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CGBD.OQ - Q2 2017 TCG BDC Inc Earnings Call

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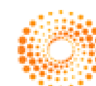

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the TCG BDC Second Quarter 2007 Earnings Call. (Operator Instructions) As a reminder, this call is being recorded. I would now like to turn the call over to Daniel Harris, Head of Investor Relations, you may begin.

Daniel Harris

Thank you, Michelle. Good morning and welcome to TCG BDC's Second Quarter 2017 Earnings Call. Last night, we issued an earnings press release and detailed earnings presentation with our second quarter results, a copy of which is available on TCG BDC's Investor Relation website. Following our remarks, we will hold a question-and-answer session for analysts and institutional investors. This call is being webcast and a replay will be available on our website. This call and webcast is the property of TCG BDC and any unauthorized broadcast in any form is strictly prohibited. Any forward-looking statements made today, do not guarantee future performance and undue reliance should not be placed on them. These statements are based on current management expectations and involve inherent risk and uncertainties, including those identified in the Risk Factor section of our prospectus and other SEC filings that could cause actual results to differ materially from those indicated. TCG BDC assumes no obligation to update any forward-looking statements in any time. Lastly, past performance does not guarantee future results. And with that, I'am going to turn it over to Michael Hart.

Michael A. Hart - *TCG BDC, Inc. - President, CEO, MD of Global Market Strategies and Interested Director*

Thanks, Dan. Good morning, everyone and thank you for joining us today for our quarterly earnings call, which as you know, is our first as a public company. I'm joined today by our management team, including our President, Jeff Levin; our Chief Risk Officer, Tom Hennigan; our CFO, Venu Rathi; and our Head of Originations, Grishma Parekh as well as other members of the team. I'd like to begin by welcoming our new and old investors as well as the analyst community to the call today. The second quarter represented not only another period of solid operating results, but the achievement of 2 important strategic initiatives. I'll touch on a few of the highlights and provide a little historical perspective on our business. I'll then turn it over to my colleagues to provide a more in-depth look at the financial results. Today, you'll hear from Jeff, Tom and Venu, but on future calls and presentations, you'll have an opportunity to hear from other team members at different times, and of course today during Q&A. Yesterday after the close, we reported second quarter net investment income of $0.47 per share, up from $0.46 in the previous quarter. We paid a second quarter dividend of $0.37 per share and the board on Monday of this week approved the third quarter dividend, which again will be $0.37 payable to shareholders of record on September 29, and payable with payment date of October 18. All components of our business contributed to the

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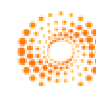

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strong operating results, including the continued solid performance of our core portfolio, a record level of investment opportunities sourced by our origination team, and the continued scaling of our strategic partnerships. However, before we delve further into the operating results for the quarter, as I mentioned, I did want to take a few minutes to provide some historical perspective on our business and its strategy. More so than what I would expect to do in the future, but I think it's important to level set given the inaugural nature of our discussion today and the important milestones that were achieved in the quarter. It's been almost 5 years since our 2 private BDCs, GMS Finance and NF Investment Corp. were organized. Our investment thesis to our initial investors was to provide stable current income in the form of quarterly dividends with low volatility and capital preservation. The investment focus was sponsor back U.S. middle market financing activity, primarily in senior secured floating-rate loans. As we began investing, we were very focused on scaling the portfolio for all the related benefits. However, we balance that with the recognition that we were ramping during a period that was inarguably competitive. This influenced the pace of investment, which was very measured and where in the capital structure we chose to invest.

It was also during this time that Carlyle invested strategically in the business, both in terms of people and in the development of strategic partnerships, by focusing on the platform it also allowed us to build out our origination and underwriting capabilities and also allowed us to put dollars to work at a pace we felt best match the market environment.

