



DIAMETER

May 2026

WTF Is Going On In Private Credit?

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How Diameter makes returns for our investment partners

- Targeting business complexity
- Industry insight that drives conviction
- Proven playbook with an expansive lens
- Proactive research allows us to pounce on technical dislocations

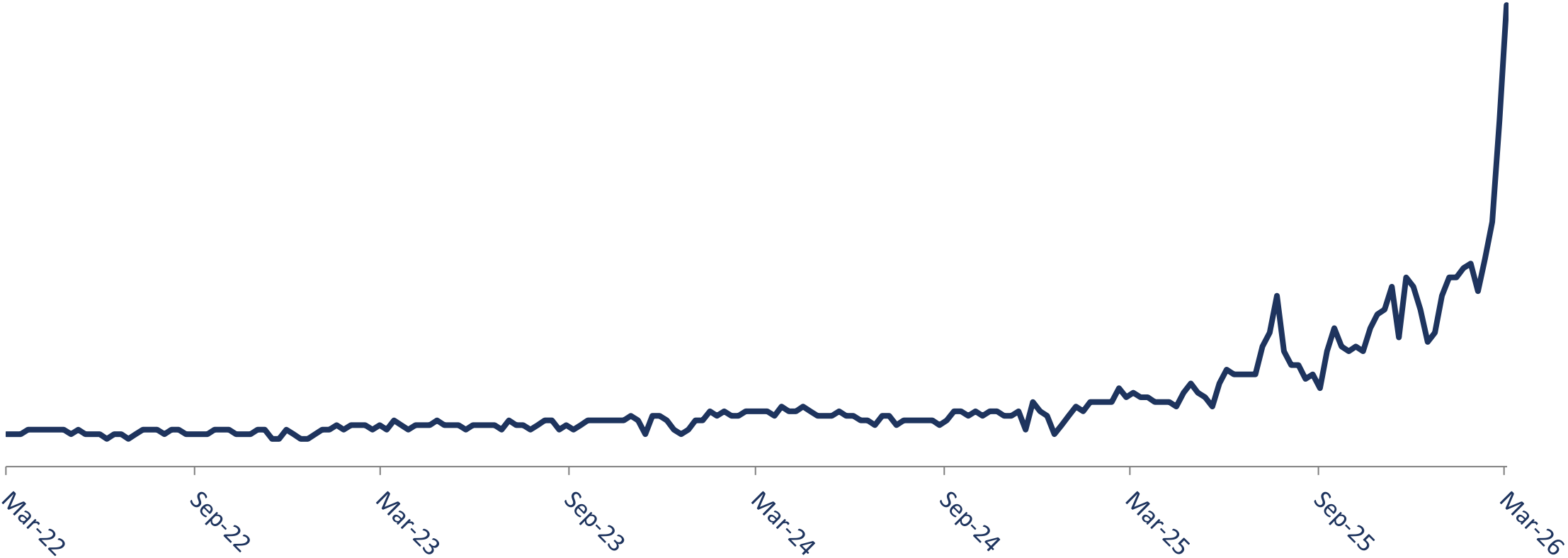
When the circumstances come together, there can be an opportunity to make outsized gains

Public Interest in Private Credit is *PIK-ing* up...



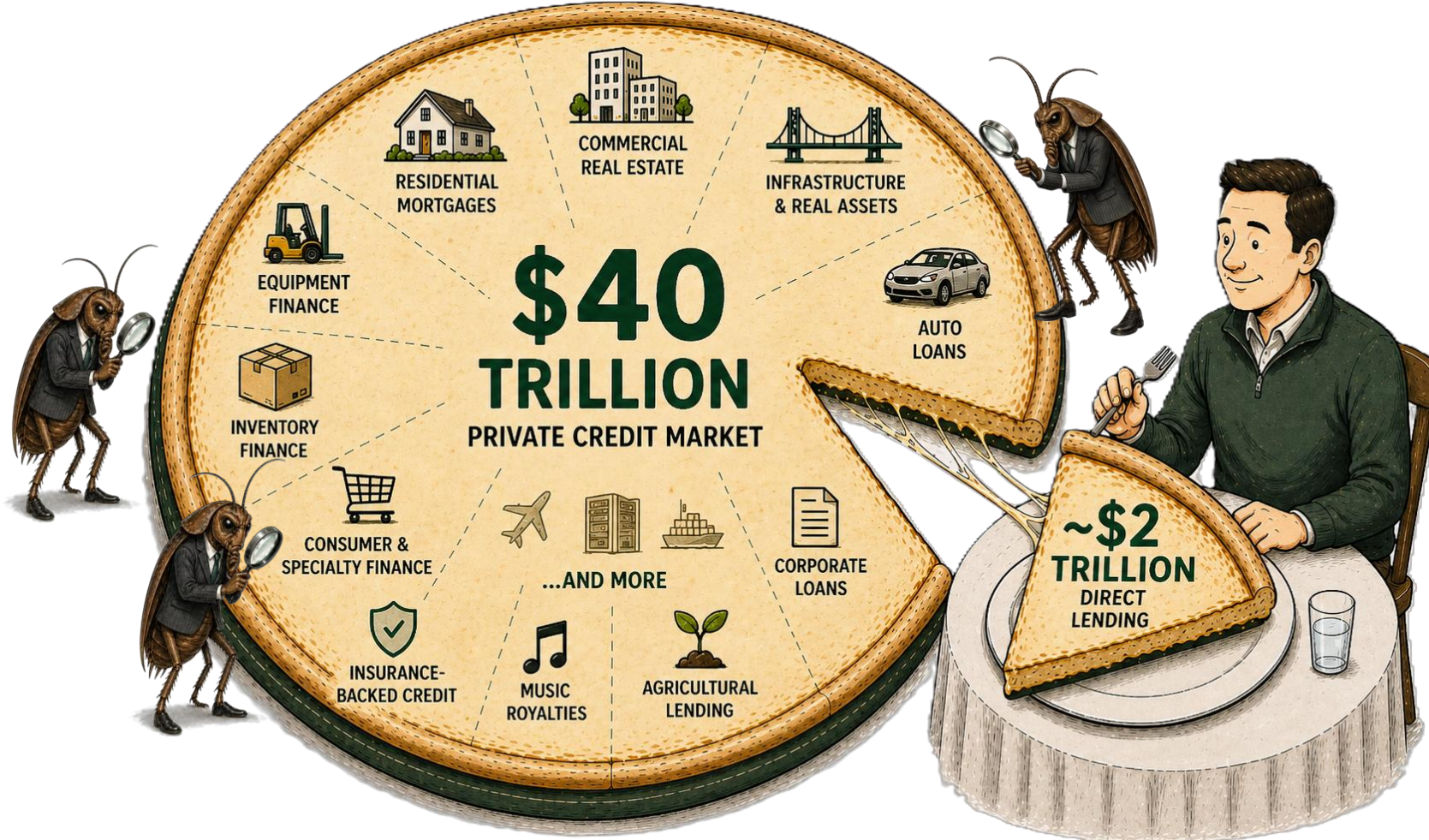
...and Coverage is increasing

Google Search Trends for "Private Credit"

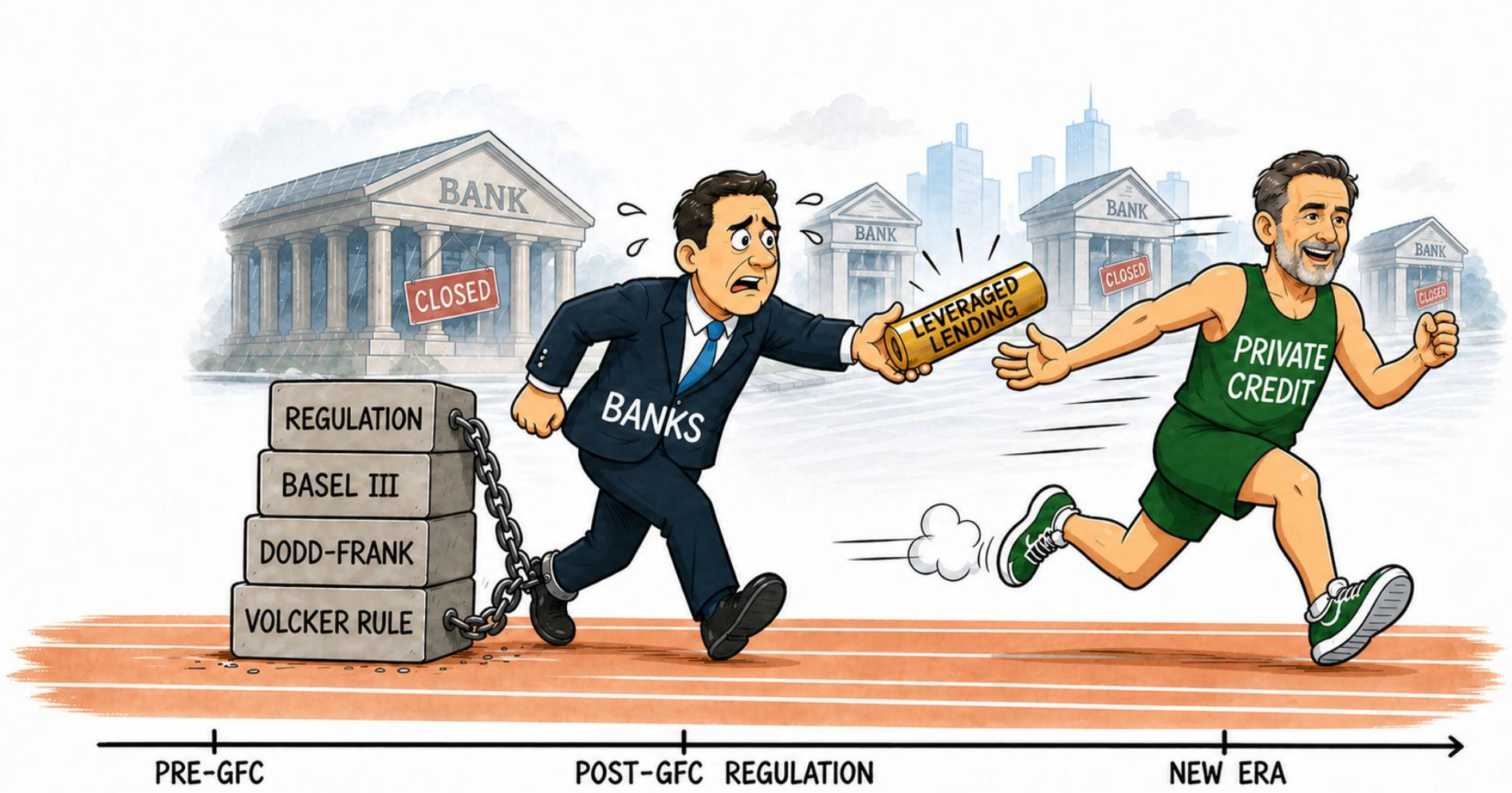


Source: Diameter-performed search on Google Trends. Query ran on 4/30/26.

The entire \$40tn Private Credit market is *Under Review*, but let's get *Current* on Direct Lending



Section 1: How did we get here?



Post-GFC regulation drove banks out of corporate leveraged lending

1 Tougher Capital & Risk Rules

- ▶ Dodd-Frank (2011)
- ▶ Basel III (2012)
- ▶ Volcker Rule (2013)

2 Limitations on Leverage

- ▶ Leveraged Lending Guideline (2013)
- ▶ New caps at ~6.0x EBITDA

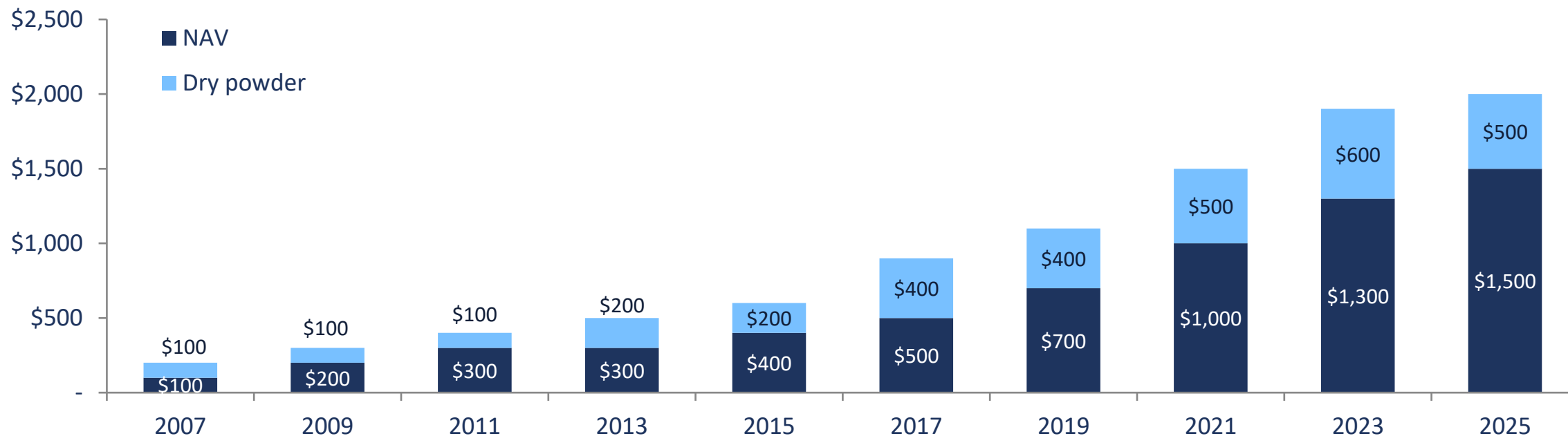
3 Fewer Banks, Less Capacity

- ▶ Consolidation drives ~45% decline in number of US banks



Direct Lending stepped in to fill the void...

