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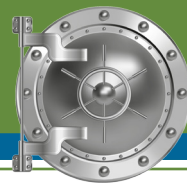
2015 ANNUAL BRIEF

Nontraded BDC Year in Review

March 15, 2016

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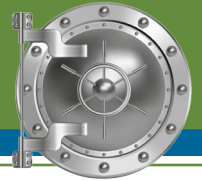


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Introduction

Coming after a record year for fundraising in the nontraded BDC industry, 2015 was not expected to match the over \$6 billion in new equity sales that 2014 held. Our original expectation was for the industry to raise at least \$5 billion in 2015. Due to a slowdown in sales overall and one of the largest capital raising sponsors, AR Capital, leaving the industry, the capital raise for BDCs saw a more than 30% decline in sales.

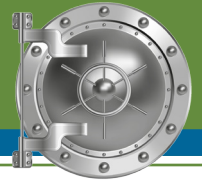
- The industry raised an estimated \$4.3 billion.
- There were five new offerings which equaled the most since 2012.

This report will summarize and illustrate the most important trends in the nontraded BDC industry observed in 2015.

- Capital Raise: Total Industry and By Sponsor
- Sponsor Trends and New Fund Offerings
- Total Returns of Nontraded BDCs
- Distribution Yields and Trends
- Innovations in Fund Structures and Fees

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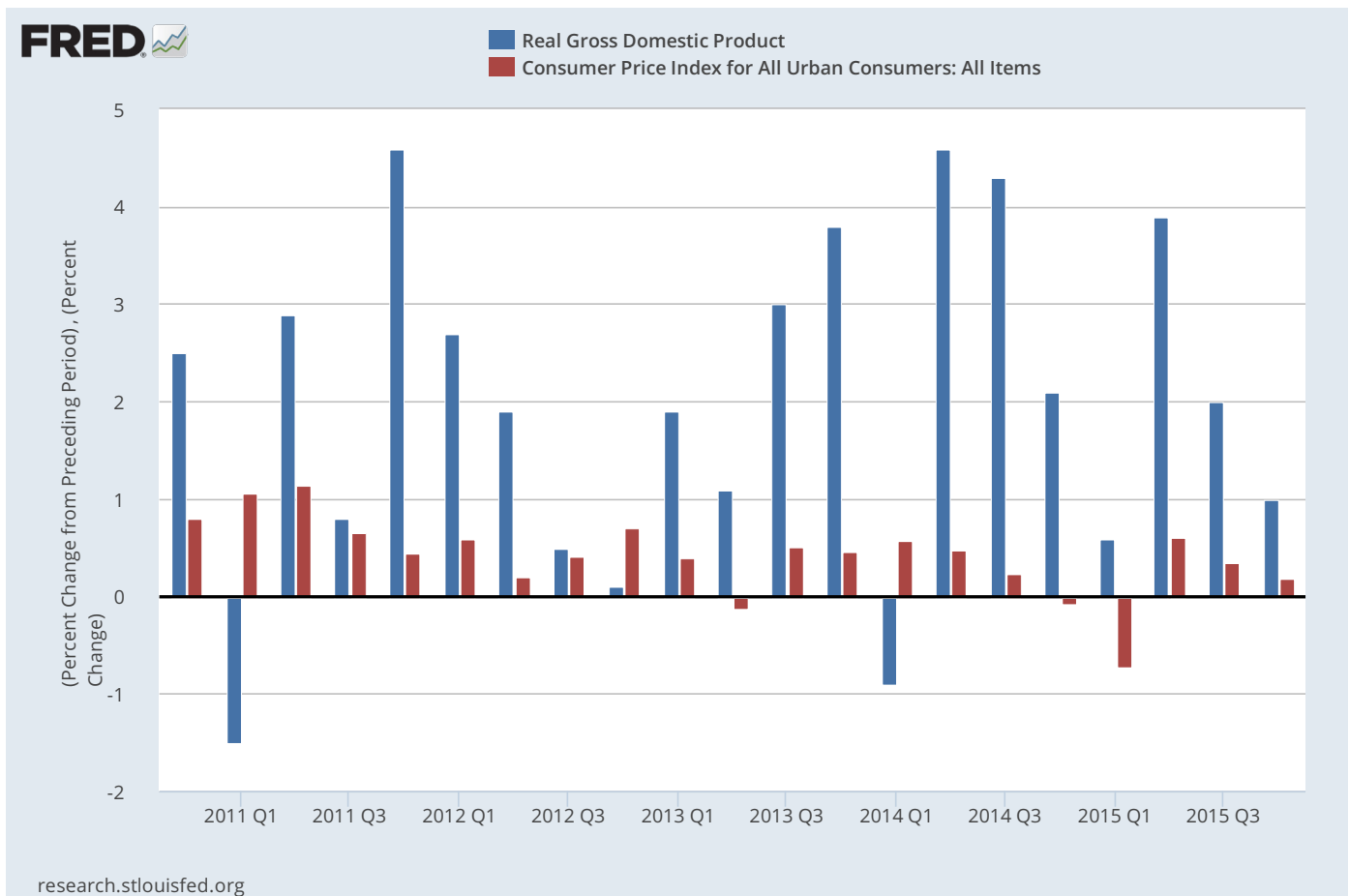
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Key Macroeconomic Trends in 2015

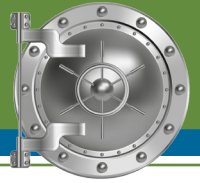
We entered into 2015 just as we had in 2014, with all eyes on the Fed in anticipation of rising interest rates. Finally, on December 16, the Federal Reserve raised its target interest rate for Federal Funds by 0.25 percent, stating that the economy had improved sufficiently in household income, domestic spending and employment to begin the return to “normal” rates. The central bank plans to raise the overnight lending rate to 1 percent in 2016. Weaknesses remaining in energy and manufacturing were of concern, but inflation was below its long-term average. Total retail sales climbed 2.2 percent in 2015 despite the double-digit drop in gasoline sales due to the effects of the oil glut. The U.S. labor market improved with unemployment at 4.9 percent in January and a rise in average hourly earnings of 2.5 percent over the last 12 months.

