

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

**FORM 10-Q**

(Mark One)

- ☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended June 30, 2017
- OR
- ☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 814-00939

**HMS Income Fund, Inc.**

(Exact Name of Registrant as Specified in its Charter)

**Maryland**  
(State or Other Jurisdiction of Incorporation or Organization)

**45-3999996**  
(I.R.S. Employer Identification No.)

**2800 Post Oak Boulevard, Suite 5000**  
**Houston, Texas**  
(Address of Principal Executive Offices)

**77056-6118**  
(Zip Code)

**(888) 220-6121**  
(Registrant's telephone number, including area code)

**Not applicable**  
(Former name, former address and formal fiscal year, if changed since last report)

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. Yes ☒ No ☐

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). Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act (Check one):

|                          |  |   |  |  |
|--------------------------|--|---|--|--|
| Large accelerated filer  | Accelerated filer <input type="checkbox"/> | Non-accelerated filer <input checked="" type="checkbox"/> | Smaller reporting company <input type="checkbox"/> | Emerging growth company <input type="checkbox"/> |
| <input type="checkbox"/> |  |   |  |  |

(Do not check if a smaller reporting company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The issuer had 78,828,136 shares of common stock outstanding as of August 11, 2017.

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## PART I — FINANCIAL INFORMATION

### Item 1. Condensed Consolidated Financial Statements

**HMS Income Fund, Inc.**  
**Condensed Consolidated Balance Sheets**  
(dollars in thousands, except share and per share amounts)

|   | June 30, 2017<br>(Unaudited) | December 31, 2016   |
|---|------------------------------|---------------------|
| <b>ASSETS</b>   |                              |                     |
| Portfolio investments at fair value:  |                              |                     |
| Non-Control/Non-Affiliate investments (amortized cost: \$948,958 and \$935,741 as of June 30, 2017 and December 31, 2016, respectively)                                 | \$ 925,298                   | \$ 916,393          |
| Affiliate investments (amortized cost: \$68,946 and \$53,771 as of June 30, 2017 and December 31, 2016, respectively)   | 73,365                       | 56,312              |
| Control investments (amortized cost: \$42,473 and \$12,883 as of June 30, 2017 and December 31, 2016, respectively)   | 46,275                       | 16,542              |
| Total portfolio investments (amortized cost: \$1,060,377 and \$1,002,395 as of June 30, 2017 and December 31, 2016, respectively)                                       | 1,044,938                    | 989,247             |
| Cash and cash equivalents   | 32,905                       | 23,719              |
| Interest receivable   | 7,975                        | 7,204               |
| Receivable for securities sold  | 5,656                        | 7,610               |
| Prepaid and other assets  | 6,373                        | 1,268               |
| Deferred offering costs (net of accumulated amortization of \$10,717 and \$9,919 as of June 30, 2017 and December 31, 2016, respectively)                               | 611                          | 680                 |
| Deferred financing costs (net of accumulated amortization of \$2,238 and \$2,862 as of June 30, 2017 and December 31, 2016, respectively)                               | 3,784                        | 3,840               |
| <b>Total assets</b>   | <b>\$ 1,102,242</b>          | <b>\$ 1,033,568</b> |
| <b>LIABILITIES</b>  |                              |                     |
| Accounts payable and other liabilities  | \$ 923                       | \$ 1,164            |
| Payable for unsettled trades  | 283                          | 932                 |
| Stockholder distributions payable   | 4,475                        | 4,354               |
| Base management fees payable  | 5,304                        | 5,054               |
| Due to affiliates   | 112                          | 184                 |
| Directors' fees payable   | 27                           | 12                  |
| Payable for securities purchased  | 34,117                       | 11,035              |
| Notes payable   | 417,000                      | 413,000             |
| <b>Total liabilities</b>  | <b>462,241</b>               | <b>435,735</b>      |
| Commitments and Contingencies (Note 12)   |                              |                     |
| <b>NET ASSETS</b>   |                              |                     |
| Common stock, \$.001 par value; 150,000,000 shares authorized, 77,891,173 and 73,382,971 issued and outstanding as of June 30, 2017 and December 31, 2016, respectively | 78                           | 73                  |
| Additional paid-in capital  | 671,652                      | 633,855             |
| Accumulated distributions in excess of net investment income  | (16,120)                     | (22,602)            |
| Net unrealized depreciation   | (15,609)                     | (13,493)            |
| <b>Total net assets</b>   | <b>640,001</b>               | <b>597,833</b>      |
| <b>Total liabilities and net assets</b>   | <b>\$ 1,102,242</b>          | <b>\$ 1,033,568</b> |
| <b>Net asset value per share</b>  | <b>\$ 8.22</b>               | <b>\$ 8.15</b>      |

*See notes to the condensed consolidated financial statements.*

**HMS Income Fund, Inc.**  
**Condensed Consolidated Statements of Operations**  
(dollars in thousands, except share and per share amounts)  
(Unaudited)

|  | Three Months Ended |                  | Six Months Ended |                  |
|--|--------------------|------------------|------------------|------------------|
|  | June 30, 2017      | June 30, 2016    | June 30, 2017    | June 30, 2016    |
| <b>INVESTMENT INCOME:</b>  |                    |                  |                  |                  |
| From non-control/non-affiliate investments:  |                    |                  |                  |                  |
| Interest income  | \$ 22,557          | \$ 19,552        | \$ 45,100        | \$ 39,676        |
| Fee income   | 827                | 286              | 1,537            | 507              |
| Dividend income  | 182                | 93               | 384              | 186              |
| From affiliate investments:  |                    |                  |                  |                  |
| Interest income  | 1,138              | 627              | 2,101            | 995              |
| Fee income   | 49                 | 99               | 103              | 133              |
| Dividend income  | 555                | 348              | 981              | 533              |
| From control investments:  |                    |                  |                  |                  |
| Interest income  | 170                | 176              | 338              | 390              |
| Fee income   | 20                 | 20               | 41               | 40               |
| Dividend income  | 50                 | —                | 327              | —                |
| Total interest, fee and dividend income  | 25,548             | 21,201           | 50,912           | 42,460           |
| <b>EXPENSES:</b>   |                    |                  |                  |                  |
| Interest expense   | 4,343              | 3,604            | 8,338            | 7,314            |
| Base management and incentive fees   | 6,126              | 4,693            | 12,771           | 9,680            |
| Administrative services expenses   | 873                | 574              | 1,534            | 1,107            |
| Offering costs   | 408                | 120              | 798              | 132              |
| Professional fees  | 60                 | 243              | 324              | 671              |
| Insurance  | 48                 | 48               | 96               | 95               |
| Other general and administrative   | 292                | 420              | 619              | 725              |
| Expenses before fee and expense waivers  | 12,150             | 9,702            | 24,480           | 19,724           |
| Waiver of incentive fees   | (823)              | —                | (2,318)          | (493)            |
| Waiver of administrative services expenses   | (873)              | (574)            | (1,534)          | (1,107)          |
| Total expenses, net of fee and expense waivers   | 10,454             | 9,128            | 20,628           | 18,124           |
| Net investment income before taxes   | 15,094             | 12,073           | 30,284           | 24,336           |
| Income tax expense (benefit), including excise tax   | 30                 | 25               | 78               | 48               |
| <b>NET INVESTMENT INCOME</b>   | <b>15,064</b>      | <b>12,048</b>    | <b>30,206</b>    | <b>24,288</b>    |
| <b>NET REALIZED GAIN (LOSS) FROM INVESTMENTS</b>   |                    |                  |                  |                  |
| Non-Control/Non-Affiliate investments  | (5)                | (9,369)          | 2,635            | (10,015)         |
| Affiliate investments  | —                  | —                | —                | —                |
| Control investments  | —                  | —                | —                | —                |
| Total realized gain (loss) from investments  | (5)                | (9,369)          | 2,635            | (10,015)         |
| <b>NET REALIZED INCOME</b>   | <b>15,059</b>      | <b>2,679</b>     | <b>32,841</b>    | <b>14,273</b>    |
| <b>NET UNREALIZED APPRECIATION (DEPRECIATION)</b>  |                    |                  |                  |                  |
| Non-Control/Non-Affiliate investments  | 1,439              | 15,362           | (4,130)          | (704)            |
| Affiliate investments  | 812                | 61               | 1,872            | 546              |
| Control investments  | 150                | (7)              | 143              | 1,311            |
| Total net unrealized appreciation (depreciation)   | 2,401              | 15,416           | (2,115)          | 1,153            |
| <b>NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS</b>                         | <b>\$ 17,460</b>   | <b>\$ 18,095</b> | <b>\$ 30,726</b> | <b>\$ 15,426</b> |
| <b>PER SHARE INFORMATION - BASIC AND DILUTED</b>   |                    |                  |                  |                  |
| NET INVESTMENT INCOME PER SHARE  | \$ 0.20            | \$ 0.18          | \$ 0.40          | \$ 0.37          |
| NET REALIZED INCOME PER SHARE  | \$ 0.19            | \$ 0.04          | \$ 0.43          | \$ 0.22          |
| NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS PER SHARE (EARNINGS PER SHARE) | \$ 0.22            | \$ 0.27          | \$ 0.40          | \$ 0.24          |
| DISTRIBUTIONS DECLARED PER SHARE   | \$ 0.18            | \$ 0.18          | \$ 0.35          | \$ 0.35          |
| WEIGHTED AVERAGE SHARES OUTSTANDING – BASIC AND DILUTED  | 76,992,837         | 66,734,135       | 75,929,218       | 64,982,508       |

*See notes to the condensed consolidated financial statements.*

**HMS Income Fund, Inc.**  
**Condensed Consolidated Statements of Changes in Net Assets**  
(dollars in thousands, except number of shares)  
(Unaudited)

|   | Six Months Ended<br>June 30, 2017 | Six Months Ended<br>June 30, 2016 |
|---|-----------------------------------|-----------------------------------|
| <b>Change in Net Assets from Operations:</b>                          |                                   |                                   |
| Net investment income   | \$ 30,206                         | \$ 24,288                         |
| Net realized gain (loss) on investments                               | 2,635                             | (10,015)                          |
| Net unrealized appreciation (depreciation)                            | (2,115)                           | 1,153                             |
| Net increase in net assets resulting from operations                  | 30,726                            | 15,426                            |
| <b>Change in Net Assets from Stockholders' Distributions:</b>         |                                   |                                   |
| Distributions from net investment income                              | (23,725)                          | (22,687)                          |
| Distributions from net realized gain on investments                   | (2,635)                           | —                                 |
| Net decrease in net assets resulting from stockholders' distributions | (26,360)                          | (22,687)                          |
| <b>Change in Net Assets from Capital Share Transactions:</b>          |                                   |                                   |
| Issuance of common stock, net of issuance costs                       | 32,151                            | 38,999                            |
| Reinvestment of stockholder distributions                             | 13,545                            | 11,865                            |
| Repurchase of common stock  | (7,894)                           | (6,512)                           |
| Net increase in net assets resulting from capital share transactions  | 37,802                            | 44,352                            |
| Total Increase in Net Assets  | 42,168                            | 37,091                            |
| Net Assets at beginning of the period                                 | 597,833                           | 491,652                           |
| Net Assets at end of the period                                       | \$ 640,001                        | \$ 528,743                        |
| NAV per share at end of the period                                    | \$ 8.22                           | \$ 7.77                           |
| Common shares outstanding, beginning of the period                    | 73,382,971                        | 62,382,044                        |
| Issuance of common shares   | 3,844,275                         | 4,987,274                         |
| Issuance of common shares pursuant to distribution reinvestment plan  | 1,624,413                         | 1,509,900                         |
| Repurchase of common shares   | (960,486)                         | (838,677)                         |
| Common shares outstanding, end of the period                          | 77,891,173                        | 68,040,541                        |

*See notes to the condensed consolidated financial statements.*

**HMS Income Fund, Inc.**  
**Condensed Consolidated Statements of Cash Flows**  
**(dollars in thousands)**  
**(Unaudited)**

|   | <b>Six Months Ended<br/>June 30, 2017</b> | <b>Six Months Ended<br/>June 30, 2016</b> |
|---|---|---|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |   |   |
| Net increase in net assets resulting from operations  | \$ 30,726                                 | \$ 15,426                                 |
| Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities: |   |   |
| Principal repayments received and proceeds from sales of investments in portfolio companies                             | 280,006                                   | 107,896                                   |
| Investments in portfolio companies  | (307,041)                                 | (181,927)                                 |
| Net unrealized (appreciation) depreciation of portfolio investments   | 2,115                                     | (1,153)                                   |
| Net realized (gain) loss on sale of portfolio investments   | (2,635)                                   | 10,015                                    |
| Amortization of deferred financing costs  | 699                                       | 740                                       |
| Amortization of deferred offering costs   | 798                                       | 132                                       |
| Accretion of unearned income  | (7,896)                                   | (5,100)                                   |
| Net payment-in-kind interest accrual  | (839)                                     | (124)                                     |
| Changes in other assets and liabilities:  |   |   |
| Interest receivable   | (771)                                     | 226                                       |
| Prepaid and other assets  | 354                                       | (68)                                      |
| Base management fees payable  | 250                                       | 216                                       |
| Due to affiliates   | (109)                                     | (115)                                     |
| Directors' fees payable   | 15  | 21  |
| Accounts payable and other liabilities  | (108)                                     | 5   |
| Payable for unsettled trades  | (649)                                     | 57  |
| Net cash used in operating activities   | (5,085)                                   | (53,753)                                  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |   |   |
| Proceeds from issuance of common stock  | 35,018                                    | 42,893                                    |
| Redemption of common shares   | (7,894)                                   | (6,512)                                   |
| Payment of selling commissions and dealer manager fees  | (2,849)                                   | (3,804)                                   |
| Payment of offering costs   | (709)                                     | (823)                                     |
| Payment of stockholder distributions  | (12,694)                                  | (10,625)                                  |
| Repayments on notes payable   | (291,000)                                 | (138,000)                                 |
| Proceeds from notes payable   | 295,000                                   | 165,000                                   |
| Payment of deferred financing costs   | (601)                                     | (428)                                     |
| Net cash provided by financing activities   | 14,271                                    | 47,701                                    |
| <b>Net increase (decrease) in cash and cash equivalents</b>   | <b>9,186</b>                              | <b>(6,052)</b>                            |
| <b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>   | <b>23,719</b>                             | <b>24,001</b>                             |
| <b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>   | <b>\$ 32,905</b>                          | <b>\$ 17,949</b>                          |

*See notes to the condensed consolidated financial statements.*

**HMS Income Fund, Inc.**  
**Condensed Consolidated Schedule of Investments**  
**As of June 30, 2017**  
**(dollars in thousands)**  
**(Unaudited)**

| Portfolio Company (1) (3)   | Business Description   | Type of Investment (2) (3)   | Index Rate (22) | Principal (7) | Cost (7)         | Fair Value       |
|---|--|--|-----------------|---------------|------------------|------------------|
| <b>Control Investments (6)</b>  |  |  |                 |               |                  |                  |
| <b>GRT Rubber Technologies, LLC (8) (10) (13)</b>                               | Engineered Rubber Product Manufacturer   | LIBOR Plus 9.00% (Floor 1.00%), Current Coupon 10.05%, Secured Debt (Maturity - December 19, 2019)     | 1 month LIBOR   | \$ 6,112      | \$ 6,038         | \$ 6,112         |
|   |  | Member Units (2,896 shares)  | —               | —             | 6,435            | 10,186           |
|   |  |  |                 |               | 12,473           | 16,298           |
| <b>HMS-ORIX SLF LLC (9) (15) (23)</b>   | Investment Partnership   | Membership Interests (Fully diluted 60.00%) (16)   | —               | —             | 30,000           | 29,977           |
| <b>Subtotal Control Investments (6) (4% of total investments at fair value)</b> |  |  |                 |               | <b>\$ 42,473</b> | <b>\$ 46,275</b> |
| <b>Affiliate Investments (4)</b>  |  |  |                 |               |                  |                  |
| <b>AFG Capital Group, LLC (10) (13)</b>   | Provider of Rent-to-Own Financing Solutions and Services                                       | Member Units (46 shares)   | —               | \$ —          | \$ 300           | \$ 712           |
|   |  | Warrants (10 equivalent shares, Expiration - November 7, 2024)   | —               | —             | 65               | 172              |
|   |  |  |                 |               | 365              | 884              |
| <b>Charps, LLC (10) (13)</b>  | Union Contractor focused on construction, fabrication and maintenance of oil and gas pipelines | 12.00% Secured Debt (Maturity - January 31, 2022)  | None            | 4,600         | 4,487            | 4,491            |
|   |  | Preferred Member Units (400 units)   | —               | —             | 100              | 100              |
|   |  |  |                 |               | 4,587            | 4,591            |
| <b>Clad-Rex Steel, LLC (10) (13)</b>  | Specialty Manufacturer of Vinyl-Clad Metal   | LIBOR Plus 9.50% (Floor 1.00%), Current Coupon 10.55%, Secured Debt (Maturity - December 20, 2021) (8) | 1 month LIBOR   | 3,520         | 3,454            | 3,455            |
|   |  | Member Units (179 units)   | —               | —             | 1,820            | 1,958            |
|   |  | 10.00% Secured Debt (Clad-Rex Steel RE Investor, LLC) (Maturity - December 20, 2036)                   | None            | 298           | 296              | 296              |
|   |  | Member Units (Clad-Rex Steel RE Investor, LLC) (200 units)   | —               | —             | 53               | 53               |
|   |  |  |                 |               | 5,623            | 5,762            |
| <b>EIG Traverse Co-Investment, LP (9) (15)</b>                                  | Investment Partnership   | LP Interests (EIG Traverse Co-Investment, LP) (Fully diluted 22.20%) (16)                              | —               | —             | 9,805            | 10,408           |
| <b>Freeport First Lien Loan Fund III, LP (9) (15)</b>                           | Investment Partnership   | LP Interests (Freeport First Lien Loan Fund III, LP) (Fully diluted 5.60%) (16)                        | —               | —             | 7,559            | 7,506            |
| <b>Gamber-Johnson Holdings, LLC (8) (10) (13)</b>                               | Manufacturer of Ruggedized Computer Mounting Systems   | LIBOR Plus 11.00% (Floor 1.00%), Current Coupon 12.05%, Secured Debt (Maturity - June 24, 2021)        | 1 month LIBOR   | 5,970         | 5,860            | 5,970            |
|   |  | Member Units (2,155 units)   | —               | —             | 3,711            | 5,519            |
|   |  |  |                 |               | 9,571            | 11,489           |
| <b>Guerdon Modular Holdings, Inc. (10) (13)</b>                                 | Multi-Family and Commercial Modular Construction Company                                       | 9.00% Current / 4.00% PIK Secured Debt (Maturity - August 13, 2019)                                    | None            | 2,677         | 2,636            | 2,656            |
|   |  | Common Stock (53,008 shares)   | —               | —             | 746              | 20               |
|   |  | Class B Preferred Stock (101,250 shares)   | —               | —             | 285              | 285              |
|   |  |  |                 |               | 3,667            | 2,961            |
| <b>Gulf Publishing Investor, LLC (10) (13)</b>                                  | Energy Focused Media and Publishing  | 12.50% Secured Debt (Maturity - April 29, 2021)  | None            | 3,200         | 3,145            | 3,145            |
|   |  | Member Units (781 shares)  | —               | —             | 920              | 1,082            |
|   |  |  |                 |               | 4,065            | 4,227            |
| <b>Hawk Ridge Systems, LLC (9) (10) (13)</b>                                    | Value-Added Reseller of Engineering Design and Manufacturing Solutions                         | 10.00% Secured Debt (Maturity - December 2, 2021)  | None            | 2,500         | 2,455            | 2,455            |
|   |  | Preferred Member Units (56 units)  | —               | —             | 713              | 713              |
|   |  | Preferred Member Units (HRS Services, ULC) (56 units)  | —               | —             | 38               | 38               |
|   |  |  |                 |               | 3,206            | 3,206            |
|   |  |  |                 |               |                  |                  |
| <b>HW Temps LLC (8) (10) (13)</b>   | Temporary Staffing Solutions   | LIBOR Plus 13.00% (Floor 1.00%), Current Coupon 14.05%, Secured Debt (Maturity - July 2, 2020)         | 1 month LIBOR   | 2,494         | 2,448            | 2,448            |
|   |  | Preferred Member Units (800 shares) (16)   | —               | —             | 986              | 985              |
|   |  |  |                 |               | 3,434            | 3,433            |

**HMS Income Fund, Inc.**  
**Condensed Consolidated Schedule of Investments**  
**As of June 30, 2017**  
**(dollars in thousands)**  
**(Unaudited)**

| Portfolio Company (1) (3)  | Business Description  | Type of Investment (2) (3)   | Index Rate (22) | Principal (7) | Cost (7)  | Fair Value |
|--|---|--|-----------------|---------------|-----------|------------|
| M.H. Corbin, Inc. (10) (13)  | Manufacturer and Distributor of Traffic Safety Products               | 10.00% Secured Debt (Maturity - August 31, 2020)   | None            | \$ 3,238      | \$ 3,214  | \$ 3,214   |
|  |   | Preferred Member Units (1,000 shares)  | —               | —             | 1,500     | 1,500      |
|  |   |  |                 |               | 4,714     | 4,714      |
| Mystic Logistics, Inc. (10) (13)   | Logistics and Distribution Services Provider for Large Volume Mailers | 12.00% Secured Debt (Maturity - August 15, 2019)   | None            | 2,008         | 1,971     | 2,008      |
|  |   | Common Stock (1,468 shares) (16)   | —               | —             | 680       | 1,648      |
|  |   |  |                 |               | 2,651     | 3,656      |
| NuStep, LLC (10) (13)  | Designer, Manufacturer and Distributor of Fitness Equipment           | 12.00% Secured Debt (Maturity - January 31, 2022)  | None            | 5,150         | 5,033     | 5,034      |
|  |   | Member units (102 units)   | —               | —             | 2,549     | 2,550      |
|  |   |  |                 |               | 7,582     | 7,584      |
| SoftTouch Medical Holdings LLC (8) (10) (13)                               | Home Provider of Pediatric Durable Medical Equipment                  | LIBOR Plus 9.00% (Floor 1.00%), Current Coupon 10.05%, Secured Debt (Maturity - October 31, 2019)      | 1 month LIBOR   | 1,260         | 1,247     | 1,260      |
|  |   | Member Units (785 units) (16)  | —               | —             | 870       | 1,684      |
|  |   |  |                 |               | 2,117     | 2,944      |
| Subtotal Affiliate Investments (4) (7% of total investments at fair value) |   |  |                 |               | \$ 68,946 | \$ 73,365  |
| Non-Control/Non-Affiliate Investments (5)                                  |   |  |                 |               |           |            |
| AAC Holding Corp. (8)  | Substance Abuse Treatment Service Provider                            | LIBOR Plus 6.75% (Floor 1.00%), Current Coupon 7.98%, Secured Debt (Maturity - June 28, 2023) (12)     | 1 month LIBOR   | \$ 11,900     | \$ 11,603 | \$ 11,751  |
| Adams Publishing Group, LLC (8) (11)                                       | Local Newspaper Operator  | LIBOR Plus 7.00% (Floor 1.00%), Current Coupon 8.15%, Secured Debt (Maturity - November 3, 2020)       | 3 month LIBOR   | 9,018         | 8,757     | 8,849      |
| ADS Tactical, Inc. (8) (11)  | Value-Added Logistics and Supply Chain Solutions Provider             | LIBOR Plus 7.50% (Floor 1.00%), Current Coupon 8.80%, Secured Debt (Maturity - December 31, 2022)      | 1 month LIBOR   | 11,443        | 11,179    | 11,179     |
| Ahead, LLC (8) (11)  | IT Infrastructure Value Added Reseller                                | LIBOR Plus 6.50%, Current Coupon 7.81%, Secured Debt (Maturity - November 2, 2020)                     | 3 month LIBOR   | 9,250         | 9,047     | 9,227      |
| Allflex Holdings III Inc. (8)  | Manufacturer of Livestock Identification Products                     | LIBOR Plus 7.00% (Floor 1.00%), Current Coupon 8.16%, Secured Debt (Maturity - July 19, 2021) (14)     | 3 month LIBOR   | 14,922        | 15,011    | 15,085     |
| American Scaffold Holdings, Inc. (8) (11)                                  | Marine Scaffolding Service Provider                                   | LIBOR Plus 6.50% (Floor 1.00%), Current Coupon 7.80%, Secured Debt (Maturity - March 31, 2022)         | 3 month LIBOR   | 7,219         | 7,126     | 7,183      |
| American Teleconferencing Services, Ltd. (8)                               | Provider of Audio Conferencing and Video Collaboration Solutions      | LIBOR Plus 6.50% (Floor 1.00%), Current Coupon 7.72%, Secured Debt (Maturity - December 8, 2021)       | 1 month LIBOR   | 9,794         | 8,902     | 9,788      |
|  |   | LIBOR Plus 9.50% (Floor 1.00%), Current Coupon 10.59%, Secured Debt (Maturity - December 6, 2022) (14) | 1 month LIBOR   | 5,571         | 5,312     | 5,519      |
|  |   |  |                 |               | 14,214    | 15,307     |
| AmeriTech College Operations, LLC (10) (13)                                | For-Profit Nursing and Healthcare College                             | 13.00% Secured Debt (Maturity - January 31, 2020)  | None            | 375           | 375       | 375        |
|  |   | 10.00% Secured Debt (Maturity - November 30, 2019)   | None            | 61            | 61        | 61         |
|  |   | 13.00% Secured Debt (Maturity - November 30, 2019)   | None            | 64            | 64        | 64         |
|  |   | Preferred Member Units (364 units, 5.00% cumulative) (16)  | —               | —             | 754       | 354        |
|  |   |  |                 |               | 1,254     | 854        |
| Apex Linen Service, Inc. (10) (13)   | Industrial Launderers   | 13.00% Secured Debt (Maturity - October 30, 2022)  | None            | 3,604         | 3,548     | 3,548      |
|  |   | LIBOR Plus 6.00% (Floor 1.00%), Current Coupon 7.05%, Secured Debt (Maturity - October 30, 2022)       | 1 month LIBOR   | 600           | 600       | 600        |
|  |   |  |                 |               | 4,148     | 4,148      |
| Arcus Hunting, LLC (8) (11)  | Manufacturer of Bowhunting and Archery Products and Accessories       | LIBOR Plus 7.00% (Floor 1.00%), Current Coupon 8.15%, Secured Debt (Maturity - November 13, 2019)      | 1 month LIBOR   | 7,912         | 7,813     | 7,906      |



**HMS Income Fund, Inc.**  
**Condensed Consolidated Schedule of Investments**  
**As of June 30, 2017**  
**(dollars in thousands)**  
**(Unaudited)**

| Portfolio Company (1) (3)                           | Business Description  | Type of Investment (2) (3)   | Index Rate (22) | Principal (7) | Cost (7) | Fair Value |
|---|---|--|-----------------|---------------|----------|------------|
| <b>ATI Investment Sub, Inc. (8)</b>                 | Manufacturer of Solar Tracking Systems  | LIBOR Plus 7.25% (Floor 1.00%), Current Coupon 8.48%, Secured Debt (Maturity - June 22, 2021)      | 1 month LIBOR   | \$ 9,000      | \$ 8,842 | \$ 8,978   |
| <b>ATX Networks Corp. (8) (9)</b>                   | Provider of Radio Frequency Management Equipment                                      | LIBOR Plus 6.00% (Floor 1.00%), Current Coupon 7.30%, Secured Debt (Maturity - June 11, 2021)      | 3 month LIBOR   | 14,663        | 14,451   | 14,515     |
| <b>BarFly Ventures, LLC (11)</b>                    | Casual Restaurant Group   | 12.00% Secured Debt (Maturity - August 31, 2020)   | None            | 2,599         | 2,557    | 2,599      |
|   |   | Warrants (.410 equivalent units, Expiration - August 31, 2025)                                     | —               | —             | 158      | 110        |
|   |   | Options (.731 equivalent units)  | —               | —             | 133      | 198        |
|   |   |  |                 |               | 2,848    | 2,907      |
| <b>BBB Tank Services, LLC (10) (13)</b>             | Maintenance, Repair and Construction Services to the Above-Ground Storage Tank Market | 15% Current Secured Debt (Maturity - April 8, 2021)  | None            | 1,007         | 991      | 999        |
|   |   | LIBOR Plus 9.50% (Floor 1.00%), Current Coupon 10.55%, Secured Debt (Maturity - April 8, 2021)     | 1 month LIBOR   | 200           | 200      | 200        |
|   |   | Member Units (200,000 units)   | —               | —             | 200      | 200        |
|   |   |  |                 |               | 1,391    | 1,399      |
| <b>Berry Aviation, Inc. (11)</b>                    | Airline Charter Service Operator  | 12.00% Current / 1.75% PIK, Current Coupon 13.75%, Secured Debt (Maturity - January 30, 2020) (14) | None            | 1,407         | 1,392    | 1,407      |
|   |   | Common Stock (138 shares)  | —               | —             | 100      | 205        |
|   |   |  |                 |               | 1,492    | 1,612      |
| <b>Bigname Holdings, LLC (8) (11)</b>               | Envelopes and Complimentary Stationery Products                                       | LIBOR Plus 7.25% (Floor 1.00%), Current Coupon 8.43%, Secured Debt (Maturity - May 11, 2022)       | 1 month LIBOR   | 2,500         | 2,469    | 2,469      |
| <b>Binswanger Enterprises, LLC (8) (11)</b>         | Glass Repair and Installation Service Provider  | LIBOR Plus 8.00% (Floor 1.00%), Current Coupon 9.30%, Secured Debt (Maturity - March 9, 2022)      | 3 month LIBOR   | 15,383        | 15,090   | 15,090     |
|   |   | Member Units (1,050,000 Class A units)   | —               | —             | 1,050    | 1,050      |
|   |   |  |                 |               | 16,140   | 16,140     |
| <b>Bluestem Brands, Inc. (8)</b>                    | Multi-Channel Retailer of General Merchandise   | LIBOR Plus 7.50% (Floor 1.00%), Current Coupon 8.70%, Secured Debt (Maturity - November 6, 2020)   | 3 month LIBOR   | 13,408        | 13,211   | 9,537      |
| <b>Boccella Precast Products, LLC (8) (13)</b>      | Manufacturer of Precast Hollow Core Concrete  | LIBOR Plus 10.00% (Floor 1.00%), Current Coupon 11.00%, Secured Debt (Maturity - June 30, 2022)    | 1 month LIBOR   | 4,100         | 3,997    | 4,008      |
|   |   | Member Units (540,000 units)   | —               | —             | 540      | 540        |
|   |   |  |                 |               | 4,537    | 4,548      |
| <b>Brightwood Capital Fund Investments (9) (15)</b> | Investment Partnership  | LP Interests (Brightwood Capital Fund III, LP) (Fully diluted .52%) (16)                           | —               | —             | 4,075    | 3,443      |
|   |   | LP Interests (Brightwood Capital Fund IV, LP) (Fully diluted 1.58%) (16)                           | —               | —             | 1,037    | 1,037      |
|   |   |  |                 |               | 5,112    | 4,480      |
| <b>Brundage-Bone Concrete Pumping, Inc.</b>         | Construction Services Provider  | 10.38% Secured Debt (Maturity - September 1, 2021) (14)  | None            | 12,000        | 12,080   | 12,600     |
| <b>Buca C, LLC (8) (10) (13)</b>                    | Casual Restaurant Group   | LIBOR Plus 7.25% (Floor 1.00%), Current Coupon 8.33%, Secured Debt (Maturity - June 30, 2020)      | 1 month LIBOR   | 14,136        | 13,951   | 13,951     |
|   |   | Preferred Member Units (4 units, 6.00% cumulative) (16)  | —               | —             | 2,702    | 2,698      |
|   |   |  |                 |               | 16,653   | 16,649     |
| <b>CAI Software, LLC (10) (13)</b>                  | Provider of Specialized Enterprise Resource Planning Software                         | 12.00% Secured Debt (Maturity - October 10, 2019)  | None            | 871           | 858      | 871        |
|   |   | Member Units (16,339 units)  | —               | —             | 163      | 705        |
|   |   |  |                 |               | 1,021    | 1,576      |

**HMS Income Fund, Inc.**  
**Condensed Consolidated Schedule of Investments**  
**As of June 30, 2017**  
**(dollars in thousands)**  
**(Unaudited)**

| Portfolio Company (1) (3)                                      | Business Description   | Type of Investment (2) (3)  | Index Rate (22) | Principal (7) | Cost (7)     | Fair Value   |
|--|--|---|-----------------|---------------|--------------|--------------|
| <b>CapFusion Holding, LLC (9) (10) (13)</b>                    | Business Lender  | 13.00% Secured Debt (Maturity - March 25, 2021)   | None            | \$ 3,600      | \$ 3,316     | \$ 3,316     |
|  |  | Warrants (400 equivalent units, Expiration - March 24, 2026)  | —               | —             | 300          | 300          |
|  |  |   |                 |               | <u>3,616</u> | <u>3,616</u> |
| <b>CDHA Management, LLC (8) (11)</b>                           | Dental Services  | LIBOR Plus 7.25% (Floor 1.00%), Current Coupon 8.68%, Secured Debt (Maturity - December 5, 2021)    | 6 month LIBOR   | 4,356         | 4,251        | 4,356        |
| <b>Cengage Learning, Inc. (8)</b>                              | Provider of Educational Print and Digital Services   | LIBOR Plus 4.25% (Floor 1.00%), Current Coupon 5.34%, Secured Debt (Maturity - June 7, 2023)        | 1 month LIBOR   | 9,794         | 9,239        | 9,280        |
| <b>Cenveo Corporation</b>                                      | Provider of Commercial Printing, Envelopes, Labels, Printed Office Products                                | 6.00% Secured Debt (Maturity - August 1, 2019)  | None            | 15,000        | 13,349       | 12,675       |
| <b>Charlotte Russe, Inc. (8)</b>                               | Fast-Fashion Retailer to Young Women   | LIBOR Plus 5.50% (Floor 1.25%), Current Coupon 6.75%, Secured Debt (Maturity - May 22, 2019)        | 3 month LIBOR   | 14,972        | 14,827       | 7,424        |
| <b>Clarius BIGS, LLC (11) (18)</b>                             | Prints & Advertising Film Financing  | 15.00% PIK Secured Debt (Maturity - January 5, 2015) (18)   | None            | 2,140         | 1,882        | 64           |
|  |  | 20.00% PIK Secured Debt (Maturity - January 5, 2015) (18)   | None            | 773           | 680          | 23           |
|  |  |   |                 |               | <u>2,562</u> | <u>87</u>    |
| <b>Construction Supply Investments, LLC (11)</b>               | Distribution Platform of Specialty Construction Materials to Professional Concrete and Masonry Contractors | Member units (37,227 units)   | —               | —             | 3,723        | 3,723        |
| <b>ContextMedia Health, LLC (8)</b>                            | Provider of Healthcare Media Content   | LIBOR Plus 6.50% (Floor 1.00%), Current Coupon 7.73%, Secured Debt (Maturity - December 21, 2021)   | 1 month LIBOR   | 9,750         | 8,836        | 9,848        |
| <b>Covenant Surgical Partners, Inc.</b>                        | Ambulatory Surgical Centers  | 8.75% Secured Debt (Maturity - August 1, 2019)  | None            | 9,500         | 9,500        | 9,310        |
| <b>CST Industries, Inc. (8)</b>                                | Storage Tank Manufacturer  | Prime Plus 5.25% (Floor 4.25%), Current Coupon 9.50%, Secured Debt (Maturity - May 22, 2017)        | PRIME           | 2,759         | 2,768        | 2,414        |
| <b>Datacom, LLC (10) (13)</b>                                  | Technology and Telecommunications Provider   | 5.25% Current / 5.25% PIK, Current Coupon 10.50% Secured Debt (Maturity - May 30, 2019)             | None            | 1,330         | 1,319        | 1,289        |
|  |  | 8.00% Secured Debt (Maturity - May 30, 2018)  | None            | 120           | 120          | 120          |
|  |  | Class A Preferred Member Units (1,530 units, 15.00% cumulative) (16)                                | —               | —             | 131          | 163          |
|  |  | Class B Preferred Member Units (717 units)  | —               | —             | 670          | 23           |
|  |  |   |                 |               | <u>2,240</u> | <u>1,595</u> |
| <b>Digital River, Inc. (8)</b>                                 | Provider of Outsourced e-Commerce Solutions and Services   | LIBOR Plus 6.50% (Floor 1.00%), Current Coupon 7.75%, Secured Debt (Maturity - February 12, 2021)   | 3 month LIBOR   | 14,586        | 14,489       | 14,659       |
| <b>Digital Room, LLC (8)</b>                                   | Organic Lead Generation for Online Postsecondary Schools   | LIBOR Plus 6.00% (Floor 1.00%), Current Coupon 7.23%, Secured Debt (Maturity - November 21, 2022)   | 1 month LIBOR   | 7,434         | 7,296        | 7,397        |
| <b>East West Copolymer &amp; Rubber, LLC (10) (13) (18)</b>    | Manufacturer of Synthetic Rubbers  | 12.00% Current / 2.00% PIK, Current Coupon 14.00%, Secured Debt (Maturity - October 17, 2019) (18)  | None            | 2,400         | 2,351        | 742          |
|  |  | Warrants (627,697 equivalent shares, Expiration - October 15, 2024)                                 | —               | —             | 13           | —            |
|  |  |   |                 |               | <u>2,364</u> | <u>742</u>   |
| <b>ECP-PF Holdings Groups, Inc. (11)</b>                       | Fitness Club Operator  | LIBOR Plus 9.00% (Floor 1.00%), Current Coupon 10.15%, Secured Debt (Maturity - November 26, 2019)  | 3 month LIBOR   | 1,875         | 1,865        | 1,875        |
| <b>Evergreen Skills Lux S.á r.l. (d/b/a Skillsoft) (8) (9)</b> | Technology-Based Performance Support Solutions   | LIBOR Plus 8.25% (Floor 1.00%), Current Coupon 9.48%, Secured Debt (Maturity - April 28, 2022) (14) | 1 month LIBOR   | 10,901        | 10,475       | 9,071        |
| <b>Flavors Holdings, Inc. (8)</b>                              | Global Provider of Flavoring and Sweetening Products and Solutions   | LIBOR Plus 5.75% (Floor 1.00%), Current Coupon 7.05%, Secured Debt (Maturity - April 3, 2020)       | 3 month LIBOR   | 12,777        | 12,104       | 12,074       |
| <b>GST Autoleather, Inc. (8)</b>                               | Automotive Leather Manufacturer  | LIBOR Plus 5.50% (Floor 1.00%), Current Coupon 6.80%, Secured Debt (Maturity - July 10, 2020) (12)  | 3 month LIBOR   | 17,297        | 16,759       | 16,951       |
| <b>Guitar Center, Inc.</b>                                     | Musical Instruments Retailer   | 6.50% Secured Debt (Maturity - April 15, 2019)  | None            | 15,015        | 14,304       | 13,045       |

