REFINITIV STREETEVENTS

EDITED TRANSCRIPT

Q3 2020 Oaktree Specialty Lending Corp Earnings Call

EVENT DATE/TIME: AUGUST 10, 2020 / 3:00PM GMT

CORPORATE PARTICIPANTS

Armen Panossian *Oaktree Specialty Lending Corporation - CEO & CIO*
Mathew Pendo *Oaktree Specialty Lending Corporation - President & COO*
Mel Carlisle *Oaktree Specialty Lending Corporation - CFO & Treasurer*
Michael Mosticchio *Oaktree Specialty Lending Corporation - IR*

CONFERENCE CALL PARTICIPANTS

Finian Patrick O'Shea *Wells Fargo Securities, LLC, Research Division - VP and Senior Equity Analyst*
Kyle Joseph *Jefferies LLC, Research Division - Equity Analyst*
Melissa Wedel *JPMorgan Chase & Co, Research Division - Analyst*
Ryan Lynch *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

PRESENTATION

Operator

Welcome, and thank you for joining Oaktree Specialty Lending Corporation's Third Fiscal Quarter 2020 Conference Call. Today's conference call is being recorded. (Operator Instructions) Now I would like to introduce Michael Mosticchio of Investor Relations, who will host today's conference call. Mr. Mosticchio, you may begin.

Michael Mosticchio ***Oaktree Specialty Lending Corporation - IR***

Thank you, operator, and welcome to Oaktree Specialty Lending Corporation's Third fiscal quarter Conference Call. Our earnings release, which we issued this morning and the accompanying slide presentation, can be accessed on the Investors section of our website at oaktreespecialtylending.com.

Our speakers today are Armen Panossian, Chief Executive Officer and Chief Investment Officer; Matt Pendo, President and Chief Operating Officer; and Mel Carlisle, Chief Financial Officer and Treasurer.

We will be happy to take your questions following their prepared remarks. Before we begin, I want to remind you that comments on today's call include forward-looking statements reflecting our current views with respect to, among other things, our future operating results and financial performance.

Our actual results could differ materially from those implied or expressed in the forward-looking statements. Please refer to our SEC filings for a discussion of these factors in further detail. We undertake no duty to update or revise any forward-looking statements. I'd also like to remind you that nothing on this call constitutes an offer to sell or a solicitation of an offer to purchase any interest in any Oaktree fund. Investors and others should note that Oaktree Specialty Lending uses the Investors section of its corporate website to announce material information.

The company encourages investors, the media and others to review the information that it shares on its website.

With that, I would now like to turn the call over to Matt.

Mathew Pendo ***Oaktree Specialty Lending Corporation - President & COO***

Thank you, Mike, and welcome, everyone, to our third quarter earnings conference call. We appreciate your interest in and support of OCSL.

We hope everyone listening is well. The health and safety of our team and the continued management of our portfolio remain top priorities as we navigate the COVID-19 pandemic.

We are capitalizing on Oaktree's first-rate technology platform. And while the team continues to work remotely, we have been very successful to date as a virtual company and will remain fully operational for the duration of this public health crisis.

OCSL delivered strong results for the quarter, highlighted by solid earnings, robust investment activity and good portfolio performance.

We generated these results despite the ongoing uncertain economic environment due to the pandemic.

Adjusted net investment income per share was $0.12. Earnings were supported by the larger overall size of our investment portfolio, higher yields on new investments, interest savings from our recent unsecured bond issuance and realized gains from the exit of our debt investment in Sorrento Therapeutics, which Armen will discuss in a few moments.

Adjusted NII was stable from the prior quarter, despite the decline in LIBOR, which has fallen by over 150 basis points this calendar year.

Based on our third quarter performance, the Board increased our dividend for the September quarter by 11%.

While our portfolio was not immune to the extreme market disruption in March, valuations substantially improved during the June quarter, as market volatility subsided and asset prices partially recovered from their lows in the first quarter.

Third quarter NAV was up 14% from the prior quarter to $859 million, which represented a recovery of $107 million or 60% of the March quarter NAV write-down. This rebound was due to increase in the prices of our liquid debt investments and tighter credit spreads.

As we detailed on our call last quarter, our portfolio has a large exposure to liquid loans. One of the benefits of having these liquid debt investments is that it allows us to actively manage risk in the portfolio and move in and out of positions opportunistically. One potential drawback to this approach is that our portfolio from time-to-time will be impacted by mark-to-market volatility, which is what we experienced in the March quarter.

