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CCT - Q4 2017 Corporate Capital Trust Inc Earnings Call

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PRESENTATION

Operator

Welcome to Corporate Capital Trust's Fourth Quarter 2017 Earnings conference call.

(Operator instructions)

Please note that this conference is being recorded.

I will now turn the call over to Danny McMahon, Head of Investor Relations for CCT. Danny, please go ahead.

Danny McMahon - *Corporate Capital Trust - Head, IR*

Thank you. Welcome and thank you for joining us on Corporate Capital Trust Inc.'s fourth quarter 2017 earnings conference call. Before we begin, I would like to remind everyone that remarks made during this call and webcast may contain forward-looking statements, and are not guarantees of future performance or results, and involve a number of risks and uncertainties.

Actual results may differ materially from those in the forward-looking statements, as a result of a number of factors, including those described from time to time in Corporate Capital Trust's filings with the SEC. As a reminder, CCT's fourth quarter earnings presentation, which we'll refer to over the course of this call, is available on the Investor Relations section of corporatecapitaltrust.com, by clicking on the Events and Presentations link.

I would now like to turn the call over to Todd Builione, Corporate Capital Trust's Chief Executive Officer.

Todd Builione - *Corporate Capital Trust - CEO*

Thanks, Danny. Good morning, and thank you for joining us today. With me are Dan Pietrzak, CCT's Chief Investment Officer, Ryan Wilson, CCT's Chief Operating Officer and Associate Portfolio Manager, and Thomas Murphy, CCT's Chief Financial Officer. We're also joined by Brian Gerson, President of FSIC, and head of private credit for FS Investments.

It's been an eventful few months since our third quarter earnings call. First, in mid-November, we completed our listing and began trading on the New York Stock Exchange under the ticker symbol CCT. This was of course an important milestone, and leading up to the listing, we were pleased to have had the opportunity to update our investors on our progress, as well as to begin to introduce ourselves to many new potential shareholders.

I recognize that many of you are new to CCT and KKR, and so my plan this morning is to begin with an overview of CCT and KKR, and to talk through CCT's core objectives, before handing it over to Ryan.

I'll start on slide 3. CCT, with $4.2 billion in assets and a $2 billion market cap, is an industry-leading business development company, focused on making senior secured loans to middle market companies. The Company was started in 2011, and has experienced significant growth over the past 6.5 years.

On slide 4, you can see that CCT is externally managed by KKR Credit, 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 relationship provides CCT access to KKR Private Credit's platform, which is focused on sourcing, structuring, diligencing, and managing financing solutions for a diverse mix of upper-middle market private companies and sponsors.

Leveraging this proprietary direct originations platform is one of CCT's biggest strategic advantages, and has led to a diversified portfolio of 113 borrowers as of year-end, 75% of which is in senior secured investments, and 78% of which is floating rate. Finally, we have significant scale, and we believe that private credit is a space where scale matters a lot.

Slide 5 provides a snapshot of KKR, a leading global investment firm of which KKR Credit is a subsidiary. As of December 31st, KKR managed nearly $170 billion in capital, across multiple alternative asset classes, including private equity, real estate, infrastructure, energy, hedge fund partnerships, and, where CCT enters the mix, credit.

Founded over 41 years ago, KKR has always focused on operating as one team, this is the core of our culture, and on being well aligned with our clients, enabled by a $16 billion balance sheet that invests meaningfully across each of our asset classes.

Today, KKR manages roughly $45 billion of credit AUM, a figure that has more than doubled since the beginning of 2010, and which we expect to grow to $59 billion upon the closing of our partnership with FS Investments.

Credit is one of the fastest growing asset classes at the firm, and CCT is the largest investment vehicle across KKR Credit. And so as you can imagine, CCT is a very important part of KKR Credit.

Slide 6 highlights CCT's three core objectives. First and foremost, we are credit investors, and endeavor to preserve capital. KKR has a 41-year history of serving as a fiduciary for thousands of investors, and we intend to continue to uphold the same level of commitment and rigorous portfolio management for CCT.

