CVC

Credit Perspectives

Q2 2025

Marketing Material
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Europe: Resilience Meets Opportunity

Executive Summary:

With U.S. exceptionalism showing signs of waning, European credit looks increasingly compelling. Inflation is easing and prospective fiscal stimulus in key economies such as Germany should support growth. The shift in global dynamics follows a volatile Q2 2025, with market instability driven by Liberation Day tariffs, geopolitical conflict and unpredictable policy moves by the White House. Despite the rising unease, the S&P 500 ended the quarter with double-digit gains and credit spreads continued to grind tighter.

CVC Market Update:

The Performing and Private Credit teams continued to see attractive opportunities across public and private markets during the quarter, with deployment remaining strong and a continuing to focus on income generation.

Key Highlights:

- Two new CLO issuances, one in the U.S. and one in Europe. These transactions were well received and were anchored by large institutional investors. The team continue to focus on optimising returns for investors within the existing portfolio, executing seven CLO resets during the quarter. CVC Credit remains the largest and most active CLO manager in Europe, with c.€3.6bn in volume across two new issues, five resets / upsizes and one refinancing[1] year-to-date.

- The reset of Apidos XXIX facilitated the full monetisation of CVC CLO Equity I's majority position at a 13% IRR and 1.7x MoM.[2] All original minority equity investors rolled their existing position into the new reset transaction. The reset re-leveraged the existing transaction, increasing the current portfolio size by c.$150m in assets, and extending the reinvestment period by five years.

- The CVC Private Credit team also saw strong activity during the quarter, announcing transactions across a variety of markets such as Sweden, Italy, and the UK and in defensive industries such as healthcare and software services. The team deployed €3.8bn over the first half of the year, while also continuing to focus on realisations and return of capital to investors.

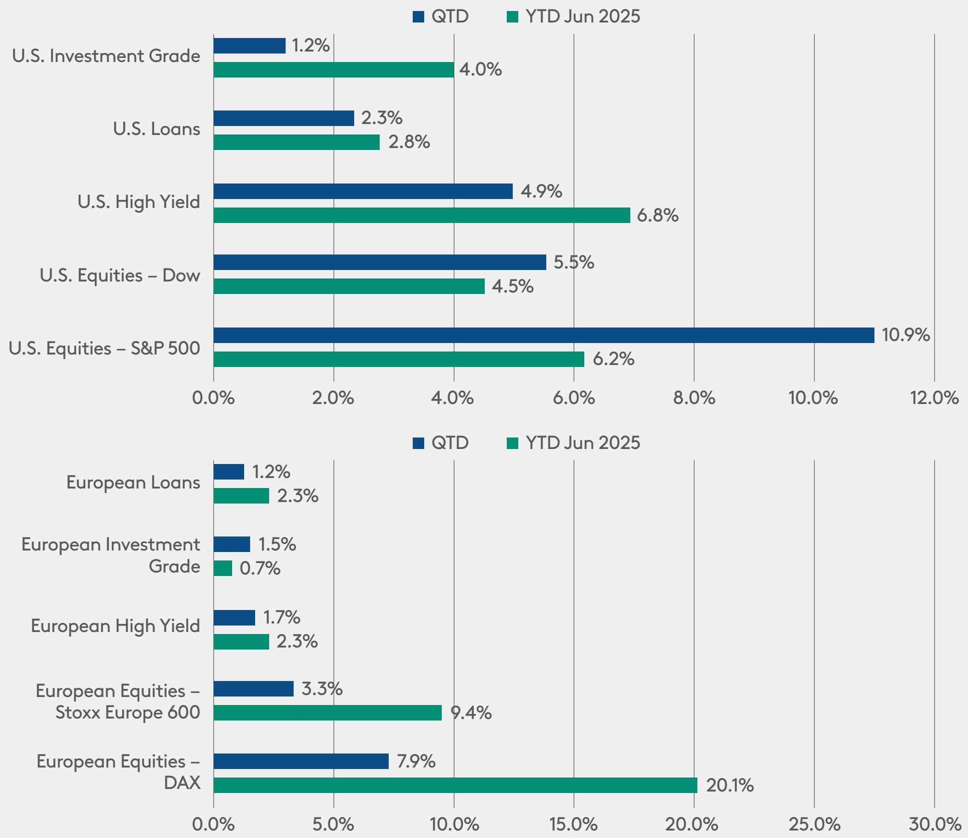
1 Top 10 Global CLO Manager and number 1 European CLO Manager, as per Creditflux CLO-I AUM ranking, as at 31 March 2025. The Creditflux rankings provide a full and comprehensive view of CLO managers by their principal liabilities (debt and equity) as of 31 March 2025.

