Published by
Closed-End Fund Advisors

THE SCOTT LETTER:
CLOSED-END FUND REPORT

Vol XVI No. 2 | *A Global View of the Closed-End Fund Industry* | March/April 2016

THE SCOTT LETTER is intended to educate global investors about closed-end funds. Closed-end funds can be a valuable and profitable investment tool. To learn about closed-end funds, visit our web site, www.CEFAdvisors.com, and in particular, read our article, What Are Closed-End Funds.

Feel free to forward this news-letter to anyone who you believe could benefit from information on closed-end funds or global portfolios.

We are pleased to announce a new free Business Development Company (BDC) data website that is the first we know to exist to cover the sector. It is powered by our CEF Universe Data Project and offered to help give a centralized place to go for information on all public BDCs. The link is http://www.BDCUniverse.net and we encourage your feedback as we improve the resource.

CEF Advisors now offers free public BDC/CEF Fund profiles at www.CEFData.com.

– George Cole Scott, Editor-in-Chief

– John Cole Scott, Contributing Editor

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Monroe Capital (MRCC) Lending to Lower Middle Market Companies with Generally 1st Lien, Variable Rate, Self Originated Loans

About The Fund: Monroe Capital Corporation ("MRCC") is an externally managed, closed-end, non-diversified management investment company that has elected to be regulated as a business development company "(BDC)" under the 1940 Act and as a regulated investment company (RIC) for tax purposes. They are publicly traded on the NASDAQ under the ticker symbol "MRCC". They are a specialty finance company focused on providing financing primarily to lower middle-market companies in the United States and Canada. They provide customized financing solutions focused primarily on senior, unitranche and junior secured debt and, to a lesser extent, unsecured subordinated debt and equity, including equity co-investments in preferred and common stock and warrants.

We interviewed Aaron Peck, Managing Director & Chief Investment Officer for Monroe's BDC via telephone on April 5th, 2016 to learn more about the Fund and update our readers on the BDC lending sector.

Aaron D. Peck

SL: What is a BDC? How does it work? How is it different from other income investments, and how is it different from other access points to venture debt?

AARON: We speak of a BDC as being very similar to a commercial mortgage REIT, in that it lends money, earns income, and then uses that income on a leveraged basis to pay out dividends to its shareholders.

There are a couple key differences. One is we're obviously not really making direct investments in real estate loans at all; we're focused on making corporate loans. We make loans to companies rather than loans to projects or real estate. We have a much tighter limitation on the leverage that we can draw as we're subject to a 1:1 leverage cap in terms of debt-to-equity leverage. But otherwise, it's very similar, in that we generate income from the coupon on our investments and we pay out our expenses (most of which are interest expenses on our credit line and fees and other expenses) and this generates significant free cash flow to pay a very attractive dividend. And like a REIT, we are required to pay out the vast majority of our income every year to qualify as a BDC.

SL: Monroe Capital is a relatively new BDC. It came into the market when there were a lot of new funds coming to market. Give us a sense of the BDC's life, what there was before the BDC, and how your background and the company's background give its current position in the sector.

AARON: The BDC went public in October 2012, at a time where we were sort of at the front end of a lot of BDCs that followed. It's something that we had contemplated as a firm for a long period of time. We had our BDC in registration for well over a year, and all of the market events conspired against us going public until we finally did—the downgrade of Greece, the downgrade of the US, all of these economic conditions spooked the equity markets and that kept us from going public. But eventually we found a friendly window and were able to get our IPO completed in October 2012.

I joined in September 2012 to manage the IPO and to lead the BDC based on my background. My background is a long history in credit but also significant experience in running a public company, in that I had previously run a hybrid mortgage REIT that married investment-grade and agency mortgages with a middle market credit book.

I had a lot of experience talking with investors and analysts, as well as, doing analyst calls. I monitored and wrote 10Qs and 10Ks while dealing with all of the other things that come with running a public company. I had a very nice mix of experience, both in my background in credit and leveraged finance, as well as my experience in running a public entity and understanding all the ins and outs of how to do that, which is an important element and not something that most fund managers have a history in doing.

I joined a firm that was very well established. We went public as an [approximately] $83 million dollar IPO, but Monroe was managing several hundred million dollars of middle-market credit in private funds outside the BDC. Most companies with a small portfolio would struggle to be able to put assets to work because it's very hard to originate small enough bite sizes to make sense for a small company. For us, it was not hard, because we were managing other funds where we could share those assets amongst those funds and have the benefit of being able to close larger deals and share those investments among our funds. We could buy pieces in the BDC of larger deals that we were doing rather than having to do very tiny deals, which were very hard to do.

