BENEFIT STREET PARTNERS

Alcentra

FRANKLIN TEMPLETON

2025 MARKET OUTLOOK

2024 was a record-breaking year for alternative credit which delivered excellent returns with low volatility, culminating in attractive risk-adjusted returns. In our outlook, we discuss key trends across our markets and explore what lies ahead for 2025.

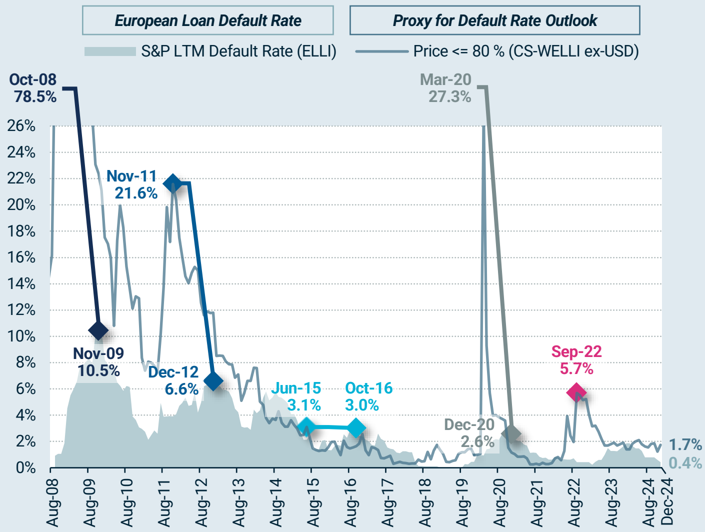
European Loans

Strong technical and healthy fundamentals to continue supporting robust returns

Following another strong year for the European Loan market, underpinned by record-breaking demand and low, declining defaults, we remain bullish on the outlook for 2025. Looking forward, we expect a continuation of the supportive trends we saw in 2024. Demand for the asset should remain strong, with a healthy pipeline of CLOs expected to come to the market. Supply will continue on a similar trend, with potential for a pick-up in H2 as M&A volumes increase.

We expect defaults to remain low and well below long-term averages in 2025, given the stable macro backdrop, comparatively low levels of stress, as well as robust issuer fundamentals. The latter will be further supported by our expectation that the ECB will continue to gradually reduce interest rates. Spreads and yields remain at attractive levels and with low levels of market stress, make for a very compelling entry point to the European Loan market as we enter 2025.

Below long-term average default outlook



Source: S&P ELLI report & CS-WELLI ex-USD, as of 31 December 2024.

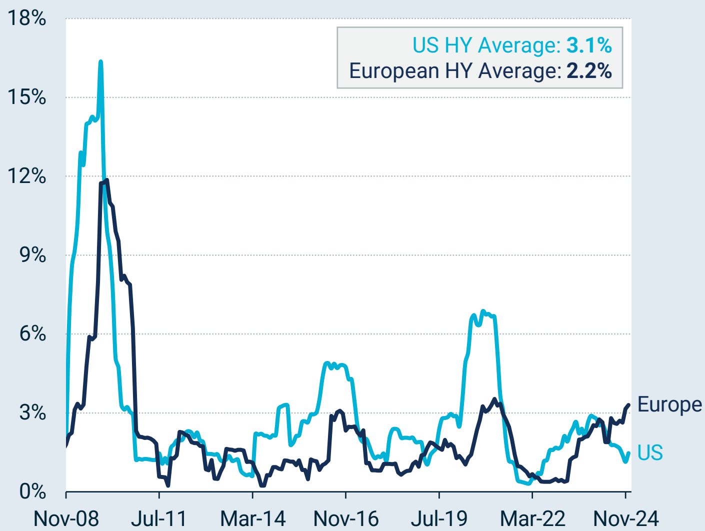
Global High Yield

Supportive fundamentals and default outlook should bolster coupon-like returns

Global Developed HY recorded a solid 2024, driven by supportive corporate fundamentals (low defaults and robust supply/demand dynamics). European HY returns slightly edged out US HY, helped by stronger spread compression across European credit quality.

