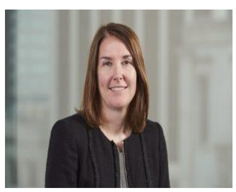
AICA ACTIVE INVESTMENT COMPANY ALLIANCE
Excellence beyond indexing

2021 AICA Business Development Company (BDC) Fall Forum Day 2 Panel #3; "BDC Trends From the Service Providers Perspective"

Wednesday, November 17, 2021

Chuck Jaffe, Host of Moneylife moderates the third and final panel of day 2 of the 2021 AICA Business Development Company (BDC) Fall Forum; "BDC Trends from the Service Providers Perspective". Read the transcript below to hear the discussion among Mr. Jaffe and panelists Meghan Neenan from Fitch Ratings, Andrew Hall from Nasdaq, and Terri Jordan from the Chief Counsel's Office of the SEC's Division of Investment Management.

Chuck Jaffe



Meghan Neenan

Andrew Hall

No Photo Available

Terri Jordan

To view the rest of the conference events and panels go to:
https://aicalliance.org/aica-event/bdcfallforum2021/

John Cole Scott: We'll wait for Chuck. I just told him if tech doesn't work, I get to step in. All right, Chuck, turn on your mic and camera, should be no issue. I can't imagine your firewalls are worse than the SEC's. All right, I'll let you guys get started. Good luck on the panel.

Chuck Jaffe: Thank you, John, and I'm sorry to be the last one in when I was actually waiting. But technology challenges being what they are, we're all dealing with this and we're all going to move forward well. This is BDC trends from the service provider's perspective. Let me introduce each of my guests. But quickly, I'm Chuck Jaffe, I'm a syndicated financial columnist. I am the host of *Money Life*, which is an hourlong weekday podcast, and I'm also the host of *The NAVigator*, which is the Active Investment company Alliance's podcast. You can check us out, lots of links at AICAlliance.org.

My guests today are Andrew Hall, managing director of new listings at NASDAQ. Terri Jordan, branch chief for the Chief Counsel's Office of the SEC Division of Investment Management. And Meghan Neenan, managing director at Fitch Ratings. Welcome to them, and for everybody in the audience, we're glad that you're here.

So we're going to try to jump straight in because BDCs are a really interesting area of a market that's been getting a lot of attention even though it's a very small area of the market. There are only about 50 BDCs. So Andrew Hall, we're going to start with you. We know that there's a lot of interest in BDCs, we know there's a lot of talk about what could be included in BDCs as they go forward. So let's talk a little bit about the growth. This is still something that when we see one or two added we're talking about a 2% expansion in the field. So talk about what's coming and what is happening, and perhaps what needs to change or what will change so that we see even more BDCs coming to the floor going forward.

Andrew Hall: Sure, sure. Yeah, thank you, Chuck, and thank you, John, for including me on the panel. Actually October was a good month for BDC listings, we had three that listed. And you're spot on, Chuck, there's actually 49 BDCs listed on the two exchanges. NASDAQ has the majority at 35, and then 14 on the NYSE. If you look at that 49 company universe, there's probably only four that have been public since 2000. It translates generally how it is normally with common stock. You've got a lifecycle of maybe five to 10 years as a public company.

The fact that we had three this year is good, and maybe one that might squeak through before the end of the year. It might be early Q1. Last year we had only one new IPO listing. We actually had two that transferred off of our competitor over to NASDAQ just because we have a lower fee schedule and some nice services that come for the BDCs. But it's been really a banner year for IPOs, we had close to 700 IPOs. Granted there's a stack element there. On a normal good year we do 200. So there isn't as strong a maybe correlation with the BDCs, but the fact that you have three, we'd like to have more and maybe that would trend the same for next year.

But yeah, in terms of the companies coming to NASDAQ, usually they're pretty much set to go. Some of them are already filing with the SEC, other ones file that prospectus and registration right from the first time. The only time they wouldn't list, if they feel like the interest is not there for their offering. But yeah, hopefully that answers your question, Chuck.

