Proskauer» The Private Credit Group

TR€ND$ IN PRIV£TE CREDIT

The Industry Speaks

Contents

Executive Summary

Today, the sentiment in the global private credit market — indeed, seemingly in the economy as a whole — could best be illustrated by one of those before-and-after photo advertisements for the latest health fad.

Throughout much of 2024, lenders were slogging through a slow market with little dealmaking to be had. In fact, the deal pace for the majority of lenders was only two deals a month, a clear indication of how slow it was at times.

In the later part of the year, however, that market slowly began coming back to life, shaking off the doldrums and lifting spirits, leading lenders to voice strong signs of optimism for the coming year. Factors like a predicted increase in check size and a penchant for deals larger than $250 million showed that many lenders were expecting 2025 and beyond to be a robust time for high-quality lending activity.

Indeed, 91% of lenders that were surveyed said they expect more deal activity in the coming year than they saw in the last 12 months — a record high since we started asking that question. Supporting this positive sentiment is a hefty 18% increase in total assets under management in the private credit market and an apparent push by private equity firms to monetize their stakes after a period of slow dealmaking, both of which could drive deal flow in the coming year.

Not insignificantly, fears of inflation and recession — so prevalent in our surveys of the past two years — have not only receded, but seem to be, for the foreseeable future, at least, banished.

The total amount of capital deployed in credit strategies by lenders over the past 12 months was approximately $206 billion, down from the $258.9 billion deployed a year ago and markedly down from the $338.5 billion deployed in 2022-23. However, total assets under management in private credit strategies grew by a stout 18% to $4.1 trillion compared to last year,[1] despite some shifts in deployment, fundraising and targeted deal size.

Among those shifts was a notable move to smaller deployment levels of capital this year. In fact, almost half of lenders surveyed (49%) said they deployed less than $1 billion of capital into credit strategies in the past 12 months, a slight uptick compared to the previous year, when 47% said this.

Also, the private debt strategies employed by lenders saw a shift as well, and while Direct lending continues to be the top private debt strategy in all regions by a wide margin, Special situations/Credit opportunities leapfrogged over Mezzanine lending into a secure second place, climbing by more than 10 percentage points across regions. This year, almost half of lenders (49%) say they are pursuing Special situations and Credit opportunities as a strategy, cementing this option into a secure position in lenders' arsenals.

The Proskauer Private Credit Survey 2025, which annually gathers responses from private credit firms in the United States, the United Kingdom, and Mainland Europe, showed that overall, almost all respondents are extremely optimistic about the coming year.

The situation calls to mind 2021, which showed a surge of pent-up lender optimism and activity expectations that the pandemic had derailed. So too, 2025 is building on the cautious optimism seen in our previous survey — optimism that didn't seem to pan out throughout much of 2024, given growing recession fears. In fact, the heightened levels of optimism that lenders are seeing for 2025 is now running far ahead of what we saw even in 2021.

1. To calculate a total figure for AUM among the respondent base, we identify the most senior respondent per company (so we have one response per company) and take the lowest AUM value in the range. For example, if they selected $250m-$499m, then we take $250m as the value for that response. If they chose "Less than $250m," take 0 as the value. Adding them all together then gives us the collective AUM for respondents to the survey.

As in previous years' surveys, we look into the most critical drivers of deal flow in the private credit market, as well as what major challenges lenders are facing today. The report also cites some of the hot topics lenders are talking about for 2025, such as asset quality, portfolio health, and acquisitions and expansion plans. We also explore the key five-year trends that may impact dealmaking and the private credit market in 2025 and beyond. Further, this report offers valuable insight into the minds of private lenders in areas such as deal volume, pricing, borrower EBITDA, deal covenants and, perhaps more importantly, why they think borrowers chose private credit lending options in the first place.

And as we consider that most major economic indicators are pointing upward for the year ahead, our survey of lenders underscore that while many felt a bit more cautious about 2024, they are looking ahead to the coming year with much greater enthusiasm for more dealmaking and more robust lending opportunities.

Many lenders saw slow market in 2024, but expect big things in 2025

- A large majority (71%) of firms made less than 50 new credit investments last year, and 50% made 25 or less. That deal pace — roughly two deals a month — pointed to how slow the market had been for new deals.
- Almost half of respondents (49%) said their firms deployed less than $1 billion of capital into credit strategies this year, which continues a multi-year trend in which the percentage of firms deploying less than $1 billion of capital has grown, while the portion deploying between $1 billion and $5 billion of capital has shrunk. Indeed, this year, just about one-third (35%) of respondents said their firms deployed between $1 billion and $5 billion of capital, compared to almost half of all respondents' firms just two years ago.
- More than half of US respondents said their firms are willing to underwrite deals worth $250 million or more, and 49% of all respondents said the check size their firm is willing to write has increased in the past 12 months.
- The US, UK, and Canada are the top three jurisdictions to foresee the biggest growth opportunities, according to lenders.
- A large majority of respondents said their firms are raising debt funds and have further plans to fundraise. Also, 82% said they have fund-level leverage facilities, and 78% of them employ less than 1.5-times leverage.

Challenges for the year ahead

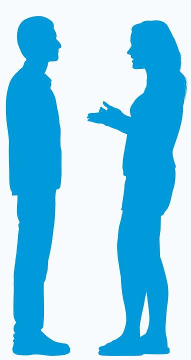
- The largest portion of respondents (43%) cited *Lack of alignment on purchase price* as their largest concern over the next 12 months.
- Not surprisingly, *Inflation/macroeconomic risks* fell as a top-ranked challenge, with just 8% ranking it as their biggest concern this year. Instead, *Competition* swelled as a major concern, jumping over *Inflation/macroeconomic risks* and *Lack of quality assets in the market* to become the second-most cited challenge cited by lenders today.

Demographics of Respondents

The *Proskauer Private Credit Survey 2025* gathered responses from 152 private credit firms, short of last year's total but more in line with the 2023 report. Of this year's respondents, 81% were in the United States and 19% were in the United Kingdom and Europe. Further, 58% of respondents were either managing directors or partners at their firms, and 73% of respondents were senior-level executives. (See full breakdown in the charts below.)

In terms of assets under management (AUM), 55% of this year's survey respondents came from firms with $10 billion or more in AUM, and another 32% came from firms with between $1 billion and $9.99 billion in AUM. The remaining 13% came from firms with less than $1 billion in AUM.

Managing Director	**36%**
Partner	**22%**
Vice President	**11%**
Director	**9%**
Principal	**7%**
Executive Director	**6%**
Senior Associate	**3%**
Other	**2%**
Internal Counsel	**2%**
Associate	**2%**



152 Respondents in total

81%

United States

19%

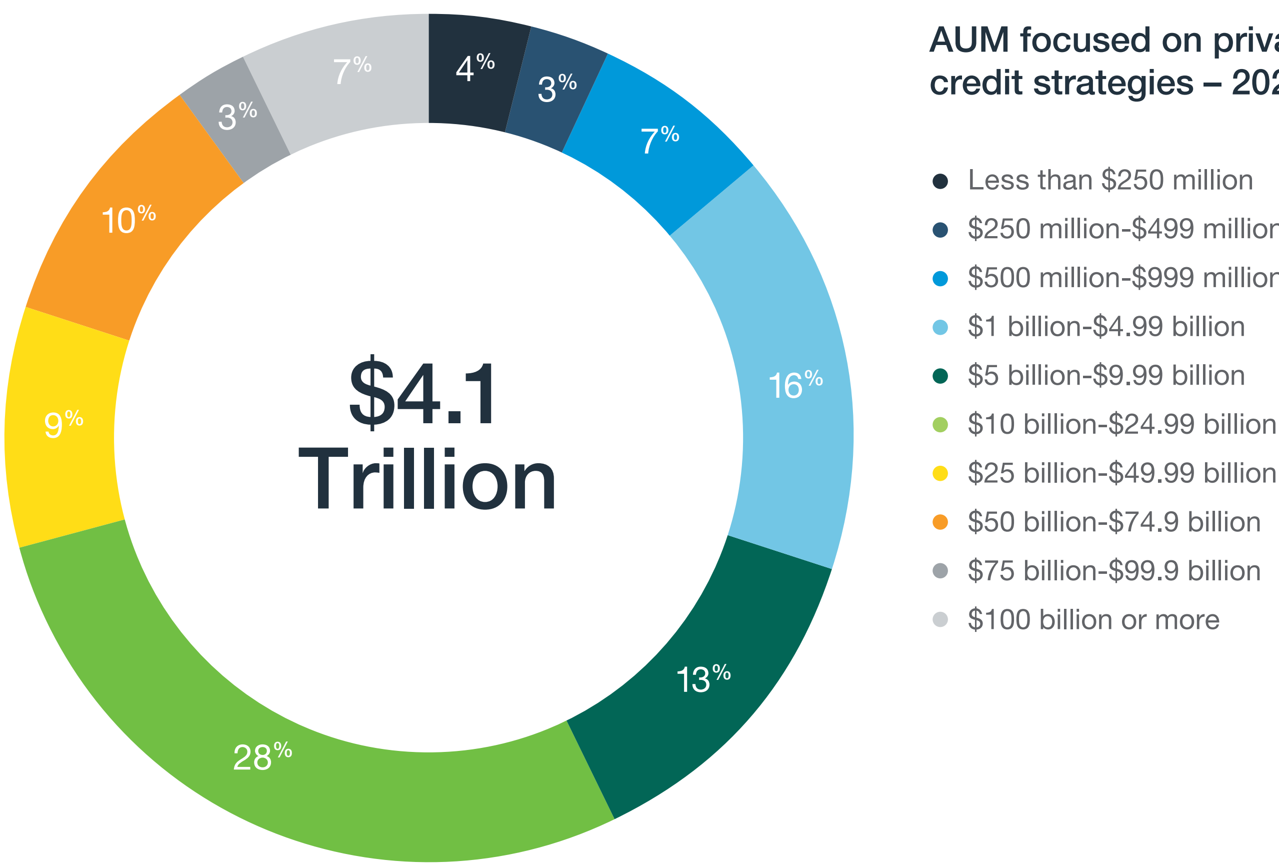
United Kingdom & Europe

Demographics of Respondents

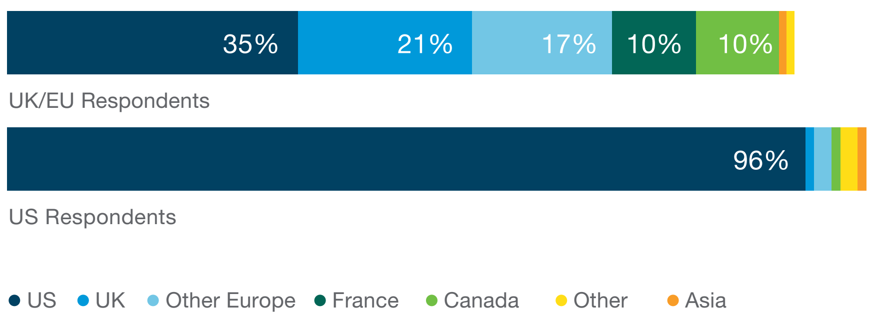
The total amount of capital deployed in credit strategies over the past 12 months by respondents was approximately $206 billion, down from $258.9 billion a year ago. However, total assets under management swelled to $4.1 trillion, an 18% increase from last year.

Total amount of capital by respondents into private credit strategies over the past 12 months was approximately $206 billion

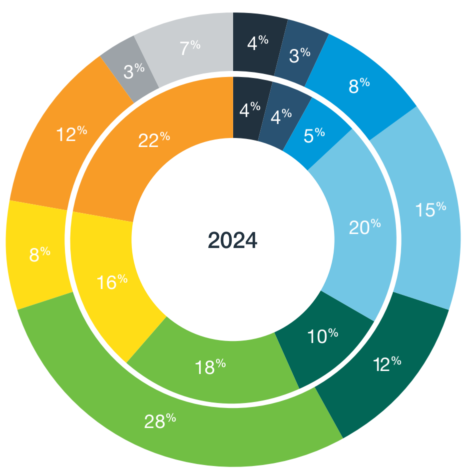
AUM focused on private credit strategies – 2025



Headquarters 2025

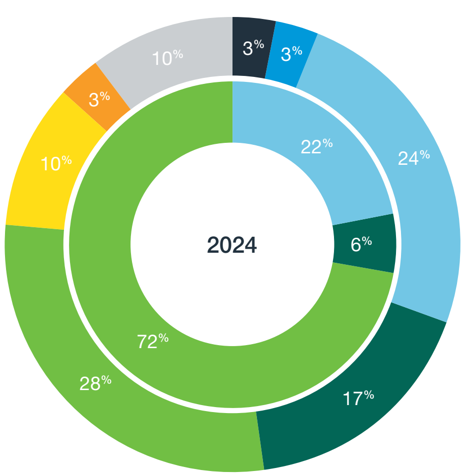


87% of respondents manage $1 billion in assets or more.



US 2025 – $3,538,500,000,000

- Less than $250 million
- $250 million-$499 million
- $500 million-$999 million
- $1 billion-$4.99 billion
- $5 billion-$9.99 billion
- $10 billion-$24.99 billion
- $25 billion-$49.99 billion
- $50 billion-$74.9 billion
- $75 billion-$99.9 billion
- $100 billion or more



UK/EU 2025 – €537,600,000,000

- Less than €250 million
- €250 million-€499 million
- €500 million-€999 million
- €1 billion-€4.99 billion
- €5 billion-€9.99 billion
- €10 billion-€24.99 billion
- €25 billion-€49.9 billion
- €50 billion-€74.9 billion
- €75 billion-€99.9 billion
- €100 billion or more

Current State of Play

The survey results that underpin *The Proskauer Private Credit Survey 2025* are strongly in line with other forecasts and studies showing that, while private credit may have experienced some trepidation in 2024, expectations couldn't be higher for 2025 and beyond.

Indeed, much of what market forecasters are seeing for the coming year is echoed in the survey responses we've gathered from lenders in the US and the UK/EU.

For example, RJ Joshua, lead analyst and head of private debt at Preqin, noted in a Q3 quarterly update that the private debt market was seeing a concentration of funds, in that larger funds were getting larger even as the overall number of funds appeared to be dropping. "Concentration of funds has been a theme within private debt for some time… and it continued to be a theme this quarter," Joshua wrote, adding that average fund size has increased to $1.4 billion in Q3, hitting a new five-year high.[2]

Overview of key economic and market statistics:

- The US Federal Reserve has cut 75 basis points off its federal fund rate since August 2024. The Federal Funds Effective Rate was 4.64% for November 2024.
- Bank of England base rate is 4.75%, 50 basis points less than where we were last year at this time.
- 10-Year Treasury Rate is at 4.22%, down 66 basis points from the close of the previous year.
- S&P 500 Index is up 27% through early December 2024. This is more than twice the rate of growth that we saw in 2023.
- S&P Global Ratings expects the corporate default rate to drop to 3.25% by September 2025, from 4.4% in late 2024.
- The yield on the 10-Year Government Bond is 4.17%.
- Preqin predicts that AUM in the private credit market could increase by two-thirds by 2028.

What forecasters are saying:

In Goldman Sachs & Co.'s *Macro Outlook 2025: Tailwinds (Probably) Trump Tariffs*, firm analysts said it expects the US Federal Reserve to continue to cut interest rates, possibly to the range of 3.25% to 3.5% throughout the early part of 2025. The report also predicted that US core inflation would slow, but GDP growth in Europe may also be hindered by "ongoing structural headwinds and a hit from trade policy uncertainty."

2. RJ Joshua, *Private Debt: Q3 2024: Preqin Quarterly Update;* Preqin, p. 5.

Indeed, worries over the incoming Trump Administration's approach to tariffs, taxes and trade were a theme of the Goldman report. "We expect the second Trump Administration to bring higher China and auto tariffs, much lower immigration, some fresh tax cuts and regulatory easing," the report noted, adding that because of this, Goldman Sachs expects "the US economy should grow 2.5% in 2025, outperforming consensus expectations." [3]

Additionally, BlackRock's *Global Credit Outlook* for the fourth quarter of 2024 described a growing "mix shift" between the syndicated and private lending markets that have expanded greatly over the past decade. Noting that private lending was historically used for companies' very small financing needs, "this asset class is no longer reserved for niche pockets of the market," the BlackRock report says.

"In recent years (as the size of the asset class has grown) private debt lenders have funded larger deals, leading to more competition with the traditional (syndicated) leveraged finance markets." [4]

Finally, the S&P Global Ratings' *Global Credit Outlook 2025*, aptly subtitled *Promise And Peril,* offers a nuanced view, suggesting that the US economy may settle into a soft landing and credit conditions are likely to remain "fairly favorable" to North American borrowers. [5]

However, S&P Global Ratings does strike a note of caution, citing the potential of higher tariffs to reignite inflation and intensifying geopolitical tensions to weigh down market sentiment in the coming year.

Finally, in an Investment Strategy note in August, Gilles Dellaert, Global Head of Blackstone Credit and Insurance, noted what he called a "powerful shift" in the private credit market as lenders were partnering with banks to finance real economy assets. "This long-term secular trend has helped private credit markets expand rapidly, but we believe that we're still in its early innings. In our view, there's a $25 trillion-plus opportunity ahead that can continue to drive tremendous growth," Dellaert wrote. [6]

3. See *Macro Outlook 2025: Tailwinds (Probably) Trump Tariffs*; Goldman Sachs & Co. (November 14, 2024).
4. *Global Credit Outlook: 4Q 2024: Focus on growth*; BlackRock (September 2024), p. 17.
5. See *Global Credit Outlook 2025: Promise And Peril;* S&P Global Ratings (December 4, 2024), p. 50.
6. Gilles Dellaert, *Private Credit: From Mid-Market to Real Economy Financier;* Blackstone Credit and Insurance (August 8, 2024).

Detailed Results

What our survey respondents are saying

Respondents also shared their predictions for the private credit market and the overall global economic outlook, underscoring again that lenders are much more positive in their outlook for the coming year, with inflation fears generally receding and visions of increased deal activity taking center stage.

For example, deal activity is expected to be positive on balance, with a +87-net-percentage favorability that shows lenders expect deal activity [7] to be more active, which itself is greater than the +70-net-percentage favorability in our previous survey. Interest rates was cited by survey respondents as the top factor behind increased deal activity.

Among challenges facing the private credit market, the lack of alignment on purchase price between buyers and sellers was ranked as the biggest challenge for dealmakers in the US, but lack of quality assets in the market was cited as the biggest challenge by UK/EU respondents. Among the greatest risks that lenders feel they are facing is the allowance of add-backs to EBITDA and collateral leakage.

Almost all US lenders said their firms are considering investing in the US, and almost all UK/EU lenders said their firms were considering investing in Europe. Interestingly, consideration to invest in the Middle East is increasing. Further, the US, UK and Canada are the top three jurisdictions where lenders see the biggest growth opportunities, whereas the UK and Europe are the top jurisdictions for UK/EU respondents.

Lenders are also seeing a slight increase in expectations for pricing compared to last year, but they also predict less defaults than in the previous 12 months. Currently, a majority of respondents said that less than 2.5% of their portfolio is in default, but the portion of lenders saying that between 2.5% and 4.9% of their portfolio is in default increased across the board in our latest survey. Also, approximately two-thirds of lenders said they have less than 1% of their loan portfolio on non-accrual.

Not surprisingly, and similar to past surveys, a large majority of lenders said they are raising debt funds and have future plans to fundraise. Further, 82% said they have fund-level leverage facilities, and 78% of them said they employ less than 1.5-times leverage.

Indeed, as much of the survey data shows, lenders were beginning to more fully feel the confidence that they just hinted at in last year's survey. One clear indication of that is that 91% of respondents said they expect to see deal activity increase in the market over the next 12 months — an 11-percentage point leap from our last survey and a clear indication that expectations for the next 12 months are pretty high.

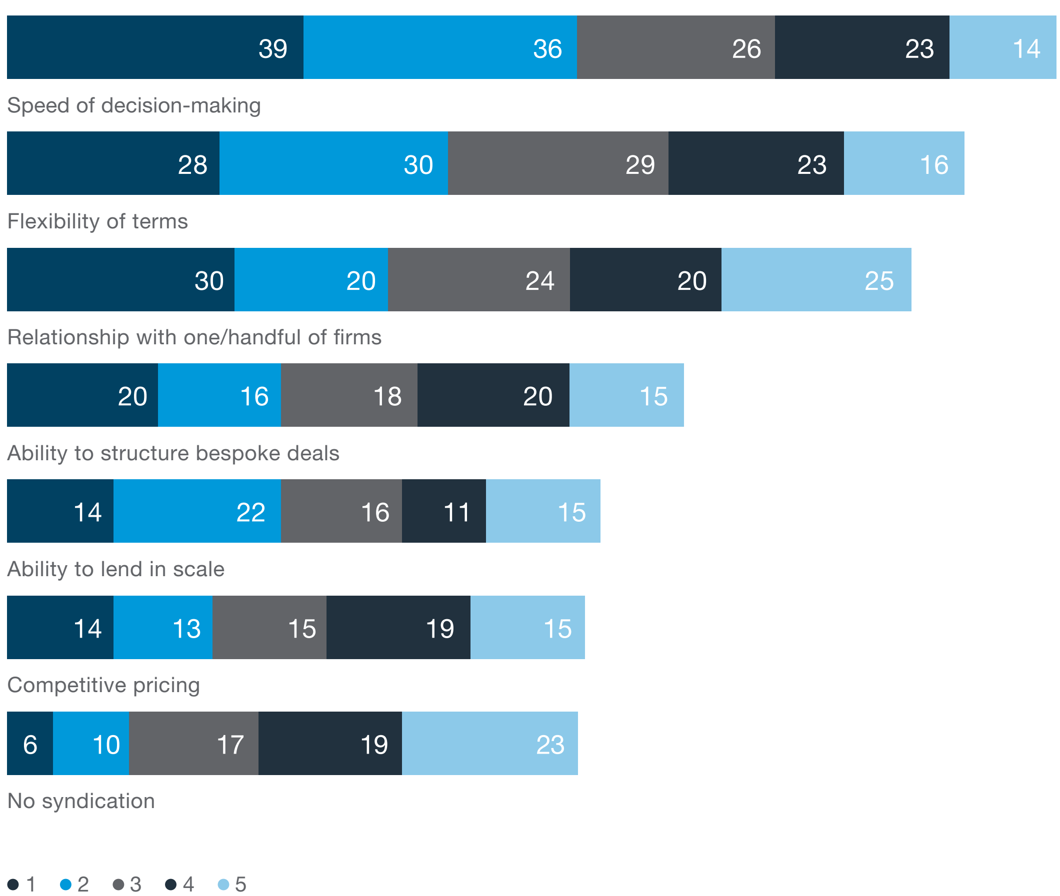
7. The *net percentage favorability score* is determined by taking the percentage of respondents saying they expect deal activity to increase over the coming 12 months and subtracting the percentage saying they expect deal activity to decrease. For example, this year 91% said they expect an increase, and just 4% said they expect a decrease, resulting in a +87-net-percentage favorability.

Lenders' Insight

Respondents gave various reasons as to why they think their borrowers value private credit lending, offering insight into what lenders see when they look at the borrowers, the market and the terms of the deals they are considering. Respondents were asked to select up to five reasons why they believe borrowers value private credit and rank them in order of importance. Not all respondents chose five reasons, but most selected at least three.

Similar to our past two surveys, *Speed of decision-making* was most often placed in the top three and was most often listed first. Also similar to past years, *Competitive pricing* and *No syndication* were the reasons that lenders most often left off their lists completely, indicating that they felt borrowers placed little to no importance on these issues.

Why do borrowers value private credit?



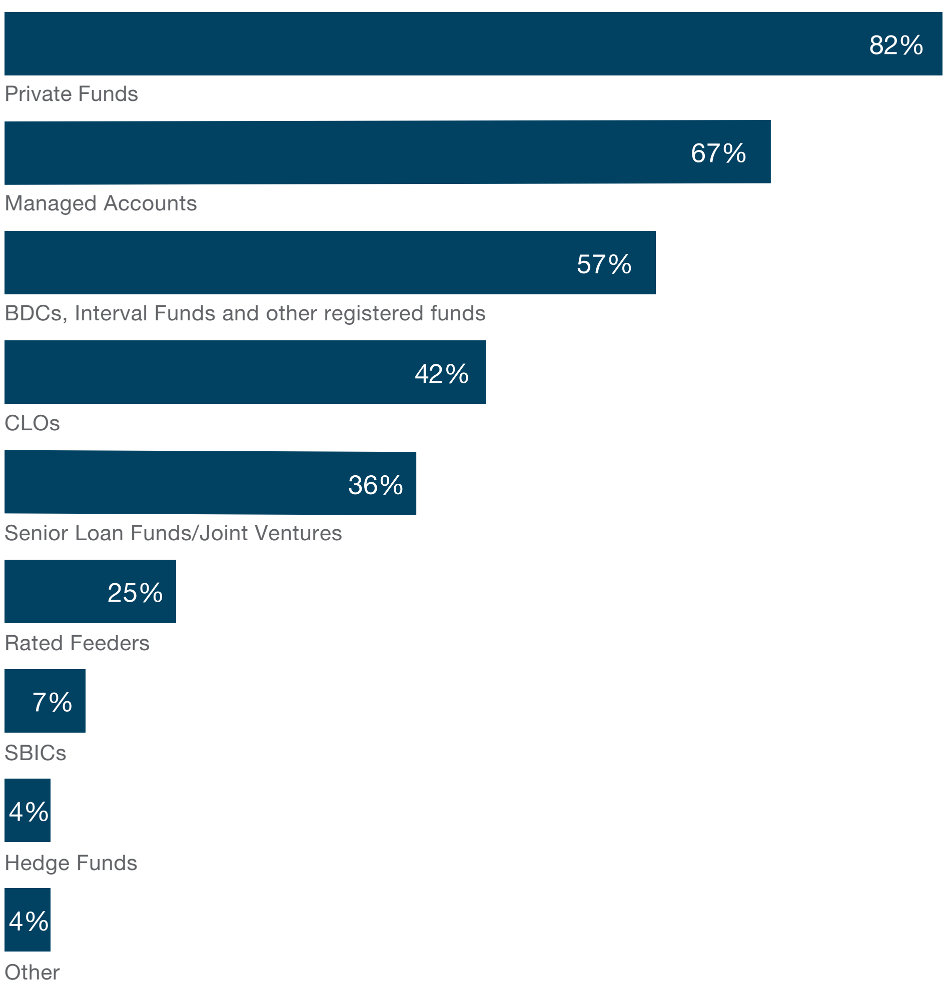
Investment Conditions and Considerations

Lending Vehicles

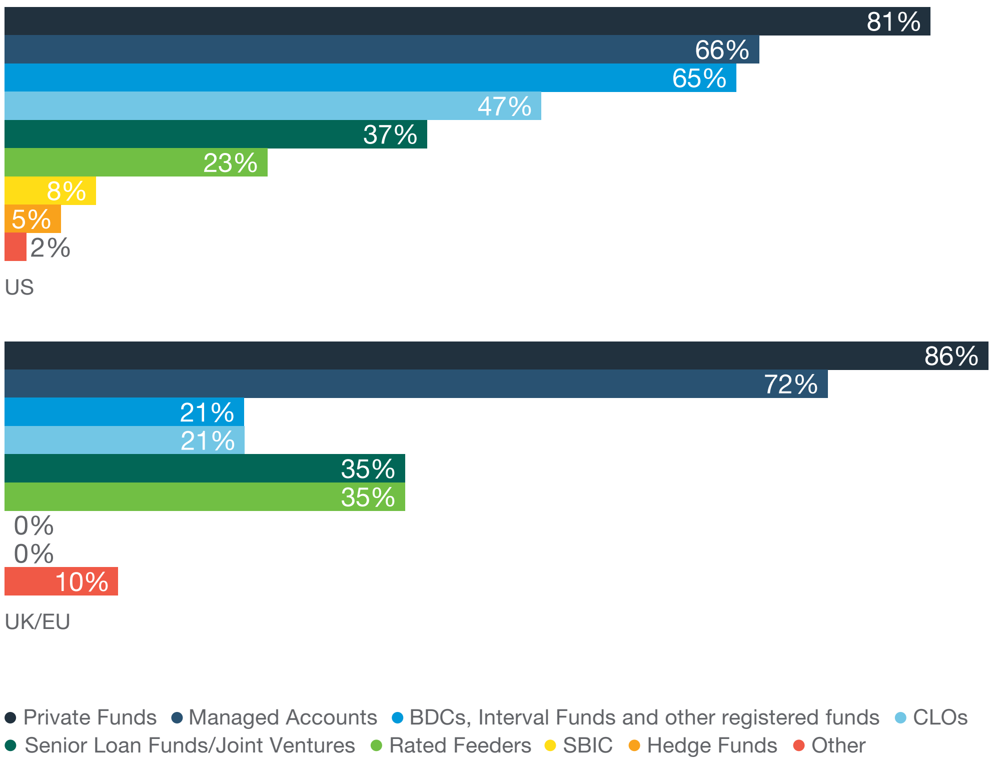
Although a large majority of respondents — 81% of US respondents and 86% of UK/EU respondents — said they use private funds as their preferred lending vehicle, that percentage has ticked down slightly every year since 2021, when 91% of US respondents and 97% of UK respondents said private funds were their lending vehicle of choice.

Overall, the choice of lending vehicles seemed to be greatly diversifying, especially among lenders with higher AUM.

What vehicles do you utilize for your lending activities?



What vehicles do you utilize for your lending activities?



