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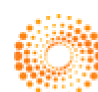

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to TCG BDC's Second Quarter 2020 Earnings Call. (Operator Instructions) Please be advised that today's conference may be recorded. (Operator Instructions) I would now like to hand the conference over to your host, Head of Investor Relations, Daniel Harris. Sir, please go ahead.

Daniel F. Harris ***TCG BDC, Inc. - Head of IR***

Good morning, and welcome to TCG BDC's Second Quarter 2020 Earnings Call. Last night, we issued an earnings press release and detailed earnings presentation with our quarterly results, a copy of which is available on TCG BDC's Investor Relations website. Following our remarks today, 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.

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 risks and uncertainties, including those identified in the Risk Factors section on our annual report on Form 10-K, that could cause actual results to differ materially from those indicated. TCG BDC assumes no obligation to update forward-looking statements at any time. With that, I'll turn the call over to our Chief Executive Officer, Linda Pace.

Linda Pace ***TCG BDC, Inc. - Chairperson, CEO & President***

Thank you, Dan. Good morning, everyone, and thank you for joining us on our call this morning to discuss our second quarter 2020 results. Joining me on the call today is our Chief Investment Officer, Taylor Boswell; and our Chief Financial Officer, Tom Hennigan.

I'd like to focus my remarks today across 3 areas: first, highlighting the positive momentum in our business under our new leadership team; second, a quick review of our quarterly results; and third, a discussion of our updated dividend policy.

Let me start by looking at the positive momentum we've established on behalf of shareholders over the past year. Our priority is to deliver sustainable income generation and an attractive risk-adjusted return for shareholders, which we strive to accomplish through portfolio construction, differentiated origination and prudent management of our capital.

Our portfolio construction strategy continues to focus on first-lien loans in a diversified group of sectors we know well. We largely avoid highly cyclical sectors like energy and retail and instead, stick to our knitting in areas like high-tech and software, business and financial services and health care and pharmaceutical. Our true first-lien exposure is just about 70% of our portfolio, generally in line with our historical average. But we remain opportunistic across the capital stack when we believe we are being compensated for that additional risk.

We continue to improve our leadership position in the marketplace, and our influence has substantially increased as our platform has scaled and matured over the past few years. Today, we have a lead role in about 90% of our transactions. This increased leadership role accrues to the benefit of TCG BDC and our shareholders.

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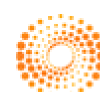

We have strengthened and diversified our origination footprint. While our core investment exposure remains domestic sponsored-back leveraged loans, we now also regularly make investments outside the U.S. in specialty strategies such as asset base and recurring revenue lending. And increasingly, we invest alongside other Carlyle Global Credit vehicles to amplify the benefits of our scale.

And finally, we actively manage our liabilities to ensure we can continue delivering results for all of our stakeholders. At the end of 2019, we priced our first unsecured bond transaction, which has been incredibly helpful during recent market volatility. In addition, we took decisive action early in the second quarter to reestablish our target leverage range, and we are now back comfortably inside our target leverage range of 1 to 1.4x.

Overall, we are operating well in a difficult market. And I am extremely proud of the hard work across our entire team.

Let me move on to an overview of results for the quarter. We generated net investment income of $0.38 per share, a strong result given the significant interest rate headwinds across the entire industry and lower-than-trend origination activity. Net asset value per share increased 4.4% quarter-over-quarter to $14.80 from $14.18. Last quarter, nearly 2/3 of our unrealized loss was due to spread widening of market yield benchmarks. This quarter, market yields rebounded, resulting in an overall positive impact on valuations and a partial recapture of last quarter's unrealized loss.

Finally, let me shift to a discussion of our dividend. Our focus remains generating a sustainable income stream, which delivers an attractive dividend for our shareholders. Given ongoing economic uncertainty and a dramatically different interest rate environment as compared to past periods, we have chosen to update our dividend policy. Our new policy aims to deliver a highly secure regular dividend of $0.32, which we intend to supplement each quarter with additional special dividends based on actual earnings.

We believe this new regular dividend is highly sustainable even under downside economic scenarios, and for a reference, alone generates an annualized dividend yield on our current stock price of approximately 15%. Under our new policy, in the third quarter, we declared a total dividend of $0.37 per share, which is in line with our historical regular dividend and which is comprised of the new regular quarterly dividend of $0.32 plus a special dividend of $0.05.

