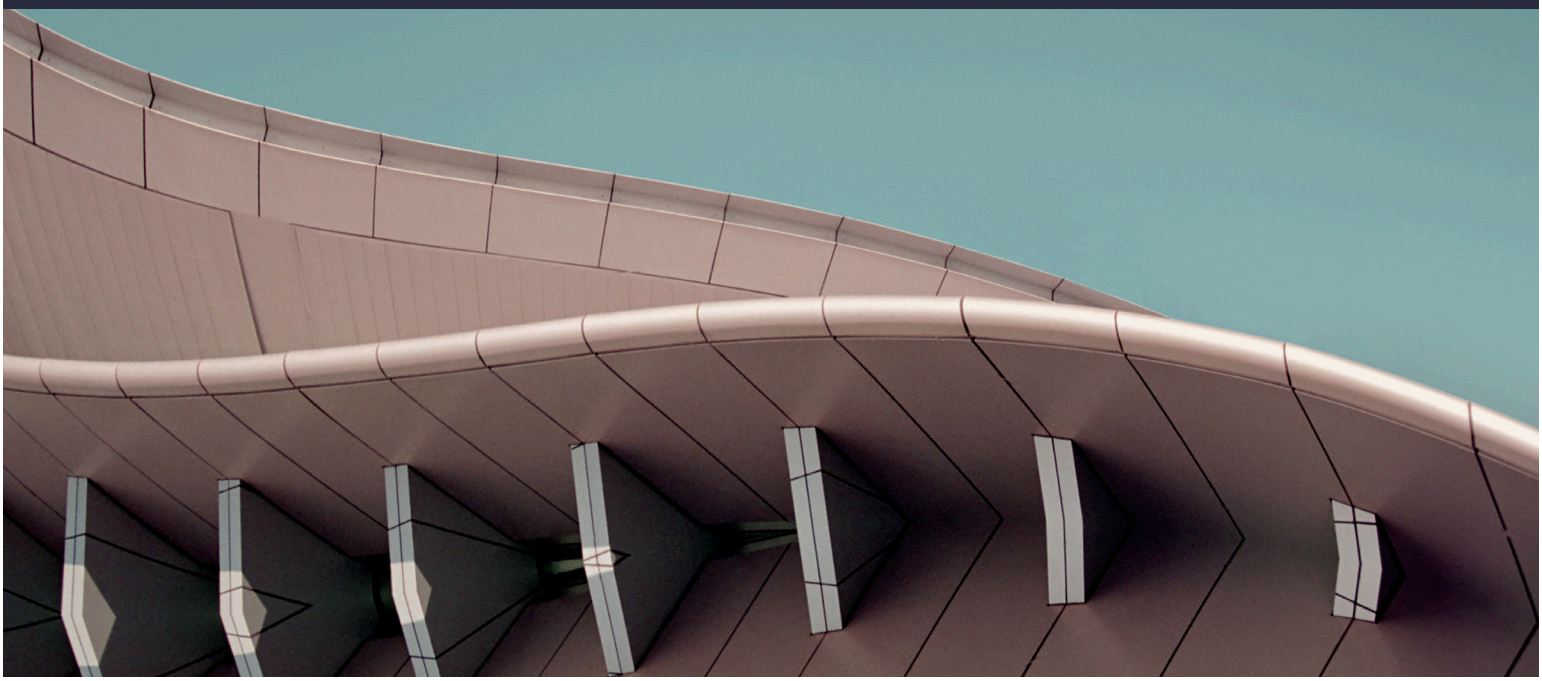
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Opportunistic *credit* in an evolving market:

understanding the strategy and its relevance in the private credit landscape

At its core, opportunistic credit provides capital when traditional financing channels fall short — often because of market inefficiencies, transitional circumstances, or complex financing needs. The strategy focuses on delivering tailored solutions that help companies meet liquidity needs, execute complex debt refinancings, and fund growth.

While recent dislocations in private credit markets have heightened attention on the strategy, we believe that opportunistic credit is best viewed as a core and enduring component of private markets, rather than a cyclical or tactical allocation. Opportunistic credit can be an attractive complement to private direct lending allocations and remains relevant across market cycles.

Positioned between direct lending, which emphasizes standardized structures and predictable outcomes, and distressed investing, which typically targets impaired or post-default situations, opportunistic credit addresses a broad range of nonstandard financing needs. These situations may not involve distress but still require bespoke structures, creative solutions, and active underwriting. Periods of market stress may expand the opportunity set, but underlying demand for flexible capital persists across cycles.

