

The Formula for BDC Success? 'Stick to Your Knitting'

At the Active Investment Company Alliance's inaugural BDC Forum in New York City last month, managers of listed business development companies (BDCs) shared their respective formulas for success, with internal management, lower leverage, and a sustainable underwriting philosophy as the main ingredients of a well-managed fund.

Not all BDCs are created equal. Or at least that was a key takeaway from AICA's 2025 BDC Forum in New York City on June 11, which brought together asset managers, analysts, attorneys, regulators, and other professionals experienced in [closed-end funds](#) (CEFs) — a type of professionally

managed investment fund. CEFs undertake an initial public offering to generate capital, then invest that capital in financial assets such as public and private stocks, bonds, or other securities.

The BDC sector of the CEF universe is growing, with large, monied financial firms increasingly elbowing their way into the credit space, perennially inhabited by smaller, niche innovators. With banks easing up on lending as higher rates normalize, BDC borrowers are predominantly sponsor-backed, privately held U.S. middle-market companies — big enough to show EBITDA in the mid-tens of millions, but still below broadly syndicated loan size. They skew toward tech-enabled services, healthcare, and other asset-light sectors, with leverage kept in the mid-single-digits and stable interest coverage.

Listed and non-listed BDCs represent about 44% of the universe of funds tracked by [CEFDData.com](#). Traditional listed BDCs, the focus of the Forum, ended the [first quarter of 2025](#) with about \$160 billion in total gross assets across 52 funds. While a boon for growing businesses, BDCs also offer investors a way to diversify actively managed portfolios and potentially generate long-term income. Managers of several listed BDCs at the Forum shared their view of what makes for a successful BDC. Here's some of what they said:

Internal Management

Some BDCs are internally managed, meaning the BDC itself hires investment professionals to directly manage the investment portfolio. While third-party managers may bring valuable expertise to a young BDC, internal management can lower expense ratios and give boards more control over investment decisions.

This approach has helped [Trinity Capital Inc.](#) — a rising BDC with the Nasdaq ticker symbol [TRIN](#) — continually access capital markets, said CFO Michael Testa. “We met with a number of other internally managed BDC peers [and] this was an opportunity we saw ... to grow,” he added. “To grow you need to trade at a premium to NAV and continue to access capital markets.”

AICA Chairman John Cole Scott echoed this point earlier in the day, saying the internal management strategy “adds a surplus of valuation because of the lower cost to future earnings being passed on to shareholders.”

Lower Leverage

[Kayne Anderson](#), an alternative investment management firm founded in 1984, is mindful about leverage, noted Lee Feingold, Managing Director for Kayne Anderson’s private credit strategies. Kayne Anderson BDC, Inc., which trades under the

NYSE ticker symbol [KBDC](#), went public in May 2024.

“Our strategy is ... what we call a value lending philosophy,” Feingold said of KBDC. “Our goal is to put together portfolios with higher pricing and lower leverage than our peers. Typically our average leverage in our portfolio is about four times debt to EBITDA. Loan-to-value is typically below 50%, and average-since-inception on pricing or spreads is about 6%+ SOFR, so that’s really how we’ve been able to differentiate ourselves in the market.”

That approach differentiates KBDC from its niche peers and the newer, bigger ones on the block like Ares, Blackstone, Churchill and Blue Owl. They may have fewer losses, but they need more leverage to grow. “They are helping to develop the market and will continue to do so,” said analyst Finian O’Shea, Director WFS Research at Wells Fargo. But they “do what’s cheaper,” he added.

Underwriting Philosophy

Good old-fashioned gumption is still a thing, it turns out. Having an underwriting philosophy and sticking to it can work for you, suggested Bob Marcotte, President, [Gladstone Capital Corp.](#) Founded in 2001 and one of the first BDCs to invest in loans to lower middle market businesses, Gladstone trades under the Nasdaq ticker [GLAD](#).

Marcotte said that while his firm's targeted market isn't as competitive as others, it strives to "stick to its knitting" and "be a little bit better than the average." The formula: "Putting equity investment into the best of opportunities and letting it grow."

So which BDCs are mastering the credit space? One long-time BDC watcher, Mitchel Penn, Managing Director Capital Markets at Oppenheimer & Co. Inc., said his firm doesn't always sweat the non-accruals that might eat into dividend coverage.

"We don't look at non-accruals... we track ten years of realized and unrealized gains and losses for every BDC; that's what really shows you who's good at credit and who's struggling," Penn said.

For AICA Chairman John Cole Scott, it all comes back to discounts. "It's the price-to-book or price-to-expectations — there are real discounts and fake discounts," Scott said. "Sometimes premiums, especially in quality BDCs, aren't necessarily expensive."

Learn more about BDCs and review transcripts and videos from the [AICA 2025 BDC Forum](#). [CEFData.com](#) tracks \$1.01 trillion in fund assets across 813 closed-ended management companies, which include traditional CEFs, BDCs, tender offer funds, and interval funds.

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