An Introduction to

Business Development Companies

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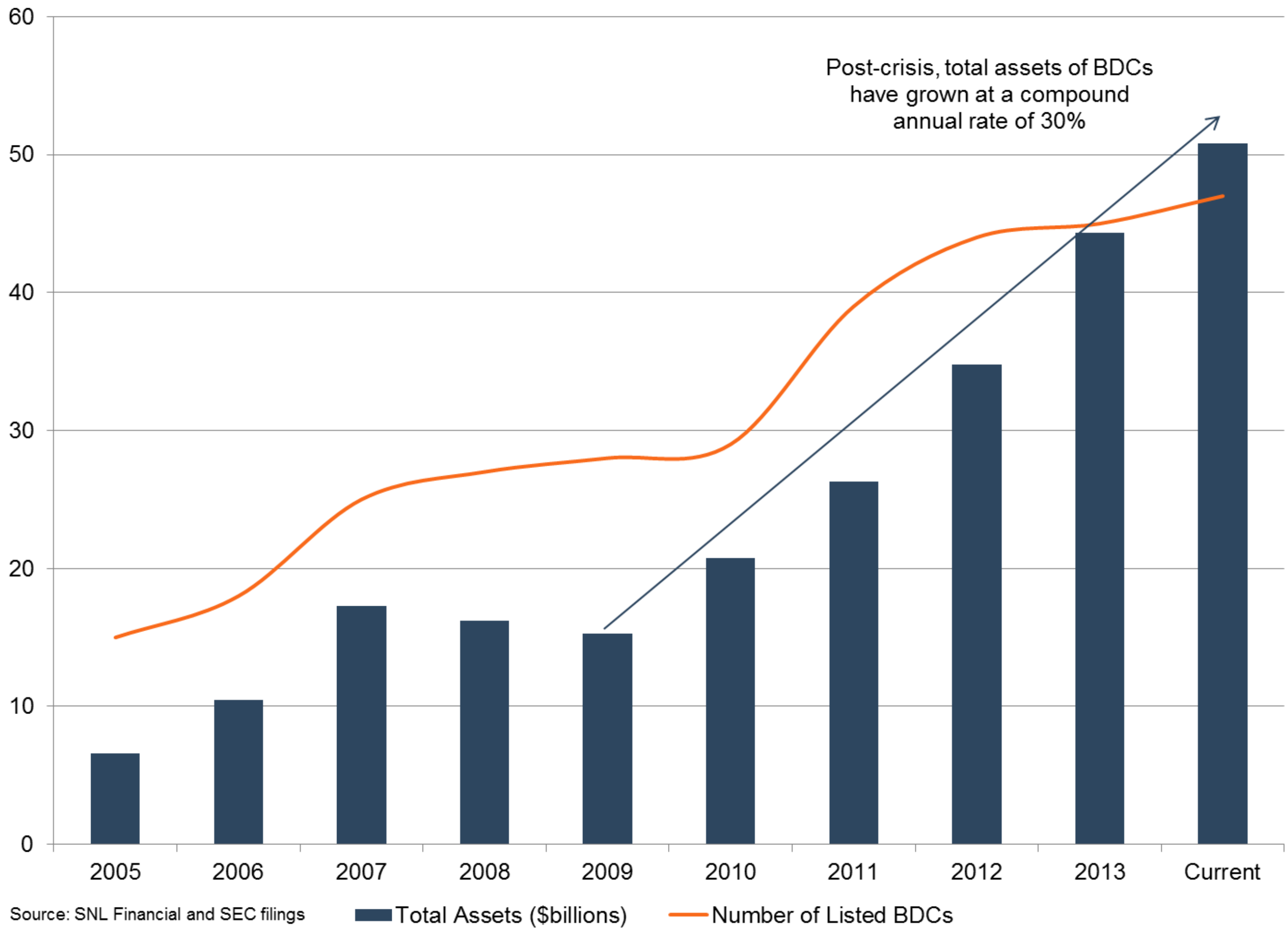
BDCs are a small, but rapidly growing, segment of the financial sector

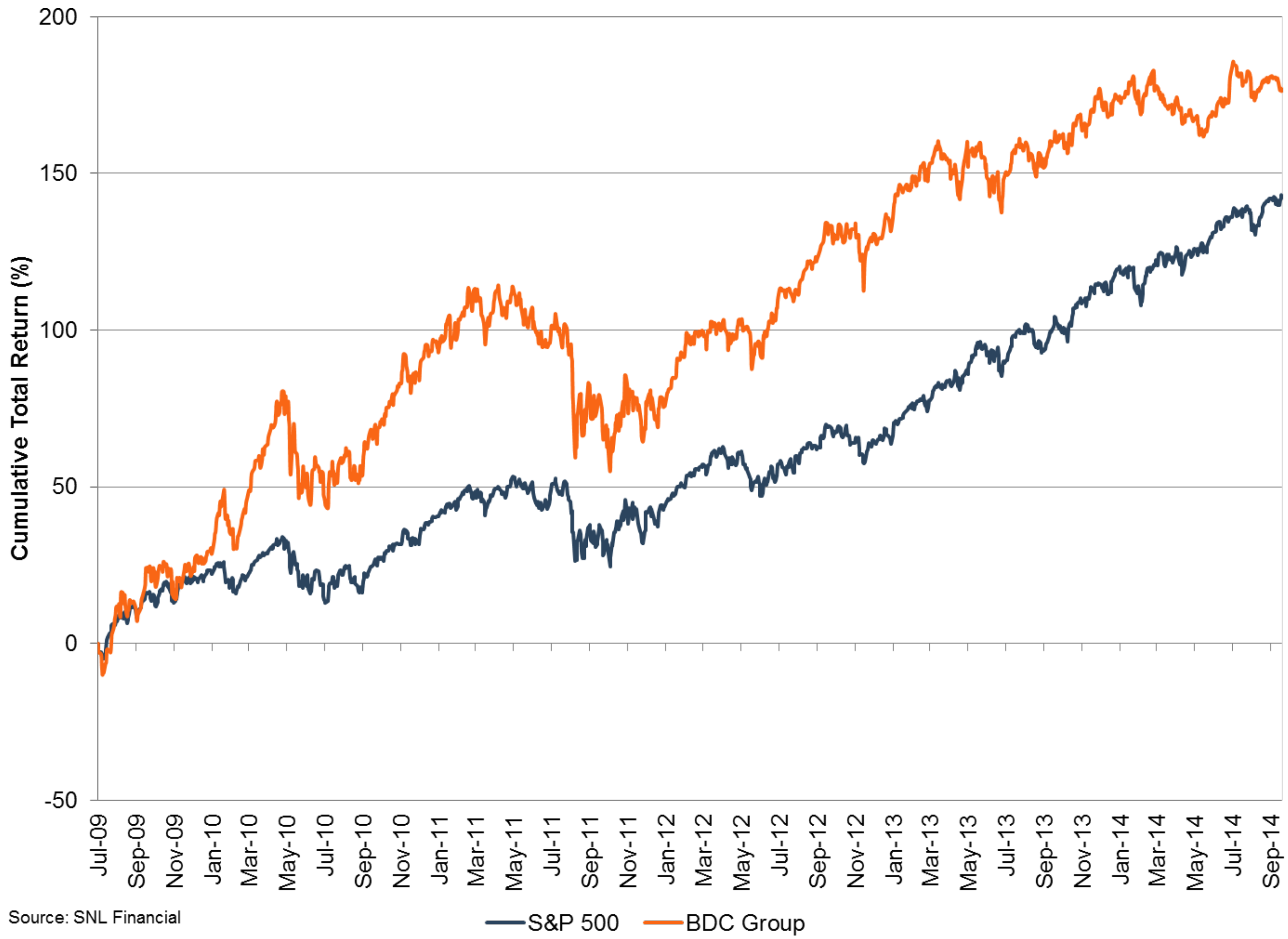


Source: SNL Financial and SEC filings

Section One

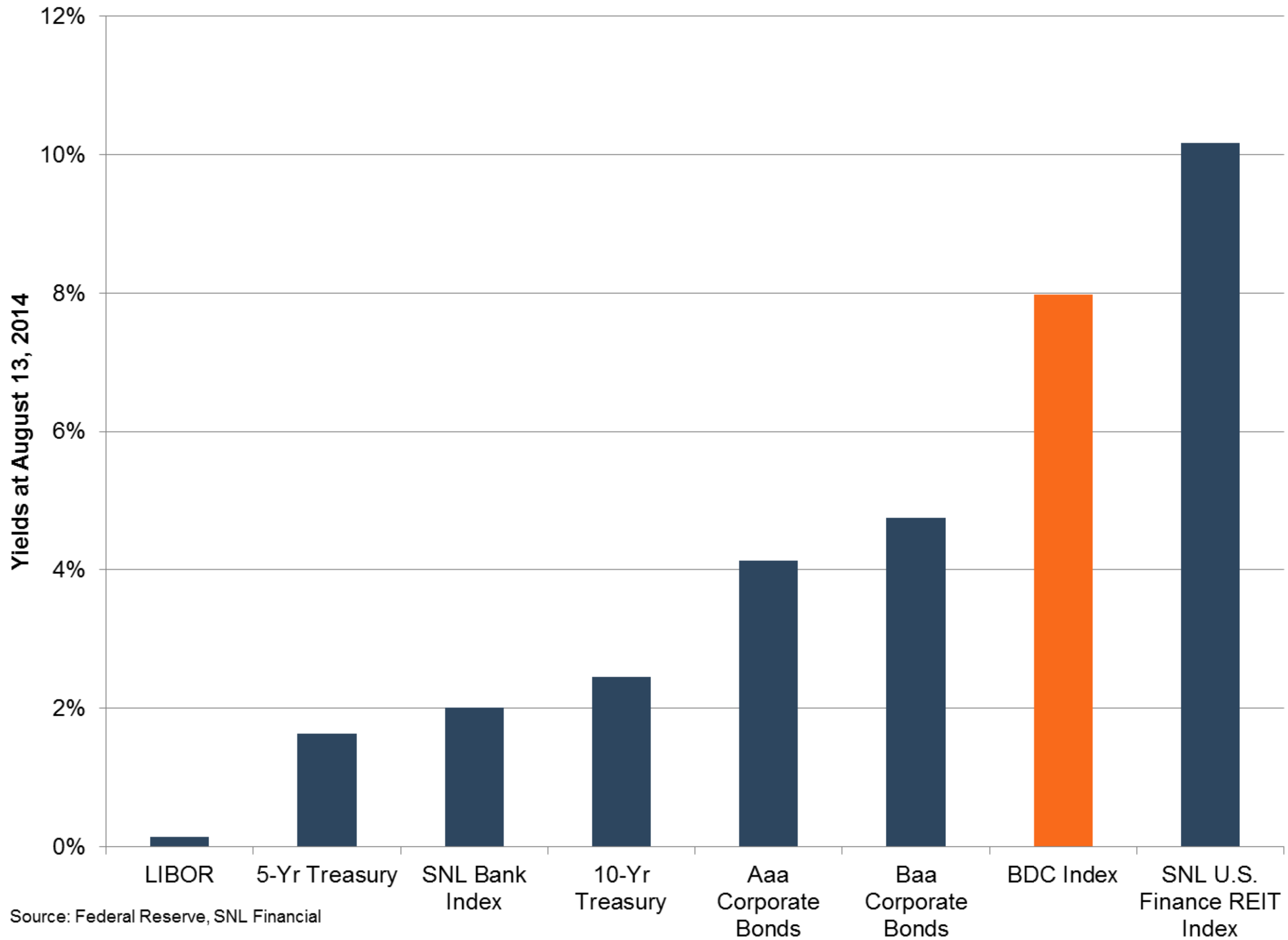
Why BDCs?

Since mid-year 2009, BDC investors have earned an annualized total return of 22%…



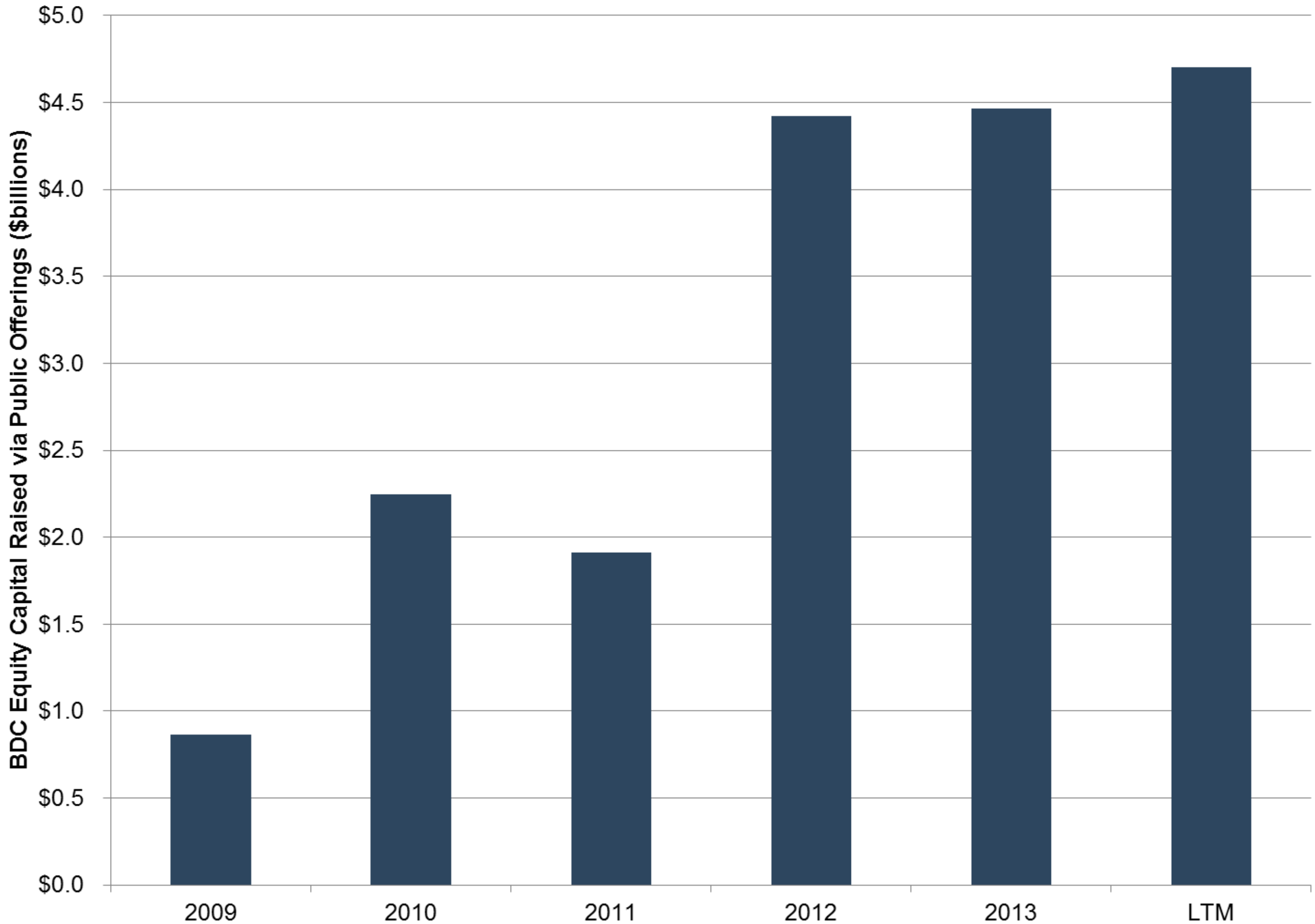
Source: SNL Financial

… and under the Fed's ZIRP, yield-starved investors are attracted by BDC dividends



