

CAPITAL SOUTHWEST CORP  
Form DEF 14A  
June 08, 2018  
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the  
Securities Exchange Act of 1934 (Amendment No.    )

Filed by the Registrant  
Filed by a Party other than the Registrant  
Check the appropriate box:  
Preliminary Proxy Statement  
Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))  
Definitive Proxy Statement  
Definitive Additional Materials  
Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

CAPITAL SOUTHWEST CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):  
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  - 4) Date Filed:
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5400 LBJ Freeway, Suite 1300

Dallas, TX 75240

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[www.capitalsouthwest.com](http://www.capitalsouthwest.com)

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD AUGUST 2, 2018

To the Shareholders of Capital Southwest Corporation:

The 2018 Annual Meeting of Shareholders of Capital Southwest Corporation (“Capital Southwest”) will be held on August 2, 2018, at 9:00 a.m., Dallas time (the “Annual Meeting”). We will hold our Annual Meeting in the Madison Conference Room, Hilton Dallas Lincoln Centre, 5410 LBJ Freeway, Dallas, Texas 75240. The purpose of this meeting is for our shareholders to consider and vote to:

1. Elect seven directors to serve until the 2019 Annual Meeting of Shareholders or until their respective successors are duly elected and qualified;
2. Approve the Capital Southwest Corporation Amended and Restated 2010 Restricted Stock Award Plan;
3. Approve, on an advisory basis, the compensation of our named executive officers;
4. Ratify the appointment by our Audit Committee of RSM US LLP as our independent registered public accounting firm for the fiscal year ending March 31, 2019; and
5. Transact such other business as may properly come before the Annual Meeting.

The Capital Southwest Board of Directors recommends you vote FOR the preceding four proposals.

Shareholders of record at the close of business on June 5, 2018 are entitled to receive notice and to vote at the Annual Meeting.

Your vote is very important. Accordingly, please vote or authorize a proxy to vote, whether or not you plan to attend the Annual Meeting. You may vote or authorize a proxy to vote by (1) mail by marking, signing, dating and returning the enclosed proxy card in the postage-paid envelope we have provided; (2) Internet at [www.proxyvote.com](http://www.proxyvote.com); (3) phone by calling 1 800 690 6903; or (4) attending the Annual Meeting and voting in person. If you plan to attend the Annual Meeting to vote in person and your shares are registered in your own name with our transfer agent, American Stock Transfer & Trust Company, you may do so. If your shares are held in the name of a bank, broker or other nominee (i.e., in street name), you must obtain a proxy from the bank or broker assigning voting rights to you for your shares in order to vote in person at the Annual Meeting. This proxy statement, proxy card and any accompanying proxy materials are first being mailed to shareholders of record on or about June 12, 2018.

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IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING TO BE HELD ON AUGUST 2, 2018.

The Notice of Annual Meeting, this proxy statement and our Annual Report on Form 10-K for the fiscal year ended March 31, 2018 (“Annual Report”) are available online at [www.proxyvote.com](http://www.proxyvote.com). The proxy statement and Annual Report can also be found on our website [www.capitalsouthwest.com](http://www.capitalsouthwest.com) under the “SEC Filings” tab or on the SEC’s EDGAR website at [www.sec.gov](http://www.sec.gov).

Thank you for your support of Capital Southwest Corporation.

By Order of the Board of Directors

Michael Sarner  
Chief Financial Officer,  
Chief Compliance Officer, Secretary  
and Treasurer

June 8, 2018

Dallas, Texas

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PROXY STATEMENT

2018 ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD ON AUGUST 2, 2018

GENERAL INFORMATION

We are furnishing you this proxy statement in connection with the solicitation of proxies by the Board of Directors (the “Board”) of Capital Southwest Corporation, a Texas corporation (the “Company,” “Capital Southwest,” “we,” “us,” or “our”). This proxy statement addresses the items of business for the 2018 Annual Meeting of Shareholders of Capital Southwest (the “Annual Meeting”) to be held on August 2, 2018 or any postponement or adjournment thereof. We will hold the Annual Meeting at 9:00 a.m., Dallas time in the Madison Conference Room, Hilton Dallas Lincoln Centre, 5410 LBJ Freeway, Dallas, Texas 75240. The Notice of Annual Meeting, this proxy statement, our Annual Report on Form 10-K for the fiscal year ended March 31, 2018 (“Annual Report”), the proxy card and any accompanying proxy materials are being mailed to shareholders on or about June 12, 2018. The Company will bear all expenses incurred in connection with this proxy solicitation, which we expect to conduct primarily by mail. In addition, our officers may solicit your proxy by telephone, by facsimile transmission or in person, for which they will not be separately compensated. If your shares are held through a broker or other nominee (i.e., in “street name”), we have requested that your broker or nominee forward this proxy statement to you and obtain your voting instructions, for which the Company will reimburse them for reasonable out-of-pocket expenses. Our principal executive office is located at 5400 LBJ Freeway, Suite 1300, Dallas, Texas 75240.

