Investment Memorandum

New Mountain Finance Corp

NASDAQ: NMFC

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Executive Summary

At 6.67 USD per share, the market prices NMFC as if it will keep seeing its NAV continue to decline similar to the decline during FY2023 and FY2025 of 4.32% annually. Management's actions since late 2025 make reversion toward the five-year rolling average of 0.90% the more likely outcome. As a result, NMFC is a buy at a weighted value of 8.78 USD per share conditional on that the improvements continue since the bear case of 6.11 USD per share sits below today's price.

NMFC is a BDC that lends to US private equity backed companies with 10-200 million USD of EBITDA. About two thirds of the 2.7 billion USD portfolio is first lien and a quarter is equity (NMFC, FY2025 10K, p. 152-153 & 179). It pays out nearly all of its income. Therefore, NAV per share moves with credit marks and with share transactions away from NAV.

On an aggregate level, capital is leaving BDCs and the regulation that kept banks out of sponsor lending was withdrawn in December 2025. Both points to a harder market for smaller lenders. Every competitive advantage NMFC claims is also climate by Golub Capital, Ares Capital, or BCRED, which add scale, lead positions, or permanent capital that NMFC lacks. Over FY2021 to FY2025, NMFC earned as much on NAV as its peers while also being the one who lost the most, ran the most leveraged, and carried the most non-cash income. Its NAV per share fell 8.7% while the peers' ranged from -0.80% to 17.5%. Most of the gap traces to the equity book, which produced 86% of FY2025's unrealized depreciation on positions still held.

Insiders own 18% of outstanding shares as of Q2 FY2026, led by the chairman. Insiders bought a net 12 million USD in the open market at about 0.70x NAV after the February 2026 asset sale. Management's record before 2026 is respectable, adjusting for FY2025, but not superior. Its response since with the asset sale, buybacks at a deep discount, a leverage cap, and fee cuts is directionally correct. The adviser's fees reward size and accrued income as opposed to NAV, meaning the insiders' own shares are the main link to shareholders' interest.

Value follows economic return on NAV against the cost of equity. The base case, built on averages, gives 9.11 USD per share. It represents an upside of 36.5%. The bear case gives 6.11 USD, 8.4% below it, while the bull case gives 13.13 USD per share. Weighted 15%, 82%, and 3%, the value is 8.78 USD per share (i.e., almost 32% upside). The recommendation is a conditional buy below 7.02 USD per share and it rests on net losses falling back towards 1.4% of NAV annually. The first falsifier breaks if losses exceed 3.4% of average NAV over any trailing four quarters going forward, starting with the Q3 FY2026.

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1. Business Overview

1.1 NMFC Summary

NMFC is a closed-end fund regulated as a business development company (“BDC”) under the 1940 Act and taxed as a regulated investment company (“RIC”). Since its IPO on 19 May 2011 it has raised equity exceeding 1 000 million USD (NMFC, FY2025 10K, p. 152). It lends to US private equity backed companies with EBITDA ranging from 10 and 200 million USD. The investments are made in defensive growth sectors. The top five industries are software, business services, healthcare, investment funds, and consumer services (NMFC, FY2025 10K, p. 153).

NMFC has no employees. Instead, New Mountain Finance Advisers manages it under an advisory agreement. New Mountain Finance Advisers is a subsidiary of New Mountain Capital, which itself holds about 60 billion USD in assets under management. An affiliated administrator runs the operations of NMFC (NMFC, FY2025 10K, p. 152). The consolidated subsidiaries of NMFC include:

- NMF Holdings, which holds assets pledged to the Holdings Credit Facility.
- SBIC I to III, which lend under SBA licences, are funded by SBA debenture, and are restricted to SBA-eligible small businesses.
- Tax blocker corporations, which hold equity in passthrough entities so that NMFC keeps its RIC status.
- NMNLC, a majority-owned REIT that owns triple-net leased real estate.

Most of the book is first lien or unitranche. A unitranche loan combines senior and junior debt in one loan, and a “last-out” piece is repaid after the “first-out” lenders. This raises the credit risk (NMFC, FY2025 10K, p. 152-153). The following table summarizes NMFC’s portfolio investments as of December 31, 2025 (NMFC, FY2025 10K, p. 179):

Asset Type	**Fair Value**	**Share**
First lien	1 828.2 MUSD	66.3 %
Second lien	91.2 MUSD	3.3%
Subordinated	121.5 MUSD	4.4%
Equity and other	707.9 MUSD	25.8 %
Structured finance	3.3 MUSD	0.1%
Total	**2 742 MUSD**	

1.2 Accounting Reality

1.2.1 Revenue Recognition, Income Taxes, and Distributions

NMFC accrues interest income, including the amortization of purchase discount and premium. Repayment penalties are also recorded as interest income. If deemed collectible, PIK interest and dividends are accrued at contract rates and added to the principal. They are generally due at maturity. Non-accruals occur when a payment is 30 or more days past due and collection is in reasonable doubt. Accrued cash interest and PIK not yet capitalized are reversed, however, PIK already added to the principal amount is not reversed (NMFC, FY2025 10K, p. 156-157).

As a RIC, NMFC pays no federal tax income on income it distributes. To keep that status it must pass income and asset diversification tests and distribute at least 90% of investment company taxable income. On top of that, a 4% non-deductible excise tax applies to any shortfall below 98% of calendar-year ordinary income and 98.2% of capital gain net income for the year to 31 October (NMFC, FY2025 10K, p. 157). As a result, NMFC cannot build equity from retained earnings since almost all income is to be paid out. Thus, the loan book can only grow from issuance of equity and/or debt. New shares can only be sold at or above NAV without shareholder approval (The Investment Lawyer, 2019, p. 4), meaning growth depends on share price relative to NAV. In addition, PIK income is taxable when it accrues, meaning it must be distributed in cash before it is collected. Furthermore, undistributed ordinary income was zero FY2024 and FY2025, meaning no income has been carried forward. At the same time, accumulated capital loss carryforwards are 106.5 million USD (NMFC, FY2025 10K, p. 199). Hence, future realised gains up to that amount can be offset, so they need not be paid out as capital gain distributions.

On distribution policy, NMFC intends to distribute approximately all quarterly net investment income (“NII”) and substantially all taxable income yearly, though NMFC may keep net capital gains (NMFC, FY2025 10K, p. 157-158). Since all NII is distributed, NAV per share moves with credit marks and with share transactions to NAV, where share repurchases at a discount to NAV and share issuance at a premium to NAV are accretive, and vice versa. Furthermore, NMFC has a dividend reinvestment plan (“DRIP”) where distributions are reinvested in shares unless a holder chooses cash. If the share price is at or above 110% of the latest NAV per share, only new shares are used and credited at the market price. If it is below 110% of NAV, NMFC may issue new shares or have the plan administrator buy shares in the market (NMFC, FY2025 10K, p. 157-158). Separately, the board authorised a share repurchase programme to 100 million USD on 23 October 2025, and an additional 50 million USD as of 28 April 2026. As per 30 June 2026, NMFC can repurchase shares for up to approximately 79.5 million USD (NMFC, Q2 FY2026 10Q, p. 69).

When the share price is 110% of NAV, the DRIP is always accretive because new shares are issued at a premium. Below, new DRIP shares would dilute, while market purchases would not. No shares were issued in FY2025 (NMFC, FY2025 10K, p. 93), which suggests that the

DRIP demand was met with market purchases. In general, the remains of the current share repurchase programme may be highly accretive for NAV per share going forward.

