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CCT - Q1 2018 Corporate Capital Trust Inc Earnings Call

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PRESENTATION

Operator

Welcome to Corporate Capital Trust's First Quarter 2018 Earnings Conference Call. (Operator Instructions)Please note that this conference is being recorded. I will now hand the call over to Danny McMahon, Head of Investor Relations for CCT. Danny, please go ahead.

Danny McMahon - *Corporate Capital Trust, Inc. - Head of IR*

Thank you. Good morning, and welcome to CCT's First Quarter 2018 Earnings Conference Call. Please note that Corporate Capital Trust may be referred to as CCT or the company throughout the call. Today's conference call is being recorded and an audio replay of the call will be available. Replay information is included in a press release that CCT issued on May 1, 2018. In addition, CCT has posted on its website a presentation containing supplemental financial information with respect to its portfolio and financial performance for the quarter ended March 31, 2018. A link to today's presentation is available on the Investor Relations section of the company's website at www.corporatecapitaltrust.com under Events and Presentations.

Please note that this call is the property of CCT. Any unauthorized rebroadcast of this call in any form is strictly prohibited. I would also like to call your attention to the customary disclosure in CCT's filings with the SEC regarding forward-looking statements. Today's conference call includes forward-looking statements, and we ask that you refer to CCT's most recent filings with the SEC for important factors that could cause actual results for outcomes to differ materially from these statements. CCT does not undertake to update its forward-looking statements unless required to do so by law. In addition, this call will include certain non-GAAP financial measures. For such measures, reconciliations to the most directly comparable GAAP measures can be found in CCT's first quarter earnings supplement that was filed with the SEC this morning. Non-GAAP information should be considered supplemental in nature and should not be considered in isolation or as a substitute for the related financial information prepared in accordance with GAAP. In addition, these non-GAAP financial measures may not be the same as similarly named measures reported by other companies. To obtain copies of the company's latest SEC filings, please visit CCT's website. I'd now like to turn the call over to Todd Builione, Corporate Capital Trust's President.

Todd Builione - *Corporate Capital Trust, Inc. - President*

Thanks, Danny. Good morning, and thank you for joining us. With me are Dan Pietrzak, CCT's Chief Investment Officer; Brian Gerson, Head of Private Credit at FS Investments; Ryan Wilson, CCT's Chief Operating Officer and Associate Portfolio Manager; and Thomas Murphy, CCT's Chief Financial Officer.

To begin, it's been an eventful few months for both CCT and the broader business development company industry. On April 9, we closed the partnership with FS Investments and created the new FS/KKR Investment Adviser. FS/KKR now advises 6 BDCs: CCT, CCT II and FSIC I-IV, which together have $18 billion of assets under management. Across the 6 BDCs, the overwhelming majority of those stockholders who cast a vote, voted to approve the joint adviser, and we, of course, received all other necessary approvals. The partnership's closing is an important milestone for CCT for many reasons, but most importantly because it meaningfully increases our scale in a space, private credit, where we believe scale matters a lot.

We are now among the largest private credit businesses and we run the largest BDC platform, almost 50% larger than the #2 BDC player. This strengthens KKR's ability to transact in the upper end of the middle market, which we find secularly compelling and important to focus on, given where we believe we are in the credit cycle. Access to KKR's proprietary and now more scaled direct originations platform is one of CCT's biggest strategic advantages and has led to a diversified portfolio that as of quarter-end included 128 borrowers, 73% senior secured investments and 75% floating-rate investments.

Stepping back a bit and recognizing that many of you may be new to CCT, and/or to the FS/KKR Adviser, I thought it may be helpful to provide an overview of both. I'll start on Slide 3. CCT, with $4.3 billion of assets and a $2.1 billion market cap, is an industry-leading business development company focused on making originated senior secured loans to middle-market companies. The company was started in 2011 and has experienced significant growth over the past 7 years.

On Slide 4, you can see that CCT is managed by the FS/KKR Investment Adviser and through SEC exemptive relief, participates on a pro rata basis with KKR Credit's other pools of client capital in deal flow that fits within its mandate.

