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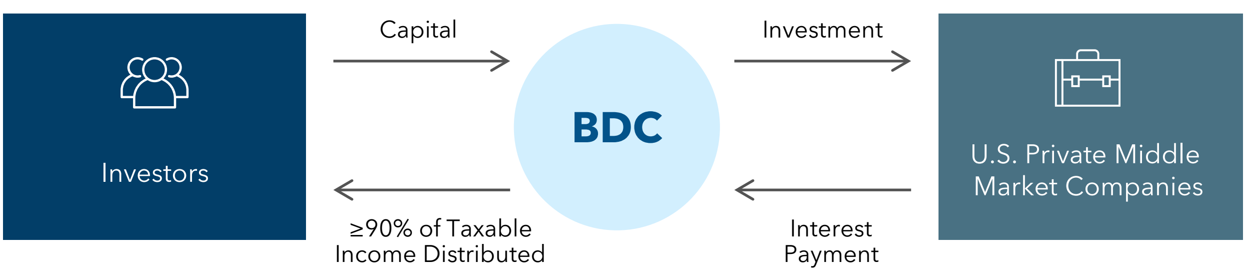
BDC Basics

WHAT IS A BUSINESS DEVELOPMENT COMPANY?

Business development companies ("BDCs") were established by Congress in 1980 by an amendment to the Investment Company Act of 1940 called the Small Business Investment Incentive Act (the "Act"). The Act's stated objective is to encourage the establishment of public vehicles that will invest in private companies, and thereby increase the flow of capital to small and middle market businesses. Today, the middle market is a critical component of the U.S. economy, comprising approximately 200,000 companies that collectively generate over $10 trillion in annual revenue and employ nearly 50 million Americans.[2]

BDCs are a type of closed-end fund that provide individual investors access to investment strategies, such as private credit, that were historically only accessible to institutional investors or high-net-worth individuals. Capital raised from individual and institutional investors is used to provide financial solutions to middle market businesses, generally in the form of senior secured, floating rate loans. Interest generated from these loans is paid to the BDC, which is then required to distribute at least 90% of its taxable income back to its investors.

Income-focused investors can gain exposure to private credit in their portfolios through business development companies (BDCs)[1]



The democratization of private credit through the BDC structure – with lower investment minimums and greater liquidity than traditional locked up funds – has been a key contributor to the significant expansion seen in the private credit market, particularly over the last two decades. Assets under management (AUM) for private credit reached nearly $1.5 trillion by the end of 2022, compared to AUM of $42 billion and $312 billion, respectively, at the end 2000 and 2010.[3] As of June 2023, there were more than 130 BDCs with approximately $274 billion in combined assets under management, approximately one-third of which were exchange traded.[4] While the majority of BDCs are externally managed by an investment advisor pursuant to an investment advisory agreement, a BDC can also be internally managed by its own employees.

[1] Distribution payments are not guaranteed.
[2] Source: Year-End 2022 Middle Market Indicator, middlemarketcenter.org
[3] Source: Preqin
[4] Source: Small Business Investor Alliance (sbia.org)

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KEY BDC REGULATIONS

- **Qualified & Non-Qualified Assets** | At least 70% of each BDC's total assets must be 'qualified assets,' generally defined as privately placed loans or securities in U.S. operating companies that are either (a) privately held or (b) exchange traded and have a market value of less than $250 million. BDCs are permitted to hold other types of assets, considered 'non-qualified,' if capped at 30% of total assets at fair value. Non-qualified assets include investments in non-U.S. companies, joint ventures or structured credit (i.e. collateralized loan obligations)

- **Leverage Limitation** | BDCs are limited to a maximum 2:1 debt to equity ratio

- **Board of Directors** | BDCs are required to have a board that is comprised by a majority of independent directors or trustees, serving as a fiduciary on behalf of investors

- **Investor Transparency** | BDCs must file regular public reports (10-Ks, 10-Qs, 8-Ks, etc.) with the Securities and Exchange Commission, and are subject to annual independent audits

TAX CONSIDERATIONS

Most BDCs have elected to be treated for U.S. federal income tax purposes as regulated investment companies (RICs). RICs are generally not subject to entity-level U.S. federal income taxes on their net taxable income that is distributed to shareholders. To qualify for this treatment, RICs generally must (a) derive at least 90% of their income from interest, dividends or certain capital gains; (b) distribute at least 90% of net taxable income to shareholders on an annual basis; and (c) meet certain portfolio diversification requirements.

As RICs, BDC dividend payments are not subject to entity-level tax on distributed income, creating tax efficiency by avoiding the possibility of double taxation on distributions.

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TYPES OF BDC STRUCTURES

The three most common types of BDCs are publicly traded, non-listed and private placement. The following is a comparison of the key characteristics of each type:

	Publicly Traded BDC	**Non-Listed BDC**	**Private Placement BDC**
Offering Type	Traditional IPO	Continuous offering, up to a stated limit	Private placement
Investor Eligibility	No requirement	Typically $250K net worth, or $70K annual income and net worth	Qualified Purchaser or Accredited Investor
Basis for Share Transactions	Public share price	Net Asset Value	Net Asset Value
Funding	Fully funded at purchase	Fully funded at purchase	Capital called as needed
Liquidity	Exchange listed	Periodic share repurchases, subject to certain limitations and restrictions	None, potential for liquidity pending public listing, or periodic share repurchases
Multiple Share Classes?	No	Yes	No

