

Oxford Lane Capital Corp.  
Form 497  
August 10, 2018

Filed pursuant to Rule 497  
File No. 333-225462

**PROSPECTUS SUPPLEMENT  
(to Prospectus dated August 2, 2018)**

**Oxford Lane Capital Corp.**

**\$300,000,000  
Common Stock**

We are a non-diversified, closed-end management investment company that has registered as an investment company under the Investment Company Act of 1940, or the 1940 Act. Our investment objective is to maximize our portfolio's risk-adjusted total return. We have implemented our investment objective by purchasing portions of equity and junior debt tranches of collateralized loan obligation ( CLO ) vehicles. Structurally, CLO vehicles are entities formed to originate and manage a portfolio of loans.

**An investment in our securities is subject to significant risks and involves a heightened risk of total loss of investment. The price of shares of our common stock may be highly volatile and our common stock may frequently trade at a discount to our net asset value. In addition, the residual interests of the CLO securities in which we invest are subject to a high degree of special risks, including: CLO structures are highly complicated and may be subject to disadvantageous tax treatment; CLO vehicles are highly levered and are made up of below investment grade loans in which we typically have a residual interest that is much riskier than the loans that make up the CLO vehicle; and the market price for CLO vehicles may fluctuate dramatically (including dramatic declines during certain periods in 2015 and 2016), which may make portfolio valuations unreliable and negatively impact our net asset value and our ability to make distributions to our stockholders. See Risk Factors beginning on page 19 of the accompanying prospectus to read about factors you should consider, including the risk of leverage, before investing in our securities.**

We have entered into an amended and restated equity distribution agreement, dated August 10, 2018, with Ladenburg Thalmann & Co. Inc. relating to the shares of common stock offered by this prospectus supplement and the accompanying prospectus.

The equity distribution agreement provides that we may offer and sell shares of our common stock having an aggregate offering price of up to \$300,000,000 from time to time through Ladenburg Thalmann & Co. Inc., as our sales agent. Sales of our common stock, if any, under this prospectus supplement and the accompanying prospectus

may be made in negotiated transactions or transactions that are deemed to be at the market, as defined in Rule 415 under the Securities Act of 1933, as amended, including sales made directly on the NASDAQ Global Select Market or similar securities exchange or sales made to or through a market maker other than on an exchange, at prices related to the prevailing market prices or at negotiated prices.

Ladenburg Thalmann & Co. Inc. will receive a commission from us up to 2.0% of the gross sales price of any shares of our common stock sold through Ladenburg Thalmann & Co. Inc. under the equity distribution agreement. Ladenburg Thalmann & Co. Inc. is not required to sell any specific number or dollar amount of common stock, but will use its commercially reasonable efforts consistent with its sales and trading practices to sell the shares of our common stock offered by this prospectus supplement and the accompanying prospectus. See Plan of Distribution beginning on page S-21 of this prospectus supplement. The sales price per share of our common stock offered by this prospectus supplement and the accompanying prospectus, less Ladenburg Thalmann & Co. Inc.'s commission, will not be less than the net asset value per share of our common stock at the time of such sale.

From March 7, 2016 to August 7, 2018, we sold a total of 13,813,244 shares of common stock pursuant to this at the market offering pursuant to our prior registration statement on Form N-2 (File No 333-205405). The total amount of capital raised as a result of these sales of common stock was approximately \$147.6 million and net proceeds were approximately \$144.5 million after deducting the sales agent's commissions and offering expenses.

Our common stock is traded on the NASDAQ Global Select Market under the symbol OXLC. On August 7, 2018, the last reported sales price on the NASDAQ Global Select Market for our common stock was \$11.42 per share, which was at a premium of 14.4% to the net asset value per share of our common stock as of June 30, 2018. We are required to determine the net asset value per share of our common stock on a quarterly basis. Our net asset value per share of our common stock as of June 30, 2018 was \$9.98.

Please read this prospectus supplement and the accompanying prospectus before investing in our securities and keep each for future reference. This prospectus supplement and the accompanying prospectus contain important information about us that a prospective investor should know before investing in our securities. We are required to file annual, semi-annual and quarterly reports, proxy statements and other information about us with the Securities and Exchange Commission, or the SEC. This information is available free of charge by contacting us by mail at 8 Sound Shore Drive, Suite 255, Greenwich, CT 06830, by telephone at (203) 983-5275 or on our website at <http://www.oxfordlanecapital.com>. The SEC also maintains a website at <http://www.sec.gov> that contains such information. Information contained on our website is not incorporated by reference into this prospectus supplement or the accompanying prospectus, and you should not consider that information to be part of this prospectus supplement or the accompanying prospectus.

