



**ACTIVE INVESTMENT  
COMPANY ALLIANCE**  
Excellence beyond indexing

# ABC's of BDCs

---

(Business Development Companies)

AICA BDC Investor Forum

May 27, 2021

[www.AICalliance.org](http://www.AICalliance.org)

# What is a Business Development Company (BDC)?



- BDCs are closed-end funds that provide small, growing companies access to capital.
- BDCs were created by Congress in 1980 to provide an opportunity for individual non-accredited investors to participate in private investments
- BDCs (just like traditional closed-end funds) offer:
  - 1940 Act Investment Company status/regulation
  - Fixed-Capital
  - Active Management
  - Daily Liquidity
- Tax-advantaged and earnings are passed through to investors in the form of dividends and distributions (similar to REITs and MLPs)
- BDCs leverage is limited to 200% (\*150%) asset coverage = total assets / total debt or “one turn” of leverage, excluding SBIC facilities (BDCs).
- BDCs typically have a higher fee structure w/ carry



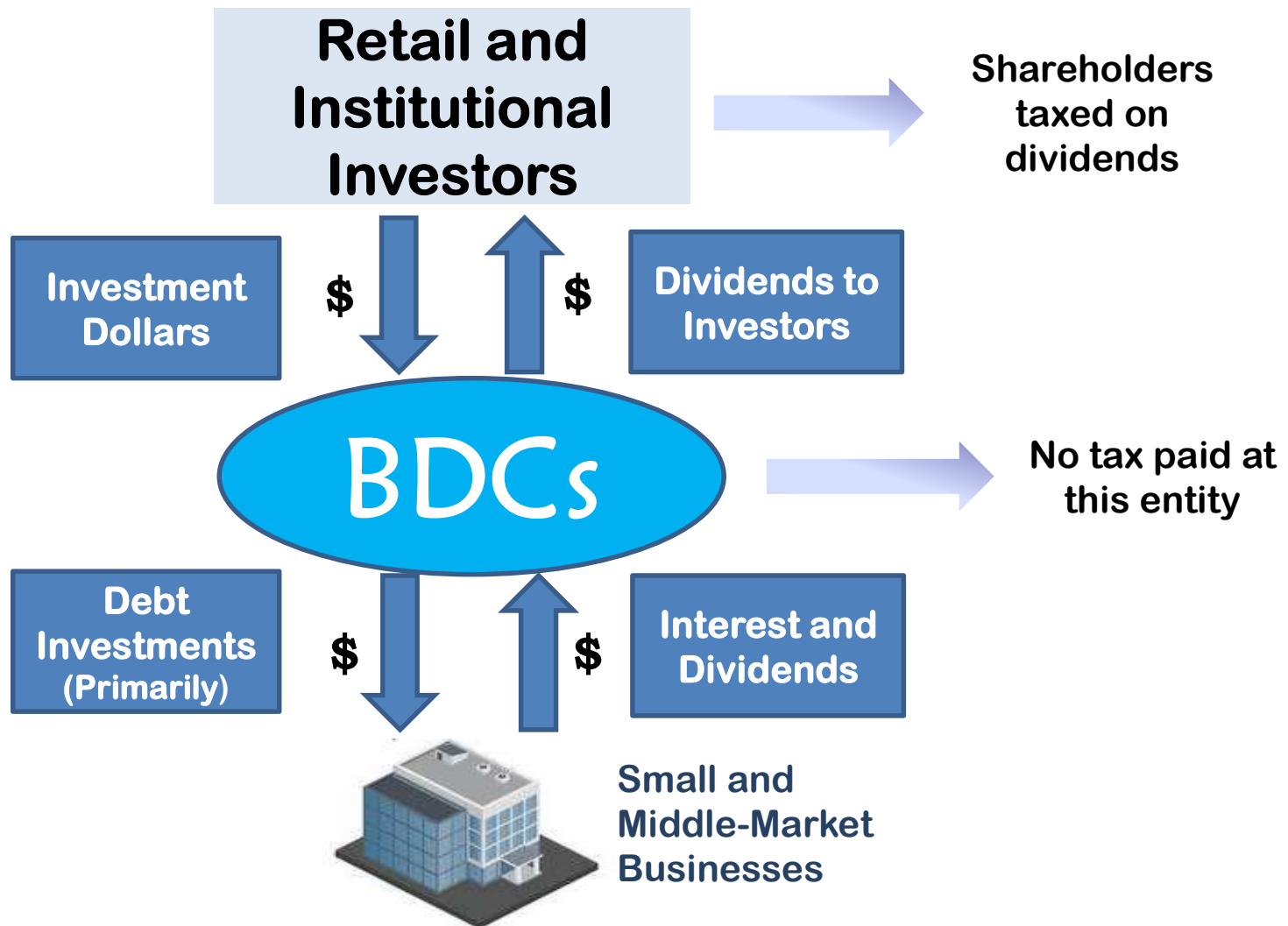
# The CEF and BDC Investment Universe



	# of Funds	Total Net Assets	Premium / Discount	Market Yield	Beta	Duration	Leverage	Non Lev Expense Ratio	Average Net Assets
<b>Equity Funds</b>	194	\$127,329	-6.08%	6.59%	1.12		13.38%	1.48	\$656
