

An aerial night photograph of the CN Tower in Toronto, Canada. The tower is the central focus, illuminated with its characteristic red and white segments. The surrounding city is a dense grid of lit-up buildings and streets, with the lights reflecting on the water in the harbor. The overall scene is a vibrant, high-angle view of a major metropolitan area at night.

CVC

Credit Perspectives

Q3 2025

Robust Performance Amid Political Noise

Executive Summary:

Markets have remained resilient over the past six months since the White House's "Liberation Day" announcements, with fundamentals staying firm amid the political noise. The key macro event in Q3 was the Federal Reserve's 25bps rate cut in response to signs of cooling in the U.S. economy. The move was broadly expected and welcomed by investors. This was followed up with a further 25bps cut at the end of October, the jury is out if we will see another rate cut this year. Equities advanced, while credit spreads tightened as demand continues to outstrip supply.

CVC Market Update:

CVC's Liquid and Private Credit teams remained active in Q3, deploying across public and private markets with a continued focus on income generation.

Key Highlights:

- **European Direct Lending fund ("EUDL IV"):** CVC Credit announced the final close of EUDL IV, bringing total capital raised across the European Direct Lending platform to €10.4 billion,¹ a significant increase over the €6.3 billion raised in 2022 and €1.3 billion in 2020. EUDL IV has already committed to over 30 investments.
- **CLO New Issues:** Two new CLOs (U.S. & Europe) priced at the tight end and were well received. Cordatus XXXVI had already sourced approximately 65% of the portfolio, with an eight-week price-to-close window to take advantage of the active primary loan pipeline.
- **Resets & Refinancings:** Apidos XXVIII reset fully monetised CVC CLO Equity I's position at c.12% net IRR and 1.7x MoM.² Year-to-date activity, as at September 2025, includes 16 resets and three refinancings, leveraging majority equity positions to optimise returns.
- **Private Credit:** Senior and junior transactions executed, including financing for smartTrade Technologies ("smartTrade"), a global SaaS trading platform, owned by TA Associates, and a junior capital facility for CapVest-backed Novus Foods, structured amid tariff-driven volatility to secure favourable terms and supported by CVC's sponsor relationship and U.S. Private Equity expertise.

1 Taken together with parallel investment funds and accounts.

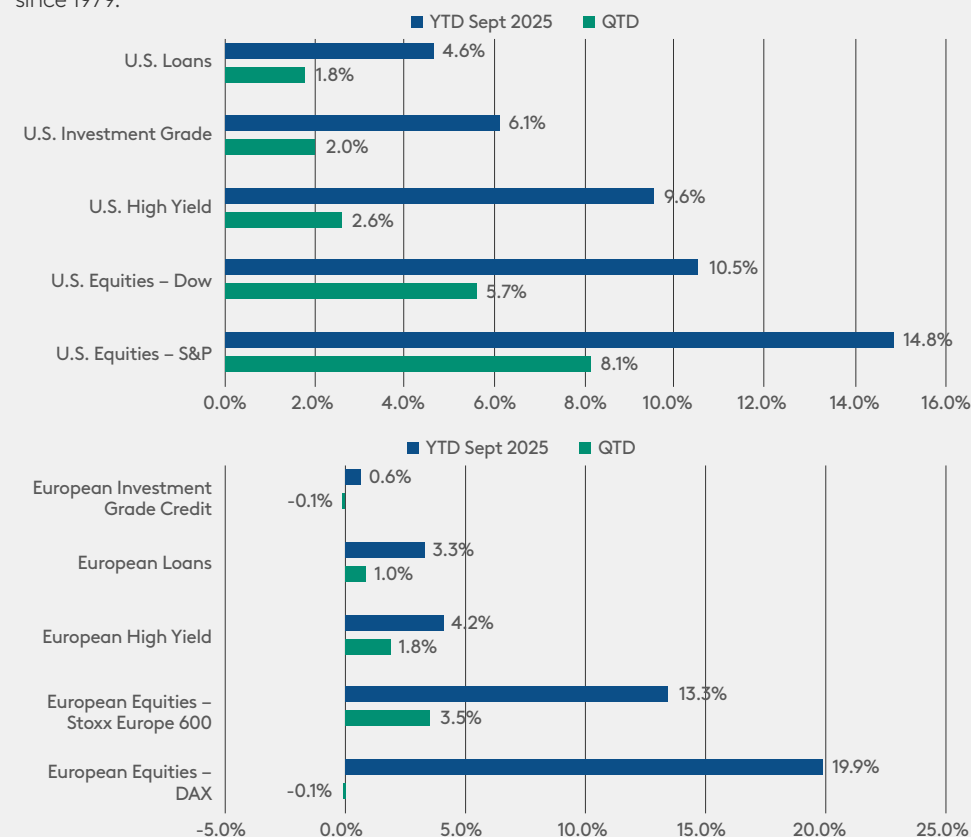
2 IRR and MOIC corresponding to CVC CLO Equity I's investment in the CLO Equity tranche. The redemption IRR reflected above is net of fees at the CLO level, but gross of fees applied at the CVC CLO Equity I level, which will reduce returns. The SEC net return (based on the application of a model fee that reflects the effective of fees at the fund level), is 11% / 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 Q3 2025: Resilience