In our investment selection, we avoided the more cyclical industry sectors and we have virtually no energy exposure. We've taken the approach of being more opportunistic when we invest down the capital structure, doing so, only when we saw highly attractive risk-adjusted returns. Additionally, we look to leverage the Carlyle network and resources at every opportunity. This approach led us to evenly deploying approximately $ 3 billion of capital, putting it to work where we saw best relative value. Our view of the market over this time is probably best reflected in the composition of our portfolio. Today, we have a highly diversified portfolio of $ 1.7 billion, made up of over 100 investments, supported by over $ 1.1 billion in equity with approximately 74% of our exposure in first lien. The quality and scale of the portfolio allowed us to deliver a highly competitive yield. We often talk about a yield with defensive characteristics. The result of having the majority of our underlying investments positioned at the top of the capital structure. As a permanent capital vehicle, we didn't want anyone cohort in the credit cycle to define the business. We do, however, think it's important to have the capability to invest throughout the capital structure, and the experience of our origination and underwriting professionals reflect that. We think, a balanced business model is important to be competitive over the long- term, and importantly through different points in the credit cycle. The platform in our portfolio today are a reflection of the strict adherence to our original investment thesis. The application of a consistent disciplined approach to underwriting and the connectivity to 1 of the leading alternative asset managers in the world.

The second quarter saw the completion of 2 important strategic events. The first was the merger of our 2 BDCs: NF and TCG BDC, formally known as Carlyle GMS Finance. The merger was beneficial for both sets of shareholders. NF shareholders received accelerated liquidity, while the merged entity achieved greater scale and diversification as the NF portfolio represented largely overlapping positions. The merger was the final positioning of our business in advance of the second major strategic event in the quarter, our initial public offering, which was the largest IPO ever for a fully-ramped BDC and reopened the BDC IPO market after a 2-plus year hiatus. We were very pleased with the outcome, as well as the process, which gave us the opportunity to meet new investors and establish many new relationships.

So it was quite a quarter from a strategic standpoint. We're very grateful to all of our investors as well as the many partners that have helped us arrive at this point in our development. While we feel a lot was accomplished in the quarter, we're also extremely excited about looking forward, because in many ways, the IPO marks a new beginning for our firm. Our strategic partnerships are maturing and hitting critical acceleration levels. We've grown into one of the largest providers of capital in the middle market, and we continue to find new ways to further leverage our Carlyle capabilities. We have a lot of hard work ahead of us, plenty of opportunity and plenty of room for improvement, but we commit to all of you that we'll continue to work hard to deliver to you the best risk- adjusted returns that we can.

So with that, let me turn it over to Jeff to expand on our view of the market as well as our operating results.

Jeff Levin

Thanks, Mike. I will spend some time addressing the overall market environment as well as our capital deployment during the second quarter and then hand it over to Tom Hennigan, our Chief Risk Officer. The leverage finance markets continue to be extremely robust during the second quarter

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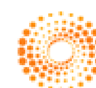

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with significant new issue volume, spreads remained tight with leverage high, while purchase prices continue to be at or near all- time peaks in the context of LBOs. To provide a few specifics, volumes in the first half of 2017 was the highest ever for a first or second half of any year with our pricings having represented approximately 60% of volume. Although re- pricings, dividends and opportunistic refinancings declined close to 50% from Q1 to Q2, the second quarter was still the second highest on record, after Q1 being highest. LBO activity increased in Q2 and collectively LBO and M&A activity drove about half of new issue volume. However, I want to note that LBO and sponsored portfolio company- backed acquisitions drove about 80% of our Q2 investments, highlighting the benefits of being a direct originator of loans versus investing in syndicated deals, either broadly syndicated or middle market. And lastly, I want to highlight sponsor activities [inside and] central to our business. Given the substantial amount of dry powder held by private equity firms, sponsors continue to be very active in combined LBO and private equity- backed acquisitions totaled over $ 50 billion in the second quarter, the most in 10 years. Average equity contribution was about 41%. This is higher than in any full year since 2009. And to further my point earlier about the benefit of direct origination in our platform, equity contribution by sponsors in our Q2 LBOs was almost 52% and equity purchase multiples for our deals was over 12x EBITDA. So despite the tight state of the credit markets, we were able to invest a substantial amount of capital into highly attractive credits and net origination activity for the quarter was our strongest since inception of our BDC in 2013. Some noteworthy highlights. We closed transactions with 23 different private equity sponsors and over 80% represented repeat business, meaning sponsors we had to close prior deals with. As of June 30, 2017, the TCG BDC investment portfolio totaled $ 1.7 billion of fair value compared to $ 1.4 billion as of the end of the first quarter. During the second quarter, we made 30 new loan commitments totaling approximately $ 600 million across 13 new and 17 existing portfolio companies. This investment activity reflects both the BDC as well as our middle- market credit fund joint venture. As a reminder, we own 50% of the equity in this JV with a subsidiary of a large Canadian pension plan owning the other half. The JV is a senior loan fund with over 99% of the investments being first lien senior secured floating rate term loans with an asset level yield of about 6.5%.

