CVC

# CVC Credit Perspectives

Q1 2025

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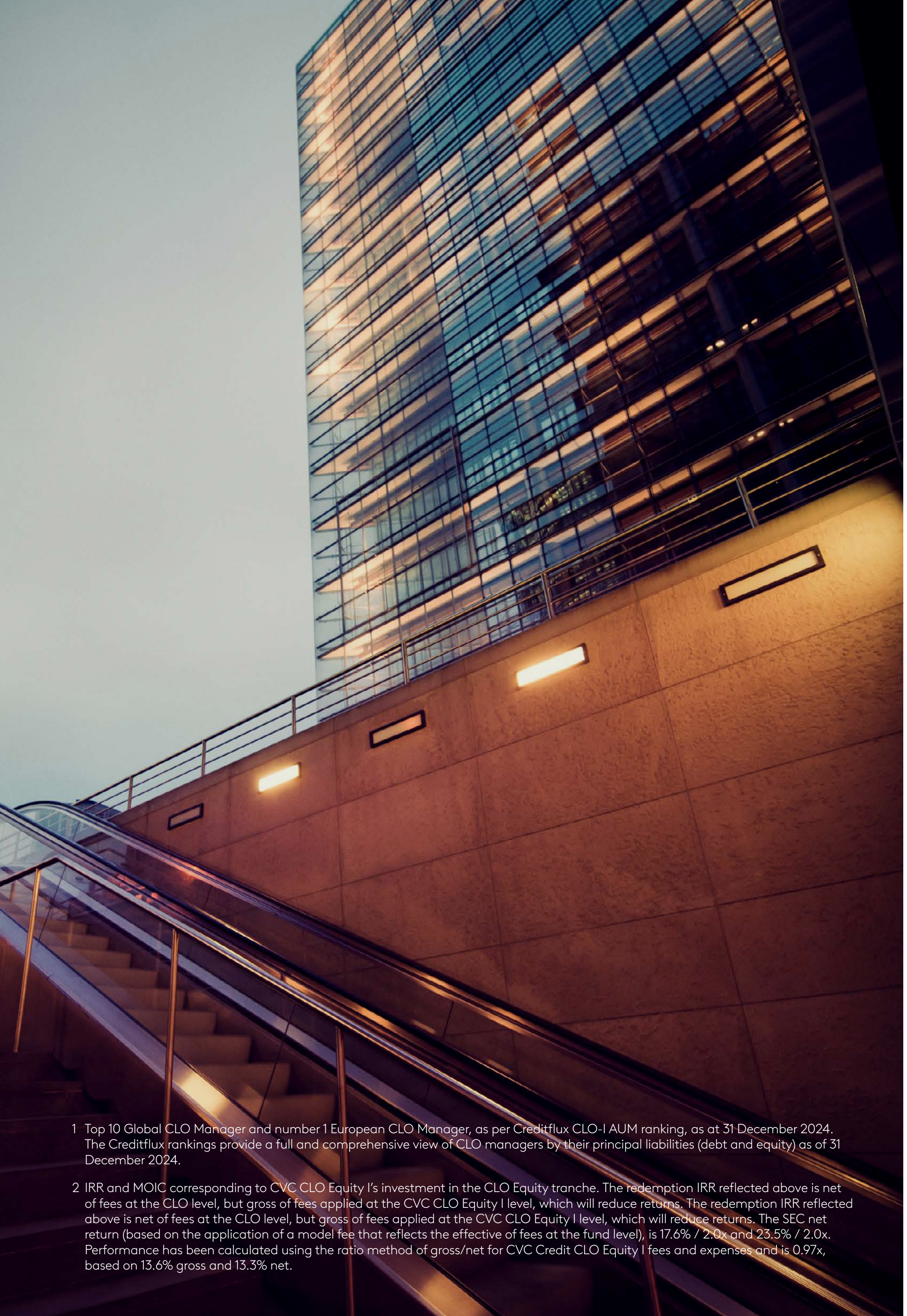

