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PRESENTATION

Operator

Welcome, and thank you for joining Oaktree Specialty Lending Corporation's Fourth Fiscal Quarter and Full Year 2021 Conference Call. Today's conference call is being recorded.

(Operator Instructions)

Now I would like to introduce Michael Mosticchio of Investor Relations, who will host today's conference call. Mr. Mosticchio, you may begin.

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

Thank you, operator, and welcome to Oaktree Specialty Lending Corporation's Fourth Fiscal Quarter and Full Year 2021 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. Also joining us on today's call for the question-and-answer session is Chris McKown, the company's current Assistant Treasurer, who will be taking over the CFO and Treasurer positions from Mel next month.

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, the ability to realize the anticipated benefits of the merger and 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 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 & COO***

Thanks, Mike, and thank you to everyone for joining this call. The fourth quarter completed a strong fiscal year for OCSL. We generated solid financial results and investment performance that was highlighted by robust origination activity and pristine credit quality. We, again, grew NAV and meaningfully increased our dividend.

Full year 2021 adjusted net investment income per share was $0.64, up from $0.51 for fiscal 2020, driven by higher adjusted investment income reflecting our larger investment portfolio, as well as higher prepayment fees and OID acceleration on some of our investments made in the wake of the pandemic. Importantly, this marked our highest annual level of adjusted net investment income under Oaktree's management, and represents the tremendous progress we have made since taking over management of the company four years ago, as well as the realization of synergies from the merger with OCSI, which closed earlier this year.

Given the strength and consistency of our earnings, our Board increased our quarterly dividend by 7% to $0.155 per share. This was the sixth consecutive quarterly increase and represented a 41% increase from a year earlier. Our dividend is now up 63% from its pre-COVID level.

We reported NAV per share of $7.28, up 1% from the prior quarter, and up 12% for the full year. The quarterly increase reflected the continued price appreciation on certain debt and equity investments, and, for the annual increase, successful realizations contributed as well. Importantly, our NAV continued to exceed its pre-COVID high and was up more than 10% from the end of calendar 2019.

We had another strong year of originations. During full year 2021, we leveraged Oaktree's credit platform to generate nearly $1.2 billion of new investment commitments. Many of our new originations have been in the form of directly originated investments where we co-invested alongside other Oaktree funds. These new originations, in aggregate, were attractively priced at approximately 8.6%, which exceeded the yield on investments that were exited the year by approximately 2%. This ongoing shift in the portfolio towards higher-yielding proprietary investments has led to improved debt portfolio yield, which increased to 8.7% at year-end from 8.3% one year ago. Importantly, this all occurred against the backdrop of LIBOR remaining at all-time lows throughout the fiscal year.

Credit quality remains very strong. It's a testament to our disciplined underwriting and risk-controlled approach to investing. As with the prior quarter, we had no investments on nonaccrual at the close of the fourth quarter, and noncore investments represented just 5% of the portfolio at fair value at quarter end.

As it is our fiscal year-end, I also wanted to reiterate some of the key improvements we have made to our capital structure since the closing of the merger with OCSI in March. These changes enhance our flexibility and meaningfully lowered our cost of debt capital.

In May, we issued $350 million of senior notes at a 2.7% coupon, which we subsequently swapped to a floating rate at LIBOR plus 1.66% to better match the floating rate nature of our underlying investment portfolio. We also amended our syndicated credit facility, increasing the size to $950 million from $800 million and extending maturity by two years to May 2026. Additionally, we retired a higher-cost credit facility acquired from OCSI, and we amended the Citi facility to reduce costs in some of our lower-yielding quoted loans. By taking these steps, we proactively reduced our weighted average interest rate on debt outstanding to 2.4%, down 30 basis points from 2.7% in last year's fourth quarter.

We also improved our funding profile by more than doubling our unsecured borrowings outstanding, and boosted our borrowing capacity by more than $300 million.

Finally, we received a strong vote of support from our investment advisor, Oaktree, who purchased 2.3% of outstanding shares from our largest shareholder in September. Oaktree, along with our management team and directors, now own 3.1% of OCSL shares, which we believe further strengthens the alignment between us and our advisors.

