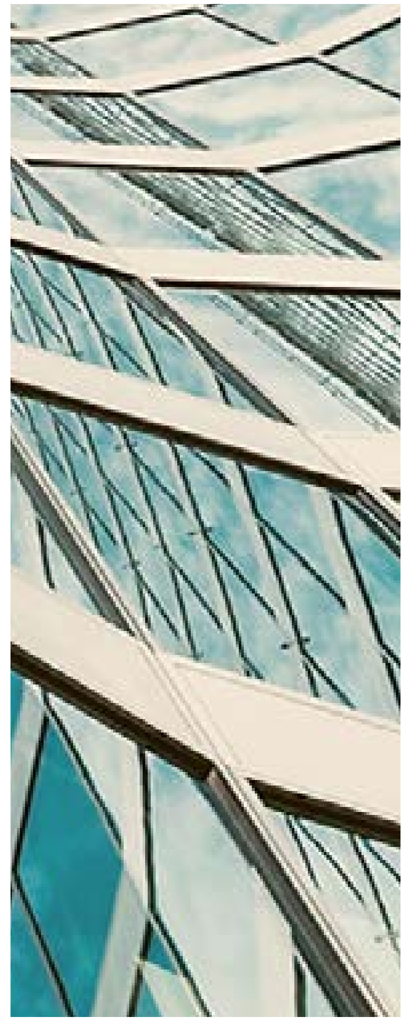
LINCOLN INTERNATIONAL

Q3 2025

LSDI

LINCOLN SENIOR DEBT INDEX™

Important Disclosure



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INTRODUCING:

The Lincoln Senior Debt Index

Lincoln International is pleased to release the Q3 2025 Lincoln U.S. Senior Debt Index (LSDI). The Lincoln U.S. Senior Debt Index represents years of research and analysis of data and was developed by professionals from Lincoln's Valuations & Opinions Group in collaboration with Professor Pietro Veronesi of The University of Chicago Booth School of Business.

In spite of several well-publicized bankruptcies, which we believe are due to idiosyncratic events combined with fraud and mismanagement, the LSDI continued to experience strong results. Post-Liberation Day volatility subsided, market conditions stabilized and both public and private debt markets rebounded. The LSDI reported its second highest price of fair value since inception in 2014, and quarterly return approximated 2.5%.

Enterprise value declines in the public markets that began in February and continued through April dramatically reversed and have since fully recovered. In mid-September, the Federal Reserve cut interest rates by 0.25%, providing relief to borrowers and contributing to SOFR rate declines. The yield on the LSDI ended the quarter at 9.56%, reflecting a 0.59% decrease compared to the prior quarter as spreads tightened and SOFR rates declined. Spreads were 6.17% over SOFR, or the lowest spread since inception of the LSDI, reflecting competitive market conditions. Heightened competition for transactions, combined with resilient portfolio company performance, resulted in an increase in the average fair value of loans in the LSDI from 98.90% to 99.13%, marking the second-highest fair value in LSDI history and highest since the first quarter of 2018, with quarterly returns equaling 2.5%. Covenant defaults declined quarter-over-quarter, going from 3.4% to 3.2%, but have increased by 1.0% year-over-year.

While results for the quarter were positive overall, the macroeconomic impact of higher tariffs has caused heightened global market volatility, and therefore the outlook going forward remains uncertain. Lincoln's Valuations and Opinions Group has been monitoring recent events and their impact on the private markets in real time. We encourage readers to contact any Lincoln valuation professional for continued updates on the current state of the private markets.

The LSDI provides insight into the direct lending market as it is a fair value index consisting of four components:

1. Total return (income return plus capital gain return);
2. Price (i.e., fair value);
3. Spread; and,
4. Yield to maturity.

Each of the four components is then categorized into three types of senior loans:

1. All senior loans—consisting of first lien, Unitranche, and second lien loans;
2. Senior loans consisting of first lien and Unitranche loans; and,
3. Second lien loans.

In addition, we provide additional descriptive statistics including: (a) loan-to-value; (b) the impact of interest rate (SOFR) and credit changes (spread) on total return; (c) default rates; and (d) historical yields by EBITDA size and by industry.

The U.S. non-investment grade corporate loan market has two segments: the broadly syndicated loan (BSL) market, which attracts investors investing in broadly syndicated deals, and the direct lending market, for investors investing in club deals. While correlated, there are subtle but significant differences between the two markets. Both markets primarily provide floating rate loans; however, divergences exist in terms of market liquidity, company size and credit facility size. Given the greater liquidity in the BSL market, pricing and terms are a function of the technical market and competitive factors, whereas the more illiquid direct lending market has a stronger orientation to assessing company fundamentals.

In contrast to the Morningstar LSTA U.S. Leveraged Loan 100 Index, which is comprised of companies borrowing in the BSL market, the constituents in the LSDI are virtually all companies borrowing in the direct lending market.

The direct lending market is a significant source of capital to private equity-backed middle market companies. The Lincoln U.S. Senior Debt Index benefits market participants by providing information to facilitate a greater understanding of the attributes of this important source of capital to the private sector.

