Blackstone/GSO Loan Financing*

Exploiting the continuing loan recovery

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30 May 2019

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	€0.8225	72.00p	€0.4900
Last NAV (ex-div.)	€0.8965ps	78.97pps	€0.5739ps
Premium/(discount)	(8.3%)	(8.8%)	(14.6%)
Market cap	€332.9m	£291.4m	€65.4m
Net assets	€362.8m	£319.6m	€76.6m

Source: Company, Bloomberg. Based on published rather than IFRS NAVs. Data as at 28 May 2019, last NAV as at 30 April 2019. *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

Strengths	Weaknesses
▪ 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 during normal market conditions and the last financial crisis ▪ BGCF has most favoured status with regard to the terms relating to the acquired CLO equity investments ▪ Being exposed to the entire CLO life cycle ensures the full value is captured ▪ CLO benefits include access to term non-mark-to-market financing, extendable reinvestment periods and the reduction of CLO liability costs through refinancing ▪ Current annualised dividend yield of 12.2% is sustainable given the prevailing CLO distribution rates ▪ Under the AIC methodology, the ongoing charges are 0.4%, with no management fees charged above the CLO level ▪ Substantial investment in BGLF by Blackstone provides investor alignment	▪ 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, for the EUR and GBP-quoted ordinary shares and the C shares, compared to listed structured credit peers ▪ Returns from loans are negatively impacted by falling interest rates and higher default rates, and during periods of reduced market liquidity, as occurred in Q4 2018
Opportunities	**Threats**
▪ The CLO warehouse structure allows the managers to take advantage of credit market dislocations and issue new CLOs quickly when the opportunities arise ▪ When the opportunity exists, the calling of older CLOs and refinancing at lower costs of debt tends 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. €398.3m (ordinary and C shares)	▪ A rise in realised loan defaults, negatively affecting the performance of the BGCF investments (however, the current expectation for loan default rates remains muted); however, loan spreads would tend to widen if defaults picked up ▪ Concerns over the rise of covenant-lite loans, possibly leading to credit downgrades of underlying collateral, increased risk and lower recovery rates ▪ Inability to extend reinvestment periods due to market conditions ▪ A repeal or otherwise unfavourable changes to the regulations in Europe in relation to risk retention rules; however, new and extended EU Securitisation Regulation was introduced from 1 January 2019

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 advised by an experienced manager, GSO Capital Partners, part of The Blackstone Group ('Blackstone'), in a low-cost management structure with ongoing charges of just 0.4%. 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.

Ordinary 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, reflecting the strength of the US economy at the time, together with strong loan issuance, which had a positive impact on the BGLF NAV. From October 2018, loan spreads started to widen, for technical reasons and due to risk aversion in financial markets, which had a dampening effect on the NAV performance. This year has seen a recovery in the loan markets, which has helped to boost BGLF's NAV performance - the NAV total return now stands at +5.7% (in EUR) year-to-date in 2019.[1]

Uplifts to the company's NAV have come from the refinancing at lower rates of the CLO equity investments held by BGCF, contributing to higher net interest margins (the difference between loan spreads and the cost of borrowed capital), a key driver of NAV performance. Starting in early 2017, the rated liabilities of eleven CLO equity investments in the BGCF portfolio have so far been refinanced (one of which has also been reset) with a further four eligible to be refinanced by June 2019 and additional refinancings beyond that. This will provide further upside potential for the BGLF NAV.

The turnaround in NAV performance from the middle of 2018 can be illustrated by the fact that the rolling 12-month return has recovered to 13.4%, having reached a low of -0.4% at the end of May 2018. This is above its previous high of 13.3% at the end of December 2016.

> "The rolling 12-month NAV return has recovered to 13.4% from the low of -0.4% at the end of May 2018, and is above its previous high of 13.3% in December 2016."

The improvement in the NAV performance has fed through to the price of the EUR-quoted ordinary shares, which have recovered rapidly from their c. 15% discount in January. However, they remain at a discount of just more than 8% at present, which is wide compared to the levels at which the shares have traded for more than half of the Company's life.

We believe that BGLF remains an attractive opportunity for investors seeking exposure to floating rate fixed income investments, which have performed better this year than in 2018. The potential for further NAV growth and the possible closing of the discount from the current levels suggest that further decent performance for shareholders may be within reach. On top of that, the current dividend yield is an attractive 12.2%.

