a year may exceed our taxable income for that year and, accordingly, a portion of such distributions may constitute a return of capital for U.S. federal income tax purposes.

***We may have difficulty paying our required distributions if we recognize taxable income before or without receiving cash representing such income.***

For U.S. federal income tax purposes, we include in our taxable income our allocable share of certain amounts that we have not yet received in cash, such as original issue discount or accruals on a contingent payment debt instrument, which may occur if we receive warrants in connection with the origination of a loan or possibly in other circumstances or contracted payment-in-kind ("PIK") interest, which generally represents contractual interest added to the loan balance and due at the end of the loan term. Our allocable share of such original issue discount and PIK interest are included in our taxable income before we receive any corresponding cash payments. We also may be required to include in our taxable income our allocable share of certain other amounts that we will not receive in cash.

Because in certain cases we may recognize taxable income before or without receiving cash representing such income, we may have difficulty making distributions to our stockholders that will be sufficient to enable us to meet the annual distribution requirement necessary for us to qualify as a RIC. Accordingly, we may need to sell some of our assets at times and/or at prices that we would not consider advantageous. We may need to raise additional equity or debt capital, or we may need to forego new investment opportunities or otherwise take actions that are disadvantageous to our business (or be unable to take actions that are advantageous to our business) to enable us to make distributions to our stockholders that will be sufficient to enable us to meet the annual distribution requirement. If we are unable to obtain cash from other sources to enable us to meet the annual distribution requirement, we may fail to qualify for the U.S. federal income tax benefits allowable to RICs and, thus, become subject to a corporate-level U.S. federal income tax (and any applicable state and local taxes).

***Changes in laws or regulations governing our operations may adversely affect our business or cause us to alter our business strategy.***

Changes in the laws or regulations or the interpretations of the laws and regulations that govern BDCs, RICs or non-depository commercial lenders could significantly affect our operations and our cost of doing business. Our portfolio companies are subject to U.S. federal, state and local laws and regulations. New legislation may be enacted or new interpretations, rulings or regulations could be adopted, any of which could materially adversely affect our business, including with respect to the types of investments we are permitted to make, and your interests as stockholders potentially with retroactive effect. In addition, any changes to the laws and regulations governing



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our operations relating to permitted investments may cause us to alter our investment strategy in order to avail ourselves of new or different opportunities. These changes could result in material changes to our strategies and plans set forth in this prospectus which may result in our investment focus shifting from the areas of expertise of the Investment Adviser to other types of investments in which the Investment Adviser may have less expertise or little or no experience. Any such changes, if they occur, could have a material adverse effect on our business, results of operations and financial condition and, consequently, the value of your investment in us.

On July 21, 2010, the Wall Street Reform and Consumer Protection Act, or Dodd-Frank Act, was signed into law. Although passage of the Dodd-Frank Act has resulted in extensive rulemaking and regulatory changes that affect us and the financial industry as a whole, many of its provisions remain subject to extended implementation periods and delayed effective dates and will require extensive rulemaking by regulatory authorities. While the full impact of the Dodd-Frank Act on us and our portfolio companies may not be known for an extended period of time, the Dodd-Frank Act, including future rules implementing its provisions and the interpretation of those rules, along with other legislative and regulatory proposals directed at the financial services industry or affecting taxation that are proposed or pending in the U.S. Congress, may negatively impact our or our portfolio companies' operations, cash flows or financial condition, impose additional costs on us or our portfolio companies, intensify the regulatory supervision of us or our portfolio companies or otherwise adversely affect our business or the business of our portfolio companies.

Over the last several years, there has been an increase in regulatory attention to the extension of credit outside of the traditional banking sector, raising the possibility that some portion of the non-bank financial sector will be subject to new regulation. While it cannot be known at this time whether these regulations will be implemented or what form they will take, increased regulation of non-bank credit extension could negatively impact our operations, cash flows or financial condition, impose additional costs on us, intensify the regulatory supervision of us or otherwise adversely affect our business.

***Our business and operation could be negatively affected if we become subject to any securities litigation or shareholder activism, which could cause us to incur significant expense, hinder execution of investment strategy and impact our stock price.***

In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been brought against that company. Shareholder activism, which could take many forms or arise in a variety of situations, has been increasing in the BDC space recently. While we are currently not subject to any securities litigation or shareholder activism, due to the potential volatility of our stock price and for a variety of other reasons, we may in the future become the target of securities litigation or shareholder activism. Securities litigation and shareholder activism, including potential proxy contests, could result in substantial costs and divert the attention of our management and board of directors and resources from our business. Additionally, such securities litigation and shareholder activism could give rise to perceived uncertainties as to our future, adversely affect our relationships with service providers and make it more difficult to attract and retain qualified personnel. Also, we may be required to incur significant legal fees and other expenses related to any securities litigation or activist shareholder matters. Further, our stock price could be subject to significant fluctuation or otherwise be adversely affected by the events, risks and uncertainties of any securities litigation or shareholder activism.

***The effect of global climate change may impact the operations of our portfolio companies.***

There may be evidence of global climate change. Climate change creates physical and financial risk and some of our portfolio companies may be adversely affected by climate change. For example, the needs of customers of energy companies vary with weather conditions, primarily

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temperature and humidity. To the extent weather conditions are affected by climate change, energy use could increase or decrease depending on the duration and magnitude of any changes. Increases in the cost of energy could adversely affect the cost of operations of our portfolio companies if the use of energy products or services is material to their business. A decrease in energy use due to weather changes may affect some of our portfolio companies' financial condition, through decreased revenues. Extreme weather conditions in general require more system backup, adding to costs, and can contribute to increased system stresses, including service interruptions.

In December 2015 the United Nations, of which the U.S. is a member, adopted a climate accord with the long-term goal of limiting global warming and the short-term goal of significantly reducing greenhouse gas emissions. As a result, our portfolio companies, particularly those operating in the energy sector, may be subject to new or strengthened regulations or legislation which could increase their operating costs and/or decrease their revenues.

***Pending legislation may allow us to incur additional leverage.***

As a BDC, under the 1940 Act we generally are not permitted to incur indebtedness unless immediately after such borrowing we have an asset coverage for total borrowings of at least 200.0% (i.e., the amount of debt may not exceed 50.0% of the value of our total assets or we may borrow an amount equal to 100.0% of net assets). Legislation introduced in the U.S. House of Representatives would modify this section of the 1940 Act and increase the amount of debt that BDCs may incur by modifying the asset coverage percentage from 200.0% to 150.0%. As a result, we may be able to incur additional indebtedness in the future and therefore your risk of an investment in us may increase.

In addition, in December 2015, the 2016 omnibus spending bill approved by the U.S. Congress and signed into law by the President increased the amount of SBA-guaranteed debentures that affiliated SBIC funds can have outstanding from \$225.0 million to \$350.0 million, subject to SBA approval. This new legislation may allow us to issue additional SBIC debentures above the \$225.0 million of SBA-guaranteed debentures previously permitted pending application for and receipt of additional SBIC licenses. If we incur this additional indebtedness in the future, your risk of an investment in our securities may increase.

***We incur significant costs as a result of being a publicly traded company.***

As a publicly traded company, we incur legal, accounting and other expenses, which are paid by us, including costs associated with the periodic reporting requirements applicable to a company whose securities are registered under the Exchange Act, as well as additional corporate governance requirements, including requirements under the Sarbanes-Oxley Act of 2002, or the "Sarbanes-Oxley Act," and other rules implemented by the SEC.

***Efforts to comply with Section 404 of the Sarbanes-Oxley Act involve significant expenditures, and non-compliance with Section 404 of the Sarbanes-Oxley Act may adversely affect us and the market price of our common stock.***

We are subject to the Sarbanes-Oxley Act, and the related rules and regulations promulgated by the SEC. Under current SEC rules since our fiscal year ending December 31, 2012, our management has been required to report on our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act, and rules and regulations of the SEC thereunder. We are required to review on an annual basis our internal control over financial reporting, and on a quarterly and annual basis to evaluate and disclose changes in our internal control over financial reporting. As a result, we expect to continue to incur additional expenses, which may negatively

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impact our financial performance and our ability to make distributions to our stockholders. This process also may result in a diversion of management's time and attention. We cannot be certain as to the timing of completion of any evaluation, testing and remediation actions or the impact of the same on our operations, and we are not able to ensure that the process is effective or that our internal control over financial reporting is or will continue to be effective in a timely manner. In the event that we are unable to maintain or achieve compliance with Section 404 of the Sarbanes-Oxley Act and related rules, we and, consequently, the market price of our common stock may be adversely affected.

***Our business is highly dependent on information systems and systems failures could significantly disrupt our business, which may, in turn, negatively affect the market price of our common stock and our ability to pay dividends.***

Our business is highly dependent on the communications and information systems of the Investment Adviser and its affiliates. Any failure or interruption of such systems could cause delays or other problems in our activities. This, in turn, could have a material adverse effect on our operating results and, consequently, negatively affect the market price of our common stock and our ability to pay dividends to our stockholders. In addition, because many of our portfolio companies operate and rely on network infrastructure and enterprise applications and internal technology systems for development, marketing, operational, support and other business activities, a disruption or failure of any or all of these systems in the event of a major telecommunications failure, cyber-attack, fire, earthquake, severe weather conditions or other catastrophic event could cause system interruptions, delays in product development and loss of critical data and could otherwise disrupt their business operations.

***The failure in cyber security systems, as well as the occurrence of events unanticipated in our disaster recovery systems and management continuity planning could impair our ability to conduct business effectively.***

The occurrence of a disaster such as a cyber attack, a natural catastrophe, an industrial accident, a terrorist attack or war, events unanticipated in our disaster recovery systems, or a support failure from external providers, could have an adverse effect on our ability to conduct business and on our results of operations and financial condition, particularly if those events affect our computer-based data processing, transmission, storage, and retrieval systems or destroy data. If a significant number of our managers were unavailable in the event of a disaster, our ability to effectively conduct our business could be severely compromised.

We depend heavily upon computer systems to perform necessary business functions. Despite our implementation of a variety of security measures, our computer systems could be subject to cyber attacks and unauthorized access, such as physical and electronic break-ins or unauthorized tampering. Like other companies, we may experience threats to our data and systems, including malware and computer virus attacks, unauthorized access, system failures and disruptions. If one or more of these events occurs, it could potentially jeopardize the confidential, proprietary and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our operations, which could result in damage to our reputation, financial losses, litigation, increased costs, regulatory penalties and/or customer dissatisfaction or loss.

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**Risks Relating to Our Investments**

*Our investments in portfolio companies may be risky, and we could lose all or part of any of our investments.*

Investments in small and middle market businesses are highly speculative and involve a high degree of risk of credit loss. These risks are likely to increase during volatile economic periods, such as the U.S. and many other economies have recently experienced. Among other things, these companies:

may have limited financial resources and may be unable to meet their obligations under their debt instruments that we hold, which may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of us realizing any guarantees from subsidiaries or affiliates of our portfolio companies that we may have obtained in connection with our investment, as well as a corresponding decrease in the value of any equity components of our investments;

may have shorter operating histories, narrower product lines, smaller market shares and/or more significant customer concentrations than larger businesses, which tend to render them more vulnerable to competitors' actions and market conditions, as well as general economic downturns;

are more likely to depend on the management talents and efforts of a small group of persons; therefore, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on our portfolio company and, in turn, on us;

generally have less predictable operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence;

may require substantial additional capital to support their operations, finance expansion or maintain their competitive position; and

generally have less publicly available information about their businesses, operations and financial condition.

In addition, in the course of providing significant managerial assistance to certain of our portfolio companies, certain of our officers and directors may serve as directors on the boards of such companies. To the extent that litigation arises out of our investments in these companies, our officers and directors may be named as defendants in such litigation, which could result in an expenditure of funds (through our indemnification of such officers and directors) and the diversion of management time and resources.

*Our investment strategy, which is focused primarily on privately held companies, presents certain challenges, including the lack of available information about these companies.*

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

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***Our investments in securities rated below investment grade are speculative in nature and are subject to additional risk factors such as increased possibility of default, illiquidity of the security, and changes in value based on changes in interest rates.***

The investments that we invest in are almost entirely rated below investment grade or may be unrated, which are often referred to as "leveraged loans," "high yield" or "junk" securities, and may be considered "high risk" compared to debt instruments that are rated investment grade. High yield securities are regarded as having predominantly speculative characteristics with respect to the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligations and involve major risk exposure to adverse conditions. In addition, high yield securities generally offer a higher current yield than that available from higher grade issues, but typically involve greater risk. These securities are especially sensitive to adverse changes in general economic conditions, to changes in the financial condition of their issuers and to price fluctuation in response to changes in interest rates. During periods of economic downturn or rising interest rates, issuers of below investment grade instruments may experience financial stress that could adversely affect their ability to make payments of principal and interest and increase the possibility of default.

***Our portfolio may be concentrated in a limited number of industries, which may subject us to a risk of significant loss if there is a downturn in a particular industry in which a number of our investments are concentrated.***

Our portfolio may be concentrated in a limited number of industries. For example, as of June 30, 2016, our investments in the business services and the software industries represented approximately 25.4% and 25.2%, respectively, of the fair value of our portfolio. A downturn in any particular industry in which we are invested could significantly impact the portfolio companies operating in that industry, and accordingly, the aggregate returns that we realize from our investment in such portfolio companies.

Specifically, companies in the business services industry are subject to general economic downturns and business cycles, and will often suffer reduced revenues and rate pressures during periods of economic uncertainty. In addition, companies in the software industry often have narrow product lines and small market shares. Because of rapid technological change, the average selling prices of products and some services provided by software companies have historically decreased over their productive lives. As a result, the average selling prices of products and services offered by software companies in which we invest may decrease over time. If an industry in which we have significant investments suffers from adverse business or economic conditions, as these industries have to varying degrees, a material portion of our investment portfolio could be affected adversely, which, in turn, could adversely affect our financial position and results of operations.

***Continuation of the current decline in oil and natural gas prices for a prolonged period of time could have a material adverse effect.***

As of June 30, 2016, approximately 4.7% of our portfolio at fair value is invested in energy-related businesses. A decline in oil and natural gas prices would adversely affect the credit quality of these investments. A decrease in credit quality would, in turn, negatively affect the fair value of these investments, which would consequently negatively affect our financial position and results of operations. Should the current decline in oil and natural gas prices persist, it is likely that our energy-related portfolio companies' abilities to satisfy the financial or operating covenants of us or other lenders will be adversely affected, thereby negatively impacting our financial condition and their ability to satisfy their debt service and other obligations to us.

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***If we make unsecured investments, those investments might not generate sufficient cash flow to service their debt obligations to us.***

We may make unsecured investments. Unsecured investments may be subordinated to other obligations of the obligor. Unsecured investments often reflect a greater possibility that adverse changes in the financial condition of the obligor or general economic conditions (including, for example, a substantial period of rising interest rates or declining earnings) or both may impair the ability of the obligor to make payment of principal and interest. If we make an unsecured investment in a portfolio company, that portfolio company may be highly leveraged, and its relatively high debt-to-equity ratio may increase the risk that its operations might not generate sufficient cash to service its debt obligations.

***If we invest in the securities and obligations of distressed and bankrupt issuers, we might not receive interest or other payments.***

From time to time, we may invest in other types of investments which are not our primary focus, including investments in the securities and obligations of distressed and bankrupt issuers, including debt obligations that are in covenant or payment default. Such investments generally are considered speculative. The repayment of defaulted obligations is subject to significant uncertainties. Defaulted obligations might be repaid only after lengthy workout or bankruptcy proceedings, during which the issuer of those obligations might not make any interest or other payments.

***Defaults by our portfolio companies may harm our operating results.***

A portfolio company's failure to satisfy financial or operating covenants imposed by us 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 a portfolio company's ability to meet its obligations under the debt or equity securities that we hold.

We may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms, which may include the waiver of certain financial covenants, with a defaulting portfolio company. In addition, lenders in certain cases can be subject to lender liability claims for actions taken by them when they become too involved in the borrower's business or exercise control over a borrower. It is possible that we could become subject to a lender's liability claim, including as a result of actions taken if we render significant managerial assistance to the borrower. Furthermore, if one of our portfolio companies were to file for bankruptcy protection, even though we may have structured our investment as senior secured debt, depending on the facts and circumstances, including the extent to which we provided managerial assistance to that portfolio company, a bankruptcy court might re-characterize our debt holding and subordinate all or a portion of our claim to claims of other creditors.

***The lack of liquidity in our investments may adversely affect our business.***

We invest, and will continue to invest, in companies whose securities are not publicly traded and whose securities will be subject to legal and other restrictions on resale or will otherwise be less liquid than publicly traded securities. The illiquidity of these investments may make it difficult for us to sell these investments when desired. In addition, if we are required or otherwise choose to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we had previously recorded these investments. Our investments are usually subject to contractual or legal restrictions on resale or are otherwise illiquid because there is usually no established trading market for such investments. Because most of our investments are illiquid, we

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may be unable to dispose of them in which case we could fail to qualify as a RIC and/or a BDC, or we may be unable to do so at a favorable price, and, as a result, we may suffer losses.

***Price declines and illiquidity in the corporate debt markets may adversely affect the fair value of our portfolio investments, reducing our net asset value through increased net unrealized depreciation.***

As a BDC, we are required to carry our investments at market value or, if no market value is ascertainable, at fair value as determined in good faith by our board of directors. As part of the valuation process, we may take into account the following types of factors, if relevant, in determining the fair value of our investments:

a comparison of the portfolio company's securities to publicly traded securities;

the enterprise value of a portfolio company;

the nature and realizable value of any collateral;

the portfolio company's ability to make payments and its earnings and discounted cash flow;

the markets in which the portfolio company does business; and

changes in the interest rate environment and the credit markets generally that may affect the price at which similar investments may be made in the future and other relevant factors.

When an external event such as a purchase transaction, public offering or subsequent sale occurs, we will use the pricing indicated by the external event to corroborate our valuation. We will record decreases in the market values or fair values of our investments as unrealized depreciation. Declines in prices and liquidity in the corporate debt markets may result in significant net unrealized depreciation in our portfolio. The effect of all of these factors on our portfolio may reduce our net asset value by increasing net unrealized depreciation in our portfolio. Depending on market conditions, we could incur substantial realized losses and may suffer additional unrealized losses in future periods, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

***If we are unable to make follow-on investments in our portfolio companies, the value of our investment portfolio could be adversely affected.***

Following an initial investment in a portfolio company, we may make additional investments in that portfolio company as "follow-on" investments, in order to (i) increase or maintain in whole or in part our equity ownership percentage, (ii) exercise warrants, options or convertible securities that were acquired in the original or subsequent financing or (iii) attempt to preserve or enhance the value of our investment. We may elect not to make follow-on investments or may otherwise lack sufficient funds to make these investments. We have the discretion to make follow-on investments, subject to the availability of capital resources. If we fail to make follow-on investments, the continued viability of a portfolio company and our investment may, in some circumstances, be jeopardized and we could miss an opportunity for us to increase our participation in a successful operation. Even if we have sufficient capital to make a desired follow-on investment, we may elect not to make a follow-on investment because we may not want to increase our concentration of risk, either because we prefer other opportunities or because we are subject to BDC requirements that would prevent such follow-on investments or such follow-on investments would adversely impact our ability to maintain our RIC status.

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***Our portfolio companies may incur debt that ranks equally with, or senior to, our investments in such companies.***

We invest in portfolio companies at all levels of the capital structure. Our portfolio companies may have, or may be permitted to incur, other debt that ranks equally with, or senior to, the debt in which we invest. By their terms, these debt instruments may entitle the holders to receive payment of interest or principal on or before the dates on which we are entitled to receive payments with respect to the debt instruments in which we invest. In addition, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company, holders of debt instruments ranking senior to our investment in that portfolio company would typically be entitled to receive payment in full before we receive any distribution. After repaying the senior creditors, the portfolio company may not have any remaining assets to use for repaying its obligation to us. In the case of debt ranking equally with debt instruments in which we invest, we 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 of the relevant portfolio company.

***The disposition of our investments may result in contingent liabilities.***

Most of our investments will involve private securities. In connection with the disposition of an investment in private securities, we may be required to make representations about the business and financial affairs of the portfolio company typical of those made in connection with the sale of a business. We may also be required to indemnify the purchasers of such investment to the extent that any such representations turn out to be inaccurate or with respect to certain potential liabilities. These arrangements may result in contingent liabilities that ultimately yield funding obligations that must be satisfied through our return of certain distributions previously made to us.

***There may be circumstances where our debt investments could be subordinated to claims of other creditors or we could be subject to lender liability claims.***

Even though we may have structured certain of our investments as senior loans, if one of our portfolio companies were to go bankrupt, depending on the facts and circumstances, including the extent to which we actually provided managerial assistance to that portfolio company, a bankruptcy court might re-characterize our debt investment and subordinate all or a portion of our claim to that of other creditors. We may also be subject to lender liability claims for actions taken by us with respect to a borrower's business or instances where we exercise control over the borrower. It is possible that we could become subject to a lender's liability claim, including as a result of actions taken in rendering significant managerial assistance.

***Second priority liens on collateral securing loans that we make to our portfolio companies may be subject to control by senior creditors with first priority liens. If there is a default, the value of the collateral may not be sufficient to repay in full both the first priority creditors and us.***

Certain loans to portfolio companies will be secured on a second priority basis by the same collateral securing senior secured debt of such companies. The first priority liens on the collateral will secure the portfolio company's obligations under any outstanding senior debt and may secure certain other future debt that may be permitted to be incurred by the portfolio company under the agreements governing the loans. The holders of obligations secured by the first priority liens on the collateral will generally control the liquidation of and be entitled to receive proceeds from any realization of the collateral to repay their obligations in full before us. In addition, the value of the collateral in the event of liquidation will depend on market and economic conditions, the availability of buyers and other factors. There can be no assurance that the proceeds, if any, from the sale or sales of all of the collateral would be sufficient to satisfy the loan obligations secured by the second



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priority liens after payment in full of all obligations secured by the first priority liens on the collateral. If such proceeds are not sufficient to repay amounts outstanding under the loan obligations secured by the second priority liens, then we, to the extent not repaid from the proceeds of the sale of the collateral, will only have an unsecured claim against the portfolio company's remaining assets, if any.

The rights we may have with respect to the collateral securing the loans we make to our portfolio companies with senior debt outstanding may also be limited pursuant to the terms of one or more intercreditor agreements entered into with the holders of first priority senior debt. Under an intercreditor agreement, at any time that obligations that have the benefit of the first priority liens are outstanding, any of the following actions that may be taken in respect of the collateral will be at the direction of the holders of the obligations secured by the first priority liens: the ability to cause the commencement of enforcement proceedings against the collateral, the ability to control the conduct of such proceedings, the approval of amendments to collateral documents; releases of liens on the collateral and waivers of past defaults under collateral documents. We may not have the ability to control or direct these actions, even if our rights are adversely affected.

***We generally do not control our portfolio companies.***

Although we have taken and may in the future take controlling equity positions in our portfolio companies from time to time, we generally do not control most of our portfolio companies, even though we may have board representation or board observation rights, and our debt agreements may contain certain restrictive covenants that limit the business and operations of our portfolio companies. As a result, we are subject to the risk that a portfolio company may make business decisions with which we disagree and the management of such company may take risks or otherwise act in ways that do not serve our interests as debt investors. Due to the lack of liquidity of the investments that we typically hold in our portfolio companies, we may not be able to dispose of our investments in the event that we disagree with the actions of a portfolio company as readily as we would otherwise like to or at favorable prices which could decrease the value of our investments.

***Economic recessions, downturns or government spending cuts could impair our portfolio companies and harm our operating results.***

Many of our portfolio companies may be susceptible to economic slowdowns or recessions and may be unable to repay its debt investments during these periods. Therefore, our non-performing assets are likely to increase, and the value of our portfolio is likely to decrease during these periods. Adverse economic conditions also may decrease the value of collateral securing some of our debt investments and the value of our equity investments. Economic slowdowns or recessions could lead to financial losses in our portfolio and a decrease in revenues, net income and assets. Unfavorable economic conditions also could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. These events could prevent us from increasing investments and harm our operating results.

***A number of our portfolio companies provide services to the U.S. government. Changes in the U.S. government's priorities and spending, or significant delays or reductions in appropriations of the U.S. government's funds, could have a material adverse effect on the financial position, results of operations and cash flows of such portfolio companies.***

A number of our portfolio companies derive a substantial portion of their revenue from the U.S. government. Levels of the U.S. government's spending in future periods are very difficult to predict and subject to significant risks. In addition, significant budgetary constraints may result in further reductions to projected spending levels. In particular, U.S. government expenditures are

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subject to the potential for automatic reductions, generally referred to as "sequestration." Sequestration occurred during 2013, and may occur again in the future, resulting in significant additional reductions to spending by the U.S. government on both existing and new contracts as well as disruption of ongoing programs. Even if sequestration does not occur again in the future, we expect that budgetary constraints and ongoing concerns regarding the U.S. national debt will continue to place downward pressure on U.S. government spending levels. Due to these and other factors, overall U.S. government spending could decline, which could result in significant reductions to the revenues, cash flow and profits of our portfolio companies that provide services to the U.S. government.

