Carlyle Credit Income Fund NYSE:CCIF

Q4 2024 Earnings Call Transcript

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EXECUTIVES

Jane Cai
VP & Senior Product Specialist - Investor Relations

Lauren Michelle Basmadjian
CEO & Trustee

Nelson Joseph
Principal

Nishil Mehta
MD & Portfolio Manager

ANALYSTS

Matthew Philip Howlett
B. Riley Securities, Inc., Research Division

Mickey Max Schleien
Ladenburg Thalmann & Co. Inc., Research Division

Presentation

Operator

Good day, and thank you for standing by. Welcome to the Carlyle Credit Income Fund Fourth Quarter 2024 Financial Results and Investor Conference Call. [Operator Instructions]

Please be advised that today's conference is being recorded. I would now like to hand the conference over to Jane Cai, Investor Relations for CCIF. Please go ahead.

Jane Cai
VP & Senior Product Specialist - Investor Relations

Good morning, and welcome to Carlyle Credit Income Fund's Fourth Quarter 2024 Earnings Call. With me on the call today is Lauren Basmadjian, CCIF's Chief Executive Officer; Nishil Mehta, CCIF's Portfolio Manager; and Nelson Joseph, CCIF's Chief Financial Officer.

Last night, we issued our Q4 financial statements and a corresponding press release and earnings presentation discussing our results, which are available on the Investor Relations section of our website.

Following our remarks today, we will hold a question-and-answer session for analysts and institutional investors. This call is being webcast and a replay will be available on our website.

Any forward-looking statements made today do not guarantee future performance and any undue reliance should not be placed on them. These statements are based on current management expectations and involve inherent risks and uncertainties, including those identified in the Risk Factors section of our annual report on the Form N-CSR. These risks and uncertainties could cause actual results to differ materially from those indicated. Carlyle Credit Income Fund assumes no obligation to update any forward-looking statements at any time.

With that, I'll turn the call over to Lauren.

Lauren Michelle Basmadjian
CEO & Trustee

Thanks, Jane. Good morning, everyone, and thank you for joining CCIF's Quarterly Earnings Call. I would like to start by reviewing the fund's activities over the last quarter.

We maintained our monthly dividend at $0.105 per share or 15.2% annualized based on the share price as of November 19, 2024, which is now declared through February of 2025. The monthly dividend is supported by core net investment income of $0.45 per share and $0.70 of recurring cash flows during the quarter.

We completed a private placement of 5-year, 7.125% convertible preferred shares due 2029. Six months after issuance, the holders have the option to convert the preferred shares into common stock at the greater of NAV or the average closing price of the 5 previous trading dates.

We issued 1.4 million of our common shares through a registered direct placement at a price above the fund's NAV. Total net proceeds from these 2 offerings were approximately $22.2 million. These offerings are in addition to $6.8 million of common shares issued through the ATM program.

New CLO investments during the quarter totaled $39.6 million, with a weighted average GAAP yield of 16.5%. The aggregate portfolio weighted average GAAP yield was 18.6% as of September 30.

Pivoting to the current market environment, I'd like to discuss what we've observed in both the loan and CLO equity markets over the quarter. The CLO market continues to experience strong issuance activity, supported by tightening spreads and a stable backdrop for credit.

Third quarter CLO new issuance totaled $39 billion, representing a 42% increase year-over-year. Refinancing and reset volumes totaled $21 billion and $72 billion in the third quarter. CLO resets and refinancings are up 10x year-over-year, mainly driven by the tightening of CLO liabilities, which allows CLOs to cut their borrowing costs.

Reset and refinancings have been largely absent from our market during 2022 and 2023 since financing spreads were at historical highs. So there's an element of catch-up in our market today.

Within CCIF's portfolio, we continue to work with CLO managers and have completed 7 resets year-to-date through September, extending the reinvestment period and cash flows of these CLOs.

Despite the increase in CLO reset activity, 33% of the CLO market is still out of its reinvestment period. The CCIF portfolio only has 2 positions outside their reinvestment period, both of which were opportunistic purchases.

In September, the Federal Reserve reacted to a more normalized inflation environment and a weaker labor market by cutting rates by 50 basis points, marking its first reduction since 2020. CLO equity is modeled using a forward curve for base rates, so today's current yields take into account expectations for future rate cuts.

