PCS ADVISORS

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Software Corporate Credit Update

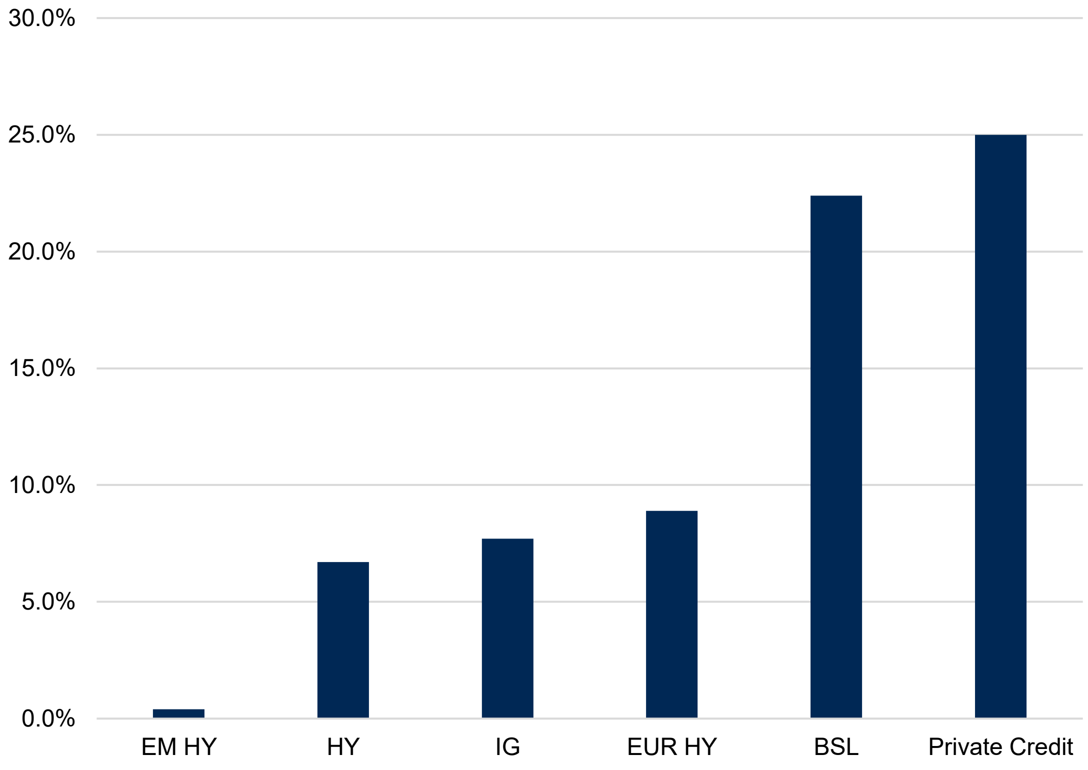
March 2026

Contents

Market Exposure & AI Impact

- Software has attracted significant capital as it screens well from a credit perspective. Recurring revenue, strong retention, attractive margins, and asset-light structures contributed to low historical defaults
- Software is not monolithic. Horizontal and vertical software carry different risks in the age of AI. AI may amplify the gap between businesses with real moats and those whose primary advantage was code
- Technology sector dispersion is likely to widen rather than systemic distress
- The AI story may take a long time to play out as much software is embedded in critical workflows

