



*AICA's Quarterly BDC Earnings Pulse · June 10, 2026 · Session 3*

# When the Tide Goes Out: BDC Earnings, Gated Redemptions, and the Return of Old-Fashioned Credit

*A volatile quarter exposed which managers built durable portfolios — and which ones were merely riding the cycle.*

There is an old line about not knowing who has been swimming naked until the tide goes out. After the first quarter of 2026, the tide is out across the business development company landscape, and the picture is unflattering for more names than many advisors would like to admit. The CEF Advisors BDC index, which you can track on CEFdata, is down roughly 8% on a total return basis year to date, even after clawing back about 2% quarter to date. The one-year discount has widened by something close to 18 percentage points. That is not a rounding error, and it is not a narrative. It is a repricing.

AICA convened this quarter's Earnings Pulse with two of the most respected practitioners in the listed-alternatives world: Dan Altscher of FJ Capital Management, who invests in these names for a living, and Paul Johnson of KBW, who has covered the sector from the sell side longer than most of his peers have been licensed. The mandate was simple. Cut through the headlines, tell us what the numbers are actually saying, and help advisors separate the managers who built something durable from the ones who were merely riding a benign credit cycle.

What follows is their read on a quarter that, as Dan put it, came in "arguably weaker than even my fairly low bar expectations." The news is not good. But quarters like this are precisely when the differentiation between great managers and lucky ones becomes legible. Both panelists also followed up in writing after the session, and their responses are woven into the sections below where they sharpen the live discussion. The question, throughout, is whether you are reading the right data.

## THE EARNINGS HEALTH CHECK: STILL TROUHING

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Paul Johnson did not sugarcoat it. He called this “a volatile quarter” with “a lot of noise from mark-to-market breakdowns,” and noted that “almost half of our coverage missed estimates.” Eight or nine BDCs cut dividends this quarter — roughly half of his coverage — on top of roughly ten the quarter before. By his reckoning, the sector is “probably only about halfway through” the dividend reset. Earnings, in his words, are still “troughing.”

*“Almost half of our coverage missed estimates, and we’re probably only about halfway through the dividend reset.”*

— Paul Johnson, Managing Director, KBW

Consider that even Ares — the bellwether, the name most advisors treat as the quality anchor of the space — missed by two cents against KBW’s estimate and a penny against consensus. When the strongest franchise in the sector cannot clear a low bar, you are not looking at idiosyncratic stumbles. You are looking at a sector-wide compression of investment income.

Dan’s diagnosis was more granular. Spread compression did not just hit recurring coupon income; it dried up the one-time fees — original issue discount, prepayment penalties — that had quietly padded results in better years. What surprised him most was seeing dividend cuts come out of “the higher-quality bucket” of names, not just the obvious laggards. There were bright spots: the venture lenders Hercules and Trinity Capital grew their balance sheets, and Main Street remained solid in the lower middle market. But the through-line was unmistakable. The easy-money tailwind is gone, and the income statements are telling on the managers.

## NON-TRADED REDEMPTIONS AND THE LISTED BDC OPPORTUNITY

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If the listed names are repricing in public, the non-traded BDC complex is repricing behind closed gates. And this is where the most actionable opportunity of the quarter may be hiding.

Dan described the gating mechanics bluntly: the gates are “working as they’re supposed to.” Blue Owl’s vehicles saw redemption requests in the 20-to-40% range against a 5% quarterly gate. Across the industry, Q1 2026 brought roughly \$13.9 billion in redemption requests, of which only about \$7.4 billion was honored — leaving more than \$4.6 billion trapped behind gates. One Goldman vehicle reportedly saw redemptions hit 4.999% — a single

*“If you’re able to get out at NAV in a private vehicle and reinvest in a broadly similar public vehicle at 70 or 75 cents on the dollar, that’s compelling math.”*

— Dan Altscher, Managing Partner, FJ Capital

basis point below its gate. That is not a coincidence; that is investors threading the needle to get every dollar they can out the door.



Dan also walked through the behavioral dynamic that makes this a self-reinforcing cycle. An investor who submitted a 20% redemption and received only 5% back may return next quarter. But the more insidious pressure comes from investors who have not yet submitted at all. Once headlines mount, even a patient investor may reason they do not want to be last in line — because incremental borrowing to fund redemptions crushes earnings power, earnings erosion reduces dividends, and the whole thing can spiral.

