CVC

CVC Credit Perspectives

Attractive opportunities across global credit

Q4 2024

Marketing Material

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Executive Summary

The theme of 2024 has been one of resilience and surprise to the upside, as equities have continued to rally with the S&P recording +20% returns in consecutive years for the first time in 25 years[1], broadly syndicated loan markets have reopened for business, and credit fundamentals remain intact despite tight monetary conditions. While there is still global uncertainty both politically and economically, the outlook is more certain than twelve months ago, and with recession avoided, market sentiment remains optimistic.

CVC Market Update:

2024 was another busy year for CVC Credit, with both the Performing and Private Credit businesses continuing to grow and execute a number of successful transactions across asset classes.

Key highlights included:

- Eleven new issue CLOs across the U.S. and Europe, consistently pricing at the tights of the market with strong investor demand. Fourteen CLO resets or refinancings were also executed by the Performing Credit team over the year

- CVC Credit's Global Yield Fund and CEC-A both performed strongly throughout the year with total returns in excess of U.S. leveraged loan and high yield indices as the investment team's robust investment process continued to generate alpha for investors

- The Private Credit team continued to deploy capital across the European Direct Lending platform and Capital Solutions strategy, deploying in excess of €4.5bn over the year

- Realisation activity also remained strong throughout 2024 with over twenty-five European Direct Lending transactions exited, as at 30 September 2024

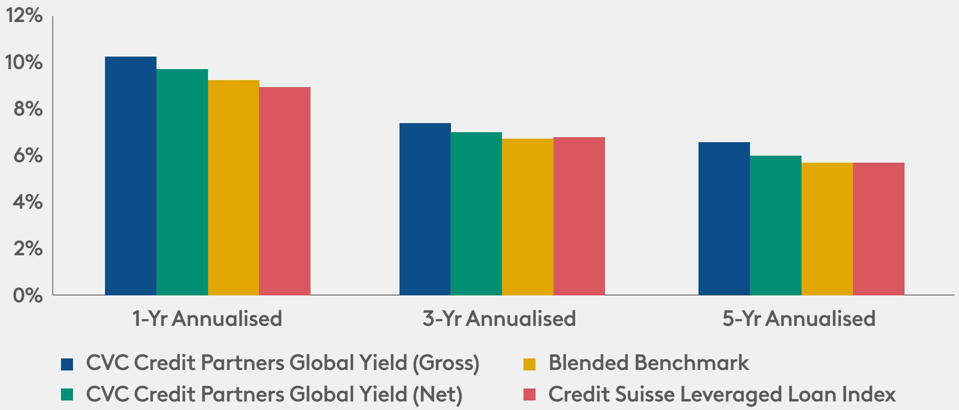
- The power of the CVC Network continued to support deployment, with over €9bn deployed in Private Credit with CVC Network involvement since 2021, across over 80 transactions and 28 teams across the firm. The CVC Network supported transactions across multiple sectors and geographies and remains a key tenet of CVC's Private Credit investment process

- CVC launched its first semi-liquid vehicle offering private wealth investors access to the CVC Network and its European Direct Lending platform

1 Source: MacroTrends.

Market Update

Exhibit 1
Performance Across Asset Classes



Source: CVC Credit Partners. As at 31 December 2024. The information provided is to demonstrate CVC's performance capabilities and is not a solicitation of an offer to buy or sell any securities or to adopt any investment strategy. CVC Credit Global Yield Fund performance provided as a comparison of CVC's performance versus the U.S. and European Leveraged Loan and High Yield asset classes. Gross performance does not reflect the deduction of management fees and is inclusive of expenses that are borne by the investor in the Fund. The benchmark performance represents a composite of the Credit Suisse Leverage Loan, Credit Suisse High Yield, Credit Suisse Western European Leveraged Loan and Credit Suisse Western European High Yield Indices. The blended benchmark now reflects the month end weighting of each of these relevant assets classes for each relevant month.

Positive market sentiment was evident in credit which enjoyed another successful year in both the liquid and private markets, as defaults remained benign and spreads continued to tighten. The impact of higher-for-longer rates on margins and issuer liquidity was a concern at the turn of 2024, but whilst there was a degree of credit deterioration, many credits remained resilient given the relatively resilient macro backdrop. Defaults remained close to historical averages and in fact the upgrade/downgrade ratio in high yield was positive, indicating the underlying strength of the market despite tight conditions. The reopening of the broadly syndicated loan market provided competition for private credit lenders and resulted in a wave of repricings and refinancings. The private credit asset class remains highly relevant, particularly among middle-market borrowers who are unable to access the public markets and need flexibility and certainty of execution.

