

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

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**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

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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.

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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.

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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.

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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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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%

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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.

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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.

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First Lien Loans and Bonds. First lien loans and bonds generally have terms of four to seven years, provide for a variable or fixed interest rate, may contain prepayment penalties and are secured by a first priority security interest in all existing and future assets of the borrower.

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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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 serv