2021 AICA Business Development Company (BDC) Fall Forum Day 1 Panel #2; "Current Trends for Large Scale BDCs: Opportunities For Quality Income"

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Vlad Bulkin, Partner at Katten, moderates the second panel of day 1 of the 2021 AICA Business Development Company (BDC) Fall Forum; "Current Trends for Large Scale BDCs: Opportunities For Quality Income". Read the transcript below to hear the discussion among Mr. Bulkin and panelists Erik Bissonnette from Owl Rock and Rajneesh Vig from BlackRock-TCP Capital Corp.


Vlad Bulkin


Erik Bissonnette


Rajneesh Vig

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Vlad Bulkin: This is a panel on what's going on in the BDC world. My name's Vlad Bulkin, I'm a partner at Katten Muchin Rosenman, and I'm joined here today by Raj Vig from TCP Capital Corp and Erik Bissonnette from Owl Rock Capital Partners. We did have a last minute cancellation due to a conflict from someone from Ares, but I'm sure this will be a great panel anyway. With that I'll start with the first question. Could each of you please give a brief background about you and your firm? And given that you just released earnings, could you give us a quick snapshot of your recent results and any key trends from the quarter that you believe are noteworthy?

Raj Vig: Great, good morning. I'm in the West Coast, so good morning or good afternoon to everyone. My name is Raj Vig, I'm the chairman and CEO of TCP Capital Corp, ticker symbol TCPC. I'm also the co-head of the US private capital group at BlackRock. TCPC is one of our public BDCs that went public in 2012. So a fair bit of experience and history as a public company. We have a portfolio of about $1.8 billion in assets, mostly first lien senior secured loans, floating rate assets, and that portfolio is really just a fraction of the total capital we manage under the broader umbrella of USPC, which is essentially the advisor of the public BDC.

We're proud to say we've covered our dividend every quarter since we've been public for almost 10 years now. We have about an 8.5% yield on our NAV and we're trading close to it, which I think is not as high as we'd like to but certainly close to it. And we have since our inception as a public company, about a 10.7% return on assets. So really a good, strong public performance which I think it mimics our performance in our private assets which we're restricted of to talk about without too much more detail. On Q3, I think Q3 was very much an additional datapoint of a strong performance through Covid and in general, and we'll talk about that I think a little bit later.

We have maintained a very good quality of our portfolio. Very few assets on nonaccrual, less than 1%. During the quarter we were able to also refinance some of our balance sheet debt into lower cost bonds, a theme that's moving across the sector which we'll touch on. And in addition to the NAV levels today, really since March of last year we've seen double digit NAV recovery and improvement based on the quality of the portfolio, actions we've taken through Covid, and just being in a very defensive position with a strong portfolio throughout the pandemic. Again, we'll touch on that a little bit later but look forward to the conversation this morning.

Erik Bissonnette: I'll jump in. Thanks for joining today. My name is Erik Bissonnette, I work here at Owl Rock and I co-lead our technology investing platform. But in terms of just a broader introduction for those who might not be familiar, Owl Rock was founded in early 2016. It's a platform almost exclusively focused on direct lending opportunities really intended to focus on the larger end of what we classify of the upper middle market. And really capitalize on our view of the continued shift away from the bank market and the syndicated loan market into direct lending, particularly at the upper end of the size spectrum.

In terms of AUM today, Owl Rock manages approximately $35 billion, which is spread across two primary strategies. One is our diversified lending, and the second is technology investing which encompasses elements of both direct lending as well as structured equity and other structured products which I manage. The platform has five distinct BDCs today. The largest, our flagship vehicle is a publicly traded entity, it trades on the New York Stock Exchange with ticker ORCC. It's approximately $12.5 billion of assets and has a market cap of approximately $6 billion.

