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Q1 2022 Oaktree Specialty Lending Corp Earnings Call

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PRESENTATION

Operator

Welcome, and thank you for joining Oaktree Specialty Lending Corporation's First Fiscal Quarter 2022 Conference Call. Today's conference 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 First 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 Chris McKown, Chief Financial Officer and Treasurer.

Also joining us on the call today for the question-and-answer session is Matt Stewart, the company's newly appointed Chief Operating Officer, the role he took over from Matt Pendo last week.

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 M. Pendo ***Oaktree Specialty Lending Corporation - President***

Thank you, Mike, and welcome, everyone. We appreciate your interest in and support of OCSL.

We produced strong results in the first quarter and started our fiscal year with steady origination activity and solid credit quality. We again grew NAV and adjusted net investment income, supporting our seventh consecutive quarterly dividend increase.

We reported NAV per share of $7.34, up 1% from the prior quarter. The increase was primarily driven by unrealized gains in our portfolio as well as undistributed net investment income and successful realizations of non-core positions.

Adjusted net investment income per share was $0.17 for the quarter compared with $0.16 for the prior quarter. This was driven by higher interest income and fee income, partially offset by increases in incentive fees and interest expense. This builds on the earnings power we established in 2021 when we achieved record annual adjusted net investment income under Oaktree's four years of management.

Given the strength and consistency of our earnings, our Board once again increased our quarterly dividend, lifting it by 3% to $0.16 per share. Our dividend is now up 68% from its pre-COVID level.

Now turning to the portfolio. We originated $300 million of new investment commitments in the first quarter. Of these, 73% were first lien loans and included $227 million in private transactions and $73 million in the new issue primary market. The weighted average yield on new debt investments in the quarter was 8.1%.

Capitalizing on the full breadth of the Oaktree platform as well as our team's experience investing across multiple cycles, we expect continued strong origination activity. Even in a highly competitive environment, we are confident we can continue to leverage the platform and invest resources to find deals that are structured and priced favorably.

We received $235 million from prepayments, paydown and exits in the December quarter. This included exits and payoffs of $44 million of lower-yielding investments. The average yield of investments that we exited was 7.5%. Notably, our non-core portfolio declined by nearly $40 million and now stands at $95 million or just under 4% of the portfolio at fair value at the close of the quarter.

We continue to selectively reinvest these proceeds into higher-yielding attractive opportunities.

Credit quality remains excellent, reflecting our sourcing capabilities and disciplined approach to underwriting. We invest selectively across a wide range of opportunities, enabling us to identify attractive opportunities while minimizing risks. As with the prior quarter, we had no investments on nonaccrual at the close of the first quarter.

With respect to the right side of our balance sheet, we have also identified additional opportunities to further enhance our borrowing flexibility and ensure we maintain ample liquidity to meet funding needs. During the quarter, we increased capacity on our credit facilities, increasing the size of our revolver to $1 billion from $950 million with the addition of a new bank. We also increased our low-cost Citibank Facility to $200 million from $150 million. The weighted average interest rate on debt outstanding was 2.3% in the December quarter, down slightly from 2.4% the prior quarter.

I would also like to share an important addition to our leadership team. Last week, our Board appointed Matthew Stewart as Chief Operating Officer of OCSL. I will continue in my role as President. Matt joined Oaktree in 2017 and prior to this promotion, served as the Senior Vice President and Investment professional on our Strategic Credit team. Matt brings a wealth of experience and expertise in the role, and we are confident he is well suited for the job.

Now I would like to turn the call over to Armen.

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

Thanks, Matt, and good day, everyone. I'll begin with comments on the market environment and continue with some additional highlights from our fiscal first quarter.

Macroeconomic conditions held strong through the December quarter, supporting continued low default rates in the credit markets and overall strong credit quality. Supply chain disruptions and inflationary pressures, however, remain reasons for caution. Pandemic-induced supply constraints and labor shortages intersected with pent-up demand for a range of goods, resulting in elevated prices and the highest level of inflation in the U.S. since the 1980s.

Many economists expect inflationary pressures to persist through the first half of 2022, and the Federal Reserve has signaled that it will raise interest rates soon to tackle inflation and cool the economy before it overheats.

Should rates climb this year, investors may look for value in floating rate asset classes, including private credit. However, investors venturing into this market now must be especially selective because private equity firms, which in 2021 had record levels of available capital are pushing up prices for companies in private markets as they deploy stockpiles of dry powder.

