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Alternative Income | Blackstone / GSO Loan Financing*

Senior loans with favourable economics, structure and credit performance

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This is a marketing communication. Refer to the last page for important information. * Current corporate client of Fidante Capital

Key details

Bloomberg code	BGLF LN
Share price	€1.0350
Last NAV (ex-div.)	€0.9777ps
Prem./Disc.	5.9%
Current yield	9.7%
Market cap	€418.9m
Net assets	€395.7m

Last NAV date 30 April 2017
Share price as at 19 May 2017

Summary

- Blackstone / GSO Loan Financing (BGLF) has an attractive 9.7% dividend yield (or 10.2% of the last NAV, ex-dividend). The income is derived, via the company's investment in Blackstone / GSO Corporate Funding (BGCF), from a portfolio of CLO equity positions and a levered portfolio of broadly-syndicated loans. BGLF benefits from very favourable deal economics on its CLO assets (a rebate from the CLO management fees covers the majority of the cost of the investment professionals working on the CLO origination) and no management fees are paid by the company (the ongoing charges of 0.5% represent only the additional costs of the listed company). All investment decisions, within the CLO or for the direct loan exposure, are made by GSO Capital Partners (GSO), the largest issuer and manager of CLOs globally (with c. $21bn of assets) with an 18-year track record of below-average losses (over the period from December 2000 to December 2016, annualised loss rates were 0.2% on US loans and 0.4% on European loans).

- The balance sheet serves as a CLO warehouse and allows the issue of CLOs to be timed to benefit the equity investor and there is very little reliance on an issuing investment bank. Moreover, the manager can be nimble in assembling a portfolio of loans during periods of market volatility. The quality and scale of GSO as the manager of the CLOs also means that the cost of CLO liabilities are typically amongst the lowest in the industry at the point of launch, significantly contributing to the IRR delivered to the equity investor over the life of the CLO. The most recent investment, Palmerston Park, priced its senior debt at just E+92bps, the tightest print since the CLO 2.0 market opened in 2012 (at the time of pricing).

- Whilst the original catalyst for the launch of the company was the introduction of risk retention rules for European, and subsequently for US, CLOs – and this remains an imperative – it is the resulting investment proposition that we believe is compelling. Loans and CLOs demonstrated their qualities in the last financial crisis and, with a constructive view of the credit cycle, we believe that the risk-adjusted return is attractive in isolation, compared to less seasoned credit strategies such as platform lending, and relative to equities, given current valuations. BGLF targets mid-teens annualised total NAV returns with low volatility, and in 2016 it was able to achieve this, with a return of 13.3% and an annualised volatility of 2.2%. Furthermore, performance has been attractive compared to the majority of listed structured credit peers, both in absolute and risk-adjusted terms.

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1. Investment case

Overview

The investment case for BGLF is built-up from the following components:

1 Widely-syndicated loans are an attractive access route to exposure to the senior credit risk of predominately sponsor-backed private companies. These loans have floating-rate coupons.

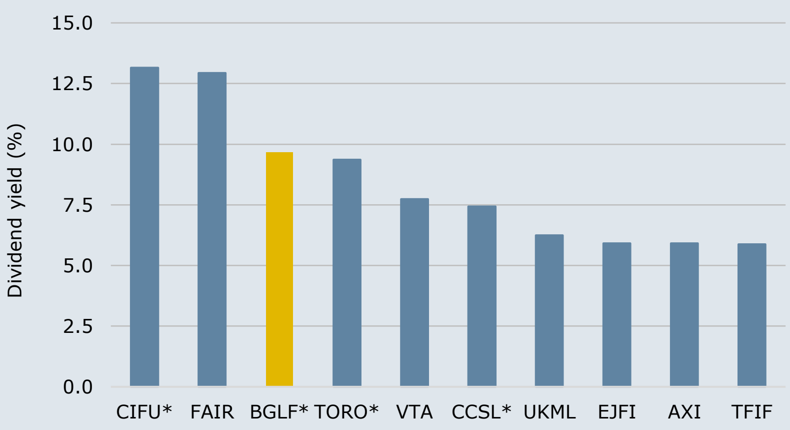
2 CLOs are managed structures that use term-matched financing to leverage the returns from a portfolio of widely-syndicated loans. These structures demonstrated their resilience in the last financial crisis.

3 The introduction of risk retention rules for CLO issuers, in both Europe (implemented in 2011) and the US (implemented in 2016), has created a need for originators to retain exposure to the transactions. In response, GSO launched Blackstone / GSO Loan Financing (BGLF) to invest in these CLOs through Blackstone / GSO Corporate Funding (BGCF).

4 By investing directly in the originator, through a fee-neutral vehicle (ongoing charges of circa 0.5% represent the cost of the structure only), BGLF investors benefit from the cost efficiencies that can be derived from the structuring and issuance of new CLOs and the credit underwriting expertise of GSO.

5 The company pays a dividend of EUR 0.10 per annum (paid quarterly), representing 9.7% of the current share price, or 10.2% of the latest NAV. This is an extremely attractive dividend within the universe. Whilst income is the dominant component of returns, NAV total returns are expected to be low-to-mid teens and were 13.3% in 2016.

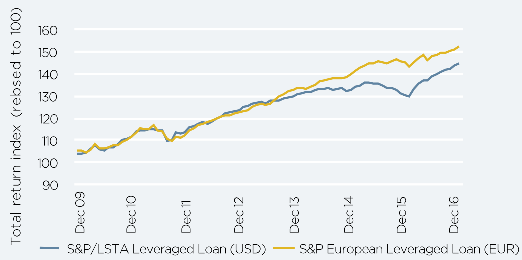
Dividend yields in peer group



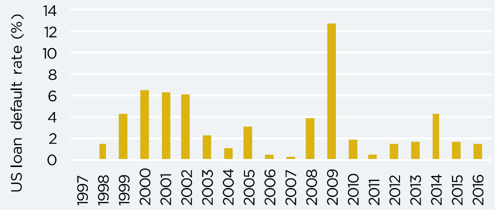
Source: Fidante Capital, companies, Bloomberg. As at 19 May 2017. Axiom European Financial Debt (AXI), Blackstone/GSO Loan Financing (BGLF), Carador Income (CIFU), Chenavari Capital Solutions (CCSL), EJF Investments (EFJI), Fair Oaks Income (FAIR), Toro (TORO), TwentyFour Income (TFIF), UK Mortgages (UKML) and Volta Finance (VTA). Dividend yields are based on latest closing share price and last dividend annualised (Axiom European Financial Debt, Blackstone/GSO Loan Financing, UK Mortgages and Volta Finance), 12-month historical (Carador Income, Chenavari Capital Solutions, Fair Oaks Income and TwentyFour Income), adjusted (Toro) and target (EJF Investments). Dividend yield is for the Fair Oaks Income 2017 shares and the Volta Finance shares listed on Euronext Amsterdam.

Senior secured loans

Loan performance



US loan default rate

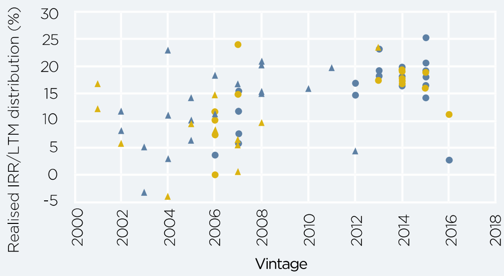


Total return	2010	2011	2012	2013	2014	2015	2016
S&P/LSTA Lev Loan (USD)	10.1%	1.5%	9.7%	5.3%	1.6%	-0.7%	10.2%
S&P European Lev Loan (EUR)	9.8%	0.7%	9.7%	8.6%	4.5%	5.5%	3.8%

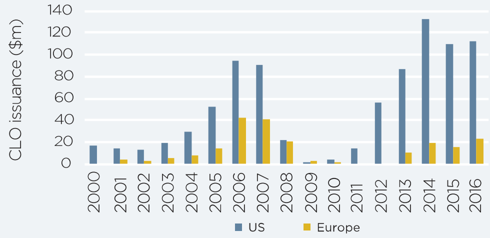
Source: Fidante, S&P/LSTA, S&P LCD.

Collateralised loan obligations (CLOs)

GSO-originated CLO performance*



CLO Issuance



Risk retention regulations

- Risk retention rules require that originators/sponsors of securitisations retain a portion of the associated risk for the life of the securitisations
- The aim of these rules is to better align the interests of originators/sponsors of securitisations with those of investors

EU

- Risk retention rules in force since 2011
- Enshrined under Capital Requirements Directive IV (CRD IV)
- EEA-regulated firms can only invest in CLOs if originator/sponsor retains ongoing economic interest of 5% or more in specified credit tranches/asset exposures

US

- Risk retention requirements under Dodd-Frank Act published in 2014
- Originator/sponsor required to retain economic interest in the credit risk of the securitised assets of at least 5% of the ABS interests issued in the transaction
- Regulations effective for RMBS from December 2015, all other asset classes (e.g. CLOs) from December 2016

Source: Fidante Capital, S&P/LSTA, S&P LCD, GSO. To 31 December 2016. *For GSO originated CLO performance chart, US CLOs in blue and European CLOs in yellow. Triangles are redeemed CLOs (realised IRRs) and circles are active and inactive CLOs (LTM – last 12-month – distributions, to 28 February 2017). One redeemed US CLO (2009 vintage) with a realised IRR of 154.7% is not shown.