<b>Taxable Bond</b>	149	\$63,917	-2.11%	7.34%	0.44	3.7	24.97%	1.56	\$429
<b>Municipal Bond</b>	138	\$68,984	-2.70%	4.28%	0.14	9.3	32.46%	1.01	\$500
<b>BDCs</b>	47	\$46,932	-4.45%	8.22%	1.56		45.61%	6.56	\$999
<b>Total CEFs</b>	<b>528</b>	<b>\$307,161</b>	<b>-3.93%</b>	<b>6.34%</b>	<b>0.71</b>	<b>6.5</b>	<b>24.53%</b>	<b>1.83</b>	<b>\$582</b>
<b>Municipal Bond</b>	138	\$68,984	-2.70%	4.28%	0.14	9.3	32.46%	1.01	\$500
<b>Debt Focused BDC</b>	43	\$46,444	-2.47%	8.93%	1.65		48.29%	6.67	\$1,080
<b>World Stock</b>	43	\$14,272	-10.18%	6.60%	0.94		7.89%	1.52	\$332
<b>Tactical Group</b>	41	\$28,410	-0.29%	7.96%	0.58	4.1	23.85%	1.46	\$693
<b>High Yield Bond</b>	34	\$12,876	-4.04%	7.50%	0.44	3.2	22.39%	1.32	\$379
<b>US Stock</b>	28	\$24,614	-6.93%	6.21%	0.95		9.29%	1.44	\$879
<b>Senior Loan</b>	27	\$10,013	-5.00%	6.62%	0.38	1.1	32.01%	1.82	\$371
<b>Covered Call</b>	26	\$22,215	-3.47%	7.23%	0.88		1.98%	1.10	\$854
<b>MLP Funds</b>	20	\$5,232	-15.87%	6.06%	2.45		22.00%	2.19	\$262
<b>Preferred Equity</b>	17	\$11,705	5.00%	6.59%	0.84	4.0	32.18%	1.23	\$689
<b>International Bond</b>	13	\$5,724	-0.23%	7.93%	0.46	4.8	20.25%	1.57	\$440
<b>Investment Grade Bond</b>	12	\$3,766	1.71%	5.81%	0.35	6.1	18.69%	0.95	\$314
<b>Convertible Bond</b>	10	\$5,465	-6.41%	7.19%	0.95	2.5	26.85%	1.38	\$547
<b>REIT Funds</b>	9	\$6,031	-4.75%	7.38%	1.17		21.58%	1.35	\$670