However, following the rebound in the liquid credit markets, the prices of these investments increased by 9%, which contributed $71 million to the improvement in NAV. These liquid debt investments continued to experience price appreciation of approximately 1.5% during the month of July.

Our investments in the Kemper joint venture were written up by $18 million or 19%, reflecting improvements in the underlying investment portfolio, which is primarily composed of liquid first lien loans.

And our private debt portfolio was up $15 million in the quarter, of which $10 million was attributable to originations made during the June quarter. The increase was primarily driven by tighter credit spreads and improved performance at some of our portfolio companies.

Partially offsetting the unrealized gains this quarter were declines in some of our noncore equity investments, which adversely impacted NAV by $8 million.

Our liquidity and leverage positions remained strong during the quarter.

At quarter-end, we had $284 million of dry powder, including $233 million of availability on our credit facility and $51 million of cash.

We were active on the investment front in the quarter, leveraging Oaktree's platform to find several compelling investment opportunities.

We made $260 million of new investment commitments during the quarter, including $225 million in primary and private market transactions and $35 million of secondary market purchases.

New investment commitments in the quarter were again attractively priced, with a weighted average yield of 10.5%, which compares favorably to the approximately 6.5% weighted average yield on the investments that we sold during the quarter.

Although we received $128 million from paydowns and exits, our portfolio grew by $71 million during the quarter, as a result of our robust investment activity, and our leverage remained relatively flat at 0.83x net of cash, up slightly from 0.82x at March 31.

Before I turn the call over to Armen, I wanted to provide an update on a new initiative that will enhance our firm-wide sourcing efforts.

In June, Oaktree announced the formation of a new group to source and originate private credit opportunities across all of Oaktree's strategies in North America. This new team will support our existing sourcing and origination function going forward, which will facilitate and deepen Oaktree's already strong reputation as a go-to lender. We believe that this will continue to widen the funnel of opportunities that OCSL will see, enabling us to selectively grow our portfolio and deliver improved returns.

All told, we are very pleased with our third quarter results, particularly in light of the economic uncertainty caused by the pandemic and significant reduction in LIBOR.

With that, I will now turn the call over to Armen.

Armen Panossian ***Oaktree Specialty Lending Corporation - CEO & CIO***

Thanks, Matt, and good morning, everyone. After the March quarter's historic sell-off in risk assets, credit and equity markets rebounded following extraordinary fiscal and monetary stimulus, which boosted liquidity and the availability of credit, thereby supporting individuals, businesses and markets.

In the credit markets, both high-yield and leveraged loans rallied from their March lows. The Fed support allowed demand to return to corporate credit markets. Significant investor inflows into high-yield funds led to record issuance, as companies opportunistically issued debt to bolster their balance sheets.

New issue activity in the leveraged loan market, however, was light. Volumes fell to 5-year lows, as investors preferred the call protection and fixed rates offered by high yield.

In the traditional direct lending market, new issue activity was slow, as M&A and other corporate activity came to a halt.

The impact that the pandemic has had, combined with its uncertain long-term implications, has made it difficult for potential buyers and lenders to value company. Rescue loans were more plentiful in March and April, but as markets have rallied, we have seen fewer of these opportunities.

While lenders have generally been able to achieve more favorable terms in this environment, spreads and other economics are tighter now than they were just a few months ago.

All of that noted, there seems to be a disconnect between the credit and equity markets and company fundamentals as the pandemic remains a highly fluid public health crisis in the U.S. Confirmed cases and hospitalizations have continued to rise across much of the country, halting or reversing re-openings.

With an uncertain path to recovery, companies may make temporary or permanent cuts to payroll or capital expenditures. We expect numerous industries to experience several years of stress and distress as companies reassess their business models, including how they use real estate, who they employ and where and how they distribute their products.

Consumer sentiment and spending, which is a major driver of the economy, will be closely linked to job and income prospects. And aside from the pandemic, the potential impact of the upcoming U.S. elections represents another area of uncertainty.

That's all to say that we anticipate further volatility in the markets, and we remain focused on maintaining our high-quality and more conservatively positioned portfolio. We continue to rotate out of names and sectors that have outperformed expectations and could be challenged if the recovery slows. We are being cautious and disciplined about deploying capital, reserving dry powder where possible, so we can go on offense quickly if another buying opportunity presents itself.