The JV uses leverage to enhance returns and our investment serves to increase our dividend while also expands our product offering for sponsors and ability to maximize our origination funnel and invest where we see the best risk adjusted returns.

In terms of how the origination volume was split, about $ 400 million in commitments was from the BDC and approximately $ 200 million from the JV. Total investments held by the JV increased from $ 560 million to over $ 800 million in the quarter. This also includes loans sold by the BDC to the JV, as well as loans acquired from the NF merger that Mike referenced. Our earned dividend yield on our JV equity investment continues to grow. And for the second quarter, the yield was 12.8% up from 11.5% for the first quarter.

Our investment in the JV comprises only 10.5% of the BDC portfolio as of June 30 providing us with substantial room for further investment and earnings growth. When including the JV, total investments in the portfolio increased from $ 1.8 billion to $ 2.3 billion. Core loan sales and repayments of $ 161 million was generally in line with the level we experienced in the first quarter.

However in 3 cases, we were able to leverage our institutional knowledge of the credits to convert those repayments into investments for the JV as borrowers saw a lower cost of capital after experiencing strong performance since our original investments in those companies.

While on the topic of repayments, we want to quickly discuss 1 deal that highlights how we generate outsized returns when we invest down the capital structure. In May, we were repaid on our $ 30 million first lien last- out investment in International Medical Group, as the company was acquired. This investment was part of the Carlyle Unitranche Program which is our unitranche arrangement with Madison Capital.

This investment generated a 17% IRR for the BDC partially driven by the prepayment penalty as the loan was repaid within the second year post-close. We invest down the capital structure into first lien last- out or second lien loans when we find the risk adjusted returns to be extremely compelling, and when we have differentiated insights into the credit and industry expertise given the Carlyle resources.

In this case, this was an insurance brokerage business. A sector where we have deep insights. The business performed well and was sold ahead of when we had expected -- when we underwrote the investment. I will now hand it over to Tom Hennigan, our Chief Risk Officer.

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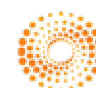

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Tom Hennigan

Thanks Jeff. Our portfolio as of 6/30 remains highly diversified and defensive. First lien loans account for 74% of the portfolio and that includes about 10% first lien last- out. No single debt investment accounts were greater than 3% and the top industries are noncyclical and account for only 11% to 12% of the total portfolio. And the portfolio was 99% floating rate. So it's well positioned for potential increases in interest rates. Of note, our investment activity in the second quarter was centered around borrowers with limited cyclicality in areas such as technology and telecom, insurance brokerage and health care with limited government reimbursement risk. Of the total investments we funded in the second quarter, the mix of first lien versus junior debt was in line with our historical portfolio composition.

The net additions from the NF merger were primarily first lien about 90%, while new investment activity was slightly weighted towards more junior debt. In addition, our repayments and loan sales including strategic sales of the JV were more heavily weighted towards first lien.

All totaled up, portfolio mix was largely unchanged compared to 3/31. At June 30, the weighted average yield on our first lien and second lien debt investments was 8.6% based on amortized cost compared to 8.3% as of 3/31. This increase is primarily due to the raise in LIBOR, the increase in yields from our first lien debt positions largely offsets the decline in yields in our first lien last- out portfolio.

In terms of credit quality of the portfolio, [credit tasks] were generally stable during the quarter. Second quarter nonaccruals as a percentage of the total portfolio were essentially flat versus first quarter at under 1% and [2080] remains the sole borrower on nonaccrual status. So weighted average risk rating as a portfolio was stable. You note an uptick in the risk rating 3 category from [$ 94 million to $ 183 million]. This was driven primarily by additions from the NF merger mostly positions that overlap with TCG as well as other deals that are falling short of our underwriting case but not necessarily experiencing any significant credit issues. We still consider loans in the 3 [category risk] performing and in fact over half the loans rated 3 have indicative trading prices around par and our current leverage in line with closing levels.

In terms of credit metrics, our portfolio weighted average net leverage was flat over last quarter at about 5.5x and LTM EBITDA across the portfolio remained in the mid- $ 40 million range. Venu will provide further detail on the NAV bridge but I would like to provide some specific color on the unrealized loss of $ 5.9 million.

