

# Great Elm Capital Corp. (NASDAQ: GECC)

## Investor Presentation – Quarter Ended December 31, 2019

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March 24, 2020

# Disclaimer

Statements in this communication that are not historical facts are “forward-looking” statements within the meaning of the federal securities laws. These statements are often, but not always, made through the use of words or phrases such as “believe,” “expect,” “anticipate,” “should,” “planned,” “will,” “may,” “intend,” “estimated,” “aim,” “target,” “opportunity,” “sustained,” “positioning,” “designed,” “create,” “seek,” “would,” “could”, “continue,” “ongoing,” “upside,” “increases,” and “potential,” and similar expressions. All such forward-looking statements involve estimates and assumptions that are subject to risks, uncertainties and other factors that could cause actual results to differ materially from the results expressed in the statements. Among the key factors that could cause actual results to differ materially from those projected in the forward-looking statements are: conditions in the credit markets, the price of Great Elm Capital Corp. (“GECC”) common stock, and performance of GECC’s portfolio and investment manager. Additional information concerning these and other factors can be found in GECC’s Form 10-K and other reports filed with the Securities and Exchange Commission (the “SEC”). GECC assumes no obligation to, and expressly disclaims any duty to, update any forward-looking statements contained in this communication or to conform prior statements to actual results or revised expectations, except as required by law. Readers are cautioned not to place undue reliance on these forward-looking statements that speak only as of the date hereof.

You should consider the investment objective, risks, charges and expenses of GECC carefully before investing. GECC’s filings with the SEC contain this and other information about GECC and are available by contacting GECC at the phone number and address at the end of this presentation. The SEC also maintains a website that contains the aforementioned documents. The address of the SEC’s website is <http://www.sec.gov>. These documents should be read and considered carefully before investing.

The performance, distributions and financial data contained herein represent past performance, distributions and results and neither guarantees nor is indicative of future performance, distributions or results. Investment return and principal value of an investment will fluctuate so that an investor’s shares may be worth more or less than the original cost. GECC’s market price and net asset value will fluctuate with market conditions. Current performance may be lower or higher than the performance data quoted. All information and data, including portfolio holdings and performance characteristics, is as of December 31, 2019, unless otherwise noted, and is subject to change.

This presentation does not constitute an offer of any securities for sale.

## GECC

- Externally managed, total-return-focused BDC with a strong balance sheet
- Common stock trades as “GECC” on NASDAQ
- \$0.083 per share monthly distribution<sup>1</sup>
- Employees and affiliates of Great Elm Capital Management, Inc., GECC’s investment manager, own greater than 20% of GECC’s outstanding shares

## Investment Objective

- To generate both current income and capital appreciation, while seeking to protect against the risk of capital loss

## Investment Strategy

- To apply the key principles of value investing to the capital structures of predominantly middle-market companies

## Portfolio (as of 12/31/2019)

- \$291.0 million of total assets; \$197.6 million of portfolio fair value; \$86.9 million of net asset value
- Weighted average current yield of 10.8%<sup>2</sup>
- 35 investments (28 debt, 7 equity) in 26 companies across 21 industries

(1) Based on distributions that have been declared and / or set through March 2020. Distributions may be paid in cash or in shares of common stock. Past distributions are not indicative of future distributions. Distributions are declared by the Board out of the funds legally available therefor. Though GECC intends to pay distributions monthly, it is not obligated to do so. Please refer to “Capital Activity: Distribution Policy & Declared Distributions” later in this presentation.

(2) Weighted average current yield is based upon the stated coupon rate and fair value of outstanding debt securities at the measurement date.

# Highlights and Recent Achievements

## Distributions & Coverage

- A portion of our second quarter 2020 distributions will be paid in shares of our common stock in order to maximize our liquidity and further strengthen our balance sheet
- NII in excess of declared distributions every quarter since inception
- LTM total distribution yield of 12.1% on 12/31/19 NAV and 13.4% on 12/31/19 market value

## Deployment of Capital

- During Q4 2019, deployed \$15.1 million of capital into 8 investments at a weighted average current yield of 9.0% and a weighted average price of \$0.97
- 100% of capital deployed into secured investments

## Monetization of Investments

- During Q4 2019, monetized \$9.6 million across 13 investments, in whole or in part, at a weighted average current yield of 8.5% and a weighted average price of \$1.00
- This includes the complete exit of 2 positions, each with a positive return on invested capital

## Attractive Fixed Rate Debt

- Asset coverage ratio of 170.0% and debt-to-equity ratio of 1.43x
- GECCL 6.50% Notes due September 2022
- GECCN 6.50% Notes due June 2024
- GECCM 6.75% Notes due January 2025

# Portfolio Review

*(Quarter Ended 12/31/2019)*

# Portfolio Review

10.8%

Weighted average current yield on debt portfolio<sup>1</sup>

\$0.87

Weighted average dollar price of debt investments in the portfolio<sup>2</sup>

88.1%

Percentage of the total portfolio (based on fair value of investments) invested in 1<sup>st</sup> lien and/or secured debt instruments

*As of December 31, 2019, approximately 93% of the portfolio was comprised of ideas that are representative of the manner in which we intend to invest<sup>3</sup>*

(1) Weighted average current yield is based upon the stated coupon rate and fair value of outstanding debt securities at the measurement date.

(2) Weighted average dollar price is based on the stated par value and fair value of outstanding debt securities at the measurement date.

(3) As measured by the fair value of investments. The balance of the portfolio remains in legacy Full Circle positions that were acquired in the merger with Full Circle.

