On24 operator: [00:15] Good morning ladies and gentlemen. Welcome to the FS Credit Opportunities Corp. fourth quarter 2022 earnings conference call. Please note that this conference is being recorded. At this time, Robert Paun, head of Investor Relations, will proceed with the introduction. Mr. Paun, you may begin.

Robert Paun: [00:34] Thank you. Good morning and welcome to FS Credit Opportunities Corp.'s fourth quarter 2022 earnings conference call. Please note that FS Credit Opportunities Corp. may be referred to as FSCO, the fund or the company throughout the call. Today's conference call is being recorded and an audio replay of the call will be available for 30 days. Replay information is included in a press release that FSCO issued on February 22nd, 2023. In addition, FSCO has posted on its website a presentation containing supplemental financial information with respect to its portfolio and financial performance for the quarter ended December 31st, 2022. A link to today's webcast and the presentation is available on the company's webpage. Please note that this call is the property of FSCO. Any unauthorized rebroadcast of this call in any form is strictly prohibited. Today's conference call includes forward-looking statements with regard to future events, performance or operations of FSCO.

[01:41] These forward-looking statements are subject to the inherent uncertainties in predicting future results and conditions. Certain factors could cause actual results to differ materially from those projected in these forward-looking statements. We ask that you refer to FSCO's most recent filings with the SEC for important factors and risks that could cause actual results or outcomes to differ materially from these statements. FSCO does not undertake to update its forward-looking statements unless required to do so by law. Additionally, information related to past performance, while helpful as an evaluation tool, is not necessarily indicative of future results, the achievement of which cannot be assured. Investors should not view the past performance of FSCO or information about the market as indicative of FSCO's future results.

[02:37] In addition, this call will include certain financial measures that have not been prepared in accordance with generally accepted accounting principles in the U.S. or GAAP. FSCO uses these non-GAAP financial

measures internally in analyzing financial results and believes that the use of these non-GAAP financial measures is useful to investors as an additional tool to evaluate ongoing results and trends. In comparing FSCO's financial results with other closed-end funds for such non-GAAP measures, reconciliations to the most directly comparable GAAP measures can be found in FSCO's Form N-CSR that was filed with the SEC on March 1st, 2023. Non-GAAP information should be considered supplemental in nature and should not be considered in isolation or as a substitute for the related financial information prepared in accordance with GAAP.

03:34 In addition, these non-GAAP financial measures may not be the same as similarly named measures reported by other companies. To obtain copies of the company's latest SEC filings, please visit FSCO's website. Speaking on today's call will be Andrew Beckman, head of Liquid Credit and Special Situations at FS Investments and Portfolio Manager for FSCO. Nick Heilbut, Director of Research for the Liquid Credit and Special Situations team and Portfolio Manager for FSCO. Also joining us on the phone is Jason Zelesnik, Chief Operating Officer of FSCO. I will now turn the call over to Andrew.

Andrew Beckman: 04:16 Thank you Robert, and thank you everyone for joining the call today. We're pleased to host our first earnings call as a publicly traded company. Following the listing of FSCO shares on the New York Stock Exchange in November of last year. The listing was a significant milestone for the fund and our stockholders. Since many participants joining us today are new to our company and our story, we thought it would be helpful to formally introduce the portfolio management team and provide a comprehensive overview of our investment strategy and the differentiated value we believe FSCO brings to market. We will then discuss fourth quarter 2022 results before concluding with some perspective on FSCO's outlook. To begin, FS Credit Opportunities Corp. is an affiliate of FS Investments, a 35-billion-dollar alternative asset manager headquartered in Philadelphia with offices in the U.S. including New York, which is where, we, the FSCO team is located. I joined FS in late 2017 to build out the firm's liquid credit and special situations business and manage FSCO. Today, our team is comprised of 11 investment professionals with deep

expertise investing in syndicated and private credit and structured products.