The market's performance in 2024 is all the more remarkable when we consider the political events of this year, a year in which approximately half of the global population participated in elections. The election of President Trump has, in general, been greeted positively by markets who believe it will herald deregulation, tax cuts and spark greater M&A activity. There are fears, however, that Trump's trade and immigration policies could be inflationary. By contrast, the outlook in Europe is less clear, growth has been tepid and increasing fragmentation across the continent makes it difficult to see a coherent strategy to combat the threat of U.S. tariffs. Even so, the European Central Bank ("ECB") has successfully managed to tame inflation. The central bank's rate cutting cycle has begun in earnest which should spur greater M&A activity and improve interest coverage ratios for corporates.

If 2024 was seen as the litmus test for how the global economy would cope in a higher-for-longer environment, it has performed well and performance across asset classes has been strong. Growth surprised to the upside and corporate balance sheets remained resilient. Political instability was reasonably well digested in 2024, but with upcoming elections in Germany, potential elections in France and the uncertainty around a Trump administration, 2025 will be another year of political uncertainty.

The outlook for 2025 is optimistic, with many anticipating the change in administration in the U.S. as a catalyst to rejuvenate M&A activity which remains sluggish versus historical averages. This presents new financing opportunities for lenders in both the public and private markets, as private equity sponsors look to deploy high levels of dry powder across the U.S. and Europe, making credit an attractive investment proposition in 2025.

Liquid Credit Markets

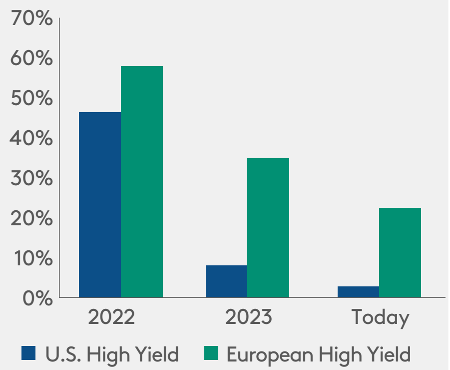
Total year end returns for both high yield and leveraged loans were very strong as spreads tightened over the course of the year on the back of positive risk sentiment and attractive all-in yields. High yield returns in the U.S. and Europe for 2024 were 7.9% each respectively, while leveraged loans also reported strong returns for the year, with U.S. loans posting a 9.1% return, and Europe 8.5%.[2] These figures are lower than 2023 which rebounded off the historic 2022 sell-off, but are nonetheless exceptionally strong when compared to historical returns.

From a valuation perspective, spreads tightened by 57bps and 71bps in U.S. and European high yield over the course of the year off the back of positive risk sentiment and are now at near historic tights. Whilst there have been bouts of volatility throughout the year due to political instability and fears of economic slowdowns, spreads have continued to tighten and now appear to be range-bound. The U.S. high yield market remains tighter than Europe on a relative basis, trading within the 98th percentile of historic spread levels, but the all-in yields in both asset classes remain attractive due to elevated interest rates. Distress ratios – an accurate indicator of future default activity – declined throughout the year, and credit fundamentals were more robust than some had expected. As we look forward to 2025, we expect spreads will largely remain range-bound in high yield and whilst there could be slight widening as the year progresses, returns should remain strong due to the high all-in yield currently being enjoyed in fixed income, which continues to make the asset class attractive.

> **"Investor demand for fixed income remains strong as all-in yields remain attractive despite spreads tightening"**

Exhibit 2

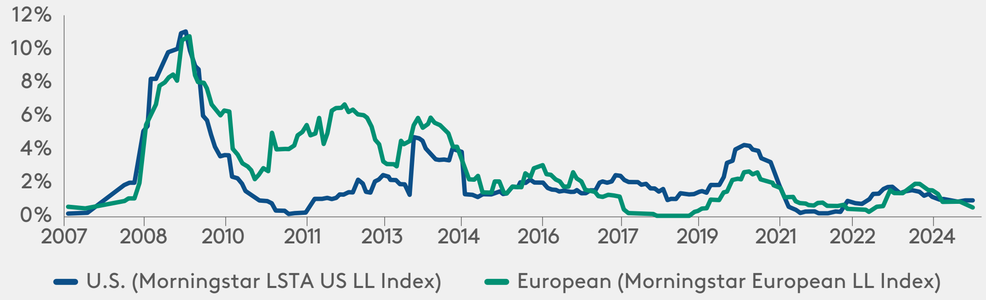
U.S. & European High Yield Spreads Percentiles Relative to Historical Levels



Source: Credit Suisse, as at 31 December 2024. Source: Credit Suisse. Percentiles ranked vs. monthly spread to worst data starting 01/31/2000. 2022 represents 30 December 2022, 2023 represents 29 December 2023 and 'Today' represents 31 December 2024.

