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Conference Call
CMFinance
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Operator: Welcome to the CM Finance First Quarter Earnings Release Conference Call. Your speakers for today's call are Mike Mauer, Chris Jansen, and Rocco DelGuercio. The question and answers in session will follow the presentation. I would now like turn the call to your speakers. You may begin.

Male: Thank you, operator. Thank you all for joining us this afternoon. With me today are Chris Jansen, my co-Chief Investment Officer, and Rocco DelGuercio, our CFO. Before we begin, Rocco will give our customary disclaimer regarding information and forward-looking statements. Rocco?

Male: Thanks, Mike. I would like to remind everyone that today's call is being recorded and that this call is the property of CM Finance Inc. Any unauthorized broadcast of this call in any form is strictly prohibited. Audio replay of the call will be available by visiting our Investor Relations page on our website at www.cmsn-inc.com. I'd also like to call your attention to the Safe Harbor disclosure and our press release regarding forward-looking information and remind everyone that today's call may include forward-looking statement and projections. We ask that you refer to our most recent 10-Q filing for important factors that may cause actual results to different material we - from these projections. We will not update forward-looking statements unless required by law. To obtain copies of our latest SEC filings, please visit our Investor Relations page on our website. At this time, I'd like to return the call back to our chairman and CEO, Michael Mauer.

Male: Thanks, Rocco. As in our past calls, I will begin with a discussion of what we've seen in the leverage finance market. Chris will then review our investment activity during and after the quarter and then Rocco will discuss our financial results. I will conclude with commentary on our outlook for the portfolio.

We've redoubled our focus on developing directly sourced investments usually on a club-basis over the last several months. Club deals frequently have a longer lead time between identifying the opportunity and closing on the investment as well as a slower due diligence. The trade-off is that these opportunities are not tied to borrowing conditions in the syndicated market. Terms are idiosyncratic with structures thoughtfully matched to the risk profile of the borrower. It's an opportunity to do more work, exchange for better returns and protections for us as lenders. During the quarter, we made two direct investments and closed on another direct investment after quarter-end. We still look at loans that are broadly syndicated as well as secondary opportunities in loans and bonds. However, lending conditions in the syndicated markets remain borrower-friendly. Seventy-three percent of new loans tracked by LCD year-to-date are covenant-lite. We pride ourselves and our attention to the documentation and structuring of our investments which has led us to pass on a significant number of new deals. Through our strategic relationships with Stifel and Cyrus and our proprietary networks of our investment team, we can leverage our origination capacity and call on a deep base of knowledge from the industry and product specialists as well as investment bankers. As is true when we spoke last, our pipeline is focused largely on direct lending opportunities. We're always focused on secured lending to high quality management teams and companies. We're opportunistic about the opportunities in our current pipeline as we finish 2017 and enter the New Year. I now like to turn the call over to Chris to discuss our portfolio activity.

Male: Thanks, Mike. We made three investments during the quarter. Each of which is a new portfolio company. We also had three realizations during the quarter. As I mentioned on our last call, we made an investment in the first lien loan to CareerBuilder. This loan back that follows purchase of the company which is a leading online employment website on the internet serving both employers and job seekers. Our yield on cost was 9.1%. We invested in the first lien loan to Liberty Oilfield Services, a provider of hydraulic fracturing services. Riverstone is the sponsor. This is a club deal and refinanced Liberty's existing capital structure. Our yield on cost was 9.8%. Finally, we led a new second lien loan to Montrose Environmental Group. Montrose is a privately held environmental services firm that provides air, soil, and water testing and related environmental services nationwide. Our yield on cost was 15%. During the prior quarter, we participated in the first lien loan for Melissa & Doug, the maker of a wide variety of children's toys. Our position was small and we sold it early this past quarter realizing a gain of 1.5

points. This extremely high IRR is not meaningful given our short holding period. We also fully realized our investment in the first lien term loan of YRC Worldwide, a less-than-truckload freight carrier which we had held since the IPO of CM Finance in February of 2014. Our realized IRR was approximately 8.6%. We received repayment in full on our second lien loan to TNS which we had also held since the IPO. Our realized IRR was approximately 9.6%.

