

Why We Invested in Oxford Square Capital

This article is excerpted from a letter by Jim Roumell, partner and portfolio manager of [Roumell Asset Management](#), based in Chevy Chase, Maryland.

Oxford Square is a publicly-traded business development company ("BDC") primarily engaged in providing debt capital to a wide-range of U.S.-based companies. It holds assets in syndicated bank loans and debt and equity tranches of collateralized loan obligations. OXSQ's focus is primarily on small to mid-sized companies. OXSQ generally invests between \$5.0 million and \$50.0 million in each of its portfolio companies.

OXSQ has a good track record in underwriting credit risk. It is impressive that it has maintained a growing to relatively consistent net asset value (NAV) per share over the last two years. During this period many other credit BDCs saw NAV declines. At the end of the first quarter of 2016, OXSQ's NAV per share was \$5.89. The NAV per share grew throughout 2016 and remained relatively consistent throughout 2017. At December 31, 2017 the NAV per share was \$7.55. This NAV performance is particularly impressive given the fact that OXSQ pays a large quarterly distribution to shareholders that reduces NAV. This means that OXSQ had earnings and/or capital appreciation that either grew or maintained the NAV even after the large quarterly distributions to shareholders. The distribution was \$0.29 per share in each quarter of 2016 and \$0.20 per share for each quarter during 2017. The current \$0.20 quarterly payment represents an annualized distribution yield of 13% based on the current \$6.15 stock price.

As credit spreads remain tight, many credit BDC's have chosen to reduce their quarterly distributions. Should OXSQ choose to do the same, to say \$0.16 per quarter, the yield would still be slightly over 10%. While we find the yield attractive, that was not the primary basis of our investment thesis. Rather, it was the significant discount that the stock trades at relative to the underlying NAV of the company. The primary assets of the business are syndicated bank loans and debt and equity tranches of collateralized loan obligations which are carried at estimated market value. These market values are reviewed periodically by independent sources (external auditors) and filed quarterly with the Securities Exchange Commission on form 10Q and annually on form 10K. As such, we have confidence in the reasonableness of the reported market values. As noted above, the NAV per share at December 31, 2017 was \$7.55. We purchased shares during the quarter at an average price of about \$5.50. This represents a very attractive discount to NAV of approximately 27%. Even at the current higher stock price of \$6.15, the discount to NAV is about 19%.

We have met with CEO Jonathan Cohen and have confidence in his leadership. We are particularly comforted by the fact that he has a substantial personal investment in OXSQ and has never sold any shares. In summary, our thesis here is to purchase an asset trading at a substantial discount to its underlying NAV and get paid a double-digit distribution yield while we wait for the discount to close.