

# Introduction to BDCs

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## WHAT IS A BUSINESS DEVELOPMENT COMPANY AND WHAT DO THEY DO?

A business development company (BDC) is a specialized closed-end fund designed to provide credit to private middle-market companies. The BDC model originated in 1980, when the US Congress modified the Investment Company Act of 1940 (1940 Act) to specifically facilitate private finance investments. This legislative shift encouraged private equity firms to establish public vehicles, thereby increasing the flow of public capital to small, private businesses. At that time, bank balance sheets were reeling and middle-market businesses faced severely limited credit options. Traditional open-end and closed-end mutual fund complexes were unable to effectively service this private credit demand due to the rigid regulatory restrictions of traditional

fund structures. Furthermore, private equity firms sought to provide capital without falling under the strict “Investment Company” designation of the 1940 Act. In response, Congress created the BDC through Section 54 of the 1940 Act.

Today, BDCs operate within two primary regulatory structures, each carrying distinct requirements: 1) the election to be regulated as a BDC under the 1940 Act, and 2) the election to be treated as a Regulated Investment Company (RIC) under Subchapter M of the Internal Revenue Code of 1986. While we detail these requirements below, at PPM we think of BDCs as capital providers to the middle market, with the majority of capital being provided via senior secured term lending.

BDC Regulation	
<b>RIC Requirements:</b>	
<b>Income Requirement</b>	Must generate 90% of income from interest, dividends and realized capital gains.
<b>Distribution Requirement</b>	Must distribute at least 90% of income to shareholders. Must distribute 98% of income and capital gains in order to avoid paying a 4% excise tax on undistributed amounts.
<b>Asset Diversification</b>	Must have more than 50% of total assets in investments that make up less than 5% of total assets. Must limit its investment size to no more than 25% of the BDC's total assets.
<b>BDC Requirements:</b>	
<b>70% Qualifying Assets</b>	70% of assets must be in qualifying assets which include: private US companies or public US companies having a market capitalization of less than \$250 million.
<b>2:1 Leverage</b>	Limited to 2:1 leverage on a debt/equity basis.

As of 1 April 2026. Unless otherwise stated, the information presented has been prepared from market observations and other sources believed in good faith to be reliable. Information and opinions expressed by PPM are current as of the date indicated and are subject to change without notice. Past performance is no guarantee of future results. Forward-looking statements are subject to uncertainties that could cause actual developments and results to differ materially from the expectations expressed.

## WHAT DIFFERENT BDC STRUCTURES EXIST?

There are three primary categories of BDCs: public, private perpetual life and private placement non-perpetual. These structures are primarily distinguished by their specific approaches to equity fundraising. Public BDCs secure permanent equity capital through an initial public offering (IPO), with shares subsequently trading on secondary exchanges. In contrast, perpetual-life BDCs utilize a continuous private offering, whereas non-perpetual structures employ a finite offering period.

Because BDCs typically invest in illiquid middle-market assets, their specific structures have significant implications for how liquidity is managed. On one

side of the spectrum, public BDCs do not need to fund shareholder redemptions with their own internal liquidity, as investors exit by selling shares to other market participants. On the other hand, perpetual-life BDCs offer investors the option to redeem shares on a quarterly basis, which creates a direct call on the fund's liquid resources. This structural difference introduces a distinct liquidity risk for unsecured lenders, a factor often reflected in secondary trading spreads; consequently, public BDCs generally trade at tighter spreads compared to their perpetual-life, private counterparts. A more comprehensive breakdown of these BDC structures is provided in the overview below.

Overview of BDC Structures			
BDC Structure	Publicly Traded	Private, Nontraded	Perpetual, Nontraded
<b>Legal Structure</b>	40 Act, trades on a public exchange	40 Act, finite offering or one-time private placement	40 Act, offered continuously
<b>Liquidity</b>	Most liquid as the shares are publicly traded, but also the most volatile	Limited liquidity due to long-term lock-ups; some offer quarterly redemptions at 5% of NAV	Quarterly liquidity via share repurchases, typically capped at 5% of NAV
<b>Equity Offering</b>	Market price	Current NAV	Current NAV
<b>Lifecycle</b>	Permanent	Limited life; typically 5-7 years with a planned liquidity event	Evergreen; could pursue an IPO

## WHAT IS THE COMPOSITION OF BDC PORTFOLIOS AND WHAT DO THEY INVEST IN?

While BDCs have the mandate to invest across the entire credit spectrum, they typically concentrate efforts on a specific subset of the capital structure. BDCs generally seek to act as comprehensive solution providers for debt capital, primarily focusing on unitranche and senior secured loans to middle-market companies, with occasional exposure to second-lien or subordinated debt and minority equity co-investments.