Before turning the call over to Armen, I wanted to remind you that Mel has announced he will step down as CFO and Treasurer of OCSL at the end of November to assume another senior management role within Oaktree. We thank Mel for his financial stewardship over the last four years, and of course, wish him well in the new position. Chris McKown, a Managing Director of Oaktree, will become OCSL's CFO and Treasurer, effective upon Mel's resignation. Chris currently serves as OCSL's assistant treasurer and has worked closely with Mel since we took over management of the company in 2017. Chris is very well suited and prepared to step into his new role, and he will do so at a time when we are exceptionally well positioned for fiscal 2022.

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

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

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

Markets held up well in the September quarter, supported by economic growth and expectations for continued expansion. This resulted in further spread compression and continued low default rates in the credit markets. However, as we cautioned last quarter, inflation pressures in the economy merit careful examination. U.S. inflation is currently running above 6%, and both food and energy costs are rapidly rising. Natural gas prices, for example, have doubled in 2021, and oil is up more than 50%.

Inflation is very difficult to predict, and many market participants believe it will prove short-lived. But the events of the past 1.5 years have been unprecedented in both impact and government reaction. Before 2020, the world had never purposely shut down a significant percentage of its economy and then tried to restart it. No one knows how long it will take for bottlenecks in the supply chain to fully open up and for the labor force to be reconstituted. As such, inflationary pressures may persist. This could force the Fed to increase interest rates faster than investors currently expect. So we believe it's important to view inflation and the current environment carefully and with objectivity.

With that in mind, we are focusing on finding good relative value and are investing where we believe the best risk-adjusted returns are. We are utilizing the full scope of Oaktree's scale and resources to uncover and invest across a wide array of industries to a diversified group of issuers. We are leveraging Oaktree's ability to negotiate and structure customized private deals that we believe provide downside risk protection, and we are finding opportunities in less congested areas of the market by lending to non-sponsor owned businesses.

As we've highlighted on past calls, we also continue to identify compelling opportunities among companies in life sciences and technology, sectors that are poised for long-term growth as the global economy becomes increasingly driven by applied sciences and digital commerce.

We also continue to evaluate opportunities in the sponsor lending market, partnering with select private equity firms that we think have subject matter expertise in particular industries and sectors. Altogether, we are judiciously deploying capital on favorable terms and in a risk-controlled manner to further grow our portfolio and generate strong returns for our shareholders.

Now turning to the overall portfolio. At the end of the fourth quarter, our portfolio was well diversified, with $2.6 billion at fair value across 138 companies. 87% portfolio was invested in senior secured loans, including 69% in first liens.

Median portfolio company EBITDA as of September 30 was approximately $106 million, reflecting our preference of lending to larger, more diversified businesses, which we believe reduces risk and has contributed to our consistently solid credit quality.

Moving on to investment activity. While the market remains competitive, we leveraged the Oaktree platform to originate $385 million of new investment commitments across 14 new and 6 existing portfolio companies in the quarter. Of these, 91% were first lien loans and included $304 million in private transactions and $79 million in the new issue primary market.

Our investment in RumbleOn is a compelling example of the unique opportunities we are finding in the non-sponsored area of the market. RumbleOn is an omnichannel platform that operates the largest network of powersports dealerships in the U.S., and an e-commerce marketplace that aggregates and distributes preowned power sports and motor vehicles to and from consumers and dealers. Its e-commerce business is the only online marketplace capable of facilitating consumer-to-consumer sales in the power sports sector, and it is rapidly growing its omnichannel offering by expanding its dealership footprint. Oaktree provided a $240 million first lien commitment to support the company's continued growth activities. OCSL was allocated $54 million at an attractively priced LIBOR plus 825 basis points, as well as warrants in the company.

With respect to repayments, we received $202 million from paydowns and exits in the fourth quarter. This amount included payoffs and proactive sales of lower-yielding investments, which we were able to selectively reinvest into our higher-yielding originations this quarter.

The weighted average yield on our new debt investment commitments for the quarter was 8.6%, which exceeded a 6.4% average yield of investments that we exited. This helped to further increase the yield on our debt portfolio, which grew by 30 basis points to 8.7% at year-end from 8.4% in the prior quarter.

Looking ahead, our pipeline remains robust as we are evaluating a range of interesting investment opportunities that we believe present an attractive risk reward. Our strong balance sheet and liquidity position us well to take advantage of attractive opportunities.

Finally, I also want to wish Mel all the best in his new role within Oaktree and congratulate Chris on his promotion to CFO. Chris is a key contributor on a deep and talented team, and we are confident that he will maintain our tradition of providing you with high-quality financial reporting and transparency. 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. I greatly appreciate your kind words. I've been fortunate to have worked with a great team here. Ever since Oaktree took over the management of the company and strongly believe that OCSL will be in very capable hands with Chris McKown at the helm as CFO. I've known and worked with Chris for 10 years, and I'm very confident that he is the right person for the job.

