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Mixed earnings result in investors running from select BDCs

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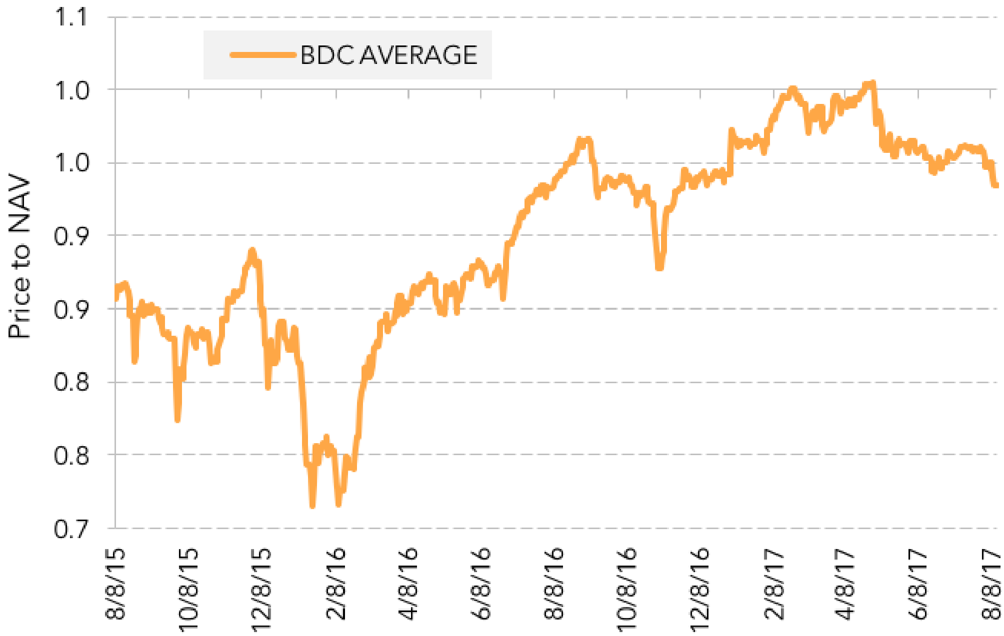

BDC 2Q17 earnings season is in full swing and results have been extremely mixed keeping the landscape quite bifurcated. After returning to book value in 2Q17, the average share price to net asset value per share for the public BDCs has been back on the decline reaching 0.93x in mid-August. Only 27% of the public BDCs are trading at book value or higher in August, down from almost 40% back in June. And a sharp drop off in share prices can be seen in the last two weeks driven by earnings pressure for many of the BDCs who have either seen non-accruals rise or overall yields contract driven by extremely competitive market conditions and the inability to replace run-off at sufficient yields. Of the 67 BDCs that have reported so far, 20% have reported a jump in non-acccruals – this is happening while the leveraged loan default rate has been on the decline. Due to the recent sell off, twelve BDCs are producing negative returns year to date while another ten BDCs are only showing returns in the range of zero to five percent year to date. The Wells Fargo BDC Index is down a negative 2.82% for the month resulting in the year to date return only producing a paltry 2.16%, well below the S&P500 return of 10.1%. In contrast, the WFBDC index produced an impressive 24.4% return in 2016, outpacing both the S&P/LSTA index and the S&P500 by a wide margin.

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