CHURCHILL
from nuveen

Perpetual Life, Non-traded BDC

Nuveen Churchill Private Capital Income Fund Portfolio Update

Marketing communication | 2Q 2024

Nuveen Churchill Private Capital Income Fund (PCAP) is a perpetual life, non-traded investment vehicle that offers exposure to a diversified portfolio anchored in middle market senior loans while seeking to provide interest rate stability through junior capital investments and attractive upside through private equity co-investments.

PCAP provides a compelling opportunity for investors to access the benefits of private capital through an award-winning manager with a differentiated strategy and proven track record. During 2024, Churchill continues to be recognized in several prestigious industry categories but most recently Nuveen Private Capital, which is comprised of U.S. and European asset managers Churchill Asset Management and Arcmont Asset Management, was named 2024 "Lender Firm of the Year" in the 15th Annual International M&A Awards.[1] The International M&A Awards recognize the leading transactions, restructurings, products and services, firms, and professionals that affect more than one country's market. An independent judging committee of top M&A industry experts determined the ultimate recipients of the awards.

Market update

With greater economic clarity, direction and intention around the Fed on interest rates, we continue to see an increase in deal flow as buyers and sellers engage in price discovery, unlocking additional opportunities.

Looking at the overall market, credit quality remains strong despite the higher-for-longer rate environment and inflationary pressures on borrowers. The U.S. economic environment remains healthy and resilient, and we believe that will continue in the near term. We have yet to see evidence in Churchill's core middle market portfolio of an imminent recession or pullback in spending and CapEx investment, and CFO confidence appears to remain high given the significant add-on M&A activity.

From March 2022 to today, the market has experienced bouts of extreme inflation, rising interest rates, labor shortages and supply chain issues, however, private credit continues to prove its resiliency, defying expectations. The Proskauer's Private Credit Default Index reported payment default rates of just 0.90% for the quarter.[2] KBRA DLD's trailing twelve month default rate for direct lending sponsored backed deals was just 1.4% with their 2024 full year default forecast of just 2.5%.[3]

Private lending markets have seen substantial pick-up in M&A activity, certainly a welcomed reprieve from weaker deal formation over the last year. Direct lending sponsored middle market deal volume was up 41% with middle market LBO volume up close to 20% in 2Q 2024 as compared to 1Q 2024.[4]

Positively, for 2H 2024, we expect activity levels to continue to increase in earnest. The tailwinds to that thesis is the overhang of private equity dry powder on the sidelines coupled with private equity fund LPs demanding realizations. Sponsor-to-sponsor M&A activity will provide a lift for private credit deal flow. With more certainty in financial markets and financing costs, dealmakers have more confidence to complete transactions.

The more certain market environment paired with continuous demand for private credit assets has resulted in some modest spread compression, as evidenced by an increase in refinancing and repricing activity during the quarter. Spreads on sponsored middle market loans were 586bps in 2Q 2023 as compared to 536bps in 2Q 2024.[4]

From the start of 2024, the broadly syndicated loan ("BSL") market has experienced a resurgence of activity. Importantly however, of the $729 billion in BSL volume year to date, only $33 billion or 4% are new LBOs with the vast majority of that activity representing refinancings.[4] While there is some competition between the public debt markets and banks that underwrite larger transactions, sponsored middle market direct lending volume exceeded sponsored middle market syndicated volume by 3.2x in 1H 2024 (compared to 2.3x in 2023 and 2.6x 2022).[4]

Leading managers with scale and differentiated sourcing can still offer private equity sponsors speed, certainty of execution, and confidentiality while maintaining the historical 100-200 basis point premium in pricing.[4] In fact, the yield premium on sponsored middle market direct lending deals was 265bps above that of a large corporate deal.[4]

Our target market has remained somewhat insulated from these market dynamics, given our primary focus on the core middle market, where the limited number of scaled direct lenders and the relationship-based nature of the market have made the impact more muted.

Throughout 2024, we have seen portfolio issues from less disciplined managers due primarily to the higher-for-longer interest rate environment and weaker structures. We believe experienced private credit managers with the platform and scale to maintain disciplined and credit rigor are best positioned as we look ahead.