Opportunistic credit is not limited to a single segment of the capital structure. Investors can allocate across instruments ranging from senior secured debt to subordinated or equity-linked securities, depending on where relative value is most compelling.

This flexibility aligns the investment structure with the specific dynamics of each situation, including the risk profile, collateral package, and cash flow characteristics. Importantly, it allows investors to maintain a credit-first orientation — prioritizing downside protection — while selectively incorporating features that enhance upside participation.

Why opportunistic credit is compelling for LPs: structured returns with downside protection

Opportunistic credit is best understood as credit-led investing, enhanced by selective equity upside. Rather than relying on multiple expansion or broad economic growth, the strategy seeks to generate returns primarily through structure, documentation, and security, with upside participation serving as a meaningful complement rather than the foundation of the investment thesis.

As a result, opportunistic credit can offer equity-like return potential while preserving credit-oriented downside safeguards.

- **Structured downside mitigation.** The credit-first nature of the strategy is most evident in its risk management approach. Opportunistic credit seeks to mitigate downside risk through seniority, collateral, covenant packages, and conservative attachment/detachment points. These features can be especially important when refinancing cycles, maturity pressures, and sponsor hold periods extend investment timelines and increase outcome dispersion.
- **Contractual, structured returns.** A core appeal is that returns are largely contractual and defined at origination. Rather than relying on market appreciation or timing, managers can negotiate terms such as coupons, fees, original issue discounts, call protection, and other structural features designed to deliver a minimum return threshold. Senior positioning in the capital structure can also provide priority of payment and resilience in downside scenarios.
- **Embedded equity upside.** What differentiates opportunistic credit from many core credit strategies is the deliberate inclusion of equity-linked upside, while remaining anchored in a credit framework. Investments may include warrants, profit participation, conversion features, exit fees, or co-investment rights, enabling participation in enterprise value creation while maintaining credit protections.
- **Complexity-driven alpha.** Opportunistic credit often operates in less standardized, more complex situations. This “complexity” can stem from a variety of factors — such as unique financing needs, operational changes, financial pressures, process inefficiencies, nontraditional ownership groups, etc. — that are often difficult to understand but don’t necessarily translate into increased risk. Because of this, experienced managers are able to negotiate stronger economics, protections, and control — particularly where speed, certainty of execution, or structuring expertise are critical.

Flexible, solutions-oriented capital for complex markets

Opportunistic credit occupies a distinct and enduring role in the alternatives landscape, complementing private direct lending allocations and remaining relevant across market cycles. Its value stems from persistent demand for flexible, solutions-oriented capital in an increasingly complex and capital-constrained financial environment.

By combining contractual income, thoughtful structural protections, and selective upside participation, an opportunistic credit investment strategy can deliver a differentiated return profile grounded in credit discipline and flexibility.

How structural dislocations and market inefficiencies can create attractive entry points for active managers

At a high level, opportunistic credit is most effective in environments where complexity limits access to traditional financing. Today, that complexity is driven by a convergence of pressures on businesses, particularly in the middle market.

While opportunistic credit strategies aren't dependent on periods of dislocation, the current backdrop — marked by higher interest rates, persistent cost pressures, elevated macroeconomic uncertainty, and more selective capital markets — has increased the frequency and scale of situations requiring flexible, solutions-oriented capital.

Many companies are navigating a mix of challenges, including elevated debt service costs, margin pressure, trade-related disruptions, and earnings volatility. As a result, an increasing number of businesses are operating with capital structures misaligned with their current performance.

In these situations, traditional lenders and equity providers are often less willing — or less able — to provide incremental capital, leaving a gap that requires more tailored financing solutions.

Against this backdrop, several structural dynamics are shaping the opportunity set for opportunistic credit:

Capital structure strain

A meaningful segment of the middle market is underperforming relative to its initial underwriting expectations, resulting in higher leverage and reduced financial flexibility. Though not necessarily distressed, these companies often need proactive balance sheet solutions to stabilize operations, fund growth initiatives, and reposition capital structures in anticipation of longer-than-expected hold periods.

