Specialty Finance BDC

Alternative Investment Strategies

Fourth Quarter 2025

The Specialty Finance BDC strategy is focused on a niche of the financial sector known as business development companies, or BDCs. BDCs lend to and invest in the private debt and equity markets. The majority, if not all, of the portfolio holdings are in BDCs, and most of the portfolio income will be in the form of non-qualified dividends. This strategy is appropriate for clients seeking alternative investment exposure to the private markets, one that involves high levels of income from an equity portfolio with above-average volatility.

Market & Strategy Commentary

The Confluence Specialty Finance BDC strategy had a total return of 1.5% (gross of fees) in the fourth quarter of 2025, which outperformed the benchmark return of 1.1%. For the full year of 2025, our Specialty Finance BDC strategy return was -0.7% (gross of fees), which was also better than the benchmark return of -3.5%. Over multi-year periods, the strategy's returns have generally been roughly in line with the benchmark. [The strategy's net-of-fees returns were 0.7% QTD and -3.7% YTD. See disclosures on last page for fee description; actual investment advisory fees may vary.]

BDC prices stabilized in the fourth quarter after a volatile ending to the third quarter. Last September, a few bankruptcies made the headlines, which led numerous strategists and bond investors to believe these issues were harbingers of a speculative bubble in private credit markets that was about to burst. BDCs lend in private markets, so the logic followed that storm clouds would emerge on the horizon for BDC investors. Valuations decreased by over 10 points, declining well below historical levels.

Nevertheless, through the fourth quarter, particularly as BDCs reported their earnings, it became clear that a private credit bubble was more of a concept than a reality. Although capital flowing into private credit markets in recent years has been profound, other elements of a speculative bubble — unrealistic return expectations and a widespread disregard for risk — were not in place. Accordingly, the decline in BDC valuations was misaligned with the stability of BDC operating fundamentals. Still, the fourth quarter's modest returns reflect more of a stabilization of the BDC market as opposed to a recovery. For the entire year of 2025, we can see the positive first half for BDCs was negated by valuation declines in the third quarter, with stability near year end.

On a more granular basis, the largest contributions to returns in the fourth quarter were derived from overweight positions in BDCs that all delivered positive returns, including Barings, Blackstone, Kayne Anderson, Capital Southwest, and Golub. These BDCs delivered value to shareholders through "blocking and tackling," which included policies like maintaining dividends and opportunistically buying back stock below net asset value. We saw these kinds of policies throughout the portfolio.

The lowest contributions to fourth quarter performance came from Main Street, Sixth Street, the Goldman Sachs BDC, Runway, and PennantPark Investment. The first two on this list have long been outsized contributors to return and their relative valuation premiums backed off a bit during the quarter. The Goldman Sachs BDC was sold as we took the opportunity to exit this small position when its valuation improved. Runway and Pennant remain as small positions, and we feel their valuations and fundamentals keep the door open to improving returns.

Looking forward, one of the challenges BDCs face is ongoing interest rate cuts by the Federal Reserve. BDC loan portfolios have interest rates that are predominantly floating rate and tied to short-term indicators like SOFR. Accordingly, BDCs may experience downward pressure on earnings as the Fed eases. At the same time, BDC credit metrics may improve, since their borrowers benefit from lower interest expense burdens. Furthermore, a wildcard may arise from rising M&A volume, which has been unusually low in private markets. If deal volume among private companies were to rise, the demand for BDC lending would also increase, which could offset much of the downward earnings pressure caused by declining short-term rates.

Taken together, we maintain a constructive view toward the BDC industry. Various challenges will certainly arise in coming quarters, but we're optimistic that there will also be attractive opportunities for well-managed BDCs. With valuations well below long-term averages — a condition that includes a double-digit yield — we continue to believe BDCs can deliver useful and highly differentiated returns for investors.

See GIPS Report on pages 2-3.