We believe that CGBD's market-leading origination platform, strong underwriting capabilities, conservative portfolio construction and prudent liability management will drive solid operating results, and over time, our share price will ultimately better reflect the strength of our platform.

I'd like to thank each of you for your time and partnership, and let me now hand the call over to our Chief Investment Officer, Taylor Boswell.

Taylor Boswell ***TCG BDC, Inc. - CIO of Direct Lending***

Thank you, Linda. Since our last report in May, the global economy has taken its first steps towards recovery. Carlyle's view is that this recovery will be unpredictable in slope and duration as well as uneven across geographies and sectors. Signs of rebounding economic activity, particularly in China and Europe, are encouraging while the potential for lingering weakness in areas where virus containment has been more challenged, like the U.S., weigh on our view. Away from COVID, increasing tensions between the U.S. and China as well as the pending Presidential Election interject additional risks.

The continuing macro uncertainty leads us to maintain a cautious perspective on the outlook for the real economy and markets. Over the same time, leveraged finance market conditions continued an impressive rebound, with secondary levels rallying alongside equities and other risk assets, on government stimulus, better-than-feared macro data, progress towards vaccines and economic reopening.

That said, away from the high-yield market, which is benefiting from strong technical demand, primary deal volumes were relatively light in Q2 due to the aforementioned uncertainty and a broad-based slowing of M&A activity. However, the last eight weeks have begun to evidence a noticeable uptick as market participants gained more confidence in a path to post-COVID normalization. While market-wide activity levels remain short of the robust pre-COVID period, our platform sourcing advantages are creating sustained deal flow.

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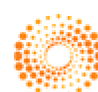

In our core markets, we are generally seeing a combination of higher yields, lower leverage and improved documentation. In addition, transactions are concentrating in sectors relatively unaffected by COVID, like technology and B2B commerce, further improving risk reward.

Finally, while there remains meaningful competition, it is relatively less intense than in past periods.

All in all, we regard this new investment environment as attractive and one in which the resources of, and insights available from, our broad platform offer meaningful benefits. As such, we have been actively evaluating new investments in recent months. CGBD closed four significant deals in the quarter, two of which were pre-COVID commitments and two of which were entirely new transactions. And we will continue to selectively deploy capital into this undeniably complex but compelling investment environment.

Turning now to the portfolio. At this point, having the benefit of four months of intense engagement, it is fair to say that performance is tracking ahead of our prior expectations. The liquidity needs of our borrowers have been less than anticipated. We have seen a reversal in calls on unfunded commitments, and we placed only 1 additional borrower on nonaccrual this quarter.

In May, we discussed how we anticipate levered credit portfolios will move through three stages of this cycle: An initial liquidity draw; followed by a significant amount of amendment activity; and ultimately, the longer-term work of value recovery and maximization for more heavily impacted businesses. CGBD navigated the first stage extremely well, owing to our diverse well-constructed liability structure. We're now in the midst of that second stage, and we feel equally well positioned. We are finding financial sponsor partners to largely be supportive of portfolio companies, while management teams are enacting impressive change in response to this difficult environment.

In amendment conversations, we generally feel that fair exchanges are being conducted with lenders receiving risk reduction or incremental return when granting relief to borrowers, always with an eye towards preserving value of the underlying company. This amendment activity began in late March, will peak in the coming weeks with the formal delivery of Q2 financials and should be largely completed by year-end 2020.

Given the excellent work of our team into and through this crisis, our significant roles in these transactions, as well as the depth of partnership we have with the management teams and owners of our portfolio companies, we feel we have a high level of visibility into which portion of the portfolio will require relief and are increasingly confident that the vast majority of those borrowers will ultimately present little risk of principal loss for CGBD.

That said, significant risk remains, both in the macro environment and within pockets of our own exposures. In order to better communicate portfolio risk, we made the decision this quarter to update our risk rating methodology. The prior methodology's heavy tie to trailing 12-month financial performance came up short in communicating shifting risk, as reporting would have lagged in this rapidly evolving cycle. Our new methodology, which more appropriately weighs qualitative, quantitative and transaction dynamics, allows us to report earlier with more clarity and transparency what we know about current and prospective performance. You will see under the new method that deals rated 3 to 5 account for approximately 30% of loan portfolio fair value. To be clear, we expect the preponderance of borrowers rated 3 or below will perform through the cycle.

