

ARES CAPITAL CORP  
Form 10-K  
February 12, 2019

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

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FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2018

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 No. 814-00663

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ARES CAPITAL CORPORATION

(Exact name of registrant as specified in its charter)

Maryland 33-1089684

(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

245 Park Avenue, 44th Floor, New York, New  
York 10167

(Address of principal executive offices) (Zip  
Code)

(212) 750-7300

(Registrant's telephone number, including area  
code)

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Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
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Common Stock, par value \$0.001 per share	The NASDAQ Global Select Market
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6.875% Senior Notes due 2047	The New York Stock Exchange
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Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Section §232.405 of this chapter) during the preceding 12 months

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(or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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:

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company  Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period 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 aggregate market value of the voting stock held by non-affiliates of the registrant on June 30, 2018, based on the closing price on that date of \$16.45 on The NASDAQ Global Select Market, was approximately \$6,978,237,419. As of February 7, 2019, there were 426,298,200 shares of the registrant's common stock outstanding.

Portions of the registrant's Proxy Statement for its 2019 Annual Meeting of Stockholders to be filed not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K are incorporated by reference into Part III of this Form 10-K.

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ARES CAPITAL CORPORATION

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## PART I

### Item 1. Business

#### GENERAL

##### Ares Capital Corporation

Ares Capital Corporation, a Maryland corporation (together with its subsidiaries, where applicable, “Ares Capital” or the “Company,” which may also be referred to as “we,” “us” or “our”), is a specialty finance company that is a closed-end, non-diversified management investment company. We have elected to be regulated as a business development company (“BDC”) under the Investment Company Act of 1940, as amended and the rules and regulations promulgated thereunder, the “Investment Company Act.” We were founded on April 16, 2004, were initially funded on June 23, 2004 and completed our initial public offering (“IPO”) on October 8, 2004. As of December 31, 2018, we were the largest BDC in the United States with approximately \$12.9 billion of total assets.

We are externally managed by Ares Capital Management LLC (“Ares Capital Management” or our “investment adviser”), a subsidiary of Ares Management Corporation (NYSE:ARES) (“Ares Management” or “Ares”), a publicly traded, leading global alternative asset manager, pursuant to our investment advisory and management agreement. Ares Operations LLC (“Ares Operations” or our “administrator”), a subsidiary of Ares Management, provides certain administrative and other services necessary for us to operate.

Our investment objective is to generate both current income and capital appreciation through debt and equity investments. We invest primarily in U.S. middle-market companies, where we believe the supply of primary capital is limited and the investment opportunities are most attractive. However, we may from time to time invest in larger or smaller companies. We generally use the term “middle-market” to refer to companies with annual EBITDA between \$10 million and \$250 million. As used herein, EBITDA represents net income before net interest expense, income tax expense, depreciation and amortization.

We invest primarily in first lien senior secured loans (including “unitranche” loans, which are loans that combine both senior and mezzanine debt, generally in a first lien position), second lien senior secured loans and mezzanine debt, which in some cases includes an equity component. First and second lien senior secured loans generally are senior debt instruments that rank ahead of subordinated debt of a given portfolio company. Mezzanine debt is subordinated to senior loans and is generally unsecured. Our investments in corporate borrowers generally range between \$30 million and \$500 million each and investments in project finance/power generation projects generally range between \$10 million and \$200 million. However, the investment sizes may be more or less than these ranges and may vary based on, among other things, our capital availability, the composition of our portfolio and general micro- and macro-economic factors.

To a lesser extent, we also make preferred and/or common equity investments, which have generally been non-control equity investments of less than \$20 million (usually in conjunction with a concurrent debt investment). However, we may increase the size or change the nature of these investments.

The proportion of these types of investments will change over time given our views on, among other things, the economic and credit environment in which we are operating. In pursuit of our investment objective we generally seek to self-originate investments and lead the investment process, which may result in us making commitments with respect to indebtedness or securities of a potential portfolio company in excess of our final investment. In such situations, while we may initially agree to fund up to a certain dollar amount of an investment, we may subsequently syndicate or sell a portion of such amount (including, without limitation, to vehicles managed by our portfolio company, Ivy Hill Asset Management, L.P. (“IHAM”)), such that we are left with a smaller investment than what was

reflected in our original commitment. In addition to originating investments, we may also acquire investments in the secondary market (including purchases of a portfolio of investments).

The first and second lien senior secured loans in which we invest generally have stated terms of three to 10 years and the mezzanine debt investments in which we invest generally have stated terms of up to 10 years, but the expected average life of such first and second lien loans and mezzanine debt is generally between three and seven years. However, we may invest in loans and securities with any maturity or duration. The instruments in which we invest typically are not rated by any rating agency, but we believe that if such instruments were rated, they would be below investment grade (rated lower than “Baa3” by Moody’s Investors Service, lower than “BBB-” by Fitch Ratings or lower than “BBB-” by Standard & Poor’s Ratings Services), which, under the guidelines established by these entities, is an indication of having predominantly speculative characteristics with respect to the issuer’s capacity to pay interest and repay principal. Bonds that are rated below investment

grade are sometimes referred to as “high yield bonds” or “junk bonds.” We may invest without limit in debt or other securities of any rating, as well as debt or other securities that have not been rated by any nationally recognized statistical rating organization.

We believe that our investment adviser, Ares Capital Management, is able to leverage the current investment platform, resources and existing relationships of Ares Management with financial sponsors, financial institutions, hedge funds and other investment firms to provide us with attractive investment opportunities. For purposes of this document, we refer to Ares Management and its affiliated companies (other than portfolio companies of its affiliated funds) as “Ares.” In addition to deal flow, the Ares investment platform assists our investment adviser in analyzing, structuring and monitoring investments. Ares has been in existence for over 20 years and its partners have an average of approximately 25 years of experience in leveraged finance, private equity, distressed debt, commercial real estate finance, investment banking and capital markets. We have access to Ares’ investment professionals and administrative professionals, who provide assistance in accounting, finance, legal, compliance, operations, information technology and investor relations. As of December 31, 2018, Ares had approximately 410 investment professionals and approximately 660 administrative professionals.

While our primary focus is to generate current income and capital appreciation through investments in first and second lien senior secured loans and mezzanine debt and, to a lesser extent, equity securities of eligible portfolio companies, we also may invest up to 30% of our portfolio in non-qualifying assets, as permitted by the Investment Company Act. Specifically, as part of this 30% basket, we may invest in entities that are not considered “eligible portfolio companies” (as defined in the Investment Company Act), including companies located outside of the United States, entities that are operating pursuant to certain exceptions under the Investment Company Act, and publicly traded entities whose public equity market capitalization exceeds the levels provided for under the Investment Company Act.

#### American Capital Acquisition

On January 3, 2017, we completed our acquisition of American Capital, Ltd. (“American Capital”) (the “American Capital Acquisition”) in a cash and stock transaction valued at approximately \$4.2 billion. In connection with the stock consideration, we issued approximately 112 million shares of our common stock to American Capital’s then-existing stockholders (including holders of outstanding in-the-money American Capital stock options), thereby resulting in our then-existing stockholders owning approximately 73.7% of the combined company and then-existing American Capital stockholders owning approximately 26.3% of the combined company.

In connection with the American Capital Acquisition, Ares Capital Management agreed to waive up to \$100 million in income based fees from the Company for the first ten calendar quarters beginning with the second quarter of 2017 and ending with the third quarter of 2019, in an amount equal to the lesser of (1) \$10 million of income based fees and (2) the amount of income based fees for each such quarter, in each case, to the extent payable by us in such quarter pursuant to and as calculated under our investment advisory and management agreement (the “Fee Waiver”). See “Management’s Discussion And Analysis Of Financial Condition And Results Of Operations—Overview—American Capital Acquisition” and Notes 3 and 16 to our consolidated financial statements for the year ended December 31, 2018 for additional information regarding the American Capital Acquisition.

#### Ares Management Corporation

Ares is a publicly traded, leading global alternative asset manager. As of December 31, 2018, Ares had over 1,000 employees in over 15 principal and originating offices across the United States, Europe, Asia and Australia. Since its inception in 1997, Ares has adhered to a disciplined investment philosophy that focuses on delivering strong risk-adjusted investment returns throughout market cycles. Ares believes each of its three distinct but complementary investment groups in Credit, Private Equity and Real Estate is a market leader based on investment performance. Ares was built upon the fundamental principle that each group benefits from being part of the greater whole.

#### Ares Capital Management LLC

Ares Capital Management, our investment adviser, is served by an origination, investment and portfolio management team of approximately 100 U.S.-based investment professionals as of December 31, 2018 and led by certain partners of the Ares Credit Group: Kipp deVeer, Mitchell Goldstein and Michael Smith. Ares Capital Management leverages off of Ares' investment platform and benefits from the significant capital markets, trading and research expertise of Ares' investment professionals. Ares Capital Management's investment committee has eight members primarily comprised of certain of the U.S.-based partners of the Ares Credit Group.

## MARKET OPPORTUNITY

We believe that current market conditions present attractive opportunities for us to invest in middle-market companies, specifically:

We believe that many commercial and investment banks have, in recent years, de-emphasized their service and product offerings to middle-market businesses in favor of lending to large corporate clients and managing capital markets transactions. In addition, these lenders may be constrained in their ability to underwrite and hold bank loans and high yield securities for middle-market issuers as they seek to meet existing and future regulatory capital requirements. These factors may result in opportunities for alternative funding sources to middle-market companies and therefore more new-issue market opportunities for us.

We believe disruption and volatility that occurs periodically in the credit markets, reduces capital available to certain capital providers, causing a reduction in competition. When these volatile market conditions occur, they often create opportunities to achieve attractive risk-adjusted returns.

We believe that there is a lack of market participants that are willing to hold meaningful amounts of certain middle-market loans. As a result, we believe our ability to minimize syndication risk for a company seeking financing by being able to hold our loans without having to syndicate or sell them is a competitive advantage.

We believe that middle-market companies have faced difficulty in raising debt through the capital markets. This approach to financing may become more difficult to the extent institutional investors seek to invest in larger, more liquid offerings, leaving less competition and fewer financing alternatives for middle-market companies.

We believe there is a large pool of un-invested private equity capital for middle-market businesses. We expect private equity firms will seek to leverage their investments by combining equity capital with senior secured loans and mezzanine debt from other sources such as us.

We believe the middle-market represents a significant portion of the overall economy, and the demand for capital by middle-market companies reflects generally stronger growth trends and financial performance. In addition, due to the fragmented nature of the middle-market and the lack of publicly available information, we believe lenders have an opportunity to originate and underwrite investments with more favorable terms, including stronger covenant and reporting packages, as well as better call protection and change of control provisions as compared to the large, broadly syndicated loan market.

## COMPETITIVE ADVANTAGES

We believe that we have the following competitive advantages over other capital providers to middle-market companies:

### The Ares Platform

Ares operates three distinct but complementary investment groups, including the Ares Credit Group, the Ares Private Equity Group and the Ares Real Estate Group. We believe our affiliation with Ares provides a distinct competitive advantage through Ares' originations, due diligence and marketing activities. In particular, we believe that the Ares platform provides us with an advantage through its deal flow generation and investment evaluation process. Ares' asset management platform also provides additional market information, company knowledge and industry insight that benefit our investment and due diligence process. Ares' professionals maintain extensive financial sponsor and intermediary relationships, which provide valuable insight and access to transactions and information.



Seasoned Management Team

The investment professionals in the Ares Credit Group and members of our investment adviser's investment committee also have significant experience investing across market cycles. This experience also provides us with a competitive advantage in identifying, originating, investing in and managing a portfolio of investments in middle-market companies.

### Broad Origination Strategy

We focus on self-originating most of our investments by pursuing a broad array of investment opportunities in middle-market companies and power generation projects across multiple channels. We also leverage off of the extensive relationships of the broader Ares platform, including relationships with the portfolio companies in the IHAM Vehicles (as defined below), to identify investment opportunities. Additionally, our size and scale provide the opportunity to source attractive investments in some of our existing portfolio companies. Collectively, we believe these advantages allow for enhanced asset selectivity as we believe there is a significant relationship between proprietary deal origination and credit performance. We believe that this allows for asset selectivity and that there is a significant relationship between proprietary deal origination and credit performance. We believe that our focus on generating proprietary deal flow and lead investing also gives us greater control over capital structure, deal terms, pricing and documentation and enables us to actively manage our portfolio investments. Moreover, by leading the investment process, we are often able to secure controlling positions in credit tranches, thereby providing additional control in investment outcomes. We also have originated substantial proprietary deal flow from middle-market intermediaries, which often allows us to act as the sole or principal source of institutional capital to the borrower.

### Scale and Flexible Transaction Structuring

We believe that being one of the largest BDCs makes us a more desirable and flexible capital provider, especially in competitive markets. We are flexible with the types of investments we make and the terms associated with those investments. We believe this approach and experience enables our investment adviser to identify attractive investment opportunities throughout economic cycles and across a company's capital structure so we can make investments consistent with our stated investment objective and preserve principal while seeking appropriate risk adjusted returns. In addition, we have the flexibility to provide "one stop" financing with the ability to invest capital across the balance sheet and syndicate and hold larger investments than many of our competitors. We believe that the ability to underwrite, syndicate and hold larger investments benefits our stockholders by (a) potentially increasing net income and earnings through leadership of the investment process and making commitments in excess of our final investment, (b) increasing originated deal flow flexibility, (c) broadening market relationships and deal flow, (d) allowing us to optimize our portfolio composition and (e) allowing us to provide capital to a broader spectrum of middle-market companies, which we believe currently have limited access to capital from traditional lending sources. In addition, we believe that the ability to provide capital at every level of the balance sheet provides a strong value proposition to middle-market borrowers and our senior debt capabilities provide superior deal origination and relative value analysis capabilities compared to junior capital focused lenders.

### Experience with and Focus on Middle-Market Companies

Ares has historically focused on investments in middle-market companies and we benefit from this experience. In sourcing and analyzing deals, our investment adviser benefits from Ares' extensive network of relationships focused on middle-market companies, including management teams, members of the investment banking community, private equity groups and other investment firms with whom Ares has had long-term relationships. We believe this network enables us to identify well-positioned prospective portfolio company investments. The Ares Credit Group works closely with Ares' other investment professionals. As of December 31, 2018, Ares oversaw a portfolio of investments in approximately 1,700 companies, approximately 500 structured assets and approximately 160 properties across approximately 60 industries, which provides access to an extensive network of relationships and insights into industry trends and the state of the capital markets.

### Disciplined Investment Philosophy

In making its investment decisions, our investment adviser has adopted Ares' long-standing, consistent, credit-based investment approach that was developed over 20 years ago by its founders. Specifically, our investment adviser's

investment philosophy, portfolio construction and portfolio management involve an assessment of the overall macroeconomic environment and financial markets and company-specific research and analysis. Its investment approach emphasizes capital preservation, low volatility and minimization of downside risk. In addition to engaging in extensive due diligence from the perspective of a long-term investor, our investment adviser's approach seeks to reduce risk in investments by focusing on:

- businesses with strong franchises and sustainable competitive advantages;
- industries with positive long-term dynamics;
- businesses and industries with cash flows that are dependable and predictable;
- management teams with demonstrated track records and appropriate economic incentives;

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- rates of return commensurate with the perceived risks;
- securities or investments that are structured with appropriate terms and covenants; and
- businesses backed by experienced private equity sponsors.

#### Extensive Industry Focus

We seek to concentrate our investing activities in industries with a history of predictable and dependable cash flows and in which the Ares investment professionals have had extensive investment experience. Ares investment professionals have developed long-term relationships with management teams and management consultants in approximately 60 industries, and have accumulated substantial information and identified potential trends within these industries. In turn, we benefit from these relationships, information and identification of potential trends in making investments.

#### OPERATING AND REGULATORY STRUCTURE

Our investment activities are managed by our investment adviser and supervised by our board of directors, a majority of whom are independent of Ares and its affiliates. Our investment adviser is registered under the Investment Advisers Act of 1940, or the “Advisers Act.” Under our Amended and Restated Investment Advisory and Management Agreement with Ares Capital Management, referred to herein as our “investment advisory and management agreement,” we have agreed to pay our investment adviser base management fees based on our total assets, as defined under the Investment Company Act (other than cash and cash equivalents, but including assets purchased with borrowed funds) (“base management fees”), fees based on our net investment income (“income based fees”) and fees based on our net capital gains (“capital gains incentive fees”). See “—Investment Advisory and Management Agreement”. Ares Operations provides us with certain administrative and other services necessary for us to operate pursuant to an Amended and Restated Administration Agreement, referred to herein as our “administration agreement.” See “—Administration Agreement.”

As a BDC, we are required to comply with certain regulatory requirements. For example, we are not generally permitted to co-invest in any portfolio company in which a fund managed by Ares or any of its downstream affiliates (other than us and our downstream affiliates) is also co-investing. On January 18, 2017, we received an order from the SEC that permits us and other BDCs and registered closed-end management investment companies managed by Ares to co-invest in portfolio companies with each other and with affiliated investment funds (the “Co-investment Exemptive Order”). Co-investments made under the Co-investment Exemptive Order are subject to compliance with certain conditions and other requirements, which could limit our ability to participate in a co-investment transaction. We may also otherwise co-invest with funds managed by Ares or any of its downstream affiliates, subject to compliance with existing regulatory guidance, applicable regulations and our allocation procedures.

Also, while we may borrow funds to make investments, our ability to use debt is limited in certain significant aspects. See “Regulation.” In particular, under the provisions of the Investment Company Act, BDCs must have at least 200% asset coverage calculated pursuant to the Investment Company Act (i.e., we are permitted to borrow one dollar for every dollar we have in assets less all liabilities and indebtedness not represented by senior securities issued by us) in order to incur debt or issue preferred stock (which we refer to collectively as “senior securities”) unless the BDC obtains approval (either stockholder approval or approval of a “required majority” of its board of directors) to apply the modified asset coverage requirements set forth in Section 61(a)(2) of the Investment Company Act, as amended by the Small Business Credit Availability Act (the “SBCAA”), reducing the required asset coverage ratio applicable to the BDC from 200% to 150% (i.e., the revised regulatory leverage limitation permits BDCs to double the amount of

borrowings, such that we would be able to borrow up to two dollars for every dollar we have in assets less all liabilities and indebtedness not represented by senior securities issued by us).

Currently, our asset coverage requirement applicable to senior securities is 200%. On June 21, 2018, our board of directors, including a “required majority” of our board of directors, approved the application of the modified asset coverage requirement set forth in Section 61(a)(2) of the Investment Company Act, as amended by the SBCAA. As a result, effective on June 21, 2019 (unless we receive earlier stockholder approval), our asset coverage requirement applicable to senior securities will be reduced from 200% to 150%. In October 2018, we entered into certain amendments for our senior secured revolving credit facility (as amended and restated, the “Revolving Credit Facility”) and Ares Capital CP Funding LLC’s (“Ares Capital CP”), our consolidated subsidiary, revolving funding facility (as amended, the “Revolving Funding Facility”) to reduce the asset coverage requirements specified therein to 150%. See “Risk Factors-Risks Relating to Our Business-Effective on June 21, 2019 (unless we receive earlier stockholder approval), our asset coverage requirement will reduce from 200% to 150%, which

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may increase the risk of investing with us” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Financial Condition, Liquidity and Capital Resources.”

As of December 31, 2018, our asset coverage was 236%.

In addition, as a consequence of our being a regulated investment company (“RIC”) under the Internal Revenue Code of 1986, as amended (the “Code”), for U.S. federal income tax purposes, our asset growth is dependent on our ability to raise equity capital through the issuance of common stock. RICs generally must distribute substantially all of their investment company taxable income (as defined under the Code) to stockholders as dividends in order to preserve their status as a RIC and not to be subject to additional U.S. federal corporate-level income taxes. This requirement, in turn, generally prevents us from using our earnings to support our operations, including making new investments.

## INVESTMENTS

### Ares Capital Corporation Portfolio

We have built an investment portfolio of primarily first and second lien senior secured loans, mezzanine debt and, to a lesser extent, equity investments in private middle-market companies. Our portfolio is well diversified by industry sector and its concentration to any single issuer is limited.

Our debt investments in corporate borrowers generally range between \$30 million and \$500 million each and investments in project finance/power generation projects generally range between \$10 million and \$200 million each. However, the sizes of our investments may be more or less than these ranges and may vary based on, among other things, our capital availability, the composition of our portfolio and general micro- and macro-economic factors.

Our preferred and/or common equity investments have generally been non-control equity investments of less than \$20 million (usually in conjunction with a concurrent debt investment). However, we may increase the size or change the nature of these investments.

In addition, the proportion of these types of investments will change over time given our views on, among other things, the economic and credit environment in which we are operating. In pursuit of our investment objective we generally seek to self-originate investments and lead the investment process, which may result in us making commitments with respect to indebtedness or securities of a potential portfolio company in excess of our expected final hold size. In such situations, while we may initially agree to fund up to a certain dollar amount of an investment, we may subsequently syndicate or sell a portion of such amount such that we are left with a smaller investment than what was reflected in our original commitment. In addition to originating investments, we may also acquire investments in the secondary market (including purchases of a portfolio of investments).

We make senior secured loans primarily in the form of first lien loans (including unitranche loans) and second lien loans. Our senior secured loans generally have terms of three to ten years. In connection with our senior secured loans we generally receive a security interest in certain of the assets of the borrower and consequently such assets serve as collateral in support of the repayment of such senior secured loans. Senior secured loans are generally exposed to the least amount of credit risk because they typically hold a senior position with respect to scheduled interest and principal payments and security interests in assets of the borrower. However, unlike mezzanine debt, senior secured loans typically do not receive any stock, warrants to purchase stock or other yield enhancements. Senior secured loans may include both revolving lines of credit and term loans.

Structurally, mezzanine debt usually ranks subordinate in priority of payment to senior secured loans and is often unsecured. However, mezzanine debt ranks senior to preferred and common equity in a borrower’s capital structure. Mezzanine debt investments generally offer lenders fixed returns in the form of interest payments and will often provide lenders an opportunity to participate in the capital appreciation of a borrower, if any, through an equity

interest. This equity interest typically takes the form of an equity co-investment and/or warrants. Due to its higher risk profile and often less restrictive covenants as compared to senior secured loans, mezzanine debt generally bears a higher stated interest rate than senior secured loans. The equity co-investment and warrants (if any) associated with a mezzanine debt investment typically allow lenders to receive repayment of their principal on an agreed amortization schedule while retaining their equity interest in the borrower. Equity issued in connection with mezzanine debt also may include a “put” feature, which permits the holder to sell its equity interest back to the borrower at a price determined through an agreed formula.

In making an equity investment, in addition to considering the factors discussed under “—Investment Selection” below, we also consider the anticipated timing of a liquidity event, such as a public offering, sale of the company or redemption of our equity securities.

While our primary focus is to generate current income and capital appreciation through investments in first and second lien senior secured loans and mezzanine debt and, to a lesser extent, equity securities of eligible portfolio companies, we also may invest up to 30% of our portfolio in non-qualifying assets, as permitted by the Investment Company Act. See “—Regulation”. Specifically, as part of this 30% basket, we may invest in entities that are not considered “eligible portfolio companies” (as defined in the Investment Company Act), including companies located outside of the United States, entities that are operating pursuant to certain exceptions under the Investment Company Act, and publicly traded entities whose public equity market capitalization exceeds the levels provided for under the Investment Company Act.

#### Senior Direct Lending Program

We have established a joint venture with Varagon Capital Partners (“Varagon”) to make certain first lien senior secured loans, including certain stretch senior and unitranche loans, primarily to U.S. middle-market companies. Varagon was formed in 2013 as a lending platform by American International Group, Inc. and other partners. The joint venture is called the Senior Direct Lending Program (the “SDLP”). In July 2016, we and Varagon and its clients completed the initial funding of the SDLP. The SDLP may generally commit and hold individual loans of up to \$300 million. We may directly co-invest with the SDLP to accommodate larger transactions. The SDLP is capitalized as transactions are completed and all portfolio decisions and generally all other decisions in respect of the SDLP must be approved by an investment committee of the SDLP consisting of representatives of ours and Varagon (with approval from a representative of each required).

We provide capital to the SDLP in the form of subordinated certificates (the “SDLP Certificates”), and Varagon and its clients provide capital to the SDLP in the form of senior notes, intermediate funding notes and SDLP Certificates. As of December 31, 2018, we and a client of Varagon owned 87.5% and 12.5%, respectively, of the outstanding SDLP Certificates. The SDLP Certificates pay a coupon of LIBOR plus a stated spread and also entitle the holders thereof to receive a portion of the excess cash flow from the loan portfolio, which may result in a return to the holders of the SDLP Certificates that is greater than the stated coupon. The SDLP Certificates are junior in right of payment to the senior notes and intermediate funding notes.

As of December 31, 2018, we and Varagon and its clients had agreed to make capital available to the SDLP of \$6.4 billion in the aggregate, of which \$1.4 billion is to be made available from us. We will continue to provide capital to the SDLP in the form of SDLP Certificates, and Varagon and its clients will provide capital to the SDLP in the form of senior notes, intermediate funding notes and SDLP Certificates. This capital will only be committed to the SDLP upon approval of transactions by the investment committee of the SDLP as discussed above.

For more information on the SDLP, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Portfolio and Investment Activity—Senior Direct Lending Program” and Note 4 to our consolidated financial statements for the year ended December 31, 2018.

#### Ivy Hill Asset Management, L.P.

As of December 31, 2018, our portfolio company, IHAM, an SEC-registered investment adviser, managed 21 vehicles and served as the sub-manager/sub-servicer for two other vehicles (such vehicles, the “IHAM Vehicles”). As of December 31, 2018, IHAM had assets under management of approximately \$4.7 billion. As of December 31, 2018, the amortized cost and fair value of our investment in IHAM was \$444 million and \$518 million, respectively. In connection with IHAM’s registration as a registered investment adviser, on March 30, 2012, we received exemptive



relief from the SEC allowing us to, subject to certain conditions, own directly or indirectly up to 100% of IHAM's outstanding equity interests and make additional investments in IHAM. From time to time, IHAM or certain IHAM Vehicles may purchase investments from us or sell investments to us, in each case for a price equal to the fair market value of such investments determined at the time of such transactions.

#### Industry Composition

We generally seek to invest in companies in the industries in which Ares' investment professionals have direct expertise. The following is a representative list of the industries in which we may invest:

◆ Aerospace and Defense

- ♣Automotive Services
- ♣Business Services
- ♣Consumer Products
- ♣Containers and Packaging
- ♣Education
- ♣Financial Services
- ♣Food and Beverage
- ♣Healthcare Services
- ♣Investment Funds and Vehicles
- ♣Manufacturing
- ♣Oil and Gas
- ♣Other Services
- ♣Power Generation
- ♣Restaurant and Food Services
- ♣Telecommunications
- ♣Wholesale Distributions

However, we may invest in other industries if we are presented with attractive opportunities.

The industrial and geographic compositions of our portfolio at fair value as of December 31, 2018 and 2017 were as follows:

	As of			
	December 31,			
	2018		2017	
Industry				
Healthcare Services	21.7	%	22.5	%
Business Services	17.9		19.2	
Consumer Products	8.3		6.8	
Financial Services	6.6		4.3	
Investment Funds and Vehicles(1)	6.2		5.8	
Manufacturing	6.1		6.0	
Other Services	5.7		6.2	
Power Generation	4.8		3.6	
Restaurants and Food Services	3.8		3.3	
Oil and Gas	3.0		2.5	
Food and Beverage	2.9		4.3	
Automotive Services	2.8		3.0	
Wholesale Distribution	2.3		2.5	
Education	2.2		3.0	
Containers and Packaging	1.5		2.1	
Other	4.2		4.9	
Total	100.0%		100.0%	

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Includes our investment in the SDLP, which had made first lien senior secured loans to 21 and 19 different (1) borrowers as of December 31, 2018 and 2017, respectively. The portfolio companies in the SDLP are in industries similar to the companies in our portfolio.

	As of			
	December 31,			
	2018		2017	
Geographic Region				
Midwest	31.4	%	25.3	%
West(1)	24.0		23.9	
Southeast	18.8		28.5	
Mid Atlantic	18.2		15.0	
Northeast	5.4		3.9	
International	2.2		3.4	
Total	100.0%		100.0%	

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(1) Includes our investment in the SDLP, which represented 5.3% and 4.1% of the total investment portfolio at fair value as of December 31, 2018 and 2017, respectively.

As of December 31, 2018, 2.5% of total investments at amortized cost (or 0.6% of total investments at fair value) were on non-accrual status. As of December 31, 2017, 3.1% of total investments at amortized cost (or 1.4% of total investments at fair value) were on non-accrual status.

Since our IPO on October 8, 2004 through December 31, 2018, our exited investments resulted in an asset level realized gross internal rate of return to us of approximately 14% (based on original cash invested, net of syndications, of approximately \$24.7 billion and total proceeds from such exited investments of approximately \$31.8 billion).

Internal rate of return is the discount rate that makes the net present value of all cash flows related to a particular investment equal to zero. Internal rate of return is gross of expenses related to investments as these expenses are not allocable to specific investments. Investments are considered to be exited when the original investment objective has been achieved through the receipt of cash and/or non-cash consideration upon the repayment of a debt investment or sale of an investment or through the determination

that no further consideration was collectible and, thus, a loss may have been realized. Approximately 63% of these exited investments resulted in an asset level realized gross internal rate of return to us of 10% or greater.

Additionally, since our IPO on October 8, 2004 through December 31, 2018, our realized gains exceeded our realized losses by approximately \$1.0 billion (excluding a one-time gain on the acquisition of Allied Capital Corporation (“Allied Capital”) in April 2010 (the “Allied Acquisition”) and realized gains/losses from the extinguishment of debt and other assets). For the same time period, our average annualized net realized gain rate was approximately 1.2% (excluding a one-time gain on the Allied Acquisition and realized gains/losses from the extinguishment of debt and other assets). Net realized gain/loss rates for a particular period are the amount of net realized gains/losses during such period divided by the average quarterly investments at amortized cost in such period.

Information included herein regarding internal rates of return, realized gains and losses and annualized net realized gain rates are historical results relating to our past performance and are not necessarily indicative of future results, the achievement of which cannot be assured.

## INVESTMENT SELECTION

Ares’ investment philosophy was developed over 20 years ago and has remained consistent and relevant throughout a number of economic cycles. We are managed using a similar investment philosophy used by the investment professionals of Ares in respect of its other investment funds.

This investment philosophy involves, among other things:

- an assessment of the overall macroeconomic environment and financial markets and how such assessment may impact industry and asset selection;

- company-specific research and analysis; and

- with respect to each individual company, an emphasis on capital preservation, low volatility and minimization of downside risk.

The foundation of Ares’ investment philosophy is intensive credit investment analysis, a portfolio management discipline based on both market technicals and fundamental value-oriented research, and diversification strategy. We follow a rigorous investment process based on:

- a comprehensive analysis of issuer creditworthiness, including a quantitative and qualitative assessment of the issuer’s business;

- an evaluation of management and its economic incentives;

- an analysis of business strategy and industry trends; and

- an in-depth examination of capital structure, financial results and projections.

We seek to identify those companies exhibiting superior fundamental risk-reward profiles and strong defensible business franchises while focusing on the relative value of the investment across the industry as well as for the specific company.

### Intensive Due Diligence

The process through which an investment decision is made involves extensive research into the target company, its industry, its growth prospects and its ability to withstand adverse conditions. If the senior investment professional responsible for the potential transaction determines that an investment opportunity should be pursued, we will engage in an intensive due diligence process. Approximately 30-40% of the investments initially reviewed by us proceed to this phase. Though each transaction will involve a somewhat different approach, the regular due diligence steps generally undertaken include:

- meeting with the target company's management team to get a detailed review of the business, and to probe for potential weaknesses in business prospects;

- checking management's backgrounds and references;

- performing a detailed review of historical financial performance, including performance through various economic cycles, and the quality of earnings;

- reviewing both short and long term projections of the business, and sensitizing them for both upside and downside risk;

- visiting headquarters and company operations and meeting with top and middle-level executives;

- contacting customers and vendors to assess both business prospects and standard practices;

- conducting a competitive analysis, and comparing the issuer to its main competitors on an operating, financial, market share and valuation basis;

- researching the industry for historic growth trends and future prospects as well as to identify future exit alternatives (including available Wall Street research, industry association literature and general news);

- assessing asset value and the ability of physical infrastructure and information systems to handle anticipated growth; and

- investigating legal risks and financial and accounting systems.

#### Selective Investment Process

After an investment has been identified and preliminary diligence has been completed, a credit research and analysis report is prepared. This report is reviewed by the senior investment professional in charge of the potential investment. If such senior and other investment professionals are in favor of the potential investment, then it is first presented to the investment committee on a preliminary basis.

After the investment committee approves continued work on the potential investment, a more extensive due diligence process is employed by the transaction team. Additional due diligence with respect to any investment may be conducted on our behalf by attorneys, independent accountants, and other third party consultants and research firms prior to the closing of the investment, as appropriate on a case-by-case basis. Approximately 7-10% of all investments initially reviewed by us will be presented to the investment committee. Approval of an investment for funding requires the approval of the majority of the investment committee of our investment adviser, although unanimous consent is sought.

#### Issuance of Formal Commitment

Once we have determined that a prospective portfolio company is suitable for investment, we work with the management and/or sponsor of that company and its other capital providers, including senior, junior and equity capital providers, if any, to finalize the structure of the investment. Approximately 3-5% of the investments initially reviewed by us eventually result in the issuance of formal commitments and the closing of such transactions.

#### Debt Investments

We invest in portfolio companies primarily in the form of first lien senior secured loans (including unitranche loans), second lien senior secured loans and mezzanine debt. The first and second lien senior secured loans generally have terms of three to ten years. In connection with our first and second lien senior secured loans we generally receive

security interests in certain assets of our portfolio companies that could serve as collateral in support of the repayment of such loans. First and second lien senior secured loans generally have floating interest rates, which may have LIBOR floors, and also may provide for some amortization of principal and excess cash flow payments, with the remaining principal balance due at maturity.

We structure our mezzanine investments primarily as unsecured subordinated loans that provide for relatively higher fixed interest rates. The mezzanine debt investments generally have terms of up to ten years. These loans typically have interest-only payments, with amortization of principal, if any, deferred to the later years of the mezzanine investment. In some cases, we may enter into loans that, by their terms, convert into equity or additional debt or defer payments of interest (or at least cash interest) for the first few years after our investment. Also, in some cases our mezzanine debt will be secured by a subordinated lien on some or all of the assets of the borrower.



In some cases, our debt investments may provide for a portion of the interest payable to be payment-in-kind (“PIK”) interest. To the extent interest is PIK, it will be payable through the increase of the principal amount of the loan by the amount of interest due on the then-outstanding aggregate principal amount of such loan.

In the case of our first and second lien senior secured loans and mezzanine debt, we tailor the terms of the investment to the facts and circumstances of the transaction and the prospective portfolio company, negotiating a structure that aims to protect our rights and manage our risk while creating incentives for the portfolio company to achieve its business plan and improve its profitability. For example, in addition to seeking a senior position in the capital structure of our portfolio companies, we will seek, where appropriate, to limit the downside potential of our investments by:

- targeting a total return on our investments (including both interest and potential equity appreciation) that compensates us for credit risk;

- incorporating “put” rights, call protection and LIBOR floors for floating rate loans, into the investment structure; and

- negotiating covenants in connection with our investments that afford our portfolio companies as much flexibility in managing their businesses as possible, consistent with preservation of our capital. Such restrictions may include affirmative and negative covenants, default penalties, lien protection, change of control provisions and board rights, including either observation or participation rights.

We generally require financial covenants and terms that require an issuer to reduce leverage, thereby enhancing credit quality. These methods include: (a) maintenance leverage covenants requiring a decreasing ratio of indebtedness to cash flow over time, (b) maintenance cash flow covenants requiring an increasing ratio of cash flow to the sum of interest expense and capital expenditures and (c) indebtedness incurrence prohibitions, limiting a company’s ability to take on additional indebtedness. In addition, by including limitations on asset sales and capital expenditures we may be able to prevent a borrower from changing the nature of its business or capitalization without our consent.

Our debt investments may include equity features, such as warrants or options to buy a minority interest in the portfolio company. Warrants we receive with our debt investments may require only a nominal cost to exercise, and thus, as a portfolio company appreciates in value, we may achieve additional investment return from this equity interest. We may structure the warrants to provide provisions protecting our rights as a minority-interest holder, as well as puts, or rights to sell such securities back to the portfolio company, upon the occurrence of specified events. In many cases, we also obtain registration rights in connection with these equity interests, which may include demand and “piggyback” registration rights.

We believe that our focus on generating proprietary deal flow and lead investing gives us greater control over the capital structures and investment terms described above and enables us to actively manage our investments. Moreover, by leading the investment process, we are often able to secure controlling positions in loan tranches, thereby providing additional control in investment outcomes.

#### Equity Investments

To a lesser extent, we also make preferred and/or common equity investments, which have generally been non-control equity investments of less than \$20 million (usually in conjunction with a concurrent debt investment). However, we may increase the size or change the nature of these investments.

#### ACQUISITION OPPORTUNITIES

We believe that there may be opportunity for further consolidation in our industry. From time to time, we evaluate potential strategic opportunities, including acquisitions of:

• asset portfolios;

• other private and public finance companies, business development companies and asset managers; and

• selected secondary market assets.

We have been in, and from time to time may engage in, discussions with counterparties in respect of various potential strategic acquisition and investment transactions, including potential acquisitions of other finance companies, business development companies and asset managers. Some of these transactions could be material to our business and, if completed, could be difficult to integrate, result in increased leverage or dilution and/or subject us to unexpected liabilities. However, none of these discussions has progressed to the point at which the completion of any such transaction could be deemed to be probable or reasonably certain as of the date of this Annual Report. Completion of any such transaction would be subject to completion of due diligence, finalization of key business and financial terms (including price) and negotiation of final definitive documentation as well as a number of other factors and conditions including, without limitation, the approval of our board of directors, any required third party consents and, in certain cases, the approval of our stockholders. We cannot predict how quickly the terms of any such transaction could be finalized, if at all. Accordingly, there can be no assurance that such transaction would be completed. In connection with evaluating potential strategic acquisition and investment transactions, we may incur significant expenses for the evaluation and due diligence investigation of these potential transactions.

#### ON-GOING RELATIONSHIPS WITH AND MONITORING OF PORTFOLIO COMPANIES

We closely monitor each investment we make, maintain a regular dialogue with both the management team and other stakeholders and seek specifically tailored financial reporting. In addition, senior investment professionals may take board seats or obtain board observation rights in connection with our portfolio companies. As of December 31, 2018, of our 344 portfolio companies, we were entitled to board seats or board observation rights on 23% of these companies and these companies represented approximately 38% of our portfolio at fair value.

We seek to exert significant influence post-investment, in addition to covenants and other contractual rights and through board participation, when appropriate, by actively working with management on strategic initiatives. We often introduce managers of companies in which we have invested to other portfolio companies to capitalize on complementary business activities and best practices.

We believe that our focus on generating proprietary deal flow gives us greater control over capital structure and investment terms and lead investing enhances our ability to closely monitor each investment we make and to exert significant influence post-investment.

Our investment adviser employs an investment rating system to categorize our investments. In addition to various risk management and monitoring tools, our investment adviser grades the credit risk of all investments on a scale of 1 to 4 no less frequently than quarterly. This system is intended primarily to reflect the underlying risk of a portfolio investment relative to our initial cost basis in respect of such portfolio investment (i.e., at the time of origination or acquisition), although it may also take into account under certain circumstances the performance of the portfolio company's business, the collateral coverage of the investment and other relevant factors. Under this system, investments with a grade of 4 involve the least amount of risk to our initial cost basis. The trends and risk factors for this investment since origination or acquisition are generally favorable, which may include the performance of the portfolio company or a potential exit. Investments graded 3 involve a level of risk to our initial cost basis that is similar to the risk to our initial cost basis at the time of origination or acquisition. This portfolio company is generally performing as expected and the risk factors to our ability to ultimately recoup the cost of our investment are neutral to favorable. All investments or acquired investments in new portfolio companies are initially assessed a grade of 3. Investments graded 2 indicate that the risk to our ability to recoup the initial cost basis of such investment has increased materially since origination or acquisition, including as a result of factors such as declining performance and non-compliance with debt covenants; however, payments are generally not more than 120 days past due. An investment grade of 1 indicates that the risk to our ability to recoup the initial cost basis of such investment has substantially increased since origination or acquisition, and the portfolio company likely has materially declining performance. For debt investments with an investment grade of 1, most or all of the debt covenants are out of compliance and payments are substantially delinquent. For investments graded 1, it is anticipated that we will not

recoup our initial cost basis and may realize a substantial loss of our initial cost basis upon exit. For investments graded 1 or 2, our investment adviser enhances its level of scrutiny over the monitoring of such portfolio company. The grade of a portfolio investment may be reduced or increased over time.

We assigned a fair value as of January 3, 2017 (the “Acquisition Date”) to each of the portfolio investments acquired in connection with the American Capital Acquisition. The initial cost basis of each investment acquired was equal to the fair value of such investment as of the Acquisition Date. Many of these portfolio investments were assigned a fair value reflecting a discount to American Capital’s cost basis at the time of American Capital’s origination or acquisition. Each investment was initially assessed a grade of 3 (i.e., generally the grade we assign a portfolio company at acquisition), reflecting the relative risk to our initial cost basis of such investments. It is important to note that our grading system does not take into account factors or events in respect of the period from when American Capital originated or acquired such portfolio investments or the status of these portfolio investments in terms of compliance with debt facilities, financial performance and similar factors. Rather, it is

only intended to measure risk from the time that we acquired the portfolio investment in connection with the American Capital Acquisition. Accordingly, it is possible that the grades of these portfolio investments may be reduced or increased after the Acquisition Date.

As of December 31, 2018, the weighted average grade of our portfolio at fair value was 3.0. For more information, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Portfolio and Investment Activity.”

#### MANAGERIAL ASSISTANCE

As a BDC, we must offer, and must provide upon request, significant managerial assistance to certain of our portfolio companies. This assistance could involve, among other things, monitoring the operations of our portfolio companies, participating in board and management meetings, consulting with and advising officers of portfolio companies and providing other organizational and financial guidance. Ares Operations may provide all or a portion of this assistance pursuant to our administration agreement, the costs of which will be reimbursed by us. We may receive fees for these services.

#### COMPETITION

Our primary competitors include public and private funds, commercial and investment banks, commercial finance companies, other BDCs and private equity funds, each of which we compete with for financing opportunities. Many of our competitors are substantially larger and have considerably greater financial and marketing resources than we do. For example, some competitors may have access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider more investments and establish more relationships than we do. Furthermore, many of our competitors are not subject to the regulatory restrictions that the Investment Company Act imposes on us as a BDC. For additional information concerning the competitive risks we face, see “Risk Factors—Risks Relating to Our Business—We operate in a highly competitive market for investment opportunities.”

We believe that the relationships of the members of our investment adviser’s investment committee and of the partners of Ares enable us to learn about, and compete effectively for, financing opportunities with attractive middle-market companies in the industries in which we seek to invest. We believe that Ares’ professionals’ deep and long-standing direct sponsor relationships and the resulting proprietary transaction opportunities that these relationships often present, provide valuable insight and access to transactions and information. We use the industry information of Ares’ investment professionals to which we have access to assess investment risks and determine appropriate pricing for our investments in portfolio companies.

#### STAFFING

We do not currently have any employees and do not expect to have any employees. Services necessary for our business are provided by individuals who are employees or affiliates of our investment adviser, Ares Capital Management, and our administrator, Ares Operations, each of which is a subsidiary of Ares Management, pursuant to the terms of our investment advisory and management agreement and our administration agreement, respectively, each as described below. Each of our executive officers is an employee or affiliate of our investment adviser or our administrator. Our day-to-day investment activities are managed by our investment adviser. Most of the services necessary for the origination of our investment portfolio are provided by investment professionals employed by Ares Capital Management. Ares Capital Management had approximately 100 U.S.-based investment professionals as of December 31, 2018 who focus on origination, transaction development, investment and the ongoing monitoring of our investments. See “—Investment Advisory and Management Agreement” below. We reimburse both our investment adviser and our administrator for a certain portion of expenses incurred in connection with such staffing, as described in more

detail below. Because we have no employees, Ares Capital does not have a formal employee relations policy.

#### INVESTMENT ADVISORY AND MANAGEMENT AGREEMENT

##### Management Services

Ares Capital Management serves as our investment adviser and is registered as an investment adviser under the Advisers Act. Subject to the overall supervision of our board of directors, our investment adviser manages the day-to-day operations of, and provides investment advisory and management services to, Ares Capital. Under the terms of the investment advisory and management agreement, our investment adviser:

determines the composition of our portfolio, the nature and timing of the changes to our portfolio and the manner of implementing such changes;

identifies, evaluates and negotiates the structure of the investments we make (including performing due diligence on our prospective portfolio companies);

closes and monitors the investments we make;

determines the investments and other assets that we purchase, retain or sell; and

provides us with such other investment advisory and research and related services as we may from time to time reasonably require.

Ares Capital Management's services to us under the investment advisory and management agreement are not exclusive, and it is free to furnish similar services to other entities. Similarly, our investment adviser or its affiliates may directly or indirectly manage funds or other investment vehicles with investment objectives similar to ours. Accordingly, we may compete with these Ares funds or other investment vehicles managed by our investment adviser and its affiliates for capital and investment opportunities. Ares Capital Management endeavors to allocate investment opportunities in a fair and equitable manner, and in any event consistent with any fiduciary duties owed to Ares Capital. Nevertheless, it is possible that we may not be given the opportunity to participate in certain investments made by investment funds or other investment vehicles managed by our investment adviser or its affiliates. See "Risk Factors-Risks Relating to Our Business-There are significant potential conflicts of interest that could impact our investment returns."

