

Morgan Stanley

INVESTMENT MANAGEMENT

European Private Credit: *Still an All-Weather Asset Class?*

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Introduction

The original “All-Weather” thesis for European private credit still stands

Recent commentary has questioned whether private credit can still be considered an “all-weather” asset class. In this context “all-weather” refers to the ability of the asset class to generate resilient risk-adjusted returns across different market environments, supported by structural imbalances in supply and demand rather than reliance on favourable market conditions.

Those underlying market drivers remain firmly in place. European private credit continues to benefit from:

- (i) sustained demand for financing from private-equity-backed companies;
- (ii) constrained supply of traditional bank lending, particularly to the middle-market;
- (iii) more volatile and less reliable execution in broadly syndicated loan and high-yield markets; and
- (iv) a persistent illiquidity premium over public credit markets.

KEY TERM

Private Credit and Direct Lending

Private credit loans are privately negotiated between a company and a private credit fund. The funds used for the loan are raised from investors, including pension funds, insurance companies, and high net-worth/retail investors.

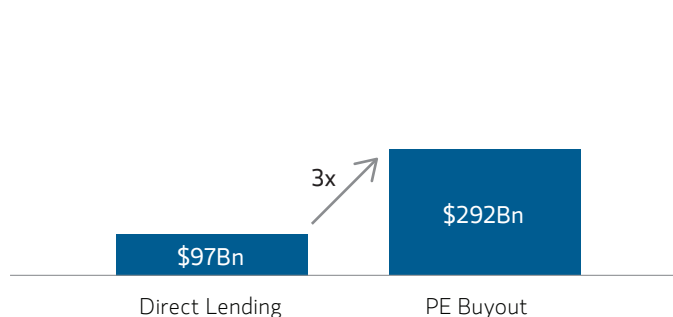
Direct lending is often synonymous with private credit, however, technically ‘direct lending’ typically refers to the provision of senior secured loans to private equity-owned businesses. Direct lending makes up the largest portion of overall private credit AUM. Other types of private credit include mezzanine lending, distressed debt, special situations, and venture debt.

Private equity remains the primary driver of demand for direct lending. As of December 2025, European private equity buyout dry powder (~\$292Bn)¹ was more than three times larger than European direct lending dry powder (~\$97Bn),¹ highlighting a sustained imbalance between demand for capital and available private credit supply.

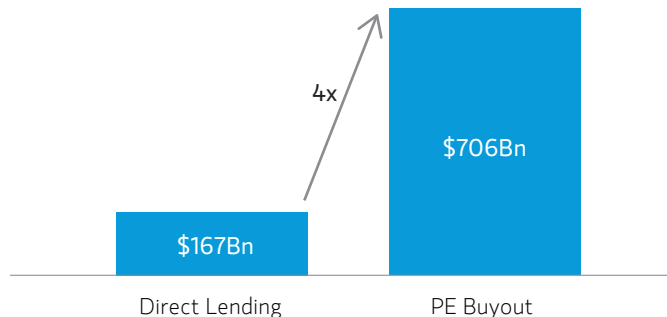
DISPLAY 1

European and US Direct Lending and Private Equity Buyout Dry Powder, as of December 2025 (\$Bn)¹

European Dry Powder



US Dry Powder



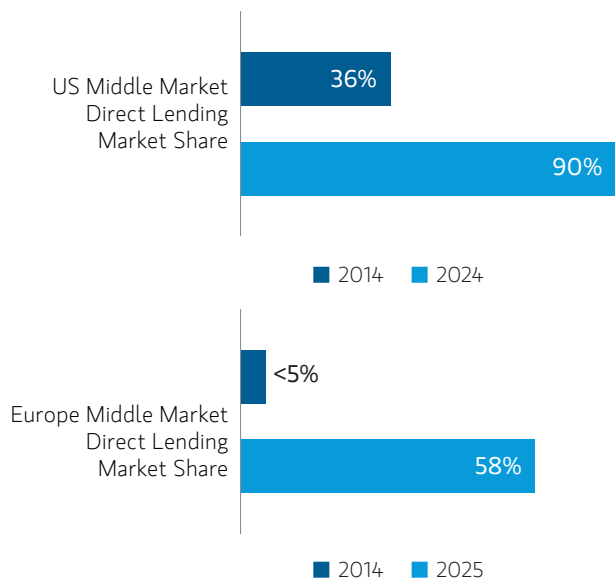
At the same time, the supply of traditional financing to European middle-market borrowers remains structurally constrained. Banks continue to operate under tighter regulatory, capital and balance-sheet requirements. In addition, Europe's leveraged loan and high-yield markets are smaller and less accessible than in the United States, particularly for middle-market and unrated borrowers, further reinforcing the role of private credit.

Execution risk in public credit markets remains elevated. While broadly syndicated loan and high-yield markets continue to serve larger borrowers, issuance conditions are highly sensitive to periods of volatility. Recent examples include geopolitical tensions, trade disruptions and pandemic-related shocks. In contrast, direct lending offers greater certainty of execution, which has supported continued market share gains.

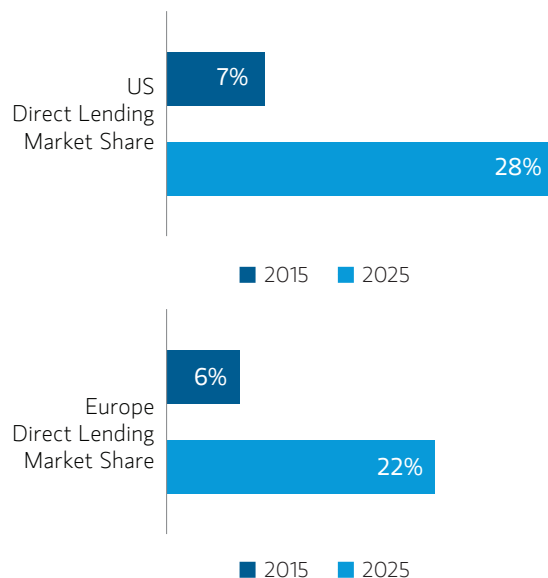
These dynamics are reflected in market share trends across both middle-market and large-cap transactions. Direct lenders provided ~58% of financing for European middle-market private equity buyouts in 2025, up from less than 5%² in 2014, equivalent to an annualised growth rate of ~25%. In the US, penetration is closer to ~90%,³ suggesting significant remaining runway for growth in Europe.

A similar trend is evident in the broader leveraged finance market. Direct lending's share has increased to ~22% in 2025 from ~6% in 2015.⁴ By comparison, US penetration stands at ~28%,⁵ again indicating further potential for expansion in Europe.