1.2.2 Valuation At Fair Value

NMFC follows investment company accounting (ASC 946). Every investment is carried at fair value, and every change in value goes through the income statement. Unrealized changes appear as "Net change in unrealized appreciation (depreciation)", while realized changes on exit as "Net realized gains (losses)". The portfolio companies are not consolidated, but they are valued on a quarterly basis and the board of directors are ultimately responsible (NMFC, FY2025 10K, p. 153-154). The process has three tiers:

I. Exchange quotes: Closing price.
II. Broker or pricing-service quotes: With two or more quotes, the mean of the bid-ask midpoints is used. A single quote is validated internally by the adviser's team. If a material position cannot be validated it drops to level III.
III. No quote: The adviser's credit team proposes a value and senior management reviews it. Once a material position has gone four consecutive quarters without a quote, an independent valuation firm reviews it at least once a year. Management can also have a firm value a position directly.

Looking at FY2025, unrealised depreciation amounted to 149.1 million USD, of which 111.8 million USD relates to assets in level III. The majority of those relate to equity and other assets. In level III, the borrower's enterprise value is estimated through comparable EBITDA or revenue multiples and must cover the debt. If it does, the loan is valued by discounting its cash flows at a rate calibrated to market yields for similar credit (NMFC, FY2025 10K, p. 178.182).

Hence, fair value assessments are heavily influenced by current market yields and multiples, especially for equity assets which compromises almost 26% of the portfolio. Given the judgement required in assessing fair value for assets in level III alongside that the adviser's fees rise with asset values (see discussion regarding agreements and related parties), the reported NAV is to be treated as a current estimate reflecting the current market environment as well as management's judgement.

1.2.4 Agreements and Related Parties

New Mountain Finance owns the adviser and administrator, meaning it receives fees charged less its cost. The adviser is New Mountain Finance Adviser. The SEC granted a new co-investment exemptive order on 13 May 2025. As a result, NMFC can invest alongside affiliated funds on the same terms and at the same time. In cases where an affiliate holds the issuer or the exit is not pro rata, a required majority of independent directors must approve. Affiliate transactions in NMNLC, the majority owned REIT, took place in 2020 and 2024 at NAV or at original cost (NMFC, FY2025 10K, p. 186-187). Furthermore, an affiliate NMF Investments III, provides an uncommitted 100 million USD unsecured revolver at the

applicable federal rate. Its maturity was extended to 31 December 2030 and was undrawn at 30 June 2026 (NMFC, Q2 FY2026 10Q, p. 101).

The affiliate revolver is backup liquidity and supports the balance sheet of NMFC. At the same time, the co-investment possibility with affiliated funds creates allocation conflicts as the same adviser decides which vehicle gets which deal and which exits first. Thus, the independent directors are important governance controls.

Moreover, the adviser, New Mountain Finance Advisers, is paid under the Investment Management Agreement, which the board of NMFC approved to continue on 11 February 2026 for 12 months from 1 March 2026. The base fee is 1.25% yearly of gross assets. Gross assets are defined as total assets less cash and equivalents averaged over the last two quarter-ends. It was cut from 1.75% to 1.40% in November 2021 and to 1.25% in January 2025. The income incentive fee is paid quarterly and is 20% of pre-incentive fee NII with a hurdle rate of 2% a quarter (i.e., 8% annually) on the prior quarter-end NAV. There is a 100% catch-up rate between 2% and 2.5% and then 20% above that. Pre-incentive fee NII included accrued PIK and original issue discount ("OID") not yet received in cash and excludes all gains and losses. There is no lookback for capital losses. Capital gains fee is paid annually and is 20% of cumulative realized gains and net of realized losses and unrealized depreciation. Nothing has been owed in FY2023 to FY2025 because depreciation exceeds gains. As for the administrator, it is reimbursed for allocated overhead including CFO and compliance staff. In FY2025 this amounted to 2.5 million USD, representing 0.09% of gross assets. The adviser, at its sole discretion, can voluntarily waiver fees and cannot be recouped (NMFC, FY2025 10K, p. 185-186).

The following table shows the base and incentives fees of NMFC (NMFC, FY2025 10K, p. 185):

Fees, MUSD	**FY2023**	**FY2024**	**FY2025**
Base fee after waiver	41.5	41.8	38.5
Income incentive free before waiver	38.3	36.4	30.8
Incentive fee waived	0	0	12.8
Income incentive fee paid	38.3	36.4	17.9

In FY2025, fees of 56.4 million USD equal 17.2% of total investment income and 41% of NII. More importantly, there is no loss lookback while the income fee is paid on accrued PIK even in a year when NAV per share falls, as FY2025 shows. Though the FY2025 offset that partly. Additionally, gross assets include assets funded with debt, so the fee rises with leverage whatever the return. Thus, there is an incentive for management to issue shares when the share price exceeds NAV per share because (i) equity increases by more than 1:1 and (2) debt capacity grows, both of which raises gross assets assuming the proceeds are invested into positions in portfolio companies.

1.2.5 Derivatives and Hedging, Borrowings, and Contingencies

NMFC uses interest rate swaps under an ISDA Master Agreement with one counterparty dated 18 March 2024. All swaps are designated fair value hedges and collateral is posted both ways. The counterparty may terminate if NMFC fails to maintain sufficient asset levels (NMFC, FY2025 10K, p. 154-155). There are two swaps of 300 million USD in notional amounts each. NMFC receives 6.875% and 6.2% respectively, the coupons on its two unsecured notes, and pays one-month SOFR plus 2.8183% and 2.882% respectively (NMFC, FY2025 10K, p. 194-195). As a result, the swaps turn 600 million USD of fixed-rate debt into floating, meaning funding costs move with SOFR which follows asset yields.

See Table A in Appendix for a summary of NMFC's borrowings. NMFC is constrained to have asset coverage of at least 150%, excluding SBA debt. As of 31 December 2025, actual asset coverage was 179.20%. Covenants in the NMFC facility and some unsecured notes cap debt to equity at 1.65x when new debt is taken on and cap the secured debt ratio at 0.70x. The Holdings Facility is non-recourse to NMFC and its covenants depend on portfolio company performance and not marks (NMFC, FY2025 10K, p. 187-188).

SBA debentures at 2.6% are the cheapest debt and they are being repaid. 103.8 million USD was repaid in FY2025 (NMFC, FY2025 10K, p. 94, 196) and the 2021A unsecured notes at 3.875% are fully repaid. Going forward, these are replaced with revolver debt at SOFR + 1.95%, or more, raises the cost of funds, ultimately narrowing the spread unless asset yields rise. Even after the swap agreements, the majority of borrowings are floating. Therefore, NII will become increasingly dependent on the spread over SOFR rather than on rate levels.

Furthermore, NMFC has promised to lend more to existing borrowers when they ask and these commitments are not recognised on the balance sheet. The following table summarizes commitments and contingencies (NMFC, FY2025 10K, p. 198):

Commitment, MUSD	**31 Dec 2024**	**31 Dec 2025**
Undrawn revolvers at portfolio companies	126.7	133.5
Other future funding, mainly delayed draws	117	77.6
Signed commitment letters	83.6	4.7
Bridge financing	0	0
Total	**327.3**	**215.9**

The 215.9 million USD in commitments represents a substantial share of NAV. Borrowers draw revolvers when they are short of cash which tend to happen at the same time, for example during a downturn. Similarly, during downturns is also when credit losses increase and leverage headroom shrinks. Therefore, NMFC must carefully manage its undrawn debt capacity, its headroom to its debt covenants, and the cash flow stability of the borrowers holding undrawn revolvers.

2. The Industry Landscape

The relevant market is US sponsor-backed lending to companies with 10-200 million USD of annual EBITDA.