It is important to note that the cost of financing these assets is relatively high; consequently, BDCs must prioritize higher-yielding loans to ensure their investment "math" remains viable given their inherent cost structures. Lower-yielding debt instruments are generally incompatible with the BDC model, as the net return becomes insufficient once management fees

and the cost of capital are deducted. Therefore, BDCs strategically target higher-return debt investments, with a typical yield of between 8% and 12% depending on prevailing base rates.

While these investments can technically sit anywhere in the capital structure, they are most frequently structured as unitranche and senior loans to maximize risk-adjusted returns. At the industry level, BDCs have concentrations in just a handful of industries. Technology Services, Healthcare and Financials together make up two-thirds of all BDC investments. This is largely by design, as BDCs tend to take higher exposures to non-cyclical and less capital-intensive sectors. This portfolio construction has resulted in many BDCs maintaining relatively large allocations to the technology and software sectors, making the industry particularly sensitive to the recent decline in software equity and credit valuations.

## HOW DOES ONE ANALYZE A BDC AND WHAT IS THE RELATIVE VALUE FRAMEWORK?

There are several distinct methodologies for approaching the credit analysis of a BDC:

- > The funding profile, specifically the mix of secured versus unsecured debt and the degree of balance sheet encumbrance
- > Liquidity risk, which centers on whether shareholders possess redemption rights
- > Leverage, noting the regulatory cap of 2.0x debt-to-equity, which translates to a 150% asset coverage requirement
- > The management track record and the overall robustness of the investment platform; this is of critical importance, as BDCs are vehicles actively managed by a credit sponsor

Most importantly, we focus on the quality of the investment portfolio. At PPM, we concentrate on assessing the manager's platform and conducting deep-dive analyses into the underlying assets. These are the primary drivers of PPM's internal credit rating. Because BDCs are essentially portfolios of risky assets required by regulation to be financed conservatively, their quarterly filings provide investors with granular insight. PPM systematically tracks these schedules of investments for every BDC, aiming to identify potential credit deterioration before it manifests.

Below is an example of the investment watchlist for Blue Owl Credit Income Corp (OCIC), which PPM defines as the sum of non-accruals and loans marked below 90% of par that remain on accrual status (emphasis in red added).<sup>1</sup>

OCINCC Nonaccruals as of 4Q25	Security	Industry	Maturity	Amortized Cost (\$, '000s)	Fair Value (\$, '000s)	4Q25 Mark (FV/Cost)	% of NAV (FV)
<b>EOS Finco S.A.R.L</b>	First lien senior secured loan	Telecommunications	10/2029	68,077	21,771	32%	0.1%
<b>Ideal Image Development, LLC</b>	First lien senior secured revolving loan	Specialty retail	2/2029	678	420	62%	0.0%
<b>Plasma Buyer LLC (New Addition)</b>	First lien senior secured loan	Healthcare providers and services	5/2029	105,818	87,205	82%	0.4%
<b>Plasma Buyer LLC (New Addition)</b>	First lien senior secured delayed draw term loan	Healthcare providers and services	5/2029	3,989	3,301	83%	0.0%
<b>Plasma Buyer LLC (New Addition)</b>	First lien senior secured revolving loan	Healthcare providers and services	5/2028	12,076	9,920	82%	0.1%
<b>Pluralsight, LLC (New Addition)</b>	First lien senior secured loan	Education	8/2029	1,345	1,133	84%	0.0%
<b>Walker Edison Furniture Company LLC</b>	First lien senior secured loan	Household products	2/2026	1,305	1,346	103%	0.0%
<b>Walker Edison Furniture Company LLC</b>	First lien senior secured delayed draw term loan	Household products	3/2027	3,072	46	1%	0.0%
<b>Total Non-Accruals % of Portfolio</b>				196,360 0.5%	125,142 0.3%	64% -	0.6% -