Source: Federal Reserve, SNL Financial

For lenders, BDCs are efficient vehicles for attracting permanent investment capital, with total equity issuance of $16 billion since 2009



Source: SNL Financial

For borrowers, BDCs represent a source of funds across the capital structure

Aggregate BDC Investment Portfolio - June 30, 2014

	$billions	% of Total	Approx Yields
First Lien Secured Debt	$24.7	53.4%	8% - 10%
Second Lien Secured Debt	10.1	21.8%	10% - 12%
Unsecured Debt	2.2	4.7%	>12%
Preferred & Common Equity	5.3	11.5%	na
Structured Products & Other	4.0	8.7%	Various
Total Portfolio	**$46.3**	**100.0%**	**10% - 12%**

Source: Mercer Capital analysis of SEC filings

Section Two

What Are BDCs?

Overview

» Created by the Small Business Investment Incentive Act of 1980 (the "1980 Amendments") as a result of a perceived crisis in the capital markets in the 1970s

» Private equity and venture capital firms believed the "small private investment company exemption (Section 3(c)(1) of the 1940 Act limited their capacity to provide financing to small growing businesses

» Provided Regulated Investment Company (RIC) status in 1990

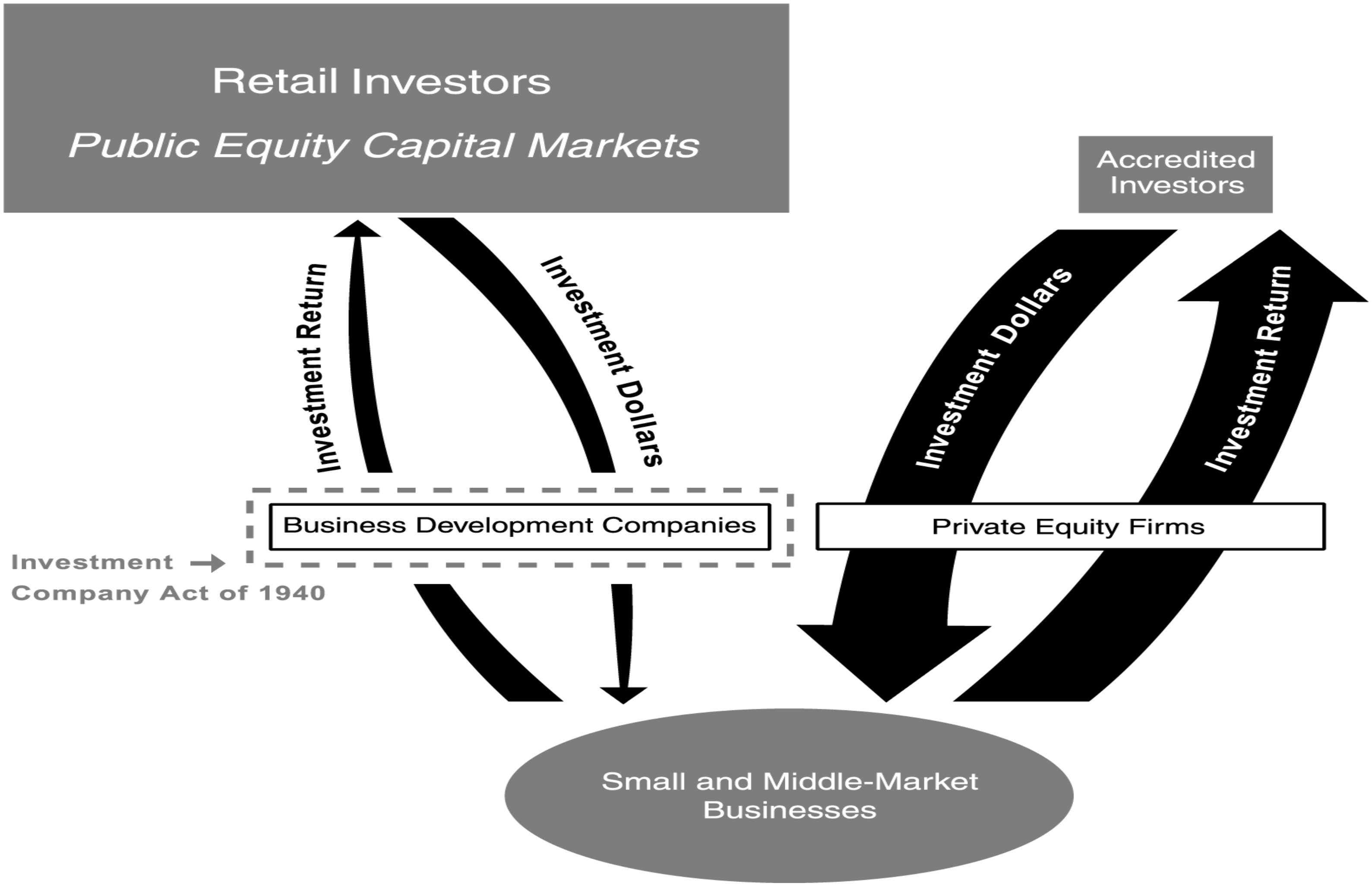
» Special type of closed-end fund that:
  - Provides small, growing companies access to capital
  - Enables private equity funds to access the public capital markets
  - Enables retail investors to participate in the upside of pre-IPO investing with complete liquidity

» Hybrid between an operating company and an investment company

Benefits of the BDC Model

- » Access to public capital markets
- » Shares are traded on national exchanges
- » Flow-through tax treatment as a RIC
- » Reduced burden under 1940 Act, as compared to closed-end funds
  - Restrictions on leverage
  - Restrictions on affiliated transactions
- » External model permits management fee and “carried interest” incentive fee structure
- » Publicly available financial information through quarterly reporting
- » Portfolio is typically diversified
  - Reduces risk typically associated with private equity investments

BDCs vs Private Equity



How the BDC Market Developed

- Prior to 2003, the largest BDCs were primarily internally managed
  - Choice reflected the success of the internally managed, income producing BDC model
- In 2004, Apollo Investment Corporation raised $930 million in less than three months which ignited growth in the BDC industry
- There has been a steady stream of BDC IPOs since that period
- The top 49 actively traded BDCs have approximately $58.5 billion in assets under management
- Since 2013, BDCs have raised over $5.0 billion in follow-on equity transactions and $2.8 billion in senior debt and $1.1 billion in convertible debt offerings in the 144A market

How Does a Company Become a BDC

- » Organize the BDC as a Delaware or a Maryland corporation
- » Register a class of securities under the 1934 Act
- » Make an election to be a BDC - file a Form N-54A (Notification of election to be subject to sections 55 through 65 of the 1940 Act)
- » Register a class of securities on Form N-2
- » List securities on the New York Stock Exchange (NYSE) or the Nasdaq Stock Market, Inc. (Nasdaq), or the BDC can be a nontraded BDC
- » Comply with the Sarbanes-Oxley Act of 2002 and Dodd-Frank Act
- » Comply with regulatory requirements of the 1940 Act

"Good" vs. "Bad" BDC Assets

» A BDC must invest 70% of its assets in "good" BDC assets

» 70% basket includes securities issued by an "eligible portfolio company," as defined in Section 2(a)(46), which includes:

- U.S. issuers that are neither an investment company as defined in section 3 (other than a wholly-owned SBIC) nor a company which would be an investment company except for the exclusion from the definition of investment company in section 3(c) and

  » (i) do not have any class of securities listed on a national securities exchange; or

  » (ii) have a class of securities listed on a national securities exchange, but have an aggregate market value of outstanding voting and non-voting common equity of less than $250 million.

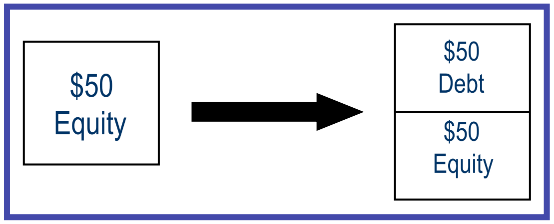
» A BDC can generally invest with flexibility in "bad" assets that **do not** fall within the "70% basket"

- The SEC Staff has never been called upon to consider whether utilizing a specific strategy for the entire "30% basket," *e.g.*, investing solely in foreign companies, might run afoul of the intent of Section 55(a)

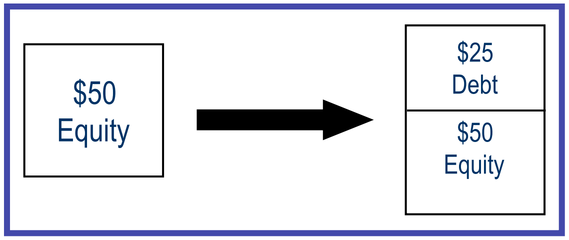
Limitations on Borrowings

» BDCs must have 200% asset coverage (Total Assets/Total Debt)

- For example, a BDC with $50 in equity can borrow up to $50
- A BDC would be able to invest $100 in growing businesses



» Other investment companies are restricted to a 300% asset coverage requirement with respect to issuing debt



» BDCs may exclude leverage at the SBIC level if the SEC grants exemptive relief, which many have received

Limitations on Transactions with Affiliates

» Section 57 addresses the ability of BDCs to engage in certain types of transactions with affiliates:

- Section 57 is less onerous than its counterpart for registered investment companies (Section 17)

» Depending on the nature of the affiliation with the BDC, transactions involving a BDC and one or more of its affiliates require either:

- Authorization by the required majority of the board of directors, which consists of a majority of the board, including a majority of disinterested board members; or
- An order of the Commission

» Co-investment between a BDC and an affiliated fund generally requires SEC exemptive relief

- Mass Mutual exception (*i.e.*, no terms negotiated other than price)

1940 Act Requirements

» BDC must have a majority of independent directors - persons who are not "interested persons" as defined in Section 2(a)(19) of the 1940 Act

» Custodian Agreement

- A BDC generally must place and maintain its securities and similar investments in the custody of a bank qualified under Section 26(a)(1) of the 1940 Act or a broker dealer, or be subject to additional audit and operational procedures related to securities held in safekeeping

» Fidelity Bond

- A BDC must maintain a bond issued by a reputable fidelity insurance company, in an amount prescribed by the 1940 Act, to protect the BDC against larceny and embezzlement. The bond must cover each officer and employee with access to securities and funds of the BDC

» Requirement to maintain and enforce a Code of Ethics for officers of the BDC

- Includes reporting of all securities holdings and transactions

1940 Act Requirements *(continued)*

» Restrictions on investing in other investment companies. May not invest:
- In more than 3% of the outstanding voting stock of an investment company
- More than 5% of the value of its total assets in an investment company
- More than an aggregate of 10% of its total assets in investment companies

» Restrictions on investment funds investing in a BDC
- Neither a public (i.e. registered) or private investment fund may own more than 3% of the outstanding voting stock of a BDC

» Limitations on indemnification
- A BDC is prohibited from protecting any director or officer against any liability to the company, or its security holders, arising from willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such person's office

» Bookkeeping and records requirements.
- A BDC must maintain and make available for inspection prescribed books and records

» BDCs must make available significant managerial assistance to their portfolio companies

1940 Act Requirements *(continued)*

» Must appoint a chief compliance officer

» Must maintain a compliance program compliant with Rule 38a-1 of the 1940 Act, which requires:

- Adoption and implementation of policies and procedures designed to prevent violation of the federal securities laws
- Review of these policies and procedures annually for their adequacy and the effectiveness of their implementation

» Compliance polices and procedures for the registered investment adviser under Rule 206(4)-7 of the Investment Advisers Act of 1940

- Requires an investment adviser of a BDC to adopt and implement policies and procedures
- Requires maintenance and enforcement of a code of ethics for advisor's employees

» Subject to regular examinations by the SEC

Other Important Limitations

- » BDCs are not permitted to sell shares below net asset value without shareholder approval
  - Approval must be obtained annually
  - Markets have imposed limitations on how much a BDC can sell below NAV
- » BDCs may seek to receive an SEC order granting exemptive relief permitting, among other things:
  - Co-investment among affiliates
  - Ownership of a registered investment adviser
  - Exclusion of leverage from the asset coverage calculation for debt held by an SBIC subsidiary
  - Issuance of restricted stock to officers / employees
  - Issuance of stock options to independent directors
- » Exemptive relief process may take from 6 – 18 months depending on complexity
  - Typically based on precedents

NASDAQ/NYSE Listing Standards

» BDCs that have their securities listed or traded on NASDAQ/NYSE must comply with the corporate governance listing standard, including:

- A listed BDC must have an audit committee and compensation committee composed solely of "independent directors" (as defined by the applicable exchange or association)
- Director nominees of a listed BDC must be selected or recommended for the Board's selection by a nominating committee or the vote of a majority of the BDC's independent directors (depending on the exchange)
- The non-management, or "independent directors" of the BDC must hold regularly scheduled executive sessions
- The BDC must adopt a code of business conduct and ethics, various committee charters and, in the case of NYSE-listed BDCs, corporate governance guidelines
  - » All such documents must be posted on the company's website

Internally-Managed Structure

- » BDC is managed internally by executive officers (i.e., no external adviser)
- » Must comply with SEC executive compensation disclosure requirements
- » Certain performance-based compensation is permitted, including:
  - Issuance of at-the market options, warrant, or rights pursuant to an executive compensation plan; or
  - Maintenance of a profit sharing plan
- » Otherwise, the BDC must use cash assets as compensation
- » Exemptive orders permitting the issuance of restricted stock have been issued in a number of circumstances including:
  - Hercules Technology Growth Capital
  - Main Street Capital Corporation

Externally-Managed Structure

- Portfolio managed by external investment adviser
- Investment adviser must be registered under the Advisers Act
- May utilize an external administrator for expense reimbursement purposes
- Adviser is permitted to charge a **base management fee**, as well as an **incentive fee** on both:
  - Investment income
  - Realized capital gains
- Contrasts with most registered closed-end funds, which are typically prohibited from taking an incentive fee on capital gains
- Incentive fees are often subject to hurdle/catch-up features

SEC Reporting Requirements for BDCs

- Form 10-K (Annual Report)
- Form 10-Q (Quarterly Report)
- Form 8-K (Current Report)
- Proxy Statements
  - Forms 3, 4 or 5 for reporting benefici8al ownership by insiders
  - Schedules 13D and 13G for reporting beneficial ownership by others
- Comply with the Sarbanes-Oxley Act of 2002
- Disclosure Controls and Procedures
- Internal Control over Financial Reporting/Attestation
  - JOBS Act provides that “emerging growth companies” may take advantage of reduced reporting obligations on internal controls during the first five years

Financial Statement Disclosures

» Valuation Policy

» Control investments, investments in affiliates vs. investment in non-affiliates

» Schedule of investments

- Disclose non-income producing investments
- Disclose assets held in securitized vehicles

- Concentration – Geography and industry sectors
- Fair Value and Level 3 reconciliation tables

Portfolio Valuation Process

- » Investments are reported at fair value, as determined in good faith by the board of directors
- » ASC 820 – *Fair Value Measurements and Disclosures (formerly FAS 157)*
- » "Fair value" – Price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date
- » Key Controls in the Valuation Process:
    - Documented approval of trades
    - Controls over inputs in valuation write-ups
    - Segregation between preparation and review of valuations
    - Identified and monitored problem loans
    - High level analytical reviews
    - Completeness of disclosures
    - All controls evidence Sarbanes-Oxley 404 readiness

Taxation as a RIC

» A BDC may elect to be taxed as a "regulated investment company," or RIC, under the Internal Revenue Code

» Taxation as a RIC:

- Allows "pass through" tax treatment for income and capital gains that are distributed to shareholders
- A BDC must distribute at least 90% of its investment income to shareholders annually
- The BDC may retain, distribute or "deem distribute" capital gains
- BDC must meet minimum source of income requirements annually and meet requirements on a quarterly basis with respect to the portfolio diversification

» Conversion to RIC status

- Formation considerations – Built-in gains

Impact of the Volcker Rule

» Final Dodd-Frank Volcker Rule issued December 10, 2013

- Generally prohibits banking entities from:
  - » Engaging in short-term proprietary trading, or
  - » Investing in, or having certain relationships with, hedge funds and private equity funds, referred to as "covered funds" under the Volcker Rule
- BDCs are excluded from the definition of "covered fund" under the Volcker Rule
  - » As a result, a banking entity generally may invest in a BDC, including one that potentially engages in activities subject to restriction under the Volcker Rule so long as that banking entity does not hold the power to vote 25% of such BDC's voting shares, provided that it is otherwise permitted to do so under applicable banking law
  - » Likewise, a banking entity may manage such a BDC, so long as it does so in compliance with applicable securities and banking law
  - » As written, the Volcker Rule potentially creates incentives for banks to invest in BDCs

BDC Trends

» SBIC Subsidiaries

- Eighteen BDCs have SBIC subsidiaries
- Provides access to low-cost debt (a fully funded SBIC with $75 million in regulatory capital can access up to $150 million in leverage from the SBA with an option for a second license for an additional $75 million)
  - » SBICs under common control can access up to $225 million in leverage, which Congress may increase to $350 million

» Fund Formation

- Some BDCs are using BDCs as asset managers. The benefit of this structure is the fee income received

» Fund Platforms

- Some BDCs are building a platform of funds that complement the BDC's business

BDC Legislative Proposals

Section Rule or Form to be Amended	Explanation	Impact on BDCs
Ownership of Registered Investment Advisers		
1940 Act – Section 60	Allows BDCs to own registered investment advisers	Eliminate need for BDCs to seek SEC exemptive relief, leveling the playing field between BDCs that have been granted exemptive relief and those that have not.
Asset Coverage Limit Reductions		
1940 Act – Sections 18 and 61(a)	Lowers the asset coverage requirement for BDCs from 200% to 150%, subject to shareholder approval and disclosure of the increased indebtedness, and allows BDCs to issue multiple classes of preferred stock.	Would allow BDCs to incur more leverage, enabling them to raise additional assets to invest in small to mid-size U.S. companies.

BDC Legislative Proposals

Section Rule or Form to be Amended	Explanation	Impact on BDCs
Registration and Reporting Party		
Forward Incorporation (Form N-2)	Allows BDCs to incorporate already-filed information by reference.	Would allow BDCs to raise capital efficiently and respond to market conditions more quickly. Investors also able to access most important information about an issuer.
Flexible Communications	Fee writing prospectuses are useful to convey recent developments or other updated disclosure, as a way of avoiding recirculation of an updated preliminary prospectus.	Would allow BDCs to communicate to potential investors without violating gun-jumping provisions. Permits BDCs to release factual and forward-looking business information, keeping BDCs in step with the market.

BDC Legislative Proposals

Section Rule or Form to be Amended	Explanation	Impact on BDCs
Prospectus Safe Harbors (Rules 134, 163 and 163A)	Allows BDCs to communicate with investors more freely during the preparation and filing periods for a registration statement.	Would permit BDCs to release factual business information with more certainty; more flexibility in communicating to investors.
Research (Rules 138 and 139)	Provides safe harbors for brokers and dealers providing market analysis to investors. Publications, distributions or reports within either rule will not constitute offers to/for sale under the 1933 Act.	Allows broker-dealers and other providers of market research more flexibility to disseminate research on BDCs and allows more communication of information to the market about BDCs.
WKSI Status (Rules 405 and 433)	Allows BDCs to: (1) Qualify as WKSIs; (2) File automatic shelf registrations; and (3) Use free-writing prospectuses.	Less stringent disclosure and communication requirements. Would allow BDCs to file automatic shelf registration to take advantage of frequently changing market windows.

BDC Legislative Proposals

Section Rule or Form to be Amended	Explanation	Impact on BDCs
Shelf Registration (Rule 415)	Rule 415 specifies which offerings qualify for shelf registration and imposes certain obligations to remain qualified under the rule.	Allows for SEC review of BDC N-2 shelf-registration statement in advance of assessing public markets. Offers more certainties with respect to timing.
Final Prospectus (Rule 497)	Rule 497 governs when investment companies must file prospectuses during the registration process.	Allows a BDC to file final prospectus with SEC and not deliver prospectus to individual investors. Would synchronize BDC prospectus filing requirements with those of other registrants and save considerable time and money.
Written Confirmation (Rule 172 and 173)	Relieves BDCs of requirement to provide written confirmations of sales notifications of allocation and deliveries of securities.	Would permit BDCs greater flexibility in the sales process in parity with other issuers covered by the rule.

Section Three

How Do BDCs Work?

BDC shareholder returns have a high degree of transparency, ultimately driven by asset yields, expense structure, leverage, and credit experience

Gross Asset Yield	$\frac{Investment\ Income}{Assets}$	Function of portfolio composition
Cost of Operations	$\frac{Operating\ Expenses}{Assets}$	Internally managed: (Largely) fixed costs of operations. Externally managed: Combination of contractual base and incentive management fees plus other out-of-pocket
Net Asset Yield	$Gross\ Asset\ Yield - Cost\ of\ Operations$	Unlevered return on assets
Leverage Ratio	$\frac{Liabilities}{Assets}$	BDCs subject to 1:1 leverage limit, with SBC exception
Cost of Funding	$\frac{Interest\ Expense}{Liabilities}$	Funding mix includes bank credit facilities, SBA debentures, and unsecured bonds
Leverage Burden	$Leverage\ Ratio \times Cost\ of\ Funding$	Funding cost per dollar of assets
Leverage Multiplier	$\frac{Assets}{Equity}$	
Return on Equity (NII)	$(Net\ Asset\ Yield - Leverage\ Burden) \times Leverage\ Multiplier$	Measure of leveraged return on shareholders' equity
Dividend Payout Ratio	$\frac{Dividends}{Net\ Investment\ Income}$	
Price/Book Ratio	$\frac{Share\ Price}{NAV\ per\ Share}$	Investor perspective on risk of shares
Dividend Yield	$\frac{ROE \times DPO}{Price/Book\ Ratio}$	Current income return to investors

PNNT and MAIN illustrate effect of portfolio composition, operating expenses, and price/book on shareholder returns

Shareholder Return Composition

	PNNT	MAIN
Gross Asset Yield	11.8%	9.0%
Management Fees	3.6%	0.0%
Other Operating Expenses	0.6%	1.5%
Net Asset Yield	7.6%	7.6%
Leverage (Liabilities/Assets)	40.6%	40.3%
times: Funding Cost	4.0%	3.7%
Leverage Carry	1.6%	1.5%
Leverage Multiplier	1.68x	1.68x
Investment Income ROE	**10.1%**	**10.2%**
Dividend Payout Ratio	101.5%	95.7%
Price / Book Ratio	102.8%	154.4%
Shareholder Dividend Yield	**10.0%**	**6.3%**

Portfolio Composition

	PNNT	MAIN
First Lien Debt	25.9%	77.6%
Second Lien Debt	40.6%	10.0%
Unsecured Debt	23.6%	0.0%
Pref & Common Equity	10.0%	12.4%
Total	100.0%	100.0%

Historical Capital Appreciation

	PNNT	MAIN
Cumulative Gains	$45.2	$139.4
(Realized & Unrealized		
NAV per Share - 12/2010	$11.14	$13.06
NAV per Share - 6/2014	$11.33	$21.03
CAGR	0.5%	14.6%

Source: Mercer Capital analysis of SEC filings

While net investment income (NII) is the primary driver of regular dividends, capital gains and losses may contribute to growth (or contraction) in NAV or special dividends

Current Income

» Interest income on loans
  - How much is PIK?

» Dividend income on equity investments

» Fee income (origination fees, prepayment penalties, etc.)

Gains and Losses

» Realized credit losses

» Realized equity gain/loss

» Fair value marks:
  - Market based change in credit spreads and enterprise value multiples
  - Company-specific issues that impact credit spreads and enterprise value multiples

Fair value measurements are a critical component of reported financial performance for BDCs

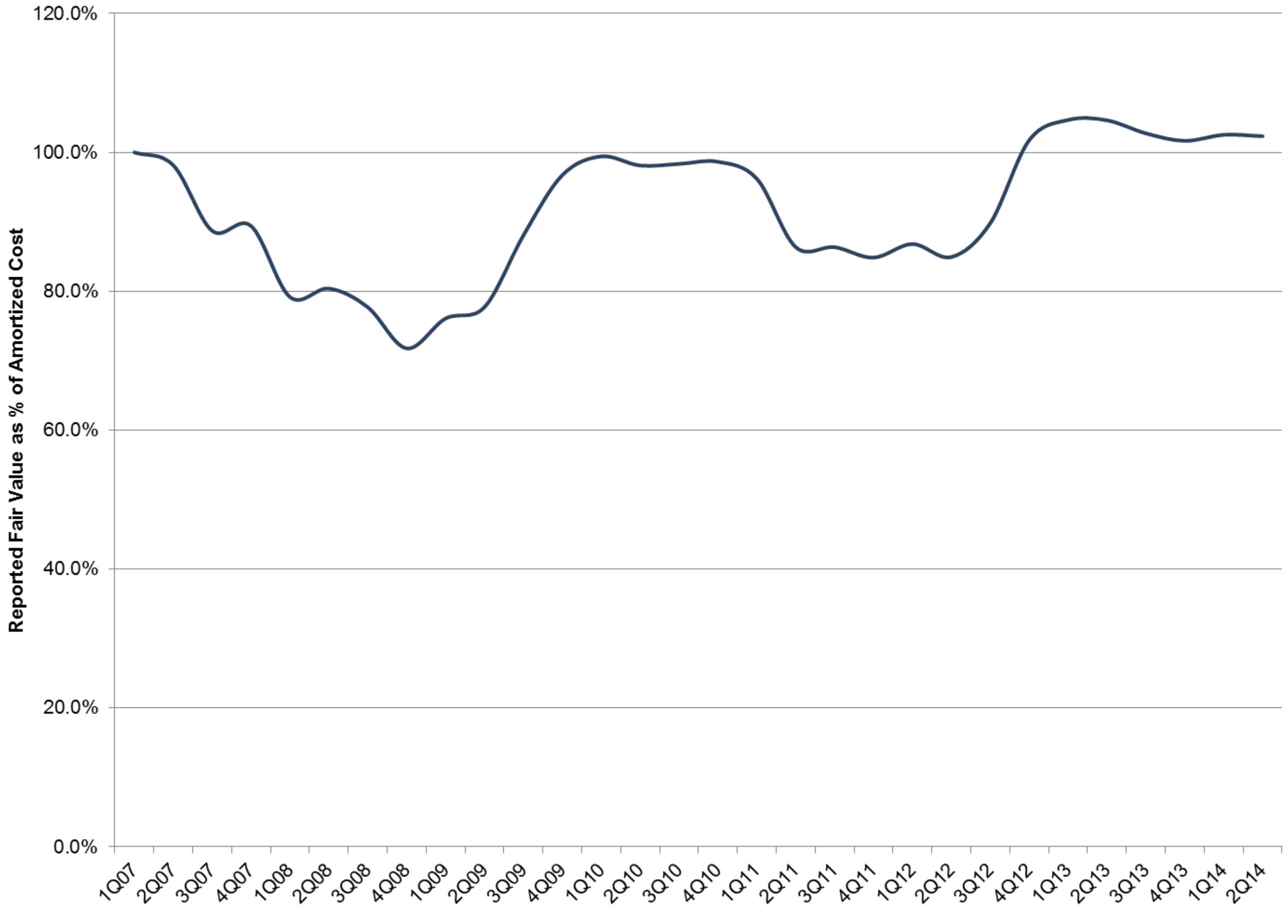
» BDC investment portfolios are reported at fair value

