CAIS Advisors | SOLACTIVE German Index Engineering

CAISCRED Index

CAISCRED Index Quarterly Review

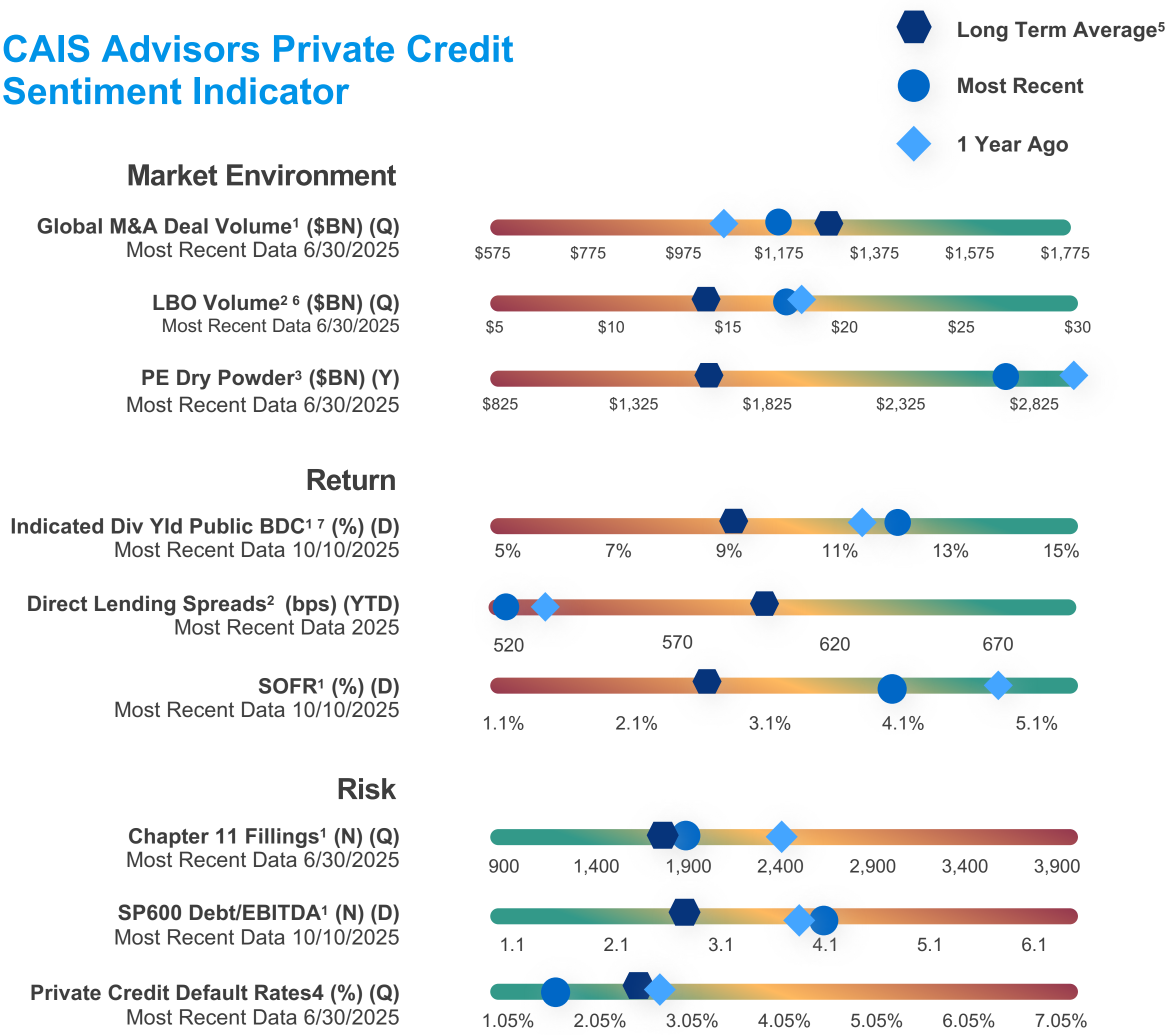
As of 10/2025

CAISCRED Quarterly Review

“ Despite softer issuance, private credit is shifting from survival to stabilization: easing base rates, abundant private equity dry powder, and steady credit performance keep the balance of power with lenders—supporting disciplined underwriting, competitive pricing, and a broader opportunity set as conditions normalize.