Exhibit 1

Performance Across Asset Classes

High yield outperformed leveraged loans once again due to better call protection. Equities maintained their momentum and continued to perform strongly during the quarter. Gold has been the standout performer this year and is on track for its strongest annual performance since 1979.



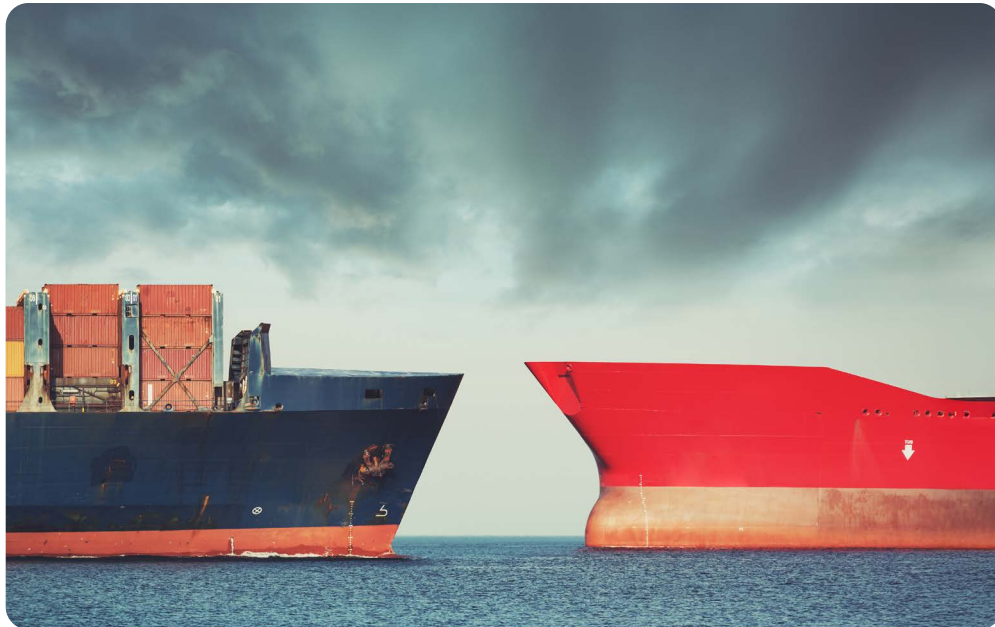
YTD shows year to 30 September 2025. QTD shows quarter to 30 September 2025. Indexes or prices used are: U.S. Equities S&P 500 – S&P 500 Total Return Index, U.S. Equities Dow Jones – Dow Jones Industrial Average TR Index, U.S. Investment Grade Credit – Bloomberg U.S. Aggregate Total Return Index, U.S. 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 Investment Grade Credit – Bloomberg Pan-European Aggregate Total Return Index, European High Yield – Bloomberg Pan-European High Yield Total Return Index, European Loans – Morningstar European Leveraged Loan TR EUR.

Tariffs – a done deal?

The year began with uncertainty after the White House’s “Liberation Day” announcements, but Q3 brought signs of progress. The U.S. struck trade deals with Europe and Japan, following an earlier UK deal. The 15% baseline rate for the EU and Japan is high, but less severe than feared. The U.S. / China trade war continues to rumble on and we anticipate this to continue until the end of the year. Even so, while tariffs will likely remain in the headlines, the U.S. may be near a turning point, having largely reset its trade relationships with major partners to the highest tariffs since the 1930s. The potential inflation impact on U.S. consumers, however, remains unknown.

