FS KKR Capital Corp. II

Q1 Fund commentary

As of 3/31/2020

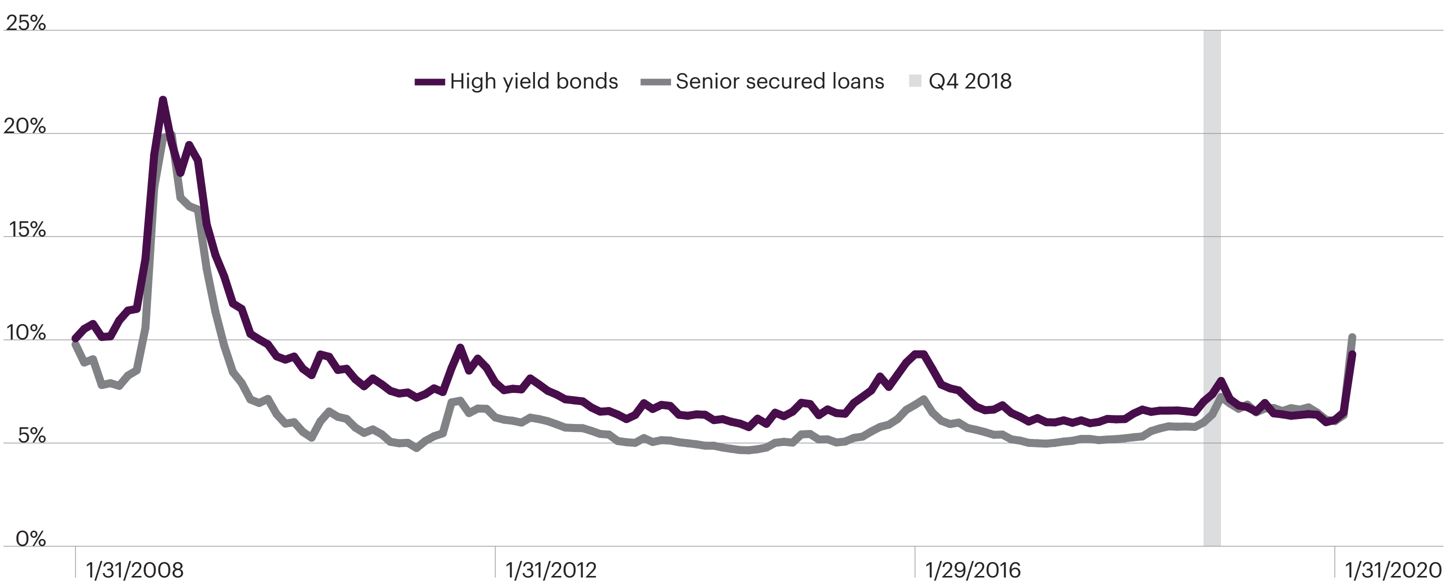
Summary

- Equity and fixed income markets faced unprecedented challenges during the quarter as the U.S. and global economies effectively shut down in an effort to limit further transmission of COVID-19.
- High yield bonds and senior secured loans returned -13.1% and -13.0%, respectively, during the quarter.[1] No sector across high yield bonds or loans managed to generate positive quarterly returns[1]
- We have analyzed each of the Fund's holdings from a bottom-up and top-down perspective to better understand and mitigate, where possible, the portfolio's potential exposure to economic effects of COVID-19.

Market review

Equity and fixed income markets faced unprecedented challenges during the quarter as the U.S. and global economies effectively shut down in an effort to limit further transmission of COVID-19. Economic data, which began the quarter with a relatively upbeat tone, saw new historic "worsts" across a range of categories. Initial unemployment claims, which were at or near historic lows early in the quarter, quickly reversed. Since the onset of mass social-distancing measures in early March, more than 30 million Americans have filed initial unemployment claims.[2] For context, this compares to previous quarterly highs of approximately 620,000 claims in 2009 during the financial crisis.[2] In April, The Conference Board reported a nearly 32-point decline in consumer confidence, driven by a 90-point plunge — the largest ever — in consumers' assessment of current business and labor market conditions.[3] Crude prices plunged by more than 50% during the quarter, driven by both a collapse in demand due to the widening health crisis and a supply glut exacerbated by an unexpected price war between Saudi Arabia and Russia.[4] Against this backdrop, the U.S. government and Federal Reserve unveiled over $6.5 trillion in stimulus while slashing rates to zero in an effort to support the economy and financial markets. The 10-year U.S. Treasury yield, which had steadily declined through much of 2019, reached a new historic low of just 0.56% in March before finishing the quarter modestly higher.[5]

HIGH YIELD BOND AND SENIOR SECURED LOAN YIELDS ECLIPSED THEIR Q4 2018 HIGHS[1]



Source: ICE BofAML U.S. High Yield Index, S&P/LSTA Leveraged Loan Index, as of March 31, 2020.

