Crescent Private Credit Insights

Attractive yields and conservative structures can create a compelling vintage in private credit

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Attractive yields and conservative structures can create a compelling vintage in private credit

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Delivering value to both investors and borrowers

We believe private credit, and direct lending in particular, will continue to deliver tangible value to both investors and borrowers. Today, investors have benefited from the higher returns, consistent cash flows and steady income distributions that private credit can provide while seeking to deliver lower volatility. At the same time, borrowers have appreciated the partnership that a private credit manager can provide with certainty of execution and no direct market risk for the borrower due to the committed capital and contractual commitments that underlie such financings. These factors increasingly make private credit borrowers' lender of choice.

Crescent Capital is a leading specialist focused exclusively on corporate credit. We invest across the debt capital structure of companies of all sizes, in both private and tradeable markets, 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.

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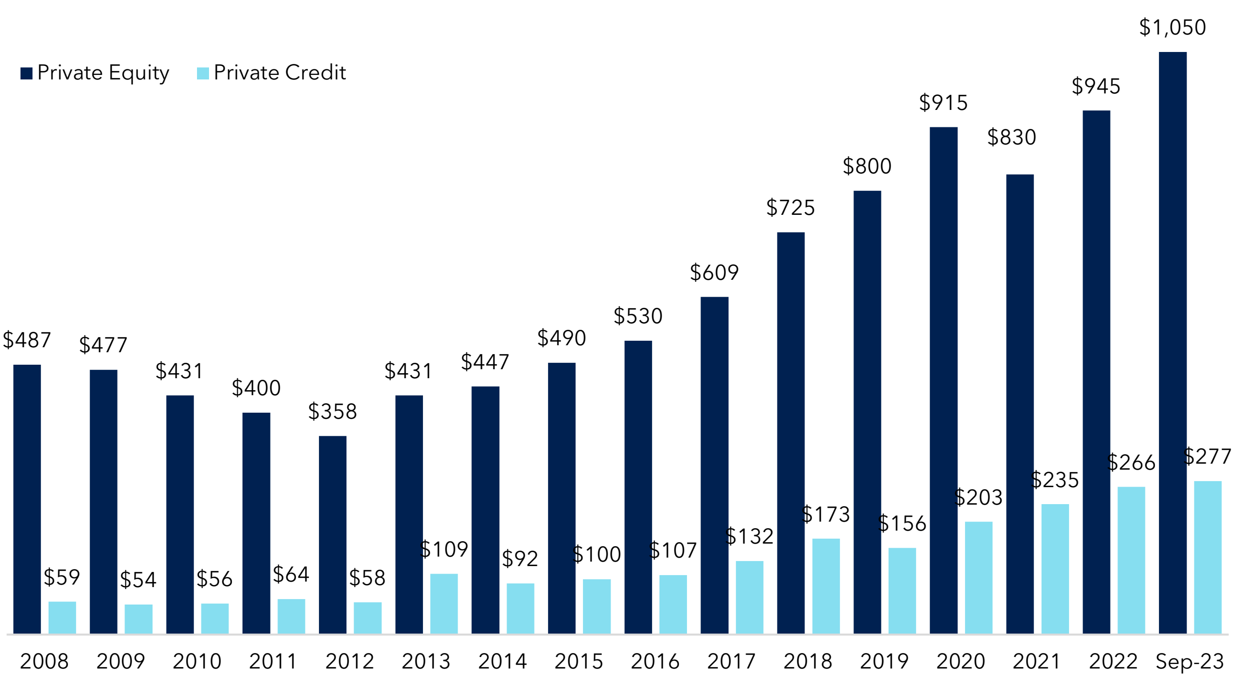
Capital formation is changing and shifting to private credit

Private credit continues to benefit from favorable market dynamics and secular tailwinds. Capital formation is changing, and it is shifting toward private credit on a secular basis.

Banks continue to retrench from middle market lending with private capital providers filling the void. Record levels of investible capital amassed by private equity sponsors, as well as the growing volume of refinancings, growth capital and dividend recapitalizations, continue to drive demand for private credit. Private equity dry powder far exceeds the available debt capital needed to support projected buyout activity.

Record levels of private equity dry powder is expected to drive robust deal activity[1]

Private Equity & Private Credit Dry Powder ($ in billions)



1. Dry powder is defined as the sum of uncalled capital commitments which GPs will have to invest. Private Equity dry powder includes Buyout strategy only. Private Credit dry powder includes Direct Lending and Mezzanine strategies only. Preqin, as of September 30, 2023.

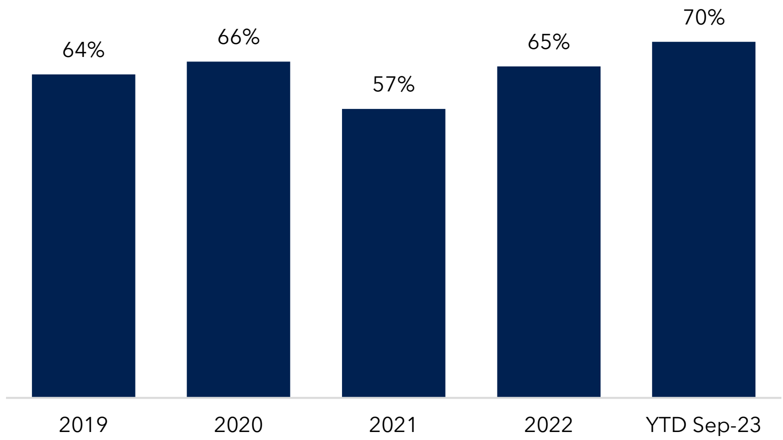
Non-LBO transactions supplement traditional deal flow and expand private credit's opportunity set

Finally, we have observed that borrowers have increasingly turned to private credit for refinancing solutions to help solve the upcoming maturity wall of loans and bonds that were underwritten in a zero-rate environment. This includes seasoned public issuers that have utilized the private credit markets to address their pending maturities.