**HMS Income Fund, Inc.**  
**Condensed Consolidated Schedule of Investments**  
**As of June 30, 2017**  
**(dollars in thousands)**  
**(Unaudited)**

| Portfolio Company (1) (3)                    | Business Description   | Type of Investment (2) (3)   | Index Rate (22) | Principal (7) | Cost (7) | Fair Value |
|--|--|--|-----------------|---------------|----------|------------|
| Hojeij Branded Foods, LLC (8) (11)           | Multi-Airport, Multi-Concept Restaurant Operator                                       | LIBOR Plus 6.50% (Floor 1.00%), Current Coupon 7.54%, Secured Debt (Maturity - July 28, 2021)            | 3 month LIBOR   | \$ 5,890      | \$ 5,851 | \$ 5,890   |
| Hoover Group, Inc. (8) (9) (11)              | Provider of Storage Tanks and Related Products to the Energy and Petrochemical Markets | LIBOR Plus 7.25% (Floor 1.00%), Current Coupon 8.42%, Secured Debt (Maturity - January 28, 2021)         | 3 month LIBOR   | 14,924        | 13,992   | 13,730     |
| Houghton Mifflin Harcourt Company (8) (9)    | Provider of Educational Print and Digital Services                                     | LIBOR Plus 3.00% (Floor 1.00%), Current Coupon 4.23%, Secured Debt (Maturity - May 28, 2021)             | 1 month LIBOR   | 8,947         | 8,327    | 8,518      |
| Hunter Defense Technologies, Inc. (8)        | Provider of Military and Commercial Shelters and Systems                               | LIBOR Plus 6.00% (Floor 1.00%), Current Coupon 7.16%, Secured Debt (Maturity - August 5, 2019)           | 3 month LIBOR   | 13,253        | 12,780   | 12,475     |
| Hydrofarm Holdings, LLC (8) (11)             | Wholesaler of Horticultural Products   | LIBOR Plus 7.00%, Current Coupon 8.18%, Secured Debt (Maturity - May 12, 2022)                           | 3 month LIBOR   | 6,750         | 6,618    | 6,618      |
| iEnergizer Limited (8) (9)                   | Provider of Business Outsourcing Solutions   | LIBOR 6.00% (Floor 1.25%), Current Coupon 7.25%, Secured Debt (Maturity - May 1, 2019)                   | 1 month LIBOR   | 11,774        | 11,422   | 11,745     |
| Implus Footcare, LLC (8) (11)                | Provider of Footwear and Other Accessories   | LIBOR 6.75% (Floor 1.00%), Current Coupon 8.05%, Secured Debt (Maturity - September 15, 2021)            | 3 month LIBOR   | 14,962        | 14,741   | 14,741     |
| Indivior Finance, LLC (8) (9)                | Specialty Pharmaceutical Company Treating Opioid Dependence                            | LIBOR Plus 6.00% (Floor 1.00%), Current Coupon 7.17%, Secured Debt (Maturity - December 19, 2019)        | 3 month LIBOR   | 7,878         | 7,610    | 7,957      |
| Industrial Services Acquisitions, LLC (11)   | Industrial Cleaning Services   | 11.25% Current / 0.75% PIK, Current Coupon 12.00%, Unsecured Debt (Maturity - December 17, 2022) (17)    | None            | 10,563        | 10,377   | 10,563     |
|  |  | Member units (Industrial Services Investments, LLC) (2,100,000 units)                                    | —               | —             | 2,100    | 1,890      |
|  |  |  |                 |               | 12,477   | 12,453     |
| Inn of the Mountain Gods Resort and Casino   | Hotel & Casino Owner & Operator  | 9.25% Secured Debt (Maturity - November 30, 2020)  | None            | 10,749        | 10,601   | 9,674      |
| Intertain Group Limited (8) (9)              | Business-to-Consumer Online Gaming Operator  | LIBOR Plus 6.50% (Floor 1.00%), Current Coupon 7.80%, Secured Debt (Maturity - April 8, 2022)            | 3 month LIBOR   | 8,285         | 8,139    | 8,389      |
| iPayment, Inc. (8)                           | Provider of Merchant Acquisition   | LIBOR Plus 6.00% (Floor 1.00%), Current Coupon 7.16%, Secured Debt (Maturity - April 11, 2023)           | 3 month LIBOR   | 12,000        | 11,883   | 12,120     |
| Ipreo Holdings, LLC                          | Application Software for Capital Markets   | 7.25% Unsecured Debt (Maturity - August 1, 2022) (17)  | None            | 2,650         | 2,283    | 2,551      |
| iQor US Inc. (8)                             | Business Process Outsourcing Services Provider   | LIBOR Plus 5.00% (Floor 1.00%), Current Coupon 6.15%, Secured Debt (Maturity - April 1, 2021)            | 3 month LIBOR   | 7,718         | 7,334    | 7,682      |
| IronGate Energy Services, LLC (18)           | Oil and Gas Services   | 11.00% Secured Debt (Maturity - July 1, 2018) (18)   | None            | 5,825         | 5,827    | 1,981      |
| Jackmont Hospitality, Inc. (8) (11)          | Franchisee of Casual Dining Restaurants  | LIBOR Plus 4.25% (Floor 1.00%)/ 2.50% PIK , Current Coupon 7.98%, Secured Debt (Maturity - May 26, 2021) | 1 month LIBOR   | 8,895         | 8,868    | 8,895      |
| Jacuzzi Brands Corp. (8)                     | Manufacturer of Bath and Spa Products  | LIBOR Plus 7.00% (Floor 1.00%), Current Coupon 8.29%, Secured Debt (Maturity - June 28, 2023) (12)       | 3 month LIBOR   | 6,000         | 5,880    | 5,925      |
| Joerns Healthcare, LLC (8)                   | Manufacturer and Distributor of Health Care Equipment & Supplies                       | LIBOR Plus 6.00% (Floor 1.00%), Current Coupon 7.70%, Secured Debt (Maturity - May 9, 2020)              | 3 month LIBOR   | 11,119        | 10,915   | 10,359     |
| Kellermeyer Bergensons Services, LLC (8)     | Outsourced Janitorial Services to Retail/Grocery Customers                             | LIBOR Plus 8.50% (Floor 1.00%), Current Coupon 9.73%, Secured Debt (Maturity - April 29, 2022) (14)      | 1 month LIBOR   | 14,700        | 14,611   | 14,149     |
| Keypoint Government Solutions, Inc. (8) (11) | Provider of Pre-Employment Screening Services  | LIBOR Plus 6.00% (Floor 1.00%), Current Coupon 7.30%, Secured Debt (Maturity - April 18, 2024)           | 3 month LIBOR   | 12,344        | 12,223   | 12,223     |
| LaMi Products, LLC (8) (11)                  | General Merchandise Distribution   | LIBOR Plus 6.50% (Floor 1.00%), Current Coupon 7.63%, Secured Debt (Maturity - September 16, 2020)       | 3 month LIBOR   | 11,367        | 11,220   | 11,354     |
| Larchmont Resources, LLC                     | Oil & Gas Exploration & Production   | LIBOR Plus 9.00% (Floor 1.00%), Current Coupon 10.00% PIK, Secured Debt (Maturity - August 7, 2020)      | 3 month LIBOR   | 4,012         | 4,012    | 3,992      |
|  |  | Member units (Larchmont Intermediate Holdco, LLC) (4,806 units)  | —               | —             | 601      | 1,658      |
|  |  |  |                 |               | 4,613    | 5,650      |

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**Condensed Consolidated Schedule of Investments**  
**As of June 30, 2017**  
**(dollars in thousands)**  
**(Unaudited)**

| Portfolio Company (1) (3)                        | Business Description  | Type of Investment (2) (3)   | Index Rate (22) | Principal (7) | Cost (7) | Fair Value |
|--|---|--|-----------------|---------------|----------|------------|
| <b>Legendary Pictures Funding, LLC (8) (11)</b>  | Producer of TV, Film, and Comic Content   | LIBOR Plus 6.00% (Floor 1.00%), Current Coupon 7.30%, Secured Debt (Maturity - April 22, 2020)         | 3 month LIBOR   | \$ 8,020      | \$ 7,920 | \$ 8,030   |
| <b>LJ Host Merger Sub, Inc. (8)</b>              | Managed Services and Hosting Provider   | LIBOR Plus 6.75% (Floor 1.25%), Current Coupon 8.05%, Secured Debt (Maturity - December 13, 2019)      | 3 month LIBOR   | 16,137        | 15,657   | 15,714     |
|  |   | LIBOR Plus 6.75% (Floor 1.25%), Current Coupon 8.03%, Secured Debt (Maturity - December 13, 2018)      | 3 month LIBOR   | 2,433         | 2,319    | 2,293      |
|  |   |  |                 |               | 17,976   | 18,007     |
| <b>Logix Acquisition Company, LLC (8) (11)</b>   | Competitive Local Exchange Carrier  | LIBOR Plus 8.28% (Floor 1.00%), Current Coupon 9.59%, Secured Debt (Maturity - June 24, 2021)          | 3 month LIBOR   | 8,436         | 8,312    | 8,436      |
| <b>LSF9 Atlantis Holdings, LLC (8)</b>           | Provider of Wireless Telecommunications Carrier Services                            | LIBOR Plus 6.00% (Floor 1.00%), Current Coupon 7.06%, Secured Debt (Maturity - May 1, 2023)            | 1 month LIBOR   | 14,000        | 13,887   | 14,160     |
| <b>Meisler Operating, LLC (8) (13)</b>           | Provider of Short Term Trailer and Container Rental                                 | LIBOR Plus 8.50% (Floor 1.00%), Current Coupon 9.72%, Secured Debt (Maturity - June 7, 2022)           | 3 month LIBOR   | 4,200         | 4,086    | 4,096      |
|  |   | Member Units (Milton Meisler Holdings, LLC) (8,000 units)  | —               | —             | 800      | 800        |
|  |   |  |                 |               | 4,886    | 4,896      |
| <b>MHVC Acquisition Corp. (8)</b>                | Provider of Differentiated Information Solutions, Systems Engineering and Analytics | LIBOR Plus 5.25% (Floor 1.00%), Current Coupon 6.48%, Secured Debt (Maturity - April 29, 2024)         | 1 month LIBOR   | 10,500        | 10,448   | 10,631     |
| <b>Minute Key, Inc. (10) (13)</b>                | Operator of Automated Key Duplication Kiosk   | 10.00% Current / 2.00% PIK Secured Debt (Maturity - September 19, 2019) (14)                           | None            | 3,946         | 3,875    | 3,875      |
|  |   | Warrants (359,352 equivalent units, Expiration - May 20, 2025)   | —               | —             | 70       | 232        |
|  |   |  |                 |               | 3,945    | 4,107      |
| <b>NBG Acquisition, Inc. (8)</b>                 | Wholesaler of Home Decor Products   | LIBOR Plus 5.50% (Floor 1.00%), Current Coupon 6.91%, Secured Debt (Maturity - April 26, 2024)         | 6 month LIBOR   | 4,430         | 4,359    | 4,408      |
| <b>New Media Holdings II LLC (8) (9)</b>         | Local Newspaper Operator  | LIBOR Plus 6.25% (Floor 1.00%), Current Coupon 7.48%, Secured Debt (Maturity - June 4, 2020)           | 1 month LIBOR   | 17,118        | 17,001   | 17,076     |
| <b>NNE Issuer, LLC (8) (11)</b>                  | Oil & Gas Exploration & Production  | LIBOR Plus 8.00%, Current Coupon 9.21%, Secured Debt (Maturity - March 2, 2022)                        | 3 month LIBOR   | 9,042         | 8,955    | 8,955      |
| <b>North American Lifting Holdings, Inc. (8)</b> | Crane Service Provider  | LIBOR Plus 4.50% (Floor 1.00%), Current Coupon 5.80%, Secured Debt (Maturity - November 27, 2020)      | 3 month LIBOR   | 6,343         | 5,603    | 5,954      |
| <b>Novitex Acquisition, LLC (8)</b>              | Provider of Document Management Services  | LIBOR Plus 6.75% (Floor 1.25%), Current Coupon 8.07%, Secured Debt (Maturity - July 7, 2020)           | 3 month LIBOR   | 13,148        | 12,869   | 13,148     |
| <b>NTM Acquisition Corp. (8)</b>                 | Provider of B2B Travel Information Content  | LIBOR Plus 6.25% (Floor 1.00%), Current Coupon 7.34%, Secured Debt (Maturity - June 7, 2022)           | 1 month LIBOR   | 11,196        | 11,073   | 11,140     |
| <b>Pardus Oil &amp; Gas, LLC</b>                 | Oil & Gas Exploration and Production  | 13.00% PIK, Secured Debt (Maturity - November 12, 2021)  | None            | 1,053         | 1,053    | 915        |
|  |   | 5.00% PIK, Secured Debt (Maturity - May 13, 2022) (14)   | None            | 543           | 543      | 145        |
|  |   | Class A units (1,331 units)  | —               | —             | 1,331    | —          |
|  |   |  |                 |               | 2,927    | 1,060      |
| <b>Paris Presents, Inc. (8)</b>                  | Branded Cosmetic and Bath Accessories   | LIBOR Plus 8.75% (Floor 1.00%), Current Coupon 9.98%, Secured Debt (Maturity - December 31, 2021) (14) | 1 month LIBOR   | 10,000        | 9,888    | 9,900      |
| <b>Parq Holdings, LP (8) (9)</b>                 | Hotel and Casino Operator   | LIBOR Plus 7.50% (Floor 1.00%), Current Coupon 8.71%, Secured Debt (Maturity - December 17, 2020)      | 1 month LIBOR   | 12,500        | 12,391   | 12,469     |
| <b>Permian Holdco 2, Inc.</b>                    | Storage Tank Manufacturer   | 14.00% PIK Unsecured Debt (Maturity - October 15, 2021) (17)   | None            | 529           | 529      | 529        |
|  |   | Series A Preferred Shares (Permian Holdco 1, Inc.) (386,255 units) (12.00% Cumulative) (16)            | —               | —             | 1,079    | 1,079      |
|  |   | Common Shares (Permian Holdco 1, Inc.) (386,255 units)   | —               | —             | 997      | 997        |
|  |   |  |                 |               | 2,605    | 2,605      |

**HMS Income Fund, Inc.**  
**Condensed Consolidated Schedule of Investments**  
**As of June 30, 2017**  
**(dollars in thousands)**  
**(Unaudited)**

| Portfolio Company (1) (3)                              | Business Description  | Type of Investment (2) (3)  | Index Rate (22) | Principal (7) | Cost (7)      | Fair Value    |
|--|---|---|-----------------|---------------|---------------|---------------|
| <b>Permian Holdings, Inc.</b>                          | Storage Tank Manufacturer   | 10.50% Secured Debt (Maturity - January 15, 2018)   | None            | \$ 1,000      | \$ 567        | \$ 273        |
| <b>Pernix Therapeutics Holdings, Inc. (11)</b>         | Pharmaceutical Royalty - Anti-Migraine  | 12.00% Secured Debt (Maturity - August 1, 2020)   | None            | 2,812         | 2,789         | 1,659         |
| <b>Pike Corporation (8)</b>                            | Construction and Maintenance Services for Electric Transmission and Distribution Infrastructure | LIBOR Plus 8.00% (Floor 1.00%), Current Coupon 9.23%, Secured Debt (Maturity - June 22, 2022) (14)  | 1 month LIBOR   | 3,000         | 2,971         | 3,053         |
| <b>PPC/Shift, LLC (8) (11)</b>                         | Provider of Digital Solutions to Automotive Industry  | LIBOR Plus 6.00% (Floor 1.00%), Current Coupon 7.04%, Secured Debt (Maturity - December 22, 2021)   | 1 month LIBOR   | 6,913         | 6,777         | 6,913         |
| <b>Prowler Acquisition Corporation (8)</b>             | Specialty Distributor to the Energy Sector  | LIBOR Plus 4.50% (Floor 1.00%), Current Coupon 5.80%, Secured Debt (Maturity - January 28, 2020)    | 3 month LIBOR   | 12,478        | 11,008        | 10,419        |
| <b>Redbox Automated Retail, LLC (8)</b>                | Operator of Home Media Entertainment Kiosks   | LIBOR Plus 7.50% (Floor 1.00%), Current Coupon 8.79%, Secured Debt (Maturity - September 27, 2021)  | 1 month LIBOR   | 11,156        | 10,798        | 11,221        |
| <b>Renaissance Learning, Inc. (8)</b>                  | Technology-based K-12 Learning Solutions  | LIBOR Plus 7.00% (Floor 1.00%), Current Coupon 8.30%, Secured Debt (Maturity - April 11, 2022) (14) | 1 month LIBOR   | 12,695        | 12,329        | 12,700        |
| <b>RGL Reservoir Operations, Inc. (8) (9)</b>          | Oil & Gas Equipment & Services  | LIBOR Plus 5.00% (Floor 1.00%), Current Coupon 6.27%, Secured Debt (Maturity - August 13, 2021)     | 1 month LIBOR   | 3,890         | 3,814         | 671           |
| <b>RM Bidder, LLC (11)</b>                             | Full-scale Film and Television Production and Distribution                                      | Common Stock (1,854 units)  | —               | —             | 31            | 22            |
|  |   | Series A Warrants (124,915 equivalent units, Expiration - October 20, 2025)                         | —               | —             | 284           | —             |
|  |   | Series B Warrants (93,686 equivalent units, Expiration - October 20, 2025)                          | —               | —             | —             | —             |
|  |   |   |                 |               | <u>315</u>    | <u>22</u>     |
| <b>Salient Partners, LP (8)</b>                        | Provider of Asset Management Services   | LIBOR Plus 8.50% (Floor 1.00%), Current Coupon 9.66%, Secured Debt (Maturity - June 9, 2021)        | 3 month LIBOR   | 11,358        | 11,079        | 11,017        |
| <b>Sigma Electric Manufacturing Corp. (8) (9) (11)</b> | Manufacturer and Distributor of Electrical Fittings and Parts                                   | LIBOR Plus 7.25% (Floor 1.00%), Current Coupon 8.55%, Secured Debt (Maturity - October 13, 2021)    | 3 Month LIBOR   | 12,469        | 12,194        | 12,469        |
| <b>Sorenson Communications, Inc.</b>                   | Manufacturer of Communication Products for Hearing Impaired                                     | 9.00% Secured Debt (Maturity - October 31, 2020) (14)   | None            | 14,210        | 13,804        | 14,068        |
|  |   | LIBOR Plus 5.75% (Floor 2.25%), Current Coupon 8.00%, Secured Debt (Maturity - April 30, 2020)      | 3 month LIBOR   | 2,962         | 2,945         | 2,982         |
|  |   |   |                 |               | <u>16,749</u> | <u>17,050</u> |
| <b>Strike, LLC (8)</b>                                 | Pipeline Construction and Maintenance Services  | LIBOR Plus 8.00% (Floor 1.00%), Current Coupon 9.30%, Secured Debt (Maturity - November 30, 2022)   | 3 month LIBOR   | 10,250        | 9,947         | 10,505        |
| <b>Synagro Infrastructure Company, Inc. (8)</b>        | Waste Management Services   | LIBOR Plus 5.25% (Floor 1.00%), Current Coupon 6.55%, Secured Debt (Maturity - August 22, 2020)     | 3 month LIBOR   | 5,384         | 5,240         | 5,142         |
| <b>TE Holdings, LLC</b>                                | Oil & Gas Exploration & Production  | Common Units (72,785 units)   | —               | —             | 728           | 346           |
| <b>Teleguam Holdings, LLC (8)</b>                      | Cable and Telecom Services Provider   | LIBOR Plus 7.50% (Floor 1.25%), Current Coupon 8.75%, Secured Debt (Maturity - June 10, 2019) (14)  | 1 month LIBOR   | 7,397         | 7,389         | 7,397         |
|  |   | LIBOR Plus 4.00% (Floor 1.25%), Current Coupon 5.25%, Secured Debt (Maturity - December 10, 2018)   | 1 month LIBOR   | 7,120         | 7,016         | 7,120         |
|  |   |   |                 |               | <u>14,405</u> | <u>14,517</u> |
| <b>TMC Merger Sub Corp (8)</b>                         | Refractory & Maintenance Services Provider  | LIBOR Plus 6.25% (Floor 1.00%), Current Coupon 7.50%, Secured Debt (Maturity - October 31, 2022)    | 1 month LIBOR   | 14,828        | 14,689        | 14,902        |
| <b>TOMS Shoes, LLC (8)</b>                             | Global Designer, Distributor, and Retailer of Casual Footwear                                   | LIBOR Plus 5.50% (Floor 1.00%), Current Coupon 6.70%, Secured Debt (Maturity - October 30, 2020)    | 3 month LIBOR   | 4,888         | 4,587         | 2,729         |
| <b>Turning Point Brands, Inc. (8) (9) (11)</b>         | Marketer/Distributor of Tobacco Products  | LIBOR Plus 6.00% (Floor 1.00%), Current Coupon 7.27%, Secured Debt (Maturity - May 17, 2022)        | 1 month LIBOR   | 8,479         | 8,399         | 8,458         |
| <b>TVG-I-E CMN Acquisition, LLC (8)</b>                | Organic Lead Generation for Online Postsecondary Schools  | LIBOR Plus 6.00%, Current Coupon 7.04%, Secured Debt (Maturity - November 3, 2021)                  | 1 month LIBOR   | 6,378         | 6,263         | 6,378         |

**HMS Income Fund, Inc.**  
**Condensed Consolidated Schedule of Investments**  
**As of June 30, 2017**  
**(dollars in thousands)**  
**(Unaudited)**

| Portfolio Company (1) (3)   | Business Description   | Type of Investment (2) (3)  | Index Rate (22) | Principal (7) | Cost (7)     | Fair Value   |
|---|--|---|-----------------|---------------|--------------|--------------|
| UOS, LLC (8)  | Specialty Equipment Sales and Rentals                          | LIBOR Plus 5.50% (Floor 1.00%), Current Coupon 6.80%, Secured Debt (Maturity - April 18, 2023)      | 3 month LIBOR   | \$ 3,750      | \$ 3,713     | \$ 3,820     |
| U.S. Telepacific Corp. (8)  | Provider of Communications and Managed Services                | LIBOR Plus 5.00% (Floor 1.00%), Current Coupon 6.23%, Secured Debt (Maturity - May 2, 2023)         | 1 month LIBOR   | 15,000        | 14,619       | 14,852       |
| USJ-IMECO Holding Company, LLC (8)  | Marine Interior Design and Installation                        | LIBOR Plus 6.00% (Floor 1.00%), Current Coupon 7.30%, Secured Debt (Maturity - April 16, 2020)      | 3 month LIBOR   | 8,464         | 8,441        | 8,485        |
| Valley Healthcare Group, LLC (8) (10) (13)  | Provider of Durable Medical Equipment                          | LIBOR Plus 12.50% (Floor 0.50%), Current Coupon 13.55%, Secured Debt (Maturity - December 29, 2020) | 1 month LIBOR   | 3,172         | 3,122        | 3,122        |
|   |  | Preferred Member Units (Valley Healthcare Holding, LLC) (400 units)                                 | —               | —             | 400          | 400          |
|   |  |   |                 |               | 3,522        | 3,522        |
| VCVH Holding Corp. (8)  | Healthcare Technology Services Focused on Revenue Maximization | LIBOR Plus 9.25% (Floor 1.00%), Current Coupon 10.55%, Secured Debt (Maturity - June 1, 2024) (14)  | 3 month LIBOR   | 3,500         | 3,420        | 3,509        |
|   |  | LIBOR Plus 5.00% (Floor 1.00%), Current Coupon 6.30%, Secured Debt (Maturity - June 1, 2023) (12)   | 3 month LIBOR   | 8,977         | 8,977        | 8,983        |
|   |  |   |                 |               | 12,397       | 12,492       |
| VIP Cinema Holdings, Inc. (8)   | Supplier of Luxury Seating to the Cinema Industry              | LIBOR Plus 6.00% (Floor 1.00%), Current Coupon 7.30%, Secured Debt (Maturity - March 1, 2023)       | 3 month LIBOR   | 9,875         | 9,828        | 9,992        |
| Vistar Media, Inc. (8) (11)   | Operator of Digital Out-of-Home Advertising Platform           | LIBOR Plus 10.00% (Floor 1.00%), Current Coupon 11.30%, Secured Debt (Maturity - February 16, 2022) | 3 month LIBOR   | 3,375         | 3,074        | 3,074        |
|   |  | Warrants (64,025 equivalent units, February 17, 2027)   | —               | —             | 331          | 331          |
|   |  |   |                 |               | 3,405        | 3,405        |
| Volusion, LLC (10) (13)   | Provider of Online Software-as-a-Service eCommerce Solutions   | 11.50% Secured Debt (Maturity - January 24, 2020)   | None            | 7,319         | 6,449        | 6,449        |
|   |  | Preferred Member Units (2,090,001 units)  | —               | —             | 6,000        | 6,000        |
|   |  | Warrants (784,866.80 equivalent units, Expiration - January 26, 2025)                               | —               | —             | 1,104        | 1,011        |
|   |  |   |                 |               | 13,553       | 13,460       |
| Wellnext, LLC (8) (11)  | Manufacturer of Supplements and Vitamins                       | LIBOR Plus 9.00% (Floor 0.50%), Current Coupon 10.15%, Secured Debt (Maturity - May 23, 2021)       | 3 month LIBOR   | 9,930         | 9,847        | 9,930        |
| Worley Claims Services, LLC (8) (11)  | Insurance Adjustment Management and Services Provider          | LIBOR Plus 8.00% (Floor 1.00%), Current Coupon 9.21%, Secured Debt (Maturity - October 31, 2020)    | 1 month LIBOR   | 5,794         | 5,759        | 5,794        |
| Subtotal Non-Control/Non-Affiliate Investments (5) (87% of total portfolio investments at fair value) |  |   |                 |               | \$ 948,958   | \$ 925,298   |
| Total Portfolio Investments   |  |   |                 |               | \$ 1,060,377 | \$ 1,044,938 |
| <b>Short Term Investments (20)</b>  |  |   |                 |               |              |              |
| Fidelity Institutional Money Market Funds (21)  | —  | Prime Money Market Portfolio, Class III Shares  | —               | —             | \$ 11,057    | \$ 11,057    |
| UMB Bank Money Market Account (21)  | —  | —   | —               | —             | 268          | 268          |
| US Bank Money Market Account (21)   | —  | —   | —               | —             | 13,321       | 13,321       |
| Total Short Term Investments  |  |   |                 |               | \$ 24,646    | \$ 24,646    |

(1) All investments are Middle Market portfolio investments, unless otherwise noted. All of the Company's assets are encumbered as security for the Company's credit agreements. See Note 5 - *Borrowings*.

(2) Debt investments are income producing, unless otherwise noted. Equity investments and warrants are non-income producing, unless otherwise noted.

(3) See Note 3 - *Fair Value Hierarchy for Investments* for summary geographic location of portfolio companies.

(4) Affiliate investments are generally defined by the Investment Company Act of 1940, as amended (the "1940 Act"), as investments in which between 5% and 25% of the voting securities are owned, or an investment in an investment company's investment adviser, and the investments are not classified as Control investments.

(5) Non-Control/Non-Affiliate investments are generally defined by the 1940 Act as investments that are neither Control investments nor Affiliate investments.

- (6) Control investments are generally defined by the 1940 Act as investments in which more than 25% of the voting securities are owned or where the ability to nominate greater than 50% of the board representation is maintained.
- (7) Principal is net of repayments. Cost represents amortized cost which is net of repayments and adjusted for the amortization of premiums and/or accretion of discounts, as applicable.
- (8) Index based floating interest rate is subject to contractual minimum interest rates.
- (9) The investment is not a qualifying asset in an eligible portfolio company under Section 55(a) of the 1940 Act. A business development company ("BDC") may not acquire any asset other than qualifying assets in eligible portfolio companies unless, at the time the acquisition is made, qualifying assets represent at least 70% of the BDC's total assets. As of June 30, 2017, approximately 16.7% of the Company's investments were considered non-qualifying.
- (10) Investment is classified as a Lower Middle Market investment.
- (11) Investment is classified as a Private Loan portfolio investment.
- (12) Investment or portion of investment is under contract to purchase and met trade date accounting criteria as of June 30, 2017. Settlement occurred or is scheduled to occur after June 30, 2017.
- (13) Investment serviced by Main Street Capital Corporation pursuant to servicing arrangements with the Company.
- (14) Second lien secured debt investment.
- (15) Investment is classified as an Other Portfolio investment.
- (16) Income producing through dividends or distributions.
- (17) Unsecured debt investment.
- (18) Investment is on non-accrual status as of June 30, 2017.
- (19) Maturity date is under on-going negotiations with the portfolio company and other lenders, if applicable.
- (20) Short term investments represent an investment in a fund that invests in highly liquid investments with average original maturity dates of three months or less.
- (21) Effective yield as of June 30, 2017 was approximately 0.01%.
- (22) The 1, 2, 3, and 6-month London Interbank Offered Rate ("LIBOR") rates were 1.23%, 1.25%, 1.30% and 1.45%, respectively, as of June 30, 2017. The actual LIBOR rate for each loan listed may not be the applicable LIBOR rate as of June 30, 2017, as the loan may have been priced or repriced based on a LIBOR rate prior to or subsequent to June 30, 2017. The prime rate was 4.25% as of June 30, 2017.
- (23) Transactions for the six months ended June 30, 2017 with HMS-ORIX SLF LLC are as follows:

| Company           | Fair Value<br>at<br>December<br>31, 2016 | Six Months Ended June 30, 2017 |                       |                                  | Fair<br>Value at<br>June 30,<br>2017 | Six Months Ended June 30, 2017 |                    |
|-------------------|--|--------------------------------|-----------------------|----------------------------------|--------------------------------------|--------------------------------|--------------------|
|                   |  | Contributions<br>(Cost)        | Redemptions<br>(Cost) | Net<br>Unrealized<br>Gain (Loss) |                                      | Net Realized<br>Gain (Loss)    | Dividend<br>Income |
| HMS-ORIX SLF LLC* | \$ —                                     | \$ 30,000                      | \$ —                  | \$ (23)                          | \$ 29,977                            | \$ —                           | \$ —               |

\* Together with ORIX Funds Corp. ("Orix"), the Company co-invests through HMS-ORIX SLF LLC ("HMS-ORIX"), which is organized as a Delaware limited liability company. Pursuant to the terms of the limited liability company agreement and through representation on the HMS-ORIX Board of Managers, the Company and Orix each have 50% voting control of HMS-ORIX and together will agree on all portfolio and investment decisions as well as all other significant actions for HMS-ORIX. Therefore, although the Company owns more than 25% of the voting securities of HMS-ORIX, the Company does not have control over HMS-ORIX for purposes of the 1940 Act or otherwise.

*See notes to the condensed consolidated financial statements.*



**HMS Income Fund, Inc.**  
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**(dollars in thousands)**

|  |  |  | Index         | Principal | Cost      | Fair      |
|--|--|--|---------------|-----------|-----------|-----------|
| Portfolio Company (1) (3)  | Business Description   | Type of Investment (2) (3)   | Rate (22)     | (7)       | (7)       | Value     |
| Control Investments (6)  |  |  |               |           |           |           |
| GRT Rubber Technologies, LLC (8) (10) (13)                               | Engineered Rubber Product Manufacturer                                 | LIBOR Plus 9.00% (Floor 1.00%), Current Coupon 10.00%, Secured Debt (Maturity - December 19, 2019)     | 1 month LIBOR | \$ 6,538  | \$ 6,448  | \$ 6,538  |
|  |  | Member Units (2,896 shares)  | —             | —         | 6,435     | 10,004    |
|  |  |  |               |           | 12,883    | 16,542    |
| Subtotal Control Investments (6) (2% of total investments at fair value) |  |  |               |           | \$ 12,883 | \$ 16,542 |
| Affiliate Investments (4)  |  |  |               |           |           |           |
| AFG Capital Group, LLC (10) (13)   | Provider of Rent-to-Own Financing Solutions and Services               | Member Units (46 shares)   | —             | \$ —      | \$ 300    | \$ 687    |
|  |  | Warrants (10 equivalent shares, Expiration - November 7, 2024)   | —             | —         | 65        | 167       |
|  |  |  |               |           | 365       | 854       |
| Clad-Rex Steel, LLC (10) (13)  | Specialty Manufacturer of Vinyl-Clad Metal                             | LIBOR Plus 9.50% (Floor 1.00%), Current Coupon 10.50%, Secured Debt (Maturity - December 20, 2021) (8) | 1 month LIBOR | 3,520     | 3,449     | 3,449     |
|  |  | LIBOR Plus 9.50% (Floor 1.00%), Current Coupon 10.50%, Secured Debt (Maturity - December 20, 2018) (8) | 1 month LIBOR | 100       | 99        | 99        |
|  |  | Member Units (179 units)   | —             | —         | 1,820     | 1,820     |
|  |  | 10.00% Secured Debt (Clad-Rex Steel RE Investor, LLC) (Maturity - December 20, 2036)                   | None          | 301       | 298       | 298       |
|  |  | Member Units (Clad-Rex Steel RE Investor, LLC) (200 units)   | —             | —         | 53        | 53        |
|  |  |  |               |           | 5,719     | 5,719     |
| EIG Traverse Co-Investment, LP (9) (15)                                  | Investment Partnership   | LP Interests (EIG Traverse Co-Investment, LP) (Fully diluted 22.20%) (16)                              | —             | —         | 9,805     | 9,905     |
| Freeport First Lien Loan Fund III, LP (9) (15)                           | Investment Partnership   | LP Interests (Freeport First Lien Loan Fund III, LP) (Fully diluted 5.60%) (16)                        | —             | —         | 4,763     | 4,763     |
| Gamber-Johnson Holdings, LLC (8) (10) (13)                               | Manufacturer of Ruggedized Computer Mounting Systems                   | LIBOR Plus 11.00% (Floor 1.00%), Current Coupon 12.00%, Secured Debt (Maturity - June 24, 2021)        | 1 month LIBOR | 6,020     | 5,902     | 5,964     |
|  |  | Member Units (2,155 units)   |               | —         | 3,711     | 4,730     |
|  |  |  |               |           | 9,613     | 10,694    |
| Guerdon Modular Holdings, Inc. (10) (13)                                 | Multi-Family and Commercial Modular Construction Company               | 9.00% Current / 4.00% PIK Secured Debt (Maturity - August 13, 2019)                                    | None          | 2,668     | 2,621     | 2,642     |
|  |  | Common Stock (53,008 shares)   | —             | —         | 746       | 20        |
|  |  | Class B Preferred Stock (101,250 shares)   | —             | —         | 285       | 285       |
|  |  |  |               |           | 3,652     | 2,947     |
| Gulf Publishing Holdings, LLC (10) (13)                                  | Energy Focused Media and Publishing                                    | 12.50% Secured Debt (Maturity - April 29, 2021)  | None          | 2,500     | 2,455     | 2,455     |
|  |  | Member Units (781 shares)  |               | —         | 781       | 781       |
|  |  |  |               |           | 3,236     | 3,236     |
| Hawk Ridge Systems, LLC (9) (10) (13)                                    | Value-Added Reseller of Engineering Design and Manufacturing Solutions | 10.00% Secured Debt (Maturity - December 2, 2021)  | None          | 2,500     | 2,451     | 2,451     |
|  |  | Preferred Member Units (56 units)  | —             | —         | 713       | 713       |
|  |  | Preferred Member Units (HRS Services, ULC) (56 units)  | —             | —         | 38        | 38        |
|  |  |  |               |           | 3,202     | 3,202     |
|  |  |  |               |           |           |           |
| HW Temps LLC (8) (10) (13)   | Temporary Staffing Solutions   | LIBOR Plus 13.00% (Floor 1.00%), Current Coupon 14.00%, Secured Debt (Maturity - July 2, 2020)         | 1 month LIBOR | 2,644     | 2,591     | 2,591     |
|  |  | Preferred Member Units (800 shares) (16)   | —             | —         | 986       | 985       |
|  |  |  |               |           | 3,577     | 3,576     |
| M.H. Corbin Holding, LLC (10) (13)                                       | Manufacturer and Distributor of Traffic Safety Products                | 10.00% Secured Debt (Maturity - August 31, 2021)   | None          | 3,325     | 3,299     | 3,299     |
|  |  | Preferred Member Units (1,000 shares)  |               | —         | 1,500     | 1,500     |
|  |  |  |               |           | 4,799     | 4,799     |