Contribution[1]

(QTD as of 12/31/2025)

The portfolio's top contributors and detractors for Q4 2025 are shown in this table:

Security	Avg Weight (%)	Contribution (%)
Top 5		
Barings BDC Inc.	6.98	0.53
Blackstone Secured Lending Fund	5.78	0.22
Kayne Anderson BDC	1.76	0.17
Capital Southwest Corp.	4.00	0.17
Golub Capital BDC Inc.	7.57	0.16
Bottom 5		
PennantPark Investment Corp.	0.94	(0.08)
Runway Growth Finance Corp.	0.90	(0.09)
Goldman Sachs BDC Inc.	0.87	(0.12)
Sixth Street Specialty Lending Inc.	8.17	(0.25)
Main Street Capital Corp.	6.88	(0.29)

(Contribution data shown from a sample account, based on individual stock performance and portfolio weighting)

Performance Composite Returns[2] (For Periods Ending December 31, 2025)

	Since Inception**	10-Year*	5-Year*	3-Year*	1-Year	YTD	QTD
Specialty Finance BDC *Pure Gross-of-Fees[3]*	8.8%	9.0%	10.9%	12.2%	(0.7%)	(0.7%)	1.5%
Max Net-of-Fees[4]	5.5%	5.7%	7.6%	8.9%	(3.7%)	(3.7%)	0.7%
MVIS US BDC Index (MVBIZDTG)	8.5%	8.7%	11.8%	11.8%	(3.5%)	(3.5%)	1.1%

Calendar Year	Pure Gross-of-Fees[3]	Max Net-of-Fees[4]	Benchmark (MVBIZDTG)	Difference (Gross-Benchmark)	# of Portfolios	Composite Assets (000s)	Total Strategy Assets (000s)***	Total Firm Assets (000s)	Composite 3yr Std Dev	Benchmark 3yr Std Dev	Composite Dispersion
2011**	1.1%	0.9%	(0.7%)	1.8%	1	$104	$6,645	$937,487	N/A	N/A	N/A
2012	27.9%	24.1%	34.5%	(6.6%)	1	$133	$34,748	$1,272,265	N/A	N/A	N/A
2013	15.8%	12.4%	16.3%	(0.5%)	2	$1,459	$42,929	$1,955,915	N/A	N/A	N/A
2014	(4.4%)	(7.2%)	(7.8%)	3.4%	18	$3,644	$51,015	$2,589,024	9.7%	11.4%	0.0%
2015	(3.3%)	(6.2%)	(4.1%)	0.8%	25	$4,621	$51,912	$3,175,419	12.0%	12.7%	0.3%
2016	22.1%	18.4%	24.4%	(2.4%)	21	$3,857	$64,970	$4,413,659	13.1%	13.7%	0.8%
2017	0.9%	(2.1%)	0.1%	0.8%	19	$2,905	$55,878	$5,944,479	12.4%	13.6%	0.3%
2018	(1.7%)	(4.6%)	(6.6%)	4.8%	24	$3,702	$54,037	$5,486,737	11.1%	12.9%	0.2%
2019	25.0%	21.3%	27.3%	(2.3%)	35	$7,179	$57,964	$7,044,708	10.9%	13.1%	0.5%
2020	(6.8%)	(9.6%)	(11.2%)	4.4%	33	$6,782	$27,280	$6,889,798	31.6%	30.8%	1.0%
2021	32.0%	28.1%	36.4%	(4.5%)	38	$9,856	$20,805	$7,761,687	31.4%	30.5%	0.7%
2022	(10.2%)	(12.9%)	(8.6%)	(1.7%)	42	$9,231	$18,086	$6,931,635	33.2%	32.7%	0.3%
2023	25.8%	22.1%	27.3%	(1.5%)	42	$10,797	$13,104	$7,200,019	16.1%	17.6%	0.5%
2024	13.2%	9.8%	13.7%	(0.6%)	45	$11,907	$16,214	$7,280,773	14.9%	16.5%	0.3%
2025	(0.7%)	(3.7%)	(3.5%)	2.8%	55	$12,623	$17,185	$6,769,052	11.6%	11.7%	0.2%

**Average annualized returns* ***Inception is 12/1/2011* *See performance disclosures on last page.*

Portfolio Benchmark

MVIS US Business Development Companies Index (MVBIZDTG) – A total return index that measures the performance of the largest and most liquid companies which are classified as BDCs in the U.S. The index is reviewed on a quarterly basis, is modified float market cap-weighted, and the maximum component weight is 20%. *(Source: Bloomberg)*

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See Territory Map on the Confluence website for sales coverage.