In terms of performance and results coming out of Q3 have been consistent with the comments that Raj made, it was a pretty strong quarter in terms of aggregate performance as well as deployments for our broad BDC platform. In terms of dollars deployed it was actually a record for us, which we'll get into later as well. Really somewhat shocking given just where we were a year and a half ago, to see the speed and the strength of the recovery in terms of capital deployment in M&A in the space of 18 months coming off the back of such a shock to the system. We deployed about $8.8 billion in the quarter which was sequentially up from $5 billion in the second quarter.

We have started to see a little more rotation in terms of repayments, which is one of the areas that we were looking for with respect to a little augmentation to dividend coverage at the flagship vehicle, and we've also been able to reinvest those despite some competitive pressures into really attractive new opportunities. I think the last question you asked, Vlad, was around what do we see with respect to trends in the market? And I'm sure we'll go into this in slightly greater detail, but I think from a macro perspective we continue to see direct lending, particularly in the upper end of the middle market, take tremendous amount of share out of the syndicated loan market.

In terms of the type and scope and scale of the opportunity set in which we're competing, five years ago the thought of a $5 billion unitranche was almost laughable in terms of an execution. And this year we're just compiling some statistics, we've looked at 35 unique transactions over a billion dollars in proceeds. So in terms of the aperture in which we're competing and the scale of the type of capital solutions that we can provide, I think that has really been one of the most fundamental changes we've seen here over the past 18 months to two years.

Vlad Bulkin: Great, thank you for those introductions. Before we get into more details on those topics, maybe we can talk a little bit about the pandemic and what your experience was like going into the pandemic. How were you positioned? And how you navigated through the last 18, close to 20 months now.

Erik Bissonnette: Hard to believe it's been 18 months. Raj, I'm not sure where you are. We are back in the office. We came back to the office about a month ago, but we're largely remote since March of 2020. So really a bit new to be back here in the city. Good to be back, good to see everybody. In terms of where we were situated coming into the pandemic, I think as I articulated in my opening comments, since inception we have been focused on what we consider the upper end of the middle market. So if you look at the weighted average revenue and EBITDA across the entirety of the Owl Rock platform, our borrowers tend to be $300-400 million dollars on the top line and $100-115 or greater in EBITDA.

As I think any credit investor would hopefully tell you, we're hyper focused on downside protection. In the nature not only of the types of companies in which we invest, the sectors that we think are the most attractive, but also the nature of the sponsors with whom we partner, the wherewithal that they might have to support those businesses given some level of turbulence in the broader economy. As well as reserving capital on our own account in the event that we were to be the ones who really needed to take control in those businesses. We ran into obviously an event that no one certainly was-- looking back on a bunch of investment memos over the past four to five years, I'm highly confident that there wasn't global pandemic listed as a major risk factor.

But that said, I think the nature of where we are – where we focus in terms of recession resistant sectors – we focus a lot on software and technology, healthcare, insurance services, areas of the economy that we think are hopefully somewhat less volatile and less cyclical. We're underweight to things like to consumer retail, oil and gas, other areas that irrespective of the pandemic, we were always expecting that we were doing a deal in 2019. There certainly was going to be some form of recession or economic disruption at some point in the lifecycle of those assets. So a late cycle focus going into obviously an event that no one could have forecasted.

What we did at the beginning of the pandemic effectively was re-underwrite every deal. Sit down, go through every transaction we had. We came up with a color codification system, identified the assets, what we thought the relative risk of direct exposure to the shutdowns might be, what the capital positions of the companies were today. Frankly I think another important factor that hopefully people had been paying attention to but might not have been as salient on the front of peoples' minds, were how much capital did the sponsors have to support those assets?

So if you're investing in a fund that might be new, again there's a lot of capital to support those relatively nascent opportunities. If you're looking at a fund that might be six, seven, eight years old and vintage, there's a very reasonable chance that despite the economic realities of the underlying business there might not be capital to support the company. So we really went through that entire process and identified what we thought the hotspots might be. And really engaged on a one-on-one basis particularly in what we call the red category with the sponsors and the issuers themselves. We came up with action plans, figured out a way that we could be supportive, particularly for companies that we thought were healthy businesses generally speaking, but obviously as stewards and fiduciaries of capital to make sure that we were protecting our positions.