» Unrealized appreciation / (depreciation) based upon change in fair value marks flow through the income statement

» **Fair value**: The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date

- Not equal to "cost basis until something drastic happens"
- Not equal to loan balance less loss reserve
- Incorporates yield environment, market liquidity and credit performance

Fair value marks over the credit cycle for PNNT's 2nd lien portfolio provide a useful case study for fair value concepts



Source: Mercer Capital analysis of SEC filings

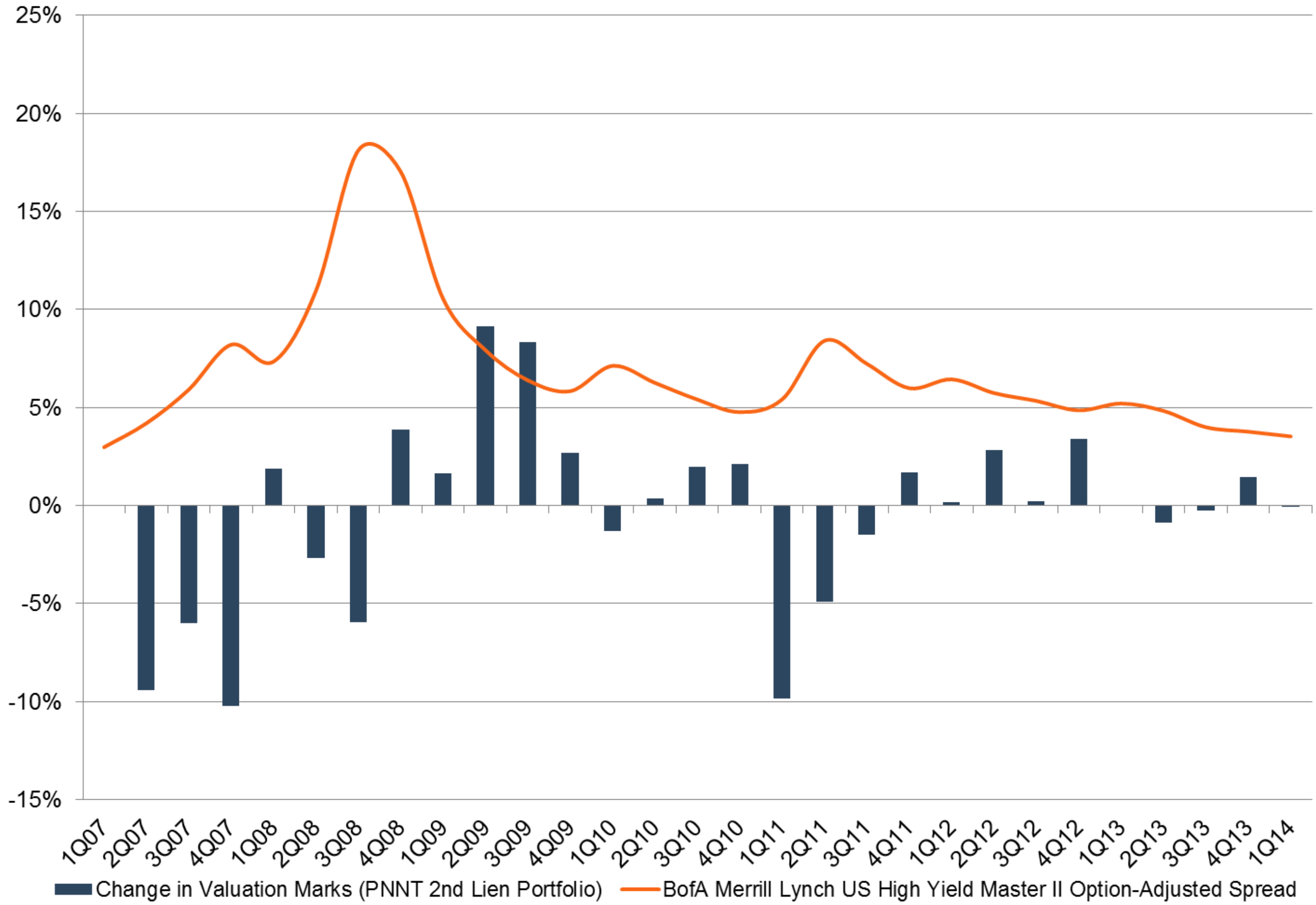
Analysis of fair value marks over time is complicated by the effect of portfolio exits and new originations

PNNT 2nd Lien Secured Portfolio :: 1Q14

	Continuing Credits	New Credits	Exited Credits	Total Portfolio
Beginning Fair Value	327.0	0.0	56.8	383.8
plus: Change in Cost Basis	14.2	33.3	(54.4)	(6.9)
plus: Change in Unrealized Appreciation	5.0	0.4	(2.3)	3.1
Ending Fair Value	$346.2	$33.8	$0.0	$380.0
Beginning Fair Value as % of Cost	101.2%	nm	104.3%	101.7%
Ending Fair Value as % of Cost	102.7%	101.3%	nm	102.5%
Change in Effective Mark	1.4%	nm	nm	0.9%

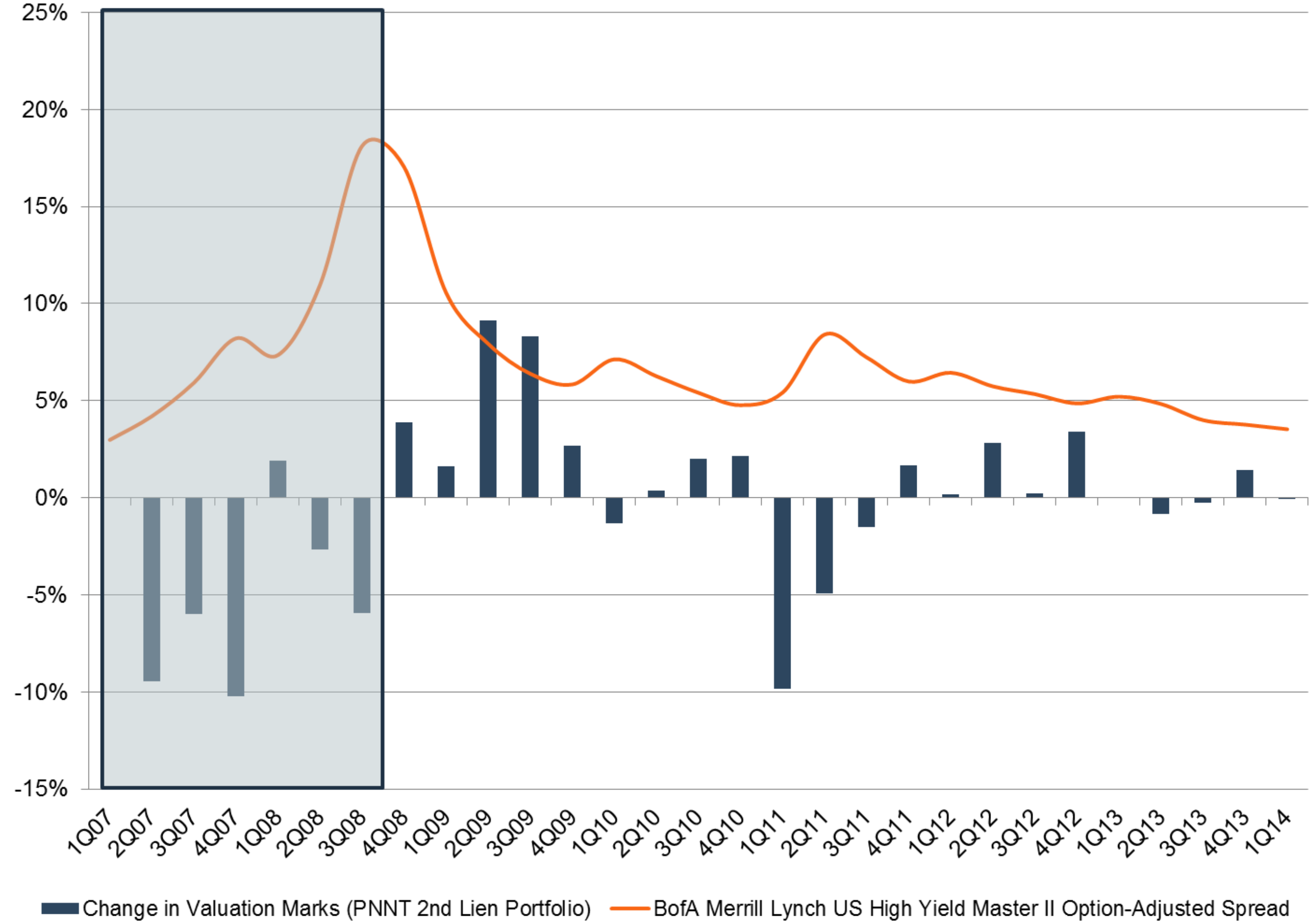
Source: Mercer Capital analysis of SEC filings

Comparing the quarterly change in valuation marks to high yield credit spreads reveals that fair value has tracked market conditions

