Trinity Capital's Brown Sees BDC Opportunities Amid Voter Frustration

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Chuck Jaffe, in this episode of The NAVigator podcast interviews Kyle Brown, Chief Executive Officer at Trinity Capital. Kyle gives his outlook for the private credit and lending space, and notes that there could be some challenges for business-development companies and private lenders late in the current economic cycle because returns from private credit generally have been declining. That has meant single-digit leveraged returns, Brown says, so "Investors are not happy." That, in turn, has led to redemptions in private funds and falling stock prices. Still, Brown says that has created some opportunities for lenders and investors who keep digging to find gems; he sees the technology sector and continued capital expenditure spending as being particularly robust in the year ahead.

The podcast can be found on AICA's website by clicking here: https://aicalliance.org/alliance-content/pod-cast/

CHUCK JAFFE: We're talking about the outlook for the lending in private credit markets with Kyle Brown, chief executive officer at Trinity Capital, this is The NAVigator. Welcome to The NAVigator, where we talk about all-weather active investing and plotting a course to financial success with the help of closed-end funds. The NAVigator is brought to you by the Active Investment Company Alliance, which is a unique industry organization in that it represents the full spectrum of the closed-end fund industry, from users and investors to fund sponsors and creators. If you're looking for excellence beyond indexing, The NAVigator will point you in the right direction. And today we're pointing in the direction of private credit and what's happening with capital expenditure trends and opportunities in a time of some interest rate uncertainty, and we're having that conversation with Kyle Brown, chief executive officer at Trinity Capital, which is a business-development company that trades on the NASDAQ under ticker symbol TRIN, and which you can learn more about by going to TrinityCapital.com. And if you want to learn more generally about closed-end funds, interval funds, and yes, business-development companies, go to AICAlliance.org, that's the website for the Active Investment Company Alliance. Kyle Brown, thanks for coming back to The NAVigator.

KYLE BROWN: Thanks for having me.

CHUCK JAFFE: There has been a lot of talk about the demand for private credit and what is going on, and when you were last with us it was the middle of 2025 and we were seeing strong trends. There doesn't seem to be anything that is changing the trends, but another trend that I have heard has been, "Ooh, I'm waiting for the danger to show up." So let's talk about where you see things now, and is there danger coming, is there something on the horizon that you're worried about for the industry?

KYLE BROWN: Yeah. Well, I think you've got to separate credit danger versus return danger for investors, right? And so private credit saw massive inflows really over the last five years, and 90% of institutional investment, think pension funds, institutional investors, it went to 12 companies in 50 various funds. Those funds raised a lot of money, they had to focus on middle market, upper-middle market, and those are really competitive deals, those are large at-scale enterprise customers and so it was a very transactional deal, right? They provided the lowest financing possible, and most of that's tied to SOFR, and when SOFR was a lot higher, pretty good returns for investors. And so what you're seeing right now is returns for private credit generally coming down, that's mostly tied to middle market, upper-middle market-type companies who are leveraged, and now all of a sudden with the rates coming down as they have, you're looking at single digit levered returns and investors are not happy. You see that playing out in the form of redemptions for those that are private funds, and then you see that playing out in the stock market as the price is coming down of these various management companies and publicly traded funds. That's one risk for an investor, you no longer can just kind of bet on the largest players because, well, the returns are tied to something that's really kind of out of their control, and frankly with political winds shifting right now, rates are coming down, and so those returns will equate to lower income for those various funds that are primarily tied to SOFR. And so that's the one risk, right? For investors, you have to think about that. The other one is the credit side, and this is where we think a lot about it obviously, but we also have insights into some of our larger peers, and there really doesn't seem to be issues with the credit side, and so there's two different things. Really that speaks more of just the private markets generally, they have grown incredibly over the last 10 to 15 years, but that's not just because of inflows coming into the space, that's just because more and more companies are private, there are less and less public companies, and so that market had to grow. We don't see this in our portfolio, and that seems to be the case across the board for private credit, so I don't think there's a big issue with credit quality or underwriting generally, it's more of valuations of these private credit firms.