Our portfolio company count is held steady since June 30 with 23 portfolio companies. The count remains at 23 today. As of September 30th, our largest industry concentration was business services at 22% of the portfolio at fair value. Oil and oil and gas services represented 19.7% of our portfolio split between 11.3% oilfield services and 8.4% E&P. Entertainment and leisure followed at 14.1%, followed by healthcare at 8.9% and media at 6.3%. Since quarter-end, we made one new investment and had one full realization. Zinc oxide produces a key raw material used in tire manufacturing as well as chemical, agricultural, and personal care applications. We participated in the first lien club deal and also co-invested in the equity. We purchased $7.5 million of this loan which is priced at LIBOR plus 1000 at a purchase price of 99. We also purchased approximately 523,000 of equity alongside our lending partner in the transaction. Redbox repaid its loan in full in October. This loan was structured to repay quickly so we were not actually surprised to receive this prepayment. Our fully realized IRR was approximately 13.5%. I now like to turn the call over to Rocco to discuss our financial results.

Male: Thanks, Chris. For the quarter, our net investment income was $3 million or $0.22 per share. As of September 30th, the fair value of our portfolio was $271.9 million compared to $254.9 million at June 30th. Our investment activity accounts point $6.3 million increase in our portfolio. We also had $700,000.00 increase in our net changes in our marks. As of September 30th, the weighted average yield of our debt portfolio including amortized cost was 10.67% versus 9.73% at June 30th. Two major factors contributed to the increase in our average yield. First, our investments during the quarter had an average yield of 11.7% versus 9.1% average yield on investments realized in the quarter. This account [Unintelligible] 55-basis-point increase in our yield. Second, the restructuring of Bird Electric removed the significant non-accrual asset from our debt portfolio as we equitize the loan. This accounted for a 39-basis point increase in our yield. As of October 1st, we removed Bird from non-accrual status leaving us with no lapses on non-accrual currently. Our debt portfolio was comprised of 96% floating rate investments and 4% fixed rate investments. Both one and three-month LIBOR are in excess of all applicable rate floors of our loans. Our average portfolio company investment was approximately $11.8 million. Our largest portfolio company investment, PGI was $25.8 million and our second largest portfolio company, [Unintelligible], was $22.9 million. As of September 30th, 51% of our portfolio was in first lien investments, 44.6% of our portfolio was in second lien investments, and the remaining 4.4% was in equity and warm positions. We did not hold any unsecured debt investment as of September 30th. Additional information regarding the composition of our portfolio is included in our form 10-Q filed yesterday. We were 0.7 times levered as of September 30th compared to 0.6 times levered as of June 3rd.

With respect to our liquidity, as of September 30th, we had $14.5 million in cash, $16.1 million into restricted cash, and $22.27 million of capacity under our revolving credit facility with Citi. With that, I'd like to turn the call back over to Mike.

Male: Thank you, Rocco. The movement in our marks this quarter were on balance positive with a few large movers. Three marks changed more than $1 million. These were [M&L], US Well Services, and Trident. Our mark on [M&L] improved from 77 to 86 this quarter. [M&L] results were encouraging and the company has an improving organic growth profile coupled with margin expansion which reduced its financial leverage. Our mark on US Well Services class A and class C units improved an aggregate of $3.3 million. US Well's results have improved materially since the restructuring and we're pleased with the financial performance of the company over the past several quarters. We decreased our mark on Trident Health from 78 to 58. Weakness in Trident's customer base as well as the challenging debt profile give us reason for concern. We continue to monitor the credit closely and expect to work constructively with stakeholders over the coming months.

Our portfolio yield improved significantly this quarter. As Rocco explained, the combination of our new investments in the quarter, our realizations of lower yielding assets and the successful restructuring of Bird Electric all played a role. Our focus on direct lending relationships led to both significantly more attractive yield opportunities with Montrose and Liberty and also the better structural protections that are available in the typical syndicated transactions. Over the long term, we believe structuring is essential for the preservation of capital. We're committed to paying a sustainable dividend to our shareholders. Although we under-earned our dividend in the second quarter, we expect to earn in excess of our dividend during the December quarter and we are on track to cover the dividend for both fourth quarter and the full calendar year of 2017.