Cash-on-cash returns could decline slightly if rates move lower, though borrower health should improve due to lower interest expense, which should help the credit quality of the underlying portfolios.

U.S. loan borrowers demonstrated strong performance throughout the quarter. Interestingly, in-court and out-of court bankruptcies continue to diverge. While the LSTA LTM default rate of 80 basis points remains less than half of its 20-year average, the default rate inclusive of distressed exchanges remains high at 3.7%. We believe that out-of-court bankruptcies will continue to be the predominant form of default, given the degradation of loan documentation. That said, recoveries for out-of-court processes have thus far been higher than recoveries in Chapter 11.

The 600-plus borrowers in Carlyle's U.S. loan portfolio have generally continued to focus on free cash flow generation. We are still in the midst of third quarter earnings, but in the second quarter, borrower EBITDA growth of 9% outpaced revenue growth of 5%. At this point, we're seeing similar trends in the third quarter. Additionally, interest coverage increased quarter-over-quarter to 3.3x, and is approaching the historical average of 3.9x. Only 3% of borrowers had an interest coverage ratio of less than 1x, suggesting that borrowers are navigating the higher interest rate environment well.

Third quarter institutional gross loan issuance increased 61% year-over-year as borrowers continue to manage their respective cost of debt through repricing activity. On average, borrowers reduced spread by 50 basis points with each repricing, resulting in an overall spread decline of 20 basis points in the loan market. The spread compression is in line with what we've seen in other fixed income markets. While loan prices experienced a decline in August related to volatility in the broader markets, they rebounded to remain in line quarter-over-quarter with third quarter ending at 96.71%.

As we approach 2025, we remain constructive on the outlook for the broadly syndicated loan and CLO asset classes. Key factors such as a resilient U.S. economy, moderating inflation and the normalization of monetary policy support an outlook for sales growth, EBITDA growth and reduced interest expense for our borrowers.

I will now hand the call over to Nishil Mehta, our Portfolio Manager, to discuss our deployment and the current portfolio.

Nishil Mehta
MD & Portfolio Manager

Thank you, Lauren. We continue to leverage Carlyle's long-standing presence in the CLO market as one of the world's largest CLO managers and a 15-year track record of investing in third-party CLOs to manage a diversified portfolio of CLO equity investments.

As of September 30, our portfolio comprised of 49 unique CLO investments managed by 27 different collateral managers. We continue to source the majority of our investments in the secondary market and selectively invested in primary markets to take advantage of spread compression in support of CLO arbitrage. We continue to target recent vintages of Tier 1 and Tier 2 managers with ample time remaining in the reinvestment period in the secondary market.

Given the sustained stability and low market fundamentals, we believe the CLO market will continue to experience strong issuance. We continue to leverage Carlyle's 14 steps CLO investment process and the credit expertise of the Carlyle Liquid Credit team.

Today, we have 23 U.S. and 10 European credit research analysts to complete bottoms-up fundamental analysis on the underlying loan portfolios of CLOs. As Lauren mentioned, the CLO equity market was impacted by the record repricing wave, which has reduced weighted average spread of CCIF's portfolio by 10 basis points over the quarter and 26 basis points year-to-date, causing CCIF's GAAP yield to decline.

The following represents some key stats on the portfolio as of September 30. The portfolio generates a GAAP yield of 18.63% on a cost basis, supported by cash-on-cash yields of 27.91% on CLO investment quarterly payments received during the quarter. The weighted average years left in reinvestment period increased approximately 2.5 years, providing CLO managers the opportunity to capitalize on periods of volatility to improve portfolios or reposition them. We believe the weighted average junior overcollateralization cushion of 4.33% is a healthy cushion to offset defaults and losses in the underlying loan portfolios. The weighted average spread of the underlying portfolios was 3.46%.

The percentage of loans rated CCC by S&P was 5.9%, below the 7.5% CCC limit in CLOs. As a reminder, once a CLO has more than 7.5% of its portfolio rated CCC, the excess over 7.5% is marked at the lower fair market value or rating agency recovery rates and reduces the overcollateralization cushion. And the percentage of loans trading below $80 declined from 4.2% to 3.2%.

