Private Credit

Questioning The Narrative

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"Be wary of false prophets. They approach in sheep’s clothing, but inwardly are ferocious wolves."

Matthew 7:15

Private Credit

What is private credit and for whom is it targeted?

Private Credit Defined

- Private credit refers to privately negotiated loans provided by non-bank financial institutions (asset managers, private equity firms, or Business Development Companies) to corporate borrowers.
- A market in Private Credit exists because traditional banks & public markets do not offer flexible, customized financing to SMB and mid-sized companies.
- Floating Interest Rates: Almost all private credit loans utilise floating interest rates.

Private Credit Defined

- Non-Bank Lenders: Private Capital is funded by private investors/ funds rather than traditional bank deposits. Loans are privately negotiated between the borrower and a small group of lenders, meaning terms and covenants are tailored to fit borrower-specific business requirements.
- Liquidity Rate Premium: Because these loans are not traded on public exchanges, lenders receive higher yields to compensate for the lack of liquidity.

Private Credit Defined

Common Types of Private Credit

- **Direct Lending**: The most common form; involves issuing loans directly to middle-market companies, usually for acquisitions, expansion, or refinancing.
- **Mezzanine/Junior Debt**: Higher-risk debt that sits behind senior debt in the capital structure, often combining characteristics of both debt and equity.
- **Asset-Based Finance** (ABF): Loans collateralized by specific physical or financial assets, such as receivables, real estate, or equipment.

Private Credit Defined

Private Credit benefits both Borrowers and Investors:

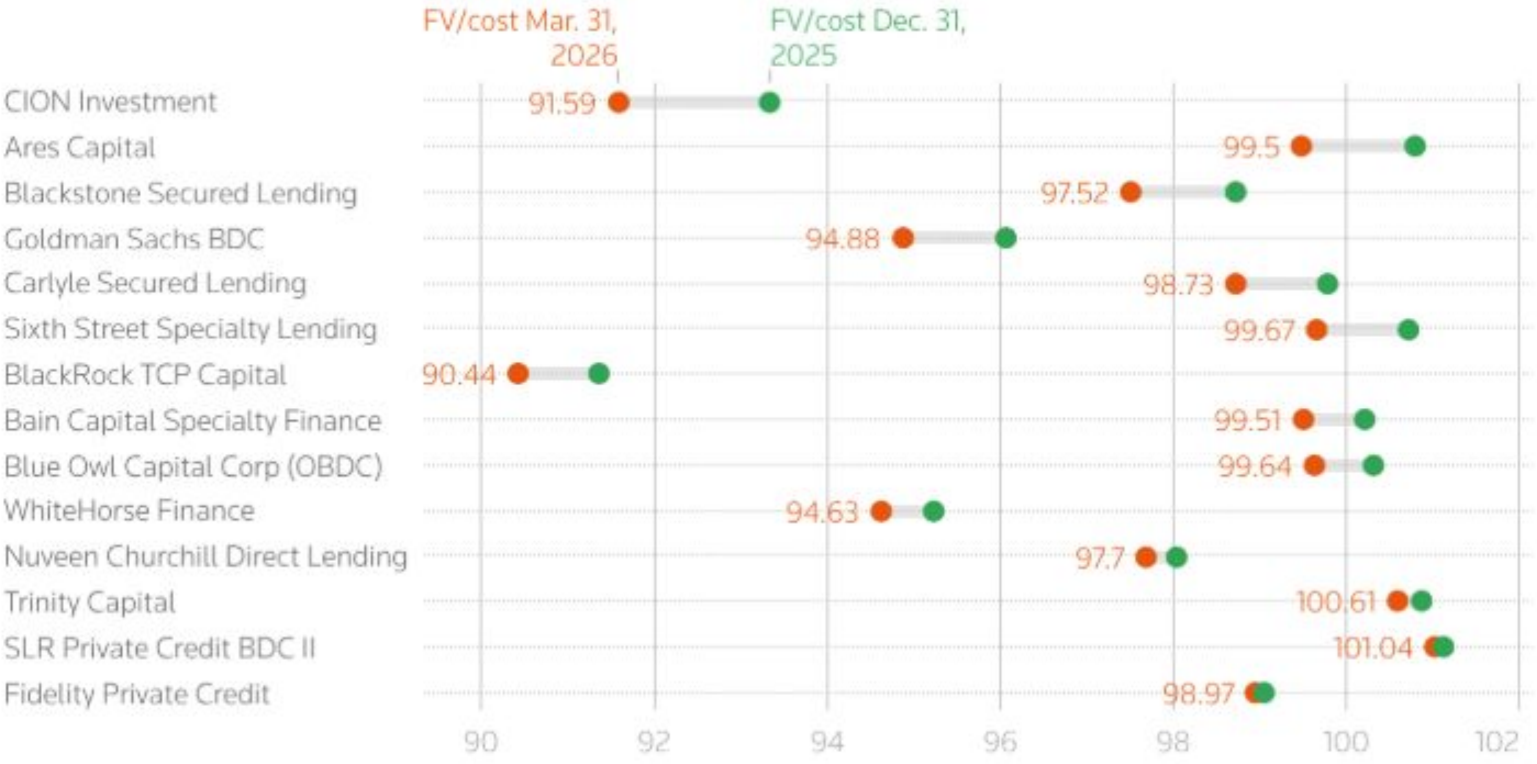
- Borrowers: Private Credit provides speed, confidentiality, and flexibility. Companies unable to issue public bonds can secure large amounts of capital with flexible repayment structures.
- Investors: Private Credit employs higher yields than traditional fixed-income investments, making it an attractive option to generate steady, reliable income.

BDC

Business Development Companies (BDCs) are the tradable financial securities at the heart of the current private credit controversy.