***Prepayments of our debt investments by our portfolio companies could adversely impact our results of operations and reduce our return on equity.***

We are subject to the risk that the investments we make in our portfolio companies may be repaid prior to maturity. When this occurs, subject to maintenance of our RIC status, we will generally reinvest these proceeds in temporary investments, pending our future investment in new portfolio companies. These temporary investments will typically have substantially lower yields than the debt being prepaid and we could experience significant delays in reinvesting these amounts. Any future investment in a new portfolio company may also be at lower yields than the debt that was repaid. As a result, our results of operations could be materially adversely affected if one or more of our portfolio companies elect to prepay amounts owed to us. Additionally, prepayments could negatively impact our return on equity, which could result in a decline in the market price of our common stock.

***We may not realize gains from our equity investments.***

When we invest in portfolio companies, we may acquire warrants or other equity securities of portfolio companies as well. We may also invest in equity securities directly. To the extent we hold equity investments, we will attempt to dispose of them and realize gains upon our disposition of them. However, the equity interests we receive may not appreciate in value and, in fact, may decline in value. As a result, we may not be able to realize gains from our equity interests, and any gains that we do realize on the disposition of any equity interests may not be sufficient to offset any other losses we experience. We also may be unable to realize any value if a portfolio company does not have a liquidity event, such as a sale of the business, recapitalization or public offering, which would allow us to sell the underlying equity interests.

***Our performance may differ from our historical performance as our current investment strategy includes significantly more primary originations in addition to secondary market purchases.***

Historically, our investment strategy consisted primarily of secondary market purchases in debt securities. We adjusted that investment strategy to also include significantly more primary originations. While loans that we originate and loans we purchase in the secondary market face many of the same risks associated with the financing of leveraged companies, we may be exposed to different risks depending on specific business considerations for secondary market purchases or origination of loans. Primary originations require substantially more time and resources for sourcing, diligencing and monitoring investments, which may consume a significant portion of our resources. Further, the valuation process for primary originations may be more cumbersome and uncertain due to the lack of comparable market quotes for the investment and would likely require more frequent review by a third-party valuation firm. This may result in greater costs for us and fluctuations in the quarterly valuations of investments that are primary originations. As a result, this strategy may result

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in different returns from these investments than the types of returns historically experienced from secondary market purchases of debt securities.

*We may be subject to additional risks if we invest in foreign securities and/or engage in hedging transactions.*

The 1940 Act generally requires that 70.0% of our investments be in issuers each of whom is organized under the laws of, and has its principal place of business in, any state of the U.S., the District of Columbia, Puerto Rico, the Virgin Islands or any other possession of the U.S. Our investment strategy does not presently contemplate significant investments in securities of non-U.S. companies. However, we may desire to make such investments in the future, to the extent that such transactions and investments are permitted under the 1940 Act. We expect that these investments would focus on the same types of investments that we make in U.S. middle market companies and accordingly would be complementary to our overall strategy and enhance the diversity of our holdings. Investing in foreign companies could expose us to additional risks not typically associated with investing in U.S. companies. These risks include changes in exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the case in the U.S., higher transaction costs, less government supervision of exchanges, brokers and issuers, less developed bankruptcy laws, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility. Investments denominated in foreign currencies would be subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation and political developments. We may employ hedging techniques to minimize these risks, but we can offer no assurance that we will, in fact, hedge currency risk, or that if we do, such strategies will be effective.

Engaging in hedging transactions would also, indirectly, entail additional risks to our stockholders. Although it is not currently anticipated that we would engage in hedging transactions as a principal investment strategy, if we determined to engage in hedging transactions, we generally would seek to hedge against fluctuations of the relative values of our portfolio positions from changes in market interest rates or currency exchange rates. Hedging against a decline in the values of our portfolio positions would not eliminate the possibility of fluctuations in the values of such positions or prevent losses if the values of the positions declined. However, such hedging could establish other positions designed to gain from those same developments, thereby offsetting the decline in the value of such portfolio positions.

These hedging transactions could also limit the opportunity for gain if the values of the underlying portfolio positions increased. Moreover, it might not be possible to hedge against an exchange rate or interest rate fluctuation that was so generally anticipated that we would not be able to enter into a hedging transaction at an acceptable price. If we choose to engage in hedging transactions, there can be no assurances that we will achieve the intended benefits of such transactions and, depending on the degree of exposure such transactions could create, such transactions may expose us to risk of loss.

While we may enter into these types of transactions to seek to reduce currency exchange rate and interest rate risks, unanticipated changes in currency exchange rates or interest rates could result in poorer overall investment performance than if we had not engaged in any such hedging transactions. In addition, the degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio positions being hedged could vary. Moreover, for a variety of reasons, we might not seek to establish a perfect correlation between the hedging instruments and the portfolio holdings being hedged. Any imperfect

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correlation could prevent us from achieving the intended hedge and expose us to risk of loss. In addition, it might not be possible to hedge fully or perfectly against currency fluctuations affecting the value of securities denominated in non-U.S. currencies because the value of those securities would likely fluctuate as a result of factors not related to currency fluctuations.

***Uncertainty relating to the LIBOR calculation process may adversely affect the value of our portfolio of LIBOR-indexed, floating-rate debt securities.***

Concerns have been publicized that some of the member banks surveyed by the British Bankers' Association ("BBA") in connection with the calculation of LIBOR across a range of maturities and currencies may have been under-reporting or otherwise manipulating the inter-bank lending rate applicable to them in order to profit on their derivatives positions or to avoid an appearance of capital insufficiency or adverse reputational or other consequences that may have resulted from reporting inter-bank lending rates higher than those they actually submitted. A number of BBA member banks have entered into settlements with their regulators and law enforcement agencies with respect to alleged manipulation of LIBOR, and investigations by regulators and governmental authorities in various jurisdictions are ongoing.

Actions by the BBA, regulators or law enforcement agencies may result in changes to the manner in which LIBOR is determined. Uncertainty as to the nature of such potential changes may adversely affect the market for LIBOR-based securities, including our portfolio of LIBOR-indexed, floating-rate debt securities. In addition, any further changes or reforms to the determination or supervision of LIBOR may result in a sudden or prolonged increase or decrease in reported LIBOR, which could have an adverse impact on the market for LIBOR-based securities or the value of our portfolio of LIBOR-indexed, floating-rate debt securities.

**Risks Relating to Our Securities**

***The market price of our common stock may fluctuate significantly.***

The market price and liquidity of the market for shares of our common stock may be significantly affected by numerous factors, some of which are beyond our control and may not be directly related to our operating performance. These factors include:

price and volume fluctuations in the overall stock market or in the market for BDCs from time to time;

investor demand for shares of our common stock;

significant volatility in the market price and trading volume of securities of registered closed-end management investment companies, BDCs or other financial services companies, which is not necessarily related to the operating performance of these companies;

the inability to raise equity capital;

our inability to borrow money or deploy or invest our capital;

fluctuations in interest rates;

any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;

operating performance of companies comparable to us;

changes in regulatory policies or tax guidelines with respect to RICs or BDCs;

our loss of status as or ability to operate as a BDC;

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our failure to qualify as a RIC, loss of RIC status or ability to operate as a RIC;

actual or anticipated changes in our earnings or fluctuations in our operating results;

changes in the value of our portfolio of investments;

general economic conditions, trends and other external factors;

departures of key personnel; or

loss of a major source of funding.

In addition, we are required to continue to meet certain listing standards in order for our common stock to remain listed on the New York Stock Exchange ("NYSE"). If we were to be delisted by the NYSE, the liquidity of our common stock would be materially impaired.

***Investing in our common stock may involve an above average degree of risk.***

The investments we may make may result in a higher amount of risk, volatility or loss of principal than alternative investment options. These investments in portfolio companies may be highly speculative and aggressive, and therefore, an investment in our common stock may not be suitable for investors with lower risk tolerance.

***Sales of substantial amounts of our common stock in the public market may have an adverse effect on the market price of our common stock.***

Sales of substantial amounts of our common stock could materially adversely affect the prevailing market prices for our common stock. If substantial amounts of our common stock were sold, this could impair our ability to raise additional capital through the sale of securities should we desire to do so.

***Certain provisions of our certificate of incorporation and bylaws, as well as aspects of the Delaware General Corporation Law could deter takeover attempts and have an adverse impact on the price of our common stock.***

Our certificate of incorporation and bylaws as well as the Delaware General Corporation Law contain provisions that may have the effect of discouraging a third party from making an acquisition proposal for us. Among other things, our certificate of incorporation and bylaws:

provide for a classified board of directors, which may delay the ability of our stockholders to change the membership of a majority of our board of directors;

authorize the issuance of "blank check" preferred stock that could be issued by our board of directors to thwart a takeover attempt;

do not provide for cumulative voting;

provide that vacancies on the board of directors, including newly created directorships, may be filled only by a majority vote of directors then in office;

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provide that our directors may be removed only for cause;

require supermajority voting to effect certain amendments to our certificate of incorporation and bylaws; and

require stockholders to provide advance notice of new business proposals and director nominations under specific procedures.

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These anti-takeover provisions may inhibit a change in control in circumstances that could give the holders of our common stock the opportunity to realize a premium over the market price for our common stock. The Holdings Credit Facility, the NMFC Credit Facility and the Unsecured Notes also include covenants that, among other things, restrict our ability to dispose of assets, incur additional indebtedness, make restricted payments, create liens on assets, make investments, make acquisitions and engage in mergers or consolidations. The Holdings Credit Facility, the NMFC Credit Facility and the Unsecured Notes also include change of control provisions that accelerate the indebtedness (or require prepayment of such indebtedness) under these agreements in the event of certain change of control events.

***Shares of our common stock have traded at a discount from net asset value and may do so in the future.***

Shares of closed-end investment companies have frequently traded at a market price that is less than the net asset value that is attributable to those shares. In part as a result of adverse economic conditions and increasing pressure within the financial sector of which we are a part, our common stock has at times traded below our net asset value per share since our IPO on May 19, 2011. Our shares could once again trade at a discount to net asset value. The possibility that our shares of common stock may trade at a discount from net asset value over the long term is separate and distinct from the risk that our net asset value will decrease. We cannot predict whether shares of our common stock will trade above, at or below our net asset value. If our common stock trades below our net asset value, we will generally not be able to issue additional shares of our common stock without first obtaining the approval for such issuance from our stockholders and our independent directors. If additional funds are not available to us, we could be forced to curtail or cease our new lending and investment activities, and our net asset value could decrease and our level of distributions could be impacted.

***You may not receive dividends or our dividends may decline or may not grow over time.***

We cannot assure you that we will achieve investment results or maintain a tax status that will allow or require any specified level of cash distributions or year-to-year increases in cash distributions. In particular, our future dividends are dependent upon the investment income we receive on our portfolio investments. To the extent such investment income declines, our ability to pay future dividends may be harmed.

***We will have broad discretion over the use of proceeds of any offering made pursuant to this prospectus, to the extent it is successful.***

We will have significant flexibility in applying the proceeds of any offering made pursuant to this prospectus. We will also pay operating expenses, and may pay other expenses such as due diligence expenses of potential new investments, from net proceeds. Our ability to achieve our investment objective may be limited to the extent that the net proceeds of the offering, pending full investment, are used to pay operating expenses. In addition, we can provide you no assurance that the current offering will be successful, or that by increasing the size of our available equity capital, our aggregate expenses, and correspondingly, our expense ratio, will be lowered.

***Your interest in NMFC may be diluted if you do not fully exercise your subscription rights in any rights offering.***

In the event we issue subscription rights to purchase shares of our common stock, stockholders who do not fully exercise their rights should expect that they will, at the completion of the offer, own a smaller proportional interest in NMFC than would otherwise be the case if they fully exercised their rights. We cannot state precisely the amount of any such dilution in share ownership



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because we do not know at this time what proportion of the shares will be purchased as a result of the offer.

In addition, if the subscription price is less than our net asset value per share, then our stockholders would experience an immediate dilution of the aggregate net asset value of their shares as a result of the offer. The amount of any decrease in net asset value is not predictable because it is not known at this time what the subscription price and net asset value per share will be on the expiration date of the rights offering or what proportion of the shares will be purchased as a result of the offer. Such dilution could be substantial.

***If we issue preferred stock, the net asset value and market value of our common stock will likely become more volatile.***

We cannot assure you that the issuance of preferred stock would result in a higher yield or return to the holders of our common stock. The issuance of preferred stock would likely cause the net asset value and market value of the common stock to become more volatile. If the dividend rate on the preferred stock were to approach the net rate of return on our investment portfolio, the benefit of leverage to the holders of the common stock would be reduced. If the dividend rate on the preferred stock were to exceed the net rate of return on our portfolio, the leverage would result in a lower rate of return to the holders of common stock than if we had not issued preferred stock. Any decline in the net asset value of our investments would be borne entirely by the holders of common stock. Therefore, if the market value of our portfolio were to decline, the leverage would result in a greater decrease in net asset value to the holders of common stock than if we were not leveraged through the issuance of preferred stock. This greater net asset value decrease would also tend to cause a greater decline in the market price for the common stock. We might be in danger of failing to maintain the required asset coverage of the preferred stock or of losing our ratings, if any, on the preferred stock or, in an extreme case, our current investment income might not be sufficient to meet the dividend requirements on the preferred stock. In order to counteract such an event, we might need to liquidate investments in order to fund a redemption of some or all of the preferred stock. In addition, we would pay (and the holders of common stock would bear) all costs and expenses relating to the issuance and ongoing maintenance of the preferred stock, including higher advisory fees if our total return exceeds the dividend rate on the preferred stock. Holders of preferred stock may have different interests than holders of common stock and may at times have disproportionate influence over our affairs.

***Holders of any preferred stock we might issue would have the right to elect members of our board of directors and class voting rights on certain matters.***

Holders of any preferred stock we might issue, voting separately as a single class, would have the right to elect two members of our board of directors at all times and in the event dividends become two full years in arrears would have the right to elect a majority of the directors until such arrearage is completely eliminated. In addition, preferred stockholders have class voting rights on certain matters, including changes in fundamental investment restrictions and conversion to open-end status, and accordingly can veto any such changes. Restrictions imposed on the declarations and payment of dividends or other distributions to the holders of our common stock and preferred stock, both by the 1940 Act and by requirements imposed by rating agencies, if any, or the terms of our credit facilities, if any, might impair our ability to maintain our qualification as a RIC for U.S. federal income tax purposes. While we would intend to redeem our preferred stock to the extent necessary to enable us to distribute our income as required to maintain our qualification as a RIC, there can be no assurance that such actions could be effected in time to meet the tax requirements.

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**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus contains forward-looking statements that involve substantial risks and uncertainties. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about us, our current and prospective portfolio investments, our industry, our beliefs, and our assumptions. Words such as "anticipate", "believe", "continue", "could", "estimate", "expect", "intend", "may", "plan", "potential", "project", "seek", "should", "target", "will", "would" or variations of these words and similar expressions are intended to identify forward-looking statements. The forward-looking statements contained in this prospectus involve risks and uncertainties, including statements as to:

our future operating results;

our business prospects and the prospects of our portfolio companies;

the impact of investments that we expect to make;

our contractual arrangements and relationships with third parties;

the dependence of our future success on the general economy and its impact on the industries in which we invest;

the ability of our portfolio companies to achieve their objectives;

our expected financings and investments;

the adequacy of our cash resources and working capital; and

the timing of cash flows, if any, from the operations of our portfolio companies.

These statements are not guarantees of future performance and are subject to risks, uncertainties, and other factors, some of which are beyond our control and difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements, including without limitation:

an economic downturn could impair our portfolio companies' ability to continue to operate, which could lead to the loss of some or all of our investments in such portfolio companies;

a contraction of available credit and/or an inability to access the equity markets could impair our lending and investment activities;

interest rate volatility could adversely affect our results, particularly if we elect to use leverage as part of our investment strategy;

currency fluctuations could adversely affect the results of our investments in foreign companies, particularly to the extent that we receive payments denominated in foreign currency rather than U.S. dollars; and

the risks, uncertainties and other factors we identify in "Risk Factors" and elsewhere in this prospectus and in our filings with the SEC.

Although we believe that the assumptions on which these forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and as a result, the forward-looking statements based on those assumptions also could be inaccurate. Important assumptions include our ability to originate new loans and investments, certain margins and levels of profitability and the availability of additional capital. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this prospectus should not be regarded as a representation by us that our plans and objectives will be achieved. These risks and uncertainties include those described or identified in "Risk Factors" and elsewhere in this prospectus. You

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should not place undue reliance on these forward-looking statements, which apply only as of the date of this prospectus. However, we will update this prospectus to reflect any material changes to the information contained herein. The forward-looking statements and projections contained in this prospectus are excluded from the safe harbor protection provided by Section 27A of the Securities Act.

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**USE OF PROCEEDS**

We intend to use the net proceeds from the sale of our securities pursuant to this prospectus for new investments in portfolio companies in accordance with our investment objective and strategies described in this prospectus, to temporarily repay indebtedness (which will be subject to reborrowing), to pay our operating expenses, to pay distributions to our stockholders and for general corporate purposes, and other working capital needs. We are continuously identifying, reviewing and, to the extent consistent with our investment objective, funding new investments. As a result, we typically raise capital as we deem appropriate to fund such new investments. The supplement to this prospectus relating to an offering will more fully identify the use of the proceeds from such offering.

We estimate that it will take less than six months for us to substantially invest the net proceeds of any offering made pursuant to this prospectus, depending on the availability of attractive opportunities, market conditions and the amount raised. However, we can offer no assurance that we will be able to achieve this goal.

Proceeds not immediately used for new investments or the temporary repayment of debt will be invested primarily in cash, cash equivalents, U.S. government securities and other high-quality investments that mature in one year or less from the date of investment. These securities may have lower yields than the types of investments we would typically make in accordance with our investment objective and, accordingly, may result in lower distributions, if any, during such period.

Table of Contents**PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS**

Our common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "NMFC". The following table sets forth the net asset value ("NAV") per share of our common stock, the high and low closing sale price for our common stock, the closing sale price as a percentage of NAV and the quarterly distributions per share for each fiscal quarter for the years ended December 31, 2016, December 31, 2015 and December 31, 2014.

| Fiscal Year Ended             | NAV Per Share <sup>(2)</sup> | Closing Sales Price <sup>(3)</sup> |                   | Premium (Discount) of High Closing Sales to | Premium (Discount) of Low Closing Sales to | Declared Distributions Per Share <sup>(5)(6)</sup> |
|-------------------------------|------------------------------|------------------------------------|-------------------|---|--|--|
|                               |                              | High                               | Low               | NAV <sup>(4)</sup>                          | NAV <sup>(4)</sup>                         |  |
| <b>December 31, 2016</b>      |                              |                                    |                   |   |  |  |
| Fourth Quarter <sup>(1)</sup> | * \$                         | 13.83                              | \$ 13.79          | *   | *  | *  |
| Third Quarter                 | * \$                         | 14.28                              | \$ 13.11          | *   | * \$                                       | 0.34   |
| Second Quarter                | \$                           | 13.23                              | \$ 12.90 \$ 12.10 | (2.49)%                                     | (8.54)% \$                                 | 0.34   |
| First Quarter                 | \$                           | 12.87                              | \$ 12.96 \$ 11.09 | 0.70%                                       | (13.83)% \$                                | 0.34   |
| <b>December 31, 2015</b>      |                              |                                    |                   |   |  |  |
| Fourth Quarter                | \$                           | 13.08                              | \$ 14.17 \$ 12.15 | 8.33%                                       | (7.11)% \$                                 | 0.34   |
| Third Quarter                 | \$                           | 13.73                              | \$ 14.94 \$ 13.34 | 8.81%                                       | (2.84)% \$                                 | 0.34   |
| Second Quarter                | \$                           | 13.90                              | \$ 15.14 \$ 14.49 | 8.92%                                       | 4.24% \$                                   | 0.34   |
| First Quarter                 | \$                           | 13.89                              | \$ 15.06 \$ 14.30 | 8.42%                                       | 2.95% \$                                   | 0.34   |
| <b>December 31, 2014</b>      |                              |                                    |                   |   |  |  |
| Fourth Quarter                | \$                           | 13.83                              | \$ 15.09 \$ 14.14 | 9.11%                                       | 2.24% \$                                   | 0.34   |
| Third Quarter                 | \$                           | 14.33                              | \$ 15.39 \$ 14.48 | 7.40%                                       | 1.05% \$                                   | 0.46 <sup>(7)</sup>                                |
| Second Quarter                | \$                           | 14.65                              | \$ 14.89 \$ 13.91 | 1.64%                                       | (5.05)% \$                                 | 0.34   |
| First Quarter                 | \$                           | 14.53                              | \$ 15.19 \$ 14.46 | 4.54%                                       | (0.48)% \$                                 | 0.34   |

- (1) Period from October 1, 2016 through October 4, 2016.
- (2) NAV is determined as of the last date in the relevant quarter and therefore may not reflect the NAV per share on the date of the high and low sales prices. The NAVs shown are based on outstanding shares at the end of each period.
- (3) Closing sales price is determined as the high or low closing sales price noted within the respective quarter, not adjusted for distributions.
- (4) Calculated as of the respective high or low closing sales price divided by the quarter end NAV.
- (5) Represents the distributions declared or paid for the specified quarter.
- (6)

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Tax characteristics of all distributions paid are reported to stockholders on Form 1099 after the end of the calendar year. For the years ended December 31, 2015 and December 31, 2014, total distributions were \$81.0 million and \$77.6 million, respectively, of which the distributions were comprised of approximately 99.96% and 96.16%, respectively, of ordinary income, 0.00% and 3.55%, respectively, of long-term capital gains and approximately 0.04% and 0.29%, respectively, of a return of capital.

(7)

Includes a special dividend of \$0.12 per share paid on September 3, 2014 and a third quarter dividend of \$0.34 per share paid on September 30, 2014.

\*

Not determinable at the time of filing.

On October 4, 2016, the last reported sales price of our common stock was \$13.79 per share. As of September 29, 2016, we had approximately 22 stockholders of record and approximately one beneficial owner whose shares are held in the names of brokers, dealers, funds, trusts and clearing agencies.

Shares of BDCs may trade at a market price that is less than the value of the net assets attributable to those shares. The possibility that our shares of common stock will trade at a discount

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from NAV or at premiums that are unsustainable over the long term are separate and distinct from the risk that our NAV will decrease. Since our initial public offering on May 19, 2011, our shares of common stock have traded at times at both a discount and a premium to the net assets attributable to those shares. As of October 4, 2016, our shares of common stock traded at a premium of approximately 4.2% of the NAV attributable to those shares as of June 30, 2016. It is not possible to predict whether the shares offered hereby will trade at, above, or below NAV.

We intend to pay quarterly distributions to our stockholders in amounts sufficient to maintain our status as a RIC. We intend to distribute approximately our entire Adjusted Net Investment Income (defined as net investment income adjusted to reflect income as if the cost basis of investments held at the IPO date had stepped-up to fair market value as of the IPO date) on a quarterly basis and substantially all of our taxable income on an annual basis, except that we may retain certain net capital gains for reinvestment.

We maintain an "opt out" dividend reinvestment plan on behalf of our stockholders, pursuant to which each of our stockholders' cash distributions will be automatically reinvested in additional shares of our common stock, unless the stockholder elects to receive cash.

We apply the following in implementing the dividend reinvestment plan. If the price at which newly issued shares are to be credited to stockholders' accounts is equal to or greater than 110.0% of the last determined NAV of the shares, we will use only newly issued shares to implement the dividend reinvestment plan. Under such circumstances, the number of shares to be issued to a stockholder is determined by dividing the total dollar amount of the distribution payable to such stockholder by the market price per share of our common stock on the NYSE on the distribution payment date. Market price per share on that date will be the closing price for such shares on the NYSE or, if no sale is reported for such day, the average of their electronically reported bid and ask prices.

If the price at which newly issued shares are to be credited to stockholders' accounts is less than 110.0% of the last determined NAV of the shares, we will either issue new shares or instruct the plan administrator to purchase shares in the open market to satisfy the additional shares required. Shares purchased in open market transactions by the plan administrator will be allocated to a stockholder based on the average purchase price, excluding any brokerage charges or other charges, of all shares of common stock purchased in the open market. The number of shares of our common stock to be outstanding after giving effect to payment of the distribution cannot be established until the value per share at which additional shares will be issued has been determined and elections of our stockholders have been tabulated.



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The following table reflects the cash distributions, including dividends and returns of capital, if any, per share that have been declared by our board of directors for the years ended December 31, 2016, December 31, 2015 and December 31, 2014:

| <b>Date Declared</b> | <b>Record Date</b> | <b>Payment Date</b> | <b>Amount</b>       |
|----------------------|--------------------|---------------------|---------------------|
| August 2, 2016       | September 16, 2016 | September 30, 2016  | \$ 0.34             |
| May 3, 2016          | June 16, 2016      | June 30, 2016       | 0.34                |
| February 22, 2016    | March 17, 2016     | March 31, 2016      | 0.34                |
|                      |                    |                     | \$ 1.02             |
| November 3, 2015     | December 16, 2015  | December 30, 2015   | \$ 0.34             |
| August 4, 2015       | September 16, 2015 | September 30, 2015  | 0.34                |
| May 5, 2015          | June 16, 2015      | June 30, 2015       | 0.34                |
| February 23, 2015    | March 17, 2015     | March 31, 2015      | 0.34                |
|                      |                    |                     | \$ 1.36             |
| November 4, 2014     | December 16, 2014  | December 30, 2014   | \$ 0.34             |
| August 5, 2014       | September 16, 2014 | September 30, 2014  | 0.34                |
| July 30, 2014        | August 20, 2014    | September 3, 2014   | 0.12 <sup>(1)</sup> |
| May 6, 2014          | June 16, 2014      | June 30, 2014       | 0.34                |
| March 4, 2014        | March 17, 2014     | March 31, 2014      | 0.34                |
|                      |                    |                     | \$ 1.48             |

(1)

Special dividend related to estimated realized capital gains attributable to NMF Holdings' warrant investments in Learning Care Group (US), Inc.

