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PRESENTATION

Operator

Welcome, and thank you for joining Oaktree Specialty Lending Corporation's Fourth Fiscal Quarter and Full Year 2017 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 - Investor Relations

Thank you, operator, and welcome to all of you who have joined us for today's call to discuss Oaktree Specialty Lending Corporation's Fourth Fiscal Quarter and Full Year 2017 Financial Results.

Our earnings release that was issued this morning and a slide presentation, which accompanies this call, can be accessed on the Investors section of our website, oaktreespecialtylending.com.

Our speakers today are Oaktree Specialty Lending's Chief Operating Officer, Matt Pendo; Chief Executive Officer and Chief Investment Officer, Edgar Lee; and Chief Financial Officer and Treasurer, Mel Carlisle. We will be happy to take any questions following their prepared remarks.

Before we begin, I want to remind you that our comments today will 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 forward-looking statements for any reason. Please refer to our SEC filings for a discussion of these factors. We undertake no duty to update or revise these 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 stock. Investors and analysts should know that Oaktree Specialty Lending Corporation uses the Investors section of its public corporate website to announce material information. Accordingly, the company encourages investors, media and others to review the information that is shared on its corporate website at oaktreespecialtylending.com.

With that, I would now like to turn the call over to Matt Pendo, Chief Operating Officer.

Matthew Pendo - Oaktree Specialty Lending Corporation - COO

Thanks, Mike, and again apologies, and do let us know if you cannot hear us.

It's a privilege to welcome all of you to our first conference call as the new investment adviser of Oaktree Specialty Lending Corporation.

On today's call, I'll provide a brief overview of Oaktree Capital Management. Next, our Chief Executive Officer, Edgar Lee, will provide an overview of the portfolio; and Mel Carlisle, our Chief Financial Officer and Treasurer, will review our financial and operating results for the fourth quarter.

I would like to begin by thanking our stockholders for your vote of confidence, and welcome you to Oaktree Specialty Lending Corporation. We are very excited to be managing this company as well as Oaktree Strategic Income Corporation. We believe both BDCs are well positioned to leverage Oaktree's platform and resources and to do what Oaktree has done successfully for many years, help companies access the capital they need to manage and grow their businesses.

For those of you who may not be familiar with Oaktree, we are a premier credit manager that was founded by the pioneers of alternative credit investing. Oaktree manages approximately $100 billion in assets as of September 30, 2017, of which, over 70% is invested in credit strategies.

Our clients include some of the world's most significant investors, including pension funds, corporations, universities, charities, endowments and foundations, as well as sovereign wealth funds.

Across our investment strategies, our approach has always been primarily focused on risk control and downside protection for our portfolios. The same holds true for Oaktree Specialty Lending and Oaktree Strategic Income. We believe this approach makes us an ideal long-term partner for the companies we invest in and also positions us well to deliver attractive returns to our BDC stockholders.

Since we became the investment manager of Oaktree Specialty Lending on October 17, we have rebranded the BDC, and it now trades on the NASDAQ stock exchange under the ticker symbol, OCSL. We have also attracted new board members, and the board chair is Oaktree's Vice Chairman, John Frank, who is a 16-year veteran of Oaktree. The majority of the board is comprised of independent directors who have both investment and corporate governance experience and expertise.

The investment professionals that manage Oaktree's Strategic Credit strategy, which is led by Edgar Lee, have assumed responsibility for managing Oaktree Specialty Lending. Edgar Lee is Chief Executive Officer and Chief Investment Officer of the BDC; and Mel Carlisle, who has a 20-year history of working at Oaktree, is Chief Financial Officer and Treasurer. We have also retained several Fifth Street professionals to ensure a smooth transition.

Our mandate for Oaktree Specialty Lending is to invest across the capital structure with the goal of generating capital appreciation and income. Our focus is on companies with resilient business models, strong underlying fundamentals, significant enterprise or asset value and seasoned management teams. We will also work with companies that have unique needs and specific business challenges that can benefit from our expertise in underwriting and structuring loans.

As I mentioned earlier, both of our BDCs are being managed by Oaktree's Strategic Credit team, which is led by Edgar Lee. This team consists of 15 tenured investment professionals who specialize in highly customized, bespoke private loans with a variety of structures, and who've been engaged in direct lending since the strategy's inception in 2012.