Beneath all of this, of course, is the ongoing pandemic. Like the Delta variant before it, the Omicron strain has spread rapidly throughout the United States and globally, forcing new travel restrictions in a number of countries around the world. This reminded all of us that the coronavirus remains a concern as we enter 2022. Its ultimate impact on both global demand and supply remains unknown. So, we continue to believe it's important to view the current environment with caution and flexibility.

As we have seen in January, the equity and government-related fixed income markets have experienced a good deal of volatility. Investors are expressing a high degree of uncertainty regarding how forceful the Fed will be in returning to a more historically normalized monetary policy. If this volatility continues or increases, it raises the potential for some market dislocation in our investing universe. If that is the case, we are well prepared to act. Oaktree's roots are in opportunistic credit investing, and we have demonstrated time and again over the years our deep expertise in investing in these types of market environments.

As you may remember, in 2020, when the financial markets experienced significant dislocations as an initial response to the pandemic, OCSL made several investments that turned out to be quite profitable and accretive to NAV. While we can't predict what the future holds, we can assure you that we are well prepared for all possible scenarios.

With all of that in mind, we maintain our focus on relative value and the best risk-adjusted returns. We capitalize on Oaktree's scale to invest across multiple industries with a diversified group of issuers and we leverage Oaktree's vast resources and capabilities to negotiate and structure customized private deals that provide downside protection.

In some cases, we are identifying opportunities in less traffic corners of the market by lending to non-sponsor owned businesses. But we also continue to assess the sponsor lending market, teaming with trusted private equity firms with operational advantages in attractive industries.

We also continue to identify compelling borrowers in the life sciences and technology arenas. We view these sectors as long-term beneficiaries of the increasing importance of applied sciences and digital commerce.

In summary, we are actively but carefully putting capital to work on favorable terms, ensuring that as we grow, we do so in ways that minimize risk while also generating solid returns for our shareholders.

Now turning to the overall portfolio. At the close of the first quarter, our portfolio was well diversified with $2.6 billion at fair value across 140 companies. 87% of the portfolio was invested in senior secured loans. Importantly, first liens have grown to represent 70% of the portfolio, up from 60% one year ago, reflecting our conservative investment approach and emphasis on being at the top of the capital structure. Nearly 92% of our loans are floating rate, positioning us well if rates rise.

Median portfolio company EBITDA at December 31 was approximately $105 million. As you know, we have been lending the larger, more diversified businesses to lower risk and bolster credit quality.

Moving on to investment activity. Although competition remained elevated, we leveraged the Oaktree platform to originate $300 million of new investment commitments across 12 new and 9 existing portfolio companies in the December quarter.

I'd like to share with you a couple of illustrative examples of the opportunities we are finding, beginning with Mesoblast.

This biotech firm develops and commercializes allogeneic cellular medicines in the United States and several other countries overseas. Mesoblast offers products addressing a wide spectrum of medical conditions, including in the areas of cardiovascular, spine orthopedic disorders, oncology, hematology and inflammatory diseases. The company is currently collecting royalties on multiple products and has a range of late-stage product candidates that give it a robust pipeline.

Oaktree provided a $90 million sole commitment to support the company's continued growth activities. OCSL was allocated $11 million of this first lien term loan at an attractively priced 9.75% yield.

Another compelling investment for us in the first quarter was our loan to PF Supreme, one of the largest Planet Fitness franchises in the U.S. with 70 locations, primarily in New York and California.

This is a sponsor-backed investment in a company that has been steadily recovering from the shocks of the coronavirus and has seen its membership rebound close to pre-pandemic levels. The company sought more flexible capital to fund its recovery and anticipated future growth. Oaktree provided a $120 million commitment priced at LIBOR plus 7% in a first lien term loan, of which OCSL was allocated $30 million. Following this financing, the company is appropriately capitalized even when considering the impact that the pandemic had on its performance.

Our origination activity remains healthy and gives us substantial momentum as we progress further into 2022.

Finally, I also want to congratulate Matt Stewart on his new role within Oaktree. He is a key contributor on our deep and talented team. Now I will turn the call over to Chris to discuss our financial results in more detail.

Christopher McKown ***Oaktree Specialty Lending Corporation - CFO & Treasurer***

Thank you, Armen. Hello, everyone.

OCSL delivered another quarter of solid financial performance, starting off fiscal year 2022 with strong momentum.