SL: From my understanding, that requires an exemption from the SEC? That's not just a core part of the BDC regulations?

AARON: Correct. There are different schools of thought of what you actually need to do, but most BDCs do go out and get that specific exemption from the SEC, as we did. You will find some people that believe you can work under previous guidance. Some people start working under someone else's no-action letter and then will go out and get their own tailored specific exemption relief, which is what we did.

SL: BDCs are also closed-ended management companies, which is why our firm is interested in them. They have that oversight from the Investment Company Act of 1940 that a REIT would not.

AARON: That's correct. That's where some of these leverage limitations come in that REITs are not subject to. There's a very specific '40 Act provision that allows BDCs to have slightly more leverage than your more traditional closed-end fund, which is limited to $1 of debt for every $2 of equity. A BDC has a little bit more leverage available to it: $1 of debt for every $1 of equity. But you're right, it has all this oversight through the '40 Act, and that should give investors some comfort that there are real governors over the risk that can get taken inside a BDC.

When you think about it, a lot of the lending we do is not all that dissimilar from what banks used to do, and banks weren't subject to these leverage limits. Banks were 8, 10, 12 times leveraged. We don't view our strategy as a terribly risky strategy. I think it's definitely true that the loans we make are generally considered riskier than certain asset covered loans, but because of the low leverage we put on those loans, I view the risk as being less.

SL: So, if you have a 'more risky' loan, leverage is a lot less than a medium risky loan. Plus your fund is not one loan. There are about 50 investments, correct?

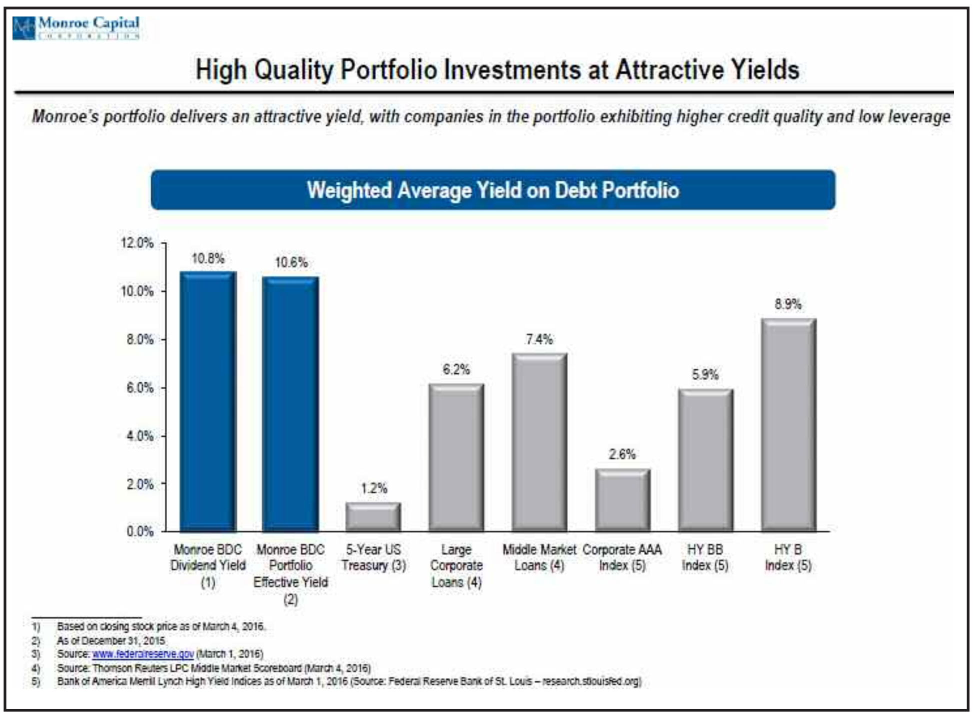
AARON: That's correct. Not only is it true that we have a diverse portfolio of loans, I believe that the underwriting that we do on a loan is much more comprehensive and much more deep than the underwriting that banks typically do.

SL: Some advisers have asked us, "Why is the expense ratio so high for a BDC?" What is the work that goes into finding a company that needs a loan? How do you decide whether to do it and what rate to give it?

AARON: It is a question we get a lot, because the expense ratio does look high when you look at it on the surface. It probably is true that, for some BDCs, perhaps the expense ratio is too high. If you have a BDC that is buying syndicated loans in the market—some BDCs are primarily doing that—you might make an argument that they ought not have the same level of fees because they're not doing things that are creating as much alpha as we believe that we are by providing investors access to our unique originated deal flow.