Private-credit valuation pressure shows up in BDC marks

Fair value as a percentage of amortized cost

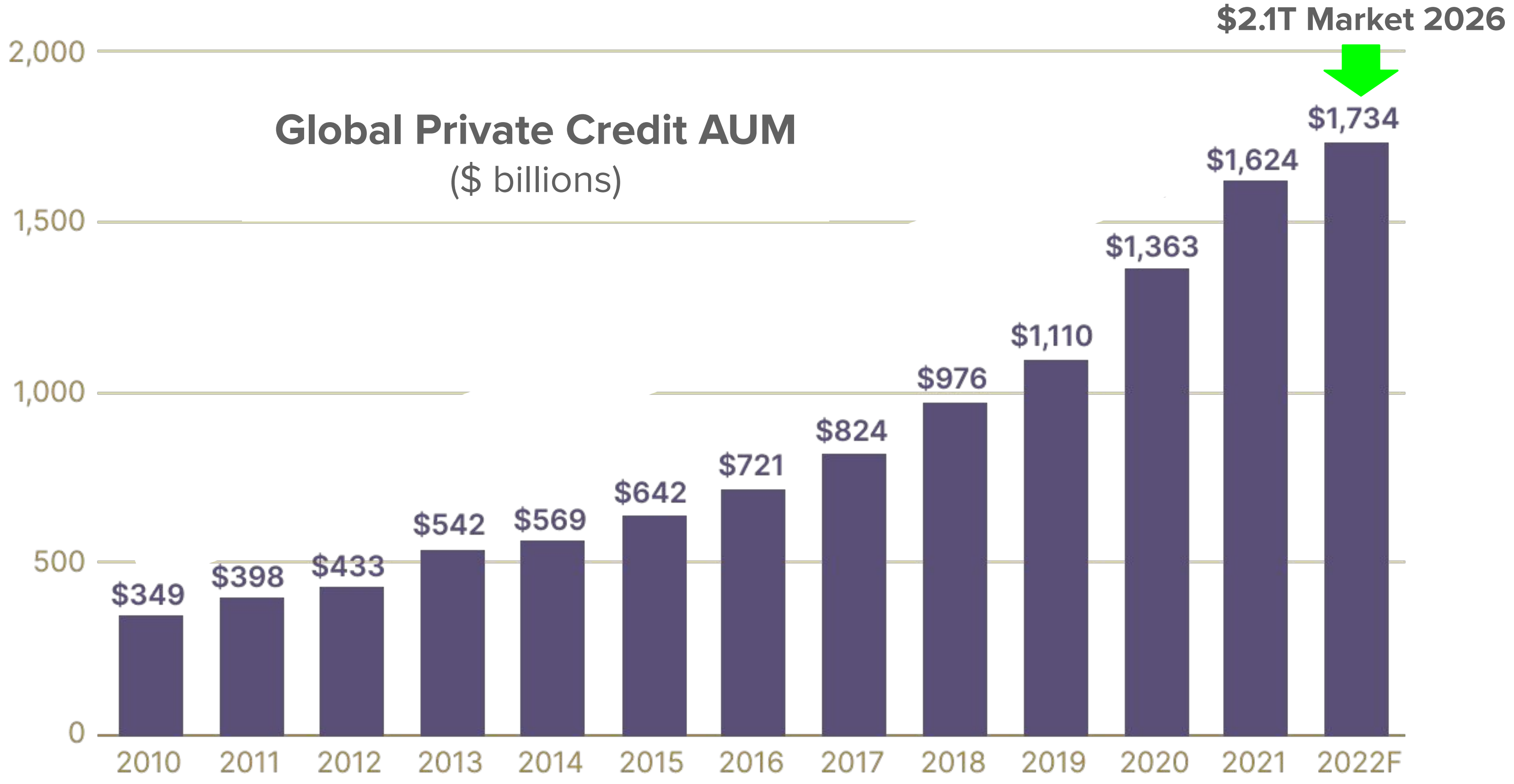


Note: Figures in %

Source: SEC filings | Patturaja Murugaboopathy

Reuters, *Private credit funds mark investment values lower*. May 12, 2026

Private Credit Market Size (2010 - 2022)



Source: Preqin, data through June 2022.

Private Credit in 10 Charts, April 4, 2024 by Blake West

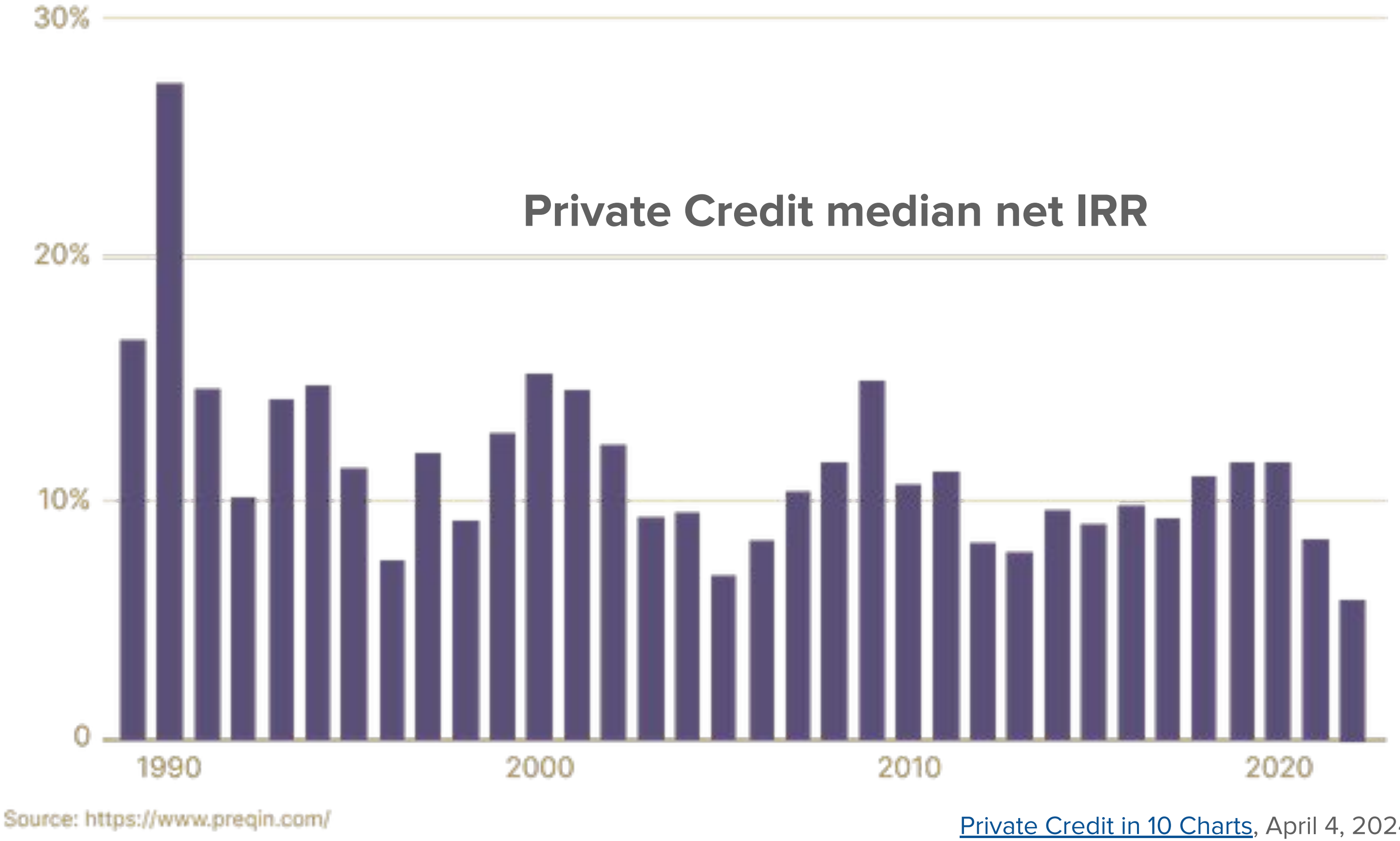
Private Credit Returns in S&P500 Down Years

	Private Credit	S&P 500
2022	+6.3%	-19.3%
2018	+10.9%	-5.5%
2008	+11.6%	-38.7%
2002	+12.3%	-23.2%
2001	+14.5%	-13.1%
2000	+15.2%	-10.3%
1990	+27.3%	-4.3%

Historical Inverse Correlation with Equities

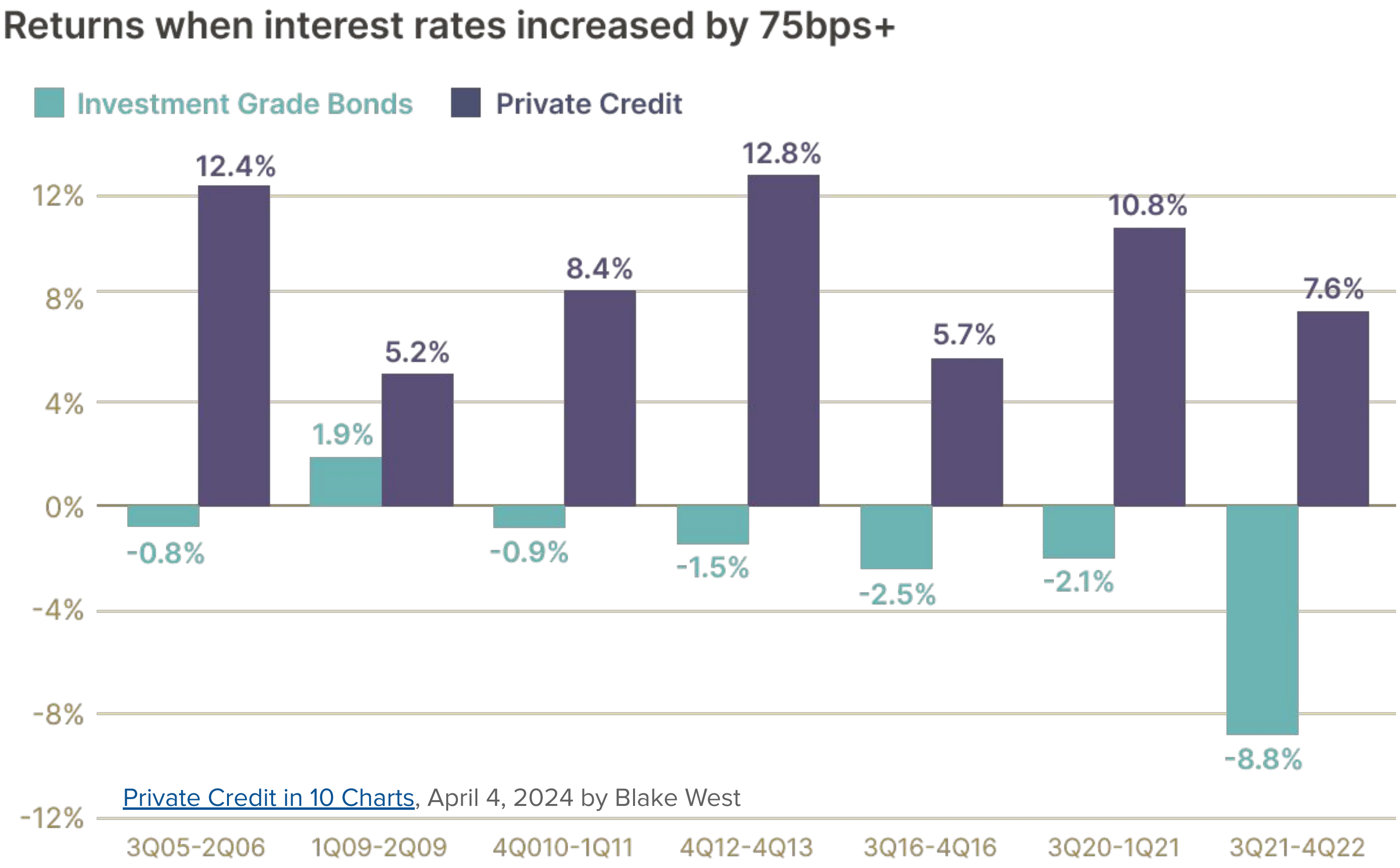
Private Credit in 10 Charts, April 4, 2024 by Blake West

