

Crescent Capital Group is a leading specialist focused exclusively on credit. We invest in debt securities in both private and public markets, across company sizes, with a track record spanning more than three decades of market cycles. We target consistent, attractive returns with less volatility, lower default rates and higher recovery rates than the market average.

October 2023 Private Credit Insights

	October 2023	Change to Dec. 2022
1st Lien	11.0% – 11.5%	0bps
Unitranche	11.75% – 12.0%	(25) Bps
2L/Jnr	14.5% – 15.0%+	0bps
Holdco/PIK Pref	Mid to Upper Teens	None

Source: Observations by Crescent Capital Group LP as of October 2023

Private Market Commentary

- Market activity picked up from 2Q '23 to 3Q '23.
 - 3Q '23 Sponsored Middle Market Direct Lending new money volume was 23% higher than 2Q '23 (but still 36% lower than prior year), and 3Q '23 Sponsored Direct Lending M&A volume was 24% higher quarter over quarter, per Refinitiv LPC.
- Optimism for a strong 4Q '23 based on pickup in 3Q '23 has not materialized so far, as sponsors are having difficulty in aligning on purchase price multiples.
 - Average middle market LBO purchase price multiples have declined to 11.2x in 3Q '23 from 12.5x in 2022, per Refinitiv LPC.
 - Additionally, a slowing economy, current geopolitical situations, lingering inflation and a higher for longer rate environment have affected sponsor's views on current valuations.
 - Multiples have also been affected by lower leverage (which has declined due to higher rates), which has an adverse effect on sponsor returns.
- Dry powder in private credit continues to grow in spite of a slower LBO market, as Middle Market Direct Fundraising in 3Q '23 was up 38% from 2Q '23, per Refinitiv LPC.
 - Retail inflows from non-traded BDCs have picked up significantly from earlier in the year and have added even more capacity to the private market.
- Given combination of slower deal flow and significant capital needed to be deployed in the private market, pricing continues to tighten (still at very attractive all-in yields).

October 2023 Private Credit Highlights

- Even with prices tightening, the Direct Sponsored middle market yield premium over the Large Corporate market was over 250 bps in 3Q '23, per Refinitiv LPC.
- There is a growing backlog of deals given low LBO activity (WSJ reported that PE exits are at a 10-year low), pressure from LPs to return capital, and a record amount of private equity dry powder.
 - This could result in a significant pickup in deal flow once conditions normalize.
- The private market continues to finance larger transactions that historically would have gone to the broadly syndicated market – including financings that are coming up on maturities.
 - Continuing the trend of Finastra, Hyland Software and Trinseo in 2Q '23, PetVet Care Centers refinanced a \$3 billion 1st and 2nd lien financing out of the syndicated market in October, per KBRA DLD.
- Year to date Direct Lending default rates were 1.6% at the end of October, per KBRA DLD.
 - Compares favorably with the Broadly Syndicated (3.3%) and the High Yield (2.7%) markets.

Crescent Highlights

- In October, Crescent acted as Agent and Sole Lender on a senior financing for a leading provider of end-to-end revenue cycle management solutions for the Home Medical Equipment / Durable Medical Equipment and Home Infusion industries.
 - The new financing supported the acquisition of a majority stake in the business by Lovell Minnick.
 - EBITDA at closing was approximately \$7.6 million.
 - The company was capitalized with 3.9x of total net leverage and had an LTV at closing below 30%.
 - The facilities were priced at S+575 with 2.5 points of upfront economics.
- In October, Crescent served as Joint Lead Arranger and Joint Bookrunner on a \$700 million senior financing for a nationally scaled provider of electronic security and fire safety services.
 - The proceeds from the financing were used to support the acquisition of the company by GTCR.
 - EBITDA at closing was approximately \$132 million.
 - The company was capitalized with 5.2x of net leverage at closing and had an LTV at closing of 40%.
 - The senior secured facilities were priced at S+625 with 2.75 points of upfront economics.

IMPORTANT DISCLOSURES**Investment Highlights**

Crescent selected the investments discussed above based on the following criteria: the two largest private debt investments closed by the Firm during October 2023. You should not consider the information provided to be a recommendation to purchase or sell any particular security or asset. Crescent makes no assurance that any holdings discussed will remain in the portfolio or that holding sold have not been repurchased. You should not assume that any of the transactions or holdings discussed were or will be profitable or that any investment recommendations or decisions made in the future will be profitable or will equal the investment performance of the holdings discussed.

GENERAL DISCLOSURES**About Crescent Capital**

Crescent is a global credit investment manager with over \$40 billion of assets under management as of September 30, 2023. For over 30 years, the firm has focused on below investment grade credit through strategies that invest in marketable and privately originated debt securities including senior bank loans, high yield bonds, as well as private senior, unitranche and junior debt securities. Crescent is headquartered in Los Angeles with offices in New York, Boston, Chicago and London with more than 200 employees globally. Crescent is a part of SLC Management, the institutional alternatives and traditional asset management business of Sun Life. For more information about Crescent, visit www.crescentcap.com.

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