



BDC Reporter's Marshi: Expect a Stable Year Ahead for Business-Development Companies

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Chuck Jaffe, in The NAVigator podcast, interviewed Nicholas Marshi, editor of BDC Reporter. Read the Q & A below as Chuck discusses with Nicholas why business-development companies



held strong on their dividends in the third-quarter despite LIBOR dropping and eroding investment income during the period, and why he expects stable dividends to continue through the next year regardless of market events and news.

Nicholas Marshi

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

CHUCK JAFFE: Nicholas Marshi, editor of the *BDC Reporter* is here, and it's time to talk current events in business-development companies today on The NAVigator. This is 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 that represents all facets of the closed-end fund industry, from users and investors, to fund sponsors and creators. And in fact, to folks like my guest Nicholas Marshi, who is the editor of the *BDC Reporter*. Now if you want to learn more about business-development companies, you can check out his website, it's BDCReporter.com. He also runs BDCCreditReporter.com, and he's on Twitter @BDCReporter. But if you go to the BDCReporter.com website, you will notice that quite honestly right now, it's on a bit of a hiatus. That is because Nicholas has had some health issues with a detached retina, and has had to shorten his working hours. It hasn't

changed the fact that a lot is going on in business-development companies and closed-end funds, so we're really glad that from his limited time at his desk, he's willing to take time out to join us. Nicholas Marshi, great to chat with you.

NICHOLAS MARSHI: Great. And thanks so much for having me, Chuck.

CHUCK JAFFE: I don't want to go too into what's been happening. I know from reading your site that you have been affected by a detached retina. But one of the interesting things that I want to answer before I get into the current event side of things with BDCs, is one of our audiences wrote recently after a NAVigator segment, that they like the idea of BDCs, but they somehow feel that it's not the same passive buy and hold, "Let me go get what I get when I buy my traditional mutual funds and my closed-end funds." Now you at *BDC Reporter*, are covering everything BDC all the time, and now you have a forced hiatus. Which I know it's got to be tough for you. But I also know, does it kind of prove the point? That, "Hey, in the BDC world, you don't have to be on top of it moment by moment," just because it's a different style and structure of investment?

NICHOLAS MARSHI: Absolutely. Like with anything else, there are better BDCs and worse BDCs, and there are better structures and worse structures. But if you pick and choose carefully, you can take it a little easier and not be on top of them every minute. There are forty-six public BDCs, and there's also forty-five publicly traded BDC debt issues. And so between those two sets of securities, you've got a lot of choice.

CHUCK JAFFE: So let's talk a little bit about the choice in terms of what has been going on now, because we have seen some changes in interest rates and things that typically affect BDCs. We would expect that to show up in performance. When you look at the performance of BDCs right now, what's been happening and what has been changing?

NICHOLAS MARSHI: Well, we're just finishing up the third quarter earnings season. It's always dangerous to generalize too much, but let's go ahead and try. Generally speaking, BDCs have been holding their dividends very nicely, even though LIBOR has been dropping, as you know for some time, and that's sort of eroded investment income. But that they're making up that investment income by adding assets in many places, or selling equity stakes in companies in some cases. And so overall, BDC earnings are flat to slightly up over last year.

CHUCK JAFFE: Have we seen changes in the way the BDCs are acting? Because while the earnings seem to be up, if you've got the changes in interest rates, doesn't that normally see some managers wind up increasing their leverage, doing things along those lines? Or have they not had to go that far?

NICHOLAS MARSHI: Well, it's really part of a bigger thing that started back in March of 2018, when the government quietly allowed the BDCs to double the amount of leverage that they use. One of the things that makes BDCs unique, compared to many other kinds of closed-end funds or many other kinds of lenders, is that they're limited as to how much debt they can take on. Which gives investors in them some confidence that they're not going to go crazy and leverage themselves up in a way a bank does, ten or fourteen times their equity. So the government's allowed them to double their leverage from a low base, to let's say, a medium base. And in the last year and a half, the BDCs mostly had been taking advantage of that. Which has helped them, as you're saying, consolidate their earnings by borrowing a little bit more and growing their asset base.

CHUCK JAFFE: And in terms of your outlook, you put out, "We're just finishing the third quarter earnings period," but your outlook for the rest of the year and going into an election year? We have a lot of talking points, they certainly affect day-to-day market sentiment, and some people would say we're waiting to see how they're going to affect the market. But BDCs are their own separate group. Do you anticipate, as we look at the BDC space going forward, that the election year is going to have any sort of impact or any sort of change that is going to either create things that are opportunities or challenges for BDCs?

NICHOLAS MARSHI: No, thank goodness BDCs live in their own little universe. And they're really long-term investments, because basically BDCs are lenders and they're lending money out for five to seven years. In real life, they turn over their portfolios in three to four years. But they don't get too much affected by those kinds of factors. And they're managed in almost every case by some of the cleverest, most sophisticated groups on the street, so I'm not too worried about what the election year will do one way or the other. In fact, we expect in 2020, that the dividends will be about as stable as they've been. Partly because the BDCs have all these levers to pull in terms of growing their assets, which allows them to grow their income,

which allows them to offset any income that they're losing from LIBOR or from the credit losses.

CHUCK JAFFE: Stability is something that folks definitely are looking for, and BDCs offer it. Really interesting perspective on how they're going to maintain that. Nicholas Marshi, thanks so much for taking the time out for joining us during your hiatus when you're supposed to be resting, to chat with us on The NAVigator.

NICHOLAS MARSHI: Thank you, Chuck. It was a lot of fun.

CHUCK JAFFE: That's Nicholas Marshi, editor of the BDC Reporter, who's site is worth a look even while he's on hiatus recovering from his detached retina. So if you want to give it a look, go to BDCReporter.com, also BDCCreditReporter.com. They're on Twitter @BDCReporter. The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe. I'm your host, Chuck Jaffe, and you can learn more about my show at MoneyLifeShow.com. To learn more about business-development companies and closed-end funds, go to AICAlliance.org, the website for the Active Investment Company Alliance. They're on Facebook and LinkedIn @AICAlliance. The NAVigator podcast is available every Friday, thanks so much for joining us. On the behalf of the AICA, we look forward to talking with you again next week.

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