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**(dollars in thousands)**

|  |   |  | Index         | Principal |           | Fair      |
|--|---|--|---------------|-----------|-----------|-----------|
| Portfolio Company (1) (3)  | Business Description  | Type of Investment (2) (3)   | Rate (22)     | (7)       | Cost (7)  | Value     |
| Mystic Logistics, Inc. (10) (13)   | Logistics and Distribution Services Provider for Large Volume Mailers | 12.00% Secured Debt (Maturity - August 15, 2019)   | None          | \$ 2,294  | \$ 2,246  | \$ 2,294  |
|  |   | Common Stock (1,468 shares) (16)   | —             | —         | 680       | 1,445     |
|  |   |  |               |           | 2,926     | 3,739     |
| SoftTouch Medical Holdings LLC (8) (10) (13)                               | Home Provider of Pediatric Durable Medical Equipment                  | LIBOR Plus 9.00% (Floor 1.00%), Current Coupon 10.00%, Secured Debt (Maturity - October 31, 2019)                          | 1 month LIBOR | 1,260     | 1,244     | 1,260     |
|  |   | Member Units (785 units) (16)  | —             | —         | 870       | 1,618     |
|  |   |  |               |           | 2,114     | 2,878     |
| Subtotal Affiliate Investments (4) (6% of total investments at fair value) |   |  |               |           | \$ 53,771 | \$ 56,312 |
| Non-Control/Non-Affiliate Investments (5)                                  |   |  |               |           |           |           |
| Adams Publishing Group, LLC (8) (11)                                       | Local Newspaper Operator  | LIBOR Plus 7.00% (Floor 1.00%), Current Coupon 8.00%, Secured Debt (Maturity - November 3, 2020)                           | 3 month LIBOR | \$ 7,589  | \$ 7,459  | \$ 7,589  |
| ADS Tactical, Inc. (8) (11)  | Value-Added Logistics and Supply Chain Solutions Provider             | LIBOR Plus 7.50% (Floor 1.00%), Current Coupon 8.50%, Secured Debt (Maturity - December 31, 2022)                          | 3 month LIBOR | 10,000    | 9,750     | 9,750     |
| Ahead, LLC (8) (11)  | IT Infrastructure Value Added Reseller                                | LIBOR Plus 6.50%, Current Coupon 7.50%, Secured Debt (Maturity - November 2, 2020)   | 3 month LIBOR | 9,500     | 9,267     | 9,536     |
| Allflex Holdings III Inc. (8)  | Manufacturer of Livestock Identification Products                     | LIBOR Plus 7.00% (Floor 1.00%), Current Coupon 8.00%, Secured Debt (Maturity - July 19, 2021) (14)                         | 6 month LIBOR | 14,922    | 15,012    | 14,936    |
| American Scaffold Holdings, Inc. (8) (11)                                  | Marine Scaffolding Service Provider                                   | LIBOR Plus 6.50% (Floor 1.00%), Current Coupon 7.50%, Secured Debt (Maturity - March 31, 2022)                             | 1 month LIBOR | 7,359     | 7,257     | 7,323     |
| American Teleconferencing Services, Ltd. (8)                               | Provider of Audio Conferencing and Video Collaboration Solutions      | LIBOR Plus 6.50% (Floor 1.00%), Current Coupon 7.50%, Secured Debt (Maturity - December 8, 2021)                           | 3 month LIBOR | 10,056    | 9,122     | 9,848     |
|  |   | LIBOR Plus 9.50% (Floor 1.00%), Current Coupon 10.50%, Secured Debt (Maturity - June 6, 2022) (14)                         | 3 month LIBOR | 5,571     | 5,353     | 5,353     |
|  |   |  |               |           | 14,475    | 15,201    |
| AmeriTech College Operations, LLC (10) (13)                                | For-Profit Nursing and Healthcare College                             | 13.00% Secured Debt (Maturity - January 31, 2020)  | None          | 375       | 375       | 375       |
|  |   | 10.00% Secured Debt (Maturity - November 30, 2019)   | None          | 61        | 61        | 61        |
|  |   | 13.00% Secured Debt (Maturity - November 30, 2019)   | None          | 64        | 64        | 64        |
|  |   | Preferred Member Units (364 units, 5.00% cumulative) (16)  | —             | —         | 284       | 284       |
|  |   |  |               |           | 784       | 784       |
| AP Gaming I, LLC (8) (11)  | Developer, Manufacturer and Operator of Gaming Machines               | LIBOR Plus 8.25% (Floor 1.00%), Current Coupon 9.25%, Secured Debt (Maturity - December 21, 2020)                          | 3 month LIBOR | 11,291    | 11,194    | 11,267    |
| Apex Linen Service, Inc. (10) (13)   | Industrial Launderers   | 13.00% Secured Debt (Maturity - October 30, 2022)  | None          | 3,604     | 3,545     | 3,545     |
|  |   | LIBOR Plus 6.00% (Floor 1.00%), Current Coupon 7.00%, Secured Debt (Maturity - October 30, 2022)                           | 1 month LIBOR | 600       | 600       | 600       |
|  |   |  |               |           | 4,145     | 4,145     |
| Arcus Hunting, LLC (8) (11)  | Manufacturer of Bowhunting and Archery Products and Accessories       | LIBOR Plus 7.00% (Floor 1.00%), Current Coupon 8.00%, Secured Debt (Maturity - November 13, 2019)                          | 1 month LIBOR | 6,973     | 6,850     | 6,973     |
| Artel, LLC (8) (12)  | Provider of Secure Satellite Network and IT Solutions                 | LIBOR Plus 7.00% (Floor 1.25%), 7.25% Current/1.00% PIK, Current Coupon 8.25%, Secured Debt (Maturity - November 27, 2017) | 3 month LIBOR | 5,173     | 5,000     | 4,837     |
| ATI Investment Sub, Inc. (8)   | Manufacturer of Solar Tracking Systems                                | LIBOR Plus 7.25% (Floor 1.00%), Current Coupon 8.25%, Secured Debt (Maturity - June 22, 2021)                              | 1 month LIBOR | 9,500     | 9,322     | 9,476     |
| ATX Networks Corp. (8) (9)   | Provider of Radio Frequency Management Equipment                      | LIBOR Plus 6.00% (Floor 1.00%), Current Coupon 7.00%, Secured Debt (Maturity - June 11, 2021)                              | 3 month LIBOR | 14,775    | 14,541    | 14,516    |

**HMS Income Fund, Inc.**  
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**(dollars in thousands)**

| Portfolio Company (1) (3)                       | Business Description  | Type of Investment (2) (3)   | Index Rate (22) | Principal (7) | Cost (7)      | Fair Value    |
|---|---|--|-----------------|---------------|---------------|---------------|
| <b>BarFly Ventures, LLC (11)</b>                | Casual Restaurant Group   | 12.00% Secured Debt (Maturity - August 30, 2020)   | None            | \$ 1,986      | \$ 1,953      | \$ 1,942      |
|   |   | Warrants (.410 equivalent units, Expiration - August 31, 2025)                                     | —               | —             | 158           | 94            |
|   |   | Options (.731 equivalent units)  | —               | —             | 133           | 164           |
|   |   |  |                 |               | <u>2,244</u>  | <u>2,200</u>  |
| <b>BBB Tank Services, LLC (10) (13)</b>         | Maintenance, Repair and Construction Services to the Above-Ground Storage Tank Market | 15% Current Secured Debt (Maturity - April 8, 2021)  | None            | 1,007         | 989           | 989           |
|   |   | LIBOR Plus 9.50% (Floor 1.00%), Current Coupon 10.50%, Secured Debt (Maturity - April 8, 2021)     | 1 month LIBOR   | 200           | 200           | 200           |
|   |   | Member Units (200,000 units)   | —               | —             | 200           | 200           |
|   |   |  |                 |               | <u>1,389</u>  | <u>1,389</u>  |
| <b>Berry Aviation, Inc. (11)</b>                | Airline Charter Service Operator  | 12.00% Current / 1.75% PIK, Current Coupon 13.75%, Secured Debt (Maturity - January 30, 2020) (14) | None            | 1,407         | 1,390         | 1,407         |
|   |   | Common Stock (138 shares)  | —               | —             | 100           | 205           |
|   |   |  |                 |               | <u>1,490</u>  | <u>1,612</u>  |
| <b>Bluestem Brands, Inc. (8)</b>                | Multi-Channel Retailer of General Merchandise   | LIBOR Plus 7.50% (Floor 1.00%), Current Coupon 8.50%, Secured Debt (Maturity - November 6, 2020)   | 3 month LIBOR   | 13,812        | 13,582        | 12,039        |
| <b>Brightwood Capital Fund III, LP (9) (15)</b> | Investment Partnership  | LP Interests (Brightwood Capital Fund III, LP) (Fully diluted .52%) (16)                           | —               | —             | 4,075         | 3,698         |
| <b>Brundage-Bone Concrete Pumping, Inc.</b>     | Construction Services Provider  | 10.38% Secured Debt (Maturity - September 1, 2021) (14)  | None            | 12,000        | 12,088        | 12,960        |
| <b>Buca C, LLC (8) (10) (13)</b>                | Casual Restaurant Group   | LIBOR Plus 7.25% (Floor 1.00%), Current Coupon 8.25%, Secured Debt (Maturity - June 30, 2020)      | 1 month LIBOR   | 15,114        | 14,889        | 15,114        |
|   |   | Preferred Member Units (4 units, 6.00% cumulative) (16)  | —               | —             | 2,547         | 3,110         |
|   |   |  |                 |               | <u>17,436</u> | <u>18,224</u> |
| <b>CAI Software, LLC (10) (13)</b>              | Provider of Specialized Enterprise Resource Planning Software                         | 12.00% Secured Debt (Maturity - October 10, 2019)  | None            | 921           | 904           | 921           |
|   |   | Member Units (16,339 units)  | —               | —             | 163           | 620           |
|   |   |  |                 |               | <u>1,067</u>  | <u>1,541</u>  |
| <b>CapFusion Holding, LLC (9) (10) (13)</b>     | Business Lender   | 13.00% Secured Debt (Maturity - March 25, 2021)  | None            | 3,600         | 3,289         | 3,289         |
|   |   | Warrants (400 equivalent units, Expiration - March 24, 2026)                                       | —               | —             | 300           | 300           |
|   |   |  |                 |               | <u>3,589</u>  | <u>3,589</u>  |
| <b>CDHA Management, LLC (8) (11)</b>            | Dental Services   | Prime Plus 6.25% (Floor 3.75%), Current Coupon 10.00%, Secured Debt (Maturity - December 5, 2021)  | PRIME           | 4,491         | 4,376         | 4,376         |
|   |   | Prime Plus 6.25% (Floor 3.75%), Current Coupon 10.00%, Secured Debt (Maturity - December 5, 2021)  | PRIME           | —             | —             | —             |
|   |   |  |                 |               | <u>4,376</u>  | <u>4,376</u>  |
| <b>Cenveo Corporation</b>                       | Provider of Commercial Printing, Envelopes, Labels, Printed Office Products           | 6.00% Secured Debt (Maturity - August 1, 2019)   | None            | 15,000        | 13,013        | 13,388        |
| <b>Charlotte Russe, Inc. (8)</b>                | Fast-Fashion Retailer to Young Women  | LIBOR Plus 5.50% (Floor 1.25%), Current Coupon 6.75%, Secured Debt (Maturity - May 22, 2019)       | 3 month LIBOR   | 15,101        | 14,918        | 9,184         |
| <b>CJ Holding Company (8)</b>                   | Oil and Gas Equipment and Services  | LIBOR Plus 9.00% (Floor 1.00%), Current Coupon 10.00%, Secured Debt (Maturity - March 31, 2017)    | 3 month LIBOR   | 83            | 85            | 83            |
| <b>Clarius BIGS, LLC (11) (18)</b>              | Prints & Advertising Film Financing   | 15.00% PIK Secured Debt (Maturity - January 5, 2015) (18)  | None            | 2,144         | 1,886         | 64            |
|   |   | 20.00% PIK Secured Debt (Maturity - January 5, 2015) (18)  | None            | 774           | 681           | 23            |
|   |   |  |                 |               | <u>2,567</u>  | <u>87</u>     |
| <b>Compuware Corporation (8)</b>                | Provider of Software and Supporting Services  | LIBOR Plus 5.25% (Floor 1.00%), Current Coupon 6.25%, Secured Debt (Maturity - December 15, 2019)  | 3 month LIBOR   | 12,265        | 12,004        | 12,341        |

**HMS Income Fund, Inc.**  
**Condensed Consolidated Schedule of Investments**  
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**(dollars in thousands)**

| Portfolio Company (1) (3)                                      | Business Description   | Type of Investment (2) (3)  | Index Rate (22) | Principal (7) | Cost (7) | Fair Value |
|--|--|---|-----------------|---------------|----------|------------|
| <b>Construction Supply Investments, LLC (8) (11)</b>           | Distribution Platform of Specialty Construction Materials to Professional Concrete and Masonry Contractors | LIBOR Plus 9.50% (Floor 1.00%), Current Coupon 10.50%, Secured Debt (Maturity - June 30, 2023)      | 3 month LIBOR   | \$ 8,500      | \$ 8,305 | \$ 8,330   |
|  |  | Member units (20,000 units)   | —               | —             | 2,000    | 2,000      |
|  |  |   |                 |               | 10,305   | 10,330     |
| <b>ContextMedia Health, LLC (8) (12)</b>                       | Provider of Healthcare Media Content   | LIBOR Plus 6.50% (Floor 1.00%), Current Coupon 7.50%, Secured Debt (Maturity - December 21, 2021)   | 1 month LIBOR   | 10,000        | 9,000    | 9,150      |
| <b>Covenant Surgical Partners, Inc.</b>                        | Ambulatory Surgical Centers  | 8.75% Secured Debt (Maturity - August 1, 2019)  | None            | 9,500         | 9,500    | 9,168      |
| <b>CRGT, Inc. (8)</b>  | Provider of Custom Software Development  | LIBOR Plus 6.50% (Floor 1.00%), Current Coupon 7.50%, Secured Debt (Maturity - December 18, 2020)   | 1 month LIBOR   | 9,642         | 9,492    | 9,666      |
| <b>CST Industries, Inc. (8)</b>                                | Storage Tank Manufacturer  | LIBOR Plus 6.25% (Floor 1.50%), Current Coupon 7.75%, Secured Debt (Maturity - May 22, 2017)        | 3 month LIBOR   | 2,759         | 2,766    | 2,759      |
| <b>Datacom, LLC (10) (13)</b>                                  | Technology and Telecommunications Provider   | 5.25% Current / 5.25% PIK, Current Coupon 10.50% Secured Debt (Maturity - May 30, 2019)             | None            | 1,296         | 1,282    | 1,222      |
|  |  | 8.00% Secured Debt (Maturity - May 30, 2017)  | —               | 100           | 100      | 100        |
|  |  | Class A Preferred Member Units (1,530 units, 15.00% cumulative) (16)                                | —               | —             | 131      | 152        |
|  |  | Class B Preferred Member Units (717 units)  | —               | —             | 670      | 170        |
|  |  |   |                 |               | 2,183    | 1,644      |
| <b>Digital River, Inc. (8)</b>                                 | Provider of Outsourced e-Commerce Solutions and Services   | LIBOR Plus 6.50% (Floor 1.00%), Current Coupon 7.50%, Secured Debt (Maturity - February 12, 2021)   | 3 month LIBOR   | 14,586        | 14,477   | 14,713     |
| <b>Digital Room, LLC (8)</b>                                   | Organic Lead Generation for Online Postsecondary Schools   | LIBOR Plus 6.00% (Floor 1.00%), Current Coupon 7.00%, Secured Debt (Maturity - November 21, 2022)   | 3 month LIBOR   | 7,625         | 7,475    | 7,549      |
| <b>East West Copolymer &amp; Rubber, LLC (10) (13)</b>         | Manufacturer of Synthetic Rubbers  | 12.00% Current / 2.00% PIK, Current Coupon 14.00%, Secured Debt (Maturity - October 17, 2019)       | None            | 2,400         | 2,351    | 2,136      |
|  |  | Warrants (627,697 equivalent shares, Expiration - October 15, 2024)                                 | —               | —             | 13       | —          |
|  |  |   |                 |               | 2,364    | 2,136      |
| <b>ECP-PF Holdings Groups, Inc. (11)</b>                       | Fitness Club Operator  | LIBOR Plus 9.00% (Floor 1.00%), Current Coupon 10.00%, Secured Debt (Maturity - November 26, 2019)  | 3 month LIBOR   | 1,875         | 1,863    | 1,875      |
| <b>Evergreen Skills Lux S.á r.l. (d/b/a Skillsoft) (8) (9)</b> | Technology-Based Performance Support Solutions   | LIBOR Plus 8.25% (Floor 1.00%), Current Coupon 9.34%, Secured Debt (Maturity - April 28, 2022) (14) | 6 month LIBOR   | 10,902        | 10,443   | 8,214      |
| <b>Flavors Holdings, Inc. (8)</b>                              | Global Provider of Flavoring and Sweetening Products and Solutions   | LIBOR Plus 5.75% (Floor 1.00%), Current Coupon 6.75%, Secured Debt (Maturity - April 3, 2020)       | 3 month LIBOR   | 11,774        | 11,236   | 9,596      |
| <b>GST Autoleather, Inc. (8)</b>                               | Automotive Leather Manufacturer  | LIBOR Plus 5.50% (Floor 1.00%), Current Coupon 6.50%, Secured Debt (Maturity - July 10, 2020)       | 3 month LIBOR   | 12,204        | 12,073   | 11,929     |
| <b>Guitar Center, Inc.</b>                                     | Musical Instruments Retailer   | 6.50% Secured Debt (Maturity - April 15, 2019)  | None            | 15,015        | 14,128   | 13,626     |
| <b>Hojeij Branded Foods, LLC (8) (11)</b>                      | Multi-Airport, Multi-Concept Restaurant Operator   | LIBOR Plus 6.50% (Floor 1.00%), Current Coupon 7.50%, Secured Debt (Maturity - July 28, 2021)       | 3 month LIBOR   | 5,419         | 5,376    | 5,419      |
| <b>Hoover Group, Inc. (8) (9) (11)</b>                         | Provider of Storage Tanks and Related Products to the Energy and Petrochemical Markets                     | LIBOR Plus 7.25% (Floor 1.00%), Current Coupon 8.25%, Secured Debt (Maturity - January 28, 2021)    | 3 month LIBOR   | 15,000        | 13,961   | 13,961     |
| <b>Horizon Global Corporation (8) (9)</b>                      | Auto Parts Manufacturer  | LIBOR Plus 6.00% (Floor 1.00%), Current Coupon 7.00%, Secured Debt (Maturity - June 30, 2021)       | 1 month LIBOR   | 12,098        | 11,893   | 12,325     |
| <b>Hunter Defense Technologies, Inc. (8)</b>                   | Provider of Military and Commercial Shelters and Systems   | LIBOR Plus 6.00% (Floor 1.00%), Current Coupon 7.00%, Secured Debt (Maturity - August 5, 2019)      | 3 Month LIBOR   | 13,847        | 13,255   | 12,878     |
| <b>Hygea Holdings Corp. (8) (11)</b>                           | Provider of Physician Services   | LIBOR Plus 9.25%, Current Coupon 10.17%, Secured Debt (Maturity - February 24, 2019)                | 3 Month LIBOR   | 7,875         | 7,378    | 7,615      |
|  |  | Warrants (5,910,453 equivalent shares, Expiration - February 24, 2023)                              | —               | —             | 369      | 1,531      |
|  |  |   |                 |               | 7,747    | 9,146      |

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**(dollars in thousands)**

| Portfolio Company (1) (3)                          | Business Description   | Type of Investment (2) (3)   | Index Rate (22) | Principal (7) | Cost (7) | Fair Value |
|--|--|--|-----------------|---------------|----------|------------|
| <b>iEnergizer Limited (8) (9)</b>                  | Provider of Business Outsourcing Solutions                       | LIBOR 6.00% (Floor 1.25%), Current Coupon 7.25%, Secured Debt (Maturity - May 1, 2019)                   | 1 month LIBOR   | \$ 8,569      | \$ 8,110 | \$ 8,312   |
| <b>Indivior Finance, LLC (8) (9)</b>               | Specialty Pharmaceutical Company Treating Opioid Dependence      | LIBOR Plus 6.00% (Floor 1.00%), Current Coupon 7.00%, Secured Debt (Maturity - December 19, 2019)        | 3 month LIBOR   | 9,000         | 8,644    | 9,079      |
| <b>Industrial Container Services, LLC (8) (11)</b> | Steel Drum Reconditioner   | LIBOR Plus 5.75% (Floor 1.00%), Current Coupon 6.75%, Secured Debt (Maturity - December 31, 2018)        | 3 month LIBOR   | 8,927         | 8,871    | 8,927      |
| <b>Industrial Services Acquisitions, LLC (11)</b>  | Industrial Cleaning Services                                     | 11.25% Current / 0.75% PIK, Current Coupon 12.00%, Unsecured Debt (Maturity - December 17, 2022) (17)    | None            | 10,523        | 10,325   | 10,325     |
|  |  | Member units (Industrial Services Investments, LLC) (2,100,000 units)                                    | —               | —             | 2,100    | 2,100      |
|  |  |  |                 |               | 12,425   | 12,425     |
| <b>Inn of the Mountain Gods Resort and Casino</b>  | Hotel & Casino Owner & Operator                                  | 9.25% Secured Debt (Maturity - November 30, 2020)  | None            | 10,749        | 10,583   | 9,782      |
| <b>Intertain Group Limited (8) (9)</b>             | Business-to-Consumer Online Gaming Operator                      | LIBOR Plus 6.50% (Floor 1.00%), Current Coupon 7.50%, Secured Debt (Maturity - April 8, 2022)            | 3 month LIBOR   | 8,799         | 8,633    | 8,876      |
| <b>iPayment, Inc. (8)</b>                          | Provider of Merchant Acquisition                                 | LIBOR Plus 5.25% (Floor 1.50%), Current Coupon 6.75%, Secured Debt (Maturity - May 8, 2017)              | 3 month LIBOR   | 15,007        | 14,986   | 14,481     |
| <b>Ipreo Holdings, LLC</b>                         | Application Software for Capital Markets                         | 7.25% Unsecured Debt (Maturity - August 1, 2022) (17)  | None            | 6,250         | 5,318    | 5,266      |
| <b>iQor US Inc. (8)</b>                            | Business Process Outsourcing Services Provider                   | LIBOR Plus 5.00% (Floor 1.00%), Current Coupon 6.00%, Secured Debt (Maturity - April 1, 2021)            | 1 month LIBOR   | 7,757         | 7,331    | 7,442      |
| <b>IronGate Energy Services, LLC (18)</b>          | Oil and Gas Services   | 11.00% Secured Debt (Maturity - July 1, 2018) (18)   | None            | 5,825         | 5,827    | 1,631      |
| <b>Jackmont Hospitality, Inc. (8) (11)</b>         | Franchisee of Casual Dining Restaurants                          | LIBOR Plus 4.25% (Floor 1.00%) / 2.50% PIK, Current Coupon 7.75%, Secured Debt (Maturity - May 26, 2021) | 1 month LIBOR   | 8,891         | 8,861    | 8,891      |
| <b>Joerns Healthcare, LLC (8)</b>                  | Manufacturer and Distributor of Health Care Equipment & Supplies | LIBOR Plus 5.00% (Floor 1.00%), Current Coupon 6.00%, Secured Debt (Maturity - May 9, 2020)              | 3 month LIBOR   | 12,172        | 11,947   | 11,442     |
| <b>JSS Holdings, Inc. (8)</b>                      | Aircraft Maintenance Program Provider                            | LIBOR Plus 6.50% (Floor 1.00%), Current Coupon 7.50%, Secured Debt (Maturity - August 31, 2021)          | 3 month LIBOR   | 13,828        | 13,550   | 13,759     |
| <b>Kellermeyer Bergensons Services, LLC (8)</b>    | Outsourced Janitorial Services to Retail/Grocery Customers       | LIBOR Plus 8.50% (Floor 1.00%), Current Coupon 9.50%, Secured Debt (Maturity - April 29, 2022) (14)      | 3 month LIBOR   | 14,700        | 14,603   | 13,964     |
| <b>Kendra Scott, LLC (8)</b>                       | Jewelry Retail Stores  | LIBOR Plus 6.00% (Floor 1.00%), Current Coupon 7.00%, Secured Debt (Maturity - July 17, 2020)            | 3 month LIBOR   | 9,375         | 9,305    | 9,328      |
| <b>Keypoint Government Solutions, Inc. (8)</b>     | Provider of Pre-Employment Screening Services                    | LIBOR Plus 6.50% (Floor 1.25%), Current Coupon 7.75%, Secured Debt (Maturity - November 13, 2017)        | 3 month LIBOR   | 1,761         | 1,757    | 1,752      |
| <b>LaMi Products, LLC (8) (11)</b>                 | General Merchandise Distribution                                 | LIBOR Plus 6.50% (Floor 1.00%), Current Coupon 7.50%, Secured Debt (Maturity - September 16, 2020)       | 3 month LIBOR   | 10,735        | 10,564   | 10,730     |
| <b>Larchmont Resources, LLC (8)</b>                | Oil & Gas Exploration & Production                               | LIBOR Plus 9.00% (Floor 1.00%), Current Coupon 10.00% PIK, Secured Debt (Maturity - August 7, 2020)      | 3 month LIBOR   | 3,816         | 3,816    | 3,731      |
|  |  | Member units (Larchmont Intermediate Holdo, LLC) (4,806 units)   | —               | —             | 601      | 2,027      |
|  |  |  |                 |               | 4,417    | 5,758      |
| <b>Legendary Pictures Funding, LLC (8) (11)</b>    | Producer of TV, Film, and Comic Content                          | LIBOR Plus 6.00% (Floor 1.00%), Current Coupon 7.00%, Secured Debt (Maturity - April 22, 2020)           | 3 month LIBOR   | 8,020         | 7,905    | 8,030      |
| <b>LJ Host Merger Sub, Inc. (8)</b>                | Managed Services and Hosting Provider                            | LIBOR Plus 4.75% (Floor 1.25%), Current Coupon 6.00%, Secured Debt (Maturity - December 13, 2019)        | 3 month LIBOR   | 4,846         | 4,837    | 4,595      |
| <b>Logix Acquisition Company, LLC (8) (11)</b>     | Competitive Local Exchange Carrier                               | LIBOR Plus 8.28% (Floor 1.00%), Current Coupon 9.28%, Secured Debt (Maturity - June 24, 2021)            | 3 month LIBOR   | 8,593         | 8,455    | 8,593      |
| <b>Minute Key, Inc. (10) (13)</b>                  | Operator of Automated Key Duplication Kiosk                      | 10.00% Current / 2.00% PIK Secured Debt (Maturity - September 19, 2019) (14)                             | None            | 3,905         | 3,821    | 3,821      |
|  |  | Warrants (359,352 equivalent units, Expiration - May 20, 2025)   | —               | —             | 70       | 117        |
|  |  |  |                 |               | 3,891    | 3,938      |

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**(dollars in thousands)**

| Portfolio Company (1) (3)                        | Business Description  | Type of Investment (2) (3)   | Index Rate (22) | Principal (7) | Cost (7)  | Fair Value |
|--|---|--|-----------------|---------------|-----------|------------|
| <b>Mood Media Corporation (8) (9)</b>            | Provider of Electronic Equipment  | LIBOR Plus 6.00% (Floor 1.00%), Current Coupon 7.00%, Secured Debt (Maturity - May 1, 2019)            | 3 month LIBOR   | \$ 14,822     | \$ 14,741 | \$ 14,328  |
| <b>New Media Holdings II LLC (8) (9)</b>         | Local Newspaper Operator  | LIBOR Plus 6.25% (Floor 1.00%), Current Coupon 7.25%, Secured Debt (Maturity - June 4, 2020)           | 3 month LIBOR   | 14,706        | 14,578    | 14,633     |
| <b>North American Lifting Holdings, Inc. (8)</b> | Crane Service Provider  | LIBOR Plus 4.50% (Floor 1.00%), Current Coupon 5.50%, Secured Debt (Maturity - November 27, 2020)      | 3 month LIBOR   | 2,405         | 2,016     | 2,101      |
| <b>North Atlantic Trading Company, Inc. (8)</b>  | Marketer/Distributor of Tobacco   | Prime Plus 5.50% (Floor 3.75%), Current Coupon 9.25%, Secured Debt (Maturity - January 13, 2020)       | PRIME           | 10,897        | 10,913    | 10,829     |
| <b>Novitex Acquisition, LLC (8)</b>              | Provider of Document Management Services  | LIBOR Plus 6.75% (Floor 1.25%), Current Coupon 8.00%, Secured Debt (Maturity - July 7, 2020)           | 3 month LIBOR   | 13,322        | 13,004    | 12,823     |
| <b>NTM Acquisition Corp. (8)</b>                 | Provider of B2B Travel Information Content  | LIBOR Plus 6.25% (Floor 1.00%), Current Coupon 7.25%, Secured Debt (Maturity - June 7, 2022)           | 3 month LIBOR   | 4,144         | 4,085     | 4,128      |
| <b>Pardus Oil &amp; Gas, LLC</b>                 | Oil & Gas Exploration and Production  | 13.00% PIK, Secured Debt (Maturity - November 12, 2021)  | None            | 989           | 989       | 989        |
|  |   | 5.00% PIK, Secured Debt (Maturity - May 13, 2022) (14)   | None            | 517           | 517       | 293        |
|  |   | Class A units (1,331 units)  | —               | —             | 1,331     | 523        |
|  |   |  |                 |               | 2,837     | 1,805      |
| <b>Paris Presents, Inc. (8)</b>                  | Branded Cosmetic and Bath Accessories   | LIBOR Plus 8.75% (Floor 1.00%), Current Coupon 9.75%, Secured Debt (Maturity - December 31, 2021) (14) | 1 month LIBOR   | 7,500         | 7,382     | 7,350      |
| <b>Parq Holdings, LP (8) (9)</b>                 | Hotel and Casino Operator   | LIBOR Plus 7.50% (Floor 1.00%), Current Coupon 8.50%, Secured Debt (Maturity - December 17, 2020)      | 1 month LIBOR   | 12,500        | 12,378    | 12,313     |
| <b>Permian Holdco 2, Inc.</b>                    | Storage Tank Manufacturer   | 14.00% PIK Unsecured Debt (Maturity - October 15, 2021)  | None            | 483           | 483       | 483        |
|  |   | Series A Preferred Shares (Permian Holdco 1, Inc.) (386,255 units) (12.00% Cumulative) (16)            | —               | —             | 997       | 997        |
|  |   | Common Shares (Permian Holdco 1, Inc.) (386,255 units)   | —               | —             | 997       | 997        |
|  |   |  |                 |               | 2,477     | 2,477      |
| <b>Permian Holdings, Inc.</b>                    | Storage Tank Manufacturer   | 10.50% Secured Debt (Maturity - January 15, 2018)  | None            | 1,000         | 338       | 338        |
| <b>Pernix Therapeutics Holdings, Inc. (11)</b>   | Pharmaceutical Royalty - Anti-Migraine  | 12.00% Secured Debt (Maturity - August 1, 2020)  | None            | 3,016         | 2,990     | 2,910      |
| <b>Pike Corporation (8)</b>                      | Construction and Maintenance Services for Electric Transmission and Distribution Infrastructure | LIBOR Plus 8.50% (Floor 1.00%), Current Coupon 9.50%, Secured Debt (Maturity - June 22, 2022) (14)     | 1 month LIBOR   | 13,334        | 13,070    | 13,411     |
| <b>Polycom, Inc. (8)</b>                         | Provider of Audio and Video Communication Solutions   | LIBOR Plus 6.50% (Floor 1.00%), Current Coupon 7.50%, Secured Debt (Maturity - September 27, 2023)     | 3 month LIBOR   | 12,089        | 11,617    | 12,194     |
| <b>PPC/Shift, LLC (8) (11)</b>                   | Provider of Digital Solutions to Automotive Industry  | LIBOR Plus 6.00% (Floor 1.00%), Current Coupon 7.00%, Secured Debt (Maturity - December 22, 2021)      | 3 month LIBOR   | 7,000         | 6,851     | 6,851      |
| <b>Premier Dental Services, Inc. (8)</b>         | Dental Care Services  | LIBOR Plus 6.50% (Floor 1.00%), Current Coupon 7.50%, Secured Debt (Maturity - November 1, 2018)       | 3 month LIBOR   | 4,511         | 4,497     | 4,494      |
| <b>Prowler Acquisition Corporation (8)</b>       | Specialty Distributor to the Energy Sector  | LIBOR Plus 4.50% (Floor 1.00%), Current Coupon 5.50%, Secured Debt (Maturity - January 28, 2020)       | 3 month LIBOR   | 11,329        | 9,896     | 8,383      |
| <b>Raley's, Inc. (8)</b>                         | Family-Owned Supermarket Chain in California  | LIBOR Plus 6.25% (Floor 1.00%), Current Coupon 7.25%, Secured Debt (Maturity - May 18, 2022)           | 3 month LIBOR   | 4,195         | 4,125     | 4,242      |
| <b>Redbox Automated Retail, LLC (8)</b>          | Operator of Home Media Entertainment Kiosks   | LIBOR Plus 7.50% (Floor 1.00%), Current Coupon 8.50%, Secured Debt (Maturity - September 27, 2021)     | 3 month LIBOR   | 14,344        | 13,925    | 13,989     |
| <b>Renaissance Learning, Inc. (8)</b>            | Technology-based K-12 Learning Solutions  | LIBOR Plus 7.00% (Floor 1.00%), Current Coupon 8.00%, Secured Debt (Maturity - April 11, 2022) (14)    | 3 month LIBOR   | 12,950        | 12,548    | 12,896     |
| <b>RGL Reservoir Operations, Inc. (8) (9)</b>    | Oil & Gas Equipment & Services  | LIBOR Plus 5.00% (Floor 1.00%), Current Coupon 6.00%, Secured Debt (Maturity - August 13, 2021)        | 3 month LIBOR   | 3,910         | 3,826     | 880        |

**HMS Income Fund, Inc.**  
**Condensed Consolidated Schedule of Investments**  
**As of December 31, 2016**  
**(dollars in thousands)**

| Portfolio Company (1) (3)                          | Business Description  | Type of Investment (2) (3)   | Index Rate (22) | Principal (7) | Cost (7) | Fair Value |
|--|---|--|-----------------|---------------|----------|------------|
| <b>RM Bidder, LLC (11)</b>                         | Full-scale Film and Television Production and Distribution    | Common Stock (1,854 units)   | —               | \$ —          | \$ 31    | \$ 29      |
|  |   | Series A Warrants (124,915 equivalent units, Expiration - October 20, 2025)                        | —               | —             | 284      | 200        |
|  |   | Series B Warrants (93,686 equivalent units, Expiration - October 20, 2025)                         | —               | —             | —        | —          |
|  |   |  |                 |               | 315      | 229        |
| <b>Salient Partners, LP (8)</b>                    | Provider of Asset Management Services                         | LIBOR Plus 8.50% (Floor 1.00%), Current Coupon 9.50%, Secured Debt (Maturity - June 9, 2021)       | 3 month LIBOR   | 11,842        | 11,527   | 11,338     |
| <b>School Specialty, Inc. (8)</b>                  | Distributor of Education Supplies and Furniture               | LIBOR Plus 8.50% (Floor 1.00%), Current Coupon 9.50%, Secured Debt (Maturity - June 11, 2019)      | 1 month LIBOR   | 5,467         | 5,396    | 5,536      |
| <b>Sigma Electric Manufacturing Corp. (8) (11)</b> | Manufacturer and Distributor of Electrical Fittings and Parts | LIBOR Plus 7.25% (Floor 1.00%), Current Coupon 8.25%, Secured Debt (Maturity - May 13, 2019)       | 3 Month LIBOR   | 12,500        | 12,199   | 12,199     |
| <b>Sorenson Communications, Inc.</b>               | Manufacturer of Communication Products for Hearing Impaired   | 9.00% Secured Debt (Maturity - October 31, 2020) (14)  | None            | 11,710        | 11,308   | 10,305     |
|  |   | LIBOR Plus 5.75% (Floor 2.25%), Current Coupon 8.00%, Secured Debt (Maturity - April 30, 2020)     | 3 month LIBOR   | 2,977         | 2,957    | 2,955      |
|  |   |  |                 |               | 14,265   | 13,260     |
| <b>Strike, LLC (8)</b>                             | Pipeline Construction and Maintenance Services                | LIBOR Plus 8.00% (Floor 1.00%), Current Coupon 9.29%, Secured Debt (Maturity - November 30, 2022)  | 6 month LIBOR   | 10,000        | 9,667    | 9,900      |
| <b>Synagro Infrastructure Company, Inc. (8)</b>    | Waste Management Services                                     | LIBOR Plus 5.25% (Floor 1.00%), Current Coupon 6.25%, Secured Debt (Maturity - August 22, 2020)    | 3 month LIBOR   | 2,704         | 2,687    | 2,372      |
| <b>TaxAct, Inc. (8)</b>                            | Provider of Tax Preparation Solutions                         | LIBOR Plus 6.00% (Floor 1.00%), Current Coupon 7.00%, Secured Debt (Maturity - January 3, 2023)    | 1 month LIBOR   | 6,500         | 6,369    | 6,549      |
| <b>TE Holdings, LLC</b>                            | Oil & Gas Exploration & Production                            | Common Units (72,785 units)  | —               | —             | 728      | 546        |
| <b>Teleguam Holdings, LLC (8)</b>                  | Cable and Telecom Services Provider                           | LIBOR Plus 7.50% (Floor 1.25%), Current Coupon 8.75%, Secured Debt (Maturity - June 10, 2019) (14) | 1 month LIBOR   | 6,397         | 6,387    | 6,268      |
|  |   | LIBOR Plus 4.00% (Floor 1.25%), Current Coupon 5.25%, Secured Debt (Maturity - December 10, 2018)  | 1 month LIBOR   | 7,481         | 7,335    | 7,406      |
|  |   |  |                 |               | 13,722   | 13,674     |
| <b>TMC Merger Sub Corp (8)</b>                     | Refractory & Maintenance Services Provider                    | LIBOR Plus 6.25% (Floor 1.00%), Current Coupon 7.25%, Secured Debt (Maturity - October 31, 2022)   | 1 week LIBOR    | 12,500        | 12,376   | 12,438     |
| <b>The Topps Company, Inc. (8)</b>                 | Trading Cards & Confectionary                                 | LIBOR Plus 6.00% (Floor 1.25%), Current Coupon 7.25%, Secured Debt (Maturity - October 2, 2018)    | 3 month LIBOR   | 1,109         | 1,104    | 1,113      |
| <b>TOMS Shoes, LLC (8)</b>                         | Global Designer, Distributor, and Retailer of Casual Footwear | LIBOR Plus 5.50% (Floor 1.00%), Current Coupon 6.50%, Secured Debt (Maturity - October 30, 2020)   | 3 month LIBOR   | 4,913         | 4,573    | 3,635      |
| <b>Travel Leaders Group, LLC (8)</b>               | Travel Agency Network Provider                                | LIBOR Plus 6.00% (Floor 1.00%), Current Coupon 7.00%, Secured Debt (Maturity - December 7, 2020)   | 1 month LIBOR   | 15,988        | 15,900   | 15,960     |
| <b>TVG-I-E CMN Acquisition, LLC (8) (11)</b>       | Organic Lead Generation for Online Postsecondary Schools      | LIBOR Plus 6.00%, Current Coupon 7.00%, Secured Debt (Maturity - November 3, 2021)                 | 1 month LIBOR   | 6,459         | 6,333    | 6,333      |
| <b>Unirush LLC (10) (13)</b>                       | Provider of Prepaid Debit Card Solutions                      | 12.00% Secured Debt (Maturity Date - February 1, 2019)   | None            | 3,000         | 2,745    | 3,000      |
|  |   | Warrants (111,181 equivalent units, Expiration - February 2, 2026)                                 | —               | —             | 313      | 313        |
|  |   |  |                 |               | 3,058    | 3,313      |
| <b>U.S. Telepacific Corp. (8) (11)</b>             | Provider of Communications and Managed Services               | LIBOR Plus 8.50% (Floor 1.00%), Current Coupon 9.50%, Secured Debt (Maturity - February 24, 2021)  | 3 month LIBOR   | 7,500         | 7,367    | 7,367      |
| <b>USJ-IMECO Holding Company, LLC (8)</b>          | Marine Interior Design and Installation                       | LIBOR Plus 6.00% (Floor 1.00%), Current Coupon 7.00%, Secured Debt (Maturity - April 16, 2020)     | 3 month LIBOR   | 8,857         | 8,829    | 8,813      |



**HMS Income Fund, Inc.**  
**Condensed Consolidated Schedule of Investments**  
**As of December 31, 2016**  
**(dollars in thousands)**

| Portfolio Company (1) (3)  | Business Description   | Type of Investment (2) (3)  | Index Rate (22) | Principal (7) | Cost (7)            | Fair Value        |
|--|--|---|-----------------|---------------|---------------------|-------------------|
| Valley Healthcare Group, LLC (8) (10) (13)   | Provider of Durable Medical Equipment                          | LIBOR Plus 12.50% (Floor 0.50%), Current Coupon 13.12%, Secured Debt (Maturity - December 29, 2020) | 1 month LIBOR   | \$ 3,239      | \$ 3,183            | \$ 3,183          |
|  |  | Preferred Member Units (Valley Healthcare Holding, LLC) (400 units)                                 | —               | —             | 400                 | 400               |
|  |  |   |                 |               | 3,583               | 3,583             |
| VCVH Holding Corp. (8)   | Healthcare Technology Services Focused on Revenue Maximization | LIBOR Plus 9.25% (Floor 1.00%), Current Coupon 10.25%, Secured Debt (Maturity - June 1, 2024) (14)  | 3 month LIBOR   | 3,500         | 3,417               | 3,474             |
| Volusion, LLC (10) (13)  | Provider of Online Software-as-a-Service eCommerce Solutions   | 11.50% Secured Debt (Maturity - January 24, 2020)   | None            | 7,500         | 6,484               | 6,484             |
|  |  | Preferred Member Units (2,090,001 units)  | —               | —             | 6,000               | 6,000             |
|  |  | Warrants (784,866.80 equivalent units, Expiration - January 26, 2025)                               | —               | —             | 1,104               | 1,104             |
|  |  |   |                 |               | 13,588              | 13,588            |
| Wellnext, LLC (8) (11)   | Manufacturer of Supplements and Vitamins                       | LIBOR Plus 9.00% (Floor 0.50%), Current Coupon 9.85%, Secured Debt (Maturity - May 23, 2021)        | 3 month LIBOR   | 10,058        | 9,966               | 10,058            |
| Worley Claims Services, LLC (8) (11)   | Insurance Adjustment Management and Services Provider          | LIBOR Plus 8.00% (Floor 1.00%), Current Coupon 9.00%, Secured Debt (Maturity - October 31, 2020)    | 1 month LIBOR   | 6,370         | 6,326               | 6,370             |
| YP Holdings LLC (8)  | Online and Offline Advertising Operator                        | LIBOR Plus 11.00% (Floor 1.25%), Current Coupon 12.25%, Secured Debt (Maturity - June 4, 2018)      | 1 month LIBOR   | 15,280        | 15,016              | 15,241            |
| <b>Subtotal Non-Control/Non-Affiliate Investments (5) (91% of total portfolio investments at fair value)</b> |  |   |                 |               | <b>\$ 935,741</b>   | <b>\$ 916,393</b> |
| <b>Total Portfolio Investments</b>   |  |   |                 |               | <b>\$ 1,002,395</b> | <b>\$ 989,247</b> |
| <b>Short Term Investments (20)</b>   |  |   |                 |               |                     |                   |
| Fidelity Institutional Money Market Funds (21)   | —  | Prime Money Market Portfolio, Class III Shares  | —               | —             | \$ 9,775            | \$ 9,775          |
| UMB Bank Money Market Account (21)   | —  | —   | —               | —             | 642                 | 642               |
| US Bank Money Market Account (21)  | —  | —   | —               | —             | 10,672              | 10,672            |
| <b>Total Short Term Investments</b>  |  |   |                 |               | <b>\$ 21,089</b>    | <b>\$ 21,089</b>  |

(1) All investments are Middle Market portfolio investments, unless otherwise noted. All of the assets of HMS Income Fund, Inc. (the "Company") are encumbered as security for the Company's credit agreements. See Note 5 - *Borrowings*.