#### Base Management Fee

Pursuant to the investment advisory and management agreement and subject to the overall supervision of our board of directors, our investment adviser provides investment advisory and management services to us. For providing these services, our investment adviser receives fees from us consisting of a base management fee, an income based fee and a capital gains incentive fee.

The base management fee is calculated at an annual rate of 1.5% based on the average value of our total assets (other than cash or cash equivalents but including assets purchased with borrowed funds) at the end of the two most recently completed calendar quarters. The base management fee is payable quarterly in arrears. In connection with our board of directors approving the modification of the asset coverage requirement applicable to senior securities from 200% to 150% effective on June 21, 2019 (unless we receive earlier stockholder approval), the investment advisory and management agreement will be amended effective June 21, 2019 (or such earlier date) to reduce our annual base management fee from 1.5% to 1.0% on all assets financed using leverage over 1.0x debt to equity. See Note 5 to our consolidated financial statements for the year ended December 31, 2018 for additional information.

#### Income Based Fee

The income based fee is calculated and payable quarterly in arrears based on our pre-incentive fee net investment income, as defined in the investment advisory and management agreement, for the quarter. Pre-incentive fee net investment income means interest income, dividend income and any other income (including any other fees such as commitment, origination, structuring, diligence and consulting fees or other fees that we receive from portfolio companies but excluding fees for providing managerial assistance) accrued during the calendar quarter, minus operating expenses for the quarter (including the base management fee, any expenses payable under the administration agreement, and any interest expense and dividends paid on any outstanding preferred stock, but excluding the income based fee and capital gains incentive fee accrued under U.S. generally accepted accounting principles ("GAAP")). Pre-incentive fee net investment income includes, in the case of investments with a deferred interest feature such as market discount, debt instruments with PIK interest, preferred stock with PIK dividends and zero coupon securities, accrued income that we have not yet received in cash. Our investment adviser is not under any obligation to reimburse us for any part of the income based fees it received that were based on accrued interest that we never actually

received. See “Risk Factors—Risks Relating to Our Business—There are significant potential conflicts of interest that could impact our investment returns” and “Risk Factors—Risks Relating to Our Business—We may be obligated to pay our investment adviser certain fees even if we incur a loss.”

Pre-incentive fee net investment income does not include any realized capital gains, realized capital losses, unrealized capital appreciation, unrealized capital depreciation or income tax expense related to realized gains and losses.

Because of the structure of the income based fee, it is possible that we may pay such fees in a quarter where we incur a loss. For example, if



we receive pre-incentive fee net investment income in excess of the hurdle rate for a quarter, we will pay the applicable income based fee even if we have incurred a loss in that quarter due to realized and/or unrealized capital losses.

Pre-incentive fee net investment income, expressed as a rate of return on the value of our net assets (defined as total assets less indebtedness and before taking into account any income based fees and capital gains incentive fees payable during the period) at the end of the immediately preceding calendar quarter, is compared to a fixed “hurdle rate” of 1.75% per quarter. If market credit spreads rise, we may be able to invest our funds in debt instruments that provide for a higher return, which may increase our pre-incentive fee net investment income and make it easier for our investment adviser to surpass the fixed hurdle rate and receive an income based fee based on such net investment income. To the extent we have retained pre-incentive fee net investment income that has been used to calculate the income based fee, it is also included in the amount of our total assets (other than cash and cash equivalents but including assets purchased with borrowed funds) used to calculate the 1.5% base management fee.

We pay our investment adviser an income based fee with respect to our pre-incentive fee net investment income in each calendar quarter as follows:

• No income based fee in any calendar quarter in which our pre-incentive fee net investment income does not exceed the hurdle rate;

• 100% of our pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 2.1875% in any calendar quarter. We refer to this portion of our pre-incentive fee net investment income (which exceeds the hurdle rate but is less than 2.1875%) as the “catch-up” provision. The “catch-up” is meant to provide our investment adviser with 20% of the pre-incentive fee net investment income as if a hurdle rate did not apply if this net investment income exceeded 2.1875% in any calendar quarter; and

• 20% of the amount of our pre-incentive fee net investment income, if any, that exceeds 2.1875% in any calendar quarter.

The following is a graphical representation of the calculation of the income based fee:  
Quarterly Income Based Fee Based on Net Investment Income

Pre-incentive fee net investment income return  
(expressed as a percentage of the value of net assets)

Percentage of pre-incentive fee net investment income  
allocated to income based fee

These calculations are adjusted for any share issuances or repurchases during the quarter.

In connection with the American Capital Acquisition, our investment adviser has agreed to waive, for each of the first ten calendar quarters beginning with the second quarter of 2017 and ending with the third quarter of 2019, the lesser of (x) \$10 million of income based fees and (y) the amount of income based fees for such quarter, in each case, to the extent payable by us in such quarter pursuant to and as calculated under the investment advisory and management agreement (the “Fee Waiver”). See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Overview” and Note 16 to our consolidated financial statements for the year ended December 31, 2018 for information regarding a transaction support agreement entered into between us and Ares Capital Management in connection with the American Capital Acquisition.



## Capital Gains Incentive Fee

The capital gains incentive fee is determined and payable in arrears as of the end of each calendar year (or, upon termination of our investment advisory and management agreement, as of the termination date) and is calculated at the end of each applicable year by subtracting (a) the sum of our cumulative aggregate realized capital losses and aggregate unrealized capital depreciation from (b) our cumulative aggregate realized capital gains, in each case calculated from October 8, 2004, (the date we completed our IPO). Realized capital gains and losses include gains and losses on investments and foreign currencies, gains and losses on extinguishment of debt and from other assets, as well as any income tax and other expenses related to cumulative aggregate realized gains and losses. If such amount is positive at the end of such year, then the capital gains incentive fee for such year is equal to 20% of such amount, less the aggregate amount of capital gains incentive fees paid in all prior years. If such amount is negative, then there is no capital gains incentive fee for such year.

The cumulative aggregate realized capital gains are calculated as the sum of the differences, if positive, between (a) the net sales price of each investment in our portfolio when sold and (b) the accreted or amortized cost basis of such investment.

The cumulative aggregate realized capital losses are calculated as the sum of the amounts by which (a) the net sales price of each investment in our portfolio when sold is less than (b) the accreted or amortized cost basis of such investment.

The aggregate unrealized capital depreciation is calculated as the sum of the differences, if negative, between (a) the valuation of each investment in our portfolio as of the applicable capital gains incentive fee calculation date and (b) the accreted or amortized cost basis of such investment.

Notwithstanding the foregoing, as a result of an amendment to the capital gains incentive fee under the investment advisory and management agreement that was adopted on June 6, 2011, if we are required by GAAP to record an investment at its fair value as of the time of acquisition instead of at the actual amount paid for such investment by us (including, for example, as a result of the application of the asset acquisition method of accounting), then solely for the purposes of calculating the capital gains incentive fee, the “accreted or amortized cost basis” of an investment shall be an amount (the “Contractual Cost Basis”) equal to (1) (x) the actual amount paid by us for such investment plus (y) any amounts recorded in our financial statements as required by GAAP that are attributable to the accretion of such investment plus (z) any other adjustments made to the cost basis included in our financial statements, including PIK interest or additional amounts funded (net of repayments) minus (2) any amounts recorded in our financial statements as required by GAAP that are attributable to the amortization of such investment, whether such calculated Contractual Cost Basis is higher or lower than the fair value of such investment (as determined in accordance with GAAP) at the time of acquisition.

We defer cash payment of any income based fee and the capital gains incentive fee otherwise earned by our investment adviser if during the most recent four full calendar quarter period ending on or prior to the date such payment is to be made the sum of (a) the aggregate distributions to our stockholders and (b) the change in net assets (defined as total assets less indebtedness and before taking into account any income based fees and capital gains incentive fees payable during the period) is less than 7.0% of our net assets (defined as total assets less indebtedness) at the beginning of such period. Any deferred income based fees and capital gains incentive fees are carried over for payment in subsequent calculation periods to the extent such payment is payable under our investment advisory and management agreement.

## Payment of Our Expenses

The services of all investment professionals and staff of our investment adviser, when and to the extent engaged in providing investment advisory and management services to us and routine overhead expenses of such personnel allocable to such services, are provided and paid for by our investment adviser. Under the investment advisory and management agreement, we bear all other costs and expenses of our operations and transactions, including, but not limited to, those relating to: organization; calculation of our net asset value (including, but not limited to, the cost and expenses of any independent valuation firm); expenses incurred by our investment adviser payable to third parties,

including agents, consultants or other advisers, in monitoring our financial and legal affairs and in monitoring our investments (including the cost of consultants hired to develop information technology systems designed to monitor our investments) and performing due diligence on our prospective portfolio companies; interest payable on indebtedness, if any, incurred to finance our investments (including payments to third party vendors for financial information services); offerings of our common stock and other securities; investment advisory and management fees; administration fees; fees payable to third parties, including agents, consultants or other advisers, relating to, or associated with, evaluating and making investments in portfolio companies, regardless of whether such transactions are ultimately consummated; transfer agent and custodial fees; registration fees; listing fees; taxes; independent directors' fees and expenses; costs of preparing and filing reports or other documents with the SEC; the costs of

any reports, proxy statements or other notices to stockholders, including printing costs; to the extent we are covered by any joint insurance policies, our allocable portion of the insurance premiums for such policies; direct costs and expenses of administration, including auditor and legal costs; and all other expenses incurred by us or our administrator in connection with administering our business as described in more detail under “—Administration Agreement” below.

#### Duration, Termination and Amendment

At an in-person meeting of our board of directors on April 25, 2018, our board of directors, including a majority of the directors who are not “interested persons” of the Company as defined in the Investment Company Act, voted to approve the continuation of our investment advisory and management agreement to June 6, 2019.

Unless terminated earlier, our investment advisory and management agreement will renew for successive annual periods if approved annually by our board of directors or by the affirmative vote of the holders of a majority of our outstanding voting securities, and, in either case, approval by a majority of our directors who are not “interested persons” of the Company (as defined in the Investment Company Act). Our investment advisory and management agreement will automatically terminate in the event of its assignment (as defined in the Investment Company Act). The investment advisory and management agreement may be terminated by either party without penalty upon 60 days’ written notice to the other party.

In voting to approve the continuation of the investment advisory and management agreement, our independent directors consulted in executive session with their independent legal counsel regarding the approval of such agreement. In reaching a decision to approve the continuation of the investment advisory and management agreement, our board of directors reviewed a significant amount of information and considered, among other things:

(i) the nature, extent and quality of the services provided to the Company by our investment adviser;

the advisory fees paid by the Company as compared to the advisory fees paid by other funds and accounts  
(ii) managed by our investment adviser with similar investment strategies as well as the fees and expenses of comparable BDCs;

(iii) the long- and short-term investment performance of the Company and our investment adviser;

the costs of the services provided by our investment adviser (including the base management fee, the income  
(iv) based fee (including the Fee Waiver) and the capital gains incentive fee (including the applicable hurdle rates and conditions for the deferral of fee payments) and expense ratios) and comparative data based on publicly available information;

the potential for, and sharing of, economies of scale in investment management given the directly originated nature  
(v) of the Company’s investment portfolio and resources dedicated by our investment adviser thereto, including in light of the American Capital Acquisition;

our investment adviser’s pro forma profitability with respect to managing the Company based on financial  
(vi) information provided by our investment adviser;

any additional benefits to be derived by our investment adviser and its affiliates as a result of our relationship  
(vii) with our investment adviser; and

(viii) various other matters, including the alignment of interests of our stockholders.

In voting to approve the continuation of the investment advisory and management agreement, our board of directors, including all of the directors who are not “interested persons,” of the Company, made the following conclusions:

Nature, Extent and Quality of Services. Our board of directors considered the nature, extent and quality of the investment selection process employed by our investment adviser, including the flow of transaction opportunities resulting from Ares Capital Management’s investment professionals’ significant capital markets, trading and research expertise, the employment of Ares Capital Management’s investment philosophy, diligence procedures, credit recommendation process, investment structuring, and ongoing relationships with and monitoring of portfolio companies, in light of the investment objective of the Company. Our board of directors also considered our investment adviser’s personnel and their prior experience in connection with the types of investments made by us, including such personnel’s network of relationships with intermediaries focused on U.S. middle-market

companies and other companies in which we may make investments. Our board of directors also considered the benefit and increasing costs of our investment adviser continuing to be able to recruit and retain top talent. In addition, our board of directors considered the other terms and conditions of the investment advisory and management agreement, including that the substantive terms of the investment advisory and management agreement (other than the fees payable thereunder, which our board of directors reviewed separately) are generally the same as those of comparable BDCs described in the available market data and that it would be difficult to obtain similar services of similar quality on a comparable basis from other third party service providers or through an internally managed structure. In addition, our board of directors considered the fact that we have the ability to terminate the investment advisory and management agreement without penalty upon 60 days' written notice to our investment adviser. Our board of directors further determined that our investment adviser is served by a dedicated origination, transaction development and investment team of investment professionals, and that these investment professionals have historically focused on investments in U.S. middle-market companies and other companies in which we may make investments and have developed an investment evaluation process and an extensive network of relationships with financial sponsors and intermediaries focused on such companies which experience and relationships coincide with our investment objective and generally equal or exceed those of the management teams or investment advisers of other comparable BDCs described in the available market data.

**Investment Performance.** Our board of directors reviewed the long-term and short-term investment performance of the Company and our investment adviser, as well as comparative data based on publicly available information with respect to the long-term and short-term investment performance of other externally managed BDCs and their investment advisers. Our board of directors noted the longevity and consistency of the Company's investment performance and determined that our investment adviser was delivering results consistent with the investment objective of the Company and that the Company's investment performance was generally above average when compared to comparable BDCs, including based on one, three and five year time periods. Our board of directors further determined that in light of the performance history of the Company, our investment adviser's extensive experience with our particular investment objective and policies and our investment adviser's commitment to the Company, the investment performance of the Company was likely to remain consistent with the approval of the continuation of the investment advisory and management agreement.

**Costs of the Services Provided to the Company.** Our board of directors considered (i) comparative data based on publicly available information with respect to services rendered and the advisory fees (including the base management fee, income based fee and capital gains incentive fee or similar fees (including applicable hurdle rates, other payment conditions and/or fee waivers)) of other BDCs with similar investment objectives, our operating expenses and expense ratios compared to other BDCs of similar size and with similar investment objectives and (ii) the administrative services that our administrator will provide to us at cost. Our board of directors further noted that, in connection with the American Capital Acquisition, our investment adviser agreed to the Fee Waiver, in which our investment adviser agreed to waive, for each of the first ten calendar quarters beginning with the second calendar quarter of 2017 and ending with the third quarter of 2019, the lesser of (1) \$10 million of the income based fees and (2) the amount of income based fees for such quarter, in each case, to the extent payable by the Company in such quarter pursuant to and as calculated under the investment advisory and management agreement. Further, our board of directors considered comparative information with respect to the advisory fees paid by the Company as compared to the advisory fees paid by other funds and accounts managed by our investment adviser with similar investment strategies, and considered the rationale for the differences in fees, including, but not limited to, differences in investment objectives and investment strategies as well as the regulated nature of the Company.

**Economies of Scale.** Our board of directors considered information about the potential for our stockholders to experience economies of scale as we grow in size. In this regard, our board of directors considered information from our investment adviser that our investment adviser had not experienced any economies of scale in its management of our investment portfolio as a result of our larger capital base following the completion of the American Capital Acquisition given the directly originated nature of the Company's investment portfolio and resources dedicated by our

investment adviser thereto.

In view of the wide variety of material factors that our board of directors considered in connection with its evaluation of the investment advisory and management agreement, it is not practical to quantify, rank or otherwise assign relative weights to the specific factors it considered in reaching its decision. Our board of directors did not undertake to make any specific determination as to whether any particular factor, or any aspect of any particular factor, was favorable or unfavorable to the ultimate determination of our board of directors. Rather, our board of directors based its approval on the totality of information

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presented to, and the investigation conducted by, it. In considering the factors discussed above, individual directors may have given different weights to different factors.

Based on the information reviewed and the factors discussed above, our directors (including those directors who are not “interested persons” of the Company) concluded that the terms of the investment advisory and management agreement, including the fee rates thereunder, are fair and reasonable in relation to the services provided and approved the continuation of the investment advisory and management agreement with our investment adviser as being in the best interests of the Company and its stockholders.

Conflicts of interest may arise if our investment adviser seeks to change the terms of our investment advisory and management agreement, including, for example, the amount of the base management fee, the income based fee, the capital gains incentive fee or other compensation terms. Material amendments to our investment advisory and management agreement must be approved by the affirmative vote of the holders of a majority of our outstanding voting securities and by a majority of our independent directors, and we may from time to time decide it is appropriate to seek the requisite approval to change the terms of the agreement.

In connection with our board of directors approving the modified asset coverage requirements applicable to senior securities from 200% to 150% effective on June 21, 2019 (unless we receive earlier stockholder approval), the investment advisory and management agreement will be amended effective June 21, 2019 (or such earlier date) to reduce our annual base management fee from 1.5% to 1.0% on all assets financed using leverage over 1.0x debt to equity.

#### Indemnification

The investment advisory and management agreement provides that, absent willful misfeasance, bad faith or gross negligence in the performance of its duties or by reason of the reckless disregard of its duties and obligations, our investment adviser, its members and their respective officers, managers, partners, agents, employees, controlling persons and members and any other persons or entities affiliated with it are entitled to indemnification from us for any damages, liabilities, costs and expenses (including reasonable attorneys’ fees and amounts reasonably paid in settlement) arising from the rendering of our investment adviser’s services under the investment advisory and management agreement or otherwise as our investment adviser.

#### Organization of our Investment Adviser

Our investment adviser is a Delaware limited liability company that is registered as an investment adviser under the Advisers Act. The principal executive offices of Ares Capital Management are located at 2000 Avenue of the Stars, 12th Floor, Los Angeles, California 90067.

#### ADMINISTRATION AGREEMENT

We are also party to an administration agreement, referred to herein as the “administration agreement”, with our administrator, Ares Operations. Our board of directors approved the continuation of our administration agreement on April 25, 2018, which extended the term of the agreement until June 1, 2019. Pursuant to the administration agreement, Ares Operations furnishes us with office equipment and clerical, bookkeeping and record keeping services at our office facilities. Under the administration agreement, Ares Operations also performs, or oversees the performance of, our required administrative services, which include, among other things, providing assistance in accounting, legal, compliance, operations, technology and investor relations, being responsible for the financial records that we are required to maintain and preparing reports to our stockholders and reports filed with the SEC. In addition, Ares Operations assists us in determining and publishing our net asset value, assists us in providing managerial assistance to our portfolio companies, oversees the preparation and filing of our tax returns and the

printing and dissemination of reports to our stockholders, and generally oversees the payment of our expenses and the performance of administrative and professional services rendered to us by others. Payments under the administration agreement are equal to an amount based upon our allocable portion of Ares Operations' overhead and other expenses (including travel expenses) incurred by Ares Operations in performing its obligations under the administration agreement, including our allocable portion of the compensation, rent and other expenses of certain of our officers (including our chief compliance officer, chief financial officer, chief accounting officer, general counsel, secretary, treasurer and assistant treasurer) and their respective staffs. The administration agreement may be terminated by either party without penalty upon 60 days' written notice to the other party.

For each of the years ended December 31, 2018, 2017 and 2016, we incurred \$13 million, \$12 million and \$14 million, respectively, in administrative fees. As of December 31, 2018 and 2017, \$3 million and \$4 million of the

administrative fees were unpaid and included in “accounts payable and other liabilities” in the accompanying December 31, 2018 and 2017 consolidated balance sheets, respectively. In addition, for the year ended December 31, 2017, we incurred an additional \$8 million in administrative fees related to the integration of the American Capital Acquisition. These acquisition-related expenses are included in “professional fees and other costs related to the American Capital Acquisition” in the consolidated statement of operations.

#### Indemnification

The administration agreement provides that, absent willful misfeasance, bad faith or negligence in the performance of its duties or by reason of the reckless disregard of its duties and obligations, Ares Operations, its members and their respective officers, managers, partners, agents, employees, controlling persons and members and any other persons or entities affiliated with it are entitled to indemnification from us for any damages, liabilities, costs and expenses (including reasonable attorneys’ fees and amounts reasonably paid in settlement) arising from the rendering of Ares Operations’ services under the administration agreement or otherwise as our administrator.

#### LICENSE AGREEMENT

Ares Management LLC has granted us a non exclusive, royalty free license to use the name “Ares” pursuant to a license agreement. Under this agreement, we will have a right to use the Ares name for so long as Ares Capital Management remains our investment adviser. Other than with respect to this limited license, we have no legal right to the “Ares” name.

#### LEVERAGE

We may from time to time borrow funds to make investments, a practice known as “leverage,” to attempt to increase returns to our stockholders. With certain limited exceptions, we are only allowed to borrow amounts such that our asset coverage, as calculated in accordance with the Investment Company Act, equals at least 200% after such borrowing. Effective on June 21, 2019 (unless we receive earlier stockholder approval), our asset coverage requirement applicable to senior securities will be reduced from 200% to 150% (i.e., the revised regulatory leverage limitation permits BDCs to double the amount of borrowings, such that we would be able to borrow up to two dollars for every dollar we have in assets less all liabilities and indebtedness not represented by senior securities issued by us).

The amount of leverage that we employ at any particular time will depend on our investment adviser’s and our board of directors’ assessments of market and other factors at the time of any proposed borrowing. As of February 7, 2019, we had \$5.5 billion in total aggregate principal amount of debt outstanding under the various debt instruments described below. See “Risk Factors—Risks Relating to Our Business—We borrow money, which magnifies the potential for gain or loss on amounts invested and may increase the risk of investing with us.”

We may from time to time seek to retire or repurchase our common stock through cash purchases, as well as retire, cancel or purchase our outstanding debt through cash purchases and/or exchanges, in open market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, our liquidity requirements, contractual and regulatory restrictions and other factors. The amounts involved may be material.

We are party to the Revolving Credit Facility, which allows us to borrow up to \$2.1 billion at any one time outstanding. The Revolving Credit Facility consists of a \$414 million term loan tranche with a stated maturity date of March 30, 2023 and a \$1.7 billion revolving tranche. For \$1.6 billion of the revolving tranche, the end of the revolving period and the stated maturity date are March 30, 2022 and March 30, 2023, respectively. For \$50 million of the revolving tranche, the end of the revolving period and the stated maturity date are January 4, 2021 and January 4,

2022, respectively. For the remaining \$45 million of the revolving tranche, the end of the revolving period and the stated maturity date are May 4, 2019 and May 4, 2020, respectively. The Revolving Credit Facility also provides for a feature that allows us, under certain circumstances, to increase the overall size of the Revolving Credit Facility to a maximum of \$3.1 billion. The interest rate charged on the Revolving Credit Facility is based on an applicable spread of either 1.75% or 1.875% over LIBOR or 0.75% or 1.00% over an “alternate base rate” (as defined in the agreements governing the Revolving Credit Facility), in each case, determined monthly based on the total amount of the borrowing base relative to the total commitments of the Revolving Credit Facility and other debt, if any, secured by the same collateral as the Revolving Credit Facility.

Ares Capital CP is party to the Revolving Funding Facility, which allows Ares Capital CP to borrow up to \$1.0 billion at any one time outstanding. The Revolving Funding Facility is secured by all of the assets held by, and the membership interest in, Ares Capital CP. The end of the reinvestment period and the stated maturity date for the Revolving Funding Facility are January 3, 2022 and January 3, 2024, respectively. The interest rate charged on the Revolving Funding Facility is based on

LIBOR plus 2.00% per annum or a “base rate” (as defined in the agreements governing the Revolving Funding Facility) plus 1.00% per annum. Ares Capital CP is also required to pay a commitment fee of between 0.50% and 1.50% per annum depending on the size of the unused portion of the Revolving Funding Facility.

Our consolidated subsidiary, Ares Capital JB Funding LLC (“ACJB”), is party to a revolving funding facility (as amended, the “SMBC Funding Facility”), which allows ACJB to borrow up to \$400 million at any one time outstanding. The SMBC Funding Facility is secured by all of the assets held by ACJB. The end of the reinvestment period and the stated maturity date for the SMBC Funding Facility are September 14, 2019 and September 14, 2024, respectively. The reinvestment period and the stated maturity date are both subject to two one-year extensions by mutual agreement. The interest rate charged on the SMBC Funding Facility is based on an applicable spread of either 1.75% or 2.00% over LIBOR or 0.75% or 1.00% over a “base rate” (as defined in the agreements governing the SMBC Funding Facility), in each case, determined monthly based on the amount of the average borrowings outstanding under the SMBC Funding Facility.

As of February 7, 2019, we had approximately \$388 million in aggregate principal amount of unsecured convertible notes that mature on February 1, 2022 (the “2022 Convertible Notes”). The 2022 Convertible Notes mature upon their maturity date unless previously converted or repurchased in accordance with their terms. We do not have the right to redeem the 2022 Convertible Notes prior to maturity, and they bear interest at a rate of 3.75% per year, payable semi-annually.

As of February 7, 2019, we had approximately \$2.8 billion in aggregate principal amount of senior unsecured notes outstanding comprised of \$600 million in aggregate principal amount of senior unsecured notes that mature on January 15, 2020 and bear interest at a rate of 3.875% (the “2020 Notes”), \$600 million in aggregate principal amount of senior unsecured notes that mature on January 19, 2022 and bear interest at a rate of 3.625% (the “2022 Notes”), \$750 million in aggregate principal amount of senior unsecured notes that mature on February 10, 2023 and bear interest at a rate of 3.500% (the “2023 Notes”), \$600 million in aggregate principal amount of senior unsecured notes that mature on March 1, 2025 and bear interest at a rate of 4.250% (the “2025 Notes”) and \$230 million in aggregate principal amount of senior unsecured notes that mature on April 15, 2047 and bear interest at a rate of 6.875% (the “2047 Notes”). The 2047 Notes are listed on The New York Stock Exchange.

We intend to continue borrowing under the Facilities (as defined below) in the future and we may increase the size of the Facilities, add additional credit facilities or otherwise issue additional debt securities or other evidences of indebtedness in the future, although there can be no assurance that we will be able to do so.

For more information on our debt, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Financial Condition, Liquidity and Capital Resources.”

## REGULATION

We have elected to be regulated as a BDC under the Investment Company Act and have elected to be treated as a RIC under the Code. As with other companies regulated by the Investment Company Act, a BDC must adhere to certain substantive regulatory requirements. The Investment Company Act contains prohibitions and restrictions relating to certain transactions between BDCs and certain affiliates (including any investment advisers or sub-advisers), principal underwriters and certain affiliates of those affiliates or underwriters. Among other things, we generally cannot co-invest in any portfolio company in which a fund managed by Ares or any of its downstream affiliates other than us and our downstream affiliates) is also co-investing. On January 18, 2017, we received the Co-investment Exemptive Order from the SEC that permits us and other business development companies and registered closed-end management investment companies managed by Ares to co-invest in portfolio companies with each other and with affiliated investment funds. Co-investments made under the Co-investment Exemptive Order are subject to compliance with certain conditions and other requirements contained in the Co-investment Exemptive Order, which

could limit our ability to participate in a co-investment transaction. We may also co-invest with funds managed by Ares or any of its downstream affiliates, subject to compliance with existing regulatory guidance, applicable regulations and our allocation procedures.

The Investment Company Act contains certain restrictions on certain types of investments we may make. Specifically, we may only invest up to 30% of our portfolio in entities that are not considered “eligible portfolio companies” (as defined in the Investment Company Act), including companies located outside of the United States, entities that are operating pursuant to certain exceptions under the Investment Company Act, and publicly traded entities whose public equity market capitalization exceeds the levels provided for under the Investment Company Act.

The Investment Company Act also requires that a majority of our directors be persons other than “interested persons,” as that term is defined in Section 2(a)(19) of the Investment Company Act, referred to herein as “independent directors.” In

addition, the Investment Company Act provides that we may not change the nature of our business so as to cease to be, or to withdraw our election as, a BDC unless that change is approved by holders of at least a majority of our outstanding voting securities. Under the Investment Company Act, the vote of holders of at least a “majority of outstanding voting securities” means the vote of the holders of the lesser of: (a) 67% or more of the outstanding shares of our common stock present at a meeting or represented by proxy if holders of more than 50% of the shares of our common stock are present or represented by proxy or (b) more than 50% of the outstanding shares of our common stock.

Under the Investment Company Act, we are not generally able to issue and sell our common stock at a price below net asset value per share. We may, however, sell our common stock, or warrants, options or rights to acquire our common stock, at a price below the current net asset value per share of our common stock if our board of directors determines that such sale is in our best interests and the best interests of our stockholders, and our stockholders approve such sale. Pursuant to approval granted at a special meeting of stockholders held on May 14, 2018, we currently are permitted to sell or otherwise issue shares of our common stock at a price below net asset value, subject to certain limitations and determinations that must be made by our board of directors. Such stockholder approval expires on May 14, 2019.

We may invest up to 100% of our assets in securities acquired directly from issuers in privately negotiated transactions. Our intention is to not write (sell) or buy put or call options to manage risks associated with the publicly traded securities of our portfolio companies. We may enter into hedging transactions to manage the risks associated with interest rate and currency fluctuations. We may purchase or otherwise receive warrants or options to purchase the common stock of our portfolio companies in connection with acquisition financings or other investments. In connection with such an acquisition, we may acquire rights to require the issuers of acquired securities or their affiliates to repurchase them under certain circumstances.

We also do not intend to acquire securities issued by any investment company that exceed the limits imposed by the Investment Company Act. Under these limits, we generally cannot acquire more than 3% of the voting stock of any investment company (as defined in the Investment Company Act), invest more than 5% of the value of our total assets in the securities of one investment company or invest more than 10% of the value of our total assets in the securities of investment companies in the aggregate. With regard to that portion of our portfolio invested in securities issued by investment companies, it should be noted that such investments might subject our stockholders to additional expenses.

We are currently allowed to borrow amounts or issue debt securities or preferred stock, which we refer to collectively as “senior securities,” such that our asset coverage, as calculated pursuant to the Investment Company Act, equals at least 200% immediately after such borrowing. On June 21, 2018, our board of directors, including a “required majority” of our board of directors, approved the application of the modified asset coverage requirement set forth in Section 61(a)(2) of the Investment Company Act, as amended by the SBCAA. As a result, effective on June 21, 2019 (unless we receive earlier stockholder approval), our asset coverage requirement applicable to senior securities will be reduced from 200% to 150% (i.e., the revised regulatory leverage limitation permits BDCs to double the amount of borrowings, such that we would be able to borrow up to two dollars for every dollar we have in assets less all liabilities and indebtedness not represented by senior securities issued by us).

## PRIVACY PRINCIPLES

We endeavor to maintain the privacy of our recordholders and to safeguard their non-public personal information. The following information is provided to help our recordholders understand what personal information we collect, how we protect that information and why, in certain cases, we may share information with select other parties.

Generally, we will not receive any non-public personal information about recordholders of our common stock, although certain of our recordholders’ non-public information may become available to us. The non-public personal information that we may receive falls into the following categories:

- information we receive from recordholders, whether we receive it orally, in writing or electronically. This includes recordholders' communications to us concerning their investment;

- information about recordholders' transactions and history with us; and

- other general information that we may obtain about recordholders, such as demographic and contact information such as address.

We disclose non-public personal information about recordholders:

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to our affiliates (such as our investment adviser and administrator) and their employees for everyday business purposes;

to our service providers (such as our accountants, attorneys, custodians, transfer agent, underwriters and proxy solicitors) and their employees, as is necessary to service recordholder accounts or otherwise provide the applicable service;

- to comply with court orders, subpoenas, lawful discovery requests or other legal or regulatory requirements; or

as allowed or required by applicable law or regulation.

When we share non-public recordholder personal information referred to above, the information is made available for limited business purposes and under controlled circumstances designed to protect our recordholders' privacy. We do not permit use of recordholder information for any non-business or marketing purpose, nor do we permit third parties to rent, sell, trade or otherwise release or disclose information to any other party.

Our service providers, such as our investment adviser, administrator and transfer agent, are required to maintain physical, electronic, and procedural safeguards to protect recordholder non-public personal information, to prevent unauthorized access or use and to dispose of such information when it is no longer required.

Personnel of affiliates may access recordholder information only for business purposes. The degree of access is based on the sensitivity of the information and on personnel need for the information to service a recordholder's account or comply with legal requirements.

If a recordholder ceases to be a recordholder, we will adhere to the privacy policies and practices as described above. We may choose to modify our privacy policies at any time. Before we do so, we will notify recordholders and provide a description of our privacy policy.

In the event of a corporate change in control resulting from, for example, a sale to, or merger with, another entity, or in the event of a sale of assets, we reserve the right to transfer non-public personal information of holders of our securities to the new party in control or the party acquiring assets.

#### AVAILABLE INFORMATION

We file with or submit to the SEC annual, quarterly and current periodic reports, proxy statements and other information meeting the informational requirements of the Securities Exchange Act of 1934 (the "Exchange Act"). This information is available free of charge by calling us collect at (310) 201-4200 or on our website at [www.arescapitalcorp.com](http://www.arescapitalcorp.com). Information contained on our website is not incorporated into this Annual Report and you should not consider such information to be part of this Annual Report. Such information is also available from the EDGAR database on the SEC's web site at <http://www.sec.gov>.

Item 1A. Risk Factors

RISK FACTORS

You should carefully consider the risk factors described below, together with all of the other information included in this Annual Report, including our consolidated financial statements and the related notes thereto, before you decide whether to make an investment in our securities. The risks set out below are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results. If any of the following events occur, our business, financial condition and results of operations could be materially adversely affected. In such case, the net asset value of our common stock and the trading price, if any, of our securities could decline, and you may lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS

The capital markets may experience periods of disruption and instability. Such market conditions may materially and adversely affect debt and equity capital markets, which may have a negative impact on our business and operations.

From time to time, capital markets may experience periods of disruption and instability. For example, between 2008 and 2009, the global capital markets were unstable as evidenced by periodic disruptions in liquidity in the debt capital markets, significant write-offs in the financial services sector, the re-pricing of credit risk in the broadly syndicated credit market and the failure of major financial institutions. Despite actions of the U.S. federal government and foreign governments, these events contributed to worsening general economic conditions that materially and adversely impacted the broader financial and credit markets and reduced the availability of debt and equity capital for the market as a whole and financial services firms in particular. While market conditions have largely recovered from the events of 2008 and 2009, there have been continuing periods of volatility, some lasting longer than others. For example, continued uncertainty surrounding the referendum by British voters to exit the European Union and uncertainty between the United States and other countries with respect to trade policies, treaties, and tariffs, among other factors, have caused disruption in the global markets, including the markets in which we participate. There can be no assurance these market conditions will not continue or worsen in the future.

Equity capital may be difficult to raise during periods of adverse or volatile market conditions because, subject to some limited exceptions, as a BDC, we are generally not able to issue additional shares of our common stock at a price less than net asset value without first obtaining approval for such issuance from our stockholders and our independent directors. We generally seek approval from our stockholders so that we have the flexibility to issue up to 25% of our then outstanding shares of our common stock at a price below net asset value. Pursuant to approval granted at a special meeting of stockholders held on May 14, 2018, we currently are permitted to sell or otherwise issue shares of our common stock at a price below net asset value, subject to certain limitations and determinations that must be made by our board of directors. Such stockholder approval expires on May 14, 2019.

Volatility and dislocation in the capital markets can also create a challenging environment in which to raise or access debt capital. The reappearance of market conditions similar to those experienced from 2008 through 2009 for any substantial length of time could make it difficult to extend the maturity of or refinance our existing indebtedness or obtain new indebtedness with similar terms and any failure to do so could have a material adverse effect on our business. The debt capital that will be available to us in the future, if at all, may be at a higher cost and on less favorable terms and conditions than what we currently experience including being at a higher cost due to a rising rate environment. If we are unable to raise or refinance debt, then our equity investors may not benefit from the potential for increased returns on equity resulting from leverage and we may be limited in our ability to make new commitments or to fund existing commitments to our portfolio companies.

Significant changes or volatility in the capital markets may also have a negative effect on the valuations of our investments. While most of our investments are not publicly traded, applicable accounting standards require us to assume as part of our valuation process that our investments are sold in a principal market to market participants (even if we plan on holding an investment through its maturity). Significant changes in the capital markets may also affect the pace of our investment activity and the potential for liquidity events involving our investments. Thus, the illiquidity of our investments may make it difficult for us to sell such investments to access capital if required, and as a result, we could realize significantly less than the value at which we have recorded our investments if we were required to sell them for liquidity purposes. An inability to raise or access capital could have a material adverse effect on our business, financial condition or results of operations.

Uncertainty about the financial stability of the United States, China and several countries in Europe could have a significant adverse effect on our business, financial condition and results of operations.

Due to federal budget deficit concerns, Standard & Poor's Financial Services LLC ("S&P") downgraded the federal government's credit rating from AAA to AA+ for the first time in history on August 5, 2011. Further, Moody's Investor Services, Inc. ("Moody's") and Fitch Ratings, Inc. ("Fitch") had warned that they may downgrade the federal government's credit rating under certain circumstances. Further downgrades or warnings by S&P or other rating agencies, and the United States government's credit and deficit concerns in general, could cause interest rates and borrowing costs to rise, which may negatively impact both the perception of credit risk associated with our debt portfolio and our ability to access the debt markets on favorable terms. In addition, a decreased U.S. government credit rating could create broader financial turmoil and uncertainty, which may weigh heavily on our financial performance and the value of our common stock.

Deterioration in the economic conditions in the Eurozone and globally, including instability in financial markets, may pose a risk to our business. In recent years, financial markets have been affected at times by a number of global macroeconomic and political events, including the following: large sovereign debts and fiscal deficits of several countries in Europe and in emerging markets jurisdictions, levels of non performing loans on the balance sheets of European banks, the potential effect of any European country leaving the Eurozone, the potential effect of the United Kingdom leaving the European Union, the potential effect of Scotland leaving the United Kingdom, and market volatility and loss of investor confidence driven by political events, including the general elections in the United Kingdom in June 2017 and in Germany in September 2017 and referenda in the United Kingdom in June 2016 and Italy in December 2016. Market and economic disruptions have affected, and may in the future affect, consumer confidence levels and spending, personal bankruptcy rates, levels of incurrence and default on consumer debt and home prices, among other factors. We cannot assure you that market disruptions in Europe, including the increased cost of funding for certain governments and financial institutions, will not impact the global economy, and we cannot assure you that assistance packages will be available, or if available, be sufficient to stabilize countries and markets in Europe or elsewhere affected by a financial crisis. To the extent uncertainty regarding any economic recovery in Europe negatively impacts consumer confidence and consumer credit factors, our business, financial condition and results of operations could be significantly and adversely affected.

In the second quarter of 2015, stock prices in China experienced a significant drop, resulting primarily from continued sell off of shares trading in Chinese markets. In addition, in August 2015, Chinese authorities sharply devalued China's currency. Since then, the Chinese capital markets have continued to experience periods of instability. These market and economic disruptions have affected, and may in the future affect, the U.S. capital markets, which could adversely affect our business, financial condition or results of operations.

The Federal Reserve has raised the Federal Funds Rate nine times during the period between December 2015 and December 2018, and has announced its intention to continue to raise the federal funds rate over time. These developments, along with the United States government's credit and deficit concerns, the European sovereign debt crisis and the economic slowdown in China, could cause interest rates to be volatile, which may negatively impact our ability to access the debt markets on favorable terms.

A failure on our part to maintain our status as a BDC may significantly reduce our operating flexibility.

If we fail to maintain our status as a BDC, we might be regulated as a closed-end investment company that is required to register under the Investment Company Act, which would subject us to additional regulatory restrictions and significantly decrease our operating flexibility. In addition, any such failure could cause an event of default under our outstanding indebtedness, which could have a material adverse effect on our business, financial condition or results of operations.

We are dependent upon certain key personnel of Ares for our future success and upon their access to other Ares investment professionals.

We depend on the diligence, skill and network of business contacts of certain key personnel of the Ares Credit Group. We also depend, to a significant extent, on access to the investment professionals of other groups within Ares and the information and deal flow generated by Ares' investment professionals in the course of their investment and portfolio management activities. Our future success depends on the continued service of certain key personnel of the Ares Credit Group. The departure of any of these individuals, or of a significant number of the investment professionals or partners of Ares, could have a material adverse effect on our business, financial condition or results of operations. In addition, we cannot assure you that Ares Capital Management will remain our investment adviser or that we will continue to have access to Ares' investment professionals or its information and deal flow. Further, there can be no assurance that Ares Capital will replicate its own or

Ares' historical success, and we caution you that our investment returns could be substantially lower than the returns achieved by other Ares-managed funds.

Our financial condition and results of operations depend on our ability to manage future growth effectively.

Our ability to achieve our investment objective depends on our ability to acquire suitable investments and monitor and administer those investments, which depends, in turn, on our investment adviser's ability to identify, invest in and monitor companies that meet our investment criteria.

Accomplishing this result on a cost-effective basis is largely a function of the structuring of our investment process and the ability of our investment adviser to provide competent, attentive and efficient services to us. Our executive officers and the members of our investment adviser's investment committee have substantial responsibilities in connection with their roles at Ares and with the other Ares funds, as well as responsibilities under the investment advisory and management agreement. They may also be called upon to provide significant managerial assistance to certain of our portfolio companies. These demands on their time, which will increase as the number of investments grow, may distract them or slow the rate of investment. In order to grow, Ares will need to hire, train, supervise, manage and retain new employees. However, we cannot assure you that Ares will be able to do so effectively. Any failure to manage our future growth effectively could have a material adverse effect on our business, financial condition and results of operations.

Our ability to grow depends on our ability to raise capital.

We will need to periodically access the capital markets to raise cash to fund new investments in excess of our repayments, and we may also need to access the capital markets to refinance existing debt obligations to the extent such maturing obligations are not repaid with availability under our revolving credit facilities or cash flows from operations. We have elected to be treated as a RIC and operate in a manner so as to qualify for the U.S. federal income tax treatment applicable to RICs. Among other things, in order to maintain our RIC status, we must distribute to our stockholders on a timely basis generally an amount equal to at least 90% of our investment company taxable income, and, as a result, such distributions will not be available to fund investment originations or repay maturing debt. We must continue to borrow from financial institutions and issue additional securities to fund our growth. Unfavorable economic or capital market conditions may increase our funding costs, limit our access to the capital markets or could result in a decision by lenders not to extend credit to us. An inability to successfully access the capital markets may limit our ability to refinance our existing debt obligations as they come due and/or to fully execute our business strategy and could limit our ability to grow or cause us to have to shrink the size of our business, which could decrease our earnings, if any.

In addition, we are currently allowed to borrow amounts or issue debt securities or preferred stock, which we refer to collectively as "senior securities," such that our asset coverage, as calculated pursuant to the Investment Company Act, equals at least 200% immediately after such borrowing. Effective on June 21, 2019 (unless we receive earlier stockholder approval), our asset coverage requirement applicable to senior securities will be reduced from 200% to 150% (i.e., the revised regulatory leverage limitation permits BDCs to double the amount of borrowings, such that we would be able to borrow up to two dollars for every dollar we have in assets less all liabilities and indebtedness not represented by senior securities issued by us). Such requirement, in certain circumstances, may restrict our ability to borrow or issue debt securities or preferred stock. The amount of leverage that we employ will depend on our investment adviser's and our board of directors' assessments of market and other factors at the time of any proposed borrowing or issuance of senior securities. We cannot assure you that we will be able to maintain or increase the amount available to us under our current Facilities (as defined below), obtain other lines of credit or issue senior securities at all or on terms acceptable to us.

Regulations governing our operation as a BDC affect our ability to, and the way in which we, raise additional capital.

We may issue senior securities or borrow money from banks or other financial institutions, up to the maximum amount permitted by the Investment Company Act. Under the provisions of the Investment Company Act, we are currently permitted, as a BDC, to incur indebtedness or issue senior securities only in amounts such that our asset coverage, as calculated pursuant to the Investment Company Act, equals at least 200% after each such incurrence or issuance. Effective on June 21, 2019 (unless we receive earlier stockholder approval), our asset coverage requirement applicable to senior securities will be reduced from 200% to 150% (i.e., the revised regulatory leverage limitation permits BDCs to double the amount of borrowings, such that we would be able to borrow up to two dollars for every dollar we have in assets less all liabilities and indebtedness not represented by senior securities issued by us). If the value of our assets declines, we may be unable to satisfy this test, which may prohibit us from paying dividends and could prevent us from maintaining our status as a RIC or may prohibit us from repurchasing shares of our common stock. In addition, our inability to satisfy this test could cause an event of default under our existing indebtedness. If we cannot satisfy this test, we may be required to sell a portion of our investments at a time

when such sales may be disadvantageous and, depending on the nature of our leverage, repay a portion of our indebtedness. Accordingly, any failure to satisfy this test could have a material adverse effect on our business, financial condition or results of operations. As of December 31, 2018, our asset coverage calculated in accordance with the Investment Company Act was 236%. Also, to generate cash for funding new investments, we may in the future seek to issue additional debt or to securitize certain of our loans. The Investment Company Act may impose restrictions on the structure of any such securitization.

We are not generally able to issue and sell our common stock at a price below net asset value per share. We may, however, sell our common stock, or warrants, options or rights to acquire our common stock, at a price below the current net asset value per share of our common stock if our board of directors determines that such sale is in our best interests and the best interests of our stockholders, and our stockholders approve such sale. Any such sale would be dilutive to the net asset value per share of our common stock. In any such case, the price at which our securities are to be issued and sold may not be less than a price that, in the determination of our board of directors, closely approximates the market value of such securities (less any commission or discount). If our common stock trades at a discount to net asset value, this restriction could adversely affect our ability to raise capital.

