FS INVESTMENTS®

Monthly commentary
August 2024

FS Credit Income Fund

Class I: FCRIX

Performance insights

The fund returned 1.03% in August, compared to 0.63% for the Morningstar LSTA U.S. Leveraged Loan Index and 1.59% for the ICE BofAML High Yield Index. All of the fund's primary asset classes—bonds, loans and structured credit—contributed to performance in August.

Year to date, the fund has generated an attractive return of 7.86%, significantly outperforming both the broader high yield bond and loan indexes and remains on pace to deliver its second consecutive year of double-digit returns. This outperformance is noteworthy given the fund's higher quality bias.

- **High yield bonds were by far the largest contributor:** The fund's high yield bond allocation was the largest contributor to August returns, driven primarily by strong security selection. Contributors within this allocation were broad-based, though select technology and cable satellite firms were among the notable monthly contributors.
- **Loans contributed:** The fund's loan investments outperformed the loan index in August, driven by our deliberate exposure to select higher quality issuers that are less vulnerable to moderating growth and elevated rates.
- **Structured credit contributed positively:** Within structured credit, the fund's collateralized loan obligation (CLO) investments continued to drive performance as the fund is focused on shorter duration A and BBB tranches that are structurally deleveraging, driving a pull to par.

Positioning

- **Identifying opportunities in high-quality high yielding positions:** While spreads have tightened year to date, we believe the investment backdrop remains supportive for credit performance. We remain focused on identifying companies with strong fundamentals and a catalyst to unlock value. The fund's average rating is significantly higher compared to the high yield bond and senior secured loan indexes with 30% invested in investment grade–rated assets and approximately just 5% exposure to CCC-rated assets. Elevated yields continue to provide opportunities to generate strong returns by investing in what we believe are high quality companies with strong asset coverage.
- **Prefer high yield bonds and structured credit over leveraged loans:** While we have selectively invested in loans with strong asset coverage, the fund remains overweight bonds (51% of portfolio) and structured credit (25% of the portfolio) versus floating rate loans (22% of portfolio). The leveraged loan market is lower in quality (~58% of the loan index is rated B or lower), contains the highest degree of loan-only issuers on record (57% of the loan index is loan only) and would be subject to heightened volatility if economic growth materially slows. Further, we believe high yield bonds feature a more attractive duration profile amid today's rate environment with significantly more convexity than loans, which currently trade closer to par.
- **Keeping ample liquidity in an effort to capitalize on periods of volatility**: The fund has maintained ample liquidity and borrowing capacity to capitalize on periods of market volatility as they arise. GoldenTree's investment process, which continuously assesses relative value opportunities in the market, is especially valuable during periods of fast-moving market dislocations when daily liquid funds and other managers may be forced to sell assets to meet investor redemptions.
- **Allocating to shorter-duration structured products for floating-rate income and return premium:** The fund maintained its exposure to shorter-duration structured product investments (24% of portfolio) with about an even mix between U.S. and European floating-rate CLO debt securities. Periods of volatility have allowed us to migrate the portfolio into higher quality, A and BBB-rated tranches, while increasing or maintaining our return target.

Performance (total returns at NAV; as of 8/31/2024)

	Annualized distribution rate[1]	MTD	QTD	YTD	1- year	3-year	5-year	Since inception
FCRIX (Class I; inception 11/1/2017)	8.47%	1.03%	2.15%	7.86%	13.71%	4.73%	6.29%	6.50%
Morningstar LSTA U.S. Leveraged Loan Index		0.63%	1.32%	5.78%	9.86%	6.44%	5.69%	5.22%
ICE BofAML U.S. High Yield Index		1.59%	3.58%	6.29%	12.48%	2.54%	4.27%	4.37%

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 3.05% 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

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

Outlook

Credit yields remain competitive vs. history

- Credit yields have declined in recent months in sympathy with Treasury yields yet continue to be attractive on a historical basis. High yield bond and loan yields are currently in their 73rd and 14th percentile, respectively.[2]
- Given continued macro uncertainty, the potential for slowing growth and earnings compression in the remainder of 2024, we see an opportunity for investors to take advantage of the rate environment by investing in credit, which offers the potential for equity-like returns with a higher level of asset coverage.

