

PENNANTPARK INVESTMENT CORP
Form 10-Q
May 07, 2014
[Table of Contents](#)

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTER ENDED MARCH 31, 2014

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM _____ TO

COMMISSION FILE NUMBER: 814-00736

PENNANTPARK INVESTMENT CORPORATION

(Exact name of registrant as specified in its charter)

MARYLAND

20-8250744

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

590 Madison Avenue,

15th Floor, New York, N.Y.

10022

(Address of principal executive offices)

(Zip Code)

(212)-905-1000

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

The number of shares of the issuer's common stock, \$0.001 par value, outstanding as of May 7, 2014 was 66,569,036.

Table of Contents

PENNANTPARK INVESTMENT CORPORATION
FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2014
TABLE OF CONTENTS

PART I. CONSOLIDATED FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

<u>Consolidated Statements of Assets and Liabilities as of March 31, 2014 (unaudited) and September 30, 2013</u>	4
<u>Consolidated Statements of Operations for the three and six months ended March 31, 2014 and 2013 (unaudited)</u>	5
<u>Consolidated Statements of Changes in Net Assets for the six months ended March 31, 2014 and 2013 (unaudited)</u>	6
<u>Consolidated Statements of Cash Flows for the six months ended March 31, 2014 and 2013 (unaudited)</u>	7
<u>Consolidated Schedules of Investments as of March 31, 2014 (unaudited) and September 30, 2013</u>	8
<u>Notes to Consolidated Financial Statements (unaudited)</u>	17
<u>Report of Independent Registered Public Accounting Firm</u>	27
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	28
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	35
<u>Item 4. Controls and Procedures</u>	35

PART II. OTHER INFORMATION

<u>Item 1. Legal Proceedings</u>	36
<u>Item 1A. Risk Factors</u>	36
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	36
<u>Item 3. Defaults Upon Senior Securities</u>	36
<u>Item 4. Mine Safety Disclosures</u>	36
<u>Item 5. Other Information</u>	36
<u>Item 6. Exhibits</u>	37
<u>SIGNATURES</u>	38

Table of Contents

PART I CONSOLIDATED FINANCIAL INFORMATION

We are filing this Form 10-Q, or the Report, in compliance with Rule 13a-13 promulgated by the Securities and Exchange Commission, or the SEC. In this Report, Company, we, our or us refer to PennantPark Investment Corporation and its consolidated subsidiaries unless the context suggests otherwise. PennantPark Investment refers to only PennantPark Investment Corporation; our SBIC Funds refers collectively to our consolidated subsidiaries, PennantPark SBIC LP, or SBIC LP, and its general partner, PennantPark SBIC GP, LLC, and PennantPark SBIC II LP, or SBIC II, and its general partner, PennantPark SBIC GP II, LLC; PennantPark Investment Advisers or Investment Adviser refers to PennantPark Investment Advisers, LLC; PennantPark Investment Administration or Administrator refers to PennantPark Investment Administration, LLC. SBA refers to the Small Business Administration; Credit Facility refers to our multi-currency, senior secured revolving credit facility; 2025 Notes refers to our 6.25% senior notes due 2025; BDC refers to a business development company under the Investment Company Act of 1940, as amended, or the 1940 Act; Code refers to the Internal Revenue Code of 1986, as amended; and RIC refers to a regulated investment company under the Code. References to our portfolio or investments include investments we make through our SBIC Funds and other consolidated subsidiaries.

Table of Contents**Item 1. Consolidated Financial Statements****PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES**