As we mentioned to some of you in the past, we believe our evaluation policy is very robust. Each quarter, our evaluations will react to any changes in company performance, company capital structure or any changes in benchmark yields. So you will see regular movement in our evaluations that do not necessarily indicate any level of credit quality deterioration and that's exactly what we experienced this quarter. Factors contributing to the $ 5.9 million unrealized loss include mark- to- market reversals on exited positions, incremental debt raised by handful of borrowers, slightly higher middle- market spreads based on the benchmark index that we use and call premiums stepping down for a few borrowers.

These factors combined contribute almost $ 5 million of unrealized losses, while the net impact of all other credit positive, credit negative and other factors totaled roughly $ 1 million. With that, let me hand it over to our, Chief Financial Officer, Venu Rathi.

Venu Rathi

Thanks, Tom. We ended the second quarter with total portfolio investments of $ 1.7 billion, up by $ 327 million since the prior quarter. Outstanding debt as of June 30 was $ 605 million and our net assets were $ 1.1 billion. Turning to the liability side. As of June 30, our debt-to-equity ratio was 0.54x times as compared to 0.87x as of March 31. The decline was largely attributable to cash proceeds received from our initial public offering that were used to pay down the outstanding borrowings. This reduction in leverage provides us with significant capacity to grow the portfolio. Over time -- our targeting at debt-to- equity ratio of between 0.65x to 0.75x.

Post recent amendments, our credit facilities currently have 3 to 4 years of remaining revolving periods. And as of June 30, we had approximately $ 351 million of unused [total] commitments under our credit facility, which provide us with ample capacity to move into target debt-to-equity range over time.

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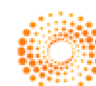

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Turning to the financial results for the second quarter. Our total investment income was $ 39 million or $0.47 per share, up about $ 5 million from the prior quarter. The increase compared to the first quarter is due to strong asset growth, higher prepayment fees and higher interest and dividend income from our investment in the JV. On Page 11 of our earnings presentation, you will find a breakout of total investment income. On our -- on-- net expenses were $ 17 million for the second quarter compared to $15 million in the first quarter, primarily driven by higher management fee and incentive fee. In addition, our interest expense increased due to an increase in average outstanding borrowings as a result of significant origination activity and increase in the LIBOR. Our expenses for this quarter also included a onetime cost as related to the NF merger. On a GAAP basis, including this onetime charge, our annualized ratio of other operating expenses to average net asset was 84 basis points this quarter. However, excluding this onetime charge, our annualized ratio of other operating expenses to average net assets was 72 basis points compared to 64 basis points in the prior quarter. And is in line with our expectation as a public company. On Page 12 of the earnings presentation, you'll find an average to walk you through the changes in the NAV during the quarter. Our NAV at the end of the first quarter was $18.30, pro forma for dilution impact of our initial public offering share issuance as well as capital call prior to the IPO, our NAV was $ 18.17. During the quarter, we earned $0.47 of net investment income, distributed $0.37 of dividend and had $0.13 reduction as a result of net realized and unrealized depreciation on investments, resulting in an ending NAV of $18.14 per share as of June, 30. In early July, an additional 454,200 shares were issued pursuant to the exercise of the underwriters' over-allotment option. The impact of these additional shares is not yet reflected in our June 30 financial results, given the shares were issued subsequent to the quarter end.

That concludes our prepared remarks. Let me turn the call back to the operator to open up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Rick Shane of JPMorgan.

Richard Barry Shane - *JP Morgan Chase & Co, Research Division - Senior Equity Analyst*

Really, just 1 thing. The originations during the quarter were particularly strong. I just want to think about that in terms of how we calibrate our model going forward. Should we see that as a pull forward or should we see that as sort of incremental to how we're thinking about the year?

Michael A. Hart - *TCG BDC, Inc. - President, CEO, MD of Global Market Strategies and Interested Director*

Hi, Rick, this is Mike and thanks so much for your call. Let me talk about that a little broadly. It was a very good quarter for us from an origination standpoint. But a couple of things have to happen, as you know, for those to come into fruition and that is the market volumes have to be there and particularly in for us, the composition of what that market looks like. And as the second quarter evolved into more of an event- driven financing market where repricings ebb the bid and we saw more LBO in acquisition finance activity. That's much more in our sweet spot and I think that contributed to why we were successful to a larger extent.

