Blackstone/GSO Loan Financing*

Loans underpinned by recent sell-off

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Key details	Ord. share EUR quote/NAV	Ord. share GBP quote/NAV	C share EUR quote/NAV
Bloomberg code	BGLF LN	BGLP LN	BGLC LN
Share price	€0.7575	70.00p	€0.5050
Last NAV (ex-div)	€0.8975ps	79.64pps	€0.5800ps
Premium/(discount)	(15.6%)	(12.1%)	(12.9%)
Market cap	€306.6m	£283.3m	€67.4m
Net assets	€363.2m	£322.3m	€77.4m

Source: Company, Bloomberg. Data as at 11 January 2019. Pro-forma C share NAV based on the Carador Income* NAV as at 30 November 2018, EUR/USD exchange rate as at 11 January 2019, and 1% discount to account for fees. *Current corporate client of Fidante Capital. Each analyst individually certifies, in relation to each security or issuer referred to in this communication, that (1) the views expressed are an accurate reflection of his/her personal views and (2) no part of his/her compensation is linked directly or indirectly to the views so expressed in this communication. This communication contains written material that a third-party firm has engaged Fidante Partners Europe Limited (trading as "Fidante Capital") to provide on an ongoing basis. The third-party firm has paid Fidante Capital to provide this communication. This communication is made available at the same time to any investment firms who wish to receive it and to the public on www.fidante.com. Accordingly, Fidante Capital is of the view that this communication constitutes a "minor non-monetary benefit". This communication has been disclosed to the third-party firm or the relevant issuer and, where appropriate, included in this communication. This communication will not be regularly updated.

SWOT analysis

<table>
<tr><th>Strengths</th><th>Weaknesses</th></tr>
<tr><td>
All credit risk is monitored and controlled by GSO, one of the leading loan managers in the industry
Returns from loans benefit from rising interest rates and low default rate environments
Long-term realised returns from loans and CLOs have been robust, in normal market conditions and during the last financial crisis
No GSO-managed CLOs investing in European loans will be structured outside of BGCF, as long as BGCF can fund the CLO equity investments; BGCF has most favoured status over the terms relating to the acquired CLO equity investments
Being exposed to the entire CLO life cycle ensures the full value is captured; includes periods of asset spread widening, when CLOs benefit from long-term, non-mark-to-market financing
Current annualised dividend yield of 13.2% is sustainable given the prevailing CLO distribution rates
Under the AIC methodology, the ongoing charges are 0.3%, with no management fees charged above the CLO level
Substantial investment in BGLF by Blackstone provides investor alignment
</td><td>
Though a sterling quote was introduced in May 2017, the underlying FX exposure is in Euros and US Dollars and not hedged into Sterling, which may limit the appeal to some UK investors
NAV performance can be negatively impacted by asset spread compression, as happened in 2017 and much of H1 2018, in particular for CLOs within their no-call periods
Limited liquidity in the BGLF shares, both for the EUR and GBP share classes, compared to the majority of listed structured credit peers
Returns from loans are negatively impacted by falling interest rates and periods of higher default rates
</td></tr>
<tr><th>Opportunities</th><th>Threats</th></tr>
<tr><td>
The CLO warehouse structure allows the managers to take advantage of credit market dislocations and issue new CLOs quickly when the opportunities arise
The calling of older CLOs and their refinancing at lower costs of debt will tend to enhance the NAV
A drop in LIBOR rates below LIBOR floors, as the assets earn the floor rate and the CLOs pay a lower base rate on their liabilities (currently unlikely)
As the only vehicle dedicated to CLO risk retention traded on the London Stock Exchange, BGLF has the potential to achieve significant critical mass, larger than its current market cap of c. €374m (ordinary and C shares)
</td><td>
A rise in realised loan defaults, negatively affecting the performance of the BGCF investments; however, the current expectation for loan default rates remains muted (JP Morgan has predicted 1.5% default rates in Europe and the US in 2019); also, loan spreads would tend to widen if defaults picked up
An inability to issue new CLOs due to lack of market demand for senior tranches (never happened historically)
A repeal or otherwise unfavourable changes to the regulations in Europe in relation to risk retention rules; however, further support was given by the EBA's final draft Regulatory Technical Standards, published on 31 July 2018
</td></tr>
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Source: Fidante Capital. AIC is the Association of Investment Companies. Past performance is not a reliable indicator of future results.