Prior to joining the Strategic Credit team, Edgar was a senior investment professional at Oaktree's flagship Distressed Debt Group. Through his experience working across asset classes and his long tenure at the firm, Edgar has built strong relationships with the various investment teams at Oaktree and with many deal-sourcing partners.

Let me discuss in more detail how the Oaktree platform is a significant competitive advantage and provides many benefits for our BDC stockholders.

The first of these is scale. Oaktree has a team of over 250 highly experienced investment professionals with a breadth of expertise in loan origination, due diligence, deal structuring and underwriting. Both of our BDCs are supported by tremendous resources and expertise that comes with scale.

The second is relationships. Oaktree is a trusted partner to many financial sponsors and management teams based on the commitments we make to our borrowers, our long-term view of investing and our ability to lend across market cycles. We also have a strong market presence and established relationships across a wide spectrum of deal sources that often leads to a first look at proprietary opportunities.

The third is our track record. Direct lending has always played an important role in Oaktree's credit strategy. Since 2005, Oaktree has invested over $10 billion in more than 200 companies.

And the fourth is flexibility. We take a highly customized approach to structuring comprehensive, flexible and creative credit solutions for companies. We invest in many industry sectors and across the capital structure. We also have the capacity to invest in large deals and to act as the sole underwriter in such transactions.

In mid-October, we received exemptive relief from the SEC, which allows us to co-invest in negotiated transactions alongside Oaktree's other funds. This allows us to provide larger and more comprehensive solutions to borrowers.

The addition of our BDC expands Oaktree's presence in the direct lending marketplace as well as the opportunity set of private debt investments in which Oaktree's managed funds can participate. In turn, extending our reach allows Oaktree to be an even more competitive provider of comprehensive direct lending and private credit solutions to companies of all sizes, which benefits Oaktree Specialty Lending stockholders.

With that, I'd like to turn the call over to Edgar Lee, Chief Executive Officer.

Edgar Lee - Oaktree Specialty Lending Corporation - CEO & CIO

Thank you, Matt. I'll begin by reviewing Oaktree Specialty Lending's portfolio and our plans for managing it. I would like to remind you that since the transaction closed on October 17, the portfolio results for the fourth quarter of 2017 do not reflect any of our portfolio repositioning efforts.

At September 30, the portfolio had a fair value of $1.54 billion invested in 125 companies. This was comprised of loans to 81 borrowers, the joint venture with Kemper Corporation, 6 public bond issues, 19 equity only positions and 18 private equity investments.

Approximately 92% of the portfolio was invested in debt instruments. 54% of the portfolio was invested in first-lien loans, 24% was in second-lien loans, and the remaining 14% was in unsecured investments. 84% of debt investments were in floating-rate securities. The weighted average yield on debt investments was 9.6%.

The portfolio included investments in companies across more than 40 industries. The largest concentrations were in the following sectors: Internet and application software and services, healthcare services and equipment, advertising, data processing and outsourced services; and pharmaceuticals.

While the average investment by borrower was approximately $13 million at fair value, 13 investments were over $30 million, and 55 investments were less than $10 million. In line with our goal to maintain a diverse portfolio with more evenly sized, high-conviction investments, we expect to reduce our exposure to loans below $10 million over time.

The Kemper joint venture, which invests primarily in senior secured loans to middle market companies, was valued at $134 million. 96% of that amount is a secured debt investment in the joint venture with the balance in common equity.

New investment commitments for the fourth quarter were $156 million and included 9 new and 5 existing portfolio companies. Fundings for the quarter were $168 million, including a $21 million loan to an existing portfolio company and $147 million in loans to 14 new portfolio companies. These investments included broadly syndicated loans that are generally more liquid and lower-yielding than privately placed middle-market loans.

During the quarter, OCSL received $243 million in proceeds from refinancings and monetizations of 17 investments. The environment for direct lending remains active, so a number of our portfolio companies were able to refinance or repay their loans. 2 of the 17 payoffs, Dexter Axle and Vandelay Industries, generated realized gains totaling $13 million.

Now turning to credit quality. At September 30, a total of 8 investments were on non-accrual status, which represented 16.4% of the portfolio at cost and 4.7% at fair value. In the fourth quarter, 2 additional loans were placed on non-accrual status.

Looking ahead, we plan to leverage our restructuring experience and expertise to take a proactive approach to managing challenged credits in the portfolio. In the case of companies with solid enterprise or asset values, we will look to work closely with management to help them execute realistic turnaround plans. In situations where we see little chance of recovery, we will look to exit investments in a manner that optimizes the value of the investment. Since this process is ongoing, we are limited in what we can say with respect to our plans for individual portfolio companies at this time.

