

Issue 16

CIFC Portfolio Intelligence

# Examining Risk, Return and Relationships in Lower Middle Market Direct Lending

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## Featured Views and Insights

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### Introduction

In our view, direct lending in the lower middle market (“LMM”) continues to offer what many financial advisors seek from private credit: the potential for compelling risk-adjusted returns, current cash pay coupons, limited duration risk and inherent structural protections. As the asset class continues to grow, relationship-focused lenders with established sponsor ties and a history of repeat transactions are best positioned to respond quickly to evolving capital needs, structure financing with greater precision, and remain a consistent partner through multiple stages of a company’s growth.

The Western Smokehouse case study outlined below follows a sponsor-backed platform through capacity expansions, a greenfield build, and an acquisition – during which the senior secured facility expanded from \$100 million at close to nearly \$300 million over ~2.5 years – and then through a change-of-control transaction supported by a portable debt structure. The case study highlights several key themes explored in this paper – specifically: (1) originations team leveraging deep relationships and market insight to drive repeat transactions and tailored financing solutions, (2) the role of underwriting in enabling scalable capital, (3) the importance of active portfolio management as growth plans evolve, and (4) how relationship continuity can facilitate swift, bespoke amendments without compromising lender protections.



**John Capperella**, is Senior Managing Director and Head of Direct Lending Originations

Mr. Capperella has over 30 years of experience in various senior management positions in the banking and credit industry. He is responsible for managing our originations function and serves as a member of our Investment Committee. His previous roles include responsibility for originating, underwriting, closing and monitoring a \$500 million portfolio of middle-market second-lien transactions. He holds a Master of Business Administration (Finance) from the University of Chicago Booth School of Business and a Bachelor of Science (Civil Engineering) from the University of Delaware.



**John Jadach**, is Senior Managing Director and Head of Direct Lending Portfolio Management

Mr. Jadach has more than 30 years of experience in principal investing, investment banking, commercial lending and corporate risk management. He is a member of the Association for Corporate Growth and Wharton Private Equity Partners. He holds a Master of Business Administration (Finance) from the Wharton School of the University of Pennsylvania and a Bachelor of Business Administration (Finance) from Temple University.



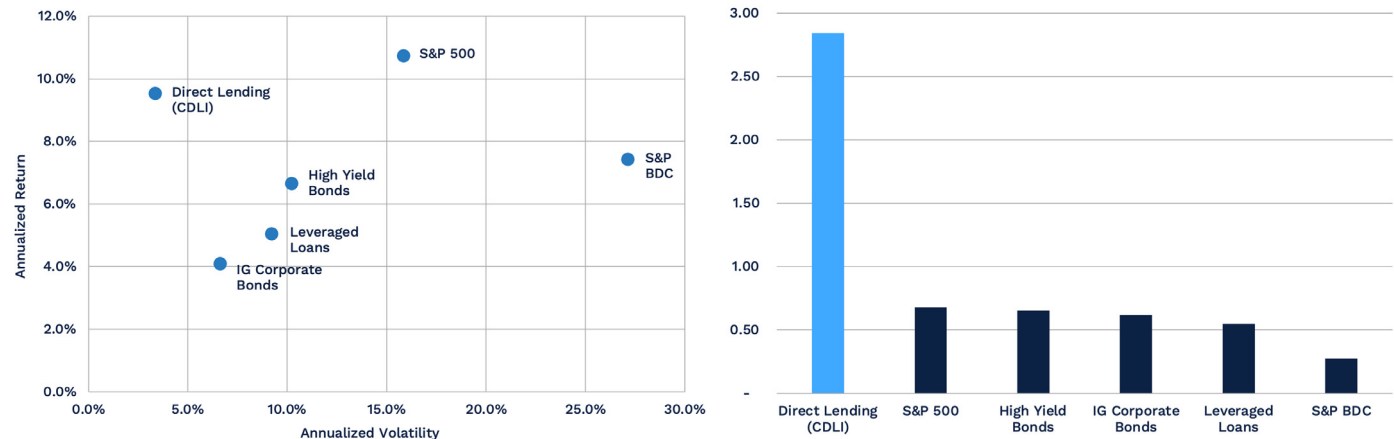
**Michael Hertz**, is Senior Managing Director and Head of Direct Lending Underwriting