DISPLAY 2
Middle Market Direct Lending Market Share⁶



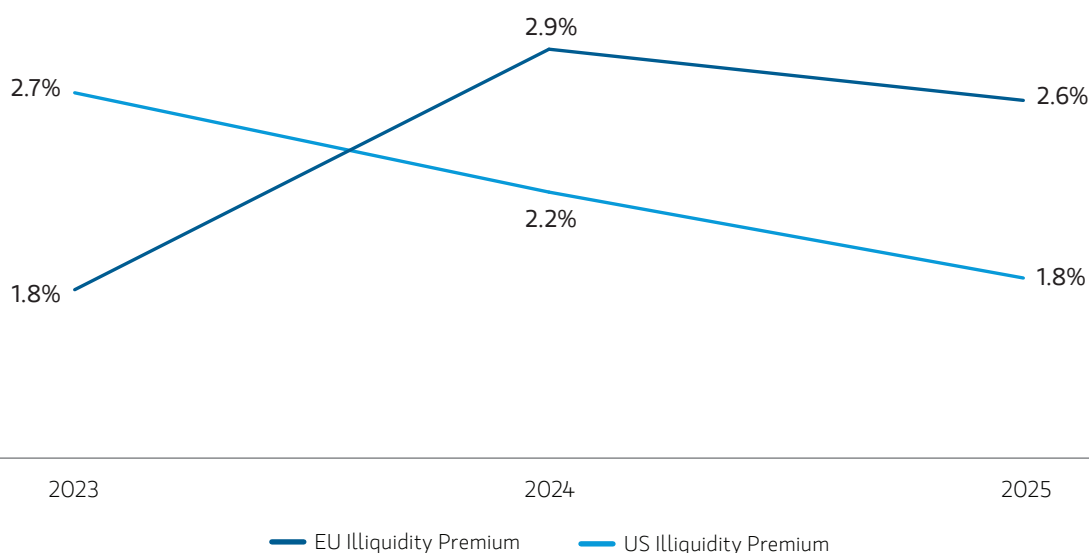
DISPLAY 3
Total Direct Lending Market Share, Including Leveraged Loans and High-Yield Bonds⁷



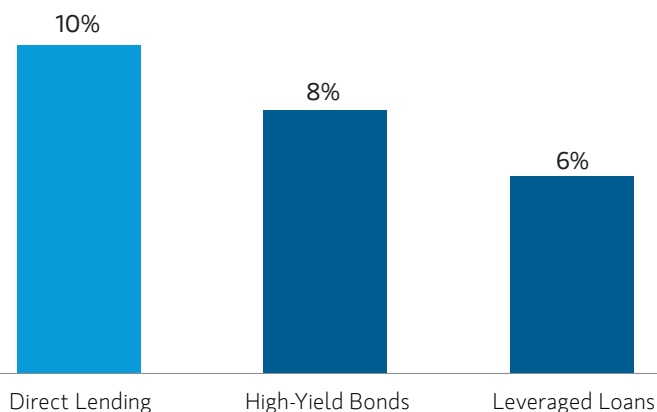
The illiquidity premium over broadly syndicated loans remains intact. Over the past three years, European direct lending has delivered an average premium of ~240 bps.⁸ Europe saw an increase in illiquidity premium from ~180 bps in 2023 to ~260 bps in 2025, while in the US the premium has compressed from ~270 bps in 2023 to ~180 bps in 2025.

Overall, the data continues to support the core investment case: European private credit benefits from strong underlying demand, constrained traditional supply, more volatile public-market alternatives, and a persistent illiquidity premium. The following sections address the key concerns that have recently emerged in more detail.

DISPLAY 4
Private Credit Illiquidity Premium 2023-2025⁹



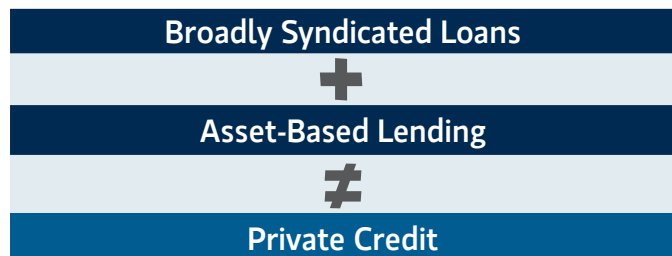
DISPLAY 5
Direct Lending has outperformed High-Yield Bonds and Leveraged Loans over the last 20 years (2005-2025)¹⁰





First Brands/ Tricolor: A Category Error, Not “Cockroaches”

Recent commentary has cited First Brands (aftermarket auto parts maker) and Tricolor (subprime auto lender) as evidence of underlying weakness in private credit. In our view, this is a category error. These were bank-led, broadly syndicated, asset-backed, factoring, or securitised financings, not privately negotiated sponsor-backed private credit transactions. Furthermore, there was alleged fraud centered on double-pledged collateral, misrepresentation of collateral values, and misappropriation of funds. In this section, we focus on First Brands specifically.



Part of the confusion stems from the use of “private” as a broad label applied to structurally different forms of lending. In practice, First Brands sits outside what is typically understood as sponsor-backed direct lending, with different underwriting standards, participants and risk dynamics.

The capital structure¹¹ comprised ~\$6Bn of secured claims across broadly syndicated loans and asset-backed facilities, alongside \$7Bn of unsecured obligations across off-balance-sheet structures, special purpose entities and factoring arrangements. These exposures were predominantly held by banks, CLOs and specialist asset-backed financing providers, and not direct lending funds.

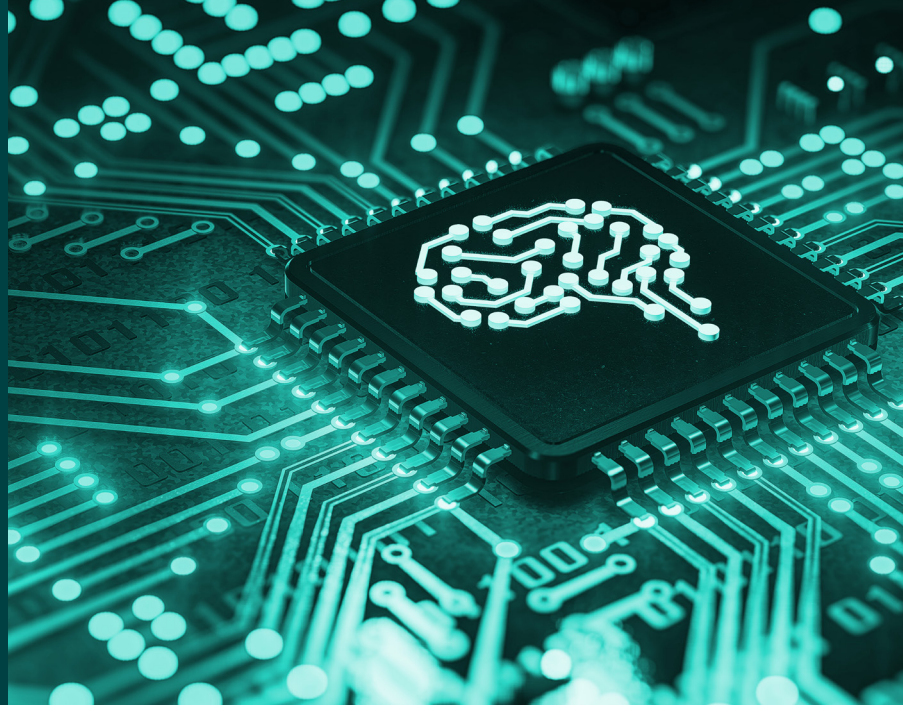
~\$6Bn of secured claims across asset-backed, syndicated first and second lien debt	 Holders of debt: primarily banks, CLOs and specialist asset-backed financing providers – not direct lending funds
~\$7Bn of unsecured claims across off balance sheet, special purpose entity, and factoring debt	

Exposure from private credit BDCs was minimal. BDC holdings of the broadly syndicated loans were less than \$250MM,¹² representing under ~2% of the capital structure and an immaterial share relative to the \$1Tn US direct lending market.¹³ Limited BDC participation is not unexpected, as BDCs may hold liquid syndicated assets for portfolio management purposes.