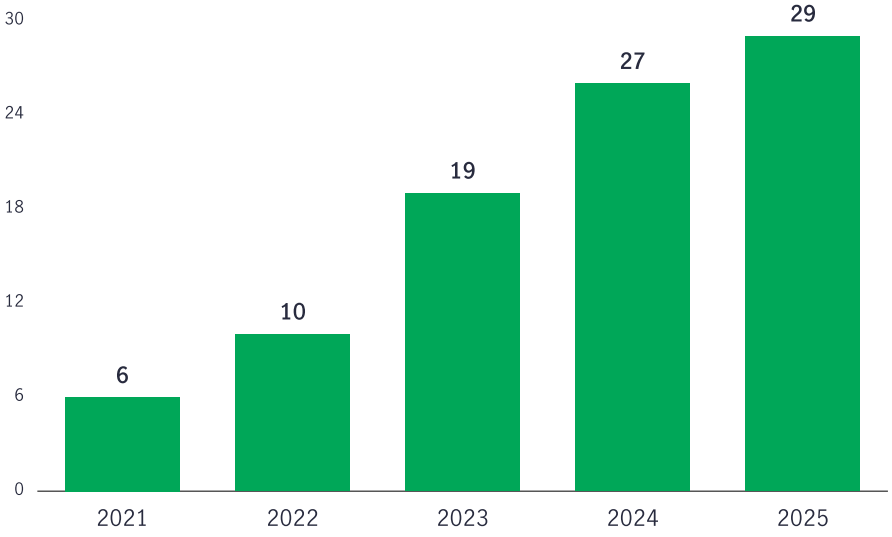
One indicator of rising stress is the growing use of payment-in-kind (PIK) features. PIK allows borrowers to preserve near-term liquidity by paying interest with additional debt — accruing it to the loan principal — rather

than in cash, with repayment deferred until maturity. The rise in PIK usage — from 7% of private credit deals in Q4 2021 to 11% in Q4 2025[1] — suggests that, in many cases, capital structures are being extended rather than fundamentally addressed.

Crucially, not all PIK is created equal. "Good" PIK is deliberately incorporated into a deal from the outset. "Bad" PIK is introduced later as a reactive adjustment, typically through amendments to a loan agreement when a borrower faces cash flow constraints. In other words, "Bad" PIK was never intended to be PIK. The share of private credit deals with "Bad" PIK rose from 2.5% in Q4 2021 to 6.4% in Q4 2025.[1]

The rise in PIK usage — particularly "bad" PIK, an estimated $29 billion market — suggests a significant increase in opportunities for opportunistic credit investors. With flexible investment mandates, restructuring expertise, and a tolerance for complexity, managers can provide structured capital better aligned with a company's current performance, often securing enhanced economics, stronger protections, and greater control.

Private credit investments with bad PIK ($B)



Source: © 2025 Lincoln Partners Advisors LLC, February 2026. All rights reserved. Used with permission. Third party use is at user's own risk. Prequin and PitchBook, as of June 30, 2025. Note: Lincoln Partners Advisors LLC / PitchBook data represented above considered senior and unitranche term loans. "Bad" PIK is defined as investments without PIK at close but with PIK as of December 31, 2025.

An approaching refinancing wave

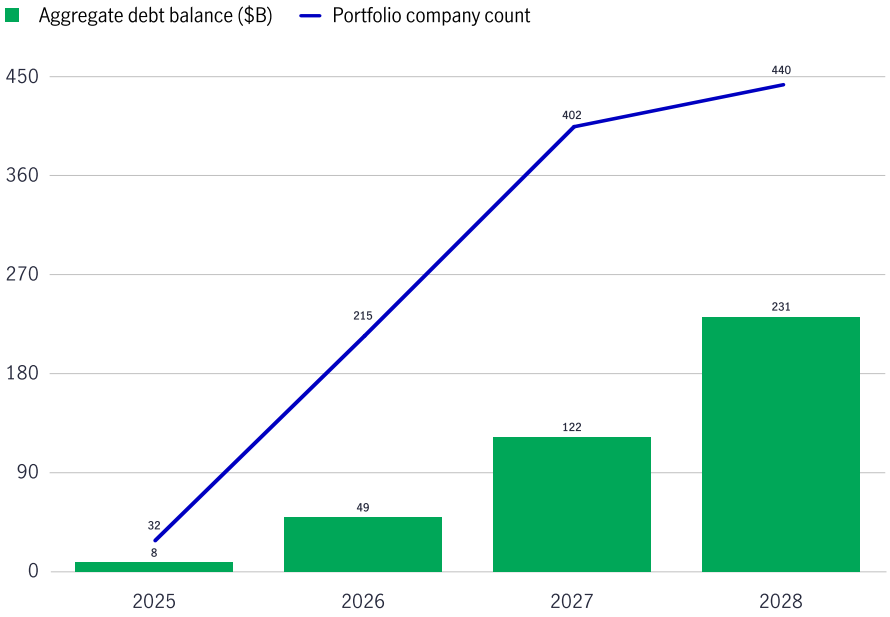
Many businesses now operate and finance in a different environment than the one in which their debt was originally underwritten.