Within this group, our value maximization efforts are particularly focused in the hotel, gaming and leisure, food and beverage and aerospace and defense sectors, which collectively represent 1/3 of risk-rated 3 to 5 borrowers. Across all of our risk-rated 3 to 5 borrowers, 85% of fair value are first dollar exposures, nearly all of which are covenanted. Meanwhile, the 15% of our risk-rated 3 to 5 loans in second-lien investments is invested in high-quality issuers, averaging over $150 million of EBITDA with significant liquidity runways. We believe both profiles provide a very favorable backdrop to support ultimate realized performance.

Putting all this in the context of our depressed stock trading valuation, for NAV to decrease the levels approximating CGBD's recent share price, future losses would need to equate to over 70% of the fair value of our entire risk-rated 3 to 5 loan portfolio. Needless to say, given the senior positioning of our portfolio and its current performance trends, we think this is highly improbable. In fact, we firmly believe our current asset valuations are prudent and appropriately reflect our portfolio's value.

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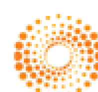

While we cannot predict with precision the amount and timing of value recovery or loss realization, we are confident that our portfolio will perform through this cycle, both in terms of NAV preservation and delivery against our revised dividend policy. We look forward to demonstrating the same to each of our constituencies and appreciate all of their support and confidence.

Thank you again for your time. I'll now turn the call over to our Chief Financial Officer, Tom Hennigan.

Thomas M. Hennigan ***TCG BDC, Inc. - CFO & Chief Risk Officer***

Thank you, Taylor. Today, I'll begin with a review of our second quarter earnings, then drill deeper into valuations and our balance sheet positioning. As Linda previewed, we had another solid quarter of total income generation, particularly given the macroeconomic backdrop. Total investment income for the second quarter was $45 million, down from $51 million in the prior quarter.

The decrease was driven by a few factors. First, interest income on the core investment book was down from $39 million to $35 million, driven by the combination of lower LIBOR and lower average investment loan balance. Second, OID accretion fell by almost $1 million this quarter, given we had zero nonscheduled loan repayments. And third, total income at the JV was about $1 million lower compared to first quarter, primarily due to running the vehicle at lower leverage. One offset to these top line headwinds was an increase in total fee income, driven primarily by higher amendment-related fees.

Total expenses were $24 million in the quarter, down from $27 million last quarter. The largest component of the decrease was interest expense due to lower LIBOR with management and incentive fees also lower compared to first quarter. This resulted in net investment income for the quarter of $21 million or $0.38 per common share, which is below our historical trend line, but we think a solid result given the overall market backdrop.

As Linda noted, we do see some pressure on this level going forward, driven primarily by some of the market factors that impacted second quarter results, including the sharp drop in LIBOR, lower income streams tied to M&A and refinancing activity and opting to run both the BDC and our JV at lower leverage.

Based on a rigorous sensitivity analysis of these and other factors, including potential future nonaccruals related to COVID-19, we're confident in our ability to continue to deliver an attractive, sustained dividend. We intend to do so by not just meeting the new $0.32 regular dividend but also consistently beating that level, resulting in special dividends each quarter that will be sized based on the prior quarter's actual earnings.

On August 3, our Board of Directors declared the dividend for the third quarter of 2020 at a total level of $0.37 per share, and that's payable to shareholders of record as of the close of business on September 30.

Moving on to the JV's performance. The dividend yield on our equity was about 10% in the second quarter. This is consistent with the 9% to 11% expected range we mentioned during last quarter's call despite our decision to run at lower leverage.

On devaluations, our total aggregate realized and unrealized net gain was $34 million for the quarter. Big picture, we saw valuations increase based on the rebound in broader market yields. This was partially offset by negative fundamentals from the impact of COVID-19 on some investments.

I'm going to bucket our portfolio into a few categories. The first is performing lower COVID-impacted names, and I'm including our equity investment in the JV in this category given the strength of that portfolio. This bucket accounts for about 70% of fair value as of 6/30. Based primarily on the rebound in market yields, these investments increased in value of $40 million compared to 3/31.

The next category is our historically underperforming names, some of which have COVID exposure. We actually experienced a $6 million increase in this category aided by some stabilizing to improving business trends and a handful of favorable amendments, which included sponsor supporting these businesses with incremental equity.

