



BLACKROCK KELSO CAPITAL

May 2014

Investor Presentation

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Overview Q1 2014

As of and for the Three Months Ended March 31, 2014

- Investment Portfolio: \$1,140.2 million
- Net Assets: \$714.3 million or \$9.59 per share
- Net Investment Income: \$11.1 million or \$0.15 per share⁽¹⁾
- Purchases of Investments: \$63.0 million⁽²⁾
- Sales, Repayments and Other Exits: \$188.0 million
- Net Investment Income, as adjusted⁽³⁾: \$14.3 million or \$0.19 per share⁽¹⁾
- Average Investment by Portfolio Company, at Amortized Cost⁽⁴⁾: \$25.8 million
- Indebtedness: \$459.0 million
- Credit Facility Availability: \$250.0 million
- Asset Coverage Ratio: 255%

Financial Highlights

<i>As of and for the Three Months Ended</i>	<u>6/30/12</u>	<u>9/30/12</u>	<u>12/31/12</u>	<u>3/31/13</u>	<u>6/30/13</u>	<u>9/30/13</u>	<u>12/31/13</u>	<u>3/31/14</u>
Net Investment Income, as adjusted ^(1,3)	\$ 0.25	\$ 0.30	\$ 0.27	\$ 0.22	\$ 0.26	\$ 0.22	\$ 0.22	\$ 0.19
Net Realized Gains (Losses) ⁽¹⁾	(1.03)	0.04	(0.21)	0.00	(0.79)	0.00	(0.09)	0.45
Net Unrealized Gains (Losses) ⁽¹⁾	1.01	(0.17)	0.12	0.22	0.66	0.15	0.44	(0.30)
Net Income, as adjusted ^(1,3)	0.23	0.17	0.18	0.45	0.13	0.36	0.58	0.35
Net Asset Value at End of Period ⁽⁵⁾	9.61	9.55	9.31	9.47	9.37	9.38	9.54	9.59
Distributions Declared ⁽¹⁾	\$ 0.26	\$ 0.26	\$ 0.26	\$ 0.26	\$ 0.26	\$ 0.26	\$ 0.26	\$ 0.26
Average Shares Outstanding - Basic, in millions ⁽¹⁾	73.6	73.7	73.8	74.0	74.1	74.2	74.4	74.5
Total Shares Outstanding at End of Period	73.6	73.7	73.8	74.0	74.1	74.2	74.4	74.5

<i>\$ in millions</i>	<u>6/30/12</u>	<u>9/30/12</u>	<u>12/31/12</u>	<u>3/31/13</u>	<u>6/30/13</u>	<u>9/30/13</u>	<u>12/31/13</u>	<u>3/31/14</u>
Investment Portfolio at Cost ⁽⁷⁾	\$ 1,138.4	\$ 1,079.8	\$ 1,037.3	\$ 982.3	\$ 919.6	\$ 1,039.2	\$ 1,084.5	\$ 993.8
Investment Portfolio at Fair Value ⁽⁷⁾	\$ 1,165.5	\$ 1,094.0	\$ 1,061.6	\$ 1,022.8	\$ 1,009.2	\$ 1,139.1	\$ 1,218.0	\$ 1,106.1
Fair Value % Cost ⁽⁷⁾	102.4%	101.3%	102.3%	104.1%	109.7%	109.6%	112.3%	111.3%
Number of Portfolio Companies	53	50	47	44	41	47	51	46
Average Investment Size at Cost	\$ 21.5	\$ 21.6	\$ 22.1	\$ 22.3	\$ 22.4	\$ 22.1	\$ 21.3	\$ 21.6
Yield on Income Producing Capital at Cost	12.4%	12.2%	12.2%	12.4%	12.1%	11.7%	12.0%	12.0%
Yield on Senior Secured Loans at Cost	11.7%	11.6%	11.4%	11.5%	11.5%	10.9%	11.4%	11.4%
Yield on Other Debt Securities at Cost	13.8%	13.5%	13.5%	13.6%	13.2%	13.2%	13.0%	12.9%

