

# TSLX Earnings Call Transcript

**Date: 2025-11-05**

**Quarter: 3**

Operator: Good day, and thank you for standing by. Welcome to the Sixth Street Specialty Lending, Inc. Q3 2025 Earnings Conference Call. [Operator Instructions] Please be advised that today's conference is being recorded. I would now like to hand the conference over to your first speaker today, Cami VanHorn, Head of Investor Relations. Please go ahead.

Cami VanHorn: Thank you. Before we begin today's call, I would like to remind our listeners that remarks made during the call may contain forward-looking statements. Statements other than statements of historical facts made during this call may constitute forward-looking statements and are not guarantees of future performance or results and involve a number of risks and uncertainties. Actual results may differ materially from those in the forward-looking statements as a result of a number of factors, including those described from time to time in Sixth Street Specialty Lending, Inc.'s filings with the Securities and Exchange Commission. The company assumes no obligation to update any such forward-looking statements. Yesterday, after the market closed, we issued our earnings press release for the third quarter ended September 30, 2025, and posted a presentation to the Investor Resources section of our website, [www.sixthstreetspecialtylending.com](http://www.sixthstreetspecialtylending.com). The presentation should be reviewed in conjunction with our Form 10-Q filed yesterday with the SEC. Sixth Street Specialty Lending, Inc.'s earnings release is also available on our website under the Investor Resources section. Unless noted otherwise, all performance figures mentioned in today's prepared remarks are as of and for the third quarter ended September 30, 2025. As a reminder, this call is being recorded for replay purposes. I will now turn the call over to Joshua Easterly, Co-Chief Executive Officer of Sixth Street Specialty Lending, Inc.

Joshua Easterly: Good morning, everyone, and thank you for joining us. I assume everybody has seen my most recent letter and the 8-K posted last night with our earnings. I'm joined by our newly announced Co-CEO, Bo Stanley; and our CFO, Ian Simmonds. Before covering our Q3 2025 results, I wanted to discuss the leadership changes that were announced yesterday. We are excited to announce that Bo has been named Co-CEO, effective immediately. Bo and I have been working together for the better part of the past 25 years. As an early member of the Sixth Street team, Bo possesses an unparalleled understanding of our industry is a tremendous leader and investor. As a key member of the management team, Bo has also been a driving force in preserving and strengthening the investor first mentality that defines the Sixth Street culture. After 15 years of leading the business and what is now my 47th public earnings call, I'll be stepping down from the CEO seat at the end of the year. This decision is made with considerable optimism for the future of the company. Bo has been integral in the investment leadership of the business for several years, and this transition formalizes our existing collaborative structure. Going forward, I'll continue to serve as Chairman of SLX and Co-President and Co-Chief Investment Officer of the broader Sixth Street platform. As part of this evolution, Bo has joined SLX's Board of Directors. It has been a privilege of a lifetime to lead the company. I'm incredibly proud of what we have accomplished together and even more excited about what lies ahead under Bo's leadership. With that, let's turn to this quarter's results. After the market closed yesterday, we reported third quarter adjusted net investment income of \$0.53 per share or an annualized return on equity of 12.3% and adjusted net income of \$0.46 per share or an annualized return on equity of 10.8%. As presented in our financial statements, our Q3 net investment income and

net income per share, inclusive of the unwind of the non-cash accrued capital gain incentive fee expense were \$0.01 per share higher than the adjusted figures. The difference between adjusted net investment income and adjusted net income of \$0.07 per share was largely related to the reversal of net unrealized gains on the balance sheet related to investment realizations. Yesterday, our Board approved a base quarterly dividend of \$0.46 per share to shareholders of record as of December 15, payable on December 31. Our Board also declared a supplemental dividend of \$0.03 per share related to our Q3 earnings to shareholders of record as of November 28, payable on December 19. Net asset value per share adjusted for the impact of the supplemental dividend that was declared yesterday is \$17.11. Since the start of the interest rate hiking cycle in early 2022, our net asset value per share has grown by 1.9%, representing a significant outperformance compared to the average decline of 8.5% for our public BDC peers through Q2. Focusing specifically on the last 12 months, this outperformance has continued with SLS delivering NAV stability while other public BDC peers experienced an average decline of 2.8% through Q2. While dividend policies vary across industry, SLX's outperformance remains largely consistent, whether measured by reported net asset value per share or net asset value adjusted for supplemental and special dividends. Before passing it to Bo, I wanted to touch on one topic addressed in our letter, which is the stock market performance of the BDC sector. We view the September sell-off as a net positive for our industry. Let me be clear, we do not believe the market move is credit related for us or the sector broadly. As we said in our last earnings call, we think credit issues are generally behind the industry. Our view is that the market woke up to the reality that the sector has been allocating capital based on a backward-looking view of higher-yielding back books in an elevated interest rate environment. This was the premise of our letter to shareholders in April, which illustrated forward ROEs falling below the industry's cost of equity capital. While we believe this capital misallocation will have both near- and long-term effects in the short term, we expect to see dividend cuts across the industry as net investment income falls below dividend levels. For SLX, we continue to overearn our base dividend with 114% coverage in Q3, allowing us to pay another supplemental dividend based on this quarter's over earning. Long term, we believe downward pressure on BDC stocks will constrain further capital raising, specifically in the nontraded perpetually offered vehicles. For a number of managers, investors can simply buy the same or very similar product in a listed format at a discount to net asset value with daily liquidity. While this will take time to play out, we see this as an effective market correcting mechanism to address the imbalance between supply and demand of capital that we have been talking about for several quarters. Ultimately, we believe this will create net negative flows for direct lending, similar to the experience in the listed and non-traded REIT products that occurred following the rate hiking cycle beginning in late 2022. There is more on this in my letter, but to wrap it up, we are optimistic that this environment will underscore the critical importance of manager selection and driving long-term shareholder value. With that, I'll now pass it over to Bo to discuss this quarter's investment activity.