The advantages of BGCF/BGLF

Stage	BGCF/BGLF advantage
Warehousing	
Loans are acquired in advance of a CLO being structured within a warehouse facility	▪ Saved expense from not having to enter into a contract for a CLO warehouse from an investment bank ▪ No pressure to ramp portfolio quickly means that risk-return characteristics of portfolio are better ▪ Has capital readily available for deployment during periods of dislocation
Structuring	
Determining the terms of the new CLO structure being issued	▪ There are fewer services that BGCF will require from an investment bank so the costs are significantly reduced (from several hundred basis points to several tens of basis points) ▪ The scheduling of the CLO issue is entirely under the control of BGCF as it has self-sourced the majority of the equity and GSO clients will often take the senior tranches
Issuance	
The cost of the liabilities is determined at launch; therefore, the pricing of the senior liabilities is a critical component of the transaction for equity investors	▪ The timing of the pricing of a CLO issue is an important determinant; being able to choose the point of execution is an advantage ▪ The quality of the management team affects the margin on the liabilities; BGCF is a beneficiary of the outstanding track record of GSO
Steady-state investing	
The ultimate returns from a CLO, other than the cost of the liabilities, are derived from the performance of the managed credit portfolio	▪ The performance of GSO-managed CLOs are amongst the strongest in the industry, with a strong track record for low defaults ▪ The "in-house" management of the CLO pool means that there is a standardised and robust credit underwriting process for all the credit exposure in BGCF
Calling of transaction	
Majority control equity investors have the ability to call a CLO once the non-call period has expired in order to refinance the liabilities (at a lower margin), re-leverage the transaction and/or to crystallise a discount to the intrinsic net asset value of the structure	▪ The participation in new issues and the visibility of pricing/issuance trends means that BGCF can optimise the point of calling an existing CLO transaction ▪ The independence of the structure of BGCF means that any potential conflicts of interest are managed

Source: Fidante Capital.

SWOT analysis of Blackstone / GSO Loan Financing

Strengths

- All credit risk is managed by GSO, one of the leading loan managers in the industry
- Returns from loans benefit from rising interest rates, assuming no changes to defaults and that interest rates are above any floors
- The long-term realised returns from loans, and importantly from CLOs, have been robust, including time periods that extend through the last financial crisis
- No GSO-managed CLO investing in European loans will be structured outside of BGCF, as long as BGCF is able to fund the CLO income notes; BGCF also has the most favoured status over the terms relating to the purchased CLO income notes (also applies to US CLOs)
- By virtue of being exposed to the full life cycle of CLOs (warehousing, structuring, ongoing management and liquidation), returns are enhanced and the full value is captured
- Based on the current share price of €1.0350, the shares are paying an annualised dividend of 9.7% which we believe is sustainable given current distribution rates for CLOs
- Because there are no management fees charged at any level above the CLOs (where there are fees earned by GSO), the ongoing charges of the company, under the AIC methodology, are just 0.5%
- Substantial investment in BGLF by Blackstone provides alignment with investors

Weaknesses

- The shares and the NAV are currently quoted in euros, which may limit the appeal to some UK investors and prevents it from being included in the FTSE indices
- The 2014 NAV performance track record was dampened by writing off the IPO launch costs in line with origination fees on new CLOs, rather than taking these costs upfront, as is customary for investment companies. However, this has not affected returns subsequently
- Limited liquidity in the shares initially, due to large institutional investors on the share register, but liquidity has increased recently following diversification of the investor base
- BGCF may have a limited ability to negotiate strongly with GSO on the terms on which it is appointed to manage new CLOs, although industry standard terms for managing CLOs are in place

Opportunities

- The internalised warehouse structure allows the managers to take advantage of credit market dislocation and be quick to issue a new CLO when there is an attractive opportunity
- A drop in LIBOR rates below LIBOR floors, where these are present in the loans held within CLO loan portfolios (almost all in the US; this is unlikely in the current environment), as the assets earn the floor rate and the CLO pays a lower base rate on the liabilities
- The calling of some of the older CLOs and the refinancing at lower costs of debt would enhance the NAV, albeit that this opportunity may be partially offset by the repricing of the loans themselves
- As the only dedicated vehicle to CLO risk retention traded on the London Stock Exchange, the company has the potential to achieve significant critical mass, substantially larger than its current market cap of €419m
- Having initially been focused on the European opportunity for providing risk-retention capital, the strategy has expanded into the US, a larger CLO market

Threats

- A rise in realised defaults in the CLO loan portfolio
- A complete inability to issue new CLOs due to lack of market demand for senior tranches (though this has never happened historically: GSO issued four US CLOs in 2008 and one CLO in each of 2009, 2010 and 2011)
- A repeal or otherwise unfavourable changes to the regulations, in either the EU or the US, in relation to risk retention rules, although this would only affect future origination potential

Source: Fidante Capital.

2. The company

Blackstone / GSO Loan Financing

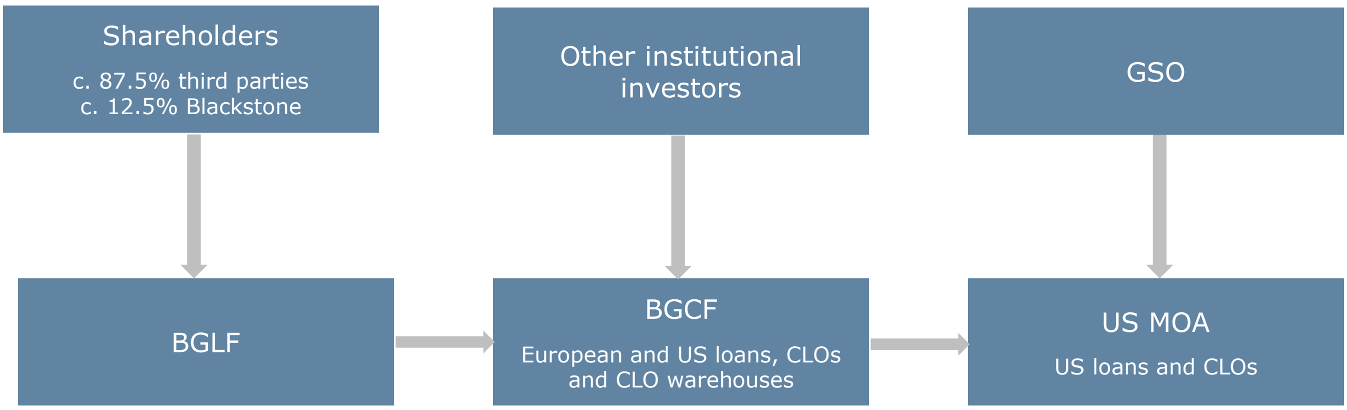
Blackstone / GSO Loan Financing (BGLF) is an internally-managed, Jersey-domiciled investment company which was admitted to trading on the London Stock Exchange (Specialist Fund Segment) in July 2014. At its IPO, the company raised €301.2m of equity (£238.6m at the prevailing exchange rates, with €50m coming from Blackstone), and €30.7m (£22.1m) was raised in a placing in April 2015. Three additional placings, and a €6.9m (£6.0m) issuance out of treasury, all in March 2017, raised a further €81.8m (£70.1m).

The company invests in European and US floating rate senior secured loans, either directly or indirectly via CLOs originated and managed by GSO. The direct exposure comprises portfolios of loans (levered up to 2.5x) intended to be used as collateral for new CLOs; direct exposure may also arise via investment in externally-financed CLO warehouses, being portfolios of loans levered up to 4-5x. The CLO investments are typically in horizontal strips (comprising a portion of the income notes issued by the CLOs) but can also be vertical strips (which include portions of all CLO equity and debt tranches). As at 22 May 2017, all the investments were in horizontal strips.

BGLF gains these exposures by investing in Blackstone / GSO Corporate Funding (BGCF), a risk retention company set up by GSO in order to satisfy regulatory changes that require CLO managers or originators to retain a certain portion of the credit risk associated with the CLOs they manage or have originated, for the life of the CLOs. BGCF can invest in additional risk retention companies, and is exposed to Blackstone / GSO US Corporate Funding, a US Majority Owned Affiliate (MOA) to obtain exposure to US risk retention compliant CLOs.

There are no management or performance fees at the company level. The company's adviser, Blackstone / GSO Debt Funds Management Europe (DFME), earns industry standard management fees (c. 50bps per annum) and performance fees (20% over a 7% hurdle) on the CLOs it manages, in which BGCF invests. DFME rebates 20% of the management fee it receives to BGCF, pro rata to the CLO income notes held by BGCF (for horizontal strips). For vertical strips, the rebate is 100% of the management fee. The net rebate after costs allocated to BGCF by DFME is at least 10% of the management fees and is expected to meet the majority of the ongoing costs of BGCF and the company. The impact of the rebate is reflected directly in the valuation of BGCF rather than that of BGLF, the valuation of which is indirectly impacted through its investment in BGCF.

Figure 1: Company structure



Source: Fidante Capital, Company. Shareholder breakdown as at IPO. The Blackstone ownership will vary over time.