I will now turn it over to Nelson, our CFO, to discuss the financial results.

Nelson Joseph
Principal

Thank you, Nishil. Today, I will begin with a review of our fourth quarter earnings. Total investment income for the fourth quarter was $7.9 million or $0.55 per share compared to $7.4 million or $0.58 per share in the prior quarter. Total expenses for the quarter were $3.7 million compared to $3.4 million in the prior quarter. Total net investment income for the fourth quarter was $4.2 million or $0.30 per share compared to $4 million or $0.32 per share in the prior quarter.

Core net investment income for the fourth quarter was $0.45 per share. Core net investment income is recurring cash flows minus expenses, and we believe a more accurate prediction of the fund's future distribution requirements.

Net asset value as of September 30 was $7.64 per share compared to $7.68 per share in the prior quarter. Our net asset value and valuations are based on a bid side mark we received from third-party on 100% of the CLO portfolio. We continue to hold one legacy real estate asset in the portfolio. The fair market value of the loan is $2.2 million. The third-party we engaged to sell our position continues to work through the sales process.

During the fourth quarter, we sold 850,000 of our common shares in connection with the ATM offering program at a premium to NAV proceeds of $6.8 million. Additionally, we issued 1.4 million common shares in a private placement offering. The overall common share issuance for the quarter resulted in net accretion over a net asset value of $0.04 per share.

The cash-on-cash yield of 27.91% on CLO investment quarterly payments resulted in $0.70 of recurring cash flow. The quarterly cash payments received in October totaled $11 million or approximately $0.72 per share compared to $4.5 million of dividends paid in the quarter or $0.315 per share.

On the topic of distribution, I now want to spend a few minutes to talk about our 2024 full fiscal year distributions and related tax designation for our shareholders. For the fiscal year ended September 30, 2024, the fund had $15.6 million in distributions to shareholders, of which $15.2 million was designated as return of capital, primarily due to a onetime timing mismatch between when CLOs issued their tax reporting requirements and the fund's fiscal year-end. According to our tax accounts, this is a common issue in the first year of a fund that invests in CLO equity.

The underlying CLO equity investment tax reporting statements, commonly referred to as PFIC statements, are reported annually and are typically received on an 8-month lag. Per guidelines established by the IRS, taxable income for CCIF only includes taxable income for CLOs that issued the annual PFIC statements during CCIF's fiscal year. For CCIF, this means the fund only includes taxable income from CLOs that issued the PFIC statements between October 1, 2023 and September 30, 2024.

For investments purchased by CCIF between January 1 and December 30, 2024, CCIF does not yet have any PFIC reporting available, and therefore, we assume 0 taxable income for these investments for fiscal year 2024 per IRS guidelines. Taxable income for these investments will be incorporated into our fiscal year 2025 financial statements after we received the PFIC statements in 2025.

As a result, for the 2024 fiscal year, CCIF is only able to recognize taxable income for investments purchased in calendar year 2023. This covers less than a 6-month period since Carlyle took over as the investor adviser of the fund in July 2023. Furthermore, the fund was ramping an initial cash available and the average hold period for our CLO investments in calendar year 2023 was limited.

While a portion of our dividends paid in fiscal year 2024 will be recognized as return on capital, CCIF's core NII in fiscal year 2024 was $1.64, well in excess of $1.23 amount of distributions paid. We believe core NII is a more accurate prediction of the fund's distribution requirements. Due to the nature of our underlying investments, the percentage of return of capital is likely to vary year-over-year.

With that, I will turn it back to Lauren.

Lauren Michelle Basmadjian
CEO & Trustee

Thanks, Nelson. We continue to believe that CCIF is well positioned to provide investors with an attractive dividend yield and total returns. In addition to incorporating our market and manager views, we remain focused on analyzing the underlying collateral in each CLO equity position that we own in order to deliver strong risk-adjusted returns for our investors.
I'd now like to hand the call over to the operator to take your questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Mickey Schleien with Ladenburg.

Mickey Max Schleien
Ladenburg Thalmann & Co. Inc., Research Division

Can you hear me?

Nishil Mehta
MD & Portfolio Manager

Hey, Mickey. How are you?

