

FIFTH STREET ASSET MANAGEMENT INC.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019

FIFTH STREET ASSET MANAGEMENT INC.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Fifth Street Asset Management Inc.

We have audited the accompanying consolidated financial statements of Fifth Street Asset Management Inc. and its subsidiaries (the "Company"), which comprise the consolidated statement of net assets in liquidation as of December 31, 2019, and the related consolidated statement of changes in net assets in liquidation for the year ended December 31, 2019 and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the net assets in liquidation of Fifth Street Asset Management Inc. and its subsidiaries as of December 31, 2019, and changes in their net assets in liquidation for the year ended December 31, 2019 in accordance with accounting principles generally accepted in the United States of America.

Basis of Accounting

As discussed in Note 2 to the consolidated financial statements, the Members of the Company approved a plan of liquidation on November 28, 2017, and, accordingly the Company's consolidated financial statements are prepared on the liquidation basis of accounting when an entity is in liquidation. Our opinion is not modified with respect to this matter.

UHY LLP

New York, New York
May 6, 2020

CONSOLIDATED FINANCIAL STATEMENTS

FIFTH STREET ASSET MANAGEMENT INC.
CONSOLIDATED STATEMENT OF NET ASSETS IN LIQUIDATION
December 31, 2019

Assets

Cash and cash equivalents	\$ 1,217,022
Investments	99,198,023
Income taxes receivable	214,358
Other assets	1,476,425
Total assets	\$ 102,105,828

Liabilities

Accounts payable and accrued expenses	\$ 176,080
Accrued severance and benefits	1,975,801
Due to affiliates	91,866
Costs to be incurred during liquidation accrual, net of income	1,029,338
Total liabilities	3,273,085

Net assets in liquidation

Net assets in liquidation attributable to Fifth Street Asset Management Inc. (\$1.92 per share of Class A common stock)	<u>98,832,743</u>
Total net assets in liquidation	98,832,743
Total liabilities and net assets in liquidation	\$ 102,105,828

FIFTH STREET ASSET MANAGEMENT INC
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS IN LIQUIDATION
For the year ended December 31, 2019

Net assets in liquidation as of January 1, 2019	\$ 111,964,123
Changes in assets and liabilities in liquidation	
Dividends	3,956,309
Unrealized gain on investments	12,585,802
Realized loss on investments	(2,748,574)
Remeasurement of assets and liabilities, other than investments	(1,124,707)
Distributions to shareholders	<u>(25,800,210)</u>
Changes in net assets in liquidation	<u>(13,131,380)</u>
Net assets in liquidation as of December 31, 2019	<u>\$ 98,832,743</u>

See notes to consolidated financial statements.

FIFTH STREET ASSET MANAGEMENT INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019

NOTE 1 — ORGANIZATION AND NATURE OF OPERATIONS

Fifth Street Asset Management Inc. (“FSAM”) was incorporated in Delaware on May 8, 2014 as a holding company with its primary assets being a limited partnership interest in Fifth Street Holdings L.P. (“Fifth Street Holdings”). Fifth Street Holdings was formed on June 27, 2014 as a Delaware limited partnership and, as of December 31, 2019, has a wholly owned subsidiary, Fifth Street Management LLC (“FSM”). As of December 31, 2019, there were 51,600,419 shares of FSAM’s Class A common stock outstanding of its 60,000,000 shares of Class A common stock authorized, par value \$0.01 per share, and FSAM owned all shares outstanding.

FSAM, together with its subsidiaries (collectively, the “Company”), were an alternative asset management firm headquartered in Greenwich, CT that provided asset management services to investment funds held by its subsidiary, Fifth Street Holdings.

On October 23, 2017, FSAM’s Board of Directors determined that it is advisable and in the best interest of FSAM and its stockholders to dissolve FSAM and wind up its affairs in accordance with the requirements of the General Corporation Law of the State of Delaware (the “DGCL”) and the Internal Revenue Code (“IRC”). As a result of this determination, on November 6, 2017, FSAM voluntarily withdrew its Class A common stock from listing and registration on Nasdaq, and on November 28, 2017, the FSAM stockholder written consent in lieu of a meeting of stockholders approved the liquidation and dissolution of the Company pursuant to a plan of liquidation (the “Plan of Liquidation”). As a result, liquidation was imminent as of November 28, 2017 (the “Effective Date”) in accordance with the guidance provided in Financial Accounting Standards Board Accounting Standards Codification (“ASC”) Topic 205-30, *Presentation of Financial Statements – Liquidation Basis of Accounting*.