# Portfolio Review (Continued)

## Debt Investments:

28

**\$174.1 million**

**88.1%**

**10.8%<sup>1</sup>**

**72.7%**

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Debt Investments	Fair Value Invested in Debt Instruments	Of Invested Capital in Debt Instruments (100% of fair value in first lien / secured)	Weighted Average Current Yield	in Floating Rate Instruments (Based on % of Fair Value)
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## Equity Investments:

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**\$23.6 million**

**11.9%**

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Equity Investments	Fair Value Invested in Equity Instruments	Of Invested Capital in Equity Investments
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(1) Weighted average current yield is based upon the stated coupon rate and fair value of outstanding debt securities at the measurement date. Amounts in the above tables do not include investments in short-term securities, including United States Treasury Bills and money market mutual funds.

# Portfolio Review: New & Additional Investments

*During Q4/2019, we purchased four investments (two new, two existing), deploying approximately \$12.0 million*

## New Investment

- **Viasat, Inc.** – Purchased approximately \$2.0 million of receivables at a price of \$0.90
  - The receivables matured in December 2019

## New Investment

- **Crown Subsea Communications Holdings, Inc.** – Purchased \$10.0 million face value of secured revolver commitment in the secondary market at a price of approximately \$0.85
  - Interest rate: LIBOR + 5.00%; Unused line fee of 0.50%

## Additional Investment

- **Tensar Corp.** – Purchased approximately \$4.7 million face value of secured loans in the secondary market at a price of approximately \$0.96
  - Interest rate: LIBOR + 4.75%

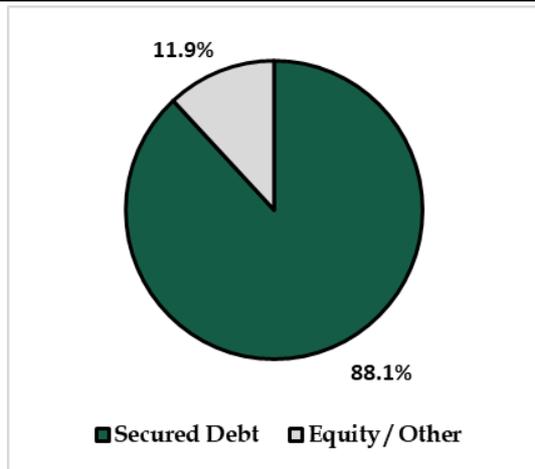
## Additional Investment

- **ASP Chromaflo Intermediate Holdings, Inc.** – Purchased approximately \$5.8 million face value of secured loans in the secondary market at a price of approximately \$0.97
  - Interest rate: LIBOR + 8.00%

This deployment activity does not include revolver draws or PIK interest.

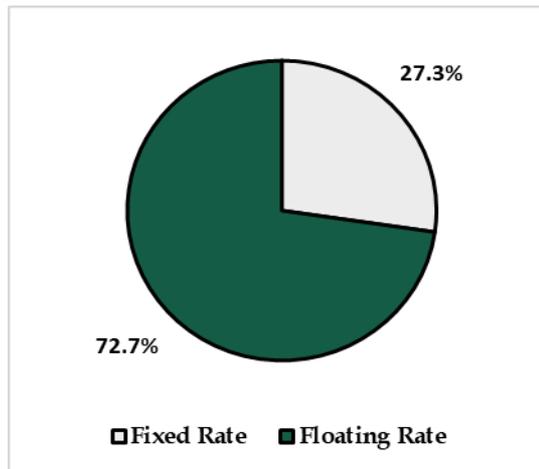
# Portfolio Review: Asset Type and Interest Rate Type

Portfolio by Asset Type



Investments	Fair Value of Investments	Percentage of Total Portfolio
Secured Debt	\$174,065,120	88.1%
Equity / Other	\$ 23,550,137	11.9%
<b>Total</b>	<b>\$197,615,257</b>	<b>100%</b>