The other point is that where we are as a business, we're putting larger dollars to work on in an individual transaction. And so that was not the case in each situation, but keeping well within our diversification targets, we're now holding 40s and 50s were those numbers used to be 20s and 30s. And so that speaks to the aggregate number a bit. And then as you know, there are always a bit of luck in this business. When you're looking at opportunities in that realm where you're often times working in auctions, you have the -- you have to satisfy the double probability of you winning the auction and your sponsor winning the asset. So that contributes to what invariably is a bit of a lumpy business and I think, it will continue to be. But we feel good about the core numbers that we talked about earlier, because of the coverage that we get and the connectivity we have with our sponsors.

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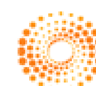

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Richard Barry Shane - *JP Morgan Chase & Co, Research Division - Senior Equity Analyst*

Okay, fair enough. And we look forward to chatting with you guys, over the years to come.

Michael A. Hart - *TCG BDC, Inc. - President, CEO, MD of Global Market Strategies and Interested Director*

Terrific. Thanks a lot, Rick.

Operator

Our next question comes from Jonathan Bock of Wells Fargo Securities.

Jonathan Gerald Bock - *Wells Fargo Securities, LLC, Research Division - MD and Senior Equity Analyst*

Mike, I just want to parse through the unrealized losses a bit here for a moment . So we understand that you mentioned that it's because of -- would arguably say, somewhat of a technical movement to where, one that wouldn't highlight concern, but then when you sit and look at your watch list investments increasing, particularly categories of 4 and 5, fairly sizably, it doesn't necessarily compute when we start to read that in those watch list investments rate with those ratings that there is underperformance relative to your base case. So can you help us understand what, one would argue, I mean, lot of BDC managers argue markets aren't a problem until next quarter, it's really a problem. So help us understand the difference, and why [these marks] are not necessarily negative.

Michael A. Hart - *TCG BDC, Inc. - President, CEO, MD of Global Market Strategies and Interested Director*

Sure, absolutely, Jonathan. Thanks a lot. That's a very specific question that we spent a lot of time on. So we'll go through the specifics of it and Tom will take you through that.

Tom Hennigan

Sure. Jonathan, in regards to the risk ratings, the number 5 category, there were no new additions to 5. The increase in the dollar basis is simply due to 2 factors: Slight increases in valuations for those loans; and then secondly, the addition from the NF acquisition, it was largely overlapping positions. The 4 category had 2 net additions relatively small borrowers, 1 with mid- single digits exposure and an another in the low teens. And again those are not transactions, 1 is kind of -- both were kind of on the fringe between our 3 and 4 categories, but based on our internal methodology, they calculate to a 4. So we have no reason to overwrite those, but certainly not credits were concerned with.

Jonathan Gerald Bock - *Wells Fargo Securities, LLC, Research Division - MD and Senior Equity Analyst*

And then next, Mike, the fee waiver, an additional $0.04 this quarter. Can you walk us through just the mechanics here, because clearly, we're looking for steady and stable coverage of the dividend going forward. What were the mechanics of just dis-waiver and I imagine it gets [ex-sponged] on a go-forward basis?

Michael A. Hart - *TCG BDC, Inc. - President, CEO, MD of Global Market Strategies and Interested Director*

Jonathan, are you talking about the management fee waiver?

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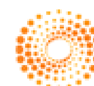

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Jonathan Gerald Bock - *Wells Fargo Securities, LLC, Research Division - MD and Senior Equity Analyst*

Yes, correct.

Michael A. Hart - *TCG BDC, Inc. - President, CEO, MD of Global Market Strategies and Interested Director*

Yes, that will continue to be waived through the third quarter with an expectation that it will commence back to the original 1.5% on October 1. At that time, it's also expected that the incentive fee reduction will go into effect from 20% to 17.5%.

Jonathan Gerald Bock - *Wells Fargo Securities, LLC, Research Division - MD and Senior Equity Analyst*

Just a small check there, then regarding the rapid [ray up] , I mean, congrats on very strong fundings in addition to -- in the portfolio, in addition to the middle market credit fund. Let's just start with what you're originating for the CGBD balance sheet of the [$ 470 million] in deals that you did this quarter, what percentage were you the lead agent on? And what percentage were you in fact a partner with Antares? Or other direct originator?