The left-hand side of Slide 5 provides a snapshot of KKR. KKR is a leading global investment firm. As of March 31, 2018, KKR managed $176 billion in capital across multiple alternative asset classes, including private equity, real estate, infrastructure, energy, hedge fund partnerships and credit, where CCT enters the mix. Founded 42 years ago, KKR has always focused on being well aligned with clients, enabled by a sizable balance sheet that invests meaningfully across each of its asset classes. As of March 31, KKR and its employees had $2.7 billion of AUM invested alongside clients of KKR Credit.

Let's now shift to the right-hand side of the page to review FS. FS has a long history of growth and success that has been predicated on combining differentiated alternative investment strategies run by leading institutional managers with innovative structures, all with the goal of providing retail investors with access to alternative investment product. Since announcing the FS/KKR partnership in December, we've together been focused on 3 top priorities: working with our borrowers and their sponsor partners to smoothly manage the transition; second, providing support to our existing portfolio companies; and third, further building the pipeline of new investment opportunities. I'm pleased to report that we've made great progress across each of these priorities.

We've also begun to consider potential consolidations of the 6 BDCs that comprise the CCT and FSIC franchises. The adviser believes that consolidating these entities can further expand and diversify the BDCs' investment portfolio, optimize our capital structure with lower borrowing costs, provide greater investment flexibility and provide business and operational synergies, specifically through reductions in administrative and other overlapping costs. While we have begun discussing these potential benefits at a general level with the boards of certain of the BDCs, including the boards of CCT and FSIC regarding a potential merger of those vehicles, any mergers will, of course, among other things, be subject to market conditions and review and approval from the respective Boards of Directors as well as stockholders, as required.

Let's now shift gears and review CCT's 3 core objectives, which we introduced last quarter. I'm on Slide 6. First and foremost, we are credit investors and focus on preserving capital. The competitive landscape in the direct lending space has continued to intensify over the last 5 years. An abundance of new capital entering the market has led to tighter spreads, and in many instances, less discipline around risk. From our vantage point, this backdrop demands a broad-sourcing platform, highly selective decision making and rigorous portfolio management. During the first quarter, we screened more than 300 opportunities, which is meaningfully up versus the 2017 run rate.

Our second core objective is to deliver shareholders a competitive and stable dividend. We have a number of levers, which should allow us to further enhance our dividend coverage over time. First, our sourcing breadth is critical. Based on our dialogue with corporates and sponsors, it remains clear that there is great demand for lenders capable of offering holistic solutions across the capital structure. The FS/KKR partnership provides access to 325 existing borrowers, which represents a highly valuable incumbency position. Beyond this incumbency position, our global corporate and non-sponsor coverage, with now 150 relationships, is a great source of deal flow. And we continue to invest in our origination platform. During Q1, KKR Credit hired 4 senior originators. Our pipeline is robust and it's grown considerably over the past few months. We feel well positioned looking to the remainder of 2018. We've also focused on scaling our JV, a yield enhancer that allows us to grow the non-qualifying asset bucket of our portfolio, which is important given our access to the full KKR private credit platform, which includes European direct lending and asset-based finance investments. Our JV's investments fair market value grew 15% quarter-over-quarter from $514 million to $590 million. And our JV's inception to date IRR is 11.1%. So we're continuing to make progress here. Finally, we're focused on optimizing our liability structure. We have diversified sources of funding with a strong maturity profile today, but believe we can access more unsecured fixed-rate funding while simultaneously maximizing flexibility. In Q1, we reduced the spread on our J.P. Morgan facility by 50 basis points to LIBOR plus 250 from LIBOR plus 300. We also added an additional $200 million of fixed-for-floating interest rate swaps, and together with our fixed-rate liabilities, have us well positioned for a rising interest-rate environment.

