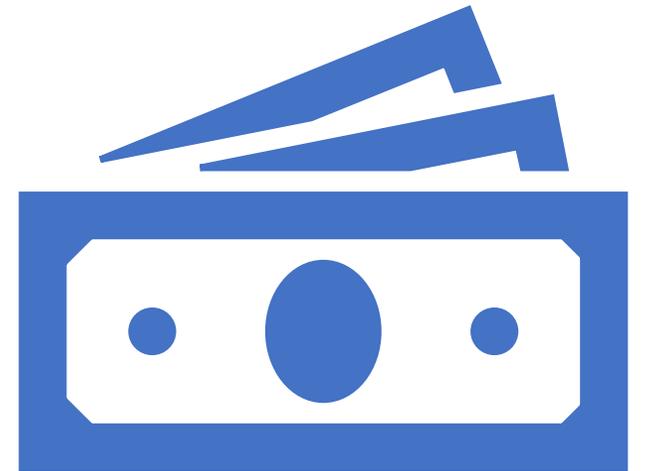


Business Development Companies

OLLI Investment Forum

David Toms

March 8, 2023



Agenda

WHAT IS A BDC?

BDC MARKET OVERVIEW

HOW TO EVALUATE A BDC

DEEP DIVE: BLACKSTONE SECURED LENDING FUND (BXSL)

CONCLUSIONS

Disclaimer: I am not a professional financial advisor, therefore not responsible for any decisions you might make. Do your own due diligence, and make your own decisions

What is a BDC?

Wikipedia Definition:

- Established by Congress with the Investment Company Act of 1980; Amended in March 2018
- **A company that makes loans to small and mid-size businesses**
- Companies use loans to finance expansion, acquisition, LBO, etc
- Regulated by the SEC as Registered Investment Companies (RIC)
- **PAY NO TAXES as long as they distribute 90% of earnings**
- Similar to a REIT, but assets are loans to small and medium size companies
- **Private Equity or Venture Capital for retail investors**
- Most BDCs are publicly traded – some are not

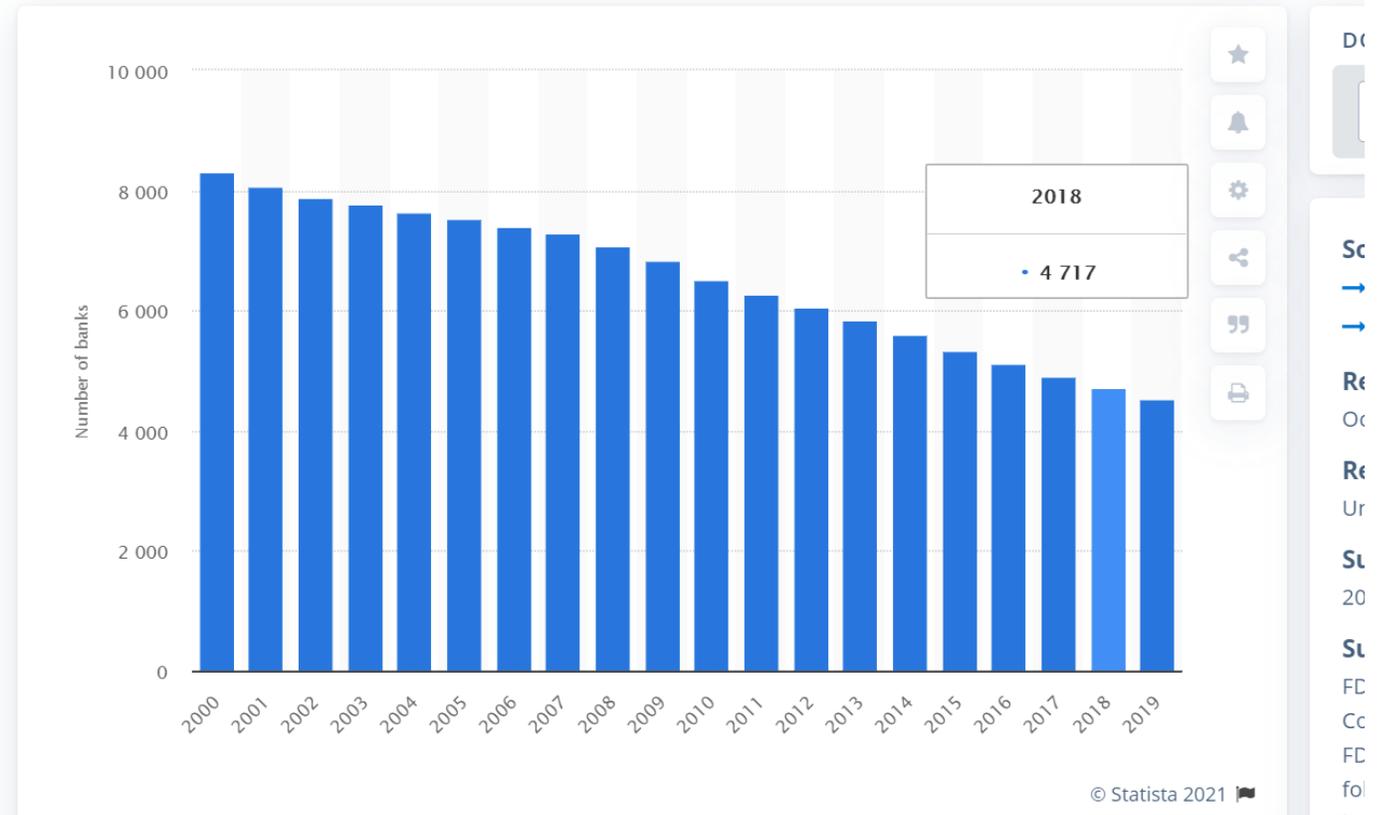
Primary reason for investing:

- Long term, alternative investment, high dividends with diversification
- Can result in good returns in a buy and hold portfolio, with a Dividend Reinvestment Program (DRIP)
- Investing is primarily for dividends, not capital gains
- Behave bond-like, except dividends are variable
- Most BDCs issue a fixed dividend with a variable supplemental dividend
- Most pay quarterly, a few monthly

BDCs are filling a gap

- Source: FDIC

Number of FDIC-insured commercial banks in the United States



Types of BDCs

Market Specialized or Diversified

- Specialized BDCs might invest defensively - Health care or Technology
- Diversified BDCs are just that
- International or US-only?

Internally managed or Externally managed

- Internally managed BDCs work for shareholders
- Externally managed BDCs work for the managers
 - Can result in conflicts of interest
 - BUT external managers may own a large stake

Hybrids

- Equity stakes in clients
- Warrants
- Own real estate property and collect rent
- Management services
- Board seats

Typical BDC Capitalization

Assets

- First Lien secured loans
 - 75% of portfolio is very good
- Second Lien secured loans
- Senior secured loans
- Mezzanine Loans
- Warrants
- Equity Stakes
- Board seats
- Partnerships and JVs
- Venture Debt
- SBA Facilities
 - Government guarantees

Liabilities

- Loans from money center banks
 - Revolving credit facilities
- Preferred stocks and dividends
- Common Stocks and dividends
- Notes
- Convertible Notes
- Baby Bonds
- Hedges



BDCs borrow at fixed rates;
Lend out at floating rates
Rising interest rates are good for BDCs! Usually.