Tax characteristics of all distributions paid are reported to stockholders on Form 1099 after the end of the calendar year. For the years ended December 31, 2015 and December 31, 2014, total distributions were \$81.0 million and \$77.6 million, respectively, of which the distributions were comprised of approximately 99.96% and 96.16%, respectively, of ordinary income, 0.00% and 3.55%, respectively, of long-term capital gains and approximately 0.04% and 0.29%, respectively, of a return of capital. Future quarterly distributions, if any, will be determined by our board of directors.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The information contained in this section should be read in conjunction with the Selected Financial and Other Data and our Financial Statements and notes thereto appearing elsewhere in this prospectus. For the periods prior to and as of May 8, 2014, all financial information provided in this prospectus reflects our organizational structure prior to the restructuring on May 8, 2014 described under "Description of Restructuring", where NMF Holdings functioned as the operating company. In addition to historical information, the following discussion and other parts of this prospectus contain forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated by such forward-looking information due to the factors discussed under "Risk Factors" and "Cautionary Statement Regarding Forward-Looking Statements" appearing elsewhere in this prospectus.*

**Overview**

***New Mountain Finance Corporation***

We are a Delaware corporation that was originally incorporated on June 29, 2010. We are a closed-end, non-diversified management investment company that has elected to be regulated as a BDC under the 1940 Act. As such, we are obligated to comply with certain regulatory requirements. We have elected to be treated, and intend to comply with the requirements to continue to qualify annually, as a RIC under Subchapter M of the Code. NMFC is also registered as an investment adviser under the Advisers Act.

On May 19, 2011, we priced our IPO of 7,272,727 shares of common stock at a public offering price of \$13.75 per share. Concurrently with the closing of the IPO and at the public offering price of \$13.75 per share, we sold an additional 2,172,000 shares of our common stock to certain executives and employees of, and other individuals affiliated with, New Mountain Capital in the Concurrent Private Placement. Additionally, 1,252,964 shares were issued to the partners of New Mountain Guardian Partners, L.P. at that time for their ownership interest in the Predecessor Entities. In connection with our IPO and through a series of transactions, NMF Holdings acquired all of the operations of the Predecessor Entities, including all of the assets and liabilities related to such operations.

***New Mountain Finance Holdings, L.L.C.***

NMF Holdings is a Delaware limited liability company. Until May 8, 2014, NMF Holdings was externally managed and was regulated as a BDC under the 1940 Act. As such, NMF Holdings was obligated to comply with certain regulatory requirements. NMF Holdings was treated as a partnership for U.S. federal income tax purposes for so long as it had at least two members. With the completion of the underwritten secondary offering on February 3, 2014, NMF Holdings' existence as a partnership for U.S. federal income tax purposes terminated and NMF Holdings became an entity that is disregarded as a separate entity from its owner for U.S. federal tax purposes. For additional information on our organizational structure prior to May 8, 2014, see "Description of Restructuring".

Until May 8, 2014, NMF Holdings was externally managed by the Investment Adviser. As of May 8, 2014, the Investment Adviser serves as our external investment adviser. The Administrator provides the administrative services necessary for operations. The Investment Adviser and Administrator are wholly-owned subsidiaries of New Mountain Capital. New Mountain Capital is a firm with a track record of investing in the middle market and with assets under management

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totaling more than \$15.0 billion<sup>(1)</sup>, which includes total assets held by us. New Mountain Capital focuses on investing in defensive growth companies across its private equity, public equity and credit investment vehicles. NMF Holdings, formerly known as New Mountain Guardian (Leveraged), L.L.C., was originally formed as a subsidiary of Guardian AIV by New Mountain Capital in October 2008. Guardian AIV was formed through an allocation of approximately \$300.0 million of the \$5.1 billion of commitments supporting New Mountain Partners III, L.P., a private equity fund managed by New Mountain Capital. In February 2009, New Mountain Capital formed a co-investment vehicle, New Mountain Guardian Partners, L.P., comprising \$20.4 million of commitments.

Prior to December 18, 2014, NMF SLF was a Delaware limited liability company. NMF SLF was a wholly-owned subsidiary of NMF Holdings and thus our wholly-owned indirect subsidiary. NMF SLF was bankruptcy-remote and non-recourse to us. As part of an amendment to our existing credit facilities with Wells Fargo Bank, National Association, NMF SLF merged with and into NMF Holdings on December 18, 2014. See "*Borrowings*" for additional information on our credit facilities.

Since our IPO, and through June 30, 2016, we raised approximately \$454.0 million in net proceeds from additional offerings of common stock and issued shares of common stock valued at approximately \$288.4 million on behalf of AIV Holdings for exchanged units. We acquired from NMF Holdings units of NMF Holdings equal to the number of shares of our common stock sold in additional offerings. With the completion of the final secondary offering on February 3, 2014, we owned 100.0% of the units of NMF Holdings, which became our wholly-owned subsidiary.

***Current Organization***

Our wholly-owned subsidiaries, NMF Ancora, NMF QID and NMF YP, are structured as Delaware entities that serve as tax blocker corporations which hold equity or equity-like investments in portfolio companies organized as limited liability companies (or other forms of pass-through entities). We consolidate our tax blocker corporations for accounting purposes. The tax blocker corporations are not consolidated for income tax purposes and may incur income tax expense as a result of their ownership of the portfolio companies. Additionally, our wholly-owned subsidiary, NMF Servicing serves as the administrative agent on certain investment transactions. SBIC LP, and its general partner, SBIC GP, were organized in Delaware as a limited partnership and limited liability company, respectively. SBIC LP and SBIC GP are our consolidated wholly-owned direct and indirect subsidiaries. SBIC LP received a license from the SBA to operate as a SBIC under Section 301(c) of the 1958 Act.

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(1)

Includes amounts committed, not all of which have been drawn down and invested to-date, as of June 30, 2016, as well as amounts called and returned since inception.

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The diagram below depicts our organizational structure as of June 30, 2016.

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\*

Includes partners of New Mountain Guardian Partners, L.P.

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NMFC is the sole limited partner of SBIC LP. NMFC, directly or indirectly through SBIC GP, wholly-owns SBIC LP. NMFC owns 100.0% of SBIC GP which owns 1.0% of SBIC LP. NMFC owns 99.0% of SBIC LP.

Our investment objective is to generate current income and capital appreciation through the sourcing and origination of debt securities at all levels of the capital structure, including first and second lien debt, notes, bonds and mezzanine securities. In some cases, our investments may also include equity interests. The primary focus is in the debt of defensive growth companies, which are defined as generally exhibiting the following characteristics: (i) sustainable secular growth drivers, (ii) high barriers to competitive entry, (iii) high free cash flow after capital expenditure and working capital needs, (iv) high returns on assets and (v) niche market dominance. Similar to us, SBIC LP's investment objective is to generate current income and capital appreciation under our investment criteria. However, SBIC LP's investments must be in SBA eligible companies. Our portfolio may be concentrated in a limited number of industries. As of June 30, 2016, our top five industry concentrations were business services, software, education, federal services and distribution & logistics.

The investments that we invest in are almost entirely rated below investment grade or may be unrated, which are often referred to as "leveraged loans", "high yield" or "junk" debt investments, and may be considered "high risk" or speculative compared to debt investments that are rated investment grade. Such issuers are considered more likely than investment grade issuers to default on their payments of interest and principal and such risk of default could reduce our net asset value and income distributions. Our investments are also primarily floating rate debt investments that contain interest reset provisions that may make it more difficult for borrowers to make debt repayments to us if interest rates rise. In addition, some of our debt investments will not fully amortize during their lifetime, which could result in a loss or a substantial amount of unpaid principal and interest due upon maturity. Our debt investments may also lose significant market value before a default occurs. Furthermore, an active trading market may not exist for these securities. This illiquidity may make it more difficult to value our investments.

As of June 30, 2016, our net asset value was \$843.3 million and our portfolio had a fair value of approximately \$1,498.1 million in 72 portfolio companies, with a weighted average Yield to Maturity at Cost of approximately 10.3%.

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**Recent Developments**

On August 2, 2016, our board of directors declared a third quarter 2016 distribution of \$0.34 per share payable on September 30, 2016 to holders of record as of September 16, 2016.

**Critical Accounting Policies**

The preparation of financial statements and related disclosures in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the periods reported. Actual results could materially differ from those estimates. We have identified the following items as critical accounting policies.

***Basis of Accounting***

We consolidate our wholly-owned direct and indirect subsidiaries: NMF Holdings, NMF Servicing, SBIC LP, SBIC GP, NMF Ancora, NMF QID and NMF YP. Previously, we consolidated our wholly-owned indirect subsidiary NMF SLF until it merged with and into NMF Holdings on December 18, 2014. See "*Borrowings*" for additional information on our credit facilities. We are an investment company following accounting and reporting guidance as described in Accounting Standards Codification Topic 946, *Financial Services - Investment Companies*, ("ASC 946").

***Valuation and Leveling of Portfolio Investments***

At all times consistent with GAAP and the 1940 Act, we conduct a valuation of assets, which impacts our net asset value.

We value our assets on a quarterly basis, or more frequently if required under the 1940 Act. In all cases, our board of directors is ultimately and solely responsible for determining the fair value of our portfolio investments on a quarterly basis in good faith, including investments that are not publicly traded, those whose market prices are not readily available and any other situation where our portfolio investments require a fair value determination. Security transactions are accounted for on a trade date basis. Our quarterly valuation procedures are set forth in more detail below:

- (1) Investments for which market quotations are readily available on an exchange are valued at such market quotations based on the closing price indicated from independent pricing services.
- (2) Investments for which indicative prices are obtained from various pricing services and/or brokers or dealers are valued through a multi-step valuation process, as described below, to determine whether the quote(s) obtained is representative of fair value in accordance with GAAP.
  - a. Bond quotes are obtained through independent pricing services. Internal reviews are performed by the investment professionals of the Investment Adviser to ensure that the quote obtained is representative of fair value in accordance with GAAP and if so, the quote is used. If the Investment Adviser is unable to sufficiently validate the quote(s) internally and if the investment's par value or its fair value exceeds the materiality threshold, the investment is valued similarly to those assets with no readily available quotes (see (3) below); and

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- b. For investments other than bonds, we look at the number of quotes readily available and perform the following:
  - i. Investments for which two or more quotes are received from a pricing service are valued using the mean of the mean of the bid and ask of the quotes obtained;
  - ii. Investments for which one quote is received from a pricing service are validated internally. The investment professionals of the Investment Adviser analyze the market quotes obtained using an array of valuation methods (further described below) to validate the fair value. If the Investment Adviser is unable to sufficiently validate the quote internally and if the investment's par value or its fair value exceeds the materiality threshold, the investment is valued similarly to those assets with no readily available quotes (see (3) below).
- (3) Investments for which quotations are not readily available through exchanges, pricing services, brokers, or dealers are valued through a multi-step valuation process:
  - a. Each portfolio company or investment is initially valued by the investment professionals of the Investment Adviser responsible for the credit monitoring;
  - b. Preliminary valuation conclusions will then be documented and discussed with our senior management;
  - c. If an investment falls into (3) above for four consecutive quarters and if the investment's par value or its fair value exceeds the materiality threshold, then at least once each fiscal year, the valuation for each portfolio investment for which we do not have a readily available market quotation will be reviewed by an independent valuation firm engaged by our board of directors; and
  - d. When deemed appropriate by our management, an independent valuation firm may be engaged to review and value investment(s) of a portfolio company, without any preliminary valuation being performed by the Investment Adviser. The investment professionals of the Investment Adviser will review and validate the value provided.

For investments in revolving credit facilities and delayed draw commitments, the cost basis of the funded investments purchased is offset by any costs/netbacks received for any unfunded portion on the total balance committed. The fair value is also adjusted for the price appreciation or depreciation on the unfunded portion. As a result, the purchase of commitments not completely funded may result in a negative fair value until it is called and funded.

The values assigned to investments are based upon available information and do not necessarily represent amounts which might ultimately be realized, since such amounts depend on future circumstances and cannot be reasonably determined until the individual positions are liquidated. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments may fluctuate from period to period and the fluctuations could be material.

GAAP fair value measurement guidance classifies the inputs used in measuring fair value into three levels as follows:

Level I Quoted prices (unadjusted) are available in active markets for identical investments and we have the ability to access such quotes as of the reporting date. The type of investments which would generally be included in Level I include active exchange-traded equity securities and exchange-traded derivatives. As required by Accounting Standards Codification Topic 820, *Fair*

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*Value Measurements and Disclosures* ("ASC 820"), we, to the extent that we hold such investments, do not adjust the quoted price for these investments, even in situations where we hold a large position and a sale could reasonably impact the quoted price.

**Level II** Pricing inputs are observable for the investments, either directly or indirectly, as of the reporting date, but are not the same as those used in Level I. Level II inputs include the following:

Quoted prices for similar assets or liabilities in active markets;

Quoted prices for identical or similar assets or liabilities in non-active markets (examples include corporate and municipal bonds, which trade infrequently);

Pricing models whose inputs are observable for substantially the full term of the asset or liability (examples include most over-the-counter derivatives, including foreign exchange forward contracts); and

Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability.

**Level III** Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment.

The inputs used to measure fair value may fall into different levels. In all instances when the inputs fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level of input that is significant to the fair value measurement in its entirety. As such, a Level III fair value measurement may include inputs that are both observable and unobservable. Gains and losses for such assets categorized within the Level III table below may include changes in fair value that are attributable to both observable inputs and unobservable inputs.

The inputs into the determination of fair value require significant judgment or estimation by management and consideration of factors specific to each investment. A review of the fair value hierarchy classifications is conducted on a quarterly basis. Changes in the observability of valuation inputs may result in the transfer of certain investments within the fair value hierarchy from period to period. Reclassifications impacting the fair value hierarchy are reported as transfers in/out of the respective leveling categories as of the beginning of the quarter in which the reclassifications occur.

The following table summarizes the levels in the fair value hierarchy that our portfolio investments fall into as of June 30, 2016:

| (in thousands)           | Total               | Level I       | Level II          | Level III         |
|--------------------------|---------------------|---------------|-------------------|-------------------|
| First lien               | \$ 616,894          | \$            | \$ 285,363        | \$ 331,531        |
| Second lien              | 642,423             |               | 354,286           | 288,137           |
| Subordinated             | 79,272              |               | 37,538            | 41,734            |
| Equity and other         | 159,472             | 118           | 14                | 159,340           |
| <b>Total investments</b> | <b>\$ 1,498,061</b> | <b>\$ 118</b> | <b>\$ 677,201</b> | <b>\$ 820,742</b> |

We generally use the following framework when determining the fair value of investments where there are little, if any, market activity or observable pricing inputs. We typically determine the fair value of our performing debt investments utilizing an income approach. Additional consideration is given using a market based approach, as well as reviewing the overall underlying portfolio

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company's performance and associated financial risks. The following outlines additional details on the approaches considered:

**Company Performance, Financial Review, and Analysis:** Prior to investment, as part of our due diligence process, we evaluate the overall performance and financial stability of the portfolio company. Post investment, we analyze each portfolio company's current operating performance and relevant financial trends versus prior year and budgeted results, including, but not limited to, factors affecting its revenue and earnings before interest, taxes, depreciation, and amortization ("EBITDA") growth, margin trends, liquidity position, covenant compliance and changes to its capital structure. We also attempt to identify and subsequently track any developments at the portfolio company, within its customer or vendor base or within the industry or the macroeconomic environment, generally, that may alter any material element of our original investment thesis. This analysis is specific to each portfolio company. We leverage the knowledge gained from our original due diligence process, augmented by this subsequent monitoring, to continually refine our outlook for each of our portfolio companies and ultimately form the valuation of our investment in each portfolio company. When an external event such as a purchase transaction, public offering or subsequent sale occurs, we will consider the pricing indicated by the external event to corroborate the private valuation.

For debt investments, we may employ the Market Based Approach (as described below) to assess the total enterprise value of the portfolio company, in order to evaluate the enterprise value coverage of our debt investment. For equity investments or in cases where the Market Based Approach implies a lack of enterprise value coverage for the debt investment, we may additionally employ a discounted cash flow analysis based on the free cash flows of the portfolio company to assess the total enterprise value.

After enterprise value coverage is demonstrated for our debt investments through the method(s) above, the Income Based Approach (as described below) may be employed to estimate the fair value of the investment.

**Market Based Approach:** We may estimate the total enterprise value of each portfolio company by utilizing market value cash flow (EBITDA) multiples of publicly traded comparable companies and comparable transactions. We consider numerous factors when selecting the appropriate companies whose trading multiples are used to value our portfolio companies. These factors include, but are not limited to, the type of organization, similarity to the business being valued, relevant risk factors, as well as size, profitability and growth expectations. We may apply an average of various relevant comparable company EBITDA multiples to the portfolio company's latest twelve month ("LTM") EBITDA or projected EBITDA to calculate the enterprise value of the portfolio company. Significant increases or decreases in the EBITDA multiple will result in an increase or decrease in enterprise value, which may result in an increase or decrease in the fair value estimate of the investment. In applying the market based approach as of June 30, 2016, we used the relevant EBITDA multiple ranges set forth in the table below to determine the enterprise value of our portfolio companies. We believe this was a reasonable range in light of current comparable company trading levels and the specific portfolio companies involved.

**Income Based Approach:** We also may use a discounted cash flow analysis to estimate the fair value of the investment. Projected cash flows represent the relevant security's contractual interest, fee and principal payments plus the assumption of full principal recovery at the investment's expected maturity date. These cash flows are discounted at a rate established utilizing a yield calibration approach, which incorporates changes in the credit quality (as measured by relevant statistics) of the portfolio company, as compared to changes in the yield associated with comparable credit quality market indices, between the date of origination and the valuation date. Significant increases or decreases in the discount rate would result in a decrease or increase in the



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fair value measurement. In applying the income based approach as of June 30, 2016, we used the discount ranges set forth in the table below to value investments in our portfolio companies.

The unobservable inputs used in the fair value measurement of our Level III investments as of June 30, 2016 were as follows:

| (in thousands)<br>Type | Fair<br>Value<br>as of<br>June 30,<br>2016 | Approach                 | Unobservable<br>Input  | Range              |                    | Weighted<br>Average |
|------------------------|--|--------------------------|------------------------|--------------------|--------------------|---------------------|
|                        |  |                          |                        | Low                | High               |                     |
| First lien             | \$ 283,732                                 | Market & income approach | EBITDA multiple        | 5.0x               | 16.0x              | 10.3x               |
|                        |  | Market quote             | Discount rate          | 7.4%               | 12.4%              | 9.7%                |
|                        |  | Other                    | Broker quote           | N/A                | N/A                | N/A                 |
| Second lien            | 157,473                                    | Market & income approach | EBITDA multiple        | 6.5x               | 16.0x              | 11.5x               |
|                        |  | Market quote             | Discount rate          | 9.5%               | 13.1%              | 11.3%               |
|                        |  | Other                    | Broker quote           | N/A                | N/A                | N/A                 |
| Subordinated           | 41,734                                     | Market & income approach | EBITDA multiple        | 5.0x               | 8.5x               | 7.3x                |
|                        |  | Market quote             | Discount rate          | 9.5%               | 18.1%              | 15.8%               |
|                        |  | Other                    | Discount rate          | 8.0%               | 19.5%              | 14.3%               |
| Equity and other       | 155,308                                    | Market & income approach | EBITDA multiple        | 2.5x               | 12.0x              | 6.2x                |
|                        |  | Black Scholes analysis   | Discount rate          | 8.0%               | 19.5%              | 14.3%               |
|                        |  | 1,504                    | Expected life in years | 9.3                | 9.8                | 9.5                 |
|                        |  |                          | Volatility             | 27.0%              | 33.8%              | 30.7%               |
|                        |  |                          | Discount rate          | 1.6%               | 1.6%               | 1.6%                |
| 2,528                  | Other                                      | N/A <sup>(1)</sup>       | N/A <sup>(1)</sup>     | N/A <sup>(1)</sup> | N/A <sup>(1)</sup> |                     |
| \$ 820,742             |  |                          |                        |                    |                    |                     |

(1)

Fair value was determined based on transaction pricing or recent acquisition or sale as the best measure of fair value with no material changes in operations of the related portfolio company since the transaction date.

### ***NMFC Senior Loan Program I LLC***

NMFC Senior Loan Program I LLC ("SLP I") was formed as a Delaware limited liability company on May 27, 2014 and commenced operations on June 10, 2014. SLP I is a portfolio company held by us. SLP I is structured as a private investment fund, in which all of the investors are qualified purchasers, as such term is defined under the 1940 Act. Transfer of interests in SLP I is subject to restrictions, and as a result, such interests are not readily marketable. SLP I operates under a limited liability company agreement (the "SLP I Agreement") and will continue in existence until June 10, 2019, subject to earlier termination pursuant to certain terms of the SLP I Agreement. The term may be extended for up to one year pursuant to certain terms of the SLP I Agreement. SLP I has a three year re-investment period. SLP I invests in senior secured loans issued by companies within our core industry verticals. These investments are typically broadly syndicated first lien loans.

SLP I is capitalized with \$93.0 million of capital commitments, \$275.0 million of debt from a revolving credit facility and is managed by us. Our capital commitment is \$23.0 million, representing less than 25.0% ownership, with third party investors representing the remaining capital commitment. As of June 30, 2016, SLP I had total investments with an aggregate fair value of approximately \$339.0 million, debt outstanding of \$245.9 million and capital that had been called and funded of \$93.0 million. As of December 31, 2015, SLP I had total investments with an aggregate fair value of approximately \$349.7 million, debt outstanding of \$267.6 million and capital



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that had been called and funded of \$93.0 million. Our investment in SLP I is disclosed on our Consolidated Schedules of Investments as of June 30, 2016 and December 31, 2015.

We, as an investment adviser registered under the Advisers Act, act as the collateral manager to SLP I and are entitled to receive a management fee for our investment management services provided to SLP I. As a result, SLP I is classified as our affiliate. No management fee is charged on our investment in SLP I in connection with the administrative services provided to SLP I. For the three and six months ended June 30, 2016, we earned approximately \$0.3 million and \$0.6 million, respectively, in management fees related to SLP I which is included in other income. For the three and six months ended June 30, 2015, we earned approximately \$0.3 million and \$0.6 million, respectively, in management fees related to SLP I which is included in other income. As of June 30, 2016 and December 31, 2015, approximately \$0.3 million and \$0.3 million, respectively, of management fees related to SLP I was included in receivable from affiliates. For the three and six months ended June 30, 2016, we earned approximately \$0.9 million and \$1.8 million, respectively, of dividend income related to SLP I, which is included in dividend income. For the three and six months ended June 30, 2015, we earned approximately \$0.9 million and \$1.8 million, respectively, of dividend income related to SLP I, which is included in dividend income. As of June 30, 2016 and December 31, 2015, approximately \$0.9 million and \$0.9 million, respectively, of dividend income related to SLP I was included in interest and dividend receivable.

***NMFC Senior Loan Program II LLC***

NMFC Senior Loan Program II LLC ("SLP II") was formed as a Delaware limited liability company on March 9, 2016 and commenced operations on April 12, 2016. SLP II is structured as a private joint venture investment fund between us and SkyKnight Income, LLC ("SkyKnight") and operates under a limited liability company agreement (the "SLP II Agreement"). The purpose of the joint venture is to invest primarily in senior secured loans issued by portfolio companies within our core industry verticals. These investments are typically broadly syndicated first lien loans. All investment decisions must be unanimously approved by the board of managers of SLP II, which has equal representation from us and SkyKnight. SLP II has a three year investment period and will continue in existence until April 12, 2021. The term may be extended for up to one year pursuant to certain terms of the SLP II Agreement.

SLP II is capitalized with equity contributions which are called from its members, on a pro-rata basis based on their equity commitments, as transactions are completed. Any decision by SLP II to call down on capital commitments requires approval by the board of managers of SLP II. We and SkyKnight have committed to provide \$79.4 million and \$20.6 million of equity to SLP II, respectively. As of June 30, 2016 we and SkyKnight have contributed \$27.8 million and \$7.2 million, respectively. Our investment in SLP II is disclosed on our Consolidated Schedule of Investments as of June 30, 2016.

On April 12, 2016, SLP II closed its \$275.0 million revolving credit facility with Wells Fargo Bank, National Association which matures on April 12, 2021 and bears interest at a rate of LIBOR plus 1.75% per annum. As of June 30, 2016, SLP II had total investments with an aggregate fair value of approximately \$167.9 million and debt outstanding under its credit facility of \$71.6 million.

We have determined that SLP II is an investment company under ASC 946, however, in accordance with such guidance we will generally not consolidate our investment in a company other than a wholly-owned investment company subsidiary. Furthermore, Accounting Standards Codification Topic 810, *Consolidation*, concludes that in a joint venture where both members have equal decision making authority, it is not appropriate for one member to consolidate the joint venture since neither has control. Accordingly, we do not consolidate SLP II.