Private Credit: Zero Losing Years



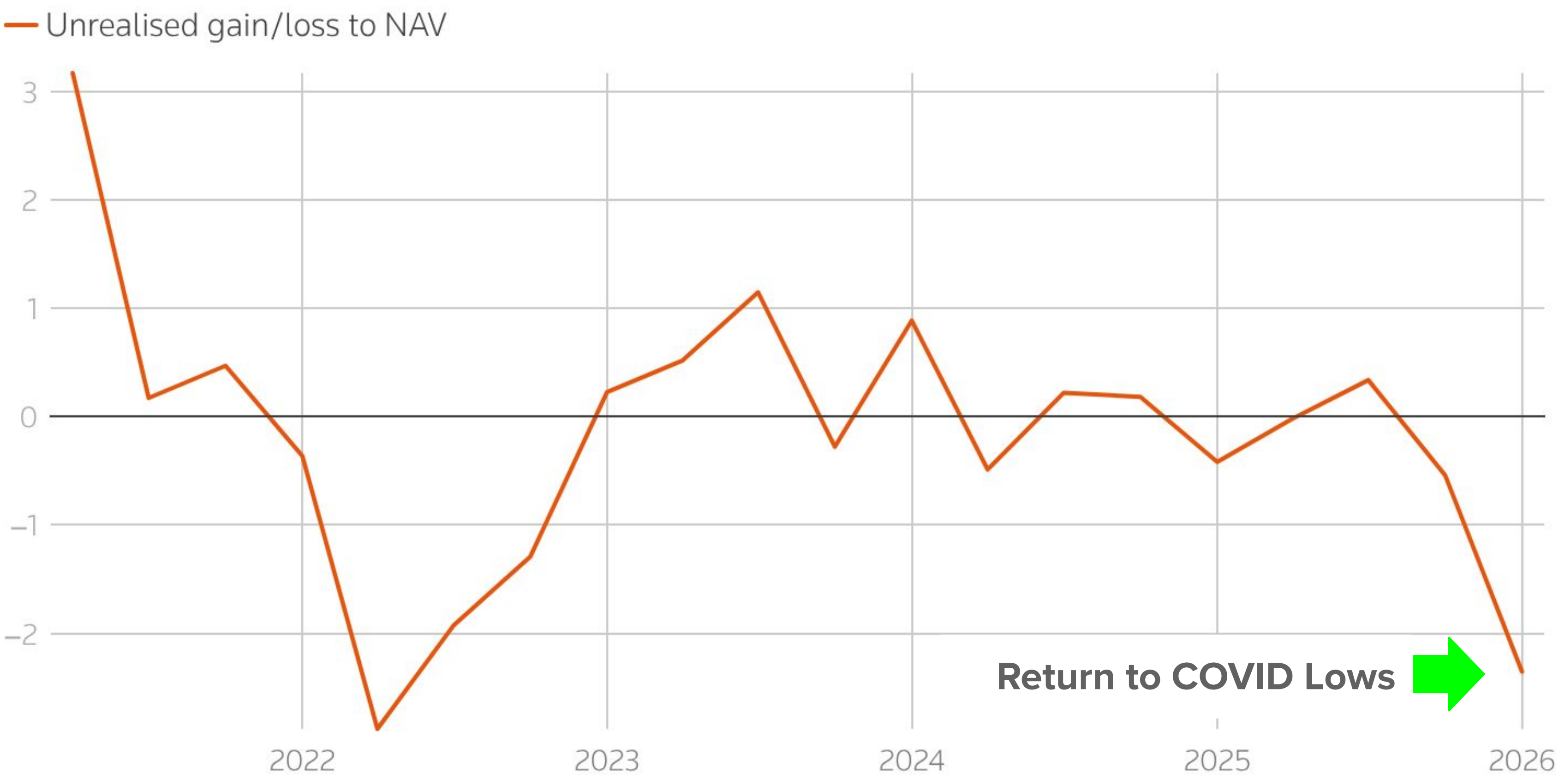
[Private Credit in 10 Charts](), April 4, 2024 by Blake West

Private Credit Interest Rate Sensitivity



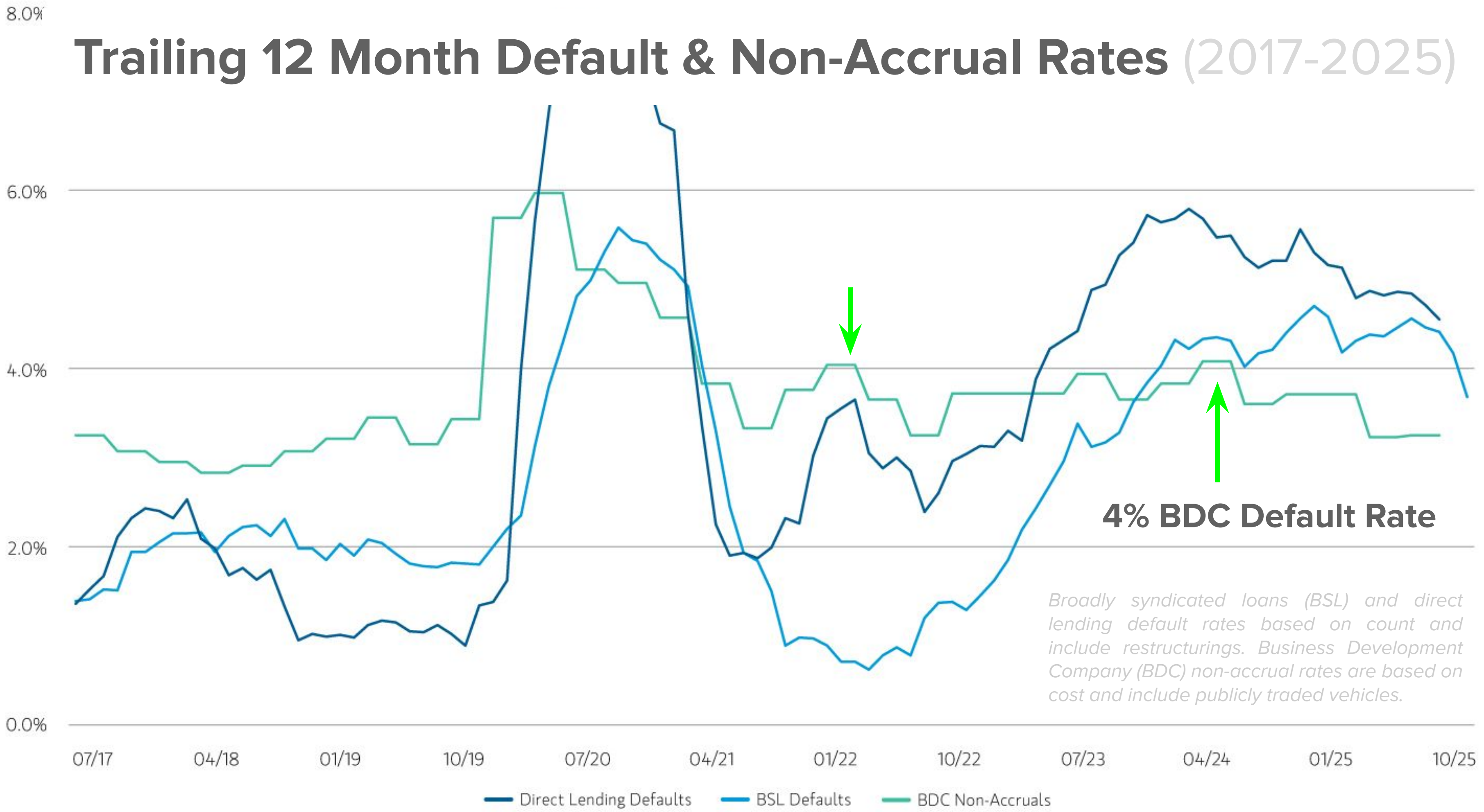
[Private Credit in 10 Charts](), April 4, 2024 by Blake West