Our run rate portfolio yield as well as our current portfolio size gives us confidence as we look into 2018. We continue to be sensitive to the ebbs and flows related to repayments and reinvesting of capitals with the appropriate return and protections for our capital. Our investment activity grew our portfolio by $16.3 million. However, interest income declined by $465,000.00 between June quarter and September quarter. The timing of our investments in Liberty and Montrose were a key factor in the seeming disconnect. Both closed late in September. We also ended the quarter under-levered at 0.6 times which is below our target plus/minus 0.75 times, that 0.75 being our actual leverage at September quarter-end. We are comfortable at our current leverage level and we strive to keep our leverage between 0.65 and 0.85 times. We did not earn any incentive fee in the September quarter due largely to the timing of our investments and repayments, although we do expect to earn our incentive fee in the current quarter.

Our board of directors declared a distribution for the quarter-ended December 31, 2017 of $0.25 per share which will be payable on January 4th, 2018 to shareholders of record as of December 15. We believe our dividend level is consistent with our ability to generate NII without reducing our investment quality or changing our focus from secured lending opportunities. We believe in the active management of our portfolio and have continued our work in lowering the portfolio risk profile while maintaining net investment income in order to sustain our dividend. As opportunities permit, we have exited lower yielding loans in favor of direct investments with better yields and structures. We believe we have additional room to rotate the current portfolio out of lower yielding more liquid assets in favor of direct investments in the future. In a market that was generally unforgiving for lenders, we have identified and closed two deals that had significant positive impact on our portfolio yield and we're also more considered structures than we see in syndicated loans. Over the past year, we have decreased our average position size, increased our number of portfolio company investments and have reduced our non-accruals. The team underwrites conservatively focusing on quality management teams, sustainable capital structures, security packages, and financial covenants for the protection and preservation of value over the long term. We focus on preserving capital but also think additional upside NAV potential remains in our current portfolio especially in our energy book.

Operator, could you please open the line for Q and A?

Operator: Ladies and gentlemen, at this time, we will conduct the question and answer session. If you would like to ask a question, please press (*) 1 on your phone now and you will be placed in the queue in the order received or press # at any time to remove yourself from the queue. Please listen for name to be announced and be prepared to ask your question when prompted. Once again, if you would like to ask a question, please press (*) 1 on your phone now.

Our first question comes from Ryan Lynch from KBW. Please go ahead, Ryan.

Male: Good afternoon and thank you for taking my questions. The first one, your portfolio, the way the average yield on new investments this quarter is obviously very high in a very competitive environment. I believe that was driven by your investment in Montrose Environmental. I believe you said they had like a 15% yield on that investment if I heard you correct. Can you just talk about how you're able to get a definitely above-average yield in a very competitive environment and what you guys saw in Montrose that can ensure investors that you're not stretching for yield and potentially the result of taking on excess credit risk?

Male: Yes, Ryan, I appreciate the question and an opportunity to focus on that. As you and all the others know, we have a long-term strategic relationship with Stifel. This came in through Stifel's investment bank. It's a client that was focused on trying to get a financing done in short order, total size of financing is approximately $40 million. They have a first lien group there. They wanted to get it done quickly. They have a company that we believe total firm value is a minimum of eight to 10 times their EBITDA. Our lending allows them to take it up to about 4.25 times so approximately 50% loaned value. They wanted to get it done because they are very active in rolling up small companies into their base and so therefore, for the loan that we gave them, they were very happy to have a lender who could structure something to their needs over the near term and paying, I think, a couple of hundred basis points. You could argue that we're 200 or 300 higher than others, was an appropriate premium for them given the timeframe and everything they want to do but that's the background.

Male: Okay. That's helpful. This is a technical question but when I looked at the investment in your 10-Q, I know you mentioned in the call, you said that's a 15% type of yield in investment. When I looked in the 10-Q it shows that it's L plus 950, what is the disconnect between the 50% versus what it shows up with L plus 950 in the 10-Q?