2 IRR and MOIC corresponding to CVC CLO Equity I's investment in the CLO Equity tranche. The redemption IRR reflected above is net of fees at the CLO level, but gross of fees applied at the CVC CLO Equity I level, which will reduce returns. The SEC net return (based on the application of a model fee that reflects the effective of fees at the fund level), is 11.3% / 1.5x. Performance has been calculated using the ratio method of gross/net for CVC Credit CLO Equity III fees and expenses and is 0.9x.

Market Update Q2 2025: Turning Points

Exhibit 1
Performance Across Asset Classes

U.S. equities outperformed during the quarter, but still lag behind European equities year-to-date, which have benefited from recent U.S. instability. High yield has outperformed loans year-to-date due to better call protection than leveraged loans.



YTD shows year to 30 June 2025. QTD shows quarter to 30 June 2025. Indexes or prices used are: U.S. Equities S&P 500 – S&P 500 Total Return Index, U.S. Equities Dow Jones – Dow Jones Industrial Average TR Index, U.S. High Yield – Bloomberg Global High Yield Total Return Index, U.S. Loans – Morningstar LSTA US Leveraged Loan TR USD, European Equities DAX – Deutsche Boerse AG German Stock Index DAX, European Equities Stoxx Europe 600 – STOXX Europe 600 Price Index EUR, European High Yield – Bloomberg Pan-European High Yield Total Return Index, European Loans – Morningstar European Leveraged Loan TR EUR.

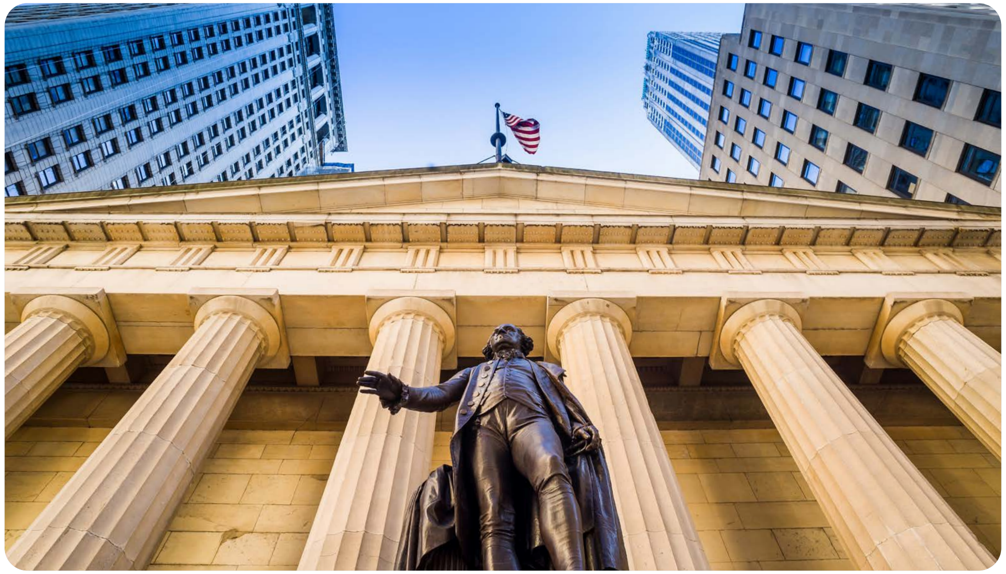
End of U.S. Equity Market Dominance?

While it is too early to tell if the era of U.S. equity market dominance is truly over, it is clear that diversification remains critical, and Europe continues to offer policy stability and an attractive investing opportunity. This was reinforced over the course of a highly unpredictable Q2 2025 – beginning with Trump's announcement of 'reciprocal' tariffs on all global trading partners, and ending with the U.S. bombing of nuclear enrichment facilities in Iran. White House policy remains unpredictable, creating uncertainty and market volatility. The S&P 500 traded in a wide range during the quarter as investors tried to gauge recession risks under Trump 2.0, while other geographies, such as Europe, have benefitted from their relative stability.

