CHURCHILL
from nuveen

Proof of concept:

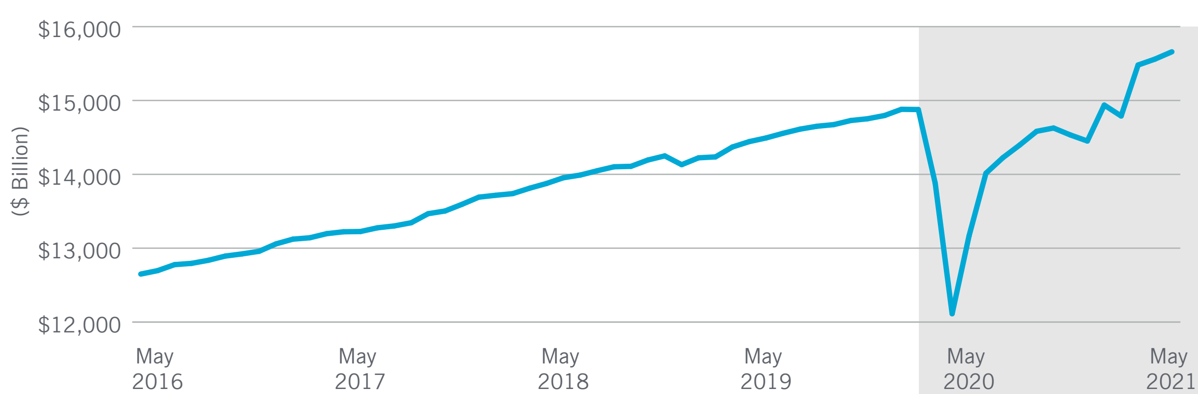
Private credit in a post-Covid market

With 2020 behind us, investors have now witnessed private credit behaving as advertised. Specifically, the asset class provided confidence around the durability, low price volatility and predictive income streams middle market loans afford through downturns. Covid effectively was the environment in which private credit "came of age," giving practitioners like Churchill the opportunity to demonstrate its virtues and stability even in periods of significant market dislocation.

Here then are private credit tailwinds for the post-Covid investing world:

1. **Pent up consumer demand will drive the economy in the near term:** Economists agree that the rebound from the sharp decline in activity last spring will propel growth this year. This in addition to the $1.9 trillion in Fed stimulus will mean consumers have both the will and the means to demand more products and services. Businesses of all stripes are building inventories and/or hiring (and re-hiring) workers to meet that demand.