Mickey Max Schleien
Ladenburg Thalmann & Co. Inc., Research Division

Good. How are you, Nishil. I want to start out by asking a high-level question. When we think about this year, overall, the backdrop has been pretty constructive in terms of the loan market and underlying borrower performance. But CLO equity has been relatively weak. And I want to understand, to what do you attribute the weakness in the CLO equity market valuations which has caused you to report unrealized portfolio depreciation every quarter? And it looks like that continued into October.

Nishil Mehta
MD & Portfolio Manager

Yes, Mickey. It's Nishil. So I'll take that question. So when I think about CLO returns, there's obviously 2 components of CLO returns. One, the cash-on-cash; and then two is the change in valuations.

On a cash-on-cash basis, 2024 was actually -- has been a very strong year. I think the highest cash-on-cash returns since 2016. I think based on a par basis, I think cash-on-cash yields were in the mid- to high teens. So it's actually been a very good year for CLO equity in that aspect.

Conversely, you have seen some decline in CLO valuations. That's mainly a function of the fact that, as Lauren mentioned, about 1/3 to almost 1/2 of the loan market has seen repricings, where the borrowers are cutting spreads by about 50 basis points. So the overall market is seeing about 20 to 25 basis points of overall decline in the weighted average spread.

So from a valuation standpoint, that is factored into the future cash flows and the valuations that our third-party agent provides. And so that's resulted in a decline in NAV. So a strong year when it comes to the cash-on-cash. Obviously, it could be a better year when it comes to the valuation from CLO equity.

Mickey Max Schleien
Ladenburg Thalmann & Co. Inc., Research Division

So Nishil, if I understand correctly and if I can paraphrase, spreads on the asset side are declining faster than spreads on the liability side. But do you think that can revert down the road as CLO managers continue to refinance or reset their liabilities?

Nishil Mehta
MD & Portfolio Manager

Yes. So the one way to offset the decline we have in spread is to do the refinancing and resets. And so far in 2024, it's been a record year for the overall market. For CCIF specifically, we've completed about 7 refinancings and resets. So it's something that we're always focused on and looking to optimize the portfolio and extend the reinvestment period.

The one thing I would mention is when a CLO is typically refinanced or reset, you typically have a 2-year non-call period. So you can only do it every 2 years or so. Whereas on the loan side, and we're already seeing this, the typical non-call period is only 6 months. And so we're already seeing borrowers come back to the market twice this year to reprice their loans.

So it's something that we are trying to combat with refinancing and reset, and it's been incredibly helpful that CLO debt spreads are close to all-time tights, and that's been hugely beneficial, but it hasn't been enough to offset the repricings.

Mickey Max Schleien
Ladenburg Thalmann & Co. Inc., Research Division

I understand. Nishil, when I looked at your average estimated yield on your new investments this quarter, they were down meaningfully versus the previous quarter. Is that due to the spread tightening you've talked about on the loans? Or did you go upmarket in terms of tier and maybe are taking less risk or was there something else going on? Can you help us understand that?

Nishil Mehta
MD & Portfolio Manager

Yes, sure. You mentioned a couple of factors. I think there's 3 main drivers of that. One, when we ramp this portfolio initially, mainly in the second half of last year, it was still fairly a volatile period. So we were able to take advantage of that and purchase investments in the secondary market at discounted prices, which resulted in an elevated GAAP yield. So obviously, those second -- or those discounted prices, excuse me, are no longer available in the market today, just given the tightening we've seen.

Two, when you've seen the decline in weighted average spreads across the market, that also impacts new investments as well.

And then three, we are, I think, going higher quality. If you think about just the overall fixed income markets, they're trading near all-time tights, investment-grade bonds on a spread basis are trading at the tightest level since I think '97 or '98, high-yield bonds are trading at the highest level since pre-financial crisis.

So we don't think today is the right time to be stretching for risk. And so we're definitely looking to add more defensive positions, which will have a lower gap yield.

Mickey Max Schleien
Ladenburg Thalmann & Co. Inc., Research Division

I understand. Nishil, I also noticed that your recurring cash flows per share declined versus the previous quarter. Can you help us understand that? And I think you mentioned the October cash flows in the prepared remarks, but I didn't have a chance to write it down. What is the implication for the fourth calendar quarter?