For the first quarter, we reported adjusted net investment income of $31.2 million or $0.17 per share, up from $29.1 million or $0.16 per share in the fourth quarter of 2021. The increase was the result of higher interest income generated from a larger average portfolio, combined with higher income from prepayments. Partially offsetting this was higher interest expense and higher incentive fees.

Net expenses for the first quarter totaled $29.3 million, up $1 million sequentially. The increase was mainly due to higher incentive fees driven by our continued strong financial performance as well as higher interest expense due to an increase in borrowings and our larger investment portfolio.

We accrued $1.7 million of Part II incentive fees under GAAP in the December quarter. As a reminder, while GAAP requires us to take unrealized gains into account when accruing Part II incentive fee expense each quarter, OCSL will only pay these incentive fees annually and to the extent that it has realized gains that exceed realized and unrealized losses at fiscal year-end.

Turning to credit quality, which continues to be excellent. As Matt mentioned, we had no investments on nonaccrual at quarter-end as all of our portfolio companies made their scheduled interest payments.

Now moving to the balance sheet. OCSL's net leverage ratio at quarter-end remained consistent with the September quarter at 0.95x. Net leverage continues to be near the high end of our target range of 0.85 to 1x.

As of December 31, total debt outstanding was $1.3 billion and had a weighted average interest rate of 2.3%. Unsecured debt represented 50% of the total debt at quarter-end, in line with the prior quarter.

At quarter-end, we had total liquidity of approximately $594 million, including $44 million of cash and $550 million of undrawn capacity on our upsized credit facilities.

Unfunded commitments, excluding unfunded commitments to the joint ventures, were $246 million, with approximately $203 million of this amount eligible to be drawn immediately as the remaining amount is subject to certain milestones that must be met by portfolio companies.

As Matt mentioned, we increased capacity on our credit facilities in the quarter, raising our revolver to $1 billion from $950 million and welcoming a new bank to our syndicate of 19 lenders. We also increased our Citi Facility to $200 million from $150 million. We continue to maintain ample liquidity to meet our funding needs.

Now turning to our two joint ventures. At quarter-end, the Kemper JV had $393 million of assets invested in senior secured loans to 61 companies. This compared to $379 million of total assets invested in 55 companies last quarter. Assets grew as a result of new originations made during the quarter. The JV generated $2 million of cash interest income for OCSL in the quarter, and we also received a $450,000 dividend. Leverage at the JV was 1.4x at quarter-end comparable to the September quarter.

The Glick JV had $145 million of assets on December 31. These consisted of senior secured loans to 44 companies. Leverage at the JV was 1.1x at quarter-end. OCSL's subordinated note in the Glick joint venture totaling $56 million continues to be current. During the quarter, we received $1.2 million of principal and interest payments on the notes.

In summary, we continue to be very pleased with our financial results and believe our diverse portfolio and flexible balance sheet positions us well for the future. Now I will turn the call back to Matt.

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

Thank you, Chris. Our strong financial results for the quarter enabled us to generate an annualized return on adjusted net investment income of 9.5%, higher than last fiscal year's quarterly average of just over 9%. We have been targeting ROE in the high single digits, and we are now right where we said we would be. However, we believe that we still have some room for improvement. We remain focused on positioning the portfolio for an improved yield by rotating out of lower-yielding investments and into higher-yielding proprietary loans. We made good progress again this quarter, exiting $44 million of loans priced at or below LIBOR plus 4.5%, leaving only $40 million left in the portfolio.

Our new investments continue to come on the books at attractive yields, which means there is more upside in yield on that portion of the portfolio that we expect to realize over time. And to the extent that we see additional incremental investment opportunities, we may look to exit loans that are priced below LIBOR plus 5.5% as a source of reinvestment capital.

As we've discussed before, another ongoing opportunity for us to increase ROE is to further optimize our joint ventures. We can accomplish this by selectively rotating out of lower-yielding investments into higher-yielding ones as well as increasing leverage at the JVs. We have capacity and will select to grow these portfolios over time, which we believe will be accretive to ROE.

In conclusion, we are very pleased with our strong first quarter financial results. We are excited about our prospects for the remainder of the year and are optimistic that we will continue to be able to 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) And the first question comes from Kevin Fultz with JMP Securities.

Kevin Edward Fultz *JMP Securities LLC, Research Division - Analyst*

Armen, we always appreciate your insight on what you're seeing in the market, both on the sponsor side and the non-sponsor side where you like to play. Could you give us a high-level overview of the opportunities you're currently seeing as well as the competitive environment relative to the last few quarters?

