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Hunting Dog Capital LLC and its affiliates create uncommon lending solutions for all types of domestic companies regardless of industry or location.

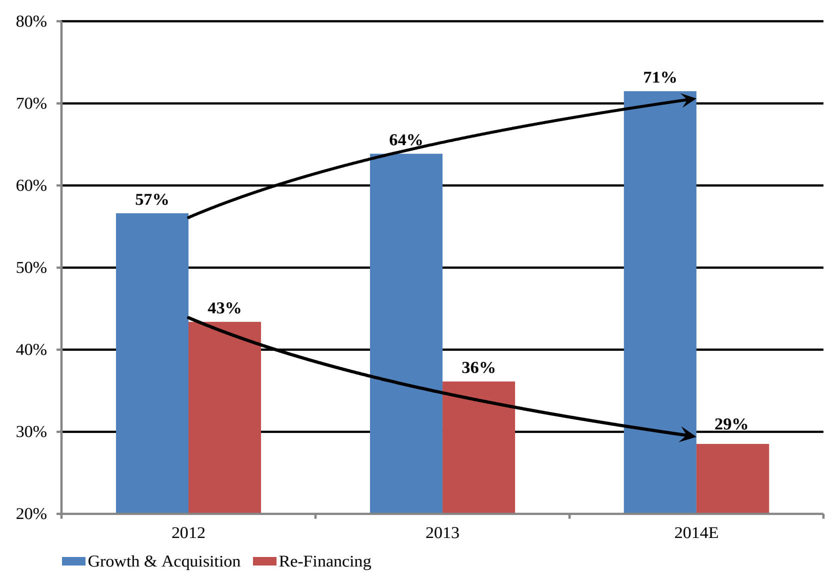
The Current State of U.S. Lending (Q4:2014)

Hunting Dog Capital is a private, California-based investment firm that has been originating and servicing senior secured term loans for lower-middle market companies since 2006. The network that refers opportunities to us has grown to nearly 8,000 names that show us new loan prospects from every state and from a very wide range of industries. Although we only fund a small percentage of what we review each year, the information we have access to provides a real-time, inside view of what's happening with small companies. We are using this publication to share our observations on how 2014 compared to 2013 and what we expect to experience in 2015. We think this information is useful for both lenders and investors in the lower-middle market, direct-lending space.

The Current State of U.S. Lending

For Hunting Dog Capital, 2014 was marked by two significant trends, both positive, representing what we believe will be significant opportunities in the coming year. First, we saw a substantial increase in demand for capital (i.e., increased deal-flow). Annualized deal-flow for the first eleven months of the year suggests an increase of nearly 45% year-over-year. Though a portion of this increase is the result of our own efforts, we believe heightened demand among lower-middle market borrowers accounts for a significant portion as well. Secondly, perhaps even more encouraging for the broader market, is an ongoing change in the composition of that demand. Demand for capital to fund growth and acquisitions was up markedly in 2014 relative to the prior two years, during which re-financing comprised a significantly higher percentage of demand. Excluding “multi-purpose” capital, which has historically averaged approximately 10-15% of our deal-flow, we observe that demand for growth and acquisition-oriented capital is up nearly 15% on an absolute basis since 2012.

Hunting Dog Capital Deal-Flow Composition



We believe these two trends bode well for both issuers and investors in the lower-middle market in 2015, and that in general, they represent a meaningful improvement in fundamentals that will continue next year.

Importantly, we have tried to examine the underlying drivers of these trends and their ramifications for lower-middle market participants. We observe the following:

- **The virtuous cycle of hiring and consumer spending:** recent data on job creation suggest that the U.S. economy continues to steadily add jobs. According to the most recent ADP National Employment Report[1], the private sector added 208,000 jobs in November. Nearly half of these were from small businesses, i.e., those with fewer than 50 employees, and approximately 80% were from small and/or medium businesses, i.e., those with fewer than 500 employees. This comes on the back of the significant milestone achieved earlier in the year when all 8.7 million jobs shed during the recession were finally recouped in whole. Though job creation at this rate is expected to reduce the unemployment rate by approximately 50 bps/year, we must acknowledge an increasing participation rate that will to some degree counter an otherwise anticipated acceleration in wage growth. Our view on the whole, however, is that incremental, absolute employment, more so than the unemployment rate, should help drive consumer spending and that is a material positive for the lower-middle market. We believe wage growth is coming, albeit at a modest pace and that wage inflation should not materially impact an improvement in profitability within the lower-middle market in 2015. The Fed's recent beige book data support our views on employment and was generally upbeat. We cite the summary: "Employment gains were widespread across Districts, and Districts reporting on business spending generally noted some improvement."[2]
- **Lower domestic transportation costs:** the turnabout in the state of U.S. oil and energy independence over the last 10-15 years, fundamentally attributable to fracking and horizontal drilling has been nothing short of remarkable. We expect the impact of this, in conjunction with reduced international (namely Chinese) demand to keep crude prices at a more modest level for much of 2015. We believe this could potentially begin serving as a catalyst for increased consumer spending in other areas. According to a report by the American Coalition for Clean Coal Energy[3], the percentage of after-tax income spent on energy by those households with annual income less than $50,000 – approximately half of U.S. households – increased from 12% in 2001 to 20% in 2013. Against the backdrop of real median household income that has stagnated for three years (2011-2013), after having dropped consistently since a near all-time high in 2007, we are optimistic that sustained, moderate energy prices could spur hiring, and ultimately consumer spending.
- **"Re-shoring" – The significant repatriation of manufacturing back to the United States, especially from China:** we believe that this established trend will continue in 2015, and beyond and could prove a significant driver of growth for both lower-middle market employment and overall employment. According to a recent report by the Boston Consulting Group[4], the survey's number one take-away was that "Interest in [re-shoring] production to the U.S. remains strong, validating [its] 2013 findings; the percentage of companies actively moving operations back to the U.S. is increasing." This is a function of a number of trends, chief among them 1) the rapid increase in Chinese labor costs that are eroding that country's primary competitive advantage, and 2) the relative skill of U.S. labor, especially when considering the cost. Another key finding of the report, again critical to the lower-middle market was that "three times as many executives expect trends to drive net growth in U.S. manufacturing jobs within five years[4]."