Portfolio by Interest Rate Type

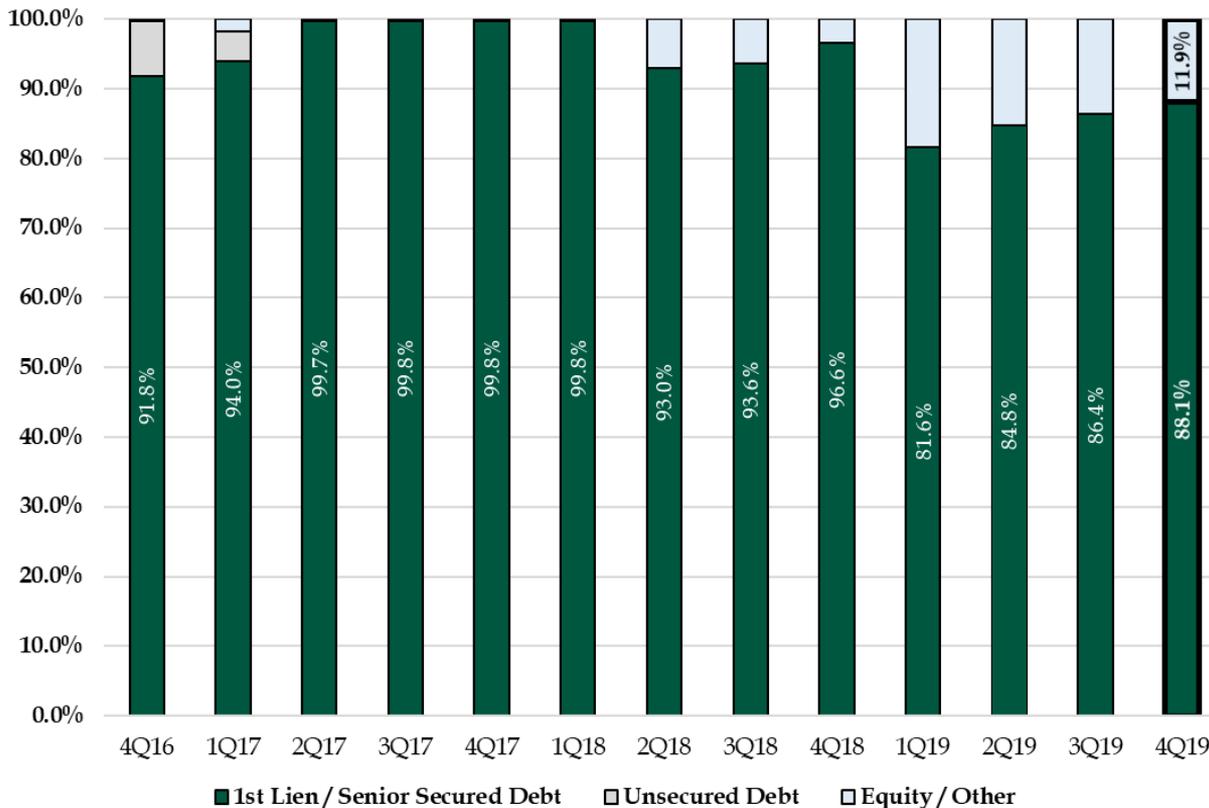


Investments	Count	Fair Value of Debt	Percentage of Debt Holdings
Fixed Rate	5	\$ 47,512,023	27.3%
Floating Rate	23	\$126,553,097	72.7%
<b>Total</b>	<b>28</b>	<b>\$174,065,120</b>	<b>100%</b>

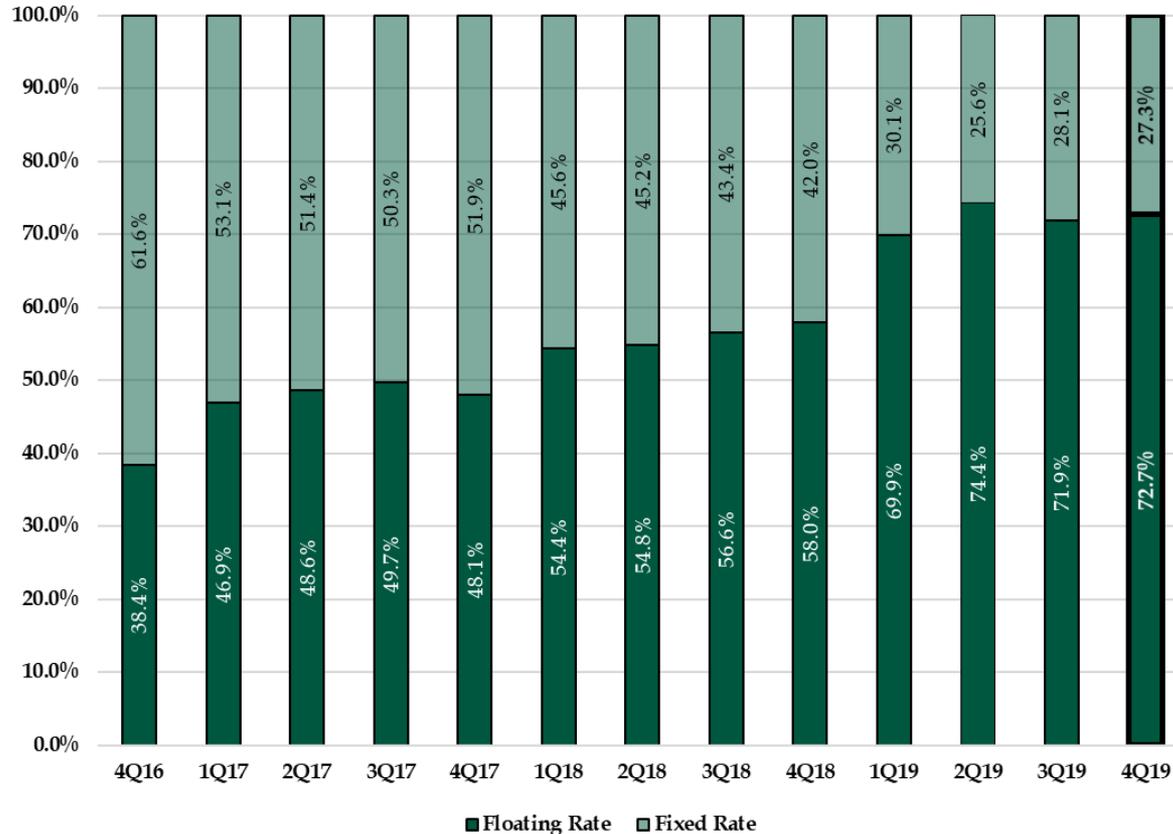
- *Weighted average fixed rate yield of 12.4%<sup>1</sup>*
- *Weighted average floating rate yield of 10.3%<sup>1</sup>*

(1) Weighted average fixed and floating rate current yield is based upon the stated coupon rate and fair value of outstanding debt instruments at the measurement date. Amounts in the above tables do not include investments in short-term securities, including United States Treasury Bills and money market mutual funds.