BDC Unrealised Losses (2022 - 2026)



Unrealised Losses at US private Credit Lenders Deepen. Reuters, May 29, 2026

Trailing 12 Month Default & Non-Accrual Rates (2017-2025)



Morgan Stanley, *Private Credit 2026 Outlook*, Dec 16, 2025

The State of Private Credit

A data-driven view of the viability of private credit funds from the State of Private Credit Report conducted in 2026.

State of Private Credit Report

- Charts in this section contain data from the *State of Private Credit Report released by the Financial Stability Board in May 2026.*
- Report analyses 73 U.S. private credit funds, which are further segmented based on underlying borrower size.
- Includes both publicly-listed and non-traded fund vehicles managed by firms with more than $1 trillion in aggregate private credit assets under management.

State of Private Credit Report

- Chart metrics presented on successive slides highlight trends in portfolio quality, risk characteristics, and return dynamics across a broad spectrum of the private credit market.
- A Reuters review of filings by 14 major business development companies (BDCs) showed the aggregate fair value-to-cost ratio fell 103 basis points to 98.55% at the end of March.

State of Private Credit Report

- BDC filings reviewed by Reuters showed investments were marked at about $1.2 billion below amortized cost compared with a much narrower discount at the end of December.
- <u>Yield Spreads</u>. BDC managers reported that much of the decline reflected market-wide spread-widening rather than borrower-specific stress.
- <u>Examples</u>. Blackstone Secured Lending Fund (BXSL.N), dropped 122 basis points to 97.52%, and Goldman Sachs BDC Inc fell 119 basis points to 94.88%.

State of Private Credit Report

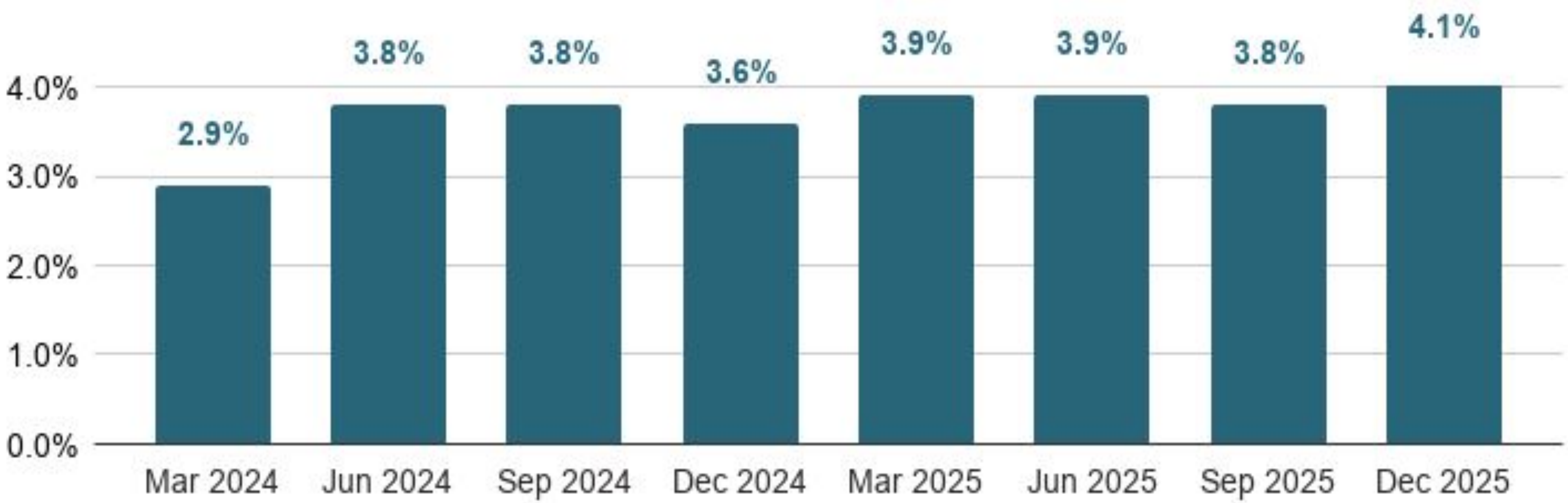
Moody's recently cut its outlook for the BDC sector to negative. Downgrade coincided with declines in net asset values in several notable names:

(SEE TABLE, NEXT SLIDE)

BDC | NAV Writedowns (Trailing 12 Month)

	NAV ($/share)		
BDC Fund	**2025**	**2026**	**Chge** (%)
BlackRock TCP Capital	$7.07	$6.72	- 4.95%
CION	$13.76	$13.11	- 4.72%
Sixth Street Specialty Ltd.	$16.98	$16.24	- 4.36%
Goldman Sachs BDC	$12.64	$12.17	- 3.72%
Blue Owl Capital	$14.81	$14.41	- 2.70%

Payment-In-Kind Interest (PIK)



PIK Interest is paid to the lender when the borrower is under financial duress. Instead of cash interest payment, the lender receives an amount of new debt equal to the interest for repayment at a later date in the future.

The state of private credit benchmark report (Q2 2026), April 26, 2026 by Khang Nguyen

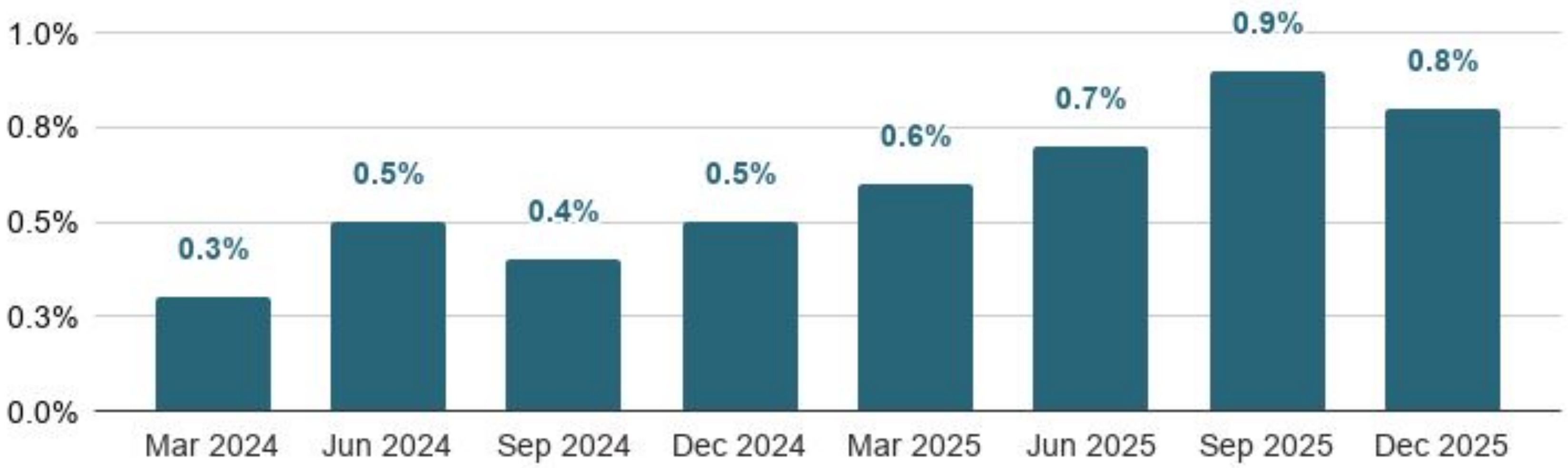
PIK Interest Commentary

PIK interest income (as a percentage of total investment income):

- Less than 5% suggests no systemic concerns.
- Range of 5%-10% could indicate emerging stress
- Above 10% would signal more widespread, systemic stress across the industry.