PROPOSALS TO BE VOTED ON

At the meeting, you will be asked to vote on the following four proposals:

Proposal 1: The election of seven directors to serve until the 2019 Annual Meeting of Shareholders or until their respective successors are duly elected and qualified;

Proposal 2: The approval of the Capital Southwest Corporation Amended and Restated 2010 Restricted Stock Award Plan;

Proposal 3: An advisory vote on the compensation of our named executive officers; and

Proposal 4: The ratification of our appointment of RSM US LLP as our independent registered public accounting firm for the year ending March 31, 2019.

Our Board recommends that you vote FOR Proposal 1, Proposal 2, Proposal 3 and Proposal 4.

VOTING INFORMATION

Record Date and Who May Vote

Our Board selected the close of business on June 5, 2018 as the record date (the “Record Date”) for determining shareholders entitled to vote at the Annual Meeting. As of the Record Date, we had 16,161,786 shares of common stock outstanding. Each share of our common stock is entitled to one vote on each matter that is voted on at the



Annual Meeting.

If your shares were registered directly in your name with American Stock Transfer & Trust Company, our transfer agent and registrar, on the Record Date, you were a shareholder of record on the Record Date and you may vote your shares in person at the Annual Meeting or by proxy without attending the Annual Meeting on the matters to be considered by our shareholders at the Annual Meeting. If your shares were held through a bank, broker or other nominee (the “account holder”) on the Record Date, you are considered the “beneficial owner” of shares held in “street name” and your account holder has the authority to vote your shares at the Annual Meeting in accordance with your instructions.

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If your shares are held through a broker, your vote instructs the broker how you want your shares to be voted. If you vote on each proposal, your shares will be voted in accordance with your instructions. Brokers may vote shares they hold in “street name” on behalf of beneficial owners who have not voted with respect to certain “routine” matters. The proposal to ratify the appointment of RSM US LLP (Proposal 4) is considered a routine matter, so brokers may vote shares on this matter in their discretion if no voting instructions are received. However, the election of directors (Proposal 1), the vote on the Capital Southwest Corporation Amended and Restated 2010 Restricted Stock Award Plan (Proposal 2), and the advisory vote on executive compensation (Proposal 3) are not considered routine matters, so brokers have no discretion to vote shares for which no voting instructions are received, and no vote will be cast if you do not vote on those items.

Voting by Internet, by Phone, by Mail or in Person

If your shares are held directly in your name, you may vote or authorize a proxy to vote using any of the following methods:

**By Internet:** Go to [www.proxyvote.com](http://www.proxyvote.com) and use the Internet to transmit your voting instructions by electronic delivery of information until 11:59 p.m. Eastern Time on August 1, 2018. Have your proxy card in hand when you access the website and follow the instructions.

**By Phone:** Call 1 800 690 6903 on any touch-tone telephone to transmit your voting instructions until 11:59 p.m. Eastern Time on August 1, 2018. Have your proxy card in hand when you call and follow the instructions.

**By Mail:** Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided. The named proxies will vote your shares according to your directions.

**In Person:** You may vote shares held directly in your name in person at the Annual Meeting. If you want to vote shares that you hold in “street name” at the meeting, you must request a legal proxy from your broker, bank or other nominee.

If you sign, date and return your proxy card and do not make any selection on the proxy card, the proxy holders named on your proxy card will vote your shares for (1) the election of all of the director nominees, (2) the proposal to approve the Capital Southwest Corporation Amended and Restated 2010 Restricted Stock Award Plan, (3) the proposal to approve, on an advisory basis, the compensation of our named executive officers, and (4) the ratification of the appointment of RSM US LLP as our independent registered public accounting firm for the 2019 fiscal year.