We've got offices all over the country with originators. We've got offices in Boston, New York, Charlotte, Atlanta, Dallas, San Francisco, LA, Chicago, and now Toronto. We have approximately 18 originators that are out there finding unique deals for Monroe. That's a very expensive proposition for us as a manager. Some of that fee income is necessary for us to run our engine in order to generate these unique high quality deals.

I think, by us having that origination, it allows us to find better deals that pay us more and therefore create a better return for investors. It's not fair to look only at the level



from Monroe Capital Company Overview 4Q2015
www.monroecapitalbdc.com

of fees. It is more important to look at what you are returning to shareholders. We have a large number of underwriters doing extensive credit work that involves all sorts of third-party due diligence and a 30-page credit presentation which is prepared after many weeks of analysis and work. When you put in all that effort and you find all these unique deals, I think at the end of the day you'll see that the returns that can be generated to shareholders are superior.

SL: Talk about your approach to the fair market value calculations that your board oversees quarterly. What's the process? How do you disclose information to your shareholders so that they feel more confident or comfortable with the numbers they're seeing?

AARON: We strike an NAV, as you know, every quarter. We are relying on third-party marks for every single asset in the BDC, every single quarter. Other BDCs that have been around longer or have a different strategy may receive independent valuations on only a portion of the portfolio every quarter and then self-mark the rest. We don't do that. We employ independent third parties, valuation firms that are well respected. They value every single material asset on our balance sheet, every quarter.

Now, there are certainly some assets on our balance sheets that are more liquid assets; in our case, they're liquid syndicated middle market loans. In those cases, we'll take a mark from a pricing service and we'll test and make sure the marks are valid and based on the quotes we see in the market. But most of our assets need to be valued on an independent basis, and we do that quarterly.

Our shareholders should feel really good that we're doing everything we can to make our valuations as independent as possible, and our board views that as probably their number one responsibility to shareholders, to make sure that the valuations we're presenting on a quarterly basis are truly reflective of what we think the fair value of an asset is each quarter.

SL: There have been a couple of activists in the BDC sector involved in some of the cheaper funds, wider discount funds, who have really brought to light a few cases where there are more earnings or income for the external adviser than for the common shareholder. There's been some talk of the external manager as a bad structure. What are the benefits of being an external manager? How have you set the policies and your capital management fees so that the shareholder interests are more aligned with your success?

AARON: We've done some things in our shareholder structure to make it a lot more shareholder friendly than some of the older BDCs. For one, we have a base management fee that's lower, a 1.75% fee versus 2% for some of the older vintage BDCs. Two, we have something that's a little bit unique: we have a three-year look back, which creates a high watermark for investors, so that we have to have a positive return for investors for us to earn an incentive fee.

> ***"We've done some things in our shareholder structure to make it a lot more shareholder friendly than some of the older BDCs. For one, we have a base management fee that's lower..."***

Some of the older BDCs out there do not have such a thing. Each quarter is an independent quarter. If they make money for shareholders that quarter, they can earn an incentive fee regardless of what might have happened in the previous quarter. That's not a structure that I think is very well aligned with shareholder interests long term, wheras our structure is better aligned.

Monroe Capital manages over $3 billion dollars of assets, and the BDC is about $350 million of those assets. Our BDC basically allows investors to invest alongside some of the smartest and largest pension and endowment funds in the world, because we raise a bunch of money privately from these funds and the BDC co-invests with those funds. We couldn't really be internally managed because we manage all of this outside capital. That's how we think about it, and I think it creates a really good situation for investors where they have the ability to participate in those loans and they can do it on a liquid basis, whereas our other funds tend to be long term, locked-up capital, which most retail investors don't have any interest in participating in.

SL: Some argue that most closed-end funds always trade at discounts. But to me, where else can you find liquid access to venture debt? We really think a public liquid access point to venture debt is a definite benefit.

AARON: I do want to be careful about terminology. We aren't what I would consider a venture lender. To me, venture debt is when you're making a lot of investments in sort of emerging, low-EBITDA companies that have a lot of venture capital behind them. That's not the predominance of what we do. We're really more about investing in small companies that generate EBITDA, that are below the radar of larger investors but are not what I would consider pure venture companies. They typically have positive EBITDA in the range of $3 to $25 million, and we're providing some transactional funding for them for something they're trying to do—usually some change of ownership or something of that nature that seems to be transactionally orientated.