Real GDP in the U.S. increased 2.4 percent in 2015, the same rate as in 2014. The price index for gross domestic purchases increased only 0.4 percent in 2015 compared to 1.5 percent in 2014. The deceleration in the fourth quarter GDP growth from the 2.0 percent third quarter rate to just 1.0 percent was attributed to a decrease in non-residential fixed investment, government spending and exports.



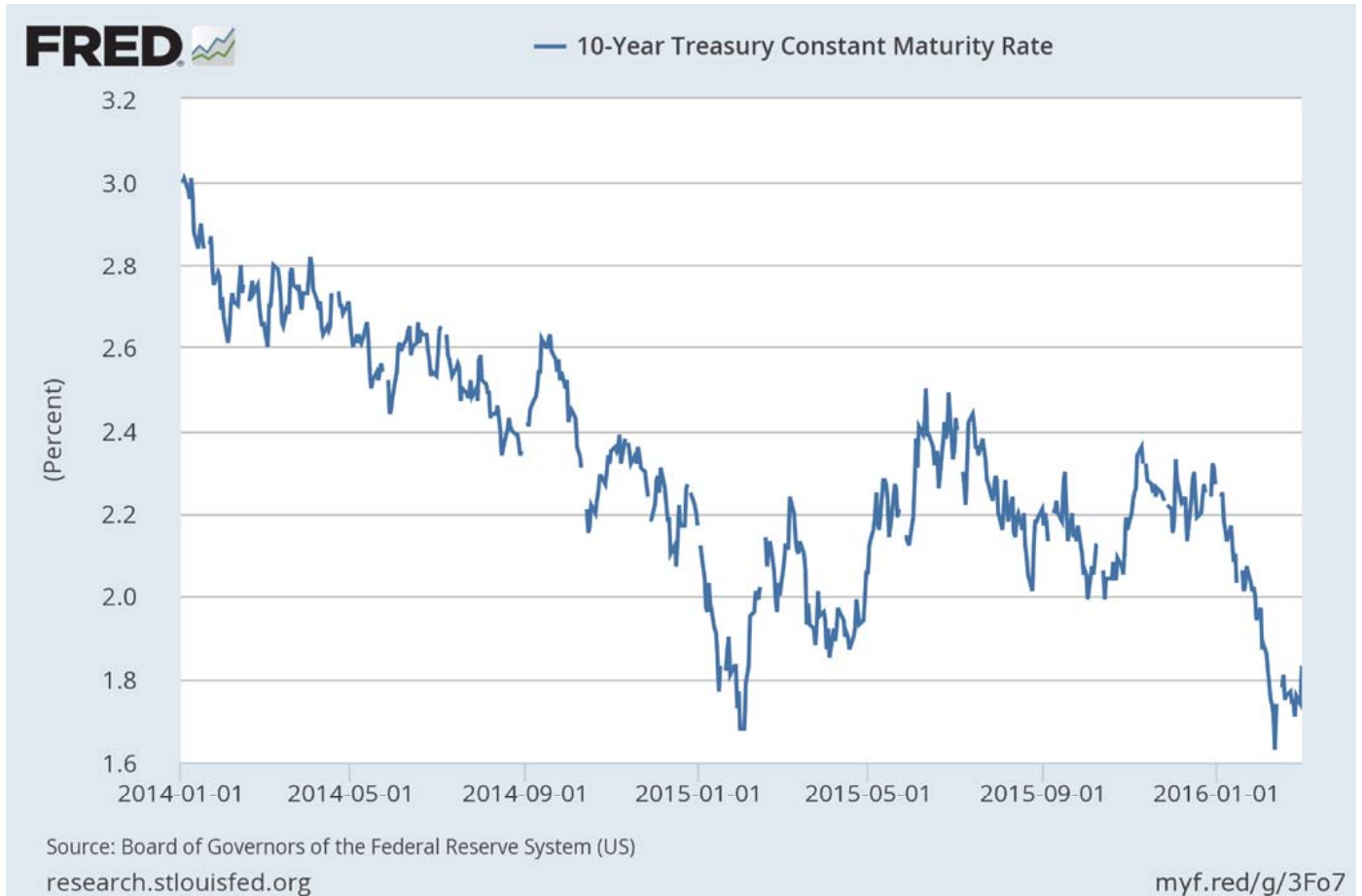
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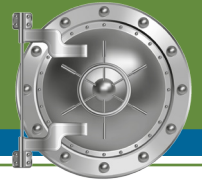
The Trend in 10-Year Bond Yields

While many were forecasting higher interest rates in 2015, the benchmark 10 Year Treasury Note yields actually fell to record lows by January, 2016.



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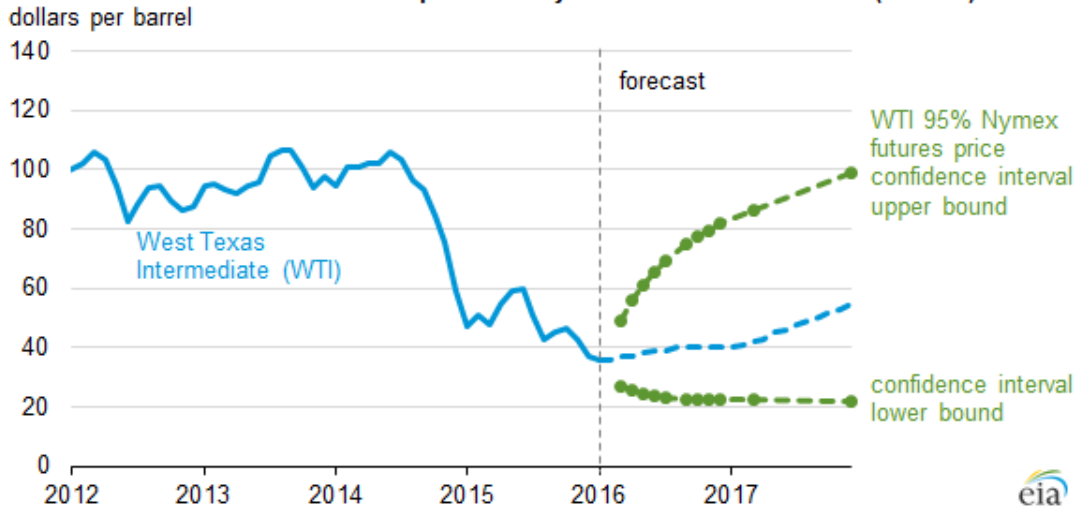
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Lower Energy Prices Continue

In last year's report we cited the surprising fall in energy prices and the impacts of increased U.S. production and sluggish world demand. From a high of \$115 per barrel in June 2014 to under \$40 per barrel in January 2016, lower crude oil prices are not forecast to rebound soon, with many forecasts anticipating subdued pricing through 2017. U.S. consumers have experienced a rise in disposable income due to lower transportation and other energy-related expenses, but not all of the savings have translated to higher retail sales.