There's no debating the competitive landscape in the direct lending space has intensified over the past five years, so having a broad sourcing platform that last year generated 760 of private credit opportunities into our underwriting funnel, and a deep bench of highly experienced investment professionals, is critical to our success.

Two relevant data points here. Our 20 most senior KKR credit investment professionals have an average of 19 years of experience, and there's approximately 100 years of combined years of experience on KKR's private credit investment committee.

Our second core objective is to deliver shareholders a competitive and stable dividend. There are a number of levers for achieving this second objective. First, our sourcing breadth allows us to be highly selective and focused on quality deployment opportunities.

Based on our dialogue with corporates and sponsors, it remains clear that there's great demand for lenders capable of offering holistic solutions across the capital structure. We feel particularly relevant to these parties today, with the added benefit of incumbent relationships with more than 100 sponsors.

Next, we're focused on scaling our JV, which is a yield enhancer, and also allows us to grow the non-qualifying asset bucket of our portfolio. Remember, we have broad access to KKR Private Credit's platform, which includes European direct lending and asset-based finance investments. Augmenting our ability to participate in these opportunities is important.

Finally, we're making progress optimizing our liability structure. We have diversified sources of funding with a strong maturity profile today, but we believe we can access more unsecured fixed rate funding while simultaneously maximizing flexibility.

Over the course of 2017, we took a number of positive steps. We issued $245 million of a 5% 5-year unsecured bond, our first issuance in the space. We added a revolver lender, increasing the size of our facility to $958 million. And we also upsized our cheapest credit facility, SMBC, which carries an interest rate of Libor plus 175.

CCT's third core objective is to be a best-in-class BDC that is well-aligned with shareholders. Upon listing, we made changes to our fee structure. Specifically, we reduced CCT's management fee by 50 basis points, from 2% to 1.5%, and we adjusted our calculation of the incentive fee by instituting a 3-year lookback on our earnings base incentive fee calculation, which took effect at listing.

This 3-year lookback change will only go into effect if it results in a lower incentive fee than the previous 1-year lookback structure, until shareholders formally approve the new 3-year lookback.

We also implemented $185 million Company-sponsored tender program at listing, and this morning, we announced a Company-sponsored share repurchase program. Under this new program, we may repurchase up to $50 million in the aggregate of our outstanding common stock in the open market over the next 12 months.

While we have discretion over the timing and pace of share repurchases, we intend to enter into a 10b5-1 plan in early March, with purchases to commence soon thereafter, subject to the terms of the plan.

Finally, upon listing, KKR Credit informed the Company that it and certain members of the Company's management were considering purchasing in the aggregate up to $50 million in shares of common stock in open market transactions, subject of course to restrictions under applicable law.

Since this program commenced in early January, through this past Friday, March 2, KKR has purchased $20.4 million of CCT's shares, or roughly 1.3 million shares.

We look forward to updating you throughout 2018, as we make progress on each of our core objectives. With that, I'll turn it over to Ryan, to review our fourth quarter financials.

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

Thanks, Todd. I'll provide a summary of our results for the fourth quarter. You can find this information beginning on slide 8 of the earnings presentation. For the 3 months ended December 31, 2017, net investment income was $51.5 million, or $0.38 per share, as compared to $53.4 million or $0.39 per share for the prior quarter.

Net realized and unrealized losses on investments for the quarter was $44.3 million, or $0.33 per share. This compares to net realized and unrealized losses of $8.1 million, or $0.06 per share for the prior quarter.

I'd like to highlight a few one-time non-recurring items that are reflected in our statement of operations this quarter. First, we reported interest income of $88.7 million in Q4. This included $10 million of income related to a prepayment fee generated from one of our portfolio companies, PQ Corporation.

Second, other operating expenses were $9.2 million for the fourth quarter. This includes $5.9 million of one-time expenses associated with CCT's listing. On a full-year basis, expenses related to the listing were $7.6 million.

