PEMBERTON

Mid-Year Review

July 2024

Executive Summary

Opportunities up, margins tightening, but yields and relative value remain high

The trends observed in Q4 2023 have continued into the first half of 2024 as M&A activity continues to pick-up and, as inflation levels have largely normalised and interest rates are expected to decrease, sentiment continues to improve.

The opportunities from the core mid-market remain attractive with yield premiums at 250-300bps over equivalent rated loans in the syndicated markets and European mid-market companies outperforming its US equivalents.[1]

Pemberton has completed 13 new platform investments in the first 6 months of 2024.

Key themes of H1 2024

As the year has progressed, we have seen a pick-up in M&A activity and a number of formal/structured auction processes that were largely absent for much of 2023. Discussions with Corporate Finance advisors has confirmed that the pipeline for the 2nd half of the year is strong, supported by a stable/declining rate environment, a narrowing price expectation gap between sellers and buyers, and pent-up supply/demand following a subdued 2023.

In the first 6 months of the year Pemberton has reviewed 460 investment opportunities, up from 330 (+37%) in H1 2023, which combined with improvements in transaction completion rates (2023 saw a number of failed sale processes) has led to a 3x fold increase in new platform investments (vs H1'23).

Whilst opportunities are increasing, we have observed heightened competition for larger deals (>€300m financings) driven both by a resurgence of the Broadly Syndicated Loan ('BSL') market and US Direct Lenders entering Europe. This competition has put pressure on margins and documentation flexibility, with emergence of covenant-lite and lender club financings (largely in combination) following the approach in the US market.

A recent study by Lincoln International highlighted the attractiveness of the European market relative to the US (see page 4 for summary).

For mid-market financings (<€300m), the market continues to be dominated by established local firms with strong sponsor relationships providing bi-lateral financings.

[1] Based on a study by Lincoln International with key findings presented in this report.

€21.0bn

AUM[2] across 7 Strategies

€21.4bn

Invested[3] Since Inception

3,575+

Companies Reviewed Since 2019

250+

Investors Across the Globe

190+

Professionals[4] Firmwide

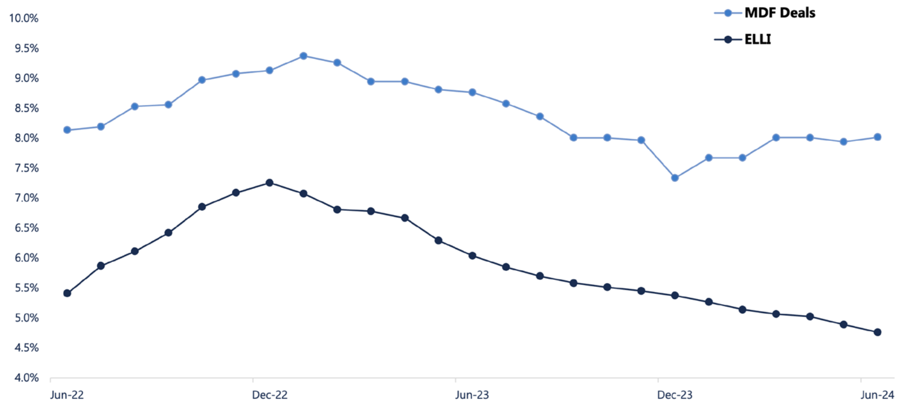
15

Locations[5] Across Europe, Australia, the US and the Middle East

Key themes of H1 2024 continued

We are currently observing a 50-100bps margin premium for mid-market financings vs. larger deals, and more broadly a 250-300bps premium in yields for equivalent rated loans in the syndicated market.