Overview

Blackstone/GSO Loan Financing ('BGLF') is the only listed investment company on the London Stock Exchange that invests in European and US CLOs, via the originator, Blackstone/GSO Corporate Funding ('BGCF'). The exposures to European CLOs comply with EU risk retention rules. The company is run by an experienced manager, GSO Capital Partners, part of The Blackstone Group ('Blackstone'), in a low cost management structure with ongoing charges of just 0.3%. On top of that, the interests of the company's managers are aligned with investors, as Blackstone holds a substantial proportion of the company's shares.

During 2017 and the first five months of 2018, the portfolio NAV suffered due to declining asset spreads, which reduced the value of the CLOs held by BGCF. In the middle of 2018, however, asset spreads started to stabilise and then to increase, reflecting the strength of the US economy, supported by strong loan issuance. From the beginning of October 2018, however, loan spreads tightened again, for technical reasons, including lower new loan issuance and increased CLO volumes, and due to risk aversion in financial markets. One indication of the stress the US loan market has been under recently is the c. $3.6bn of retail outflows from the asset class seen in the first two weeks of December 2018 (according to Lipper). We believe that loan issuance may increase once more in early 2019, which should alleviate the negative impact on portfolio valuation. However, the exact timing will depend on how long the current volatility in financial markets continues.

Uplifts to the company's NAV have come from the refinancing at lower rates of CLO equity investments held by BGCF – the first of these was in early 2017 - contributing to higher net interest margins (the difference between loan spreads and the cost of borrowed capital), a key driver of NAV performance. The rated liabilities of eight CLO equity investments in the portfolio have already been refinanced, with a further six eligible to be refinanced by June 2019 and additional refinancings beyond that, providing significant upside potential for the BGLF NAV.

The recent turnaround in NAV performance can be illustrated by the total return over the six months to November 2018, which was 7.3% (15.2% annualised), compared with down 0.4% (down 1.1% annualised) over the first five months of the year (all in EUR terms).[1] This recovery has not fed through to the share price, which has continued the steady decline starting in H1 2017, with a sharp drop in late December 2018, with the result that the EUR-denominated shares are now at a 15.6% discount to NAV, similar to the level reached in the first half of 2016.

We believe that BGLF is currently an attractive opportunity for investors seeking exposure to floating rate fixed income investments, at a time when rates are generally rising in developed markets. The potential for further NAV growth and the possible closing of the discount from the current historically wide levels suggest that decent performance for shareholders may be within reach. On top of that, the current dividend yield is an attractive 13.2%.

Proposals were published towards the end of November 2018 following a strategic review recently set in motion by Carador Income[*] ('CIFU'), another listed investment company investing in CLOs managed by GSO Capital Partners, which has traded at a discount since April 2017. The proposals gave the shareholders of that company the option to remain exposed to the CLO asset class through a rollover of their CIFU shares into newly issued C shares of BGLF (referencing a pool of transferred CIFU assets, which would then be sold and reinvested in line with the BGLF investment objectives and policy), or to participate in a wind-down of CIFU over time. Shareholders had until 21 December 2018 to make that decision. The result was that around 34% of CIFU elected to roll over their shareholdings, equivalent to around $90m of

[1] Past performance is not a reliable indicator of future results.

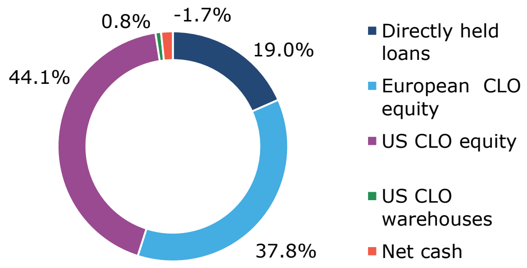
[*] Current corporate client of Fidante Capital.

additional net assets for the Company. This could ultimately have a positive effect on the liquidity of BGLF's ordinary shares when the C shares convert into ordinary shares (expected after a six to twelve month transitional period).

Assets and exposures

BGCF had net assets of c. €853m as at 30 November 2018, with 41.3% of the total capital coming from BGLF. Directly held loans (less leverage) constituted 19.0% of its net asset value, with European and US CLO equity investments together comprising 81.9% of the net assets. One US CLO warehouse investment constituted 0.8% of net assets.