KEY OBSERVATIONS:

Lincoln Senior Debt Index

Q3

2025

How We Obtain the Information

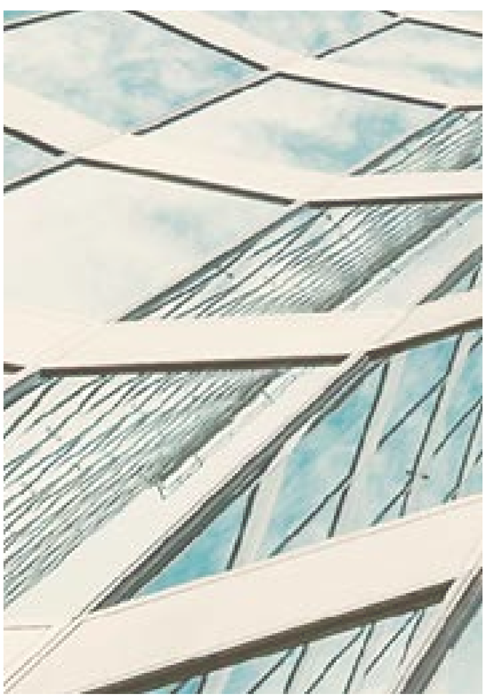
On a quarterly basis, Lincoln values more than 6,250 private companies primarily owned by 200+ alternative investment funds and lenders to funds. Most of these companies are levered via borrowings from the direct lending market. A significant percentage of the LSDI constituents are based upon valuations of loans provided for non-public business development companies and other private investment vehicles and, therefore, not disclosed in public filings.

For many of the private companies valued quarterly, Lincoln advises on the fair value of at least one senior debt security in the capital structure. All valuations conform with generally acceptable accounting principles and fair value principles and have been reviewed by fund management, fund boards, limited partners and auditors.

Additional information can be found in our methodology discussion and on our website.

99.1

Average Fair Value of LSDI for the Quarter Ending September 30, 2025



LSDI – Key Observations – All Loans – Q3 2025

- The LSDI returned 2.5% for the quarter ending September 30, 2025, an increase of 0.2% relative to the return in the second quarter of 2025, as the marginal increase in fair value was greater in the current quarter than it was in Q2.
- Returns consist of two components: (a) interest income; and (b) capital gains or losses. Total quarterly returns from interest were 1.47%, while the total return from capital gains were 1.06%.
  - The SOFR swap rate[1] was 3.38%, which was 0.05% lower than Q2 2025.
  - Spreads decreased by 0.54% since the prior quarter and reached the lowest level in LSDI history given strong fundamental performance and increased competition seen within the direct lending market.
- The 2.1% gap between the yields derived from the LSDI and Morningstar LSTA narrowed slightly compared to the second quarter of 2025 and continued to be lower than the historical average of 3.6%. Competition to deploy capital has remained high, which has led to a reduction in the return differential between the two markets.
- LSDI prices increased 0.23 to 99.13 but lagged BSL prices, which increased 0.31 to 99.02. While the increase in the LSDI was modest compared to the increase in the BSL, the LSDI did not experience the same losses that the BSL did in Q1 when the BSL markets were jolted by Liberation Day, highlighting the stability and lower volatility in the LSDI compared to BSL.

1. LIBOR/SOFR in the current analysis reflects the 4-year end of quarter swap rate.

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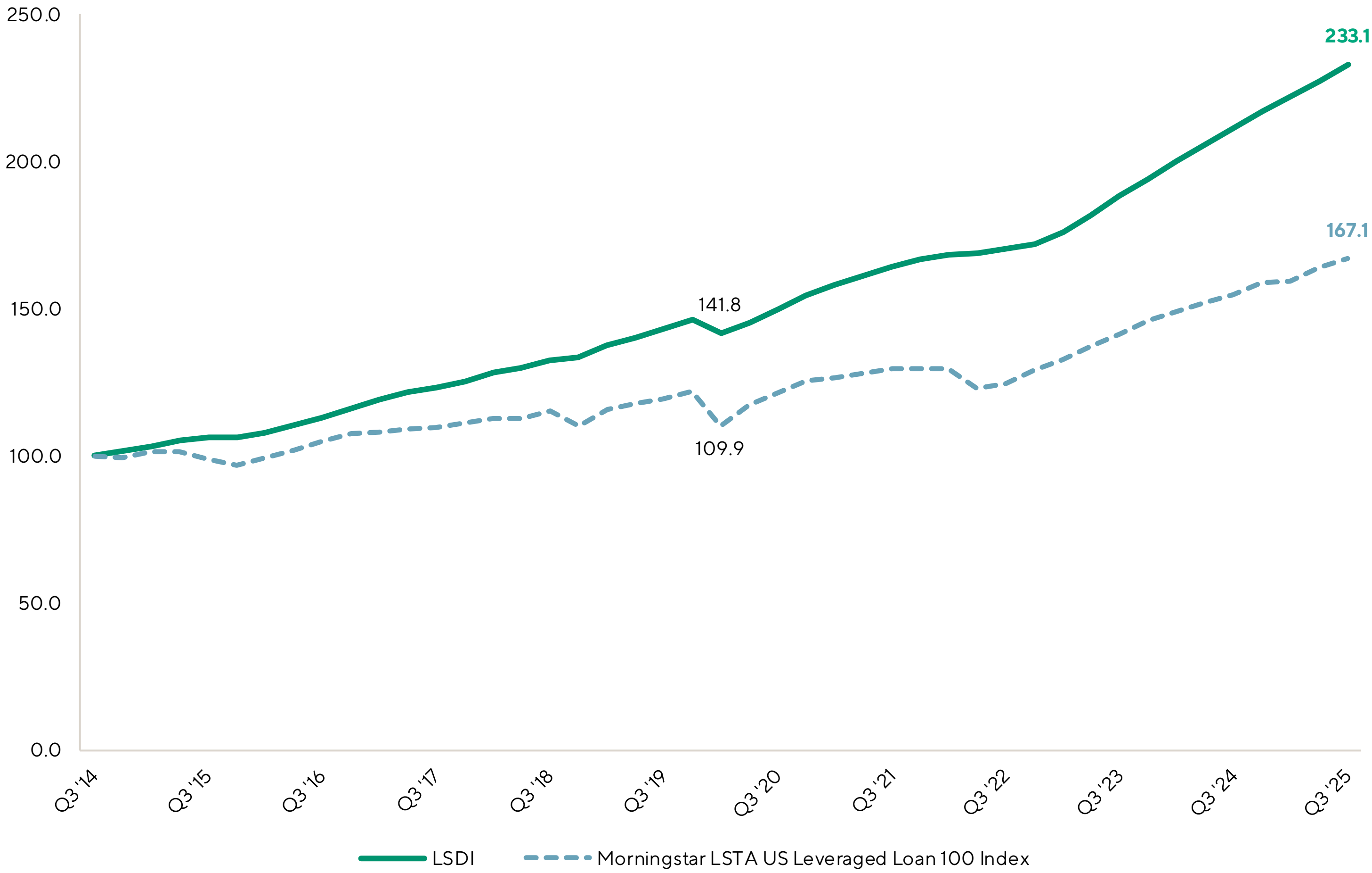
RESULTS:
A. Total Return

