

New Mountain Finance Holdings, L.L.C.
 Form 10-K
 March 06, 2013

Use these links to rapidly review the document

[TABLE OF CONTENTS](#)

[TABLE OF CONTENTS](#)

[PART IV](#)

[Table of Contents](#)

**UNITED STATES
 SECURITIES AND EXCHANGE COMMISSION**
 Washington, D.C. 20549

FORM 10-K

ý **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the fiscal year ended December 31, 2012

o **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Commission File Number	Exact name of registrant as specified in their charters, addresses of principal executive offices, telephone numbers and states or other jurisdictions of incorporation or organization	I.R.S. Employer Identification Number
814-00839	New Mountain Finance Holdings, L.L.C. 787 Seventh Avenue, 48 th Floor New York, New York 10019 Telephone: (212) 720-0300 State of Incorporation: Delaware	26-3633318
814-00832	New Mountain Finance Corporation 787 Seventh Avenue, 48 th Floor New York, New York 10019 Telephone: (212) 720-0300 State of Incorporation: Delaware	27-2978010
814-00902	New Mountain Finance AIV Holdings Corporation 787 Seventh Avenue, 48 th Floor New York, New York 10019 Telephone: (212) 720-0300 State of Incorporation: Delaware	80-0721242

Securities registered pursuant to Section 12(b) of the Act:

Registrant	Title of each class	Name of each exchange on which registered
New Mountain Finance Holdings, L.L.C.	None	None

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New Mountain Finance Corporation	Common stock, \$0.01 par value	The New York Stock Exchange
New Mountain Finance AIV Holdings Corporation	None	None

Securities registered pursuant to Section 12(g) of the Act:

Registrant	Title of each class
New Mountain Finance Holdings, L.L.C.	Common membership units
New Mountain Finance Corporation	None
New Mountain Finance AIV Holdings Corporation	Common stock, \$0.01 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

New Mountain Finance Holdings, L.L.C.	Yes <input type="radio"/>	No <input checked="" type="radio"/>
New Mountain Finance Corporation	Yes <input type="radio"/>	No <input checked="" type="radio"/>
New Mountain Finance AIV Holdings Corporation	Yes <input type="radio"/>	No <input checked="" type="radio"/>

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

New Mountain Finance Holdings, L.L.C.	Yes <input type="radio"/>	No <input checked="" type="radio"/>
New Mountain Finance Corporation	Yes <input type="radio"/>	No <input checked="" type="radio"/>
New Mountain Finance AIV Holdings Corporation	Yes <input type="radio"/>	No <input checked="" type="radio"/>

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

New Mountain Finance Holdings, L.L.C.	Yes <input checked="" type="radio"/>	No <input type="radio"/>
New Mountain Finance Corporation	Yes <input checked="" type="radio"/>	No <input type="radio"/>
New Mountain Finance AIV Holdings Corporation	Yes <input checked="" type="radio"/>	No <input type="radio"/>

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

New Mountain Finance Holdings, L.L.C.	Yes <input type="radio"/>	No <input type="radio"/>
New Mountain Finance Corporation	Yes <input type="radio"/>	No <input type="radio"/>
New Mountain Finance AIV Holdings Corporation	Yes <input type="radio"/>	No <input type="radio"/>

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

New Mountain Finance Holdings, L.L.C.	Yes <input checked="" type="radio"/>
New Mountain Finance Corporation	Yes <input type="radio"/>
New Mountain Finance AIV Holdings Corporation	Yes <input checked="" type="radio"/>

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

New Mountain Finance Holdings, L.L.C.	Large accelerated filer <input type="radio"/>	Accelerated filer <input checked="" type="radio"/>
	Non-accelerated filer <input type="radio"/>	Smaller reporting company <input type="radio"/>
New Mountain Finance Corporation	Large accelerated filer <input type="radio"/>	Accelerated filer <input checked="" type="radio"/>
	Non-accelerated filer <input type="radio"/>	Smaller reporting company <input type="radio"/>
New Mountain Finance AIV Holdings Corporation	Large accelerated filer <input type="radio"/>	Accelerated filer <input checked="" type="radio"/>
	Non-accelerated filer <input type="radio"/>	Smaller reporting company <input type="radio"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

New Mountain Finance Holdings, L.L.C.	Yes <input type="radio"/>	No <input checked="" type="radio"/>
New Mountain Finance Corporation	Yes <input type="radio"/>	No <input checked="" type="radio"/>
New Mountain Finance AIV Holdings Corporation	Yes <input type="radio"/>	No <input checked="" type="radio"/>

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There is no established market for New Mountain Finance AIV Holdings Corporation's shares of common stock. Additionally, there is no established market for New Mountain Finance Holdings, L.L.C.'s common membership units.

The aggregate market value of common stock held by non-affiliates of the publicly traded registrant, New Mountain Finance Corporation, on June 29, 2012 based on the closing price on that date of \$14.19 on the New York Stock Exchange was \$119.3 million. For the purposes of calculating this amount only, all directors and executive officers of the registrant have been treated as affiliates.

Registrant	Description	Shares / Units as of March 6, 2013
New Mountain Finance Holdings, L.L.C.	Common membership units	40,578,352
New Mountain Finance Corporation	Common stock, \$0.01 par value	24,356,414
New Mountain Finance AIV Holdings Corporation	Common stock, \$0.01 par value	100

This combined Form 10-K is filed separately by three registrants: New Mountain Finance Holdings, L.L.C., New Mountain Finance Corporation and New Mountain Finance AIV Holdings Corporation (collectively, the "New Mountain Finance Registrants"). Information contained herein relating to any New Mountain Finance Registrant is filed by such registrant solely on its own behalf. Each New Mountain Finance Registrant makes no representation as to information relating exclusively to the other registrants.

Portions of the New Mountain Finance Registrants' Joint Proxy Statement for their joint 2013 Annual Meeting of Stockholders to be filed not later than 120 days after the end of the fiscal year covered by this Annual Report on this combined Form 10-K are incorporated by reference into Part III on this combined Form 10-K.

FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2012

TABLE OF CONTENTS

	PAGE	
<u>PART I</u>		
<u>Item 1.</u>	<u>Business</u>	1
<u>Item 1A.</u>	<u>Risk Factors</u>	24
<u>Item 1B.</u>	<u>Unresolved Staff Comments</u>	57
<u>Item 2.</u>	<u>Properties</u>	57
<u>Item 3.</u>	<u>Legal Proceedings</u>	57
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	57
<u>PART II</u>		
<u>Item 5.</u>	<u>Market for Registrants' Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	58
<u>Item 6.</u>	<u>Selected Financial Data</u>	63
<u>Item 7.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	67
<u>Item 7A.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	89
<u>Item 8.</u>	<u>Financial Statements and Supplementary Data</u>	90
<u>Item 9.</u>	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	156
<u>Item 9A.</u>	<u>Controls and Procedures</u>	156
<u>Item 9B.</u>	<u>Other Information</u>	158
<u>PART III</u>		
<u>Item 10.</u>	<u>Directors, Executive Officers and Corporate Governance</u>	159
<u>Item 11.</u>	<u>Executive Compensation</u>	159
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	159
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions, and Director Independence</u>	159
<u>Item 14.</u>	<u>Principal Accountant Fees and Services</u>	159
<u>PART IV</u>		
<u>Item 15.</u>	<u>Exhibits and Financial Statement Schedules</u>	160

Table of Contents

PART I

The information in this combined Form 10-K relates to each of the three separate registrants: New Mountain Finance Holdings, L.L.C., New Mountain Finance Corporation and New Mountain Finance AIV Holdings Corporation (collectively, "we", "us", "our" or the "Companies"). Information that relates to an individual registrant will be specifically referenced to the respective company. None of the Companies make any representation as to the information related solely to the other registrants other than itself.

Item 1. Business

New Mountain Finance Holdings, L.L.C.

New Mountain Finance Holdings, L.L.C. (the "Operating Company" or the "Master Fund") is a Delaware limited liability company. The Operating Company is externally managed and has elected to be treated as a business development company ("BDC") under the Investment Company Act of 1940, as amended (the "1940 Act"). As such, the Operating Company is obligated to comply with certain regulatory requirements. The Operating Company intends to be treated as a partnership for federal income tax purposes for so long as it has at least two members.

The Operating Company is externally managed by New Mountain Finance Advisers BDC, L.L.C. (the "Investment Adviser"). New Mountain Finance Administration, L.L.C. (the "Administrator") provides the administrative services necessary for operations. The Investment Adviser and Administrator are wholly-owned subsidiaries of 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 and with assets under management (which includes amounts committed, not all of which have been drawn down and invested to date) totaling approximately \$9.0 billion as of December 31, 2012. New Mountain Capital focuses on investing in defensive growth companies across its private equity, public equity, and credit investment vehicles. The Operating Company, 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".

New Mountain Finance Corporation

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 treated 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 regulated investment company ("RIC") under Subchapter M of the Internal Revenue Code of 1986, as amended, (the "Code").

On May 19, 2011, NMFC priced its 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, 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 limited partners of New Mountain Guardian Partners, L.P. at that time for their ownership interest in the Predecessor Entities.

Table of Contents

New Mountain Finance AIV Holdings Corporation

New Mountain Finance AIV Holdings Corporation ("AIV Holdings") is a Delaware corporation that was originally incorporated on March 11, 2011. Guardian AIV, a Delaware limited partnership, is AIV Holdings' sole stockholder. AIV Holdings is a closed-end, non-diversified management investment company that has elected to be treated as a BDC under the 1940 Act. As such, AIV Holdings is obligated to comply with certain regulatory requirements. AIV Holdings has elected to be treated, and intends to comply with the requirements to continue to qualify annually, as a RIC under the Code.