In 2025, we anticipate a positive year with coupon-like returns. Developed market defaults should remain comfortably below long-term averages given firm fundamentals and a supportive macro-economic environment in the US and likely supportive ECB policies. We anticipate benefits from renewed capital market activity (increased M&A issuance). The developed markets' underlying credit quality and composition continues to remain firm, evident by elevated exposure in higher-rated and secured debt.

Subdued defaults likely to continue into 2025



Source: JPM US Leveraged Loan and & European HY Issuer Par-Weighted Default Rate including distressed exchanges. Nov 08 – Dec 24.

European Direct Lending

Significant fresh DL dry powder needed to finance PE requirements

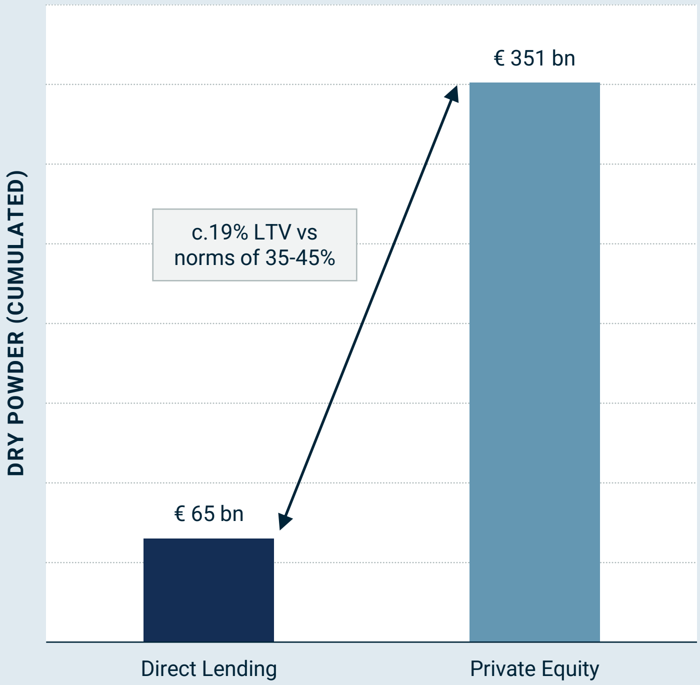
In 2024, the European Direct Lending sector adeptly navigated higher interest rates and economic uncertainty. Borrowers and managers adjusted by shifting towards more conservative structures, favouring senior secured cash pay debt with some use of junior instruments, deeply subordinated and capitalising interest.

For 2025, direct lending, with properly set financial covenants, continues to offer strong risk-adjusted returns relative to other traditional asset classes.

An increase in European deal volume is anticipated due to private equity dry powder at a record €351 billion, which boosts opportunities for leveraged lending as sponsors seek financing for buyouts. Fresh direct lending dry powder is required to stay in line with loan to value market norms.

Expected significant rate cuts and a narrowing of buyer/seller valuation expectations will likely spur new buyout activity.

Private Equity dry powder – strong demand for Direct Lending



Source: Preqin, European as of March 2024. Private Equity includes Balanced, Buyout, Co-investment, Co-investment Multi-Managers, Fund of Funds, Hybrid, Hybrid Fund of Funds, and PIPE strategies. Direct Lending includes Senior, Unitranche, Blended/Opportunistic, Junior/Subordinated.

European Special Situations

Macro headwinds driving continued dispersion and supply of stressed opportunities