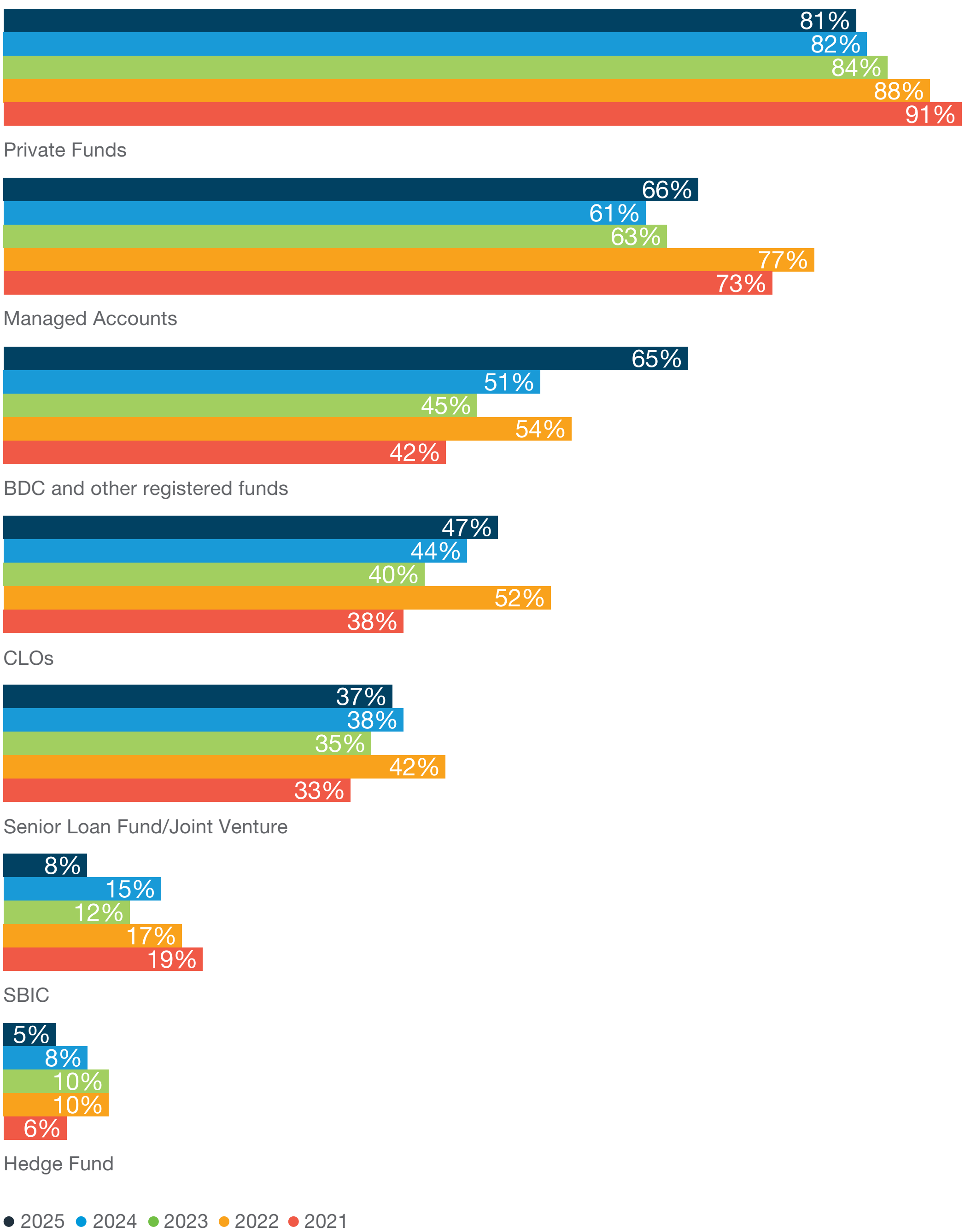
Again, in a continuation of the trend of last year, other lending vehicles — managed accounts, collateralized loan obligations (CLOs) and business development companies and other registered funds — all saw their use pick up in the US market, while other lending vehicles declined in use. In the UK/EU, the opposite seemed to be true, as lending vehicles such as small business investment companies (SBICs) and senior loan funds gained most in use, while others declined.

BDCs, interval funds and other registered funds experienced the largest year-over-year growth in the United States with 65% of respondents as compared to 51% in 2024.

Lending Vehicles

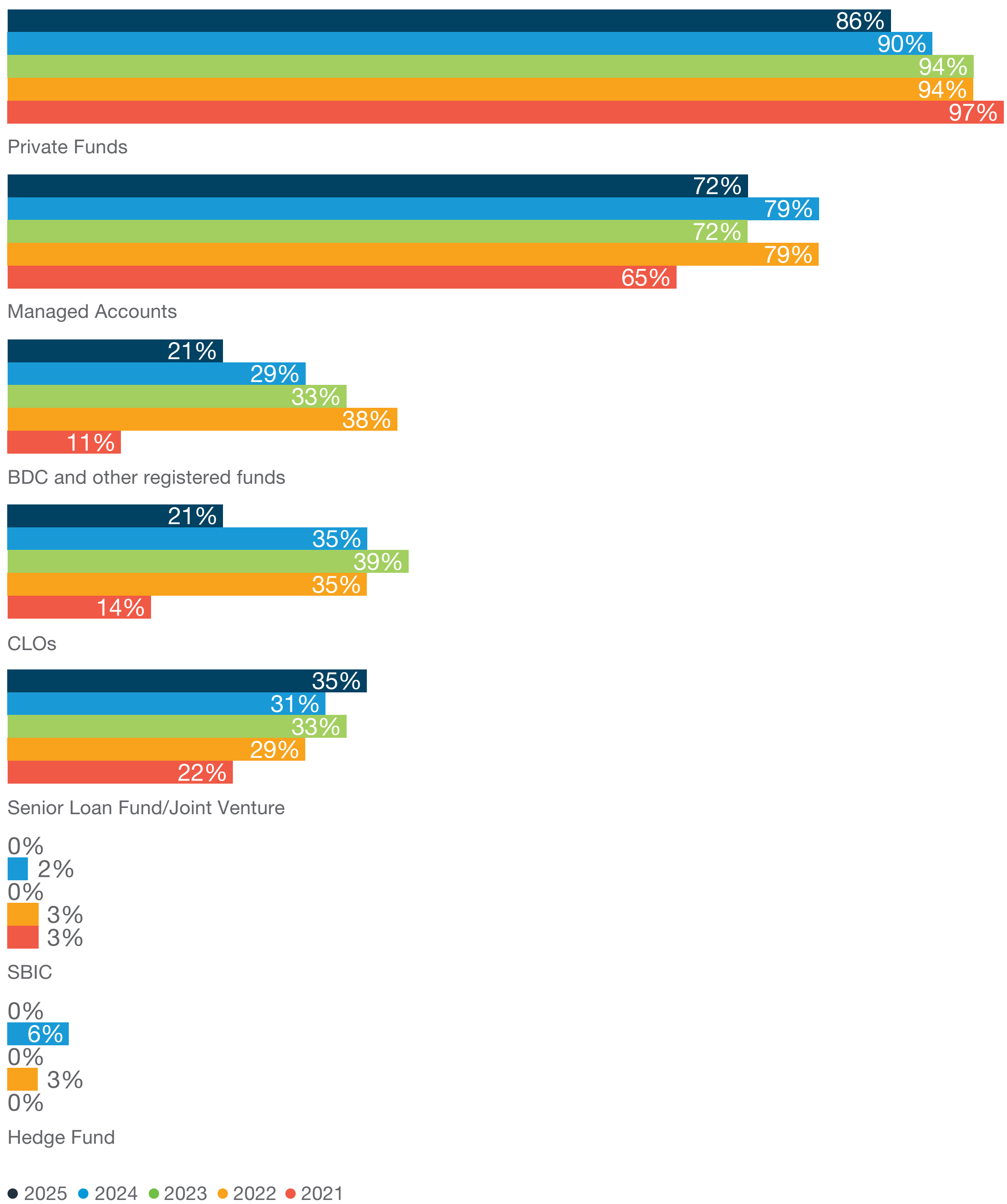
What vehicles do you utilize for your lending activities?

US 2025/2024/2023/2022/2021



What vehicles do you utilize for your lending activities?

UK/EU 2025/2024/2023/2022/2021

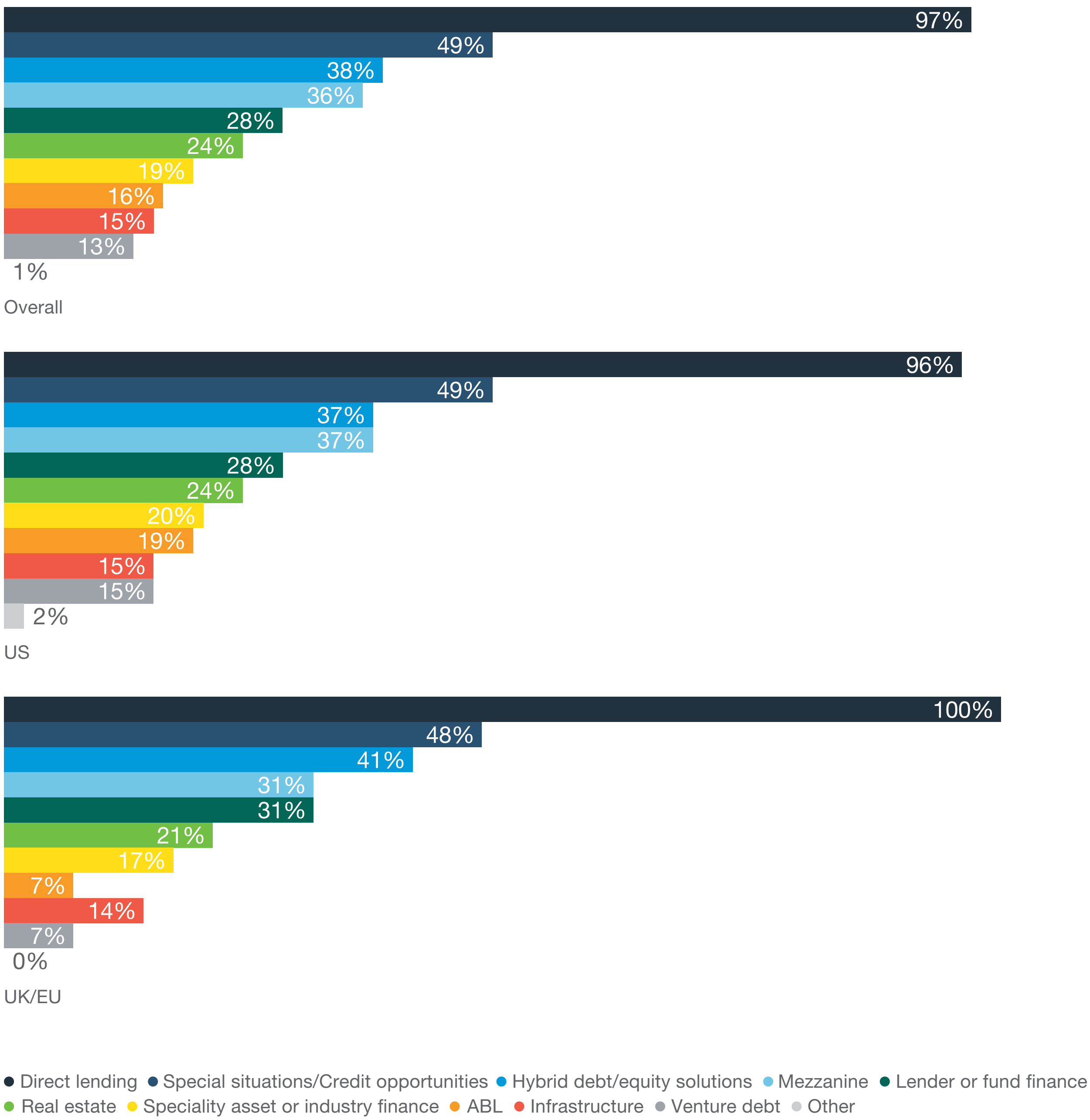


ABL, specialty asset as well as venture debt notably less common in UK/EU

Private Debt Strategies

Not surprisingly, Direct lending continues to be the top private debt strategy in all regions by a wide margin, and again is even slightly higher in the UK/EU market. More interesting, however, is the ascent of *Special situations/Credit opportunities* as a strategy, being used by almost half of all lenders and making it a strong second-choice private debt strategy that's being avidly pursued by lenders.

What private debt strategies does your firm pursue?

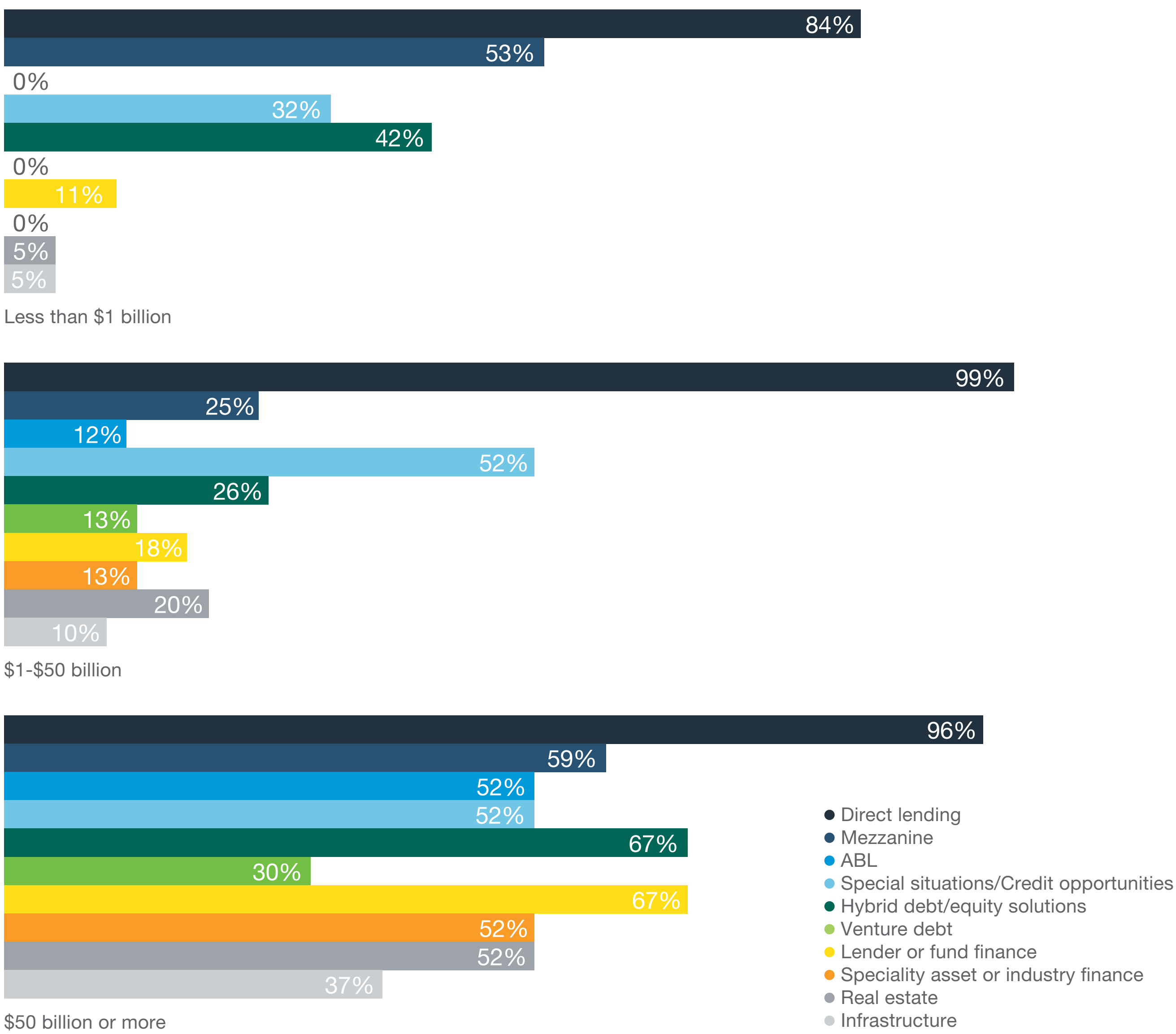


When broken out by AUM in the US market, we see that ascent again with those firms with between $1 billion and $50 billion AUM, as Direct lending and Special situations/Credit opportunities are the only two private debt strategies used by more than half of the lenders in that category. Indeed, the sharp drop-off in the pursuit of other strategies is notable and cements Special situations/Credit opportunities as a solid strategy option for many large US lenders.

Among those US firms with $50 billion of more of AUM, those private debt strategies cited were widely dispersed, with just two of the nine strategies being cited by less than half of US lenders and two others, Hybrid debt/equity solutions and Lender or fund finance being cited as a preferred strategy by more than two-thirds of US lenders.

What private debt strategies does your firm pursue?

US by AUM

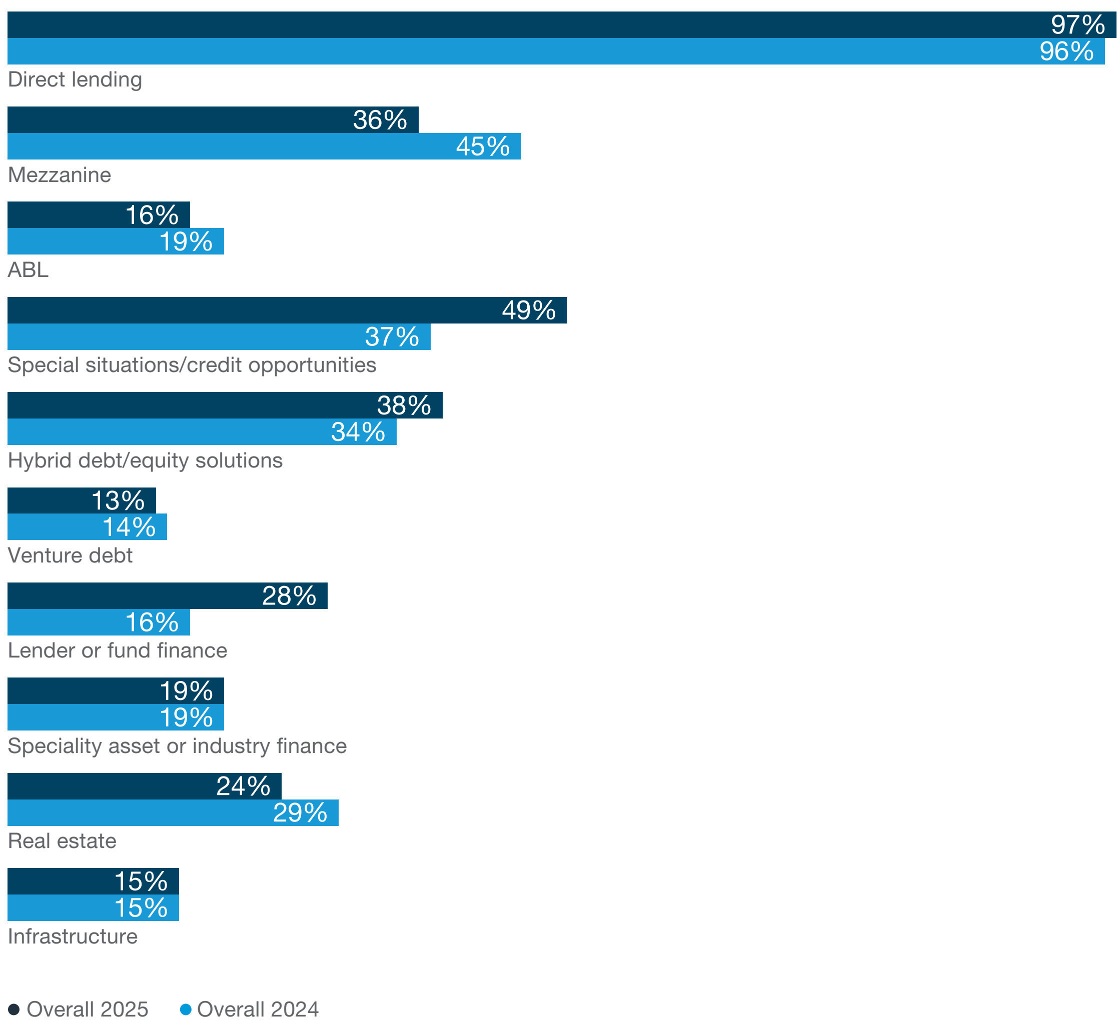


Results are in line with last year, showing no major changes except for an increase in respondents choosing Special situations and Lender or fund finance.

And compared to last year, lenders again showed a growing affinity for choosing *Lender or fund finance and Special situations/Credit opportunities*, both of which were chosen more often this year. Interestingly, there was a significant decline in Mezzanine as a chosen strategy, with 36% of lenders citing that, compared to 45% last year.

What private debt strategies does your firm pursue?

2024 vs 2025

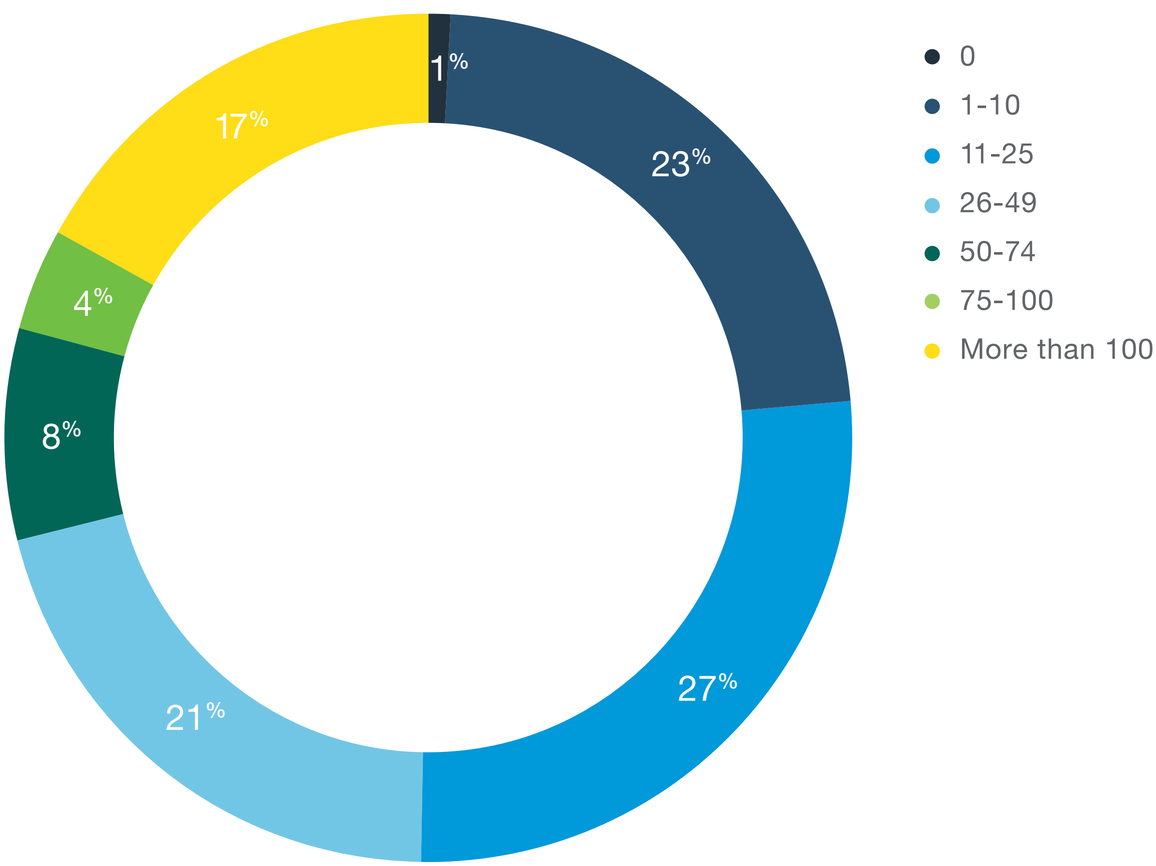


Investment Conditions and Considerations

New Credit Investment

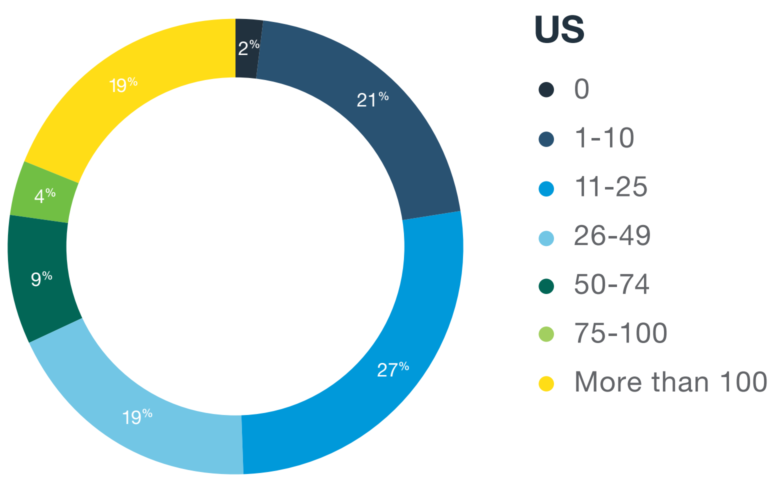
Overall, 71% of our survey respondents said their firm made less than 50 new credit investments last year. And while the portion stayed roughly the same compared to our previous survey, both marks are higher than in the 2022-23 survey, in which 66% of respondents said that. Again, this points to more lenders making fewer deals compared to past years.

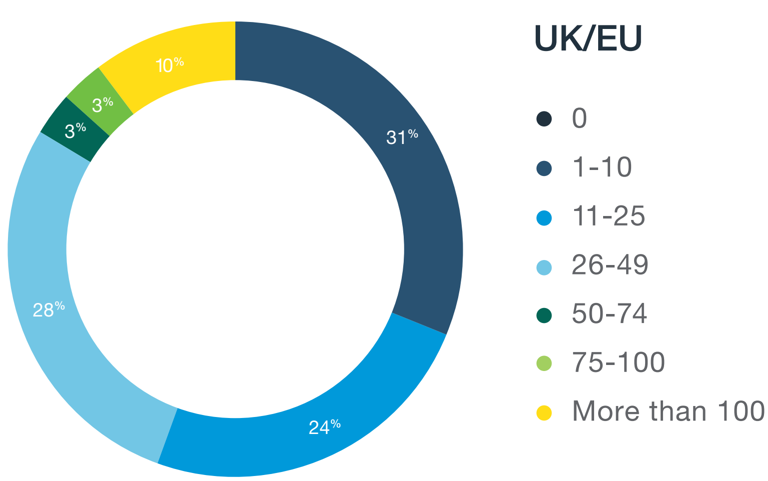
How many new credit investments did your firm make last year?



Breaking out the numbers regionally, in the US, almost half of lenders made 25 or fewer new credit investments last year, and in the UK/EU market it was more than half. This level of deal flow — roughly just two investments per month — points to a dramatically slow market for deals. Further, both of these percentages continued their downward trek of the past several years, indicating a quickening in the slowdown of new credit investments.

How many new credit investments did your firm make last year?





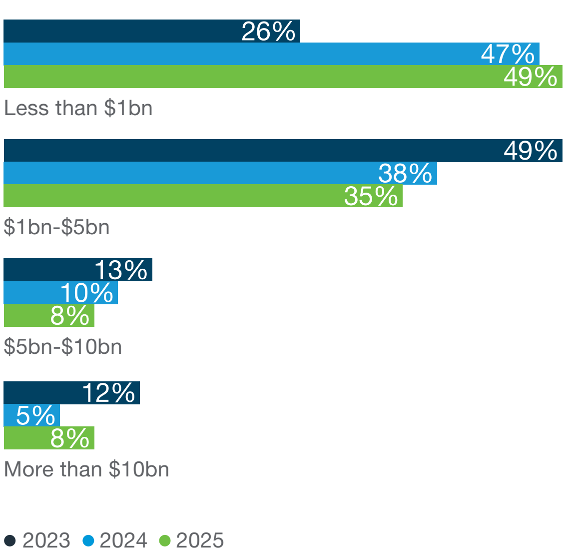
Deploying Capital

This past year continued to demonstrate that lenders were largely pulling back from deploying larger amounts of capital, as the percentage of firms deploying between $1 billion and $5 billion in credit strategies in the past 12 months continued to fall this year to 35%, compared to 38% in 2024 and 49% in 2023.

Conversely, the percentage of respondents who said their firms were deploying $1 billion or less into credit strategies in the past 12 months grew slightly to almost half of firms (49%), ticking up from 47% of firms saying this in 2024, and just 26% in 2023.

This represents an almost clean inversion of lender sentiment over the past three years, as the annual amount of capital being deployed by firms has shrunk.

How much capital has your firm deployed into credit strategies in the past 12 months?



This pullback was starkly evident among US respondents, as a look at deployment levels by AUM over the past two years clearly shows.

Among those US respondents with up to $50 billion in AUM, 45% of them have deployed capital of between $1 billion and $5 billion into credit strategies over the past 12 months, which is a drop compared to last year, when more than half (55%) deployed capital at that level.

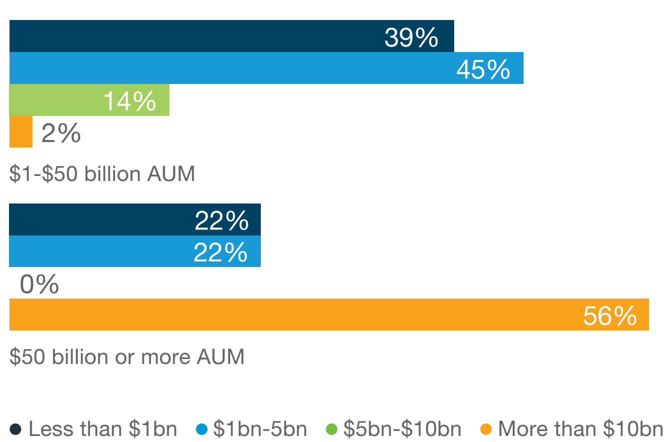
More striking was the change in capital deployment by the largest US lenders — those US respondents at firms with $50 billion or more in AUM. In past years, these largest firms had a pretty balanced level of deployment, with a plurality (40%) on each end of the spectrum — deploying either less than $1 billion or more than $10 billion. Now, these largest firms have altered their pursuits significantly.

This year, 56% of these large lenders said they deployed more than more than $10 billion into capital strategies over the past year — that's a 16-percentage point increase since our previous survey. The percentage of these firms (22%) deploying capital of between $1 billion and $5 billion into credit strategies over the past 12 months also grew, while the portion deploying less than $1 billion dropped considerably.

It may be easy to decipher what's behind this development. Even as the market tightens and capital investment drops overall, the largest lenders are showing a new willingness to move much higher levels of capital into the market in the pursuit of good opportunities.