One Big Bill, Treasuries Tilt

Announced on 2nd April, the quarter's largest market shock was undoubtedly the Liberation Day tariffs, which caused the S&P 500 to record its fifth-worst two-day decline since World War II, and pushed the UST 30-year yield above 5%. The situation stabilised after President Trump announced a 90-day tariff pause for non-retaliating countries on 9th April, leading the S&P 500 to gain 9.5% in one day, its best daily performance since the Global Financial Crisis.

Nonetheless, investors are reassessing a range of outcomes for the U.S. economy. While many remain optimistic, downside risk remains, particularly if tariffs resume after their initial pause. The impact of the 'One Big Beautiful Bill Act' will also be closely watched



by investors, given its expected significant increase of the federal deficit. U.S. Treasuries, traditionally a safe haven for investors, have been rocked in recent months by the Trump administration's policy announcements. The dollar index also slid by 7% during the quarter and suffered its worst H1 performance for over fifty years.

Global Flashpoints

Beyond tariffs, investors are now navigating complex geopolitics. In Europe, the Ukraine-Russia conflict continues without resolution. In the face of U.S. criticism, the region is continuing to step up defence spending: Germany is reforming their debt brake to fund greater investment and NATO members are pledging to raise defence spending to 5% of GDP by 2035.

After years of anaemic spending, Europe's growing investment in defence and infrastructure is a welcome development that could act as an economic stimulus and support a structural shift as U.S. dominance erodes. Among major global economies, the U.S. has suffered the steepest downgrade in its 2026 growth outlook since November, while Germany has received the greatest upgrade based on stimulative policies.[3]

The conflict in the Middle East also escalated significantly during the quarter, culminating in Israel and Iran engaging in full-scale missile exchange, and the U.S. bombing Iranian nuclear enrichment facilities. While oil markets reacted, the credit and equity markets remained relatively insulated. At the time of writing, a fragile ceasefire is in place, but the region's future remains uncertain. The White House's actions illustrate the extraordinary climate investors are now navigating, as political situations continue to escalate in a quick and often unpredictable manner.

Stability Meets Stimulus in Europe

In this environment of heightened volatility and fragmented capital flows, Europe's combination of institutional stability and loosening financial conditions present an attractive risk-return profile, particularly for investors wanting to diversify away from the U.S.. With the European Central Bank ("ECB") having reduced benchmark rates to 2% and governments channelling more resources into defence and infrastructure, the continent is well-positioned for sustained growth.

The recent announcement of a U.S. / Europe trade deal provides stability for the continent. The agreement removes trade uncertainty, guarantees market access and soldifies the U.S. / European relationship in what is a turbulent macro environment. Similar deals have also been struck with Japan and the U.K. which should allay some fears of trade wars, albeit there is work to do with other significant trading partners such as China.

"Europe's combination of institutional stability and loosening financial conditions present an attractive risk-return profile."

3 Source: Deutsche Bank, 3rd June 2025.

Dips, Divergence and Defensive Plays: Liquid Credit

President Trump's 90-day tariff pause triggered an extraordinary dip-buying wave in leveraged finance.[4] Although spreads widened sharply at the start of April, they ended the month only marginally above prior levels and tightened over the quarter on the whole, indicating that investors see long-term value in credit. Monthly returns were generally flat or positive across all asset classes, despite substantial market movements triggered by the tariff announcements in early April. High yield returns in the U.S. and Europe were 3.6% and 2.4% respectively, while leveraged loans returned 2.3% in the U.S. and 1.4% in Europe.[5]

High yield spreads tightened by 53bps in the U.S. and 11bps in Europe over the quarter,[6] although remain slightly wider vs. the start of the year, as per our initial expectations. Spreads remain historically tight given improved credit quality and strong technical support, with demand consistently outstripping supply.

