INVESTMENTS®

Q3 Fund commentary

As of 9/30/2018

FS Investment Corporation IV

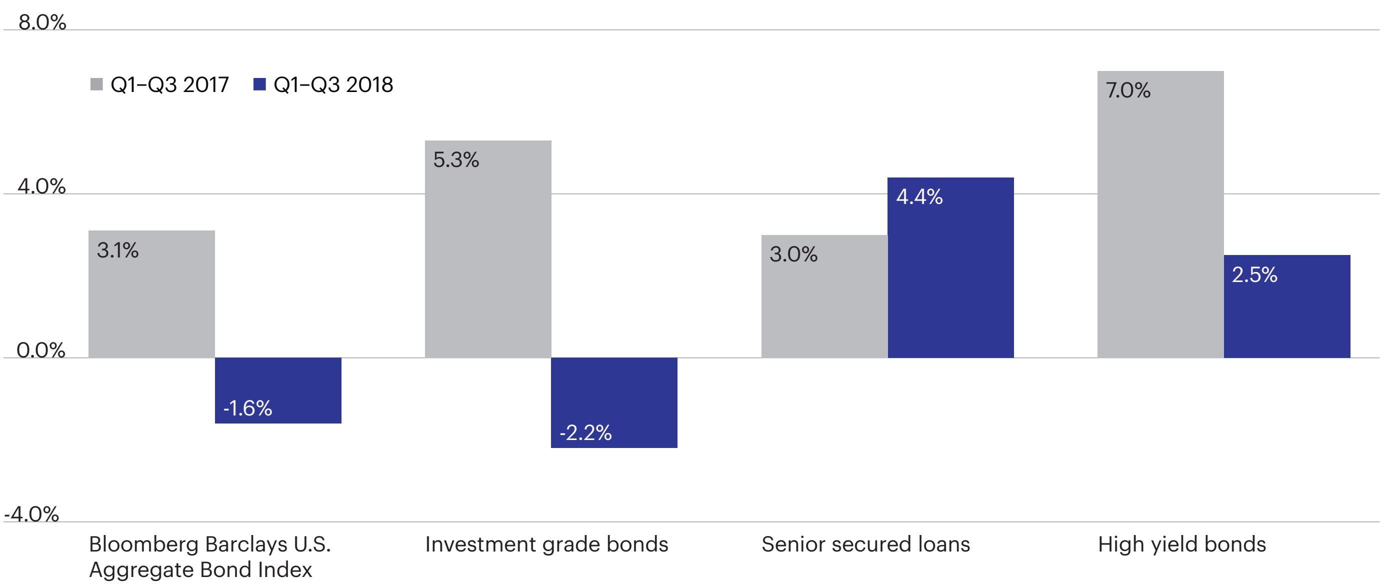
Summary

- The U.S. economy gathered steam during the quarter, showing broad-based strength across a range of indicators including employment and consumer confidence figures. The strong macro backdrop supported corporate credit and equity market returns during the quarter.
- Generally tight market conditions prevailed during the quarter as credit spreads remained near cycle tights, as they have through much of 2018. High yield bonds and senior secured loans generated total returns of approximately 2.4% and 1.9%, respectively, during the third quarter of 2018.[1]
- FS Investment Corporation IV (FSIC IV, or the Fund) generated a stockholder return (without sales charge) of 1.6% for the quarter ended September 30, 2018.[2]

Market review

The U.S. economy gathered steam during the quarter, showing broad-based strength across a range of indicators including employment and consumer confidence figures. The yield on the 10-year U.S. Treasury note rose approximately 20 basis points during the quarter, briefly reaching 3.1%.[3] Both the Consumer Price Index and Personal Consumption Expenditures Price Index remained above the Fed's preferred 2% inflation target. Against this backdrop, the Fed hiked interest rates for third time this year at its September meeting and raised its forecast for economic growth both this year and next.[4] The strong macro backdrop helped boost returns on corporate credit and equity markets during the quarter. Senior secured loans and high yield bonds, which are generally less sensitive to changes in interest rates, outpaced investment grade bonds during the quarter and year to date.[1]

YTD PERFORMANCE ACROSS MAJOR FIXED INCOME ASSET CLASSES[1]



Source: Bloomberg.