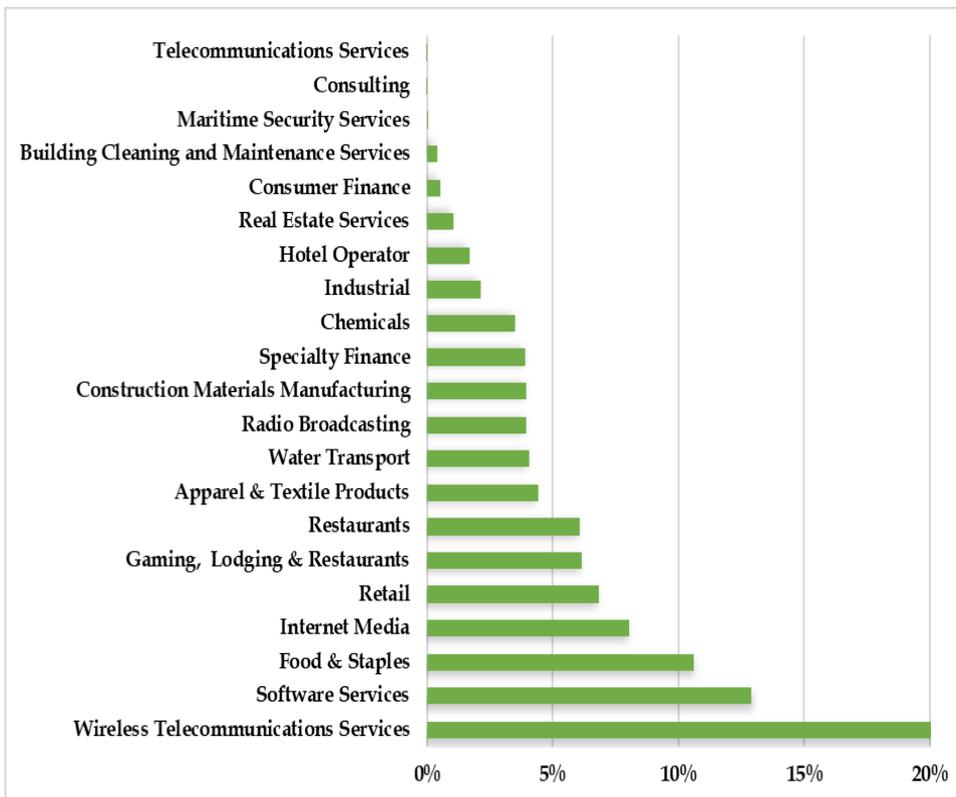
# Portfolio Review: Asset Type (End of Period Investments - % of FMV)



# Portfolio Review: Interest Rate (End of Period Investments - % of FMV)



# Portfolio Review: Industry Breakdown

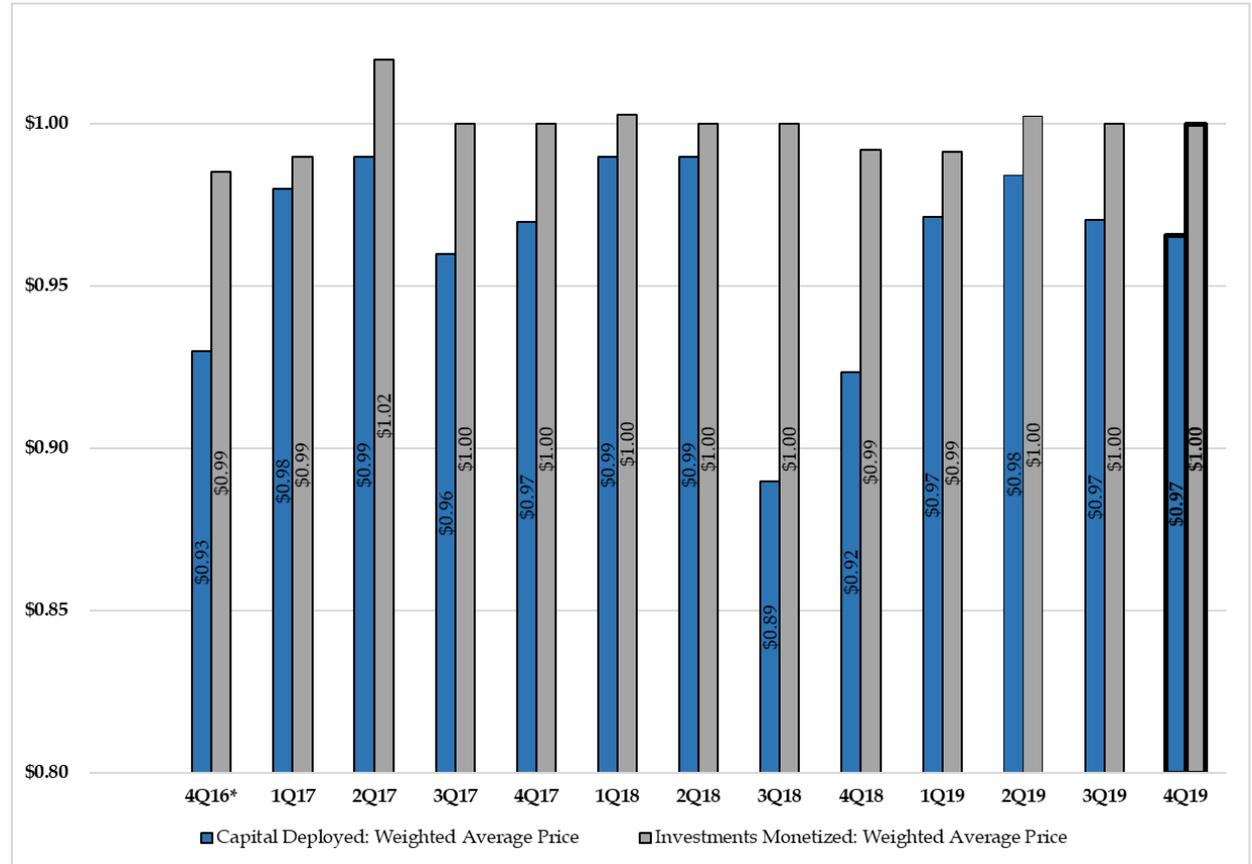


Industry	December 31, 2019	
	Investments at Fair Value	Percentage of Fair Value
Wireless Telecommunications Services	\$ 40,578	20.53%
Software Services	25,456	12.88%
Food & Staples	20,975	10.61%
Internet Media	15,923	8.06%
Retail	13,470	6.82%
Gaming, Lodging & Restaurants	12,127	6.14%
Restaurants	11,972	6.06%
Apparel & Textile Products	8,744	4.42%
Water Transport	8,001	4.05%
Radio Broadcasting	7,795	3.94%
Construction Materials Manufacturing	7,792	3.94%
Specialty Finance	7,726	3.91%
Chemicals	6,917	3.50%
Industrial	4,200	2.13%
Hotel Operator	3,361	1.70%
Real Estate Services	2,065	1.04%
Consumer Finance	1,050	0.53%
Building Cleaning and Maintenance Services	819	0.41%
Maritime Security Services	30	0.02%
Consulting	(458)	-0.23%
Telecommunications Services	(928)	-0.47%
	<b>\$ 197,615</b>	<b>100.00%</b>

Amounts in the above table do not include investments in short-term securities, including United States Treasury Bills and money market mutual funds.