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***Collateralized agreements or repurchase financings***

We follow the guidance in Accounting Standards Codification Topic 860, *Transfers and Servicing – Secured Borrowing and Collateral*, ("ASC 860") when accounting for transactions involving the purchases of securities under collateralized agreements to resell (resale agreements). These transactions are treated as collateralized financing transactions and are recorded at their contracted resale or repurchase amounts, as specified in the respective agreements. Interest on collateralized agreements is accrued and recognized over the life of the transaction and included in interest income. As of June 30, 2016 and December 31, 2015, we held one collateralized agreement to resell with a cost basis of \$30.0 million and \$30.0 million, respectively, and a carrying value of \$29.6 million and \$29.7 million, respectively, and is collateralized by a second lien bond in Northstar GOM Holdings Group LLC with a fair value of \$29.6 million and \$29.7 million, respectively. The collateralized agreement to resell is guaranteed by a private hedge fund with the most recently reported assets under management of approximately \$690.0 million and December 31, 2015 assets under management of approximately \$716.6 million, respectively. Pursuant to the terms of the collateralized agreement, the private hedge fund is obligated to repurchase the collateral from us at the par value of the collateralized agreement once called upon by us or if the private hedge fund's total assets under management fall below the agreed upon thresholds. The collateralized agreement was called upon by us but the counterparty failed to repurchase the collateral at its par value in accordance with the terms of the collateralized agreement. As of June 30, 2016, litigation is on-going in the state of New York to resolve this matter. The collateralized agreement earned interest at a weighted average rate of 16.0% and 15.0% per annum as of June 30, 2016 and December 31, 2015, respectively.

***Revenue Recognition***

*Sales and paydowns of investments:* Realized gains and losses on investments are determined on the specific identification method.

*Interest and dividend income:* Interest income, including amortization of premium and discount using the effective interest method, is recorded on the accrual basis and periodically assessed for collectability. Interest income also includes interest earned from cash on hand. Upon the prepayment of a loan or debt security, any prepayment penalties are recorded as part of interest income. We have loans and certain preferred equity investments in the portfolio that contain a payment-in-kind ("PIK") interest or dividend provision. PIK interest and dividends are accrued and recorded as income at the contractual rates, if deemed collectible. The PIK interest and dividends are added to the principal or share balances on the capitalization dates and generally due at maturity or when redeemed by the issuer.

Dividend income on common equity is recorded on the record date for private portfolio companies or on the ex-dividend date for publicly traded portfolio companies. Dividend income on preferred securities is recorded as dividend income on an accrual basis to the extent that such amounts are deemed collectible.

*Non-accrual income:* Investments are placed on non-accrual status when principal or interest payments are past due 30 days or more and when there is reasonable doubt that principal or interest will be collected. Accrued cash and un-capitalized PIK interest or dividends are reversed when an investment is placed on non-accrual status. Previously capitalized PIK interest or dividends are not reversed when an investment is placed on non-accrual status. Interest or dividend payments received on non-accrual investments may be recognized as income or applied to principal depending upon management's judgment of the ultimate outcome. Non-accrual investments are restored to accrual status when past due principal and interest is paid and, in management's judgment, are likely to remain current.

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*Other income:* Other income represents delayed compensation, consent or amendment fees, revolver fees, structuring fees, upfront fees, management fees from a non-controlled/affiliated investment and other miscellaneous fees received and are typically non-recurring in nature. Delayed compensation is income earned from counterparties on trades that do not settle within a set number of business days after trade date. Other income may also include fees from bridge loans. We may from time to time enter into bridge financing commitments, an obligation to provide interim financing to a counterparty until permanent credit can be obtained. These commitments are short-term in nature and may expire unfunded. A fee is received for providing such commitments. Structuring fees and upfront fees are recognized as income when earned, usually when paid at the closing of the investment, and are non-refundable.

**Monitoring of Portfolio Investments**

We monitor the performance and financial trends of our portfolio companies on at least a quarterly basis. We attempt to identify any developments within the portfolio company, the industry or the macroeconomic environment that may alter any material element of our original investment strategy.

We use an investment rating system to characterize and monitor the credit profile and expected level of returns on each investment in the portfolio. We use a four-level numeric rating scale as follows:

Investment Rating 1 Investment is performing materially above expectations;

Investment Rating 2 Investment is performing materially in-line with expectations. All new loans are rated 2 at initial purchase;

Investment Rating 3 Investment is performing materially below expectations and risk has increased materially since the original investment; and

Investment Rating 4 Investment is performing substantially below expectations and risks have increased substantially since the original investment. Payments may be delinquent. There is meaningful possibility that we will not recoup our original cost basis in the investment and may realize a substantial loss upon exit.

The following table shows the distribution of our investments on the 1 to 4 investment rating scale at fair value as of June 30, 2016:

| (in millions)       | As of June 30, 2016      |         |            |         |  |
|---------------------|--------------------------|---------|------------|---------|--|
| Investment Rating   | Par Value <sup>(1)</sup> | Percent | Fair Value | Percent |  |
| Investment Rating 1 | \$ 196.0                 | 13.5%   | \$ 249.4   | 16.6%   |  |
| Investment Rating 2 | 1,161.5                  | 80.1%   | 1,207.9    | 80.6%   |  |
| Investment Rating 3 | 43.6                     | 3.0%    | 26.3       | 1.8%    |  |
| Investment Rating 4 | 49.1                     | 3.4%    | 14.5       | 1.0%    |  |
|                     | \$ 1,450.2               | 100.0%  | \$ 1,498.1 | 100.0%  |  |

(1) Excludes shares and warrants.

As of June 30, 2016, all investments in our portfolio had an Investment Rating of 1 or 2 with the exception of five portfolio companies. As of June 30, 2016, four portfolio companies had an Investment Rating of 3 and three portfolio companies had an Investment Rating of 4, which includes two portfolio companies that had a portion of our investment included in Investment Rating of 3 and a portion included in Investment Rating of 4.



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During the second quarter of 2016, the Company placed a portion of its first lien position in Permian Tank & Manufacturing, Inc. ("Permian") on non-accrual status due to its ongoing restructuring. As of June 30, 2016, the portion of the Permian first lien position placed on non-accrual status represented an aggregate cost basis of \$17.1 million, an aggregate fair value of \$5.0 million and total unearned interest income of \$0.8 million and \$0.8 million for the three and six months then ended.

During the second quarter of 2016, the Company placed a portion of its second lien position in Transtar Holding Company ("Transtar") on non-accrual status due to its ongoing restructuring. As of June 30, 2016, the portion of the Transtar second lien position placed on non-accrual status represented an aggregate cost basis of \$24.7 million, an aggregate fair value of \$9.1 million and total unearned interest income of \$0.8 million and \$0.8 million for the three and six months then ended.

As of June 30, 2016, our two super priority first lien positions in ATI Acquisition Company and its related equity positions in Ancora Acquisition LLC had an Investment Rating of 4 due to the underlying business encountering significant regulatory constraints which have led to the portfolio company's underperformance. As of June 30, 2016, our two super priority first lien positions in ATI Acquisition Company and its related preferred shares and warrants in Ancora Acquisition LLC remained on non-accrual status due to the inability of the portfolio company to service its interest payments for the quarter then ended and uncertainty about its ability to pay such amounts in the future. As of June 30, 2016, our investment in ATI Acquisition Company and Ancora Acquisition LLC had an aggregate cost basis of \$1.6 million, an aggregate fair value of \$0.4 million and no unearned interest income for the three and six months then ended. For the three and six months ended June 30, 2015, total unearned interest income was \$0.1 million and \$0.2 million. As of December 31, 2015, our investment had an aggregate cost basis of \$1.6 million and an aggregate fair value of \$0.4 million. As of June 30, 2016 and December 31, 2015, unrealized gains (losses) include a fee that we would recognize upon realization of the two super priority first lien debt investments.

During the first quarter of 2015, we placed a portion of our second lien position in Edmentum, Inc. ("Edmentum") on non-accrual status due to its ongoing restructuring. As of March 31, 2015, our investment in Edmentum had an aggregate cost basis of \$30.8 million, an aggregate fair value of \$15.6 million and total unearned interest income of \$0.4 million for the three months then ended. In June 2015, Edmentum completed a restructuring which resulted in a material modification of the original terms and an extinguishment of our original investment in Edmentum. Prior to the extinguishment in June 2015, our original investment in Edmentum had an aggregate cost of \$31.6 million, an aggregate fair value of \$16.4 million and total unearned interest income of \$0.8 million for the six months ended June 30, 2015. The extinguishment resulted in a realized loss of \$15.2 million. Post restructuring, our investments in Edmentum have been restored to full accrual status. As of June 30, 2016, our investments in Edmentum have an aggregate cost basis of \$25.9 million and an aggregate fair value of \$27.2 million.

During the first quarter of 2015, our first lien position in Education Management LLC ("EDMC") was non-income producing as a result of the portfolio company undergoing a restructuring. As of December 31, 2014, our investment in EDMC had an aggregate cost basis of \$3.0 million, an aggregate fair value of \$1.4 million and no unearned interest income for the three months then ended. In January 2015, EDMC completed a restructuring which resulted in a material modification of the original terms and an extinguishment of our original investment in EDMC. Prior to the extinguishment in January 2015, our original investment in EDMC had an aggregate cost of \$3.0 million, an aggregate fair value of \$1.4 million and no unearned interest income for the period then ended. The extinguishment resulted in a realized loss of \$1.6 million. Post restructuring, our investments in EDMC are income producing. As of June 30, 2016, our investments in EDMC have an aggregate cost basis of \$1.5 million and an aggregate fair value of \$0.3 million.

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During the third quarter of 2014, we placed a portion of our first lien position in UniTek Global Services, Inc. ("UniTek") on non-accrual status in anticipation of a voluntary petition for a "Pre-Packaged" Chapter 11 Bankruptcy in the U.S. Bankruptcy Court for the District of Delaware, which was filed on November 3, 2014. As of December 31, 2014, our investment in UniTek had an aggregate cost basis of \$47.4 million, an aggregate fair value of \$35.2 million and total unearned interest income of \$1.0 million for the year then ended. In January 2015, UniTek emerged from "Pre-Packaged" Chapter 11 Bankruptcy and completed its restructuring. The restructuring resulted in a material modification of the original terms and an extinguishment of our original investments in UniTek. Prior to the extinguishment in January 2015, our original investments in UniTek had an aggregate cost of \$52.9 million, an aggregate fair value of \$40.1 million and total unearned interest income of \$0.1 million for the period then ended. The extinguishment resulted in a realized loss of \$12.8 million. Post restructuring, our investments in UniTek have been restored to full accrual status. As of June 30, 2016, our investments in UniTek have an aggregate cost basis of \$41.3 million and an aggregate fair value of \$56.0 million.

**Portfolio and Investment Activity**

The fair value of our investments was approximately \$1,498.1 million in 72 portfolio companies at June 30, 2016 and approximately \$1,512.2 million in 75 portfolio companies at December 31, 2015.

The following table shows our portfolio and investment activity for the six months ended June 30, 2016 and June 30, 2015:

| (in millions)  | Six Months Ended |               |
|--|------------------|---------------|
|  | June 30, 2016    | June 30, 2015 |
| New investments in 21 and 14 portfolio companies, respectively                   | \$ 163.8         | \$ 190.0      |
| Debt repayments in existing portfolio companies                                  | 170.2            | 262.8         |
| Sales of securities in 4 and 12 portfolio companies, respectively                | 28.0             | 52.4          |
| Change in unrealized appreciation on 54 and 37 portfolio companies, respectively | 41.7             | 48.6          |
| Change in unrealized depreciation on 23 and 39 portfolio companies, respectively | (34.1)           | (30.7)        |

At June 30, 2016 and June 30, 2015, our weighted average Yield to Maturity at Cost was approximately 10.3% and 10.8%, respectively.

**Recent Accounting Standards Updates**

In August 2014, the FASB issued Accounting Standards Update No. 2014-15, *Presentation of Financial Statements - Going Concern Subtopic 205-40 Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* ("ASU 2014-15"). ASU 2014-15 will explicitly require management to assess an entity's ability to continue as a going concern, and to provide related footnote disclosure in certain circumstances. The new standard will be effective for all entities in the first annual period ending after December 15, 2016. Earlier adoption is permitted. The adoption of ASU 2014-15 is not expected to have a material impact on our consolidated financial statements and disclosures.

In February 2015, the FASB issued Accounting Standards Update No. 2015-02, *Consolidation Topic 810 Amendments to the Consolidation Analysis* ("ASU 2015-02"), which modifies the



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consolidation analysis in determining if limited partnerships or similar type entities fall under the variable interest model or voting interest model, particularly those that have fee arrangements and related party relationships. ASU 2015-02 was effective for all public entities for interim and annual reporting periods beginning after December 15, 2015. Earlier adoption is permitted. On January 1, 2016, we adopted ASU 2015-02. The adoption did not have an impact on our consolidated financial statements and disclosures.

In April 2015, the FASB issued Accounting Standards Update No. 2015-03, *Interest Imputation of Interest Subtopic 835-30 Simplifying the Presentation of Debt Issuance Costs* ("ASU 2015-03"), which changes the presentation of debt issuance costs in financial statements. Under ASU 2015-03, an entity presents such costs on the statement of assets and liabilities as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs is reported as interest expense. The new standard was effective for all public entities for interim and annual reporting periods beginning after December 15, 2015. Earlier adoption is permitted. On January 1, 2016, we adopted ASU 2015-03. Upon adoption, we revised our presentation of deferred financing costs from an asset to a liability, which is a direct deduction to our debt on the Consolidated Statements of Assets and Liabilities. In addition, we retrospectively revised our presentation of \$13,992 of deferred financing costs that were previously presented as an asset as of December 31, 2015, which resulted in a decrease to total assets and total liabilities as of December 31, 2015.

In January 2016, the FASB issued Accounting Standards Update No. 2016-01, *Financial Instruments Overall Subtopic 825-10 Recognition and Measurement of Financial Assets and Financial Liabilities* ("ASU 2016-01"). ASU 2016-01 amends certain aspects of recognition, measurement, presentation and disclosure of financial assets and liabilities. ASU 2016-01 is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The new guidance must be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption of ASU 2016-01. We are in the process of evaluating the impact that this guidance will have on our consolidated financial statements and disclosures.

**Results of Operations**

Under GAAP, our IPO did not step-up the cost basis of the Predecessor Operating Company's existing investments to fair market value at the IPO date. Since the total value of the Predecessor Operating Company's investments at the time of the IPO was greater than the investments' cost basis, a larger amount of amortization of purchase or original issue discount, and different amounts in realized gain and unrealized appreciation, may be recognized under GAAP in each period than if the step-up had occurred. This will remain until such predecessor investments are sold, repaid or mature in the future. We track the transferred (or fair market) value of each of the Predecessor Operating Company's investments as of the time of the IPO and, for purposes of the incentive fee calculation, adjusts income as if each investment was purchased at the date of the IPO (or stepped up to fair market value). The respective "Adjusted Net Investment Income" (defined as net investment income adjusted to reflect income as if the cost basis of investments held at the IPO date had stepped-up to fair market value as of the IPO date) is used in calculating both the incentive fee and dividend payments.

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The following table for the three months ended June 30, 2016 is adjusted to reflect the step-up to fair market value and the allocation of the incentive fees related to hypothetical capital gains out of the adjusted post-incentive fee net investment income.

| (in thousands)   | Three<br>Months<br>Ended<br>June 30,<br>2016 | Stepped-up<br>Cost Basis<br>Adjustments | Incentive Fee<br>Adjustments <sup>(1)</sup> | Adjusted<br>Three<br>Months<br>Ended<br>June 30, 2016 |
|--|--|---|---|---|
| <b>Investment income</b>   |  |   |   |   |
| Interest income  | \$ 38,412                                    | \$ (35)                                 | \$  | \$ 38,377   |
| Dividend income  | 1,721  |   |   | 1,721   |
| Other income   | 1,357  |   |   | 1,357   |
| Total investment income <sup>(2)</sup>   | 41,490                                       | (35)                                    |   | 41,455  |
| Total expenses pre-incentive fee <sup>(3)</sup>  | 14,209                                       |   |   | 14,209  |
| <b>Pre-Incentive Fee Net Investment Income</b>   | <b>27,281</b>                                | <b>(35)</b>                             |   | <b>27,246</b>   |
| Incentive fee  | 5,449  |   |   | 5,449   |
| <b>Post-Incentive Fee Net Investment Income</b>  | <b>21,832</b>                                | <b>(35)</b>                             |   | <b>21,797</b>   |
| Net realized gains (losses) on investments <sup>(4)</sup>  | 865  | (86)                                    |   | 779   |
| Net change in unrealized appreciation (depreciation) of investments <sup>(4)</sup>                                     | 21,956                                       | 121                                     |   | 22,077  |
| Net change in unrealized (depreciation) appreciation of securities purchased under collateralized agreements to resell | (44)   |   |   | (44)  |
| Benefit for taxes  | 84   |   |   | 84  |
| Capital gains incentive fees   |  |   |   |   |
| <b>Net increase in net assets resulting from operations</b>  | <b>\$ 44,693</b>                             |   |   | <b>\$ 44,693</b>                                      |

- 
- (1) For the three months ended June 30, 2016, we incurred total incentive fees of \$5.4 million, of which none was related to the capital gains incentive fee accrual on a hypothetical liquidation basis.
- (2) Includes income from non-controlled/non-affiliated investments, non-controlled/affiliated investments and controlled investments.
- (3) Includes expense waivers and reimbursements of \$0.1 million and management fee waivers of \$1.2 million.
- (4) Includes net realized gains and losses on investments and net change in unrealized appreciation (depreciation) of investments from non-controlled/non-affiliated investments, non-controlled/affiliated investments and controlled investments.

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For the three months ended June 30, 2016, we had a less than \$0.1 million adjustment to interest income for amortization, a decrease of approximately \$0.1 million to net realized gains and an increase of approximately \$0.1 million to net change in unrealized appreciation to adjust for the stepped-up cost basis of the transferred investments as discussed above. For the three months ended June 30, 2016, total adjusted investment income of \$41.5 million consisted of approximately \$33.3 million in cash interest from investments, approximately \$0.9 million in PIK interest from

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investments, approximately \$3.3 million in prepayment fees, net amortization of purchase premiums and discounts of approximately \$0.8 million, approximately \$1.0 million in cash dividends from investments, \$0.8 million in PIK dividends from investments and approximately \$1.4 million in other income. Our Adjusted Net Investment Income was \$21.8 million for the three months ended June 30, 2016.

In accordance with GAAP, for the three months ended June 30, 2016, we did not have an accrual for hypothetical capital gains incentive fee based upon the cumulative net Adjusted Realized Capital Gains and Adjusted Realized Capital Losses and the cumulative net Adjusted Unrealized Capital Appreciation and Adjusted Unrealized Capital Depreciation on investments held at the end of each period. Actual amounts paid to the Investment Adviser are consistent with the Investment Management Agreement and are based only on actual Adjusted Realized Capital Gains computed net of all Adjusted Realized Capital Losses and Adjusted Unrealized Capital Depreciation on a cumulative basis from inception through the end of each calendar year as if the entire portfolio was sold at fair value. As of June 30, 2016, no actual capital gains incentive fee was owed under the Investment Management Agreement, as cumulative net Adjusted Realized Gains did not exceed cumulative Adjusted Unrealized Depreciation.

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The following table for the six months ended June 30, 2016 is adjusted to reflect the step-up to fair market value and the allocation of the incentive fees related to hypothetical capital gains out of the adjusted post-incentive fee net investment income.

| (in thousands)   | Six Months<br>Ended<br>June 30, 2016 | Stepped-up<br>Cost Basis<br>Adjustments | Incentive Fee<br>Adjustments <sup>(1)</sup> | Adjusted<br>Six Months<br>Ended<br>June 30,<br>2016 |
|--|--------------------------------------|---|---|---|
| <b>Investment income</b>   |                                      |   |   |   |
| Interest income  | \$ 76,202                            | \$ (64)                                 | \$  | \$ 76,138   |
| Dividend income  | 3,360                                |   |   | 3,360   |
| Other income   | 2,904                                |   |   | 2,904   |
| Total investment income <sup>(2)</sup>   | 82,466                               | (64)                                    |   | 82,402  |
| Total expenses pre-incentive fee <sup>(3)</sup>  | 28,233                               |   |   | 28,233  |
| <b>Pre-Incentive Fee Net Investment Income</b>   | <b>54,233</b>                        | <b>(64)</b>                             |   | <b>54,169</b>                                       |
| Incentive fee  | 10,834                               |   |   | 10,834  |
| <b>Post-Incentive Fee Net Investment Income</b>  | <b>43,399</b>                        | <b>(64)</b>                             |   | <b>43,335</b>                                       |
| Net realized gains (losses) on investments <sup>(4)</sup>  | 1,041                                | (124)                                   |   | 917   |
| Net change in unrealized appreciation (depreciation) of investments <sup>(4)</sup>                                     | 7,570                                | 188                                     |   | 7,758   |
| Net change in unrealized (depreciation) appreciation of securities purchased under collateralized agreements to resell | (74)                                 |   |   | (74)  |
| Benefit for taxes  | 808                                  |   |   | 808   |
| Capital gains incentive fees   |                                      |   |   |   |
| <b>Net increase in net assets resulting from operations</b>  | <b>\$ 52,744</b>                     |   |   | <b>\$ 52,744</b>                                    |

(1) For the six months ended June 30, 2016, we incurred total incentive fees of \$10.8 million, of which none was related to the capital gains incentive fee accrual on a hypothetical liquidation basis.

(2) Includes income from non-controlled/non-affiliated investments, non-controlled/affiliated investments and controlled investments.

(3) Includes expense waivers and reimbursements of \$0.3 million and management fee waivers of \$2.6 million.

(4) Includes net realized gains and losses on investments and net change in unrealized appreciation (depreciation) of investments from non-controlled/non-affiliated investments, non-controlled/affiliated investments and controlled investments.

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For the six months ended June 30, 2016, we had approximately \$0.1 million adjustment to interest income for amortization, a decrease of approximately \$0.1 million to net realized gains and an increase of approximately \$0.2 million to net change in unrealized appreciation to adjust for the stepped-up cost basis of the transferred investments as discussed above. For the six months ended June 30, 2016, total adjusted investment income of \$82.4 million consisted of approximately

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\$69.2 million in cash interest from investments, approximately \$1.9 million in PIK interest from investments, approximately \$3.5 million in prepayment fees, net amortization of purchase premiums and discounts of approximately \$1.5 million, approximately \$1.9 million in cash dividends from investments, \$1.5 million in PIK dividends from investments and approximately \$2.9 million in other income. Our Adjusted Net Investment Income was \$43.3 million for the six months ended June 30, 2016.

In accordance with GAAP, for the six months ended June 30, 2016, we did not have an accrual for hypothetical capital gains incentive fee based upon the cumulative net Adjusted Realized Capital Gains and Adjusted Realized Capital Losses and the cumulative net Adjusted Unrealized Capital Appreciation and Adjusted Unrealized Capital Depreciation on investments held at the end of each period. Actual amounts paid to the Investment Adviser are consistent with the Investment Management Agreement and are based only on actual Adjusted Realized Capital Gains computed net of all Adjusted Realized Capital Losses and Adjusted Unrealized Capital Depreciation on a cumulative basis from inception through the end of each calendar year as if the entire portfolio was sold at fair value. As of June 30, 2016, no actual capital gains incentive fee was owed under the Investment Management Agreement, as cumulative net Adjusted Realized Gains did not exceed cumulative Adjusted Unrealized Depreciation.

**Results of Operations for the Three Months Ended June 30, 2016 and June 30, 2015***Revenue*

| (in thousands)          | Three Months Ended |               | Percentage |
|-------------------------|--------------------|---------------|------------|
|                         | June 30, 2016      | June 30, 2015 | Change     |
| Interest income         | \$ 38,412          | \$ 35,470     | 8%         |
| Dividend income         | 1,721              | 1,795         | (4)%       |
| Other income            | 1,357              | 640           | 112%       |
| Total investment income | \$ 41,490          | \$ 37,905     | 9%         |

Our total investment income increased by approximately \$3.6 million for the three months ended June 30, 2016 as compared to the three months ended June 30, 2015. The 9% increase in total investment income primarily results from an increase in interest income of approximately \$2.9 million from the three months ended June 30, 2015 to the three months ended June 30, 2016 which is attributable to larger invested balances, driven by the proceeds from the September 2015 primary offering of our common stock, proceeds from our May 2016 Unsecured Notes offering, our use of leverage from our revolving credit facilities and SBA-guaranteed debentures to originate new investments, and prepayment fees received associated with the early repayment of three portfolio companies held as of March 31, 2016. Dividend income remained stable during the three months ended June 30, 2016 as compared to the three months ended June 30, 2015 which is primarily comprised of distributions from our investment in SLP I and PIK dividend income from one equity position. Other income during the three months ended June 30, 2016, which represents fees that are generally non-recurring in nature, was primarily attributable to structuring, upfront, amendment, consent and commitment fees received from six different portfolio companies and management fees from a non-controlled affiliated portfolio company.