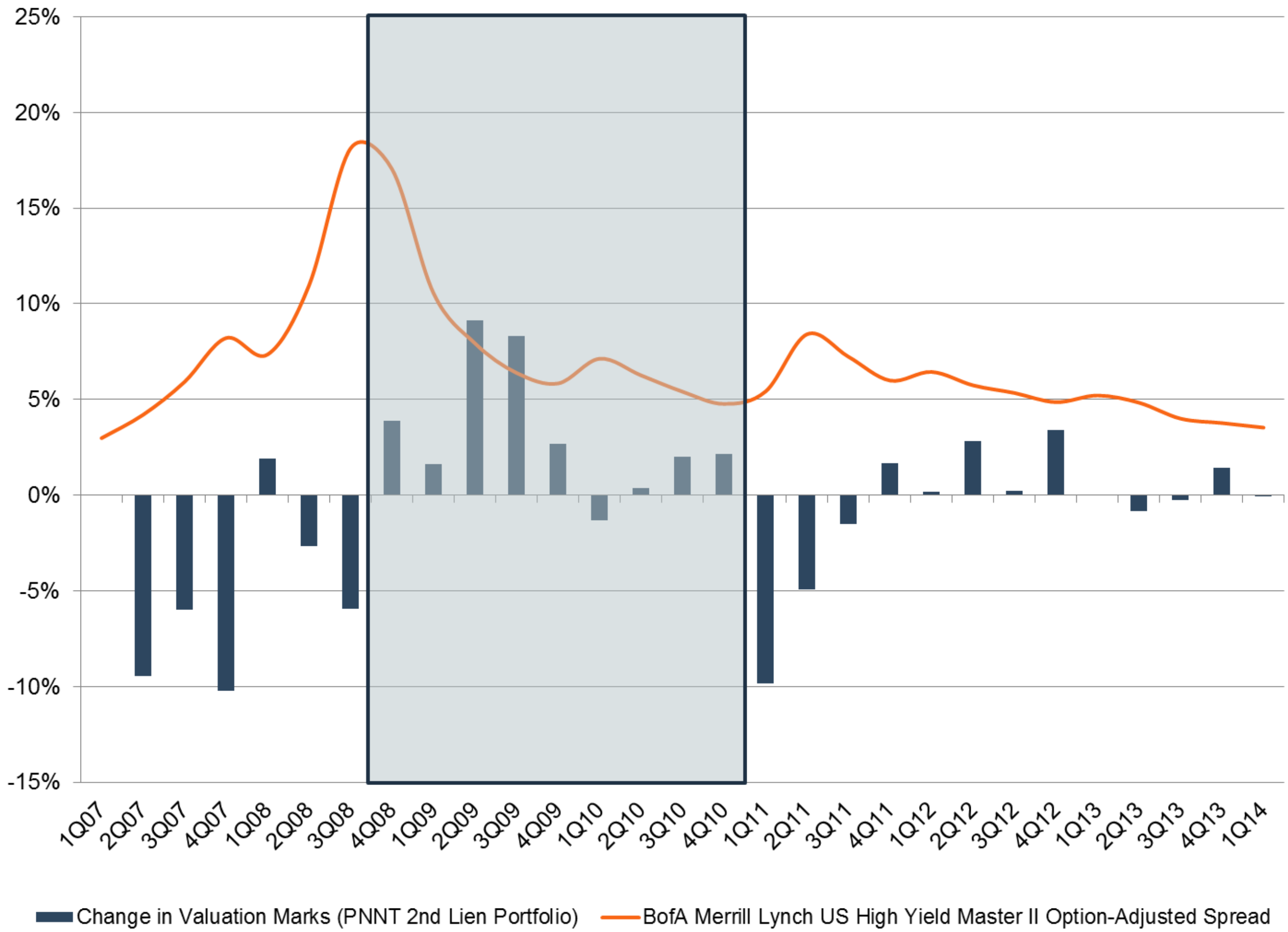


Source: Federal Reserve and Mercer Capital analysis of SEC filings

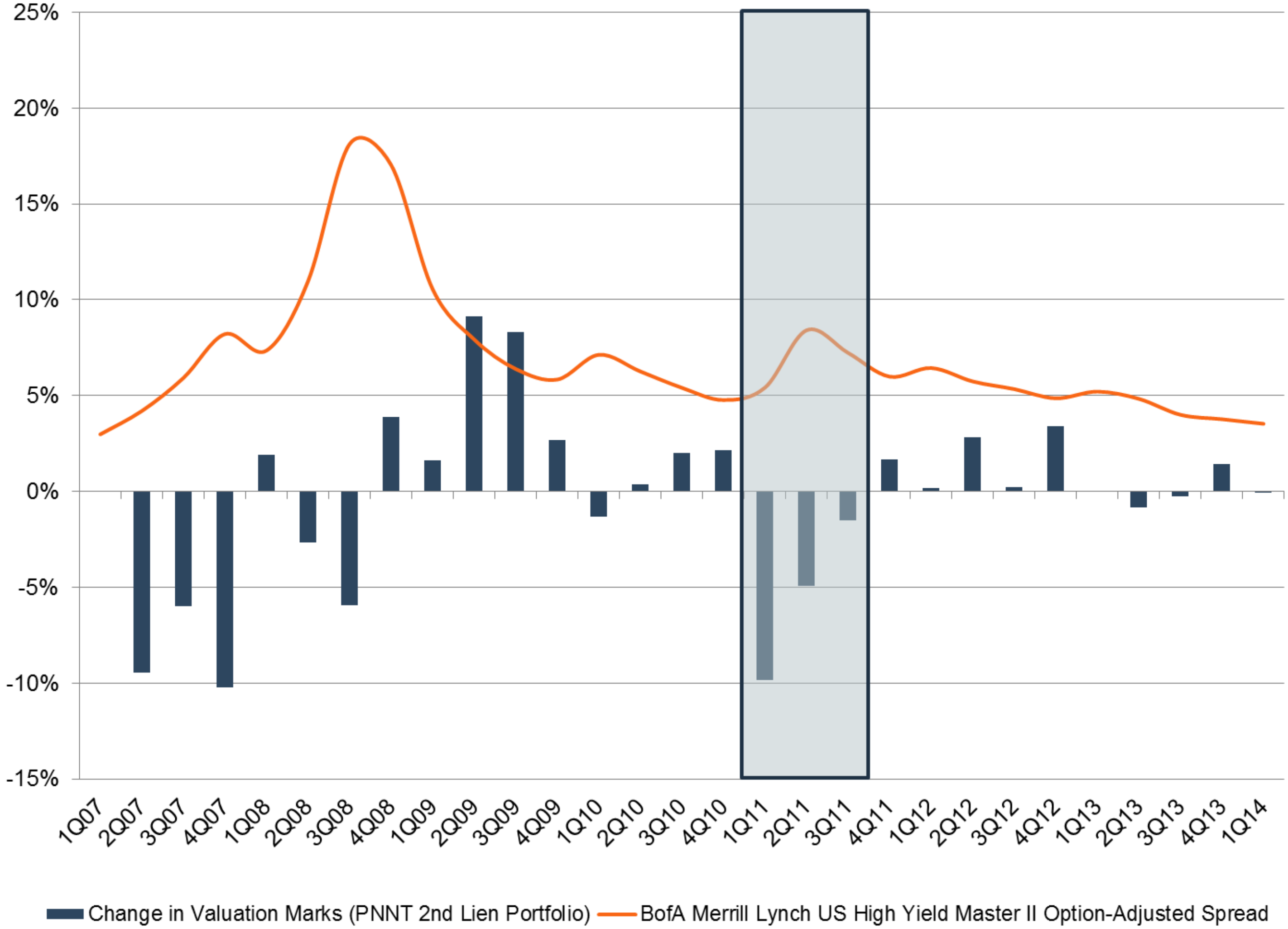
As credit spreads widened during the second half of 2007 and throughout 2008, PNNT recognized a cumulative fair value mark of –29% on 2nd lien book



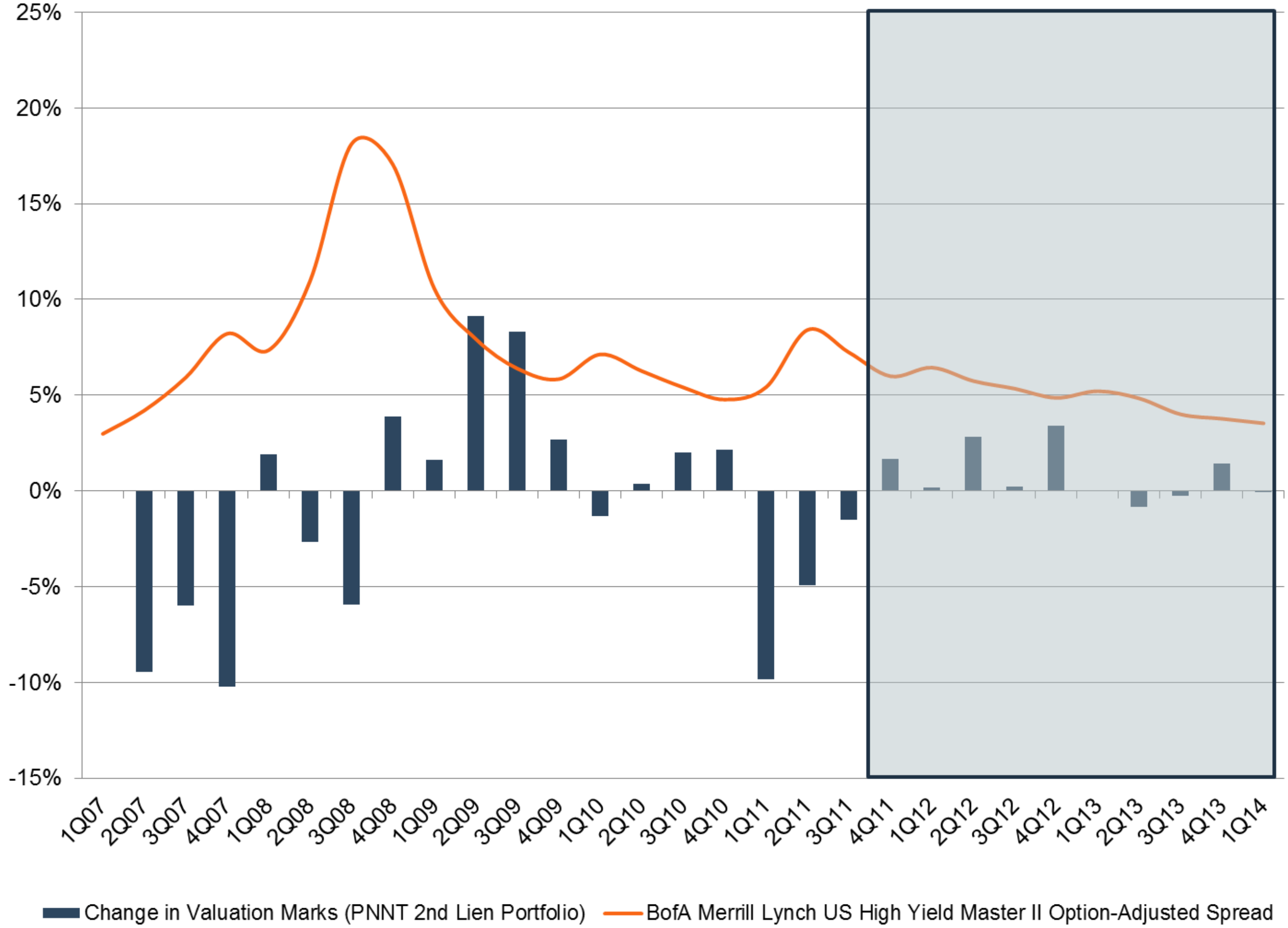
Over the course of the 2009-2010 recovery, PNNT marks recovered to approximate cost



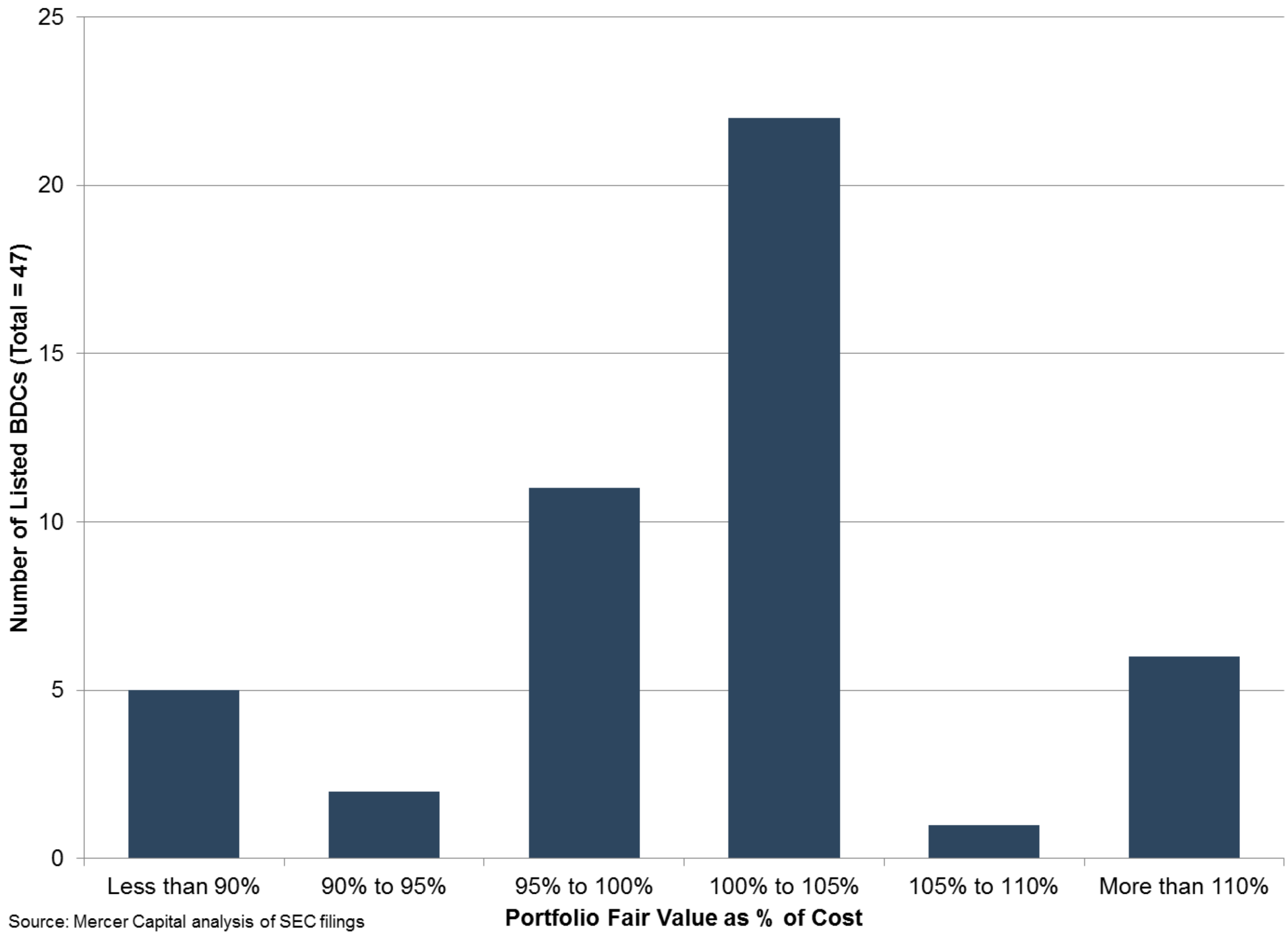
The effect of spread widening associated with the European debt crisis was exacerbated by writedown of a single PNNT credit (DirectBuy) in 2Q11



The benign credit conditions and steady spread tightening since the beginning of 2012 have contributed to current PNNT fair value marks at a premium to cost

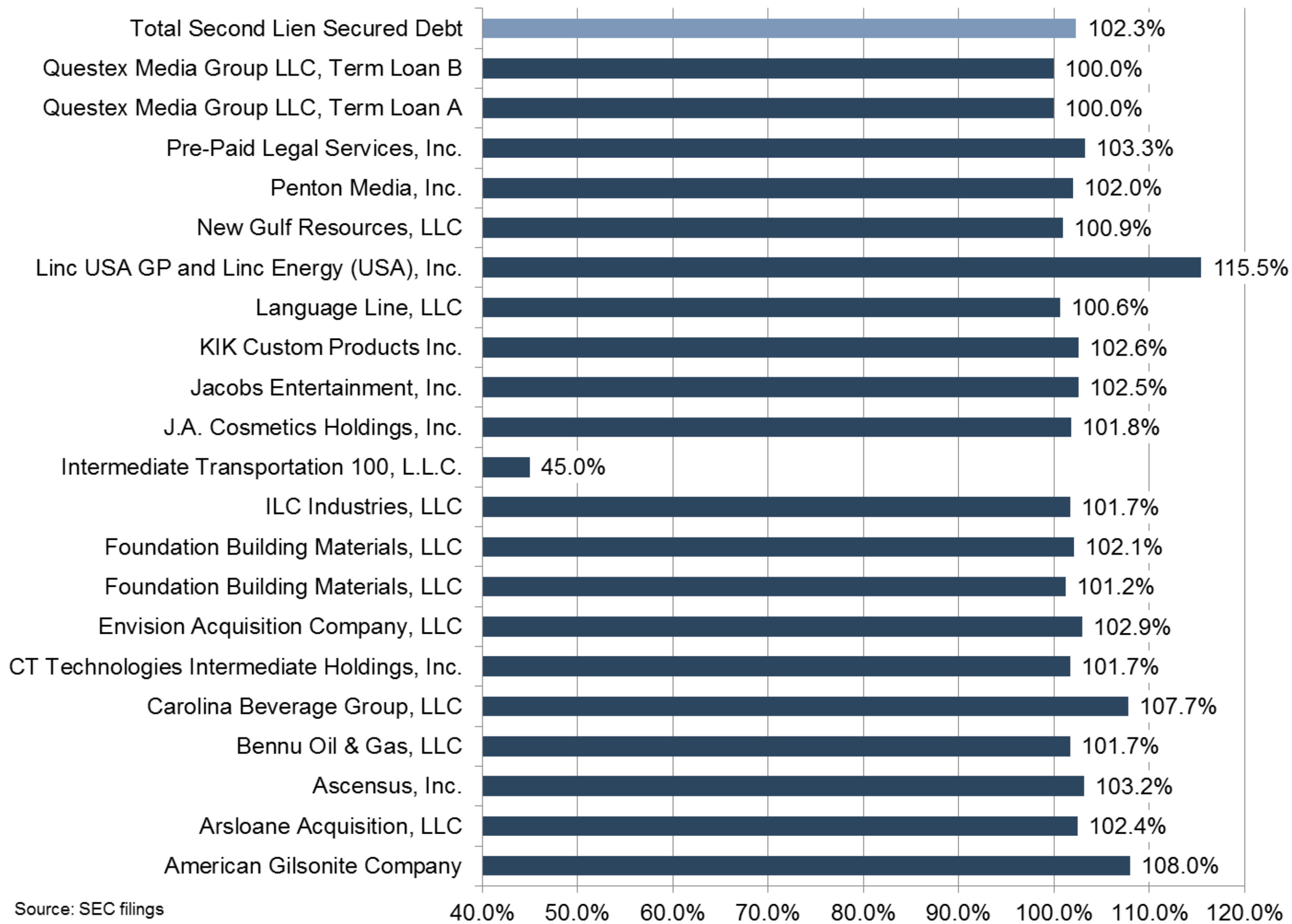


While the aggregate fair value mark across all BDCs is 100.2% of cost, individual BDCs display a wide range of marks



