THOMSON REUTERS

EDITED TRANSCRIPT

Q2 2020 Oaktree Specialty Lending Corp Earnings Call

EVENT DATE/TIME: MAY 07, 2020 / 3:00PM GMT

©2020 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

CORPORATE PARTICIPANTS

Armen Panossian *Oaktree Specialty Lending Corporation - CEO & CIO*
Mathew M. 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

Christopher John York *JMP Securities LLC, Research Division - MD & Senior Research Analyst*
Kyle M. Joseph *Jefferies LLC, Research Division - Equity Analyst*
Richard Barry Shane *JP Morgan Chase & Co, Research Division - Senior Equity Analyst*
Ryan Patrick Lynch *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

PRESENTATION

Operator

Welcome and thank you for joining Oaktree Specialty Lending Corporation's Second 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 be hosting 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 Second 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 corporate website.

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

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

Thank you, Mike, and welcome, everyone, to our second quarter earnings conference call. We appreciate your interest in and support of OCSL. We hope everyone listening is safe and well. The health and safety of our team and the continued effective management of our portfolio remains a top priority as we work with our borrowers, shareholders, credit providers and all stakeholders to navigate the difficult challenges imposed by the pandemic. Oaktree has implemented a firm-wide business continuity plan, operating successfully as a virtual company after seamlessly transitioning to a remote working environment in mid-March. We are capitalizing on Oaktree's first rate technology platform and are fully operational and well positioned to safely and effectively manage the portfolio for the duration of this public health crisis.

As we have discussed many times, we have defensively positioned OCSL for an environment in which we now find ourselves. We have been rotating out of noncore investments and redeploying capital into larger companies that operate in less cyclical, defensive or structurally growing industries. We have been running leverage below our 0.60x debt to equity, maintaining significant dry powder, and we believe the size and scale of Oaktree's investment platform positions us well for this kind of market. Financially, OCSL entered this period in a strong position. And while the environment clearly grew challenging in March, we generated solid operating results for the

©2020 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

full quarter. Adjusted net investment income was $0.12 per share for the second quarter, up 15% from the prior quarter and driven by robust origination activity, opportunistic loan purchases in March and higher investment income. Our earnings strength and ample liquidity support both continued investments and our current dividend level. Our Board declared a $0.095 cash dividend that is consistent with our prior 8 distributions.

However, our portfolio wasn't immune to the extreme market disruption and volatility in March as risk assets saw their valuations deteriorate with historic speed. We reported second quarter NAV per share of $5.34, down from $6.61 in the previous quarter. I'd like to take a moment to discuss this write-down in more detail.

As part of our late cycle investment approach, we are focused on lending to larger, more defensible businesses that we believe will be more resilient in an economic downturn. Over the past 2.5 years that we have been managing OCSL, we've also found attractive relative value opportunities in publicly traded liquid debt securities. And as a result, our exposure to these types of investments has been higher than that of a typical BDC. While we generally invest with the expectation that our investments will be held to maturity, one of the benefits of having liquid debt investments is that it allows us to actively manage risk in the portfolio and move in and out of positions when we believe it is optimal.

One drawback to this active management approach is that our portfolio is notably impacted by mark-to-market volatility as we experienced in the March quarter. Following the sharp price declines in the leveraged loan and bond markets resulting from the pandemic, the prices of our liquid debt investments declined 13% during the March quarter, which impacted NAV by $114 million or $0.81. Another driver of the decline in NAV during the quarter was OCSL's investments in the Kemper JV. As a reminder, the joint venture primarily invests in liquid first lien loans, and it utilizes leverage to increase its investment capacity. The JV's underlying portfolio experienced unlevered mark-to-market price declines of 13% in March and when factoring leverage, which was 1.3x at December 31, OCSL's investment in the JV declined by $36 million, or 28% during the March quarter.

And finally, NAV was adversely impacted by a write-down in some of our noncore equity investments, which include businesses with higher risk profiles. As a result of these headwinds, we wrote down the buyer of these investments for approximately $20 million.