Divergence also continues to be a prevalent theme, with performance across the quality spectrum intermittently dominated by a handful of names and sectors unevenly affected by the recent tariff announcements, such as metals and autos. The fragmented nature of the market presents clear opportunities for active managers to generate alpha for investors through a mixture of bottom-up credit selection and informed macro-driven allocation decisions.

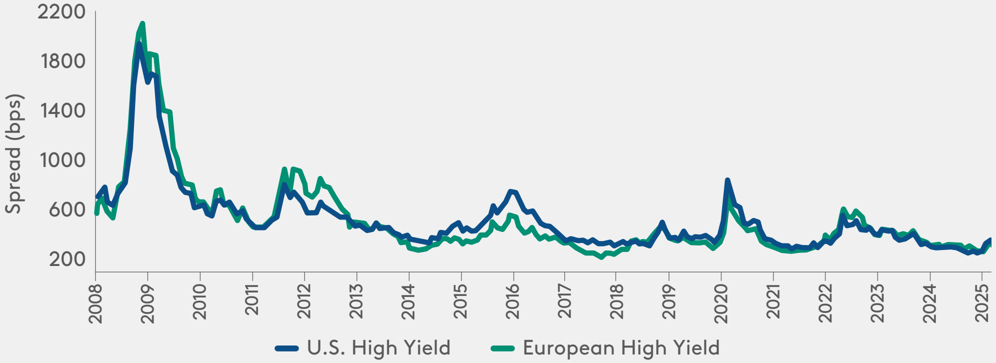
Fundamentally Resilient

Defaults remained largely unchanged, although, as mentioned last quarter, we still believe recent U.S. policy could adversely impact U.S. issuers later in 2025 or early 2026, as tariffs pressure grow and margins compress. The U.S. high yield par default rate was 1.1% for the quarter, against Europe's 3.5%. Rising star activity was particularly strong during the quarter, with $19bn moving from the high yield universe to investment grade, while $5bn of fallen angels were downgraded to high yield.

In general, the high yield universe displays robust metrics, with relatively benign defaults despite high inflation and rate uncertainty in recent years. Risks remain, notably the elevated probability of a U.S. recession. However, distress ratios remain within historic norms. Default rates continue to be manageable in both the U.S. and European loan markets. We continue to see a pick up in liability management exercises (LME), mainly in the U.S.. Some are more aggressive than others but not all lead to credit losses.

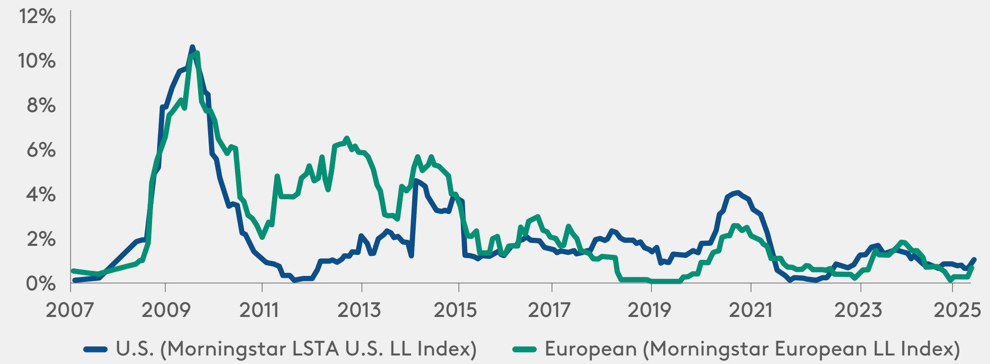
"In general, the high yield universe displays robust metrics, with relatively benign defaults despite high inflation and rate uncertainty in recent years."

Exhibit 2
U.S. and European High Yield Spreads Are Tight Relative To Historical Levels



Source: Bank of America Global Research, as at 1 July 2025.

Exhibit 3
U.S. & European Leveraged Loan Last 12-Month Default Rate: Principal Amount



Source: Morningstar, as at 30 June 2025. Source: Pitchbook LCD; Morningstar LSTA US Leveraged Loan Index; Morningstar European Leveraged Loan Index. Does not include LMEs.

4 Source: Bank of America Global Research, 20th June 2025.

5 U.S. High Yield represented by the VettaFi High Yield Index, U.S. Leveraged Loans represented by the S&P UBS Leveraged Loan Index, European High Yield represented by the VettaFi Western European High Yield Index and European Leveraged Loans represented by the S&P UBS Western European Leveraged Loan Index.