Fig 1: BGCF portfolio allocation (% of net assets)



Source: Fidante Capital, Company. As at 30 November 2018.

BGCF had (par value) investments of €444m in 16 European CLO equity investments and $661m in 13 US CLO equity investments as at the end of November 2018. Annualised distributions for those that have made distributions so far range from 11.2% (Griffith Park, closed in September 2016) to 27.2% (Long Point Park, closed in December 2017).

CLOs priced at ever tighter levels up until around the middle of 2018. Marlay Park, a BGCF investment, closed in March 2018 at EURIBOR+74bps for the AAA tranche, while Cook Park, a US MOA investment, closed in April 2018 at LIBOR+92bps for the AAA tranche. Low discount margins compared to the market have a direct, positive impact on distributions to CLO equity holders. Eight of the CLOs have now passed their no-call dates and been refinanced, at a lower weighted average cost of debt (on average, 1.58% now, as opposed to 2.13% previously). This refinancing had an average month-on-month positive impact on those CLO equity valuations of around 12.4%. As discussed below, both asset and liability spreads have reversed in recent months, increasing from their lows in the summer of 2018.

On a look-through basis, as at 30 November 2018, the BGCF portfolio was invested in 686 issuers, held both directly and indirectly, via CLOs and CLO warehouses. The BGCF portfolio assets were 99.3% senior secured and 97.4% floating rate. The largest country exposure was to the US (57.4%), with smaller exposures to France (8.0%) and Luxembourg (7.5%). The portfolio was well-diversified by sector, with the largest exposure being to Healthcare & Pharma (16.0%) and the top five sectors together making up around 52% of the portfolio.

Fig 2: BGCF portfolio snapshot

	WA asset coupon	WA liability cost	WA lev.
EUR CLOs	3.68%	1.58%	8.5x
US CLOs	5.77%	3.98%	8.8x
US CLO warehouses	5.71%	3.84%	4.0x
Directly held loans	3.89%	1.45%	2.5x
Total	**4.63%**	**2.61%**	**7.5x**

Source: Fidante Capital, Company. "WA" - weighted average; 'lev." - leverage. As at 30 November 2018.

Performance

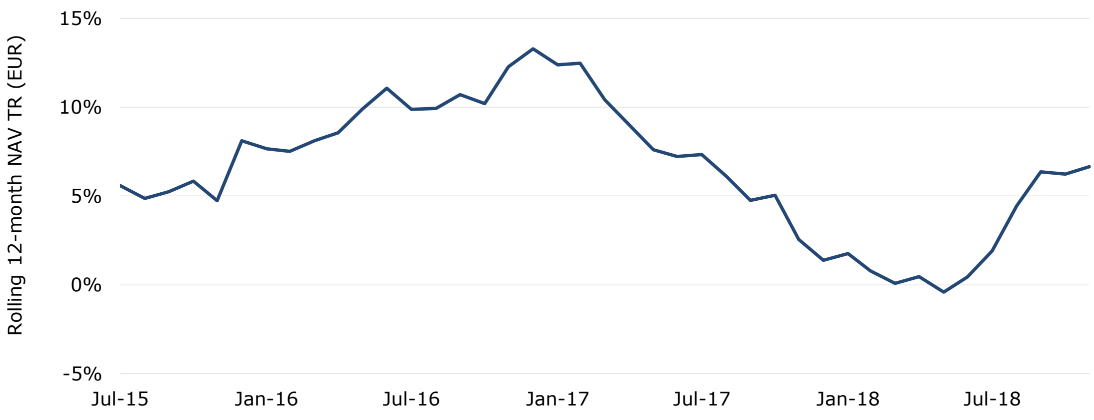
NAV, share price and rating

The BGLF total NAV return (in EUR) since launch to 30 November 2018 was 31.7%, which equates to an annualised total return of 6.6%, and the annualised volatility was 3.1%. The low volatility partly reflects the relative illiquidity of the assets held within the BGCF portfolio and consequently the relative importance of mark-to-model valuations, together with the long-term holding periods for these assets and their stability. The rolling 12-month NAV total return peaked at 13.3% in December 2016, following which it declined to a low of -0.4% in May 2018, following which it has recovered to 6.7% at the end of November 2018.

