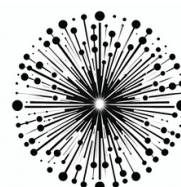ALLVUE

Allvue Alpha:

Where Private Market Data Meets Performance

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EXPONENTIAL

Systematic Covenant Monitoring in Private Credit: The PODS Case Study

Using comprehensive market intelligence to transform reactive compliance into predictive risk managemant

Rethinking Covenant Monitoring: The Power of Percentile-Based Credit Benchmarking

Executive Summary

Traditional financial covenants remain a lender's first line of defense in private credit. But as the market grows more complex and competitive, static leverage ratios and absolute thresholds alone can miss early signals of borrower stress. What's often needed is context and an understanding of how a borrower's financial trajectory compares to its peers over time.

That's where percentile-based benchmarking can reshape the equation. Rather than asking whether a borrower's leverage exceeds a set limit, this approach evaluates how quickly it is deteriorating relative to comparable credits. With a deep pool of data, and a dynamic data and analytics platform, Allvue has the capability to deliver insights like this to enable lenders spot rising risk well before a breach occurs.

How Allvue Defines Benchmarking

Allvue's dataset spans tens of thousands of borrowers worldwide, sourced from global CLO portfolios and direct private credit transactions. New compliance and amendment notices refresh leverage, coverage and liquidity data on a quarterly basis. Once the data is refreshed, percentile ranks are recalculated, turning static ratios into a dynamic heatmap of relative risk. A higher percentile rank signals a weaker credit profile relative to peers.

A Real-World Example: PODS LLC

Consider PODS LLC, a sponsor-backed moving and storage firm. On paper, the company's total leverage ratio rose from 4.5x to 5.9x between Q2 and Q4 2023, still under its 6.0x covenant limit. However when viewed in percentile terms, the risk profile looked quite different: PODS jumped from the 60th percentile to the 93rd, placing it in the riskiest decile of similar borrowers.

Table 1: From Compliance to Breach

PODS Leverage Crisis: From Compliance to Breach
Systematic Covenant Tracking Reveals Early Warning Signals
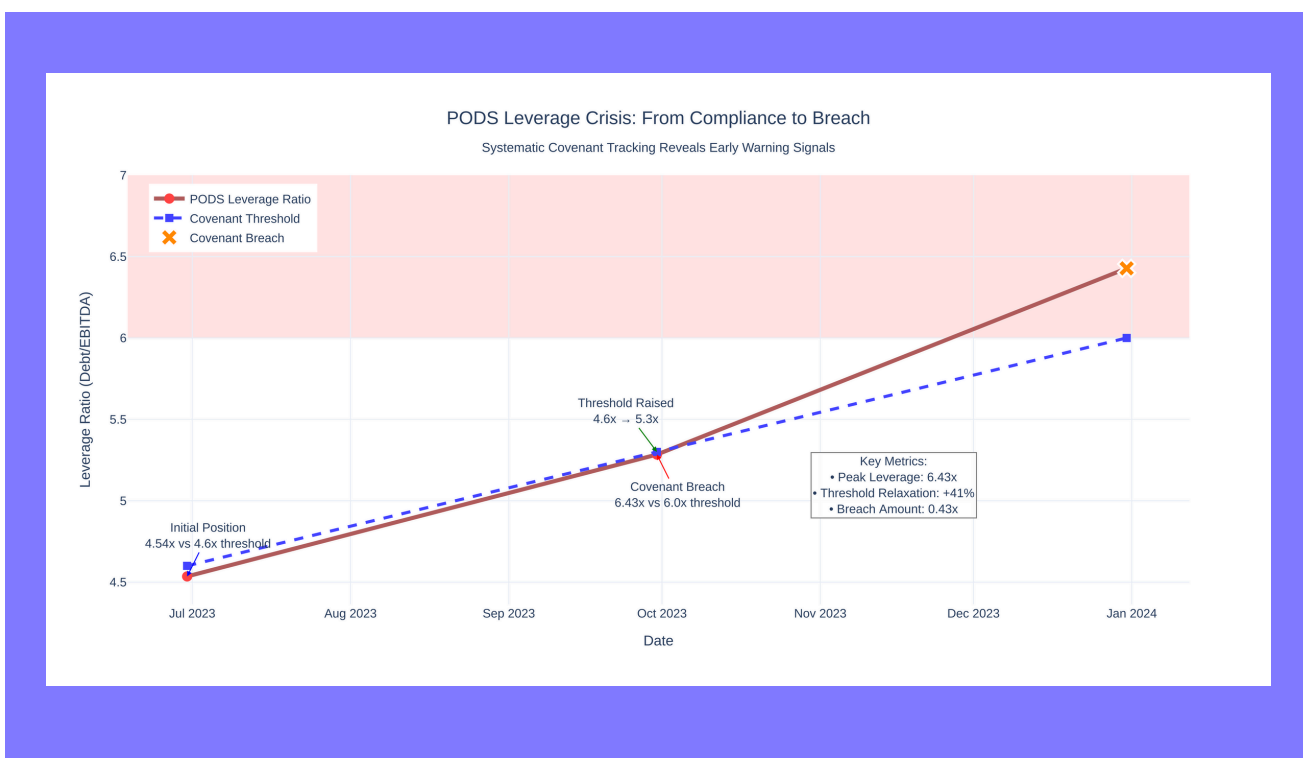
Table 2: PODS Quarterly Covenant Tracking