Capital deployed into credit strategies

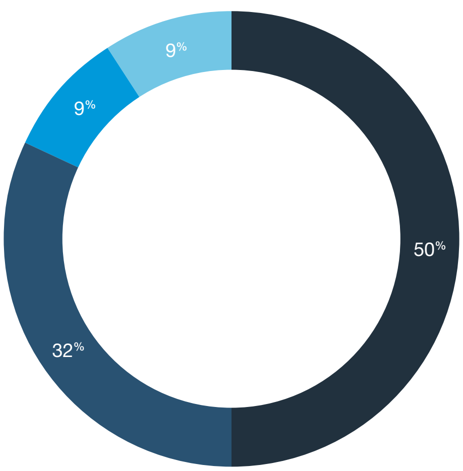
US by AUM



Broken down by region and compared by year, respondents from the UK/EU region bounced back significantly in their willingness to invest between $1 and 5 billion into credit strategies over the past 12 months compared to last year. And unlike their counterparts in the US, the percentage of UK/EU respondents that said their firms deployed less than $1 billion this year actually dropped.

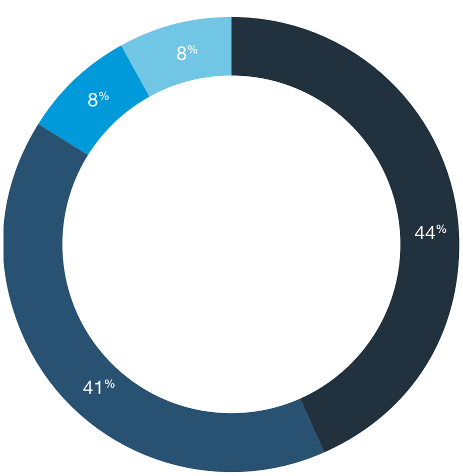
In the US, the portion of respondents saying their firms had deployed less than $1 billion over the past year continued to climb, reaching half of US firms, while the portion of those saying their firms deployed between $1 billion and $5 billion over the past year continued to drop.

How much capital has your firm deployed into credit strategies in the past 12 months?



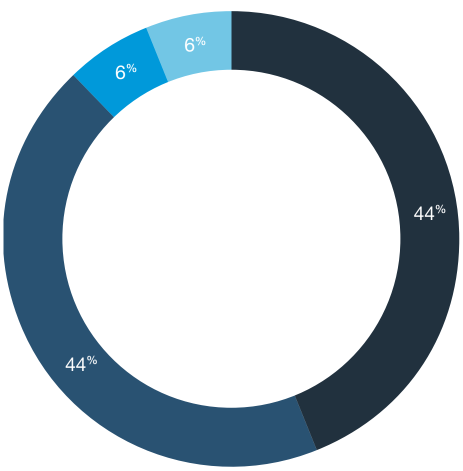
2025 US

- Less than $1bn
- $1bn-5bn
- $5bn-10bn
- More than $10bn



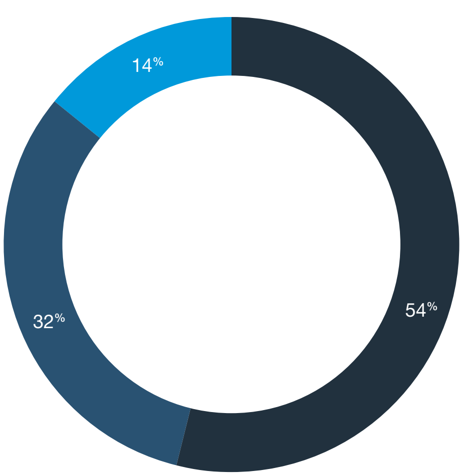
2024 US

- Less than $1bn
- $1bn-5bn
- $5bn-10bn
- More than $10bn



2025 UK/EU

- Less than €1bn
- €1bn-5bn
- €5bn-10bn
- More than €10bn



2024 UK/EU

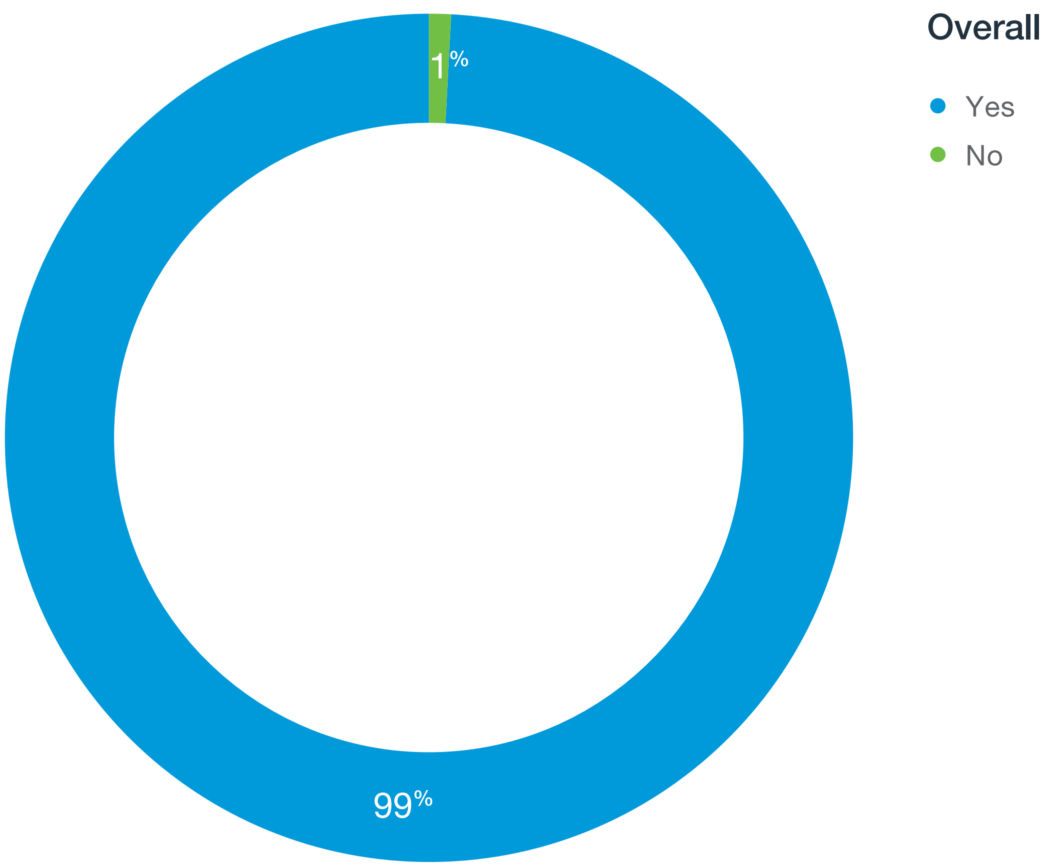
- Less than €1bn
- €1bn-5bn
- €5bn-10bn
- More than €10bn

Investment Conditions and Considerations

New Lending Opportunities

Not surprisingly and similar to past years, virtually all respondents (99%) said they are actively looking for new lending opportunities. As in past years, this may indicate a willingness by lenders to keep lending, even within a somewhat uncertain environment.

Is your firm looking for new lending opportunities today?

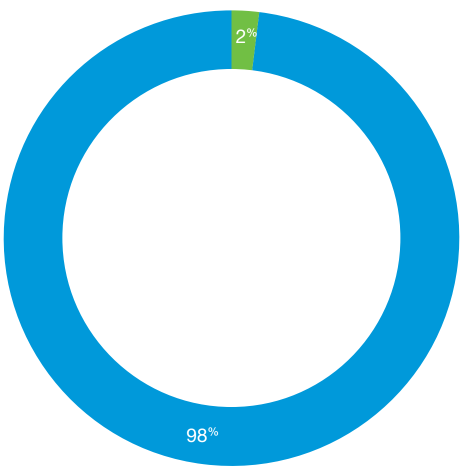


What some respondents told us about looking for new lending opportunities:

"[We] continue to be very active; 2024 has been the most active year of deployment in firm history."

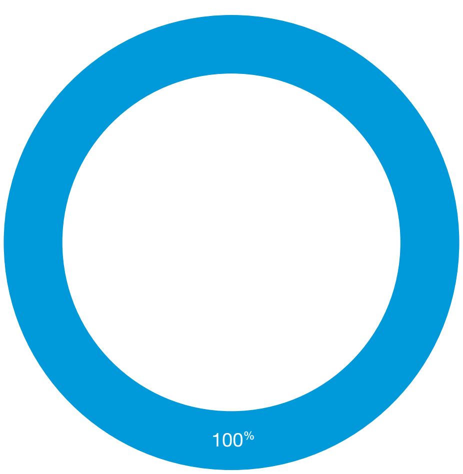
"Much busier back half of the year for 2024 compared to earlier for a sponsored focused strategy."

"My firm is continuously looking for new lending opportunities across a variety of solutions."



US

- Yes
- No



UK/EU

- Yes
- No

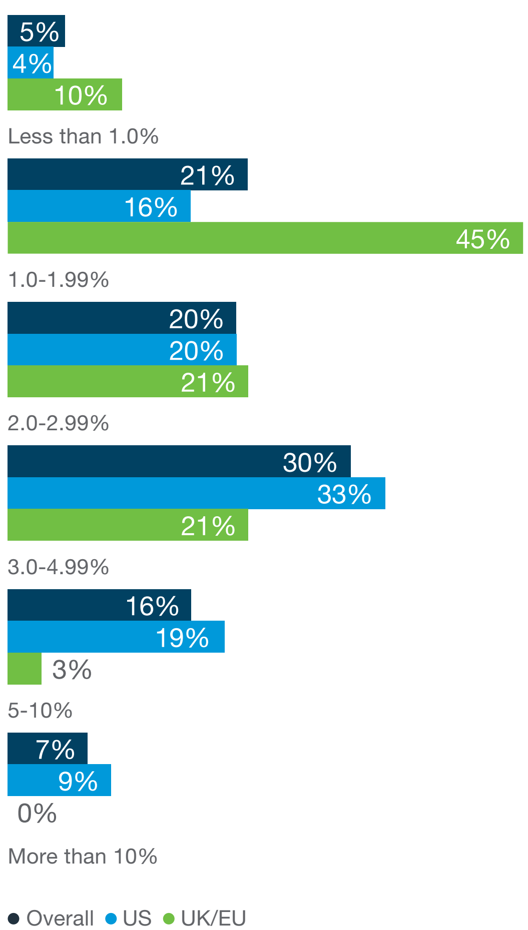
Investment Conditions and Considerations

Deal Closure

Similar to our last survey, there is a higher closure rate among US respondents, with 28% of US respondents saying they close 5% or more of the deals they screen, compared to just 3% of UK/EU respondents who said the same thing.

Overall, half of responding lenders said they close between 2% and 4.9% of the deals they screen, which ticked up slightly from our last survey.

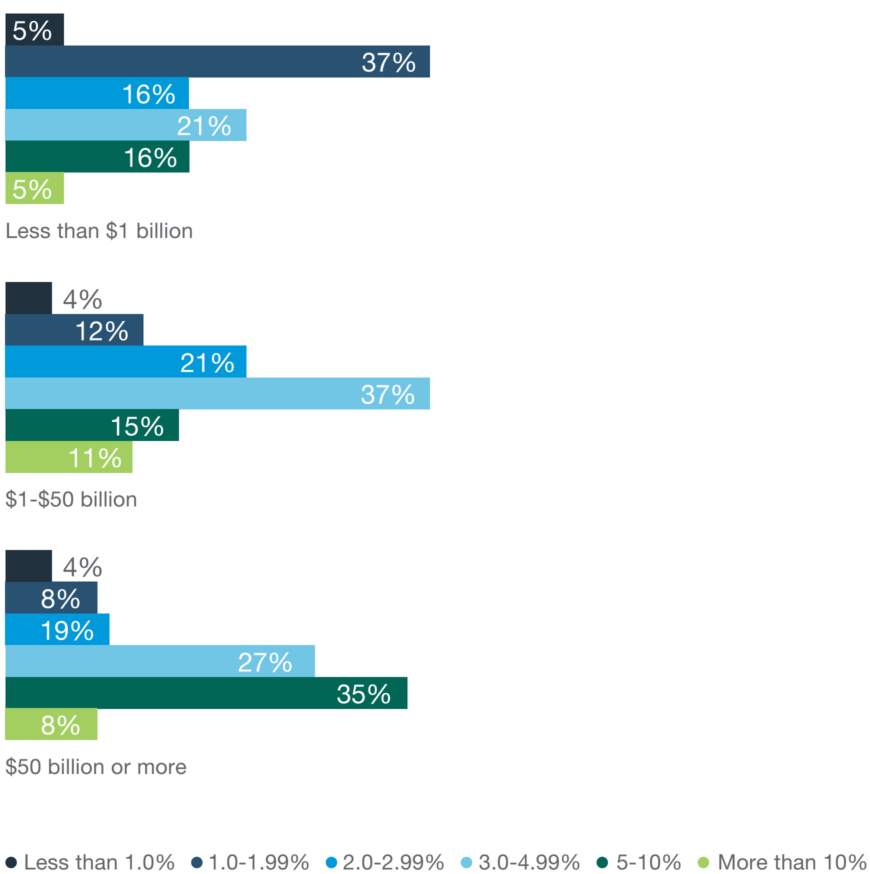
What percentage of deals do you close in relation to the number of deals you screen?



Broken out by AUM among US respondents, large US lenders — those firms with more than $1 billion in AUM — saw much higher rates of deal closure than did their smaller counterparts. Indeed, almost two-thirds (63%) of firms with between $1 billion and $50 billion in AUM and 70% of firms with $50 billion or more in AUM close 3% or more of the deals they screen. Among US firms with less than $1 billion in AUM, just 42% of firms close 3% or more of the deals they screen.

What percentage of deals do you close in relation to the number of deals you screen?

US by AUM



Investment Conditions and Considerations

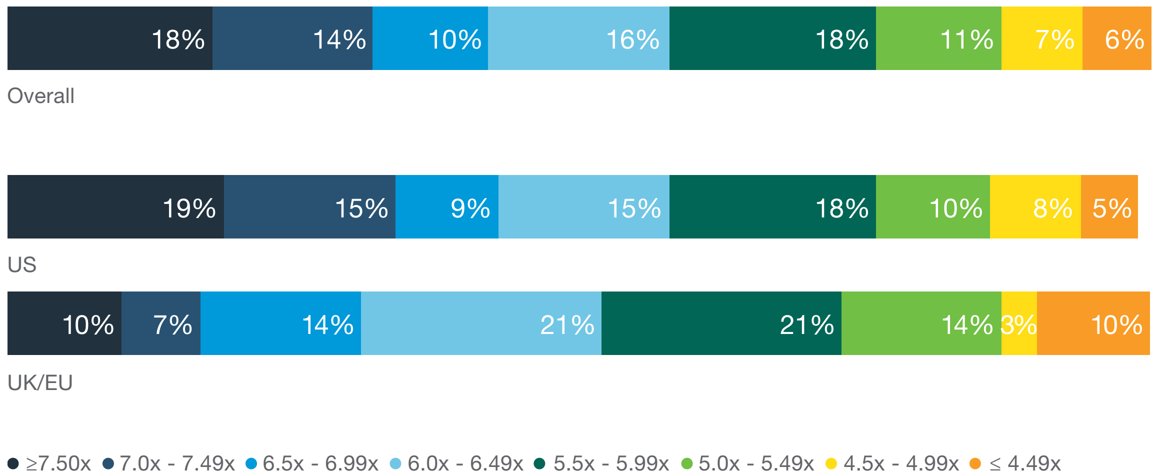
Maximum Leverage

We also saw a shift in the maximum leverage that private credit lenders were willing to incur, as the portion of respondents who said that the maximum leverage their firms were willing to underwrite was 5.0-times to 5.9-times range fell to 28% from 40% in 2024.

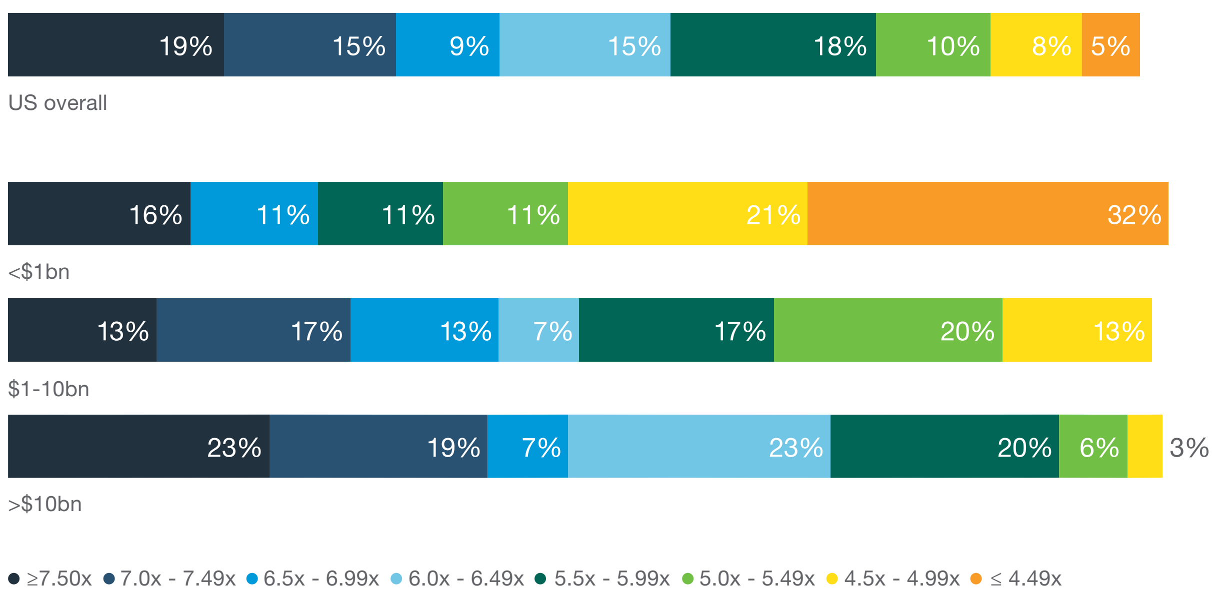
While that range fell in popularity, the selection of a maximum leverage range of 7.50-times or higher made a big move, surging six percentage points to represent 18% of respondents, tying for the most-cited range. Much of this was driven by US lenders, as those in the UK/EU didn't have such a robust risk appetite, with just 10% saying the maximum leverage they were willing to underwrite was 7.50-times or higher.

The embrace of more highly leveraged deals, driven by the largest US lenders, underscores the trends we're seeing in other parts of the survey–that the biggest firms are looking for bigger deals, even if those deals come with higher leverage. Indeed, almost one-quarter of US lenders (23%) whose firms have AUM above $10 billion said they would accept a maximum leverage of 7.50-times or above, just as many as said they would accept a maximum leverage of 6.0-times to 6.49-times.

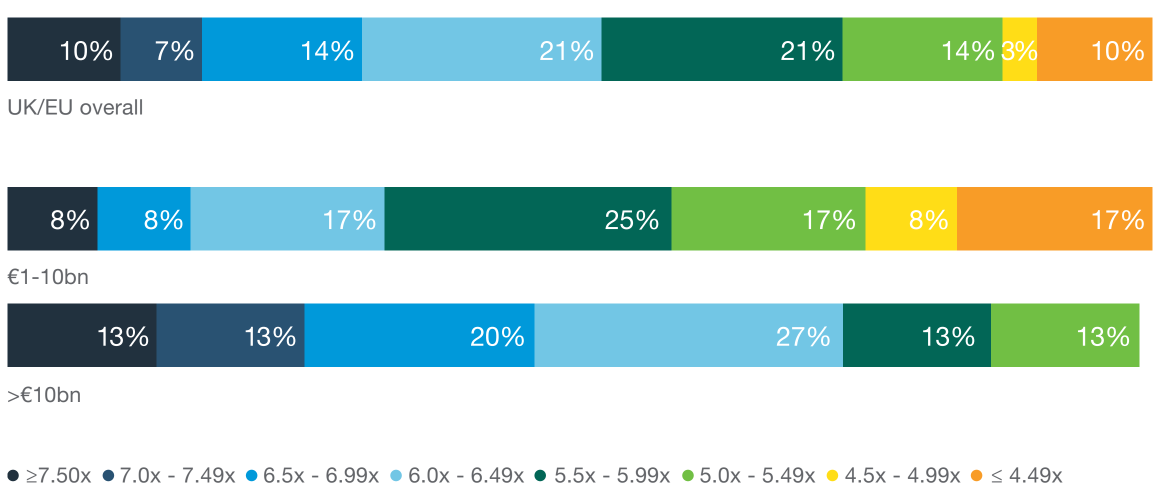
Maximum leverage
By Overall



Maximum leverage
By US AUM



Maximum leverage
By UK/EU AUM



Investment Conditions and Considerations

Maximum Total Leverage

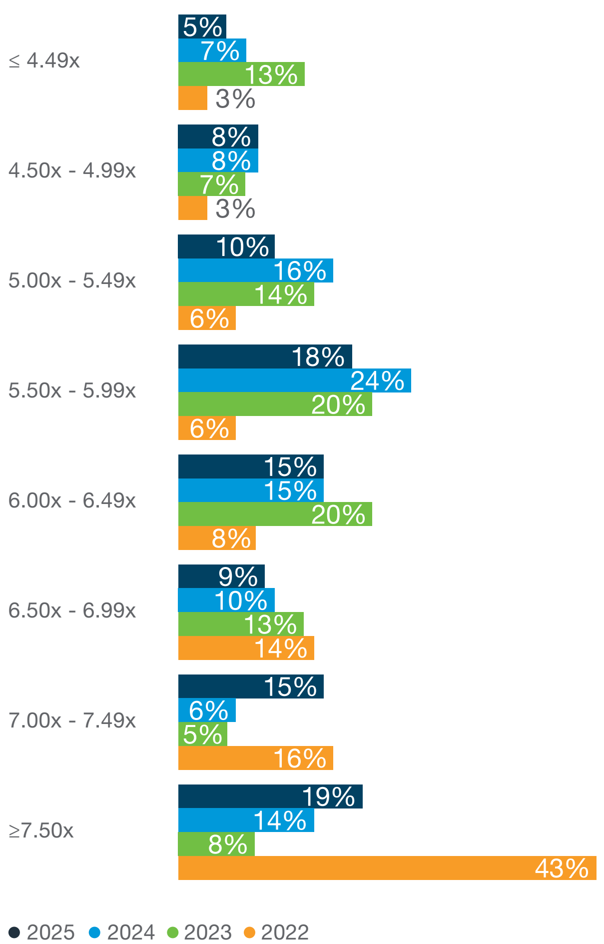
The resurgence of respondents' comfort with underwriting higher levels of leverage looks to reverse a trend of the past few years, when they shied away from such higher levels of leverage, representing a note of caution throughout the private credit market. Indeed, the movement toward acceptance of higher leveraged deals again is being driven by the largest lending firms.

For US-based lenders, while this year continued to see decreases in the selection of certain ranges — such as the 6.50-times to 6.99-times and 5.0-times to 5.99-times categories — the resurgence in higher leverage categories, 7.0-times and above, moved those ranges back nearer the levels they saw in 2022.

Among UK/EU respondents, there were declines in the 4.5-times to 6.49-times categories, while higher leverages categories, such as 6.5-times to 7.5-times or higher, saw an increase in the portion of UK/EU firms saying they were comfortable with this level of leverage.

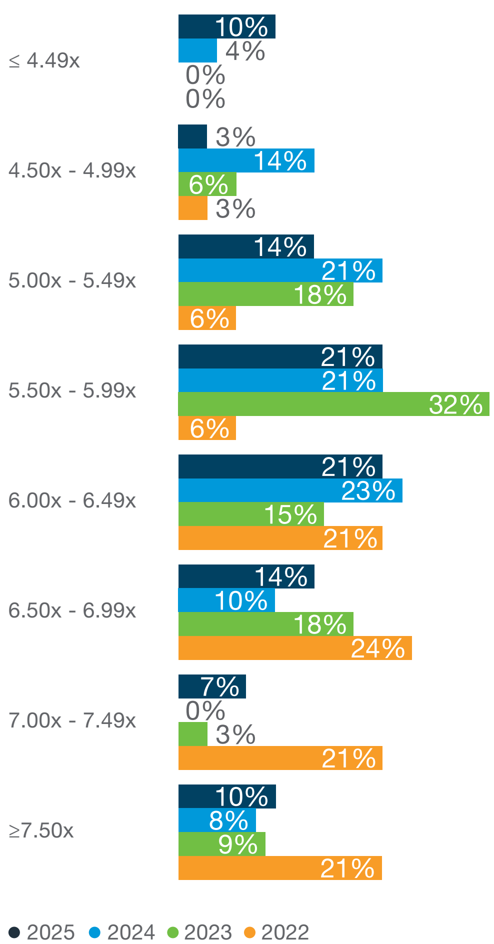
What's the maximum total leverage that you will underwrite today?

US



Continued decrease in leverage; increases in levels above 7.0x

UK/EU



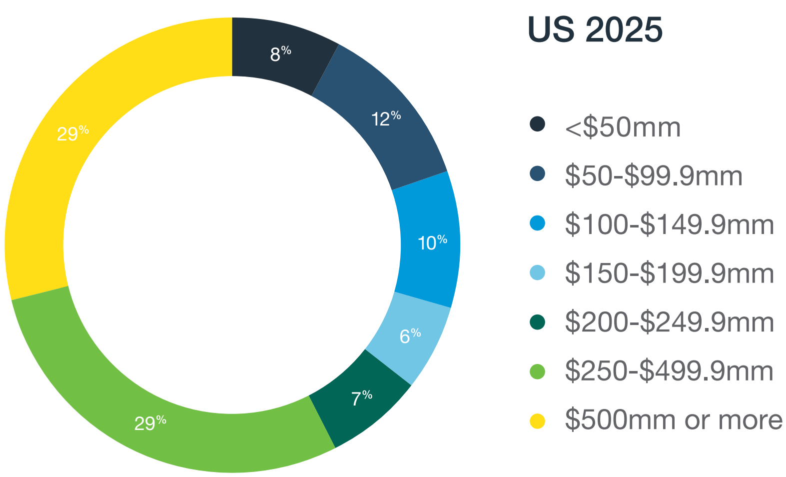
UK/EU experienced relatively stable leverage levels

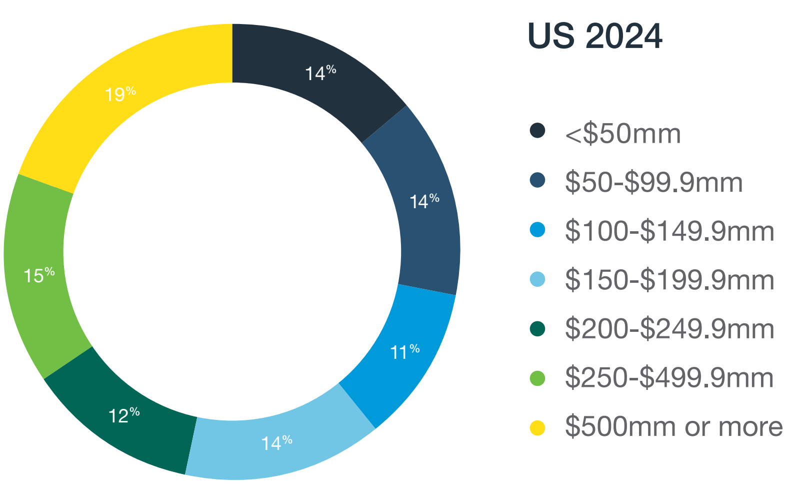
Investment Conditions and Considerations

Maximum Deal Size

Among US respondents, more than half (58%) said the maximum deal size their firm is willing to underwrite is $250 million and above, while only 8% say the maximum size deal their firm will underwrite is less than $50 million.

Compared to our last survey, you can again see a strong inclination toward larger deals. In our last survey, just more than one-third of US respondents (34%) said the maximum deal size their firm would underwrite is $250 million and above.

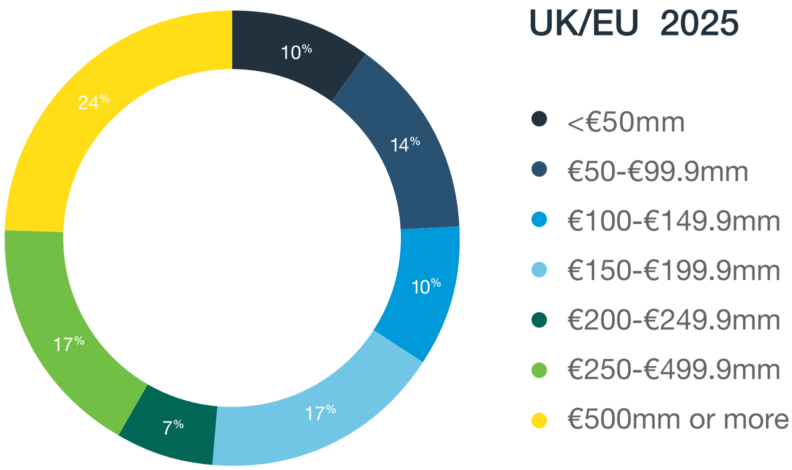




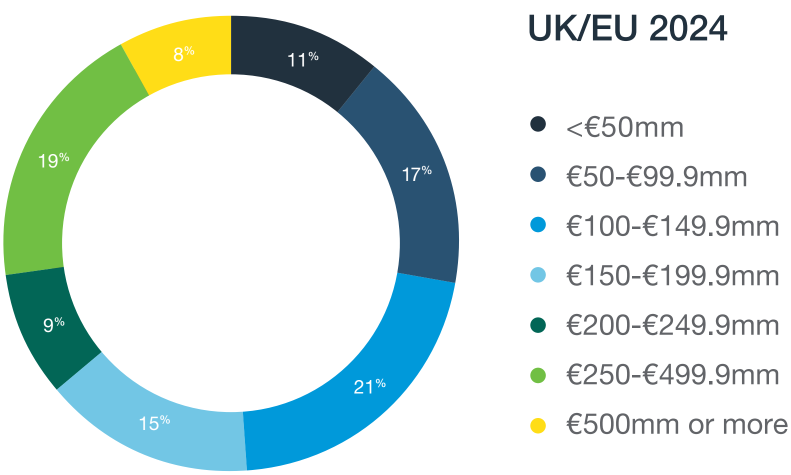
Among UK/EU respondents, almost one-quarter (24%) say the maximum size deal their firm is willing to underwrite is €500 million or more, while the remaining respondents are almost evenly spread across the other maximum size deal categories.