	March 31, 2014 (unaudited)	September 30, 2013
Assets		
Investments at fair value		
Non-controlled, non-affiliated investments (cost \$1,021,017,312 and \$928,078,589, respectively)	\$ 1,091,405,997	\$ 968,471,042
Non-controlled, affiliated investments (cost \$107,758,689 and \$99,021,141, respectively)	81,022,008	76,735,800
Controlled, affiliated investments (cost \$103,035,435 and \$64,418,155, respectively)	84,546,168	32,968,711
Total of investments (cost \$1,231,811,436 and \$1,091,517,885, respectively)	1,256,974,173	1,078,175,553
Cash and cash equivalents (cost \$56,300,349 and \$58,440,829, respectively) (See Note 8)	56,302,305	58,440,829
Interest receivable	11,498,342	10,894,893
Deferred financing costs and other assets	6,649,539	5,815,817
Total assets	1,331,424,359	1,153,327,092
Liabilities		
Distributions payable	18,639,330	18,619,812
Payable for investments purchased		52,544,704
Unfunded investments	22,875,000	7,241,667
Credit Facility payable (cost \$313,809,200 and \$145,500,000, respectively) (See Notes 5 and 10)	313,686,977	145,500,000
SBA debentures payable (cost \$150,000,000) (See Notes 5 and 10)	150,000,000	150,000,000
2025 Notes payable (cost \$71,250,000) (See Notes 5 and 10)	70,566,000	68,400,000
Management fee payable (See Note 3)	6,027,293	5,419,557
Performance-based incentive fee payable (See Note 3)	5,007,264	4,274,881
Interest payable on debt	1,687,100	1,810,466
Accrued other expenses	1,772,583	2,009,806
Total liabilities	590,261,547	455,820,893
Commitments and contingencies (See Note 11)		
Net assets		
Common stock, 66,569,036 and 66,499,327 shares issued and outstanding, respectively.	66,569	66,499

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Par value \$0.001 per share and 100,000,000 shares authorized.			
Paid-in capital in excess of par value		756,809,951	756,017,096
Distributions in excess of net investment income		(3,963,461)	(4,675,217)
Accumulated net realized loss on investments		(37,721,163)	(43,409,847)
Net unrealized appreciation (depreciation) on investments		25,164,693	(13,342,332)
Net unrealized depreciation on debt		806,223	2,850,000
Total net assets	\$	741,162,812	\$ 697,506,199
Total liabilities and net assets	\$	1,331,424,359	\$ 1,153,327,092
Net asset value per share	\$	11.13	\$ 10.49

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)**

	Three Months Ended March 31,		Six Months Ended March 31,	
	2014	2013	2014	2013
Investment income from:				
Non-controlled, non-affiliated investments:				
Interest	\$ 31,858,467	\$ 28,058,570	\$ 60,823,402	\$ 53,827,187
Other income	2,336,170	876,680	4,851,027	5,242,954
Non-controlled, affiliated investments:				
Interest	1,453,003	938,261	2,717,613	2,330,764
Other income				227,800
Controlled, affiliated investments:				
Interest	2,231,179	1,183,750	3,624,633	2,386,457
Other income			300,833	
Total investment income	37,878,819	31,057,261	72,317,508	64,015,162
Expenses:				
Base management fee (See Note 3)	6,027,293	5,328,100	11,774,353	10,456,711
Performance-based incentive fee (See Note 3)	5,007,264	3,559,244	9,496,043	8,104,498
Interest and expenses on debt (See Note 10)	5,099,113	3,984,909	9,672,746	7,079,774
Administrative services expenses (See Note 3)	928,954	1,155,537	1,840,550	2,327,859
Other general and administrative expenses	778,592	719,423	1,541,096	1,479,955
Expenses before taxes and debt issuance costs	17,841,216	14,747,213	34,324,788	29,448,797
Tax expense (benefit)	8,548	(190,197)	8,548	(114,896)
Debt issuance costs (See Note 5)		2,437,500		2,437,500
Total expenses	17,849,764	16,994,516	34,333,336	31,771,401
Net investment income	20,029,055	14,062,745	37,984,172	32,243,761
Realized and unrealized gain (loss) on investments and debt:				

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Net realized gain (loss) on investments	3,029,573	(1,830,764)	5,688,684	(959,632)
Net change in unrealized appreciation (depreciation) on:				
Non-controlled, non-affiliated investments	15,782,680	26,227,226	29,998,188	32,289,547
Controlled and non-controlled, affiliated investments	7,987,620	(11,059,378)	8,508,837	(7,085,161)
Debt appreciation (See Notes 5 and 10)	(6,147,777)	(427,500)	(2,043,777)	(975,000)
Net change in unrealized appreciation on investments and debt	17,622,523	14,740,348	36,463,248	24,229,386
Net realized and unrealized gain from investments and debt	20,652,096	12,909,584	42,151,932	23,269,754
Net increase in net assets resulting from operations	\$ 40,681,151	\$ 26,972,329	\$ 80,136,104	\$ 55,513,515
Net increase in net assets resulting from operations per common share (See Note 7)	\$ 0.61	\$ 0.41	\$ 1.20	\$ 0.84
Net investment income per common share	\$ 0.30	\$ 0.21	\$ 0.57	\$ 0.49