Source: Mercer Capital analysis of SEC filings

Fair value marks also exhibit diversity within a given portfolio, reflecting the unique attributes of each security



Source: SEC filings

Fair value measurement of debt is a function of structural features affecting anticipated cash flows and market yield

Cash Flow Structure

- » Stated maturity
  - ▪ Scheduled amortization
  - ▪ Prepayment penalties
- » Contractual interest rate
  - ▪ Floors and caps
  - ▪ LIBOR margin
  - ▪ Cash vs. PIK
- » Collateral considerations

Factors Influencing Yields

- » Level of interest rates
- » Shape of yield and credit curves
- » Credit spreads on new originations
- » Performance of seasoned credits in the secondary market
- » Company specific risk factors

Fair value assumptions should be calibrated to the origination date to more systematically account for changes in market conditions and borrower credit profile

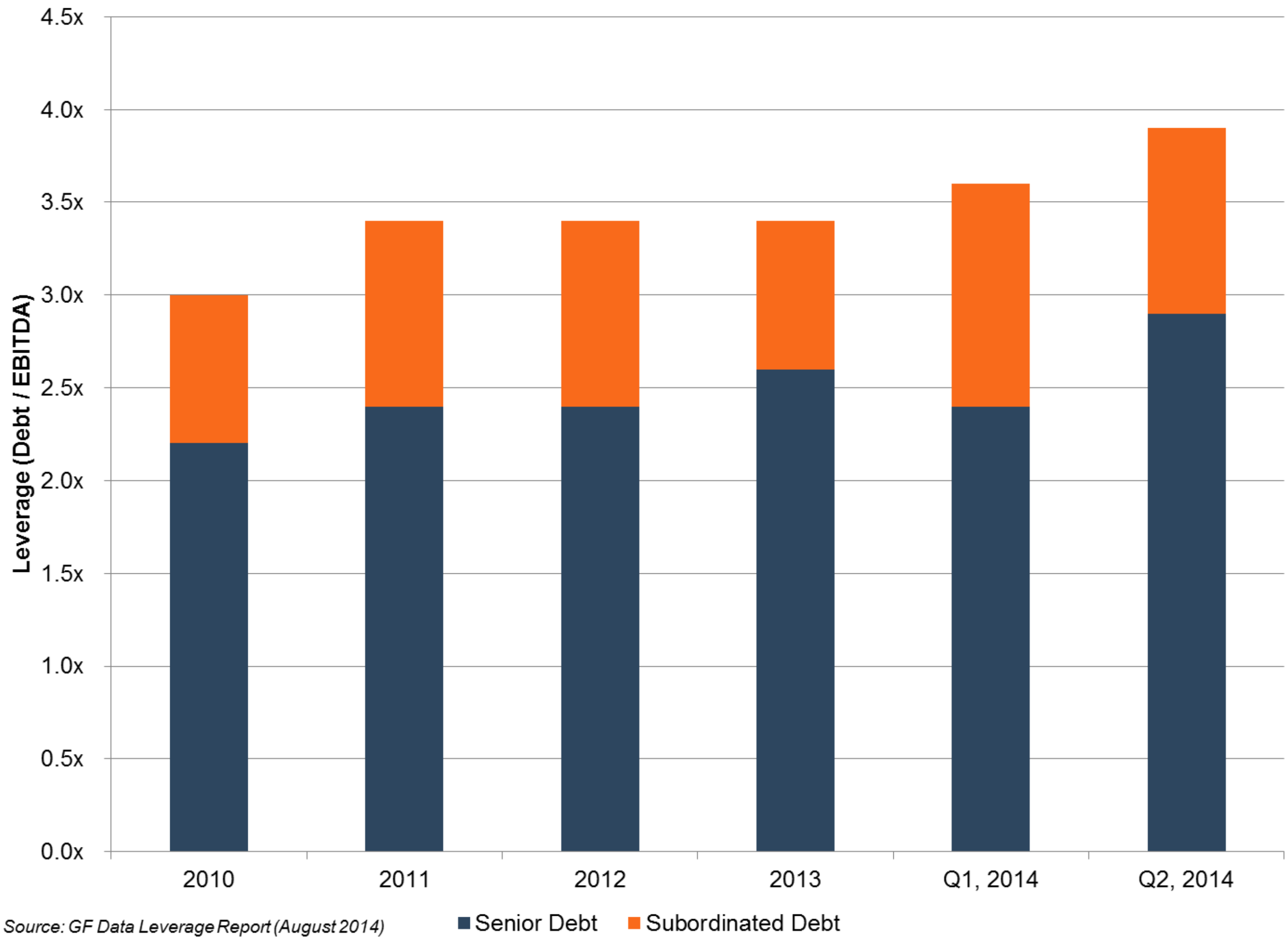
Spread Component Analysis

	Origination	Jun-14
BofA ML US High Yield B OAS	4.66%	3.41%
Primary Middle Market Loan Yields	6.30%	5.64%
less: 1-mo LIBOR	-0.18%	-0.15%
Middle Market Credit Spread	6.12%	5.49%
plus: Credit-Specific Risk	3.88%	3.75%
Total Yield Spread	10.00%	9.24%
Selected Spread for Valuation		**9.25%**

<> Contraction in origination yields and spreads consistent with data from high yield market above

<> Company has outperformed projections, contributing to modest spread contraction

Leverage statistics on recently originated middle market transactions provide benchmark to evaluate seasoning effect on subject loan



Source: GF Data Leverage Report (August 2014)

Value indications derived from discounted cash flow analysis should be evaluated relative to prepayment penalties and prospects for near-term refinancing

Principal Balance	$20,000
Origination Date	9/30/2013
Base Rate	LIBOR
Spread	10.00%
Base Floor	0.00%
Base Cap	11.00%
Annual Amortization	$2,500
Estimate - Excess Cash Flow Sweep	
Current Yield Spread	9.25%
Indicated Value	$20,392
As % of Principal Balance	102.0%

Sensitivity Analysis	
Assumed Spread	Indicated Value
9.75%	100.9%
9.50%	101.4%
9.25%	102.0%
9.00%	102.5%
8.75%	103.1%

Spread Component Analysis	Orig	Jun-14
Primary Middle Market Loan Yields	6.30%	5.64%
less: 1-mo LIBOR	-0.18%	-0.15%
Middle Market Credit Spread	6.12%	5.49%
plus: Credit-Specific Risk	3.88%	3.75%
Total Yield Spread	10.00%	9.24%
Memo: BofA ML US High Yield B OAS	4.66%	3.41%

		Interest Rate Data		Projected	Projected								PV of
Date	Discount Periods	Forward LIBOR	Spot Rates	Base Rate	Coupon Rate	Principal Amort	Interest Payment	Cash Flows	Beginning Balance	Ending Balance	Discount Rate	PV Factors	Cash Flows
9/30/2014	1.0	0.24%	0.23%	0.24%	10.24%	2,500	512	3,012	20,000	17,500	9.48%	0.9768	2,942
12/31/2014	2.0	0.29%	0.24%	0.29%	10.29%	-	450	450	17,500	17,500	9.49%	0.9542	429
3/31/2015	3.0	0.37%	0.25%	0.37%	10.37%	-	454	454	17,500	17,500	9.50%	0.9320	423
6/30/2015	4.0	0.55%	0.28%	0.55%	10.55%	-	461	461	17,500	17,500	9.53%	0.9101	420
9/30/2015	5.0	0.77%	0.34%	0.77%	10.77%	2,500	471	2,971	17,500	15,000	9.59%	0.8883	2,639
12/31/2015	6.0	1.01%	0.41%	1.01%	11.01%	-	413	413	15,000	15,000	9.66%	0.8666	358
3/31/2016	7.0	1.26%	0.49%	1.26%	11.26%	-	422	422	15,000	15,000	9.74%	0.8450	357
6/30/2016	8.0	1.52%	0.59%	1.52%	11.52%	-	432	432	15,000	15,000	9.84%	0.8233	356
9/30/2016	9.0	1.79%	0.70%	1.79%	11.79%	2,500	442	2,942	15,000	12,500	9.95%	0.8017	2,359
12/31/2016	10.0	2.06%	0.81%	2.06%	12.06%	-	377	377	12,500	12,500	10.06%	0.7801	294
3/31/2017	11.0	2.26%	0.92%	2.26%	12.26%	-	383	383	12,500	12,500	10.17%	0.7587	291
6/30/2017	12.0	2.41%	1.03%	2.41%	12.41%	-	388	388	12,500	12,500	10.28%	0.7374	286
9/30/2017	13.0	2.61%	1.14%	2.61%	12.61%	12,500	394	12,894	12,500	-	10.39%	0.7165	9,238

Fair value measurement for equity securities typically relies on the market and income approaches

Market Approach

» Guideline or Comp Multiples
  - Acquisition Multiples
  - Public Company Multiples

» Comparison with entry multiples should be made … why different now?

» Detailed analysis of historical and prospective performance vs. plan and peers

Income Approach

» Capitalization of debt-free earning power

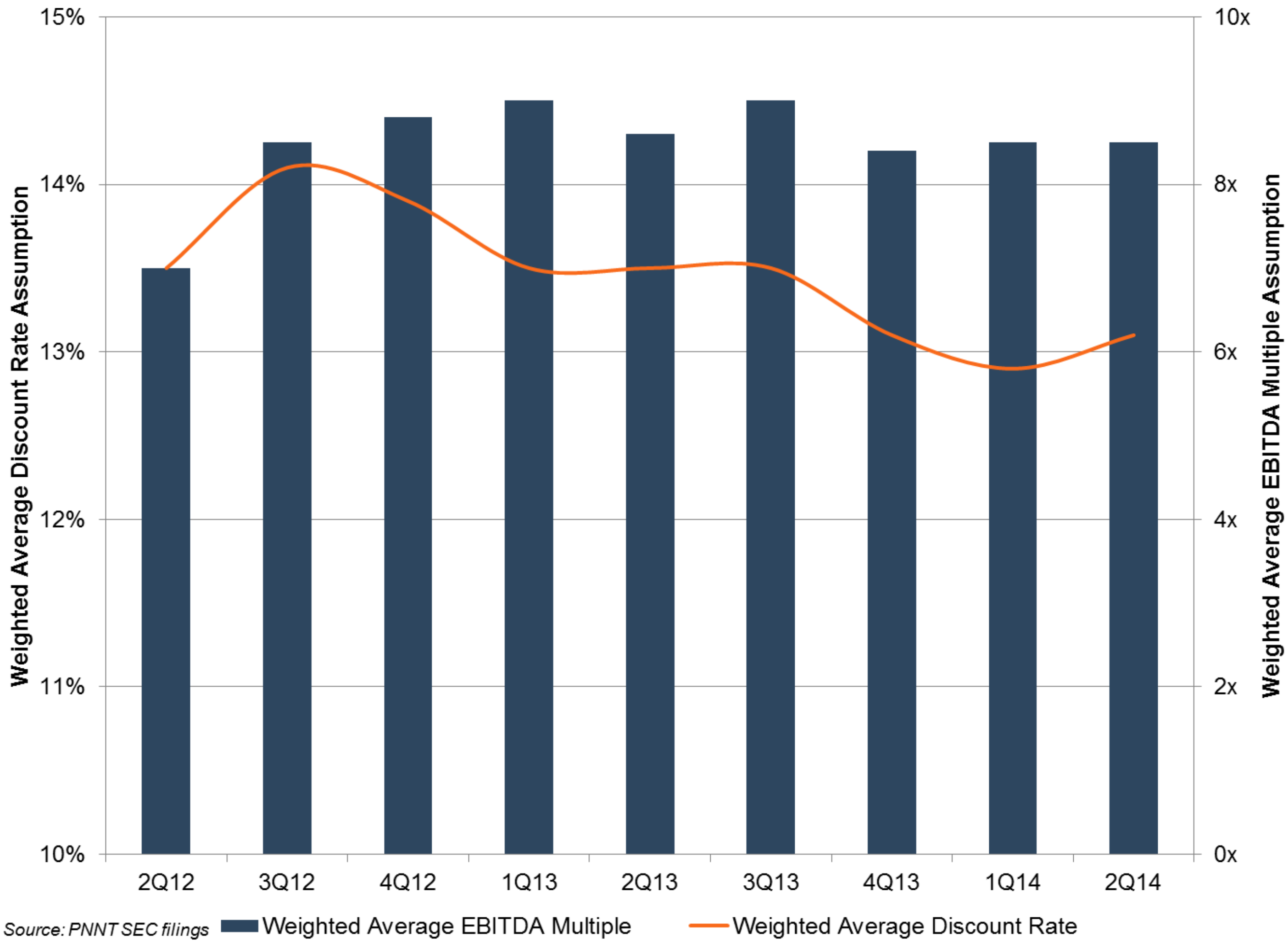
» DCF method
  - Projections in the context of historical performance vs. plan and peer performance
  - Risk appropriate WACC
  - Comparison of outcome with entry DCF … why different?