Structure

In connection with NMFC's IPO and through a series of transactions, the Operating Company acquired all of the operations of the Predecessor Entities, including all of the assets and liabilities related to such operations. The current structure was designed to generally prevent NMFC and its stockholders 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 and its stockholders. The result is that any distributions made to NMFC's stockholders that are attributable to such gains generally will not be treated as taxable dividends but rather as return of capital.

As a result of the transactions completed in connection with the IPO, Guardian AIV obtained units in the Operating Company. Guardian AIV contributed its units in the Operating Company to its newly formed subsidiary, AIV Holdings, in exchange for common stock of AIV Holdings. AIV Holdings has the right to exchange all or any portion of its units in the Operating Company for shares of NMFC's common stock on a one-for-one basis at anytime.

NMFC and AIV Holdings are holding companies with no direct operations of their own, and their sole asset is their ownership in the Operating Company. NMFC and AIV Holdings each entered into a joinder agreement with respect to the Limited Liability Company Agreement, as amended and restated, of the Operating Company, pursuant to which NMFC and AIV Holdings were admitted as members of the Operating Company. NMFC acquired from the Operating Company, with the gross proceeds of the IPO and the Concurrent Private Placement, common membership units ("units") of the Operating Company (the number of units are 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 the Operating Company equal to the number of shares of common stock of NMFC issued to the limited partners of New Mountain Guardian Partners, L.P.

Since NMFC's IPO, and through December 31, 2012, NMFC raised approximately \$133.4 million in net proceeds from additional offerings of common stock and issued shares valued at approximately \$56.3 million to AIV Holdings for exchanged units. NMFC acquired from the Operating Company units of the Operating Company equal to the number of shares of NMFC's common stock sold in the additional offerings.

Table of Contents

The diagram below depicts the Companies' organizational structure as of December 31, 2012.

*
Includes partners of New Mountain Guardian Partners, L.P.

**
These common membership units are exchangeable into shares of NMFC common stock on a one-for-one basis.

The Operating Company consolidates its wholly-owned subsidiary, New Mountain Finance SPV Funding, L.L.C. ("NMF SLF"). NMFC and AIV Holdings do not consolidate the Operating Company. NMFC and AIV Holdings apply investment company master-feeder financial statement presentation, as described in Accounting Standards Codification 946, *Financial Services Investment Companies*, ("ASC 946") to their interest in the Operating Company. NMFC and AIV Holdings observe that it is 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 provides stockholders of NMFC and AIV Holdings with a clearer depiction of their investment in the Master Fund.

New Mountain Finance Advisers BDC, L.L.C.

The Investment Adviser manages the Operating Company's day-to-day operations and provides it 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 the Operating Company's investments and monitoring and servicing the Operating Company's investments. The Investment Adviser is managed by a five member investment committee, which is responsible for approving purchases and sales of the Operating Company's investments above \$5.0 million in aggregate by issuer. For additional information on the investment committee, see "Investment Committee" section.

Table of Contents

New Mountain Finance Administration, L.L.C.

The Administrator provides the administrative services necessary to conduct our day-to-day operations. The Administrator also performs, or oversees the performance of, our financial records, our reports to stockholders and reports filed with the Securities and Exchange Commission. The Administrator performs the calculation and publication of our net asset values, the payment of our expenses and oversees the performance of various third-party service providers and the preparation and filing of our tax returns. The Administrator may also provide, on the Operating Company's behalf, managerial assistance to its portfolio companies.

Competition

The Operating Company competes for investments with a number of 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 financing. Many of these entities have greater financial and managerial resources than we do. We believe the Operating Company is able to be competitive with these entities primarily on the basis of the experience and contacts of its management team, the Operating Company's responsive and efficient investment analysis and decision-making processes, the investment terms the Operating Company offers, the leveraged model that the Operating Company employs to perform its due diligence with the broader New Mountain Capital team and the Operating Company's model of investing in companies and industries it knows well.

We believe that some of the Operating Company's competitors may make investments with interest rates and returns that are comparable to or lower than the rates and returns that the Operating Company targets. Therefore, the Operating Company does not seek to compete solely on the interest rates and returns that it offers to potential portfolio companies. For additional information concerning the competitive risks we face, see *Item 1A. Risk Factors*.

Investment Objectives and Portfolio

The Operating 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 first and second lien debt, notes, bonds and mezzanine securities. In some cases, the Operating Company's investments may also include equity interests such as preferred stock, common stock, warrants or options received in connection with the Operating Company's debt investments or may include a direct investment in the equity of private companies.

The Operating Company makes investments through both primary originations and open-market secondary purchases. The Operating Company primarily targets loans to, and invests in, United States ("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. 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. The Operating Company's 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 the Operating Company's capital base changes. At December 31, 2012, the Operating Company's portfolio consisted of 63 portfolio companies and was invested 49.8% in first lien loans, 44.6% in second lien loans, 4.6% in subordinated debt and 1.0% in equity and other, as measured at fair value versus 55 portfolio companies invested 58.3% in first lien loans, 37.3% in second lien loans, 4.0% in subordinated debt and 0.4% in equity and other at December 31, 2011.

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Table of Contents

The fair value of the Operating Company's investments was approximately \$989.8 million in 63 portfolio companies at December 31, 2012, \$703.5 million in 55 portfolio companies at December 31, 2011 and \$441.1 million in 43 portfolio companies at December 31, 2010.

The following table shows the Operating Company's portfolio and investment activity for the years ended December 31, 2012, December 31, 2011 and December 31, 2010:

(in millions)	Years ended December 31,		
	2012	2011	2010
New investments in 45, 37 and 34 portfolio companies, respectively	\$ 673.2	\$ 493.3	\$ 332.7
Debt repayments in existing portfolio companies	299.2	146.4	40.3
Sales of securities in 22, 17 and 16 portfolio companies, respectively	124.7	85.6	217.9
Change in unrealized appreciation on 48, 17 and 36 portfolio companies, respectively	27.0	6.1	13.0
Change in unrealized depreciation on 30, 48 and 18 portfolio companies, respectively	(17.1)	(29.2)	(53.0)

At December 31, 2012 and December 31, 2011, the Operating Company's weighted average Yield to Maturity was approximately 10.1% and 10.7%, respectively. This Yield to Maturity calculation assumes that all investments not on non-accrual are purchased at fair value on December 31, 2012 and December 31, 2011, respectively, and held until their respective maturities with no prepayments or losses and exited at par at maturity. The actual yield to maturity may be higher or lower due to the future selection of the London Interbank Offered Rate ("LIBOR") contracts by the individual companies in the Operating Company's portfolio or other factors.

The following summarizes the Operating Company's ten largest portfolio company investments and top ten industries in which the Operating Company was invested as of December 31, 2012, calculated as a percentage of total assets as of December 31, 2012.

Portfolio Company	Percent of Total Assets
Edmentum, Inc. (fka Plato, Inc.)	3.9%
Pinnacle Holdco S.à r.l. / Pinnacle (US) Acquisition Co Limited	3.3%
Global Knowledge Training LLC	3.1%
Novell, Inc. (fka Attachmate Corporation, NetIQ Corporation)	3.1%
Rocket Software, Inc.	3.0%
Pharmaceutical Research Associates, Inc.	3.0%
Unitek Global Services, Inc.	2.9%
KeyPoint Government Solutions, Inc.	2.9%
Managed Health Care Associates, Inc.	2.8%
Transtar Holding Company	2.8%

Table of Contents

Industry	Percent of Total Assets
Software	24.1%
Education	14.6%
Healthcare Services	14.0%
Business Services	14.0%
Federal Services	9.3%
Consumer Services	4.1%
Media	3.3%
Distribution	2.8%
Healthcare Products	2.7%
Logistics	2.3%
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 the Operating Company's investments.

Defensive growth industries. The Operating Company seeks 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. The Operating Company targets industries and companies that have well defined industries and well established, understandable barriers to competitive entry.

Recurring revenue. Where possible, the Operating Company focuses on companies that have a high degree of predictability in future revenue.

Flexible cost structure. The Operating Company seeks to invest in businesses that have limited fixed costs and therefore modest operating leverage.

Strong free cash flow and high return on assets. The Operating Company focuses on businesses with a demonstrated ability to produce meaningful free cash flow from operations. The Operating Company typically targets companies that are not asset intensive and that have minimal capital expenditure and minimal working capital growth needs.

Sustainable business and niche market dominance. The Operating Company seeks 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. The Operating Company seeks to invest in established companies with sound historical financial performance. The Operating Company does not intend to invest in start-up companies or companies with speculative business plans.

Private equity sponsorship. The Operating Company generally seeks to invest in companies in conjunction with private equity sponsors who it knows and trusts and who have proven capabilities in building value.

Seasoned management team. The Operating Company generally requires that its portfolio companies have a seasoned management team with strong corporate governance. Oftentimes the Operating Company has a historical relationship with or

direct knowledge of key managers from previous investment experience.

Table of Contents

Investment Selection and Process

The Investment Adviser believes it has developed a proven, consistent and replicable investment process to execute the Operating Company's 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;

Creating competitive advantages in the selected industry sectors; and

Targeting companies with leading market share and attractive business models in its chosen sectors.

