Tr€nd$ in Priv£te Credit

The Industry Speaks

We don’t speculate. We accumulate.

Proskauer

Contents

Executive Summary

We are very pleased to be able to share the results from our sixth annual Trends in Private Credit survey, undertaken from December 2021 through to February 2022.

The 2022 survey explored drivers of deal flow and the challenges for dealmakers, market predictions and risks, the value of private credit and expectations around interest rates, pricing, and defaults.

Respondents also contributed their thoughts and expectations around broader economic and political factors and their impact upon the market, including GDP growth and the likelihood of the market favoring borrowers or lenders in the year ahead.

Respondents' investment strategies were then assessed against these market predictions, including prime markets and industries for investment, use of lending vehicles, as well as plans to fundraise and plans to purchase a loan portfolio.

As new areas for 2022, we explored ESG considerations; both whether it weighs into lending strategies and how ESG data is collected. We also explored our respondent preparedness for transitioning from LIBOR.

As always, it is more important than ever to contextualize these forecasts within wider global events. At the time of last year's Private Credit research, the COVID-19 pandemic was in full swing and at peak volumes in certain areas of the world. The 2022 survey was conducted after the majority of the world had begun rolling vaccinations out, but by no means could the pandemic be considered over, with many still working from home and living under additional restrictions.

Key findings from the 2022 research include:

Overall, -3% on balance expect deal activity to increase over the next year

- US respondents expect a decrease in activity (33%), whereas the UK/EU expect an increase
- Respondents say that the huge deal volume seen last year is unsustainable this year
- 30% of US respondents still do anticipate an increase in activity driven by availability of capital

Dry powder levels again considered the most important driver of deal flow overall

- Dry powder levels considered most important driver of deal flow in US, followed by sponsors seeking realizations.
- This sentiment is shared by UK/EU respondents

Competition is the greatest challenge for dealmakers overall

- Competition regularly tops the list of challenges each year
- High transaction multiples were the second greatest challenge (for both UK/EU and US respondents), and lack of quality assets in the market cited as the third main challenge – the same as 2021
- US respondents are still feeling the impact of COVID as this remains the third biggest challenge for dealmakers in the US

Today's picture

- Almost two fifths of respondents said that the maximum total leverage they would underwrite is 7.5x or greater – nearly double last year's percentage in this category (over double for US respondents)

- Higher AUM groups much more likely to underwrite maximum total leverage of 7.5x or greater
- Nearly a third (32%) of US respondents won't do deals without a financial covenant, a drop on last year in which 46% of US respondents required a covenant
- Almost four out of every five UK/EU respondents require at least one financial covenant, and 91% require a covenant when EBITDA is greater than €25m – both of these figures increased from 2021
- 97% of UK/EU respondents will require a financial covenant when they originate deals with less than €40m of EBITDA
- Over a third permit an aggregate of 20-29% EBITDA on transactions, with roughly four fifths of respondents in the 15-39% range
- Over a third of respondents require a 30-34% equity contribution in their transactions
- UK/EU more likely to require a 40-44% equity contribution, with half of respondents in that category
- The proportion of respondents considering purchasing a loan portfolio steps up to 41%, up from about a third in 2021
- 83% are currently raising a debt fund, a 4-percentage point decrease on last year, and nine out of ten direct lenders have plans to fundraise, similar to 2020

When asked for predictions for the next 12 months:

- On balance, 11% expect pricing to decrease, with more (28%) predicting a drop in 2022 than an increase (17%), though 55% foresee no change to pricing this year
- An increase in defaults also anticipated on balance; last year one in 10 expected a decrease
- Almost everyone – 94% – expects US interest rates to increase; 73% by 50+ basis points, and 21% by 25 basis points

- Nine in 10 expect UK interest rates to rise and respondents are split 50/50 on whether or not Eurozone interest rates will rise
- No change is expected by majority of UK/EU respondents in deal flow as a result of interest rate increases
- 32% expect US GDP growth of 2-2.49%; 30% expected 2.5-2.99%, little expectation for anything below 2% or above 3.5%
- 41% expect the next US recession to be greater than 24 months away
- 51% of US respondents predicted deals to be more borrower-friendly in the coming year

Demographics of Respondents

The 2022 Proskauer Private Credit Survey saw contributions from 181 respondents overall, a sharp increase on the past couple of years. The majority of respondents hold senior roles (Managing Directors, Partners and Directors making up almost three quarters of the respondent base) and manage substantial funds (the majority of both US and UK/EU respondents had >$10bn / >€10bn AUM). Roughly four in five respondents were US-based, with the remainder based across the UK and EU.

The US response is representative of at least $2 trillion of AUM (2021 results represented $1.675 trillion), and the UK/EU response is representative of at least $180 billion of AUM ($250 billion last year)[1].

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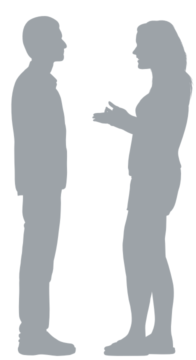
[1] *Respondents provided the total value (eliminating multiple responses from the same firm) of AUM from a set of ranged options. The lowest point of each range was taken for each individual and added together to create the cumulative figure – it is likely the figure is somewhat higher than specified. UK/EU Euro response converted to dollars at $1:€1.11.*

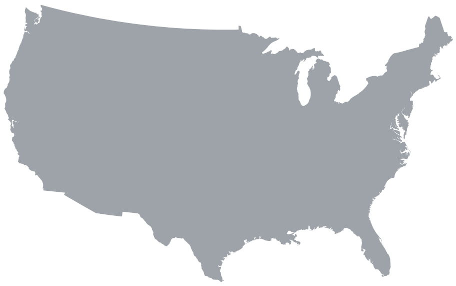
Managing Director	**38%**
Partner	**23%**
Director	**14%**
Vice President	**11%**
Principal	**7%**
Internal Counsel	**3%**
Associate	**2%**
Senior Associate	**2%**



181

Respondents in total

81%

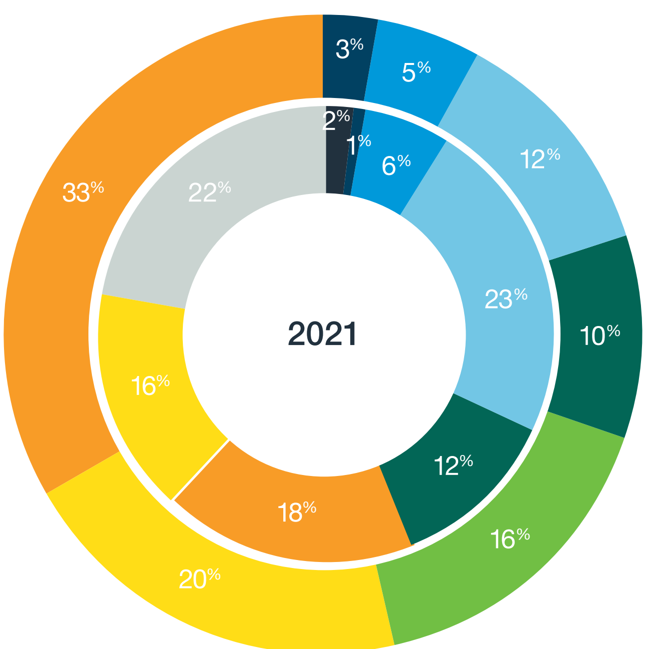


United States

19%

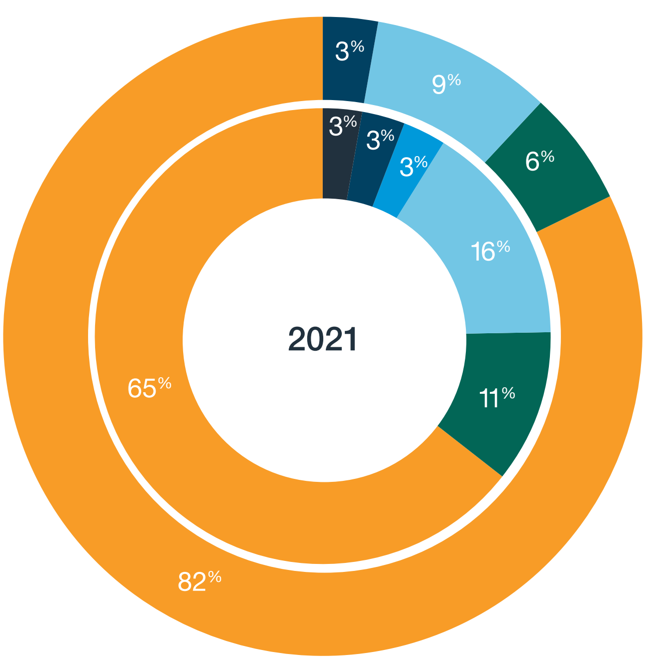
United Kingdom & Europe

Demographics of Respondents



US 2022

- 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
- Greater than $50 billion



UK/EU 2022

- <€250 million
- €250-€499 million
- €500-€999 million
- €1-€4.99 billion
- €5-€10 billion
- >€10 billion

Detailed Results

Deal Activity

Respondents are almost evenly split, but on balance, less activity is expected (-3% on balance), in last year's results, 80% expected more deal activity on balance. Last year's high expectations were driven by recovery from COVID, and the overall sentiment is that this level of growth won't be sustainable this year.

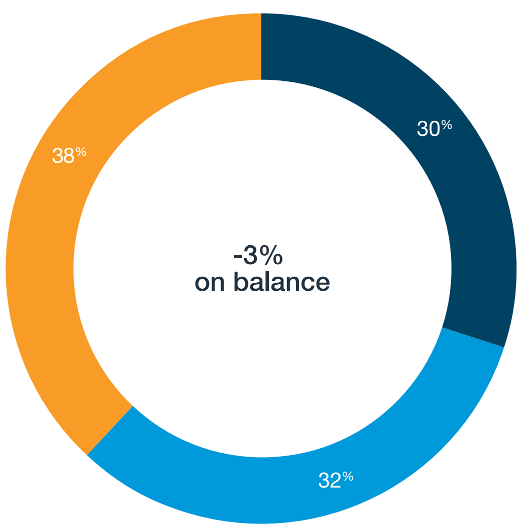
Overall, UK/EU respondents proved slightly more optimistic of an increase in activity compared to US respondents; 38% expecting an increase in deal activity on balance, compared to the -12% on balance of the US. US respondents feel that due to the volume of work last year, for example, delayed deals due to COVID being actioned in 2021 instead of 2020, it won't be possible to sustain for another year, even if the coming year still has strong deal activity. On the UK/EU side, dry powder levels are cited as the main driver of increased activity.

51% of US respondents predict deals to be more borrower friendly in the year ahead, compared to 72% last year. 36% don't expect any change.

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?

Overall: Split of opinion; decreased activity expected on balance.

Remain the same	%
Dry powder levels	39%
Previous strong year / current high activity	22%
No/limited catalyst either way	13%
Economic outlook	13%



Market Activity Expectations

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

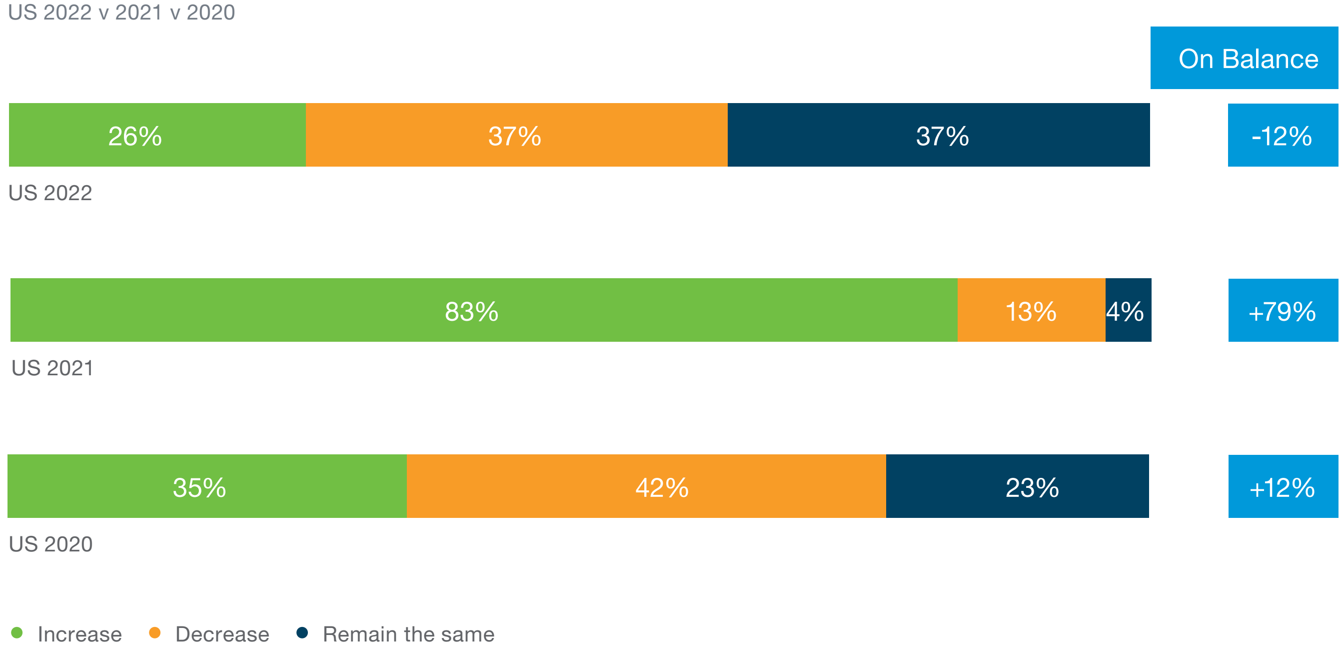
Increased activity	%
Availability of capital	28%
Dry powder levels	26%
COVID recovery	12%

Decreased activity	%
Greater deal activity last year	59%
Economic outlook	27%
Decline in M&A	10%

On balance, predictions lean towards decreased activity

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

US 2022 v 2021 v 2020



Increased activity	%
Availability of capital	31%
Dry powder levels	17%
COVID recovery	10%
Increase in M&A	10%

Decreased activity	%
Greater deal activity last year	60%
Economic outlook / market conditions	29%
Decline in M&A	11%

Remain the same	%
Dry powder levels	38%
Previous strong year / current high activity	23%
No/limited catalyst either way	15%
Economic outlook / market conditions	13%

Those US respondents anticipating less deal activity largely attributed this to last year's activity:

"Last year was a record high. The market may need to cool off a bit before another record year."