Robert Stanley: Thank you, Josh. It's a pleasure to be your long-term partner in our business, and I'm energized by the opportunity to serve as co-CEO. My focus is simple to continue executing the same disciplined strategy and uphold an investor-first culture that has defined our success from day 1. Turning now to the operating environment during the quarter. Competition in direct lending markets remained elevated, fueled by persistent oversupply of capital and historically tight spreads in the liquid credit markets. With broadly syndicated loan spreads reaching their lowest level since the great financial crisis, borrowers have been active refinancing into public markets to capture lower funding costs. Heightened BSL competition and muted M&A activity have led to sustained spread compression across the private credit landscape. Against that backdrop, we provided total commitments of \$388 million and total fundings of \$352 million across 4 new investments, 5 upsizes to existing portfolio companies and through selective deployment into structured credit investments. A key differentiator for SLX is that all 4 of our new investments were thematic off-the-run transactions, which we define as uniquely sourced opportunities that require a combination of deep sector expertise, a differentiated capital solution and the ability to commit in size to drive the transaction. These investments, which are driven by our thematic sourcing engine, create a unique portfolio for SLX shareholders relative to the sector, which largely focuses on conventional sponsor-backed direct lending transactions. An example of a thematic nontraditional transaction in Q3, which was also our largest funding for the quarter was

our investment in Walgreens. Sixth Street acted as an administrative agent and joint lead arranger on a \$2.5 billion term loan to support the financing of Walgreens U.S. retail business as part of Sycamore Partners' broader \$23.7 billion take private of Walgreens Boots Alliance. Our decades-long relationship with the sponsor built on a track record of successful retail ABL deals was instrumental in us leading the transaction. Our expertise in retail ABL space made us a credible partner to deliver a successful execution for what we believe was the largest nonbank ABL deal ever and also the largest retail buyout of all time. This transaction exemplifies our ability to create value for shareholders through differentiated investment opportunities. Our second largest investment during the quarter was a thematic investment in Velocity Clinical Research. Velocity is the world's largest fully integrated site management organization, which provides clinical trial facilities and site-based trial management services. The opportunity was driven by cross-platform effort across Sixth Street and our long-standing relationship with the company's sponsor. It aligns with our pharma services sub theme and followed an extended engagement in which we iterated on multiple structures to deliver a bespoke capital solution for the business. Our dedicated health care sector team continues to differentiate our ability to source and underwrite these off-the-run transactions. This investment extends a track record that has been a key contributor to SLX's returns, including prior investments in Arrowhead Pharmaceuticals and Biohaven that have generated alpha for shareholders. During the quarter, we opportunistically invested \$100 million in BB-rated CLO liabilities. These investments, while representing a compelling use of capital at the time given the return profile are not reflective of a change in the core investment approach or long-term strategy. We view these investments as an effective way to deploy capital, particularly given that in the current tighter spread environment, we can purchase BB CLO liabilities at wider spreads than regular way direct lending loans, which are also subject to refinancing risk. Our Q3 CLO investments reflect a weighted average spread of 554 basis points. To the extent we see a shift in the relative value, the liquid nature of these investments allows us to rotate out of the positions. Our expertise in the structured credit market is underscored by our track record of investing in CLO liabilities, which has generated a weighted average IRR and MOM of 27.1% and 1.24x, respectively, for SLX shareholders. This track record is driven by Sixth Street's deep expertise in liquid credit markets, demonstrated by having deployed approximately \$16 billion in structured credit investments with an additional \$13 billion in 30 CLOs managed by a team of 27 investment and research professionals. We believe this capability further highlights the benefits of the broader Sixth Street platform in terms of providing SLX with differentiated deployment opportunities. Looking ahead, we do not foresee a broad-based recovery in M&A; activity in the near term. We expect spreads to remain tight as the supply of capital continues to outpace demand. In this environment, our thematic sourcing continues to drive origination and the breadth of Sixth Street's platform helps mitigate the effect of market tightening. This is evidenced by our weighted average spread on new floating rate investments, excluding structured credit investments of 700 basis points in Q3. While we do not have Q3 peer data available, this compares to a spread of 549 basis points on new issue first lien loans for public BDC peers in Q2. Moving on to repayment activity. We continue to experience elevated payoffs during the third quarter. Total repayments in Q3 were \$303 million across 9 full and 1 partial investment realization. This repayment activity was the main driver of the \$0.14 per share of gross activity-based fee income earned during the quarter, which compares to our 3-year historical average of \$0.08 per share. To characterize this quarter's repayment activity, 75% of repayments were driven by refinancings at lower spreads in the private credit or broadly syndicated loan markets. The spread on refinance deals range from 325 to 525 basis points. We continue to adhere to our ongoing message of disciplined capital allocation, demonstrated by only 12% of our investments by fair value as of quarter end, having a contractual spread below 550 basis points. To put this into perspective, as of Q2, 59% of BDC portfolios by count had spreads below 550 basis points, and we anticipate this percentage will increase further this quarter. As it relates to portfolio metrics and yields, at September 30, the weighted average total yield on debt and income-producing securities at amortized cost was 11.7% compared to 12% as of June 30. The decline primarily reflects the impact of change in the base rates from lower reference rates resets and from payoffs of higher-yielding assets, excluding the yields on new investments funded during the quarter. From a vintage mix perspective, our exposure to pre-2022 vintage assets is less than half of the BDC sector. 22% of our portfolio is represented by these investments compared to 56%

