

Word on the IR+M Desk



As media scrutiny around BDCs intensifies, we believe the sector’s recent spread widening is driven more by headlines than by a meaningful shift in fundamentals. Applying our time-tested, bottom-up credit research approach, we are evaluating risks deliberately rather than reacting to the noise. This discipline helps us uncover attractive, short-duration bonds at spreads we view as more than compensatory, issued by best-in-class managers with strong underwriting and liquidity designed to navigate market weakness. With our experienced team, we are leaning into the volatility and prudently capitalizing on sentiment-driven dislocations — not retreating from them.

MARKET BACKDROP

- There has been a notable increase in headlines surrounding possible AI-disruption over the last few weeks, especially for software/SaaS-adjacent industries.
- The BDC sector has been under heightened scrutiny given the significant growth of the sector and the concentration of software exposure.
- BDC spreads have widened by 20–60bps year-to-date, while investment-grade corporates are 1bp tighter.

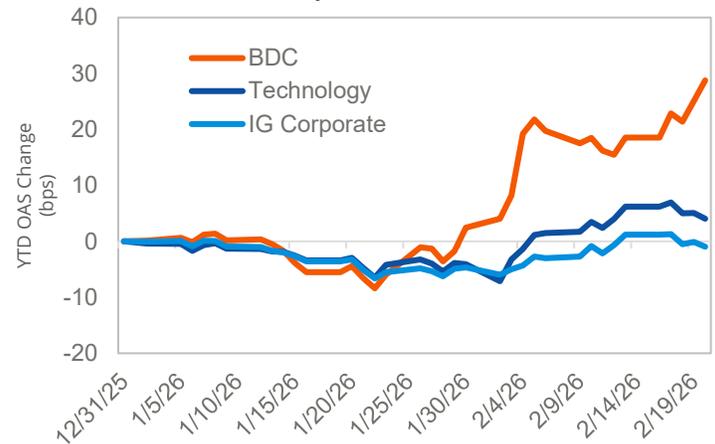
RECENT DEVELOPMENTS

- Last week, Blue Owl announced a \$1.4 billion sale of direct-lending assets at roughly 99.7% of par, spread across three BDCs, with proceeds supporting liquidity, deleveraging, and investor payouts.
- The portfolio was sold to three large public pensions and Kuvare, an insurer affiliated with Blue Owl.
- Investors of OBDCII, the private retail debt fund, will receive roughly 30% of capital over the next 45 days, compared to historically tendering up to 5% quarterly.
- OBDCII, now in liquidation mode, will no longer offer regular quarterly liquidity, relying instead on asset sales, repayments, or strategic transactions to return capital each quarter.
- Several third parties have since offered liquidity to shareholders at a substantial discount to NAV, adding to the negative sentiment.

IMPLICATIONS

- There has always been an Asset-Liability mismatch for private BDCs that cater to retail clients, offering quarterly liquidity for an illiquid asset class. To date, managers have addressed quarterly client redemptions by operating with low leverage while new monthly inflows continue to roll in.
- It appears that managers are hesitant to limit withdrawals due to reputational concerns. However, as experienced by non-traded REITs in the Federal Reserve’s prior rate hiking cycle, eventually quarterly redemptions must be capped to enable a proper sales process for illiquid assets, thus avoiding a fire sale.
- The catalyst for redemptions in this case has been exacerbated by AI/software concerns, despite underlying credit performance that has been good for the majority of managers. This credit quality is what enabled a large portfolio of loans to be sold at par. However, in a weaker economic backdrop, where withdrawals pickup as credit quality begins to deteriorate, par would not be the executed price.

BDC Spreads Wider YTD



	12/31/25	2/20/26	YTD Change (Absolute)	YTD Change (%)
S&P BDC Index	54.94	50.16	-4.78	-8.7
S&P 500 Index	6846	6910	64	0.9
BDC Spread (bps)	177	206	29	16.2
IG Corporate Spread (bps)	78	77	-1	-1.3
BB Corporate Spread (bps)	163	160	-4	-2.3
10-Year Treasury Yield (%)	4.17	4.09	-0.08	-2.0

Source: Bloomberg as of 2/23/26 unless otherwise noted. BDC = Business Development Companies. Spreads are based on the Bloomberg BDC Agg Eligible Index (BDC), Bloomberg Corporate Index (IG Corporate), Bloomberg Technology Investment Grade Corporate Index (Technology), and Bloomberg Ba High Yield Index (BB Corporate). The views contained in this report are those of IR+M and are based on information obtained by IR+M from sources that are believed to be reliable but IR+M makes no guarantee as to the accuracy or completeness of the underlying third-party data used to form IR+M’s views and opinions. This report is for informational purposes only and is not intended to provide specific advice, recommendations, or projected returns for any particular IR+M product. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission from Income Research + Management. “Bloomberg®” and Bloomberg Indices are service marks of Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services Limited (“BISL”), the administrator of the index (collectively, “Bloomberg”) and have been licensed for use for certain purposes by IR+M. Bloomberg is not affiliated with IR+M, and Bloomberg does not approve, endorse, review, or recommend the products described herein. Bloomberg does not guarantee the timeliness, accurateness, or completeness of any data or information relating to any IR+M product. Securities mentioned above are for illustrative purposes only and are not a recommendation to purchase or sell any of the securities listed.