Before I turn to our financial results, I'd like to take a moment to remind you of the several non-GAAP measures we put in place to make the company's post-merger financial results easier to understand and more comparable to our results prior to the merger. These non-GAAP measures are intended to remove the impact of the income accretion, as well as any net realized and unrealized gains or losses arriving solely from the merger accounting adjustments. More information about these supplemental disclosures can be found in our earnings release and slide presentation.

Now turning to our financial results. OCSL delivered another quarter of solid financial performance, which also contributed to exceptionally strong full year results. For the fourth quarter of fiscal year 2021, we reported adjusted net investment income of $29.1 million or $0.16 per share, down modestly from $33.7 million or $0.19 per share in the third quarter. The decline was the result of much lower prepayment fees and OID income in the fourth quarter, primarily driven by $7 million in such fees last quarter in connection with the payoff of our loan to William Morris Endeavor. Partially offsetting this decline was higher interest income as the earnings power of the portfolio has grown as a result of the larger investment portfolio and increased yield.

Net expenses for the fourth quarter totaled $28.3 million, down $0.8 million sequentially. The decrease was mainly due to lower incentive fees, offset by higher base management fees and interest expense, driven by an increase in borrowings and our larger investment portfolio.

For the fiscal year 2021, we accrued $17.6 million of Part II incentive fees under GAAP based on the very strong portfolio performance we delivered. As a reminder, OCSL pays Part II incentive fees annually, and to the extent that it has realized gains that exceed realized and unrealized losses at fiscal year-end. Based on realized gains, the actual amount of those fees payable for full year 2021 was $8.8 million, according to the calculations under the Investment Advisory Agreement.

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

Now moving to the balance sheet. OCSL's net leverage ratio increased to 0.95x from 0.79x at June 30, reflecting the strong investment originations that we made during the quarter. Net leverage is now near the high end of our target range of 0.85x to 1.0x. At September 30, total debt outstanding was $1.3 billion and had a weighted average interest rate of 2.4%. Unsecured debt represented 51% of total debt at year-end, up from 42% at the beginning of the year following the 2027 note offering.

At year-end, we had total liquidity of approximately $500 million, including $29 million of cash and $470 million of undrawn capacity on our credit facility. Unfunded commitments, excluding unfunded commitments to the joint ventures, were $216 million, with approximately $154 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.

Now turning to our two joint ventures. The Kemper JV had $379 million of assets invested in senior secured loans to 55 companies. This compared to $387 million of total assets invested in 57 companies last quarter. Assets decreased mainly due to portfolio payoffs and sales of lower-yielding investments. The JV generated $2 million of cash interest income for OCSL during the quarter, and we also received a $450,000 dividend. Leverage at the JV was 1.4x at year-end comparable to the June quarter.

The Glick JV had $141 million of assets as of September 30. These consisted of senior secured loans to 37 companies. Leverage at the JV was 1.1x at year-end, relatively unchanged from last quarter.

OCSL's subordinated note in the Glick joint venture totaling $56 million, continues to be current, and we received $1.2 million of principal and interest payments on the notes during the fourth fiscal quarter.

In summary, we are very pleased with our financial results for the quarter and full year, and we continue to 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 & COO***

Thank you, Mel. We finished a very strong year at OCSL, generating a return on adjusted net investment income per share of 10% and adjusted earnings per share of 19%. We also grew NAV by 12% and increased our dividend by 41% over the course of the year, declaring annual dividends of $0.55 per share. Our current $0.155 dividend rate represents an attractive 8.5% yield on book value on an annualized basis.

We believe this strong financial performance is directly correlated to the value that Oaktree brings to OCSL and what differentiates us from our peers. Our ability to grow NAV and dividends since taking over management and over the course of the pandemic has been exceptional.

NAV is up over 10% from its pre-pandemic high in December 2019. We also have increased our dividend for 6 consecutive quarters and it has grown by 63% from its pre-pandemic run rate. Taken together, OCSL has generated an attractive 12% annualized return on equity since December 31, 2017, including a 20% return over the past year alone.

We are proud of this accomplishment as it demonstrates the power of the Oaktree platform, and our ability to deliver superior investment performance, both in periods of market strength and distress.