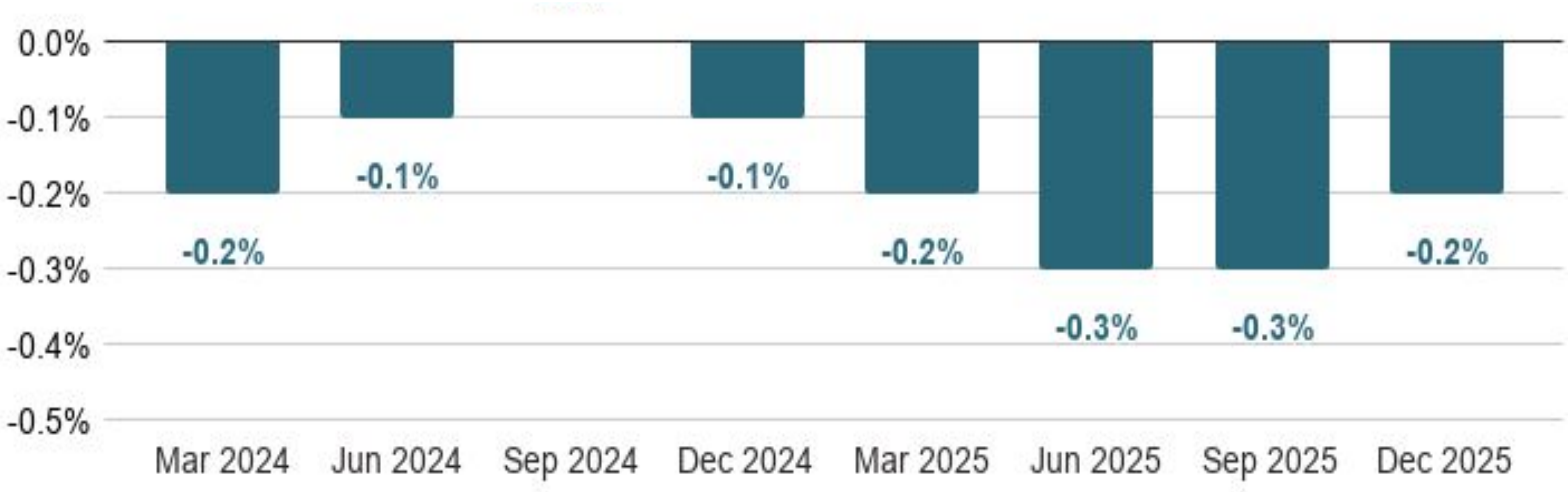
Sector PIK interest income is 4.1% as of Dec 2025.

Payment Non-Accruals



Non-accrual levels remain moderate, especially by historical standards, with stronger performance among larger borrowers.

Portfolio (Net) Credit Loss

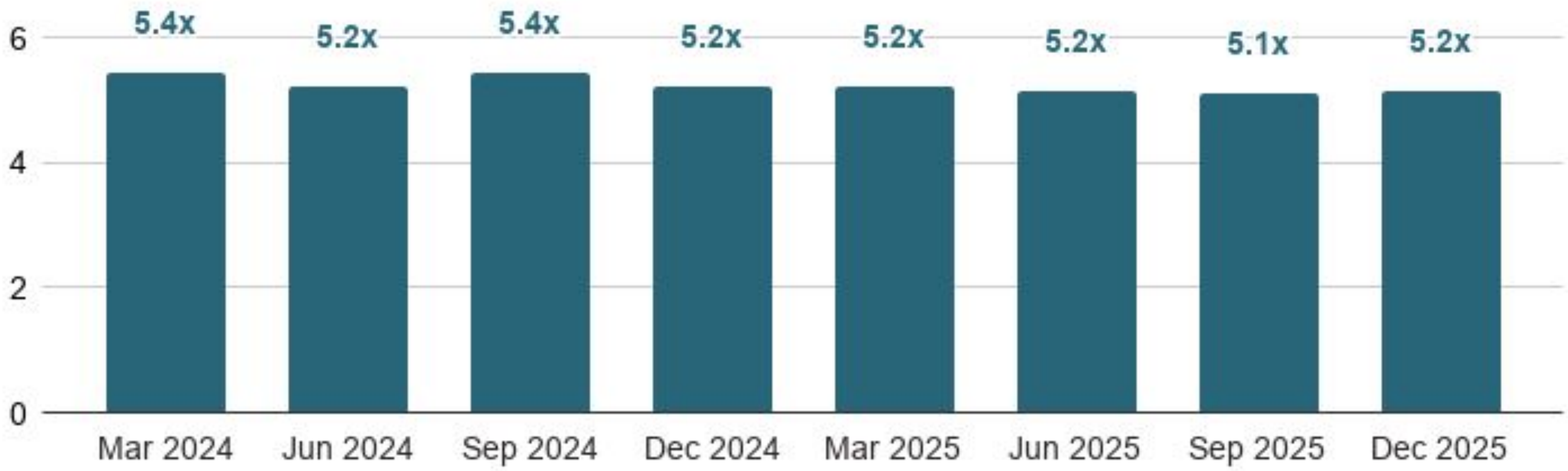


Trailing 12-month realized losses (net of realized gains), remained within the historical level of +/- 1% annually over the last two decades for this asset class.

1st Lien Loan FMV / Cost

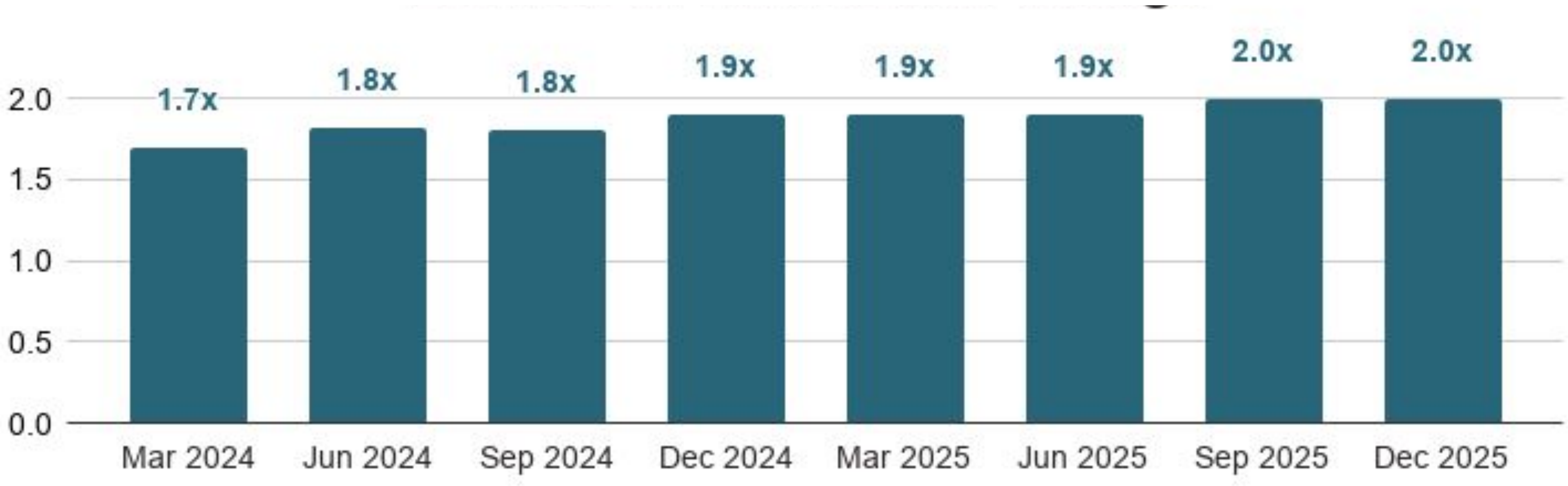
First-lien loan fair market values (FMV) remain generally close to par, indicating limited stress across first-lien loan holdings, which account for close to 90% of the industry.