Now I'll provide some color on the investment landscape and our expectations for originating new loans for the portfolio. The landscape for direct lending is increasingly competitive as new participants continue to enter the market, many of whom have significant amounts of dry powder. This has resulted in a wave of refinancings as well as more aggressive deal structures, such as those that include weaker covenants, higher leverage or aggressive EBITDA add-backs.

Against this backdrop, we remain committed to our credit underwriting standards and highly selective approach to making new investments. That said, we believe that Oaktree's broad, direct lending platform, combined with our ability to co-invest along our other funds, will allow us to maintain an active presence in the market.

Since we began managing the portfolio in late October, we have made several new investments. To give you a sense for our investment approach, let me briefly describe one strategic transaction we are currently working on with a leading financial sponsor. I should note that this potential investment is subject to certain approvals, and we are not certain that it will close.

This is a $35 million first-lien senior secured investment in an outsourced IT services company that needs growth capital for acquisitions. It is attractively priced at LIBOR plus 800 with 2 points of OID and has a well-structured covenant package and significant asset coverage. Oaktree has provided financing to this company in the past, so we are very familiar with the sector, the business and the management team. This is a co-investment opportunity with Oaktree's Strategic Credit strategy that we were able to pursue following receipt of exemptive relief.

We look forward to discussing additional transactions with you in the future and hope this gives you a sense for how we will leverage the Oaktree platform to source attractive investment opportunities and how we will structure and price transactions.

Now I'll conclude my remarks with some comments on our plans to reposition the portfolio.

Our near-term focus is on protecting principal and minimizing credit losses. We are doing this by managing the portfolio down to a core set of more evenly sized, high-conviction investments. We anticipate restructuring certain loans, exiting positions when we can obtain fair value, and, as loans mature or are refinanced, rotating into opportunities that better aligned with Oaktree's overall approach to credit investing.

As we move through the process of repositioning the portfolio, we expect our financial results will be uneven. At the same time, since we plan to pay future dividends based on the earnings generated by the portfolio, we also expect our dividend payments will vary from quarter-to-quarter until the portfolio is stabilized.

Longer term, we will focus on generating a competitive return on equity and a sustainable and a consistent dividend. We will do this by leveraging Oaktree's platform to originate new investments that are aligned with our demonstrated investment approach and can generate attractive returns across economic cycles. We plan to opportunistically invest across the capital structure in senior secured debt, unitranche, or junior capital, as well as in structured finance or other non-traditional structures that leverage our expertise. Finally, we will look for opportunities to capitalize on dislocations in the financing markets to generate capital appreciation and income through secondary investments at discounts to par in either private or syndicated deals.

And now I'd like to turn the call over to Mel Carlisle, Chief Financial Officer and Treasurer, to discuss our financial results in more detail.

Mel Carlisle - Oaktree Specialty Lending Corporation - CFO

Thank you, Edgar. Net investment income in the fourth quarter was $11.5 million or $0.08 per basic and diluted share. This was down sequentially from $19.4 million or $0.14 per share in the third quarter due to the smaller size of the portfolio, an increase in loans on non-accrual status, and lower fee and dividend income. The size of the portfolio decreased during the quarter as proceeds from repayments and exits were used to pay down debt.

Total investment income for the fourth quarter was $35.7 million, including $31.4 million of cash interest income. Net expenses for the quarter were $24.4 million, reflecting lower incentive and base management fees due to the size and performance of the portfolio.

Net realized losses were $20.5 million and included a $34 million loss on the partial payoff of the investment in ERS Acquisition Corp., which was previously marked down to $3.7 million. This amount was offset by realized gains generated by 2 of the 17 investments monetized during the quarter.

Oaktree Specialty Lending recorded $116.4 million of net unrealized losses during the quarter, primarily due to write-downs on 6 portfolio companies and our equity interest in the Kemper joint venture. As a result, net asset value declined to $6.16 per share at September 30, from $7.17 per share at June 30.

With regard to the portfolio valuation, I'd like to note that because Oaktree was appointed the investment adviser of Oaktree Specialty Lending on October 17, we were not managing the portfolio in the fourth quarter of 2017. That said, the September 30 portfolio valuation was performed by Oaktree's long-tenured internal valuation team, in collaboration with external valuation firms, and approved by the residing Board of Directors of Oaktree Specialty Lending. Therefore, while we were not responsible for the portfolio results, we did conduct a thorough process to value the portfolio and believe it is marked appropriately.

