Income Producing Alternatives: Understanding Business Development Companies (BDCs)

September 9, 2015

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Introduction to BDCs

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Overview of BDC Structure and Regulations

BDC Overview

- Created by Congress in 1980 in order to:
  - Provide public investors another means to invest in the long-term growth of private U.S. businesses
  - Facilitate the flow of capital to companies lacking access to bank credit and public capital markets
- An emerging asset class in the alternative investment space, with a total public market capitalization of $34 billion[1]
- Generally, BDCs elect to be treated as regulated investment companies (RICs), allowing them to be tax pass-through vehicles, similar to REITs and MLPs

BDC Qualifications

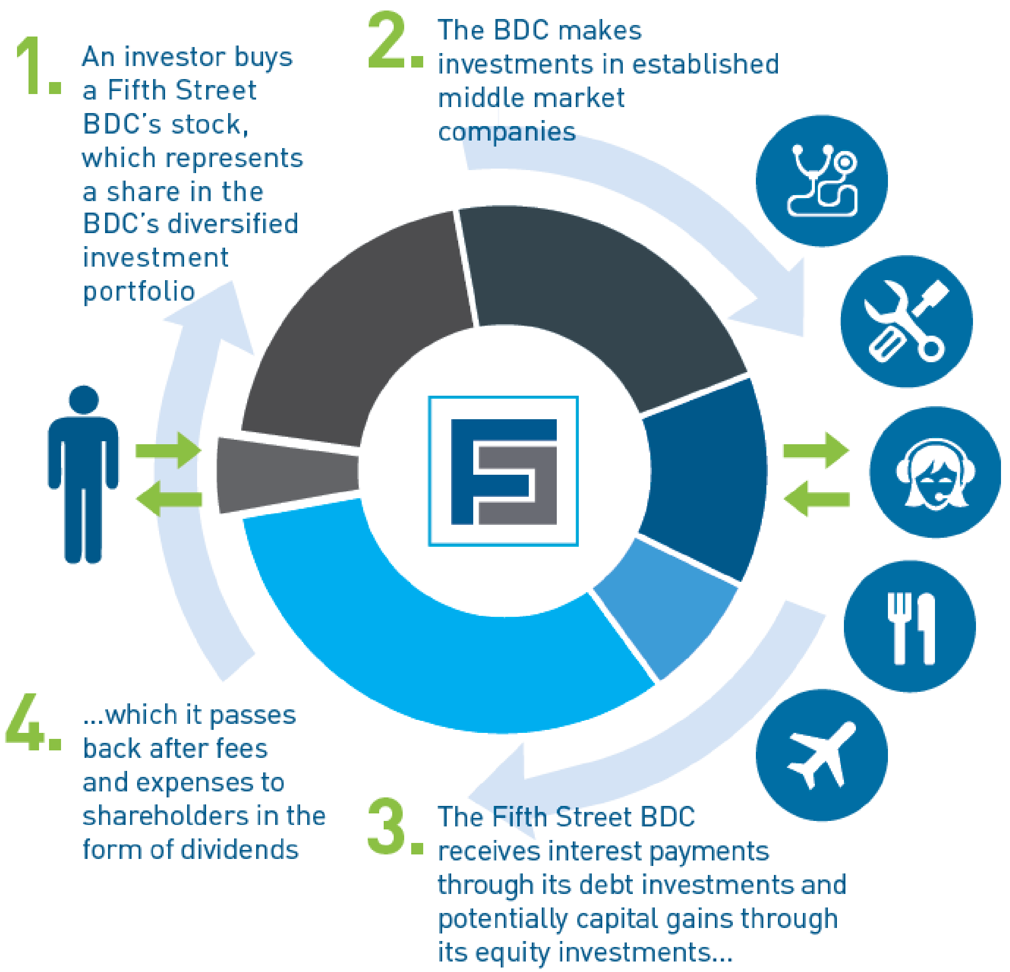
In order to qualify as a BDC, companies must be registered in compliance with Section 54 of the Investment Company Act of 1940

OTHER QUALIFICATIONS INCLUDE:

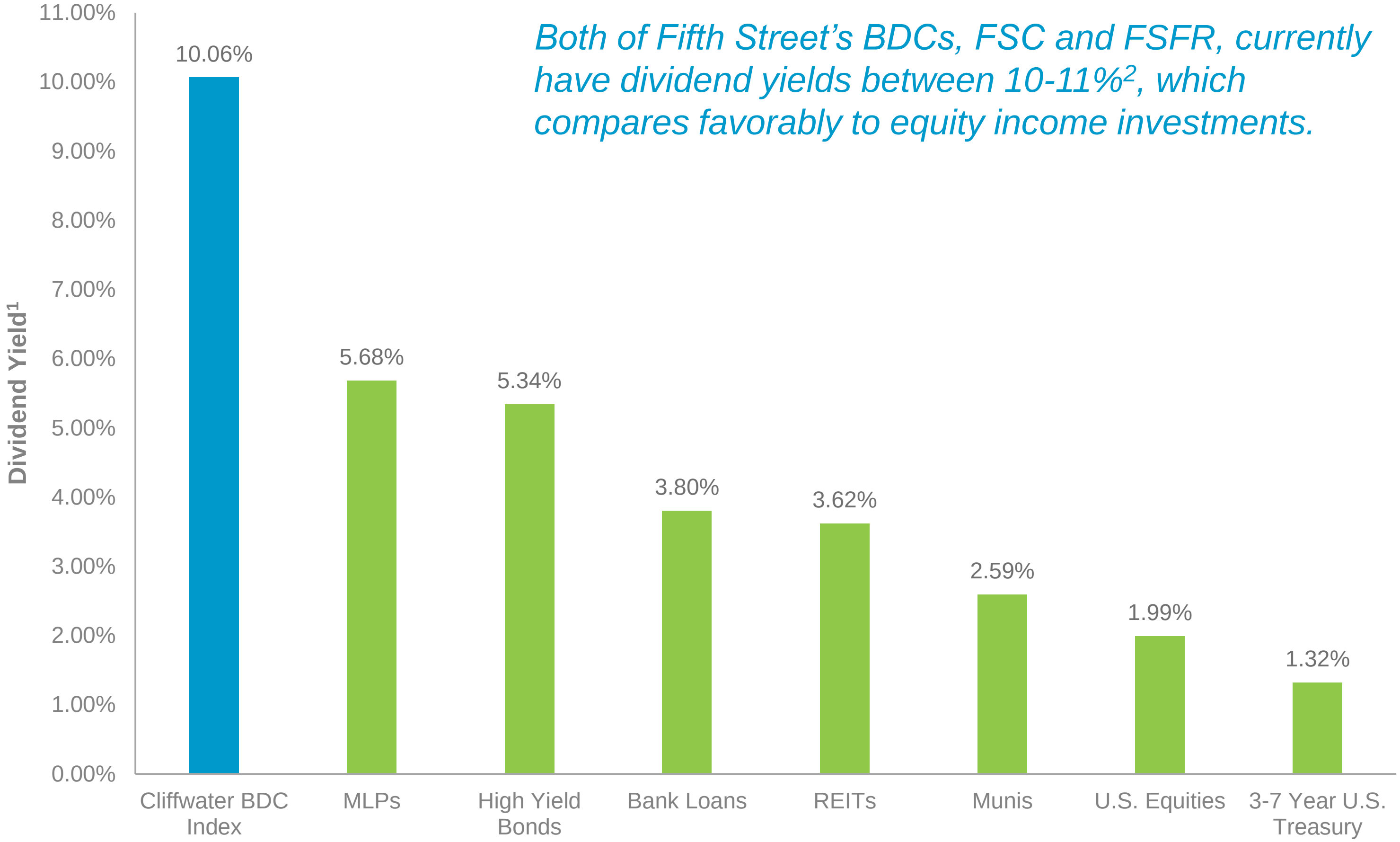
- **Leverage Constraints:**
  BDC regulations allow a maximum debt-to-equity ratio of 1:1 which allows BDCs to modestly enhance their return
- **Non-Qualifying Asset Basket:**
  BDCs must invest at least 70% of assets in qualifying assets which typically include private operating companies
- **Income Distribution:**
  As a RIC, required to distribute at least 90% of their annual taxable net income to shareholders in order to bypass corporate income taxes
- **Asset Diversification:**
  BDCs must remain adequately diversified in order to limit them from concentration risk
- **Mark-to-Market:**
  BDC portfolios marked to fair market value each quarter (vs. banks at cost)