"2021 was record and picked up some of the COVID slowdown in 2020."

"2021 was a record year for M&A. While PE firms continue to sit on record levels of dry powder, a lot of 2022 deal flow was pulled forward into 2021."

Detailed Results

Still, a quarter expect an increase regardless.

"Demand is still robust and available capital is still plentiful."

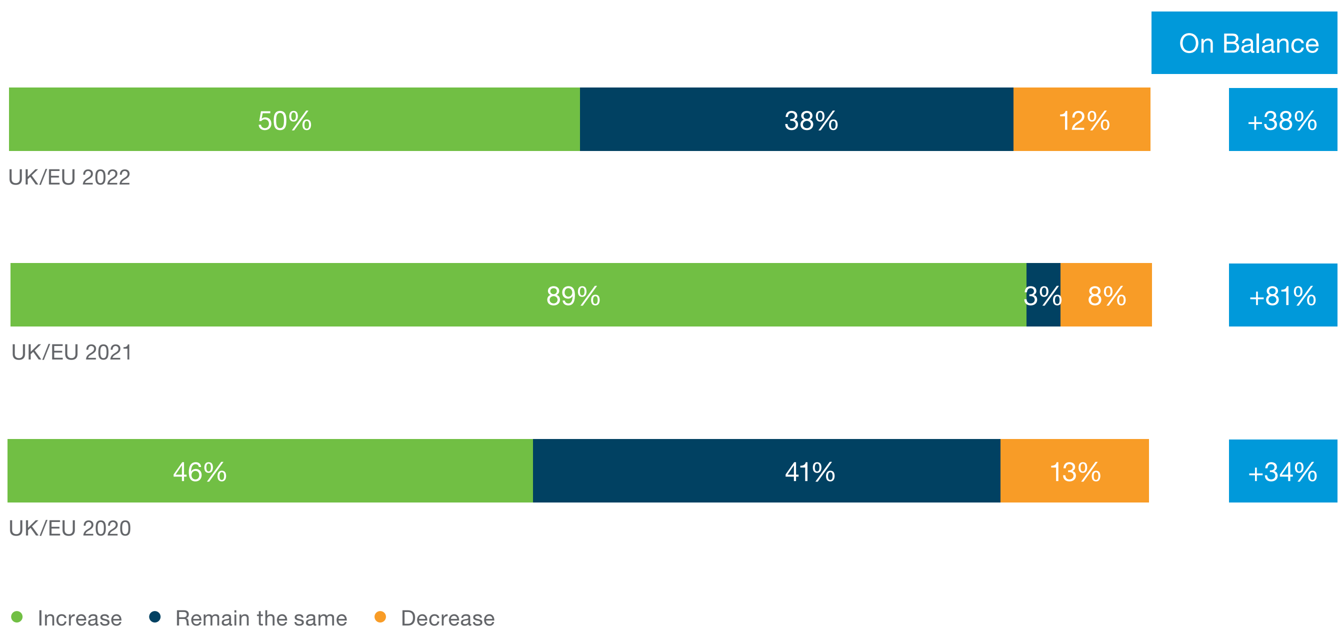
"There is tons of PE Capital. There is plenty of financing capital to support it. The ghoul of taxes to motivate sellers."

"Lot of capital in the market, rates remain low."

On balance, predictions lean towards increased activity

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

UK/EU 2022 v 2021 v 2020



Increased activity	#
Dry powder levels	6
Availability of capital	3
COVID recovery	2
Rise in direct lending	2
Bank retrenchment	2

Remain the same	#
Dry powder levels	3
Previous strong year / current high activity	1
Fluctuating activity over year	1
Economic outlook / market conditions	1

Decreased activity	#
Greater deal activity last year / can't sustain	2
Stage in cycle	1
Competition	1

Half of UK/EU respondents expect an increase in activity, driven by dry powder levels, and to a lesser degree the availability of capital.

"PE dry powder, suppressed public valuations."

"Increased capital availability / allocation and risk appetite."

"Sky-high valuations leading to deal activity and significant dry powder at funds to deploy."

Detailed Results

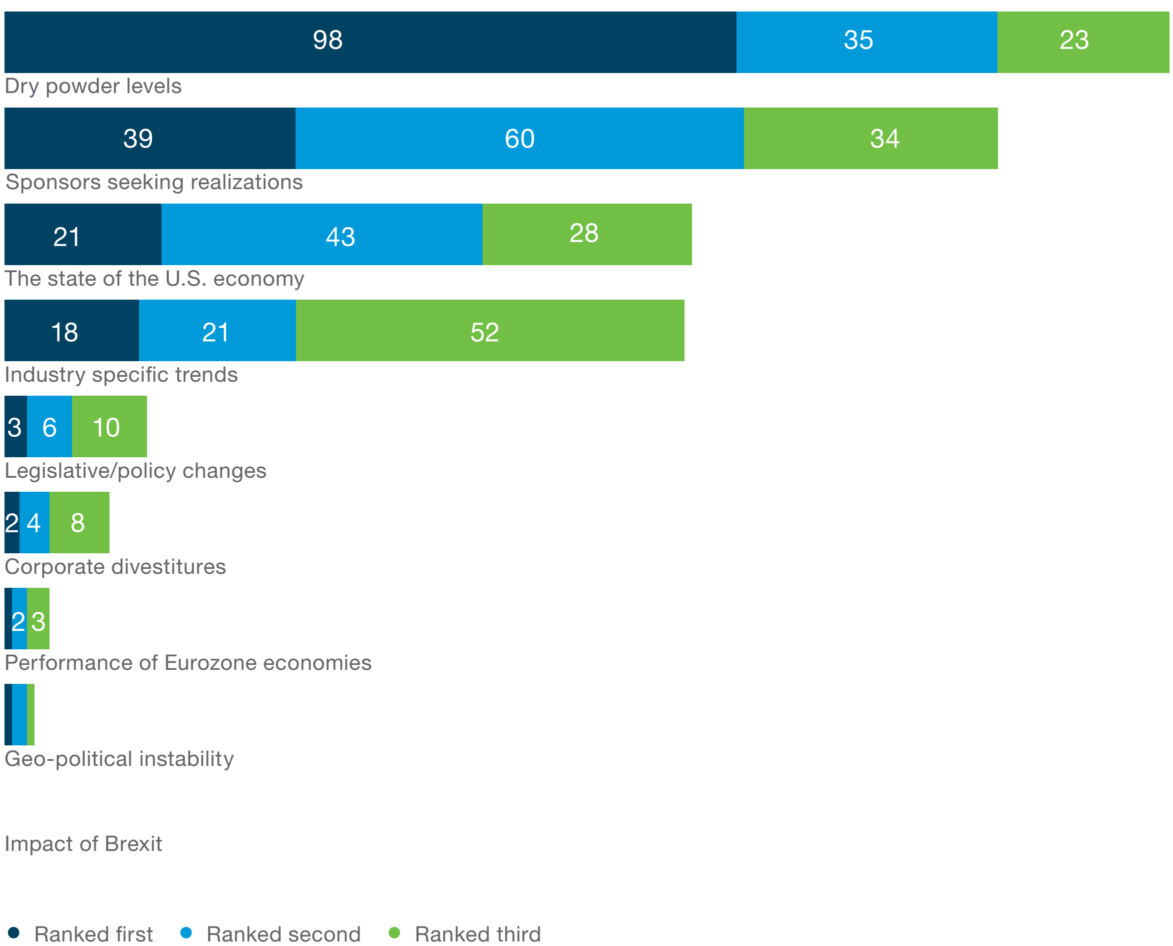
Drivers of Deal Activity

All those responding to the survey were asked to rank what they felt to be the most important drivers of deal flow in the next 12 months. The primary driver remained the same as 2020 and 2021 with dry powder levels topping the list for importance. Sponsors seeking realizations ranked second, and for US respondents the state of the US economy ranked third, whereas industry specific trends took the third spot for UK/EU respondents.

What do you expect to be the most important driver of deal flow in the next 12 months? (Please select top 3 and rank in order of importance)

Drivers of Deal Flow: Overall

Dry powder levels most ranked first for importance, and most ranked overall



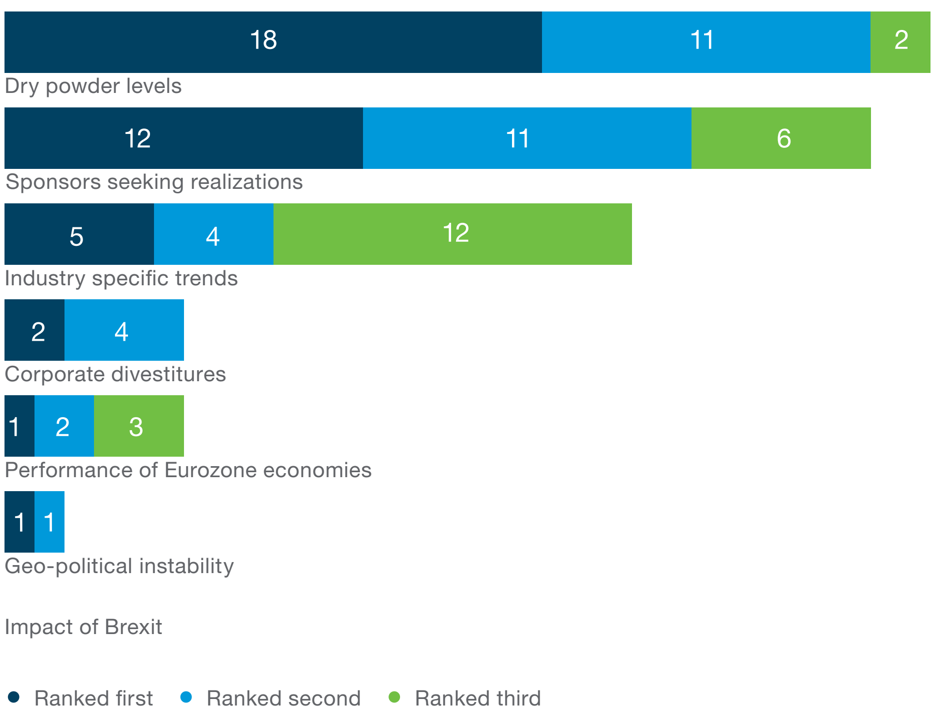
Brexit, which had remained a strong driver of deal flow has, for the first year since the 2016 referendum, received no votes this year.

Dry powder levels are the most important driver for UK/EU respondents and sponsors seeking realizations, while ranked first by fewer, had the same amount of overall top three selections.

What do you expect to be the most important driver of deal flow in the next 12 months? (Please select top 3 and rank in order of importance)

Drivers of Deal Flow: UK/EU Respondents

UK/EU follows suit in top 3 rankings



Detailed Results

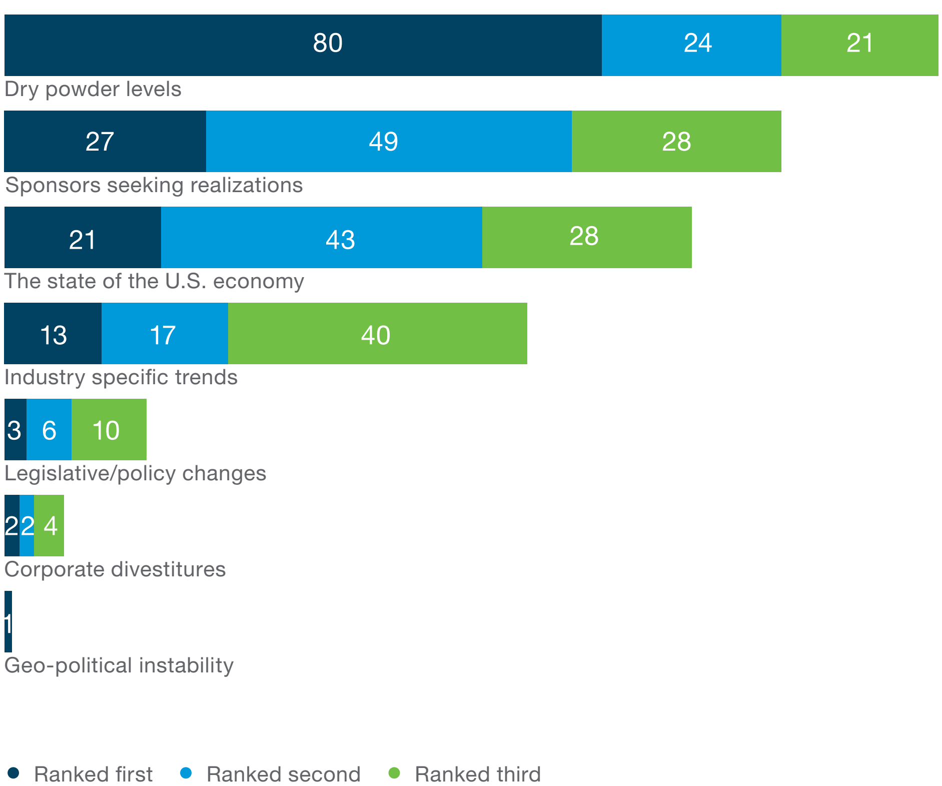
Drivers of Deal Flow

Dry powder levels were felt to be the number one driver of deal flow for most US respondents, with 85% US respondents identifying it among their top three drivers going into 2022; it received almost three times more first place rankings that the second top driver, sponsors seeking realizations.