05:49 There's a high degree of continuity across our team, with many of us, including Nick and I having worked together since our time at Goldman Sachs in the early 2000s. Scott Giardina, our head trader, has been with us since our time at Magnetar and DW Partners dating back to 2012. With an average of 16 years' experience, the team has invested across multiple credit cycles, and we draw upon this expertise to source, analyze, and structure a broad universe of investment opportunities. A large part of the investment team's DNA is investing in stressed and dislocated markets. Therefore, we believe our experience and expertise is well-suited for today's markets. Over the last five years, the team has invested over 7 billion dollars in non-traditional areas of the credit market, and we have methodically repositioned the portfolio to where we think it's best. Today, we have a well-positioned portfolio with a strong focus on senior secured debt and floating rate assets, a low average duration profile, and a dynamic portfolio comprised of public and private credit.

07:11 As we think about FSCO's differentiated value proposition, the fund is one of the largest credit focused closed-end funds in the market. It has an attractive dividend yield, a diversified strategy, that invests in both public and private credit, and the flexibility to invest across the capital structure and in fixed and floating rate assets. I will spend a few minutes expanding on each of these points. First, size and scale matter in credit investing, especially when it comes to maximizing deal flow and achieving economies of scale. We have a fully scaled $2 billion portfolio and can tap into the infrastructure, relationships, and resources of FS Investments. This is important because it allows us to streamline operations, reduce costs, and enhance idea generation. For example, FS Capital Markets, as a capital markets team, that helps source, negotiate, and structure financing facilities across the entire FS Investments platform, representing over $25 billion in financings.

08:27 The Firm's relationships span across both bracket and regional banks as well as insurance companies. Our strong presence in debt and equity capital markets

helps drive down borrowing costs and provide FSCO with a broad range of financing options. Our team can also extract significant economies of scale across the legal, finance, compliance, and operations teams supporting FSCO and the firm's entire platform of '40 ACT funds. While we do not compete for deal flow with the FS Investments BDC franchise from time to time, it may serve as a source of deal flow for credit profiles that do not fit the more traditional BDC private credit mandate. Most importantly, we benefit from the sharing of collective insights on markets and relationships and the idea generation that comes with managing over $20 billion in credit as a firm.

09:34 Turning to the portfolio and the dividend, we have consistently out earn our dividend since taking over management in 2018. We increased the dividend in December of 2022 by approximately 16% based on the health of the portfolio and the positive impact of rising rates. The annualized dividend yield today is 9.21% based on FSCO's current net asset value, which is competitive versus our peers on an absolute basis and a relative basis given our track record of funding the dividend entirely from net investment income. Our ability to invest across public and private markets allows us to adjust allocations across changing economic and credit cycles.

10:27 The flexibility of our strategy and the expertise of our team have driven strong performance versus the loan and high yield bond indices. From January 2018 through December 31st 2022, FSCO outperformed high-yield bonds by approximately 190 basis points per year and loans by 80 basis points per year. I should note that this is net performance for the fund versus gross performance for the indices, which is somewhat an unfair comparison as if one wanted to invest in those underlying indices, they would have to do so through a product that had fees and expenses associated with it. Performance has been strong on an absolute and risk adjusted basis as demonstrated by our higher sharp ratio compared to the liquid credit benchmarks. Those performance metrics can be found in more detail on slide 15 of the presentation.

11:35 Today, the portfolio is defensively positioned with 82% allocated to senior secured credit. We believe being senior in the capital structure will protect stockholder

value, particularly if there is a more material weakening in the economy. The portfolio has a low average duration of just over one year with 63% of the portfolio comprised of floating rate assets. The rapid rise in base rates over the past year has enhanced the portfolio yield and we are seeing the benefit of rising rates pass through to investors. We believe the combination of high current income and low average duration should prove to be an attractive income stream for investors. When you put it all together, we believe we have a portfolio built to drive strong, risk-adjusted returns through changing economic and financial market conditions. We believe our investment strategy is also dynamic and flexible, as we tend to have a differentiated focus than traditional credit funds. We are not constrained by a specific asset class mandate. We can invest across loans, bonds, structured credit, or highly structured equity investments, and across

13:03 fixed and floating rate assets. We look for situations where return premiums exist due to complexity, illiquidity, whereas a result of corporate events these opportunities often require significant expertise and resources to source and analyze to the complexity of company balance sheets, a lack of publicly available information where the illiquidity of the asset.