An investment in FSIC IV involves substantial risks. For a summary of these important risk factors, please turn to page 5 or click here.

The generally tight conditions that have prevailed within the corporate credit markets in recent quarters remained in place during the third quarter. During the past quarter these conditions did not abate, and investor appetite for floating rate loans remains elevated. Bank loan mutual funds experienced nearly $16 billion in inflows through the first three quarters of the year.[5] Against the backdrop of sustained demand for floating rate investments, leveraged loan spreads have remained near cycle tights through much of the year, and corporate issuers in the broadly syndicated markets have continued to take advantage of the current market dynamic to push out maturities, lower their financing costs and loosen covenants.[1]

Senior secured loan and high yield bond returns benefited from supportive economic conditions during the quarter. Senior secured loans generated quarterly returns of 1.9% while high yield bonds returned 2.4%.[1] It was the second quarter in which high yield bond returns outpaced senior secured loans.[1] Year to date, however, high yield bond performance is significantly below that of the same period in 2017 while senior secured loans have slightly outpaced their performance last year.[1] Higher-duration assets, such as U.S. Treasuries and investment grade corporate bonds, have underperformed year to date as interest rates have gradually moved higher in 2018.[1]

FS Investments and KKR partnership overview

Since announcing the partnership between FS Investments and KKR, FSIC IV has focused on deriving the full benefits of the partnership in three key areas:

- First, given the highly competitive lending environment, FSIC IV selectively allocated capital during the quarter with a focus on senior secured debt, which represented approximately 81% of the portfolio when including assets held through the Fund's total return swap borrowing facility.
- Second, FS/KKR Advisor, LLC (FS/KKR), the Fund's investment adviser, continues to grow the portfolio's allocation to direct originations. As of September 30, 2018, direct originations represented 57% of the portfolio's fair value compared to 40% as of September 30, 2017.
- Finally, as part of the rotation of the portfolio into direct originations, FS/KKR will seek to reduce the Fund's allocation to liquid investments, including subordinated debt investments. The liquid investments tend to exhibit more price volatility compared to the Fund's direct originations, especially during periods of market volatility as experienced following quarter-end.

These collective efforts are designed to increase the Fund's allocations to direct originations, grow portfolio yield and reduce volatility in the Fund's net asset value.

Since its inception on January 6, 2016 through September 30, 2018, FSIC IV's cumulative stockholder return is 27.9% (without sales charge) and 25.1% (with sales charge).[2] By comparison, senior secured loans returned 19.5% and high yield bonds returned 29.4% during the same period.[1]

Performance review

FSIC IV paid regular cash distributions of approximately $0.18 per share during the quarter. Distributions were fully funded through net investment income on a tax basis, which includes adjustments for income received from investments underlying the Fund's total return swap. FSIC IV's gross annualized distribution rate was 6.31% based on the distribution reinvestment price of $11.15 per share as of September 30, 2018.[6]

The Fund's net asset value rose slightly during the quarter to $10.98 per share as of September 30, 2018 from $10.97 per share as of June 30, 2018. FSIC IV generated a stockholder-based total return (without sales charge) of 1.6% during the third quarter compared to 1.9% for senior secured loans and 2.4% for high yield bonds.[1,2] (Please see the performance disclosure on page 4 for a detailed description of the calculation of stockholder returns.)

Investment activity

Against the backdrop of a competitive lending environment and rising rates, investment activity during the third quarter focused on floating rate, senior secured loans and other senior debt. With a continued emphasis on floating rate and low-duration assets, FSIC IV's portfolio should generally benefit in a prolonged rising interest rate environment.[7]

Including investments underlying the Fund's borrowing facility, senior secured debt represented 81% of the portfolio's fair value, composed of floating rate first-lien and second-lien senior secured loans (61% and 15%, respectively) and senior secured bonds (5%). Subordinated debt represented 17% of the portfolio's fair value, while equity and other investments represented approximately 2% of the portfolio's fair value.