Male: There's three pieces to it and we can follow up with more detail but there's a discount that we got it. The L plus the spread and then there's call protection on the back side depending on when it comes out. The yield, if worse comes out at 15%, it could be actually higher in certain circumstances.

Male: Okay.

Male: The interest rate would also step up in the out-years.

Male: Okay.

Male: Okay.

Male: Then similar question with Liberty Oilfield. You guys obviously, prior to this quarter, had a very large oil and gas portfolio. Oil and gas, with oil price recovering, that's an industry that's maybe less concerning but there's still substantial concerns around that industry, so can you just talk about what you saw in Liberty Oilfield that you guys felt compelled to further grow your oil and gas portfolio which is already substantially large before this investment?

Male: Yes. Listen, we spend a lot of time thinking about the industry bucket here and I would say that I think that we are at the very top-end of what we want to have in that overall bucket after putting Liberty in. Liberty is a fairly unique opportunity because, in our view, with Riverstone, you have the preeminent private equity energy sponsor who has a significant equity check in. What was unique on top of that, and you can say that about a lot of sponsors, is that when we look at the first lien opportunity, they were benefitting from the uptake as everyone else did but had a higher operating leverage, meaning that they were benefitting from cash flow significantly as you saw oil and gas trade-up and secondly, the asset coverage here - and this is critical as we think about energy whether or not it's E&P or this company, that if you're going to have some leverage on, and this has three to four turns of leverage, then you have really good asset coverage and our sensitivity say that you're covered well in excess of one times. There are others that were working on the deal with us. It's a small club group. I think it's a total of four people including us in this deal that argue they were three times plus covered but one to three turns. Chris, I don't know if you want to add anything.

Male: Yes. The other thing Ryan is that we had a very good window through our investment in US Well on the industry turn in the fracking business. On top of that, part of that operating leverage for Liberty was much broader diversity in both customer and also in basin as well. Their fleets are extremely highly utilized as we entered into this loan. You could see the numbers.

Male: Then one last one. You mentioned that you guys expect to fully earn the dividend in the calendar of fourth quarter. You guys, obviously, thought the revenues were light in the calendar of the third quarter even though you guys had substantial portfolio growth and I think you said that was due to the time of closings versus repayments. I just want to make sure I'm clear. Do you guys assume that – assuming that the portfolio remains flat from the end of the calendar of third quarter? Do you guys expect that the incremental revenues from those investments closed later in the calendar of third quarter, you guys will be able to fully earn the dividend end-of-calendar of fourth quarter?

Male: Yes. Two things. One is assuming the portfolio we have today, we expect to fully cover plus earn our incentive fee. There is one transaction that we expect, no guarantees, but we expect to close in the next 10 days and that will further increase the over-earning of the dividend but we do not need that in order to fully earn this quarter of next year, next quarter, our dividend.

Male: Okay. That's all for me. Thank you for taking my questions.

Male: Thank you, Ryan. Appreciate it.

Operator: Our next question comes from Robert Dodd from Raymond James. Please go ahead, Robert.

Male: Hi, guys. Just following up on Ryan's question on Montrose, the 15% versus what's on the schedule. So accounting-wise [Laughter] obviously, we got to see it come in in interest income as the L plus 9.5 plus the OID which is $400,000.00 over three years or is there going to be some accretion of the yield to worst that you described that almost no matter how it plays out, it's going to produce a material with high yield than what shows up on the schedule. How is that actually going to work out in the accounting or is that yield to worst going to manifest in a lump sum income whenever that event happens?

Male: There will be two pieces to it. One is the LIBOR plus and the accretion over the next approximately 24 months. At the end of 24 months, subsequent to that, there is an increasing rate so you would start to see that incurrent income if it is not repaid. If it is repaid, then you'll see an acceleration of a slight lump sum that gets you to that yield to worst or better.

Male: Okay. Got it. Thank you. Then the Liberty question, as you said, you're at the peak of what you'd want oil and gas-wise. I understand that's a tough decision about where you cap any individual industry. Were you just looking at where the cap should be based on what you – I'm trying to word this the right way – what you think this industry and cite a specific - or did you take into account the fact that frankly some of your energy investments have not been the greatest performers and reduce what you felt a cap would be by some amount above that, if that makes any sense?