What do you expect to be the most important driver of deal flow in the next 12 months? (Please select top 3 and rank in order of importance)

Drivers of Deal Flow: US Respondents

US respondents cite dry powder as most important



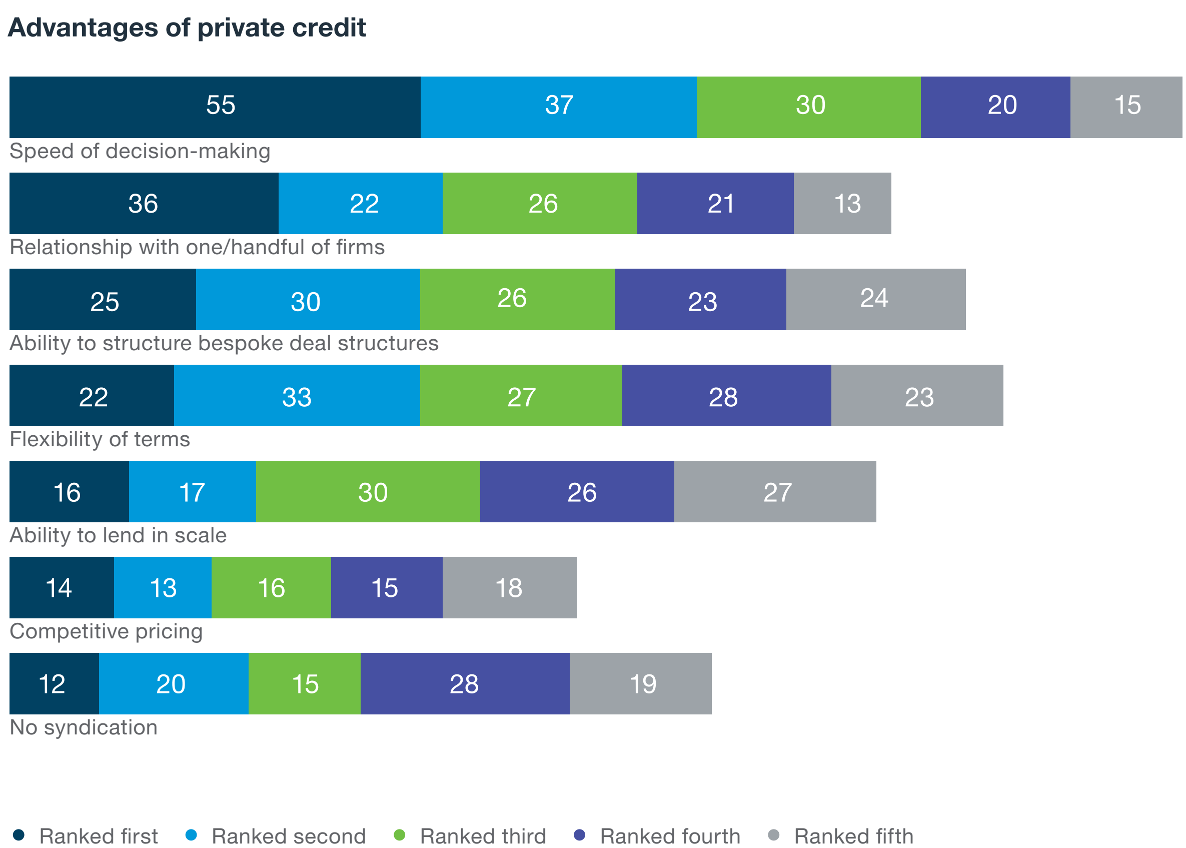
Advantages of private credit

Respondents were asked their opinions on what they feel borrowers most value about private credit.

The results differ slightly from the previous year, with speed of decision making ranked first most often by respondents, and relationships with one or a handful of firms coming in second – last year, these two spots were reversed. While the ability to structure bespoke deal structures and flexibility of terms came in at the third and fourth spot respectively (for most times ranked first) they had more overall votes than relationship with firms.

What do you believe borrowers value most about private credit? (Rank top 5)

Overall



Detailed Results

Challenges for dealmakers

For the fifth year running, competition will be the biggest challenge for dealmakers in 2021 with 41.9% identifying it as their #1 challenge, and 88.9% placing it in their top three challenges.

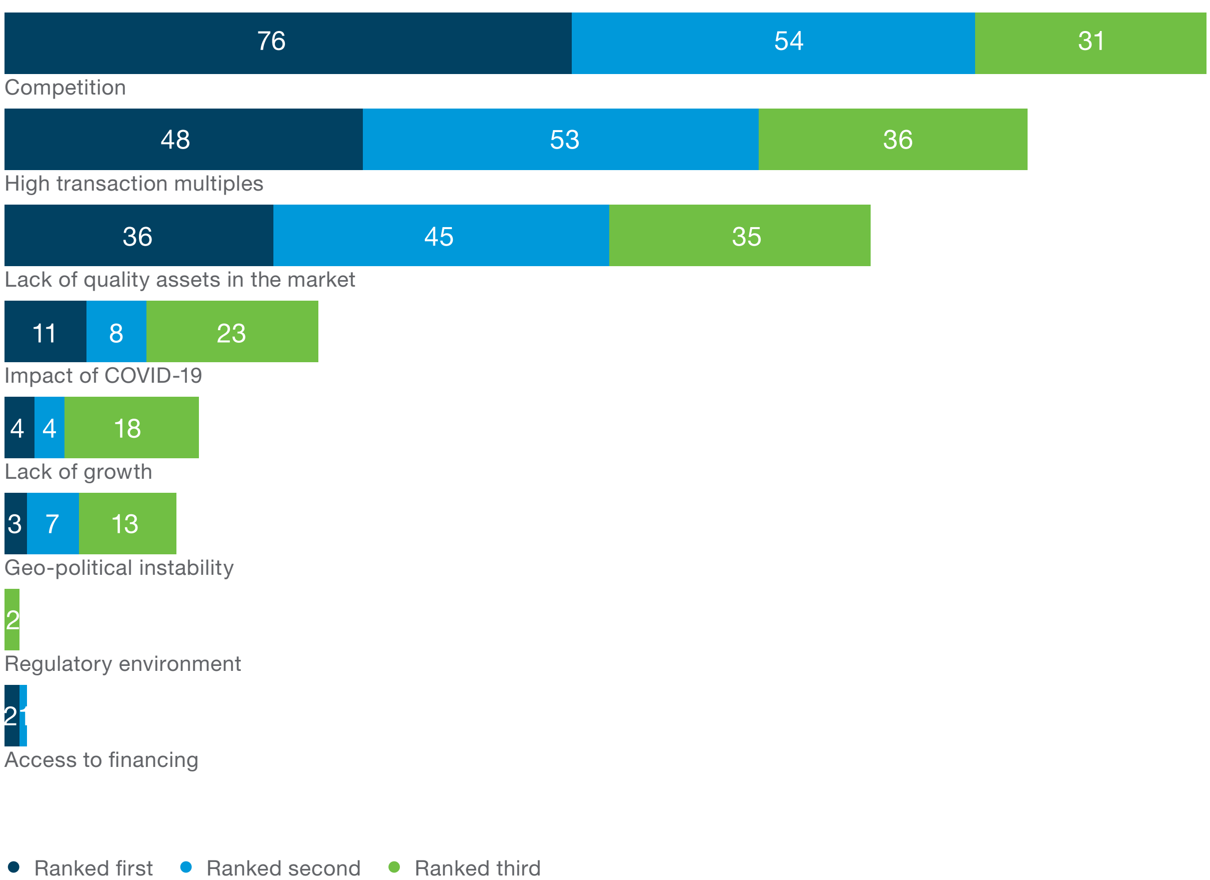
For most of the remaining respondents, high transaction multiples and a lack of quality assets in the market were the biggest challenges – again, a trend seen year on year.

The top three challenges are the same across the US and UK/EU markets, with only minor differences in the lower ranked options.

What do you anticipate being the biggest challenge for dealmakers in the next 12 months?
(Please select top 3 and rank in order of importance)

Challenges of Dealmakers: Overall

Competition most ranked first for importance, and most ranked overall



Market Predictions

Pricing and Interest Rates

All respondents were asked to share their predictions for interest rates and pricing over the coming 12 months. 94% of US respondents believe that interest rates will rise, with 71% expecting that rise to be by 50+ basis points. There is little expectation for a drop in interest rates – only 2% of respondents.

17% overall expect pricing to increase compared to last year (8%) while just under a third expect pricing to decline. The majority portion expect pricing to remain stable, at 55%. Last year the majority portion expected pricing to decline at 59%.

How do you expect interest rates to move in 2021?

Interest Rates: US Only

US Interest Rates

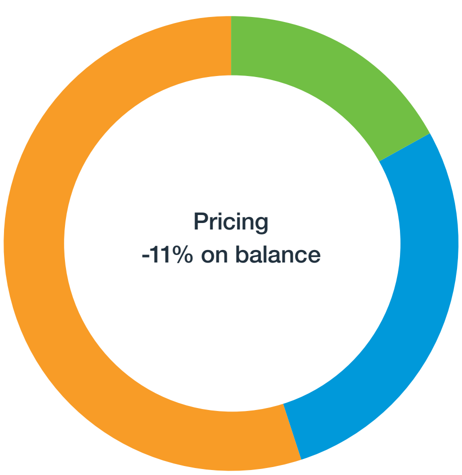
- Decrease 50+ Basis Points – 0%
- Decrease 25 Basis Points – 2%
- Remain the same – 4%
- Increase 25 Basis Points – 21%
- Increase 50+ Basis Points – 73%

Majority expect increase of 50+ basis points, second highest portion expect increase of 25 basis points.

Little expectation for a decrease.

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

Market Predictions: Overall

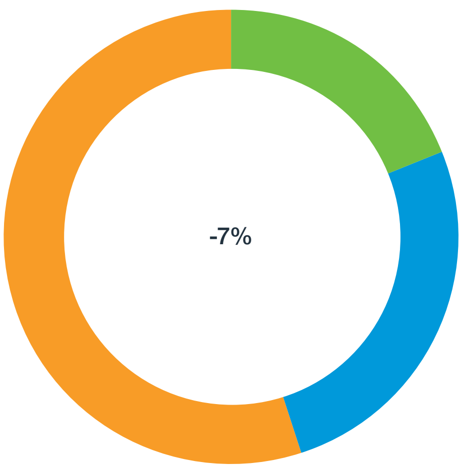


Pricing Expectations

- Higher pricing than previous 12 months – 17%
- Lower pricing than previous 12 months – 28%
- No change – 55%

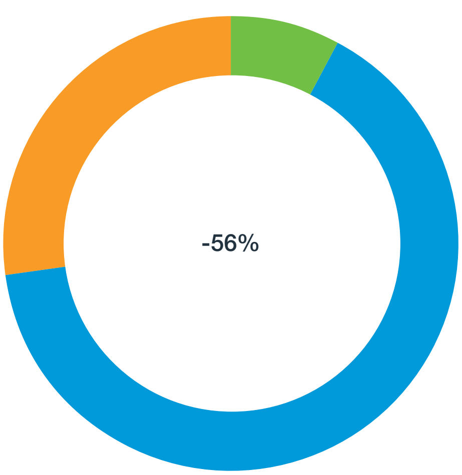
The majority of US respondents predict pricing decreases in 2022. Last year, pricing was also predicted to decrease on balance but by a much larger proportion of respondents overall.

Market Expectations: US Respondents



2022 US Pricing

- Higher pricing than previous 12 months – 19%
- Lower pricing than previous 12 months – 26%
- No change – 55%



2021 US Pricing

- Higher pricing than previous 12 months – 8%
- Lower pricing than previous 12 months – 65%
- No change – 27%

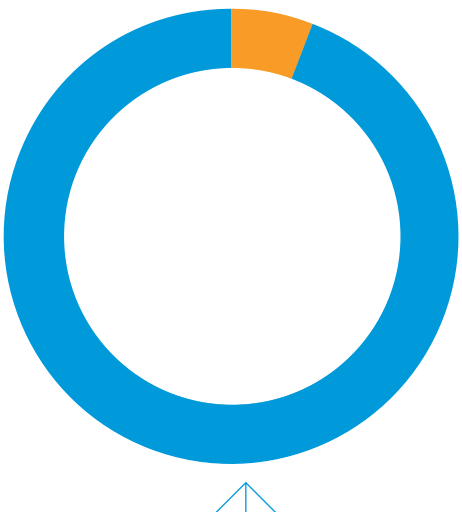
Market Predictions

UK Interest Rate Expectations

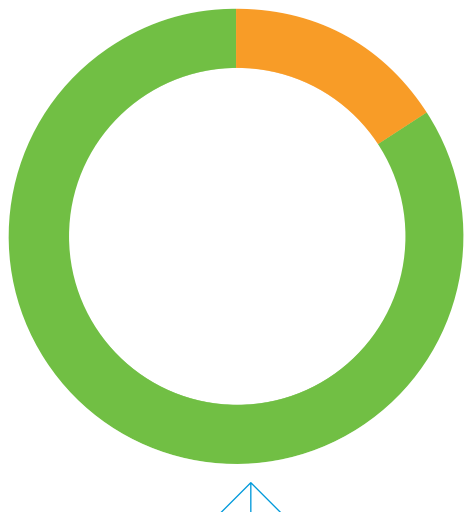
The large majority (90%) of UK respondents are expecting a rise in interest rates. This is quite a contrast to last year, in which only 29% expected an increase. with one in three respondents expecting a rise in 2021 compared to 20% in 2020. The majority who expect a rise in interest rates don't expect it to impact deal flow, but those who do think it will impact deal flow think it will impact it negatively.

Do you expect UK interest rates to rise in the next 12 months?

UK/EU Respondents Only



Majority expect UK interest rates to rise, less than 1 in 10 don't



Majority believes that an increase in rates will not impact deal flow. Although a smaller amount expect a negative impact, no one expects a postitive impact.

UK Interest Rates

- Yes – 94%
- No – 6%

UK Rate Impact

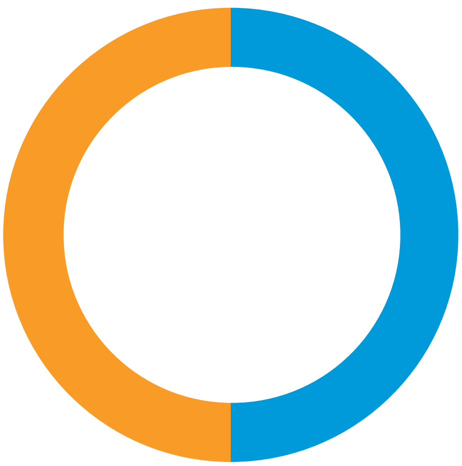
- Positively – 0%
- Negatively – 16%
- No change – 84%

Eurozone Interest Rate Expectations

Expectations for Eurozone interest rates are split exactly 50/50. Those who do foresee a rise in interest rates mirror the UK predictions that it won't impact deal flow, with those thinking it will foreseeing a negative impact.

Do you expect Eurozone interest rates to rise in the next 12 months?

UK/EU Only



50/50 split on whether or not Eurozone interest rates will rise.

Roughly three quarters believe interest rates won't impact deal flow, though nobody sees a positive change.