CCT's third core objective is to be a best-in-class BDC that's well aligned with shareholders. In March, we announced the company-sponsored share repurchase program. Under this program, we may repurchase up to $50 million in the aggregate of our outstanding common stock in the open market. We entered into a 10b5-1 plan in March, and from March 28, when the repurchases commenced through this past Friday, May 11, the company had repurchased and canceled 990 thousand shares for $16.6 million, leaving us with $33.4 million in remaining capacity under the current authorization. While we have discretion over the timing and pace of additional repurchases, it is our intention to utilize the full authorization. Additionally, upon listing last November, KKR Credit informed the company that it and certain members of the company's management were considering purchasing up to $50 million in shares of common stock in the aggregate in open market transactions, subject to restrictions under applicable law. Since the program commenced in early January through this past Friday, KKR has purchased $23.8 million in CCT shares or roughly 1.5 million shares.

Before I turn it over to Ryan to review this quarter's results, I'd like to make a few comments about the Small Business Credit Availability Act that was signed into law in March. This legislation represents an important advancement for the BDC space, arguably the most significant since the industry was created by Congress back in 1980. Overall, we believe this law is a net positive for the industry. Widening the regulatory leverage limitation would improve the risk profile of our company. We also believe this relief provides the potential for BDCs to evolve their asset base to include lower-risk, lower-yielding investments.

As for CCT, we're carefully considering the right approach. We started talking with rating agencies, banks, research analysts and other important constituents. We've also observed actions taken by several key stakeholders, most notably the industry-wide negative outlook from a prominent rating agency. As of today, we've made no decisions on the matter and do not have any formal action regarding the new legislation in front of our Board of Directors. Should our thinking on this subject evolve over time, we will update you. And we would seek shareholder approval prior to advancing any effort, in line with our stated objective of being well aligned with our investors.

With that, I'll now turn the call over to Ryan to review our Q1 results.

Ryan Wilson - *Corporate Capital Trust, Inc. - COO and Associate Portfolio Manager*

Thanks, Todd. I'll provide a summary of the results for the first quarter. You can find this information beginning on Slide 8 of the earnings presentation. For the 3 months ended March 31, 2018, net investment income was $0.39 per share as compared to $0.38 per share for the fourth and first quarters of 2017. Net change in unrealized appreciation on investments for the first quarter of 2018 was approximately $30 million or $0.23 per share, driven by strong marks across the portfolio.

Net realized losses for the first quarter were roughly $6.5 million or $0.05 per share, primarily resulting from the crystallization of the loss in SquareTwo, a portfolio company that we previously had marked below cost. In total, this quarter's activity led to earnings per share of $0.57 per share as compared to $0.05 per share for the fourth quarter 2017 and $0.62 for the first quarter of 2017.

Turning to dividends. For the quarter, we paid a regular $0.40 per share dividend, representing an attractive 10% annualized yield based on Friday's closing share price. Our Board of Directors has declared a second quarter cash dividend of $0.40 per share, payable on July 10, 2018, to stockholders of record as of the close of business on June 29, 2018. Additionally, a special cash dividend of just over $0.10 per share, which was announced in conjunction with CCT's listing, is payable on May 21 to stockholders of record as of the close of business May 14. Net assets per share as of the end of the first quarter was $19.72 per share compared to $19.55 per share for December 31, 2017, and $20.25 per share a year ago.

The components of Q1 NAV growth can be seen on Slide 11. Strong net investment income, coupled with the unrealized depreciation I previously mentioned, were the key drivers. As a reminder, the $19.72 per share does not reflect the impact of the special dividend payable later this month.

Turning to the balance sheet. We ended the quarter with total investments at fair value of $4 billion, total cash of $177 million and total assets of $4.3 billion. Investments at fair value increased quarter-over-quarter, driven largely by mark-to-market appreciation across the portfolio. Sales and prepayments modestly outpaced the new purchases in the quarter, which slightly offset the aforementioned appreciation. However, factoring in $97 million of investments sold to our JV in the quarter, we had positive net investment activity, which we highlight on Page 15.