Chuck Jaffe: It does. So let's turn this over to Terri at the SEC. Terri, we've got growth and we've got folks who are interested in listing, but interested in listing then has to come with can they actually get listed and can they get things passed? We know that the investment world right now is all about what can it do, what offerings can it bring, what's going to give it new venues? And BDCs could offer those venues, whether it's the stuff that they've been doing, but also whether it's crypto or ESG or anything else. So I'm curious as to what questions you've been facing and what you expect to happen as we see more and more issues coming forward.

Terri Jordan: Sure, and thanks for having me. Nice to see some familiar faces in the audience as well. Just before I get started, a reminder that I'm speaking today only for myself and not for the Commission, the commissioners or the staff, standard disclaimer. It's very busy at the SEC right now. Just to put into context where BDCs fit within our purview in the Division of

Investment Management, we have about 216 attorneys, accountants, and financial analysts in the division. We regulate a $98 trillion asset management industry. It's an incredible professional staff. Everything that we do is centered on our three pillars of work which is protecting investors, maintaining fair, orderly, and efficient markets, and facilitating capital formation. So those are the three things we always keep in mind when we're looking at issues, including issues related to BDCs.

We like to joke on the staff that BDCs are about 1% of the assets that we regulate and about 90% of the work that we do. They're an incredibly complex product. Meanwhile you're looking at 13,000 mutual funds with $28 trillion in assets and close to 100 BDCs with $60.6 billion of assets. That's because the federal securities laws are comically complex, and BDCs fit within three areas and overlapping circles within those federal securities laws. They're like operating companies and they file Ks, and Qs, and 8-Ks, and they elect to be regulated under the 40 Act. That's where our division comes in. Externally managed BDCs have an external investment advisor.

So all that to say that there are just many complex layers of regulations that we're talking about. And then of course things are busy at the SEC. We have a new chairman who's been in since April I believe. He has a pretty aggressive rule-making agenda. There are about 50 items on that agenda, some of which you referred to now. And so we're busy, BDCs sometimes fall into those items that we're working on in rule making, sometimes not, but always a busy time.

Chuck Jaffe: I just have to ask a question. With BDCs taking up so much of your time but being such a small part of your oversight in terms of numbers, etcetera, does that also make BDCs harder to get through? Either because they've got all that or as we look at the issuers that are trying to put 'em together, are they going to be looking at addition barriers to entry or hurdles because you've got to get through more regulatory hurdles which means you're paying bigger legal fees and all the rest?

Terri Jordan: Well, lucky for us regulatory lawyers, there's always work to be done. No, I don't think it makes it harder, but it just makes it more complex, and the legal issues are more complex. Yes, we spend time on BDCs and sometimes that's because they're presenting something that isn't a plain vanilla BDC or there's a new issue with respect to affiliate transactions or something else going on under the 40 Act. But no, I don't think there are more barriers to entry, just more complex issues to look at.

Chuck Jaffe: Let's turn this over and bring in Meghan Neenan from Fitch. Meghan. Once a BDC makes it to market then it really becomes your realm at Fitch, where you guys get to size it up and rate it. So let's talk about the evolution there and what are the challenges perhaps also caused by some of the new things that are going on?

Meghan Neenan: Sure. We've been rating BDCs for over 15 years now, and so it's really been a developing market over that time and it's changed considerably over that time. So we kind of think of BDC 1.0 versus 2.0, and that 1.0 BDC is pre-Great Financial Crisis. And so there's been a meaningful change in just how they do their business, much more focused on first lien loans and debt investments, where pre-crisis BDCs were much more heavily focused on equity investments. You see revolvers get more duration. So we used to see a lot of 365-day facilities, now those are termed out three to four years. And we've also seen much more access to the unsecured markets at record levels last year and record again this year.

