PRIVATE COMPANIES AND DEBT
From jobs to the gross domestic product, privately owned companies help drive the American economy. In the United States, nearly 200,000 businesses comprise the middle market, which employs 47.9 million people as of March 2016.¹

However, when these private companies need funds to expand or manage their operations, they may not have access to funding through a public offering, such as the sale of stocks and bonds. In this situation, private companies raise funds by selling equity (ownership) shares in the company or through debt financing in the form of loans and lines of credit.

HOW PRIVATE DEBT FINANCING WORKS
When a private company identifies an opportunity to grow its business, the company may not have the cash or assets on hand to pursue the necessary expansion. In this situation, debt may be the preferred financing option.

To fund the growth opportunity, the company borrows the needed funds by asking a lender for a loan. In exchange for making the loan, the lending institution receives interest payments in addition to the repayment of the contractual loan amount. Both parties have the potential to benefit. If all goes as intended, the company grows its business, while the lending institution receives a contractual return on its investment.

SOURCES OF PRIVATE DEBT FINANCING
Private companies can seek debt financing in the form of loans from:

- Banks
- Specialty Finance Companies
- Insurance Companies
- Hedge Funds
- Credit Platform of Private Equity

THE CAPITAL STRUCTURE AND DEBT
The combination of equity and debt forms a company’s capital structure. The balance of debt versus equity is unique to each company and is determined by the management team’s evaluation of various loan terms and other business factors.

Debt has a priority claim on cash flows and assets. In addition, there are different levels of debt. Senior debt ranks first in repayment priority, while subordinated debt ranks second. Equity comes with the highest return expectations to reflect the higher risk of loss, based on its lower claim priority.

¹ 1Q 2016 Middle Market Indicator, National Center for the Middle Market, 2016.
Neither the U.S. Securities and Exchange Commission, the attorney general of the state of New York nor any other regulatory agency has passed on or endorsed the merits of this offering. Any representation to the contrary is a criminal offense.

Investing in a non-traded business development company (BDC) may be considered speculative and involves a high degree of risk, including the risk of a substantial loss of investment. Other risks include a limited or no operating history, reliance on the advisors of the company, conflicts of interest, payment of substantial fees to the advisors of the company and its affiliates, limited liquidity, and liquidation at less than the original amount invested. This is not intended for short-term investing.

Non-traded BDCs may implement a share repurchase program and, if they do, they are typically limited to the amount of shares, which may be repurchased. The program may be suspended, modified or terminated by the board of trustees at any time.

A non-traded BDC is considered illiquid, which means there is a limited ability to sell shares. If an investor is able to sell their shares, they will likely receive less than their purchase price. The investment strategy of a non-traded BDC is focused primarily on privately held companies, which presents certain challenges, including extending loans to those with potentially low credit quality and a lack of publicly available information. Leverage can increase expenses, add interest rate risk and may magnify performance volatility.

Distributions are not guaranteed in frequency or amount. Distributions paid can exceed earnings and may not be based on the investment performance. Rather, they can be supported by the advisors’ fee waivers, and paid from offering proceeds and/or borrowings along with cash from operations. Distributions paid from sources other than cash from operations are not sustainable over the long-term, and can reduce the funds available to investors and for portfolio acquisitions.

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To learn more, investors should contact their financial advisor. Financial advisors are encouraged to visit **CNLSecurities.com** or contact CNL Securities, member FINRA/SIPC, at **866-650-0650**.

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