FS INVESTMENTS®

Monthly commentary
April 2023

FS Credit Income Fund

Class I: FCRIX

Performance insights

The fund returned 1.20% in April, outpacing both the liquid high yield Index (0.93%) and the liquid loan index (1.00%). Each of the fund's categories contributed to performance in April.

- **Event-driven led performance:** One of the largest individual contributors was a Canadian pharmaceutical company that was recently upgraded after the company repurchased bonds at a discount in the open market.
- **Non-rated category contributed:** The non-rated category modestly contributed to performance. First lien loans backed by a European chemicals company and an American apparel firm were the largest contributors. An unsecured bond from a U.S.-based communications firm whose revenue forecasts have come under pressure was the largest detractor.
- **Structured credit contributed:** Driven by the broad strength within the U.S. and European senior secured loan market in April combined with no material detractors, the fund's allocation to collateralized loan obligation (CLO) debt was among the larger contributors in April.
- **Non-U.S. positions contributed**: Non-U.S. positions were mild contributors. Select British and European banking bonds were the largest contributors while an emerging market sovereign debt position was the largest detractor amid continued economic weakness and hyperinflation.

Distribution increase[1]

The distribution increased across all share classes effective with the quarterly distribution paid on April 3, 2023. The increase was driven by the higher interest rate environment and the fund's continued strong fundamental performance. The new annualized distribution rates shown below are based on the respective NAV of each share class as of April 30, 2023.

- Class I: 7.43%
- Class A: 7.23%
- Class T: 6.95 %
- Class U: 6.73%
- Class U-2: 6.96%

Positioning

- **Identifying opportunities in high-quality positions:** We believe today's elevated yields across credit markets have improved the risk/reward outlook and have invested in select high-quality positions that offer low to mid-teens return potential with strong asset coverage. GoldenTree has also used recent volatility to increase exposure to existing positions at attractive spreads.
- **Focusing on fundamental research:** We remain focused on fundamental research to identify companies that can withstand a volatile rate environment and weaker economic growth. We seek companies with sound balance sheets, high free cash flow, strong asset coverage and a distinguishable event or catalyst to drive capital appreciation.
- **Preference of high yield bonds over leveraged loans:** The fund remains overweight bonds versus floating rate loans. The leveraged loan market is lower in quality (~57% of the loan index is rated B or lower), contains the highest degree of loan-only issuers on record (58% of the loan index is loan-only) and would be subject to increasing debt costs should rates rise again. We have selectively invested in the loan market where GoldenTree's fundamental analysis identifies attractive investments with strong asset coverage.
- **Mindful of higher interest rates**: We remain mindful of the potential impact of high rates on more duration-sensitive capital structures and the ability of each company to service their debt. The portfolio is nearly equally weighted between floating and fixed rate assets and each position has an identifiable catalyst we believe will unlock further value.
- **Keeping ample liquidity to capitalize on volatility**: The fund has strong liquidity and borrowing capacity and is well-positioned to capitalize on ongoing market volatility. GoldenTree's investment process is flexible and opportunistic, designed to take advantage of market dislocations and selling pressure across traditional daily liquid funds. We continue to add positions at attractive prices and have not been forced to sell assets thanks to our interval structure.
- **Allocating to structured products for floating-rate income and return premium:** The fund maintains exposure to structured credit investments with a focus on floating-rate CLO debt securities. Recent volatility has allowed us to migrate the portfolio into higher quality, A/AA rated tranches, while increasing or maintaining our return outlook. We have selectively added residential mortgage-backed investments (RMBS) as valuations have become more attractive.

Performance (total returns at NAV)

As of 4/30/2023

	Annualized distribution rate[1]	MTD	QTD	YTD	1 year	3 year	5 year	Since inception
FCRIX (Class I; inception 11/1/2017)	7.43%	1.20%	1.20%	4.17%	1.01%	9.28%	4.61%	4.90%
Morningstar LSTA U.S. Leveraged Loan Index		1.00%	1.00%	4.26%	3.26%	7.37%	3.76%	3.86%
ICE BofAML U.S. High Yield Index		0.93%	0.93%	4.68%	0.51%	5.12%	3.11%	2.78%

The Fund is a closed-end interval fund.