CHUCK JAFFE: Having come this far in the cycle, where we saw rates go up and we didn't see the anticipated, "Here's more defaults," and I'm not just talking about private credits, I'm talking about junk bonds that, "Oh, here will come the wave of junk bonds," we haven't seen any of that.

KYLE BROWN: Yeah.

CHUCK JAFFE: Is there anything that makes you think that this cycle is tired, and at the end of a cycle like this, when you see the contraction in rates and compression in rates, especially if we have a couple more rate cuts, et cetera, and you maybe get a little less capital expenditure being done because we're near the end of that cycle, that at that point we will wind up seeing more defaults in general, or has something changed? Because the dynamic always says rates go up, so do defaults, but that really didn't happen, so why would we expect it now?

KYLE BROWN: Well, you're hitting on it. Think about the actual underlying loans that are directly to these companies, right? When rates were up you were talking about 300 to 500 basis points higher costs to the company that actually has the loan, and so as rates have come down, so has the cashflow burden, they're now paying less on that interest. And so, I don't know, if you didn't see a lot of volatility in credit issues with rates a lot higher when it was a higher cash burden to the company, why would you see it with their payments significantly decreasing? So I just don't see it that way, and as far as cycle goes, private credit markets, forget about private credit, private markets are growing and that's just not going to slow down. And banks are shifting, banks are as active as they've ever been in private credit, but they're doing it in different ways, and so we see this, we deal with a couple dozen banks who are extremely active and they're all growing right now, almost all of them, they're growing right now, but they're doing it in different ways. Rather than using their capital, which are deposits, which are leveraged five to 10X, and going and trying to underwrite and lend directly to companies, they're taking a different stance; which is partner and lend to private credit companies, have a lower attachment rate, a lower loan to value, take a lot less risk and still make a pretty good return. And so banks are actually ramping up activities, they're doing it in a different way, and in the way that they're doing it, it actually enables private credit firms to continue to grow because there's more need from companies who are not going to get those loans directly from the banks. And so as far as cycle goes, the way we see it and the way we look at our portfolio and our pipeline right now, there's massive expansion opportunities and the banks are getting more and more active, but they're doing it in partnership with us in the way that they lend to us or form joint ventures or provide back leverage, it's still going extremely strong from just a top of funnel perspective. That's my perspective.

CHUCK JAFFE: Let's talk a little bit about more where you're finding those opportunities. At Trinity you guys have a couple of different areas that you specialize in, you do equipment finance, you do some life sciences lending, you do a lot of technology lending, asset-based lending, et cetera, there's more there than I'm remembering necessarily off the top of my head. Which of those spaces is best? Because I think people hear the word "tech" and they think, look at how much money is flying into capital expenditures on tech and whatever, but where are you finding the sweet spots right now?

KYLE BROWN: The tech world, and think late-stage venture capital-backed, these are companies that they're trying to build and take public or grow and they'll eventually have some liquidity event, that is such a robust market today, $300 billion I think in equity investment in the US last year, and there's some large transactions in there for later stage company, but overall it is just a massive and a continuing to grow growing market with a lot of activity. Where we see as lot of opportunity right now is we still see it in enterprise SaaS, and I would say that's changed a little bit, it's enterprise SaaS/AI, and these companies who already have incumbency with large enterprise customers, they're adding on new tool, and these tools are AI-driven tools, and they're continuing to figure out how to become more and more efficient. That gives them the ability to maybe offer their services for less and continue to expand their footprint with these longer term contracts that they have in place, so lower-middle market SaaS, it's greenfield because AI gives these companies the ability to unseat larger enterprise customers that maybe are a little bit slower to move, right? And so I'd just say generally, lower to middle market, $3-30 million of EBITDA, and primarily enterprise SaaS with these new AI tools, for us we just see a booming business right now and I don't see that slowing down. And then in capex financing, so equipment financing, and this covers multiple industries, multiple sectors, this whole idea of re-shoring and manufacturing more in the US, we see it being very real, we saw it last year and we see forward-looking capex spend that's pretty significant. So I think what the current administration was trying to do with incentivizing companies to actually manufacturing something here, we're seeing that, primarily the lower-middle market, that is in the AI space, so think capex spend for data centers, it could be financing of GPUs that are contracted with enterprise customers, but it's also the power generation equipment that goes into these facilities all over the country, and the turbines, there's just massive capex spend but it's backed up by multiple three to five year contracts with large enterprise customers. And then the last thing on the equipment side I would say is just frontier tech generally, we think about that as just anything involving space or companies that are developing satellites or launching rockets into space, carrying these payloads, and so there's a massive amount of investment there and that has a lot of capex spend which we are right there to finance. So I'd say equipment generally, and then tech, anything that has AI associated with it, it's an interesting opportunity right now.