Direct Lending Fundraising and Deployment (*billions*)



2008–2012

Post-GFC bank retreat opens the door for direct lenders

2013–2017

PE-backed lending platforms scale rapidly; fees attract lenders

2018–2020

Covenant-lite becomes norm; borrower size increases significantly

2021–2025

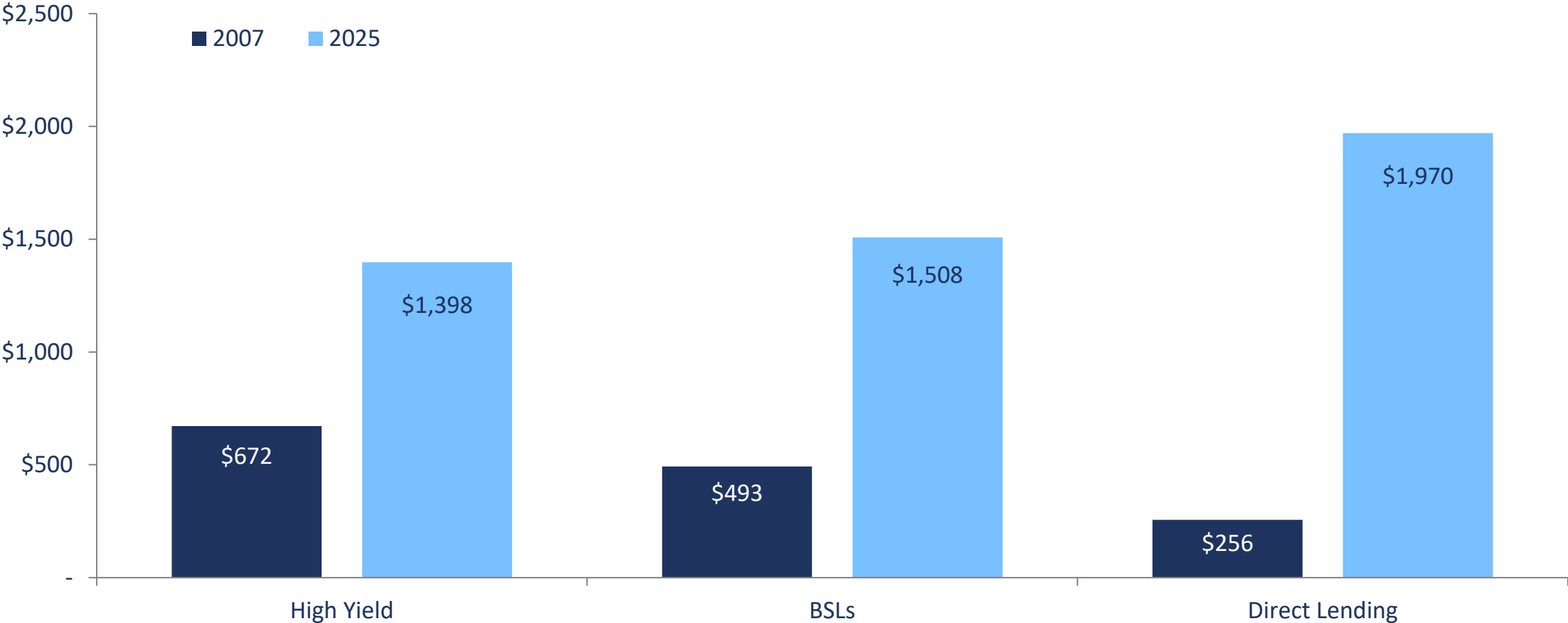
Non-traded BDCs go from \$0 to \$200bn+; PC surpasses BSL market

Today

Direct Lending is a ~\$2tn+ asset class, ~5% of the total PC market

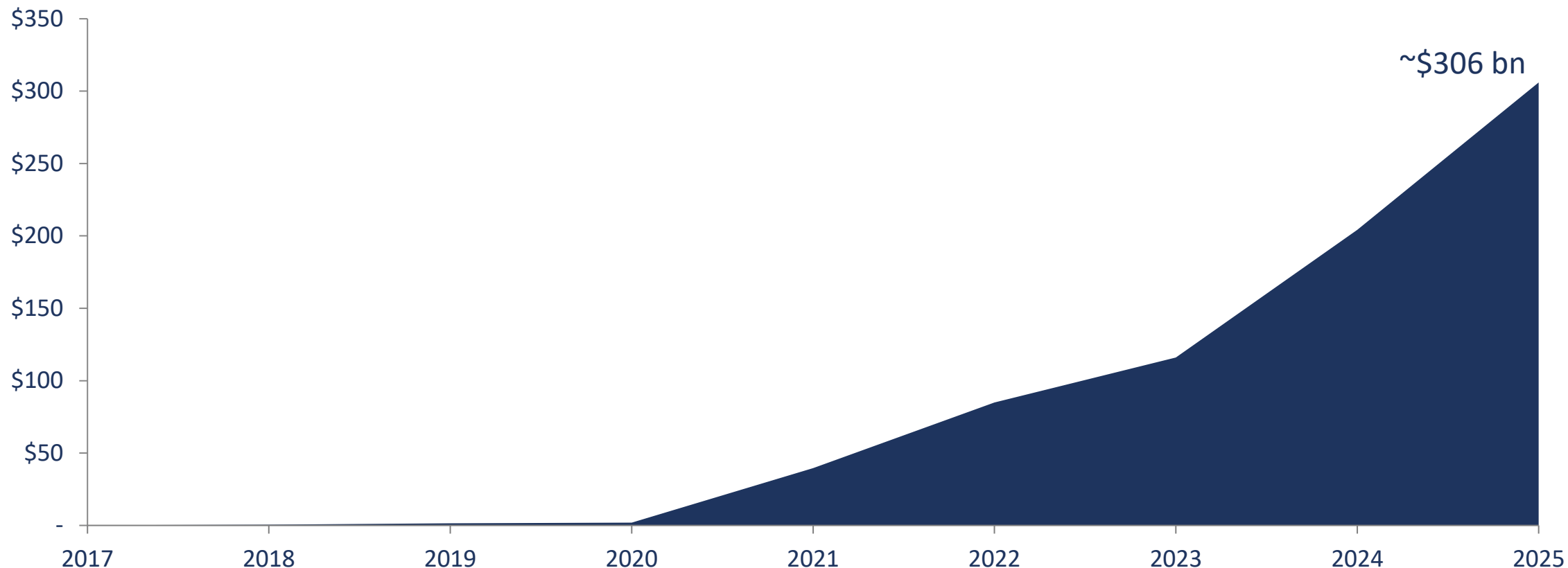
... and significantly outgrew the High Yield and BSL markets

AUM Growth by Market (billions)



As Private Credit raised more capital, retail became the next frontier; investors were promised “semi-liquid” exposure to illiquid assets

Fundraising to Perpetual Retail Structures (*billions*)

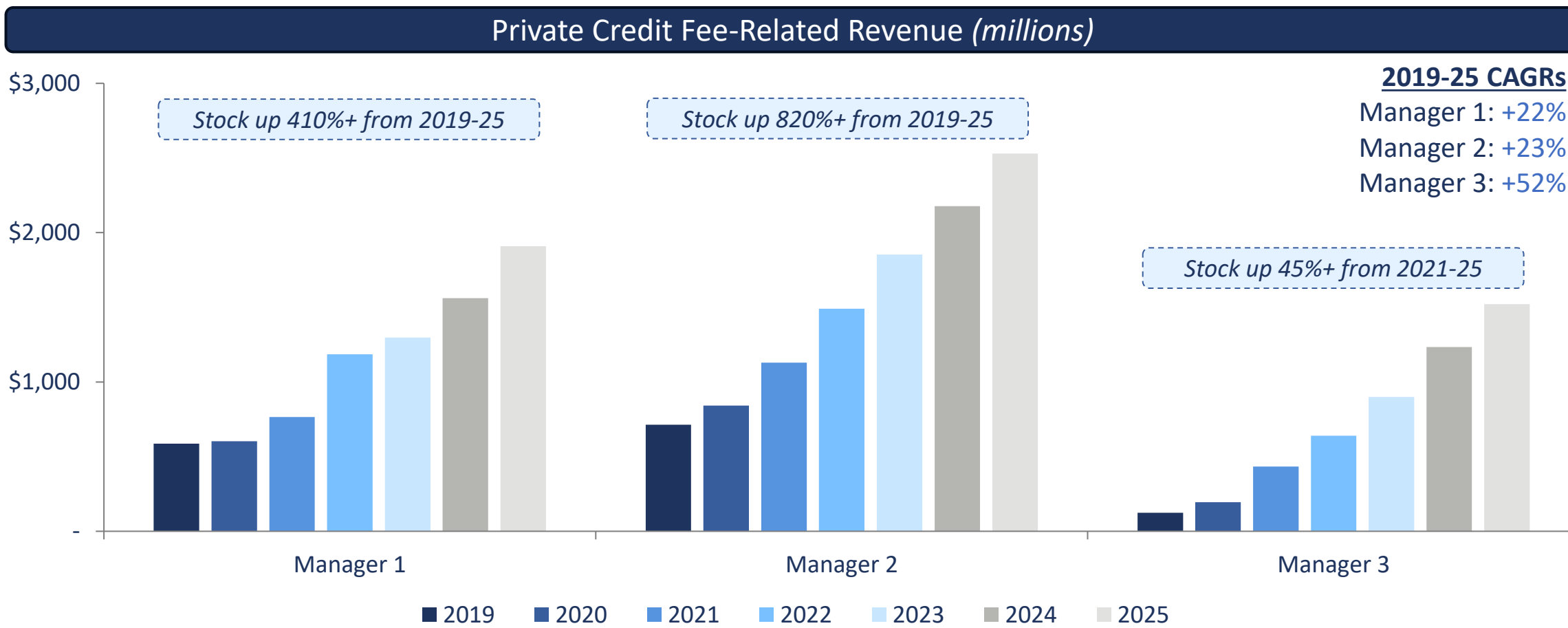


Fees on private credit vehicles have exceeded those of traded credit

Typical Fee Structure on Assets



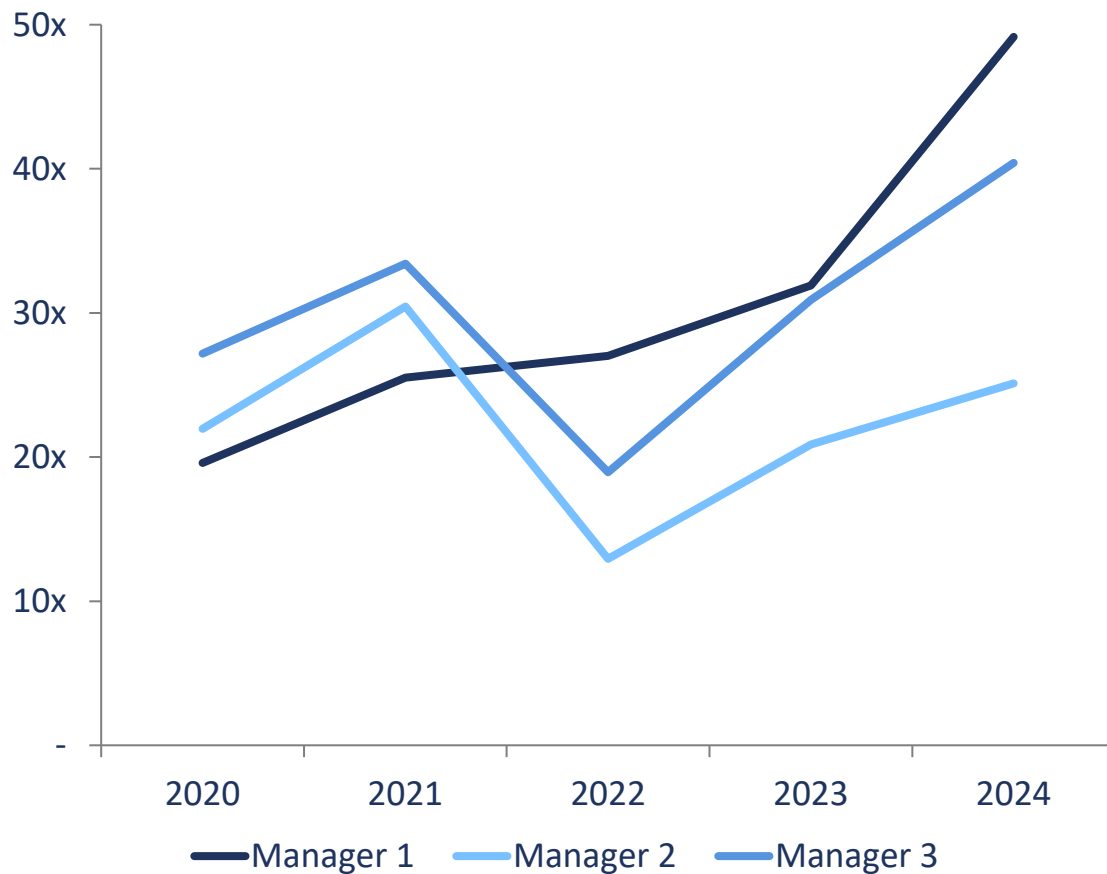
Public alternatives managers leaned into AUM and FRE growth; Private Credit became their engine



Source: Public Filings as of each respective year-end date. Includes management fees from "Credit & Insurance" for Manager A, "Credit" for Manager 2, and "Direct Lending" for Manager 3.

Private Credit M&A expanded amid FRE multiple expansion

FRE Multiples of Select Large Cap Alts Managers



Private Credit M&A



Private Credit M&A expanded amid FRE multiple expansion

FRE Multiples of Select Large Cap Alts Managers



Private Credit M&A

HPS was acquired for ~30x forward FRE in July 2025

REUTERS*
Man Group to Acquire Varagon Capital to Strengthen Private Credit Capabilities
July 31, 2023

THE WALL STREET JOURNAL.
BlackRock to Acquire HPS Investment Partners in Push Further Into Private Markets
December 9, 2024

Bloomberg
TPG to Buy Angelo Gordon in...

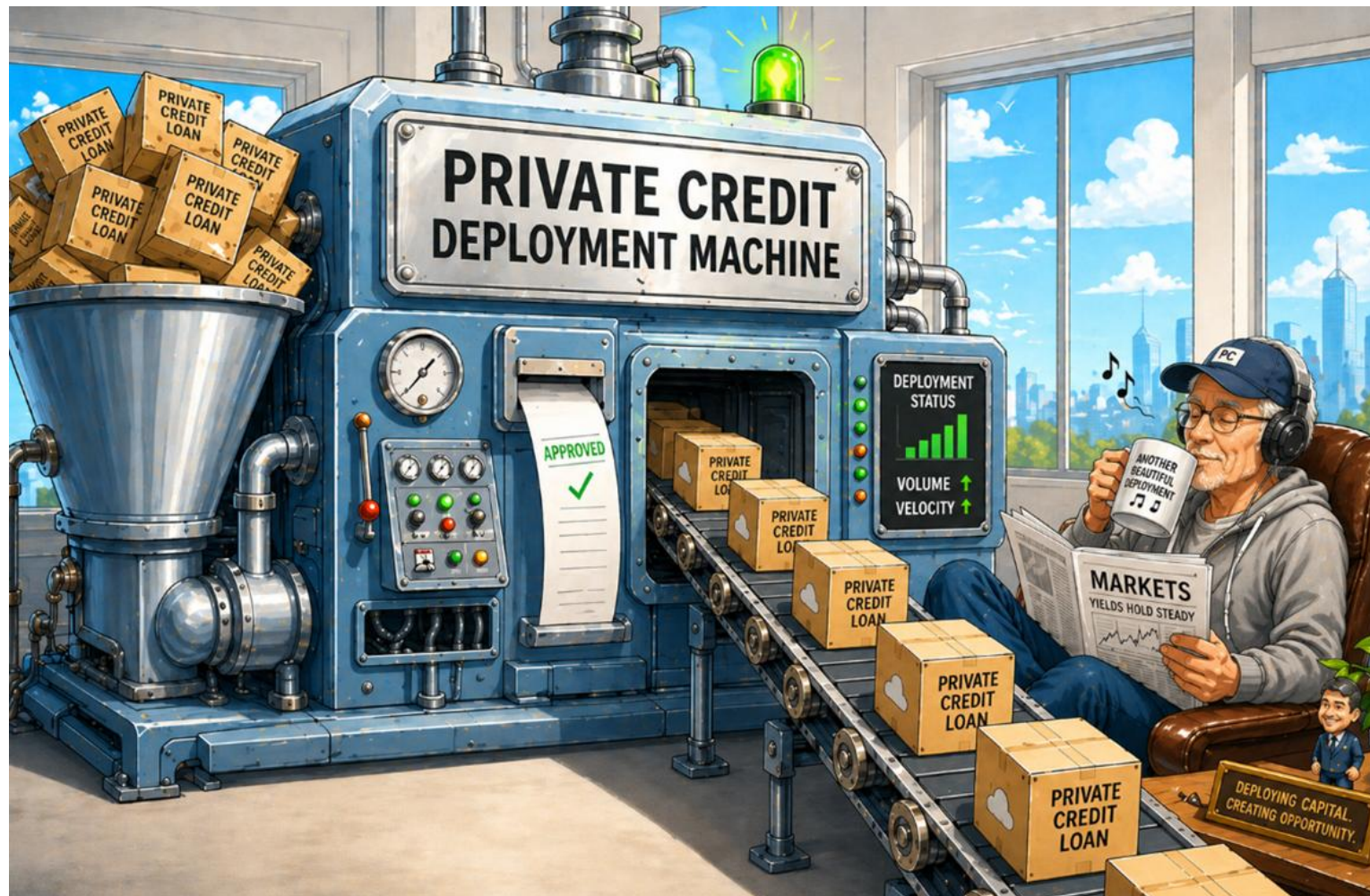
ASSET
Alternative Credit Platform
April 16, 2018

FINANCIAL TIMES
Brookfield Completes Acquisition of Oaktree Capital Management in \$3 Billion Deal
March 25, 2019

Institutional Investor
Man Group Buys Bardin Hill Investment Partners in Move Into Opportunistic Credit
October 10, 2023