Following the broader credit market in rally, we have experienced some recovery in the prices of our quoted debt investments, which rebounded by approximately 3% during April. We remain very well capitalized with ample liquidity. In February, we tapped the capital markets and priced our inaugural $300 million public note offering that was attractively priced at a coupon of 3.50%. The proceeds of the note offering were used to redeem our higher coupon bonds as well as reduce our revolver borrowings. Our old bonds totaled approximately $160 million and had a blended interest rate of around 6%. So this transaction significantly reduced our cost of funding. As a result of the senior note financing, we closed the quarter with a very strong liquidity position, totaling approximately $385 million, including $90 million in cash. We were active on the investment front during the quarter, particularly in March when the markets dislocated. We originated $273 million of new investment commitments in the quarter, of which 77% were first lien loans, nearly 8% were second lien and the remainder consisted of subordinated debt investments. In March, we made $64 million of opportunistic secondary market purchases at an average purchase price of 82%. Page 8 of the earnings presentation provides more detail on our originations activity by month. Although we received $154 million from the prepayment, paydowns and other exits, our portfolio grew during the quarter, and our leverage expanded to 0.82x net of cash, up from 0.56x at December 31. We have continued to find compelling investment opportunities in this environment and originated $132 million in April, including a co-investment with our flagship Opportunities fund. Armen will discuss this transaction and others in a few moments.

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. Before I share our view on the overall market environment, I'd like to amplify Matt's opening message. We hope everyone listening is healthy and managing well through this challenging period. Individuals, businesses and markets experienced a number of unprecedented events in the first quarter of 2020. More than 1/4 of the national economy went idle amid the pandemic due to government-imposed lockdown. Investor sentiment soured as macroeconomic conditions grew weaker. Amid business closures, spiking unemployment and forecast for GDP contraction, risk assets in both equity and fixed income markets, sold off with

©2020 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

speed and severity in March.

The liquid credit market sold off dramatically as the high-yield bond and leverage loan markets were down over 12% for the quarter, as measured by their most widely followed indices. As Matt noted, this weighed on our portfolio and put downward pressure on NAV. However, extensive fiscal stimulus and monetary policy action have lifted equities and some credit sectors from their lowest point, and we have experienced some recovery in prices of our debt investments as well.

That said, the pandemic has not run its course. And the timing of the recovery remains unknown. The sustained volatility in the liquid credit market is also impacting private credit and direct lending, and we are seeing a decline in deal flow. M&A activity has come to a halt and we believe the most -- that most of the investment opportunities in this segment of the market will be highly structured financing, involving businesses that are in need of liquidity or are seeking to bolster their balance sheets. This is especially apparent in the non-sponsored space where traditional capital market avenues may not be available with certain borrowers. We have already participated in a few financings where we have found attractive risk-adjusted returns.

Now turning to the overall portfolio. Generally, we feel good about the quality of our portfolio and the health of our borrowers. Over the past 2-plus years, we have defensively positioned the portfolio by lending the larger businesses that operate in less cyclical, defensive or structurally growing industries, that we believe will be resilient through a down cycle. That said, our portfolio is not immune to market pressures, and we are closely monitoring all the positions in the portfolio. Our analysts are staying on top of each credit, speaking with management teams, private equity sponsors, industry experts and advisers.

Fortunately, we have largely avoided significant levels of exposure to challenged industries. Energy was limited to 4.6% of the portfolio at fair value at quarter end in four portfolio companies. The bulk of our current energy holdings are in large diversified businesses operating in the midstream and refinery sectors, which we believe have limited downside due to strong structural protection, significant asset coverage and generally low commodity risk. In fact, this is an area of the market that we are finding some interesting opportunities with attractive risk-reward profile, which I will discuss in a few moments. Hotels, restaurants, leisure and entertainment positions collectively accounted for approximately 1.4% of the total portfolio at fair value at March 31.

I also want to update you on our noncore portfolio. We continued to make progress reducing exposure to noncore investments in the second quarter, as we monetized $17 million of noncore positions in the quarter, and noncore investments represented $142 million or 11% of the portfolio at fair value. The reduction in the quarter was driven by the sale of our common stock in YETI, which accounted for $14 million of proceeds. We also received $5 million in proceeds from our exit of Lytx.

In addition, we restructured our position in Dominion Diagnostics. As you may recall, Dominion is a specialty toxicology laboratory that faced headwinds following the Medicare reimbursement rate changes in 2015, resulting in the previous manager placing the subordinated term loan on nonaccrual in March 2016. During the quarter, we closed on a restructuring that converted our existing senior and subordinated debt investments to a mix of secured debt and equity. We believe this restructuring puts us in the best position to maximize recovery in the long term.

Turning now to investment activity. As I suggested earlier, we believe this is one of the most interesting markets for investing that we have seen in recent history. The March quarter was strong overall, with the $273 million of new investment commitments that Matt noted, and we continue to see opportunities in this new market environment. Since the volatility took hold in March, we have been active in the public markets via our trading desk and have been investing in businesses that operate in defensive industries, such as in health care, pharma, infrastructure and telecom. The pace of originations remained steady in April. While we are maintaining modest overall exposure to energy and other virus impacted sectors, we have identified some unique opportunities in these industries with very attractive risk-reward profiles.