Please see Notes to the Investor Presentation on page 15

Select Historical Financial Information

<i>\$ in thousands, except per share data</i>									Full Year		
	6/30/12	9/30/12	12/31/12	3/31/13	6/30/13	9/30/13	12/31/13	3/31/14	12/31/11	12/31/12	12/31/13
Net Investment Income	\$ 22,383	\$ 23,938	\$ 8,316	\$ 12,964	\$ 21,220	\$ 8,874	\$ 4,580	\$ 11,094	\$ 72,879	\$ 73,662	\$ 47,638
Net Investment Income per share ⁽¹⁾	0.30	0.32	0.11	0.18	0.29	0.12	0.06	0.15	1.00	1.00	0.64
Net Investment Income, pre-incentive fee ⁽³⁾	22,383	26,902	25,630	18,228	23,289	18,232	19,037	14,554	84,757	96,153	78,787
Net Investment Income, pre-incentive fee per share ^(1,3)	0.30	0.37	0.35	0.25	0.31	0.25	0.26	0.20	1.16	1.31	1.06
Net Investment Income, as adjusted ⁽³⁾	18,560	21,889	20,059	16,130	19,111	16,118	16,539	14,277	72,879	79,156	67,897
Net Investment Income, as adjusted per share ^(1,3)	0.25	0.30	0.27	0.22	0.26	0.22	0.22	0.19	1.00	1.08	0.92
Net Realized / Unrealized Gains (Losses)	(1,401)	(9,609)	(6,574)	16,833	(9,196)	10,970	26,744	11,822	4,042	(16,310)	45,351
Net Realized / Unrealized Gains (Losses) per share ⁽¹⁾	(0.02)	(0.13)	(0.09)	0.23	(0.12)	0.15	0.36	0.16	0.06	(0.22)	0.61
Net Income	20,982	14,329	1,742	29,797	12,023	19,844	31,325	22,917	76,921	57,351	92,989
Net Income per share ⁽¹⁾	0.29	0.19	0.02	0.40	0.16	0.27	0.42	0.31	1.05	0.78	1.25
Distributions Declared	19,125	19,161	19,196	19,230	19,265	19,303	19,345	19,375	80,362	76,572	77,143
Distributions Declared per share ⁽¹⁾	0.26	0.26	0.26	0.26	0.26	0.26	0.26	0.26	1.10	1.04	1.04
Total Net Assets	707,059	703,534	687,380	700,434	694,451	696,300	709,704	714,290	701,009	687,380	709,704
Net Asset Value per share ⁽⁵⁾	\$ 9.61	\$ 9.55	\$ 9.31	\$ 9.47	\$ 9.37	\$ 9.38	\$ 9.54	\$ 9.59	\$ 9.58	\$ 9.31	\$ 9.54
Debt / Equity Ratio	0.64x	0.55x	0.50x	0.44x	0.45x	0.59x	0.67x	0.64x	0.49x	0.50x	0.67x
Debt / Equity Ratio, Net of Available Cash ⁽⁶⁾	0.62x	0.54x	0.49x	0.44x	0.39x	0.57x	0.65x	0.59x	0.48x	0.49x	0.65x

Please see Notes to the Investor Presentation on page 15

Portfolio Composition

Portfolio Purchases by Investment Type

<i>\$ in millions</i>	<u>6/30/12</u>	<u>9/30/12</u>	<u>12/31/12</u>	<u>3/31/13</u>	<u>6/30/13</u>	<u>9/30/13</u>	<u>12/31/13</u>	<u>3/31/14</u>
Senior Secured Loans	\$ 81.1	\$ 15.3	\$ 34.2	\$ 20.2	\$ 168.1	\$ 108.3	\$ 80.7	\$ 48.5
Senior Secured Notes	23.0	-	19.9	25.5	9.7	0.3	9.2	-
Subordinated / Unsecured Debt	43.5	0.1	21.1	0.1	-	5.4	73.3	0.7
Preferred Equity	-	0.7	-	0.1	5.3	8.1	0.9	5.5
Common Equity	0.4	-	-	0.1	2.7	11.0	4.1	8.3
LP/LLC Interests	0.2	-	3.5	-	-	-	-	-
Equity Warrants	-	0.7	-	-	-	-	0.6	-
Total New Investments at Cost ⁽²⁾	\$ 148.2	\$ 16.8	\$ 78.7	\$ 46.0	\$ 185.8	\$ 133.1	\$ 168.8	\$ 63.0