Mr. Hertz is responsible for managing our research and underwriting function and serves as a member of our Investment Committee. His previous roles include responsibility for sourcing, structuring and negotiating new direct lending investments in the New England region and co-managing our research and underwriting team. He has over 18 years of experience in middle-market M&A and leveraged lending transactions across a wide range of industries. He holds a Bachelor of Science (Finance) from the University of Delaware's Alfred Lerner College of Business and Economics.

## Direct Lending in the Lower Middle Market

Direct lending encompasses a range of borrowers differentiated by size, creating distinct sub-segments with unique attributes. Since its founding in 2005, CIFIC Direct Lending has concentrated specifically on the LMM segment, comprised of companies with \$50 million to \$500 million of revenue. Over the past two decades, this segment has shown the potential to offer a combination of borrower credit quality, loan structure and terms.

### Historical Return and Volatility of Asset Classes<sup>1</sup>      Return per Unit of Volatility<sup>1</sup>



### Potential Borrower Universe<sup>2</sup>



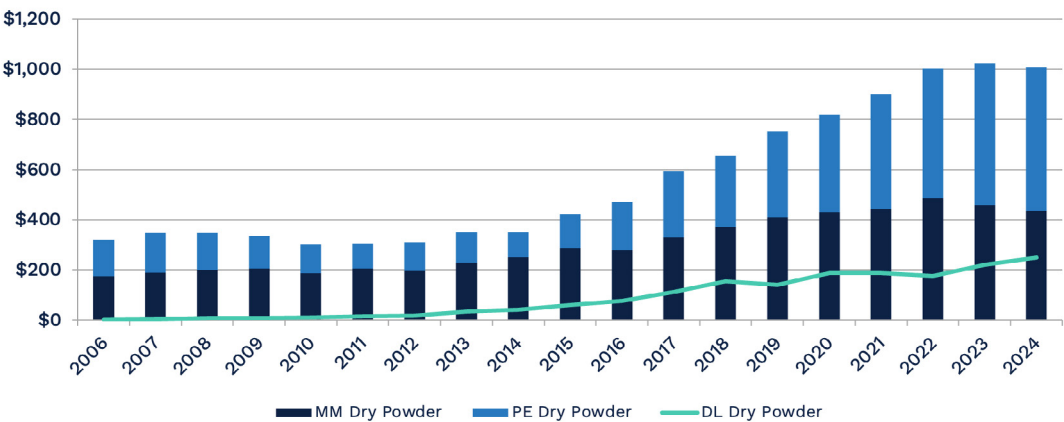
As a result of its consistent focus on the LMM direct lending space, CIFIC Direct Lending has established a deep network of trusted deal partners, where long-standing relationships have enabled the originations team to maintain consistent deal flow and access proprietary deal pipeline opportunities.

Approximately two thirds of CIFIC Direct Lending deals have been with repeat sponsor engagements. Drawing on the benefits of consistent engagement with recurring deal partners, CIFIC Direct Lending has been able to more efficiently deliver solutions for partners while completing thorough diligence through open access to borrowers and sponsors during origination, underwriting and portfolio management activities – in turn providing the potential to foster potentially desirable investment outcomes.

# The Critical Role of Underwriting and Portfolio Management

The post-pandemic economy has seen higher rates, economic volatility, market uncertainty, and a backlog of companies acquired at high valuations lengthen private equity hold periods. Tangentially, dry powder available across private equity has increased. According to Pitchbook, the median hold time for exited companies peaked at seven years in 2023 and has since decreased to six years, as of Q2 2025. However, private equity hold periods continue to stay above the pre-pandemic median of approximately five years. For active portfolio companies, the median hold period now stands at about four years, the highest level since 2011.