Pursuant to approval granted at a special meeting of stockholders held on May 14, 2018, we currently are permitted to sell or otherwise issue shares of our common stock at a price below net asset value, subject to certain limitations and determinations that must be made by our board of directors. Such stockholder approval expires on May 14, 2019. We borrow money, which magnifies the potential for gain or loss on amounts invested and may increase the risk of investing with us.

Borrowings, also known as leverage, magnify the potential for gain or loss on amounts invested and, therefore, increase the risks associated with investing in our securities. We currently borrow under the Facilities and have issued or assumed other senior securities, and in the future may borrow from, or issue additional senior securities to, banks, insurance companies, funds, institutional investors and other lenders and investors. Lenders and holders of such senior securities have fixed dollar claims on our consolidated assets that are superior to the claims of our common stockholders or any preferred stockholders. If the value of our consolidated assets increases, then leveraging would cause the net asset value per share of our common stock to increase more sharply than it would have had we not incurred leverage.

Conversely, if the value of our consolidated assets decreases, leveraging would cause net asset value to decline more sharply than it otherwise would have had we not incurred leverage. Similarly, any increase in our consolidated income in excess of consolidated interest payable on the borrowed funds would cause our net income to increase more than it would had we not incurred leverage, while any decrease in our consolidated income would cause net income to decline more sharply than it would have had we not incurred leverage. Such a decline could negatively affect our ability to make common stock dividend payments. There can be no assurance that a leveraging strategy will be successful.

As of December 31, 2018, we had approximately \$1.8 billion of outstanding borrowings under the Facilities, approximately \$688 million in aggregate principal amount of unsecured convertible notes outstanding comprised of \$300 million in aggregate principal amount of unsecured convertible notes that matured on January 15, 2019 (the “2019 Convertible Notes”), and \$388 million in aggregate principal amount of unsecured convertible notes that mature on February 1, 2022 (the “2022 Convertible Notes”) and together with the 2019 Convertible Notes, the “Convertible Unsecured Notes”) and approximately \$2.8 billion in aggregate principal amount outstanding of the 2020 Notes, the 2022 Notes, the 2023 Notes, the 2025 Notes and the 2047 Notes (together the “Unsecured Notes”). In order for us to cover our annual interest payments on our outstanding indebtedness at December 31, 2018, we must achieve annual returns on our December 31, 2018 total assets of at least 1.7%. The weighted average stated interest rate charged on our principal amount of outstanding indebtedness as of December 31, 2018 was 4.1%. We intend to continue borrowing under the Facilities in the future and we may increase the size of the Facilities or issue additional debt



securities or other evidences of indebtedness (although there can be no assurance that we will be successful in doing so). For more information on our indebtedness, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Financial Condition, Liquidity and Capital Resources.” Our ability to service our debt depends largely on our financial performance and is subject to prevailing economic conditions and competitive pressures. The amount of leverage that we employ at any particular time will depend on our investment adviser’s and our board of directors’ assessments of market and other factors at the time of any proposed borrowing. We are currently allowed to borrow amounts such that our asset coverage, as calculated pursuant to the Investment Company Act, equals at least 200% after such borrowing. Effective on June 21, 2019 (unless we receive earlier stockholder approval), our asset coverage requirement applicable to senior securities will be reduced from 200% to 150% (i.e., the revised regulatory leverage limitation permits BDCs to double the amount of borrowings, such that we would be able to borrow up to two dollars for every dollar we have in assets less all liabilities and indebtedness not represented by senior securities issued by us). Accordingly, our interest expense

as a percentage of our total assets will be higher if we use increased leverage as permitted under our modified asset coverage requirement applicable to senior securities.

The Facilities, the Convertible Unsecured Notes and the Unsecured Notes impose financial and operating covenants that restrict our business activities, including limitations that could hinder our ability to finance additional loans and investments or to make the distributions required to maintain our status as a RIC. A failure to renew the Facilities or to add new or replacement debt facilities or to issue additional debt securities or other evidences of indebtedness could have a material adverse effect on our business, financial condition and results of operations.

The following table illustrates the effect on return to a holder of our common stock of the leverage created by our use of borrowing at the weighted average stated interest rate of 4.1% as of December 31, 2018, together with (a) our total value of net assets as of December 31, 2018; (b) approximately \$5.3 billion in aggregate principal amount of indebtedness outstanding as of December 31, 2018 and (c) hypothetical annual returns on our portfolio of minus 15% to plus 15%.

Assumed Return on Portfolio (Net of Expenses)(1)	-15.00 %	-10.00 %	-5.00 %	— %	5.00 %	10.00 %	15.00 %
Corresponding Return to Common Stockholders(2)	-29.53 %	-20.69 %	-11.85 %	-3.00 %	5.84 %	14.69 %	23.53 %

(1) The assumed portfolio return is required by SEC regulations and is not a prediction of, and does not represent, our projected or actual performance. Actual returns may be greater or less than those appearing in the table. Pursuant to SEC regulations, this table is calculated as of December 31, 2018. As a result, it has not been updated to take into account any changes in assets or leverage since December 31, 2018.

(2) In order to compute the “Corresponding Return to Common Stockholders,” the “Assumed Return on Portfolio” is multiplied by the total value of our assets at December 31, 2018 to obtain an assumed return to us. From this amount, the interest expense (calculated by multiplying the weighted average stated interest rate of 4.1% by the approximately \$5.3 billion of principal debt outstanding) is subtracted to determine the return available to stockholders. The return available to stockholders is then divided by the total value of our net assets as of December 31, 2018 to determine the “Corresponding Return to Common Stockholders.”

Effective on June 21, 2019 (unless we receive earlier stockholder approval), our asset coverage requirement will reduce from 200% to 150%, which may increase the risk of investing with us.

On June 21, 2018, our board of directors, including a “required majority” of our board of directors, approved the application of the modified asset coverage requirements set forth in Section 61(a)(2) of the Investment Company Act, as amended by the SBCAA. As a result, effective on June 21, 2019 (unless we receive earlier stockholder approval), our asset coverage requirement applicable to senior securities will be reduced from 200% to 150% (i.e., the revised regulatory leverage limitation permits BDCs to double the amount of borrowings, such that we would be able to borrow up to two dollars for every dollar we have in assets less all liabilities and indebtedness not represented by senior securities issued by us), and the risks associated with an investment in us may increase.

In addition to regulatory requirements that restrict our ability to raise capital, the Facilities, the Convertible Unsecured Notes and the Unsecured Notes contain various covenants that, if not complied with, could accelerate repayment under the Facilities, the Convertible Unsecured Notes and the Unsecured Notes, thereby materially and adversely affecting our liquidity, financial condition and results of operations.

The agreements governing the Facilities, the Convertible Unsecured Notes and the Unsecured Notes require us to comply with certain financial and operational covenants. These covenants may include, among other things:

- restrictions on the level of indebtedness that we are permitted to incur in relation to the value of our assets;

- restrictions on our ability to incur liens; and
- maintenance of a minimum level of stockholders' equity.

As of the date of this Annual Report, we are in compliance in all material respects with the covenants of the Facilities, the Convertible Unsecured Notes and the Unsecured Notes. However, our continued compliance with these covenants depends

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on many factors, some of which are beyond our control. For example, depending on the condition of the public debt and equity markets and pricing levels, unrealized depreciation in our portfolio may increase in the future. Any such increase could result in our inability to comply with our obligation to restrict the level of indebtedness that we are able to incur in relation to the value of our assets or to maintain a minimum level of stockholders' equity.

Accordingly, although we believe we will continue to be in compliance, there are no assurances that we will continue to comply with the covenants in the Facilities, the Convertible Unsecured Notes and the Unsecured Notes. Failure to comply with these covenants could result in a default under the Facilities, the Convertible Unsecured Notes or the Unsecured Notes, that, if we were unable to obtain a waiver from the lenders or holders of such indebtedness, as applicable, such lenders or holders could accelerate repayment under such indebtedness and thereby have a material adverse impact on our business, financial condition and results of operations.

We operate in a highly competitive market for investment opportunities.

A number of entities compete with us to make the types of investments that we make in middle-market companies. We compete with other BDCs, public and private funds, commercial and investment banks, commercial financing companies, insurance companies, hedge funds, and, to the extent they provide an alternative form of financing, private equity funds. Many of our competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. Some competitors may have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than us. Furthermore, many of our competitors are not subject to the regulatory restrictions that the Investment Company Act imposes on us as a BDC and that the Code imposes on us as a RIC. We cannot assure you that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations. Also, as a result of this competition, we may not be able to pursue attractive investment opportunities from time to time.

We do not seek to compete primarily based on the interest rates we offer and we believe that some of our competitors may make loans with interest rates that are comparable to or lower than the rates we offer. Rather, we compete with our competitors based on our existing investment platform, seasoned investment professionals, experience and focus on middle-market companies, disciplined investment philosophy, extensive industry focus and flexible transaction structuring. For a more detailed discussion of these competitive advantages, see "Business—Competitive Advantages."

We may lose investment opportunities if we do not match our competitors' pricing, terms and structure. The loss of such investment opportunities may limit our ability to grow or cause us to have to shrink the size of our portfolio, which could decrease our earnings. If we match our competitors' pricing, terms and structure, we may experience decreased net interest income and increased risk of credit loss. As a result of operating in such a competitive environment, we may make investments that are on less favorable terms than what we may have originally anticipated, which may impact our return on these investments.

There are significant potential conflicts of interest that could impact our investment returns.

Conflicts may arise in allocating and structuring investments, time, services, expenses or resources among the investment activities of Ares funds, Ares, other Ares-affiliated entities and the employees of Ares. Certain of our executive officers and directors, and members of the investment committee of our investment adviser, serve or may serve as officers, directors or principals of other entities and affiliates of our investment adviser and investment funds managed by our investment adviser or its affiliates. Accordingly, they may have obligations to investors in those entities, the fulfillment of which might not be in our or our stockholders' best interests or may require them to devote time to services for other entities, which could interfere with the time available to provide services to us. Members of our investment adviser's investment committee may have significant responsibilities for other Ares funds. Similarly,

although the professional staff of our investment adviser will devote as much time to the management of us as appropriate to enable our investment adviser to perform its duties in accordance with the investment advisory and management agreement, the investment professionals of our investment adviser may have conflicts in allocating their time and services among us, on the one hand, and investment vehicles managed by our investment adviser or one or more of its affiliates, on the other hand. These activities could be viewed as creating a conflict of interest insofar as the time and effort of the professional staff of our investment adviser and its officers and employees will not be devoted exclusively to our business but will instead be allocated between our business and the management of these other investment vehicles.

In addition, certain Ares funds may have investment objectives that compete or overlap with, and may from time to time invest in asset classes similar to those targeted by, Ares Capital. Consequently, we, on the one hand, and these other

entities, on the other hand, may from time to time pursue the same or similar capital and investment opportunities. Ares and our investment adviser endeavor to allocate investment opportunities in a fair and equitable manner, and in any event consistent with any fiduciary duties owed to Ares Capital. Nevertheless, it is possible that we may not be given the opportunity to participate in certain investments made by investment funds managed by investment managers affiliated with Ares (including our investment adviser). In addition, there may be conflicts in the allocation of investments among us and the funds managed by investment managers affiliated with Ares (including our investment adviser) or one or more of our controlled affiliates or among the funds they manage, including investments made pursuant to the Co-investment Exemptive Order. Further, such other Ares-managed funds may hold positions in portfolio companies in which Ares Capital has also invested. Such investments may raise potential conflicts of interest between Ares Capital and such other Ares-managed funds, particularly if Ares Capital and such other Ares-managed funds invest in different classes or types of securities or investments of the same underlying portfolio company. In that regard, actions may be taken by such other Ares-managed funds that are adverse to Ares Capital's interests, including, but not limited to, during a restructuring, bankruptcy or other insolvency proceeding or similar matter occurring at the underlying portfolio company.

We have from time to time sold assets to IHAM and certain of the IHAM Vehicles and, as part of our investment strategy, we may offer to sell additional assets to vehicles managed by one or more of our affiliates (including IHAM) or we may purchase assets from vehicles managed by one or more of our affiliates (including IHAM). In addition, vehicles managed by one or more of our affiliates (including IHAM) may offer assets to or may purchase assets from one another. While assets may be sold or purchased at prices that are consistent with those that could be obtained from third parties in the marketplace, and although these types of transactions generally require approval of one or more independent parties, there may be an inherent conflict of interest in such transactions between us and funds managed by one of our affiliates (including our investment adviser).

We pay a base management fee, an income based fee and a capital gains incentive fee to our investment adviser, and reimburse our investment adviser for certain expenses it incurs. Ares, from time to time, incurs fees, costs, and expenses on behalf of more than one fund. To the extent such fees, costs, and expenses are incurred for the account or benefit of more than one fund, each such fund will typically bear an allocable portion of any such fees, costs, and expenses in proportion to the size of its investment in the activity or entity to which such expense relates (subject to the terms of each fund's governing documents) or in such other manner as Ares considers fair and equitable under the circumstances such as the relative fund size or capital available to be invested by such funds. Where a fund's governing documents do not permit the payment of a particular expense, Ares will generally pay such fund's allocable portion of such expense. In addition, investors in our common stock will invest on a gross basis and receive distributions on a net basis after expenses, resulting in, among other things, a lower rate of return than one might achieve if distributions were made on a gross basis.

Our investment adviser's base management fee is based on a percentage of our total assets (other than cash or cash equivalents but including assets purchased with borrowed funds) and, consequently, our investment adviser may have conflicts of interest in connection with decisions that could affect our total assets, such as decisions as to whether to incur indebtedness or to make future investments. We are currently allowed to borrow amounts such that our asset coverage, as calculated pursuant to the Investment Company Act, equals at least 200% after such borrowing. Effective on June 21, 2019 (unless we receive earlier stockholder approval), our asset coverage requirement applicable to senior securities will be reduced from 200% to 150% (i.e., the revised regulatory leverage limitation permits BDCs to double the amount of borrowings, such that we would be able to borrow up to two dollars for every dollar we have in assets less all liabilities and indebtedness not represented by senior securities issued by us). Accordingly, our investment adviser may have conflicts of interest in connection with decisions to use increased leverage permitted under our modified asset coverage requirement applicable to senior securities, as the incurrence of such additional indebtedness would result in an increase in the base management fees payable to our investment adviser and may also result in an increase in the income based fees and capital gains incentive fees payable to our investment adviser.

The income based fees payable by us to our investment adviser that relate to our pre-incentive fee net investment income is computed and paid on income that may include interest that is accrued but not yet received in cash. If a portfolio company defaults on a loan that is structured to provide accrued interest, it is possible that accrued interest previously used in the calculation of such fee will become uncollectible. Our investment adviser is not under any obligation to reimburse us for any part of the income based fees it received that were based on accrued interest that we never actually receive.

Our investment advisory and management agreement renews for successive annual periods if approved by our board of directors or by the affirmative vote of the holders of a majority of our outstanding voting securities, including, in either case, approval by a majority of our directors who are not “interested persons” of us as defined in Section 2(a)(19) of the Investment Company Act. However, both we and our investment adviser have the right to terminate the agreement without penalty upon 60 days’ written notice to the other party. Moreover, conflicts of interest may arise if our investment adviser seeks to change the terms of our investment advisory and management agreement, including, for example, the terms for compensation to our

investment adviser. While any material change to the investment advisory and management agreement must be submitted to stockholders for approval under the Investment Company Act, we may from time to time decide it is appropriate to seek stockholder approval to change the terms of the agreement.

We are party to an administration agreement with our administrator, Ares Operations, a subsidiary of Ares Management, pursuant to which our administrator furnishes us with administrative services and we pay our administrator at cost our allocable portion of overhead and other expenses (including travel expenses) incurred by our administrator in performing its obligations under our administration agreement, including our allocable portion of the compensation, rent, and other expenses of certain of our officers (including our chief compliance officer, chief financial officer, chief accounting officer, general counsel, secretary, treasurer and assistant treasurer) and their respective staffs, but not investment professionals.

Our portfolio company, IHAM, is party to an administration agreement, referred to herein as the “IHAM administration agreement,” with Ares Operations. Pursuant to the IHAM administration agreement, our administrator provides IHAM with administrative services and IHAM reimburses our administrator for all of the actual costs associated with such services, including its allocable portion of our administrator’s overhead and the cost of our administrator’s officers and respective staff in performing its obligations under the IHAM administration agreement. Prior to entering into the IHAM administration agreement, IHAM was party to a services agreement with our investment adviser, pursuant to which our investment adviser provided similar services.

As a result of the arrangements described above, there may be times when the management team of Ares Management (including those members of management focused primarily on managing Ares Capital) has interests that differ from those of yours, giving rise to a conflict.

Our stockholders may have conflicting investment, tax and other objectives with respect to their investments in us. The conflicting interests of individual stockholders may relate to or arise from, among other things, the nature of our investments, the structure or the acquisition of our investments, and the timing of dispositions of our investments. As a consequence, conflicts of interest may arise in connection with decisions made by our investment adviser, including with respect to the nature or structuring of our investments, that may be more beneficial for one stockholder than for another stockholder, especially with respect to stockholders’ individual tax situations. In selecting and structuring investments appropriate for us, our investment adviser will consider the investment and tax objectives of the Company and our stockholders, as a whole, not the investment, tax or other objectives of any stockholder individually.

We may be subject to additional corporate-level income taxes if we fail to maintain our status as a RIC.

We have elected to be treated as a RIC under the Code and operate in a manner so as to qualify for the U.S. federal income tax treatment applicable to RICs. As a RIC, we generally will not pay U.S. federal corporate-level income taxes on our income and net capital gains that we distribute to our stockholders as dividends on a timely basis. We will be subject to U.S. federal corporate-level income tax on any undistributed income and/or gains. To maintain our status as a RIC, we must meet certain source of income, asset diversification and annual distribution requirements. We may also be subject to certain U.S. federal excise taxes, as well as state, local and foreign taxes.

To maintain our RIC status, we must timely distribute an amount equal to at least 90% of our investment company taxable income (as defined by the Code, which generally includes net ordinary income and net short term capital gains) to our stockholders (the “Annual Distribution Requirement”). We have the ability to pay a large portion of our dividends in shares of our stock, and as long as a portion of such dividend is paid in cash and other requirements are met, such stock dividends will be taxable as a dividend for U.S. federal income tax purposes. This may result in our U.S. stockholders having to pay tax on such dividends, even if no cash is received, and may result in our non-U.S. stockholders being subject to withholding tax in respect of amounts distributed in our stock. Because we use debt financing, we are subject to certain asset coverage ratio requirements under the Investment Company Act and



financial covenants under our indebtedness that could, under certain circumstances, restrict us from making distributions necessary to qualify as a RIC. If we are unable to obtain cash from other sources, we may fail to maintain our status as a RIC and, thus, may be subject to corporate-level income tax on all of our income and/or gains.

To maintain our status as a RIC, in addition to the Annual Distribution Requirement, we must also meet certain annual source of income requirements at the end of each taxable year and asset diversification requirements at the end of each calendar quarter. Failure to meet these requirements may result in our having to (a) dispose of certain investments quickly or (b) raise additional capital to prevent the loss of RIC status. Because most of our investments are in private companies and are generally illiquid, any such dispositions may be at disadvantageous prices and may result in losses. Also, the rules applicable to our qualification as a RIC are complex with many areas of uncertainty. Accordingly, no assurance can be given that we have qualified or will continue to qualify as a RIC. If we fail to maintain our status as a RIC for any reason and become subject to

regular “C” corporation income tax, the resulting corporate-level income taxes could substantially reduce our net assets, the amount of income available for distribution and the amount of our distributions. Such a failure would have a material adverse effect on us and on any investment in us. Certain provisions of the Code provide some relief from RIC disqualification due to failures of the source of income and asset diversification requirements, although there may be additional taxes due in such cases. We cannot assure you that we would qualify for any such relief should we fail the source of income or asset diversification requirements.

We may have difficulty paying our required distributions under applicable tax rules if we recognize income before or without receiving cash representing such income.

For U.S. federal income tax purposes, we generally are required to include in income certain amounts that we have not yet received in cash, such as original issue discount, which may arise, for example, if we receive warrants in connection with the making of a loan, or PIK interest representing contractual interest added to the loan principal balance and due at the end of the loan term. Such original issue discount or PIK interest is included in income before we receive any corresponding cash payments. We also may be required to include in income certain other amounts that we will not receive in cash, including, for example, amounts attributable to hedging and foreign currency transactions.

Since, in certain cases, we may recognize income before or without receiving cash in respect of such income, we may have difficulty meeting the U.S. federal income tax requirement to distribute generally an amount equal to at least 90% of our investment company taxable income to maintain our status as a RIC. Accordingly, we may have to sell some of our investments at times we would not consider advantageous, raise additional debt or equity capital or reduce new investment originations to meet these distribution requirements. If we are not able to obtain cash from other sources, we may fail to qualify as a RIC and thus be subject to additional corporate-level income taxes. Such a failure could have a material adverse effect on us and on any investment in us.

We are exposed to risks associated with changes in interest rates.

General interest rate fluctuations may have a substantial negative impact on our investments and investment opportunities and, accordingly, may have a material adverse effect on our investment objective and rate of return on invested capital. Because we borrow money and may issue debt securities or preferred stock to make investments, our net investment income is dependent upon the difference between the rate at which we borrow funds or pay interest or dividends on such debt securities or preferred stock and the rate at which we invest these funds. From time to time, we may also enter into certain hedging transactions to mitigate our exposure to rising borrowing costs. In the past, we have entered into certain hedging transactions, such as interest rate swap agreements, to mitigate our exposure to adverse fluctuations in interest rates, and we may do so again in the future. In addition, we may increase our floating rate investments to position the portfolio for rate increases. However, we cannot assure you that such transactions will be successful in mitigating our exposure to interest rate risk. Hedging transactions may also limit our ability to participate in the benefits of lower interest rates with respect to our indebtedness. 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.

Trading prices tend to fluctuate more for fixed-rate securities that have longer maturities. Although we have no policy governing the maturities of our investments, under current market conditions we expect that we will invest in a portfolio of debt generally having maturities of up to 10 years. Trading prices for debt that pays a fixed rate of return tend to fall as interest rates rise. This means that we are subject to greater risk (other things being equal) than a fund invested solely in shorter-term securities. A decline in the prices of the debt we own could adversely affect the trading price of our common stock. Also, an increase in interest rates available to investors could make an investment in our common stock less attractive if we are not able to increase our dividend rate, which could reduce the value of our common stock.

Most of our portfolio investments are not publicly traded and, as a result, the fair value of these investments may not be readily determinable.

A large percentage of our portfolio investments are not publicly traded. The fair value of investments that are not publicly traded may not be readily determinable. We value these investments quarterly at fair value as determined in good faith by our board of directors based on, among other things, the input of our management and audit committee and independent valuation firms that have been engaged at the direction of our board of directors to assist in the valuation of each portfolio investment without a readily available market quotation at least once during a trailing 12-month period (with certain de minimis exceptions). The valuation process is conducted at the end of each fiscal quarter, with a portion (based on value) of our valuations of portfolio companies without readily available market quotations subject to review by an independent valuation firm each quarter. However, we may use these independent valuation firms to review the value of our investments more

frequently, including in connection with the occurrence of significant events or changes in value affecting a particular investment. In addition, our independent registered public accounting firm obtains an understanding of, and performs select procedures relating to, our investment valuation process within the context of performing the integrated audit.

The types of factors that may be considered in valuing our investments include the enterprise value of the portfolio company (the entire value of the portfolio company to a market participant, including the sum of the values of debt and equity securities used to capitalize the enterprise at a point in time), the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings and discounted cash flows, the markets in which the portfolio company does business, a comparison of the portfolio company's securities to similar publicly traded securities, changes in the interest rate environment and the credit markets generally that may affect the price at which similar investments would trade in their principal markets and other relevant factors. When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, we consider the pricing indicated by the external event to corroborate our valuation. Because such valuations, and particularly valuations of private investments and private companies, are inherently uncertain, may fluctuate over short periods of time and may be based on estimates, our determinations of fair value may differ materially from the values that would have been used if a ready market for these investments existed and may differ materially from the values that we may ultimately realize. Our net asset value per share could be adversely affected if our determinations regarding the fair value of these investments are higher than the values that we realize upon disposition of such investments.

The lack of liquidity in our investments may adversely affect our business.

As we generally make investments in private companies, substantially all of these investments are subject to legal and other restrictions on resale or are otherwise less liquid than publicly traded securities. The illiquidity of our investments may make it difficult for us to sell such investments if the need arises. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we could realize significantly less than the value at which we have recorded our investments or could be unable to dispose of our investments in a timely manner. In addition, we may face other restrictions on our ability to liquidate an investment in a portfolio company to the extent that we or an affiliated manager of Ares has material non-public information regarding such portfolio company.

We may experience fluctuations in our quarterly results.

We could experience fluctuations in our quarterly operating results due to a number of factors, including the interest rates payable on the debt investments we make, the default rates on such investments, the level of our expenses, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which we encounter competition in our markets and general economic conditions. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods.

Our financial condition and results of operations could be negatively affected if a significant investment fails to perform as expected.

Our investment portfolio includes investments that may be significant individually or in the aggregate. If a significant investment in one or more companies fails to perform as expected, such a failure could have a material adverse effect on our business, financial condition and operating results, and the magnitude of such effect could be more significant than if we had further diversified our portfolio.

We are dependent on information systems and systems failures could significantly disrupt our business, which may, in turn, negatively affect our liquidity, financial condition or results of operations.

Our business is dependent on our and third parties' communications and information systems. Further, in the ordinary course of our business we or our investment adviser may engage certain third party service providers to provide us

with services necessary for our business. Any failure or interruption of those systems or services, including as a result of the termination or suspension of an agreement with any third-party service providers, could cause delays or other problems in our business activities. Our financial, accounting, data processing, backup or other operating systems and facilities may fail to operate properly or become disabled or damaged as a result of a number of factors including events that are wholly or partially beyond our control and adversely affect our business. There could be:

• sudden electrical or telecommunications outages;

• natural disasters such as earthquakes, tornadoes and hurricanes;

disease pandemics;

events arising from local or larger scale political or social matters, including terrorist acts; and

cyber-attacks.

These events, in turn, could have a material adverse effect on our business, financial condition and operating results and negatively affect the market price of our common stock and our ability to pay dividends to our stockholders.

Cybersecurity risks and cyber incidents may adversely affect our business or the business of our portfolio companies by causing a disruption to our operations or the operations of our portfolio companies, a compromise or corruption of our confidential information or the confidential information of our portfolio companies and/or damage to our business relationships or the business relationships of our portfolio companies, all of which could negatively impact the business, financial condition and operating results of us or our portfolio companies.

A cyber incident is considered to be any adverse event that threatens the confidentiality, integrity or availability of the information resources of us or our portfolio companies. These incidents may be an intentional attack or an unintentional event and could involve gaining unauthorized access to our information systems or those of our portfolio companies for purposes of misappropriating assets, stealing confidential information, corrupting data or causing operational disruption. We and our investment adviser's employees have been and expect to continue to be the target of fraudulent calls, emails and other forms of activities. The result of these incidents may include disrupted operations, misstated or unreliable financial data, liability for stolen assets or information, increased cybersecurity protection and insurance costs, litigation and damage to business relationships. The costs related to cyber or other security threats or disruptions may not be fully insured or indemnified by other means. As our and our portfolio companies' reliance on technology has increased, so have the risks posed to our information systems, both internal and those provided by Ares Management and third-party service providers, and the information systems of our portfolio companies. Ares Management has implemented processes, procedures and internal controls to help mitigate cybersecurity risks and cyber intrusions, but these measures, as well as our increased awareness of the nature and extent of a risk of a cyber incident, do not guarantee that a cyber incident will not occur and/or that our financial results, operations or confidential information will not be negatively impacted by such an incident. In addition, cybersecurity has become a top priority for regulators around the world, and some jurisdictions have enacted laws requiring companies to notify individuals of data security breaches involving certain types of personal data. If we fail to comply with the relevant laws and regulations, we could suffer financial losses, a disruption of our businesses, liability to investors, regulatory intervention or reputational damage.

Ineffective internal controls could impact our business and operating results.

Our internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. Even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. If we fail to maintain the adequacy of our internal controls, including any failure to implement required new or improved controls, or if we experience difficulties in their implementation, our business and operating results could be harmed and we could fail to meet our financial reporting obligations.

Changes in laws or regulations governing our operations or the operations of our portfolio companies, changes in the interpretation thereof or newly enacted laws or regulations, such as the Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), Public Law No. 115-97 (the "Tax Cuts and Jobs Act") and the SBCAA, could require changes to certain business practices of us or our portfolio companies, negatively impact the operations, cash flows or financial condition of us or our portfolio companies, impose additional costs on us or our portfolio companies or otherwise adversely affect our business or the business of our portfolio companies.

We and our portfolio companies are subject to regulation by laws and regulations at the local, state, federal and, in some cases, foreign levels. These laws and regulations, as well as their interpretation, may be changed from time to time, and new laws and regulations may be enacted. Accordingly, any change in these laws or regulations, changes in their interpretation, or newly enacted laws or regulations could require changes to certain business practices of us or our portfolio companies, negatively impact the operations, cash flows or financial condition of us or our portfolio companies, impose additional costs on us or our portfolio companies or otherwise adversely affect our business or the business of our portfolio companies.

On July 21, 2010, President Obama signed into law the Dodd-Frank Act. Many of the provisions of the Dodd-Frank Act have had extended implementation periods and delayed effective dates and have required extensive rulemaking by

regulatory authorities. While many of the rules required to be written have been promulgated, some have not yet been implemented. Although the full impact of the Dodd-Frank Act on us and our portfolio companies may not be known for an extended period of time, the Dodd-Frank Act, including the rules implementing its provisions and the interpretation of those rules relating to capital, margin, trading and clearance and settlement of derivatives, may negatively impact the operations, cash flows or financial condition of us or our portfolio companies, impose additional costs on us or our portfolio companies, intensify the regulatory supervision of us or our portfolio companies or otherwise adversely affect our business or the business of our portfolio companies.

On December 22, 2017, President Trump signed into law the Tax Cuts and Jobs Act, which significantly changed the Code, including, a reduction in the corporate income tax rate, a new limitation on the deductibility of interest expense, and significant changes to the taxation of income earned from foreign sources and foreign subsidiaries. The Tax Cuts and Jobs Act also authorizes the IRS to issue regulations with respect to the new provisions. We cannot predict how the changes in the Tax Cuts and Jobs Act, or regulations or other guidance issued under it, might affect us, our business or the business of our portfolio companies.

On February 3, 2017, President Trump signed Executive Order 13772 announcing the new Administration's policy to regulate the U.S. financial system in a manner consistent with certain "Core Principles," including regulation that is efficient, effective and appropriately tailored. The Executive Order directed the Secretary of the Treasury, in consultation with the heads of the member agencies of the Financial Stability Oversight Council, to report to the President on the extent to which existing laws, regulations and other government policies promote the Core Principles and to identify any laws, regulations or other government policies that inhibit federal regulation of the U.S. financial system. On June 12, 2017, the U.S. Department of the Treasury published the first of several reports in response to the Executive Order on the depository system covering banks and other savings institutions. On October 6, 2017, the Treasury released a second report outlining ways to streamline and reform the U.S. regulatory system for capital markets, followed by a third report, on October 26, 2017, examining the current regulatory framework for the asset management and insurance industries. The Treasury released a fourth report on July 31, 2018 describing recommendations relating to nonbank financial institutions, financial technology and innovation. Subsequent reports are expected to address retail and institutional investment products and vehicles.

On May 24, 2018, President Trump signed into law the Economic Growth, Regulatory Relief, and Consumer Protection Act, which increased from \$50 billion to \$250 billion the asset threshold for designation of "systemically important financial institutions" or "SIFIs" subject to enhanced prudential standards set by the Federal Reserve, staggering application of this change based on the size and risk of the covered bank holding company. On May 30th, the Federal Reserve voted to consider changes to the Volcker Rule that would loosen compliance requirements for all banks. On July 17, 2018, the House of Representatives passed the JOBS and Investor Confidence Act, which includes 32 pieces of legislation intended to help small businesses, entrepreneurs and investors by reforming capital markets. The proposed legislation includes provisions to expand the definition of "accredited investors," extend on ramp exemptions for emerging growth companies (EGCs) and ease securities regulations on initial public offerings. The legislation was forwarded to the Senate for consideration, where no further action was taken, although it may be reintroduced in the future. At this time it is not possible to determine the potential impact of these new laws and proposals on us.

On March 23, 2018, the SBCAA was signed into law. The SBCAA, among other things, modifies the applicable provisions of the Investment Company Act to reduce the required asset coverage ratio applicable to a BDC from 200% to 150% subject to certain approval, time and disclosure requirements (including either stockholder approval or approval of a "required majority" of its board of directors). On June 21, 2018, our board of directors, including a "required majority" of our board of directors, approved the application of the modified asset coverage requirement set forth in Section 61(a)(2) of the Investment Company Act, as amended by the SBCAA. As a result, effective on June 21, 2019 (unless we receive earlier stockholder approval), our asset coverage requirement applicable to senior securities will be reduced from 200% to 150% (i.e., the revised regulatory leverage limitation permits BDCs to double the amount of borrowings, such that we would be able to borrow up to two dollars for every dollar we have in assets



less all liabilities and indebtedness not represented by senior securities issued by us), and the risks associated with an investment in us may increase.

Changes to United States tariff and import/export regulations may have a negative effect on our portfolio companies and, in turn, harm us.

There has been ongoing discussion and commentary regarding potential significant changes to United States trade policies, treaties and tariffs. The current administration, along with Congress, has created significant uncertainty about the future relationship between the United States and other countries with respect to such trade policies, treaties and tariffs. These developments, or the perception that any of them could occur, may have a material adverse effect on global economic conditions and the stability of global financial markets, and may significantly reduce global trade and, in particular, trade

between the impacted nations and the United States. Any of these factors could depress economic activity and restrict our portfolio companies' access to suppliers or customers and have a material adverse effect on their business, financial condition and results of operations, which in turn would negatively impact us.

Uncertainty relating to the LIBOR calculation process may adversely affect the value of our portfolio of the LIBOR indexed, floating rate debt securities in our portfolio or the cost of our borrowings.

Concerns have been publicized that some of the member banks surveyed by the British Bankers' Association ("BBA") in connection with the calculation of LIBOR across a range of maturities and currencies may have been under reporting or otherwise manipulating the inter bank lending rate applicable to them in order to profit on their derivatives positions or to avoid an appearance of capital insufficiency or adverse reputational or other consequences that may have resulted from reporting inter bank lending rates higher than those they actually submitted. A number of BBA member banks have entered into settlements with their regulators and law enforcement agencies with respect to alleged manipulation of LIBOR, and investigations by regulators and governmental authorities in various jurisdictions are ongoing.

On July 27, 2017, the United Kingdom's Financial Conduct Authority, which regulates LIBOR, announced that it intends to phase out LIBOR by the end of 2021. It is unclear if at that time whether or not LIBOR will cease to exist or if new methods of calculating LIBOR will be established such that it continues to exist after 2021. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, a steering committee comprised of large U.S. financial institutions, is considering replacing U.S. dollar LIBOR with a new index calculated by short term repurchase agreements, backed by Treasury securities. The future of LIBOR at this time is uncertain. Potential changes, or uncertainty related to such potential changes, may adversely affect the market for LIBOR based securities, including our portfolio of LIBOR indexed, floating rate debt securities, or the cost of our borrowings. In addition, changes or reforms to the determination or supervision of LIBOR may result in a sudden or prolonged increase or decrease in reported LIBOR, which could have an adverse impact on the market for LIBOR based securities, including the value of the LIBOR indexed, floating rate debt securities in our portfolio, or the cost of our borrowings. Additionally, if LIBOR ceases to exist, we may need to renegotiate the credit agreements extending beyond 2021 with our portfolio companies that utilize LIBOR as a factor in determining the interest rate and certain of our existing credit facilities to replace LIBOR with the new standard that is established.

Our investment adviser's liability is limited under the investment advisory and management agreement, and we are required to indemnify our investment adviser against certain liabilities, which may lead our investment adviser to act in a riskier manner on our behalf than it would when acting for its own account.

Our investment adviser has not assumed any responsibility to us other than to render the services described in the investment advisory and management agreement, and it will not be responsible for any action of our board of directors in declining to follow our investment adviser's advice or recommendations. Pursuant to the investment advisory and management agreement, our investment adviser and its members and their respective officers, managers, partners, agents, employees, controlling persons and members and any other persons affiliated with it will not be liable to us for their acts under the investment advisory and management agreement, absent willful misfeasance, bad faith, gross negligence or reckless disregard in the performance of their duties. We have agreed to indemnify, defend and protect our investment adviser and its members and their respective officers, managers, partners, agents, employees, controlling persons and members and any other persons or entities affiliated with it with respect to all damages, liabilities, costs and expenses arising out of or otherwise based upon the performance of any of our investment adviser's duties or obligations under the investment advisory and management agreement or otherwise as an investment adviser for us, and not arising out of willful misfeasance, bad faith, gross negligence or reckless disregard in the performance of their duties under the investment advisory and management agreement. These protections may lead our investment adviser to act in a riskier manner when acting on our behalf than it would when acting for its own account. See "Risk Factors—Risks Relating to Our Investments—Our investment adviser's fee structure may induce it to make certain investments on our behalf, including speculative investments."

We may be obligated to pay our investment adviser certain fees even if we incur a loss.

Our investment adviser is entitled to income based fees for each fiscal quarter in an amount equal to a percentage of the excess of our pre-incentive fee net investment income for that quarter (before deducting any income based fee and capital gains incentive fees and certain other items) above a threshold return for that quarter. Our pre-incentive fee net investment income for income based fee purposes excludes realized and unrealized capital losses or depreciation and income taxes related to realized gains that we may incur in the fiscal quarter, even if such capital losses or depreciation and income taxes related to realized gains result in a net loss on our statement of operations for that quarter. Thus, we may be required to pay our investment adviser income based fees for a fiscal quarter even if there is a decline in the value of our portfolio or the net asset value of our common stock or we incur a net loss for that quarter.

Under the investment advisory and management agreement, we will defer cash payment of any income based fee and the capital gains incentive fee otherwise earned by our investment adviser if, during the most recent four full calendar quarter periods ending on or prior to the date such payment is to be made, the sum of (a) our aggregate distributions to our stockholders and (b) our change in net assets (defined as total assets less indebtedness and before taking into account any income based fees or capital gains incentive fees accrued during the period) is less than 7.0% of our net assets (defined as total assets less indebtedness) at the beginning of such period. These calculations will be adjusted for any share issuances or repurchases. Any such deferred fees will be carried over for payment in subsequent calculation periods to the extent such payment can then be made under the investment advisory and management agreement.

If a portfolio company defaults on a loan that is structured to provide interest, it is possible that accrued and unpaid interest previously used in the calculation of income based fees will become uncollectible. Our investment adviser is not under any obligation to reimburse us for any part of income based fees it received that was based on accrued income that we never receive.

## RISKS RELATING TO OUR INVESTMENTS

Declines in market prices and liquidity in the corporate debt markets can result in significant net unrealized depreciation of our portfolio, which in turn would reduce our net asset value.

As a BDC, we are required to carry our investments at market value or, if no market value is ascertainable, at fair value as determined in good faith by or under the direction of our board of directors. We may take into account the following types of factors, if relevant, in determining the fair value of our investments: the enterprise value of a portfolio company (the entire value of the portfolio company to a market participant, including the sum of the values of debt and equity securities used to capitalize the enterprise at a point in time), the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business, a comparison of the portfolio company's securities to similar publicly traded securities, changes in the interest rate environment and the credit markets generally that may affect the price at which similar investments would trade in their principal markets and other relevant factors. When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, we use the pricing indicated by the external event to corroborate our valuation. While most of our investments are not publicly traded, applicable accounting standards require us to assume as part of our valuation process that our investments are sold in a principal market to market participants (even if we plan on holding an investment through its maturity). As a result, volatility in the capital markets can also adversely affect our investment valuations. Decreases in the market values or fair values of our investments are recorded as unrealized depreciation. The effect of all of these factors on our portfolio can reduce our net asset value (and, as a result our asset coverage calculation) by increasing net unrealized depreciation in our portfolio. Depending on market conditions, we could incur substantial realized and/or unrealized losses, which could have a material adverse effect on our business, financial condition or results of operations.

Economic recessions or downturns could impair our portfolio companies and harm our operating results.

Many of our portfolio companies may be susceptible to economic downturns or recessions and may be unable to repay our loans during these periods. Therefore, during these periods our non-performing assets may increase and the value of our portfolio may decrease if we are required to write down the values of our investments. Adverse economic conditions may also decrease the value of collateral securing some of our loans and the value of our equity investments. Economic slowdowns or recessions could lead to financial losses in our portfolio and a decrease in revenues, net income and assets. Unfavorable economic conditions also could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. These events could prevent us from increasing investments and harm our operating results. We experienced to some extent such effects as a result of

the economic downturn that occurred from 2008 through 2009 and may experience such effects again in any future downturn or recession.

A portfolio company's failure to satisfy financial or operating covenants imposed by us or other lenders could lead to defaults and, potentially, acceleration of the time when the loans are due and foreclosure on its assets representing collateral for its obligations, which could trigger cross defaults under other agreements and jeopardize our portfolio company's ability to meet its obligations under the debt investments that we hold and the value of any equity securities we own. We may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms with a defaulting portfolio company.

Investments in privately held middle-market companies involve significant risks.

We primarily invest in privately held U.S. middle-market companies. Investments in privately held middle-market companies involve a number of significant risks, including the following:

these companies may have limited financial resources and may be unable to meet their obligations, which may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of us realizing our investment;

they typically have shorter operating histories, narrower product lines and smaller market shares than larger businesses, which tend to render them more vulnerable to competitors' actions and market conditions, as well as general economic downturns;

they typically depend on the management talents and efforts of a small group of persons; therefore, the death, disability, resignation or termination of one or more of these persons could have a material adverse effect on such portfolio company and, in turn, on us;

there is generally little public information about these companies. These companies and their financial information are generally not subject to the Exchange Act (as defined below) and other regulations that govern public companies, and we may be unable to uncover all material information about these companies, which may prevent us from making a fully informed investment decision and cause us to lose money on our investments;

they generally have less predictable operating results and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position;

we, our executive officers, directors and our investment adviser may, in the ordinary course of business, be named as defendants in litigation arising from our investments in our portfolio companies and may, as a result, incur significant costs and expenses in connection with such litigation;

changes in laws and regulations (including the Tax Cuts and Jobs Act), as well as their interpretations, may adversely affect their business, financial structure or prospects; and

they may have difficulty accessing the capital markets to meet future capital needs.

Our debt investments may be risky and we could lose all or part of our investment.

The debt that we invest in is typically not initially rated by any rating agency, but we believe that if such investments were rated, they would be below investment grade (rated lower than "Baa3" by Moody's Investors Service, lower than "BBB-" by Fitch Ratings or lower than "BBB-" by Standard & Poor's Ratings Services), which under the guidelines established by these entities is an indication of having predominantly speculative characteristics with respect to the issuer's capacity to pay interest and repay principal. Bonds that are rated below investment grade are sometimes referred to as "high yield bonds" or "junk bonds." Therefore, our investments may result in an above average amount of risk and volatility or loss of principal. While the debt we invest in is often secured, such security does not guarantee that we will receive principal and interest payments according to the terms of the loan, or that the value of any collateral will be sufficient to allow us to recover all or a portion of the outstanding amount of the loan should we be forced to enforce our remedies.

We also may invest in assets other than first and second lien and mezzanine debt investments, including high-yield securities, U.S. government securities, credit derivatives and other structured securities and certain direct equity investments. These investments entail additional risks that could adversely affect our investment returns.

Investments in equity securities, many of which are illiquid with no readily available market, involve a substantial degree of risk.

We may purchase common and other equity securities. Although common stock has historically generated higher average total returns than fixed income securities over the long-term, common stock also has experienced significantly more volatility in those returns. The equity securities we acquire may fail to appreciate and may decline in value or become worthless and our ability to recover our investment will depend on the underlying portfolio company's success. Investments in equity securities involve a number of significant risks, including:

any equity investment we make in a portfolio company could be subject to further dilution as a result of the issuance of additional equity interests and to serious risks as a junior security that will be subordinate to all indebtedness (including trade creditors) or senior securities in the event that the issuer is unable to meet its obligations or becomes subject to a bankruptcy process;

to the extent that the portfolio company requires additional capital and is unable to obtain it, we may not recover our investment; and

in some cases, equity securities in which we invest will not pay current dividends, and our ability to realize a return on our investment, as well as to recover our investment, will be dependent on the success of the portfolio company. Even if the portfolio company is successful, our ability to realize the value of our investment may be dependent on the occurrence of a liquidity event, such as a public offering or the sale of the portfolio company. It is likely to take a significant amount of time before a liquidity event occurs or we can otherwise sell our investment. In addition, the equity securities we receive or invest in may be subject to restrictions on resale during periods in which it could be advantageous to sell them.

There are special risks associated with investing in preferred securities, including:

preferred securities may include provisions that permit the issuer, at its discretion, to defer distributions for a stated period without any adverse consequences to the issuer. If we own a preferred security that is deferring its distributions, we may be required to report income for tax purposes before we receive such distributions;

preferred securities are subordinated to debt in terms of priority to income and liquidation payments, and therefore will be subject to greater credit risk than debt;

preferred securities may be substantially less liquid than many other securities, such as common stock or U.S. government securities; and

generally, preferred security holders have no voting rights with respect to the issuing company, subject to limited exceptions.

Additionally, when we invest in first lien senior secured loans (including unitranche loans), second lien senior secured loans or mezzanine debt, we may acquire warrants or other equity securities as well. Our goal is ultimately to dispose of such equity interests and realize gains upon our disposition of such interests. However, the equity interests we receive may not appreciate in value and, in fact, may decline in value. Accordingly, we may not be able to realize gains from our equity interests and any gains that we do realize on the disposition of any equity interests may not be sufficient to offset any other losses we experience.