Exhibit 3

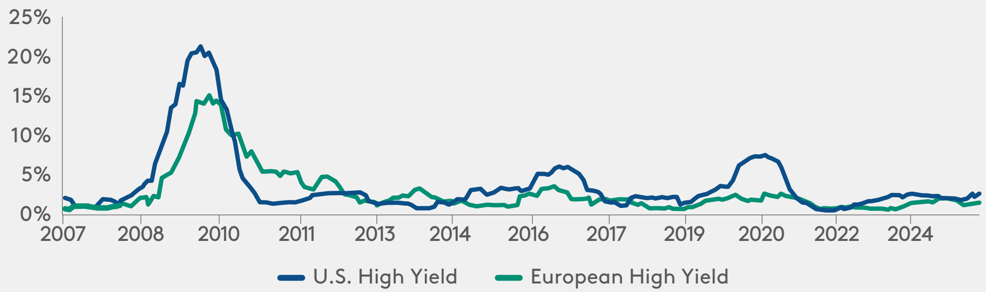
U.S. & European Leveraged Loan Last 12-Month Default Rate: Principal Amount



Source: Morningstar, as at 31 December 2024. Source: Pitchbook LCD; Morningstar LSTA U.S. Leveraged Loan Index; Morningstar European Leveraged Loan Index

Exhibit 4

U.S. & European High Yield Last 12-Month Par-Weighted Default Rate



Data through 31 December 2024. Source: Bank of America Global Research.

One key theme of 2024 has been the resilience of the leveraged finance market, with credit fundamentals remaining solid throughout the year despite inflation remaining sticky and rates elevated. High yield default rates remained benign compared to historic averages, the U.S. default rate hovered at 1.5% in December, while European default rates increased versus 2023 to 3.5%. Leveraged loan defaults finished the year low at 0.9% and 0.4% in the U.S. and Europe on a par-weighted basis, well below initial expectations at the beginning of 2024.[3]

It should, however, be noted that the number of distressed exchanges markedly increased as issuers sought to avoid defaults and improve liquidity, somewhat flattering the default numbers, particularly in leveraged loans.

2 As of 31 December 2024. U.S. High Yield represented by the Credit Suisse High Yield Index (USD Hedged). European High Yield represented by the Credit Suisse Western European High Yield index (EUR Hedged). U.S. Leveraged Loans represented by the Credit Suisse Leveraged Loan Index (USD Hedged). European Leveraged Loans represented by the Credit Suisse Western European Leveraged Loan Index (EUR Hedged).