Investment Committee

The Investment Adviser's investment committee (the "Investment Committee") currently consists of Steven B. Klinsky, Robert Hamwee, Adam Collins, Douglas Londal and Alok Singh. The Investment Committee is responsible for approving all of the Operating Company's investment purchases above \$5.0 million. The Investment Committee also monitors investments in the Operating Company's portfolio and approves all asset dispositions above \$5.0 million. Purchases and dispositions below \$5.0 million may be approved by the Operating Company's 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 the Operating Company's investment team are encouraged to share information and views on credits with the 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

The Operating Company targets debt investments that will yield meaningful current income and occasionally provide the opportunity for capital appreciation through equity securities. The Operating Company's debt investments are typically structured with the maximum seniority and collateral that the Operating Company can reasonably obtain while seeking to achieve its total return target.

Debt Investments

The terms of the Operating Company's 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 the Operating Company collects on its debt investments.

Table of Contents

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.

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 payment-in-kind ("PIK") interest, which represents contractual interest accrued and added to the principal that generally becomes due at maturity.

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, which represents contractual interest accrued and added to the principal that generally becomes due at maturity, and may have an equity component, such as warrants to purchase common stock in the portfolio company.

In addition, from time to time the Operating Company may also enter into bridge or other commitments which can result in providing future financing to a portfolio company.

Equity Investments

When the Operating Company makes a debt investment, it may be granted equity in the portfolio company in the same class of security as the sponsor receives upon funding. In addition, the Operating Company may from time to time make non-control, equity co-investments in conjunction with private equity sponsors. The Operating Company generally seeks to structure its equity investments, such as direct equity co-investments, to provide it with minority rights provisions and event-driven put rights. The Operating Company also seeks to obtain limited registration rights in connection with these investments, which may include "piggyback" registration rights.

Portfolio Company Monitoring

The Operating Company monitors the performance and financial trends of its portfolio companies on at least a quarterly basis. The Operating Company attempts to identify any developments within the portfolio company, the industry or the macroeconomic environment that may alter any material element of its original investment strategy. The Operating Company uses several methods of evaluating and monitoring the performance of its investments, including but not limited to, the following:

review of monthly and quarterly financial statements and financial projections for portfolio companies provided by its management;

ongoing dialogue with and review of original diligence sources;

periodic contact with portfolio company management (and, if appropriate the private equity sponsor) to discuss financial position, requirements and accomplishments; and

assessment of business development success, including product development, profitability and the portfolio company's overall adherence to its business plan.

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

Investment Rating 1 Investment is performing materially above expectations;

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Table of Contents

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 the Operating Company will not recoup its original cost basis in the investment and may realize a substantial loss upon exit.

The following table shows the distribution of the Operating Company's investments on the 1 to 4 investment rating scale at fair value as of December 31, 2012:

As of December 31, 2012				
(in millions)				
Investment Rating	Par Value(1)	Percent	Fair Value	Percent
Investment Rating 1	\$ 85.6	8.5%	\$ 94.4	9.5%
Investment Rating 2	901.3	89.4%	884.3	89.4%
Investment Rating 3	14.7	1.5%	10.3	1.0%
Investment Rating 4	6.2	0.6%	0.8	0.1%
	\$ 1,007.8	100.0%	\$ 989.8	100.0%

(1) Excludes shares and warrants.

Exit Strategies/Refinancing

The Operating Company exits its investments typically through one of four scenarios: (i) the sale of the portfolio company itself resulting in repayment of all outstanding debt, (ii) the recapitalization of the portfolio company in which the Operating Company's loan is replaced with debt or equity from a third party or parties (in some cases, the Operating Company may choose to participate in the newly issued loan(s)), (iii) the repayment of the initial or remaining principal amount of the Operating Company's loan then outstanding at maturity or (iv) the sale of the debt investment by the Operating Company. In some investments, there may be scheduled amortization of some portion of the Operating Company's loan which would result in a partial exit of its investment prior to the maturity of the loan.

Valuation

At all times consistent with accounting principles generally accepted in the United States of America ("GAAP") and the 1940 Act, the Operating Company conducts a valuation of assets, which impacts its net asset value, and, consequently, the net asset values of NMFC and AIV Holdings. NMFC and AIV Holdings value their ownership interest on a quarterly basis, or more frequently if required under the 1940 Act.

The Operating Company applies fair value accounting in accordance with GAAP. The Operating Company values its assets on a quarterly basis, or more frequently if required under the 1940 Act. In all cases, the Operating 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 Operating 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.

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Table of Contents

(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 Operating Company looks at the number of quotes readily available and performs 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 the Operating 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 Operating Company does 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 the Operating 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.

Valuation methods may include comparisons of financial ratios of the portfolio companies that issued such private securities to peer companies that are public, the nature of and the realizable value of any collateral, the portfolio company's earnings, discounted cash flows, the ability to make payments, the markets in which the portfolio company conducts business, and other relevant factors, including available market data such as relevant and applicable market trading and transaction comparables; applicable market yields and multiples; security covenants; call protection provisions; information rights; comparable merger and acquisition transactions; and the principal market and enterprise values. When an external event such as a purchase transaction, public offering or subsequent sale occurs, the Operating Company will consider the pricing indicated by the external event to corroborate the private valuation.

Table of Contents

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 Operating Company's investments may fluctuate from period to period and the fluctuations could be material.

Operating and Regulatory Environment

As with other companies regulated by the 1940 Act, a BDC must adhere to certain regulatory requirements. The 1940 Act contains prohibitions and restrictions relating to investments by a BDC in another investment company as well as transactions between BDCs and their affiliates, principal underwriters and affiliates of those affiliates or underwriters. A BDC must be organized in the U.S. for the purpose of investing in or lending to primarily private companies and making significant managerial assistance available to them. A BDC may use capital provided by public stockholders and from other sources to make long-term, private investments in businesses. A BDC provides stockholders the ability to retain the liquidity of a publicly traded stock while sharing in the possible benefits, if any, of investing in primarily privately owned companies.

The Operating Company, NMFC and AIV Holdings each have a board of directors. A majority of our directors must be persons who are not interested persons, as that term is defined in the 1940 Act. As BDCs, we are prohibited from protecting any director or officer against any liability to us or our stockholders arising from willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such person's office. Additionally, we are required to provide and maintain a bond issued by a reputable fidelity insurance company to protect the BDC.

As a BDC, each of the Companies is required to meet a coverage ratio of the value of total assets to total senior securities, which include all of its borrowings and any preferred stock we may issue in the future, of at least 200.0% (i.e., the amount of debt may not exceed 50.0% of the value of the Operating Company's total assets or the Operating Company may borrow an amount equal to 100.0% of net assets). The Operating Company monitors its compliance with this coverage ratio on a regular basis, however, NMFC and AIV Holdings have no material long-term liabilities themselves and their only business and sole asset is their ownership of the Operating Company. NMFC and AIV Holdings are relying on the provisions of Section 12(d)(1)(E) of the 1940 Act, which requires, among other things, that their respective investment in the Operating Company be their only asset and that their respective stockholders are entitled to vote on a "pass-through" basis with the Operating Company's other voting security holders.

NMFC may, to the extent permitted under the 1940 Act, issue additional equity capital, which would in turn increase the equity capital available to the Operating Company. NMFC is generally not able to issue and sell its common stock at a price below net asset value per share. NMFC may, however, sell its common stock, or warrants, options or rights to acquire its common stock, at a price below the then-current net asset value of its common stock if its board of directors determines that such sale is in the best interests of NMFC and the best interests of its stockholders, and its stockholders approve such sale. In addition, NMFC may generally issue new shares of its common stock at a price below net asset value in rights offerings to existing stockholders and in certain other limited circumstances.

As a BDC, the Operating Company is generally not permitted to invest in any portfolio company in which the Investment Adviser or any of its affiliates currently have an investment or to make any co-investments with the Investment Adviser or its affiliates without an exemptive order from the Securities and Exchange Commission.

Table of Contents

We may not change the nature of our business so as to cease to be, or withdraw our election as, a BDC unless authorized by vote of a majority of the outstanding voting securities, as required by the 1940 Act. A majority of the outstanding voting securities of a company is defined under the 1940 Act as the lesser of: (a) 67.0% or more of such company's voting securities present at a meeting if more than 50.0% of the outstanding voting securities of such company are present or represented by proxy, or (b) more than 50.0% of the outstanding voting securities of such company. We do not anticipate any substantial change in the nature of our business.

In addition, as BDCs, the Companies are not permitted to issue stock or units in consideration for services.

NMFC's and AIV Holdings' Taxation as a Regulated Investment Company

NMFC and AIV Holdings have elected to be treated, and intend to comply with the requirements to qualify annually, as RICs under Subchapter M of the Code. As RICs, NMFC and AIV Holdings generally will not pay corporate-level federal income taxes on any income that they timely distribute to their stockholders as dividends. Rather, dividends distributed by NMFC or AIV Holdings generally will be taxable to NMFC's or AIV Holdings' stockholders, but any net operating losses, foreign tax credits and other tax attributes of NMFC or AIV Holdings generally will not pass through to NMFC's or AIV Holdings' stockholders, subject to special rules for certain items such as net capital gains and qualified dividend income recognized by NMFC and AIV Holdings.

To qualify as RICs, NMFC and AIV Holdings must, among other things, meet certain source-of-income and asset diversification requirements. In addition, to qualify as RICs, NMFC and AIV Holdings must distribute to their stockholders, for each taxable year, at least 90.0% of their "investment company taxable income", which is generally their net ordinary income plus the excess of realized net short-term capital gains over realized net long-term capital losses (the "Annual Distribution Requirement").

