

Issue 1

CIFC Wealth Intelligence

Direct Lending is Not Homogenous: The Importance of Choosing the Right Manager

August 2026

Miami
+1 786-652-3250

New York
+1 212-624-1200

London
+44 203-841-6195

Philadelphia
+1 215-972-8900

www.cifc.com
ir@cifc.com

Nothing in this material is an offer or solicitation to buy or sell any security. Although the presentation may include investment-related information, none is a recommendation to purchase, sell or hold any security or other investment, or that you pursue any investment style or strategy. It is not intended to be, and you should not consider anything in the presentation to be, investment, accounting, tax or legal advice. Reflective of CIFC's internal data, opinions and assumptions, subject to change without notice.

Featured Views and Insights

Private credit has moved from a largely institutional allocation into a core consideration for financial advisors, RIAs, and their clients. That shift has created meaningful opportunity, but it has also made manager selection more important. For wealth managers, the question is no longer simply whether clients should have access to private credit, but which segment of the market they are accessing, through which structure, and with which manager.

In benign markets, most direct lending portfolios look alike: floating-rate income, senior secured exposure, muted volatility — precisely the conditions in which managers are hardest to tell apart. True dispersion emerges most poignantly during periods of stress, by which point manager selection decisions are already locked in. The most important diligence, therefore, must occur before committing capital: identifying the manager whose underwriting discipline is rewarded when economic conditions deteriorate.

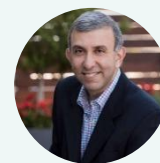
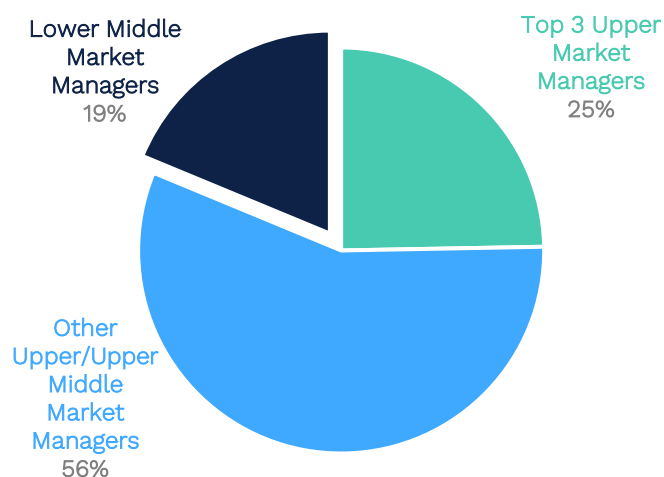
Direct lending is not a passive asset class, and it is not one uniform market. Outcomes are shaped loan by loan, sector by sector, and borrower by borrower. It is important for investors to consider whether they are allocating to managers with the sourcing relationships, underwriting discipline, structural protections, and portfolio-management experience required to navigate a full credit cycle. From what we have experienced, those attributes become most visible not when markets are calm, but when credit conditions begin to tighten.

Beyond the Headline Asset Class

Direct lending is not monolithic. A manager's target segment fundamentally shapes outcomes, influencing competition levels, underwriting standards, leverage tolerance, and documentation quality.

Significant capital has flowed into the upper-middle and upper market, where traditional managers compete with broadly syndicated loan and high yield bond markets. In these segments, competition can compress spreads, increase borrower leverage, and weaken lender protections. As a result, terms for some of these loans may increasingly resemble those of more liquid credit instruments, without providing real liquidity.

CIFIC estimates that 80%+ of funds were raised by managers focused on upper middle or upper market sized deals¹



Homyar Choksi

Senior Managing Director,
Direct Lending
Chief Investment Officer

Mr. Choksi is the Direct Lending Chief Investment Officer responsible for managing CIFIC Direct Lending's investment functions and serves as a committee member of the Investment Committee. He has over 31 years of experience in large corporate and middle-market leveraged lending transactions, including both senior and junior debt and preferred and common equity, across a wide range of industries. Prior to CIFIC, Mr. Choksi held various positions at GE Capital Corporate Lending, most recently leading the Financial Intermediaries Group in New York as Managing Director. Prior to GE Capital Corporate Lending, Mr. Choksi served as an Auditor with GE Capital Audit Staff. Mr. Choksi is a frequent speaker on middle market leveraged lending. Mr. Choksi holds a Master of Science, Finance from Purdue University, Krannert School of Management and a Bachelor of Commerce, Accounting and Economics from the University of Bombay, H.R. College.