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS****(Unaudited)**

	Six Months Ended March 31,	
	2014	2013
Net increase in net assets from operations:		
Net investment income	\$ 37,984,172	\$ 32,243,761
Net realized gain (loss) on investments	5,688,684	(959,632)
Net change in unrealized appreciation on investments	38,507,025	25,204,386
Net change in debt appreciation	(2,043,777)	(975,000)
Net increase in net assets resulting from operations	80,136,104	55,513,515
Distributions to stockholders:		
Distributions	(37,272,416)	(37,172,284)
Capital transactions:		
Public offering		7,574,000
Offering costs		(265,090)
Reinvestment of distributions	792,925	2,009,120
Net increase in net assets resulting from capital transactions	792,925	9,318,030
Net increase in net assets	43,656,613	27,659,261
Net assets:		
Beginning of period	697,506,199	669,717,047
End of period	\$ 741,162,812	\$ 697,376,308
Distributions in excess of net investment income, at end of period	\$ (3,963,461)	\$ (2,124,126)
Capital share activity:		
Shares issued from public offering		700,000
Shares issued from reinvestment of distributions	69,709	186,745

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

	Six Months Ended March 31,	
	2014	2013
Cash flows from operating activities:		
Net increase in net assets resulting from operations	\$ 80,136,104	\$ 55,513,515
Adjustments to reconcile net increase in net assets resulting from operations to net cash used for operating activities:		
Net change in net unrealized appreciation on investments	(38,507,025)	(25,204,386)
Net change in unrealized appreciation on debt	2,043,777	975,000
Net realized (gain) loss on investments	(5,688,684)	959,632
Net accretion of discount and amortization of premium	(5,037,388)	(3,451,454)
Purchases of investments	(370,006,367)	(243,825,185)
Payment-in-kind income	(4,696,824)	(6,379,825)
Proceeds from dispositions of investments	260,770,085	153,370,119
(Increase) decrease in interest receivable	(603,449)	307,380
(Increase) decrease in deferred financing costs and other assets	(83,722)	554,567
(Decrease) increase in payable for investments purchased	(52,544,704)	2,935,322
(Decrease) increase in interest payable on debt	(123,366)	954,327
Increase in management fee payable	607,736	536,187
Increase (decrease) in performance-based incentive fee payable	732,383	(647,744)
(Decrease) increase in accrued other expenses	(237,222)	312,377
Net cash used for operating activities	(133,238,666)	(63,090,168)
Cash flows from financing activities:		
Public offerings		7,574,000
Offering costs		(265,090)
Deferred financing costs	(750,000)	
Distributions paid to stockholders	(36,459,973)	(32,394,877)
Proceeds from 2025 Notes issuance (See Note 10)		71,250,000
Borrowings under Credit Facility (See Note 10)	614,109,200	543,500,000

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Repayments under Credit Facility (See Note 10)		(445,800,000)		(516,800,000)
Net cash provided by financing activities		131,099,227		72,864,033
Net (decrease) increase in cash equivalents		(2,139,439)		9,773,865
Effect of exchange rate changes on cash		915		
Cash and cash equivalents, beginning of period		58,440,829		7,559,453
Cash and cash equivalents, end of period	\$	56,302,305	\$	17,333,318
Supplemental disclosure of cash flow information and non-cash financing activity:				
Interest paid	\$	9,534,384	\$	5,907,177
Taxes paid	\$	8,251	\$	92,388
Distributions reinvested	\$	792,925	\$	2,009,120
Conversions and non-cash exchanges	\$	51,577,498	\$	58,615,748

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS

MARCH 31, 2014

(Unaudited)