Quarter	Covenant limit*	Reported leverage	Percentile Rank†	Lender Action
Q2-23	4.6 x	4.54x	60th	Original terms
Q3-23	5.3 x	5.28x	75th	Covenant relief amendment
Q4-23	6.0x	6.43x	93rd	One-quarter waiver; +75 bp margin & fee
Q1-24	6.5x	5.98x	88th	Second amendment under negotiation

* Total leverage = Debt ÷ LTM EBITDA   † Percentile vs Allvue private-credit universe

That shift wasn't just academic. Lenders responded with amendments, waivers, and pricing adjustments well before a breach occurred. And nearly a year later, rating downgrades followed, validating the early warning sign. For many credit teams, this type of forward-looking signal can mean the difference between proactive engagement and reactive fire drills.
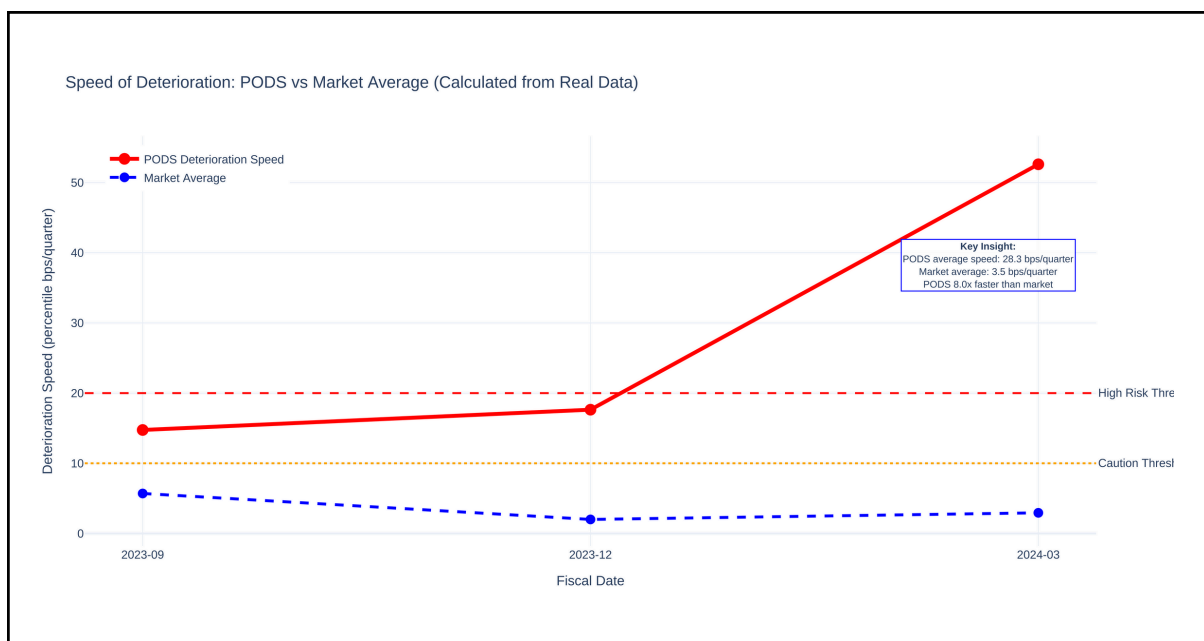
WHY THIS MATTERS NOW

Private credit has surged into a $1.7 trillion market, with more borrowers, more tailored deals, and more variability than ever. Leverage covenants are commonly set well above closing levels, often 25% to 75% higher, based on historical data. That means a borrower can remain "compliant" even as its risk profile deteriorates significantly.

Percentile benchmarking can reveal a drift early. Historical back-testing of Allvue's data from 2007 to 2024 was drawn from a relevant sample of 50,000 loans and shows that when a borrower's leverage percentile jumps 25 points or more over two quarters, there is a 67% chance of breaching a covenant within the following year. For borrowers tracked only by absolute ratios, that probability drops to 24%.

Table 3: PODS Deteoriation vs Expectations

Speed of Deterioration: PODS vs Market Average (Calculated from Real Data)

Key Insight:
PODS average speed: 28.3 bps/quarter
Market average: 3.5 bps/quarter
PODS 8.0x faster than market

UNLOCKING THE VALUE OF MARKET CONTEXT

This kind of relative benchmarking requires access to broad, longitudinal data ideally across many managers, strategies, underlying credits and regions. While firms often rely on internal data or deal-team memory, those sources rarely offer the breadth or recency needed to make truly comparative judgments.