for the public BDC sector. We believe this is a positive differentiator for our business as the vast majority of our portfolio was originated at the start of the interest rate hiking cycle, positioning us well for the current environment. Moving on to portfolio composition and key credit stats. Across our core borrowers for whom these metrics are relevant, we continue to have conservative weighted average attach and detach points of 0.3x and 5.2x, respectively. And our weighted average interest coverage increased to 2.3x. As of Q3 2025, the weighted average revenue and EBITDA of our core portfolio companies was \$376 million and \$113 million, respectively. Median revenue and EBITDA were \$150 million and \$46 million, respectively. Finally, overall portfolio performance is strong with weighted average rating of 1.12 on a scale of 1 to 5, with 1 being the strongest. We have 2 portfolio companies on nonaccrual status, representing 0.6% of the portfolio by fair value, reflecting no change from the prior quarter. Both of these investments included in the 5 rated category. With that, I'd like to turn it over to my partner, Ian, to cover our financial performance in more detail.

Ian Simmonds: Thank you, Bo. For Q3, we generated adjusted net investment income per share of \$0.53 and adjusted net income per share of \$0.46. Total investments were \$3.4 billion, up slightly from \$3.3 billion in the prior quarter as a result of net funding activity. Total principal debt outstanding at quarter end was \$1.9 billion and net assets were \$1.6 billion or \$17.14 per share prior to the impact of the supplemental dividend that was declared yesterday. Our average debt-to-equity ratio was 1.1x, down from 1.2x in the prior quarter. Our ending debt-to-equity ratio increased from 1.09x to 1.15x quarter-over-quarter. We continue to have significant liquidity for the size of our balance sheet with nearly \$1.1 billion of unfunded revolver capacity at quarter end against \$174 million of unfunded portfolio company commitments eligible to be drawn. As of September 30, our funding mix was represented by 67% unsecured debt, and we have no near-term maturities with our nearest obligation being \$300 million of unsecured notes not occurring until August 2026. Consistent with previous quarters, we did not issue any shares through our ATM program during Q3. While SLX trades at a meaningful premium to net asset value, which presents the opportunity to grow our asset base by issuing equity, we remain steadfast in our commitment to disciplined capital allocation. We will only seek to access the ATM program when we identify compelling near-term investment opportunities that allow us to maintain our target leverage and when issuance is accretive to both NAV and earnings per share. Our guiding principle is to do what we should do rather than simply what we can do. We believe this disciplined approach as it relates to capital management has earned the trust of our investors and delivered consistent performance. We are committed to upholding that trust by prioritizing accretive growth and responsible capital management. Pivoting to our presentation materials. Slide 8 contains this quarter's NAV bridge. Walking through the main drivers of NAV growth, we added \$0.53 per share from adjusted net investment income against our base dividend of \$0.46 per share. There was an \$0.08 per share reduction to NAV as we reversed net unrealized gains on the balance sheet related to investment realizations and recognized these gains into this quarter's income. The reversal of unrealized gains this quarter was primarily driven by early payoffs resulting in accelerated OID and call protection. There was a small \$0.01 per share positive impact to NAV primarily from the effect of tightening credit market spreads on the fair value of our portfolio. And finally, there was \$0.01 per share of net realized gains, mainly from our equity realization in Clariance Technologies. Moving on to our operating results detail on Slide 9. We generated \$109.4 million of total investment income for the quarter compared to \$115 million in the prior quarter. Interest and dividend income was \$95.2 million, down slightly from prior quarter, primarily driven by the decline in interest income from lower base rates. Other fees, representing prepayment fees and accelerated amortization of upfront fees from unscheduled paydowns, were lower at \$6.8 million compared to \$10.2 million in the prior quarter, driven by the elevated prepayment fees, including Arrowhead in Q2. Other income was \$7.4 million, down slightly from \$7.6 million in the prior quarter. Net expenses, excluding the impact of the noncash reversal related to unwind of capital gains incentive fees were \$58.4 million, down from \$61.4 million in the prior quarter, primarily driven by lower interest expense. Our weighted average interest rate on average debt outstanding decreased from 6.3% to 6.1%. This was the result of a slight decline in base rates quarter-over-quarter and lower average debt outstanding in Q3. While liability sensitivity is limited for BDCs, we believe SLX is best positioned to benefit in a falling interest rate environment given our liability structure is entirely floating rate in nature. We estimate undistributed income of approximately