Could you call it venture lending? In a way you could, because they're smaller emerging companies, but they're not what most people consider venture, which tends to be more technology or biotech-oriented companies that are typically riskier. Our companies are more established businesses. They're smaller, but they've generated cash flow year in and year out, and we can underwrite that cash flow and it's not really as binary a risk as a lot of the venture investments are.

SL: Thank you for the clarification. On CEFdata.com, our CEF/BDC data website, we pulled consumer products and services as your biggest sector (21%) and healthcare and pharmaceutical as your second biggest (15%). Talk about the types of companies living in those two areas since they're the biggest pieces of the overall portfolio.

AARON: We actually don't have the industry concentration you mentioned in the way we look at industries. Our largest industry group is healthcare and pharmaceuticals, which was about 16%. Then there are different bifurcations of that consumer space. We have consumer goods: nondurable, which make up about 14%, and then we have some other exposure to consumer services business, which is totally different.

You have to always be careful. I don't pay any attention, when I manage a portfolio, to the name of the industry group. I don't think about the world that way. When I think about the portfolio and how we manage it, I think more about the shared risk between the credits. I'm focused much more on the impacts to our portfolio and if we have too much concentrated risk. It's more about the risk to a specific event than about an industry.

A good example is healthcare. We do have a lot of healthcare exposure, but not all the companies in the healthcare sector look like each other, and they all have different risks they're exposed to. Maybe one company has more exposure to Medicare; we want to be careful about how many companies we have that could be exposed to a change in Medicare. Maybe another company in that space is all private pay. Maybe one company is a lab company that does diagnostic services, and maybe one is a healthcare chain that's providing rural healthcare to individuals. Maybe another one is a pharmaceutical company. These are all very different risks, and they're not correlated in most cases. We're very focused on correlated risk. I don't want to have too much exposure to any one event or any one cyclical outcome, because that's where investors could get hurt.

A good example of that is our peers that have had a lot of exposure to oil and gas. Did people think oil prices were going to go down to $40 a barrel? They didn't, but they should have realized that whatever was going to happen to oil prices, it was going to correlate amongst all these investments. We stay away from that sector because we don't like to take on risk that we can't underwrite. I have no ability to predict oil prices. If I could, I would not being doing this for a living – I would be living on a beach somewhere.

Investors are not paying us as a firm to take that kind of binary risk that we can't underwrite. That's not what they're paying us to do. If investors wanted us to make a bet on oil prices, they could do it a lot cheaper than doing it through a BDC. We've stayed away from that.

SL: One of the books I read recently said, "There's no reason to pick an investment manager if you don't benchmark them off something." Why don't we talk about the benchmarks that you use or that are publically available to investors who are curious about your fund's performance versus a peer group?

AARON: Really, there are two major things. One is NII coverage of dividend. The other is your NAV stability. At the end of the day, this business isn't that hard. The way you make money in this business is by not losing money.

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That manifests itself in two ways. One is by the income you generate. Are you generating income because your investments are paying? The other is, are you creating a stable NAV environment? When you look at the BDCs—we tracked this, we looked at something like 45 BDCs and their NAV year after year from the end of 2014 to the end of 2015—only seven, including us, showed flat to positive per share NAV year after year. We benchmark ourselves that way, and we say, "We're looking pretty good. We have maintained NAV stability year after year. There is some volatility quarter to quarter, but over the year, we covered our dividend with NII and we grew our NAV slightly on a per-share basis."

Those to me are probably the two most important measures to think about when you look at BDCs, because that's how you pay a dividend. That's how you create dividend stability, through that NII coverage. It's easy to pay a dividend if you don't mind eating away at your book value. So you've got to look at book value to make sure that they're not paying a dividend at the expense of book value and we're not.

SL: Yet we find that even for those funds that do seem to be paying their dividend out at book value, somehow it's still coded pretty much all as income. So it's not even a tax-deferral (from Return of capital Roc) strategy, which is sometimes used in the traditional closed-end fund world.

AARON: That's what we think about. I think those are the most important measures. If you think about NAV, and you think about dividend coverage with NII, I think you're going to get a lot of what you need to understand what you're looking at.

The last thing is not to be forgotten. Understanding the makeup of the portfolio and what types of investments that BDCs are making so you have a better understanding of the risks of a cycle to the BDC is a big part of our strategy.

SL: When analyzing the pricing of a BDC, some look at the BDCs PE ratio vs. the S&P 500, which make it seem like an equity. Then some compare a BDC to the spread on high-yield bonds, which makes it a spread investment, and of course because it's that closed-ended management company, it's got that price-to-NAV. Really, those three things plus covering the dividend all mean there's not just one way to think about the price of a BDC.