(2) Debt investments are income producing, unless otherwise noted. Equity investments and warrants are non-income producing, unless otherwise noted.

(3) See Note 3 - *Fair Value Hierarchy for Investments* for summary geographic location of portfolio companies.

(4) Affiliate investments are defined by the Investment Company Act of 1940, as amended (the "1940 Act"), as investments in which between 5% and 25% of the voting securities are owned, or an investment in an investment company's investment adviser, and the investments are not classified as Control investments.

(5) Non-Control/Non-Affiliate investments are defined by the 1940 Act as investments that are neither Control investments nor Affiliate investments.

(6) Control investments are defined by the 1940 Act as investments in which more than 25% of the voting securities are owned or where the ability to nominate greater than 50% of the board representation is maintained.

(7) Principal is net of repayments. Cost represents amortized cost which is net of repayments and adjusted for the amortization of premiums and/or accretion of discounts, as applicable.

(8) Index based floating interest rate is subject to contractual minimum interest rates.

(9) The investment is not a qualifying asset under the 1940 Act. A business development company ("BDC") may not acquire any asset other than qualifying assets unless, at the time the acquisition is made, qualifying assets represent at least 70% of the BDC's total assets. As of December 31, 2016, approximately 13.8% of the Company's investments were considered non-qualifying.

(10) Investment is classified as a Lower Middle Market investment.

(11) Investment is classified as a Private Loan portfolio investment.

(12) Investment or portion of investment is under contract to purchase and met trade date accounting criteria as of December 31, 2016. Settlement occurred or is scheduled to occur after December 31, 2016. See Note 2 - *Basis of Presentation and Summary of Significant Accounting Policies* for Summary of Security Transactions.

(13) Investment serviced by Main Street pursuant to servicing arrangements with the Company.

(14) Second lien secured debt investment.

(15) Investment is classified as an Other Portfolio investment.

(16) Income producing through dividends or distributions.

(17) Unsecured debt investment.

(18) Investment is on non-accrual status as of December 31, 2016.

(19) Maturity date is under on-going negotiations with the portfolio company and other lenders, if applicable.

(20) Short term investments represent an investment in a fund that invests in highly liquid investments with average original maturity dates of three months or less.

(21) Effective yield as of December 31, 2016 was approximately 0.01%.

(22) The 1 week and 1, 2, 3 and 6 month LIBOR rates were 0.72%, 0.77%, 0.82%, 1.00% and 1.32%, respectively, as of December 31, 2016. The actual LIBOR rate for each loan listed may not be the applicable LIBOR rate as of December 31, 2016, as the loan may have been priced or repriced based on a LIBOR rate prior to or subsequent to December 31, 2016. The prime rate was 3.75% as of December 31, 2016.

*See notes to the condensed consolidated financial statements.*



**HMS Income Fund, Inc.**  
**Notes to the Condensed Consolidated Financial Statements**  
**(Unaudited)**

**Note 1 – Principal Business and Organization**

HMS Income Fund, Inc. (together with its consolidated subsidiaries, the “Company”) was formed as a Maryland corporation on November 28, 2011 under the General Corporation Law of the State of Maryland. The Company is an externally managed, non-diversified closed-end management investment company that has elected to be treated as a BDC under the 1940 Act. The Company has elected to be treated for U.S. federal income tax purposes as a regulated investment company (“RIC”) under Subchapter M of the Internal Revenue Code of 1986, as amended (the “Code”).

The Company’s primary investment objective is to generate current income through debt and equity investments. A secondary objective of the Company is to generate long-term capital appreciation through such equity and equity-related investments including warrants, convertible securities and other rights to acquire equity securities. The Company’s portfolio strategy is to invest primarily in illiquid debt and equity securities issued by lower middle market (“LMM”) companies, which generally have annual revenues between \$10 million and \$150 million, and middle market (“Middle Market”) companies that are generally larger in size than the LMM companies, with annual revenues typically between \$10 million and \$3 billion. Our LMM and Middle Market portfolio investments generally range in size from \$1 million to \$15 million. The Company categorizes some of its investments in LMM companies and Middle Market companies as private loan (“Private Loan”) portfolio investments. Private Loan investments, often referred to in the debt markets as “club deals,” are investments, generally in debt instruments, that the Company originates on a collaborative basis with other investment funds. Private Loan investments are typically similar in size, structure, terms and conditions to investments the Company holds in its LMM portfolio and Middle Market portfolio. The Company’s portfolio also includes other portfolio (“Other Portfolio”) investments primarily consisting of the Company’s investment in HMS-ORIX (see Note 4 - *Investment in HMS-ORIX SLF LLC*) and investments managed by third parties, which differ from the typical profiles for LMM portfolio investments, Middle Market portfolio investments or Private Loan portfolio investments.

The Company previously registered for sale up to 150,000,000 shares of common stock pursuant to a registration statement on Form N-2 (File No. 333-178548) which was initially declared effective by the Securities and Exchange Commission (the “SEC”) on June 4, 2012 (the “Initial Offering”). The Initial Offering terminated on December 1, 2015. The Company raised approximately \$601.2 million under the Initial Offering, including proceeds from the dividend reinvestment plan of approximately \$22.0 million. The Company also registered for sale up to \$1,500,000,000 worth of shares of common stock (the “Offering”) pursuant to a new registration statement on Form N-2 (File No. 333-204659), as amended, most recently declared effective on May 1, 2017. As of June 30, 2017, the Company had raised approximately \$153.9 million in the Offering, including proceeds from the distribution reinvestment plan of approximately \$38.3 million.

On February 22, 2017, the Company’s board of directors, after determining that it would be in the best interest of the Company and its stockholders to do so, decided to continue the Offering until September 30, 2017 and authorized the closing of the Offering to new investors (the “Closing”) to occur on or about such date. The Company’s board of directors previously authorized the Closing to occur on or about March 31, 2017, subject to the board of directors’ final approval. The board of directors retained its right to provide final approval on the specific terms of the Closing, including its right to accelerate the Closing or to further continue the Company’s Offering if the board of directors determines that it is in the best interests of the Company and its stockholders to do so.

The Company has three wholly-owned subsidiaries. HMS Funding I LLC (“HMS Funding”) and HMS Equity Holding, LLC (“HMS Equity Holding”) were both organized as Delaware limited liability companies and HMS Equity Holding II, Inc. (“HMS Equity Holding II”) was organized as a Delaware corporation. HMS Funding was created pursuant to the EverBank Credit Facility (as defined below in Note 5 - *Borrowings*) in order to function as a “Structured Subsidiary,” which is permitted to incur debt outside of the EverBank Credit Facility since it is not a guarantor under the EverBank Credit Facility. HMS Equity Holding and HMS Equity Holding II, which have elected to be taxable entities, primarily hold equity investments in certain portfolio companies which are “pass through” entities for tax purposes.

The business of the Company is managed by HMS Adviser LP (the “Adviser”), a Texas limited partnership and affiliate of Hines Interests Limited Partnership (“Hines”), under an Investment Advisory and Administrative Services Agreement dated May 31, 2012 (as amended, the “Investment Advisory Agreement”). The Company and the Adviser have retained MSC Adviser I, LLC (the “Sub-Adviser”), a wholly owned subsidiary of Main Street Capital Corporation (“Main Street”), a New York Stock Exchange listed BDC, as the Company’s investment sub-adviser, pursuant to an Investment Sub-Advisory Agreement (the “Sub-Advisory Agreement”), to identify, evaluate, negotiate and structure prospective investments, make investment and portfolio management recommendations for approval by the Adviser, monitor the Company’s investment portfolio and provide certain ongoing administrative services to the Adviser. The Adviser and the Sub-Adviser are collectively referred to as the “Advisers,” and each

is registered as an investment adviser under the Investment Advisers Act of 1940, as amended. Upon the execution of the Sub-Advisory Agreement, Main Street became an affiliate of the Company. The Company engaged Hines Securities, Inc. (the “Dealer Manager”), an affiliate of the Adviser, to serve as the Dealer Manager for the Offering. The Dealer Manager is responsible for marketing the Company’s common stock.

## **Note 2 – Basis of Presentation and Summary of Significant Accounting Policies**

### *Basis of Presentation and Consolidation*

The accompanying condensed consolidated financial statements of the Company have been prepared in accordance with the instructions to Form 10-Q and accounting principles generally accepted in the United States of America (“GAAP”) and include the accounts of the Company’s wholly-owned consolidated subsidiaries, HMS Funding, HMS Equity Holding and HMS Equity Holding II. All intercompany accounts and transactions have been eliminated in consolidation. Under the 1940 Act rules, regulations pursuant to Articles 6 and 10 of Regulation S-X and Topic 946, *Financial Services - Investment Companies*, of the Accounting Standards Codification, as amended (the “ASC”), of the Financial Accounting Standards Board (the “FASB”), Financial Services-Investment Companies, the Company is precluded from consolidating portfolio company investments, including those in which the Company has a controlling interest, unless the portfolio company is a wholly-owned investment company. An exception to this general principle occurs if the Company owns a controlled operating company whose purpose is to provide services to the Company such as an investment adviser or transfer agent. None of the Company’s investments qualifies for this exception. Therefore, the Company’s portfolio company investments, including those in which the Company has a controlling interest, are carried on the Condensed Consolidated Balance Sheet at fair value, as discussed below, with changes to fair value recognized as “Net Unrealized Appreciation (Depreciation)” on the Condensed Consolidated Statements of Operations until the investment is realized, usually upon exit, resulting in any gain or loss on exit being recognized as a realized gain or loss. However, in the event that any controlled subsidiary exceeds the tests of significance set forth in Rules 3-09 or 4-08(g) of Regulation S-X, the Company will include required financial information for such subsidiary in the notes or as an attachment to its condensed consolidated financial statements.

The unaudited condensed consolidated financial statements reflect all normal recurring adjustments, which are, in the opinion of management, necessary for the fair presentation of the Company’s results for the interim periods presented. The results of operations for interim periods are not indicative of results to be expected for the full year.

Amounts as of December 31, 2016 included in the unaudited condensed consolidated financial statements have been derived from the Company’s audited consolidated financial statements as of that date. All intercompany accounts and transactions have been eliminated in consolidation. Certain financial information that is normally included in annual financial statements, including certain financial statement footnotes, prepared in accordance with GAAP, is not required for interim reporting purposes and has been condensed or omitted herein. The current period’s results of operations are not necessarily indicative of results that ultimately may be achieved for the year. Therefore, these financial statements should be read in conjunction with the Company’s financial statements and notes related thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016, which was filed with the SEC on March 7, 2017.

### *Reclassifications*

Certain amounts in the Condensed Consolidated Balance Sheet and the Condensed Consolidated Statement of Cash Flows related to base management fees payable and directors’ fees payable have been disaggregated from due to affiliates and accounts payable and other liabilities, respectively, as of June 30, 2017. Certain amounts in the Condensed Consolidated Statements of Operations related to income taxes have been disaggregated from other general and administrative expenses as of June 30, 2017. Additionally, the presentation of investment income has been changed to separately state interest income, fee income and dividend income in the Condensed Consolidated Statements of Operations. The prior periods have been reclassified to conform to this presentation as of June 30, 2017.

### *Interest, Fee and Dividend Income*

Interest and dividend income are recorded on the accrual basis to the extent amounts are expected to be collected. Prepayment penalties received by the Company are recorded as income upon receipt. Dividend income is recorded when dividends are declared by the portfolio company or at the point an obligation exists for the portfolio company to make a distribution. Accrued interest and dividend income are evaluated quarterly for collectability. When a debt security becomes 90 days or more past due and the Company does not expect the debtor to be able to service all of its debt or other obligations, the debt security will generally be placed on non-accrual status and the Company will cease recognizing interest income on that debt security until the borrower has demonstrated the ability and intent to pay contractual amounts due. If there is reasonable doubt that the Company will receive any previously accrued interest, then the interest income will be written off. Additionally, if a debt security has deferred interest payment

terms and the Company becomes aware of a deterioration in credit quality, the Company will evaluate the collectability of the deferred interest payment. If it is determined that the deferred interest is unlikely to be collected, the Company will place the security on non-accrual status and cease recognizing interest income on that debt security until the borrower has demonstrated the ability and intent to pay the contractual amounts due. Payments received on non-accrual investments may be recognized as income or applied to principal depending upon the collectability of the remaining principal and interest. If a debt security's status significantly improves with respect to the debtor's ability to service the debt or other obligations, or if a debt security is fully impaired, sold or written off, it will be removed from non-accrual status.

As of June 30, 2017, the Company had four debt investments in three portfolio companies that were more than 90 days past due, each of which was on non-accrual status. Each of these portfolio companies experienced a significant decline in credit quality raising doubt regarding the Company's ability to collect the principal and interest contractually due. Given the credit deterioration of these portfolio companies, the Company ceased accruing interest income on the non-accrual debt investments and wrote off any previously accrued interest deemed uncollectible. Aside from these four investments on non-accrual status as of June 30, 2017, the Company is not aware of any material changes to the creditworthiness of the borrowers underlying its debt investments.

As of December 31, 2016, the Company had five debt investments in four portfolio companies that were more than 90 days past due (two of which were in the oil and gas industry), including three debt investments in two portfolio companies that were on non-accrual status. Each of these portfolio companies experienced a significant decline in credit quality raising doubt regarding the Company's ability to collect the principal and interest contractually due. Given the credit deterioration, the Company ceased accruing interest income on the non-accrual debt investments and wrote off any previously accrued interest deemed uncollectible.

From time to time, the Company may hold debt instruments in its investment portfolio that contain a payment-in-kind ("PIK") interest provision. If these borrowers elect to pay or are obligated to pay interest under the optional PIK provision and, if deemed collectible in management's judgment, then the interest would be computed at the contractual rate specified in the investment's credit agreement, recorded as interest income and periodically added to the principal balance of the investment. Thus, the actual collection of this interest may be deferred until the time of debt principal repayment. The Company stops accruing PIK interest and writes off any accrued and uncollected interest in arrears when it determines that such PIK interest in arrears is no longer collectible.

As of June 30, 2017 and December 31, 2016, the Company held 21 and 19 investments, respectively, which contained a PIK provision. As of June 30, 2017, three of the 21 investments with PIK provisions were on non-accrual status. No PIK interest was recorded on these three non-accrual investments during the three and six months ended June 30, 2017. As of December 31, 2016, two of the 19 investments with PIK provisions were on non-accrual status. No PIK interest was recorded on these investments during the year ended December 31, 2016. For the three months ended June 30, 2017 and 2016, the Company capitalized \$519,000 and \$116,000, respectively, of PIK interest income. For the six months ended June 30, 2017 and 2016, the Company capitalized \$839,000 and \$124,000, respectively, of PIK interest income. The Company stops accruing PIK interest and writes off any accrued and uncollected interest in arrears when it determines that such PIK interest in arrears is no longer collectible.

The Company may periodically provide services, including structuring and advisory services, to its portfolio companies or other third parties. The income from such services is non-recurring. For services that are separately identifiable and evidence exists to substantiate fair value, income is recognized as earned, which is generally when the investment or other applicable transaction closes. For the three months ended June 30, 2017 and 2016, the Company recognized \$896,000 and \$405,000, respectively, of fee income received from its portfolio companies or other third parties, which accounted for approximately 3.5% and 1.9%, respectively, of the Company's total investment income during such period. For the six months ended June 30, 2017 and 2016, the Company recognized \$1.7 million and \$680,000 respectively, of fee income received from its portfolio companies or other third parties, which accounted for approximately 3.3% and 1.6%, respectively, of the Company's total investment income during such period. Fees received in connection with debt financing transactions for services that do not meet these criteria are treated as debt origination fees and are deferred and accreted into interest income over the life of the financing.

#### *Recent Accounting Pronouncements*

From time to time, new accounting pronouncements are issued by the FASB or other standards setting bodies that are adopted by the Company as of the specified effective date. The Company believes that the impact of recently issued standards and any that are not yet effective will not have a material impact on its financial statements upon adoption.

### Note 3 — Fair Value Hierarchy for Investments

#### *Fair Value Hierarchy*

ASC Topic 820, *Fair Value Measurement and Disclosures* (“ASC 820”), establishes a hierarchical disclosure framework which prioritizes and ranks the level of market price observability of inputs used in measuring investments at fair value. Market price observability is affected by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Based on the observability of the inputs used in the valuation techniques, the Company is required to provide disclosures on fair value measurements according to the fair value hierarchy. The fair value hierarchy ranks the observability of the inputs used to determine fair values. Investments carried at fair value are classified and disclosed in one of the following three categories:

- Level 1—Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.
- Level 2—Valuations based on inputs other than quoted prices in active markets, which are either directly or indirectly observable for essentially the full term of the investment. Level 2 inputs include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in non-active markets (for example, thinly traded public companies), pricing models whose inputs are observable for substantially the full term of the investment, and pricing models whose inputs are derived principally from or corroborated by, observable market data through correlation or other means for substantially the full term of the investment.
- Level 3—Valuations based on inputs that are unobservable and significant to the overall fair value measurement. Such information may be the result of consensus pricing information or broker quotes for which sufficient observable inputs were not available.

As required by ASC 820, when the inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety. For example, a Level 3 fair value measurement may include inputs that are observable (Levels 1 and 2) and unobservable (Level 3). Therefore, gains and losses for such investments categorized within the Level 3 table below may include changes in fair value that are attributable to both observable inputs (Levels 1 and 2) and unobservable inputs (Level 3). The Company conducts reviews of fair value hierarchy classifications on a quarterly basis. Changes in the observability of valuation inputs may result in a reclassification for certain investments.

As of June 30, 2017 and December 31, 2016, the Company’s investment portfolio was comprised of debt securities, equity investments, and Other Portfolio investments. The fair value determination for these investments primarily consisted of unobservable (Level 3) inputs.

As of June 30, 2017 and December 31, 2016, all of the Company’s LMM portfolio investments consisted of illiquid securities issued by private companies. The fair value determination for the LMM portfolio investments primarily consisted of unobservable inputs. As a result, all of the Company’s LMM portfolio investments were categorized as Level 3 as of June 30, 2017 and December 31, 2016.

As of June 30, 2017 and December 31, 2016, the Company’s Middle Market portfolio investments consisted primarily of investments in secured and unsecured debt investments and independently rated debt investments. The fair value determination for these investments consisted of a combination of (1) observable inputs in non-active markets for which sufficient observable inputs were available to determine the fair value of these investments, (2) observable inputs in non-active markets for which sufficient observable inputs were not available to determine the fair value of these investments and (3) unobservable inputs. As a result, all of the Company’s Middle Market portfolio investments were categorized as Level 3 as of June 30, 2017 and December 31, 2016.

As of June 30, 2017 and December 31, 2016, the Company’s Private Loan portfolio investments consisted primarily of debt investments. The fair value determination for Private Loan investments consisted of a combination of observable inputs in non-active markets for which sufficient observable inputs were not available to determine the fair value of these investments and unobservable inputs. As a result, all of the Company’s Private Loan portfolio investments were categorized as Level 3 as of June 30, 2017 and December 31, 2016.

As of June 30, 2017 and December 31, 2016, the Company’s Other Portfolio investments consisted of illiquid securities issued by private companies. The Company relies primarily on information provided by managers of private investment funds in valuing these investments and considers whether it is appropriate, in light of all relevant circumstances, to value the Other Portfolio investments at the net asset value (“NAV”) reported by the private investment fund at the time of valuation or to adjust the value

to reflect a premium or discount. The fair value determination for these investments primarily consisted of unobservable inputs. As a result, all of the Company's Other Portfolio equity investments were categorized as Level 3 as of June 30, 2017 and December 31, 2016.

The fair value determination of the Level 3 securities required one or more of the following unobservable inputs:

- Financial information obtained from each portfolio company, including unaudited statements of operations and balance sheets for the most recent period available as compared to budgeted numbers;
- Current and projected financial condition of the portfolio company;
- Current and projected ability of the portfolio company to service its debt obligations;
- Type and amount of collateral, if any, underlying the investment;
- Current financial ratios (e.g., fixed charge coverage ratio, interest coverage ratio, and net debt/earnings before interest, tax, depreciation and amortization ("EBITDA") ratio) applicable to the investment;
- Current liquidity of the investment and related financial ratios (e.g., current ratio and quick ratio);
- Pending debt or capital restructuring of the portfolio company;
- Projected operating results of the portfolio company;
- Current information regarding any offers to purchase the investment;
- Current ability of the portfolio company to raise any additional financing as needed;
- Changes in the economic environment which may have a material impact on the operating results of the portfolio company;
- Internal occurrences that may have an impact (both positive and negative) on the operating performance of the portfolio company;
- Qualitative assessment of key management;
- Contractual rights, obligations or restrictions associated with the investment;
- Third party pricing for securities with limited observability of inputs determining the pricing; and
- Other factors deemed relevant.

The following table presents fair value measurements of the Company's investments, by major class, as of June 30, 2017 according to the fair value hierarchy (dollars in thousands):

|                                      | Fair Value Measurements |         |              |              |
|--------------------------------------|-------------------------|---------|--------------|--------------|
|                                      | Level 1                 | Level 2 | Level 3      | Total        |
| First lien secured debt investments  | \$ —                    | \$ —    | \$ 812,206   | \$ 812,206   |
| Second lien secured debt investments | —                       | —       | 112,478      | 112,478      |
| Unsecured debt investments           | —                       | —       | 13,643       | 13,643       |
| Equity investments <sup>(1)</sup>    | —                       | —       | 106,611      | 106,611      |
| Total                                | \$ —                    | \$ —    | \$ 1,044,938 | \$ 1,044,938 |

(1) Includes the Company's investment in HMS-ORIX. (See Note 4 - *Investment in HMS-ORIX SLF LLC*)

The following table presents fair value measurements of the Company's investments, by major class, as of December 31, 2016 according to the fair value hierarchy (dollars in thousands):

|                                      | Fair Value Measurements |         |            |            |
|--------------------------------------|-------------------------|---------|------------|------------|
|                                      | Level 1                 | Level 2 | Level 3    | Total      |
| First lien secured debt investments  | \$ —                    | \$ —    | \$ 791,126 | \$ 791,126 |
| Second lien secured debt investments | —                       | —       | 114,652    | 114,652    |
| Unsecured debt investments           | —                       | —       | 16,074     | 16,074     |
| Equity investments                   | —                       | —       | 67,395     | 67,395     |
| Total                                | \$ —                    | \$ —    | \$ 989,247 | \$ 989,247 |

The following table presents fair value measurements of the Company's investments, by investment classification, segregated by the level within the fair value hierarchy as of June 30, 2017 (dollars in thousands):

|                             | Fair Value Measurements |         |              |              |
|-----------------------------|-------------------------|---------|--------------|--------------|
|                             | Level 1                 | Level 2 | Level 3      | Total        |
| LMM portfolio investments   | \$ —                    | \$ —    | \$ 132,861   | \$ 132,861   |
| Private Loan investments    | —                       | —       | 243,866      | 243,866      |
| Middle Market investments   | —                       | —       | 615,840      | 615,840      |
| Other Portfolio investments | —                       | —       | 52,371       | 52,371       |
| Total                       | \$ —                    | \$ —    | \$ 1,044,938 | \$ 1,044,938 |

The following table presents fair value measurements of the Company's investments, by investment classification, segregated by the level within the fair value hierarchy as of December 31, 2016 (dollars in thousands):

|                             | Fair Value Measurements |         |            |            |
|-----------------------------|-------------------------|---------|------------|------------|
|                             | Level 1                 | Level 2 | Level 3    | Total      |
| LMM portfolio investments   | \$ —                    | \$ —    | \$ 116,060 | \$ 116,060 |
| Private Loan investments    | —                       | —       | 211,357    | 211,357    |
| Middle Market investments   | —                       | —       | 643,464    | 643,464    |
| Other Portfolio investments | —                       | —       | 18,366     | 18,366     |
| Total                       | \$ —                    | \$ —    | \$ 989,247 | \$ 989,247 |

The significant unobservable inputs used in the fair value measurement of the Company's LMM, Middle Market and Private Loan debt investments are (i) risk adjusted discount rates used in the yield-to-maturity valuation technique (described in Note 2 - *Basis of Presentation and Summary of Significant Accounting Policies - Valuation of Portfolio Investments* in the Company's Annual Report on Form 10-K for the year ended December 31, 2016, which was filed with the SEC on March 7, 2017) and (ii) the percentage of expected principal recovery. Increases (decreases) in any of these discount rates in isolation could result in a significantly lower (higher) fair value measurement. Increases (decreases) in any of these expected principal recovery percentages in isolation could result in a significantly higher (lower) fair value measurement. The significant unobservable inputs used in the fair value measurement of the Company's LMM equity securities and Private Loan equity securities, which are generally valued through an average of the discounted cash flow technique and the market comparable/enterprise value technique (unless one of these approaches is not applicable), are (i) EBITDA multiples and (ii) the weighted average cost of capital ("WACC"). Increases (decreases) in EBITDA multiple inputs in isolation could result in a significantly higher (lower) fair value measurement. Conversely, increases (decreases) in WACC inputs in isolation could result in a significantly lower (higher) fair value measurement. However, due to the nature of certain investments, fair value measurements may be based on other criteria, such as third-party appraisals of collateral and fair values as determined by independent third parties, which are not presented in the table below.

The following table, which is not intended to be all inclusive, presents the significant unobservable inputs of the Company's Level 3 investments as of June 30, 2017 (dollars in thousands):

|  | Fair Value          | Valuation Technique                  | Significant Unobservable Inputs | Range           | Weighted Average <sup>(2)</sup> |
|--|---------------------|--------------------------------------|---------------------------------|-----------------|---------------------------------|
| LMM equity investments                     | \$ 42,631           | Discounted Cash Flow                 | WACC                            | 10.3% - 17.2%   | 12.7%                           |
|  |                     | Market Approach/<br>Enterprise Value | EBITDA Multiples <sup>(1)</sup> | 4.0x - 10.0x    | 7.0x                            |
| LMM debt investments                       | 90,230              | Discounted Cash Flow                 | Expected Principal Recovery     | 30.9% - 100.0%  | 97.7%                           |
|  |                     |                                      | Risk Adjusted Discount Factor   | 10.3% - 18.5%   | 12.2%                           |
| Private Loan debt investments              | 180,860             | Discounted Cash Flow                 | Expected Principal Recovery     | 3.0% - 100.0%   | 99.9%                           |
|  |                     |                                      | Risk Adjusted Discount Factor   | 4.5% - 38.0%    | 8.0%                            |
|  | 55,477              | Market Approach                      | Third Party Quotes              | 92.0% - 100.1%  | 97.6%                           |
| Private Loan equity investments            | 7,529               | Market Approach/<br>Enterprise Value | EBITDA Multiples <sup>(1)</sup> | 5.0x - 9.5x     | 8.0x                            |
|  |                     | Discounted Cash Flow                 | WACC                            | 10.2% - 12.7%   | 10.4%                           |
| Middle Market debt investments             | 611,760             | Market Approach                      | Third Party Quotes              | 0.0% - 105.0%   | 94.4%                           |
| Middle Market equity investments           | 4,080               | Market Approach                      | Third Party Quotes              | \$4.8 - \$345.0 | \$286.3                         |
| Other Portfolio investments <sup>(3)</sup> | 52,371              | Market Approach                      | NAV <sup>(1)</sup>              | 86.1% - 106.2%  | 100.1%                          |
|  | <u>\$ 1,044,938</u> |                                      |                                 |                 |                                 |

(1) May include pro forma adjustments and/or other add-backs based on specific circumstances related to each investment.

(2) Weighted average excludes investments for which the significant unobservable input was not utilized in the fair value determination.

(3) Includes the Company's investment in HMS-ORIX. (See Note 4 - *Investment in HMS-ORIX SLF LLC*)

The following table, which is not intended to be all inclusive, presents the significant unobservable inputs of the Company's Level 3 investments as of December 31, 2016 (dollars in thousands):

|                                  | Fair Value        | Valuation Technique                  | Significant Unobservable Inputs | Range           | Weighted Average <sup>(2)</sup> |
|----------------------------------|-------------------|--------------------------------------|---------------------------------|-----------------|---------------------------------|
| LMM equity investments           | \$ 37,616         | Discounted Cash Flows                | WACC                            | 10.7% - 16.6%   | 12.7%                           |
|                                  |                   | Market Approach/<br>Enterprise Value | EBITDA Multiples <sup>(1)</sup> | 3.3x - 11.5x    | 6.9x                            |
| LMM debt portfolio investments   | 78,444            | Discounted Cash Flows                | Expected Principal Recovery     | 100.0% - 100.0% | 100.0%                          |
|                                  |                   |                                      | Risk Adjusted Discount Factor   | 8.5% - 21.0%    | 11.3%                           |
| Private Loan debt investments    | 165,968           | Discounted Cash Flows                | Expected Principal Recovery     | 3.0% - 100.0%   | 99.9%                           |
|                                  |                   |                                      | Risk Adjusted Discount Factor   | 4.8% - 14.2%    | 8.3%                            |
|                                  | 39,066            | Market Approach                      | Third Party Quotes              | 96.5% - 100.4%  | 99.7%                           |
| Private Loan equity investments  | 6,323             | Market Approach/<br>Enterprise Value | EBITDA Multiples <sup>(1)</sup> | 5.0x - 9.5x     | 8.3x                            |
|                                  |                   | Discounted Cash Flows                | WACC                            | 10.6% - 13.2%   | 11.8%                           |
| Middle Market debt investments   | 638,374           | Market Approach                      | Third Party Quotes              | 22.5% - 108.0%  | 95.7%                           |
| Middle Market equity investments | 5,090             | Market Approach                      | Third Party Quotes              | 75.0% - 337.5%  | 281.8%                          |
| Other Portfolio investments      | 18,366            | Market Approach                      | NAV <sup>(1)</sup>              | 92.5% - 101.0%  | 99.0%                           |
|                                  | <u>\$ 989,247</u> |                                      |                                 |                 |                                 |

(1) May include pro forma adjustments and/or other add-backs based on specific circumstances related to each investment.

(2) Weighted average excludes investments for which the significant unobservable input was not utilized in the fair value determination.

The following table provides a summary of changes in fair value of the Company's Level 3 portfolio investments for the six months ended June 30, 2017 (dollars in thousands):

| Type of Investment             | January 1, 2017 Fair Value | PIK Interest Accrual | New Investments <sup>(1)</sup> | Sales/ Repayments   | Net Unrealized Appreciation (Depreciation) <sup>(2)</sup> | Net Realized Gain (Loss) | June 30, 2017 Fair Value |
|--------------------------------|----------------------------|----------------------|--------------------------------|---------------------|---|--------------------------|--------------------------|
| LMM Equity                     | \$ 37,616                  | \$ 154               | \$ 4,598                       | \$ (273)            | \$ 576  | \$ (40)                  | \$ 42,631                |
| LMM Debt                       | 78,444                     | 84                   | 18,867                         | (5,367)             | (1,798)   | —                        | 90,230                   |
| Private Loan Equity            | 6,323                      | —                    | 3,105                          | (2,917)             | (1,530)   | 2,548                    | 7,529                    |
| Private Loan Debt              | 205,034                    | 161                  | 87,291                         | (55,122)            | (1,027)   | —                        | 236,337                  |
| Middle Market Debt             | 638,374                    | 357                  | 190,328                        | (219,833)           | 2,407   | 127                      | 611,760                  |
| Middle Market Equity           | 5,090                      | 83                   | —                              | —                   | (1,093)   | —                        | 4,080                    |
| Other Portfolio <sup>(3)</sup> | 18,366                     | —                    | 33,830                         | —                   | 175   | —                        | 52,371                   |
| Total                          | <u>\$ 989,247</u>          | <u>\$ 839</u>        | <u>\$ 338,019</u>              | <u>\$ (283,512)</u> | <u>\$ (2,290)</u>   | <u>\$ 2,635</u>          | <u>\$ 1,044,938</u>      |

(1) Column includes changes to investments due to the net accretion of discounts/premiums and amortization of fees.

(2) Column does not include unrealized appreciation (depreciation) on unfunded commitments.

(3) Includes the Company's investment in HMS-ORIX. (See Note 4 - *Investment in HMS-ORIX SLF LLC*)

The following table provides a summary of changes in fair value of the Company's Level 3 portfolio investments for the six months ended June 30, 2016 (dollars in thousands):

| Type of Investment   | January 1, 2016 Fair Value | PIK Interest Accrual | New Investments <sup>(1)</sup> | Sales/ Repayments   | Net Unrealized Appreciation (Depreciation) <sup>(2)</sup> | Net Realized Gain (Loss) | June 30, 2016 Fair Value |
|----------------------|----------------------------|----------------------|--------------------------------|---------------------|---|--------------------------|--------------------------|
| LMM Equity           | \$ 24,165                  | \$ (72)              | \$ 5,457                       | \$ —                | \$ 2,505  | \$ —                     | \$ 32,055                |
| LMM Debt             | 61,295                     | 68                   | 14,776                         | (3,328)             | 356   | —                        | 73,167                   |
| Private Loan Equity  | 530                        | —                    | 2,602                          | —                   | (49)  | —                        | 3,083                    |
| Private Loan Debt    | 110,558                    | 112                  | 54,735                         | (9,327)             | 12  | (160)                    | 155,930                  |
| Middle Market Debt   | 645,913                    | 16                   | 118,235                        | (105,354)           | (1,192)   | (9,855)                  | 647,763                  |
| Middle Market Equity | —                          | —                    | 1,331                          | —                   | —   | —                        | 1,331                    |
| Other Portfolio      | 10,527                     | —                    | 6,537                          | —                   | (38)  | —                        | 17,026                   |
| Total                | <u>\$ 852,988</u>          | <u>\$ 124</u>        | <u>\$ 203,673</u>              | <u>\$ (118,009)</u> | <u>\$ 1,594</u>   | <u>\$ (10,015)</u>       | <u>\$ 930,355</u>        |

(1) Column includes changes to investments due to the net accretion of discounts/premiums and amortization of fees.

(2) Column does not include unrealized appreciation (depreciation) on unfunded commitments.

The total net unrealized depreciation for the six months ended June 30, 2017 and 2016 included in the Condensed Consolidated Statement of Operations that related to Level 3 assets still held as of June 30, 2017 and 2016 was approximately \$3.8 million and \$23.3 million, respectively. For the six months ended June 30, 2017 and 2016, there were no transfers between Level 2 and Level 3 portfolio investments.

