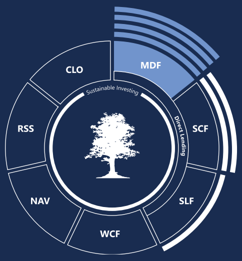


PEMBERTON

Mid-Market Debt

Positioned for Prosperity: Excellence in European Mid-Market Debt through Market Cycles

May 2024

Executive Summary

The growth and return opportunities for direct lending in Europe's mid-market are highly attractive.

With banks continuing to reduce lending volumes and increased market volatility reducing the predictability of public financing markets, private credit has emerged as a robust solution for borrowers and LPs alike.

However, direct lending portfolios have been tested by slower economic growth, the impact of higher rates, inflation, supply chain disruption and changes in the geopolitical landscape.

Through a blend of scale, expertise, local market insight and disciplined investment processes, private credit managers in the European mid-market can capture this opportunity and create significant value through the cycle for both borrowers and LPs.

Europe: An Attractive Opportunity Set Despite an Overall Moderate Growth Outlook

According to recent OECD projections[1], Euro Area GDP growth is projected to be +0.7% in 2024, with a pickup to 1.5% in 2025 driven by wage increases in tight labour markets, increasing real incomes as inflation recedes, a gradual easing of credit conditions and ongoing disbursement of the Recovery and Resilience Facility funds.

This low, but positive, growth environment with improving conditions for private consumption and business investment will be supportive for credit, albeit with differences across industries. Many companies have significantly reduced costs, which should benefit margins as volumes grow. Improving supply chains and a reduction in rates from current cyclical highs will feed through into stronger cashflow generation.

Many industries in Europe are still in the early phases of consolidation, which provides further value creation levers for management teams and private equity shareholders. By building scale, geographic reach and product diversification companies can drive profit growth and multiple expansion even in a lower growth environment. This trend has supported deployment volumes in more volatile markets. An easing macro backdrop will further accelerate this M&A trend going forward.

Within this environment, identifying the strongest sectors and positioning to lend to the strongest companies requires a full-scale investment platform led by experienced investment professionals.

Local Markets Expertise: A Cornerstone of Success

Each of Europe's main countries have a distinct local landscape, legal framework and set of regulations. Successfully navigating each market for LPs requires deep local knowledge, strong relationships and dedicated local presence. Local presence is a key enabler to seeing and accessing the best new investment opportunities.

It enriches the investment process with local insights and establishes a local point of contact with sponsors and management teams for ongoing oversight. Through maintaining close, local contact during the full investment lifecycle, lenders can address any borrower needs early and protect LP capital.

[1] OECD Economic Outlook, Volume 2024 Issue 1: Preliminary Version (May 2024) © OECD 2024.

However, establishing this level of depth and breadth takes time. Pemberton was built with this in mind. Today, our nine European office network and a substantial investment team with extensive experience in credit markets are the foundation for our strong relationships with advisors, private equity sponsors, and borrowers enabling timely access to new opportunities and engage in proactive portfolio monitoring. Combined, these elements help enhance the quality of both deployment and returns for LPs.

As businesses increasingly seek to scale across Europe, Pemberton's role as a strategic financing partner with local expertise becomes even more critical. Our partnership approach provides long-term capital to businesses backed by leading private equity sponsors and ambitious business leaders for buyouts, growth financing, add-on acquisitions and other general corporate purposes.

Strategic Investment: Approach and Process

To help drive fund performance throughout the cycle and maximize value for LPs, our investment process is both rigorous and disciplined. Led by seasoned credit professionals, it incorporates multiple stages of critical evaluation to ensure the highest standards of due diligence and strategic decision-making. Upholding stringent documentation standards and proactive management ensures consistent asset selection over time and cultivates a clear risk profile, while also fostering transparent relationships and alignment with LPs.

Pemberton's investment process incorporates a combination of relative value analysis, comprehensive due diligence, detailed financial scenario modelling, in house legal expertise for documentation, and industry leading ESG engagement. Investment decisions are made by a committee of experienced leveraged finance origination, credit, and portfolio management professionals with extensive backgrounds in deal structuring, underwriting, monitoring and workouts.

Central to Pemberton's platform and our flagship strategy is our Mid-Market Debt strategy, which provides first lien, senior secured loans to leading borrowers in the core mid-market segment, targeting leading businesses with €15m to €75m in EBITDA. The first lien focus creates significant cushion across the portfolio to absorb any changes in valuation over the life of the fund, and the core mid-market focus reduces competition with other financing providers such as the syndicated market. These elements collectively contribute to a successful investment approach and process, with consistent returns and minimal realised losses.