We may invest, to the extent permitted by law, in the equity securities of investment funds that are operating pursuant to certain exceptions to the Investment Company Act and in advisers to similar investment funds and, to the extent we so invest, will bear our ratable share of any such company's expenses, including management and performance fees. We will also remain obligated to pay the base management fee, income based fee and capital gains incentive fee to our investment adviser with respect to the assets invested in the securities and instruments of such companies. With respect to each of these investments, each of our common stockholders will bear his or her share of the base management fee, income based fee and capital gains incentive fee due to our investment adviser as well as indirectly bearing the management and performance fees and other expenses of any such investment funds or advisers.

There may be circumstances in which our debt investments could be subordinated to claims of other creditors or we could be subject to lender liability claims.



If one of our portfolio companies were to go bankrupt, even though we may have structured our interest as senior debt, depending on the facts and circumstances, a bankruptcy court might recharacterize our debt holding as an equity investment and subordinate all or a portion of our claim to that of other creditors. In addition, lenders can be subject to lender liability claims for actions taken by them where they become too involved in the borrower's business or exercise control over the borrower. For example, we could become subject to a lender's liability claim, if, among other things, we actually render significant managerial assistance.

Our portfolio companies may incur debt or issue equity securities that rank equally with, or senior to, our investments in such companies.

Our portfolio companies may have, or may be permitted to incur, other debt, or issue other equity securities, that rank equally with, or senior to, our investments. By their terms, such instruments may provide that the holders are entitled to receive payment of dividends, interest or principal on or before the dates on which we are entitled to receive payments in respect of our investments. These debt instruments would usually prohibit the portfolio companies from paying interest on or repaying our investments in the event and during the continuance of a default under such debt. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company, holders of securities ranking senior to our investment in that portfolio company typically are entitled to receive payment in full before we receive any distribution in respect of our investment. After repaying such holders, the portfolio company may not have any remaining assets to use for repaying its obligation to us. In the case of securities ranking equally with our investments, we would have to share on an equal basis any distributions with other security holders in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy of the relevant portfolio company.

The rights we may have with respect to the collateral securing any junior priority loans we make to our portfolio companies may also be limited pursuant to the terms of one or more intercreditor agreements (including agreements governing “first out” and “last out” structures) that we enter into with the holders of senior debt. Under such an intercreditor agreement, at any time that senior obligations are outstanding, we may forfeit certain rights with respect to the collateral to the holders of the senior obligations. These rights may include the right to commence enforcement proceedings against the collateral, the right to control the conduct of such enforcement proceedings, the right to approve amendments to collateral documents, the right to release liens on the collateral and the right to waive past defaults under collateral documents. We may not have the ability to control or direct such actions, even if as a result our rights as junior lenders are adversely affected.

When we are a debt or minority equity investor in a portfolio company, we are often not in a position to exert influence on the entity, and other equity holders and management of the company may make decisions that could decrease the value of our investment in such portfolio company.

When we make debt or minority equity investments, we are subject to the risk that a portfolio company may make business decisions with which we disagree and the other equity holders and management of such company may take risks or otherwise act in ways that do not serve our interests. As a result, a portfolio company may make decisions that could decrease the value of our investment.

Our portfolio companies may be highly leveraged.

Some of our portfolio companies may be highly leveraged, which may have adverse consequences to these companies and to us as an investor. These companies may be subject to restrictive financial and operating covenants and the leverage may impair these companies’ ability to finance their future operations and capital needs. As a result, these companies’ flexibility to respond to changing business and economic conditions and to take advantage of business opportunities may be limited. Further, a leveraged company’s income and net assets will tend to increase or decrease at a greater rate than if borrowed money were not used.

Our investment adviser’s fee structure may induce it to make certain investments on our behalf, including speculative investments.

The fees payable by us to our investment adviser may create an incentive for our investment adviser to make investments on our behalf that are risky or more speculative than would be the case in the absence of such compensation arrangement. The way in which income based fees payable to our investment adviser are determined, which are calculated as a percentage of the return on invested capital, may encourage our investment adviser to use

leverage to increase the return on our investments. Under certain circumstances, the use of leverage may increase the likelihood of default, which would disfavor the holders of our common stock and the holders of securities convertible into our common stock. In addition, our investment adviser will receive the capital gains incentive fee based, in part, upon net capital gains realized on our investments. Unlike income based fees, there is no hurdle rate applicable to the capital gains incentive fee. As a result, our investment adviser may have a tendency to invest more in investments that are likely to result in capital gains as compared to income producing securities. Such a practice could result in our investing in more speculative securities than would otherwise be the case, which could result in higher investment losses, particularly during economic downturns.

The income based fees are computed and paid on income that has been accrued but not yet received in cash, including as a result of investments with a deferred interest feature such as debt instruments with PIK interest, preferred stock with PIK

dividends and zero coupon securities. If a portfolio company defaults on a loan that is structured to provide accrued interest, it is possible that accrued interest previously used in the calculation of the income based fee will become uncollectible. Our investment adviser is not under any obligation to reimburse us for any part of the fees it received that were based on such accrued interest that we never actually received.

Because of the structure of the income based fees, it is possible that we may have to pay income based fees in a quarter during which we incur a loss. For example, if we receive pre-incentive fee net investment income in excess of the hurdle rate for a quarter, we will pay the applicable income based fees even if we have incurred a loss in that quarter due to realized and/or unrealized capital losses. In addition, if market interest rates rise, our investment adviser may be able to invest our funds in debt instruments that provide for a higher return, which would increase our pre-incentive fee net investment income and make it easier for our investment adviser to surpass the fixed hurdle rate and receive income based fees. Additionally, the Fee Waiver is scheduled to end following the third quarter of 2019. Once the Fee Waiver has expired, the income based fees we pay to our investment adviser will effectively be higher.

Our investments in foreign companies may involve significant risks in addition to the risks inherent in U.S. investments.

Our investment strategy contemplates potential investments in foreign companies. Investing in foreign companies may expose us to additional risks not typically associated with investing in U.S. companies. These risks include changes in exchange control regulations, political and social instability, expropriation, imposition of foreign taxes (potentially at confiscatory levels), less liquid markets, less available information than is generally the case in the United States, higher transaction costs, less government supervision of exchanges, brokers and issuers, less developed bankruptcy laws, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility.

Although we expect most of our investments will be U.S. dollar denominated, our investments that are denominated in a foreign currency will be subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation and political developments. We may employ hedging techniques to minimize these risks, but we cannot assure you that such strategies will be effective or without risk to us.

We may expose ourselves to risks if we engage in hedging transactions.

We have and may in the future enter into hedging transactions, which may expose us to risks associated with such transactions. We may utilize instruments such as forward contracts, currency options and interest rate swaps, caps, collars and floors to seek to hedge against fluctuations in the relative values of our portfolio positions from changes in currency exchange rates and market interest rates. Use of these hedging instruments may include counter-party credit risk.

Hedging against a decline in the values of our portfolio positions does not eliminate the possibility of fluctuations in the values of such positions or prevent losses if the values of such positions decline. However, such hedging can establish other positions designed to gain from those same developments, thereby offsetting the decline in the value of such portfolio positions. Such hedging transactions may also limit the opportunity for gain if the values of the underlying portfolio positions should increase. Moreover, it may not be possible to hedge against an exchange rate or interest rate fluctuation that is so generally anticipated that we are not able to enter into a hedging transaction at an acceptable price.

The success of our hedging transactions will depend on our ability to correctly predict movements in currencies and interest rates. Therefore, while we may enter into such transactions to seek to reduce currency exchange rate and

interest rate risks, unanticipated changes in currency exchange rates or interest rates may result in poorer overall investment performance than if we had not engaged in any such hedging transactions. In addition, the degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio positions being hedged may vary. Moreover, for a variety of reasons, we may not seek to (or be able to) establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Any such imperfect correlation may prevent us from achieving the intended hedge and expose us to risk of loss. In addition, it may not be possible to hedge fully or perfectly against currency fluctuations affecting the value of securities denominated in non-U.S. currencies because the value of those securities is likely to fluctuate as a result of factors not related to currency fluctuations. See also “Risk Factors—Risks Relating to Our Business—We are exposed to risks associated with changes in interest rates.”

## RISKS RELATING TO OUR COMMON STOCK AND PUBLICLY TRADED NOTES

Our shares of common stock have traded at a discount from net asset value and may do so again, which could limit our ability to raise additional equity capital.

Shares of closed end investment companies frequently trade at a market price that is less than the net asset value that is attributable to those shares. This characteristic of closed end investment companies is separate and distinct from the risk that our net asset value per share may decline. It is not possible to accurately predict whether any shares of our common stock will trade at, above, or below net asset value. In the recent past, the stocks of BDCs as an industry, including at times shares of our common stock, have traded below net asset value and during much of 2009 traded at near historic lows as a result of concerns over liquidity, leverage restrictions and distribution requirements. See “Risk Factors-Risks Relating to Our Business-The capital markets may experience periods of disruption and instability. Such market conditions may materially and adversely affect debt and equity capital markets, which may have a negative impact on our business and operations.” When our common stock is trading below its net asset value per share, we will generally not be able to issue additional shares of our common stock at its market price without first obtaining approval for such issuance from our stockholders and our independent directors. Pursuant to approval granted at a special meeting of stockholders held on May 14, 2018, we currently are permitted to sell or otherwise issue shares of our common stock at a price below net asset value, subject to certain limitations and determinations that must be made by our board of directors. Such stockholder approval expires on May 14, 2019.

There is a risk that investors in our common stock may not receive dividends or that our dividends may not grow over time and that investors in our debt securities may not receive all of the interest income to which they are entitled.

We intend to make distributions on a quarterly basis to our stockholders out of assets legally available for distribution. We cannot assure you that we will achieve investment results that will allow us to make a specified level of cash distributions or year-to-year increases in cash distributions. If we declare a dividend and if more stockholders opt to receive cash distributions rather than participate in our dividend reinvestment plan, we may be forced to sell some of our investments in order to make cash dividend payments.

In addition, due to the asset coverage test applicable to us as a BDC, we may be limited in our ability to make distributions. Certain of the Facilities may also limit our ability to declare dividends if we default under certain provisions. Further, if we invest a greater amount of assets in non-income producing securities, it could reduce the amount available for distribution and may also inhibit our ability to make required interest payments to holders of our debt, which may cause a default under the terms of our debt agreements. Such a default could materially increase our cost of raising capital, as well as cause us to incur penalties under the terms of our debt agreements.

Provisions of the Maryland General Corporation Law and of our charter and bylaws could deter takeover attempts and have an adverse effect on the price of our common stock.

The Maryland General Corporation Law (the “MGCL”), our charter and our bylaws contain provisions that may discourage, delay or make more difficult a change in control of Ares Capital or the removal of our directors. We are subject to the Maryland Business Combination Act (the “Business Combination Act”), subject to any applicable requirements of the Investment Company Act. Our board of directors has adopted a resolution exempting from the Business Combination Act any business combination between us and any other person, subject to prior approval of such business combination by our board, including approval by a majority of our disinterested directors. If the resolution exempting business combinations is repealed or our board or disinterested directors do not approve a business combination, the Business Combination Act may discourage third parties from trying to acquire control of us and may increase the difficulty of consummating such an offer. Our bylaws exempt from the Maryland Control Share Acquisition Act (the “Control Share Acquisition Act”) acquisitions of our stock by any person. If we amend our bylaws to repeal the exemption from the Control Share Acquisition Act, subject to any applicable requirements of the Investment Company Act, the Control Share Acquisition Act also may make it more difficult for a third party to

obtain control of us and may increase the difficulty of consummating such an offer.

We have also adopted measures that may make it difficult for a third party to obtain control of us, including provisions of our charter classifying our board of directors into three classes serving staggered three-year terms, and provisions of our charter authorizing our board of directors to classify or reclassify shares of our stock into one or more classes or series, to cause the issuance of additional shares of our stock, and to amend our charter from time to time, without stockholder approval, to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that we have authority to issue. These provisions, as well as other provisions of our charter and bylaws, may discourage, delay, defer, make more difficult or prevent a transaction or a change in control that might otherwise be in stockholders' best interest.

Our bylaws designate the Circuit Court for Baltimore City, Maryland as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or other employees.

Our bylaws provide that, unless we consent in writing to the selection of an alternative forum, the Circuit Court for Baltimore City, Maryland, or, if that Court does not have jurisdiction, the United States District Court for the District of Maryland, Baltimore Division, will be the sole and exclusive forum for: (i) any derivative action or proceeding brought on our behalf, (ii) any Internal Corporate Claim, as such term is defined in Section 1-101(p) of the MGCL, including, without limitation, (a) any action asserting a claim of breach of any duty owed by any of our directors or officers or other employees to us or to our stockholders or (b) any action asserting a claim against us or any of our directors or officers or other employees arising pursuant to any provision of the MGCL or our charter or bylaws or (iii) any action asserting a claim against us or any of our directors or officers or other employees that is governed by the internal affairs doctrine. Any person or entity purchasing or otherwise acquiring or holding any interest in our shares shall be deemed to have notice of and to have consented and waived any objection to this exclusive forum provision of our bylaws, as the same may be amended from time to time. Our board of directors, without stockholder approval, adopted this exclusive forum provision so that we can respond to such litigation more efficiently, reduce the costs associated with our responses to such litigation, particularly litigation that might otherwise be brought in multiple forums, and make it less likely that plaintiffs' attorneys will be able to employ such litigation to coerce us into otherwise unjustified settlements. However, this exclusive forum provision may limit a stockholder's ability to bring a claim in a judicial forum that such stockholder believes is favorable for disputes with us or our directors, officers or other employees, if any, and may discourage lawsuits against us and our directors, officers or other employees, if any. We believe the risk of a court declining to enforce this exclusive forum provision is remote, as the General Assembly of Maryland has specifically amended the MGCL to authorize the adoption of such provision. However, if a court were to find such provision inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings notwithstanding that the MGCL expressly provides that the charter or bylaws of a Maryland corporation may require that any Internal Corporate Claim be brought only in courts sitting in one or more specified jurisdictions, we may incur additional costs that we do not currently anticipate associated with resolving such matters in other jurisdictions, which could adversely affect our business, financial condition and results of operations.

Investing in our common stock may involve an above average degree of risk.

The investments we make in accordance with our investment objective may result in a higher amount of risk than alternative investment options and volatility or loss of principal. Our investments in portfolio companies may be highly speculative and aggressive and, therefore, an investment in our securities may not be suitable for someone with lower risk tolerance.

The market price of our common stock may fluctuate significantly.

The capital and credit markets have experienced periods of extreme volatility and disruption over the past several years. The market price and liquidity of the market for shares of our common stock may be significantly affected by numerous factors, some of which are beyond our control and may not be directly related to our operating performance. These factors include:

- significant volatility in the market price and trading volume of securities of publicly traded RICs, BDCs or other companies in our sector, which are not necessarily related to the operating performance of these companies;

- price and volume fluctuations in the overall stock market from time to time;

- the inclusion or exclusion of our common stock from certain indices;



changes in law, regulatory policies or tax guidelines, or interpretations thereof, particularly with respect to RICs or BDCs;

loss of our RIC status;

our ability to manage our capital resources effectively;

changes in our earnings or variations in our operating results;

changes in the value of our portfolio of investments;

any shortfall in investment income or net investment income or any increase in losses from levels expected by investors or securities analysts;

departure of Ares' key personnel;

operating performance of companies comparable to us;

short-selling pressure with respect to shares of our common stock or BDCs generally;

future sales of our securities convertible into or exchangeable or exercisable for our common stock or the conversion of such securities, including the Convertible Unsecured Notes;

uncertainty surrounding the strength of the U.S. economy;

concerns regarding European sovereign debt;

concerns regarding volatility in the Chinese stock market and Chinese currency;

uncertainty between the U.S. and other countries with respect to trade policies, treaties, and tariffs;

general economic trends and other external factors; and

loss of a major funding source.

In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been brought against that company. If our stock price fluctuates significantly, we may be the target of securities litigation in the future. Securities litigation could result in substantial costs and divert management's attention and resources from our business.

We may in the future determine to issue preferred stock, which could adversely affect the market value of our common stock.

The issuance of shares of preferred stock with dividend or conversion rights, liquidation preferences or other economic terms favorable to the holders of preferred stock could adversely affect the market price for our common stock by making an investment in the common stock less attractive. In addition, the dividends on any preferred stock we issue must be cumulative. Payment of dividends and repayment of the liquidation preference of preferred stock must take preference over any dividends or other payments to our common stockholders, and holders of preferred stock are not subject to any of our expenses or losses and are not entitled to participate in any income or appreciation in excess of their stated preference (other than convertible preferred stock that converts into common stock). In addition, under the Investment Company Act, preferred stock constitutes a "senior security" for purposes of the asset coverage test.

The net asset value per share of our common stock may be diluted if we sell shares of our common stock in one or more offerings at prices below the then current net asset value per share of our common stock or securities to subscribe for or convertible into shares of our common stock.

At a special meeting of stockholders held on May 14, 2018, subject to certain determinations required to be made by our board of directors, our stockholders approved our ability to sell or otherwise issue shares of our common stock, in an amount not exceeding 25% of our then outstanding common stock, at a price below the then current net asset value per share during a period that began on May 14, 2018 and expires on May 14, 2019.

In addition, at our 2009 annual stockholders meeting, our stockholders approved a proposal authorizing us to sell or otherwise issue warrants or securities to subscribe for or convertible into shares of our common stock subject to certain limitations (including, without limitation, that the number of shares issuable does not exceed 25% of our then outstanding common stock and that the exercise or conversion price thereof is not, at the date of issuance, less than the greater of the market value per share and the net asset value per share of our common stock). The authorization granted to sell or issue warrants or securities to subscribe for or convertible into shares of our common stock has no expiration.

Any decision to sell shares of our common stock below its then current net asset value per share or securities to subscribe for or convertible into shares of our common stock would be subject to the determination by our board of directors that such issuance is in our and our stockholders' best interests.

If we were to sell shares of our common stock below its then current net asset value per share, such sales would result in an immediate dilution to the net asset value per share of our common stock. This dilution would occur as a result of the sale of shares at a price below the then current net asset value per share of our common stock and a proportionately greater decrease in the stockholders' interest in our earnings and assets and their voting interest in us than the increase in our assets resulting from such issuance. Because the number of shares of common stock that could be so issued and the timing of any issuance is not currently known, the actual dilutive effect cannot be predicted.

In addition, if we issue warrants or securities to subscribe for or convertible into shares of our common stock, subject to certain limitations, the exercise or conversion price per share could be less than net asset value per share at the time of exercise or conversion (including through the operation of anti dilution protections). Because we would incur expenses in connection with any issuance of such securities, such issuance could result in a dilution of the net asset value per share at the time of exercise or conversion. This dilution would include reduction in net asset value per share as a result of the proportionately greater decrease in the stockholders' interest in our earnings and assets and their voting interest than the increase in our assets resulting from such issuance.

Further, if our current stockholders do not purchase any shares to maintain their percentage interest when we issue new shares, regardless of whether such offering is above or below the then current net asset value per share, their voting power will be diluted.

Our stockholders will experience dilution in their ownership percentage if they opt out of our dividend reinvestment plan.

All dividends declared in cash payable to stockholders that are participants in our dividend reinvestment plan are automatically reinvested in shares of our common stock. As a result, our stockholders that opt out of our dividend reinvestment plan will experience dilution in their ownership percentage of our common stock over time.

Our stockholders may experience dilution upon the conversion of the Convertible Unsecured Notes.

As of December 31, 2018, the 2019 Convertible Notes are convertible into shares of our common stock and the 2022 Convertible Notes are convertible into shares of our common stock beginning on August 1, 2021 or, under certain circumstances, earlier. Upon conversion of the 2022 Convertible Unsecured Notes, we have the choice to pay or deliver, as the case may be, at our election, cash, shares of our common stock or a combination of cash and shares of our common stock. As of December 31, 2018, the conversion price of the 2019 Convertible Notes was effectively \$19.96 per share and the conversion price of the 2022 Convertible Notes was effectively \$19.37 per share, in each case taking into account certain de minimis adjustments that will be made on the conversion date and subject to further adjustment in certain circumstances. If we elect to deliver shares of common stock upon a conversion at the time our tangible book value per share exceeds the conversion price in effect at such time, our stockholders may incur dilution. In addition, our stockholders will experience dilution in their ownership percentage of common stock upon our issuance of common stock in connection with the conversion of the Convertible Unsecured Notes and any dividends paid on our common stock will also be paid on shares issued in connection with such conversion after such issuance.

Our stockholders may receive shares of our common stock as dividends, which could result in adverse cash flow consequences to them.

In order to satisfy the Annual Distribution Requirement applicable to RICs, we have the ability to declare a large portion of a dividend in shares of our common stock instead of in cash. As long as a portion of such dividend is paid in cash (which portion could be as low as 20%) and certain requirements are met, the entire distribution would be treated as a dividend for U.S. federal income tax purposes. As a result, a stockholder would be taxed on 100% of the fair market value of the shares received as part of the dividend on the date a stockholder received it in the same manner as a cash dividend, even though most of the dividend was paid in shares of our common stock.



Sales of substantial amounts of our common stock in the public market may have an adverse effect on the market price of our common stock.

Sales of substantial amounts of our common stock, or the availability of such common stock for sale (including as a result of the conversion of our Convertible Unsecured Notes into common stock), could adversely affect the prevailing market prices for our common stock. If this occurs and continues, it could impair our ability to raise additional capital through the sale of securities should we desire to do so.

The trading market or market value of our publicly issued debt securities may fluctuate.

Our publicly issued debt securities may or may not have an established trading market. We cannot assure holders of our debt securities that a trading market for our publicly issued debt securities will ever develop or be maintained if developed. In addition to our creditworthiness, many factors may materially adversely affect the trading market for, and market value of, our publicly issued debt securities. These factors include, but are not limited to, the following:

- the time remaining to the maturity of these debt securities;
- the outstanding principal amount of debt securities with terms identical to these debt securities;
- the ratings assigned by national statistical ratings agencies;
- the general economic environment;
- the supply of such debt securities trading in the secondary market, if any;
- the redemption or repayment features, if any, of these debt securities;
- the level, direction and volatility of market interest rates generally; and
- market rates of interest higher or lower than rates borne by the debt securities.

Holders of our debt securities should also be aware that there may be a limited number of buyers if and when they decide to sell their debt securities. This too may materially adversely affect the market value of the debt securities or the trading market for the debt securities.

Terms relating to redemption may materially adversely affect our noteholders' return on any debt securities that we may issue.

If our noteholders' debt securities are redeemable at our option, we may choose to redeem their debt securities at times when prevailing interest rates are lower than the interest rate paid on their debt securities. In addition, if our noteholders' debt securities are subject to mandatory redemption, we may be required to redeem their debt securities also at times when prevailing interest rates are lower than the interest rate paid on their debt securities. In this circumstance, our noteholders may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as their debt securities being redeemed.

Our credit ratings may not reflect all risks of an investment in our debt securities.

Our credit ratings are an assessment by third parties of our ability to pay our obligations. Consequently, real or anticipated changes in our credit ratings will generally affect the market value of our debt securities. Our credit ratings, however, may not reflect the potential impact of risks related to market conditions generally or other factors

discussed above on the market value of or trading market for the publicly issued debt securities.

Item 1B. Unresolved Staff Comments

None.

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## Item 2. Properties

We do not own any real estate or other physical properties materially important to our operation. Our headquarters are currently located at 245 Park Avenue, 44th Floor, New York, New York 10167. We are party to office leases pursuant to which we are leasing office facilities from third parties. For certain of these office leases, we have also entered into a separate sublease with Ares Management LLC, pursuant to which Ares Management LLC, the sole member of Ares Capital Management, subleased the full amount of such leases from us.

## Item 3. Legal Proceedings

We are party to certain lawsuits in the normal course of business. In addition, American Capital and Allied Capital were involved in various legal proceedings that we assumed in connection with the American Capital Acquisition and the Allied Acquisition, respectively. Furthermore, third parties may try to seek to impose liability on us in connection with our activities or the activities of our portfolio companies. While the outcome of any such legal proceedings cannot at this time be predicted with certainty, we do not expect that these legal proceedings will materially affect our business, financial condition or results of operations.

On May 20, 2013, we were named as one of several defendants in an action filed in the United States District Court for the Eastern District of Pennsylvania by the bankruptcy trustee of DSI Renal Holdings LLC (“DSI Renal”) and two affiliate companies. On March 17, 2014, the motion by us and the other defendants to transfer the case to the United States District Court for the District of Delaware (the “Delaware Court”) was granted. On May 6, 2014, the Delaware Court referred the matter to the United States Bankruptcy Court for the District of Delaware (the “Bankruptcy Court”). The complaint alleges, among other things, that each of the named defendants participated in a purported fraudulent transfer involving the restructuring of a subsidiary of DSI Renal. Among other things, the complaint seeks, jointly and severally from all defendants, (1) damages of approximately \$425 million, of which the complaint states our individual share is approximately \$117 million, (2) interest thereon according to law, and (3) punitive damages. The defendants filed a motion to dismiss all claims on August 5, 2013. On July 20, 2017, the Bankruptcy Court issued an order granting the motion to dismiss certain claims and denying the motion to dismiss certain other claims, including the purported fraudulent transfer claims. The defendants answered the complaint on August 31, 2017. Under the operative scheduling order, discovery will continue until March 29, 2019 with dispositive motions due on April 30, 2019. No trial date has been set. We are currently unable to assess with any certainty whether we may have any exposure in this matter. However, we believe the plaintiff’s claims are without merit and we intend to vigorously defend ourselves in this matter.

On August 3, 2017, American Capital and one of its former portfolio companies were awarded a judgment plus prejudgment interest by the United States District Court for the District of Maryland (the “District Court”) following a bench trial in a case first filed by one of American Capital’s insurance companies concerning coverage for bodily injury claims against American Capital and/or its former portfolio company. The District Court found that the carrier breached its duty to defend American Capital and its former portfolio company against more than 1,000 bodily injury claims and awarded American Capital damages plus prejudgment interest. American Capital’s carrier filed a notice of appeal to the United States Court of Appeals for the Fourth Circuit (the “Court of Appeals”); thereafter, American Capital and its former portfolio company filed a notice of cross appeal, including cross claims. The appeal was fully briefed and oral argument on the appeal took place on September 28, 2018. On February 6, 2019, the Court of Appeals entered a judgment affirming the District Court judgment in all respects in the amount of approximately \$88 million, of which the American Capital share would be approximately \$53 million. American Capital also intends to petition the District Court for recovery of its reasonable legal fees and costs in connection with the litigation. The carriers have not advised as to whether they intend to engage in post-judgment proceedings to attempt to modify the judgment, and accordingly, American Capital’s recovery in the litigation, if any, is not yet known. We have secured insurance to protect at least \$47 million of the judgment in favor of American Capital.



Item 4. Mine Safety Disclosures

Not applicable.

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## PART II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

#### COMMON STOCK

Our common stock is traded on The NASDAQ Global Select Market under the symbol "ARCC." Our common stock has historically traded at prices both above and below our net asset value per share. It is not possible to predict whether our common stock will trade at, above or below net asset value. See "Risk Factors—Risks Relating to Our Common Stock—Our shares of common stock have traded at a discount from net asset value and may do so again, which could limit our ability to raise additional equity capital."

On February 7, 2019, the last reported closing sales price of our common stock on The NASDAQ Global Select Market was \$16.53 per share, which represented a discount of approximately 3.4% to the net asset value per share reported by us as of December 31, 2018.

#### HOLDERS

As of February 7, 2019, there were 1,438 holders of record of our common stock (including Cede & Co.).

#### DIVIDEND/DISTRIBUTION POLICY

We currently intend to distribute dividends or make distributions to our stockholders on a quarterly basis out of assets legally available for distribution. We may also distribute additional dividends or make additional distributions to our stockholders from time to time. Our quarterly and additional dividends or distributions, if any, will be determined by our board of directors.

To maintain our RIC status under the Code, we must timely distribute an amount equal to at least 90% of our investment company taxable income (as defined by the Code, which generally includes net ordinary income and net short term capital gains) to our stockholders. In addition, we generally will be required to pay an excise tax equal to 4% on certain undistributed taxable income unless we distribute in a timely manner an amount at least equal to the sum of (i) 98% of our ordinary income recognized during a calendar year and (ii) 98.2% of our capital gain net income, as defined by the Code, recognized during a calendar year and (iii) any income recognized, but not distributed, in preceding years. The taxable income on which we pay excise tax is generally distributed to our stockholders in the next tax year. Depending on the level of taxable income earned in a tax year, we may choose to carry forward such taxable income for distribution in the following year, and pay any applicable excise tax. For the years ended December 31, 2018, 2017 and 2016, we recorded a net excise tax expense of \$14 million, \$12 million and \$12 million, respectively. We cannot assure you that we will achieve results that will permit the payment of any cash distributions. We maintain an "opt out" dividend reinvestment plan for our common stockholders. As a result, if we declare a cash dividend, stockholders' cash dividends will be automatically reinvested in additional shares of our common stock, unless they specifically opt out of the dividend reinvestment plan so as to receive cash dividends. See "Dividend Reinvestment Plan."

#### RECENT SALES OF UNREGISTERED EQUITY SECURITIES

We did not sell any securities during the period covered by this Annual Report that were not registered under the Securities Act of 1933.

#### ISSUER PURCHASES OF EQUITY SECURITIES

### Dividend Reinvestment Plan

During the year ended December 31, 2018, as a part of our dividend reinvestment plan for our common stockholders, we purchased 1,797,176 shares of our common stock for an average price per share of \$16.34 in the open market in order to satisfy the reinvestment portion of our dividends. The following chart outlines such purchases of our common stock during the year ended December 31, 2018:

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(dollars in millions, except per share data) Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
January 1, 2018 through January 31, 2018	468,352	\$ 15.84	—	\$ —
February 1, 2018 through February 28, 2018	—	—	—	—
March 1, 2018 through March 31, 2018	—	—	—	—
April 1, 2018 through April 30, 2018	482,998	15.90	—	—
May 1, 2018 through May 31, 2018	—	—	—	—
June 1, 2018 through June 30, 2018	—	—	—	—
July 1, 2018 through July 31, 2018	407,763	16.43	—	—
August 1, 2018 through August 31, 2018	—	—	—	—
September 1, 2018 through September 30, 2018	—	—	—	—
October 1, 2018 through October 31, 2018	438,063	17.27	—	—
November 1, 2018 through November 30, 2018	—	—	—	—
December 1, 2018 through December 31, 2018	—	—	—	—
Total	1,797,176	\$ 16.34	—	\$ —

#### Stock Repurchase Program

In February 2019, our board of directors authorized an amendment to our stock repurchase program to (a) increase the total authorization under the program from \$300 million to \$500 million and (b) extend the expiration date of the program from February 28, 2019 to February 28, 2020. Under the program, we may repurchase up to \$500 million in the aggregate of our outstanding common stock in the open market at certain thresholds below its net asset value per share, in accordance with the guidelines specified in Rule 10b-18 of the Exchange Act. The timing, manner, price and amount of any share repurchases will be determined by us, in our discretion, based upon the evaluation of economic and market conditions, stock price, applicable legal and regulatory requirements and other factors. The program will be in effect through February 28, 2020, unless extended or until the approved dollar amount has been used to repurchase shares. The program does not require us to repurchase any specific number of shares and it cannot assure stockholders that any shares will be repurchased under the program. The program may be suspended, extended, modified or discontinued at any time.

For the year ended December 31, 2018 and 2017, there were no repurchases of our common stock under our stock repurchase program. As of December 31, 2018, the approximate dollar value of shares that may yet be purchased under the program was \$293 million.

COMPARISON OF CUMULATIVE TOTAL RETURN AMONG ARES CAPITAL CORPORATION, S&P 500 INDEX AND SNL US INVESTMENT COMPANY INDEX

Total Return Performance

SOURCE: S&P Global Market Intelligence

Assumes \$100 invested on December 31, 2013 in Ares Capital, the S&P 500 Index and the SNL US

NOTES: Investment Company Index. Assumes all dividends are reinvested on the respective dividend payment dates without commissions.

	Dec13	Dec14	Dec15	Dec16	Dec17	Dec18
Ares Capital	100.00	96.33	97.20	124.14	129.67	141.13
S&P 500 Index	100.00	113.69	115.26	129.05	157.22	150.33
SNL US Investment Company Index	100.00	106.95	97.71	120.86	134.00	128.53

The stock performance graph and other information above shall not be deemed to be “soliciting material” or to be “filed” with the Securities and Exchange Commission (“SEC”) or subject to Regulation 14A or 14C, or to the liabilities of Section 18 of the Exchange Act, as amended.

Item 6. Selected Financial Data

The following selected financial and other data for the years ended December 31, 2018, 2017, 2016, 2015 and 2014 are derived from our consolidated financial statements which have been audited by KPMG LLP, an independent registered public accounting firm whose report thereon is included elsewhere in this Annual Report. The data should be read in conjunction with our consolidated financial statements and notes thereto and “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” which are included elsewhere in this Annual Report.

ARES CAPITAL CORPORATION AND SUBSIDIARIES  
SELECTED FINANCIAL DATA

(dollar amounts in millions, except per share data and as otherwise indicated)

	As of and For the Years Ended December 31,				
	2018	2017	2016	2015	2014
Total Investment Income	\$1,337	\$1,160	\$1,012	\$1,025	\$989
Total Expenses, Net of Waiver of Income Based Fees	624	630	497	499	533
Net Investment Income Before Income Taxes	713	530	515	526	456
Income Tax Expense, Including Excise Tax	19	19	21	18	18
Net Investment Income	694	511	494	508	438
Net Realized and Unrealized Gains (Losses) on Investments, Foreign Currencies and Other Transactions and Extinguishment of Debt	164	156	(20 )	(129 )	153
Net Increase in Stockholders' Equity Resulting from Operations	\$858	\$667	\$474	\$379	\$591
Per Share Data:					
Net Increase in Stockholders' Equity Resulting from Operations:					
Basic	\$2.01	\$1.57	\$1.51	\$1.20	\$1.94
Diluted	\$2.01	\$1.57	\$1.51	\$1.20	\$1.94
Cash Dividends Declared and Payable(1)	\$1.54	\$1.52	\$1.52	\$1.57	\$1.57
Net Asset Value	\$17.12	\$16.65	\$16.45	\$16.46	\$16.82
Total Assets(2)	\$12,895	\$12,347	\$9,245	\$9,507	\$9,454
Total Debt (Carrying Value)(2)	\$5,214	\$4,854	\$3,874	\$4,114	\$3,881
Total Debt (Principal Amount)	\$5,297	\$4,943	\$3,951	\$4,197	\$3,999
Total Stockholders' Equity	\$7,300	\$7,098	\$5,165	\$5,173	\$5,284
Other Data:					
Number of Portfolio Companies at Period End(3)	344	314	218	218	205
Principal Amount of Investments Purchased(4)	\$7,176	\$7,263	\$3,490	\$3,905	\$4,534
Principal Amount of Investments Acquired as part of the American Capital Acquisition on the Acquisition Date	\$—	\$2,543	\$—	\$—	\$—
Principal Amount of Investments Sold and Repayments	\$6,440	\$7,107	\$3,655	\$3,651	\$3,213
Total Return Based on Market Value(5)	8.9	% 4.5	% 26.4	% 1.3	% (3.3 )%
Total Return Based on Net Asset Value(6)	12.1	% 10.5	% 9.2	% 7.2	% 11.8 %
Weighted Average Yield of Debt and Other Income Producing Securities at Fair Value(7)	10.3	% 9.8	% 9.4	% 10.3	% 10.1 %
Weighted Average Yield of Debt and Other Income Producing Securities at Amortized Cost(7)	10.2	% 9.7	% 9.3	% 10.1	% 10.1 %
Weighted Average Yield of Total Investments at Fair Value(8)	9.3	% 8.7	% 8.5	% 9.2	% 9.1 %
Weighted Average Yield of Total Investments at Amortized Cost(8)	9.0	% 8.7	% 8.3	% 9.1	% 9.3 %

(1) Includes an additional dividend of \$0.05 per share paid in the year ended December 31, 2015 and an additional dividend of \$0.05 per share paid in the year ended December 31, 2014.

(2) Certain prior year amounts have been reclassified to conform to the 2018 presentation. In particular, unamortized debt issuance costs were previously included in other assets and were reclassified to long term debt as a result of the



adoption of Accounting Standards Update (“ASU”) 2015-03, Interest-Imputation of Interest (Topic 835): Simplifying the Presentation of Debt Issuance Costs, during the first quarter of 2016.

(3) Includes commitments to portfolio companies for which funding had yet to occur.

(4) Excludes \$2.5 billion of investments acquired as part of the American Capital Acquisition on the Acquisition Date.

For the year ended December 31, 2018, the total return based on market value equaled the decrease of the ending market value at December 31, 2018 of \$15.58 per share from the ending market value at December 31, 2017 of \$15.72 per share plus the declared and payable dividends of \$1.54 per share for the year ended December 31, 2018, divided by the market value at December 31, 2017. For the year ended December 31, 2017, the total return based on market value equaled the decrease of the ending market value at December 31, 2017 of \$15.72 per share from the ending market value at December 31, 2016 of \$16.49 per share plus the declared and payable dividends of \$1.52 per share for the year ended December 31, 2017, divided by the market value at December 31, 2016. For the year ended December 31, 2016, the total return based on market value equaled the increase of the ending market value at December 31, 2016 of \$16.49 per share from the ending market value at December 31, 2015 of \$14.25 per share plus the declared and payable dividends of \$1.52 per share for the year ended December 31, 2016, divided by the market value at December 31, 2015. For the year ended December 31, 2015, the total return based on market value equaled the decrease of the ending market value at December 31, 2015 of \$14.25 per share from the ending market value at December 31, 2014 of \$15.61 per share plus the declared and payable dividends of \$1.57 per share for the year ended December 31, 2015, divided by the market value at December 31, 2014. For the year ended December 31, 2014, the total return based on market value equaled the decrease of the ending market value at December 31, 2014 of \$15.61 per share from the ending market value at December 31, 2013 of \$17.77 per share plus the declared and payable dividends of \$1.57 per share for the year ended December 31, 2014, divided by the market value at December 31, 2013. The Company’s shares fluctuate in value. The Company’s performance changes over time and currently may be different than that shown. Past performance is no guarantee of future results.

For the year ended December 31, 2018, the total return based on net asset value equaled the change in net asset value during the period plus the declared and payable dividends of \$1.54 per share for the year ended December 31, 2018, divided by the beginning net asset value for the period. For the year ended December 31, 2017, the total return based on net asset value equaled the change in net asset value during the period plus the declared and payable dividends of \$1.52 per share for the year ended December 31, 2017, divided by the beginning net asset value for the period. For the year ended December 31, 2016, the total return based on net asset value equaled the change in net asset value during the period plus the declared and payable dividends of \$1.52 per share for the year ended December 31, 2016, divided by the beginning net asset value for the period. For the year ended December 31, 2015, the total return based on net asset value equaled the change in net asset value during the period plus the declared and payable dividends of \$1.57 per share for the year ended December 31, 2015, divided by the beginning net asset value for the period. For the year ended December 31, 2014, the total return based on net asset value equaled the change in net asset value during the period plus the declared and payable dividends of \$1.57 per share for the year ended December 31, 2014 divided by the beginning net asset value for the period. These calculations are adjusted for shares issued in connection with the dividend reinvestment plan and the issuance of common stock in connection with any equity offerings and the equity components of any convertible notes issued during the period. The Company’s performance changes over time and currently may be different than that shown. Past performance is no guarantee of future results.

(7) “Weighted average yield of debt and other income producing securities” is computed as (a) the annual stated interest rate or yield earned plus the net annual amortization of original issue discount and market discount or premium earned on accruing debt and other income producing securities, divided by (b) the total accruing debt and other income producing securities at amortized cost or at fair value, as applicable.



(8) “Weighted average yield on total investments” is computed as (a) the annual stated interest rate or yield earned plus the net annual amortization of original issue discount and market discount or premium earned on accruing debt and other income producing securities, divided by (b) the total investments at amortized cost or at fair value, as applicable.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information contained in this section should be read in conjunction with the Selected Financial Data and our financial statements and notes thereto appearing elsewhere in this Annual Report. Further, the financial information and other data set forth below subsequent to the completion of the American Capital Acquisition (as defined below) on January 3, 2017, reflect the results of the combined company and the financial information and other data prior to the completion of the American Capital Acquisition does not give effect to the American Capital Acquisition, unless otherwise noted. For this reason, period to period comparisons may not be meaningful. In addition, some of the statements in this Annual Report (including in the following discussion) constitute forward-looking statements, which relate to future events, or the future performance or financial condition of Ares Capital Corporation (the "Company," "Ares Capital," "we," "us," or "our"). The forward-looking statements contained in this report involve a number of risks and uncertainties, including statements concerning:

- our, or our portfolio companies', future business, operations, operating results or prospects;
- the return or impact of current and future investments;
- the impact of a protracted decline in the liquidity of credit markets on our business;
- the impact of fluctuations in interest rates on our business;
- the impact of changes in laws or regulations (including the interpretation thereof), including the Tax Cuts and Jobs Act and the Small Business Credit Availability Act, governing our operations or the operations of our portfolio companies or the operations of our competitors;
- the valuation of our investments in portfolio companies, particularly those having no liquid trading market;
- our ability to recover unrealized losses;
- market conditions and our ability to access alternative debt markets and additional debt and equity capital and our ability to manage our capital resources effectively;
- our contractual arrangements and relationships with third parties, including parties to our co-investment program;
- the general economy and its impact on the industries in which we invest;
- uncertainty surrounding the financial stability of the United States, Europe and China;
  - the social, geopolitical, financial, trade and legal implications of Brexit;
  - Middle East turmoil and the potential for volatility in energy prices and its impact on the industries in which we invest;
- the financial condition of and ability of our current and prospective portfolio companies to achieve their objectives;
- our expected financings and investments;
- our ability to successfully complete and integrate any other acquisitions;

the outcome and impact of any litigation;

the adequacy of our cash resources and working capital;

the timing, form and amount of any dividend distributions;

the timing of cash flows, if any, from the operations of our portfolio companies; and

the ability of our investment adviser to locate suitable investments for us and to monitor and administer our investments.

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We use words such as “anticipates,” “believes,” “expects,” “intends,” “will,” “should,” “may” and similar expressions to identify forward-looking statements, although not all forward-looking statements include these words. Our actual results and condition could differ materially from those implied or expressed in the forward-looking statements for any reason, including the factors set forth in “Risk Factors” and the other information included in this Annual Report.

We have based the forward-looking statements included in this Annual Report on information available to us on the date of this Annual Report, and we assume no obligation to update any such forward-looking statements. Although we undertake 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 have filed or in the future may file with the Securities and Exchange Commission (“SEC”), including annual reports on Form 10-K, registration statements on Form N-2, quarterly reports on Form 10-Q and current reports on Form 8-K.

## OVERVIEW

We are a specialty finance company that is a closed-end, non-diversified management investment company incorporated in Maryland. We have elected to be regulated as a business development company (“BDC”) under the Investment Company Act of 1940, as amended (together with the rules and regulations promulgated thereunder, the “Investment Company Act”).

We are externally managed by Ares Capital Management LLC (“Ares Capital Management” or our “investment adviser”), a subsidiary of Ares Management Corporation (NYSE: ARES) (“Ares Management”), a publicly traded, leading global alternative asset manager, pursuant to our investment advisory and management agreement. Ares Operations LLC (“Ares Operations” or our “administrator”), a subsidiary of Ares Management, provides certain administrative and other services necessary for us to operate.

Our investment objective is to generate both current income and capital appreciation through debt and equity investments. We invest primarily in first lien senior secured loans (including unitranche loans), second lien senior secured loans and mezzanine debt, which in some cases includes an equity component like warrants.

To a lesser extent, we also make preferred and/or common equity investments, which have generally been non-control equity investments, of less than \$20 million (usually in conjunction with a concurrent debt investment). However, we may increase the size or change the nature of these investments.

Since our initial public offering (“IPO”) on October 8, 2004 through December 31, 2018, our exited investments resulted in an asset level realized gross internal rate of return to us of approximately 14% (based on original cash invested, net of syndications, of approximately \$24.7 billion and total proceeds from such exited investments of approximately \$31.8 billion). Internal rate of return is the discount rate that makes the net present value of all cash flows related to a particular investment equal to zero. Internal rate of return is gross of expenses related to investments as these expenses are not allocable to specific investments. Investments are considered to be exited when the original investment objective has been achieved through the receipt of cash and/or non-cash consideration upon the repayment of a debt investment or sale of an investment or through the determination that no further consideration was collectible and, thus, a loss may have been realized. Approximately 63% of these exited investments resulted in an asset level realized gross internal rate of return to us of 10% or greater.

Additionally, since the closing of the American Capital Acquisition on January 3, 2017 through December 31, 2018, exited investments acquired in the American Capital Acquisition resulted in an asset level realized gross internal rate of return to us of approximately 37% (based on original amounts invested of approximately \$1.7 billion and total proceeds from such exited investments of approximately \$2.3 billion).

Additionally, since our IPO on October 8, 2004 through December 31, 2018, our realized gains have exceeded our realized losses by approximately \$1.0 billion (excluding a one-time gain on the acquisition of Allied Capital Corporation (“Allied Capital”) and realized gains/losses from the extinguishment of debt and other assets). For this same time period, our average annualized net realized gain rate was approximately 1.2% (excluding a one-time gain on the acquisition of Allied Capital and realized gains/losses from the extinguishment of debt and other assets). Net realized gain/loss rates for a particular period are the amount of net realized gains/losses during such period divided by the average quarterly investments at amortized cost in such period.