Source CEFData.com 3/31/2021

# BDCs Provide Access to Private Debt Investments





# Types of Loans Held By BDCs



1. First Lien Loans:	63%
2. Second Lien Loans:	14%
3. Unsecured Loans:	5%
4. Equity/Other:	18%

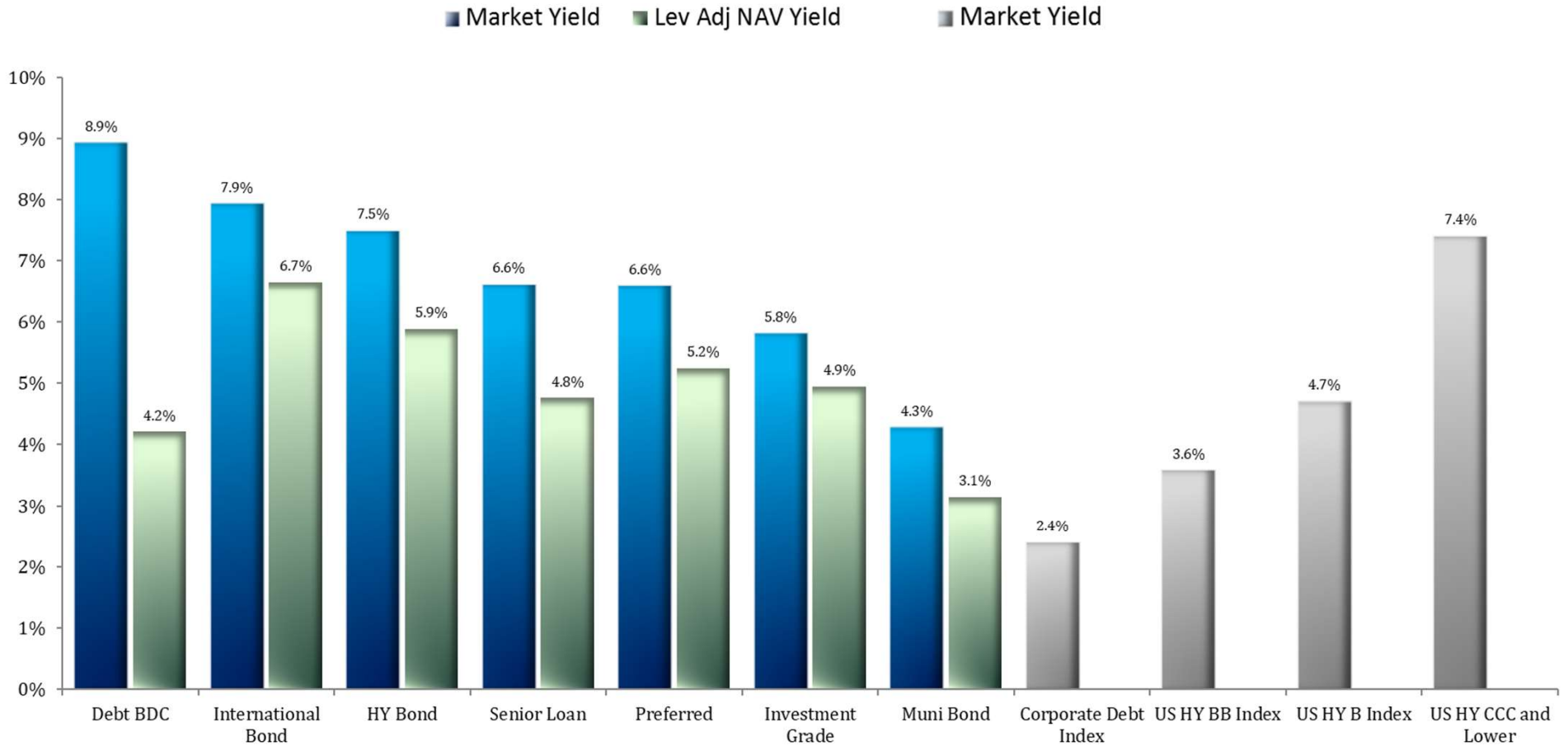
- Avg Portfolio Turnover: 29%
- Avg Variable Loans: 84% / Fixed: 16%
- Libor Floors: 44% at 1.4% Avg Level
- Avg Loan Size: \$10.1M
- 67% of Loans Under \$25MM
- Average Maturity 3.8 with a range of 2 Years to 6 years
- Avg No of Loans: 226 from 162 Companies