Like in the US, this growing acceptance of larger dealmaking in the UK/EU is evident, especially if you look back a year. In our 2023-24 survey, just 8% of UK/EU respondents said the maximum size deal their firm is willing to underwrite is €500 million, with the largest percentage (21%) having said the maximum size deal their firm is willing to underwrite is €100 million to €149.9 million.

UK/EU 2025



UK/EU 2024



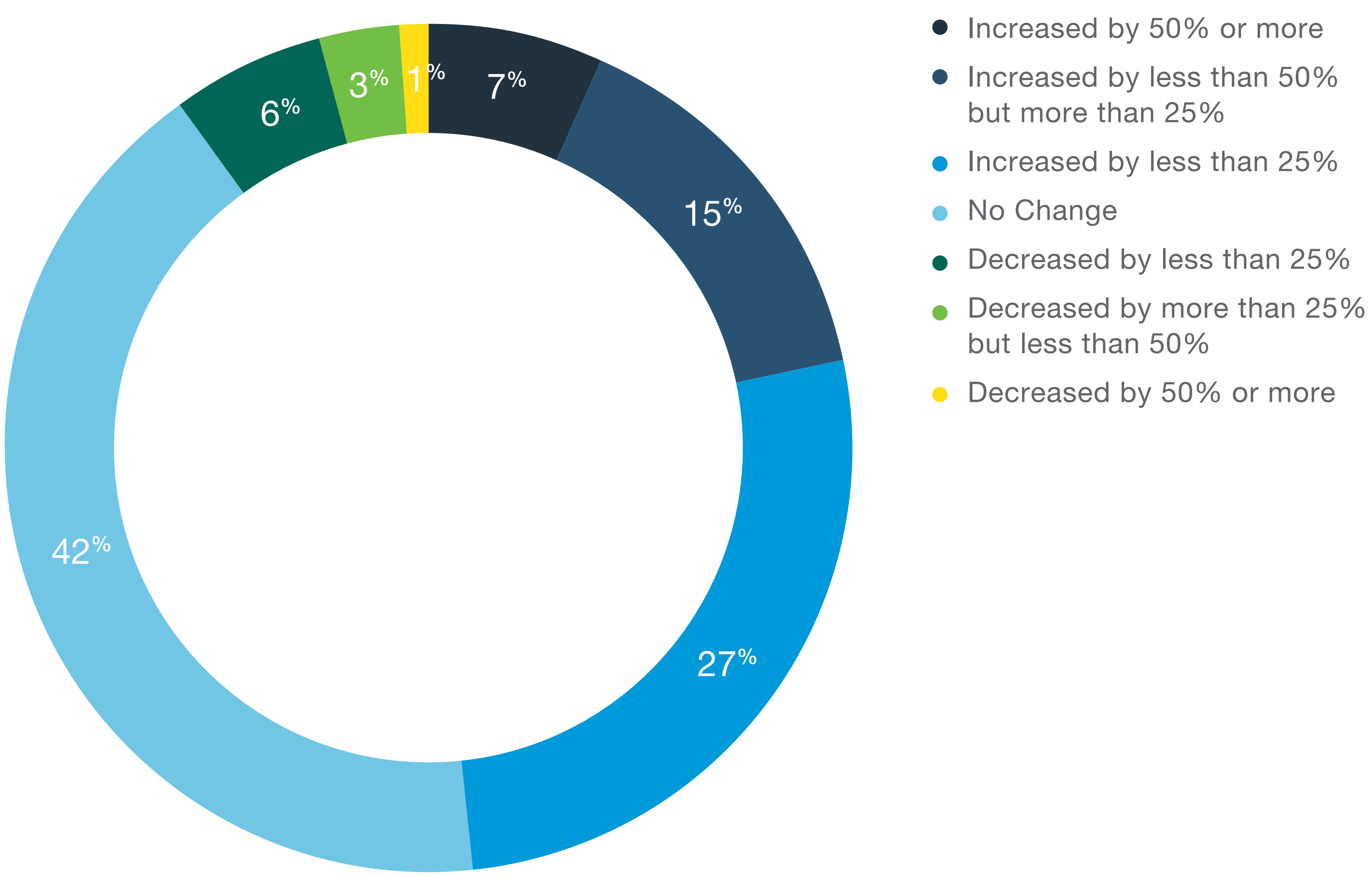
Investment Conditions and Considerations

Check Size

There was also movement in our survey around the size of the check that respondents said their firm is willing to write, with 49% of respondents overall saying the check size their firm is willing to write has *increased* in the past 12 months. That is up from 28% of respondents that said that in our previous survey. Again, like with maximum total leverage, this demonstrates that lenders today are more willing to increase the size of their check to secure larger deals.

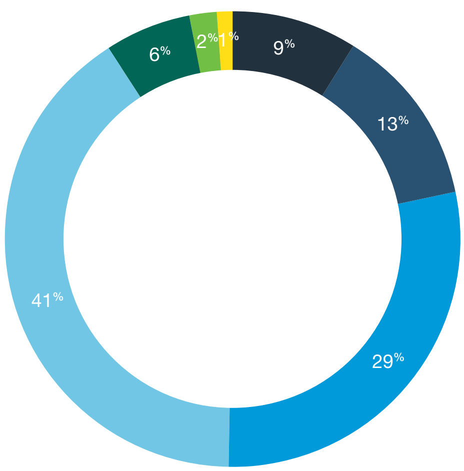
Conversely, the portion of respondents who said the check size their firm is willing to write has not changed in the past 12 months fell to 40%, after being the majority view (52%) in the last survey. And today, just 10% say their check size has *decreased* overall.

Has the size of the check your firm is willing to write changed over the past 12 months?



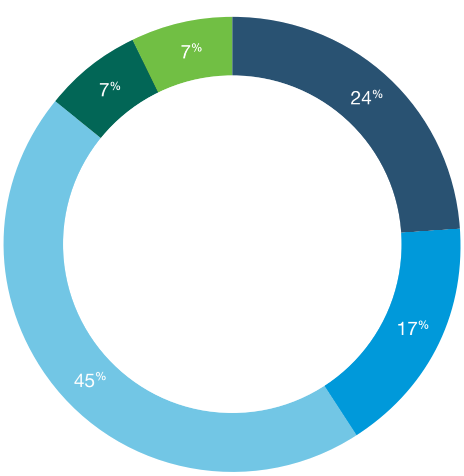
Broken out by region, respondents showed the same inclination toward a willingness to increase their check size, with a majority of US respondents saying their firms' check size has increased.

By AUM, the majority of the larger US firms, those with $1 billion or more in AUM, said their check size increased, while almost three-quarters of those firms with less than $1 billion in AUM said their check size didn't change over the past year.



US respondents more likely to select increase

- Increased by 50% or more
- Increased by less than 50% but more than 25%
- Increased by less than 25%
- No Change
- Decreased by less than 25%
- Decreased by more than 25% but less than 50%
- Decreased by 50% or more

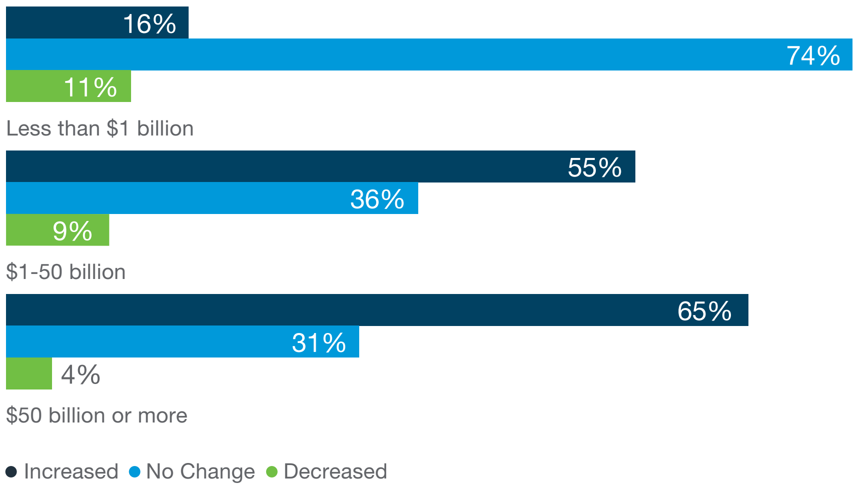


UK/EU respondents more likely to select decrease

- Increased by 50% or more
- Increased by less than 50% but more than 25%
- Increased by less than 25%
- No Change
- Decreased by less than 25%
- Decreased by more than 25% but less than 50%
- Decreased by 50% or more

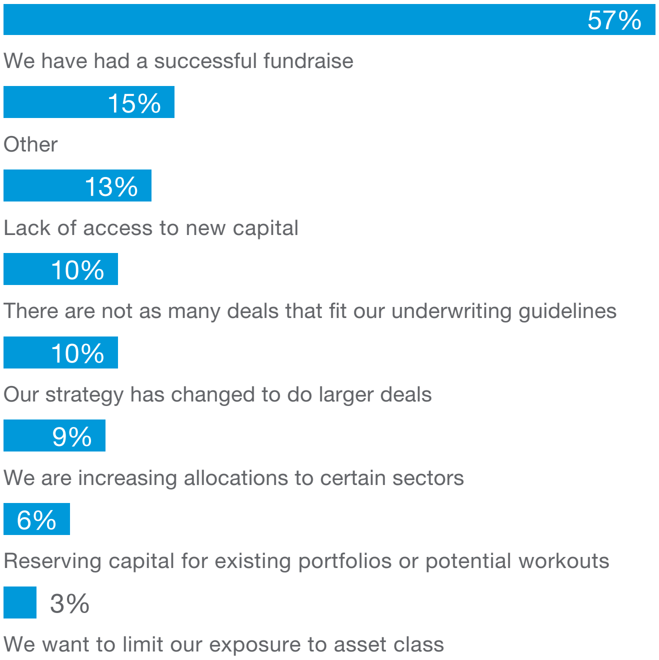
Has the size of the check your firm is willing to write changed over the past 12 months?

US by AUM



When respondents were asked for the reasons for their answers about their firms' check size, a majority (57%) said the firm had a successful fundraising effort. Indeed, that response eclipsed all others by a wide margin. 83% of respondents who said their check size was increasing attributed it to successful fundraising.

Why has it increased/decreased or remained the same?



Additionally, several respondents offered more precise answers around the movement of their firms' check size:

Increased

"Our partnership with our parent company has increased our appetite for larger underwrites as we continue to grow our AUM."

"During start-up phase we needed to meet some size diversity tests — but now we're through that, our check size can become larger."

Decreased

"There's not as many good larger opportunities in the market, so we have pivoted to look at smaller deals."

"Diversification."

"Less dry powder until we close on more capital for our new fund."

No Change

"First year of operations under a new flag."

"Beginning new fund."

"Very stable capital availability — sticking to our lane on company size/ financing size."

"Currently raising capital."

"Waiting for fundraising to close."

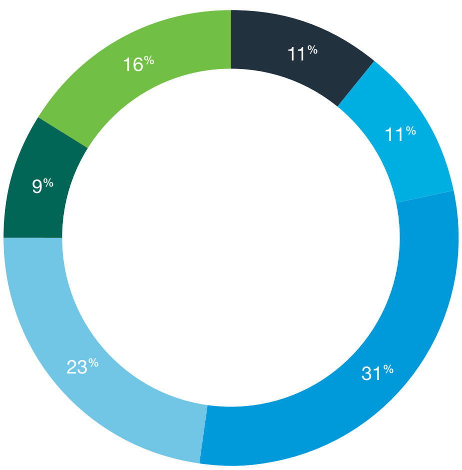
"We already had good flexibility to do larger tickets. With growing size of the funds, we have less of a concentration issue and can deploy larger tickets by transaction."

Investment Conditions and Considerations

EBITDA Profile of Borrowers

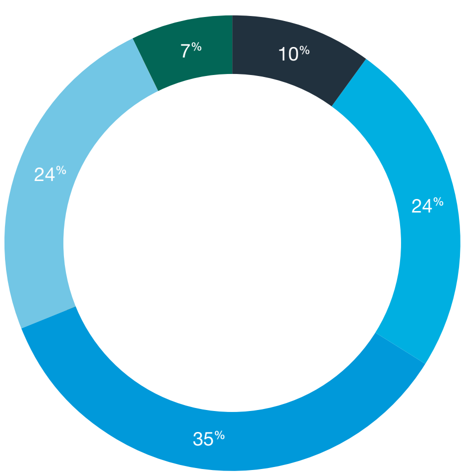
The most common average EBITDA of companies in lenders' portfolios was between $25 million and $49.9 million (€25 million to €49.9 million), with around one-third of all respondents saying this was the average range for their portfolio companies.

And almost half of US lenders (47%) said that the average EBITDA of companies in their portfolios was more than $50 million this year, with 16% saying it was more than $100 million. Among UK/EU respondents, however, the portion saying the average EBITDA of companies in their portfolios was more than €50 million was much smaller (31%) and included no lenders saying it was more than €100 million.



US

- Less than $15 million
- $15-24.9 million
- $25-49.9 million
- $50-74.9 million
- $75-99.9 million
- $100 million or more



UK/EU

- Less than €15 million
- €15-24.9 million
- €25-49.9 million
- €50-74.9 million
- €75-99.9 million
- €100 million or more

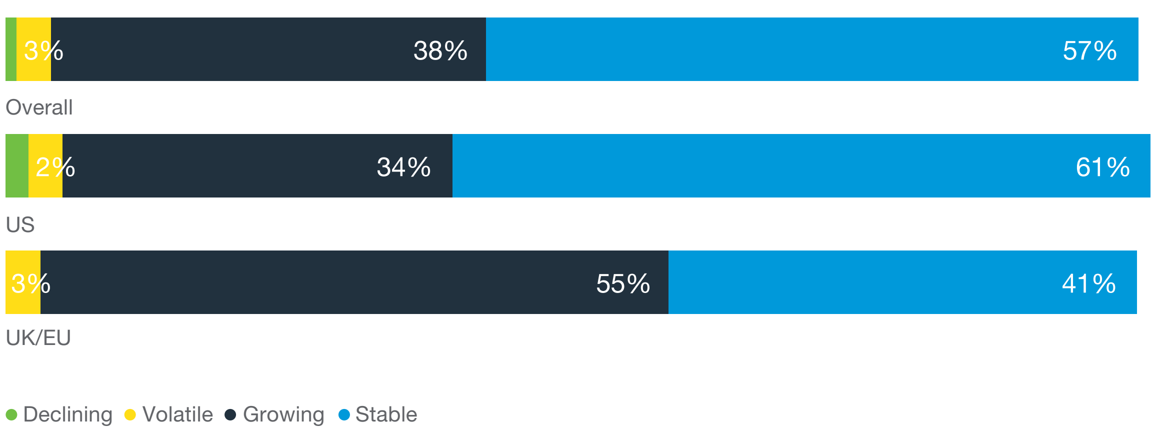
With the free cash flow seemingly on the upswing among respondents' portfolio companies, it's not surprising that this positive sentiment seeped into other areas as well.

For example, 96% of overall respondents described the EBITDA of their portfolio companies as stable or growing, with US respondents more likely to describe their portfolio companies' EBITDA as stable, while UK/EU respondents were more likely to describe their portfolio companies' EBITDA as growing.

The sentiment continues to reflect the gradual increase in the positive mood that began over the past few years.

From the following options, how would you describe the EBITDA of your borrowers?

Majority describe their EBITDA as stable, but more from US than UK/EU



In fact, several respondents offered more detailed descriptions of their answers, whether they described the EBITDA of their portfolio companies as *growing, stable*, or *volatile*:

Growing

"Both revenue and EBITDA are growing at double-digit levels."

"Most have been growing at a greater-than-inflation rate."

"On average, it seems as though EBITDA is growing in the mid-single digits across the portfolio."

"Overall growing, but also need to differentiate between organic vs. acquired as well as adjustments."

"The majority of companies in our loan portfolio are increasing EBITDA due to organic and acquisition growth."

Stable

"Generally stable across the portfolio with some star performers and some volatility."

"Most borrowers that continue to successfully grow revenues have been impacted by cost pressures (margin declines). Some borrowers have experienced declining revenues but looked to optimize cost structure to stabilize EBITDA."

"Overall stable portfolio quality with pockets of stress in select sub-industries (healthcare practices, [aerospace & defense], and transportation)."

"Overall, EBITDA has been flat to up across the portfolio. We have not experienced any cracks in the portfolio. And because we did not over-lever nor give floating rate debt, our interest and fixed charge coverages remain solid and well above the market averages."

"Some are growing well, most are stable, a small percentage are in material decline."

"Stable to slightly declining."

Volatile

"We tend toward companies that are flirting with distress."

Deal Terms

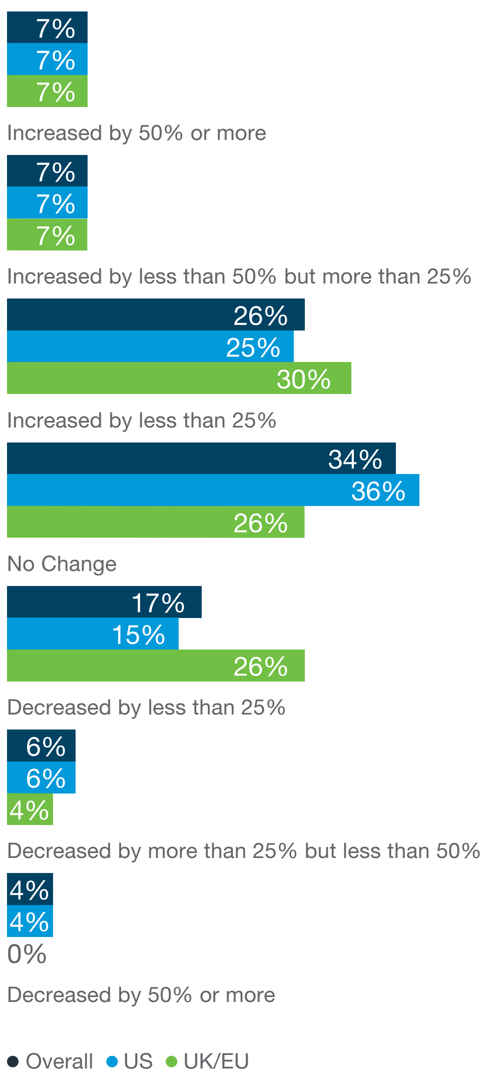
Repayments

Looking at loan repayments over the past year, UK/EU respondents are more likely to say that repayments on existing loans had increased by less than 25%, while US respondents were more likely to say that their repayments had not changed over the past year.

More interestingly, however, was that large portions of lenders — 44% of those in the UK/EU and 39% of those in the US — experienced increases in repayments, some by more than 50%. One reason this could be is that portfolio companies are taking advantage of their more robust cash flow to refinance or pay down debt.

Repayments

In the past twelve months, were repayments on existing loans up or down from your firm's historical trends?



Investment Conditions and Considerations

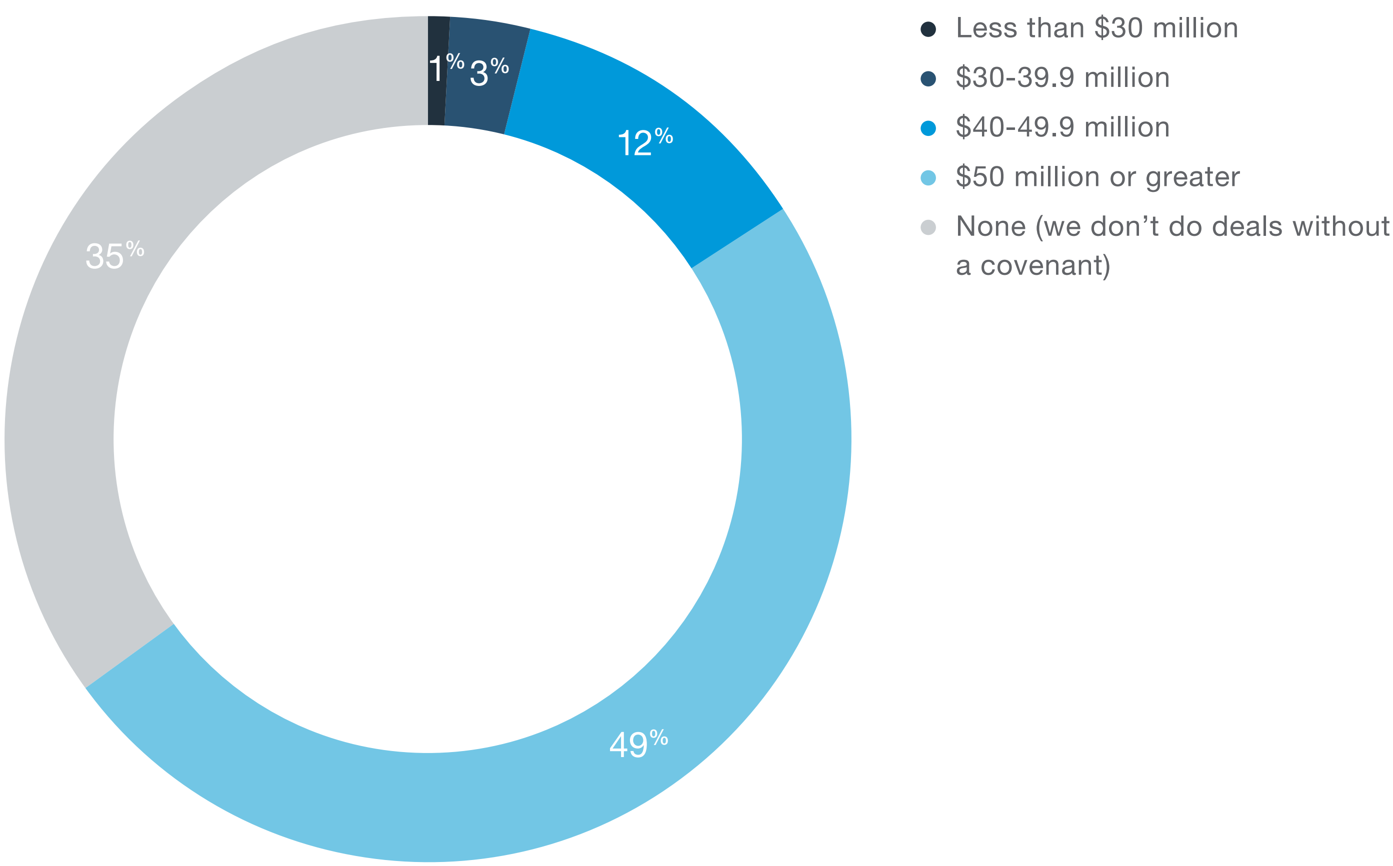
Covenant-lite Transactions

The willingness to take on more risk to get deals done was also evident when looking at what level lenders would consider a covenant-lite transaction. This year, just more than one-third (35%) of US respondents said they do not do deals without a covenant, which is down dramatically from the more than half (52%) of US lenders that said that in our previous survey.

Further, among those US lenders that would consider doing deals without a covenant, almost half (49%) said they would need the target company's EBITDA level to be more than $50 million to make the deal workable. That's up from the 35% of US respondents who said that in our last survey.

The growing acceptance of higher leverage seems to be a general theme throughout much of the survey responses, indicating that the concerns over inflation, defaults and stagnant deal flow may be diminishing going forward.

At what EBITDA level would you consider a covenant-lite transaction?



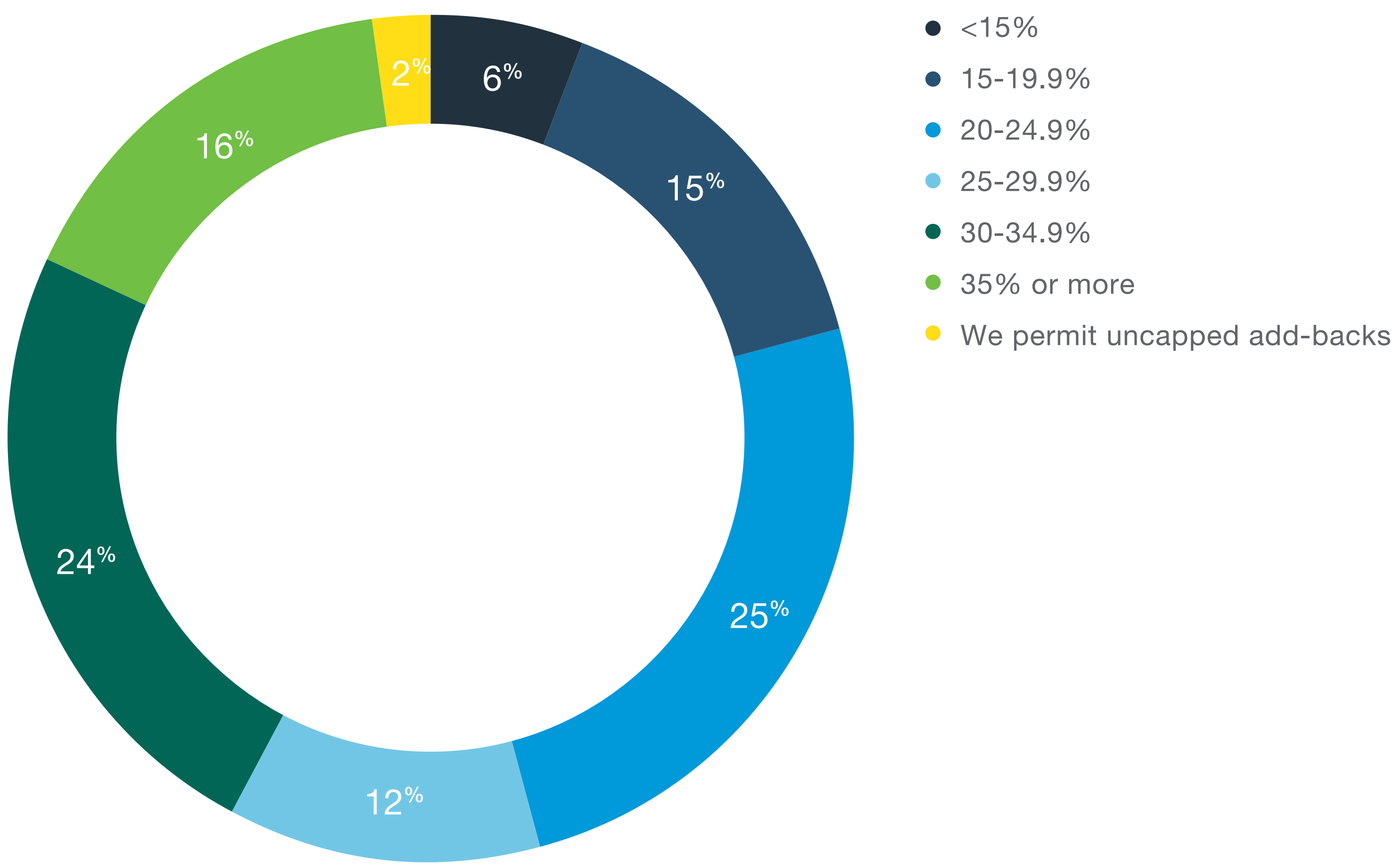
EBITDA Add-Backs

The percentage of lenders who said they would permit uncapped EBITDA add-backs continued to drop, falling to 2%, far below the 10% cited by respondents in 2022.

The most common maximum aggregate amount of EBITDA add-backs permitted by lenders was 20% to 24.9%, with one-quarter of all lenders overall selecting that category; however, right behind that was 30% to 34.9%, with almost one-quarter (24%) of lenders saying that was their most common maximum aggregate amount of EBITDA add-backs that they permitted.

This represents a big shift in what lenders would accept in the maximum aggregate amount of EBITDA add-backs, as the portion of lenders who would accept a maximum aggregate amount of EBITDA add-backs in excess of 25% or would permit uncapped EBITDA add-backs rose to more than half of all lenders (54%), compared to 38% in our last survey.

What is the maximum aggregate amount of EBITDA add-backs you will permit for your transactions?



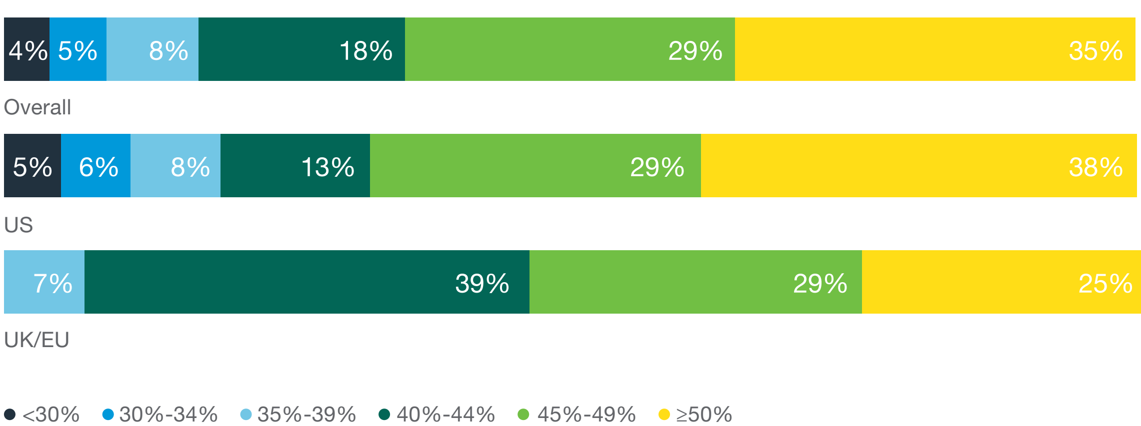
Investment Conditions and Considerations

Equity Contributions

As for the percentage of equity required for a deal, almost two-thirds of all lenders (64%) said they would require 45% or more equity in their transactions, representing an eight percentage point increase over our previous survey.