Neither the SEC nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

## **Ladenburg Thalmann**

# **Prospectus Supplement dated August 10, 2018.**

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## **ABOUT THIS PROSPECTUS SUPPLEMENT**

We have filed with the SEC a registration statement on Form N-2 (File Nos. 333-225462 and 811-22432) utilizing a shelf registration process relating to the securities described in this prospectus supplement, which registration statement was declared effective on August 2, 2018. This document is in two parts. The first part is the prospectus supplement, which describes the terms of this offering of common stock and also adds to and updates information contained in the accompanying prospectus. The second part is the accompanying prospectus, which gives more general information and disclosure. To the extent the information contained in this prospectus supplement differs from or is additional to the information contained in the accompanying prospectus, you should rely only on the information contained in this prospectus supplement. Please carefully read this prospectus supplement and the accompanying prospectus together with the additional information described under the headings Available Information and Risk Factors included in the accompanying prospectus, respectively, before investing in our common stock.

**Neither we nor Ladenburg Thalmann & Co. Inc. has authorized any dealer, salesman or other person to give any information or to make any representation other than those contained in this prospectus supplement or the accompanying prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. This prospectus supplement and the accompanying prospectus do not constitute an offer to sell or a solicitation of any offer to buy any security other than the registered securities to which they relate, nor do they constitute an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction or to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction. The information contained in this prospectus supplement and the accompanying prospectus is accurate as of the dates on their respective covers. Our financial condition, results of operations and prospects may have changed since those dates. To the extent required by law, we will amend or supplement the information contained in this prospectus supplement and the accompanying prospectus to reflect any material changes subsequent to the date of this prospectus supplement and the accompanying prospectus and prior to the completion of any offering pursuant to this prospectus supplement and the accompanying prospectus.**

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## SUMMARY

*The following summary contains basic information about the offering of shares of our common stock pursuant to this prospectus supplement and the accompanying prospectus. It is not complete and may not contain all the information that is important to you. For a more complete understanding of the offering of shares of our common stock pursuant to this prospectus supplement, we encourage you to read this entire prospectus supplement and the accompanying prospectus, and the documents to which we have referred in this prospectus supplement and the accompanying prospectus. Together, these documents describe the specific terms of the shares we are offering. You should carefully read the sections entitled Risk Factors and Business and our financial statements included in the accompanying prospectus.*

*Except where the context requires otherwise, the terms Oxford Lane Capital, the Company, the Fund, we, us and our refer to Oxford Lane Capital Corp.; Oxford Lane Management and investment adviser refer to Oxford Lane Management, LLC; Oxford Funds and administrator refer to Oxford Funds, LLC (formerly known as BDC Partners, LLC); and Alaric and Alaric Compliance Services refer to Alaric Compliance Services, LLC.*

## Overview

We are a non-diversified closed-end management investment company that has registered as an investment company under the 1940 Act. Our investment strategy is to maximize our portfolio's risk-adjusted total return.

We have implemented our investment objective by purchasing portions of equity and junior debt tranches of CLO vehicles. Our investment strategy also includes warehouse facilities, which are financing structures intended to aggregate loans that may be used to form the basis of a CLO vehicle. Substantially all of the CLO vehicles in which we may invest would be deemed to be investment companies under the 1940 Act but for the exceptions set forth in section 3(c)(1) or section 3(c)(7). Structurally, CLO vehicles are entities formed to originate and manage a portfolio of loans. The loans within the CLO vehicle are limited to loans which meet established credit criteria and are subject to concentration limitations in order to limit a CLO vehicle's exposure to a single credit. A CLO vehicle is formed by raising various classes or tranches of debt (with the most senior tranches being rated AAA to the most junior tranches typically being rated BB or B-) and equity. The CLO vehicles which we focus on are collateralized primarily by senior secured loans made to companies whose debt is unrated or is rated below investment grade, or Senior Loans, and generally have very little or no exposure to real estate, mortgage loans or to pools of consumer-based debt, such as credit card receivables or auto loans. Below investment grade securities are often referred to as junk. We may also invest, on an opportunistic basis, in other corporate credits of a variety of types. We expect that each of our investments will range in size from \$5 million to \$50 million, although the investment size may vary consistent with the size of our overall portfolio. Oxford Lane Management manages our investments and its affiliate arranges for the performance of the administrative services necessary for us to operate.

