FS Credit Real Estate Income Trust

Performance

- FS Credit REIT generated positive total returns across all share classes in August. Distributions were offset by net asset value (NAV) depreciation of approximately $0.03 per share across all share classes driven primarily by a valuation adjustment for the single property in our originated equity portfolio and depreciation in select commercial mortgage-backed securities (CMBS) holdings.
  - The equity property's financials have consistently performed in-line with our initial underwriting projections and benefit from built-in rent increases and long-term leases.
  - Our CMBS portfolio generates a strong level of income to complement our directly originated loan portfolio and is weighted to investment grade (71%) assets. The CMBS portfolio has been a positive contributor to NAV year-to-date (YTD).
- YTD as of August 31, 2024, FS Credit REIT has returned 5.22% based on the Class I share driven by stability in our NAV, which is flat YTD, and the consistency in our distribution.
- FS Credit REIT has delivered 53 consecutive months of positive total returns across varying macroeconomic conditions and financial markets.
- Met 100% of repurchase requests in August.
- The current annualized distribution rate is 7.64% for Class I shares, 7.12% for Class D shares, 7.11% for Class M shares, 6.52% for Class S shares and 6.58% for Class T shares, based on the October 1, 2024 transaction price.
  - The tax equivalent distribution rate is 8.54% for Class I shares, 7.96% for Class D shares, 7.95% for Class M shares, 7.29% for Class S shares and 7.35% for Class T shares, based on the October 1, 2024 transaction price.[1]
- FS Credit REIT offers a high level of excess income over short-term rates on both a nominal and real basis.
  - Based on the Class I share, FS Credit REIT's annualized distribution rate of 7.64% is 274 basis points (bps) above 3-month Treasury bills (T-bills) on a nominal and real yield basis.[2]
  - FS Credit REIT's tax-equivalent annualized distribution rate is 365bps over 3-month T-bills, or 2.5x higher compared to T-bills when comparing real yields/distribution rates.

Portfolio

- As of August 31, 2024, the portfolio was weighted to Multifamily (52%), followed by Hospitality (14%) and Industrial (11%).
- The portfolio's allocation reflects our view that these sectors are well-positioned to benefit from long-term structural trends such as the record-high cost of homeownership (Multifamily), strong demand for business and leisure travel (Hospitality), and continued demand for technologically advanced warehouse space (Industrial).
- We have remained disciplined in our underwriting approach year to date and sought to take advantage of FS Credit REIT's liquidity position and scale as opportunities arise, including purchasing a portfolio of senior loans from a commercial bank seeking to rebalance its commercial real estate (CRE) loan holdings. YTD originations have been underwritten at loan-to-value ratios, which we believe were appropriate based on our deep, bottom-up underwriting of the property, geography and borrower, and provide a strong equity cushion beneath our loans.
- Non-accruals declined from 3.97% to 3.79% of the portfolio month over month as of August 31, 2024.
  - One new multifamily property was placed on non-accrual in August.
  - Three loans backed by two multifamily properties were removed from non-accrual status as we took ownership of the properties in August. Both properties are cash flow positive, and we are actively exploring options to maximize the outcomes for shareholders.
  - Following month-end, two multifamily properties, which represented 1.5% of the portfolio as of August 31, 2024, were removed from non-accrual as we took ownership of both properties.

Outlook

We believe the portfolio is well-positioned to deliver an attractive, high level of income and preserve capital driven by the:

[1] Tax-equivalent distribution rate reflects the distribution rate required under the prior tax law in order for an investor to receive the same after-tax income under the new tax law. For example, a REIT's annualized distribution rate would need to be 8.54% under the prior tax law in order for investors to receive the same amount of after-tax income as a REIT with an annualized distribution rate of 7.64% under the new tax law. The distribution rates quoted assume a 37% tax bracket.

[2] Three-month T-bill yield as of September 13, 2024.

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- **Debt-focused nature of our strategy,** as we believe forward returns in CRE will largely be driven by income generation and property cash flows compared to price appreciation.
- **Available liquidity for new investments.** As noted, we have maintained a strong liquidity profile which, when combined with proceeds from our continuous offering, and the natural turnover of the portfolio, allow us to remain a capital provider when many traditional lenders and peers are constrained in making new loans.
- **Deep experience of FS Investments and Rialto managing through CRE market cycles:** We continue to monitor the portfolio and are proactively engaged with our borrowers. In certain cases, we may modify or extend the maturity of our loans if we believe it is in the best interest of the portfolio and our shareholders. Modifications or extensions typically require additional "skin in the game" from the borrower through a combination of extension fees, additional equity commitments, a partial paydown of the loan or additional contribution to interest reserves.
- **Continued strong performance of portfolio.** FS Credit REIT has generated positive total returns in 78 out of 80 months; its largest monthly drawdown was just -0.27% in March 2020.
- **High level of equity cushion beneath our loans.** As a senior lender, the loans in our portfolio receive priority. They are first to be paid from rental income and are last to absorb losses if property values decline.
- **Geographically diversified composition of our $8.9 billion portfolio,** weighted to Multifamily properties.
- **The long-term nature of our borrowings,** as approximately 85% of FS Credit REIT's borrowings are financed through match-term, non-mark-to-market facilities.
- **Relative level of income above cash yields:** Financial markets expect the Federal Reserve to commence a rate-cutting cycle at its September meeting; however, the timing and pace of future rate cuts remains unclear. While our distribution rate is influenced by the level and direction of short-term rates, we take a long-term approach to setting our distribution. Our distribution policy considers the forward secured overnight financing rate (SOFR) curve, our borrowings, the pace of our capital raise, the expected timing of potential new originations as well as paydowns and prepayments, among other factors. Our distributions have not historically adjusted in lockstep with changes in interest rates.