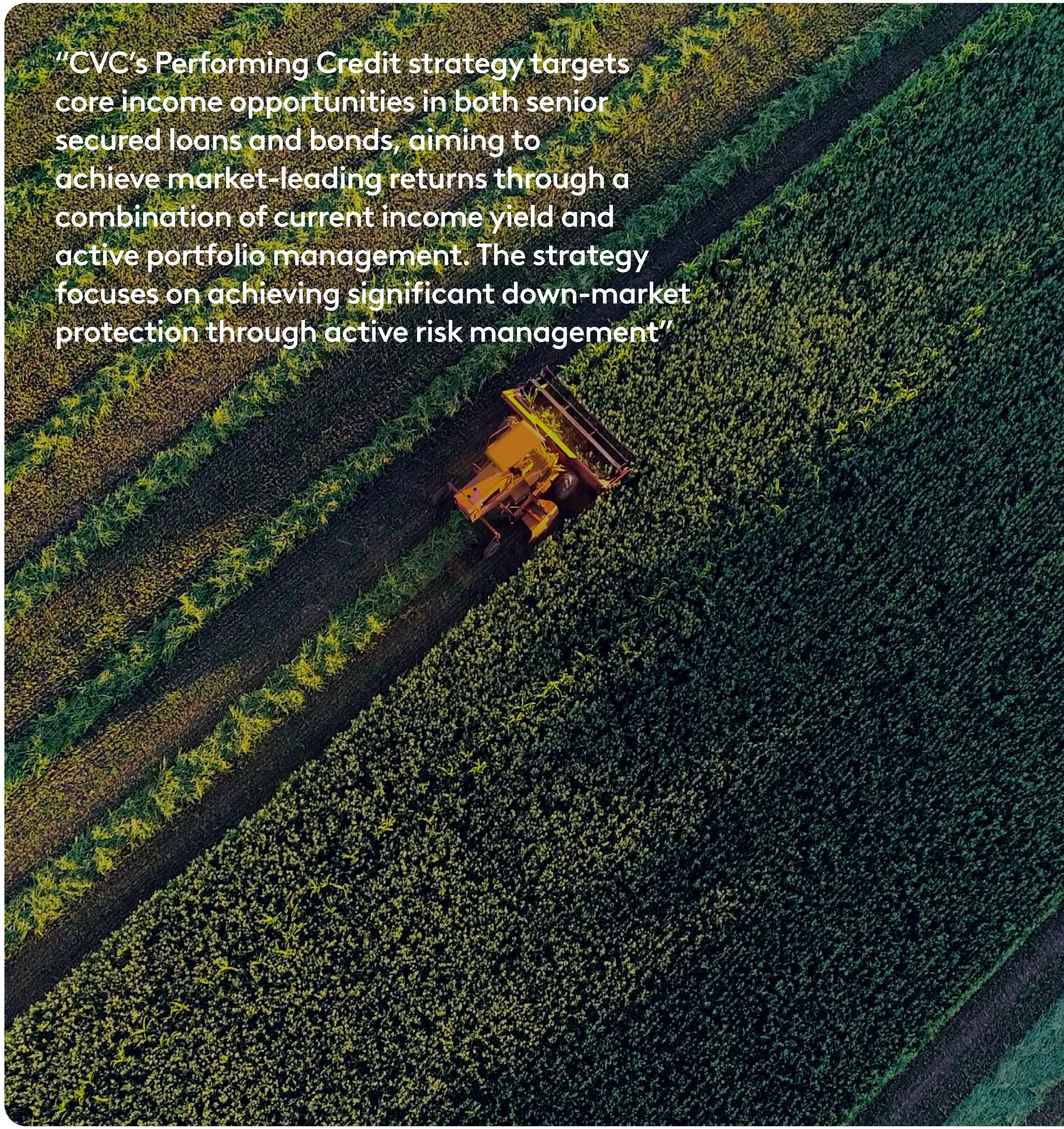
3 Source: Pitchbook LCD; Morningstar LSTA U.S. Leveraged Loan Index; Morningstar European Leveraged Loan Index on a principal amount basis.

Issuance improved notably during 2024 in both the high yield and leveraged loan markets after subdued figures in 2023. In U.S. high yield, issuance increased by c.65% YoY, while leveraged loans have enjoyed record breaking levels of activity with over $650bn in issuance in the U.S., and over €100bn of issuance in Europe. Even so, despite heightened activity, much of this issuance has been in the form of refinancings and repricing's, meaning there is still a lack of 'new' paper for the market to digest. Coupled with exceptionally high demand, there is a noticeable technical imbalance. As rates continue to fall and the new U.S. administration ascends to power, we expect M&A activity to increase notably in 2025 which should in turn result in greater 'new' supply for the leveraged finance market, even if overall issuance declines slightly due to the exceptionally large wave of refinancing activity that has taken place in 2024.

One further source of demand for leveraged loans has been the CLO market which has also experienced historic activity in 2024 as managers achieved record refinancing and reset volumes during the year, as well as continuing to print new deals. CVC has been no exception to this trend with c.$11bn of CLO activity globally in 2024, across 25 transactions, including nine new issues, two re-issues, seven resets and seven refinancings. Moreover, throughout 2024, CVC was consistently able to price at the tight end of the market, achieving average AAA pricing tighter than the market average in both the U.S. and Europe and consolidating the firm's position as a Top 10 Global CLO manager[4].

In terms of positioning, we started the year by reducing our fixed rate high yield exposure in our flagship Global Yield fund due to the market pricing in too many rate cuts given where inflation and the economy were trending. This was the correct decision and the carry from floating rate loans outperformed the convexity offered by fixed rate high yields. April was a particularly bad month for U.S. High Yield with the market down nearly 1% as the market came to terms with the higher for longer narrative. During the summer, we added high yield exposure to the portfolio as inflation began to moderate and central banks started their rate cutting cycles across the globe, with the Fed surprising the market with a 50bps cut in September.