Because of this, we believe our time-tested investment approach is more important than ever. We remain focused on investing in recession resistant sectors, and in transactions with conservative loan structures with modest leverage and strong equity contributions and financial covenants in place.

Portfolio update

Nuveen Churchill Private Capital Income Fund invests squarely in the core-traditional middle market, representing businesses with EBITDA profiles between $10 million and $100 million (with a focus on traditional middle market companies with between $15 million and $75 million of EBITDA). As such, as of 30 Jun 2024, PCAP's weighted average EBITDA was $75.4 million.[5] We believe the highest risk adjusted returns can be sourced in this segment of the middle market. Since its 2006 inception, Churchill has been engaged in providing flexible debt financing to U.S.-based middle market companies, backed by leading private equity sponsors.

PCAP targets broad diversification by issuer, origination vintage and industry sectors. We invest in non-cyclical industries with strong, recurring cash flows that are less capital intensive, such as business and consumer services and healthcare. Churchill maintains conservatism when structuring transactions, which is particularly relevant in today's higher rate environment. PCAP leverages Churchill's established network of private equity sponsor relationships and strong origination and underwriting platform. PCAP's portfolio construction is most heavily weighted toward first lien senior secured loans with robust structural protections, modest leverage, and meaningful equity contributions from top tier private equity managers.

Accordingly, through 30 Jun 2024, the PCAP portfolio has remained resilient with no losses in the portfolio or borrowers on non-accrual status. Our "watchlist" remains at just 3.27% of the portfolio at fair value.

As of 30 Jun 2024, PCAP had 221 portfolio companies operating across 30 different sectors with an average position size of 0.49%[6] and a weighted average asset level yield of 10.60%.[7]

PCAP's portfolio as of 30 Jun 2024 was comprised of 88.03% first lien middle market term loans, 5.43% second lien middle market term loans, 4.99% mezzanine debt and 1.55% private equity co-investment exposure.[8] Across PCAP's portfolio composition, 91.25% is floating rate debt. The portion of the portfolio that bears a fixed rate is invested in what we believe are attractively yielding, conservatively structured junior capital investments (second lien and mezzanine debt).[9]

Directly originated middle market senior loans and junior capital investments provide diversified income and aids in capital preservation, while middle market private equity co-investments can provide longer term upside potential through capital appreciation. We continue to believe that a portfolio that is heavily weighted towards conservatively structured first lien loans is an attractive place to invest in the current market environment, while modest allocations to higher yielding junior capital investments, and private equity co-investments, may have the ability to generate attractive gains on exit.

The fund broke escrow on 01 Jun 2023. As of 30 Jun 2024, PCAP's fair market value was $929.6 million. We remain committed to optimizing PCAP's attractively structured leverage facility as we continue to incorporate 3rd party capital into the fund.

Since its March 2022 inception, the PCAP portfolio remains very strong in terms of loss avoidance. This is a testament to Churchill's long-standing, conservative discipline investing in the core-traditional middle market for close to two decades. A key metric that we focus on is interest coverage, and as rates rapidly increased and will likely stay elevated, that has put an upper limit on the amount of debt a borrower can support. This has resulted in lower leverage attachment points, while at the same time we have yet to see equity multiples contract for attractive borrowers like the ones Churchill seeks to finance. This means that a higher percentage of the capital structure of our borrowers is comprised of equity, providing additional downside protection to our debt investments.

PCAP Outlook

From a forward-looking perspective, we believe PCAP is well-positioned for strong performance in the second half of 2024. Our outlook is underpinned and enabled by PCAP's approach to portfolio construction and management. Three key factors are worth highlighting:

1) PCAP has a strong focus on a high level of portfolio diversification across a number of key metrics.

2) Churchill has a rigorous investment process that puts credit quality above all else.

3) Churchill maintains a highly differentiated origination and sourcing model. We enjoy strong private equity LP relationships. Over nearly two decades, Churchill has worked with more than 280 middle market private equity firms. These relationships afford Churchill with a pipeline of continuous deal flow and sourcing opportunities.