Duy Nguyen
CAIS Advisors

CAIS Advisors Private Credit Sentiment Indicator



Source: (1) Bloomberg. (2) Pitchbook LCD, (3) Preqin, (4) Prosakuer

Disclaimers: The gradient applied to each bar is derived from a proprietary methodology developed by CAIS advisors. It visually represents the relative favorability of data points related to private credit asset class fundamentals, where green denotes a positive contribution and red denotes a negative contribution to the overall assessment. (5) The Long-Term Average represents the arithmetic mean calculated over the available data period and serves as the basis for determining the average, minimum, and maximum values Initial dates for each data point are: 6/30/2004 for Global M&A Deal Volume and US New Bankruptcy Cases Chapter 11 Business Fillings;1/30/2004 for SP600 Debt/EBITDA; 3/28/2013 for Indicated Div Yield Public BDCs ; 4/2/2018 for SOFR; 3/31/2020 for LBO Volume and Private Credit Defaults; 1/1/2018 for DL spreads; 2008 for Pe Dry Powder. (6) LBO Volume data is limited to US data. (7) Indicated Div Yield Public BDC refers to the Dividend Indicated Yield of the BIZD ETF

Deal Activity & Supply

- Global M&A volumes reached $1.16T in Q2 2025, slightly above last year's $1.02T but still below the long-term average of $1.26T[1].
- Leveraged buyout volumes remained subdued at **$17.1B in Q3 2025**—flat year-over-year and above the $11.1B seen two years ago, but still far from the $29.5B[2] cycle peak.
- Demand continues to outpace supply, with PE dry powder at $2.75T[3] (2024) near record highs as capital chases a limited pool of quality deals, driving competitive bidding as financing conditions begin to ease.
- Loan issuance slowed again in Q2 amid tariff volatility and tighter conditions, down roughly **16% year-over-year**[5]. With ample dry powder chasing fewer financings, private credit remains in a position to dictate terms and pricing.

Pricing & Yields

- SOFR has eased to **~4.15% from a 5.4% peak**[1], signaling early Fed easing and a move toward normalization. Lower base rates are reducing pressure on leveraged borrowers, improving coverage, refinancing capacity, and deal flow—marking a transition from "survive" to "stabilize" for credit markets[6].
- Public BDCs yield **~11.9%, up from ~11.2% last year**[1]. The increase reflects price declines amid rate repricing, not credit stress—spreads remain tight and defaults low. With long-term earnings power intact, today's discounts look cyclical rather than structural.
- Public markets echo this strength: the leveraged loan index returned **+2.3% in Q2**[1] **and 1.77% in Q3**[1] , and high-yield spreads tightened to ~280 bps[5], reflecting improved risk appetite.

Credit Quality & Risk

- Average interest coverage in private credit has eased from ~3.2× in 2021 to ~1.5×[6] by early 2025, reflecting the impact of higher base rates. Yet, public small-cap leverage (SP600 debt/EBITDA) has remained stable near ~4.1×[1]—still above its long-term average—suggesting that while coverage metrics have tightened, underlying balance sheet leverage has not deteriorated, pointing to resilience in corporate fundamentals despite a higher-rate environment.
- **Chapter 11 filings** fell to 1,997 in Q2 2025, down ~15%[1] from last year but still above the long-term norm, while **private credit defaults eased to 1.76% in Q2 2025**, down from 2.7% a year ago and well below the 7% long-term high[4].

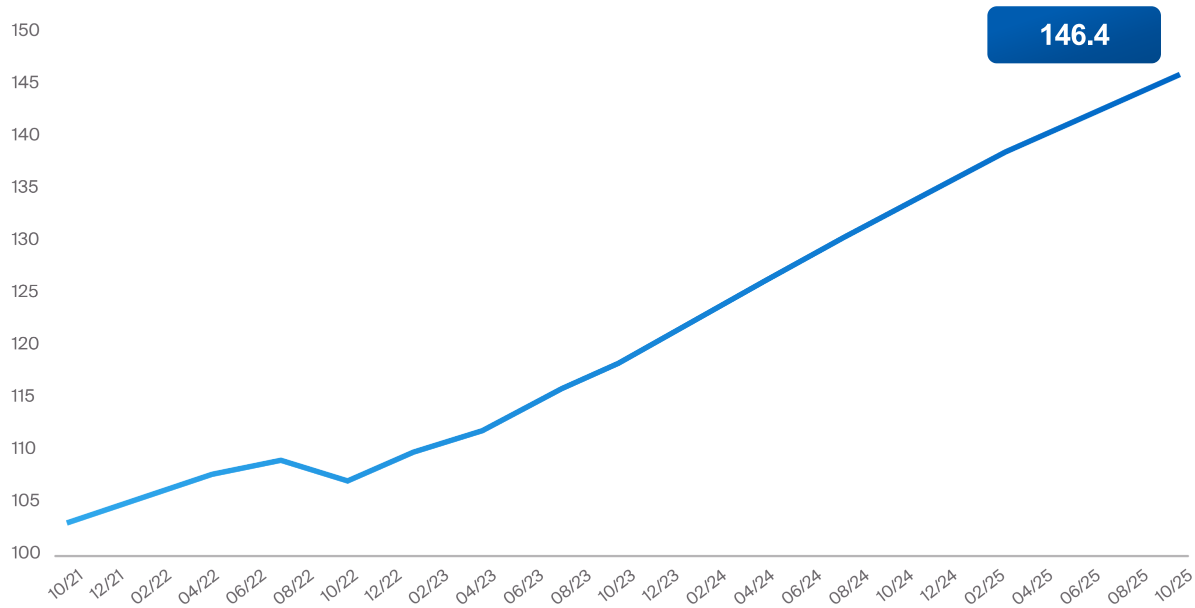
Source: (1) Bloomberg. (2) Pitchbook LCD, (3) Preqin, (4) Prosakuer (5) Fitch Rating (6) CAIS Advisors

