Summary of the Opportunity in BDC Bonds

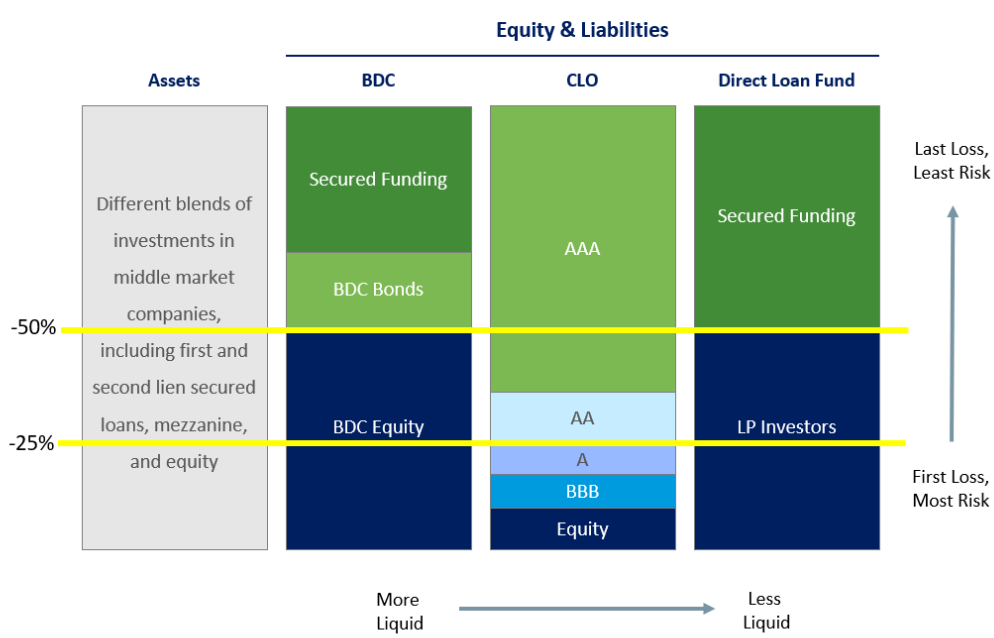
October 2023

BDCs explained…

- BDCs were created by Congress in 1980 through a modification of the Investment Company Act of 1940 to provide small, private, growing businesses with access to capital.
- BDCs raise equity and debt capital for the purpose of investing in middle market U.S. companies, increasingly underserved by banks, generally through senior secured loans similar to CLOs and direct lending funds.
- BDC leverage is regulated, with most BDCs operating at asset coverage ratios of ~200%, or debt-to-equity ratios of ~1:1. We believe this substantial regulated downside protection is misunderstood by the market.

We believe BDC bonds are the best way to access both Private Credit and Investment Grade…

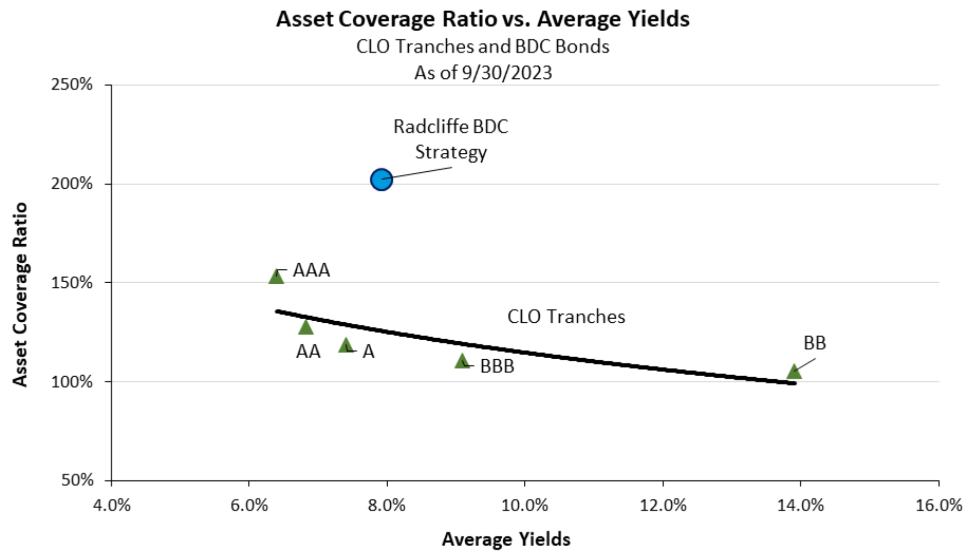
- BDCs have similar portfolios to CLOs and Direct Loan funds but, we believe, BDC bonds offer a <u>more liquid and much more attractive way to access the private credit market</u>.
- Nearly all BDC bonds are IG rated from an NRSRO and qualify for NAIC-2 insurance company designations.
- We believe BDC bonds offer the largest mispricing in the IG bond universe, with single-B yields and AA/A risk in our opinion.
- Despite their high yields, BDC bonds have two significant benefits not found in other forms of private credit: a) fixed coupons allowing investors to “lock in” current high yields, and b) <u>much</u> more principal protection as illustrated below. No BDC bond has ever been impaired, even through the GFC.