Net Investments

<i>\$ in millions</i>	<u>6/30/12</u>	<u>9/30/12</u>	<u>12/31/12</u>	<u>3/31/13</u>	<u>6/30/13</u>	<u>9/30/13</u>	<u>12/31/13</u>	<u>3/31/14</u>
New Investments at Cost ⁽²⁾	\$ 148.2	\$ 16.8	\$ 78.7	\$ 46.0	\$ 185.8	\$ 133.1	\$ 168.8	\$ 63.0
Sales, Repayments, Other Exits at Cost	(80.5)	(82.3)	(111.3)	(104.2)	(199.1)	(16.0)	(123.3)	(188.0)
Net New Investments at Cost	\$ 67.7	\$ (65.5)	\$ (32.6)	\$ (58.2)	\$ (13.3)	\$ 117.1	\$ 45.5	\$ (125.0)
Number of New Portfolio Company Investments	2	-	2	1	2	9	9	4
Number of Portfolio Company Exits	4	3	5	4	5	3	5	9

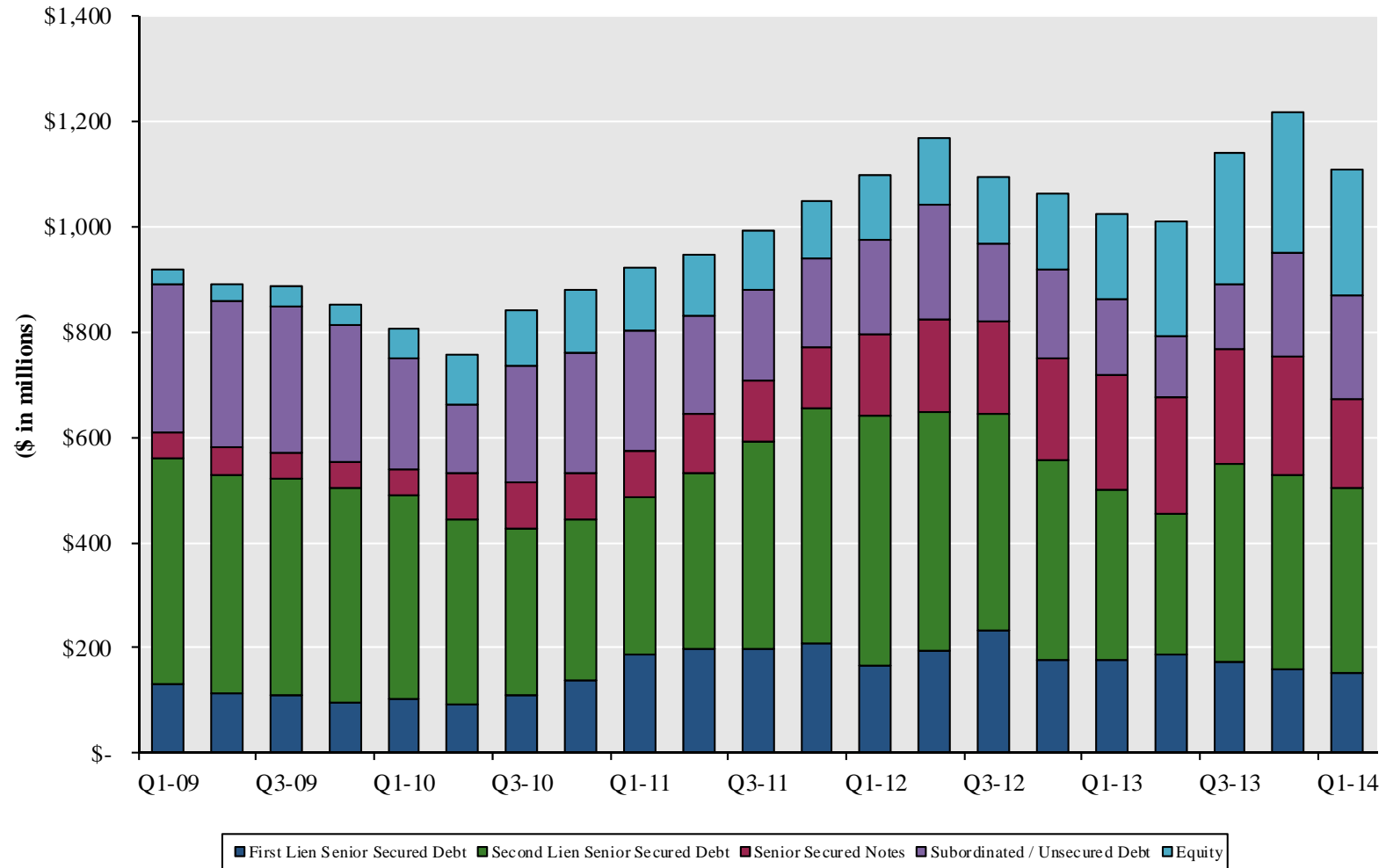
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Portfolio Composition