Raj Vig: Yeah, I would say many parallels, and just going back to one of the points Erik mentioned on the prior question in terms of trends. A couple things, I'll break my comments up into the market and then our experience. But his comment around taking share from the private credit market in general, taking share from the banks, I think to some degree, not entirely, but to some degree is a function of the markets being validated. At the worst point of the pandemic they never really shut down. These were very deep, broad, and available financing solutions at a time when companies needed it.

At the outset of the pandemic I think they were very much liquidity facilities, preservation, people just risk managing. And then as you went through the pandemic I think what you saw is, and kind of segueing to my comment on our experience, really when you think about the pandemic, what it did do is it accelerated industry by industry trends that I would argue were already in place. So when you think about retail, the move from facilities to online. What would have taken three or four years probably happened in a year. When you think about the cloud solutions, recurring revenue businesses, software that provides more hybrid or even a cloud-based solution virtually. That used to be done through a resident software on premise, those companies actually saw accelerated growth.

So as you went through the pandemic and being positioned before it, we have the benefit of both taking an approach that's industry oriented to our underwriting and having over two decades experience well before the public BDC was issued, of looking at industries and trying to understand where they're going. And positioning ourselves, avoiding the disruption of being on the wrong side of secular change. And I think what that results in is, like Erik mentioned, a lot of very defensive models, a lot of orientation towards software, tech enabled services, financial services, healthcare. Things where secular trends either were stable or even positively influenced by the pandemic.

Avoiding energy, we avoided a lot of traditional consumer, more cyclical type businesses. And our experience through the pandemic was a very stable portfolio. A few cases where we would need to step in or try to be constructive in preserving liquidity and extending the runway. But those are really the exception, not the rule. And in many cases we saw companies, what they targeted to be doing in two or three years of growth, doing it in one to one and a half years and really benefiting on the positive side.

What I think it did also in addition to validating the market, by validating that this sector is readily available through thick and thin and getting more share as Erik mentioned, it also very much in our minds validated our underwriting approach. Where we wanted to provide capital, what kind of businesses we think are defensible that can withstand a shock to the system. We didn’t know as a pandemic but we did know that something could happen and you have to be positioned with companies that are large enough, meaningful enough, and have enough resilience, which is a word we used a lot to withstand it. And I think all of that on a business level was validated as well.

In many ways we look at the pandemic as the new stress case many years after the GFC, which was the old one, and now we have a very fresh case to continue to look about where we deploy capital. It’ll be in many of those same sectors that are secular benefits and positively inclined in this environment and going forward.

Erik Bissonnette: I think I agree with almost everything Raj had to say there. Obviously I think another just one other thing that I probably should have mentioned initially. We spent a lot of time talking about the asset side of the balance sheet. I think one of the things that really was very strategic for us was how we thought about liability construction on the right side of the balance sheet of the overall platform. Just in general and obviously going into a time of stress or extremis, really looking at the nature of how our liabilities were structured.

So if you look at the broader Owl Rock platform, depending on the specific fund in which we’re discussing, roughly 60% of our assets are financed by unsecured debt. So we don’t have many marked to market facilities, we have virtually no approval facilities. So in terms of assessing the overall strength of any BDC or any BDC manager, obviously there should be appropriately a hyper focus on the relative level of asset quality on the left side of the balance sheet. But I think as we saw with some of our peers, depending on the nature of their financing relationships and liabilities, the need to do rights offerings, other diluted equity type of transactions. Which really I think emphasized to people that a laser focus on the asset side of course is what we’re paid to do, but in terms of the overall construction of these types of funds and vehicles, having the right type of liability structure particularly in a time of stress is key.

Raj Vig: Yeah, 100% agree with that. Totally agree.