- In a hypothetical 50% loss scenario, the BDC equity, Direct Loan fund LPs, and all CLO tranches through the AA are wiped out. Even the AAA rated CLO tranches experience losses <u>while BDC bonds are unimpaired</u>.
- This 50% loss scenario is draconian but illustrates the substantial downside protection of BDC bonds in contrast to the levered first loss exposure of Direct Loan funds, BDC equity, and most CLO tranches.
- The double-digit target returns of private credit may prove to be unrealistic since they generally don’t incorporate significant levered first-loss exposures, nor the risk of lower floating rate yields.

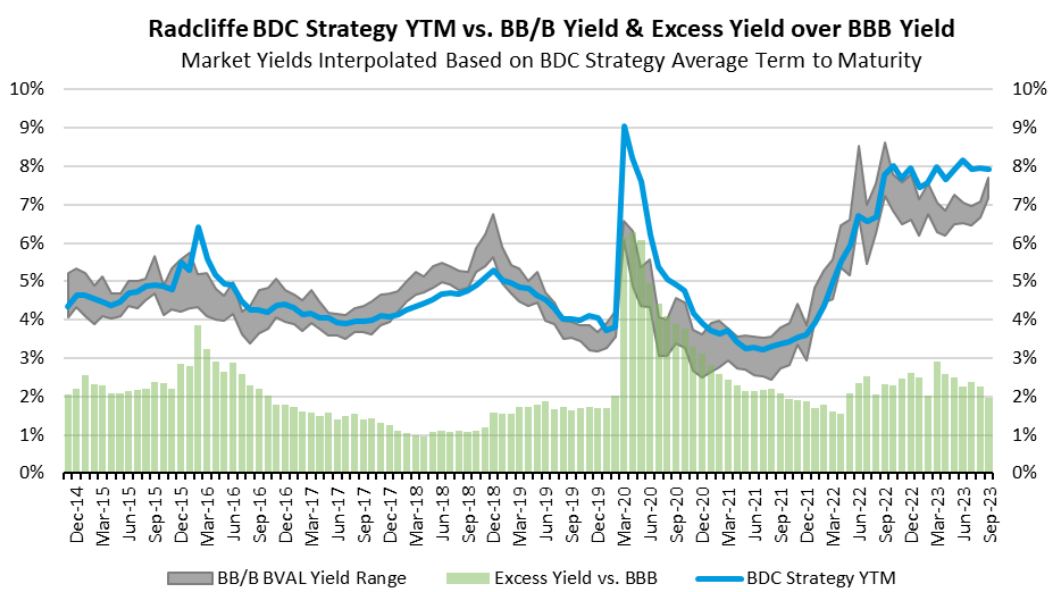
BDC bonds are attractive when compared to CLOs…

- BDC bonds avoid the floating rate risk of CLOs, while locking in significantly elevated absolute yields.
- BDC bonds have much higher yields and more downside protection than AAA tranches of CLOs, and <u>much</u> more downside protection than the lower tranches which are vulnerable to first loss exposure on defaults.