Over the 17 months to May 2018, the BGLF NAV was negatively impacted by asset spread compression, with some offsetting positive performance coming from rate rises in the US and the refinancing of the CLO liabilities at tighter spreads. From June 2018 onwards, asset spreads started to stabilise and then increase, reflecting in part the strength of the US economy, and the strong loan issuance.

The NAV performance has faltered slightly in late 2018, but we believe that the BGLF NAV will continue on its upward path from the low observed towards the end of H1 2018, once the current market volatility subsides and investor confidence, in loans and the wider markets, returns. In the US, the economy is continuing to grow, though it is showing signs of slowing. The impact from rising short-term rates in the US may contribute to further increases in asset spreads, which would be expected to be a positive influence on CLO equity valuations in the US – however, the likelihood of rate hikes in the US during 2019 has decreased over recent weeks. An economic slowdown from recent cyclical peaks is being seen in Europe – this is expected to lead to increasing spreads, a positive driver of European CLO equity valuations, at some point in the future.

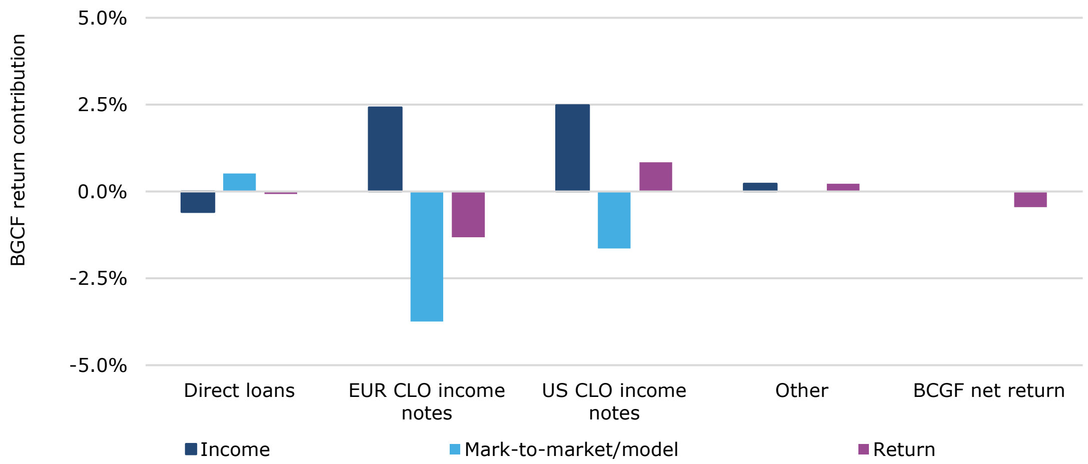
Fig 3: Rolling 12-month NAV TR for BGLF



Source: Fidante Capital, Company. To 30 November 2018. Past performance is not a reliable indicator of future results.

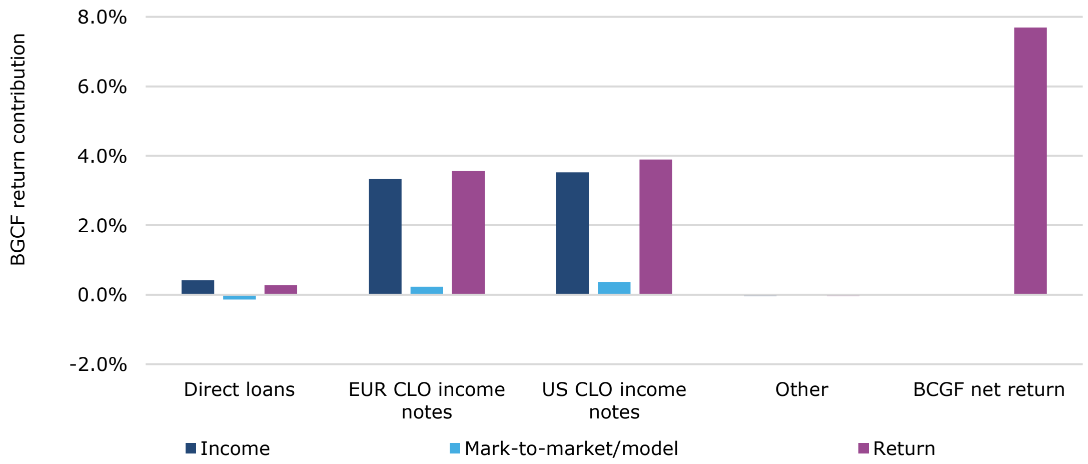
The contributions to the BGCF net return for the first five months of 2018 (to May 2018) and the next six months (to November 2018) are shown in Fig. 4 and Fig. 5. These charts demonstrate the stark difference in performance contributions for the two periods. While the net income derived from the assets held within the portfolio contributed around 12.9% to the BGCF return over the full 11-month period, the negative impact on the portfolio valuation from mark-to-market/model (MTM) movements was c. -5.5%. Income has played an important part over the last six months (net contribution 7.2%), as has the aggregate loss contribution of -5.4% over the first five-month period arising from MTM movements on the European and US CLO income notes. The (gross) income and MTM contributions from the directly held loan portfolio in 2018 year-to-date were 1.8% and -0.7%, respectively, with the cost of leverage being -0.9%. Other contributions to net performance came from CLO warehouses, expenses, cash and FX effects.