We are also tracking themes in uncorrelated areas of the market, including life sciences, businesses with pent-up demand that will benefit when the economy reopens and companies that are experiencing neutral or positive results during this time, including businesses in software and information technology.

Now turning to the overall portfolio performance in the third quarter. We feel good about the quality of our portfolio and the health of our borrowers. Over the past two-plus years, we have been focused on defensively positioning the portfolio by lending to businesses that we believe will be resilient through a recession. We have increased the overall size of our borrower, focusing on larger and more diversified businesses with little exposure to cyclical industries.

To that end, our median portfolio company EBITDA is approximately $152 million, larger than the typical middle market company.

As we highlighted last quarter, we continue to have limited exposure to industries directly impacted by COVID-19.

We remain in close contact with management teams and private equity sponsors. And generally, our portfolio companies have the necessary liquidity to navigate the current environment in the near term, and sponsors are supportive.

Credit quality has remained solid. No new portfolio companies sought to modify their interest payments from cash to PIK in the quarter and only one new investment was added to nonaccrual, a very small position, bringing total nonaccruals to three investments or 0.2% of our debt portfolio at fair value.

Turning now to investment activity. We had a strong quarter for originations as we were able to identify interesting opportunities in companies with attractive risk-reward profiles.

We generated $261 million of new investments. Aside from a few opportunistic secondary market purchases in April and early May, the bulk of our new investments were in the primary private market.

We discussed a few of these, NuStar Energy, Auven, and Airbnb last quarter. I'd like to take a moment to discuss in more detail a couple of investments that we made in the June quarter.

Athenex is a publicly listed global clinical stage biopharma company, with an extensive manufacturing and development platform, focused on discovering and commercializing novel cancer treatments. The company was seeking to refinance its existing senior debt and raise additional capital for the development of new medications.

Oaktree underwrote $225 million of the 6-year senior secured debt, of which OCSL was allocated $66 million. 40% of this loan was funded at close, and the remaining tranches are subject to certain milestones that must be met by the company. This loan was attractively priced with an 11% cash coupon and includes 3 points of OID and a 2% exit fee at maturity.

In early August, we sold 22% of our position to another lender at a modest gain.

William Morris Endeavor is a privately held global entertainment, sports and content company that generates revenue through media rights sales, sponsorships, subscriptions, license fees, ticket sales and pay-per-view programming. Impacted by the restrictions put in place to slow the spread of the coronavirus, the company needed a loan to bridge the gap to economic recovery when a post-pandemic demand resurgence for live events to drive improved performance and cash flow.

The company has a significant equity cushion and our loan was priced at LIBOR plus 8.5%. Oaktree was the largest lender in the $260 million secured debt financing, and OCSL was allocated $33 million.

In terms of exits, we received $128 million of proceeds from prepayments, other paydowns and sales during the June quarter. Included in this amount was approximately $95 million of liquid debt securities, which we chose to sell, as their prices rebounded and we saw more value in redeploying proceeds into private opportunities.

We also received a loan payoff from Sorrento Therapeutics, one of our previously privately placed investments. As you may recall, Sorrento is a publicly traded biotech company that develops treatments for cancer and infectious diseases.

During the third quarter, our $16 million loan was repaid at 105% plus exit fees. We also had $6.5 million of value and warrants in the company at quarter-end, which we have been exercising as the company's stock rallied on positive news that it had identified several attractive proprietary antibodies that are candidates to treat COVID-19. We remain positive on Sorrento, given its near-term prospects and its increased collaboration with large pharma companies.

We believe the months ahead will continue to provide OCSL with ample opportunities in both public and private investments and are confident that, with Oaktree's resources behind us, we will be able to identify attractive transactions.

Now I will turn the call over to Mel to discuss our financial results in more detail.

Mel Carlisle ***Oaktree Specialty Lending Corporation - CFO & Treasurer***

Thank you, Armen. For the third quarter of fiscal year 2020, we reported adjusted net investment income of $16.8 million or $0.12 per share, up modestly from $16.2 million or $0.12 per share for the second quarter.

The increase was the result of higher investment income and lower net expenses. As you may recall, our adjusted net investment income metric excludes the impact of Part II incentive fees.

During the quarter, total investment income was $34.4 million, up from $34.2 million in the previous quarter. The slight increase was due to higher interest income resulting from a larger portfolio and higher yields on new investments.

This was partially offset by downward pressure on the average yield of our floating rate debt investments due to the decreases in LIBOR and lower OID acceleration on loan payoffs.