CAISCRED Overview

Solactive CAIS Private Credit BDC Index, CAISCRED, is a first-of-its-kind index that aims to track performance of perpetual non-traded Business Development Companies (BDCs) with a modified asset-weighted methodology.

For additional index details, please visit Solactive.

Index 100



Disclaimer: Index starts on 10/1/2021, Inception date of the the CAISCRED index.

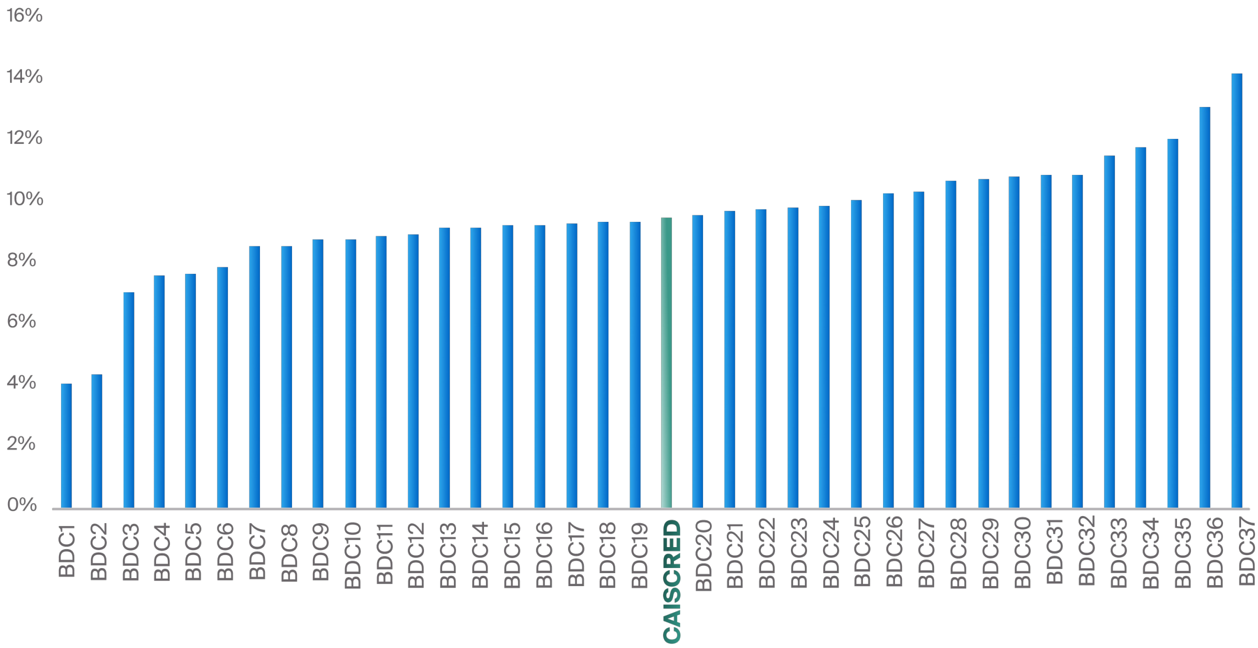
CAISCRED Performance

Last Quarter	2.17%
Return (1Y)	9.55%
Return (3Y Annualized)	10.98%
ITD Annualized	9.39%

Source: Solactive CAIS Private Credit BDC Index (Solactive | Indices) Data as of 6/30/2025

Performance dispersion within the CAISCRED Index appears to highlight the value of manager selection: top-quartile Perpetual BDCs on Q2 2025 delivered an average return of 2.88%, more than double the 1.25% generated by bottom-quartile peers.