That said, we continue to see opportunities to further increase returns over time. 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 in this fiscal year, exiting $168 million of these types of investments.

At year-end, $83 million of senior secured loans priced at or below LIBOR plus 4.5% remained in the portfolio, including approximately $55 million of loans that we acquired in the OCSI merger. Our new investments during the year came in at attractive yields, which means there is more improvement in yield on that portion of the portfolio that we expect to realize over time.

Another opportunity for us to increase ROE is to further optimize both of 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 ample capacity at both of these vehicles and will judiciously grow these portfolios, which we believe will also be accretive to ROE over time.

In conclusion, we are very pleased with our strong fourth quarter and full year results. We are excited about our future prospects and are optimistic that we will continue to be able to identify new risk-adjusted investment opportunities and deliver attractive 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)

Today's first question comes from Devin Ryan at JMP Securities.

Devin Patrick Ryan ***JMP Securities LLC, Research Division - MD and Equity Research Analyst***

First question here just around portfolio leveraging. So a really nice quarter for capital deployment, a nice step-up in leverage to 0.95x. I know you're kind of at the upper end of the 0.85x to 1 on your target range. Just given the current deal-making environment and how strong credit quality has been in the portfolio, how are you guys thinking about that upper band of 1x and potentially where that could go and what would drive kind of the upper band higher from here?

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

Thanks, Devin. It's Armen. So we feel pretty comfortable with the range still at 0.85x to 1x. We did have some very strong originations in the quarter. What's hard to predict quarter-to-quarter are pace of repayments. We still also have a nice amount of lower-yielding, publicly traded paper that we can rotate into higher-yielding origination that we, knock on wood, have been finding a good amount of. So we don't feel compelled to raise that upper end of the target range. We think we could operate within it and still be able to continue to originate pretty attractive debt for the portfolio.

Devin Patrick Ryan ***JMP Securities LLC, Research Division - MD and Equity Research Analyst***

Okay. Great. And then just a follow-up, it sounds like you got more on the sponsor side. But can you may be (inaudible) in sponsor versus non-sponsor both in terms of just opportunity set and pricing as well?

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

Sure. I mean we're pretty active in both areas. With sponsors, we tend to focus on some very large sponsors that have deep subject matter expertise in particular verticals. We like that because of two things. One, you kind of want to ride along with a sponsor that does have a secret sauce and execution. But two, a lot of the sponsors that we do business with really support their businesses with strong equity checks. They view them as platforms for growth. In several instances, we have gotten more than a 50% equity check as well as covenants in those deals. So we like doing business with really, really strong sponsors, and when possible, when we see that type of deal flow, we're very interested in executing it.

But I would say, by and large, in the market, in terms of sponsor deal flow, it's very competitive. I think there's been a lot of AUM that's been raised certainly in the last 1.5 years and as well as the last 4 or 5 years that are chasing after a lot of similar deals. I think one can say that there's a lot of cash sitting on the sidelines, a lot of cash and not enough deals certainly would be a description of the sponsor market. And so what we're trying to do is go to places where maybe others aren't trafficking in as much, areas where our underwriting, our understanding of these businesses through cycles because of sort of Oaktree's DNA as a more opportunistic lender. Having covered many different types of industries through several cycles, we're able to leverage that market reputation of ours to get pretty attractive deal flow that's, frankly, just less efficient or less competitive. And we're finding that in the non-sponsor area.

In my prepared remarks, I mentioned RumbleOn. That's just one example of non-sponsor deal flow that's very well structured, pretty lightly levered and has even some upside potential in it. When we see those types of deals, we're very interested in running hard at them. Obviously, we do see a lot of deals in both sponsor and non-sponsor. And that's part of our interest in expanding the funnel of potential deal flow that we see. However, we're executing on less than 5% of the deal flow that we are seeing. So it's job #1 to make sure from a sourcing perspective, we're seeing as much deal flow as possible, but it's a very close job #2 to make sure that we're selecting all the best credit and all the appropriate structuring that we can put in place to defend against the downside and participate in the upside when possible.

Operator

(Operator Instructions)

Our next question comes from Ryan Lynch at KBW.

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

My first one just has to do with -- I was looking at Slide #6 in your deck. And out of the $385 million of new commitments, it looked like $345 million were in new portfolio companies. That seems to be a different core than what most other BDCs we've seen report where there's a heavy focus on existing portfolio companies. So you guys are kind of bucking that trend, at least in this current quarter. So are there any takeaways we should be thinking about when we see something like that?