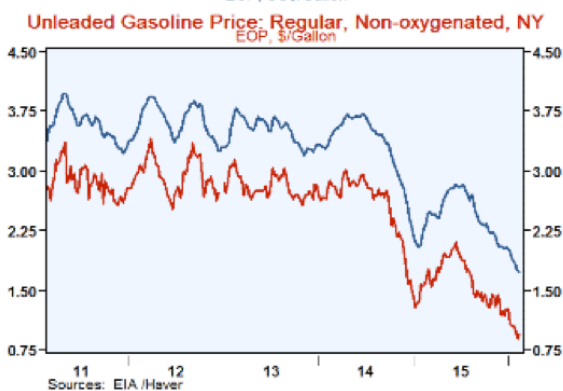
West Texas Intermediate crude oil price and Nymex confidence intervals (2012-17)



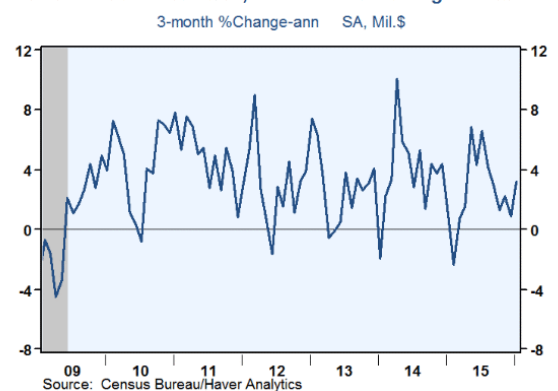
Gasoline Prices and Retail Sales

Despite the huge drop in gasoline prices in 2015, savings by consumers at the pump did not translate directly into higher retail sales. Due to the rise in U.S. domestic oil production reported in last year's review, the benefits of lower gasoline prices have been offset by the negative impacts on U.S. energy producers that have cut budgets and seen layoffs in oil-producing regions. U.S. consumers pocketed an estimated \$115 billion from lower gas prices in 2015, but personal savings rose by more than \$100 billion, so most savings at the pump did not recirculate through the economy, but instead improved household balance sheets.

U.S. Retail Gasoline Price: Regular Grade

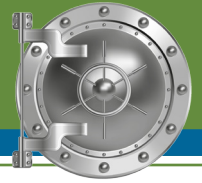


Retail Sales Excl. Auto, Gas Stations & Bldg Materials



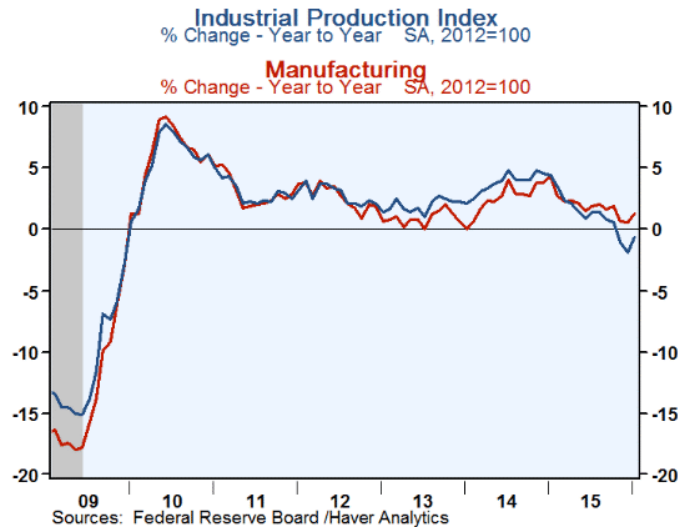
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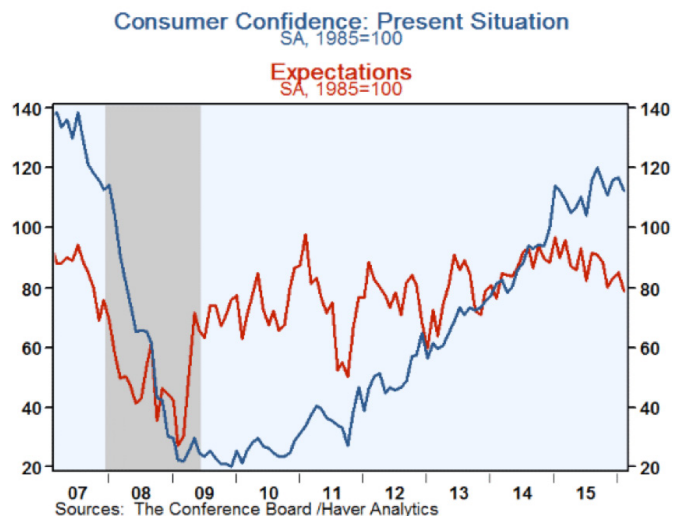
Concerns About Industrial Production

Entering 2016, economists raised some concern about the trajectory of industrial production and manufacturing in the U.S. For all of 2015, the trend has been downward, due in large part to the slowdown in the world economy, both in Europe and Asia. Investors in commercial real estate are paying attention to both the domestic demand trends and the impacts of global uncertainties on the U.S. economy.