2.1 Capital Supply and Sponsor Activity

The Federal Reserve (2026, p. 43-45) reports net outflows from BDCs, reversing the growth of the previous decade. At the same time, sponsors hold large amounts of uninvested capital and aggregate deal values fell sharply in Q2 2026 (NMFC, Earnings Presentation Q2 FY2026, p. 13). The evidence of the impact on spreads remains mixed. Direct lending still prices above broadly syndicated loans, but both spreads have trended down (NMFC, Earnings Presentation Q2 FY2026, p. 13). NMFC's management, by contrast, reports that spreads have widened in general (NMFC, Q1 FY2026 Earnings Webcast Transcript, 2026) and that software and AI-exposed sectors are pricing wider (NMFC, Q2 FY2026 Earnings Webcast Transcript, 2026). Taken together, it seems like BDCs in general are finding it harder to raise capital, and it is not yet clear that lenders as a group are earning wider spreads.

US private equity deal value was 230.4 billion USD in Q3 2026, up 20% from Q2, across 1728 deals which themselves increased 5.8% QoQ. US exit value was 165.1 billion USD, up 51% QoQ, across 260 exits which themselves increased 11% QoQ (PitchBook, 2026). Activity therefore recovered in Q3 from the weak Q2 that NMFC reported. US fundraising totalled 222 billion USD across 348 funds in the first nine months of 2026. That is 10.3% less capital and 31.5% fewer funds than a year earlier. Sponsor capital is therefore concentrating in fewer and larger funds (PitchBook, 2026). If that persists it may shift bargaining power between sponsors and lenders, but its effect on lending spreads is not clear.

2.2 Rates, Asset Yields, and Credit Cycle

The 30-, 90-, 180-day SOFR averages are rising (Federal Reserve of New York, 2026). NMFC's Q2 FY2026 new investments carried a 12.2% YTM at cost and 10.1% on sales and repayments (NMFC, Earnings Presentation Q2 FY2026, p. 15). That compares with 9.3% for new investments a year earlier (NMFC, Earnings Presentation Q2 FY2025, p. 20). Part of the gap from discounted secondary purchases rather than from new loans (NMFC, Q2 FY2026 Earnings Webcast Transcript, 2026). Rising rates lift asset yields and borrowing costs together, which favours the lenders with the cheapest and most reliable funding.

Proskauer's (2026) private credit default rate was 2.51% in Q2 2026. Default rates are higher in Q2 2026 than in Q3 2025 for every company size, although some size bands have eased since Q4 2025 and Q1 2026. NMFC's COO said in Q1 2026 that she saw no sign of systematic stress, with defaults below their ten-year average. She expected that quarter's NAV declines to come mainly from marks moving with the broadly syndicated loan market (NMFC, Q1 FY2026 Earnings Webcast Transcript, 2026).

2.3 New Entrants

New BDC elections on Form N-54A numbered 23 in 2022, 29 in 2023, 23 in 2024, and 22 in 2025. There were 16 up to 20 October 2026 (Edgar, 2026). New vehicles keep forming at a steady state, so the legal barrier to becoming a BDC is low. The competitors' own filings point instead to scale, sponsor relationships, and track record as the barriers that matter (see discussion in The Competitive Landscape).

2.4 Industry Regulation

Two rules move the barriers to entry in this market. On 5 December 2025 the OCC and FDIC withdrew the 2013 Interagency Guidance on Leveraged Lending and its 2014 FAQs. They concluded that it had been overly restrictive and had contributed to banks losing market share to non-bank lenders (FDIC, 2025). Capital requirements and prudential limits still apply. Hence, how far banks return depends on their own risk appetite and capital economics. The barrier that pushed sponsor lending towards BDCs has therefore weakened materially but has not disappeared fully.

The second regulation is an advantage for incumbents that has to be renewed. The SBA's small business investment company programme gives licensed vehicles long-term, fixed-rate, government-backed leverage. It can amount up to 300% of leverable capital. The funding can only be used for eligible small businesses, and the vehicle must be licensed, examined, and reported to the SBA (SBA, 2026; CFR, 2026) NMFC runs three SBIC subsidiaries. Their debentures are its cheapest funding at 2.6% on average, but they fell from 300 million USD to 196.2 million USD during FY2025 (NMFC, FY2025 10K, p. 36 & 91). The advantage lasts only as long as new licenses and leverage are granted.

3. The Competitive Landscape

The market is fragmented looking at lenders. Hence, the following competitors have been chosen for different purposes. Golub Capital BDC is the closest analogue to NMFC as it is a sponsor-focused middle-market lender. Ares Capital is the scale threat since it is the largest listed BDC. Blackstone Private Credit FUnd is treated as a substitute with it is structure as a perpetual non-traded BDC.

3.1 NMFC's Strategy

NMFC lends senior secured debt to US companies owned by private equity sponsors. The company has annual EBITDA ranging from 10-200 million USD and looks for defensive growth borrowers. These are businesses with acyclical demand, secular growth drivers, a dominant position in a niche, high barriers to entry, recurring revenue, strong free cash flow and return on assets, flexible cost structures, and seasoned management. It lends only in sectors that New Mountain Capital has already researched, and software is the largest sector in the portfolio (NMFC, FY2025 10K, p. 152-153).

NMFC does not claim an edge in scale or price. However, it does so in underwriting depth enabled by its parent, New Mountain Capital. Its credit team underwrites alongside New Mountain Capital's in-house industry executives and private equity staff. New Mountain Capital cites 305 employees and senior advisors, 120 industry executives, and 90 companies owned across its private equity platform (NMFC, Strategy & Expertise, 2026). Management argues that this gives it "underwriting depth and real time insights that we believe generalist lenders simply cannot replicate" (NMFC, Q2 FY2026 Earnings Webcast Transcript, 2026). It adds that if a borrower fails and NMFC takes ownership, New Mountain Capital's private equity and operating staff can improve the business (NMFC, Q1 FY2026 Earnings Webcast Transcript, 2026).

Management is currently reshaping the portfolio and its funding in six ways. First, it aims to reduce PIK income 12% of investment income. PIK was 17% in Q2 FY2026, up from 16% in Q1 (NMFC, Earnings Presentation Q2 FY2026, p. 9; NMFC, Earnings Presentation Q1 FY2026, p. 33). Second, it agreed in February 2026 to sell 477 million USD of assets at 94% of their 31 December 2025 fair value. The stated aims were to reduce concentration in its largest positions, reduce PIK, and free capital to repay debt, repurchase shares, or reinvest (NMFC, FY2025 10K, p. 207-208).

Third, it buys loans in the secondary market that NMFC believes are oversold. One example is a loan bought at 0.65 on the dollar (NMFC, Q1 FY2026 Earnings Webcast Transcript, 2026). Fourth, it is deploying at higher yields. New investments in Q2 FY2026 carried a 12.2% YTM at cost, against 10.1% on sales and repayments (NMFC, Earnings Presentation Q2 FY2026, p. 15). Fifth, it caps net debt-to-equity at 1.25x, which also limits share repurchases (NMFC, Q2 FY2026 Earnings Webcast Transcript, 2026). Sixth, it intends to refinance the 2027 maturities in the unsecured market. Management states that 2 billion USD

of borrowing capacity covers both those maturities and its unfunded commitments (NMFC, Q2 FY2026 Earnings Webcast Transcript, 2026; NMFC, Earnings Presentation Q2 FY2026, p. 21). The strategy is described consistently across filings, the website, and calls.