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

Sure. And thanks for the question. I wouldn't say much has changed in the fourth calendar quarter versus much of 2021. I think there continues to be a fair bit of competition amongst our peers, focusing on the sponsor-oriented lending product and direct lending. Generally speaking, spreads and legal terms have been pretty consistent over the quarter. I wouldn't say there's been a tremendous amount of incremental pressure on spreads and legal protections, but it continues to be highly competitive and weaker in terms of coupons and covenants than what we were accustomed to 3, 4, 5 years ago.

So I wouldn't say there's anything really tremendous happening in that part of the market. We are watching just very closely because in the month of January and in the month of November of last year, there was some volatility in the publicly traded below investment-grade markets. We saw some spread widening in high-yield bonds for a period of time. We saw last week, in fact, some spread widening in high-yield bonds. So a lot of that is initially at least driven by -- or the price movement is initially driven by a duration-oriented trade or duration-oriented risk around rising rates.

But we are noticing some spread widening occurring in the publicly traded markets, especially in high-yield bonds. And so we're a little bit cautious as to whether that will manifest itself eventually into broadly syndicated loans and direct lending. So as you know, we are looking across the different securities and investment opportunities that are appropriate for OCSL, including publicly traded debt and really considering on a relative value basis where the best risk-adjusted returns are. And so being able to look broadly like that, we are measuring how attractive direct lending markets are against some other opportunities that we see across the board.

But specifically relating to your question about direct lending as compared to itself over the last 12 months, I wouldn't say that there's been more rationalization of the market. I think the competition remains strong, but I would say that coupons and legal protections have been relatively consistent for the last couple of quarters.

Kevin Edward Fultz ***JMP Securities LLC, Research Division - Analyst***

Great. That's really helpful color. And then just a question relating to interest rate sensitivity. Could you provide the weighted average LIBOR floor for floating investments?

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

I probably need to get back to you. I don't know if Matt or Chris have that, but typically, our LIBOR floors are between 50 and 100 basis points and really closer to 100 basis points. And we generally have LIBOR floors on most, if not all, of our floating rate investments. But I don't know, Matt Stewart or Chris, if you have that information handy?

Matthew Stewart ***Oaktree Specialty Lending Corporation - COO***

Yes. Around 80% of our loans either have LIBOR floors of 1% or 75 bps, and the balance is scattered throughout and even up to 1.5%. All of our loans do have LIBOR floors in some form, whether it's 0 or up to 1.5% on the high end, but 80% of our portfolio is around 75% or 1%.

Kevin Edward Fultz ***JMP Securities LLC, Research Division - Analyst***

Okay. Got it. And I'll leave it there. Congratulations on the quarter.

Operator

The next question comes from Kyle Joseph with Jefferies.

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

Just a quick modeling question. In terms of the interest income accretion related to the merger. How long should we expect that to kind of impact results? And should we kind of expect a diminishing amount in that line item going forward?

Christopher McKown ***Oaktree Specialty Lending Corporation - CFO & Treasurer***

It's Chris here. It's going to continue to impact results for probably another couple of years as assets continue to roll off the books. You may have noticed maybe a little bit of a bigger decline quarter-on-quarter in that adjustment. And that's really a function of the fact that we had some of the names that repaid last quarter and there was a lot of OID acceleration on a non-GAAP basis -- excuse me, on a GAAP basis rather. So as those rolled off, we see the number decreasing. So we do expect it will continue to trend down, but it's going to be with us for a little while longer, and we'll certainly continue to present those adjusted numbers to help strip out that noise.

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

Yes. Appreciate that. And then probably for Armen or Matt, obviously, credit performance has been very, very strong, but can you give us a high-level sense in terms of what you're seeing from portfolio companies, fully recognizing you guys have a very diversified portfolio, but any sort of impacts from either wage or raw material inflation on EBITDA growth or EBITDA margins at the portfolio level?

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

Sure. This is Armen. I think big picture, I think supply chain disruptions are real, and that's been true for several quarters. I didn't really see a meaningful improvement in the fourth calendar quarter. I would say it was kind of marginal improvement in terms of sort of getting rid of those supply chain roadblocks. The supply chain issues have caused two issues. One is a reduction in revenues, or reduction in unit sales of certain goods that are produced that need to have components shipped from overseas. There're definitely some issues around shipping that are delaying shipments of needed products.

So unit sales are down, that doesn't necessarily mean revenues are down because price increases have been passed through generally in a variety of different products as we've seen a pickup in demand amongst consumers for the better part of the last two years. But with higher energy prices, with higher commodity prices and supply chain issues, we have seen, generally speaking, cost increases as well, that are being passed through on a lagged basis generally across a variety of industries.