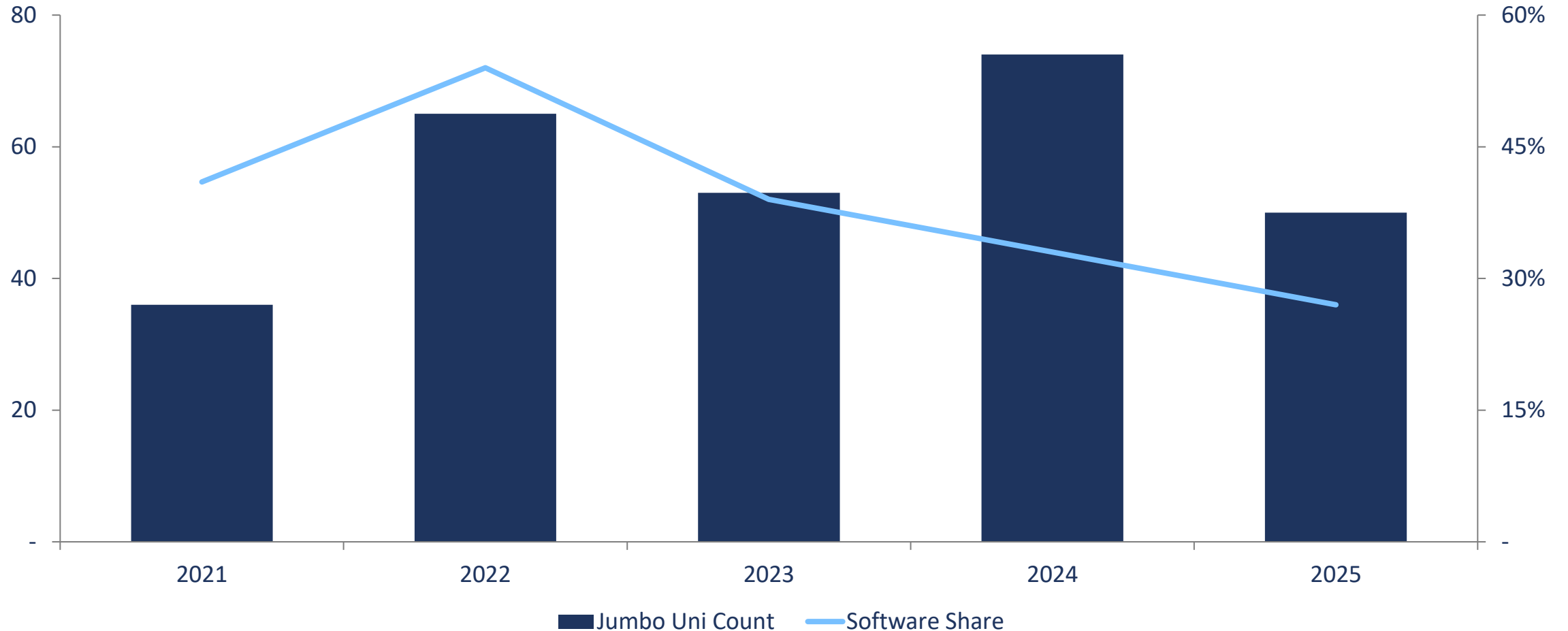
Pensions&Investments
Nuveen (TIAA) Expands Private Credit Footprint with Churchill Asset Management Acquisition
February 2, 2015

Industrial-scale origination and deployment drove PC platforms' enterprise value



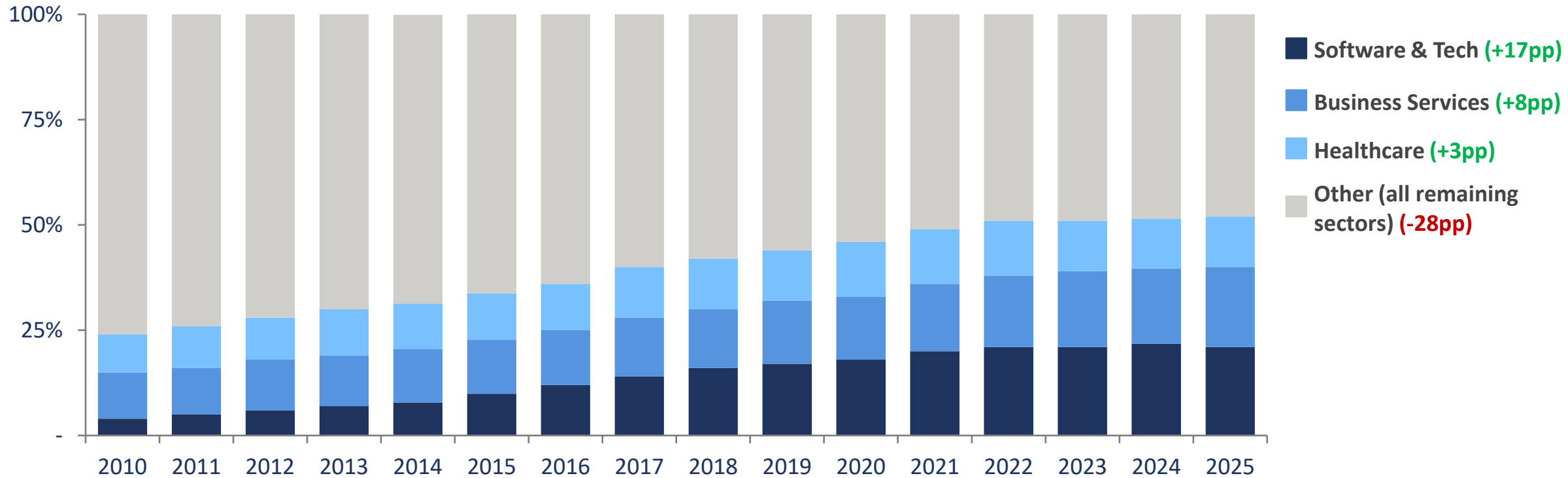
Deployment demands drove a shift to larger deals...

Count of \$1bn+ Unitranche Deals



... and into sectors that banks couldn't (or wouldn't) compete

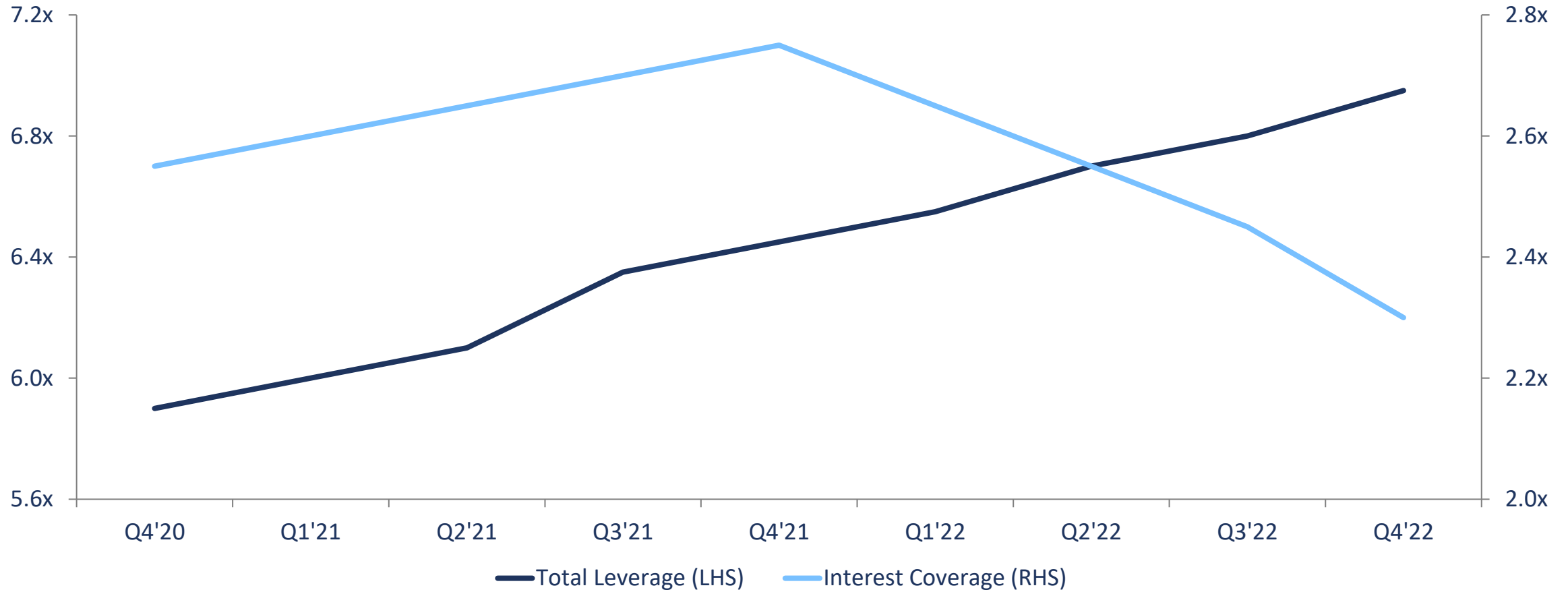
Self-Reported Private Credit Exposure By Sector



Steady migration to asset-lite sectors led by software and tech

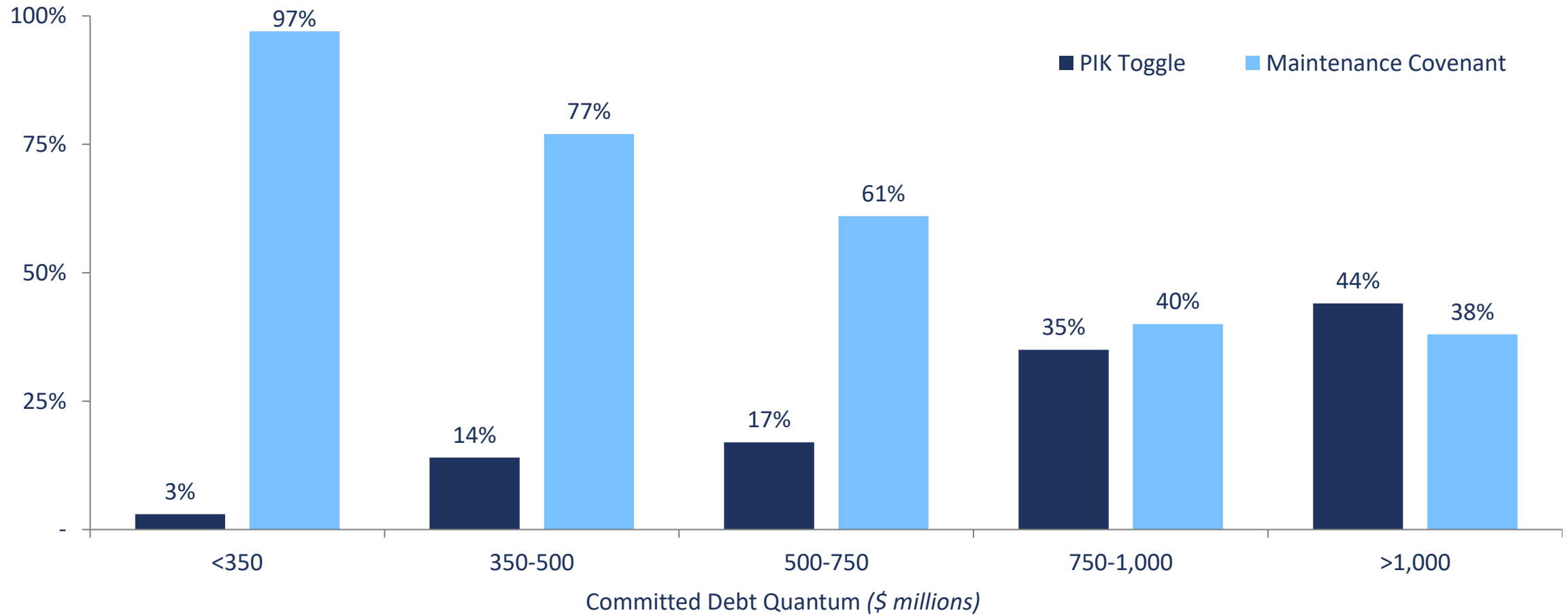
Meanwhile, credit metrics worsened, with Covid the low point...

