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Principal Alternative Credit

Principal Asset Management℠

Harnessing the lower middle market: A direct lending advantage

Direct lending is a rapidly growing asset class that offers investors a compelling way to potentially enhance their portfolio. Within this space, the lower middle market presents a distinctive investment opportunity—offering attractive return and enhanced yield potential, improved resiliency, diversification, reduced volatility, and improved downside mitigation.

PRINCIPAL ASSET MANAGEMENT:

A leading global investment manager overseeing $593.8 billion in assets[(1)]

Our parent company, Principal Financial Group (Nasdaq: PFG) was founded nearly 150 years ago to provide companies with affordable insurance. Today, Principal Financial Group is a top retirement provider[(2)] in the U.S. and one of the largest 401K retirement solutions managers overseeing $712 billion in assets under administration[(3)]. We possess deep insights in the small and medium business segment we serve.

Gain an advantage in lower middle market lending with Principal Asset Management

Our broad and diverse origination capabilities gives our investors an edge in harnessing attractive investment opportunities in lower middle market direct lending. We have a constant pulse on the segment to seize opportunities and adapt to changing conditions quickly.

→ **Harness our heritage serving middle market companies**
Serving small and medium-sized businesses since we were founded, Principal Financial Group has a deep understanding of middle market company business models, drivers and industry dynamics.

→ **Principal Asset Management is aligned with our clients**
Middle market direct lending is a key strategic focus for Principal Asset Management and the overall Principal organization. We have committed capital from our balance sheet to invest alongside clients.

→ **Principal Alternative Credit: Market leader in private credit**
Our dedicated direct lending team builds on our heritage as a private credit lender for over 60 years.

Aligned with you, invested in your success

Having committed over $3 billion alongside our clients, our interests are aligned with yours. We will hold a portion of every loan alongside our investors.

- **Deployed over $3 billion** in middle market direct lending investments
- Diverse loan sourcing and lower middle market **focus designed to pursue higher risk-adjusted returns** on behalf of the firm and clients.
- Emphasizing **strong credit structure** and first lien senior-secured loans

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Attractiveness of lower middle market direct lending

Underserved lower middle market	Constrained by regulations, banks have shifted away from lending to lower middle market companies, creating a tailwind for private direct lending to thrive. The underserved lower middle market offers investors attractive yield, structure and returns along with potential diversification benefits.
Less competition among managers	Within direct lending, larger funds are pushed up market because of capital deployment pressures, resulting in attractive characteristics and fundamentals for lenders focusing on the lower middle market.
Historically, higher yields, lower leverage, stronger terms, lower default risk & stronger recoveries	Relative to the upper middle market and broadly syndicated loans, the lower middle market offers incremental yield, less leverage, lower default risk and stronger recoveries. In addition, stronger covenants and first lien structures with senior secured positions offer potential reduction of downside risk plus capital preservation.
Attractive sustained risk-adjusted returns potential	In today's uncertain economic environment, direct lending may offer investors appealing and stable returns relative to the risks involved. Historically, direct lending has offered consistent income with low volatility and less downside risk relative to other fixed income options.
Potential boost from M&A	Potentially robust M&A activity could increase lending opportunities and strengthen borrower profile.

How middle market direct lending may benefit your portfolio

ENHANCED YIELD AND RETURN POTENTIAL

- Historically, generated higher yields than most other fixed income strategies[4]
- Comparable returns to public equities and other alternative investments[5]
- Has historically performed well across varied interest rate environments[6]