CLO vehicles, due to their high leverage, are more complicated to evaluate than direct investments in Senior Loans. Since we invest in the residual interests of CLO securities, our investments are riskier than the profile of the Senior Loans by which such CLO vehicles are collateralized. Our investments in CLO vehicles are riskier and less transparent to us and our stockholders than direct investments in the underlying Senior Loans. Our portfolio of investments may lack diversification among CLO vehicles which would subject us to a risk of significant loss if one or more of these CLO vehicles experience a high level of defaults on its underlying Senior Loans. The CLO vehicles in which we invest have debt that ranks senior to our investment. The market price for CLO vehicles may fluctuate dramatically, which would make portfolio valuations unreliable and negatively impact our net asset value and our

ability to make distributions to our stockholders. Our financial results may be affected adversely if one or more of our significant equity or junior debt investments in such CLO vehicles defaults on its payment obligations or fails to perform as we expect.

Our investments in CLO vehicles may be subject to special anti-deferral provisions that could result in us incurring tax or recognizing income prior to receiving cash distributions related to such income. Specifically, the CLO vehicles in which we invest generally constitute passive foreign investment companies, or PFICs. Because we acquire investments in PFICs (including equity tranche investments in CLO vehicles that are PFICs), we may be subject to U.S. federal income tax on a portion of any excess distribution or

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gain from the disposition of such investments even if such income is distributed as a taxable dividend by us to our stockholders. See Risk Factors Risks Related to Our Investments beginning on page 19 in the accompanying prospectus to read about factors you should consider before investing in our securities.

For the fiscal year ended March 31, 2018 and the quarter ended June 30, 2018, our total return based on market value was 6.41% and 6.86%, respectively. Total return based on market value is calculated assuming that shares of the Fund's common stock were purchased at the market price as of the beginning of the period, and that distribution, capital gains and other distributions were reinvested as provided for in the Fund's distribution reinvestment plan, excluding any discounts, and that the total number of shares were sold at the closing market price per share on the last day of the period. The computation does not reflect any sales commission investors may incur in purchasing or selling shares of the Fund. For the fiscal year ended March 31, 2018, our total return based on net asset value was 18.53%. Total return based on net asset value is the change in ending net asset value per share plus distributions per share paid during the period assuming participation in the Company's dividend reinvestment plan divided by the beginning net asset value per share. The total return based on net asset value does not reflect any sales commission investors may incur in purchasing or selling shares of the Company. Our total return figures are subject to change and, in the future, may be greater or less than the rates set forth above.

**Distributions**

In order to be subject to pass-through tax treatment as a regulated investment company, or RIC, and to eliminate our liability for corporate-level U.S. federal income tax on the income we distribute to our stockholders, we are required, under Subchapter M of the Internal Revenue Code of 1986, as amended, or the Code, to distribute to our stockholders on an annual basis at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any.

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The following table reflects the cash distributions, including distributions reinvested and returns of capital, if any, per share that we have declared on our common stock in the last five fiscal years and the current fiscal year, as well as our per share net investment income and distributions in excess of net investment income:

Months Ended	Record Date	Payment Date	Distributions <sup>(1)</sup>	GAAP Net Investment Income <sup>(3)</sup>	Distributions (in excess of) / Less than Net Investment Income <sup>(3)</sup>
Fiscal 2019					
October 31, 2018	October 24, 2018	October 31, 2018	\$ 0.135	N/A	N/A
November 30, 2018	November 23, 2018	November 30, 2018	0.135	N/A	N/A
December 31, 2018	December 24, 2018	December 31, 2018	0.135	N/A	N/A
Sub-total for the quarter ended December 31, 2018			\$ 0.405	—	(4) — (4)
September 30, 2018	September 20, 2018	September 28, 2018	0.135	N/A	N/A
August 31, 2018	August 23, 2018	August 31, 2018	0.135	N/A	N/A
July 31, 2018	July 23, 2018	July 31, 2018	0.135	N/A	N/A
Sub-total for the quarter ended September 30, 2018			0.405	—	(4) — (4)
June 30, 2018	June 21, 2018	June 29, 2018	0.135	N/A	N/A
May 31, 2018	May 23, 2018	May 31, 2018	0.135	N/A	N/A
April 30, 2018	April 20, 2018	April 30, 2018	0.135	N/A	N/A
Sub-total for the quarter ended June 30, 2018			0.405	\$ 0.39	\$ (0.015 )
Fiscal 2018 <sup>(5)</sup>					
March 31, 2018	March 22, 2018	March 30, 2018	0.135	N/A	N/A
February 28, 2018	February 20, 2018	February 28, 2018	0.135	N/A	N/A
January 31, 2018	January 23, 2018	January 31, 2018	0.135	N/A	N/A
Sub-total for the quarter ended March 31, 2018			0.405	0.40	(0.005 )
December 31, 2017	December 15, 2017	December 29, 2017	0.40	0.41	0.01
September 30, 2017	September 15, 2017	September 29, 2017	0.40	0.37	(0.03 )
June 30, 2017	June 16, 2017	June 30, 2017	0.40	0.42	0.02
Total Fiscal 2018			1.605	1.60	(0.005 )
Fiscal 2017					
March 31, 2017	March 16, 2017	March 31, 2017	0.60	0.46	(0.14 )
December 31, 2016	December 16, 2016	December 30, 2016	0.60	0.38	(0.22 )
September 30, 2016	September 16, 2016	September 30, 2016	0.60	0.37	(0.23 )
June 30, 2016	June 16, 2016	June 30, 2016	0.60	0.30	(0.30 )
Total Fiscal 2017			2.40	1.51	(0.89 )
Fiscal 2016					
March 31, 2016	March 16, 2016	March 31, 2016	0.60	0.36	(0.24 )
December 31, 2015	December 16, 2015	December 31, 2015	0.60	0.46	(0.14 )
September 30, 2015	September 30, 2015	October 30, 2015	0.60	0.33	(0.27 )
June 30, 2015	June 16, 2015	June 30, 2015	0.60	0.44	(0.16 )

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Total Fiscal 2016			2.40		1.59	(0.81 )
Fiscal 2015						
March 31, 2015	March 17, 2015	March 31, 2015	0.60		0.41	(0.19 )
December 31, 2014	December 17, 2014	December 31, 2014	0.60		0.29	(0.31 )
September 30, 2014	September 16, 2014	September 30, 2014	0.60		0.28	(0.32 )
June 30, 2014	June 16, 2014	June 30, 2014	0.60		0.38	(0.22 )
Total Fiscal 2015			2.40		1.36	(1.04 )
Fiscal 2014						
March 31, 2014	March 17, 2014	March 31, 2014	0.60		0.29	(0.31 )
	March 17, 2014	March 31, 2014	0.10	(2)	—	—
December 31, 2013	December 17, 2013	December 31, 2013	0.55		0.32	(0.23 )
September 30, 2013	September 16, 2013	September 30, 2013	0.55		0.35	(0.20 )
June 30, 2013	June 14, 2013	June 28, 2013	0.55		0.28	(0.27 )
Total Fiscal 2014			2.35		1.24	(1.11 )
			\$ 11.16		\$ 7.30	\$ (3.86 )

(1) All of our cash distributions in the table above were funded from taxable income except for the fiscal year ended March 31, 2017. Cash distributions for the fiscal year ended March 31, 2017 include a tax return of capital of approximately \$0.44 per share for tax purposes. The ultimate tax character of the Fund's earnings cannot be determined until tax returns are prepared after the end of the fiscal year, consequently, the tax characterization of cash distributions for the fiscal years ended March 31, 2018 and 2019 will not be known until the tax returns for those years are finalized.

(2) Represents a special dividend for the fiscal year ended March 31, 2014.

(3) Investment income is determined on a quarterly basis.

(4) We have not yet reported investment income for this period.

(5) Beginning January 1, 2018, the Board began to declare monthly distributions in lieu of quarterly distributions.

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For the fiscal year ended March 31, 2018, we paid distributions totaling \$6,780,002, \$1,174,249 and \$3,671,916 on the Series 2023 Term Preferred Shares, 8.125% Series 2024 Term Preferred Shares and 6.75% Series 2024 Term Preferred Shares, respectively. For the fiscal year ended March 31, 2017, we paid dividends totaling \$5,844,609 and \$4,102,473 on the Series 2023 Term Preferred Shares and the 8.125% Series 2024 Term Preferred Shares, respectively. For the fiscal year ended March 31, 2016, we paid distributions totaling \$421,888, \$7,383,791 and \$4,862,802 on the 8.50% Series 2017 Term Preferred Shares, or the Series 2017 Term Preferred Shares, the Series 2023 Term Preferred Shares and the 8.125% Series 2024 Term Preferred Shares, respectively. For the fiscal year ended March 31, 2015, we paid \$1,344,083, \$5,286,287 and \$2,912,844 on the Series 2017 Term Preferred Shares, the Series 2023 Term Preferred Shares and the 8.125% Series 2024 Term Preferred Shares, respectively. For the fiscal year ended March 31, 2014, we paid \$1,344,083 and \$2,638,151 in preferred dividends on the Series 2017 Term Preferred Shares and the Series 2023 Term Preferred Shares, respectively. The 2017 Term Preferred Shares were fully redeemed in July 2015 and the 8.125% Series 2024 Term Preferred Shares were fully redeemed in July 2017.