But still, there's been a lot of regulatory development as well. So the passage of the Small Business Credibility Act in 2018 certainly changed the landscape as well, and certainly I think fueled a lot more BDCs to come to market and come into formation. So their leverage restrictions improved, so they used to be kind of constrained to one times debt to equity which was 200% asset coverage, and now they can go to two times debt to equity. And so it's given them more capital to invest and a lot of the BDCs have decided to come in and take advantage of that.

We actually do look at BDCs that are private, so even before they list. I think Terri mentioned 100 BDCs and Andy was talking about 50, there's a lot of private BDCs out there and there's more vehicles getting started all the time. Including some that are going to be perpetually private, including one that is being raised by Blackstone that has already been very, very successful raising a lot of capital. And also just in terms of public BDCs, we've seen a lot of mergers.

So you might have a BDC be public like an Owl Rock BDC, and then they raise some private ones, and then eventually some of those may merge into the public vehicle. And so that will be a way for them to grow without actually issuing equity in the public markets, but raising it privately and then just combining it and just becoming bigger as a listed entity. So lots of development, lots of changes over the last 15 years, and I suspect will continue to be a lot of activity in the space.

Chuck Jaffe: What challenge does that create for you guys as you rate BDCs? When you see things like the expansion of leverage and the BDCs that are taking advantage of it, ultimately each one of those evolutions is you started with BDC 1.0 and then it's 1.1, and then it's 1.2, and then maybe it's 2.0 or what have you. What does that do from a ratings perspective when you're still talking about a pretty small universe, but now you're looking at rating somebody and they're using a different leverage standard and the other guys haven't? What happens with that?

Meghan Neenan: Yeah, it definitely was a monkey wrench it came into fruition in 2018. It was something that had been talked about for a while and we knew there was a lot of lobbying going on to get that rule changed. But the leverage restriction was something that really got us comfortable getting to investment grade on a decent number of BDCs. But then we had to take a step back and say, "Look, we're not the ones that came up with the one time leverage restriction framework." If it goes to two times, relative to other finance companies or non-bank financial institutions, it's still very low.

So as a corollary, took a look at some of our CLO models where there's considerably more leverage in some of those transitions, they're obviously very different versus a going concerned BDC. But tried to understand, here's what the probabilities of default are, the loss given default. And if we're stressing those BDC portfolios, is getting up to two times still okay? And generally speaking, the target for the BDCs is one to 1.25 is kind of the average, so there's still a lot of cushion actually to that two times, and more cushion than what they operated at before when it was a one times leverage restriction.

And so I think while initially a lot of BDCs were saying, “Hey, we want to take advantage and go up a little bit, ultimately all of them really kind of have.” There are a couple that are a little bit below the one times, some of the private ones that started maybe before the legislative change. But I think ultimately I think they see themselves maybe at a competitive disadvantage if they’re taking on lower leverage, unless they’re getting higher return because they have maybe a different risk profile of their book. So I think most of them have really gone to that one to 1.25

And actually that cushion, the additional cushion afforded by that actually served them well during the pandemic where we saw some meaningful write-down in portfolios in that initial surge after March, mid-March of last year. So it was a lot to deal with at the time and different rating agencies took different stances on that legislative change, but ultimately we felt that most of these BDCs still deserve to be investment grade even with some higher leverage.

Chuck Jaffe: I want to encourage our audience, please use the chat function, send us questions for question and answer. We’re going to move away from my questions and to those as we can going forward, but first I want to turn this back to Andy. Because Andy, we’ve talked about the developments, the process, how everybody gets regulated. One of the things that is not necessarily talked about a lot, you were discussing BDCs moving from or to NASDAQ, etcetera. Well, some of the creation is actually stuff that the exchanges want to encourage.

So let’s talk about that a little bit in terms of here you are trying to be in this business, what’s the reception? There’s a process that people have to go through, etcetera. But when you’re out talking with people are you at a spot where you’re going, “Hey, should you be considering a BDC structure? Let’s talk about the advantages of why you want to do it here.” That stuff?