Moving to the right-hand side of the balance sheet. Total debt was $1.6 billion, with total committed debt of $2.2 billion, diversified across lenders with no near-term maturities. We have approximately $600 million of undrawn availability on our revolving credit facilities, which positions us nicely to deploy capital in new opportunities. Our weighted average cost of debt was approximately 4.6% at quarter-end, up 15 basis points from the prior quarter due to an increase in LIBOR, offset by a repricing of our J.P. Morgan facility that Todd mentioned. Our balance sheet continues to be asset-sensitive, as you'll see on Slide 17. Using our balance sheet as of March 31, and assuming a 100 basis point increase in LIBOR, our net investment income would increase by approximately $8.5 million, or $0.07 per share. Finally, our debt-to-equity ratio was 0.64x, unchanged from year-end.

I'll now turn it over to Dan Pietrzak, CCT's Chief Investment Officer.

Daniel Pietrzak - *Corporate Capital Trust, Inc. - CIO*

Thanks, Ryan. I'll provide a few highlights as to what we're seeing in the market and provide an update on our portfolio and recent investment activity. Over the past several quarters, we have commented on the generally tight conditions that continue to prevail in today's market. New CLO formation remained strong during the first quarter of 2018 and flows into the bank loan mutual funds turned positive after two straight quarters of outflows. In markets like these, careful credit selection and discipline is critical, as is being focused on structural protections within transactions. We will remain patient and only selectively deploy capital as opportunities arise, maintaining high underwriting standards in the face of continued competition and a loose lending environment.

Total purchases for the quarter were $378.1 million, 88% of which were in senior secured debt investments. Repayments of $258.6 million during the first quarter largely stemmed from takeouts by the syndicated markets. We also sold $97.5 million into our JV. In total, we closed seven new transactions for $198.5 million in our originated strategy during the quarter.

Let's turn to Page 13, which provides a snapshot of CCT's portfolio at quarter-end. A few items worth noting here. We're maintaining our focus on investing in senior secured and floating-rate debt, which at the end of the first quarter represented approximately 73% and 75%, respectively, of the portfolio on a fair-value basis. In terms of return profile, the gross portfolio yield, prior to leverage and excluding non-income producing assets was 9.6%, up from 9.5% for the prior quarter. This increase was primarily attributable to LIBOR increasing during the quarter, offset by repayments of some of our higher-yielding positions.

As of March 31, we had six companies on nonaccrual, which in aggregate represented 2.4% of the portfolio based on fair value. During the first quarter, our investments in Proserv and Willbros were put on nonaccrual, while SquareTwo and Charlotte Russe were removed from the list. We are actively working on our nonaccrual positions, and we'll continue to update you as things progress. We continue to focus on driving and maintaining ball control on transactions, as shown by the 94% number where we have been the lead, the co-lead or the sole lender in our originated strategy investments, which allows us to act as a partner of choice for issuers seeking flexible capital solutions and alternative sources of financing.

Now if we move to Page 10, I would note a decrease in second lien in subordinate positions year-over-year, with a few successful repayments occurring. And then moving to Slide 14. At the top, we have summarized our product suite and target investment size, with a continued focus on the upper end of the middle market. We thought it'd be helpful to review a few key highlights of transactions that occurred in Q1, outlined on the bottom half of that page. Let's start with the largest addition to our portfolio in Q1, a first lien investment in Berner Food & Beverage, a leading producer of ready-to-drink coffee, shelf-stable dips, sauces and dairy-related items. KKR led and sole-funded the $225 million first lien term loan at LIBOR plus 675 basis points, with 2 points of fees and OID, of which CCT committed $94 million, including a $38 million delayed draw. KKR structured the investment with favorable covenants at an attractive leverage profile.

Next, in March, we invested in Bugaboo Holdings, a manufacturer and distributor of premium strollers. Our 35% LTV unitranche investment is being provided to support a leveraged buyout by a third-party investment firm. KKR led and sole-funded the EUR 85 million first lien term loan at Euribor plus 700 basis points, with 3 points of fees and OID, of which CCT committed $30 million.