U.S. Economic Tension

So far, the U.S. consumer has remained more resilient than anticipated despite tariffs, which, in combination with AI capital expenditure, is keeping GDP growth in the U.S. robust. Nonetheless, there are signs that certain parts of the U.S. economy are beginning to show strain, namely the recent Tricolor and First Brands bankruptcies, which CVC had no exposure to, as well as softer jobs data. CVC’s screening process continues to focus on conservatively oriented businesses, with predictable business models and strong recurring revenues. In addition, a prolonged U.S. government shutdown is expected to have a negative impact on the economy, a resolution does not appear in sight.



One of the quarter’s biggest headlines was the Federal Reserve’s (Fed) first rate cut of the year with a 25bps cut in the policy rate. Another rate cut swiftly followed in October, lowering the benchmark rate to 3.75% - 4.00% amid labour market weakness. Chair Powell noted risks have tilted from inflation toward employment, as recent data points to a cooling jobs market. Interestingly, he attributed the slowdown less to tariffs and more to reduced immigration limiting labour supply.

Germany – Stimulus On The Way

In March, Germany passed fiscal reforms unlocking over €100bn in spending via a new infrastructure fund and fiscal exemptions for defence expenditure – its biggest policy shift since reunification and a significant departure from prior orthodoxy.

Although near-term spending will stay below target, growth forecasts for 2026 and 2027 are strong.³ Europe’s largest economy looks set to benefit from this long-term structural change, with growth positive effects reverberating across the continent. Despite exogenous factors, such as tariffs, overall Europe appears well positioned thanks to political stability and fiscal easing under new NATO funding commitments.

France? C’est la vie

While the general mood across Europe is positive, France remains politically unstable. Prime Minister François Bayrou lost a confidence vote in September, and his successor Sébastien Lecornu resigned after just 26 days although was subsequently

reappointed a matter of days later. President Macron remains under pressure amid fiscal strains and stalled reforms.

Although French 10-year yields briefly rose above Italy’s for the first time in 25 years, the situation now appears contained. With higher risk premiums, many French assets appear attractively valued, especially when considering France’s standing as the world’s seventh largest economy.⁴

Peace in the Middle East?

A major development this quarter was progress towards a peace deal in the Middle East, with Israel and Hamas agreeing to pursue President Trump’s 20-point peace plan for Gaza, with a ceasefire currently in place. While its long-term success remains uncertain, the proposal has gained broad support across the region and from Prime Minister Netanyahu. Markets are monitoring the situation and have so far shown little reaction, with renewed hope building that peace may finally be within reach.

Europe continues to be an attractive long-term investment opportunity due to its political stability and fiscal reforms.

³ Source: Deutsche Bank.

⁴ Source: World Bank. As at 31 December 2024.

Tight Spreads, Broad Conviction: Liquid Credit

High yield spreads continued to tighten in Q3, nearing post-GFC tights as the market absorbed a heavy wave of new issuance. High yield returns remained positive at 2.6% in the U.S. and 1.8% in Europe; leveraged loans returned 1.8% and 1.0%, respectively.⁵

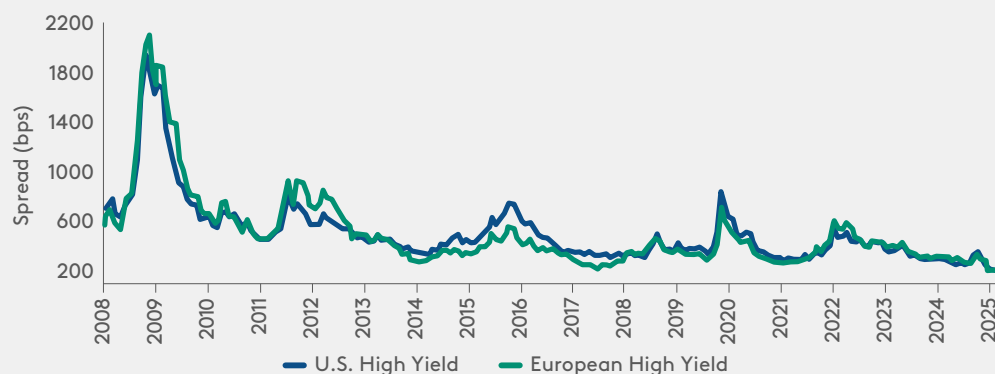
U.S. high yield spreads tightened by 22bps and European by 40bps, leaving both tighter than at the start of the year. Demand remains robust despite stretched valuations, though dispersion has widened. Higher quality bond spreads have tightened more sharply, while CCCs still trade near historical averages. Amid ongoing macro uncertainty, managers continue to prioritise quality over yield.