Andrew Hall: Yeah, absolutely. Our fee schedule for BDCs and closed-end funds are different from what we normally have for our common stock. For example, our initial listing fee for BDCs is only $5,000, our normal common stock initial listing fee can be from $150,000 to $290,000. The NYSE still maintains that initial listing fee for all those securities. So the difference between us being a little bit more welcoming, our initial listing fee for the BDC is only $5,000, where you’ll pay $150,000 to $300,000 on the NYSE.

And then on an annual basis, the lowest annual fee that we have is $32,000, and the highest is $105,000, which is about 50% of what we would charge for a common stock issue. And how that compares to our competitor, their minimum fee is $71,000 and it can go up to a half a million in fees for a very large BDC. So we have been very welcoming to the BDC and closed-end fund in terms from our fee schedule standpoint. In addition to that, for new listings, new IPOs that list on our market and for the NYSE transfers that as I mentioned too moved over last year, New Mountain Finance and FINEX FIN had transferred their listing.

The new listings and the transfers get IR services at no cost with the listing. So for the IPOs they get three years of no-cost IR services, and that includes stock surveillance, full on stock surveillance with an analyst granted there’s a high weight of retail investors in the BDCs. But for those institutional movements, that stock surveillance analyst is there. That’s like a $60,000 product if you were to go out and buy that on your own as the CEO of the BDC, and that’s provided by NASDAQ at no cost. In addition to that we have an ESG advisory area to help with their ESG outlook in terms of one report that goes to the rating agencies and anything that they’re trying to showcase from a sustainability standpoint.

Logins to an item called IR Insight, which is for the CFO and IRO primarily to look at sell-side research and estimates, has some great institutional targeting tools, they can do some ratio analysis and pull data that we provide from Reuters, FactSet, and Refinitiv. And then in addition to that we also pay a third party to help them with the cost of their press releases. So for three years, there’s no cost on the press releases that they issue. In addition to that, if they do any webcasting of their conference calls or meetings, that’s covered. And then also hosting their investor relations website, and some media tools and communication tools. So all that comes at no cost for the first three years of listing.

Chuck Jaffe: So what you’re saying here is you’re doing all this stuff to be turnkey to somebody who wants to come the BDC route?

Andrew Hall: That’s right.

Chuck Jaffe: Quickly, when somebody is considering structure, because they can structure investments in a lot of ways, they have different choices and what have you. The fact that I can get all of that stuff in a package, does it have people saying, “I want to go the BDC route instead of going the closed-end fund route”? Or are they coming to you convinced and this is just the best execution?

Andrew Hall: That’s right. That’s right, Chuck. They’ve already decided to use the vehicle of the closed-end fund or normal common stock corporate issuer or closed-end fund. That has already been decided, and we’re trying to encourage them to come to us versus our competitor. So typically the exchange, the listing location, we’re involved near the end of the process. Where they’ve already maybe started the drafting of the filing and gotten all the details down, and now they’re, “Okay, where should we go? Should we go to NASDAQ or the NYSE?” So that’s typically when we get involved.

Chuck Jaffe: We’re going to turn to our questions. John Cole Scott, of course from the Active Investment Company Alliance has a question for Terri. He asks, “Terri, are you able to give any SEC update to the acquired funds fee rule? How an active fund of BDCs might be useful to investors, only pure BDC play fund is the passive ETF or UIT wrapper.” So functionally breaking it down, the acquired funds fee rule and how that’s going to impact the development going forward.

Terri Jordan: Yeah, AFFE is a favorite topic. So just to level set so we’re are all on the same page with AFFE, it doesn’t impose or regulate any fees or expenses, it’s a disclosure requirement, and so it’s looking at disclosure of funds of funds. So typically a fund will have portfolio companies that it invests in. There are times that funds invest in a fund, so you have an extra layer. And what AFFE does is it's a disclosure for investors to help them understand layers of fees.