Table of Contents*Operating Expenses*

| (in thousands)                             | Three Months Ended |               | Percentage |
|--|--------------------|---------------|------------|
|  | June 30, 2016      | June 30, 2015 | Change     |
| Management fee                             | \$ 6,818           | \$ 6,198      |            |
| Less: management fee waiver                | (1,241)            | (1,247)       |            |
| Total management fee                       | 5,577              | 4,951         | 13%        |
| Incentive fee                              | 5,449              | 5,057         | 8%         |
| Capital gains incentive fee <sup>(1)</sup> |                    | 9             | NM*        |
| Interest and other financing expenses      | 6,771              | 5,598         | 21%        |
| Professional fees                          | 861                | 909           | (5)%       |
| Administrative expenses                    | 629                | 522           | 20%        |
| Other general and administrative expenses  | 384                | 453           | (15)%      |
| Total expenses                             | 19,671             | 17,499        | 12%        |
| Less: expenses waived and reimbursed       | (63)               |               | NM*        |
| Net expenses before income taxes           | 19,608             | 17,499        | 12%        |
| Income tax expense                         | 50                 | 153           | (67)%      |
| Net expenses after income taxes            | \$ 19,658          | \$ 17,652     | 11%        |

(1) Capital gains incentive fee accrual assumes a hypothetical liquidation basis.

\*  
Not meaningful.

Our total net operating expenses increased by approximately \$2.0 million for the three months ended June 30, 2016 as compared to the three months ended June 30, 2015. Our management fee increased by approximately \$0.6 million, net of a management fee waiver, and incentive fees increased by approximately \$0.4 million for the three months ended June 30, 2016 as compared to the three months ended June 30, 2015. The increase in management fee and incentive fee from the three months ended June 30, 2015 to the three months ended June 30, 2016 was attributable to larger invested balances, driven by the proceeds from the September 2015 primary offering of our common stock, proceeds from our May 2016 unsecured notes offering and our use of leverage from our revolving credit facilities and SBA-guaranteed debentures to originate new investments.

Interest and other financing expenses increased by approximately \$1.2 million during the three months ended June 30, 2016, primarily due to higher drawn balances on the NMFC Credit Facility (as defined below) and SBA-guaranteed debentures. Our total professional fees, total administrative expenses and total other general and administrative expenses remained flat and our expenses waived and reimbursed increased by approximately \$0.1 million for the three months ended June 30, 2016 as compared to the three months ended June 30, 2015.



Table of Contents*Net Realized Gains (Losses) and Net Change in Unrealized Appreciation (Depreciation)*

| (in thousands)  | Three Months Ended |               | Percentage |
|---|--------------------|---------------|------------|
|   | June 30, 2016      | June 30, 2015 | Change     |
| Net realized gains (losses) on investments  | \$ 865             | \$ (13,338)   | NM*        |
| Net change in unrealized appreciation (depreciation) of investments   | 21,956             | 13,484        | 63%        |
| Net change in unrealized (depreciation) appreciation securities purchased under collateralized agreements to resell | (44)               |               | NM*        |
| Benefit (provision) for taxes   | 84                 | (135)         | NM*        |
| Net realized and unrealized gains (losses)  | \$ 22,861          | \$ 11         | NM*        |

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\*

Not meaningful.

Our net realized and unrealized gains resulted in a net gain of approximately \$22.9 million for the three months ended June 30, 2016 compared to net realized losses and unrealized gains resulting in a minimal net gain for the same period in 2015. We look at net realized and unrealized gains or losses together as movement in unrealized appreciation or depreciation can be the result of realizations. The net gain for the three months ended June 30, 2016 was primarily driven by the overall increase in the market prices of our investments during the period. The benefit for income taxes was attributable to three equity investments that are held as of June 30, 2016 in three of our corporate subsidiaries.

The minimal net gain for the three months ended June 30, 2015 was primarily driven by the overall decrease in the market prices of our investments during the period which were offset by sales or repayments of investments with fair values in excess of March 31, 2015 valuations, resulting in net realized gains being greater than the reversal of the cumulative net unrealized gains for those investments. In addition, one portfolio company had a modification of terms that was accounted for as an extinguishment during the quarter ended June 30, 2015, the net realized loss of approximately \$15.2 million was offset by the reversal of the cumulative net unrealized losses for this investment.

**Results of Operations for the Six Months Ended June 30, 2016 and June 30, 2015***Revenue*

| (in thousands)          | Six Months Ended |               | Percentage |
|-------------------------|------------------|---------------|------------|
|                         | June 30, 2016    | June 30, 2015 | Change     |
| Interest income         | \$ 76,202        | \$ 68,817     | 11%        |
| Dividend income         | 3,360            | 3,102         | 8%         |
| Other income            | 2,904            | 2,522         | 15%        |
| Total investment income | \$ 82,466        | \$ 74,441     | 11%        |

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Our total investment income increased by approximately \$8.0 million for the six months ended June 30, 2016 as compared to the six months ended June 30, 2015. The 11% increase in total investment income primarily results from an increase in interest income of approximately \$7.4 million from the six months ended June 30, 2015 to the six months ended June 30, 2016 which is attributable to larger invested balances, driven by the proceeds from the September 2015 primary offering of our common stock, proceeds from our May 2016 Unsecured Notes offering, our use of leverage from our revolving credit facilities and SBA-guaranteed debentures to originate new investments, and prepayment fees received associated with the early repayment of four portfolio companies held as of December 31, 2015. Dividend income remained stable during the six months ended June 30, 2016 as compared to the six months ended June 30, 2015 which is primarily comprised of distributions from our investment in SLP I and PIK dividend income from an equity position. Other income during the six months ended June 30, 2016, which represents fees that are generally non-recurring in nature, was primarily attributable to structuring, upfront, amendment, consent and commitment fees received from eleven different portfolio companies and management fees from a non-controlled affiliated portfolio company.

*Operating Expenses*

| (in thousands)                             | Six Months Ended |               | Percentage |
|--|------------------|---------------|------------|
|  | June 30, 2016    | June 30, 2015 | Change     |
| Management fee                             | \$ 13,654        | \$ 12,666     |            |
| Less: management fee waiver                | (2,560)          | (2,629)       |            |
| Total management fee                       | 11,094           | 10,037        | 11%        |
| Incentive fee                              | 10,834           | 9,935         | 9%         |
| Capital gains incentive fee <sup>(1)</sup> |                  | 490           | NM*        |
| Interest and other financing expenses      | 13,373           | 11,075        | 21%        |
| Professional fees                          | 1,738            | 1,648         | 5%         |
| Administrative expenses                    | 1,468            | 1,157         | 27%        |
| Other general and administrative expenses  | 816              | 882           | (7)%       |
| Total expenses                             | 39,323           | 35,224        | 12%        |
| Less: expenses waived and reimbursed       | (347)            | (400)         | (13)%      |
| Net expenses before income taxes           | 38,976           | 34,824        | 12%        |
| Income tax expense                         | 91               | 302           | (70)%      |
| Net expenses after income taxes            | \$ 39,067        | \$ 35,126     | 11%        |

(1) Capital gains incentive fee accrual assumes a hypothetical liquidation basis.

\*

Not meaningful.

Our total net operating expenses increased by approximately \$3.9 million for the six months ended June 30, 2016 as compared to the six months ended June 30, 2015. Our management fee increased by approximately \$1.1 million, net of a management fee waiver, and incentive fees increased by approximately \$0.9 million for the six months ended June 30, 2016 as compared to the six months ended June 30, 2015. The increase in management fee and incentive fee from the six months ended June 30, 2015 to the six months ended June 30, 2016 was attributable to larger invested balances, driven by the proceeds from the September 2015 primary offering of our common stock, proceeds from our May 2016 unsecured notes offering, and our use of leverage from our revolving credit facilities and SBA-guaranteed debentures to originate new

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investments. Our capital gains incentive fee accrual decreased by approximately \$0.5 million for the six months ended June 30, 2016 as compared to the six months ended June 30, 2015, which was attributable

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to lower net Adjusted Realized Capital Gains (Losses) and Adjusted Unrealized Capital Appreciation (Depreciation) of investments during the period. As of June 30, 2016, no actual capital gains incentive fee was owed under the Investment Management Agreement, as cumulative net Adjusted Realized Gains did not exceed cumulative Adjusted Unrealized Depreciation.

Interest and other financing expenses increased by approximately \$2.3 million during the six months ended June 30, 2016, primarily due to higher drawn balances on the NMFC Credit Facility (as defined below) and SBA-guaranteed debentures. Our total professional fees, total administrative expenses and total other general and administrative expenses increased \$0.3 million and our expenses waived and reimbursed remained flat for the six months ended June 30, 2016 as compared to the six months ended June 30, 2015.

### *Net Realized Gains (Losses) and Net Change in Unrealized Appreciation (Depreciation)*

| (in thousands)  | Six Months Ended |                 | Percentage |
|---|------------------|-----------------|------------|
|   | June 30, 2016    | June 30, 2015   | Change     |
| Net realized gains (losses) on investments  | \$ 1,041         | \$ (13,471)     | NM*        |
| Net change in unrealized appreciation (depreciation) of investments   | 7,570            | 17,970          | (58)%      |
| Net change in unrealized (depreciation) appreciation securities purchased under collateralized agreements to resell | (74)             |                 | NM*        |
| Benefit (provision) for taxes   | 808              | (636)           | NM*        |
| <b>Net realized and unrealized gains (losses)</b>   | <b>\$ 9,345</b>  | <b>\$ 3,863</b> | <b>NM*</b> |

\_\_\_\_\_

\*

Not meaningful.

Our net realized and unrealized gains resulted in a net gain of approximately \$9.3 million for the six months ended June 30, 2016 compared to net realized losses and unrealized gains resulting in a net gain of approximately \$3.9 million for the same period in 2015. We look at net realized and unrealized gains or losses together as movement in unrealized appreciation or depreciation can be the result of realizations. The net gain for the six months ended June 30, 2016 was primarily driven by the overall increase in the market prices of our investments during the period. The benefit for income taxes was attributable to three equity investments that are held as of June 30, 2016 in three of our corporate subsidiaries.

The net gain for the six months ended June 30, 2015 was primarily driven by the sales or repayments of investments with fair values in excess of December 31, 2014 valuations, resulting in net realized gains being greater than the reversal of the cumulative net unrealized gains for those investments which included the sale of two portfolio companies resulting in realized gains of approximately \$14.2 million. These gains were offset by \$29.7 million of realized losses on investments resulting from the modification of terms on three portfolio companies that were accounted for as extinguishments.

Table of Contents**Our Results of Operations for the Years Ended December 31, 2015 and December 31, 2014 and the Predecessor Operating Company for the Year Ended December 31, 2013****Revenue**

| (in thousands)   | Years Ended December 31, |            |            |
|--|--------------------------|------------|------------|
|  | 2015                     | 2014       | 2013       |
| Interest income  | \$ 140,074               | \$ 85,123  | \$ 107,027 |
| Interest income allocated from the Predecessor Operating Company |                          | 40,515     |            |
| Total interest income  | 140,074                  | 125,638    | 107,027    |
| Dividend income  | 5,771                    | 2,309      | 5,049      |
| Dividend income allocated from the Predecessor Operating Company |                          | 2,368      |            |
| Total dividend income  | 5,771                    | 4,677      | 5,049      |
| Other income   | 8,010                    | 4,491      | 2,836      |
| Other income allocated from the Predecessor Operating Company    |                          | 795        |            |
| Total other income   | 8,010                    | 5,286      | 2,836      |
| Total investment income  | \$ 153,855               | \$ 135,601 | \$ 114,912 |

Our total investment income increased by approximately \$18.3 million for the year ended December 31, 2015 as compared to total investment income for the year ended December 31, 2014. The 13% increase in total investment income primarily results from an increase in interest income of approximately \$14.4 million from the year ended December 31, 2014 to the year ended December 31, 2015, which is attributable to larger invested balances, driven by the proceeds from the September 2015 primary offering of our common stock, our use of leverage from our revolving credit facilities, SBA-guaranteed debentures and the deployment of the June 2014 proceeds from the issuance of \$115.0 million of convertible notes to originate new investments, and prepayment fees received associated with the early repayments or partial repayments of nine different portfolio companies held as of December 31, 2014. The increase in dividend income of approximately \$1.1 million during the year ended December 31, 2015 as compared to the year ended December 31, 2014 was primarily attributable to distributions from our investment in SLP I and PIK dividends income from an equity position. The increase in other income, which represents fees that are generally non-recurring in nature, of approximately \$2.7 million during the year ended December 31, 2015 as compared to the year ended December 31, 2014 was primarily attributable to structuring, upfront, amendment and consent fees received from 22 different portfolio companies, commitment fees received from three bridge facilities and management fees from a non-controlled/affiliated portfolio company.

Our total investment income increased by approximately \$20.7 million for the year ended December 31, 2014 as compared to the Predecessor Operating Company's total investment income for the year ended December 31, 2013. The 18% increase in total investment income primarily results from an increase in interest income of approximately \$18.6 million from the year ended December 31, 2013 to the year ended December 31, 2014, which is attributable to larger invested balances, driven by the proceeds from the October 2013, April 2014 and October 2014 primary offerings of our common stock and the June 2014 offering of our convertible notes, our use of leverage from our revolving credit facilities to originate new investments, and prepayment fees received associated with the early repayments or partial repayments of ten different portfolio companies held by the Predecessor Operating Company as of December 31, 2013. The increase in

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other income of approximately \$2.5 million during the year ended December 31, 2014 as compared to the year ended December 31, 2013, which represents fees that are generally non-recurring in nature, was primarily attributable to structuring, amendment and consent fees received from 20 different portfolio companies and management fees from a non-controlled affiliated portfolio company. The decrease in dividend income during the year ended December 31, 2014 as compared to the year ended December 31, 2013 was primarily attributable to a large distribution from one of the Predecessor Operating Company's warrant investments in the prior year.

### *Operating Expenses*

| (in thousands)  | Years Ended December 31, |                  |                  |
|---|--------------------------|------------------|------------------|
|   | 2015                     | 2014             | 2013             |
| Management fee  | \$ 25,858                | \$ 13,593        | \$ 14,905        |
| Management fee allocated from Predecessor Operating Company                             |                          | 5,983            |                  |
| Less: management fee waiver   | (5,219)                  | (686)            |                  |
| <b>Total management fee</b>   | <b>20,639</b>            | <b>18,890</b>    | <b>14,905</b>    |
| Incentive fee   | 20,591                   | 12,070           | 16,502           |
| Incentive fee allocated from Predecessor Operating Company                              |                          | 6,248            |                  |
| <b>Total incentive fee</b>  | <b>20,591</b>            | <b>18,318</b>    | <b>16,502</b>    |
| Capital gains incentive fee <sup>(1)</sup>  |                          | (8,573)          | 3,229            |
| Capital gains incentive fee allocated from Predecessor Operating Company <sup>(1)</sup> |                          | 2,024            |                  |
| <b>Total capital gains incentive fee<sup>(1)</sup></b>                                  |                          | <b>(6,549)</b>   | <b>3,229</b>     |
| Interest and other financing expenses   | 23,374                   | 13,269           | 12,470           |
| Interest and other financing expenses allocated from Predecessor Operating Company      |                          | 4,764            |                  |
| <b>Total interest and other financing expenses</b>                                      | <b>23,374</b>            | <b>18,033</b>    | <b>12,470</b>    |
| Professional fees   | 3,214                    | 2,390            | 2,349            |
| Professional fees allocated from Predecessor Operating Company                          |                          | 1,238            |                  |
| <b>Total professional fees</b>  | <b>3,214</b>             | <b>3,628</b>     | <b>2,349</b>     |
| Administrative fees   | 2,450                    | 1,470            | 3,429            |
| Administrative expenses allocated from Predecessor Operating Company                    |                          | 761              |                  |
| <b>Total administrative expenses</b>  | <b>2,450</b>             | <b>2,231</b>     | <b>3,429</b>     |
| Other general and administrative expenses   | 1,665                    | 1,138            | 1,584            |
| Other general and administrative expenses allocated from Predecessor Operating Company  |                          | 555              |                  |
| <b>Total other general and administrative expenses</b>                                  | <b>1,665</b>             | <b>1,693</b>     | <b>1,584</b>     |
| <b>Total expenses</b>   | <b>71,933</b>            | <b>56,244</b>    | <b>54,468</b>    |
| Less: expenses waived and reimbursed  | (733)                    | (1,145)          | (3,233)          |
| <b>Net expenses before income taxes</b>   | <b>71,200</b>            | <b>55,099</b>    | <b>51,235</b>    |
| Income tax expense  | 160                      | 436              |                  |
| <b>Net expenses after income taxes</b>  | <b>\$ 71,360</b>         | <b>\$ 55,535</b> | <b>\$ 51,235</b> |

(1)

Capital gains incentive fee accrual assumes a hypothetical liquidation basis.

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Our total net operating expenses increased by approximately \$15.8 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. Our management fee increased by approximately \$1.7 million, net of a management fee waiver, and incentive fees increased by approximately \$2.3 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. The increase in management fee and incentive fee from the year ended December 31, 2014 to the year ended December 31, 2015 was attributable to larger invested balances, driven by the proceeds from the September 2015 primary offering of our common stock, our use of leverage from our revolving credit facilities, SBA-guaranteed debentures and the deployment of the June 2014 proceeds from the issuance of \$115.0 million of convertible notes to originate new investments. No capital gains incentive fee was accrued for the year ended December 31, 2015.

Interest and other financing expenses increased by approximately \$5.3 million during the year ended December 31, 2015, primarily due to our issuance of \$115.0 million of convertible notes, the closing of the NMFC Credit Facility (as defined below) during the second quarter of 2014 and the drawing on SBA-guaranteed debentures beginning in the fourth quarter of 2014. Our total professional fees, total administrative expenses and total other general and administrative expenses marginally decreased by approximately \$0.2 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. Our expenses waived and reimbursed decreased by approximately \$0.4 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014 due to the expiration of the expense cap on March 31, 2014.

Our total net operating expenses increased by approximately \$4.3 million for the year ended December 31, 2014 as compared to the Predecessor Operating Company's year ended December 31, 2013. Our management fee increased by approximately \$4.0 million, net of a management fee waiver, and incentive fees increased by approximately \$1.8 million for the year ended December 31, 2014 as compared to the Predecessor Operating Company's year ended December 31, 2013. The increase in management fee and incentive fee from the Predecessor Operating Company's year ended December 31, 2013 to our year ended December 31, 2014 was attributable to larger invested balances, driven by the proceeds from the October 2013, April 2014 and October 2014 primary offerings of our common stock, the June 2014 offering of our convertible notes and our use of leverage from our revolving credit facilities to originate new investments. Our capital gains incentive fee accrual decreased by approximately \$9.8 million for the year ended December 31, 2014 as compared to the Predecessor Operating Company's year ended December 31, 2013, which was attributable to lower net Adjusted Realized Capital Gains (Losses) and net Adjusted Unrealized Capital Depreciation of investments during the period due to lower marks on the broader portfolio. As of December 31, 2014, no actual capital gains incentive fee was owed under the Investment Management Agreement, as cumulative net Adjusted Realized Gains did not exceed cumulative Adjusted Unrealized Depreciation.

Interest and other financing expenses increased by approximately \$5.6 million during the year ended December 31, 2014, primarily due to the increase of average debt outstanding from \$184.1 million to \$244.6 million for the Holdings Credit Facility (as defined below) for the year ended December 31, 2013 compared to December 31, 2014. In addition, during the year ended December 31, 2014, we issued \$115.0 million of convertible notes, closed the NMFC Credit Facility (as defined below) and began to draw on SBA-guaranteed debentures. Our total professional fees, total administrative expenses and total other general and administrative expenses marginally increased by approximately \$0.2 million for the year ended December 31, 2014 as compared to the Predecessor Operating Company's year ended December 31, 2013. During the year ended December 31, 2014, we incurred \$10.9 thousand in other expenses that were not subject to the expense cap pursuant to the administration agreement, as amended and restated (the "Administration Agreement"), with the Administrator, and further restricted by us. For the year



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ended December 31, 2014, approximately \$1.4 million of indirect administrative expenses were included in administrative expenses, of which \$0.8 million were waived by the Administrator. Our expenses waived and reimbursed decreased by approximately \$2.1 million for the year ended December 31, 2014 as compared to the Predecessor Operating Company's year ended December 31, 2013 due to the expiration of the expense cap on March 31, 2014 and the decrease of waived indirect administrative expenses by the Administrator during the year ended December 31, 2014.

### *Net Realized Gains (Losses) and Net Change in Unrealized Appreciation (Depreciation)*

| (in thousands)   | Years Ended December 31, |             |           |
|--|--------------------------|-------------|-----------|
|  | 2015                     | 2014        | 2013      |
| Net realized (losses) gains on investments   | \$ (12,789)              | \$ 357      | \$ 7,253  |
| Net realized gains on investments allocated from Predecessor Operating Company   |                          | 8,568       |           |
| Total realized (losses) gains on investments   | (12,789)                 | 8,925       | 7,253     |
| Net change in unrealized (depreciation) appreciation of investments  | (35,272)                 | (43,863)    | 7,994     |
| Net change in unrealized appreciation (depreciation) of investments allocated from Predecessor Operating Company       |                          | 940         |           |
| Total change in unrealized (depreciation) appreciation of investments  | (35,272)                 | (42,923)    | 7,994     |
| Net change in unrealized (depreciation) appreciation of securities purchased under collateralized agreements to resell | (296)                    |             |           |
| Provision for taxes  | (1,183)                  | (493)       |           |
| Total net realized gains and net change in unrealized (depreciation) appreciation of investments                       | \$ (49,540)              | \$ (34,491) | \$ 15,247 |

Our net realized and unrealized losses resulted in a net loss of approximately \$49.5 million for the year ended December 31, 2015 compared to the net realized gain and unrealized losses resulting in a net loss of approximately \$34.5 million for the same period in 2014. We look at net realized and unrealized gains or losses together as movement in unrealized appreciation or depreciation can be the result of realizations. The net loss for the year ended December 31, 2015 was primarily driven by the overall decrease in the market prices of our investments during the period and \$29.7 million of realized losses on investments resulting from the modification of terms on three portfolio companies that were accounted for as extinguishments. These losses were partially offset by sales or repayments of investments with fair values in excess of December 31, 2014 valuations, resulting in net realized gains being greater than the reversal of the cumulative net unrealized gains for those investments which included the sale of two portfolio companies resulting in realized gains of approximately \$14.2 million. The provision for income taxes was primarily attributable to three equity investments that are held as of December 31, 2015 in three of our corporate subsidiaries.

The net realized and unrealized losses resulted in a net loss of approximately \$34.5 million for the year ended December 31, 2014 compared to the Predecessor Operating Company's net realized and unrealized gains resulting in a net gain of approximately \$15.2 million for the same period in 2013. We look at net realized and unrealized gains or losses together as movement in unrealized appreciation or depreciation can be the result of realizations. The net loss for the year ended December 31, 2014 was primarily driven by the overall decrease in the market prices of our investments during the period and the partial write-down related to two portfolio companies. These

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losses were partially offset by a \$5.6 million gain from the sale of NMF Holdings' warrant investments in one portfolio company and sales or repayments of investments with fair values in excess of December 31, 2013 valuations resulting in net realized gains being greater than the reversal of the cumulative net unrealized gains for those investments. The provision for income taxes was attributable to one warrant investment that is held as of December 31, 2014 in one of our corporate subsidiaries.

The net gain for the year ended December 31, 2013 was primarily driven by sales or repayment of investments with fair values in excess of December 31, 2012 valuations, resulting in net realized gains being greater than the reversal of the cumulative net unrealized gains for those investments. Additionally, during the year ended December 31, 2013, a distribution from a warrant investment resulted in a realized gain of approximately \$1.1 million, the modification of terms on one debt investment that was accounted for as an extinguishment resulted in a realized gain of \$1.7 million and the sale of the first lien position in ATI Acquisition Company resulted in a realized loss of \$4.3 million

**Liquidity and Capital Resources**

The primary use of existing funds and any funds raised in the future is expected to be for repayment of indebtedness, investments in portfolio companies, cash distributions to our stockholders or for other general corporate purposes.

Since our IPO, and through June 30, 2016, we raised approximately \$454.0 million in net proceeds from additional offerings of common stock and issued shares valued at approximately \$288.4 million on behalf of AIV Holdings for exchanged units. We acquired from the Predecessor Operating Company units of the Predecessor Operating Company equal to the number of shares of our common stock sold in the additional offerings.

Our liquidity is generated and generally available through advances from the revolving credit facilities, from cash flows from operations, and, we expect, through periodic follow-on equity offerings. In addition, we may from time to time enter into additional debt facilities, increase the size of existing facilities or issue additional debt securities, including unsecured debt and/or debt securities convertible into common stock. Any such incurrence or issuance would be subject to prevailing market conditions, our liquidity requirements, contractual and regulatory restrictions and other factors. In accordance with the 1940 Act, with certain limited exceptions, we are only allowed to borrow amounts such that our asset coverage, calculated pursuant to the 1940 Act, is at least 200.0% after such borrowing.

At June 30, 2016 and December 31, 2015, we had cash and cash equivalents of approximately \$34.5 million and \$30.1 million, respectively. Our cash provided by operating activities during the six months ended June 30, 2016 and June 30, 2015 was approximately \$72.6 million and \$142.3 million, respectively. We expect that all current liquidity needs will be met with cash flows from operations and other activities.