For the quarter, we paid a regular distribution of $0.40 per share, representing a 10.1% annual dividend yield based on Friday's closing share price, and we also paid a special distribution of just over $0.10 per share. Our board of directors declared a quarterly cash distribution of $0.40 per share, payable on April 6. We also have another special cash distribution of just over $0.10 per share payable on May 21.

Net asset value per share as of the quarter ended December 31, 2017, was $19.55, compared to $20.01 for the quarter ended September 30. This is primarily attributable to a special dividend paid in Q4, coupled with unrealized losses I previously mentioned.

In terms of mark-to-market activity, we feel good about our ability to recover value on the unrealized marks over time, and we will continue to update you as we make progress here.

Turning to the balance sheet, we ended the quarter with total investments at fair value of $4 billion, total cash of $131 million, and total assets of $4.2 billion. Investments at fair value declined modestly quarter-over-quarter as sales and prepayments outpaced purchases.

Two sizable prepayments in particular, PQ Corporation, for $143 million, and Excelitas, for $115 million, drove the majority of the activity. On the liability side, total debt was $1.6 billion, with total committed debt of $2.2 billion, diversified across lenders, with no near-term maturities.

Our weighted average cost of debt was approximately 4.5% at year-end, up from the prior quarter, due to an increase in Libor rate. Our debt-to-equity was 0.64x, up from the prior quarter, but below our target of 0.75x.

It is important to note that we also have $200 million of fixed for floating interest rate swaps, and these together with our fixed rate liabilities have us well-positioned for a rising rate environment. I will now turn it over to Dan Pietrzak, CCT's Chief Investment Officer.

Dan Pietrzak - *Corporate Capital Trust - 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 deal activity. In 2017, we saw a fairly competitive and tight yield environment.

It was the busiest year ever for leveraged loans, with record issuance amid a low interest rate backdrop. The supply demand imbalance in the U.S. provided ample liquidity in the market, which in turn contributed to a very issuer-friendly environment. And while we have seen some spread tightening and loosening structures in the directly originated space, it has not matched the primary liquid markets.

In Q1, we have seen some meaningful volatility in the equity markets, as concerns have arisen about inflation. We have not seen the full spill-over of this volatility into the credit markets, although we have seen some spread widening and some transactions struggle to get done on the primary side.

We are very much focused on being disciplined in this market, where we view credit selection as critical. We are continuing to leverage the overall KKR Credit platform, to invest on the larger side of the directly originated market, and companies with average annual EBITDA over $50 million with solid terms and solid structures.

We also remain focused on the origination side, to ensure that our funnel is as broad and as deep as possible, so that we see the most opportunities and can remain selective.

Now let's turn to page 13, which provides a snapshot of our portfolio at year-end. I would note the following: 75% of our investments are in senior secured debt. Our originated strategy portfolio companies have a median annual EBITDA of $63 million, which generally means less risky business models, less concentration risk on the customer and supplier side, and better corporate governance.

Our portfolio is 78% floating rate, beneficial for investors given today's rising rate environment. And we're well-diversified in terms of sector exposure, and we are focused on driving and maintaining ball control in transactions, as shown by the 93% number where we have been the lead, the co-lead, or the sole lender on our originated strategy investments.

Moving to slide 14, at the top we have summarized our product suite, and targeted investment size. We thought it would be helpful to review a few key transaction events that occurred in Q4, each outlined on the bottom half of page 14.

Let's start with EACOM. EACOM is the manufacturer and distributor of lumber wood chips and wood-based products. In November, KKR led and sole-funded a $175 million first lien term loan, at Libor plus 650 basis points, with 2 points of fees in OID, of which CCT funded $72.5 million. KKR structured the investment with favorable covenants and an attractive leverage profile.

We also thought it would be helpful to review a couple of transactions that went full-cycle in Q4. In March of 2017, KKR worked with Sears Canada to develop a tailored solution to their liquidity needs, both pre- and post-filing of bankruptcy protection.