Fundamentally Resilient

Default levels remain stable and in line with historical averages. The U.S. high yield par default rate held steady at 1.2%, while Europe's fell to 2.7% from 3.5% in Q2. Four U.S. rising stars emerged in the quarter, with \$31bn upgraded to investment grade year-to-date, versus c.\$39bn of fallen angels, a modest net increase in supply unlikely to cause headwinds given strong company fundamentals at present.

The leveraged loan market shows similar resilience, with defaults hovering near historical norms. Liability management exercises (LMEs) have proliferated in the U.S., but not in Europe. LMEs, which do not always lead to credit losses, are commonly used to buy time for restructuring and improve recovery outcomes.

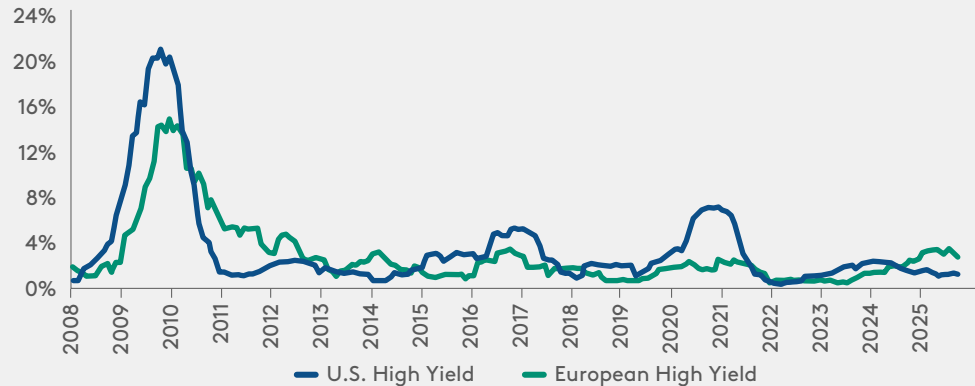
Exhibit 2
U.S. and European High Yield Spreads Are Close to Post-GFC Tights



Source: Bank of America Global Research, as at 30 September 2025.

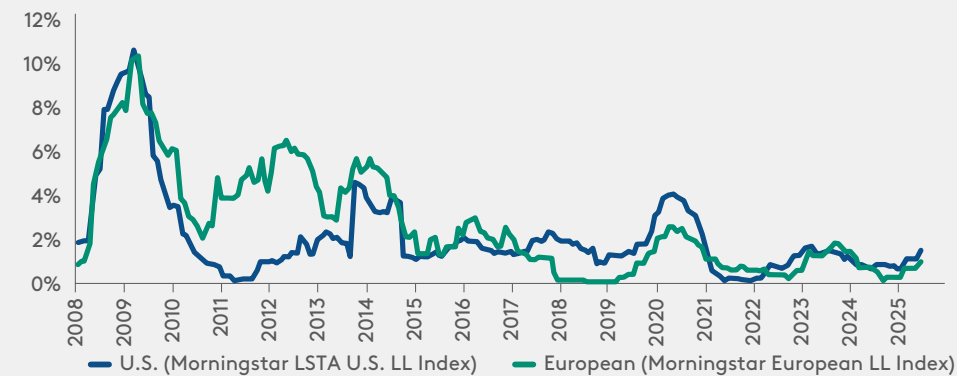
⁵ U.S. High Yield represented by the Bloomberg Global High Yield Total Return Index, U.S. Leveraged Loans represented by the Morningstar LSTA US Leveraged Loan TR USD, European High Yield represented by the Bloomberg Pan-European High Yield Total Return Index and European Leveraged Loans represented by the Morningstar European Leveraged Loan TR EUR.

