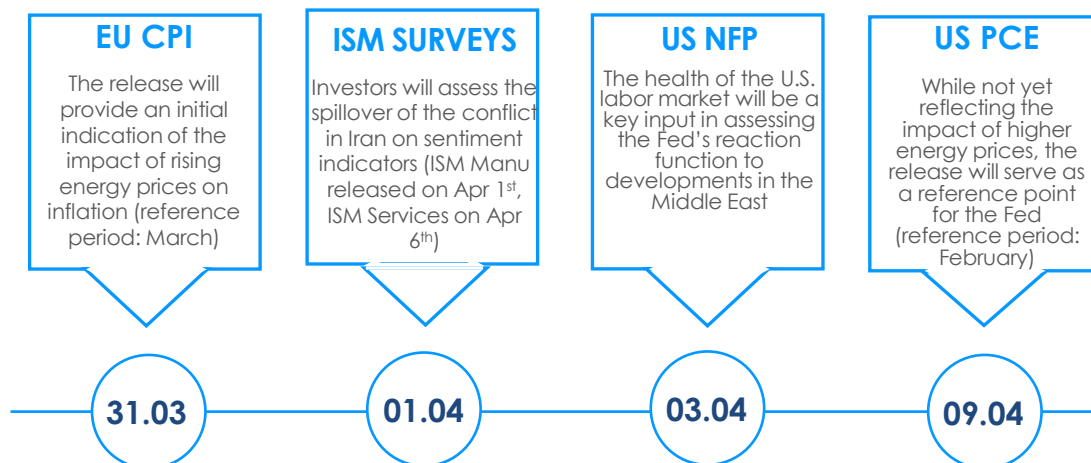


Main Events

Azimut Global Network

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- * Hong Kong
- * Estoril
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- * Lugano
- * Luxembourg
- * Mexico City
- * Miami
- * Monaco
- * New York
- * Santiago
- * São Paulo
- * Shanghai
- * Singapore
- * St Louis
- * Sydney
- * Taipei



NAVIGATING PRIVATE CREDIT

- **Private credit as an asset class has grown to approximately \$3 trillion, driven by post-Global Financial Crisis bank retrenchment and strong investor demand for yield. Direct lending represents roughly half of the market.**
- **Private credit is currently being tested by a confluence of factors, ranging from isolated bankruptcies to downward pressure on the software sector.**
- **Repeated episodes of sizeable outflows have been a major focus for financial markets; however, redemption gates and closed-end structures act as a safety valve.**
- **Lower leverage, dispersed ownership, and limited interdependency provide an additional layer of resilience to the asset class.**

UNDERSTANDING PRIVATE CREDIT

Private credit encompasses lending activities conducted outside the traditional banking system and public bond markets. In this segment of the capital markets, non-bank lenders provide financing directly to companies, most often sponsor-backed¹, middle-market firms, that either cannot or choose not to access the syndicated loan or public bond markets. The asset class combines the credit-risk characteristics of leveraged lending with the structural features of private markets, including limited liquidity, negotiated terms, and model-based valuations rather than real-time market pricing.

Although private credit remains a relatively young asset class, its growth trajectory has been remarkable. The total market is now estimated to exceed \$3 trillion, having expanded at an annualized rate of approximately 15%. This expansion has been driven primarily by two forces. First, the post-Global Financial Crisis (GFC) banking regulatory framework prompted traditional lenders to retreat from middle-market lending, creating a structural supply gap. Second, institutional and retail investors alike sought higher yields during a prolonged period of low interest rates, and private credit, with its illiquidity premium and floating-rate structures, offered a compelling proposition.

¹ Companies owned or controlled by a private equity firm.