The write-downs in the quarter were concentrated in healthcare investments and, from an asset perspective, approximately 60% were related to debt investments and 40% were related to equity positions.

Total debt outstanding at September 30 was $675 million with a weighted average interest rate of 4.25%, and the debt-to-equity ratio was 0.78x. At quarter end, OCSL had $53 million of unrestricted cash and cash equivalents and $299 million of undrawn capacity on its credit facilities.

During the quarter, Oaktree Specialty Lending paid down $238 million in debt. This includes the remaining $148 million balance on the SBA debentures and the reduction of the capacity on our revolving credit facility with ING to $525 million from $710 million.

In addition, we recently amended our credit facility to decrease the minimum amount of shareholder's equity required as of the last day of any fiscal quarter to $700 million and the minimum amount of net worth we are required to maintain at any time to $650 million. We believe this amendment will provide us additional flexibility as we continue to reposition the portfolio.

At year-end, Oaktree Specialty Lending had $118 million of unfunded commitments outstanding, primarily to portfolio companies with revolving credit facilities or delayed draw term loans.

Now I turn the call back over to Edgar Lee, Chief Executive Officer, for closing remarks.

Edgar Lee - Oaktree Specialty Lending Corporation - CEO & CIO

In closing, I would like to reemphasize that we are very excited to be managing Oaktree Specialty Lending. We are confident that our demonstrated investment process, disciplined approach to underwriting investment opportunities and substantial expertise in restructuring challenged credits will pave the way to building a portfolio that delivers attractive returns to our shareholders over time.

With that, we'd be delighted to take your questions. So operator, please open the lines.

QUESTIONSANDANSWERS

Operator

(Operator Instructions) The first question will come from Rick Shane of JPMorgan.

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

I'd like to talk a little bit about the transition and then I'd like to talk over the last quarter and then talk about how this evolves going forward. During the transition period from when the transaction was announced to when you closed, what was your involvement? What was the new management team's involvement in approving investments? Are these legacy investments? Or are these managed or investments that really were blessed by the new team?

Edgar Lee - Oaktree Specialty Lending Corporation - CEO & CIO

So under the '40 Act and the rules of the BDC, Fifth Street continued to be the manager of the BDC and approved all transactions or investments in the portfolio during the Q4 period. We were made aware of those investments, but we did not have any role in approving those transactions.

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

Got it. Okay. And then when we think about the valuation process and given the closing date, I'm assuming that because you were able to do the valuation process once the closing was done and sort of look back that these are valuations that the new management team has signed off on 100%. What was the involvement of the prior professionals who led or serviced those investments?

Mel Carlisle - Oaktree Specialty Lending Corporation - CFO

Our initial valuation of the portfolio was performed by Oaktree's internal valuation team, and we did work very closely with the Fifth Street team in arriving at valuations. But ultimately, Oaktree made the final decisions on valuation.

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

And were there any significant surprises or discrepancies between what the Fifth Street team thought and what the Oaktree team thought?

Mel Carlisle - Oaktree Specialty Lending Corporation - CFO

No, they were on board with our internal valuation team along with the third-party valuation firms.

Edgar Lee - Oaktree Specialty Lending Corporation - CEO & CIO

And then just to emphasize as we discussed in our prepared remarks, the current board approves the valuation and the NAV.

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

Got it. And then last question -- and I apologize, I know you said one, only one, but I've going to hopefully take it a little bit of advantage. In terms of -- you sort of provided a near-term, long-term plan and made the comment that dividends will fluctuate. I'm assuming -- should we think of the near term as being next 12 months and that a year from now, we'll be having a conversation about what the vehicle looks like on sort of an ongoing basis with a more stable and predictable dividend?

Edgar Lee - Oaktree Specialty Lending Corporation - CEO & CIO

I think it's a little bit too early for us to provide comments on that. As we mentioned, we've only taken over these operations of the vehicle, or the company, in the last 45 days or so. So it's a little bit premature for us to comment on the time frame there.

Operator

The next question will come from Ryan Lynch of KBW.