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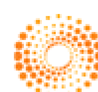

The final category is the moderate to heavier COVID-impacted names. Some of these have more severely disrupted business models as we look at both near-term performance and longer-term prospects. And given the uncertainty at this stage of the cycle and pandemic, we attempted to be appropriately conservative in our assessment of these names, which resulted in a $12 million markdown across these investments.

You'll note the sizable realized loss of $48 million. This was primarily driven by the exit of our investments in Dimensional Dental, a loss -- we previously marked it close to zero. So this realized loss is a reversal of prior period unrealized loss. The balance was from our secondary sales efforts, which we touched on during last quarter's call.

From a nonaccrual perspective, we added one new borrower while exiting another. So total borrowers on nonaccrual status remained at 5. As of 6/30, nonaccruals stood at 3.7% at fair value and 6% based on cost.

I'll finish with a review of our financing facilities and liquidity. Total debt outstanding was about $1 billion at quarter end, down $227 million from prior quarter. Statutory leverage improved from 1.6 to 1.3x, and more importantly, net financial leverage, which assumes that preferred is converted, was under 1.2x. With this recent deleveraging, unused commitments under our credit facilities plus cash increased from about $320 million at prior quarter end to over $500 million as of 6/30. During the second quarter, we did elect to pause our repurchase activity with capital preservation a primary goal at the onset of the pandemic. With our improved liquidity position, going forward, we intend to pursue the appropriate balance of both share repurchases and attractive new investment opportunities.

And while we're very comfortable with our current leverage and liquidity position, we continue to look for ways to improve our balance sheet flexibility. Given the recent improvement in the rate environment for BDC issuers, we're evaluating various incremental financing solutions with a primary goal to further optimize our liability structure and provide additional flexibility as we navigate through this period of market uncertainty.

One final note, you'll see we filed a preliminary proxy for the ability to issue shares below NAV. We think this is prudent corporate finance policy and provides us additional flexibility to defend the portfolio primarily during periods of extreme market volatility. But given our current balance sheet positioning, we have no near-term need or intention to issue shares below NAV. So we appreciate your support for these both.

With that, let me turn the call back over to Linda for some closing remarks.

Linda Pace ***TCG BDC, Inc. - Chairperson, CEO & President***

Thank you, Tom. I'll finish where I started. We have significant momentum in our company with a high-quality, largely first-lien investment portfolio that is driving attractive investment income for our shareholders. We're strengthening our origination capabilities and fortifying our balance sheet. There's still work to be done, but TCG BDC is well positioned to successfully manage through the current environment. Thank you. We are now ready to take your questions.

QUESTIONS AND ANSWERS

Operator

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

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

And I apologize, I know we can pull this out of the queue. But what are the nonaccruals at cost for the second quarter? We're actually having some data problems today. Could you compare that to the first quarter as well, please?

Thomas M. Hennigan ***TCG BDC, Inc. - CFO & Chief Risk Officer***

Rick, it's Tom. So the question was the percentage of nonaccrual on cost?

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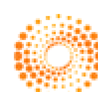

Richard Barry Shane ***JPMorgan Chase & Co, Research Division - Senior Equity Analyst***

Yes.

Thomas M. Hennigan ***TCG BDC, Inc. - CFO & Chief Risk Officer***

Sorry, it was 6% on cost.

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

And what was it at the first quarter? Again, I'm having trouble accessing my normal resources, I apologize.

Thomas M. Hennigan ***TCG BDC, Inc. - CFO & Chief Risk Officer***

Yes. Sure. It was up a hair from a -- on a cost basis, the -- that was an uptick from first quarter. It was 5.4% on cost as of 3/31

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

Okay. Great. And then, look, I think rationalizing dividend policy in light of the way the stock is trading and its value makes a great deal of sense and give you some more flexibility. I am curious to hear -- the other part of that is investing in your own stock to repurchase. What's the outlook there? And what's the appetite, given the levels?