Issuer Name	Maturity / Expiration	Industry	Current Coupon	Basis Point Spread Above Index ⁽⁴⁾	Par / Shares	Cost
Investments in Non-Controlled, Non-Affiliated Portfolio Companies			147.3% ^{(1), (2)}			
First Lien Secured Debt			37.2%			
Aircell Business Aviation Services LLC	06/21/2017	Communications	11.25%	L+975	23,607,038	\$ 22,82
AKA Diversified Holdings, Inc.	04/02/2018	Retail	11.90%	L+1,175 ⁽⁸⁾	29,035,075	28,35
AKA Diversified Holdings, Inc. ⁽⁹⁾	04/02/2018	Retail			7,500,000	7,50
AP Gaming I, LLC	12/21/2020	Hotels, Motels, Inns and Gaming	9.25%	L+825	5,236,875	5,08
Columbus International, Inc. ^{(5), (10)}	11/20/2014	Communications	11.50%		10,000,000	10,00
Cydcor LLC	06/12/2017	Business Services	9.75%	L+725	7,028,902	7,02
IDQ Holdings, Inc. ⁽⁵⁾	03/30/2017	Auto Sector	11.50%		11,500,000	11,34
InfuSystem Holdings, Inc.	11/30/2016	Healthcare, Education and Childcare	11.57%	P+832	11,600,000	11,60
Jackson Hewitt Tax Service Inc.	10/16/2017	Personal, Food and Miscellaneous Services	10.00%	L+850	7,777,902	7,77
K2 Pure Solutions NoCal, L.P.	08/19/2019	Chemicals, Plastics and Rubber	10.00%	L+900	22,342,352	21,93
Old Guard Risk Services, Inc.	11/27/2018	Insurance	12.50%	L+1,150	29,925,000	28,83

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Prince Mineral Holding Corp. ⁽⁵⁾	12/16/2019	Mining, Steel, Iron and Non-Precious Metals	11.50%		14,250,000	14,100,000
TRAK Acquisition Corp.	04/30/2018	Business Services	12.00%	L+1,050	33,395,800	32,960,000
Trust Inns Limited ^{(10), (12)}	02/12/2020	Buildings and Real Estate	11.02%	L+1,100 ⁽⁸⁾	28,704,715	45,120,000
Worley Claims Services LLC	07/06/2017	Insurance	12.50%	L+1,100	11,856,315	11,850,000
Total First Lien Secured Debt						266,330,000
Second Lien Secured Debt 51.3%						
American Gilsonite Company ⁽⁵⁾	09/01/2017	Diversified Natural Resources, Precious Metals and Minerals	11.50%		25,400,000	25,400,000
Arsloane Acquisition, LLC	10/01/2020	Business Services	11.75%	L+1,050	20,625,000	20,320,000
Ascensus, Inc.	12/02/2020	Financial Services	9.00%	L+800	15,500,000	15,270,000
Bennu Oil & Gas, LLC	11/01/2018	Oil and Gas	10.25%	L+900	13,603,502	13,500,000
Carolina Beverage Group, LLC	08/01/2018	Beverage, Food and Tobacco	10.63%		13,125,000	13,120,000
CT Technologies Intermediate Holdings, Inc.	10/05/2020	Business Services	9.25%	L+800	14,000,000	13,800,000
Envision Acquisition Company, LLC	11/04/2021	Healthcare, Education and Childcare	9.75%	L+875	19,000,000	18,630,000
Foundation Building Materials, LLC	04/30/2019	Building Materials	13.00%	L+1,200	32,610,233	31,970,000
ILC Industries, LLC	06/14/2019	Electronics	11.50%	L+1,000	7,500,000	7,210,000
Intermediate Transportation 100, LLC ⁽⁵⁾	03/01/2017	Cargo Transport	11.00%	L+700	3,739,795	3,730,000
J.A. Cosmetics Holdings, Inc.	07/31/2019	Consumer Products	11.00%	L+1,000	34,000,000	33,340,000
Jacobs Entertainment, Inc.	10/29/2019	Hotels, Motels, Inns and Gaming	13.00%	L+1,175	38,950,000	38,320,000

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KIK Custom Products Inc.	10/29/2019	Consumer Products	9.50%	L+825	9,500,000	9,360,000
Language Line, LLC	12/20/2016	Personal, Food and Miscellaneous	10.50%	L+875	33,750,000	33,315,000
Linc USA GP and Linc Energy Finance (USA), Inc. ⁽⁵⁾	10/31/2017	Services Oil and Gas	12.50%		11,875,000	11,550,000
Penton Media, Inc.	10/02/2020	Media	9.00%	L+775	21,000,000	20,715,000
Pre-Paid Legal Services, Inc.	07/01/2020	Personal, Food and Miscellaneous	9.75%	L+850	56,750,000	55,980,000
Questex Media Group LLC, Term Loan A	12/15/2014	Services Other Media	9.50%	P+550	2,379,160	2,379,160
Questex Media Group LLC, Term Loan B	12/15/2015	Other Media	11.50%	P+750	2,649,294	2,649,294
			(PIK 11.50%)			