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

This is Armen, Ryan. Thanks for the question. Look, I mean, we respond to the deals that we're able to source. I think a couple of things I would mention. First of all, we are working better than we ever have across the Oaktree platform. So that includes sponsor-oriented lending that we've been doing for 20 years as part of our Mezzanine Fund. That includes working with our Opportunities Fund, which has a lot of dry powder and was very, very active in 2020 and 2021. So the deal flow that you're seeing this quarter includes several deals across multiple Oaktree-managed accounts. And I think that what it is not indicative of is chasing sponsor deals at ever tighter spreads and ever weaker legal documents.

That's thematically definitely not what we're doing. And it's probably why you're seeing other BDCs spending more time with existing portfolio companies where they're maybe upsizing or refinancing themselves out because they know those businesses, they know those sponsors, they would rather kind of stick with what they know. And even if the pricing is tightening by 50 basis points, that feel a little bit more comfortable than maybe chasing the incremental new deal at ever tighter spreads and worsening legal docs.

So -- but for us, if you look at our originations in the quarter, it's a fair bit of non-sponsor deal flow. Even the sponsor deals that we have in there are not new LBOs. So sometimes you're able to get better pricing in a situation where a sponsor is looking for expansion capital rather than original LBO financing. So it's blocking and tackling. I wouldn't say thematically there's anything in particular that we did, but we continue to like life sciences. We originated a couple of deals in life sciences in the quarter. We worked with our Opportunities Fund on a few deals as well across a variety of different industries, including an airport concessionaire that has a little bit of a recovery story, a post-COVID recovery story still embedded in their potential performance.

So it's just making sure that we're seeing as much deal flow across the platform as possible, while continuing to dig even deeper in life sciences. And on that point, I would say 2020 was a banner year for us in life sciences firm wide. And it's shaping up that 2021 on a calendar basis, not on a fiscal basis, but on a calendar basis, 2021 will be as busy, if not busier, for our direct lending franchise in life sciences just because as we've done more deals, it's led to further market penetration for our life sciences businesses, and we're finding great risk-adjusted returns there, as well as strong legal protections. So we like that area, and we're continuing to mine it for some great opportunities.

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

Got you. Thanks for the color on your overall thoughts on where you guys are exploring right now. I had a question on the senior loan fund. You guys obviously have two of them, but just the senior loan fund that first one. It looks like it generated cash interest income of about $2 million, and you guys received a $500,000 dividend payment from that. I'm just curious, can you kind of walk through what is the philosophy? It looks like you guys are retaining capital in that vehicle. Will you guys always retain some level of the income within the JVs? Will it remain at this sort of proportional level? Or even if the income doesn't increase that the overall JV is generating within the JV could that distribution rise more proportional for the earnings power at that JV?

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

Yes. This is Armen again. I don't want to predict what sort of distributions we take out of the JVs. But, historically, I'll make a few comments. One is we have very good relationships with our JV partners. We think they add value to OCSL. Second, historically, when we have retained capital in the JVs, it's really been to solidify the capital structure of those JVs rather than put them in a position of risk. So I think between strong portfolio performance, as well as capital structure management and retention of some of those dividends, those JVs are in pretty good shape at this point.

And we'll evaluate and present to our board every quarter our recommendations as to the distributions we may or may not be able to make out of the JVs, but we feel good about the way they are situated now. And we'll, on a quarter-by-quarter basis, evaluate whether it makes sense to retain capital within them to either grow them or delever them, or to take distributions as dividends for OCSL. But that's all I can say. I really can't provide forward-looking guidance on that.

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

No, understood. One question, last one, if I could. The $83 million of lower-yielding loans that you guys have in your books today, are those all liquid loans that you could sort of rotate out of that's within your control? Or are those -- are any of those private illiquid assets?

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

Those are pretty much all liquid tradable securities in the broadly syndicated market. So we could execute sales on those at any time. There's a few weeks of settlement that usually occurs, but it's something that we've been able to manage very closely as a source of cash.

Operator

(Operator Instructions)

The next question will come from Bryce Rowe from Hovde Group.

