

## SMART YIELD INCOME FUND

Finding Efficient Frontiers

Blackstone Secured Lending

INVEST/STAY CONNECTED

INITIAL REPORT JANUARY 30, 2024

LAST UPDATED JANUARY 30, 2024

\$28.62; Recommendation: BUY, target \$28.00

## BLACKSTONE SECURED LENDING FUND

[Blackstone Secured Lending Fund](#) (BXSL) is a 9 billion leveraged loan portfolio that focuses on private market ([middle market](#)) senior secured loans. The portfolio is managed by Blackstone, a large publicly traded asset manager. As of third quarter 2023, the portfolio is comprised of \$9.5 billion in investments of which over 98% are floating rate, first lien senior secured debt. The floating rate is normally based on a short-term lending rate such as SOFR or LIBOR. There are 188 companies in the portfolio with the top industries being software and healthcare. Recognizable borrowers include Jacuzzi Brands and Stamps.com. The fund averages a dividend payout ratio of 80% of net investment income (NII) and part of the strategy of BXSL is to focus on the larger middle market companies due to stronger growth and lower default rates. Interest payments to the fund and the dividends paid by the fund fluctuate with short-term interest rates.

The fund also has \$5 billion in borrowings comprised of floating rate loans and fixed rate senior notes. Currently the notes comprise around 56% of borrowings. Importantly we expect that the current interest rate dynamic will lead to a normalization in NII in 2024 and 2025 based on the current expectation of lower short-term rates this year and next. BXSL has an interest rate to net investment income sensitivity of around \$75 million for each 1% movement in short term rates. If rates fall by 1.5% this year, we expect NII to fall by \$113 million or 65 cents per share. Historically the shares have not moved in general with rates but have moved in sympathy with bonds and income paying shares of different types such as [KBWD](#).

We consider the fund to be well managed but also point out that the shares trade freely and have traded at differences to book value. In 2021 the shares traded at a 45% premium to book value before falling back to 1 X book area. Currently, the fund trades at a 7% premium, which we consider reasonable. The companies in the fund are subject to normal economic cycles so they would be adversely affected by an economic downturn. We project the fund's book value sensitivity to defaults to be around \$4-5 per share per \$1 billion or 10% of portfolio default. Which is not bad.

We expect the fund to continue to pay an 8.5-11% dividend based on 80% of projected NII, providing high income to investors.

### COMPANY STATS & PROJECTIONS \$

Shares Out	174 mm
Equity Market Cap	4,980 mm
Total Debt	4,962 mm
Cash Position	145 mm
2024 Revenues Est.	914 mm
2024 NII	547 mm
Current Cash Flow Yield	12.2%
Enterprise Value	9,797 mm
EBITDA (2024 Est.)	524 mm
EV/EBITDA (2024 Est.)	18.7 X
Dividend coverage	117%
2024 NII Ratio	9.1 X
Net Debt/EBITDA	7.7
2024 NII / SHARE Est.	3.14
2025 NII / SHARE Est	3.15

[BXSL INVESTOR RELATIONS](#)

[RECENT PRESENTATION](#)



## BROXTON CAPITAL ADVISORS BXSL as of 9/30/2023

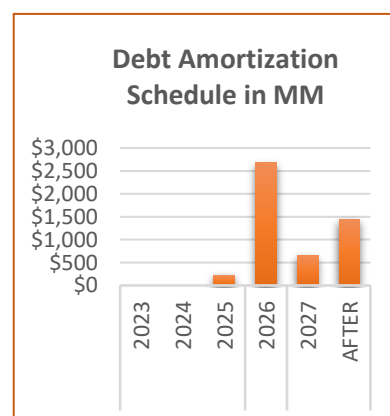
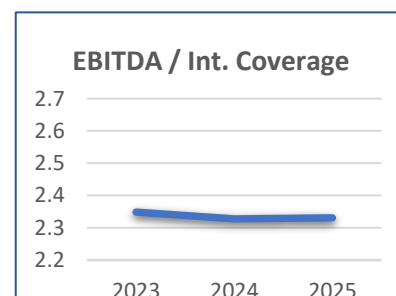
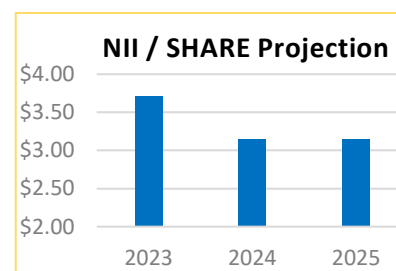
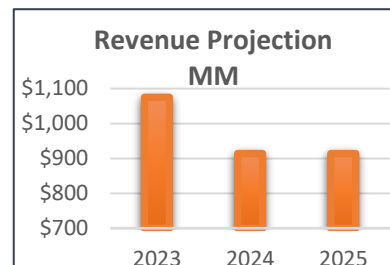
Monday, January 29, 2024