AARON: That's true. What I was talking about was more about how to look at the BDCs against each other. But then, looking at the sector against other sectors, it's clearly another thing to think about, and we do think about some of the things you talked about. As an example, we take a look at where the high-yield single-B index is offering to investors, and we compare that to what we're doing. High-yield single-B bonds were, last time I looked, around 9% on average, which is nearer some of the high levels they've been.

We look at that and we say, "Well, high-yield bonds are earning 9%. They're single-B rated in this example. Our portfolio, if we rated it, would probably rate out similarly. High-yield bonds are unsecured and junior and at higher leverage than our portfolio. Our portfolio is senior secured and at lower leverage and earning an effective yield of around 10.5%–10.6%." So we see ourselves as getting significant premium for what we think is less risk, and you can buy a portfolio and earn an 11% yield—which is a lot more attractive and, in my opinion, a better credit risk.

You've got to really understand the history of some of these managers and how they've done. We have a very strong credit culture here, and we have a very low loss rate over our history. I'm not going to tell investors that we won't have tough deals that will cycle and struggle. We will. We do. But we're very, very good at getting our money back. We have a long history of very low loss rates over our 10-year history as a manager. We tend to get our money back.

SL: I think you can do that because of the 55 companies in your fund.

AARON: That's right, and we have something like 70 employees. We've got a lot of experience here and a lot of people that know how to do that.

SL: You've done something that not many have: Your dividend policy is actually higher now than it was three years ago. In the last year or so, we couldn't really buy you for our clients until you did a secondary raise of capital because you just didn't have the liquidity that I needed to be comfortable. People say, "Secondaries are bad, right?" Well, not if you can do a secondary above net asset value (NAV). Talk about what led the dividend's small increase and how that impacts current and future shareholders should you be in the market to do a secondary raise in the future.

AARON: We spend a lot of our time looking at what we think is our core level of NII is, not including elements that are less predictable? We have these non-predictable income categories almost every quarter, so they are somewhat recurring—things like prepayment fees and amendment fees—but we try to think about the core level income if we don't have any of those things.

We feel comfortable. We had a 34-cent-per-share dividend for our history up until we made a determination in the first quarter of 2015 that we were generating enough core income that we felt comfortable we could increase our dividend policy to 35 cents per quarter, and that's what we did. We have exceeded or met this level of dividend with NII every quarter since we did that.

If you look at our last several quarters, we did 40 cents of adjusted NII in the fourth quarter, 36 before that, 43, 44, 49. There's a lot of nonrecurring things that are up and down in these NII figures. The core NII has always been consistent and around 36 cents, which gives us comfort that we've got plenty of room to cover a 35-cent dividend,which is why we increased it.

As to your question about secondaries, you're right, we did a secondary raise in April last year. We did it accretively to our book value. To my thinking, when you're looking at raising capital, you need to think about a couple of key elements.

One is, can you do it accretively to your shareholders on a pure book basis? If you can't, you ought to think long and hard about doing it, because as investors, BDCs can't go out and raise money below book value unless they have shareholder approval to do that on an annual basis. We go out and get that approval every year in case there is some dislocation in the market and we have a need for capital. We don't want to be hamstrung if we feel that there's a reason to do that.

> ***"We are in a low rate environment right now, I don't know if or when rates will start to rise, but if you look at the history of rates, you would expect at some point they will. We want our investors to benefit from that. "***

The second consideration is, can you put that money to work in a timely fashion accretively? Because it's great to do it accretively on a book value basis, but most times when you do that, it dilutes your NII performance, because you raise the money and you can't get it all to work instantly.

SL: Just thinking about how we group and organize the BDC sector, we try to look at your BDC versus different peer groups. We say, "Monroe Capital is a smaller BDC," so we look at your small peers. You're also mostly a variable-loan-based BDC. I tell people that it obviously won't be there forever, but right now, with the likelihood of rates rising, you want that variable tilt for the BDC structure, because a lot of people might be buying into your investment, might be replacing regular high-yield bonds or regular debt-based investments where there is a risk of rates going up.

Talk about how you've decided the mix of variable. Is it more based on fed policy or more based on the policy of your company?

AARON: We've always been really more of a floating-rate lender. It's just been the nature of what we originate. We are predominantly a senior secured lender, and those loans tend to be floating-rate loans.