Borrower Leverage (Debt / EBITDA)



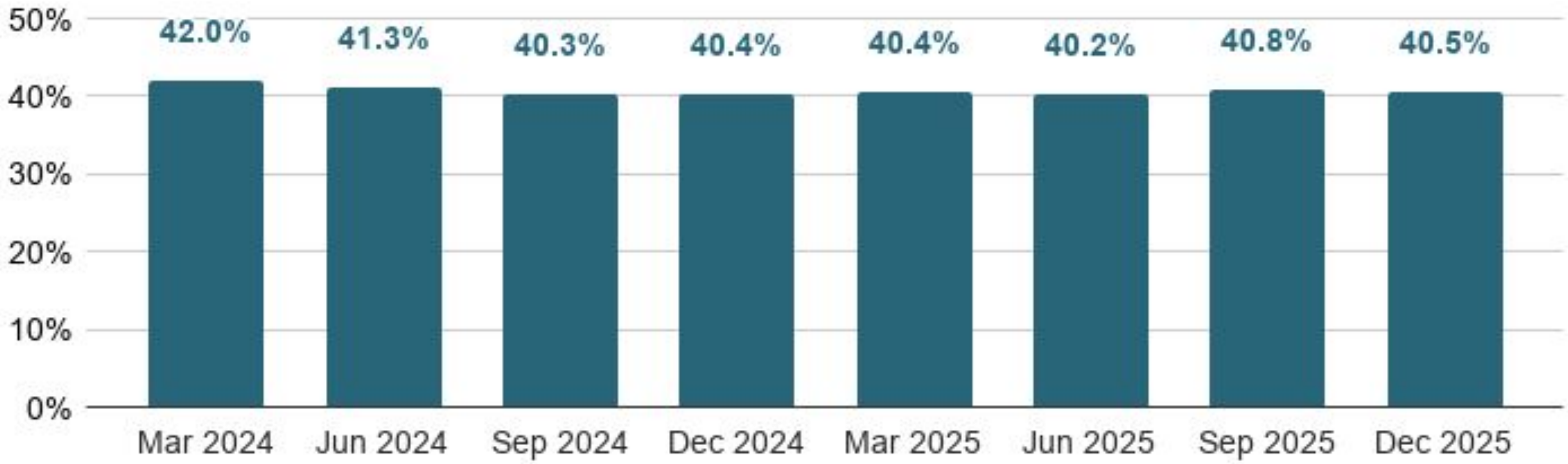
Borrower leverage is not increasing and is within historical norms.

Borrower Interest Coverage



Underlying corporate borrower's interest coverage ratio (EBITDA/interest) *improved* year over year due to lower rates and organic EBITDA growth.

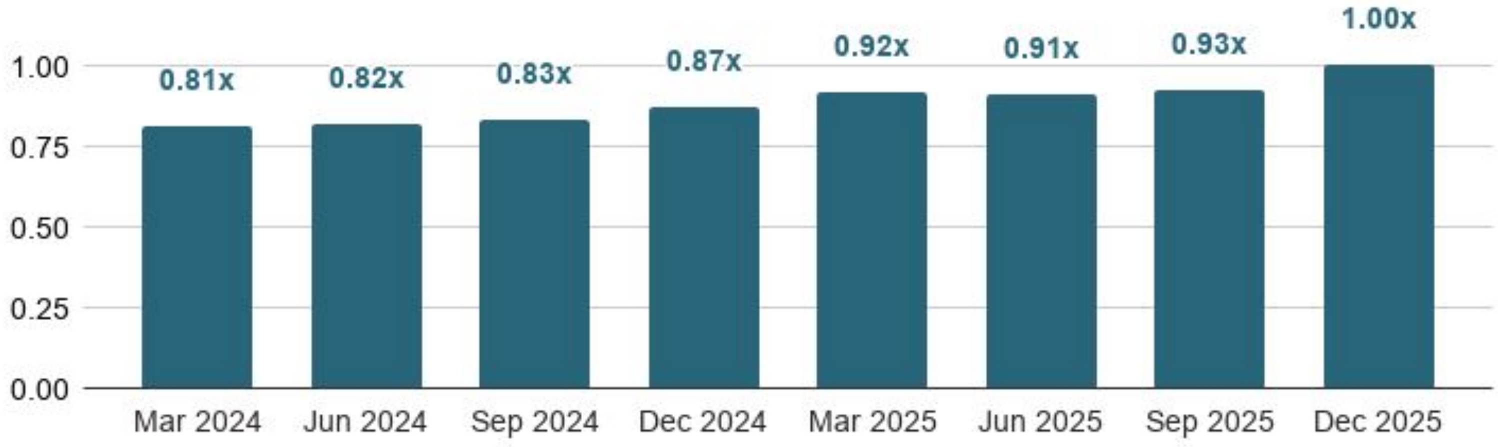
Average Loan to Value (LTV)



Loan-to-value ratios remain conservative across segments. Low & stable LTVs indicate lenders have not materially loosened underwriting standards and allow for a significant capital cushion should credit markets deteriorate.

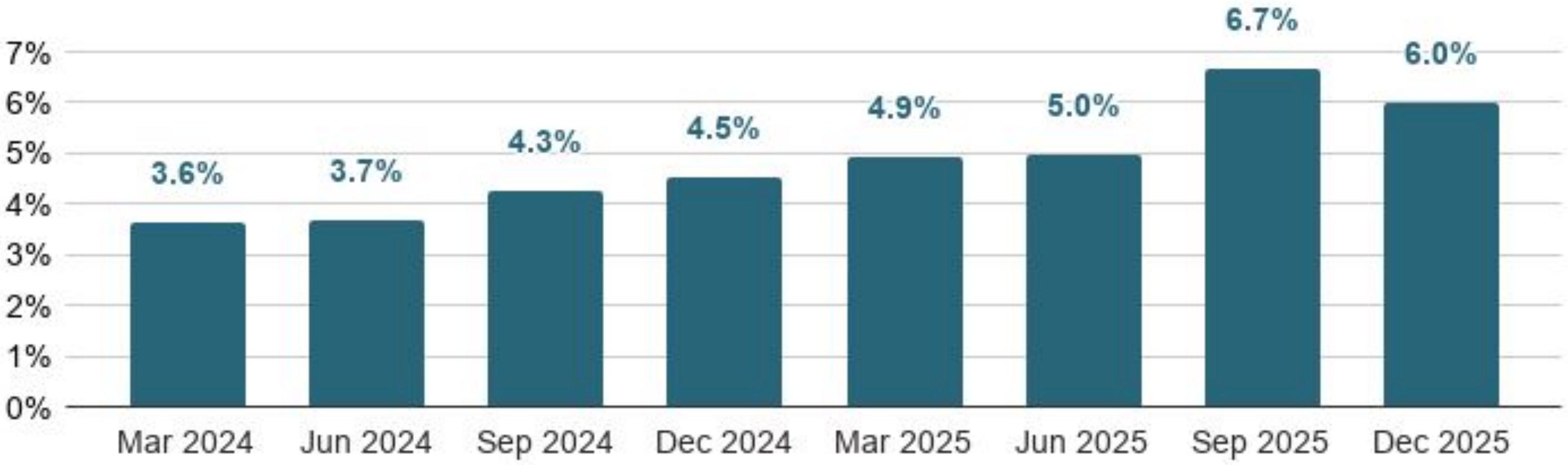
The state of private credit benchmark report (Q2 2026), April 26, 2026 by Khang Nguyen

Debt-to-Equity Fund Leverage



Fund-level leverage has increased, though the current 1.0x debt-to-equity ratio remains manageable. Quarter-over-quarter increase in fund-level leverage was driven by Upper Middle Market funds in Q4 2025, reflecting the inclusion of non-traded BDCs.