Net expenses for the third quarter totaled $17.6 million, down from $17.9 million in the second quarter, excluding the impact of the Part II incentive fee reversal in the prior quarter. The modest decrease was mainly due to lower interest expense as a result of a full quarter impact from both our 3.5% notes offering and lower LIBOR. Net expenses were partially offset by higher management and incentive fees in the current quarter due to the larger portfolio and improved performance.

Turning to credit quality. During the quarter, all of our portfolio companies made their scheduled interest payments with the exception of one company that, consistent with the prior quarter, modified its interest payments to PIK.

As of June 30, nonaccruals represented 0.2% of the total portfolio at fair value, down from 0.5% in the prior quarter. The decrease was primarily due to the exit of Covia, which was placed on nonaccrual status last quarter. The decrease was partially offset by one small investment, which had a principal value of $1.5 million, that was placed on nonaccrual status during the quarter.

Moving to the balance sheet. During the quarter, we funded $199 million of investments, which was greater than the $128 million in payoffs and exits. As Matt noted, our net leverage ratio increased slightly to 0.83x from 0.82x at March 31, reflecting the net growth in the portfolio, partially offset by the increase in NAV. We are presently just below the low end of our recently adjusted leverage target range of 0.85 to 1.0x.

As of June 30, total debt outstanding was $761 million and had a weighted average interest rate of 2.7%, down from 3.1% at March 31, primarily due to decreases in LIBOR during the June quarter.

At quarter-end, we had total liquidity of approximately $284 million, including $51 million of cash and $233 million of undrawn capacity on our revolving credit facility. Unfunded commitments were $155 million, although only $76 million of this amount is eligible to be drawn immediately, as the remaining amount is subject to certain milestones that must be met by portfolio companies.

During the quarter, our investment-grade credit ratings were affirmed by both Moody's and Fitch, reflecting our strong liquidity position and conservative use of leverage. On May 22, Fitch moved our outlook to stable from negative.

Shifting now to the Kemper joint venture. Our investments in the JV totaled $110 million at June 30, up from $92 million last quarter.

As Matt touched on earlier, the rally in liquid debt markets positively impacted the JV portfolio during the quarter, as it consists primarily of first lien liquid investments.

At quarter-end, the JV had $315 million of assets invested in senior secured loans to 53 companies. This compared to $330 million in total assets invested in the same number of companies last quarter. Nonaccruals in the JV portfolio remained low at 0.3% of the portfolio at fair value.

Leverage in the JV was 1.4x at June 30, down from 1.8x last quarter and its $250 million credit facility had $76 million of undrawn capacity at quarter-end.

Now I'll turn the call over to Matt.

Mathew Pendo ***Oaktree Specialty Lending Corporation - President & COO***

Thank you, Mel. While the environment continues to be uncertain, we nonetheless generated solid operating results for the third quarter.

We entered this crisis in very good financial shape. The defensive repositioning that we carried out over the last 2.5 years has largely been completed, and therefore, we feel good about our current holdings.

We continue to be very well capitalized with strong liquidity. Our robust balance sheet and financial position has allowed OCSL to successfully navigate this challenging environment.

Oaktree has a proven track record investing in private credit across market cycles. And as a result, we believe OCSL is well positioned to participate in attractive transactions that ensure downside protection.

As Armen noted, we have continued to invest throughout the pandemic, and we expect to remain active going forward. However, we will remain patient and disciplined as we believe there will be an increasing number of opportunities that will arise over time as the crisis persists.

We believe that OCSL continues to be well positioned to increase return on equity going forward.

We will continue to position the portfolio for improved yield by rotating out of liquid senior secured loans with yields below LIBOR plus 450 basis points. During the third quarter, we sold $37 million of these types of investments. As of quarter-end, $219 million remained in the portfolio, which we plan to replace over time with higher-yielding proprietary investments.

In addition, we can increase returns by deploying more leverage at the portfolio level.

As Mel mentioned, we are operating just below the low end of our long-term target of 0.85x to 1.0x, so we have the ability to enhance returns as we continue to make investments and deploy higher leverage.

However, we will only grow the portfolio as we find opportunities that are consistent with our investment approach that we believe offer an attractive risk-reward.

Finally, the Kemper JV continues to present an opportunity for us to improve returns. As of quarter-end, the JV was levered 1.4x and had more than $75 million of investment capacity. We believe that the prudent growth of the JV will be accretive to ROE over time.