Let's turn to review a transaction that went full cycle in Q1. New Enterprise Stone & Lime is a vertically integrated construction materials supplier and highway construction contractor headquartered in Pennsylvania. In July of 2016, KKR led a $450 million first lien term loan financing for New Enterprise, in which we were the lead investor with 70% of the tranche, representing $154 million investment for CCT. In that transaction, KKR Capital Markets syndicated the remaining 30%. After several years of strong performance, the company was able to successfully refinance the loan at the contractual make-whole with a new secured bond offering, resulting in CCT receiving call premium resulting in one time earnings of approximately $11 million.

In terms of origination, I wanted to note a few things. KKR has been investing into its private credit platform over the last several years, and that effort is showing real traction on the origination and sourcing side, which will be further enhanced with the FS partnership. During Q1, KKR reviewed 324 private credit deals, up meaningfully quarter-over-quarter. And as I've said before, in this market, we think it's important to be selective and we believe this amount of origination volume will allow that for CCT. In terms of Q2, and CCT specifically, for the month of April, CCT closed or committed to over $400 million in transactions, and the remaining pipeline is robust. Please note that there's no certainty these transactions will close but we feel the probability is high.

With that, I'll now turn the call back to Todd.

Todd Builione - *Corporate Capital Trust, Inc. - President*

Thanks, Dan. As I mentioned earlier, we're looking forward to updating you throughout 2018 as we progress on each of our core objectives. Our focus is quite simple. First, source and underwrite new and attractive investment opportunities for the portfolio, while focusing on protecting the capital in our invested portfolio. Second, continue to refine our liability structure. And thirdly, make progress on other levers of growth, including the expansion of our JV and asset-based finance bucket.

Thanks for your time today and for your partnership. Operator, we're happy now to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Doug Mewhirter of SunTrust.

Douglas Mewhirter - *SunTrust Robinson Humphrey, Inc., Research Division - Research Analyst*

Just a couple of questions. First, the unrealized gains, how much of that was a reversal of your sort of mark-to-market loss on SquareTwo on the unrealized portion?

Daniel Pietrzak - *Corporate Capital Trust, Inc. - CIO*

On the unrealized portion? Yes. I mean, I think the unrealized gains in the quarter were actually generally from the...

Ryan Wilson - *Corporate Capital Trust, Inc. - COO and Associate Portfolio Manager*

It was $11 million was related to the reversal of SquareTwo.

Daniel Pietrzak - *Corporate Capital Trust, Inc. - CIO*

And then the rest is from the rest of the book, mainly just due to some more favorable sort of credit environment in Q1.

Douglas Mewhirter - *SunTrust Robinson Humphrey, Inc., Research Division - Research Analyst*

Yes. And Todd, I'm not sure how much detail you can really go into this answer. But my ears kind of perked up when you said you're considering a lot of different options for consolidation -- possible consolidation of the KKR-managed BDCs. And I was wondering whether you had explored just the -- converting the publically traded ones or actually possibly consolidating all the public and private ones together. And do you have a preference?

Todd Builione - *Corporate Capital Trust, Inc. - President*

Thanks, Doug. Really appreciate the question. Let me spend a little bit of time and talk about what I can at this point related to the mergers. I think you know we closed our partnership with FS a little bit more than a month ago. Everything's really on track with that partnership. We're really excited about it. Things have gone quite smoothly, really from lots of different constituent perspectives, most importantly sponsors, corporates, shareholders and the like. And so as we said on the prior call, once we felt like that was going well, and once we were post-closing, we would spend time beginning to think about how to optimize the platform that we've created with FS Investments. And so we have begun to consider potential mergers of those six BDCs that comprise the CCT and FSIC franchises. We think there's some common sense associated with significant shareholder value that we can create through those mergers. It might allow us to expand or diversify the portfolio, optimize the capital structure, potentially with lower borrowing costs, give us potentially some greater investment flexibility, some synergies in terms of lower administrative costs. And it's hard for me to go into much more detail than that at this point because we've really just begun the discussions, for example, with the boards of CCT and FSIC. And needless to say, I think it's important that I note that any of these mergers will, of course, be subject to market conditions, they'll be subject to review and approval from the respective boards, from shareholder consent. And I probably also should mention that we, CCT, we will not undertake to and nor do we plan to provide any update on the status of these consolidation discussions unless and until we're required to by law. And so that's about as much detail as I can go into at the present time.