Male: Yes, I understand the point. We always take into account, if you would, you're saying some of the markdowns of our existing portfolios specifically like AAR. We do take that into account. We don't ignore that but I'd say that there were probably four or five things that we took into consideration. When you think about it, it is not as straightforward as saying, "Here's an industry. I've got OEM auto secondary parts manufacturing that is to the OEM industry." There is gas exposure. There's oil exposure. There's E&P with hard assets in the ground that you leverage off advanced rates on that. There are oilfield services where you've got a hard equipment and you're secured by that. There are oilfield services where you're basically first lien but asset-light and you're a lot lower leveraged at the outset there and then there's the question of what basins are they across and when we looked at Liberty and we saw Permian basin, D-J basin, Marcellus, the best basins, Eagle Ford, that's another over leg, and then lastly and not insignificant here and maybe I should've said this first is when we looked at that portfolio at – I'm going to aggregate it – the 19%, there's liquidity in that portfolio of at least 10%, close to 10% of the portfolio. I can argue more than 10%. There are two names that come to mind that we have ability to shift in and rotate out into other industries. We're not with 19% in liquid direct lending two-person deals. That liquidity gives us some ability to bring it down to redeploy too.

Male: Okay. Great. Got it. Thank you. Also kind of following on that one, Ryan's questions, some of earning the dividend or over-earning the dividend maybe if it's on the deal or closer, what's your outlook if you can or any kind on prepayments? When I look at, obviously, Redbox's already prepaid. When I look at some of the other on the good side like Premier Global where fair value is above amortized cost which sometimes happen when you think prepayment might be imminent or something like that. Do you have a feel of that is prepayment activity? Do you have expectations if that's going to be moderate and that's factored in, or what do you feel about that right now?

Male: Yes, Robert. Great question. It's something we really looked at and quite frankly kind of long career of doing this over the last 25 years a little different market. We have had over the first three quarters over $100 million of our portfolio, mostly turned over from prepayments. So, when we look at the portfolio overall, you think out of PGI with what the equity sponsor wants to do there in particular, we don't view that as having any refi risk at this point.

Male: The other thing is PGI, remember, it's not where it trades vis-à-vis the cost because our cost was low 90s on that. From a refi exposure standpoint, it's where the trade vis-à-vis the price to take it out. In order to take it out, they have to pay in par. When you're trading in a 99 to 101, 102, that's when the all the alarm bells are going off and getting ready to get it refied. [Crosstalk] one or two of those. Chris, go ahead. I'm sorry.

Male: Yes. Plus a lot of what we put on as fairly new when I go back and look over the last couple of quarters. Some of that was the lower spread strategy that we did over the summer so that just adds to the liquidity that Mike spoke about early with regard to the oil and gas which is kind of portfolio why we feel like we have a pretty liquid portfolio so we have plenty of dry powder as new direct lending club-types of opportunities come to pass.

Male: I think specifically, and I'm not going to give any names because I don't want to give any issues or any ideas, but we do have built into our assumption that, number one, there probably will be at least one that has some activity on it but we also have, to the earlier question about investment levels and everything else, we already have a commitment that we are sure if that does happen, that this will be – that one will be reinvested and we will not be exposed to reinvestment on that name.

Male: Got it. Thank you. A couple more if I can. Bird Electric, obviously, you equitized the position. That's $7.5 million is obviously not generating income. Obviously, it wasn't the focus in the fuel as well, right? What's your expectation such that you can cover by a timeline for maybe monetizing that $7.5 million or staying put and obviously potentially generating a gain on that and obviously – and that, if you stay in the equity rather than monetizing obviously, there's an opportunity cost of potential income if you exit and reinvest. Can you give us any thoughts on Bird?

Male: Sure. First of all, just to refresh everybody – and Robert, I appreciate the question. I know you are up to speed on this. They're preferred units that do have a distribution and right now it's picked, 10% per annum associated with them. There is a target performance that will trigger at some point and that will be required to go cash pay. We expect that that will happen in the next 6 to 12 months if they will go cash pay and they will continue to be cash pay from there on and also have a separate component that gives us upside equity participation on the company. To your point about cash drag, we would expect that to end in the next six to 12 months and be a reasonable return on that and continue to give us upside on the equity and as Rocco mentioned earlier, we've taken that off non-accrual as of October 1.