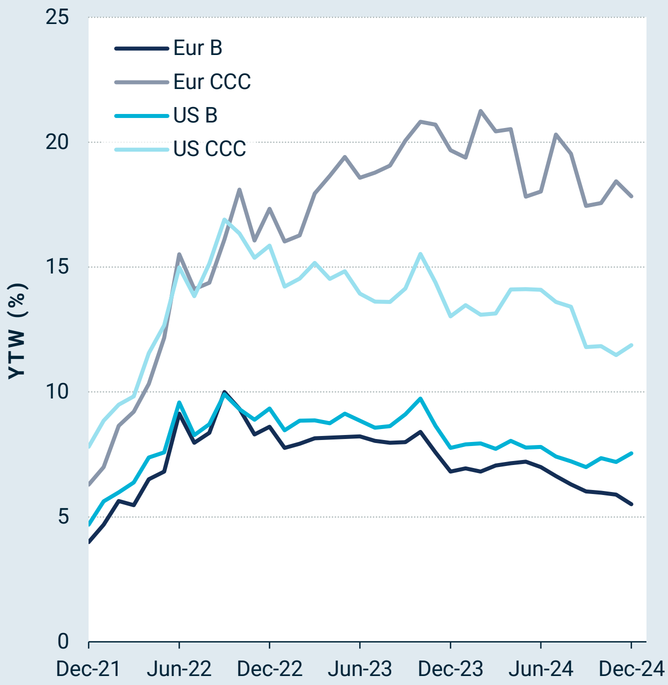
The weaker part of the credit market is struggling to meet upcoming maturities against a backdrop of anaemic economic growth and pockets of rising unemployment, alongside vulnerabilities connected to deglobalisation and the imposition of tariffs.

Consequently, CCC downgrades ticked up across Europe in the latter half of 2024 and yields of CCC rated notes are close to historical wides vs higher rated notes. Similarly, dispersion between CCC rated notes in the EU has been increasing vs the US since 2022.

The European market for stressed credit has grown to around €104 billion, based on the share of traded credit yielding above 12%. Unlike many past cycles, there is a diversity of opportunity across multiple sectors, some of which have historically been defensive such as tele-communications, utilities and healthcare.

As a result, the opportunity set in European Special Situations promises to be active once again in 2025 and we continue to see a strong flow of secondary trading as well as rescue financing opportunities from bank debt and private credit led situations.

Continued dispersion of US and European lower-rated credit



Source: Bloomberg, ICE BofA Euro High Yield Index & ICE BofA US High Yield Index. As of 31 December 2024.

Global Structured Credit

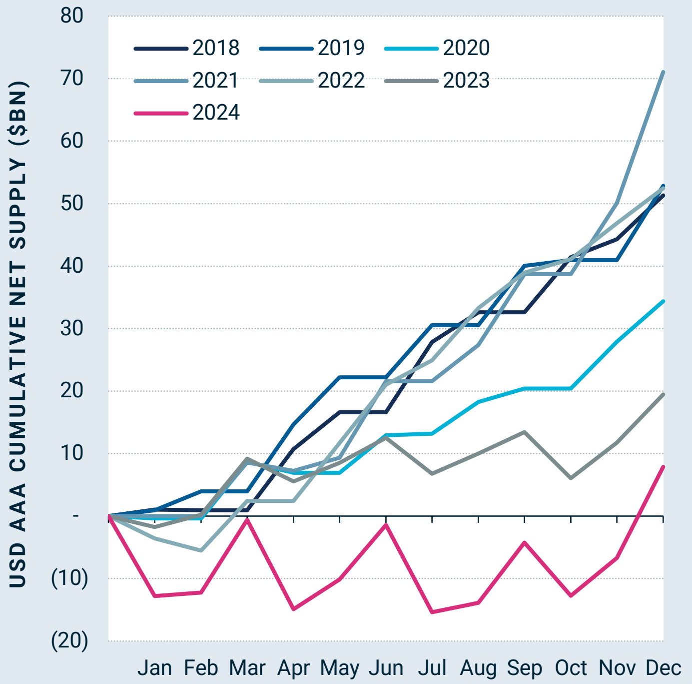
Elevated carry set to continue driving record CLO supply

2024 delivered strong CLO performance driven by solid technicals, high carry and supportive credit fundamentals. CLOs globally experienced record gross supply. Despite this, US AAA supply was negative due to elevated levels of amortising / redeeming CLOs. This combined with strong demand from US/Asia banks drove US AAA spreads tighter which is a dynamic we expect to continue into 2025. Conversely, Europe experienced much higher net AAA supply against a backdrop of weaker demand.