Figure 1: Personal consumption expenditures

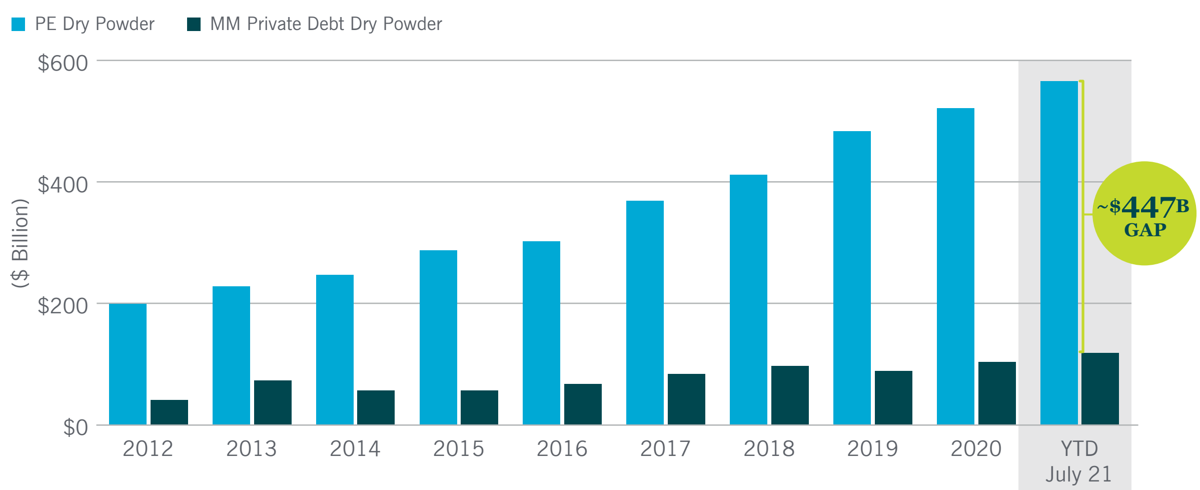


Data source: U.S. Bureau of Economic Analysis

2. **Huge supply of middle market companies are poised for growth; record levels of private equity dry powder available:** The U.S. middle market consists of 200,000 companies generating $6 trillion in revenues per year and employing 48 million people. That would make it the 3rd largest global economy as measured by GDP in the world! The middle market sector, where Churchill is focused, is the growth engine during economic expansions. And while private equity-owned businesses historically demonstrate higher growth rates than average, only less than 5% of smaller U.S. companies have that support. This dynamic coupled with record levels of PE dry powder (> $500 billion, compared to $100 billion of private credit capacity) create a very favorable supply/demand story.

   As a leading capital provider across all levels of the capital structure, including senior and junior debt, equity co-investments and L.P commitments, Churchill's private equity team has invested over $9 billion as an LP in 200+ private equity funds. Additionally, given the size of its financial commitment, Churchill enjoys advisory board seats on almost half of these private equity fund commitments. These relationships often result in early looks on new transactions and 'repeat business'. Private equity sponsors want to partner with lenders of scale that have balance sheet strength, surety of execution and longstanding reputations and who can lead or be meaningful participants in the loans to their portfolio companies and step-up as incremental financing needs arise. This "sponsor driven sourcing" model is key in driving deal flow and coupled with Churchill's size, creates a very powerful combination and industry leading position.

Figure 2: Huge supply of middle market companies are poised for growth



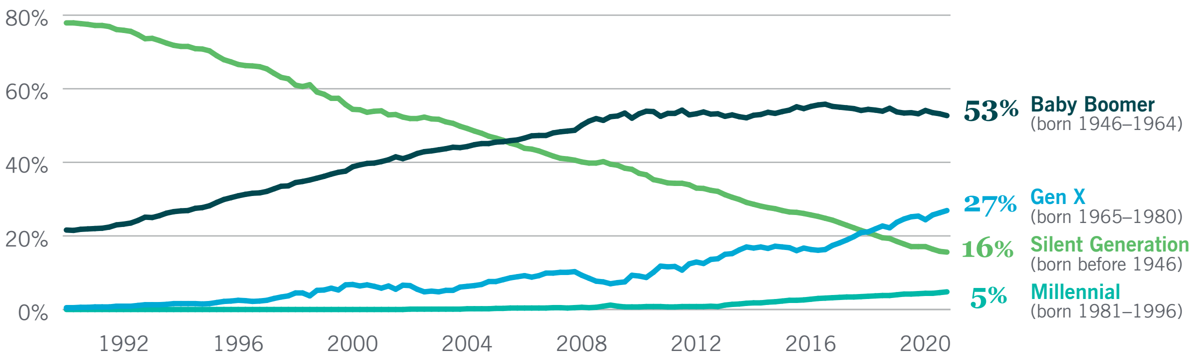
Data source: Preqin. Note: North America Data Only

3. **Record generational transfer of wealth:** Many mid-sized companies are owned by baby boomer aged founders with no natural succession plans and few natural buyers. To effect this record $70 trillion in generational wealth transfer, huge amounts of capital are required to finance these businesses. And concurrently, sellers will be seeking to diversify their portfolios to include conservative, premium-yielding, income-producing investments – features inherent to private credit.