Eurozone

- Yes – 50%
- No – 50%

Eurozone

- Positively – 0%
- Negatively – 24%
- No change – 76%

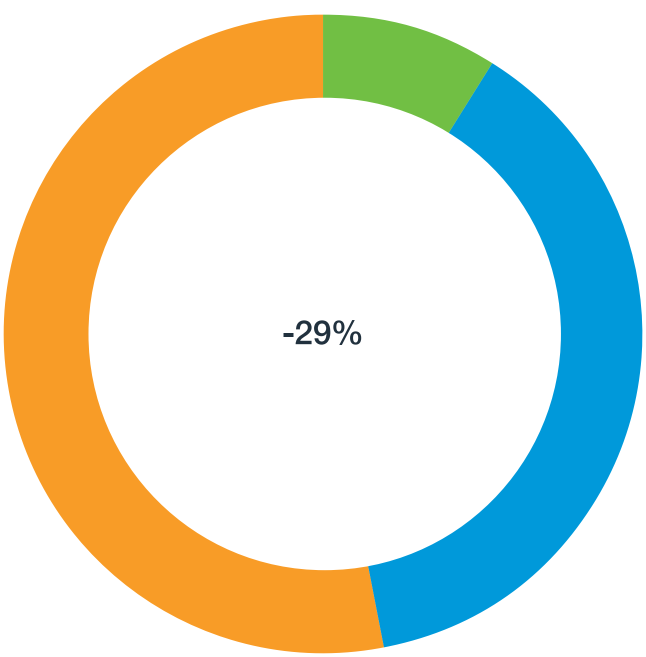
Market Predictions

Market Expectations

The year-on-year projections for pricing in the UK/EU remained quite similar to 2021, with more expecting lower pricing on balance. The greatest proportion of respondents expect no change (53%), which is a similar figure to 2021 when 49% expected no change, showing a belief for continuation over the years.

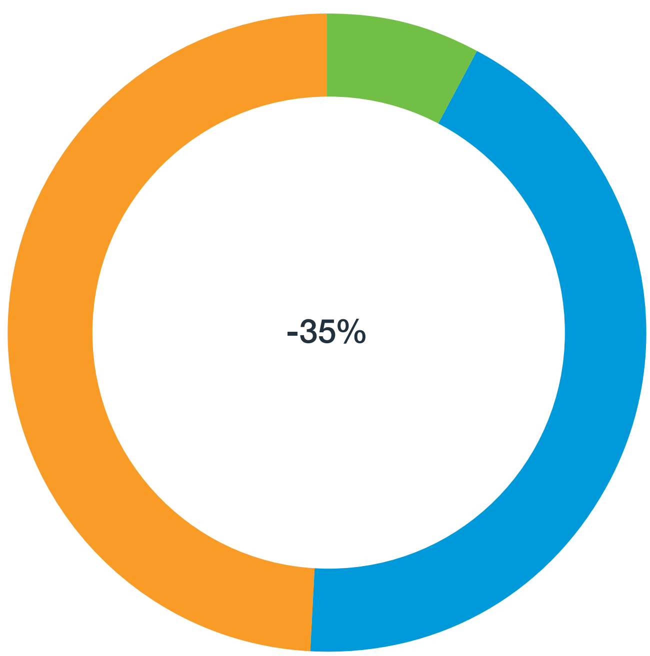
What are your expectations for pricing over the next 12 months?

UK/EU Respondents



2022 UK/EU Pricing

- Higher pricing than previous 12 months – 9%
- Lower pricing than previous 12 months – 38%
- No change – 53%



2021 UK/EU Pricing

- Higher pricing than previous 12 months – 8%
- Lower pricing than previous 12 months – 43%
- No change – 49%

Market Predictions

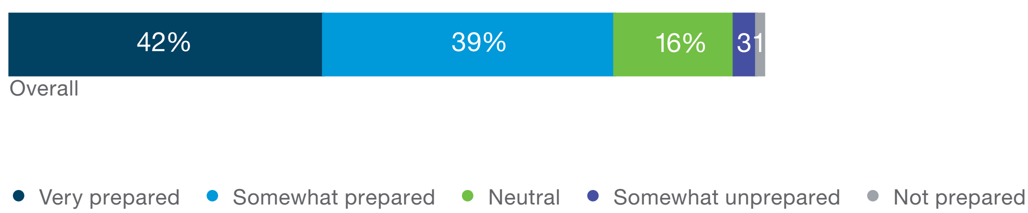
LIBOR Preparations

Overall 81% feel they are prepared for the transition from LIBOR, with UK/EU organizations expressing the most confidence; 74% consider themselves very prepared

How prepared is your organization for the transition from LIBOR?

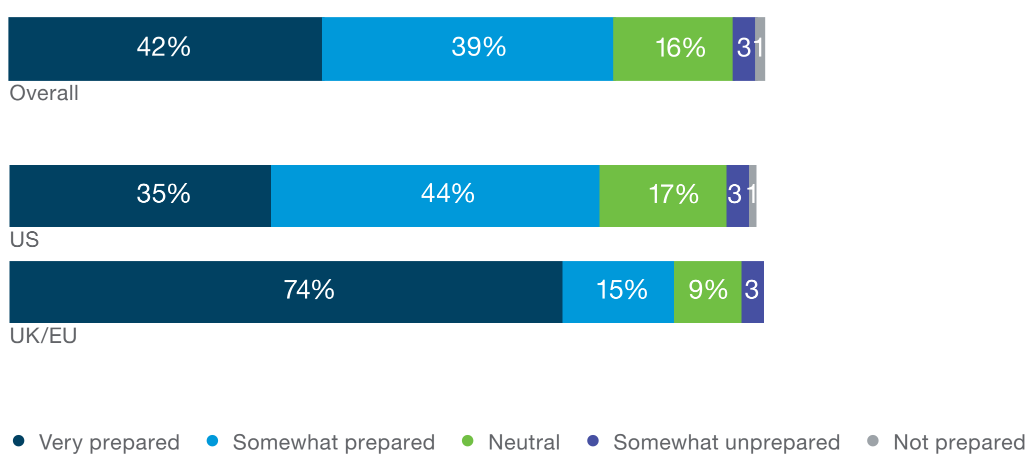
Overall

Majority are prepared, largest portion consider themselves very prepared



By Region

UK/EU organizations much more likely to consider themselves very prepared



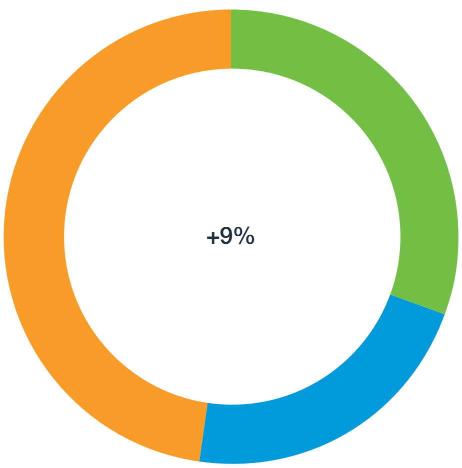
Likelihood of default

Almost half of US respondents (48%) predict no change in defaults compared to the previous year, with just under a third expecting more defaults and about a fifth expecting less defaults, leading to an expected increase in defaults on balance. This is a significant change from 2021, where only 5% predicted an increase, to 31% in 2022.

The UK/EU mirrors the 2021 picture on balance, with 15% expecting less defaults on balance in 2022 compared to 13% in 2021. This is also reflected in the 74% of respondents that selected 'no change' in defaults.

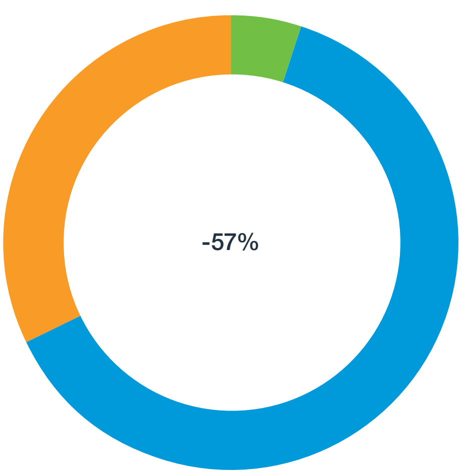
What are your expectations for your portfolio over the next 12 months?

Market Expectations: US Defaults



2022 US Defaults

- More defaults than previous 12 months – 31%
- Less defaults than previous 12 months – 22%
- No change – 48%



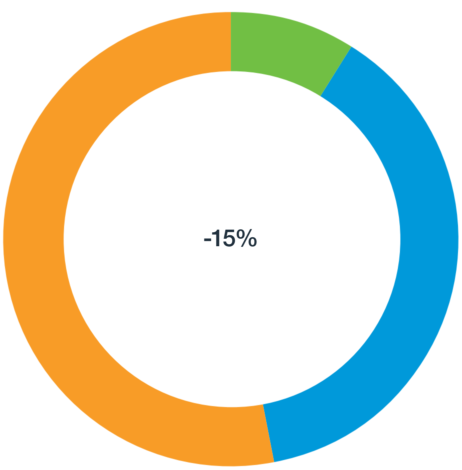
2021 US Defaults

- More defaults than previous 12 months – 5%
- Less defaults than previous 12 months – 63%
- No change – 32%

Market Predictions

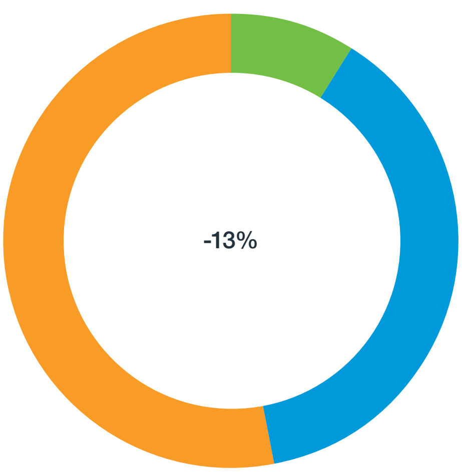
What are your expectations for your portfolio over the next 12 months?

Market Expectations: UK/EU Defaults



2022 UK/EU Defaults

- More defaults than previous 12 months – 6%
- Less defaults than previous 12 months – 21%
- No change – 74%



2021 UK/EU Defaults

- More defaults than previous 12 months – 22%
- Less defaults than previous 12 months – 35%
- No change – 43%

Growth

At the time of writing this report the Conference Board Economic Forecast for the US Economy expects US GDP annual growth to be 3.5% (year-over-year) in 2022.[2]

Our respondents forecast slightly lower growth, with 32% anticipating 2.0-2.49% and 30% anticipating 2.5-2.99%. The CBEF's forecast is not echoed by many, with only 4% in the 3.5-3.9% grouping.

41% of US respondents expect the next recession to be more than 24 months away, and 35% expect it within 18-24 months, while very few (1%) expect a recession in the next 12 months.

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[2] *https://www.conference-board.org/research/us-forecast*

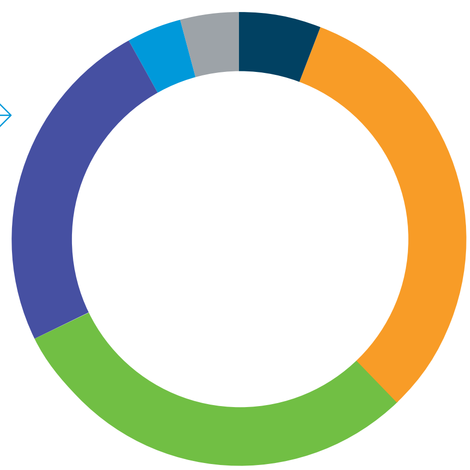
What are your expectations for U.S. GDP growth this year?

GDP Growth: US Only

Majority expect growth in the region of 2-3.49%

Almost a third expect 2-2.49%

Slightly less, but still 30%, expect 2.5-2.99%



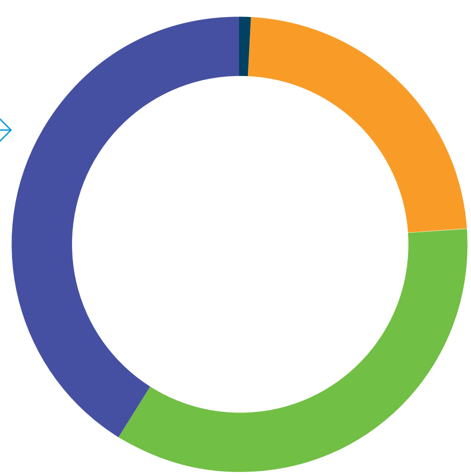
US GDP

- Less than 2.00% – 6%
- 2.00%-2.49% – 32%
- 2.50%-2.99% – 30%
- 3%-3.49% – 24%
- 3.5%-3.99% – 4%
- Greater than or equal to 4% – 4%

When do you expect the next recession to begin?

Recession Expectations: US Only

Little sentiment for an imminent recession, largest portion believe recession is over 24 months away.



Recession

- Less than 12 months – 1%
- 12-18 months – 23%
- 18-24 months – 35%
- Greater than 24 months – 41%

Market Predictions

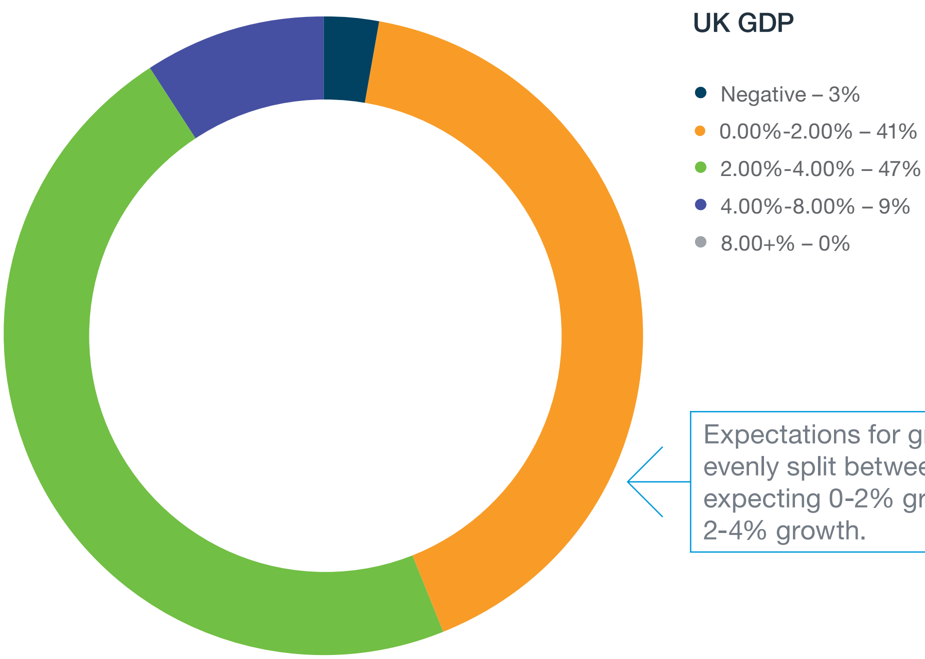
Predictions from this survey expect modest growth with the biggest expectations being 2.00-4.00% and 0.00-2.00% with 47% and 41% of predictions respectively. These predictions fall short of official estimates, which expect the GDP of the UK to grow by 6% in 2022.[3]

Similar growth is expected in the Eurozone GDP as the UK, with 59% predicting 0.00-2.00% and 31% predicting 2.00-4.00%.