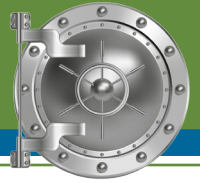
Consumer Confidence Falls

While measures of consumer confidence continued an upward trend in 2015, consumer expectations for the future did not, with a decidedly less rosy outlook as the year progressed. Coupled with the declines in fourth quarter GDP growth and industrial production, these are trends to watch in 2016.



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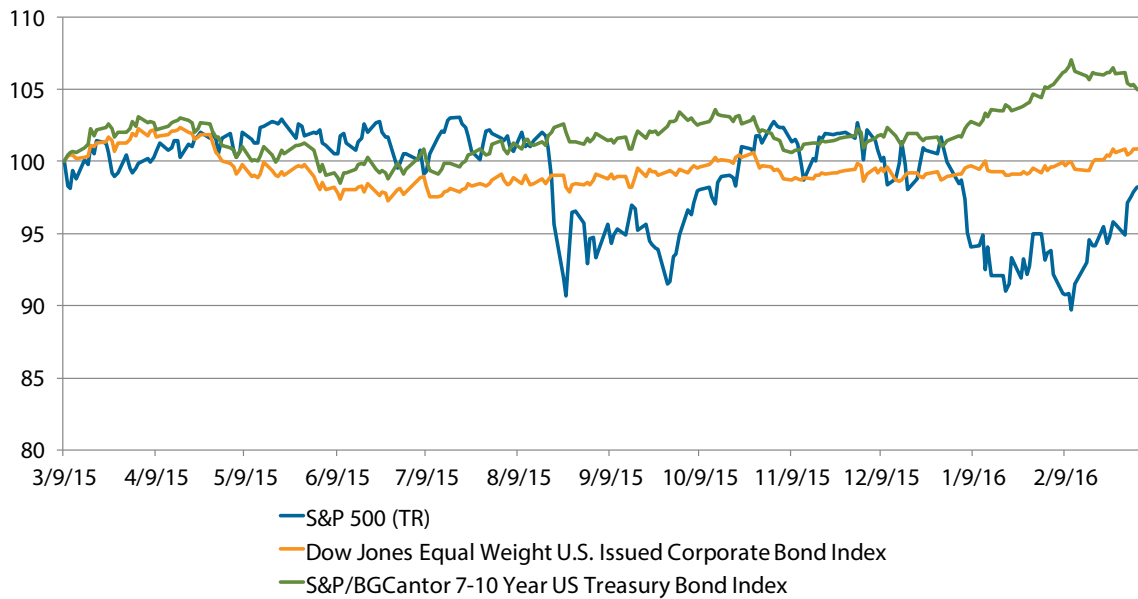


Publicly Traded BDC and Market Performance

Lackluster Returns for Most Asset Classes in the Past 12 Months

2015 proved to be a year of lackluster returns for most asset classes across the board. Even corporate and government bonds posted negative returns. On a trailing twelve month basis (through 3/8/16), corporate bonds and Treasuries squeezed nominal positive returns, while the S&P 500 was still negative.

Multi-Asset Performance - Trailing 12 Months:
S&P 500, U.S. Corporate Bonds, Mid-Term U.S. Treasuries



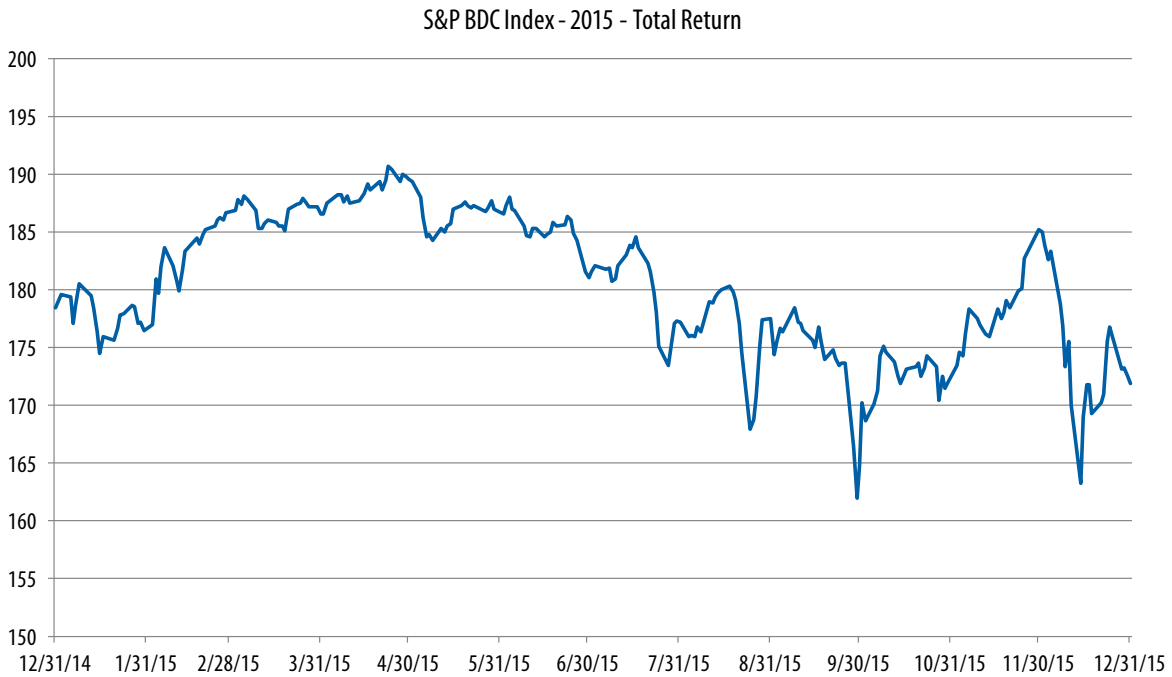
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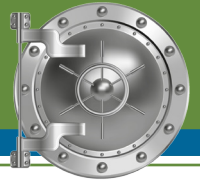
Publicly Traded BDCs Post Negative Returns for 2015

Total investor returns in publicly traded Equity BDCs for 2015 were -3.69% compared to -0.73% (or 1.19% if dividends reinvested) for the S&P 500 Index.