***Borrowings***

***Holdings Credit Facility*** On December 18, 2014 we entered into the Second Amended and Restated Loan and Security Agreement (the "Holdings Credit Facility"), among us, as the Collateral Manager, NMF Holdings as the Borrower, Wells Fargo Securities, LLC as the Administrative Agent and Wells Fargo Bank, National Association, as the Lender and Collateral Custodian, which is structured as a revolving credit facility and matures on December 18, 2019.

Immediately prior to amending the Holdings Credit Facility, NMF SLF merged with and into NMF Holdings. The Holdings Credit Facility effectively amended and restated the Predecessor

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Holdings Credit Facility (as defined below), merged with the SLF Credit Facility (as defined below), and combined the amount of borrowings previously available.

The maximum amount of revolving borrowings available under the Holdings Credit Facility is \$495.0 million, which is the aggregate of the \$280.0 million previously available under the Predecessor Holdings Credit Facility (as defined below) and the \$215.0 million previously available under the SLF Credit Facility (as defined below). Under the Holdings Credit Facility, NMF Holdings is permitted to borrow up to 25.0%, 45.0% or 70.0% of the purchase price of pledged assets, subject to approval by Wells Fargo Securities, LLC. The Holdings Credit Facility is non-recourse to us and is collateralized by all of the investments of NMF Holdings on an investment by investment basis. All fees associated with the origination or upsizing of the Holdings Credit Facility are capitalized on our Consolidated Statement of Assets and Liabilities and charged against income as other financing expenses over the life of the Holdings Credit Facility. The Holdings Credit Facility contains certain customary affirmative and negative covenants and events of default. In addition, the Holdings Credit Facility requires us to maintain a minimum asset coverage ratio. The covenants are generally not tied to mark to market fluctuations in the prices of NMF Holdings investments, but rather to the performance of the underlying portfolio companies.

Effective January 1, 2016, the Holdings Credit Facility bears interest at a rate of the LIBOR plus 1.75% per annum for Broadly Syndicated Loans (as defined in the Loan and Security Agreement) and LIBOR plus 2.50% per annum for all other investments. Previously, the Holdings Credit Facility bore interest at a rate of the LIBOR plus 2.00% per annum for Broadly Syndicated Loans (as defined in the Loan and Security Agreement) and LIBOR plus 2.75% per annum for all other investments. The Holdings Credit Facility also charges a non-usage fee, based on the unused facility amount multiplied by the Non-Usage Fee Rate (as defined in the Loan and Security Agreement).

The following table summarizes the interest expense, non-usage fees and amortization of financing costs incurred on the Holdings Credit Facility for the three and six months ended June 30, 2016 and June 30, 2015.

| (in millions)                   | Three Months Ended |               | Six Months Ended |               |
|---------------------------------|--------------------|---------------|------------------|---------------|
|                                 | June 30, 2016      | June 30, 2015 | June 30, 2016    | June 30, 2015 |
| Interest expense                | \$ 2.4             | \$ 2.5        | \$ 5.0           | \$ 5.4        |
| Non-usage fee                   | \$ 0.2             | \$ 0.1        | \$ 0.3           | \$ 0.2        |
| Amortization of financing costs | \$ 0.4             | \$ 0.4        | \$ 0.8           | \$ 0.8        |
| Weighted average interest rate  | 2.7%               | 2.6%          | 2.7%             | 2.6%          |
| Effective interest rate         | 3.4%               | 3.2%          | 3.3%             | 3.1%          |
| Average debt outstanding        | \$ 348.0           | \$ 374.2      | \$ 371.4         | \$ 411.6      |

As of June 30, 2016 and December 31, 2015, the outstanding balance on the Holdings Credit Facility was \$348.0 million and \$419.3 million, respectively, and NMF Holdings was in compliance with the applicable covenants in the Holdings Credit Facility on such dates.

Prior to December 18, 2014, the Loan and Security Agreement, as amended and restated, dated May 19, 2011 (the "Predecessor Holdings Credit Facility") among NMF Holdings as the Borrower and Collateral Administrator, Wells Fargo Securities, LLC as the Administrative Agent, and Wells Fargo Bank, National Association, as the Collateral Custodian, was structured as a revolving credit facility and would mature on October 27, 2016.

The maximum amount of revolving borrowings available under the Predecessor Holdings Credit Facility was \$280.0 million. Until December 18, 2014, NMF Holdings was permitted to borrow up to 45.0% or 25.0% of the purchase price of pledged first lien or non-first lien debt securities, and up to 70.0% and 45.0% of the purchase price of specified first lien debt securities and specified

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non-first lien debt securities, respectively, subject to approval by Wells Fargo Bank, National Association. The Predecessor Holdings Credit Facility was amended and restated on May 6, 2014 and as a result, it was non-recourse to us and was collateralized by all of the investments of NMF Holdings on an investment by investment basis. All fees associated with the origination or upsizing of the Predecessor Holdings Credit Facility were capitalized on our Consolidated Statement of Assets and Liabilities and charged against income as other financing expenses over the life of the Predecessor Holdings Credit Facility. The Predecessor Holdings Credit Facility contained certain customary affirmative and negative covenants and events of default, including the occurrence of a change in control. In addition, the Predecessor Holdings Credit Facility required us to maintain a minimum asset coverage ratio. However, the covenants were generally not tied to market fluctuations in the prices of NMF Holdings' investments, but rather to the performance of the underlying portfolio companies.

The Predecessor Holdings Credit Facility bore interest at a rate of the LIBOR plus 2.75% per annum and charged a non-usage fee, based on the unused facility amount multiplied by the Non-Usage Fee Rate (as defined in the Loan and Security Agreement).

NMF SLF's Loan and Security Agreement, as amended and restated, dated October 27, 2010 (the "SLF Credit Facility") among NMF SLF as the Borrower, NMF Holdings as the Collateral Administrator, Wells Fargo Securities, LLC as the Administrative Agent, and Wells Fargo Bank, National Association, as the Collateral Custodian, was structured as a revolving credit facility and was set to mature on October 27, 2016. The maximum amount of revolving borrowings available under the SLF Credit Facility was \$215.0 million. The SLF Credit Facility was non-recourse to us and secured by all assets of NMF SLF on an investment by investment basis. All fees associated with the origination or upsizing of the SLF Credit Facility were capitalized on our Consolidated Statement of Assets and Liabilities and charged against income as other financing expenses over the life of the SLF Credit Facility. The SLF Credit Facility contained certain customary affirmative and negative covenants and events of default, including the occurrence of a change in control. The covenants were generally not tied to market fluctuations in the prices of the NMF SLF's investments, but rather to the performance of the underlying portfolio companies. NMF SLF was not restricted from the purchase or sale of loans with an affiliate. Therefore, specified first lien loans could be moved as collateral between the Holdings Credit Facility and the SLF Credit Facility. The SLF Credit Facility merged with the Holdings Credit Facility on December 18, 2014.

Until December 18, 2014, the SLF Credit Facility permitted borrowings of up to 70.0% of the purchase price of pledged first lien debt securities and up to 25.0% of the purchase price of specified second lien loans, of which, up to 25.0% of the aggregate outstanding loan balance of all pledged debt securities in the SLF Credit Facility was allowed to be derived from second lien loans, subject to approval by Wells Fargo Bank, National Association.

The SLF Credit Facility bore interest at a rate of LIBOR plus 2.00% per annum for first lien loans and LIBOR plus 2.75% per annum for second lien loans, respectively, as amended on March 11, 2013. A non-usage fee was paid, based on the unused facility amount multiplied by the Non-Usage Fee Rate (as defined in the Loan and Security Agreement).

**NMFC Credit Facility** The Senior Secured Revolving Credit Agreement, as amended, dated June 4, 2014 (together with the related guarantee and security agreement, the "NMFC Credit Facility"), among us as the Borrower, Goldman Sachs Bank USA as the Administrative Agent and Collateral Agent, and Goldman Sachs Bank USA, Morgan Stanley Bank, N.A. and Stifel Bank & Trust as Lenders, is structured as a senior secured revolving credit facility and matures on June 4, 2019. The NMFC Credit Facility is guaranteed by certain of our domestic subsidiaries and proceeds from the NMFC Credit Facility may be used for general corporate purposes, including the funding of portfolio investments.

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As of June 30, 2016, the maximum amount of revolving borrowings available under the NMFC Credit Facility was \$122.5 million. We are permitted to borrow at various advance rates depending on the type of portfolio investment as outlined in the Senior Secured Revolving Credit Agreement. All fees associated with the origination of the NMFC Credit Facility are capitalized on our Consolidated Statement of Assets and Liabilities and charged against income as other financing expenses over the life of the NMFC Credit Facility. The NMFC Credit Facility contains certain customary affirmative and negative covenants and events of default, including certain financial covenants related to asset coverage and liquidity and other maintenance covenants.

The NMFC Credit Facility generally bears interest at a rate of LIBOR plus 2.50% per annum or the prime rate plus 1.50% per annum, and charges a commitment fee, based on the unused facility amount multiplied by 0.375% per annum (as defined in the Senior Secured Revolving Credit Agreement).

The following table summarizes the interest expense, non-usage fees and amortization of financing costs incurred on the NMFC Credit Facility for the three and six months ended June 30, 2016 and June 30, 2015.

| (in millions)                   | Three Months Ended |               | Six Months Ended |               |
|---------------------------------|--------------------|---------------|------------------|---------------|
|                                 | June 30, 2016      | June 30, 2015 | June 30, 2016    | June 30, 2015 |
| Interest expense                | \$ 0.5             | \$ 0.5        | \$ 1.2           | \$ 0.7        |
| Non-usage fee                   | \$ (1)             | \$ (1)        | \$ (1)           | \$ 0.1        |
| Amortization of financing costs | \$ 0.1             | \$ 0.1        | \$ 0.2           | \$ 0.2        |
| Weighted average interest rate  | 2.9%               | 2.7%          | 2.9%             | 2.7%          |
| Effective interest rate         | 3.7%               | 3.5%          | 3.5%             | 3.7%          |
| Average debt outstanding        | \$ 72.7            | \$ 67.1       | \$ 82.8          | \$ 49.5       |

(1)

For the three months ended June 30, 2016 and June 30, 2015 and the six months ended June 30, 2016, the total non-usage fee was less than \$50 thousand.

As of June 30, 2016 and December 31, 2015, the outstanding balance on the NMFC Credit Facility was \$87.0 million and \$90.0 million, respectively, and NMFC was in compliance with the applicable covenants in the NMFC Credit Facility on such dates.

**Convertible Notes** On June 3, 2014, we closed a private offering of \$115.0 million aggregate principal amount of unsecured convertible notes (the "Convertible Notes"), pursuant to an indenture, dated June 3, 2014 (the "Indenture"). The Convertible Notes were issued in a private placement only to qualified institutional buyers pursuant to Rule 144A under the Securities Act. As of the first anniversary, June 3, 2015, of the Convertible Notes, the restrictions under Rule 144A under the Securities Act were removed, allowing the Convertible Notes to be eligible and freely tradeable without restrictions for resale pursuant to Rule 144(b)(1) under the Securities Act. The Convertible Notes bear interest at an annual rate of 5.0%, payable semi-annually in arrears on June 15 and December 15 of each year, which commenced on December 15, 2014. The Convertible Notes will mature on June 15, 2019 unless earlier converted or repurchased at the holder's option.

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The following table summarizes certain key terms related to the convertible features of our Convertible Notes as of June 30, 2016.

**June 30, 2016**

|   |    |              |
|---|----|--------------|
| Initial conversion premium                          |    | 12.5%        |
| Initial conversion rate <sup>(1)</sup>              |    | 62.7746      |
| Initial conversion price                            | \$ | 15.93        |
| Conversion premium at June 30, 2016                 |    | 11.7%        |
| Conversion rate at June 30, 2016 <sup>(1)(2)</sup>  |    | 63.2794      |
| Conversion price at June 30, 2016 <sup>(2)(3)</sup> | \$ | 15.80        |
| Last conversion price calculation date              |    | June 3, 2016 |

- (1) Conversion rates denominated in shares of common stock per \$1.0 thousand principal amount of the Convertible Notes converted.
- (2) Represents conversion rate and conversion price, as applicable, taking into account certain de minimis adjustments that will be made on the conversion date.
- (3) The conversion price in effect at June 30, 2016 was calculated on the last anniversary of the issuance and will be calculated again on the next anniversary, unless the exercise price shall have changed by more than 1.0% before the anniversary.

The conversion rate will be subject to adjustment upon certain events, such as stock splits and combinations, mergers, spin-offs, increases in dividends in excess of \$0.34 per share per quarter and certain changes in control. Certain of these adjustments, including adjustments for increases in dividends, are subject to a conversion price floor of \$14.05 per share. In no event will the total number of shares of common stock issuable upon conversion exceed 71.1893 per \$1.0 thousand principal amount of the Convertible Notes (subject to adjustment upon certain events). We have determined that the embedded conversion option in the Convertible Notes is not required to be separately accounted for as a derivative under GAAP.

The Convertible Notes are unsecured obligations and rank senior in right of payment to our existing and future indebtedness that is expressly subordinated in right of payment to the Convertible Notes; equal in right of payment to our existing and future unsecured indebtedness that is not so subordinated; effectively junior in right of payment to any of our secured indebtedness (including existing unsecured indebtedness that we later secure) to the extent of the value of the assets securing such indebtedness; and structurally junior to all existing and future indebtedness (including trade payables) incurred by our subsidiaries and financing vehicles. The issuance is considered part of the if-converted method for calculation of diluted earnings per share.

We may not redeem the Convertible Notes prior to maturity. No sinking fund is provided for the Convertible Notes. In addition, if certain corporate events, holders of the Convertible Notes may require us to repurchase for cash all or part of their Convertible Notes at a repurchase price equal to 100.0% of the principal amount of the Convertible Notes to be repurchased, plus accrued and unpaid interest through, but excluding, the repurchase date.

The Indenture contains certain covenants, including covenants requiring us to provide financial information to the holders of the Convertible Notes and the Trustee if we cease to be subject to the reporting requirements of the Exchange Act. These covenants are subject to limitations and exceptions that are described in the Indenture.

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The following table summarizes the interest expense and amortization of financing costs incurred on the Convertible Notes for the three and six months ended June 30, 2016 and June 30, 2015.

| (in millions)                   | Three Months Ended |               | Six Months Ended |               |
|---------------------------------|--------------------|---------------|------------------|---------------|
|                                 | June 30, 2016      | June 30, 2015 | June 30, 2016    | June 30, 2015 |
| Interest expense                | \$ 1.5             | \$ 1.5        | \$ 2.9           | \$ 2.9        |
| Amortization of financing costs | \$ 0.2             | \$ 0.2        | \$ 0.4           | \$ 0.4        |
| Effective interest rate         | 5.7%               | 5.7%          | 5.7%             | 5.7%          |

As of June 30, 2016 and December 31, 2015, the outstanding balance on the Convertible Notes was \$115.0 million and \$115.0 million, respectively, and NMFC was in compliance with the terms of the Indenture.

**Unsecured Notes** On May 6, 2016, we issued \$50.0 million in aggregate principal amount of five-year unsecured notes that mature on May 15, 2021 (the "Unsecured Notes"), pursuant to a note purchase agreement, dated May 4, 2016 (the "NPA"), to an institutional investor in a private placement. The Unsecured Notes are equal in priority with our other unsecured indebtedness, including our Convertible Notes. The Unsecured Notes bear interest at an annual rate of 5.313%, payable semi-annually on May 15 and November 15 of each year, starting on November 15, 2016. This interest rate is subject to increase in the event that: (i) subject to certain exceptions, the Unsecured Notes or the Company cease to have an investment grade rating or (ii) the aggregate amount of our unsecured debt falls below \$150.0 million. In each such event, we have the option to offer to prepay the Unsecured Notes at par, in which case holders of the Unsecured Notes who accept the offer would not receive the increased interest rate. In addition, we are obligated to offer to prepay the Unsecured Notes at par if the Investment Adviser, or an affiliate thereof, ceases to be our investment adviser or if certain change in control events occur with respect to the Investment Adviser.

The NPA contains customary terms and conditions for unsecured notes issued in a private placement, including, without limitation, an option to offer to prepay all or a portion of the Unsecured Notes at par (plus a make-whole amount, if applicable), affirmative and negative covenants such as information reporting, maintenance of our status as a BDC under the 1940 Act and a RIC under the Internal Revenue Code, minimum stockholders' equity, minimum asset coverage ratio, and prohibitions on certain fundamental changes or any subsidiary guarantor, as well as customary events of default with customary cure and notice, including, without limitation, nonpayment, misrepresentation in a material respect, breach of covenant, cross-default under our other indebtedness or certain significant subsidiaries, certain judgments and orders, and certain events of bankruptcy. As of June 30, 2016, the outstanding balance on the Unsecured Notes was \$50.0 million and we were in compliance with the terms of the NPA.

Interest expense incurred on the Unsecured Notes for the three and six months ended June 30, 2016 was \$0.4 million and \$0.4 million, respectively. Amortization of financing costs incurred on the Unsecured Notes for the three and six months ended June 30, 2016 was less than \$50 thousand, respectively. The effective interest rate for the three and six months ended June 30, 2016 was 5.8% and 5.8%, respectively.

**SBA-guaranteed debentures** On August 1, 2014, SBIC LP received an SBIC license from the SBA.

The SBIC license allows SBIC LP to obtain leverage by issuing SBA-guaranteed debentures, subject to the issuance of a capital commitment by the SBA and other customary procedures. SBA-guaranteed debentures are non-recourse to us, interest only debentures with interest payable

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semi-annually and have a ten year maturity. The principal amount of SBA-guaranteed debentures is not required to be paid prior to maturity but may be prepaid at any time without penalty. The interest rate of SBA-guaranteed debentures is fixed on a semi-annual basis at a market-driven spread over U.S. Treasury Notes with ten year maturities. The SBA, as a creditor, will have a superior claim to the assets of SBIC LP over our stockholders in the event SBIC LP is liquidated or the SBA exercises remedies upon an event of default.

The maximum amount of borrowings available under current SBA regulations is \$150.0 million as long as the licensee has at least \$75.0 million in regulatory capital, receives a capital commitment from the SBA and has been through an examination by the SBA subsequent to licensing.

As of June 30, 2016 and December 31, 2015, SBIC LP had regulatory capital of \$72.4 million and \$72.4 million, respectively, and SBA-guaranteed debentures outstanding of \$121.7 million and \$117.7 million, respectively. The SBA-guaranteed debentures incur upfront fees of 3.425%, which consists of a 1.00% commitment fee and a 2.425% issuance discount, which are amortized over the life of the SBA-guaranteed debentures. The following table summarizes our fixed-rate SBA-guaranteed debentures as of June 30, 2016.

| (in millions)<br>Issuance Date            | Maturity Date                    | Debenture<br>Amount | Interest Rate | SBA Annual<br>Charge |
|---|----------------------------------|---------------------|---------------|----------------------|
| <b>Fixed SBA-guaranteed debentures:</b>   |                                  |                     |               |                      |
| March 25, 2015                            | March 1, 2025                    | \$ 37.5             | 2.517%        | 0.355%               |
| September 23, 2015                        | September 1, 2025                | 37.5                | 2.829%        | 0.355%               |
| September 23, 2015                        | September 1, 2025                | 28.8                | 2.829%        | 0.742%               |
| March 23, 2016                            | March 1, 2026                    | 13.9                | 2.507%        | 0.742%               |
| <b>Interim SBA-guaranteed debentures:</b> |                                  |                     |               |                      |
|   | September 1, 2026 <sup>(1)</sup> | 1.0                 | 0.950%        | 0.742%               |
|   | September 1, 2026 <sup>(1)</sup> | 3.0                 | 0.907%        | 0.742%               |
| <b>Total SBA-guaranteed debentures</b>    |                                  | <b>\$ 121.7</b>     |               |                      |

(1) Estimated maturity date as interim SBA-guaranteed debentures are expected to pool in September 2016.

Prior to pooling, the SBA-guaranteed debentures bear interest at an interim floating rate of LIBOR plus 0.30%. Once pooled, which occurs in March and September each year, the SBA-guaranteed debentures bear interest at a fixed rate that is set to the current 10-year treasury rate plus a spread at each pooling date.

The following table summarizes the interest expense and amortization of financing costs incurred on the SBA-guaranteed debentures for the three and six months ended June 30, 2016 and June 30, 2015.

| (in millions)                   | Three Months Ended |               | Six Months Ended |               |
|---------------------------------|--------------------|---------------|------------------|---------------|
|                                 | June 30, 2016      | June 30, 2015 | June 30, 2016    | June 30, 2015 |
| Interest expense                | \$ 0.9             | \$ 0.3        | \$ 1.8           | \$ 0.4        |
| Amortization of financing costs | \$ 0.1             | \$ (1)        | \$ 0.2           | \$ 0.1        |
| Weighted average interest rate  | 3.2%               | 2.5%          | 3.1%             | 1.9%          |
| Effective interest rate         | 3.5%               | 2.8%          | 3.4%             | 2.2%          |
| Average debt outstanding        | \$ 118.0           | \$ 47.1       | \$ 117.9         | \$ 42.3       |



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- (1) For the three months ended June 30, 2015, the total amortization of financing costs was less than \$50 thousand.

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The SBIC program is designed to stimulate the flow of private investor capital into eligible small businesses, as defined by the SBA. Under SBA regulations, SBIC LP is subject to regulatory requirements, including making investments in SBA-eligible businesses, investing at least 25.0% of its investment capital in eligible smaller businesses, as defined under the 1958 Act, placing certain limitations on the financing terms of investments, regulating the types of financing, prohibiting investments in small businesses with certain characteristics or in certain industries and requiring capitalization thresholds that limit distributions to us. SBIC LP is subject to an annual periodic examination by an SBA examiner to determine SBIC LP's compliance with the relevant SBA regulations and an annual financial audit of its financial statements that are prepared on a basis of accounting other than GAAP (such as ASC 820) by an independent auditor. As of June 30, 2016 and December 31, 2015, SBIC LP was in compliance with SBA regulatory requirements.

### ***Off-Balance Sheet Arrangements***

We may become a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financial needs of our portfolio companies. These instruments may include commitments to extend credit and involve, to varying degrees, elements of liquidity and credit risk in excess of the amount recognized in the balance sheet. As of June 30, 2016 and December 31, 2015, we had outstanding commitments to third parties to fund investments totaling \$13.8 million and \$26.3 million, respectively, under various undrawn revolving credit facilities, delayed draw commitments or other future funding commitments.

We may from time to time enter into financing commitment letters or bridge financing commitments, which could require funding in the future. As of June 30, 2016 and December 31, 2015, we had commitment letters to purchase debt investments in an aggregate par amount of \$25.0 million and \$0, respectively. As of June 30, 2016 and December 31, 2015, we had not entered into any bridge financing commitments which could require funding in the future.

As of June 30, 2016 and December 31, 2015, we had unfunded commitments related to our equity investment in SLP II of \$51.6 million and \$0, respectively, which may be funded at our discretion.

### ***Contractual Obligations***

A summary of our significant contractual payment obligations as of June 30, 2016 is as follows:

#### **Contractual Obligations Payments Due by Period (in millions)**

|  | <b>Total</b>    | <b>Less than<br/>1 Year</b> | <b>1 - 3 Years</b> | <b>3 - 5 Years</b> | <b>More than<br/>5 Years</b> |
|--|-----------------|-----------------------------|--------------------|--------------------|------------------------------|
| Holdings Credit Facility <sup>(1)</sup>  | \$ 348.0        | \$                          | \$                 | \$ 348.0           | \$                           |
| SBA-guaranteed debentures <sup>(2)</sup> | 121.7           |                             |                    |                    | 121.7                        |
| Convertible Notes <sup>(3)</sup>         | 115.0           |                             |                    | 115.0              |                              |
| NMFC Credit Facility <sup>(4)</sup>      | 87.0            |                             |                    | 87.0               |                              |
| Unsecured Notes <sup>(5)</sup>           | 50.0            |                             |                    | 50.0               |                              |
| <b>Total Contractual Obligations</b>     | <b>\$ 721.7</b> | <b>\$</b>                   | <b>\$</b>          | <b>\$ 600.0</b>    | <b>\$ 121.7</b>              |

- (1) Under the terms of the \$495.0 million Holdings Credit Facility, all outstanding borrowings under that facility (\$348.0 million as of June 30, 2016) must be repaid on or before December 18, 2019. As of June 30, 2016, there was approximately \$147.0 million of possible capacity remaining under the Holdings Credit Facility.
- (2) Our SBA-guaranteed debentures will begin to mature on March 1, 2025.



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- (3) The \$115.0 million Convertible Notes will mature on June 15, 2019 unless earlier converted or repurchased at the holder's option.
- (4) Under the terms of the \$122.5 million NMFC Credit Facility, all outstanding borrowings under that facility (\$87.0 million as of June 30, 2016) must be repaid on or before June 4, 2019. As of June 30, 2016, there was approximately \$35.5 million of possible capacity remaining under the NMFC Credit Facility.
- (5) The \$50.0 million Unsecured Notes will mature on May 15, 2021 unless earlier repurchased.

We have entered into the Investment Management Agreement with the Investment Adviser in accordance with the 1940 Act. Under the Investment Management Agreement, the Investment Adviser has agreed to provide us with investment advisory and management services. We have agreed to pay for these services (1) a management fee and (2) an incentive fee based on our performance.