## PE Dry Powder Provides Visibility into Future Demand For Private Credit<sup>3</sup>



Hold times are continuing to stay on the longer side, as is the importance of creating value through organic and acquisitive growth, in order to create actionable opportunities for growing dry powder capital. Effective underwriting and portfolio management play critical and complementary roles in supporting portfolio companies across business and credit cycles, from initial investment and extending through expansion and operational improvement.

Notably, nearly 80% of CIFIC's portfolio amendment activity supports growth-oriented activities, resulting in greater capital deployment over the lifecycle of deals as CIFIC grows with its portfolio companies.

Prudent lenders are gaining a competitive advantage by prioritizing active borrower engagement, as a means of both differentiating their approach and mitigating risks. At CIFIC, the origination, underwriting and portfolio management teams work in tandem to identify and vet new deal opportunities and add-on acquisitions and to support growth-related capital expenditure financing. On an ongoing basis, the portfolio management team engages in financial statement analysis, KPI reviews, and recurring meetings with borrowers and sponsors, as well as the negotiation and processing of amendments.

Enhanced borrower engagement allows CIFIC Direct Lending to respond decisively to support sponsors and portfolio companies when opportunities are uncovered. Beyond deal-specific engagement, portfolio management teams add significant value for portfolio construction by conducting macro analyses for real-time economic developments (e.g., commodities volatility, supply chain disruptions, monetary and fiscal policy analysis). To remain focused on key themes impacting portfolio companies, all portfolio management monitoring supplements formalized quarterly performance reviews, internal risk rating updates and valuation procedures.

Active borrower engagement is a competitive edge which differentiates and mitigates risk.

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## Western Smokehouse

### – A Supportive Lender Makes a Difference

CIFIC's support of Western Smokehouse ("Western" or "the company") illustrates how an aligned lending partner can help private equity sponsors execute both organic and acquisition-driven growth strategies. Western is a contract manufacturer of premium, better-for-you smoked meat snacks with a focus on zero-sugar, high-protein, on-the-go products.

In March 2023, Western was acquired by AUA Private Equity Partners ("AUA") from Monogram Capital Partners ("Monogram"). To support the acquisition by AUA, CIFIC Direct Lending agented a \$100 million senior secured facility. The sponsor's investment thesis was predicated on the basis of capturing unmet demand within the capacity-constrained BFY high-protein food category.

**"CIFIC's ability to deliver a seamless, scalable financing solution was critical to getting this deal done," said Jared Stein, Co-Founder and Partner at Monogram. "Their familiarity with the business and collaborative approach made them an ideal partner as we step back in to support Western's next phase of growth."**

Shortly after the close in 2023, the company began to execute its growth strategy by increasing capacity through existing plant expansions and the opening of a new greenfield facility, which was financed by debt from CIFIC. In May 2024, the company acquired an Idaho-based family-owned meat snack manufacturer, for which AUA again turned to CIFIC for financing support. Following this, the company signed new contracts with existing customers to substantially increase production volumes in December 2024.

To meet increased production requirements, CIFIC arranged a material increase in debt commitments to finance the construction of two new dedicated plants to service expected volumes. By this time the total size of the CIFIC-led facility had nearly doubled from closing to ~\$200 million. At each stage of Western's growth, CIFIC Direct Lending's investment management teams were able to seamlessly re-validate the firm's investment thesis in order to provide capital for both organic and inorganic growth initiatives, including capex projects, greenfield facilities and an acquisition.

Shortly following the start of the new facility projects, as AUA was seeking a realization, Monogram sought to re-acquire Western from AUA. Given CIFIC's demonstrated track record of providing financing solutions for the business, Monogram was highly interested in working with CIFIC as a lending partner and requested that CIFIC provide a portable debt structure to finance a change of control transaction. Given its history of working closely with the borrower, CIFIC was able to craft a bespoke financing solution to provide financing support to Monogram, ultimately increasing commitments in March 2025 to \$275 million at the transaction closing. Since closing, additional expansion projects have resulted in the facility size increasing to nearly \$300 million.