Jeff Levin

Sure. Jonathan, I'm Jeff Levin. In terms of partnering with Antares, I'd have to get back to you, I don't have that information handy. In terms of a joint lead arranger title, it's in a -- there are several deals in our quarter where we were a joint lead arranger. I can follow up with you with the exact number. The business throughout the past couple of years has really transformed where everything we do is direct with sponsors, and we're joint lead in many of our transactions. And as you know, it's a club market as well. So our second quarter is consistent with what we've been doing over the past couple of years, which is all direct business and the mix is really a combination of joint lead business and deals that are club transactions. But I can follow up with the detail.

Jonathan Gerald Bock - *Wells Fargo Securities, LLC, Research Division - MD and Senior Equity Analyst*

Only because we often find a certain level of -- and this isn't to say that joint lead deals are bad. I mean, good managers can club up. But remember, folks always love to see true differentiation on originations that you were able to source in whole specifically given your size. The last question I have relates to the middle market credit fund. So I would imagine there is probably a change in leadership at a Canadian partner that you are working with, and I'm curious as to how and if that affects your potential JV on a go-forward basis?

Grishma Parekh

Hey Jonathan, this is Grishma Parekh, good to hear from you. There -- we have not disclosed publicly our Canadian partner for the joint venture. There has not been a change in leadership at our Canadian partner to our knowledge, and I'm pretty sure that there hasn't been on an absolute basis. We will certainly follow-up to the extent that anyone from the management team isn't aware of that, but I think it may just be misinterpretation of who that Canadian partner may be just because we haven't disclosed that publicly.

Michael A. Hart - *TCG BDC, Inc. - President, CEO, MD of Global Market Strategies and Interested Director*

Hey Jonathan, I want to follow up on 1 other point. The -- on your question about joint lead versus club type transactions. The level of diligence that we conduct and the impact that we have on the documentation doesn't change, whether we have a joint lead title or it's a club deal across 3, 4, 5 lenders. So want to make that distinction as well, but we will follow up with the detail for you.

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Operator

(Operator Instructions). Our next question comes from Ryan Lynch of KBW.

Ryan Patrick Lynch - *Keefe, Bruyette, & Woods, Inc., Research Division - Director*

The first one just goes back to kind of your commentary about the competitive environment that you outlined. Some investors may or some investors in these markets may say that it's a good time to be pulling back on portfolio growth during these time periods of heightened competition. So just how can investors get comfortable with the strong $ 325 million of portfolio growth on the balance sheet as well as the $ 250 million of strong growth in the middle- market credit fund given the -- [despite the] backdrop?

Michael A. Hart - *TCG BDC, Inc. - President, CEO, MD of Global Market Strategies and Interested Director*

Well, listen, I'll offer a few points of commentary and my colleagues can chime in. We have between our own direct origination as well as what I like to call almost synthetic origination footprints across our platform that give us coverage and insight into probably close to 350 financial sponsors. What we've found in targeting where the bulk of our origination goes in sort of the EBITDA [15 to 50] and the dynamics that occurred in that market. I mean, the numbers speak for themselves in terms of the volumes and how that broke down with respect to repricings and acquisition financing and LBO opportunities, that the volumes were there and given that the bulk of those situations are looking for providers that are speaking for the entirety of the financing, whether or not they ultimately go that route, limits the level of competition there to a certain degree. And we've seen that. We by no means think it's uncompetitive but we also have worked with many sponsors this quarter where taking that last basis point or that last half eternal leverage was not their goal. It was moving quickly, it was having certainty around financing and those were the dynamics that came into the makeup of our overall origination portfolio. So we feel very good about the quality of the situations that we underwrote this quarter. We like the relative pricing that we received. We have tended to see a bottoming of the spread compression and certainly a capping on the overall leverage that we've seen put on our investment opportunities. And that isn't to say, the structures or definitions or add-backs don't become challenging, and you have to be careful about that in terms of what you're accepting on those. But overall, it's not a market that's in our view more competitive than it's been over the course of the last 6 to 9 months. Jeff, Grishma.