It is also important to distinguish asset-based lending and corporate cash-flow lending, which differ meaningfully in underwriting approach, monitoring frameworks and collateral structures.

First Brands may highlight execution risk in complex, multi-layered financing structures. However, it does not provide a robust basis for extrapolating stress within private credit, and is a particularly weak proxy for the sponsor-backed direct lending market.

Will AI Disrupt Private Credit?



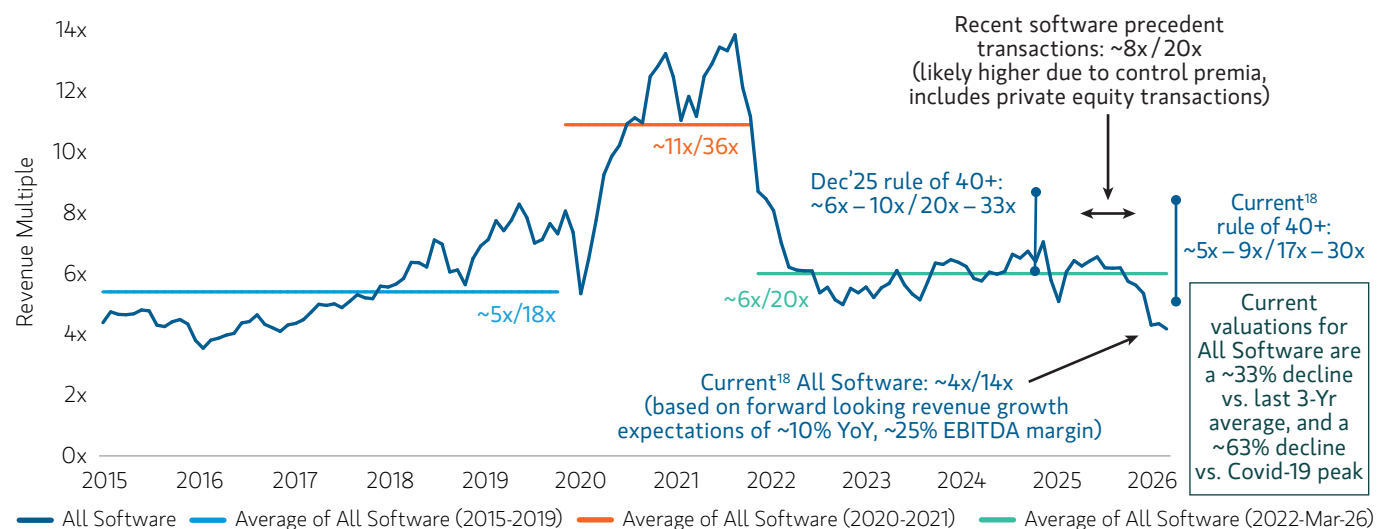
AI-related disruption is one of the more substantive concerns currently facing private credit. Software represents a meaningful portion of the direct lending market, accounting for ~20-30%¹⁴ of exposure across both the US and Europe, depending on methodology. Following a sharp reset in public software valuations, investors are increasingly questioning whether disruption risk is transferring from equity markets into credit. In our view, the answer is more nuanced.

The decline in public software valuations appears to reflect anticipated, rather than currently observed, disruption. Valuation multiples, which exceeded ~30x

EV/EBITDA at their 2021 peak,¹⁵ have since normalised significantly. This repricing coincided with rapid advancements in AI, including the release of large language models since late 2022. By March 2026, software stocks had declined ~24% year to date,¹⁵ significantly underperforming the S&P 500, which declined ~3% before recovering to all-time highs in April.

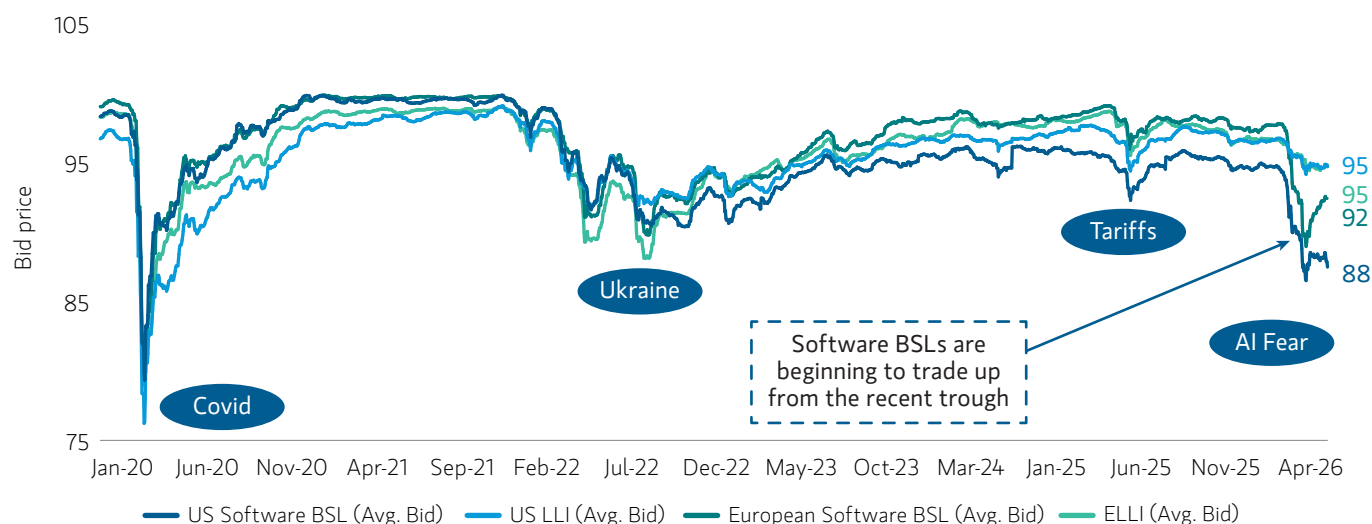
Despite this, operating performance remains resilient. Listed software companies continue to deliver revenue growth of approximately 10–15% with forward expectations of 10–11% p.a. for the next two years.¹⁵

DISPLAY 6
Forward Revenue / EBITDA¹⁶ Multiples of Public Software Companies¹⁷



DISPLAY 7

Historical Market Volatility Impact on Leveraged Loans¹⁹



Credit markets have reacted more moderately. Broadly syndicated loans in the software sector declined during Q1 2026 but have since stabilised, with average prices around ~92c.¹⁹ Importantly, dispersion has increased: higher-quality, mission-critical software providers which function as core systems of record, and enterprise resource planning platforms continue to trade at a premium, reflecting stronger perceived resilience. AI risk is therefore not manifesting as broad-based deterioration, but as increasing differentiation between business models.