The SEC imposed the AFFE requirements I think in 2006. We have heard since BDCs were removed from indices about how BDCs are not typical investment companies, that AFFE disclosure doesn't accurately reflect the expenses of investing in a BDC, that AFFE has affected institutional investment BDCs. I assume that everyone in the audience knows that there was a rule proposal that went out called the Investor Experience Proposal, that looked at disclosure in funds, and included as a proposal with respect to AFFE and that disclosure requirement. I can't comment on active rulemakings. I will say that there's a robust comment file on AFFE disclosure within that rulemaking. Comments have come from all different angles, and we are evaluating and looking at those comments.

Chuck Jaffe: Thank you. Meghan, let's turn back to you and the ratings side, and the idea of the expansion that we're going to see coming forward in the industry and the growth in the industry. If we wind up getting new and different products in the BDC space, how big a challenge is it if they're not all basically covering the same investment realm? If we wind up seeing ESG BDCs, or we wind up seeing BDCs that can go into crypto or anything else, what is that as a challenge for you from a ratings perspective?

Meghan Neenan: Yeah, sure. And Terri can probably comment on whether crypto would fall into qualifying or nonqualifying assets for a BDC, but there is a requirement, they have 70%.

Chuck Jaffe: I'm assuming Terri will not answer that question if I ask it.

Meghan Neenan: Okay.

Terri Jordan: It's pure assumption.

Meghan Neenan: Okay. But yeah, I think we've seen a lot more differentiation I think across different BDCs. So you have some BDCs that are investing in ABL lenders, you have some BDCs that are very tech focused, so software focus. You have some BDCs that have JVs, and so they have equity investments in JVs or they have investments in international investments, so European exposure, Asia exposure. And so all of that are things we have to think about in the context of the leverage ratio. Are they moving out the risk spectrum by doing that in terms of getting into new product categories that might be higher risk? And so that should be reflected in their cushion to asset coverage, so they need to manage that accordingly.

And so I think we'll continue to see more. Generally what's driving a lot of this is just competition, we see a lot more formation, there's a lot of capital coming into the BDC space. The debt markets have been very attractive for BDCs, so they'll be able to raise unsecured funding. The leverage ratio has gone up so they have more dry powder. And all that competition is driving down spread. And so you have a lot of BDC management teams that are saying, "We don't want to cut the [inaudible] generate more yield." And so you're starting to see some of those products come in and I think that competition is here to stay.

That being said, the flipside is there's a lot of dry powder on the sponsor side. So private equity firms have a lot of investment capital to put to work. And so I think there's the belief that there's still enough of that regular way middle market, traditional middle market paper to go around. And you also seen a change just in the direct lending market in terms of the syndicated market, or what used to be syndicated is starting to feel more comfortable having a private credit solution. Their certainty of close, they don't have to worry about dealing with multiple parties and syndicated things post agreement, and having some flex in their financing, they know the pricing right up front.

And you're seeing BDCs do more one billion, two, three, four billion dollar deals. And so there are those opportunities for them as well. So I think we'll continue to see some new nuances and some new products. I know that we will be jazzed if they start to do any kind of crypto in the BDC structure, but we continue to look at all the incremental strategies that come online and assess that just in the context of their leverage and asset coverage portion.

Chuck Jaffe: Again encouraging our audience, please use the Q&A forum if you want to be jumping in. But since I know we can't necessarily talk about whether the developments will be crypto, etcetera, I do want to ask each of you. AICA does these forums on a regular basis, and we are talking about forward looking and we're in a space that has not only a little bit more activity but kind of a little bit murkier activity because it's not as established, etcetera. I can talk about traditional mutual funds and I've got a pretty good idea of what you're going to see in the next year. But in BDCs, it's a really good question.