BDC Market Landscape

There are approximately 60 BDCs registered with the SEC

New BDCs: Blackstone, Carlyle, Bain

Circled BDCs are ones that I own

BDC INVESTOR.com Home Articles Screens For

Largest BDCs by Net Assets			Largest BDCs by Market Cap		
Rank	BDC	Net Assets	Rank	BDC	Market Cap
#1	ARCC	9.78B	#1	ARCC	10.34B
#2	FSK	7.00B	#2	FSK	5.58B
#3	ORCC	5.86B	#3	ORCC	5.29B
#4	BXSL	4.14B	#4	BXSL	4.14B
#5	PSEC	3.97B	#5	MAIN	3.36B
#6	GBDC	2.51B	#6	PSEC	2.95B
#7	MAIN	2.14B	#7	GBDC	2.35B
#8	OCSL	1.51B	#8	HTGC	2.09B
#9	GSBD	1.50B	#9	GSBD	1.66B
#10	HTGC	1.44B	#10	OCSL	1.57B
#11	TSLX	1.34B	#11	TSLX	1.56B
#12	NMFC	1.31B	#12	NMFC	1.30B
#13	BBDC	1.19B	#13	BBDC	928.00M
#14	BCSE	1.12B	#14	BCSE	871.00M
#15	SLRC	999.90M	#15	SLRC	849.00M
#16	MFIC	988.30M	#16	MFIC	838.00M
#17	CION	901.29M	#17	CGBD	789.00M

BDC Market: Price / NAV rankings

Circled BDCs are ones that I own

Highest Price/NAV			Highest Yield on NAV		
Rank	BDC	Price/NAV	Rank	BDC	Yield on NAV
#1	MAIN	1.57x	#1	HTGC	14.81%
#2	HTGC	1.45x	#2	GECC	14.33%
#3	CSWC	1.16x	#3	TRIN	13.39%
#4	TSLX	1.16x	#4	CSWC	13.05%
#5	GLAD	1.12x	#5	OXSQ	12.57%
#6	GSBD	1.10x	#6	TPVG	12.46%
#7	OXSQ	1.08x	#7	GSBD	12.32%
#8	FDUS	1.07x	#8	HRZN	11.51%
#9	SCM	1.07x	#9	SCM	11.41%
#10	ARCC	1.06x	#10	RWAY	11.33%
#11	TPVG	1.05x	#11	TSLX	11.17%
#12	TRIN	1.05x	#12	OCSL	11.00%
#13	OCSL	1.04x	#13	BXSL	10.87%
#14	GAIN	1.03x	#14	ARCC	10.43%
#15	BXSL	1.00x	#15	FSK	10.29%
#16	HRZN	1.00x	#16	PTMN	10.24%
#17	NMFC	0.99x	#17	PFLT	10.16%

How to Evaluate a BDC

- Is the BDC externally managed? Or internally?
- Is the stock selling at a premium to NAV?
- What types of businesses do they loan to? Diversified or not?
- What is the quality of the loan portfolio?
 - Quarterly reports to investors
 - Read SEC reports for quality assessments
 - Default ratio < 1% is good
- Is the dividend sustainable?
 - What is the dividend history? Increasing dividend is excellent
 - Monthly or quarterly payout?
- Are Net Asset Value, Net Investment Income increasing?
- What is their leverage ratio? (debt/equity)
- Institutional and Insider holdings?

How to Evaluate a BDC, cont'd

- S&P Investment grade rating? BBB or better
- What are the qualifications of the managers?
- Analyst opinions?
- Short interest?
- What is the BDC's sensitivity to economic cycles?
- Do they have a Small Business Administration guarantee / license?
- Check SEC 10Q/10K quarterly reports – very insightful
 - Quarterly transcripts of shareholder meetings
- Read the Blogs on Seeking Alpha
 - Scott Kennedy, BDC Buzz, High Yield Investor (HYI), Brad Thomas
- Simply Safe Dividends provides excellent, in-depth analyses

Pandemic affects

- SEC stepped in to temporarily relax debt/equity requirements
- Many BDC stock prices dropped approx. 50%, compared to 20% for S&P500
 - Buying opportunities?
- Dividend affects varied
 - Mostly no affect, although all took earnings hits
 - Some cut dividends (NMFC, Golub Capital...)
 - Some stop supplementals, but kept their base dividends intact (MAIN, CSWC)
 - Some borrowed more to cover, increased leverage
 - All helped their portfolio companies struggle through it
- All have recovered since Q2, 2020