For accounting purposes the distributions declared on our common stock for the fiscal years ended March 31, 2018, 2017, 2016, 2015, 2014 and 2013 were in excess of the reported earnings under Generally Accepted Accounting Principles, or GAAP. However, as a RIC, earnings and distributions are determined on a tax basis. Furthermore, taxable earnings are determined according to tax regulations and differ from reported income for accounting purposes under GAAP. Therefore, the tax characterization of distributions for federal income tax purposes may differ from the characterization for GAAP. For the fiscal years ended March 31, 2016, 2015, 2014, 2013 and 2012, taxable earnings exceeded our distributions, and there was no tax return of capital for these years. For the fiscal year ended March 31, 2017, there was a tax return of capital of approximately \$0.44 per share for federal income tax purposes.

The tax characterization of distributions for the year ended March 31, 2018, will not be known until the tax return is finalized. To the extent that taxable earnings for any fiscal year are less than the amount of the distributions paid during the year, there would be a tax return of capital to shareholders. Distributions in excess of current and accumulated taxable earnings and profits will generally not be taxable to the shareholders, because a tax return of capital represents a return of a portion of a shareholder's original investment in our common stock, net of fund fees and expenses, to the extent of a shareholder's basis in our stock. Generally, a tax return of capital will reduce an investor's basis in our stock for federal tax purposes, which will result in the shareholder recognizing additional gain (or less loss) when the stock is sold. Assuming that a shareholder holds our stock as a capital asset, any such additional gain would be a capital gain. Shareholders should not assume that the source of all distributions is from our net profits and shareholders may periodically receive the payment of a distribution consisting of a return of capital. The tax character of any distributions will be determined after the end of the fiscal year. Tax matters are very complicated and the tax consequences to an investor of an investment in our shares will depend on the facts of its particular situation. We encourage investors to consult their own tax advisors regarding the specific consequences of such an investment, including tax reporting requirements, the applicability of federal, state, local and foreign tax laws, eligibility for the benefits of any applicable tax treaty and the effect of any possible changes in the tax laws.

We have elected to be treated, and intend to continue to qualify annually, as a RIC under Subchapter M of the Code beginning with our 2011 taxable year. To maintain RIC tax treatment, we must, among other things, distribute at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any. In order to avoid certain U.S. federal excise taxes imposed on RICs, we currently intend to distribute during each calendar year an amount at least equal to the sum of: (1) 98% of our ordinary income for the calendar year; (2) 98.2% of our capital gains in excess of capital losses for the one-year period ending on October 31 of the calendar year; and, (3) 100% of any ordinary income and net capital gains for preceding years that were not distributed during such years and on which we paid no U.S. federal income tax. In addition, although we currently intend to distribute realized net capital gains (i.e., net long term capital gains in excess of short term capital losses), if any, at least annually, we may in the future decide to retain such capital gains for investment and elect to treat such gains as

deemed distributions to you. If this happens, you will be treated as if you had received an actual distribution of the capital gains we retain and reinvested the net after tax proceeds in us. In this situation, you would be eligible to claim a tax credit (or, in certain circumstances, a tax refund) equal to your allocable share of the tax we paid on the capital gains deemed distributed to you. See **Material U.S. Federal Income Tax Considerations** in the accompanying prospectus. We can offer no assurance that we will achieve results that will permit the payment of any cash distributions and, to the extent that we issue

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senior securities, we will be prohibited from making distributions if doing so causes us to fail to maintain the asset coverage ratios stipulated by the 1940 Act or if distributions are limited by the terms of any of our borrowings.

We may make distributions by issuing additional shares of our common stock under our distribution reinvestment plan, unless you elect to receive your dividends and/or long-term capital gains distributions in cash. We reserve the right to purchase shares in the open market in connection with our implementation of the distribution reinvestment plan. See Distribution Reinvestment Plan in the accompanying prospectus. If you hold shares in the name of a broker or financial intermediary, you should contact the broker or financial intermediary regarding your election to receive distributions in cash. We can offer no assurance that we will achieve results that will permit the payment of any cash distributions and, if we issue senior securities, we will be prohibited from making distributions if doing so causes us to fail to maintain the asset coverage ratios stipulated by the 1940 Act or if distributions are limited by the terms of any of our borrowings.