Disclosures

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Index: The MVIS US BDC Index is shown as additional information. This index is unmanaged. An investor cannot invest directly in an index. It is shown for illustrative purposes only & does not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance.

[1] **Contribution—**Table showing the top 5 contributors/detractors reflects the strategy's best and worst performers (net), based on each holding's contribution to the sample account for the period stated.

[2] **Performance Composite Returns—Confluence Investment Management LLC claims compliance with the Global investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Confluence Investment Management LLC has been independently verified for the periods August 1, 2008, through December 31, 2024. The verification report is available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards.**

Verification provides assurance on whether the firm's policies and procedures related to composite maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report.

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The Specialty Finance BDC strategy was incepted on December 1, 2011, and the current Specialty Finance BDC Composite was created on February 1, 2013. Confluence Investment Management LLC is an independent registered investment adviser. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Past performance is not indicative of future results. The US Dollar is the currency used to express performance. Returns are presented gross and net of all fees and include the reinvestment of all income.

[3] Pure gross returns are shown as supplemental information to the disclosures required by the GIPS® standards.

[4] Net-of-fee performance was calculated using the highest applicable annual bundled fee of 3.00% applied quarterly. This fee includes brokerage commissions, portfolio management, consulting services and custodial services. The Confluence fee schedule for this composite is as follows: 0.80% on the first $500,000; 0.70% on the next $500,000; and 0.60% over $1,000,000. There are no incentive fees. Clients pay an all-inclusive fee based on a percentage of assets under management. The collection of fees produces a compounding effect on the total rate of return net of fees. Subsequent to February 1, 2013, bundled fee accounts make up 100% of the composite. Actual investment advisory fees incurred by clients may vary. Wrap fee schedules are provided by independent wrap sponsors and are available upon request from the respective wrap sponsor.

Performance prior to February 1, 2013, is based on the Specialty Finance BDC–Direct Composite which was created on December 1, 2011. The Specialty Finance BDC–Direct Composite includes accounts that pursue the Specialty Finance BDC strategy, but do not have bundled fees. Gross returns from the Specialty Finance BDC–Direct Composite include transaction costs and net-of-fee performance was calculated using the highest applicable annual bundled fee of 3.00% applied quarterly.

A complete list of composite descriptions is available upon request. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request. The annual composite dispersion is an equal-weighted standard deviation, using gross-of-fee returns, calculated for the accounts in the composite for the entire year. The three-year annualized standard deviation measures the variability of the composite gross returns over the preceding 36-month period. The Specialty Finance BDC Composite contains fully discretionary Specialty Finance BDC wrap accounts. The Specialty Finance BDC portfolio invests primarily in Business Development Companies (BDCs) to earn current income with potential long-term capital appreciation.

The benchmark was changed prospectively starting 7/1/2021 as the prior benchmark, the Wells Fargo BDC Index (WFBDC), was discontinued in July 2021.

**Results shown for the year 2011 represent partial period performance from December 1, 2011, through December 31, 2011. ***Total Strategy Assets are shown as supplemental information. N/A-Composite Dispersion: Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year. N/A-3yr Std Dev: Composite does not have 3 years of monthly performance history.

A BDC's portfolio typically will include a substantial amount of securities purchased in private placements, and its portfolio may carry risks similar to those of a private equity or private debt fund. Securities that are not publicly registered may be difficult to value and may be difficult to sell at a price representative of their intrinsic value. To the extent a BDC focuses its investments in a specific sector, the BDC will be susceptible to adverse conditions and economic or regulatory occurrences affecting the specific sector or industry group, which tends to increase volatility and result in higher risk. BDCs may employ the use of leverage in their portfolios through borrowings or the issuance of preferred stock. While leverage often serves to increase the yield of a BDC, this leverage also subjects the BDC to increased risks, including the likelihood of increased volatility and the possibility that the BDC's common share income may fall if the interest rate on any borrowings rises.