Vlad Bulkin: Great, thank you, gentleman. So looking a little more into the current and future environment, what do you think is the market opportunity for direct lending now and into the future, and how has it evolved over time? I’ll ask Erik that question.

Erik Bissonnette: Well, clearly I'm going to say it's fantastic. It'd be a bit odd for me to get up here and say anything--

Raj Vig: I'm going to agree with that.

Erik Bissonnette: We're just going to with the sky is the limit. Look, I mentioned this earlier. It's been a 30-year mega trend of the growth of alternative markets and private markets away from public equities, broadly syndicated loans, high-yield bonds, a continued rotation of alternative asset managers to be capital providers for these types of businesses. I think that trend has merely accelerated fairly dramatically over the past few years. I've already kind of talked about the growth of this idea of the mega unitranche. We've seen capital formation just absolutely explode over the past 10 years. Broadly speaking in private equity, specifically most close to where I spend my time in technology. We were covering, I'm sure as Raj was 10 years ago, we were doing deals with these small firms called Thoma Bravo and Vista with billion dollar funds. And clearly that is just not the case today.

So as we think about the growth opportunity and where we're spending our time, if you're sizing the amount of private debt capital that's been formed vis a vis the amount of private equity capital that's been formed, I would argue that we have a long way to go to catch up. So if anything, while the headlines might suggest that we're taking share, which I do think we are, I think the aggregate pie is increasing very dramatically. I think there's a home and a place for high-yield bonds and broadly syndicated loans, and I think that market will continue to be vibrant as the entire investable universe continues to expand.

But from our seat, I think the type of capital we provide, the nature of it being highly predictable, highly certain, not dependent on ratings, not taking extended market risk particularly for longer dated transactions for go-privates or things of that nature, there's a home for that. So clearly there's a cost differential between optimizing for the lowest cost of capital and some form of first lien, second lien deal in the public markets versus what Raj's firm and what we're providing. But I think there's a place for all those type of transactions, and frankly from our seat we just see tremendous growth from here.

Vlad Bulkin: Great. Raj, now that we know that the sky's the limit for direct lending, how do you compete in such an environment?

Raj Vig: Yeah, look I would echo everything Erik just said. It feels like there's more companies and more types of companies than ever looking to access this market, and so I do think there's a growing TAM. And even for the same company five years ago trying to refinance today, that's apples to apples comparison. They're just bigger, and their bite size may be bigger. On the other side there's clearly more entrants. We've seen a lot of people, newer entrants. I would say in many cases, smaller entrants with a lesser track record coming in. But I do think the market is coalescing around what I would refer to as a solutions providers.

I think it's very important that whether it's in the BDC or across a platform like each of our respective firms, to be able to be positioned to your counterpart as a group that can actually work constructively, work quickly and efficiently, and provide a single solution for their financing need. Whether that's refinancing, acquisition, growth capital, etcetera. And that is a smaller group and I think that's a group that is taking more share within the broader market even as more entrants come in. So there's a bit of a have and a have not positioning.

I think relationships are critical. In both our cases, as Erik mentioned, we've been calling on folks for 20 years plus, we've been in this business for over two decades. Your reputation matters. People remember how you acted, not just when times were good but when times were tough. So this recent what happened in the pandemic, how constructive you were I think will be reflected in who people feel comfortable working with on a go-forward basis in addition to just the scale of business and being well positioned.

And then I think just put it in context, in our last twelve months we disclosed that in the BDC deployment, which wasn't a record level but it was pretty high, 40% of our deployment was from existing names. When you think about that, just a little under half of our deployment for the quarter was from people we were already working with. So incumbency is actually a very critical and I think less spoken of advantage. So you kind of have to be in it to win it, to use an old lotto phrase which some of you may remember. And I do think that is a smaller group in addition to the group that can be a single source, one-stop-shop and one that people have some trust in working with, which only comes with prior deals and prior history.