[1] As of July 2, 2015. Source: KBW Investment Banking Group, Weekly BDC/RIC Market Overview.

Lifecycle of a BDC Investment



BDCs Offer Attractive Yields



Both of Fifth Street's BDCs, FSC and FSFR, currently have dividend yields between 10-11%[2], which compares favorably to equity income investments.

Source: BDCs.com, sponsored by Cliffwater LLC.

[1] As of June 30, 2015. The Cliffwater BDC Index is a capitalization-weighted index capturing the performance of all lending-oriented, exchange-listed BDCs that satisfy certain eligibility requirements. The yield for MLPs is based on the yield and performance of the JPMorgan Alerian MLP Index ETN; the U.S. high yield bond market is based on the iShares iBoxx $ High Yield Corporate Bond ETF; U.S. REITs is based on the iShares U.S. Real Estate ETF; the bank loan market is based on the PowerShares Senior Loan Portfolio; the U.S. municipal bond market is based on the iShares National AMT-Free Muni Bond ETF; the U.S. Equity market is based on the SPDR S&P 500 ETF; and the 3-7 year U.S. Treasury market is based on the iShares 3-7 Year Treasury Bond ETF; [2] As of August 11, 2015.

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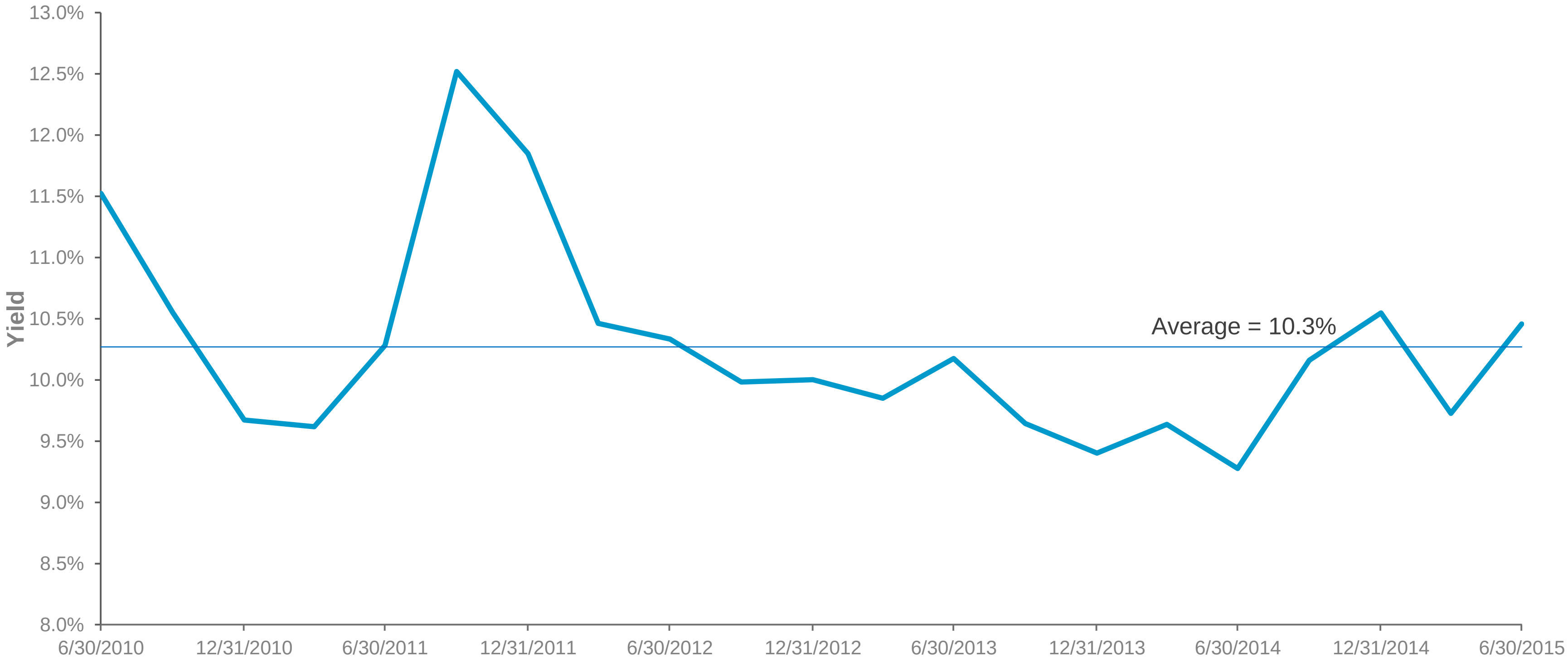
Yield History for BDCs

Dividend Yield Trading Range 9.3 – 12.5%



Source: FactSet and company data.
Note: Index comprised of ARCC, PSEC, AINV, FSC, GBDC, PNNT, SLRC and BKCC.

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An Important Part of Your Portfolio

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Investing in BDCs as Part of a Fixed Income Portfolio

Advantages of Investing in BDCs

- ✓ Credit managers versus liquidity managers
  - Underwriting
  - Structuring
  - Portfolio management
  - Investment oversight
- ✓ Higher yields: Reliable dividend income
- ✓ Transparency: Quarterly reporting and investments marked-to-market
- ✓ Reduced asset-liability mismatch
- ✓ Liquidity
- ✓ Statutorily low leverage (1:1 debt-to-equity)

Disadvantages of Investing in BDCs

- × Fees: Management and incentive fees
- × Non-redeemable at NAV
- × Use of equity raises to grow
- × Credit cycle concerns
  - In the last cycle, BDCs fared similar to banks in terms of credit losses, yet have much lower leverage
- × Tax pass-through structure makes dividends ordinary income

The BDC Industry

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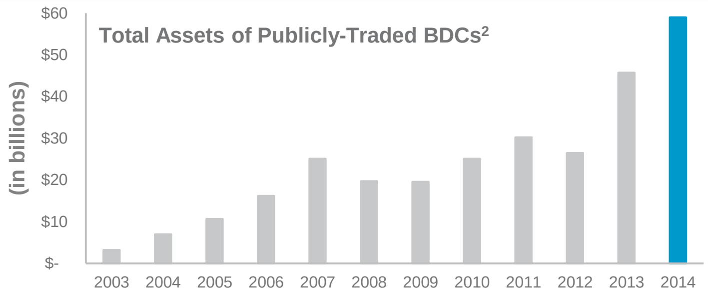
The BDC Industry at a Glance