Figure 2: Key attributes

Company	Blackstone / GSO Loan Financing Limited
Sector	Alternative income – structured credit
Listing	LSE (Specialist Fund Segment); CISE
	22 July 2014
Domicile	Jersey
Share class	EUR
Management	Self-managed; independent non-executive board; Blackstone / GSO Debt Funds Management Europe (DFME) is the company's adviser; GSO provides credit advice to Blackstone / GSO Corporate Funding (BGCF)
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; the 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	Up to 2.5x for senior secured loans (with term finance); no leverage for CLO income notes; vertical strips expected to be levered 6-7x through BBB tranches, with the balance 100% funded; BGCF may invest in the first loss of externally-financed CLO warehouses (4-5x levered)
FX hedging	Non-EUR underlying FX exposures are hedged into EUR (base currency)
Fees	No management or performance fees at the company level; DFME earns industry standard c. 50bps management fee and performance fee of 20% over 7% hurdle on the CLOs it manages
Fee rebate	BGCF receives a rebate of the CLO management fees pro rata to the CLO investment held (20% on horizontal strips and 100% on vertical 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*	0.5% of NAV (operating expenses in 2016, excluding expenses relating to the Luxembourg restructuring and legal advice with regard to the amended investment policy to include CLO loan warehouses and additional risk retention companies)
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), Philip Austin, Gary Clark (Chair of the Audit Committee and NAV Review Committee), Joanna Dentskevich (Chair of the Risk Committee); all directors non-executive
Website	blackstone.com/bglf

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

GSO – The organisation and investment personnel

GSO Capital Partners (GSO) is the credit platform of The Blackstone Group, one of the largest investment firms in the world with more than 2,200 employees in more than 20 offices globally. As at 31 December 2016, GSO had 345 employees in New York, Dublin, London and Houston, with assets under management of $88.5bn across alternative investment funds ($54.9bn) and long-only customised credit strategies ($33.6bn).

According to Creditflux, as at 31 December 2016, GSO was the largest CLO manager globally, managing 46 CLOs with total assets of $21.4bn (€7.1bn in Europe and $14.0bn in the US). The Creditflux analysis also shows that GSO was the largest CLO manager at the end of years 2012 to 2015.

Figure 3: Top 10 global CLO managers

Manager	European deals (€bn)	US deals ($bn)	Total global deals ($bn)	Total number of deals
GSO Capital Partners	7.05	13.95	21.36	46
Carlyle Group	5.84	13.23	19.38	45
Credit Suisse Asset Management	2.38	16.25	18.84	32
Ares Management	2.04	13.46	15.61	35
PGIM	3.05	10.03	13.24	26
Apollo Global Management	1.61	10.83	12.52	21
CIFC Asset Management	0.00	11.69	11.69	26
CVC Credit Partners	2.77	8.55	11.46	24
Octagon Credit Investors	0.00	10.93	10.93	20
3i Debt Management	5.08	5.24	10.58	28

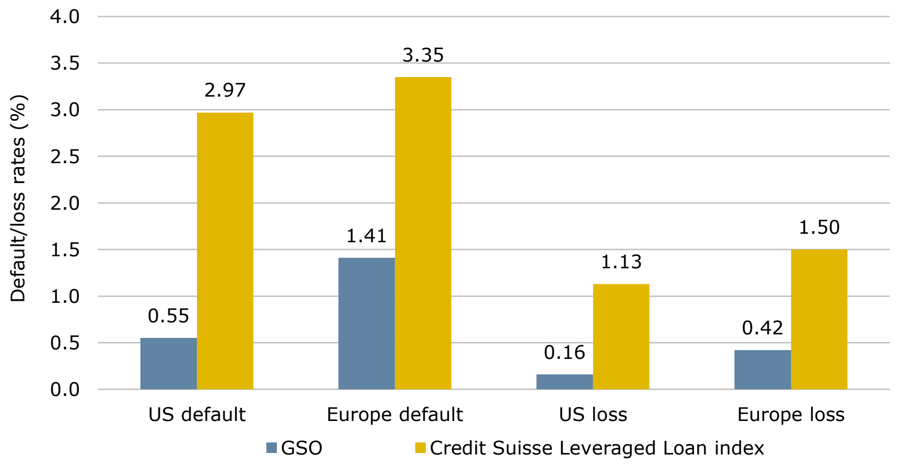
Source: Creditflux. As at 31 December 2016.

The DFME European Syndicated Credit Investments Committee has investment oversight of BGCF and comprises Fiona O'Connor (Managing Director and Head of Credit), Alex Leonard (Managing Director, Senior Portfolio Manager and Loan Trader), David Barry (Principal), Louise Somers (Principal) and John Wrafter (Principal). Fiona O'Connor and Alex Leonard are made available to BGCF pursuant to a portfolio service support agreement. Also involved in the management of BGCF/BGLF is David Cunningham (Principal). All of these individuals are employed by DFME and were previously at Harbourmaster before its acquisition by GSO in 2012. Fiona O'Connor was Head of Credit for Harbourmaster, while Alex Leonard was a Director and Co-Head of Portfolio Management and Trading.

GSO – Performance track record

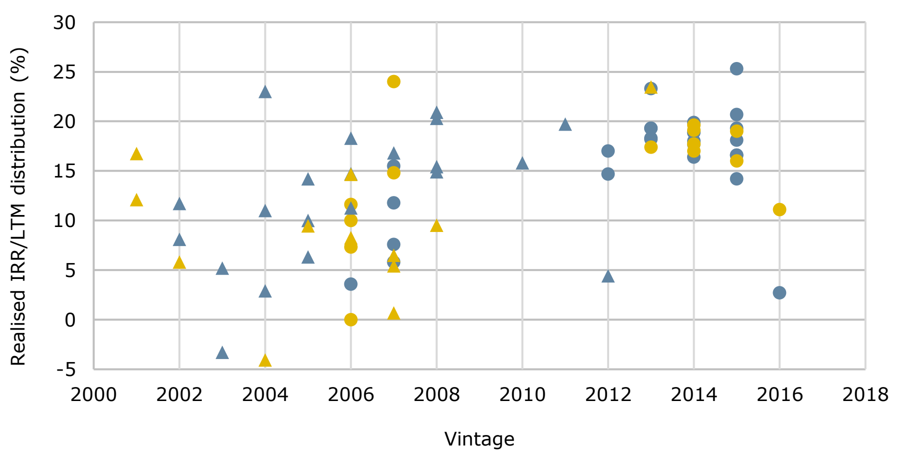
GSO has a verified track record managing CLOs in the US extending back to 2000, and in Europe from 2001. GSO emphasise careful credit selection and risk management for the loans they invest in (and the CLOs they manage), which results in the average loan default and loss rates being lower than those of benchmarks.

Figure 4: Loan portfolio average default and loss rates



Source: Fidante Capital, GSO. From inception to 31 December 2016.

Figure 5: GSO-originated CLO performance



Source: Fidante Capital, GSO. US (blue) and European (yellow) CLOs originated by GSO. Triangles are redeemed CLOs (realised IRRs) and circles are active and inactive CLOs (LTM – last 12-month – distributions, to 28 February 2017). One redeemed US CLO (2009 vintage) with a realised IRR of 154.7% is not shown.

CLOs originated by GSO have demonstrated attractive performance and resilience through the 2008 financial crisis. Through 28 February 2017, the average last 12-month distributions from active CLOs have been 18.0% and 17.1% in the US and Europe, respectively, while the average last 12-month distributions from inactive CLOs have been 12.9% and 13.6% in the US and Europe, respectively. To the same end date, the delivered IRRs for redeemed CLOs have been 12.2% (in the US) and 9.0% (in Europe).

Between 2013 and 2016, GSO opened 15 CLO warehouses with an average loan portfolio exposure of $281m, each of which was converted into a CLO after an average investment period of five to six months. The average net IRR generated by these CLO warehouses was 27.7%, and the average actual first equity distribution, paid within eight months of closing, was 11.3% versus the target distribution of 8.3%.

3. Assets and performance

Deployment

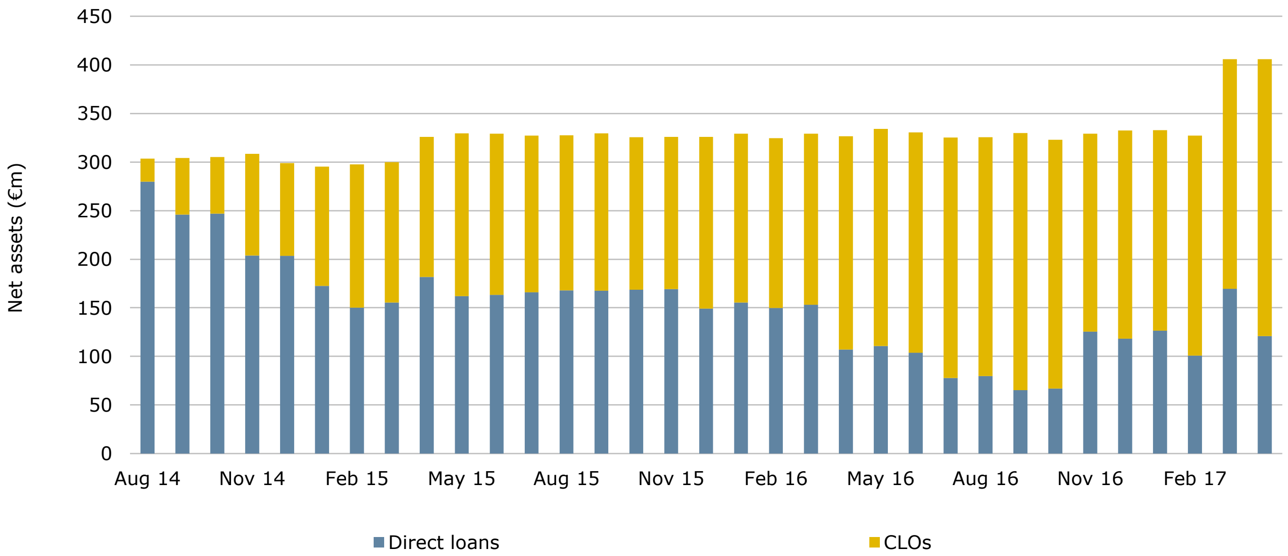
The first CLO arranged by BGCF, Phoenix Park (deal size €413m), closed in July 2014, and BGCF bought just over 51% of the issued income notes (c. €23.3m investment). Since then, BGCF has made eleven further investments into CLO income notes (and loans); two further CLO investments were made in the remainder of 2014, four in 2015, three in 2016 and two so far in 2017. The BGLF portfolio, via its investment in BGCF, has shifted from being dominated by direct loan investments shortly after launch (92.2% as at 31 August 2014) to 29.8% by the end of April 2017. With the closing of Orwell Park in May 2015, the indirect exposure to loans was more than 50% for the first time. Overall, deployment into CLOs has been more rapid than anticipated at the launch of BGLF, and is anticipated to continue at the rate of about one per quarter.

