



INVESTMENTS®

# Fund commentary

As of 9/30/2018

unless otherwise noted

Class I: FCRIX

## FS Credit Income Fund

A multi-sector alternative income fund

Performance (total returns) <sup>1</sup>	QTD	YTD	1 year	Since inception
<b>FCRIX (inception 11/1/2017)</b>	<b>2.23%</b>	<b>6.89%</b>	—	<b>8.51%</b>
Bloomberg Barclays U.S. Aggregate Bond Index	0.02%	-1.60%	—	-1.27%
S&P/LSTA Leveraged Loan Index	1.84%	4.03%	—	4.57%
ICE BofAML U.S. High Yield Index	2.44%	2.52%	—	2.54%

The fund is a non-diversified closed-end interval fund.

The net expense ratio, excluding estimated interest expense associated with expected use of leverage, for Class I is 1.85%.\*

Performance data quoted is past performance and is no guarantee of future results. Class I Shares have no sales charges; therefore, performance is at NAV. Returns less than one year are cumulative; all others are annualized. Total return figures reflect changes in share price and reinvestment of dividend and capital gain distributions. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost, and current performance may be lower or higher than the performance quoted. For performance data on all share classes current to the most recent month end, please call 877-628-8575 or visit our website at [www.fsinvestments.com](http://www.fsinvestments.com). The benchmarks are shown for illustrative purposes only. An investment cannot be made directly in an index. The fund's actual investments and performance may differ substantially from those of the indices presented. See index definitions on the next page.

\*Calculated as an estimated percentage of average net assets attributable to shares. If the estimated interest expense associated with the fund's use of leverage is included, the estimated net expense ratio would be 2.72% for Class I Shares. The fund's actual expense may be different than the estimates above. The calculation also takes into account the fee waiver and/or expense reimbursement during such time period. FS Credit Income Advisor, LLC, FS Credit Income Fund's investment adviser, has entered into an expense limitation agreement with the fund under which it has agreed to pay or waive the "ordinary operating expenses" of the fund to the extent that such expenses exceed 0.25% per annum of the fund's average daily net assets attributable to the applicable share class of the fund. Ordinary operating expenses exclude (1) investment advisory fees, (2) portfolio transaction and other investment-related costs, (3) interest expense and other financing costs, (4) taxes, (5) distribution and shareholder servicing fees and (6) extraordinary expenses of the fund. The expense limitation agreement will continue indefinitely until terminated by the Board on written notice to FS Credit Income Advisor. The expense limitation agreement permits the adviser to recoup the amounts it has paid or waived pursuant to the agreement in the future, subject to certain limitations. For full detail on FS Credit Income Fund's fees and expenses, please review the fund's prospectus.

### Quarterly commentary

During the quarter, high yield bond and senior secured loan indices posted strong returns alongside a surge in U.S. equities.<sup>2</sup> Moderately higher interest rates impacted returns for the Bloomberg Barclays U.S. Aggregate Bond Index (Barclays Agg), which managed only a small positive return.<sup>2</sup>

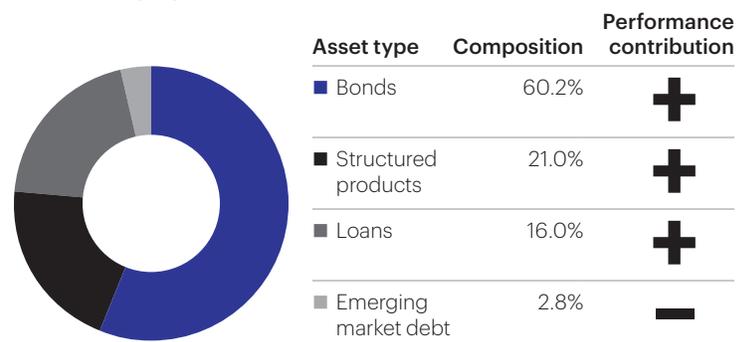
A 7.71% return for the S&P 500 and strong economic growth set the tone for high yield bonds and senior secured loans in the third quarter.<sup>2</sup> High yield bonds posted their best quarterly return for the year despite moderately higher 10-year U.S. Treasury rates.<sup>3</sup> Credit spreads tightened during the quarter, more than offsetting any impact from duration sensitivity. Similarly for loans, continued low default rates combined with investor demand for floating rate assets supported the market. Corporate issuance of loans was met with strong demand from new collateralized loan obligation (CLO) creation, a proxy for institutional loan demand, and inflows into U.S. floating rate funds.<sup>3,4</sup> July and September trailed only January as the best monthly returns for the senior secured loan index on the year.<sup>5</sup>