Credit spreads encroached on record tights, but CLOs lagged and notably have more room to tighten, especially in Europe. EUR AAs and Single-Bs remain our top value picks into 2025. As 2025 looks likely to be another record-breaking gross supply year, the CLO manager base continues to grow, and US rates likely to be higher for longer, we expect continued demand for floating rate CLO tranches.

We expect credit fundamentals for loans to continue to be softer in the US vs EU. Higher US rates will likely put pressure on the FCF of underperforming borrowers. Whilst we expect muted macro growth in Europe, expected rate cuts will result in fewer credit issues, but the default rate will rise from the current low run-rate. Despite the strong demand, record supply and rising defaults could lead to pockets of volatility
in 2025. Tail risk in the loan markets remains and will continue to drive dispersion, more so in the US vs EU.

Strong technicals led by historically low US net supply



Source: BSP-Alcentra/Intex. Data as of December 31, 2024. Net Supply is the change in amount outstanding per month of AAA USD CLOs.

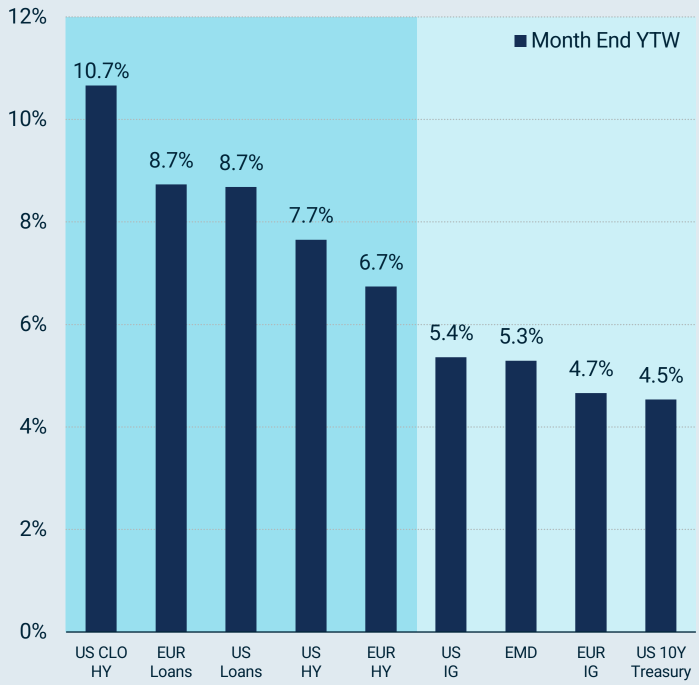
Global Multi-Asset Credit

Evolving central banks and fiscal policies offer compelling value creation

Sub-investment credit markets generated strong returns in 2024 though global high yield and loans pathways were less linear given evolving technicals and differing central bank policies. For multi-credit mandates, this environment was ripe for stronger returns. To begin 2025, we continue to favour floating rate global bank loans for the incremental yield and spread advantage relative to fixed HY. Global HY should generate coupon-like returns in 2025. We also remain positive on alternatives, particularly toward CLOs.

Global trade wars potential, resultant inflation pressure and global central bank divergence are some 2025 challenges. We remain vigilant on security selection, focused on issuers with defensive cashflows, strong margins and less sensitivity toward tariff impacts. Given strong technical alongside stable underlying fundamentals (positive earnings and a modest default outlook), we see multi-credit funds generating solid returns driven by income and boosted by tactical allocation within liquids and alternatives.

High income sub-investment grade opportunities given subdued default outlook



Source: Alcentra, CS, ECB, ICE, JPM and Bloomberg, 31 December 2024.

Key Risks:

Past performance does not predict future returns.

The value of investments and the income from them is not guaranteed and can fall as well as rise due to market and currency movements.

Investments in sub-investment grade debt are speculative and involve special risks, and there can be no assurance that an account's investment objectives will be realized or that appropriate investments may be identified. Many factors affect performance including changes in market conditions and interest rates and in response to other economic, political, or financial developments. An investor could lose all or a substantial portion of his or her investment. No investment process is free of risk and there is no guarantee that the investment process described herein will be profitable. No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment.