We have also entered into an Administration Agreement with the Administrator. Under the Administration Agreement, the Administrator has agreed to arrange office space for us and provide office equipment and clerical, bookkeeping and record keeping services and other administrative services necessary to conduct our respective day-to-day operations. The Administrator has also agreed to perform, or oversee the performance of, our financial records, our reports to stockholders and reports filed with the SEC.

If any of the contractual obligations discussed above are terminated, our costs under any new agreements that are entered into may increase. In addition, we would likely incur significant time and expense in locating alternative parties to provide the services we expect to receive under the Investment Management Agreement and the Administration Agreement.

***Distributions and Dividends***

Distributions declared and paid to stockholders for the six months ended June 30, 2016 totaled \$43.4 million.

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The following table reflects cash distributions, including dividends and returns of capital, if any, per share that have been declared by our board of directors for the six months ended June 30, 2016 and the years ended December 31, 2015 and December 31, 2014:

| Fiscal Year Ended               | Date Declared     | Record Date        | Payment Date       | Per Share Amount    |
|---------------------------------|-------------------|--------------------|--------------------|---------------------|
| <b><i>December 31, 2016</i></b> |                   |                    |                    |                     |
| Second Quarter                  | May 3, 2016       | June 16, 2016      | June 30, 2016      | \$ 0.34             |
| First Quarter                   | February 22, 2016 | March 17, 2016     | March 31, 2016     | 0.34                |
|                                 |                   |                    |                    | \$ 0.68             |
| <b><i>December 31, 2015</i></b> |                   |                    |                    |                     |
| Fourth Quarter                  | November 3, 2015  | December 16, 2015  | December 30, 2015  | \$ 0.34             |
| Third Quarter                   | August 4, 2015    | September 16, 2015 | September 30, 2015 | 0.34                |
| Second Quarter                  | May 5, 2015       | June 16, 2015      | June 30, 2015      | 0.34                |
| First Quarter                   | February 23, 2015 | March 17, 2015     | March 31, 2015     | 0.34                |
|                                 |                   |                    |                    | \$ 1.36             |
| <b><i>December 31, 2014</i></b> |                   |                    |                    |                     |
| Fourth Quarter                  | November 4, 2014  | December 16, 2014  | December 30, 2014  | \$ 0.34             |
| Third Quarter                   | August 5, 2014    | September 16, 2014 | September 30, 2014 | 0.34                |
| Third Quarter                   | July 30, 2014     | August 20, 2014    | September 3, 2014  | 0.12 <sup>(1)</sup> |
| Second Quarter                  | May 6, 2014       | June 16, 2014      | June 30, 2014      | 0.34                |
| First Quarter                   | March 4, 2014     | March 17, 2014     | March 31, 2014     | 0.34                |
|                                 |                   |                    |                    | \$ 1.48             |

- (1) Special dividend related to estimated realized capital gains attributable to the Predecessor Operating Company's warrant investments in Learning Care Group (US), Inc.

Tax characteristics of all dividends paid are reported to stockholders on Form 1099 after the end of the calendar year. Future quarterly dividends, if any, will be determined by our board of directors.

We intend to pay quarterly distributions to our stockholders in amounts sufficient to maintain our status as a RIC. We intend to distribute approximately all of our Adjusted Net Investment Income on a quarterly basis and substantially all of our taxable income on an annual basis, except that we may retain certain net capital gains for reinvestment.

We maintain an "opt out" dividend reinvestment plan on behalf of our common stockholders, pursuant to which each of our stockholders' cash distributions will be automatically reinvested in additional shares of common stock, unless the stockholder elects to receive cash.

### **Related Parties**

We have entered into a number of business relationships with affiliated or related parties, including the following:

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We have entered into the Investment Management Agreement with the Investment Adviser, a wholly-owned subsidiary of New Mountain Capital. Therefore, New Mountain Capital is entitled to any profits earned by the Investment Adviser, which includes any fees payable to the Investment Adviser under the terms of the Investment Management Agreement, less expenses incurred by the Investment Adviser in performing its services under the Investment Management Agreement.

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We have entered into an Administration Agreement with the Administrator, a wholly-owned subsidiary of New Mountain Capital. The Administrator arranges our office space and provides office equipment and administrative services necessary to conduct our respective day-to-day operations pursuant to the Administration Agreement. We reimburse the Administrator for the allocable portion of overhead and other expenses incurred by it in performing its obligations to us under the Administration Agreement, which includes the fees and expenses associated with performing administrative, finance, and compliance functions, and the compensation of our Chief Financial Officer and Chief Compliance Officer and their respective staffs. Pursuant to the Administration Agreement and further restricted by us, the Administrator may, in its own discretion, submit to us for reimbursement some or all of the expenses that the Administrator has incurred on our behalf during any quarterly period. As a result, the amount of expenses for which we will have to reimburse the Administrator may fluctuate in future quarterly periods and there can be no assurance given as to when, or if, the Administrator may determine to limit the expenses that the Administrator submits to us for reimbursement in the future. However, it is expected that the Administrator will continue to support part of our expense burden in the near future and may decide to not calculate and charge through certain overhead related amounts as well as continue to cover some of the indirect costs. The Administrator cannot recoup any expenses that the Administrator has previously waived. For the three and six months ended June 30, 2016 approximately \$0.4 million and \$0.9 million, respectively of indirect administrative expenses were included in administrative expenses, of which \$0 and \$0.3 million, respectively of indirect administrative expenses were waived by the Administrator. As of June 30, 2016, approximately \$0.3 million of indirect administrative expenses were included in payable to affiliates as the expenses were payable to the Administrator.

We, the Investment Adviser and the Administrator have entered into a royalty-free Trademark License Agreement, as amended, with New Mountain Capital, pursuant to which New Mountain Capital has agreed to grant us, the Investment Adviser and the Administrator, a non-exclusive, royalty-free license to use the name "New Mountain" and "New Mountain Finance".

In addition, we have adopted a formal code of ethics that governs the conduct of our respective officers and directors. These officers and directors also remain subject to the duties imposed by the 1940 Act, the Delaware General Corporation Law and the Delaware Limited Liability Company Act.

The Investment Adviser and its affiliates may also manage other funds in the future that may have investment mandates that are similar, in whole and in part, with our investment mandates. The Investment Adviser and its affiliates may determine that an investment is appropriate for us and for one or more of those other funds. In such event, depending on the availability of such investment and other appropriate factors, the Investment Adviser or its affiliates may determine that we should invest side-by-side with one or more other funds. Any such investments will be made only to the extent permitted by applicable law and interpretive positions of the SEC and its staff, and consistent with the Investment Adviser's allocation procedures.

Concurrently with the IPO, we sold an additional 2,172,000 shares of our common stock to certain executives and employees of, and other individuals affiliated with, New Mountain Capital in the Concurrent Private Placement.

Table of Contents**Quantitative and Qualitative Disclosures About Market Risk**

We are subject to certain financial market risks, such as interest rate fluctuations. During the six months ended June 30, 2016, certain of the loans held in our portfolio have floating interest rates. As of June 30, 2016, approximately 87.2% of investments at fair value (excluding investments on non-accrual, unfunded debt investments and non-interest bearing equity investments) represent floating-rate investments with a LIBOR floor (includes investments bearing prime interest rate contracts) and approximately 12.8% of investments at fair value represent fixed-rate investments. Additionally, our senior secured revolving credit facilities are also subject to floating interest rates and are currently paid based on one-month floating LIBOR rates.

The following table estimates the potential changes in net cash flow generated from interest income and expenses, should interest rates increase by 100, 200 or 300 basis points, or decrease by 25 basis points. Interest income is calculated as revenue from interest generated from our portfolio of investments held on June 30, 2016. Interest expense is calculated based on the terms of our outstanding revolving credit facilities and convertible notes. For our floating rate credit facilities, we use the outstanding balance as of June 30, 2016. Interest expense on our floating rate credit facilities are calculated using the interest rate as of June 30, 2016, adjusted for the hypothetical changes in rates, as shown below. The base interest rate case assumes the rates on our portfolio investments remain unchanged from the actual effective interest rates as of June 30, 2016. These hypothetical calculations are based on a model of the investments in our portfolio, held as of June 30, 2016, and are only adjusted for assumed changes in the underlying base interest rates.

Actual results could differ significantly from those estimated in the table.

| <b>Change in Interest Rates</b> | <b>Estimated<br/>Percentage<br/>Change in Interest<br/>Income Net of<br/>Interest Expense<br/>(unaudited)</b> |
|---------------------------------|---|
| 25 Basis Points                 | 0.96% <sup>(1)</sup>  |
| Base Interest Rate              | %   |
| +100 Basis Points               | 2.14%   |
| +200 Basis Points               | 9.24%   |
| +300 Basis Points               | 16.64%  |

(1)

Limited to the lesser of the June 30, 2016 LIBOR rates or a decrease of 25 basis points.

We were not exposed to any foreign currency exchange risks as of June 30, 2016.



Table of Contents**SENIOR SECURITIES**

Information about our senior securities as of June 30, 2016, December 31, 2015 and December 31, 2014 and information about NMF Holdings' senior securities as of December 31, 2013, 2012, 2011, 2010 and 2009 are shown in the following table. The report of Deloitte & Touche LLP, an independent registered public accounting firm, on the senior securities table as of December 31, 2015, 2014, 2013, 2012, 2011, 2010 and 2009 is attached, or incorporated by reference, as an exhibit to the registration statement of which this prospectus is a part.

| <b>Class and Year<sup>(1)</sup></b>    | <b>Total Amount<br/>Outstanding<br/>Exclusive<br/>of Treasury<br/>Securities<sup>(2)</sup><br/>(in millions)</b> | <b>Asset<br/>Coverage<br/>Per Unit<sup>(3)</sup></b> | <b>Involuntary<br/>Liquidating<br/>Preference<br/>Per Unit<sup>(4)</sup></b> | <b>Average<br/>Market<br/>Value<br/>Per Unit<sup>(5)</sup></b> |
|--|--|--|--|--|
| <b>June 30, 2016 (unaudited)</b>       |  |  |  |  |
| Holdings Credit Facility               | \$ 348.0   | \$ 2,406   | \$   | N/A  |
| Convertible Notes                      | 115.0  | 2,406  |  | N/A  |
| NMFC Credit Facility                   | 87.0   | 2,406  |  | N/A  |
| Unsecured Notes                        | 50.0   | 2,406  |  | N/A  |
| <b>December 31, 2015</b>               |  |  |  |  |
| Holdings Credit Facility               | 419.3  | 2,341  |  | N/A  |
| Convertible Notes                      | 115.0  | 2,341  |  | N/A  |
| NMFC Credit Facility                   | 90.0   | 2,341  |  | N/A  |
| <b>December 31, 2014</b>               |  |  |  |  |
| Holdings Credit Facility               | 468.1  | 2,267  |  | N/A  |
| Convertible Notes                      | 115.0  | 2,267  |  | N/A  |
| NMFC Credit Facility                   | 50.0   | 2,267  |  | N/A  |
| <b>December 31, 2013</b>               |  |  |  |  |
| Holdings Credit Facility               | 221.8  | 2,577  |  | N/A  |
| SLF Credit Facility                    | 214.7  | 2,577  |  | N/A  |
| <b>December 31, 2012</b>               |  |  |  |  |
| Holdings Credit Facility               | 206.9  | 2,353  |  | N/A  |
| SLF Credit Facility                    | 214.3  | 2,353  |  | N/A  |
| <b>December 31, 2011</b>               |  |  |  |  |
| Holdings Credit Facility               | 129.0  | 2,426  |  | N/A  |
| SLF Credit Facility                    | 165.9  | 2,426  |  | N/A  |
| <b>December 31, 2010<sup>(6)</sup></b> |  |  |  |  |
| Holdings Credit Facility               | 59.7   | 3,074  |  | N/A  |
| SLF Credit Facility                    | 56.9   | 3,074  |  | N/A  |
| <b>December 31, 2009<sup>(6)</sup></b> |  |  |  |  |
| Holdings Credit Facility               | 77.7   | 4,080  |  | N/A  |

(1)

We have excluded our SBA-guaranteed debentures from this table as a result of the SEC exemptive relief that permits us to exclude such debentures from the definition of senior securities in the 200.0% asset coverage ratio we are required to maintain under the 1940 Act. At June 30, 2016, December 31, 2015 and December 31, 2014, we had \$121.7 million, 117.7 million and \$37.5 million, respectively, in SBA-guaranteed debentures outstanding. At December 31, 2013, 2012, 2011, 2010 and 2009, we had no outstanding SBA-guaranteed debentures. Total asset coverage per unit including the SBA-guaranteed debentures as of June 30, 2016, December 31, 2015 and December 31, 2014 is \$2,168, \$2,128 and \$2,196, respectively, and unchanged for the prior years.

(2)

Total amount of each class of senior securities outstanding at the end of the period presented.

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(3)

Asset coverage per unit is the ratio of the carrying value of our total assets, less all liabilities excluding indebtedness represented by senior securities in this table, to the aggregate amount of senior securities representing indebtedness. Asset coverage per unit is expressed in terms of dollar amounts per \$1,000 of indebtedness and is calculated on a consolidated basis.

(4)

The amount to which such class of senior security would be entitled upon the voluntary liquidation of the issuer in preference to any security junior to it. The " " in this column indicates that the SEC expressly does not require this information to be disclosed for certain types of senior securities.

(5)

Not applicable because the senior securities are not registered for public trading.

(6)

Prior to NMFC's IPO on May 19, 2011, these credit facilities existed at the Predecessor Entities.

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**BUSINESS**

**The Company**

***New Mountain Finance Corporation***

We are a Delaware corporation that was originally incorporated on June 29, 2010. We are a closed-end, non-diversified management investment company that has elected to be regulated as a BDC under the 1940 Act. As such, we are obligated to comply with certain regulatory requirements. We have elected to be treated, and intend to comply with the requirements to continue to qualify annually, as a RIC under Subchapter M of the Code. NMFC is also registered as an investment adviser under the Advisers Act.

On May 19, 2011, we priced our IPO of 7,272,727 shares of common stock at a public offering price of \$13.75 per share. Concurrently with the closing of the IPO and at the public offering price of \$13.75 per share, we sold an additional 2,172,000 shares of our common stock to certain executives and employees of, and other individuals affiliated with, New Mountain Capital in the Concurrent Private Placement. Additionally, 1,252,964 shares were issued to the partners of New Mountain Guardian Partners, L.P. at that time for their ownership interest in the Predecessor Entities. In connection with our IPO and through a series of transactions, NMF Holdings acquired all of the operations of the Predecessor Entities, including all of the assets and liabilities related to such operations.

***New Mountain Finance Holdings, L.L.C.***

NMF Holdings is a Delaware limited liability company. Until May 8, 2014, NMF Holdings was externally managed and was regulated as a BDC under the 1940 Act. As such, NMF Holdings was obligated to comply with certain regulatory requirements. NMF Holdings was treated as a partnership for U.S. federal income tax purposes for so long as it had at least two members. With the completion of the underwritten secondary offering on February 3, 2014, NMF Holdings' existence as a partnership for U.S. federal income tax purposes terminated and NMF Holdings became an entity that is disregarded as a separate entity from its owner for U.S. federal tax purposes. See "Material Federal Income Tax Considerations." For additional information on our organizational structure prior to May 8, 2014, see "Description of Restructuring."

Until May 8, 2014, NMF Holdings was externally managed by the Investment Adviser. As of May 8, 2014, the Investment Adviser serves as the external investment adviser to NMFC. The Administrator provides the administrative services necessary for operations. The Investment Adviser and Administrator are wholly-owned subsidiaries of New Mountain Capital. New Mountain Capital is a firm with a track record of investing in the middle market and with assets under management totaling more than \$15.0 billion<sup>(1)</sup>, which includes total assets held by us. New Mountain Capital focuses on investing in defensive growth companies across its private equity, public equity and credit investment vehicles. NMF Holdings, formerly known as New Mountain Guardian (Leveraged), L.L.C., was originally formed as a subsidiary of Guardian AIV by New Mountain Capital in October 2008. Guardian AIV was formed through an allocation of approximately \$300.0 million of the \$5.1 billion of commitments supporting New Mountain Partners III, L.P., a private equity fund managed by New Mountain Capital. In February 2009, New Mountain Capital formed a co-investment vehicle, New Mountain Guardian Partners, L.P., comprising \$20.4 million of commitments.

Prior to December 18, 2014, NMF SLF was a Delaware limited liability company. NMF SLF was a wholly-owned subsidiary of NMF Holdings and thus our wholly-owned indirect subsidiary. NMF

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(1)

Includes amounts committed, not all of which have been drawn down and invested to-date, as of June 30, 2016, as well as amounts called and returned since inception

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SLF was bankruptcy-remote and non-recourse to NMFC. As part of an amendment to our existing credit facilities with Wells Fargo Bank, National Association, NMF SLF merged with and into NMF Holdings on December 18, 2014. See "Management's Discussion and Analysis of Financial Conditions and Results of Operations – Liquidity and Capital Resources" for additional information on our credit facilities.

***Current Organization***

Our wholly-owned subsidiaries, NMF Ancora, NMF QID and NMF YP, are structured as Delaware entities that serve as tax blocker corporations which hold equity or equity-like investments in portfolio companies organized as limited liability companies (or other forms of pass-through entities). We consolidate our tax blocker corporations for accounting purposes. The tax blocker corporations are not consolidated for income tax purposes and may incur income tax expense as a result of their ownership of the portfolio companies. Additionally, we have a wholly-owned subsidiary, NMF Servicing that serves as the administrative agent on certain investment transactions. SBIC LP, and its general partner, SBIC GP, were organized in Delaware as a limited partnership and limited liability company, respectively. SBIC LP and SBIC GP are our consolidated wholly-owned direct and indirect subsidiaries. SBIC LP received a license from the SBA to operate as a SBIC under Section 301(c) of the 1958 Act.

The diagram below depicts our organizational structure as of October 4, 2016.

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\*  
Includes partners of New Mountain Guardian Partners, L.P.

\*\*  
NMFC is the sole limited partner of SBIC LP. NMFC, directly or indirectly through SBIC GP, wholly-owns SBIC LP. NMFC owns 100.0% of SBIC GP which owns 1.0% of SBIC LP. NMFC owns 99.0% of SBIC LP.

Our investment objective is to generate current income and capital appreciation through the sourcing and origination of debt securities at all levels of the capital structure, including first and second lien debt, notes, bonds and mezzanine securities. In some cases, our investments may also include equity interests. The primary focus is in the debt of defensive growth companies, which are defined as generally exhibiting the following characteristics: (i) sustainable secular growth drivers, (ii) high barriers to competitive entry, (iii) high free cash flow after capital expenditure and working capital needs, (iv) high returns on assets and (v) niche market dominance. Similar to us, SBIC LP's investment objective is to generate current income and capital appreciation under our investment criteria. However, SBIC LP's investments must be in SBA eligible companies. Our portfolio may be



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concentrated in a limited number of industries. As of June 30, 2016, our top five industry concentrations were business services, software, education, federal services and distribution & logistics.

The investments that we invest in are almost entirely rated below investment grade or may be unrated, which are often referred to as "leveraged loans", "high yield" or "junk" debt investments, and may be considered "high risk" or speculative compared to debt investments that are rated investment grade. Such issuers are considered more likely than investment grade issuers to default on their payments of interest and principal and such risk of default could reduce our net asset value and income distributions. Our investments are also primarily floating rate debt investments that contain interest reset provisions that may make it more difficult for borrowers to make debt repayments to us if interest rates rise. In addition, some of our debt investments will not fully amortize during their lifetime, which could result in a loss or a substantial amount of unpaid principal and interest due upon maturity. Our debt investments may also lose significant market value before a default occurs. Furthermore, an active trading market may not exist for these securities. This illiquidity may make it more difficult to value our investments.

As of June 30, 2016, our net asset value was \$843.3 million and our portfolio had a fair value of approximately \$1,498.1 million in 72 portfolio companies, with a weighted average Yield to Maturity at Cost of approximately 10.3%.

NMF Holdings is a party to the Holdings Credit Facility pursuant to a secured credit agreement with Wells Fargo Bank, National Association. As of June 30, 2016, the Holdings Credit Facility, which matures on December 18, 2019, provides for potential borrowings up to \$495.0 million. Unlike many credit facilities for BDCs the amount available under the Holdings Credit Facility is generally not subject to reduction as a result of mark to market fluctuations in its portfolio investments. As of June 30, 2016, we were permitted to borrow up to 45.0% or 25.0% of the purchase price of pledged first lien or non-first lien debt securities, and up to 70.0% and 45.0% of the purchase price of specified first lien debt securities and specified non-first lien debt securities, respectively, subject to approval by Wells Fargo Bank, National Association. The Holdings Credit Facility bears interest at a rate of the LIBOR plus 1.75% per annum for Broadly Syndicated Loans (as defined in the Loan and Security Agreement) and LIBOR plus 2.50% per annum for all other investments. The Holdings Credit Facility also charges a non-usage fee, based on the unused facility amount multiplied by the Non-Usage Fee Rate (as defined in the Loan and Security Agreement). As of June 30, 2016, \$348.0 million was outstanding under the Holdings Credit Facility.

The NMFC Credit Facility among NMFC as the Borrower and Goldman Sachs Bank USA as the Administrative Agent and Collateral Agent, and Goldman Sachs Bank USA, Morgan Stanley Bank, N.A. and Stifel Bank & Trust as Lenders, is structured as a senior secured revolving credit facility and matures on June 4, 2019. As of June 30, 2016, the maximum amount of revolving borrowings available under the NMFC Credit Facility was \$122.5 million. NMFC is permitted to borrow at various advance rates depending on the type of portfolio investment as outlined in the Senior Secured Revolving Credit Agreement. The NMFC Credit Facility contains certain customary affirmative and negative covenants and events of default, including certain financial covenants related to asset coverage and liquidity and other maintenance covenants. The NMFC Credit Facility generally bears interest at a rate of LIBOR plus 2.50% per annum or the prime rate plus 1.50% per annum, and charges a commitment fee, based on the unused facility amount multiplied by 0.375% (as defined in the Senior Secured Revolving Credit Agreement). As of June 30, 2016, \$87.0 million was outstanding under the NMFC Credit Facility.

On June 3, 2014, NMFC closed a private offering of \$115.0 million aggregate principal amount Convertible Notes, pursuant to an indenture, dated June 3, 2014. The Convertible Notes were issued in a private placement only to qualified institutional buyers pursuant to Rule 144A under the

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Securities Act. The Convertible Notes bear interest at an annual rate of 5.0%, payable semi-annually in arrears on June 15 and December 15 of each year, which commenced on December 15, 2014. The Convertible Notes will mature on June 15, 2019 unless earlier converted or repurchased at the holder's option.

On August 1, 2014, SBIC LP received an SBIC license from the SBA. The SBIC license allows SBIC LP to obtain leverage by issuing SBA-guaranteed debentures, subject to the issuance of a capital commitment by the SBA and other customary procedures. SBA-guaranteed debentures are non-recourse, interest only debentures with interest payable semi-annually and have a ten year maturity. The principal amount of SBA-guaranteed debentures is not required to be paid prior to maturity but may be prepaid at any time without penalty. The interest rate of SBA-guaranteed debentures is fixed on a semi-annual basis at a market-driven spread over U.S. Treasury Notes with ten year maturities. The SBA, as a creditor, will have a superior claim to the assets of SBIC LP over our stockholders in the event SBIC LP is liquidated or the SBA exercises remedies upon an event of default. As of June 30, 2016, the rate payable for SBIC LP's SBA-guaranteed debentures was 3.1%. As of June 30, 2016, SBIC LP had \$121.7 million of SBA-guaranteed debentures outstanding.

On May 6, 2016, NMFC issued \$50.0 million in aggregate principal amount of five-year Unsecured Notes, pursuant to a note purchase agreement, dated May 4, 2016, to an institutional investor in a private placement. The Unsecured Notes are equal in priority with our other unsecured indebtedness, including our Convertible Notes. The Unsecured Notes bear interest at an annual rate of 5.313%, payable semi-annually on May 15 and November 15 of each year, starting on November 15, 2016. The Unsecured Notes will mature on May 15, 2021.

For a detailed discussion of the Holdings Credit Facility, the NMFC Credit Facility, the Convertible Notes, the SBA-guaranteed debentures and the Unsecured Notes, see "Management's Discussion and Analysis of Financial Conditions and Results of Operations – Liquidity and Capital Resources".

We expect to continue to finance our investments using both debt and equity, including proceeds from equity and debt securities issued by NMFC.

## **Recent Developments**

### ***Appointment of President***

John R. Kline was promoted to be our President on July 19, 2016 in addition to maintaining his role as our Chief Operating Officer. Robert A. Hamwee, who previously held the title of President and CEO, will continue in his capacity as our CEO.

### ***Distribution***

On August 2, 2016, our board of directors declared a third quarter 2016 distribution of \$0.34 per share, which was paid on September 30, 2016 to holders of record as of September 16, 2016.

### ***New Mountain Net Lease Corporation***

New Mountain Net Lease Corporation ("NMNLC") was formed as a Maryland corporation on April 18, 2016 and commenced operations on August 12, 2016. NMNLC was formed to acquire commercial real properties that are subject to "triple net" leases and to qualify as a real estate investment trust (a "REIT") within the meaning of Section 856(a) of the Code. We have determined that NMNLC is not an investment company under Accounting Standards Codification Topic 946, *Financial Services – Investment Companies* and in accordance with such guidance we will generally not consolidate our investment in a company other than a wholly-owned investment



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company subsidiary. Accordingly, NMNLC is a wholly-owned non-consolidated portfolio company of NMFC.