PCAP's commitment to investors

Nuveen Churchill Private Capital Income Fund is focused on providing monthly distributions, attractive return potential, and portfolio diversification beyond traditional asset classes. In addition, we are offering an attractive fee structure with a partial waiver of the management fee and full waiver of the incentive fee beginning on 01 Jun 2024 and concluding on 31 Dec 2024. We believe that our active management, diversified portfolio strategy, and commitment to quality will continue to offer investors a compelling advantage.

Note: We cannot guarantee that we will make distributions, and if we do, we may fund such distributions from sources other than cash flow from operations, including the sale of assets, borrowings, return of capital or offering proceeds, and although we generally expect to fund distributions from cash flow from operations, we have not established limits on the amounts we may pay from such other sources. Currently, 100% of inception-to-date distributions were funded from cash flows from operations. Distributions may also be funded in significant part, directly or indirectly, from temporary waivers or expense reimbursements borne by the Adviser or its affiliates, which may be subject to reimbursement to the Adviser or its affiliates. The repayment of any amounts owed to our affiliates will reduce future distributions to which you would otherwise be entitled.

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Past performance is no guarantee of future results.

1 "Lender Firm of the Year" in the 15th Annual International M&A Awards in July 2024 by an independent panel of judges appointed by the M&A Advisor. Winners announced in July 2024. Nominal fees were required to submit nominations.

2 Proskauer's Private Credit Default Index 2Q 2024. Default Index includes 922 active loans representing approximately $150.7 billion in original principal amount, and tracks senior-secured and unitranche loans in the U.S. Default rates are calculated on the last day of the quarter by dividing the number of loans with conventional defaults (payment default, bankruptcy default and distressed exchange) by the aggregate number of loans in the Default Index.

3 KBRA DL Direct Lending Default Research as of 17 Jul 24. KBRA DLD's Index contains 2,400 companies financed by direct lending loans. KBRA defines default as bankruptcy, missed payment, a distressed debt exchange, or restructuring.

4 LSEG LPC's 2Q24 US Sponsored Middle Market Private Deals Analysis.

5 Weighted Average EBITDA: The weighted average metrics include all private debt investments for which fair value is determined by the Board of Trustees in conjunction with third party valuation firms and excludes quoted assets. Including all quoted assets, our portfolio companies had a weighted average EBITDA of 331.2 million. EBITDA amounts are derived from the most recently available portfolio company financial statements and are weighted based on fair market value of each respective investment. Amounts have not been independently reviewed by us and may reflect a normalize or adjusted amount. Accordingly, we make no representation or warranty in respect of this information.

6 Average position size is calculated as a percentage of total fair value of the investment portfolio.

7 Represents weighted average yield on debt and income producing investments, at fair value. The weighted average yield of our debt and income producing securities is not the same as a return on investment for our shareholders, but rather relates to our investment portfolio and is calculated before the payment of all of our and our subsidiary's fees and expenses. The weighted average yield was computed using the effective interest rates as of each respective date, including accretion of original issue discount, but excluding investments on non-accrual status, if any. There can be no assurance that the weighted average yield will remain at its current level.

8 Allocations exclude exposures to fund level cash and are adjusted pro rata to equal 100%.

9 Floating and Fixed Rate: As a percentage of debt investments in PCAP's portfolio, which represents 98.45% of PCAP's investments excluding PCAP's equity co-investments.

For more information contact: 800.752.8700 or visit nuveenchurchillpcap.com

Opinions and views expressed reflect the current opinions and views of Churchill as of the date of this material only. Nothing contained herein is intended as a prediction of how any financial markets will perform in the future and nothing contained herein should be relied upon as a promise or representation as to past or future performance of a fund or any other entity, transaction, or investment.