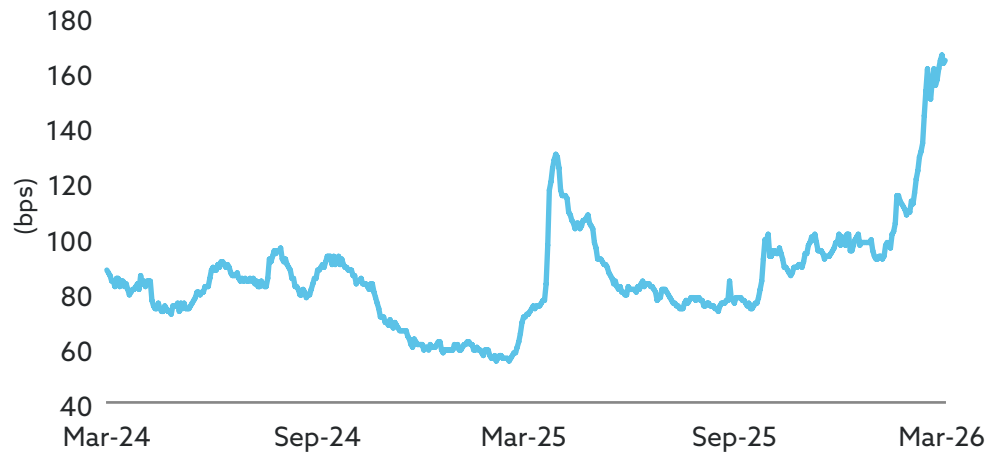
(1) Blue Owl reports these holdings publicly to the SEC in their annual Form 10-K. As of 31 December 2025.

<b>OCINCC Watchlist Investments as of 4Q25</b>	<b>Security</b>	<b>Industry</b>	<b>Maturity</b>	<b>Cost (\$, '000s)</b>	<b>Fair Value (\$, '000s)</b>	<b>4Q25 Mark (FV/Cost)</b>	<b>% of NAV (FV)</b>
<b>Advancion Holdings, LLC</b>	Second lien senior secured loan	Chemicals	11/2028	40,130	35,823	89%	0.2%
<b>AramSCO, Inc.</b>	First lien senior secured loan	Distribution	10/2030	48,894	33,225	68%	0.2%
<b>Balrog Acquisition, Inc.</b>	Second lien senior secured loan	Food and beverage	9/2029	5,972	4,830	81%	0.0%
<b>Balrog Acquisition, Inc.</b>	First lien senior secured loan	Food and beverage	9/2028	24,199	20,732	86%	0.1%
<b>Barracuda Parent, LLC</b>	Second lien senior secured loan	Internet software and services	8/2030	91,333	67,606	74%	0.3%
<b>Barracuda Parent, LLC</b>	First lien senior secured loan	Internet software and services	8/2029	13,761	11,308	82%	0.1%
<b>Conair Holdings LLC</b>	Second lien senior secured loan	Consumer products	5/2029	22,400	10,166	45%	0.1%
<b>Conair Holdings LLC</b>	First lien senior secured loan	Consumer products	5/2028	44,214	22,782	52%	0.1%
<b>EP Purchaser, LLC</b>	First lien senior secured loan	Professional services	11/2028	24,902	18,076	73%	0.1%
<b>GI Ranger Intermediate, LLC</b>	First lien senior secured revolving loan	Healthcare technology	10/2027	213	173	81%	0.0%
<b>Learning Care Group</b>	First lien senior secured loan	Education	8/2028	41,782	34,585	83%	0.2%
<b>NELIPAK EUROPEAN HOLDINGS COÖPERATIEF U.A.</b>	First lien senior secured EUR revolving loan	Healthcare equipment and services	3/2031	411	342	83%	0.0%
<b>Peraton Corp.</b>	Second lien senior secured loan	Aerospace and defense	2/2029	4,798	3,784	79%	0.0%
<b>Perforce Software, Inc.</b>	First lien senior secured loan	Internet software and services	3/2031	4,909	4,127	84%	0.0%
<b>Physician Partners, LLC</b>	First lien senior secured loan	Healthcare providers and services	12/2029	11,957	8,534	71%	0.0%
<b>Physician Partners, LLC</b>	First lien senior secured loan	Healthcare providers and services	12/2029	57,870	41,859	72%	0.2%
<b>Soliant Lower Intermediate, LLC</b>	First lien senior secured loan	Healthcare providers and services	7/2031	62,000	51,549	83%	0.3%
<b>Pluralsight, LLC</b>	First lien senior secured loan	Education	8/2029	1,208	1,184	98%	0.0%
<b>Notorious Holdings LLC</b>	First lien senior secured loan	Specialty Retail	12/2031	24,134	24,132	100%	0.1%
<b>Notorious Topco, LLC</b>	First lien senior secured loan	Specialty Retail	12/2030	50,561	50,529	100%	0.3%
<b>Total Watchlist Investments % of Portfolio</b>				575,648 1.6%	445,346 1.2%	77% -	2.3% -
<b>PPM Watchlist (Non-Accruals + Watchlist)</b>				2.1%	1.6%	74%	3%