# Executive Summary

**The start of 2025 has been dominated by President Trump's return to the White House which has been one of the most active and disruptive starts to a presidency in history. The Trump administration have quickly sought to implement campaign promises, announcing large cuts to federal spending through Elon Musk's Department of Government Efficiency, resetting the U.S. / European relationship, and implementing blanket tariffs across the globe. Despite data initially remaining robust, stagflation fears rose throughout the first quarter due to the White House's protectionist trade policies, resulting in the S&P 500 recording its first quarterly decline since 2022 and gold having its largest quarterly gain since the 1980s. The subsequent tariffs announced in April have shocked global markets with asset classes recording losses not seen since 2020.**

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**CVC Market Update:**

The CVC Credit team have started 2025 similar to how they ended 2024, with both the Performing and Private Credit businesses continuing to execute transactions across asset classes, and focusing on delivering distributions to investors.

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**Key highlights included:**

- Three new CLO issuances; two in the U.S. and one in Europe, each transaction priced at the tight end of their respective markets, and the minority equity book for these deals were heavily oversubscribed by blue-chip investors, reaffirming CVC Credit's status as a global leader in the CLO market[1].

- The team continues to focus on optimising returns for investors and returning capital. The Performing Credit team have executed three refinancings and four resets to date, with the reset of Cordatus X being a notable highlight, facilitating the full monetisation of CVC CLO Equity I's majority CLO Equity position at a c.18% net IRR and 2.0x net MoM[2]. CVC Credit also priced the reset of Apidos CLO XXXIII in April amid an extremely challenging market caused by the Trump administration tariff announcements, which would result in a c.24% realised IRR and 2.0x net MoM[2] for Fund I investors.

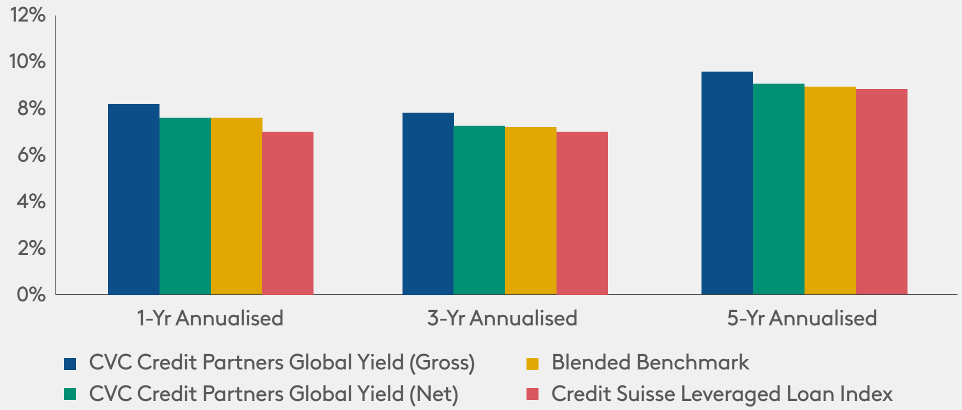
- CVC's Private Credit team continues to capitalise on the European private credit opportunity, deploying c.€1.7bn over the quarter, further underlining the ability of the CVC Network to source deals from across Europe, whilst achieving consistently attractive pricing. The team announced transactions in Belgium, Italy and the UK as the broader CVC Network continued to support a strong pipeline of opportunities. Notably, we have had a significant increase in inbounds for both our capital solutions and European direct lending strategies.

1 Top 10 Global CLO Manager and number 1 European CLO Manager, as per Creditflux CLO-I AUM ranking, as at 31 December 2024. The Creditflux rankings provide a full and comprehensive view of CLO managers by their principal liabilities (debt and equity) as of 31 December 2024.

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 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 17.6% / 2.0x and 23.5% / 2.0x. Performance has been calculated using the ratio method of gross/net for CVC Credit CLO Equity I fees and expenses and is 0.97x, based on 13.6% gross and 13.3% net.