So I'm going to ask this to each of you individually with maybe a slight twist. We'll start with Andy. Andy, if and when we do this again six months to a year from now, what will be the BDC issue? And by that I do mean like a new issue or coming issue that we'll be talking about. What will be the thing that is the conversation piece at that point down the line?

Andrew Hall: Yeah, I would see not too much of a change, at least from my standpoint in terms of what I see. Maybe hopefully a few more new listings of BDC in early 2022. But in terms of how we treat, and how we look, and how we market to BDCs on the exchange side, I think it will be the same. So not much of a change on our side, Chuck.

Chuck Jaffe: Okay. We'll move this to Terri. Terri, same forward-looking question. I know you can't tell us, "Oh yeah, crypto will be approved," or what have you. But I guess the question there will be, will there be new things that are able to get over the regulatory hurdles so that we can see some of the products that people are imagining, even if we're not mentioning what they're imagining in them?

Terri Jordan: Yeah, I have been involved in one way or another with BDCs since about 2008, and I've always been amazed at how the industry has evolved and responded to economic realities or regulatory changes. My legal career started with internally managed BDCs, and obviously there have been changes since then as well. So I don't have that crystal ball or I don't know how to answer the question necessarily, but I do know that the industry will continue to evolve and we will continue to work with the industry to make sure that it can clear those regulatory hurdles.

Chuck Jaffe: At this point have you seen enough that there's no surprises to you as a regulator? There's no, "I can't believe somebody's bringing this to us now"?

Terri Jordan: Look, there are always surprises, there's always innovation. There's sort of three lanes as a regulator. You see things that are plain vanilla copycat, you see one-step deviation, and you see the, oh my gosh, that's a real surprise. That happens in any of the industries that we regulate, so it'll be interesting to see how things evolve in the next year.

Chuck Jaffe: Turning this to Meghan. We're not getting a lot of luck peering into the crystal ball, and I'm not necessarily assuming that your crystal is more clear than the others. But for you, you mentioned that you'd loved to see something like a crypto, and you do take a look at what's out there. What would you hope? What would be the things that from a ratings standpoint, and a challenge standpoint, and how we see things, what would you hope we would see in BDCs going forward?

Meghan Neenan: I think our biggest worry is that the BDCs are going to move out of the risk spectrum, so I think what we're hoping is that everyone kind of stays in their lane and sticks to their knitting. A lot of these BDCs are affiliated with alternative investment managers who have a number of different pockets where they can put things like crypto or litigation receivables or whatever it might be that just fits better in different vehicles with different kind of return characteristics and a different investor base potentially.

I think the order of the day and the thing that we think is going to change the most over the next 12 months is just the amount of capital that's coming into the space and perpetual BDCs. We were at a conference yesterday where there was a lot of talk about that. Blackstone has raised a lot of money already in that space and we're starting to see the launch of more of those perpetual BDCs which are targeting retail investors. And so I think that there's going to be a lot more capital coming into the space.

Even with the pandemic, the BDCs have had solid performance. There's been some credit losses here and there but the sponsors really stepped up to support their portfolio companies. And so I think the track record has been pretty good overall. There's definitely some divergence, but if [inaudible] which has been around since 2004 and it's our highest rated BDC, they have a billion dollars [inaudible] over there since inception. And normally you would think of a lender as having losses on an accumulative basis. And so there's some BDCs that have really, really strong track record, and part of that is because they stick to their knitting regardless of what's going on in the market around them.

Chuck Jaffe: Yeah, we hope everybody continues to stick to their knitting and they get that safety. We'll be watching to see how things progress. I am curious, and again we have more time, we don't seem to be getting too many questions here but if folks want to jump in, now would be a good time. In terms of BDC development, and you talk about the alternative space, there has been so much development of alternative investments and different ways to do this. As somebody who's rating, are you looking at times and at all going, "I don't want this format for that investment?" Are there BDCs that you look at and go, "I wish this was not a BDC format?" Does that happen?