Grishma Parekh

Yes, I was just going to add a couple of things to Mike's comments, which was when we're on the road with new investors and the research analyst, we try to emphasize, I think, 3 words that really describes our BDC, which were extensive, diversified, and disciplined. It's how we built the BDC over the last several years and it really continues to be the source in which we invest currently. And so Q2 is a continuation of that. As you look at each of the loans that we originate in, invested in, they are in defensive sectors. We maintained a high-level of diversification, and we are really disciplined in the parts of the capital structure that we chose to play in as well as the type of credits and the type of sponsors that we really leaned in on. The second is, when we make investments and particularly when we are looking to make investments in a market like this, we ask ourselves constantly, which is what is our strategic edge.

Do we have a strong sponsor angle? Is this a particular private equity firm that we know incredibly well that we trust in their sector, expertise and in their performance and how they're going to be behaving across cycles. Do we have -- do we institutionally have excess knowledge and sector expertise that we can bring to the table that is differentiated. And then, is this investment going to continue to support our fundamental strategy in today's market, just to focus on defensibility. And all of those things were met with these investments that we made.

And then -- and the final 2 points is, if you look at our portfolio, 75% to 80%, we're supporting repeat sponsors and about 45% or so were positions that we already know that were in our portfolio today. So it is -- so while it's been a robust quarter, it hasn't been any more of a deviation from our fundamental investment strategy.

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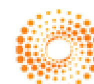

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Ryan Patrick Lynch - *Keefe, Bruyette, & Woods, Inc., Research Division - Director*

And then, I'm trying to get my head around, how I should think about the middle- market credit fund growth from an asset level going forward, you guys had about $ 250 million of growth this quarter. So out of that $ 250 million of growth, how much of that was due to dropping down assets from the NFIC Acquisition, and how much of that growth was also due from you all dropping down or selling down assets from your balance sheet and do -- will we expect any more sales from your balance sheet into the middle- market credit fund, maybe some little over yield investments or is that pretty much finished with going forward?

Tom Hennigan

Sure, this is Tom. The asset drop downs 2 buckets: One, there were $ 30 million of assets that were on the TCG balance sheet as of 3/31 that we sold to the JV, and there is another $ 53 million of loans as part of the NF merger that were more suitable for the JV's yield profile. So we sold those loans to the JV. So in the aggregate $ 83 million of loans essentially from TCG.

Within the TCG portfolio going forward, it's not something we're actively pursuing right now but there certainly are additional triggers within that portfolio loans that would fit the JV yield that in the future we'll consider selling.

Ryan Patrick Lynch - *Keefe, Bruyette, & Woods, Inc., Research Division - Director*

And then just one last one. There is very strong other income in the quarter about $ 4 million. I'm just trying to think about that going forward. Do you expect that to drop back down to more than $2-ish million level you guys have been running at or as you guys are ramping up the portfolio to [point capital] from the IPO and other capital raise, should we expect that to maybe stay higher in this $ 4 million area going forward?

Michael A. Hart - *TCG BDC, Inc. - President, CEO, MD of Global Market Strategies and Interested Director*

Yes, I would think about that number as being on the high side this quarter, Ryan. It's not a number that we're looking to drive significantly larger. There are certain opportunities obviously. We pay close attention to the call protection that we have embedded in our portfolio. There have been certain situations where syndication of positions were helpful in driving it, but neither of those are critical to our overall objective. The numbers that we had looked in the [2] range were more or less representative of what falls out of business is brought is what we're running here. But there is not an area of focus there to grow at expansively.

Ryan Patrick Lynch - *Keefe, Bruyette, & Woods, Inc., Research Division - Director*

I understand that's a difficult number to predict but I appreciate the commentary. Thank you for taking my questions today.

Michael A. Hart - *TCG BDC, Inc. - President, CEO, MD of Global Market Strategies and Interested Director*

Thank you, Ryan.

Operator

There are no further questions. I would like to turn the call back over to Daniel Harris for any closing remark.

Daniel Harris

Thanks for joining our first public earnings call since our IPO, and we look forward to speaking with all of you in the future. If you do have follow-up questions at any point, feel free to give Investor Relations a call. Thank you.

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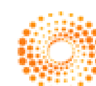

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Michael A. Hart - *TCG BDC, Inc. - President, CEO, MD of Global Market Strategies and Interested Director*

Thanks, everyone.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program and you may all disconnect. Everyone have a great day.

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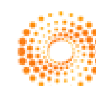

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