13:35 In private credit, our focuses on financings to unconventional credit profiles outside of the focus of banks, traditional BDCs and other conventional lenders. Examples include transitional lending, lending to out-of-favor industries and companies and non-sponsored lending. Within public credit, our focus is on event-driven and opportunistic performing credit as opposed to highly liquid credits commonly found in loan funds and high yield funds.

14:10 In our experience, the opportunities in private and public credit tend to ebb and flow and the relative attractiveness can shift around meaningfully. Our goal is to dynamically allocate capital, the most attractive opportunities across the credit and business cycle, and we think this leads to enhanced stockholder returns relative to more confined strategies. The last two years have been a good case study on how our strategy can toggle between public and private markets to drive returns as market conditions change.

14:47 In 2021, the public markets were not overly compelling to us. Spreads were tight, yields were low, and covenants were few and far between in deal documentation. We saw greater relative value in the private markets where we could earn a return premium, control our investment structure and drive returns. 2022, however, was a mirror image of 2021 with widening credit spreads, higher yields and greater dispersion in performance across sectors in the public markets. At the same time, deal flow and private markets slowed alongside a declining M&A activity.

15:35 Public markets have historically repriced faster than private markets, both to the upside and downside, and 2022 followed that trend. As such, we became more constructive on public markets in the second half of 2022 as pricing and terms in the public markets were quick to respond to changing investor sentiment compared to the private markets.

16:03 However, higher yields and wider spreads didn't tell the whole story. There were pockets of dislocation within the broader public credit markets when we looked within sectors and individual capital structures. For example, we saw large price movements in good companies and out of favor sectors, companies in transition and credits subject to negative technicals where we believe ultimate recoveries will still be par and there are strong credit stories.

16:38 Following the rapid rise in rates, we witnessed greater opportunities to buy high quality companies with significant complexity. We saw lower coupons, higher quality tread credits trading in the seventies or eighties. We also saw dislocations in new issue markets with banks looking to syndicate transactions inked earlier in the year at sizable discounts to par to get them off their balance sheet.

17:08 We believe the flexibility of our strategy and ability to leverage the broader expertise and infrastructure of FS Investments provides us with a competitive advantage in today's market. I'll now turn the call over to Nick to provide thoughts on the markets and discuss our results for the fourth quarter. Nick.

Nick Heilbut: 17:29 Thank you, Andrew. Market volatility moderated during the fourth quarter of 2022, driven by improved investor

sentiment, better than expected economic data, a continued decline in headline inflation and hopes for a soft landing. The yield curve remained deeply inverted as two-year treasury yields rose 22 basis points while the 10-year treasury yield was relatively flat, as the market began to digest slower economic growth ahead.

17:57 The Bloomberg Agg returned 1.9% during the quarter, while high yield bonds returned 4% and senior secured loans returned 2.7%. On the year, high yield bonds were down over 11% while loans were down just 60 basis points, benefiting from their floating rate coupons. Performance by credit ratings clearly reflected investors' defensive bias with higher rated credits outperforming versus their peers. Double B and single-B-rated bonds both returned negative 10.6% during 2022 compared to negative 16.3% for triple C bonds. This divergence was even sharper in the loan market. As double-B loans were up 3%. Single-B loans were down 1.1% and triple-C loans were down 12% during the year.

18:52 Despite headline level declines in 2022, solid credit fundamentals and a benign default environment kept spreads relatively well contained. High yield spreads peaked at 605 basis points in July before retracing to end the year at 491 basis points. Loan spreads drifted wider over the back half of the year as investor concerns about rising rates shifted to concerns about the economic outlook ending December at 624 basis points. High yield and loan revenue and EBITDA saw a double-digit year-over-year growth. However, recent quarterly data suggests the momentum of fundamental improvement may be slowing. Leverage declined for the sixth consecutive quarter and interest coverage statistics improved once again.