Linda Pace ***TCG BDC, Inc. - Chairperson, CEO & President***

Rick, it's Linda. Yes, good question. It's something that we're consistently looking at. Given, as you point out, where our stock price is trading, we definitely think our stock is an excellent buy. So we evaluate that on an ongoing basis. We have about $14 million left on our share repurchase program, and we're likely to go back to the Board to re-up that. But what we want to do is -- there's still a lot of uncertainty, so we do want to make sure that we're being balanced in how we use our cash and how we protect our balance sheet. But we do -- as I said, we do think our stock is a pretty good buy, but we don't want to get too far out over our skis. We like where our balance sheet is positioned, and there's still a lot of uncertainty in the market. So we do want to approach it pretty cautiously.

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

Yes. Look, it's a fair point. It's easy from this seat to say buy the stock, buy the stock, it's cheap. But then if the world turns a little bit worse, you're going to wish you had that capital. So we appreciate the balance on that.

Linda Pace ***TCG BDC, Inc. - Chairperson, CEO & President***

Exactly.

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

Sorry, Linda, I interrupted, I apologize.

Linda Pace ***TCG BDC, Inc. - Chairperson, CEO & President***

No. No. I just going to say -- yes. No, thank you for that. Yes, we're thinking the same way. So I appreciate the question.

Operator

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

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

I just wanted to have a follow-up question with the supplemental dividend. Kind of do you guys have a framework for the intention of paying out that supplemental dividend going forward? Is that going to be basically 100% payout of operating earnings or 50% payout above your core dividend? Just any sort of framework that you guys have set to pay out those supplemental dividends going forward?

Thomas M. Hennigan ***TCG BDC, Inc. - CFO & Chief Risk Officer***

Ryan, it's Tom. You'll see, in particular, as an example, for this quarter, we sized the $0.05 special based on effectively second quarter results. So paying out a majority of the excess above $0.32, and we would anticipate doing the same going forward effectively looking at the prior quarter's results and then paying out some supplemental size to our actual results. And something that we only -- we anticipate

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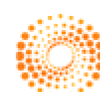

the $0.32 we feel very comfortable with. And we anticipate each quarter exceeding that level and paying out a special -- obviously, it's a special amount and will vary quarter-to-quarter.

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

Okay. Got it. And then you mentioned because of the payoffs and the increase in loan valuations, you guys are now back within your target leverage range of 1 to 1.4x. Can you clarify -- you guys have a debt-to-equity at quarter end of 1.17x and a statutory debt-to-equity of 1.31x. Can you clarify, are you -- from your target of leverage range, is that going to be using your debt-to-equity metric or your statutory debt-to-equity metric?

Thomas M. Hennigan ***TCG BDC, Inc. - CFO & Chief Risk Officer***

Ryan, it's something -- we look at both and particularly as the market evolves, we'll be conscious of both in terms of, obviously, the flexibility that we have with that preferred equity tranche but it's something that -- right now, we're comfortably right in the middle of that range really with both metrics and something we'll continue to keep an eye on as the market evolves.

Taylor Boswell ***TCG BDC, Inc. - CIO of Direct Lending***

Hi Ryan, its Taylor. I might just emphasize the point there that when it comes to practically managing the balance sheet, liquidity, leverage, how definitions of leverage flow through our different facilities and the like - really that financial leverage concept is a more applicable concept for the day-to-day operation of the right side of our balance sheet, but we, of course, are mindful of statutory as well.

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

Okay. Makes sense. You mentioned having some loan modifications as well as think those will actually pick up as more results come in. Can you just talk about, so far, one, how many loan modifications were made in the second quarter? And two, out of those loan modifications that were made, how many of those cases was the private equity sponsor willing to come in and provide additional capital support in order to get those loan modifications? And what have those conversations been like as you guys are working through and all lenders are working through stress in their portfolios? What has been the dialogue with sponsors and their willingness and ability to support some of these companies that are challenged in this downturn?

Thomas M. Hennigan ***TCG BDC, Inc. - CFO & Chief Risk Officer***

Ryan, it's Tom. The -- I'd say that our level of amendment activity in the second quarter was moderate and certainly picking up meaningfully here in the third quarter as we look at the second quarter covenants and quite frankly, the reason most of our transactions have financial covenants. So quite a few borrowers dealing with second quarter breaches -- or anticipated breaches. So those are the amendments working on real time. When we look at the amendments that we made in the second quarter, you probably count on one hand in terms of the level of material amendments. But as I look across the board, 3 of the 4 material amendments included the decision of the sponsors injecting additional equity and typically in exchange for us also getting additional rate, but in each of those cases, agreed to some level of PIK interest, typically on a temporary period for the company to get through COVID or through any temporary performance challenges. So in each of those cases, equity, covenant relief, additional economics, some of the form of PIK and then we'll call it interim PIK relief for some of our interest. Those are pretty standard across the board for our more material amendments.