\$1.30 per share at quarter end. As always, we will continue to review the level of undistributed income as the tax year progresses to ensure we comply with the RIC distribution requirements, minimize potential return on equity drag from the excise taxes and prioritize returns to our shareholders. We believe there is a misconception that spillover income protects the dividend. However, using spillover to cover the dividend simply reduces net asset value. This is a return of capital, not a return on capital and ultimately diminishes shareholder value if earnings don't support the payout. Philosophically, if we can generate a return on that retained capital that is in excess of the cost of that capital, our shareholders will benefit through greater economic return. If we were below our leverage target, which we are not, and the cost to fund the distribution was lower than the excise tax rate, which it is not, we could theoretically create more value for shareholders by distributing that spillover income. Given these conditions are not present today, and we continue to meet our distribution obligations through our existing dividend framework, we believe retaining this capital remains the most appropriate way to generate value for our shareholders. Before turning it back to Josh, I'd like to briefly provide an update on our ROEs. At the beginning of this year, we communicated an annualized ROE target range of 11.5% to 12.5% based on our expectations over the intermediate term for our net asset level yields, cost of funds and financial leverage. Based on our performance this year through Q3, we expect adjusted NII per share for the full year to be at the top end of our previously stated range of \$1.97 to \$2.14 per share for the full year. The potential to exceed the top end of that range will be driven by activity-based fees. With that, I'll turn it back to Josh for concluding remarks.

Joshua Easterly: Thank you, Ian. That's pretty long-winded in my letter, but I still encourage all of you to read it. And as a result, I'll keep my conclusion brief and pass the baton to vote. As a proud shareholder, we're in the right hands to drive our platform forward. Our heartfelt thank you to all of our stakeholders has been an honor. The greatest pleasure of the seat was learning from all of you. It made me and SLX better. A special thanks to my co-founding partners who trusted me with our public vehicle, our pre-IPO shareholders and all of our shareholders over the last 11-plus years. I wanted to say thank you to Mike Fishman. I've worked with Mike for the better part of 25 years. Mike has been a mentor, a partner and most importantly, a friend. Thanks, Mike. With that, over to Bo.

Robert Stanley: Thanks again, Josh. I'll close where we started. Today's leadership update doesn't change how we run the business or our capital priorities. We remain focused on disciplined underwriting, proactive portfolio management and delivering consistent investor-first results. We have great continuity with Ian and Craig Hamrah and of course, the next generation of talent. I have immense confidence in our team and the platform we've built, and I look forward to driving the next chapter of value creation for our shareholders. Thank you for your continued support. With that, thank you for your time today. Operator, please open the line for questions.

Operator: [Operator Instructions] Our first question will be coming from Brian McKenna of Citizens.

Brian McKenna: First off, Bo, congrats on the new role. And Josh, I just want to say thank you for all the genuine perspectives and insights on these calls over the years. So my first question is on the theme of evolving businesses over time. I wasn't totally shocked by the announcement last night, although it also wasn't on my bingle card for third quarter results. But Josh, it would just be helpful to get your perspective on why it's so important to have a deep bench to always be thinking about the next generation of leaders, why it's critical to have such a strong culture and really how all this has played into the natural evolution of Sixth Street over the past 15-plus years.

Joshua Easterly: Yes. Brian, it's a great question. Look, these things might seem kind of abrupt shocking or a surprise to the outsiders, but the reality is I think Bo has been -- this process started 8 years ago. Bo was named President in 2016, so 9 years ago, whatever that math is. Ian has been here 10 years, but we started this transition 8 to 9 years ago or at the beginning part of this transition. And when I look at -- and it was only fair to Bo and the team to continue on that path and give them space to run. Ultimately, this is a people business and culture matters. And I think what we've done is build a very, very strong culture around our franchise and around our shareholder orientation and Bo embodies that and he's going to continue that. So I'm super pumped as a shareholder, super pumped as Bo's partner to see Bo and then quite frankly, the generation behind that because at some point, Bo will have to make that choice on who the generation is. I'm sure he'll do that in a collaborative way with me and my other partners, but he's going to have to make that choice. And this is -- our shareholders have

given us permanent capital. With that permanent capital comes the responsibility of building a culture that allows for these generational changes in leadership, unlike an LPGA relationship, which those are relatively short dated 5 to 10 years, and it doesn't depend on having the next generation of leadership. So that is a responsibility for leaders of these permanent capital vehicles and make sure you have succession planning and make sure you build a culture where people can step up, and we've done it. But I think it's different than the typical limited partnership relationship because these are permanent capital vehicles that belong to our shareholder and the shareholder trust that we do this.

Brian McKenna: Got it. That's really helpful. And then just a question on private wealth. I know this is extremely topical. But how is Sixth Street thinking about expanding into this channel? I'm assuming this is something you and your partners are thinking about a lot. And I know if you ultimately roll out a dedicated strategy, it will be in typical Sixth Street fashion. But what could this look like? I'm assuming you'll have to figure out a way to solve and really be able to prudently raise and deploy capital. But is there a way to create a strategy that caps quarterly or annual inflows and then you're also able to invest across asset classes depending on the current risk rewards in the market. Any thoughts here would be helpful.