Source: Data as of March 31, 2021 from CEFData.com



# Debt Sectors - Yield Comparison

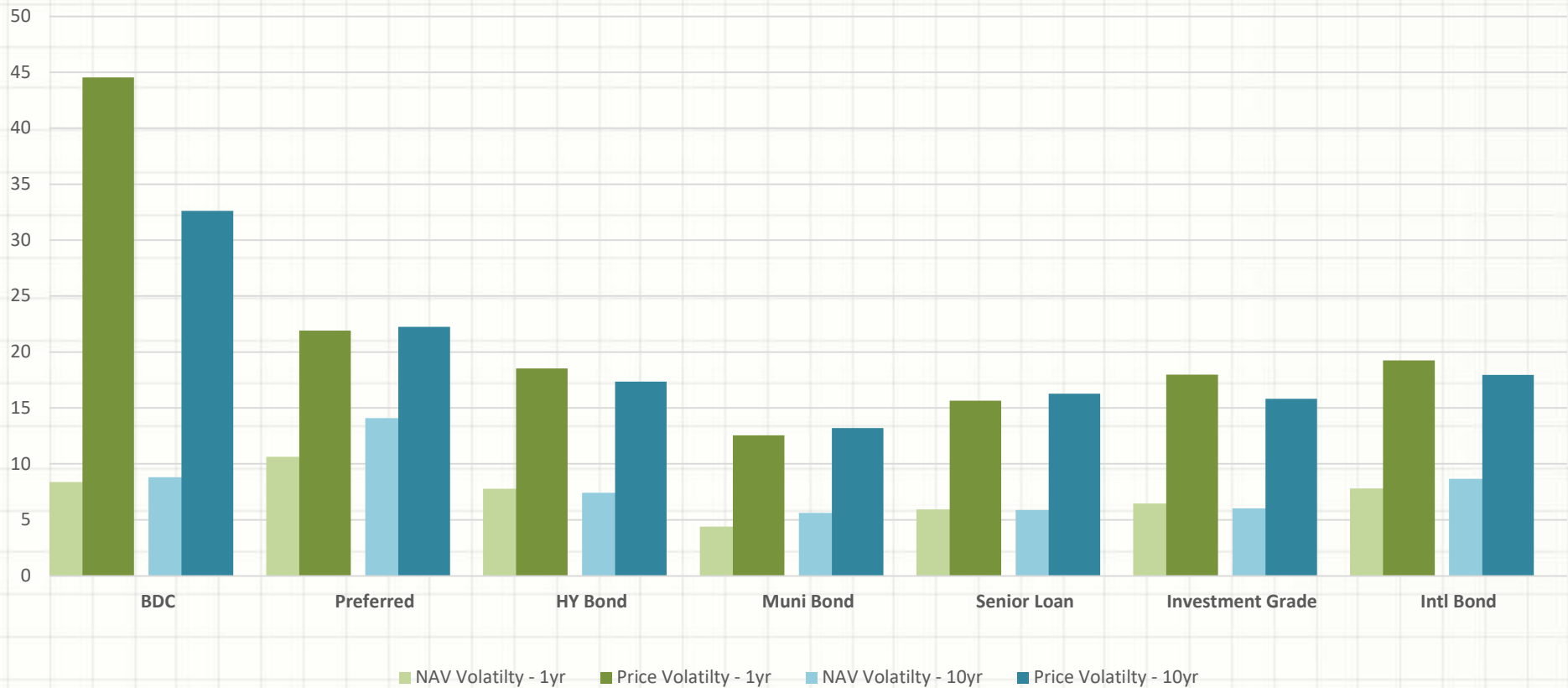


Data as of 3/31/2021.

MLP Index: **Alerian MLP Index**; REIT Index: **Wilshire US REIT Index**; Corporate Debt Index: **S&P 500 Bond Index**

US High Yield Indices : **BofA Merrill Lynch US High Yield (BB Rated, B Rated, CCC and Lower Rated )**

