November 30, 2020

Dear Shareholder,

We are pleased to report to you the results of another year for the Vertical Capital Income Fund (the "Fund"). Consistent with our investment objective to seek income, the Fund made distributions from operations aggregating $0.33 per share for the fiscal year ended September 30, 2020. In addition, the Fund made a distribution of $0.19 per share in December 2019 as a result of net capital gains realized on loan sales and loan payoffs for the taxable year 2019. The Fund currently expects to make another similar distribution in December 2020 that is estimated at approximately $0.20 per share.

The Fund's net asset value ("NAV)" per share was $12.71 at the beginning of the fiscal year and $12.05 per share at the end. In comparison, the Fund's traded share price was $10.68 at the beginning of the fiscal year and $9.93 at the end, reflecting discounts to NAV of 16% and 18%. Management would like to see the discount narrow and is considering a number of actions to increase the Fund's traded share price including changing its allocation to investments with higher yields and increasing the Fund's monthly distributions.

For the year ended September 30, 2020 the Fund produced a total return, based on its traded share price, of -2.99% compared to one of its key benchmarks, the Bloomberg Barclays U.S. Mortgage Backed Securities Index, which reported a total return of 4.36%. (Please see the definition of the index that accompanies the performance table that immediately follows this letter.) The SEC Yield per share as of September 30, 2020 totaled 2.63%. In comparison the Fund produced a total return based on its NAV per share for the same twelve-month period of -1.09%. Since inception, the Fund has produced an annualized total return of 6.88% based on its NAV.

Update on Economic Outlook

A year ago, forecasters suggested the U.S. economy would grow by around 1.1% for calendar 2020 and 1.4% for 2021. The unemployment rate was around 4% and was expected to remain in that range for 2020 and 2021. When made forecasters obviously had no knowledge of the coming COVID-19 pandemic or its potential negative effects on the global economy.

In fact, the U.S. economy contracted by more than 30% in the second calendar quarter of 2020 and then rebounded in the third quarter, partly reflecting consumers' pent up demand for goods and services aided by government stimulus checks and increased unemployment benefits. Forecasts now assume that the economy will grow slowly for the balance of the current calendar year with full year 2020 ending in the net -3.5% range and calendar year 2021 experiencing a positive three-plus percentage increase. The general assumption is that the global economy will not recover to pre-COVID levels until late 2021 or 2022.

Economic growth creates jobs and wage growth, and along with population growth and household formation, are important drivers that create demand for housing. Approximately two-thirds of all U.S. households own a home, and slightly more than 60% of those own their home subject to a mortgage loan. Normally weakness in the economy and the job market, which we have seen this year, would lead to weakness in the housing and mortgage markets. However, mortgage origination volume in 2020 is now expected to be the highest in more than 15 years. Pre-COVID total mortgage originations for calendar year 2020 were estimated at $1.7 trillion of which 25% was estimated to be re-financings. Total originations are now expected to be $3.1 trillion with 55% being re-financings.

This growth in mortgage activity is attributable to a number of factors. Probably the most significant is the intervention of the Federal Reserve. Upon news of the virus and concerns over the health of the economy, the Fed cut its benchmark short-term Fed Funds Rate to near zero and began purchasing more than $1 trillion of residential mortgage backed securities (“RMBS”) to provide liquidity to the banking system and to support the housing market.

Also, long-term treasury rates fell making housing purchases and re-financings more attractive. Expectations are that the Fed Funds Rate will remain where it is for two more years; and the interest rate on a typical 30-year mortgage loan, which is now close to 3%, will only increase slightly in 2021 and 2022. Another factor for the unexpected increase is that housing purchases are benefitting from both pent-up demand and from employees working at home, who now feel they need more space.

Fund Strategy
There is almost $16 trillion of U.S. residential mortgage debt outstanding, of which approximately $11 trillion is secured by one-to-four family residences. The balance is represented by mortgage debt on multi-family, non-farm/non-residential and farm properties. The Fund invests as a secondary market participant in the one-to-four family residential whole loan market only. This market historically boasts a deep roster of institutional participants, along with a diverse universe of sellers and reasons for sale. As such, we are comfortable that we will continue to see an adequate supply of investment opportunities.

The Fund generates monthly cash distributions from interest income earned on the Fund’s loan portfolio, net of the costs to operate. Costs include fees paid to third parties for loan servicing and custodial, valuation, audit and legal services, as well as fees to the advisor to manage the Fund. As noted above, the Fund made monthly distributions for the fiscal year of $0.33 per share.

The Fund also generates capital gains when it sells loans at a price that is excess of its adjusted cost basis or when loans originally purchased at a discount to their unpaid principal balance (“UPB”) pay off in full before maturity of the loan. Asset sales and loan payoffs can occur anytime throughout the year; however, the Fund has historically made a single distribution in December of each year in order to fully account for all net long-term and short-term capital gains and losses during its taxable period. Most of these distributions have been subject to lower long-term capital gain tax rates; thereby, increasing the after-tax yield to our shareholders. As noted above, the capital gain distribution during the fiscal year was $0.19 per share.

Combining both types of distributions, the Fund paid out $0.52 per share during the fiscal year, or approximately equivalent to a total annualized yield of 5.5%, assuming an average share price of about $10.

The Fund meets its investment objective primarily by investing in mortgage notes secured by first liens on residential real estate. The Fund only invests in “whole loans” and does not invest in tranches of RMBS. Investing as a first mortgage lender in whole loans allows the Fund to deal directly with any borrower who is delinquent, in default or needs to restructure their loan for any reason. The Fund can decide on a case by case basis how best to work with the borrower to secure repayment of all amounts due the Fund, which is not always the case in RMBS. This direct interaction has been a significant benefit over the years when the Fund has had to grapple with borrowers affected by crises, such as COVID-19, hurricanes, floods or fires.

The Fund pursues investment opportunities in many types of residential mortgage whole loans. Some known as “Scratch and Dent” are “conforming” loans with typical original terms of 25 or 30 years that would have otherwise qualified for purchase by one of the Government Sponsored Enterprises (“GSEs”), like Fannie Mae or Freddie Mac, but were rejected for technical defects in the application or documentation process. Others are non-qualified loans ("Non QM"), which do not meet the criteria for purchase or origination by a GSE. In addition, there are "Fix and Flip" loans, which typically have 12-24 month terms and "Rental and Bridge" loans which typically have 24-60 month terms Loans can be performing, re-performing (loans that were non-performing at one point and have now become performing), long-term, short-term, fixed rate or adjustable.

We again appreciate your support during the past fiscal year and look forward to working on your behalf in the next one.

Regards,

Robert J. Chapman
Chairman of the Board of Trustees and Portfolio Manager