   Churchill's fifteen-year track record has delivered consistent current yield for investors across the globe in a variety of formats. Churchill is focused on high quality companies in defensive industries backed by strong PE sponsors – all which served their portfolio's well in 2020.

 OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

Figure 3: The generational wealth gap distribution of household wealth in the U.S.



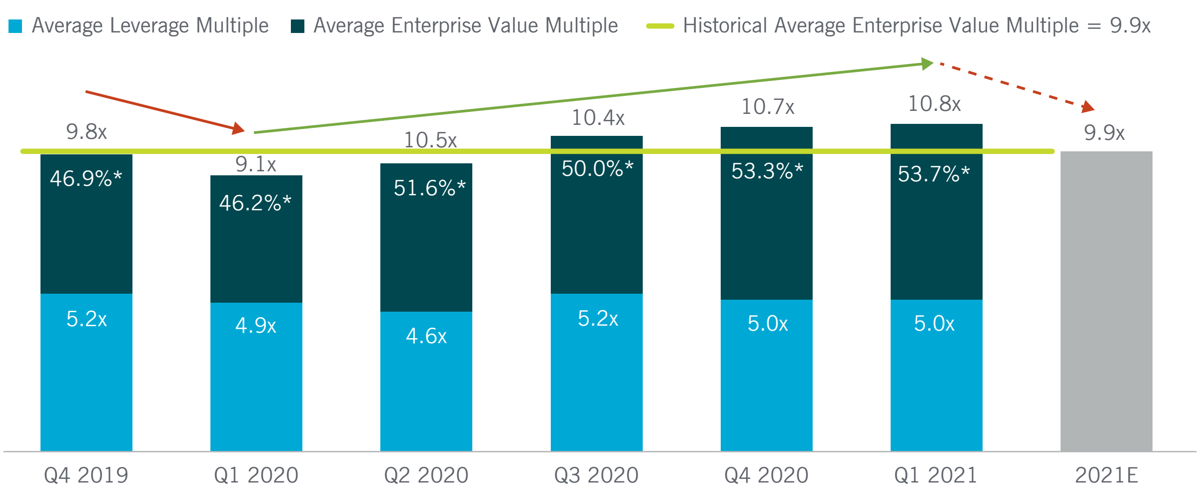
Data source: U.S. Federal Reserve

4. **Higher interest rates and valuations will accelerate demand for credit:** Private credit investors enjoy the benefits of senior, secured, floating rate investments, earning a yield premium over liquid counterparts. Rising interest rates are supportive of higher yields for private credit. Valuations for private equity owned middle market companies will continue to rise as flush GPs bid up purchase price multiples. These dynamics will in turn accelerate demand for private credit.

   By providing its private equity clientele with a complete financial solution, Churchill is able to access "better" transactions (i.e., stronger companies, better lender protections, modest leverage, with attractive spreads) allowing the team to continue to be selective in a competitive market while maintaining its long-standing credit discipline. As such, Churchill sources conservatively structured deals with attractive yields well in excess of those offered in liquid credit.

Figure 4: Enterprise value multiple evolution

EV / LTM EBITDA multiples continue to be at all-time highs since 2013 but are expected to moderate by the end of the year



Data source: Lincoln International. Historical Average Enterprise Value Multiple is from Q4 2019 to Q1 2021.
* Represents equity cushion for respective period

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CONCLUSION

Navigating through unexpected cycles demands professional and active management for private equity and private credit alike: Buy-and-hold illiquid strategies maximize returns by minimizing losses. Established, experienced managers like Churchill know which opportunities consistently generate strong risk adjusted returns. They also understand the credit discipline required to invest successfully across all business cycles. Only a robust and proprietary sourcing network provides the broad spectrum of opportunities from which to pick the best investments. Finally, only a large, diversified funding platform enables the significant scale required to take down $200 million-plus commitments demanded in today's competitive buyout financing environment.

For more information, please visit nuveen.com/churchill.

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