19:45 We continue to monitor these levels, particularly in the loan market, which is relatively more exposed to rising interest rates. To date, EBITDA gains have outpaced the higher debt service costs, but this could change given the possibility for slowing economic growth and persistent high rates. We are beginning to see sector level dispersion with 53% of loan sectors and 68% of high yield experiencing margin erosion. Default rates for bonds and loans ended 2022 modestly higher than where they began the year. Despite these increases,

defaults remain well below the long-term averages of roughly 3% in each market. While we acknowledge defaults are likely to increase in the coming year, the companies are well capitalized and only 8.1% of the bond and loan markets mature in the next two years.

20:38 As a business, we prefer an up quality approach to credit, which favors defensive businesses or instruments with low loans to value. Turning to FSCO'S performance during the quarter, the fund generated net investment income of 16 cents per share, driven by the positive impact of rising interest rates and the continued strong performance of our portfolio. Consistent with our dividend policy of delivering a fully defunded annualized dividend, the funds' net investment income exceeded the dividends of approximately 13 cent per share paid during the quarter.

21:14 The value of our investment portfolio declined primarily due to spread widening and multiple contraction. As a result, the fund's net asset value declined 4.3% quarter over quarter. However, year to date, the fund's net asset value has appreciated alongside broader strengths in the credit market and net sum. Given the current market dynamics, we prefer senior debt investments with strong documents and attractive discounts and tend to avoid companies that were recent LBOs because they're often subject to lender versus lender battles for control and tend to be underwritten to aggressive terms.

21:53 Despite the uncertain macro environment, we believe we are invested in companies that can weather the storm and have medium to long term fundamentals that remain strong. Our sector allocations are informed by our bottom-up fundamental research, and we tend to avoid highly cyclical areas of the economy. We are also invested in credit instruments with reasonably low loan-to-value ratios to ensure ultimate repayment of the obligations even if the environment continues to deteriorate.

22:22 We've built the portfolio around these attributes, so we feel good about the makeup of the portfolio as well as the opportunity set. Turning to the liability side of our balance sheet, we believe our cost structure gives us a competitive edge with 50% of our capital structure

comprised of preferred debt financing. That's important because the preferred debt financings are multi-year and there's no year term maturity involved. Approximately 52% of drawn leverage is fixed rate preferred debt and provides flexibility in the types of assets we can borrow against.

[22:57] Finally, the preferred financings provide favorable regulatory treatment versus traditional term and revolving debt facilities. I'll now turn the call back to Andrew to discuss our forward outlook. Andrew.

Andrew Beckman: [23:10] Thanks, Nick. Before we conclude our prepared remarks and open it up to questions, let me provide our views on the stock performance and our forward outlook. As we previously communicated, we listed FSCO's common shares on the NYSE on November 4th 2022, through a direct listing, subject to a phased approach to liquidity. Under this approach, one-third of common shares held by all stockholders were available for trading on the listing date. An additional one-third of shares became available for trading 90 days post-listing on February 13th, and the final one-third of shares will be available for trading on May 15th 2023. Our goal in implementing the phased approach was to address the lessons from prior direct listings and help ease the downward pressure on FSCO'S market share price by gradually increasing the supply of shares available for trading in the market. There's typically a pattern of heavy selling immediately following a listing shown by the gray bars on slide 13. The selling is often indiscriminate regardless of underlying fund performance or valuations in the broader close-end fund and BDC markets.

[24:37] As you can also see, volumes tend to settle into a lower range over time. Selling pressures subside and share prices have generally trended higher as a result. We believe the discount at which the stock is trading compared to the net asset value reflects these technical dynamics as not indicative of the health of the portfolio, where the forward return potential of our dividend credit strategy. We will continue to be highly proactive in our efforts to broaden the investor base for FSCO's shares in the public markets with sell-side research analysts, mutual funds, private wealth managers, and other private credit and closed-end-fund-focused managers.