6 Source: Bank of America Global Research. 1st July 2025.

Exhibit 4
U.S. & European High Yield Last 12-Month Par-Weighted Default Rate

Data through 30 June 2025. Source: Bank of America Global Research..

M&A Delay – A Squeeze on Supply

Issuance was lumpy during the quarter as market turbulence in April delayed activity, with a number of high-profile deals being pulled due to the volatile situation. There was $80bn of U.S. leveraged loan issuance (excluding repricing and extension amendments), €49bn of new paper within the European leveraged loan market, $75bn of issuance in the U.S. high yield market, and €45bn in the European market.[7]

While M&A volumes remain muted, primary loan issuance linked to dealmaking increased approximately 44% year-over-year.[8] Nonetheless, as the much anticipated return of dealmaking activity continues to be pushed out, many now speculate M&A markets may not truly return until 2026, as investors sit on the sidelines and adopt a wait-and-see approach amid the recent macro noise. That said, we see a structural need for Private Equity sponsors to realise DPI for their investors, which we expect to materialise in a transaction pick up over the coming quarters.

CLOs

CLOs remain attractive. Price stability during the Liberation Day volatility provided strong returns per unit of risk. Despite compression of the weighted average spread from loan repricings, equity distributions remain robust, with recent resets reducing liability costs and returning excess to par. CVC Credit announced 7 resets in the U.S. and Europe during the quarter, optimising structures to enhance returns for equity investors.

Recent transactions, such as the reset of Apidos XLV, resulted in a debt cost saving of c.83bps, and should result in c.$3.2m of par flush for equity investors. The team also used the reset of Apidos XXIX to monetise CVC CLO Equity Fund I's position at 1.7x MoM,[9] while minority investors rolled their positions into the re-levered deal, increasing the portfolio size by c.$150m and extending the reinvestment period by five years.

The benefits of CVC's platform scale were also clear in early April, as the team successfully priced several deals despite market challenges, notably monetising CLO Equity Fund I's Apidos XXXIII position at a c.24% IRR and 2.0x MoM.[10]

Outlook & Positioning

In terms of positioning in our Global Yield fund, we have continued to increase our exposure to European assets. For the first time in many years, the outlook for European credit appears more favourable than for U.S. credit. The European economy is expected to benefit from renewed fiscal stimulus and we could potentially observe renewed economic growth in 2026 as a result. Moreover, spreads in the European loan market are currently more attractive relative to the U.S. loan market. The bankruptcy regime in Europe has also improved considerably over the last few years in countries such as France and Spain, whereas in the U.S., some aggressive LMEs have resulted in sub-optimal recoveries for lenders. We have re-underwritten the entire portfolio following Liberation Day and feel comfortable with our existing exposure, although we still expect significant developments in the tariff discussions between the U.S. and its global trading partners.

7 Source: Pitchbook LCD Credit Markets Quarterly Wrap.

8 Source: Pitchbook LCD Credit Markets Quarterly Wrap.

9 The SEC net return is 1.5x and is based on the application of a model fee that reflect the effective fee of the fund level. Performance has been calculated using the ratio method of the gross/net for CVC Credit CLO Equity III fees and expenses and is 0.90x.

10 The SEC net return is 22% / 1.8x and is based on the application of a model fee that reflect the effective fee of the fund level. Performance has been calculated using the ratio method of the gross/net for CVC Credit CLO Equity III fees and expenses and is 0.90x.

Reliability Amid Volatility: Private Credit

While the tariff-driven public market volatility has subsided for the moment, the episode reaffirmed private credit's fundamental appeal: delivering stable, efficient capital to high-quality issuers even when public markets face challenges. European direct lending is up by 44% and 56%[11] YoY on both a volume and deal count basis respectively, as sponsors continue to rely on private credit managers to provide liquidity and execution certainty.