NMFC and AIV Holdings will be subject to a 4.0% nondeductible federal excise tax on certain undistributed income unless they distribute in a timely manner an amount at least equal to the sum of (1) 98.0% of their respective net ordinary income for each calendar year, (2) 98.2% of their respective capital gain net income for the one-year period ending October 31 in that calendar year and (3) any income recognized, but not distributed, in preceding years (the "Excise Tax Avoidance Requirement"). While NMFC and AIV Holdings intend to make distributions to their stockholders in each taxable year that will be sufficient to avoid any federal excise tax on their earnings, there can be no assurance that NMFC or AIV Holdings will be successful in entirely avoiding this tax. For the year ended December 31, 2012, no federal excise tax was paid by either NMFC or AIV Holdings.

In order to qualify as RICs for federal income tax purposes, NMFC and AIV Holdings must, among other things:

Continue to qualify as BDCs under the 1940 Act at all times during each taxable year;

Derive in each taxable year at least 90.0% of their respective gross income 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 NMFC's or AIV Holdings' business of investing in such stock or securities (the "90.0% Income Test"); and

Diversify their holdings so that at the end of each quarter of the taxable year:

at least 50.0% of the respective values of NMFC's or AIV Holdings' assets consists of cash, cash equivalents, U.S. government securities, securities of other RICs, and other securities if such other securities of any one issuer do not represent more than 5.0% of the respective

Table of Contents

values of NMFC's or AIV Holdings' assets or more than 10.0% of the outstanding voting securities of the issuer; and

no more than 25.0% of the respective values of NMFC's or AIV Holdings' assets is 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 NMFC or AIV Holdings and that are engaged in the same or similar or related trades or businesses or of certain "qualified publicly traded partnerships" (the "Diversification Tests").

Failure to Qualify as a Regulated Investment Company

If NMFC or AIV Holdings fail to satisfy the 90.0% Income Test or the Diversification Tests for any taxable year or quarter of such taxable year, they may nevertheless continue to qualify as a RIC for such year if certain relief provisions of the Code apply (which may, among other things, require it to pay certain corporate-level federal taxes or to dispose of certain assets). If NMFC or AIV Holdings fail to qualify for treatment as a RIC and such relief provisions do not apply to NMFC or AIV Holdings, NMFC or AIV Holdings will be subject to federal income tax on all of its taxable income at regular corporate rates (and also will be subject to any applicable state and local taxes), regardless of whether NMFC or AIV Holdings made any distributions to its stockholders. Distributions would not be required. However, if distributions were made, any such distributions would be taxable to its stockholders as ordinary dividend income and, subject to certain limitations under the Code, any such distributions would be eligible for the 20.0% maximum rate applicable to non-corporate taxpayers to the extent of NMFC's or AIV Holdings' current or accumulated earnings and profits. Subject to certain limitations under the Code, corporate distributees would be eligible for the dividends-received deduction. Distributions in excess of NMFC's or AIV Holdings' current and accumulated earnings and profits would be treated first as a return of capital to the extent of the stockholder's tax basis, and any remaining distributions would be treated as a capital gain.

Subject to a limited exception applicable to RICs that qualified as such under Subchapter M of the Code for at least one year prior to disqualification and that re-qualify as a RIC no later than the second year following the non-qualifying year, NMFC and AIV Holdings could be subject to tax on any unrealized net built-in gains in the assets held by NMFC or AIV Holdings during the period in which NMFC or AIV Holdings failed to qualify as a RIC that are recognized during the 10-year period (or five-year period for taxable years beginning during 2013) after its requalification as a RIC, unless NMFC or AIV Holdings made a special election to pay corporate-level federal income tax on such built-in gain at the time of NMFC's or AIV Holdings' requalification as a RIC. NMFC or AIV Holdings may decide to be taxed as a regular corporation even if NMFC or AIV Holdings would otherwise qualify as a RIC if NMFC or AIV Holdings determines that treatment as a corporation for a particular year would be in its best interests.

Investment Management Agreement

The Companies are closed-end, non-diversified management investment companies that have elected to be treated as BDCs under the 1940 Act. NMFC and AIV Holdings are holding companies with no direct operations of their own, and their only business and sole asset are their ownership of units of the Operating Company. As a result, NMFC and AIV Holdings will not pay any external investment advisory or management fees. However, the Operating Company is externally managed by the Investment Adviser and will pay the Investment Adviser a fee for its services. The following summarizes the arrangements between the Operating Company and the Investment Adviser pursuant to an investment advisory and management agreement (the "Investment Management Agreement").

Table of Contents

Management Services

The Investment Adviser is registered as an Investment Adviser under the Investment Advisers Act of 1940 (the "Advisers Act"). The Investment Adviser serves pursuant to the Investment Management Agreement in accordance with the 1940 Act. Subject to the overall supervision of the Operating Company's board of directors, the Investment Adviser manages the Operating Company's day-to-day operations and provides it with investment advisory and management services. Under the terms of the Investment Management Agreement, the Investment Adviser:

determines the composition of the Operating Company's portfolio, the nature and timing of the changes to its portfolio and the manner of implementing such changes;

determines the securities and other assets that the Operating Company will purchase, retain or sell;

identifies, evaluates and negotiates the structure of the Operating Company's investments that the Operating Company makes;

executes, monitors and services the investments the Operating Company makes;

performs due diligence on prospective portfolio companies;

votes, exercises consents and exercises all other rights appertaining to such securities and other assets on behalf of the Operating Company; and

provides the Operating Company with such other investment advisory, research and related services as the Operating Company may, from time to time, reasonably require.

The Investment Adviser's services under the Investment Management Agreement are not exclusive, and the Investment Adviser (so long as its services to the Operating Company are not impaired) and/or other entities affiliated with New Mountain Capital are permitted to furnish similar services to other entities.

Management Fees

Pursuant to the Investment Management Agreement, the Operating Company has agreed to pay the Investment Adviser a fee for investment advisory and management services consisting of two components a base management fee and an incentive fee. The cost of both the base management fee payable to the Investment Adviser and any incentive fees paid in cash to the Investment Adviser are borne by the Operating Company's members, including NMFC and AIV Holdings and, as a result, are indirectly borne by NMFC's and AIV Holdings' common stockholders.

Base Management Fees

The base management fee is calculated at an annual rate of 1.75% of the Operating Company's gross assets less (i) the borrowings under the Operating Company's senior loan fund's Loan and Security Agreement with Wells Fargo Bank, National Association, dated October 27, 2010, as amended on December 18, 2012, (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 the Operating Company's gross assets, 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.

Table of Contents

Incentive Fees

The incentive fee consists of two parts. The first part is calculated and payable quarterly in arrears and equals 20.0% of the Operating 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, diligence and consulting fees or other fees that the Operating Company receives from portfolio companies) accrued during the calendar quarter, minus the Operating Company's operating expenses for the quarter (including the base management fee, expenses payable under the Administration Agreement, as amended and restated, with the Administrator, and any interest expense and distributions paid on any issued and outstanding preferred membership units (of which there are none as of December 31, 2012), 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 Operating 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 Operating Company's existing investments to fair market value at the IPO date. Since the total value of the 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 or mature in the future. The Operating 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 Operating 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 Operating 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").

Pre-Incentive Fee Adjusted Net Investment Income, expressed as a rate of return on the value of the Operating 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 Operating 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 Operating 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 Operating 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 Operating 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 Operating Company's

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Table of Contents

Pre-Incentive Fee Adjusted Net Investment Income as if a hurdle rate did not apply when the Operating Company's Pre-Incentive Fee Adjusted Net Investment Income exceeds 2.5% in any calendar quarter.

20.0% of the amount of the Operating 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 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 Operating 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 Operating 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.

Example 1: Income Related Portion of Incentive Fee for Each Calendar Quarter*:

Alternative 1

Assumptions

Investment income (including interest, dividends, fees, etc.) = 1.25%

Hurdle rate(1) = 2.00%

Management fee(2) = 0.44%

Other expenses (legal, accounting, safekeeping agent, transfer agent, etc.)(3) = 0.20%

Pre-Incentive Fee Adjusted Net Investment Income
(investment income - (management fee + other expenses)) = 0.61%

Pre-Incentive Fee Adjusted Net Investment Income does not exceed the hurdle rate, therefore there is no income-related incentive fee.

Alternative 2

Assumptions

Investment income (including interest, dividends, fees, etc.) = 2.90%

Hurdle rate(1) = 2.00%

Management fee(2) = 0.44%

Other expenses (legal, accounting, safekeeping agent, transfer agent, etc.)(3) = 0.20%

Pre-Incentive Fee Adjusted Net Investment Income
(investment income - (management fee + other expenses)) = 2.26%

Incentive fee = 100.00% × Pre-Incentive Fee Adjusted Net Investment Income (subject to "catch-up")(4)

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$$= 100.00\% \times (2.26\% - 2.00\%)$$

$$= 0.26\%$$

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Table of Contents

Pre-Incentive Fee Adjusted Net Investment Income exceeds the hurdle rate, but does not fully satisfy the "catch-up" provision, therefore the income related portion of the incentive fee is 0.26%.