This material contains historical information and "forward-looking statements" with respect to the business and investments of PCAP, including, but not limited to, statements about PCAP's future performance and financial performance and financial condition, which involve substantial risks and uncertainties. Such statements involve known and unknown risks, uncertainties and other factors and undue reliance should not be placed thereon. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about us, our current and prospective portfolio investments, our industry, our beliefs, and our assumptions. Words such as "anticipates," "expects," "intends," "plans," "will," "may," "continue," "believes," "seeks," "estimates," "would," "could," "should," "targets," "projects," "outlook," "potential," "predicts" and variations of these words and similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond PCAP's control and difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements including, without limitation, the risks, uncertainties and other factors identified in PCAP's filings with the SEC, including changes in the financial, capital, and lending markets; general economic, political and industry trends and other external factors, and the dependence of PCAP's future success on the general economy and its impact on the industries in which it invests. Investors should not place undue reliance on these forward-looking statements, which apply only as of the date on which PCAP makes them. PCAP does not undertake any obligation to update or revise any forward-looking statements or any other information contained herein, except as required by applicable law.

Investments in the fund may be subject to market and other risk factors. See the applicable product literature. Investments in middle market loans are subject to certain risks. Please consider all risks carefully prior to investing in any particular strategy. These investments are subject to credit risk and potentially limited liquidity, as well as interest rate risk, currency risk, prepayment and extension risk, inflation risk, and risk of capital loss. Diversification is a technique to help reduce risk. It is not guaranteed to protect against loss.

Risk factors:

Investing in PCAP's common shares of beneficial interest (common shares) involves a high degree of risk. See full information pertaining to "Risk Factors" in the prospectus. Also consider the following:

We have limited prior operating history and there is no assurance that we will achieve our investment objective.

You should not expect to be able to sell your Common Shares regardless of how we perform.

You should consider that you may not have access to the money you invest for an extended period of time.

We do not intend to list our Common Shares on any securities exchange, and we do not expect a secondary market in our Common Shares to develop.

Because you may be unable to sell your Common Shares, you will be unable to reduce your exposure in any market downturn.

We intend to implement a share repurchase program, but only a limited number of Common Shares will be eligible for repurchase and repurchases will be subject to available liquidity and other significant restrictions and limitations. See "Share Repurchase Program" and "Risk Factors" in the prospectus.

An investment in our Common Shares is not suitable for you if you need access to the money you invest. See "Suitability Standards" and "Share Repurchase Program" in the prospectus.

We intend to use leverage, which will magnify the potential for loss on amounts invested in us. See "Risk Factors -Risks Related to Debt Financing" in the prospectus.

We intend to invest in securities that are rated below investment grade by rating agencies or that would be rated below investment grade if they were rated. Below investment grade securities, which are often referred to as "junk," have predominantly speculative characteristics with respect to the issuer's capacity to pay interest and repay principal. They may also be illiquid and difficult to value.

An investor will pay a sales load of up to 3.50% and offering expenses of up to 0.75% on the amounts it invests in Class S shares. If you pay the maximum aggregate 4.25% for sales load and offering expenses for Class S shares at the current purchase price of $25.00, you must experience a total return on your net investment of 4.44% in order to recover these expenses. Additionally, Class S shares are subject to a shareholder servicing and/or distribution fee equal to 0.85% per annum of the aggregate NAV as of the beginning of the first calendar day of the month, payable monthly.

An investor will pay a sales load of up to 1.50% and offering expenses of up to 0.75% on the amounts it invests in Class D shares. If you pay the maximum aggregate 2.25% for sales load and offering expenses for Class D shares at the current purchase price of $25.00, you must experience a total return on your net investment of 2.30% in order to recover these expenses. Additionally, Class D shares are subject to a shareholder servicing and/or distribution fee equal to 0.25% per annum of the aggregate NAV as of the beginning of the first calendar day of the month, payable monthly.

An investor will pay offering expenses of up to 0.75% on the amounts it invests in Class I shares. Accordingly, you must experience a total return on your net investment of 0.76% in order to recover the expenses for Class I shares.

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Past performance is no guarantee of future results. Actual results may vary. Diversification of an investor's portfolio does not assure a profit or protect against loss in a declining market.

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