Q3
2025

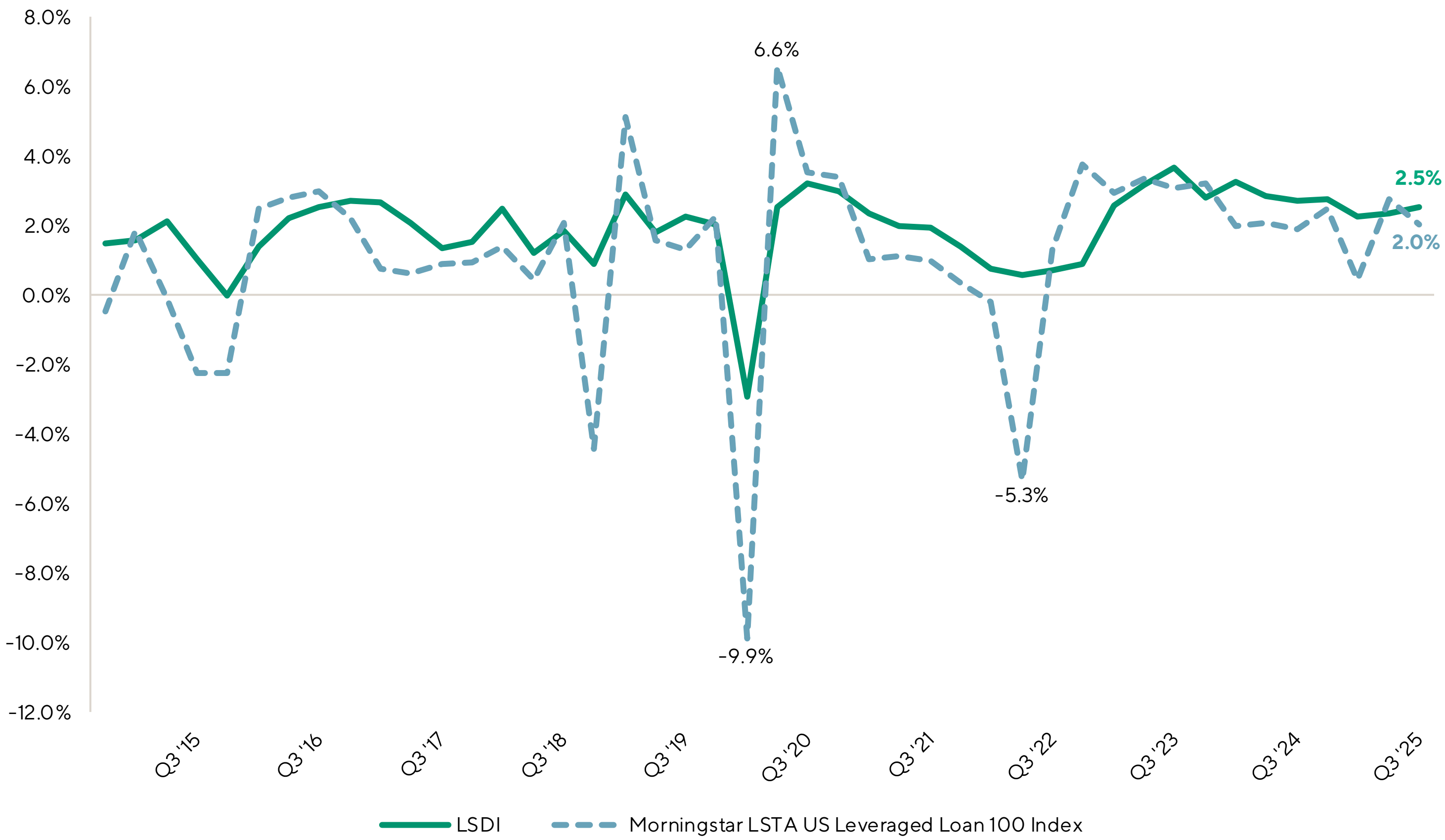
Table 1: Comparison of Total Return – LSDI (All Loans) to Morningstar LSTA U.S. Leveraged Loan 100 Index