So it does feel like there's an ability to compete and to compete well even in a market as more entrants are coming in. We believe we're positioned in that group, we've been around for I think before it was even called direct lending. We have a lot of repeat counterparties working with us and that to us is a good validation of the positioning. And these aren't auction processes, we may be one of one or one of very few people they're speaking to. And even if we don't end up doing the deal ourselves, the club market is a great place to be able to partner with folks like Owl Rock and others for mutually beneficial positions. But it is not a place I think a new entrant can duplicate, having that history and positioning comes with time. And so I do believe there's a way to differentiate yourselves in this market still.

Erik Bissonnette: Yeah, I would certainly echo all of that. And I think in a sector that both of our respective firms have been focused on, I've been a tech lender for 12 years and a tech investor prior to that, which started to be too many years to start to be embarrassing. And I know Raj's shop has been focused on tech for probably 15 or 20 years, actually one of the longest track records in the space. Everyone is talking today about the relative attractiveness of software assets, the durability, the predictability, all of the credit attributes that I think both of our firms have seen for years. And the reason I bring this up is that the nature of having that longitudinal knowledge base, the longitudinal long-term relationships with those counterparties is not easy to replicate.

One of the jokes I'll share with our LPs is I would really rather not be a direct lender, I'd rather be playing shortstop for the Red Sox. But just because I want to do it doesn't mean that I have the talent, the ability, or the history to go and just prosecute that. So I think we started to have these conversations where the sectors in which we've had the most success, the logical question is, are you going to see a meaningful amount of increased competition focused on some of these secular trends that are really pervasive in the economy? I do believe nature abhors a vacuum and there will certainly be increased competition. But I think given the track records that both of our firms have here, it's not something that just aspiring to be part of a broader technology ecosystem or some of these mega club deals, having that breadth of knowledge.

And I think Raj made a very salient point: the track record of how you act when times are hard, when times are tough. I think people look back and want to understand. Part of the value proposition of direct lending, or whatever you want to call it depending on how far back you go, is really understanding who you are as a counterparty. And that's a big part of the value proposition that we talk about.

Vlad Bulkin: Great, thank you. I actually just got a question in the chat that relates a little bit to the type of investing that you do in tech. How is it better or different to offer a loan to a tech company versus an equity piece from your funds?

Erik Bissonnette: Well, if you want me to kickoff I can do that.

Raj Vig: Yeah, go ahead.

Erik Bissonnette: Yeah, and then Raj, you can jump in because I think we both have--

Raj Vig: I'm just going to say what you say.

Erik Bissonnette: We partner on a lot of deals. We have multiple different strategies at Owl Rock. The fund that I manage, Owl Rock Technology Fund is a hybrid strategy. So 75% of the capital we deploy is what we would call regular way senior secured direct lending. So typically buyouts backed by private equity firms, first lien, second lien, unitranche, recurring revenue, something that you would recognize as a traditional debt financing. We also do structured equity and structured products to later stage pre-IPO businesses where we think the companies have historically been inefficiently capitalized. A company that has $250 million of revenue and is break even, really if they're raising Series G, Series H, whatever sequential NVCA nomenclature you want to ascribe to it, has achieved a scale where 25 or 30% highly dilutive equity might not be the most attractive or frankly relevant piece of capital.

So we sit in an interesting spot in which we are investing equity directly into companies and we are investing in loans, and we think there are really interesting opportunities in both. But specifically as it relates, given that this is probably mostly an income oriented group and a group probably focused mostly on what type of loans we're focused on, what I would suggest is if you look at the attributes and the nature of what software companies have. What attracts us to software companies? We're looking for mission critical businesses, we're looking for companies that are market leaders, have high recurring revenue, high levels of retention, at scale have tremendous amount of free cashflow conversion. All of those things, if I were to subtract the word "technology", just about every letter would say that's a list that I want in every deal that I have.