So it hasn't really caused a meaningful performance issue. But again, the unit sales reduction or the fact that unit sales haven't been able to keep up with demand is a little bit problematic for some of these businesses. But I would say, generally speaking, in our portfolio in late 2021 versus late 2020, businesses are generally doing better year-over-year despite these issues, despite the inflation and despite the supply chain disruptions. And I wouldn't say that many businesses are back to 2019 levels, but they are somewhere in between -- pretty much all of them are somewhere in between 2020 performance and 2021 performance and showing some indication that 2022, depending on the industry, will be close to recovery with the 2019 comparison.

I'll give you one example. We did lend to a new company this quarter called PF Supreme, which is the Planet Fitness franchisee. It is a little bit of a reopening trade, obviously. And that business, even prior to our investment had recovered to about 85% of its membership subscription base in comparison to its 2019 levels. So that's just one data point for you that we're heading in the right direction, but we're not out of the woods at this time.

Operator

The next question comes from Ryan Lynch with KBW.

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

First one I had, you gave some good commentary about market conditions, but I wanted to drill down on a little bit further was just how are you guys seeing market activity shaping up in the first month?

And what is kind of your outlook from a market activity standpoint as far as yield values go just because 2021 was such a unique year where we saw such kind of a flood of increased origination and deal activity in the back half of the year? I'm just wondering if you're seeing any spillover in the early month of 2022. And kind of what is your outlook for the next, maybe call it the first half of 2022?

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

Sure. This is Armen. It's a good question. I don't think one month is enough to really deduce any sort of meaningful trend on deal activity. But a little bit of a feeling or a concern that I have about deal activity for this year, especially as it pertains to sponsor activity. With the rise in rates, we have seen a contraction in valuation multiples generally, even for companies that are not levered. If you just look at the equity market, there is a general downward trend in valuation multiples. And that should cause a pause in LBO sponsor activity for new deals. As multiples decline, sellers are unwilling to sell because they kind of remember what their valuation multiples were 6 or 12 months ago.

And then even private equity firms that bought a company three years ago at 12x EBITDA may not be willing to sell that company, or an interest in that company, to another private equity firm at 10x EBITDA or 9x EBITDA.

So I would expect that private equity firms will take a pause on deal volume as valuation multiples become more reflected in deal terms. But I think one month is too soon to make such an assessment. It's just more of a market prediction than something that I would think is, at this point, really reflected in deal flow.

We are seeing a lot of volume; we could definitely invest capital very rapidly in sponsor deals. We are seeing non-sponsored deal activity as well. We're quite busy, especially in our life sciences area right now.

So we're not seeing our type of deal volume really take a hit so far this year. But we are cautious. We're cautious because of what we're seeing in the markets. We're cautious because of what we're seeing in the publicly traded fixed income areas. And so we're going to be very vigilant and look for opportunities to once again drive NAV if it presents itself at some point in the next 12 or 24 months.

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

Okay. That's helpful color. And yes, your guys deal flow is a little bit, I would say, you need -- you guys do some more kind of off-the-run type of transactions in non-sponsor. So you guys are in, I think, a good spot. Even a private equity sponsored deal flow slows down a little bit. On that point, you guys are now at the upper end of your leverage target range. I think you guys have made it pretty clear in the past unless it has changed recently that you guys don't see that really shifting anywhere. So what are the goals then for OCSL throughout 2022, given that you guys are kind of at your targeted leverage range? How are you guys looking to manage the portfolio? How are you guys looking to manage growth?

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

Ryan, it's Matt Pendo. First question on the leverage range. We're comfortable with the range, we're at the higher end and it's been over the last few quarters. But I think versus our peers, we're at the lower end, and we like being lower levered and having just more flexibility and dry powder if there's opportunities to present themselves. So we're comfortable on the leverage side. We obviously think we have very good access to the capital markets, and we've done several offerings that have worked well.

I think in terms of what this means for the portfolio growth, it's a little bit as we talked about ROE and our leverage there. It's rotating out of the lower-yielding assets. We still have some room there. And we talked about like LIBOR plus 450, LIBOR plus 550. So there's still the opportunities of accretion from rotating out of the lower-yielding to the higher-yielding loans, which we've been doing. I think there's more to do there. We've got a lot of benefits out of the merger with OCSI. But I think -- there's probably some more to do there just in terms of scale and diversification. There's a little bit more to do on the JV front in terms of a little leverage there. But it's really just kind of more of the same, maybe it's a little boring, but I think there's a lot to do if we just kind of keep doing what we're doing on the portfolio rotation and that's our focus.

