FS INVESTMENTS®

Fund commentary
Q2 2024

FS Credit Opportunities Corp.

Summary

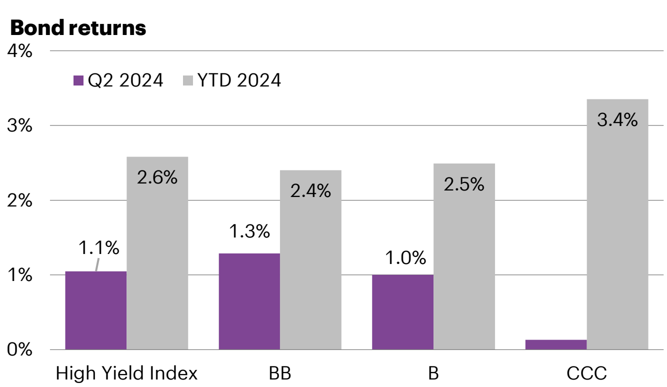
- FS Credit Opportunities Corp. ("FSCO" or the "Fund") generated a net return of 2.75% during the second quarter of 2024 driven by distributions of $0.18 per share and an increase of $0.01 in the Fund's net asset value (NAV), to $7.15 per share.[1,2] Year-to-date, the Fund has returned 8.67% based on NAV.[2]
- FSCO outperformed the high yield bond and senior secured loan indexes by 170 basis points (bps) and 90bps, respectively, during the second quarter.[2,3,4]
- As of June 30, 2024, the Fund offered an attractive, fully covered annualized distribution yield of approximately 10.07% based on NAV and approximately 11.30% based on the stock price.[1] We believe this is attractive on an absolute and relative basis compared to our closed-end fund peers when considering distribution coverage.
- Driven by a strong pipeline of new investments, the Fund continued to be fully invested throughout the quarter. Purchases excluding portfolio hedges totaled approximately $233 million compared to sales, exits and paydowns of approximately $234 million. Approximately 67% of new investment activity was in privately originated investments, 81% of which were in first lien loans. Public credit investments, which represented approximately 33% of purchases during the quarter, were predominantly (91%) in first lien loans.

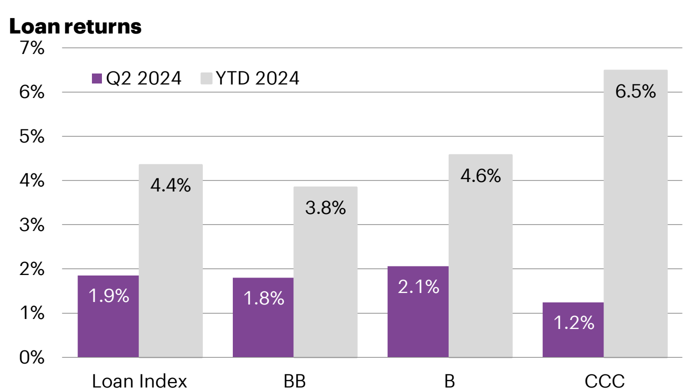
Market review

U.S. economic growth was solid during the second quarter of 2024 bolstered by the strength of the consumer. Despite some signs of cooling, a generally strong labor market provided a tailwind for consumer spending. Treasury yields rose modestly during the quarter as the 10-year yield increased 14bps, to 4.34%, while the policy-sensitive 2-year yield increased 10bps, to 4.72%, amid Fed policymakers' relatively hawkish tone as inflation showed few signs of turning sustainably lower. The Bloomberg U.S. Aggregate Index, a proxy for a traditional fixed income portfolio, returned 0.07% during the second quarter and is down -0.71% year to date and -0.23% over the last five years amid significant interest rate volatility.

Credit markets benefited from the supportive macro backdrop coupled with the elevated rate environment as investors reduced and delayed their expectations for Fed rate cuts throughout the quarter. Senior secured loans returned 1.85% during the quarter while high yield bonds returned 1.05%.[3,4] Higher-rated bonds led returns as BB-rated bonds returned 1.29% compared to 0.13% for CCC-rated bonds.[5] Loan performance was mixed as B-rated loans (+2.06%) outperformed both higher- and lower-rated peers.[6]

High yield bond and senior secured loan total returns by rating





Source: ICE BofAML High Yield Master II Index, Credit Suisse Leveraged Loan Index, as of June 30, 2024.