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2015 Trends & Highlights

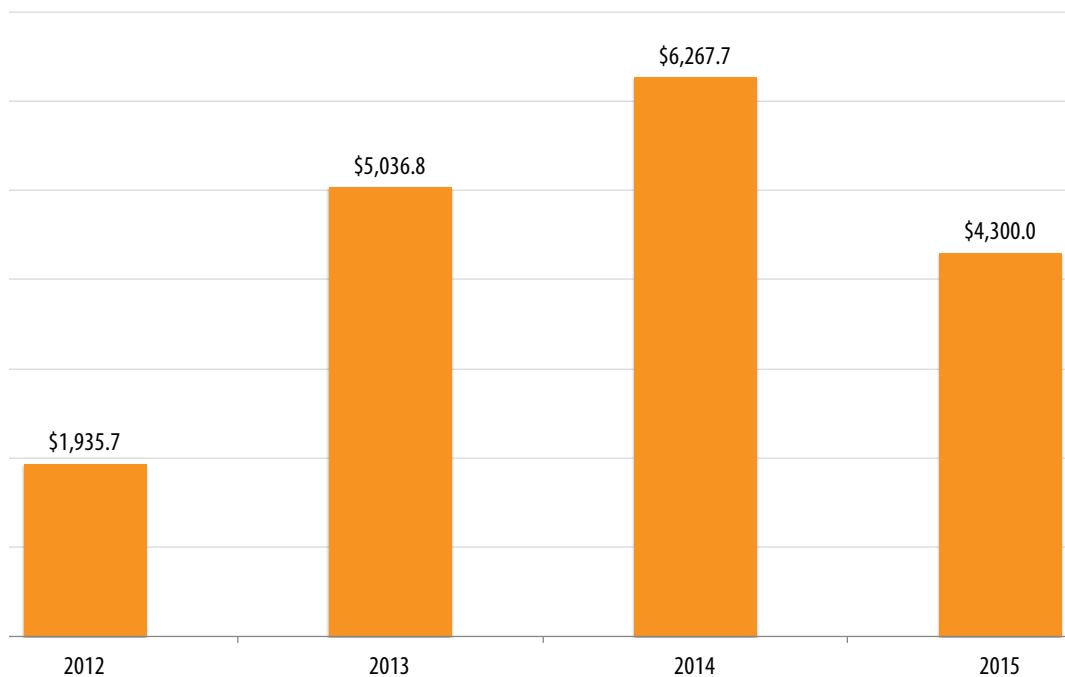
Capital Raise

During 2015 there were a total of 15 nontraded BDCs raising capital.

Based on current SEC filings and sales trends, it is estimated that the nontraded BDC industry raised approximately \$4.3 billion in 2015 versus \$6.3 billion in 2014.

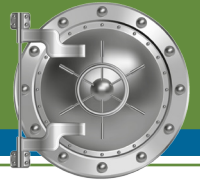
One contributing factor to the decline in nontraded BDC capital raise in 2015 is certainly the discontinuation in sales of American Realty Capital sponsored BDCs that occurred in 2015 due to accounting questions at ARCP, executive changes and cited headwinds in the industry. ARC had 16% market share, or over \$1 billion in sales, of 2014's \$6.3 billion in capital raise. With the absence of BDC of America, sales significantly dropped in 2015.

Historical Nontraded BDC Equity Raise (\$ millions)



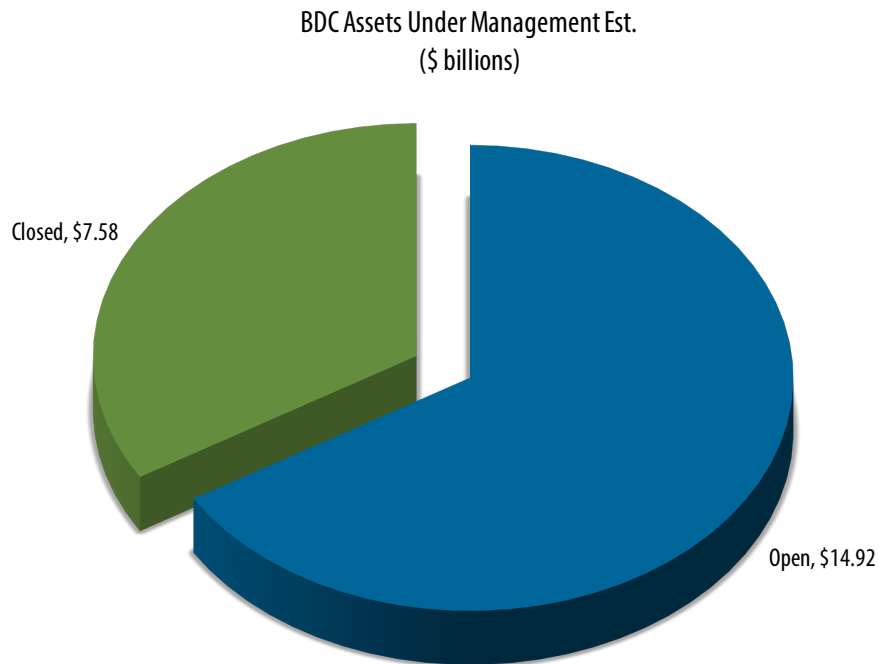
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Assets Under Management

The net effect of capital raise among nontraded BDCs has been an increase in assets under management for the sector from \$16.5 billion in 2014 to an estimated \$22.5 billion at year-end 2015.



Sponsor Trends

As of December 31, 2015, 13 companies sponsored the 17 nontraded BDCs that make up the nontraded BDC industry. This is up from 2014's number of 13 total sponsors with nine new sponsors entering the market in 2015.

Looking ahead into 2015, this figure is expected to slow down to a one or two new sponsors per year pace. Many of the largest, well-funded traditional REIT sponsors have created a BDC and several of the largest asset managers in the world have also entered the BDC market. At a \$4 to \$6 billion raise per year rate, there are only so many firms that can sustain significant market share.

Additionally, AR Capital (ARC), has officially exited the active capital raising part of the BDC market.