Despite buyout activity remaining below historical averages, a gradual resumption appears to be underway, with a greater number of transactions closing over the quarter, albeit largely focused on LBO-related financings, add-on acquisitions and recapitalisations.[12]

The leveraged loan market ground to a halt in early April, with no U.S. deals priced for 15 consecutive days amid April's market uncertainty, the longest pause since COVID-19. By contrast, private credit continued to prove its reliability, providing financing to borrowers throughout the quarter, including taking market share from the broadly syndicated loan ("BSL") markets in April when several sponsors, who would typically use BSL financing, chose to finance via the private credit market.

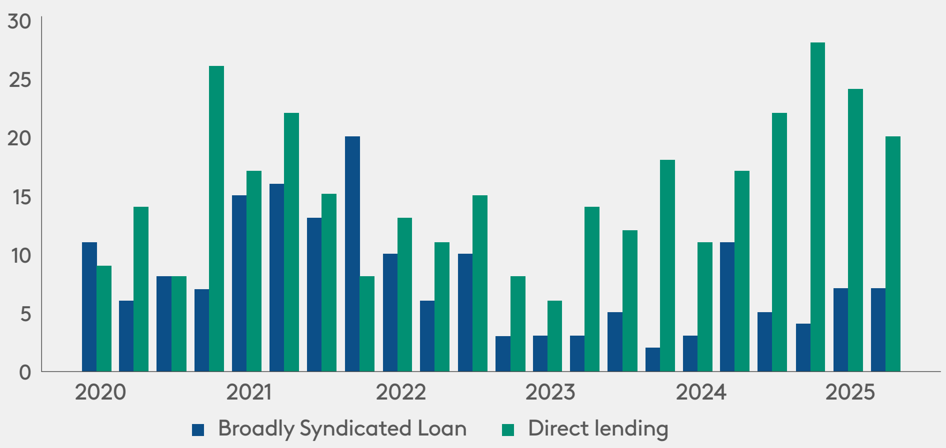
Notably, private credit managers like CVC were able to step in as underwriters paused activity in the broadly syndicated market, highlighting the structural differences between private and public channels during periods of volatility. The bypassing of banks originally chosen to underwrite these high-profile transactions illustrates the durability of private credit, with private lenders able to execute transactions efficiently. We have seen similar dynamics during previous bouts of public market volatility and expect this trend to continue as issuers appreciate the stability of access to financing solutions provided by private debt markets.

Pinpointing Premia

Investor demand and supportive risk sentiment continued to lead to spread compression, with the YTD median spread in Europe at 500bps, compared to a median of 550bps in 2024.[13] Even so, spread compression has been evident in public markets as well, where demand consistently outstrips supply. Despite this compression, private credit still commands a 50-100bp premium to comparable BSL transactions, reflecting differences in structure, scale and liquidity within the private markets.

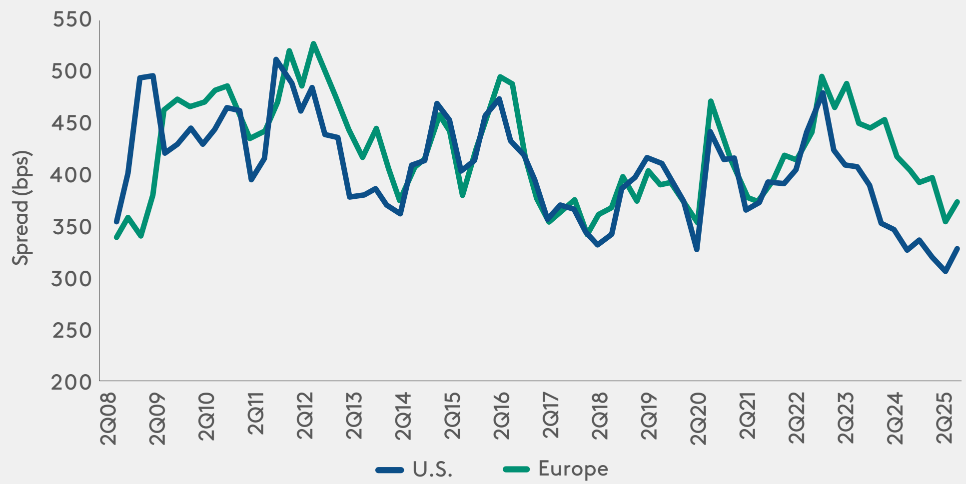
From a relative value perspective, European private credit also offers an attractive premium compared to the U.S. due to the heterogenous nature of the market, which is more complex with structural inefficiencies that translate into enhanced yield opportunities. In particular, the European middle market, which cannot tap BSL borrowing as easily as its U.S. counterpart, remains highly compelling for private credit managers.