Fig 4: Contributions to BGCF performance (January to May 2018)



Source: Fidante Capital, Company. Other includes the effect of CLO warehouses, expenses and cash; rebates on CLOs are included in CLO income; FX effects included; cost of leverage 0.43%. Past performance is not a reliable indicator of future results.

Fig 5: Contributions to BGCF performance (June to November 2018)

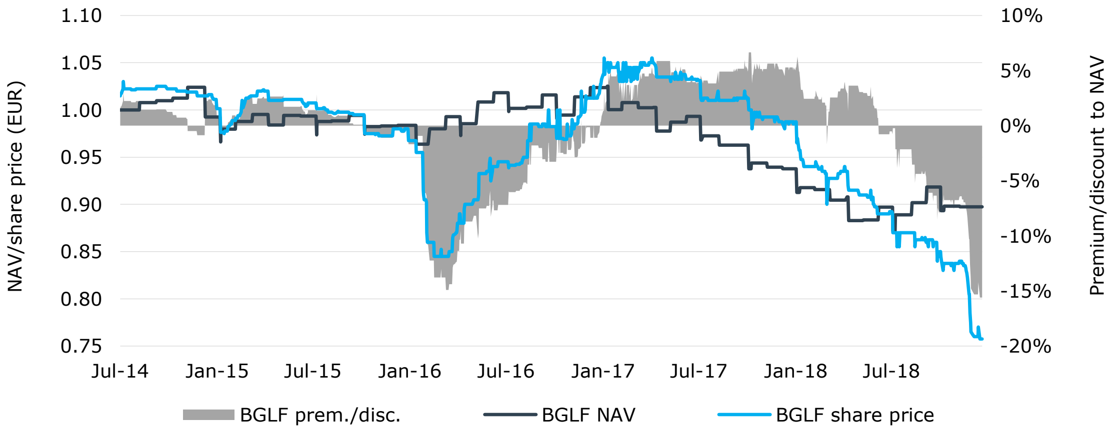


Source: Fidante Capital, Company. Other includes the effect of CLO warehouses, expenses and cash; rebates on CLOs are included in CLO income; FX effects included; cost of leverage 0.42%. Past performance is not a reliable indicator of future results.

The company's EUR-quoted shares traded largely at a premium to NAV for most of the period to the end of 2015. A wide discount approaching 15% opened up during H1 2016 as a result of risk aversion in the markets and technical pressures on the share price, which subsequently narrowed with the help of share buybacks (during June 2016, c. €6.3m (£4.9m) worth of shares were repurchased) and improving market sentiment. The discount closed by the end of 2016, and for the following 18 months the shares traded at an average premium of 3.9%. Since then, however, the NAV performance has improved, but this has not been reflected in the share price, which has declined steadily, leading to an ever-wider discount.

In the last part of December 2018 and into 2019, the Company's share price has fallen dramatically, leading to the current situation in which the shares are trading at a 15.6% discount to the 30 November 2018 NAV. We believe that this sharp decline in the share price was due to heightened risk aversion in the run-up to the end of the year, due to a range of macro factors (e.g. the US-China trade war) and specific and well-publicised concerns about loans as an asset class. However, we also believe that the share price can recover quickly, once investors regain confidence and come to realise that the current discount is unlikely to persist for an extended period. And to draw a comparison with the last time the discount reached this level, in the first half of 2016, the recovery towards par was steady and relatively swift.