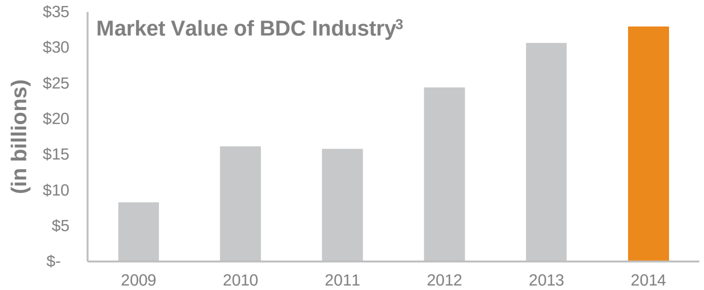
$64B

Total Assets Held By Publicly-Traded BDCs[1]



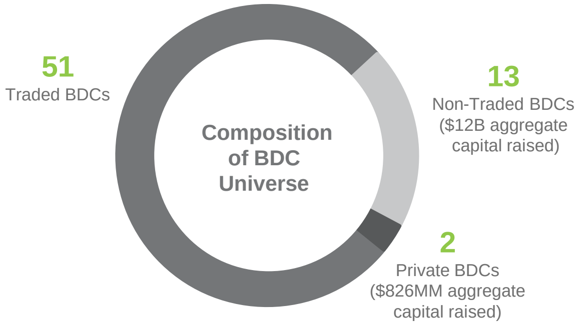
$34B

Total Public Market Capitalization of Industry[1]



66

Total Operating BDCs[4]



[1] As of July 2, 2015. Source: KBW Investment Banking Group, Weekly BDC/RIC Market Overview; [2] Based on calendar year. Source: Bloomberg. Includes the following BDCs: ACAS, ACSF, AINV, ARCC, BKCC, CMFN, CPTA, FDUS, FSC, FSFR, GAIN, GARS, GBDC, GLAD, GSVC, HCAP, HRZN, HTGC, KCAP, KIPO, MAIN, MCC, MCGC, MRCC, MVC, NGPC, NMFC, OFS, PFLT, PNNT, PSEC, SAR, SCM, SLRC, SUNS, TCAP, TCPC, TCRD, TICC, TINY, TPVG, TSLX and WHF. 2014 figure sourced from Sutherland Asbill & Brennan LLP; [3] Source: S&P Dow Jones Indices - The Brass Tacks of U.S. Business Development Companies and the S&P BDC Index (February 2014), based on Compustat data. 2014 figure sourced from Sutherland Asbill & Brennan LLP. [4] As of December 2014. Source: Sutherland Asbill & Brennan LLP.

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Significant Market Opportunity

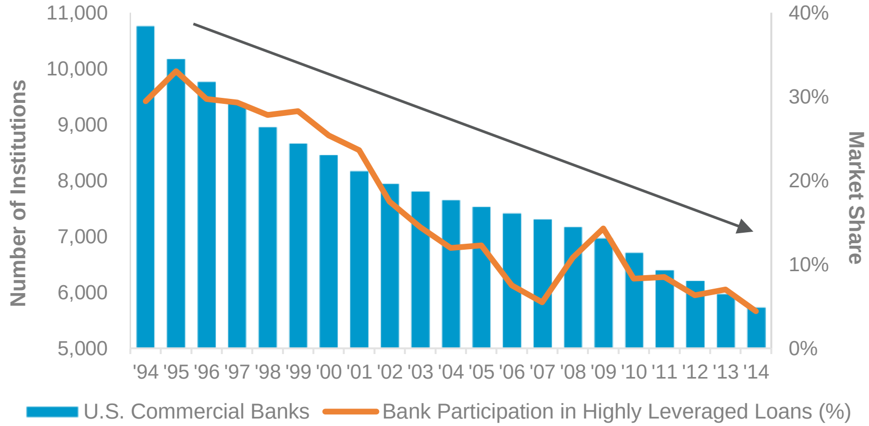
Market Dynamics

- **Regulatory pressures on banks have created significant opportunities for alternative lenders[1]**
  - The number of U.S. banks has declined steadily since 1998 due to industry-wide consolidation and high barriers to entry
  - A substantial amount of capital left the middle market during the 2008 financial crisis. Federal regulation on bank leverage has subsequently intensified and banks' ability to deploy capital in the middle market lending space has decreased dramatically

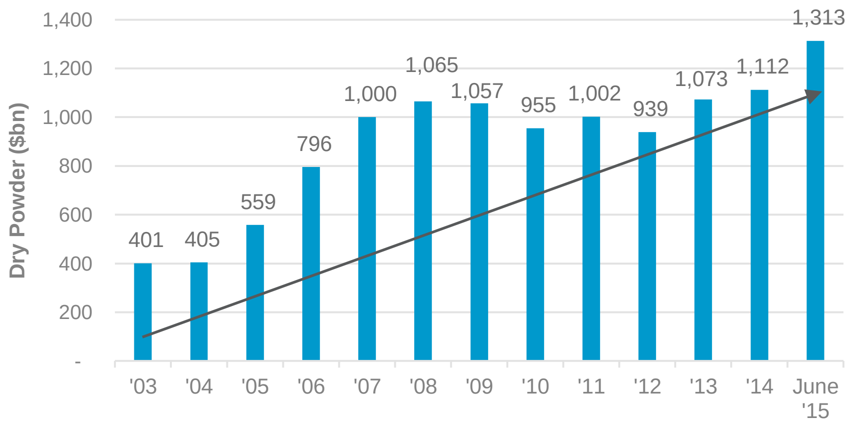
  → *US banks' market share is currently at historic lows and has created significant opportunity for other types of financial institutions*

- **Dry powder at private equity firms is continuing to increase, directly increasing demand for financing[2]**
- **We believe borrowers and sponsors favor a collaborative partnership approach**
  - Non-bank lenders can often offer more flexible financing options with large holdings and diversified product offerings
  - Fifth Street has seen a significant increase in originations in response to the supply / demand shift in the market
    - In 2014, Fifth Street reached an origination record of $3B in investments closed across its platform

Number of U.S. Commercial Banks and Market Share[1]



Private Equity Dry Powder[2]



[1] Sources: Federal Financial Institutions Examination Council (US) and S&P Capital IQ LCD; [2] Source: Preqin Quarterly Update: Private Equity, Q2 2015.