New sponsors that came into the market in 2015 include:

- Credit Suisse
- Griffin Capital
- WP Carey
- Terra Capital Management

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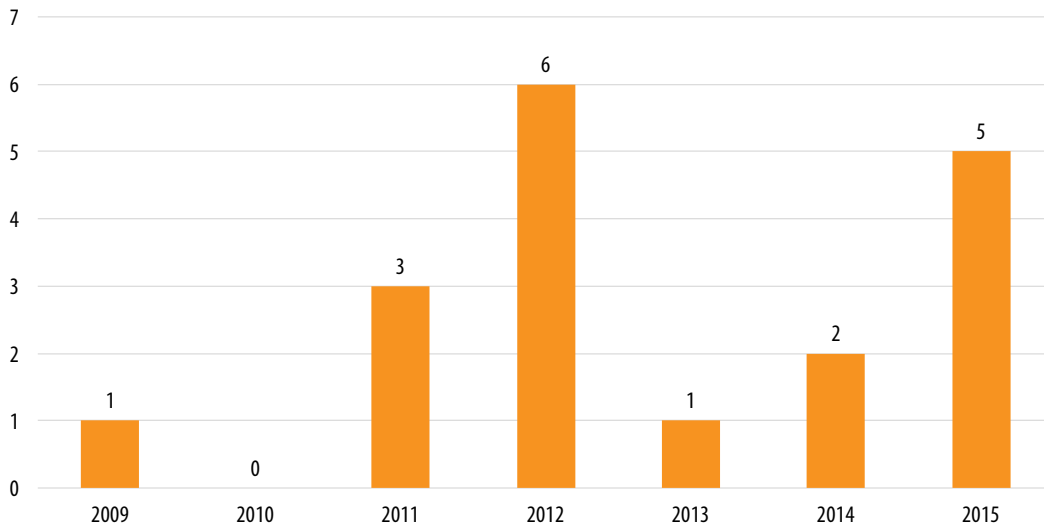
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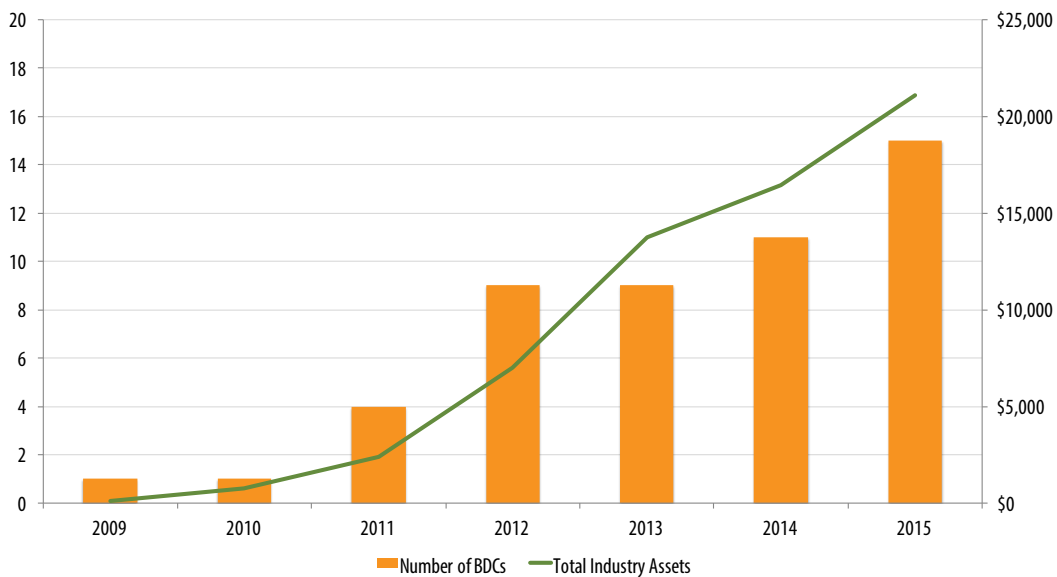
New Offerings in 2015

Five new nontraded BDCs entered the market in 2015, the most since 2012. This comes after the NT-BDC industry made waves by raising over \$6 billion in 2014 (about the same amount that traded BDCs raised in 2014 including debt). Additionally, more large institutional asset management firms are entering the industry as well.

New Product Introductions Since 2009

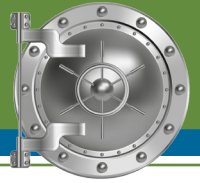


Active Nontraded BDCs and Total Assets (\$ millions)