# Market Update

**Exhibit 1**
**Performance Across Asset Classes**




Source: CVC Credit Partners. As at 31 March 2025. For information purposes only. The information provided is to demonstrate CVC's performance capabilities and is not a solicitation of an offer to buy or sell any securities or to adopt any investment strategy. CVC Credit Global Yield Fund performance provided as a comparison of CVC's performance versus the US and European Leveraged Loan and High Yield asset classes. Gross performance does not reflect the deduction of management fees and is inclusive of expenses that are borne by the investor in the Fund. The benchmark performance represents a composite of the Credit Suisse Leverage Loan, Credit Suisse High Yield, Credit Suisse Western European Leveraged Loan and Credit Suisse Western European High Yield Indices. The blended benchmark now reflects the month end weighting of each of these relevant assets classes for each relevant month. Prior to June 30, 2022 the fund's performance was benchmarked against the Credit Suisse Leveraged Loan Index.

Much of the positive market sentiment enjoyed in 2024 evaporated quickly in Q1 with several shocks that resulted in many investors adopting a risk-off approach, with gold hitting all-time highs during the period.

President Trump stuck to his campaign promise of implementing tariffs with trading partners across the globe, creating a headache for international partners as they contemplate how to manage the new administration. The reciprocal tariffs announced at the start of April were more severe than the market expected, and resulted in a global selloff of equities as investors re-calibrated global recession expectations in light of these policies. President Trump subsequently announced a ninety day pause on reciprocal tariffs, excluding China, but the market environment remains challenging due to the implementation of the 10% base tariffs and escalation with China.

With volatility disrupting early activity, there is still some hope for greater M&A[3] over the course of 2025 and 2026, but activity remains muted as many sponsors stay on the sidelines to see how the geopolitical situation plays out. The relationship between Europe and the United States is particularly unclear after President Trump and Vice President Vance's controversial comments regarding European security and the Russia/Ukraine war. Germany has initiated plans to increase defence spending, while France and the UK have also pledged to increase defence spending. The pledge by European leaders to take a more active role on the world stage has been warmly received, many investors see the increase in spending as a potential catalyst for growth, which has unexpectedly resulted in the outperformance of European stocks vs. their U.S. counterparts. Nonetheless, the impact of an escalating trade war with the U.S. could result in downward revisions of GDP forecasts for the region and will need to be closely monitored.

Central banks face difficult decisions in the upcoming quarter as inflation continues to run above-target in many economies, but consumer sentiment softens. The Trump administration's decision to proceed with tariffs on UK and European imports is likely to have a sizeable impact on growth. We have seen more dovish signals from the European Central Bank ("ECB") and the Bank of England ("BoE") where there has been greater progress on inflation, vs. the U.S. where Chair Powell continues to share more hawkish signals.


3 "M&A" denotes mergers and acquisitions.

# Liquid Credit Markets

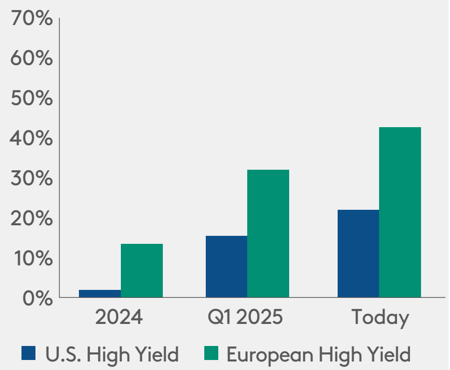
Similar to the macro picture, high yield bonds and leveraged loans have also been casualties of heightened risk volatility caused by the tariffs. Total returns were positive for both asset classes during the quarter due to the high all-in yield, but in March and early April the market has been challenged due to the pivot to risk-off assets. High yield returns in the U.S. and Europe were 0.69% and 0.77% respectively, while leveraged loans reported a 0.61% total return in the US, and 1.0% in Europe. Returns were initially positive in the first two months of the year across geographies and asset classes, but the Trump administration's announcement in March of incoming tariffs caused market turmoil and resulted in negative returns across the board that month. This was exacerbated in early April after the announcement of the tariffs, with spreads widening dramatically in moves not seen since the pandemic. Sector dispersion is also more prominent than in previous quarters, as sectors likely to be hit more severely by tariffs, such as autos and consumer discretionary, bore the brunt of the sell-off. Similarly, there has also been a flight to quality, with investment grade bonds outperforming high yield during the quarter, and in the broadly syndicated loan market BBs have outperformed CCCs as risk-off sentiment prevails.