As the session moderator, John Cole Scott flagged a concern worth repeating here, because it matters for the fiduciary standard advisors hold themselves to. The FINRA calendar and the documentation advisors put in front of clients deserve scrutiny. The risk is for the retail investor whose advisor may never have fully explained that “semi-liquid” comes with a gate that can — and now does — slam shut. Paul, for his part, is not yet modeling forced liquidations. He views the redemption pressure as “more temporary in nature” and expects the real inflection point to arrive in late 2026 or early 2027. But the opportunity for patient, well-advised capital to rotate from gated NAV into discounted public paper is live right now.

## MANAGER QUALITY IS THE WHOLE BALLGAME

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This is the section where CEF Advisors’ cohort research earns its keep — and where conventional wisdom about AI-driven diligence deserves a second look.

CEF Advisors sorted the top 18 BDCs by market cap (as of May 18, 2026, per CEFdata). The top cohort: 12.2% NAV total return, 1.23% non-accruals, 3.2% discount. The bottom cohort: 0.8% NAV return, 1.98% non-accruals, 32.5% discount.

*“The AI risk scores were nearly identical for the best and worst performers. What separated them was old-fashioned credit quality.”*

— John Cole Scott, President & CIO, CEF Advisors

FMV marks: top cohort up 0.68, bottom down 5.96. PIK ran 5.8% of income at the top versus 8.6% at the bottom. Five-year ROE consistency was 11.2% for the leaders and 3.8% for the laggards. The market’s verdict: top cohort at a 3.2% discount, bottom at a punishing 32.5%.

Now the part that should make you rethink the AI-diligence hype. CEFdata’s AI risk scores for the two cohorts were nearly identical — 5.21 for the top, 5.04 for the bottom. The algorithmic risk read did not separate the winners from the losers. What separated them was old-fashioned credit quality: non-accruals, PIK trajectory, and the honesty of the marks.

Paul agreed without hesitation. “Old-fashioned credit quality” is the biggest driver, and he underscored a structural problem for diligence: most BDC management teams have track records of less than ten years.

That makes “quality of management” something you ultimately have to buy into rather than fully verify. Dan approaches it with discipline — running a Sharpe-ratio-style analysis on economic returns, combining NAV change plus dividends. His finding: it is the consistency of returns, not merely their level, that correlates with higher price-to-NAV valuations across three, five, seven, and ten-year windows.

PIK is where the diligence question gets genuinely hard. Dan cautioned against treating any single PIK level as a verdict. A high PIK reading can reflect a deliberate strategy tied to a particular vintage or sector rather than distress. More telling is direction and trajectory: if PIK is set to trend lower as investments pay off, that decline can be an idiosyncratic catalyst to the upside. The rationale, strategy, timing, and direction of PIK matter more than the level itself.

Paul made the complementary point that the old PIK tells have blurred. The PIK toggle — once reserved for the highest-quality borrowers — has proliferated into both senior and subordinated structures, with no disclosure in the schedule of investments. The only reliable approach is to track each loan back to origination: Was PIK present from day one? How has it trended? Were maturities amended? He also resisted the reflex to treat every restructuring as a loss in waiting. Flexibility extended by a good credit manager can produce a faster exit at par, whereas acting too early crystallizes a loss and leaves the manager holding restructured equity that takes years to monetize.

## AI, DISRUPTION, AND THE DEATH-SPIRAL RISK

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If there is one structural risk that keeps this panel up at night, it is not rates and it is not spreads. It is artificial intelligence — not as a diligence tool, but as a force acting on the portfolio companies BDCs have lent to.

Dan’s framing was sharp, and he brought specificity the sector rarely hears. He distinguished three types of software exposure sitting inside BDC portfolios. At one end: businesses with genuine moats — enterprise or security software so embedded that customers cannot rip it out. At the other end: what Dan called “nice to have” exposures — products where “we’re finding every day that we can create something broadly similar ourselves.”

*“Unlike energy, AI will be both a serious headwind and a crater for some portfolio companies, and a huge tailwind and accelerator for others.”*

— John Cole Scott, President & CIO, CEF Advisors

These companies are not battle-tested against AI displacement, and the timeline is not a single event. Dan sees it unfolding over two, five, and in some cases ten years, with the first measurable signal being revenue or EBITDA falling toward non-accrual.