The majority of Pemberton's direct lending supports private equity owned businesses, either financing a new buyout or providing incremental financing to a portfolio company that is making an acquisition to build scale. In our experience, private equity shareholders can provide significant operational and financial support to borrowers and can also help ensure governance and ESG structures are in line with best practice.

Lender Protection and Safeguarding Capital

Building in appropriate lender protections on each investment in the form of maintenance covenants, limitations on additional debt and restrictions on value leakage are important to ensure borrowers operate within acceptable parameters.

In instances where borrower performance deviates from expectations, an anticipated or actual covenant breach presents an opportunity to reassess risk pricing or adjust leverage as necessary. Lenders must be ready to act swiftly in such scenarios to safeguard LP capital and a robust monitoring process bolsters the ability to proactively detect potential issues.

As the sole or lead lender to most portfolio companies, Pemberton is able to promptly take necessary actions to drive outcomes in the best interest of our LPs. Senior members of our investment team have significant experience leading workouts and restructurings across a wide range of market conditions, enabling us to deliver the necessary expertise and support to portfolio companies.

Mid-Market Debt Strategy

Large established platform delivering attractive risk adjusted returns from senior secured loans.

Significant Scale[1]

€12.8bn invested across > 100 companies
> 2,000 companies analysed

1st lien / Mid-Market Focus

4.5x – 5.0x average leverage
< 50% LTV
EBITDA: €15 – €75m+

Disciplined Portfolio Construction

Defensive sector bias
Diversified across Europe

Differentiated Portfolios[1]

Sole / lead lender focus
Voting control

Strong Performance[1]

€4.7bn realised investments
Low loss rates

Attractive Fund Cashflows

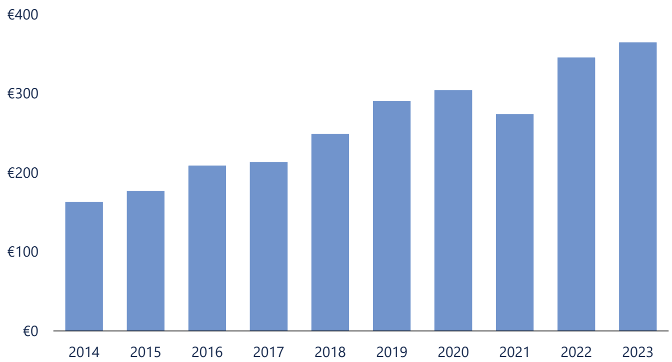
Deployed 6 – 12 months from final close
Upfront fees paid at funding
Quarterly income distributions

Source: Pemberton Capital Advisors LLP – [1]As of 31st March 2024.

Outlook and Future Prospects

The outlook for private credit in Europe remains promising, characterised by attractive returns, lower risk metrics, and a revitalised M&A landscape. The overall opportunity set is growing as a result of industry consolidation, banks continuing to scale back lending to mid-market companies and increased private equity capital raised in Europe.

PE buyout funds overhang by year (€B)



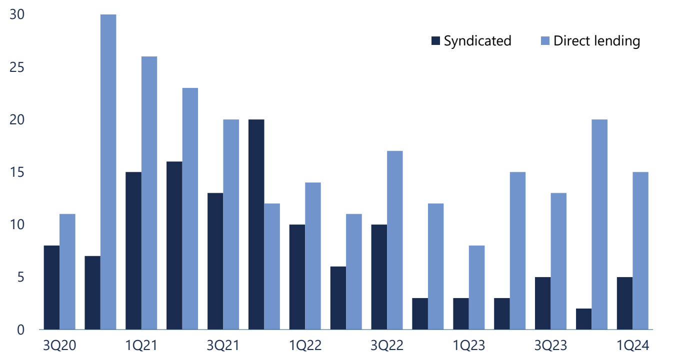
Source: PitchBook – Data through March 31, 2024.
Data reflects cumulative buyout dry powder.

Private credit is also maturing and proving itself as a strong asset class. Expected returns have increased, with Pemberton's recent Mid-Market Debt investments averaging approximately 12 percent in gross expected yield—an increase of 200-300 basis points compared to our historical targets.

We have also seen leverage levels come down, with the average leverage in recent investments at ca. 4.0x – 4.5x EBITDA (ca. 0.5x – 1.0x lower than historical levels) while loan-to-value ratios are around 45 percent (ca. 5 – 10 percent lower than historical targets). This combination of reduced leverage, higher equity cushions, and enhanced returns demonstrates highly attractive performance on both an absolute and a risk-adjusted basis.