The Fund outperformed the high yield bond and senior secured loan indexes by 170bps and 90bps, respectively, during the quarter.[2,3,4]

Performance review

FSCO generated a net return of 2.75% during the second quarter of 2024, outperforming the high yield bond and senior secured loan indexes by 170bps and 90bps, respectively.[2,3,4] Fund performance was driven by distributions of $0.18 per share and an increase of $0.01 in the Fund's net asset value (NAV), to $7.15 per share.[1,2] Distributions were fully funded through net investment income as has been the case since Andrew Beckman and the FS Global Credit Team assumed management of FSCO in January 2018.[1] As of June 30, 2023, the Fund's annualized distribution yield was 10.07% based on NAV, and approximately 11.30% based on the stock price.[1]

Year to date, the Fund has returned 8.67% based on NAV and 19.12% based on stock price as of June 30, 2024.[2]

Portfolio contributors far outweighed detractors during the second quarter as performance was broad-based across the portfolio, in line with FSCO's performance throughout the past year. The top 10 contributors, based on issuer, accounted for over 40% of the Fund's total return during the quarter.

FSCO listed its common shares on the New York Stock Exchange (NYSE) in November 2022. While the Fund has traded at a discount relative to its NAV following the listing, the discount began to narrow during the second half of 2023 and continued to narrow throughout the first half of 2024. We believe the continued improvement reflects the Fund's strong performance, the health of the portfolio and the broader market strength during the past several quarters. We believe the discount at which the stock traded compared to the NAV as of June 30, 2024, was still too large and not indicative of the health of the portfolio or the forward return potential of our diversified credit strategy.

Total returns	Q2 2024	YTD 2024
FSCO*[2]	2.8%	8.7%
High yield bonds[3]	1.1%	2.6%
Senior secured loans[4]	1.9%	4.4%
CCC bonds[5]	0.1%	3.4%
CCC loans[6]	1.2%	6.5%

*FSCO's returns in green above are net of fees and expenses; index returns in black are gross of fees and expenses. All figures may be rounded. Returns shown are historical and based on past performance. **Past performance is not indicative of future results.**

Investment activity

The Fund remained fully invested during the second quarter, driven by a healthy portfolio pipeline at attractive yields. Purchases excluding portfolio hedges totaled approximately $233 million compared to sales, exits and repayments of $234 million.[7]

Credit markets continued to be supported by a positive technical environment during the second quarter as demand was strong, driven in part by elevated repayment and repricing activity for senior secured loans, while supply (i.e., new issuance) remained constrained amid sluggish merger and acquisition (M&A) activity.

Competition for deal flow remained tight during the quarter. Especially in these times, we leverage the insights and deal flow across FS Investments' $82 billion franchise and use our deep relationships with commercial and investment banks, non-bank intermediaries, sponsors, industry specialists and other like-minded investment firms to drive a steady pipeline of investments in public and private credit.

Approximately 67% of new investment activity was in privately originated investments, where we tend to have greater control over the terms of the deals. 81% of these purchases were in first lien senior secured loans. Public credit investments, which represented approximately 33% of purchases during the quarter, were predominantly (91%) in first lien loans.

As of June 30, 2024, approximately 83% of the portfolio consisted of senior secured debt, up from 81% the previous quarter. The Fund's allocation to subordinated debt was 4%, compared to 5% as of March 31, 2024. Asset-based finance represented 4% of the portfolio as of June 30, 2024, while equity/other investments represented 9%, down from 10% a quarter earlier. The portfolio was slightly weighted toward private credit investments (52%) compared to public credit (48%) as of June 30, 2024, whereas it was evenly split at 50%/50% between public and private investments the previous quarter.