Male: Got it. Then flip in the other side of the [bounce] if again, on the liability side, we're back ahead I guess tomorrow is the one year [Laughter] anniversary of the – not that it matters that much but Citi facility, the $50 million. I mean, combination of between the relatively high spread, what I describe as fairly onerous non-use fee, has there been any expiration of either renegotiating, renewing, or replacing that facility?

Male: I think it's fair to say that we have been having conversations and I think they've been very constructive conversations and hopefully in the near term, we'll put and 8K out to you and tell you what's going on there.

Male: Okay. I appreciate that. Thanks.

Male: Our next question comes from Allison Taylor Rudary from Oppenheimer. Please go ahead, Allison.

Female: Hi. Good afternoon guys. A lot of my questions so far had been asked and answered and I really appreciate all the color on some of the names, but I wanted to follow up on one of the earlier questions that was asked and answered by you and then a little bit about your comment on Redbox being a reasonably short-term play. You said that Montrose has some call protection on the outside. Does that imply that you can't be called out of the deal for a few years or that if you were to be called out of the deal, out of it, it would carry a nice hefty premium? Then second to that, do you have other names in your portfolio that might be backed by prominent sponsors that may also be medium deals and ones that you might kind of expect to be prepaid on a short-term basis?

Male: Chris, you want to…?

Male: Yes. First to go through in order, Redbox was a deal that was very low – carried very low leverage, big cash flow generator. The company had generated about 15% or 20% repayment system excess cash flow. We bought it at 97. We did not think it would get refinanced so quickly but it was taken out right after the call premium went out - off after the first use. That lasted basically one year and the high return is from this high heavy level of amortization, repayment that we got through excess cash flow and schedule. Again, so $97.00 price. That's the way Redbox was structured. It just got refinanced out but we didn't anticipate it sticking around for that much longer anyway, maybe not the year or year and a half on top.

Male: Montrose, not quite 97, has a 98 initial price and then it does have a short period where they could take it out at par assuming – okay. Assuming that it does not come out, we have premiums that will happen in escalators. Premiums happen and escalating in rate.

Male: Your third question, Allison, hopefully I'll answer it properly. On repayments, they really – looking through the portfolio again, there's nothing that we feel is imminent or close to imminent on any refinancing or repayment in our portfolio other than scheduled amortizations.

Female: Okay. Great. That's really good color and then one follow up. I know you guys have a reasonably fixed rate kind of right side of your balance sheet which is great given that most of your portfolio is floating rate, how sensitive are you guys to another 50 years, 75 basis point second take?

Male: It is net positive to us if that's the question.

Female: Yes.

Male: We haven't ever disclosed on how positive because it really depends on the mix I think. Rocco?

Male: Allison, if this in a cube but let's say there's a 1% increase, I would increase on that income about 6.8% and if there's a 2% increase, our net interest income would go out up about by 13.5%.

Male: That's based upon the portfolio as of 9-30.

Male: Nine-30, yes.

Male: Yes. So that will change.

Female: Okay. Great, Thanks. That's it. That's all for me.

Male: Thanks, Al.

Male: Our next question comes from David Miyazaki from Confluence. Please go ahead, David.

Male: Hi. Good afternoon, gentlemen. Since everyone else has asked a question about Montrose, I think I need to join that crowd. [Laughter] It is pretty interesting that you could create a situation, as you describe it, seems as though they will either pay a rising interest rate to you or they will pay a significant make-whole premium and either way, it's a pretty good position for yourselves. Is that a correct characterization?

Male: It's correct. I think you think about it as we got a nice, I don't want to call it make-whole, but a prepayment built in through the discount upfront. If they pay us off in the very short term, we lent at 98, we're getting that par and we've had a double digit coupon along the way and then if in the very, very near term, the first year or so, we get a big make-whole or prepayment penalty starting out at 105. That comes down and converges to an inflection point where they could pre-pass at par basically for a day and then after that day, you have increasing rates of backup and that's about two years up.