Equity cushions remain substantial

While equity valuations have declined, loan-to-value positioning remains conservative. Public software multiples are currently trading at ~14x EV/EBITDA, below historical averages of ~20x and approximately 60% below the 2021 peak of ~36x.¹⁹ At a more granular level, higher-quality software businesses exhibiting the “Rule of 40”, where revenue growth plus EBITDA margin is >40%, are trading between ~17–30x EV/EBITDA,¹⁹ a meaningful premium to the broader sector.

At the same time, private credit transactions in the sector were typically structured with ~60% equity cushions at inception and average leverage of ~5.25x.²⁰ This provides a meaningful buffer against further valuation compression and supports credit resilience even under more conservative assumptions.

KEY TERM

Equity Cushion and LTV

Equity Cushion is the amount of money invested by the private equity firm that sits below the debt in a leveraged buyout. It acts as a loss-absorbing buffer, if the company’s value falls, losses are first borne by the equity before lenders are affected.

LTV or “Loan-to-Value” measures how much debt is used compared to the value of the business. A lower LTV means more equity underneath the loan and greater protection for lenders. It can typically be thought of as the inverse of equity cushion.

Default risk remains contained

Default rates for software-focused private credit remain low at ~60 bps,²¹ below broader market levels. While defaults are expected to increase modestly to 2.5% in 2026,²¹ this is largely driven by idiosyncratic situations, most notably Medallia, which was already under pressure (e.g. competition, go-to-market execution, and higher interest rates post-2022) prior to the emergence of AI-related concerns. Medallia represents ~\$1.9Bn of the ~\$2.3Bn expected default volume.²¹

More broadly, we believe there is limited evidence to suggest that AI is currently a primary driver of credit stress. Across a wide universe of 80+ stressed borrowers spanning multiple sectors, only a small number (1-2) reference AI as a contributing factor.

DISPLAY 8**Select European “Software” BSL Issuers trading above the overall index (24 April 2026)²²**

ISSUER	DESCRIPTION	BID	CHANGE SINCE 27/02	CHANGE SINCE 01/01
Select Loans Trading Above 90c				
Company 1	Provider of enterprise resource planning software	99.750	2.250	-0.750
Company 2	Cloud-based payroll and HR software provider	99.250	2.625	-1.500
Company 3	Software solutions covering payroll, and time & talent management	98.000	3.500	-3.125
Company 4	Provider of cloud-based software solutions for finance, human resources, retail, and accounting	96.750	2.375	-3.500
Company 5	Cloud-based ERP, financial, and HRM software offering for SMEs	97.250	3.625	-3.250

Lower M&A may extend duration, but refinancing risk is limited

Software M&A activity may decline as private equity buyers and sellers enter a period of price discovery. This may extend the duration of existing financing structures, as exits become more challenging relative to prior expectations.

However, refinancing risk appears limited. Software borrowers in European private credit are expected to de-lever by approximately 0.5x–1.0x per annum, supported by strong cash flow generation and structural incentives for sponsors to reduce leverage before extracting value.

Future private credit vintages will likely have lower software exposure, reflecting lower M&A activity and more conservative capital structures. At the same time, lenders are reassessing underwriting standards for software LBOs, which should support improved pricing, lower leverage, and stronger documentation in new transactions.

AI impact will be uneven, not uniform

The adoption of AI is likely to be gradual and uneven across the software landscape. While technological progress is rapid, enterprise-level disruption typically unfolds over longer timeframes. Early evidence suggests that, despite significant investment, most organisations are still in the early stages of realising tangible economic benefits.

MIT research²³ points to a gradual path: despite \$30–40Bn of enterprise GenAI investment, only a small proportion (~5%) of organisations report measurable P&L impact. At the same time, employee adoption is high (~90%), highlighting long-term potential but near-term uncertainty.

Resilience is likely to be highest among software businesses with durable competitive moats, such as core system-of-record status, deep workflow integration, high switching costs, regulatory entrenchment and embedded network effects. In many cases, AI is more likely to enhance existing products rather than displace them outright. AI-native challengers may have product momentum, but do not automatically have the distribution, trust, integration depth or go-to-market infrastructure required to displace incumbents in enterprise settings.

The primary risk is therefore not immediate disruption from new entrants, but more gradual pressure as incumbents integrate AI capabilities and competition intensifies. This represents a manageable credit risk, rather than a systemic threat.

Implications for investors

AI does not undermine the private credit investment case, but it reinforces the importance of selectivity. Outcomes will increasingly depend on the quality of underlying software exposures and the ability of managers to underwrite business model resilience in a changing technological landscape.

BDCs: Sentiment vs. Data

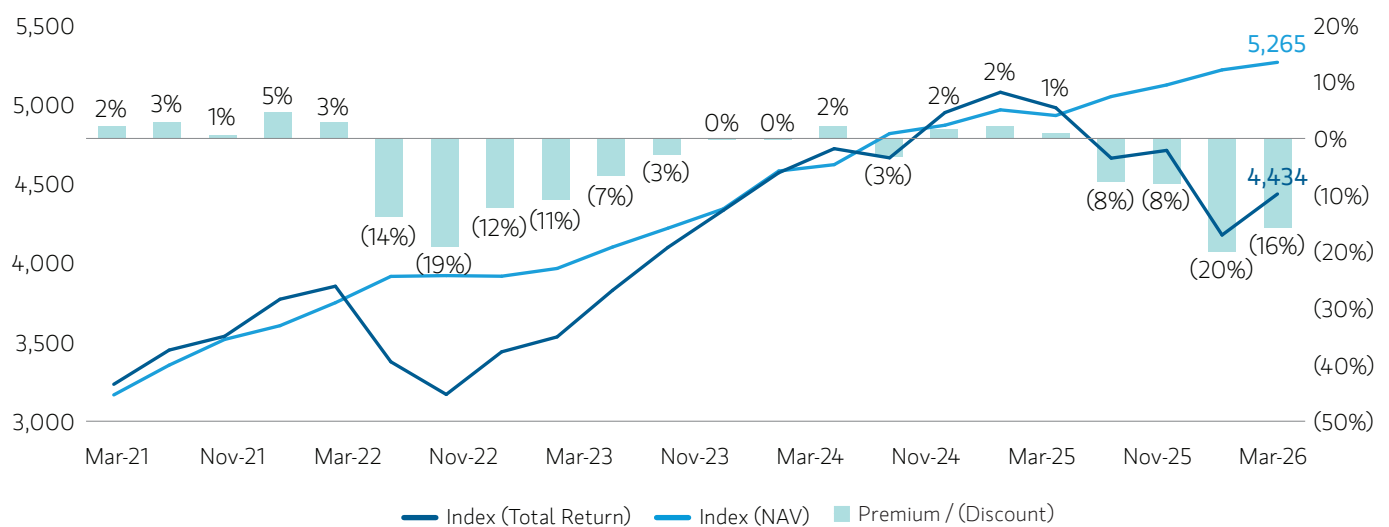
Much of the recent concern around private credit has centred on BDCs and other semi-liquid vehicles. This is largely a US-driven dynamic, as BDCs and interval funds have grown significantly in recent years to comprise nearly 50%²⁴ of US direct lending AUM. In contrast, in Europe, semi-liquid structures such as SICAVs²⁵ and ELTIFs²⁶ account for only ~5% of Private Credit AUM,²⁷ reflecting a more institutional and less liquidity-sensitive investor base.