Joshua Easterly: Yes. I mean, look, I think it's obviously -- I talked about this in my letter in depth. It's probably not -- I would say we think about it, we debate it. There's not a conclusion today. But if we did something, it would have to be in a different way that I like the idea, and I said this on our last earnings call, the thought of the democratization of alts allowing that the small investor access to great management and those stream of returns. I'm not sure the market has figured out how to actually give them -- give that investor the institutional experience. And if we ever did something in the space, it would have to be to give them the institutional experience. And quite frankly, we haven't figured out exactly how to do that yet.

Operator: And our next question will be coming from Finian O'Shea of Wells Fargo Securities.

Finian O'Shea: Congrats again on the promotions, leadership changes and so forth. Just a small follow-up on that. Can you talk about how the focus may change, Josh, you'll remain CIO or co-CIO of the platform? Are you still focused on direct lending? Or will it be something else? And then, Bo, I think you were -- correct me if I'm wrong, split between the growth business and this. Will it be full on this or anything else in there interesting on what you'll -- your day-to-day will be like?

Joshua Easterly: I don't expect like either one of our day-to-day changes, and I'll let Bo answer it for himself. I am -- what I love personally is investing. I'm going to continue to be an active member and voice on the direct lending investment committees. And so I don't expect anything to change. I think it's also -- again, it's hard to see from the outside, but this -- day-to-day, this is pretty consistent with how we operate today. And so again, if I've made one mistake, and if I can be self-critical for a second, I've probably been more of a voice and an outsized voice compared to how we operate. And the reality is how we operate the business is how it's going to operate going forward, which is I spend my time trying to invest and be helpful on the investing side and think about risk return. And so I don't think anything is massively changing. And on Bo, Bo can talk about how his responsibilities on growth changes, but I don't see that massively changing either.

Robert Stanley: Thanks, Josh, and thanks for the question, Fin. As Josh mentioned, I don't see a big change in my day-to-day responsibilities. The framework for this transition has been in place for quite some time. And as Josh mentioned, started 9 years ago. I'll continue to split my time with growth. The great news there is Fin, I think you and I have talked -- spoke about this before, there's a lot of synergies across those portfolios and a lot to learn by being across both of those businesses. I'll be spending more time with you all. I look forward to that. I look forward to driving the business forward and continuing on the journey that we've been on for quite some time. But day-to-day activities, I don't expect a vast change.

Joshua Easterly: Yes. I mean this is a little bit of a joke, and it's surely not going to show up well in the transcript, but both getting the worst part of the transition, which is public earnings calls and talking with you all, which makes us better ultimately. But I'm glad Bo is taking that off my plate, and I'm sure he'll do a better job than I have.

Robert Stanley: But we'll keep leaving on him here for these calls.

Finian O'Shea: And we'll see who will do the shareholder letters as well. I mean I'd be happy to go

about. Just a follow-up on the -- I think, Bo, you gave color on the CLO liabilities. Is that something you're continuing to do given it doesn't seem like direct lending spreads are bouncing back imminently. And these are in the -- I think it was somewhere in the 50s you said. It's not like that's out of the park. So if you tie that to the spillover math you gave, does the sort of marginal dollar of the CLO debt investment make sense to support through the marginal sort of source of capital that is spillover income. And yes, I'll leave it at that.

Joshua Easterly: Yes. I'll take -- first of all, let me take a step back because I think it's helpful. We have a huge dedicated structured credit team and broadly syndicated loan team. And if you look at the performance of both those teams, it's how this park topped us out. We're very good in those markets. And when -- and so we have a structural edge where you see we've invested in this asset class and over time in the BDC. I think our average return is in the 20s when we've done it. Obviously, it's not going to be a 20% return. But when you look at -- and so you start there and our choices were just to put it out there, the marginal economics are a lot better than the spread because it would have filled an investment income hole and was accretive to earnings this quarter by probably \$0.01 or so. And so is this a -- and I don't expect it to grow. We're at, what, \$100 million today, which is a very small part of, a, our balance sheet, our balance sheet is \$3.5 billion and a very small part of our capital. So I don't expect it to grow. But is it a nice placeholder and a relative value trade? The answer is 100%. And so what we don't want to do is tie up capital in long-dated illiquid 450 things that won't give us the opportunity to drive value and create that antifragility that we have over time. And the great thing about this is, a, they're higher spread; and b, they're liquid. And so there -- it works on a marginal basis. It surely works on a risk-adjusted return basis, and it's liquid. And so we get to change our mind when there's other opportunities. And Fin, personally, I want to say to you and Wells Fargo and your predecessor, banks, and this is not calling out anybody else, but you guys have been at this for a long time covering the sector and the work you've done has, I think, been extremely additive to the sector where the sector needs transparency. And so thanks. You've made us better. You made the sector better, you and the institution and your predecessor. So thank you for that.

Operator: And our next question will be coming from Melissa Wedel of JPMorgan.