The 2021–2022 period marked a peak in private equity activity, marked by elevated purchase price multiples and increased leverage. A substantial volume of debt issued during this period is now approaching maturity, with most scheduled to come due between 2027 and 2029. Given the leverage profile of many of these loans, it is unlikely that much of this debt will be easily refinanced with traditional direct lending solutions.

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The chart below shows the volume of outstanding private credit loans coming due over the next three years. This is creating a growing pipeline of complex refinancing needs, including amend-and-extend transactions, incremental capital infusions, liability management exercises, and structured recapitalizations. These scenarios often fall outside the scope of traditional lending but are well suited to opportunistic credit strategies that can underwrite downside risk and provide creative, tailored capital.

Near-term private credit maturity wall



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Note: Data represented above considered senior and unitranche term loans.

Private equity portfolio pressures and extended hold periods

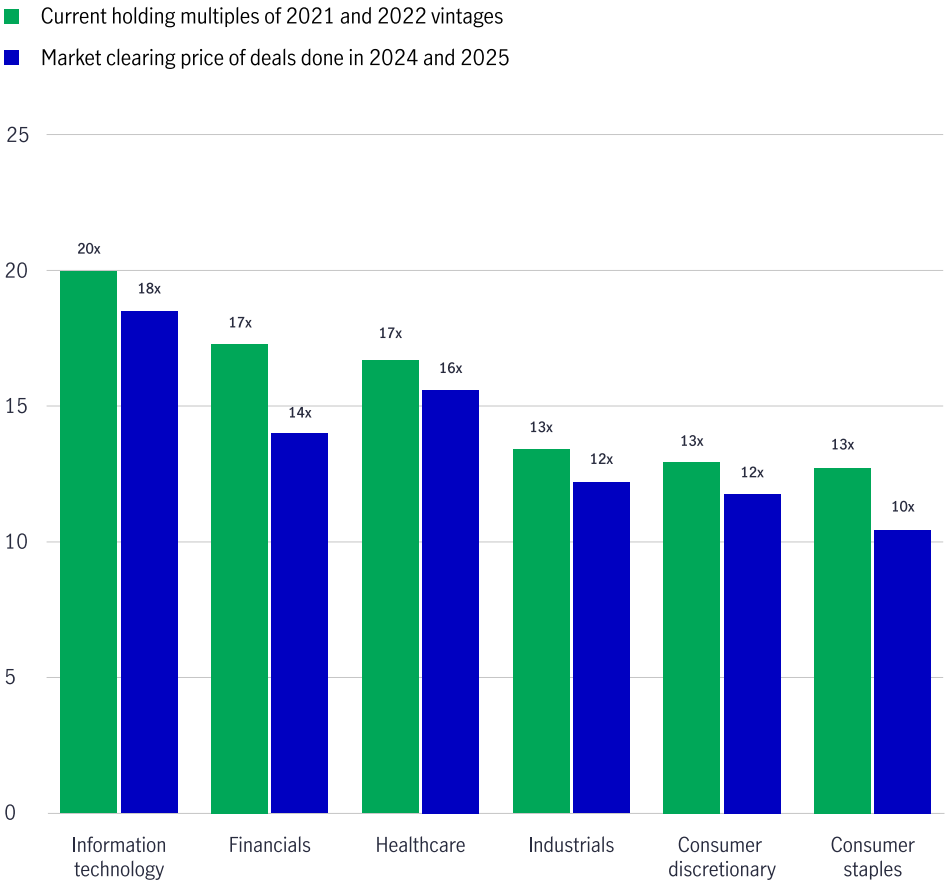
Valuation pressure on privately held companies has slowed exit activity and extended hold periods for private equity-backed companies. Assets held by private equity sponsors at higher valuations are, in many cases, not yet able to exit at those levels, resulting in delayed realizations.