3.2 Competitor I: Golub Capital BDC (BGDC)

Golub's case rests on scale, repeat sponsors, and control as lead lender. Its adviser's platform manages more than 90 billion USD with over 1100 employees and more than 430 sponsor relationships. Repeat sponsors supplied 90% of origination in FY2025 and 85% in H1 2026. Golub says those relationships give it early and last looks at deals, which lets it be selective. It leads about 90% of its deals and argues that this gives Golub control over pricing, terms, information, and any workout (Golub Capital, FY2025 10K, p. 6-7; Golub Capital, Investor Presentation, p. 4-7).

More than 230 investment professionals cover software, healthcare, business services, consumer, and financial services (Golub Capital, FY2025 10K, p. 8-9; Golub Capital, Investor Presentation, p. 8). Its credit process centres on downside enterprise value, sponsor equity cushions and covenants in first-lien and first-out loans (Golub Capital, FY2025 10K, p. 8-10; Golub Capital, Investor Presentation, p. 3 & 11-15). In a workout its adviser can step in as sponsor, and it has restructuring experience both in and out of bankruptcy (Golub Capital, FY2025 10K, p. 7; Golub Capital, Investor Presentation, p. 3 & 16). Neither the presentation nor the 10K describes a strategy of buying oversold loans in the secondary market.

On where the market is going, Golub expects dislocations to speed up share gains for larger platforms. It also warns that matching competitors' terms could lower yields and raise credit losses (Golub Capital, FY2025 10K, p. 7).

3.3 Competitor II: Ares Capital (ARCC)

Ares Capital relies on the breadth of its platform and on self-origination at scale. It describes itself as the largest listed BDC by market capitalization. It draws on the wider Ares platform across credit, real assets, private equity, and secondaries for sourcing and due diligence (Ares Capital, FY2025 10K, p. 3-4).

Ares Capital prefers self-originated deals in which it leads, because those give it control over structure, pricing, and covenants. Its balance sheet lets it offer one-stop financing and hold large positions without syndication risk (Ares Capital, FY2025 10K, p. 4 & 12). It covers more than 55 industries (Ares Capital, FY2025 10K, p. 5 & 8-9). It holds board seats or observer rights at 14% of its portfolio companies, which make up 24% of fair value. It rates every credit on a 1-4 scale to decide which need closer monitoring (Ares Capital, FY2025 10K, p. 13-14). Also, it buys secondary assets selectively (Ares Capital, FY2025 10K, p. 7 & 12-13).

Ares Capital attributes demand for its lending to banks pulling back because of capital rules and to large uninvested sponsor capital (Ares Capital, FY2025 10K, p. 4-5 & 14).

3.4 Competitor III: Blackstone Private Credit Fund (BCRED)

BCRED's case rests on scale, permanent capital, and operating support for borrowers. It is affiliated with Blackstone Credit & Insurance and with Blackstone as a whole. It targets large transactions, where fewer private lenders can compete to secure better pricing and terms (BCRED, FY2025 10K, p. 14-15).

Through a value creation programme, its portfolio companies get access to Blackstone's group purchasing, to revenue introductions across more than 400 portfolio companies, and to operating advice (BCRED, FY2025 10K, p. 15-16 & 22). Its perpetual structure means it is never forced to sell assets in a downturn (BCRED, FY2025 10K, p. 16 & 24). A chief investment officer team of 127 people includes asset management, restructuring, and legal specialists (BCRED, FY2025 10K, p. 14 & 19 & 21). It uses Blacktone's liquid credit platform to fund and buy secondary loans (BCRED, FY2025 10K, p. 13 & 15 & 19). It is also expanding into European direct lending as banks there retreat (BCRED, FY2025 10K, p. 15)

3.5 Convergence and Divergence

Every advantage NMFC claims is also claimed by at least one competitor. All four lenders claim sector expertise and underwriting depth as they draw on an affiliated platform, whether it is New Mountain Capital, Golub, Ares, or Blackstone. Similarly, all describe the middle-market businesses to be underserved by banks and they have the ability to manage or take over a failing borrower. NMFC places this after it takes ownership, Golub through its adviser acting as sponsor, Ares through board seats, and BCRED through a dedicated restructuring team. NMDC's secondary buying of dislocated loans is shared with BCRED and, selectively, with Ares. Golub does not state whether it does or not. None of these claims, by itself, can therefore be an edge for NMFC.

The differences among the lenders lie in what NMFC does not claim. Golub and Ares claim lead-lender control of terms, with Golub at about 90% of deals. Golub discloses its repeat-sponsor share with 90% in FY2025 and 85% in H1 2026. Ares and BCRED cite sponsor relationships as important, though without figures. NMFC states neither lead-lender advantage nor important sponsor relationships. All three competitors claim scale, while NMFC's own filing concedes that many competitors are larger. Only BCRED has permanent capital and a formal operating programme for performing borrowers, though Ares says it works with management teams on strategic initiatives.

Two conclusions follow from the above. First, the shared claim that banks underserve the market is dated and may not be representative of the competitive landscape going forward. All four filings make it, but the supervisory guidance behind it was withdrawn on 5

December 2025. Second, NMFC's case rests on depth as opposed to breadth since its peers claim the same expertise alongside scale, lead positions, or operating programmes. Whether NMFC's depth is real therefore cannot be settled by its claims. It has to show up in loss rates and recoveries against peers measured on the same definitions, which the financial comparison tests.

3.6 NMFC's Potential Competitive Disadvantages

3.6.1 Scale and Cost of Capital

NMFC itself states that many competitors are larger, with greater resources, and cheaper funding (NMFC, FY2025 10K, p. 26-27). New Mountain Capital manages about 60 billion USD. That compares with more than 90 billion USD at Golub's adviser and financial empire of Blackstone, all while Ares is the largest listed BDC. A smaller platform limits how much of a single deal NMFC can hold, and may mean a higher cost of debt.

3.6.2 No Stated Operating Programme for Performing Borrowers

BCRED gives all its borrowers access to group purchasing, revenue introductions, and operating advice. Ares says it works with management teams on strategic initiatives. In contrast, NMFC describes operating support after it has taken ownership of a failed borrower. New Mountain Capital's private equity operating resources may well reach NMFC's performing borrowers but NMFC does not say so publicly.

3.6.3 Undisclosed Sourcing Edge

Golub reports 90% repeat-sponsor origination and lead positions in about 90% of deals. NMFC discloses neither figure.

3.6.4 No Route to Growth Equity While Below NAV

NMFC's shares closed at 6.57 USD (Yahoo Finance, 2026) against NAV of 10.89 USD as of 30 June 2026 (NMFC, Q2 FY2026 Earnings Presentation, p. 6), which is about 0.60 times NAV. Issuing shares below NAV requires shareholder approval (NMFC, FY2025 10K, p. 7), and the 1.25x leverage cap also limits buybacks (NMFC, Q2 FY2026 Earnings Webcast Transcript, 2026). BCRED, by contrast, raises capital continuously (BCRED, FY2025 10K, p. 16 & 24).

3.6.5 Cheapest Funding Source is Shrinking

NMFC's SBA debentures cost 2.6% on average, but fell from 300 million USD to 196.2 million USD during FY2025. Larger debt maturities fall due in 2027 (NMFC, Q2 FY2026 Earnings Presentation, p. 22). If the replacement funding costs more, the spread earned on investments narrows.

3.7 Financial Comparison with Competitors

Over FY2021 to FY2025, NMFC earned as much on its NAV as its peers did, and lost more of it than any of them. The comparison therefore answers the question about the convergence segment left open. The gap between NMFC and its peers is not earning power but its credit and mark outcomes. Those outcomes are also magnified by NMFC having the highest leverage in the group. Please refer to Table C in Appendix for this section.