Melissa Wedel: Congrats again to both Bo and Josh on your -- maybe just formalizing the roles that have sort of been evolving that way for a long time. I wanted to follow up on credit. Obviously, there have been a lot of concerns about credit quality across the industry. And I think especially those have picked up -- those fears have picked up in the last month or so. I think -- and we heard a lot from investors about concerns around -- is there a pocket of weakness around auto in particular. We saw a couple of headlines there. It sounds like you're not especially concerned about any particular pockets of weakness, but it's more an issue of pricing and supply of capital in the market. Is that a fair characterization?

Joshua Easterly: Yes. I think that is fair. I think generally, credit issues are behind. The idiosyncratic stuff will pop up. I do think who I love and respect a lot, your boss had made a comment about -- ultimate boss made a comment about credit. I think he was referring to generally credit and not private credit. So I think one of my contemporaries took the bit on that and the story kind of got wild. But what I would say is when you look at those instances that have been reported in the news, that was not private credit. That was a broadly syndicated loan market that's been around for 30 or 40 years and then was the other, I think, banks balance sheets. And so I think private credit generally does a good job because the model is different where they -- we do private equity. I can't speak for everybody, but I think the industry generally lends its way. It's slightly more concentrated. It's not fractional. They don't manage it as fractional risk. They manage it as idiosyncratic risk. They do private equity style due diligence. And I think the -- where people have got burned is they think about not about idiosyncratic and they lose focus on the individual credit underwriting and diligence and they lean into the fractional nature of their portfolios and then bad things can happen. So I actually think this is a good checkmark for private credit, at least in those 2 names that were public.

Melissa Wedel: You just mentioned transparency, and that's also something you talked about in your shareholder letter. You didn't -- I'm curious what you think that looks like. You think there's room for additional transparency across the industry. So what does that mean? And is that something TSLX could be taking the lead on?

Joshua Easterly: I actually think there's -- look, when you look at the ecosystem of public BDCs, there's a decent amount of transparency, right? You have rating agencies, equity research analysts, you have this process that provides tension and transparency. And what I was talking about was really transparency in the nontraded perpetually offered space or private space or those products, you don't have the equity research analysts with buy/sells. You don't have Morningstar yet with ratings on fund managers like you do in mutual funds. And so there is -- I think my hope is that transparency comes through that space. And that space evolves from being -- what's being sold today to a space that's being actively bought. You can't have something actively bought without transparency. And so I think that evolution will take time. But I think I had heard and it's going to be slightly unpopular. I think I had heard that my economics were wrong on -- or somebody said it came back to me through a reporter that my economics were wrong on the nontraded space. And I -- and that isn't exactly right because what -- it might -- that space might have lower management fees at the entity level, but they have other fees that the investor eat, a trailer on a dividend, et cetera. And so my math is exactly right in that space, too, but it's market is different. And so I think there needs to be just -- time will happen. It will happen. It will happen slowly. It won't happen as fast as we want. But transparency is going to be the key to what economics ultimately eat what investors ultimately eat and risk reward. And so I think that it already is in our space because you're on the phone asking questions and hard questions. The investors don't have that process or that content on the nontraded space.

Operator: Our next question will be coming from Arren Cyganovich of Truist Securities.

Arren Cyganovich: Maybe we could talk a little bit about the balance of, I guess, seeking yield. You have a few kind of unique investments this quarter in CLOs and ABL with the traditional part of your business. And I don't know, historically, when I think about spreads getting tight and loan yields getting tight, as folks are looking to maintain that yield, you take on more credit risk. Maybe you could just talk a little bit about the balance of kind of the types of deals you're doing and what the risk profiles are relative to doing your kind of more plain vanilla.

Joshua Easterly: I'll hit it, then I'll turn it over to Bo. We're doing nothing different. ABL has always been part of our portfolio, like realized returns. It's been an alpha-generating part of our portfolio. It literally provides only alpha, no additional credit risk. That's the historical math. We're navigating complexity. That has been our story. The great thing about the middle market and about investment is that it's still pretty inefficient, which is you can have like SLX has higher asset level returns and lower losses. We have losses that are a fraction of the industry. We have had unlevered returns that are somewhere between 100 and 300 basis points higher than the industry. And so I would argue with the premise that we're taking -- that we've taken more risk on the structured credit piece, that's BB that probably has a wharf score, so weighted average rating factor that is somewhere between 3 and 7x less than the average idiosyncratic credit, which is probably somewhere between CCC and B- in the middle market. And so it is -- I think the premise is wrong. We actually have been risk-adjusted seeking versus risk seeking. And we've probably -- we most definitely, as it relates to structured credit investments have reduced risk, not increased risk. I don't know, Bo, do you have anything to add?

Robert Stanley: Like Arren, thanks for the question. The only thing I would add is we have not changed anything. I highlighted our 2 of our larger thematic originations during the quarter. Those are both themes that we've been pursuing for quite some time, 5 years plus on each of these themes. Our other 2 originations were deeply thematic. We continue to be very disciplined in this environment. It's with supply-demand imbalance, but we're not changing how we underwrite credit, how we think through credit and how we structure credit.

Operator: And our next question will be coming from Kenneth Lee of RBC Capital Markets.