	25:26	Again, we'd like to thank you all for joining us today. Given the defensive oriented positioning of the portfolio, low average duration, healthy dividend, diversified capital structure, and the flexibility of our strategy, we believe FSCO is a compelling long-term investment opportunity while near-term technical selling pressure at listing has created an attractive near-term entry point for investors. Thank you.
Robert Paun:	26:02	Great. Thank you, Andrew and Nick. We'll now open the call for questions here, and as a reminder, you can use the Q&A function to type in any questions and we'll try and address as many questions as possible on today's call.
	26:21	Our first question from the audience is about the opportunity set in the market today. Where do you see the most attractive opportunities from a risk reward profile?
Andrew Beckman:	26:33	Sure. It's changing every day and month, given how volatile markets are. But, right now, we see the best opportunities in non-sponsored transitional private loans. That part of the market has widened significantly and leveraged levels on deals have come down.
	26:54	Additionally, you can get very strong covenants and great structural protections. You can also get SOFR floors, so you have upside to rising rates, and are protected against declining rates. And you can get call protection to lock it in. Some of the private loans we're working on now have SOFR floors as high as 300 or 350 basis points. So, you know it's a win-win.
	27:24	Why do we think that's one of the best areas? High yield, which is an area of the market we were focused on in Q3 last year, has had a bid to it because investors are looking for duration. They're looking to lock in these higher rates into their credit instruments. And if you look at high yield bonds right now that have loans in the same capital structure, high-yield bonds are almost always tight to loans because investors are actually looking for duration in credit.
	27:59	And then when you look at syndicated loans, right now the deals that were done over the past couple of years and still the deals coming to market have really bad covenants, and leverage levels on these syndicated

deals are high. It's generally a sponsor driven activity, and we're seeing leverage levels that are six times on heavily adjusted EBITDA and on real EBITDA, well north of that. So, we don't think on the average syndicated loan you're getting paid for the weak covenants and the high levels of leverage.

28:35 There are pockets of opportunities though in the syndicated loan market. One example would be certain triple-C loans that have no home. Loan buyers are broadly CLOs, and CLOs don't want to fill their triple-C baskets given where we are in the cycle. So, single-B credits that get downgraded to triple-C can go down 15-20 points just on the downgrade. Some of those downgrades are justified, but a lot of them aren't. So, this is one area of the market where we think you're getting paid quite well for potentially stepping into a credit that might have kind of the weaker covenant that I mentioned.

Robert Paun: 29:21 Great. Thank you. And a follow-up to that question would be, are there any areas of the market that you're staying away from? Any sectors, industries that you don't see opportunities that are compelling to you in today's environment?

Andrew Beckman: 29:38 I don't think we have a rule where there's just something from a broad-based perspective that we're crossing off the list. But we are being careful because of where we are in an economic cycle. We're generally staying away from cyclical industries. We're staying away from industries that might be really hurt from the rise in interest rates that we've seen. And then we're generally avoiding syndicated, on-the-run sponsor loans because the covenants are really horrific.

Robert Paun: 30:16 Great. And the next question is concerning credit quality. Can you talk about the credit quality of the fund today? And if we do go into a recession later in the year or possibly next year, are you comfortable with how your portfolio is positioned?

Andrew Beckman: 30:34 Sure. There's two ways to look at credit quality. One is a more qualitative way from reviewing our portfolio and looking at the underlying businesses that we're invested in and how they're performing the leverage levels and the level of cyclicality, should we enter a weaker economy. The other is just to kind of look at

ratings. Ratings are not a great proxy for our portfolio because a lot of our portfolio is unrated.

31:09 So, if you do look at ratings, about 20% of the portfolio is triple-C and the rest of the portfolio is single-B or higher or unrated. So, then the question really comes down to, what is in that unrated bucket, and we think that unrated bucket represents high-quality loans. So, when you dig into that, you see the vast majority of that bucket are senior secured loans or bonds, usually dollar one in companies that are generally defensive or well positioned for the environment we're in.

31:55 So from a qualitative perspective, we think the portfolio is very high quality and is positioned for a potential negative macroeconomic environment.

Robert Paun: 32:11 Great. The next few questions relate to interest rates. How has the move higher in rates impacted your portfolio and how does it impact the opportunity set going forward?