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The U.S. Middle Market:
A Driving Force Behind the U.S. Economy

U.S. Middle Market Impact

5th
LARGEST GLOBAL ECONOMY

33%
OF PRIVATE SECTOR GDP

MORE THAN
$10
TRILLION IN ANNUAL REVENUE

1/3 OF U.S. JOBS – APPROX. 45.6MM

1.95+
MILLION NEW JOBS (2011–2012)

1.2+
MILLION NEW JOBS (2012–2013)

1.1+
MILLION NEW JOBS (2013–2014)

Middle Market Definition

NEARLY
200,000
BUSINESSES IN ALL INDUSTRY SEGMENTS AND GEOGRAPHIES

REPRESENTING
3.0%
OF ALL U.S. COMPANIES

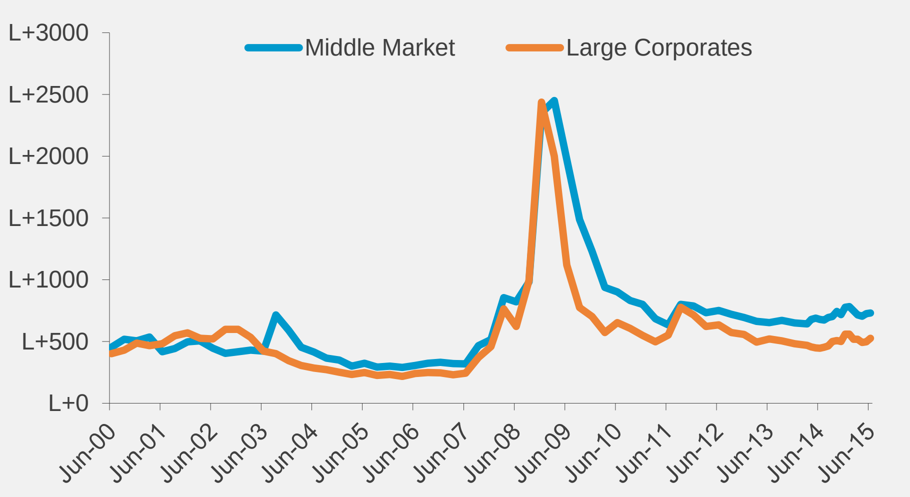
ANNUAL REVENUE RANGING FROM
$10MM – $1B

Source: The National Center for The Middle Market – 2014 Annual Report.

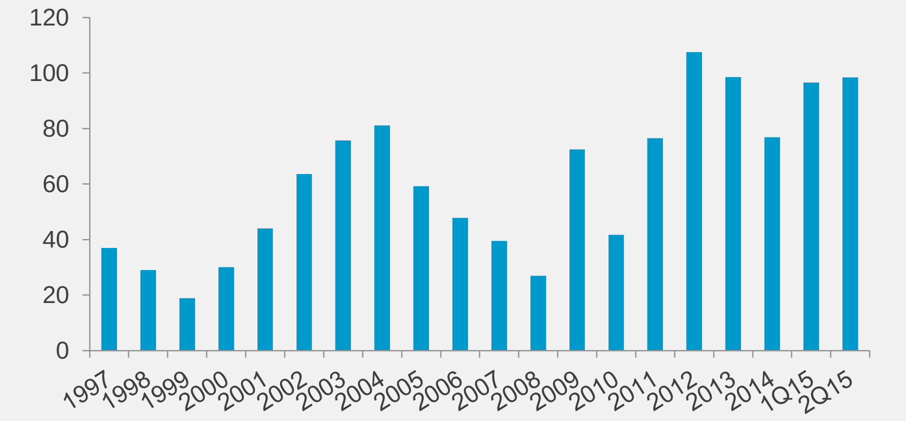
Middle Market Yield Premium

- Coming out of the recent global economic downturn, loan spreads remain meaningfully above pre-downturn levels and higher than during any other time prior to the downturn over the last 15 years
- The average spread gap between middle market and broadly syndicated loan yields is wide compared to historical periods, enabling investors to realize premium yields to corporate borrowers while maintaining a floating interest rate bias

Average Discounted Spreads[1]



Spread Gap (bps) Between BSL & MM Loans[2]



Source: S&P Capital IQ LCD
[1] Calculated as the average spread over LIBOR, plus any discount/premium of the average bid amortized over a three year life, over the average bid. All index loans are included (all loans in the LSTA index), excluding those in default. BSL Loans include all levered loans regardless of rating; [2] Middle Market refers to loans of borrowers with <$50MM of EBITDA. Broadly Syndicated refers to loans of borrowers with $50MM or more of EBITDA.

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Differentiating Factors Between BDCs

Management / Fee Structure

- **Externally Managed**, with base management fee and incentive fees (Part I and Part II, if applicable) paid to management company
- **Internally Managed**, with operating expenses paid directly by the BDC

Asset Class Focus

- First Lien
- One-Stop
- Second Lien
- Mezzanine
- Structured Securities (i.e., CLOs)
- Equity

Origination Strategy: Market

- Direct Origination (Primary)
- Secondary Market Purchases

Asset / Liability Composition

- Fixed Rate Debt
- Floating Rate Debt

Origination Strategy: Sponsor Focus

- Sponsor-Backed Transactions
- Unsponsored Transactions

Credit Quality

- Cumulative Loss Rates

Operational Infrastructure

- Number of Professionals
- Platform Access
- Technology and Back Office Infrastructure

Quality of Earnings (Components of Investment Income)

- Interest Income
- Fee Income
- PIK Income
- Dividend Income
- Other Income

Internal vs. External BDC Management Structures

	Internal	External
Market Share	~20% of publicly-traded BDCs	~80% of publicly-traded BDCs
Structure	• BDC employs individuals to manage investment portfolio and day-to-day operations	• Investment portfolio and day-to-day operations managed by external investment adviser. Employees work for external manager or its administrator, not the BDC – Typically utilized by established asset managers with multiple product lines • Benefits from resources of larger firm (i.e., comprehensive research and due diligence, origination capabilities and risk management processes)
Operating Expenses	• All paid directly by the BDC, including compensation (included in the SG&A line) • Executives compensated directly under guidance of Board of Director's compensation committee	• Base management fee paid to a management company, typically calculated based on a fixed percentage of AUM • Other annual operating expenses generally calculated in addition to the base management fee
Performance-Based Compensation	Permitted, including: • Issuance of at-the-market options, warrant or rights pursuant to an executive compensation plan • Maintenance of a profit sharing plan	Adviser permitted to take an incentive fee on both: • Investment income • Realized capital gains
Examples	MAIN, KCAP, TCAP, MCGC, HTGC, ACAS[1]	FSC, FSFR, ARCC, PSEC, AINV, PNNT, PFLT, SLRC, SUNS, HTGC, FSIC, BKCC

[1] ACAS announced its plans to become externally managed in Q4 2014.

Origination Strategy is Central to a BDC's Operations

MARKET

Direct Origination Platform

- Creates premium yields by originating and structuring loans including covenant packages and credit documents
- Proprietary deal flow, robust underwriting and comprehensive portfolio monitoring process
- Dedicated investment professionals that include originators, underwriters and portfolio managers
- Active investment management (i.e. receipt of monthly financials, board observer rights, portfolio monitoring)

Secondary Market Purchases

- Relationships with investment banking trading desks provide access to deals
- Typically larger and more liquid credits
- Investment underwriting and diligence is focused on utilizing publicly available information
- No negotiation of covenant packages or credit documents, investors take what has already been negotiated

SPONSOR FOCUS

Sponsor-Backed Transactions

- Sponsor equity is viewed as a credit enhancer and a "backstop"
- Strategic partnerships provide incremental due diligence, another layer of monitoring and an additional source of operating expertise
- Allows for the development of mutually beneficial strategic partnerships with sponsors to drive incremental deal flow

Unsponsored Transactions

- Lack of third party equity behind the debt investment
- Diligence is solely the responsibility of the debt provider
- Difficult to source deals since transactions are on a one-off basis
- May provide higher yields for incremental risk

Publicly-Traded BDC Peers

Externally Managed BDCs (>$500MM Market Cap)