[3] https://www.statista.com/statistics/375195/gdp-growth-forecast-uk/

What are your expectations for UK GDP growth this year?

UK & Eurozone GDP Growth: UK/EU Only

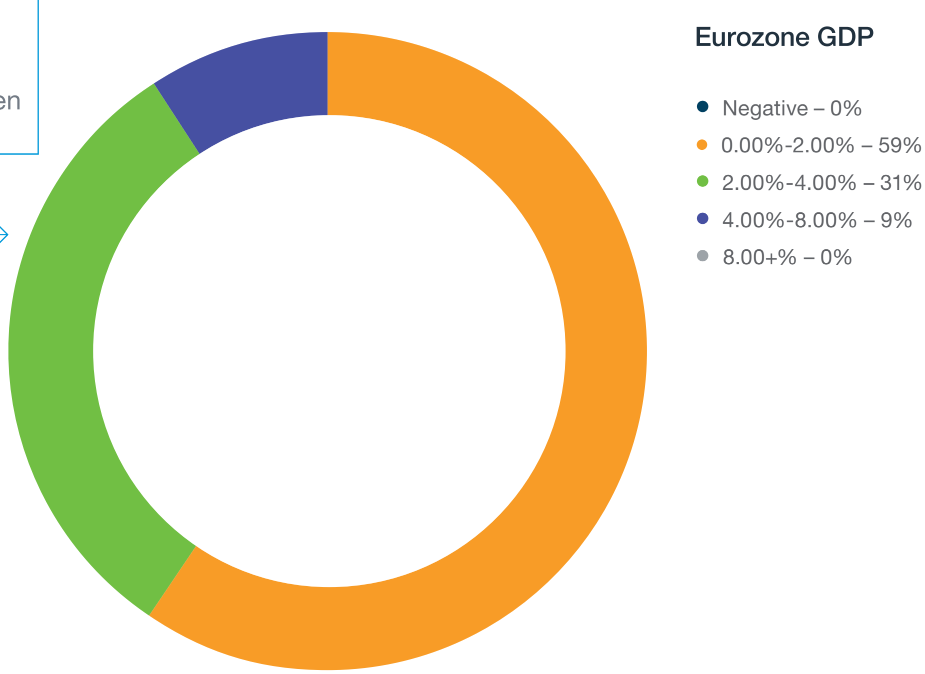


Expectations for growth are evenly split between those expecting 0-2% growth and 2-4% growth.

What are your expectations for Eurozone growth this year?

UK & Eurozone GDP Growth: UK/EU Only

Similar picture on the Eurozone side, with most expecting between 0.00 – 2.00%.



Investment Conditions and Considerations

Markets — US Perspective

Nearly all US respondents expect domestic investment in the coming 12 months with 53% considering investment in Canada, marking a three-year consecutive slight drop from 54% in 2021 and 58% in 2020. The proportion of US respondents considering investment in the UK has sharply risen from 39% in 2021 to 52% in 2022. Mainland Europe continues to increase in consideration to 45% from 40% last year. Outside of North America, the UK and Mainland Europe, expectations for further international investment remain relatively low, although there has been a slight rise with Asia standing out for doubling in consideration from 9% in 2021 to 18% in 2022.

In terms of growth opportunities, most US investors are looking to their domestic market as the key opportunity for the coming 12 months, though about a third see Canada, the UK, and Mainland Europe as key opportunities alongside. The UK has increased from 32% in 2020 to 34% in 2021, and Mainland Europe has decreased from 33% to 29%.

Geographical Investment

US

Biggest growth opportunities for your firm over the next 12 months

	'22	'21
US	92%	97%
Canada	25%	30%
UK	34%	32%
Mainland Europe	29%	33%
Middle East	1%	1%
Asia	21%	12%
Latin America	5%	2%

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

In which three jurisdictions do you foresee the biggest growth opportunities for your firm over the next 12 months?

Investment Conditions and Considerations

Markets — UK/EU Perspective

From the UK/EU perspective, the Nordics, Germany, and Benelux emerge as the hottest markets in the coming year with around nine out of ten respondents anticipating capital deployment in these locations in 2022, with the Nordics and Benelux now overtaking the UK. There is a slightly higher appetite in 2022 for all locations except the UK. Most other regions saw increases of just a few percentage points; Italy and the Nordics stand out with a rise from 60% to 73% and 81% to 97% respectively. Eastern Europe has risen from 14% to 21%, marking the third highest jump.

ESG considerations weigh heavily into lending strategies with over three quarters considering it on all investments. The UK/EU are significantly more likely to consider it on all investments with 77%, while also being more likely to use a third-party vendor for ESG data collection at 38%.

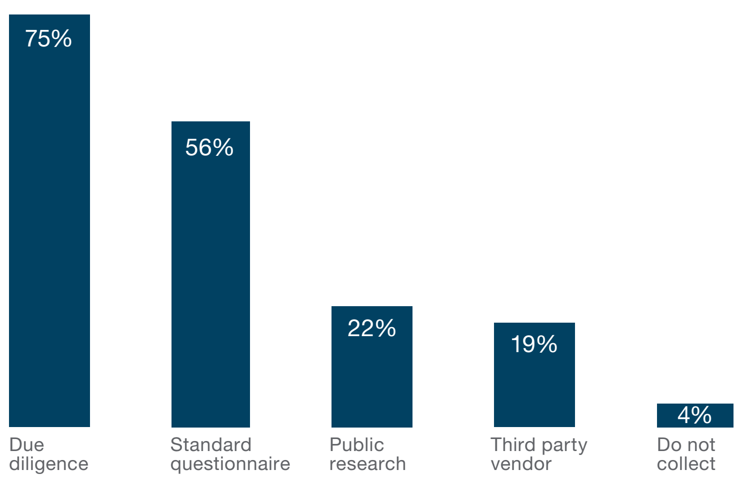
Appetite increase for all regions except UK; Nordics and Italy see biggest increases in appetite.

Do ESG considerations weigh into your lending strategy?

ESG Weight

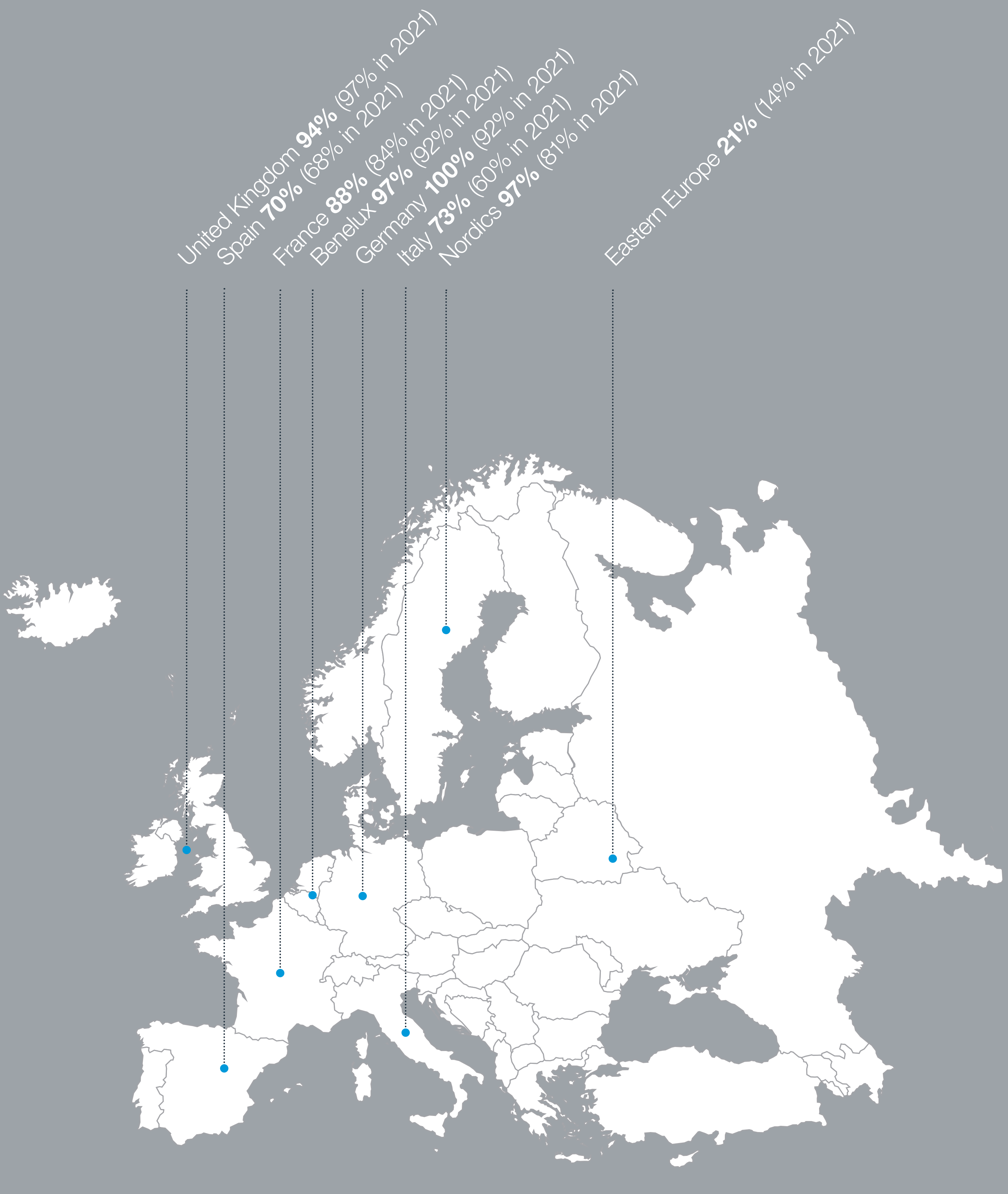
- All investments – 77%
- A portion of investments – 14%
- No, but considered for future – 6%
- No – 3%

How do you gather ESG data in your deals?



ESG Data Collection (if yes before)

Which locations is your organization considering deploying capital in over the next 12 months? (UK/EU)



Investment Conditions and Considerations

Key Industries

Almost all of those surveyed are anticipating some kind of investment in Business Services, Health Care and Software/Tech. UK/EU respondents are also highly likely to be investing in education (91% versus 52% US), with the US side investing more into consumer/retail (50% US versus 21% UK/EU), construction (45% US versus 24% UK/EU) and transport (70% US versus 36% UK/EU). Sports and Media are included for the first time, with neither showing significant differences between regions overall.

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

Industry Investment

Overall

96%
Business Services

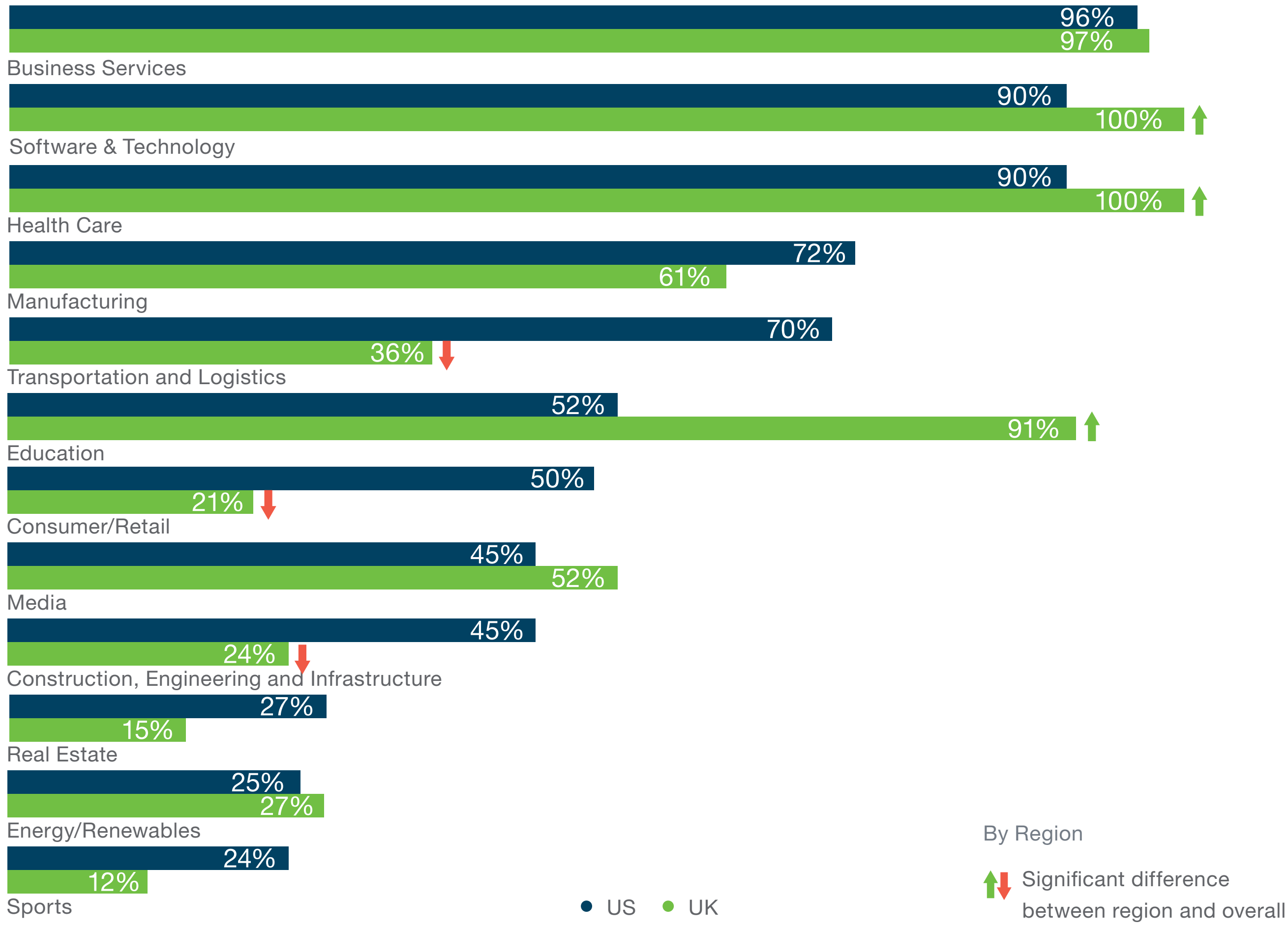
92%
Health Care

92%
Software & Technology

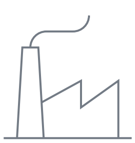
47%
Media

45%
Consumer & Retail

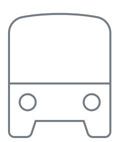
41%
Construction, Engineering & Infrastructure