Figure 6: Retained CLO income note investments

	Closing	Currency	Deal size	Income notes	BGCF investment (% of tranche)	BGCF investment
Phoenix Park	Jul-14	EUR	€413m	€45m	51.4	€23.3m
Sorrento Park	Oct-14	EUR	€517m	€57m	51.8	€29.5m
Castle Park	Dec-14	EUR	€415m	€46m	100.0	€46.0m
Dorchester Park	Jan-15	USD	$509m	$46m	60.9	$28.0m
Dartry Park	Feb-15	EUR	€411m	€45m	51.1	€22.8m
Orwell Park	May-15	EUR	€415m	€48m	51.0	€24.2m
Tymon Park	Dec-15	EUR	€414m	€45m	51.0	€22.7m
Elm Park	May-16	EUR	€558m	€57m	82.4	€46.9m
Griffith Park	Sep-16	EUR	€454m	€49m	59.5	€29.0m
Clarinda Park	Nov-16	EUR	€415m	€45m	51.2	€23.1m
Grippen Park	Mar-17	USD	$611m	$59m	29.4	$17.5m
Palmerston Park	Apr-17	EUR	€415m	€45m	62.2	€28.0m

Source: Fidante Capital, Company. Investments announced as at 22 May 2017.

Figure 7: BGLF net assets



Source: Fidante Capital, Company. To 30 April 2017.

CLO income note investments

To date, BGCF has invested c. €295m and c. $45m in twelve retention CLO income notes referencing a diversified pool of underlying credits. The CLO investments that have been made are horizontal strips (either: a) 51% or more of the income notes issued by European CLOs, or b) CLO income notes representing at least 5% of the credit risk relating to the assets collateralising US CLOs). Vertical strips, when introduced into the BGCF portfolio, will represent not less than 5% of the principal amount of each CLO equity and debt tranche. The end of the no-call periods are typically around two years after the close of the CLOs, and the end of the reinvestment period two years after that. Annualised distributions, for those CLO investments that have made distributions so far, range from 7.5% (for Griffith Park, which made its first distribution in May 2017) to 19.0%.

The CLO investments have priced at different levels, some more attractive than others. For example, Dorchester Park priced at a discount margin (for the AAA tranche) of 140bps, favourable compared to other US CLOs which priced at around the same time (February 2015), for which the average discount margin was 160bps. For Palmerston Park, which priced in February 2017, the AAA tranche achieved the tightest level since the CLO 2.0 market opened in 2012 (E+92bps). Low discount margins in comparison to the market have a direct, positive impact on the distributions to CLO equity holders.

Five of the twelve CLOs have reached the end of their no-call periods. This gives the CLO manager optionality with respect to, for example, refinancing the debt. Phoenix Park, BGCF's first retained CLO income note investment, was refinanced in January 2017, 18 months before the end of its reinvestment period, reducing the weighted average cost of debt by 21bps, from E+207bps to E+186bps, and Sorrento Park refinanced in April 2017 with the spread on the AAA tranche moving from E+130bps to E+95bps.

Figure 8: Retained CLO income note investments

	Closing	End of no-call period	End of reinvestment period	AAA discount margin (%)	Annualised distributions (%)	Cumulative distributions (%)
Phoenix Park	27-Jul-14	29-Jul-16	29-Jul-18	1.35	17.7	47.9
Sorrento Park	16-Oct-14	16-Nov-16	16-Nov-18	1.30	17.7	43.5
Castle Park	18-Dec-14	15-Jan-17	15-Jan-19	1.35	17.0	38.4
Dorchester Park	26-Feb-15	20-Jan-17	20-Jan-19	1.40	15.0	40.9
Dartry Park	16-Mar-15	28-Apr-17	28-Apr-19	1.30	16.6	36.3
Orwell Park	4-Jun-15	18-Jul-17	18-Jul-19	1.30	16.6	32.5
Tymon Park	17-Dec-15	21-Jan-18	21-Jan-20	1.45	19.0	22.6
Elm Park	26-May-16	15-Apr-18	15-Apr-20	1.50	11.1	14.7
Griffith Park	8-Sep-16	15-Apr-18	15-Apr-20	1.23	7.5%	7.5%
Clarinda Park	15-Nov-16	15-Nov-18	15-Nov-20	1.15	n/a	n/a
Grippen Park	15-Mar-17	20-Apr-22	20-Apr-24	1.26	n/a	n/a
Palmerston Park	11-Apr-17	18-Apr-21	18-Apr-23	0.92	n/a	n/a

Source: Fidante Capital, Company. Investments announced as at 22 May 2017.

Exposures

Around 30% of BGCF's assets are invested in senior secured loans, with the balance in CLOs. Both parts of the BGCF portfolio are well diversified by underlying issuer, with 89 issuers in the direct loan portfolio as at the end of April 2017 (31 December 2015: 35 issuers) and 510 issuers in the CLO portfolio (31 December 2015: 339 issuers). All of the direct loans are floating, up from 90.9% at the end of 2015. The weighted average asset spreads have come down to c. 3.9%/4.2% (for the directly/indirectly held loans) from 5.1%/4.6% over the last 16 months, and the weighted average loan prices have moved from 94.9%/98.1% to 100.5%/100.0%.

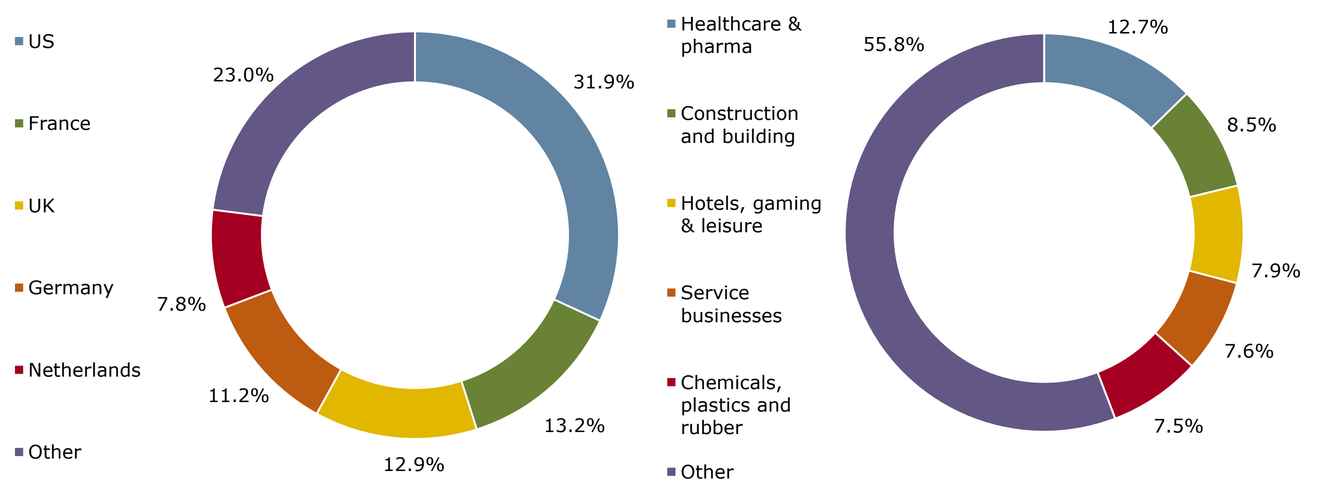
Figure 9: BGCF portfolio attributes

	BGCF direct loans/investments	BGCF indirect loans/CLO portfolio
Net assets	€120.9m	€284.9m
% of NAV	29.8%	70.2%
Number of issuers	89	510
Senior secured loans/notes	100.0%	99.8%
Floating rate	100.0%	98.9%
Weighted average asset spread	3.94%	4.19%
Weighted average loan mark-to-market	100.5%	100.0%
Average cost of liabilities	0.8% undrawn/1.8% drawn	2.1%

Source: Fidante Capital, Company. As at 30 April 2017.