BDC bonds also offer much higher yields than other Investment Grade bonds…

- Unlevered yields higher than single-B (top of grey zone).
- 2-3% higher yields than BBB (green bars), despite having AA/A risk in our opinion.
- Opportunities exist to invest with credit spreads above 400bps, while IG CDX spreads are closer to 80bps.



Why the mispricing exits…

We believe there are the seven reasons BDC bond mispricing exists:

	Reason for Mispricing	Comment
1	The BDC bond universe has grown but remains relatively small.	Tripled in size in the last three years to $45 billion but still less than 0.5% of the corporate bond market.
2	Analyzing BDC bonds is complex and time consuming.	Includes granular examination of the quarterly schedule of investments.
3	The regulated downside protection is overlooked.	BDCs generally operate with asset coverage ratios of ~200%, or 1:1 leverage.
4	The market incorrectly assumes BDCs have the vulnerabilities of banks.	Banks are deposit-based lenders, with mis-matched assets and liabilities, and ~8:1 leverage.
5	The market hasn't priced in the strength of BDC investment portfolios.	Generally diversified portfolios of secured loans similar to CLOs and Direct Loan funds, greatly improved since the GFC.
6	Rating agencies do not differentiate between issuers.	Most BDC bonds have the same IG ratings despite material differences across BDCs.
7	Sell-side research of BDC bonds is sparse and only began in 2020.	JPM has observed mispricing, and Oppenheimer applied "absurd" stress test with no impairment.

How to Invest in BDC Bonds…

- There are no BDC bond ETFs, mutual funds or indexes.
- Publicly traded BDC bonds can be purchased over-the-counter but require significant due diligence on their loan portfolios and management teams. Radcliffe has managed a dedicated strategy here since 2014.
- Privately placed BDC bonds are sold to a small club of buyers, including Radcliffe. Privately placed BDC bonds often have even higher coupons, with spreads over +400, better protective covenants and more favorable terms than their public counterparts, with less market price volatility. Radcliffe is one of the few investors with both the analytical expertise and the ability to source these bonds, and we plan to launch a strategy in January 2024 to take advantage of an expected increase in issuance.
- Radcliffe offers SMAs ($50 million minimum) for Public and/or Privately Placed BDC bonds.

About Radcliffe…

Founded in 1996, Radcliffe has a successful 27-year history of managing niche liquid alternative strategies that seek to capitalize on structural market inefficiencies where we invest heavily ourselves.

- ~$4 billion AUM across niche Short Duration, BDC and Multi-Asset strategies. Radcliffe's Ultra Short Duration strategy, launched in April 2009, ranks in the top 1% of the 400-plus strategies in the eVestment U.S. short duration fixed income universe for net returns and risk adjusted performance as measured by Sharpe and Sortino ratios for the three-, five-, ten-year and since inception annualized periods through 2022.
- Clients include some of the largest family offices and institutions in the U.S., including insurance entities.
- Deep team including 13 investment professionals with over 200 years of combined experience through multiple cycles.
- Among the largest investors in BDC bonds with extensive expertise in the market, managing the first, and possibly only, dedicated BDC bond strategy since 2014.
- Close long-term relationships with BDCs, regularly meeting with the senior management teams and underwriters and working directly with them on many new issues where we were often an anchor investor.

Important Disclosures

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The eVestment US Short Duration Fixed Income universe is comprised of net and gross returns reported by investment managers of US Fixed Income products that primarily invest in short duration, investment grade debt. The eVestment universe may include products, such as mutual funds that differ from private funds, particularly with respect to the fees charged, leveraging, pricing and liquidity practices employed, the degree of regulatory oversight to which each is subject and the characteristics of the typical investors who use each investment vehicle.

An investment in the strategy has not been recommended or approved by any U.S. federal or state securities commission, or any non-U.S. securities regulator. Furthermore, the foregoing authorities have not reviewed or approved this summary. Amounts invested are not insured against loss by any government entity.

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