Douglas Mewhirter - *SunTrust Robinson Humphrey, Inc., Research Division - Research Analyst*

Okay. And I can appreciate your need for, to be, sort of speak in very general terms about it because they can be pretty sensitive discussions. My last question, I guess, it's sort of somewhere in the middle between strategy and getting in the weeds numbers-wise. I noticed you sort of missed the dividend by about $0.01 this quarter. The portfolio grew slightly, but given the trends and the competitive environment in terms of what you can put on the portfolio, increases in LIBOR notwithstanding, is there a sort of a path to exceeding the dividend on a sort of quarterly run-rate basis in the second half of the year?

Todd Builione - *Corporate Capital Trust, Inc. - President*

Yes. Thanks for that question. I think it's a good one. And look, what I'd say is, we -- and I said this last quarter, we are quite confident in our plan to prudently grow our coverage over the medium term. I mentioned, I think, on the call last quarter that, that balance is really the key word, right? We are keenly aware of where we are in the credit cycle. And so everything that I'm kind of outlining in terms of levers that we can pull to improve our dividend coverage over the medium term, of course, we have to do with an awful high level of discipline. But first, as you noted, our balance sheet leverage is still around 0.64x, our target is 0.75x. I'm not sure if you noticed because I know our script was quite long, but Dan referenced, more than $400 million of originated investments that have either closed or been committed to in April. And so we feel well positioned from an origination perspective. We're also seeing quite a large number of opportunities. We mentioned that in Q1, we saw 324 opportunities across our private credit platform, that's a really big pickup versus where we were if you looked at the run rate in all of 2017. And so that's kind of, point one, is increasing balance sheet leverage. Point two, and I think this is probably hard to pick up in our planned comments, but we're going to continue to ramp our JV. We see that as a big value-add for shareholders, and that has continued through the first quarter and you'll hear in the second -- it will happen again through the second quarter. So fair market value of investments, $590 million as of March 31. That number is up 15% quarter-over-quarter. We moved 3 positions, if you will, from balance sheet to off-balance sheet right into the JV. We continued to add assets into the JV during quarter 2. Our JV income, if you look at assets and then you look at income, income has more than doubled over the past 2 quarters. So quarter 3 was $2.8 million, quarter 4 about the same level, quarter 1, $6.8 million and quarter 2, which we have visibility around sitting here today just because of the way the accounting works, actually up to $8.8 million. And that's been something strategic for us, and so we've been planning for the scaling of this JV. You might remember that in September, we closed on a highly attractive financing facility from Goldman Sachs at LIBOR plus 225. A lot of flexibility in assets and concentration levels. This quarter, we actually upsized that facility from $250 million to $350 million. And so we've got $135-plus-million of dry powder just from that facility. And you should know that GS has mentioned that they've got appetite to continue to grow that facility. And so that's kind of the second lever that I'd point to in terms of ramping that JV. And then 2 other things that I'd also point to, we have really differentiated, we believe we do, capabilities in asset-based finance rather than corporate cash flow credit. But that part of the portfolio is just under 10% today, 9.6%, that's up from 8.7% at the end of the year and up again from 7.3% at the end of the third quarter. We really like the opportunities we're seeing in asset-based finance. You should know, though, many of those positions, just because of a nature of these platforms, some of them are lending platforms that themselves need to scale have a bit of J curve associated with them. And so we should see the full effect of those investments coming through into the subsequent quarters. And then finally, I'd say that you'll continue to see us reduce exposure to non-cash investment. So for example, our equity number is down again quarter-over-quarter, end of quarter 1 versus end of quarter 4. But look, I want to end where I started, balance is really the key word here, right? We are keenly aware of where we are in the credit cycle. We've -- what we talk about internally is putting bigger goalie pads on. Our investment committee, using a hockey analogy, making sure it's even harder to get the puck through and to get an opportunity in our portfolio. And so you're going to see us exercising that balance in a highly disciplined way. So hopefully that's helpful to you as you kind of think through the path from us forward.