Observations:

- Investment return is generated from two sources: (1) capital gains and losses; and (2) income return. In the leverage lending asset class, income returns dominate capital gains or losses, resulting in a positive quarterly total return.
- Since the inception of the LSDI, both the Morningstar LSTA, which measures the performance of the BSL market, and the direct lending market have experienced an increase in total quarterly return. BSL returns for the quarter ending September 30, 2025, were 2.0% versus the LSDI returns of 2.5%. On average, returns for the LSDI have been higher than those for the BSL, as the average quarterly returns since inception of the LSDI have been 1.9% for the LSDI versus 1.2% for the BSL market.
- Given the continuing high level of interest rates, Lincoln expects returns to remain high by historical standards.

Table 2: Correlation and Comparison of Quarterly Returns – LSDI (All Loans) to BSL Market



Observations:

- The correlation between the LSDI and Morningstar LSTA is high at approximately 80.3%. However, there are three distinct differences:
  - the standard deviation of quarterly returns for the life of the LSDI was 1.1% versus 2.7% for the Morningstar LSTA over the same time period;
  - the Senior Debt Index is significantly less volatile; and
  - the LSDI generates higher returns.
- The direct lending market experiences negative returns much less frequently than the BSL market, given its higher yields and lower standard deviation.
  - Since the inception of the Senior Debt Index on September 30, 2014, through September 30, 2025, only the quarter ending March 31, 2020, reported a negative quarterly return, whereas the BSL market has experienced eight quarters of negative returns.

B. Yields

Table 3: Comparison of Yields – LSDI (All Loans) to BSL Market

Observations:

- The yield of the Lincoln U.S. Senior Debt Index declined to 9.56% for the quarter ending September 30, 2025, falling below its historical average of 9.9% for the first time since Q1 2022 due to declining SOFR rates.
- SOFR rates decreased for the third straight quarter,[2] falling five basis points and contributing to a decrease in the LSDI yield from 10.14% to 9.56%. In contrast, the yield for the BSL market was 7.44%, a 33-basis point decrease over the quarter.

2. LIBOR/SOFR in the current analysis reflects the 4-year end of quarter swap rate.

Table 4: Comparison of Yields – LSDI (All Loans) by Size

Observations:

- In keeping with classic corporate finance theory, Lincoln's observations of yields within the index demonstrate that yields for small companies, as defined as companies having EBITDA values of less than $30 million, tend to be higher than yields for large companies, as defined as those businesses having EBITDA values of greater than $100 million.