- Note to self: Be patient; Buy and hold well-managed companies

My BDC's

35% of my portfolio
Act as bond substitutes

Ares Capital (ARCC)

- Largest of all BDCs
- Market Cap \$10.3B; Yield 9.9%
- Externally managed

Main Street Capital (MAIN)

- Market Cap \$3.4B
 - Yield 6.4%
- Internally managed
 - Wall St darling



Hercules Capital Corp (HTGC)

- Market Cap \$2.1B;
 - Yield 10.3%
- Internally managed

Deep Dive: Blackstone Secured Lending Fund (BXSL)



Blackstone Secured Lending Fund (BXSL)

NYSE - Nasdaq Real Time Price. Currency in USD

★ Following

👤 Visitors trend 2W ↓ 10W ↑ 9M ↑

26.25 +0.35 (+1.35%) **26.25** 0.00 (0.00%)

At close: 03:59PM EST

After hours: 04:00PM EST

Summary Company Insights ^{y+} Chart Conversations Statistics Historical Data Profile Financials Analysis Options

Previous Close	25.90	Market Cap	4.215B
Open	25.87	Beta (5Y Monthly)	N/A
Bid	26.27 x 1000	PE Ratio (TTM)	10.76
Ask	26.28 x 800	EPS (TTM)	2.44
Day's Range	25.80 - 26.34	Earnings Date	Feb 27, 2023
52 Week Range	22.00 - 29.74	Forward Dividend & Yield	2.40 (9.28%)
Volume	1,271,168	Ex-Dividend Date	Mar 30, 2023
Avg. Volume	916,513	1y Target Est	27.25

Fair Value [?] ^{y+}

XX.XX

95% Est. Return

🔒 View details

Undervalued

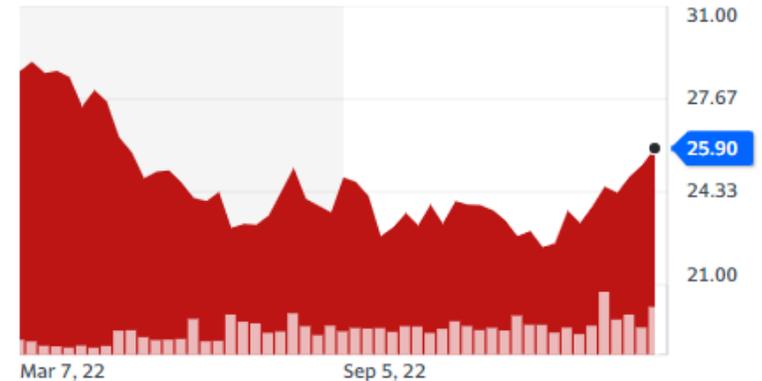


Related Research [?] ^{y+}

Daily - Vickers Top Buyers & Sellers for 11/23/2022
The Vickers Top Buyers ...
3 months ago • Argus Research

🔒 View more

1D 5D 1M 6M YTD 1Y 5Y Max 📊 Full screen



Trade prices are not sourced from all markets

Chart Events [?] ^{y+}

Bullish pattern detected

📊 Double Moving Average Crossover

🔒 View all chart patterns

Performance Outlook

Short Term [↑] 2W - 6W	Mid Term [↑] 6W - 9M	Long Term [↑] 9M+
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Diversified Portfolio