If your shares are held in street name, these proxy materials are being forwarded to you by your account holder, along with voting instructions. As the beneficial owner, you have the right to direct your account holder how to vote your shares, and the account holder is required to vote your shares in accordance with your instructions. In addition, as the beneficial owner of shares, you are entitled to attend the Annual Meeting. If you are a beneficial owner, however, you may not vote your shares in person at the Annual Meeting unless you obtain a legal proxy, executed in your favor, from the account holder of your shares.

You may receive more than one proxy statement and proxy card or voting instructions form if your shares are held through more than one account (e.g., through different account holders). Each proxy card or voting instructions form only covers those shares of common stock held in the applicable account. If you hold shares in more than one account, you must provide voting instructions as to all your accounts to vote all your shares.

#### Confidentiality

Proxy cards, ballots and voting tabulations that identify individual shareholders are confidential. Only the inspectors of election and certain employees associated with processing proxy cards and counting the votes have access to your card.

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### How to Revoke or Change Your Vote

For shares held of record, you may revoke a proxy or change your vote at any time before the Annual Meeting by any of the following methods:

- sending a written revocation to our Secretary at our principal executive office;
- authorizing a subsequent proxy card through the Internet or by telephone;
- executing and submitting a later dated proxy card; or
- voting in person at the Annual Meeting.

Unless you attend the Annual Meeting and vote your shares in person, you should change your vote using the same method (by telephone, Internet or mail) that you first used to vote your shares. That way, the inspectors of election for the meeting will be able to verify your latest vote.

For shares held in street name, you should follow the instructions in the voting instructions form provided by the account holder to change your vote. If you want to change your vote as to shares held in street name by voting in person at the Annual Meeting, you must obtain a valid proxy from the account holder that holds those shares for you.

### Quorum

The presence at the Annual Meeting, in person or by proxy, of holders of a majority of the shares entitled to vote at the Annual Meeting will constitute a quorum. The Annual Meeting will be held only if a quorum is present.

Abstentions and broker non-votes will be treated as shares present for determining whether a quorum is established. A “broker non-vote” occurs when a broker holding shares in “street name” for a beneficial owner is represented in person or by proxy at the meeting but does not vote on a particular proposal because the broker has not received voting instructions from the beneficial owner and cannot or chooses not to vote the shares in its discretion for that particular proposal.

### Vote Required; How Votes Are Counted

All votes will be tabulated by the inspectors of election appointed for the Annual Meeting, who will separately tabulate affirmative votes, negative votes and abstentions. Shareholders may not cumulate their votes.

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Assuming a quorum is present at the Annual Meeting, the following votes are required to approve each proposal:

Proposal	Vote Required
Proposal One: Election of Directors	Plurality (that is, the largest number) of the votes cast by the holders of shares entitled to vote in the election of directors at the Annual Meeting. Abstentions and broker non-votes will not be included in determining the number of votes cast and, as a result, do not affect the outcome.
Proposal Two: Approval of the Capital Southwest Corporation Amended and Restated 2010 Restricted Stock Award Plan	The affirmative vote of the holders of a majority of the shares entitled to vote on, and that voted for or against or expressly abstained with respect to this proposal is required to approve the Capital Southwest Corporation Amended and Restated 2010 Restricted Stock Award Plan. Abstentions have the same effect as votes cast against the proposal, while broker non-votes will not be included in determining the number of votes cast and, as a result, do not affect the outcome.
Proposal Three: Advisory Vote on the Compensation of our Named Executive Officers	The affirmative vote of the holders of a majority of the shares entitled to vote on, and that voted for or against or expressly abstained with respect to this proposal is required to approve, on an advisory basis, the compensation of our named executive officers. Abstentions have the same effect as votes cast against the proposal, while broker non-votes will not be included in determining the number of votes cast and, as a result, do not affect the outcome.
Proposal Four: Ratification of Independent Registered Public Accounting Firm	The affirmative vote of the holders of a majority of the shares entitled to vote on, and that voted for or against or expressly abstained with respect to this proposal is required to ratify the appointment of RSM US LLP to serve as our independent registered public accounting firm for fiscal year 2019. Abstentions have the same effect as votes cast against the proposal.

We are not aware of any other matters that may be presented or acted on at the Annual Meeting. If you vote by signing and returning the enclosed proxy card or using the telephone or Internet voting procedures, the individuals named as proxies on the card may vote your shares, in their discretion, on any other matter requiring a shareholder vote that comes before the Annual Meeting.