From there, borrower-level stress creates lender-level risk. In many portfolios, revenue or EBITDA may not be falling yet — the problem is it is “not growing as fast as was underwritten by the sponsor.” That gap is

where danger lives. A lender who keeps supporting such a borrower risks being pulled into levering up, extending more capital, and going down the path of a death spiral.

Dan drew a contrast with the energy downturns of the past: energy could ultimately be fixed by price recovery, but AI represents structural technological change. The energy shock was correlated; everyone in the patch felt the same price. AI is the opposite — simultaneously cratering some borrowers and accelerating others, sometimes within the same BDC portfolio. Dan captured the velocity of the sentiment shift: a year ago, every investor wanted technology and software exposure; today no one does, and “old world” manufacturing is suddenly in favor. The wall of worries can change very, very fast. Don’t anchor to last year’s narrative.

## **BUYBACKS, JOINT VENTURES, AND CAPITAL DISCIPLINE**

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When a BDC trades at a 30% discount and yields 12–13%, while new loans generate ROEs of perhaps 8–9%, the arithmetic of buybacks is almost embarrassingly obvious. So why don’t more managers do it?

Dan walked through the friction. Buying back stock costs liquidity, pressures leverage ratios, and — frankly — the external-manager fee structure does not reward shrinking the asset base. He encourages systematic, pre-approved buyback programs that take emotion and conflict out of the decision, and singled out Midcap Financial as the standout, having repurchased roughly \$100 million over the past quarter and a half. Paul added the constraint that often gets lost: with the sector running around 1.3x leverage — near the top of most managers’ target ranges — there simply is not much room to lever into repurchases even when the math screams to do so.

Joint ventures are the other place where capital discipline hides in plain sight. Dan is less interested in computing look-through leverage than in tracing the dividend income a JV throws off. If a BDC’s base portfolio income is falling and the BDC runs a fully ramped JV, it is rational to expect that JV’s income to fall too — adding incremental earnings pressure beyond what the headline numbers suggest. A newly formed JV in ramp mode can cut the other way, offsetting falling balance-sheet earnings. Paul framed JVs from the market’s perspective: investors treat JV distributions as yield enhancement, which raises the bar for NII stability. He pointed to BCSF, PFLT, and PNNT as cases where joint-venture risk has contributed to their discounts, in contrast to ARCC, where the same dynamic has not impaired valuation.

## **THE CRYSTAL BALL: A HAZY SIX MONTHS**

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Nobody handed out optimism on the live call. Dan called the near-term outlook “hazy,” with more dividend cuts likely and the 2021 vintage standing out as a particularly challenging bucket. The catalyst question comes down to three possibilities: spread tightening, some geopolitical resolution, or a rotation trade. Absent one of those, his base case is candid: “I would not be surprised to see continued discount pressure before we see meaningful tightening.” Paul sees the group as “fairly valued” today, with more headwinds than tailwinds, and expects non-accruals to keep grinding higher through year-end.

When we followed up in writing, Paul noted that Q1 direct-lending spread data was at all-time tight levels — a caution against building meaningful spread widening into near-term estimates. Broadly syndicated loan spreads are currently retracing tighter even as BDC managers guided to approximately 25–100 basis points of widening on their May conference calls. Full resolution of front-book versus back-book yield compression may not arrive until 2027–2028, and accelerated normalization would require sustained wider spreads or meaningfully higher investment activity.

## WHY THE DISCOUNT DESERVES A SECOND LOOK

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Everything above is a recitation of headwinds, and none of it should be waved away. Earnings are still troughing, non-accruals are grinding higher, and the gates on the non-traded side are a live reminder that liquidity is not a given. But the job of an investor is not to confirm the consensus mood — it is to ask what the price is already telling you.

*“95% of the time since 2011, the sector has traded at tighter discounts than it does today.”*

— John Cole Scott, President & CIO, CEF Advisors

Start with the long history. Per CEF Advisors’ data going back to 12/31/2011, listed BDCs have traded at discounts of 18% or wider only about 5% of market trading days. Said another way: 95% of the time since 2011, the sector has traded at tighter discounts than it does today. Rare can always get rarer, but you are buying at a percentile the market has visited only briefly across fourteen years.

The valuation contrast with the recent past is just as stark. In August 2021, the average BDC traded at a 12% premium with yields around 8.3%. Today, according to CEF Advisors’ indexes on CEFdata, yields sit in the 12–13% range — roughly 300–400 basis points wider — and prices are about 30% lower relative to book. That is a violent revaluation in under five years, and violent revaluations tend to create entry points for investors who did their credit work rather than chased the tape.