So in terms of where I think the market is today putting aside heavily structured equity, I think if you believe in the 20-30 year secular digitization trend that we're all living through, I think over the next few years with valuations at the elevated levels in which they are today, there is a pocket where lending to these businesses I think is exceptionally attractive. It's not to suggest that I don't think private equity or venture capital will have solid years of returns, but if you're deploying a dollar of capital today, if you look at the values that need to be paid to buy a business 25-30 times EBITDA in the software universe, we just haven't seen a commensurate level of expansion of the amount of debt that we're providing. So if we were doing a six times deal three years ago, we might be doing a 6.5x deal today.

Raj Vig: Yeah, I think I'll break that question out into two parts. One is just the attractiveness and credit lending to software businesses, and I think Erik covered a lot of it, these really are. And I think now they're better understood as people are jumping in, but we've been doing it for a long time. When you think about the business model attributes, you have very visible and now increasingly contractual revenues, you have very high gross margins, you have the mission critical element you can validate. Meaning they're very sticky so it's one of the last things people will get rid of. It's kind of the equivalent of what the phone and the fax used to be, it just happens to be now an intangible piece of software.

You have pretty simple operating models beyond that, salary, and wages, and maybe some sales and marketing costs. And very high EBITDA and high EBITDA to cashflow conversion levels. So you have these attributes that make them incredibly attractive credit models that you get paid well for. But at the same time depending on the valuation, the growth outlook, the secular positioning, it can also be very attractive. And they have been, as I think we've seen over the last several decades, equity investments. So I think that the question isn't necessarily is it an either/or, is one better than the other? Both can be good. I think you have to be very clear of the mandate of your fund. So we would not be doing equity investing in a credit fund, because that's not what the investors signed up for.

We do have other pockets that do equity investing like Erik and his team do. And both may be interesting instruments or one may be better than the other, at the end of the day the job of our investors who are drilling down on an industry by industry basis is to determine for an opportunity, what is the best place of entry into the capital structure? What is the best risk-reward? And lining up the fund that is a fit for that opportunity to be the one that makes the investment. Sometimes it's debt, sometimes it's equity, sometimes it's both. But I do think that the software business in general lends itself to attractive opportunities across the category of a capital structure debt, structured equity, control equity and buyouts. And it just has been a very unique place to grow your presence. And coming at it from a knowledgeable basis has allowed us to be very active in that market, as it has for I think Erik and his team.

Vlad Bulkin: Great, thank you. So outside of technology do you think there are other industries that might be attractive opportunities over the next decade or so?

Raj Vig: Always. I think going back to my opening point, the great thing about our jobs is we get to see a lot of different things and try to take a view on them. And on the one hand you have industries that are going through disruption, retail, energy, Amazon, where what they used to do has to be done differently like a Walmart. And I think on those that are facing challenge, there are strategies and funds that take advantage of that, more distressed or opportunistic type debt, extending a runway or extending a business model transition.

On the other hand there are always going to be industries that benefit from that transition. So what used to be healthcare that was manual may now be automated healthcare or healthcare IT. When you saw businesses five years ago that were purely a retail store, they are probably now gone through a tough transition if they survived and are an online storefront. And probably doing exceptionally well in Covid as people have moved their purchasing power online.

So there’s always going to be an ability to take advantage of that disruption of cycle. On the one hand you want to be avoiding it, which is what the direct lending performing funds are. So we want to stay in very stable non-cyclical, non-challenged industry. And in our case right now that would be financial services has been very active, healthcare IT or things that are benefitting from the growth in where healthcare spend has been going has been pretty active. I’ll say software, but I won’t say software as a business, but as a business model. So every company at some level today to survive has to be a tech company. It just depends on the sector they’re focused in.

So insurance, retail, healthcare, things where people are changing how they do business and moving to more online or hybrid models are all flavors of vertical software that we’ve been involved in. Security and security software, infrastructure. So there’s always going to be areas where we see growth and we believe we can get good downside protection and benefit from that enterprise value enhancement. But those are, if you look at our portfolio, generally where we’re positioning ourselves and being active. But being very cognizant of not stretching too much on structure, risk, or leverage because at the end of the day we are still credit investors in our BDC.