Software Sector Exposure



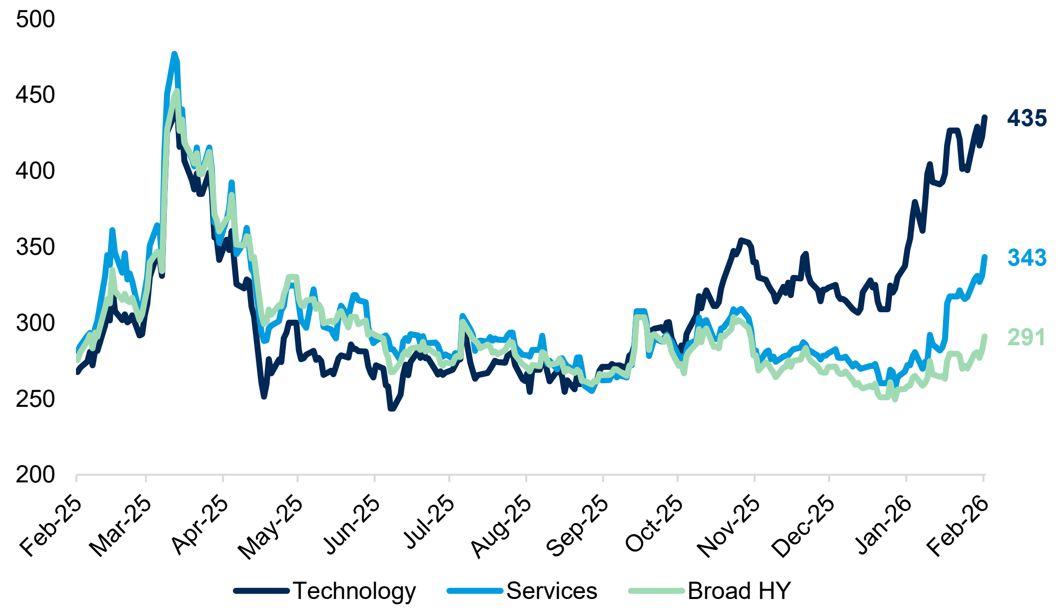
Source: BAML as of December 31, 2025. Private credit uses Cliffwater Corporate Lending Fund software allocation as a proxy for the asset class. Other asset classes include technology and services as 'software exposure'. Values are a percentage of total face value.

Opportunities & Risks – Public Markets

- Public markets comprise of application, infrastructure, cyber security, and consumer software. Application is viewed as most at risk (e.g. Workday, Cotiviti – HR and billing systems) whereas other issuers are more specialized (e.g. Ellucian – university record system)
- Sector spreads are near Liberation Day levels creating opportunity for active management

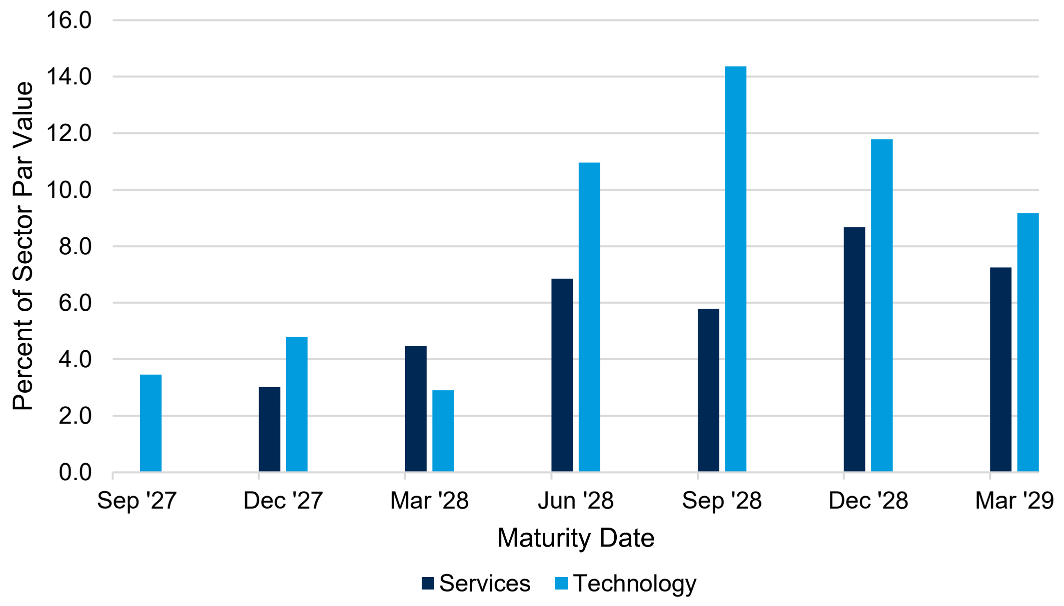
- Software maturing within the next two years represents roughly 50% of the sector and 11% of the leveraged loan market

Credit Spreads



Source: FactSet as of February 27, 2026.