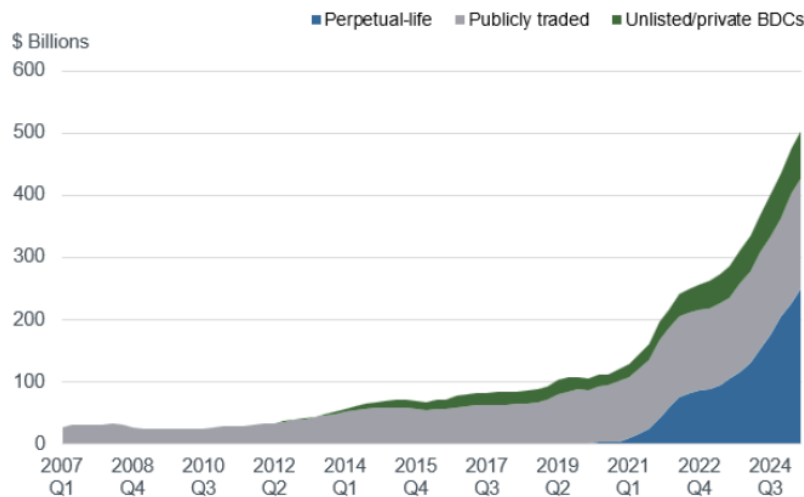
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The largest strategy within private credit is direct lending, which accounts for an estimated 50% or more of the total market, at roughly \$1.7 trillion in assets globally. Direct lending is, in essence, leveraged corporate credit: managers originate loans to companies, frequently in connection with private equity transactions, and hold those loans on their balance sheets. These loans are typically senior secured, meaning they sit at the top of the capital structure. They are also backed by collateral and privately negotiated, rather than traded on public exchanges. Because there is no active secondary market, valuations are model-driven, determined by the lending manager's own assessment and typically updated on a quarterly basis. This valuation approach means that reported returns exhibit lower volatility than comparable public credit instruments. Direct lending portfolios tend to be heavily concentrated in specific sectors, such as software and technology services, healthcare, business services, and niche industrials, reflecting the composition of private equity deal flow in the middle market.

For retail and wealth-channel investors, the primary point of access to private credit is through business development companies (BDCs). These regulated investment vehicles raise capital from investors and deploy it into private loans, holding those positions on their balance sheets. With approximately \$500 billion in total assets, BDCs represent a significant share of the broader private credit market. These vehicles typically invest in the same floating-rate, senior secured loans as institutional direct lending funds and exhibit similar sector concentrations.

BDCs are offered in several formats: publicly traded, non-traded (often referred to as perpetual), and privately placed. The fastest-growing segment has been non-traded perpetual BDCs, which are typically offered at net asset value on a monthly basis and provide quarterly redemption windows capped at approximately 5% of NAV. When redemption requests exceed this limit, investors receive only a pro-rata allocation, with the remainder deferred to subsequent quarters.

Chart 1: Business Development Company Total Asset Breakdown



Source: CreditSights, Federal Reserve Bank of New York, LSEG BDC Collateral
Data as of June 2025

In terms of regional exposure, the US, primarily, and the UK have the broader, deeper, and more complex private credit markets compared to the rest of the world. Specifically, the US private credit market stands at approximately \$2 trillion, compared with roughly \$500 billion in Europe, where France is the most developed market, followed by Germany and the Netherlands. Italy and Spain are the fastest-growing markets, albeit from a very low base.

CURRENT CHALLENGES

Private credit, and BDCs in particular, entered 2026 facing a confluence of pressures. Expectations for declining interest rates have weighed on the forward return outlook for floating-rate strategies. Several high-profile credit events have raised questions about underlying asset quality. Also, the sharp decline in software-as-a-service company valuations – the so called “Saasocalypse” - has ignited uncertainty around a sector that features as the largest constituent for most private credit portfolios.

(continued)

The catalyst for intensified scrutiny came in late 2025, when the bankruptcies of auto parts supplier First Brands Group and subprime auto lender Tricolor prompted concerns that these failures might signal broader weakness across the private credit market.