An investment in FS KKR Capital Corp. II involves substantial risks. For a summary of these important risk factors, please turn to page 4 or click here.

An investment in FS KKR Capital Corp. II (the Fund) involves a high degree of risk and may be considered speculative. Investors are advised to consider the investment objectives, risks, and charges and expenses of the Fund carefully. Investors should read and carefully consider all information found in the Fund's reports filed with the U.S. Securities and Exchange Commission.

The Fund is closed to new investors. This fund commentary is for informational purposes only and does not constitute an offer to sell nor a solicitation of an offer to buy the securities described herein.

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The quarter opened in January with one of the strongest markets in many years. While activity, spreads and pricing abated moderately in February, most industry observers were still calling for 2020 to be a robust year in the credit markets. As the health crisis spread, equity and credit markets rapidly reversed as uncertainty and fear drove investor selling. From the equity market's peak on February 19 through March 23, high yield bonds and senior secured loans declined -21.5% and -20.6%, respectively, before recovering some losses through quarter-end.[1] Both markets recorded multiple "worst ever" days, measured by percentage decline and widening of credit spreads, sometimes in rapid succession. During the first quarter, high yield bonds and senior secured loans returned -13.1% and -13.0%, respectively, compared to -19.6% for the S&P 500 Index.[1]

Higher-rated bonds and loans outperformed during the first quarter, reversing last year's relationship as investors sought the relative safety of higher-rated securities. The sectors that have borne the brunt of the impact of coronavirus and the oil price war were hit the hardest during the quarter. Notably, for example, energy, entertainment, leisure and hospitality suffered the greatest quarterly declines. As a reflection of how deep and broad the sell-off was, no sector across either asset class generated positive quarterly returns.[1]

Performance review

As a result of the market volatility and the impact of COVID-19 on middle market companies, the Fund's net asset value (NAV) declined to $6.17 per share as of March 31, 2020 from $7.36 per share as of December 31, 2019. The vast majority of the NAV decline was driven by unrealized losses across the portfolio.

The largest detractors to performance during the quarter were predominantly portfolio companies in the "eye of the storm," including entertainment, retail-related and energy companies. The uncertain business outlook for these companies has been reflected in our first quarter valuations. We believe the outlook will remain challenged for a certain number of the portfolio companies most impacted by the health crisis. We also expect that a meaningful percentage of the unrealized depreciation experienced during the first quarter will ultimately reverse itself in the future as healthy companies begin to emerge from the COVID-19 downdraft.

Non-accruals represented 5.7% of the portfolio based on fair value as of March 31, 2020. We continue to work with the management teams and equity owners of these companies to maximize shareholder value for our investors. This can be achieved in a few ways, including working with the company's equity owners to provide additional capital, extending the maturity of our debt, providing additional financing or restructuring our investment.

When taking into the account the first quarter distribution of $0.15 per share, the Fund generated a NAV-based return of -14.1%. Performance was generally in line with the broader high yield and loan markets, which returned -13.1% and -13.0%, respectively, during the quarter. Prior to the mergers of the non-traded business development companies managed by FS/KKR Advisor in December 2019, the annualized distribution amounts differed among the non-traded funds. Therefore, FS KKR Capital Corp. II's distribution for the first quarter of 2020, on an annualized basis, may have been higher or lower depending on the fund(s) a shareholder owned prior to the mergers.[6]

Investment activity during the first quarter of 2020 reflected our cautious view of the market in January and February and the overall market volatility in March. Quarterly purchases totaled approximately $1.3 billion compared to sales of $1.6 billion. The vast majority of investments made during the quarter represented carryover transactions from the fourth quarter of 2019. Of the Fund's purchases, approximately $259 million, or 20%, represented unfunded commitments from Q4 2019 and $839 million represented new direct origination activity, including unfunded commitments. We maintained our focus on investing primarily in senior secured debt, which represented 85% of all new purchases during the quarter versus 78% for the year ended December 31, 2019. Asset-based finance accounted for 11% of quarterly purchases compared to 7% for 2019. Subordinated debt represented 4% of new purchases during the quarter compared to 6% for the 12-month period ended December 31, 2019.

Looking at the broader portfolio, senior secured debt represented 80% of the portfolio's fair value as of March 31, 2020. Approximately 69% of the portfolio was invested in first-lien senior secured loans and 9% was in second-lien senior secured loans as of March 31, 2020 based on fair value. Other senior secured debt represented 2% and equity/other investments represented 3% of the portfolio's fair value as of March 31, 2020.