10-year U.S. Treasury rates had declined through the third week in August, but rallied throughout the month of September to end the quarter 0.2% higher and above a symbolic 3% level.<sup>2</sup> Not surprisingly, higher-duration sensitive assets were pressured by the move in rates, with the Barclays Agg selling off -0.64% in September and posting only a slight positive return for the quarter.<sup>2</sup>

Questions concerning global growth and geopolitical trade tensions continued to weigh on markets outside the U.S. Growth within the eurozone has been somewhat disappointing, and emerging markets experienced heightened volatility in the third quarter.

### Portfolio allocation by asset type

Driving the fund's positive performance in the third quarter were bonds, structured products and loans, in that order, while emerging market debt was a detractor.

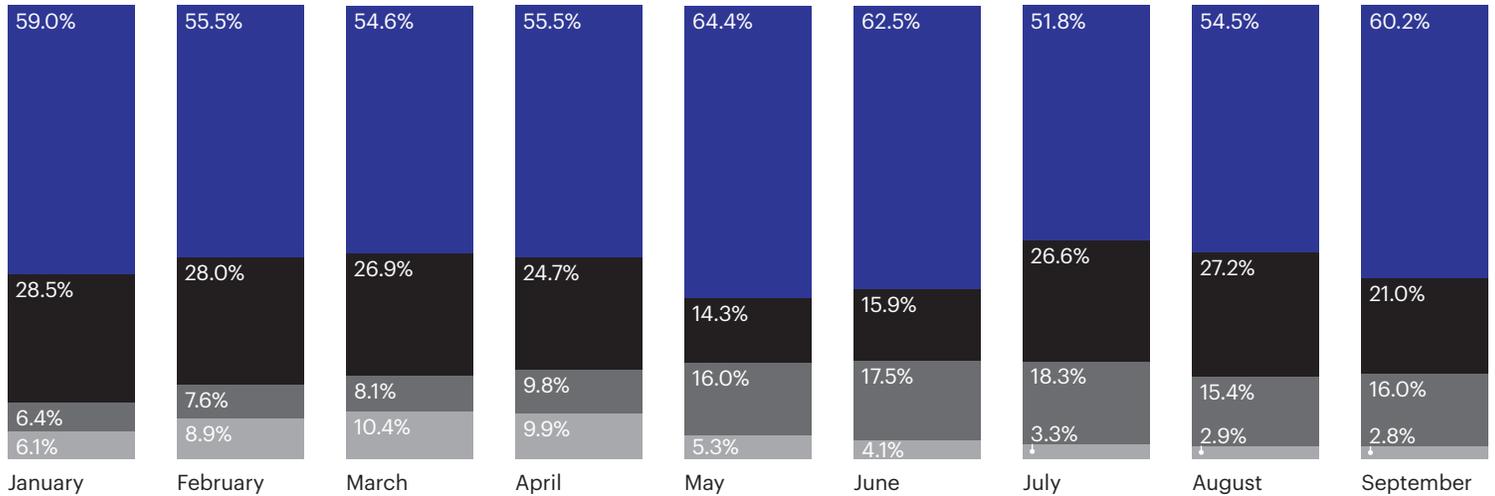


**Portfolio allocation by geography** As a percentage of invested assets since fund inception (11/1/2017), as of 9/30/18.

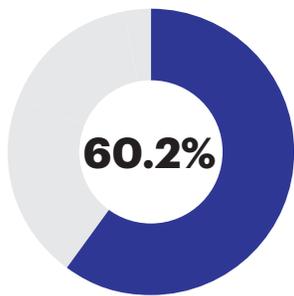
North America			Europe			South America			Other		
Current <b>70%</b>			Current <b>24%</b>			Current <b>3%</b>			Current <b>3%</b>		
Low	Median	High	Low	Median	High	Low	Median	High	Low	Median	High
68%	72%	75%	14%	19%	24%	3%	4%	10%	3%	4%	8%