C shares

The BGLF C shares were issued as part of a corporate restructuring of Carador Income* ('CIFU') in late 2018 and were admitted to trading on 7 January 2019. These C shares reference a pool of assets transferred from CIFU which will be sold over time, with the proceeds to be reinvested in line with the BGLF investment objectives and policy.

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

Conversion into ordinary shares is expected after a six to twelve-month transitional period.

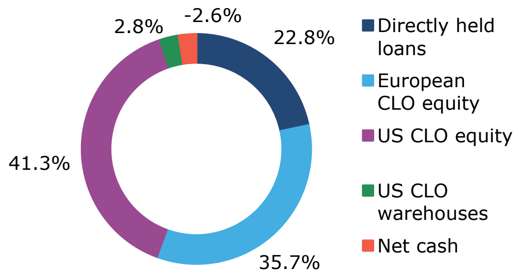
Barring the artificial (non-loss making for investors) NAV decline in January, the NAV performance of the BGLF C shares has been strong since launch, commensurate with recovery in loans and CLO equity valuations observed this year. Trading in the C shares has, however, been light, and they remain at the c. 14.6% discount level reached within around a month of their listing.

Assets and exposures

Blackstone / GSO Corporate Funding

BGCF had net assets of c. €968.4m as at 30 April 2019, with 37.4% of the total capital coming from the BGLF ordinary shares and 27.0% from the BGLF C shares. Directly held loans (less leverage) constituted 22.8% of its net asset value, with European and US CLO equity investments together comprising 77.0% of the net assets. Two US CLO warehouse investments constituted 2.8% of net assets.

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



Source: Fidante Capital, Company. "WA" - weighted average; 'lev." - leverage. As at 30 April 2019.

Fig 2: BGCF portfolio snapshot

	WA asset coupon	WA liability cost	WA lev.
Eur. CLOs	3.70%	1.61%	8.5x
US CLOs	5.98%	4.16%	8.8x
US CLO warehouses	6.05%	3.75%	4.0x
Directly held loans	3.70%	1.45%	2.5x
Total	**4.68%**	**2.66%**	**7.2x**

Source: Fidante Capital, Company. As at 30 April 2019.

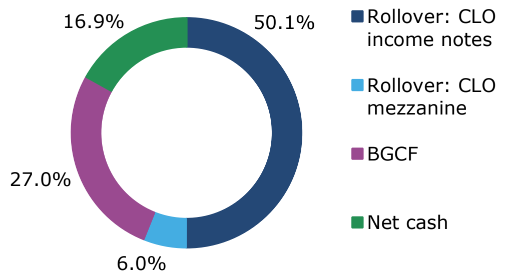
C Shares

As at 30 April 2019, the C shares had a c. 56% exposure to CIFU rollover assets (29 CLO mezzanine and income notes), 27% in BGCF, and just under 17% in cash. Furthermore, 31% of the original rollover assets had been realised by that date.

BGCF had (par value) investments of c. €478m in 17 European CLO equity investments and c. $690m in 14 US CLO equity investments as at the end of April 2019. Annualised distributions for those that have made distributions so far range from 10.4% (Griffith Park, closed in September 2016) to 24.4% (Long Point Park, closed in December 2017).

On a look-through basis, as at 30 April 2019, the BGCF portfolio was invested in 682 issuers, held both directly and indirectly, via CLOs and CLO warehouses. The BGCF portfolio assets were 99.4% senior secured and 98.2% floating rate. The largest country exposure was to the US (57.3%), with smaller exposures to France (8.5%) and Luxembourg (7.9%). The portfolio was well-diversified by sector, with the largest exposure being to Healthcare & Pharma (15.7%) and the top five sectors together making up around 52% of the portfolio.

Fig 3: C share portfolio allocation (% of net assets)



Source: Fidante Capital, Company. As at 30 April 2019.

Performance

NAV, share price and rating

The BGLF total NAV return (in EUR) since launch to 30 April 2019 was 39.0%, which equates to an annualised total return of 7.2%, and the annualised volatility was 3.0%. 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, recovering strongly thereafter to surpass the previous high by the end of April 2019, attaining a rolling 12-month return of 13.4%.

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. In the middle of 2018, however, asset spreads started to stabilise, reflecting the strength of the US economy at the time, together with strong loan issuance, which had a positive impact on the BGLF NAV. From October 2018, loan spreads started to widen, for technical reasons and due to risk aversion in financial markets, which had a dampening effect on the NAV performance. This year has seen a recovery in the loan markets, which has helped to boost BGLF's NAV performance - the NAV total return now stands at +5.7% (in EUR) for the first four months of 2019.