Our dynamic strategy provides the flexibility to invest across public and private credit based on what we believe are the best risk-adjusted return opportunities. Our current areas of focus include:

- High quality, defensive investments: We continue to defensively position the portfolio by adding what we believe are higher-quality investments that have low default risk with solid covenants given the competitive environment across credit markets.
- Private structured solutions: We remain focused on financings to unconventional credit profiles that are outside of the focus of banks, traditional business development companies (BDCs) and other conventional lenders. Examples include transitional lending, lending to out-of-favor industries and companies, and non-sponsored lending. We believe our ability to structure highly customized solutions for our borrowers is differentiated in the marketplace and offers the potential for attractive total returns, especially as regulatory restrictions limit bank lending to companies with conventional credit profiles, and private debt strategies become more streamlined with respect to investment terms and structures.
- Public credit markets: Within public credit, our focus is on event-driven and opportunistic performing credit, as opposed to highly liquid credits commonly found in high yield funds and collateralized loan obligations (CLOs). Periods of market volatility often create attractive entry points for select public credits that we believe can compete with the yields offered in the private credit markets.

Outlook

Economic data and credit returns were both solid during the second quarter of 2024, yet markets were whipsawed with significant volatility almost immediately after quarter end, driven by a mix of lackluster economic data that called the economic soft-landing narrative into question and shifted Fed rate expectations. Against this backdrop, we believe financial markets remain susceptible to further bouts of volatility through the remainder of the year as investors continue to monitor geopolitical conflicts and wrestle with the forward path of U.S. rates, the U.S. economy and the forthcoming presidential election.

We believe active management combined with sound fundamental credit underwriting will remain critical to driving returns and avoiding excess risk. We continue to focus on senior debt investments with strong terms at attractive yields or expected total returns and generally avoid debt in private equity-owned companies where we think there could be material risk of asset leakage or disputes between lenders. We believe the flexibility of our strategy and the expertise of our team have helped drive strong outperformance versus the loan and high yield bond indexes, and that FSCO offers a differentiated value proposition built to drive strong risk-adjusted returns through a diverse range of economic and financial market conditions.

Note: All figures may be rounded. Returns shown are historical and based on past performance. Past performance is not indicative of future results.

Effective March 23, 2022, the Fund has been renamed FS Credit Opportunities Corp. Prior to that date, the Fund operated under the name FS Global Credit Opportunities Fund.

1 The payment of future distributions on FSCO's common shares is subject to the discretion of FSCO's board of directors and applicable legal restrictions and, therefore, there can be no assurance as to the amount or timing of any such future distributions.

2 The total return for each period presented is historical and is calculated by determining the percentage change in NAV, assuming the reinvestment of all distributions in additional common shares of the Fund at the Fund's NAV per share as of the share closing date occurring on or immediately following the distribution payment date. The total return does not consider the effect of the sales load from the sale of the Funds' common shares.

3 ICE BofAML U.S. High Yield Master II Index.

4 Morningstar LSTA US Leveraged Loan Index.

5 ICE BofAML U.S. High Yield CCC Rated or Below Index

6 Morningstar LSTA US CCC Rated Leveraged Loan Index.

7 Figure excludes approximately $2 million in short sales during the second quarter of 2024.

RISK FACTORS

FS Credit Opportunities Corp. ("FSCO" or the "Company") is a non-diversified, closed-end management investment company that carries out the investment strategies generally described herein. An investment in FSCO involves a high degree of risk and may be considered speculative. The following are some of the risks an investment in the shares of common stock of the Company (the "Shares") involves; however, investors should carefully consider all of the risks discussed in FSCO's reports filed with the U.S. Securities and Exchange Commission (the "SEC") before deciding to invest in the Shares. Investors may obtain a copy of these filings free of charge at www.fsinvestments.com or by contacting FS Investments at 201 Rouse Boulevard, Philadelphia, PA 19112 or by phone at 877-628-8575.