share price \$28.62

<b>PROJECTIONS IN MMs (fiscal)</b>	2023	2024	2025
<b>Income Statement</b>			
Total Investment Income	\$1,075	\$914	\$914
Interest Exp	265	225	225
Admin EXP	509	447	448
Net Investment Income	645	547	547
NII / Share	3.71	3.14	3.15
EPS	\$3.71	\$3.14	\$3.15
<b>Non-GAAP EPS</b>			
Revenue growth	35%	-15%	0%
EBITDA	\$622	\$524	\$524
Interest Exp	265	225	225
NII	645	547	547
Cash Flow	608	510	510
Equity Dividends	409	437	438
<b>Cash Flow Dividend Coverage</b>	<b>149%</b>	<b>117%</b>	<b>117%</b>
Cash Flow after capex	608	510	510
Retained Cash Flow Sum	199	72	73
<b>Valuations</b>			
Cash Flow Yield Vs. Equity	12.2%	10.2%	10.3%
EV/EBITDA	15.8	18.7	18.7
P.E Ratio	7.7	9.1	9.1
Enterprise Value	9,797		
Net Total Debt	4,817		
Equity Market Cap	4,980	4,980	4,980
<b>Debt Ratios</b>			
EBITDA/Interest Coverage ratio	2.3	2.3	2.3
<b>Net Debt/EBITDA</b>	<b>7.7</b>	<b>9.2</b>	<b>9.2</b>
<b>Liquidity</b> jun. 30 2023			
Cash & Marketable Sec	145		
Borrowing Availability est.	1000 +		
Assets	9,802		
Liabilities	5,199		
Book Value & Per Share	4603	\$26.45	
<b>Debt</b>			
Borrowings	\$4,962		
Borrowings Net	\$4,817		

### NOTES:

Broxtion does not attempt to compute the movement in investment value for the fund and uses the NII pre investment fluctuations as the EPS for calculation purposes



## **Disclosures**

Previous reports are available upon request. Smart Yield Fund targets a mix of different security classes that contain the risk of loss. Investors should carefully consider the Fund's investment objectives and risk factors before investing. Investing involves risk, including possible loss of principal. Investors should consider the loss of principle and targeted returns are not guaranteed. Individual investors in Smart Yield are generally required to be accredited investors. Smart Yield is a fund operated through individual accounts creating the composite. Smart Yield Fund is a new product with an inception date of September 30, 2020, and as such does not have historical data. Asset Mix Projections on page 2 and 6, Smart Yield Portfolio Metrics on page 5 are estimated or targets of the fund. Asset class mix and targets may change based on the direction of the managers. Portfolio allocation projected annual return and beta assumption for each asset class on pages 7-10 are estimated. Beta for the fund and each asset class is estimated versus the S&P 500. The average beta for the entire fund is projected to be .32. Beta is a measure of the fund's volatility in relation to S&P 500 Index. This index has a beta of 1.0. The fund targets a total gross return before fees and expenses of 9.24%. The fund projects a blended return based on income securities and capital gains. Smart Yield attempts to continuously improve the value of investment portfolios by investing in corporate bonds, convertible bonds, other types of bonds (investment grade and sub-investment grade, [which may also have limited liquidity]), dividend paying equities, non-dividend paying equities, ETFs, including leveraged ETFs, and other securities. Fixed income risks include interest-rate and credit risk. Typically, when interest rates rise, there is a corresponding decline in bond values. Credit risk refers to the possibility that the bond issuer will not be able to make principal and interest payments. All securities types mentioned in this brochure have the risk of loss. Long term strategies purchase securities which are underpriced according to our appraisal methodologies. Broxton uses regression analysis to obtain an average appraisal value for an individual company and places a priority on the securities of companies with improving financial performance and or additional catalysts that provide for increases in earnings and valuation. We use financial modeling, technical analysis, proprietary and third-party research. Smart Yield does not have any capitalization (market size), sector or industry allocation mandates. Asset class allocation percentages may be changed without notice. Broxton deploys technical analysis and momentum as indicators of movement for shorter term strategies, that may not involve deep fundamental analysis. Shorting (selling and then buying) of securities can be used for hedging and as a long term or short-term strategy. We exit positions in accordance with our discipline, this includes when valuation targets are clearly exceeded, or financial performance falls below our projections. Since Smart Yield returns will be calculated using a composite of accounts, the average account will not match the composite return and the return could be higher or lower. Broxton offers Smart Yield for other investment managers. Any commentary is solely the opinion of the Broxton Capital Advisors. It refers to securities we hold in our portfolio and sometimes ones we are considering but does not represent a complete list of positions held at Broxton Capital Advisors. A complete list covering the last twelve months will be furnished upon request. Price targets are mentioned for information purposes only. Nothing contained herein constitutes a recommendation to purchase or sell securities at any designated price or time. Targeted performance does not guarantee future results. 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