# NAV vs Market Price Volatility Debt/Fixed Income Sectors



Source: March 31, 2021 – CEFData.com

# 14 Sector NAV Correlation Matrix (Diversification)



	MLP	BDC	Convertible	HY Bond	Muni Bond	Senior Loan	Preferred	World Stock	Cov Call	US Stock	REIT	Investment Grade	Tactical Sector	International Bond
MLP	100%	-12.0%	71.0%	77.4%	36.9%	73.8%	65.3%	72.8%	72.5%	73.7%	62.8%	69.0%	78.9%	68.6%
BDC	-12.0%	100%	9.2%	4.2%	15.7%	-16.0%	5.7%	6.3%	-0.4%	8.7%	10.7%	-3.3%	4.0%	1.4%
Convertible	71.0%	9.2%	100%	85.8%	57.8%	72.2%	81.0%	92.3%	93.6%	94.4%	81.7%	78.8%	93.1%	74.4%
HY Bond	77.4%	4.2%	85.8%	100%	70.1%	92.3%	91.0%	85.4%	82.1%	85.2%	85.4%	94.8%	96.3%	87.4%
Muni Bond	36.9%	15.7%	57.8%	70.1%	100%	65.7%	81.4%	54.7%	51.3%	54.5%	70.9%	80.9%	67.5%	61.3%
Senior Loan	73.8%	-16.0%	72.2%	92.3%	65.7%	100%	86.6%	71.9%	71.3%	72.4%	76.8%	91.1%	88.0%	78.4%
Preferred	65.3%	5.7%	81.0%	91.0%	81.4%	86.6%	100%	80.2%	78.9%	82.4%	90.5%	93.5%	90.7%	76.2%
World Stock	72.8%	6.3%	92.3%	85.4%	54.7%	71.9%	80.2%	100%	93.9%	95.0%	81.4%	78.4%	93.1%	81.1%
Cov Call	72.5%	-0.4%	93.6%	82.1%	51.3%	71.3%	78.9%	93.9%	100%	97.5%	80.1%	74.6%	91.7%	71.1%
US Stock	73.7%	8.7%	94.4%	85.2%	54.5%	72.4%	82.4%	95.0%	97.5%	100%	84.6%	76.6%	93.5%	72.3%
REIT	62.8%	10.7%	81.7%	85.4%	70.9%	76.8%	90.5%	81.4%	80.1%	84.6%	100%	86.0%	89.9%	72.3%
Investment Grade	69.0%	-3.3%	78.8%	94.8%	80.9%	91.1%	93.5%	78.4%	74.6%	76.6%	86.0%	100%	92.3%	86.5%
Tactical Sector	78.9%	4.0%	93.1%	96.3%	67.5%	88.0%	90.7%	93.1%	91.7%	93.5%	89.9%	92.3%	100%	86.0%
International Bond	68.6%	1.4%	74.4%	87.4%	61.3%	78.4%	76.2%	81.1%	71.1%	72.3%	72.3%	86.5%	86.0%	100%

\*Correlation over previous 5 years, using weekly NAV total returns. CEFDData.com as of 3/31/2021

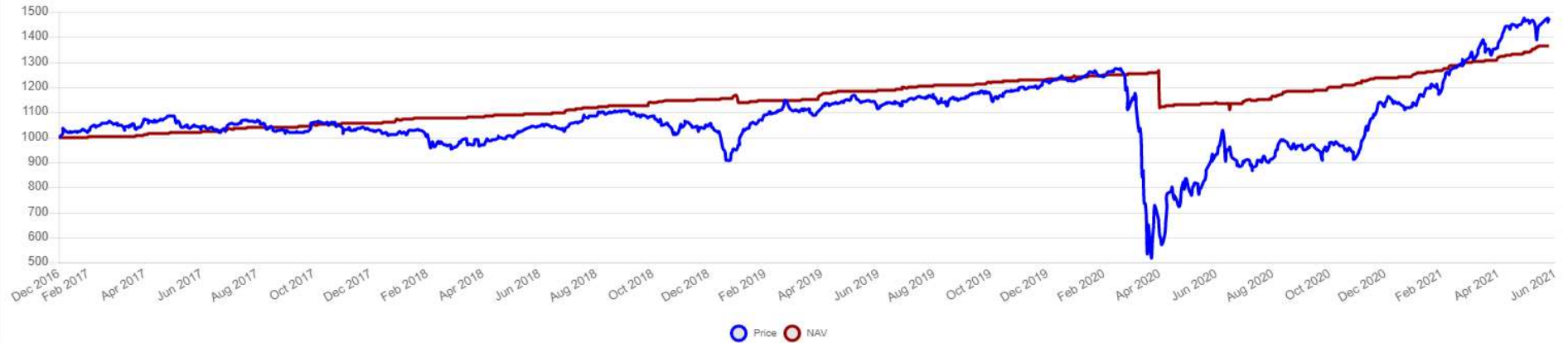


# CEF Advisors' Debt-Focused BDC Index



## PERFORMANCE CHART

Price & NAV Performance



## DISCOUNT

Relative Index Discount / Premium %



As of 5/26/2021

<https://cefdata.com/index/details/407/>

# CEF Advisors' Debt-Focused BDC Index



## CHARACTERISTICS

PORTFOLIO Weighted Average Data				
Discount 11.07%	1Yr Disc -8.36%	3Yr Disc -4.73%	5Yr Disc -1.76%	Rel Disc Range (3yr) 88.14%
Mkt Yield 8.42%	Lev Adj NAV Yield 6.25%	After Tax Yield* 6.38%	Est Tax Friction* 2.04%	3Yr NAV Volatiliy 10.38
Variable Loans 84.6%	Last Q NAV Growth 2.27%	Leverage 47.18%	Non Lev Exp Ratio 3.81%	Beta (2yr) 1.68
Equity Exposure 10.30%	Bond Exposure 86.29%	# Holdings 34	NII Coverage 96.3%	Adj Core NII Coverage 102.3%
Comp NAV TR 0.01%	Comp Discount 7.59%	Net Assets (M) 1,334	Liquidity - 90d (K) 6,573	Non Accruals 1.68%