Our recent investment in NuStar Energy fits this bill. We participated alongside our flagship Opportunities fund and several other Oaktree strategies in a $750 million unsecured term loan. NuStar is one of the largest independent liquids pipeline and storage operators in the U.S. that primarily transports and stores crude oil, refined products and specialty liquids. The company needed to manage its capital structure due to near-term maturities, creating an opportunity for Oaktree to provide a capital solution. The deal is

©2020 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

attractively priced with a 12% coupon and the structure provides us with significant downside protection, including strong covenants, a short duration of 3 years and a priority position for our debt in the event of asset sales.

In another deal, OCSL was allocated $16 million of a $120 million Oaktree investment in a $1 billion first lien club transaction to Airbnb, the platform that connects travelers with property owners for bookings. The company decided to bolster liquidity to provide a cushion as a result of COVID. Transaction priced at 97.5 with a LIBOR plus 750 coupon has a very good structure, including 2 years of call protection. While this business is, of course, under near term pressure, we believe the company's best-in-class platform, popularity and strong growth profile prior to the pandemic provided it a solid foundation for recovery when travel resumes.

And lastly, we were allocated $34 million of a $90 million Oaktree investment in a term loan to Auven, a private equity fund that owns a portfolio of therapeutic drugs and has several prominent life science investments. The loan is very well-structured with loan-to-value just 10% with our upfront investment along with tight covenants. This 12% loan is secured by all of the assets of the fund.

We believe the coming weeks and months will provide OCSL with substantial opportunities in both public and private investments. With the duration of the shutdowns and nature of the recovery uncertain, we have focused on a few investment themes that we believe should succeed in this environment. In particular, we have been looking at companies that were on a solid footing prior to the pandemic and are well positioned to manage through the pandemic, those with irreplaceable assets, whose values should be unaffected by widespread shutdowns, and businesses, particularly in life sciences that may turn to credit markets given their desire to avoid equity-linked financing.

I want to emphasize again that we have defensively positioned OCSL for an environment such as this. And we believe that our ample liquidity, along with the scale and resources of Oaktree, position us well to take advantage of attractive opportunities in this new market.

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 second quarter of fiscal 2020, we reported net investment income of $22.8 million, or $0.16 per share, up from $7.8 million or $0.06 per share for the first quarter. The increase was the result of higher investment income and lower net expenses. The lower expenses were mainly due to a reversal of accrued Part II incentive fees in the quarter due to unrealized depreciation on investments.

As you may recall, GAAP requires us to take unrealized gains and losses into account when accruing or in this quarter's case, reducing the accrual of Part II incentive fees. As we had a significant amount of unrealized losses in our portfolio this quarter, all Part II incentive fees, which were previously accrued on a GAAP basis, have been reversed.

Adjusted net investment income, which excludes the impact of Part II incentive fees, was $16.2 million or $0.12 per share for the quarter, up from $14.1 million or $0.10 per share from the prior quarter. The increase was primarily due to higher investment income that was partially offset by higher interest expense. During the quarter, total investment income was $34.2 million, up from $31 million in the previous quarter. The increase was due to several factors, including higher interest income resulting from a larger portfolio, higher prepayment fees and OID acceleration on payoffs and higher origination fees on new investments. Partially offsetting these increases was downward pressure on the average yield of our floating rate debt investments, mainly due to continued decreases in LIBOR.

Net expenses, excluding Part II incentive fees, totaled $17.9 million in the second quarter, up $1.1 million sequentially. The increase was mainly driven by higher interest expense due to increased borrowings as a result of our larger portfolio.

Turning to credit quality. During the quarter, all of our portfolio companies made their scheduled interest payments with the exception of one company that modified its interest payment to PIK in order to preserve liquidity.

As of March 31, nonaccruals represented 0.5% of the total portfolio at fair value, up from 0.1% in the prior quarter. The increase was due to two liquid debt investments totaling $5 million of fair value that were added to nonaccrual after experiencing price deterioration in the quarter.

©2020 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

Moving to the balance sheet. As Matt noted, our leverage ratio increased to 0.94x from 0.58x at December 31, reflecting growth in the portfolio during the quarter as well as the decline in NAV. Additionally, we held nearly $90 million in cash on our balance sheet at quarter end. So our net leverage ratio was 0.82x. We funded $252 million in investments, which was greater than the $154 million in payoffs and exits.

As of March 31, total debt outstanding was $699 million and had a weighted average interest rate of 3.1%. The weighted average interest rate was down from 4.5% at December 31, in part due to the successful financing that we completed in the quarter, issuing $300 million of senior notes at a 3.5% coupon and using part of the proceeds to retire all $161 million of our unsecured bonds, which had an average rate of around 6%.