In conclusion, we are very pleased with our overall performance in the third quarter, given the ongoing uncertainty surrounding the pandemic. We remain confident that we will be able to manage through any challenges that may arise in our portfolio as well as identify new attractive risk-adjusted investment opportunities, enabling us to deliver improved returns to our shareholders.

Thank you for joining us on today's call and for your continued interest in OCSL.

With that, we are happy to take your questions.

Operator, please open the lines.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Kyle Joseph of Jefferies.

Kyle Joseph ***Jefferies LLC, Research Division - Equity Analyst***

Congrats on a very strong quarter, given everything going on. I wanted to start on deal flow. Obviously, you guys had a lot of dry powder going into this -- into the downturn and capitalize on it with some secondary transactions in April and May.

I wanted to get your sense just over the near term, your outlook for deal flow recognizing it's very fluid out there. Would you guess that we'll see kind of more primary? Would it be -- would you guess it's more distressed? And has kind of the low-hanging fruit in the secondary markets been picked?

Armen Panossian ***Oaktree Specialty Lending Corporation - CEO & CIO***

Kyle, it's Armen. Thanks. Thanks for the question. I would say that the market has become very efficient in the secondary market in terms of pricing risk. And in fact, it has probably gotten ahead of itself and is inappropriately pricing risk at this time in our view.

So your comment as to primary versus secondary, I would say it's pretty heavily focused on primary. Secondary, just right now, given where prices are and how the market has been bolstered by stimulus and liquidity from various governmental agencies is -- and globally is just not creating enough opportunity for us on the secondary generally.

Kyle Joseph ***Jefferies LLC, Research Division - Equity Analyst***

Got it. That's helpful. And then -- so in that context and given the rate environment, and it sounds like you did a nice job of recycling some of the lower-yielding investments in the quarter.

Can you give us a sense of your outlook for yields from here? Obviously, rates can't go much lower. You guys have floors in place as well. To me, it's kind of feels like it's the bottom for yields. And would you get that sense as well?

Armen Panossian ***Oaktree Specialty Lending Corporation - CEO & CIO***

Yes. I mean, I think generally speaking, we are near the bottom. I would hesitate to put timing on it, but during the second calendar quarter the impact of low LIBOR was most acute and where we got below the floors on most of our debt.

And meanwhile, our liabilities, generally speaking, continue to float lower. So we've probably hit that bottom already. But I hesitate to give too much forward guidance on that point.

Kyle Joseph ***Jefferies LLC, Research Division - Equity Analyst***

Understood. Last one for me. In terms of credit performance, obviously, your portfolio is hanging in there very well. I just want to get a sense for any sort of amendments or adjustments you made on portfolio companies in the quarter and how prevalent that was, if any?

Armen Panossian ***Oaktree Specialty Lending Corporation - CEO & CIO***

Sure. Matt Pendo, do you want to take that?

Mathew Pendo ***Oaktree Specialty Lending Corporation - President & COO***

Yes. Sure. Thanks, Kyle. Hope you and your baby are doing well. So we had five companies that we did amendments to, and they include some combination of covenant relief, ability to turn a cash interest payment into PIK or partial PIK, sometimes equity contribution from the sponsor, sometimes there was an amendment fee.

Amendment fees were not a big number for the quarter. And usually, if they choose to PIK, there's usually a higher interest rate. So it was just under about 6% of the portfolio on a fair value basis.

So just a handful, and it had some kind of combination of the various adjustments, amendments that I hit on, but it wasn't a huge factor in terms of amendment fees in the quarter.

And if you look at the PIK income, it was pretty consistent this quarter versus the March quarter, up a little bit, but not materially.

Operator

Our next question comes from Finian O'Shea of Wells Fargo.

Finian Patrick O'Shea ***Wells Fargo Securities, LLC, Research Division - VP and Senior Equity Analyst***

Now first, I guess, a 2-part question. One, you mentioned the new private credit group. Could you expand on those kind of capabilities or what focus it will have? And how that's augmentive to your strategy?

And then another part to that question, just noticing the stream of life science deals that you've been doing since taking over, is life science a capability within strategic credit? Or does Oaktree have a lending vertical there elsewhere?

Armen Panossian ***Oaktree Specialty Lending Corporation - CEO & CIO***

Thanks for the question. So first, on life sciences, I would say, yes, the capability exists within strategic credit, in particular.