<i>\$ in millions</i>	<u>6/30/12</u>	<u>9/30/12</u>	<u>12/31/12</u>	<u>3/31/13</u>	<u>6/30/13</u>	<u>9/30/13</u>	<u>12/31/13</u>	<u>3/31/14</u>
Senior Secured Loans	\$ 649.4	\$ 644.2	\$ 556.5	\$ 499.4	\$ 455.8	\$ 548.3	\$ 527.2	\$ 503.4
Senior Secured Notes	174.8	174.7	193.9	218.8	218.1	218.4	226.7	168.9
Subordinated / Unsecured Debt	216.4	146.5	167.6	143.2	117.8	123.2	196.9	197.2
Preferred Equity	-	1.1	5.8	6.9	32.6	38.1	24.9	30.0
Common Equity	70.9	72.4	72.3	78.7	100.7	125.6	143.4	129.1
LP/LLC Interests	44.4	43.8	49.0	58.0	61.6	60.8	68.4	69.6
Equity Warrants	9.7	11.3	16.3	17.9	22.5	24.8	30.6	7.9
Total Invested Assets at FMV	\$ 1,165.5	\$ 1,094.0	\$ 1,061.6	\$ 1,022.8	\$ 1,009.2	\$ 1,139.1	\$ 1,218.0	\$ 1,106.1

<u>Total Investment Portfolio at Fair Value ⁽⁷⁾</u>	<u>6/30/12</u>	<u>9/30/12</u>	<u>12/31/12</u>	<u>3/31/13</u>	<u>6/30/13</u>	<u>9/30/13</u>	<u>12/31/13</u>	<u>3/31/14</u>
Senior Secured Loans	55.7%	58.9%	52.4%	48.8%	45.2%	48.1%	43.4%	45.5%
Senior Secured Notes	15.0%	16.0%	18.3%	21.4%	21.6%	19.2%	18.6%	15.3%
Subordinated / Unsecured Debt	18.6%	13.4%	15.8%	14.0%	11.7%	10.8%	16.1%	17.8%
Preferred Equity	0.0%	0.1%	0.6%	0.7%	3.2%	3.4%	2.0%	2.7%
Common Equity	6.1%	6.6%	6.8%	7.7%	10.0%	11.0%	11.8%	11.7%
LP/LLC Interests	3.8%	4.0%	4.6%	5.7%	6.1%	5.3%	5.6%	6.3%
Equity Warrants	0.8%	1.0%	1.5%	1.7%	2.2%	2.2%	2.5%	0.7%