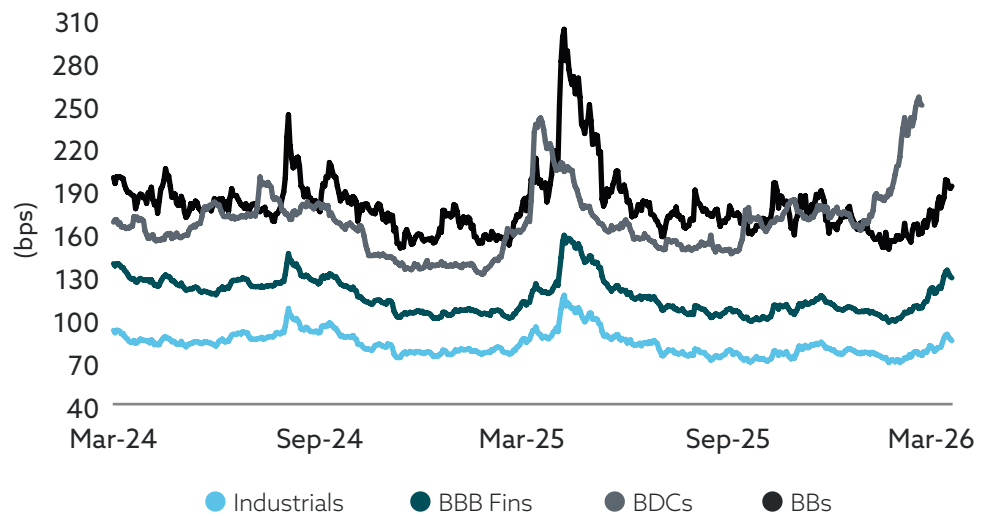
Lastly, regarding relative value, we do not believe investment grade Financials serve as appropriate comparables for BDCs due to fundamental differences in their underlying assets. Instead, we view collateralized loan obligations (CLOs) as a better comp, as they share a highly similar asset profile to BDCs, in our view. As BDCs typically trade wide to BBB rated corporate debt, we also utilize BB and B rated corporate indices to triangulate our relative value targets for the sector, integrating all of these benchmarks into our overarching framework.

To that end, PPM entered 2026 with an "Underperform" recommendation on the sector, driven by a confluence of fundamental and technical factors. However, we recently upgraded our sector opinion to "Market Perform" following a sell-off that we believe became overextended; BDCs are now trading between BB and B rated indices and are currently well wide of AA and A rated broadly syndicated loan CLOs. Despite this adjustment, we are not advocating for an outright overweight position. We believe manager selection remains paramount, as we anticipate further dispersion in performance and asset quality across the space. The recent volatility has created a tactical buying opportunity for top-tier managers who we expect to outperform their peers on a through-the-cycle basis.

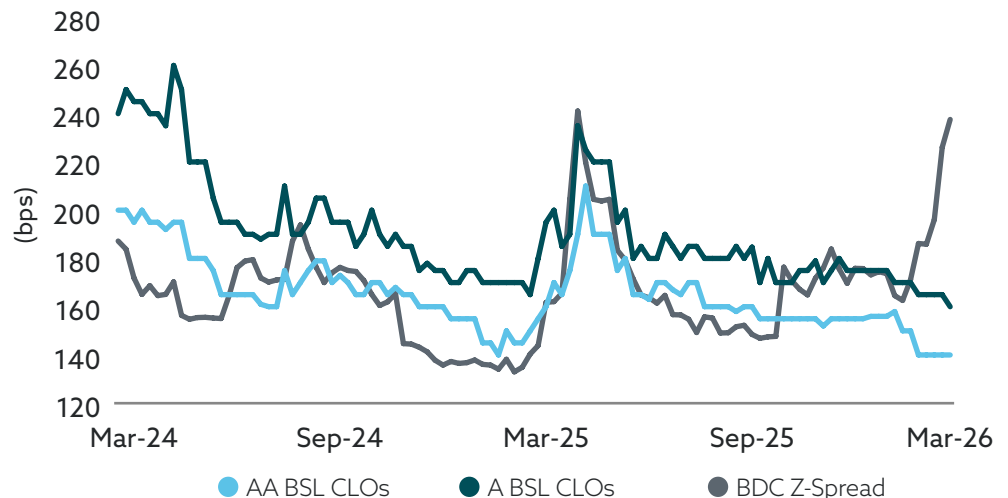
**BDC - INDUSTRIALS OAS BASIS<sup>2</sup>**



**BDC SECTOR SPREADS - OAS<sup>2</sup>**



**BDC Z-SPREAD VS. CLO DISCOUNT MARGIN<sup>3</sup>**



(2) Bloomberg, 19 March 2026. (3) BofA. Weekly data through 6 March 2026.

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