We have personnel here that have scientific and medical backgrounds that are helping source and underwrite those positions. And we find that it's an area where it's a less efficient area because it's harder to underwrite those businesses.

They're, typically speaking, not businesses that you could cleanly underwrite 4x EBITDA or a certain free cash flow yield. So you really need to understand the value, the potential, the quality of the counterparties, the quality of the management team, et cetera.

So we're finding attractive opportunities to invest there. And especially with the backdrop of COVID, seeing that particular area is at most neutral to impact from COVID. And as we saw in the case of Sorrento, very positive -- potentially very positively correlated with COVID. So it's something that we find quite interesting and differentiated.

In terms of our new sourcing and origination efforts, what we really did there is to elevate all of the various personnel that were outward facing in the organization across Oaktree to speak for the entirety of the firm rather than for their particular vertical.

And so the benefit that gives us is there are pockets of groups or capital at Oaktree that really did not have an organized sourcing and origination effort, but they really could benefit from one.

And these tend to be businesses that are higher risk and higher return than what we're looking to do in Strategic Credit or in the BDCs.

And so what we found is, if we were able to speak with one unified voice externally and to provide the entirety of the Oaktree platform as a one-stop shop from low risk, low return opportunity sets, all the way up to the highest risk equity-like return opportunity sets, that we, as a firm, will see a broader swath of deal flow, will widen our funnel and see more opportunity, and we will more efficiently pass deals from one group to another as risk assessment changes.

And so for the sake of that efficiency and for the sake of bringing more AUM dollars to bear to actually grow and enhance what we do in sourcing and origination, that was the genesis of making that move.

And so in addition to elevating those individuals, we're actually hiring additional individuals as well to cover different industries and different geographies. And so generally speaking, our sourcing and origination efforts are going to be growing, not shrinking as a result of this.

So we're pretty excited about it. We're already seeing some benefits in working this way. We have done some deals with our Opportunities funds in the last quarter. And we are looking at a few other opportunities that, frankly, are very large, larger than what we could have done by ourselves in Strategic Credit.

And with the benefit of working across the platform, we're able to see those deals that, frankly, are less trafficked by our competition, and we're able to get pretty attractive terms on pretty large investment opportunities firm-wide.

And so we're pretty excited about that opportunity.

Finian Patrick O'Shea ***Wells Fargo Securities, LLC, Research Division - VP and Senior Equity Analyst***

Got it. Next question, can you talk about the credit facility waiver in the Kemper JV post quarter? Were they -- did you have assets that were -- the bank's valuation was in disagreement with or tripping something else? Any color you could add on that front?

Mathew Pendo ***Oaktree Specialty Lending Corporation - President & COO***

Sure, Fin, it's Matt. There wasn't anything specific to your point in terms of disagreements, but we're just working with Deutsche Bank, thought it made sense to give us more flexibility and timing, just given the pandemic and the uncertainty around valuations, et cetera.

So it was really just out of an abundance of caution, given all the uncertainty, let's kind of give both ourselves some more time to evaluate things.

Finian Patrick O'Shea ***Wells Fargo Securities, LLC, Research Division - VP and Senior Equity Analyst***

Okay. And just last question on Edmentum. I know we've talked about this before. You've had a more measured or conservative view of that company.

And you're -- as I'm sure you know your peers marked it up this quarter. I guess just the question is understanding you may have differing views, but why do you still have those unsecured PIK notes marked at 0, if they're still accruing interest? Correct me if I'm wrong on that. But just how do we think about -- how you would sort of harmonize those 2 elements of your valuation?

Mathew Pendo ***Oaktree Specialty Lending Corporation - President & COO***

It's Matt. Armen, do you want to take it?

Armen Panossian ***Oaktree Specialty Lending Corporation - CEO & CIO***

No, no, go ahead. Go ahead, Matt.

Mathew Pendo ***Oaktree Specialty Lending Corporation - President & COO***

So just...

Armen Panossian ***Oaktree Specialty Lending Corporation - CEO & CIO***

They're not accruing interest, by the way.

Finian Patrick O'Shea ***Wells Fargo Securities, LLC, Research Division - VP and Senior Equity Analyst***

It shows one -- it shows the revolver is nonaccrual, but it shows the -- it doesn't have that footnote for the other ones. I'm sure you're right. But if they're not an accrual, then I guess, scratch my question, sorry about that.

Mathew Pendo ***Oaktree Specialty Lending Corporation - President & COO***

No problem, Fin.