> "The rolling 12-month NAV return has recovered to 13.4% from the low of -0.4% at the end of May 2018, and is above its previous high of 13.3% in December 2016."

Uplifts to the company's NAV have come from the refinancing at lower rates of the CLO equity investments held by BGCF, once their no-call dates passed, contributing to higher net interest margins (the difference between loan spreads and the cost of borrowed capital), a key driver of NAV performance. Starting in early 2017, the rated liabilities of eleven CLO equity investments in the BGCF portfolio have so far been refinanced (one of which has also been reset) at a lower weighted average cost of debt (on average, 1.64% now, as opposed to 2.10% previously). This refinancing had an average month-on-month positive impact on those CLO equity valuations of around 12.7%. A further four are eligible for refinancing by June 2019, with additional refinancings after that, providing further NAV upside potential.

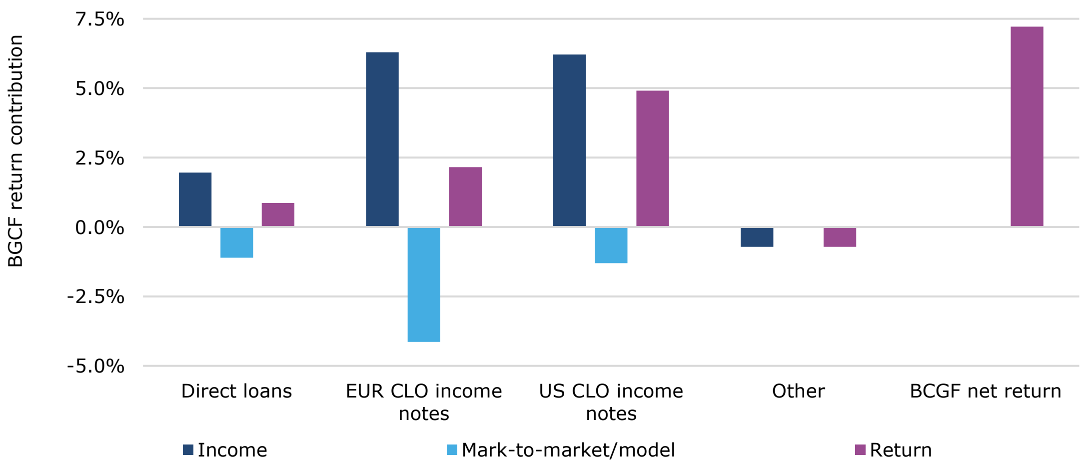
The NAV for the Company's C shares was marked down by 2.95% in January 2019, but this was only due to the differences in the valuation methodology for the assets rolled over from Carador Income, together with the effects of the large sell-off in loans at the end of 2018. These methodological differences caused a jump in the valuation towards the end of 2018 that was then revised down at the beginning of this year in the new corporate structure. Barring the artificial (non-loss making for investors) NAV decline in January, the NAV performance of the BGLF C shares has been strong since launch, commensurate with recovery in loans and CLO equity valuations observed this year.

Fig 4: Rolling 12-month NAV TR for BGLF

Source: Fidante Capital, Company. To 30 April 2019. Past performance is not a reliable indicator of future results.