Vlad Bulkin: Thank you. Switching gears just a little bit. The M&A environment has been very strong this year. Erik, what do you think are the drivers for the substantial increase in M&A activity and what does that mean for middle market lenders?

Erik Bissonnette: Yeah, it’s a great question. I think I mentioned this at the start of the conversation. If you had asked Raj or I in April of 2020 if 2021 would be far and away a record M&A year, I’m fairly confident both of us would have said, “Absolutely not.” Sitting here midway through November, which reminds me I need to start holiday shopping, it’s really been remarkable just given the speed at which the recovery has taken hold. How or why has that happened? I think there’s a few factors. The markets are strong, the stock market’s strong, multiples continue to be high, interest rates are still at all-time lows. Partially due to our endeavors as well as others, there’s an abundance of available debt to finance these types of transactions.

But I just think broadly the overall economic activity has increased dramatically. I’ve had conversations where I kind of broke down 2020 into a few different periods. Second quarter of 2020 was evaluate everything that you own and figure out where the problems might be. By the time the third quarter rolled around last year it was a, “Okay, we’ve figured out where the hot spots might be, what the problems might be, we have everything under control. Let’s start to think about how we get back to business as usual.” And by the fourth quarter I think the spigot had really turned on very dramatically in terms of M&A activity.

And look, that's also, putting the pandemic aside, which obviously is a big statement, there's obviously some meaningful macro-economic factors to be concerned about right now. Inflation, changes in tax policy. But from our seat we've just seen a tremendous focus on the value creation opportunity in M&A for all of our portfolio companies and other businesses. So in terms of, what does that mean for a middle market lender? Obviously I think the byproduct of a heavy amount of M&A is obviously a very attractive investment opportunity from our perspective.

One of the other statistics I personally like to focus on as it relates to M&A specifically around technology and software, if you were to rewind the clock to 2010, about 4% of all technology M&A was related to private equity backed transactions. Fast-forward that to 2019 and 2020, it's about 30% of every dollar focused on technology is private equity backed in nature. So while we might not really have the right types of cost of capital solutions for an investment grade business who might be acquiring some technology assets; just the absolute dollar increase of M&A related to private equity backed buyouts in tech, and other assets and other industries of course, has increased so dramatically as all of the capital has been formed in these various strategies.

So look, I think if when you marry the growth that we have seen of that capital formation with the type of capital that we have. So we're private solutions, we're highly predictable, as Raj mentioned earlier, we're partnership oriented, we have long track records with these institutions. I think the opportunity for us going into 2022 is arguably as strong as we've seen it over the past five years and maybe even longer, maybe since the GFC frankly.

Raj Vig: Yep.

Vlad Bulkin: Thank you for that. Switching gears a little bit more. ESG has become a very hot topic in the recent past, both for investors and stakeholders. Raj, can you please comment a little bit on your firm's approach to ESG, both from an investor perspective and from your perspective as the lender to middle market companies?

Raj Vig: Sure. ESG has definitely become a very hot topic. I think I'll bifurcate my responses to what BlackRock is doing I think in very much a pioneering way of making it a global corporate mandate and an agenda. And then what it means for the BDC, which is more relevant for my response. But BlackRock is obviously ahead quite aggressively in both the topic, having a view and actually trying to put in place and implement ESG oriented solutions and dialogue. And I think that from a personal point of view I think it's great because if you have kids, if you're just sitting in California and it's colder than it is in New York in the summer, it feels like it's a good and timely topic on a corporate and global scale.

When you move to the BDC, I think when we look at ESG, we are not an ESG oriented fund. We are a credit fund and ESG is very much a risk mitigant set of tools for us. When we look at a business it's very important to us to understand, and we actually score every company on our internal ESG matrix. We leverage the market data which is still catching up on the private side versus public, but we really want to understand the exposure and the risk associated with non-compliant or lower scored ESG components.