On December 11, 2017, the Company filed a Certificate of Dissolution with the Secretary of State of Delaware. Pursuant to DGCL, the Company continues to exist for three years after the filing or for such longer period as the Delaware Court of Chancery shall direct. During this three year period, the Company cannot continue the business for which it was organized.

Upon filing of the Certificate of Dissolution, the Company adopted the Plan of Liquidation. The Plan of Liquidation provides that the Company will cease further business activities except to the extent required to liquidate the entity. The Plan of Liquidation provides that, among other actions, the following steps will be completed at such times as the Board of Directors or the officers of the Company implement the Plan of Liquidation, in their discretion and in accordance with the DGCL.

FIFTH STREET ASSET MANAGEMENT INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019

NOTE 1 — ORGANIZATION AND NATURE OF OPERATIONS (Continued)

The Plan of Liquidation steps include (1) sell all the remaining investments held by the Company; (2) seek collection of the Company's, escrow receivable, due from affiliates and income tax receivable; (3) dispose of all tangible assets (e.g. fixed assets, artwork and fractional interests in corporate aircrafts) which may include sales to related or unrelated parties or donations to charitable organizations; (4) pay or make provision for the payment of liabilities and outstanding obligations of the Company prior to the date of the Plan of Liquidation or to be incurred after such date, including expenses associated with the liquidation and winding up of the Company's affairs; (5) if deemed necessary or appropriate by the Board of Directors of the Company, in its absolute discretion, establish and set aside a contingency reserve to satisfy claims against and any unmatured or contingent liabilities of the Company and expenses of the sale of the Company's property and assets and the liquidation and dissolution provided for in the Plan of Liquidation; (6) pay liquidating distributions to stockholders of record of the Company as determined by the Board of Directors of the Company; (7) distribute to stockholders of the Company the remaining assets of the Company after payment or provision for payment of claims against and obligations of the Company, and (8) take any and all other actions permitted or required by the DGCL and any other applicable laws and regulations.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

The accompanying consolidated financial statements included the accounts of FSAM, its wholly owned subsidiary Fifth Street Holdings, an investment company with its wholly owned subsidiary, FSM, which included wholly owned subsidiaries of Fifth Street Capital LLC, Fifth Street Capital West, FSC LLC, and the following subsidiaries through their dissolution during 2019; FSC CT LLC, FSC Midwest LLC, and FSC FL LLC.

Basis of Accounting

Upon adoption of the Plan of Liquidation, the Company adopted the liquidation basis of accounting as of November 28, 2017. This basis of accounting is considered appropriate when, among other things, liquidation of the entity is imminent, as defined in ASC Topic 205-30, *Presentation of Financial Statements – Liquidation Basis of Accounting*.

Under the liquidation basis of accounting, all of the assets have been stated at their estimated net realizable value based on current contracts, estimates and other indications of sales value. All liabilities, including those estimated costs associated with implementing the Plan of Liquidation, have been stated at their estimated settlement amounts. These estimates will be periodically reviewed and adjusted as appropriate. There can be no assurance that these estimated values will be realized. The actual values and costs associated with carrying out the Plan of Liquidation may materially differ from amounts reflected in the accompanying consolidated financial statements. In particular, the estimates of anticipated costs and revenues will vary with the length of time necessary to complete the Plan of Liquidation, which is currently anticipated to be completed during 2020. Accordingly, it is not possible to predict with certainty the timing or aggregate amount which may ultimately be distributed to the stockholders and no assurance can be given that the distribution will equal or exceed the estimate presented in the accompanying consolidated statement of net assets in liquidation.

FIFTH STREET ASSET MANAGEMENT INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States and under the liquidation basis of accounting requires management to make estimates and judgments that affect the reported values of assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. Any increase in the amount of expenses incurred or decreases in the estimated realizable value of the Company's assets will reduce the amount that is ultimately distributed to the stockholders.