The mezzanine market is one that tends to be more of a fixed-rate market. We just really don't play very actively in that market. The vast majority, 95%+ of our portfolio, is floating-rate assets. We are in a low-rate environment right now. I don't know if or when rates will start to rise, but if you look at the history of rates, you would expect at some point they will. We want our investors to benefit from that. Our liability side has a little bit of a mix in that our credit facility is on a floating-rate basis. We do have $40 million of SBIC facility, which are fixed rate, but they're at extremely low rates, averaging something like a 3% coupon.

SL: I think most BDCs that don't have an SBIC wish they had SBIC.

AARON: Sure, it's very low-cost debt. It's long term. It has no covenants. If you get the exemptive relief like we did, it doesn't count against your leverage limitation. It reduces the risk of you ever getting close to a regulatory problem on a leverage basis. That's how we think about that. That's been our portfolio policy.

SL: Where do you see the possibility of rates going in 2016, 2017? What are your expectations for the rate environment?

AARON: Here's the thing that I think is critical. I don't spend a lot of my time and energy worried about where the general level of interest rates is going to go, largely because we're mostly a floating-rate portfolio. We think about it more from the standpoint of what its impact might be on our borrowers—if they have to pay more rates because we're a floating-rate lender, can they do that? Will they be in a position to cover an increase in their interest? We spend a lot of time thinking about it from that standpoint.

The other point I'm really making is people think about rates and they often tend to look at the 10-year Treasury bond as sort of a bellwether. The reality is, most floating-rate lenders like us tend to be providing a LIBOR-based loan to investors, which tends to be either a one- or three-month LIBOR. When you're thinking about rates, not only do you have to think about the general level of rates but also, where will the yield curve go? Will it be a parallel shift up, or will it likely be a steepening of the curve?

My best guess is if rates go up, yes, you'll see all rates move up some, but I would expect you'll see more of a curve steepening if rates are to go up. It won't have as much impact on the lower end of the curve, the shorter end, where LIBOR tends to be closer pinned. We will see volatility in LIBOR rates. They will go up and down with the general level of rates, but I don't expect the same level of movement on the short end as I would on the long end.

SL: The maturity on your loans are typically four or five years?

AARON: Yes, our average maturity is five years. When you look at our seasoned portfolio, probably the weighted average in the portfolio we have now is more like two-and-a-half to three years. The reality is, very few of our loans stay out anywhere near five years. In our experience, our average tenor of our loan and how long it stays in the books is about two to two-and-a-half years.

SL: What typically drives a company to come back and say, "We're done, we're happy"?

AARON: We make really good loans to really good companies, and they tend to grow. As companies grow, one of two things happens: either they can pay you down enough so they can go get bank financing because the leverage is much lower, or they have done so well they've moved up on the EBITDA scale to larger players who are willing to provide them more capital at a lower price, and they price out of our market.

SL: So it's not just somebody saying, "Hey, they're LIBOR plus six," and they come back and now they're LIBOR plus three?

AARON: We'll do a loan at a company that's leveraged three-and-a-half or four times EBITDA, and they're doing $5 million of EBITDA. Then over the year-and-a-half to two years, through amortization and cash flow sweeps, they'll pay down that loan and EBITDA will have grown from $5 million to $12 million or $15 million or something. Suddenly that company, to take us out, is only looking at one-and-a-half times loan in order to refinance us, because the leverage in a bank loan will usually do that.

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Also, little companies tend to merge because they become attractive as they grow. A lot of times, the reason we're being taken out is because the company's been sold to a larger company, or sometimes to a private equity firm that has a portfolio company that wants to buy it. That's a pretty common outcome for us as well.

SL: As you think about all the conversations you've had with financial advisers and institutional investors about the BDC or your work, what's the one thing you wish could be on your business card and the front part of your website? What's the one thing you feel is your BDC or your MRCC public service announcement that you'd like to start every conversation with?

AARON: I just like to remind people that Monroe Capital is not a $300 million dollar company. People get nervous about buying into small companies. We're a $3 billion dollar asset manager, and the BDC is just one of our funds. It's extremely important to us, but it's one of our funds. When you buy this BDC, you should think about it as buying a fund from a larger investment manager that has a lot of trusted investors that have come to them to manage money for them, a lot of large pension and endowment funds. You're getting access to investments that predominantly have been only available to some of the larger funds in the world.

People often want to compare us to BDCs that are similar to our market cap or smaller than our market cap, and some of those comps are perfectly acceptable, but some of them are managers where the BDC is really the only thing they're doing. Those funds tend to be very different than us. They don't have the same reach. They don't have the same breadth. They don't have the same origination force. They don't have the same underwriting force or experience that we do.