Leverage and Interest Coverage

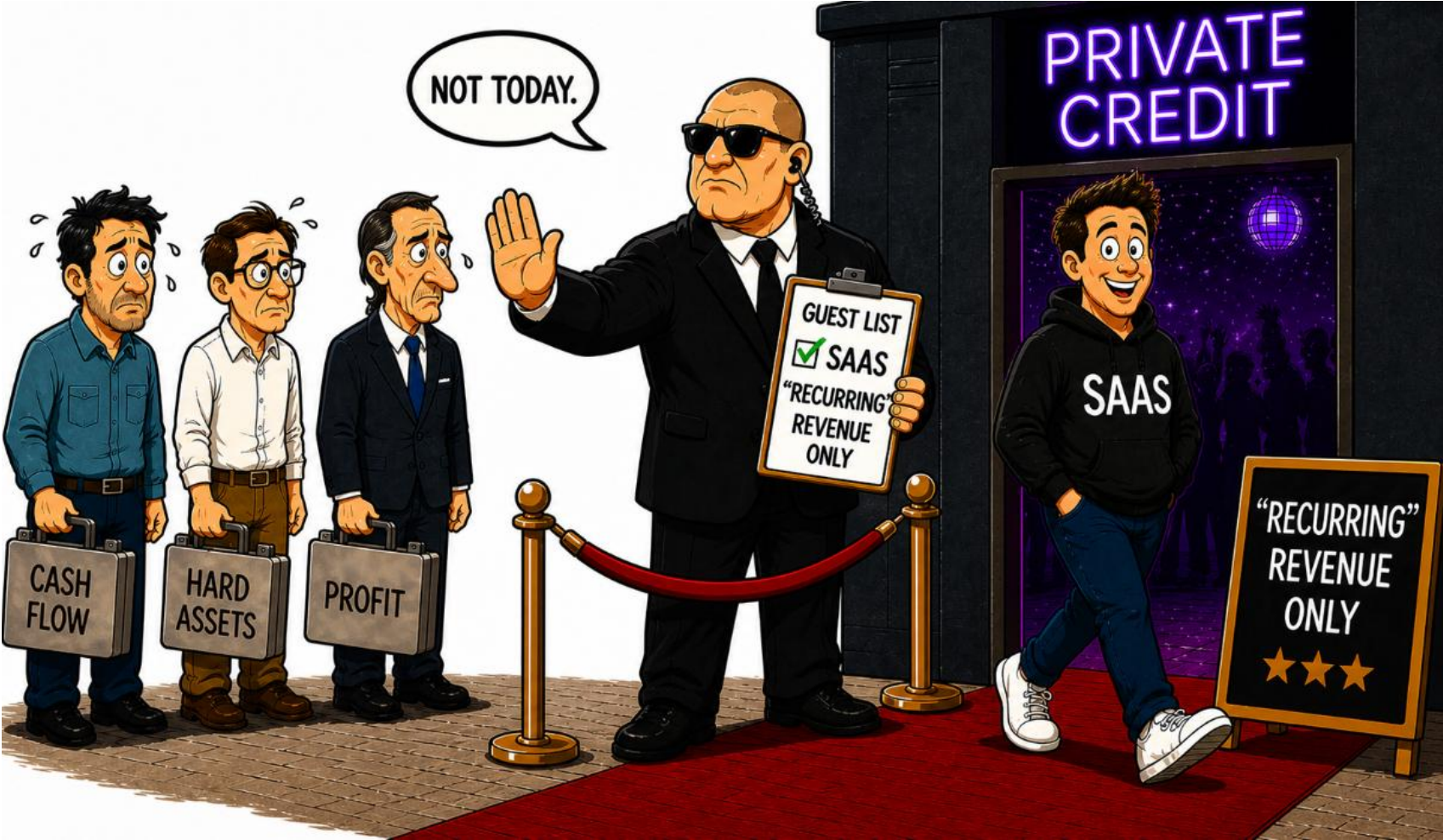


... amid general weakening in lenders' structural protections

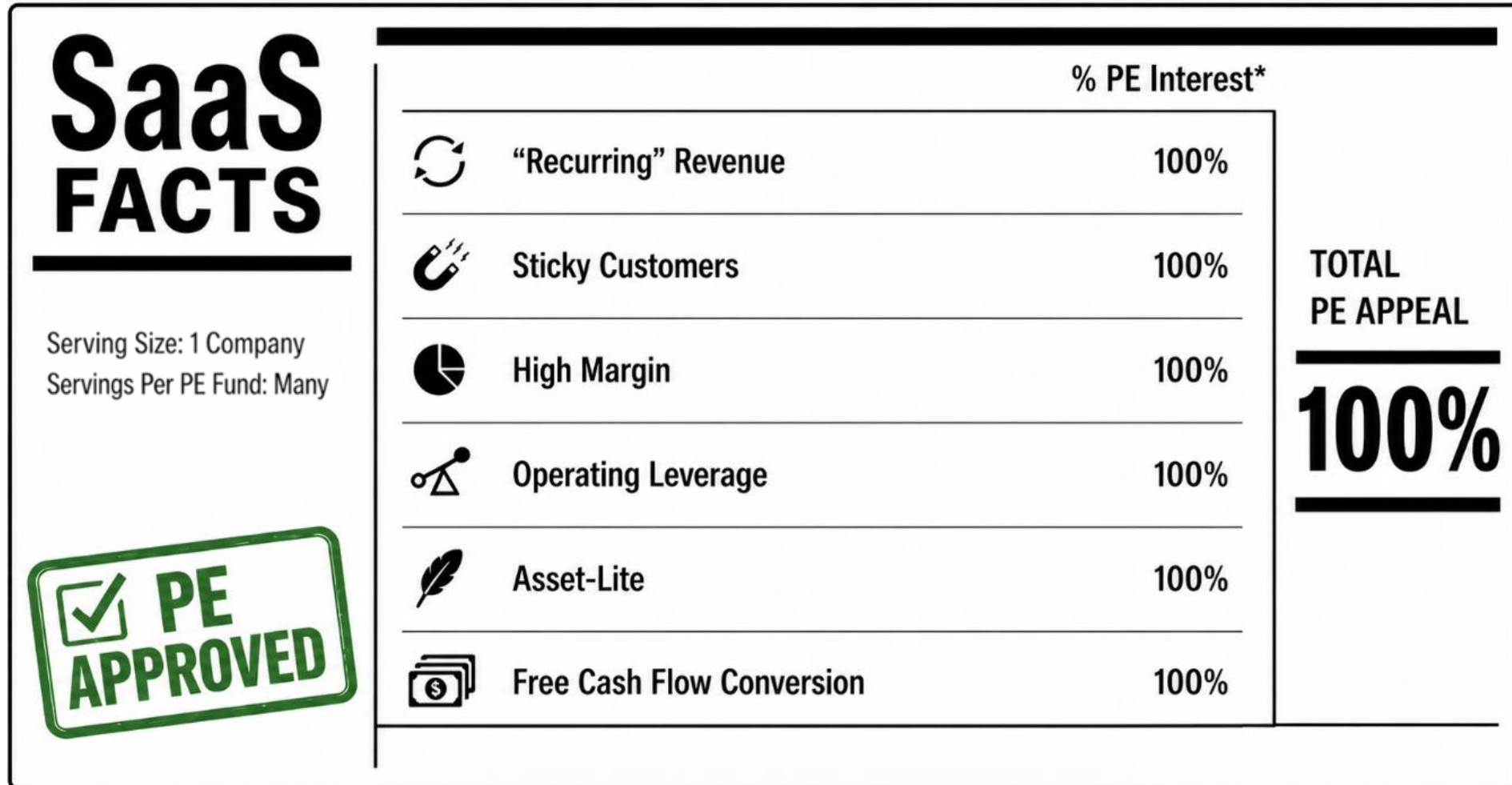
Share of Private Credit Issuers with...



Section 2: Private Credit becomes SaaS-y

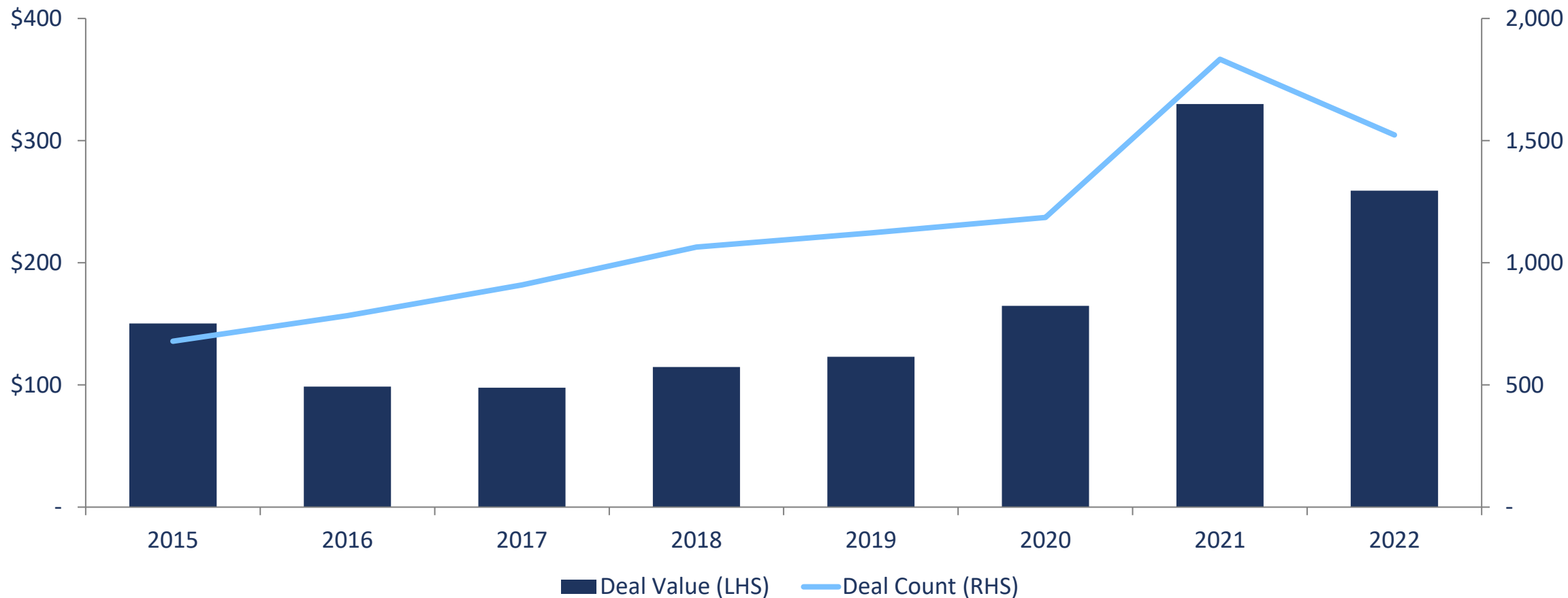


Software emerged as Private Equity's favorite flavor



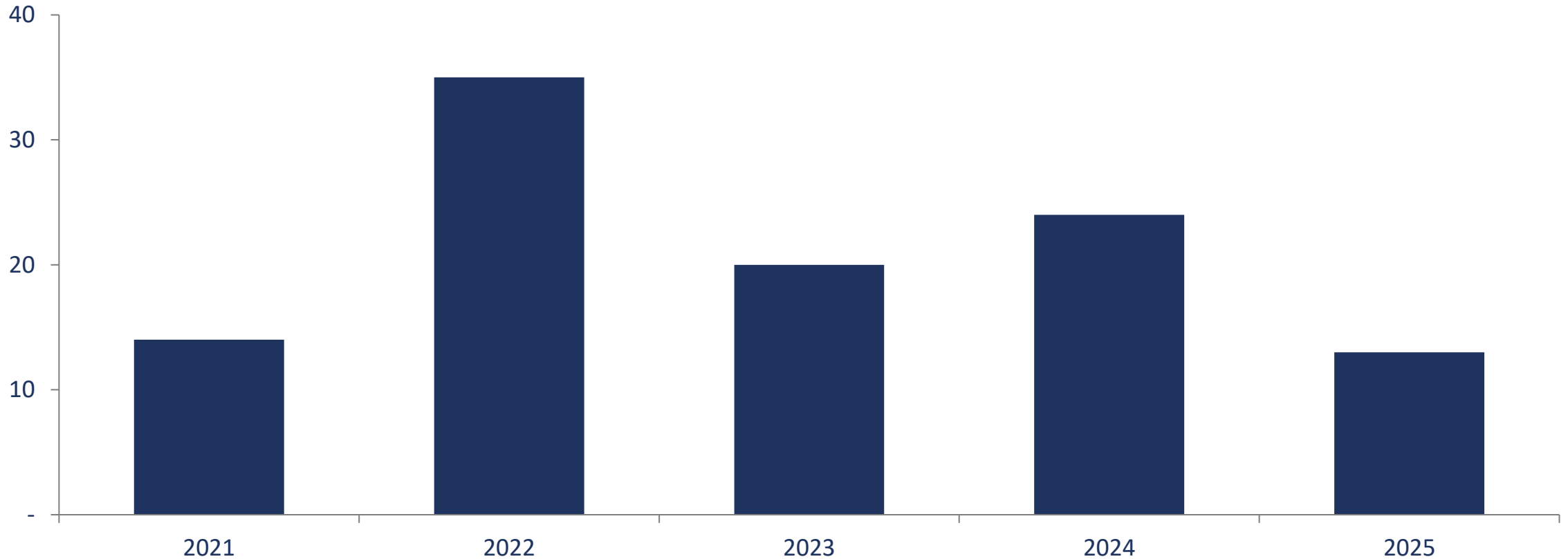
Private Equity investment in technology accelerated during Covid

Technology LBO Stats (*billions, except numeric count*)



Private Credit became the primary financier of software...

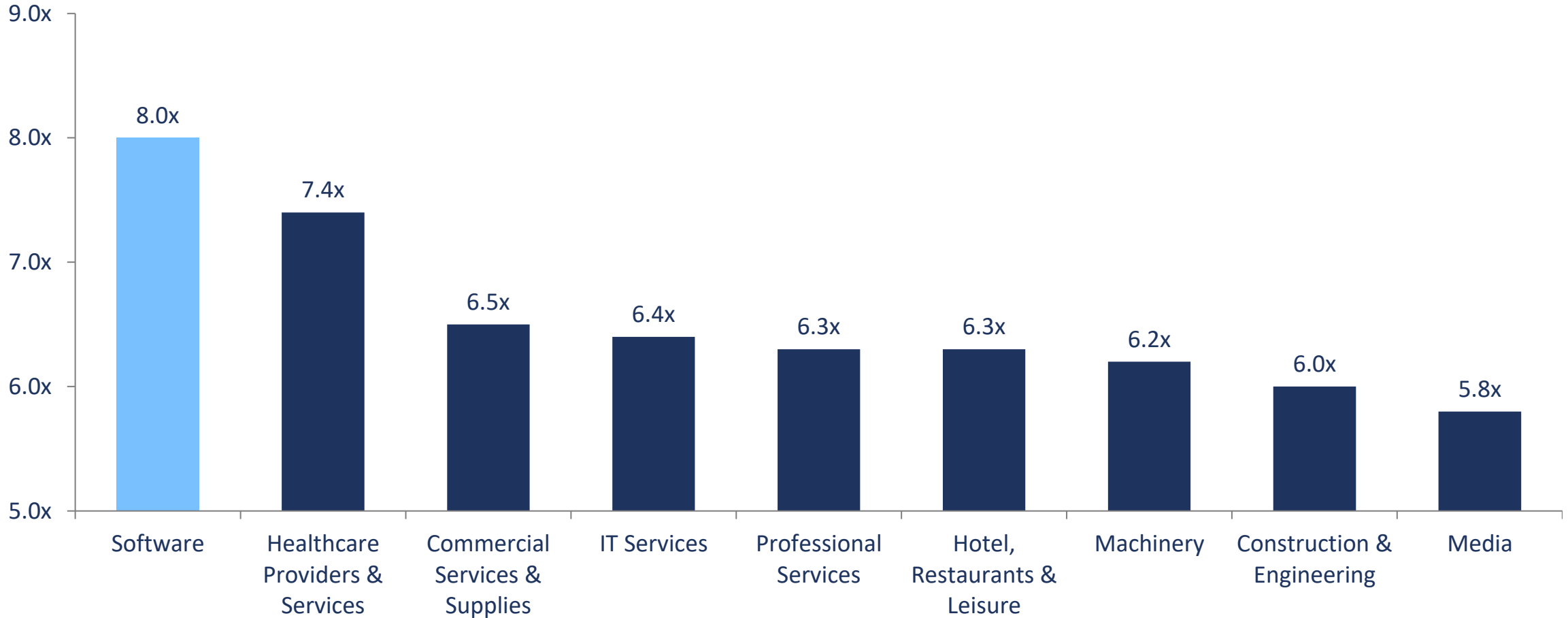
Count of \$1bn+ Unitranche Deals in the Software Sector



PC funds were raised specifically around sponsor-backed software financing, and ARR lending – where EBITDA isn't a financing metric – grew dramatically

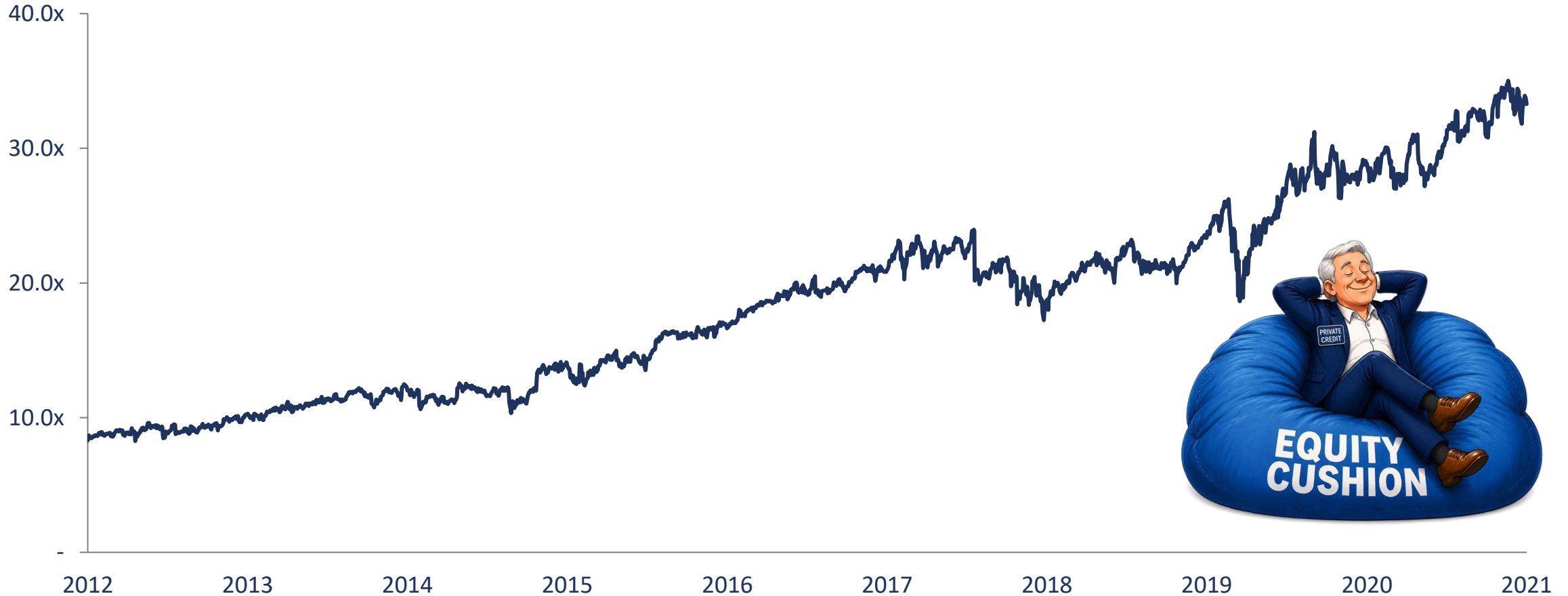
... extending higher leverage than to any other sector...

Median Private Credit Leverage by Sector



... while finding comfort in Private Equity's lofty purchase multiples

TEV / EBITDA Multiples – Software Sector



In late 2022, ChatGPT – with its disruptive potential – arrives



Diameter began highlighting AI-related risks in software...