#### *Portfolio Investment Composition*

The composition of the Company's investments as of June 30, 2017, at cost and fair value, was as follows (dollars in thousands):

|                                      | <b>Investments at<br/>Cost</b> | <b>Cost Percentage of<br/>Total Portfolio</b> | <b>Investments at<br/>Fair Value</b> | <b>Fair Value<br/>Percentage of<br/>Total Portfolio</b> |
|--------------------------------------|--------------------------------|---|--------------------------------------|---|
| First lien secured debt investments  | \$ 833,348                     | 78.6%   | \$ 812,206                           | 77.7%   |
| Second lien secured debt investments | 113,100                        | 10.7  | 112,478                              | 10.8  |
| Unsecured debt investments           | 13,189                         | 1.2   | 13,643                               | 1.3   |
| Equity investments <sup>(1)</sup>    | 98,415                         | 9.3   | 104,455                              | 10.0  |
| Equity warrants                      | 2,325                          | 0.2   | 2,156                                | 0.2   |
| Total                                | <u>\$ 1,060,377</u>            | <u>100.0%</u>                                 | <u>\$ 1,044,938</u>                  | <u>100.0%</u>   |

(1) Includes the Company's investment in HMS-ORIX. (See Note 4 - *Investment in HMS-ORIX SLF LLC*)

The composition of the Company's investments as of December 31, 2016, at cost and fair value, was as follows (dollars in thousands):

|                                      | <b>Investments at<br/>Cost</b> | <b>Cost Percentage of<br/>Total Portfolio</b> | <b>Investments at<br/>Fair Value</b> | <b>Fair Value<br/>Percentage of<br/>Total Portfolio</b> |
|--------------------------------------|--------------------------------|---|--------------------------------------|---|
| First lien secured debt investments  | \$ 809,280                     | 80.7%   | \$ 791,126                           | 80.0%   |
| Second lien secured debt investments | 117,339                        | 11.7  | 114,652                              | 11.6  |
| Unsecured debt investments           | 16,126                         | 1.6   | 16,074                               | 1.6   |
| Equity investments                   | 56,974                         | 5.7   | 63,569                               | 6.4   |
| Equity warrants                      | 2,676                          | 0.3   | 3,826                                | 0.4   |
| Total                                | <u>\$ 1,002,395</u>            | <u>100.0%</u>                                 | <u>\$ 989,247</u>                    | <u>100.0%</u>   |

The composition of the Company's investments by geographic region as of June 30, 2017, at cost and fair value, was as follows (dollars in thousands) (since the Other Portfolio investments do not represent a single geographic region, this information excludes Other Portfolio investments):

|                   | <b>Investments at<br/>Cost</b> | <b>Cost Percentage of<br/>Total Portfolio</b> | <b>Investments at<br/>Fair Value</b> | <b>Fair Value<br/>Percentage of<br/>Total Portfolio</b> |
|-------------------|--------------------------------|---|--------------------------------------|---|
| Northeast         | \$ 181,663                     | 18.0%   | \$ 181,931                           | 18.3%   |
| Southeast         | 189,147                        | 18.8  | 195,688                              | 19.7  |
| West              | 166,747                        | 16.5  | 153,587                              | 15.5  |
| Southwest         | 178,242                        | 17.7  | 170,937                              | 17.2  |
| Midwest           | 219,870                        | 21.8  | 220,161                              | 22.2  |
| Non-United States | 72,232                         | 7.2   | 70,263                               | 7.1   |
| Total             | <u>\$ 1,007,901</u>            | <u>100.0%</u>                                 | <u>\$ 992,567</u>                    | <u>100.0%</u>   |

The composition of the Company's investments by geographic region as of December 31, 2016, at cost and fair value, was as follows (dollars in thousands) (since the Other Portfolio investments do not represent a single geographic region, this information excludes Other Portfolio investments):

|                   | <b>Investments at<br/>Cost</b> | <b>Cost Percentage of<br/>Total Portfolio</b> | <b>Investments at<br/>Fair Value</b> | <b>Fair Value<br/>Percentage of<br/>Total Portfolio</b> |
|-------------------|--------------------------------|---|--------------------------------------|---|
| Northeast         | \$ 144,465                     | 14.6%   | \$ 141,637                           | 14.6%   |
| Southeast         | 185,803                        | 18.9  | 193,616                              | 19.9  |
| West              | 177,572                        | 18.1  | 167,544                              | 17.3  |
| Southwest         | 188,455                        | 19.2  | 181,894                              | 18.7  |
| Midwest           | 217,603                        | 22.1  | 218,540                              | 22.5  |
| Non-United States | 69,854                         | 7.1   | 67,650                               | 7.0   |
| Total             | <u>\$ 983,752</u>              | <u>100.0%</u>                                 | <u>\$ 970,881</u>                    | <u>100.0%</u>   |



The composition of the Company's total investments by industry as of June 30, 2017 and December 31, 2016, at cost and fair value was as follows (since the Other Portfolio investments do not represent a single industry, this information excludes Other Portfolio investments):

|  | Cost          |                   | Fair Value    |                   |
|--|---------------|-------------------|---------------|-------------------|
|  | June 30, 2017 | December 31, 2016 | June 30, 2017 | December 31, 2016 |
| Commercial Services and Supplies               | 7.4 %         | 9.1 %             | 7.4 %         | 9.2 %             |
| Hotels, Restaurants, and Leisure               | 6.7           | 8.0               | 6.7           | 8.1               |
| Media  | 6.5           | 7.7               | 6.4           | 7.6               |
| Diversified Consumer Services                  | 5.9           | 2.8               | 5.9           | 2.7               |
| Construction and Engineering                   | 5.6           | 4.6               | 5.7           | 4.8               |
| IT Services                                    | 4.9           | 4.6               | 5.1           | 4.7               |
| Communications Equipment                       | 4.2           | 4.7               | 4.4           | 4.9               |
| Energy Equipment and Services                  | 3.7           | 3.7               | 3.0           | 2.8               |
| Distributors                                   | 3.6           | 1.6               | 3.7           | 1.7               |
| Internet Software and Services                 | 3.4           | 5.1               | 3.5           | 5.2               |
| Diversified Telecommunication Services         | 3.3           | 3.1               | 3.3           | 3.0               |
| Leisure Equipment and Products                 | 3.1           | 0.8               | 3.2           | 0.8               |
| Specialty Retail                               | 2.9           | 3.9               | 2.1           | 3.3               |
| Food Products                                  | 2.7           | 2.7               | 2.7           | 2.5               |
| Professional Services                          | 2.6           | 1.0               | 2.7           | 1.0               |
| Aerospace and Defense                          | 2.3           | 1.9               | 2.3           | 1.8               |
| Auto Components                                | 2.3           | 3.1               | 2.4           | 3.2               |
| Electronic Equipment, Instruments & Components | 2.1           | 3.7               | 2.2           | 3.7               |
| Health Care Equipment and Supplies             | 2.1           | 2.2               | 2.1           | 2.3               |
| Health Care Providers and Services             | 2.1           | 2.2               | 2.1           | 2.4               |
| Healthcare Technology                          | 2.1           | 1.3               | 2.3           | 1.3               |
| Machinery                                      | 1.8           | 1.5               | 2.2           | 1.9               |
| Oil, Gas, and Consumable Fuels                 | 1.7           | 0.9               | 1.7           | 0.9               |
| Diversified Financial Services                 | 1.5           | 1.9               | 1.6           | 1.9               |
| Internet and Catalog Retail                    | 1.3           | 1.4               | 1.0           | 1.2               |
| Capital Markets                                | 1.1           | 1.2               | 1.1           | 1.2               |
| Trading Companies and Distributors             | 1.1           | 1.0               | 1.1           | 1.0               |
| Computers and Peripherals                      | 1.0           | 1.0               | 1.2           | 1.1               |
| Food & Staples Retailing                       | 1.0           | 1.4               | 1.0           | 1.5               |
| Personal Products                              | 1.0           | 0.8               | 1.0           | 0.8               |
| Pharmaceuticals                                | 1.0           | 1.2               | 1.0           | 1.2               |
| Electrical Equipment                           | 0.9           | 0.9               | 0.9           | 1.0               |
| Construction Materials                         | 0.8           | 1.0               | 0.8           | 1.1               |
| Marine   | 0.8           | 0.9               | 0.9           | 0.9               |
| Tobacco  | 0.8           | 1.1               | 0.9           | 1.1               |
| Software                                       | 0.7           | 2.6               | 0.7           | 2.7               |
| Building Products                              | 0.6           | 0.6               | 0.6           | 0.6               |
| Insurance                                      | 0.6           | 0.6               | 0.6           | 0.6               |
| Road & Rail                                    | 0.5           | —                 | 0.5           | —                 |
| Textiles, Apparel & Luxury Goods               | 0.5           | 0.5               | 0.3           | 0.4               |
| Household Durables                             | 0.4           | —                 | 0.4           | —                 |
| Publishing                                     | 0.4           | 0.3               | 0.4           | 0.3               |
| Containers and Packaging                       | 0.3           | 0.3               | 0.2           | 0.3               |
| Air Freight & Logistics                        | 0.2           | 0.3               | 0.3           | 0.4               |
| Airlines                                       | 0.2           | 0.2               | 0.2           | 0.2               |
| Chemicals                                      | 0.2           | 0.2               | 0.1           | 0.2               |
| Oil and Gas Exploration and Production         | 0.1           | 0.1               | —             | 0.1               |
| Consumer Finance                               | —             | 0.3               | 0.1           | 0.4               |
| <b>Total</b>                                   | <b>100.0%</b> | <b>100.0%</b>     | <b>100.0%</b> | <b>100.0%</b>     |

#### Note 4 — Investment in HMS-ORIX SLF LLC

On April 4, 2017, the Company and ORIX Funds Corp. (“Orix”), entered into a limited liability company agreement to co-manage HMS-ORIX SLF LLC (“HMS-ORIX”), which is expected to invest primarily in broadly-syndicated loans. Pursuant to the terms of the limited liability agreement and through representation on the HMS-ORIX Board of Managers, the Company and Orix each have 50% voting control of HMS-ORIX and together will agree on all portfolio and investment decisions as well as all other significant actions for HMS-ORIX. The Company does not operationally control HMS-ORIX and, accordingly, does not consolidate the operations of HMS-ORIX within the consolidated financial statements. As of June 30, 2017, the Company and Orix have committed to provide, and have funded, an aggregate of \$50.0 million of equity to HMS-ORIX, with the Company providing \$30.0 million (60% of the equity) and Orix providing \$20.0 million (40% of the equity).

As of June 30, 2017, HMS-ORIX had total assets of \$132.6 million and HMS-ORIX’s portfolio consisted of 52 broadly-syndicated loans, all of which were secured by first-priority liens, generally in industries similar to those in which the Company may directly invest. As of June 30, 2017, there were no loans in HMS-ORIX’s portfolio that were on non-accrual status.

On April 5, 2017, HMS-ORIX closed on a \$100.0 million credit facility with Bank of America, N.A. The facility has a maturity date of April 5, 2020 and borrowings under the facility bear interest at a rate equal to LIBOR plus 1.65% per annum. As of June 30, 2017, \$40.0 million was outstanding under this facility. Borrowings under the facility are secured by substantially all of the assets of HMS-ORIX.

The following table presents a summary of HMS-ORIX’s portfolio as of June 30, 2017 (dollars in thousands):

|  | <b>As of<br/>June 30, 2017</b> |
|--|--------------------------------|
| Total debt investments <sup>(1)</sup>                    | \$ 115,508                     |
| Weighted average effective yield on loans <sup>(2)</sup> | 4.88%                          |
| Largest loan to a single borrower <sup>(1)</sup>         | \$ 3,500                       |
| Total of 10 largest loans to borrowers <sup>(1)</sup>    | \$ 30,753                      |

(1) At principal amount.

(2) Weighted average effective annual yield is calculated based on the investments at the end of each period and includes accretion of original issue discounts and amortization of premiums, and the amortization of fees received in connection with transactions. Investments, if any, on non-accrual status are assumed to have a zero yield in the calculation of weighted average effective annual yield.

The following table presents a listing of HMS-ORIX’s individual loans as of June 30, 2017:

**HMS-ORIX  
Loan Portfolio  
As of June 30, 2017  
(dollars in thousands)**

| Portfolio Company                | Industry                         | Type of Investment   | Principal | Cost     | Fair Value |
|----------------------------------|----------------------------------|--|-----------|----------|------------|
| Acosta, Inc.                     | Commercial services and supplies | LIBOR (3 months) + 3.25%, Current Coupon 4.48%, Secured Debt (Maturity - September 26, 2021) | \$ 2,000  | \$ 1,865 | \$ 1,802   |
| Acrisure, LLC                    | Insurance                        | LIBOR (1 month) + 5.00%, Current Coupon 6.30%, Secured Debt (Maturity - November 22, 2023)   | 1,995     | 2,002    | 2,018      |
| Advantage Sales & Marketing Inc. | Commercial services and supplies | LIBOR (1 month) + 3.25%, Current Coupon 4.42%, Secured Debt (Maturity - July 23, 2021)       | 2,000     | 1,941    | 1,925      |
| Air Medical Group Holdings Inc   | Health care providers & services | LIBOR (1 month) + 4.00%, Current Coupon 5.16%, Secured Debt (Maturity - April 28, 2022)      | 2,000     | 1,990    | 1,995      |
| Ancestry.com Operations Inc.     | Internet software and services   | LIBOR (1 month) + 3.25%, Current Coupon 4.34%, Secured Debt (Maturity - October 19, 2023)    | 2,000     | 2,020    | 2,013      |
| Arch Coal, Inc.                  | Metals and mining                | LIBOR (1 month) + 4.00%, Current Coupon 5.23%, Secured Debt (Maturity - March 7, 2024)       | 1,995     | 2,002    | 1,998      |

**HMS-ORIX**  
**Loan Portfolio**  
**As of June 30, 2017**  
**(dollars in thousands)**

| Portfolio Company                            | Industry   | Type of Investment  | Principal | Cost     | Fair Value |
|--|--|---|-----------|----------|------------|
| AshCo, Inc.                                  | Specialty retail                                 | LIBOR (3 months) + 5.00%, Current Coupon 6.30%, Secured Debt (Maturity - December 15, 2023) | \$ 2,000  | \$ 1,953 | \$ 1,948   |
| Atkore International, Inc.                   | Electronic equipment, instruments and components | LIBOR (3 months) + 3.00%, Current Coupon 4.30%, Secured Debt (Maturity - December 22, 2023) | 2,992     | 3,022    | 3,009      |
| Avantor Performance Materials Holdings, Inc. | Biotechnology                                    | LIBOR (1 month) + 4.00%, Current Coupon 5.23%, Secured Debt (Maturity - March 8, 2024)      | 2,993     | 3,029    | 3,002      |
| BMC Software Finance, Inc.                   | Software   | LIBOR (1 month) + 4.00%, Current Coupon 5.23%, Secured Debt (Maturity - September 12, 2022) | 2,980     | 3,005    | 2,990      |
| Builders FirstSource, Inc.                   | Building products                                | LIBOR (3 months) + 3.00%, Current Coupon 4.30%, Secured Debt (Maturity - February 29, 2024) | 2,992     | 2,989    | 2,994      |
| CHS/Community Health Systems, Inc.           | Healthcare providers and services                | LIBOR (3 months) + 3.00%, Current Coupon 4.20%, Secured Debt (Maturity - January 27, 2021)  | 1,791     | 1,784    | 1,791      |
| Colorado Buyer Inc                           | Technology hardware, storage and peripherals     | LIBOR (3 months) + 3.00%, Current Coupon 4.17%, Secured Debt (Maturity - May 1, 2024)       | 3,000     | 3,012    | 3,008      |
| Confie Seguros Holding II Co.                | Insurance  | LIBOR (1 month) + 5.50%, Current Coupon 6.73%, Secured Debt (Maturity - April 19, 2022)     | 1,995     | 2,002    | 1,975      |
| Cortes NP Acquisition Corporation            | Electrical equipment                             | LIBOR (3 months) + 4.00%, Current Coupon 5.23%, Secured Debt (Maturity - November 30, 2023) | 2,000     | 2,020    | 2,011      |
| CPI International, Inc.                      | Aerospace and defense                            | LIBOR (1 month) + 3.25%, Current Coupon 4.48%, Secured Debt (Maturity - April 7, 2021)      | 1,995     | 2,010    | 1,995      |
| Diamond Resorts International, Inc.          | Hotels, restaurants and leisure                  | LIBOR (1 month) + 6.00%, Current Coupon 7.23%, Secured Debt (Maturity - September 1, 2023)  | 1,995     | 2,025    | 2,014      |
| Duff & Phelps Corporation                    | Diversified financial services                   | LIBOR (3 months) + 3.75%, Current Coupon 5.05%, Secured Debt (Maturity - April 23, 2020)    | 1,995     | 2,009    | 2,011      |
| EFS Cogen Holdings I LLC                     | Electric utilities                               | LIBOR (3 months) + 3.50%, Current Coupon 4.80%, Secured Debt (Maturity - June 28, 2023)     | 1,963     | 1,977    | 1,974      |
| Endo Luxembourg Finance Company I S.a.r.l.   | Pharmaceuticals                                  | LIBOR (1 month) + 4.25%, Current Coupon 5.50%, Secured Debt (Maturity - April 29, 2024)     | 2,000     | 2,020    | 2,022      |
| Envision Healthcare Corporation              | Healthcare providers and services                | LIBOR (3 months) + 3.00%, Current Coupon 4.30%, Secured Debt (Maturity - December 1, 2023)  | 2,494     | 2,494    | 2,509      |
| Everi Payments Inc.                          | Leisure products                                 | LIBOR (3 months) + 4.50%, Current Coupon 5.75%, Secured Debt (Maturity - May 9, 2024)       | 2,000     | 1,993    | 2,017      |
| First American Payment Systems, L.P.         | Diversified financial services                   | LIBOR (1 month) + 5.75%, Current Coupon 6.84%, Secured Debt (Maturity - January 5, 2024)    | 1,000     | 1,012    | 1,011      |
| Fitness International, LLC                   | Hotels, restaurants and leisure                  | LIBOR (1 month) + 4.25%, Current Coupon 5.48%, Secured Debt (Maturity - July 1, 2020)       | 2,000     | 2,030    | 2,029      |
| Flexera Software LLC                         | Software   | LIBOR (1 month) + 3.50%, Current Coupon 4.80%, Secured Debt (Maturity - April 2, 2020)      | 1,995     | 2,017    | 2,011      |
| Greatbatch Ltd.                              | Healthcare equipment and supplies                | LIBOR (2 months) + 3.50%, Current Coupon 4.71%, Secured Debt (Maturity - October 27, 2022)  | 2,889     | 2,907    | 2,905      |
| GYP Holdings III Corp.                       | Trading companies and distributors               | LIBOR (1 month) + 3.00%, Current Coupon 4.14%, Secured Debt (Maturity - March 31, 2023)     | 3,500     | 3,527    | 3,515      |

**HMS-ORIX**  
**Loan Portfolio**  
**As of June 30, 2017**  
**(dollars in thousands)**

| Portfolio Company                    | Industry   | Type of Investment   | Principal | Cost     | Fair Value |
|--------------------------------------|--|--|-----------|----------|------------|
| Harbor Freight Tools USA, Inc.       | Specialty retail                                 | LIBOR (1 month) + 3.25%, Current Coupon 4.48%, Secured Debt (Maturity - August 18, 2023)   | \$ 2,000  | \$ 2,007 | \$ 2,002   |
| Horizon Pharma, Inc.                 | Pharmaceuticals                                  | LIBOR (1 month) + 3.75%, Current Coupon 4.88%, Secured Debt (Maturity - March 29, 2024)    | 1,995     | 2,015    | 2,005      |
| IG Investments Holdings, LLC         | Professional services                            | LIBOR (1 month) + 4.00%, Current Coupon 5.30%, Secured Debt (Maturity - October 31, 2021)  | 1,995     | 2,007    | 2,016      |
| inVentiv Health, Inc.                | Life sciences tools and services                 | LIBOR (3 months) + 3.75%, Current Coupon 4.95%, Secured Debt (Maturity - November 9, 2023) | 2,992     | 3,015    | 3,002      |
| Jackson Hewitt Tax Service Inc.      | Diversified consumer services                    | LIBOR (1 month) + 7.00%, Current Coupon 8.17%, Secured Debt (Maturity - July 30, 2020)     | 2,000     | 1,912    | 1,920      |
| KC MergerSub, Inc.                   | Diversified consumer services                    | LIBOR (3 months) + 3.75%, Current Coupon 5.05%, Secured Debt (Maturity - August 12, 2022)  | 1,995     | 2,005    | 2,009      |
| KMG Chemicals, Inc.                  | Chemicals  | LIBOR (1 month) + 4.25%, Current Coupon 5.41%, Secured Debt (Maturity - June 13, 2024)     | 1,333     | 1,327    | 1,349      |
| LANDesk Group, Inc.                  | Software   | LIBOR (1 month) + 4.25%, Current Coupon 5.48%, Secured Debt (Maturity - January 22, 2024)  | 998       | 1,004    | 994        |
| LTS Buyer LLC                        | Diversified telecommunication services           | LIBOR (3 months) + 3.25%, Current Coupon 4.55%, Secured Debt (Maturity - April 13, 2020)   | 2,992     | 3,018    | 3,009      |
| Mohegan Tribal Gaming Authority      | Hotels, restaurants and leisure                  | LIBOR (1 month) + 4.00%, Current Coupon 5.23%, Secured Debt (Maturity - October 13, 2023)  | 1,995     | 2,014    | 2,020      |
| MPH Acquisition Holdings LLC         | Health care technology                           | LIBOR (3 months) + 3.00%, Current Coupon 4.30%, Secured Debt (Maturity - June 7, 2023)     | 2,991     | 3,035    | 2,995      |
| NAB Holdings, LLC                    | IT services                                      | LIBOR (3 months) + 3.50%, Current Coupon 4.70%, Secured Debt (Maturity - June 14, 2024)    | 2,000     | 1,990    | 2,007      |
| NBTY, Inc.                           | Food products                                    | LIBOR (3 months) + 3.50%, Current Coupon 4.80%, Secured Debt (Maturity - May 5, 2023)      | 1,995     | 2,000    | 2,000      |
| Ortho-Clinical Diagnostics, Inc      | Life sciences tools and services                 | LIBOR (1 month) + 3.75%, Current Coupon 5.05%, Secured Debt (Maturity - June 30, 2021)     | 1,995     | 1,990    | 1,987      |
| Quikrete Holdings, Inc.              | Construction materials                           | LIBOR (1 month) + 2.75%, Current Coupon 3.98%, Secured Debt (Maturity - November 15, 2023) | 2,992     | 2,992    | 2,989      |
| Rackspace Hosting, Inc.              | Electronic equipment, instruments and components | LIBOR (1 month) + 3.00%, Current Coupon 4.17%, Secured Debt (Maturity - November 3, 2023)  | 3,300     | 3,327    | 3,307      |
| SeaWorld Parks & Entertainment, Inc. | Hotels, restaurants and leisure                  | LIBOR (3 months) + 3.00%, Current Coupon 4.30%, Secured Debt (Maturity - April 1, 2024)    | 1,995     | 1,997    | 1,994      |
| Telenet Financing USD LLC            | Diversified telecommunication services           | LIBOR (1 month) + 2.75%, Current Coupon 3.91%, Secured Debt (Maturity - June 30, 2025)     | 3,000     | 3,013    | 3,005      |
| Transdigm, Inc.                      | Aerospace and defense                            | LIBOR (1 month) + 3.00%, Current Coupon 4.23%, Secured Debt (Maturity - June 9, 2023)      | 1,995     | 2,002    | 1,994      |
| UFC Holdings, LLC                    | Media  | LIBOR (1 month) + 3.25%, Current Coupon 4.47%, Secured Debt (Maturity - August 18, 2023)   | 1,995     | 2,007    | 2,001      |
| Ultra Resources, Inc.                | Oil, Gas and Consumable Fuels                    | LIBOR (1 month) + 3.00%, Current Coupon 4.12%, Secured Debt (Maturity - April 12, 2024)    | 2,000     | 2,003    | 1,995      |

**HMS-ORIX**  
**Loan Portfolio**  
**As of June 30, 2017**  
(dollars in thousands)

| Portfolio Company                                  | Industry                               | Type of Investment   | Principal | Cost              | Fair Value        |
|--|--|--|-----------|-------------------|-------------------|
| <b>Valeant Pharmaceuticals International, Inc.</b> | Pharmaceuticals                        | LIBOR (1 month) + 4.75%, Current Coupon 5.83%, Secured Debt (Maturity - April 1, 2022)     | \$ 2,904  | \$ 2,918          | \$ 2,946          |
| <b>Vistra Operations Company LLC</b>               | Electric utilities                     | LIBOR (1 month) + 3.25%, Current Coupon 4.46%, Secured Debt (Maturity - December 14, 2023) | 1,995     | 2,007             | 1,997             |
| <b>WideOpenWest Finance, LLC</b>                   | Diversified telecommunication services | LIBOR (3 months) + 3.50%, Current Coupon 4.70%, Secured Debt (Maturity - August 18, 2023)  | 2,992     | 3,019             | 3,019             |
|  |  | LIBOR (3 months) + 3.25%, Current Coupon 4.25%, Secured Debt (Maturity - August 18, 2023)  | 505       | 504               | 505               |
| <b>Total Loan Portfolio</b>                        |  |  |           | <b>\$ 115,785</b> | <b>\$ 115,559</b> |

For the three and six months ended June 30, 2017, the Company did not accrue dividend income in respect of its investment in HMS-ORIX.

The following tables show the summarized financial information for HMS-ORIX (dollars in thousands):

| <b>Balance Sheet Data</b>               | <b>As of<br/>June 30, 2017</b> |
|---|--------------------------------|
| <b>Assets</b>                           |                                |
| Portfolio investments at fair value     | \$ 115,559                     |
| Cash and cash equivalents               | 15,909                         |
| Deferred financing costs                | 1,087                          |
| Other assets                            | 74                             |
| <b>Total assets</b>                     | <b>\$ 132,629</b>              |
| <b>Liabilities</b>                      |                                |
| Debt                                    | \$ 40,000                      |
| Payable for securities purchased        | 42,183                         |
| Accounts payable and accrued expenses   | 483                            |
| <b>Total liabilities</b>                | <b>82,666</b>                  |
| Net assets                              | 49,963                         |
| <b>Total liabilities and net assets</b> | <b>\$ 132,629</b>              |

|   | Period from<br>inception (April 4,<br>2017) to June 30,<br>2017 |
|---|---|
| <b>Selected Statement of Operations Information</b> |   |
| Interest income                                     | \$ 494  |
| Dividend income                                     | —   |
| <b>Total income</b>                                 | <b>\$ 494</b>   |
| Interest expense                                    | 251   |
| Other expenses                                      | 53  |
| <b>Total expenses</b>                               | <b>\$ 304</b>   |
| <br><b>Net investment income</b>                    | <br><b>\$ 190</b>   |
| Unrealized (depreciation) on investments            | (226)   |
| Realized (losses) from investments                  | (1)   |
| <b>Net (decrease) in net assets</b>                 | <b>\$ (37)</b>  |

## Note 5 — Borrowings

On March 11, 2014, the Company entered into a senior secured revolving credit agreement with Capital One, National Association (“Capital One”), as administrative agent, and with Capital One and other financial institutions as lenders. On March 6, 2017, this credit facility was amended and restated (as amended and restated, the “EverBank Credit Facility”) to, among other things, extend the maturity date to March 6, 2020, reduce revolver commitments from \$125.0 million to \$95.0 million, and assign Capital One’s role as administrative agent to EverBank Commercial Finance, Inc. (“EverBank”). Borrowings under the EverBank Credit Facility bear interest, subject to the Company’s election, on a per annum basis equal to (i) the adjusted London Interbank Offered Rate (“LIBOR”) rate plus 2.75% or (ii) the base rate plus 1.75%. The base rate is defined as the higher of (a) the prime rate, (b) the Federal Funds Rate (as defined in the credit agreement) plus 0.5% or (c) the adjusted LIBOR rate plus 1.0%. The adjusted LIBOR rate is defined in the credit agreement for the EverBank Credit Facility as the one-month LIBOR rate plus such amount as adjusted for statutory reserve requirements for Eurocurrency liabilities. As of June 30, 2017, the one-month LIBOR rate was 1.23%. The Company pays an annual unused commitment fee of 0.300% on the unused revolver commitments if more than 50% of the revolver commitments are being used and an annual unused commitment fee of 0.625% on the unused revolver commitments if less than 50% of the revolver commitments are being used.

The EverBank Credit Facility permits the creation of certain “Structured Subsidiaries,” which are not guarantors under the EverBank Credit Facility and which are permitted to incur debt outside of the EverBank Credit Facility. Borrowings under the EverBank Credit Facility are secured by all of the Company’s assets, other than the assets of the Structured Subsidiaries, as well as all of the assets, and a pledge of equity ownership interests, of any future subsidiaries of the Company (other than Structured Subsidiaries). The credit agreement for the EverBank Credit Facility contains affirmative and negative covenants usual and customary for credit facilities of this nature, including (i) maintaining a minimum interest coverage ratio of at least 2.00 to 1.00; (ii) maintaining an asset coverage ratio of at least 2.10 to 1.00; and (iii) maintaining a minimum consolidated tangible net worth, excluding Structured Subsidiaries, of at least the greater of (a) the aggregate amount of the revolver commitments or (b) \$50.0 million. Further, the EverBank Credit Facility contains limitations on incurrence of other indebtedness (other than by the Structured Subsidiaries), limitations on industry concentration, and an anti-hoarding provision to protect the collateral under the EverBank Credit Facility. Additionally, the Company must provide information to EverBank on a regular basis, preserve its corporate existence, comply with applicable laws, including the 1940 Act, pay obligations when they become due, and invest the proceeds of the sales of common stock in accordance with its investment objectives and strategies (as set forth in the EverBank Credit Facility). Further, the credit agreement contains usual and customary default provisions including: (i) a default in the payment of interest and principal; (ii) insolvency or bankruptcy of the Company; (iii) a material adverse change in the Company’s business; or (iv) breach of any covenant, representation or warranty in the loan agreement or other credit documents and failure to cure such breach within defined periods. Additionally, the EverBank Credit Facility requires the company to obtain written approval from the administrative agent prior to entering into any material amendment, waiver or other modification of any provision of the Investment Advisory Agreement. As of June 30, 2017, the Company was not aware of any instances of noncompliance with covenants related to the EverBank Credit Facility.

On June 2, 2014, HMS Funding entered into a credit agreement (the “Deutsche Bank Credit Facility”) among HMS Funding, as borrower, the Company, as equityholder and as servicer, Deutsche Bank AG, New York Branch (“Deutsche Bank”), as administrative agent, the financial institutions party thereto as lenders (together with Deutsche Bank, the “HMS Funding Lenders”),



and U.S. Bank National Association, as collateral agent and collateral custodian. The Deutsche Bank Credit Facility was amended and restated on May 18, 2015 and subsequently has been amended on multiple occasions, most recently on June 30, 2017, increasing the revolver commitments to \$400.0 million. The Company contributes certain assets to HMS Funding from time to time, as permitted under the EverBank Credit Facility, as collateral to secure the Deutsche Bank Credit Facility.

Under the Deutsche Bank Credit Facility, interest is calculated as the sum of the index plus the applicable margin of 2.50%. If the Deutsche Bank Credit Facility is funded via an asset backed commercial paper conduit, the index will be the related commercial paper rate; otherwise, the index will be equal to one-month LIBOR. As of June 30, 2017, the one-month LIBOR rate was 1.23%. The Deutsche Bank Credit Facility provides for a revolving period until December 16, 2017, unless otherwise extended with the consent of the HMS Funding Lenders. The amortization period begins the day after the last day of the revolving period and ends on June 16, 2020, the maturity date. During the amortization period, the applicable margin will increase by 0.25%. During the revolving period, HMS Funding will pay a utilization fee equal to 2.50% of the undrawn amount of the required utilization, which is 75% of the loan commitment amount. HMS Funding will incur an undrawn fee equal to 0.40% per annum of the difference between the aggregate commitments and the outstanding advances under the facility, provided that the undrawn fee relating to any utilization shortfall will not be payable to the extent that the utilization fee relating to such utilization shortfall is incurred. Additionally, per the terms of a fee letter executed on May 18, 2015, HMS Funding pays Deutsche Bank an administrative agent fee of 0.25% of the aggregate revolver commitments.

HMS Funding's obligations under the Deutsche Bank Credit Facility are secured by a first priority security interest in its assets, including all of the present and future property and assets of HMS Funding. The Deutsche Bank Credit Facility contains affirmative and negative covenants usual and customary for credit facilities of this nature, including maintaining a positive tangible net worth, limitations on industry concentration and complying with all applicable laws. The Deutsche Bank Credit Facility contains usual and customary default provisions including: (i) a default in the payment of interest and principal; (ii) insolvency or bankruptcy of the Company; (iii) the occurrence of a change of control; or (iv) any uncured breach of a covenant, representation or warranty in the Deutsche Bank Credit Facility. As of June 30, 2017, the Company was not aware of any instances of noncompliance with covenants related to the Deutsche Bank Credit Facility.

As of June 30, 2017, the Company had borrowings of \$95.0 million outstanding on the EverBank Credit Facility and had borrowings of \$322.0 million outstanding on the Deutsche Bank Credit Facility, both of which the Company estimated approximated fair value.

## Note 6 – Financial Highlights

The following is a schedule of financial highlights of the Company for the six months ended June 30, 2017 and 2016.

| <b>Per Share Data:</b>   | <b>Six Months Ended<br/>June 30, 2017</b> | <b>Six Months Ended<br/>June 30, 2016</b> |
|--|---|---|
| <b>NAV at beginning of period</b>  | \$ 8.15                                   | \$ 7.88                                   |
| <b>Results from Operations</b>   |   |   |
| Net investment income <sup>(1) (2)</sup>   | 0.40                                      | 0.37                                      |
| Net realized appreciation (depreciation) <sup>(1) (2)</sup>                              | 0.03                                      | (0.15)                                    |
| Net unrealized appreciation (depreciation) <sup>(1) (2)</sup>                            | (0.03)                                    | 0.02                                      |
| Net increase (decrease) in net assets resulting from operations                          | 0.40                                      | 0.24                                      |
| <b>Stockholder distributions <sup>(1) (3)</sup></b>                                      |   |   |
| Distributions from net investment income <sup>(1) (2)</sup>                              | (0.32)                                    | (0.35)                                    |
| Distributions from realized appreciation <sup>(1) (2)</sup>                              | (0.03)                                    | —   |
| Net decrease in net assets resulting from stockholder distributions                      | (0.35)                                    | (0.35)                                    |
| <b>Capital share transactions</b>  |   |   |
| Issuance of common stock above NAV <sup>(4)</sup> , net of offering costs <sup>(1)</sup> | 0.02                                      | —   |
| Net increase in net assets resulting from capital share transactions                     | 0.02                                      | —   |
| <b>NAV at end of the period</b>  | \$ 8.22                                   | \$ 7.77                                   |
| Shares outstanding at end of period  | 77,891,173                                | 68,040,541                                |
| Weighted average shares outstanding  | 75,929,218                                | 64,982,508                                |

(1) Based on weighted average number of shares of common stock outstanding for the period.

(2) Changes in net investment income and realized and unrealized appreciation (depreciation) from investments can change significantly from period to period.

- (3) The stockholder distributions represent the stockholder distributions declared for the period.
- (4) The continuous issuance of shares of common stock may cause an incremental increase in NAV per share due to the sale of shares at the then prevailing public offering price in excess of NAV per share on each subscription closing date. The per share data was derived by computing (i) the sum of (A) the number of shares issued in connection with subscriptions and/or distribution reinvestment on each share transaction date times (B) the differences between the net proceeds per share and the NAV per share on each share transaction date, divided by (ii) the weighted average shares of common stock outstanding for the period.

|                                      | Six Months Ended<br>June 30, 2017 | Six Months Ended<br>June 30, 2016 |
|--------------------------------------|-----------------------------------|-----------------------------------|
|                                      | (dollars in thousands)            |                                   |
| NAV at end of period                 | \$ 640,001                        | \$ 528,743                        |
| Average net assets                   | \$ 618,381                        | \$ 505,356                        |
| Average Credit Facilities borrowings | \$ 405,333                        | \$ 394,000                        |

**Ratios to average net assets:**

|   |        |        |
|---|--------|--------|
| Ratio of total expenses to average net assets <sup>(1)</sup>        | 3.35%  | 3.60%  |
| Ratio of net investment income to average net assets <sup>(1)</sup> | 4.88%  | 4.81%  |
| Portfolio turnover ratio  | 28.42% | 13.40% |
| Total return <sup>(2)</sup>   | 5.15%  | 3.03%  |

- (1) For the six months ended June 30, 2017 and 2016, the Advisers did not waive base management fees but waived subordinated incentive fees of approximately \$2.3 million and \$493,000, respectively, and administrative services expenses of approximately \$1.5 million and \$1.1 million, respectively. The ratio is calculated by reducing the expenses to reflect the waiver of expenses and reimbursement of administrative services in both periods presented. Excluding interest expense, the ratio of total expenses to average net assets for the six months ended June 30, 2017 and June 30, 2016 was 2.00% and 2.15%, respectively. See Note 10 - *Related Party Transactions and Arrangements* for further discussion of fee waivers provided by the Advisers.
- (2) Total return is calculated on the change in NAV per share and stockholder distributions declared per share over the reporting period. The total return does not reflect the sales load from the sale of the Company's common stock.

**Note 7 – Stockholder Distributions**

The following table reflects the cash distributions per share that the Company declared on its common stock during the six months ended June 30, 2017 and 2016 (dollars in thousands except per share amounts).

|                                   | Distributions |           |
|-----------------------------------|---------------|-----------|
|                                   | Per Share     | Amount    |
| <b>2017</b>                       |               |           |
| Three months ended June 30, 2017  | \$ 0.18       | \$ 13,438 |
| Three months ended March 31, 2017 | \$ 0.17       | \$ 12,922 |
| <b>2016</b>                       |               |           |
| Three months ended June 30, 2016  | \$ 0.18       | \$ 11,650 |
| Three months ended March 31, 2016 | \$ 0.17       | \$ 11,037 |

On June 20, 2017, with the authorization of the Company's board of directors, the Company declared distributions to its stockholders for the period of July 2017 through September 2017. These distributions have been, or will be, calculated based on stockholders of record each day from July 1, 2017 through September 30, 2017 in an amount equal to \$0.00191781 per share, per day. Distributions are paid on the first business day following the completion of each month to which they relate.

The Company has adopted an "opt in" distribution reinvestment plan for its stockholders. As a result, if the Company makes a distribution, its stockholders will receive distributions in cash unless they specifically "opt in" to the distribution reinvestment plan so as to have their cash distributions reinvested in additional shares of the Company's common stock.