Multiples vary within industries and by amount of deal flow, but leverage trend is higher

	LBO Debt / EBITDA		M&A Enterprise Value (Equity + Debt) / EBITDA						
	Middle Market	Broadly Syndicated	Indus-trials	Consu-mer	Health-care	Tech	Energy	Deals < $100M	Deals $500-$1B
2007	5.5x	7.0x	na	na	na	na	na	na	na
2008	4.5x	5.5x	7.1x	8.3x	11.9x	11.0x	9.1x	6.2x	10.6x
2009	3.2x	4.8x	7.0x	8.4x	7.2x	8.6x	9.5x	7.1x	9.7x
2010	4.2x	5.6x	8.4x	8.2x	8.8x	10.9x	7.2x	8.1x	9.2x
2011	4.3x	5.7x	9.2x	9.1x	8.2x	9.4x	7.9x	7.8x	10.3x
2012	4.6x	5.8x	9.7x	8.7x	9.7x	8.2x	9.3x	7.9x	8.8x
2013	5.0x	6.0x	9.5x	8.8x	9.1x	9.1x	9.6x	7.6x	9.1x
1H14	5.3x	6.4x	9.3x	9.3x	10.6x	10.8x	12.8x	7.3x	9.8x

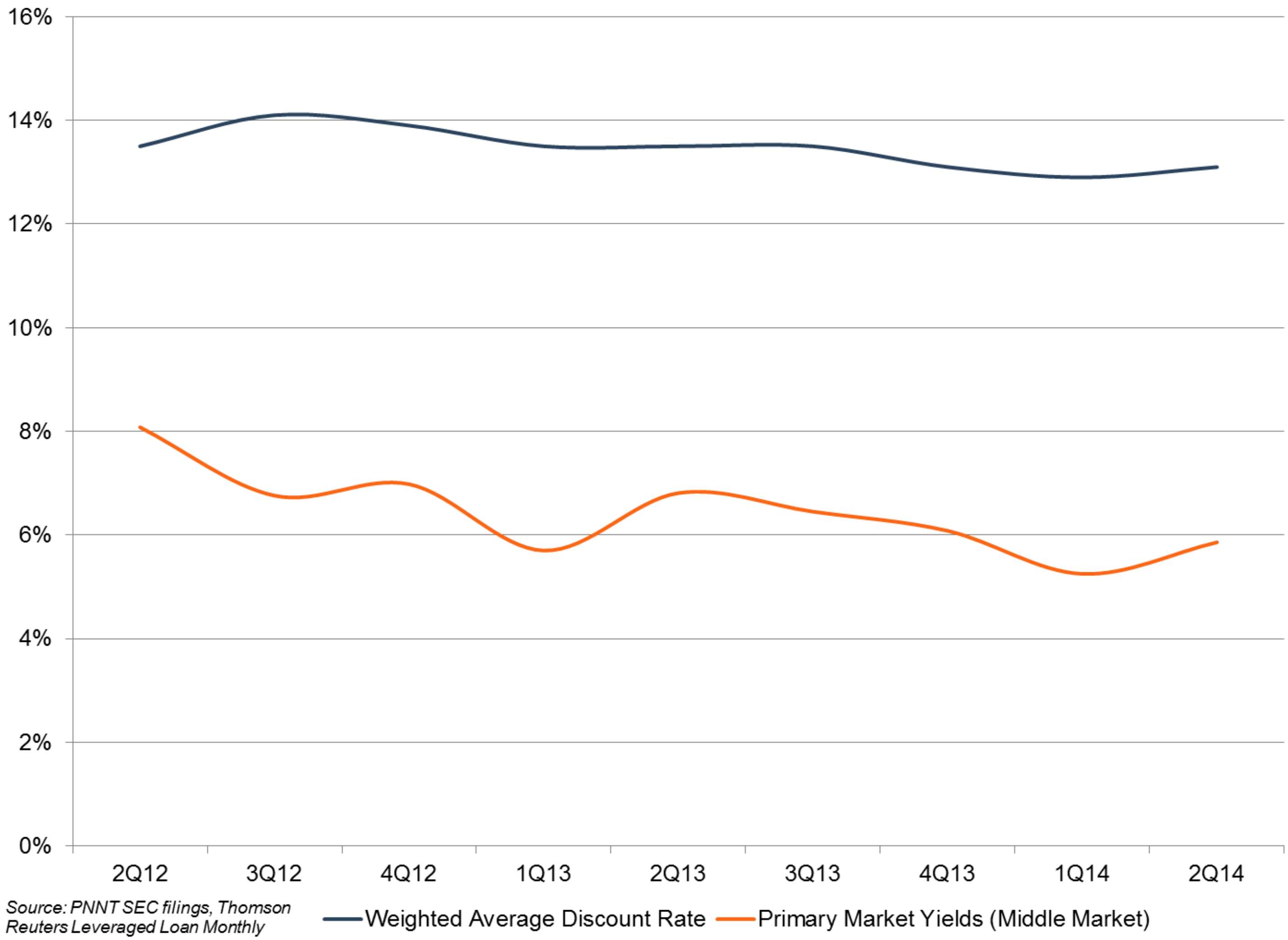
Source: Thomson Reuters Leverage Lending Monthly Update, NewStar Financial"s quarterly presentation to investors and KeyBanc Capital Market's M&A Quarterly Update

Required fair value disclosures include a description of the valuation methods used, and the range of key assumptions



Source: PNNT SEC filings

Valuation assumptions should track broad market trends, but will also be influenced by credit specific factors and portfolio composition trends



Source: PNNT SEC filings, Thomson Reuters Leveraged Loan Monthly

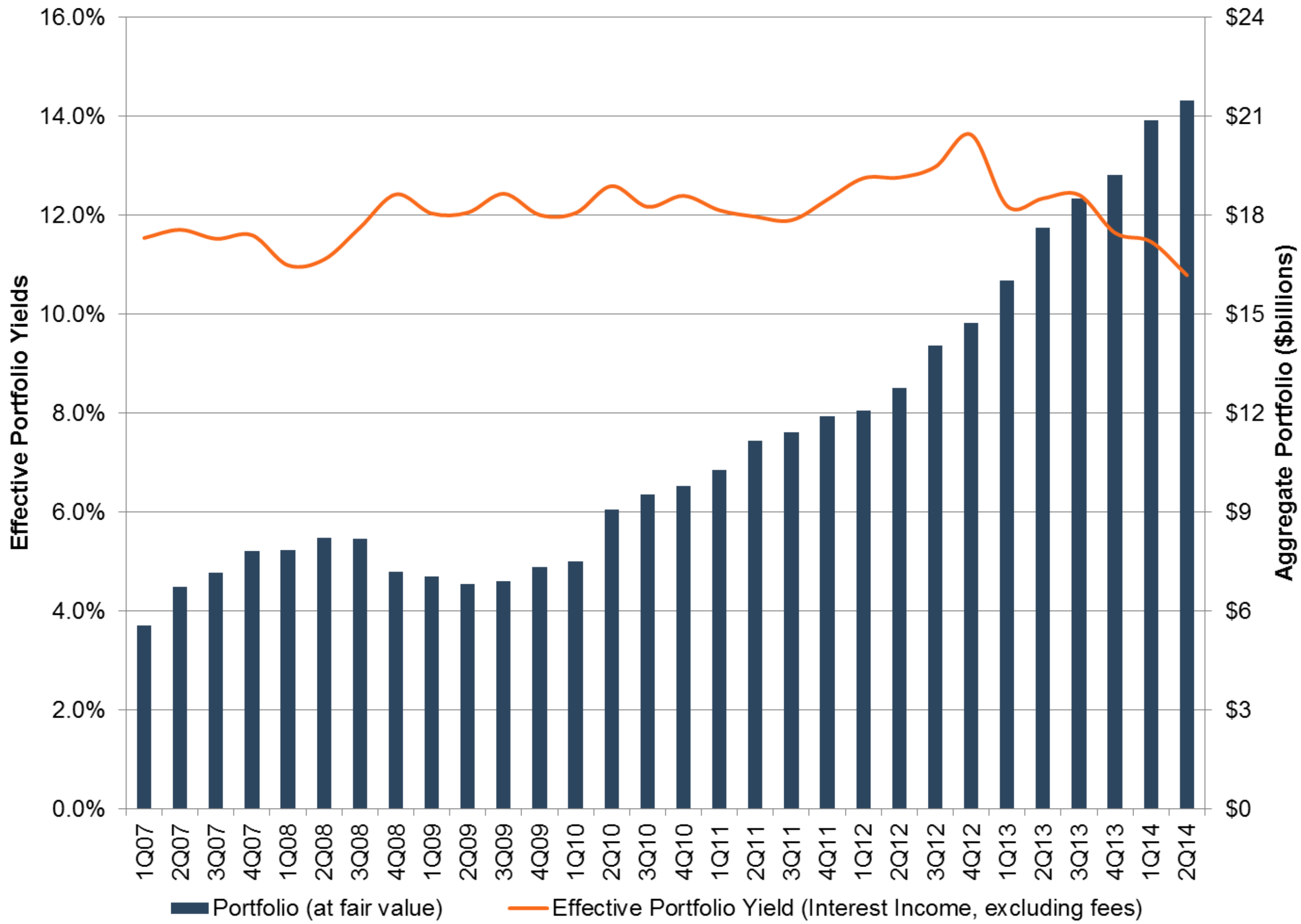
Section Four

The Outlook for BDCs

Key Issues for BDCs

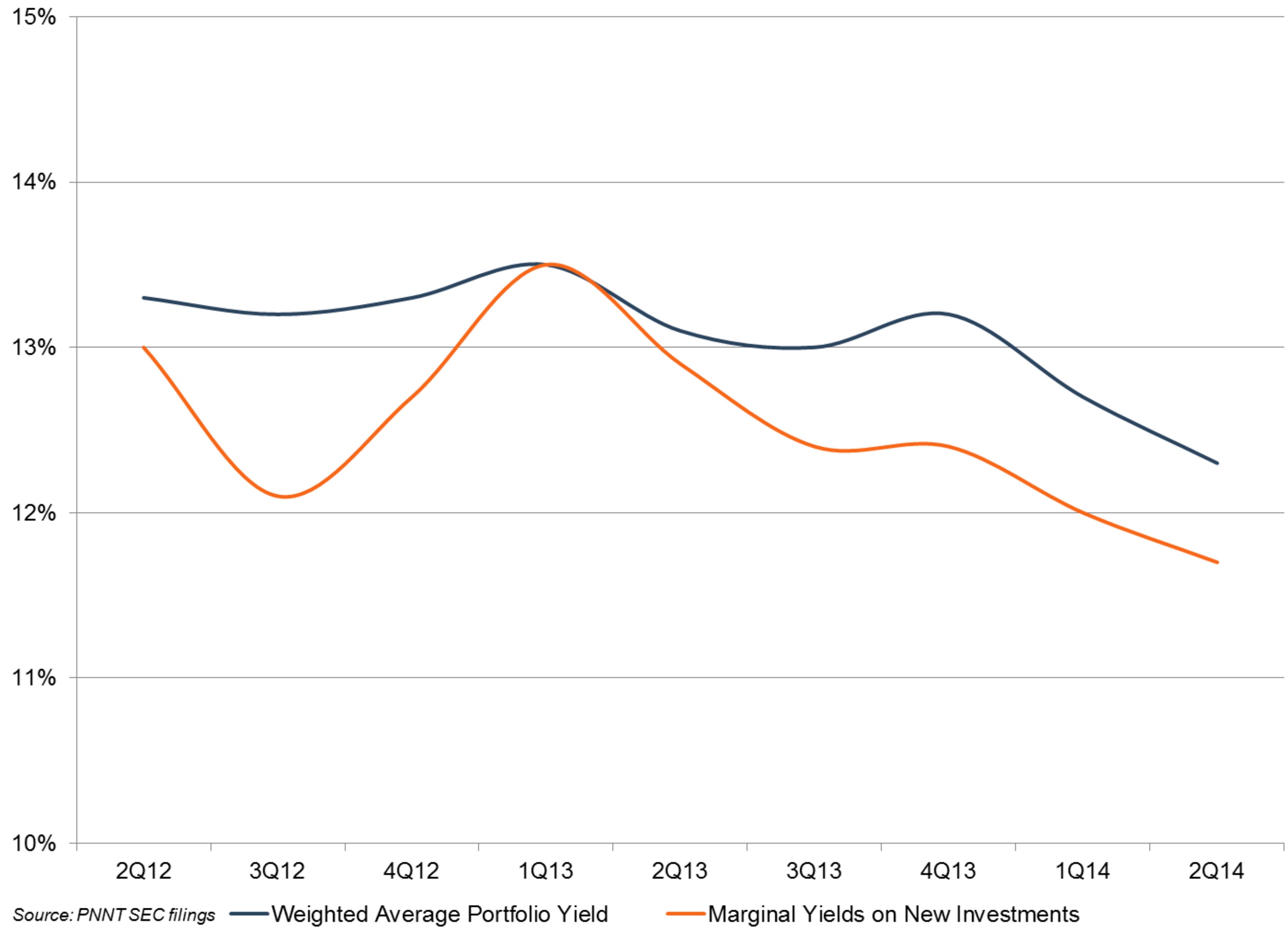
- » Increasing amount of capital is being allocated to the sector
  - Ongoing pressure on asset yields
  - Negative implications for dividends
  - Will investors care and are modest dividend cuts priced in?
- » How long does the benign credit environment last?
  - Leverage multiples are increasing
  - NPAs are low and liquidity is high
  - Investors will care—we believe—about wider credit spreads and credit losses that impact NAV and dividend paying capacity
- » Potential for more leverage via pending legislation

Portfolio yields have come under pressure in recent quarters in response to increasing supply of credit to middle market borrowers