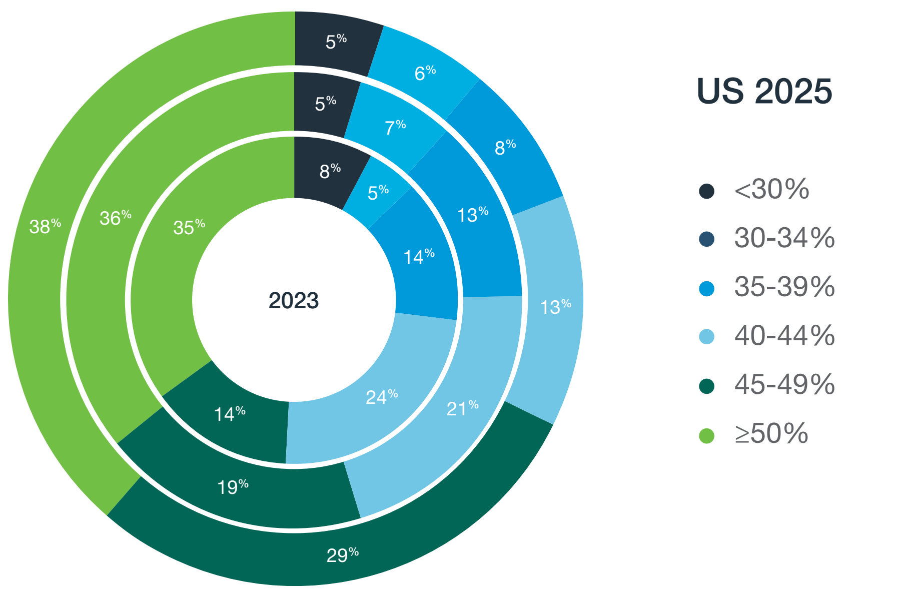
There was some divergence between regions, as the largest portion of US lenders (38%) said they would require 50% or more equity in their transactions, and the largest portion of UK/EU lenders (39%) said that 40% to 44% was their requirement.

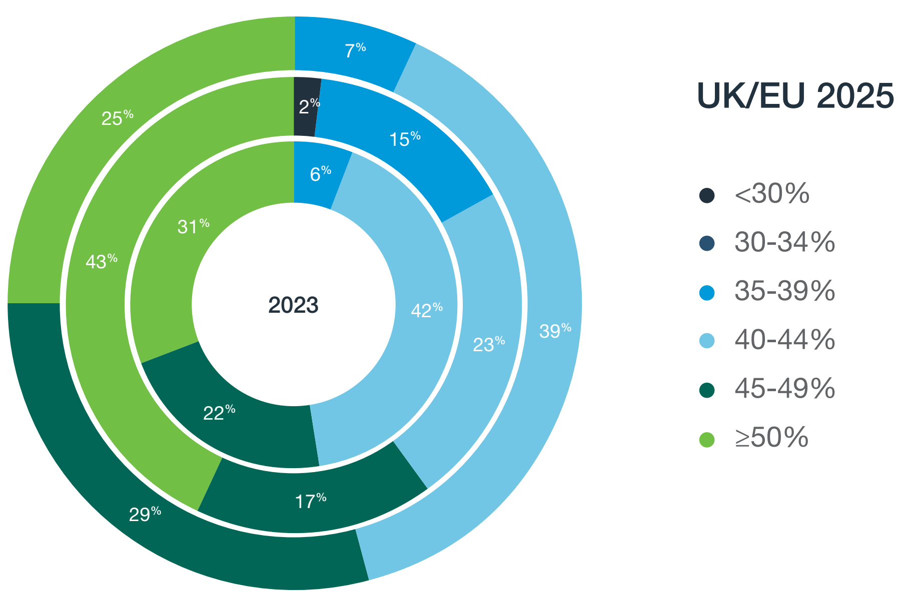
How much equity (on a % basis) does your organization typically require in your transactions?



Comparing the requirements over the past few years, you can see how there was some strong sentiment shift this year. US lenders, for example, greatly increased their requirements of 45% to 49% equity compared to past years. While this trend has been evident for a few years, this year's strong movement indicates a willingness on the part of US lenders to be more aggressive by requesting more equity in a transaction — and on the part of borrowers to comply.

In the UK/EU, lenders there downshifted their requirement of 50% or more of equity compared to past years.





Geographic Investment

US lenders

Similar to past years' responses, US lenders said they expect to see their biggest growth opportunities at home, in the UK and in Canada. Almost all US respondents (99%) said their firm is considering investing in the US in the coming year, although percentages were somewhat lower across the globe in all regions except Canada (60%) and Latin America (8%).

Biggest growth opportunities for your firm over the next 12 months

US	**99%**
UK	**41%**
Canada	**41%**
Asia	**8%**
Middle East	**5%**
Latin America	**4%**
France	**3%**
Europe	**3%**

Which locations are your organization considering investing in over the next 12 months?

Geographic Investment

UK/EU lenders

Among UK/EU lenders, large majorities said their firm is considering investing in the UK, Europe and France, with the latter country being cited as fast growing. Those three regions were also cited as the greatest growth opportunities for UK/EU lenders in the coming 12 months.

Biggest growth opportunities for your firm over the next 12 months

UK	**79%**
Europe	**72%**
France	**45%**
US	**38%**
Asia	**24%**
Middle East	**7%**
Latin America	**0%**
Canada	**0%**
Other	**0%**

Which locations are your organization considering investing in over the next 12 months?

Investment Conditions and Considerations

Industry Investment

Lenders' interest or consideration to invest in specific industries was more mixed this year, after a majority of industries had fallen out of favor in our previous survey. This year, however, industries such as Manufacturing, Education, Financial Services, Construction, Engineering and Infrastructure, Sports and others were getting a more favorable indication of interest from lenders, while other industries, such as Healthcare, Software & Technology and Media had seen a falloff in interest.

Overall: In which industries is your organization interested in/considering investing in over the next 12 months?

93%
93% in 2024
Business Services

85%
89% in 2024
Software & Technology

79%
88% in 2024
Health Care

74%
70% in 2024
Financial Services

46%
31% in 2024
Construction, Engineering & Infrastructure

37%
32% in 2024
Consumer & Retail

32%
38% in 2024
Media

28%
27% in 2024
Energy & *Renewables*

64%

57% in 2024

Manufacturing

54%

53% in 2024

Education

50%

51% in 2024

Transport & Logistics

25%

18% in 2024

Sports

18%

18% in 2024

Real Estate

1%

2% in 2024

Other

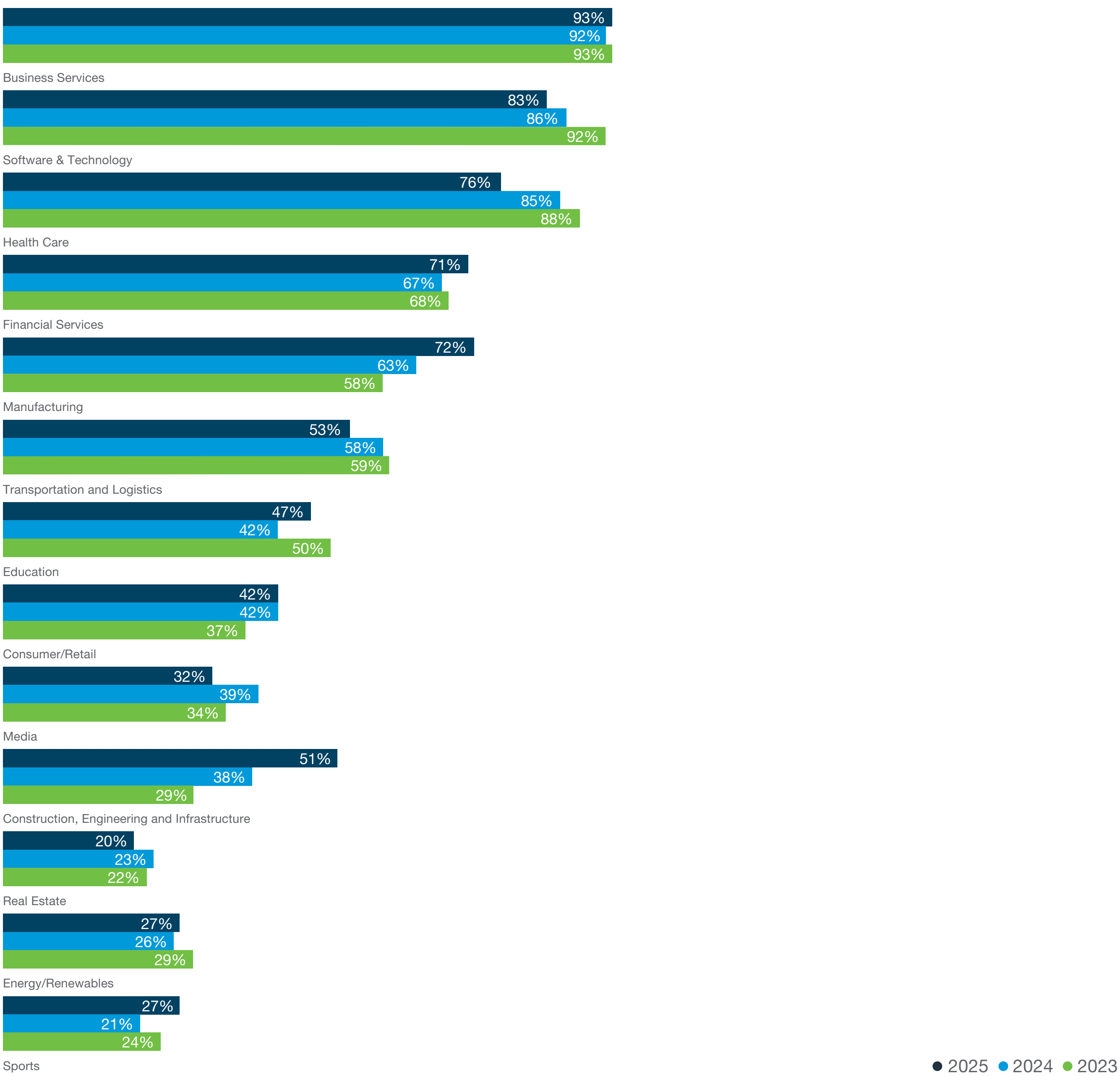
Industry investment over the years

US lenders

US lenders said they are interested in investing in more than half of the industries cited over the coming 12 months, compared to our previous survey. Only interest in investing in Real Estate, Media, Transport, Healthcare and Software & Technology decreased.

In which industries is your organization interested in/considering investing in over the next 12 months?

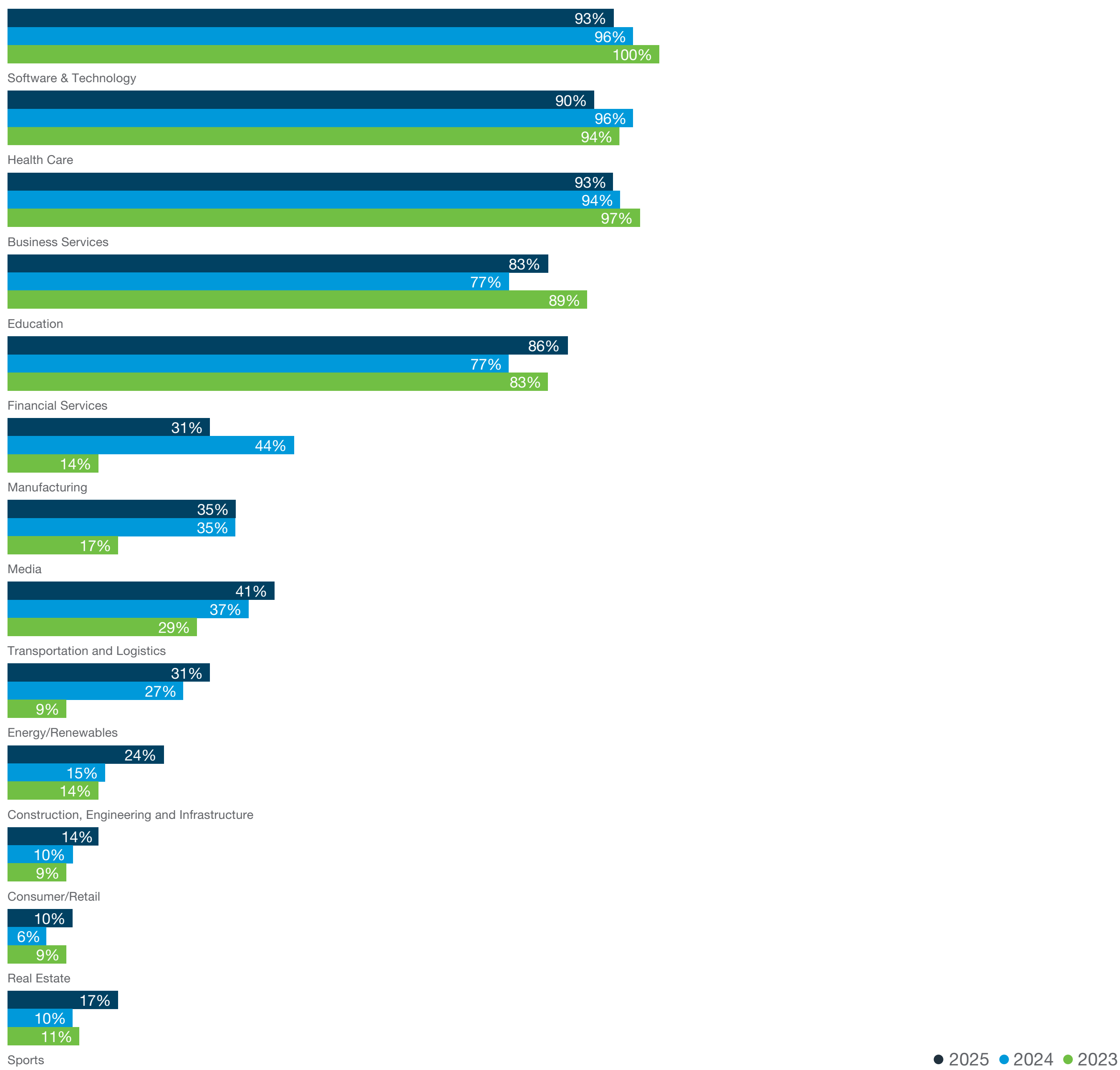
US 2025 v 2024 v 2023



UK/EU lenders

Meanwhile, UK/EU lenders said that in the coming 12 months, they are more interested in more than half of the industries compared to last year, including Sports, Real Estate, Construction, Engineering and Infrastructure, Energy, Financial Services and others. They also said they are less interested in investing in Manufacturing, Education, Business Services, Healthcare and Software & Technology.

UK/EU 2025 v 2024 v 2023



Fundraising

Almost all respondents (89%) said their firms were engaged in fundraising plans for 2025, and 82% said they were currently raising a debt fund. While both of these figures are down slightly from our previous survey, they still show that a substantial portion of lenders are continuing to experience a rising confidence level since the end of the pandemic.

Investment Plans

Is your organization currently raising a debt fund?

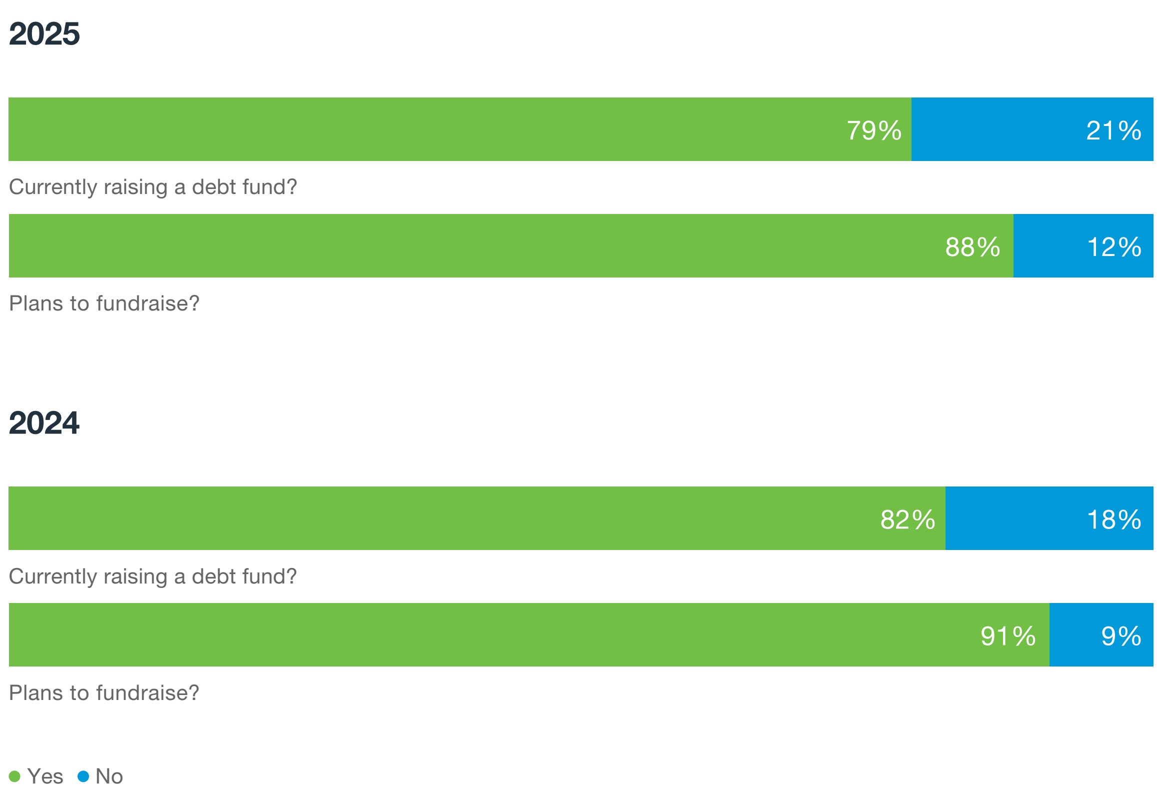
Does your firm have plans to fundraise in the next 12 months?

● Yes ● No

By region, consideration among US firms to raise debt funds and fundraise generally has increased slightly compared to last year, while consideration among UK/EU firms to raise debt funds and fundraise has slightly fallen.

Investment Plans

US 2025 v 2024



Investment Plans

UK/EU 2025 v 2024

2025

2024

Market Predictions

Deal activity

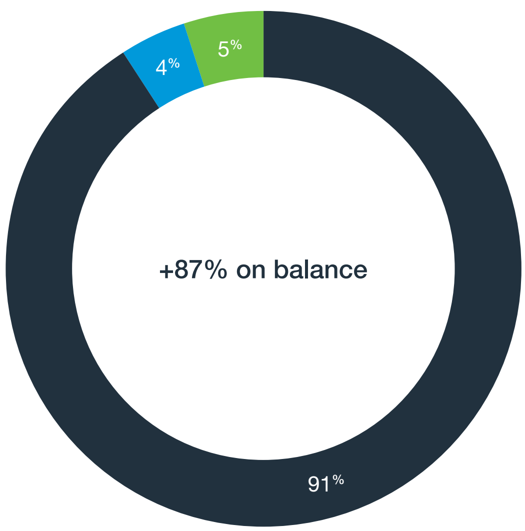
As a clear indicator of a more positive outlook for the coming year, 91% of all respondents said they expect deal activity to increase in the coming 12 months compared to the past 12 months. And just 4% said they expect deal activity to decrease.

That means deal activity is expected to be positive on balance, with a +87-net-percentage favorability, much higher than the +70-net-percentage favorability in our previous survey.

What are your expectations for deal activity in the market over the next 12 months?

Why do you think deal activity will increase/decrease or remain the same?

Increased activity	%
Interest rates	45%
Political climate	21%
Economic outlook/ market conditions	18%
M&A activity	18%



Market activity expectations

- More active than previous 12 months
- Less active than previous 12 months
- No change

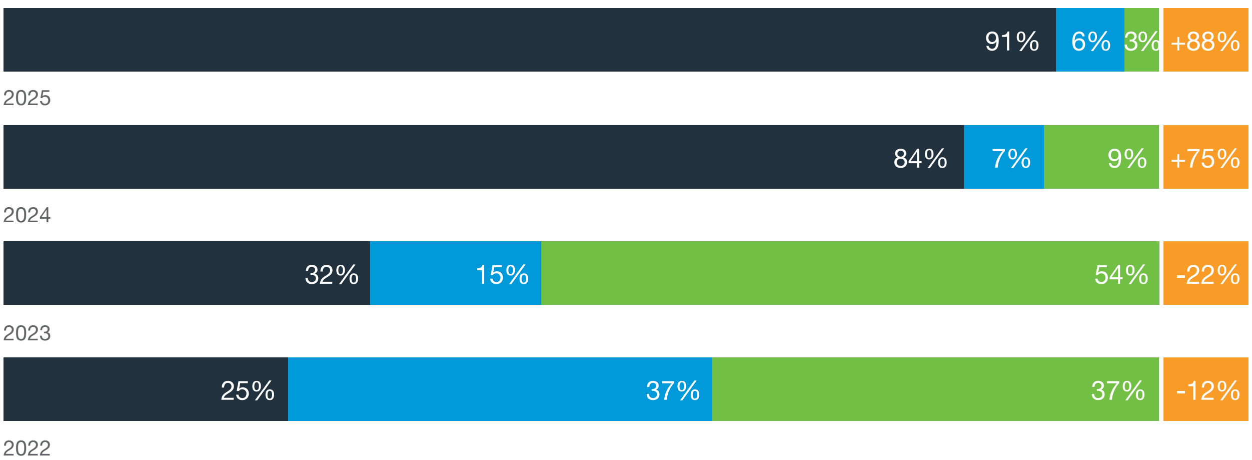
Remain the same	%
No headwinds/ offsetting headwinds	50%
No/limited catalyst either way	25%
M&A activity	25%

Decreased activity	%
Economic outlook / market conditions	60%
M&A activity	20%
Valuations	20%
Goverment regulations e.g. taxation	20%
Political climate	20%

Market Predictions

What are your expectations for deal activity in the market over the next 12 months?

US 2025 v 2024 v 2023 v 2022



Increased activity	#	%
Interest rates	39	47%
Political climate	19	23%
M&A activity	15	18%
Economic outlook/ market conditions	13	16%

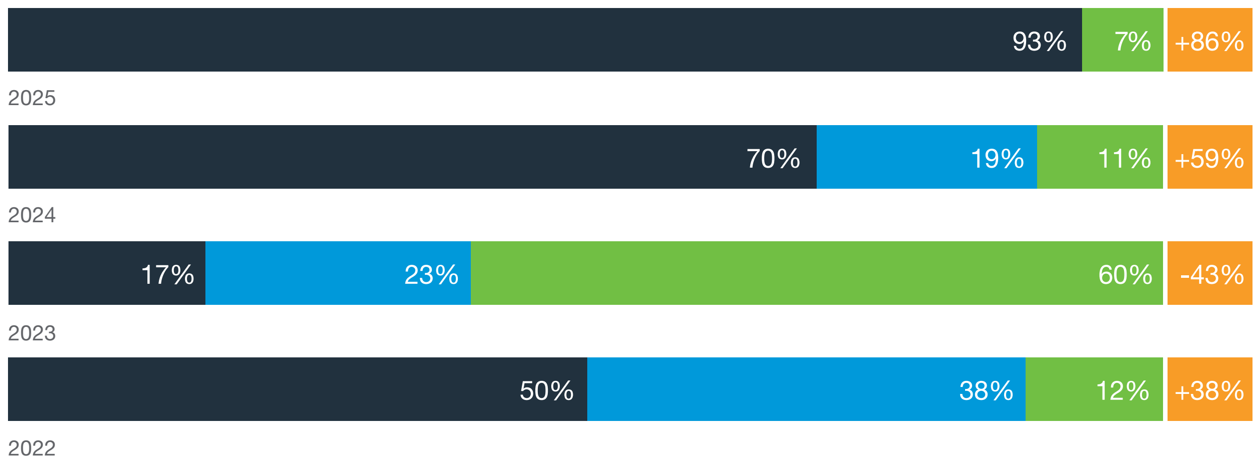
Remain the same	#	%
No headwinds/ offsetting headwinds	2	50%
No/limited catalyst either way	1	25%
M&A activity	1	25%

Decreased activity	#	%
Economic outlook/ market conditions	2	50%
M&A activity	1	25%
Valuations	1	25%
Political climate	1	25%

Even among UK/EU respondents, who had generally been much more cautious in their predictions, sentiment continues to lean towards increased activity this year compared to earlier years.

What are your expectations for deal activity in the market over the next 12 months?

UK/EU 2025 v 2024 v 2023 v 2022



Increased activity	#
Interest rates	9
Economic outlook/ market conditions	6
Availability/amount/ return of capital	5
M&A activity	4

Decreased activity	#
Economic outlook/ market conditions	1
Goverment regulations e.g. taxation	1

Among those respondents who said they expected increased deal activity, quite a few offered more detailed insight as to their reasoning, with respondents citing some aspect around interest rates as the top factor behind increased deal activity.

Increased deal activity

“The past 6 months have been unusually slow, but sponsors will need to monetize investments (whether through sales, dividend recaps, or moves to continuation vehicles, etc.) which will drive the need for additional activity, as well as more certainty following the presidential election.”

“The APAC [Asia-Pacific] private credit market is much less saturated versus the US / Europe [market] in terms of capital allocated to the region, while demand for private credit (along with APAC GDP) is increasing dramatically. These factors, coupled with additional capital we've raised for the region, will undoubtedly result in increased deal activity.”

“Interest rates decreasing, election uncertainty subsiding.”

“Sponsors' need to monetize long-hold deals and lower interest rates.”

“More active M&A market creates new transaction financing opportunities; falling base rates make refinancings more attractive.”

“Largely due to pent-up demand and need for sponsors to transact / return capital to [limited partners] LPs...increase continues to rely on a ‘soft landing’ environment.”

“Fundamental strength in the economy, constructive overall capital markets, more benign interest rate environment, private equity pressure to exit assets.”

“Backlog of PE-backed companies; narrowing of bid-ask spread; maturity walls.”

“1) Declining interest rates to drive more refinancing activity; 2) Sponsors more likely to go-to-market to exit legacy names from vintage funds with slightly better multiples than 2024; and 3) ‘soft-landing’ environment is going to give more confidence in economic outlook in the near-to-medium term.”

“Lower rates and pent-up demand from LPs seeking liquidity after period of lengthened hold times.”

“Interest rate environment and increased political stability.”

“M&A, led by PE funds need to return cash to their LPs and in turn reducing gaps in valuations.”

“Lower interest rates, clarity on US election and stable outlook for the economy.”

“Big backlog of deals, plenty of capital, interest rates coming down, clarity over UK / US elections and economies, hopefully a resolution in Middle East and Ukraine (longer term).”

“Significant private equity dry powder, lack of LP distributions pushing PE firms to sell portfolio companies, lower interest rates, relatively stable economic outlook.”

“Interest coming down will lead to more transactions. Requirement by funds to increase DPIs [distributions to paid in capital].”

“Interest rates have peaked, and lower rates should stimulate incremental transaction volume. Macroeconomic uncertainties will persist, driven largely by geopolitical concerns, but ultimately buyers and sellers want to transact and the economics of doing so should be improving.”

“Pent-up demand for returning capital to investors that should necessitate more M&A.”

“Lower interest rates, significant dry powder within PE and PC firms.”

“A lot of funds need to exit current deals; there has been a delay in M&A and firms have dry powder.”

“Interest rates starting to come down; excess capital in the market; PE firms needing to sell assets and return capital to their investors.”

“Post-election, we expect M&A volumes to increase given the number of long-held PE portfolio companies that sponsors are looking to exit as well as softening in rates.”

“M&A, led by PE funds need to return cash to their LPs and in turn reducing gaps in valuations.”

“Increased amount of M&A post-election and pressure for sponsors to show exits.”

Respondents who said they expect decreased deal activity or expected no change in deal activity offered their reasons, as well:

Decreased deal activity

"M&A volume has been down due to inflated seller price expectations in a softening economy."

"Valuation gaps / lack of processes hitting the market."

"Macroeconomic uncertainty given geo-political issues. In the UK, big [question] over how business-/ PE-friendly the new government will be (e.g., taxes)."

"Economy will weaken."

"Political uncertainty."

No change

"No real headwinds (or tailwinds) to alter trajectory in near term."

"Increased M&A activity offset by macro headwinds."

"Can't see an obvious catalyst."

"Confluence of factors."

Market Predictions

Drivers of Deal Flow

We also asked respondents to select from a list the three most important drivers of deal flow over the coming 12 months and then to rank their chosen drivers in order of importance. Similar to past years, more respondents ranked *Sponsors seeking realizations* as the most important, with 85% of respondents ranking that category first. This was a big jump compared to our previous survey, in which 66% ranked that category first. *Sponsors seeking realizations* also had the most overall rankings.