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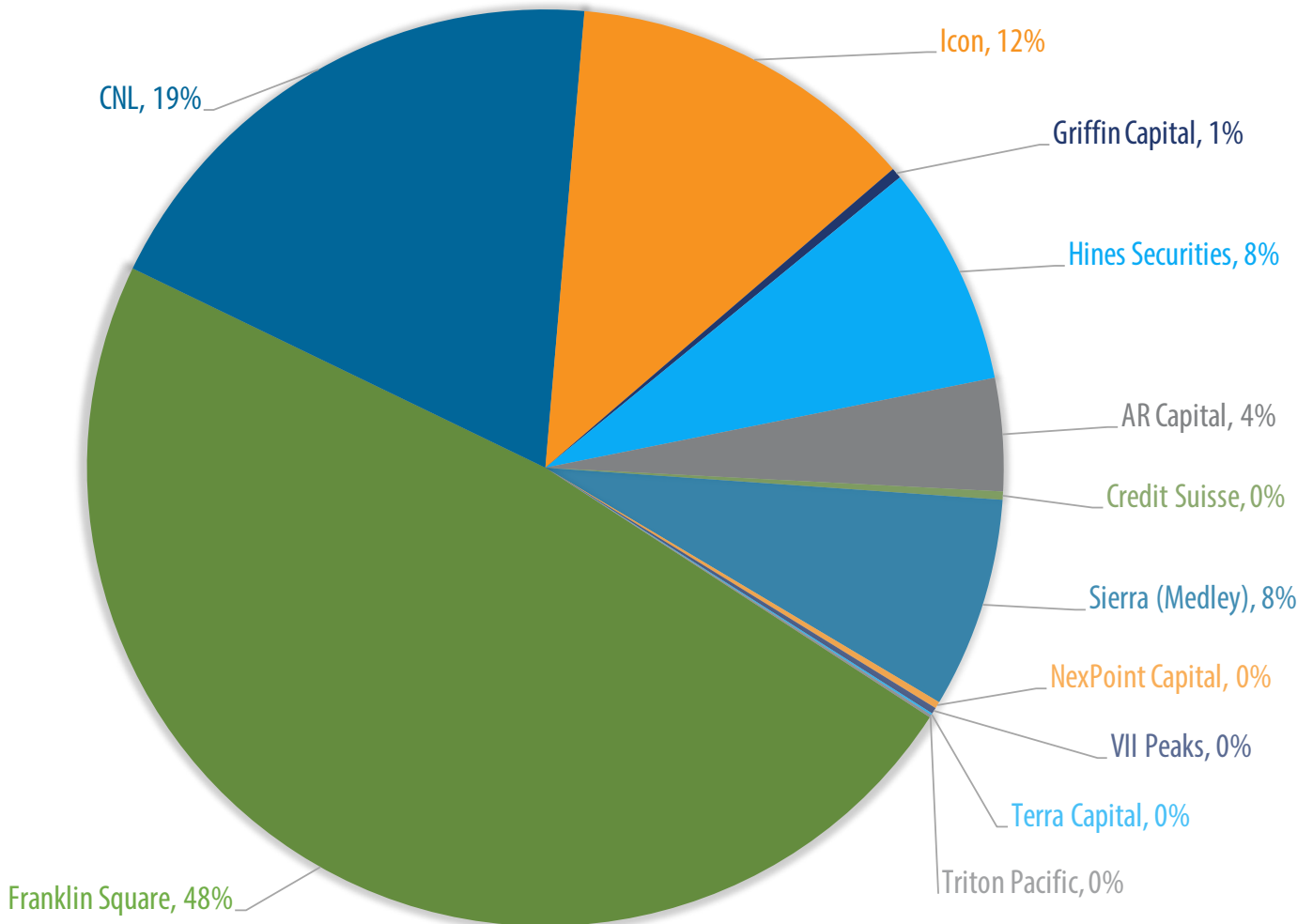


Capital Raise by Nontraded BDC Sponsors

In 2015 the top four sponsors raised an estimated \$3.4 billion of the total capital raised by all nontraded BDCs, or 79%.

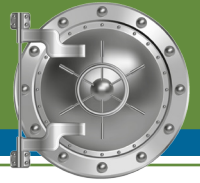
Early estimates also show that the top sponsor in sales in 2015 was Franklin Square, with roughly \$2 billion in sales and nearly 48% market share, followed by CNL and then Icon Investments.

2015 NONTRADED BDC MARKET SHARE BY SPONSOR



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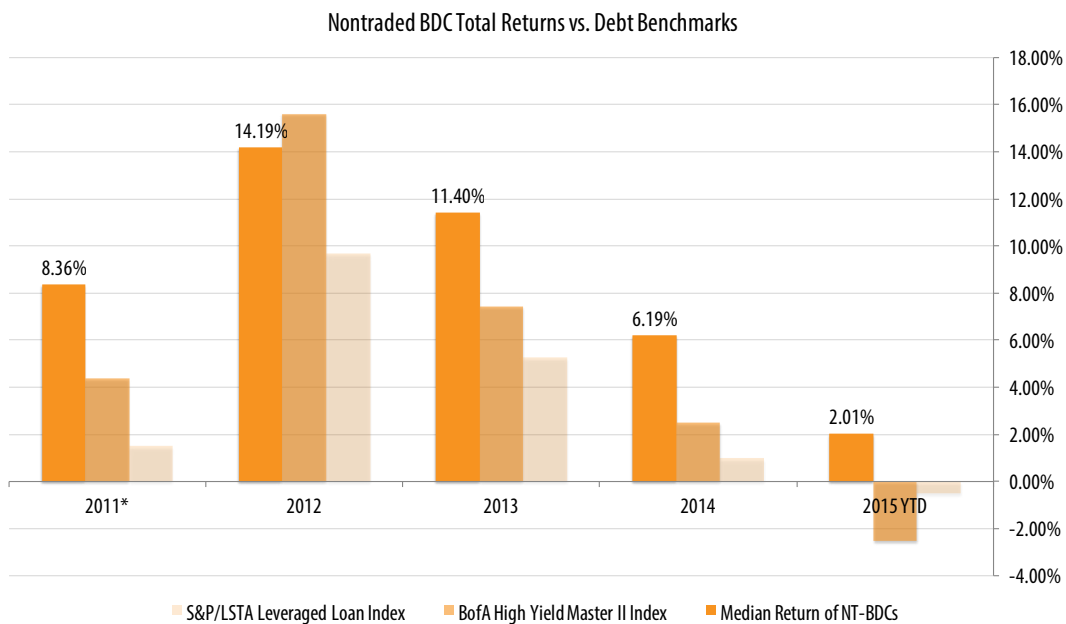
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Performance Returns of Nontraded BDCs

Total returns of nontraded BDCs continue to remain positive, although 2015 proved to be a difficult year to produce a positive return. Through the end of Q3 2015, the median total return of nontraded BDCs was just over 2%.

This chart shows the historical median total returns for BDCs versus the two benchmarks that most closely resemble the investments that BDCs make, the S&P LSTA Leveraged Loan Index and the Bank of America Merrill Lynch High Yield Master II Index.