Other than the diversification of the underlying loan exposures that can be inferred from the number of issuers, the BGCF portfolio is also diversified by industry sector and by geography. Around 32% was invested in US loans at the end of April 2017, the rest being in European loans, the largest representation being borrowers in France (13.2% of the portfolio). Over half the NAV was exposed to sectors which are not amongst the top five largest sectors. The largest holding by issuer represented 1.7% of the portfolio and the top ten issuers constituted over 13% of the portfolio.

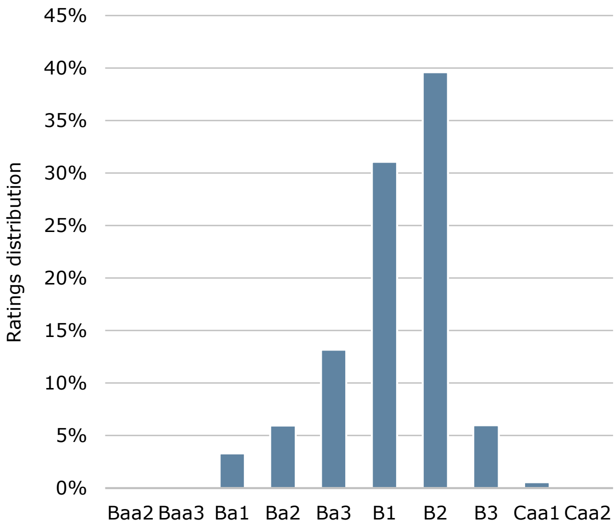
Figure 10: Top five geographic and sector underlying exposures

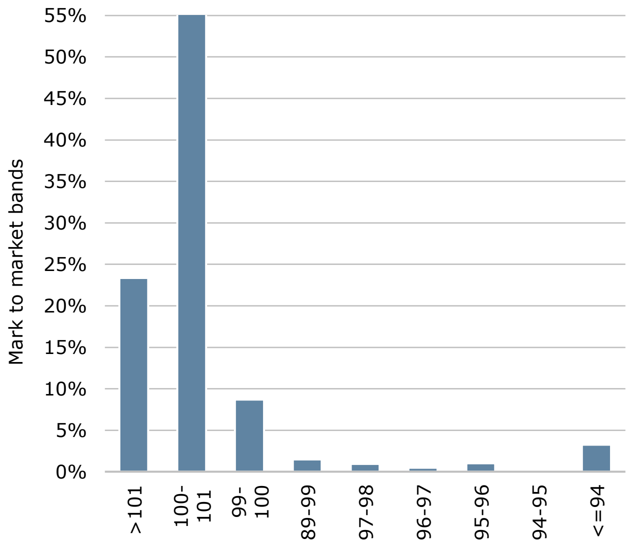


Source: Fidante Capital, Company. As at 30 April 2017.

The loans in the BGCF portfolio (direct and through CLOs) are generally below investment grade (defined as being Baa3 and above), but extend to the top of the range of speculative grade ratings (Ba1 and below), and, as already noted, the average mark-to-market price of the loans is around 100, with just over 84% of the loans trading above par.

Figure 11: Ratings exposures and mark-to-market bands





Source: Fidante Capital, Company. As at 30 April 2017.

Performance

The annualised dividend yield on the share price as at close on 19 May 2017 (€1.0350 per share) was 9.7%. The target dividend increased in September 2016, from 8% on the €1.00 per share IPO issue price to 10%, due to the increase in the investment income received following from the portfolio's rotation from senior loans into CLOs.

Thomson Reuters provides the daily marks for the valuation of the CLO positions within the BGCF portfolio. The valuation of each tranche of the CLOs is individually calculated using granular loan level detail, thorough structural analysis, Moody's Analytics CDOnet library and cashflow engine, scenario analysis (for example, prepayments, defaults and recoveries) and the discount rate.

The BGLF total NAV return since launch to the end of April 2017 was 22.0%, equating to an annualised total NAV return of 7.5%. However, since the portfolio exposure to CLOs reached 50% (at the end of May 2015), the annualised total NAV return has been 8.6%, with an annualised volatility of 2.4%. There was one month (December 2014), during which structured credit markets were volatile and senior loan markets were weak, for which the NAV performance was particularly disappointing. In addition, IPO costs, which were not taken up-front, were reimbursed to GSO during this month and contributed an NAV loss of around 2.1%. If these IPO costs are disregarded, the total NAV return since launch would have been 24.7% (annualised total NAV return 8.3%).

There has been a degree of NAV volatility arising from portfolio valuation movements which has led to there being three months in which NAV returns were close to zero and one month showing a 50bps loss. Generally, after the first three months following the IPO, income has contributed between 0.7% and 1.8% to the NAV each month, with the larger amounts of income coming in months where one or more CLOs have made distributions (for example, the highest income contribution came in July 2015, when distributions were made by three of the CLOs).

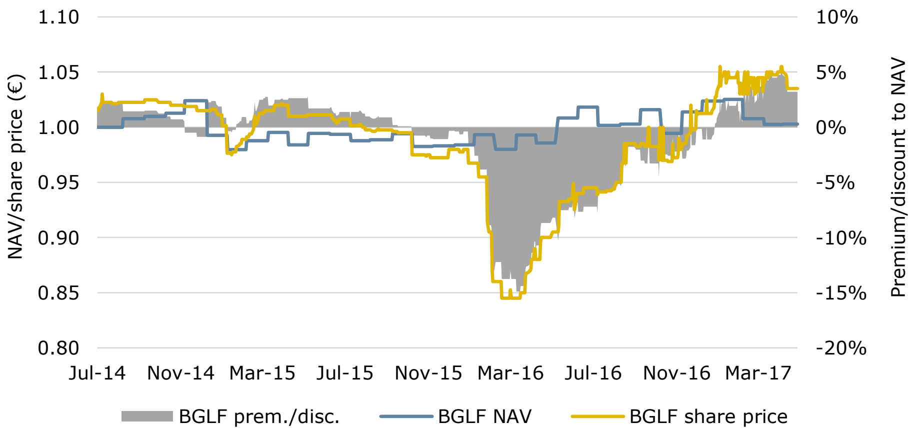
Figure 12: BGLF monthly NAV total return (%; EUR)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual return
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	**13.28**
2017	0.14	0.76	-0.53	0.02									**0.38**

Source: Fidante Capital, Company. *If the upfront costs had been paid at the IPO, the December 2014 and 2014 returns would have been -0.95% and 1.42%, respectively.

The company's shares traded at a premium to NAV for most of the period to the end of 2015. A wide discount 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. Shares were trading at a c. 5.9% premium at close on 19 May 2017 to the NAV as at 30 April 2017.

Figure 13: BGLF share price premium/discount



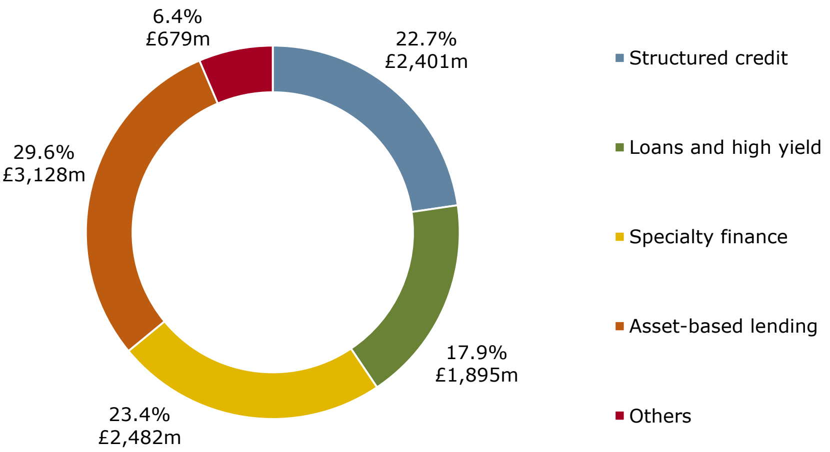
Source: Fidante Capital, Company, Bloomberg. From 22 July 2014 to 19 May 2017. Premium/discount is for the share price with respect to the most recent NAV (not adjusted for dividends intra-month).

4. Peer group comparison

Listed credit investment companies and performance

Our listed credit investment company universe had an aggregate market cap of £10.6bn as at the close on 19 May 2017, across 36 companies and five sectors. BGLF is one of ten companies (and the second largest, with a market cap of £361m, TwentyFour Income being the largest with a market cap of £469m) in the structured credit sector, which constitutes 22.7% of this listed credit universe. Companies investing in asset-based lending make up the largest sector in our universe (29.6%).

Figure 14: Market composition for listed credit investment companies



Source: Fidante Capital, companies. Market capitalisations as at 19 May 2017.

There are no other listed investment companies in our universe that focus exclusively on the origination (and warehousing) of senior loans, and managing CLOs investing in those senior loans, as part of the managers' risk retention requirements. However, Toro*, Volta Finance and EJF Investments are engaged in some of these activities as part of their wider investment remits. Carador Income* and Fair Oaks Income invest in the equity and debt of externally-managed CLOs. Chenavari Capital Solutions*, which entered its realisation phase from the start of 2017, and Axiom European Financial Debt were also established in order to benefit from regulatory changes in the last few years (specifically, regulatory capital release transactions and securities designed to improve banks' capital ratios). Of the ten structured credit companies, BGLF, Chenavari Capital Solutions, EJF Investments, Toro and UK Mortgages can be said to originate the deals in which they invest, while the other companies are more focussed on the trading of existing credits or investing in other managers' structures.