KEY TERM BDCs and NAV

Business Development Companies, or BDCs, are entities registered under the Investment Company Act of 1940, with the specialised focus of making investments in small- to medium-sized US companies.

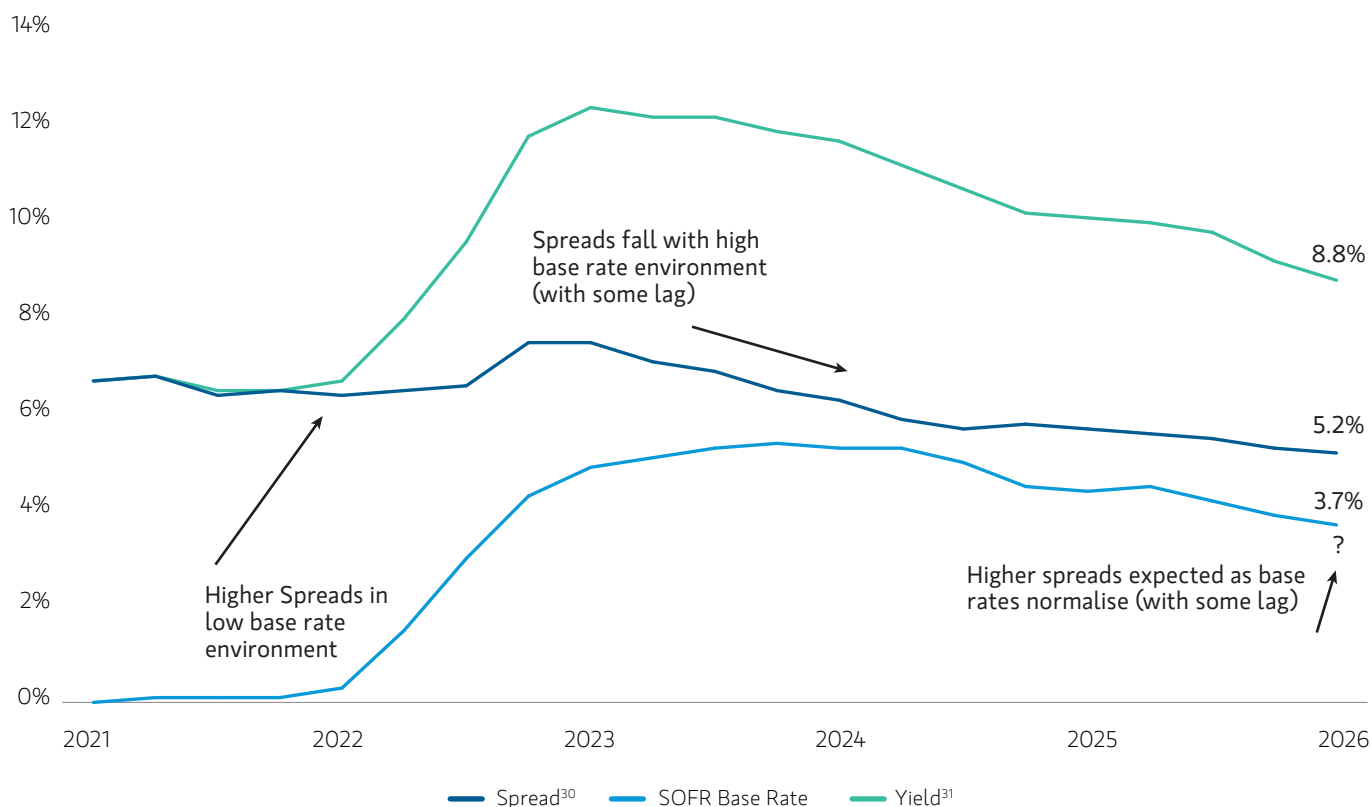
Net Asset Value, or NAV, is the estimated value of a BDC's assets after subtracting its liabilities. For a BDC, this means taking the fair value of its investment portfolio and other assets, then deducting borrowings and other obligations.

DISPLAY 9
Cliffwater BDC Index Return vs. NAV²⁸



DISPLAY 10

Spreads adjust in the opposite direction of base rates to maintain yield²⁹



Listed BDCs have traded down sharply, and private BDCs have faced elevated redemption requests. Negative headlines have reinforced the impression that the asset class is under broad stress. In our view, however, market pricing has become disconnected from underlying credit fundamentals. BDCs are trading at a ~16%³² discount to NAV, even as non-accruals (defaults) remain low and NAVs have been relatively stable.

Part of that disconnect reflects the normalisation of returns following an unusually strong period. Direct lending benefited from a “golden age” of higher base rates and wider spreads in 2023-2024. As policy rates have

declined and spreads have compressed from peak levels, headline returns have moderated accordingly. For context, the US Federal Funds Effective rate peaked at an average of ~5.33% in 2024 before falling to an average of ~3.64% as at March 2026³³ and US direct lending spreads have compressed by ~150 bps since 2023.³⁴

More recently, wider public credit spreads and the reset in public software valuations may have created an impression that private credit software assets may be susceptible to future markdowns. As discussed in the previous section, this appears unlikely given resilient operating performance and substantial remaining equity cushions.