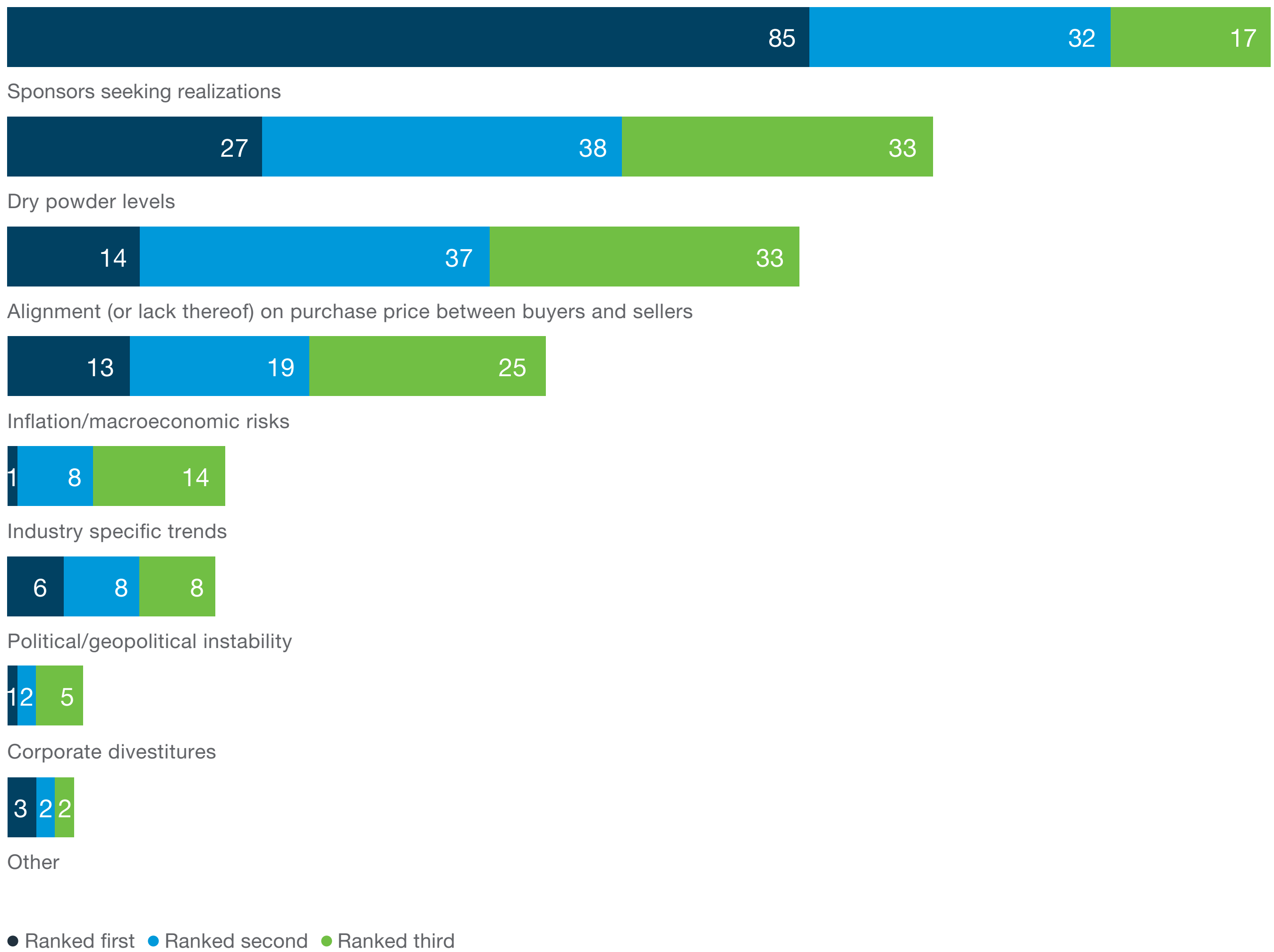
Also, like in our last survey, *Dry powder levels* had the second-most overall rankings as a driver of deal flow (27%), although this represented a big drop-off compared to our previous survey.

Interestingly, rankings of *Inflation/macroeconomic risks* as the most important driver of deal flow continued to drop, with just 13% ranking it as most important this year. In our 2023-24 survey, 30% ranked it as most important, and in the year prior, 2022-23, it was top ranked, with 67% saying *Inflation/macroeconomic risks* would be the most important driver of deal flow in that coming year.

When asked to elaborate on their choice if they selected *Other*, several respondents noted the *Cost of capital* and the *Outcome or Resolution of the US Election*.

What do you expect to be the most important driver of deal flow in the next 12 months?

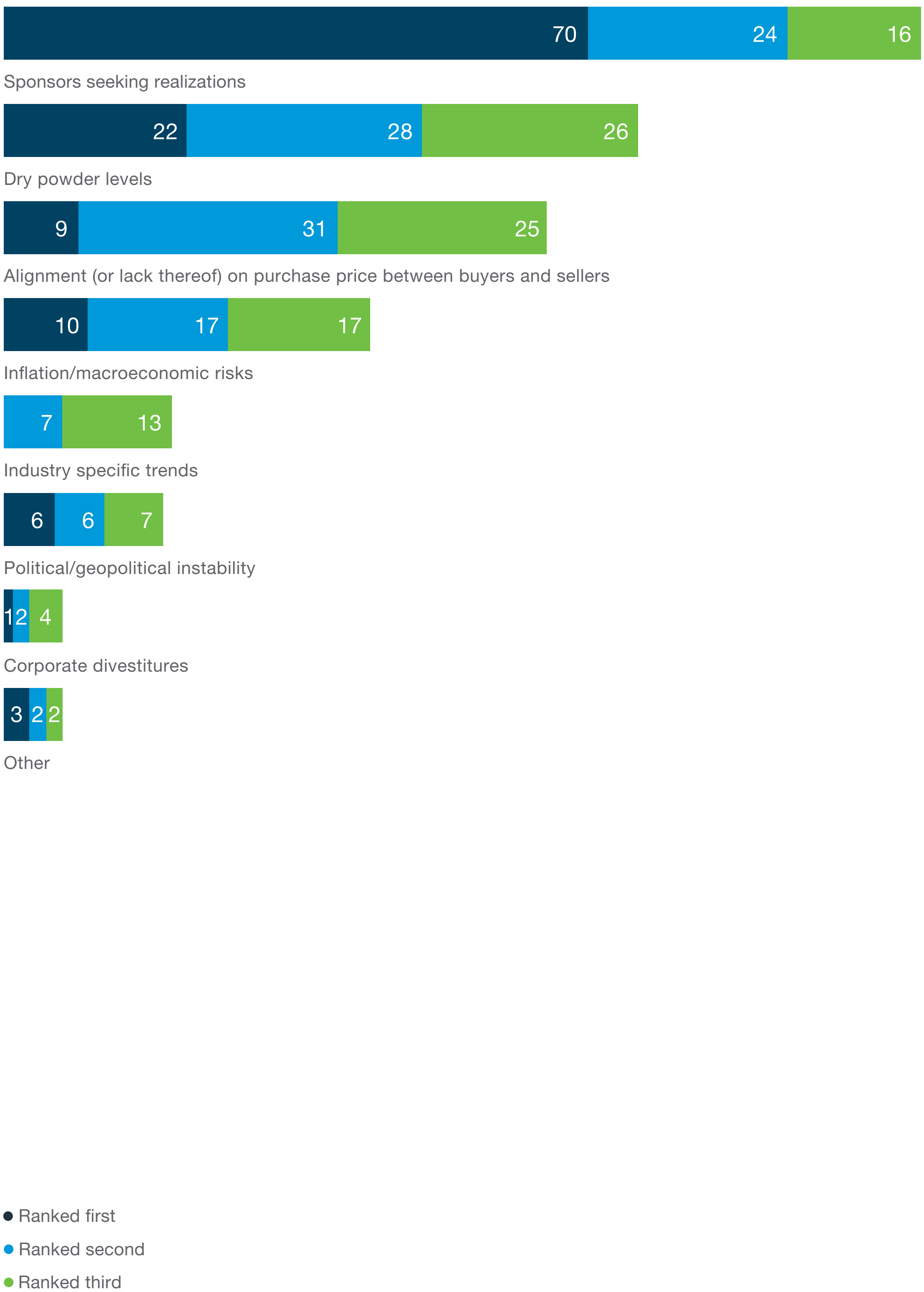
Overall – Sorted by overall rankings



Regionally, both the US and UK/EU views generally reflected the overall assessment of what factors were driving deal flow.

US respondents cite sponsors seeking realizations as most important

US respondents – sorted by overall rankings



UK/EU respondents rank sponsors seeking realizations as most important and most overall rankings

UK/EU respondents – sorted by overall rankings

Market Predictions

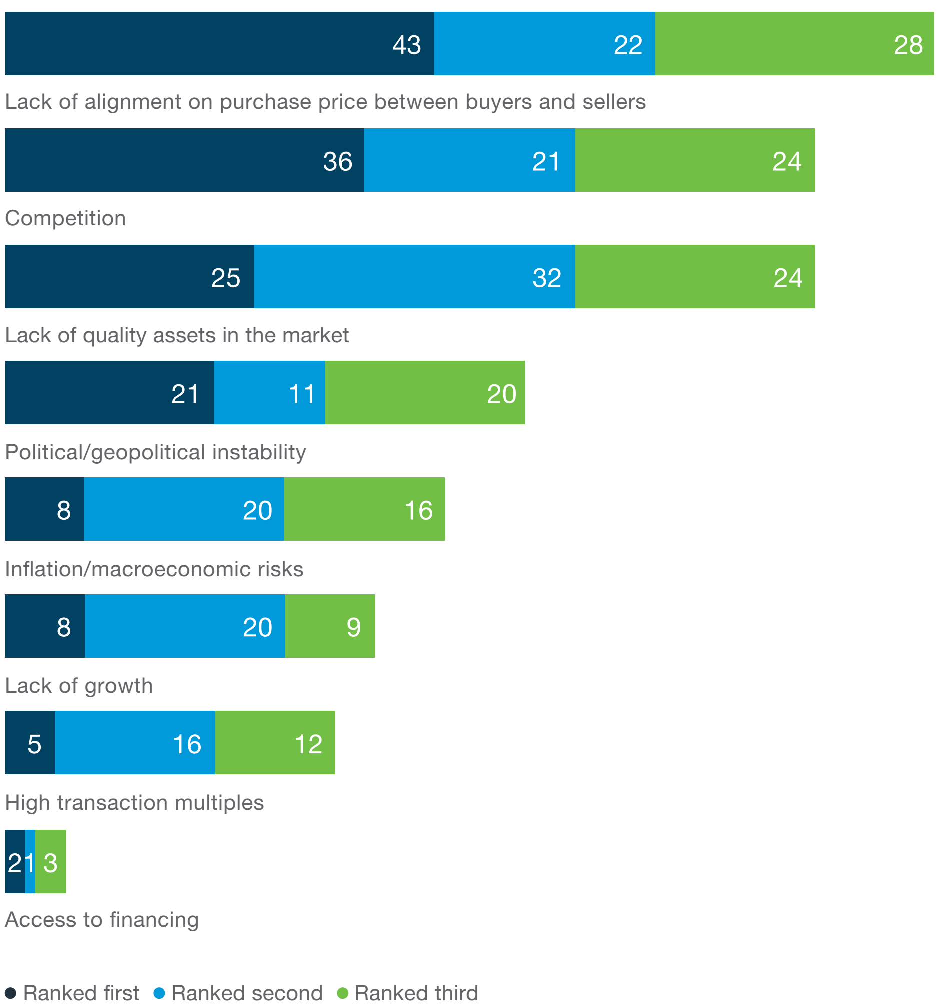
Challenges For Dealmakers

A large portion of respondents (43%) cited *Lack of alignment on purchase price* as their largest concern over the next 12 months, making this category the highest ranked overall and the most frequently cited.

Not surprisingly, given the easing of inflationary concerns over the last part of the year, *Inflation/macroeconomic risks* fell as a top-ranked challenge, with just 8% ranking it as their biggest concern, and *Competition* swooped into second place, with more than one-third of respondents (36%) citing it as their top challenge. Indeed, *Competition* leap-frogged not only over *Inflation/macroeconomic risks*, but also over *Lack of quality assets in the market,* which had been cited second-most in our previous survey.

What do you anticipate to be the biggest challenge for dealmakers in the next 12 months?

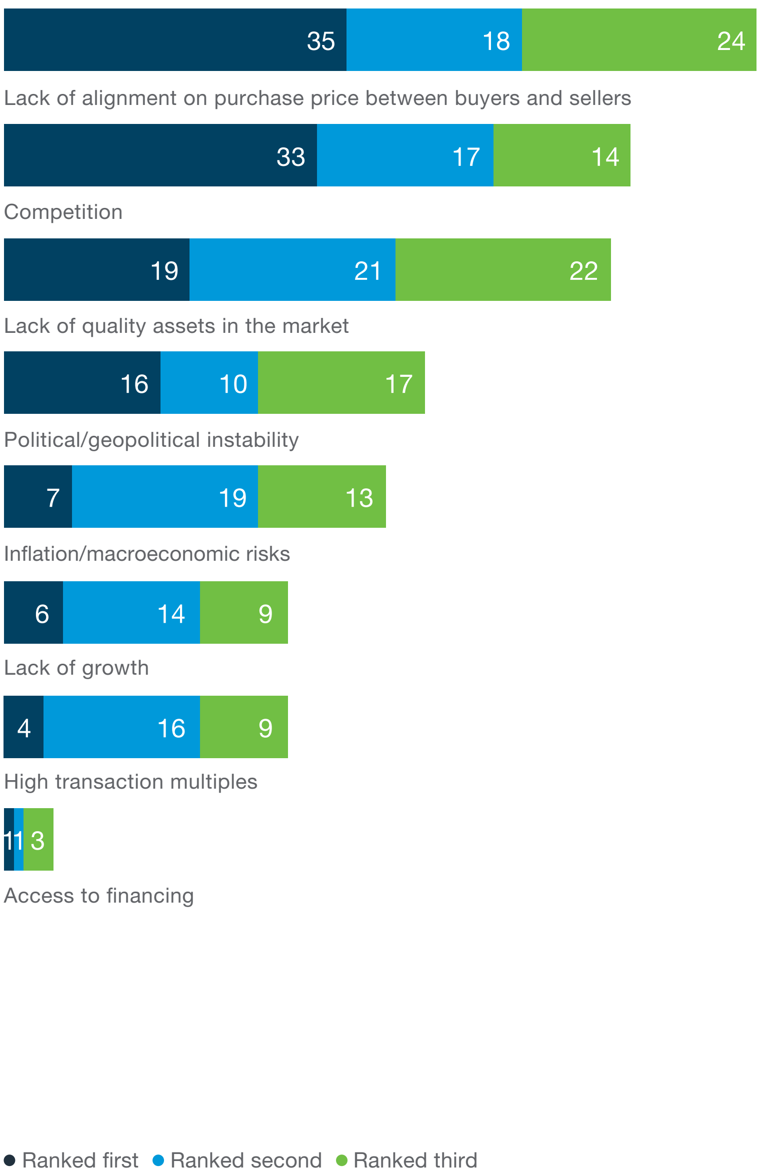
Overall - Sorted by overall rankings



In the regional breakout, US lenders ranked *Lack of alignment on purchase price* their biggest challenge overall, with almost two-thirds of respondents (64%) citing that category. And in the UK/EU, while *Lack of alignment on purchase price* was ranked highest overall (70%), *Lack of quality assets in the market* was the category most frequently ranked first.

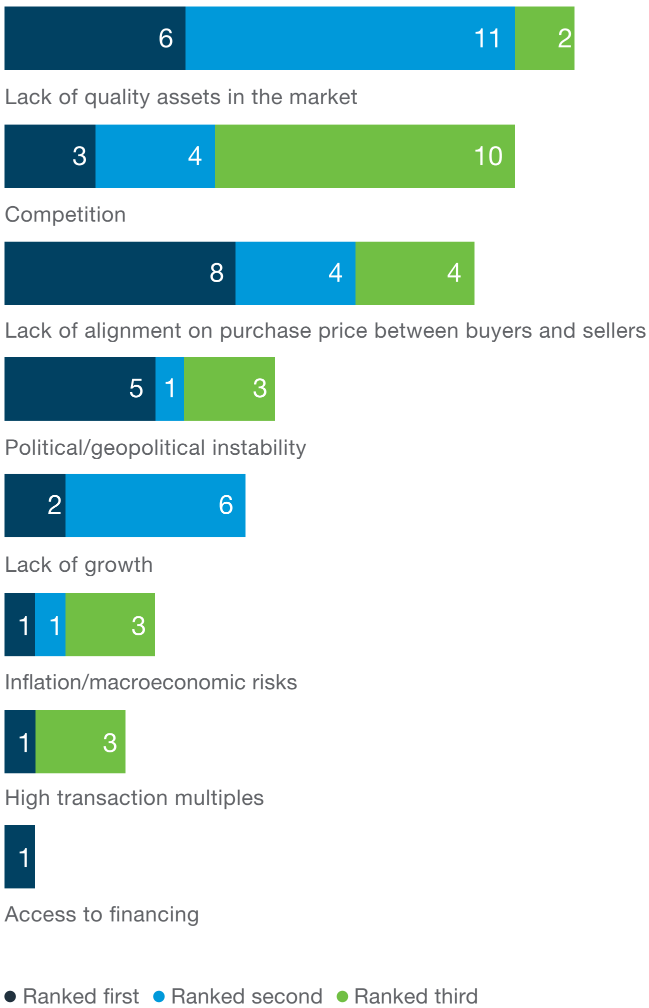
What do you anticipate to be the biggest challenge for dealmakers in the next 12 months?

US respondents



What do you anticipate to be the biggest challenge for dealmakers in the next 12 months?

UK/EU respondents



Document Favorability

Similar to past years, respondents said they believe documentation favorability will become mixed over the next 12 months, although a larger portion of this year's respondents said they expect loan documentation to stay the same.

Overall, about one-third of respondents (34%) said they expect loan documentation to become more favorable to the borrower, and almost half (48%) said they expect it to stay about the same.

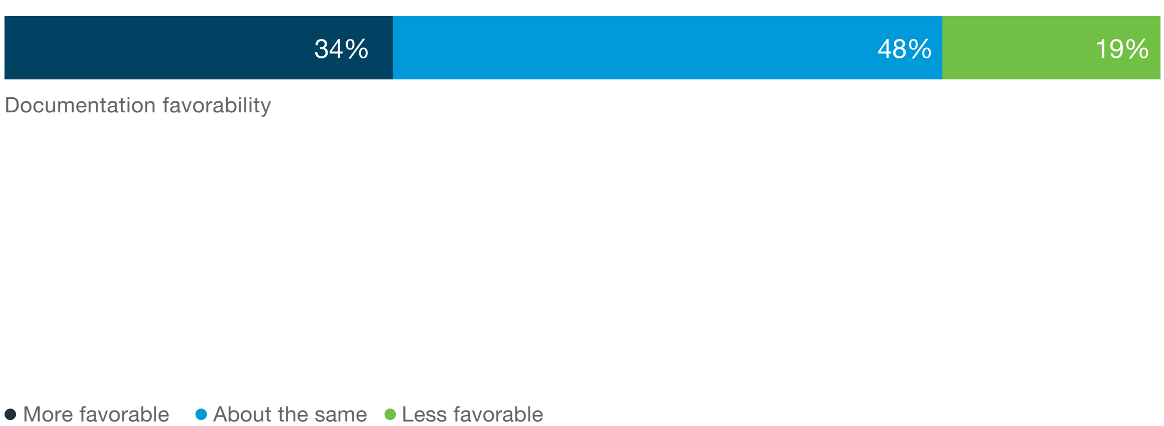
Just 19% said they expect loan documentation to become less favorable, smaller than the portion who said that (28%) in our 2023-24 survey and significantly smaller than those who said that in our 2022-23 survey (63%).

Market Predictions

Document Favorability

Do you expect loan documentation to become more or less borrower-favorable over the next 12 months?

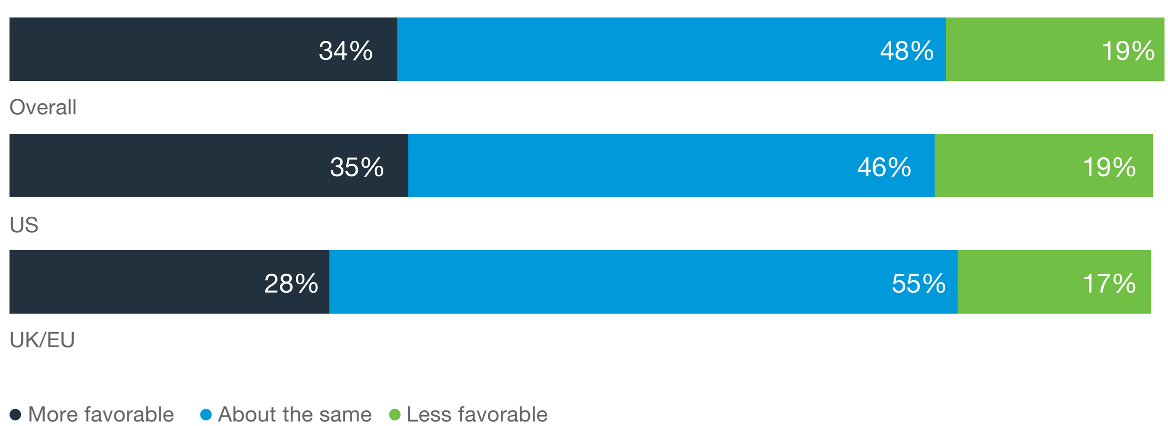
Overall



Regionally, US respondents leaned slightly toward documentation becoming more favorable to borrowers (35%), while the largest portion of UK/EU respondents (55%) saw documentation staying about the same.

Has loan documentation become more or less favorable?

US v UK/EU



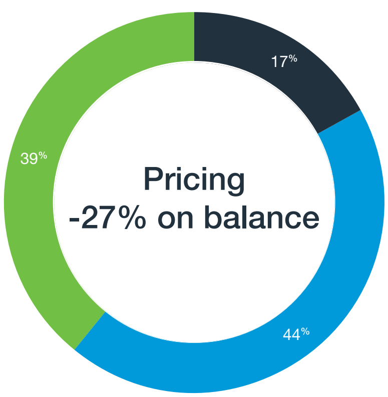
Market Predictions

Pricing Predictions and Defaults

Looking at the coming 12 months, almost half of all respondents (44%) said they expect lower pricing than they saw in the past 12 months, and 17% said they expect higher pricing. That means on balance, there is a +27-net-percentage favorability that shows more than one-quarter of respondents are expecting lower pricing.

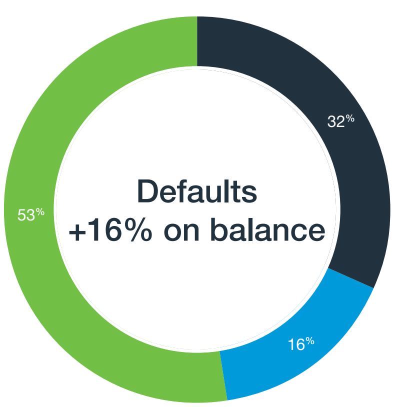
Concerning predictions around defaults, almost one-third of all respondents said they believe there will be more defaults ahead than there were in the past 12 months. And 16% said they believe there will be less defaults, meaning on balance, there is a +16-net-percentage favorability that leans toward more defaults in the coming 12 months.

However, the largest portion of respondents (53%) said they believe there will be no change in the level of defaults for the coming 12 months.



What are your expectations for pricing over the next 12 months?

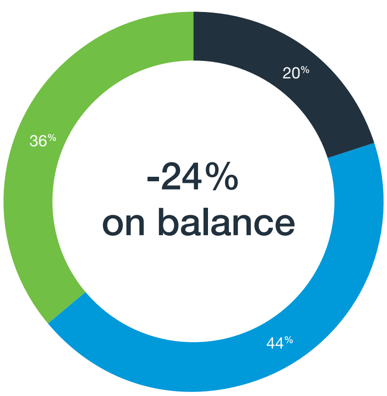
- Higher pricing than previous 12 months
- Lower pricing than previous 12 months
- No change



What are your expectations for your portfolio over the next 12 months?

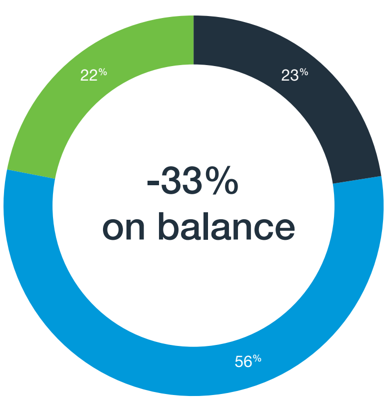
- More defaults than previous 12 months
- Less defaults than previous 12 months
- No change

Among US lenders, there were slightly higher expectations for pricing stability, with a smaller portion predicting lowered pricing compared to 2024 and a greater percentage predicting no change in pricing, at 36% as compared to 22% in 2024.



2025 US Pricing

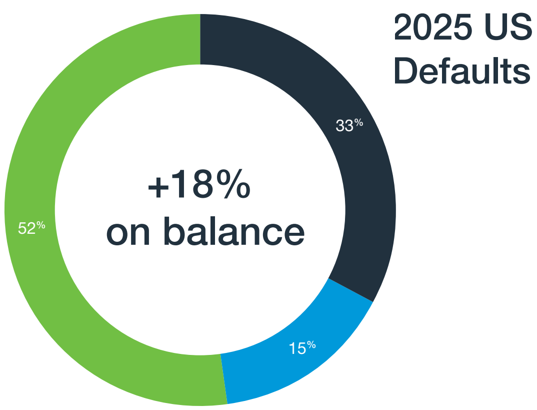
- Higher pricing than previous 12 months
- Lower pricing than previous 12 months
- No change

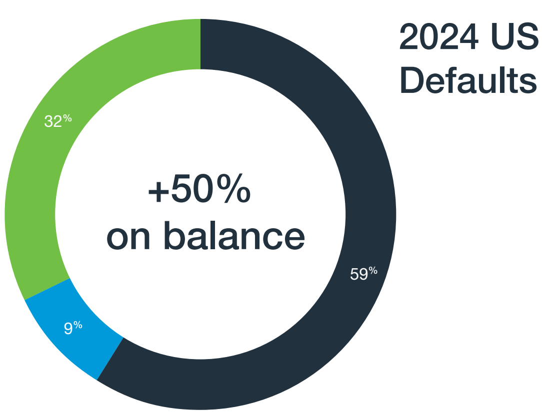


2024 US Pricing

- Higher pricing than previous 12 months
- Lower pricing than previous 12 months
- No change

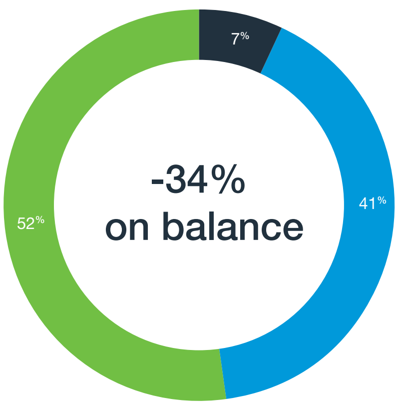
Turning to defaults, fewer respondents predicted more defaults, on balance, in the coming 12 months compared to the level predicted in 2024, and 52% expect no change in the default rate in the next year, a 20-point increase over 2024.



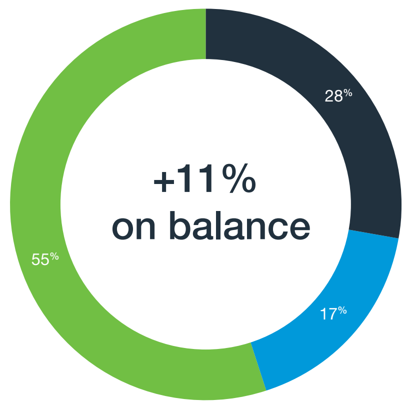


- More defaults than previous 12 months
- Fewer defaults than previous 12 months
- No change

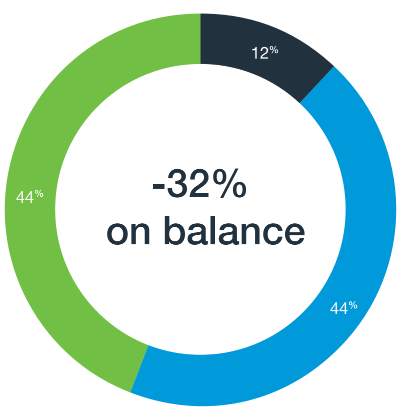
Among UK/EU lenders, there were similar pricing expectations, but a smaller portion of respondents were predicting more defaults, on balance, compared to this time in 2024.



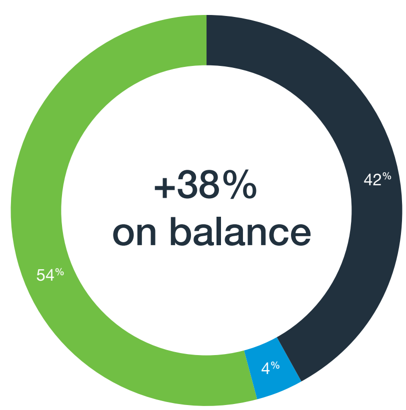
2025 UK/EU Pricing



2025 UK/EU Defaults



2024 US UK/EU Pricing



2024 UK/EU Defaults

- Higher pricing than previous 12 months
- Lower pricing than previous 12 months
- No change

Market Predictions

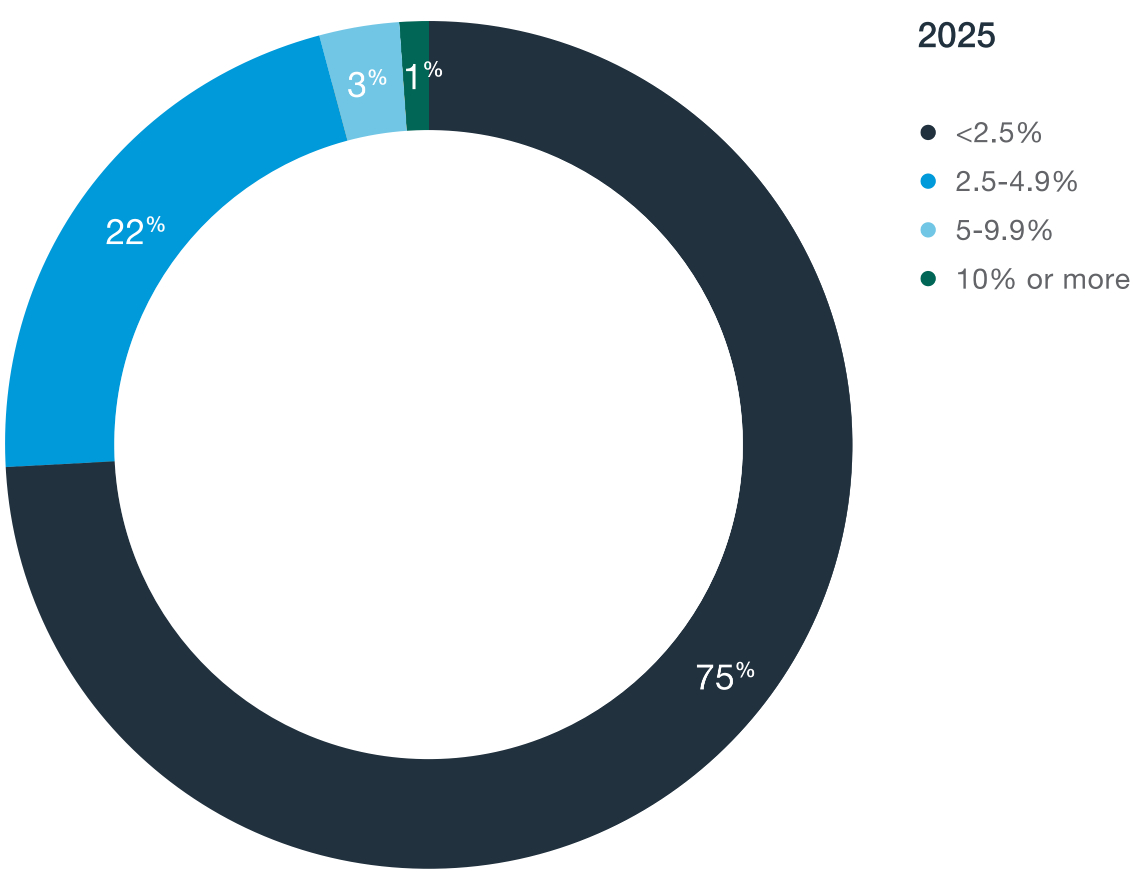
Defaults and Non-accruals

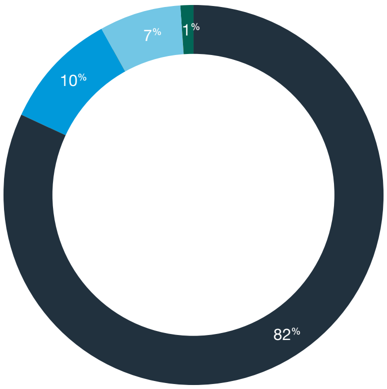
When considering their own portfolios, 75% of US respondents reported a default rate of less than 2.5%, a slight decline from 2024.