Ticker	Price	Mkt. Cap. ($MM)	Price / NAV	Yield (%)	Assets ($MM)	Wtd. Avg. Yield (%)	Debt / Equity
ARCC	$15.68	$4,931	0.93x	9.5%	$9,125	10.6%	0.68x
PSEC	7.71	2,739	0.75x	13.0	6,798	12.7	0.81x
FSIC	10.07	2,440	1.02x	8.8	4,358	9.9	0.77x
AINV	6.60	1,562	0.82x	12.1	3,454	11.5	0.73x
FSC	6.45	989	0.71x	11.2	2,611	10.9	0.62x
TSLX	17.20	929	1.09x	9.1	1,459	10.3	0.65x
GBDC	16.65	853	1.06x	7.7	1,646	8.4	0.75x
SLRC	17.38	738	0.79x	9.2	1,729	9.9	0.24x
NMFC	14.83	863	1.07x	9.2	1,392	10.8	0.63x
TCPC	15.51	759	1.03x	9.3	1,281	10.9	0.65x
GSBD	22.91	831	1.18x	7.9	1,052	11.3	0.43x
PNNT	7.53	559	0.75x	14.9	1,405	12.4	0.56x
BKCC	9.37	700	0.89x	9.0	1,174	11.5	0.39x
Average		***$1,453***	***0.93x***	***10.1%***	***$2,883***	***10.9%***	***0.61x***

Floating Rate Senior Secured BDCs

Ticker	Price	Mkt. Cap. ($MM)	Price / NAV	Yield (%)	Assets ($MM)	Wtd. Avg. Yield (%)	Debt / Equity
FSFR	$8.89	$262	0.73x	10.1%	$750	7.6%	0.85x
PFLT	12.14	325	0.85x	9.4	373	8.3	0.66x
SUNS	15.29	176	0.87x	9.2	388	7.0	0.71x
ACSF	12.38	124	0.85x	9.4	280	7.2	0.85x
Average		***$222***	***0.83x***	***9.5%***	***$448***	***7.5%***	***0.77x***

Source: FactSet and company data.
Note: Pricing data as of August 28, 2015 and financial data as of June 30, 2015.

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A BDC’s Portfolio

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Middle Market Senior Secured Loans

Senior secured loans typically provide principal and yield protection through:

- Highest priority in the borrower's capital structure
- First lien on borrower's assets
- Yield protection through floating rates
- Strong covenant packages
- Committed private equity sponsorship

Typical Borrower

- Mid-to-upper middle market
- Average EBITDA of $15MM–$75MM
- Private equity-owned
- U.S. based
- Average Fifth Street hold size of ~$50MM

Capital Structure

Traditional First Lien Loans or One-Stop

Second Lien Loans

High Yield Bonds, Mezzanine or Subordinated Debt

Equity

Why Now?

1. Yields are attractive relative to fixed income alternatives
2. Asset class positioned to outperform other fixed income products in a rising interest rate environment
3. Natural protections such as seniority and collateral are valuable throughout different stages of the economic cycle

Investment Portfolios Are Weighted Towards Senior Secured Debt Investments

BDC Investment Portfolios by Asset Class at Fair Value[1]

Ticker	Senior Secured Debt (%)	Subordinated Debt (%)	Equity, Structured Products & Other (%)
TSLX	98%	1%	1%
TCPC	97	0	3
GSBD	94	0	6
GBDC	91	4	5
NMFC	85	7	8
FSC	79	14	7
PNNT	77	15	8
FSIC	76	12	12
BKCC	71	19	10
SLRC	64	6	30
AINV	64	10	26
ARCC	59	31	10
PSEC	54	20	26
Average	***78%***	***11%***	***12%***

[1] Source: company data. Externally-managed BDCs with a market capitalization of greater than $500 million. As of June 30, 2015.

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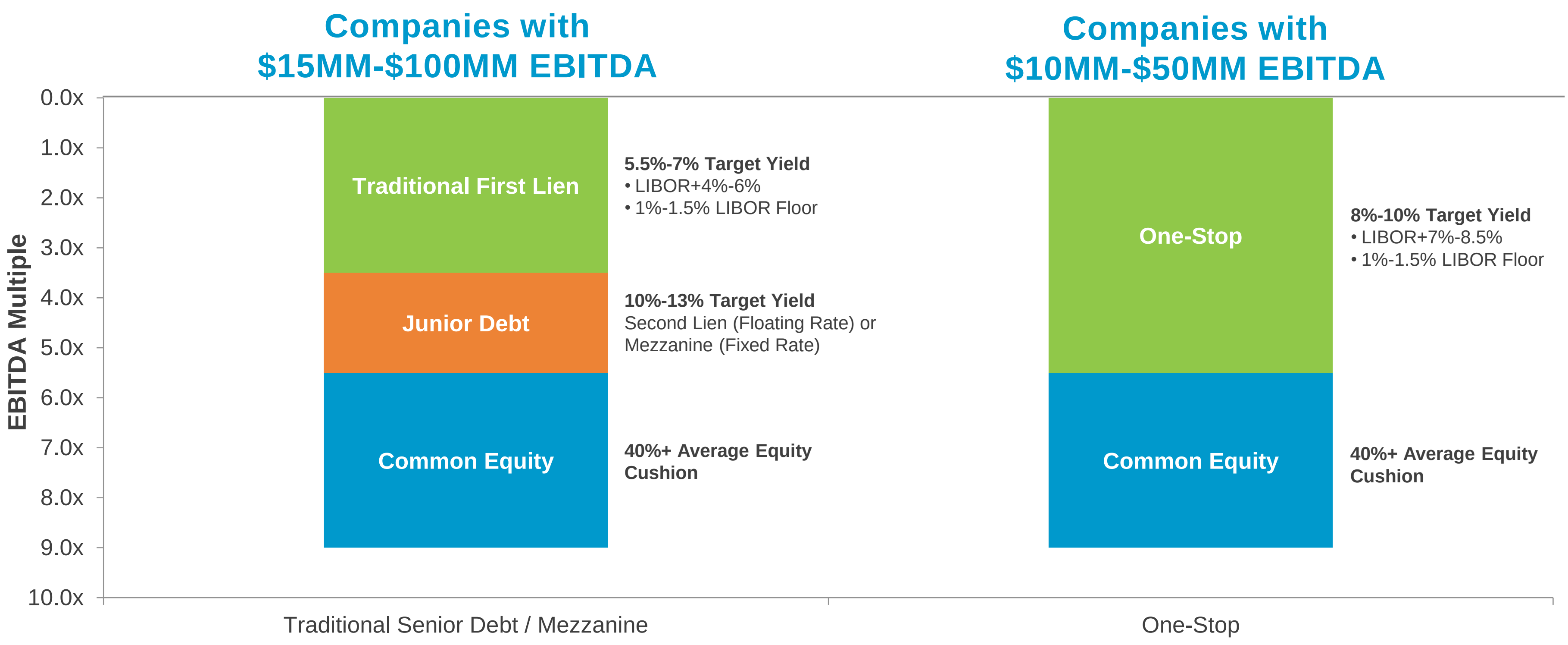
Middle Market Lender Across Capital Structures

- Senior loans continue to be the most prominent product in the middle market
- Fifth Street is one of a few direct middle market lenders of scale that actively provides senior, one-stop and junior debt
- Large hold sizes and diversified product offerings position Fifth Street to be a sponsor's first call when seeking leverage