RISKS ASSOCIATED WITH AN INVESTMENT IN BDCS

As with any investment, there are certain risks and trade-offs associated with BDCs and the underlying assets they contain. Investments in BDCs carry many potential risks. The investments of a BDC carry credit risk to the underlying borrowers, substantially all of which are sub-investment grade or not rated. These investments may be subject to mark down or loss of capital. In addition, BDCs have the ability to employ leverage that could ultimately result in the magnification of any potential investment losses. Depending on the respective BDC's type and terms, an investment in a BDC may have limited or no liquidity; therefore, investors may not have the ability to liquidate their investment when desired or at all. Investments in BDCs also carry tax risks, including that if a BDC fails to be treated as RIC, the resulting corporate taxes could substantially reduce the BDC's net assets and income available for distribution. Investments in BDCs are typically subject to fees and expenses, which lower the fund's investment returns to shareholders. Although fees vary from one BDC to the next, they may involve substantial costs. Anyone considering an investment in BDCs should thoroughly review the corresponding offering documents for information regarding risks, fees and expenses.

This material does not constitute tax or legal advice. Before deciding to invest in any fund, prospective investors should consult their financial, tax and accounting advisors and read the fund's prospectus carefully for the U.S. tax consequences of, and a full list of risks associated with, an investment in the fund, as well as a description of any fees and expenses associated with the fund.

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SUMMARY OF RISK FACTORS

This is neither an offer to sell nor a solicitation of an offer to buy the securities described herein. Only a prospectus for CPCI can make such an offer. **This material is authorized only when it is accompanied or preceded by the CPCI prospectus**. Neither the SEC nor any state securities commission has approved or disapproved of these securities or determined if the prospectus is truthful or complete. Any representation to the contrary is a criminal offense. No offering is made except by a prospectus filed with the Department of Law of the State of New York. Securities are offered through Emerson Equity LLC, member of FINRA/SIPC, as Intermediary Manager.

An investment in CPCI is speculative and involves a high degree of risk, including the risk of a substantial loss of investment, as well as substantial fees and costs, all of which can impact an investor's return. The following are some of the risks involved in an investment in CPCI's common shares; however, an investor should carefully consider the fees and expenses and information found in the "Risk Factors" section of the CPCI prospectus before deciding to invest:

- CPCI has a limited operating history and there is no assurance that it will achieve its investment objective.
- You should not expect to be able to sell your shares regardless of how well CPCI performs.
- You should consider that you may not have access to the money you invest for an extended period of time.
- CPCI does not intend to list the shares on any securities exchange, and it does not expect a secondary market in the shares to develop prior to any listing.
- Because you may be unable to sell your shares, you will be unable to reduce your exposure in any market downturn.
- CPCI has not identified specific investments that it will make with the proceeds of this offering. As a result, this may be deemed a "blind pool" offering and you will not have the opportunity to evaluate CPCI's investments before it makes them.
- CPCI invests primarily in privately-held companies for which very little public information exists. Such companies are also generally more vulnerable to economic downturns and may experience substantial variations in operating results.
- The privately-held companies and below-investment-grade securities in which CPCI will invest will be difficult to value and are illiquid.
- CPCI has implemented a share repurchase program, but only a limited number of shares will be eligible for repurchase, and repurchases will be subject to available liquidity and other significant restrictions. Such share repurchase prices may be lower than the price at which you purchase CPCI's shares in this offering.
- An investment in the shares is not suitable for you if you need access to the money you invest. See "Suitability Standards" and "Share Repurchase Program" in the Prospectus.
- An investment in CPCI's shares is suitable only for investors with the financial ability and willingness to accept the high risks and lack of liquidity inherent in an investment in CPCI's shares.
- CPCI cannot guarantee that it will make distributions, and if it does, it may fund such distributions from sources other than cash flow from operations, including, without limitation, the sale of assets, borrowings, return of capital to stockholders or offering proceeds. Although CPCI generally expects to fund distributions from cash flow from operations, CPCI has not established limits on the amounts it may pay from such sources. A return of capital is a return of a portion of your capital investment in our shares.
- Distributions may also be funded in significant part, directly or indirectly, from temporary waivers or expense reimbursements borne by Crescent Cap NT Advisors, LLC, CPCI's investment adviser (the "Adviser") or its affiliates, that may be subject to reimbursement to the Adviser or its affiliates. The repayment of any amounts owed to CPCI's affiliates will reduce future distributions to which you would otherwise be entitled.
- CPCI expects to use leverage, which will magnify the potential loss on amounts invested in it. See "Risk Factors—Risks Relating to Our Business and Structure—Our strategy involves a high degree of leverage" in the Prospectus.
- CPCI qualifies as an "emerging growth company" as defined in the Jumpstart Our Business Startups Act, which means that it is eligible to take advantage of certain exemptions from various reporting and disclosure requirements that are applicable to public companies that are not emerging growth companies, and CPCI cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make its shares less attractive to investors.
- CPCI invests in securities that are rated below investment grade by rating agencies or that would be rated below investment grade if they were rated. Bonds that are rated below investment grade are sometimes referred to as "high yield bonds" or "junk bonds." Below investment grade securities have predominantly speculative characteristics with respect to the issuer's capacity to pay interest and repay principal. They may also be illiquid and difficult to value.

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IMPORTANT INFORMATION

All information is current as of June 30, 2023 unless otherwise noted.

Past performance is not a guarantee of future results.

Assets Under Management ("AUM") refers to the assets that we manage and are generally equal to the sum of (i) net asset value ("NAV"); (ii) drawn and undrawn debt; and (iii) uncalled capital commitments.

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