In addition, Moody's and Fitch affirmed our investment-grade credit ratings reflecting our strong liquidity position and lower leverage. At quarter end, we had total liquidity of approximately $385 million, including $90 million of cash and $295 million of undrawn capacity on our revolving credit facility. Unfunded commitments were $92 million, although we note that approximately $60 million of this amount is eligible to be drawn.

Our liquidity position remained solid through the end of April. As of April 30, we had $328 million of liquidity to support our funding needs, broken down by $68 million of cash and $260 million of available capacity under the credit facility. Unfunded commitments eligible to be drawn as of April 30 were $75 million.

Shifting now to the Kemper joint venture. Our investments in the JV totaled $92 million at March 31, down from $128 million last quarter. As Matt touched on earlier, the levered nature of the JV, coupled with unrealized price declines in the underlying investment portfolio resulting from the broader market volatility contributed to the decline in the value of our investments in the vehicle. Excluding the impact of leverage, the JV's underlying investment portfolio at fair value declined 13% during the quarter and has recovered by approximately 4% in April.

As of quarter end, the JV had $330 million of assets invested in senior secured loans to 53 companies. This compared to $352 million of total assets invested in 51 companies last quarter. Leverage at the JV was 1.8x at March 31, up from 1.3x last quarter and its $250 million credit facility had $56 million of undrawn capacity at quarter end.

Now I will turn the call over to Matt.

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

Thank you, Mel. While the environment has certainly become more challenging for many of our portfolio companies, we nonetheless generated solid operating results for the second 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. We have been running leverage low and keeping a lot of dry powder. And as a result, we are very well capitalized with strong liquidity.

Given the significant size and scale of Oaktree's investment platform, we are well positioned to invest in this market environment as opportunistic, special situation credit lending is a hallmark of Oaktree's investment approach.

As Armen noted, we have already invested in a few of these opportunities since quarter end and expect to be active going forward. However, we will remain patient and disciplined in our deployment of capital as we believe there will be an increasing number of opportunities that will arise over time as the crisis persists and the economic fallout continues. As a result, we are adjusting our leverage target higher to a range of 0.85x to 1.0x. We believe that this range is reasonable given our near-term outlook and the increased investment opportunities that we are seeing. In addition, we have placed a renewed emphasis on further positioning the portfolio for improved yield by rotating out of quoted senior secured loans with yields at or below LIBOR plus 450 basis points. In April, we sold $18 million of these lower-yielding broadly syndicated loans.

Pro forma for these exits, approximately $230 million of these investments remain in the portfolio at fair value as of April 30, which we

©2020 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

plan to replace over time with higher-yielding proprietary investments that we expect to make given current market conditions.

In conclusion, we are generally pleased with our overall performance for the second quarter given the extreme circumstances. 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're happy to take your questions. Operator, please open the lines.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question today will come from Rick Shane with JPMorgan.

Richard Barry Shane ***JP Morgan Chase & Co, Research Division - Senior Equity Analyst***

Look, you guys have positioned yourselves well for this environment. I am curious as you sort of move through things both from an origination and from a portfolio management perspective, how you look at the syndicated loans versus the private loans? One of the things that we're starting to believe is that sponsors are going to be in very significant buffer over the next 6 to 9 months related to transactions. And I'm curious if you think that in your syndicated deals you have as much influence with -- or contact -- or influence with the sponsors and if that's a risk that we should be considering within the portfolio?

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

Thanks for the question, Rick. This is Armen. So we're looking at both public and private situations. We are considering the relative value between the two, and obviously, on the public side prices are moving every day. And we found some good opportunities in March, some opportunities in April, and frankly, exited some situations that have moved up. We are engaged with sponsors, both for companies that have publicly traded debt as well as privately placed loans. We are not sure right now in terms of, a) the depth of the challenges around coronavirus and how long they may last. And b) I don't think that sponsors, by and large, have a lot of clarity on how deep of a pocket they are willing to dig into to help out these businesses. So I think it's in a state of flux. We have very close relationships with a lot of sponsors. And we do think that we have a good call into them for rescue financing. As our comments indicated, we are already engaged -- we have already engaged in several rescue financings. So I think it's too early to make too much of a statement around where the opportunities may lie or where the risks may lie. But we do have a very active trading desk. We are looking at opportunities all the time and working with other strategies at Oaktree to gauge the attractiveness of those opportunities. And meanwhile, through our sourcing engine, we're working closely with companies and sponsors to provide liquidity to businesses that we would like to lend to at a certain attachment point.