KKR acted as the joint lead arranger in the initial CAD125 million deal, which was an inventory-backed term loan. And CCT invested 21 million in the March transaction. Subsequently, in the July 2017 DIP facility, CCT invested an additional 26 million. All told, CCT earned an IRR of north of 33% and a 1.2 times money multiple.

Let's turn to PQ Corporation, a leading specialty chemical name. KKR Credit had been a lender to PQ since 2008, and in 2016 had the opportunity to invest in their $525 million unsecured notes offering. CCT funded $133.5 million of the offering, and an additional $3.4 million of equity, with the private unsecured notes tranche priced at Libor plus 1075 basis points, and at a cash price of 98. In Q4, our notes were repaid at a price of 107.5.

Finally, we'd like to review one of our asset-based finance opportunities that reflects the risk return available in this space. Toorak was launched in 2016 to address an opportunity in the U.S. residential bridge lending space.

The company provides capital to experienced residential real estate investors, secured by mortgages, with generally 25% down payments. Toorak maintains senior debt relationships, and is essentially taking risk across a diversified pool of U.S. residential housing, between roughly 50 to 75 LTV, and earns mid-teens returns in doing so.

KKR Credit and hence CCT increased their commitment to Toorak in Q4, with CCT now having committed $61 million as of year-end, with $46 million funded.

Turning to overall activity in Q4 specifically, CCT made 12 originated strategy investments for roughly $300 million, in line with our continued focus on originated transactions. We believe the overall terms were attractive, and importantly, these transactions have superior structures from both a documentation and covenant package perspective.

We are maintaining our overall strategy of focusing on downside protection and steady income generation for our shareholders, a key objective of ours as Todd discussed.

To sum up, last year was a busy year for CCT, and we made progress across a number of important fronts, as we transitioned to a listed vehicle.

Our focus in 2018 is quite simple: source and underwrite new and attractive investment opportunities for the portfolio, continue to refine our liability structure, and make progress on our other levers of growth, including the expansion of our joint venture and asset-based financed buckets. I'll now turn the call back over to Todd.

Todd Builione - *Corporate Capital Trust - CEO*

Thanks, Dan. As I mentioned earlier, we're looking forward to updating you throughout 2018, as we make progress on each of the core objectives we laid out this morning. Thanks very much for your time today, and for your partnership. Operator, we're now happy to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator instructions)

Jonathan Bock, Wells Fargo.

Jonathan Bock - *Wells Fargo - Analyst*

Starting first, Todd, can you give us a sense of the $370 or some odd million that was sold to the JV? Break down effectively what went in there as it relates to non-yield, like maybe an average yield basis of when it went in there off the portfolio, as well as non-U.S. assets, or both.

Todd Builione - *Corporate Capital Trust - CEO*

Sure, happy to do it. Why don't I first kind of step back and talk about the JV a little bit in general. First, there are 3 purposes for the JV. One, access to our partners' pipeline. So we've got great partners in Guggenheim and Delaware Life.

Second of course is yield enhancement. You can see we've had a 10.4% IRR since inception of the JV. And finally, and I think what you're referencing a bit is taking full advantage of the non-EPC capabilities of the KKR Credit platform.

As of the end of the year, we had about $514 million in assets in total, $301 million of CCT equity. We've got 87.5% of the JV. And as you know, it's a big goal of ours to continue to scale the JV over time, and it grew considerably during 2018, in part aided by the Goldman Sachs financing facility that we have that's quite attractive.

In terms of the specific assets going into the JV, Ryan, any more color there? Or is that something you want to follow up on?

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

In Q3 we sold $373 million of assets to the joint venture, but we can follow up with what percentage of that was non-EPC. But that is a focus of the assets that we're transferring to the joint venture.

Jonathan Bock - *Wells Fargo - Analyst*

OK, and then Ryan, if you were going to look at just the estimated yields that effectively went in there and off the portfolio?