Asset Class Focus and Concentration Vary by BDC

Senior Secured Debt

First Lien Debt

- Highest priority in the capital structure
- First lien on borrower's assets
- Strong covenant packages
- Typical leverage between 3.5x and 4.0x
- Target yield: 5.5%-7% (floating rate)
  - Cash interest

One-Stop Debt

- Highest priority in the capital structure, but goes deeper than first lien
- First lien on borrower's assets
- Strong covenant packages
- Typical leverage between 5.5x and 6.0x
- Target yield: 8%-10% (floating rate)
  - Cash interest

Second Lien Debt

- Middle portion of the capital structure
- Second lien on borrower's assets
- Covenant packages
- Typical leverage up to 6.0x
- Target yield: 10%-12% (floating rate)
  - Cash interest

Other

Subordinated (Mezzanine) Debt

- Middle portion of the capital structure
- Claim on borrower's assets is behind first and second lien
- Wider covenants
- Typical leverage up to 6.0x
- Target yield: 11%-13% (fixed rate)
  - Typically comprised of cash and PIK interest

Equity Capital

- Bottom layer of the capital structure behind the first lien and junior debt
- Low recovery rates in the event of a default
- Highest rate of return potential
  - Compensation for the increased risk of being last in the capital structure

Structured Finance Securities (CLOs)

- Leveraged pools of assets divided based on the seniority of cash flows
- Multiple tranches ranging from very secure (i.e., AAA-rated) through unrated tranches (i.e., mezzanine and CLO equity)
- Net returns may be 15%+

Current Market Conditions

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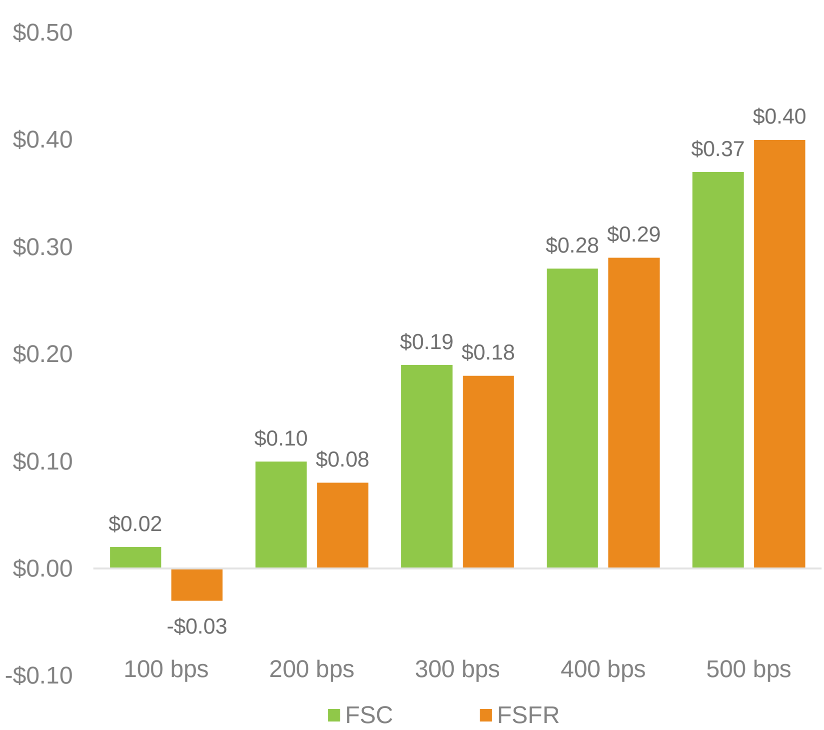
Many BDCs Are Well-Positioned For a Rising Interest Rate Environment

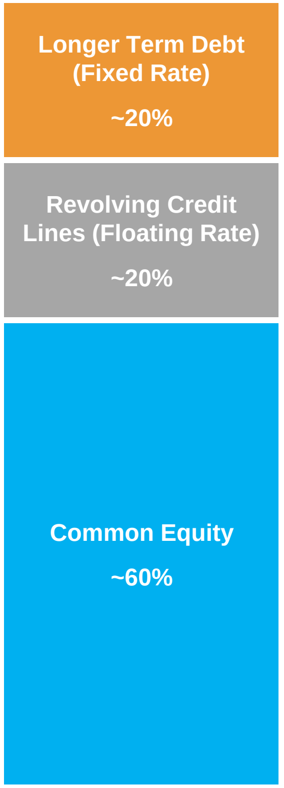
Estimated Annual Change in FSC & FSFR Net Spread Income from Anticipated Rising Interest Rates[1]



Peer Group Asset Composition[2]

Ticker	Floating Rate (%)
GBDC	100%
TSLX	97
PSEC	89
SLRC	89
GSBD	86
NMFC	84
ARCC	81
TCPC	78
FSC	76
PNNT	71
BKCC	68
FSIC	66
AINV	59
Average:	**80%**

Typical BDC Capital Structure[3]



Debt-to-equity ratio may not exceed 100%

[1] Net spread income calculated as the difference between the change in interest income and interest expenses. FSC percentages calculated off of fiscal Q2 2014 – Q1 2015 net investment income and FSFR percentages calculated off of annualized fiscal Q4 2014 and fiscal Q1 2015 net investment income. Interest rates must rise more than 100 bps to positively impact net spread income due to interest rate floors on floating rate investments; [2] Source: company data. Externally-managed BDCs with a market capitalization of greater than $500 million. As of June 30, 2015; [3] Source: Wells Fargo Equity Research.

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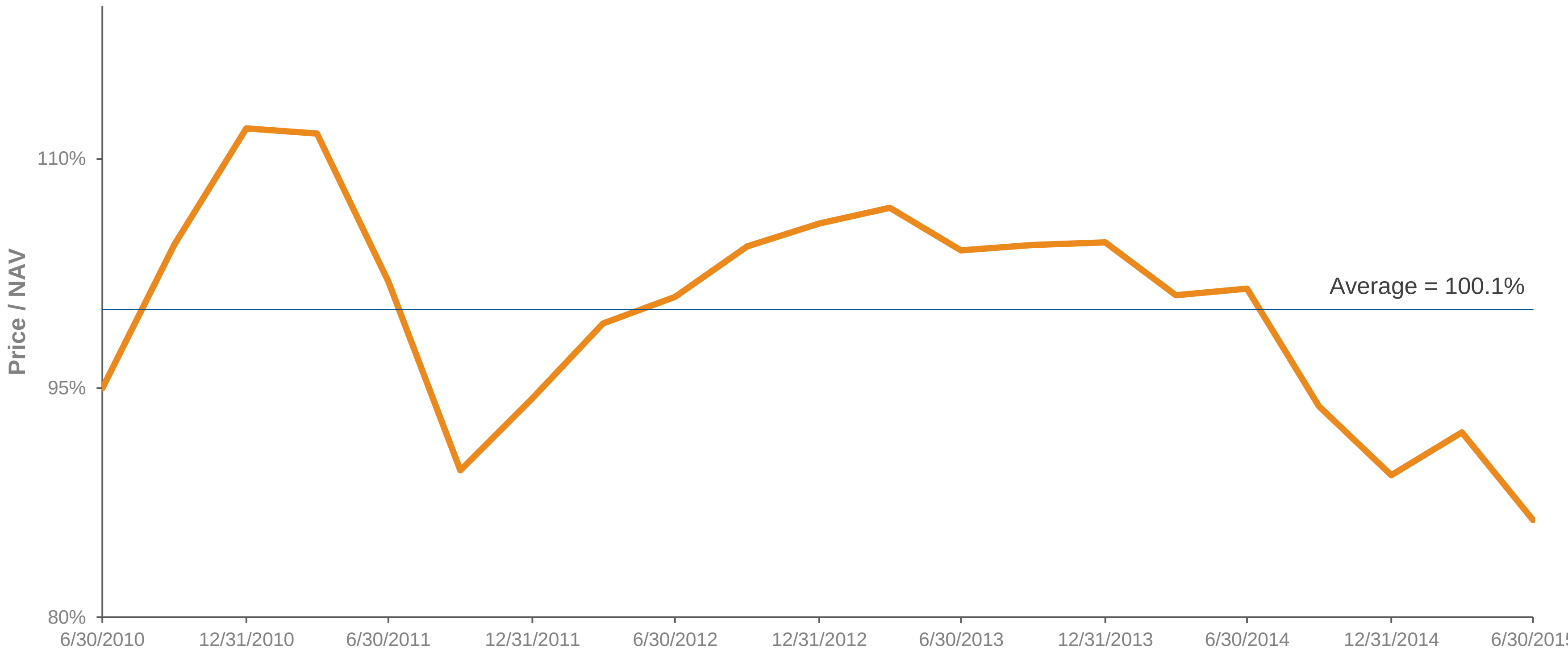
Valuation History for BDCs