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

Kind of following up on the fair value marking process. I mean, I'm glad that you guys were able to go in and make your own fair value marks. I was just wondering -- obviously, there were some very big markdowns taken in the quarter. And I think I would expect with your new team coming in that you guys would have had some big markdowns and probably taken a conservative approach to fair value. So with the markdowns that you guys had this quarter, did you guys feel that you guys have your head around the legacy Fifth Street book? And how confident are you in your ability to minimize future markdowns and that we aren't going to see big markdowns after this most recent quarter?

Edgar Lee - Oaktree Specialty Lending Corporation - CEO & CIO

So I think the way I'd address this is we've been managing this portfolio for about 6 weeks now, so it's early in the process. What we can say is that we've been reviewing each of the investments in the portfolio with the same level of due diligence that we have applied to any new Oaktree investment. In addition, we have a lot of expertise and experience in debt restructuring. It's how I started my career here at Oaktree, and so we have a lot of expertise in the area of working out troubled credits. So we've been taking a proactive approach to managing the portfolio, reaching out to management teams and trying to really assess the best path forward with individual investments.

I can share with you a couple of data points on the portfolio, to give you a sense of the how the portfolio is performing, because you only have a sense of some of the markdowns. Just to give a couple of data points, among the existing investments in the portfolio that have reported numbers as of September 30, almost 65% by fair market value have reported increasing revenue growth, and similarly, approximately 55% by fair market value have reported a decrease in leverage. So hopefully that gives you some sense about how the portfolio is going or how that may ultimately impact the portfolio in the future.

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

Okay, if I can just have one slight follow-up to that. As far as the fair value marking process, would you say -- I know you gave me some statistics on how the portfolio's performing, but would you say that you're -- because obviously there's big markdowns in the portfolio this quarter, would you guys say that, that maybe Oaktree's fair value marking process is more conservative than the legacy Fifth Street approach? Or was there significant deterioration in the portfolio in the fiscal fourth quarter? Because it seems like one of those has to be true in order to get to the big fair value mark -- the big fair value declines this quarter.

Edgar Lee - Oaktree Specialty Lending Corporation - CEO & CIO

Well, I can't comment on Fifth Street's valuation approach. But what I can say is as we went through the valuation process, a handful of credits had some negative events occur that impacted our views on the fair market value of those investments.

Operator

The next question will come from Terry Ma of Barclays.

Terry Ma - Barclays PLC, Research Division - Research Analyst

Can you give us a sense of how long your portfolio repositioning could take?

Edgar Lee - Oaktree Specialty Lending Corporation - CEO & CIO

Sure. Here's how I'd look at this. Again, we have just taken over this portfolio, so it's early to say, and we're very early in the process. The way I would think about timing generally is that there are some investments in this portfolio that are not ones that we would necessarily invest in, where it's fairly easy for us to monetize those investments because they may be investments in more liquid opportunities that we can more readily monetize. And there will be other investments that are more illiquid, more challenged, where it will be more difficult to find a potential buyer of that asset, and that could take a little bit longer. So, I don't want to give an outside date, but it can take longer to do 100% of the repositioning that we want to, but what we may find over time as we continue to assess the portfolio is that we'll be able to reposition a large portion of it sooner than we might necessarily have thought.

Terry Ma - Barclays PLC, Research Division - Research Analyst

Okay, got it. And then in terms of the investments you plan on rotating out of the liquid and illiquid investments, can you maybe just quantify how much each bucket is?

Edgar Lee - Oaktree Specialty Lending Corporation - CEO & CIO

So I would love to do that on future calls. We're still going through this right now. And what I would say is that we're still going through the process of determining which loans we would like to move and when we would like to move them out of the portfolio, and the process by which we'd like to move them out of the portfolio. Some of them will go through some sort of a sale process because we are the equity owners of that company. Others will go through some sort of bespoke, or sort of bilateral negotiation because it is a loan where we can find another direct lending fund to participate in that loan. Some of these loans are not necessarily bad loans. They are loans that may just be a suboptimal size for our portfolio. While other loans are ones that just may not fit our investment style, but may fit another manager's investment style.

Operator

The next question will come from Jonathan Bock of Wells Fargo Securities.

Finian Patrick O'Shea - Wells Fargo Securities, LLC, Research Division - Associate Analyst

Fin O'Shea for Jonathan Bock this morning. Congratulations on your inaugural quarter as a BDC. Just to kind of get some color on what the new book, the new investment activity will look like. You gave us an example of a $35 million first-lien at L plus 8. If this is a proto-typical loan, can you kind of expand a little bit on, say, what was the level of EBITDA and what was the total facility size? And we'll start there.