3.7.1 Data and Definitions

- Golub's fiscal year ends on 30 September, while the others end on 31 December.
- Golub reports most of its loans as "one stop" rather than first lien, making this item not comparable and therefore left out.
- BCRED is not listed and transact near NAV, so it has no price to NAV.
- BCRED's FY2021 is a launch year and may distort its averages.
- Non-accrual ratios for Ares and BCRED come from percentages rounded to percentages.
- Cost of debt is defined differently by each company and is used only as an indication.

3.7.2 Earning Power is in Line with Peers

NMFC's NII averaged 10.3% of average net assets. That compares with 9.6% at Golub, 11% at Ares, and 10.4€ at BCRED. NII fell at all four from FY2024 to FY2025, which is consistent with the industry-wide pressure on base rates and spreads described in the industry segment. On income alone, nothing separates NMFC from the group.

3.7.3 The Gap to Peers: Losses

Since the asset sale of 477 million USD occurred in February 2026, it affects FY2026 and does not directly influence the numbers discussed below.

Net realized and unrealized results averaged a loss of 1.7% of NAV a year at NMFC. In comparison, Golub and Ares achieved gains of 0.2% and 0.8% respectively, though BCRED saw a loss of 1.4%. Excluding FY2021, when all four booked gains, NMFC's losses averaged 3.9% a year, higher than any of the others. In FY2025 alone, NMFC's loss of 9.1% of NAV was 4 to 17 times the peers' losses of 0.5% to 2.1%. At the same time, every lender took losses that year, meaning a part of NMFC's loss is the credit cycle. The size of the gap, however, is specific to NMFC. Non-accruals point the same way as NMFC averaged 1.4% of the portfolio at fair value. It is the highest in the group against 0.9% at Golub and Ares, and 0.2% at BCRED.

The outcome is clearest in NAV per share. NMFC's NAV per share fell 8.7% over the five years, from 12.62 USD to 11.52 USD. During the same time frame, Golub's rose 4.5%, Ares' rose 17.5%, and BCRED's was broadly flat at -0.8%. NMFC's economic return, defined as the NAV change and distributions, compounded at 8.4%. That compares with 10% at Golub, 13.2% at Ares, and 9.5% at BCRED. Loss-adjusted return on NAV follows the same ranking.

One qualification limits how far this can be read as an underwriting verdict. About a quarter of NMFC's portfolio is equity and equity produced 86% of FY2025's unrealized depreciation on positions still held (NMFC, FY2025 10K, p. 178-179). The loss gap may therefore owe more to the equity book and the software concentration than to loan underwriting itself, especially considering that equity investments only represent 7.4%, 16.9%, and 3.9% for Golub, Ares, and BCRED, respectively (Golub Capital, FY2025 10K, p. 99; Ares Capital, FY2025 10K, p. 169; BCRED, FY2025 10K, p. 16).

3.7.4 Income Quality and Leverage

Non-cash income averaged 17.2% of NMFC's total investment income. It is also the highest in the group with Ares at 14.9%, Golub at 8%, and 4% at BCRED. This is consistent with management's target of cutting PIK income below 12% (NMFC, Q2 FY2026 Earnings Presentation, p. 9). It also means more of NMFC's reported NII rests on income not yet received in cash than at any peer.

NMFC also ran their operations with the most leverage. Debt averaged 1.41 equity against 1.16x at Golub, 1.06x at Ares, and 0.98x at BCRED. The loss ratios above are measured against NAV. Hence, leverage is already accounted for. As a result, the same loss rate on assets costs NMFC's NAV more than it costs a less leveraged peer's, which widens the gap the loan book alone would produce.

3.7.5 Fees

NMFC's adviser fees averaged 5.4% of average net assets. In comparison, Golub had 3.9%, 6% for Ares, and 2.8% for BCRED. As a share of income before fees, the adviser took 34% at NMFC, while Golub was at 28%, Ares at 35%, and 21% at BCRED. NMFC's fee burden is close to Ares'. On the other hand, Ares delivered the highest return in the group and NMFC the lowest. FY2025 is the exception where NMFC's fee share fell to 29% because of the incentive fee waiver of 12.8 million USD (NMFC, FY2025 10K, p. 185).

3.7.6 Scale, Funding, and Valuation

The competitive disadvantages section flagged scale, funding cost, and access to equity, which all is more or less confirmed by data for NMFC. On scale, NMFC's portfolio was 2.7 billion USD at the end of FY2025, substantially lower than its competitors. On funding, NMFC's five year average is close to BCRED, but higher than Ares and Golub. However, the definitions differ, so the precise gap is uncertain, but it does not appear that NMFC has a funding advantage over listed peers. On equity, NMFC traded at 0.80x NAV at the end of FY2025, which is lower than 0.91x for Golub and 1.01 for Ares. At the end of FY2025, Ares was the only one that could issue shares to grow without diluting existing holders.

4. Ownership and Management

4.1 Ownership Structure

NMFC is controlled in practice by its insiders as opposed to institutions. The largest holder is the chairman (Table D, Appendix) and no institution holds more than 5% of the shares and the ten largest institutions together hold 15.98% (Yahoo Finance, 2026).

At the proxy record date of 13 March 2026, directors and executive officers owned 14 633 653 shares, which is 14.0% of the 98 509 563 shares outstanding (NMFC, Schedule 14A FY2025, p. 3). Steven B. Klinsky alone held 12 330 153 shares, or 12.5%. The other interested directors each held under 1%, while the independent directors together held under 0.5% and two of them held no shares at all (Table D, Appendix).

The stake has grown since. NMFC has kept buying back its own shares while insiders, apart from one independent director, have not sold. That alone fits the same holdings to almost 16% of the roughly 95 million shares outstanding at the end of Q2 2026. The Q2 2026 presentation puts ownership by New Mountain Capital employees at about 18% (NMFC, Earnings Presentation Q2 FY2026, p. 6), which is a wider group than the directors and officers mentioned in the proxy statement.

At Q2 FY2026 NAV 10.90 USD per share, Klinsky's stake is worth about 134 million USD and about 97 million USD at the June 2026 price of 7.89 USD. That is the largest single source of alignment in the structure, and the incentives section weighs it against what he earned through the adviser.

4.2 Board and Management

The board has nine directors and four of them are interested. Steven B. Klinsky is founder and chairman, and also leads New Mountain Capital. Robert A. Hamwee is vice chairman, John R. Kline is president and CEO, and Adam B. Weinstein is executive vice president. The other five are independent: Rome G. Arnold III, Barbara Daniel, Daniel B. Hébert, John P. Malfettone, and David Ogens (NMFC, Board of Directors). The independent directors hold a majority, which the 1940 Act requires for the decisions that are the most essential. Those are the annual renewal of the advisory agreement, the fee terms, and the oversight of valuation (NMFC, Schedule 14A FY2025, p. 22 & 27-28).

NMFC has no employees and its executive team are New Mountain Capital staff (NMFC, Executive Team):

- Steven B. Klinsky: President and CEO of New Mountain Capital, chairman of NMFC
- John R. Kline is president and CEO
- Laura C. Holson is COO and CFO of NMFC
- Adam B. Weinsten: executive vice president of NMFC
- Joseph W. Hartswell: CCO of NMFC

- Robert A. Hamwee: vice chairman of NMFC

The same people run the adviser that NMFC pays. Every judgement on management in this report is therefore also a judgement on the adviser.