The challenges currently confronting private credit can be framed along two dimensions: a technical challenge related to liquidity and capital flows, and a fundamental challenge related to credit quality and sector concentration. Although distinct in nature, the two are closely linked: deteriorating credit quality can accelerate redemption pressure, while forced selling to meet redemptions can depress valuations, creating a feedback loop that amplifies both problems simultaneously.

1. Liquidity Constraints in Retail Structures

The more immediate of the two challenges is technical in nature, rooted in capital flows dynamics within the wealth-advisory channel. The premise behind allocating retail and mass-affluent capital to private markets lies in the fact that private assets, across both credit and equity, have historically earned a risk premium over their public equivalents, offering enhanced returns and diversification benefits. On the strength of this thesis, a meaningful share of the private credit market's recent growth has come through the wealth channel, predominantly via non-traded BDCs offering limited liquidity.

In recent months, however, this channel has experienced both a slowdown in new sales and a notable increase in gross redemptions, producing net outflows for the first time since the non-traded BDC format was introduced. Given the illiquid nature of the underlying assets and the structural constraints on BDC redemptions, this shift has prompted several alternative asset managers to limit investor withdrawals from their private credit funds.

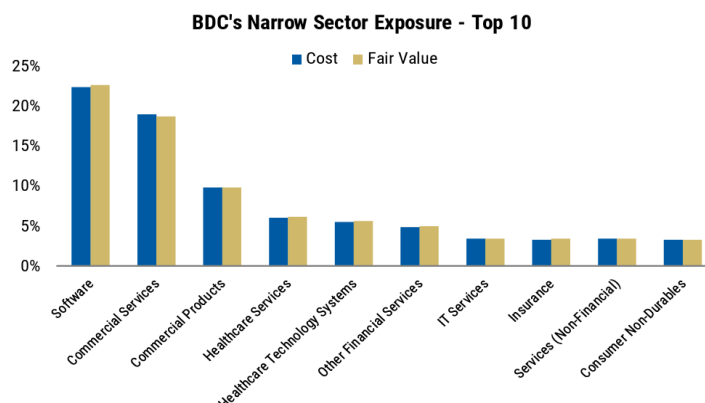
The critical question is the extent to which these vehicles can absorb redemption pressure without triggering forced asset sales.

Within direct lending, more than 80% of assets reside in longer-duration vehicles, primarily closed-end funds and BDCs, where there are no automatic withdrawal mechanisms. Non-traded BDCs, which represent less than 20% of the direct lending asset base, do offer periodic redemption windows but impose caps, typically at 5% of NAV per quarter. These gates serve as structural circuit breakers, designed to prevent forced selling that could trigger asset markdowns and, in turn, a self-reinforcing downward spiral in valuations. On the basis of these structural protections, widespread forced liquidation does not appear to be a likely near-term outcome. Nonetheless, in periods of systemic stress, liquidity constraints have historically acted as the initial catalyst for broader market dislocations, hence the dynamic warrants continued monitoring.

2. Credit Quality and Software Sector Exposure

The second, more fundamental challenge relates to the credit quality of the underlying loan portfolios and, in particular, to their significant exposure to the software sector. Software companies account for over 20% of the direct lending market, a level of sector concentration that has come under increased scrutiny given the uncertain macroeconomic environment and the potential for artificial intelligence to disrupt established software business models.

Chart 2: Software leads as the largest sector in BDC portfolios



Source: PitchBook | LCD, Morgan Stanley Research

(continued)

Since early February, publicly traded software stocks have declined by 30% or more, yet the reaction in private credit markets has been comparatively muted: BB-rated private loans are down approximately 2.5%, while B-rated loans have declined by an average of 9.5%. This divergence reflects, in part, the structural position of these loans within the capital structure.

As senior secured instruments, they have priority in repayment and benefit from collateral protection, meaning that significant equity value can be eroded before debt coverage is materially impaired. However, the potential disruption brought about by AI could lead to meaningful dispersion across individual software borrowers, with some companies managing the transition effectively and others facing deteriorating debt-service capacity.