In our view, this secular shift is occurring against a backdrop of more conservatively structured loans with lower leverage levels, higher equity cushions and greater lender protections in credit agreements.

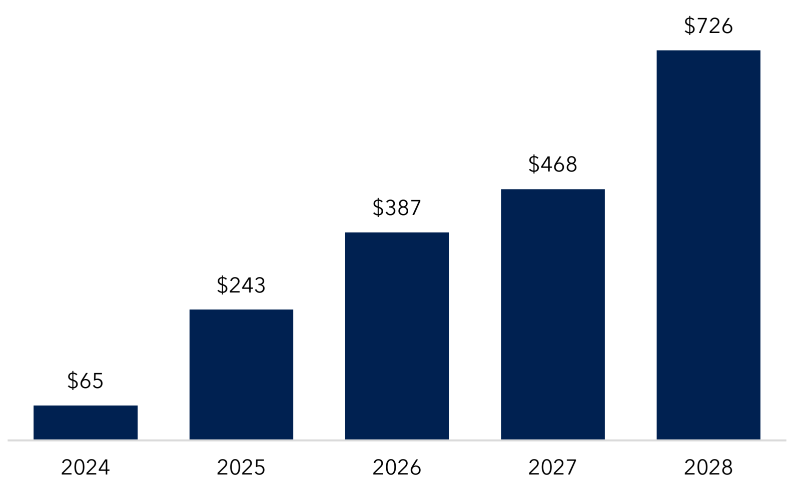
Refinancings, growth capital, and recaps account for over half of private credit volume annually…[1]

% of Private Credit Deals where Use of Proceeds is Non-LBOs



…with refinancing needs likely to intensify with the growing maturity wall[2]

Upcoming U.S. High Yield Bond and Leveraged Loan Maturities ($ in billions)



1. Data is based on the count of LBOs and non-LBOs financed in the Private Credit markets. Count is based on transactions covered by LCD News. Non-LBO deals include refinancings, add-on and other M&A activity, and recapitalizations. LCD, PC & MM Q3 2023 Quarterly Stats. As of September 30, 2023.
2. Data represents the developed market USD High Yield Bond and USD U.S.-Syndicated Leveraged Loan maturities. BofA Global Research, HY Credit Chartbook. As of September 30, 2023.

Flexible capital to deliver sought-after solutions

We expect borrowers to increasingly look to private credit to provide flexible capital solutions across both senior and non-senior structures to meet their specific financing needs in today's market.

For example, creative senior solutions and non-senior structures could be critical in helping companies transition and right-size their capital structures, which may have been put in place during a significantly lower interest rate environment. Flexibility to structure debt with cash or non-cash (payment-in-kind) returns allow borrowers to access incremental growth capital without increasing their cash interest burdens. This growth capital can be used to generate liquidity, retire cash-paying debt or make accretive acquisitions. Non-senior debt can also be a cost-efficient tool for sponsors to raise capital without repricing existing senior debt or triggering existing most-favored-nation (MFN) provisions.

Finally, we believe flexible capital solutions represent a compelling value proposition to borrowers and can subsequently provide investors with the opportunity to capture value and earn higher risk-adjusted returns.

Implications for investors considering private credit

In a benign credit environment, there are typically low default rates and little dispersion of returns among managers. In fact, managers that took on more risk have been typically rewarded with more return. But we are no longer in a period of benign credit. Higher rates are a double-edged sword: the higher returns due to lenders must come from somewhere, and it is being paid for by the borrower. And the risk of a recession is top of mind for investors and managers alike, with concerns over earnings pressure and a potential increase in defaults. Periods of economic stress and higher interest rates will differentiate true credit investors from mere asset gatherers and may result in a greater dispersion of returns across managers.

> “Economic stress and higher interest rates will differentiate true credit investors from mere asset gatherers

Against this backdrop, it's clear that experience matters. Investors considering private credit today should consider a manager's experience investing across multiple credit cycles (including through prior high interest rate environments and periods of economic weakness), strength of sourcing platform, consistent discipline in underwriting and portfolio management expertise.

We believe that with the right manager, the attractive yields and conservative structures today should create the conditions for a compelling vintage in private credit.

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ABOUT CRESCENT PRIVATE CREDIT INCOME CORP.

Crescent Private Credit Income Corp. is a perpetually offered, non-traded closed end fund that has elected to be regulated as a business development company under the Investment Company Act of 1940. CPCI is focused on generating current income and, to a lesser extent, capital appreciation. CPCI benefits from Crescent's extensive experience, origination capabilities and disciplined investment process by providing access primarily to a diversified portfolio of private debt opportunities.

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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