4.3 Incentives

Independent directors are paid in cash retainers and meeting fees for board and committee work. They are not paid on investment performance. NMFC has no stock, option, non-equity incentive, or pension plan for its directors. Executive officers receive no direct pay from NMFC as they are paid by the adviser or the administrator, and NMFC reimburses an allocated share of the CFO and CCO costs (NMFC, Schedule 14A FY2025, p. 23-24).

The adviser is paid in two ways. The base fee is 1.25% annually of gross assets from 29 January 2025, which rewards the size of the balance sheet. The income incentive fee is 20% of quarterly pre-incentive fee net investment income above a hurdle with a catch-up mechanism (NMFC, Schedule 14A FY2025, p. 24-25). It rewards income, not total shareholder return, and it counts accrued non-cash income. This matters because non-cash income was 44.5% of NII in FY2025 (Table B, Appendix). Steven B. Klinsky receives a share of the adviser's profits, which include the fees NMFC pays net of the adviser's costs (NMFC, Schedule 14A FY2025, p. 25).

The proxy statement provides no equity vesting schedules, forfeiture terms, or individual performance targets for the adviser staff (NMFC, Schedule 14A FY2025, p. 24-25). Pay for everyone except the independent directors comes from elsewhere in New Mountain Capital, so these terms cannot be inferred. Nothing disclosed rewards any individual for long-term NAV growth, lower credit losses, or total shareholder return.

The only disclosed link to shareholders' outcomes is share ownership. At Q2 FY2026 NAV, insiders' stake was worth about 158 million USD against 56.4 million USD of fees paid in FY2025. It represents about 0.36 times the stake. At the margin, a 1% rise in NAV adds about 1.6 million USD to insiders' wealth. A 1% rise in gross assets adds only about 0.4 million USD a year in base fees to the adviser. On those figures, insiders gain more from NAV than from asset growth. That is the strongest disclosed alignment in the structure, however, two limits apply. Klinsky's share of adviser profits is not disclosed, so his net position cannot be estimated. The income fee also still rewards accrued income in years when NAV falls, as in FY2025.

4.4 Insider Activity

Insiders bought heavily in early 2026, at about 0.70 times NAV, and the chairman accounted for the majority of it. Between 22 October 2025 and 22 October 2026 insiders bought 1 579 607 shares in the open market for 12.6 million USD. One independent director sold shares for 0.6 million USD. Hence, net buying amounts to 12 million USD (Table D, Appendix).

Klinsky bought exactly 1 500 000 shares for 12 million USD between 27 February and 11 March 2026. It represents 95% of the total insider trading. That added about 14% to his holdings. Weinstein bought 54 607 shares, Holson 12 500, and the independent director Ogens 12 500, all between 27 February and 17 March 2026 (Table D, Appendix). The window opened six days after the 21 February 2026 agreement to sell 477 million of assets at 94% of fair value (NMFC, FY2025 10K, p. 207-208). The buyers paid 7.61 USD to 8.17 USD per share against the last reported NAV of 11.52 USD at year-end 2025. which is 0.66 to 0.71 times NAV.

Independent director Malfettone sold all 77 500 of his shares at 7.89 USD on 15 June 2026 (Table D, Appendix). That was about 0.72 times the last reported NAV of 10.92 USD at Q1 FY2026. A single sale by an independent director with a small holding carries far less information than 12 million USD of buying by the chairman. Yet it is the only exit on record and the reason unknown.

The buying is consistent with management believing NAV is closer to fair value than the share price. It is the strongest evidence available in a filing set with no guidance. It does not show that the marks are right because insiders may be wrong. It also does not separate conviction from Klinsky's wider interest in the adviser's franchise, since a stable NMFC protects the fee stream, as well as the stake. If NAV holds near the Q2 FY2026 level of 10.89 USD per share while the 2026 initiatives play out, the buying will have been informed.

4.5 Capital Allocation Record

Over FY2016 to FY2025, management issued shares sensibly and paid out what it earned. It also took on as much leverage as the rules allowed, and moved a quarter of the portfolio into equity. The last two choices explain most of the recent NAV decline.

4.5.1 Share Issuance and Share Repurchases

NMFC issued shares in seven of the ten years, almost always above opening NAV. The only time shares were issued below NAV came in FY2024 at about 0.6% under opening NAV (Table B, Appendix), and it was recorded as a cost of 0.02 per share in FY2024 (NMFC, FY2025 10K, p. 64).

Share repurchases were small until FY2025. Then NMFC bought 5 213 541 shares for 52 million USD at 0.81 times the last reported NAV, which added about 12 million to NAV (NMFC, FY2025 10K, p. 58-59). Since then, the pace has risen considerably. Share repurchases in YTD FY2026 alone amounted to almost 8.2 million, representing roughly 8% of outstanding shares as of FY2025 (NMFC, Q2 FY2026 10Q, p. 137). Shares for the dividend reinvestment plan were bought in the market rather than issued below NAV (NMFC, FY2025 10K, p. 58).

4.5.2 Payout, Quality of Income, and Fees

Distributions ran at 95% to 103% of NII every year, as the RIC rules require. The distribution was 1.36 USD per share annually from FY2016 to FY2019 and 1.28 USD per share in FY2025. Cuts occurred in FY2020 and FY2021. Underneath, the cash quality of that income fell sharply. Non-cash income rose from 8.7% of NII in FY2016 to 44.5% in FY2025. NII less non-cash income covered 0.94 times the distributions paid in FY2016 but only 0.52 to 0.56 times in the last two fiscal years. Payout policy was steady but it was increasingly aid from accrued income.

The base fee was cut from 1.75% to 1.40% of gross assets in November 2021 and to 1.25% in January 2025. The adviser waived 12.8 million of income incentive fees in FY2025 (NMFC, FY2025 10K, p. 184-185). It is waiving a further 1.4 million in 2026 and has cut the incentive rate to 15% permanently from 2027 (NMFC, Earnings Presentation Q2 FY2026, p. 6). Adviser fees fell from 6% of average net assets in FY2023 to 4.3% in FY2025. Even though the reductions are real, they occurred after performance weakened instead of before.

4.5.3 Leverage and the Shift Into Equity

Debt to equity rose from 0.74x in FY2016 to 1.38x times in FY2018 once the 150% asset coverage rule took effect in June 2018 (NMFC, FY2025 10K, p. 187). It has stayed between 1.35 and 1.51 times since, and is the highest of the peer group in every year compared. This has raised NII but also magnified the FY2022 and FY2025 losses on NAV.

Equity and other investments at cost grew from 162 million USD in FY2016 to 821 million USD in FY2025, 5.1 times, and from 12% to 26% of the portfolio. Over the decade, equity produced net gains of about 102 million USD and the debt book net losses of about 142 million USD. The timing explains the recent decline. Equity added 201 million USD in FY2020 to FY2022 and incurred losses of 129 million USD in FY2023 to FY2025, including 89 million USD in FY2025 alone. The equity bet has paid over ten years but it is also why NMFC's NAV fell so much further than its peers' in FY2025.

4.5.4 Ten Year Result

NAV per share fell from 13.08 USD at the start of FY2016 to 11.52 USD at the end of FY2025, which represents 1.3% annual decline. Shareholders received 13.24 USD per share in distributions against 1.74 per share of net realized and unrealized losses. The economic return on NAV compounded at about 8.8% annually. Most of that was income as very little came from growth in NAV.

4.6 Management Assessment

Management's record before FY2026 does not show better underwriting than its peers. Its response since late 2025 has been directionally right and insiders have backed it with their own money. Based on the last twelve months alongside the record of the years prior to

FY2025, management could be seen as credible. NMFC gives no guidance and holds no capital markets day, so the assessment rests on numbers and insider trading.