[1] ADP, "ADP National Employment Report: Private Sector Employment Increased by 208,000 Jobs in November", December 2014.

[2] The Federal Reserve Districts, "SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS", November 2014, page i.

[3] The American Coalition for Clean Coal Energy, "Energy Cost Impacts on American Families, 2001-2013", January 2013, page 2.

[4] The Boston Consulting Group, "Made In America, Again Third Annual Survey of U.S.-Based Manufacturing Executives", October 2014, pages 2 and 10, respectively.

- **FOMC Monetary Policy:** Though the range of rates anticipated at the end of 2015 by the members of the Federal Open Market Committee differs (it is higher) from that in the futures market, there is little doubt in our mind that monetary policy will continue to be highly accommodative for a prolonged period of time – years, not months. We believe this will assist in creating the necessary environment to foster growth in employment, especially for the lower-middle market.

Our observations above suggest a positive backdrop for alternative, lower-middle market credit. We note however that in summarizing our observations, there appears to be a divide in the level of optimism between the lower-middle market (higher) and larger, more mature companies (lower). Headlines predicting sluggish growth by some of the nation's largest companies contrast sharply with optimistic employment projections, most of which are heavily predicated on hiring by the lower-middle market.

We believe that if the economy continues to improve at a steady, albeit modest pace, Hunting Dog Capital (and our peers) should see more opportunities than ever in 2015. Further, to the extent the FOMC does raise rates, given that our pricing is wholly uncorrelated with overall credit markets, this should only serve to make us more competitive. We also remain mindful of our Q3 white paper – the retrenchment of traditional commercial banks from lower-middle market lending – and believe this ongoing trend should continue to drive opportunities for alternative credit providers like ourselves.

Given the opportunity set, the growth of alternative capital providers should continue unabated through 2015, regardless of the macro environment. A positive backdrop, however, would certainly accelerate the trend. We note that the percentage of assets managed by Hunting Dog Capital and our peers remains small relative to the broader leveraged-loan market, but we anticipate significant growth on both an absolute and relative basis through 2015 and beyond. Covenant packages in the lower-middle market are materially better than the overall market, and seemingly inversely correlated to size. Additionally, as cash yield is increasingly scarce, investors are seeking alternatives. The lower-middle market is a natural hunting ground and the prospects of its participants should make for a strong investment backdrop.

About Hunting Dog Capital

Since 2006, Hunting Dog Capital LLC and its affiliates have created uncommon lending solutions for a wide variety of U.S.-based companies. Our loans are used by business owners to facilitate acquisitions, refinance existing debt or for general corporate purposes to enable growth. Typically:

- We lend to U.S.-based public and private companies across industries
- All loans are senior-secured (first lien) with stated maturities ranging from two to five years
- Loans are in amounts of $5 million and up
- We will consider non-amortizing loans with bullet maturities
- Borrowers can prepay without penalty after the first year
- We act quickly to provide the required capital when it is most essential

We differentiate ourselves from other lower-middle market direct lenders by focusing on tangible assets instead of cash flow. If comfortable with the underlying collateral, typically a collateral coverage ratio of 1.1x or greater going in, we will do non-amortizing bullets. We believe our terms are especially attractive to businesses owners with substantial at-risk equity as they enable retention of control, delay (or avoidance) of significant equity dilution and capture of equity appreciation as the business grows. We believe this type of liquidity is essential for entrepreneurs to execute their plans, and exceed objectives.

To learn more about Hunting Dog Capital, please visit our website (www.hdcap.com) or contact any of us directly (contact information on page 1).