Elevated rates present attractive risk/reward setup

- With high yield bonds and loans yielding 7.3% and 9.7%, respectively, both markets could potentially withstand over 300 basis points (bps) or more of spread widening and still provide positive total returns over the next 12 months.
- Furthermore, we view the CLO market as a diversified way to gain floating rate loan exposure with downside mitigation compared to similarly rated bonds and loans.

Forward-looking economic indicators give reason for caution

- We remain focused on fundamental research to identify companies that can withstand the potential for additional rate volatility and slower economic growth in the second half of 2024.
- We seek companies with sound balance sheets, high free cash flow, strong asset coverage and a distinguishable catalyst or improving fundamental performance to drive capital appreciation. 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.
- Despite outperformance among lower quality assets over the past year, continuing macro risks including the potential for slowing economic growth as well as further rate volatility highlights the need for caution. We have begun to see some signs of a potential shift toward outperformance among higher-quality assets in parts of the credit market in recent months and remain hesitant to chase the performance of CCC-rated assets across both bond and loan markets.

Market commentary

Returns/spreads

- Treasury yields fell further in August as the prospect of a new rate cut cycle beginning as soon as the Fed's September meeting came more clearly into view. The 2-year yield fell -34bps in August, to 3.92% while the 10-year yield declined -24bps, to 3.90%. Two- and 10-year yields have now seen peak to trough declines of -117bps and -91bps, respectively, year to date.
- Fixed rate high yield bonds significantly outperformed floating rate loans in August, for the fourth consecutive month amid the declining yield environment. High yields bonds returned 1.59%, outpacing the loans index by 96bps.
- Performance patterns diverged across credit markets as lower-rated bonds drove high yield returns while higher-rated loans outperformed. CCC rated bonds returned 1.96% in August compared to 1.54% for BB bonds, whereas CCC loans returned -0.05% and underperformed BB loans by 67bps.

Issuance

- **High yield bonds:** High yield issuance continued to be sluggish in August, at just $18.1 billion compared to $19.5 billion in July. Despite the recent slowdown, year-to-date issuance of $203.1 billion is nearly double that of last year's pace though August ($110.3 billion).
- **Loans:** Loan issuance hit a 13-month low in August, at just $25.8 billion, down from $80.7 billion in July. Year to date, loan issuance remains of $811 billion remains strong, driven primarily by significant repricing and refinancing activity.

Flows

- **High yield bonds:** High yield bonds saw modest inflows of $513.4 million in August as the inflows during the second half of the month more than balanced out the outflows in the first two weeks of the month. Year to date, high yield bond inflows of approximately $10.9 billion surpassed that of loan funds.
- **Loans:** Loans saw outflows of approximately -$4.3 billion in August, reversing the trend of the previous nine months during which loans saw steady inflows. Year-to-date loan inflows have totaled approximately $9.4 billion.

Defaults

August saw diverging trends between the high yield and loan markets as the gap between the loan and bond default rates rose to its highest points since June 2014.

- High yield bond's trailing 12-month default rate decreased 4bps, to 1.73%, while the default rate for senior secured loans rose 37bps, to 3.60%.
- High yield bonds' default rate is approximately half the long-term average of 3.40% while the default rate for senior secured loan has continued to rise in recent months above its long-term average of 3.00%.

Fund overview

FS Credit Income Fund seeks to provide attractive total returns with an attractive level of income by dynamically investing across public and private 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

- Provides greater flexibility to adjust allocations across asset types, capital structure and fixed/floating rate assets compared to dedicated direct lending strategies
- Accesses assets that are outside the scope of traditional, liquid strategies and credit market indexes
- Seeks to identify corporate events or other performance catalysts that are less correlated to broad market performance to drive capital appreciation, including:
  - Mergers and acquisitions
  - Asset mispricings
  - Market dislocations

1. As of August 31, 2024. Past performance is not a guarantee of future results. 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 monthly cash distribution per share declared as of the month indicated, without compounding), divided by the Fund's NAV per share as of the end of the month indicated. The payment of future distributions on the Fund's common shares is subject to the discretion of the 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 June 30, 2024, 100% of FS Credit Income Fund's distributions were funded through ordinary income. Class I shares are not subject to a distribution fee.
2. High yield bond and senior secured loan yields measured for the period from Jan. 1997–August 2024.

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 (bps) 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. **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.

During the year ended October 31, 2023, the Fund's diversification classification under the Investment Company Act of 1940, as amended (the "1940 Act") automatically converted from non-diversified to diversified status because the Fund operated as a diversified fund for a period of three years.

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.

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