- Shareholders of the Company (the "Shareholders") should consider that an investment in the Shares may result in loss of principal.
- When a Shareholder sells their Shares, the Shareholder may receive less than their purchase price and the then-current net asset value, or NAV, per Share.
- Shares of closed-end funds frequently trade at a discount to NAV and this creates a risk of loss for investors who purchased Shares at the time of listing on the New York Stock Exchange (the "Listing"). This risk is separate and distinct from the risk that FSCO's NAV will decrease.
- FSCO's distributions may be funded from unlimited amounts of offering proceeds or borrowings, which may constitute a return of capital and reduce the amount of capital available to FSCO for investment. Any capital returned to Shareholders through distributions will be distributed after payment of fees and expenses, as well as the sales load.
- FSCO's previous distributions to Shareholders were funded in significant part from the reimbursement of certain expenses, including through the waiver of certain investment advisory fees, and additional support payments that may be subject to repayment to FSCO's affiliate, Franklin Square Holdings, L.P. ("FS Investments"), and FSCO's future distributions may be funded from such waivers, reimbursements or payments. Significant portions of these distributions were not based on FSCO's investment performance and such waivers, reimbursements and payments by FS Investments may not continue in the future. If FS Investments had not agreed to reimburse certain of FSCO's expenses, including through the waiver of certain advisory fees payable by FSCO, and provide additional support payments, significant portions of FSCO's distributions would have come from offering proceeds or borrowings. The repayment of any amounts owed to FS Investments will reduce the future distributions to which the Shareholders would otherwise be entitled.
- FSCO's investments in securities and other obligations of companies that are experiencing distress involve a substantial degree of risk, require a high level of analytical sophistication for successful investment and require active monitoring.
- FSCO's investments in various types of debt securities and instruments may be secured, unsecured, rated or unrated, are subject to non-payment risk, and may be speculative in nature.
- Below investment grade instruments (commonly referred to as "high yield" securities or "junk bonds") may be particularly susceptible to economic downturns, which could cause losses.
- FSCO may invest in illiquid and restricted securities that may be difficult to dispose of at a fair price.
- FSCO's use of leverage could result in special risks for the Shareholders and can magnify the effect of any losses.
- Investments in certain securities or other instruments of non-U.S. issuers or borrowers may involve factors not typically associated with investing in the United States or other developed countries.
- Securities or other instruments of non-U.S. securities may be traded in underdeveloped, inefficient and less liquid markets and may experience greater price volatility, illiquidity and changes in value.
- FS Global Advisor, LLC and certain of its affiliates may experience conflicts of interest in connection with the management of FSCO.
- FSCO seeks to achieve its investment objectives by focusing on a limited number of opportunities across the investment universe.
- The national and global political environment, including foreign relations and trading policies, as well as the impact of Russia's invasion of Ukraine and related sanctions, and potential retaliatory actions may adversely affect the performance of FSCO's investments and FSCO.
- The global outbreak of COVID-19 and its variants (commonly known as the coronavirus) has caused volatility, severe market dislocations and liquidity constraints in many markets, including securities FSCO holds, and may adversely affect FSCO's investments and operations. Such impacts may adversely affect the performance of FSCO's investments and FSCO.
- Inflation increased substantially in 2022, and the Federal Reserve has raised interest rates several times to, among other things, control inflation, and has signaled that additional increases are likely in the future, which may adversely affect the performance of FSCO's investments and FSCO.
- We expect that the current market conditions may have a lasting and, in some instances, permanent impact on some of our portfolio companies as they struggle to meet covenant obligations and face insolvency in future periods. Poor performance or insolvency of our portfolio companies could have a material adverse impact on our financial condition and results of operations.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

Statements included herein may constitute "forward-looking" statements as that term is defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements with regard to future events or the future performance or operations of FSCO (the "Fund"). Words such as "intends," "will," "expects," and "may" or similar expressions are intended to identify forward-looking statements. 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. Factors that could cause actual results to differ materially include changes in the economy, geopolitical risks, risks associated with possible disruption to the Fund's operations or the economy generally due to hostilities, terrorism, natural disasters or pandemics such as COVID-19, future changes in laws or regulations and conditions in the Fund's operating area, unexpected costs, the price at which the Fund's shares of common stock may trade on the New York Stock Exchange and such other factors that are disclosed in the Fund's filings with the Securities and Exchange Commission. The inclusion of forward-looking statements should not be regarded as a representation that any plans, estimates or expectations will be achieved. Any forward-looking statements speak only as of the date of this communication. Except as required by federal securities laws, the Fund undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Readers are cautioned not to place undue reliance on any of these forward-looking statements.

An investment in FS Credit Opportunities Corp. 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. Investors should read and carefully consider all information found in the Fund's reports filed with the U.S. Securities and Exchange Commission (the SEC) before investing.