Q2 2023 Letter

“Many businesses will first experience a **productivity boost** from the technology before it **disintermediates them.**”
“This will make the process of sorting out **winners and losers** an exercise in both long- and short-term thinking.”

Q3 2023 Letter

“We’ve spent a lot of time assessing AI’s impact on companies across the economy. We think for now it will help a lot of companies before then **ruthlessly eliminating them.**”

Q2 2024 Letter

“It’s also not a good time to be facing **secular change**, like software providers up against artificial intelligence (AI), or to be the third or fourth provider...”

Q4 2024 Letter

“As AI improves, it could lead to a microcycle in software. Few sectors are more levered...We think **upwards of 30%** of senior private credit loans are made to software companies.”

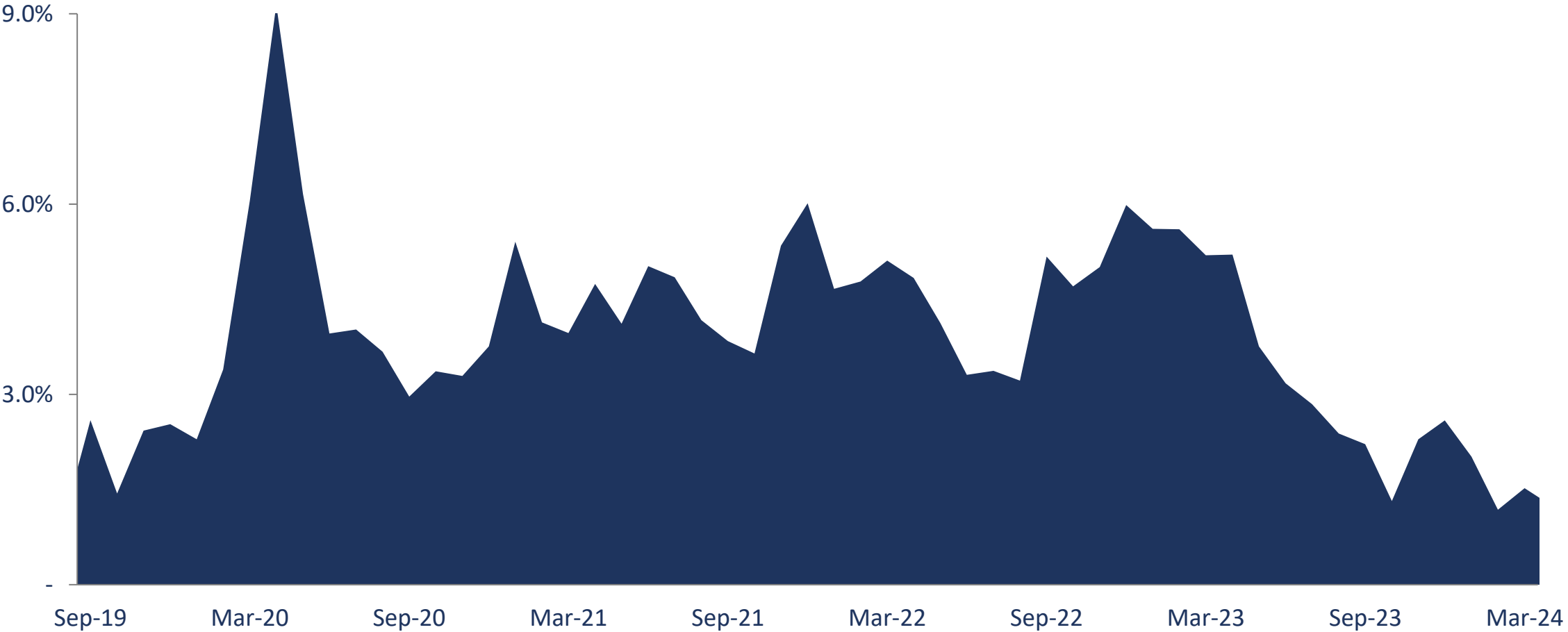
Q1 2025 Letter

“AI, as it scales, would come to **threaten the SaaS software space...**”
“the path to artificial general intelligence would not be linear...years of fits-and-starts and **lots of bankruptcies.**”
“the search for **winners and losers** has only just begun.”

Q1 2026: “As we’ve been warning in these letters **for three years**, AI is coming for software.”

... and de-risked our book accordingly

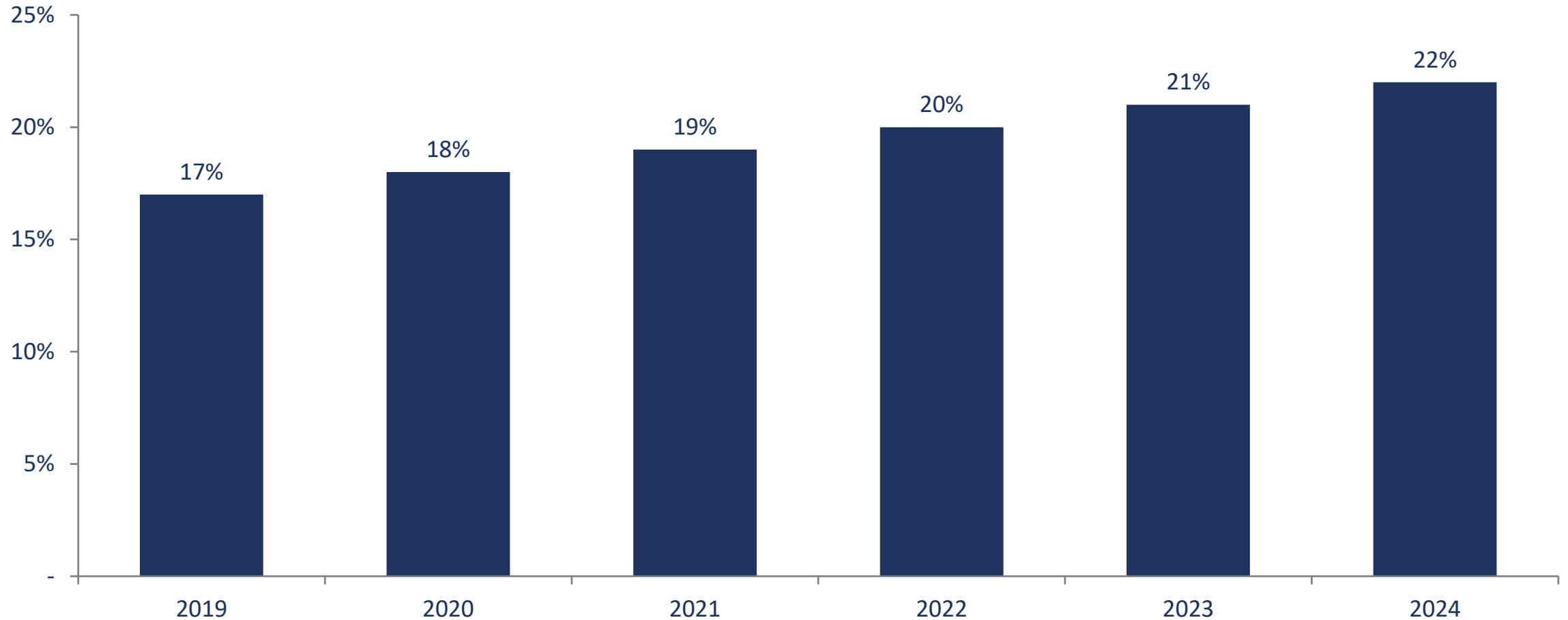
Diameter Hedged Strategy – Net Software Exposure



Note: Classifications of hedged strategy investments into the software sector created by Diameter based on its own internal methodologies, which change from time to time and are subject to human error. An investment may be categorized in different sectors from month to month depending on various considerations. Excludes hyperscalers.

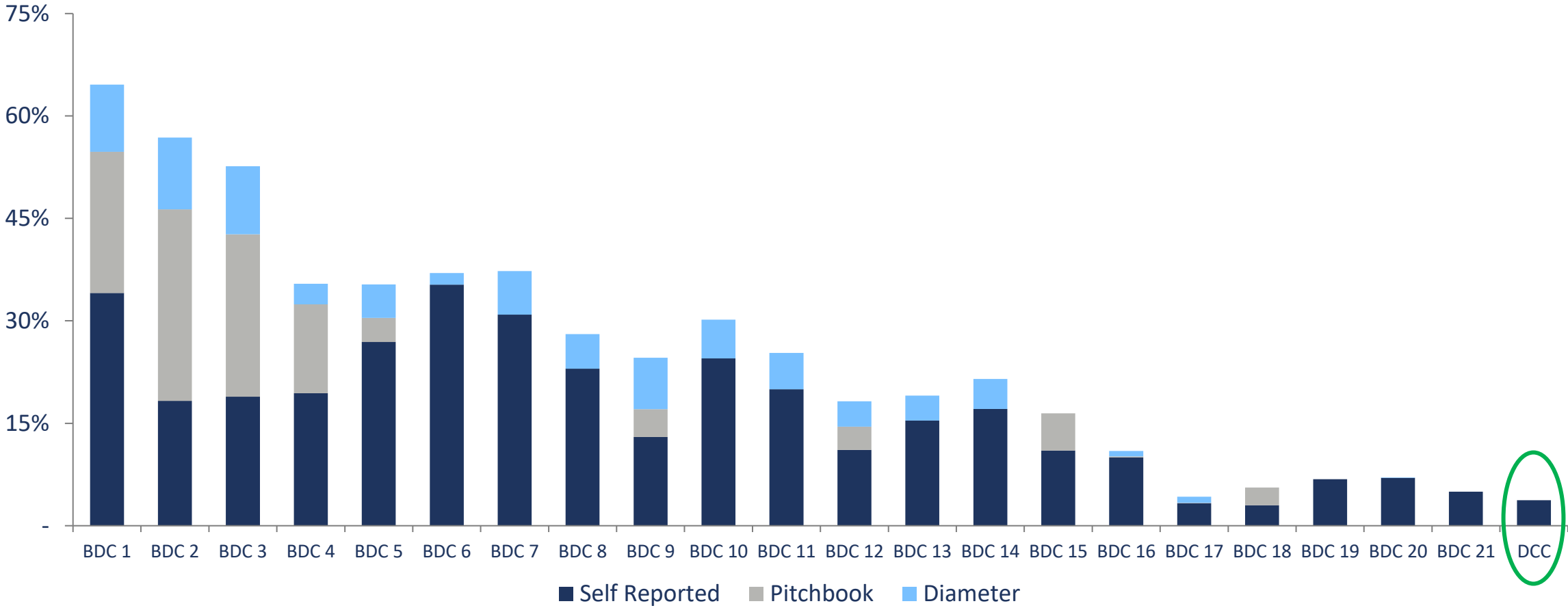
But Private Credit lending to software continued to grow

Self-Reported Private Credit Exposure to Software



We believe software exposure is even higher than what is reported

BDCs' Exposure to Software by Classification Method



Source: Based on publicly available filings and Pitchbook LCD data as of 12/31/2025. Set includes the BDC universe that the Private Credit team at Diameter tracks. Classifications of BDCs' investments in the software sector created by Diameter based on its own internal methodologies, which change from time to time and are subject to human error. An investment may be categorized in different sectors from month to month depending on various considerations.

SaaS underwriting was done based on backward-looking metrics

What They Saw

- ✓ High retention rates
- ✓ Low churn
- ✓ Rule of 40
- ✓ Strong gross margins
- ✓ Predictable revenue
- ✓ Low marginal costs

What They Missed

- ? Adoption / Progression of LLMs
- ? Not all SaaS is created equal
- ? Tech always evolves
- ? 90% GMs aren't sustainable
- ? SaaS shares risk factors
- ? Shift from seat- to usage-based pricing

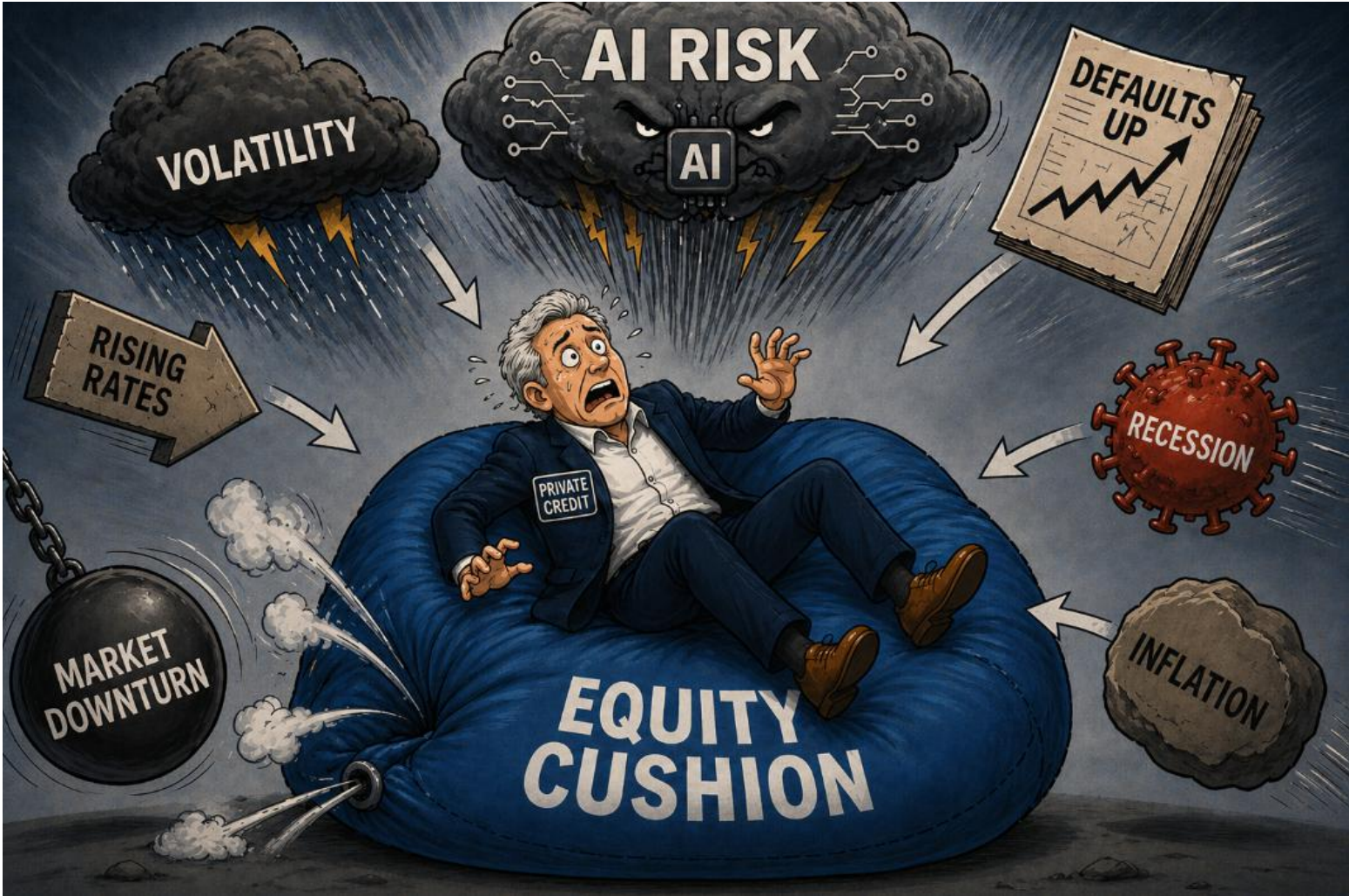
While targeting SaaS as a means of growth, some managers forgot PC's cardinal rule:

In a levered carry investment with limited upside convexity...

... portfolio diversification is critical



Section 3: Where are we today?