Nishil Mehta
MD & Portfolio Manager

Yes. So I think we mentioned we had $0.70 of recurring cash flow per share for the third quarter. And then the fourth quarter, which really reflects the payments -- the quarterly payments in October, it actually increased to about $0.72 per share. And so there is some seasonality when it comes to the cash flows because CLOs have limited exposure to high-yield bonds, which typically pay on a semiannual basis. And then just back to the repricing, as low market continues to reprice, that results in slightly lower cash on cash yields as well.

Mickey Max Schleien
Ladenburg Thalmann & Co. Inc., Research Division

Yes, that seems consistent with what I'm hearing across the space. And my last question, I think Lauren mentioned the out-of-court restructurings and they are elevated and creating these sort of unsustainable capital structures for some companies. And from my perspective, that just effectively kicks the can down the road.

I'm just curious how you see those transactions impacting the market in the future as we'll have to contend with that at some point? And how are CLO managers dealing with that risk in terms of their portfolios?

Lauren Michelle Basmadjian
CEO & Trustee

Yes. I think of it as a major paradigm shift for the loan market and the CLO market, almost like when loans went from having covenants to not having covenants. I think going forward, we're going to be living in an environment where these out-of-court distressed exchanges or liability management exercises are the dominant way that companies are going to deal with overlevered capital structures.

And so what does it do? I think it creates more volatility for stressed loans because there's a lot more uncertainty of outcomes when you're doing an out-of-court process versus an in-court process. You could see the same manager recover a very different amount on the same -- I'm sorry, a different manager recover a different amount on a loan than, let's say, a larger manager, meaning I think larger managers will have an advantage with size to be able to recover higher out-of-court. And I think it disadvantages small managers.

So when we talk to some of our managers, we're seeing a trend where smaller managers are trying to exit distressed investments early so they don't have to get to the point where they would be disadvantaged. And when you have that type of selling, that creates volatility.

Nishil Mehta
MD & Portfolio Manager

And I would add -- sorry, Mickey, I would add to that. What's really helpful for CCIF is being part of the larger Carlyle platform, given Carlyle today is either the largest or second largest CLO manager globally. And we have a 6-person workout group. And whenever we are in a loan that is stressed or distressed, that team is typically on the steering committee, driving kind of the results of a lot of these restructurings and distressed exchanges.

So we had incredibly helpful insight on what is going on in the overall market. Just trends we're seeing in terms of distressed exchanges, which has been incredibly helpful in just looking at the overall market and market trends when it comes to defaults and distressed exchanges.

Mickey Max Schleien
Ladenburg Thalmann & Co. Inc., Research Division

That's really helpful for us to understand and I appreciate your comments there.

Operator

Our next question comes from the line of Matthew Howlett with B. Riley.

Matthew Philip Howlett
B. Riley Securities, Inc., Research Division

Nishil, Lauren, first, on just the quarter, it was a busy quarter of capital raising. If I look at the $0.30 NII, I mean was there a drag? I mean was there some -- can you quantify any type of drag that might have coincided with the raising and the deployment? In other words, if all the capital raise was on day 1 of the quarter, would the NII had been higher? Just curious if there was some sort of implied drag.

Nishil Mehta
MD & Portfolio Manager

Matt, good to hear from you. So I'll take that question, It's Nishil. So you're right. We did have an active quarter when it came to fundraising between the ATM, the direct common stock offering and the convertible preferred. So there was some drag associated with that. But I think on a go-forward basis, obviously, we can't provide projections, but the $0.30 NII, I don't think we're expecting that to increase materially in forward quarters just from the lack of drag.

Matthew Philip Howlett
B. Riley Securities, Inc., Research Division

Right. Well, of course, covering the dividend but I mean, that -- I guess, enough striking distance to the common dividend where it doesn't really matter given the cash flows. I guess that's -- and that leads me to the second question. You got the ATM. You got this direct issuance and you had this convertible preferred that you did. So when you look at -- so are you going to use all kind of 3 channels here? What can you talk about raising capital here in the next few quarters? What does it look like? What channel do you want to use? And then I have a follow-up on that convertible.