Andrew Beckman: 32:26 Sure. So, the move higher in interest rates has affected our portfolio in a very positive way. Today, 63% of the portfolio is floating rate, so we're seeing that flow through there. A decent amount of our liability structure is fixed rate and was locked in at much lower levels. So, the benefit both on an unlevered basis as well as a levered basis has been positive. If you look at the run rate income of the fund right now, it is pretty significant and should interest rates hold, there's some nice upside to income relative to our dividend level.

Robert Paun: 33:22 Great. And how does the higher rate environment impact your portfolio companies, specifically in the private vehicles or private companies and their ability to continue to service their debt?

Andrew Beckman: 33:38 Sure. Something we're very focused on. Rising interest rates for companies that have floating rate obligations obviously means higher interest expenses and potentially lower coverage levels. It's something we're monitoring across the portfolio.

33:57 I would say one thing that's good about our generic investment is if you look at the types of businesses we're invested in, we're generally invested in businesses where leverage levels are not as high as that

average new issue loan. So, we tend to invest, particularly on the private side, in situations that are off-the-run, niche-y, or more complex, and we're getting paid a premium not because we're going deeper or we're high leverage, but we're getting paid a premium because of that level of complexity.

34:40 So if you look at traditional sponsor finance, let's say in prior years, and you said that leverage levels on the average deal might be six and a half times debt to EBITDA, leverage levels on our transactions might have averaged four and a half. Because again, the level of complexity is allowing us to advance less capital. So what that means is rising interest rates, because we're slightly lowered levered than your typical syndicated transactions or traditional sponsored finance, there's a little bit less pressure on our companies.

Robert Paun: 35:25 And then the last question on rates. How do the increase in rates impact deal flow and M&A activity?

Andrew Beckman: 35:37 So I think generic M&A activity has definitely slowed down because of rising rates and higher cost to capital across the board makes it a bit harder to justify the return on equity for acquisitions, either by sponsors or companies. That will adjust over time because valuations should ultimately adjust. But that process definitely takes some time and that manifested itself in slower M&A activity. We think that that will adjust. We are starting to see a little bit of a pickup this year relative to Q4 last year.

36:25 But I think the important thing to point out is our type of investments, particularly on the private side, does not tend to be that tied to leverage buy-out activity or M&A activity. It tends to be much more transitional financing companies that have temporary capital needs. So, for us, we're not actually seeing deal flow affected by slower M&A activity as of yet.

Robert Paun: 37:05 Great. That's helpful. We talked a lot about rates. In terms of other kind of pressures, how do you see portfolio companies and management teams adjusting to higher input costs, tight labor markets? Are you starting to see some margin pressure from some of your companies?

Nick Heilbut:	37:30	It's definitely company specific. Clearly the concerns are a big focus for management teams, and in some instances, that's creating additional opportunity for us. For example, the healthcare industry, an industry we know exceptionally well and have a lot of expertise between the various members of our team. We believe there's a positive longer-term outlook, but labor has been very difficult to secure post COVID. That's had a negative impact on margin, which has actually created a need for capital and some attractive opportunities for us. So, we're quite focused on this as a business, as are the companies that we're looking at and view it as a positive for us.
Robert Paun:	38:23	Okay. And then the next question is on leverage. How do you think about the use of leverage in this environment? Do you have a target range in terms of leverage for this vehicle and this part of the cycle?
Andrew Beckman:	38:37	Sure. Well, I think right now the leverage levels that the fund is running at are leverage levels that we view appropriate for where we are in the cycle. So, I point people to slide 11 in the deck that lays out our financing. Our financing is a mix of both debt and preferred stock. We think the preferred stock is a unique attribute for our business because it's generally longer-term covey light financing. That just creates a lot of flexibility. I'm sure investors are aware of what happened in the markets during the early stages of COVID where there were pretty violent moves in asset prices that caused a lot of credit funds to be for sellers to not trip covenants in their various facilities. The preferred is super covey light and allows us to have just a tremendous amount of cushion in periods of volatility. So, the structure of our leverage is important. Current leverage levels are approximately $280 million of debt, $400 million of preferred we view as very appropriate creates a debt to equity X the preferred of 0.23 times a debt to equity including the preferred of .55 times. Or if you look at it on a loan to value perspective, we're running about 35% debt to value of the portfolio. And we think that's a good level to guide people to for this year.
Robert Paun:	40:42	Okay. And then the next question is around the distribution. You talked a lot about the earnings power of the vehicle covering the dividend. Are you

comfortable with the current distribution and given the earnings power of the fund in today's environment?