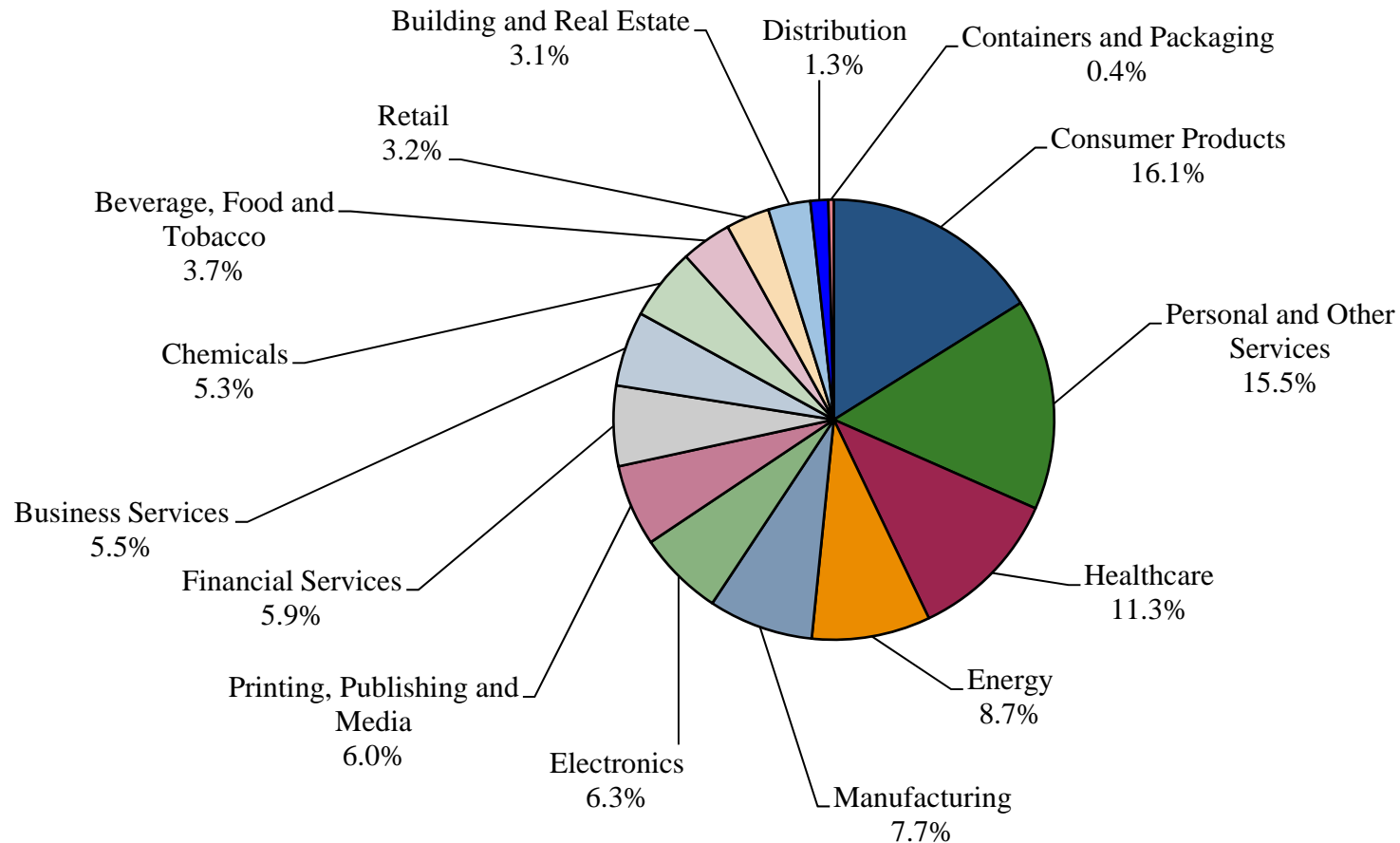
Portfolio Composition



- As of March 31, 2014, senior debt comprised 60.8% of the total portfolio⁽⁷⁾ at fair market value