*The net expense ratio and net expense ratio excluding estimated interest expense associated with expected use of leverage for Class I are 2.94% and 1.85%, respectively.**

Performance data quoted represents past performance and is no guarantee of future results. Class I shares have no sales charges; therefore, performance is at NAV. Returns less than one year are cumulative; all others are annualized. YTD information is provided on a calendar-year basis. Total return figures reflect changes in share price and reinvestment of dividend and capital gain distributions. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost, and current performance may be lower or higher than the performance quoted. For performance data current to the most recent month-end, please call 877-628-8575, or visit our website at www.fsinvestments.com. Not all investors can invest in the Fund's Class I share class; different share classes would have different returns.

*Calculated as an estimated percentage of average net assets attributable to shares. The Fund's actual expenses may be different than the estimates above. The calculation also takes into account the fee waiver and/or expense reimbursement during such time period. FS Credit Income Advisor, LLC, the Fund's investment adviser, has entered into an expense limitation agreement with the Fund under which it has agreed to pay or waive the "ordinary operating expenses" (exclusive of (1) investment advisory fees, (2) portfolio transaction and other investment-related costs, (3) interest expense and other financing costs, (4) taxes, (5) distribution or shareholder servicing fees and (6) extraordinary expenses) of the Fund attributable to a share class to the extent that such expenses exceed 0.25% per annum of the Fund's average daily net assets attributable to the applicable share class thereafter. The expense limitation agreement will continue indefinitely until terminated by the Fund's board of trustees on written notice to FS Credit Income Advisor. The expense limitation agreement permits the adviser to recoup the amounts it has paid or waived pursuant to the agreement in the future, subject to certain limitations. For full details on FS Credit Income Fund's fees and expenses, please review the Fund's prospectus.

Diversification does not ensure a profit or guarantee against a loss.

Outlook

- Continued idiosyncratic risks (regional bank pressures and a growing focus on the U.S. debt ceiling) combined with still-tight monetary policy amid slowly decelerating inflation highlight the importance of active, flexible managers who can lean on processes to mitigate risk factors while capitalizing on credit events.
- Diverging performance between high yield bond and senior secured loan markets, as well as rotating outperformance between higher and lower quality assets this year, highlight the need for opportunistic managers with flexible mandates who can invest across a broad universe of credit markets.
- Elevated yields offer a buffer for potential volatility and spread widening. With current yields in high yield and loans at 8.7% and 9.1%, respectively, both markets could withstand approximately 200 basis points (bps) or more of widening and still provide positive total returns.
- While corporate balance sheets remain generally strong, idiosyncratic dislocations may provide differentiated sources of return. These investments may include restructurings, mergers and acquisitions (M&A) or investments in securities trading below fair value due to complexity, a supply/demand imbalance or market weakness.
- Floating rate assets comprise approximately 49% of the portfolio. Additionally, high yield bonds have historically had little duration sensitivity, responding more to economic and credit fundamentals that continue to be supportive. We believe the fund is well-positioned should long-term interest rates rise.
- Interval fund structure provides the ability to: (1) access a much broader and more diverse universe across liquid and semi-liquid credit opportunities relative to traditional vehicles; (2) take a long-term approach to investing in the debt of companies where the occurrence of an event (e.g., merger, acquisition, debt maturity) may serve as a catalyst to generate capital appreciation and (3) take advantage of potential buying opportunities in periods of market dislocations.
- We believe credit continues to be more attractively priced relative to U.S. equities, given high yield and loan spreads are trading in their 46th and 30th percentile, respectively, while the S&P 500 remains more expensive than its long-term average at its 84th percentile. With the potential for declining growth and earnings compression, we see an opportunity for investors to shift their focus from multiple expansion to sourcing streams of current income in fairly valued credit assets.