176 loans;
Defaults: 0

Short track record; only since 2021

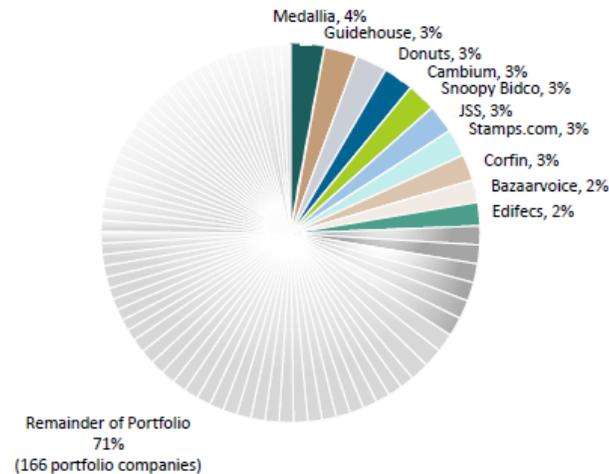
Blackstone

Secured Lending

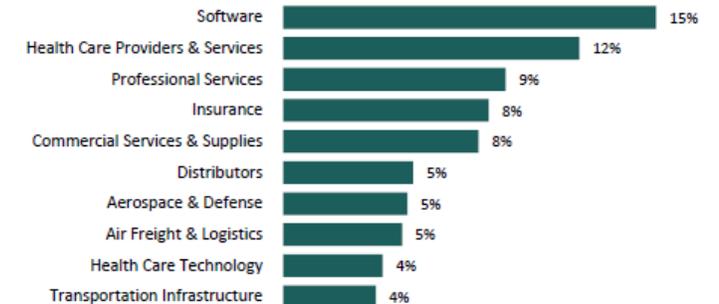
BXSL PORTFOLIO CONSTRUCTION

- Portfolio is well-diversified across industries with no issuer accounting for more than 4% of the portfolio
- Broad industry representation with largest exposures in software, health care providers & services, and professional services

Top Ten Portfolio Companies^(1,2) (as of December 31, 2022)



Top Ten Industries^(1,3) (as of December 31, 2022)



Loan criteria: Not reported

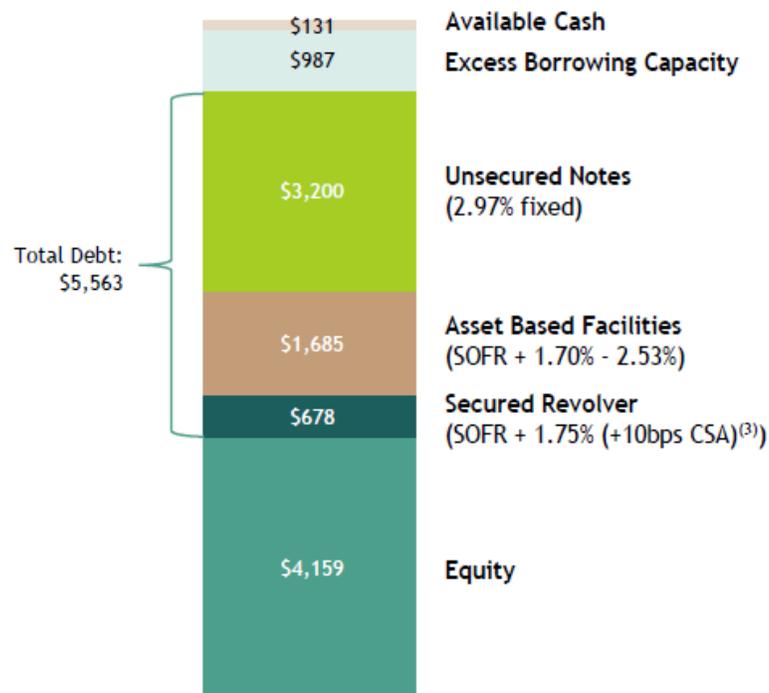
Source: Blackstone 2022 Full Year report, 2/27/23

BXSL Capitalization

- BXSL maintains its investment grade corporate credit ratings: Baa3/Stable from Moody's, BBB-/Stable from S&P, and BBB-/Positive from Fitch⁽¹⁾

Funding Profile

(\$ in millions)