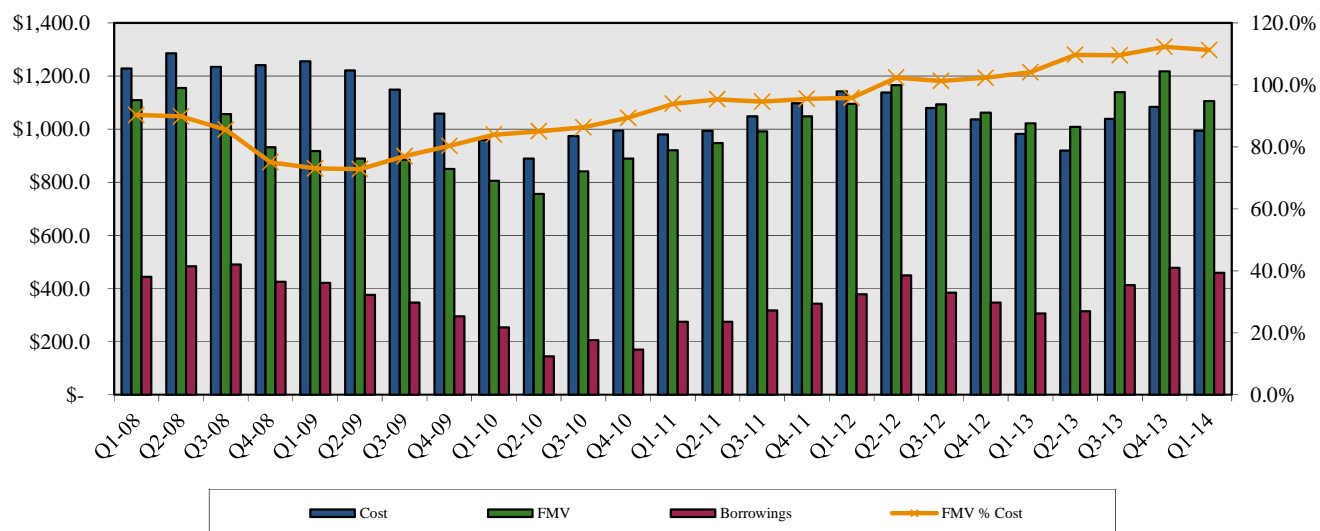
Portfolio Composition

Portfolio Composition by Industry at Fair Market Value



Portfolio Evolution

Quarterly Cost / FMV / Borrowings⁽⁸⁾



	2007	2008	2009	2010	2011	2012	Q1-13	Q2-13	Q3-13	Q4-13	Q1-14
Cost	\$ 1,161.0	\$1,241.1	\$1,058.7	\$995.1	\$1,097.9	\$1,037.3	\$982.3	\$919.6	\$1,039.2	\$1,084.5	\$993.8
FMV	1,103.8	932.1	850.7	889.5	1,049.0	1,061.6	1,022.8	1,009.2	1,139.1	1,218.0	1,106.1
Borrowings	381.3	426.0	296.0	170.0	343.0	346.9	305.8	314.9	412.9	478.0	459.0
FMV % Cost	95.1%	75.1%	80.3%	89.4%	95.5%	102.3%	104.1%	109.7%	109.6%	112.3%	111.3%
Borrowings % FMV	34.5%	45.7%	34.8%	19.1%	32.7%	32.7%	29.9%	31.2%	36.2%	39.2%	41.5%
NAV per share	\$ 13.78	\$ 9.23	\$ 9.55	\$ 9.62	\$ 9.58	\$ 9.31	\$ 9.47	\$ 9.37	\$ 9.38	\$ 9.54	\$ 9.59
Share Price	\$ 15.28	\$ 9.86	\$ 8.52	\$ 11.06	\$ 8.16	\$ 10.06	\$ 10.00	\$ 9.36	\$ 9.48	\$ 9.33	\$ 9.17
Share Price / NAV per share	110.9%	106.8%	89.2%	115.0%	85.2%	108.1%	105.6%	99.9%	101.1%	97.8%	95.6%

Please see Notes to the Investor Presentation on page 15

Asset Coverage

Quarterly Borrowings⁽⁸⁾



- \$252.1 million in excess asset coverage (1:1 test)⁽⁹⁾
- Credit facility availability of \$250.0 million