***Convertible Notes Offering***

On September 30, 2016, we closed a public offering of an additional \$40.25 million in aggregate principal amount (including \$5.25 million in aggregate principal amount issued pursuant to the underwriters' overallotment option) of our Convertible Notes. These additional Convertible Notes constitute a further issuance of, rank equally in right of payment with, and form a single series with the \$115.0 million in aggregate principal amount of the Convertible Notes that we issued on June 3, 2014, pursuant to the Indenture. See "Management's Discussion and Analysis of Financial Conditions and Results of Operations – Liquidity and Capital Resources – Borrowings" for a discussion of the terms of the Convertible Notes.

***Unsecured Notes***

On September 30, 2016, we entered into an amended and restated note purchase agreement (the "Amended Note Purchase Agreement") related to our existing Unsecured Notes. The Amended Note Purchase Agreement amends and restates the Note Purchase Agreement dated May 4, 2016 (the "Existing NPA"), pursuant to which we issued \$50.0 million in aggregate principal amount of the Unsecured Notes in May 2016. The Amended Note Purchase Agreement was entered into in connection with the issuance of an additional \$40.0 million in aggregate principal amount of the Unsecured Notes to institutional investors in a private placement, which closed on September 30, 2016. The Amended Note Purchase Agreement also amended and restated the Existing NPA to provide for future issuances of Unsecured Notes in separate series or tranches under the Amended Note Purchase Agreement and supplements thereto. See "Management's Discussion and Analysis of Financial Conditions and Results of Operations – Liquidity and Capital Resources – Borrowings" for a discussion of the terms of the Unsecured Notes.

**New Mountain Capital**

New Mountain Capital manages private equity, public equity and debt investments with aggregate assets under management totaling more than \$15.0 billion<sup>(1)</sup>, which includes total assets held by us.

New Mountain Capital's first private equity fund, the \$770.0 million New Mountain Partners, L.P., or "Fund I", began its investment period in January 2000. New Mountain Capital's second private equity fund, the \$1.6 billion New Mountain Partners II, L.P., or "Fund II", began its investment period in January 2005. New Mountain Capital's third private equity fund, Fund III, with over \$5.1 billion of aggregate commitments, began its investment period in August 2007. New Mountain Capital's fourth private equity fund, "Fund IV", with over \$4.1 billion of aggregate commitments, began its investment period in July 2013. New Mountain Capital manages public equity portfolios through New Mountain Vantage Advisers, L.L.C., which is designed to apply New Mountain Capital's established strengths toward non-control positions in the U.S. public equity markets generally. New Mountain Capital manages its debt portfolio through us, and we are currently New Mountain Capital's only vehicle focused primarily on investing in the investments that we target.

New Mountain Capital's mission is to be "best in class" in the new generation of investment managers as measured by returns, control of risk, service to investors and the quality of the businesses in which New Mountain Capital invests. All of New Mountain Capital's efforts emphasize

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(1)

Includes amounts committed, not all of which have been drawn down and invested to-date, as of June 30, 2016, as well as amounts called and returned since inception.

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intensive fundamental research and the proactive creation of proprietary investment advantages in carefully selected industry sectors. New Mountain Capital is a generalist firm but has developed particular competitive advantages in what New Mountain Capital believes to be particularly attractive sectors, such as education, healthcare, distribution & logistics, business and industrial services, federal information technology services, media, software, insurance, consumer products, financial services and technology, infrastructure and energy. New Mountain Capital is focused on systematically establishing expertise in new sectors in which it believes it will have a competitive advantage over time.

**The Investment Adviser**

The Investment Adviser, a wholly-owned subsidiary of New Mountain Capital, manages our day-to-day operations and provides us with investment advisory and management services. In particular, the Investment Adviser is responsible for identifying attractive investment opportunities, conducting research and due diligence on prospective investments, structuring our investments and monitoring and servicing our investments. We currently do not have, and do not intend to have, any employees. As of June 30, 2016, the Investment Adviser was supported by approximately 100 staff members of New Mountain Capital, including approximately 60 investment professionals.

The Investment Adviser is managed by a five member Investment Committee, which is responsible for approving purchases and sales of our investments above \$10.0 million in aggregate by issuer. The Investment Committee currently consists of Steven B. Klinsky, Robert A. Hamwee, Adam B. Weinstein and John R. Kline. The fifth and final member of the Investment Committee will consist of a New Mountain Capital Managing Director who will hold the position on the Investment Committee on an annual rotating basis. Beginning in August 2016, Mathew J. Lori was appointed to the Investment Committee for a one year term. In addition, our executive officers and certain investment professionals of the Investment Adviser are invited to all Investment Committee meetings. Purchases and dispositions below \$10.0 million may be approved by our Chief Executive Officer. These approval thresholds are subject to change over time. We expect to benefit from the extensive and varied relevant experience of the investment professionals serving on the Investment Committee, which includes expertise in private equity, primary and secondary leveraged credit, private mezzanine finance and distressed debt.

**Investment Objective and Portfolio**

Our investment objective is to generate current income and capital appreciation through the sourcing and origination of debt securities at all levels of the capital structure, including first and second lien debt, notes, bonds and mezzanine securities. In some cases, our investments may also include equity interests such as preferred stock, common stock, warrants or options received in connection with our debt investments or may include a direct investment in the equity of private companies.

We make investments through both primary originations and open-market secondary purchases. We primarily target loans to, and invest in, the U.S. middle market businesses, a market segment we believe continues to be underserved by other lenders. We define middle market businesses as those businesses with annual earnings before interest, taxes, depreciation, and amortization ("EBITDA") between \$20.0 million and \$200.0 million. Our primary focus is in the debt of defensive growth companies, which are defined as generally exhibiting the following characteristics: (i) sustainable secular growth drivers, (ii) high barriers to competitive entry, (iii) high free cash flow after capital expenditure and working capital needs, (iv) high returns on assets and (v) niche market dominance. Similar to us, SBIC LP's investment objective is to generate current income and capital appreciation under our investment criteria. However, SBIC LP's investments must be in SBA eligible companies. Our portfolio may be concentrated in a limited number of

## Edgar Filing: New Mountain Finance Corp - Form 497

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industries. As of June 30, 2016, our top five industry concentrations were business services, software, education, federal services and distribution & logistics. Our targeted investments typically have maturities of between five and ten years and generally range in size between \$10.0 million and \$50.0 million. This investment size may vary proportionately as the size of our capital base changes. At June 30, 2016, the fair value of our investments was approximately \$1,498.1 million in 72 portfolio companies and was invested 41.2% in first lien loans, 42.9% in second lien loans, 5.3% in subordinated debt and 10.6% in equity and other, as measured at fair value.

The following table shows our portfolio and investment activity for the six months ended June 30, 2016 and June 30, 2015:

| (in millions)  | Six Months Ended |               |
|--|------------------|---------------|
|  | June 30, 2016    | June 30, 2015 |
| New investments in 21 and 14 portfolio companies, respectively                   | \$ 163.8         | \$ 190.0      |
| Debt repayments in existing portfolio companies                                  | 170.2            | 262.8         |
| Sales of securities in 4 and 12 portfolio companies, respectively                | 28.0             | 52.4          |
| Change in unrealized appreciation on 54 and 37 portfolio companies, respectively | 41.7             | 48.6          |
| Change in unrealized depreciation on 23 and 39 portfolio companies, respectively | (34.1)           | (30.7)        |

At June 30, 2016, our weighted average Yield to Maturity at Cost was approximately 10.3%.

The following summarizes our ten largest portfolio company investments and top ten industries in which we were invested as of June 30, 2016, calculated as a percentage of total assets as of June 30, 2016.

| Portfolio Company                     | Percent of<br>Total Assets |
|---------------------------------------|----------------------------|
| UniTek Global Services, Inc.          | 3.5%                       |
| Crowley Holdings Preferred, LLC       | 3.3%                       |
| Engility Corporation (fka TASC, Inc.) | 2.8%                       |
| Tenawa Resource Holdings LLC          | 2.7%                       |
| Deltek, Inc.                          | 2.6%                       |
| Hill International, Inc.              | 2.6%                       |
| Navex Global Inc.                     | 2.5%                       |
| AssuredPartners, Inc.                 | 2.5%                       |
| TIBCO Software Inc.                   | 2.5%                       |
| Kronos Incorporated                   | 2.4%                       |

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| Industry Type            | Percent of<br>Total Assets |
|--------------------------|----------------------------|
| Business Services        | 24.0%                      |
| Software                 | 23.8%                      |
| Education                | 7.9%                       |
| Federal Services         | 7.0%                       |
| Distribution & Logistics | 6.9%                       |
| Healthcare Services      | 5.3%                       |
| Consumer Services        | 5.2%                       |
| Energy                   | 4.5%                       |
| Investment Fund          | 3.2%                       |
| Business Products        | 2.0%                       |

**Competitive Advantages**

We believe that we have the following competitive advantages over other capital providers to middle market companies:

***Proven and Differentiated Investment Style With Areas of Deep Industry Knowledge***

In making its investment decisions, the Investment Adviser applies New Mountain Capital's long-standing, consistent investment approach that has been in place since its founding more than 15 years ago. We focus on companies in less well followed defensive growth niches of the middle market space where we believe few debt funds have built equivalent research and operational size and scale.

We benefit directly from New Mountain Capital's private equity investment strategy that seeks to identify attractive investment sectors from the top down and then works to become a well positioned investor in these sectors. New Mountain Capital focuses on companies and industries with sustainable strengths in all economic cycles, particularly ones that are defensive in nature, that are secular and can maintain pricing power in the midst of a recessionary and/or inflationary environment. New Mountain Capital focuses on companies within sectors in which it has significant expertise (examples include federal services, software, education, niche healthcare, business services, energy and distribution & logistics) while typically avoiding investments in companies with products or services that serve markets that are highly cyclical, have the potential for long-term decline, are overly-dependent on consumer demand or are commodity-like in nature.

In making its investment decisions, the Investment Adviser has adopted the approach of New Mountain Capital, which is based on three primary investment principles:

1. A generalist approach, combined with proactive pursuit of the highest quality opportunities within carefully selected industries, identified via an intensive and structured ongoing research process;
2. Emphasis on strong downside protection and strict risk controls; and
3. Continued search for superior risk adjusted returns, combined with timely, intelligent exits and outstanding return performance.

***Experienced Management Team and Established Platform***

The Investment Adviser's team members have extensive experience in the leveraged lending space. Steven B. Klinsky, New Mountain Capital's Founder, Chief Executive Officer and Managing Director and Chairman of our board of directors, was a general partner of Forstmann Little & Co., a

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manager of debt and equity funds totaling multiple billions of dollars in the 1980s and 1990s. He was also a co-founder of Goldman, Sachs & Co.'s Leverage Buyout Group in the period from 1981 to 1984. Robert A. Hamwee, our Chief Executive Officer and Managing Director of New Mountain Capital, was formerly President of GSC Group, Inc. ("GSC"), where he was the portfolio manager of GSC's distressed debt funds and led the development of GSC's CLOs. John R. Kline, our President and Chief Operating Officer and Managing Director of New Mountain Capital, worked at GSC as an investment analyst and trader for GSC's control distressed and corporate credit funds and at Goldman, Sachs & Co. in the Credit Risk Management and Advisory Group.

Many of the debt investments that we have made to date have been in the same companies with which New Mountain Capital has already conducted months of intensive acquisition due diligence related to potential private equity investments. We believe that private equity underwriting due diligence is usually more robust than typical due diligence for loan underwriting. In its underwriting of debt investments, the Investment Adviser is able to utilize the research and hands-on operating experience that New Mountain Capital's private equity underwriting teams possess regarding the individual companies and industries. Business and industry due diligence is led by a team of investment professionals of the Investment Adviser that generally consists of three to seven individuals, typically based on their relevant company and/or industry specific knowledge. Additionally, the Investment Adviser is also able to utilize its relationships with operating management teams and other private equity sponsors. We believe this differentiates us from many of our competitors.

***Significant Sourcing Capabilities and Relationships***

We believe the Investment Adviser's ability to source attractive investment opportunities is greatly aided by both New Mountain Capital's historical and current reviews of private equity opportunities in the business segments we target. To date, a significant majority of the investments that we have made are in the debt of companies and industry sectors that were first identified and reviewed in connection with New Mountain Capital's private equity efforts, and the majority of our current pipeline reflects this as well. Furthermore, the Investment Adviser's investment professionals have deep and longstanding relationships in both the private equity sponsor community and the lending/agency community which they have and will continue to utilize to generate investment opportunities.

***Risk Management through Various Cycles***

New Mountain Capital has emphasized tight control of risk since its inception and long before the recent global financial distress began. To date, New Mountain Capital has never experienced a bankruptcy of any of its portfolio companies in its private equity efforts. The Investment Adviser seeks to emphasize tight control of risk with our investments in several important ways, consistent with New Mountain Capital's historical approach. In particular, the Investment Adviser:

Emphasizes the origination or purchase of debt in what the Investment Adviser believes are defensive growth companies, which are less likely to be dependent on macro-economic cycles;

Targets investments in companies that are preeminent market leaders in their own industries, and when possible, investments in companies that have strong management teams whose skills are difficult for competitors to acquire or reproduce; and

Targets investments in companies with significant equity value in excess of our debt investments.

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*Access to Non Mark to Market, Seasoned Leverage Facility*

The amount available under our Holdings Credit Facility is generally not subject to reduction as a result of mark to market fluctuations in our portfolio investments. None of our credit facilities mature prior to June 2019. For a detailed discussion of our credit facilities, see "Management's Discussion and Analysis of Financial Conditions and Results of Operations – Liquidity and Capital Resources."

**Market Opportunity**

We believe that the size of the market for investments that we target, coupled with the demands of middle market companies for flexible sources of capital at competitive terms and rates, create an attractive investment environment for us.

*The leverage finance market has a high level of financing needs over the next several years due to significant bank debt maturities and significant amounts of private equity investable capital.* We believe that the large dollar volume of loans that need to be refinanced will present attractive opportunities to invest capital in a manner consistent with our stated objectives.

*Middle market companies continue to face difficulties in accessing the capital markets.* We believe opportunities to serve the middle market will continue to exist. While many middle market companies were formerly able to raise funds by issuing high-yield bonds, we believe this approach to financing has become more difficult in recent years as institutional investors have sought to invest in larger, more liquid offerings.

*Increased regulatory scrutiny of banks has reduced middle market lending.* We believe that many traditional bank lenders to middle market businesses have either exited or de-emphasized their service and product offerings in the middle market. These traditional lenders have instead focused on lending and providing other services to large corporate clients. We believe this has resulted in fewer key players and the reduced availability of debt capital to the companies we target.

*Attractive pricing.* Reduced access to, and availability of, debt capital typically increases the interest rates, or pricing, of loans for middle market lenders. Recent primary debt transactions in this market often include upfront fees, original issue discount, prepayment protections and, in some cases, warrants to purchase common stock, all of which should enhance the profitability of new loans to lenders.

*Conservative deal structures.* As a result of the credit crisis, many lenders are requiring larger equity contributions from financial sponsors. Larger equity contributions create an enhanced margin of safety for lenders because leverage is a lower percentage of the implied enterprise value of the company.

*Large pool of uninvested private equity capital available for new buyouts.* We expect that private equity firms will continue to pursue acquisitions and will seek to leverage their equity investments with mezzanine loans and/or senior loans (including traditional first and second lien, as well as unitranche loans) provided by companies such as ours.

**Investment Criteria**

The Investment Adviser has identified the following investment criteria and guidelines for use in evaluating prospective portfolio companies. However, not all of these criteria and guidelines were, or will be, met in connection with each of our investments.

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*Defensive growth industries.* We seek to invest in industries that can succeed in both robust and weak economic environments but which are also sufficiently large and growing to achieve high valuations providing enterprise value cushion for our targeted debt securities.

*High barriers to competitive entry.* We target industries and companies that have well defined industries and well established, understandable barriers to competitive entry.

*Recurring revenue.* Where possible, we focus on companies that have a high degree of predictability in future revenue.

*Flexible cost structure.* We seek to invest in businesses that have limited fixed costs and therefore modest operating leverage.

*Strong free cash flow and high return on assets.* We focus on businesses with a demonstrated ability to produce meaningful free cash flow from operations. We typically target companies that are not asset intensive and that have minimal capital expenditure and minimal working capital growth needs.

*Sustainable business and niche market dominance.* We seek to invest in businesses that exert niche market dominance in their industry and that have a demonstrated history of sustaining market leadership over time.

*Established companies.* We seek to invest in established companies with sound historical financial performance. We do not intend to invest in start-up companies or companies with speculative business plans.

*Private equity sponsorship.* We generally seek to invest in companies in conjunction with private equity sponsors who we know and trust and who have proven capabilities in building value.

*Seasoned management team.* We generally require that its portfolio companies have a seasoned management team with strong corporate governance. Oftentimes we have a historical relationship with or direct knowledge of key managers from previous investment experience.

**Investment Selection and Process**

The Investment Adviser believes it has developed a proven, consistent and replicable investment process to execute our investment strategy. The Investment Adviser seeks to identify the most attractive investment sectors from the top down and then works to become the most advantaged investor in these sectors. The steps in the Investment Adviser's process include:

***Identifying attractive investment sectors top down:*** The Investment Adviser works continuously and in a variety of ways to proactively identify the most attractive sectors for investment opportunities. The investment professionals of the Investment Adviser participate in this process through both individual and group efforts, formal and informal. The Investment Adviser has also worked with consultants, investment bankers and public equity managers to supplement its internal analyses, although the prime driver of sector ideas has been the Investment Adviser itself.

***Creating competitive advantages in the selected industry sectors:*** Once a sector has been identified, the Investment Adviser works to make itself the most advantaged and knowledgeable investor in that sector. An internal working team is assigned to each project. The team may spend months confirming the sector thesis and building the Investment Adviser's leadership in this sector. In general, the Investment Adviser seeks to construct proprietary databases and to utilize the best specialized industry consultants. The Investment Adviser particularly stresses the

establishment of close relationships with operating managers in each field



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in order to gain the deepest possible level of understanding. When advisable, industry executives have been placed on New Mountain Capital's Management Advisory Board or have been hired on salary as "executives in residence". When the Investment Adviser considers specific investment ideas in its chosen sectors, it can triangulate its own views against the views of its management relationships, consultants, brokers, bankers and others. The Investment Adviser believes this multi-front analysis leads to strong decision making and company identification. The Investment Adviser also believes that its "flexible specialization" approach gives us all the benefits of a narrow-based sector fund without forcing us to invest in any industry sector at an inappropriate time for that sector. The Investment Adviser can also become a leading investment expert in lesser known or smaller sectors that would not support an entire fund dedicated solely to them.

**Targeting companies with leading market share and attractive business models in its chosen sectors:** The Investment Adviser, consistent with New Mountain Capital's historical approach, typically follows a "good to great" approach, seeking to invest in debt securities of companies in its chosen sectors that it believes are already safe and successful but where the Investment Adviser sees an opportunity for further increases in enterprise value due to special circumstances existing at the time of the financing or through value that a sponsor can add. The investment professionals of the Investment Adviser have been successful in targeting companies with leading market shares, rapid growth, high free cash flows, high operating margins, high barriers to entry and which produce goods or services that are of value to their customers.

Utilizing this research platform, we have largely invested in the debt of companies and industries that have been researched by New Mountain Capital's private equity efforts. In many instances, we have studied the specific debt issuer with which New Mountain Capital has already conducted months of intensive acquisition due diligence related to a potential private equity investment. In other situations, while New Mountain Capital may not have specifically analyzed the issuer in the past, we have deep knowledge of the company's industry through New Mountain Capital's private equity work. We expect the Investment Adviser to continue this approach in the future.

Beyond the foregoing, the investment professionals of the Investment Adviser have deep and longstanding relationships in both the private equity sponsor community and the lending/agency community. We have sourced and we expect to continue sourcing new investment opportunities from both private equity sponsors and other lenders and agents. In private equity, we have strong, personal relationships with principals at a significant majority of relevant sponsors, and we expect that we will continue to utilize those relationships to generate investment opportunities. In the same fashion, we have an extensive relationship network with lenders and agents, including commercial banks, investment banks, loan funds, mezzanine funds and a wide range of smaller agents that seek debt capital on behalf of their clients. In addition to newly issued primary opportunities, we have extensive experience in sourcing investment opportunities from the secondary market, and will continue to actively monitor that large, and often volatile, area for appropriate investment opportunities.

This team performs the core underwriting function to determine the attractiveness of the target's business model, focusing on the investment criteria described above. The team ultimately develops a forecast of a target's likely operating and financial performance. Team members have diverse backgrounds in investment management, investment banking, consulting, and operations. We believe the presence within New Mountain Capital of numerous former CEOs and other senior operating executives, and their active involvement in our underwriting process, combined with New Mountain Capital's experience as a majority stockholder owning and directing a wide range of businesses and overseeing operating companies in the same or related industries, is a key differentiator for us versus typical debt investment vehicles.

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In addition to performing rigorous business due diligence, the Investment Adviser also thoroughly reviews and/or structures the relevant credit documentation, including bank credit agreements and bond indentures, to ensure that any securities we invest in have appropriate credit rights, protections and remedies. There is a strong focus on appropriate covenant packages. This part of the process, as well as the determination of the appropriate price/yield parameters for individual securities, is led by Robert A. Hamwee, John R. Kline and James W. Stone III with significant input as needed from other professionals with extensive credit experience, such as Steven B. Klinsky, New Mountain Capital's Managing Director, Founder and Chief Executive Officer, and others.

**Investment Committee**

The Investment Committee currently consists of Steven B. Klinsky, Robert A. Hamwee, Adam B. Weinstein and John R. Kline. The fifth and final member of the Investment Committee will consist of a New Mountain Capital Managing Director who will hold the position on the Investment Committee on an annual rotating basis. Beginning in August 2016, Mathew J. Lori was appointed to the Investment Committee for a one year term. In addition, our executive officers and certain investment professionals of the Investment Adviser are invited to all Investment Committee meetings. The Investment Committee is responsible for approving purchases and sales of our investments above \$10.0 million in aggregate by issuer. Purchases and dispositions below \$10.0 million may be approved by our Chief Executive Officer. These approval thresholds are subject to change over time. We expect to benefit from the extensive and varied relevant experience of the investment professionals serving on the Investment Committee, which includes expertise in private equity, primary and secondary leveraged credit, private mezzanine finance and distressed debt.

The purpose of the Investment Committee is to evaluate and approve, as deemed appropriate, all investments by the Investment Adviser, subject to certain thresholds. The Investment Committee process is intended to bring the diverse experience and perspectives of the Investment Committee's members to the analysis and consideration of every investment. The Investment Committee also serves to provide investment consistency and adherence to the Investment Adviser's investment philosophies and policies. The Investment Committee also determines appropriate investment sizing and suggests ongoing monitoring requirements.

In addition to reviewing investments, the Investment Committee meetings serve as a forum to discuss credit views and outlooks. Potential transactions and investment opportunities are also reviewed on a regular basis. Members of our investment team are encouraged to share information and views on credits with the Investment Committee early in their analysis. This process improves the quality of the analysis and assists the deal team members to work more efficiently.

**Investment Structure**

We target debt investments that will yield meaningful current income and occasionally provide the opportunity for capital appreciation through equity securities. Our debt investments are typically structured with the maximum seniority and collateral that we can reasonably obtain while seeking to achieve our total return target.

***Debt Investments***

The terms of our debt investments are tailored to the facts and circumstances of the transaction and prospective portfolio company and structured to protect its rights and manage its risk while creating incentives for the portfolio company to achieve its business plan. A substantial source of return is the cash interest that we collect on our debt investments.

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**First Lien Loans and Bonds.** First lien loans and bonds generally have terms of four to seven years, provide for a variable or fixed interest rate, may contain prepayment penalties and are secured by a first priority security interest in all existing and future assets of the borrower. These first lien loans and bonds may include PIK interest, which represents contractual interest accrued and added to the principal that generally becomes due at maturity.

**Second Lien Loans and Bonds.** Second lien loans and bonds generally have terms of five to eight years, provide for a variable or fixed interest rate, may contain prepayment penalties and are secured by a second priority security interest in all existing and future assets of the borrower. These second lien loans and bonds may include PIK interest.

**Unsecured Senior, Subordinated and "Mezzanine" Loans and Bonds.** Any unsecured investments are generally expected to have terms of five to ten years and provide for a fixed interest rate. Unsecured investments may include PIK interest and may have an equity component, such as warrants to purchase common stock in the portfolio company.

In addition, from time to time we may also enter into revolving credit facilities, bridge financing commitments, delayed draw commitments or other commitments which can result in providing future financing to a portfolio company.

***Equity Investments***

When we make a debt investment, we may be granted equity in the portfolio company in the same class of security as the sponsor receives upon funding. In addition, we may from time to time make non-control, equity co-investments in conjunction with private equity sponsors. We generally seek to structure our equity investments, such as direct equity co-investments, to provide us with minority rights provisions and event-driven put rights. We also seek to obtain limited registration rights in connection with these investments, which may include "piggyback" registration rights.

**Portfolio Company Monitoring**

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