Edgar Lee - Oaktree Specialty Lending Corporation - CEO & CIO

On this particular investment, I can't comment on it because of our confidentiality arrangements.

Finian Patrick O'Shea - Wells Fargo Securities, LLC, Research Division - Associate Analyst

Well, maybe just generally then. What kind of hold sizes do you expect to originate? And at what type of EBITDA are you currently able to do for a buyout?

Edgar Lee - Oaktree Specialty Lending Corporation - CEO & CIO

Sure. So in OCSL, when we think about sizing of positions, typically, we'd like to see positions around 2% to 2.5%. We think that's an adequate amount of diversity to make sure that if there was an unfortunate negative event to a company, the impact to the overall portfolio, it would be relatively limited. But, at the same time, it's sizable enough that if there are positive events there, that it will have some impact on the portfolio, and it also makes sure that we're not overly diversified in a way that we are introducing new risks to the portfolio. In terms of company size, what I would say is because of our exemptive relief that we received, we're able to write pretty substantial size loans to companies. We are generally, for OCSL and for our Strategic Credit strategy tending to focus on larger companies in the middle market space as opposed to going into the lower middle market, small business side of the marketplace.

Finian Patrick O'Shea - Wells Fargo Securities, LLC, Research Division - Associate Analyst

Very well. Then just one more small one if I may. Can you comment now that you've conducted the portfolio evaluation on a potential stock buyback program?

Edgar Lee - Oaktree Specialty Lending Corporation - CEO & CIO

Yes. I think, at this time, we're focused on repositioning the portfolio. We're not particularly focused on share repurchase. We have to reposition the portfolio. There's an ING credit facility that we're focused on. We have to do some work around the JVs, and that's our focus right now.

Operator

The next question will come from George Bahamondes of Deutsche Bank.

George Bahamondes - Deutsche Bank AG, Research Division - Senior Research Analyst

You had mentioned -- I haven't got the exact details here, but there are a few investments that you mentioned are suboptimal in terms of size. Did you give specifics around what that dollar amount or the number of those investments were? I believe the suboptimal amount was below $10 million but did not catch the details.

Edgar Lee - Oaktree Specialty Lending Corporation - CEO & CIO

Sure. George, it's Edgar here. So we did say below $10 million. The way I think about it is at below $10 million, you are looking at positions that are potentially 0.5% in size in the portfolio. Some positions in the portfolio are as small as a couple of million dollars. So those are the types of positions we would be looking to monetize over the coming quarters.

George Bahamondes - Deutsche Bank AG, Research Division - Senior Research Analyst

Got it. And just to follow up on another detail I missed here. You mentioned unfunded commitments at 9/30. Can you just disclose that amount again?

Edgar Lee - Oaktree Specialty Lending Corporation - CEO & CIO Sure,

we'll get you that amount.

Mel Carlisle - Oaktree Specialty Lending Corporation - CFO $118

million.

Operator

The next question comes from Christopher Testa of National Securities Corporation.

Christopher Robert Testa - National Securities Corporation, Research Division - Equity Research Analyst

Of the unrealized depreciation of roughly $116 million or so in the quarter, how much of that was due to declining performance of the investments versus you guys marking the book differently than Fifth Street would've?

Edgar Lee - Oaktree Specialty Lending Corporation - CEO & CIO

I think we touched on this earlier. I don't have specific percentages in front of me, but you should view it as the vast bulk of those markdowns were related to a handful of credits that had very specific negative credit events occur.

Christopher Robert Testa - National Securities Corporation, Research Division - Equity Research Analyst Got it.

And with the credit facility amendment, what were the costs associated with that approximately?

Matthew Pendo - Oaktree Specialty Lending Corporation - COO The

cost? There were no costs.

Christopher Robert Testa - National Securities Corporation, Research Division - Equity Research Analyst

Got it. And just touching on an earlier comment, you guys had said that your hold size, you wouldn't want to hold things under $5 million. But, at the same time, you have the ability to have exemptive relief. Is it, I guess, sensible to think that you guys could make potentially a $50 million, $60 million, $70 million investment across the platform but potentially have hold sizes within the BDC of, say, under $10 million or so?

Edgar Lee - Oaktree Specialty Lending Corporation - CEO & CIO

It is possible that would occur. We don't anticipate at this point that, that will be a frequent occurrence.