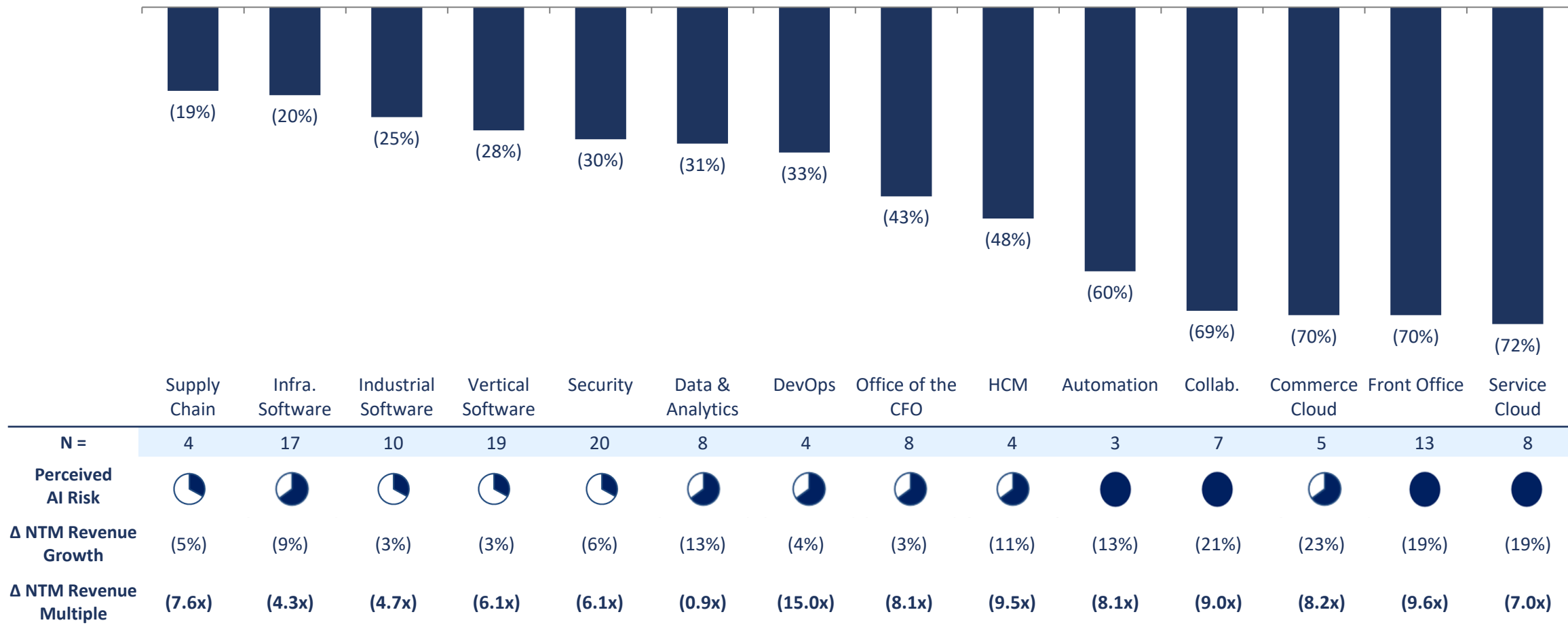


The market has finally woken up on AI



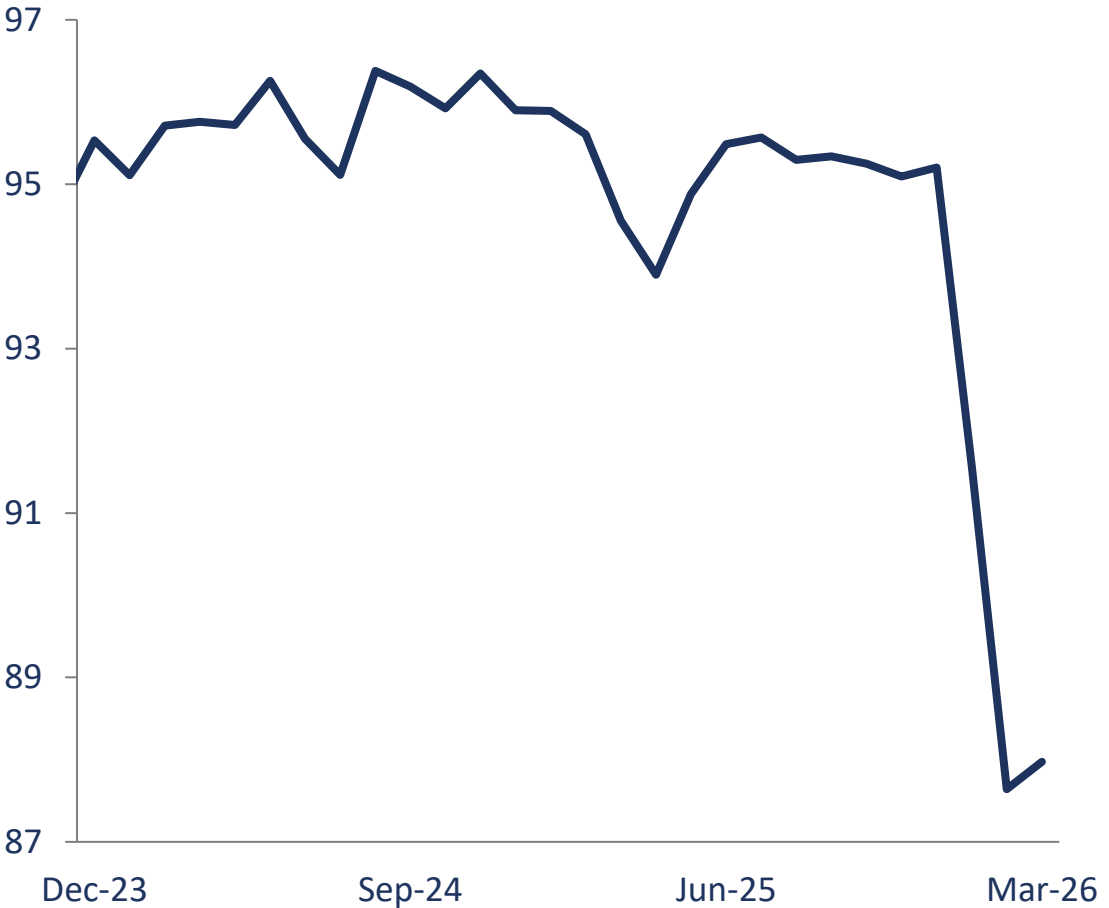
Software multiples have compressed significantly since 2022...

Software Performance by Subsector since January 2022



... followed by steep declines in credit and other AI-exposed equities

Weighted Average Bid on Software BSLs

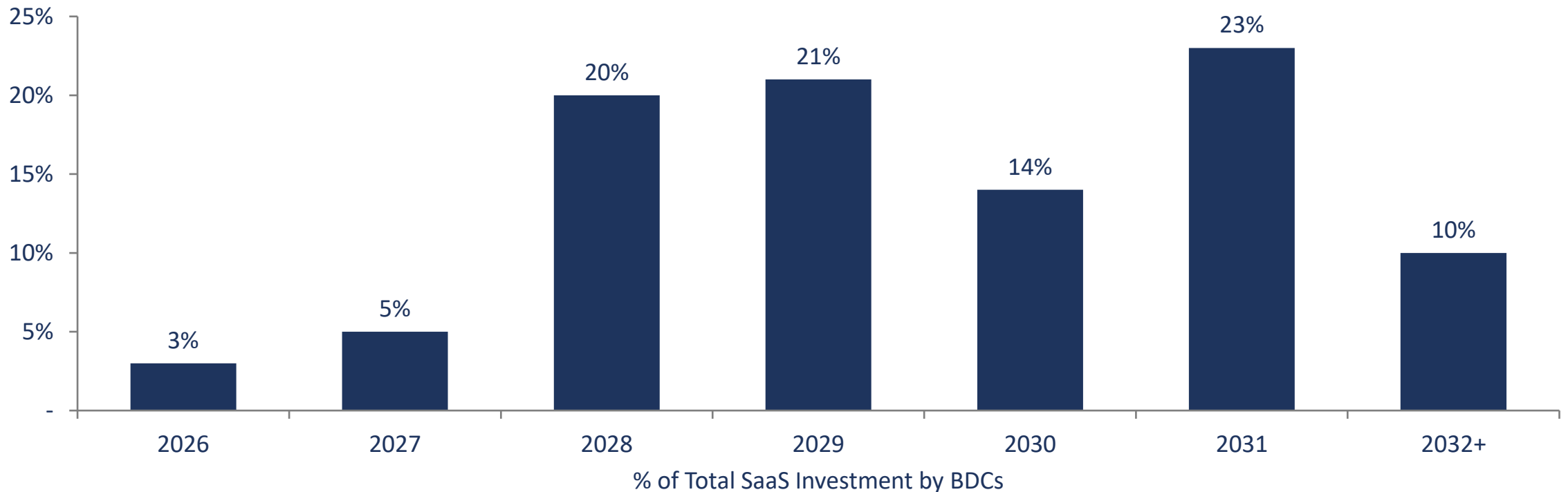


DCP Custom AI-Vulnerable Equities Basket



Problems are acute in the 2021-22 SaaS vintage, which will soon become current...

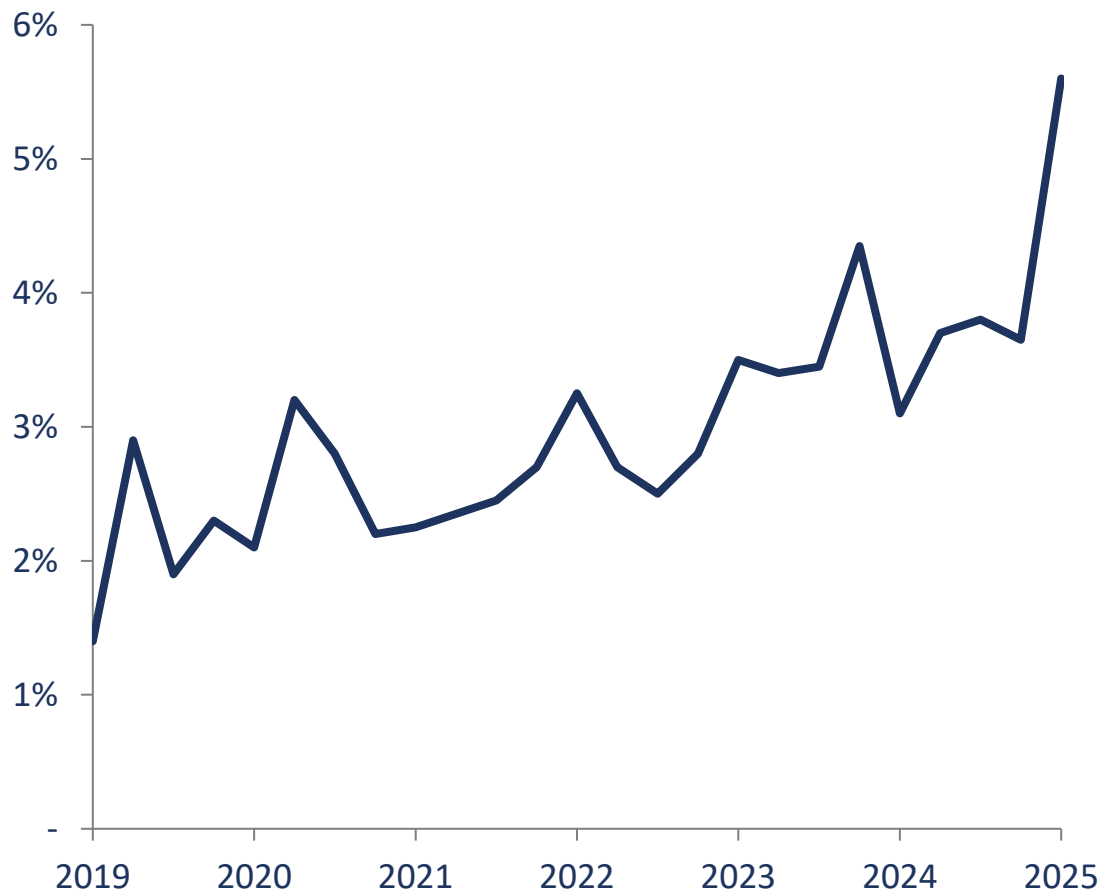
Maturity Walls for Outstanding Software Loans



~50% of software loans are set to go current in the next ~2.5 years

... and there are questions about Private Credit marks

Pct. Point Price Range for Loans Held by Multiple BDCs



Adverse Media Around Private Credit Valuations

<p>Bloomberg Mar 11, 2026</p> <p>“Opaque private credit holdings.” — Bloomberg</p>	<p>THE WALL STREET JOURNAL. Feb 22, 2025</p> <p>“Secondary markets reveal significant discounts to reported NAVs.” — The Wall Street Journal</p>
<p>FINANCIAL TIMES Nov 19, 2024</p> <p>“Valuations in private credit rely heavily on manager-developed models.” — Financial Times</p>	<p>THE WALL STREET JOURNAL. Nov 18, 2024</p> <p>“Mismatch between paper valuations and market prices.” — The Wall Street Journal</p>
<p>Bloomberg Feb 27, 2025</p> <p>“Assets are not priced daily... valuations are typically model-based.” — Bloomberg</p>	<p>Forbes Mar 22, 2026</p> <p>“Reported volatility may be misleading.” — Forbes</p>
<p>Bloomberg Law Feb 25, 2025</p> <p>“Valuation remains one of the leading regulatory concerns.” — Bloomberg Law</p>	<p>Sage Advisory Jan 15, 2026</p> <p>“DOJ warned about ‘creative marks and divergent valuation practices.’ — Sage Advisory</p>
<p>MarketWatch Apr 5, 2024</p> <p>“Fed officials warn about ‘opaque... complex investments.’ — MarketWatch</p>	<p>THE WALL STREET JOURNAL. Nov 18, 2024</p> <p>“Funds trading at large discounts show a discrepancy between reported NAVs and market valuations.” — The Wall Street Journal</p>

But Private Credit managers remain confident...

“The software book... LTM EBITDA growth in the software book is growing at a faster rate than the overall average EBITDA on our book... We're just not seeing weakness in the software book at all.”



“We've been investing in software companies for 20 years. We've completed 1,000 software deals over that period. We're good at this. Over that 20 years, we've had only five defaults.”

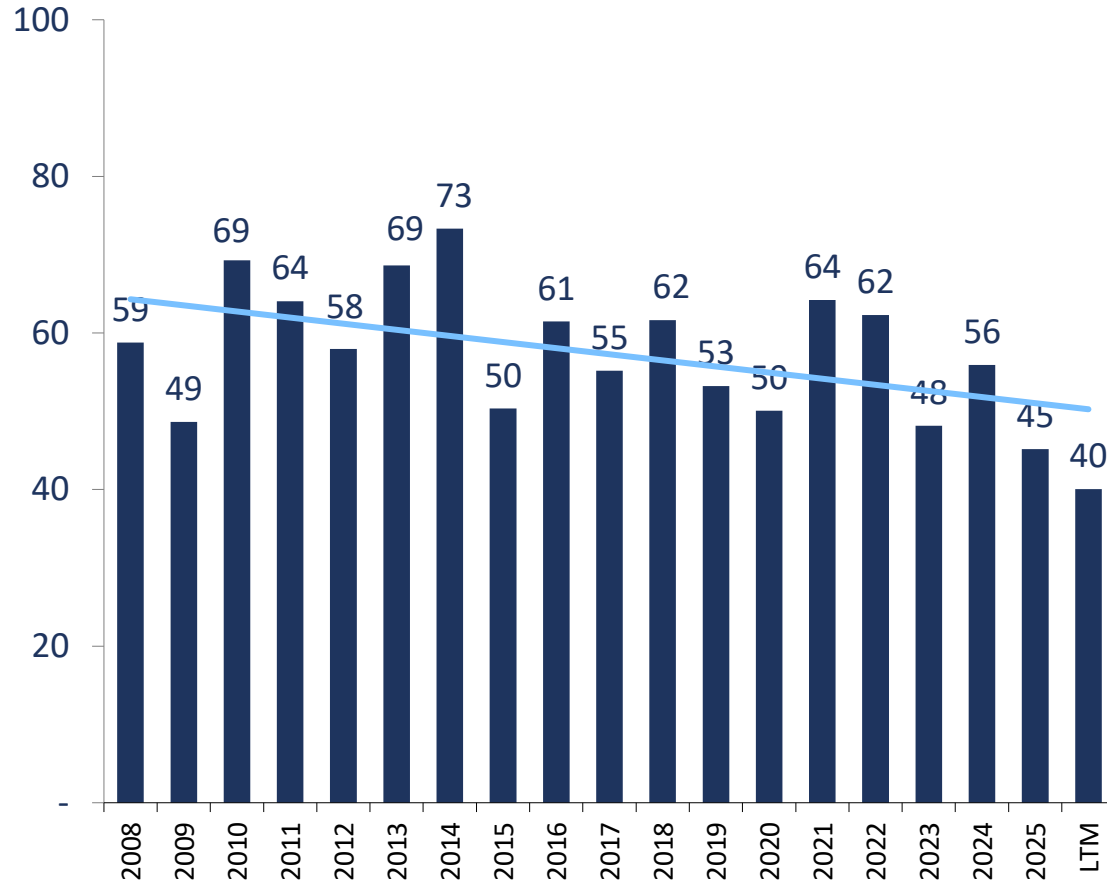


“We are a first lien lender in almost every instance we talk about software. We are, on average, around 30% loan to value... you have to destroy 70% of the value of every one of these software companies when the markets actually judge them net up... I can't really answer it in a mathematical way because the numbers would be so silly.”