Operator

(Operator Instructions) Our next question comes from the line of Jonathan Bock of Wells Fargo.

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

Maybe starting with the investment side first for a little while. Todd, can you walk us through, I think, you mentioned the Bugaboo commitment for KKR was about $300 million. Yet about $30 million ended up in the BDC. So can you walk us through how the allocation of that loan was effectively disseminated across the franchise? Because one could imagine based on available capital, you probably might have been able to take a little bit more of it.

Todd Builione - *Corporate Capital Trust, Inc. - President*

Yes. It's a good question. Jonathan, thanks. Dan's going to take a shot at it.

Daniel Pietrzak - *Corporate Capital Trust, Inc. - CIO*

And Jonathan, just to be clear on Bugaboo, the total loan size was EUR 85 million, not EUR 300 million. So it was EUR 85 million in total. I think we found it to be an attractive piece of paper. I mean it's a top-tier sponsor who bought it. We have 35 LTV to the loan, so there's 65% of equity below us. And CCT's pro rata share of the EUR 85 million was $30 million.

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

I got. Okay. Great. So then -- now maybe looking at a few additional loans that were put on the balance sheet, Dan, can you walk through the value add of a BakerCorp International, $2.2 million loan at 6% in a $2 billion portfolio?

Daniel Pietrzak - *Corporate Capital Trust, Inc. - CIO*

Yes. It's a good question, Jonathan. I think we felt good about the originated deals we put on in Q1. I mean we referenced 7 new deals, roughly $200 million of originated credit. We did see some repayments. We referenced New Enterprise on the call. You know, what I do think -- I've stressed, is we do have access to the full KKR Credit platform, including our traded and leverage credit strategies. So as we did have some excess cash available, we were able to reinvest that along the lines and the themes and the best ideas that that part of the business brings to bear. So that's -- I would view it as a cash management tool more than anything else. And then if you fast forward to where we're seeing ourselves in Q2, I mean we've talked about April. CCT committed to or closed on $400 million of deals. There's a scenario some of them don't get done. But we feel good enough on the call to have mentioned that number. And then quite frankly, some of those more liquidity tools could potentially unwind, but it's nothing more than that.

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

When I'm thinking about the liquidity tools, though, I'm just -- and maybe my math, it can always be a little dusty, but if you're putting an L400 or L450 loan in the portfolio, let's just assume you used all leverage, your L400 or 450, you take away 250 in financing. You're left with 200. You charge another 150 basis points and 50 in G&A. Not a whole lot of spread left for investors, which makes us wonder why?

Daniel Pietrzak - *Corporate Capital Trust, Inc. - CIO*

Yes. I mean, I think the only disconnect in those numbers, Jonathan, is for things like that we can use the SMBC facility, which is 75 basis points cheaper than what you're referring to, so actually 175 basis points.

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

Well, 175. So I mean math still gets us close. I mean so net spread to de minimis. I mean if this were in an off-balance sheet JV at higher leverage, we'd understand. Plugging the hole, it seems as if you're able to keep asset levels high, which is net beneficial to the manager. But the net ROE to investors, just given the spreads you're investing at, really are flat. And maybe I'm missing something, and granted, when you have the liquidity, when it's time to put in those proprietary transactions like Bugaboo, et cetera, that's great. It's just -- wondering really what this is doing for investors today.

Daniel Pietrzak - *Corporate Capital Trust, Inc. - CIO*

Jonathan, I think those numbers are sort of not fair. The only thing I would say sort of on top of that, though, I mean it is generating positive net income. And we do have to be mindful from times about diversity and availability in these facilities. And adding assets increases that diversity score and potentially provides additional flexibly in capital. But we're happy to go through any of that off-line as well in more specific details.