Total Second Lien Secured Debt

370,630,000

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents**PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****MARCH 31, 2014****(Unaudited)**

Issuer Name	Maturity / Expiration	Industry	Current Coupon	Basis Point Spread Above Index ⁽⁴⁾	Par / Shares	Cost
Subordinated Debt/Corporate Notes			45.4%			
Acentia, LLC	10/02/2017	Electronics	13.75%		19,000,000	\$ 18,658,45
Affinion Group Holdings, Inc. ⁽⁵⁾	09/14/2018	Consumer Products	14.50%		40,949,500	34,308,96
			(PIK 14.50%)			
Affinion Investments LLC ⁽⁵⁾	08/15/2018	Consumer Products	13.50%		15,096,000	15,195,60
Alegeus Technologies, LLC	02/15/2019	Financial Services	12.00%		8,930,000	8,779,78
Convergint Technologies LLC	03/26/2018	Electronics	12.00%		23,633,523	23,275,17
			(PIK 1.00%)			
Credit Infonet, Inc.	10/26/2018	Personal, Food and Miscellaneous Services	12.25%		10,600,000	10,413,75
George Bond Limited ^{(10), (12)}	06/29/2018	Electronics	13.53%	L+1,300 ⁽⁸⁾	5,166,787	8,896,51
			(PIK 13.00%)			
George Mezz Limited ^{(10), (12)}	06/30/2017	Electronics	11.53%	L+1,100 ⁽⁸⁾	10,166,438	17,347,93
			(PIK 6.75%)			
JF Acquisition, LLC	06/30/2017	Distribution	14.00%		17,692,998	17,373,73
			(PIK 2.00%)			
Learning Care Group (US) Inc.	05/08/2020	Education	15.00%		7,757,188	7,346,91
			(PIK 15.00%)			
LTI Flexible Products, Inc.	01/19/2019	Chemicals, Plastics and Rubber	12.50%		30,000,000	30,000,00
MSPark, Inc.	06/15/2017	Printing and Publishing	14.50% ⁽⁷⁾		15,000,000	14,729,43
Power Products, LLC	12/11/2020	Electronics	12.75%		15,000,000	14,759,44

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			(PIK 2.00%)		
Randall-Reilly Publishing Company, LLC	04/15/2019	Other Media	12.50% ⁽⁷⁾	30,400,000	29,823,03
Varel International Energy Mezzanine Funding Corp.	01/15/2018	Oil and Gas	14.00%	37,824,077	37,228,95
			(PIK 4.00%)		
Vestcom International, Inc.	06/27/2019	Printing and Publishing	12.00%	39,892,933	39,201,28
Total Subordinated Debt/Corporate Notes					327,338,95
Preferred Equity/Partnership Interests 1.7%⁽⁶⁾					
AH Holdings, Inc.		Healthcare, Education and Childcare	6.00%	211	500,00
AHC Mezzanine, LLC		Other Media		7,505	318,89
Alegeus Technologies Holdings Corp., Series A (Alegeus Technologies, LLC)		Financial Services		949	949,05
CI (IHS) Investment Holdings, LLC		Healthcare, Education and Childcare	8.00%	76,357	765,30
CI (IHS) Investment Holdings, LLC ⁽⁹⁾		Healthcare, Education and Childcare		38,179	382,65
Convergint Technologies Holdings, LLC (Convergint Technologies LLC)		Electronics	8.00%	2,375	2,375,00
Hanley-Wood Holdings, LLC		Other Media	8.00%	3,591	22,21
J.A. Cosmetics US, Inc. (J.A. Cosmetics Holdings, Inc.)		Consumer Products	8.00%	3,397	3,397,48
		Insurance		686	685,82

TZ Holdings, L.P., Series A				
TZ Holdings, L.P., Series B	Insurance	6.50%	1,312	1,312,00
VRide Holdings, Inc.	Personal Transportation	8.00%	1,824,167	1,824,16
Total Preferred Equity/Partnership Interests				12,532,60

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents

PENNANTPARK INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

MARCH 31, 2014

(Unaudited)

Issuer Name	Maturity / Expiration	Industry	Current Coupon	Basis Point Spread Above Index ⁽⁴⁾	Par / Shares	Cost Fair Value ⁽³⁾
Common Equity/Partnership Interests/Warrants		11.7% ⁽⁶⁾				