The technical picture rhymes with the fundamental one. CEF Advisors’ BDC index RSI has spent meaningful time over the last 90 days at historically uncommon levels — readings consistent with prior bottoming patterns. A momentum oscillator alone is not a reason to act. But when a rare valuation and a rare technical condition arrive together, it is worth noting rather than ignoring. Both the 5% discount stat and the sub-30 RSI readings draw on CEFdata’s index history, and each has historically been rare in isolation. When they arrive simultaneously, the setup tends to get experienced investors’ attention — historically for good reason.

Then there is the catalyst that does not depend on the credit cycle improving at all. The INVEST Act passed the House 302–123 and now sits in the Senate Banking Committee. If it becomes law, AFFE relief and the potential for index inclusion would be a structural re-rating catalyst — the kind that lowers cost of capital and broadens the buyer base without requiring any change to fundamentals. In a written response following the session, Dan called INVEST Act passage a potential “game changer” for institutional investors, and told us that, all else equal, he would increase his BDC allocation if it became law.

Even the credit story carries a constructive thread. Paul flagged that bifurcation in the broadly syndicated loan market's software pricing is beginning — meaning the market is starting to separate good credits from bad. As that process matures in private credit, it creates clarity, and clarity is what allows the higher-quality cohort to re-rate while the laggards stay where they belong.

Put those threads together and you have a setup that is cautious but constructive. The headwinds are real, and this is not a call to buy everything that yields 13%. It is the observation that historically rare discounts, technically oversold conditions, a potential regulatory catalyst, and improving credit visibility have arrived at the same time. The best managers are visible at the same moment their discounts are. Patient, disciplined investors should recognize that combination for what it is.

## WHAT ADVISORS SHOULD TAKE AWAY

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AICA closes every Earnings Pulse session by asking our panelists for the one message they want advisors to carry away. Both delivered the same warning from different angles: do not let yield and discount do your thinking for you.

Paul's counsel was direct. Don't be enticed by deep discounts or high yields in isolation. The track-record data is available, and it tells you a great deal. Delivering lower losses, higher returns, and dividend stability through a cycle requires genuine underwriting discipline — not just favorable conditions.

*“Very few BDCs can get it right consistently.”*

— Paul Johnson, Managing Director, KBW

Dan put it more viscerally. Chasing high yield often means chasing poor managers, because an outsized yield is frequently the market's verdict on credit it does not trust. Focus on time-tested managers who have actually been through a cycle, and remember that the post-COVID, near-zero-loss environment was historically abnormal — not the baseline you should underwrite to. The tide has gone out. For advisors willing to read non-accruals, PIK trajectories, and FMV marks instead of headline yields, that is not a reason to flee the sector. It is the best diligence environment in years.

*“Earnings make you sick, but credit kills.”*

— Dan Altscher, Managing Partner, FJ Capital

The managers worth owning are now visible, and so are their discounts — a combination the sector has rarely offered. The next twelve to eighteen months will reward the advisors who treat this quarter not as a moment to look away, but as the moment the market finally handed them the data to tell the durable franchises from the lucky ones.

## ABOUT THE SPEAKERS

### Dan Altscher

Dan Altscher is Portfolio Manager at FJ Capital Management, a hedge fund focused on publicly traded financial companies, including business development companies, banks, and specialty finance firms. His mandate puts him in the seat of an active capital allocator who must translate sector-wide narratives into position-level decisions every quarter.

Dan has covered and invested in BDCs for over a decade and is a frequent voice in the listed-alternatives community. His analytical framework — anchored in economic returns, return consistency, and a clear-eyed view of credit risk — reflects a practitioner who has lived through enough cycles to distrust easy yield and value durability over headline numbers.

### Paul Johnson

Paul Johnson is a Managing Director at KBW (Keefe, Bruyette & Woods), where he leads sell-side equity research coverage of business development companies. From that perch, he maintains one of the most comprehensive views of BDC fundamentals, earnings trajectories, and valuation dynamics available on Wall Street.

Paul has been one of the most widely followed BDC analysts in the industry for many years. His coverage is known for its rigor on credit quality, mark-to-market discipline, and the structural details — PIK toggles, joint-venture leverage, spread dynamics — that separate genuine analysis from surface-level commentary.

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