Questions

If you have any questions about the Annual Meeting, voting or your ownership of our common stock, please contact Michael Sarner at 214-238-5700.

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PROPOSAL ONE: ELECTION OF DIRECTORS

At the Annual Meeting, seven directors will be elected to serve one-year terms expiring at the 2019 Annual Meeting of Shareholders. David R. Brooks, Jack D. Furst, T. Duane Morgan, William R. Thomas III, John H. Wilson and Bowen S. Diehl are currently directors and each has been nominated to continue to serve as a director. Our Board is also recommending a new director nominee, Christine S. Battist, for election to our Board at the Annual Meeting. The director nominees were selected by the Nominating and Corporate Governance Committee and approved by the Board for submission to the shareholders.

Board Composition

The Nominating/Corporate Governance Committee (the “NCG Committee”) seeks directors with established, strong professional reputations and experience in areas relevant to our investment strategy. Each of the director nominees holds or has held senior executive positions in large, complex organizations and has experience that meets this objective. In these positions, they have also gained experience in core management skills, such as strategic and financial planning, public company financial reporting, compliance, risk management and leadership development. Each of our directors also has experience serving on or advising boards of directors and board committees of other organizations and has an understanding of corporate governance practices and trends.

The NCG Committee also believes that each of the nominees has other key attributes that are important to an effective board: integrity, candor, analytical skills, the willingness to engage management and each other in a constructive and collaborative fashion, and the ability and commitment to devote significant time and energy to serve on the Board and its committees. The NCG Committee takes into account diversity considerations in determining the director nominees and planning for director succession and believes that, as a group, the nominees bring a diverse range of perspectives to the Board’s deliberations.

In addition to the above, the NCG Committee also considered the specific experience described in the biographical information that follows in determining to recommend the director nominees for election and our Board to conclude that the nominees should serve as our director.

Director Qualifications

The NCG Committee reviews with the Board on an annual basis the appropriate skills and characteristics required of Board members in the context of the then-current composition of the Board. This assessment includes, in addition to qualities of intellect, integrity and judgment, the consideration of business experience and knowledge, reputation and character, issues of diversity, relevant industry and trade association knowledge and participation, accounting and financial expertise, public company experience, willingness and ability to devote the time and effort required to effectively serve on the Board and relevant legal and regulatory qualifications. The NCG Committee makes this determination in the context of an assessment of the perceived needs of the Board at that point in time.

The Board recognizes that its members benefit from service on the boards of other companies. While we encourage that service, we also believe it is critical that directors have the ability to dedicate sufficient time to their service on our Board.

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## Information about the Directors

For each director nominee, we have highlighted certain key areas of experience that qualify him or her to serve on the Board in each of their respective biographies below. The business address of each director nominee is 5400 LBJ Freeway, Suite 1300, Dallas, Texas 75240. No director nominee otherwise serves as a director of an investment company subject to the Investment Company Act of 1940 (the “1940 Act”). There are currently no family relationships among any director, nominee, or executive officer.

Name and Age	Position Held with Company	Year First Elected or Appointed	Principal Occupation
<b>Independent Directors</b>			
David R. Brooks (59)	Chairman of the Board	2017	Chairman and Chief Executive Officer of Independent Bank Group, Inc.
Christine S. Battist (49)	Director	2014	Chief Financial Officer of Avison Young
Jack D. Furst (59)	Director	*	Founder of Oak Stream Investors
T. Duane Morgan (68)	Director	2012	Former/Retired Senior Vice President of Gardner Denver, Inc.
William R. Thomas III (47)	Director	2014	President of Thomas Heritage Foundation
John H. Wilson (75)	Director	1988	President of U.S. Equity Corporation
<b>Interested Director</b>			
Bowen S. Diehl (49)	Director, President and Chief Executive Officer	2015	President and Chief Executive Officer of Capital Southwest Corporation

\*Christine S. Battist is not currently a member of our Board, but has been nominated for election at this Annual Meeting.

## Director Nominee Biographies

## Independent Directors

The Board has determined that Ms. Battist and Messrs. Brooks, Furst, Morgan, Thomas and Wilson are “independent” as defined by the Nasdaq Stock Market Rules and are not “interested persons” for purposes of the 1940 Act.