CAISCRED BDC Constituents Total Return (LTM)

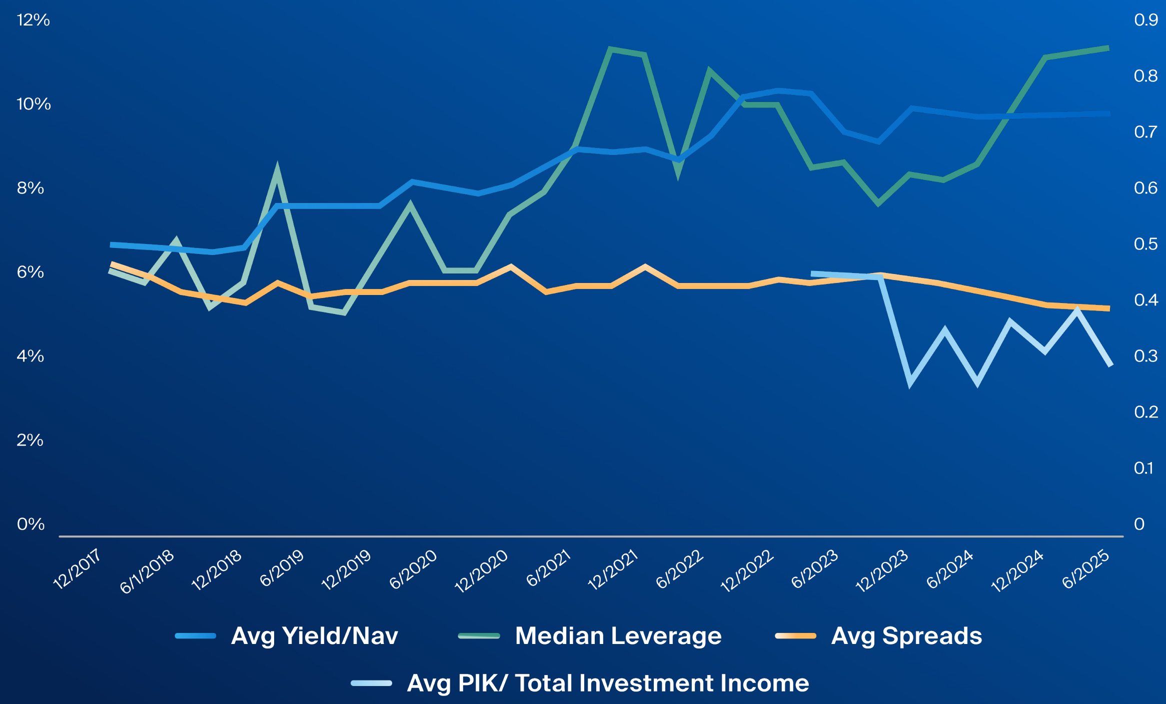


Q2 2025 Avg. Performance by Quartile

Top Quartile	2.84%
Upper-Middle Quartile	2.69%
Lower-Middle Quartile	2.06%
Bottom Quartile	1.25%

Source: Solactive CAIS Private Credit BDC Index (Solactive | Indices)
Data as of June 30, 2025. The first graph includes anonymized BDCs within the CAISCRED Index that have at least four consecutive quarters of reported performance data, based on public filings. The table titled “Q2 2025 Average Performance by Quartile” reflects all 42 index constituents, grouped by performance quartile, with arithmetic averages calculated for each group.

CAISCRED BDC Constituent Fundamentals



Source: LSEG BDC Collateral

In Q2 2025, the CAISCRED Index reflected a market shifting back toward growth. Average leverage increased to 0.85x from 0.78x[2], indicating that BDCs are becoming more comfortable deploying balance sheet capacity as deal activity picks up. While higher leverage adds some risk, it also positions managers to capture greater returns if credit fundamentals hold steady.

Yields on NAV held steady around 9.5%[2], supported by resilient borrower fundamentals. Spreads averaged 510bps overall, with notable variation across market segments: Lower Middle Market (574bps), Middle Market (515bps), and Upper Middle Market (492bps)[2]. This dispersion underscores continued competition in larger-cap deals, where lenders are accepting tighter pricing to stay active.

Notably, PIK income declined from 5.05% to 3.75%[2], indicating stronger borrower cash generation and a healthier credit environment.