All-in Spread, Mid-Market Strategy, Completed Transactions



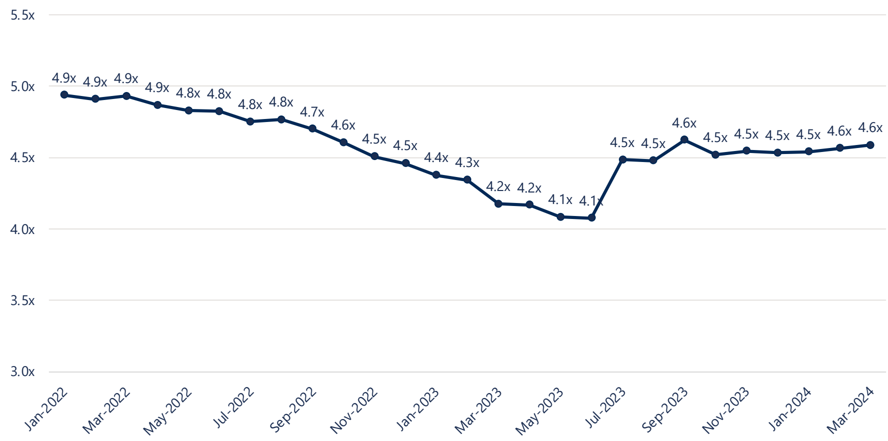
*All-in Spread defined as 3-year target spread plus upfront fees on a three year convention (excluding base rates).

Source: Pemberton data.

Repricing in the syndicated market have seen our Strategic Credit Fund being repaid on hung-syndication investments made in H2-2022 when syndication processes stalled realising IRRs[10] of 15-27%.

Leverage on transactions has continued to remain constrained by the elevated rate environment, with indications from our Mid-market strategy remaining c.0.5x below H1'22 (when the recent cycle of rate rises began).

Mid-Market Strategy - Leverage Indications (6-month moving average)



Source: Pemberton data.

Source: Pemberton Capital Advisors LLP. All figures as of 30th June 2024 unless stated otherwise.
[2] Assets under management are defined as committed capital since inception. For closed funds, the FX rate used as at final close. For separate managed accounts and open funds FX rate used as at time of commitment. Data as of 2nd July 2024.
[3] Across all funds including recycled capital. FX rate applied as at time of deployment.
[4] Pemberton Group, including consultants, contractors, and advisors.
[5] Includes three locations in the US.

Introductions H1 2024

The review of investment opportunities in H1 2024 has increased by 37% over H1 2023 which is reflective of the increase deal activity:

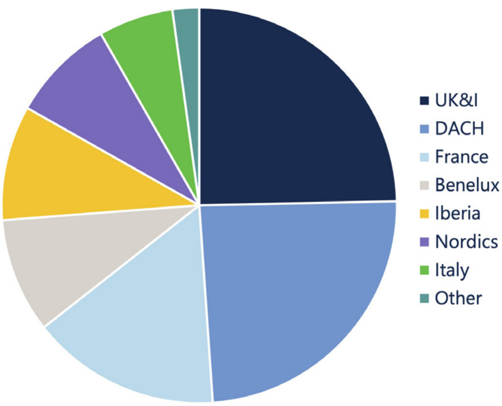
Geographic trends:

Deal activity has picked up across all regions, with the UK and DACH continuing to account for the largest share of introductions in H1 (25% and 24% respectively). France was the slowest market to rebound but has seen notable increase in activity heading into the summer. Notable investments across Europe included Fluid One (UK, IT Managed services), ProLogistik (Germany, Software), Juvise (France, Healthcare), NOK.5 (Netherlands, infrastructure maintenance) and Cebat (Italy, Utilities).

Sector trends:

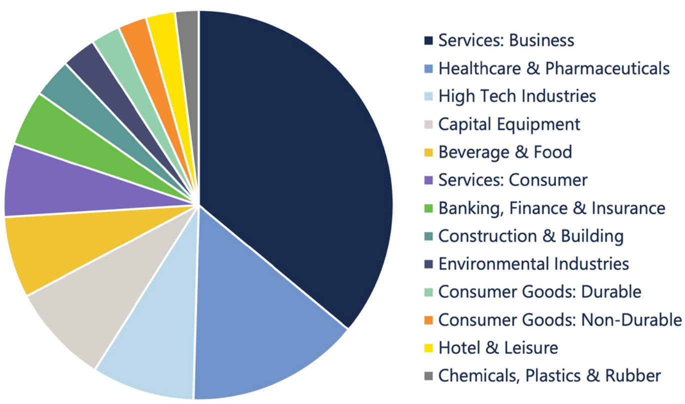
Business Services continues to be a key focus sector for Pemberton accounting for 36% of all introductions. M&A activity has been particularly prevalent in the IT services space, where sponsors have been attracted by market tailwinds of cloud migration and digital transformation, alongside high levels of cash flow generation and an opportunity to consolidate a fragmented market. This year Pemberton has completed 5 new platform investments in the IT services/software space.