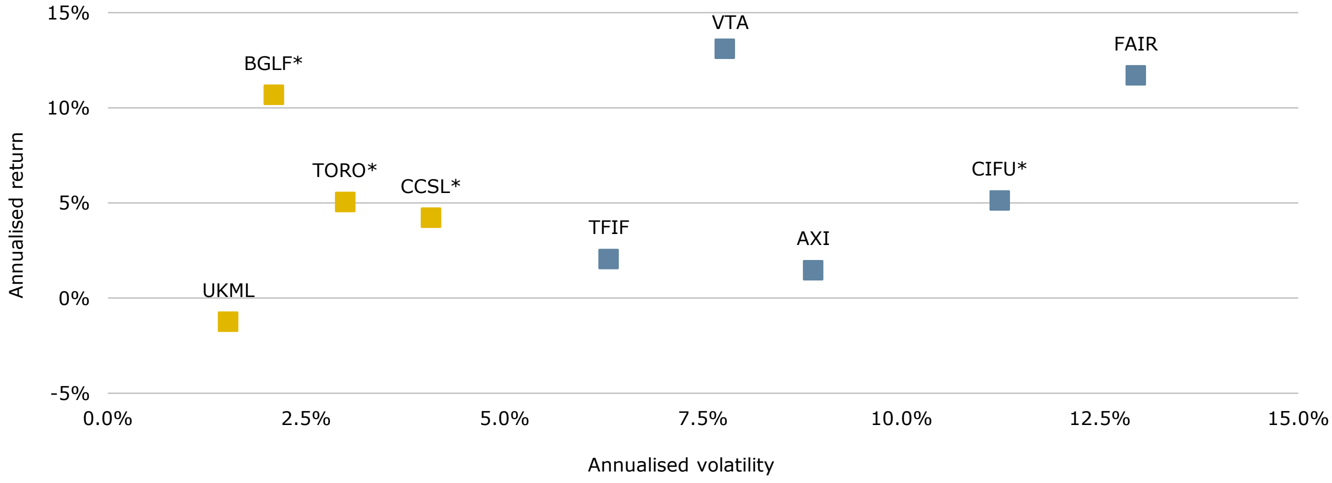
Figure 15: Listed structured credit peers

Name	Launch	Size (NAV)	Strategy	Target return	Dividend yield	Premium /(discount)
Axiom Eur. Financial Debt	Nov-15	£61m	European reg cap transactions	10%	5.9%	1.3%
Blackstone/GSO Loan Financing*	Jul-14	£341m	European and US-compliant CLO origination	Mid-teens	9.7%	5.9%
Carador Income*	Apr-06	£313m	CLOs (income and mezzanine)	Low double digit	13.1%	-3.1%
Chenavari Capital Solutions*	Oct-13	£115m	European reg cap transactions	12% or more	7.4%	(1.3%)
EJF Investments	Apr-17	£69m	Structured credit, including risk retention and ABS	8-10%	5.9%	0.7%
Fair Oaks Income	Jun-14	£285m	US and European CLOs	12-14%	12.9%	7.1%
Toro*	May-15	£277m	European ABS and other structured credit	12-15%	9.4%	(13.5%)
TwentyFour Income	Mar-13	£448m	European ABS (CLOs and real estate)	6-9%	5.9%	4.5%
UK Mortgages	Jul-15	£222m	Diversified portfolio of UK mortgages	7-10%	6.2%	8.4%
Volta Finance	Dec-06	£242m	Structured credit multi-strategy	Not stated	7.8%	(9.1%)

Source: Fidante Capital, companies. As at 19 May 2017. Target return is the total net return including dividends. Dividend yields are based on latest closing share price and last dividend annualised (Axiom European Financial Debt, Blackstone/GSO Loan Financing, UK Mortgages and Volta Finance), 12-month historical (Carador Income, Chenavari Capital Solutions, Fair Oaks Income and TwentyFour Income), adjusted (Toro) and target (EJF Investments). Premium/discount is for the mid share price as at close on 19 May 2017 relative to the latest reported NAV as at 22 May 2017. Dividend yield and premium/discount is for the Fair Oaks Income 2017 shares and the Volta Finance shares listed on Euronext Amsterdam.

For most of 2015 and 2016 BGLF had an indirect exposure to loans of more than 50%. During this two-year period, those companies which have been classed as originators have generated NAV returns with lower volatility than those companies which trade existing securities. These performance characteristics reflect the relative illiquidity of the assets held and consequently the relative importance of mark-to-model valuations, together with the longer term holding periods. Of these, it should be noted that BGLF has generated the highest annualised NAV return.

Figure 16: Annualised NAV return and volatility – two years to 31 December 2016

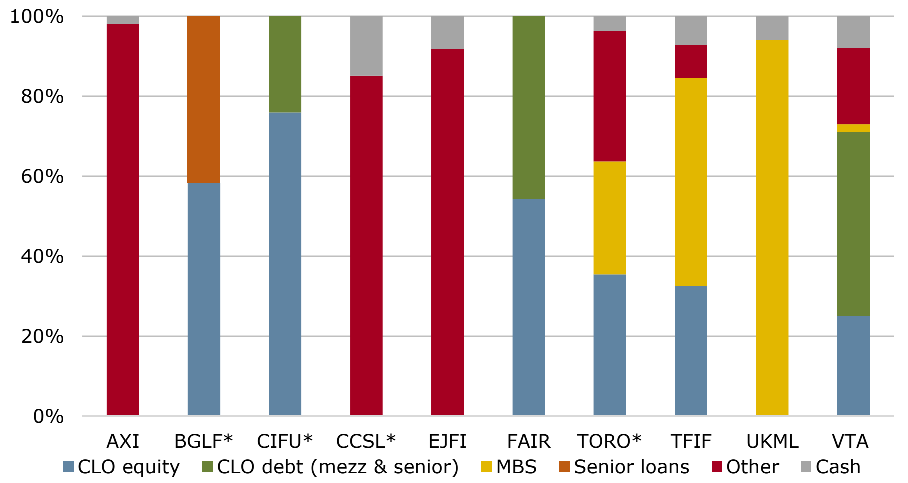


Source: Fidante Capital, companies. Axiom European Financial Debt (AXI), Blackstone/GSO Loan Financing (BGLF), Carador Income (CIFU), Chenavari Capital Solutions (CCSL), Fair Oaks Income (FAIR), Toro (TORO), TwentyFour Income (TFIF), UK Mortgages (UKML) and Volta Finance (VTA). AXI, CCSL, TFIF and UKML in GBP; CIFU and FAIR in USD; BGLF and VTA in EUR. AXI from November 2015, TORO from May 2015 and UKML from July 2015. Blue markers indicate those companies which engage in trading existing structured credits, while yellow markers indicate those companies which engage in origination. EJF Investments listed in April 2017 and so has been excluded from this analysis.

Exposures and structures

As at 31 March 2017, BGLF had one of the highest proportional exposures to CLO equity (c. 58%) amongst the peers, with Carador Income around 79% and Fair Oaks Income around 54% exposed to these assets (the remaining capital being largely invested in CLO debt for these two latter companies). Volta Finance was the most diversified by asset type, while TwentyFour Income and UK Mortgages both have sizeable allocations to mortgage-linked assets. Axiom European Financial Debt and Chenavari Capital Solutions are predominantly exposed to reg cap transactions, which give shareholders access to the economic interests of certain assets on banks' balance sheets. EJF Investments' investments include direct loans to law firms and an insurer, the equity of a risk retention CDO and discounted CDO securities.

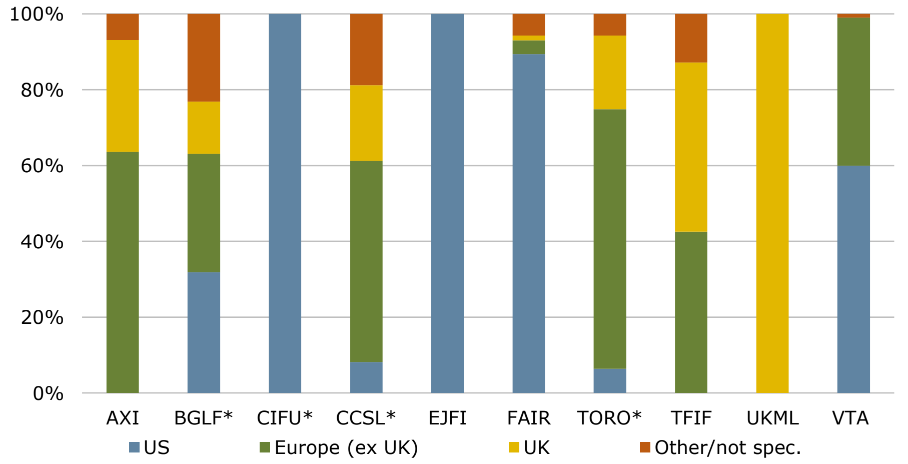
Figure 17: Portfolio exposures by asset type



Source: Fidante Capital, companies. As at 31 March 2017 except for EJF Investments, which is as at 28 February 2017. Axiom European Financial Debt (AXI), Blackstone/GSO Loan Financing (BGLF), Carador Income (CIFU), Chenavari Capital Solutions (CCSL), EJF Investments (EJFI), Fair Oaks Income (FAIR), Toro (TORO), TwentyFour Income (TFIF), UK Mortgages (UKML) and Volta Finance (VTA). The cash position for CIFU (-4.3%) is not shown; cash is not reported for BGLF and FAIR.