Richard Barry Shane ***JP Morgan Chase & Co, Research Division - Senior Equity Analyst***

Got it. Okay. That makes sense. You made the comment that some of the value within the JV has rebounded as we moved through April. I'm curious how to think about that in the context of the secondary market prices that you show on Slide 8, which were 82% in March and 72% in April. Is that just because the 82% pricing was sort of your acquisition cost, as you moved through the month that it might have been cheaper at the end of the month and we've seen a rebound since then?

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

Yes. So what this shows is in terms of the far right column on Page 8, our secondary purchase prices of securities. In March, as the markets did dislocate, we began buying in the middle of March. Obviously, the market was quite volatile. We did see a little bit of a rebound by the end of March. In April, our buying activity was in a variety of different types of securities. We were looking for those opportunities that continued to be dislocated that we thought had assets and other value that would support the recovery on our position. Meanwhile, as the rest of the market moved up, we did take some chips off the table and sold a little bit. So it was more portfolio management and looking for discounted, but good upside opportunities, and that's kind of the reason the numbers look the way they do. So just looking for opportunities that we thought had better upside in April as the markets kind of rallied.

©2020 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

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

Yes. I think...

Richard Barry Shane ***JP Morgan Chase & Co, Research Division - Senior Equity Analyst***

Terrific. And clearly there are a lot of moving parts right now...

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

Hey, Rick, it's Matt. Hopefully, you can hear me. The -- as it relates to the JV, the way I think about the assets there, those aren't on this Page 8, but as I said in prepared remarks that in April, our liquid kind of quoted assets were up 3% at the asset level. So you can use that to kind of get a sense of how that translates into the JV.

Operator

And our next question will come from Kyle Joseph with Jefferies.

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

In terms -- I just wanted to get a sense for your outlook for yields here. Obviously, rates came down in the quarter. Can you remind us your portfolio exposure or what percentage of your portfolio has LIBOR floors? Or have those been engaged? And then given some of the opportunistic secondary transactions you've been able to add to your books, kind of your overall outlook for the yield -- for the portfolio going forward from here?

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

Sure. This is Armen. So first of all, about 90% of our portfolio is floating rate. I don't have the numbers right in front of me in terms of LIBOR floors. I don't know if Matt (inaudible)

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

Yes. It's about 60%, about 60% have 1% floors.

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

There we go.

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

Okay. That's helpful. And then...

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

So -- and I do -- I mean I do -- kind of LIBOR side, if you look at where we're seeing opportunities to invest, it's obviously at relative -- significantly higher yields than the existing portfolio, even with LIBOR going down.

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

Yes. That's helpful. And then we've seen a number of other BDC's report. Can you give us a sense for competitive dynamics within the industry? Obviously, you guys have been active in terms of originations on the secondary side and your outlook for the BDC industry and any potential consolidation opportunities?

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

This is Armen. I don't think we could comment on our strategic initiatives vis-à-vis M&A and certainly would be a forward-looking statement. In terms of the competitive dynamics in the BDCs, I think the only comment that I can make is that OCSL came into this period pretty defensively positioned and pretty lightly levered. I don't think anybody anticipated coronavirus being what it is. But we being part of Oaktree and with that DNA of the firm running through this BDC, I think, has created an opportunity for us to patiently invest and look for pretty nice discounted opportunities and rescue lending opportunities in the market. And I think we're pretty differentiated in that way, and that's kind of all I would say about the competitive dynamic.

©2020 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

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

Yes. And Kyle, it's Matt. Just to add on to that. If you -- in Page 8 of our deck, I think, as we discussed earlier in the last question, it lays out, I think, pretty well the activity in both March and April, and you could see the volume and the price. And then on Page 7, if you could look at our April analysis, we originated some assets, $95 million, north of 10%. So that gives you a sense of kind of what we're doing and seeing.

Operator

Our next question will come from Chris York with JMP Securities.

Christopher John York ***JMP Securities LLC, Research Division - MD & Senior Research Analyst***

So I think some investors may be pleased to see that you're quite active in the secondary markets for leveraged loans and bonds in March and then in April as credit spreads have not tightened. But why should we expect the longer-term outcomes of these investments will be different than previous liquid purchases like CPK and Covia, which are now marked at losses.

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

Sure. This is Armen. CPK is a noncore asset, but you do bring up a good point that like investing broadly, both in public and private markets, there's risk. You can make mistakes in private loans or public investments. I can't make promises that mistakes won't be made. But with the benefit of the broader Oaktree platform, our trading desk or various different groups here as well as the Strategic Credit group that is day in, day out, managing this portfolio, we are looking for very attractive investments. In the case of Covia, that was an energy oriented investment that was not something that we've done a lot of. We have not -- we don't have a significant amount of energy exposure in the portfolio in this particular period of time. Energy, obviously, has been ground zero for what we've seen in the market. And so where we are looking for opportunities are where companies have hard to replace assets that we can structure around or can attach to whether it's a private loan or a publicly traded loan, we're really looking for a diversified portfolio that is outside of the riskiest sectors, which would be energy as kind of point number one. And in the case of restaurants, we're really not doing much in terms of restaurants, either, as I mentioned. CPK was noncore, but we're really not looking to add in the restaurant space right now.