Operator

(Operator Instructions) The next question comes from Melissa Wedel with JPMorgan.

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

I was hoping we could touch on the weighted average yield of new investments during the quarter, trying to sort of understand the context of that given sort of a 50 basis point decline in yield quarter-over-quarter with a little bit less first lien in the mix this quarter versus last. So if I'm looking at that right, does that sort of imply that, that was really all spread compression?

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

Matt Stewart, do you want to take that question?

Matthew Stewart ***Oaktree Specialty Lending Corporation - COO***

Yes. That's part of what it was. We did have a couple of second liens in the portfolio which refinanced down, which we stayed in, which did result in some compression on our yield as well. We are still seeing deals in line with what we had been producing the last couple of quarters. I know we are down 50 basis points and almost down a point from where we were two quarters ago.

But we are still seeing yields kind of in that mid-8% range, and we do expect to continue to originate as Armen noted before. We are seeing opportunities in the life sciences space and technology space. So I wouldn't point to one data point on a quarter. Some of that is timing and some of those refis that I mentioned. But we are seeing some spread compression and some yield as the market environment is getting more competitive out there.

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

Yes, this is Matt Pendo. If you go back to our March 2021 quarter, the yield on new commitments was 8.2%. So we'll have quarters where it will move in that range.

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

Sure. Okay. So to take it then that that's really sort of similar to the March quarter of '21 where there was a dip down and then sort of a rebound back up? Are you looking at sort of the yield on new investments this quarter is a bit more of a blip, albeit in a still competitive environment?

Matthew Stewart ***Oaktree Specialty Lending Corporation - COO***

Yes, I think that's...

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

This is Armen. Yes, I would say that's fair. I wouldn't say we have a such a great number of data points in any given quarter to call it a statistically significant yet to make such an assessment that this is the new norm in our pipeline that we're looking at. It's all over the place. There are deals that are significantly north of 8.1% and 8.5%. And there are some situations below it. So I think it's hard to make any sort of directional assessment based on one quarter.

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

Okay. Fair enough. Follow-up question on the issue related to the leverage position at the end of the quarter. I know in the past, you guys would certainly like to take advantage of volatility. And you've also been willing to sort of hold a lot of dry powder or just some amount of dry powder, I'll say, ready to deploy, if that's the case. And Armen, you talked about potential volatility that could come from uncertainty around Fed actions. So given that potential uncertainty and possible volatility at some point, but you're positioned at the high end of leverage. Does that indicate -- should we read into that at all? That's sort of an assessment on your part of the likelihood of volatility in the market at this point?

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

Yes, this is Armen. It's hard to predict both the timing and scale of any level of volatility. We are at the high end of our leverage target, but we still have assets that are low yielding and sort of able to be turned into cash pretty quickly if we saw the opportunity to buy or originate deeply discounted assets. We aren't moving our leverage target. We could potentially see a situation where in a quarter, we have the opportunity to buy assets and increase leverage above our target temporarily. But we don't see such depth of volatility at this time to do anything to extreme.

We recognize the fact also that we are trading at NAV, or above NAV, and if we did see the opportunity to make such investments, we could potentially look for equity. If we saw cracks in the market that would open up a big opportunity to do so. And with Oaktree's background and depth in looking for those opportunities, both privately negotiated and public, I think that we are very well situated and have the credibility to move with great conviction when that occurs.

And I would expect that we would do so if that materializes. But I don't have this deep expectation at this moment in time that there's going to be this distressed opportunity anywhere near what the pandemic brought about.

But it does seem at least in January that there is a repricing or resetting of appropriate market spreads and yields on fixed rate instruments. It is not amounting to a distressed opportunity or an implication that defaults will pick up. It's more of repricing and there could be some total return opportunities there at the right time. It's just not there at the moment, but we will manage our liquidity over the course of several quarters to take advantage of those opportunities if they present themselves. But I wouldn't read into our leverage level today as an implication that we do not see certain cracks potentially developing in the markets.

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

That's very helpful.

Operator

(Operator Instructions) It looks like we have no further questions. So this concludes our question-and-answer session. Mr. Mosticchio.

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

Great. Thanks, Tom, and thank you all for joining us on today's 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 3546944, beginning approximately one hour after this broadcast.

Operator

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