*\* Based on marginal tax rates of 25% and long-term capital gains rates of 15%.*

As of 5/26/2021

<https://cefdata.com/index/details/407/>

## BDC Debt Sector - Total Return March 31, 2011 - March 31, 2021



— NAV TR — Price TR

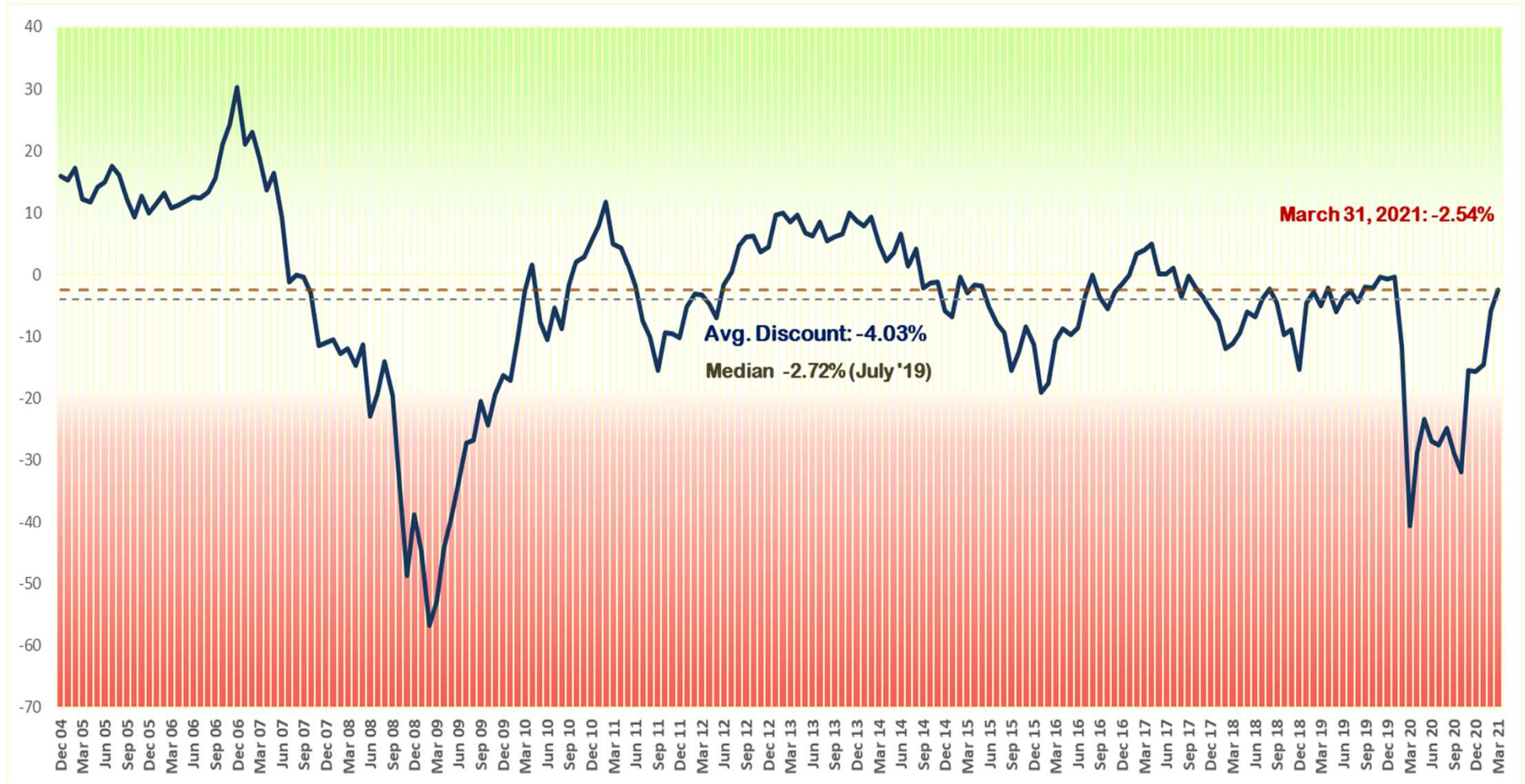
Note: equal-weight



*Back-tested results also do not account for those Funds that were previously recommended by the Adviser and which are no longer included as an alternative in a client's asset allocation strategy. Thus, the back-tested performance results shown above may overestimate the potential returns a client could expect to generate due to the effect of recommended manager survivor bias.*