Christine S. Battist is the Chief Financial Officer of Avison Young, a private commercial real estate services firm. Ms. Battist joined Avison Young in January 2018 and as CFO is responsible for all accounting, finance and strategy activities of the company. Previously, Ms. Battist was the Chief Financial Officer and Treasurer from 2012 to 2016 at Silver Bay Realty Trust Corp. (NYSE: SBY), a public real estate investment trust focused on the acquisition, renovation, leasing and management of single-family properties for rental income and capital appreciation. Prior to

this, from 2011 to 2012, Ms. Battist was Managing Director at Two Harbors Investment Corp. (NYSE: TWO), a public real estate investment trust focused on investing, financing and managing residential mortgage-backed securities. From 2007 to 2011, Ms. Battist was Director of Investor Relations at The Mosaic Company (NYSE: MOS), a Fortune 500 agribusiness company. Ms. Battist has over 25 years of experience in the accounting and finance fields, including leading an IPO, secondary offerings, mergers and acquisitions, restructurings, investor relations and establishing finance infrastructure. Ms. Battist holds a Bachelor of Business Administration in Accounting from St. Norbert College and is a Certified Public Accountant in Texas. If elected to the Board, Capital Southwest will benefit from Ms. Battist's extensive experience and track record of managing accounting, finance and investor relations affairs for public and private companies. In addition, Capital Southwest will benefit from Ms. Battist's qualification as an "audit committee financial expert" as defined under Item 407 of Regulation S-K.

David R. Brooks will be the Chairman of the Board of Capital Southwest following the Annual Meeting, subject to his re-election. Mr. Brooks is the Chairman of the Board, Chief Executive Officer, and a director of Independent Bank



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Group, Inc. (NASDAQ:IBTX), a publicly-traded bank holding company with approximately \$9 billion in assets. Mr. Brooks previously served on the board of managers of Noel-Levitz, LLC, a large national higher education consulting company. He also previously served on the board of trustees of Houston Baptist University. Mr. Brooks has over 35 years of experience in the financial services industry and previously served as the chief financial officer at Baylor University. Mr. Brooks holds Bachelor and Master degrees in Business Administration from Baylor University. Capital Southwest benefits from Mr. Brooks' extensive experience in overseeing the operations and growth of a bank holding company, his executive expertise in public and private companies, his significant experience as a director of public and private companies, and his expertise in financial matters.

Jack D. Furst is the founder of Oak Stream Investors, a private investment firm he started in 2008. Mr. Furst has over 25 years of experience in leveraged acquisitions and private investments. He joined HM Capital Partners LLC, a private equity firm, in 1989, the year it was formed (as Hicks, Muse, Tate & Furst, Inc.). Until 2008, he was a partner in HM Capital and was involved in all aspects of the firm's business, including originating, structuring and monitoring HM Capital's investments. Prior to joining HM Capital, Mr. Furst served as a Vice President and subsequently a partner of Hicks & Haas from 1987 to 1989. From 1984 to 1986, Mr. Furst was a mergers and acquisitions/corporate finance specialist for The First Boston Corporation in New York. Before joining First Boston, Mr. Furst was a Financial Consultant at Pricewaterhouse Coopers. Mr. Furst received his Bachelor of Science degree with honors from the College of Business Administration at Arizona State University and his Masters of Business Administration degree with honors from the Graduate School of Business at The University of Texas at Austin. Capital Southwest benefits from Mr. Furst's senior executive and extensive private equity experience and his significant experience as a director of public and private companies.

T. Duane Morgan is the retired former President of the Engineered Products Group (EPG) of Gardner Denver, a global industrial manufacturer. Under Mr. Morgan, the EPG at Gardner Denver generated \$1.1 billion of revenue across four divisions and 22 production facilities in the US, China, Germany, UK and Sweden. He spent almost 10 years with Gardner Denver until it was sold to Kohlberg Kravis Roberts (KKR) in July 2013 for \$3.9 billion. Following the sale, Mr. Morgan continued as a Senior Vice President of Gardner Denver and advisor to KKR through July 2014, advising on matters including operational transition and strategy, as well as making presentations to ratings agencies that resulted in favorable financing for KKR and the new company. Prior to Gardner Denver, Mr. Morgan spent 20 years with Cooper Cameron, serving as President or Vice President of several of Cooper Cameron's major divisions. Mr. Morgan also serves on the board of SACHEM, Inc., a privately-held specialty chemical company. Mr. Morgan holds a Bachelor of Science in Mathematics from McNeese State University and a Masters of Business Administration from Louisiana State University. He served as an Army Air Defense Artillery Officer in South Korea. Mr. Morgan is a National Association of Corporate Directors ("NACD") Governance Fellow. Capital Southwest benefits from Mr. Morgan's track record, spanning decades, of successful executive leadership through multiple economic cycles.