Andrew Beckman: 41:03

Yes. I mean, we're certainly comfortable with the distribution in terms of it being very well covered. It is something we need to keep our eye on in the interest rate environment that we have today. We are fairly significantly out earning our distribution on a run rate basis. Obviously, the interest outlook is moving around rapidly. Even in the past four weeks, we've seen a fairly big move to kind of the outlook and what's projected in terms of both increases in the near term and then cuts on the back end. So, our goal in the near term is to monitor that environment and then reevaluate our dividend policy. But someone could easily do the math. Right now, we're out earning on a run rate basis our distribution by a couple hundred basis points.

Robert Paun: 42:10

Okay. And then the next question, would you anticipate increasing exposure outside of the U.S. into international?

Nick Heilbut: 42:21

We evaluate markets where we have expertise. There are a handful of jurisdictions outside of the U.S. that we know very well. Although it's a small handful, there's nothing that would obviously draw us to those markets at the moment. But if there are attractive opportunities that present themselves in the U.K. or Canada or similar geographic areas, we would consider them on a individual basis.

Robert Paun: 42:54

Great. And then another question around the valuation process. Can you talk about the process and your confidence in the net asset value of the fund? And then just follow up, how often are privates in your portfolio marked?

Andrew Beckman: 43:12

Sure. So, from a valuation process perspective, our portfolio is marked daily. The liquid or syndicated portion of our portfolio is market to market based on trading levels and readily available transparent price levels. Our privates on an intra month basis would be marked internally if we believe there has been an event or change in market conditions that warrants changing the prior month's price. So, privates on a day-to-day basis are internal. And then on a month-to-month basis, all of our privates are marked by a third party valuation firm. So every month, in each one of our private

positions we're getting a mark from an external valuation firm that basically kind of runs through all of the information available as well as changes in market conditions to kind of update those prices.

Robert Paun: 44:32 Great. And then we have another question on the economic environment. If and when we do go into recession, do you plan on making any change to portfolio allocation?

Nick Heilbut: 44:45 So we're constantly monitoring the relative value in the different kinds of instruments that we invest in, public and private being one area that I would certainly highlight in the context of a changing economic environment. Sometimes market selloffs can coincide with changes in economic environment and that can create nearer term opportunities in the secondary market as price dislocations tend to show up there earlier than they do in privately negotiated transactions where borrowers are typically a little bit more patient and take a wait and see attitude about what the new cost of capital for their business certainly is. So if we see a material sell-off, that will probably at the margin increase our focus on opportunities in the secondary market over time. Our experience suggests that things will rebalance, and we'll just put marginal dollars to work where the best bottoms up opportunity is.

Robert Paun: 45:57 Okay. And then the next question, are you seeing increased prepayments from portfolio companies due to the rising rate environment? Generally speaking, what protections are built into loan terms for prepayment risk?

Andrew Beckman: 46:12 So I would say if anything, it's usually the opposite. When you're in environments like this with rising rates as well as just volatile markets, you see less pre-payment. And that's really because credit spreads are generally kind of wider than where they were over the past several years. So, reduce prepayments in general. And then the second part of that question, most of our investments have a level of call protection associated with them when the investment is made. So, our private transactions all have some call protection where they're on call for a period of time or there's a call price that needs to be paid. Clearly, the longer you're an investment that may run off, but we don't see it as a risk

in this environment given the trends I previously mentioned.

Robert Paun: 47:23 Thank you all for your questions today. I believe we've answered most, if not all of them, and this concludes the Q&A session of today's call. I'll now turn it back to Andrew for some closing remarks.

Andrew Beckman: 47:39 Thank you everyone for joining us on our first call. We look forward to continuing dialogue with everyone and look forward to our next quarterly call and talking again then.

On24 operator: 47:57 Thank you. This concludes today's conference call and webinar. Thank you for your participation. You may now disconnect.