Fundamentally, default and non-accrual data provide limited evidence of systemic stress. Cliffwater’s dataset, which covers approximately 20,000 loans and over \$500Bn across public and private BDC portfolios, shows non-accrual rates of ~1.9% in Q1 2026. This is below the long-term average of ~2.1% for the 2007-2025 period and well below cyclical peaks of ~6% during the GFC and ~3.5% during the Covid-19 pandemic. For comparison, BSL default rates peaked at ~11% during the GFC and ~4.2% during Covid-19.³⁵

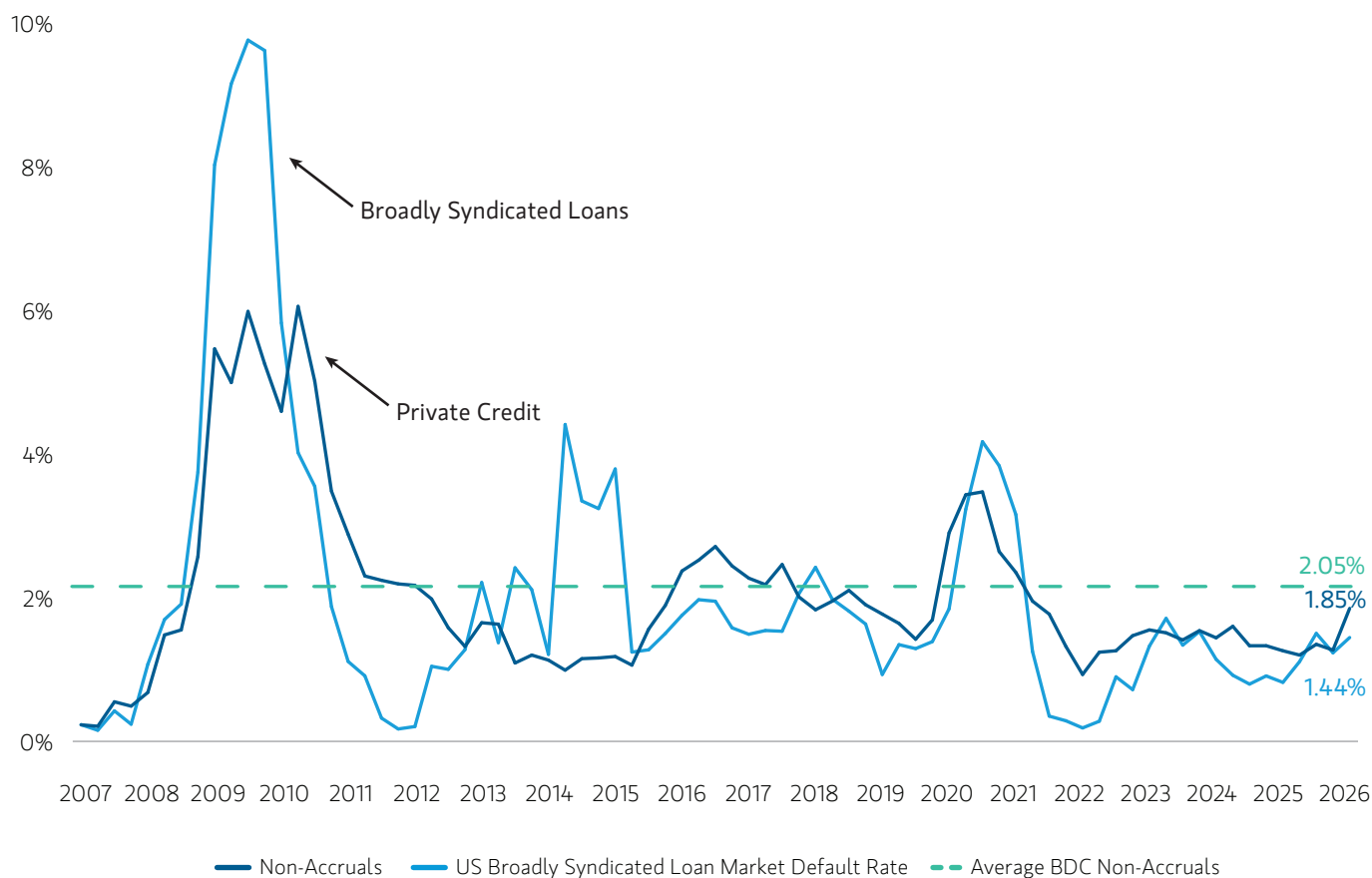
There is also an important self-correcting mechanism at work. As capital availability tightens, driven by BDC redemptions, lower base rates, reduced M&A activity in certain sectors such as software, and a broader reassessment of risk — new financings are likely to be structured with lower leverage, wider spreads and stronger

documentation. All else equal, this dynamic should support both higher forward returns and a rebuilding of the illiquidity premium.

The implication is not that concerns around BDCs should be dismissed, but rather that they should be properly contextualised. The key question is how much of the recent sell-off reflects underlying credit deterioration such as non-accruals, leverage and realised losses versus broader market sentiment and liquidity mechanics.

For Europe in particular, the relevance of the US BDC narrative is limited. The region’s more institutional funding base and lower exposure to semi-liquid structures suggest that headline developments in US BDCs are an imperfect proxy for the underlying health of the European private credit market.

DISPLAY 11
BDC Non-Accrual Rates (Default Rates) are below historical averages³⁵



Is Private Credit the Next Global Financial Crisis?



CONTEXTUALISING THE 2008 GLOBAL FINANCIAL CRISIS

The comparison is compelling as a headline, but much less convincing on closer examination. The GFC was driven by weak mortgage underwriting, complex securitisation and a highly leveraged, short-term-funded banking system. Investors were exposed to mortgage securities backed by subprime borrowers — loans with limited documentation and limited underwriting standards.

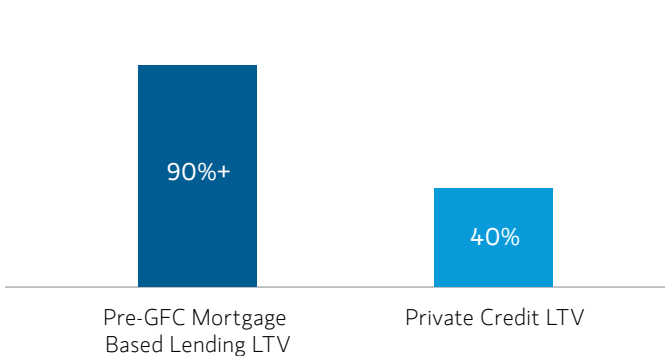
Lending quality deteriorated materially in the years leading up to the crisis. Between 2003 and 2006, the proportion of subprime mortgages combining low credit scores with

high loan-to-value ratios (>90%) increased from 7% to 15%.³⁶ These mortgages were subsequently pooled into mortgage-backed securities and further re-securitised into collateralised debt obligations (CDOs), with the market estimated at ~\$3Tn in 2007.³⁷

Combined with bank leverage of ~25-40x,³⁸ this created a highly fragile system. As underlying defaults began to rise, delinquency rates for subprime mortgages increased sharply from ~5.6% in 2005 to ~30% by 2008,³⁹ triggering a systemic crisis.

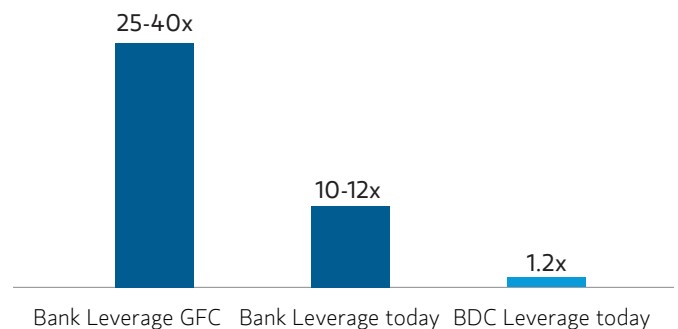
DISPLAY 12

Private Credit Loan-To-Value is 50 percentage points lower compared to pre-GFC Loan-To-Value of mortgage lending⁴⁰



DISPLAY 13

Bank leverage during GFC vs. today compared to BDC leverage⁴¹



Why private credit is structurally different

Private credit differs fundamentally in structure, underwriting and funding. It primarily consists of direct loans to middle-market companies in the real economy,

originated by non-bank lenders such as private debt funds and BDCs. These transactions are typically bilateral, with detailed, bottom-up due diligence and underwriting, and stronger legal downside protection.