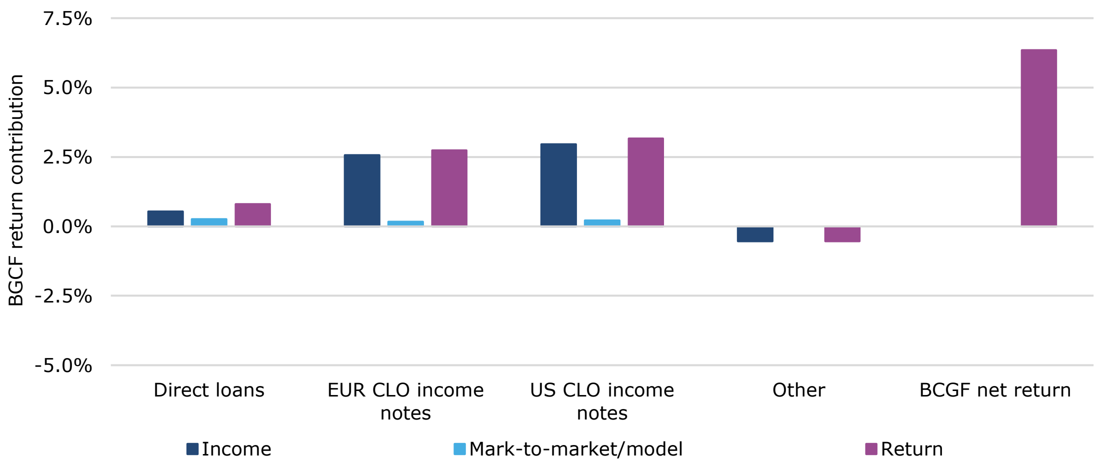
The contributions to the BGCF net return in 2018 and year-to-date in 2019 are shown in Fig. 5 and Fig. 6. These charts demonstrate the distinct difference in performance contributions for the two periods which, as has been discussed, saw rather different trends in terms of assets spreads. While the net income derived from the assets held within the portfolio contributed around 13.8% (approximately equal and significant contributions came from the European and US CLO income notes) to the 2018 BGCF return, there was a notable negative impact on the overall portfolio valuation from mark-to-market/model (MTM) movements of -5.5% (most of this came from the exposure to European CLO income notes). This contrasts with the year-to-date contributions in 2019, which have been 5.5% from income (predominantly from the European and US CLO income notes, 2.6% and 3.0%, respectively) and an additional positive 0.7% from MTM movements (roughly equal contributions from the CLO income notes and the directly held loans). The contribution to the NAV return from the leverage expenses for the directly held loans was -0.9% in 2018 and -0.2% in 2019 year-to-date. Other contributions to net performance came from CLO warehouses, expenses, cash and FX effects.

Fig 5: Contributions to BGCF performance - 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; impact of leverage on the directly held loans is -0.9%. Past performance is not a reliable indicator of future results.

Fig 6: Contributions to BGCF performance – 2019 year-to-date

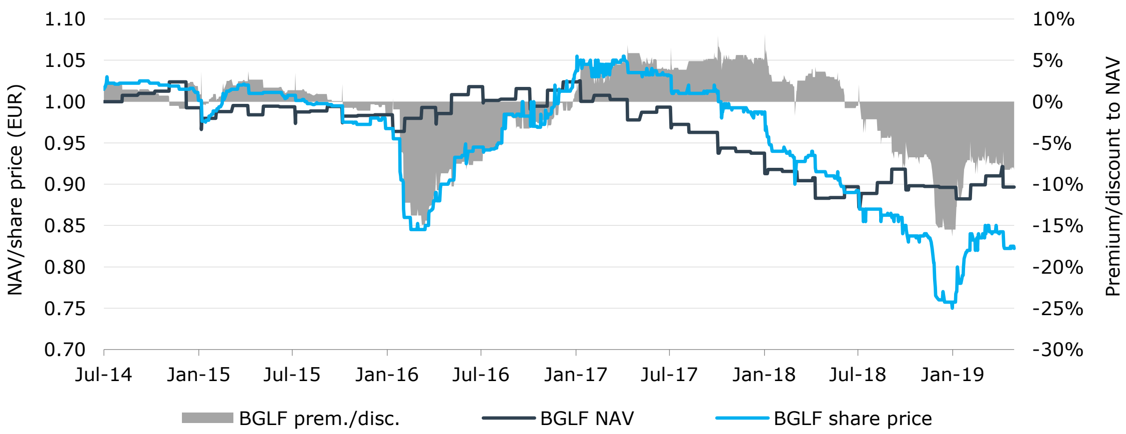


Source: Fidante Capital, Company. Other includes the effect of CLO warehouses, expenses and cash; rebates on CLOs are included in CLO income; FX effects included; impact of leverage on the directly held loans is -0.2%. Past performance is not a reliable indicator of future results. To 30 April 2019.

In the last part of December 2018 and into 2019, the Company's EUR-quoted ordinary share price fell dramatically as risk aversion gripped the markets, leading to the share price discount to NAV peaking at around 16% in the middle of January 2019. Subsequently, the improvement in the NAV performance started to be reflected in the price of the shares, leading to an equally rapid recovery in the discount. Another driver of this re-rating may have been the board issuing a reminder to the market, on 23 January 2019, that it had the authority to buy back shares and that it intended to do so (in fact, no shares have so far been repurchased). However, the shares remain at a discount of just more than 8% currently, which is wide compared to the levels at which the shares have traded for more than half of the Company's life. We believe that there is the potential for further narrowing of the discount.