Kenneth Lee: Echo the congrats Bo on the new role. And Josh, it's been great working with you. And I hope you'll continue to be an outsized voice and continue to share your industry insights going forward. One question I had and what's really interesting from the letter here, you highlight that TSLX has a much lower beta than the BDC peers. Wondering if you have any thoughts on what could have been contributors historically for that lower beta, especially given the outsized returns TSLX has been generating.

Joshua Easterly: Yes. I think it's a function of credit losses. The beta on stock price, my guess comes

with blow-ups on credit. And we've had 20% less beta in the space, 20% less beta than the public equities and beta comes from surprises. Those surprises are asymmetrical in credit. And we've done a good job of not having surprises.

Kenneth Lee: Got you. Very helpful there. And one follow-up, if I may. Wondering if you could just give us any kind of updated thoughts around expectations for prepayments, especially given your expectations for M&A; activity.

Robert Stanley: Sure. I'll take that one. Thanks for the question. As I mentioned in my prepared remarks, last quarter, we had elevated repayment activity, which has been the trend over the last couple of quarters. I think we generated \$0.14 per share in activity-based fee income versus a historical average of \$0.08 per share. It's a little early in the quarter to have the clearest picture, but what I would expect is that activity-based fee income to be closer to the norm this quarter. But as I mentioned, it's a little early. We usually have 30 to 60 days visibility on the forward of repayment activity. The great news, I think, as you've looked at our earnings historically, in quarters that there is less activity-based income, less repayment activity, we're able to grow interest -- we're able to grow -- drive leverage and drive interest income through the P&L.;

Operator: And our next question will be coming from Robert Dodd of Raymond James.

Robert Dodd: Congratulations on the title though and condolences on inheriting the earnings calls. And Josh, congratulations to you to getting off the treadmill. And hopefully, your coach's advice on making up continues to pay you. On -- not related to the largest deal this quarter, as you said, was Walgreens, it was ABL. So if there is credit concern in the market right now, it seems more around collateral monitor -- in my opinion, the collateral monitoring and collateral quality when is a vehicle asset double pledged, is a receivable real or not? So when you look at an asset-based structure, how do you make sure, right? And it's kind of a softball question for both. How do you make sure that the -- your collateral is real because that has been a fall down in a couple of these credit -- idiosyncratic credit instances that we've seen over the last couple of months.

Robert Stanley: Yes, sure. I'll take that one and then Josh or even Mike can add in. First of all, I would say this is a core competency of the platform. We've been doing this for over 20-plus years, monitoring ABL collateral, understanding ABL collateral, understanding how it would liquidate. Our team is very focused on inventory counts, inventory appraisals, having those in a timely fashion, monitoring that borrowing base on a monthly, if not more frequent basis to understand where we're at in the collateral picture. We have an excellent track record in the sector I believe we have over 20% IRRs historically in the retail ABL. You don't do that by happenstance, you do it by understanding who your borrowers are, what that collateral picture is and monitoring that on a day-to-day basis. But it is a core competency. We have a whole team that this is what they're focused on, and we have a lot of confidence in them. Josh, Mike, anything to add?

Joshua Easterly: Look, obviously, we're one and part of those names. So that tells you something about this core competency for us. The second thing I would say is Bo is exactly right, which is it is -- this is -- this ABL loan, the predominant collateral is inventory in the stores where you're doing collateral audits to match inventory accounts and with GL and you're making sure that there is no discrepancy. And so these are physical things. I would suspect if on both those 2 instances, if people were reconciling cash to receivables, which we would have done, they would have picked up on it pretty quickly because the way that a fraud exists is that people create receivables. And by definition, those receivables have no cash collections against them. And so if you would have been doing your work, you would have saw that no cash collections or high dilution and you would have sniffed it out.

Robert Dodd: On your kind of your optimum pipeline, I mean, over time, how fast do you think that kind of segment of the market can grow? Obviously, I mean, people put to your point, the perpetuums, the market opportunity, people put big growth numbers on it, but that comes at the expense of a lot of spread compression. For your more off-the-run type deals where you are getting these higher spreads and you're getting more unique assets and offered more fee income. How fast is that -- how -- maybe not how fast, but how penetrated are you in that market? And how -- what's the opportunity there for TSLX to continue to grow in a very controlled manner?

Joshua Easterly: Yes. Look, I mean, a, we're not focused on growth. We're focused on shareholder returns. So I just want to put that out there is like we're focused on shareholder returns and having the

right architecture, which is managing the right amount of capital for the opportunity set. So what people are wrong now is that there's the same amount of those opportunities and because we don't need to grow. And I think the one thing that people keep missing over and over again because -- and part of it is how they frame their business, which is growth. The only thing that really matters for our industry is a growth or earnings or growth in earnings as it relates to a unit of economic interest, so a share. Like if you grow revenues by 20% or grow earnings by 20% and share count by 20% or 25%, you haven't created shareholder value. And so we're focused on creating shareholder value, which means that we might not grow.

Operator: And our next question will be coming from Paul Johnson of KBW.

Paul Johnson: Not to sound redundant on any of the management changes, I think they've been pretty well covered. But I just wanted to ask, as a part of those changes, were there any changes to the overall credit committee, investment committee and any of the processes around that?