# Debt BDCs

## 16 Year Discount History





# 1Q 2021 BDC Earnings Season



- BDC Earnings Season for 1Q 2021 closed this week with the update from CSWC. In the past 3 months BDC NAVs are up +6% and market prices are up +14.6%\*. Another successful earnings season.
- BDCs are up +29.74% YTD and 1 year +62.50% and 3 year and 5-year returns both annualized around +12% annualized \*
- Since their pre-COVID highs on 1/31/2020 **BDCs are up +19% on a total return basis** and **dividend levels are up +5.2% in \$ dollar terms** \*.
- High quality BDC managers proved they could navigate a bumpy market by working with their portfolio holdings to work through COVID issues.
- Pre-COVID BDCs had only about 5% exposure to Retail and Hospitality and restaurants

\*As of 5/26/2021

# CEF & BDC IPOs – Annual Trend



	2021 YTD	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
<i>Number of IPOs</i>											
CEF	3	10	12	4	11	8	8	9	25	23	19
BDC	0	2	1	1	2	0	1	6	2	5	7
<b>TOTAL</b>	<b>3</b>	<b>12</b>	<b>13</b>	<b>5</b>	<b>13</b>	<b>8</b>	<b>9</b>	<b>15</b>	<b>27</b>	<b>28</b>	<b>26</b>

## *Average Assets (\$ Millions)*

CEF	\$2,280	\$852	\$429	\$80	\$294	\$225	\$291	\$469	\$580	\$517	\$316
BDC	\$0	\$2,368	\$6,890	\$152	\$2,852	\$0	\$120	\$543	\$90	\$96	\$101
<b>AVERAGE</b>	<b>\$1,220</b>	<b>\$1,105</b>	<b>\$926</b>	<b>\$94</b>	<b>\$646</b>	<b>\$225</b>	<b>\$272</b>	<b>\$498</b>	<b>\$543</b>	<b>\$442</b>	<b>\$258</b>

## *Total IPO Assets (\$ Millions)*

CEF	\$6,840	\$8,525	\$5,148	\$319	\$3,239	\$1,799	\$2,327	\$4,218	\$14,488	\$11,891	\$6,004
BDC	\$0	\$4,736	\$6,890	\$152	\$5,163	\$0	\$120	\$3,257	\$180	\$480	\$707
<b>TOTAL</b>	<b>\$6,840</b>	<b>\$13,261</b>	<b>\$12,038</b>	<b>\$471</b>	<b>\$8,402</b>	<b>\$1,799</b>	<b>\$2,447</b>	<b>\$7,475</b>	<b>\$14,668</b>	<b>\$12,371</b>	<b>\$6,711</b>

**10 Year Average: 16 funds per year, \$499 MM avg fund assets, \$8.0 B avg raised per year**

Source: SEC Filings, Press Releases

# Disclosures



These indexes were created and developed by Closed-End Fund Advisors, Inc. CEF Advisors launched these indexes in January 2017 based on December 31, 2016 data and began pricing on January 1, 2017. CEF Advisors does not guarantee the accuracy or the completeness of the index or any data included therein and CEF Advisors shall have no liability for any errors, omissions or interruptions therein. CEF Advisors makes no warranty, express or implied, as to results to be obtained by any person or entity from the use of the index or any data included therein. CEF Advisors makes no express or implied warranties, and expressly disclaims all warranties of merchantability or fitness for a particular purpose or use with respect to the index or any data included therein. Without limiting any of the foregoing, in no event shall CEF Advisors have any liability for any special, punitive, direct, indirect or consequential damages (including lost profits) arising out of matters relating to the use of the index, even if notified of the possibility of such damages.