**Sector allocations by month**

■ Bonds ■ Structured products ■ Loans ■ Emerging market debt



**BONDS**



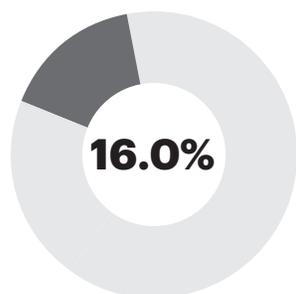
- Bonds were the largest positive contributor to performance in the third quarter as the fund's bond allocation outperformed the broader high yield market.<sup>3</sup>
- Performance was led for the second consecutive quarter by a sovereign bond position that continued to trade higher following better than expected economic conditions as well as additional clarity surrounding a proposed settlement with bondholders.
- Performance was negatively impacted by a North American oil and gas company that reported weaker than expected earnings.
- While the fund's bond allocation fell slightly during the quarter, bonds remain the largest allocation by asset type. We continue to favor shorter-duration high yield bonds in the current environment, focusing on positions which offer both higher income and opportunities for idiosyncratic returns.

**STRUCTURED PRODUCTS**



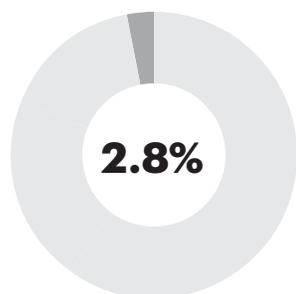
- Structured products, driven primarily by the fund's allocation to CLOs, were a positive contributor to performance during the quarter and outperformed a benchmark for CLO securities.<sup>4</sup>
- Moderate spread widening in the CLO market led to declines in a select number of CLO positions, which were offset by gains across the structured products portfolio.
- The fund took advantage of weakness in the CLO market by increasing its structured products exposure. This was the largest overall shift among the fund's asset class allocations for the quarter. We believe the moderate weakness experienced in the third quarter was not a function of deterioration in the underlying securities, but rather a supply/demand imbalance created by heavy primary CLO issuance.

## LOANS



- Loans were a positive contributor to performance in the third quarter and the fund's loan allocation outperformed the broader senior secured loan market.<sup>5</sup>
- While loans were a positive contributor to the fund's quarterly performance, no single position ranked among the top 10 overall contributors.
- Performance was negatively impacted by a European retail company that reported weaker than expected earnings.
- Allocations to loans fell slightly during the quarter. We continue to believe the asset class is well positioned to perform if rates continue to rise, and loans may help manage risk due to their seniority in a company's capital structure.

## EMERGING MARKET DEBT



- Emerging markets exposure was the sole asset class that detracted from performance during the third quarter and the fund's allocation underperformed an index of emerging market securities.<sup>6</sup>
- Performance was negatively impacted by two investments. First, a South American telecom company largely traded lower due to broader weakness within emerging markets and was not generally impacted by specific business issues. Second, an emerging-market sovereign position traded lower due to concerns about its economy and fiscal position.
- The fund's exposure to emerging market debt decreased during the quarter. We continue to believe that individual investments within emerging markets offer the potential for attractive, low-correlated returns over the longer term.

Pie charts represent fund allocations for September 2018. Bar charts containing the low, high, median and current fund allocations per sector are year to date, as of 9/30/18.

## Outlook

We believe that the fund continues to be attractively positioned as an alternative to core fixed income allocations. We anticipate maintaining the fund's allocation to low-duration assets in order to help minimize the portfolio's sensitivity to changes in interest rates while seeking investments that generate an attractive level of income.

We expect that the potential for heightened geopolitical risk and tighter monetary policy may increase market volatility. Accordingly, the fund remains focused on idiosyncratic opportunities in catalyst-driven situations across asset classes with an emphasis on investments that have limited correlation to the broader fixed income markets.

In our view, the fund is well positioned to capitalize on market dislocations and find investments with attractive risk-adjusted return potential during periods of heightened volatility.

We are maintaining our flexible, actively managed approach, seeking to access differentiated sources of income<sup>7</sup> and return in the credit markets.

1 The since-inception total return for each of the benchmarks is calculated from the fund's Class I inception date, not the inception date of the benchmark.

2 Bloomberg, as of September 30, 2018.

3 ICE BofAML U.S. High Yield Index, as of September 30, 2018.

4 JPMorgan Collateralized Loan Obligation Index, as of September 30, 2018.

5 S&P/LSTA Leveraged Loan Index, as of September 30, 2018.

6 JPMorgan EMBI Global Diversified Index, as of September 30, 2018.

7 Differentiated sources of income refers to non-core fixed income investments (including, but not limited to, emerging market government debt, high yield bonds, emerging market corporate debt and structured products). The yield of these investments may be higher than those of core fixed income investments (including, but not limited to, U.S. Treasuries, investment grade corporate bonds and U.S. municipal bonds). Investing in non-core asset classes may carry increased risks as compared to core fixed income assets, including credit risk and liquidity risk.