Market commentary

- Following an extraordinarily volatile March, the Merrill Lynch Option Volatility Estimate (MOVE) Index declined throughout the month while 2-year and 10-year Treasury yields were generally flat to lower in April. Credit markets turned higher amid the more settled macro environment. Senior secured loans returned 1.05% while high yield bonds returned 0.93%.
- A solid macro backdrop favored lower-rated credit in April, continuing a theme that has been present for much of the year excluding the risk-off move in March. CCC loans returned 1.48% compared to 0.86% and 1.15% for BB and B loans, respectively. The delta was wider among bonds as CCC bonds returned 1.93% and BB bonds returned 0.67%. Year to date through April, CCC bonds are outperforming BB bonds by 322 bps and CCC loans are outperforming BB loans by 197 bps.
- Treasury yields bounced around in April, driven by conflicting signals on economic growth. The 2-year Treasury yield ultimately finished the month flat compared to March, at 4.06% while the 10-year Treasury yields finished April 4 bps lower. Against this backdrop, the Bloomberg Agg returned 0.61%. The 10-2-year Treasury curve inversion also remained relatively unchanged on the month, at approximately -60 bps.
- High yield issuance picked up significantly in April as the market reopened after having effectively closed for much of March. High yield issuance totaled $18.8 billion compared to just $5.6 billion a month earlier. Loan issuance picked up in late April and totaled $19.0 billion over the month, up slightly versus the $17.4 billion of loans issued in March.
- High yield bond funds saw inflows of nearly $7.7 billion in April, which marked their first monthly inflow this year as retail demand recovered. On the other hand, demand for loan funds remained weak as rates remained lower throughout April. The loan asset class has experienced outflows in 35 of the past 36 weeks, totaling more than -$26.8 billion in outflows over that period.
- Default activity accelerated in April, with four defaults and two distressed exchanges. High yield bonds' trailing 12-month default rate including distressed exchanges, rose 27 bps month over month in April to 2.18% while senior secured loans rose 51 bps to 2.74%. While the default rate rose for both markets, they remained below the long-term average of 3.2% and 3.1% for high yield bonds and senior secured loans, respectively.

Fund overview

FS Credit Income Fund is an alternative credit strategy that seeks to provide attractive total returns, including an attractive level of current income and capital appreciation, by investing in semi-liquid and event-driven credit.

Sub-adviser: GoldenTree Asset Management

GoldenTree is an employee-owned, global asset management firm that specializes in opportunities across the credit universe. Founded in 2000, GoldenTree is one of the world's largest independent asset managers focused on global credit.

Strategy

The fund's semi-liquid and event-driven credit strategy:

- Accesses assets that are outside the scope of traditional liquid strategies and credit market indexes
- Provides a high degree of flexibility to adjust asset and strategy allocations across economic cycles, including changing interest rate environments, compared to fully illiquid direct lending strategies

1. The annualized distribution rate shown is expressed as a percentage equal to the projected annualized distribution amount per share (which is calculated by annualizing the most recent quarterly cash distribution per share declared as of the date indicated, without compounding), divided by the Fund's NAV per share as of the date indicated, in each case on a per-class basis. The Fund intends to pay ordinary cash distributions quarterly. The payment of future distributions on FS Credit Income Fund's common shares is subject to the discretion of FS Credit Income Fund's board of trustees and applicable legal restrictions and, therefore, there can be no assurance as to the amount or timing of any such future distributions. The determination of the tax attributes of FS Credit Income Fund's distributions is made annually at the end of the calendar year, and a determination made on an interim basis may not be representative of the actual tax attributes of FS Credit Income Fund's distributions for a full year. The actual tax characteristics of distributions to shareholders are reported to shareholders annually on Form 1099-DIV. The Fund may pay distributions in significant part from sources that may not be available in the future and that are unrelated to the Fund's performance, such as return of capital, borrowings or expense reimbursements and waivers. For the 12 months ended March 31, 2023, 100% of FS Credit Income Fund's distributions were funded through ordinary income.