Realized losses on the debt book averaged about 114 basis points a year from FY2017 to FY2025. They ranged from a net gain of 52 basis points in FY2022 to losses of 291 and 289 basis points in FY2017 and FY2023. The debt book stayed market at 94% to 101% of cost throughout. Non-accruals ranged from nil to 1.8% of the portfolio and over FY2021 to FY2025 they were the highest of the peer group. It is a respectable record of a leveraged lender but not a superior one.

The two defining choices were running leverage at about 1.4x equity, the top of the peer group, and building a large equity book. Both raised returns in good years. NMFC's economic return on NAV was 16.4% in FY2021. The best year of the decade. Both also deepened the losses in bad years and FY2025 is an example. These choices were deliberate and are not easily reversed given that essentially all income needs to be distributed. They place NMFC's management further out on the risk spectrum than the peers, which a shareholder should acknowledge.

Since FY2025, management has done what the evidence called for. It sold 477 million USD of assets at 94% fair value and thereby accepted a realized loss of about 0.28-0.30 USD per share to cut concentration of holdings and PIK income (NMFC, FY2025 10K, p. 207-208). It bought back great amounts of outstanding shares at a deep discount to NAV and capped net debt at 1.25 times equity, alongside reducing and waiving fees.

4.7 Value Creation Plan

Management's FY2026 initiatives are the value creation plan. The asset sale could raise NII going forward if its proceeds are used to fund share repurchases or new loans at higher yields, however, if they repay debt instead, NII falls by the spread on the assets sold. Furthermore, bringing PIK and non.cash income from 17% to 12% of investment income does not change reported NII (NMFC, Earnings Presentation Q2 FY2026, p. 9). At FY2025's level of 327 million USD, it would turn about 16 million USD annually, or 0.17 USD per share, of accrued income into cash income (assuming total income remains the same). It would lift cash cover of the distribution from 0.56 times toward 0.70, and lower the risk that accrued income is later written off.

Regarding share repurchases below NAV, at a price of 6.67 USD (closing price 23 October 2026), each 10 million of buybacks retires about 1.5 million shares and adds about 6.3 million to NAV. That corresponds to roughly 0.06 USD per outstanding shares as of Q2 FY2026. The programme had 95.1 million USD left at the end of FY2025 and runs to 31 December 2026 (NMFC, FY2025 10K, p. 58). The binding limit is the 1.25 times net debt to equity cap. Finally, cutting the income incentive rate from 20% to 15% from 2027 (NMFC, Earnings Presentation Q2 FY2026, p. 6) would have saved about 7.7 million on FY2025's fee before the waiver, or about 0.08 USD per share a year. Against the fee actually in FY2025,

after the 12.8 million USD, there is no saving (NMFC, FY2025 10K, p. 185). Thus, the cut matters only if the waivers would otherwise have stopped.

5. Valuation

At 6.67 USD (Yahoo Finance, 2026), NMFC trades at 0.61x its Q2 FY2026 NAV of 10.89 USD. The base case values it at 8.61 USD per share, which is 29% above the price. The probability-weighted value is 8.78 USD, and the bear case, 6.11 USD, sits 8.4% below the price.

5.1 Valuation Method, Inputs, and Reverse Calculation

A BDC pays out nearly all of its income (NMFC, FY2025 10K, p. 157), meaning it has no free cash flow to discount in the usual sense and NAV per share barely grows. Its value depends on how much it earns on NAV after credit losses compared to what shareholders require. The justified price to NAV is economic return on NAV less growth divided by the cost of equity adjusted for growth. With growth at zero, it reduces the economic return on NAV in relation to cost of equity. Economic return on NAV is NII to average net assets less annual net realized and unrealized losses to average net assets.

Net realized and unrealized losses averaged 1.38% of average net assets a year. Single years range from a 7.01% gain in FY2021 to a 9.09% loss in FY2025. A single year is too volatile to serve as a permanent rate. Hence, the scenarios use rolling five-year averages. This ranges from a 0.16% annual loss in FY2017 to FY2021 to a 1.74% annual loss in FY2021 to FY2025. The cost of equity is estimated to be 11.17%, drawing upon Damodaran's method. The distribution of income is assumed to remain stable at 0.25 USD per share on a quarterly basis (Table E, Appendix).

At 0.61x NAV, the current market price implies one of two things. Either shareholders require about 14.4% annually in return, assuming NMFC earns its decade-average economic return of 8.83% on NAV. Or NMFC will lose about 3.4% of NAV yearly if the cost of equity is 11.17% and NII holds at its decade average. The implied loss rate is about 2.4x the decade average and it also exceeds the worst five-year period, which averaged 1.74%. It sits below the 4.32% NMFC actually lost a year over FY2023 to FY2025 (Table E, Appendix). The market is therefore believing that NMFC will continue to perform in line with the last three years. Hence, the case for upside rests on losses returning towards the longer record.

5.2 Scenario and Sensitivity Analysis

Please refer to Table E in Appendix for this section.

5.2.1 Base Case: 9.11 USD Per Share at 82% Probability

The base case takes the Q2 FY2026 NAV of 10.89 USD per share at face value. It uses the decade averages of NII and net losses in relation to NAV, which results in an economic return of 9.3%. At a cost of equity of 11.17%, that justifies 0.84x NAV, or 9.11 USD per share. As finance in general, and NMFC's history in particular, is subject to tail events, averages are deliberately used.

It is the most likely case for two reasons. First, management is acting on asset quality, concentration, PIK income, and capital allocation. Second, insiders have also bought 12.6 million USD of shares at about 0.70 times NAV, which suggests they believe their own initiatives and the expected outcomes of those (see Ownership and Management).

5.2.2 Bear Case: 6.11 USD Per Share at 15% Probability

The bear case assumes NAV is still overstated by 5%, which puts the starting NAV at 10.35 USD per share. It takes the decade's lowest NII in relation to average net assets of 8.82% and the worst five-year loss rate, 1.73% a year. The cost of equity is 12% to allow for a further rise in risk-free rates. As a result, economic return falls to 7.09%, which justifies 0.59x NAV, or 6.11 USD per share.

Every input of the bear case has been observed in the past, meaning it is a plausible outcome to occur, especially considering the deterioration of performance in recent years. The increased exposure to equity holdings could make the bear case worse, however, the 2026 initiatives mitigates it.

5.2.3 Bull Case: 13.13 USD Per Share at 3% Probability

The bull case assumes NAV is understated by 0.5%, giving a starting NAV of 10.94 USD per share. It takes the decade’s highest NII in relation to average net assets of 12% as if an underwriting edge became visible. It also assumes the best five-year loss rate of 0.16% annually and estimates the cost of equity to be 10%. As a result, the economic return becomes 12% which justifies 1.20 times NAV, or equivalently, 13.13 USD per share. The bull case needs everything to align at once. While the business has improved in 2025 from a weak 2025, the performance in recent years does not support the bull case assumptions very much. As a result, the probability of this outcome is currently viewed to be low.

5.2.4 Weighted Value and Sensitivity

Weighted 15%, 82%, and 3%, the scenarios give 8.78 USD per share. From the closing price of 6.67 as of 23 October 2026 (Yahoo Finance, 2026), the probability weighted share price estimate represents almost a 32% upside in price appreciation alone. The bear case comes in at 6.11 USD per share and is 8.3% below today’s price. The historical record supports a floor near the current price though not a definite one. The FY2023 to FY2025 loss rate of 4.32% a year would take the value well below. As seen in the sensitivity table, the cost of equity estimate has a material impact on the valuation. However, the economic return on NAV has an even greater impact on the valuation. This is the input of which the 2026 initiatives are meant to move.