74%

of assets funded by unsecured debt and equity

\$1.1B

of liquidity provides material capacity to the business

\$6.6B

of total committed debt capacity

4.3%

weighted average cost of debt⁽²⁾

3.7 years

to weighted average maturity

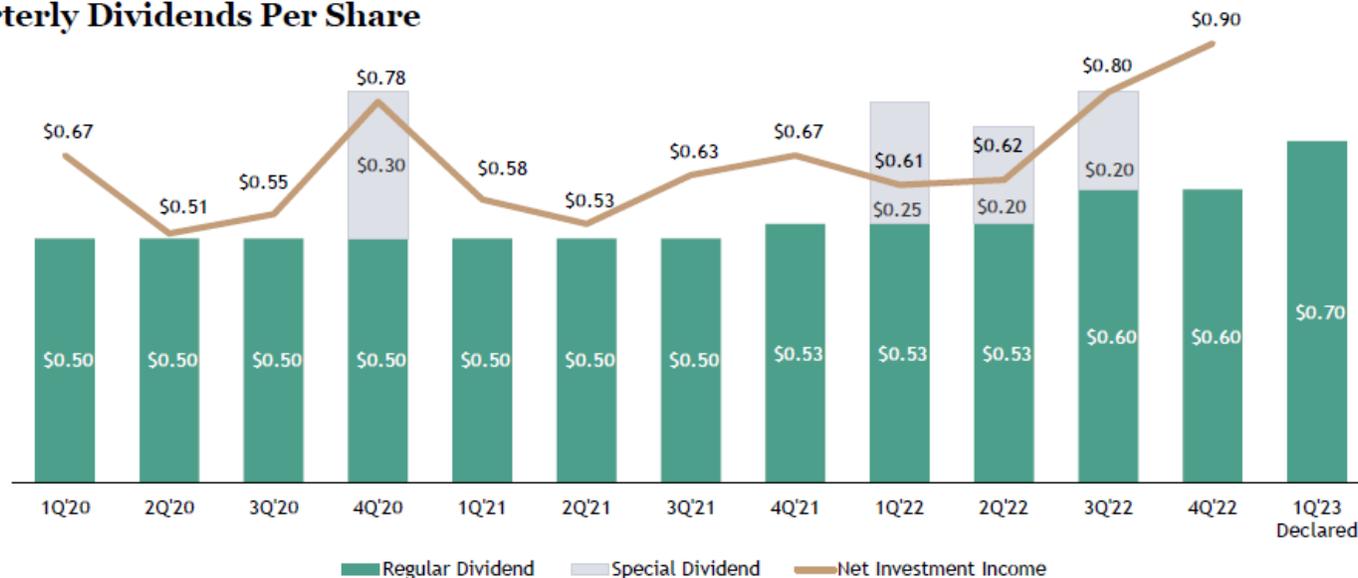
⁽¹⁾ As of December 31, 2022

Dividend Track Record

BXSL DIVIDEND COVERAGE HISTORY

- Regular dividend well covered by net investment income with 4Q'22 dividend coverage ratio of 150%⁽¹⁾
- \$0.60 regular quarterly dividend raised to \$0.70 as of 1Q'23, which represents the third dividend increase and 40% regular dividend growth since 3Q'21

Quarterly Dividends Per Share



Quarterly Regular Dividend Yield ⁽²⁾	9.2%	8.4%	8.0%	7.9%	7.8%	7.7%	7.6%	8.1%	8.1%	8.2%	9.3%	9.3%
Quarterly Regular Dividend Coverage	134%	102%	110%	156%	116%	106%	126%	126%	115%	117%	133%	150%

(1) Dividend coverage is calculated as net investment income per share (\$0.90) divided by regular dividend per share (\$0.60).

(2) Quarterly dividend yield is calculated as regular quarterly dividend (annualized) per share divided by the ending NAV per share.