Dan Pietrzak - *Corporate Capital Trust - CIO*

Yes, Jonathan, it's Dan Pietrzak. I would say that's probably not entirely dissimilar to the yields on the overall book.

Jonathan Bock - *Wells Fargo - Analyst*

Wow, OK. So second item, going to the NAV bridge, and I greatly appreciate the NAV bridge, it's excellent to follow on slide 11. Would like to get a little bit more color as it relates to the $0.28 realized unrealized losses that occurred on the portfolio.

Can you walk us through in particular just the fundamental performance effectively, what went wrong, and more importantly, kind of the restructuring of those credits, and how you expect those on a go-forward basis, what they were, and how you expect them to perform in the future.

Dan Pietrzak - *Corporate Capital Trust - CIO*

Yes, John, I'm happy to do that, and I'd just kind of break it down in a couple of ways. And some of these numbers will be sort of the full year, and some of these numbers will be sort of Q4 specifically. And maybe I'll start with Q4, and we can kind of back into where you see the overall full year numbers.

In Q4, that number would have been $0.36 specifically. About $0.15 of that came from the reversal of unrealized gains, for positions that were marked above par at the end of Q3. These were situations where let's say call protection was stepping down.

About $0.09 of that in Q4 specifically related to two portfolio companies, Belk and Abaco, where we've got very good sponsors behind us. We think that's a mark-to-market point, not an ultimate recovery point.

And then about $0.07 in Q4 relates to a combination of smaller equity positions. In terms of other higher risk items in the book, I think this was an important year for a couple items. We had disclosed previously some color around Amtek, and we had disclosed previously some color around Hilding.

Both of these are examples where during the course of '17, we actually took control of the company. We've I think advanced stabilization of those businesses, we've been focused on the customer side, we've put in new management teams. I think we see a pretty interesting path to recovery there.

And obviously it's not our desire to step in and take control of those companies, but we're prepared to do that when we need to, and preserve value.

Jonathan Bock - *Wells Fargo - Analyst*

So then just to make sure I've got it, so looking at the $44 million in unrealized losses, unrealized gains, so the majority were from the last two investments that you mentioned?

Dan Pietrzak - *Corporate Capital Trust - CIO*

That $44 million I think you're referring to is the Q4 number.

Jonathan Bock - *Wells Fargo - Analyst*

That's right.

Dan Pietrzak - *Corporate Capital Trust - CIO*

Yes, so the Amtek and Hilding positions would have been actually earlier in the year. I'm just giving you those as examples.

Jonathan Bock - *Wells Fargo - Analyst*

So what was the write-down attributed to just this quarter? So we were looking for full year, which we appreciate, and then just to better I think -- because we're not going to get to Q for a while, which we understand is an SEC issue, but if you could give us some color on that, that would be helpful.

Dan Pietrzak - *Corporate Capital Trust - CIO*

Happy. I think the $44 million specifically, about $11 million relates to Belk and Abaco I told you about. About $7 million relates to a host of those smaller equity positions. And a big chunk of the rest relates to these reversals of unrealized gains on the above par positions.

Todd Builione - *Corporate Capital Trust - CEO*

And Jonathan, it's Todd. If you don't mind, just for everyone else's benefit, let me give you a little bit of background on the K, and when it's coming out. First, I think people probably know that we are not yet an accelerated filer, by the SEC, given that we just listed in November.

And so as a result, we have until April 2 to file our K. We're actually ahead of this deadline. We expect to file it at some point next week. We thought it was important to have the earnings call today, to update everyone in advance of that on how we're doing.

Jonathan Bock - *Wells Fargo - Analyst*

Yes, great. And you've actually provided some excellent detail, and credit to you and your presentation. So then one last question. If we're looking at the potential for share repurchases, which are helpful, and we congratulate your focus on repurchasing $50 million, our curiosity extends to, since the CCT BDC's were a part of the broader FS transaction, in order to acquit that transaction, it would appear that there may be some reticence to repurchase shares to lower outstanding AUM at CCT.