Armen Panossian ***Oaktree Specialty Lending Corporation - CEO & CIO***

Yes, Fin, they're not on accrual. And I think that we do recognize that other lenders that are publicly traded BDCs do have it marked materially higher.

We do not have access to the information that they do. Those individuals, those firms are on the Board of the company and more actively engaged with it.

We -- based on the information we have and the assessment of the risk that we see, that's why our mark is what it is, it's possible, if you believe, the marks of our competitors that we're wrong. But based on the information we have, that's the mark that we think is appropriate.

Operator

Our next question comes from Rick Shane of JPMorgan.

Melissa Wedel ***JPMorgan Chase & Co, Research Division - Analyst***

It's Melissa on for Rick today. I wanted to explore the dividend and just make sure we're understanding that properly. Is this something that you're thinking of as sort of an ongoing longer-term basis? Or is this something you're going to be thinking about quarter-by-quarter?

Mathew Pendo ***Oaktree Specialty Lending Corporation - President & COO***

Sure, Melissa, it's Matt. So the dividend is set by the Board and declared by the Board every quarter. So that's a kind of quarter-to-quarter thing.

This is the way you should think about this dividend, it's not like a special dividend. Some BDCs have kind of a regular and a special. This is for this quarter, this is the dividend. And it's based on the earnings power and the cash flow and income coming off the portfolio, less our expenses.

So you should think of it as the dividend if that's helpful.

Melissa Wedel ***JPMorgan Chase & Co, Research Division - Analyst***

Sure. And I guess in the past, we've thought about your dividend as being fairly stable over time. Is that -- has there been any evolution in your willingness to let the dividend fluctuate a bit or status quo in terms of your approach to this?

Mathew Pendo ***Oaktree Specialty Lending Corporation - President & COO***

No. I think we think it's important to have a stable dividend. So we're paying a dividend that's supported by the earnings of the portfolio. So that hasn't changed.

We raised it by $0.01 for the quarter, just given the earnings, again, of the portfolio. So it's the same kind of same mindset and philosophy that we've always had regarding the dividend.

Operator

Our next question comes from Ryan Lynch of KBW.

Ryan Lynch ***Keefe, Bruyette, & Woods, Inc., Research Division - MD***

When I look through your schedule investments, and you mentioned this quarter, the William Morris investment, but you guys also made a couple of different other platform investments in Airbnb and NuStar, which you mentioned last call, there seems to be a little bit of you guys leaning into some of the more COVID affected names or industries and structuring those deals with really good terms and structures versus moving away from some of the heavier COVID affected names that they may still have really, really tight terms and structures in there.

So can you just talk about that? Is that a conscious strategy of just moving into some of these names that are more heavily affected by the COVID downturn? Or is that just -- just kind of seems to be where kind of your sourcing or origination and deal flow outlook of yours, is that kind of a little bit of a conscious effort?

Armen Panossian ***Oaktree Specialty Lending Corporation - CEO & CIO***

Yes. Thanks for the question, Ryan. So what I would say is, we're looking at a variety of different opportunities. There are COVID impacted opportunities that we're looking at. There are life sciences opportunities, software, information technology. The opportunity set is quite large in terms of what we can look at.

Our underwriting is very tight in terms of what we're willing to accept. And in those situations where we have invested in COVID sensitive situations -- or, COVID sensitive names, we've been very focused on a couple of things.

One is, as you mentioned, structure, downside protection through legal protections as well as pricing.

So in the case of Airbnb, that was LIBOR plus 750. In the case of William Morris, that was LIBOR plus 850. In the case of NuStar, that was a double-digit coupon.

And so we felt like we were getting compensated pretty well for taking the risk. And by the way, in the case of William Morris and Airbnb, they came at several point discounts to par.

However, I wouldn't say that there's a cautious effort into going into the teeth of the storm. What we're really focused on is investing in those businesses that have the levers that they could pull from a cash flow management perspective to make it through to the other side of the COVID storm.

And we need to feel comfortable that once we do make it to the other side, that this business is going to be worth well in excess of the debt. So there's both a liquidity consideration as well as a solvency consideration. And not all businesses check both of those boxes as well as appropriate structuring and pricing.

So we're saying no a whole lot more than we're saying yes. And we're seeing both private and syndicated opportunities in the market. And I would say on the syndicated side, generally speaking, the pricing has gotten tighter than we would like, and the term is less attractive than we would like.