Revenue / Income Performance

FOURTH QUARTER RESULTS

Earnings Summary

- Net investment income of \$144 million, or \$0.90 per share in the quarter, up 13% from \$0.80 in the prior quarter, and up 34% year-over-year
- Net income of \$122 million, or \$0.76 per share in the quarter, up 31% from \$0.58 in the prior quarter
- Net asset value of \$4.2 billion, or \$25.93 per share at quarter-end
- Total return of 10.1% annualized inception to date and 3.0% for the quarter⁽¹⁾
- Declared 17% dividend increase to \$0.70 per share beginning in the first quarter of 2023

Portfolio and Investment Activity

- Weighted average yield on debt investments at fair value of 10.7% at quarter-end, up from 9.1% as of prior quarter-end
- Fourth quarter net investment income would have been approximately 7% higher, or approximately an additional \$0.06 per share, if the average base rate would have been at the December 31st level for the entire quarter⁽²⁾
- New investment commitments in the quarter of \$177 million at par
- Proceeds from sales and repayments of \$219 million in the quarter

Liquidity Update

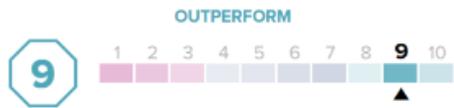
- \$1.1 billion of liquidity in cash and undrawn debt (subject to borrowing base capacity)
- Repurchased \$47 million of shares at an average price of \$23.67 during the quarter, and our board authorized a new share repurchase program up to \$250 million⁽³⁾
- Leverage at quarter-end of 1.34x and average leverage of 1.35x⁽⁴⁾
- 58% fixed rate, unsecured debt with a weighted average interest rate of 2.97% and a total cost of debt of 4.33% at a weighted average maturity of 3.7 years

⁽¹⁾ Total return is calculated as the change in NAV per share during the period, plus dividends per share (assuming dividends and distributions are reinvested in accordance with the Company's

Sentiment and Ownership

Analysis + Follow ✓ Portfolio
72 Followers

Blackstone Secured Lending Fund Stock Smart Score



Analyst Consensus

▲ Moderate Buy

Average Price Target:
\$27.29 (5.37% Upside)

Blogger Sentiment

▲ Bullish

BXSL Sentiment 100%
Sector Average 64%

Hedge Fund Trend

▲ Increased

By 328.5K Shares
Last Quarter.

Crowd Wisdom

▲ Positive

Last 7 Days ▼ 0.1%
Last 30 Days ▲ 2.6%

News Sentiment

▲ Neutral

Bullish news 100%
Bearish news 0%

Source: TipRanks

Ownership & insiders

More >

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The ownership summary indicates the percentage breakdown of a company's equity ownership by investor type, and is derived from multiple sources.



Institutional ownership	30.2%
Institutional mutual fund ownership	1.0%
Mutual fund ownership	0.1%
Insider ownership	0.1%
Other	68.6%