## **Distribution Policy**

Oxford Lane is subject to significant and variable differences between its accounting income under GAAP and its taxable income particularly as it relates to our CLO equity investments. We invest in CLO entities which generally constitute PFICs and which are subject to complex tax rules; the calculation of taxable income attributed to a CLO equity investment can be dramatically different from the calculation of income for financial reporting purposes under GAAP. Taxable income is based upon the distributable share of earnings as determined under tax regulations for each

CLO equity investment, which may be consistent with the cash flows generated by those investments (although significant differences are possible), while accounting income is currently based upon an effective yield calculation (this requires the calculation of a yield to expected redemption date based upon an estimation of the amount and timing of future cash flows, including recurring cash flows as well as future principal repayments). The Fund's final taxable earnings for the fiscal year ended March 31, 2018 will not be known until our tax returns are filed but our experience has been that cash flows from CLO equity investments have historically represented a generally reasonable estimate of taxable earnings; however, we can offer no assurance that will be the case in the future, particularly during periods of market disruption and volatility. There may be significant differences between Oxford Lane Capital's GAAP earnings and its taxable earnings, particularly related to CLO equity investments where its taxable earnings are based upon the taxable reported earnings provided by the CLO equity positions in which we invest, while GAAP earnings are based upon an effective yield calculation. In general, the Fund currently expects its taxable earnings to be higher than its reportable GAAP earnings. However, under certain circumstances we may be required to take into account income for tax purposes no later than when such income is taken into account for GAAP purposes.

While reportable GAAP income from our CLO equity investments for the year ended March 31, 2018 was approximately \$71.1 million, we received or were entitled to receive approximately \$108.6 million in distributions from our CLO equity investments. In general, we currently expect our annual taxable income to be higher than our

GAAP earnings on the basis of the difference between cash distributions from CLO equity investments actually received or entitled to be received and the effective yield income calculated under GAAP. Our distribution policy is based upon our estimate of our taxable net investment income.

## **Oxford Lane Management**

Our investment activities are managed by Oxford Lane Management, which is an investment adviser that has registered under the Investment Advisers Act of 1940, or the Advisers Act. Under our investment advisory agreement with Oxford Lane Management, which we refer to as our Investment Advisory Agreement, we have agreed to pay

Oxford Lane Management an annual base management fee based on our gross assets, as well as an incentive fee based on our performance. See Investment Advisory Agreement in the accompanying prospectus.

We expect to benefit from the ability of our investment adviser's team to identify attractive opportunities, conduct diligence on and value prospective investments, negotiate terms where appropriate, and manage and monitor a diversified portfolio although we do not intend to operate as a diversified investment company within the meaning of the 1940 Act. Our investment adviser's senior investment team members have broad investment backgrounds, with prior experience at investment banks, commercial banks, unregistered

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investment funds and other financial services companies, and have collectively developed a broad network of contacts to provide us with our principal source of investment opportunities.

Our investment adviser is led by Jonathan H. Cohen, our Chief Executive Officer, and Saul B. Rosenthal, our President. Messrs. Cohen and Rosenthal are assisted by Darryl M. Monasebian, Executive Vice President, and Debdeep Maji, who serves as Senior Managing Director for Oxford Lane Management. We consider Messrs. Cohen, Rosenthal, Monasebian and Maji to be Oxford Lane Management's senior investment team.

Messrs. Cohen, Rosenthal, Monasebian and Maji together with the other members of Oxford Lane Management's investment team, have developed an infrastructure that we believe provides Oxford Lane Capital with a competitive advantage in locating and acquiring attractive CLO investments.

Charles M. Royce is a non-managing member of Oxford Lane Management. Mr. Royce serves as Chairman of the Board of Managers of Royce & Associates, LLC, or Royce & Associates. From 1972 until 2017, Mr. Royce served as Chief Executive Officer of Royce & Associates. He also manages or co-manages eight of Royce & Associates' open- and closed-end registered funds. Mr. Royce currently serves on the Board of Trustees of The Royce Funds and Board of Directors of Oxford Square Capital Corp. Mr. Royce is also a non-managing member of Oxford Square Management, LLC, the investment adviser for Oxford Square Capital Corp. Mr. Royce, as a non-managing member of Oxford Lane Management, does not take part in the management or participate in the operations of Oxford Lane Management.