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Reconciliation of Net Investment Income

	Q1 2013		Q2 2013		Q3 2013		Q4 2013		FY 2013		Q1 2014	
	\$'s	per share ⁽¹⁾	\$'s	per share ⁽¹⁾	\$'s	per share ⁽¹⁾	\$'s	per share ⁽¹⁾	\$'s	per share ⁽¹⁾	\$'s	per share ⁽¹⁾
GAAP Basis:												
Net Investment Income	\$ 12,964,078	\$ 0.18	\$ 21,219,854	\$ 0.29	\$ 8,873,661	\$ 0.12	\$ 4,580,482	\$ 0.06	\$ 47,638,075	\$ 0.64	\$ 11,094,195	\$ 0.15
Net Increase in Net Assets from Operations	29,797,139	0.40	12,023,397	0.16	19,843,743	0.27	31,324,524	0.42	92,988,803	1.25	22,916,519	0.31
Addback: GAAP incentive management fee expense based on Gains	3,720,726	0.05	1,695,021	0.02	9,358,529	0.13	5,485,073	0.07	20,259,349	0.27	3,459,865	0.05
Addback: GAAP incentive management fee expense based on Income	1,543,384	0.02	374,584	0.01	-	-	8,971,120	0.12	10,889,088	0.15	-	-
Pre-Incentive Fee⁽³⁾												
Net Investment Income	18,228,188	0.25	23,289,459	0.31	18,232,190	0.25	19,036,675	0.26	78,786,512	1.06	14,554,060	0.20
Net Increase in Net Assets from Operations	35,061,249	0.47	14,093,002	0.19	29,202,272	0.39	45,780,717	0.62	124,137,240	1.67	26,376,384	0.35
Less: Incremental incentive management fee expense based on Income	(2,098,240)	(0.03)	(4,178,233)	(0.06)	(2,114,510)	(0.03)	(2,498,105)	(0.03)	(10,889,088)	(0.15)	(277,207)	-
As Adjusted⁽³⁾												
Net Investment Income	16,129,948	0.22	19,111,226	0.26	16,117,680	0.22	16,538,570	0.22	67,897,424	0.92	14,276,853	0.19
Net Increase in Net Assets from Operations	\$ 32,963,009	\$ 0.45	\$ 9,914,769	\$ 0.13	\$ 27,087,762	\$ 0.36	\$ 43,282,612	\$ 0.58	\$ 113,248,152	\$ 1.53	\$ 26,099,177	\$ 0.35

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Current Market Environment

The Middle Market Offers More Attractive Opportunities for Investors

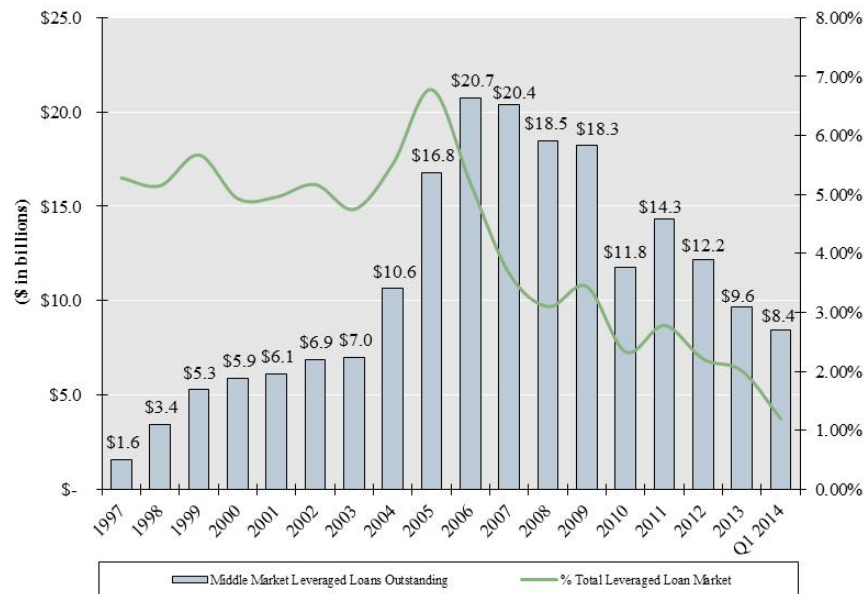
General Characteristics

- ✓ Typically \$50 million to \$1 billion in revenues
- ✓ Fundamental credit analysis comparatively more important
- ✓ If rated, rating agencies likely assign lower rating
- ✓ Middle-market investments typically include inherent structural and credit protections
- ✓ High level of acquisition activity (realization opportunities)