The overall default rate of the 825 loans included in the Proskauer Private Credit Default Index was 2.67% as of December 31, 2024, which is consistent with our survey responses.

What percentage of your portfolio is in default?

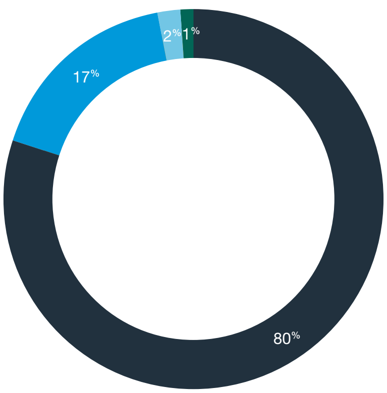
US only





2024

- <2.5%
- 2.5-4.9%
- 5-9.9%
- 10% or more



2023

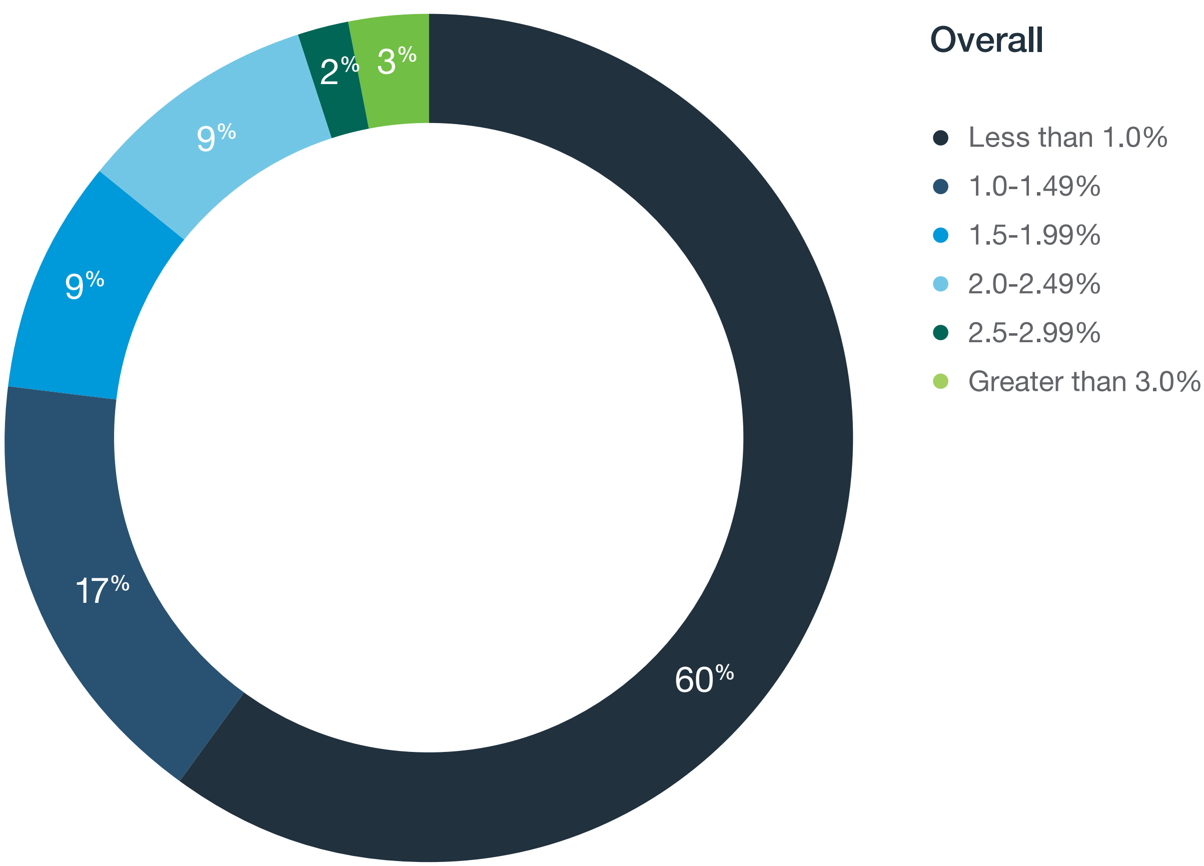
- <2.5%
- 2.5-4.9%
- 5-9.9%
- 10% or more

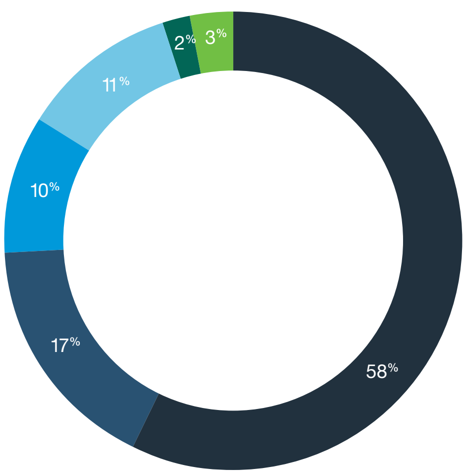
One potentially troubling trend was the increase in the portion of respondents (22%) who said that 2.5% or more of their portfolio is already in default. This portion increased twelve percentage points from last year and was more than double the rate of respondents seeing a default rate of 2.5% or higher defaults in 2022.

Market Expectations

60% of respondents indicated that less than 1.0% of their loan portfolio was on non-accrual, and an additional 17% reported a non-accrual rate of between 1.0 and 1.49%.

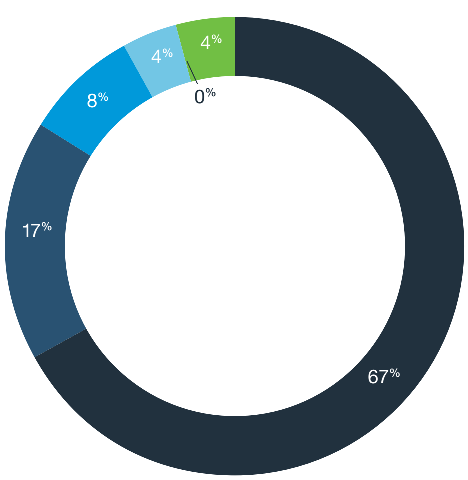
What percentage of your loan portfolio is on non-accrual?





US

- Less than 1.0%
- 1.0-1.49%
- 1.5-1.99%
- 2.0-2.49%
- 2.5-2.99%
- Greater than 3.0%



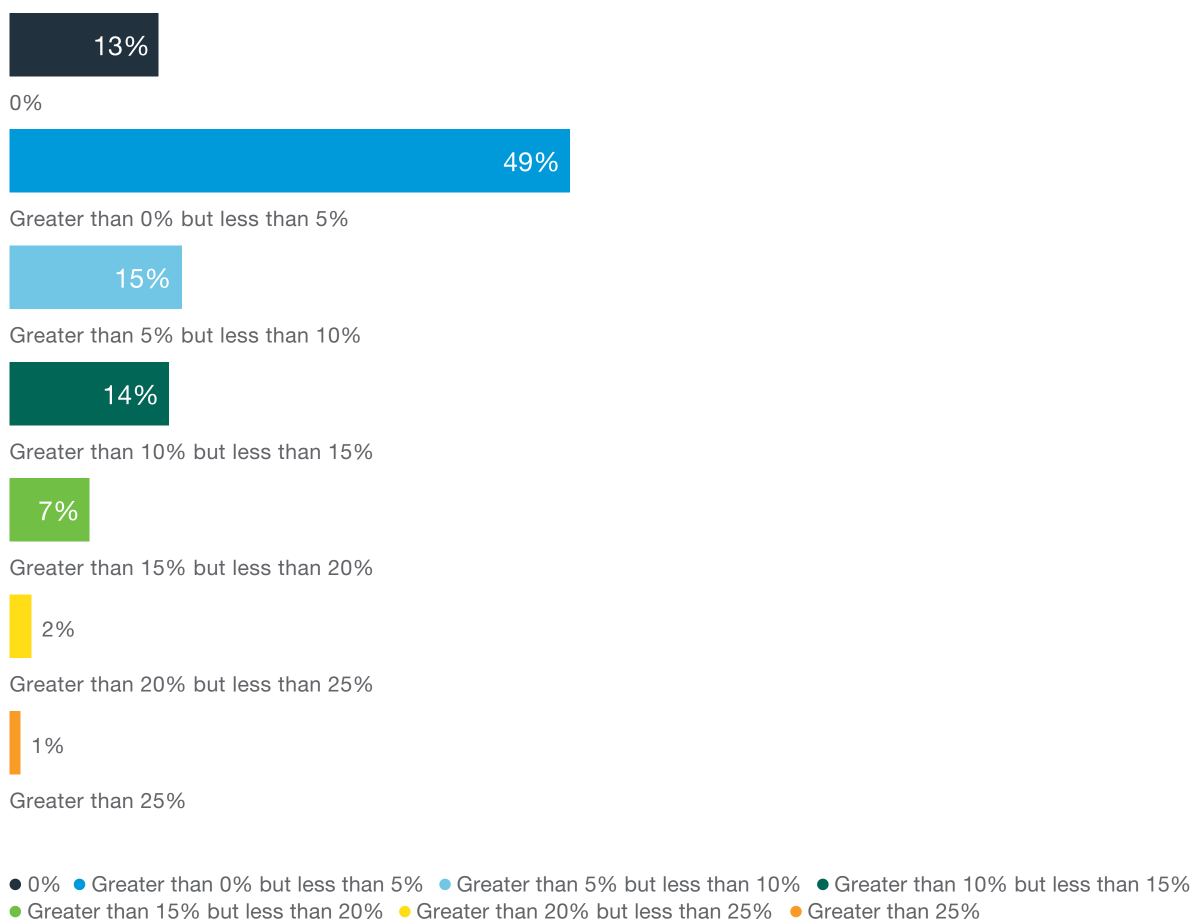
UK/EU

- Less than 1.0%
- 1.0-1.49%
- 1.5-1.99%
- 2.0-2.49%
- 2.5-2.99%
- Greater than 3.0%

Loans Subject to Adjustments

When asked what portion of their loan portfolio had been subject to significant loan term adjustments, almost half of respondents (49%) said the portion was greater than 0% but less than 5%. That, and the fact that just 62% of respondents said their portion was less than 5%, demonstrates the quality of lenders' underwriting process, the resilience of private credit as an asset class and the strength of the overall market.

What proportion of the loans in your portfolio have been subject to significant loan term adjustments?



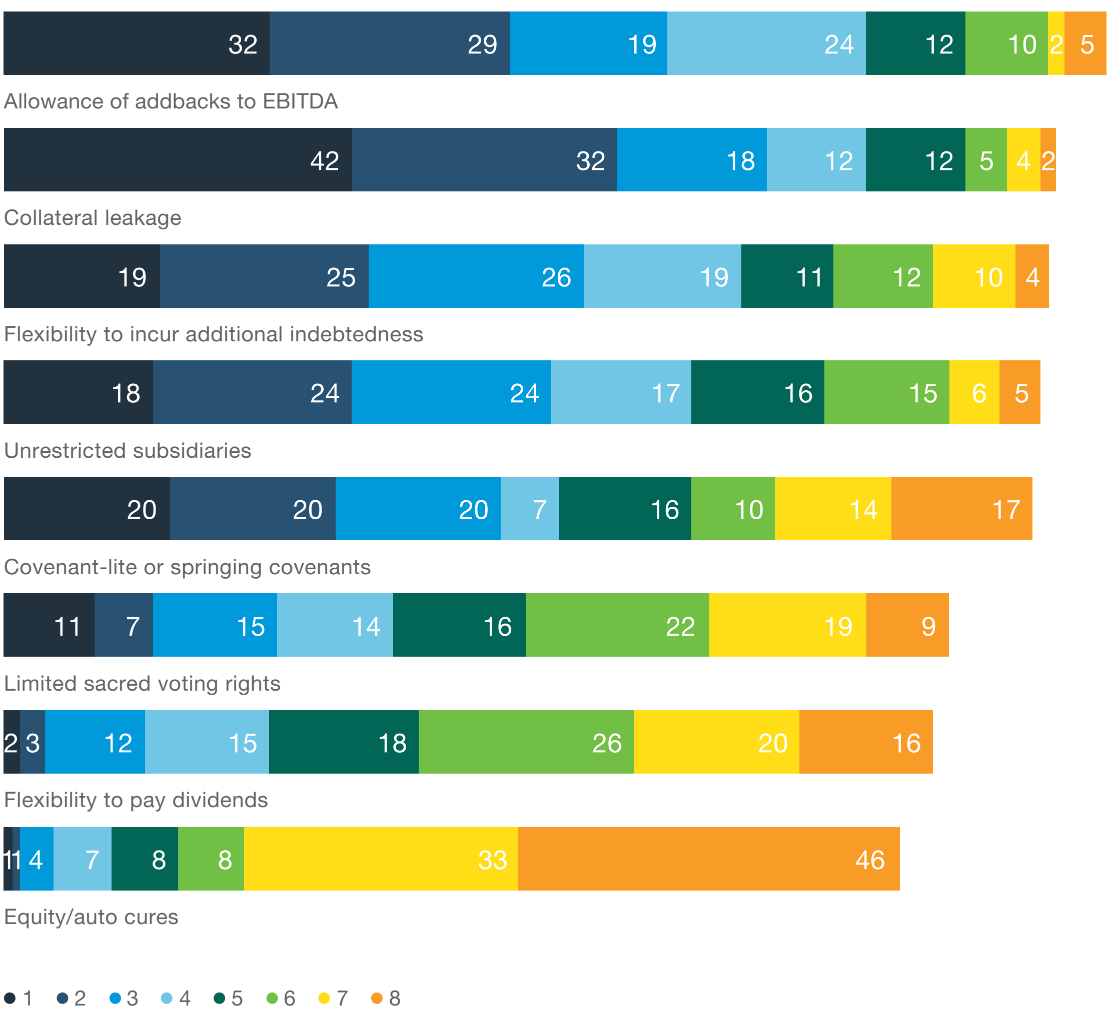
Market Predictions

Lender Risks

When all respondents were asked to rank which lender concession represents their greatest risk, most ranked *Allowance of addbacks to EBITDA, Collateral leakage* and *Flexibility to incur additional indebtedness* as their greatest risks.

While similar to past years' list of risks, *Collateral leakage* moved into second place this year from fourth the year before.

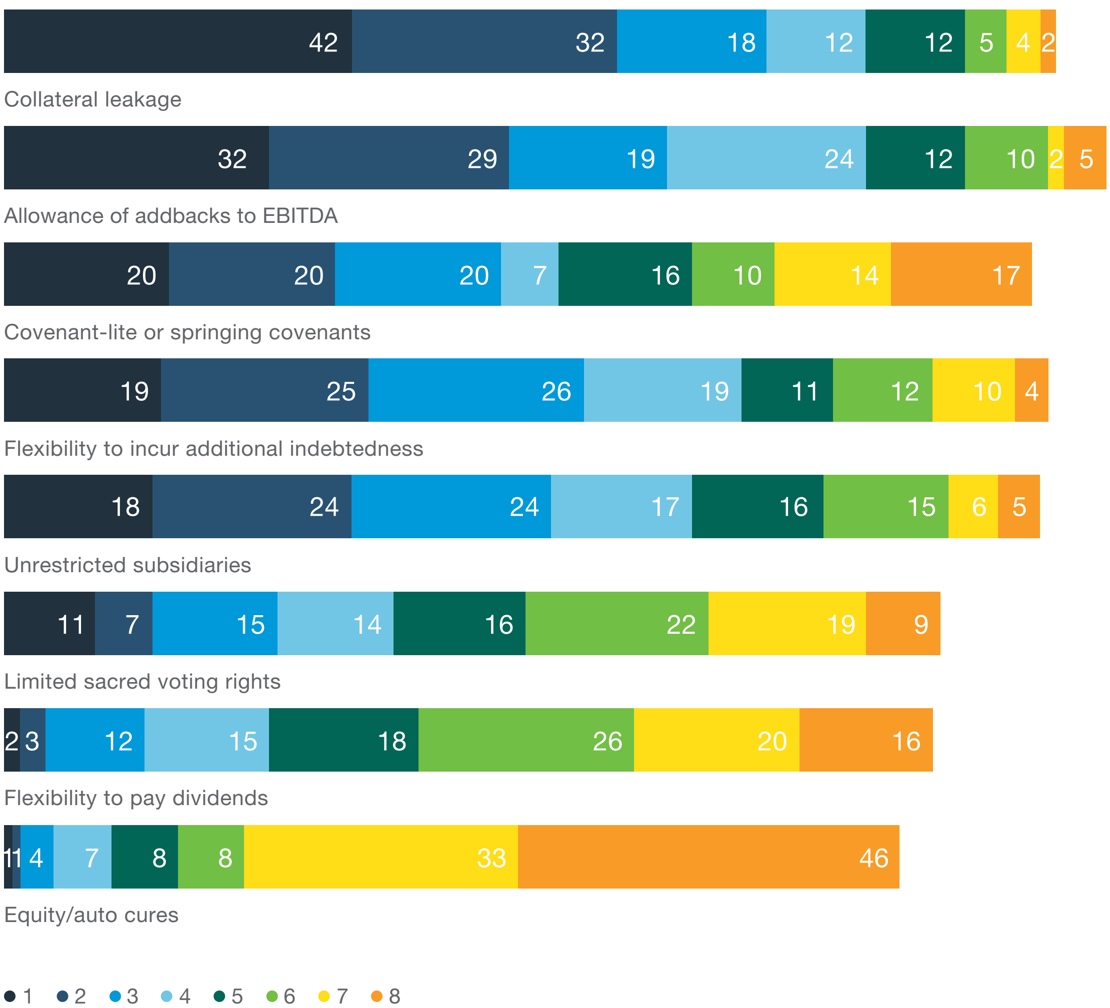
Which of the following concessions by lenders do you believe presents the greatest risk to lenders?



Indeed, when sorted by first-ranking, *Collateral leakage* moved into first place, while the top five most-cited risks remained relatively the same.

Which of the following concessions by lenders do you believe presents the greatest risk to lenders?

Overall — sorted by 1st rankings

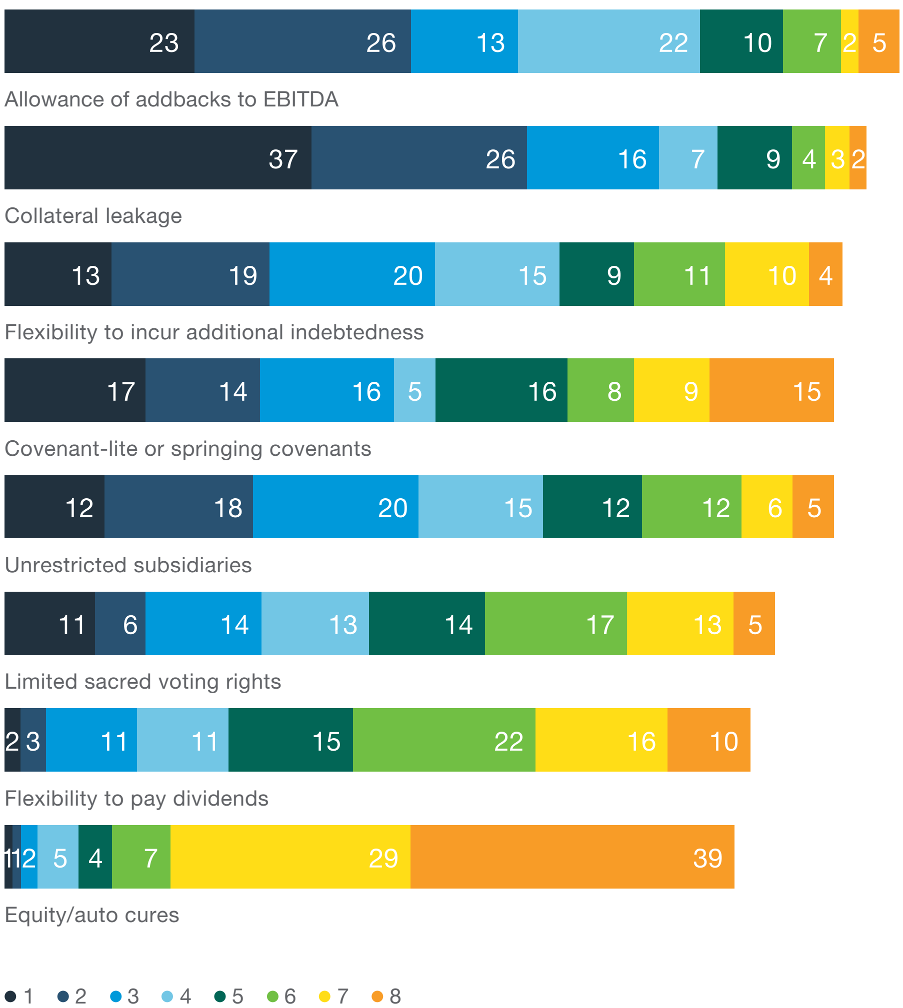


Market Predictions

Even when sorted by region, cited risks were mostly unchanged, although UK/EU lenders seemed less concerned about *Collateral leakage* than their US colleagues.

Which of the following concessions by lenders do you believe presents the greatest risk to lenders?

US – sorted by overall rankings



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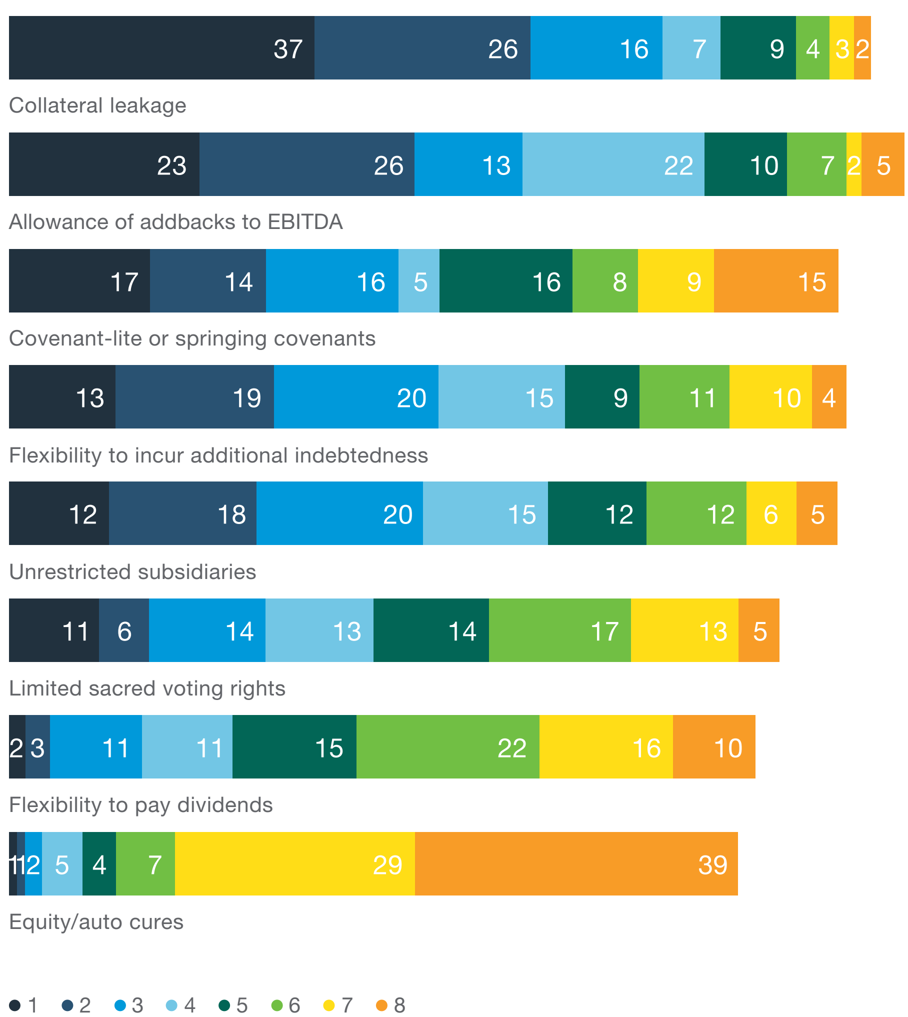
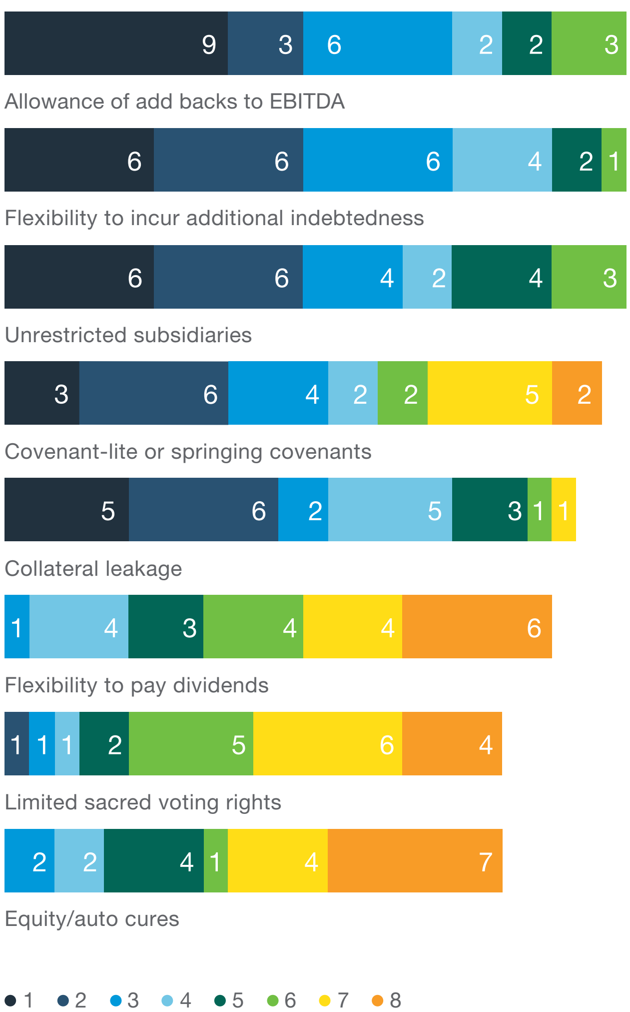
US – sorted by 1st rankings



Market Predictions

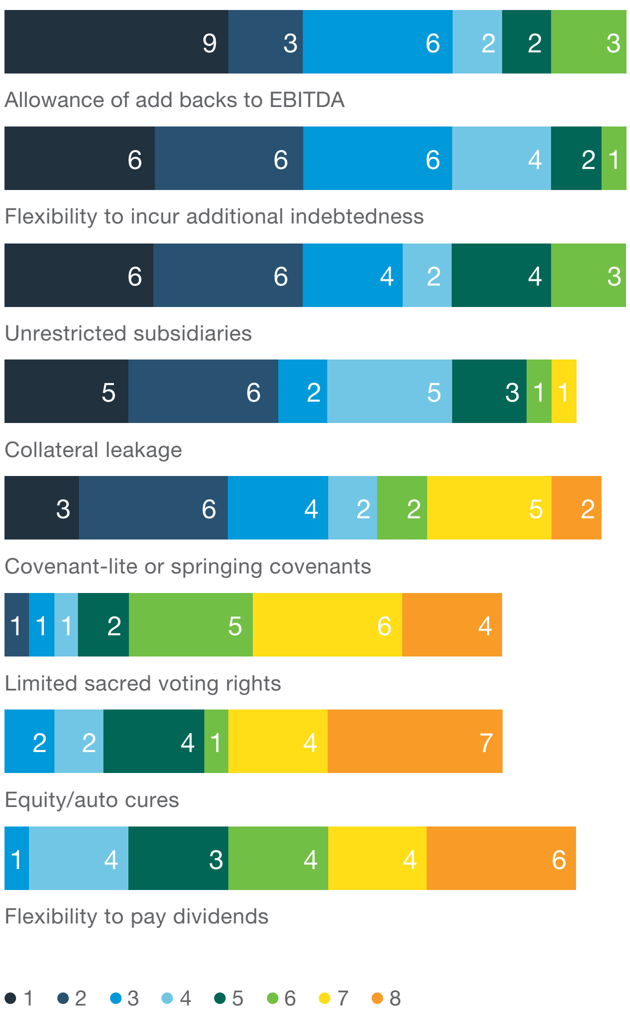
Which of the following concessions by lenders do you believe presents the greatest risk to lenders?

UK/EU – sorted by overall rankings



Which of the following concessions by lenders do you believe presents the greatest risk to lenders?

UK/EU – sorted by 1st rankings



Further, several respondents offered more detailed reasoning for selecting the risks they did.