Price / NAV Trading Range 86.4 - 112.0%



Source: FactSet and company data.
Note: Index comprised of ARCC, PSEC, AINV, FSC, GBDC, PNNT, SLRC and BKCC.

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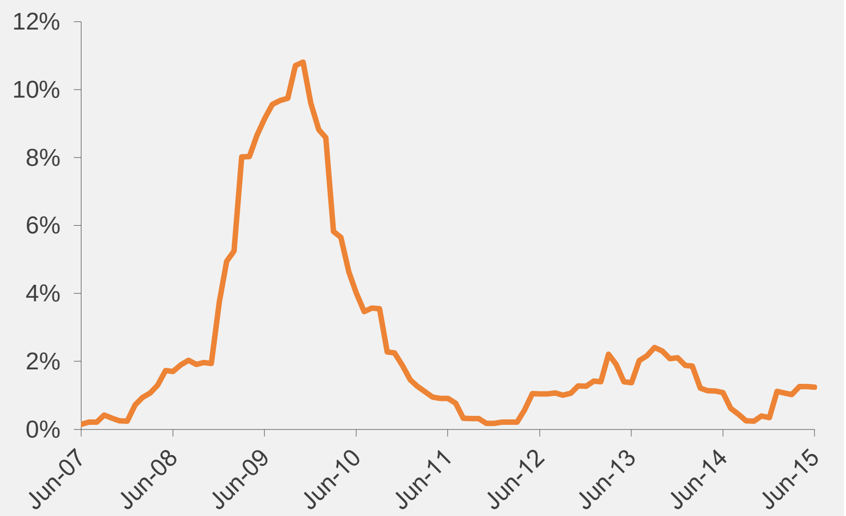
Performance During the Downturn

- Middle market loans have historically had slightly lower default rates and higher recoveries than broadly syndicated loans due in part to tighter covenant packages, flatter organizations and simpler capital structures
- While default rates spiked during the recent global economic downturn, recoveries were high as a percentage of investor capital, providing evidence that first lien loans with strong collateral packages and equity cushions are well-positioned to withstand a severe downturn

LTM Default Rate[1]



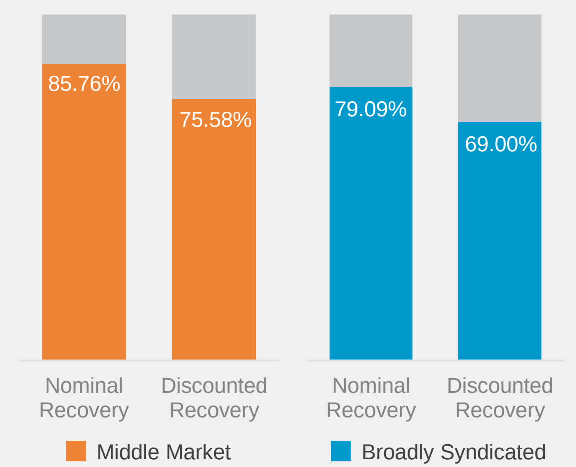
Historical Default & Recovery Rates[2]

Default Rates

Middle Market: 3.73%

Broadly Syndicated: 3.83%

Recovery Rates[3]