Introductions per Region



Source: Pemberton data.

Introductions per Sector



Source: Pemberton data.

Market Participants

Following the announcement in March that the senior investment team at Barings had defected to Corinthia, neither firm have been visible in the market and the outcome of the move remains uncertain.

At the same time, we have also observed a number of competitors moving up in deal size, leaving the core mid-market (€20m - €50m) less heavily competed.

For companies with less than 3x net leverage, the bank markets remain strong in France and Italy but less so in the UK and the Benelux.

While a handful of banks have announced the launch of Direct Lending funds in the last 12 months, to date these have been subscale with limited direct origination capability and have not been prevalent participants in the market.

Fundraising Environment

Pemberton has recorded several successes in the first half of 2024 leading to an increase in total AUM to €21bn[6], including:

- A final close for Pemberton's Strategic Credit Fund III at €2.3bn
- An anchor investment partnership with ADIA and subsequent first close at over $1bn of investible capital
- Other material closes for our direct lending and NAV financing strategies
- Ramping our second broadly syndicated CLO

The overall improving fundraising environment is supported by structural drivers, including:

- LP allocation increases[7] to alternatives and particularly private debt as equity markets remain uncertain and volatile
- Spread compression in public credit markets, leading LPs to pivot back to private credit to capture spread premium.
- Double digit yields on direct lending loans[8] on the back of elevated base rates
- Lower leverage levels versus 2021-22[8]
- Rising availability of NAV and Risk-Sharing investment opportunities as PE firms look to unlock capital and banks seek to meet increasing regulatory requirements
- LPs looking for diversification from allocation to private credit strategies

European mid-market companies outperform their US equivalents

Private Debt Investor's Loan Note published on Thursday 13th June 2024, revealed key findings from The Lincoln International's First Quarter Valuation Insights Report highlighting the strong performance of European Mid-Market companies:

- **European mid-market companies outperformed their US equivalents** in the first quarter, with average revenue growth of 13.3 percent and EBITDA growth of 10.6 percent, compared with 6.6 percent and 5.6 percent respectively in the US;
- **Private companies across all industries are forecasting strong revenue (9.9 percent) and EBITDA (14.3 percent) growth for the full year 2024,** with consumer showing the strongest projected growth;
- Lincoln's European Senior Debt Index returned 3.4 percent in the first quarter versus 2.5 percent for the European Leveraged Loan Index. **Private credit returns have beaten those for leveraged loans over the last five years;**
- Covenant defaults in Europe remain low and fell below 1 percent in the first quarter. Consumer companies and smaller firms were most likely to face covenant breaches. Covenant breaches are being avoided by an unusually high level of amendments with use of payment-in-kind the most popular method (almost 58 percent of cases);
- Enterprise value multiples in European private equity-backed European M&A deals have fallen to 11.5x from a peak of 13.4x in the second half of 2022. Most deals in Q1 were lower-multiple deals in the industrial and manufacturing sectors;
- Demand for lender deployment, coupled with increasing competition from the broadly syndicated loan market, means spreads have tightened by 50 basis points on average in the UK and Europe;
- Underlying private equity portfolio company performance in Europe is strong, with 83 percent seeing year-on-year revenue growth in Q1, slightly up on the prior quarter.

Source: PDI Loan note published on Thursday 13th June 2024. The Lincoln International's first quarter European valuation insights survey comprised 300 UK and European private equity-backed mid-market companies with a median EBITDA of €30million.

[6] Assets under management are defined as committed capital since inception. [7] Preqin Investor Survey. [8] Based on Pemberton Data for our direct lending strategies.

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This document references the Pemberton Mid-Market Debt Strategy, Strategic Credit Strategy, Senior Loan Strategy, the Working Capital Finance Strategy, Net Asset Value Financing, Risk Sharing Strategy and CLO Strategy (hereafter referred to as Strategy). It is intended only for the person to whom it has been delivered and is solely for discussion / information purposes. Any third-party information (including any statements of opinion and/or belief) contained herein is provided by Pemberton Asset Management group of companies, being Pemberton Asset Management S.A., Pemberton Capital Advisors LLP and any other affiliates ('we', 'our' or 'us') and has not been independently verified.

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