The historical values above have not been verified by an independent third party. The historical performance data is for illustrative purposes only and does not represent the actual performance of any investment product. No representation is being made that any investment will achieve performance similar to that shown. The index does not charge management fees or brokerage expenses, and no such fees or expenses were deducted from the historical performance shown. The index is unmanaged and an investor cannot invest directly in the index.

Performance information for the index is for illustrative purposes only and does not represent the performance of any actual investment. The historical performance of the price and NAV of the index should not be taken as an indication of future performance, and no assurance can be given as to the index's value on any date. The data for the historical performance of the index was calculated on materially the same basis on which the performance of the index is now calculated. Discounts are the result of a closed-end fund's market price deviating from its Net Asset Value (NAV).

© Closed-End Fund Advisors Inc.(CEFAdvisors) and CEFdata.com 2019. All rights reserved. Any copying, republication or redistribution of CEFAdvisors, CEFdata.com, content, including by caching, framing or similar means, is expressly prohibited without the prior written consent of CEFAdvisors. CEFAdvisors shall not be liable for any errors or delays in the content, or for any actions taken in reliance thereon.

*Closed-end Fund Advisors, Inc. ("CEFA") is a SEC Registered Investment Advisory Firm located in Richmond, VA. Registered investment adviser does not imply a certain level of skill or training. CEFA may only transact business in those states in which it is registered or has completed the appropriate notice-filing requirements. Prospective clients should consult with a financial consultant to review their investment objectives and financial situation before determining whether any investment, security, or strategy is suitable. A copy of CEFA's Form ADV Part 2A & 2B providing information regarding CEFA's services, fees, and other important disclosure items is available on this website and/or from CEFA upon request. Any opinions expressed in this email or in any CEFA authored documents are subject to change without notice and, due to the rapidly changing nature of the security markets, may quickly become outdated. No information should be interpreted to state or imply that past results are an indication of future performance. The discussions and opinions in this email are for general information only and for use of the recipient, and are not intended to provide investment advice. All materials presented are compiled from sources believed to be reliable and current, but accuracy cannot be guaranteed. Performance data and other information contained herein are estimated and unaudited. Actual yields will vary from one investor to the next depending on their tax bracket. No portion of the email should be interpreted as legal, accounting or tax advice and is not to be reproduced or copied or made available to others. All investments involve risk including the loss of principal. The Market Price and Net Asset Value Total Return Performance referenced in the attached PDF files for each of CEFA's Models does not reflect composite performance for CEFA's clients. It is shown to allow investors to compare the current model allocations performance differences between Market prices and Net Asset Value for comparable rolling time periods. If a fund in the model does not have a trading history for the entire period shown (usually the 3 Year figure), it is not included in the results. Investors cannot invest in CEFs' net asset values, but it is considered the best judge of a funds management team after cost for comparison purposes. CEFA also seeks funds with above average NAV performance and recent market price underperformance so we may have the opportunity to experience discount narrowing, and if traded properly, general out performance of the funds NAV returns.*



# Disclaimer



Important: The information in this presentation is not for general circulation and should not be considered an offer, or solicitation, to deal in any of the mentioned funds. The information is provided on a general basis for information purposes only, and is not to be relied on as advice, as it does not take into account the investment objectives, financial situation or particular needs of any specific investor.

Any research or analysis used to derive, or in relation to, the information herein has been procured by Closed-End Fund Advisors (“CEFA”) for its own use, and may have been acted on for its own purpose. The information herein, including any opinions or forecasts have been obtained from or is based on sources believed by CEFA to be reliable, but CEFA does not warrant the accuracy, adequacy or completeness of the same, and expressly disclaims liability for any errors or omissions. As such, any person acting upon or in reliance of these materials does so entirely at his or her own risk. Any projections or other forward-looking statements regarding future events or performance of countries, markets or companies are not necessarily indicative of, and may differ from, actual events or results. No warranty whatsoever is given and no liability whatsoever is accepted by CEFA or its affiliates, for any loss, arising directly or indirectly, as a result of any action or omission made in reliance of any information, opinion or projection made in this presentation.

The information herein shall not be disclosed, used or disseminated, in whole or part, and shall not be reproduced, copied or made available to others without CEFA expressed written permission. CEFA reserves the right to make changes and corrections to the information, including any opinions or forecasts expressed herein at any time, without notice. Data comes from our CEF Universe service dated March 31, 2021 unless otherwise noted.

AICA and CEF Advisors are separate legal entities. CEF Advisors’ CEFdata.com are the data providers for AICA.