Christopher John York ***JMP Securities LLC, Research Division - MD & Senior Research Analyst***

Okay. Helpful. And then just clarifying something on the noncore comment. Just can you remind us what that noncore definition is and then was non -- so was CPK a Fifth Street investment? Or was it an Oaktree investment?

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

It was a Fifth Street investment. And the definition of noncore is essentially, if we were in a legacy position from Fifth Street that we ourselves would not have put all in. And it was defined 2-plus years ago. It was differentiated 2-plus years ago.

Christopher John York ***JMP Securities LLC, Research Division - MD & Senior Research Analyst***

Okay. And then following up, investors are likely to appreciate the ability to co-invest with other Oaktree funds in this environment, and it's a big strategic advantage. But just out of curiosity, how is the fee structure for your opportunities fund compared to the BDC's fee structure?

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

It's not meaningfully different. I would say it's within the same ZIP code. I want to be mindful of certain regulatory reasons not to discuss fees of other funds now. But happy to refer you to our marketing group to find out more, but it's not too different. And we have built our compliance framework here to make sure that co-investments are shown to the BDCs and the team that was responsible for investing the BDCs has the independent judgment to participate or not. And those processes are monitored and approved by the Board on a regular basis.

Christopher John York ***JMP Securities LLC, Research Division - MD & Senior Research Analyst***

Got it. Moving just to leverage. If you think the investment opportunity set has improved and then expect it to rise over time from further dislocations. What is holding you back from increasing your target leverage above 1x?

©2020 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

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

Chris, it's Matt. I think the -- at this point, we've taken it to 0.85x to 1x, which is up from 0.7 to 0.85, so up meaningfully. A lot of uncertainty regarding the virus pandemic, how long it lasts. So at -- and kind of based on the assets we're seeing, and also our ability, given kind of the good news, bad news, the liquid nature of our book creates more volatility as you've seen, but it also creates liquidity. So we do have the ability to rotate a meaningful part of the book from lower-yielding to higher-yielding opportunities as we see those. So we're not totally dependent upon leverage to buy new assets. So at this point, again, just given the uncertainty, we thought this is the right level. The agencies are comfortable with it, our banks are comfortable with it, we're comfortable with it. And we also have the ability, given the liquid nature of our portfolio. If we see lots and lots of great opportunities, we can use that to create liquidity as well.

Christopher John York ***JMP Securities LLC, Research Division - MD & Senior Research Analyst***

Got it. That helps. Last question. Presumably, you've been hoping that the markets would soften and create opportunities for more strategic initiatives and to grow the BDC. This environment should create those opportunities. So what was the thought process in not asking shareholders to issue stock below NAV to allow you to finance a potential transaction?

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

Well, I -- that assumes we have to: One, issue shares to do a strategic transaction, which may or may not be necessary. Two, if there was a strategic transaction, we can go to the shareholders and ask for approval to do it. So we just don't view that right now as kind of a key. The ability to issue shares below NAV is kind of something we need to do for strategic purposes or others, and that we always could. So we have that in the arsenal if we need to go to shareholders. And if we did some sort of kind of stock-based merger, that would most likely to be a shareholder vote required on one or both sides. So I'm not sure that -- the timing would save anything.

Christopher John York ***JMP Securities LLC, Research Division - MD & Senior Research Analyst***

Okay. So just to clarify, you would ask for a special meeting if the opportunity set created something where you wanted to be strategic to allow you to potentially issue equity. Is that all hypothetical?

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

Well, I'm just saying -- yes, I'm just saying we could. Like if we -- if we could do that -- if we need -- if there was an -- if there was a situation or opportunity where we had to issue shares below NAV for an acquisition, we could go to the shareholders and ask for approval to do that, ask for approval to do the transaction depending if that's required, et cetera. So my point is, we can always -- we can always call a special meeting to issue shares below NAV if we need to.

Operator

(Operator Instructions) Our next in will come from Ryan Lynch with KBW.