And so many cases we've seen a lot of BDC's choose to announce buyback programs, and in particular, never use them, which look at values of 80% of NAV, that would probably be an incorrect choice. So in light of CCT being part of the broader FS transaction, as well as the partnership that now accrues with FS, can you walk through both -- we now have the ability, but your willingness to continue these share repurchases, given the discount relative to anything else one can invest in?

And you guys have a lot of pockets, but right now the discount and the risk-free nature of the repurchase just seems to be an outstanding investment for shareholders long-term, to further boost this institutional credibility.

Todd Builione - *Corporate Capital Trust - CEO*

Thanks, I think that's a great question. I want to answer it specifically, and then I want to broaden it out a little bit, and give everyone on the call some broader perspective. I mean specifically you can expect that we'll be active buyers in the stock given the current trading levels.

As you can imagine, so it's not just us announcing a buyback program, you can expect that we're going to be active in the stock over the subsequent quarter, given the discount to NAV that you referenced. We're of course going to persistently review those results with our Board, and we'll of course update you all on next quarter's call in terms of what the result of that activity was.

Although, I do think it's worth broadening the question out a bit if you don't mind, just in terms of the theme of purchasing shares, right. And so I think you know that at around the time of the listing, the Company funded $185 million tender offer.

KKR at that time funded a $50 million 10b5-1 stock purchase program. We said, again, similar to the CCT announcement this morning, that we would begin buying stock last quarter. We in fact did that. We purchased $20.4 million worth of shares through Friday's close, as of March 2.

And then you should also know that CCT's management team intends itself to begin buying stock once the restricted period expires in the next couple of days. And so I would put that all under the rubric around our collective confidence in the portfolio, and in the vehicle.

And of course our perspective on where the stock is trading, which is I would summarize by saying technicals overpowering fundamentals, and the stock not trading at a level that we feel supports the true value of CCT.

Jonathan Bock - *Wells Fargo - Analyst*

Yes, we appreciate that, and we would agree. So thank you for taking my questions.

Todd Builione - *Corporate Capital Trust - CEO*

Thank you. We appreciate it.

Operator

Doug Mewhirter, SunTrust.

Doug Mewhirter - *SunTrust - Analyst*

Wanted to talk a little bit, or ask about another follow-up question about the JV with Conway. First, in the fourth quarter alone, it appeared there was no net growth in the assets, or net originations into that platform.

And I was wondering if it was more of an internal capital allocation decision within CCT in terms of what your pipeline looked like, or was it the specific flavor of investments that you had put in that JV, there just weren't enough attractive opportunities to source them?

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

This is Ryan Wilson, thanks for the question. We do expect that we will continue to be adding assets to the joint venture over time. In fact in Q1 we anticipate there to be some additions. In Q4, you're correct that we didn't add any significant positions to the joint venture.

That was not necessarily a capital allocation. We were freshly added our Goldman Sachs facility at the end of Q3, and we were working through exactly how we wanted to manage the BAML facility, which we terminated in Q1, and we're now expanding our facility with Goldman Sachs. You should expect us to ramp activity over the course of 2018.

Todd Builione - *Corporate Capital Trust - CEO*

And just to reiterate what I said earlier, I mean it is a big priority for us to scale that JV, and we expect that you're going to see that continuing to happen over the course of 2018.

Doug Mewhirter - *SunTrust - Analyst*

Great, thanks. And just a follow-up on the JV, what was the total income that CCT recognized from the JV in the quarter, and what percentage of that would be considered interest versus dividend income on the financial statement?

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

Yes, it's a great question. The way we pay dividends from the joint venture is one quarter lag. And so we earned a dividend of approximately $3 million in Q4 from the joint venture. However the joint venture itself had NII of $7.7 million, and so we would anticipate that to be approximately a dividend of around that size in Q1.