High yield spreads widened during the quarter by 69bps in the U.S. and 57bps in Europe, having previously been close to all-time tights. We anticipated moderate spread widening over the course of the year and this thesis appeared to be playing out, albeit more rapidly than expected. Unsurprisingly, distress ratios across U.S. and European high yield increased in March and have continued to rise in recent weeks since Trump's announcements.

> **"High yield and leveraged loan markets face headwinds amid macro adjustments."**

Exhibit 2

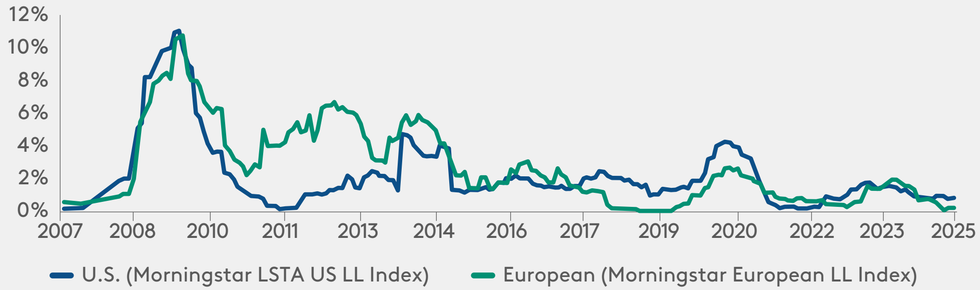
**U.S. & European High Yield Spreads Percentiles Relative to Historical Levels**




Source: Credit Suisse, as at 24 April 2025. Source: Credit Suisse. Percentiles ranked vs. monthly spread to worst data starting 01/31/2000. 2024 represents 31 December 2024, Q1 2025 represents 31 March 2025 and 'Today' represents 24 April 2025.

Exhibit 3

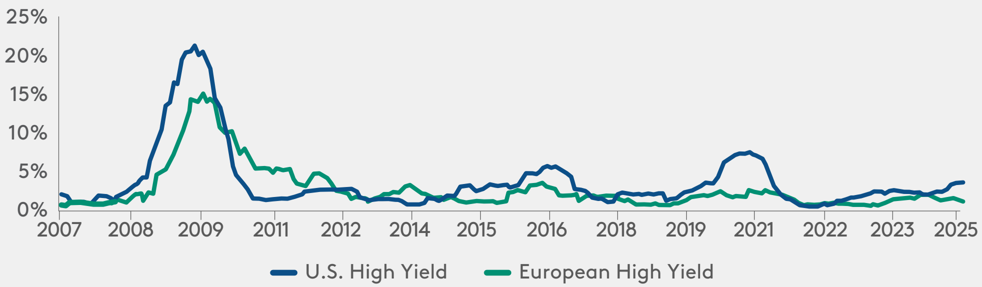
**U.S. & European Leveraged Loan Last 12-Month Default Rate: Principal Amount**




Source: Morningstar, as at 31 March 2025. Source: Pitchbook LCD; Morningstar LSTA US Leveraged Loan Index; Morningstar European Leveraged Loan Index

Exhibit 4

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




Data through 31 March 2025. Source: Bank of America Global Research.

Default activity remained manageable and close to historical averages across both asset classes and geographies during the quarter. The U.S. high yield par default rate fell slightly quarter-over-quarter to 1.3%, while Europe rose marginally to 3.5%.[4] With that said, we will closely monitor default trends as we believe the flow through from tariffs is likely to be felt towards the end of 2025 or early 2026. The number of fallen angels significantly outpaced rising stars in the first quarter, with $17bn in fallen angels recorded during the quarter in contrast to $10bn of rising stars leaving the high yield index to join

4 Source: Bank of America Global Research.

the investment grade universe during the same period.[5] Even so, ratings actions have been more positive in recent months with the net upgrade/downgrade ratio in U.S. high yield swinging positively after several months in 2024 in net downgrade territory. Leveraged loan default rates continue to trend close to historical averages, although as we have noted previously, these figures do not account for distressed exchanges which have increased markedly in recent quarters as issuers have sought to avoid defaults and improve liquidity, somewhat flattering the default figures. When considering distressed exchanges, which now account for c.70%[6] of U.S. leveraged loan defaults, the default rate is c.7% for the asset class.