The following table reflects the sources of the cash distributions that the Company declared and, in some instances, paid on its common stock during the six months ended June 30, 2017 and 2016.

|   | Six Months Ended<br>June 30, 2017 |            | Six Months Ended<br>June 30, 2016 |            |
|---|-----------------------------------|------------|-----------------------------------|------------|
|   | (dollars in thousands)            |            |                                   |            |
| Source of Distribution  | Distribution<br>Amount            | Percentage | Distribution<br>Amount            | Percentage |
| Net realized income from operations (before waiver of incentive fees) | \$ 26,360                         | 100%       | \$ 13,780                         | 61%        |
| Waiver of incentive fees  | —                                 | —          | 493                               | 2          |
| Distributions in excess of net investment income <sup>(1)</sup>       | —                                 | —          | 8,414                             | 37         |
| Total   | \$ 26,360                         | 100%       | \$ 22,687                         | 100%       |

(1) Includes adjustments made to GAAP basis net investment income to arrive at taxable income available for distributions. See Note 8 for the sources of the Company's cash distributions on a tax basis.

The Company may fund its cash distributions from all sources of funds legally available, including stock offering proceeds, borrowings, net investment income from operations, capital gains proceeds from the sale of assets, non-capital gains proceeds from the sale of assets, dividends or other distributions paid to it on account of preferred and common equity investments in portfolio companies, and fee and expense waivers from its Advisers. The Company has not established limits on the amount of funds that the Company may use from legally available sources to make distributions. The Company expects that for the foreseeable future, a portion of the distributions may be paid from sources other than net realized income from operations, which may include stock offering proceeds, borrowings, and fee and expense waivers from the Advisers. See Note 10 - *Related Party Transactions and Arrangements - Advisory Agreements and Conditional Fee Waiver*.

The Company's distributions may exceed its earnings and, as a result, a portion of the distributions it makes may represent a return of capital for U.S. federal income tax purposes. The timing and amount of any future distributions to stockholders are subject to applicable legal restrictions and the sole discretion of the Company's board of directors.

## Note 8 – Taxable Income

The Company has elected to be treated for U.S. federal income tax purposes as a RIC. As a RIC, the Company generally will not incur corporate-level U.S. federal income taxes on net ordinary income or capital gains that the Company timely distributes each taxable year as dividends to its stockholders. To qualify as a RIC in any taxable year, the Company must, among other things, satisfy certain source-of-income and asset diversification requirements. In addition, the Company must distribute an amount in each taxable year generally at least equal to 90% of its investment company taxable income, determined without regard to any deduction for dividends paid, in order to maintain its ability to be subject to taxation as a RIC. As a part of maintaining its RIC status, undistributed taxable income (subject to a 4% nondeductible, U.S. federal excise tax) pertaining to a given taxable year may be distributed up to 12 months subsequent to the end of that taxable year, provided such distributions are declared prior to the earlier of eight-and-one-half months after the close of that taxable year or the filing of the U.S. federal income tax return for such prior taxable year. In order to avoid the imposition of the 4% nondeductible, U.S. federal excise tax, the Company needs to distribute, in respect of each calendar year dividends of an amount at least equal to the sum of (1) 98.0% of its net ordinary income (taking into account certain deferrals and elections) for the calendar year, (2) 98.2% of its capital gain in excess of capital loss, or capital gain net income, (adjusted for certain ordinary losses) for the one-year period generally ending October 31 in that calendar year (or, if the Company so elects for that calendar year) and (3) any net ordinary income and capital gain net income for preceding years that was not distributed with respect to such years and on which the Company incurred no U.S. federal income tax. For the taxable year ended December 31, 2015, the Company distributed \$3.8 million, or \$0.0615 per share, of its taxable income in 2016, prior to the filing of its U.S. federal income tax return for the 2015 taxable year. As a result, the Company was subject to a \$119,000 4% nondeductible, U.S. federal excise tax for the 2015 taxable year. For the taxable year ended December 31, 2016, the Company distributed \$7.3 million, or \$0.099478 per share, of its taxable income in 2017, prior to the filing of its U.S. federal income tax return for the 2016 taxable year. As a result, the Company was subject to a 4% nondeductible, U.S. federal excise tax liability of approximately \$246,000.

The Company accounts for income taxes in conformity with ASC Topic 740 - *Income Taxes*, which provides guidelines for how uncertain tax positions should be recognized, measured, presented and disclosed in financial statements. ASC Topic 740 requires the evaluation of tax positions taken in the course of preparing the Company's tax returns to determine whether the tax positions are "more-likely-than-not" to be sustained by the applicable tax authority. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the Company's financial statements is the largest benefit or expense that has a greater than 50% likelihood of being realized upon its ultimate settlement with the relevant tax authority. Positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense in the current year. It is the Company's policy to recognize accrued interest and penalties related to uncertain tax benefits, if any, in income tax expense. Conclusions regarding tax

positions are subject to review and may be adjusted at a later date based on factors including, but not limited to, on-going analyses of tax laws, regulations and interpretations thereof. Management has analyzed the Company's tax positions, and has concluded that there were no material uncertain income tax positions through June 30, 2017. The Company identifies its major tax jurisdiction as the United States, and the Company is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will change materially in the next 12 months. The 2014 through 2016 taxable years remain subject to examination by U.S. federal and most state tax authorities.

The Company has formed wholly-owned subsidiaries, HMS Equity Holding and HMS Equity Holding II, which have elected to be taxable entities for U.S. tax purposes. HMS Equity Holding and HMS Equity Holding II primarily hold equity investments in portfolio companies which are treated as "pass through" entities for U.S. tax purposes. HMS Equity Holding and HMS Equity Holding II are consolidated for financial reporting purposes, and the portfolio investments held by each entity are included in the condensed consolidated financial statements as portfolio investments recorded at fair value. HMS Equity Holding and HMS Equity Holding II are not consolidated with the Company for U.S. federal income tax purposes and may generate income tax expense, or benefit, and the related tax assets and liabilities, as a result of its ownership of certain portfolio investments. This income tax expense, or benefit, if any, and the related tax assets and liabilities, are reflected in the Company's condensed consolidated financial statements.

Listed below is a reconciliation of "Net increase (decrease) in net assets resulting from operations" to taxable income and to total distributions declared to common stockholders for the six months ended June 30, 2017 and 2016 (dollars in thousands).

|  | Six Months Ended<br>June 30, 2017 | Six Months Ended<br>June 30, 2016 |
|--|-----------------------------------|-----------------------------------|
| Net increase (decrease) in net assets resulting from operations  | \$ 30,726                         | \$ 15,426                         |
| Net change in unrealized (appreciation) depreciation   | 2,115                             | (1,153)                           |
| Income tax (benefit) provision   | 78                                | 48                                |
| Pre-tax book (income) loss not consolidated for tax purposes   | 283                               | 9,025                             |
| Book income and tax income differences, including debt origination, structuring fees, dividends, realized gains and changes in estimates | 795                               | 135                               |
| Estimated taxable income <sup>(1)</sup>  | 33,997                            | 23,481                            |
| Taxable income earned in prior year and carried forward for distribution in current year   | 7,238                             | 3,839                             |
| Taxable income earned prior to period end and carried forward for distribution next period   | (19,350)                          | (8,547)                           |
| Dividend accrued as of period end and paid-in the following period   | 4,475                             | 3,914                             |
| Taxable income earned to be carried forward  | (14,875)                          | (4,633)                           |
| <b>Total distributions accrued or paid to common stockholders</b>  | <b>\$ 26,360</b>                  | <b>\$ 22,687</b>                  |

- (1) The Company's taxable income for each period is an estimate and will not be finally determined until the Company files its tax return for each year. Therefore, the final taxable income, and the taxable income earned in each period and carried forward for distribution in the following period, may be different than this estimate.

The income tax expense, or benefit, and the related tax assets and liabilities generated by HMS Equity Holding and HMS Equity Holding II, if any, are reflected in the Company's Condensed Consolidated Statement of Operations. For the six months ended June 30, 2017 and 2016, the Company recognized a net income tax (benefit) provision of \$78,000 and \$48,000, respectively, related to deferred taxes of \$1.9 million and \$5.0 million respectively, and other taxes of \$78,000 and \$48,000, respectively, offset by a valuation allowance of \$(1.9) million and \$(5.0) million, respectively. For the six months ended June 30, 2017 and 2016, the other taxes included \$78,000 and \$48,000, respectively, related to accruals for state and other taxes.

As of June 30, 2017, the cost basis of investments for tax purposes was \$1.1 billion, with such investments having an estimated net unrealized depreciation of \$15.3 million, composed of gross unrealized appreciation of \$22.8 million and gross unrealized depreciation of \$38.1 million. As of December 31, 2016, the cost basis of investments for tax purposes was \$1.0 billion, with such investments having an estimated net unrealized depreciation of \$13.2 million, composed of gross unrealized appreciation of \$20.3 million and gross unrealized depreciation of \$33.5 million.

The net deferred tax asset at both June 30, 2017 and December 31, 2016 was \$0, of which \$1.8 million and \$7.9 million, respectively, related to current year net loss on portfolio investments and unrealized appreciation/depreciation of portfolio investments held by HMS Equity Holding and HMS Equity Holding II, \$9.8 million and \$1.8 million, respectively, related to net operating loss carryforwards from historical realized losses on portfolio investments held by HMS Equity Holding and HMS Equity Holding II,

\$878,000 and \$878,000, respectively, related to net capital loss carryforward from historical realized losses on portfolio investments held by HMS Equity Holding offset by \$(1.1) million and \$(1.1) million, respectively, related to basis differences of portfolio investments held by HMS Equity Holding and HMS Equity Holding II which are “pass through” entities for tax purposes, and \$(11.3) million and \$(9.5) million, respectively, related to a valuation allowance. Based on HMS Equity Holding’s and HMS Equity Holding II’s short operating history, management believes it is more likely than not that there will be inadequate profits in HMS Equity Holding and HMS Equity Holding II against which the deferred tax assets can be offset. Accordingly, the Company recorded a full valuation allowance against such deferred tax assets.

The following table sets forth the significant components of net deferred tax assets and liabilities as of June 30, 2017 and December 31, 2016 (amounts in thousands):

|  | June 30, 2017 | December 31, 2016 |
|--|---------------|-------------------|
| <b>Deferred tax assets:</b>                          |               |                   |
| Net operating loss carryforwards                     | \$ 2,367      | \$ 2,258          |
| Capital loss carryforwards                           | 8,424         | 8,366             |
| Net basis differences in portfolio investments       | —             | —                 |
| Net unrealized depreciation of portfolio investments | 1,641         | 20                |
| Total deferred tax assets                            | 12,432        | 10,644            |
| <b>Deferred tax liabilities:</b>                     |               |                   |
| Net basis differences in portfolio investments       | (1,180)       | (1,119)           |
| Net unrealized appreciation of portfolio investments | —             | —                 |
| Other  | —             | —                 |
| Total deferred tax liabilities                       | (1,180)       | (1,119)           |
| Valuation allowance                                  | (11,252)      | (9,525)           |
| Total net deferred tax assets (liabilities)          | \$ —          | \$ —              |

For federal income tax purposes, the net loss carryforwards expire in various taxable years from 2034 through 2037 and the net capital loss carryforwards expire in taxable years 2020 and 2022. The timing and manner in which HMS Equity Holding and HMS Equity Holding II will utilize any net loss carryforwards in such taxable years, or in total, may be limited in the future under the provisions of the Code.

For the years ending December 31, 2016, 2015 and 2014, respectively, the tax characteristics of distributions paid to shareholders were as follows (amounts in thousands):

|                                      | Year Ended December 31, |         |           |         |           |         |
|--------------------------------------|-------------------------|---------|-----------|---------|-----------|---------|
| Tax Characteristics of Distributions | 2016                    |         | 2015      |         | 2014      |         |
| Ordinary income                      | \$ 44,848               | 93.90%  | \$ 34,085 | 99.68%  | \$ 11,162 | 99.51%  |
| Capital gain distributions           | 2,913                   | 6.10    | 110       | 0.32    | 55        | 0.49    |
| Total                                | \$ 47,761               | 100.00% | \$ 34,195 | 100.00% | \$ 11,217 | 100.00% |

The determination of the tax attributes of the Company’s distributions is made annually at the end of the Company’s taxable year based upon the Company’s taxable income for the full taxable year and distributions paid for the full taxable year. Therefore, a determination made on an interim basis may not be representative of the actual tax attributes of distributions for a full year. The actual tax characteristics of distributions to stockholders will be reported to the Internal Revenue Service and stockholders subject to information reporting shortly after the close of each calendar year on Form 1099-DIV.

Dividends from net investment income and distributions from net realized capital gains are determined in accordance with U.S. federal tax regulations, which may differ from amounts determined in accordance with GAAP and those differences could be material. These book-to-tax differences are either temporary or permanent in nature. Reclassifications due to permanent book-to-tax differences, such as the non-deductible excise tax, have no impact on net assets.

## Note 9 – Supplemental Cash Flow Disclosures

Listed below are the supplemental cash flow disclosures for the six months ended June 30, 2017 and 2016 (dollars in thousands):

| <b>Supplemental Disclosure of Cash Flow Information</b>     | <b>Six Months Ended<br/>June 30, 2017</b> | <b>Six Months Ended<br/>June 30, 2016</b> |
|---|---|---|
| Cash paid for interest                                      | \$ 7,680                                  | \$ 6,623                                  |
| Cash paid for income taxes                                  | 342                                       | 229                                       |
| <b>Supplemental Disclosure of Non-Cash Flow Information</b> |   |   |
| Stockholder distributions declared and unpaid               | 4,475                                     | 3,914                                     |
| Stockholder distributions reinvested                        | 13,545                                    | 11,867                                    |
| Change in unpaid deferred offering costs                    | (20)                                      | 1,108                                     |
| Unpaid deferred financing costs                             | 42  | 3   |
| Unpaid sales commissions and dealer manager fee             | 104                                       | 90  |

## Note 10 — Related Party Transactions and Arrangements

### *Advisory Agreements and Conditional Fee Waiver*

The Company and the Adviser have entered into two expense support and conditional reimbursement agreements (as amended from time to time, the “2013 and 2014 Expense Reimbursement Agreements”), pursuant to which the Adviser could pay the Company up to 100% of its operating expenses through December 31, 2014 (the “Expense Support Payment”) in order to achieve a reasonable level of expenses relative to its investment income (the “Operating Expense Objective”). The Company’s board of directors, in its sole discretion, may approve the repayment of unreimbursed Expense Support Payments upon a determination by the board of directors that the Company has achieved the Operating Expense Objective in any quarter following receipt by the Company of an Expense Support Payment. The Company may reimburse any unreimbursed Expense Support Payments for up to three years from the date each respective Expense Support Payment was determined. Any Expense Support Payments that remain unreimbursed three years after such payment will be permanently waived.

The Company and the Advisers entered into a conditional fee waiver agreement (as amended from time to time, the “Conditional Fee Waiver Agreement”), pursuant to which the Advisers could waive certain fees through December 31, 2015 upon the occurrence of any event that, in the Advisers’ sole discretion, causes such waivers to be deemed necessary. The previously waived fees are potentially subject to repayment by the Company, if at all, within a period not to exceed three years from the date of each respective fee waiver.

The Company and the Advisers entered into conditional income incentive fee waiver agreements (the “2016-2017 Conditional Income Incentive Fee Waiver Agreements”), most recently on July 26, 2017, pursuant to which, for a period from January 1, 2016 through June 30, 2017, the Advisers could waive the “subordinated incentive fee on income,” as such term is defined in the Investment Advisory Agreement, upon the occurrence of any event that, in the Advisers’ sole discretion, causes such waiver to be deemed necessary. The 2016-2017 Conditional Income Incentive Fee Waiver Agreements may require the Company to repay the Advisers for previously waived reimbursement of Expense Support Payments or waived base management fees or incentive fees under certain circumstances.

The previously waived fees are potentially subject to repayment by the Company, if at all, within a period not to exceed three years from the date of each respective fee waiver. Thus, in any quarter where a surplus exists, that surplus will be available, subject to approval of the board of directors, to reimburse waived fees and Expense Support Payments as follows:

1. First, to reimburse Expense Support Payments, beginning with the earliest year eligible for reimbursement; and
2. Second, to reimburse all waived fees, beginning with the earliest year eligible for reimbursement.

Reimbursement of previously waived fees will only be permitted with the approval of the board of directors and if the operating expense ratio is equal to or less than the operating expense ratio at the time the corresponding fees were waived and if the annualized rate of regular cash distributions to stockholders is equal to or greater than the annualized rate of the regular cash distributions at the time the corresponding fees were waived.

For the three months ended June 30, 2017 and 2016, the Company incurred base management fees of approximately \$5.3 million and \$4.7 million, respectively, and the Advisers waived no base management fees in either period. For the three months ended June 30, 2017 and 2016, the Company incurred no capital gains incentive fees in either period, and incurred subordinated incentive

fees on income of approximately \$823,000 and \$0, respectively. For the three months ended June 30, 2017 and 2016, the Advisers waived no capital gains incentive fees in either period, and waived subordinated incentive fees on income of approximately \$823,000 and \$0, respectively.

For the six months ended June 30, 2017 and 2016, the Company incurred base management fees of approximately \$10.5 million and \$9.2 million, respectively, and the Advisers waived no base management fees in either period. For the six months ended June 30, 2017 and 2016, the Company incurred no capital gains incentive fees in either period, and incurred subordinated incentive fees on income of approximately \$2.3 million and \$493,000, respectively. For the six months ended June 30, 2017 and 2016, the Advisers waived no capital gains incentive fees in either period, and subordinated incentive fees on income of approximately \$2.3 million and \$493,000, respectively.

For the six months ended June 30, 2017 and 2016, the Company did not record an accrual for any previously waived fees. Any future reimbursement of previously waived fees to the Advisers will not be accrued until the reimbursement of the waived fees becomes probable and estimable, which will be upon approval of the Company's board of directors. To date, none of the previously waived fees has been approved by the board of directors for reimbursement.

The table below presents the fees waived by the Advisers and the timing of potential reimbursement of waived fees (dollars in thousands). Previously waived fees will only be reimbursed with the approval of the Company's board of directors and if the "Operating Expense Ratio" (as described in footnote 3 to the table below) is equal to or less than the Company's operating expense ratio at the time the corresponding fees were waived and if the annualized rate of the Company's regular cash distributions to stockholders is equal to or greater than the annualized rate of the Company's regular cash distributions at the time the corresponding fees were waived.

| Quarter Ended | Management Fee <sup>(1)</sup> |                                  | Subordinated Incentive Fee <sup>(1)</sup> |                                  | Capital Gain Incentive Fee <sup>(1)</sup> |                                  | Expense Support <sup>(1)</sup> |                                  | Operating Expense Ratio <sup>(3)</sup> | Annualized Distribution Rate <sup>(4)</sup> | Eligible to be Repaid Through |
|---------------|-------------------------------|----------------------------------|---|----------------------------------|---|----------------------------------|--------------------------------|----------------------------------|--|---|-------------------------------|
|               | Waivers                       | Repaid to Adviser <sup>(2)</sup> | Waivers                                   | Repaid to Adviser <sup>(2)</sup> | Waivers                                   | Repaid to Adviser <sup>(2)</sup> | Payments                       | Repaid to Adviser <sup>(2)</sup> |  |   |                               |
| 6/30/2012     | \$ 31                         | \$ —                             | \$ 18                                     | \$ —                             | \$ —                                      | \$ —                             | \$ —                           | \$ —                             | 1.35%                                  | 7.00%                                       | Expired                       |
| 9/30/2012     | \$ 97                         | \$ —                             | \$ 52                                     | \$ —                             | \$ 3                                      | \$ —                             | \$ —                           | \$ —                             | 1.97%                                  | 7.00%                                       | Expired                       |
| 12/31/2012    | \$ 104                        | \$ —                             | \$ 53                                     | \$ —                             | \$ —                                      | \$ —                             | \$ —                           | \$ —                             | 2.96%                                  | 7.00%                                       | Expired                       |
| 3/31/2013     | \$ 84                         | \$ —                             | \$ —                                      | \$ —                             | \$ —                                      | \$ —                             | \$ —                           | \$ —                             | 1.86%                                  | 7.00%                                       | Expired                       |
| 6/30/2013     | \$ 118                        | \$ —                             | \$ —                                      | \$ —                             | \$ —                                      | \$ —                             | \$ —                           | \$ —                             | 1.36%                                  | 7.00%                                       | Expired                       |
| 9/30/2013     | \$ 268                        | \$ —                             | \$ —                                      | \$ —                             | \$ —                                      | \$ —                             | \$ —                           | \$ —                             | 1.22%                                  | 7.00%                                       | Expired                       |
| 12/31/2013    | \$ 309                        | \$ —                             | \$ —                                      | \$ —                             | \$ 5                                      | \$ —                             | \$ 153                         | \$ —                             | 0.49%                                  | 7.00%                                       | Expired                       |
| 3/31/2014     | \$ 306                        | \$ —                             | \$ —                                      | \$ —                             | \$ —                                      | \$ —                             | \$ —                           | \$ —                             | 1.28%                                  | 7.00%                                       | Expired                       |
| 6/30/2014     | \$ 548                        | \$ —                             | \$ —                                      | \$ —                             | \$ —                                      | \$ —                             | \$ —                           | \$ —                             | 1.28%                                  | 7.00%                                       | Expired                       |
| 9/30/2014     | \$ 821                        | \$ —                             | \$ —                                      | \$ —                             | \$ —                                      | \$ —                             | \$ 328                         | \$ —                             | 1.23%                                  | 7.00%                                       | 9/30/2017                     |
| 12/31/2014    | \$ 148                        | \$ —                             | \$ 451                                    | \$ —                             | \$ —                                      | \$ —                             | \$ —                           | \$ —                             | 1.70%                                  | 7.00%                                       | 12/31/2017                    |
| 3/31/2015     | \$ —                          | \$ —                             | \$ 358                                    | \$ —                             | \$ —                                      | \$ —                             | \$ —                           | \$ —                             | 1.78%                                  | 7.18%                                       | 3/31/2018                     |
| 6/30/2015     | \$ —                          | \$ —                             | \$ 930                                    | \$ —                             | \$ —                                      | \$ —                             | \$ —                           | \$ —                             | 1.69%                                  | 7.07%                                       | 6/30/2018                     |
| 9/30/2015     | \$ —                          | \$ —                             | \$ 155                                    | \$ —                             | \$ —                                      | \$ —                             | \$ —                           | \$ —                             | 2.11%                                  | 7.07%                                       | 9/30/2018                     |
| 12/31/2015    | \$ —                          | \$ —                             | \$ 1,159                                  | \$ —                             | \$ —                                      | \$ —                             | \$ —                           | \$ —                             | 2.27%                                  | 7.78%                                       | 12/31/2018                    |
| 3/31/2016     | \$ —                          | \$ —                             | \$ 493                                    | \$ —                             | \$ —                                      | \$ —                             | \$ —                           | \$ —                             | 1.83%                                  | 8.14%                                       | 3/31/2019                     |
| 6/30/2016     | \$ —                          | \$ —                             | \$ —                                      | \$ —                             | \$ —                                      | \$ —                             | \$ —                           | \$ —                             | 1.76%                                  | 7.95%                                       | 6/30/2019                     |
| 9/30/2016     | \$ —                          | \$ —                             | \$ —                                      | \$ —                             | \$ —                                      | \$ —                             | \$ —                           | \$ —                             | 1.73%                                  | 7.87%                                       | 9/30/2019                     |
| 12/31/2016    | \$ —                          | \$ —                             | \$ 1,196                                  | \$ —                             | \$ —                                      | \$ —                             | \$ —                           | \$ —                             | 1.68%                                  | 7.69%                                       | 12/31/2019                    |
| 3/31/2017     | \$ —                          | \$ —                             | \$ 1,495                                  | \$ —                             | \$ —                                      | \$ —                             | \$ —                           | \$ —                             | 1.68%                                  | 7.53%                                       | 3/31/2020                     |
| 6/30/2017     | \$ —                          | \$ —                             | \$ 823                                    | \$ —                             | \$ —                                      | \$ —                             | \$ —                           | \$ —                             | 1.67%                                  | 7.53%                                       | 6/30/2020                     |

- (1) Fees waived pursuant to the Conditional Fee Waiver Agreement and the 2016-2017 Conditional Income Incentive Fee Waiver Agreements and Expense Support Payments pursuant to the 2013 and 2014 Expense Reimbursement Agreements.
- (2) Subject to the approval of the Company's board of directors, in future periods, previously waived fees may be paid to the Advisers, if the Company's cumulative net increase in net assets resulting from operations exceeds the amount of cumulative distributions paid to stockholders. The previously waived fees are potentially subject to repayment by the Company, if at all, within a period not to exceed three years from the date of each respective fee waiver. To date, none of the previously waived fees and Expense Support Payments have been approved for reimbursement by the Company's board of directors.
- (3) The "Operating Expense Ratio" is calculated on a quarterly basis as a percentage of average net assets and includes all expenses borne by the Company, except for base management and incentive fees and administrative expenses waived by the Advisers and organizational and



offering expenses. For the quarter ended December 31, 2013, expenses have been reduced by \$153,000, the amount of the Expense Support Payment received in 2013 from the Adviser. For the quarter ended September 30, 2014, expenses have been reduced by \$328,000, which Expense Support Payment was received from the Adviser on October 30, 2014.

- (4) “Annualized Distribution Rate” equals \$0.00191781 per share, per day. “Annualized Distribution Rate” does not include the special stock dividend paid to stockholders on September 14, 2012 and was based on the Company’s offering price per share as of the final day of the quarter.

Pursuant to the Investment Advisory Agreement and Sub-Advisory Agreement, the Company is required to pay or reimburse the Advisers for administrative services expenses, which include all costs and expenses related to the Company’s day-to-day administration and management not related to advisory services. The Advisers do not earn any profit under their provision of administrative services to the Company. For the three months ended June 30, 2017 and 2016, the Company incurred, and the Advisers waived the reimbursement of, administrative services expenses of approximately \$873,000 and \$574,000, respectively. For the six months ended June 30, 2017 and 2016, the Company incurred, and the Advisers waived the reimbursements of, administrative services expenses of approximately \$1.5 million and \$1.1 million, respectively. On April 24, 2017, the Company and the Advisers agreed to further amend the 2014 Expense Reimbursement Agreement, which extended the period for waiver of reimbursement of administrative services expenses accrued pursuant to the Investment Advisory Agreement and the Sub-Advisory Agreement through June 30, 2017. The waiver of the reimbursement of administrative services expenses is not subject to future reimbursement.

The table below presents the administrative services expenses waived by the Advisers (dollars in thousands).

| Quarter Ended | Administrative Services |                   | Operating Expense Ratio <sup>(1)</sup> | Annualized Distribution Rate <sup>(2)</sup> | Eligible to be Repaid Through <sup>(3)</sup> |
|---------------|-------------------------|-------------------|--|---|--|
|               | Waivers                 | Repaid to Adviser |  |   |  |
| 6/30/2012     | \$ 25                   | \$ —              | 1.35%                                  | 7.00%                                       | Not Eligible to be Repaid                    |
| 9/30/2012     | \$ 129                  | \$ —              | 1.97%                                  | 7.00%                                       | Not Eligible to be Repaid                    |
| 12/31/2012    | \$ 284                  | \$ —              | 2.96%                                  | 7.00%                                       | Not Eligible to be Repaid                    |
| 3/31/2013     | \$ 233                  | \$ —              | 1.86%                                  | 7.00%                                       | Not Eligible to be Repaid                    |
| 6/30/2013     | \$ 222                  | \$ —              | 1.36%                                  | 7.00%                                       | Not Eligible to be Repaid                    |
| 9/30/2013     | \$ 234                  | \$ —              | 1.22%                                  | 7.00%                                       | Not Eligible to be Repaid                    |
| 12/31/2013    | \$ 329                  | \$ —              | 0.49%                                  | 7.00%                                       | Not Eligible to be Repaid                    |
| 3/31/2014     | \$ 329                  | \$ —              | 1.28%                                  | 7.00%                                       | Not Eligible to be Repaid                    |
| 6/30/2014     | \$ 385                  | \$ —              | 1.28%                                  | 7.00%                                       | Not Eligible to be Repaid                    |
| 9/30/2014     | \$ 371                  | \$ —              | 1.23%                                  | 7.00%                                       | Not Eligible to be Repaid                    |
| 12/31/2014    | \$ 412                  | \$ —              | 1.70%                                  | 7.00%                                       | Not Eligible to be Repaid                    |
| 3/31/2015     | \$ 437                  | \$ —              | 1.78%                                  | 7.18%                                       | Not Eligible to be Repaid                    |
| 6/30/2015     | \$ 480                  | \$ —              | 1.69%                                  | 7.07%                                       | Not Eligible to be Repaid                    |
| 9/30/2015     | \$ 517                  | \$ —              | 2.11%                                  | 7.07%                                       | Not Eligible to be Repaid                    |
| 12/31/2015    | \$ 603                  | \$ —              | 2.27%                                  | 7.78%                                       | Not Eligible to be Repaid                    |
| 3/31/2016     | \$ 533                  | \$ —              | 1.83%                                  | 8.14%                                       | Not Eligible to be Repaid                    |
| 6/30/2016     | \$ 574                  | \$ —              | 1.76%                                  | 7.95%                                       | Not Eligible to be Repaid                    |
| 9/30/2016     | \$ 529                  | \$ —              | 1.73%                                  | 7.87%                                       | Not Eligible to be Repaid                    |
| 12/31/2016    | \$ 679                  | \$ —              | 1.68%                                  | 7.69%                                       | Not Eligible to be Repaid                    |
| 3/31/2017     | \$ 661                  | \$ —              | 1.68%                                  | 7.53%                                       | Not Eligible to be Repaid                    |
| 6/30/2017     | \$ 873                  | \$ —              | 1.67%                                  | 7.53%                                       | Not Eligible to be Repaid                    |

- (1) The “Operating Expense Ratio” is calculated on a quarterly basis as a percentage of average net assets and includes all expenses borne by the Company, except for base management and incentive fees and administrative expenses waived by the Advisers and organizational and offering expenses. For the quarter ended December 31, 2013, expenses have been reduced by \$153,000, the amount of the Expense Support Payment received in 2013 from the Adviser. For the quarter ended September 30, 2014, expenses have been reduced by \$328,000, which Expense Support Payment was received from the Adviser on October 30, 2014.
- (2) “Annualized Distribution Rate” equals \$0.00191781 per share, per day. “Annualized Distribution Rate” does not include the special stock dividend paid to stockholders on September 14, 2012 and was based on the Company’s offering price per share as of the last day of the quarter.
- (3) The Advisers have agreed to permanently waive reimbursement by the Company of administrative expenses through June 30, 2017. The waiver of reimbursement of administrative expenses is not eligible for future reimbursement from the Company to the Advisers.

The table below outlines fees incurred and expense reimbursements payable to Hines, Main Street and their affiliates for the three and six months ended June 30, 2017 and 2016 and amounts unpaid as of June 30, 2017 and December 31, 2016 (dollars in thousands).

| Type and Recipient   | Incurred           |          | Incurred         |          | Unpaid as of  |                   |
|--|--------------------|----------|------------------|----------|---------------|-------------------|
|  | Three Months Ended |          | Six Months Ended |          | June 30, 2017 | December 31, 2016 |
|  | 2017               | 2016     | 2017             | 2016     |               |                   |
| Incentive Fees on Income <sup>(1)</sup> - the Adviser, Sub-Adviser | \$ —               | \$ —     | \$ —             | \$ —     | \$ —          | \$ —              |
| Offering Costs - the Adviser, Sub-Adviser                          | 341                | 513      | 728              | 821      | (3)           | (23)              |
| Other <sup>(2)</sup> - the Adviser                                 | 104                | 60       | 292              | 153      | 11            | 121               |
| Selling Commissions - Dealer Manager                               | 807                | 1,767    | 1,867            | 2,642    | 49            | 92                |
| Dealer Manager Fee - Dealer Manager                                | 442                | 828      | 1,000            | 1,251    | 55            | (6)               |
| <b>Due to Affiliates</b>   |                    |          |                  |          | <u>\$ 112</u> | <u>\$ 184</u>     |
| Base Management Fees <sup>(1)</sup> - the Adviser, Sub-Adviser     | \$ 5,303           | \$ 4,693 | \$ 10,453        | \$ 9,187 | \$ 5,304      | \$ 5,054          |

(1) Net of amounts waived by the Advisers.

(2) Includes amounts the Adviser paid on behalf of the Company such as general and administrative services expenses.

### Offering Costs

In accordance with the Investment Advisory Agreement and the Sub-Advisory Agreement, the Company reimburses the Advisers for any offering costs that are paid on the Company's behalf, which consist of, among other costs, actual legal, accounting, bona fide out-of pocket itemized and detailed due diligence costs, printing, filing fees, transfer agent costs, postage, escrow fees, advertising and sales literature and other offering costs. Pursuant to the terms of the Investment Advisory Agreement and the Sub-Advisory Agreement, the Company expects to reimburse the Advisers for such costs incurred on the Company's behalf on a monthly basis, up to a maximum aggregate amount of 1.5% of the gross stock offering proceeds. The Advisers are responsible for the payment of offering costs to the extent they exceed 1.5% of the aggregate gross stock offering proceeds.

As of June 30, 2017, the Company has reimbursed the Advisers approximately \$11.3 million since inception for offering costs. As of June 30, 2017, the Advisers carried a balance of approximately \$1.4 million for offering costs incurred on the Company's behalf, net of reimburse payments from the Company.

### Note 11 – Share Repurchase Plan

Since inception of the share repurchase program, the Company funded the repurchase of \$21.9 million in shares. For the six months ended June 30, 2017 and 2016, the Company funded \$7.9 million and \$6.5 million, respectively, for shares tendered for repurchase under the plan approved by the board of directors. Since inception of the share repurchase program, the Company has funded all redemption requests validly tendered and not withdrawn.

| For the Quarter Ended | Repurchase Date         | Shares Repurchased | Percentage of Shares Tendered that were Repurchased | Repurchase Price per Share | Aggregate Consideration for Repurchased Shares |
|-----------------------|-------------------------|--------------------|---|----------------------------|--|
| March 31, 2017        | 3/23/2017               | 614,179.64         | 100%  | \$ 8.23                    | \$ 5,054,698                                   |
| June 30, 2017         | 6/15/2017 and 6/16/2017 | 346,306.52         | 100%  | \$ 8.20                    | \$ 2,839,713                                   |

### Note 12 – Commitments and Contingencies

At June 30, 2017, the Company had a total of approximately \$43.9 million in outstanding commitments comprising (i) 28 commitments to fund revolving loans that had not been fully drawn or term loans that had not been funded and (ii) three capital commitments that had not been fully called. The Company recognized unrealized depreciation of approximately \$170,000 on the outstanding unfunded loan commitments and no unrealized appreciation or depreciation on the outstanding unfunded capital commitments during six months ended June 30, 2017. At December 31, 2016, the Company had a total of approximately \$42.7 million in outstanding commitments comprising (i) 22 commitments to fund revolving loans that had not been fully drawn or term loans that had not been funded and (ii) three capital commitments that had not been fully called. The Company recognized unrealized depreciation of \$266,000 on the outstanding unfunded loan commitments and unrealized appreciation of \$14,000 on the outstanding unfunded capital commitments during the year ended December 31, 2016.



|                                       | Commitments and Contingencies<br>(dollars in thousands) |                   |
|---------------------------------------|---|-------------------|
|                                       | June 30, 2017   | December 31, 2016 |
| <b>Unfunded Loan Commitments</b>      |   |                   |
| Adams Publishing Group, LLC           | \$ 2,216  | \$ —              |
| Apex Linen Services, Inc.             | 403   | 397               |
| Arcus Hunting, LLC                    | 795   | 2,136             |
| BarFly Ventures, LLC                  | 306   | 881               |
| BigName Holdings, LLC                 | 120   | —                 |
| Boccella Precast Products, LLC        | 500   | —                 |
| Buca C, LLC                           | —   | 1,548             |
| CapFusion Holding, LLC                | 400   | 394               |
| CDHA Management, LLC                  | 3,373   | 3,259             |
| Charps, LLC                           | 1,000   | —                 |
| Clad-Rex Steel, LLC                   | 100   | —                 |
| CST Industries, Inc.                  | 1,084   | —                 |
| Datacom, LLC                          | 80  | 1,302             |
| Gamber-Johnson Holdings, LLC          | 300   | 300               |
| Guerdon Modular Holdings, Inc.        | 400   | 400               |
| Hawk Ridge Systems, LLC               | 400   | 400               |
| Hojeij Branded Foods, Inc.            | 1,501   | 2,000             |
| Hostway Corporation                   | 67  | —                 |
| HW Temps LLC                          | 200   | 50                |
| Jackmont Hospitality, Inc.            | —   | 1,200             |
| LaMi Products, LLC                    | 1,029   | 1,729             |
| Meisler Operating, LLC                | 400   | —                 |
| Minute Key, Inc.                      | 2,200   | 197               |
| Mystic Logistics, Inc.                | 200   | 194               |
| NNE Issuer, LLC                       | 8,458   | —                 |
| NuStep, LLC                           | 300   | —                 |
| Pardus Oil & Gas, LLC                 | 357   | 357               |
| Permian Holdco 2                      | 290   | 290               |
| PPC/Shift, LLC                        | 500   | 500               |
| Strike, LLC                           | 2,000   | 2,475             |
| Unirush LLC                           | —   | 980               |
| Volusion, LLC                         | —   | 2,955             |
| <b>Unfunded Capital Commitments</b>   |   |                   |
| Brightwood Capital Fund III, LP       | 1,000   | 1,000             |
| Brightwood Capital Fund IV, LP        | 9,000   | 10,000            |
| Freeport First Lien Loan Fund III, LP | 4,941   | 7,737             |
| <b>Total</b>                          | <b>\$ 43,920</b>  | <b>\$ 42,681</b>  |

### Note 13 – Subsequent Events

From July 1, 2017 through August 11, 2017, the Company raised approximately \$8.1 million in the Offering. During this period, the Company funded approximately \$76.0 million in investments and received proceeds from repayments and dispositions of approximately \$45.5 million.

On July 26, 2017, the Company, the Adviser and the Sub-Adviser entered into a conditional income incentive fee agreement (the “Second Quarter 2017 Fee Waiver Agreement”), pursuant to which, for a period from April 1, 2017 through June 30, 2017, the Advisers could waive the “subordinated incentive fee on income,” as such term is defined in the Investment Advisory Agreement, upon the occurrence of any event that, in the Advisers’ sole discretion, causes such waiver to be deemed necessary. The Second Quarter 2017 Fee Waiver Agreement may require the Company to repay the Advisers for previously waived Expense Support Payments or waived base management fees or incentive fees under certain circumstances. The previously waived fees are potentially subject to repayment by the Company, if at all, within a period not to exceed three years from the date of each respective fee waiver.