Doug Mewhirter - *SunTrust - Analyst*

Very good, that's very helpful. Thank you. What was your non-accrual balance at cost in market this quarter?

Dan Pietrzak - *Corporate Capital Trust - CIO*

Yes, this is Dan Pietrzak. I can take that. At the fair market value this quarter was 1.2%. I'll pull the cost number for you in a second. The only things I would note there is it was up quarter-on-quarter. I think our Q3 starting point was pretty strong at 45 basis points of fair market value.

There were two positions that were added to that. Both were pretty active on the restructuring side, but they're smaller in terms of values, about $25 million between both. And the number on a cost basis is 2.92%.

Doug Mewhirter - *SunTrust - Analyst*

OK, thanks. And that's very helpful, thank you. And my last question, could you I guess just remind me. I'm sure you explained it before in the run-up to your listing process, but the reasoning behind the 2 special dividends?

I know that there is a specific reason why you paid them. I've actually had questions, if you're barely earning your regular dividend, why would you continue to -- you're basically taking out of NAV for the special dividends, all else equal. But I know that there are other reasons why those specials may have been authorized, so if you could just remind me about those, that reasoning.

Todd Builione - *Corporate Capital Trust - CEO*

Sure. Yes, pretty simple. We were looking to create an incentive for the roughly 70,000 retail shareholders that were invested in CCT that remain in the stock. We recognize that there would be the propensity for some of those shareholders to look to gain liquidity, given that they've invested in the company for some time, and so it was meant to be an incentive.

And it was also consistent with what others have done, that kind of went through that same process that we went through, the listing process from a retail shareholder base.

Doug Mewhirter - *SunTrust - Analyst*

OK, thanks. That's helpful, and that's all my questions.

Todd Builione - *Corporate Capital Trust - CEO*

Thank you.

Operator

Henry Coffey, Wedbush.

Henry Coffey - *Wedbush - Analyst*

Following up on Doug's questions, what's the bridge forward -- now that it's 2018, you're the second largest BDC out there, fantastic partnership behind the Company, what's the bridge forward from $0.38 to covering the dividend?

Todd Builione - *Corporate Capital Trust - CEO*

It's Todd. Look, I guess why don't I just start the level set. There's a slide in here, slide 23, it just gives everyone the metrics for quarter 4 and for full year 2017. This is what I'll call basic dividend coverage, NII divided by regular cash dividend.

This page says pro forma. There are really only two things that are pro forma. First of all, we're including the regular dividend, the $0.40 per share quarterly, $1.61 annual dividend level on here. And then the second thing is that we adjusted for what is clearly a one-time expense associated with our listing, we actually adjusted for only 80% of that one-time expense, just to be conservative in terms of the potential haircut of that in terms of KKR's 20% incentive fee.

So if you run through the math, you can see that on a GAAP basis, our after-tax NII for the quarter was $51.5, and for the year $210.3. If you just make that one adjustment, so 80% of the one-time listing expenses, you can see it takes it up to $56.2 for the quarter, $216.4 for the year, and you can see the resulting coverage metrics.

So I won't read them to you, but it's on slide 23 on the bottom. That's just meant to level set for everyone on the call. In terms of your specific question, we have a lot of confidence in our plan to continue to prudently, I think that's a really important word given the market environment that we all find ourselves in, grow NII and dividend coverage over time.

There's 3 or 4 things that we're going to do in order to get there. One is to increase our balance sheet leverage. I think you know we're at 0.64x as of the end of the year. We have a target of 0.75x. Again, we're going to show discipline in getting there, but our target obviously is to grow our balance sheet.

Second, and we spent a bunch of time on the call, so I won't belabor it, but we do have as a strategic goal to continue to ramp our JV. We think it's got a lot of differentiated characteristics, and we're pretty excited about continuing to get invested there.

Three, today 8.7% of our portfolio is in what we call asset-based finance, which by the way, as Dan referenced during his prepared remarks, is one of we think the more exciting asset classes within private credit.