Returns (as of August 31, 2024)

	Annualized distribution rate	NAV	MTD	YTD	1-year	3-year	5-year	Annualized since inception
Class T	6.58%	$24.84	0.42%	4.61%	6.81%	6.06%	5.92%	5.96%
Class S	6.52%	$25.08	0.43%	4.59%	6.75%	6.03%	5.89%	6.03%
Class M	7.11%	$24.94	0.48%	5.00%	7.36%	6.64%	6.49%	6.56%
Class D	7.12%	$24.89	0.47%	5.01%	7.41%	6.67%	6.52%	6.59%
Class I	7.64%	$24.17	0.50%	5.22%	7.65%	6.94%	6.81%	6.56%

NAV is determined as of the last calendar day of each month by FS Real Estate Advisor in accordance with FS Credit REIT's valuation guidelines as determined by FS Credit REIT's board of directors. 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 as of the date indicated, without compounding), divided by the NAV per share. For the six months ended June 30, 2024, 100% of FS Credit REIT's distributions were funded through net investment income. The determination of the tax attributes of distributions is made annually at the end of the fiscal year, and a determination made on an interim basis may not be representative of the actual tax attributes of distributions for a full year. The actual tax characteristics of distributions to stockholders are reported to stockholders annually on Form 1099-DIV. The payment of distributions on FS Credit REIT's common stock is subject to the discretion of FS Credit REIT's board of directors and applicable legal restrictions and, therefore, there can be no assurance as to the amount or timing of any such distributions. FS Credit REIT currently intends to pay ordinary cash distributions monthly.

Class S shares are subject to upfront selling commissions of up to 3.50% of the transaction price. Stockholders will not pay selling commissions or dealer manager fees on Class I shares or when purchasing shares of any class pursuant to our distribution reinvestment plan. Class S shares are also subject to ongoing stockholder servicing fees equal to 0.85% per annum of aggregate NAV. Class I shares are not subject to stockholder servicing fees. See the prospectus for additional information.

Performance quoted is past performance and cannot guarantee future results. Current performance may be higher or lower. Certain performance figures above do not include applicable sales charges, which would have reduced the performance. Returns of less than one year are cumulative; all others are annualized. 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. For performance data current to the most recent month-end, please call 877-628-8575 or visit our website at www.fsinvestments.com.

Market update

- 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%. 2- and 10-year yields have now seen peak to trough declines of -117bps and -91bps, respectively, YTD.
  - The Bloomberg U.S. Aggregate Index generated a solid 1.44% return in August amid the declining rate environment. The index has returned just 3.07% year to date and -0.04% over the last five years amid significant interest rate volatility.
- Recent months' trends held steady as deal volume and pricing were relatively muted through July. Yet both continued to show steady improvement as optimism has grown that the market is nearing the nadir of its years-long correction.
- CRE transaction volume continues to show signs of thawing as investors prepare for a new rate cutting cycle. Measured on

a three-month moving average, CRE deal volume has been positive in two of the past three months compared to the steady drumbeat of deeply negative volume during the first eight months of 2023, ranging from -50% to -60%.[3]

- Monthly property pricing has seen similar improvements in recent months as the RCA All Property Commercial Price Index turned positive in May 2024 and has seen steady but modest increases in the three months since.[3]
  - CRE fundamentals outside of Office remain resilient, lending support to the market, as strong fundamentals have allowed property owners to offset some of the impact of higher interest rates.
  - Demand for space has clearly decelerated from historic levels yet remains robust in most property sectors as net absorption is significantly positive in three of the four major sectors.
- Multifamily demand has seen a sharp improvement over the past year, driven in part by more affordable rental opportunities nationwide while industrial demand has slowed to a more sustainable level than that of the past several years.
- Retail demand has remained firm as consumers have been reinvigorated to in-person shopping, and even malls posted positive absorption and a dip in vacancy in Q2 2024.
  - Rent growth across the CRE market has slowed in recent quarters, though that can be linked almost exclusively to an increase in new construction rather than a decrease in demand.
- Crucially, this supply headwind is fading—while we expect deliveries in these sectors to remain elevated through the remainder of 2024, a plunge in new construction starts portends a more favorable 2025 and beyond.
- Office remains the clear outlier as a massive retrenchment among tenants continues to drive net operating income lower while the vacancy rate steadily rises.[3]
  - Ultimately, we expect transaction and lending activity to pick up amid a lower-rate environment in the coming quarters but believe the outlook for property values—and therefore, CRE equity investors—is much foggier. We expect CRE debt to benefit from increasing refinancing volumes and continue to outperform CRE equity in a higher-for-longer rate scenario.
  - Against this backdrop, we continue to view 2024 as the beginning of the next phase of a multiyear CRE correction, during which debt should remain broadly attractive relative to equity. Importantly, we believe alternative lenders continue to be in an excellent position to take market share as transaction volume improves and banks remain constrained.

Key facts

Fund structure	Perpetually offered, non-listed, NAV mortgage REIT
Management fee	1.25% on net assets
Performance fee	10% over a 6.5% total return hurdle (with catch-up)

[3] MSCI Real Capital Analytics, as of July 31, 2024, latest data available.

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