Alternative 3

Assumptions

Investment income (including interest, dividends, fees, etc.) = 3.50%

Hurdle rate(1) = 2.00%

Management fee(2) = 0.44%

Other expenses (legal, accounting, safekeeping agent, transfer agent, etc.)(3) = 0.20%

Pre-Incentive Fee Adjusted Net Investment Income
(investment income - (management fee + other expenses)) = 2.86%

Incentive fee = 100.00% × Pre-Incentive Fee Adjusted Net Investment Income (subject to "catch-up")(4)

Incentive fee = 100.00% × "catch-up" + (20.00% × (Pre-Incentive Fee Adjusted Net Investment Income - 2.50%))

Catch-up = 2.50% - 2.00%
= 0.50%

Incentive fee = (100.00% × 0.50%) + (20.00% × (2.86% - 2.50%))
= 0.50% + (20.00% × 0.36%)
= 0.50% + 0.07%
= 0.57%

Pre-Incentive Fee Adjusted Net Investment Income exceeds the hurdle rate, and fully satisfies the "catch-up" provision, therefore the income related portion of the incentive fee is 0.57%.

*

The hypothetical amount of pre-incentive fee net investment income shown is based on a percentage of total net assets and assumes, for the Operating Company's investments held prior to the IPO, interest income has been adjusted to reflect the amortization of purchase or original issue discount as if each investment was purchased at the date of the IPO, or stepped up to fair market value.

- (1) Represents 8.00% annualized hurdle rate.
- (2) Assumes 1.75% annualized base management fee.
- (3) Excludes organizational and offering expenses.
- (4) The "catch-up" provision is intended to provide the Investment Adviser with an incentive fee of 20.00% on all Pre-Incentive Fee Adjusted Net Investment Income as if a hurdle rate did not apply when the Operating Company's net investment income exceeds 2.50% in any calendar quarter.

Example 2: Capital Gains Portion of Incentive Fee*:

Alternative 1:

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Assumptions

Year 1: \$20.0 million investment made in Company A ("Investment A"), and \$30.0 million investment made in Company B ("Investment B")

Year 2: Investment A sold for \$50.0 million and fair market value ("FMV") of Investment B determined to be \$32.0 million

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Table of Contents

Year 3: FMV of Investment B determined to be \$25.0 million

Year 4: Investment B sold for \$31.0 million

The capital gains portion of the incentive fee would be:

Year 1: None

Year 2: Capital gains incentive fee of \$6.0 million (\$30.0 million realized capital gains on sale of Investment A multiplied by 20.0%)

Year 3: None \$5.0 million (20.0% multiplied by (\$30.0 million cumulative capital gains less \$5.0 million cumulative capital depreciation)) less \$6.0 million (previous capital gains fee paid in Year 2)

Year 4: Capital gains incentive fee of \$0.2 million \$6.2 million (\$31.0 million cumulative realized capital gains multiplied by 20.0%) less \$6.0 million (capital gains incentive fee taken in Year 2)

Alternative 2

Assumptions

Year 1: \$20.0 million investment made in Company A ("Investment A"), \$30.0 million investment made in Company B ("Investment B") and \$25.0 million investment made in Company C ("Investment C")

Year 2: Investment A sold for \$50.0 million, FMV of Investment B determined to be \$25.0 million and FMV of Investment C determined to be \$25.0 million

Year 3: FMV of Investment B determined to be \$27.0 million and Investment C sold for \$30.0 million

Year 4: FMV of Investment B determined to be \$35.0 million

Year 5: Investment B sold for \$20.0 million

The capital gains incentive fee, if any, would be:

Year 1: None

Year 2: \$5.0 million capital gains incentive fee 20.0% multiplied by \$25.0 million (\$30.0 million realized capital gains on Investment A less \$5.0 million unrealized capital depreciation on Investment B)

Year 3: \$1.4 million capital gains incentive fee \$6.4 million (20.0% multiplied by \$32.0 million (\$35.0 million cumulative realized capital gains less \$3.0 million unrealized capital depreciation)) less \$5.0 million capital gains incentive fee received in Year 2

Year 4: \$0.6 million capital gains incentive fee \$7.0 million (20.0% multiplied by \$35.0 million cumulative realized capital gains) less cumulative \$6.4 million capital gains incentive fee received in Year 2 and Year 3

Year 5: None \$5.0 million (20.0% multiplied by \$25.0 million (cumulative realized capital gains of \$35.0 million less realized capital losses of \$10.0 million)) less \$7.0 million cumulative capital gains incentive fee paid in Year 2, Year 3 and Year 4(1)

*

The hypothetical amounts of returns shown are based on a percentage of the Operating Company's total net assets and assume no leverage. There is no guarantee that positive returns will be realized and actual returns may vary from those shown in this example.

The capital gains

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Table of Contents

incentive fees are calculated on an "adjusted" basis for the Operating Company's investments held prior to the IPO and assumes those investments have been adjusted to reflect the amortization of purchase or original issue discount as if each investment was purchased at the date of the IPO, or stepped up to fair market value.

- (1) As noted above, it is possible that the cumulative aggregate capital gains fee received by the Investment Adviser (\$7.0 million) is effectively greater than \$5.0 million (20.0% of cumulative aggregate realized capital gains less net realized capital losses or net unrealized depreciation (\$25.0 million)).

Payment of Expenses

The Operating Company's primary operating expenses are the payment of a base management fee and any incentive fees under the Investment Management Agreement and the allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations to the Companies under the Administration Agreement. The Operating Company bears all other expenses of the Companies' operations and transactions, including (without limitation) fees and expenses relating to:

organizational and offering expenses;

the investigation and monitoring of the Operating Company's investments;

the cost of calculating net asset value;

interest payable on debt, if any, to finance its investments;

the cost of effecting sales and repurchases of shares of NMFC's common stock and other securities;

management and incentive fees payable pursuant to the Investment Management Agreement;

fees payable to third parties relating to, or associated with, making investments and valuing investments (including third-party valuation firms);

transfer agent and custodial fees;

fees and expenses associated with marketing efforts (including attendance at investment conferences and similar events);

federal and state registration fees;

any exchange listing fees;

federal, state, local and foreign taxes;

independent directors' fees and expenses;

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brokerage commissions;

costs of proxy statements, stockholders' reports and notices;

costs of preparing government filings, including periodic and current reports with the Securities and Exchange Commission;

fees and expenses associated with independent audits and outside legal costs;

costs associated with reporting and compliance obligations under the 1940 Act and applicable federal and state securities laws;

fidelity bond, liability insurance and other insurance premiums; and

Table of Contents

printing, mailing and all other direct expenses incurred by either the Investment Adviser or the Companies in connection with administering our business, including payments under the Administration Agreement that is based upon the Company's allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations to the Companies under the Administration Agreement, including the allocable portion of the compensation of the Companies' chief financial officer and chief compliance officer and their respective staffs.

Qualifying Assets

Under the 1940 Act, a BDC may not acquire any asset other than assets of the type listed in Section 55(a) of the 1940 Act, which are referred to as qualifying assets, unless, at the time the acquisition is made, qualifying assets represent at least 70.0% of the BDC's total assets. Since NMFC and AIV Holdings have no assets other than their ownership of units of the Operating Company and have no material long-term liabilities, NMFC and AIV Holdings look to the Operating Company's assets for purposes of satisfying these requirements. The principal categories of qualifying assets relevant to our business are any of the following:

- 1)
Securities purchased in transactions not involving any public offering from the issuer of such securities, which issuer (subject to certain limited exceptions) is an eligible portfolio company, or from any person who is, or has been during the preceding 13 months, an affiliated person of an eligible portfolio company, or from any other person, subject to such rules as may be prescribed by the Securities and Exchange Commission. An eligible portfolio company is defined in the 1940 Act as any issuer which:
 - (a)
is organized under the laws of, and has its principal place of business in, the U.S.;
 - (b)
is not an investment company (other than a small business investment company wholly owned by the BDC) or a company that would be an investment company but for certain exclusions under the 1940 Act; and
 - (c)
satisfies any of the following:
 - (i)
does not have any class of securities that is traded on a national securities exchange;
 - (ii)
has a class of securities listed on a national securities exchange, but has an aggregate market value of outstanding voting and non-voting common equity of less than \$250.0 million;
 - (iii)
is controlled by a BDC or a group of companies including a BDC and the BDC has an affiliated person who is a director of the eligible portfolio company; or
 - (iv)
is a small and solvent company having total assets of not more than \$4.0 million and capital and surplus of not less than \$2.0 million.
- 2)
Securities of any eligible portfolio company that the Operating Company controls.
- 3)
Securities purchased in a private transaction from a U.S. issuer that is not an investment company or from an affiliated person of the issuer, or in transactions incident thereto, if the issuer is in bankruptcy and subject to reorganization or if the issuer, immediately prior to the purchase of its securities was unable to meet its obligations as they came prior to the purchase of its securities was unable to meet its obligations as they came due without material assistance other than conventional lending or financing arrangements.
- 4)

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Securities of an eligible portfolio company purchased from any person in a private transaction if there is no ready market for such securities and the Operating Company already owns 60.0% of the outstanding equity of the eligible portfolio company.

Table of Contents

- 5) Securities received in exchange for or distributed on or with respect to securities described in (1) through (4) above, or pursuant to the exercise of warrants or rights relating to such securities.
- 6) Cash, cash equivalents, U.S. government securities or high-quality debt securities maturing in one year or less from the time of investment.

In addition, a BDC must have been organized and have its principal place of business in the U.S. and must be operated for the purpose of making investments in the types of securities described in (1), (2) or (3) above.

As of December 31, 2012, 7.9% of the Operating Company's total assets were not qualifying assets.

Managerial Assistance to Portfolio Companies

In order to count portfolio securities as qualifying assets for the purpose of the 70.0% test, the Operating Company must either control the issuer of the securities or must offer to make available to the issuer of the securities (other than small and solvent companies described above) significant managerial assistance, except that, where the Operating Company purchases such securities in conjunction with one or more other persons acting together, one of the other persons in the group may make available such managerial assistance. Making available managerial assistance means, among other things, any arrangement whereby the BDC offers to provide, and, if accepted, does so provide, significant guidance and counsel concerning the management, operations or business objectives and policies of a portfolio company. The Administrator or its affiliate provides such managerial assistance on the Operating Company's behalf to portfolio companies that request this assistance.