Male: Okay. My recollection, Rocco, was that you guys were the lead on this one. Is that correct that you guys structured this so that in such a way that was so favorable?

Male: Yes.

Male: Okay. I guess I have a couple of questions there. If I were the senior lenders, I don't know if I'd be thrilled to see this much interest going out underneath of me so do they have blocking privileges because they're senior?

Male: No, they do not.

Male: Okay. As you described it, it's a good situation to be in. One of the things that we heard about is because there's so much private equity capital that is out there that at the margin on the subordinated debt exposures that some private equity sponsors are beginning to move into the subordinated debt position because the returns are attractive enough and there's so much excess private equity capital. Did you run across that in this situation or have you seen it elsewhere?

Male: We did not in this situation and this comes back to our strategic relationship with Stifel because this company was banked by them. In early discussions I've had over 20 years of companies like this, this structure I've been fortunate enough to use maybe less than in a half a dozen times but it's not the first time I've done it. As a private company, you really don't want to bring a private equity sponsor in as a debt investor because you're really starting to open the door to the sponsor coming after you to take over in not necessarily a friendly way so we actually had to pull a position knowing that they didn't want to go there.

Male: Okay. Great. That's good to hear. It's also good to hear that the Stifel relationship was kind of the bedrock of your formation is really come through some good deal flow. I wanted to shift also over to energy side.

Male: [Crosstalk] before you leave that.

Male: Sure.

Male: This is Chris. What Mike said it was a short timeframe, our guys spent better part of two months on this deal. It wasn't a week or two. It was highly structured and negotiated so just didn't want to let that sit unsaid. Okay?

Male: No. That's a good point. I think short is always -

Male: Short can be best.

Male: Something that is open to interpretation, right? Yes. Okay. Thank you for that clarification. Shifting over to your energy side, it had been – my recollection is that at one point, it was almost a third of your book and some of that exposure has not been helpful throughout the cycle. As you think about going back in here and I think, Mike, you mentioned that there's some cash flow leverages, the environment gets better in that it can go up through the bottom line presumably because there's fixed cost but doesn't that also mean on the other side that when the tide goes out, that disproportionally affects the bottom line as well?

Male: You're absolutely correct. I'm glad you bring that up. That's why there are two things that in this, in the new investment, why we liked it, the two things are - I sponsored it. We here know personally very, very well, long history with them but number two, forget about that, okay? Anybody who generically says, "Well, we haven't been through a cycle since '08," if you talk about energy, we've been through a cycle. We've had stress test. We've seen what's happened to asset values and when we strut the asset values here, we are still more than one term covered on our debt and that is part of why we sit there and say, "Don't get too comfortable with $55, $60 oil because it can easily revert back to $40. I don't think it will revert to $27 but it can easily revert to $40 and how are we feeling then?" Then you have less cash flow. You got more leverage but we've got very, very good asset coverage on this investment.

Male: Okay. It does create, optically from the investment side looking in, to have yourself I think it's 19 or – in that range, is probably among the highest that's out there. It would seem that that could, that perception, could translate into higher cost of equity capital in that your valuation may remain lower. Do you make that sort of calculus when you think about how much industry concentration you have with regard to energy?

Male: We do and part of that calculus is that we would not expect it to stay that high. Earlier, I talked to liquidity that we see in that portfolio of that 20%, at least 5% and closer to 10% of it being liquid.

Male: Okay. I would think right now, in all the areas that you could be lending in that energy is probably one that lenders actually have some strength relative to borrowers but at the same time, I think it would be concerning for us as investors to see the proportion go back up to, say, the 30% number and so that's not your intention. You'd be looking to go more in the opposite direction from here. Is that right?

Male: In the opposite direction.

Male: Okay. Great. Thank you very much for answering my questions.

Operator: Ladies and gentlemen, at this time, there are no further questions.

Male: Thank you very much and I'd like to thank everyone for joining us today and we look forward to speaking with you next quarter.

Operator: That concludes today's conference call. Thank you for attending.

- End of Recording -