Leveraged Loan Refinancing Risk



Source: BAML as of December 31, 2025.

Opportunities & Risks – Private Markets

Manager Anecdotes

- Sector deal flow may slow as sponsor EV multiples come under pressure, rather than spreads widening
- Mission critical software with switching costs and compliance driven workflows may have higher barriers; and the most durable opportunities are where specialization meets integration of AI
- If AI replaces end users, the ability to implement outcomes-based pricing, and associated revenue volatility, will be key going forward

Our Focus

Diversification: Manager exposure to software ranges from 5 – 30%, with the trend towards upper middle market managers

Senior secured: Covenants, fewer lenders involved, mission-critical software

Underwriting standards: Consistent leverage and LTV profiles at entry, workout capabilities

Cliffwater Exposure

- Cliffwater appears to have a healthy book of loans compared to the Blue Owl fund that captured attention in February

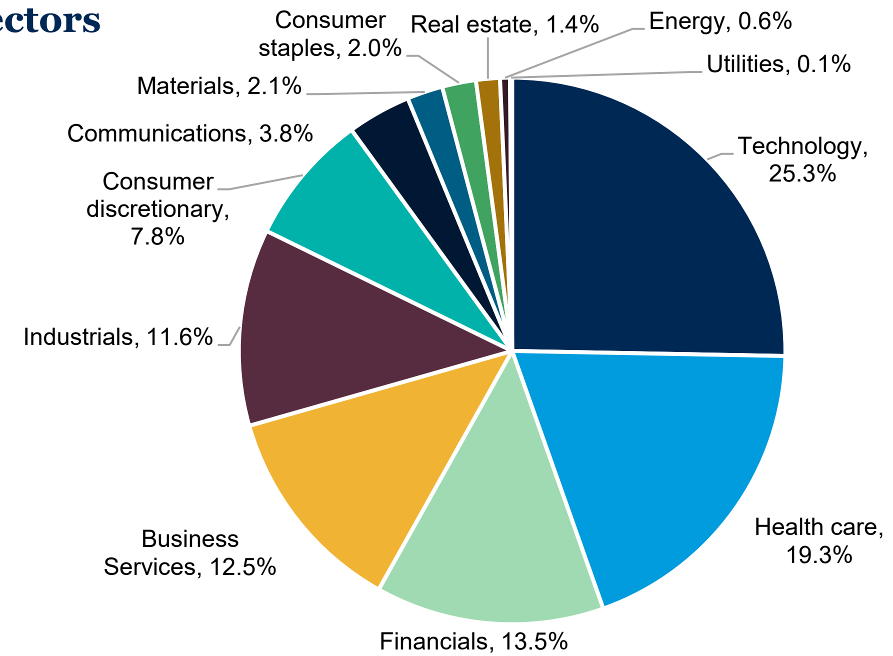
- Technology exposure is sizable which could create investor consternation. Cliffwater's 1Q window closes on March 10th and historically they see spikes in redemptions on or right before the deadline date

- Cliffwater has balance sheet flexibility equal to ~20% of NAV, or one full year of required redemptions

- Off-balance sheet leverage can be used to manage liquidity if liability spreads remain tenable

- Asset coverage should be closely monitored as a breach of 300% would trigger remediation

Sectors



		CCLFX	OBDCII
Assets	PIK % of income	3.0%	9.9%
	Non-accrual	0.9%	1.9%
	First Lien	96.0%	77.0%
Liabilities	Asset coverage	389%	219%
	Debt to equity	0.3x	0.8x
	Redemptions QTD	5.3%	5.9%

CCLFX as of December 31, 2025. OBDCII as of September 30, 2025.

Disclosure

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