Nishil Mehta
MD & Portfolio Manager

Yes. Look, obviously, it's completely market dependent. But our goal here is really, the fund we still think is somewhat subscale. And you see that in the liquidity of the stock and the overall trading volume. And so our goal is to grow the fund, which we think would make it better for investors. And so we are going to look at all avenues and how we can efficiently leverage the fund. But also, more importantly, accretively raise common stock, which increases NAV as well.

So I think we'll continue to be active when it comes to capital markets activity. The ATM is something that I think we'll continue to utilize. And TBD if we'll be able to issue incremental convertible preferred or direct common stock offerings.

Matthew Philip Howlett
B. Riley Securities, Inc., Research Division

Well, the ATM is currently highly accretive. On that convertible preferred, I mean just go over the terms again. I mean you can call it, but people can exercise that after 6 months. But can you force conversion on it if the stock price is at a certain level? Just go over the terms again. It looks like it's really attractive if you get that converted out, and it could obviously increase your equity base, you can add more preferred. Just walk over the terms again of that. That's interesting, that deal.

Nishil Mehta
MD & Portfolio Manager

Yes. And so look, I would say, I think the expectation is the holders would want to convert at some point. But I think what makes it attractive for us is even if it's not converted, the coupon on the 5-year convertible preferred is 7.125%. That's materially lower than the initial preferred that we completed last November. So even if they do not convert, we think it's a very efficient way to leverage the fund.

Now some key terms are -- the fund has the option to redeem after a 6-month period at par, but the holders, after a 6-month period, also have the option to convert into common shares. And that would be done at the higher of NAV and the average of the previous 5-day closing price. So if there is conversion, it would be obviously NAV or higher, so it would be accretive for the fund.

Matthew Philip Howlett
B. Riley Securities, Inc., Research Division

Yes. I mean clearly, where the stock is today. But you can't force conversion of it if it's trading at a certain level to get people to convert.

Nishil Mehta
MD & Portfolio Manager

No, we cannot force.

Matthew Philip Howlett
B. Riley Securities, Inc., Research Division

Okay. So either way, it's a really -- I mean that's against your equity, your leverage test, correct? I mean, that convertible preferred is against your leverage test?

Nishil Mehta
MD & Portfolio Manager

Yes. That's right. And so I think today, we have about $63 million -- $62 million, $63 million of convertible preferred outstanding and our net assets is around $120 million. So it's about 0.5, which is kind of in line with our long-term targets.

Matthew Philip Howlett
B. Riley Securities, Inc., Research Division

Got you. No, I said it because if you get that converted, obviously, it grows the equity base, your existing preferred is trading at like $26 so to the extent that you can issue new straight preferred or term preferred. I mean the whole thing really begins to work. I'm just talking out loud. But is that convertible preferred, is that -- do you think that channel is still open? I mean is there still demand if you chose to access it?

Nishil Mehta
MD & Portfolio Manager

Yes. We do think there is demand and so market dependent, we could issue more of that because we agree with you, there's a lot of attractive features of the convertible preferred that we found to be beneficial for the fund.

Matthew Philip Howlett
B. Riley Securities, Inc., Research Division

Great. Well, you're really in a good position to scale this vehicle. So next question, just on the refi resets. Did you do like 1 or 2 since last quarter? And just the outlook on what your 49 positions or how many more you could do here that are right for resets or refis and how many you did last quarter?

Nishil Mehta
MD & Portfolio Manager

Yes. So to answer, I can come back to you on exactly how many we did last quarter. I know we've done 7 year-to-date and activity has definitely picked up as CLO debt spreads continue to compress.

The one thing I'd mention is the number of resets and refis we've done is probably a smaller number than some of our peer funds. That's probably more of a function of where our portfolio is today in terms of that. It's less seasoned. Only 2 of our investments are out of reinvestment period. And we've already reset one of them. We expect to reset the other one this quarter.

And so just the number of resets is probably not as high as some of our peer funds, but we're actively looking to optimize the portfolio. And our expectation is, at least for the first quarter of next year, you'll continue to see this elevated activity. And so we'll look to continue to refinance and reset the portfolio.

Matthew Philip Howlett
B. Riley Securities, Inc., Research Division

Okay. Great. The reinvestment period is -- the weighted average is around 2.5 years or something? I mean, it's pretty far out there. Is that -- did I get that right? It was 2.4 years?