Looking beyond sector-specific disruption risks, the broader fundamentals of credit quality appear sound across both public and private markets. The majority of borrowers continue to perform solidly, and some managers have begun providing more granular disclosures on their underlying portfolios, revealing improvements in EBITDA, margins, and interest coverage ratios. That said, a significant caveat applies: extended periods of benign credit conditions tend to be accompanied by a gradual erosion of underwriting standards, as competition for deal flow leads lenders to accept weaker protections and higher leverage. This pattern has the potential to create latent vulnerability.

CONTAGION RISK ASSESSMENT

A comparison with the structural conditions that gave rise to past systemic crises, most notably the GFC, illustrates why the current situation, while worthy of vigilance, is fundamentally different in scale, leverage, and cross-exposure.

Past systemic crises shared several defining features: concentrated credit exposure among a relatively small number of highly leveraged financial institutions, strong interconnections that transmitted losses rapidly through the system, and severe asset-liability mismatches that forced fire sales when funding dried up. The structure of private credit today diverges from that paradigm on each of these dimensions.

Dispersion of exposure. The direct lending market, at approximately \$1.7 trillion, is distributed across thousands of stakeholders (i.e., fund managers, institutional investors, and wealth-channel vehicles), rather than concentrated on the balance sheets of a handful of systemically important banks. This dispersion, combined with the closed-end and gated structures of most private credit vehicles, supports better matching between asset duration and liability duration, reducing the risk of forced selling cascades.

A notable segment of the market with relatively high exposure to private credit is the U.S. life insurance sector, where private credit assets are estimated to account for about 8% of total general account² investments. However, the credit quality of insurers' holdings appears stronger than that of the broader private credit market, as allocations are primarily concentrated in investment-grade-rated, asset-backed structures, suggesting a more defensive risk profile relative to the broader market.

Leverage ratios and market size. Private credit vehicles are typically levered at approximately 1:1, a level that stands in stark contrast to the 10:1 or 20:1 leverage ratios that characterized the institutions at the center of past systemic crises.

Moreover, compared with the subprime crisis, the footprint of private credit on the broader economy is more contained, reflecting the strong growth in US GDP over the past decade. To put things into perspective, the US subprime market in 2008 was roughly \$2 trillion, similar in size to today's private credit market, but relative to a much smaller economy, with US GDP at roughly half its current level.

A broader lens confirms this picture: the ratio of non-financial corporate debt to GDP shows that, even after incorporating the growth of private credit, total below-investment-grade corporate lending as a share of GDP has remained broadly unchanged over the past decade.

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Chart 3: Non-financial corporate debt relative to GDP declining consistently since 2020



Source: Board of Governors of the Federal Reserve System

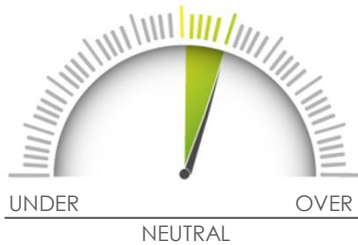
Limited interdependencies. The transmission mechanisms that amplified past crises, namely counterparty exposure through derivatives, repo funding chains, and interbank lending, are largely absent from the private credit ecosystem. Losses in private credit portfolios are borne by the direct holders of those funds, rather than propagating through a web of leveraged counterparty relationships. While this does not eliminate the potential for losses, it significantly reduces the likelihood that stress in private credit could cascade into a broader financial crisis, as occurred during the GFC, when the subprime crisis posed systemic risks to the entire US mortgage market, which stood at around \$12 trillion at the time.