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

Okay. That's helpful commentary. And then just one last one. I think you said in your prepared remarks, as this quarter has kind of played out, it feels like some of the performance of some of your companies have improved. The liquidity needs haven't been as large as you guys were initially expected. And so it feels like things are going -- tentatively heading in the right direction, although, obviously, we're still in a pretty deep downturn with a pretty slow recovery. But I'm just wondering, when we look at your current level of nonaccruals or defaults in your portfolio, do you expect that we've kind of hit peak levels at the end of this quarter? Or do you think that, that will continue to trend higher going forward, of course, knowing nobody really knows that outlook, but just based on the conversations you've had with your sponsors and liquidity needs of your companies today?

Taylor Boswell ***TCG BDC, Inc. - CIO of Direct Lending***

Yes, it's Taylor. I think what I would say is that -- well, let me approach it this way. All of our nonaccruals -- current nonaccruals today are first dollar exposures. And so we really feel pretty strongly about our ability to recover that capital and get that capital earning again over

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time. And so I think that there is a significant amount of confidence in our -- in preserving our earnings level generally. The harder thing to predict, as you know, is whether or not in one quarter we might bump an additional nonaccrual when another one isn't rolling off. So there's a little bit of unpredictability quarter-to-quarter, I would say. But I think we're generally feeling like we're well accounted for and how we've established our new dividend and well accounted for in terms of the overall performance of the portfolio. So I don't think we are anticipating some material increases going forward. And I think there's a pretty balanced profile when I look at the -- both the risk and opportunity in that line item of our P&L going forward. But there is uncertainty out there, and so we want to be cautious and careful about that topic, obviously.

Operator

And our next question comes from Finian O'Shea with Wells Fargo Securities.

Finian Patrick O'Shea ***Wells Fargo Securities, LLC, Research Division - VP and Senior Equity Analyst***

Taylor, just to sort of segue on that line of discussion with Ryan. I want to go back to your comments on this downturn and recovery. You said the initial phase was way less bad than it could have been, and now we're sort of in the amendment space, which is going well, and you expect that to end with June financials. What level of re-underwriting are you doing? As you make these amendments, my concern here is, are you sort of saying it's all over because you've gotten through the worst and now you're making amendment? Given we don't really know what the new normal is going to look like for these financials, we've got through the bottom, but how do we know where earnings will be for these portfolio companies, say, next year? So any comment on how conservatively these are being re-underwritten as you recapitalize and amend and so forth your borrowers?

Taylor Boswell ***TCG BDC, Inc. - CIO of Direct Lending***

Yes. Fin, I think that the first point of context I'd put around that is for most of the businesses that are seeing COVID impact are not businesses that have gone to 0 from a top line perspective and remain at 0. There's a significant portion of those portions of our portfolio where we actually can see the rebounding earnings occurring currently and can see positive earnings development. And so for those names, it is a relatively clearer path, I think, to understand where normalized earnings will settle for those businesses. And the level of re-underwriting we're engaged in there is perhaps not as deep and as focused as those names that are deeply impacted. And we called out a couple of sectors where that deeply impacted activity is more concentrated in our prepared remarks.

In those businesses, I think we take our confidence from a couple of things. One is our senior positioning in the capital structure, and generally, the amount of enterprise value behind us on a pre-COVID basis gives you a lot of room to absorb the detrimental actions around the value of the business through this crisis. And I'd say, as we approach the amendment conversations, you always have a choice of what to focus on. You can focus on risk reduction or return enhancement. In those names, we focus on risk reduction and making sure the businesses operate with enough liquidity because I think the most severe outcomes for lenders tend to be businesses that are on liquidity star for a long time. So we're really in a broad-based partnership in those severely affected businesses with the owners to bridge through to the other side of this crisis. And if it ends up being 6 months, 9 months, 12 months, we've generally seen everybody in the boat rowing in the same direction to solve for that.

And the last point I'd make is there is enough data even in most of the severely impacted businesses to start to understand cures, if it's a multiunit business, to understand unit level profitability at different levels of demand to inform your valuation conversation and strike a view about where the balance of risk and rewards should strike that ultimate valuation.