William R. Thomas III is a private investor who provides leadership for, and invests in, organizations that create financial return, social impact or both. He has served as President of the Thomas Heritage Foundation since 2008, a nonprofit and grant-making corporation. He manages personally and on behalf of Thomas Heritage Partners, Ltd. approximately 3.7% of the outstanding shares of the Company. Mr. Thomas was a deal professional with Capital Southwest from 2006 to 2012. During this time, Mr. Thomas made, enhanced and monetized investments in stand-alone private companies and add-on opportunities, served on the boards of eleven private companies, and oversaw valuation and regulatory compliance. From 2004 to 2006, Mr. Thomas earned his M.B.A. from Harvard Business School. During a portion of his time at Harvard, Mr. Thomas served as a consultant to private equity clients at Investor Group Services. From 1993 through 2004, Mr. Thomas served in the U.S. Air Force as a pilot in multiple aircraft and led training, safety, acquisition and logistics operations, achieving the rank of Major. Mr. Thomas serves as a director of Encore Wire Corporation (WIRE), is recognized as a National Association of Corporate Directors (NACD) Board Leadership Fellow and graduated from the United States Air Force Academy. Capital Southwest

benefits from Mr. Thomas' professional investment experience and board experience.

John H. Wilson has been President of U.S. Equity Corporation, a private investment company, since 1983. He has over 45 years of experience as an executive or investor in numerous companies in the banking, insurance, manufacturing, communications, health and transportation industries. Mr. Wilson is also a director of Encore Wire Corporation (NASDAQ:WIRE). Mr. Wilson has a Bachelor of Business Administration degree from Baylor University.

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Capital Southwest benefits from Mr. Wilson's diverse industry experience, his significant experience as a director of public and private companies, and his experience as both an executive and an investor in numerous companies.

Interested Director

The Board has determined that Mr. Diehl is an "interested person" as defined in the 1940 Act due to his position as an officer of the Company.

Bowen S. Diehl has served as President and Chief Executive Officer and as a director of Capital Southwest since October 2015. Mr. Diehl joined Capital Southwest in March 2014 and served as its Chief Investment Officer from March 2014 to October 2015. Prior to joining Capital Southwest, Mr. Diehl was employed by American Capital, Ltd., a publicly traded private equity firm and global asset manager. From 2007 to 2014, he served as Co-Head of American Capital's Sponsor Finance Group, the group responsible for the majority of American Capital's middle market lending business. From 2001 to 2007, he served as a senior investment professional in the Dallas Office of American Capital. Mr. Diehl has sourced, structured and managed investments that have included senior and subordinated debt, as well as preferred and common equity in both control and non-control structures. Mr. Diehl's investment experience relates to a variety of industries including healthcare, business services, industrial manufacturing and consumer finance. Prior to American Capital, Mr. Diehl was a Vice President in Investment Banking at Merrill Lynch, where he gained experience working with companies in the exploration and production, oilfield services, natural gas pipeline, natural gas gathering and processing, homebuilding and semiconductor sectors. Prior to joining Merrill Lynch, Mr. Diehl was a Vice President in the Global Oil and Gas Group at Chase Securities Inc., completing numerous transactions in the upstream and midstream oil and gas sectors. Mr. Diehl earned a Bachelor of Engineering degree, with majors in Environmental/Geotechnical Engineering and Economics, from Vanderbilt University and a Masters of Business Administration from the University of Texas at Austin. In his capacity as President and Chief Executive Officer, Mr. Diehl is an "interested person" under the 1940 Act. Capital Southwest benefits from Mr. Diehl's extensive experience as a senior investment professional as well as his knowledge of the business development company ("BDC") industry.

THE BOARD OF DIRECTORS RECOMMENDS YOU VOTE "FOR" EACH OF THE DIRECTOR NOMINEES NAMED IN THIS PROXY STATEMENT.