Cash and Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less from the date of purchase and money market funds to be cash equivalents.

Concentration of Credit Risk

Financial instruments which potentially subject the Company to credit and concentration risk consist principally of cash and cash equivalents and investments balances maintained in financial institutions that are, in part, in excess of Federal Deposit Insurance coverage limits.

Due to Affiliates

Due to affiliates consisted of net amounts due to employees and other affiliates and have been recorded at the net amounts expected to be paid.

Other Assets

Other assets primarily consisted of the residual value of the Company's fractional interests in a corporate aircraft and security deposits and have been recorded at the amount expected to be received upon sale or expiration of the related agreements. The fractional interests in the corporate aircraft were sold in January 2020.

FIFTH STREET ASSET MANAGEMENT INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

Fifth Street Holdings complies with the requirements of the IRC that are applicable to limited partnerships, which allows for the pass-through of taxable income or loss to its limited partners, including FSAM, who are individually responsible for any federal and state tax consequences. The tax provision includes the income tax obligation related to FSAM's allocated portion of Fifth Street Holdings' income, which is net of any tax incurred at the subsidiaries that are subject to income tax.

FSAM (including Fifth Street Holdings, a disregarded entity of FSAM) and three of its subsidiaries, are Corporations for Federal and state tax purposes and follow the provisions of ASC 740, *Accounting for Income Taxes*, which requires the use of the asset and liability method of accounting for income taxes. Accordingly, deferred tax assets and liabilities are determined based on the difference between the consolidated financial statement and income tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. A valuation allowance is required if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Current income taxes are based on the current period taxable income for Federal, state and local income tax reporting purposes.

Management has determined that it is more likely than not that the deferred tax asset will not be fully recoverable in the future, and accordingly, a full valuation allowance was established as of December 31, 2019. As a result, the company does not reflect a deferred tax asset on its consolidated statement of net assets in liquidation.

Further, the Company records its income taxes receivable and payable based upon its estimated income tax liability. The Company does not expect to have current or future taxable income. Accordingly, a tax payable has not been recorded. The Company does expect to have a tax receivable which consists of tax overpayment amounts credited on its prior year income tax returns and expected tax receivables associated with Federal and state net operating loss carryback claims.

The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

The Company does not believe it has any significant uncertain tax positions as of December 31, 2019.

Subsequent Events

For the purposes of preparing these consolidated financial statements, the Company considered events through May 6, 2020, the date the consolidated financial statements were available for issuance.

FIFTH STREET ASSET MANAGEMENT INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019

NOTE 3 — ESCROW RECEIVABLE

During the year ended December 31, 2019, the Company collected escrow funds for previous sales including the sale of FSM's advisory agreements to Oaktree Capital Management, L.P. and the sale of its wholly owned subsidiary Fifth Street CLO Management LLC to NewStar Financial Inc. The total escrow funds received amounted to \$43,543,950 which included the escrow balance of \$42,821,875 and accrued interest on escrows of \$722,075.

NOTE 4 — INVESTMENTS

Investments consisted of publicly traded equity securities as of December 31, 2019:

	<u>Shares</u>	<u>Net Realizable Value</u>
Common stock of Oaktree Specialty Lending Corporation ("OCSL")	3,960,912	\$ 21,626,579
Common stock of Morgan Stanley Institutional Fund Trust Ultra-Short Income Portfolio Institutional Class ("MUIIX")	6,544,974	65,580,637
Common stock of Oaktree Strategic Income Corporation ("OCSI")	1,464,079	11,990,807
		<u>\$ 99,198,023</u>

Net realizable value is the unadjusted closing price as of December 31, 2019 on the primary market or exchange on which these securities are actively traded.

NOTE 5 — ESTIMATED ACCRUAL OF NET COSTS INCURRED DURING LIQUIDATION

The liquidation basis of accounting requires the Company to estimate net cash flows associated with implementing and completing the Plan of Liquidation. The Company currently estimates that it will incur estimated costs in excess of estimated income during the remaining liquidation period. These amounts can vary significantly due to, among other things, the timing and amounts associated with discharging known and contingent liabilities, changes in value of assets and the costs associated with the winding up of operations. These costs and income are estimated and are anticipated to be paid throughout the liquidation period.