We will reimburse Oxford Funds, an affiliate of Oxford Lane Management, our allocable portion of overhead and other expenses incurred by Oxford Funds in performing its obligations under an administration agreement by and among us and Oxford Funds, or the Administration Agreement, including rent, the fees and expenses associated with performing administrative functions, and our allocable portion of the compensation of our Chief Financial Officer and any administrative support staff, including accounting personnel. We will also pay indirectly the costs associated with the functions performed by our Chief Compliance Officer under the terms of an agreement between us and Alaric Compliance Services, a compliance consulting firm. These arrangements could create conflicts of interest that our Board of Directors must monitor.

## **Investment Focus**

Our investment objective is to maximize our portfolio's risk-adjusted total return. Our current focus is to seek that return by investing in structured finance investments, specifically the equity and junior debt tranches of CLO vehicles, which are collateralized primarily by a diverse portfolio of Senior Loans, and which generally have very little or no exposure to real estate loans, or mortgage loans or to pools of consumer-based debt, such as credit card receivables or auto loans. Our investment strategy also includes investing in warehouse facilities, which are financing structures intended to aggregate Senior Loans that may be used to form the basis of a CLO vehicle. As of June 30, 2018, we held debt investments in four different CLO structures and equity investments in approximately 87 different CLO structures and three investments in warehouse facilities. We may also invest, on an opportunistic basis, in a variety of other types of corporate credits.

The CLO investments we currently hold in our portfolio generally represent either a residual economic interest, in the case of an equity tranche, or a debt investment collateralized by a portfolio of Senior Loans. The value of our CLO investments generally depend on both the quality and nature of the underlying portfolio it references and also on the specific structural characteristics of the CLO itself.

## **CLO Structural Elements**

Structurally, CLO vehicles are entities formed to originate and manage a portfolio of loans. The loans within the CLO vehicle are generally limited to loans which meet established credit criteria and are subject to concentration limitations in order to limit a CLO vehicle's exposure to a single credit.

A CLO vehicle is formed by raising multiple tranches of debt (with the most senior tranches being rated AAA to the most junior tranches typically being rated BB or B ) and equity. As interest payments are received the CLO vehicle makes contractual interest payments to each tranche of debt based on their seniority. If there are funds remaining after each tranche of debt receives its contractual interest rate and the CLO vehicle meets or exceeds required collateral coverage levels (or other similar covenants) the remaining funds may be paid to the equity tranche. The contractual provisions setting out this order of payments are set out in detail in the CLO

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vehicle's indenture. These provisions are referred to as the priority of payments or the waterfall and determine any other obligations that may be required to be paid ahead of payments of interest and principal on the securities issued by a CLO vehicle. In addition, for payments to be made to each tranche, after the most senior tranche of debt, there are various tests which must be complied with, which are different for each CLO vehicle.

CLO indentures typically provide for adjustments to the priority of payments in the event that certain cashflow or collateral requirements are not maintained. The collateral quality tests that may divert cashflows in the priority of payments are predominantly determined by reference to the par values of the underlying loans, rather than their current market values. Accordingly, we believe that CLO equity and junior debt investments allow investors to gain exposure to the Senior Loan market on a levered basis without being structurally subject to mark-to-market price fluctuations of the underlying loans. As such, although the current valuations of CLO equity and junior debt tranches are expected to fluctuate based on price changes within the loan market, interest rate movements and other macroeconomic factors, those tranches will generally be expected to continue to receive distributions from the CLO vehicle periodically so long as the underlying portfolio does not suffer defaults, realized losses or other covenant violations sufficient to trigger changes in the waterfall allocations. We therefore believe that an investment portfolio consisting of CLO equity and junior debt investments of this type has the ability to provide attractive risk-adjusted rates of return.

The diagram below is for illustrative purposes only. The CLO structure highlighted below is illustrative only and depicts structures among CLO vehicles in which we may invest may vary substantially from the illustrative example set forth below.

We typically invest in the equity tranches, which are not rated, and to a lesser extent the B and BB tranches of CLO vehicles. As of June 30, 2018, 98% of our portfolio on a fair value basis was invested in the equity tranches of CLO vehicles.

## **The Syndicated Senior Loan Market**

We believe that while the syndicated leveraged corporate loan market is relatively large, with Standard and Poor's estimating the total par value outstanding at approximately \$1.1 trillion as of August 7, 2018, this market remains largely inaccessible to a significant portion of investors that are not lenders or approved institutions. The CLO market permits wider exposure to syndicated Senior Loans, but this market is almost exclusively private and predominantly institutional.