Investments in private funds are speculative and involve special risks, and there can be no assurance that a fund's investment objectives will be realized or that appropriate investments may be identified. An investor could lose all or a substantial portion of his or her investment. Investments may involve complex tax structures resulting in delays in distributing important tax information. The manager or their administrator may fair value securities and other instruments for which there is no readily available market or third-party pricing, or for which the manager believes the third-party pricing does not accurately reflect the value of those securities, and such value may be based on proprietary or other models. Private funds may not be required to provide periodic pricing or valuation information to investors. Performance may be volatile as underlying managers may employ leverage and other speculative investment practices the use of leverage increases risks, such that a relatively small movement in the value of an investment may result in a disproportionately large movement, unfavorable as well as favorable, in the value of that investment and, in turn, the value of the Fund. Additionally, high fees and expenses of a private fund may offset an investor's profits. A manager may reserve the right to limit transparency and other notifications to investors. There may be restrictions on transferring interests in private funds, and there is generally no secondary market for such interests. This is not an inclusive list of all risk factors, and investments in private funds may be appropriate only for certain investors. A comprehensive list of potential risk factors is outlined in the Fund's private offering memorandum. Also, investors should independently investigate any investment strategy or manager, and consult with qualified investment, legal, and tax professionals before making an investment. Investments may involve complex tax structures resulting in delays in distributing important tax information. Alcentra may fair value securities and other instruments for which there is no readily available market or third-party pricing, or for which Alcentra believes the third-party pricing does not accurately reflect the value of those securities, and such value may be based on proprietary or other models. Leverage and other speculative investment practices may increase the risk of investment loss, and adherence to risk control mechanisms does not guarantee investment returns. Additionally, fees and expenses of the Fund may offset an investor's profits. A lack of strategy diversification may result in higher risk. The Fund may limit transparency and other notification to investors, there may be restrictions on transferring interests in the Fund vehicle, and there is generally no secondary market for an investor's interest in the Fund. This is not an inclusive list of all risk factors, and investments in private funds may be appropriate only for certain investors. A comprehensive list of potential risk factors is outlined in the Fund's private offering memorandum.

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FT/Franklin Templeton - Franklin Templeton Group.

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Credit Suisse Western European Leveraged Loan Index excluding USD: A multicurrency index tracking term loans syndicated to European loan investors, excluding USD denominated loans.

Credit Suisse (US) Leveraged Loan Index: Tracks the investable market of the U.S. dollar denominated leveraged loan market. It consists of issues rated "5B" or lower, meaning that the highest rated issues included in this index are Moody's/S&P ratings of Baa1/BB+ or Ba1/BBB+. All loans are funded term loans with a tenor of at least one year and are made by issuers domiciled in developed countries.

ICE BofA US High Yield Index is an index which tracks the performance of US dollar denominated below investment grade rated corporate debt publicly issued in the US domestic market.

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ICE BofA European Currency High Yield Index is designed to track the performance of euro- and British pound sterling-denominated below investment grade corporate debt publicly issued in the eurobond, sterling domestic or euro domestic markets.

ICE BofA Euro Corporate Index tracks the performance of EUR denominated investment grade corporate debt publicly issued in the eurobond or Euro member domestic markets.

ICE BofA US Corporate Index tracks the performance of US dollar denominated investment grade corporate debt publicly issued and settled in the US domestic market.

ICE BofA HG EM Corporate Plus Index is a subset of The ICE BofA Emerging Markets Corporate Plus Index including all securities rated AAA through BBB3, inclusive. ICE BofA Emerging Markets Corporate Plus Index tracks the performance of US dollar and euro denominated emerging markets non-sovereign debt publicly issued in the major domestic and eurobond markets. In order to qualify for inclusion in the Index an issuer must have risk exposure to countries other than members of the FX G10, all Western European countries, and territories of the U.S. and Western European countries. The FX-G10 includes all Euro members, the US, Japan, the UK, Canada, Australia, New Zealand, Switzerland, Norway and Sweden.

J.P. Morgan USD HY CLOIE Index tracks the performance of USD- denominated broadly syndicated, arbitrage collateralized loan obligations that are BB and Single-B rated.

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