Exhibit 3
U.S. & European High Yield Last 12-Month Par-Weighted Default Rate



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

Exhibit 4
U.S. & European Leveraged Loan Last 12-Month Default Rate: Principal Amount



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

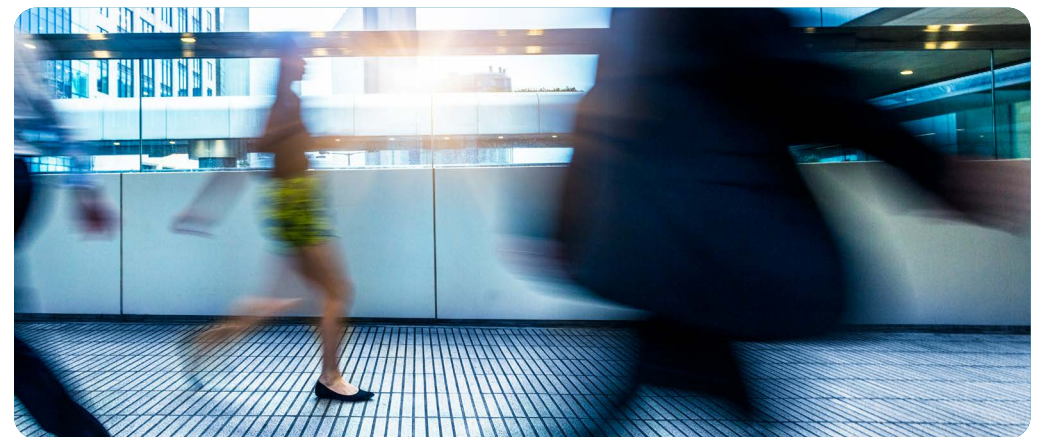
Record High Yield Issuance Whets Investor Appetite

September saw record U.S. high yield issuance of \$58.3bn,⁶ an all-time high that makes recent spread tightening even more remarkable. Indeed, the year-to-date volume of c.\$268bn is now on track to surpass 2024's \$289bn. Leveraged loan issuance was also strong at \$143bn in the U.S. and €28.7bn in Europe.⁷

Demand remains intense. In September, Bank of America reported that roughly half of new high yield deals were upsized as spreads continued to grind tighter. Much of the volume involved refinancing, as M&A activity fell in Q3 amid tariff uncertainty and a seasonal lull. However, optimism is building for stronger dealmaking heading into the end of 2025, with European buyout loan issuance up c.50% YoY, hinting at recovery after muted activity over recent years.⁸

Outlook & Positioning

In our Global Yield fund, we increased our European exposure in Q3 given the spread pick-up and the improving outlook for many European countries, while we anticipated a slowdown in the U.S.. Towards the end of Q3, we started seeing elevated volatility in some of the weaker B3 rated issuers, especially in more cyclical industries such as chemicals or construction. The cyclical downturn in chemicals that started in 2022 doesn't seem to show any signs of recovery and most listed chemicals businesses' share prices are at or near decade lows. We have reduced exposure to this sector. Another theme we increasingly focus on is potential AI disruption for existing issuers in the market. While the exact future of AI is still unknown at this point, it will almost certainly disrupt certain industries, just like the internet did over the last few decades. This is one of the key focus items during our Investment Committee discussions, but we believe we are well positioned for this transition.



⁶ Source: Bank of America Global Research.

⁷ Sources: Pitchbook LCD & Pitchbook LCD European Credit Markets Quarterly Wrap.

⁸ Source: Pitchbook European Credit Markets Weekly Wrap.

Robust & In-Demand: Private Credit

We continued to see private equity sponsors actively use both private credit and broadly syndicated loan markets to meet their financing objectives over the course of Q3.

In the U.S., private credit lenders remain competitive despite lower deal flow, with spreads clustering around S+450-475, and an increasing share of loans now pricing below S+500. Sponsors however, are taking advantage of the aggressive rebound in the syndicated market, where re-pricings and refinancings have tightened spreads materially.

In Europe, private credit managers also remained active despite a summer lull. European sponsor-backed direct lending is up YoY, with steady LBO volumes and a higher deal count. In the YTD period through Q3, €95bn of loans re-priced in the European BSL market, a new record. Average single-B loan yields fell to under 6% and sponsors were able to execute c.€8bn in dividend recaps in the quarter alone, also representing a new Q3 record.⁹

Private credit adoption is broadening. Credit secondaries, in particular, are gaining traction, providing LPs new exit routes and access to newer vintages. The market is expected to reach \$18bn in 2025, triple 2023 levels, with Evercore projecting it may exceed \$50bn within a few years.¹⁰ Insurance-linked products are also expanding as institutions partner with alternative managers to deploy capital more efficiently.

The Secret Source?

As dry powder accumulates, scale and sourcing depth are becoming key differentiators. LCD's Q3 survey found that sourcing is the top near-term respondent concern amid higher competition for limited deal flow. The share of buyouts over \$1bn financed by direct lending has fallen from 2023 highs, but remains well above pre-2022 levels, underscoring private credit's permanence as a financing source.