Temporary Investments

Pending investments in other types of qualifying assets, the Operating Company's investments may consist of cash, cash equivalents, U.S. government securities or high-quality debt securities maturing in one year or less from the time of investment (collectively, as "temporary investments"), so that 70.0% of the Operating Company's assets are qualifying assets. Typically, the Operating Company will invest in U.S. Treasury bills or in repurchase agreements, provided that such agreements are fully collateralized by cash or securities issued by the U.S. government or its agencies. A repurchase agreement involves the purchase by an investor, such as the Operating Company, of a specified security and the simultaneous agreement by the seller to repurchase it at an agreed-upon future date and at a price that is greater than the purchase price by an amount that reflects an agreed-upon interest rate. There is no percentage restriction on the proportion of the Operating Company's assets that may be invested in such repurchase agreements. However, if more than 25.0% of the Operating Company's total assets constitute repurchase agreements from a single counterparty, NMFC and AIV Holdings would not meet the Diversification Tests in order to qualify as a RIC for federal income tax purposes. Thus, the Operating Company does not intend to enter into repurchase agreements with a single counterparty in excess of this limit. The Investment Adviser will monitor the creditworthiness of the counterparties with which the Operating Company enters into repurchase agreement transactions.

Senior Securities

The Operating Company is permitted, under specified conditions, to issue multiple classes of debt and one class of membership units senior to its common membership units if the Operating Company's asset coverage, as defined in the 1940 Act, is at least equal to 200.0% immediately after each such issuance. In addition, while any senior securities remain outstanding (other than any indebtedness issued in consideration of a privately arranged loan, such as any indebtedness outstanding under the Operating Company's Amended and Restated Loan and Security Agreement with Wells Fargo Bank, National Association, dated May 19, 2011, as amended on December 18, 2012 (the "Holdings Credit

Table of Contents

Facility"), or the SLF Credit Facility), the Companies must make provisions to prohibit any distribution to their stockholders or unit holders, as applicable, or the repurchase of their equity securities unless the Operating Company meets the applicable asset coverage ratios at the time of the distribution or repurchase. The Operating Company may also borrow amounts up to 5.0% of the value of its total assets for temporary or emergency purposes without regard to its asset coverage. The Operating Company will include the assets and liabilities of NMF SLF for purposes of calculating the asset coverage ratio. For a discussion of the risks associated with leverage, see *Item 1A. Risk Factors*.

Code of Ethics

The Companies have adopted a code of ethics pursuant to Rule 17j-1 under the 1940 Act that establishes procedures for personal investments and restricts certain personal securities transactions. Personnel subject to the code may invest in securities for their personal investment accounts, including securities that may be purchased or held by the Operating Company so long as such investments are made in accordance with the code's requirements. You may read and copy the code of ethics at the Securities and Exchange Commission's Public Reference Room located at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the Securities and Exchange Commission at 1-800-SEC-0330, and copies of the code of ethics may be obtained, after paying a duplication fee, by electronic request at the following e-mail address: publicinfo@sec.gov. In addition, the code of ethics is available on the Securities and Exchange Commission's Internet site at <http://www.sec.gov>.

Compliance Policies and Procedures

The Companies and the Investment Adviser have adopted and implemented written policies and procedures reasonably designed to prevent violation of the federal securities laws and the Companies are required to review these compliance policies and procedures annually for their adequacy and the effectiveness of their implementation. The Companies' chief compliance officer is responsible for administering these policies and procedures.

Proxy Voting Policies and Procedures

The Operating Company has delegated its proxy voting responsibility to the Investment Adviser. The proxy voting policies and procedures of the Investment Adviser are set forth below. The guidelines will be reviewed periodically by the Investment Adviser and the Operating Company's non-interested directors, and, accordingly, are subject to change.

Introduction

As an investment adviser registered under the Advisers Act, the Investment Adviser has a fiduciary duty to act solely in the best interests of its clients. As part of this duty, it recognizes that it must vote the Operating Company's securities in a timely manner free of conflicts of interest and in the best interests of the Companies.

The policies and procedures for voting proxies for the investment advisory clients of the Investment Adviser are intended to comply with Section 206 of, and Rule 206(4)-6 under, the Advisers Act.

Proxy policies

The Investment Adviser will vote proxies relating to the Operating Company's securities in the best interest of the Companies. It will review on a case-by-case basis each proposal submitted for a stockholder vote to determine its impact on the portfolio securities held by the Operating Company. Although the Investment Adviser will generally vote against proposals that may have a negative impact on its clients' portfolio securities, it may vote for such a proposal if there exists compelling long-term reasons to do so.

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Table of Contents

The proxy voting decisions of the Investment Adviser are made by the senior officers who are responsible for monitoring each of its clients' investments. To ensure that its vote is not the product of a conflict of interest, it will require that: (a) anyone involved in the decision making process disclose to its chief compliance officer any potential conflict that he or she is aware of and any contact that he or she has had with any interested party regarding a proxy vote; and (b) employees involved in the decision making process or vote administration are prohibited from revealing how the Investment Adviser intends to vote on a proposal in order to reduce any attempted influence from interested parties.

Proxy voting records

You may obtain, without charge, information regarding how the Operating Company voted proxies with respect to the Operating Company's portfolio securities by making a written request for proxy voting information to: Chief Compliance Officer, 787 Seventh Avenue, 48th Floor, New York, NY 10019.

Staffing

The Companies do not have any employees. Day-to-day investment operations that are conducted by the Operating Company are managed by the Investment Adviser. See "Investment Management Agreement". The Operating Company reimburses the Administrator for the allocable portion of overhead and other expenses incurred by it in performing its obligations to the Companies under the Administration Agreement, including the compensation of the Companies' chief financial officer and chief compliance officer, and their respective staffs. For a more detailed discussion of the Administration Agreement, see *Item 8. Financial Statements and Supplementary Data Note 5, Agreements*.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 imposes a variety of regulatory requirements on publicly-held companies and their insiders. Many of these requirements affect the Companies. For example:

pursuant to Rule 13a-14 of the Exchange Act, the chief executive officer and chief financial officer of the Companies are required to certify the accuracy of the financial statements contained in the Companies' periodic reports;

pursuant to Item 307 of Regulation S-K, the Companies' periodic reports are required to disclose their respective conclusions about the effectiveness of their disclosure controls and procedures;

pursuant to Rule 13a-15 of the Exchange Act, the Companies' management is required to prepare a report regarding their assessment of their respective internal control over financial reporting and is required to obtain an audit of the effectiveness of internal control over financial reporting performed by their independent registered public accounting; and

pursuant to Item 308 of Regulation S-K and Rule 13a-15 of the Exchange Act, the Companies' periodic reports are required to disclose whether there were significant changes in their respective internal controls over financial reporting or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

The Sarbanes-Oxley Act of 2002 requires the Companies to review their current policies and procedures to determine whether they comply with the Sarbanes-Oxley Act of 2002 and the regulations promulgated thereunder. The Companies intend to monitor their compliance with all regulations that are adopted under the Sarbanes-Oxley Act of 2002 and will take actions necessary to ensure that they are in compliance therewith.

Table of Contents

Available Information

We file with or submit to the Securities and Exchange Commission annual, quarterly and current periodic reports, proxy statements and other information as required by the 1940 Act. You may inspect and copy any materials we file with the Securities and Exchange Commission at the Public Reference Room of the Securities and Exchange Commission at 100 F Street, N.E., Washington, D.C. 20549 or by calling the Securities and Exchange Commission at 1-800-SEC-0330. The Securities and Exchange Commission maintains an Internet site that contains reports, proxy and information statements, and other information filed electronically by us with the Securities and Exchange Commission at <http://www.sec.gov>.

We make available free of charge on our website, <http://www.newmountainfinance.com>, our reports, proxies and information statements, and other information as soon as reasonably practicable after we electronically file such materials with, or furnish to, the Securities and Exchange Commission. Information contained on our website is not incorporated by reference into this annual report and should not be considered to be a part of this annual report.

Privacy Notice

Your privacy is very important to us. This Privacy Notice sets forth our policies with respect to non-public personal information about our stockholders and prospective and former stockholders. These policies apply to stockholders of the Companies and may be changed at any time, provided a notice of such change is given to you. This notice supersedes any other privacy notice you may have received from us.

We will safeguard, according to strict standards of security and confidentiality, all information we receive about you. The only information we collect from you is your name, address, number of shares you hold and your social security number. This information is used only so that we can send you annual reports and other information about us, and send you proxy statements or other information required by law.

We do not share this information with any non-affiliated third party except as described below.

Authorized Employees of the Investment Adviser. It is our policy that only authorized employees of our investment adviser who need to know your personal information will have access to it.

Service Providers. We may disclose your personal information to companies that provide services on our behalf, such as recordkeeping, processing your trades, and mailing you information. These companies are required to protect your information and use it solely for the purpose for which they received it.

Courts and Government Officials. If required by law, we may disclose your personal information in accordance with a court order or at the request of government regulators. Only that information required by law, subpoena, or court order will be disclosed.

We seek to carefully safeguard your private information and, to that end, restrict access to non-public personal information about you to those employees and other persons who need to know the information to enable us to provide services to you. We maintain physical, electronic and procedural safeguards to protect your non-public personal information.