When you think about Monroe Capital, don't think about a $350 million dollar asset BDC, think about a $3 billion dollar asset manager that has provided access to public investors to a fund product where it can co-invest with some of the largest and smartest pension and endowment funds in the world.

SL: As you think about where BDCs have been over the last two years, where do you see the guide post for the sector getting back towards a small discounts/small premium relationship, which has been the norm over the last five to fifteen years?

AARON: People are trading the BDC sector the way they are because they're worried about two things: either the dividend isn't sustainable (or it can't be earned) or the NAV isn't sustainable. To some degree, they've been right. I mean, they're right in that some BDCs have not been able to maintain NAV, but I think where you'll see the sector start to trade back is when shareholders start to understand that you don't have to buy the sector. Not all BDCs behave the same way. You have to look at the individual companies and see who is delivering on what they said they could deliver.

Some of these BDCs may always trade at a discount. The ones managed for the manager only, who constantly destroy book value and can't earn their dividend, will probably continue to trade at a reasonable discount. But the BDCs that can prove to investors over a period of time that they can maintain NAV and they can earn their dividend, I think naturally will have to start trading up at a premium again because it doesn't make any sense to be able to earn

10% or 11% for that kind of risk. If you can show people over a long history that their fears are not met by your performance, some BDCs, the ones that are good actors and good performers, who do a good job on credit, will naturally trade at a premium.

I'd like to think we're one of them. I think we've shown investors that we're focused on NAV stability. I think we show investors that we can earn our dividend. I think we've shown that we're doing something unique in that we're out providing investors access to assets that aren't otherwise accessible, and I think over time investors will realize that MRCC is a cheap stock at a discount to NAV and it needs to be owned because the dividend is very sustainable. At some point, it just becomes an outsized yield for the risk.

SL: Your one-year average discount versus NAV is around –0.95, versus the sector average of –12.13. You're definitely in the top quartile of pricing versus your one-year average. There wasn't a Great Recession, but it was a very challenging BDC one-year measurement period.

AARON: It really was. A lot of it, as you pointed out, is energy related. Not all of it, certainly, but a lot of it is. That's been something that managers have really had to work through and explain. I frankly don't have a good explanation for why some BDCs had so much exposure to oil and gas. To me, it just doesn't make sense. I could see people wanting some exposure if they have a specific expertise in the area, but some of these BDCs are heavily exposed to oil and gas. Obviously in hindsight it's a terrible idea and everyone would agree with that, but we realized that if we're ever going to have exposure to oil and gas, we need it to be very small and very discreet. We need to have risks that we can underwrite outside of oil price.

SL: I know most analyst coverage in the sector is from the people doing investment banking work, and that's not easily accessible to most advisers and most investors. Where have you found other people can get information on this sector? Where can they try to get some perspective versus just hearing managers like yourself discuss their investment?

AARON: It's challenging. There aren't a lot of folks out there that are putting out good data that aren't tied to investment banking. I think one of the best sources for people to get information and compare is from John Cole Scott and his group (CEF Advisors), because they are actually one of the few independent firms not tied to underwriting that's putting out information about BDCs. Honestly, that's a good place to start to look at all the different stats. John, you've done a good job getting to know a lot of the BDCs so you can provide some color.

Outside of that, you're sort of reliant more on trying to get access to some of the brokerage research, because frankly they do a good job. There are a lot of really good analysts that work for the brokerage firms that cover the stocks. It's just hard. Some investors don't have access to all that research. It's a challenge. I also just tell people that they shouldn't be scared to call. If investors are doing work on the sector and have done some homework on BDCs and Monroe and have questions, they certainly should feel like they can call me.

My job is to talk to our investors. If you're an investor or prospective investor, whether you're going to buy 2 shares or 2,000 shares or 20,000 shares, I'm available to you. I may not be able to get back to you the minute you call, but I am reachable and I am accessible. I'm just like you. I'm an investor in companies and stocks, and I want to get information. I return every call I get, and I can help try to fill in some of the blanks.

SL: Thank you Aaron, we added The BDCUuniverse.net page, even though it gives away some of our data for free, because I kept getting emails that said, "Can you give me a list of all the public BDCs?" Now I can just point to the website and say, "Here's the link." I want to make sure I can have important conversations like, "What's the difference between a first-lien and a second-lien loan? Why would a manager have fixed loans versus variable leverage?" Things like that, things that are actually more quantitative.

AARON: I'm glad you're doing this. I think it's good for the sector.