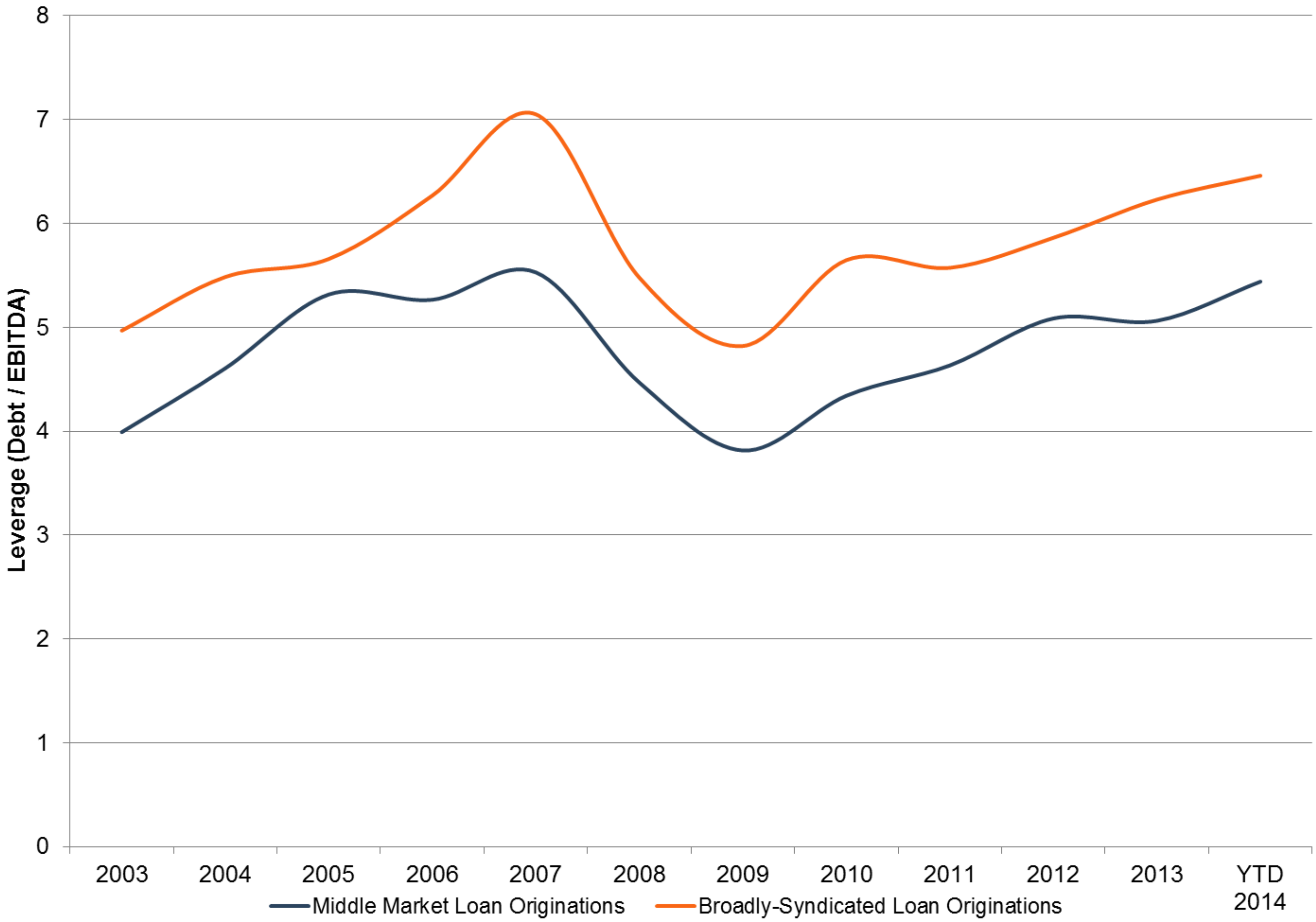
Source: SNL Financial

Marginal yields on new investment originations provide visibility on future portfolio yields



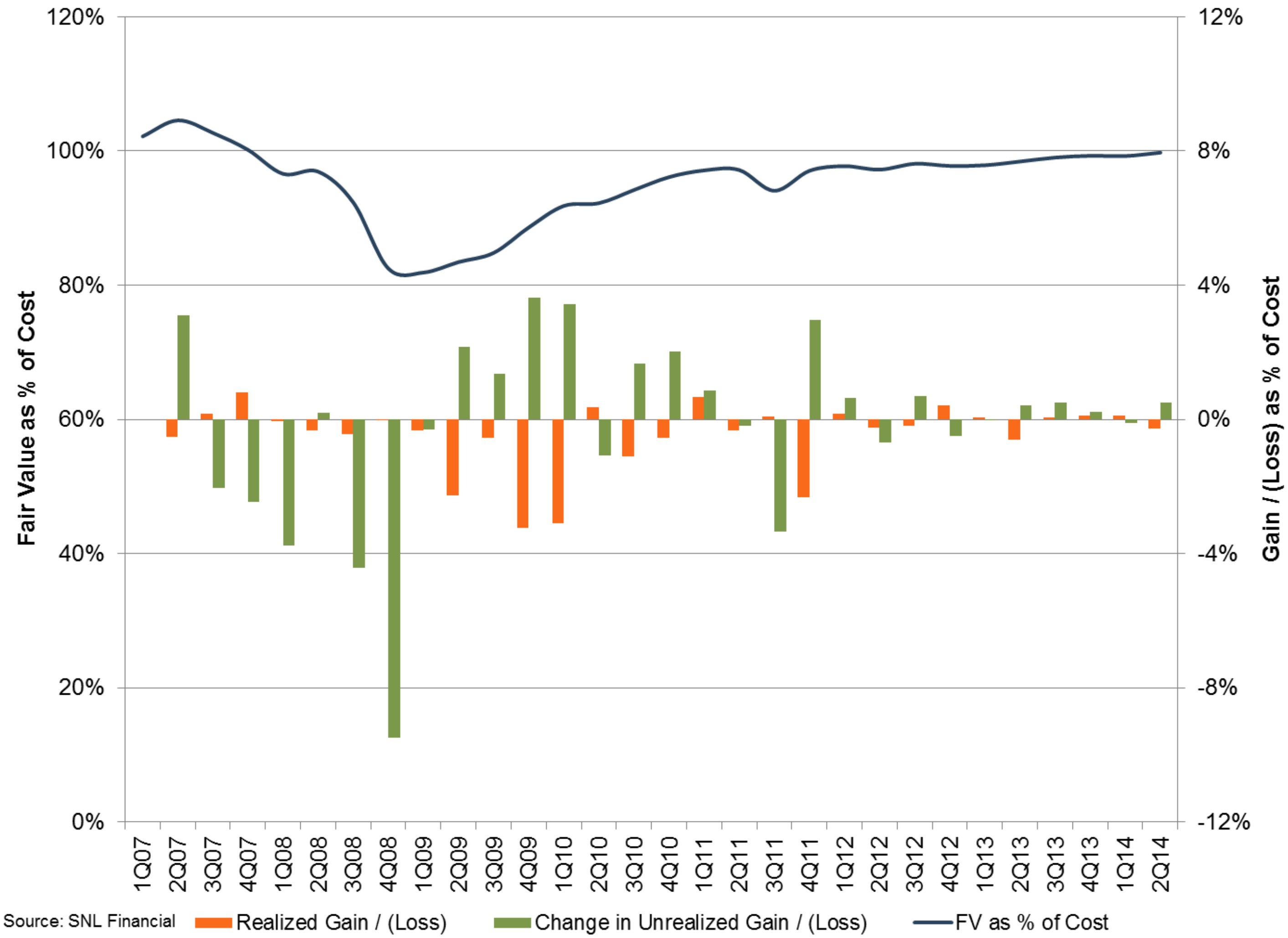
Source: PNNT SEC filings

Leverage levels on new middle market loans are approaching levels last seen in 2007



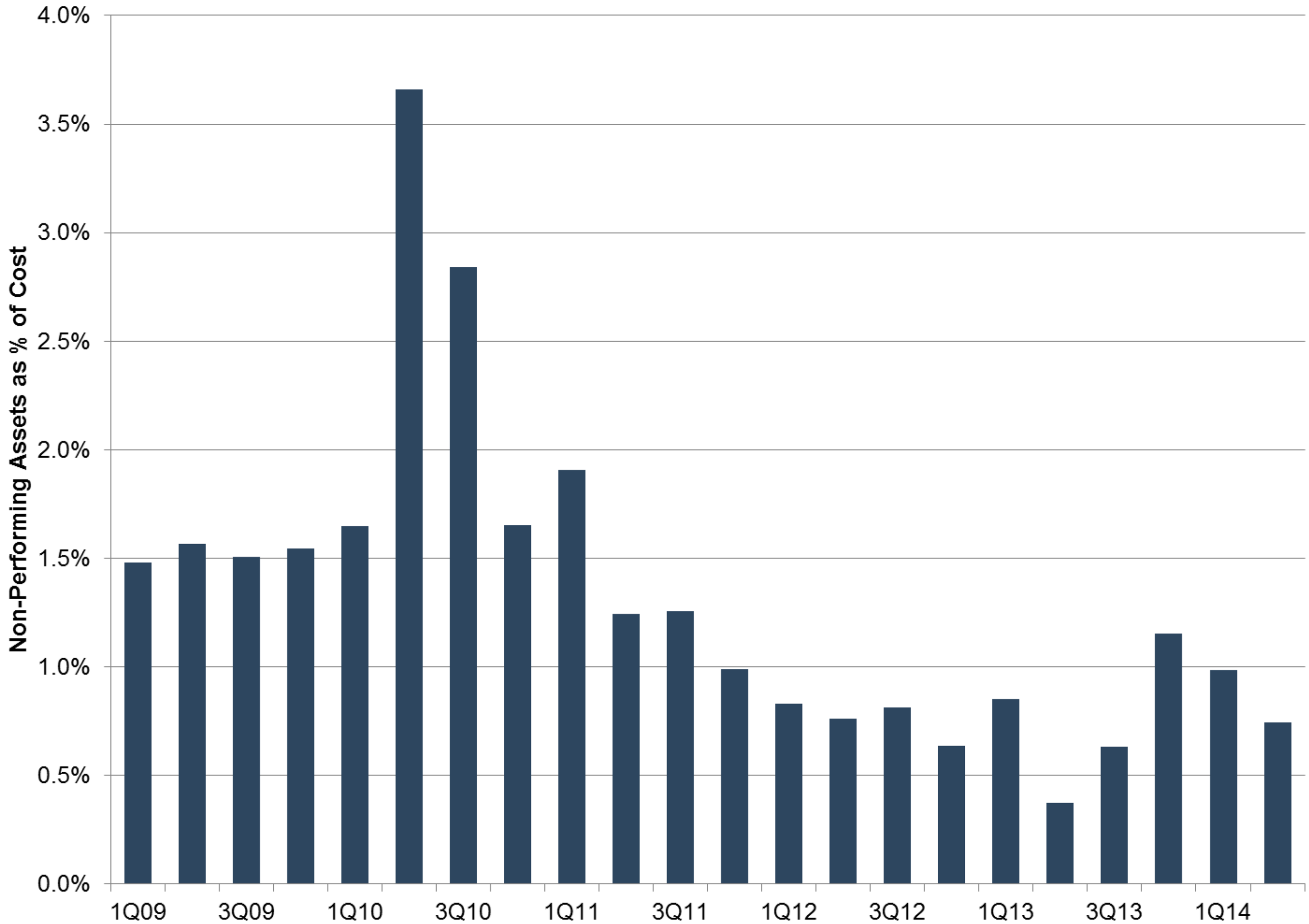
Source: Thomson Reuters Leveraged Loan Monthly (July 2014)

Fair value marks can provide a forward perspective on realized credit losses; realized losses following credit crisis totaled almost 60% of 4Q08 unrealized depreciation



Source: SNL Financial

Non-performing assets have generally remained below 1.0% of total since the end of 2011, ending 2Q14 at 0.74%



Source: SNL Financial, sample companies include AINV, ARCC, HTGC, KCAP, TICC, PSEC, GLAD, GAIN, TCAP

Company	Ticker	8/20/2014 Price	1 Yr Total Return	Market Cap ($M)	Assets ($M)	Price / Tangible BVPS	Div'd Yield	LTM ROAA	LTM ROAE
Ares Capital Corporation	ARCC	$16.98	6.6%	5,334	8,560	103%	9.0%	6.7%	11.4%
Prospect Capital Corporation	PSEC	$10.91	11.2%	3,736	6,353	102%	12.2%	6.7%	11.1%
FS Investment Corporation	FSIC	$10.42	NA	2,495	4,572	101%	8.6%	6.3%	11.0%
Apollo Investment Corporation	AINV	$8.69	19.7%	2,057	3,812	99%	9.2%	9.3%	16.3%
Fifth Street Finance Corp.	FSC	$9.76	3.7%	1,358	2,744	101%	11.3%	4.6%	8.2%
Solar Capital Ltd.	SLRC	$19.69	-3.5%	836	1,706	88%	8.1%	4.5%	7.2%
Main Street Capital Corporation	MAIN	$32.22	19.0%	1,445	1,549	153%	6.3%	7.9%	13.3%
Golub Capital BDC, Inc.	GBDC	$16.78	4.1%	790	1,462	109%	7.6%	4.7%	8.5%
New Mountain Finance Corporation	NMFC	$15.12	14.2%	787	1,358	103%	9.0%	11.5%	12.9%
PennantPark Investment Corporation	PNNT	$11.75	15.6%	782	1,290	104%	9.5%	10.9%	18.7%
TPG Specialty Lending, Inc.	TSLX	$17.67	NA	947	1,179	113%	8.6%	8.4%	13.7%
Hercules Technology Growth Capital, Inc.	HTGC	$15.77	15.2%	997	1,149	151%	7.9%	8.1%	15.0%
Blackrock Kelso Capital Corporation	BKCC	$9.20	2.4%	686	1,131	94%	9.1%	8.7%	14.8%
Medley Capital Corporation	MCC	$13.29	4.8%	695	1,101	105%	11.1%	6.5%	10.9%
TICC Capital Corp.	TICC	$9.74	13.3%	587	1,068	100%	11.9%	6.1%	11.6%
TCP Capital Corp.	TCPC	$17.23	24.2%	717	959	113%	8.4%	9.2%	14.8%
Triangle Capital Corporation	TCAP	$27.15	0.5%	893	831	170%	8.0%	9.6%	17.5%
THL Credit, Inc.	TCRD	$13.85	0.0%	470	792	104%	9.8%	5.7%	8.5%
Median			**8.9%**	**864**	**1,324**	**103%**	**9.0%**	**7.3%**	**12.3%**

An Introduction to

Business Development Companies

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