Todd Builione - *Corporate Capital Trust, Inc. - President*

Yes. And the only other thing, Jonathan, that I'd add is, it's a short-term bridge, if you will, right? We mentioned the $400-plus million that we got in April either closed or committed to, right? And so there's a bit of a cash management aspect to it, which I know Dan mentioned. And we should probably take you through some of the detail around the leverage facilities off-line to get you up to speed on it. But it is the right question.

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

Got it. No sensitivities to it. It's a question that everybody is asking. And like I said, the originations that you're doing that are proprietary are attractive. So then let's walk into the -- I think, there was $97 million sold into the JV. Can you talk about additional opportunity to sell into that entity with current structures? And then what we're looking at various loans on balance sheet that could clearly fit?

Ryan Wilson - *Corporate Capital Trust, Inc. - COO and Associate Portfolio Manager*

Yes. Happy to do that. One of the things that we're focused on, on the JV, as we've talked about in the past, is expanding our non-EPC capacity. And so deals like Bugaboo, which is a non-EPC deal, are deals that we circle on the balance sheet. And then after a period of time, look to sell those over to the JV to further improve our capacity. And that's largely the assets that we're focused on from the balance sheet to move over to the JV. Apart from comments that are similar to the previous ones that were made, we do have some interest in keeping diversity high at the facility and the joint venture. And so from time to time, we will put other transactions in there.

Todd Builione - *Corporate Capital Trust, Inc. - President*

Yes. Look, the only other thing I'd add is that, I think the number is actually in the -- our earnings supplement, but in case you didn't see it, our JV IRR is 11.1% so far since inception. And that's been -- we've been able to have that as we've been scaling the JV, right?

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

Yes. That's what folks love is the 11% return, and they're happy to pay the base and the incentive on an 11% yield. On a 6%, it makes much less sense. So then finally, the last question we'd have is just, if you're looking at a 1-month and 3-month LIBOR, clearly there is a bit of a disconnect, right? As the difference has gone from 10 to 45 bps. CLO equity returns have been hit by this. I'll ask you, do your issuers have an option to switch to 1-month LIBOR from 3 months, if you think to your documentation, your credit agreements?

Todd Builione - *Corporate Capital Trust, Inc. - President*

Yes. Sure. Let me take this specific question. Maybe I'll broaden out a little bit, talk about LIBOR. So $900 million of our assets today reference 1-month LIBOR, which, as you mentioned, has not moved nearly as significantly as 3-month LIBOR. I think it was -- I think 1 month was up 18 basis points in quarter 1 and 3 months up 62 basis points. I think you also know -- I mean I know you know this, that for assets where LIBOR resets quarterly, often times it's calendar quarter, right? And so you'll see the impact of a quarter-1 LIBOR move starting in quarter 2.

Ryan Wilson - *Corporate Capital Trust, Inc. - COO and Associate Portfolio Manager*

The other thing I would mention is our revolver also has the toggle of 1-month and 3-month LIBOR. So that is a helpful hedge for the positions that we've got that have chosen 1 month.

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

Got it. So then just the one operating question, do your obligors have the opportunity to switch? Or is that only restricted to -- we should only expect $900 million to have a 1-month LIBOR or could that possibly increase?

Todd Builione - *Corporate Capital Trust, Inc. - President*

It could possibly increase. We don't have the specific number with us handy, but we've obviously looked at hedges as a way to kind of mitigate that risk, if you will.

Operator

Thank you. And there are no further questions at this time. I'd like to hand the call back over to Todd for any closing remarks.

Todd Builione - *Corporate Capital Trust, Inc. - President*

Yes. Thanks, everyone, for joining the call today. We continue to appreciate the high engagement and the questions. And we look forward to keeping all of you up to speed and talking on future calls. Have a great rest of the week.

Operator

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

Editor

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