SL: Aaron, thank you for your time this afternoon and giving our readers your perspective on both running a business development company and making business development company investments. Readers can visit your website at: http://www.monroebdc.com/ or call 312-258-8300. They can also visit www.CEFdata.com and type "MRCC" into the search box to see what data we have pulled and organized for investors on our free and public fund profile pages.

CEF Advisors Holdings Disclosure: As of 4/15/2016, clients and/or family of CEF Advisors have positions in the following fund(s): MRCC. We will not make any buy or sell trades in this fund until 72 market hours after this interview is publically released.

Total Return (%)

Periods greater than 1 Year are annualized.

	1 Week	1 Month	3 Month	6 Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Price	2.66	0.00	11.32	-3.27	1.65	5.96	2.05	5.41		
Peer Group	*0.66*	*4.80*	*12.51*	*0.21*	*0.18*	*2.87*	*-6.77*	*0.61*	*3.72*	*1.56*
NAV	0.00	0.00	2.47	4.79	0.00	2.47	10.49	7.42		
Peer Group	*1.06*	*1.65*	*2.52*	*0.42*	*1.44*	*2.68*	*3.07*	*6.19*	*6.26*	*3.88*

data as of April 15, 2016 from
CEFData.com

Portfolio Managers' Review

Watching the CEF universe of funds has been fascinating this year, it is nice for a change. They are generally outperforming most other areas of the capital markets. As of April 15, 2016 the average CEF in each group had the following data: **Equity CEFs** had a -9.4% Discount, 8.3% Mkt Yield and YTD NAV total return of +2% and market price TR of +3%. **Taxable Bond CEFs** had a -6.3% Discount, 8.7% Mkt Yield and YTD NAV TR +3.4% and Mkt Pr TR of +5.2%. **National Municipal Bond** CEFs had a -1.2% Discount, 5.3% Mkt Yield and a YTD NAV TR of +3.7% and +7.5% Mkt Pr. TR. **Debt-Focused Business Development Companies (BDCs)** had a -13.6% discount and 12% Mkt Yield and YTD +2.7% NAV TR and +2.9% Mkt Pr TR. We want to remind our readers that for ongoing updated data on CEFs/BDCs, we offer free CEF/BDC fund profile pages on www.CEFdata.com.

There was only one CEF IPO during the first quarter, but we saw an almost 2X increase in new N-2 Filings which is considered pre-activity for future IPOs. The 12 major CEF sectors (as following our 10-Year tables on the Investor Resources section of our website) with the best performance was REITs (+5.2%) and BDCs (+4.8%). The two groups with the worst first quarter performance were the MLPs (-4.2%) and Convertible Bonds (-3%). For more commentary and depth with tables and charts on the data we tracked and reviewed for the first quarter of 2016 for all US CEFs/BDCs, please visit our website (CEFadvisors.com) and look for links to our CEF/BDC Research Call Replay and PDF slide links on the left-hand side of our home page.

Clients and advisors we work with say they have diversified US equity exposure with global stocks and various bond allocations. We produce a 10-Year NAV Correlation table on our Investor Resources page of our website. Compared to The S&P 500, correlations are high for Convertible Bonds (93%), High Yield Bonds (91%), World Stocks ex-US (93%) and Covered Call Funds (95%). We find people think they are diversified in these areas, and it is true, that you may get company, investment structure, and likely manager and fund sponsor diversification. However, from our data, you don't get sentiment diversification which is what investors care most about from our conversations.

For better sentiment diversification we recommend appropriate allocations based on your risk profile and timeline to these CEF fund groupings with the following correlations to The S&P 500: MLPs (71%), BDCs (39%), Municipal Bonds (37%). While seeking sectors also with low correlation to each other; MLPs and Muni (38%), BDCs to Muni's (14%) and BDCs to MLPs (46%). Detailed correlation figures are available on our Investor Resource page of our website. Tax considerations are needed as BDCs yield 12% and Muni's are tax-free and typically shouldn't go in qualified accounts. Other ways to address risk is to look at NAV standard deviation and NAV Beta to help understand the volatility and historical reaction of a CEF to markets. We like to find funds with low to medium NAV volatility and high market price volatility as it fits our goal for better entry and exit points for a CEF in our clients' accounts.

Muni's are a little expensive on a historical basis, so we suggest diversified exposure to some of the deeper discounted funds, where you typically have Duration or Call Risk. However it is hard to avoid Muni's as an equity risk hedge with a 5%-15% typical allocation and for high tax investors, where it is possible to get an 8%-9% tax equivalent.

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Note: All data referenced is from CEFA's CEF Universe data dated April 1, 2016 unless otherwise stated.

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