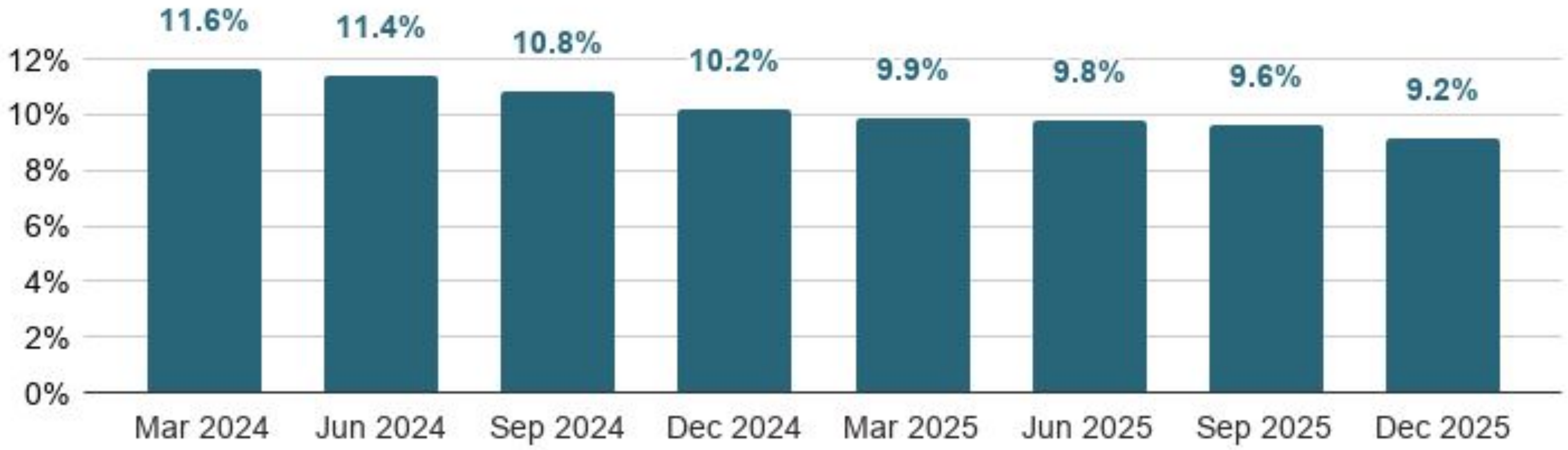
Underperformance



Share of under performing loans declined in Q4 2025.

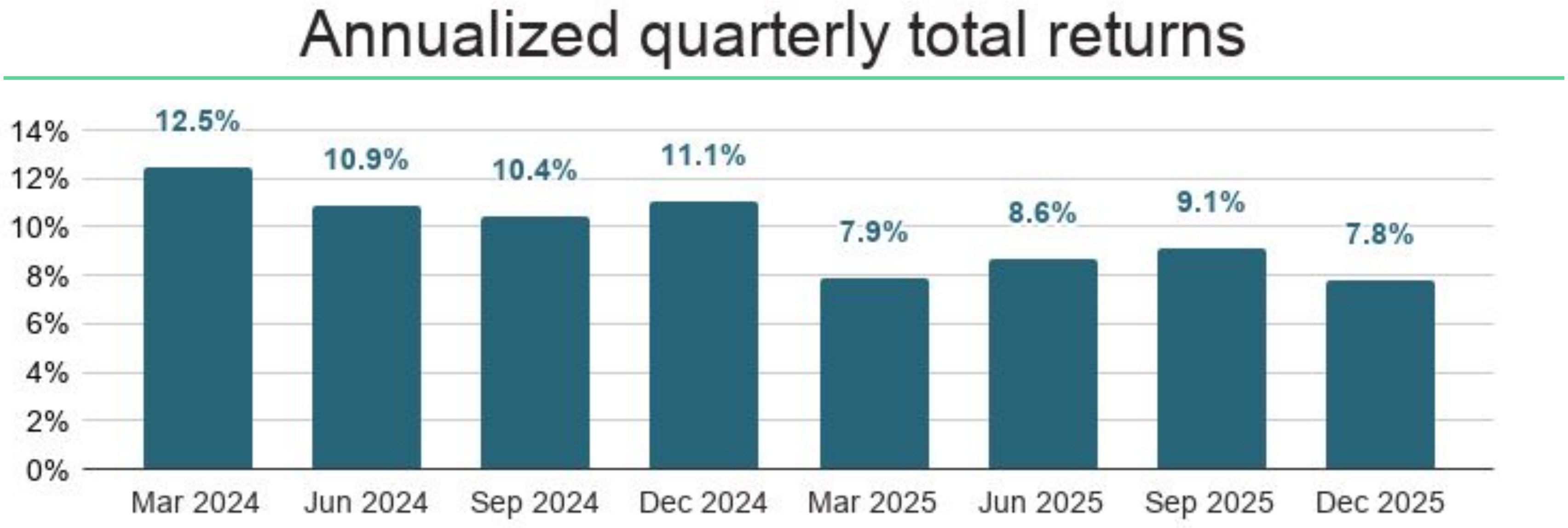
Underperformance is not a reliable predictor of realized losses, an accelerating quarter-over-quarter increase in underperformance could signal onset of broader problems.

Effective loan yield



Decreasing interest rates have translated into steady quarterly decreases in asset yields across the private credit industry over the last two years.

The state of private credit benchmark report (Q2 2026), April 26, 2026 by Khang Nguyen



Annualized returns normalized over 2025 after strong periods in 2023-2024. Performance dispersion across market segments has narrowed over time.

The state of private credit benchmark report (Q2 2026), April 26, 2026 by Khang Nguyen

Commentary

Conclusions from the [State of Private Credit Report](#) conducted in 2026.

Private Credit Market Scan Results

- **Counter-Cyclical Investment**. Historically, private credit is counter-cyclical to returns on risk assets.
- **PIK Interest Levels Nominal**: Payment-in-kind (PIK) interest marginally increased in Q4 2025, but generally remained in line with historical average.
- **Non-accrual rate remains moderate**: Current non-accrual level is unconcerning because most loans are first lien with low loan-to-value (LTV) ratio. Historical realized loss rate is approximately 1% annually over the last two decades.

Private Credit Market Scan Results

- **Lower Interest Rates Provide Relief**: The average underlying corporate borrower's interest coverage ratio (EBITDA/ interest) improved year over year due to lower interest rates and some EBITDA growth.
- **Loan Quality Stable**: No material credit risk deterioration at the industry level, LTV remains healthy at about 40%, and approximately 90% of the loans are first lien loans, which historically recovered well above 50% in a default scenario.

Private Credit Market Scan Results

- **False Alarm**: At the current time (Q2, 2026), fears regarding systemic write-downs in private credit appear to be exaggerated. At present, BDC fund NAV values show only modest, downward adjustment.
- **Factors Shifting the Current Outlook**:
    - *Inflation surges for a prolonged time period.* Inflation expectations become unanchored.
    - Fed enters another tightening cycle and raises rates to contain the outbreak.

BDC Universe

There are over 80 equities classified as Business Development Companies. Key is to find the subset worth buying.