CVC Credit leverages its European heritage and network across 16 regional offices, ranking among the top Private Credit managers in Europe¹¹ and the region's largest CLO manager.¹² Recent activity includes co-leading a financing for an Italian distributor of animal health products, which drew on local sponsor relationships and the firm's sector expertise. Insights from CVC Italy and the Healthcare team, whose animal health investments include PPF and URUS Group, were pivotal in due diligence.

Access to a top-tier private equity network with on-the-ground European coverage provides distinct sourcing advantages that strongly positions the firm for future opportunities.

Spreads Remain Tight

Spreads in the European direct lending market are broadly unchanged from Q2, remaining above 500bps (527bp on average).¹³ Strong investor demand is keeping

pricing competitive and limiting lenders' ability to widen margins. Even so, private credit continues to offer a yield premium over syndicated loans, as spreads in the public markets have compressed more sharply.

Widening could occur on higher M&A issuance but for now, technicals suggest demand will outpace supply. The case for European private credit remains strong, offering an attractive premium to the highly competitive U.S. market dominated by BDCs.

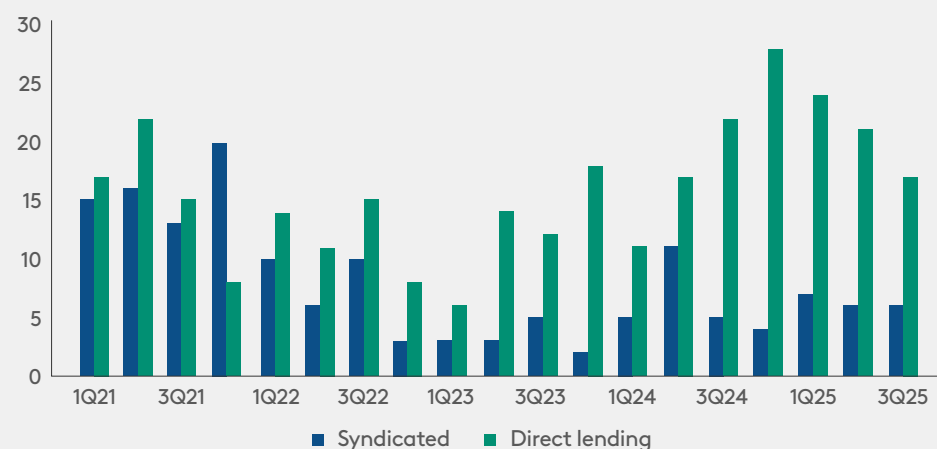
Junior Capital Solutions

We continue to see an attractive opportunity for junior capital solutions in Europe. The strategy benefits from diverse drivers of

origination including M&A, refinancings, strategic solutions and opportunistic transactions such as hung syndications, providing flexible and reliable financing solutions for sponsors throughout market cycles. Currently there is an estimated \$1.3trn¹⁴ in aggregate unrealised value in the European Private Equity market which needs to be returned to LPs, presenting a compelling opportunity for strategic recapitalisations and capital structure optimisation.

Media and market attention on the rise of PIK structures has increased, though the debate thus far has largely lacked nuance. PIK loans are frequently portrayed as a symptom of borrower weakness, which misses a broader

Exhibit 5
Count of European LBO deals financed in BSL vs direct lending market



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

⁹ Source: S&P LCD, Monthly European Private Credit Monitor, August 2025.

¹⁰ Source: Evercore. The Credit Secondaries Market: Structure, Momentum, and Why Growth Should Persist.