Allowance of add-backs to EBITDA:

"Loose definitions of add-backs particularly in Sponsor-backed deals may influence definition of leverage (actual leverage potentially higher than what is reported)."

"Poor EBITDA quality seems to lead to all sorts of other issues, and so I rank it first."

Flexibility to incur additional indebtedness:

"[Liability management exercises] LMEs"

''The ability to stack baskets and to access the multiples via inflated EBITDA is my major concern. With mixed economic results, I am most concerned about additional debt combined with flat to declining cash flow available for debt service."

''Top 3 are all flexibilities that we see sponsors utilize in a downside and should be guarded against given changing economic climate across European jurisdictions."

Unrestricted subsidiaries:

"Biggest focus for me right now is collateral leakage or moving around of material IP... think liquidity and payment default is the biggest focus for any underperforming name for any portfolio."

"Games with moving collateral around to the detriment of the lenders and lender-on-lender violence are by far the most concerning. The rest are generally manageable as long as you don't water down the definition of EBITDA so much that it is completely detached from actual cash flow of the business."

''Tight structure will be important during volatile times."

Limited sacred voting rights:

"Having the ability to be at the table with or without other lenders is at the highest level of concern for our firm."

"I think the potential for sponsor on lender violence and lender-on-lender violence are the biggest issues."

Collateral leakage:

"Cash & collateral leakage."

"Lenders agreeing to poor [liability management transactions] LMT protections, ability for lenders to change vast majority highly negotiated document terms and auto-cures pose greatest risk to lenders."

"LMEs continuing to gain prevalence."

"Sponsor-backed company documents have been bad and getting worse. Too much leakage of cash and collateral. Layered on top of fully levered transactions with lots of adjustments and high interest rates, will lead to an increase in defaults and/or restructurings."

"We focus primarily on senior secured asset back lending. The above ranking represents our specific lending style with value of assets (collateral) being of vital importance followed by cash leakage."

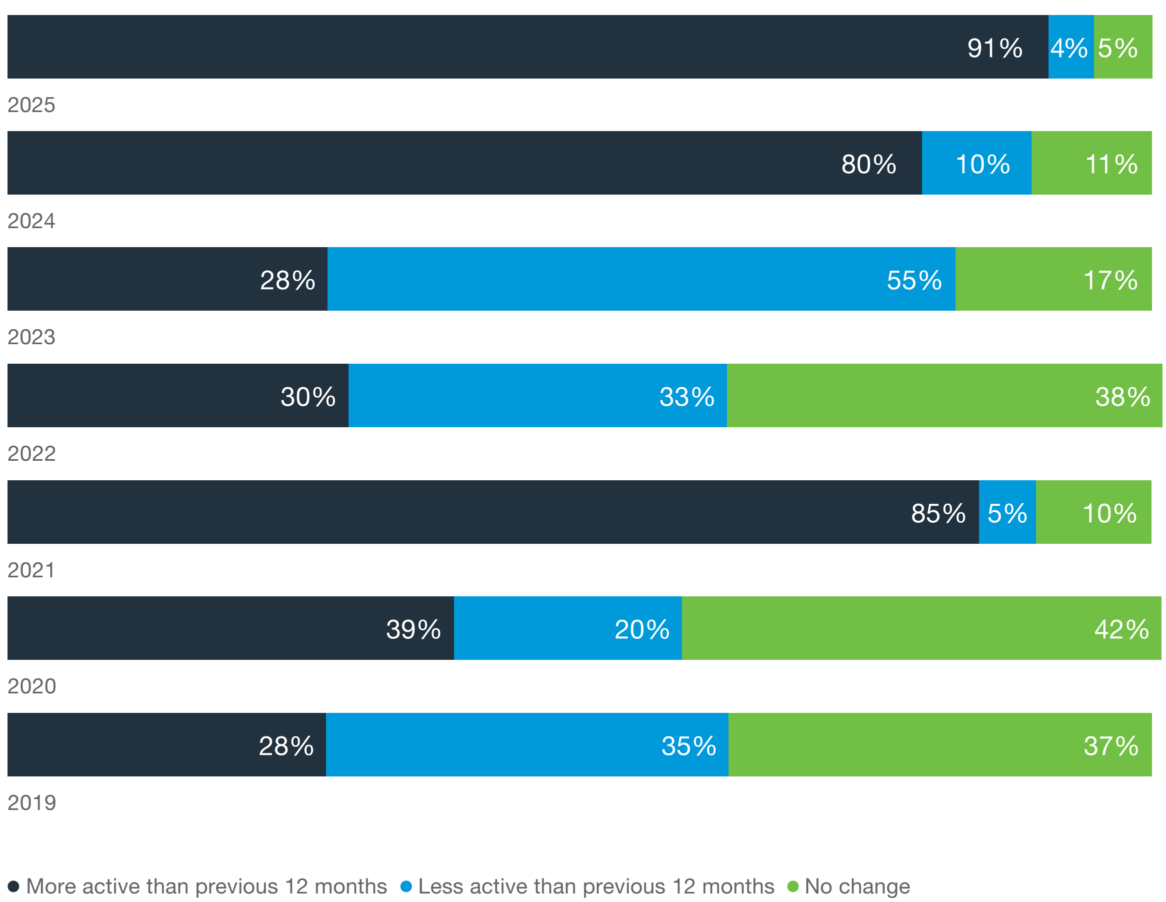
Five-Year Trends

We asked respondents for their predictions for deal activity, pricing, default levels and fundraising plans for the coming year. We then compared their answers to responses we've gathered in our past surveys since 2019.

Volume of Deal Activity

Respondents set a record in this year's survey, with a stunning 91% saying they expect dealmaking to be more active than in the previous 12 months. That topped not only the 80% who said that last year, but the previous high mark of 85% set in 2021.

What are your expectations for deal activity in the market over the next 12 months?



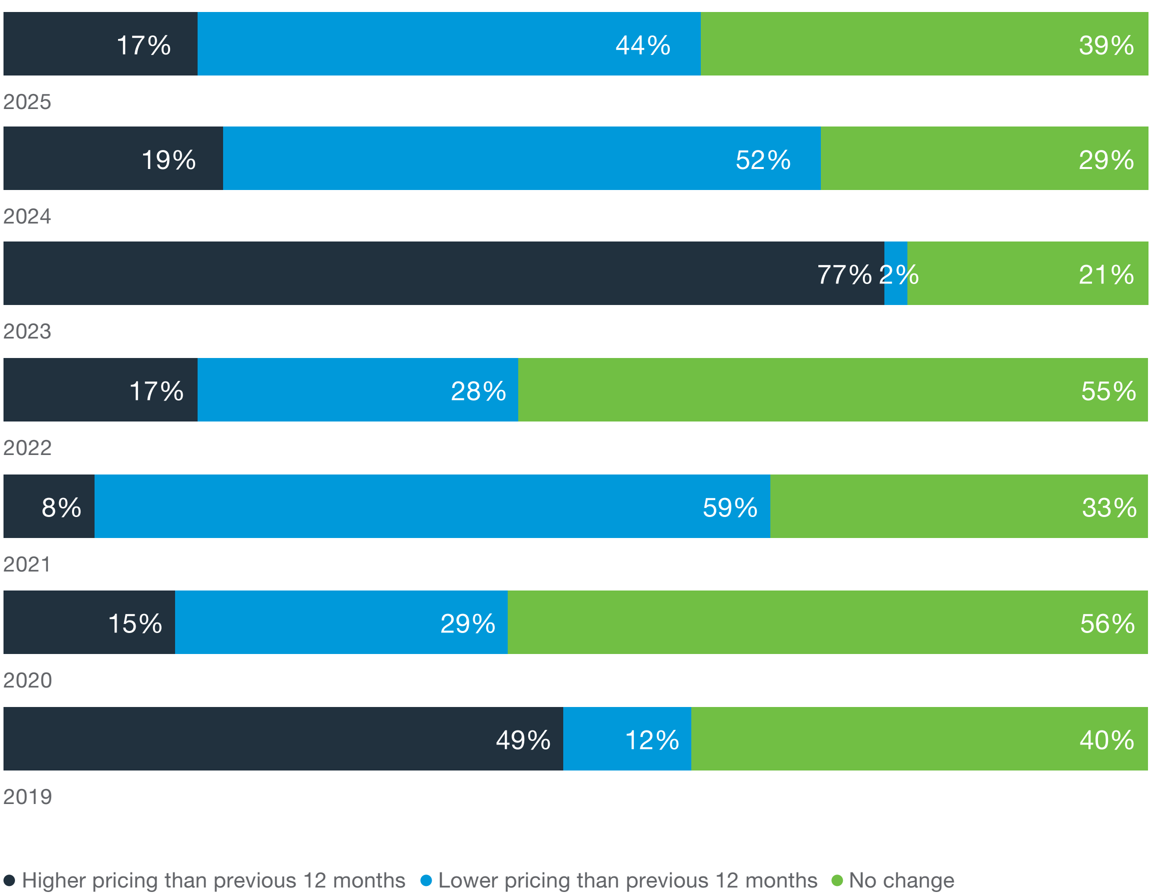
Five-Year Trends

Pricing Predictions

Similar to last year, the largest proportion of respondents (44%) said they expect lower pricing than the previous 12 months; however, this portion did drop compared to last year. And the portion of those respondents who said they were expecting no change in pricing (39%) increased.

Indeed, the bands of 2025 and 2024 look similar to that of 2021, a year that reflected an easing of concerns — at the time, concerns around the pandemic. This time, the expectation of lower pricing now may reflect the general easing of fears of recession that were so evident in 2023.

What are your expectations for pricing over the next 12 months?

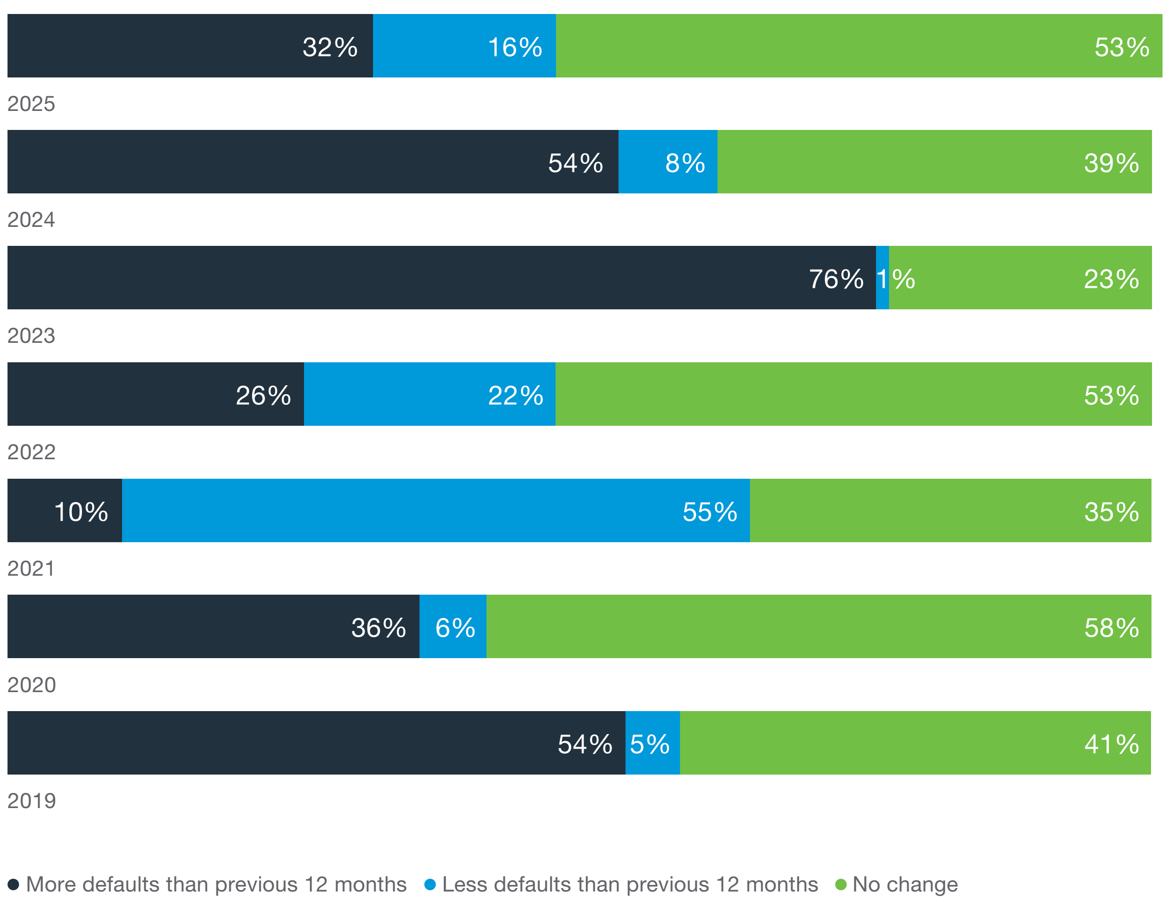


Default Expectations

This easing of macro economic fears, especially around inflation, may be what's behind the fall in default expectations, as well. This year, just about one-third of respondents (32%) said they expect more defaults in the coming year than they saw in the past 12 months. That continues a two-year drop-off after more than half (54%) said that in 2024 and more than three-quarters (76%) said it in 2023.

Similarly, the expectation that there will be no change in defaults continued to increase, to a majority of respondents (53%) this year, over the same time frame.

What are your expectations for your portfolio over the next 12 months?



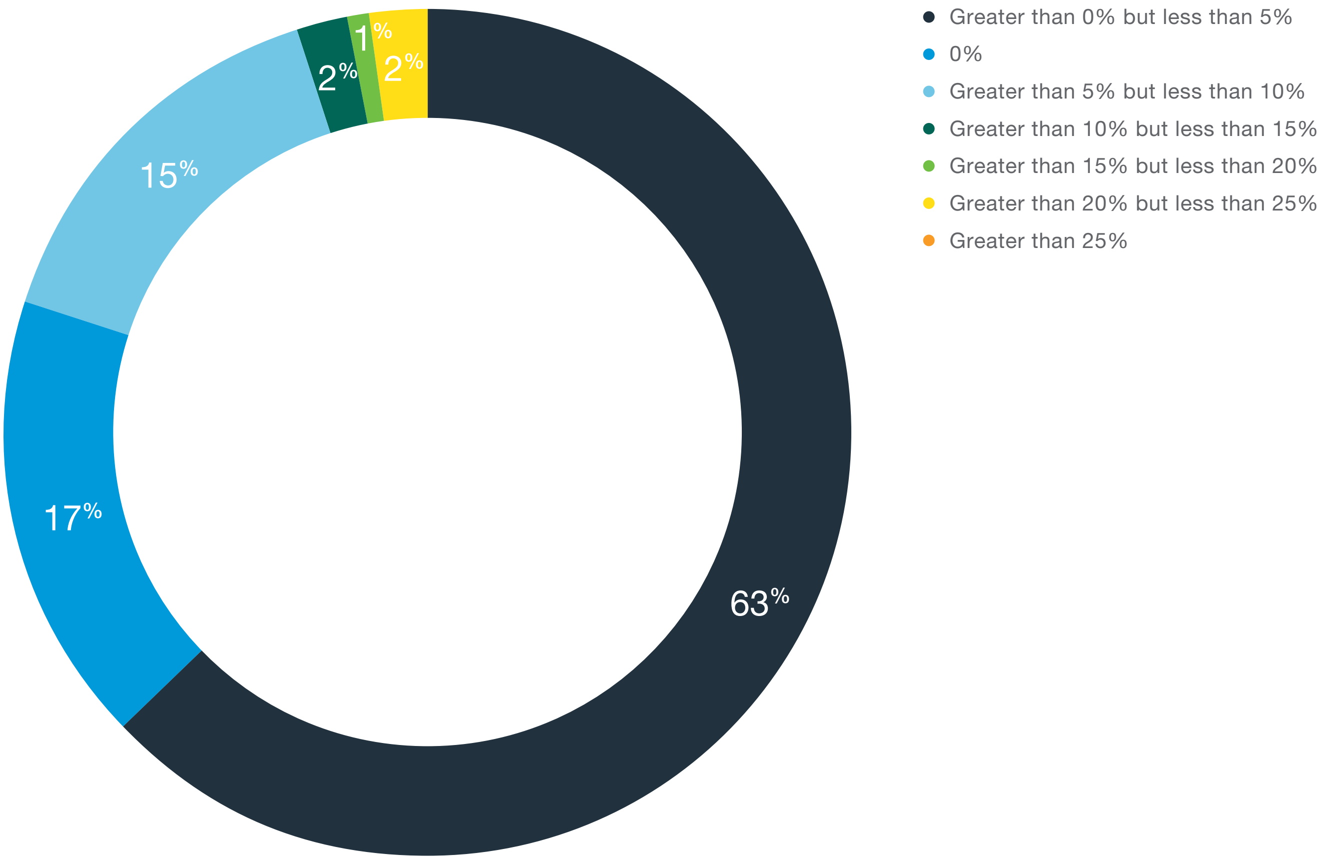
Hot Topics

Quality of assets

One hot topic that respondents are expected to face in the coming year is concerns over the quality of the assets in their portfolio, specifically the portion of those assets that currently may be distressed, facing creditor enforcement action or in need of additional liquidity — or are expected to face those situations over the next year.

For example, a large majority of respondents (63%) said that a portion of their portfolio assets that was *Greater than 0% but less than 5%* was distressed or expected to be.

What percentage of your assets are distressed (i.e, have liquidity issues and have failed to pay interest and/or principal required to be paid under the loan documentation or are forecast to do so within the next 12 months)?

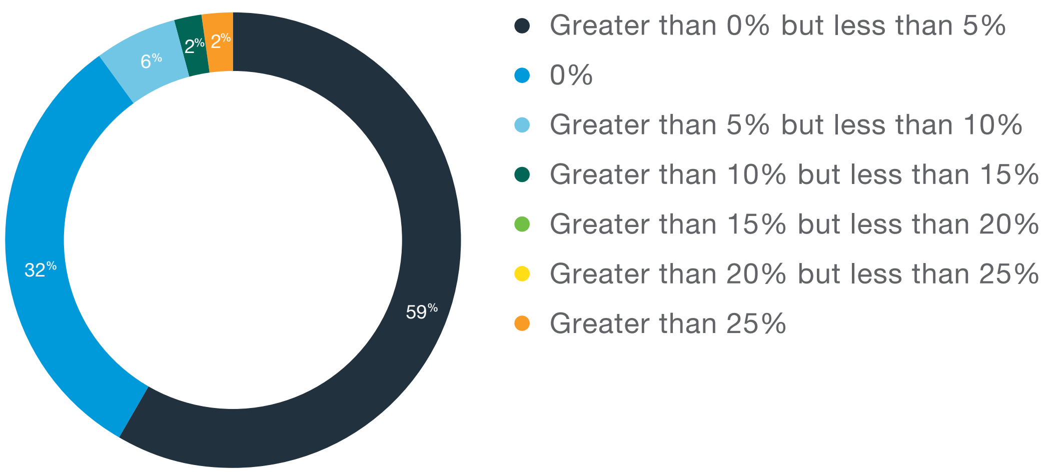


A similar majority (65%) said more than 0% but less than 10% of their assets had been subject to creditor enforcement or remedy in the past year. Another one-third (32%) said none of their assets faced such action.

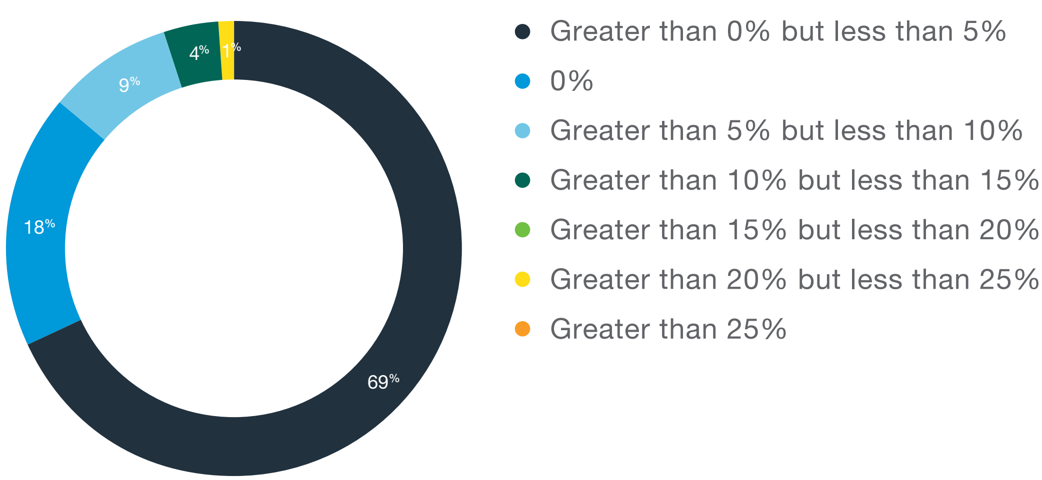
Of those that saw such creditor action, almost seven in 10 said that less than 5% of the assets in their portfolios were consensually restructured because of financial underperformance.

Hot Topics

What percentage of your assets have been subject to an enforcement or an execise of creditor remedies in the past twelve months?



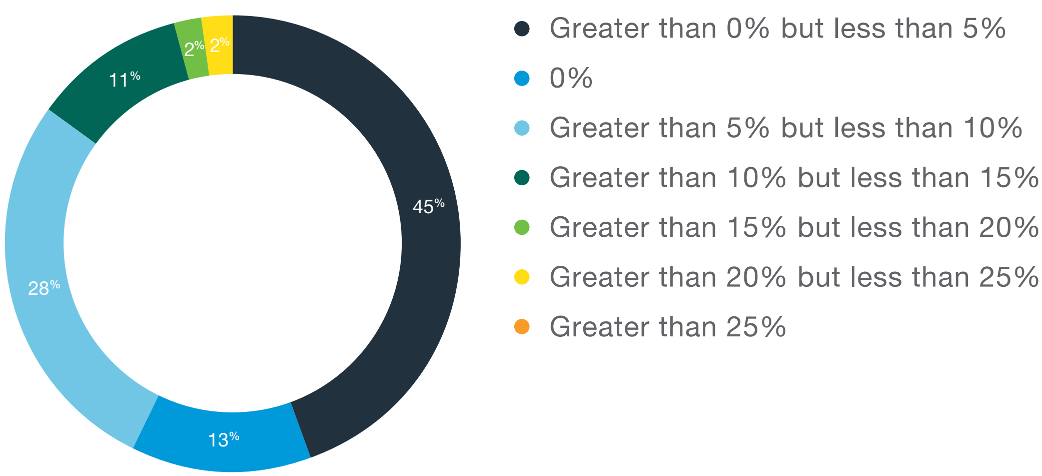
If greater than 0%, what percentage of your assets have been consensually restructured because of financial underperformance in the last twelve months?



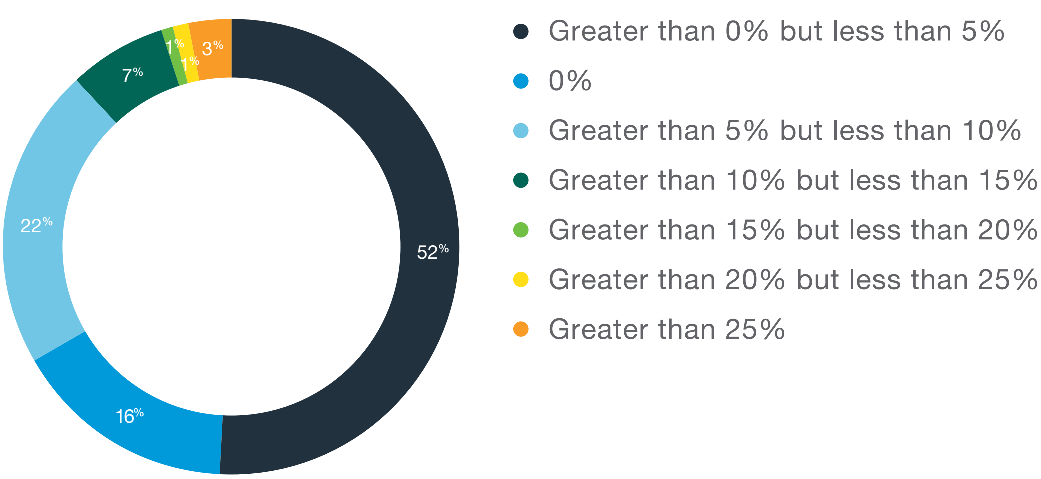
Similarly, almost three-quarters (73%) of respondents said more than 0% but less than 10% of their assets had received additional liquidity in the past year. Just 13% said none of their assets faced such action.

Of those respondents that saw such liquidity infusion in their portfolios, almost the same percentage (74%) said up to 10% of the assets received additional liquidity.

What percentage of your assets have received additional liquidity from their respective financial sponsors/shareholders over the past 12 months?



If greater than 0%, what percentage of your assets have received support from the sponsor in the form of a sponsor guarantee or equity commitment?



Hot Topics

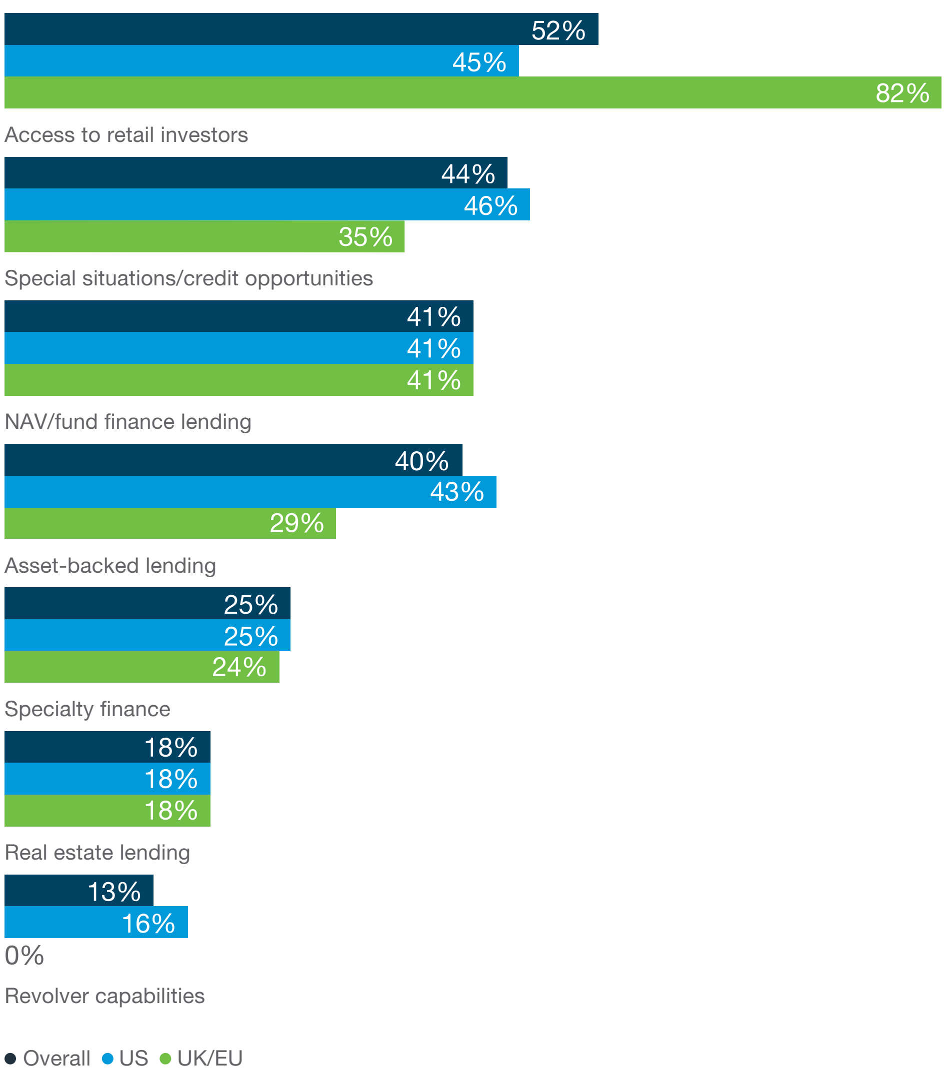
Acquisition and Expansion

Like in the previous year's survey, firms' acquisition and expansion plans were another hot topic of discussion among lenders, many of whom said their firms were looking to acquire or expand their capabilities, citing several areas they would likely target for expansion.

Overall, more than half of the respondents (52%) selected *Access to retail investors* as the capability they were most seeking to enhance through acquisitions or expansion plans, and 82% of UK/EU respondents selected that capability.

While regionally, the two regions were similar in most respects, US respondents showed a stronger affinity for seeking to use acquisitions or expansion plans to increase their capabilities in *Special situations/Credit opportunities*. Interestingly, almost three-quarters of the US lenders (73%) of those who selected that option were from firms with between $1 billion and $50 billion in AUM.

Is your firm looking to acquire or expand any of the following capabilities (select all that apply)



Conclusion

Like one of those before-and-after photo advertisements, the state of the global private credit market as it enters 2025 is one of a shaking off of the remnants of a slow market with little dealmaking to one of lifted spirits and greatly heightened expectations for the year ahead and beyond.

Just ask the record-breaking 91% of lenders that were surveyed who said they expect more deal activity in the coming year than they saw in the last 12 months.

After spending a large portion of 2024 in the doldrums, lenders have voiced strong signs of optimism for the coming year. Expected increases in check size, a willingness to do larger deals and the active movement of larger lenders toward the largest deals all presage a dealmaking environment in 2025 that could be very robust indeed.

Pointing to this, too, is that a stiff 18% increase in total assets under management in the private credit market and an apparent push by some private equity firms' toward exit strategies are driving expected strong deal flow. And firms' eagerness to embrace other private debt strategies, such as Special situations/Credit opportunities, shows, too, that lenders are willing to expand their arsenal.

Indeed, this year's *Proskauer Private Credit Survey* may be most similar to the first post-pandemic report we conducted in 2021, in which a surge of pent-up lender optimism and activity expectations seemed ready to burst upon the scene.

So, too, then, are the positive expectations for 2025, building on the cautious optimism we saw in last year's survey and in fact, looking to be strongly galloping ahead.

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