Meghan Neenan: Not so much yet. I mean, there's some BDCs that have a specialized strategy. So if you look at like a Hercules that does more kind of life sciences and venture lending is kind of what they've historically been known for, and then you have others that are focused more on the lower middle market, some on tech. So I think it depends. I think ultimately even though these loans are written for the most part as five-year loans, they're still sponsor driven. So there's lots of M&A activity, there's lots of add-on activity. And so the average duration of any of these investments is probably three years or less. And so there is a lot of turnover in some of the assets pretty quickly on the balance sheet.

I don't think that there's anything that we've seen that-- look, some of the BDCs have done CLO equity in the past in their portfolios. I don't think that we think that that's the best place for that, those can have a lot of valuation volatility. So I think that's what we're most sensitive about, is that BDCs have to mark their book to fair value every quarter. And equity investments, CLO equity, structured products, even sometimes JV equity maybe, some of that can be very volatile quarter to quarter. Some of the BDCs will do liquid market investments, so more broadly syndicated loans that they're buying off a desk. Those are the investments that got hit the hardest in the early stages of Covid. And when you look at the BDCs, who has level one, level two exposures in their book, those are the guys that had the biggest write-down.

So I think a lot of lessons learned coming from the Great Financial Crisis, the pandemic, and hopefully they take that into the future and say, "Does this asset class make sense in a BDC?" But I would say generally speaking if we're seeing a BDC come to us with 35-40% of their book in equity, that's kind of BDC 1.0 and those didn't work out as well. And so I think the leverage profile would have to be significantly different in order to get to an investment-grade profile on that kind of company.

Chuck Jaffe: Bringing this back to Andy. Does what the issuers are doing matter to you as the listing agent? If you hear Meghan say, "Hey, that BDC 1.0 with 40% equity, not our favorites." What about you? Is it your favorite?

Andrew Hall: Yeah, on our side we try not to be objective in terms of looking at a requirement, a company that's looking to list as it being a good investment or not. Our listing requirements are very objective. You meet the financial requirements for listing. As long as there's no qualitative concerns, no public interest concerns on the individuals in terms of the management or principal shareholders, or board, then the company is approved to list.

They could be working on building a rocket ship to Pluto, it might not be a very good investment but as long as it's meeting our listing requirements than they're approved. As long as they're following the SEC process and meeting the requirements, no public interest concerns, then the company will be approved to list. And our listing standards are not that rigid. I think even if a BDC offer did a $20 million raise or just registered their current holder base and they were already filing, they could meet NASDAQ listing standards.

Chuck Jaffe: Well, you mentioned the SEC, so since we're going around the horn here that brings us back to the SEC. Terri, we've been talking about BDC 1.0 and BDC what we're moving towards I guess is 2.0 or 2 point something. What does that do in terms of as regulators? Regulators kind of say, "Hey, this falls in and this tends to be approved." But are there times when just as Meghan was saying, BDC 1.0, here were the ones that got into trouble. Do you guys look and go, "Yeah, here are the ones that got into trouble, maybe we want to encourage that we don't go there with the next ones"? Or does that not come into play?

Terri Jordan: It's not our purview to weigh in on business plans, but we will check to make sure that, as I mentioned at the outset, the three pillars that underpin our regulatory authority in terms of fair and efficient markets, capital formation, investor protection [inaudible] they're being cabined within a product and that the product adheres to the regulatory requirements. Business model is what it is, but the requirements are also what they are.

Chuck Jaffe: Meghan, one of the things that you were talking about, you were talking about your top-rated BDC. I'm curious, from a ratings perspective, and I swear I should have checked this before we came on and did this, but I'm kind of curious when you consider the BDCs, top rated to lowest rated, is the spread there as big as it is with anything else that Fitch is looking at and going, "Yeah, we have all the way from good to evil"? Or do we have a slightly different class here where everybody is Lake Wobegon, all of the children are above average kind of thing?

