THE LEAD
https://theleadleft.com/lead-left-interview-richard-petrocelli-frederick-buffone/

Lead Left Interview – Richard Petrocelli and Frederick Buffone

THE LEAD | December 17, 2014

This week we speak with Richard Petrocelli, CFO of FSC and FSFR, and Frederick Buffone, Head of Capital Markets, FSAM. Fifth Street Asset Management (FSAM) is a credit-focused asset manager with $6 billion of AUM across two public BDCs, Fifth Street Finance Corp. (FSC) and Fifth Street Senior Floating Rate Corp. (FSFR), as well as multiple private investment vehicles.

The Lead Left: *Rich, you've had success growing both your unitranche [FSC] and first lien [FSFR] businesses. How big are they today?*

Rich Petrocelli: FSFR has $375 million of assets and mostly makes first lien investments. FSC is our unitranche business with an average yield of 10.7%. It has approximately $2.6 billion in assets and a $1.5 billion net asset value.

TLL: *And you've been busy adding lending capacity. Where does that stand today?*

RP: We have two publicly-traded BDCs, but our joint ventures are the big story. One of the benefits of our scale is the ability to create these vehicles with our equity and lending partners. FSC has a JV with Kemper and we've invested over $180 million in 18 loans, generally sized between $10 to $20 million as of September 30th, 2014.

TLL: *How much is in it now?*

RP: It has over $180 million of assets as of September 30th, 2014 that we've been able to leverage on a 2:1 basis with a Deutsche Bank-led facility. And on which we're getting a 16-17% return on FSC's investment.There's also the added benefit to our investors that we only charge fees on assets for the $55 million "equity" piece. The structure is similar to some of our competitors and SEC approvals are required.

TLL: *And I saw you've recently increased the program.*

RP: We've expanded FSC's and Kemper's equity commitment from $100 to $200 million. FSFR has also formed a JV with Glick that is modeled on FSC's JV with Kemper and should have similar yields.

TLL: *To what extent do you co-invest across your investment vehicles in deals?*

RP: Fifth Street recently received SEC approval to co-invest between FSC, FSFR and other Fifth Street vehicles. As a result, we can now underwrite even larger deals, with the ability to hold up to $250 million per transaction across the platform. This is a strong differentiator for us in the middle market, and also allows us to enhance portfolio diversification and optimize individual investment sizes.

TLL: *Fred, you're the markets guy. What are you seeing out there?*

Fred Buffone: The market is more clubbed up and direct recently. That's based on the recent volatility in the markets. Three or four months ago you saw real strength in the club and broadly syndicated markets. But now the one-stop and stretch senior product has come in vogue.

***TLL**: Where are you seeing opportunities?*

FB: The opportunities we're seeing are to do larger transactions. What was originally a $50-75 million deal size solution for us has grown to $250 million. That's all driven by market uncertainty.

***TLL:** Does co-investing inhibit syndication?*

FB: Only for small deals. Credit is credit and you need to do your underwriting, but we'll bring in partners. For example, on a recent Veritas Capital transaction we had three partners. The total financing was $195 million – and we syndicated $80 million. That was a unitranche which we sold pro rata.

***TLL:** How are you pricing your unitranche structures?*

FB: Typically, they're around the L+700 range with a 1% floor. We can syndicate before or after the closing, depending on the timing of the transaction. The vast majority of these deals are backed by sponsors.

To be continued the week of January 5

Contact: Olga Litvinenko

olitvinenko@fifthstreetfinance.com