In terms of underlying geographical exposures, the majority of the companies are biased towards Europe, the exceptions being Carador Income, EJF Investments and Fair Oaks Income, which are either exclusively or predominantly invested in the US. Volta Finance also has a majority exposure to the US, and that for BGLF has increased since the launch of its MOA, to stand at around 32%. UK Mortgages is focussed solely on UK assets.

Figure 18: Portfolio exposures by geography



Source: Fidante Capital, companies. As at 31 March 2017 except for EJF Investments, which is as at 28 February 2017. Axiom European Financial Debt (AXI), Blackstone/GSO Loan Financing (BGLF), Carador Income (CIFU), Chenavari Capital Solutions (CCSL), EJF Investments (EJFI), Fair Oaks Income (FAIR), Toro (TORO), TwentyFour Income (TFIF), UK Mortgages (UKML) and Volta Finance (VTA).

Figure 19: Structures and terms

	Axiom Eur. Financial Debt	Blackstone/GSO Loan Financing*	Carador Income*	Chenavari Capital Solutions*
Listing	LSE (Specialist Fund Market)	LSE (Specialist Fund Market); CISE	LSE (Main Market)	LSE (Specialist Fund Market)
Launch	Nov-15	Jul-14	Apr-06	Oct-13
Domicile	Guernsey	Jersey	Ireland	Guernsey
Share class	GBP	EUR	USD	GBP
Investment manager/adviser	Axiom Alternative Investments	Blackstone/GSO	Blackstone/GSO	Chenavari Investment Managers (Guernsey)
Dividends	Quarterly	Quarterly	Quarterly	Quarterly
FX hedging	Hedged to GBP	Hedges to EUR	Hedges to USD	Hedges to GBP
Annual management fee	1% of NAV (if NAV < £250m)	Nil at company level; underlying CLO management fee of 0.5% of gross assets, of which 20%/100% for horizontal/vertical strips rebated to the company	1.5% of NAV (no fee on primary investments in GSO managed CLOs)	1% of NAV
Performance fee	15% of gains over a 7% p.a. cumulative return, compounded annually (with HWM)	Nil at company level; underlying CLO performance fee of 20% over 7% hurdle	13% over the greater of 12-month LIBOR+2% and 6%	20% over 7.5% per annum hurdle with 50% catch up, payable on realised returns to shareholders
Discount management/life	Buybacks considered if discount > 7.5% for more than 90 consecutive calendar days. Continuation vote every seventh AGM	Buybacks if > 7.5% discount over rolling 6m (at directors discretion)	Tender offer every 2.5 years (at director's discretion, to be approved by shareholders); 5-yearly tender offer from 2017 (at directors' discretion), 10-yearly continuation vote from 2022	Buybacks considered if average discount > 7.5% for three consecutive months. Investment period ended on 31-Dec-16; now in realisation period during which unencumbered cash will be returned to shareholders
Board	William Scott (chairman), John Renouf, Max Hilton	Charlotte Valeur (chairman), Philip Austin (not independent), Gary Clark, Joanna Dentskevish	Werner Schwanberg (chairman), Fergus Sheridan, Adrian Waters, Edward D'Alelio (not independent), Nicholas Moss	Rob King (chairman), Rene Mouchotte (not independent) and Iain Stokes

	EJF Investments	Fair Oaks Income	Toro*
Listing	LSE (Specialist Fund Market)	LSE (Specialist Fund Market)	LSE (Specialist Fund Market)
Launch	Apr-17	Jun-14	May-15
Domicile	Jersey	Guernsey	Guernsey
Share class	GBP	USD	EUR
Investment manager	EJF Investments Manager	Fair Oaks Capital	Chenavari Investment Managers (Guernsey)
Dividends	Quarterly	Monthly	Quarterly
FX hedging	Hedges to GBP	Hedges to USD	Active hedging/risk
Annual management fee	1% of NAV	1% of NAV	1% of NAV
Performance fee	10% over the higher of 8% IRR and HWM	15% over 7% IRR	15% of gains (with HWM)
Discount management/life	Will consider buybacks to address any imbalance between the supply and demand of shares in the market. Continuation vote every five years after admission	Will consider buybacks if >5% discount. Continuation vote by Jun-24 (the planned end date of Master Fund II, which has an investment period to Jun-19, with two potential one-year extensions) and every two years subsequently	Surplus cash used for share repurchases if discount > 7.5% over 6m rolling period
Board	Joanna Dentskevich (chairman), Alan Dunphy, Nick Watkins, Neal J. Wilson (not independent)	Prof. Claudio Albanese (chairman), Jonathan (Jon) Bridel, Nigel Ward	Frederic Hervouet (chairman), John Whittle, Roberto Silvotti (not independent)

	TwentyFour Income	UK Mortgages	Volta Finance
Listing	LSE (Main Market)	LSE (Specialist Fund Market)	LSE (Main Market); Euronext Amsterdam
Launch	Mar-13	Jul-15	Dec-06
Domicile	Guernsey	Guernsey	Guernsey
Share class	GBP	GBP	EUR
Investment manager	TwentyFour Asset Management	TwentyFour Asset Management	AXA IM (Paris)
Dividends	Quarterly (larger final)	Quarterly	Semi-annual
FX hedging	Aim to hedge to GBP	May hedge to GBP	Hedges some USD exposure
Annual management fee	0.75% on lower of market cap or NAV	0.75% on lower of market cap or NAV	1.5% of GAV
Performance fee	None	None	See footnote[1]
Discount management/life	Buybacks considered if discount > 5%. Realisation opportunity every 3 years after Mar-16. Continuation vote if dividend target is not met in any reporting period	Buybacks considered if discount > 5%. Realisation opportunity if dividend is less than 6pps in any financial year, and every five years after the fifth AGM	None
Board	Trevor Ash (chairman), Ian Burns, Richard Burwood, Jeannette (Jan) Etherden	Christopher Waldron (chairman), Richard Burrows, Paul le Page, Helen Green	Paul Meader (chairman), Stephen Le Page, Joan Musselbrook, Paul Varotsis, Graham Harrison

Source: Fidante Capital, companies. Directors are independent unless indicated otherwise. [1]The lesser of: a) 15% or 20% (if cumulative dividends paid are below or above the capital raised since the IPO) of the amount by which the NAV increase over the latest semi-annual period exceeds the greater of (i) 8% annualised of the cumulative capital raised and (ii) 10% annualised of the NAV at the beginning of the semi-annual period, and b) 15% or 20% of the cumulative amount over the most recent six semi-annual periods by which the NAV increase exceeds the greater of (i) 8% annualised of the cumulative capital raised and (ii) 8% annualised of the average NAV as at the beginning of each of the most recent six semi annual periods.

5. Loans, CLOs and risk retention

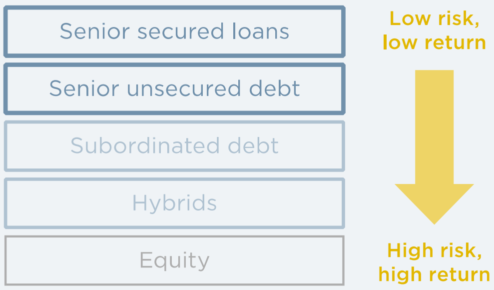
Senior secured loans

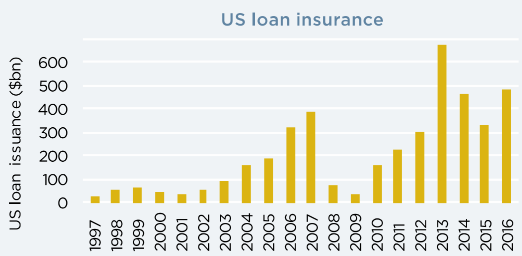
Overview

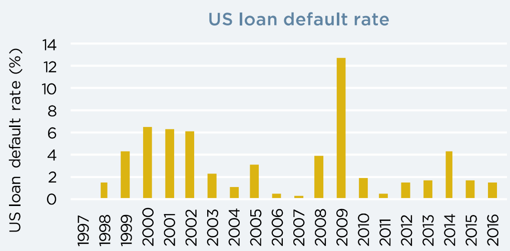
- Short-term debt obligations made by banks to large corporations typically less than investment grade
- Used to finance M&A transactions, leveraged buyouts, recapitalisations, capital expenditure and for general corporate purposes
- Syndicated and sold to institutional investors
- Investor earns base rate (LIBOR) plus spread (related to credit risk)
- Senior in capital structure, secured by company's assets

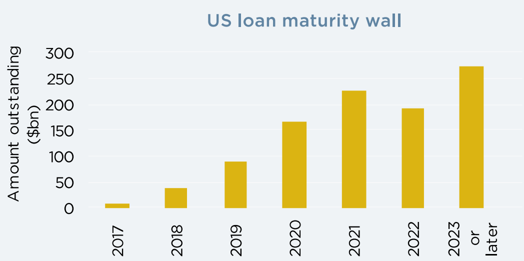
Company assets (collateral)