CHUCK JAFFE: I want to go just a little bit further. I've talked to money managers on *Money Life* who have said that to this point AI has been spend, spend, spend, you need to get in there, you need to do it, but that the next wave will be, wait, I want to actually see that I'm getting the productivity gains and those other sorts of things before I necessarily spend that next wave. Now that's them, not the way you are where you're making the loans, they're just evaluating the business saying, "These companies can't spend forever." Is that the way you see it as well, not just that you have to be in AI, it's now the price of entry, but we have to see AI starting to pay off for the next wave of capex?

KYLE BROWN: Well, I think we have the benefit of thinking about it from a lender's perspective, which is we're going to find a low attachment rate, we're going to find established businesses, and we're going to make sure that they are either utilizing and developing some sort of AI that they can use their software to deliver. I think equity has a much more difficult task over the next few years, which is everything you just said is real, and anyone saying AI is going to destroy software, they're off their rocker, anybody who's saying AI's not going to disrupt software is also off their rocker, and so it's somewhere in between there. It's going to be equity valuations that get hit over the next few years as some of these companies end up becoming great tools and helping to unseat long legacy players, and then there's going to be losers where what you just said happens, their revenues don't line up with the expectations, but this is more of a risk that equity investors are taking right now in my mind.

CHUCK JAFFE: I would be remiss if I was talking to somebody who runs a BDC who has to look at what's going on big picture and not say, okay, in all of that, what are the big picture headwinds or tailwinds for you? As you're looking out there and you're examining the economy and the big macroeconomic picture, what concerns you right now? Or maybe it's the opposite, maybe it's what impresses you?

KYLE BROWN: From our seat, we have a really interesting opportunity this year. I started the conversation talking about our peer group and talking about institutional investors and their massive inflows into private credit, I don't think they're happy. I think too much money went to too small a number of firms who all are doing the exact same thing, and this 2026 is going to be the year to shine for these players and those that work in underserved markets, that's where we deal. And I think institutional investors, and retail investors alike, are all looking at it going, wow, a little more research, a little more digging, and you can find some real gems, and I think we're positioned to be a gem in 2026. We're going to keep focusing on these underserved markets, over time we'll add additional verticals and generate higher returns, which I think investors will find really interesting. And so I think this year, particularly with rates coming down, you're going to start seeing institutional investors take a little bit harder look and say, "Man, this old adage saying of you can't get fired for investing with X," I think they're relooking at that and saying, "Maybe we should put in a little extra work here and go downstream to find emerging managers that are doing more interesting things." I'm excited about that, and I think it's already starting to play out, we're starting to see that with inflows of capital and an interest in our private funds that we've launched this year, and so I think it's the year of the emerging manager that focuses on more niche areas and can provide more alpha for investors.

CHUCK JAFFE: Kyle, really interesting stuff. We've talked a couple times over the years, I hope we'll get a chance to do it again later this year as we watch it all play out.

KYLE BROWN: You bet, thanks for having me.

CHUCK JAFFE: The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe, and yeah, I'm Chuck Jaffe and I'd love it if you would check out my show on your favorite podcast app or find us at MoneyLifeShow.com. Now to learn more about business-development companies, interval funds, and closed-end funds go to AICAlliance.org, that's the website for the Active Investment Company Alliance. Thanks to my guest Kyle Brown, he's chief executive officer at Trinity Capital, Trinity is a BDC that trades on the NASDAQ under ticker symbol TRIN, and you can learn more about it online at TrinityCapital.com. The NAVigator podcast has something new for you every Friday, make sure you don't miss an episode by subscribing or following along on your favorite podcast app, and if you liked this podcast, leave us a review and tell your friends because that stuff really does help. Until next week, happy investing, everybody.

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