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GOVERNANCE OF THE COMPANY

Compensation Governance Highlights

Clawback Policy

On April 25, 2018, our Board adopted a Clawback Policy effective for all incentive-based compensation (including equity and cash incentives) granted on or after April 25, 2018. The Clawback Policy requires our Compensation Committee to direct the Company to use reasonable efforts to recover certain incentive-based compensation from our executive officers upon either of the following events: (1) the executive officer commits willful misconduct that is attributable to the Company being obligated to prepare a restatement of its financial statements; or (2) the executive officer engages in detrimental activity as defined in the Clawback Policy. Our Clawback Policy applies to our executive officers, which currently consists only of our NEOs. For more information regarding our Clawback Policy, see “Compensation Discussion and Analysis—Clawback Policy.”

Executive Stock Ownership and Holding Policy

On April 25, 2018, our Board adopted a Stock Ownership and Holding Policy that requires our Chief Executive Officer to own common stock equal to four times his annual base salary, the Chief Financial Officer to own common stock equal to three times his annual base salary and all other executive officers to own common stock equal to three times their annual base salaries. The Stock Ownership and Holding Policy also requires our executive officers to hold 100% of net shares (i.e. shares remaining after payment of taxes) of our common stock acquired pursuant to the exercise of stock options or vesting of restricted stock until the earlier of twelve months following the exercise of stock options or vesting of restricted shares or the executive officer’s termination of employment. For more information about our Stock Ownership and Holding Policy, see “Compensation Discussion and Analysis—Stock Ownership and Holding Policy.”

Maximum Annual Incentive Opportunity

On April 25, 2018, our Board adopted a maximum limit on the annual cash incentive compensation that can be paid for fiscal 2019 to our NEOs of two times their target annual incentive opportunity.

Amendment and Restatement of the 2010 Restricted Stock Award Plan

We are asking our shareholders to vote to approve the Amendment and Restatement of the 2010 Restricted Stock Award Plan at the Annual Meeting to increase the shares of our common stock available for issuance under the 2010 Restricted Stock Award Plan by 850,000 shares and to implement the following best practice governance provisions: (i) double-trigger vesting upon a change in control for all future awards of restricted stock granted under the 2010 Restricted Stock Award Plan, (ii) a one-year minimum vesting period for all future awards of restricted stock granted under the 2010 Restricted Stock Award Plan (except with respect to up to 5% of the number of shares of our common stock available for issuance under the 2010 Restricted Stock Award Plan) and (iii) the cancellation or forfeiture of future awards of restricted stock granted under the 2010 Restricted Stock Award Plan in the event the participant engages in detrimental activity in accordance with our Clawback Policy. The Amendment and Restatement of the 2010 Restricted Stock Award Plan also makes certain other changes as described in “Proposal 2 Approval of the Amendment and Restatement of the 2010 Restricted Stock Award Plan.”

Director Governance Highlights

Director Retirement and Term Limitation Policy

On April 25, 2018, our Board adopted a Director Retirement and Term Limitation Policy which provides that no person may be nominated to stand for election or re-election to the Board as a non-employee director if the election would take place after such person has (1) reached age 72 and/or (2) served on our Board for an aggregate of 12 years. The Director Retirement and Term Limitation Policy provides that each non-employee director that reaches age 72 and/or an aggregate of 12 years of service on our Board must deliver a letter of resignation to be effective at the next annual meeting

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of shareholders following such delivery. Existing directors who have already reached age 72 and/or an aggregate of 12 years of service on our Board at the time this policy was adopted will be required to deliver a letter of resignation to be effective at our 2019 annual meeting of shareholders.

Non-Employee Director Stock Ownership Requirement

In October 2015, our NCG Committee adopted a stock ownership requirement for our non-employee directors to better align the interests of our Board with our shareholders. The stock ownership requirement provides that each non-employee director of our Board own shares of our common stock equal to 2.5 times the annual director retainer. On April 25, 2018, our Board amended this stock ownership requirement to require each non-employee director of our Board to own shares of our common stock equal to 3.5 times the annual director retainer.

Board Leadership and Corporate Governance

The Board recognizes that one of its key responsibilities is to evaluate and determine its optimal leadership structure so as to provide independent oversight of management. The Board understands that there is no single, generally accepted approach to providing board leadership and that, given the dynamic and competitive environment in which we operate, the right board leadership structure may vary as circumstances warrant. Accordingly, the Board seeks to fulfill its responsibilities by continually seeking the appropriate board leadership and corporate governance for Capital Southwest.