The sector-wide gap from 2021 to 2025 is shown in the chart on the following page. Over that period, the average hold length for private equity-backed investments increased from 5.3 to 6.4 years.[2] While extending hold periods can be a rational response, it creates an ongoing need for capital to fund growth initiatives, acquisitions, and operational improvements.

Sponsors must balance supporting portfolio companies with managing fund-level liquidity and return objectives. This dynamic creates a natural role for opportunistic credit, which can provide structured capital solutions that extend runways, support value creation, and help companies reach a more favorable exit environment, while offering investors downside protection and selective upside participation.

2 Ropes & Gray LLP, September 2025.

Holding multiples vs. market clearing prices



Source: Hamilton Lane, November 2025.

Persistent need for complex problem-solving capital

Beyond cyclical factors, a more durable driver of opportunity is the ongoing need for capital providers capable of addressing complex, nonstandard situations. Many of the most compelling investments arise not from distress but from companies at inflection points — where capital requirements don't fit neatly into traditional debt or equity frameworks.

These situations may involve complex capital structures, competing stakeholder interests, covenant constraints, or strategic transitions such as acquisitions, carve-outs, or repositioning initiatives. Addressing these challenges requires investors who can underwrite both credit risk and enterprise value and structure solutions that balance protection, flexibility, and alignment.

Opportunistic credit strategies are well suited to this role. By combining elements of debt and equity — through preferred instruments, convertible structures, or bespoke tranches — investors can tailor capital to the specific needs of each situation. The focus isn't only on providing capital but on structuring it to support long-term value while maintaining strong contractual safeguards.

Opportunistic credit opportunities persist beyond today's cycle

The current environment underscores the relevance of opportunistic credit but doesn't define it. Although market conditions have broadened the opportunity set, the underlying drivers — complexity, capital constraints, and the need for flexible solutions — are structural and enduring.

For investors, this translates into a broad and evolving pipeline of opportunities, spanning balance sheet optimization, growth financing, and strategic repositioning. The ability to navigate these situations selectively and to structure capital accordingly remains central to outcomes.

Our approach

Opportunistic credit addresses gaps created by the constraints of traditional lending. The most compelling opportunities typically arise in situations that fall outside the mandates, comfort zones, or capacities of many conventional lenders. As a result, an allocation to opportunistic credit requires more than portfolio construction considerations. It demands an evaluation of a manager's ability to move fluidly across the capital structure, underwrite with imperfect information, and dynamically adapt both underwriting and asset management approaches as circumstances evolve.

Opportunistic credit is best understood as complexity-oriented credit investing with selective equity participation.

A meaningful segment of the middle market is underperforming relative to its initial underwriting expectations, resulting in higher leverage and reduced financial flexibility. Though not necessarily distressed, these companies often need proactive balance sheet solutions to stabilize operations, fund growth initiatives, and reposition capital structures in anticipation of longer-than-expected hold periods.

Given this dynamic, we believe four attributes are central to manager differentiation:

- **Sourcing:** the ability to originate differentiated, less competitive opportunities
- **Structuring:** expertise across capital structure, including both debt and equity-like instruments
- **Platform:** the scale, experience, and capabilities to actively manage complex situations and influence outcomes over time.
- **Track record:** demonstrated performance across at least one full market cycle

A platform designed and resourced for complexity

Manulife | Comvest Credit Partners' opportunistic credit approach is designed to leverage both credit and equity experience and resources.

We evaluate investments through a dual lens, combining a lender's focus on cash flow, collateral, and capital

structure with an equity investor's focus on growth and value creation. This approach extends to portfolio management, allowing adaptation as situations evolve. It's grounded in the following core elements:

- **Differentiated sourcing and execution:** We believe access to differentiated opportunities is a key driver of returns. Our multi-strategy platform and origination capabilities provide early visibility into a broad range of situations, many of which evolve from conventional financings into more complex opportunities that require tailored solutions. Early engagement often leads to proprietary transactions and to enhanced investment terms and protections.
- **Disciplined, total-return-oriented structuring:** Investments are structured with a credit-first orientation, emphasizing contractual income and downside protection, complemented by selective equity participation and a hands-on approach to enhance total return potential. Our 25+ years of private equity heritage, combined with more than 20 years in private credit, provide a differentiated perspective and capabilities in the middle market.
- **Industry expertise and operational value creation:** Sector specialization across key verticals supports deep market insights and disciplined underwriting, while in-house operational resources and a diverse investment team's skill set enable active engagement with portfolio companies as needed to drive value creation or recover capital.
- **Track record:** A demonstrated 25-year history of investing across credit cycles and varying market environments provides context for navigating a variety of non-standard, complex situations.