# Portfolio Review: Portfolio Rotation

- *Since inception, we have consistently monetized higher dollar priced investments and deployed capital into lower dollar priced investments, building total return*
- *In addition, substantially all new debt investments since inception have been 1<sup>st</sup> lien and/or secured*



\*Partial period

# Portfolio Review: Portfolio Rotation (Continued)

## Portfolio Rotation: New Investments vs. Monetized Investments

	Q4/2018	Q1/2019	Q2/2019	Q3/2019	Q4/2019
Dollar Value of New Investments <sup>1</sup>	\$34.8 million	\$54.5 million	\$61.7 million	\$46.1 million	\$15.1 million
Weighted Average Price of New Debt Investments	\$0.92	\$0.97	\$0.98	\$0.97	\$0.97
Weighted Average Current Yield of New Debt Investments	11.2%	10.5%	10.9%	10.2%	9.0%
% of New Debt Investments - 1 <sup>st</sup> Lien / Secured Instruments	100%	100%	100%	100%	100%
Dollar Value of Monetized Investments <sup>2</sup>	\$40.0 million	\$59.9 million	\$36.6 million	\$44.6 million	\$9.6 million
Weighted Average Price of Monetized Debt Investments	\$0.99	\$0.99	\$1.00	\$1.00	\$1.00
Weighted Average Current Yield of Monetized Debt Investments	11.3%	10.4%	10.8%	10.8%	8.5%
% of Monetized Debt Investments - 1 <sup>st</sup> Lien / Secured Instruments	100%	100%	100%	100%	100%

(1) This includes new deals, additional fundings (inclusive of those on revolving credit facilities), refinancings and PIK interest. Amounts included herein are exclusive of investments in short-term securities, including United States Treasury Bills and money market mutual funds. Weighted average dollar price is based upon the stated par value and fair value of outstanding debt securities at the measurement date. Weighted average current yield is based upon the stated coupon rate and fair value of outstanding debt securities at the measurement date.

(2) This includes scheduled principal payments, prepayments, sales and repayments (inclusive of those on revolving credit facilities). Amounts included herein are exclusive of investments in short-term securities, including United States Treasury Bills and money market mutual funds. Weighted average dollar price is based upon the stated par value and fair value of outstanding debt securities at the measurement date. Weighted average current yield is based upon the stated coupon rate and fair value of outstanding debt securities at the measurement date.

# Subsequent Events

*(Through March 20, 2020)*

# Subsequent Events

- The first quarter of 2020 has been characterized by remarkable volatility in the leveraged credit markets, driven in part by the impact of the global Coronavirus outbreak and violent swings in commodity prices
- **We believe we must take every opportunity to bolster liquidity** in order to successfully navigate current market volatility **and to be in a position to capitalize on what may prove to be attractive investment opportunities** if and when they materialize
- **To best position ourselves, we continue to strengthen our balance sheet** by:
  - Shoring up cash to build NAV over time
  - Utilizing unsecured borrowings with no maintenance covenants

This deployment and monetization activity does not include revolver draws, ordinary course paydowns, and investments in short-term securities, including United States Treasury Bills and money market mutual funds..

## Subsequent Events (Continued)

- In January and February:
  - We bought \$8.0 million of par value of Greenway Health, LLC secured revolving loan at 90% of par value
  - We bought \$5.4 million of par value of ASP Chromaflo Technologies secured term loan at approximately 98% of par value
  - We bought \$4.4 million of par value of Perforce Software, Inc. secured revolving loan at approximately 92% of par value
  - We bought \$4.0 million of par value of Endurance International secured revolving loan commitment at 98% of par value
  - We bought \$2.0 million of par value of Viasat Inc. receivable at 90% of par value
  - We bought \$1.1 million of par value of Tensar Corp. secured term loan at approximately 95% of par value

This deployment and monetization activity does not include revolver draws, ordinary course paydowns, and investments in short-term securities, including United States Treasury Bills and money market mutual funds..

## Subsequent Events (Continued)

- In January, February and March:
  - We sold all \$15.9 million of par value of Commercial Barge Line Company secured term loan at approximately 34% of par value
  - We sold \$4.0 million of par value of Finastra Group Holdings, Ltd. Secured term loan at 91% of par value
  - We sold \$4.0 million of par value of Shearer's Foods, LLC secured term loan at approximately 100% of par value
  - We sold \$3.0 million of par value of Cooke Omega Investments, Inc. secured notes at approximately 102% of par value
  - We sold \$2.5 million of par value of Peninsula Pacific Entertainment, LLC secured term loan at 92% par value
  - We sold \$2.0 million of par value of Mitchell International Inc. secured term loan at 91% of par value

This deployment and monetization activity does not include revolver draws, ordinary course paydowns, and investments in short-term securities, including United States Treasury Bills and money market mutual funds..