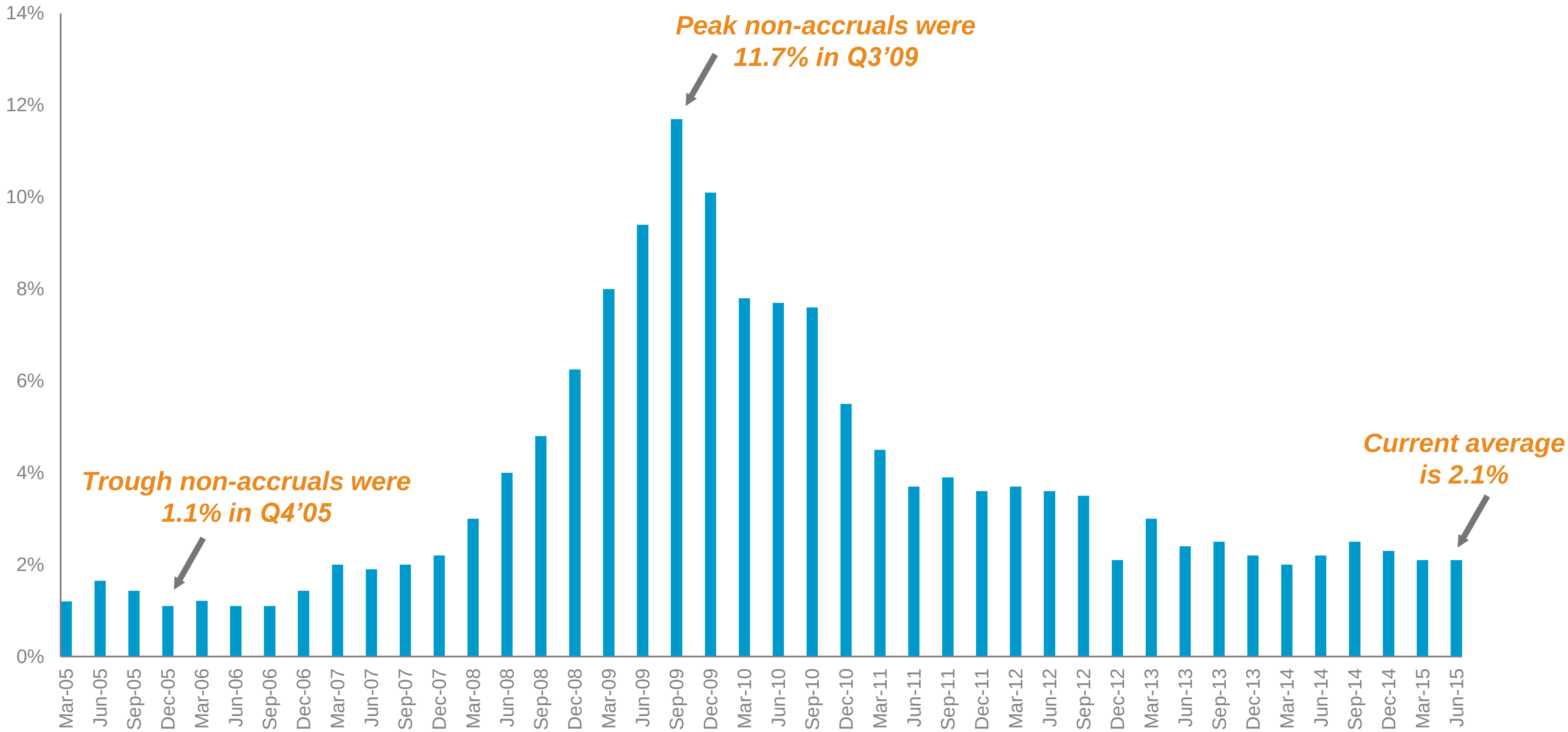


[1] Source: S&P Capital IQ LCD. Includes all leveraged loans; beginning in April 2014, the LTM default rate excludes TXU's bankruptcy; [2] Source: S&P Credit Pro data Jan. 1987 – Dec. 2010;
[3] Discounted recovery refers to the recovery obtained by discounting the nominal recovery to the last cash pay date of the loan.

Note: Past performance should not be seen as an indication of future performance, and no projection, representation or warranty is made regarding future performance.

Historical Credit Quality of Publicly-Traded BDCs

Publicly-Traded BDC Non-Accruals as a % of Total Investments at Amortized Cost



Source: BB&T Capital Markets Specialty Finance Equity Research, August 14, 2015.

Fifth Street's BDCs

Public Investment Vehicles

Fifth Street Finance Corp. (FSC)

June 2008 IPO
One of the largest publicly-traded BDCs in the country

Strategy & Focus:
Focused on debt investments across the capital structure to sponsor-backed small and mid-sized companies, with other origination strategies including technology lending and aircraft leasing

A NASDAQ-listed stock: FSC

- ~$1.0B market capitalization[2]
- Dividend yield of 10.9%[3]
- Covered by 18 equity analysts
- BBB- investment grade rating from Standard & Poor's
- Formed and funded Senior Loan Fund JV I, a joint venture with a subsidiary of Kemper Corporation

Strong Balance Sheet With Diversified Funding Sources:

- Two credit facilities: ING-led syndicated bank group and Sumitomo Mitsui Banking Corp.
- Two SBIC Licenses, Convertible Debt, Baby Bonds (NASDAQ:FSCFL & NYSE:FSCE), Unsecured Institutional Debt

Fifth Street Senior Floating Rate Corp. (FSFR)

July 2013 IPO
Publicly-traded and the largest public senior floating rate focused BDC

Strategy & Focus:
Targeting 100% floating rate, senior secured loans to sponsor-backed middle market companies

A NASDAQ-listed stock: FSFR

- ~$270MM market capitalization[2]
- Dividend yield of 10.1%[4]
- Covered by 6 equity analysts
- Formed and funded FSFR Glick JV, a joint venture with GF Funding (an entity controlled by the Glick family)

Credit Facilities:

- Debt securitization arranged by Natixis Securities Americas LLC
- Senior secured revolving facility provided by Citibank

[1] As of June 30, 2015; [2] As of July 2, 2015; [3] FSC dividend yield as of August 10, 2015 is calculated based on annualizing the $0.06 per share monthly dividend declared by FSC's Board of Directors through November 2015; [4] FSFR dividend yield as of August 11, 2015 is calculated based on annualizing the $0.075 per share monthly dividend declared by FSFR's Board of Directors for September through November.

Fifth Street Finance Corp. (FSC) Overview

High Quality Diversified Portfolio	• 79% senior secured loans[1] • Investments in 132 companies with a 10.9% weighted average yield on debt securities[1,2] • Top 10 investments are 27.3% of total assets and the largest investment is 4.6% of total assets[1] • 'BBB-' investment grade rating from Standard & Poor's
Direct Origination & Underwriting Platform	**Access to Fifth Street's leading middle market origination platform** • Sourcing, structuring and underwriting directly with private equity sponsors • Ability to hold multiple parts of the debt capital structure including one-stop financing solutions • Experienced, cohesive management, origination and underwriting teams
Multiple Low Cost Funding Sources	**Strong balance sheet with diversified funding sources** • Two credit facilities – an ING-led syndicated bank group and Sumitomo Mitsui Banking Corp. • $225 million outstanding 10-year fixed rate SBA debentures • $526 million of unsecured debt[3]
Dividend Declarations	• Monthly dividend of $0.06 per share declared through November 2015 • 10.9% dividend yield[4]
Transparency & Shareholder Alignment	• Frequent shareholder communication through press releases, newsletters and quarterly conference calls • Discloses leverage ratio for each loan ranking category, non-performing assets and other metrics • Senior management and Board own approximately 1.5% (or about 2.2 million shares) of FSC common stock and $2 million of convertible notes[5]

[1] As of June 30, 2015; [2] Includes investment in SLF JV I; [3] Comprised of $250 million unsecured institutional notes, $115 million unsecured convertible notes and $161 million of unsecured retail notes; [4] FSC dividend yield as of August 10, 2015 is calculated based on annualizing the $0.06 per share monthly dividend declared by FSC's Board of Directors through November 2015;
[5] Insider ownership share amounts reported as of May 12, 2015.

Fifth Street Senior Floating Rate Corp. (FSFR) Overview

FSFR is a permanent capital vehicle that provides floating rate, senior secured loans to sponsor-backed middle market companies

Building a High Quality Diversified Portfolio

- Raised $100 million of equity in July 2013 through a blind pool IPO
- Completed $294 million follow-on equity offering in August 2014 – fully deployed proceeds
- Invested in floating rate senior secured loans to 62 companies with a 7.6% weighted average cash yield on debt securities[1]

Long-Term Debt Facilities with Favorable Terms

- $309 million debt securitization transaction comprised of $222.6 million in senior secured notes and $86.4 million of unsecured subordinated notes that matures in May 2025
  - 2.44% annualized average interest rate
- $175 million senior secured revolving facility provided by Citibank matures in January 2020
  - L+200-225 bps during reinvestment period

Recent Highlights

- Formed FSFR Glick JV LLC (“Glick JV”), a senior loan fund joint venture with GF Funding (an entity controlled by the Glick Family), in October 2014 and funded initial portfolio in April 2015
- Glick JV had $147.6 million in assets including senior secured loans to 20 portfolio companies[1]

Dividend Declarations

- Dividend yield of 10.1%[2]; monthly dividends declared from September through November

  Monthly
  - $0.075 payable September 15, 2015
  - $0.075 payable October 15, 2015
  - $0.075 payable November 16, 2015

Transparency & Shareholder Alignment

- Covered by 6 equity analysts
- Discloses leverage ratio for each loan ranking category, non-performing assets (if any) and other metrics
- Increased size of Board of Directors to 7 which includes 4 independent directors
- Senior management and Board own approximately 6.2% (or about 1.8 million shares) of FSFR common stock[2]

[1] As of June 30, 2015; [2] FSFR dividend yield as of August 11, 2015 is calculated based on annualizing the $0.075 per share monthly dividend declared by FSFR's Board of Directors for September through November;
[2] Insider ownership share amounts reported as of August 11, 2015.

FIFTHSTREET

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