On August 4, 2017, the Company filed a tender offer statement on Schedule TO with the SEC, to commence an offer by the Company to purchase, as approved by its board of directors, 1,757,075.81 shares of our issued and outstanding common stock,

par value \$0.001 per share. The offer is for cash at a purchase price equal to the NAV per share to be determined within 48 hours of the repurchase date.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

*The following discussion is based on the condensed consolidated financial statements as of June 30, 2017 (unaudited) and December 31, 2016 and for the three and six months ended June 30, 2017 and 2016. Amounts as of December 31, 2016 included in the unaudited condensed consolidated financial statements have been derived from the Company's audited consolidated financial statements as of that date. This information should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and the notes thereto, as well as the audited consolidated financial statements, notes and management's discussion and analysis of financial condition and results of operations included in our Annual Report on Form 10-K for the year ended December 31, 2016. Capitalized terms used in this Item 2 have the same meaning as in the accompanying condensed consolidated financial statements in Item 1 unless otherwise defined in this Report.*

We refer to HMS Income Fund, Inc. as the "Company," and the use of "we," "our," "us" or similar pronouns in this Report refers to HMS Income Fund, Inc.

### Forward-Looking Statements

Some of the statements in this Report constitute forward-looking statements because they relate to future events or our future performance or financial condition. The forward-looking statements contained in this Report may include statements as to:

- our future operating results;
- our business prospects and the prospects of our current and prospective portfolio companies;
- the impact of the investments that we expect to make;
- the ability of our portfolio companies to achieve their objectives;
- our expected financings and investments;
- the adequacy of our cash resources and working capital;
- the timing of cash flows, if any, from the operations of our portfolio companies;
- changes in political, economic or industry conditions, the interest rate environment or conditions affecting the financial and capital markets, which could result in changes to the value of our assets;
- the impact of increased competition;
- our contractual arrangements and relationships with third parties;
- the dependence of our future success on the general economy, including general economic trends, and its impact on the industries in which we invest;
- the relative and absolute performance of our investment adviser, HMS Adviser LP (the "Adviser"), a Texas limited partnership, including in identifying suitable investments for us;
- our ability to make distributions to our stockholders;
- the effects of applicable legislation and regulations and changes thereto; and
- the impact of future acquisitions and divestitures.

In addition, words such as "anticipate," "believe," "expect" and "intend" indicate a forward-looking statement, although not all forward-looking statements include these words. The forward-looking statements contained in this Report involve risks and uncertainties.

Our actual results could differ materially from those implied or expressed in the forward-looking statements for any reason, including the factors set forth in "Part II-Item 1A. Risk Factors" and elsewhere in this Report and set forth in our annual report on Form 10-K for the year ended December 31, 2016. Other factors that could cause actual results to differ materially include:

- changes in the economy;
- risks associated with possible disruption in our operations or the economy generally; and
- future changes in laws or regulations and conditions in our operating areas.

We have based the forward-looking statements included in this Report on information available to us on the date of this Report. Except as required by the federal securities laws, we assume no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise.

You are advised to consult any additional disclosures that we may make directly to you or through reports that we in the future may file with the Securities and Exchange Commission (the "SEC"), including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. The forward-looking statements and projections contained in this Report are excluded from the safe harbor protection provided by Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

## OVERVIEW

We are a specialty finance company sponsored by Hines Interests Limited Partnership (“Hines”) that makes debt and equity investments in middle market (“Middle Market”) companies, which we define as companies with annual revenues generally between \$10 million and \$3 billion and in lower middle market (“LMM”) companies, which we define as companies with annual revenues generally between \$10 million and \$150 million. We are an externally managed, non-diversified closed-end investment company that has elected to be treated as a business development company (“BDC”) under the Investment Company Act of 1940, as amended (the “1940 Act”). We are, therefore, required to comply with certain regulatory requirements. We have elected to be treated for U.S. federal income tax purposes as a regulated investment company (“RIC”), under Subchapter M of the Internal Revenue Code of 1986, as amended (the “Code”).

Our primary investment objective is to generate current income through debt and equity investments. A secondary objective is to generate long-term capital appreciation through equity and equity-related investments, including warrants, convertible securities and other rights to acquire equity securities. Our portfolio strategy calls is to invest primarily in illiquid debt and equity securities issued by LMM companies and Middle Market companies in private placements and negotiated transactions, which are traded in private over-the-counter markets for institutional investors. We will also invest in, and a significant portion of our assets are invested in, customized direct secured and unsecured loans to and equity securities of LMM companies, referred to as LMM securities. Typically, our investments in LMM companies require us to co-invest with Main Street Capital Corporation, a New York Stock Exchange listed BDC (“Main Street”), and/or its affiliates as a result of our sub-advisory relationship described below. We categorize some of our investments in LMM companies and Middle Market companies as private loan (“Private Loan”) portfolio investments. Private Loan investments, often referred to in the debt markets as “club deals,” are investments, generally in debt instruments, that we originate on a collaborative basis with other investment funds. Private Loan investments are typically similar in size, structure, terms and conditions to investments we hold in our LMM portfolio and Middle Market portfolio. Our portfolio also includes other portfolio (“Other Portfolio”) investments primarily consisting of investments managed by third parties, which differ from the typical profiles for our LMM portfolio investments, Middle Market portfolio investments or Private Loan portfolio investments.

We previously registered for sale up to 150,000,000 shares of common stock pursuant to a registration statement on Form N-2 (File No. 333-178548) which was initially declared effective by the SEC on June 4, 2012 (the “Initial Offering”). The Initial Offering terminated on December 1, 2015. We raised approximately \$601.2 million in the Initial Offering, including proceeds from the dividend reinvestment plan of approximately \$22.0 million. We also registered for sale up to \$1,500,000,000 worth of shares of common stock (the “Offering”) pursuant to a new registration statement on Form N-2 (File No. 333-204659), as amended, most recently declared effective on May 1, 2017. As of June 30, 2017, we had raised approximately \$153.9 million in the Offering, including proceeds from the distribution reinvestment plan of approximately \$38.3 million.

On February 22, 2017, our board of directors, after determining that it would be in our best interests and its stockholders to do so, decided to continue the Offering until September 30, 2017 and authorized the closing of our continuous public offering of common stock to new investors (the “Closing”) on or about such date. Our board of directors previously authorized the Closing to occur on or about March 31, 2017, subject to our board of directors’ final approval. Our board of directors retained its right to provide final approval on the specific terms of the Closing, including its right to accelerate the Closing or to further continue our continuous public offering of common stock if the board of directors determines that it is in the best interests of us and our stockholders to do so.

Our business is managed by the Adviser, an affiliate of Hines, under an Investment Advisory and Administrative Services Agreement dated May 31, 2012, as amended (the “Investment Advisory Agreement”). We and the Adviser have retained MSC Adviser I, LLC (the “Sub-Adviser”), a wholly owned subsidiary of Main Street, as our investment sub-adviser pursuant to an Investment Sub-Advisory Agreement (the “Sub-Advisory Agreement”) to identify, evaluate, negotiate and structure prospective investments, make investment and portfolio management recommendations for approval by the Adviser, monitor our investment portfolio and provide certain ongoing administrative services to the Adviser. The Adviser and the Sub-Adviser are collectively referred to as the “Advisers,” and each is registered under the Investment Advisers Act of 1940, as amended. Upon the execution of the Sub-Advisory Agreement, Main Street became our affiliate. We have engaged Hines Securities, Inc. (the “Dealer Manager”), an affiliate of the Adviser, to serve as the Dealer Manager for our offerings. The Dealer Manager is responsible for marketing our shares of common stock being offered pursuant to our offerings.

As a BDC, we are subject to certain regulatory restrictions in making our investments, including limitations on our ability to co-invest with certain affiliates, including Main Street. However, we received an order from the SEC, that permits us, subject to certain conditions, to co-invest with Main Street in certain transactions originated by Main Street and/or our Advisers. The exemptive relief permits us, and certain of our directly or indirectly wholly-owned subsidiaries on one hand, and Main Street and or/certain of its affiliates on the other hand, to co-invest in the same investment opportunities where such investment may otherwise be

prohibited under Section 57(a)(4) of the 1940 Act. In addition, we may continue to co-invest with Main Street and/or its affiliates in syndicated deals and secondary loan market purchases in accordance with applicable regulatory guidance or interpretations where price is the only negotiated point.

As of June 30, 2017, we had investments in 69 Middle Market debt investments, 32 Private Loan debt investments, 31 LMM debt investments, 31 LMM equity investments, five Middle Market equity investments, 10 Private Loan equity investments and five Other Portfolio investments with an aggregate fair value of approximately \$1,044.9 million, a cost basis of approximately \$1,060.4 million, and a weighted average effective annual yield of approximately 8.5%. The weighted average annual yield was calculated using the effective interest rates for all investments at June 30, 2017, including accretion of original issue discount and amortization of premium to par value, the amortization of fees received in connection with transactions, and assumes zero yield for investments on non-accrual status. Approximately 81.8% and 11.3% of our total portfolio investments (at fair value, excluding our Other Portfolio investments) were secured by first priority liens and second priority liens on portfolio company assets, respectively, with the remainder in unsecured debt investments and equity investments.

The level of new portfolio investment activity will fluctuate from period to period based upon the status of our capital raising efforts under the Offering, our view of the current economic fundamentals, our ability to identify new investment opportunities that meet our investment criteria and our ability to close on the identified transactions. The level of new investment activity and associated interest and fee income will directly impact future investment income. While we intend to grow our portfolio and our investment income over the long-term, our growth and our operating results may be more limited during depressed economic periods. However, we intend to appropriately manage our cost structure and liquidity position based on applicable economic conditions and our investment outlook. The level of realized gains or losses and unrealized appreciation or depreciation will also fluctuate depending upon portfolio activity and the performance of our individual portfolio companies. The changes in realized gains and losses and unrealized appreciation or depreciation could have a material impact on our operating results.

#### *Investment Income*

We have generated, and plan to continue to generate, investment income primarily in the form of interest on the debt securities that we hold, dividends and other distributions with respect to any equity interests that we hold and capital gains, if any, on our investments. In addition, we may generate revenue in the form of commitment, origination, structuring or diligence fees, monitoring fees, and possibly consulting fees and performance-based fees. All such fees will be generated in connection with our investments and recognized as earned or as additional yield over the life of the debt investment. To date our investment income has been interest income on debt investments, accretion of original issue discounts, dividend income, amortization of premiums and fees received from transactions and net realized/unrealized appreciation (depreciation).

#### *Expenses*

On both a short-term and long-term basis, our primary use of funds will be investments in portfolio companies and cash distributions to our stockholders. Our primary operating expenses will be debt service payments, general and administrative expenses, and payment of advisory fees under the Investment Advisory Agreement. The investment advisory fees paid to our Adviser (and the fees paid by our Adviser to our Sub-Adviser pursuant to the Sub-Advisory Agreement) will compensate our Advisers for their work in identifying, evaluating, negotiating, executing, monitoring and servicing our investments. We expect our expenses to fluctuate based upon the amount of assets under management.

We bear all other expenses of our operations and transactions, including fees and expenses relating to:

- corporate and organizational expenses relating to offerings of our common stock, subject to certain limitations;
- the cost of calculating our net asset value (“NAV”), including the cost of any third-party valuation services;
- the cost of effecting sales and repurchase of shares of our common stock and other securities;
- fees payable to third parties relating to, or associated with, monitoring our financial and legal affairs, making investments, and valuing investments, including fees and expenses associated with performing due diligence reviews of prospective investments;
- interest payable on debt, if any, including any hedging costs;
- investment advisory fees;
- transfer agent and custodial fees;
- fees and expenses associated with marketing efforts;
- federal and state registration fees;
- federal, state and local taxes;
- independent directors’ fees and expenses, including travel expenses;

- costs of director and stockholder meetings, proxy statements, stockholders' reports and notices;
- cost of fidelity bond, directors and officers/errors and omissions liability insurance and other insurance premiums;
- direct costs such as printing of stockholder reports and advertising or sales materials, mailing, long distance telephone, and staff;
- fees and expenses associated with independent audits and outside legal costs, including compliance with the Sarbanes-Oxley Act of 2002, the 1940 Act, and other applicable federal and state securities laws and regulations;
- costs associated with our reporting and compliance obligations under the 1940 Act and other applicable federal and state securities laws;
- brokerage commissions for our investments;
- all other expenses incurred by our Advisers in performing their obligations, subject to the limitations included in the Investment Advisory Agreement and Sub-Advisory Agreement; and
- all other expenses incurred by us or any administrator in connection with administering our business, including payments under any administration agreement that will be based upon our allocable portion of overhead and other expenses incurred by any administrator in performing its obligations under any proposed administration agreement, including rent and our allocable portion of the costs of compensation and related expenses of our Chief Compliance Officer and Chief Financial Officer and their respective staffs.

During periods of asset growth, we expect our general and administrative expenses to be relatively stable or decline as a percentage of total assets and increase during periods of asset declines.

#### *Base Management and Incentive Fee, Administrative Services Expense Waiver and Expense Support and Conditional Reimbursement Agreement*

From time to time, our Advisers may waive certain fees accrued under the Investment Advisory Agreement and the Sub-Advisory Agreement, as applicable, and our Adviser may pay to us up to 100% of our operating expenses (an "Expense Support Payment"). We may reimburse such waived fees and Expense Support Payments within three years from the date of each respective fee waiver and from the date that each respective Expense Support Payment was determined. See Note 10 - *Related Party Transactions and Arrangements - Advisory Agreements and Conditional Fee Waiver* to our condensed consolidated financial statements included elsewhere in this Report for additional information on our fee waivers and expense reimbursements.

#### *Administration*

Pursuant to the Investment Advisory Agreement and Sub-Advisory Agreement, we are required to pay or reimburse our Advisers for administrative services expenses, which include all costs and expenses related to our day-to-day administration and management not related to advisory services. For the three months ended June 30, 2017 and 2016, we incurred, and our Advisers waived the reimbursement of, administrative services expenses of approximately \$873,000 and \$574,000, respectively. For the six months ended June 30, 2017 and 2016, we incurred, and our Advisers waived the reimbursement of, administrative services expenses of approximately \$1.5 million and \$1.1 million, respectively. On April 24, 2017, we and the Advisers agreed to an amendment to the 2014 Expense Reimbursement Agreement, which extended the period for waiver of reimbursement of administrative expenses accrued pursuant to the Investment Advisory Agreement and the Sub-Advisory Agreement through June 30, 2017. The waiver of the reimbursement of administrative service expenses is not subject to future reimbursement.

### **CRITICAL ACCOUNTING POLICIES**

Each of our critical accounting policies involves the use of estimates that require management to make assumptions that are subjective in nature. Management relies on its experience, collects historical and current market data, and analyzes these assumptions in order to arrive at what it believes to be reasonable estimates. In addition, application of these accounting policies involves the exercise of judgments regarding assumptions as to future uncertainties. Actual results could materially differ from these estimates. A disclosure of our critical accounting policies is included in our Annual Report on Form 10-K for the year ended December 31, 2016 in Management's Discussion and Analysis of Financial Condition and Results of Operations. There have been no changes to our critical accounting policies during 2017, except as described below.

#### *Basis of Presentation and Consolidation*

Our condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and accounting principles generally accepted in the United States of America and include the accounts of our wholly-owned consolidated subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. Under the 1940 Act rules, regulations pursuant to Articles 6 and 10 of Regulation S-X and Topic 946-*Financial Services-Investment Companies* of the Accounting Standards Codification, as amended (the "ASC"), of the Financial Accounting Standards Board ("FASB"), Financial

Accounting Services-Investment Companies, we are precluded from consolidating portfolio company investments, including those in which we have a controlling interest, unless the portfolio company is a wholly-owned investment company. An exception to this general principle occurs if we own a controlled operating company whose purpose is to provide services to us such as an investment adviser or transfer agent. None of our investments qualifies for this exception. Therefore, our portfolio company investments, including those in which we have a controlling interest, are carried on the Consolidated Balance Sheet at fair value with changes to fair value recognized as “Net Unrealized Appreciation (Depreciation)” on the Consolidated Statements of Operations until the investment is realized, usually upon exit, resulting in any gain or loss on exit being recognized as a realized gain or loss. However, in the event that any controlled subsidiary exceeds the tests of significance set forth in Rules 3-09 or 4-08 (g) of Regulation S-X, we will include required financial information for such subsidiary in the notes or as an attachment to our condensed consolidated financial statements.

## **PORTFOLIO INVESTMENT COMPOSITION**

Our Middle Market portfolio investments primarily consist of direct or secondary purchases of interest-bearing debt securities in companies that are generally larger in size than the LMM companies included in our LMM portfolio. While our Middle Market debt investments are generally secured by a first priority lien, 17.4% of the fair value of our Middle Market portfolio is secured by second priority liens.

Our current LMM portfolio consists of debt investments secured by first and second priority liens (65.0% and 2.9% of the total fair value of the LMM portfolio, respectively) on the assets of the portfolio companies and equity investments (32.1% of the total fair value of the LMM portfolio) in privately held LMM companies as of June 30, 2017. The LMM debt investments generally mature between five and seven years from the original investment date. The LMM equity investments represent an equity position or the right to acquire an equity position through warrants.

Our Private Loan portfolio primarily consists of debt investments secured by first and second priority liens (92.0% and 0.6% of the total fair value of the Private Loan portfolio, respectively) on the assets of the portfolio companies, unsecured debt investments (4.3% of the total fair value of the Private Loan portfolio) and equity investments (3.1% of the total fair value of the Private Loan portfolio) in Private Loan companies as of June 30, 2017. The Private Loan debt investments typically have stated terms between three and seven years from the original investment date. The Private Loan equity investments represent an equity position or the right to acquire an equity position through warrants.

Our Other Portfolio investments primarily consist of our investment in HMS-ORIX SLF LLC (“HMS-ORIX,” discussed in more detail below) and investments managed by third parties, which differ from the typical profiles for LMM, Middle Market and Private Loan portfolio investments. In the Other Portfolio investments, we may incur indirect fees and expenses in connection with investments managed by third parties, such as investments in other investment companies or private funds.

During the six months ended June 30, 2017, we funded investment purchases of approximately \$307.0 million and had eight investments under contract to purchase as of June 30, 2017, for approximately \$34.1 million, which settled or we scheduled to settle after June 30, 2017. We also received proceeds from sales and repayments of existing portfolio investments of approximately \$280.0 million including \$14.5 million in sales. Additionally, we had two investments under contract to sell as of June 30, 2017, for approximately \$5.7 million, which represented the contract sales price. The combined result of these transactions increased our portfolio, on a cost basis, by approximately \$58.0 million, or 5.8%, and the number of portfolio investments by five or 2.8%, compared to the portfolio as of December 31, 2016. As of June 30, 2017, the largest investment in an individual portfolio company represented approximately 2.9% of our portfolio’s fair value with the remaining investments in an individual portfolio company ranging from 0.0% to 1.7%. The average investment in our portfolio is approximately \$5.7 million or 0.5% of the total portfolio. As a result of these transactions, our portfolio has become increasingly broadened across individual portfolio investments, geographic regions, and industries. Further, our total portfolio’s investment composition (excluding our Other Portfolio investments) at fair value is comprised of 81.8% first lien debt securities and 11.3% second lien debt securities, with the remainder in unsecured debt investments and equity investments. First lien debt securities have priority over subordinated debt owed by the issuer with respect to the collateral pledged as security for the loan. Due to the relative priority of payment of first lien investments, these generally have lower yields than lower priority, less secured investments.

During the six months ended June 30, 2016, we made investment purchases of approximately \$181.9 million and had seven investments under contract to purchase as of June 30, 2016 for approximately \$28.3 million, which settled after June 30, 2016. We also received proceeds from sales and repayments of existing portfolio investments of approximately \$107.9 million including \$61.5 million in sales and had two investments under contract to sell as of June 30, 2016 for approximately \$11.2 million, which represented the contract sales price.

The result of these transactions further diversified our geographic and industry concentrations and based upon our investment rating system, which is described further below, the weighted average rating of our LMM was approximately 2.8 and 2.6 as of



June 30, 2017 and December 31, 2016, respectively. Lastly, the overall weighted average effective yield on our investment portfolio decreased from 8.9% as of December 31, 2016 to 8.5% as of June 30, 2017.

Summaries of the composition of our total investment portfolio at cost and fair value are shown in the following tables (this information excludes Other Portfolio investments):

|                          | June 30, 2017 |              |               |        | December 31, 2016 |              |               |        |
|--------------------------|---------------|--------------|---------------|--------|-------------------|--------------|---------------|--------|
|                          | LMM           | Private Loan | Middle Market | Total  | LMM               | Private Loan | Middle Market | Total  |
| <b>Cost:</b>             |               |              |               |        |                   |              |               |        |
| First Lien Secured Debt  | 69.0%         | 92.0%        | 81.8%         | 82.7%  | 67.9%             | 92.0%        | 81.5%         | 82.3%  |
| Second Lien Secured Debt | 3.0           | 0.6          | 17.0          | 11.2   | 3.5               | 0.7          | 16.9          | 11.9   |
| Unsecured Debt           | —             | 4.2          | 0.4           | 1.3    | —                 | 4.9          | 0.9           | 1.6    |
| Equity                   | 26.8          | 2.9          | 0.8           | 4.6    | 26.9              | 2.0          | 0.7           | 3.9    |
| Equity warrants          | 1.2           | 0.3          | —             | 0.2    | 1.7               | 0.4          | —             | 0.3    |
| Total                    | 100.0%        | 100.0%       | 100.0%        | 100.0% | 100.0%            | 100.0%       | 100.0%        | 100.0% |

|                          | June 30, 2017 |              |               |        | December 31, 2016 |              |               |        |
|--------------------------|---------------|--------------|---------------|--------|-------------------|--------------|---------------|--------|
|                          | LMM           | Private Loan | Middle Market | Total  | LMM               | Private Loan | Middle Market | Total  |
| <b>Fair Value:</b>       |               |              |               |        |                   |              |               |        |
| First Lien Secured Debt  | 65.0%         | 92.0%        | 81.4%         | 81.8%  | 64.3%             | 91.5%        | 81.3%         | 81.5%  |
| Second Lien Secured Debt | 2.9           | 0.6          | 17.4          | 11.3   | 3.3               | 0.7          | 17.0          | 11.8   |
| Unsecured Debt           | —             | 4.3          | 0.5           | 1.4    | —                 | 4.9          | 0.9           | 1.7    |
| Equity                   | 30.8          | 2.9          | 0.7           | 5.3    | 30.7              | 2.1          | 0.8           | 4.6    |
| Equity warrants          | 1.3           | 0.2          | —             | 0.2    | 1.7               | 0.8          | —             | 0.4    |
| Total                    | 100.0%        | 100.0%       | 100.0%        | 100.0% | 100.0%            | 100.0%       | 100.0%        | 100.0% |

For the tables showing our total investment portfolio composition by geographic region and by industry, see Note 3 - *Fair Value Hierarchy for Investments - Portfolio Investment Composition* to our condensed consolidated financial statements included elsewhere in this Report.

### ***Investment in HMS-ORIX***

We co-invest in broadly-syndicated loans with ORIX Funds Corp. (“Orix”) through our investment in HMS-ORIX, which is organized as a Delaware limited liability company. Pursuant to the terms of the limited liability company agreement and through representation on the HMS-ORIX Board of Managers, we and Orix each have 50% voting control of HMS-ORIX and together will agree on all portfolio and investment decisions as well as all other significant actions for HMS-ORIX. We do not operationally control HMS-ORIX, and, accordingly, we do not consolidate the operations of HMS-ORIX within the consolidated financial statements. As of June 30, 2017, we and Orix have committed to provide, and have funded, an aggregate of \$50.0 million of equity to HMS-ORIX, with us providing \$30.0 million (60% of the equity) and Orix providing \$20.0 million (40% of the equity).

As of June 30, 2017, HMS-ORIX had total assets of \$132.6 million and HMS-ORIX’s portfolio consisted of 52 broadly-syndicated loans, generally in industries similar to those in which we may directly invest.

On April 5, 2017, HMS-ORIX closed on a \$100.0 million credit facility with Bank of America, N.A. The facility has a maturity date of April 5, 2020 and borrowings under the facility bear interest at a rate equal to LIBOR plus 1.65% per annum. As of June 30, 2017, \$40.0 million was outstanding under this facility. Borrowings under the facility are secured by substantially all of the assets of HMS-ORIX. If we were to include our pro-rata share of the borrowings under the HMS-ORIX credit facility as leverage on our balance sheet as of June 30, 2017, our asset coverage ratio as of such date would have been 232%, including unfunded commitments as a senior security.

The following table presents a summary of HMS-ORIX's portfolio as of June 30, 2017 (dollars in thousands):

|  | <b>As of<br/>June 30, 2017</b> |
|--|--------------------------------|
| Total debt investments <sup>(1)</sup>                    | \$ 115,508                     |
| Weighted average effective yield on loans <sup>(2)</sup> | 4.88%                          |
| Largest loan to a single borrower <sup>(1)</sup>         | \$ 3,500                       |
| Total of 10 largest loans to borrowers <sup>(1)</sup>    | \$ 30,753                      |

(1) At principal amount.

(2) Weighted average effective annual yield is calculated based on the investments at the end of each period and includes accretion of original issue discounts and amortization of premiums, and the amortization of fees received in connection with transactions. Investments, if any, on non-accrual status are assumed to have a zero yield in the calculation of weighted average effective annual yield.

The following table presents a listing of HMS-ORIX's individual loans as of June 30, 2017:

**HMS-ORIX**  
**Loan Portfolio**  
**As of June 30, 2017**  
**(dollars in thousands)**

| Portfolio Company                                   | Industry   | Type of Investment   | Principal | Cost     | Fair Value |
|---|--|--|-----------|----------|------------|
| <b>Acosta, Inc.</b>                                 | Commercial services and supplies                 | LIBOR (3 months) + 3.25%, Current Coupon 4.48%, Secured Debt (Maturity - September 26, 2021) | \$ 2,000  | \$ 1,865 | \$ 1,802   |
| <b>Acrisure, LLC</b>                                | Insurance  | LIBOR (1 month) + 5.00%, Current Coupon 6.30%, Secured Debt (Maturity - November 22, 2023)   | 1,995     | 2,002    | 2,018      |
| <b>Advantage Sales &amp; Marketing Inc.</b>         | Commercial services and supplies                 | LIBOR (1 month) + 3.25%, Current Coupon 4.42%, Secured Debt (Maturity - July 23, 2021)       | 2,000     | 1,941    | 1,925      |
| <b>Air Medical Group Holdings Inc</b>               | Health care providers & services                 | LIBOR (1 month) + 4.00%, Current Coupon 5.16%, Secured Debt (Maturity - April 28, 2022)      | 2,000     | 1,990    | 1,995      |
| <b>Ancestry.com Operations Inc.</b>                 | Internet software and services                   | LIBOR (1 month) + 3.25%, Current Coupon 4.34%, Secured Debt (Maturity - October 19, 2023)    | 2,000     | 2,020    | 2,013      |
| <b>Arch Coal, Inc.</b>                              | Metals and mining                                | LIBOR (1 month) + 4.00%, Current Coupon 5.23%, Secured Debt (Maturity - March 7, 2024)       | 1,995     | 2,002    | 1,998      |
| <b>AshCo, Inc.</b>                                  | Specialty retail                                 | LIBOR (3 months) + 5.00%, Current Coupon 6.30%, Secured Debt (Maturity - December 15, 2023)  | 2,000     | 1,953    | 1,948      |
| <b>Atkore International, Inc.</b>                   | Electronic equipment, instruments and components | LIBOR (3 months) + 3.00%, Current Coupon 4.30%, Secured Debt (Maturity - December 22, 2023)  | 2,992     | 3,022    | 3,009      |
| <b>Avantor Performance Materials Holdings, Inc.</b> | Biotechnology                                    | LIBOR (1 month) + 4.00%, Current Coupon 5.23%, Secured Debt (Maturity - March 8, 2024)       | 2,993     | 3,029    | 3,002      |
| <b>BMC Software Finance, Inc.</b>                   | Software   | LIBOR (1 month) + 4.00%, Current Coupon 5.23%, Secured Debt (Maturity - September 12, 2022)  | 2,980     | 3,005    | 2,990      |
| <b>Builders FirstSource, Inc.</b>                   | Building products                                | LIBOR (3 months) + 3.00%, Current Coupon 4.30%, Secured Debt (Maturity - February 29, 2024)  | 2,992     | 2,989    | 2,994      |
| <b>CHS/Community Health Systems, Inc.</b>           | Healthcare providers and services                | LIBOR (3 months) + 3.00%, Current Coupon 4.20%, Secured Debt (Maturity - January 27, 2021)   | 1,791     | 1,784    | 1,791      |
| <b>Colorado Buyer Inc</b>                           | Technology hardware, storage and peripherals     | LIBOR (3 months) + 3.00%, Current Coupon 4.17%, Secured Debt (Maturity - May 1, 2024)        | 3,000     | 3,012    | 3,008      |
| <b>Confie Seguros Holding II Co.</b>                | Insurance  | LIBOR (1 month) + 5.50%, Current Coupon 6.73%, Secured Debt (Maturity - April 19, 2022)      | 1,995     | 2,002    | 1,975      |

**HMS-ORIX**  
**Loan Portfolio**  
**As of June 30, 2017**  
**(dollars in thousands)**

| Portfolio Company                                 | Industry                           | Type of Investment  | Principal | Cost     | Fair Value |
|---|------------------------------------|---|-----------|----------|------------|
| <b>Cortes NP Acquisition Corporation</b>          | Electrical equipment               | LIBOR (3 months) + 4.00%, Current Coupon 5.23%, Secured Debt (Maturity - November 30, 2023) | \$ 2,000  | \$ 2,020 | \$ 2,011   |
| <b>CPI International, Inc.</b>                    | Aerospace and defense              | LIBOR (1 month) + 3.25%, Current Coupon 4.48%, Secured Debt (Maturity - April 7, 2021)      | 1,995     | 2,010    | 1,995      |
| <b>Diamond Resorts International, Inc.</b>        | Hotels, restaurants and leisure    | LIBOR (1 month) + 6.00%, Current Coupon 7.23%, Secured Debt (Maturity - September 1, 2023)  | 1,995     | 2,025    | 2,014      |
| <b>Duff &amp; Phelps Corporation</b>              | Diversified financial services     | LIBOR (3 months) + 3.75%, Current Coupon 5.05%, Secured Debt (Maturity - April 23, 2020)    | 1,995     | 2,009    | 2,011      |
| <b>EFS Cogen Holdings I LLC</b>                   | Electric utilities                 | LIBOR (3 months) + 3.50%, Current Coupon 4.80%, Secured Debt (Maturity - June 28, 2023)     | 1,963     | 1,977    | 1,974      |
| <b>Endo Luxembourg Finance Company I S.a.r.l.</b> | Pharmaceuticals                    | LIBOR (1 month) + 4.25%, Current Coupon 5.50%, Secured Debt (Maturity - April 29, 2024)     | 2,000     | 2,020    | 2,022      |
| <b>Envision Healthcare Corporation</b>            | Healthcare providers and services  | LIBOR (3 months) + 3.00%, Current Coupon 4.30%, Secured Debt (Maturity - December 1, 2023)  | 2,494     | 2,494    | 2,509      |
| <b>Everi Payments Inc.</b>                        | Leisure products                   | LIBOR (3 months) + 4.50%, Current Coupon 5.75%, Secured Debt (Maturity - May 9, 2024)       | 2,000     | 1,993    | 2,017      |
| <b>First American Payment Systems, L.P.</b>       | Diversified financial services     | LIBOR (1 month) + 5.75%, Current Coupon 6.84%, Secured Debt (Maturity - January 5, 2024)    | 1,000     | 1,012    | 1,011      |
| <b>Fitness International, LLC</b>                 | Hotels, restaurants and leisure    | LIBOR (1 month) + 4.25%, Current Coupon 5.48%, Secured Debt (Maturity - July 1, 2020)       | 2,000     | 2,030    | 2,029      |
| <b>Flexera Software LLC</b>                       | Software                           | LIBOR (1 month) + 3.50%, Current Coupon 4.80%, Secured Debt (Maturity - April 2, 2020)      | 1,995     | 2,017    | 2,011      |
| <b>Greatbatch Ltd.</b>                            | Healthcare equipment and supplies  | LIBOR (2 months) + 3.50%, Current Coupon 4.71%, Secured Debt (Maturity - October 27, 2022)  | 2,889     | 2,907    | 2,905      |
| <b>GYP Holdings III Corp.</b>                     | Trading companies and distributors | LIBOR (1 month) + 3.00%, Current Coupon 4.14%, Secured Debt (Maturity - March 31, 2023)     | 3,500     | 3,527    | 3,515      |
| <b>Harbor Freight Tools USA, Inc.</b>             | Specialty retail                   | LIBOR (1 month) + 3.25%, Current Coupon 4.48%, Secured Debt (Maturity - August 18, 2023)    | 2,000     | 2,007    | 2,002      |
| <b>Horizon Pharma, Inc.</b>                       | Pharmaceuticals                    | LIBOR (1 month) + 3.75%, Current Coupon 4.88%, Secured Debt (Maturity - March 29, 2024)     | 1,995     | 2,015    | 2,005      |
| <b>IG Investments Holdings, LLC</b>               | Professional services              | LIBOR (1 month) + 4.00%, Current Coupon 5.30%, Secured Debt (Maturity - October 31, 2021)   | 1,995     | 2,007    | 2,016      |
| <b>inVentiv Health, Inc.</b>                      | Life sciences tools and services   | LIBOR (3 months) + 3.75%, Current Coupon 4.95%, Secured Debt (Maturity - November 9, 2023)  | 2,992     | 3,015    | 3,002      |
| <b>Jackson Hewitt Tax Service Inc.</b>            | Diversified consumer services      | LIBOR (1 month) + 7.00%, Current Coupon 8.17%, Secured Debt (Maturity - July 30, 2020)      | 2,000     | 1,912    | 1,920      |
| <b>KC MergerSub, Inc.</b>                         | Diversified consumer services      | LIBOR (3 months) + 3.75%, Current Coupon 5.05%, Secured Debt (Maturity - August 12, 2022)   | 1,995     | 2,005    | 2,009      |
| <b>KMG Chemicals, Inc.</b>                        | Chemicals                          | LIBOR (1 month) + 4.25%, Current Coupon 5.41%, Secured Debt (Maturity - June 13, 2024)      | 1,333     | 1,327    | 1,349      |
| <b>LANDesk Group, Inc.</b>                        | Software                           | LIBOR (1 month) + 4.25%, Current Coupon 5.48%, Secured Debt (Maturity - January 22, 2024)   | 998       | 1,004    | 994        |

**HMS-ORIX**  
**Loan Portfolio**  
**As of June 30, 2017**  
**(dollars in thousands)**

| Portfolio Company                           | Industry   | Type of Investment   | Principal | Cost              | Fair Value        |
|---|--|--|-----------|-------------------|-------------------|
| LTS Buyer LLC                               | Diversified telecommunication services           | LIBOR (3 months) + 3.25%, Current Coupon 4.55%, Secured Debt (Maturity - April 13, 2020)   | \$ 2,992  | \$ 3,018          | \$ 3,009          |
| Mohegan Tribal Gaming Authority             | Hotels, restaurants and leisure                  | LIBOR (1 month) + 4.00%, Current Coupon 5.23%, Secured Debt (Maturity - October 13, 2023)  | 1,995     | 2,014             | 2,020             |
| MPH Acquisition Holdings LLC                | Health care technology                           | LIBOR (3 months) + 3.00%, Current Coupon 4.30%, Secured Debt (Maturity - June 7, 2023)     | 2,991     | 3,035             | 2,995             |
| NAB Holdings, LLC                           | IT services                                      | LIBOR (3 months) + 3.50%, Current Coupon 4.70%, Secured Debt (Maturity - June 14, 2024)    | 2,000     | 1,990             | 2,007             |
| NBTY, Inc.                                  | Food products                                    | LIBOR (3 months) + 3.50%, Current Coupon 4.80%, Secured Debt (Maturity - May 5, 2023)      | 1,995     | 2,000             | 2,000             |
| Ortho-Clinical Diagnostics, Inc.            | Life sciences tools and services                 | LIBOR (1 month) + 3.75%, Current Coupon 5.05%, Secured Debt (Maturity - June 30, 2021)     | 1,995     | 1,990             | 1,987             |
| Quikrete Holdings, Inc.                     | Construction materials                           | LIBOR (1 month) + 2.75%, Current Coupon 3.98%, Secured Debt (Maturity - November 15, 2023) | 2,992     | 2,992             | 2,989             |
| Rackspace Hosting, Inc.                     | Electronic equipment, instruments and components | LIBOR (1 month) + 3.00%, Current Coupon 4.17%, Secured Debt (Maturity - November 3, 2023)  | 3,300     | 3,327             | 3,307             |
| SeaWorld Parks & Entertainment, Inc.        | Hotels, restaurants and leisure                  | LIBOR (3 months) + 3.00%, Current Coupon 4.30%, Secured Debt (Maturity - April 1, 2024)    | 1,995     | 1,997             | 1,994             |
| Telenet Financing USD LLC                   | Diversified telecommunication services           | LIBOR (1 month) + 2.75%, Current Coupon 3.91%, Secured Debt (Maturity - June 30, 2025)     | 3,000     | 3,013             | 3,005             |
| Transdigm, Inc.                             | Aerospace and defense                            | LIBOR (1 month) + 3.00%, Current Coupon 4.23%, Secured Debt (Maturity - June 9, 2023)      | 1,995     | 2,002             | 1,994             |
| UFC Holdings, LLC                           | Media  | LIBOR (1 month) + 3.25%, Current Coupon 4.47%, Secured Debt (Maturity - August 18, 2023)   | 1,995     | 2,007             | 2,001             |
| Ultra Resources, Inc.                       | Oil, Gas and Consumable Fuels                    | LIBOR (1 month) + 3.00%, Current Coupon 4.12%, Secured Debt (Maturity - April 12, 2024)    | 2,000     | 2,003             | 1,995             |
| Valeant Pharmaceuticals International, Inc. | Pharmaceuticals                                  | LIBOR (1 month) + 4.75%, Current Coupon 5.83%, Secured Debt (Maturity - April 1, 2022)     | 2,904     | 2,918             | 2,946             |
| Vistra Operations Company LLC               | Electric utilities                               | LIBOR (1 month) + 3.25%, Current Coupon 4.46%, Secured Debt (Maturity - December 14, 2023) | 1,995     | 2,007             | 1,997             |
| WideOpenWest Finance, LLC                   | Diversified telecommunication services           | LIBOR (3 months) + 3.50%, Current Coupon 4.70%, Secured Debt (Maturity - August 18, 2023)  | 2,992     | 3,019             | 3,019             |
|   |  | LIBOR (3 months) + 3.25%, Current Coupon 4.25%, Secured Debt (Maturity - August 18, 2023)  | 505       | 504               | 505               |
| <b>Total Loan Portfolio</b>                 |  |  |           | <b>\$ 115,785</b> | <b>\$ 115,559</b> |

For the three and six months ended June 30, 2017, we did not accrue dividend income in respect of our investment in HMS-ORIX.