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

I hope you guys are all doing well. My first question, I have a couple of questions regarding Slide #8. In March, out of the -- in the March and April months, out of the $118 million and $132 million that you guys report as -- some of them are secondary market purchase is a decent amount. But the nonsecondary market purchases, do you have a rough dollar amount of out of the deployments of those 2 months that were either revolver drawdowns from existing commitments or delayed draw term loans from your existing borrowers? And also on that, how do you guys foresee that? How have the trends been in that as we kind of look forward? Do you expect those -- the revolver, obviously, delayed draws typically have some -- are subject to some provisions in there. But what is kind of your outlook for people's moderations or the cadence of people pulling down those delayed draw term loans going forward -- or excuse me, the revolvers going forward?

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

Sure. So this is Armen. Page 8 does not include revolver draws or delayed drawn term loan requests. So it's really new investments that we made, not follow-ons to existing commitments. Now we did get hit on some revolvers. But for us, undrawn revolvers are not a material portion of our book. So about $18 million -- so of our revolvers, about $80 million -- I'm trying to go through my notes here.

©2020 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

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

Armen, it's Matt. $18 million. We funded $18 million of revolver draws in March.

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

There we go.

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

(inaudible) April, definitely teeny-tiny.

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

This is Mel. In April, as I've said in my prepared remarks, there was $75 million eligible to be drawn of unfunded commitments on revolvers.

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

How much was actually drawn down? Do you see that from the 18 that were funded in March, has there been less funded in April? I'm just trying to get a...

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

Yes, it's only a couple of million.

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

Only a few of million, yes.

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

Okay. Perfect. And then as -- again, as I look at Slide #8, as far as the secondary market purchases, the $64 million in March and the $16 million in April. Obviously, every loan is going to be different. But it's the general sense that you're not planning on holding those loans to maturity, and those are more kind of relative value trades that you guys are planning on exiting throughout 2020, obviously, depending on the price you could exit at? Or are those sort of opportunistic purchases that you really kind of like the long-term prospects and plan -- are holding on the yield to maturity you're comfortable with and trying to hold new maturity. Just in general sense, I know every loan is probably different.

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

Sure. So it's a combination of both. Everything we buy is with a view that we're happy to hold it to maturity. But we also recognize that when things move up and the prospective returns are unattractive relative to the other opportunity set out there, especially in opportunistic private loans, rescue loans, that's when we would look to monetize those positions and redeploy into something that has a better prospective return. But we don't -- we don't buy anything with the view that it's just a market timing event. We buy it with a view that we're happy to own it at that creation value. And if it moves up, it moves up, and we'll try to find something else to do that has a better return -- better risk-adjusted return at that point.

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

Okay. Makes sense. Kind of a higher-level question on your platform. Regarding the deal sourcing and originations. Obviously, Oaktree as a platform has a huge broad reach into the credit markets. You guys made a lot of secondary market purchases this quarter and quarter-to-date. Airbnb is an interesting loan. You made a sizable loan to NuStar, which is a publicly traded company. Those are obviously a lot of different sort of investments and strategies. You also have mentioned your trading desk. I would assume that doesn't fit under the strategic credit group. I would assume that there's a different -- that's a different part of Oaktree that the Strategic Credit group is working with, but correct me if I'm wrong in that. And so I'm just trying to get a sense of there are a lot of different things going on at Oaktree. There are a lot of the different kind of investments that are going to OCSL, which I think is a good thing speaks to your platform. Can you kind of just pull back the curtain and kind of give us some information on how you guys are kind of viewing everything and how the different teams are working together, particularly with like the trading desk and the liquid loans versus these private transactions like the Airbnb or even the publicly traded company like NuStar?

©2020 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

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

Sure. I appreciate the question. So first of all, so our traders are organized by product specialties. So we have dedicated traders in loans, dedicated traders in bonds, we have distressed -- dedicated traders that work with special situations oriented parts of the banks. So we cover every trading desk on Wall Street, in multiple different ways. It's not a small operation. Those traders are obviously -- they face off with similarly oriented folks on the other side. They work for all groups at Oaktree. They work for the distressed group or high-yield group, loans group, Strategic Credit, emerging markets, et cetera. So there's a lot of information flow from the traders to every strategy at Oaktree. There's a lot of information flow across strategies at Oaktree. And that's part of my role as Head of Performing Credit at Oaktree, I actually sit on top of what we do in our performing credit strategies, both on a liquid and illiquid basis. On the liquid side, that's high-yield bonds, that's loans, convertibles globally. And so we have a lot of information sharing tools that help transfer information from one group to another to understand what risks they may see in a particular industry or in a particular credit. We will have often 2 or 3 sets of eyes or groups looking at the same credit or the same industry from a different risk tolerance perspective, because we'll have a stressed analyst in health care, a performing credit analyst in health care and senior loans and in high yield. We'll have an analyst in Strategic Credit as well, so -- looking at health care in that example. And so it is on all of us, and it is a very important part of my role at Oaktree to make sure that information is being very fluidly shared. The analysis is being shared. When we do interface with companies, sponsors, banks, intermediaries, advisers, it is very important that each strategy includes the others, so long as we don't have information walls that restrict our ability to do so. And so -- I can tell you there are a lot of eyes looking at credit at Oaktree at all times, and we do a very good job of sharing those ideas. It is not uncommon and it was not uncommon in March, especially as our senior loan and high-yield bond funds look at credits and industries as those traded off and babies were being thrown out with the bathwater, there were a lot of e-mails flying around to the Strategic Credit teams, the team that manages the BDCs, saying, "Hey, this doesn't make any sense. You ought to take a look." Here's what I've done on it". And the reverse would also take place where our Strategic Credit team would notify certain price movements, we would flag it for our high-yield and senior loan team just in case they owned it. If they did own it, they would share the information. Obviously, if they didn't own it, they too would take a look. And there was a lot of cross group collaboration, which is especially powerful during periods of dislocation.