   Class I shares are not subject to a distribution fee.

   Closed-end interval funds may charge additional fees. Percentages and other numbers in this fact sheet may have been rounded.

GLOSSARY OF TERMS

Basis points refers to a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100 of 1%, or 0.01%, or 0.0001, and is used to denote the percentage change in a financial instrument. A **collateralized loan obligation (CLO)** is a single security backed by a pool of debt. **Floating rate** is an interest rate that fluctuates with the rest of the market or along with an index.

INDEX DEFINITIONS

Bloomberg U.S. Aggregate Bond Index is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. **Merrill Lynch Option Volatility Estimate (MOVE) Index** is an index that calculates the future volatility in U.S. Treasury yields implied by current prices of options on Treasuries of various maturities. **Morningstar LSTA U.S. Leveraged Loan Index (liquid loan index)** is a market value-weighted index designed to measure the performance of the U.S. leveraged loan market. **ICE BofAML U.S. High Yield Index (liquid high yield index)** is designed to track the performance of U.S. dollar-denominated below investment grade corporate debt publicly issued in the U.S. domestic market. **S&P 500 (Standard & Poor's 500 Index)** is a market capitalization-weighted index of the 500 largest U.S. publicly traded companies by market value.

An investment in FS Credit Income Fund (the "Fund") involves a high degree of risk and may be considered speculative. Investors are advised to consider the investment objectives, risks, and charges and expenses of the Fund carefully before investing. The Fund's prospectus contains this and other information about the Fund. Investors may obtain a copy of the Fund's prospectus free of charge at www.fsinvestments.com or by contacting FS Investments at 201 Rouse Blvd., Philadelphia, PA 19112, or by phone at 877-628-8575. Investors should read and carefully consider all information found in the Fund's prospectus and other reports filed with the U.S. Securities and Exchange Commission before investing.

Securities offered through ALPS Distributors, Inc. (1290 Broadway, Suite 1000, Denver, CO 80203, member FINRA), the distributor of FS Credit Income Fund. FS Investment Solutions, LLC is an affiliated broker-dealer that serves as the exclusive wholesale marketing agent for FS Credit Income Fund. FS Investment Solutions, LLC and ALPS Distributors, Inc. are not affiliated.

The Fund is "non-diversified" under the Investment Company Act of 1940 since changes in the financial condition or market value of a single issuer may cause a greater fluctuation in the Fund's net asset value than in a "diversified" fund.

Investing in the Fund involves risk, including the risk that a shareholder may receive little or no return on their investment or that a shareholder may lose part or all of their investment. The Fund expects most of its investments to be in securities that are rated below investment grade or would be rated below investment grade if they were rated. Below investment grade instruments are particularly susceptible to economic downturns compared to higher rated investments. The Fund is subject to interest rate risk and will decline in value as interest rates rise. The Fund may use leverage to achieve its investment objective, which involves risks, including the likelihood of NAV volatility and the risk that fluctuations in interest rates on borrowings will reduce the return to investors. In addition to the normal risks associated with investing, investing in international and emerging markets involves risk of capital loss from unfavorable fluctuations in currency values, differences in generally accepted accounting principles or from social, economic or political instability in other nations. The Fund may invest in derivatives, which, depending on market conditions and the type of derivative, are more volatile than other investments and will magnify the Fund's gains or losses. The Fund may invest in collateralized loan obligations ("CLOs") and other securitized products, which is highly complex and speculative. An investment in shares should be considered only by investors who can assess and bear the illiquidity and other risks associated with such an investment.

No secondary market is expected to develop for the Fund's common shares; liquidity for the common shares will be provided only through quarterly repurchase offers for no less than 5% and no more than 25% of the common shares at net asset value, and there is no guarantee that an investor will be able to sell all the common shares that the investor desires to sell in the repurchase offer. Due to these restrictions, an investor should consider an investment in the Fund to be of limited liquidity.