Meghan Neenan: Yeah, I think most rating agencies have the same process where they engage with a new company, a BDC or whatnot, and they go through the process to get a rating and they get private feedback initially on what their rating would be. And then generally it's up to the company whether or not they decide to take that rating public. And so what you see really is adverse selection in terms of public ratings for the most part I would say. So we rate 15 BDCs publicly, 14 of them are investment grade, 13 of them are BBB-, and one is BBB. And so generally speaking those that get below investment-grade ratings generally don't take their ratings public. Usually they go to us or our peers because they want to access the unsecured markets and it's most efficient to do so if they have an investment-grade rating.

And so even though we rate 15 today, we've looked at a lot more than that over the years. And so I think you can kind of infer that in some cases, in most cases the ones that aren't, they potentially have come to an agency and not gotten the answer that they were hoping for.

Chuck Jaffe: Well, folks, this has been great. We're a minute or two early, but unless John Cole Scott wants to jump in here with another question, I think we've covered what we said we were going to try to cover and done it pretty well. If anybody's got a closing statement that they want to make I'd certainly be happy to hear it. But I don't think that's where we're at, so John?

John Cole Scott: Again, thank you all for the conversation. I think when it goes back to the mission an vision of AICA, it's not just the BDCs or the investors, but also the service providers to get the color or perspective. I've continually learned more and more two and a half years into this process. You're welcome to pop off the stage, I'm going to do a quick closing and then let people have the chance to mingle if they like or get back to their day.

And like I said, this event, the five panels we've been able to produce. Want to say everyone thank you for attending this session, from yesterday's panels, today's panels, we are working on the replays. It does go through each participant's approval process, any disclosures that are maybe required. We endeavor to get them up, with Thanksgiving week, we'll probably shoot for end of day Monday after Thanksgiving crossing our fingers, if you've missed something in a previous panel or want to s hare it with a friend or colleague. Have them register because as soon as it is available we will let them know.

There is a survey, we do treat the survey very seriously. We are trying to make this as useful as possible. Many of our attendees are recurring attendees, we've been playing with how many panels in a day, what time a day, how long of a break to offer. And please continue to give us that perspective as we try to give you the best format available. I will say we cannot do this without our wonderful speakers, without our moderators, without our members, without our supporters of AICA. We are two and a half years in, 25 months of content out the door, 115 participating organizations, we've had 40 panels. I've had a ton of fun and enjoyment being here to watch this all come to life.

We are planning an interval fund event in early December, working on that agenda, it'll be updated as we have more to put on it. But it'll be just like this event, feel free to come for either or both days. Or it may only be one day, we'll see how peoples' schedules are for committing to speaking. And then we look forward to a jumpstart in January of 2022 for another round of content.

We do have content planned every month through June of 2022, so feel free to stay abreast of what we're doing. And if you don't know about our podcast, the last moderator is our podcast host, 123 recorded podcasts with Chuck. It's called *The NAVigator*, you can find it where all good podcasts are available or every week on our website with a transcription as well for those that prefer to read versus listen. And with that I'm going to take us back to the floor a few minutes early, and no one's ever had to apologize for that at a conference.

Recorded on November 17, 2021.

Click the link below to go to the home page of Active Investment Company Alliance to learn more:

https://AICalliance.org/

Disclosure: *The opinions of the speakers / presenters are their own opinions and may not be the opinions of AICA. Listed closed-end funds and business development companies trade on exchanges at prices that may be above or below their NAVs. There is no guarantee that an investor can sell shares at a price greater than or equal to the purchase price, or that a CEF's discount will narrow or be eliminated. Nonlisted closed-end funds and business development companies do not offer investors daily liquidity but rather on a quarterly or semi-annual basis, often on a small percentage of share. CEFs often use leverage, which can increases a fund's risk or volatility. The actual amount of distributions may vary with fund performance and other conditions. Past performance is no guarantee for future results.*