Key differences relative to the GFC include:



More conservative leverage: Borrower LTVs in private credit are typically ~40%, compared to ~90% in pre-crisis subprime lending⁴²



Lower default rates: Private credit defaults peaked at ~6% in 2008 and are ~1.9% today,⁴³ versus ~30% for subprime mortgages at the height of the crisis⁴⁴



Significantly lower leverage: Private credit fund leverage is typically ~0-1x while bank leverage today is ~10-12x, compared to ~25-40x in 2008⁴⁵



Better asset-liability alignment:

- Banks are funded by short-term deposits but lend long-term, creating structural liquidity risk
- Private credit is predominantly funded by long-term institutional capital (e.g. pension funds, insurers, sovereign wealth funds), aligned with multi-year loan assets
- While BDCs have a more liquid structure, redemption limits (typically ~5% per quarter) constrain the speed of capital outflows, but do not eliminate redemption pressure

The link between banks and private credit

Banks do provide financing to private credit vehicles, but the scale remains limited. Banks' exposure is estimated at ~\$300Bn,⁴⁶ or ~1% of total regulated bank balance sheets,⁴⁷ materially lower than pre-GFC risk concentrations. By comparison, bank lending to other non-bank financial intermediaries (NBFIs) totals \$2.2Tn.

A 2025 Federal Reserve assessment highlights that:⁴⁸

- Banks' exposure to private credit is modest relative to other NBFIs
- Loans to private credit vehicles exhibit higher utilisation rates, stronger pricing and lower default rates than other NBFI exposures
- US banks are well capitalised and liquid, with capacity to absorb potential drawdowns
- Continued monitoring is warranted as the market grows, alongside improved transparency

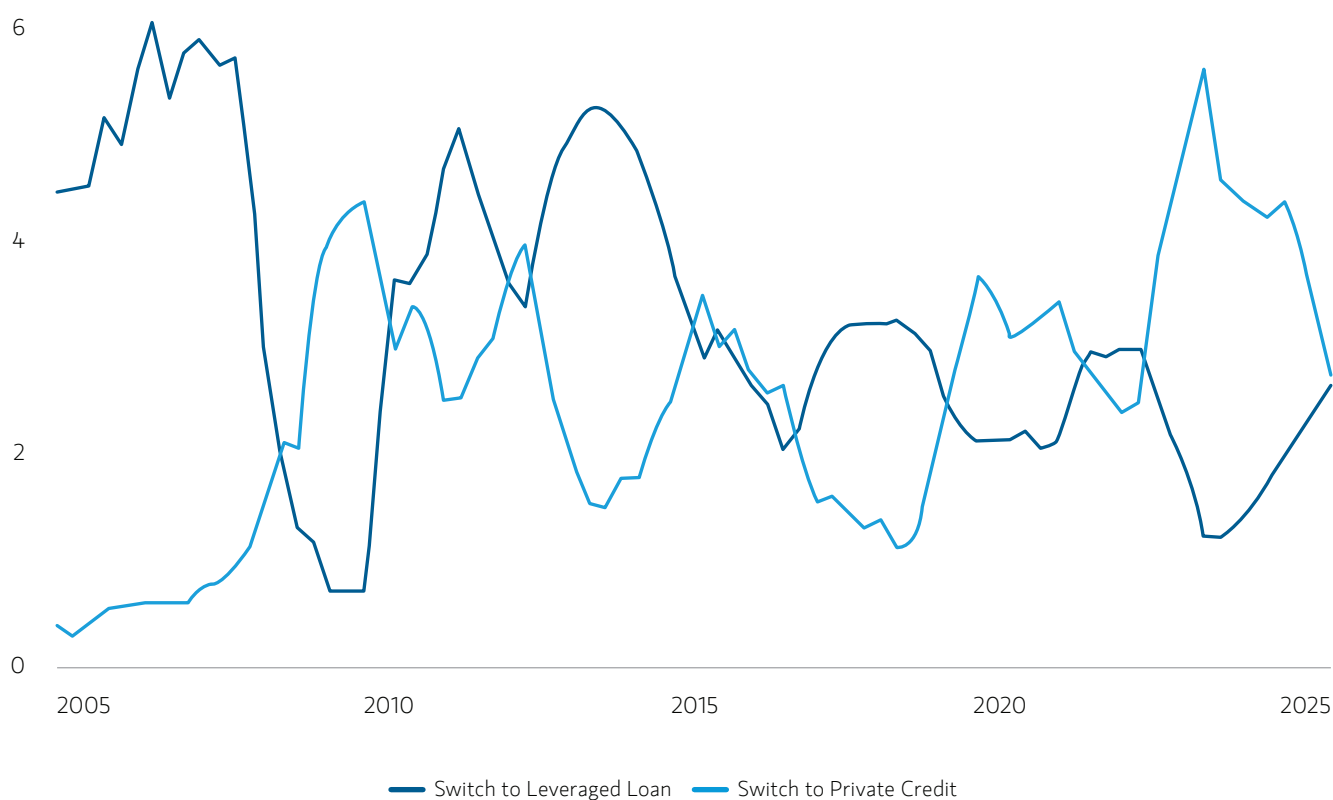
Private credit as a stabilising force

Empirical evidence suggests that private credit may dampen, rather than amplify, credit cycles. Academic research from Dartmouth College (Tuck School of Business) and the Frankfurt School of Finance and

Management concludes that contrary to the belief that private credit may amplify credit supply shocks, it in fact dampens the corporate credit cycle. This occurs as a result of firms switching to private credit when conditions in other credit markets tighten.

DISPLAY 14

Firms' switching frequency between private credit and leveraged loans⁴⁹



Conclusion

The comparison between private credit and the GFC is not supported by underlying fundamentals. We believe the GFC was driven by structurally weak underwriting, complex securitisation and excessive leverage within the banking system. In contrast, private credit today is characterised by disciplined underwriting, conservative leverage and better alignment between assets and liabilities.

Direct linkages between banks and private credit remain limited and are viewed by regulators as manageable. More broadly, private credit has the potential to play a stabilising role in the financial system by providing an alternative source of capital when traditional lending contracts.

Conclusion



Private Credit Is Not All The Same

Private credit is not a top-down, market-driven strategy. It is fundamentally a bottom-up, due diligence-led asset class, where managers underwrite individual businesses, capital structures, documentation and sponsors on a loan-by-loan basis. As a result, broad generalisations are often misleading.