Taken together, these dynamics underscore the resilience and maturation of private credit-focused BDCs. Managers are selectively increasing leverage against improving fundamentals and declining market reference rates. Despite tight spreads, the asset class continues to offer durable real yields with improving cash flow quality as the rate environment begins to ease.

Source: (1) Solactive CAIS Private Credit BDC Index (Solactive | Indices) (2) LSEG BDC Collateral. Data as of 6/30/2025

Non-traded BDC Events

Non-Traded BDCs raise record capital in Q2 2025

Blue Vault reported that public capital raised by non-traded BDCs reached $9.6 billion in Q2 2025, slightly higher than Q1's $9.4 billion and a significant increase from $7.5 billion in Q4 2024. *(Blue Vault)*

Market Leaders dominate flows

The largest platforms captured the bulk of new capital. Top fund-raisers in the first half of 2025 included BCRED ($4.3 b), Blue Owl ($3.4 b), Ares Strategic Income Fund ($2.7 b), HPS Corporate Lending Fund ($2.5 b) and Apollo Debt Solutions BDC ($1.6 b) *(Blue Vault)*

Expanding product set

By Q2 2025, 49 non-traded perpetual BDCs were actively raising capital (CAIS Advisors research). Audax Private Credit Fund, LLC and Crescent Private Credit Income Corp joined the CAISCRED Index after surpassing the $200 million AUM threshold, bringing constituents to 42 and highlighting the segment's continued institutional growth.

First Brands Default Highlights BDC Diversification

Auto parts maker First Brands filed for bankruptcy late last month with more than $10 billion in liabilities, drawing attention to lender exposure across credit markets. Within the CAISCRED Index, exposure remains limited at just 0.04% of total assets, reflecting the index's broad diversification and minimal concentration risk.

Portfolio positioning

Managers maintained a disciplined but more selective approach as rates began to ease. Underwriting has broadened modestly beyond purely defensive first-lien lending, with increasing appetite for higher-quality growth opportunities and refinancing activity among resilient borrowers. Across the sector, positioning reflects confidence in credit fundamentals and a gradual shift from rate defense to return optimization. (CAIS Advisors Research)

Performance & distributions

Income strength translated into higher payouts: average distribution yield on NAV was 9.75% annualized in Q2 2025, with Barings and BlackRock at ~11%. Median quarterly total return was ~2.22%, with nearly all non-traded BDCs posting positive YTD returns (CAIS Advisors Research). Redemptions stayed modest at ~1.4% of NAV, well below limits, indicating healthy liquidity management. *(Stanger) (CAIS Advisors Research)*

Spotlight: Not All PIK Is Bad PIK

Payment-in-kind (PIK) interest allows borrowers to defer cash interest payments by rolling them into the loan balance. Because it often surfaces when companies are under stress and can't meet cash obligations, PIK has a reputation as a red flag. In those cases, it rightly signals higher credit risk and thinner cash cushions. But context matters: not every PIK structure implies distress. Increasingly, private lenders build PIK toggles into deals from the start, especially with high-growth borrowers. This optionality lets companies reinvest cash into expansion during early years, while lenders are compensated with higher eventual yields.

For allocators, the distinction is critical. "Bad PIK" tends to emerge later, via amendments to struggling loans—a sign of stress. "Good PIK," by contrast, is negotiated upfront, limited in scope, and used as a financing tool for quality companies with strong sponsors. In today's competitive direct lending market, offering that flexibility has even become a differentiator for lenders.

The takeaway: **PIK is not inherently negative**. Advisors should probe why it's in the structure—whether as a prudent design feature supporting growth, or a last-resort concession that raises credit risk.

For more information, please contact CAISAdvisors@caisgroup.com or visit CAISCRED Index

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The Solactive CAIS Private Credit BDC Index aims to track the performance of non-traded private credit funds(BDCs) with a modified market-cap weighting. Detailed information about the Solactive CAIS Private Credit BDC Index, including the factsheet and rulebook, is available at https://www.solactive.com/indices/ and searching for "Solactive CAIS Private Credit BDC Index". References to indices, benchmarks, or other measures of relative market performance are provided for informational purposes only. Indices are unmanaged, do not incur management fees, costs, or expenses, and cannot be directly invested in. The performance of an index does not represent the performance of any specific investment, and the composition of an index may not reflect the manner in which a client's portfolio is constructed.

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For further information regarding the calculation of performance and a description of the Solactive CAIS Private Credit BDC Index, please contact CAIS Advisors at 212-300-9355.

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