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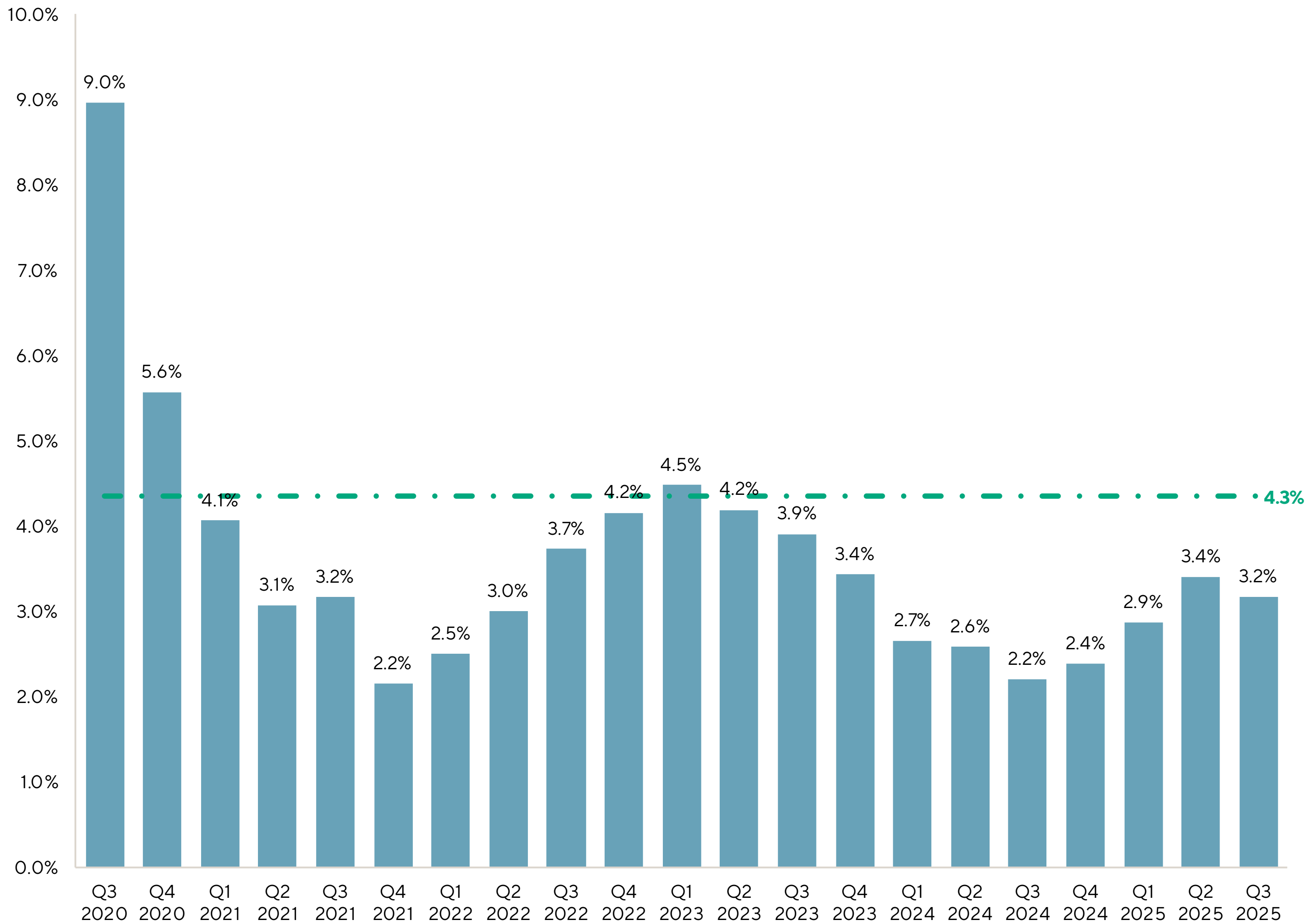
RESULTS:

C. Default Rates

Q3

2025

Table 5: Direct Lending Default Experience



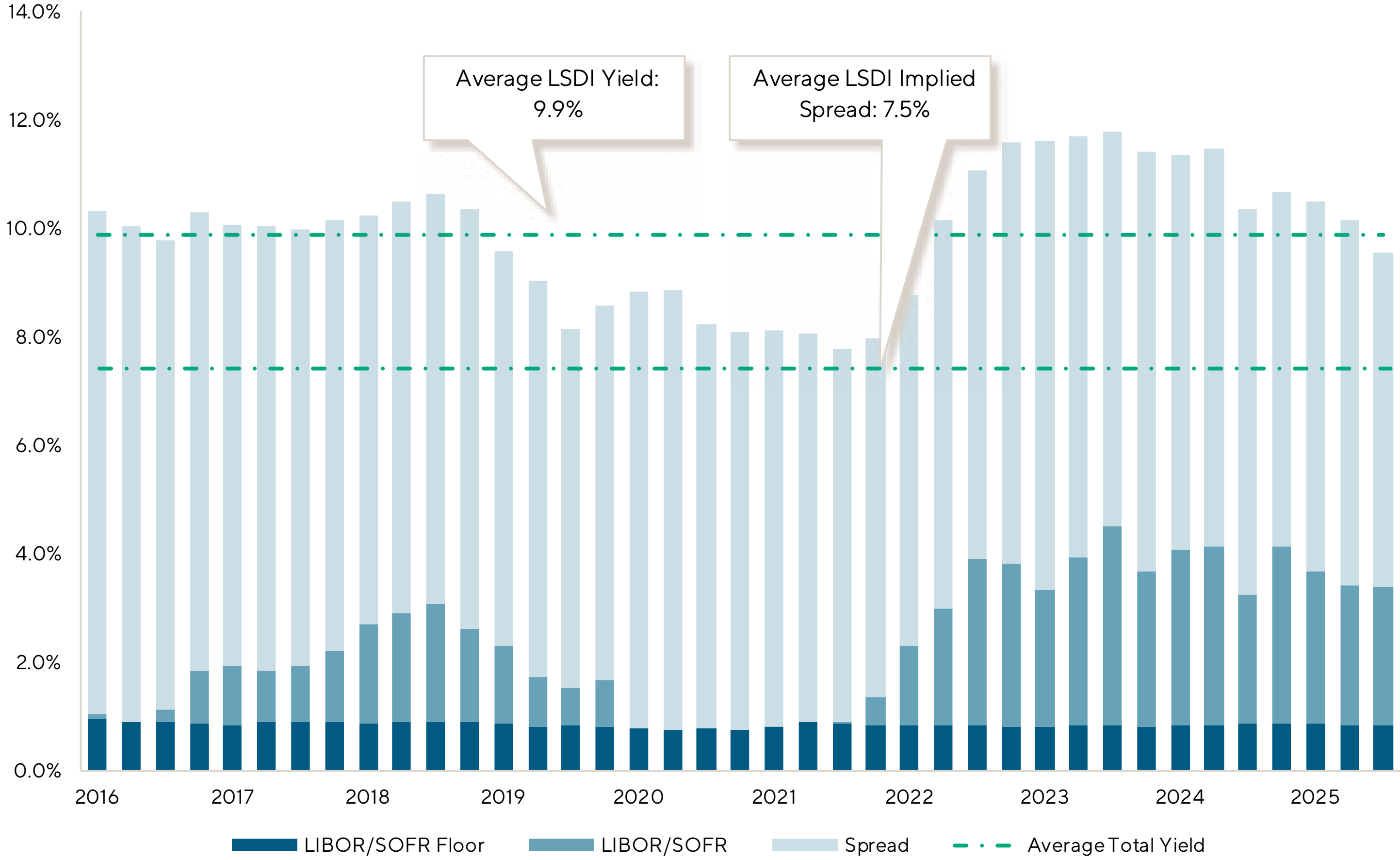
Note: Defaults defined as loan covenant defaults (not monetary defaults)