Issuance was also lumpy during the quarter, with a strong January start in both high yield and leveraged loans, followed by a quieter March as sentiment soured. Nonetheless, over the course of the quarter issuance was robust, there was $144.5bn of U.S. leveraged loan issuance (excluding repricing and extension amendments), €33.7bn of new paper within the European leveraged loan market, $69bn of issuance in the U.S. high yield market, and €19.2bn in the European market.[7] There have been some nascent signs of life in the M&A markets, with U.S. leveraged loan M&A supply rising to a three-year high, although many are now revising their issuance forecasts downwards as fears rise over the impact of the Trump administration's latest policies. This is a stark revision from Q4 where many felt the new administration's actions would buoy M&A markets in 2025.

Despite the market volatility, CLOs market continue to provide technical support for the leveraged loan markets, with issuance continuing at a strong pace after 2024 recorded record issuance. For instance, in February Europe recorded its strongest month of issuance in the 2.0 era, beating the original record amount from November 2021 by nearly €3bn. CVC Credit have been no exception, issuing three new CLOs (as at April 2025) three refinancing and four resets to date. The reset of Cordatus X was a notable highlight, facilitating the full monetisation of CVC CLO Equity Fund I's majority CLO Equity position at c.18% net IRR and 2.0x MoM.[8]

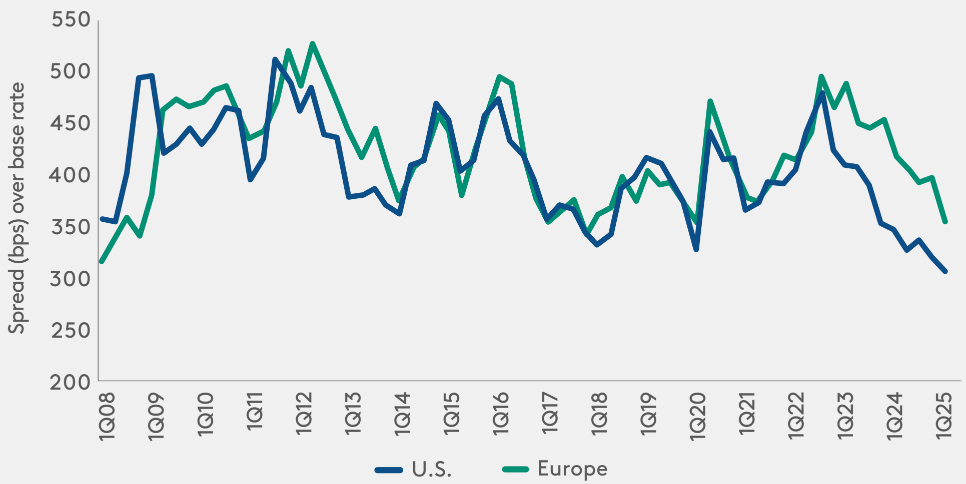
In terms of positioning, we have maintained a higher cash balance than usual given the uncertainty created by the Trump administration. Due to the recent tariff announcements, the investment team is re-underwriting all positions to account for these recent policy decisions, although it should be noted the situation remains volatile and everchanging. CVC typically lend to global companies, which should be relatively protected from uncertainty in the U.S., based on our initial assessment. Even so, market volatility does provide opportunities to generate significant alpha, creating conditions to trade within the capital structures of companies and take advantage of dislocations in valuation. These dislocations are based on market technicals, rather than fundamentals, and allow us to generate strong returns for investors.


5 Source: Bank of America Global Research.
6 Source: Deutsche Bank.
7 Source: Pitchbook LCD Credit Markets Quarterly Wrap.
8 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 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 17.6% / 2.0x. Performance has been calculated using the ratio method of gross/net for CVC Credit CLO Equity I fees and expenses and is 0.97x, based on 13.6% gross and 13.3% net.