FS/KKR is actively working to reduce the Fund's exposure to subordinated debt and rotating into direct originations.

More broadly, the fair value of the Fund's investment portfolio was approximately $282 million as of September 30, 2018. The Fund's portfolio is broadly diversified, with investments in 66 portfolio companies across 16 industries. As of September 30, 2018, direct originations represented approximately 57% of the portfolio based on fair value, up from 56% the previous quarter and 40% as of September 30, 2017.

Conclusion

The third quarter marked the first full quarter of operations for the FS/KKR partnership. The immediate focus of the partnership is to grow the Fund's allocation to direct originations and reduce the Fund's allocation to subordinated investments in order to reduce portfolio volatility. FSIC IV will seek to maximize the benefits of its exemptive relief order to co-invest with KKR's credit platform and access a growing investment pipeline focused on upper middle market companies. FS/KKR believes the upper middle market offers a differentiated source of deal flow for FSIC IV and attractive investment opportunities due to lower competition.

FS/KKR expects these combined efforts will help grow portfolio yield, reduce portfolio volatility and meet the Fund's income and return objectives for investors over the long term.

STOCKHOLDER RETURNS AS OF 9/30/2018

(without sales charge), compounded monthly						(with sales charge), compounded monthly	
YTD	**1 year**	**3 year** (annualized)	**5 year** (annualized)	**Since inception** (annualized)	**Cumulative total return since inception**	**Cumulative total return since inception**	**Inception date**
4.8%	6.5%	—	—	9.4%	27.9%	25.1%	January 6, 2016

Stockholder returns (without sales charge) are the total returns an investor received for the highlighted period taking into account all distributions paid during such period, compounded monthly. The calculation assumes that the investor purchased shares at the public offering price for FSIC IV's shares of Class T common stock, excluding any selling commissions, at the beginning of the applicable period and reinvested all distributions pursuant to FSIC IV's distribution reinvestment plan (DRP). Valuation as of the end of each period is the repurchase price pursuant to FSIC IV's share repurchase program on such date. Stockholder returns (without sales charge) are net of a 1.00% annual distribution fee and do not include selling commissions, which, historically, could total up to 4.25% of the public offering price per share of Class T common stock. Had such selling commissions been included, the performance shown would be lower.

Stockholder return (with sales charge) is the total return an investor received since inception taking into account all distributions paid during such period, compounded monthly. The calculation assumes that the investor purchased shares at FSIC IV's public offering price per share of Class T common stock, including the then-applicable maximum selling commissions (up to 2.20%), at inception and reinvested all distributions pursuant to FSIC IV's DRP.

Valuation as of the end of the period assumes such investor tendered all shares of Class T common stock pursuant to FSIC IV's share repurchase program at the repurchase price on such date.

Upon liquidation or repurchase, market conditions may cause the actual values to be more or less than the values shown.

Prior to closing of the public offering, the public offering price of FSIC IV's shares of Class T common stock was subject to an upfront sales charge, which was up to 2.20% as of December 31, 2016 and up to 4.25% as of January 25, 2017 pursuant to FSIC IV's revised pricing structure. Shares of FSIC IV's Class T common stock are also subject to an annual distribution fee of 1.00% of the estimated value of such shares, as determined in accordance with applicable FINRA rules. FSIC IV's total operating expenses as a percentage of average net assets attributable to common stock was 5.89% for the six months ended June 30, 2017.

Note: All figures may be rounded. Returns shown are historical and are based on past performance. Past performance is not indicative of future results.

1 Total returns are based on indices and represent income from regular interest and dividend payments and appreciation in market value with respect to the securities included in the indices. Indices used: high yield bonds – ICE BofAML U.S. High Yield Master II Index, which is composed of U.S. dollar-denominated below investment grade corporate debt securities publicly issued in the U.S. domestic market; investment grade bonds – ICE BofAML U.S. Corporate Master Index, which is composed of publicly issued, fixed-rate investment grade corporate debt; senior secured loans – Credit Suisse Leveraged Loan Index, which is an index designed to mirror the investable universe of the U.S. dollar-denominated leveraged loan market; 10-year U.S. Treasuries – ICE BofAML 10-year U.S. Treasury Index, which measures the total return of the 10-year U.S. Treasury note. This data is for illustrative purposes only and is not indicative of any investment. An investment cannot be made directly in an index.