Exhibit 5
Count of European LBOs Financed via BSL vs Direct Lending



Source: Pitchbook | LCD, as at 30 June 2025. Direct lending data based on transactions covered by LCD News.

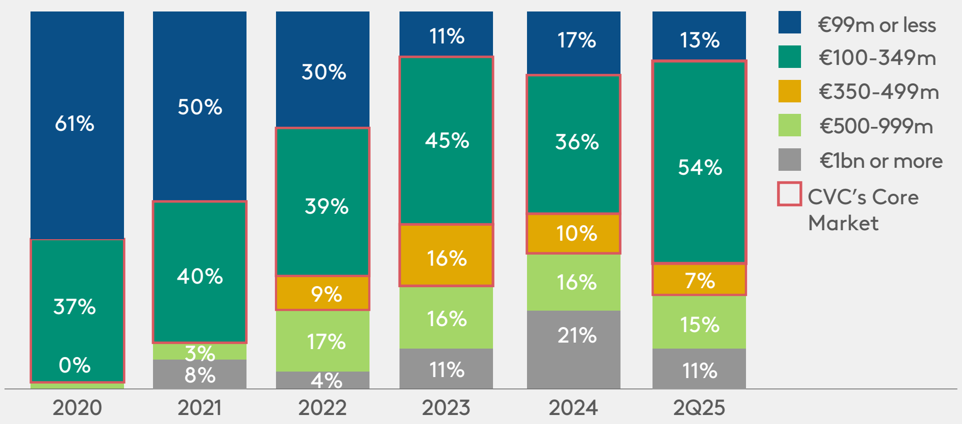
Exhibit 6
Average New-Issue Institutional Spreads: Europe & U.S.



Source: Pitchbook | LCD. Data through 30 June 2025.

11 Source: S&P LCD, Monthly European Private Credit Monitor, May 2025.
12 Source: S&P LCD, Private Credit & Middle Markets Weekly Wrap, 26th June 2025.
13 Source: S&P LCD, European Credit Markets Quarterly Wrap.

Exhibit 7
Deal Size Diversification of European Direct Lending Deals, by Count



Source: Pitchbook | LCD, as at 30 June 2025. Analysis based on transactions covered by LCD News; share calculated based on deals where size information is disclosed.

Private Credit Meets Private Wealth

The sustained demand for private credit solutions has also been evident on the investor side, notably within private wealth, as evergreen structures continue to gain popularity. Morningstar recently noted that in 2024 private credit evergreen AUM grew by c.60% YoY in 2024 to $188 billion, as an increasingly broad investor base see the merits of an allocation to private credit as part of a diversified portfolio.

CVC Credit has also experienced this growing demand from the private wealth market, with CVC-CRED, CVC's first evergreen private credit product, reaching a total asset value in excess of €1 billion in its first year of trading. The growing allocation to alternatives by the private wealth channel reflects broader shifts in portfolio construction, particularly the search for yield stability and reduced correlation.

Evergreen structures are also becoming increasingly favoured by a number of institutional investors and can complement traditional drawdown fund structures, offering day one deployment and more optionality than closed-end funds.

Outlook

While spreads have continued to compress in the first half of 2025, return levels remain attractive, in particular on a relative value basis, and there have been green shoots in recent months that suggest dealmaking activity may be gradually resuming. We can expect to see moderate levels of activity in the second half of 2025 and greater activity in 2026 as sponsors look to provide liquidity to their LPs and deploy the record dry powder accumulated in recent years.

Amid public market swings in Q2, both investors and borrowers continued to seek out private credit. Private credit's ability to maintain pricing discipline and execution continuity will be tested if M&A rebounds sharply in the second half of the year. Structural supply/demand imbalances however, suggest ongoing relevance across multiple market scenarios.

> **"The European middle market, which cannot tap BSL borrowing as easily as its U.S. counterpart, remains highly compelling for private credit managers."**

14 Source: Morningstar, The State of Semiliquid Funds 2025.