Information included herein regarding internal rates of return, realized gains and losses and annualized net realized gain rates are historical results relating to our past performance and are not necessarily indicative of future results, the achievement of which cannot be assured.

As a BDC, we are required to comply with certain regulatory requirements. For instance, we generally have to invest at least 70% of our total assets in “qualifying assets,” including securities and indebtedness of private U.S. companies and certain public U.S. companies, cash, cash equivalents, U.S. government securities and high-quality debt investments that mature in one year or less. We also may invest up to 30% of our portfolio in non-qualifying assets, as permitted by the Investment Company Act. Specifically, as part of this 30% basket, we may invest in entities that are not considered “eligible portfolio companies” (as defined in the Investment Company Act), including companies located outside of the United States, entities that are operating pursuant to certain exceptions under the Investment Company Act, and publicly traded entities whose public equity market capitalization exceeds the levels provided for under the Investment Company Act.

We have elected to be treated as a regulated investment company (“RIC”) under the Internal Revenue Code of 1986, as amended (the “Code”), and operate in a manner so as to qualify for the tax treatment applicable to RICs. To qualify as a RIC, we must, among other things, meet certain source-of-income and asset diversification requirements and timely distribute to our stockholders generally at least 90% of our investment company taxable income, as defined by the Code, for each year. Pursuant to this election, we generally will not have to pay U.S. federal corporate-level taxes on any income that we distribute to our stockholders provided that we satisfy those requirements.

#### American Capital Acquisition

On May 23, 2016, we entered into a definitive agreement (the “Merger Agreement”) to acquire American Capital, Ltd. (“American Capital”), a Delaware corporation (the “American Capital Acquisition”) in a cash and stock transaction valued at approximately \$4.2 billion. At January 3, 2017 (the “Acquisition Date”), the total cash and stock consideration paid by us was \$3.3 billion. In connection with the stock consideration, we issued approximately 112 million shares of our common stock to American Capital’s then-existing stockholders (including holders of outstanding in-the-money American Capital stock options), thereby resulting in our then-existing stockholders owning approximately 73.7% of the combined company and then-existing American Capital stockholders owning approximately 26.3% of the combined company.

In connection with the American Capital Acquisition, Ares Capital Management agreed to waive, for each of the first ten calendar quarters beginning with the second quarter of 2017 and ending with the third quarter of 2019, the lesser of (x) \$10 million of income based fees and (y) the amount of income based fees for such quarter, in each case, to the extent payable by us in such quarter pursuant to and as calculated under our investment advisory and management agreement (the “Fee Waiver”). See Notes 3 and 16 to our consolidated financial statements for the year ended December 31, 2018 for additional information regarding the American Capital Acquisition.

## PORTFOLIO AND INVESTMENT ACTIVITY

Our investment activity for the years ended December 31, 2018, 2017 and 2016 is presented below.

(dollar amounts in millions)	For the Years Ended December 31,			
	2018	2017	2016	
New investment commitments(1)(5)(10):				
New portfolio companies	\$3,754	\$2,155	\$2,107	
Existing portfolio companies	4,291	3,734	1,596	
Total new investment commitments(2)	8,045	5,889	3,703	
Less:				
Investment commitments exited(3)	6,476	5,593	3,844	
Net investment commitments	\$1,569	\$296	\$(141 )	
Principal amount of investments funded(5)(10):				
First lien senior secured loans	\$4,465	\$3,442	\$1,965	
Second lien senior secured loans	1,607	1,491	987	
Subordinated certificates of the SDLP(4)	252	222	272	
Subordinated certificates of the SSLP	—	—	3	
Senior subordinated loans	376	273	173	
Preferred equity securities	130	120	37	
Other equity securities	346	116	53	
Total	\$7,176	\$5,664	\$3,490	
Principal amount of investments sold or repaid(6):				
First lien senior secured loans	\$3,762	\$2,394	\$2,522	
Second lien senior secured loans	1,657	1,536	903	
Subordinated certificates of the SDLP(4)	88	4	2	
Subordinated certificates of the SSLP(5)	—	474	—	
Senior subordinated loans	718	269	189	
Collateralized loan obligations	71	150	—	
Preferred equity securities	80	275	4	
Other equity securities	64	476	35	
Total	\$6,440	\$5,578	\$3,655	
Principal amount of investments acquired as part of the American Capital Acquisition on the Acquisition Date:				
First lien senior secured loans		\$550		
Second lien senior secured loans		855		
Senior subordinated loans		244		
Collateralized loan obligations		265		
Preferred equity securities		109		
Other equity securities		520		
Total		\$2,543		
Number of new investment commitments(5)(7)(10)	172	155	82	
Average new investment commitment amount(5)(10)	\$47	\$38	\$45	
Weighted average term for new investment commitments (in months)(5)(8)(10)	76	75	80	
Percentage of new investment commitments at floating rates(5)(10)	94	% 94	% 91	%
Percentage of new investment commitments at fixed rates(5)(10)	2	% 4	% 6	%
Weighted average yield of debt and other income producing securities(5)(8)(10):				

Funded during the period at amortized cost	9%0	9%0	9%3
Funded during the period at fair value(9)	9%1	9%0	9%2
Exited or repaid during the period at amortized cost	8%2	8%9	8%5
Exited or repaid during the period at fair value(9)	8%2	8%9	8%4
Weighted average yield of debt and other income producing securities acquired as part of the American Capital Acquisition on the Acquisition Date:			
Funded during the period at amortized cost	—	9%0.0	—
Funded during the period at fair value(9)	—	9%0.0	—

New investment commitments include new agreements to fund revolving loans or delayed draw loans. See “Off (1) Balance Sheet Arrangements” as well as Note 7 to our consolidated financial statements for the year ended December 31, 2018, for more information on our commitments to fund revolving loans or delayed draw loans.

(2) Includes both funded and unfunded commitments. Of these new investment commitments, we funded \$6.6 billion, \$5.1 billion and \$3.3 billion for the years ended December 31, 2018, 2017 and 2016, respectively.

Includes both funded and unfunded commitments. For the years ended December 31, 2018, 2017 and 2016, (3) investment commitments exited included exits of unfunded commitments of \$385 million, \$301 million and \$341 million, respectively.

(4) See “Senior Direct Lending Program” below and Note 4 to our consolidated financial statements for the year ended December 31, 2018 for more information on the SDLP (as defined below).

In July 2017, in connection with the effective termination of Senior Secured Loan Fund LLC (d/b/a the “Senior Secured Loan Program” or the “SSLP”), we purchased \$1.6 billion in aggregate principal amount of first lien senior secured loans outstanding at par plus accrued and unpaid interest and fees from the SSLP (the “SSLP Loan Sale”) and assumed the SSLP’s remaining unfunded loan commitments totaling \$50 million. The loans purchased from the (5) SSLP included loans to 10 different borrowers with a weighted average yield at amortized cost and fair value of 7.1% and 7.1%, respectively. Upon completion of the SSLP Loan Sale, the SSLP made a liquidation distribution to the holders of the subordinated certificates of the SSLP (the “SSLP Certificates”), of which Ares Capital received \$1.5 billion. The impact of these transactions is excluded from the information presented in the table. See “Senior Secured Loan Program” below and Note 4 to our consolidated financial statements for the year ended December 31, 2018 for more information on the SSLP.

(6) For the years ended December 31, 2018 and 2017, the principal amount of investments sold or repaid included \$0.9 billion and \$1.1 billion, respectively, of investments acquired as part of the American Capital Acquisition.

Number of new investment commitments represents each commitment to a particular portfolio company or a (7) commitment to multiple companies as part of an individual transaction (e.g., the purchase of a portfolio of investments).

“Weighted average yield of debt and other income producing securities” is computed as (a) the annual stated interest (8) rate or yield earned plus the net annual amortization of original issue discount and market discount or premium earned on accruing debt and other income producing securities, divided by (b) the total accruing debt and other income producing securities at amortized cost or at fair value, as applicable.

(9) Represents fair value for investments in the portfolio as of the most recent prior quarter end, if applicable.



Excludes investments acquired as part of the American Capital Acquisition on the Acquisition Date. See (10)Note 16 to our consolidated financial statements for the year ended December 31, 2018 for additional information regarding the American Capital Acquisition.

As of December 31, 2018 and 2017, our investments consisted of the following:

(in millions)	As of December 31,			
	2018		2017	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
First lien senior secured loans	\$5,976	\$5,836	\$5,337	\$5,197
Second lien senior secured loans	3,878	3,657	3,885	3,744
Subordinated certificates of the SDLP(1)	652	652	487	487
Senior subordinated loans	717	727	978	995
Collateralized loan obligations	44	45	115	114
Preferred equity securities	576	444	485	532
Other equity securities	911	1,056	618	772
Total	\$12,754	\$12,417	\$11,905	\$11,841

The proceeds from these certificates were applied to co-investments with Varagon Capital Partners (“Varagon”) and (1) its clients to fund first lien senior secured loans to 21 and 19 different borrowers as of December 31, 2018 and 2017, respectively.

The weighted average yields at amortized cost and fair value of the following portions of our portfolio as of December 31, 2018 and 2017 were as follows:

	As of December 31,			
	2018		2017	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Debt and other income producing securities(1)	10.2%	10.3%	9.7%	9.8%
Total portfolio(2)	9.0%	9.3%	8.7%	8.7%
First lien senior secured loans(2)	8.4%	8.7%	7.9%	8.1%
Second lien senior secured loans(2)	10.4%	11.1%	9.7%	10.0%
Subordinated certificates of the SDLP(2)(3)	15.0%	15.0%	14.5%	14.5%
Senior subordinated loans(2)	12.7%	12.5%	13.0%	12.8%
Collateralized loan obligations	22.7%	22.2%	9.7%	9.7%
Income producing equity securities(2)	13.5%	13.4%	13.0%	13.0%

“Weighted average yield of debt and other income producing securities” is computed as (a) the annual stated interest rate or yield earned plus the net annual amortization of original issue discount and market discount or premium earned on accruing debt and other income producing securities, divided by (b) the total accruing debt and other income producing securities at amortized cost or at fair value as applicable.

“Weighted average yields” are computed as (a) the annual stated interest rate or yield earned plus the net annual amortization of original issue discount and market discount or premium earned on the relevant accruing debt and other income producing securities, divided by (b) the total relevant investments at amortized cost or at fair value as applicable.

The proceeds from these certificates were applied to co-investments with Varagon and its clients to fund first lien senior secured loans.

Ares Capital Management, our investment adviser, employs an investment rating system to categorize our investments. In addition to various risk management and monitoring tools, our investment adviser grades the credit

risk of all investments on a scale of 1 to 4 no less frequently than quarterly. This system is intended primarily to reflect the underlying risk of a portfolio investment relative to our initial cost basis in respect of such portfolio investment (i.e., at the time of origination or acquisition), although it may also take into account under certain circumstances the performance of the portfolio company's business, the collateral coverage of the investment and other relevant factors. Under this system, investments with a grade of 4 involve the least amount of risk to our initial cost basis. The trends and risk factors for this investment since origination or acquisition are

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generally favorable, which may include the performance of the portfolio company or a potential exit. Investments graded 3 involve a level of risk to our initial cost basis that is similar to the risk to our initial cost basis at the time of origination or acquisition. This portfolio company is generally performing as expected and the risk factors to our ability to ultimately recoup the cost of our investment are neutral to favorable. All investments or acquired investments in new portfolio companies are initially assessed a grade of 3. Investments graded 2 indicate that the risk to our ability to recoup the initial cost basis of such investment has increased materially since origination or acquisition, including as a result of factors such as declining performance and non-compliance with debt covenants; however, payments are generally not more than 120 days past due. An investment grade of 1 indicates that the risk to our ability to recoup the initial cost basis of such investment has substantially increased since origination or acquisition, and the portfolio company likely has materially declining performance. For debt investments with an investment grade of 1, most or all of the debt covenants are out of compliance and payments are substantially delinquent. For investments graded 1, it is anticipated that we will not recoup our initial cost basis and may realize a substantial loss of our initial cost basis upon exit. For investments graded 1 or 2, our investment adviser enhances its level of scrutiny over the monitoring of such portfolio company. The grade of a portfolio investment may be reduced or increased over time.

We assigned a fair value as of the Acquisition Date to each of the portfolio investments acquired in connection with the American Capital Acquisition. The initial cost basis of each investment acquired was equal to the fair value of such investment as of the Acquisition Date. Many of these portfolio investments were assigned a fair value reflecting a discount to American Capital's cost basis at the time of American Capital's origination or acquisition. Each investment was initially assessed a grade of 3 (i.e., generally the grade we assign a portfolio company at acquisition), reflecting the relative risk to our initial cost basis of such investments. It is important to note that our grading system does not take into account factors or events in respect of the period from when American Capital originated or acquired such portfolio investments or the status of these portfolio investments in terms of compliance with debt facilities, financial performance and similar factors. Rather, it is only intended to measure risk from the time that we acquired the portfolio investment in connection with the American Capital Acquisition. Accordingly, it is possible that the grades of these portfolio investments may be reduced or increased after the Acquisition Date.

Set forth below is the grade distribution of our portfolio companies as of December 31, 2018 and 2017:

(dollar amounts in millions)	As of December 31, 2018				2017			
	Fair Value	%	Number of Companies	%	Fair Value	%	Number of Companies	%
Grade 1	\$107	0.9	% 18	5.2	% \$72	0.6	% 16	5.1
Grade 2	455	3.7	% 12	3.5	% 343	2.9	% 14	4.5
Grade 3	10,680	85.9	% 300	87.2	% 10,099	85.3	% 268	85.3
Grade 4	1,175	9.5	% 14	4.1	% 1,327	11.2	% 16	5.1
Total	\$12,417	100.0%	344	100.0%	\$11,841	100.0%	314	100.0%

As of December 31, 2018 and 2017, the weighted average grade of the investments in our portfolio at fair value was 3.0 and 3.1, respectively.

As of December 31, 2018, investments on non-accrual status represented 2.5% and 0.6% of the total investments at amortized cost and at fair value, respectively. As of December 31, 2017, investments on non-accrual status represented 3.1% and 1.4% of the total investments at amortized cost and at fair value, respectively.

#### Co-Investment Program

#### Senior Direct Lending Program

We have established a joint venture with Varagon to make certain first lien senior secured loans, including certain stretch senior and unitranche loans, primarily to U.S. middle market companies. Varagon was formed in 2013 as a lending platform by American International Group, Inc. and other partners. The joint venture is called the Senior Direct Lending Program LLC (d/b/a the “Senior Direct Lending Program” or the “SDLP”). In July 2016, we and Varagon and its clients completed the initial funding of the SDLP. The SDLP may generally commit and hold individual loans of up to \$300 million. The SDLP is capitalized as transactions are completed and all portfolio decisions and generally all other decisions in respect of the SDLP must be approved by an investment committee of the SDLP consisting of representatives of ours and Varagon (with approval from a representative of each required).

We provide capital to the SDLP in the form of subordinated certificates (the “SDLP Certificates”), and Varagon and its clients provide capital to the SDLP in the form of senior notes, intermediate funding notes and SDLP Certificates. As of December 31, 2018, we and a client of Varagon owned 87.5% and 12.5%, respectively, of the outstanding SDLP Certificates.

As of December 31, 2018 and 2017, we and Varagon and its clients had agreed to make capital available to the SDLP of \$6.4 billion and \$2.9 billion, respectively, in the aggregate, of which \$1,444 million and \$591 million, respectively, is to be made available from us. This capital will only be committed to the SDLP upon approval of transactions by the investment committee of the SDLP. Below is a summary of the funded capital and unfunded capital commitments of the SDLP.

(in millions)	As of	
	2018	2017
Total capital funded to the SDLP(1)	\$3,104	\$2,319
Total capital funded to the SDLP by the Company(1)	\$652	\$487
Total unfunded capital commitments to the SDLP(2)	\$187	\$92
Total unfunded capital commitments to the SDLP by the Company(2)	\$39	\$19

(1) At principal amount.

(2) These commitments have been approved by the investment committee of the SDLP and will be funded as the transactions are completed.

The SDLP Certificates pay a coupon of the London Interbank Offered Rate (“LIBOR”) plus 8.0% and also entitle the holders thereof to receive a portion of the excess cash flow from the loan portfolio, after expenses, which may result in a return to the holders of the SDLP Certificates that is greater than the stated coupon. The SDLP Certificates are junior in right of payment to the senior notes and intermediate funding notes.

The amortized cost and fair value of our SDLP Certificates held by us were \$652 million and \$652 million, respectively, as of December 31, 2018 and \$487 million and \$487 million, respectively, as of December 31, 2017. Our yield on our investment in the SDLP at amortized cost and fair value was 15.0% and 15.0%, respectively, as of December 31, 2018 and 14.5% and 14.5%, respectively, as of December 31, 2017. For the years ended December 31, 2018, 2017 and 2016, we earned interest income of \$87 million, \$52 million and \$13 million, respectively, from our investment in the SDLP Certificates. We are also entitled to certain fees in connection with the SDLP. For the years ended December 31, 2018, 2017 and 2016, in connection with the SDLP, we earned capital structuring service and other fees totaling \$16 million, \$11 million and \$6 million, respectively.

As of December 31, 2018 and 2017, the portfolio was comprised of all first lien senior secured loans primarily to U.S. middle market companies and were in industries similar to the companies in our portfolio. As of December 31, 2018 and 2017, none of the loans were on non-accrual status. Below is a summary of the SDLP’s portfolio as of December 31, 2018 and 2017:

(dollar amounts in millions)	As of December			
	31,		2017	
	2018	2017		
Total first lien senior secured loans(1)	\$3,086	\$2,316		
Weighted average yield on first lien senior secured loans(2)	8.4	%	7.6	%
Largest loan to a single borrower(1)	\$249	\$200		
Total of five largest loans to borrowers(1)	\$1,132	\$947		

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Number of borrowers in the SDLP	21	19
Commitments to fund delayed draw loans(3)	\$187	\$92

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(1) At principal amount.

(2) Computed as (a) the annual stated interest rate on accruing first lien senior secured loans, divided by (b) total first lien senior secured loans at principal amount.

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(3)As discussed above, these commitments have been approved by the investment committee of the SDLP.

Selected financial information for the SDLP as of December 31, 2018 and December 31, 2017 and for the years ended December 31, 2018 and 2017, was as follows:

(in millions)	As of December 31,	
	2018	2017
<b>Selected Balance Sheet Information:</b>		
Investments at fair value (amortized cost of \$3,086 and \$2,316)	\$3,043	\$2,295
Other assets	92	57
Total assets	\$3,135	\$2,352
Senior notes	\$2,189	\$1,624
Intermediate funding notes	171	139
Other liabilities	54	35
Total liabilities	2,414	1,798
Subordinated certificates and members' capital	721	554
Total liabilities and members' capital	\$3,135	\$2,352
(in millions)	For the Years Ended December 31,	
	2018	2017
<b>Selected Statement of Operations Information:</b>		
Total interest and other income	\$232	\$135
Interest expense	116	63
Other expenses	12	8
Total expenses	128	71
Net investment income	104	64
Net realized and unrealized losses on investments	(21	) (11 )
Net increase in members' capital resulting from operations	\$83	\$53



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SDLP Loan Portfolio as of December 31, 2018

(dollar amounts in millions) Portfolio Company	Business Description	Maturity Date	Stated Interest Rate(1)	Principal Amount	Fair Value(2)
42 North Dental, LLC (fka Gentle Communications, LLC (3))	Dental services provider	5/2022	8.4 %	126.8	\$126.8
ADCS Billings Intermediate Holdings, LLC (3)	Dermatology practice	5/2022	8.3 %	78.6	76.3
AEP Holdings, Inc. (3)(4)	Distributor of non-discretionary, mission-critical aftermarket replacement parts	8/2021	8.5 %	160.0	156.8
BakeMark Holdings, Inc. (3)	Manufacturer and distributor of specialty bakery ingredients	8/2023	7.8 %	247.8	247.7
Center for Autism and Related Disorders, LLC (3)	Autism treatment and services provider specializing in applied behavior analysis therapy	12/2022	6.5 %	119.0	117.8
Chariot Acquisition, LLC (3)	Aftermarket golf cart parts and accessories	9/2021	9.3 %	102.5	101.5
Chesapeake Research Review, LLC (3)	Provider of central institutional review boards over clinical trials	11/2023	8.6 %	198.4	198.4
D4C Dental Brands, Inc. (3)	Dental services provider	12/2022	9.0 %	161.1	161.1
Emergency Communications Network, LLC (3)	Provider of mission critical emergency mass notification solutions	6/2023	8.8 %	221.2	214.7
EN Engineering, LLC (3)	National utility services firm providing engineering and consulting services to natural gas, electric power and other energy and industrial end markets	6/2021	7.0 %	86.4	86.4
Excelligence Holdings Corporation (3)	Developer, manufacturer and retailer of educational products	4/2023	8.5 %	147.6	127.2
Infogix, Inc. (3)(4)	Enterprise data analytics and integrity software solutions provider	4/2024	8.8 %	126.8	126.8
ISS Compressors Industries, Inc.	Provider of repairs, refurbishments and services to the broader industrial end user markets	6/2020	9.4 %	76.4	76.4
KeyImpact Holdings, Inc. (4)	Foodservice sales and marketing agency	11/2021	8.7 %	74.8	74.8
Nordco Inc. (3)	Railroad maintenance-of-way machinery	8/2020	8.9 %	110.1	105.7
Pegasus Intermediate Holdings, LLC (3)	Provider of plant maintenance and scheduling software	11/2022	8.5 %	176.2	176.2
Penn Detroit Diesel Allison LLC	Distributor of aftermarket parts to the heavy-duty truck industry	12/2021	8.8 %	78.4	78.4
SM Wellness Holdings, Inc. and SM Holdco, Inc. (3)(4)	Breast cancer screening provider	8/2024	8.0 %	213.0	211.9
TDG Group Holding Company (3)(4)	Operator of multiple franchise concepts primarily related to home maintenance or repairs	5/2024	8.3 %	248.8	246.3
Towne Holdings, Inc.	Parking management and hospitality services provider	5/2022	7.8 %	131.3	131.3
Woodstream Corporation (3)	Pet products manufacturer	5/2022	8.9 %	201.0	200.9

\$3,086.2 \$3,043.4

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- (1) Represents the weighted average annual stated interest rate as of December 31, 2018. All interest rates are payable in cash.
- (2) Represents the fair value in accordance with Accounting Standards Codification 820-10. The determination of such fair value is not included in our board of directors valuation process described elsewhere herein.
- (3) We also hold a portion of this company's first lien senior secured loan.
- (4) We hold an equity investment in this company.

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SDLP Loan Portfolio as of December 31, 2017

(dollar amounts in millions)	Business Description	Maturity Date	Stated Interest Rate(1)	Principal Amount	Fair Value(2)
ADCS Billings Intermediate Holdings, LLC (3)	Dermatology practice	5/2022	7.4 %	\$79.4	\$77.8
AEP Holdings, Inc. (3)(4)	Distributor of non-discretionary, mission-critical aftermarket replacement parts	8/2021	7.2 %	136.6	136.6
AMCP Clean Acquisition Company, LLC	Outsourced linen and laundry services provider	7/2020	8.8 %	100.7	100.7
BakeMark Holdings, Inc. (3)	Manufacturer and distributor of specialty bakery ingredients	8/2023	6.9 %	200.0	200.0
Chariot Acquisition, LLC (3)	Aftermarket golf cart parts and accessories	9/2021	7.9 %	103.6	101.5
Chesapeake Research Review, LLC (3)	Provider of central institutional review boards over clinical trials	11/2023	7.1 %	200.0	198.0
D4C Dental Brands, Inc. (3)(4)	Dental services provider	12/2022	7.9 %	115.6	115.6
Emergency Communications Network, LLC (3)	Provider of mission critical emergency mass notification solutions	6/2023	7.8 %	199.0	197.0
EN Engineering, LLC (3)	National utility services firm providing engineering and consulting services to natural gas, electric power and other energy and industrial end markets	6/2021	7.7 %	77.2	77.2
Excelligence Learning Corporation (3)	Developer, manufacturer and retailer of educational products	4/2023	7.6 %	149.3	143.3
Gentle Communications, LLC (3)	Dental services provider	5/2022	7.9 %	113.6	113.6
ISS Compressors Industries, Inc.	Provider of repairs, refurbishments and services to the broader industrial end user markets	6/2018	7.8 %	77.3	77.3
KeyImpact Holdings, Inc. (4)	Foodservice sales and marketing agency	11/2021	7.7 %	75.5	75.5
Nordco Inc. (3)	Railroad maintenance-of-way machinery	8/2020	7.6 %	111.1	103.4
Pegasus Intermediate Holdings, LLC (3)	Provider of plant maintenance and scheduling software	11/2022	7.6 %	90.5	90.5
Penn Detroit Diesel Allison LLC	Distributor of aftermarket parts to the heavy-duty truck industry	12/2021	7.8 %	79.2	79.2
Towne Holdings, Inc. (3)	Parking management and hospitality services provider	5/2022	7.1 %	111.0	111.0
TWH Water Treatment Industries, Inc.	Wastewater infrastructure repair, treatment and filtration holding company	11/2019	8.4 %	97.5	97.5
Woodstream Corporation (3)	Pet products manufacturer	5/2022	7.8 %	199.0	199.0
				\$2,316.1	\$2,294.7

(1) Represents the weighted average annual stated interest rate as of December 31, 2017. All interest rates are payable in cash.

- (2) Represents the fair value in accordance with Accounting Standards Codification 820-10. The determination of such fair value is not included in our board of directors valuation process described elsewhere herein.
- (3) We also hold a portion of this company's first lien senior secured loan.
- (4) We hold an equity investment in this company.

## RESULTS OF OPERATIONS

For the years ended December 31, 2018, 2017 and 2016

Operating results for the years ended December 31, 2018, 2017 and 2016 were as follows:

(in millions)	For the Years Ended		
	December 31,		
	2018	2017	2016
Total investment income	\$1,337	\$1,160	\$1,012
Total expenses, net of waiver of income based fees	624	630	497
Net investment income before income taxes	713	530	515
Income tax expense, including excise tax	19	19	21
Net investment income	694	511	494
Net realized gains on investments and foreign currency transactions	419	24	110
Net unrealized gains (losses) on investments, foreign currency and other transactions	(255 )	136	(130 )
Realized losses on extinguishment of debt	—	(4 )	—
Net increase in stockholders' equity resulting from operations	\$858	\$667	\$474

Net income can vary substantially from period to period due to various factors, including acquisitions, the level of new investment commitments, the recognition of realized gains and losses and unrealized appreciation and depreciation. As a result, comparisons of net increase in stockholders' equity resulting from operations may not be meaningful.

## Investment Income

(in millions)	For the Years Ended		
	December 31,		
	2018	2017	2016
Interest income from investments	\$1,041	\$951	\$806
Capital structuring service fees	143	105	99
Dividend income	97	76	75
Other income	56	28	32
Total investment income	\$1,337	\$1,160	\$1,012

The increase in interest income from investments for the year ended December 31, 2018 from the comparable period in 2017 was primarily due to an increase in the average size of our portfolio and an increase in the weighted average yield of our portfolio. The size of our portfolio increased from an average of \$11.4 billion at amortized cost for the year ended December 31, 2017 to an average of \$11.9 billion at amortized cost for the comparable period in 2018. The weighted average yield of our total portfolio increased from 8.5% for the year ended December 31, 2017 to 9.0% for the comparable period in 2018 primarily due to an increase in LIBOR during the period. The increase in capital structuring service fees for the year ended December 31, 2018 from the comparable period in 2017 was primarily due to the increase in new investment commitments (excluding investments acquired in the American Capital Acquisition and investments acquired in the SSLP Loan Sale in 2017), which increased from \$5.9 billion for year ended December 31, 2017 to \$8.0 billion for the comparable period in 2018. The weighted average capital structuring fees received on new investment commitments remained steady at 1.8% for the year ended December 31, 2018 from the comparable period in 2017. Dividend income for the years ended December 31, 2018 and 2017 included dividends received from Ivy Hill Asset Management, L.P. ("IHAM"), a wholly owned portfolio company, totaling \$58 million and \$40 million, respectively. Also during the year ended December 31, 2018, we received \$12 million in other non-recurring dividends from non-income producing equity securities compared to \$19 million for the comparable period in 2017. The increase in other income for the year ended December 31, 2018 from the comparable period in 2017 was primarily due to higher amendment fees and administrative agent fees.

The increase in interest income from investments for the year ended December 31, 2017 from the comparable period in 2016 was primarily due to an increase in the average size of our portfolio, partially offset by a decrease in the weighted average yield of our portfolio. The size of our portfolio increased from an average of \$9.0 billion at amortized cost for the year ended December 31, 2016 to an average of \$11.4 billion at amortized cost for the comparable period in 2017, which was largely due to the investments acquired as part of the American Capital Acquisition. The weighted average yield of our total

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portfolio decreased from 9.0% for the year ended December 31, 2016 to 8.5% for the comparable period in 2017. The decline in the weighted average yield was primarily due to the declining yield of the SSLP Certificates up until the SSLP made a liquidation distribution to the holders of the SSLP Certificates (the “SSLP Liquidation Distribution”) and the effective termination of the SSLP, during the year ended December 31, 2017. The increase in capital structuring service fees for the year ended December 31, 2017 from the comparable period in 2016 was due to the increase in new investment commitments (excluding investments acquired from the American Capital Acquisition and investments acquired from the SSLP Loan Sale in 2017), which increased from \$3.7 billion for year ended December 31, 2016 to \$5.9 billion for the comparable period in 2017. This increase was partially offset by a decrease in weighted average capital structuring fees received on new investment commitments, which decreased from 2.7% for the year ended December 31, 2016 to 1.8% for the comparable period in 2017. This decline was primarily due to having a higher percentage of new investment commitments made to existing portfolio companies during the year ended December 31, 2017 as compared to the comparable period in 2016. Dividend income for the years ended December 31, 2017 and 2016 included dividends received from IHAM, a wholly owned portfolio company, totaling \$40 million and \$40 million, respectively. Also during the year ended December 31, 2017, we received \$19 million in other non-recurring dividends from non-income producing equity securities compared to \$20 million for the comparable period in 2016. The decrease in other income for the year ended December 31, 2017 from the comparable period in 2016 was primarily attributable to the decrease in sourcing fees from the SSLP for the year ended December 31, 2017 from the comparable period in 2016 resulting from the continued decrease in the size of the SSLP portfolio and eventually the effective termination of the SSLP in July 2017. This decrease was partially offset by higher amendment fees and administrative agent fees for the year ended December 31, 2017 from the comparable period in 2016.

#### Operating Expenses

(in millions)	For the Years Ended December 31,		
	2018	2017	2016
Interest and credit facility fees	\$240	\$225	\$186
Base management fees	180	171	137
Income based fees	169	134	123
Capital gains incentive fees	33	41	(5 )
Administrative fees	13	12	14
Professional fees and other costs related to the American Capital Acquisition	3	45	15
Other general and administrative	26	32	27
Total operating expenses	664	660	497
Waiver of income based fees	(40 )	(30 )	—
Total expenses, net of waiver of income based fees	\$624	\$630	\$497

Interest and credit facility fees for the years ended December 31, 2018, 2017 and 2016, were comprised of the following:

(in millions)	For the Years Ended December 31,		
	2018	2017	2016
Stated interest expense	\$200	\$189	\$161
Facility fees	17	12	5
Amortization of debt issuance costs	18	18	14
Net accretion of discount on notes payable	5	6	6
Total interest and credit facility fees	\$240	\$225	\$186

Stated interest expense for the year ended December 31, 2018 increased from the comparable period in 2017 primarily due to the increase in our average principal amount of debt outstanding. For the year ended December 31, 2018, our

average debt outstanding increased to \$4.8 billion as compared to \$4.6 billion for the comparable period in 2017. The weighted average stated interest rate on our outstanding debt was 4.1% for both the year ended December 31, 2018 and for the comparable period in 2017. Facility fees for the year ended December 31, 2018 increased from the comparable period in 2017 primarily due to lower utilization of our revolving facilities resulting in higher unused commitment fees.



Stated interest expense for the year ended December 31, 2017 increased from the comparable period in 2016 primarily due to the increase in our average principal amount of debt outstanding. For the year ended December 31, 2017, our average debt outstanding increased to \$4.6 billion as compared to \$3.9 billion for the comparable period in 2016, which was largely a result of the American Capital Acquisition. The weighted average stated interest rate on our outstanding debt was 4.1% for both the year ended December 31, 2017 and for the comparable period in 2016. Facility fees for the year ended December 31, 2017 increased from the comparable period in 2016 primarily due to the increased commitments under our revolving facilities resulting in higher unused commitment fees. Amortization of debt issuance costs for the year ended December 31, 2017 increased from the comparable period in 2016 primarily due to the increase in debt issuance costs in connection with the amendments to the Revolving Credit Facility and Revolving Funding Facility.

The increase in base management fees for the year ended December 31, 2018 from the comparable period in 2017 was primarily due to the increase in the average size of the portfolio for the year ended December 31, 2018 as compared to the year ended December 31, 2017. The increase in base management fees for the year ended December 31, 2017 from the comparable period in 2016 was primarily due to the increase in the average size of the portfolio for the year ended December 31, 2017 (including the approximately \$2.5 billion in investments acquired in the American Capital Acquisition) as compared to the year ended December 31, 2016. The increase in income based fees for the year ended December 31, 2018 from the comparable period in 2017 was primarily due to the pre-incentive fee net investment income, as defined in the investment advisory and management agreement, for the year ended December 31, 2018 being higher than in the comparable period in 2017. The increase in income based fees for the year ended December 31, 2017 from the comparable period in 2016 was primarily due to the pre-incentive fee net investment income, as defined in the investment advisory and management agreement, for the year ended December 31, 2017 being higher than in the comparable period in 2016. As discussed earlier, the years ended December 31, 2018 and 2017 also reflect the Fee Waiver of \$40 million and \$30 million, respectively.

For the years ended December 31, 2018 and 2017, the capital gains incentive fee expense calculated in accordance with generally accepted accounting principles (“GAAP”) was \$33 million and \$41 million, respectively. The capital gains incentive fee expense accrual for the year ended December 31, 2017 included an \$11 million accrual related to the American Capital Acquisition as a result of the fair value of the net assets acquired exceeding the fair value of the merger consideration paid by us. For the year ended December 31, 2016, the reduction in capital gains incentive fees calculated in accordance with GAAP was \$5 million. The capital gains incentive fee expense accrual for the year ended December 31, 2018 changed from the comparable period in 2017 primarily due to the \$11 million accrual related to the American Capital Acquisition during the year ended December 31, 2017 as discussed above, partially offset by higher net gains on investments, foreign currency and other transactions and the extinguishment of debt during the year ended December 31, 2018 of \$164 million compared to net gains of \$156 million during the year ended December 31, 2017. The capital gains incentive fee expense accrual for the year ended December 31, 2017 changed from the comparable period in 2016 primarily due to net gains on investments, foreign currency and other transactions and the extinguishment of debt during the year ended December 31, 2017 of \$156 million compared to net losses of \$20 million during the year ended December 31, 2016. The capital gains incentive fee accrued under GAAP includes an accrual related to unrealized capital appreciation, whereas the capital gains incentive fee actually payable under our investment advisory and management agreement does not. There can be no assurance that such unrealized capital appreciation will be realized in the future. The accrual for any capital gains incentive fee under GAAP in a given period may result in an additional expense if such cumulative amount is greater than in the prior period or a reduction of previously recorded expense if such cumulative amount is less than in the prior period. If such cumulative amount is negative, then there is no accrual. As of December 31, 2018, 2017 and 2016, the total capital gains incentive fee accrual calculated in accordance with GAAP was \$112 million, \$79 million and \$38 million, respectively. As of December 31, 2018, the capital gains incentive fee actually payable under our investment advisory and management agreement was \$50 million. As of December 31, 2017, there was no capital gains incentive fee actually payable under our investment advisory and management agreement. See Note 3 to our consolidated financial statements for the year ended December 31, 2018, for more information on the base management fees, income based

fees and capital gains incentive fees.

Administrative fees represent fees paid to Ares Operations for our allocable portion of overhead and other expenses incurred by Ares Operations in performing its obligations under the administration agreement, including our allocable portion of the compensation, rent and other expenses of certain of our executive officers and their respective staffs. Administrative fees incurred related specifically to the American Capital Acquisition are included in professional fees and other costs related to the American Capital Acquisition as discussed below.

For the years ended December 31, 2018, 2017 and 2016, the Company incurred \$3 million, \$45 million and \$15 million, respectively, in professional fees and other costs related to the American Capital Acquisition. For the year ended December 31, 2017, these costs also included \$18 million in one-time investment banking fees incurred in January 2017 upon the closing of the American Capital Acquisition.

Other general and administrative expenses includes, among other costs, professional fees, insurance, fees and expenses related to evaluating and making investments in portfolio companies and independent directors' fees.

#### Income Tax Expense, Including Excise Tax

We have elected to be treated as a RIC under the Code and intend to operate so as to qualify for RIC status. To qualify as a RIC, we must generally (among other requirements) timely distribute to our stockholders at least 90% of our investment company taxable income, as defined by the Code, for each year. To maintain our RIC status, we have made and intend to continue to make the requisite distributions to our stockholders which will generally relieve us from U.S. federal corporate-level income taxes.

Depending on the level of taxable income earned in a tax year, we may choose to carry forward such taxable income in excess of current year dividend distributions from such current year taxable income into the next tax year and pay a 4% excise tax on such income, as required. If we determine that our estimated current year taxable income will exceed our estimated dividend distributions for the current year from such income, we accrue excise tax on estimated excess taxable income as such taxable income is earned. For the years ended December 31, 2018, 2017 and 2016, we recorded a net expense of \$14 million, \$12 million and \$12 million, respectively, for U.S. federal excise tax. The net expense for the years ended December 31, 2017 and 2016 each included a reduction in expense related to the recording of a requested refund resulting from the overpayment of the prior year's excise tax of \$1 million and \$1 million, respectively.

Certain of our consolidated subsidiaries are subject to U.S. federal and state income taxes. For the years ended December 31, 2018, 2017 and 2016, we recorded a net tax expense of approximately \$5 million, \$7 million and \$9 million, respectively, for these subsidiaries. The net income tax expense for our taxable consolidated subsidiaries will vary depending on the level of realized gains from the exits of investments held by such taxable subsidiaries during the respective periods.

#### Net Realized Gains/Losses

The net realized gains from the sales, repayments or exits of investments during the years ended December 31, 2018, 2017 and 2016 were comprised of the following:

(in millions)	For the Years Ended		
	December 31,		
	2018	2017	2016
Sales, repayments or exits of investments <sup>(1)</sup>	\$6,780	\$7,037	(2)\$3,749 (3)
Net realized gains on investments:			
Gross realized gains	\$465	\$281	\$121
Gross realized losses	(59 )	(237 )	(11 )
Total net realized gains on investments	\$406	(4)\$44	(4)\$110

Includes \$472 million, \$134 million and \$472 million of investments sold to IHAM and certain vehicles managed by IHAM during the years ended December 31, 2018, 2017 and 2016, respectively. A net realized loss of \$0 million was recorded on these transactions with IHAM during the year ended December 31, 2018.

(1) A net realized loss of \$0 million was recorded on these transactions with IHAM during the year ended December 31, 2017. A net realized gain of \$1 million was recorded on these transactions with IHAM for the year ended December 31, 2016. See Note 4 to our consolidated financial statements for the year ended December 31, 2018 for more detail on IHAM and its managed vehicles.

(2)Includes the \$1.5 billion of proceeds from the SSLP Liquidation Distribution discussed above.

- (3) Includes \$474 million of investments sold to the SDLP in conjunction with the initial funding of the SDLP. No realized gains or losses were recorded on these transactions with the SDLP.
- (4) Includes approximately \$342 million and \$85 million of net realized gains on investments acquired as part of the American Capital Acquisition during the years ended December 31, 2018 and 2017, respectively.

The net realized gains on investments during the year ended December 31, 2018 consisted of the following:

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(in millions)	Net Realized
Portfolio Company	Gains (Losses)
Alcami Holdings, LLC	\$ 324
Accruent, LLC	27
Varsity Brands Holding Co., Inc.	14
Imperial Capital Private Opportunities, LP	12
Acrisure, LLC	8
EcoMotors, Inc.	(9 )
Things Remembered, Inc.	(16 )
Other, net	46
Total, net	\$ 406

During the year ended December 31, 2018, we also recognized net realized gains on foreign currency and other transactions of \$13 million.

The net realized gains on investments during the year ended December 31, 2017 consisted of the following:

(in millions)	Net Realized
Portfolio Company	Gains (Losses)
Bellotto Holdings Limited	\$ 58
10th Street, LLC	34
Community Education Centers, Inc.	24
Tectum Holdings, Inc.	17
American Broadband Holding Company	15
NECCO Realty Investments LLC	13
GHX Ultimate Parent Corporation	11
Wilcon Holdings LLC	10
La Paloma Generating Company, LLC	(9 )
Pegasus Community Energy, LLC	(9 )
The Greeley Company, Inc.	(12 )
Senior Secured Loan Fund LLC	(18 )
Competitor Group, Inc.	(21 )
Infilaw Holding, LLC	(140 )
Other, net	71
Total, net	\$ 44

During the year ended December 31, 2017, we also recognized net realized losses on foreign currency and other transactions of \$20 million.

During the year ended December 31, 2017, we redeemed the entire \$183 million in aggregate principal amount outstanding of the unsecured notes that were scheduled to mature on October 1, 2022 (the "October 2022 Notes") in accordance with the terms of the indenture governing the October 2022 Notes. The October 2022 Notes bore interest at a rate of 5.875% per year, payable quarterly. The October 2022 Notes were redeemed at par plus accrued and unpaid interest for a total redemption price of approximately \$185 million, which resulted in a realized loss on the extinguishment of debt of \$4 million.



The net realized gains on investments during the year ended December 31, 2016 consisted of the following:

(in millions)	Net Realized Gains (Losses)
Portfolio Company	
The Step2 Company, LLC	\$ 18
Napa Management Services Corporation	16
UL Holding Co., LLC	13
Physiotherapy Associates Holdings, Inc.	8
Q9 Holdings Inc.	(9 )
Other, net	64
Total, net	\$ 110

#### Net Unrealized Gains/Losses

We value our portfolio investments quarterly and the changes in value are recorded as unrealized gains or losses in our consolidated statement of operations. Net unrealized gains and losses on investments for the years ended December 31, 2018, 2017 and 2016, were comprised of the following:

(in millions)	For the Years Ended December 31,		
	2018	2017	2016
Unrealized appreciation	\$137	\$331	\$168
Unrealized depreciation	(275 )	(301 )	(306 )
Net unrealized (appreciation) depreciation reversed related to net realized gains or losses(1)	(133 )	113	13
Total net unrealized gains (losses)	\$(271)	\$143	\$(125)

(1) The net unrealized (appreciation) depreciation reversed related to net realized gains or losses represents the unrealized appreciation or depreciation recorded on the related asset at the end of the prior period.

The changes in net unrealized appreciation and depreciation on investments during the year ended December 31, 2018 consisted of the following:

(in millions)	Net Unrealized Appreciation (Depreciation)
Portfolio Company	
OTG Management, LLC	\$ 25
PERC Holdings 1 LLC	11
Absolute Dental Management LLC	(9 )
SCM Insurance Services Inc.	(10 )
ADF Capital, Inc.	(11 )
Teasdale Foods, Inc.	(11 )
R3 Education Inc.	(12 )
Eckler Industries, Inc.	(13 )
Indra Holdings Corp.	(15 )
Singer Sewing Company	(15 )
New Trident Holdcorp, Inc.	(49 )
Other, net	(29 )
Total, net	\$ (138 )

During the year ended December 31, 2018, we also recognized net unrealized gains on foreign currency and other transactions of \$16 million.



The changes in net unrealized appreciation and depreciation on investments during the year ended December 31, 2017 consisted of the following:

(in millions) Portfolio Company	Net Unrealized Appreciation (Depreciation)
Alcami Holdings, LLC	\$ 167
Ivy Hill Asset Management, L.P.	13
Columbo MidCo Limited	13
CCS Intermediate Holdings, LLC	12
Imperial Capital Private Opportunities, LP	11
Ciena Capital LLC	11
Singer Sewing Company	(9 )
Shock Doctor, Inc.	(9 )
Indra Holdings Corp.	(15 )
ADF Capital, Inc.	(16 )
Instituto de Banca y Comercio, Inc.	(23 )
New Trident Holdcorp, Inc.	(45 )
Other, net	(80 )
Total, net	\$ 30

During the year ended December 31, 2017, we also recognized net unrealized losses on foreign currency and other transactions of \$7 million.

The changes in net unrealized appreciation and depreciation on investments during the year ended December 31, 2016 consisted of the following:

(in millions) Portfolio Company	Net Unrealized Appreciation (Depreciation)
Senior Secured Loan Fund LLC	\$ 26
UL Holding Co., LLC	20
Community Education Centers, Inc.	19
ADF Capital, Inc.	(9 )
10th Street, LLC	(9 )
Indra Holdings Corp.	(11 )
CCS Intermediate Holdings, LLC	(22 )
Instituto de Banca y Comercio, Inc.	(52 )
Infilaw Holdings, LLC	(127 )
Other, net	27
Total, net	\$ (138 )

During the year ended December 31, 2016, we also recognized net unrealized losses on foreign currency transactions of \$5 million.

## FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Our liquidity and capital resources are generated primarily from the net proceeds of public offerings of equity and debt securities, advances from the Revolving Credit Facility, the Revolving Funding Facility and the SMBC Funding Facility (each as defined below, and together, the “Facilities”), net proceeds from the issuance of other securities, including unsecured notes, as well as cash flows from operations.