Total outstanding shares: 159,822,716

Blackstone owns
3.2M shares = \$82M

Source: Fidelity

Portfolio Extract from 10K SEC Report

**Blackstone Secured Lending Fund
Consolidated Schedule of Investments
December 31, 2021
(in thousands)**

Investments (1)	Reference Rate and Spread		Interest Rate (2)	Maturity Date	Par Amount/Units	Cost (3)	Fair Value	Percentage of Net Assets
Investments - non-controlled/non-affiliated								
First Lien Debt								
Aerospace & Defense								
Corfin Holdings, Inc. (4)(11)	L +	6.00%	7.00%	12/27/2027	\$ 271,375	\$ 267,405	\$ 270,697	6.09 %
Linquest Corp. (4)(5)(7)(10)	L +	5.75%	6.50%	7/28/2028	17,456	17,082	17,057	0.38
MAG DS Corp. (11)	L +	5.50%	6.50%	4/1/2027	83,707	77,289	77,011	1.73
Maverick Acquisition, Inc. (4)(7)(11)	L +	6.00%	7.00%	6/1/2027	18,969	18,524	18,717	0.42
TCFI AEVEX, LLC (4)(7)(11)	L +	6.00%	7.00%	3/18/2026	112,572	110,659	101,424	2.28
						490,960	484,905	10.90
Air Freight & Logistics								
AGI-CFI Holdings, Inc. (4)(10)	L +	5.50%	6.25%	6/11/2027	117,382	115,160	116,208	2.61
Livingston International, Inc. (4)(6)(10)	L +	5.50%	6.25%	4/30/2027	130,160	127,052	128,858	2.90
Mode Purchaser, Inc. (4)(11)	L +	6.25%	7.25%	12/9/2026	175,204	172,734	175,204	3.94
R1 Holdings, LLC (4)(7)(11)	L +	6.00%	7.00%	1/2/2026	60,540	59,948	60,540	1.36
RWL Holdings, LLC (4)(7)(10)	SOFR +	5.75%	6.50%	12/31/2028	24,315	23,768	23,764	0.53
SEKO Global Logistics Network, LLC (4)(5)(11)	E +	5.00%	6.00%	12/30/2026	EUR 1,863	2,128	2,118	0.05
SEKO Global Logistics Network, LLC (4)(5)(7)(11)	L +	5.00%	6.00%	12/30/2026	5,064	4,985	5,052	0.11
						505,775	511,746	11.50
Building Products								
Fencing Supply Group Acquisition, LLC (4)(5)(11)	L +	6.00%	7.00%	2/26/2027	52,717	52,010	52,453	1.18
Jacuzzi Brands, LLC (4)(11)	L +	6.50%	7.50%	2/25/2025	94,817	93,867	94,817	2.13
L&S Mechanical Acquisition, LLC (4)(5)(7)(10)	L +	5.75%	6.50%	9/1/2027	12,755	12,514	12,500	0.28
Latham Pool Products, Inc. (8)	L +	6.00%	6.10%	6/18/2025	62,223	61,448	62,560	1.41
Lindstrom, LLC (4)(11)	L +	6.25%	7.25%	4/7/2025	122,220	120,954	122,220	2.75
Windows Acquisition Holdings, Inc. (4)(5)(11)	L +	6.50%	7.50%	12/29/2026	55,418	54,488	55,418	1.25
						395,281	399,969	9.00

Other criteria

- Externally managed by Blackstone
 - IPO: Nov 1, 2021 (Operating since 2018)
 - S&P Rating BBB
 - 176 loans
 - 98% First Liens
 - No additional equity shares issued since 2020
 - Share buyback program: \$48M in 2022, continuing
 - Forward yield: 10.8%
 - RSI = 63 (approaching ex-div)
 - Beta = 0.43 (slightly correlated to S&P500)
 - Short interest: 0.27% (very low)
 - Market Price / NAV: 100% (very low)
 - P/NAV: 1.00 (low)
- Analyst opinions:
 - Seeking Alpha: Buy
 - Yahoo: Undervalued
 - Fidelity: Unrated
 - Simply Safe Dividends: Unrated
 - Morningstar: Fair value: \$28.01 (8.6% undervalued)
 - Zacks: Hold
 - TipRanks: Moderate Buy
 - Several analysts raised share price estimates
- Net:
- Pros: Undervalued, backed by Blackstone, general sentiment positive, financials solid, dividend appears safe. Ex Div on March 30
- Cons: Short track record, new to the market, weak ownership profile, loan criteria unk

Conclusion

Why BDCs ?

- Borrow at fixed rates; lend out at floating rates
 - Usually a tailwind
 - Stock price is more affected by the general market
- Required to distribute 90% of earnings directly to shareholders
- Pay no (or very little) Federal taxes

Who invests in BDC's?

- Long term investors looking for alternative investment, or dividends, willing to accept a higher level of volatility and risk in exchange for higher yield
- Must be combined with DRIP to get full benefit

How to assess BDC investment opportunity?

- Portfolio quality and dividend sustainability are most important
- Many sources of information available

**Will Rogers: “Invest in inflation. It’s the only thing going up.”
GLTA!**

Sources:

Seeking Alpha Blogs

- BDC Buzz
- Scott Kennedy
- Colorado Wealth Management
- High Yield Investor

Fidelity, Schwab, Vanguard

Morningstar

Simply Safe Dividends

BDCInvestor.com

SEC 10Q reports