Observations:

- The observed instance of defaults increased 100 basis points from 2.2% in September 2024 to 3.2% in September 2025. However, quarter-over-quarter default rates decreased 23 basis points, from 3.40% in Q2 to 3.17% in Q3. While default rates remain low, there has been a notable increase over the past year following six straight quarters of decline starting in March 2023. Nevertheless, the low rate of defaults compared to the historic average demonstrates lenders' ability to anticipate upcoming defaults within their portfolio companies and react accordingly.

RESULTS:
D. Decomposing Yields in the Direct Lending Market

Table 6: Decomposing Yield – LIBOR / SOFR, LIBOR / SOFR Floors, and Spreads – All Loans

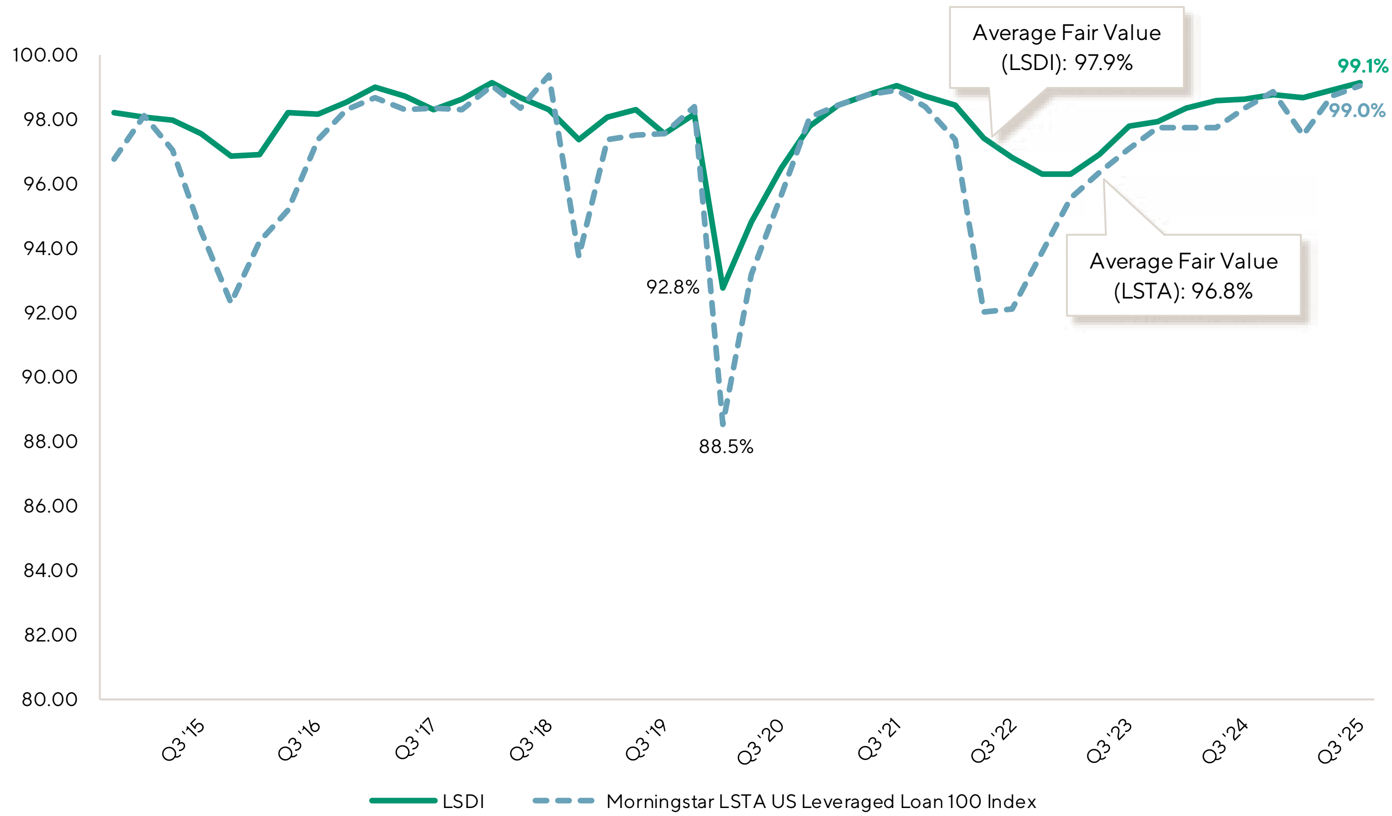


Note: LIBOR / SOFR Floor reflects fair value weighted average for each period while LIBOR / SOFR above reflects the extent to which LIBOR / SOFR is above the floor. LIBOR / SOFR in the current analysis reflects the 4-year end of quarter swap rate.