If you have any questions regarding this policy or the treatment of your non-public personal information, please contact our Chief Compliance Officer at (212) 655-0024.

Item 1A. Risk Factors

You should carefully consider the significant risks described below, together with all of the other information included in this combined Form 10-K, including our financial statements and the related combined notes, before making an investment decision in any of the Companies. The risks set forth below are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we

Table of Contents

currently deem to be immaterial may materially affect our business, our structure, the Operating Company's financial condition, the Operating Company's investments and/or operating results. If any of the following events occur, our business, financial condition and results of operations could be materially affected. In such case, our net asset value and the trading price of NMFC's common stock could decline. There can be no assurance that we will achieve the Operating Company's investment objective and you may lose all or part of your investment.

RISKS IN THE CURRENT ENVIRONMENT

The downgrade of the U.S. credit rating and the economic crisis in Europe could negatively impact the Operating Company's liquidity, financial condition and earnings, thus affecting the financial condition and earnings of NMFC and AIV Holdings.

The U.S. debt ceiling and budget deficit concerns, together with signs of deteriorating sovereign debt conditions in Europe, have increased the possibility of additional credit-rating downgrades and economic slowdowns. Although U.S. lawmakers passed legislation to raise the federal debt ceiling, Standard & Poor's Ratings Services lowered its long-term sovereign credit rating on the U.S. from "AAA" to "AA+" in August 2011. The impact of this or any further downgrades to the U.S. government's sovereign credit rating, or its perceived creditworthiness, and the impact of the current crisis in Europe with respect to the ability of certain European Union countries to continue to service their sovereign debt obligations is inherently unpredictable and could adversely affect the U.S. and global financial markets and economic conditions. There can be no assurance that governmental or other measures to aid economic recovery will be effective. These developments, and the government's credit concerns in general, could cause interest rates and borrowing costs to rise, which may negatively impact both the perception of credit risk associated with the Operating Company's debt portfolio and its ability to access the debt markets on favorable terms. In addition, the decreased credit rating could create broader financial turmoil and uncertainty, which may weigh heavily on NMFC's stock price. Continued adverse economic conditions could have a material adverse effect on the Companies' business, financial condition and results of operations.

RISKS RELATED TO OUR BUSINESS AND STRUCTURE

We have a limited operating history.

NMFC and AIV Holdings are newly-formed entities while the Operating Company commenced operations in October 2008, owning all of the operations, including all of the assets and liabilities, of the Predecessor Entities. NMFC and AIV Holdings are holding companies with no direct operations of their own, and their only business and sole asset are their ownership of common membership units of the Operating Company. As a result, we are subject to many of the business risks and uncertainties associated with any new business, including the risk that we may not achieve the Operating Company's investment objective and that, as a result, the value of NMFC's common stock and the Operating Company's units could decline substantially.

The Operating Company 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.

The Operating Company does not expect to replicate the Predecessor Entities' historical performance or the historical performance of other entities managed or supported by the New Mountain Capital.

The Operating Company does not expect to replicate the Predecessor Entities' historical performance or the historical performance of New Mountain Capital's investments. The Operating Company's investment returns may be substantially lower than the returns achieved by the Predecessor Entities. Although the Predecessor Entities commenced operations during otherwise unfavorable

Table of Contents

economic conditions, this was a favorable environment in which the Operating Company could conduct its business in light of its investment objectives and strategy. In addition, the Operating Company's investment strategies may differ from those of New Mountain Capital or its affiliates. The Companies, as BDCs, and NMFC and AIV Holdings, as RICs, are subject to certain regulatory restrictions that do not apply to New Mountain Capital or its affiliates.

The Operating Company is 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 the Operating Company makes investments. Moreover, the Operating Company 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 Operating Company's investment strategy which may never be repeated. Finally, we can offer no assurance that the Operating Company's investment team will be able to continue to implement its investment objective with the same degree of success as it has had in the past.

There is uncertainty as to the value of the Operating Company's portfolio investments because most of its investments are, and may continue to be in private companies and recorded at fair value. In addition, because NMFC and AIV Holdings are holding companies, the fair values of the Operating Company's investments are determined by the Operating Company's board of directors in accordance with the Operating Company's valuation policy.

Some of the Operating Company's 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, the Operating Company is required to carry its portfolio investments at market value or, if there is no readily available market value, at fair value as determined in good faith by its board of directors, including to reflect significant events affecting the value of its securities. The Operating Company values its investments for which it does not have readily available market quotations quarterly, or more frequently as circumstances require, at fair value as determined in good faith by its board of directors in accordance with its valuation policy, which is at all times consistent with GAAP. See *Item 8. Financial Statements and Supplementary Data Note 2, Summary of Significant Accounting Policies* or *Note 4, Fair Value* for additional information on around valuations.

The Operating Company's 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 its material unquoted assets in accordance with its 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 its 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, the

Table of Contents

Operating Company's 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, the Operating Company's fair value determinations may cause its net asset value and, consequently, NMFC's and AIV Holdings' net asset value, on any given date, to materially understate or overstate the value that the Operating Company may ultimately realize upon the sale of one or more of our investments. In addition, investors purchasing NMFC's common stock based on an overstated net asset value would pay a higher price than the realizable value of our investments might warrant. Since NMFC and AIV Holdings are holding companies and their only business and sole asset are their ownership of common membership units of the Operating Company, NMFC's and AIV Holdings' net asset values are based on the Operating Company's valuation and their percentage interest in the Operating Company.

Although the Operating Company's current board of directors is comprised of the same individuals as NMFC's and AIV Holdings' board of directors, there can be no assurances that the Operating Company's board composition will remain the same as NMFC and AIV Holdings. As a result, the value of your investment in NMFC or AIV Holdings could be similarly understated or overstated based on the Operating Company's fair value determinations. However, in the event that NMFC and/or AIV Holdings' board of directors believes that a different fair value for the Operating Company's investments is appropriate, NMFC and/or AIV Holdings' board of directors may discuss the differences in the valuations with the Operating Company's board of directors for the purposes of resolving the differences in valuation. The valuation procedures of NMFC and AIV Holdings are substantially similar to those utilized by the Operating Company described above.

The Operating Company may adjust quarterly the valuation of its portfolio to reflect its board of directors' determination of the fair value of each investment in its portfolio. Any changes in fair value are recorded in the Operating Company's statement of operations as net change in unrealized appreciation or depreciation.

The Operating Company's ability to achieve its investment objective depends on key investment personnel of the Investment Adviser. If the Investment Adviser were to lose any of its key investment personnel, the Operating Company's ability to achieve its investment objective could be significantly harmed.

The Operating Company depends on the investment judgment, skill and relationships of the investment professionals of the Investment Adviser, particularly Steven B. Klinsky and Robert Hamwee, as well as other key personnel to identify, evaluate, negotiate, structure, execute, monitor and service its investments. The Investment Adviser, as an affiliate of New Mountain Capital, is supported by New Mountain Capital's team, which as of December 31, 2012 consisted of approximately 100 staff members of New Mountain Capital and its affiliates to fulfill its obligations to the Operating Company 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. The Operating Company's 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 the Operating Company's ability to achieve its investment objective.

The Investment Committee, which provides oversight over the Operating Company's 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 the Operating Company's ability to achieve its 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 the Operating Company's 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

Table of Contents

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 the Companies, 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. NMFC and AIV Holdings have no assets other than their ownership of common membership units of the Operating Company and have no material long-term liabilities. As a result, NMFC and AIV Holdings look to the Operating Company's assets and income for purposes of satisfying the requirements under the 1940 Act applicable to BDCs and the requirements under the Code applicable to RICs. The failure to comply with these provisions in a timely manner could prevent NMFC, AIV Holdings and the Operating Company from qualifying as BDCs or NMFC and AIV Holdings from qualifying as RICs 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 the Operating Company's investment objective. If the Operating Company fails to maintain its status as a BDC or operate in a manner consistent with NMFC's and AIV Holdings' status as RICs, its operating flexibility could be significantly reduced and NMFC and AIV Holdings may be unable to maintain their status as BDCs or RICs.

The Operating Company operates in a highly competitive market for investment opportunities and may not be able to compete effectively.

The Operating Company competes 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 its competitors are substantially larger and have considerably greater financial, technical and marketing resources than it does. For example, some competitors may have a lower cost of capital and access to funding sources that are not available to the Operating Company. In addition, some of the Operating Company's competitors may have higher risk tolerances or different risk assessments than the Operating Company has. Furthermore, many of the Operating Company's competitors have greater experience operating under, or are not subject to, the regulatory restrictions that the 1940 Act imposes on the Companies as BDCs or the source-of-income, asset diversification and distribution requirements that NMFC and AIV Holdings must satisfy to obtain and maintain their RIC status. These characteristics could allow the Operating Company's competitors to consider a wider variety of investments, establish more relationships and offer better pricing and more flexible structuring than the Operating Company is able to do. There are a number of new BDCs that have recently completed their initial public offerings or that have filed registration statements with the Securities and Exchange Commission, which could create increased competition for investment opportunities.