So kind of a long answer, Fin, because that is a complicated topic, and I guess, maybe it would be zipped up in we're just learning a lot. We're 4 months into this and constant conversations with everybody around the table. The data is coming back, and if we can just refine and tighten with each week that passes, and we feel better and better. Again, not out of the woods, but feel better and better.

Linda Pace ***TCG BDC, Inc. - Chairperson, CEO & President***

Fin, it's Linda. Maybe I'll just add to your point about re-underwriting, it really -- that really does tie into our decision to improve our risk rating methodology. I think what COVID-19 really sort of brought to light was that we wanted to have a more -- a risk rating policy that better incorporated our views going forward. And while it still relies on kind of historical performance, especially in a time like this, it's really what do we think is going to happen in the future. And that's one of the reasons why we did do the revision. So I think, yes, we're

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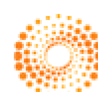

still doing rigorous credit work, but with definitely an emphasis on how do we view the names in our portfolios in light of the uncertainty that we're seeing and in light of the global health crisis that we're all going through. So I just wanted to point to something tangible that reflects the question that you asked, I would point to our revised risk rating policy.

Finian Patrick O'Shea ***Wells Fargo Securities, LLC, Research Division - VP and Senior Equity Analyst***

Sure. I actually, really am a fan of that, and that was going to be part of my next question. Forgive me if you broke this out already. But in the concept of re-underwriting or rating and valuing more forward-looking to reflect where you would do a loan today, looking at -- your overall portfolio was up, but the names that were down, is there a breakdown from your new rating system versus incremental fundamental decline? Is it -- just, I guess, ballpark, is it 50-50 or tilt it one way or another for the group of names that saw a decline?

Thomas M. Hennigan ***TCG BDC, Inc. - CFO & Chief Risk Officer***

Fin, it's Tom. I'd say it's difficult to put an exact number on that, but I'd say there's certainly a correlation between deals that previously were risk-rated 2. Now -- and by the way, first quarter results may have still been pretty good in a lot of cases, but we know that the second quarter was going to be difficult and the company may have headwinds going forward. That deal would potentially be a 3 under our new risk rating scale. And those more COVID-impacted names, more likely to have a valuation decline in the -- as of 6/30 relative to 3/31, just the fact that all equal yields for positive valuation. Certainly, a correlation between COVID-impacted deals, risk-rated 3 under the new system and deals for valuation declines, 3/31 to 6/30

Finian Patrick O'Shea ***Wells Fargo Securities, LLC, Research Division - VP and Senior Equity Analyst***

Got it. That's fair enough. And Tom, last question for you. Appreciating your color on the MMCF earnings. I believe last quarter, you said that this quarter, next quarter would be trough earnings for the MMCF, correct me if I'm wrong there. But is there any -- and I think those CLOs are static in there, too. So it would keep declining if you don't ramp it in another way. But is there -- is that still the case? Do you have a more short-term, I guess, and medium-term outlook for the leverage profile and, therefore, earnings profile of the MMCF?

Thomas M. Hennigan ***TCG BDC, Inc. - CFO & Chief Risk Officer***

Sure, Fin. I don't -- I'm not sure if I classified it as trough, but more given an expected range that was a bit lower than we had historically. Historically, we've been more mid-teens and last quarter and as we see it today, still expectation of about 9% to 11%. And that's what we are -- that was the dividend paid for the second quarter, and that's where we see, we'll call normalized earnings right now. And if you look at it, it does have stable book, it's performing very well. It has relatively light COVID impact. It's one that to be so right now given the market uncertainties. We plan to stay the course, keep leverage more moderate than it's been historically, and we anticipate in the near term at the same relatively consistent 9% to 11% clip for that vehicle.

Operator

And I'm showing no further questions in the queue at this time. I'd like to turn the call back to the speakers for any closing remarks.

Daniel F. Harris ***TCG BDC, Inc. - Head of IR***

Thank you very much for all your time this morning. If you do have any further questions, feel free to reach out to Investor Relations at any time. Otherwise, we'll look forward to speaking with all of you next quarter.

Operator

Ladies and gentlemen, thank you for your participation on today's conference. This does conclude your program, and you may now disconnect.

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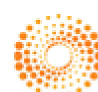

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