On the private side, we have a variety of different teams at Oaktree that work on privately negotiated transactions. They might be equity, they might be structured equity, they might be debt. As you know, we have a middle-market direct lending and mezzanine team that has had a very long track record in investing in sponsor-backed deals, both on a senior secured and on a subordinated basis. Their relationships have contacted them about potential deal flow. We've seen some potential opportunities from them. And it frankly helps them understand what else we're seeing on the more opportunistic side, both in public and private markets. And so there too, on the private side, there's information sharing.

In the case of NuStar Energy, we have an infrastructure -- private equity team at Oaktree that -- and we also have a power opportunities private equity team at Oaktree. In the case of NuStar, it was a relationship from that strategy because they invest in energy infrastructure, which is really what NuStar is. I wouldn't say that it's really an energy business. It's a company that owns pipeline and storage attached to very important refineries in the U.S. and it was through that relationship that we sourced that transaction at Oaktree as a whole, took down $750 million in a private deal. And so we were only able to do that because of the breadth of our platform, but also within each strategy, the depth of experience that resides there.

So I think we do a pretty good job of making sure we see a lot of deal flow. We do a pretty good job of making sure everybody at Oaktree knows the various risk-adjusted return profile of the strategies that participate at Oaktree, whether it's our distressed debt business or special situations or private equity businesses or in the case of our BDCs as well. So that's kind of the -- I don't know, multi-variant nature of the way we go about sourcing, both in public and private, and we have dedicated resources as well attached to the BDCs that are looking for sourcing all day long in addition to the other strategies of the firm. So it's an exercise in collaboration every day, and it becomes more active, for sure, during times of dislocation given Oaktree's orientation in the market.

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

That's really helpful color and great detail broadly across the Oaktree platform, and I think definitely shows some of the benefits that you guys can access and the BDC -- the ability to access. Just 1 quick follow-up on that point in that question. Just because in your prepared comments, you mentioned potentially being in contact with doing some rescue financing. I would was thinking in normal environment

©2020 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

over the last several years, you guys probably wouldn't partner too much with any of your distressed funds. Given just the environment that we're in, I would just -- given that the change that we're in today with a lot of companies quickly dramatically becoming distressed, do you guys have the ability and willingness to start partner with any of your stressed funds for some opportunities going forward in this environment?

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

Well, I mean, absolutely. The NuStar deal is in partnership with our distressed funds. So -- and the other area of potential partnership is with Brookfield Asset Management, which is a majority investor in Oaktree now. So we have, through Brookfield, have meaningful touch points in the market. I mean, they are the he-mans in real estate, in private equity, infrastructure and renewables. And as you can imagine, with the reach and collective AUM that they have, there's a lot that they see that may not fit in their world, but does fit ours. So we do expect that we will see more in partnership with our distressed funds. And I think you're right that historically, given the market environment, we did a little bit less because their investments were of a nature that were far more distressed opportunistic, had risk of restructuring that we were not willing to take on for the BDCs. We really want to stick to performing credit for the BDCs. And we are finding performing credit that is dislocated and priced attractively in this market. So we'll take that opportunity. But at times, when that opportunity doesn't exist, we're not going to stretch on risk just to do stuff with our distressed team.

Operator

This will conclude today's question-and-answer session as we are out of questions. I would like to turn the conference back over to Mr. Mosticchio.

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

Thank you again for joining us for our second quarter 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 (412) 317-0088 for non-U.S. callers with the replay access code 10141939, beginning approximately 1 hour after this broadcast.

Operator

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

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Briefs are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT BRIEFS REFLECTS THOMSON REUTERS'S SUBJECTIVE CONDENSED PARAPHRASE OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT BRIEF. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2020 Thomson Reuters. All Rights Reserved.

©2020 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.