As of December 31, 2018, we had \$296 million in cash and cash equivalents and \$5.3 billion in total aggregate principal amount of debt outstanding (\$5.2 billion at carrying value). Subject to leverage, borrowing base and other restrictions, we had approximately \$1.6 billion available for additional borrowings under the Facilities as of December 31, 2018.

We may from time to time seek to retire or repurchase our common stock through cash purchases, as well as retire, cancel or purchase our outstanding debt through cash purchases and/or exchanges, in open market purchases, privately negotiated transactions or otherwise. Such purchases or exchanges, if any, will depend on prevailing market conditions, our liquidity requirements, contractual and regulatory restrictions and other factors. The amounts involved may be material. In addition, we may from time to time enter into additional debt facilities, increase the size of existing facilities or issue additional debt securities, including unsecured debt and/or debt securities convertible into common stock. Any such incurrence or issuance would be subject to prevailing market conditions, our liquidity requirements, contractual and regulatory restrictions and other factors. In accordance with the Investment Company Act, we are currently allowed to borrow amounts such that our asset coverage, calculated pursuant to the Investment Company Act, is at least 200% after such borrowings. On June 21, 2018, our board of directors, including a “required majority” (as such term is defined in Section 57(o) of the Investment Company Act) of our board of directors, approved the application of the modified asset coverage requirement set forth in Section 61(a)(2) of the Investment Company Act, as amended by the Small Business Credit Availability Act. As a result, effective on June 21, 2019 (unless we receive earlier stockholder approval), our asset coverage requirement applicable to senior securities will be reduced from 200% to 150% (i.e., the revised regulatory leverage limitation permits BDCs to double the amount of borrowings, such that we would be able to borrow up to two dollars for every dollar we have in assets less all liabilities and indebtedness not represented by senior securities issued by us). As of December 31, 2018, the aggregate principal amount outstanding of the senior securities issued by us was \$5.3 billion. As of December 31, 2018, our asset coverage was 236%.

#### Equity Capital Activities

As of December 31, 2018 and 2017, our total equity market capitalization was \$6.6 billion and \$6.7 billion, respectively. On the Acquisition Date, in connection with the American Capital Acquisition, we issued 112 million shares valued at approximately \$16.42 per share. There were no other issuances of our equity securities during the years ended December 31, 2018, 2017 and 2016.

We are authorized under our stock repurchase program to purchase up to \$300 million (as of December 31, 2018) in the aggregate of our outstanding common stock in the open market at certain thresholds below our net asset value per share, in accordance with the guidelines specified in Rule 10b-18 under the Securities Exchange Act of 1934, as amended. The timing, manner, price and amount of any share repurchases will be determined by us, in our discretion, based upon the evaluation of economic and market conditions, stock price, applicable legal and regulatory requirements and other factors. The program does not require us to repurchase any specific number of shares, and we cannot assure stockholders that any shares will be repurchased under the program. The expiration date of the stock repurchase program is February 28, 2019. The program may be suspended, extended, modified or discontinued at any time.

As of December 31, 2018, we had repurchased a total of 0.5 million shares of our common stock in the open market under the stock repurchase program since its inception in September 2015, at an average price of \$13.92 per share, including commissions paid, leaving approximately \$293 million available for additional repurchases under the program. During the year ended December 31, 2018, we did not repurchase any shares of our common stock under the stock repurchase program.

See “Recent Developments,” as well as Note 18 to our consolidated financial statements for the year ended December 31, 2018 for a subsequent event relating to our stock repurchase program.



Debt Capital Activities

Our debt obligations consisted of the following as of December 31, 2018 and 2017:

(in millions)	As of December 31, 2018			2017		
	Aggregate Principal Amount Available/ Outstanding(1)	Principal Amount Outstanding	Carrying Value	Aggregate Principal Amount Available/ Outstanding(1)	Principal Amount Outstanding	Carrying Value
Revolving Credit Facility	\$2,133(2)	\$ 1,064	\$ 1,064	\$2,108	\$ 395	\$ 395
Revolving Funding Facility	1,000	520	520	1,000	600	600
SMBC Funding Facility	400	245	245	400	60	60
SBA Debentures	—	—	—	50	—	—
2018 Convertible Notes	—	—	—	270	270	270 (3)
2019 Convertible Notes	300	300	300	(3)300	300	298 (3)
2022 Convertible Notes	388	388	372	(3)388	388	368 (3)
2018 Notes	—	—	—	750	750	748 (4)
2020 Notes	600	600	598	(5)600	600	597 (5)
2022 Notes	600	600	595	(6)600	600	593 (6)
2023 Notes	750	750	744	(7)750	750	743 (7)
2025 Notes	600	600	593	(8)—	—	—
2047 Notes	230	230	183	(9)230	230	182 (9)
Total	\$7,001	\$ 5,297	\$ 5,214	\$7,446	\$ 4,943	\$ 4,854

(1) Subject to borrowing base, leverage and other restrictions. Represents the total aggregate amount committed or outstanding, as applicable, under such instrument.

(2) Provides for a feature that allows us, under certain circumstances, to increase the size of the Revolving Credit Facility (as defined below) to a maximum of \$3.1 billion.

(3) Represents the aggregate principal amount outstanding of the Convertible Unsecured Notes (as defined below). As of December 31, 2018, the total unamortized debt issuance costs and the unaccreted discount for the 2019 Convertible Notes and the 2022 Convertible Notes (each as defined below) were \$0 million and \$16 million, respectively. As of December 31, 2017, the total unamortized debt issuance costs and the unaccreted discount for the 2018 Convertible Notes, the 2019 Convertible Notes and the 2022 Convertible Notes were \$0 million, \$2 million and \$20 million, respectively.

(4) Represents the aggregate principal amount outstanding of the 2018 Notes (as defined below) less unamortized debt issuance costs and plus the net unamortized premium that was recorded upon the issuances of the 2018 Notes. As of December 31, 2017, the total unamortized debt issuance costs less the net unamortized premium was \$2 million.

(5) Represents the aggregate principal amount outstanding of the 2020 Notes (as defined below) less unamortized debt issuance costs and the net unaccreted discount recorded upon the issuances of the 2020 Notes. As of December 31, 2018 and 2017, the total unamortized debt issuance costs and the net unaccreted discount was \$2 million and \$3 million, respectively.

(6)

Represents the aggregate principal amount outstanding of the 2022 Notes (as defined below), less unamortized debt issuance costs and the net unaccreted discount recorded upon the issuances of the 2022 Notes. As of December 31, 2018 and 2017, the total unamortized debt issuance costs and the net unaccreted discount were \$5 million and \$7 million, respectively.

Represents the aggregate principal amount outstanding of the 2023 Notes (as defined below), less unamortized debt issuance costs and the unaccreted discount recorded upon the issuance of the 2023 Notes. As of December 31, 2018 and 2017, the total unamortized debt issuance costs and the unaccreted discount was \$6 million and \$7 million, respectively.

Represents the aggregate principal amount outstanding of the 2025 Notes (as defined below), less unamortized debt issuance costs and the unaccreted discount recorded upon the issuance of the 2025 Notes. As of December 31, 2018, the total unamortized debt issuance costs and the unaccreted discount was \$7 million.

Represents the aggregate principal amount outstanding of the 2047 Notes (as defined below) less the unaccreted purchased discount recorded as a part of the acquisition of Allied Capital in April 2010 (“the Allied Acquisition”). As of December 31, 2018 and 2017, the total unaccreted purchased discount was \$47 million and \$48 million, respectively. The carrying value represents the outstanding principal amount of the 2047 Notes less the unaccreted purchased discount recorded as a part of the Allied Acquisition.

The weighted average stated interest rate and weighted average maturity, both on aggregate principal amount outstanding, of all our debt outstanding as of December 31, 2018 were 4.1% and 4.8 years, respectively, and as of December 31, 2017 were 4.1% and 4.3 years, respectively.

The ratio of total principal amount of debt outstanding to stockholders’ equity as of December 31, 2018 was 0.73:1.00 compared to 0.70:1.00 as of December 31, 2017.

#### Revolving Credit Facility

We are party to a senior secured revolving credit facility (as amended and restated, the “Revolving Credit Facility”), that allows us to borrow up to \$2.1 billion at any one time outstanding. The Revolving Credit Facility consists of a \$414 million term loan tranche with a stated maturity date of March 30, 2023 and a \$1.7 billion revolving tranche. For \$1.6 billion of the revolving tranche, the end of the revolving period and the stated maturity date are March 30, 2022 and March 30, 2023, respectively. For \$50 million of the revolving tranche, the end of the revolving period and the stated maturity date are January 4, 2021 and January 4, 2022, respectively. For the remaining \$45 million of the revolving tranche, the end of the revolving period and the stated maturity date are May 4, 2019 and May 4, 2020, respectively. The Revolving Credit Facility also provides for a feature that allows us, under certain circumstances, to increase the overall size of the Revolving Credit Facility to a maximum of \$3.1 billion. The interest rate charged on the Revolving Credit Facility is based on an applicable spread of either 1.75% or 1.875% over LIBOR or 0.75% or 0.875% over an “alternate base rate” (as defined in the agreements governing the Revolving Credit Facility), in each case, determined monthly based on the total amount of the borrowing base relative to the total commitments of the Revolving Credit Facility and other debt, if any, secured by the same collateral as the Revolving Credit Facility. As of December 31, 2018, the interest rate in effect was LIBOR plus 1.75%. We are also required to pay a letter of credit fee of either 2.00% or 2.125% per annum on letters of credit issued, determined monthly based on the total amount of the borrowing base relative to the total commitments of the Revolving Credit Facility and other debt, if any, secured by the same collateral as the Revolving Credit Facility. Additionally, we are required to pay a commitment fee of 0.375% per annum on any unused portion of the Revolving Credit Facility. As of December 31, 2018, there was \$1.1 billion outstanding under the Revolving Credit Facility and we were in compliance in all material respects with the terms of the Revolving Credit Facility.

#### Revolving Funding Facility

Our consolidated subsidiary, Ares Capital CP Funding LLC (“Ares Capital CP”) is party to a revolving funding facility (as amended, the “Revolving Funding Facility”), that allows Ares Capital CP to borrow up to \$1.0 billion at any one time outstanding. The Revolving Funding Facility is secured by all of the assets held by, and the membership interest

in, Ares Capital CP. The end of the reinvestment period and the stated maturity date for the Revolving Funding Facility are January 3, 2022 and January 3, 2024, respectively. The interest rate charged on the Revolving Funding Facility is based on LIBOR plus 2.00% per annum or a “base rate” (as defined in the agreements governing the Revolving Funding Facility) plus 1.00% per annum. Ares Capital CP is also required to pay a commitment fee of between 0.50% and 1.50% per annum depending on the size of the unused portion of the Revolving Funding Facility. As of December 31, 2018, there was \$520 million outstanding under the Revolving Funding Facility and we and Ares Capital CP were in compliance in all material respects with the terms of the Revolving Funding Facility.



### SMBC Funding Facility

Our consolidated subsidiary, Ares Capital JB Funding LLC (“ACJB”), is party to a revolving funding facility (as amended, the “SMBC Funding Facility”), that allows ACJB to borrow up to \$400 million at any one time outstanding. The SMBC Funding Facility is secured by all of the assets held by ACJB. The end of the reinvestment period and the stated maturity date for the SMBC Funding Facility are September 14, 2019 and September 14, 2024, respectively. The reinvestment period and the stated maturity date are both subject to two one-year extensions by mutual agreement. The interest rate charged on the SMBC Funding Facility is based on an applicable spread of either 1.75% or 2.00% over LIBOR or 0.75% or 1.00% over a “base rate” (as defined in the agreements governing the SMBC Funding Facility), in each case, determined monthly based on the amount of the average borrowings outstanding under the SMBC Funding Facility. As of December 31, 2018, the interest rate in effect was LIBOR plus 1.75%. Additionally, ACJB is required to pay a commitment fee of between 0.35% and 0.875% per annum depending on the size of the unused portion of the SMBC Funding Facility. As of December 31, 2018, there was \$245 million outstanding under the SMBC Funding Facility and we and ACJB were in compliance in all material respects with the terms of the SMBC Funding Facility.

### Convertible Unsecured Notes

We have issued \$300 million in aggregate principal amount of unsecured convertible notes that mature on January 15, 2019 (the “2019 Convertible Notes”) and \$388 million in aggregate principal amount of unsecured convertible notes that mature on February 1, 2022 (the “2022 Convertible Notes” and together with the 2019 Convertible Notes, the “Convertible Unsecured Notes”). The Convertible Unsecured Notes mature upon their respective maturity dates unless previously converted or repurchased in accordance with their terms. We do not have the right to redeem the Convertible Unsecured Notes prior to maturity. The 2019 Convertible Notes and the 2022 Convertible Notes bear interest at a rate of 4.375% and 3.75%, respectively, per year, payable semi-annually.

Certain key terms related to the convertible features for each of the Convertible Unsecured Notes as of December 31, 2018 are listed below.

	2019 Convertible Notes	2022 Convertible Notes	
Conversion premium	15.0	% 15.0	%
Closing stock price at issuance	\$ 17.53	\$ 16.86	
Closing stock price date	July 15, 2013	January 23, 2017	
Conversion price(1)	\$ 19.96	\$ 19.37	
Conversion rate (shares per one thousand dollar principal amount)(1)	50.0897	51.6380	
Conversion dates	July 15, 2018	August 1, 2021	

(1) Represents conversion price and conversion rate, as applicable, as of December 31, 2018, taking into account certain de minimis adjustments that will be made on the conversion date.

In certain circumstances, assuming the respective conversion dates above have not already passed, the Convertible Unsecured Notes will be convertible into cash, shares of our common stock or a combination of cash and shares of our common stock, at our election, at their respective conversion rates (listed below as of December 31, 2018) subject to customary anti-dilution adjustments and the requirements of their respective indenture (the “Convertible Unsecured Notes Indentures”). To the extent the 2019 Convertible Notes are converted, we have elected to settle with a combination of cash and shares of our common stock. Prior to the close of business on the business day immediately

preceding their respective conversion date (listed above), holders may convert their Convertible Unsecured Notes only under certain circumstances set forth in the respective Convertible Unsecured Notes Indenture. On or after their respective conversion dates until the close of business on the scheduled trading day immediately preceding their respective maturity date, holders may convert their Convertible Unsecured Notes at any time. In addition, if we engage in certain corporate events as described in their respective Convertible Unsecured Notes Indenture, holders of the Convertible Unsecured Notes may require us to repurchase for cash all or part of the Convertible Unsecured Notes at a repurchase price equal to 100% of the principal amount of the Convertible Unsecured Notes to be repurchased, plus accrued and unpaid interest through, but excluding, the required repurchase date.

In January 2018, we repaid in full the \$270 million in aggregate principal amount of unsecured convertible notes due in January 2018 (the “2018 Convertible Notes”) at par upon their maturity. See “Management’s Discussion and Analysis—Recent Developments,” as well as Note 18 for a subsequent event regarding the 2019 Convertible Notes.

## Unsecured Notes

### 2018 Notes

We had issued \$750 million in aggregate principal amount of unsecured notes, which bore interest at a rate of 4.875% per year, payable semi-annually, that matured and were fully repaid on November 30, 2018 (the “2018 Notes”).

### 2020 Notes

We have issued \$600 million in aggregate principal amount of unsecured notes, which bear interest at a rate of 3.875% per year and mature on January 15, 2020 (the “2020 Notes”). The 2020 Notes require payment of interest semi-annually, and all principal is due upon maturity. These notes are redeemable in whole or in part at any time at our option at a redemption price equal to par plus a “make whole” premium, if applicable, as determined pursuant to the indenture governing the 2020 Notes, and any accrued and unpaid interest.

### 2022 Notes

We have issued \$600 million in aggregate principal amount of unsecured notes, which bear interest at a rate of 3.625% per year and mature on January 19, 2022 (the “2022 Notes”). The 2022 Notes require payment of interest semi-annually, and all principal is due upon maturity. These notes are redeemable in whole or in part at any time at our option at a redemption price equal to par plus a “make whole” premium, if applicable, as determined pursuant to the indenture governing the 2022 Notes, and any accrued and unpaid interest.

### 2023 Notes

We have issued \$750 million in aggregate principal amount of unsecured notes, that mature on February 10, 2023 (the “2023 Notes”). The 2023 Notes bear interest at a rate of 3.500% per year, payable semi annually and all principal is due upon maturity. The 2023 Notes may be redeemed in whole or in part at any time at our option at a redemption price equal to par plus a “make whole” premium, if applicable, as determined pursuant to the indenture governing the 2023 Notes, and any accrued and unpaid interest.

### 2025 Notes

We have issued \$600 million in aggregate principal amount of unsecured notes that mature on March 1, 2025 (the “2025 Notes”). The 2025 Notes bear interest at a rate of 4.250% per year, payable semi-annually and all principal is due upon maturity. The 2025 Notes may be redeemed in whole or in part at any time at our option at a redemption price equal to par plus a “make whole” premium, if applicable, as determined pursuant to the indenture governing the 2025 Notes, and any accrued and unpaid interest.

### 2047 Notes

As part of the Allied Acquisition, we assumed \$230 million in aggregate principal amount of unsecured notes which bear interest at a rate of 6.875% and mature on April 15, 2047 (the “2047 Notes” and together with the 2018 Notes, the 2020 Notes, the 2022 Notes, the 2023 Notes and the 2025 Notes, the “Unsecured Notes”). The 2047 Notes require payment of interest quarterly, and all principal is due upon maturity. These notes are redeemable in whole or in part at any time or from time to time at our option, at a par redemption price of \$25.00 per security plus accrued and unpaid interest.

As of December 31, 2018, we were in compliance in all material respects with the terms of the Convertible Unsecured Notes Indentures and the indentures governing the Unsecured Notes.

The Convertible Unsecured Notes and the Unsecured Notes are our senior unsecured obligations and rank senior in right of payment to any future indebtedness that is expressly subordinated in right of payment to the Convertible Unsecured Notes and the Unsecured Notes; equal in right of payment to our existing and future unsecured indebtedness that is not expressly subordinated; effectively junior in right of payment to any of our secured indebtedness (including existing unsecured indebtedness that we later secure) to the extent of the value of the assets securing such indebtedness; and structurally junior to all existing and future indebtedness (including trade payables) incurred by our subsidiaries, financing vehicles or similar facilities.

See Note 5 to our consolidated financial statements for the year ended December 31, 2018 for more information on our debt obligations.

## CONTRACTUAL OBLIGATIONS

A summary of the maturities of our principal amounts of debt and other contractual payment obligations as of December 31, 2018 are as follows:

(in millions)	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
Revolving Credit Facility	\$1,064	\$—	\$ 17	\$ 1,047	(1)\$—
Revolving Funding Facility	520	—	—	—	(2)520
SMBC Funding Facility	245	—	—	—	245 (3)
2019 Convertible Notes	300	300	—	—	—
2022 Convertible Notes	388	—	—	388	—
2020 Notes	600	—	600	—	—
2022 Notes	600	—	—	600	—
2023 Notes	750	—	—	750	—
2025 Notes	600	—	—	—	600
2047 Notes	230	—	—	—	230
Operating lease obligations <sup>(4)</sup>	159	25	48	49	37
	\$5,456	\$ 325	\$ 665	\$ 2,834	\$ 1,632

The Revolving Credit Facility consists of a \$414 million term loan tranche with a stated maturity date of March 30, 2023 and a \$1,719 million revolving tranche. For \$1,624 million of the revolving tranche, the end of the revolving period and the stated maturity date are March 30, 2022 and March 30, 2023, respectively. For \$50 million of the revolving tranche, the end of the revolving period and the stated maturity date are January 4, 2021 and January 4, 2022, respectively. For the remaining \$45 million of the revolving tranche, the end of the revolving period and the stated maturity date are May 4, 2019 and May 4, 2020, respectively. We are required to repay any outstanding principal amounts under such revolving tranche on a monthly basis equal to 1/12th of the outstanding principal amount at the end of the revolving period.

As of December 31, 2018, the end of the reinvestment period for the Revolving Funding Facility was January 3, 2022. Subsequent to the end of this reinvestment period and prior to the stated maturity date of January 3, 2024, any principal proceeds from sales and repayments of loan assets held by Ares Capital CP will be used to repay the aggregate principal amount outstanding.

As of December 31, 2018, the end of the reinvestment period for the SMBC Funding Facility was September 14, 2019. Subsequent to the end of this reinvestment period and prior to the stated maturity date of September 14, 2024, any principal proceeds from sales and repayments of loan assets held by ACJB will be used to repay the aggregate principal amount outstanding.

We are obligated under a number of operating leases and subleases to pay for office spaces with terms ranging from less than one year to more than 5 years. See Note 7 to our consolidated financial statements for the year ended December 31, 2018 for more information on our lease obligations.

## OFF BALANCE SHEET ARRANGEMENTS

We have various commitments to fund investments in our portfolio, as described below.

As of December 31, 2018 and 2017, we had the following commitments to fund various revolving and delayed draw senior secured and subordinated loans, including commitments to fund which are at (or substantially at) our discretion:

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(in millions)	As of December 31,	
	2018	2017
Total revolving and delayed draw loan commitments	\$1,915	\$881
Less: drawn commitments	(377 )	(201 )
Total undrawn commitments	1,538	680
Less: commitments substantially at our discretion	(6 )	(11 )
Less: unavailable commitments due to borrowing base or other covenant restrictions	—	—
Total net adjusted undrawn revolving and delayed draw loan commitments	\$1,532	\$669

Included within the total revolving and delayed draw loan commitments as of December 31, 2018 and 2017 were delayed draw loan commitments totaling \$627 million and \$251 million, respectively. Our commitment to fund delayed draw loans is triggered upon the satisfaction of certain pre-negotiated terms and conditions. Generally, the most significant and uncertain term requires the borrower to satisfy a specific use of proceeds covenant. The use of proceeds covenant typically requires the borrower to use the additional loans for the specific purpose of a permitted acquisition or permitted investment, for example. In addition to the use of proceeds covenant, the borrower is generally required to satisfy additional negotiated covenants (including specified leverage levels).

Also included within the total revolving and delayed draw loan commitments as of December 31, 2018 were commitments to issue up to \$248 million in letters of credit through a financial intermediary on behalf of certain portfolio companies. As of December 31, 2018, we had \$26 million in letters of credit issued and outstanding under these commitments on behalf of the portfolio companies. For all these letters of credit issued and outstanding, we would be required to make payments to third parties if the portfolio companies were to default on their related payment obligations. Of these letters of credit, \$23 million expire in 2019 and \$3 million expire in 2020. As of December 31, 2018, we recorded a liability of \$1 million for certain letters of credit issued and outstanding and none of the other letters of credit issued and outstanding were recorded as a liability on our balance sheet as such other letters of credit are considered in the valuation of the investments in the portfolio company.

We also have commitments to co-invest in the SDLP for our portion of the SDLP's commitments to fund delayed draw loans to certain portfolio companies of the SDLP. See "Senior Direct Lending Program" above and Note 4 to our consolidated financial statements for the year ended December 31, 2018 for more information.

As of December 31, 2018 and 2017, we were party to subscription agreements to fund equity investments in private equity investment partnerships as follows:

(in millions)	As of December 31,	
	2018	2017
Total private equity commitments	\$114	\$111
Less: funded private equity commitments	(73 )	(62 )
Total unfunded private equity commitments	41	49
Less: private equity commitments substantially our discretion	(41 )	(48 )
Total net adjusted unfunded private equity commitments	\$—	\$1

In the ordinary course of business, we may sell certain of our investments to third party purchasers. In particular, in connection with the sale of certain controlled portfolio company equity investments (as well as certain other sales), we have, and may continue to do so in the future, agreed to indemnify such purchasers for future liabilities arising from the investments and the related sale transaction. Such indemnification provisions have given rise to liabilities in the past and may do so in the future.

In addition, in the ordinary course of business, we may guarantee certain obligations in connection with our portfolio companies (in particular, certain controlled portfolio companies). Under these guarantee arrangements, payments may be required to be made to third parties if such guarantees are called upon or if the portfolio companies were to default on their related obligations, as applicable.



## RECENT DEVELOPMENTS

In January 2019, we repaid in full the \$300 million in aggregate principal amount of the 2019 Convertible Notes upon their maturity. The 2019 Convertible Notes bore interest at a rate of 4.375% per year, payable semi-annually.

In February 2019, our board of directors authorized an amendment to our stock repurchase program to (a) increase the total authorization under the program from \$300 million to \$500 million and (b) extend the expiration date of the program from February 28, 2019 to February 28, 2020. Under the stock repurchase program, we may repurchase up to \$500 million in the aggregate of our outstanding common stock in the open market at a price per share that meets certain thresholds below our net asset value per share, in accordance with the guidelines specified in Rule 10b-18 of the Exchange Act. The timing, manner, price and amount of any share repurchases will be determined by us, in our discretion, based upon the evaluation of economic and market conditions, stock price, applicable legal and regulatory requirements and other factors.

From January 1, 2019 through February 7, 2019, we made new investment commitments of approximately \$623 million, of which \$577 million were funded. Of these new commitments, 45% were in first lien senior secured loans, 40% were in second lien senior secured loans, 13% were in the subordinated certificates of the SDLP and 2% were in preferred equity securities. Of the approximately \$623 million of new investment commitments, 98% were floating rate and 2% fixed rate. The weighted average yield of debt and other income producing securities funded during the period at amortized cost was 10.0%. We may seek to sell all or a portion of these new investment commitments, although there can be no assurance that we will be able to do so.

From January 1, 2019 through February 7, 2019, we exited approximately \$469 million of investment commitments. Of the total investment commitments exited, 74% were first lien senior secured loans and 26% were second lien senior secured loans. Of the approximately \$469 million of exited investment commitments, 100% were floating rate. The weighted average yield of debt and other income producing securities exited or repaid during the period at amortized cost was 9.0% and the weighted average yield on total investments exited or repaid during the period at amortized cost was 9.0%. On the approximately \$469 million of investment commitments exited from January 1, 2019 through February 7, 2019, we recognized total net realized gains of approximately \$2 million.

In addition, as of February 7, 2019, we had an investment backlog and pipeline of approximately \$1,435 million and \$150 million, respectively. Investment backlog includes transactions approved by our investment adviser's investment committee and/or for which a formal mandate, letter of intent or a signed commitment have been issued, and therefore we believe are likely to close. Investment pipeline includes transactions where due diligence and analysis are in process, but no formal mandate, letter of intent or signed commitment have been issued. The consummation of any of the investments in this backlog and pipeline depends upon, among other things, one or more of the following: satisfactory completion of our due diligence investigation of the prospective portfolio company, our acceptance of the terms and structure of such investment and the execution and delivery of satisfactory transaction documentation. In addition, we may sell all or a portion of these investments and certain of these investments may result in the repayment of existing investments. We cannot assure you that we will make any of these investments or that we will sell all or any portion of these investments.

## CRITICAL ACCOUNTING POLICIES

The preparation of our consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. Changes in the economic environment, financial markets, and any other parameters used in determining such estimates could cause actual results to differ. Our critical accounting policies, including those relating to the valuation of our investment portfolio, are described below. The critical accounting policies should be read in connection with our risk factors as disclosed in "Item 1A. Risk Factors." See Note 2 to our consolidated financial statements for the year ended December 31, 2018 for more information on

our critical accounting policies.

#### Investments

Investment transactions are recorded on the trade date. Realized gains or losses are measured by the difference between the net proceeds from the repayment or sale and the amortized cost basis of the investment using the specific identification method without regard to unrealized gains or losses previously recognized, and include investments charged off during the period, net of recoveries. Unrealized gains or losses primarily reflect the change in investment values, including the reversal of previously recorded unrealized gains or losses when gains or losses are realized.

Investments for which market quotations are readily available are typically valued at such market quotations. In order to validate market quotations, we look at a number of factors to determine if the quotations are representative of fair value,

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including the source and nature of the quotations. Debt and equity securities that are not publicly traded or whose market prices are not readily available (i.e., substantially all of our investments) are valued at fair value as determined in good faith by our board of directors, based on, among other things, the input of our investment adviser, audit committee and independent third party valuation firms that have been engaged at the direction of our board of directors to assist in the valuation of each portfolio investment without a readily available market quotation at least once during a trailing 12 month period (with certain de minimis exceptions) and under a valuation policy and a consistently applied valuation process. The valuation process is conducted at the end of each fiscal quarter, and a portion of our investment portfolio at fair value is subject to review by an independent valuation firm each quarter. In addition, our independent registered public accounting firm obtains an understanding of, and performs select procedures relating to, our investment valuation process within the context of performing the integrated audit.

As part of the valuation process, we may take into account the following types of factors, if relevant, in determining the fair value of our investments: the enterprise value of a portfolio company (the entire value of the portfolio company to a market participant, including the sum of the values of debt and equity securities used to capitalize the enterprise at a point in time), the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business, a comparison of the portfolio company's securities to any similar publicly traded securities, changes in the interest rate environment and the credit markets, which may affect the price at which similar investments would trade in their principal markets and other relevant factors. When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, we consider the pricing indicated by the external event to corroborate our valuation.

Because there is not a readily available market value for most of the investments in our portfolio, we value substantially all of our portfolio investments at fair value as determined in good faith by our board of directors, as described herein. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments may fluctuate from period to period. Additionally, the fair value of our investments may differ significantly from the values that would have been used had a ready market existed for such investments and may differ materially from the values that we may ultimately realize. Further, such investments are generally subject to legal and other restrictions on resale or otherwise are less liquid than publicly traded securities. If we were required to liquidate a portfolio investment in a forced or liquidation sale, we could realize significantly less than the value at which we have recorded it.

In addition, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the unrealized gains or losses reflected in the valuations currently assigned.

Our board of directors undertakes a multi step valuation process each quarter, as described below:

• Our quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals responsible for the portfolio investment in conjunction with our portfolio management team.

• Preliminary valuations are reviewed and discussed with our investment adviser's management and investment professionals, and then valuation recommendations are presented to our board of directors.

• The audit committee of our board of directors reviews these valuations, as well as the input of third parties, including independent third party valuation firms who have reviewed a portion of the investments in our portfolio at fair value.

Our board of directors discusses valuations and ultimately determines the fair value of each investment in our portfolio without a readily available market quotation in good faith based on, among other things, the input of our investment adviser, audit committee and, where applicable, independent third party valuation firms.

Fair Value of Financial Instruments

We follow ASC 825-10, which provides companies the option to report selected financial assets and liabilities at fair value. ASC 825-10 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities and to more easily understand the effect of the company's choice to use fair value on its earnings. ASC 825-10 also requires entities to display the fair value of the selected assets and liabilities on the face of the balance sheet. We have not elected the ASC 825-10 option to report selected financial assets and liabilities at fair value. With the exception of the line items entitled "other assets" and "debt," which are

reported at amortized cost, all assets and liabilities approximate fair value on the balance sheet. The carrying value of the lines titled “interest receivable,” “receivable for open trades,” “payable for open trades,” “accounts payable and other liabilities,” “base management fees payable,” “income based fees payable,” “capital gains incentive fees payable” and “interest and facility fees payable” approximate fair value due to their short maturity.

We also follow ASC 820-10, which expands the application of fair value accounting. ASC 820-10 defines fair value, establishes a framework for measuring fair value in accordance with GAAP and expands disclosure of fair value measurements. ASC 820-10 determines fair value to be the price that would be received for an investment in a current sale, which assumes an orderly transaction between market participants on the measurement date. ASC 820-10 requires us to assume that the portfolio investment is sold in its principal market to market participants or, in the absence of a principal market, the most advantageous market, which may be a hypothetical market. Market participants are defined as buyers and sellers in the principal or most advantageous market that are independent, knowledgeable, and willing and able to transact. In accordance with ASC 820-10, we have considered its principal market as the market in which we exit our portfolio investments with the greatest volume and level of activity. ASC 820-10 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. In accordance with ASC 820-10, these inputs are summarized in the three broad levels listed below:

• Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities that we have the ability to access.

• Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

• Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

In addition to using the above inputs in investment valuations, we continue to employ the net asset valuation policy approved by our board of directors that is consistent with ASC 820-10. Consistent with our valuation policy, we evaluate the source of inputs, including any markets in which our investments are trading (or any markets in which securities with similar attributes are trading), in determining fair value. Our valuation policy considers the fact that because there is not a readily available market value for most of the investments in the our portfolio, the fair value of the investments must typically be determined using unobservable inputs.

Our portfolio investments (other than as described below in the following paragraph) are typically valued using two different valuation techniques. The first valuation technique is an analysis of the enterprise value (“EV”) of the portfolio company. Enterprise value means the entire value of the portfolio company to a market participant, including the sum of the values of debt and equity securities used to capitalize the enterprise at a point in time. The primary method for determining EV uses a multiple analysis whereby appropriate multiples are applied to the portfolio company’s EBITDA (generally defined as net income before net interest expense, income tax expense, depreciation and amortization). EBITDA multiples are typically determined based upon review of market comparable transactions and publicly traded comparable companies, if any. We may also employ other valuation multiples to determine EV, such as revenues or, in the case of certain portfolio companies in the power generation industry, kilowatt capacity. The second method for determining EV uses a discounted cash flow analysis whereby future expected cash flows of the portfolio company are discounted to determine a present value using estimated discount rates (typically a weighted average cost of capital based on costs of debt and equity consistent with current market conditions). The EV analysis is performed to determine the value of equity investments, the value of debt investments in portfolio companies where we have control or could gain control through an option or warrant security, and to determine if there is credit impairment for debt investments. If debt investments are credit impaired, an EV analysis may be used to value such debt investments; however, in addition to the methods outlined above, other methods such as a liquidation or wind-down analysis may be utilized to estimate enterprise value. The second valuation technique is a yield analysis,

which is typically performed for non-credit impaired debt investments in portfolio companies where the we do not own a controlling equity position. To determine fair value using a yield analysis, a current price is imputed for the investment based upon an assessment of the expected market yield for a similarly structured investment with a similar level of risk. In the yield analysis, we consider the current contractual interest rate, the maturity and other terms of the investment relative to the risk of the company and the specific investment. A key determinant of risk, among other things, is the leverage through the investment relative to the enterprise value of the portfolio company. As debt investments held by us are substantially illiquid with no active transaction market, we depend on primary market data, including newly funded transactions, as well as secondary market data with respect to high yield debt instruments and syndicated loans, as inputs in determining the appropriate market yield, as applicable.

For other portfolio investments such as investments in the SDLP Certificates, discounted cash flow analysis is the primary technique utilized to determine fair value. Expected future cash flows associated with the investment are discounted to determine a present value using a discount rate that reflects estimated market return requirements.

See Note 8 to our consolidated financial statements for the year ended December 31, 2018 for more information on our valuation process.

#### Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are subject to financial market risks, including changes in interest rates and the valuations of our investment portfolio.

##### Interest Rate Risk

Interest rate sensitivity refers to the change in our earnings that may result from changes in the level of interest rates. Because we fund a portion of our investments with borrowings, our net investment income is affected by the difference between the rate at which we invest and the rate at which we borrow. 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. See “Risk Factors—Risks Relating to Our Business—We are exposed to risks associated with changes in interest rates.”

As of December 31, 2018, 85% of the investments at fair value in our portfolio bore interest at variable rates, 4% bore interest at fixed rates, 10% were non-interest earning and 1% were on non-accrual status. Additionally, for the variable rate investments, 100% of these investments contained interest rate floors (representing 85% of total investments at fair value). Also, as of December 31, 2018, all the loans made through the SDLP contained interest rate floors. The Facilities all bear interest at variable rates with no interest rate floors, while the Unsecured Notes and the Convertible Unsecured Notes bear interest at fixed rates.

We regularly measure our exposure to interest rate risk. We assess interest rate risk and manage our interest rate exposure on an ongoing basis by comparing our interest rate sensitive assets to our interest rate sensitive liabilities. Based on that review, we determine whether or not any hedging transactions are necessary to mitigate exposure to changes in interest rates.

In December 2017, in connection with \$395 million of the term loan tranche of our Revolving Credit Facility, we entered into a three-year interest rate swap agreement for a total notional amount of \$395 million. Under the interest rate swap agreement, we will pay a fixed interest rate of 2.06% and receive a floating rate based on the prevailing one-month LIBOR. See Note 5 to our consolidated financial statements for the year ended December 31, 2018 for more information on the Revolving Credit Facility and see Note 6 to our consolidated financial statements for the year ended December 31, 2018 for more information on the interest rate swap.

The below sensitivity analyses do not include our collateralized loan obligation (“CLO”) equity investments. CLO equity investments are levered structures that are collateralized primarily with first lien floating rate loans that may have LIBOR floors and are levered primarily with floating rate debt that does not have a LIBOR floor. The residual cash flows available to the equity holders of the CLOs will decline as interest rates increase until interest rates surpass the LIBOR floors on the floating rate loans. However, the revenue recognized on our CLO equity investments is calculated using the effective interest method which incorporates a forward LIBOR curve in the projected cash flows. Any change to interest rates that is not in-line with the forward LIBOR curve used in the projections, in either the timing or magnitude of the change, will cause actual distributions to differ from the current projections and will impact the related revenue recognized from these investments.

Based on our December 31, 2018, balance sheet, the following table shows the annual impact on net income of base rate changes in interest rates (considering interest rate floors for variable rate instruments) assuming no changes in our investment and borrowing structure and reflecting the effect of our interest rate swap agreement discussed in the paragraph above:

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(in millions)	Interest Income	Interest Expense(1)	Net Income(2)
Basis Point Change			
Up 300 basis points	\$ 316	\$ 43	\$ 273
Up 200 basis points	\$ 214	\$ 29	\$ 185
Up 100 basis points	\$ 107	\$ 14	\$ 93
Down 100 basis points	\$(107)	\$(14)	\$(93)
Down 200 basis points	\$(188)	\$(29)	\$(159)
Down 300 basis points	\$(173)	\$(36)	\$(137)

(1) Includes the impact of the interest rate swap (discussed above) as a result of changes in interest rates.

(2) Excludes the impact of income based fees. See Note 3 to our consolidated financial statements for the year ended December 31, 2018 for more information on the income based fees.

Based on our December 31, 2017, balance sheet, the following table shows the annual impact on net income of base rate changes in interest rates (considering interest rate floors for variable rate instruments) assuming no changes in our investment and borrowing structure:

(in millions)	Interest Income	Interest Expense (1)	Net Income(2)
Basis Point Change			
Up 300 basis points	\$ 289	\$ 20	\$ 269
Up 200 basis points	\$ 192	\$ 13	\$ 179
Up 100 basis points	\$ 96	\$ 7	\$ 89
Down 100 basis points	\$(44)	\$(7)	\$(37)
Down 200 basis points	\$(37)	\$(10)	\$(27)
Down 300 basis points	\$(38)	\$(10)	\$(28)

(1) Includes the impact of the interest rate swap (discussed above) as a result of changes in interest rates.

(2) Excludes the impact of income based fees. See Note 3 to our consolidated financial statements for the year ended December 31, 2018 for more information on the income based fees.

## Item 8. Financial Statements and Supplementary Data

See the Index to Consolidated Financial Statements.

## Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

## Item 9A. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures. We maintain disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as

appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2018. Based upon that evaluation and subject to the foregoing, our principal executive officer

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and principal financial officer concluded that, as of December 31, 2018, the design and operation of our disclosure controls and procedures were effective to accomplish their objectives at the reasonable assurance level.

(b) **Management's Report on Internal Control over Financial Reporting.** Our management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of our financial reporting for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes maintaining records that in reasonable detail accurately and fairly reflect our transactions; providing reasonable assurance that transactions are recorded as necessary for preparation of our consolidated financial statements; providing reasonable assurance that receipts and expenditures of company assets are made in accordance with management authorization; and providing reasonable assurance that unauthorized acquisition, use or disposition of company assets that could have a material effect on our consolidated financial statements would be prevented or detected on a timely basis. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a material misstatement of our consolidated financial statements would be prevented or detected.

Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2018. The Company's independent registered public accounting firm, KPMG LLP, has issued an audit report on the effectiveness of the Company's internal control over financial reporting.

(c) **Attestation Report of the Registered Public Accounting Firm.** Our independent registered public accounting firm, KPMG LLP, has issued an attestation report on the effectiveness of our internal control over financial reporting which is set forth under the heading "Report of Independent Registered Public Accounting Firm" on page F-2.

(d) **Changes in Internal Control over Financial Reporting.** There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended December 31, 2018, that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

#### Item 9B. Other Information

On and effective as of February 7, 2019, our board of directors adopted our Third Amended and Restated Bylaws (the "Amended Bylaws"), which, among other things, (i) changed the voting standard for the election of directors from a majority of shares outstanding to a majority of votes cast; provided, that if the number of nominees for director exceeds the number of directors to be elected, directors will be elected by a plurality of votes cast, and (ii) added an exclusive forum provision for certain litigation and requirements for additional information to be set forth in or accompany a stockholder's notice proposing a nominee for director.

The preceding summary of the changes effected by the adoption of the Amended Bylaws is qualified in its entirety by reference to a copy of the Amended Bylaws filed as Exhibit 3.2 to this annual report on Form 10-K and incorporated by reference herein.

### PART III

#### Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item will be contained in the Company's definitive Proxy Statement for its 2019 Annual Stockholder Meeting, to be filed with the SEC within 120 days after December 31, 2018, and is incorporated herein by reference.

#### Item 11. Executive Compensation

The information required by this item will be contained in the Company's definitive Proxy Statement for its 2019 Annual Stockholder Meeting, to be filed with the SEC within 120 days after December 31, 2018, and is incorporated herein by reference.

#### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item will be contained in the Company's definitive Proxy Statement for its 2019 Annual Stockholder Meeting, to be filed with the SEC within 120 days after December 31, 2018, and is incorporated herein by reference.

#### Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item will be contained in the Company's definitive Proxy Statement for its 2019 Annual Stockholder Meeting, to be filed with the SEC within 120 days after December 31, 2018, and is incorporated herein by reference.

#### Item 14. Principal Accountant Fees and Services

The information required by this item will be contained in the Company's definitive Proxy Statement for its 2019 Annual Stockholder Meeting, to be filed with the SEC within 120 days after December 31, 2018, and is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules

The following documents are filed as part of this Annual Report:

1. Financial Statements—See the Index to Consolidated Financial Statements on Page F-1.

Financial Statement Schedules—None. We have omitted financial statement schedules because they are not required 2. or are not applicable, or the required information is shown in the financial statements or notes to the financial statements.