# Financial Review

*(Quarter Ended 12/31/2019)*

# Financial Review: Per Share Data

Financial Highlights – Per Share Data					
	Q4/2018 <sup>1</sup>	Q1/2019 <sup>1</sup>	Q2/2019 <sup>1</sup>	Q3/2019 <sup>1</sup>	Q4/2019 <sup>1</sup>
Earnings Per Share (“EPS”)	(\$1.18)	\$0.76	(\$0.43)	(\$0.96)	(\$0.16)
Net Investment Income (“NII”) Per Share	\$0.25	\$0.26	\$0.29	\$0.26	\$0.25
Net Realized Gains / (Losses) Per Share	\$0.04	\$0.06	\$0.04	\$0.02	\$0.00 <sup>2</sup>
Net Unrealized Gains / (Losses) Per Share	(\$1.46)	\$0.44	(\$0.76)	(\$1.24)	(\$0.41)
Net Asset Value Per Share at Period End	\$10.34	\$10.89	\$10.30	\$9.09	\$8.63
Distributions Paid / Declared Per Share	\$0.489	\$0.249	\$0.249	\$0.249	\$0.299

(1) The per share figures are based on a weighted average of outstanding shares for the preceding quarter, except where such amounts need to be adjusted to be consistent with the financial highlights of our consolidated financial statements.

(2) Amounts are positive but round to \$0.00 per share

# Financial Review: Portfolio

## Financial Highlights - Portfolio

	Q4/2018	Q1/2019	Q2/2019	Q3/2019	Q4/2019
Capital Deployed	\$34.8 million	\$54.5 million	\$61.7 million	\$46.1 million	\$15.1 million
Investments Monetized	\$40.0 million	\$59.9 million	\$36.6 million	\$44.6 million	\$9.6 million
Total Fair Value of Investments at Period End <sup>1</sup>	\$184.2 million	\$185.7 million	\$204.2 million	\$194.8 million	\$197.6 million
Net Asset Value at Period End	\$110.1 million	\$114.0 million	\$103.6 million	\$91.5 million	\$86.9 million
Total Assets at Period End	\$281.6 million	\$290.2 million	\$334.6 million	\$298.2 million	\$291.0 million
Total Debt Outstanding at Period End (Par Value)	\$79.0 million	\$79.0 million	\$121.5 million	\$124.0 million	\$124.0 million
Debt to Equity Ratio at Period End	0.72x	0.69x	1.17x	1.36x	1.43x
Cash and Money Market Investments at Period End <sup>2</sup>	\$7.7 million	\$24.0 million	\$52.8 million	\$24.8 million	\$15.6 million

(1) Total Fair Value of Investments does not include investments in short-term securities, including United States Treasury Bills and money market mutual funds.

(2) Cash and Money Market Investments does not include our holdings in United States Treasury Bills.

# Financial Review: Quarterly Operating Results

(\$ in Thousands)	Q4/2018		Q1/2019		Q2/2019		Q3/2019		Q4/2019	
	Per Share <sup>1</sup>		Per Share <sup>1</sup>		Per Share <sup>1</sup>		Per Share <sup>1</sup>		Per Share <sup>1</sup>	
<b>Total Investment Income<sup>2</sup></b>	<b>\$6,913</b>	<b>\$0.65</b>	<b>\$6,313</b>	<b>\$0.59</b>	<b>\$6,711</b>	<b>\$0.66</b>	<b>\$7,002</b>	<b>\$0.70</b>	<b>\$7,012</b>	<b>\$0.70</b>
Interest Income	6,860	0.64	5,720	0.54	5,664	0.55	6,200	0.62	6,614	0.66
Dividend & Other Income	53	0.00	593	0.05	1,047	0.10	802	0.08	398	0.04
<b>Net Operating Expenses</b>	<b>4,208</b>	<b>0.40</b>	<b>3,529</b>	<b>0.33</b>	<b>3,716</b>	<b>0.36</b>	<b>4,383</b>	<b>0.44</b>	<b>4,264</b>	<b>0.42</b>
Management fees	740	0.07	706	0.07	742	0.07	759	0.08	746	0.07
Incentive fees	772	0.07	696	0.07	749	0.07	654	0.06	635	0.06
Total Investment Management fees	1,512	0.14	1,403	0.14	1,491	0.15	1,412	0.14	1,381	0.14
Administration fees	417	0.04	211	0.02	241	0.02	282	0.03	253	0.03
Directors' fees	45	0.00	50	0.00	49	0.00	51	0.00	50	0.00
Interest expense	1,457	0.14	1,454	0.14	1,571	0.15	2,308	0.23	2,303	0.23
Professional services	414	0.04	239	0.02	229	0.02	243	0.02	122	0.01
Custody fees	14	0.00	15	0.00	15	0.00	15	0.00	12	0.00
Other	169	0.02	158	0.01	120	0.01	71	0.01	143	0.01
Fees Waivers and Expense Reimbursement	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
Income Tax, Including Excise Tax	180	0.02	0	0.00	0	0.00	0	0.00	209	0.02
<b>Net Investment Income</b>	<b>\$2,705</b>	<b>\$0.25</b>	<b>\$2,784</b>	<b>\$0.26</b>	<b>\$2,995</b>	<b>\$0.29</b>	<b>\$2,619</b>	<b>\$0.26</b>	<b>\$2,539</b>	<b>\$0.25</b>

(1) The per share figures are based on a weighted average of the shares outstanding for the preceding quarter, except where such amounts need to be adjusted to be consistent with the financial highlights of our consolidated financial statements.

(2) Total investment income includes PIK income and net accretion of OID and market discount.