The asset class spans a wide range of strategies including direct lending, mezzanine, opportunistic credit and venture debt, each with distinct return drivers and risk profiles. Even within direct lending, dispersion is significant across segments such as lower middle-market, middle-market and large-cap lending, as well as across geographies, sectors and sponsor types.

Manager dispersion is equally important. Differences in portfolio construction including first-lien exposure, use of PIK income, leverage levels, sector concentration and position sizing can materially impact outcomes. Underwriting discipline, documentation standards, portfolio monitoring and workout capabilities become increasingly important as credit conditions normalise.

The All-Weather Thesis Still Holds

The core foundations of private credit remain intact. Demand continues to outstrip supply, traditional banks remain constrained, public credit markets are subject to periodic volatility, and a meaningful illiquidity premium persists.

Recent criticisms do not fundamentally alter this conclusion. High-profile situations such as First Brands are better understood as category errors rather than representations of direct lending. Pressure in US BDCs appears more reflective of sentiment and vehicle structure than underlying credit deterioration. Comparisons to the GFC are not supported by structural or empirical evidence.

AI presents a more nuanced and longer-term consideration. While software valuations have reset and disruption risks are evolving, the impact on credit has so far been gradual and uneven. Equity cushions remain meaningful, defaults are low, and underwriting standards are adapting accordingly.

Selectivity Matters More Than Ever

Ultimately, private credit is not a homogeneous asset class. Outcomes will vary across strategies, managers and vintages, and the dispersion is likely to increase from here. For investors willing to focus on underlying detail and manager selection, the case remains clear: private credit continues to offer attractive, resilient returns, but selectivity is now more important than ever.

END NOTES

¹ Preqin: Total dry powder across US/European Direct Lending and Private Equity Buyout strategies. Data as of December 2025.

² Houlihan Lokey MidCapMonitor.

³ Bain Global Private Equity Report.

⁴ AFME, Pitchbook and Preqin.

⁵ Morgan Stanley Research.

⁶ US data sourced from Bain Global Private Equity Report 2025 for 2024 data. Data reflects the proportion of financing for middle-market buyouts provided by direct lenders, where 'middle-market' is defined as issuers with revenue less than \$500MM and total loan packages less than \$500MM. European market share for 2025 was derived from the Houlihan Lokey MidCapMonitor for Q4 2025. The market share for 2014 is based on the European Team's experience and knowledge of the private credit market but has not been independently validated.

⁷ US data sourced from Morgan Stanley Research. European data sourced from AFME, Pitchbook and Preqin.

⁸ KBRA Research Insights & Outlook, LCD.

⁹ The illiquidity premium was derived as the difference between Private Credit All-In Spreads and TLB All-In Spreads. Private Credit All-In Spreads are defined as spread + Original Issue Discount (OID) / 3 years as per KBRA Research Insights & Outlook reports for Europe and the US. TLB All-In Spreads were computed using the Q1-26 Quarterly European Leveraged Lending Review from LCD and the Q1-26 US Leveraged Loan Quarterly Trend Lines from LCD.

¹⁰ Return data as per Cliffwater Direct Lending Index (CDLI), Bloomberg High-Yield Bond Index, Morningstar LSTA US Leveraged Loan Index.

¹¹ Morgan Stanley Internal Research.

¹² iCapital Market Pulse: "Behind the Recent Private Credit Noise", published 17 October 2025.

¹³ Morgan Stanley Private Credit & Equity Research Outlook 2026.

¹⁴ KBRA (March 2026); AFME Q4 2025 report; Octus; S&P.

¹⁵ Morgan Stanley Research.

¹⁶ EBITDA multiples calculated on an all implied basis assuming an average 30% EBITDA margin.

¹⁷ Morgan Stanley Internal Research. N=187.

¹⁸ As of 13 March 2026.

¹⁹ Pitchbook LCD, Morgan Stanley Research.

²⁰ Based on data as of Q4 2025 from Lincoln, Houlihan Lokey Private Debt Monitor.

²¹ KBRA Research.

²² Morgan Stanley Research.

²³ MIT NANDA – State of AI in Business 2025.

²⁴ Morgan Stanley Private Credit & Equity Research Outlook 2026.

²⁵ SICAV (Société d'Investissement à Capital Variable) is a European open-ended investment company with variable share capital, most commonly domiciled in Luxembourg.

²⁶ ELTIF (European Long-Term Investment Fund) is a regulated investment vehicle designed to channel capital into long-term illiquid assets including private credit.

²⁷ Morgan Stanley Research.

²⁸ Cliffwater, bdc.com, as of 15 April 2026.

²⁹ KBRA, New York Fed.

³⁰ Spread reflects Margin + (OID / 3).

³¹ Yield reflects SOFR base rate + Margin + (OID / 3).

³² Cliffwater BDC Index as of 29 April 2026 (bdc.com).

³³ Federal Reserve Bank of St. Louis.

³⁴ KBRA Research Insights & Outlook, LCD.

³⁵ CDLI non-accrual rates as per Cliffwater; US LLI default rates as per Pitchbook LCD.

³⁶ Federal Reserve Board (2008): "The Rise in Mortgage Defaults".

³⁷ BIS Working Paper (2008): "The financial turmoil of 2007: A preliminary assessment and some policy considerations".

³⁸ Fed Financial Stability Report November 2025.

³⁹ Federal Reserve Board (2008): "The Rise in Mortgage Defaults" and "The Past, Present and Future of Subprime Mortgages".

⁴⁰ The pre-GFC LTV figure refers to the predominance of >90% LTV loans for home purchases in the US in 2007. As per "Government Housing Policies in the Lead-up to the Financial Crisis: A Forensic Study" by EJ Pinto (2010). The 40% LTV as of Q4-25 was derived from Leverage multiples for >€10MM EBITDA deals in the European Market as per Lincoln International.

⁴¹ Bank leverage as per Fed Financial Stability Report November 2025, BDC leverage as per BDCinvestor.com.

⁴² "Government Housing Policies in the Lead-up to the Financial Crisis: A Forensic Study" by EJ Pinto (2010) and "Private Market Perspectives: European Edition" Q4-25, Lincoln International.

⁴³ Cliffwater, CDLI Non-Accrual Rates.

⁴⁴ Federal Reserve Board (2008): "The Past, Present and Future of Subprime Mortgages".

⁴⁵ Bank leverage as per Fed Financial Stability Report November 2025, BDC leverage as per BDCinvestor.com.

⁴⁶ Moody's Special Report published 21 October 2025 on moodys.com.

⁴⁷ Based on \$25.2Tn US bank balance sheet assets as of 1 April 2026 as per Fed.

⁴⁸ Federal Reserve Board Note (2025): "Bank Lending to Private Credit: Size, Characteristics, and Financial Stability Implications".

⁴⁹ Chart is based on the academic paper "The Cyclical of Direct Lending", published in March 2026 by Hinzen, Rintamäki, Mondini, Steffen.

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