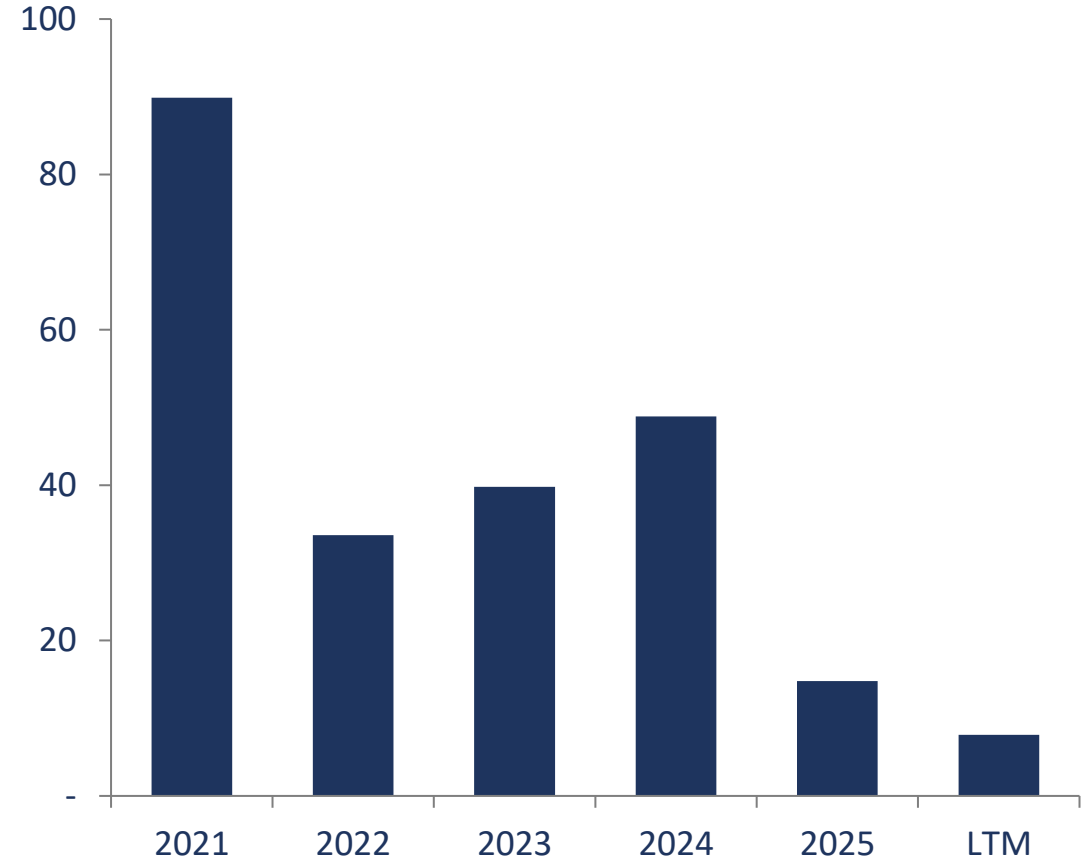


... despite lower historical recoveries in asset-lite credits...

Recoveries on all BSL 1L Loans

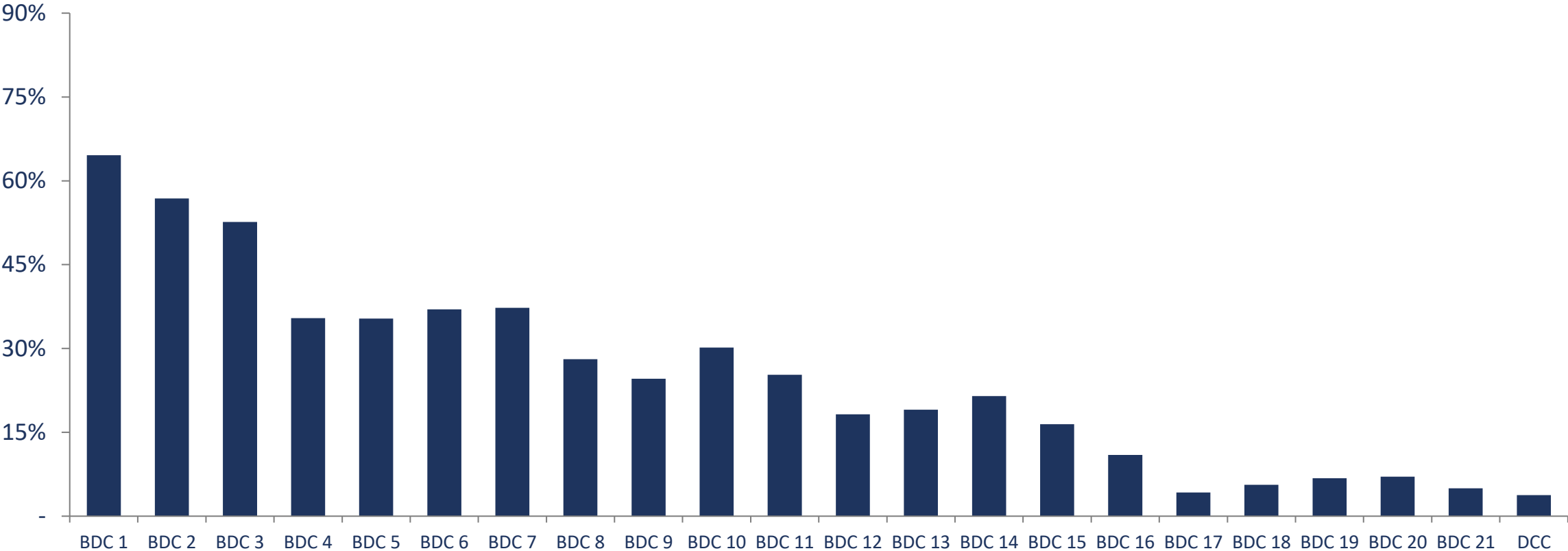


Recoveries on Tech BSL 1L Loans



... and portfolios full of software...

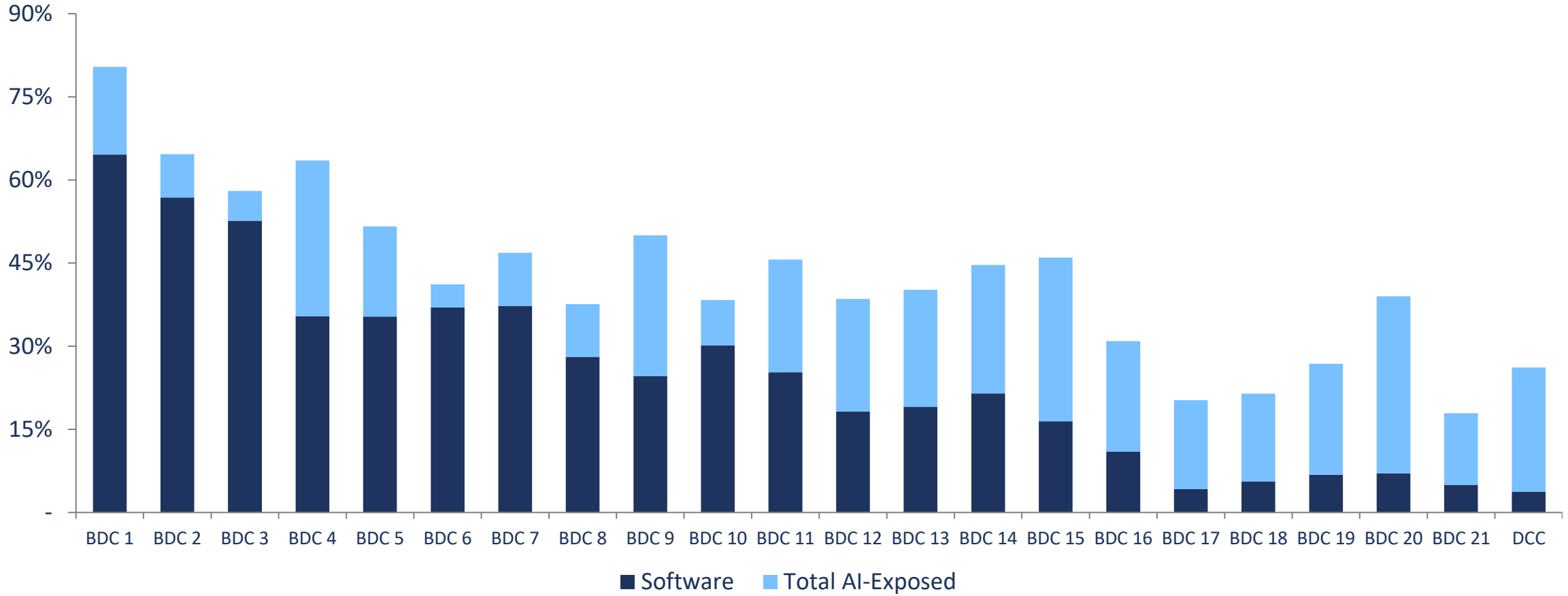
BDCs' Exposure to Software – Diameter View



Source: Diameter Analysis. Classifications of BDCs' investments in the software sector created by Diameter based on its own internal methodologies, which change from time to time and are subject to human error. An investment may be categorized in different sectors from month to month depending on various considerations.

... and other borrowers vulnerable to AI disruption

BDCs' Exposure to Software and Other AI-Exposed Sectors – Diameter View



Source: Diameter Analysis. AI-exposed sectors include software / tech, outsourced business services, insurance brokerage, healthcare IT, internet services and retail, advertising / marketing, education and travel services, and similar. Classifications of BDCs' investments in the software and AI-exposed sectors created by Diameter based on its own internal methodologies, which change from time to time and are subject to human error. An investment may be categorized in different sectors from month to month depending on various considerations.

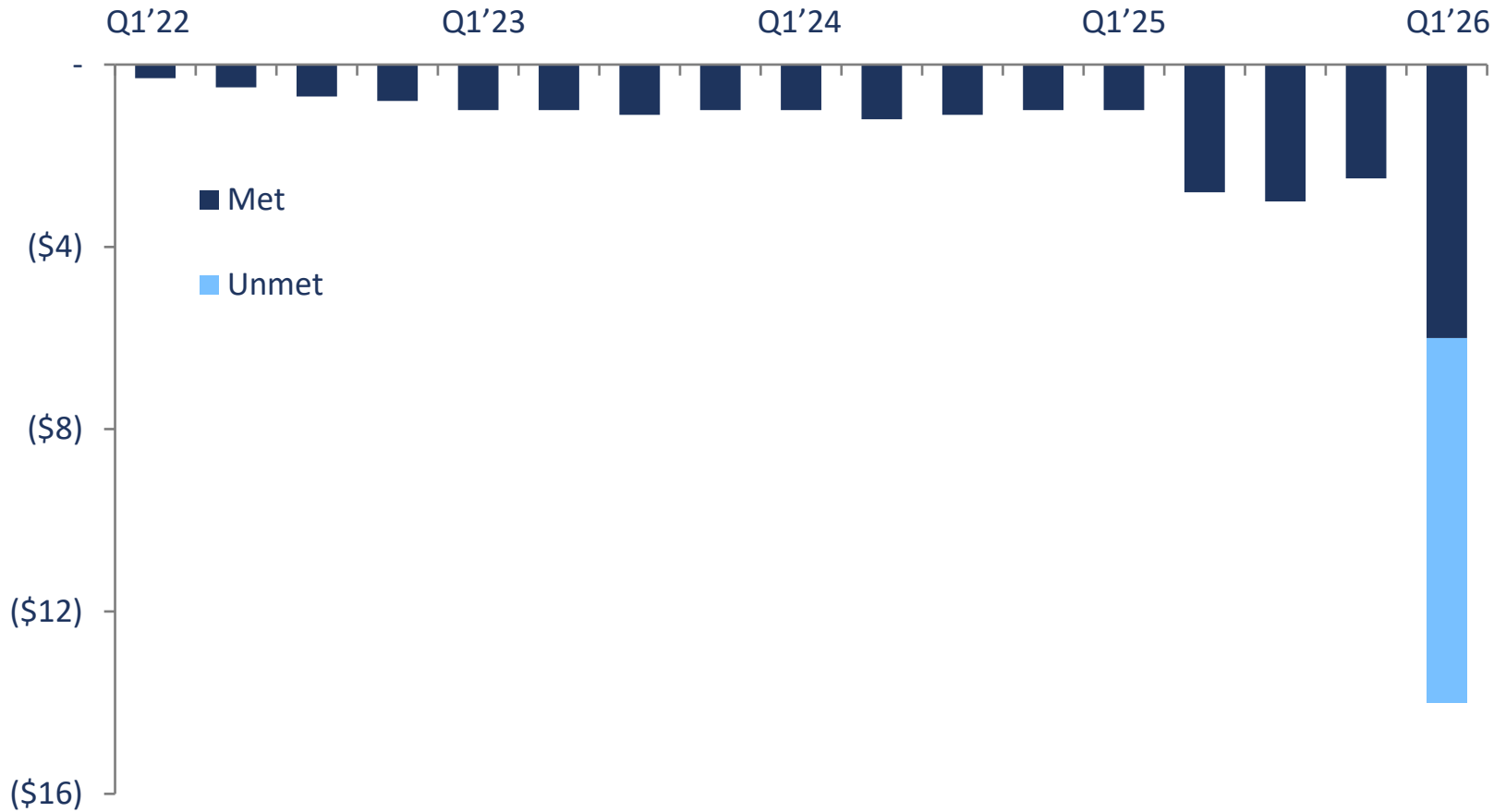
Hidden leverage may further compound the problem

Examples of “Hidden” Leverage to the Equity Investor

- Bank joint ventures (first-out / second-out structures)
- JV / licensing structures (SBIC-style or co-investment JVs)
- Single name total return swaps (TRS)
- Purchasing CLO equity / securitization residuals
- “NAV” loans
- Fund recourse loans
- Increasing extension and use of PIK

LPs in non-traded structures want out

Total PC Redemption Requests (*billions*)



Q1 2026:

\$14bn+
in total redemption requests

~\$8bn unmet

More than half of redemption requests were not fulfilled

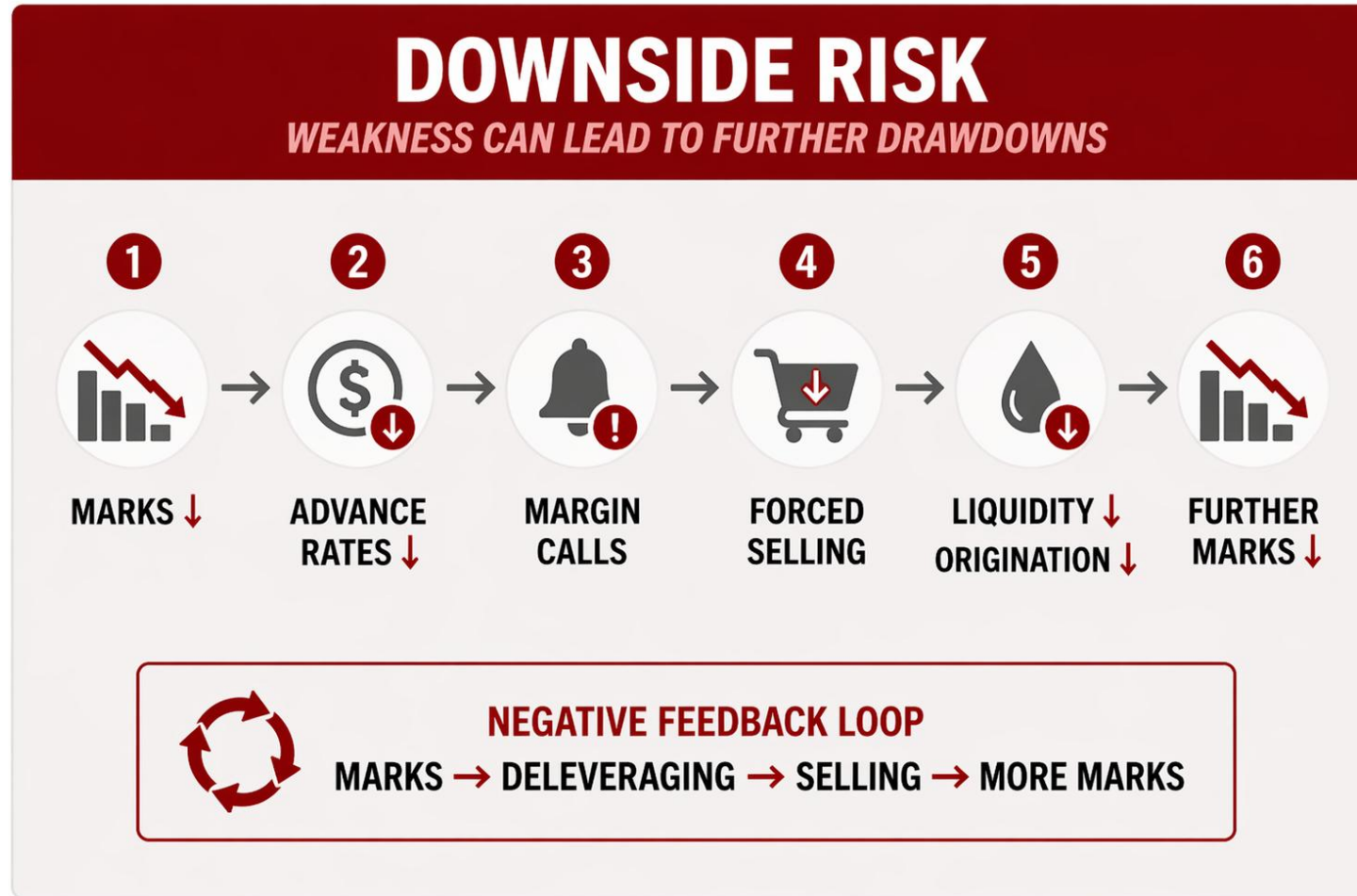
Leverage providers to Private Credit are growing cautious

Observed Trends Across Banks

- Increasing syndication (i.e., selling) of Private Credit ABLs
- Significant Risk Transfer (SRT) transactions across BDC revolvers
- Reductions to borrowing bases via marking down assets
- Broad “Software” definitions being added to concentration limits, limiting ability to overweight SaaS

Some lenders are already capping exposure to AI-exposed sectors, and others are walking away from SaaS-heavy funds altogether

... risking a potential negative feedback loop



But this isn't systemic

The infographic is split into two vertical panels. The left panel, titled 'THE PRESS VIEW', features a cartoon chicken wearing glasses and a green shirt, looking shocked with its mouth wide open. The background is a dark, stormy sky with lightning and falling meteors. The right panel, titled 'OUR VIEW', has a clean, light blue background with a city skyline on the right. It includes a pie chart showing 5%, a shield icon, and another shield icon with a checkmark. A central 'VS.' circle separates the two panels. At the bottom, a dark blue banner contains a lightbulb icon and the text 'REAL DISLOCATION THAT CREATES OPPORTUNITY.'

THE PRESS VIEW

THE SKY IS FALLING!

- ⚠️ Private credit is breaking
- ⚠️ Defaults are rising
- ⚠️ This is systemic
- ⚠️ Another 2008 event

VS.

OUR VIEW

NOT SYSTEMIC RISK

- 5% DIRECT LENDING IS ONLY ~5% OF PC
- SHIELD MUCH LOWER LEVERAGE VS BANKS PRE-GFC
- SHIELD WITH CHECK BETTER ASSET-LIABILITY MATCHING

REAL DISLOCATION THAT CREATES OPPORTUNITY.

Section 4: Where do we see opportunities?



A

Public BDCs: Public BDCs have come under attack...

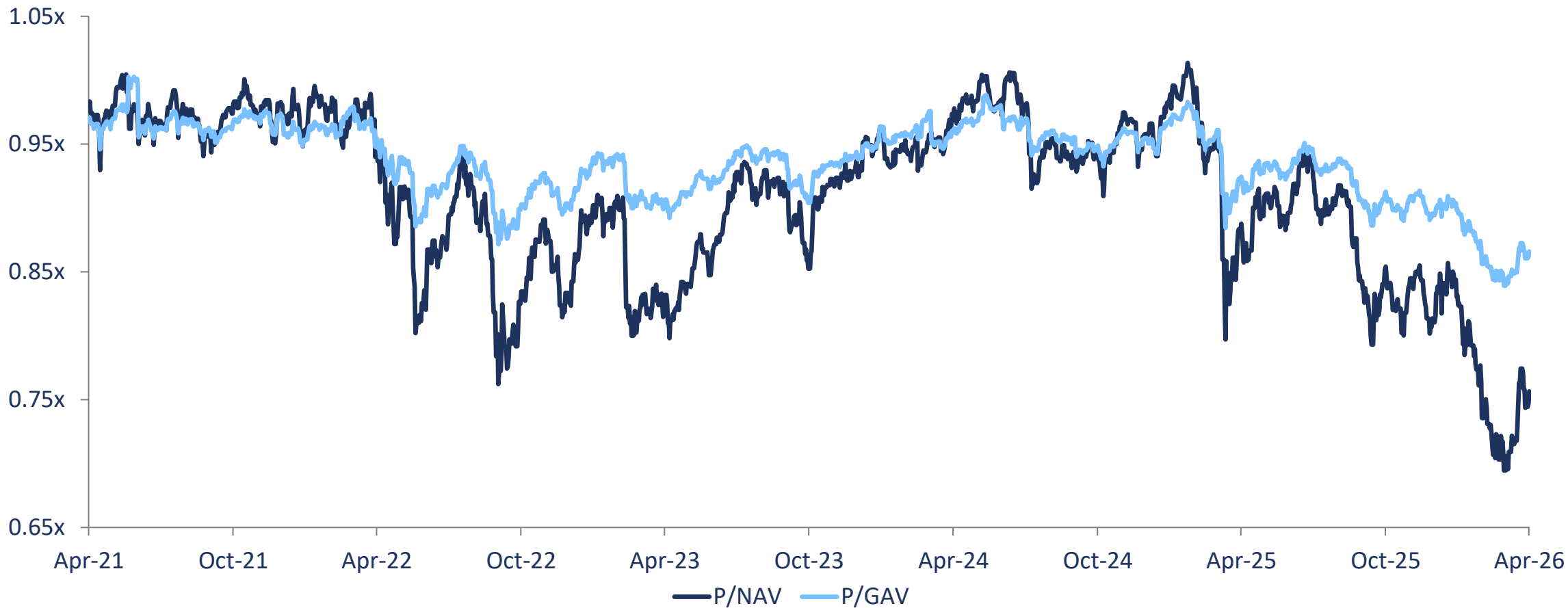
52-Week Geometric Average Performance of Large Public BDCs



A

... trading down to ~25%+ discounts to asset value

Geometric Average Trading Metrics of Public BDCs

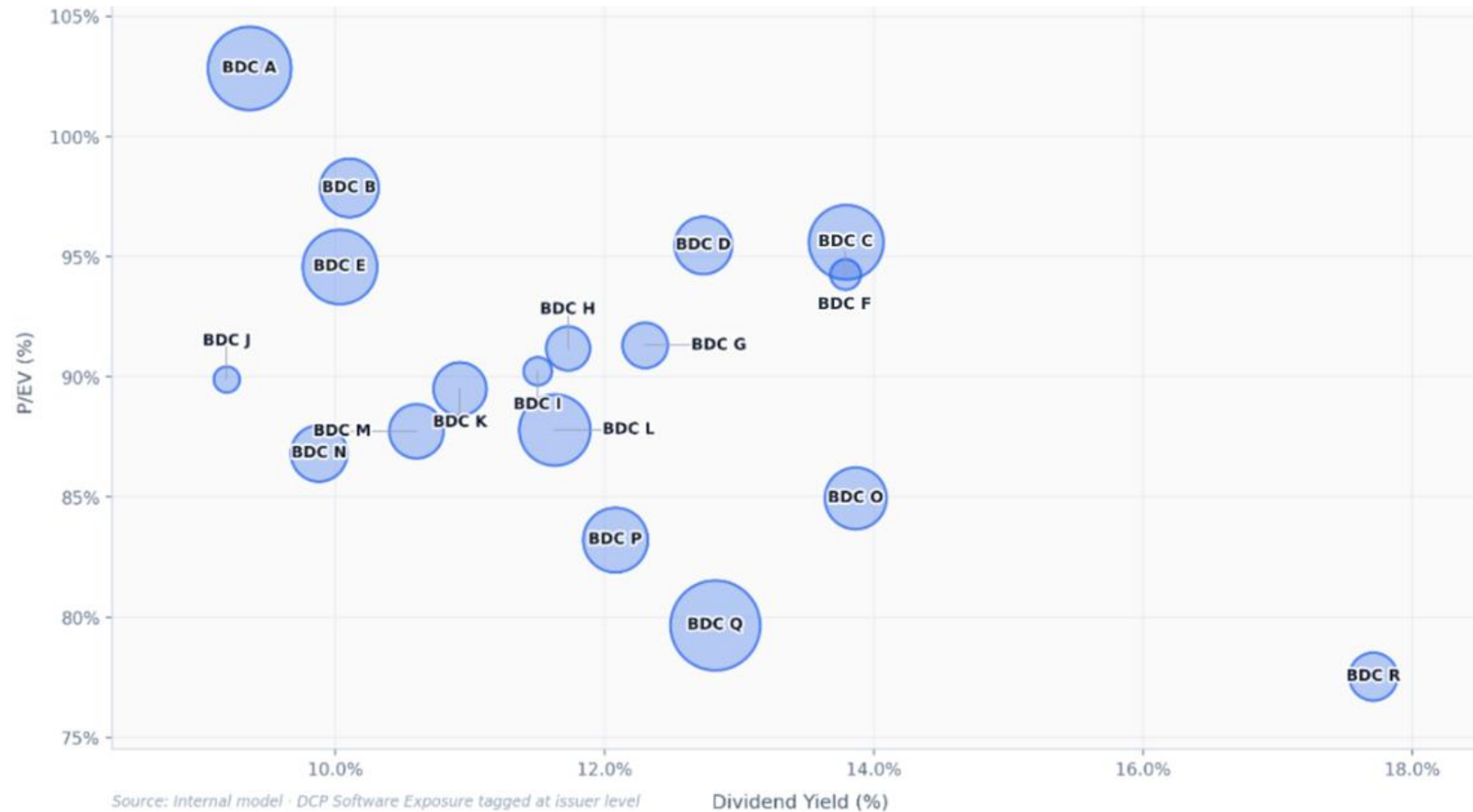


Source: Bloomberg as of 4/30/26. Set includes the BDC universe that the Private Credit team at Diameter tracks: ARCC, BBDC, CCAP, MRCC, GBDC, OCSL, CGBD, BXSL, ICMB, GSBD, FSK, MFIC, NCDL, NMFC, MSDL, TPCP, PNNT, OBDC, TSLX.

A

Low-teen dividend yields attractive for certain BDCs trading at 85-90% of GAV with very limited software exposure

Public BDC Universe Mapping



Source: Internal model · DCP Software Exposure tagged at issuer level

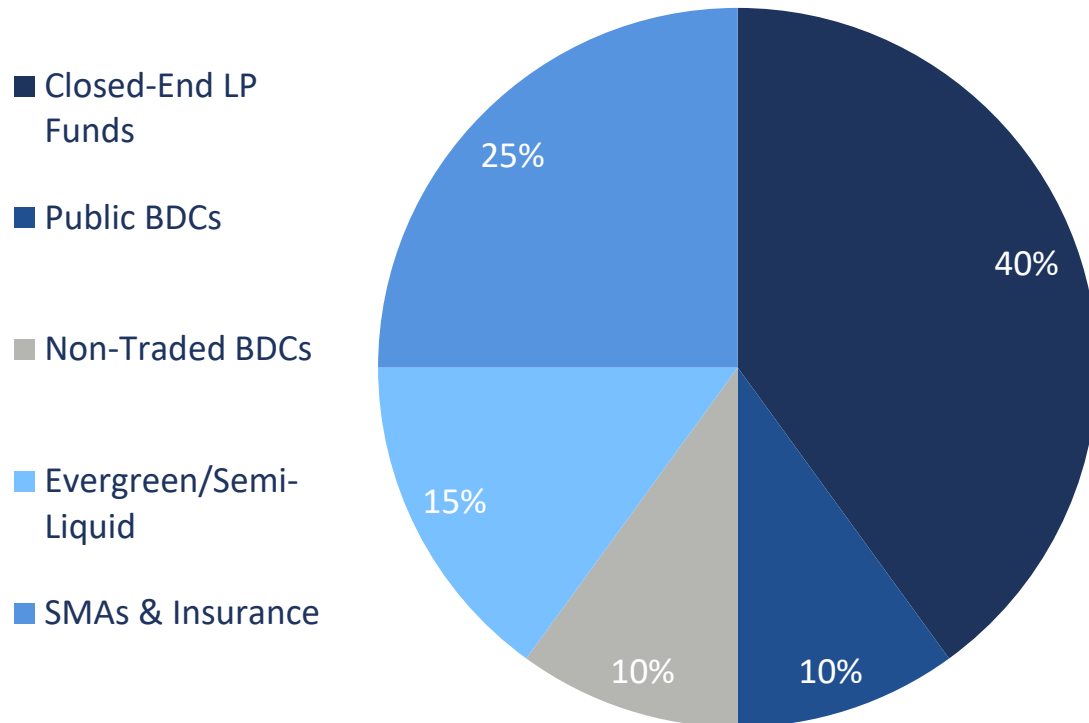
Dividend Yield (%)



Diameter analysis of the BDC universe using publicly available data, including P/EV and dividend yield. Bubble size reflects "DCP software" exposure as a % of fair value. Data as of 5/8/26 market close.

Private Credit Secondaries: Diameter expects up to ~\$150-200bn of PC loans to come up for sale in a nascent secondaries market...

Composition of the ~\$2tn Direct Lending Market



The Forced Seller Math

Non-traded BDCs	~\$200bn+
Perpetual / semi-liquid funds	~\$100bn+
BDC AUM with redemption features	~\$300bn
Assumed forced to sell (~40%)	~\$125bn
Selling from Non-BDCs / Institutions lightening exposure	~\$25bn+
Bank ABL Margin Calls	~\$25bn+
Total Secondary Opportunity	~\$175bn+

B

... creating opportunity to buy individual loans at attractive prices...

Forced selling in response to redemption pressures and adverse valuations events is creating unprecedented scaled ability to “cherry-pick” loans instead of buying entire books.



B

...using our “*Know the Names*” DNA



C

Direct Lending Opportunities: Keep focusing on fundamentals

Direct Lending Fundamentals

- ✓ Deep and forward-looking underwriting
- ✓ Industry and subject matter expertise
- ✓ Focus on cash flow coverage
- ✓ Active portfolio construction and management
- ✓ Sector diversity
- ✓ Flexible mandate focused on best risk-adjusted returns
- ✓ Stable liability structures



Remember –



THANK YOU!