# Capital Activity

# Capital Activity: Distribution Policy & Declared Distributions

- In December 2019, we announced a special distribution of \$0.05 per share. Including the base distributions, our declared distributions to stockholders over the past 12 months totaled \$1.05 per share, representing 12.1% on the December 31, 2019 NAV or 13.4% on the December 31, 2019 market value
- **In March 2020, our Board set our monthly distribution for Q2/2020 in the amount of \$0.083 per share per month**
  - Beginning with the distribution for April, the Q2/2020 distributions will be paid in cash or shares of our common stock at the election of shareholders, although the total amount of cash to be distributed to all shareholders will be limited to approximately 20% of the total distributions to be paid to all shareholders; the remainder of the distributions (approximately 80%) will be paid in the form of shares of our common stock
  - These distributions are being made in accordance with certain applicable Treasury regulations and private letter rulings on cash/stock dividends issued by the IRS over the years that allow a publicly-traded, regulated investment company to satisfy its distribution requirements from distributions paid partly in common stock provided that at least 20% of the distributions are payable in cash and certain other requirements are satisfied
- **We have elected to satisfy our distribution requirement in this manner in order to maximize liquidity and further strengthen our balance sheet** in this volatile investment environment

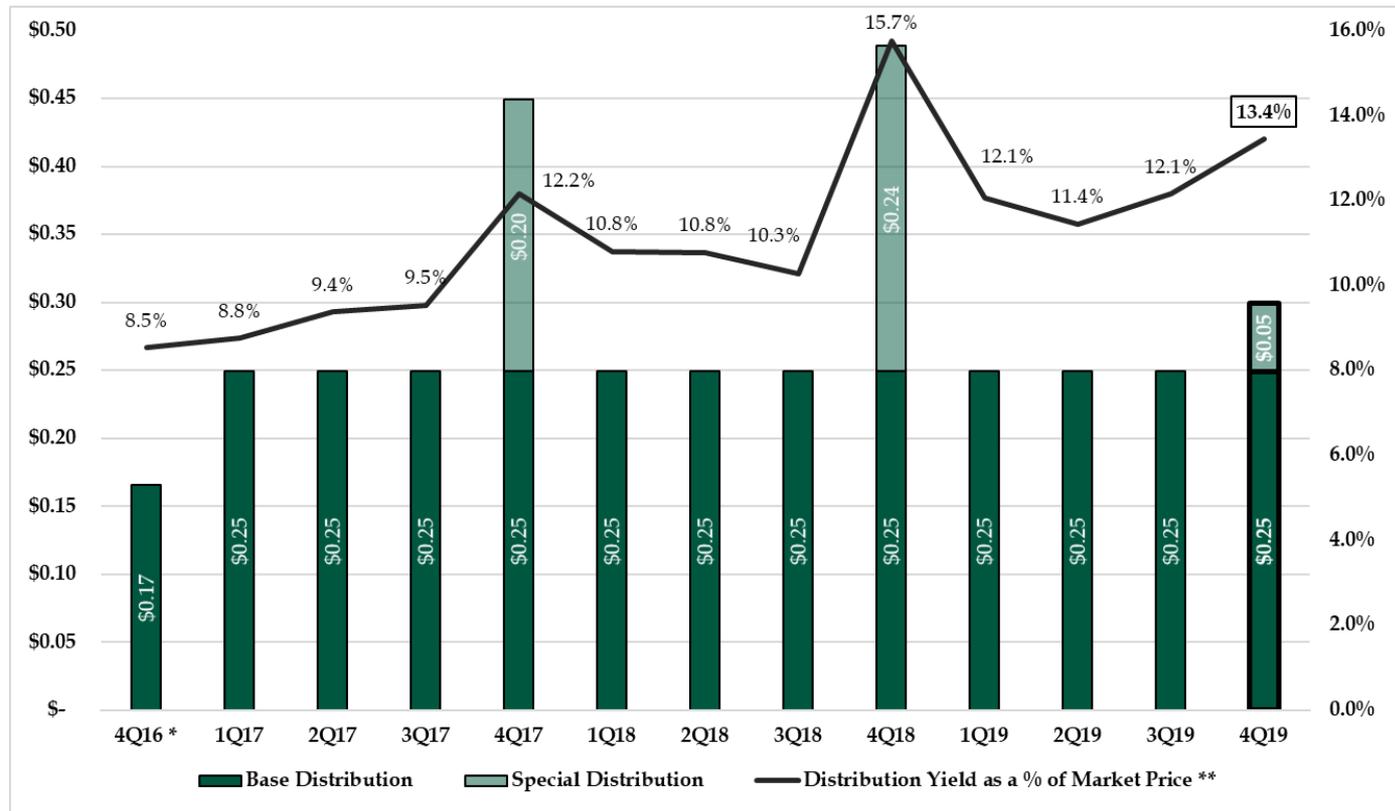
# Capital Activity: Distribution Yield as a Percentage of Market Value

44 consecutive monthly base distributions of \$0.083 per share<sup>1</sup>

Special distributions declared:

- \$0.20 per share (December 2017)
- \$0.24 per share (December 2018)
- \$0.05 per share (December 2019)

Cumulative distributions declared / set to date total approximately \$4.14 per share<sup>1</sup>