# Private Credit Markets

The refinancing theme of 2024 continued in Q1 2025, although there has been a gradual increase in M&A activity as sponsors look to distribute capital to investors and deploy their record levels of dry powder. Despite macro volatility, deals are getting done and we expect this to continue as sponsors need to realise investments. McKinsey notes that the average hold time of private equity assets reached a record high of 8.5 years in 2024, by contrast, in 2007 the average hold of similar assets was 4.1 years.[9] While tariffs loom, the shift in European fiscal spending rules should be a catalyst for growth which may present further opportunities for M&A. Moreover, in recent years when markets have suffered volatility, syndicated and traded markets have effectively closed, allowing private credit to demonstrate its ability to fill the gap, servicing middle-market and large cap businesses throughout market cycles. During the market volatility in 2022-2023, CVC Credit took advantage of the opportunity to provide financing solutions for larger companies above the strategy's core EBITDA focus. These companies are backed by high-quality sponsors who ordinarily would have utilised the broadly syndicated loan or bond markets to obtain covenant-lite financing. Although in the past twelve months we have seen the broadly syndicated loan markets reopen for business and refinance many of these private credit transactions, another significant market shock could cause a similar opportunity for private credit managers.

**Exhibit 5**
**Average New-Issue Institutional Spreads: Europe & U.S.**




Source: Pitchbook | LCD. Data through 31 March 2025.

The CVC Credit team continues to see a strong pipeline of investment opportunities, despite the macro uncertainty. Similar to last quarter, another transaction related to a continuation vehicle was closed, as managers look to keep hold of prized assets while providing the option of liquidity to investors where necessary. The lender is a leading European pure-play nutraceutical CDMO in Europe which covers the entire value chain and has over 300 customers, predominantly large consumer health companies, based in over 60 countries worldwide. CVC was able to secure the position of lead lender for the transaction by leveraging its experience and relationships in the space, having backed several healthcare businesses in the past, as well as the ability to utilise the extensive market knowledge of both CVC Private Equity's Healthcare and CVC Secondary Partners teams during the diligence process. CVC Credit also benefitted from long-standing sponsor relationships during the quarter, securing an opportunity to provide financing for one of the largest international K-12 school group providers globally. The investment team typically seeks investments in borrowers backed by leading financial sponsors that have a track record of creating value and with whom members of the investment team often have an established, long-term relationship. Since the inception of the European Direct Lending strategy in 2014, the Private Credit investment team has completed over 170 sponsor-backed transactions with more than 80 individual sponsors which CVC believes is a competitive advantage over other participants in the market as it provides continued access to an on-going flow of new investment opportunities.

The narrative regarding M&A has been consistent in recent quarters: sponsors are under ever increasing pressure to provide investors with liquidity as well as deploy the large sums of dry powder they have accumulated. There have been murmurs of more activity, and the recent fiscal announcements made in Europe should support this, but the pickup has not emerged as yet. Nonetheless, Pitchbook did report that European direct lending experienced a joint record quarter for volume of deals despite still muted levels of M&A activity.[10] While there was c.€2bn of private credit transactions refinanced by broadly syndicated loans during the quarter, private credit continues to dominate in funding new LBO deals, financing more buyouts than the broadly syndicated loan market every quarter since 2020 with the exception of Q4 2021.

The reopening of the public markets has driven compressed spreads, but there remains a strong illiquidity premium which, coupled with tighter loan documentation and covenants continues to make private credit an attractive asset class for investors. Although pricing data is opaque within private markets, Pitchbook reported that in Q1 2025 the average spread for LCD-tracked deals was 558bps in the European direct lending market, down from 573bps in 2024 and 615bps in 2023.[11] Even so, private credit continues to price at a significant premium to loans executed in the public markets and maintains high underwriting standards and tight documentation to mitigate risk. It should also be noted that this tightening in spreads has also been experienced in the broadly syndicated loan markets, which, until the Trump administration's