With platforms built to serve the private capital markets, and $8.5 trillion in assets, 21,000 funds, and over 500 global clients, Allvue has the capability to offer this type of insight. By continuously ingesting compliance notices, amendment data, and new deal terms, these systems can convert each quarterly update into a real-time percentile rank, highlighting borrowers whose metrics are diverging from the norm.

The data foundation powering these insights draws from a nearly 20-year history of tracking covenants, including CLO portfolios and private credit transactions across direct lending, club deals, and more. This scale and continuity allow not just for real-time risk spotting, but also for historical pattern recognition.

HOW CREDIT TEAMS PUT IT TO WORK

Relative benchmarking is more than a monitoring tool; it supports decision making across the entire credit lifecycle:

- **Deal Structuring:** Credit teams compare draft covenants against recent comps, ensuring proposed leverage levels and cushions reflect real market norms.

- **Portfolio Management:** Investors flag positions with rising percentile ranks before they hit hard triggers, prioritizing deep dives or engaging borrowers early.

- **Investor Relations:** When LPs ask about monitoring practices, credit teams can point to systematic, data-driven oversight that goes beyond basic covenant tracking.

A single dashboard can reveal whether a borrower is drifting, sliding, or plunging, and whether that move is company-specific or part of a broader cycle. In PODS' case, a sharp upward percentile move during a relatively stable macro period isolated the risk as idiosyncratic, not just economic noise.

REACTIVE TO PROACTIVE: THE NEW COVENANT PLAYBOOK

Early warning systems give lenders time to act before options narrow. This might include tightening reporting, aligning on interim performance metrics, requesting additional collateral, or even repricing the loan. When these actions happen before a covenant is breached, they are strategic, not reactive.

PUTTING IT ALL TOGETHER: FROM RATIOS TO SIGNALS

Absolute leverage ratios set the boundaries. Percentile analysis shows how fast a borrower is approaching them, and whether that speed is unusual. Embedding that relative lens into both underwriting and monitoring empowers credit managers to:

- **Validate terms** during deal structuring
- **Spot early signs** of stress
- **Take action** while flexibility remains

Platforms with deep access to private credit data, and the scale to benchmark across hundreds of borrowers, can transform covenant monitoring from a checkbox to a predictive discipline. With the right tools and context, lenders can safeguard capital more effectively and allocate it with greater precision

APPENDIX - DEFINITIONS

- **Leverage Ratio** - A leverage ratio is a financial metric that assesses the extent to which a company uses debt to finance its assets or operations. It helps in evaluating a company's financial health, particularly its ability to meet its debt obligations. High leverage ratios can indicate a greater risk of financial distress, while lower ratios suggest a more stable financial position

- **Credit Scoring** – Is the process of assigning a a numerical rating that reflects a company's creditworthiness, indicating how likely it is to repay debts and manage financial obligations. It's a key factor used by lenders, suppliers, and other businesses to assess the risk associated with extending credit or offering favorable terms to a business.

- **CLO** - A Collateralized Loan Obligation (CLO) is a structured finance product that pools together leveraged loans (loans typically made to companies with lower credit ratings) and repackages them into different tranches of securities with varying risk and return profiles. These tranches are then sold to investors, allowing them to participate in the leveraged loan market with varying levels of risk and potential return.

ABOUT THIS REPORT

Allvue is uniquely positioned to offer unprecedented market intelligence through anonymized, comparative analytics and provide strategic insights into market trends, competitive positioning, and investment opportunities that were previously invisible.

DATA PRIVACY

All data used within benchmarking and analytics tools is anonymized and aggregated to remove all direct and indirect identifiers, preventing the identification of any specific client, borrower, portfolio, or transaction. Allvue uses client data exclusively with the client's explicit, prior written consent. All data collection, processing, and use conforms to applicable laws and regulations, including but not limited to the General Data Protection Regulation (GDPR) and the California Consumer Privacy Act (CCPA). Allvue strictly limits data usage to anonymized benchmarking and market-level analytics and prohibits sharing raw data with unauthorized third parties. Outputs such as reports and insights are structured, so they do not identify clients or borrowers, directly or indirectly. For inquiries regarding Allvue's data privacy practices, clients may contact legal@allvuesystems.com

ABOUT ALLVUE SYSTEMS

Allvue is headquartered in Miami with locations globally throughout North America, Europe and India. Allvue is a recognized leader of cloud-based technology, data, and services solutions for alternative investment managers in the private capital markets. Our integrated suite of software empowers firms of all sizes—including private equity managers, private debt managers, public credit managers, fund administrators, and banks—to streamline operations, enhance data accuracy, and drive superior investment decisions. Allvue has made deep investments in AI research and development as part of its commitment to innovation, which will enable clients to optimize workflows, automate processes, and gain deeper analytical insights across the entire investment lifecycle.