By contrast, we believe the lower middle market offers a distinct structural opportunity. This segment tends to be more relationship-driven and less intermediated, providing lenders with deeper access to management teams, greater influence over deal terms, and stronger covenant protections. However, capturing these advantages requires specialization. In our experience, managers purpose-built for the lower middle market are generally better positioned than those extending down-market opportunistically. It is crucial that investors understand that a lower middle market strategy is not simply a smaller version of upper-market lending.

Look Behind Headline Yield

Headline yield tells you how much a loan pays but not how it is paid. For investors building income portfolios today, that distinction can matter as much as the number itself. Reported yield alone provides limited insight into portfolio quality. A more revealing analysis examines how that yield is generated—specifically, how much is cash pay versus Payment-in-Kind (PIK) interest. PIK is interest that is not paid currently in cash; instead, it accrues on the balance sheet. In certain situations, particularly during a restructuring or temporary liquidity issue, PIK may provide flexibility that helps preserve value for lenders. But upfront or structural PIK can be a warning sign.

In effect, PIK is an IOU: the investor books income today but doesn't see the cash until later, if it shows up at all. If a borrower cannot service its cash interest from day one, that may indicate that leverage is too high relative to free cash flow. PIK toggle structures can be even more concerning, because they give the borrower or sponsor the option to stop paying a portion of interest in cash when convenient.

For investors and advisors, the diligence question is direct: how much of the stated yield is actual cash income, and how much is accrual? That distinction becomes especially important when clients are relying on private credit as an income-producing allocation. A manager's approach to PIK is a direct window into underwriting discipline and whether its interests are aligned with yours.

Covenant Discipline as an Indicator

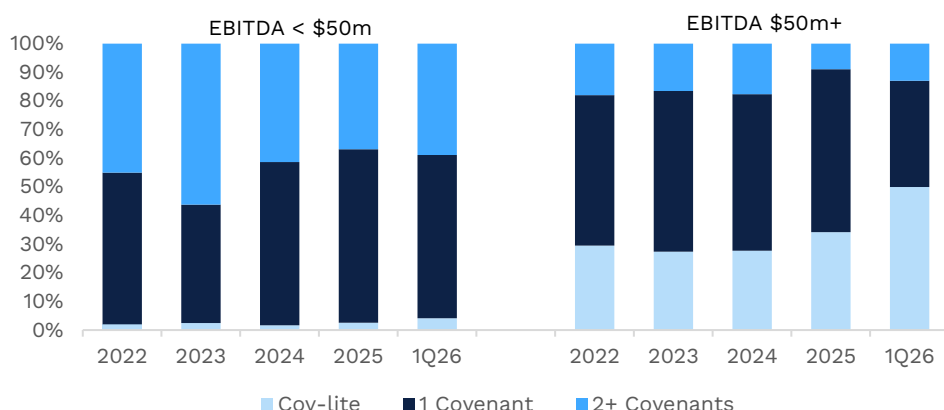
Financial maintenance covenants are borrower metrics tested against preset limits, typically measuring leverage and the ability to service debt with cash flow. If performance deteriorates and those limits are breached, the covenant trip brings the borrower back to the table. These covenants provide lenders with early warning signals and a seat at the table before problems escalate. That early engagement matters. When a borrower breaches a covenant, lenders can reassess risk, engage with sponsors, and pursue corrective actions while options remain. Without such protections, lenders may be forced to wait for a payment default, often resulting in reduced recovery outcomes.

In a strong market, covenants may appear technical or secondary. In a weaker market, they can become one of the most important protections in the loan document. In our view, covenants are often negotiated away in the most competitive markets, precisely when discipline matters most. The willingness of a manager to maintain robust covenant protections is a meaningful indicator of its underwriting rigor.

True dispersion emerges most poignantly during periods of stress, by which point manager selection decisions are already locked in.

PIK is an IOU: the investor books income today but doesn't see the cash until later, if it shows up at all.

Covenants per deal by market size (%)²



Covenants alone are not enough though – they only work if they are structured well. A disciplined manager builds in real optionality and knows how to use it to limit losses after a breach.

Sector Selection Reveals Credit Discipline

Credit discipline also shows up in sector selection. Software and healthcare are a useful comparison. As we have seen in the news, software has become a significant exposure in many larger private credit portfolios. CIFIC Direct Lending has mostly avoided software in part because we found many of those deals have historically been aggressively structured, with high leverage or leverage based on recurring revenue rather than cash flow. By contrast, CIFIC Direct Lending has focused on domestically based, defensive businesses with strong cash flow, including sectors such as industrials, food manufacturing, business services, and healthcare services.