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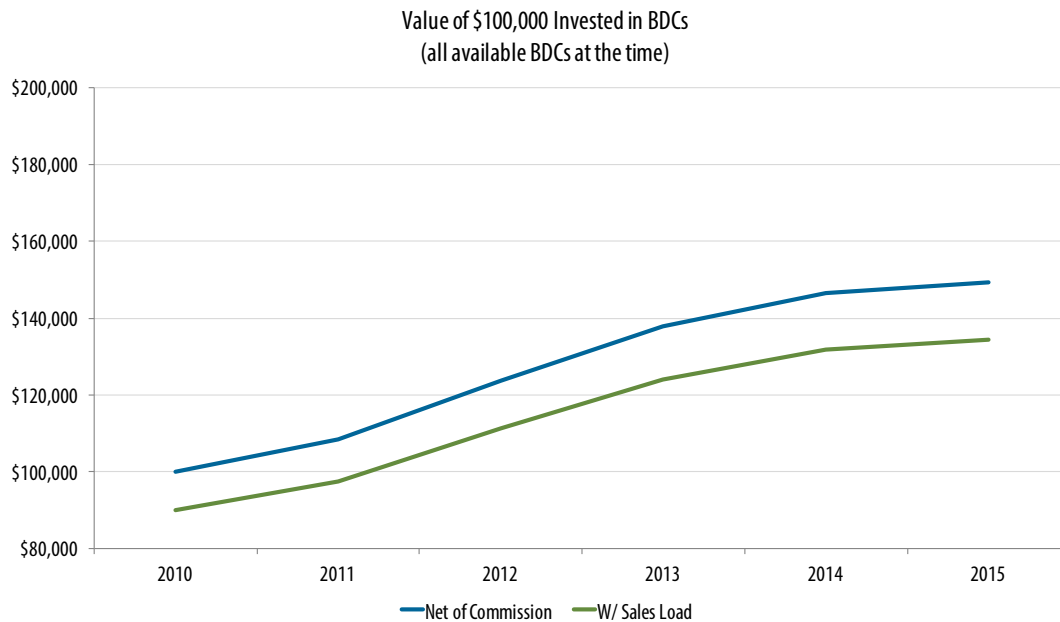
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Value of Investment in BDCs

Nontraded BDCs continue to show attractive returns and positive long-term shareholder value creation. This chart shows what \$100,000 in all available BDCs (similar to a BDC index) at the time would have turned into.

As you can see, a \$100,000 investment in 2010 would have turned into over \$134,000 by Q3 of 2015, or more than a 34% total return (assuming a full load) with dividends reinvested.



Distribution Yield Increases Across Industry

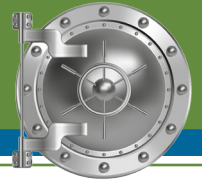
Distribution yields in nontraded BDCs increased from 7.16% as of Q3 2014 to 7.68% as of Q3 2015. However, it is important to note that many BDCs did not increase the dollar amount of their distributions. The increase was mostly attributed to decreases in public offering prices. Public offering prices follow a floating NAV (net asset value) in BDCs, and due to the volatility in the debt markets, most BDCs had to decrease their public offering prices to reflect changes in the NAV.

AVERAGE DISTRIBUTION YIELD

Q3 2014 **Q3 2015**
7.16% → **7.68%**

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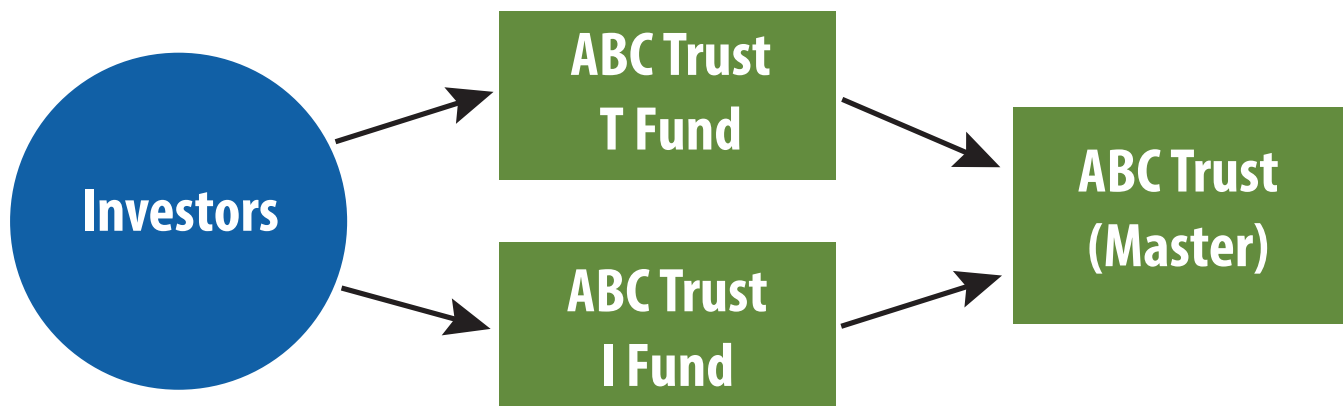
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New Share Classes and Reduced Load Fund

As the FINRA and NASD customer statement rules are coming up, new share class and load changes are beginning to trickle through the industry. New BDCs are coming out with differentiated load funds. Unlike nontraded REITs, BDCs have to create “share class” innovations through separate funds that are structured as “master funds” and “feeder funds”.

For example, instead of a T-share, A-share, I-share class of stock, a master BDC fund is created. A feeder fund with a T (lower upfront commission and trailing fee) type load is created. The capital is raised into the T fund and the capital then flows into the master fund. I Funds and other BDCs are creating “no load” options for investors that are in fee-based accounts.



Future Trends and Expectations for 2016

2016 will prove to be a year of change and uncertainty. With the Department of Labor Fiduciary Rule and FINRA/NASD customer account requirements, no one is sure how these regulations will affect capital raise in the industry.

The strongest sponsors will continue to innovate and push onto new ways of creating value for investors through load structure changes, fee changes and a focus on performance.

At Blue Vault, we will be watching to see if liquidity events are planned or occur for:

- **Business Development Corporation of America (AR Capital)** – now that the sponsor has stated that they are exiting the nontraded fund space, what will happen to its first BDC.
- **Corporate Capital Trust (CNL)** – recently closed the offering and will likely be monitoring the capital markets for a liquidity event anytime within the next couple years.
- **FS Investment Corp. II (Franklin Square)** – with its first counterpart, FS Investment Corp., already listed on the NYSE, we will be watching for a liquidity event with FSIC II. A likely event would be to merge with FSIC and become part of the listed BDC.

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