Fig 6: BGLF share price premium/discount



Source: Fidante Capital, Company, Bloomberg. From 22 July 2014 to 11 January 2019. Past performance is not a reliable indicator of future results.

Summary

BGLF is, in our view, an attractive investment for a wide range of investors. Income oriented investors can benefit from a dividend yield of 13.2%, one of the highest amongst listed structured credit peers and significantly higher than can be achieved in other yield-oriented investments. Investors looking for high quality companies with good management and a relatively high level of security should be aware that BGLF is currently the only UK-listed investment trust that satisfies European risk retention rules, which substantially reduces the risk of moral hazard. Also, GSO is not only the biggest but also one of the most experienced CLO managers in the world, with a 17-year track record sourcing European loan deals and a greater than 20-year track record investing in US loans.

Appendix

Fig 7: Key attributes of the company

Attribute	
Company name	Blackstone / GSO Loan Financing Limited
Sector	Alternative income – structured credit
Listing	Initial admission 22 July 2014 (London Stock Exchange/Specialist Fund Segment); moved to London Stock Exchange/Premium Segment from 29 June 2017
Domicile	Jersey
Base currency	EUR
Share quote	EUR since IPO; in addition, GBP from 29 June 2017
Management	Blackstone / GSO Debt Funds Management Europe ('DFME') is the company's adviser; GSO advises Blackstone / GSO Corporate Funding ('BGCF') on credit; independent non-executive board
Investment objective	To provide shareholders with stable and growing income returns and to grow the capital value of the investment portfolio by exposure predominantly to floating rate senior secured loans held directly and indirectly through CLO securities; investment objective to be achieved through exposure to BGCF
Target performance	Mid-teens net total return per annum; predominantly dividend income
Dividends	Target 10% p.a. (on the €1.00 per share IPO issue price); paid quarterly
Gearing	None at the company level; currently 2.5x for senior secured loans (with term finance); currently 8.5-9.0x for CLO equity; currently 4.0x for externally-financed CLO warehouses
FX hedging	Non-EUR underlying FX exposures hedged into EUR
Fees	No management or performance fees at the company level; DFME earns an industry standard c. 50bps management fee and a performance fee of 10bps of the aggregate principal balance of each CLO with an IRR trigger of 12%
Fee rebates	BGCF receives a rebate of the CLO management fees pro rata to the CLO investment held (20% on horizontal strips); GSO charges costs to BGCF; the net rebate after these costs is expected to meet the majority of the ongoing annual expenses of BGCF and the Company
Ongoing charges*	0.3% of NAV (operating expenses in H1 2018, annualised)
Reporting	December year-end; monthly NAV estimates
Discount management	The directors may, at their discretion, repurchase shares when the average discount is more than 7.5% over rolling six month periods
Life	Unlimited
Board	Charlotte Valeur (Chair), Gary Clark (Chair of the Remuneration and Nomination Committee and the NAV Review Committee), Heather MacCallum (Chair of the Audit Committee), Mark Moffat, Steven Wilderspin (Chair of the Risk Committee); all directors non-executive, and Mark Moffat is not independent
Website	www/blackstone.com/bglf

Source: Fidante Capital, Company. *Ratio to average net assets.

Fig 8: BGLF monthly NAV total return (%, EUR)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ann
2014								0.78	0.21	0.26	1.12	-3.05	-0.73
2015	1.36	0.82	0.76	0.86	1.05	-0.07	1.42	0.09	0.57	0.83	0.07	0.07	8.11
2016	0.95	0.67	1.32	1.28	2.31	0.98	0.34	0.13	1.28	0.37	1.96	0.97	13.29
2017	0.14	0.76	-0.53	0.02	0.95	0.63	0.44	-1.01	-0.02	0.65	-0.46	-0.18	1.38
2018	0.52	-0.21	-1.23	0.40	0.08	1.50	1.89	1.46	1.81	0.53	-0.06		6.85

Source: Fidante Capital, Company. If upfront costs had been paid at the IPO, the December 2014 and 2014 returns would have been -0.95% and 1.42%, respectively. Past performance is not a reliable indicator of future results.

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