A widely cited research report from one of Switzerland's largest financial institutions outlined a severe downside scenario, projecting private credit default rates of 14–15%. It is important to put this figure into context: it was presented as a stress case, not a base expectation. For comparison, the default rate for broadly syndicated loans during the GFC peaked at 10.82%, and current non-accrual rates (the private credit equivalent of default rates, measuring the share of loans on which borrowers have ceased making scheduled payments) in BDC portfolios range from approximately 1% to 5%, depending on the specific vehicle and vintage.

From a contagion risk perspective, the structural characteristics of private credit suggest a relatively stable and only modestly interconnected framework. As a result, should further episodes of stress arise, the impact is more likely to be cyclical rather than systemic.

Fixed Income

Developed Markets Sovereign



We have kept our **Slightly Overweight** recommendation on Developed Market sovereign bonds. The recent rise in sovereign yield curves has lifted rates to more attractive absolute levels. That said, caution is still warranted. A swift and durable resolution to the conflict would create a compelling entry point, even for ultra-long tenors. Conversely, if the conflict becomes prolonged or escalates further, sovereign bonds face a heightened risk of additional downward corrections. Most of the committee favors increasing duration, with a clear consensus to privilege the belly of the curve (5–10 years). This captures attractive yields while avoiding the heightened volatility of ultra-long tenors during geopolitical instability.

EU Core



EU Periphery



US Treasury



Japanese JGB



Developed Markets Corporate



We maintain our **Slightly Overweight** recommendation on Developed Market corporate bonds. However, given the continued weakening in certain segments of the private credit market, coupled with escalating geopolitical risks from the ongoing war in Iran and the sharp spike in oil prices, the committee views risks to the asset class as having risen materially. Should the conflict persist without swift resolution and energy commodity prices fail to normalize, a downgrade could become warranted. Within credit, investment-grade bonds remain the preferred allocation over high-yield bonds.

IG Europe



IG US



HY Europe



HY US



Emerging Markets



We maintain our **Slightly Overweight** recommendation on Emerging Markets debt. Emerging-market debt has also been negatively affected by the outbreak of war in Iran, given that investments in emerging markets are typically among the first to be cut back during geopolitical crises and/or periods of rapidly rising risk aversion. As just discussed above for corporate bonds, the committee believes that risks to the asset class are rising significantly. Unless the conflict is resolved quickly and energy commodity prices return to normal levels, a downgrade may become necessary.

Local Currency



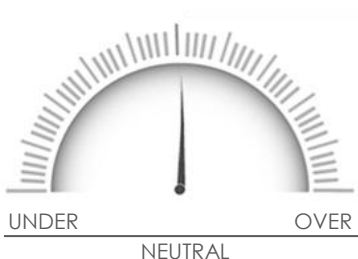
Hard Currency IG



Hard Currency HY



Commodities



Our recommendation for commodities remains **Neutral**. While precious metals are experiencing elevated volatility, they continue to serve as a vital portfolio hedge against rising geopolitical uncertainty. Simultaneously, the recent surge in oil and natural gas prices is driving significant momentum within the Energy sector. Investors should remain mindful that a weak dollar supports the "bull case" for precious metals.

Precious



Energy



Industrial



Agricultural



Currencies

We maintained our **Neutral** recommendation on the US Dollar. Although the dollar has once again played its typical role as a “safe haven,” its recent strengthening has been rather muted. In the absence of a swift resolution to the conflict, the dollar may remain strong. Nevertheless, in the medium term—and particularly if a ceasefire is reached—the risk of a decline remains.

The view on the Euro remains **Neutral** as well. The euro has been relatively weak since the start of the conflict, reflecting its greater dependence on energy imports. However, the statements from a number of ECB governors that a rate hike is possible in 2026 in response to the spike in energy prices could support the single currency.

We have maintained our recommendation on the **Chinese Renminbi to Neutral with a bullish bias**.

The outlook for other **emerging markets currencies** has been confirmed as **Neutral with a bullish bias**, with a preference for currencies of countries that are net exporters of energy commodities.

Euro	⊖	USD	⊖	CNY	⊖	Other EM	⊕
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