3. Exhibits.

Number Document

- 3.1 Articles of Amendment and Restatement, as amended(1)
- 3.2 Third Amended and Restated Bylaws, as amended\*
- 4.1 Form of Stock Certificate(2)
- 4.2 Form of Subscription Certificate(3)
- 4.3 Indenture, dated June 16, 2006, between Allied Capital Corporation and The Bank of New York, as trustee(4)
- 4.4 Form of Note under the Indenture, dated June 16, 2006, between Allied Capital Corporation and The Bank of New York, as trustee(5)
- 4.5 Third Supplemental Indenture, dated as of March 28, 2007, between Allied Capital Corporation and The Bank of New York, as trustee(5)
- 4.6 Form of 6.875% Notes due 2047(5)
- 4.7 Fourth Supplemental Indenture, dated as of April 1, 2010, among Ares Capital Corporation, Allied Capital Corporation and The Bank of New York Mellon, as trustee(6)
- 4.8 Indenture, dated as of October 21, 2010, between Ares Capital Corporation and U.S. Bank National Association, as trustee(7)
- 4.9 Fourth Supplemental Indenture, dated as of November 19, 2013, relating to the 4.875% Senior Notes due 2018, between Ares Capital Corporation and U.S. Bank National Association, as trustee(8)
- 4.10 Form of 4.875% Senior Notes due 2018(8)
- 4.11 Fifth Supplemental Indenture, dated as of November 21, 2014, relating to the 3.875% Notes due 2020, between Ares Capital Corporation and U.S. Bank National Association, as trustee(9)
- 4.12 Form of 3.875% Notes due 2020(9)
- 4.13 Sixth Supplemental Indenture, dated as of September 19, 2016, relating to the 3.625% Notes due 2022, between Ares Capital Corporation and U.S. Bank National Association, as trustee(10)
- 4.14 Form of 3.625% Notes due 2022(10)
- 4.15 Seventh Supplemental Indenture, dated as of August 10, 2017, relating to the 3.500% Notes due 2023, between Ares Capital Corporation and U.S. Bank National Association, as trustee(11)
- 4.16 Form of 3.500% Notes due 2023(11)
- 4.17 Eighth Supplemental Indenture, dated as of January 11, 2018, relating to the 4.250% Notes due 2025, between Ares Capital Corporation and U.S. Bank National Association, as trustee(12)
- 4.18 Form of 4.250% Notes due 2025(12)
- 4.19 Indenture, dated as of October 10, 2012, between Ares Capital Corporation and U.S. Bank National Association, as trustee(13)
- 4.20 Form of 4.75% Convertible Senior Notes due 2018(13)
- 4.21 Indenture, dated as of July 19, 2013, between Ares Capital Corporation and U.S. Bank National Association, as trustee(14)
- 4.22 Form of 4.375% Convertible Senior Notes due 2019(14)

- 4.23 Indenture, dated as of January 27, 2017, between Ares Capital Corporation and U.S. Bank National Association, as trustee(15)
- 4.24 Form of 3.75% Convertible Senior Notes due 2022(15)

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Number Document

- 10.1 Dividend Reinvestment Plan of Ares Capital Corporation\*
- 10.2 Restated Investment Advisory and Management Agreement, dated as of June 6, 2011, between Ares Capital Corporation and Ares Capital Management LLC(16)
- 10.3 Transaction Support and Fee Waiver Agreement, dated as of May 23, 2016, between Ares Capital Corporation and Ares Capital Management LLC(17)
- 10.4 Amended and Restated Administration Agreement, dated as of June 1, 2007, between Ares Capital Corporation and Ares Operations LLC(18)
- 10.5 Amended and Restated Custodian Agreement, dated as of May 15, 2009, between Ares Capital Corporation and U.S. Bank National Association(19)
- 10.6 Amendment No. 1, dated as of December 19, 2014, to the Amended and Restated Custodian Agreement dated as of May 15, 2009, by and among Ares Capital Corporation and U.S. Bank National Association(20)
- 10.7 Trademark License Agreement between Ares Capital Corporation and Ares Management LLC(21)
- 10.8 Form of Indemnification Agreement between Ares Capital Corporation and directors and certain officers(22)
- 10.9 Form of Indemnification Agreement between Ares Capital Corporation and members of Ares Capital Management LLC investment committee(22)
- 10.10 Amended and Restated Purchase and Sale Agreement, dated as of January 22, 2010, among Ares Capital Corporation, as seller, and Ares Capital CP Funding Holdings LLC, as purchaser(23)
- 10.11 Amendment No. 1 to Amended and Restated Purchase and Sale Agreement, dated as of June 7, 2012, among Ares Capital Corporation, as seller, and Ares Capital CP Funding Holdings LLC, as purchaser(24)
- 10.12 Second Tier Purchase and Sale Agreement, dated as of January 22, 2010, among Ares Capital CP Funding Holdings LLC, as seller, and Ares Capital CP Funding LLC, as purchaser(23)
- 10.13 Amendment No. 1 to Second Tier Purchase and Sale Agreement, dated as of June 7, 2012, among Ares Capital CP Funding Holdings LLC, as seller, and Ares Capital CP Funding LLC, as purchaser(24)
- 10.14 Amended and Restated Sale and Servicing Agreement, dated as of January 22, 2010, among Ares Capital CP Funding LLC, as borrower, Ares Capital Corporation, as servicer, Wachovia Bank, National Association, as note purchaser, U.S. Bank National Association, as trustee and collateral custodian, and Wells Fargo Securities, LLC, as agent(23)
- 10.15 Amendment No. 1 to the Amended and Restated Sale and Servicing Agreement, dated as of May 6, 2010, among Ares Capital CP Funding LLC, as borrower, Ares Capital Corporation, as servicer, Wells Fargo Bank, National Association, as successor by merger to Wachovia Bank as note purchaser, U.S. Bank, National Association, as trustee and collateral custodian, and Wells Fargo Securities LLC, as agent(25)
- 10.16 Amendment No. 2 to the Amended and Restated Sale and Servicing Agreement, dated as of January 18, 2011, among Ares Capital CP Funding LLC, as borrower, Ares Capital Corporation, as servicer, Wells Fargo Bank, National Association, as successor by merger to Wachovia Bank as note purchaser, U.S. Bank National Association, as trustee and collateral custodian, and Wells Fargo Securities, LLC, as agent(26)
- 10.17 Amendment No. 3 to the Amended and Restated Sale and Servicing Agreement, dated as of October 13, 2011, among Ares Capital CP Funding LLC, as borrower, Ares Capital Corporation, as servicer and as transferor, Wells Fargo Bank, National Association (as successor by merger to Wachovia Bank, National Association), as note purchaser, U.S. Bank National Association, as trustee, collateral custodian and bank and Wells Fargo Securities, LLC, as agent(27)
- 10.18 Amendment No. 4 to the Amended and Restated Sale and Servicing Agreement, dated as of January 18, 2012, among Ares Capital CP Funding LLC, as borrower, Ares Capital Corporation, as servicer and transferor, Wells Fargo Bank, National Association (as successor by merger to Wachovia Bank, National Association), as note purchaser, Wells Fargo Securities, LLC, as agent, and U.S. Bank National Association, as collateral custodian, trustee and bank(28)
- 10.19 Amendment No. 5 to the Amended and Restated Sale and Servicing Agreement, dated as of June 7, 2012, among Ares Capital CP Funding LLC, as borrower, Ares Capital Corporation, as servicer and transferor, Wells Fargo Bank, National Association (as successor by merger to Wachovia Bank, National Association),

as note purchaser, Wells Fargo Securities, LLC, as agent, and U.S. Bank National Association, as collateral custodian, trustee and bank(24)

10.20 Amendment No. 6 to Loan and Servicing Agreement, dated as of January 25, 2013, among Ares Capital CP Funding LLC, as borrower, Ares Capital Corporation, as servicer and transferor, Wells Fargo Securities, LLC, as agent, Wells Fargo Bank, National Association, as swingline lender, and the other lenders party thereto (29)

10.21 Omnibus Amendment, dated as of May 14, 2014, among Ares Capital CP Funding LLC, Ares Capital CP Funding Holdings LLC, Ares Capital Corporation, Wells Fargo Bank, National Association, as swingline lender and as a lender, Wells Fargo Securities, LLC, as agent, and U.S. Bank National Association, as trustee, bank and collateral custodian (amending the Loan and Servicing Agreement, dated as of January 22, 2010, the Amended and Restated Purchase and Sale Agreement, dated as of January 22, 2010, and the Second Tier Purchase and Sale Agreement, dated as of January 22, 2010)(30)



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Number	Document
<u>10.22</u>	Amendment No. 8 to the Loan and Servicing Agreement, dated as of January 3, 2017, among Ares Capital CP Funding LLC, as borrower, Ares Capital Corporation, as servicer and transferor, Wells Fargo Securities, LLC, as agent, and Wells Fargo Bank, National Association, as swingline lender, and the other lenders party thereto(31)
<u>10.23</u>	Amendment No. 10 to Loan and Servicing Agreement, dated as of October 2, 2018, among Ares Capital CP Funding LLC, Ares Capital Corporation, Wells Fargo Bank National Association, as the agent and Wells Fargo Bank, National Association, as a lender and Bank of America, N.A.(32)
<u>10.24</u>	Amendment No. 11 to Loan and Servicing Agreement, dated as of December 14, 2018, among Ares Capital CP Funding LLC, Ares Capital Corporation, Wells Fargo Bank National Association, as the agent and Wells Fargo Bank, National Association, as a lender and Bank of America, N.A.(33)
<u>10.25</u>	Ninth Amended and Restated Senior Secured Revolving Credit Agreement, dated as of October 2, 2018, among Ares Capital Corporation, the lenders party thereto, and JPMorgan Chase Bank, N.A., as administrative agent(32)
<u>10.26</u>	Loan and Servicing Agreement, dated as of January 20, 2012, among Ares Capital JB Funding LLC, as borrower, Ares Capital Corporation, as servicer and transferor, Sumitomo Mitsui Banking Corporation, as administrative agent, collateral agent and lender, and U.S. Bank National Association, as collateral custodian and bank(34)
<u>10.27</u>	Purchase and Sale Agreement, dated as of January 20, 2012, between Ares Capital JB Funding LLC, as purchaser, and Ares Capital Corporation, as seller(34)
<u>10.28</u>	Omnibus Amendment No. 1, dated as of September 14, 2012, among Ares Capital JB Funding LLC, as borrower, Ares Capital Corporation, as servicer and transferor, Sumitomo Mitsui Banking Corporation, as administrative agent, lender and collateral agent, and U.S. Bank National Association, as collateral custodian and bank (amending the Loan and Servicing Agreement, dated as of January 20, 2012, and the Purchase and Sale Agreement, dated as of January 20, 2012)(35)
<u>10.29</u>	Omnibus Amendment No. 2, dated as of December 20, 2013, among Ares Capital JB Funding LLC, as borrower, Ares Capital Corporation, as servicer and transferor, Sumitomo Mitsui Banking Corporation, as administrative agent, lender and collateral agent, and U.S. Bank National Association, as collateral custodian and bank (amending the Loan and Servicing Agreement, dated as of January 20, 2012, and the Purchase and Sale Agreement, dated as of January 20, 2012)(36)
<u>10.30</u>	Omnibus Amendment No. 3, dated as of June 30, 2015, among Ares Capital JB Funding LLC, as borrower, Ares Capital Corporation, as servicer and transferor, Sumitomo Mitsui Banking Corporation, as administrative agent, lender and collateral agent, and U.S. Bank National Association, as collateral custodian and bank (amending the Loan and Servicing Agreement, dated as of January 20, 2012, and the Purchase and Sale Agreement, dated as of January 20, 2012)(37)
<u>10.31</u>	Omnibus Amendment No. 4, dated as of August 24, 2017, among Ares Capital JB Funding LLC, as borrower, Ares Capital Corporation, as servicer and transferor, Sumitomo Mitsui Banking Corporation, as administrative agent, lender and collateral agent, and U.S. Bank National Association, as collateral custodian and bank (amending the Loan and Servicing Agreement, dated as of January 20, 2012)(38)
<u>10.32</u>	Omnibus Amendment No. 5, dated as of September 12, 2018, among Ares Capital JB Funding LLC, as borrower, Ares Capital Corporation, as servicer and transferor, Sumitomo Mitsui Banking Corporation, as administrative agent, lender and collateral agent, and U.S. Bank National Association, as collateral custodian and bank (amending the Loan and Servicing Agreement, dated as of January 20, 2012)(39)
<u>10.33</u>	Form of Underwriting Agreement for Equity Securities(40)
<u>10.34</u>	Form of Underwriting Agreement for Debt Securities(40)
<u>10.35</u>	Form of Equity Distribution Agreement(40)
<u>11.1</u>	Statement of Computation of Per Share Earnings(41)
<u>14.1</u>	Code of Ethics(42)
<u>21.1</u>	Subsidiaries of Ares Capital Corporation*
<u>31.1</u>	

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Certification by Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002\*

31.2 Certification by Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002\*

32.1 Certification by Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002\*

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\* Filed herewith

(1) Incorporated by reference to Exhibit 3.1 to the Company's Form 10-K (File No. 814-00663), for the year ended December 31, 2016, filed on February 22, 2017.

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- Incorporated by reference to Exhibit (d) to the Company's pre effective Amendment No. 2 to the Registration
- (2) Statement under the Securities Act of 1933, as amended, on Form N 2 (File No. 333 114656), filed on September 28, 2004.
- Incorporated by reference to Exhibit (d)(4) to the Company's pre effective Amendment No. 2 to the Registration
- (3) Statement under the Securities Act of 1933, as amended, on Form N-2 (File No. 333-149139), filed on April 9, 2008.
- (4) Incorporated by reference to Exhibit d.2 to Allied Capital's Registration Statement under the Securities Act of 1933, as amended, on Form N 2/A (File No. 333 133755), filed on June 21, 2006.
- Incorporated by reference to Exhibits d.8 and d.9, as applicable, to Allied Capital's post effective Amendment
- (5) No. 3 to the Registration Statement under the Securities Act of 1933, as amended, on Form N 2/A (File No. 333 133755), filed on March 28, 2007.
- (6) Incorporated by reference to Exhibit 10.1 to the Company's Form 8 K (File No. 814 00663), filed on April 7, 2010.
- (7) Incorporated by reference to Exhibit 4.1 to the Company's Form 8 K (File No. 814 00663), filed on October 22, 2010.
- (8) Incorporated by reference to Exhibits 4.1 and 4.2, as applicable, to the Company's Form 8 K (File No. 814 00663), filed on November 19, 2013.
- (9) Incorporated by reference to Exhibits 4.1 and 4.2, as applicable, to the Company's Form 8 K (File No. 814 00663), filed on November 21, 2014.
- (10) Incorporated by reference to Exhibits 4.1 and 4.2, as applicable, to the Company's Form 8-K (File No. 814-00663), filed on September 19, 2016.
- (11) Incorporated by reference to Exhibits 4.1 and 4.2, as applicable, to the Registrant's Form 8-K (File No. 814-00663), filed on August 10, 2017.
- (12) Incorporated by reference to Exhibits 4.1 and 4.2, as applicable, to the Registrant's Form 8-K (File No. 814-00663), filed on January 11, 2018.
- (13) Incorporated by reference to Exhibits 4.1 and 4.2, as applicable, to the Company's Form 8 K (File No. 814 00663), filed on October 10, 2012.
- (14) Incorporated by reference to Exhibits 4.1 and 4.2, as applicable, to the Company's Form 8 K (File No. 814 00663), filed on July 19, 2013.
- (15) Incorporated by reference to Exhibits 4.1 and 4.2, as applicable, to the Company's Form 8 K (File No. 814 00663), filed on January 27, 2017.
- (16) Incorporated by reference to Exhibit 10.1 to the Company's Form 8 K (File No. 814 00663), filed on June 8, 2011.
- (17) Incorporated by reference to Exhibit 99.1 to the Company's Form 8-K (File No. 814-00663), filed May 26, 2016.
- (18) Incorporated by reference to Exhibit 10.1 to the Company's Form 10 Q (File No. 814 00663) for the quarter ended June 30, 2007, filed on August 9, 2007.
- Incorporated by reference to Exhibit (j) to the Company's pre effective Amendment No. 1 to the Registration
- (19) Statement under the Securities Act of 1933, as amended, on Form N 2 (File No. 333 158211), filed on May 28, 2009.
- (20) Incorporated by reference to Exhibit 10.5 to the Company's Form 10 K (File No. 814 00663) for the year ended December 31, 2014, filed on February 26, 2015.
- Incorporated by reference to Exhibit 99(K)(3) to the Company's pre-effective Amendment No. 1 to the
- (21) Registration Statement under the Securities Act of 1933, as amended, on Form N-2 (File No. 333-114656), filed on September 17, 2004.
- (22) Incorporated by reference to Exhibits (k)(3) and (k)(4), as applicable, to the Company's Registration Statement under the Securities Act of 1933, as amended, on Form N 2 (File No. 333 188175), filed on April 26, 2013.
- (23) Incorporated by reference to Exhibits 10.2 through 10.4, as applicable, to the Company's Form 8 K (File No. 814 00663), filed on January 25, 2010.
- (24) Incorporated by reference to Exhibits 10.1 through 10.3, as applicable, to the Company's Form 8 K (File No. 814 0663), filed on June 8, 2012.
- (25) Incorporated by reference to Exhibit 10.5 to the Company's Form 10 Q (File No. 814 00663) for the quarter ended March 30, 2010, filed on May 10, 2010.

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- (26) Incorporated by reference to Exhibit 10.1 to the Company's Form 8 K (File No. 814 00663), filed on January 19, 2011.
- (27) Incorporated by reference to Exhibit 10.1 to the Company's Form 8 K (File No. 814 00663), filed on October 14, 2011.
- (28) Incorporated by reference to Exhibit 10.1 to the Company's Form 8 K (File No. 814 00663), filed on January 19, 2012.
- (29) Incorporated by reference to Exhibit 10.1 to the Company's Form 8 K (File No. 814 00663), filed on January 28, 2013.

- (30) Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (File No. 814-00663), filed on May 15, 2014.
- (31) Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (File No. 814-00663), filed on January 4, 2017.
- (32) Incorporated by reference to Exhibits 10.1 and 10.2, as applicable, to the Company's Form 8-K (File No. 814-00663), filed on October 3, 2018.
- (33) Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (File No. 814-00663), filed on December 17, 2018.
- (34) Incorporated by reference to Exhibits 10.1 and 10.2, as applicable, to the Company's Form 8-K (File No. 814-00663), filed on January 24, 2012.
- (35) Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (File No. 814-00663), filed on September 17, 2012.
- (36) Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (File No. 814-00663), filed on December 23, 2013.
- (37) Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (File No. 814-00663), filed on July 1, 2015.
- (38) Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (File No. 814-00663), filed on August 28, 2017.
- (39) Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (File No. 814-00663), filed on September 13, 2018.
- (40) Incorporated by reference to Exhibits (h)(1), (h)(2) and (h)(3), as applicable, to the Company's pre-effective Amendment No. 2 to the Registration Statement under the Securities Act of 1933, as amended, on Form N-2 (File No. 333-212142), filed on July 31, 2017.
- (41) Included in Note 10 to the Company's Notes to Consolidated Financial Statements filed herewith.
- (42) Incorporated by reference to Exhibit (r) to the Registrant's pre-effective Amendment No. 1 to the Registration Statement under the Securities Act of 1933, as amended, on Form N-2 (File No. 333-212142), filed on June 14, 2017.

Item 16. Form 10-K Summary

None.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

To the stockholders and board of directors

Ares Capital Corporation:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Ares Capital Corporation and subsidiaries (the “Company”), including the consolidated schedules of investments, as of December 31, 2018 and 2017, the related consolidated statements of operations, stockholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively, the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles. We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 12, 2019 expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Such procedures also included confirmation of investments owned as of December 31, 2018 by correspondence with custodians, portfolio companies or agents. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company’s auditor since 2004.

Los Angeles, California

February 12, 2019

Report of Independent Registered Public Accounting Firm

The stockholders and board of directors

Ares Capital Corporation:

Opinion on Internal Control Over Financial Reporting

We have audited Ares Capital Corporation and subsidiaries' (the "Company") internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company, including the consolidated schedules of investments, as of December 31, 2018 and 2017, and the related consolidated statements of operations, stockholders' equity, and cash flows, for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively, the "consolidated financial statements"), and our report dated February 12, 2019, expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Los Angeles, California

February 12, 2019





## ARES CAPITAL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEET

(in millions, except per share data)

	As of December	
	31,	
	2018	2017
<b>ASSETS</b>		
Investments at fair value		
Non-controlled/non-affiliate company investments	\$10,478	\$10,010
Non-controlled affiliate company investments	292	216
Controlled affiliate company investments	1,647	1,615
Total investments at fair value (amortized cost of \$12,754 and \$11,905, respectively)	12,417	11,841
Cash and cash equivalents	296	316
Interest receivable	91	93
Receivable for open trades	12	1
Other assets	79	96
Total assets	\$12,895	\$12,347
<b>LIABILITIES</b>		
Debt	\$5,214	\$4,854
Base management fees payable	45	44
Income based fees payable	36	27
Capital gains incentive fees payable	112	79
Accounts payable and other liabilities	99	181
Interest and facility fees payable	64	64
Payable for open trades	25	—
Total liabilities	5,595	5,249
Commitments and contingencies (Note 7)		
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, par value \$0.001 per share, 600 common shares authorized; 426 and 426 common shares issued and outstanding, respectively	—	—
Capital in excess of par value	7,173	7,192
Accumulated undistributed (overdistributed) earnings	127	(94 )
Total stockholders' equity	7,300	7,098
Total liabilities and stockholders' equity	\$12,895	\$12,347
NET ASSETS PER SHARE	\$17.12	\$16.65

See accompanying notes to consolidated financial statements.

ARES CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF OPERATIONS

(in millions, except per share data)

	For the Years Ended December 31,		
	2018	2017	2016
<b>INVESTMENT INCOME:</b>			
From non-controlled/non-affiliate company investments:			
Interest income from investments (excluding payment-in-kind (“PIK”) interest)	\$834	\$711	\$515
PIK interest income from investments	42	42	34
Capital structuring service fees	130	95	90
Dividend income	35	26	35
Other income	38	19	14
Total investment income from non-controlled/non-affiliate company investments	1,079	893	688
From non-controlled affiliate company investments:			
Interest income from investments (excluding PIK interest)	16	13	12
PIK interest income from investments	4	4	4
Capital structuring service fees	—	—	1
Dividend income	4	1	—
Total investment income from non-controlled affiliate company investments	24	18	17
From controlled affiliate company investments:			
Interest income from investments (excluding PIK interest)	123	162	238
PIK interest income from investments	22	19	3
Capital structuring service fees	13	10	8
Dividend income	58	49	40
Other income	18	9	18
Total investment income from controlled affiliate company investments	234	249	307
Total investment income	1,337	1,160	1,012
<b>EXPENSES:</b>			
Interest and credit facility fees	240	225	186
Base management fees	180	171	137
Income based fees	169	134	123
Capital gains incentive fees	33	41	(5 )
Administrative fees	13	12	14
Professional fees and other costs related to the American Capital Acquisition	3	45	15
Other general and administrative	26	32	27
Total expenses	664	660	497
Waiver of income based fees	(40 )	(30 )	—
Total expenses, net of waiver of income based fees	624	630	497
NET INVESTMENT INCOME BEFORE INCOME TAXES	713	530	515
Income tax expense, including excise tax	19	19	21
NET INVESTMENT INCOME	694	511	494
<b>REALIZED AND UNREALIZED GAINS (LOSSES) ON INVESTMENTS, FOREIGN CURRENCY AND OTHER TRANSACTIONS:</b>			
Net realized gains (losses):			
Non-controlled/non-affiliate company investments	90	(56 )	66
Non-controlled affiliate company investments	—	—	14
Controlled affiliate company investments	316	100	30
Foreign currency and other transactions	13	(20 )	—
Net realized gains	419	24	110

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Net unrealized gains (losses):			
Non-controlled/non-affiliate company investments	(85 )	(42 )	(179 )
Non-controlled affiliate company investments	4	(2 )	14
Controlled affiliate company investments	(190 )	187	40
Foreign currency and other transactions	16	(7 )	(5 )
Net unrealized gains (losses)	(255 )	136	(130 )
Net realized and unrealized gains (losses) on investments, foreign currency and other transactions	164	160	(20 )
REALIZED LOSSES ON EXTINGUISHMENT OF DEBT	—	(4 )	—
NET INCREASE IN STOCKHOLDERS' EQUITY RESULTING FROM OPERATIONS	\$858	\$667	\$474
BASIC AND DILUTED EARNINGS PER COMMON SHARE (see Note 10)	\$2.01	\$1.57	\$1.51
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING (see Note 10)	426	425	314
See accompanying notes to consolidated financial statements.			

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ARES CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULE OF INVESTMENTS

As of December 31, 2018

(dollar amounts in millions)

Company(1)	Business Description	Investment	Interest(5)(10)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
Healthcare Services Absolute Dental Management LLC and ADM Equity, LLC	Dental services provider	First lien senior secured loan (\$19.1 par due 1/2022)		1/5/2016	\$ 19.1	\$ 11.8(2)	(14)
		First lien senior secured loan (\$5.1 par due 1/2022)		1/5/2016	5.1	3.1	(4)(14)
		Class A preferred units (4,000,000 units)		1/5/2016	4.0	—	(2)
		Class A common units (4,000,000 units)		1/5/2016	—	—	(2)
					28.2	14.9	
Acessa Health Inc. (fka HALT Medical, Inc.)	Medical supply provider	Common stock (569,823 shares)		6/22/2017	0.1	—	
ADCS Billings Intermediate Holdings, LLC (19)	Dermatology practice	First lien senior secured revolving loan (\$1.3 par due 5/2022)	10.25% (Base Rate + 4.75%/Q)	5/18/2016	1.3	1.2	(2)(15)
ADG, LLC and RC IV GEDC Investor LLC (19)	Dental services provider	First lien senior secured revolving loan (\$3.1 par due 9/2022)	7.27% (Libor + 4.75%/M)	9/28/2016	3.1	3.0	(2)(15)
		First lien senior secured revolving loan (\$8.1 par due 9/2022)	9.25% (Base Rate + 3.75%/M)	9/28/2016	8.1	7.8	(2)(15)
		Second lien senior secured loan (\$87.5 par due 3/2024)	11.88% (Libor + 9.00%/Q)	9/28/2016	87.5	77.0	(2)(15)

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		Membership units (3,000,000 units)		9/28/2016	3.0	1.0	(2)
					101.7	88.8	
Air Medical Group Holdings, Inc. and Air Medical Buyer Corp.	Emergency air medical services provider	Senior subordinated loan (\$182.7 par due 3/2026)	10.38% (Libor + 7.88%/M)	3/14/2018	182.7	182.7	(2)(15)
		Warrant to purchase up to 115,733 units of common stock (expires 3/2028)		3/14/2018	0.9	1.6	(2)
					183.6	184.3	
Alcami Corporation and ACM Holdings I, LLC (19)	Outsourced drug development services provider	First lien senior secured revolving loan (\$1.8 par due 7/2023)	6.26% (Libor + 3.75%/M)	7/12/2018	1.8	1.8	(2)(15)
		First lien senior secured revolving loan (\$1.7 par due 7/2023)	6.21% (Libor + 3.75%/M)	7/12/2018	1.7	1.7	(2)(15)
		First lien senior secured loan (\$30.1 par due 7/2025)	6.71% (Libor + 4.25%/M)	7/12/2018	30.0	29.8	(3)(15)
		Second lien senior secured loan (\$77.5 par due 7/2026)	10.51% (Libor + 8.00%/M)	7/12/2018	76.8	76.0	(2)(15)
		Common units (3,269,900 units)		7/12/2018	32.7	26.1	(2)
					143.0	135.4	
Alteon Health, LLC	Provider of physician management services	First lien senior secured loan (\$3.0 par due 9/2022)	9.02% (Libor + 6.50%/M)	5/15/2017	3.0	2.5	(2)(15)
American Academy Holdings, LLC (19)	Provider of education, training, certification, networking, and consulting services to medical coders and other healthcare professionals	First lien senior secured revolving loan (\$0.9 par due 12/2022)	9.05% (Libor + 6.25%/Q)	12/15/2017	0.9	0.9	(2)(15)
				12/15/2017	85.8	85.8	(2)(15)

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		First lien senior secured loan (\$85.8 par due 12/2022)	9.05% (Libor + 6.25%/Q)					
		First lien senior secured loan (\$92.4 par due 12/2022)	9.05% (Libor + 6.25%/Q)	12/15/2017	92.4	92.4	(3)(15)	
		Senior subordinated loan (\$79.9 par due 6/2023)	16.33% (Libor + 8.00% Cash, 6.00% PIK/Q)	12/15/2017	79.9	79.9	(2)(15)	
						259.0	259.0	
Bambino CI Inc. (19)	Manufacturer and provider of single-use obstetrics products	First lien senior secured revolving loan (\$0.3 par due 12/2023)	7.93% (Libor + 5.50%/M)	10/17/2017	0.3	0.3	(2)(15)	
		First lien senior secured loan (\$2.5 par due 12/2024)	8.02% (Libor + 5.50%/M)	10/17/2017	2.5	2.5	(2)(15)	
		First lien senior secured loan (\$30.9 par due 12/2024)	8.02% (Libor + 5.50%/M)	10/17/2017	30.9	30.9	(3)(15)	

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ARES CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULE OF INVESTMENTS

As of December 31, 2018

(dollar amounts in millions)

Company(1)	Business Description	Investment	Interest(5)(10)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
					33.7	33.7	
Care Hospice, Inc (19)	Provider of hospice services	First lien senior secured revolving loan (\$0.3 par due 4/2022)	7.22% (Libor + 4.75%/M)	2/8/2018	0.3	0.3(2)(15)(18)	
CCS-CMGC Holdings, Inc. (19)	Correctional facility healthcare operator	First lien senior secured revolving loan (\$1.9 par due 10/2023)	8.02% (Libor + 5.50%/M)	10/1/2018	1.9	1.8(2)(15)(18)	
		First lien senior secured loan (\$35.0 par due 10/2025)	8.02% (Libor + 5.50%/M)	9/25/2018	34.7	34.8(15)	
					36.6	36.6	
Center for Autism and Related Disorders, LLC (19)	Autism treatment and services provider specializing in applied behavior analysis therapy	First lien senior secured revolving loan	—	11/21/2018	—	—(17)	
Comprehensive EyeCare Partners, LLC (19)	Vision care practice management company	First lien senior secured revolving loan (\$0.2 par due 2/2024)	9.00% (Base Rate + 3.50%/Q)	2/14/2018	0.2	0.2(2)(15)	
		First lien senior secured loan (\$2.4 par due 2/2024)	7.30% (Libor + 4.50%/Q)	2/14/2018	2.4	2.4(2)(15)	
		First lien senior secured loan (\$5.4 par due 2/2024)	7.30% (Libor + 4.50%/Q)	2/14/2018	5.4	5.4(2)(15)	
					8.0	8.0	
CSHM LLC (7)	Dental services provider	Class A membership units (1,979 units)		1/3/2017	—	—	
D4C Dental Brands HoldCo, Inc. and Bambino Group Holdings,	Dental services provider	First lien senior secured revolving loan (\$3.3 par due	10.75% (Base Rate + 5.25%/Q)	12/21/2016	3.3	3.3(2)(15)	



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LLC (19)		12/2022) Class A preferred units (1,000,000 units)		12/21/2016	1.0	1.3(2)		
					4.3	4.6		
Datix Bidco Limited (8)	Global healthcare software company that provides software solutions for patient safety and risk management	First lien senior secured loan (\$5.8 par due 4/2025)	7.28% (Libor + 4.50%/S)	4/27/2018	5.7	5.8(2)(15)		
DCA Investment Holding, LLC (19)	Multi-branded dental practice management	First lien senior secured revolving loan (\$0.4 par due 7/2021)	9.75% (Base Rate + 4.25%/Q)	7/2/2015	0.4	0.4(2)(15)(18)		
		First lien senior secured loan (\$18.5 par due 7/2021)	8.05% (Libor + 5.25%/Q)	7/2/2015	18.5	18.5(4)(15)		
					18.9	18.9		
Emerus Holdings, Inc. (19)	Freestanding 24-hour emergency care micro-hospitals operator	First lien senior secured revolving loan (\$3.0 par due 9/2020)	7.31% (Libor + 4.50%/Q)	3/14/2017	3.0	2.9(2)(15)		
		First lien senior secured loan (\$3.2 par due 9/2021)	7.31% (Libor + 4.50%/Q)	3/14/2017	2.9	3.1(2)(15)		
					5.9	6.0		
GHX Ultimate Parent Corporation, Commerce Parent, Inc. and Commerce Topco, LLC	On-demand supply chain automation solutions provider to the healthcare industry	Second lien senior secured loan (\$34.5 par due 6/2025)	10.81% (Libor + 8.00%/Q)	6/30/2017	34.2	34.2(2)(15)		
		Series A preferred stock (110,425 shares)	13.55% PIK (Libor + 10.75%/Q)	6/30/2017	133.5	133.5(2)(15)		
		Class A units (14,013,303 units)		6/30/2017	14.0	16.0(2)		
					181.7	184.9		
Greenphire, Inc. and RMCF III CIV XXIX, L.P	Software provider for clinical trial management	Limited partnership interest (99.90%)		12/19/2014	1.0	3.0(2)		

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Hygiene Borrower LLC (19)	Adenosine triphosphate testing technology provider	interest)					
		First lien senior secured revolving loan	—	8/26/2016	—	—	(17)
		First lien senior secured loan (\$9.5 par due 8/2022)	6.80% (Libor + 4.00%/Q)	6/29/2018	9.5	9.4	(2)(15)
		Second lien senior secured loan (\$11.1 par due 8/2023)	10.55% (Libor + 7.75%/Q)	6/29/2018	11.1	11.0	(15)

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ARES CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULE OF INVESTMENTS

As of December 31, 2018

(dollar amounts in millions)

Company(1)	Business Description	Investment	Interest(5)(10)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
		Second lien senior secured loan (\$0.6 par due 8/2023)	10.55% (Libor + 7.75%/Q)	6/29/2018	0.6	0.6(2)(15)	
		Second lien senior secured loan (\$10.0 par due 8/2023)	10.55% (Libor + 7.75%/Q)	8/26/2016	10.0	9.9(2)(15)	
		Second lien senior secured loan (\$10.7 par due 8/2023)	10.55% (Libor + 7.75%/Q)	2/27/2017	10.7	10.6(2)(15)	
					41.9	41.5	
JDC Healthcare Management, LLC (19)	Dental services provider	First lien senior secured revolving loan (\$0.8 par due 4/2022)	12.25% (Base Rate + 6.75%/Q)	4/10/2017	0.8	0.8(2)(15)	
		First lien senior secured loan (\$4.1 par due 4/2023)	10.01% (Libor + 7.75%/A)	4/10/2017	4.1	4.1(2)(15)	
		First lien senior secured loan (\$9.9 par due 4/2023)	10.27% (Libor + 7.75%/M)	4/10/2017	9.9	9.7(2)(15)	
		First lien senior secured loan (\$19.7 par due 4/2023)	10.27% (Libor + 7.75%/M)	4/10/2017	19.7	19.3(2)(15)	
					34.5	33.9	
KBHS Acquisition, LLC (d/b/a Alita Care, LLC) (19)	Provider of behavioral health services	First lien senior secured revolving loan (\$0.2 par due 3/2022)	7.38% (Libor + 5.00%/M)	3/17/2017	0.2	0.2(2)(15)	
		First lien senior secured revolving loan (\$0.3 par due 3/2022)	7.42% (Libor + 5.00%/M)	3/17/2017	0.3	0.3(2)(15)	
				3/17/2017	0.8	0.8(2)(15)	

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		First lien senior secured revolving loan (\$0.8 par due 3/2022)	7.46% (Libor + 5.00%/M)				
		First lien senior secured revolving loan (\$0.6 par due 3/2022)	7.47% (Libor + 5.00%/M)	3/17/2017	0.6	0.6	(2)(15)
		First lien senior secured revolving loan (\$0.3 par due 3/2022)	7.50% (Libor + 5.00%/M)	3/17/2017	0.3	0.3	(2)(15)
		First lien senior secured revolving loan (\$0.3 par due 3/2022)	7.43% (Libor + 5.00%/M)	3/17/2017	0.3	0.3	(2)(15)
		First lien senior secured revolving loan (\$2.1 par due 3/2022)	7.52% (Libor + 5.00%/M)	3/17/2017	2.1	2.0	(2)(15)
					4.6	4.5	
Key Surgical LLC (19)	Provider of sterile processing, operating room and instrument care supplies for hospitals	First lien senior secured loan (\$17.0 par due 6/2023)	5.75% (EURIBOR + 4.75%/Q)	6/1/2017	16.6	17.0	(2)(15)
		First lien senior secured loan (\$9.3 par due 6/2023)	7.28% (Libor + 4.75%/Q)	10/31/2018	9.3	9.3	(2)(15)
					25.9	26.3	
MB2 Dental Solutions, LLC (19)	Dental services provider	First lien senior secured revolving loan (\$2.7 par due 9/2023)	9.25% (Base Rate + 3.75%/Q)	9/29/2017	2.7	2.7	(2)(15)
		First lien senior secured loan (\$5.8 par due 9/2023)	7.57% (Libor + 4.75%/Q)	9/29/2017	5.8	5.8	(2)(15)
					8.5	8.5	
MCH Holdings, Inc. and MC Acquisition Holdings I, LLC	Healthcare professional provider	First lien senior secured loan (\$25.7 par due 1/2020)	7.96% (Libor + 5.50%/M)	7/26/2017	25.7	25.7	(2)(15)
		First lien senior secured loan	8.02% (Libor + 5.50%/M)	7/26/2017	26.2	26.2	(2)(15)

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(\$26.2 par due 1/2020)					
First lien senior secured loan	7.96% (Libor + 5.50%/M)	7/26/2017	39.6	39.6	(15)
(\$39.6 par due 1/2020)					
First lien senior secured loan	8.02% (Libor + 5.50%/M)	7/26/2017	40.5	40.5	(15)
(\$40.5 par due 1/2020)					
First lien senior secured loan	7.96% (Libor + 5.50%/M)	7/26/2017	9.0	9.0	(4)(15)
(\$9.0 par due 1/2020)					
First lien senior secured loan	8.02% (Libor + 5.50%/M)	7/26/2017	9.2	9.2	(4)(15)
(\$9.2 par due 1/2020)					
Class A units (1,438,643 shares)		1/17/2014	1.5	1.2	(2)
			151.7	151.4	

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ARES CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULE OF INVESTMENTS

As of December 31, 2018

(dollar amounts in millions)

Company(1)	Business Description	Investment	Interest(5)(10)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
MW Dental Holding Corp. (19)	Dental services provider	First lien senior secured revolving loan (\$7.0 par due 4/2021)	9.27% (Libor + 6.75%/Q)	4/12/2011	7.0	7.0(2)	(15)
		First lien senior secured loan (\$16.9 par due 4/2021)	9.27% (Libor + 6.75%/Q)	3/19/2018	16.9	16.0(2)	(15)
		First lien senior secured loan (\$104.5 par due 4/2021)	9.27% (Libor + 6.75%/Q)	4/12/2011	104.5	104.3(3)	(15)
		First lien senior secured loan (\$19.1 par due 4/2021)	9.27% (Libor + 6.75%/Q)	4/12/2011	19.1	19.4(4)	(15)
					147.5	147.5	
My Health Direct, Inc.	Healthcare scheduling exchange software solution provider	Warrant to purchase up to 4,548 shares of Series D preferred stock (expires 9/2024)		9/18/2014	—	—	(2)
New Trident Holdcorp, Inc. and Trident Holding Company, LLC	Outsourced mobile diagnostic healthcare service provider	Second lien senior secured loan (\$24.9 par due 7/2022)		8/1/2013	19.4	5.0(2)	(14)
		Second lien senior secured loan (\$78.4 par due 7/2020)		8/1/2013	67.8	—	(2)(14)
		Senior subordinated loan (\$9.1 par due 7/2020)		11/29/2017	8.8	—	(2)(14)
					96.0	5.0	
NMC Skincare Intermediate Holdings II, LLC (19)	Developer, manufacturer and marketer of skincare products	First lien senior secured loan (\$24.9 par due 10/2024)	7.27% (Libor + 4.75%/M)	10/31/2018	24.9	24.6(3)	(15)
NMN Holdings III Corp. and NMN	Provider of complex rehab technology	Partnership units (30,000 units)		11/13/2018	3.0	2.9(2)	

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Holdings LP (19)	solutions for patients with mobility loss							
NMSC Holdings, Inc. and ASP	Anesthesia management services provider	Second lien senior secured loan (\$72.8 par due 10/2023)	12.59% (Libor + 10.00%/Q)	4/19/2016	72.8	71.8	(15)	
NAPA Holdings, LLC		Class A units (25,277 units)		4/19/2016	2.5	1.2	(2)	
					75.3	72.5		
Nodality, Inc.	Biotechnology company	First lien senior secured loan (\$3.1 par due 8/2016)		11/12/2015	2.1	—	(2)(14)	
		First lien senior secured loan (\$14.7 par due 8/2016)		4/25/2014	9.7	—	(2)(14)	
		Warrant to purchase up to 3,736,255 shares of common stock (expires 3/2026)		5/1/2016	—	—	(2)	
					11.8	—		
NSM Sub Holdings Corp. (19)	Provider of customized mobility, rehab and adaptive seating systems	First lien senior secured loan (\$0.2 par due 10/2022)	6.66% (Libor + 4.25%/Q)	6/1/2018	0.2	0.2	(2)(15)	
		First lien senior secured loan (\$0.4 par due 10/2022)	6.73% (Libor + 4.25%/Q)	6/1/2018	0.4	0.4	(2)(15)	
		First lien senior secured loan (\$4.9 par due 10/2022)	7.05% (Libor + 4.25%/Q)	6/1/2018	4.9	4.9	(2)(15)	
					5.5	5.5		
nThrive, Inc. (fka Precyse Acquisition Corp.)	Provider of healthcare information management technology and services	Second lien senior secured loan (\$10.0 par due 4/2023)	12.27% (Libor + 9.75%/M)	4/20/2016	9.8	9.8	(2)(15)	
NueHealth Performance, LLC (19)	Developer, builder and manager of specialty surgical hospitals and ambulatory surgery centers	First lien senior secured loan (\$1.5 par due 9/2023)	9.02% (Libor + 6.50%/M)	9/27/2018	1.5	1.5	(2)(15)	
		First lien senior secured loan (\$10.0 par due 9/2023)	9.02% (Libor + 6.50%/M)	9/27/2018	10.0	10.0	(2)(15)	
					11.5	11.5		
OmniSYS Acquisition Corporation, OmniSYS, LLC, and OSYS	Provider of technology-enabled solutions to pharmacies	Limited liability company membership interest (1.57%)		11/21/2013	1.0	0.8	(2)	

Holdings, LLC

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ARES CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULE OF INVESTMENTS

As of December 31, 2018

(dollar amounts in millions)

Company(1)	Business Description	Investment	Interest(5)(10)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
Pathway Vet Alliance LLC (19)	Operator of freestanding veterinary hospitals	First lien senior secured loan (\$264.5 par due 12/2024)	6.98% (Libor + 4.50%/M)	12/21/2018	261.8	261.2	(15)
		Second lien senior secured loan (\$175.1 par due 12/2025)	10.98% (Libor + 8.50%/Q)	12/21/2018	175.1	173.2	(15)
		Preferred subscription units (1,507,384 units)		12/21/2018	4.9	4.9	
					441.8	440.1	
Patterson Medical Supply, Inc.	Distributor of rehabilitation supplies and equipment	Second lien senior secured loan (\$78.0 par due 8/2023)	11.03% (Libor + 8.50%/Q)	9/2/2015	76.7	67.2	(15)
PhyMED Management LLC	Provider of anesthesia services	Second lien senior secured loan (\$47.2 par due 5/2021)	11.46% (Libor + 8.75%/Q)	12/18/2015	46.9	47.2	(15)
Practice Insight, LLC (19)	Revenue cycle management provider to the emergency healthcare industry	First lien senior secured loan (\$12.4 par due 8/2022)	7.52% (Libor + 5.00%/M)	8/23/2017	12.4	12.4	(15)
Premise Health Holding Corp. and OMERS Bluejay Investment Holdings LP (19)	Provider of employer-sponsored onsite health and wellness clinics and pharmacies	First lien senior secured revolving loan (\$6.0 par due 7/2023)	6.09% (Libor + 3.50%/S)	7/10/2018	6.0	5.9	(2)(15)
		First lien senior secured loan (\$0.8 par due 7/2025)	6.55% (Libor + 3.75%/Q)	7/10/2018	0.8	0.8	(2)(15)
		First lien senior secured loan (\$20.0 par due 7/2025)	6.55% (Libor + 3.75%/Q)	7/10/2018	19.9	19.8	(15)
		Second lien senior secured loan (\$67.1 par due 7/2026)	10.30% (Libor + 7.50%/Q)	7/10/2018	66.5	66.2	(15)

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		Class A units (9,775 units)		7/10/2018	9.8	9.8(2)	
					103.0	102.4	
ProVation Medical, Inc.	Provider of documentation and coding software for GI physicians	First lien senior secured loan (\$13.0 par due 3/2024)	9.42% (Libor + 7.00%/Q)	3/9/2018	12.8	13.0(15)	
RecoveryDirect Acquisition, L.L.C. (19)	Outpatient physical therapy provider	First lien senior secured loan (\$6.9 par due 1/2024)	6.77% (Libor + 4.25%/M)	1/3/2018	6.9	6.9(2)(15)	
		First lien senior secured loan (\$14.8 par due 1/2024)	6.77% (Libor + 4.25%/M)	1/3/2018	14.8	14.8(15)	
		First lien senior secured loan (\$19.8 par due 1/2024)	6.77% (Libor + 4.25%/M)	1/3/2018	19.8	19.8(15)	
					41.5	41.5	
Respocardia, Inc.	Developer of implantable therapies to improve cardiovascular health	Warrant to purchase up to 99,094 shares of Series C preferred stock (expires 6/2022)		6/28/2012	—	—(2)	
Salter Labs (19)	Developer, manufacturer and supplier of consumable products for medical device customers	First lien senior secured revolving loan (\$0.6 par due 3/2020)	6.76% (Libor + 4.25%/Q)	2/8/2018	0.6	0.6(2)(15)(18)	
		First lien senior secured revolving loan (\$0.4 par due 3/2020)	7.05% (Libor + 4.25%/Q)	2/8/2018	0.4	0.4(2)(15)(18)	
					1.0	1.0	
SCSG EA Acquisition Company, Inc. (19)	Provider of outsourced clinical services to hospitals and health systems	First lien senior secured revolving loan	—	9/1/2017	—	—(17)	
SiroMed Physician Services, Inc. and SiroMed Equity Holdings, LLC (19)	Outsourced anesthesia provider	First lien senior secured loan (\$17.4 par due 3/2024)	7.55% (Libor + 4.75%/Q)	3/26/2018	17.4	17.3(15)	
		Common units (171,784 units)		3/26/2018	4.6	3.2(2)	
					22.0	20.3	
SM Wellness Holdings, Inc. and	Breast cancer screening provider	First lien senior secured loan	8.02% (Libor + 5.50%/M)	8/1/2018	0.7	0.7(2)(15)	

SM Holdco, Inc.  
(19)

	(\$0.7 par due 8/2024)				
	First lien senior secured loan	8.02% (Libor + 5.50%/M)	8/1/2018	7.1	7.1(2)(15)
	(\$7.1 par due 8/2024)				
	Series A preferred stock (44,975 shares)	13.05% (Libor + 10.25%/Q)	8/1/2018	47.4	47.4(2)(15)
	Series A units (7,475 units)		8/1/2018	7.5	0.1(2)

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ARES CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULE OF INVESTMENTS

As of December 31, 2018

(dollar amounts in millions)

Company(1)	Business Description	Investment	Interest(5)(10)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
		Series B units (747,500 units)		8/1/2018	—	7.4(2)	
					62.7	62.7	
Synergy HomeCare Franchising, LLC and NP/Synergy Holdings, LLC (19)	Franchisor of private-pay home care for the elderly	First lien senior secured loan (\$16.0 par due 4/2024)	8.55% (Libor + 5.75%/Q)	4/2/2018	16.0	16.0(2)	(15)
		Common units (550 units)		4/2/2018	0.6	0.7	
					16.6	16.7	
Teligent, Inc. (19)	Pharmaceutical company that develops, manufactures and markets injectable pharmaceutical products	Second lien senior secured loan (\$18.3 par due 6/2024)	13.25% (Base Rate + 7.75%/Q)	12/13/2018	18.3	18.4(2)	(15)
		Second lien senior secured loan (\$45.5 par due 6/2024)	11.53% (Libor + 8.75%/Q)	12/13/2018	45.5	45.0(2)	(15)
					63.8	63.1	
TerSera Therapeutics LLC	Acquirer and developer of specialty therapeutic pharmaceutical products	First lien senior secured loan (\$2.2 par due 3/2024)	8.06% (Libor + 5.25%/Q)	7/12/2018	2.2	2.2(2)	(15)
		First lien senior secured loan (\$2.2 par due 3/2024)	8.05% (Libor + 5.25%/Q)	7/12/2018	2.2	2.2(2)	(15)
		First lien senior secured loan (\$2.1 par due 3/2023)	8.05% (Libor + 5.25%/Q)	9/27/2018	2.1	2.1(2)	(15)
		First lien senior secured loan (\$5.2 par due 3/2023)	8.05% (Libor + 5.25%/Q)	5/3/2017	5.2	5.2(4)	(15)
					11.7	11.7	
U.S. Anesthesia Partners, Inc.	Anesthesiology service provider	Second lien senior secured loan (\$71.8 par	9.77% (Libor + 7.25%/M)	6/16/2017	70.9	70.4(2)	(15)