## Share classes

Class I	Class A	Class L	Class M	Class T
TICKER FCRIX	TICKER FCREX	TICKER FCRLX	TICKER FCRMX	TICKER FCRTX
CUSIP 30300R203	CUSIP 30300R104	CUSIP 30300R302	CUSIP 30300R401	CUSIP 30300R500

## Glossary of terms

**10-Year U.S. Treasury rate** is the yield on a U.S. government-issued debt security with a maturity of 10 years. It is often used as a benchmark for yields on major fixed income securities.

**Correlation** is a statistic that measures the degree to which two securities move in relation to each other.

**Credit spread** is the difference in yield between a “risk-free” rate (usually U.S. Treasuries) and a bond with a similar maturity but lesser credit quality.

**Duration** is a measure of the sensitivity of the price of a fixed income investment to a change in interest rates, expressed as a number of years.

**Structured products** may include, but are not limited to, collateralized loan obligations, trust preferred CDOs (TruPS CDOs), residential mortgage-backed securities and other asset-backed securities.

## Index definitions

**Bloomberg Barclays U.S. Aggregate Bond Index** is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency).

**ICE BofAML U.S. High Yield Index** is designed to track the performance of U.S. dollar-denominated below investment grade corporate debt publicly issued in the U.S. domestic market.

**JPMorgan Collateralized Loan Obligation Index** is a CLO index that offers total returns and analytics based on observable pricings of a representative pool of bonds following a stated methodology.

**S&P/LSTA Leveraged Loan Index** is a market value-weighted index designed to measure the performance of the U.S. leveraged loan market.

**JPMorgan EMBI Global Diversified Index** is an unmanaged, market-capitalization weighted, total-return index tracking the traded market for U.S.-dollar-denominated Brady bonds, Eurobonds, traded loans and local market debt instruments issued by sovereign and quasi-sovereign entities.

Securities offered through ALPS Distributors, Inc. (1290 Broadway, Suite 1100, Denver, CO 80203, member FINRA), the distributor of FS Credit Income Fund. FS Investment Solutions, LLC is an affiliated broker-dealer that serves as the exclusive wholesale marketing agent for FS Credit Income Fund. FS Investment Solutions, LLC and ALPS Distributors, Inc. are not affiliated.

**An investment in FS Credit Income Fund (the “Fund”) involves a high degree of risk and may be considered speculative. Investors are advised to consider the investment objectives, risks, and charges and expenses of the Fund carefully before investing. The Fund’s prospectus contains this and other information about the Fund. Investors may obtain a copy of the Fund’s prospectus free of charge at [www.fsinvestments.com](http://www.fsinvestments.com) or by contacting FS Investments at 201 Rouse Blvd., Philadelphia, PA 19112 or by phone at 877-628-8575. Investors should read and carefully consider all information found in the Fund’s prospectus and other reports filed with the U.S. Securities and Exchange Commission before investing.**

This Fund is new and has a limited operating history. Investing in the Fund involves risk, including the risk that a shareholder may receive little or no return on their investment or that a shareholder may lose part or all of their investment. The Fund expects most of its investments to be in securities that are rated below investment grade or would be rated below investment grade if they were rated. Below investment grade instruments may be particularly susceptible to economic downturns. The Fund is subject to interest rate risk and will decline in value as interest rates rise. The Fund may engage in leveraging and other speculative investment practices that may increase the risk of loss of investment and accelerate the velocity of potential losses. In addition to the normal risks associated with investing, investing in international and emerging markets may involve risk of capital loss from unfavorable fluctuations in currency values, differences in generally accepted accounting principles or from social, economic or political instability in other nations. The Fund may invest in derivatives, which are often more volatile than other investments and may magnify the Fund’s gains or losses. An investment in shares should be considered only by investors who can assess and bear the illiquidity and other risks associated with such an investment.

No secondary market is expected to develop for the Fund’s common shares; liquidity for the common shares will be provided only through quarterly repurchase offers for no less than 5% and no more than 25% of the common shares at net asset value, and there is no guarantee that an investor will be able to sell all the common shares that the investor desires to sell in the repurchase offer. Due to these restrictions, an investor should consider an investment in the Fund to be of limited liquidity.

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