Observations:

- The average yield of the Lincoln U.S. Senior Debt Index since inception has been approximately 9.9%.
- From 2016 until the quarter ending June 30, 2022, yields in the direct lending market remained in a band between 8.0% and 10.0%. However, as reference rates began to increase in Q2 2022 and Q3 2022, yields also increased and exceeded 10.0% through Q2 2025. The current quarter marked the first since Q2 2022 that yields fell below 10%, highlighting the continued competitiveness of the market as well as recent SOFR rate declines driven by easing of interest rate policies.
- Despite recent declines, SOFR rates have hovered between 3.24% and 4.13% over the past two years and remain well above the approximately 2.33% average SOFR rate between 2016 and Q3 2025.
- Spreads decreased by 0.54% since the prior quarter and reached the lowest level in LSDI history given the strong fundamental performance and increased competition seen within the direct lending market.

Table 7: Fair Value – Lincoln U.S. Senior Debt Index (All Loans) Compared to the S&P / LSTA U.S. Leveraged Loan Index



Note: Price based on fair value of the LSDI and average bid of the Morningstar LSTA U.S. Leveraged Loan Index

Observations:

- The Senior Debt Index was 99.02 as of September 30, 2025, up 0.23 compared to the prior quarter's price. The increase was largely driven by earnings growth and observed spread tightening in the direct lending market.
- The fair value of 99.02 was the second highest since the inception of the LSDI in 2016, only topped by the price of 99.15 in Q1 2018. The index continued to exceed the historical average price of 97.9. In contrast, the index saw its lowest point in Q1 2020 at 92.8 (i.e., COVID).
- There are several reasons for the phenomenon whereby loans in the direct lending market do not experience the same price volatility as observed in the BSL market:
  - Loans in the direct lending market trade much less frequently than loans in the BSL market.
  - Investors in the BSL market have a greater ability to liquidate their investment should they decide to exit, as trading is a viable option. In contrast, investments in direct lending funds are structured whereby investor redemptions are limited. Therefore, capital flows are not as volatile as in the BSL market.

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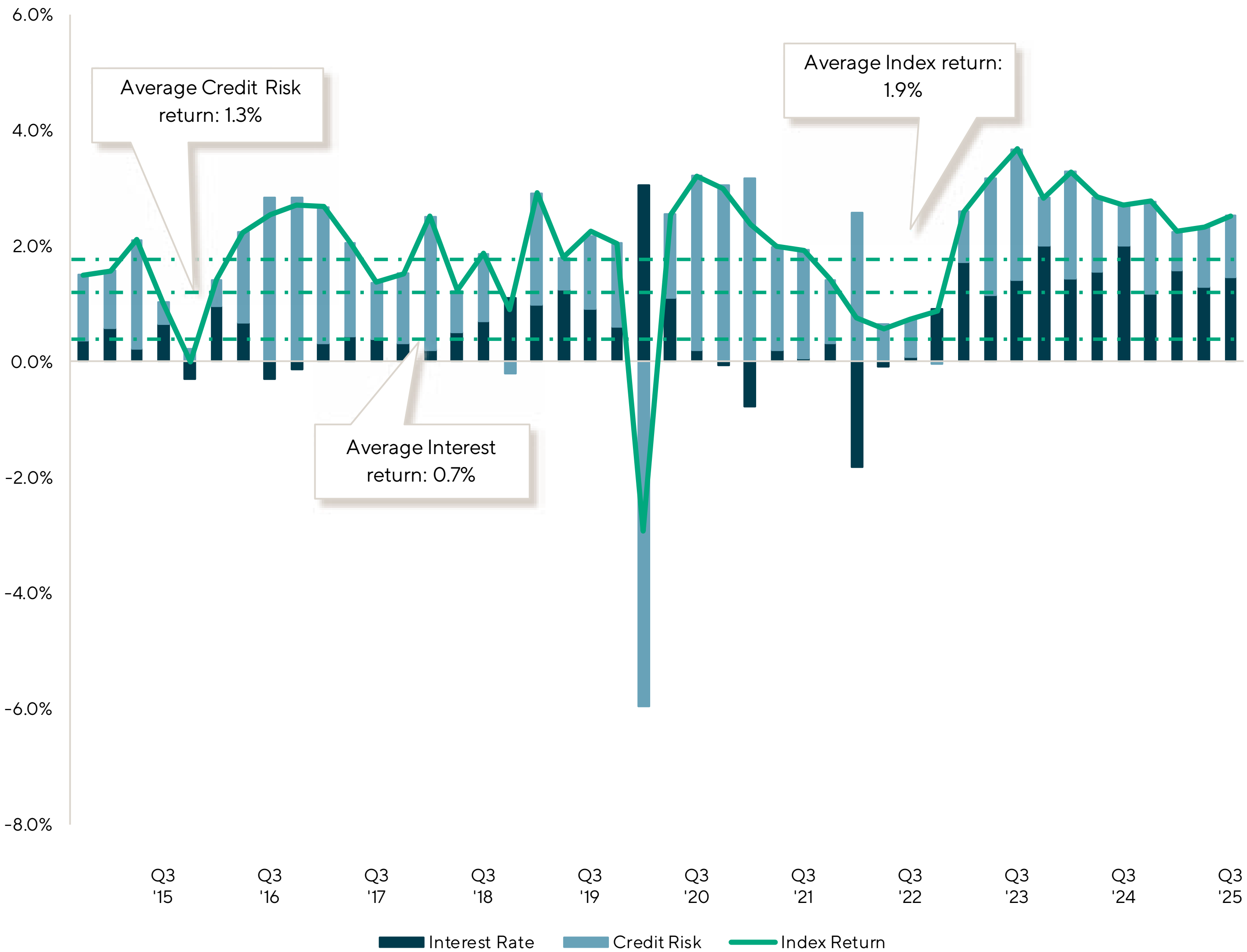
RESULTS:

F. Bifurcation of the Impact on Total Return Due to Credit Risk and Interest Rate Risk

Table 8: Decomposition of Index Returns: Interest Rate versus Credit Risk



Observations:

- The LSDI returned 2.53% for the third quarter of 2025 versus 2.33% in the second quarter of 2025.
- Decomposing the quarterly return of 2.53%, changes in credit risk accounted for 1.06% of the return and interest rate risk accounted for 1.47% of the return. The primary driver of the increase in quarterly return relative to Q2 2025 is the lower credit risk associated with the loans comprising the LSDI as fair value increased.

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METHODOLOGY:
Source of Data and Sample Size

Source of Data and Sample Size

On a quarterly basis, Lincoln determines the enterprise fair value of more than 6,250 portfolio companies for 200+ private equity sponsors and lenders. These portfolio companies report quarterly financial results to the sponsor (i.e., private equity group) or lender. Lincoln obtains company and loan level information to create the Senior Debt Index.

All information is prepared in accordance with the fair value measurement principles of generally accepted accounting principles. Finally, each valuation is then vetted by auditors, company management, boards of directors and regulators.

Additional information about the methodology of the Senior Debt Index can be found at:
www.lincolninternational.com/perspectives/an-overview-of-the-lincoln-senior-debt-index.

Academic Advisor

Professor Pietro Veronesi is the Chicago Board of Trade Professor of Finance at the University of Chicago, Booth School of Business. He is also a research associate of the National Bureau of Economic Research and a research fellow of the Center for Economic and Policy Research.

Professor Veronesi's research has appeared in numerous publications, including the *Journal of Political Economy, American Economic Review, Quarterly Journal of Economics, Journal of Finance, Journal of Financial Economics* and *Review of Financial Studies*. He is the recipient of several awards, including the 2015 AQR Insight award, the 2012 and 2003 Smith Breeden prizes from the Journal of Finance; the 2008 WFA award; the 2006 Barclays Global Investors Prize from the EFA; the 2006 Fama / DFA prizes from the Journal of Financial Economics and the 1999 Barclays Global Investors / Michael Brennan First Prize from the Review of Financial Studies. Professor Veronesi teaches both masters- and Ph.D.-level courses. He is the recipient of the 2009 McKinsey Award for Excellence in Teaching.

His undergraduate work was in economics at Bocconi University where he received a laurea magna cum laude with honor in 1992. He earned a master's degree with distinction in 1993 from the London School of Economics. He joined the Chicago Booth faculty upon obtaining his Ph.D. in economics from Harvard University in 1997.

SUMMARY:
Q3 2025 Lincoln Senior Debt Index

- From 2014 through September 30, 2025, a portfolio of direct lending loans has yielded higher returns and lower volatility relative to broadly syndicated loans.
- The Lincoln U.S. Senior Debt Index provides market participants many unique valuation insights into the fair value of direct lending loans and represents a significant enhancement to the information available within an opaque market.

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We are trusted investment banking advisors to business owners and senior executives of leading private equity firms and their portfolio companies and to public and privately held companies around the world. Our services include mergers and acquisitions advisory, private funds and capital markets advisory, and valuations and fairness opinions. As one tightly integrated team of over 1,000 professionals in more than 25 offices across 16 countries, we offer an unobstructed perspective on the global private capital markets, backed by superb execution and a deep commitment to client success. With extensive industry knowledge and relationships, timely market intelligence and strategic insights, we forge deep, productive client relationships that endure for decades. Connect with us to learn more at **www.lincolninternational.com**.

Lincoln's Valuations & Opinions Group is a leading independent valuation advisor to managers of illiquid assets and lenders to alternative assets funds. The group specializes in the valuation of illiquid debt, equity and derivative securities. Additionally, they provide independent fairness, solvency and other transaction opinions for a variety of corporate transactions for both public and private companies.

The firm's Valuations & Opinions Group is widely recognized for leveraging Lincoln's "real world" transaction experience from its mergers and acquisitions and debt advisory practices to assist its clients in the determination of fair value. Lincoln's highly skilled professionals have extensive experience in determining and supporting fair value measurements for traditional and complex securities.

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