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United Digestive MSO Parent, LLC (19)	Gastroenterology physician group	due 6/2025) First lien senior secured loan (\$12.6 par due 12/2024)	7.02% (Libor + 4.50%/M)	12/14/2018	12.6	12.5(15)
Urgent Cares of America Holdings I, LLC and FastMed Holdings I, LLC (19)	Operator of urgent care clinics	Preferred units (7,696,613 units)		6/11/2015	7.7	5.4
		Series A common units (2,000,000 units)		6/11/2015	2.0	—
		Series C common units (5,288,427 units)		6/11/2015	—	—
					9.7	5.4
Urology Management Associates, LLC and JWC/UMA Holdings, L.P.	Urology private practice	First lien senior secured loan (\$9.8 par due 8/2024)	7.52% (Libor + 5.00%/M)	8/31/2018	9.7	9.8(2)(15)
		Limited partnership interests (3.64% interest)		8/31/2018	4.8	4.8(2)
					14.5	14.6
Verscend Holding Corp. (19)	Healthcare analytics solutions provider	First lien senior secured loan (\$99.8 par due 8/2025)	7.02% (Libor + 4.50%/M)	8/27/2018	99.0	97.8(15)
VistaPharm, Inc. and Vertice Pharma UK Parent Limited	Manufacturer and distributor of generic pharmaceutical products	Preferred shares (40,662 shares)		12/21/2015	0.3	0.6(8)
West Dermatology, LLC (19)	Dermatology practice platform	First lien senior secured revolving loan (\$0.7 par due 4/2022)	7.93% (Libor + 5.50%/Q)	2/8/2018	0.7	0.7(2)(15)
		First lien senior secured revolving loan (\$0.6 par due 4/2022)	8.21% (Libor + 5.50%/Q)	2/8/2018	0.6	0.6(2)(15)
		First lien senior secured revolving loan	8.31% (Libor + 5.50%/Q)	2/8/2018	3.7	3.7(2)(15)

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( $\$3.7$ par due 4/2022)				
First lien senior secured loan	7.90% (Libor + 5.50%/Q)	4/2/2018	1.4	1.4(2)(15)
( $\$1.4$ par due 4/2023)				
First lien senior secured loan	7.91% (Libor + 5.50%/Q)	4/2/2018	0.3	0.3(2)(15)
( $\$0.3$ par due 4/2023)				
First lien senior secured loan	7.94% (Libor + 5.50%/Q)	4/2/2018	0.9	0.9(2)(15)
( $\$0.9$ par due 4/2023)				
First lien senior secured loan	8.11% (Libor + 5.50%/Q)	4/2/2018	0.1	0.1(2)(15)
( $\$0.1$ par due 4/2023)				

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ARES CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULE OF INVESTMENTS

As of December 31, 2018

(dollar amounts in millions)

Company(1)	Business Description	Investment	Interest(5)(10)	Acquisition Date	Amount	Book Value	Percentage of Net Assets
		First lien senior secured loan (\$1.3 par due 4/2023)	8.21% (Libor + 5.50%/Q)	4/2/2018	1.3	1.3(2)(15)	
		First lien senior secured loan (\$0.8 par due 4/2023)	8.26% (Libor + 5.50%/Q)	4/2/2018	0.8	0.8(2)(15)	
		First lien senior secured loan (\$4.1 par due 4/2023)	8.31% (Libor + 5.50%/Q)	4/2/2018	4.1	4.1(2)(15)	
		First lien senior secured loan (\$1.3 par due 4/2023)	8.21% (Libor + 5.50%/Q)	9/5/2018	1.3	1.3(2)(15)	
		First lien senior secured loan (\$7.7 par due 4/2023)	8.31% (Libor + 5.50%/Q)	4/2/2018	7.7	7.7(2)(15)	
					22.9	22.9	
WIRB - Copernicus Group, Inc. (19)	Provider of regulatory, ethical, and safety review services for clinical research involving human subjects	First lien senior secured revolving loan	—	2/8/2018	—	— (17)	
WSHP FC Acquisition LLC (19)	Provider of biospecimen products	First lien senior secured revolving loan (\$2.5 par due 3/2024)	9.30% (Libor + 6.50%/Q)	3/30/2018	2.5	2.5(2)(15)	
		First lien senior secured	9.32% (Libor + 6.50%/Q)	3/30/2018	0.8	0.8(2)(15)	

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		revolving loan (\$0.8 par due 3/2024)						
		First lien senior secured loan (\$6.0 par due 3/2024)	9.32% (Libor + 6.50%/Q)	3/30/2018	6.0	6.0	(2)	(15)
		First lien senior secured loan (\$28.5 par due 3/2024)	9.30% (Libor + 6.50%/Q)	3/30/2018	28.5	28.5	(3)	(15)
					37.8	37.8		
					2,850	2,696.1		36.95 %
Business Services Accommodations Plus Technologies LLC and Accommodations Plus Technologies Holdings LLC (19)	Provider of outsourced crew accommodations and logistics management solutions to the airline industry	First lien senior secured loan (\$12.5 par due 5/2024)	7.62% (Libor + 5.00%/S)	5/11/2018	12.5	12.5	(2)	(15)
		Class A common units (236,358 units)		5/11/2018	4.5	6.4		
					17.0	18.9		
Achilles Acquisition LLC (19)	Benefits broker and outsourced workflow automation platform provider for brokers	First lien senior secured loan (\$16.7 par due 10/2025)	6.56% (Libor + 4.00%/M)	10/11/2018	16.7	16.7	(2)	(15)
		First lien senior secured loan (\$21.4 par due 10/2025)	6.56% (Libor + 4.00%/M)	10/11/2018	21.4	21.4	(2)	(15)
					38.1	38.0		
Blue Campaigns Intermediate Holding Corp. and Elevate Parent, Inc. (dba EveryAction) (19)	Provider of fundraising and organizing efforts and digital services to non-profits and political campaigns	First lien senior secured loan (\$27.5 par due 8/2023)	9.40% (Libor + 6.75%/Q)	8/20/2018	27.5	27.4	(2)	(15)
		Series A preferred stock (150,000 shares)		9/26/2018	1.5	1.5		



					29.0	28.9
CallMiner, Inc.	Provider of cloud-based conversational analytics solutions	Warrant to purchase up to 2,350,636 shares of Series 1 preferred stock (expires 7/2024)		7/23/2014	—	— (2)
Chesapeake Research Review, LLC and Schulman Associates Institutional Review Board, Inc. (19)	Provider of central institutional review boards over clinical trials	First lien senior secured loan (\$15.8 par due 11/2023)	8.55% (Libor + 5.75%/Q)	11/7/2017	15.8	15.8(15)
CMW Parent LLC (fka Black Arrow, Inc.)	Multiplatform media firm	Series A units (32 units)		9/11/2015	—	— (2)
Command Alkon Incorporated (19)	Software solutions provider to the ready-mix concrete industry	First lien senior secured revolving loan (\$2.9 par due 9/2022)	9.50% (Base Rate + 4.00%/M)	9/1/2017	2.9	2.9(2)(15)(18)
		First lien senior secured loan (\$20.4 par due 9/2023)	7.35% (Libor + 5.00%/M)	9/1/2017	20.4	20.4(15)

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ARES CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULE OF INVESTMENTS

As of December 31, 2018

(dollar amounts in millions)

Company(1)	Business Description	Investment	Interest(5)(10)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
		Second lien senior secured loan (\$33.8 par due 3/2024)	11.35% (Libor + 9.00%/M)	9/1/2017	33.8	33.0(15)	
					57.1	56.2	
Compusearch Software Systems, Inc.	Provider of enterprise software and services for organizations in the public sector	Second lien senior secured loan (\$51.0 par due 11/2021)	11.36% (Libor + 8.75%/Q)	1/3/2017	51.0	51.0(15)	
Compuware Parent, LLC	Web and mobile cloud performance testing and monitoring services provider	Class A-1 common stock (4,132 units)		12/15/2014	2.3	2.6(2)	
		Class B-1 common stock (4,132 units)		12/15/2014	0.5	0.5(2)	
		Class C-1 common stock (4,132 units)		12/15/2014	0.3	0.3(2)	
		Class A-2 common stock (4,132 units)		12/15/2014	—	—(2)	
		Class B-2 common stock (4,132 units)		12/15/2014	—	—(2)	
		Class C-2 common stock (4,132 units)		12/15/2014	—	—(2)	
					3.1	3.4	
Directworks, Inc. and Co-Exprise Holdings, Inc.	Provider of cloud-based software solutions for direct materials sourcing and supplier management for manufacturers	First lien senior secured loan (\$1.8 par due 4/2018)		12/19/2014	1.3	0.2(2)(14)	
		Warrant to purchase up to 1,875,000 shares of Series 1 preferred		12/19/2014	—	—(2)	

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		stock (expires 12/2024)			1.3	0.2
Doxim Inc. (8)(19)	Enterprise content management provider	First lien senior secured loan (\$3.6 par due 2/2024)	8.79% (Libor + 6.00%/Q)	2/28/2018	3.6	3.6(2)(12)(15)
		First lien senior secured loan (\$10.2 par due 2/2024)	8.80% (Libor + 6.00%/Q)	2/28/2018	10.0	10.0(2)(12)(15)
					13.6	13.8
DRB Holdings, LLC (19)	Provider of integrated technology solutions to car wash operators	First lien senior secured revolving loan (\$3.3 par due 10/2023)	8.78% (Libor + 6.00%/Q)	10/6/2017	3.3	3.3(2)(15)
		First lien senior secured loan (\$23.7 par due 10/2023)	8.80% (Libor + 6.00%/Q)	10/6/2017	23.7	23.7(15)
					27.0	27.0
DTI Holdco, Inc. and OPE DTI Holdings, Inc. (19)	Provider of legal process outsourcing and managed services	First lien senior secured revolving loan (\$0.9 par due 9/2021)	6.93% (Libor + 4.50%/M)	9/23/2016	0.9	0.9(2)(15)
		First lien senior secured revolving loan (\$1.3 par due 9/2021)	6.97% (Libor + 4.50%/M)	9/23/2016	1.3	1.3(2)(15)
		Class A common stock (7,500 shares)		8/19/2014	7.5	7.4(2)
		Class B common stock (7,500 shares)		8/19/2014	—	—(2)
					9.7	9.6
Emergency Communications Network, LLC (19)	Provider of mission critical emergency mass notification solutions	First lien senior secured loan (\$25.1 par due 6/2023)	8.77% (Libor + 6.25%/M)	6/1/2017	25.0	24.4(15)
		First lien senior secured loan (\$19.7 par due 6/2023)	8.77% (Libor + 6.25%/M)	6/1/2017	19.6	19.4(15)

					44.6	43.6
EN Engineering, L.L.C. (19)	National utility services firm providing engineering and consulting services to natural gas, electric power and other energy and industrial end markets	First lien senior secured loan (\$0.3 par due 6/2021)	7.02% (Libor + 4.50%/M)	6/30/2015	0.3	0.3(2)(15)

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ARES CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULE OF INVESTMENTS

As of December 31, 2018  
(dollar amounts in millions)

Company(1)	Business Description	Investment	Interest(5)(10)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
		First lien senior secured loan (\$6.8 par due 6/2021)	7.02% (Libor + 4.50%/M)	6/30/2015	6.8	6.8(2)(15)	
					7.1	7.1	
Entertainment Partners, LLC and Entertainment Partners Canada Inc. (19)	Provider of entertainment workforce and production management solutions	First lien senior secured loan (\$1.4 par due 5/2022)	7.77% (CIBOR + 5.50%/M)	5/8/2017	1.4	1.4(2)(8)(15)	
		First lien senior secured loan (\$2.6 par due 5/2022)	7.71% (Libor + 5.50%/M)	5/8/2017	2.6	2.6(2)(8)(15)	
		First lien senior secured loan (\$2.6 par due 5/2022)	7.85% (Libor + 5.50%/M)	5/8/2017	2.6	2.6(2)(8)(15)	
		First lien senior secured loan (\$0.3 par due 5/2023)	8.34% (Libor + 5.75%/Q)	5/8/2017	0.3	0.3(2)(15)	
		First lien senior secured loan (\$26.4 par due 5/2023)	8.34% (Libor + 5.75%/Q)	5/8/2017	26.4	26.4(3)(15)	
		First lien senior secured loan (\$0.3 par due 5/2023)	8.55% (Libor + 5.75%/Q)	5/8/2017	0.3	0.3(2)(15)	
		First lien senior secured loan (\$22.0 par due 5/2023)	8.55% (Libor + 5.75%/Q)	5/8/2017	22.0	22.0(3)(15)	
		First lien senior secured loan (\$0.3 par due 5/2023)	8.59% (Libor + 5.75%/Q)	5/8/2017	0.3	0.3(2)(15)	
		First lien senior secured loan (\$26.4 par due 5/2023)	8.59% (Libor + 5.75%/Q)	5/8/2017	26.4	26.4(3)(15)	

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					82.3	82.3
Episerver Inc. and Goldcup 17308 AB (8)(19)	Provider of web content management and digital commerce solutions	First lien senior secured loan (\$27.7 par due 10/2024)	8.27% (Libor + 5.75%/M)	10/9/2018	27.7	27.4(15)
First Insight, Inc.	Software company providing merchandising and pricing solutions to companies worldwide	Warrant to purchase up to 122,827 units of Series C preferred stock (expires 3/2024)		3/20/2014	—	— (2)
Foundation Risk Partners, Corp. (19)	Full service independent insurance agency	First lien senior secured loan (\$7.8 par due 11/2023)	7.10% (Libor + 4.75%/M)	11/10/2017	7.8	7.8(2)(15)
		First lien senior secured loan (\$1.0 par due 11/2023)	7.17% (Libor + 4.75%/Q)	8/9/2018	1.0	1.0(2)(15)
		First lien senior secured loan (\$3.4 par due 11/2023)	7.34% (Libor + 4.75%/Q)	8/9/2018	3.4	3.4(2)(15)
		First lien senior secured loan (\$5.2 par due 11/2023)	7.21% (Libor + 4.75%/Q)	8/9/2018	5.2	5.2(2)(15)
		First lien senior secured loan (\$22.3 par due 11/2023)	7.10% (Libor + 4.75%/M)	11/10/2017	22.3	22.3(15)
		Second lien senior secured loan (\$3.0 par due 11/2024)	10.92% (Libor + 8.50%/Q)	8/9/2018	3.0	3.0(2)(15)
		Second lien senior secured loan (\$12.4 par due 11/2024)	11.09% (Libor + 8.50%/Q)	8/9/2018	12.4	12.4(15)
		Second lien senior secured loan (\$19.1 par due 11/2024)	10.96% (Libor + 8.50%/Q)	8/9/2018	19.1	19.4(15)
		Second lien senior secured loan (\$27.5 par due 11/2024)	10.85% (Libor + 8.50%/M)	11/10/2017	27.5	27.6(15)
					101.7	101.7
Genesis Acquisition Co. and Genesis	Child care management software and services provider	First lien senior secured loan (\$5.5 par due	6.52% (Libor + 4.00%/M)	7/31/2018	5.5	5.4(2)(15)

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<p>7/2024)</p> <p>Second lien</p> <p>senior secured loan (\$25.8 par due 7/2025)</p> <p>Class A common stock (8 shares)</p>	<p>10.02% (Libor + 7.50%/M)</p>	<p>7/31/2018</p> <p>7/31/2018</p>	<p>25.8</p> <p>0.8</p> <p>32.1</p>	<p>25.4(15)</p> <p>0.8(2)</p> <p>31.6</p>
<p>GTCR-Ultra Holdings III, LLC and GTCR-Ultra Holdings LLC (19)</p> <p>Provider of payment processing and merchant acquiring solutions</p>	<p>First lien senior secured loan (\$6.5 par due 8/2024)</p> <p>7.77% (Libor + 5.25%/M)</p>	<p>12/31/2018</p> <p>8/1/2017</p> <p>8/1/2017</p>	<p>6.5</p> <p>0.9</p> <p>—</p> <p>7.4</p>	<p>6.5(2)(15)</p> <p>1.3(2)</p> <p>— (2)</p> <p>7.8</p>

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ARES CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULE OF INVESTMENTS

As of December 31, 2018

(dollar amounts in millions)

Company(1)	Business Description	Investment	Interest(5)(10)	Acquisition Date	Amortized Cost	Fixed Value	Percentage of Net Assets
HAI Acquisition Corporation and Aloha Topco, LLC (19)	Professional employer organization offering human resources, compliance and risk management services	First lien senior secured loan (\$66.2 par due 11/2024)	8.59% (Libor + 6.00%/Q)	11/1/2017	66.2	65.6(15)	
		Class A units (16,980 units)		11/1/2017	1.7	1.8(2)	
					67.9	67.4	
Help/Systems Holdings, Inc. (19)	Provider of IT operations management and cybersecurity software	First lien senior secured revolving loan (\$1.0 par due 3/2023)	6.27% (Libor + 3.75%/M)	3/29/2018	1.0	1.0(2)(15)	
IfByPhone Inc.	Voice-based marketing automation software provider	Warrant to purchase up to 124,300 shares of Series C preferred stock (expires 10/2022)		10/15/2012	0.1	0.1(2)	
Implementation Management Assistance, LLC (19)	Revenue cycle consulting firm to the healthcare industry	First lien senior secured revolving loan (\$5.5 par due 12/2023)	9.00% (Base Rate + 3.50%/Q)	12/13/2017	5.5	5.5(2)(15)	
		First lien senior secured loan (\$17.0 par due 12/2023)	7.30% (Libor + 4.50%/Q)	12/13/2017	17.0	16.8(15)	
					22.5	22.3	
Infinite Electronics, Inc. (19)	Manufacturer and distributor of radio frequency and microwave electronic components	First lien senior secured revolving loan	—	7/2/2018	—	—(17)	
		First lien senior secured loan (\$10.3 par due 7/2025)	6.52% (Libor + 4.00%/M)	7/2/2018	10.3	10.2(15)	
					10.3	10.2	
Infogix, Inc. and Infogix Parent	Enterprise data analytics and integrity software	Series A preferred stock		1/3/2017	2.5	2.5	



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Corporation (19)	solutions provider	(2,475 shares) Common stock (1,297,768 shares)		1/3/2017	—	—	
					2.5	2.5	
Inmar, Inc.	Technology-driven solutions provider for retailers, wholesalers and manufacturers	Second lien senior secured loan (\$28.3 par due 5/2025)	10.52% (Libor + 8.00%/M)	4/25/2017	27.9	28.0	(15)
InterVision Systems, LLC and InterVision Holdings, LLC	Provider of cloud based IT solutions, infrastructure and services	First lien senior secured loan (\$16.4 par due 5/2022)	10.55% (Libor + 8.08%/M)	5/31/2017	16.4	15.0	(15)
		First lien senior secured loan (\$24.7 par due 5/2022)	10.24% (Libor + 7.72%/M)	5/31/2017	24.7	24.0	(15)
		First lien senior secured loan (\$10.0 par due 5/2022)	10.24% (Libor + 7.72%/M)	5/31/2017	10.0	9.7	(4)(15)
		Class A membership units (1,000 units)		5/31/2017	1.0	0.6	
					52.1	50.2	
iParadigms Holdings, LLC	Anti-plagiarism software provider to the education market	Second lien senior secured loan (\$32.5 par due 7/2022)	10.05% (Libor + 7.25%/Q)	1/3/2017	32.0	32.0	(15)
iPipeline, Inc., Internet Pipeline, Inc., iPipeline Limited and iPipeline Holdings, Inc. (19)	Provider of SaaS-based software solutions to the insurance and financial services industry	First lien senior secured loan (\$11.2 par due 8/2022)	7.28% (Libor + 4.75%/M)	12/18/2017	11.8	11.0	(8)(15)
		First lien senior secured loan (\$7.4 par due 8/2022)	7.28% (Libor + 4.75%/M)	6/15/2017	7.4	7.4	(2)(15)
		First lien senior secured loan (\$9.0 par due 8/2022)	7.28% (Libor + 4.75%/M)	9/15/2017	9.0	9.0	(2)(15)
		First lien senior secured loan (\$16.2 par due 8/2022)	7.28% (Libor + 4.75%/M)	8/4/2015	16.2	16.0	(3)(15)
		First lien senior secured loan (\$14.5 par due	7.28% (Libor + 4.75%/M)	8/4/2015	14.5	14.0	(4)(15)

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8/2022)

Preferred stock  
(1,100 shares)

8/4/2015 1.1 4.3(2)

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ARES CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULE OF INVESTMENTS

As of December 31, 2018

(dollar amounts in millions)

Company(1)	Business Description	Investment	Interest(5)(10)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
		Common stock (668,781 shares)		8/4/2015	—	— (2)	
					60.0	62.6	
IQMS	Provider of enterprise resource planning and manufacturing execution software for small and mid-sized manufacturers	First lien senior secured loan (\$22.5 par due 3/2022)	12.75% (Base Rate + 7.25%/Q)	3/28/2017	22.5	22.6 (15)	
		First lien senior secured loan (\$14.9 par due 3/2022)	12.75% (Base Rate + 7.25%/Q)	3/28/2017	14.9	14.0 (15)	
					37.4	37.4	
IRI Holdings, Inc., IRI Group Holdings, Inc. and IRI Parent, L.P.	Market research company focused on the consumer packaged goods industry	First lien senior secured loan (\$79.0 par due 11/2025)	7.02% (Libor + 4.50%/M)	11/30/2018	78.2	77.0 (15)	
		Second lien senior secured loan (\$86.8 par due 11/2026)	10.52% (Libor + 8.00%/M)	11/30/2018	85.3	85.0 (15)	
		Series A-1 preferred shares (46,900 shares)	13.39% PIK (Libor + 10.50%/S)	11/30/2018	46.2	46.0 (15)	
		Class A-1 common units (90,500 units)		11/30/2018	9.1	9.1 (2)	
					218.8	218.5	
Kaufman, Hall & Associates, LLC (19)	Provider of specialty advisory services and software solutions to the healthcare market	First lien senior secured loan (\$25.0 par due 5/2025)	7.64% (Libor + 5.25%/M)	11/9/2018	25.0	24.0 (15)	
Labstat International Inc.	Lab testing services for nicotine containing	First lien senior	8.55% (CIBOR + 6.25%/Q)	10/19/2018	5.2	5.0 (2)(15)	

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(8)(19)	products	secured loan (\$5.0 par due 6/2024) First lien senior secured loan (\$19.2 par due 6/2024)	8.55% (CIBOR + 6.25%/Q)	6/25/2018	19.8	19.0	(15)
					25.0	24.2	
LLSC Holdings Corporation (dba Lawrence Merchandising Services) (7)	Marketing services provider	Series A preferred stock (9,000 shares)		1/3/2017	1.8	0.4	
		Common stock (1,000 shares)		1/3/2017	—	—	
					1.8	0.4	
Masergy Holdings, Inc. (19)	Provider of software-defined solutions for enterprise global networks, cyber security, and cloud communications	First lien senior secured revolving loan (\$0.2 par due 12/2021)	6.02% (Libor + 3.50%/M)	2/8/2018	0.2	0.1	(2)(15)(18)
Ministry Brands, LLC and MB Parent HoldCo, L.P. (dba Community Brands) (19)	Software and payment services provider to faith-based institutions	First lien senior secured loan (\$4.9 par due 12/2022)	6.52% (Libor + 4.00%/M)	8/22/2017	4.9	4.9	(2)(15)
		First lien senior secured loan (\$10.5 par due 12/2022)	6.52% (Libor + 4.00%/M)	4/6/2017	10.5	10.0	(15)
		First lien senior secured loan (\$14.5 par due 12/2022)	6.52% (Libor + 4.00%/M)	4/6/2017	14.4	14.0	(15)
		Second lien senior secured loan (\$16.6 par due 6/2023)	11.77% (Libor + 9.25%/M)	12/2/2016	16.6	16.0	(15)
		Second lien senior secured loan (\$17.9 par due 6/2023)	11.77% (Libor + 9.25%/M)	8/22/2017	17.9	17.0	(15)
				4/6/2017	4.7	4.7	(2)(15)

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Second lien senior secured loan (\$4.7 par due 6/2023)	11.77% (Libor + 9.25%/M)			
Second lien senior secured loan (\$7.0 par due 6/2023)	10.52% (Libor + 8.00%/M)	4/18/2018	7.0	7.0(2)(15)
Second lien senior secured loan (\$9.2 par due 6/2023)	11.77% (Libor + 9.25%/M)	4/6/2017	9.2	9.2(2)(15)
Second lien senior secured loan (\$38.6 par due 6/2023)	10.52% (Libor + 8.00%/M)	4/18/2018	38.6	38.6(2)(15)
Second lien senior secured loan (\$75.0 par due 6/2023)	11.77% (Libor + 9.25%/M)	12/2/2016	74.5	75.0(2)(15)
Second lien senior secured loan (\$15.0 par due 6/2023)	11.77% (Libor + 9.25%/M)	12/2/2016	14.9	15.0(2)(15)

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ARES CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULE OF INVESTMENTS

As of December 31, 2018  
(dollar amounts in millions)

Company(1)	Business Description	Investment	Interest(5)(10)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
		Class A units (500,000 units)		12/2/2016	5.0	6.8(2)	
					218.2	220.7	
MVL Group, Inc. (7)	Marketing research provider	Common stock (560,716 shares)		4/1/2010	—	— (2)	
NAS, LLC, Nationwide Marketing Group, LLC and Nationwide Administrative Services, Inc.	Buying and marketing services organization for appliance, furniture and consumer electronics dealers	Second lien senior secured loan (\$24.1 par due 12/2021)	11.15% (Libor + 8.75%/Q)	6/1/2015	24.1	24.4(2)	(15)
		Second lien senior secured loan (\$7.0 par due 12/2021)	11.14% (Libor + 8.75%/Q)	6/1/2015	7.0	7.0(2)	(15)
					31.1	31.1	
Novetta Solutions, LLC	Provider of advanced analytics solutions for the government, defense and commercial industries	First lien senior secured loan (\$8.6 par due 10/2022)	7.53% (Libor + 5.00%/M)	1/3/2017	8.4	8.4(2)	(15)
		Second lien senior secured loan (\$31.0 par due 10/2023)	11.03% (Libor + 8.50%/M)	1/3/2017	28.8	28.5(2)	(15)
					37.2	36.9	
NSM Insurance Group, LLC	Insurance program administrator	First lien senior secured loan (\$6.7 par due 5/2024)	7.30% (Libor + 4.50%/Q)	5/11/2018	6.7	6.7(2)	(15)
		First lien senior secured loan (\$10.2 par due 5/2024)	7.30% (Libor + 4.50%/Q)	12/3/2018	10.2	10.2(2)	(15)
		First lien senior secured loan (\$13.1 par due 5/2024)	7.30% (Libor + 4.50%/Q)	5/11/2018	13.1	13.4(3)	(15)
					30.0	30.0	
PayNearMe, Inc.	Electronic cash payment system provider	Warrant to purchase up to		3/11/2016	0.2	— (2)	

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PDI TA Holdings, Inc. (19)	Provider of enterprise management software for the convenience retail and petroleum wholesale markets	195,726 shares of Series E preferred stock (expires 3/2023)					
		First lien senior secured loan (\$5.0 par due 10/2024)	6.90% (Libor + 4.50%/Q)	4/11/2018	5.0	5.0(2)(15)	
		First lien senior secured loan (\$0.4 par due 10/2024)	7.21% (Libor + 4.50%/Q)	4/11/2018	0.4	0.4(2)(15)	
		First lien senior secured loan (\$5.1 par due 10/2024)	6.92% (Libor + 4.50%/Q)	8/25/2017	5.1	5.1(2)(15)	
		First lien senior secured loan (\$2.7 par due 10/2024)	7.04% (Libor + 4.50%/Q)	8/25/2017	2.7	2.7(2)(15)	
		First lien senior secured loan (\$23.4 par due 10/2024)	7.30% (Libor + 4.50%/Q)	8/25/2017	23.4	23.4(2)(15)	
		First lien senior secured loan (\$4.3 par due 10/2024)	6.11% (Libor + 4.50%/Q)	10/24/2018	4.3	4.3(2)(15)	
		First lien senior secured loan (\$45.0 par due 10/2024)	7.23% (Libor + 4.75%/Q)	10/24/2018	45.0	45.0(2)(15)	
		Second lien senior secured loan (\$8.2 par due 10/2025)	11.04% (Libor + 8.50%/Q)	8/25/2017	8.2	8.2(2)(15)	
		Second lien senior secured loan (\$6.5 par due 10/2025)	10.91% (Libor + 8.50%/Q)	8/25/2017	6.5	6.5(2)(15)	
Second lien senior secured loan (\$1.9 par due 10/2025)	10.98% (Libor + 8.50%/Q)	8/25/2017	1.9	1.9(2)(15)			
Second lien senior secured loan (\$23.2 par due 10/2025)	11.00% (Libor + 8.50%/Q)	8/25/2017	23.2	23.2(2)(15)			
		10/24/2018	6.4	6.4(2)(15)			

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	Second lien senior secured loan (\$6.4 par due 10/2025)	11.11% (Libor + 8.50%/Q)				
	Second lien senior secured loan (\$52.9 par due 10/2025)	10.99% (Libor + 8.50%/Q)	10/24/2018	52.9	52.02	(15)
	Second lien senior secured loan (\$16.7 par due 10/2025)	11.17% (Libor + 8.75%/Q)	4/11/2018	16.7	16.72	(15)
	Second lien senior secured loan (\$66.8 par due 10/2025)	11.21% (Libor + 8.50%/Q)	8/25/2017	66.8	66.82	(15)
				268.5	268.5	
PHL Investors, Inc., and PHL Holding Co. (7)	Mortgage services	Class A common stock (576 shares)	7/31/2012	3.8	—	(2)

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ARES CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULE OF INVESTMENTS

As of December 31, 2018

(dollar amounts in millions)

Company(1)	Business Description	Investment	Interest(5)(10)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
PHNTM Holdings, Inc. and Planview Parent, Inc.	Provider of project and portfolio management software	First lien senior secured loan (\$1.4 par due 1/2023)	7.77% (Libor + 5.25%/M)	1/27/2017	1.4	1.4	(2)(15)
		Second lien senior secured loan (\$62.0 par due 7/2023)	12.27% (Libor + 9.75%/M)	1/27/2017	61.3	62.0	(2)(15)
		Class A common shares (990 shares)		1/27/2017	1.0	1.1	(2)
		Class B common shares (168,329 shares)		1/27/2017	—	0.2	(2)
						63.7	64.7
Poplicus Incorporated	Business intelligence and market analytics platform for companies that sell to the public sector	Warrant to purchase up to 2,402,991 shares of Series C preferred stock (expires 6/2025)		6/25/2015	0.1	—	(2)
Production Resource Group, L.L.C.	Provider of rental equipment, labor, production management, scenery, and other products to various entertainment end-markets	First lien senior secured loan (\$21.0 par due 8/2024)	9.65% (Libor + 7.00%/Q)	8/21/2018	21.0	20.6	(2)(15)
		First lien senior secured loan (\$80.0 par due 8/2024)	9.65% (Libor + 7.00%/Q)	8/21/2018	80.0	78.4	(3)(15)
					101.0	99.0	
Project Alpha Intermediate Holding, Inc. and Qlik Parent, Inc.	Provider of data visualization software for data analytics	Class A common shares (7,445 shares)		8/22/2016	7.4	9.6	(2)
		Class B common shares (1,841,609 shares)		8/22/2016	0.1	0.1	(2)
					7.5	9.7	

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R2 Acquisition Corp.	Marketing services	Common stock (250,000 shares)		5/29/2007	0.3	0.2(2)
SCM Insurance Services Inc. (8)(19)	Provider of claims management, claims investigation & support and risk management solutions for the Canadian property and casualty insurance industry	First lien senior secured revolving loan (\$2.4 par due 8/2022)	7.95% (Base Rate + 4.00%/Q)	8/29/2017	2.5	2.4(2)(15)
		First lien senior secured loan (\$19.5 par due 8/2024)	7.28% (CIBOR + 5.00%/M)	8/29/2017	21.3	18.9(2)(15)
		Second lien senior secured loan (\$55.6 par due 3/2025)	11.28% (CIBOR + 9.00%/M)	8/29/2017	60.5	52.3(2)(15)
					84.3	73.6
SpareFoot, LLC (19)	PMS solutions and web services for the self-storage industry.	First lien senior secured revolving loan (\$0.3 par due 4/2023)	6.77% (Libor + 4.25%/M)	4/13/2018	0.3	0.3(2)(15)
		First lien senior secured loan (\$1.2 par due 4/2024)	6.77% (Libor + 4.25%/M)	8/31/2018	1.1	1.2(2)(15)
		First lien senior secured loan (\$4.7 par due 4/2024)	6.77% (Libor + 4.25%/M)	4/13/2018	4.6	4.7(2)(15)
		Second lien senior secured loan (\$4.2 par due 4/2025)	10.77% (Libor + 8.25%/M)	8/31/2018	4.1	4.2(2)(15)
		Second lien senior secured loan (\$6.1 par due 4/2025)	10.77% (Libor + 8.25%/M)	4/13/2018	6.0	6.1(2)(15)
					16.1	16.5
Sparta Systems, Inc., Project Silverback Holdings Corp. and Silverback Holdings, Inc. (19)	Quality management software provider	Second lien senior secured loan (\$20.0 par due 8/2025)	10.76% (Libor + 8.25%/M)	8/21/2017	19.7	17.4(2)(15)
		Series B preferred shares (10,084 shares)		8/21/2017	1.1	0.5

					20.8	17.9
Syntax USA Acquisition Corporation (8)(19)	Provider of cloud ERP hosting and consulting services for Oracle users	First lien senior secured revolving loan (\$1.8 par due 4/2021)	6.67% (Libor + 4.25%/S)	2/8/2018	1.8	1.7(2)(15)

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ARES CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULE OF INVESTMENTS

As of December 31, 2018

(dollar amounts in millions)

Company(1)	Business Description	Investment	Interest(5)(10)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
Telestream Holdings Corporation (19)	Provider of digital video tools and workflow solutions to the media and entertainment industries	First lien senior secured revolving loan (\$0.5 par due 3/2022)	10.95% (Base Rate + 5.45%/Q)	2/8/2018	0.5	0.5(2)	(15)(18)
TU BidCo, Inc. (19)	Provider of outsourced customer service management solutions and back-office support services to e-commerce, software and tech-enabled services industries	First lien senior secured loan (\$18.1 par due 10/2023)	6.80% (Libor + 4.00%/Q)	10/1/2018	18.1	18.0(2)	(15)
UL Holding Co., LLC (6)	Provider of collection and landfill avoidance solutions for food waste and unsold food products	Senior subordinated loan (\$3.2 par due 5/2020)	10.00% PIK	4/30/2012	1.1	3.2(2)	
		Senior subordinated loan (\$0.4 par due 5/2020)		4/30/2012	0.2	0.4(2)	
		Senior subordinated loan (\$6.8 par due 5/2020)	10.00% PIK	4/30/2012	2.5	6.8(2)	
		Senior subordinated loan (\$0.5 par due 5/2020)		4/30/2012	0.2	0.5(2)	
		Senior subordinated loan (\$27.1 par due 5/2020)	10.00% PIK	4/30/2012	9.9	27.0(2)	
		Senior subordinated loan (\$3.8 par due 5/2020)		4/30/2012	1.4	3.8(2)	
		Class A common units (533,351 units)		6/17/2011	5.0	0.3(2)	
		Class B-5 common units (272,834 units)		6/17/2011	2.5	0.2(2)	

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		Class C common units (758,546 units)		4/25/2008	—	—	(2)
		Warrant to purchase up to 719,044 shares of Class A units		5/2/2014	—	—	(2)
		Warrant to purchase up to 28,663 shares of Class B-1 units		5/2/2014	—	—	(2)
		Warrant to purchase up to 57,325 shares of Class B-2 units		5/2/2014	—	—	(2)
		Warrant to purchase up to 29,645 shares of Class B-3 units		5/2/2014	—	—	(2)
		Warrant to purchase up to 80,371 shares of Class B-5 units		5/2/2014	—	—	(2)
		Warrant to purchase up to 59,655 shares of Class B-6 units		5/2/2014	—	—	(2)
		Warrant to purchase up to 1,046,713 shares of Class C units		5/2/2014	—	—	(2)
					22.8	42.3	
Velocity Holdings Corp.	Hosted enterprise resource planning application management services provider	Common units (1,713,546 units)		12/13/2013	4.5	3.6	
Visual Edge Technology, Inc. (19)	Provider of outsourced office solutions with a focus on printer and copier equipment and other parts and supplies	First lien senior secured loan (\$15.7 par due 8/2022)	8.27% (Libor + 5.75%/M)	8/31/2017	15.6	15.7	(15)
		First lien senior secured loan (\$16.7 par due 8/2022)	8.27% (Libor + 5.75%/M)	8/31/2017	16.7	16.7	(15)
		Senior subordinated loan (\$56.0 par due 9/2024)	12.50% PIK	8/31/2017	52.7	56.0	(15)



ARES CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULE OF INVESTMENTS

As of December 31, 2018

(dollar amounts in millions)

Company(1)	Business Description	Investment	Interest(5)(10)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
		Warrant to purchase up to 1,816,089 shares of common stock (expires 8/2027)		8/31/2017	—	0.8 (2)	
		Warrant to purchase up to 2,070,511 shares of preferred stock (expires 8/2027)		8/31/2017	3.9	3.9 (2)	
					88.9	93.1	
VRC Companies, LLC (19)	Provider of records and information management services	First lien senior secured revolving loan (\$0.6 par due 3/2022)	9.02% (Libor + 6.50%/M)	4/17/2017	0.6	0.6 (2)(15)	
		First lien senior secured revolving loan (\$0.2 par due 3/2022)	11.00% (Base Rate + 5.50%/M)	4/17/2017	0.2	0.2 (2)(15)	
		First lien senior secured loan (\$2.3 par due 3/2023)	9.02% (Libor + 6.50%/M)	3/31/2017	2.3	2.3 (2)(15)	
		First lien senior secured loan (\$0.2 par due 3/2023)	9.11% (Libor + 6.50%/S)	9/28/2018	0.2	0.2 (2)(15)	
		First lien senior secured loan (\$5.0 par due 3/2023)	9.02% (Libor + 6.50%/S)	9/28/2018	5.0	5.0 (2)(15)	
					8.3	8.3	
WorldPay Group PLC (8)	Payment processing company	C2 shares (73,974 shares)		10/21/2015	—	— (22)	
Worldwide Facilities, LLC	Specialty insurance wholesale broker	First lien senior secured	6.77% (Libor + 4.25%/M)	5/3/2018	0.4	0.4 (2)(15)	

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(19)		revolving loan (\$0.4 par due 4/2024)						
		First lien senior secured loan (\$1.3 par due 4/2024)	7.05% (Libor + 4.25%/Q)	5/3/2018	1.3	1.2	(2)	(15)
		First lien senior secured loan (\$1.6 par due 4/2024)	7.05% (Libor + 4.25%/Q)	5/3/2018	1.6	1.6	(2)	(15)
					3.3	3.2		
XIFIN, Inc. (19)	Revenue cycle management provider to labs	First lien senior secured revolving loan	—	2/8/2018	—	—	(17)	
Zywave, Inc. (19)	Provider of software and technology-enabled content and analytical solutions to insurance brokers	First lien senior secured revolving loan (\$6.3 par due 11/2022)	7.52% (Libor + 5.00%/M)	11/17/2016	6.3	6.2	(2)	(15)
		Second lien senior secured loan (\$27.0 par due 11/2023)	11.65% (Libor + 9.00%/Q)	11/17/2016	27.0	26.5	(2)	(15)
					33.3	32.7		
					2,214.4	2,219.0	30.41	%
Consumer Products Badger Sportswear Acquisition, Inc.	Provider of team uniforms and athletic wear	Second lien senior secured loan (\$56.8 par due 3/2024)	11.51% (Libor + 9.00%/M)	9/6/2016	56.7	56.8	(2)	(15)
BRG Sports, Inc.	Designer, manufacturer and licensor of branded sporting goods	Preferred stock (2,009 shares)		1/3/2017	—	—		
		Common stock (6,566,655 shares)		1/3/2017	—	0.2		
					—	0.2		
Centric Brands Inc. (fka Differential Brands Group (19)	Designer, marketer and distributor of licensed and owned apparel	First lien senior secured loan (\$58.8 par due 10/2023)	8.51% (Libor + 6.00%/Q)	10/29/2018	58.8	58.2	(3)	(15)
		Common stock (3,077,875 shares)		10/29/2018	24.6	24.6	(2)	
					83.4	82.8		
CB Trestles OpCo, LLC (19)	Apparel retailer	First lien senior secured loan (\$26.5 par due	8.51% (Libor + 5.75%/S)	10/26/2018	26.5	26.3	(3)	(15)



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		10/2024)			
Consumer Health Parent LLC	Developer and marketer of over-the-counter cold remedy products	Preferred units (1,072 units)	12/15/2017	1.1	0.9 (2)
		Series A units (1,072 units)	12/15/2017	—	— (2)
				1.1	0.9

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ARES CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULE OF INVESTMENTS

As of December 31, 2018

(dollar amounts in millions)

Company(1)	Business Description	Investment	Interest(5)(10)	Acquisition Date	Amortized Cost	Fair Value	Percentage of Net Assets
Feradyne Outdoors, LLC and Bowhunter Holdings, LLC	Provider of branded archery and bowhunting accessories	Common units (421 units)		4/24/2014	4.2	0.2(2)	
Implus Footcare, LLC	Provider of footwear and other accessories	First lien senior secured loan (\$14.2 par due 4/2021)	9.55% (Libor + 6.75%/Q)	6/1/2017	14.2	14.2(15)	
		First lien senior secured loan (\$5.0 par due 4/2021)	9.55% (Libor + 6.75%/Q)	7/17/2018	5.0	5.0(2)(15)	
		First lien senior secured loan (\$76.4 par due 4/2021)	9.55% (Libor + 6.75%/Q)	6/1/2017	76.4	76.4(15)	
		First lien senior secured loan (\$19.3 par due 4/2021)	9.55% (Libor + 6.75%/Q)	6/1/2017	19.3	19.3(15)	
		First lien senior secured loan (\$0.2 par due 4/2021)	9.55% (Libor + 6.75%/Q)	6/30/2016	0.2	0.2(2)(15)	
					115.1	115.1	
Indra Holdings Corp.	Designer, marketer, and distributor of rain and cold weather products	First lien senior secured loan (\$10.0 par due 5/2021)	6.77% (Libor + 4.25%/M)	1/22/2018	6.8	6.2(2)(15)	
		Second lien senior secured loan (\$80.0 par due 11/2021)		5/1/2014	68.1	19.0(2)(15)	
					74.9	26.1	
Plantation Products, LLC, Seed Holdings, Inc. and Flora Parent, Inc.	Provider of branded lawn and garden products	Second lien senior secured loan (\$56.0 par due 6/2021)	9.92% (Libor + 7.39%/Q)	12/23/2014	55.9	56.0(15)	
		Second lien senior secured loan (\$10.0 par due 6/2021)	9.92% (Libor + 7.39%/Q)	12/23/2014	10.0	10.0(15)	
				12/23/2014	3.0	6.2(2)	

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		Common stock (30,000 shares)			68.9	72.2
Rug Doctor, LLC and RD Holdco Inc. (7)	Manufacturer and marketer of carpet cleaning machines	Second lien senior secured loan (\$16.9 par due 10/2019)	12.33% (Libor + 9.75%/Q)	1/3/2017	16.9	16.0(15)
		Common stock (458,596 shares)		1/3/2017	14.0	11.1
		Warrant to purchase up to 56,372 shares of common stock (expires 12/2023)		1/3/2017	—	—
					30.9	28.0
S Toys Holdings LLC (fka The Step2 Company, LLC) (7)	Toy manufacturer	Common units (1,116,879 units)		4/1/2011	—	0.4
		Class B common units (126,278,000 units)		10/30/2014	—	— (2)
		Warrant to purchase up to 3,157,895 units		4/1/2010	—	—
					—	0.4
SHO Holding I Corporation	Manufacturer and distributor of slip resistant footwear	Second lien senior secured loan (\$100.0 par due 4/2023)	11.03% (Libor + 8.50%/Q)	10/27/2015	98.5	91.0(15)
Shock Doctor, Inc. and Shock Doctor Holdings, LLC (6)	Developer, marketer and distributor of sports protection equipment and accessories	Second lien senior secured loan (\$89.4 par due 10/2021)	13.49% (Libor + 11.00%/Q)	4/22/2015	89.4	79.6(15)
		Class A preferred units (50,000 units)		3/14/2014	5.0	1.0(2)
		Class C preferred units (50,000 units)		4/22/2015	5.0	1.0(2)
					99.4	81.6
Singer Sewing Company, SVP-Singer Holdings, LLC and SVP-Singer Holdings LP (7)(19)	Manufacturer of consumer sewing machines	First lien senior secured revolving loan (\$72.6 par due 3/2023)	11.39% (Libor + 9.00%/Q)	7/26/2017	72.6	72.6