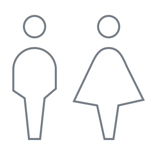
70%
Manufacturing



64%
Transport & Logistics

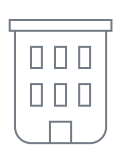


60%
Education

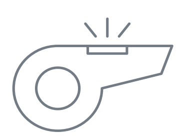


25%
Energy & Renewables

25%
Real Estate



22%
Sports



Investment Conditions and Considerations

Investment Plans and Vehicles

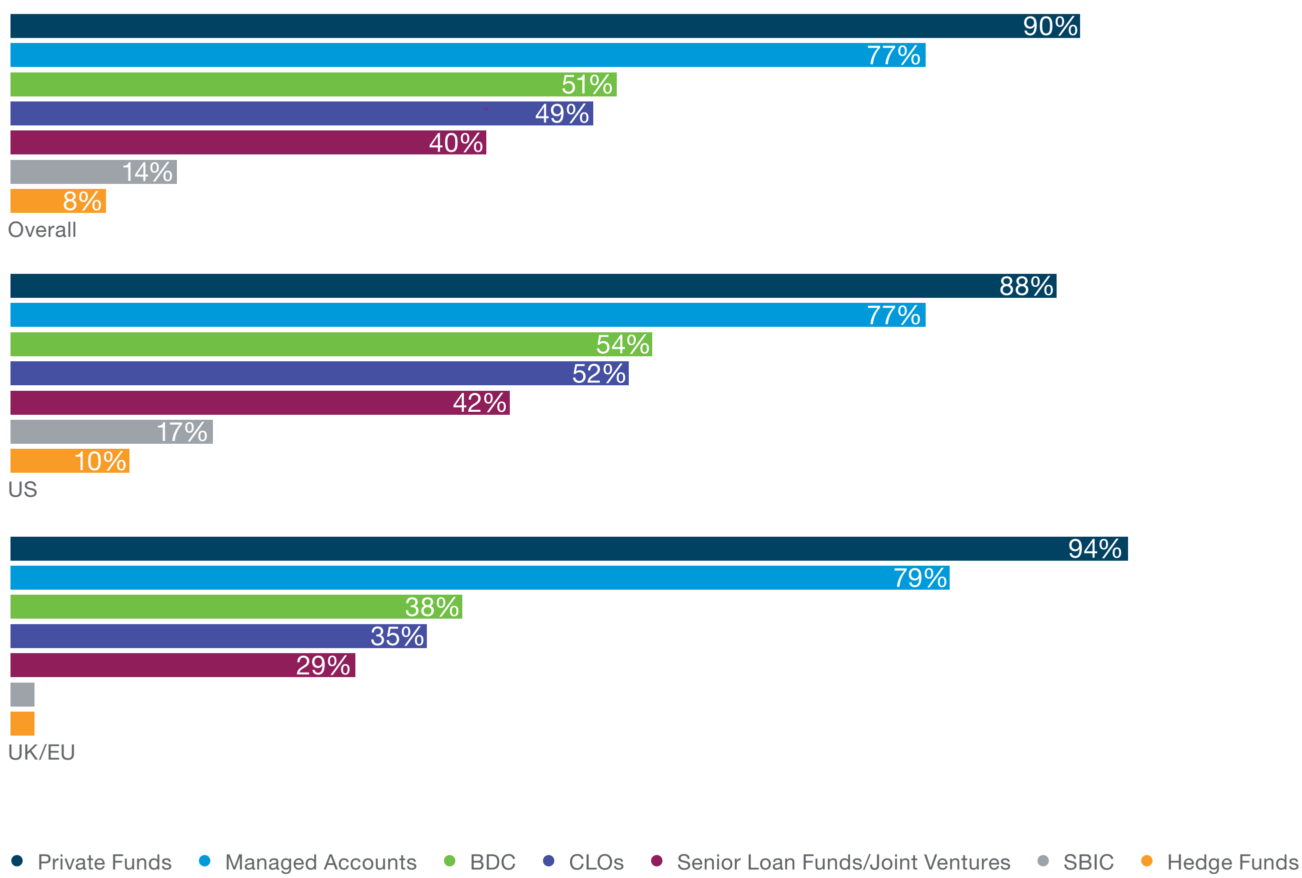
Overall, a majority are using private funds and managed accounts as an investment vehicle – with UK/EU respondents slightly more likely to use private funds (94% versus 90% for US), but less likely to use BDC, Hedge Funds or SBIC vehicles.

This trend has not significantly shifted on either the UK/EU or US side between 2020, 2021 and 2022. However Senior Loan Fund/Joint Ventures are showing a rise in both the US and the UK/EU from 33% to 42% and 22% to 29% respectively. Private Funds are for the first time in three years slightly declining in popularity for US respondents, while Managed Accounts are now also more favored among UK/EU respondents (rising from 65% in 2021 to 79% in 2022).

What vehicles do you utilize for your lending activities?

Lending Vehicles

By region: US more likely than UK/EU to use all types of lending vehicles other than Private Funds/Managed Accounts

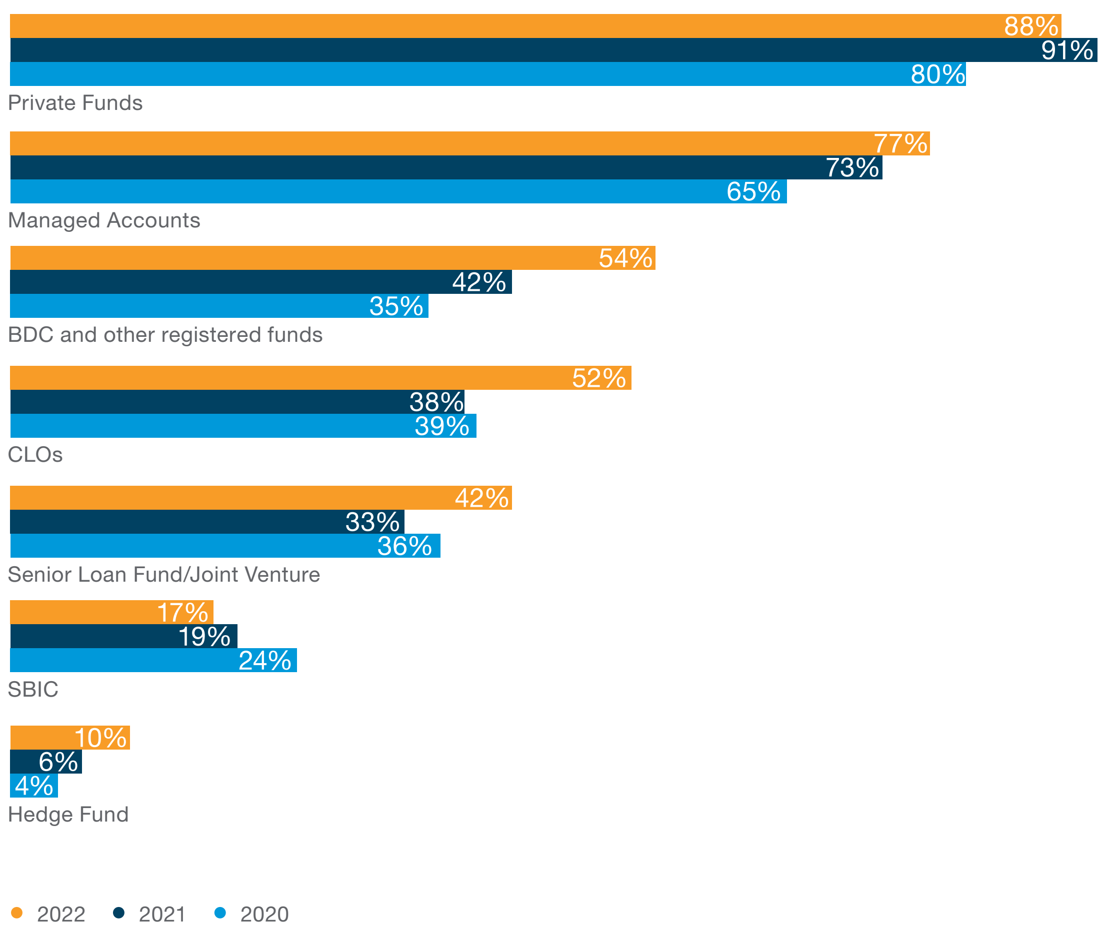


Dissecting the US respondents by value of assets under management shows some considerable differences in preferred lending vehicles; Private Funds, Managed Accounts and CLOs are significantly less prevalent for those with <1$bn AUM. Managed Accounts, BDC and CLOs as well as Senior Loan Funds were also significantly less used among those with $1-10bn AUM. Managed Accounts, CLOs and Senior loans were significantly more prevalent for those with >$10bn AUM.

What vehicles do you utilize for your lending activities?

Lending Vehicles

US 2022/2021/2020

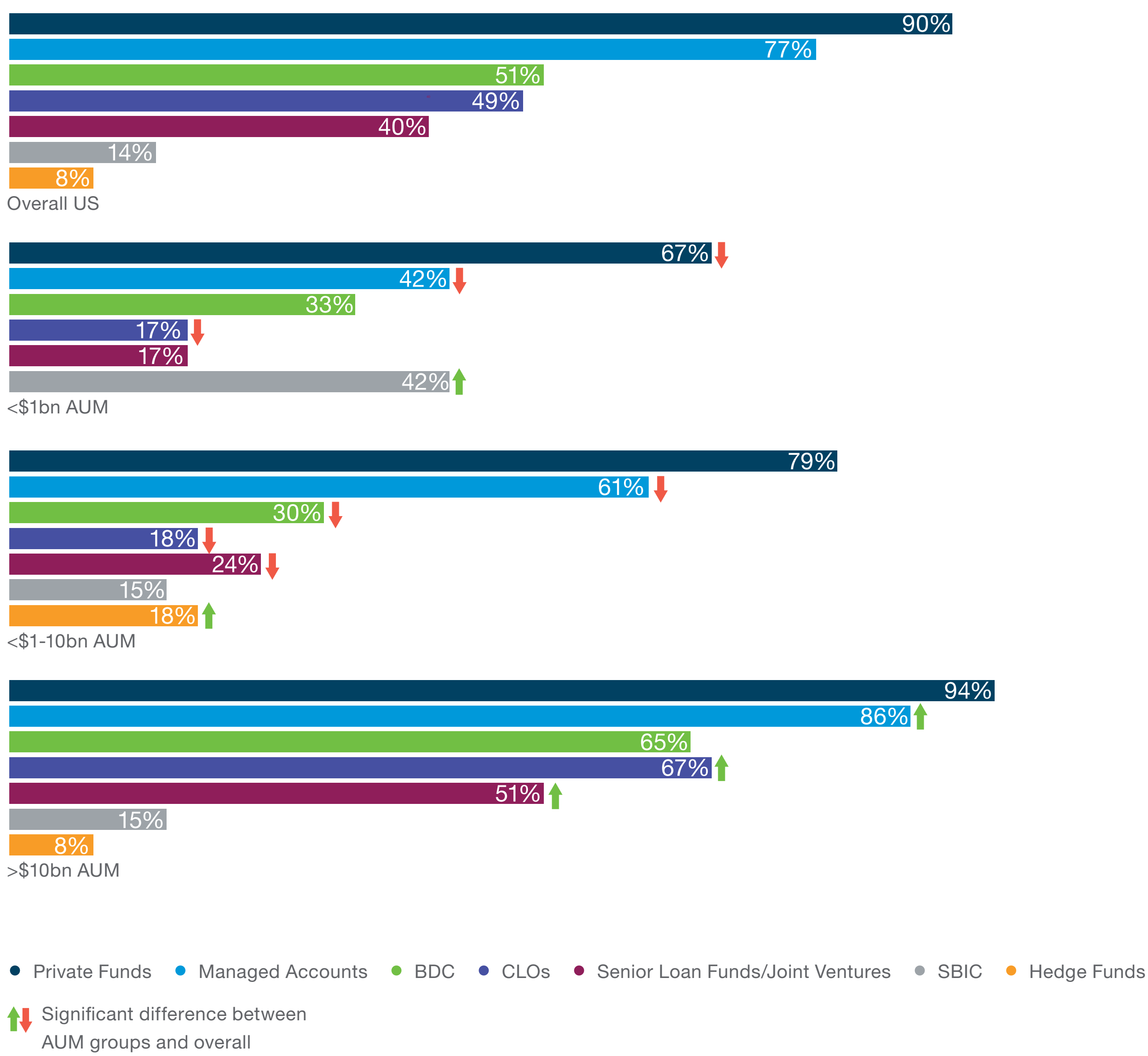


Investment Conditions and Considerations

What vehicles do you utilize for your lending activities?