**"CIFIC has been a consistent and highly capable partner over the past two years," said Matt Bormann, CEO at Western. "They've provided the financial support we needed to invest in capacity, serve more customers, and continue building our business without disruption."**

CIFIC's track record of supporting Western through acquisitions and substantial growth projects played a key role in CIFIC being selected as agent and joint lead arranger to provide financing for two distinct private equity owners of the business during a transformational period for the company wherein production volumes increased exponentially over a short period.

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Facility size  
increased from  
**\$100 million**  
**to \$300 million**  
over 2.5 years

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**50% CAGR**  
in production  
volumes  
supported by  
CIFIC financing  
solutions

## Conclusion

While direct lending has been a subject of increased focus for financial advisors recently, CIFIC's investment strategy has resulted in consistent capital deployment in private credit markets over the past 20 years across credit cycles. The firm has significant experience in executing both straightforward and complex transactions, leading to long-standing relationships with private equity sponsors and borrowers. Dedicated deal teams, like the one supporting Western Smokehouse, create collaborative relationships and optimized outcomes for borrowers, private equity owners and CIFIC's investors.

### Direct Lending at a Glance<sup>4</sup>

12	352	\$11.6bn+	\$50m-\$500m	<4.50x	>85%
Funds <sup>5</sup>	Deals	Invested	Target borrower revenue	Leverage <sup>6</sup>	Sponsored deals

1. Source: Based on quarterly data from Q4 2005 through Q2 2025. Direct Lending: CDLI (source: Cliffwater Direct Lending Index. All Rights Reserved. Reproduced with permission) per Bloomberg; Leverage Loans: Morningstar LSTA Leveraged Loan Index; IG Corporate Bonds: Bloomberg US Corporate Bond Index; High Yield Bonds: Bloomberg US High Yield Corporate Bond Index; S&P 500: S&P 500 Total Return index per Bloomberg; BDC: S&P BDC Total Return index per Bloomberg.
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2. Source: Data as of December 2024 (most recent), based on company count by annual sales as published by NAICS Association. The \$50-100M company count is extrapolated based on the NAICS \$10-100M company count, multiplied by the relative proportion of \$10-100M companies with reported revenue between \$50-100M per Capital IQ as of August 15, 2025, which represents the number of US-based companies identified in company screening with available LTM revenue data per size category. Excludes companies with no revenue data in Capital IQ.
3. Information as of July 1, 2024. Past performance is not indicative of future results. Sources: Pitchbook 2024 Global Private Debt Report and Pitchbook U.S. Private Credit & Middle Market Quarterly Wrap; Pitchbook defines middle market PE funds as \$100 million to \$5 billion.
4. Information provided are estimates as of June 30, 2025, have not been audited and are subject to change without notice.
- Past performance is not indicative of future results.** There should be no assumptions that similar investment opportunities or results to those shown will be achieved.
5. Reflective of the legacy LBC Funds, managed by LBC Credit Management, L.P. (which CIFIC acquired in 2021) and CIFIC Asset Management LLC and its affiliates.
6. Leverage point through Direct Lending Team on 85% of all LBC Fund deals is under 4.50x since inception and at time of closing.

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## About CIFC and Direct Lending

Founded in 2005, CIFC is an alternative credit specialist offering investment solutions across CLOs, corporate, structured, and opportunistic credit as well as direct lending strategies which have been designed with the goal to deliver consistent, attractive risk-adjusted returns to investors. CIFC manages over \$45 billion in assets, employs more than 200 professionals in the U.S. and Europe, and serves over 500 institutional investors globally.

The CIFC Direct Lending team brings deep expertise and a proven ability to deploy capital in direct lending markets, having invested \$11.5 billion in 350+ investments over 20+ years. The team maintains strong deal partner connections with a core focus on relationship lending and agile financing solutions to support sponsor acquisitions, portfolio company expansions and growth-related operational initiatives.

For more information, visit [www.cifc.com](http://www.cifc.com).