While CIFIC has maintained its investment discipline by avoiding software, it has actively pursued healthcare services. We believe an aging population, systemic inefficiency, and persistent supply-demand imbalances create opportunities for companies focused on reducing cost, improving access, and delivering better outcomes.

What Investors Should Ask Now

For investors evaluating direct lending today, the diligence process should move beyond headline yield and brand recognition. The better questions are more specific:

How much of the income is cash versus PIK? What leverage levels are embedded in the portfolio? How many loans have meaningful maintenance covenants? What type of EBITDA adjustments are permitted? What sectors has the manager avoided, and why? What is the manager's approach to portfolio construction? How consistently has underwriting discipline been applied across cycles?

These questions determine whether a portfolio has been built for benign markets only, or whether it has the structural protections, borrower relationships, and underwriting discipline to navigate volatility. As we enter a period of greater volatility, the key question should be – are you choosing the right manager to navigate a challenging environment? Manager experience within its segment and manager discipline will ultimately drive long-term performance, especially when the economic waters get choppy.

Covenants are often negotiated away in the most competitive markets, precisely when discipline matters most.

Manager experience within its segment and manager discipline will ultimately drive long-term performance, especially when the economic waters get choppy.

End Notes

1. Source: Fundraising data per Pitchbook custom screening performed by CIFIC as of May 2026 targeting U.S.-based direct lending funds with vintages 2020-2026 and excluding funds identified by CIFIC as having non-comparable strategies to CIFIC such as asset-based lending or industry-specific funds. Upper vs. Lower per CIFIC classification of manager strategy.
 2. Source: Source: KBRA DLD Research, "Insights & Outlook: Private U.S. Sponsored Deals Analysis," published June 8, 2026. Data as of March 31, 2026.
 3. Source: CIFIC Direct Lending's portfolio fair value exposure to software companies and healthcare services as of March 31, 2026. BDC information S&P / LCD as of December 2025. Past performance is not indicative of future results.
-

Confidentiality and Disclaimer

This newsletter has been prepared by and contains selected information about CIFIC Asset Management LLC and its affiliates (collectively, "CIFIC") and about the assets that CIFIC manages. This newsletter is for informational purposes only. This newsletter is not, and is not intended to be, an offer to sell, or a solicitation of an offer to purchase, any securities or any other interest in CIFIC or in any fund, account or other investment product or assets managed by CIFIC or to offer any services. Any such offering and sale would be made only on the basis of certain transaction documents and, as the case may be, a final offering circular and related governing and subscription documents (together, "Transaction Documents") pertaining to such offering and sale and is qualified in all respects and in its entirety by any such final Transaction Documents. For further disclosures, please refer to <https://adviserinfo.sec.gov/>

Past performance is not indicative of future results. Any investment is subject to risk.

This newsletter is provided to you on the understanding that, as a sophisticated institutional investor, you will understand and accept its inherent limitations, and will not rely on it in making any investment decision. In making any investment decision, you should conduct, and must rely on, your own investigation and analysis of the data and descriptions set forth in this newsletter, including the merits and risks involved.

This newsletter is not to be construed as legal, regulatory, business, accounting or tax advice. You should consult your own attorney, business advisor, accountant and tax advisor as to legal, regulatory, business, accounting and tax advice.

Any reproduction or distribution of this newsletter, in whole or in part, or the disclosure of the contents hereof, without the prior written consent of CIFIC, is prohibited. By retaining the newsletter, you acknowledge and represent to CIFIC that you have read, understood and accept the terms of this newsletter. You hereby agree to return to CIFIC or destroy this newsletter promptly upon request.

Benchmarks and indices are presented herein for illustrative and comparative purposes only. Such benchmarks and indices may not be available for direct investment, may be unmanaged, assume reinvestment of income, do not reinvest dividends, do not reflect the impact of any trading commissions and costs, management or performance fees, and have limitations when used for comparison or other purposes because they, among other things, may have different strategies, volatility, credit, or other material characteristics (such as limitations on the number and types of securities or instruments than CIFIC). It should not be assumed that performance or the volatility of any securities included in the strategy will correspond directly to any comparative benchmark index. We make no representations that any benchmark or index is an appropriate measure for comparison.