2 Please see the table above for a description of how FSIC IV's stockholder returns, with and without sales charge, are calculated.

3 Federal Reserve Bank of St. Louis, https://bit.ly/29ecBfp.

4 U.S. Federal Reserve, https://bit.ly/29y0IjN.

5 Thomson Reuters Lipper.

6 The annualized distribution rate shown is expressed as a percentage equal to the projected annualized distribution amount per share of Class T common stock (which is calculated by annualizing the projected regular monthly cash distribution per share of Class T common stock as of September 30, 2018, without compounding), divided by the distribution reinvestment price per share of Class T common stock as of the date indicated. The annualized distribution rate shown is net of the 1.00% annual distribution fee and may be rounded. The determination of the tax attributes of FSIC IV's distributions is made annually at the end of FSIC IV's fiscal year, and a determination made on an interim basis may not be representative of the actual tax attributes of FSIC IV's distributions for a full year. The actual tax characteristics of distributions to stockholders are reported to stockholders annually on Form 1099-DIV.

7 For further information on the impact of changing interest rates to FSIC IV's portfolio, please refer to Item 3 in FSIC IV's regular quarterly filing with the SEC as of September 30, 2018.

RISK FACTORS

Investing in FSIC IV may be considered speculative and involves a high level of risk, including the risk of a substantial loss of investment. The following are some of the risks an investment in FSIC IV's common stock involves; however, you should carefully consider all of the information found in Item 1A of FSIC IV's annual report on Form 10-K entitled "Risk Factors."

- Because there is no public trading market for shares of FSIC IV's common stock and FSIC IV is not obligated to effectuate a liquidity event by a specified date, if at all, it is unlikely that you will be able to sell your shares. If you are able to sell your shares before FSIC IV completes a liquidity event, it is likely that you will receive less than you paid for them. While FSIC IV intends to conduct quarterly tender offers for its shares, only a limited number of shares will be eligible for repurchase and FSIC IV may amend, suspend or terminate the share repurchase program at any time.
- FSIC IV invests in securities that are rated below investment grade by rating agencies or that would be rated below investment grade if they were rated. Below investment grade securities, which are often referred to as "junk," have predominantly speculative characteristics with respect to the issuer's capacity to pay interest and repay principal. They may also be difficult to value and illiquid.
- FSIC IV's distributions may be funded from unlimited amounts of offering proceeds or borrowings, which may constitute a return of capital and reduce the amount of capital available to FSIC IV for investment. Any capital returned to stockholders through distributions will be distributed after payment of fees and expenses.
- An investment strategy focused primarily on privately held companies presents certain challenges, including the lack of available information about these companies.
- A lack of liquidity in certain of FSIC IV's investments may adversely affect its business.
- FSIC IV is subject to financial market risks, including changes in interest rates, which may have a substantial negative impact on its investments.
- FSIC IV has borrowed funds to make investments, which increases the volatility of its investments and may increase the risks of investing in its securities.
- FSIC IV has limited operating history and is subject to the business risks and uncertainties associated with any new business.
- FSIC IV's previous distributions to stockholders were funded in significant part from the reimbursement of certain expenses, including through the waiver of certain investment advisory fees that are subject to repayment to its affiliate, FS Investments, and its future distributions may be funded from such waivers and reimbursements. Significant portions of these distributions were not based on FSIC IV's investment performance, and such waivers and reimbursements by FS Investments may not continue in the future. If FS Investments had not agreed to reimburse certain of FSIC IV's expenses, including through the waiver of certain of its advisory fees, significant portions of these distributions would have come from offering proceeds or borrowings. The repayment of any amounts owed to FS Investments will reduce the future distributions to which you would otherwise be entitled.

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