The Cliffwater BDC Index

October 2017 Commentary www.BDCs.com

Performance (%): [1]	Oct	Year-to-Date	Last 12 Months	3 Years	5 Years	10 Years
Cliffwater BDC Index = (a)+(b)	**-2.65**	**1.28**	**8.70**	**5.23**	**5.78**	**5.29**
(a) Income return [2]	*0.16*	*7.64*	*10.46*	*10.81*	*10.51*	*11.24*
(b) Price return	*-2.81*	*-6.36*	*-1.76*	*-5.57*	*-4.72*	*-5.95*
NAV per share change [3]	*-0.65*	*-1.93*	*-2.34*	*-4.95*	*-2.32*	*-5.22*
Comparative Bond Indices:						
US High Yield Bonds	0.42	7.46	8.94	5.57	6.27	7.82
US Leveraged Loans	0.60	3.61	5.08	4.00	4.15	4.68
US Inv. Grade Fixed Income	0.06	3.21	0.90	2.40	2.04	4.19

Business Development Companies (BDCs) returned -2.65% in October and 8.70% over the trailing 12-month period. In comparison, US High Yield Bonds and US Leveraged Loans returned 0.42% and 0.60% in October, respectively, while US Investment Grade Fixed Income returned 0.06%.

Our investment thesis behind investing in BDCs is to **maximize dividend yield** while **minimizing erosion in NAV**, which manifests from credit losses and/or share dilution:

1. Dividend Yield. The Cliffwater BDC Index earned a 10.46% income return over the trailing 12 months ("TTM"), 0.35% lower than the average TTM income return since the beginning of 2011 and 2.13% lower year-over-year. Following a sharp increase due to lower prices in the late 2015/early 2016 timeframe, BDC realized yields have reverted from high levels observed in the second half of 2016 and early 2017.
2. Net Asset Value and Price. NAV erosion manifests itself through realized loan losses from defaults/restructurings, unrealized write-downs in asset fair value, or dilutive share issuance. Share price fluctuates around NAV but is ultimately anchored to it, so preventing NAV loss also protects price. A healthy BDC index is one where NAV per share is constant over time. A rising NAV is unlikely as investment earnings are paid out in dividends. A falling NAV would be a more likely outcome, caused by poor credit underwriting and/or misguided share issuance by BDC management.

   Over the last 12 months the Cliffwater BDC Index has experienced a -2.34% NAV return and a -1.76% price return, reflecting renewed credit losses in energy-related loans and markdowns in some retail-oriented credits. The year-to-date price return of -6.36%, larger than the -1.93% NAV return, may also indicate investors' concern that BDCs will be able to maintain current dividend levels in an environment characterized by stiff competition among middle market lenders, more issuer-friendly terms, and spread compression that has crossed over from the syndicated high yield bond and bank loan market.

BDCs have outperformed US Leveraged Loans over the trailing 1-Year, 3-Year, 5-Year, and 10-year periods. BDCs have lagged US High Yield Bonds, however, as high yield bonds have benefited from not only spread compression but also the decline in risk-free rates over the past few years due to their greater interest rate sensitivity. Price volatility for BDCs remains high due to factors such as the use of leverage, investments in complex private assets, and limited liquidity, and is one of the key risk considerations for investing in BDCs.

About Cliffwater LLC: Cliffwater LLC is an alternatives firm focused on serving institutional investors across the full spectrum of alternative investments, including hedge funds, private equity and debt, real estate, and real assets. For further information contact us at info@BDCs.com.

[1] Any information presented prior to the Launch Date (January 1, 2015) of the Cliffwater BDC Index (the "CWBDC") is back-tested. The performance of the CWBDC has been prepared for informational purposes only. Past performance is not indicative of future returns. Please see additional performance disclosures at the end of this report. Amounts may not sum due to rounding.

[2] Most BDCs pay quarterly dividends during the March, June, September, and December months.

[3] Net Asset Value (NAV) is the "fair value" of BDC assets, minus liabilities, disclosed in quarterly financial statements.

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The Cliffwater BDC Index

The Cliffwater BDC Index (the "Index") is a capitalization-weighted index capturing the performance of all lending-oriented, exchange-listed Business Development Companies ("BDCs") that satisfy certain eligibility requirements. Cliffwater believes that the Index is representative of the BDC asset class. All content is provided for informational purposes only.

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Index returns do not reflect payment of any sales charges or fees a person may pay to purchase the securities underlying the Index or a product that is intended to track the performance of the Index. The imposition of these fees and charges would cause the actual and back-tested performance of these securities or products to be lower than the Index performance shown.

Any information presented prior to the Launch Date (January 1, 2015) of the Index is back-tested. Back-tested performance is not actual performance, but is hypothetical. The back-tested calculations are based on the same methodology that was in effect when the Index was officially launched. Please refer to the methodology paper for the Index (available at www.BDCs.com) for more details about the Index, including the Base Date/Value (September 30, 2004 at 1,000) and the Launch Date of the Index and the manner in which the Index is rebalanced, the timing of such rebalancing and the eligibility criteria for the Index.

Prospective application of the methodology used to construct the Index may not result in performance commensurate with any back-tested returns shown. The back-test period does not necessarily correspond to the entire available history of the Index. Another limitation of back-tested hypothetical information is that generally the back-tested calculation is prepared with the benefit of hindsight. Back-tested data reflect the application of the Index methodology and selection of Index constituents in hindsight. No hypothetical record can completely account for the impact of financial risk in actual trading. For example, there are numerous factors related to the financial markets in general which cannot be, and have not been, accounted for in the preparation of the Index information set forth, all of which can affect actual performance.

When Cliffwater was unable to determine the nature of a BDC's investments because of limited information included in historical SEC filings, Cliffwater did not apply the portfolio composition criteria (a substantial majority (approximately 75%) of total investments represented by corporate debt) to the BDC. All other eligibility criteria were applied to determine whether to include the BDC in the historical Index composition and return.

The Index may include inaccuracies or typographical errors. Due to various factors, including the inherent possibility of human or mechanical error, the accuracy, completeness, timeliness and correct sequencing of such information and the results obtained from its use are not guaranteed by Cliffwater.

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Index Disclosures

The asset classes referenced above are defined as follows: (i) US High Yield Bonds is represented by the Bloomberg Barclays U.S. High Yield Index, (ii) US Leveraged Loans is represented by the S&P/LSTA U.S. Leveraged Loan Index, and (iii) US Inv. Grade Fixed Income is represented by the Bloomberg Barclays U.S. Aggregate Bond Index.

References to market or composite indices (such as the S&P 500), benchmarks or other measures of relative market performance over a specified period of time (each, an "index") are provided for information only. Reference to an index does not imply that a portfolio will achieve returns, volatility or other results similar to the index. The composition of an index may not reflect the manner in which a portfolio is constructed in relation to expected or achieved returns, portfolio guidelines, restrictions, sectors, correlations, concentrations, volatility or tracking error targets, all of which are subject to change over time.

The Bloomberg Barclays U.S. High Yield Index covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (sovereign rating of Baa1/BBB+/BBB+ and below using the middle of Moody's, S&P, and Fitch) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included.

The S&P/LSTA U.S. Leveraged Loan Index is a market value-weighted index designed to measure the performance of the institutional leveraged loan market in the United States based upon market weightings, spreads and interest payments, including Term Loan A, Term Loan B and Second Lien tranches.

The Bloomberg Barclays U.S. Aggregate Bond Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities.

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