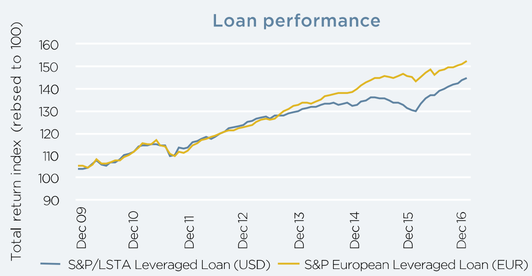
Company capital structure











Total return	2010	2011	2012	2013	2014	2015	2016
S&P/LSTA Lev Loan (USD)	10.1%	1.5%	9.7%	5.3%	1.6%	-0.7%	10.2%
S&P European Lev Loan (EUR)	9.8%	0.7%	9.7%	8.6%	4.5%	5.5%	3.8%

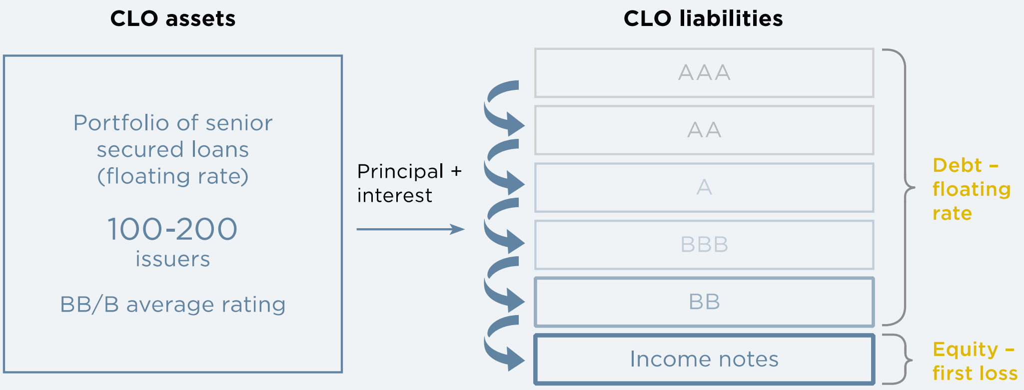
Source: Fidante Capital, S&P/LSTA, S&P LCD.

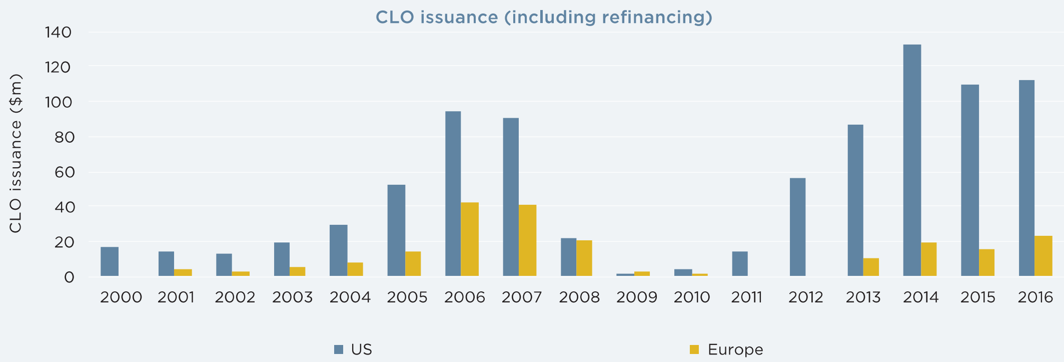
Collateralised Loan Obligations (CLOs)

Overview

- CLOs purchase a diversified pool of senior secured loans and issue tranches of debt and equity to investors
- Each CLO tranche has different risk/return profile based on the priority of its claim on cashflows from underlying

- Strong credit underwriting skills required to select suitable loans for the portfolio
- Active management of loan portfolio to maximise returns (including default and loss recovery management)
- Term-matched financing to leverage returns
- Cost of liabilities impacts returns to CLO equity holders
- CLO equity holders can call CLOs after end of no-call period, for example to refinance at lower margins





Source: Fidante Capital, S&P LCD.

Risk retention regulations

Overview

- Risk retention rules require that originators/sponsors of securitisations retain a portion of the associated risk for the life of the securitisations
- The aim of these rules is to better align the interests of originators/sponsors of securitisations with those of investors

EU

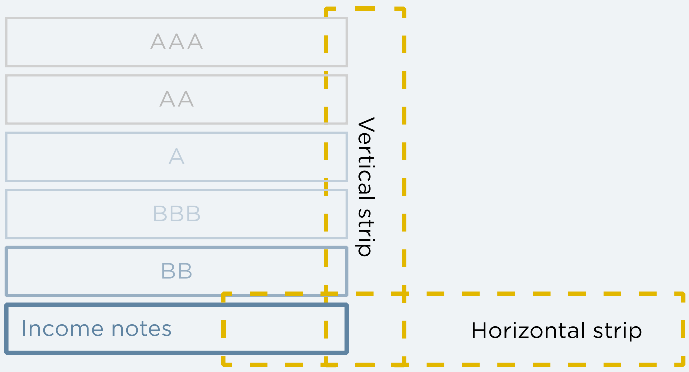
- Risk retention rules in force since 2011
- Enshrined under Capital Requirements Directive IV (CRD IV)
- EEA-regulated firms can only invest in CLOs if originator/sponsor retains ongoing economic interest of 5% or more in specified credit tranches/asset exposures

US

- Risk retention requirements under Dodd-Frank Act published in 2014
- Originator/sponsor required to retain economic interest in the credit risk of the securitised assets of at least 5% of the ABS interests issued in the transaction
- Regulations effective for RMBS from December 2015, all other asset classes (e.g. CLOs) from December 2016

Rules can be satisfied via originator/sponsor ownership of horizontal and/or vertical strips

CLO capital structure



Source: Fidante Capital.

Glossary

Below we list the main terms associated with senior secured loans, CLOs and the regulatory environment pertaining to BGCF/BGLF.

Collateralised Loan Obligation	Actively managed and leveraged portfolios of senior secured loans which issue equity and debt securities, with varying risk/return profiles (by tranche), to investors. Also known as a CLO.
CLO 1.0/2.0	A way of classifying outstanding pre-crisis and post-crisis CLOs. New CLO issuance volumes were very low during 2009-2011; CLO 2.0 deals emerged during the recovery in 2012 and were more conservatively structured.
CLO no-call period	Following the CLO ramp-up there is a period (typically around two years for CLO 2.0 transactions) during which the CLO cannot be "called", that is: a) liquidated, with the proceeds paid to investors, b) refinanced or c) re-priced.
CLO debt	Debt tranches of the CLO capital structure. Tranches rated AAA-A are referred to as "senior", while BBB-B-rated tranches are referred to as "mezzanine". Each tranche has varying claims on the cashflows from the loan portfolio and receives contracted payments (the amount being related to the risk).
CLO equity	Equity tranche of the CLO capital structure. These securities bear first loss risk and receive the residual cash after the CLO debt tranches have been paid. Also referred to as CLO income notes.
CLO refinancing	After expiry of the no-call period, equity investors in CLOs can refinance the CLO security in which they are invested, for example, in order to receive the benefit from lower market interest rates. The CLO income notes being refinanced are redeemed and new notes, with lower associated interest rates, are issued.
CLO warehouse	Portfolio of senior secured loans established and built up, with leverage applied, intended for potential securitisation prior to the issuance of a CLO.
CRD IV	A package of reforms to the EU's capital requirements regime for credit institutions and investment firms. The main role of CRD IV was to implement the key Basel III (and also non-Basel III) reforms in the EU.
Discount margin	The average expected return over a given reference rate for tranches of floating rate securities such as CLOs. Facilitates the comparison of prices between different CLOs (and tranches of CLOs).
Dodd-Frank Act	The Dodd-Frank Wall Street Reform and Consumer Protection Act, passed by the Obama administration in 2010 in response to the 2008 financial crisis, aims to decrease various risks in the US financial system, overseen by a range of government agencies.
Horizontal strip	Horizontal strips represent either: a) 51% or more of the income notes issued by European CLOs, or b) CLO income notes representing at least 5% of the credit risk relating to the assets collateralising US CLOs.
Majority Owned Affiliate (MOA)	A separate, majority-owned entity established by CLO managers as one way of complying with the US risk retention rules. The CLO manager either owns more than a majority of the voting and economic equity in the MOA, or it will control the significant economic decisions made by the MOA and own a controlling financial interest in the MOA. This structure allows the CLO manager to continue to be the collateral manager of the CLO (and receive the management fees) while the MOA will hold the retention interest (and receive the related payments).
Originator	CLO securities can be held within a separate entity (from the CLO manager) called an originator, in order to help ensure compliance with the EU's risk retention regulations. Some originators are managed by entities which are not affiliated with the CLO managers, such as independent boards and managers.
Risk retention regulations	Regulations introduced in the EU (in 2011; mandated by CRD IV) and the US (in 2015 for RMBS, 2016 for CLOs and other assets; mandated by the Dodd-Frank Act) to help ensure that the interests of originators/sponsors of securitisations are better aligned with those of investors ("skin in the game").
Senior secured loan	Short-term debt obligations made by banks to sub-investment grade corporations, syndicated and sold to investors. Senior in the capital structure and secured by the corporate's assets, the investors earn a spread over the base rate.
Vertical strip	Vertical strips represent at least 5% of the principal amount of each CLO equity and debt tranche.

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