



March 15, 2022

Dear Clients, Employees, and Friends,

With Spring just around the corner and a new chapter of sorts for Capitala Group, it seems like a suitable time to provide an update about our firm.

Commitment to Small Business

Since our inception in 1998, we have been committed to serving the needs of U.S. small businesses. To date, we have made over \$2.1 billion of debt and equity investments into more than 170 portfolio companies, across a number of investment vehicles, including four Small Business Investment Companies (“SBIC”). Our commitment to serve small businesses has been and will remain our primary focus.

Firm Identity & Culture

As an asset management firm, we provide private equity and private credit to lower and middle market small businesses. We accomplish this with capital that has been entrusted to us by institutional investors, both domestic and international, and are proud of our track record. **Over the last two decades Capitala has generated, with our prior four SBIC Funds, approximately 19% net IRRs for our investors⁽¹⁾.** To be successful, we continue to build out a best-in-class, diverse team of professionals and advisors. We are committed to attracting and retaining the best talent in the industry and provide our professionals with challenging career opportunities, work/life balance, work from home options, and competitive compensation. We are only as good as our people, and we will continue to focus on building a workforce that allows us to compete and win in this competitive industry.

Responsible Investing

Of the \$2.1 billion invested since our inception, approximately \$1.0 billion has been invested in social impact investments, defined as companies owned or controlled by women, minorities, and/or veterans, or companies located in low to moderate income areas. Furthermore, we are targeting 50% of dollars deployed by our current fund to social impact investing. The firm has adopted an ESG Policy and is forming a Social Impact Advisory Board consisting of women, minorities, and veterans, all to guide us through this most important facet of our investing process. You may visit our website at www.CapitalaGroup.com to see our policy and review our advisory board members.

Investment Focus

We provide private equity and private debt to lower and middle market operating companies throughout the capital structure, ranging from first-lien debt to providing control equity as the lead sponsor. We have the ability to source, underwrite and invest in opportunities ranging from \$5 million to \$100 million. In most cases, we source investment opportunities through our direct origination platform, though we have a long track record of partnering with many sponsors and independent sponsor groups across the country. Our underwriting process is an integral part of our track record, with our core investment committee being together for over twenty years.

Capitala is actively investing private equity and private credit into small businesses and would welcome considering any investment opportunities you see that may fit within our investment strategy. Thank you to our investors for the capital and confidence you have placed with us, we could not operate without you. Thank you to our dedicated team of professionals, there is no limit to what we can accomplish together.

Respectfully,



Steve Arnall
President and Chief Operating Officer
sarnall@capitalagroup.com

(1) As of September 30, 2021. Please note – past performance is no indication of future results. Net IRR disclosed is based on a weighted average net IRR for each Legacy SBIC fund, weighted on the basis of dollars deployed. Net Calculations for Legacy SBIC Funds: References herein to Net IRR for a Legacy SBIC Fund are to the net internal rate of return for capital contributed to the Legacy SBIC Fund by its investors, calculated as of a specific date and expressed as a percentage return on capital invested in the Legacy SBIC Fund. All net return calculations for the Legacy SBIC Funds are made as of a specific date net of and after deduction for the payment of management fees required to be paid by the Legacy SBIC Fund as of such date (other than any management fees irrevocably waived by the Legacy SBIC Fund), interest and other expense incurred by the Legacy SBIC Fund in its audited financial statements, carried interest distributions made as of such date to the Legacy SBIC Fund's general partner, and transaction costs and other expenses incurred by the Legacy SBIC Fund in its audited financial statements. The net return calculations for the Legacy SBIC Funds' investments do not include any deduction for the irrevocable waiver of \$11 million of management fees by the Legacy SBIC Funds between 2007 and 2011, which had the effect of increasing the Net IRR for each of the Legacy SBIC Funds. Additionally, all net return calculations for the Legacy SBIC Fund's investments are net of interest and other expenses associated with leverage obtained by the Legacy SBIC Fund. Some of the Legacy SBIC Funds have had access to, and have obtained, leverage under the SBIC program to finance at least some of their investments. At the time of Capitala Finance Corp.'s (NASDAQ: CPTA) Initial Public Offering ("IPO") on September 30, 2013, the partners of SBIC Fund II and SBIC Fund III exchanged their respective interests, based on the fair market value of the assets at the time of transfer, for shares of CPTA. Net IRR for SBIC Fund II and SBIC Fund III are calculated from the inception of each fund through the exchange of partnership interests for CPTA stock on September 30, 2013. As part of the IPO, SBIC Fund I sold its assets at fair market value in exchange for shares of CPTA. Net IRR for SBIC Fund I is calculated from the inception of the fund through the asset sale for CPTA stock on September 30, 2013.