The Senior Loan market is characterized by various factors, including:

***Floating rate instruments.*** A Senior Loan typically contains a floating versus a fixed interest rate, which we believe provides some measure of protection against the risk of interest rate fluctuation. However, all of our CLO investments have many Senior Loans which are subject to interest rate floors and since interest rates on Senior Loans may only reset periodically and the amount of the

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increase following an interest rate reset may be below the interest rate floors of such Senior Loans, our ability to benefit from rate resets following an increase in interest rates may be limited.

**Frequency of interest payments.** A Senior Loan typically provides for scheduled interest payments no less frequently than quarterly.

## **Investment Opportunity**

We believe that the market for CLO-related assets continues to provide us with opportunities to generate attractive risk-adjusted returns over the long term. We believe that a number of factors support this conclusion, including:

The long-term and relatively low-cost capital that many CLO vehicles have secured, compared with current asset spreads, have created opportunities to purchase certain CLO equity and junior debt instruments that may produce attractive risk-adjusted returns. Additionally, given that the CLO vehicles we invest in are cash flow-based vehicles, this term financing may be extremely beneficial in periods of market volatility.

The market to invest in warehouse facilities, which are short and medium-term loan facilities that are generally expected to form the basis of CLO vehicles (which the Fund may participate in or be repaid by), has created additional attractive risk-adjusted investment opportunities for us.

Investing in CLO securities, and CLO equity instruments and warehouse facilities in particular, requires a high level of research and analysis. We believe that transactions in this market can only be adequately conducted by knowledgeable market participants as this market and these structures tend to be highly specialized.

The U.S. CLO market is relatively large with total assets under management of approximately \$495 billion.<sup>(1)</sup> We estimate that the notional amount outstanding of the junior-most debt tranches (specifically the tranches originally rated BB and B ) is approximately \$24 billion and the notional amount outstanding of the equity tranches is approximately \$48 billion.<sup>(2)</sup>

We continue to review a large number of CLO investment opportunities in the current market environment, and we expect that the majority of our portfolio holdings, over the near to intermediate-term, will continue to be comprised of CLO debt and equity securities, with the more significant focus over the near-term likely to be on CLO equity securities and warehouse facilities.

## **Summary Risk Factors**

The value of our assets, as well as the market price of our securities, will fluctuate. Our investments may be risky, and you may lose all or part of your investment in us. Investing in Oxford Lane Capital involves other risks, including the following:

Our portfolio of investments may lack diversification among CLO vehicles which may subject us to a risk of significant loss if one or more of these CLO vehicles experiences a high level of defaults on its underlying Senior Loans;

The Senior Loan portfolios of the CLO vehicles in which we will invest may be concentrated in a limited number of industries, which may subject those vehicles, and in turn us, to a risk of

1. As of December 31, 2017 — Source: Wells Fargo Securities, The CLO Monthly Market Overview, dated May 1, 2018.
2. Oxford Lane has estimated this amount based in part on the Wells Fargo Securities report (noted in footnote 1 above).



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significant loss if there is a downturn in a particular industry in which a number of our CLO vehicles' investments are concentrated;

The application of the risk retention rules under Section 941 of the Dodd-Frank Act to CLOs may have broader effects on the CLO and loan markets in general, potentially resulting in fewer or less desirable investment opportunities for the Company.

Our financial results may be affected adversely if one or more of our significant equity or junior debt investments in such CLO vehicles defaults on its payment obligations or fails to perform as we expect;

Investing in CLO vehicles, Senior Loans and other high-yield corporate credits involves a variety of risks, any of which may adversely impact our performance;

The CLO equity market has experienced significant downturns from time to time, which has negatively impacted our net asset value per share and, if those reduced values are realized over time, you may not receive dividends or our dividends may decline or may not grow over time;

We have a limited operating history as a closed-end investment company;

Our investment portfolio is recorded at fair value, with our Board of Directors having final responsibility for overseeing, reviewing and approving, in good faith, its estimate of fair value and, as a result, there will be uncertainty as to the value of our portfolio investments;

We are dependent upon Oxford Lane Management's key personnel for our future success;

Our incentive fee structure and the formula for calculating the fee payable to Oxford Lane Management may incentivize Oxford Lane Management to pursue speculative investments, use leverage when it may be unwise to do so, or refrain from de-levering when it would otherwise be appropriate to do so;