The following tables show the summarized financial information for HMS-ORIX (dollars in thousands):

| Balance Sheet Data                           | As of<br>June 30, 2017 |   |
|--|------------------------|---|
| Assets                                       |                        |   |
| Portfolio investments at fair value          | \$                     | 115,559   |
| Cash and cash equivalents                    |                        | 15,909  |
| Deferred financing costs                     |                        | 1,087   |
| Other assets                                 |                        | 74  |
| Total assets                                 | \$                     | 132,629   |
|  |                        |   |
| Liabilities                                  |                        |   |
| Debt   | \$                     | 40,000  |
| Payable for securities purchased             |                        | 42,183  |
| Accounts payable and accrued expenses        |                        | 483   |
| Total liabilities                            |                        | 82,666  |
| Net assets                                   |                        | 49,963  |
| Total liabilities and net assets             | \$                     | 132,629   |
|  |                        |   |
|  |                        | Period from<br>inception (April 4,<br>2017) to June 30,<br>2017 |
| Selected Statement of Operations Information |                        |   |
| Interest income                              | \$                     | 494   |
| Dividend income                              |                        | —   |
| Total income                                 | \$                     | 494   |
| Interest expense                             |                        | 251   |
| Other expenses                               |                        | 53  |
| Total expenses                               | \$                     | 304   |
| Net investment income                        | \$                     | 190   |
| Unrealized (depreciation) on investments     |                        | (226)   |
| Realized (losses) from investments           |                        | (1)   |
| Net (decrease) in net assets                 | \$                     | (37)  |

## PORTFOLIO ASSET QUALITY

As of June 30, 2017, we owned a broad portfolio of 183 investments in 127 companies representing a wide range of industries. We believe that this broad portfolio adds to the structural protection of the portfolio, revenue sources, income, cash flows and dividends. The portfolio included the following:

- 69 debt investments in 63 Middle Market portfolio companies with an aggregate fair value of approximately \$611.8 million and a cost basis of approximately \$629.8 million. The Middle Market debt investments had a weighted average annual effective yield of approximately 8.8%, which is calculated assuming the investments on non-accrual status are non-yielding, and 82.0% of the Middle Market debt investments were secured by first priority liens. Further, 87.3% of the Middle Market investments contain variable rates, though a majority of the investments with variable rates are subject to contractual minimum base interest rates between 100 and 150 basis points.
- 32 debt investments in 31 Private Loan portfolio companies with an aggregate fair value of approximately \$236.3 million and a cost basis of approximately \$238.3 million. The Private Loan debt investments had a weighted average annual effective yield of approximately 9.1%, which is calculated assuming the investments on non-accrual status are non-yielding, and 94.9% of the Private Loan debt investments were secured by first priority liens. Further, 93.1% of the Private Loan debt investments contain variable rates, though a majority of the investments with variable rates are subject to contractual minimum base interest rates between 100 and 150 basis points.

- 31 debt investments in 25 LMM portfolio companies with an aggregate fair value of approximately \$90.2 million and a cost basis of approximately \$91.6 million. The LMM debt investments had a weighted average annual effective yield of approximately 11.9% and 95.7% of the debt investments were secured by first priority liens. Also, 49.9% of the LMM debt investments are fixed rate investments with fixed interest rates between 7.0% and 15.0%. Further, 19 LMM debt investments, representing approximately 50.1% of the LMM debt investments have variable rates subject to a contractual minimum base interest rate of 100 basis points.
- 42 equity investments and nine equity warrant investments in 25 LMM portfolio companies, seven Private Loan portfolio companies, four Middle Market portfolio companies and four Other Portfolio companies with an aggregate fair value of approximately \$106.6 million and a cost basis of approximately \$100.7 million.

Overall, as of June 30, 2017, our investment portfolio had a weighted average effective yield on our investments of approximately 8.5%, and 77.7% of our total portfolio's investment composition (including our Other Portfolio investments) was secured by first priority liens.

As of June 30, 2017, we had four investments in three portfolio companies that were on non-accrual status, which comprised approximately 0.3% of our total investment portfolio at fair value and 1.0% of the total investment portfolio at cost. As of December 31, 2016, we had three investments in two portfolio companies that were on non-accrual status, which comprised approximately 0.2% of the total investment portfolio at fair value and 0.8% of the total investment portfolio at cost. For those investments in which S&P credit ratings are available, which represents approximately 35.1% of the portfolio as of June 30, 2017, the portfolio had a weighted average effective credit rating of B.

We utilize a rating system developed by our Sub-Adviser to rate the performance of each LMM portfolio company. The investment rating system takes into consideration various factors, including each investment's expected level of returns, collectability, comparisons to competitors and other industry participants, and the portfolio company's future outlook.

- Investment Rating 1 represents a LMM portfolio company that is performing in a manner which significantly exceeds expectations.
- Investment Rating 2 represents a LMM portfolio company that, in general, is performing above expectations.
- Investment Rating 3 represents a LMM portfolio company that is generally performing in accordance with expectations. All new LMM portfolio investments receive an initial Investment Rating 3.
- Investment Rating 4 represents a LMM portfolio company that is underperforming expectations, requiring increased monitoring and scrutiny by us.
- Investment Rating 5 represents a LMM portfolio company that is significantly underperforming, requiring heightened levels of monitoring and scrutiny by us and involves the recognition of significant unrealized depreciation on such investment.

The following table shows the distribution of our LMM portfolio investments on the 1 to 5 investment rating scale at fair value as of June 30, 2017 and December 31, 2016 (dollars in thousands):

| Investment Rating | June 30, 2017             |                                   | December 31, 2016         |                                   |
|-------------------|---------------------------|-----------------------------------|---------------------------|-----------------------------------|
|                   | Investments at Fair Value | Percentage of Total LMM Portfolio | Investments at Fair Value | Percentage of Total LMM Portfolio |
| 1                 | \$ 2,460                  | 1.8 %                             | \$ 1,541                  | 1.3 %                             |
| 2                 | 34,387                    | 25.9                              | 56,244                    | 48.5                              |
| 3                 | 88,463                    | 66.6                              | 50,764                    | 43.7                              |
| 4                 | 6,809                     | 5.1                               | 7,511                     | 6.5                               |
| 5                 | 742                       | 0.6                               | —                         | —                                 |
| <b>Total</b>      | <b>\$ 132,861</b>         | <b>100.0%</b>                     | <b>\$ 116,060</b>         | <b>100.0%</b>                     |

Based upon the investment rating system, the weighted average rating of our LMM portfolio at fair value was approximately 2.8 and 2.6 as of June 30, 2017 and December 31, 2016, respectively.

## DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

### RESULTS COMPARISONS FOR THE THREE MONTHS ENDED JUNE 30, 2017 AND JUNE 30, 2016

#### *Total Investment Income, Operating Expenses, Net Assets*

For the three months ended June 30, 2017 and 2016, our total investment income was approximately \$25.5 million and \$21.2 million, respectively, consisting predominately of interest income. As of June 30, 2017, the portfolio had a weighted average

annual effective yield on investments of approximately 8.5% compared to 8.4% as of June 30, 2016, and our average investment portfolio for the three months ended June 30, 2017 was \$1,002.0 million compared to \$894.1 million for the three months ended June 30, 2016. Additionally, during the three months ended June 30, 2017 and 2016, we accreted approximately \$3.8 million and \$2.8 million, respectively, of unearned income into interest income. The increase in interest income was primarily due to (i) the growth in our total portfolio resulting from the investment of additional equity capital raised and borrowings under our amended and restated senior secured revolving credit facility (the “EverBank Credit Facility”) entered into by us, HMS Equity Holding, LLC and HMS Equity Holding II, Inc., our wholly-owned subsidiaries, with EverBank Commercial Finance, Inc. as administrative agent and certain financial institutions as lenders, and the amended and restated credit agreement entered into by HMS Funding I, LLC, our wholly owned subsidiary, with Deutsche Bank AG, New York Branch as administrative agent (the “Deutsche Bank Credit Facility,” and, together with our EverBank Credit Facility, the “Credit Facilities”) and (ii) acceleration of the accretion of original issuance discounts primarily resulting from principal repayments on certain portfolio investments. We believe further increases in investment income in future periods may arise due to (i) a growing base of portfolio company investments and (ii) investments being held for the entire period relative to incremental net investment activity during each quarter. For information on the Credit Facilities, see Note 5 - *Borrowings* to our condensed consolidated financial statements included elsewhere in this report.

For the three months ended June 30, 2017 and 2016, we recognized \$896,000 and \$405,000, respectively, of fee income received from our portfolio companies or other third parties, which accounted for approximately 3.5% and 1.9%, respectively, of our total investment income during such period. Such fee income is transaction based, and typically consists of prepayment fees, structuring fees, amendment and consent fees and other non-recurring fees. As such, future fee income is generally dependent on new direct origination investments and the occurrence of prepayments and other events at existing portfolio companies resulting in such fees.

For the three months ended June 30, 2017 and 2016, expenses, net of incentive fee and administrative services expense waivers, were approximately \$10.5 million and \$9.2 million, respectively. The increase in expenses is primarily due to (i) an increase in interest expense of \$0.7 million, (ii) an increase in base management fees and incentive fees (net of fee waivers) of \$0.6 million and (iii) an increase in amortization of offering costs of \$0.3 million. Interest expense increased primarily due to an increase in our cost of borrowing on the Credit Facilities, as the annualized interest rate on our borrowings increased from approximately 3.3% as of June 30, 2016 to approximately 3.9% as of June 30, 2017. Base management fees and incentive fees (net of fee waivers) increased primarily due to an increase in our average gross assets.

For the three months ended June 30, 2017, the net increase in net assets resulting from operations (gross of stockholder distributions declared) was approximately \$17.5 million. The increase was attributable to net investment income of approximately \$15.1 million and unrealized appreciation on investments of approximately \$2.4 million.

For the three months ended June 30, 2016, the net increase in net assets resulting from operations (gross of stockholder distributions declared) was approximately \$18.1 million. The increase was primarily attributable to unrealized appreciation on investments of approximately \$15.4 million and net investment income of approximately \$12.0 million, offset by net realized losses of approximately \$9.4 million.

## ***RESULTS COMPARISONS FOR THE SIX MONTHS ENDED JUNE 30, 2017 AND JUNE 30, 2016***

### ***Total Investment Income, Operating Expenses, Net Assets***

For the six months ended June 30, 2017 and 2016, our total investment income was approximately \$50.9 million and \$42.5 million, respectively, consisting predominately of interest income. As of June 30, 2017, the portfolio had a weighted average annual effective yield on investments of approximately 8.5% compared to 8.4% as of June 30, 2016, and our average investment portfolio for the six months ended June 30, 2017 was \$997.8 million compared to \$880.4 million for the six months ended June 30, 2016. Additionally, during the six months ended June 30, 2017 and 2016, we accreted approximately \$7.9 million and \$5.1 million, respectively, of unearned income into interest income. The increase in interest income was primarily due to (i) the growth in our total portfolio resulting from the investment of additional equity capital raised and borrowings under the Credit Facilities and (ii) acceleration of the accretion of original issuance discounts primarily resulting from principal repayments on certain portfolio investments. We believe further increases in investment income in future periods may arise due to (i) a growing base of portfolio company investments and (ii) investments being held for the entire period relative to incremental net investment activity during each quarter. For information on the Credit Facilities, see Note 5 - *Borrowings* to our condensed consolidated financial statements included elsewhere in this Report.

For the six months ended June 30, 2017 and 2016, we recognized \$1.7 million and \$680,000, respectively, of fee income received from our portfolio companies or other third parties, which accounted for approximately 3.3% and 1.6%, respectively, of our total investment income during such period. Such fee income is transaction based, and typically consists of prepayment fees, structuring



fees, amendment and consent fees and other non-recurring fees. As such, future fee income is generally dependent on new direct origination investments and the occurrence of prepayments and other events at existing portfolio companies resulting in such fees.

For the six months ended June 30, 2017 and 2016, expenses, net of incentive fee and administrative services expense waivers, were approximately \$20.7 million and \$18.2 million, respectively. The increase in expenses is primarily due to (i) an increase in base management fees and incentive fees (net of fee waivers) of \$1.3 million, (ii) an increase in interest expense of \$1.0 million and (iii) an increase in the amortization of offering costs of \$0.7 million. Base management fees and incentive fees (net of fee waivers) increased primarily due to an increase in our average gross assets. Interest expense increased primarily due to an increase in our average borrowings during the period and an increase in our cost of borrowing on the Credit Facilities. Average borrowings were \$405.3 million for the six months ended June 30, 2017 compared to \$394.0 million for the six months ended June 30, 2016. As of June 30, 2017 and 2016, the annualized interest rate on borrowings was 3.9% and 3.3%, respectively.

For the six months ended June 30, 2017, the net increase in net assets resulting from operations (gross of stockholder distributions declared) was approximately \$30.7 million. The increase was attributable to net investment income of approximately \$30.2 million and net realized gains of approximately \$2.6 million, offset by unrealized depreciation on investments of approximately \$2.1 million. The realized gains were primarily the result of the exit of one Private Loan equity investment.

For the six months ended June 30, 2016, the net increase in net assets resulting from operations (gross of stockholder distributions declared) was approximately \$15.4 million. The increase was attributable to net investment income of approximately \$24.3 million and unrealized appreciation on investments of approximately \$1.2 million, offset by realized losses of approximately \$10.0 million.

## ***FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES***

### ***Overview***

As of June 30, 2017, we had approximately \$32.9 million in cash and cash equivalents, which we held in various custodial accounts. In addition, as of June 30, 2017, we had \$78.0 million in capacity available under the Credit Facilities. To seek to enhance our returns, we intend to continue to employ leverage as market conditions permit and at the discretion of our Adviser, but in no event will leverage employed exceed 50% of the value of our assets, as required by the 1940 Act. See *"Liquidity and Cash Flows - Financing Arrangements."*

As of June 30, 2017, we had 28 senior secured loan investments and three equity investments with aggregate unfunded commitments of \$43.9 million. We believe that we maintain sufficient cash on hand and available borrowings to fund such unfunded commitments should the need arise.

We currently generate cash primarily from the net proceeds of our Offering and the issuance of shares under our distribution reinvestment plan and from cash flows from fees, interest earned from our investments as well as principal repayments and proceeds from sales of our investments.

Prior to investing in securities of portfolio companies, we invest the net proceeds from our Offering, from the issuance of shares of common stock under our distribution reinvestment plan and from sales and pay-downs of existing investments primarily in cash, cash equivalents, U.S. government securities, repurchase agreements and high-quality debt instruments maturing in one year or less from the time of investment, consistent with our BDC election and our election to be taxed as a RIC.

### ***Liquidity and Capital Resources***

#### ***Cash Flows***

For the six months ended June 30, 2017, we experienced a net increase in cash and cash equivalents of approximately \$9.2 million. During that period, approximately \$5.1 million of cash was used in our operating activities, which principally consisted of the purchase of new portfolio investments of \$307.0 million and accretion of unearned income of \$7.9 million, offset by principal repayments from and sales of investments in portfolio companies of \$280.0 million and a net increase in net assets resulting from operations of approximately \$30.7 million. During the six months ended June 30, 2017, approximately \$14.3 million was provided by financing activities, which principally consisted of \$31.5 million in net stock offering proceeds received and a net \$4.0 million increase in borrowings under the Credit Facilities, offset by \$12.7 million in cash distributions paid to stockholders and \$7.9 million in cash used for the redemption of our common stock.

For the six months ended June 30, 2016, we experienced a net decrease in cash and cash equivalents of approximately \$6.1 million. During that period, approximately \$53.8 million of cash was used in our operating activities, which principally consisted of the purchase of new portfolio investments of \$181.9 million, offset by principal repayments from and sales of investments in portfolio

companies of \$107.9 million and a net increase in net assets resulting from operations of approximately \$15.4 million. During the six months ended June 30, 2016, approximately \$47.7 million was provided by financing activities, which principally consisted of \$38.3 million in net stock offering proceeds received and a net \$27.0 million increase in borrowings under the Credit Facilities, offset by \$10.6 million in cash distributions paid to stockholders and \$6.5 million in cash distributions used for the redemption of our common stock.

### *Continuous Public Offering*

During the six months ended June 30, 2017, we raised proceeds of \$48.6 million from the Offering, including proceeds from the distribution reinvestment plan, and incurred \$2.9 million for selling commissions and Dealer Manager fees. We also incurred an obligation for \$728,000 of costs related to the Offering.

During the six months ended June 30, 2016, we raised proceeds of \$54.8 million from the Offering, including proceeds from the distribution reinvestment plan, and incurred \$3.9 million for selling commissions and Dealer Manager fees. We also incurred an obligation for \$821,000 of costs related to the Offering.

### *Distributions*

The following table reflects the cash distributions per share that we have declared on our common stock during the six months ended June 30, 2017 and 2016 (dollars in thousands except per share amounts).

|                                   | <b>Distributions</b> |               |
|-----------------------------------|----------------------|---------------|
|                                   | <b>Per Share</b>     | <b>Amount</b> |
| <b>2017</b>                       |                      |               |
| Three months ended June 30, 2017  | \$ 0.18              | \$ 13,438     |
| Three months ended March 31, 2017 | \$ 0.17              | \$ 12,922     |
| <b>2016</b>                       |                      |               |
| Three months ended June 30, 2016  | \$ 0.18              | \$ 11,650     |
| Three months ended March 31, 2016 | \$ 0.17              | \$ 11,037     |

On June 20, 2017, with the authorization of our board of directors, we declared distributions to our stockholders for the period of July 2017 through September 2017. These distributions have been, or will be, calculated based on stockholders of record each day from July 1, 2017 through September 30, 2017 in an amount equal to \$0.00191781 per share, per day. Distributions are paid on the first business day following the completion of each month to which they relate.

For the years ending December 31, 2016, 2015 and 2014, respectively, the tax characteristics of distributions paid to shareholders were as follow (amounts in thousands):

| <b>Tax Characteristics of Distributions</b> | <b>Year Ended December 31,</b> |                |                  |                |                  |                |
|---|--------------------------------|----------------|------------------|----------------|------------------|----------------|
|   | <b>2016</b>                    |                | <b>2015</b>      |                | <b>2014</b>      |                |
| Ordinary income                             | \$ 44,848                      | 93.90%         | \$ 34,085        | 99.68%         | \$ 11,162        | 99.51%         |
| Capital gain distributions                  | 2,913                          | 6.10           | 110              | 0.32           | 55               | 0.49           |
| <b>Total</b>                                | <b>\$ 47,761</b>               | <b>100.00%</b> | <b>\$ 34,195</b> | <b>100.00%</b> | <b>\$ 11,217</b> | <b>100.00%</b> |

The determination of the tax attributes of our distributions is made annually at the end of our taxable year, based upon our taxable income for the full taxable year and distributions paid for the full taxable year. Therefore, a determination made on an interim basis may not be representative of the actual tax attributes of distributions for a full year. The actual tax characteristics of distributions to stockholders will be reported to the Internal Revenue Service and stockholders subject to information reporting after the close of each calendar year on Form 1099-DIV.

We have adopted an “opt in” distribution reinvestment plan for our stockholders. As a result, if we make a distribution, our stockholders will receive distributions in cash unless they specifically “opt in” to the distribution reinvestment plan so as to have their cash distributions reinvested in additional shares of our common stock.

We may fund our cash distributions from any sources of funds legally available, including stock offering proceeds, borrowings, net investment income from operations, capital gains proceeds from the sale of assets, non-capital gains proceeds from the sale of assets, dividends or other distributions paid to us on account of preferred and common equity investments in portfolio companies and fee waivers from our Advisers. We have not established any limit on the extent to which we may use borrowings or stock offering proceeds to fund distributions. Our distributions may exceed our earnings, especially during the period before we have

substantially invested the stock offering proceeds. As a result, a portion of the distributions we make may represent a return of capital for U.S. federal income tax purposes.

The timing and amount of any future distributions to stockholders are subject to applicable legal restrictions and the sole discretion of our board of directors.

In order to satisfy the Code's requirements applicable to entities subject to tax as RICs, we are required to distribute substantially all of our taxable income to our stockholders on an annual basis. However, we may elect to spill over certain excess undistributed taxable income from one taxable year into the next taxable year, which may require us to incur a 4% nondeductible U.S. federal excise tax on such excess undistributed taxable income. In order to avoid the imposition of the 4% nondeductible excise tax, we need to distribute, in respect of each calendar year dividends for U.S. federal income tax purposes of an amount at least equal to the sum of (1) 98.0% of our net ordinary income (taking into account certain deferrals and elections) for the calendar year, (2) 98.2% of our capital gain in excess of capital loss, or capital gain net income, adjusted for certain ordinary losses, generally for the one-year period ending on October 31st of such calendar year (or, if we so elect, for the calendar year) and (3) any net ordinary income and capital gain net income for the preceding calendar years that was not distributed during such calendar years and on which we incurred no U.S. federal income tax.

### *Financing Arrangements*

We anticipate that we will continue to fund our investment activities through existing cash, capital raised from our stock offerings, and borrowings on the Credit Facilities. Our primary uses of funds in both the short-term and long-term are expected to be investments in portfolio companies, operating expenses and cash distributions to holders of our common stock.

As of June 30, 2017, we had \$95.0 million outstanding and \$0.0 million available under our EverBank Credit Facility, and \$322.0 million outstanding and \$78.0 million available under the Deutsche Bank Credit Facility, both of which we estimated approximated fair value. Availability under the Credit Facilities is subject to certain limitations and the asset coverage restrictions under the 1940 Act. For further information on our Credit Facilities, including key terms and financial covenants, refer to Note 5 - *Borrowings* to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2016 as well as Note 5 - *Borrowings* to the condensed consolidated financial statements included elsewhere in this Report.

As a BDC, we generally are required to meet a coverage ratio of total assets to total senior securities, which include borrowings and any preferred stock we may issue in the future, of at least 200%. As of June 30, 2017, our asset coverage ratio under BDC regulations was 239% when including unfunded commitments as a senior security. As of December 31, 2016, our asset coverage ratio under BDC regulations was 245% when including unfunded commitments as a senior security. As of June 30, 2017, considering these limitations, we had the ability to draw upon the entire \$78.0 million of remaining capacity in the Credit Facilities.

Although we have been able to secure access to potential additional liquidity, through proceeds from the Offering and also by entering into the Credit Facilities, there is no assurance that equity or debt capital will be available to us in the future on favorable terms, or at all.

### **Related-Party Transactions and Agreements**

We have entered into agreements with our Adviser, our Sub-Adviser and our Dealer Manager, whereby we pay certain fees and reimbursements to these entities. These include payments to our Dealer Manager for selling commissions and the Dealer Manager fee and payments to our Adviser for reimbursement of offering costs. In addition, we make payments for certain services that include the identification, execution, and management of our investments and also the management of our day-to-day operations provided to us by our Adviser and Sub-Adviser, pursuant to various agreements that we have entered into. See Note 10 - *Related Party Transactions and Arrangements* to the financial statements included elsewhere in this Report for additional information regarding related party transactions.

### **Contractual Obligations**

As of June 30, 2017, we had \$417.0 million in borrowings outstanding under the Credit Facilities. Our EverBank Credit Facility will mature March 6, 2020, with two one-year extension options, subject to lender approval, and the Deutsche Bank Credit Facility will mature on June 16, 2020. See Note 5 - *Borrowings* to the financial statements included elsewhere in this Report for a description of the Credit Facilities.

A summary of our significant contractual payment obligations for the repayment of outstanding borrowings at June 30, 2017 is as follows:

|  | Payments Due By Period (dollars in thousands) |                  |            |           |               |
|--|---|------------------|------------|-----------|---------------|
|  | Total   | Less than 1 year | 1-3 years  | 3-5 years | After 5 years |
| EverBank Credit Facility <sup>(1)</sup>      | \$ 95,000                                     | \$ —             | \$ 95,000  | \$ —      | \$ —          |
| Deutsche Bank Credit Facility <sup>(2)</sup> | 322,000                                       | —                | 322,000    | —         | —             |
| Total Credit Facilities                      | \$ 417,000                                    | \$ —             | \$ 417,000 | \$ —      | \$ —          |

(1) At June 30, 2017, \$0.0 million remained available under our EverBank Credit Facility; however, our borrowing capacity is limited to the asset coverage ratio restrictions imposed by the 1940 Act, as discussed above.

(2) At June 30, 2017, \$78.0 million remained available under the Deutsche Bank Credit Facility; however, our borrowing ability is limited to the asset coverage ratio restrictions imposed by the 1940 Act, as discussed above.

### Off-Balance Sheet Arrangements

At June 30, 2017, we had a total of approximately \$43.9 million in outstanding commitments comprised of (i) 28 commitments to fund revolving loans that had not been fully drawn or term loans that had not been funded and (ii) three capital commitments that had not been fully called. We recognized unrealized appreciation of approximately \$170,000 on our outstanding unfunded loan commitments and no unrealized appreciation or depreciation on our outstanding unfunded capital commitments during the six months ended June 30, 2017. We reasonably believe that we have sufficient assets to adequately cover and allow us to satisfy our outstanding unfunded commitments. At December 31, 2016, we had a total of approximately \$42.7 million in outstanding commitments comprised of (i) 22 commitments to fund revolving loans that had not been fully drawn or term loans that had not been funded and (ii) three capital commitments that had not been fully called. We recognized unrealized depreciation of approximately \$266,000 on our outstanding unfunded loan commitments and unrealized appreciation of approximately \$14,000 on our outstanding unfunded capital commitments during the year ended December 31, 2016.

|                                  | Commitments and Contingencies<br>(dollars in thousands) |                   |
|----------------------------------|---|-------------------|
|                                  | June 30, 2017   | December 31, 2016 |
| <b>Unfunded Loan Commitments</b> |   |                   |
| Adams Publishing Group, LLC      | \$ 2,216  | \$ —              |
| Apex Linen Services, Inc.        | 403   | 397               |
| Arcus Hunting, LLC               | 795   | 2,136             |
| BarFly Ventures, LLC             | 306   | 881               |
| BigName Holdings, LLC            | 120   | —                 |
| Boccella Precast Products, LLC   | 500   | —                 |
| Buca C, LLC                      | —   | 1,548             |
| CapFusion Holding, LLC           | 400   | 394               |
| CDHA Management, LLC             | 3,373   | 3,259             |
| Charps, LLC                      | 1,000   | —                 |
| Clad-Rex Steel, LLC              | 100   | —                 |
| CST Industries, Inc.             | 1,084   | —                 |
| Datacom, LLC                     | 80  | 1,302             |
| Gamber-Johnson Holdings, LLC     | 300   | 300               |
| Guerdon Modular Holdings, Inc.   | 400   | 400               |
| Hawk Ridge Systems, LLC          | 400   | 400               |
| Hojeij Branded Foods, Inc.       | 1,501   | 2,000             |
| Hostway Corporation              | 67  | —                 |
| HW Temps LLC                     | 200   | 50                |
| Jackmont Hospitality, Inc.       | —   | 1,200             |
| LaMi Products, LLC               | 1,029   | 1,729             |
| Meisler Operating, LLC           | 400   | —                 |
| Minute Key, Inc.                 | 2,200   | 197               |
| Mystic Logistics, Inc.           | 200   | 194               |
| NNE Issuer, LLC                  | 8,458   | —                 |
| NuStep, LLC                      | 300   | —                 |

| Commitments and Contingencies<br>(dollars in thousands) |                  |                   |  |
|---|------------------|-------------------|--|
|   | June 30, 2017    | December 31, 2016 |  |
| Pardus Oil & Gas, LLC                                   | \$ 357           | \$ 357            |  |
| Permian Holdco 2  | 290              | 290               |  |
| PPC/Shift, LLC  | 500              | 500               |  |
| Strike, LLC   | 2,000            | 2,475             |  |
| Unirush LLC   | —                | 980               |  |
| Volusion, LLC   | —                | 2,955             |  |
| <b>Unfunded Capital Commitments</b>                     |                  |                   |  |
| Brightwood Capital Fund III, LP                         | 1,000            | 1,000             |  |
| Brightwood Capital Fund IV, LP                          | 9,000            | 10,000            |  |
| Freeport First Lien Loan Fund III, LP                   | 4,941            | 7,737             |  |
| <b>Total</b>  | <b>\$ 43,920</b> | <b>\$ 42,681</b>  |  |

### Recent Developments and Subsequent Events

From July 1, 2017 through August 11, 2017, we raised approximately \$8.1 million in the Offering. During this period, we funded approximately \$76.0 million in investments and received proceeds from repayments and dispositions of approximately \$45.5 million.

On July 26, 2017, we, our Adviser and our Sub-Adviser entered into a conditional income incentive fee agreement (the “Second Quarter 2017 Fee Waiver Agreement”), pursuant to which, for a period from April 1, 2017 through June 30, 2017, the Advisers could waive the “subordinated incentive fee on income,” as such term is defined in the Investment Advisory Agreement, upon the occurrence of any event that, in the Advisers’ sole discretion, causes such waiver to be deemed necessary. The Second Quarter 2017 Fee Waiver Agreement may require us to repay the Advisers for previously waived Expense Support Payments or waived base management fees or incentive fees under certain circumstances. The previously waived fees are potentially subject to repayment by us, if at all, within a period not to exceed three years from the date of each respective fee waiver.

On August 4, 2017, we filed a tender offer statement on Schedule TO with the SEC, to commence an offer by us to purchase, as approved by our board of directors, 1,757,075.81 shares of our issued and outstanding common stock, par value \$0.001 per share. The offer is for cash at a purchase price equal to the NAV per share to be determined within 48 hours of the repurchase date.

### Item 3. Quantitative and Qualitative Disclosures about Market Risk.

#### *Quantitative and Qualitative Disclosures about Market Risk*

We are subject to financial market risks, in particular changes in interest rates. Changes in interest rates may affect our interest income from portfolio investments, the fair value of our fixed income investments, and our cost of funding.

Our interest income will be affected by changes in various interest rates, including LIBOR and prime rates, to the extent any of our debt investments include floating interest rates. We generally invest in floating rate debt instruments, meaning that the interest rate payable on such instrument resets periodically based upon changes in a specified interest rate index, typically the one-month or three-month LIBOR. As of June 30, 2017, approximately 84.3% of our LMM, Private Loan, and Middle Market portfolio debt investments (based on cost) contained floating interest rates. At June 30, 2017, the one-month LIBOR was approximately 1.23% and the three-month LIBOR was approximately 1.30%. However, many of our investments provide that the specified interest rate index on such instruments will never fall below a level, or floor, generally between 100 and 150 basis points regardless of the level of the specified index rate, which minimizes the negative impact to our interest income that would result from a decline in index rates.

In addition, any fluctuations in prevailing interest rates may affect the fair value of our fixed rate debt instruments and result in changes in unrealized gains and losses, and may also affect a net increase or decrease in net assets resulting from operations. Such changes in unrealized appreciation and depreciation will materialize into realized gains and losses if we sell our investments before their respective debt maturity dates.

Further, because we borrow money to make investments, our net investment income is partially dependent upon the difference between the interest rate at which we invest borrowed funds and the interest rate at which we borrow funds. In periods of rising interest rates and when we have borrowed capital with floating interest rates, our interest expense will increase, which will increase our financing costs and reduce our net investment income, especially to the extent we hold fixed-rate debt investments. As a result, there can be no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income.

The following table shows the approximate annualized increase or decrease (dollars in thousands) in the components of net investment income due to hypothetical interest rate index changes, assuming no changes in our investments and borrowings as of June 30, 2017.

| <b>Change in interest rates</b> | <b>Increase (Decrease) in Interest Income</b> | <b>Increase (Decrease) in Interest Expense</b> | <b>Net Increase (Decrease) in Net Investment Income</b> |
|---------------------------------|---|--|---|
| Down 25 basis points            | \$ (1,049)                                    | \$ (1,043)                                     | \$ (6)  |
| Up 50 basis points              | 4,109   | 2,085  | 2,024   |
| Up 100 basis points             | 8,225   | 4,170  | 4,055   |
| Up 200 basis points             | 16,484  | 8,340  | 8,144   |
| Up 300 basis points             | 24,743  | 12,510   | 12,233  |

Although we believe that this analysis is indicative of our existing sensitivity to interest rate changes, it does not adjust for changes in the credit market, credit quality, the size and composition of the assets in our portfolio and other business developments, including borrowing under the Credit Facilities or other borrowings, that could affect net increase in net assets resulting from operations, or net income. Accordingly, we can offer no assurances that actual results would not differ materially from the analysis above.

If deemed prudent, we may use interest rate risk management techniques in an effort to minimize our exposure to interest rate fluctuations. These techniques may include various interest rate hedging activities to the extent permitted by the 1940 Act. Adverse developments resulting from changes in interest rates or hedging transactions could have a material adverse effect on our business, financial condition and results of operations. As of June 30, 2017, we had not entered into any interest rate hedging arrangements.

**Item 4. Controls and Procedures.**

In accordance with the Exchange Act, Rules 13a-15 and 15d-15, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2017, to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

No change occurred in our internal controls over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act), during the six months ended June 30, 2017 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

## PART II — OTHER INFORMATION

### Item 1. Legal Proceedings.

We are not currently subject to any material legal proceedings, nor, to our knowledge, is any material legal proceeding threatened against us. From time to time, we may be party to certain legal proceedings in the ordinary course of business, including proceedings relating to the enforcement of our rights under contracts with our portfolio companies. While the outcome of any legal proceedings cannot be predicted with certainty, we do not expect that these proceedings will have a material adverse effect upon our financial condition or results of operations.

### Item 1A. Risk Factors.

There have been no material changes to the risk factors as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2016, that we filed with the SEC on March 7, 2017.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

#### *Issuer Purchases of Equity Securities*

Repurchases of our common stock pursuant to our tender offer are as follows:

| Period                               | Total Number of<br>Shares Purchased | Average<br>Price per Share | Cumulative Number of<br>Shares Purchased as<br>Part of Publicly<br>Announced Plans or<br>Programs | Maximum Number (or<br>Approximate Dollar Value) of<br>Shares that May Yet Be<br>Purchased Under the Plans or<br>Programs (in millions) |
|--------------------------------------|-------------------------------------|----------------------------|---|--|
| April 1, 2017 through April 30, 2017 | —                                   | \$ —                       | —   | —  |
| May 1, 2017 through May 31, 2017     | —                                   | \$ —                       | —   | —  |
| June 1, 2017 through June 30, 2017   | 346,307                             | \$ 8.20                    | 346,307   | —  |

### Item 3. Defaults upon Senior Securities.

None.

### Item 4. Mine Safety Disclosures.

Not applicable.

### Item 5. Other Information.

Not applicable.



**Item 6. Exhibits.**

| <b>Exhibit<br/>No.</b> | <b>Description</b>  |
|------------------------|---|
| 10.1                   | HMS-ORIX SLF LLC Limited Liability Company Agreement, dated as of April 4, 2017, by and between HMS Income Fund, Inc. and ORIX Funds Corp. (Filed as Exhibit 10.1 to the Registrant's current report on Form 8-K, filed on April 10, 2017 (File No. 814-00939) and incorporated herein by reference).   |
| 10.2                   | First Quarter 2017 Conditional Income Incentive Fee Waiver Agreement, dated as of April 24, 2017, by and among the Registrant, HMS Adviser LP and MSC Adviser I, LLC (Filed as Exhibit 10.1 to the Registrant's current report on Form 8-K, filed on April 27, 2017 (File No. 814-00939) and incorporated herein by reference).   |
| 10.3                   | Fourth Amendment to the Amended and Restated Loan Financing and Servicing Agreement, dated as of June 30, 2017, by and among HMS Funding I LLC, as borrower, HMS Income Fund, Inc., as equityholder and servicer, the financial institutions party thereto as lenders, Deutsche Bank AG, New York Branch, as administrative agent, and U.S. Bank National Association, as collateral agent (Filed as Exhibit 10.1 to the Registrant's current report on Form 8-K, filed on July 5, 2017 (File No. 814-00939) and incorporated herein by reference). |
| 31.1                   | Certification of Chief Executive Officer of the Registrant, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Filed herewith).   |
| 31.2                   | Certification of Chief Financial Officer of the Registrant, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Filed herewith).   |
| 32.1                   | Certification of Chief Executive Officer and Chief Financial Officer of the Registrant, pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Filed herewith).  |

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HMS INCOME FUND, INC.

Date: August 14, 2017

By: /s/ SHERRI W. SCHUGART

Sherri W. Schugart

Chairman, Chief Executive Officer and  
President

Date: August 14, 2017

By: /s/ RYAN T. SIMS

Ryan T. Sims

Chief Financial Officer and Secretary

## EXHIBIT INDEX

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**CERTIFICATION  
PURSUANT TO SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, Sherri W. Schugart, Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of HMS Income Fund, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2017

By: /s/ SHERRI W. SCHUGART

Sherri W. Schugart

Chairman, Chief Executive Officer  
and President

**CERTIFICATION  
PURSUANT TO SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, Ryan T. Sims, Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of HMS Income Fund, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2017

By: /s/ RYAN T. SIMS

Ryan T. Sims

Chief Financial Officer and  
Secretary

**WRITTEN STATEMENT OF CHIEF EXECUTIVE OFFICER AND  
CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 906 OF THE  
SARBANES — OXLEY ACT OF 2002**

The undersigned, the Chief Executive Officer and the Chief Financial Officer of HMS Income Fund, Inc. (“the Company”), each hereby certifies that to his or her knowledge, on the date hereof:

(a) the Quarterly Report on Form 10-Q of the Company for the quarterly period ended June 30, 2017, filed on the date hereof with the Securities and Exchange Commission (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(b) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 14, 2017

By: /s/ SHERRI W. SCHUGART

Sherri W. Schugart

Chairman, Chief Executive  
Officer and President

Date: August 14, 2017

By: /s/ RYAN T. SIMS

Ryan T. Sims

Chief Financial Officer and  
Secretary