Liquidity plan update

The mergers of FS Investment Corporation III, FS Investment Corporation IV and Corporate Capital Trust II into FS Investment Corporation II closed on December 18, 2019, creating the second-largest BDC with over $8 billion in assets as of March 31, 2020.

The mergers were a key step toward a liquidity event for all shareholders through a listing of the Fund's common shares on the New York Stock Exchange. In light of the market volatility, we continue to evaluate the liquidity plan, including the timing of a listing. We continue to work closely with the board in evaluating market conditions to determine the next appropriate window of opportunity for a listing.

We have announced our intention to list our common stock on the New York Stock Exchange during the first half of 2020, which we continue to evaluate, subject to market conditions and board approval.

Outlook

We have analyzed each of the Fund's holdings to better understand their potential exposure to economic effects of COVID-19. This has been an expansive exercise—arguably the largest focus for our investment team today—which we have done from both a top-down perspective by sector or industry and a bottom-up one, speaking directly with our sponsors and the management teams of our borrowers.

Looking forward, our primary objective is to protect and maximize the value of our investments in existing portfolio companies. That said, we expect to leverage the strength of our origination footprint to add selectively to the portfolio. In our view, the coming quarters will present a great opportunity to deploy capital on attractive terms. We will be cautious and highly selective in doing so, but we believe current conditions will provide a real opportunity to add highly accretive investments to the portfolio.

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 indexes and represent income from regular interest and dividend payments and appreciation in market value with respect to the securities included in the indexes. Indexes used: high yield bonds – ICE BofAML U.S. High Yield Master II Index, which is designed to track the performance of U.S. dollar-denominated below investment grade corporate debt publicly issued in the U.S. domestic market; investment grade bonds – ICE BofAML U.S. Corporate Master Index, which tracks the performance of U.S. dollar-denominated investment grade corporate debt publicly issued in the U.S. domestic market; senior secured loans – S&P/LSTA Leveraged Loan Index, which is a market value-weighted index designed to measure the performance of the U.S. 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 U.S. Department of Labor, though April 30, 2020. https://bit.ly/2WjHTrQ.

3 The Conference Board, https://bit.ly/35nrsPv.

4 Federal Reserve Bank of St. Louis, https://bit.ly/2YmsXMi.

5 Federal Reserve Bank of St. Louis, https://bit.ly/2J3ufoX.

6 Assumes the value in common shares is the NAV per share.

RISK FACTORS

Investing in FS KKR Capital Corp. II 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 the Fund's common stock involves; however, you should carefully consider all of the information found in Item 1A of our annual report on Form 10-K entitled "Risk Factors" filed with the U.S. Securities and Exchange Commission (the SEC).

- Because there is no public trading market for shares of the Fund's common stock and the Fund 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 the Fund completes a liquidity event, it is likely that you will receive less than you paid for them.
- The Fund 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.
- The Fund'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 the Fund for investment. Any capital returned to shareholders 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.
- Investing in middle market companies involves a number of significant risks, any one of which could have a material adverse effect on the Fund's operating results.
- A lack of liquidity in certain of the Fund's investments may adversely affect its business.
- The Fund is subject to financial market risks, including changes in interest rates, which may have a substantial negative impact on its investments.
- The Fund has borrowed funds to make investments, which increases the volatility of its investments and may increase the risks of investing in its securities.
- The Fund's previous distributions to shareholders were funded in significant part from the reimbursement of certain expenses, including through the waiver of certain investment advisory fees.
- The listing of shares of the combined company on the New York Stock Exchange may not be completed on the anticipated timeline or at all.

FORWARD-LOOKING STATEMENTS

Statements included herein may constitute "forward-looking" statements as that term is defined in Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended by the Private Securities Litigation Reform Act of 1995, including statements with regard to future events or the future performance or operations of FS KKR Capital Corp. II. Words such as "believes," "expects," "projects," and "future" or similar expressions are intended to identify forward-looking statements. These forward-looking statements are subject to the inherent uncertainties in predicting future results and conditions. Certain factors could cause actual results to differ materially from those projected in these forward-looking statements. Factors that could cause actual results to differ materially include changes in the economy, risks associated with possible disruption to the Fund's operations or the economy generally due to terrorism, natural disasters or pandemics such as COVID-19, future changes in laws or regulations and conditions in the Fund's operating area, unexpected costs, charges or expenses resulting from the business combination transaction involving the Fund, failure to realize the anticipated benefits of the business combination transaction involving the Fund and failure to list the common stock of the combined entity on a national securities exchange. Some of these factors are enumerated in the filings the Fund makes with the SEC. The inclusion of forward-looking statements should not be regarded as a representation that any plans, estimates or expectations will be achieved. Any forward-looking statements speak only as of the date of this communication. Except as required by federal securities laws, the Fund undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Readers are cautioned not to place undue reliance on any of these forward-looking statements.