Currently, the offices of Chairman of the Board and Chief Executive Officer are separated. We have no fixed policy with respect to the separation of the offices of the Chairman of the Board and Chief Executive Officer. The Board believes that the separation of the offices is in the best interests of the Company at this time and is an integral part of good corporate governance and the succession planning process.

No single leadership model is right for all companies at all times. Our Board recognizes that depending on the circumstances, other leadership models might be appropriate. Accordingly, our Board periodically reviews its leadership structure.

The Board appoints the members of the Audit Committee, the Compensation Committee and the NCG Committee. Each of these committees has a written charter approved by the Board. These committee charters are available on our website at [www.capitalsouthwest.com/governance](http://www.capitalsouthwest.com/governance). The current members of the committees are identified in the following table.

Director	Current Board Committees		
	Audit	Compensation	Nominating/ Corporate Governance
David R. Brooks	X	X	X
Jack D. Furst	Chair	X	X
T. Duane Morgan	X	X	Chair
William R. Thomas III	X	X	X
John H. Wilson	X	Chair	X

Board Independence and Meeting

During our fiscal year ended March 31, 2018, the Board held ten meetings. In fiscal 2018, each director attended at least 75% of the aggregate of (1) the total number of meetings of the Board (held during the period for which he was a director) and (2) the total number of meetings held by all committees of the Board on which he served (held during the periods that he served). We encourage our directors to attend each annual meeting of our shareholders. All directors who were serving at the time of our 2017 annual meeting of shareholders attended the meeting.

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### Independence

Currently, the Board has six directors. The Board has determined that five of our current directors (Messrs. Brooks, Furst, Morgan, Thomas, and Wilson) are independent, as “independence” is defined by the Nasdaq Stock Market Rules. This means that none of the independent directors has any direct or indirect material relationship with us, either directly or as a partner, shareholder or officer of an organization that has a relationship with us. As a result, the Board has a majority of independent directors on the Board as required by the Nasdaq Stock Market Rules. We monitor the relationships of our directors and officers through a questionnaire that each director and officer completes no less frequently than annually and updates periodically as information provided in the most recent questionnaire changes. Additionally, our Board has determined that Ms. Battist, a director nominee, is independent, as “independence” is defined by the Nasdaq Stock Market Rules.

### Executive Sessions

Our independent directors have regularly scheduled executive sessions in which they meet without the presence of management or management directors. These executive sessions occur after each regularly scheduled meeting of the Board.

### Board Committees

#### Audit Committee

The Audit Committee oversees our accounting and financial reporting processes and the audits of the Company’s financial statements. The responsibilities of the Audit Committee include:

- engaging the Company’s independent registered public accounting firm and conducting an annual review of the independence of such independent registered public accounting firm;
- pre-approving and approving all audit and non-audit engagements with the Company’s independent registered public accounting firm;
- reviewing the annual audited financial statements and quarterly financial information with management and the independent registered public accounting firm, including disclosures regarding internal controls;
- reviewing with the independent registered public accounting firm the scope and the planning of the annual audit;
- reviewing and discussing with management the results of the audit of the independent registered public accounting firm;
- discussing risk assessment and corporate policies with respect to financial reporting and valuation of our investments and the Company’s financial risk exposure;
- approving related party transactions exceeding \$50,000 in aggregate value;
- overseeing investigations into complaints concerning accounting, internal accounting controls and auditing matters;
- reviewing the adequacy of the Audit Committee charter on an annual basis; and
- preparing the Audit Committee report to be included in our annual proxy statement.



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During fiscal 2018, the Audit Committee met eight times. The Board has determined that each member of the Audit Committee is “independent” as independence for audit committee members is defined by the Nasdaq Stock Market Rules and is not an “interested person” as defined by the 1940 Act. The Board has also determined that each of the Audit Committee members is financially literate and the Board determined that David R. Brooks and Jack D. Furst are each an “audit committee financial expert” as defined under Item 407 of Regulation S-K. In discharging its oversight role, the Audit Committee has authority to investigate any matter brought to its attention with full access to all books, records, facilities and personnel of Capital Southwest and the authority to engage independent counsel and other advisers as it determines necessary to carry out its duties.

Nominating/Corporate Governance Committee

The responsibilities of the NCG Committee include:

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