Lending Vehicles

By US AUM: Increased usage seen by higher AUM groups

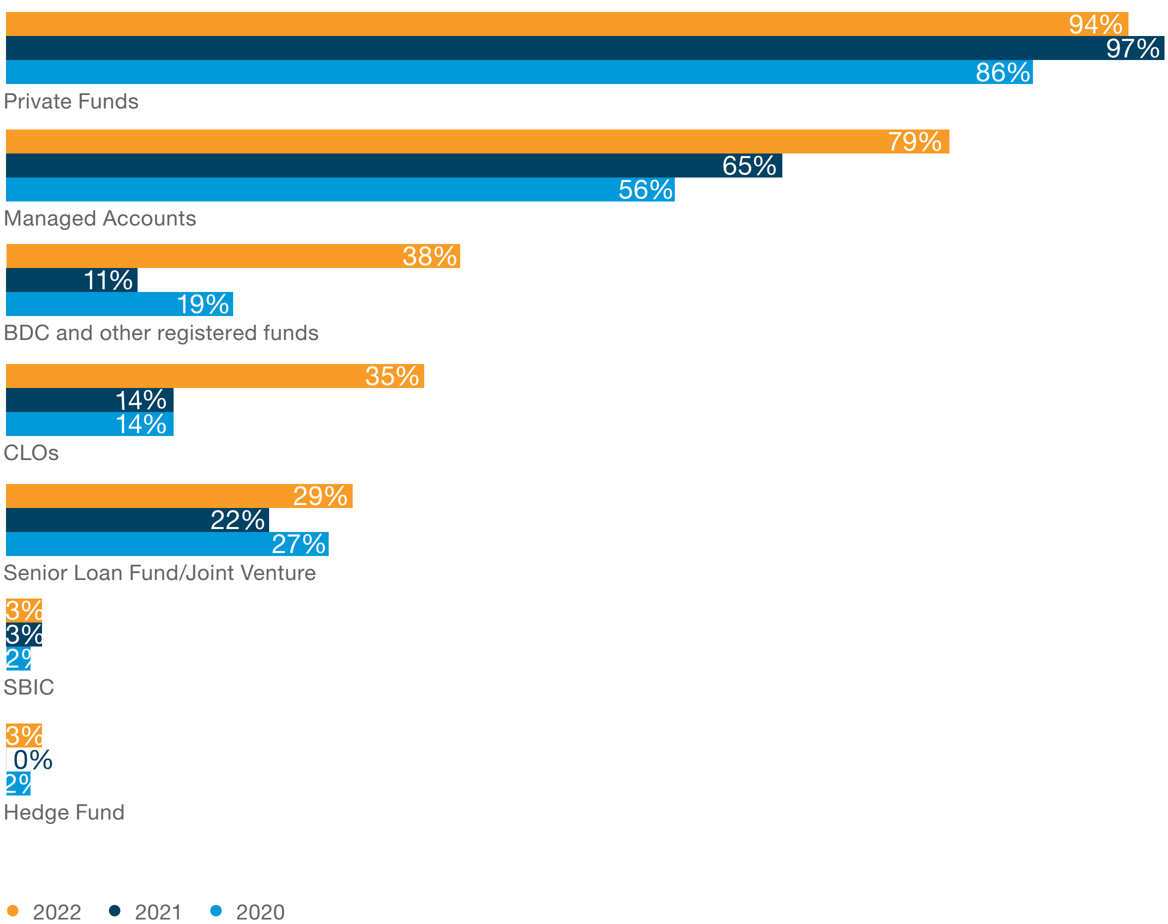


The picture across the UK/EU has also not shown any significant changes year-on-year; BDC and other registered funds show the biggest decrease across UK/EU respondents, closely followed by CLOs, while Managed Accounts continue to rise in popularity.

What vehicles do you utilize for your lending activities?

Lending Vehicles

UK/EU 2022/2021/2020



Investment Conditions and Considerations

Investment Plans

45% of US respondents are considering purchasing a loan portfolio in the next 12 months, representing a rebound from the drop to 36% in 2020. 83% and 93% respectively are currently raising a debt fund and/or have plans to fundraise, showing no significant change from the 2021 survey results. 28% are considering a Senior Loan Joint Venture in the next 12 months, a decrease on last year.

US more likely to consider purchasing a loan portfolio this year — no material change for raising debt funds, fundraising or senior loan joint ventures.

Is your organization considering acquiring a loan portfolio over the next 12 months?

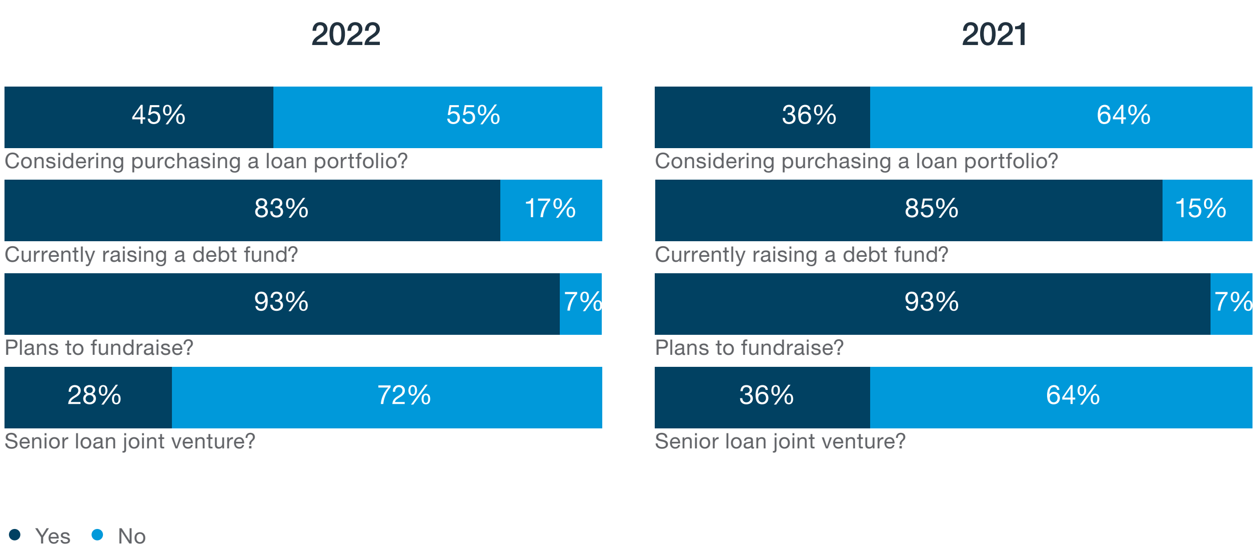
Is your organization considering a Senior Loan Joint Venture in the next 12 months?

Is your organization currently raising a debt fund?

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

Investment Plans

US 2022 v 2021



UK/EU appetite for purchasing a loan portfolio has decreased from 2021. Fewer are raising debt funds, moving from 92% in 2021 to 82% in 2022, in direct opposition to the US results.

UK/EU less likely to consider purchasing loan portfolio or raising debt fund when compared to last year.

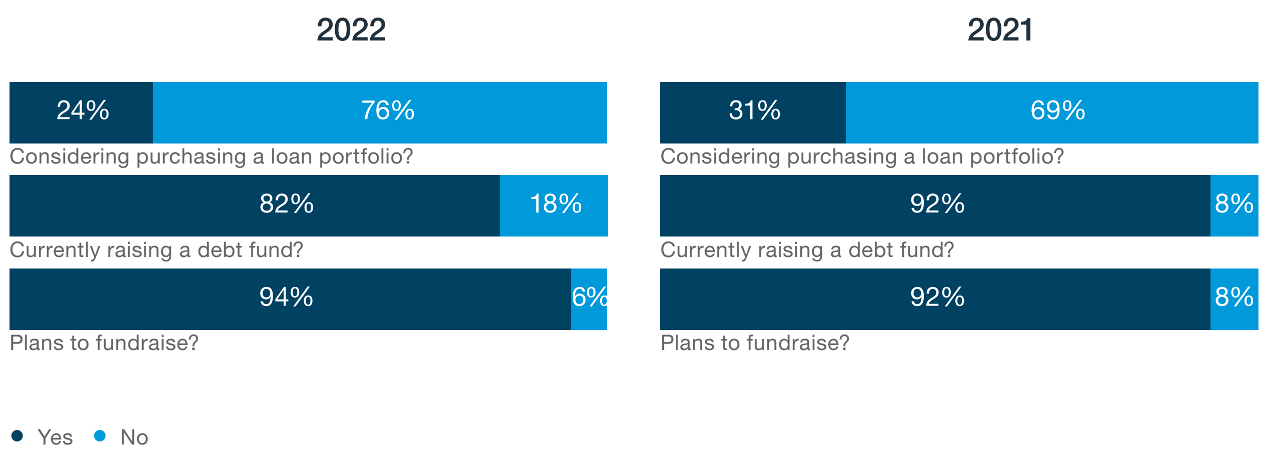
Is your organization considering acquiring a loan portfolio over the next 12 months?

Is your organization currently raising a debt fund?

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

Investment Plans

UK/EU 2022 v 2021



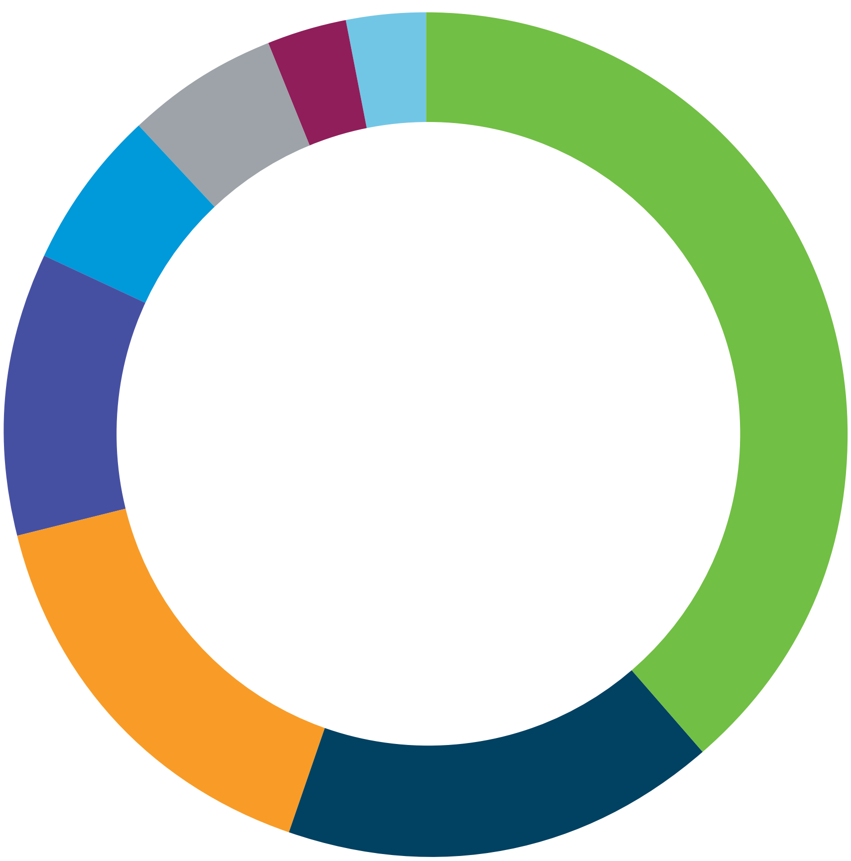
Investment Conditions and Considerations

Leverage and Equity

Overall, the large majority of respondents said that the maximum total leverage they would underwrite is 6.0x or greater. 7.50x or greater was the most common leverage, with 39% of the total, rising from 21% in 2021. Well over half of respondents require at least 40% equity in transactions, with most respondents requiring somewhere between 35% and 44%.

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

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



Leverage
Largest portion in ≥7.50x group

- ≥7.50x – 39%
- 7.0x-7.49x – 17%
- 6.5x-6.99x – 16%
- 6.0x-6.49x – 11%
- 5.5x-5.99x – 6%
- 5.0x-5.49x – 6%
- 4.5x-4.99x – 3%
- ≤4.49x – 3%

Equity
40-44% highest category, followed by 35-39%

- <30% – 8%
- 30%-34% – 12%
- 35%-39% – 20%
- 40%-44% – 34%
- 45%-49% – 12%
- ≥50% – 14%

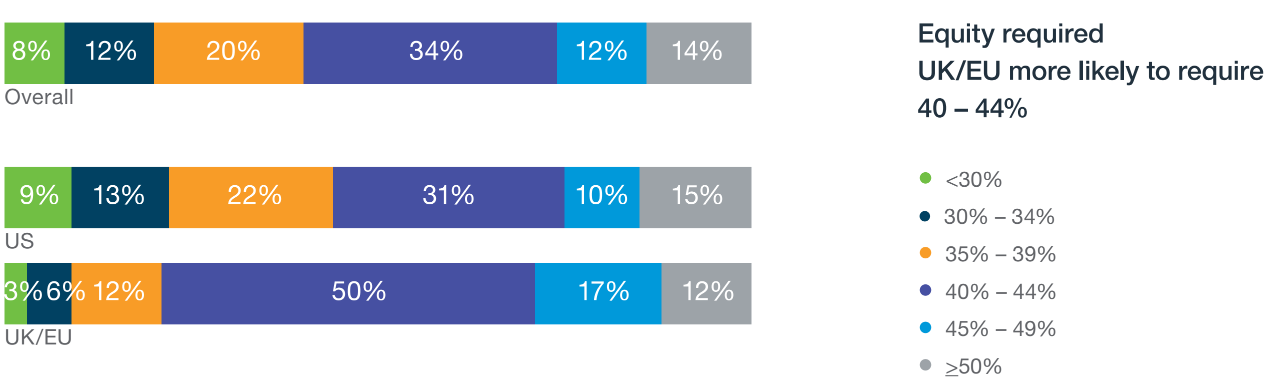
Investment Conditions and Considerations

Equity requirements vary by region; a higher proportion of the US-based respondents (40% compared to 21% in the UK/EU) require under 40%.

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

Equity

By Region

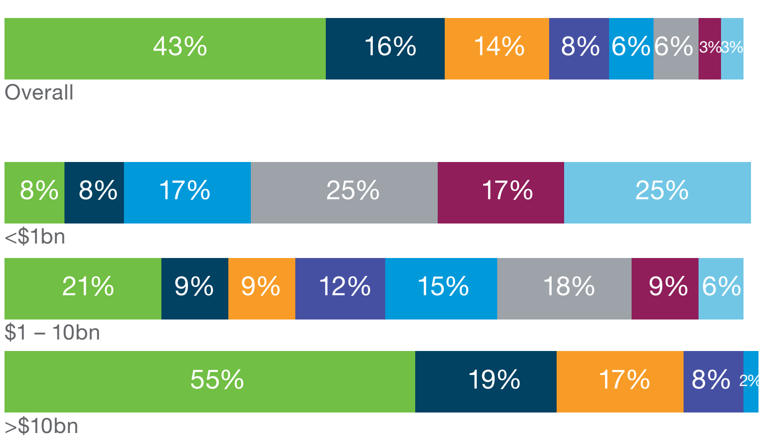


Looking into maximum total leverage by size of US organization (by AUM) also reveals some clear trends, with those >$10bn AUM far more likely to opt for ≥7.50x and >6.50x in general – a very similar picture to last year's results.