As we approached U.S. elections, we reduced our HY exposure again, in particular in the U.S. given where spreads were and the uncertain outlook for U.S. rates. A number of the potential policies contemplated by the new Trump administration – from tariffs, to tax cuts and deportations – are all inflationary. With the U.S. economy still strong, the need for further rate cuts is limited. There is even a chance that we don't see any more rate cuts in the U.S. in 2025. Europe is a different story however. With a burden of an ageing population, structurally higher energy prices and political paralysis, the ECB is likely to continue to cut rates. As a result, we have kept our EUR HY exposure throughout Q4.



4 Creditflux Q3 2024: Largest European CLO Manager by AUM and top 10 of Global CLO Managers. The Creditflux rankings provide a full and comprehensive view of CLO managers by their principal liabilities (debt and equity) as of 30 September 2024. Data made available upon request.

Private Credit Markets

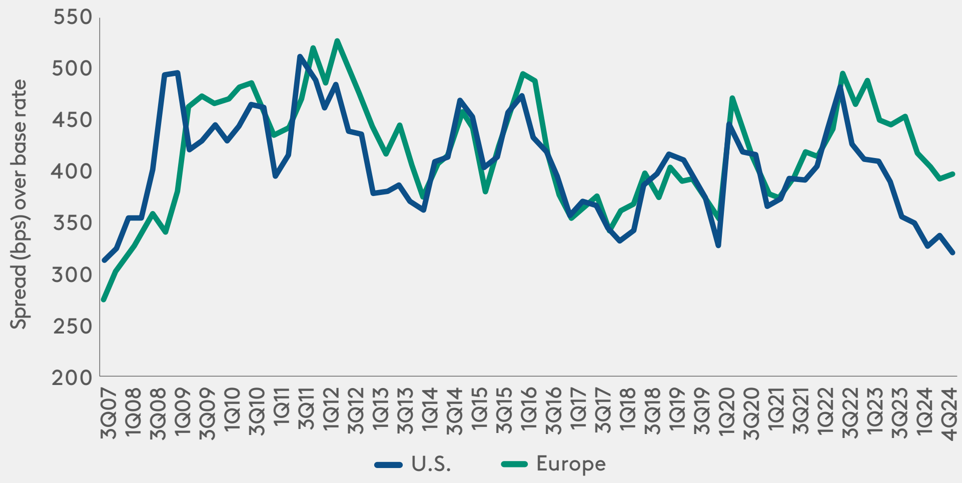
The key theme throughout 2024 in private credit has been record high refinancing issuance by the broadly syndicated loan market, after several subdued years. Naturally, spreads have compressed given this increased competition from public markets, but the market opportunity within private credit remains compelling, particularly within the middle, upper-middle market, the primary area of focus for CVC's European Direct Lending strategy. Demand for the asset class remains strong, with Goldman Sachs expecting the total direct lending 2024 capital raised to exceed 2023 levels. As mentioned in previous quarters, the growth in demand is not solely from institutional investors, but also from the wealth space through open-ended structures which provide access to an asset class previously only available to the largest institutional investors.

Spread compression has been notable in 2024 as a result of the rebalancing within leveraged finance as the broadly syndicated loan market reopened after several years of subdued issuance. This trend is not unique to private credit, as we have seen spreads tighten in public markets across both the U.S. and Europe as competition increases. For reference, Pitchbook LCD estimates U.S. direct lending spreads for LBO transactions have contracted by c.115bps in 2024 from 2023 levels and anticipate further compression in the year ahead.[5] We would note that European leveraged loans, and direct lending spreads in turn, typically trade c.50bps wider than the U.S., which provides an attractive value proposition in a time of spread compression.

The complexity of the European markets positions CVC Credit strongly, given its ability to utilise the CVC Network's 12 European offices to access local expertise across the continent generating a wide origination funnel and robust due diligence process. CVC Credit's most recent transaction in December to provide financing to specialised European secondment provider TMC as part of a continuation vehicle transfer by Apheon, is an example of the power of the network. CVC's on the ground expertise proved beneficial in the sourcing of the transaction as the Private Credit team in Benelux were invited to co-lead the provision of senior facilities for this transaction as a result of their local relationships with the sponsors and the business, combined with the ability to leverage the knowledge of CVC's Private Equity Benelux team, which has direct experience of TMC's market through their ownership of World of Talents, a leading Benelux secondment staffing specialist in the same space as TMC. The heterogeneous nature of the European market, which consists of multiple countries, languages and jurisdictions, means those managers that have local expertise are at significant advantage in sourcing transactions and conducting due diligence, providing a unique opportunity for investors.