The Operating Company may lose investment opportunities if it does not match its competitors' pricing, terms and structure. With respect to the investments the Operating Company makes, it does not seek to compete based primarily on the interest rates it may offer, and we believe that some of the Operating Company's competitors may make loans with interest rates that may be lower than the rates

Table of Contents

it offers. In the secondary market for acquiring existing loans, we expect the Operating Company to compete generally on the basis of pricing terms. If the Operating Company matches its competitors' pricing, terms and structure, it may experience decreased net interest income, lower yields and increased risk of credit loss. If the Operating Company is forced to match its competitors' pricing, terms and structure, it may not be able to achieve acceptable returns on its investments or may bear substantial risk of capital loss. Part of the Operating Company's 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 the Operating Company's competitors in this target market could force it to accept less attractive investment terms. The Operating Company 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 the Operating Company and may not be in the best interests of the Operating Company and, consequently, NMFC's and AIV Holdings' stockholders. Moreover, the performance of investment opportunities is not known at the time of allocation. If the Operating Company is not able to compete effectively, its business, financial condition and results of operations may be adversely affected, thus affecting the business, financial condition and results of operations of NMFC and AIV Holdings. Because of this competition, there can be no assurance that the Operating Company will be able to identify and take advantage of attractive investment opportunities that it identifies or that it will be able to fully invest its available capital.

Our business, results of operations and financial condition depends on the Operating Company's ability to manage future growth effectively.

The Operating Company's ability to achieve its investment objective and to grow depends on the Investment Adviser's ability to identify, invest in and monitor companies that meet the Operating Company's 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 the Operating Company 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 the Operating Company's portfolio companies. These demands on the time of the Investment Adviser and its investment professionals may distract them or slow the Operating Company's rate of investment. In order to grow, the Operating Company 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 the Operating Company is unable to manage its 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 the Operating Company's return on investment capital. This may encourage the Investment Adviser to use leverage to increase the return on the Operating Company's investments. In addition, because the base management fee is payable based upon the Operating Company's gross assets, which includes any borrowings for investment purposes, but excludes cash and cash equivalents for investment purposes, the Investment Adviser may be further encouraged to use leverage to make additional investments. Under certain circumstances, the use of leverage may increase the likelihood of default, which would impair the value of NMFC's and AIV Holdings' common membership units of the Operating Company and, consequently, the value of NMFC's and AIV Holdings' common stock.

Table of Contents

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 for the Operating Company to make distributions to NMFC and AIV Holdings that enable NMFC and AIV Holdings to pay current distributions to their stockholders. Under these investments, the Operating Company 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. The Operating Company's 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 the Operating Company has 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.

The Operating Company may be obligated to pay the Investment Adviser incentive compensation even if the Operating Company incurs 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 the Operating Company's 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 the Operating Company's net asset value, decreases in the Operating Company's net asset value makes it easier to achieve the performance threshold. The Operating Company's 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 the Operating Company's statement of operations for that quarter. Thus, the Operating Company may be required to pay the Investment Adviser incentive compensation for a fiscal quarter even if there is a decline in the value of its portfolio or the Operating Company incurs a net loss for that quarter.

The Operating Company borrows money, which could magnify the potential for gain or loss on amounts invested in us and increase the risk of investing in us.

The Operating Company borrows money as part of its 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 the Operating Company to continue to use leverage to finance its investments, through senior securities issued by banks and other lenders. The Operating Company is restricted from incurring additional indebtedness under the Holdings Credit Facility and the SLF Credit Facility (the "Credit Facilities"), without lender consent. See *Item 8. Financial Statements and Supplementary Data Note 7, Borrowing Facilities* for a detailed discussion on the Credit Facilities. Lenders of these senior securities have fixed dollar claims on the Operating Company's assets that are superior to NMFC's and AIV Holdings' claim as members of the Operating Company, and, consequently, superior to claims of NMFC's and AIV Holdings' common stockholders. If the value of the Operating Company's assets decreases, leveraging would cause its net asset value and, consequently, NMFC's and AIV Holdings' net asset value, to decline more sharply than it otherwise would have had it not leveraged. Similarly, any decrease in the Operating Company's income would cause its net income and consequently NMFC's and AIV Holdings' net income to decline more sharply than they would have had it not borrowed. Such a decline could adversely affect the Operating Company's ability to make distributions to its members and, consequently, NMFC's and AIV Holdings' ability to make common stock dividend payments. In addition, because the Operating Company's investments may be illiquid, the Operating Company may be unable to dispose of them or to do so at a favorable price in the event it needs to do so if it is unable to refinance any indebtedness upon maturity and, as a result, we may suffer losses. Leverage is generally considered a speculative investment technique.

Table of Contents

The Operating Company's ability to service any debt that it incurs depends largely on its 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 NMFC's and AIV Holdings' interests and the interests of their common stockholders. In addition, holders of NMFC's and AIV Holdings' common stock will, indirectly, bear the burden of any increase in the Operating Company's expenses as a result of leverage, including any increase in the management fee payable to the Investment Adviser.

At December 31, 2012, the Operating Company had \$206.9 million and \$214.3 million of indebtedness outstanding under the Holdings Credit Facility and the SLF Credit Facility, respectively. The Holdings Credit Facility had an effective annual interest rate of 3.1% for the year ended December 31, 2012 and the SLF Credit Facility had an effective interest rate of 2.3% for the year ended December 31, 2012.

NMFC and the Operating Company may need to raise additional capital to grow the Operating Company.

All of the proceeds from the IPO, the Concurrent Private Placement and subsequent offerings by NMFC were contributed to the Operating Company in exchange for NMFC's and AIV Holdings' acquisition of common membership units of the Operating Company. The Operating Company may need additional capital to fund new investments and grow its portfolio of investments once the Operating Company has fully invested these proceeds. NMFC may access the capital markets periodically to issue equity securities, which would in turn increase the equity capital available to the Operating Company. In addition, the Operating Company may also issue debt securities or borrow from financial institutions in order to obtain such additional capital. AIV Holdings does not intend to raise any additional equity or debt capital. However, the Operating Company is restricted from incurring additional indebtedness under the Credit Facilities, without lender consent. NMFC is not permitted to own any other securities other than its common membership units of the Operating Company. As a result, any proceeds from offerings by NMFC of equity securities would be contributed to the Operating Company. Unfavorable economic conditions could increase NMFC and the Operating Company's funding costs, and as a result AIV Holdings' funding costs, and limit their access to the capital markets or result in a decision by lenders not to extend credit to the Operating Company. A reduction in the availability of new capital could limit the Operating Company's ability to grow. In addition, each of NMFC and AIV Holdings are required to distribute at least 90.0% of their net ordinary income and net short-term capital gains in excess of net long-term capital losses, if any, to their stockholders to obtain and maintain their RIC status. As a result, these earnings will not be available to fund new investments. If NMFC or the Operating Company is unable to access the capital markets or if the Operating Company is unable to borrow from financial institutions, the Operating Company may be unable to grow its business and execute its business strategy fully and our earnings, if any, could decrease which could have an adverse effect on the value of NMFC's and AIV Holdings' securities.

If the Operating Company is unable to comply with the covenants or restrictions in the Credit Facilities, our business could be materially adversely affected.

The Credit Facilities include covenants that, subject to exceptions, among other things, restrict the Operating Company's ability to incur additional indebtedness, pay distributions, create liens on assets, make investments, make acquisitions and engage in mergers or consolidations. The Credit Facilities also include change of control provisions that accelerate the indebtedness under the facility in the event of certain change of control events. Complying with these restrictions may prevent the Operating Company from taking actions that we believe would help it to grow its business or are otherwise consistent with its investment objective. These restrictions could also limit the Operating Company's

Table of Contents

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 Credit Facilities could limit the Operating Company's ability to make distributions to its members in certain circumstances which could result in NMFC and AIV Holdings failing to qualify as RICs and thus becoming subject to corporate-level federal income tax (and any applicable state and local taxes).

The breach of any of the covenants or restrictions unless cured within the applicable grace period, would result in a default under the respective Credit Facilities that would permit the lender to declare all amounts outstanding to be due and payable. In such an event, the Operating Company 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 the Operating Company's liquidity. An event of default under the Holdings Credit Facility will trigger an event of default under the SLF Credit Facility. The Operating Company may not be granted waivers or amendments to the Credit Facilities if for any reason it is unable to comply with it, and the Operating Company may not be able to refinance the Credit Facilities on terms acceptable to it, or at all.

The Operating Company may enter into reverse repurchase agreements, which are another form of leverage.

Subject to limitations in the Credit Facilities, the Operating Company may enter into reverse repurchase agreements as part of its management of its investment portfolio. Under a reverse repurchase agreement, the Operating Company will effectively pledge its 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 the benefit of the Operating Company.

The Operating Company's use of reverse repurchase agreements, if any, involves many of the same risks involved in its 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 it has sold but remains obligated to repurchase under the reverse repurchase agreement. In addition, there is a risk that the market value of the securities effectively pledged by the Operating Company may decline. If a buyer of securities under a reverse repurchase agreement were to file for bankruptcy or experience insolvency, the Operating Company may be adversely affected. Also, in entering into reverse repurchase agreements, the Operating Company 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, the Operating Company's net asset value would decline, and, in some cases, we may be worse off than if such instruments had not been used.

If the Operating Company is unable to obtain additional debt financing, or if its borrowing capacity is materially reduced, our business could be materially adversely affected.

The Operating Company may want to obtain additional debt financing, or need to do so upon maturity of its Credit Facilities, in order to obtain funds which may be made available for investments. The Operating Company is restricted from incurring additional indebtedness under the Credit Facilities without lender consent. The revolving period under the Holdings Credit Facility ends on October 27, 2014, and the Holdings Credit Facility matures on October 27, 2016. The revolving period under the SLF Credit Facility ends on October 27, 2014, and the SLF Credit Facility matures on October 27, 2016. If the Operating Company is unable to increase, renew or replace any such facility and enter into a new debt financing facility or other debt financing on commercially reasonable terms, its liquidity may

Table of Contents