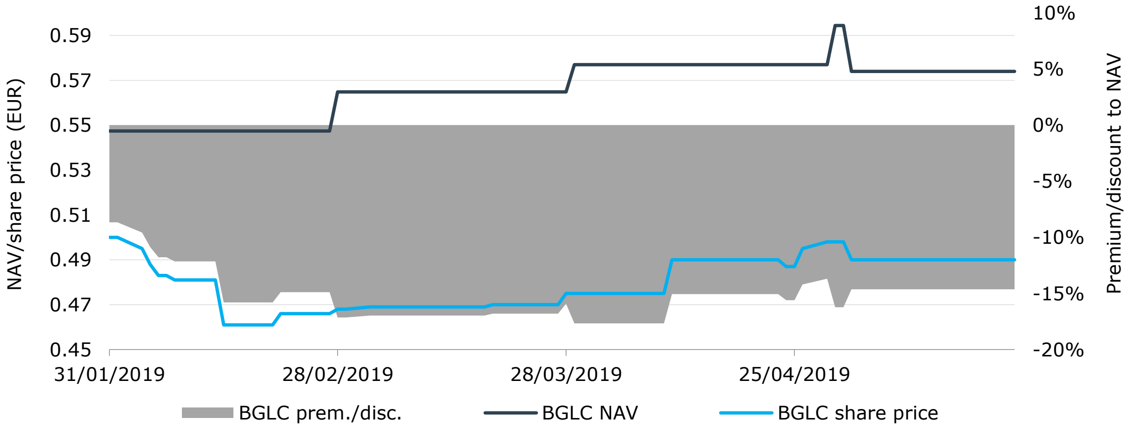
Trading in the C shares has been very light, and they remain at the c. 14.6% discount level reached within around a month of their listing in early January this year.

Fig 7: BGLF share price premium/discount



Source: Fidante Capital, Company, Bloomberg. From 22 July 2014 to 28 May 2019. Includes the effect of dividends going ex-dividend. Past performance is not a reliable indicator of future results.

Fig 8: BGLC share price premium/discount



Source: Fidante Capital, Company, Bloomberg. From 31 January 2019 to 28 May 2019. Includes the effect of dividends going ex-dividend. 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 12.2%, 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.

With weakening economic data, the global economy appears to be in the later stages of this current economic cycle. The position of senior loans at the top of the credit structure, secured by the vast majority of the assets owned by the borrowing companies, should provide investors with comfort if there is to be a global downturn. Amid headlines of increasing leverage, weakening documentation, and increasing focus on "covenant lite" loans, GSO's investment process applied to BGCF's portfolio construction is key to selecting an underlying portfolio of high-quality companies supported by robust underlying protections. We continue to believe that the Company is well positioned to access favourable investment opportunities in loans, CLOs and warehouses through its investment in BGCF.

Appendix

Fig 9: 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 8.5-8.8x 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*	0.4% of NAV (operating expenses in 2018)
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 10: 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	-0.14	6.70
2019	1.25	1.90	1.21	1.26									5.73

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.

Fig 11: BGLC monthly NAV total return (%, EUR)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ann
2019	-2.95	3.19	2.14	3.03									5.38

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

IFRS NAV

The Company, as part of its 2018 final reporting, also published an IFRS NAV as at 31 December 2018 (of €0.8065 per share). The IFRS NAV total return in 2018 was -3.99%, composed of income of +11.38%, offset by a net portfolio movement of -15.37%. Almost the entire difference between the published and IFRS year-end NAVs arose due to the different valuation bases used to determine the value of the investments. For financial reporting purposes and to comply with IFRS, the valuation of BGCF's portfolio annually and semi-annually now uses models that incorporate a "mark-to-market" approach. At previous year-ends, there were no material differences in the two valuation approaches and, consequently, the financial statements before 31 December 2018 have not required a reconciliation. During Q4 2018, however, there was a large market sell-off in the broadly syndicated loan market, which resulted in a fall in the NAV of the CLO income notes, driving down the fair value of these assets – though there was a lack of observed CLO income note transactions in the market to back up these valuations. Volatility in the loan and CLO markets had a significant impact on the year-end IFRS NAV compared to the published NAV, which remained relatively stable due to its hold to maturity strategy and its valuation of long-term CLO income note investments based on expected cash flows. The BGLF board has stated that it will continue to assess the performance of the Company using the published NAV. However, going forward, the board and the Company's adviser may give additional information and commentary on market colour, credit risk exposure and any material divergence between the published and IFRS valuations.

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