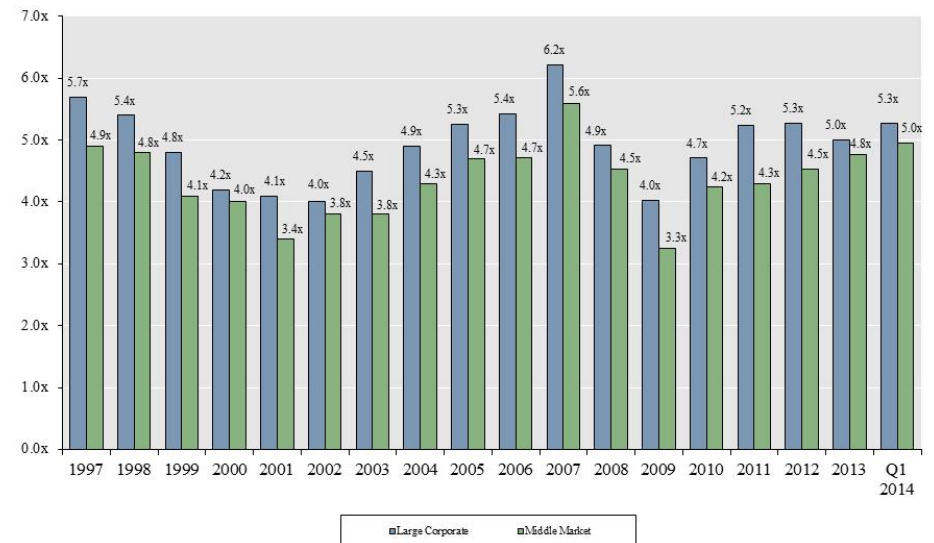
Benefits

- ✓ Attractive yields
- ✓ Conservative capital structures
- ✓ Strong recovery rates
- ✓ Smaller investor groups and active lender involvement
- ✓ Involvement of equity sponsors
- ✓ Issuer diversification

Middle Market Leveraged Loans Outstanding



Average Debt Multiples of LBO Loans



Source: Standard & Poor's LCD High End Middle Market Lending Review Q1 2014.



Notes to the Investor Presentation

Notes to the Investor Presentation

⁽¹⁾ *Income statement data per share excludes the impact of diluted weighted average shares outstanding.*

⁽²⁾ *Includes PIK interest and dividends earned during the period presented.*

⁽³⁾ *As Adjusted: Amounts are adjusted to remove the incentive management fee expense based on Gains, as required by GAAP, and to include only the incremental incentive management fee expense based on Income. The incremental incentive management fee is based on each trailing four-fiscal quarter period, applied to the current quarter's incremental earnings, and without any reduction for incentive management fees paid during the prior three quarters. Amounts reflect the Company's ongoing operating results and reflect the Company's financial performance over time.*

Pre-Incentive Fee: Amounts are adjusted to remove all incentive management fees. Such fees are calculated but not necessarily due and payable at this time.

⁽⁴⁾ *Excludes portfolio company investments below \$5.0 million.*

⁽⁵⁾ *Balance sheet per share data utilizes total shares outstanding at end of period.*

⁽⁶⁾ *Debt adjusted for cash and cash equivalents.*

⁽⁷⁾ *Total investment portfolio excludes cash and cash equivalents.*

⁽⁸⁾ *Borrowings consist of debt, as listed in public filings.*

⁽⁹⁾ *Asset coverage ratio was 255% as of March 31, 2014.*

Note: Schedules may diverge from public financials due to rounding.