E being very easy to manage and measure today, S and G being to be honest, very nascent in how we look at it, more qualitative versus quantitative. But we score every business on those categories. And to the extent we believe it's not scoring well or sufficiently by industry, because it's different lenses for each industry, it is a higher risk investment for us and may actually preclude us from making investment, all other things being equal. Because to us it's a risk and downside mitigant lens versus a mandate or a scoring for deploying capital on the affirmative basis.

Maybe that changes, it's possible that there might be ESG credit funds. I imagine there will be, and it will be something the private credit market has to deal with. But for right now and in our fund we are using it to avoid investments we don't feel are comfortable in that lens versus mandating a deployment in that area. It's an important nuance to make, to highlight.

Vlad Bulkin: Got it, thank you. We do have a couple minutes and we did get one more question If it's okay with you I'll pose it. Feel free to answer it or not. The question is, "You both referenced the value of relationships and incumbency. Have you ever seen where a creditor couldn't negotiate a bad loan as hard for fear of damaging future business?"

Raj Vig: I'll start, Erik, if you're okay. I think in any situation there's a line in which I think you are comfortable going, and then there's a line after which the relationship has to stand on its own but it can't subsidize the credit. Every loan will have its negotiation. I think in the contents of the relationship you want to be able to give in take in areas as any good negotiation entails. But there are certain things, whether it's the cost of capital, whether it's a certain level of risk or pricing for that risk that at a point we're happy to go pens down.

And I think the positive relationship opens up opportunities. Being smart on the credit and being smart on the company lets you be flexible within that context. Even as things are at the outset or as things get challenging, the better you know your business, the better you're able to manage that challenge. But certainly we have said no and have gone pens down if it's a bridge too far to cross, relationship aside. And I think that if you're up front about what's important and clear about the things you need to get comfort on in your diligence, like-minded and rational investors on both sides respect that. And you can agree to disagree and it shouldn't impair a relationship, in many ways may strengthen it. But certainly that's just the dance you go through when you're on two sides of the table.

Erik Bissonnette: Yeah, I echo many of those sentiments. I think part of the issue is that when people hear the word "relationship" in the context of a direct lender or a counterparty to a private equity firm, I think oftentimes that's conflated to be monodirectional. Because as Raj just said, implicit in any positive relationship that you have, personally, professionally, there's a give and take, there's an exchange of ideas, there's a comfort and a willingness to disagree civilly and in a constructive fashion. I think where mistakes are made are when there is not an ability [inaudible] to hold the line. Relationship in that context can be the most expensive word in all of lending.

I think if you're clear with respect to the nature of the types of underwriting that you're doing, the expectations that you have from a control perspective, from a documentation perspective, lines that historically you haven't crossed, I think it's easier in some way. You have to be comfortable saying no, saying that this is a line and a point of delineation that you are not willing to cross. I think, and I don't want to say anything negative about other firms or other strategies, but I think that's harder for smaller funds. I think if the size of the funnel is smaller, you are somewhat bound to do more transactions that you might feel cuspier or might be with your strong relationships that you feel somewhat beholden to transact just given the relative level of reliance that you have on those relationships.

And when we talk about relationships, I think we're talking about healthy, constructive, bilateral relationships where saying no is part of what we do. We do about 3% of the deals that we see. We cover over 500 sponsors, we see 30 to 50 new deals a week, so frankly we say no professionally. That's mostly what we do. So I can see how there's a fear of referencing this idea of relationship as being somewhat of a weakness, but I think when we have a proper healthy type of relationship with your counterparties, I think it is of tremendous value.

Vlad Bulkin: Great, thank you. I'm out of questions and I think we're also out of time. I greatly appreciate the opportunity and enjoy the rest of the conference. I'll turn it over to John.

John Cole Scott: Yeah, thank you Erik, and Raj, and Vlad.

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