Nishil Mehta
MD & Portfolio Manager

Yes, it's around 2.5 years. And by the end of this year, I don't think we will have a single CLO that's out of reinvestment period.

Matthew Philip Howlett
B. Riley Securities, Inc., Research Division

Great. And final question, I got to go back and listen to all the tax information you provided. But I guess the question here is, when you look at the dividend policy and you look at the recurring cash flows, which obviously were $0.45. And I don't think they're -- whatever you call it, core net income, recurring cash flows were much higher than that, it looks like they're going to go higher. Are you paying -- are you going to have to pay an excise tax? In other words, is there a spillover or is the distribution enough that you don't have to pay an excise tax, there's no carryover? Because, I mean, obviously, you've seen -- it's a high-class problem to have with these vehicles that they can't pay enough. The cash flows are so high, the cash income is so high, they can't pay enough from the regular dividend to offset the requirements that they do spillovers, they pay excise, you need to know this so they pay specials. I mean just walk -- can you sort of boil it down where you guys stand, looking into your next tax calendar year?

Nishil Mehta
MD & Portfolio Manager

Yes. Look, it's a great question. It's something we spend a lot of time on, senior management here, and it's a lot of discussions we have with the Board. I think admittedly, the taxable income calculation for CLO equity is extremely complex. I thought I knew a lot about the tax accounting for CLO equity, but it seems like I learn something new every year.

And so we've had this onetime phenomenon this year where because of the timing mismatch between when the annual statements, the PFIC statements are actually issued versus where our fiscal year-end is, our taxable income from this year is really a fraction of our recurring cash flow, a fraction of core NII.

Obviously, that's a onetime thing. So we won't see that going forward. But it's something we are looking and trying to estimate of what is going to be taxable income for the fund in 2025, how does that compare to our current dividends. And we can at least use the spillover if we need to. That's really a short-term solution. Obviously, long term, we need to make sure that our dividend policy aligns with kind of the tax distribution requirements.

Matthew Philip Howlett
B. Riley Securities, Inc., Research Division

And you say, basically, the core net income is kind of the closest thing to cash flow income? Did I hear you say that as you're looking going forward?

Nishil Mehta
MD & Portfolio Manager

Yes. So I think that's definitely how we are estimating what we think taxable income will be. And so that core NII of $0.45. Obviously, with the dividend being $0.315, that does not line up yet. But the one thing that we need to factor in is this timing mismatch and how that impacts the taxable income on a go-forward basis because if you think about it -- so as I was going to say, so if you think about it, most of our taxable income will be based on investments that -- will be based on the investments from the prior year. And if we are growing the fund, you are going to have this mismatch of the taxable income for any fiscal year, it's going to be based on your portfolio from the prior year. So that's something we'll have to factor in our analysis of what our distribution policy should be versus taxable income.

Matthew Philip Howlett
B. Riley Securities, Inc., Research Division

Got you. And I guess it's just -- I mean, look, I'd love to hear your response to that. I mean, when investors look at $0.30 NII and $0.45 core. I mean what are you -- as a firm, what do you think is the true economic true earnings power of the company? Is it closer to GAAP? Is it closer to core? Will they both converge at some point in time in the future?

Nishil Mehta
MD & Portfolio Manager

Yes. Again, another great question because when you think of income for CLOs, you can get 3, 5 different answers of what's the right income number for CLOs. We think -- look, obviously, our focus is, as a closed-end fund, we have to pay out 90% of taxable income. And so we think core NII is the best proxy for that distribution requirement. And so our dividend policy really will focus on that with the caveat of factoring and kind of this timing mismatch that we've talked about.

Matthew Philip Howlett
B. Riley Securities, Inc., Research Division

That's great additional color. Keep up the good work.

Operator

[Operator Instructions] I'm showing no further questions in queue at this time. I'd like to turn the call back to Lauren Basmadjian for closing remarks.

Lauren Michelle Basmadjian
CEO & Trustee

Thank you. Well, we look forward to speaking to everyone next quarter, if not sooner. Please feel free to reach out if you have any questions. And thanks again for all your support.

Operator
This concludes today's conference call. Thank you for participating. You may now disconnect.