On the private side, we see a lot in the middle market. We're very, very cautious about that because a lot of the businesses that we see that need financing have an element of risk around them that could result in them not being worth their debt in a year or two from now.

And so we're staying very cautious on our underwriting there. So I guess, the net of it is, we're seeing a lot of deal flow because of our reach as a firm, for sure. And given the firm's DNA and opportunistic investments in distressed investing, the DNA of this particular team's background coming from our distressed group, we're seeing a lot of opportunity there, but we're very focused on structured pricing and the underwriting both from a liquidity and solvency perspective.

Ryan Lynch ***Keefe, Bruyette, & Woods, Inc., Research Division - MD***

With a name like William Morris, which you stressed on the call, and you just mentioned you underwrite those to ensure that they can get to the other side and actually thrive on the other side. But just in such a dynamic economic environment that we're into right now, we don't know when we're going to want to get to that other side as an economy, and we really don't know what that -- the other side will look like going forward and the dramatic changes.

So with those two great unknowns, how can you get comfortable with an investment like this?

Armen Panossian ***Oaktree Specialty Lending Corporation - CEO & CIO***

Well, I mean, look, it is a judgment call. I would say it's just as much art as it is science. So in the case of William Morris, we spoke with management. We spoke with the sponsor at length with both and do have a very good sense that the properties they own, the intellectual properties that they own are quite valuable and hard to replace.

And therefore, we think that there is a significant amount of pent-up demand for the content that they own. They obviously also have a very large representation business where they represent athletes and stars and producers and screenwriters.

So there's some pent-up demand there as well, but of a different type where those people want to get back to work. And so the firm, in addition to having -- to owning those assets, for example, the parent company of William Morris, which is the Endeavor Group, they own assets like the UFC, they own media marketing rights and college sports. Obviously, they're impacted meaningfully right now, but they have the ability to manage cash flows, and they are cutting costs to manage their way through to have a fairly long-term runway on how long they could survive in the current environment.

But with that said, it's very hard for that business to really go away or to be put back together because they created an ecosystem with all of these different areas of talent, with all of these different areas of media rights ownership that I think is very challenging to replicate and will come back quite strong when it does.

So we're supportive of it. We know that the sponsor is very supportive of it. We know the management team is top-notch and on the ball. And so it was, frankly, a judgment call. If it were easy, then I think everybody would be able to do it, but it's case by case. And we've made the judgment call on that one.

Ryan Lynch ***Keefe, Bruyette, & Woods, Inc., Research Division - MD***

Okay. That's -- I really appreciate that color and commentary. That's really good insights in your thinking upon making that investment. And then I just had one other question.

It looked like the investments in the Kemper JV from a par standpoint decreased about $30 million quarter-over-quarter. You guys had some nice growth on Oaktree's balance sheet during the quarter.

Can you just talk about why the JV had had net repayments? And then what the potential outlook for growth is in that vehicle versus the growth that you discussed potentially on your balance sheet?

Armen Panossian ***Oaktree Specialty Lending Corporation - CEO & CIO***

Matt Pendo -- I mean I'm happy to make a comment. And then Matt Pendo, I don't know if you have anything to add, please do. But with Kemper, that portfolio is largely a publicly traded portfolio. We saw meaningful recovery in prices of the assets there.

We thought that some of that price appreciation was inappropriate in terms of what we assess to be the risk in a post-COVID world. And we decided to sell those assets. And many of them had a gain, but to essentially sell those assets, reduce the leverage in that vehicle and kind of just retain some dry powder there because we just thought the market got out of hand.

We don't really have illiquid privates in that JV.

Ryan Lynch ***Keefe, Bruyette, & Woods, Inc., Research Division - MD***

Congrats on the really nice quarter, guys.

Armen Panossian ***Oaktree Specialty Lending Corporation - CEO & CIO***

Thank you.

Operator

(Operator Instructions) We have no further questions at this time. Mr. Mosticchio?

Michael Mosticchio ***Oaktree Specialty Lending Corporation - IR***

Thank you again for joining us for our fiscal third quarter 2020 earnings conference call. A replay of this call will be available for 30 days on OCSL's website in the Investors section or by dialing (877) 344-7529 for U.S. callers or 1 (412) 317-0088 for non-U.S. callers, with the replay access code 10145873 beginning approximately 1 hour after this broadcast.

Operator

The conference has now concluded. Thank you for attending today's presentation, and you may now disconnect.