Bryce Wells Rowe ***Hovde Group, LLC, Research Division - Research Analyst***

I wanted to maybe follow up on Ryan's questioning there around the JVs. And you guys have talked about optimizing balance sheet leverage at the JVs for a couple of quarters now. And even within the BDC, we saw a nice uptick in net balance sheet leverage here in the third quarter. It looked like the JV balance sheet leverage was roughly the same quarter-over-quarter. So kind of curious how that kind of juxtaposes against what you're seeing within the BDC? Any opportunities to continue to rotate out of some of the lower-yielding investments within the joint ventures. It looks like that was relatively stable quarter-over-quarter as well. So I just wanted to get a little little conversation around what's happening within the joint ventures from an investment perspective being able to rotate out and maybe put money to work at higher yields within the JVs?

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

Yes. It's a good question. And we are, at all times, looking to optimize the portfolios within the JVs for both risk and return. So when possible, we are making rotations within the JV. So it's going to be kind of case-specific and really dependent on what the market gives us, especially in the new issue on the syndicated market. We do have a very built out trading desk at Oaktree, we do have a broadly-syndicated loan business and CLO management. So we're trafficking in the broadly-syndicated market, both on a secondary and primary basis every day. And, when possible, we are trading around within the JV and also within the BDC itself to optimize return without really taking too much incremental risk or any incremental risk.

We really would like to, at all times, maintain our risk levels at very manageable levels and look for inefficient pricing in either the privately negotiated transaction market or in the public markets. But I don't think that there's anything programmatic that I could really comment on, but you should know that we are always attempting to maximize the return within the JVs. I'm not sure if I'm really answering your question, if there was something more specific that you wanted though?

Bryce Wells Rowe ***Hovde Group, LLC, Research Division - Research Analyst***

No. I think that -- I mean, I think that covers it pretty well. I mean I think the question is around seeing some level of rotation away from some of the lower-yielding investments within the actual BDC balance sheet, seeing those investments that have lower yields come down within the BDC, but stable there at the JVs and just kind of curious why we wouldn't have seen some rotation out within the JVs versus the BDC. I think you answered it.

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

We're trying to do it. And in the JVs, I mean, I think the relevant point of comparison would be, well, what is the broadly- syndicated market, especially the new issue part of the broadly- syndicated market offering. And I would just say that it's probably, I mean this is more anecdotal, but as I think about a lot of the new issue that we've been seeing coming to market, I would say 80% of it is probably not of the level of return that would make sense for the JVs. And so there may be strong credits but we're really looking to optimize risk and return rather than just risk or just return. And so it's day-to-day. We see all the new deals. We see the secondary market trading patterns, but we're not seeing a wholesale opportunity to turn over the portfolio in a way that would be accretive in both risk and return to OCSL.

Bryce Wells Rowe ***Hovde Group, LLC, Research Division - Research Analyst***

Good color. Maybe shifting to the right side of the balance sheet now that you're obviously using a bit more of the revolver. Just curious how you're thinking about capital structure? Do you think we'll possibly see some more tapping of unsecured? Or are you pretty comfortable with where the capital structure sits as of September 30?

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

Matt or Mel, do you want to take a crack at that question?

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

Sure. It's Matt. Thanks, Bryce. I mean, I think we're pretty comfortable with the right side of the balance sheet between the revolvers and the unsecured notes and the kind of the mix between secured and unsecured and our liability profile in terms of maturities and pricing. So I think, I wouldn't see a lot of changes there.

We're pretty comfortable. We've been able to decrease our funding costs. So it's in pretty good shape. That being said, we continue to look at the markets, and we continue to look at the bank market as well as the unsecured debt market and it just makes sense we're as optimized as possible, but it's in pretty good shape right now.

Bryce Wells Rowe ***Hovde Group, LLC, Research Division - Research Analyst***

Okay. That's good color. And then maybe one kind of ticky tack question for Mel. I saw an uptick in the provision for income taxes here in the press release and maybe I missed it within the commentary, but just curious what's driving the increase in tax provision there?

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

Thanks, Bryce. This is an opportunity for Chris to join the Q&A. Chris, do you want to take that one?

Christopher McKown ***Oaktree Specialty Lending Corporation - Assistant Treasurer***

Yes, sure, happy to. It's really driven by a larger tax distribution from Dominion. So you'll see kind of a corresponding increase in the dividend income quarter-on-quarter. So I think the kind of the way to think about that is to look at the dividend income and then to deduct out that above the line provision for income tax to think about it sort of a net dividend amount.

Operator

(Operator Instructions)

Ladies and gentlemen, this concludes our Q&A session. I would like to turn the conference back over to management for any closing remarks.

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

Great. Thank you, and thank you all for joining us on today's 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 10160823, beginning approximately one hour after this broadcast.

Operator

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