A portfolio complement

Complexity is driving demand for flexible capital

A higher-interest-rate environment, market volatility, and constrained access to capital have made flexibility in portfolio construction more critical. Strategies that can capitalize on market dislocations while hedging downside risk elsewhere in the portfolio are playing a more central role in driving performance. Against this backdrop, for institutional investors, the question is often not whether opportunistic credit is attractive, but how to incorporate it into a broader asset-allocation framework.

In practice, opportunistic credit is best viewed as a complementary allocation alongside (a) traditional direct lending, where it can enhance returns, or (b) private equity, where it can help moderate risk and volatility. In both contexts, it expands the investable universe by targeting less conventional financing situations, typically involving business transitions, dislocations, or structural complexity, where traditional lenders or equity providers may be reluctant to step in. Its role isn't to replace core exposures but to strengthen an overall portfolio by adding differentiated sources of return that are less dependent on broader market movements.

Opportunistic credit can invest across the capital structure, targeting opportunities with the most attractive

risk-adjusted returns. The strategy is fundamentally credit-driven, emphasizing downside protection, disciplined structuring, and contractual income, with additional upside from equity participation. By relying on situation-specific catalysts rather than market beta or multiple expansion, it can target equity-like returns while maintaining a more defensive risk profile.

Portfolio construction considerations

Given its differentiated, less-correlated return profile, even a modest allocation to opportunistic credit can improve portfolio efficiency.

- **Enhancing return potential within private-credit–oriented portfolios**

  For portfolios with significant exposure to traditional direct lending, opportunistic credit can act as a return enhancer by accessing higher-yielding, complexity-driven opportunities that sit outside the core lending universe.

  This allows investors to:

  - Capture alpha through complexity and equity-linked features when active management, restructuring, or operational improvement drives asset-level performance
  - Access a broader set of differentiated investment opportunities beyond traditional lending
  - Diversify portfolios by gaining exposure to idiosyncratic, event-driven outcomes without having to stretch too far down the risk spectrum

- **Mitigating risk and volatility in private-equity–heavy portfolios**

  In portfolios dominated by private equity, opportunistic credit can play a more defensive role. Private equity returns are typically driven by equity market beta, earnings growth, and exit conditions, making them more sensitive to economic cycles and valuation multiples.

  Opportunistic credit, by contrast, ranks higher in the capital structure and often benefits from contractual cash flows, downside protection, and negotiated terms. As a result, it can help:

  - Reduce overall portfolio volatility by generating more stable and predictable returns
  - Provide downside protection in uncertain market environments
  - Offer shorter duration than equity, with earlier and more predictable realizations
  - Introduce return drivers that are less dependent on exit timing and on market multiples

In dislocated markets, opportunistic credit may also benefit from the same conditions that challenge private equity and direct lending — such as tighter financing markets, corporate valuation resets, and/or volatile corporate performance — by deploying capital into situations where risk-adjusted returns are more attractive. As a result, opportunistic credit has the ability to help hedge against many of the pressures expected to impact private equity and direct lending asset-class performance.

A strategic role in portfolios

Opportunistic credit is attractive because it focuses on navigating complex situations rather than relying on market direction. That makes it a useful addition to both credit- and equity-oriented portfolios, enhancing return potential, moderating downside risk, and introducing income sources that aren't tied to market performance. For institutional investors, its value lies not in replacing core exposures but in serving as a flexible tool that strengthens portfolio resilience across a range of market environments.

Manulife | Comvest Credit Partners brings a differentiated approach to opportunistic credit that extends well beyond capital provision. By integrating rigorous credit analysis, operational insight, and a private equity perspective, our platform structures tailored solutions, actively manages complexity, and seeks to enhance both current income and long-term value — offering investors a disciplined, flexible, and total-return-oriented pathway to participate in opportunistic credit.

Learn more about our opportunistic credit strategy at comvest.com/opportunistic-credit

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