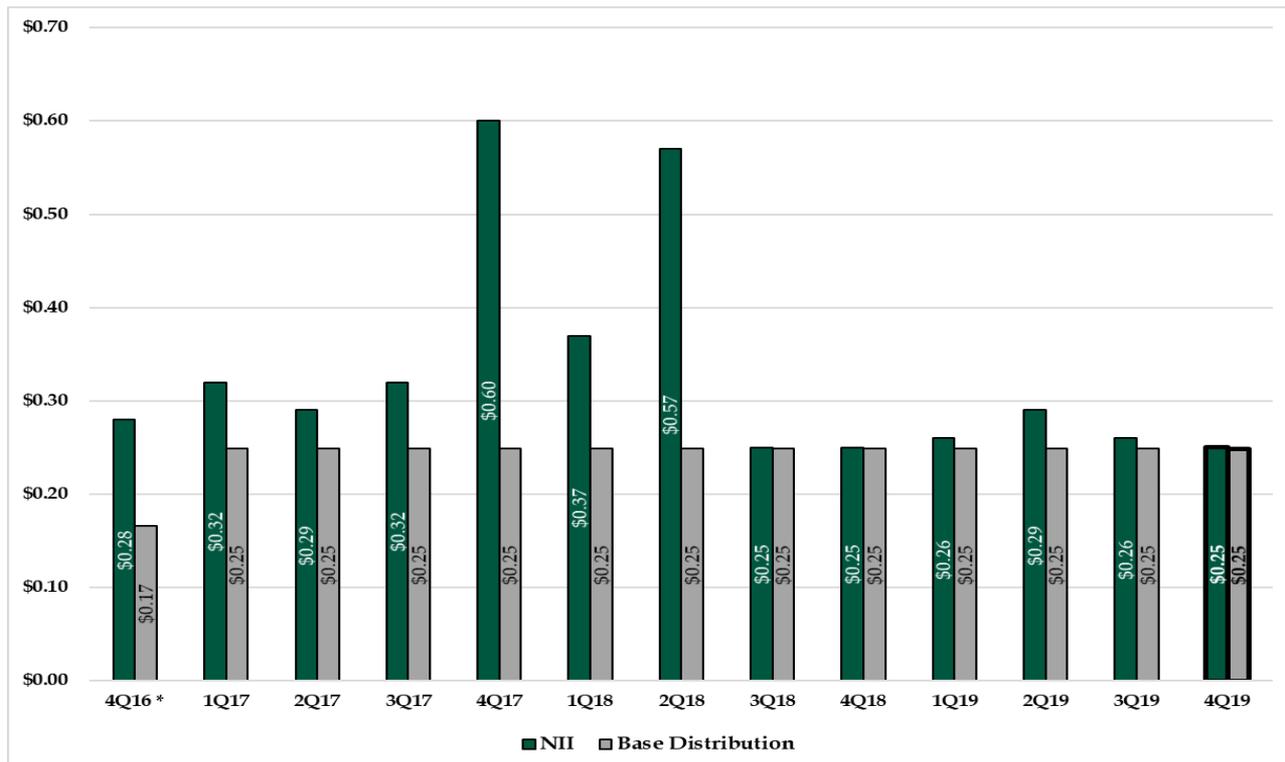
\* Partial period

\*\* Annualized distribution yield is calculated by dividing the declared distribution by the closing price at quarter end and annualizing over four periods. The special distribution is added as applicable.

(1) Through June 2020.

# Capital Activity: Historical Distribution Coverage

*NII has covered the base distribution every quarter since inception*



\* Partial period ended December 31, 2016; Adjusted NII excludes one-time merger / formation costs.

# Summary

# Summary

## Distributions & Coverage

- Earned or out-earned declared distributions every quarter since inception
- Declared a special distribution of \$0.05 per share in December 2019, resulting in a LTM distribution yield of 12.1% on 12/31/2019 NAV and 13.4% on 12/31/2019 closing market value
- To date, 44 consecutive monthly base distributions of \$0.083 per share and three special distributions, totaling \$4.14 in total distributions paid, declared or set

## Alignment of Interest

- Employees and affiliates of Great Elm Capital Management, Inc., GECC's investment manager, own greater than 20% of GECC's outstanding shares
- GECC has repurchased greater than 2.8 million shares, representing approx. 22% of its initial share count

## The Portfolio

- A diversified portfolio, primarily comprised of secured loans, secured bonds and investments in specialty finance businesses uncorrelated to the corporate credit portfolio
- Weighted average current yield of 10.8%<sup>1</sup>

## Strong Balance Sheet

- Approximately \$15.6 million of cash, cash equivalents and money mark fund investments
- Unsecured, fixed-rate debt with no maintenance covenants
- Asset coverage ratio of 170.0%

(1) Weighted average current yield is based upon the stated coupon rate and fair value of outstanding debt securities at the measurement date

# Appendix

# Appendix: General Risks

Debt instruments are subject to credit and interest rate risks.

Credit risk refers to the likelihood that an obligor will default in the payment of principal or interest on an instrument. Financial strength and solvency of an obligor are the primary factors influencing credit risk. In addition, lack or inadequacy of collateral or credit enhancement for a debt instrument may affect its credit risk. Credit risk may change over the life of an instrument, and debt instruments that are rated by rating agencies are often reviewed and may be subject to downgrade. Our debt investments either are, or if rated would be, rated below investment grade by independent rating agencies. These “junk bonds” and “leveraged loans” are regarded as having predominantly speculative characteristics with respect to the issuer’s capacity to pay interest and repay principal. They may be illiquid and difficult to value and typically do not require repayment of principal before maturity, which potentially heightens the risk that we may lose all or part of our investment.

Interest rate risk refers to the risks associated with market changes in interest rates. Interest rate changes may affect the value of a debt instrument indirectly (especially in the case of fixed rate obligations) or directly (especially in the case of an instrument whose rates are adjustable). In general, rising interest rates will negatively impact the price of a fixed rate debt instrument and falling interest rates will have a positive effect on price. Adjustable rate instruments also react to interest rate changes in a similar manner although generally to a lesser degree (depending, however, on the characteristics of the reset terms, including the index chosen, frequency of reset and reset caps or floors, among other factors).

GECC utilizes leverage to seek to enhance the yield and net asset value of its common stock. These objectives will not necessarily be achieved in all interest rate environments. The use of leverage involves risk, including the potential for higher volatility and greater declines of GECC’s net asset value, fluctuations of dividends and other distributions paid by GECC and the market price of GECC’s common stock, among others. The amount of leverage that GECC may employ at any particular time will depend on, among other things, our Board’s and our adviser’s assessment of market and other factors at the time of any proposed borrowing.

As part of our lending activities, we may purchase notes or make loans to companies that are experiencing significant financial or business difficulties, including companies involved in bankruptcy or other reorganization and liquidation proceedings. Although the terms of such financings may result in significant financial returns to us, they involve a substantial degree of risk. The level of analytical sophistication, both financial and legal, necessary for successful financing to companies experiencing significant business and financial difficulties is unusually high. We cannot assure you that we will correctly evaluate the value of the assets collateralizing our investments or the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to a portfolio company, we may lose all or part of the amounts advanced to the borrower or may be required to accept collateral with a value less than the amount of the investment advanced by us to the borrower.

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