Christopher Robert Testa - National Securities Corporation, Research Division - Equity Research Analyst

Got it. And last one from me, just with the current verticals of the portfolio given the high concentration and obviously, a lot of tech and software and obviously, healthcare, which has been problematic for Fifth Street, are you comfortable in those types of verticals? Or should we expect more of a significant change in those industries?

Edgar Lee - Oaktree Specialty Lending Corporation - CEO & CIO

So we do a pretty substantial amount of investing today in those 2 verticals. We have a number of people focused on those 2 industries. But we also focus on many more industries in more substantial ways than what Fifth Street or the prior manager did. What I would say around the healthcare -- both healthcare and software, just some quick comments. Healthcare and their healthcare exposure, often times, people mentioned to me that they have a lot of healthcare exposure, which is true, but they had very specific types of healthcare exposure, and it happened to be a number of those sizable investments in the healthcare industry that they made had highly correlated risk factors. And it happened to be that there were some negative events that occurred that affected all of those credits in a similar way. Among their software vertical, it's performed -- the software vertical has actually performed reasonably well, with a couple of challenged investments. And those investments are very company-specific and are not necessarily correlated to the other software companies in the portfolio.

Operator

(Operator Instructions) The next question will come from Chris York of JMP Securities.

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

Welcome to the public BDC neighborhood. When do you expect to release the 10-K? I believe that will answer my outstanding questions about the marks and investments today.

Mel Carlisle - Oaktree Specialty Lending Corporation - CFO

We expect to release the 10-K this afternoon after market close.

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

Got it, that is helpful. And then you didn't declare a Q1 '18 dividend but did acknowledge that results could be volatile in the short term, and then I didn't fully understand the dividend outlook comments in the prepared remarks. But is it safe to think that the distribution policy in the short term will be variable as opposed to the more commonly fixed policy that we tend to think about for the industry?

Matthew Pendo - Oaktree Specialty Lending Corporation - COO

Yes, I think -- it's Matt, Chris. Thanks for your question. I think the way that we were thinking about dividends, in the short run -- just talking about the short run is they're a function of the investment income or the income that's generated from the portfolio. So that is the guidepost that you should focus on in the short run, as we work through dividends.

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

Okay. And then, I mean, as we think about the fourth quarter, you had $0.08 in net investment income per share. There was some noise, I think, I still haven't seen the K, in expenses. Are there onetime items in here that you think are nonrecurring?

Matthew Pendo - Oaktree Specialty Lending Corporation - COO

You mean in the last quarter or the projected Q1 of the current year?

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

Q4, Q4. Were there any -- I mean, professional fees were up. You've got G&A was up. Were there any onetime -- I mean, interest expense was up sequentially. So were there any onetime expenses in there that you think are nonrecurring in fiscal 2018?

Mel Carlisle - Oaktree Specialty Lending Corporation - CFO

There were probably some nonrecurring expenses, but there are also going to be expenses just in terms of stabilizing and transitioning the portfolio.

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

Make sense, okay. And then last, and I'll hop back in queue. So leverage is at 0.79x, and then clearly, your decision to pay down the debentures. So can you give us an update on how you're thinking about your capital structure? And then maybe what improvements potentially longer term that exists on the right-hand side of your balance sheet?

Matthew Pendo - Oaktree Specialty Lending Corporation - COO

Sure. So as we announced, we paid off the SBC debentures primarily because the act of transferring the license of SBC is quite cumbersome and bureaucratic. So it was just a lot simpler and easier for us to just do, and part of the APA was to pay off those debentures, which obviously takes down leverage and frees up cash to actually further delever. And we're going to continue to do that. In terms of going forward, there's just so many moving parts right now in the portfolio, I don't want to talk about specific numbers. But in general, we're pretty conservative in this environment when it comes to leverage levels.

Operator

We have no further questions, Mr. Mosticchio.

Michael Mosticchio - Oaktree Specialty Lending Corporation - Investor Relations

Thank you, and thank you all for joining us on today's call. We apologize again for the earlier technical issues, and we will work to post our transcript to our website as soon as possible. If anyone would like, feel free to reach me, call me or e-mail me, and you can find our contact info in our earnings presentation on our website.

Replay for this conference call will be available for 30 days at OCSL's website in the Investors section or by dialing (877) 344-7569 for U.S. callers or 1 (412) 317-0088 for non-U.S. callers with a replay access code, 10114277 beginning approximately 1 hour after this broadcast. Thank you.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect your lines. Have a great day.