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

Maximum Leverage

By US AUM



Maximum leverage
>$10bn AUM grouping has higher proportion in >7.50x category; over half

- ≥7.50x
- 7.0x – 7.49x
- 6.5x – 6.99x
- 6.0x – 6.49x
- 5.5x – 5.99x
- 5.0x – 5.49x
- 4.5x – 4.99x
- ≤4.49x

Investment Conditions and Considerations

US respondents were also asked to comment on the maximum aggregate EBITDA add-backs they permit for their transactions. Most commonly, the maximum is between 20-29% with over two thirds permitting >20% overall. Fewer than in 2021 but still 23% of respondents in 2022 are in the 30-39% category.

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

EBITDA

Overall

EBITDA add backs
Over a third in 20-29%

- <15% – 9%
- 15%-19% – 20%
- 20%-29% – 37%
- 30%-39% – 24%
- We permit uncapped add-backs – 10%

Financial Covenants

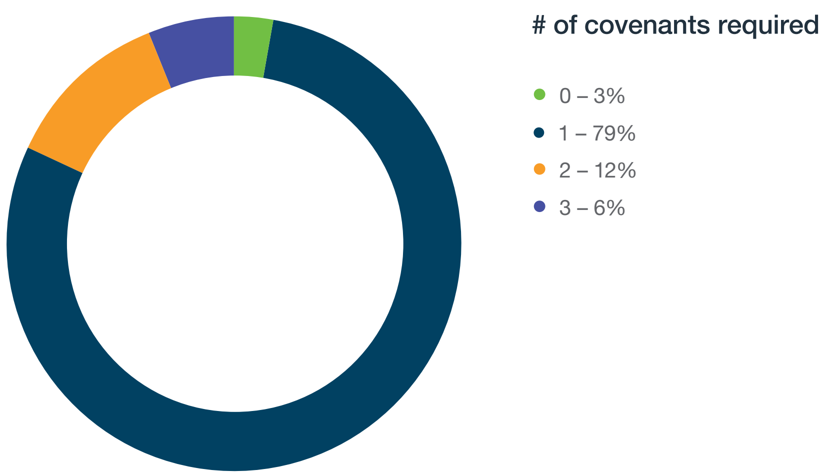
Nearly all UK/EU respondents require a covenant in their deals, with 79% typically including a single covenant, rising to 91% if EBITDA is greater than €25m – an increase on 2021 for both figures.

How many covenants do your deals typically include?

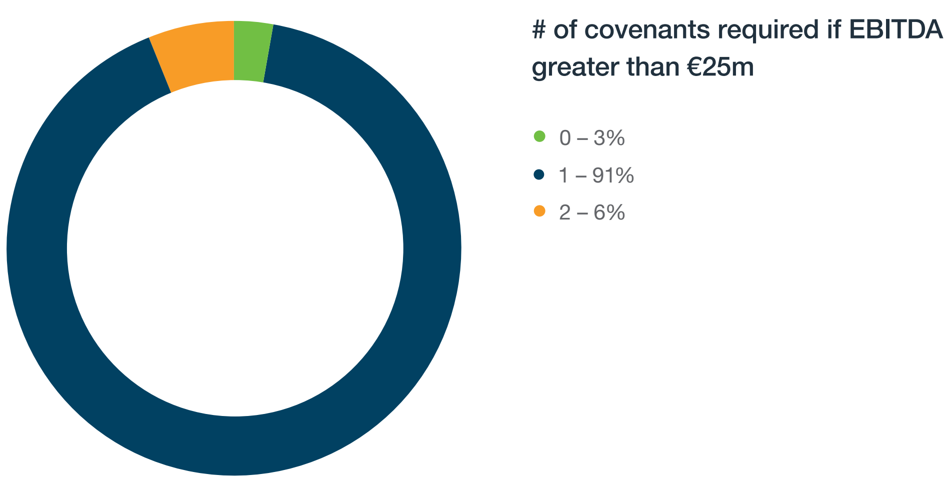
If EBITDA is greater than €25m, how many covenants do your deals typically include?

Number of Covenants

UK/EU Respondents



Most require one covenant.



Investment Conditions and Considerations

32% will not do a deal without a financial covenant, with the second highest percentage (30%) considering a covenant-lite transaction in the $50m+ category. The most common range for EBITDA add-backs for US organizations is between 20-29% with approximately two thirds below 30%.

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

What is the average EBITDA add-back as a % of EBITDA for your transactions?

EBITDA

US Respondents

Covenant-lite

- Less than $30 million – 3%
- $30-39.9 million – 12%
- $40-49.9 million – 23%
- $50 million or greater – 30%
- None (we don't do deals without a covenant) – 32%

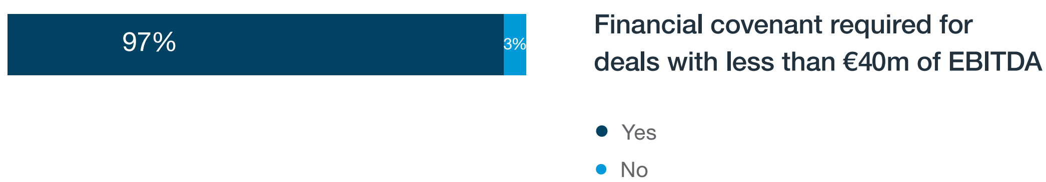
EBITDA Add-backs

- <15% – 8%
- 15%-19% – 18%
- 20%-29% – 33%
- 30%-39% – 29%
- We permit uncapped add-backs – 11%

For deals you originate with less than €40mm of EBITDA, do you typically require a financial covenant?

Financial Covenant Requirements

UK/EU



Investment Conditions and Considerations

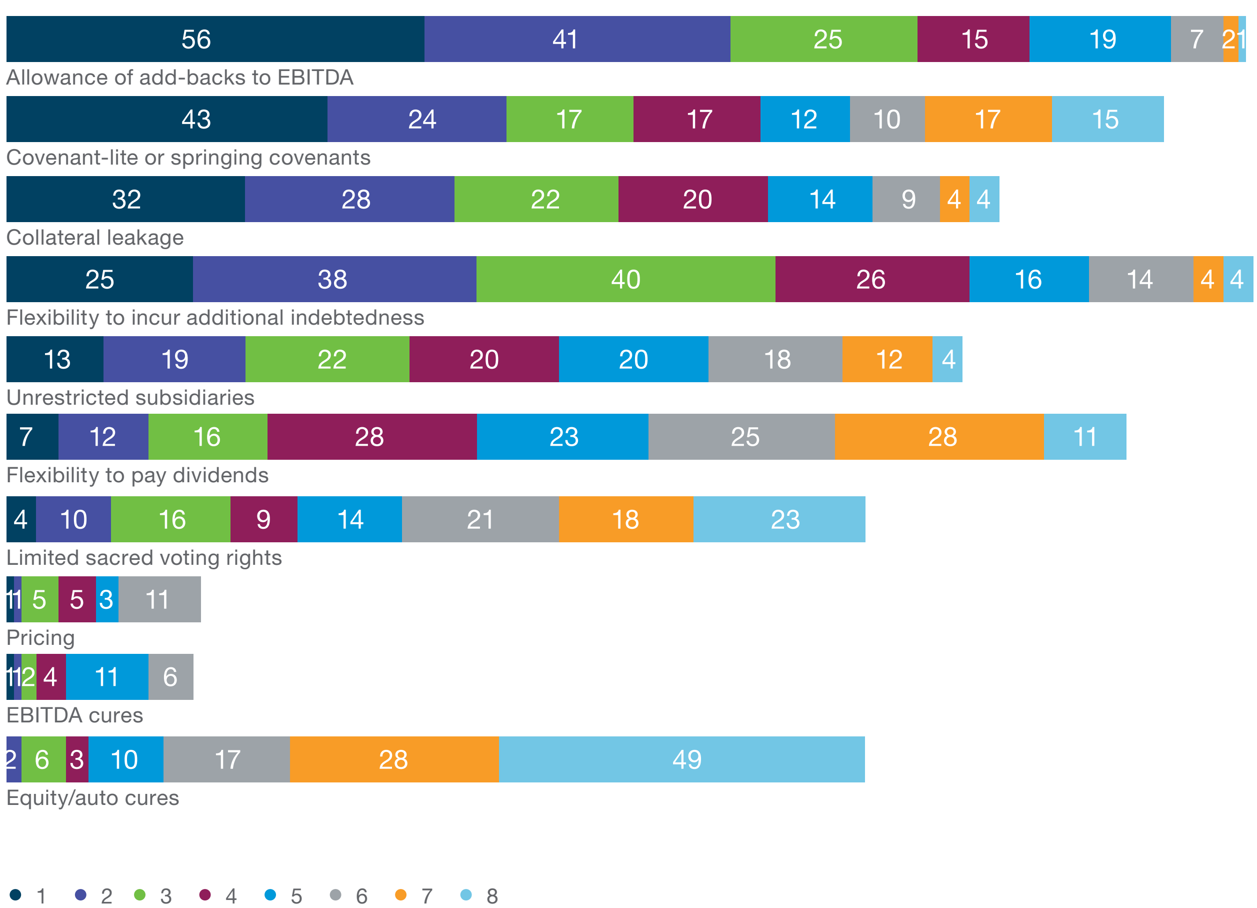
Risks

Allowance of add-backs to EBITDA received the highest number of first choice nominations globally (as the **most** concerning risk to lenders); the same as last year's results, making it the top risk for three years in a row.

Covenant-lite or springing covenants is the second most concerning risk to lenders just accounting for first choice preferences, however flexibility to incur additional indebtedness received a marginally higher total number of nominations overall, with comparable total numbers across the top three choices. Equity cures, EBITDA cures, and pricing are the bottom three for overall nominations, and total amount of first choice nominations, same as last year.

Lender Risks

Overall — sorted by 1st rankings

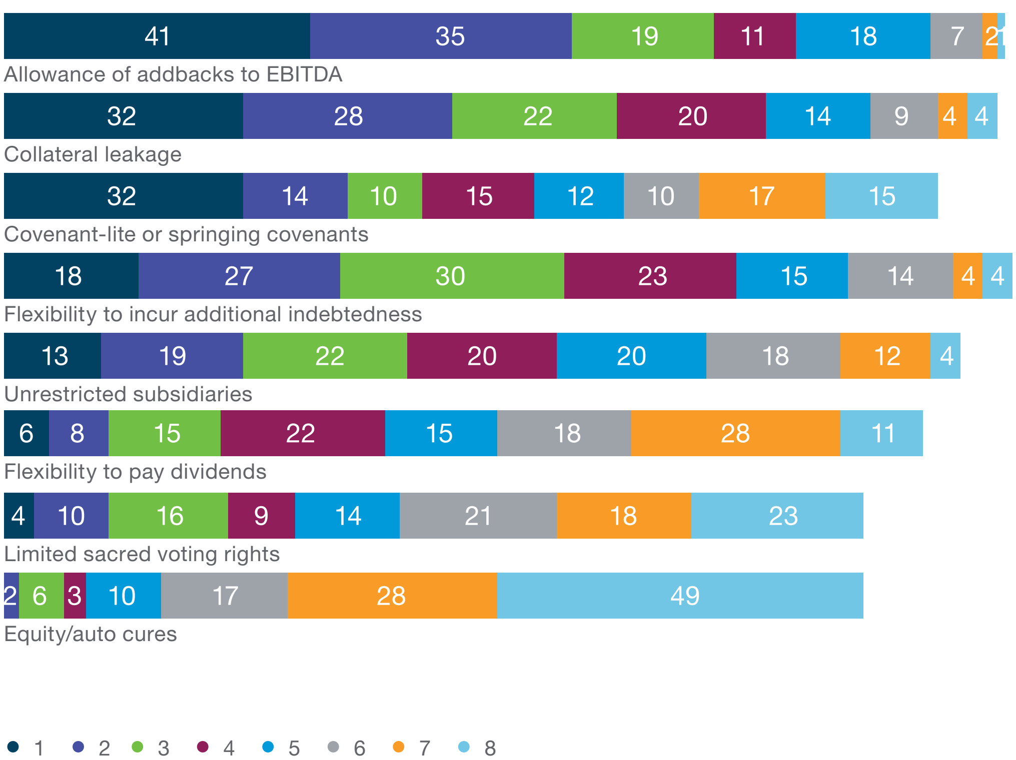


When comparing regions, differences emerge when ordering by most first choice nominations; allowance of add-backs to EBITDA came out top for US respondents whereas covenant-lite or springing covenants led for UK/EU respondents. Collateral leakage joins covenant-lite or springing covenants in second place for 1st rankings and is ahead of it in number of nominations overall.

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

Lender Risks

US — sorted by 1st rankings



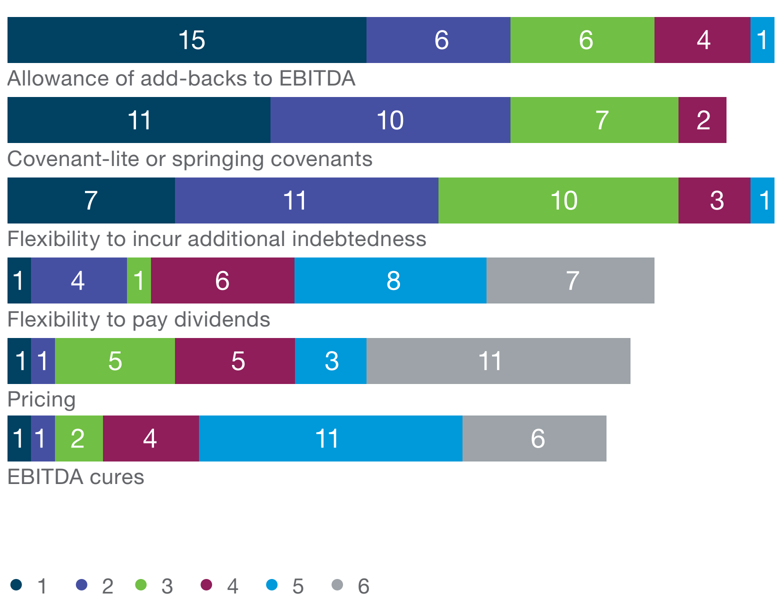
Investment Conditions and Considerations

Half of respondents feel that loan documentation has become more favorable since the pandemic, with the other half being roughly split between believing loan documentation has become less favorable or is about the same.

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

Lender Risks

UK/EU — sorted by 1st rankings



Has loan documentation become more or less favorable since the pandemic?

Half believe documentation has become more favorable

- More favorable
- Less favorable
- About the same

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