Despite the challenges created by the macroeconomic backdrop and the market-wide M&A slowdown in 2023, we continue to experience a surplus of investment opportunities, a trend we expect to continue as M&A volumes increase. This supply / demand imbalance allows us to maintain a high level of selectivity when making new investments. Historically, only ca. 10% of investment opportunities have made it through our initial investment committee and into the detailed due diligence phase, a trend we expect to continue. We also expect private equity sponsors in the mid-market to continue to look first to private credit for M&A financing given the execution certainty, confidentiality, and follow-on capital that direct lenders can provide.

European count of LBOs financed via BSL vs direct lending



Source: PitchBook | LCD – Data through March 18, 2024.
BSL refers to broadly syndicated loan market; direct-lending count based on deals covered by LCD News.

As we move forward, the opportunity set is clear, but manager due diligence remains a key requirement in accessing it.

Contact us

Robert Wartchow

Managing Director
Portfolio Manager | Mid-Market Debt
robert.wartchow@pembertonam.com

Steven Craig

Managing Director
Portfolio Manager | Mid-Market Debt
steven.craig@pembertonam.com

Disclaimer

This communication is provided for information purposes only. Pemberton Asset Management group of companies (collectively, Pemberton Asset Management) may provide the direct lending that may be discussed in this communication.

This communication has been prepared based upon information, including market prices, data and other information, from sources believed to be reliable, but Pemberton Asset Management does not warrant its completeness or accuracy except with respect to any disclosures relative to Pemberton Asset Management and an analyst's involvement with any company (or security, other financial productor other asset class) that may be the subject of this communication.

Investments of a direct lending nature are likely to be long term and of an illiquid nature. Such investments are also likely to involve an above average level of risk. This document does not purport to identify the risk factors associated with such investments and prospective investors need to make their own assessment. There is no guarantee of trading performance and past or projected performance is no indication of current or future performance / results. The value of investments may fall as well as rise.

An investment in direct lending is suitable for sophisticated investors only and requires the financial ability and willingness to accept for an indefinite period of time the risks and lack of liquidity inherent in the market.

Any opinions and estimates constitute our judgment as of the date of this material and are subject to change without notice. Past performance is not indicative of future results. This communication is not intended as an offer or solicitation for the purchase or sale of any financial instrument or direct lending opportunities.

Our research does not provide individually tailored investment advice. Any opinions and recommendations herein do not consider individual client circumstances, objectives, or needs and are not intended as recommendations of particular finance transactions, investments or strategies to particular clients. You must make your own independent decisions regarding any finance transactions, investment or strategies mentioned or related to the information herein. Any opinions expressed in this document do not constitute legal or tax or investment advice and can therefore not be relied upon as such.

Periodic updates may be provided on companies, borrowers or industries based on specific developments or announcements, market conditions or any other publicly available information. However, Pemberton Asset Management may be restricted from updating information contained in this communication for regulatory or other reasons. This communication may not be redistributed or retransmitted, in whole or in part, or in any form or manner, without the express written consent of Pemberton Asset Management.
Any unauthorised use or disclosure is prohibited.

Receipt and review of this information constitutes your agreement not to redistribute or retransmit the contents and information contained in this communication without first obtaining express permission from an authorised officer of Pemberton Asset Management.

This document has been prepared and issued for use in the UK and all countries outside of the European Union and Middle East by Pemberton Capital Advisors LLP. Pemberton Capital Advisors LLP is authorised and regulated by the Financial Conduct Authority ("FCA") and entered on the FCA Register with the firm reference number 561640 and is registered in England and Wales at 5 Howick Place, London SW1P 1WG, United Kingdom. Registered with the US. Securities and Exchange Commission as an investment adviser under the U.S. Investment Advisers Act of 1940 with CRD No. 282621 and SEC File No. 801-107757.

Tel: +44(0) 207 993 9300.

This document has been prepared and issued for use in the European Union by Pemberton Asset Management S.A. Pemberton Asset Management S.A. is authorised and regulated by the Commission de Surveillance du Secteur Financier ("CSSF")and entered on the CSSF Register with the firm reference numbers A1013 & A1342 and is registered in Grand Duchy of Luxembourg at 70 route d'Esch, L 1470. Pemberton reports to the US. Securities and Exchange Commission as a reporting exempt investment adviser under the U.S. Investment Advisers Act of 1940 with CRD 282865 and SEC File No. 802-107832.

Tel: +352 26468360.

This material is being distributed/issued in the Middle East by Pemberton Capital Advisors LLP (DIFC Branch) ("PCA DIFC"). PCA DIFC is regulated by the Dubai Financial Services Authority ("DFSA").
This document is intended only for Professional Clients or Market Counterparties as defined by the DFSA and no other person should act upon it. Please note that this Fund is not based in the Dubai International Financial Centre ("DIFC).

This material relates to a Fund which is not subject to any form of regulation or approval by the DFSA.

www.pembertonam.com