5.3 Risks

5.3.1 Starting NAV

Most investments are private and carried at fair value set by the board under its valuation policy. Fair value may differ materially from what the assets may actually yield (NMFC, FY2025 10K, p. 25). The adviser's professionals set those values, and Steven B. Klinsky (the chairman of New Mountain Capital), has an indirect interest in the adviser since it earns fees on gross assets and, in part, on unrealized gains. That makes the valuation process a conflict of interest (NMFC, FY2025 10K, p. 33).

Both risks materialize in the starting NAV. At the end of FY2025, the portfolio was marked 170 million USD below cost, 1.66 USD per share. At the same time, the equity book was at 86% of cost (Table B, Appendix). The February 2026 sale at 94% of fair value (NMFC, FY2025 10K, p. 207-208) is the only market evidence so far. Investments are 2.32 times NAV (Table B, Appendix), meaning a 6% reduction across the whole book would reduce NAV by 13.9%. That is more than what the bear case's 5% assumes, and therefore is the largest single risk to the valuation.

5.3.2 Earning Power

NMFC depends on the adviser's key professionals and on New Mountain Capital for access to deals. It also competes with larger lenders that have cheaper capital and fewer constraints (NMFC, FY2025 10K, p. 26-27), and banks were freed to compete harder when the leverage lending guidance was withdrawn in December 2025. Furthermore, the 2027 debt maturities could also constrain NMFC if they are not refinanced, though management states that NMFC has borrowing capacity of 2 billion USD (NMFC, Earnings Presentation Q2 FY2026, p. 21-22). These risks act on NII to net assets. The bear case's 8.82% is the decade's lowest from FY2022, so a lasting decline in spreads could push NII below anything observed in the last decade.

5.3.3 Incentives

The fee structure may induce the adviser towards leverage and towards instruments with deferred income such as PIK because the base fee is charged on gross assets and the incentive fee counts income accrued but yet received. The incentive fee can be paid in a quarter when NMFC makes a loss since it excludes capital losses and its hurdle in absolute amounts falls as NAV falls (NMFC, FY2025 10K, p. 27). The adviser's other funds create conflicts over which fund gets each opportunity and the co-investment rules do not fully resolve such conflicts (NMFC, FY2025 10K, p. 32-33).

The three risks primarily affect the loss rates. PIK was 17% of investment income in Q2 FY2026 against a target below 12% (NMFC, Earnings Presentation Q2 FY2026, p. 9 & 33). If accrued income is later written off, it shows up as losses on NAV instead of lower NII. The cut in the incentive rate to 15% from 2027 (NMFC, Earnings Presentation Q2 FY2026, p. 6) weakens the pull towards accrued income. Nonetheless it does not fully remove it.

5.3.4 Risks Taken Together

The bear case already holds the worst observed NII and the worst five-year loss rate together. What it does not hold is a repeat of FY2023 to FY2025 when losses averaged 4.32% of NAV annually. Combine that with a portfolio marked 6% too high and the lowest NII, and value at the bear case's 12% cost of equity, the share price estimate falls to about 3.50 USD per share. That is a tail outcome the 15% probability bear case does not fully capture.

6. Monitorables and Falsifiers

The following table summarizes the falsifiers claim, the current levels, and the threshold:

	Claim	Current	Threshold
1	Losses revert towards the decade average.	9.1% of NAV in FY2025, 4.32% annually over FY2023 to FY2025.	Net realized and unrealized losses exceed 3.4% of average NAV over any trailing four quarters going forward, or both Q3 and Q4 FY2026 lose more than 1% each.
2	Earning power holds.	NII 10.4% of NAV (FY2025).	Annualized NII to NAV falls below 8.8% for two quarters running, or NII per share falls below the quarterly distributions for two quarters running.
3	The marks are reliable.	Debt book at 97.3% of cost, equity at 86.2%.	Debt book falls below 94% of cost, or equity below 80% of cost.
4	Management delivers on PIK income.	17% of investment income (Q2 FY2026).	PIK income remains above 17% in the FY2026 10-K, or not below 14% by Q2 FY2027.
5	Insiders back the plan.	12 million USD net buying in the last 12 months.	Net open-market selling by insiders over any six months.

Falsifier 1 is important because the whole upside from the current share price rests upon a reversion of losses on NAV. The base case assumes a 0.9% annual decrease in NAV. Hence, if the following two quarters each loses 1% of NAV, it implies an annual loss rate about 4% which is similar to that of the period FY2023-FY2025. Falsifier 3 also relates to the development of NAV, especially considering the assumption of moderate NAV decline going forward in the base case. The 94% threshold is just below the debt book's worst year-end in the decade (94.4% in FY2022), while a fall below 80% for equity would mean another markdown on the scale similar to FY2025.

Falsifier 2 makes sure to detect whether the modelled scenarios remain relevant since the bear case assumes 8.82% NII in relation to average net assets. Falsifier 4 keeps track of management's few officially communicated targets. Failing to reduce PIK income weakens the verdict in the management assessment and the income-quality assumption behind the base case's NII. Likewise, insider buying is the main evidence behind the conditional management verdict and the 82% base case probability. If it turns into net selling, the reason for weighting the base case heavily deteriorates. Hence, falsifier 5.

Apart from falsifiers, there are several important monitorables to follow up going forward that would trigger a review of the case:

I. Net debt to equity: management's own cap of 1.25.
    A. A breach would trigger a revision of management assessment.
II. Non-accruals at fair value: exceeding the decade high of 1.8%.

III. 2027 refinancing: review whether the refinancing is successful or whether the refinancing is more expensive compared to before or not.
    A. Either could imply a finding disadvantage.
IV. Buyback pace and price against NAV.

7. Conclusion

NMFC concludes to be a buy at 6.67 USD per share conditional on management continuing to improve the business. The probability-weighted value of 8.78 USD per share is almost 32% above the price, while the base case of 9.11 USD per share is 36.5% above it. The market currently prices NMFC to continue to perform similar to that of FY2023 throughout FY2025. The evidence since late 2025 points the other way with management selling assets to increase diversification and reduce PIK income, repurchased shares at about 0.70x NAV, as well as reducing fees. Insiders seem to believe in their initiatives and efforts with 12 million USD insider buying the last 12 months from the report date.

The recommendation holds only if management keeps improving the business. As a result, the falsifiers measure the development of NMFC's performance going forward. Over any trailing four quarters, net losses should stay below 3.4% of average NAV and NAV per share should stabilize going forward. PIK income should fall towards the goal of 12% of investment income. Also, insiders should not turn into net sellers and any breach of these triggers a full review of the case.

The bear case of 6.11 USD sits 8.4% below the current share price of 6.67 USD per share as of 23 October 2026, and a repeat of FY2023 to FY2025 with marks 6% too high would take value to about 3.50 USD. The recommendation therefore rests on the weighted value and on the management's initiatives to improve the business as opposed to a hard floor value.

At the current share price of 6.67 USD, the recommendation follows:

- Buy below 7.02 USD per share: 25% safety of margin to weighted value of 8.78 USD per share
- Hold between 7.02-9.11 USD per share
- Avoid above 9.11 USD per share

Because the bear case sits below the price and it remains uncertain whether management's initiatives will be fruitful, the position should start small and be sized accordingly. It can be built if Q3 and Q4 FY2026 confirm net losses below 1% of NAV in each quarter and NAV per share at around 10.89 USD. If the price falls below the bear value of 6.11 USD while the condition still holds, the bear case alone covers the price and the position can be sized up on that basis.

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