"The complexity of the European market favours managers with deep local networks who have expertise in their respective geographies"

Exhibit 5
Average New-Issue Institutional Spreads: Europe & U.S.



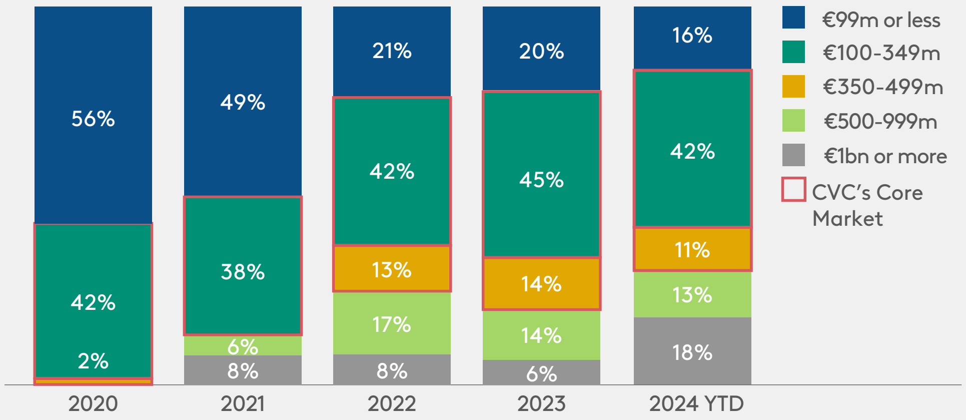
Source: Pitchbook | LCD. Data through 31 December 2024.

While much of the narrative over the course of 2024 has been regarding broadly syndicated loan issuance, and the takeout of private credit loans, deal flow remains strong and some of the discussion on the resurgence of the public markets may have been exaggerated. J.P. Morgan notes that in fact more private credit loans were issued to takeout broadly syndicated loans in 2024, than the reverse.[6] Even so, this cannibalisation has declined significantly versus recent years, and the market now appears to be reaching an equilibrium between public and private loans. In times of forgiving market conditions, the broadly syndicated loan market may be attractive for larger corporates, although many in the middle and upper-middle market are still unable to access these sources of liquidity, and will continue to utilise private credit. Moreover, even in economic downturns, private credit has consistently demonstrated its ability to underwrite transactions and provide liquidity to high-quality credits when public markets may not be open for business. For instance, payment-in-kind (PIK) transactions have increased significantly in the last two years as private credit lenders look to provide borrowers with an ability to manage liquidity in a higher-for-longer rate environment. Although there has been some concern regarding the borrowers' ability to defer payments, as rates ease these liquidity constraints will be relieved and with conservative underwriting it can prove to be an attractive investment for lenders.

5 Source: Pitchbook LCD, Global Private Credit Private Credit Survey.

6 Source: J.P. Morgan Research..

Exhibit 6
Deal size diversification of European direct lending deals, by count



Source: Pitchbook | LCD, as at 31 December 2024. Analysis based on transactions covered by LCD News; share calculated based on deals where size information is disclosed.

Looking ahead to 2025, we anticipate demand for private credit to increase yet further as M&A markets rebound, underpinned by rates being gradually cut in Europe and the new administration in the U.S. expected to push deregulation and tax cuts. There was a gradual increase in M&A activity over 2024, with Pitchbook in their Q3 review estimating Europe would see a c.28% YoY growth in deal value and c.12% growth in deal count by the end of 2024, although these levels are still below 2021 highs. Lincoln also noted that the share of private debt transactions from buyouts in 2024 was c.50%, which is down versus historical averages of c.60% given high refinancing activity and limited LBO activity. Even so, we have begun to see a convergence in bid-ask spreads in recent months as sponsors look to deploy high levels of dry powder which we expect to result in a material increase in M&A activity in 2025. Moreover, while deal flow on aggregate may be below peak levels, there has been a divergence in activity levels within Europe. Notably, southern Europe achieved close to a historic level of deal value activity in 2024, as investors increasingly turned towards the likes of Spain and Italy for new investment opportunities.

7 Source: Lincoln Private Market Insights.