That 8.7% is up from 7.3% as of September 30. I say this because on the margin, those investments we think have a more attractive risk-reward. We tend to be able to put yieldier types of investments on there. It is important to know though, that some of them, such as Toorak that Dan reviewed earlier, have a bit of a J-curve, right. So it's going to take 6 months, a year, to get up to the run rate yield from the ABF part of the portfolio.

And then the last piece is probably the most obvious piece, which is we're going to continue to reduce exposure to our non-cash paying investments, so you see that already happening. Our equity as of the end of the year, 4.6%, down from 5.1%, as of the end of the third quarter.

What I would say though, and I know I've already said it, but I want to end by using the word balance. Because that's really the art here. It's a tough environment, we all know that. We have put larger goalie pads on our investment committee in terms of making it harder to get an investment through our funnel and actually into the portfolio to acknowledge the environment that we're in.

And so we're going to do all of this from that vantage point. But hopefully that gives you a little bit of perspective on how we look to grow our dividend over time.

Henry Coffey - *Wedbush - Analyst*

When you look at -- and this is something we can do on our own, when you look at the trend in fair value marks, just in aggregate, as you nurse through the portfolio, what is the outlook for realized and unrealized gains on the investment book? I mean the other side of it's a very competitive market, is that there are a lot of people bidding up asset values.

Dan Pietrzak - *Corporate Capital Trust - CIO*

No, I mean it's a good question. I mean I think to Todd's point, we clearly acknowledge the strength of the market that we exist in today. I think we feel good about the book. I think we saw some repayments in Q4, I think we'll see some in Q1.

But I do think we have good call protection on there. Yes, we do have some positions, and I've given a couple of examples of those, where we've taken through a restructuring process, and we think there is the potential for upside there versus those marks.

Amtek and Hilding sort of fall in that list. There was a couple of unrealized numbers that we feel very good about, the outcome from a credit perspective, but those will play through as those credit investments and portfolio companies reach their respective maturity dates.

So I think it's a little bit of both to be honest, where we feel good about the book, and the potential for some valuation growth there, but we're also mindful that we will see some repayments as well, and some of the assets that are throwing off some nice coupons today, could very well be repaid.

But we're trying to recreate this portfolio continuously or constantly, in that balanced matter with the buckets we have today, and meet our goals in terms of dividend coverage and performance.

Todd Builione - *Corporate Capital Trust - CEO*

Yes, look, it's Todd. The only other thing I'd add to that is we feel well-positioned competitively because of our scale. So in a market like this where there's 75, 100 different private credit firms competing down prices for these assets, we feel very good that we've now put ourselves in the position to compete with three, four or five of them.

There's a handful of firms that can persistently write $300 million, $400 million, $500 million checks, and so we like the fact that we're in essence reducing the competitive landscape as a result of our scale. We also like the fact that our size means that we're going to continue to focus on the upper end of the middle market.

I think it's pretty common sense that bigger companies tend to do better through cycles, tend to have better competitive dynamics, tend to have higher quality management teams. And so we think that the path that we've headed down over the last several years, which is to really be a scaled player, will benefit us and most importantly will benefit our shareholders through a full cycle.

Henry Coffey - *Wedbush - Analyst*

Yes, no, agreed. And I look forward to seeing the 10-K come out, and digging into the details. Thank you.

Todd Builione - *Corporate Capital Trust - CEO*

Thank you. We appreciate your questions.

Operator

Thank you. And that concludes our question and answer session for today. I'd like to turn the conference back over to Mr. Builione for any closing remarks.

Todd Builione - *Corporate Capital Trust - CEO*

Look, thank you, all, very much for joining. We look forward to updating you each quarter on our progress as we stay focused on our three core objectives, capital preservation at the top of the list, delivering a competitive and stable dividend, number two, and importantly, being a best-in-class BDC that's well-aligned with our shareholders. I hope you all have a great rest of the day, and we look forward to staying in close touch.

Operator

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

Editor

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