Ticker	Name	Mkt Price	NAV	NAV Date	Prem/ (Disc)	Mkt Yield	Leverage %
ARCC	Ares Capital Corp	$19.91	$19.89	2024-12-31	0.10%	9.64%	48.58%
BBDC	Barings BDC	$8.37	$11.29	2024-12-31	-25.86%	12.43%	53.81%
BCSF	Bain Cap Splty Fin	$14.23	$17.65	2024-12-31	-19.38%	11.81%	52.82%
BXSL	Blackstone Secur Lending Fd	$27.74	$27.39	2024-12-31	1.28%	11.10%	52.38%
CCAP	Crescent Capital BDC	$14.51	$19.98	2024-12-31	-27.38%	11.58%	53.38%
CGBD	Carlyle Secured Lending	$14.02	$16.80	2024-12-31	-16.55%	11.41%	53.40%
CION	CION Inv Corp	$8.82	$15.43	2024-12-31	-42.84%	16.33%	62.56%
CSWC	Cap Southwest Corp	$19.03	$16.59	2024-12-31	14.71%	12.19%	51.43%
EQS	Equus Total Return	$0.90	$2.17	2024-12-31	-58.53%	0.00%	0.00%
FDUS	Fidus Investment Corp	$17.79	$19.33	2024-12-31	-7.97%	9.67%	40.79%
FSEN	FS Splty Lending Fd	$2.52	$3.30	2024-12-31	-23.64%	11.95%	46.59%
FSK	FS KKR Capital Corp	$18.72	$23.64	2024-12-31	-20.81%	13.68%	51.94%
GAIN	Gladstone Inv Corp	$13.25	$13.30	2024-12-31	-0.38%	7.25%	50.25%

(Universe, CONTINUED)

Ticker	Name	Mkt Price	NAV	NAV Date	Prem/ (Disc)	Mkt Yield	Leverage %
GBDC	Golub Capital BDC	$13.68					
GECC	Great Elm Cap Corp	$9.48					
GLAD	Gladstone Cap Corp	$24.15	$21.51	2024-12-31	12.27%	8.20%	38.71%
GSBD	Goldman Sachs BDC	$10.11	$13.41	2024-12-31	-24.61%	12.66%	53.46%
HRZN	Horizon Tech Fin Corp	$8.22	$8.43	2024-12-31	-2.49%	16.06%	57.44%
HTGC	Hercules Capital	$16.83	$11.66	2024-12-31	44.34%	9.51%	46.17%
ICMB	Investcorp Cr Mgmt BDC	$2.56	$5.39	2024-12-31	-52.50%	18.75%	59.70%
KBDC	Kayne Anderson BDC	$15.06	$16.70	2024-12-31	-9.82%	10.62%	40.72%
LIEN	Chicago Atlantic BDC	$10.71	$13.20	2024-12-31	-18.86%	12.70%	0.00%
LRFC	Logan Ridge Fin Corpn	$18.73	$32.04	2024-12-31	-41.54%	7.69%	53.97%
MAIN	Main Street Cap Corp	$51.82	$31.65	2024-12-31	63.73%	5.79%	41.44%
MFIC	MidCap Fin Invt Corp	$11.06	$14.98	2024-12-31	-26.17%	13.74%	55.07%
MRCC	Monroe Capital Corp	$6.87	$8.85	2024-12-31	-22.37%	14.56%	59.90%

Ticker	Name	Mkt Price	NAV	NAV Date	Disc / Prem	Mkt Yield	Leverage %
MSDL	MS Direct Lending Fd	$18.50	(Universe, CONTINUED)				
MSIF	MSC Incm Fd	$14.37					
NCDL	Nuv Churchill Direct Lending	$14.65	$18.18	2024-12-31	-19.42%	12.29%	51.70%
NMFC	New Mountain Fin Corp	$9.24	$12.55	2024-12-31	-26.37%	13.85%	57.32%
OBDC	Blue Owl Cap Corp	$13.28	$15.26	2024-12-31	-12.98%	11.14%	53.79%
OCSL	Oaktree Splty Lending	$13.57	$17.63	2024-12-31	-23.03%	11.79%	51.16%
OFS	OFS Capital Corp	$8.23	$12.85	2024-12-31	-35.95%	16.52%	57.61%
OXSQ	Oxford Square Cap Corp	$2.52	$2.30	2024-12-31	9.57%	16.67%	41.24%
PFLT	PennantPark Flt Rt Cap	$9.52	$11.34	2024-12-31	-16.05%	12.92%	57.26%
PFX	PhenixFIN Corp	$51.08	$80.59	2024-12-31	-36.62%	0.00%	45.44%
PIAC	Princeton Cap Corp	$0.11	$0.18	2024-12-31	-38.89%	0.00%	0.00%
PNNT	PennantPark Inv Corp	$6.19	$7.57	2024-12-31	-18.23%	15.51%	54.68%
PSBD	Palmer Sq Cap BDC	$12.94	$16.50	2024-12-31	-21.58%	11.13%	57.61%

Ticker	Name	Mkt Price	NAV	NAV Date	Disc / Prem	Mkt Yield	Leverage %
PSEC	Prospect Capital Corp	$3.56	(Universe, CONTINUED)				
PTMN	Portman Ridge Fin Corpn	$11.82					
RAND	Rand Capital Corp	$18.49	$25.31	2024-12-31	-26.95%	6.27%	0.83%
RWAY	Runway Gwth Fin Corp	$8.70	$13.79	2024-12-31	-36.91%	15.17%	50.61%
SAR	Saratoga Inv Corp	$22.51	$26.95	2024-11-30	-16.47%	13.33%	67.53%
SCM	Stellus Cap Inv Corp	$12.24	$13.46	2024-12-31	-9.06%	13.07%	60.46%
SLRC	SLR Inv Corp	$14.64	$18.20	2024-12-31	-19.56%	11.20%	42.12%
SSSS	SuRo Capital Corp	$4.48	$6.68	2024-12-31	-32.93%	0.00%	31.63%
TCPC	BR TCP Capital Corp	$6.57	$9.23	2024-12-31	-28.82%	15.22%	58.57%
TPVG	TP Vntr Gwth BDC Corp	$5.87	$8.61	2024-12-31	-31.82%	20.44%	52.27%
TRIN	Trinity Capital	$13.56	$13.35	2024-12-31	1.57%	15.04%	49.47%
TSLX	Sixth St Splty Lending	$19.78	$17.16	2024-12-31	15.27%	9.30%	53.07%
WHF	WhiteHorse Finance	$9.02	$12.31	2024-12-31	-26.73%	17.07%	52.17%

Appendix

Glossary of Terms & Supporting Material

***State of Private Credit Report* Data Sources:** *All metrics are calculated as of Q4 2025 as the median quarterly fund data, based on SEC filings and fund reporting from 73 private credit funds managed by firms with greater than $1 trillion in aggregate private credit AUM. Lower MM refers to lower middle market companies, which report annual EBITDA of less than $25 million; core MM refers to core middle market companies, which report annual EBITDA greater than $25 million but less than $75 million; and upper MM refers to upper middle market companies, which report annual EBITDA greater than $75 million.*

Glossary of Terms:

- ***PIK interest:*** *PIK interest income as a percentage of gross total investment income*
- ***Non-accruals:*** *Non accruals as a percentage of total investments portfolio, based on cost*
- ***Credit loss (net):*** *Trailing 12-month realized investment loss, net of gain, as a percentage of average fund net asset value*
- ***First lien loan FMV / cost:*** *First lien loan fair market value divided by cost*
- ***Borrower debt / EBITDA:*** *Leverage ratio of average corporate borrower based on before tax income.*
- ***Borrower interest coverage:*** *EBITDA divided by interest expense of average corporate borrower*
- ***Average LTV:*** *Average loan-to-value ratio.*
- ***Debt / equity:*** *Average fund-level leverage ratio*
- ***Underperformance:*** *Percentage of total investments portfolio performing below fund manager's expectations, based on fair market value*
- ***Loan yield:*** *Weighted average asset returns shown as yield based on cost*
- ***Annualized quarterly total returns:*** *Investor IRR shown as quarterly returns on annualized basis*

Disclaimer - Private Credit Investments

*Financial forecasts or returns shown in this presentation are for **illustrative purposes only** and are not a guarantee of future results. Private credit investments are subject to credit, liquidity, and interest rate risk. In the event of any default by a borrower, the buyer of such securities will bear a risk of loss of principal and accrued interest on such loan, which could have a material adverse effect on the investment.*

A borrower may default for a variety of reasons, including non-payment of principal or interest, as well as breaches of contractual covenants. Credit risks associated with the investments include (among others):

a. *Earnings of a borrower may be insufficient to meet its debt service obligations.*
b. *A borrower's assets utilised as collateral on the loan decline in value.*
c. *Declining creditworthiness, default, and potential for insolvency of a borrower during periods of rising interest rates and economic downturn.*

END

PRESENTATION