FIFTH STREET ASSET MANAGEMENT INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019

NOTE 5 — ESTIMATED ACCRUAL OF NET COSTS INCURRED DURING LIQUIDATION (Cont.)

Upon transition to the liquidation basis of accounting on November 28, 2017, the Company accrued the income and expenses expected to be earned or incurred during liquidation. The changes in such liability from December 31, 2018 to December 31, 2019 are as follows:

	December 31, 2018	Expenditures/ Remeasurements/ Receipts	December 31, 2019
Assets:			
Interest income on escrow accounts	\$ (780,850)	\$ 780,850	\$ -
Interest income on investments	(572,568)	307,695	(264,873)
Liabilities:			
Compensation and related expenses	4,109,154	(2,050,352)	2,058,802
Professional fees	743,972	(264,770)	479,202
Occupancy costs, net of sublease income	421,325	(100,511)	320,814
Operating costs relating to fractional interest in corporate aircrafts	700,000	(697,550)	2,450
Board of director fees	295,000	(140,000)	155,000
Other corporate expenses	505,579	(251,833)	253,746
Estimated accrual of net costs incurred during liquidation	<u>\$ 5,421,612</u>	<u>\$ (2,416,471)</u>	<u>\$ 3,005,141</u>

NOTE 6 — COMMITMENTS AND CONTINGENCIES

Loan Payable

On October 7, 2013, a subsidiary of the Company, FSC CT LLC (“FSC CT”), borrowed \$4,000,000 from the Department of Economic and Community Development of the State of Connecticut. The loan bears interest at a fixed rate of 2.5% per annum, matures on November 21, 2023, and requires monthly payments of principal and interest until maturity or such time that the loan is repaid in full.

As security for the loan, FSC CT granted the State of Connecticut a blanket security interest in the FSC CT’s personal property, subject only to prior security interests permitted by the State of Connecticut.

The Company repaid the loan in January 2019.

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NOTE 7 — RELATED PARTY TRANSACTIONS

The Company's landlord for its office space in Greenwich, CT is an entity controlled by the Company's chairman and chief executive officer. The Company paid approximately \$114,000 in rent for the office space during 2019.

The Company closed the Connecticut office in December 2019. An entity, located in Florida, controlled by the Company's chairman and chief executive officer provided general and administrative services to the Company, for which the Company agreed to reimburse expenses including staffing and rent incurred on behalf of FSAM amounting to approximately \$257,950.

The Company has recorded net amounts due to affiliates which consist of amounts due to employees and other affiliates. The amount has been recorded at the amount expected to be paid. As of December 31, 2019, the total amount due to affiliates was \$91,866.

NOTE 8 — SUBSEQUENT EVENTS

On January 29, 2020, the Company paid a liquidation distribution in the amount of \$1.18 per share and .06783 shares of OSCL. The total distribution amounted to \$60,888,494 and 3,500,000 shares of OCSL.

In December 2019, a novel strain of coronavirus disease ("COVID-19") was first reported in Wuhan, China. Less than four months later, on March 11, 2020, the World Health Organization declared COVID-19 a pandemic. The extent of COVID-19's effect on the Company's investments will depend on future developments, including the duration, spread and intensity of the pandemic, all of which are uncertain and difficult to predict considering the rapid evolving landscape. As a result, it is not currently possible to ascertain the overall impact of COVID-19 on the Company's investments. However, if the pandemic continues to evolve into a severe worldwide crisis, the disease could have a material adverse effect on the Company's investments and net assets in liquidation.

As of April 30, 2020, the Company had 1,353,938 shares of OCSI and 1,001,019 of MUIIX. Due to the pandemic's impact on financial markets, the value of OCSI and MUIIX shares declined from \$8.19 and \$10.02 per share as of December 31, 2019 to \$6.10 and \$9.99 per share as of May 6, 2020, respectively. Fair value of the investments declined by \$2,859,761 in relation to the December 31, 2019 market values.