9 McKinsey M&A Annual Report, February 2025.

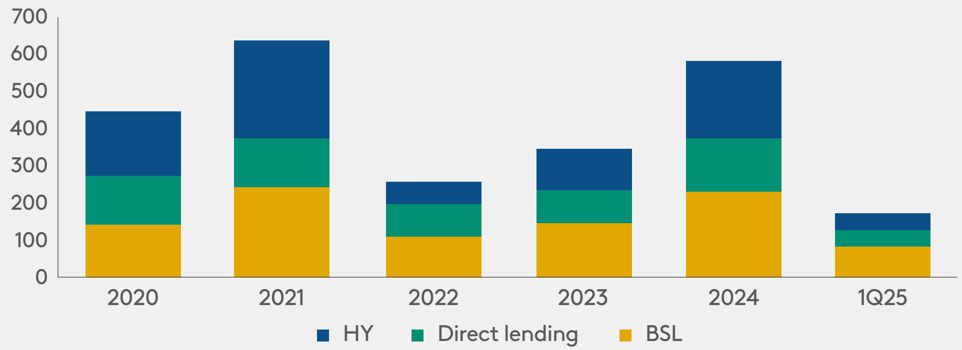
10 Source: Pitchbook, April 2025.
11 Source: Pitchbook, April 2025.

announcement on tariffs was pricing close to all-time tights due to the technical imbalance the market is experiencing. Thus, while private credit spreads may be tighter than in recent years, they still offer an attractive premium to the public markets as well as stable valuation marks.

Furthermore, we would note that while it is too early to tell what the longer term reaction to the Trump administration's tariffs will be, private credit has consistently performed well in volatile markets and proven itself as a reliable source of financing when the public markets struggle to issue. As previously stated, at other times of market volatility, such as COVID-19 and 2022, many larger businesses turned to private credit for financing due to the instability of the public markets. This reliability and flexibility has confirmed private credit as a resilient asset class, with lower volatility than its public counterparts and higher returns. If there is prolonged dislocation in the public markets, it presents an opportunity for private credit managers to continue taking share in the broader leveraged finance ecosystem.

As market volatility persists, private credit remains a critical component of stable and diversified portfolios, providing senior-secured, floating-rate exposure, with attractive and consistent contractual cash yields. In uncertain environments such as this, those lenders with strong track records throughout market cycles remain best positioned to navigate the future. CVC Credit remains a partner of choice for European private credit, maintaining a track record of zero realised losses since inception, and a default rate of less than 0.1% vs. a market average of 1.5%.[12] Demand for the platform continues to grow in both the institutional and wealth markets, as investors continue to recognise the investment team's steadfast approach to investment selection, which is underpinned by a fundamental commitment to principal protection.

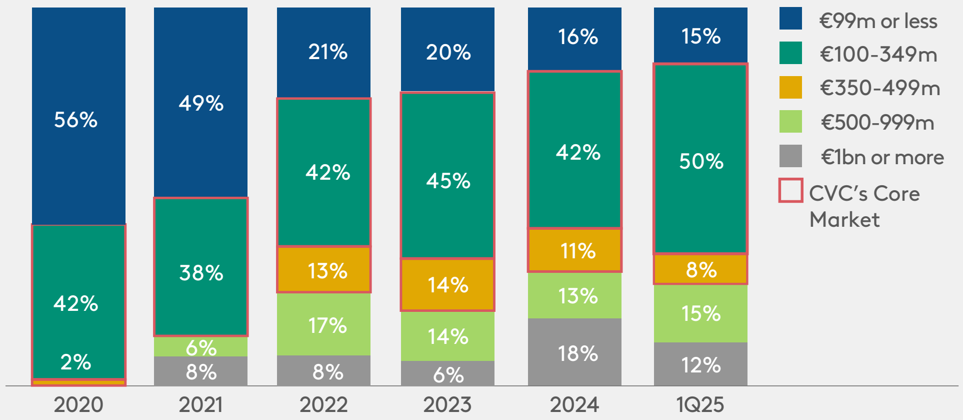
### Exhibit 6
**Total number of deals financed via Broadly Syndicated Loans, Direct Lending and High Yield Bonds**




Source: Pitchbook | LCD, as at 31 March 2025. BSL refers to broadly syndicated loan market; direct-lending count based on deals covered by LCD News.

12 As at March 2025. CVC annualised default rate is calculated based on payment defaults and restructured investments on the European Direct Lending platform. Market average default rate is the Morningstar European Leverage Loan Index (Morningstar ELLI).

### Exhibit 7
**Deal size diversification of European direct lending deals, by count**




Source: Pitchbook | LCD, as at 31 March 2025. Analysis based on transactions covered by LCD News; share calculated based on deals where size information is disclosed.

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