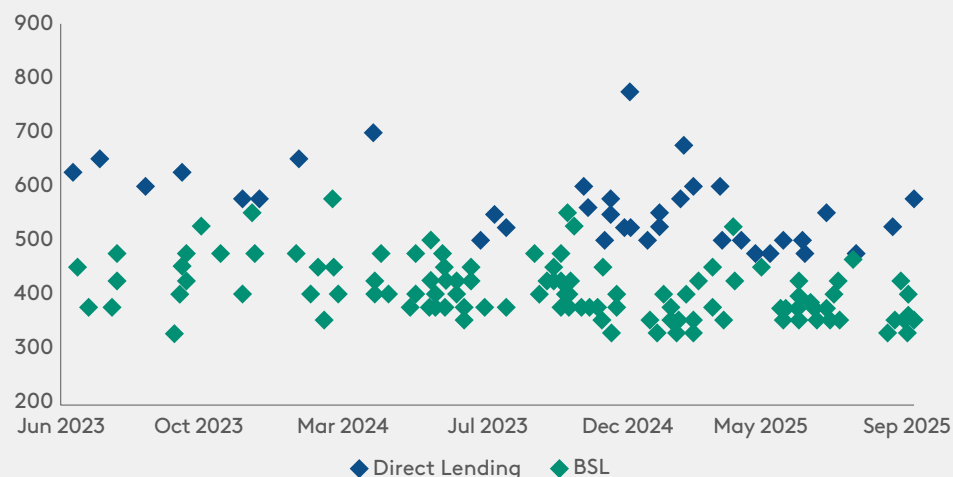
¹¹ **Top 4 European Private Credit Manager in transactions ≥€250m, as per Octus' European 9M 2025 Direct Lending Rankings.**

¹² **As per Creditflux CLO-I AUM ranking, as at 30 June 2025.** The Creditflux rankings provide a full and comprehensive view of CLO managers by their principal liabilities (debt and equity) as at 30 June 2025.

¹³ Source: S&P LCD, Monthly European Private Credit Monitor, September 2025.

¹⁴ Source: Preqin as at August 2025. Latest data available as at 31 December 2024.

Exhibit 6
European New-issue Spreads of Sponsor-backed Acquisition-related Deals

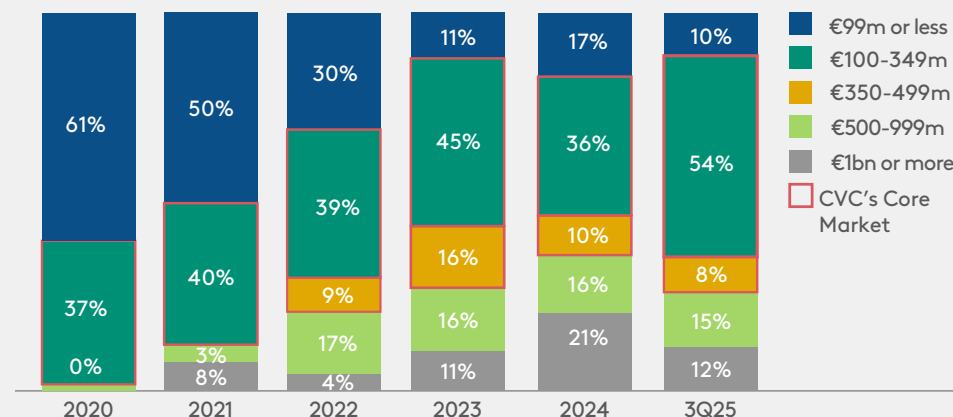


Source: Pitchbook | LCD European Credit Markets Quarterly Wrap. Data through 30 September 2025.

context. In today's sustained higher rate environment, PIK instruments are increasingly used across a range of credit profiles and deal types, not as a last resort but as a tool for flexibility. Their use reflects both the higher cost of cash interest and a lender community that has grown more comfortable extending PIK capacity to help borrowers manage liquidity, support M&A, and mitigate default risk in periods of operational or balance sheet stress.

Although usage has indeed increased, renegotiations of cash-pay loans to PIKs remains limited at around 2.5% in the U.S. BDC market, according to Bank of America. In Europe, traditionally higher underwriting standards than the U.S. suggest that isolated signs of distress are contained in an overall well supported private credit market. Since 2010 European LBO interest coverage ratios have consistently been higher than the U.S., suggesting more conservative underwriting which the market should continue to benefit from.¹⁵

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



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

Outlook

Looking ahead, private credit appears well positioned to remain a key allocation theme. The asset class continues to offer compelling income potential and relatively low mark-to-market volatility than its public fixed income counterparts. While spread compression has been broad-based across credit markets, private credit still offers a meaningful premium that should sustain demand across institutional, retail and insurance channels.

Disciplined underwriting and selective deployment should continue to differentiate performance in this now mature asset class. While distress has risen modestly, it remains concentrated to a limited set of sectors. Recent rate cuts are expected to ease financing conditions, supporting borrowers and potentially spurring incremental buyout activity. As private credit cements its role as a core part of global financial markets, its evolution will hinge on managers who can balance scale with disciplined credit selection.

¹⁵ Source: Pitchbook LCD, as at June 2025.



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