Joshua Easterly: No.

Paul Johnson: Got it. And I'd be curious to get your thoughts. I mean, just you guys have obviously made a lot of thematic investments in the software space and been very active there. Maybe it would be just good to hear kind of your thoughts on just the overall AI risk and concern and whether that's kind of the risk or opportunity that you see within the portfolio.

Robert Stanley: Yes, I'll take that one. I'm going to start off by saying the portfolio continues to perform very well, both software and non-software names. We have not seen any impact today as it relates to AI to any of the software names. With that, I think the impact of AI is nuanced and still evolving. There's going to be a lot of more questions than answers right now in the sector. I personally believe it will be a net positive for the sector overall, but it will be deeply nuanced. There's going to be winners and losers just like there were winners and losers from the transition from on-prem to cloud-native businesses. I think what's important is this is a sector that we've been active in for 2-plus decades, dating all the way back to Mike Fishman, who I think was one of the original folks that had a thesis around their credit quality. We focus then and now on businesses that have high switching costs, durable data moats and provide meaningful downside protection in that they own their customer base. They have a very -- they own the distribution, if you will, of the customers, which is still a high barrier to entry. But as I mentioned, it is going to be evolving. I think the important thing is you think about the forward and not the historic, and that's where we're focused not only on portfolio management, but also in new opportunities. But that's my thoughts on the space. Mike, you should add anything or Josh?

Joshua Easterly: No, I think Bo hit it, which is AI will level the playing field on developer costs. And -- but the reality is there's other moats and capital is never a real long-term moat of a business. And so it reduced the capital intensity of creating software, but that wasn't the moat. The moat was data integration, workflow. And so I think that is -- capital is never a moat around or a competitive advantage or a barrier to entry. And what AI has done is just reduced the capital intensity, but that's never a moat, and we've always focused on the moats.

Paul Johnson: It was -- and I appreciate the answer there. And last one for me. I would just be curious to hear just recognizing spreads didn't change all that much during the month of October, but kind of around the time of just the negative credit headlines and the bankruptcy announcements in the month, I'd just be curious to hear if there were any sort of bad balance sheet opportunities exposed or anything that was able to create kind of unique deal flow for the fourth quarter.

Joshua Easterly: Yes. I mean I think there are things in our pipeline that are like very unique and that are thematic and complicated. We committed to a large financing for a company that's coming out of a bankruptcy that is in the energy infrastructure sector that like in that at some point, will fund in Q4, Q1 of next year. And so there's some unique stuff that we continue to find that is consistent with our model, which is find things that is less traffic, which requires industry knowledge, where we have an edge or where we have a theme. And so you'll see some of that stuff in the next quarter or 2.

Operator: And our next question will be coming from Mickey Schleien of Clear Street LLC.

Mickey Schleien: And like everyone else, congrats to Bo and Josh, I miss talking to you regularly.

Joshua Easterly: I'm always around. You have my number.

Mickey Schleien: Yes. I appreciate that. Josh, touching on spreads, I think there was a question recently about that. But my understanding is they actually did widen a little bit in October, which sort of

makes sense given what we've seen in the market in terms of the macro and political backdrop. Do you foresee that to be sustainable? Or is the large amount of capital available still just going to overwhelm the market and keep this equilibrium in place?

Joshua Easterly: Yes. I mean spreads will be a function of flows both ways. And so I don't think we saw a material change in spreads. I mean we found some really interesting stuff to do. So we had a higher spread. But syndicated loan spreads are tight in October, I think they're tighter by 5 basis points. Maybe in the private credit market came out 5 basis points, but not anything. It's going to be a function of flows. So -- but we've tried to platform where we're a little insulated.

Mickey Schleien: Sorry, that broke up a little bit, but I think I got most of it. I apologize, but I had to jump on late into the call. Did you mention anything about the impact of the government shutdown on the portfolio?

Joshua Easterly: We did not. It's a good question. There was no material impact on our business.

Mickey Schleien: Okay. Good to hear. And lastly, has Sixth Street discussed or considered listing SSLP to give those investors some liquidity?

Joshua Easterly: It is kind of not on the table. We're still investing in that fund. We're halfway through the fund. We're focused on making great investments and driving returns for those investors.

Mickey Schleien: Those are my questions this morning. Again, congratulations.

Joshua Easterly: This will be my last earnings call that I'm active on. So thank you so much for everybody. I'm super excited about Bo and the leadership. I want to -- thinking about on this earnings call, we spent a lot of time on management changes in the industry. What I do want to highlight is we had an awesome quarter. We've had an awesome year. And we found higher spread investments. We drove NII. The team has done an excellent job. And so hopefully, I understand that people are focused on the headlines, but the reality is the business is in great shape, and we keep on driving returns for our shareholders and so excited about that. Bo, congratulations. It's well overdue. I stayed in the seat too long. And I'm excited for you. I'm excited for the platform. And again, this is how we've operated together, and I'm around. So thank you, Bo, for being so patient with me. And I hope everybody has a great Thanksgiving with their family.

Robert Stanley: Thanks, everybody.

Operator: This concludes today's program. Thank you for participating. You may now disconnect. Goodbye.