RESILIENCY AND DIVERSIFICATION

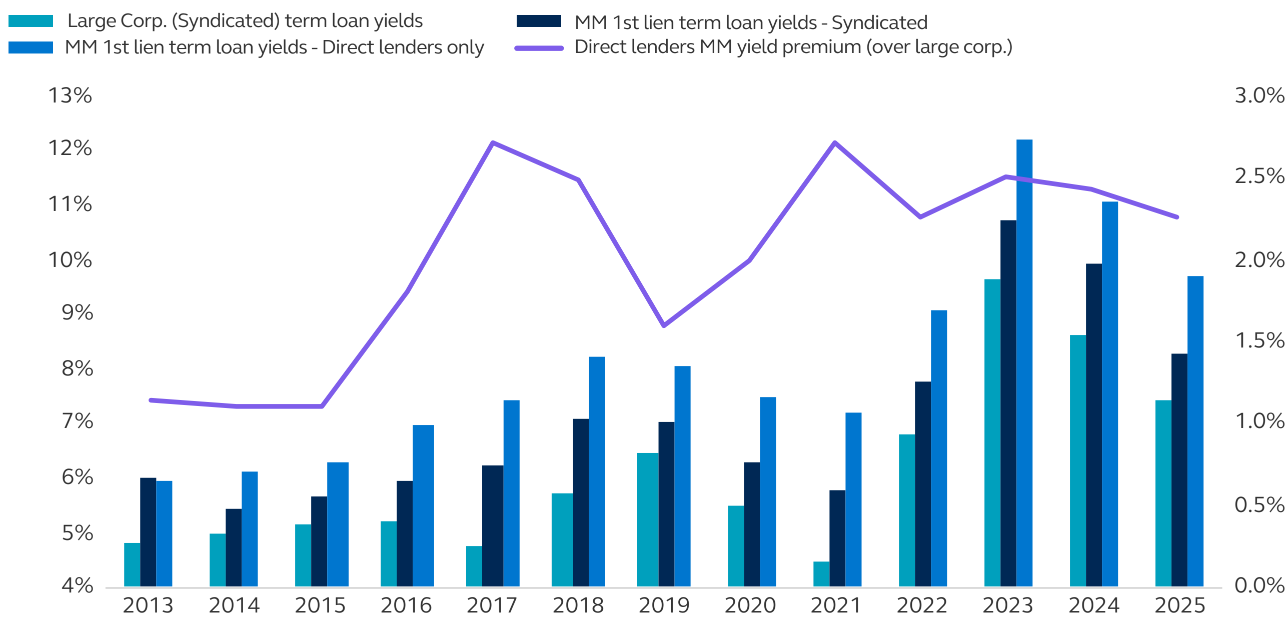
- Lower and core middle market direct lending has historically exhibited favorable default and loss experience
- Performance is often not well-correlated with other types of assets or with the business cycle
- Universe size creates more diversified portfolios, by accessing opportunities unavailable to investors limited to public markets

REDUCED VOLATILITY PLUS DOWNSIDE MITIGATION

- Typically, less sensitive to public market price volatility
- Emphasis on companies with low cyclicality and stable cash flow
- Loans are at the top of the capital structure with collateral offering attractive downside mitigation
- Robust covenants can restrict some activities and require companies to maintain specific leverage

Attractive middle market direct lending yield premium

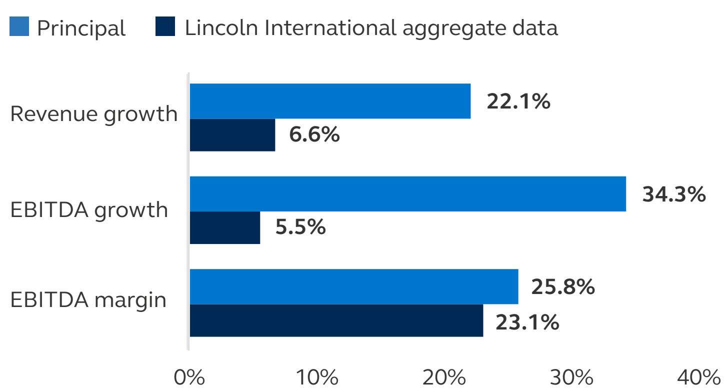
1st lien term loan yields & MM yield premium (annual)



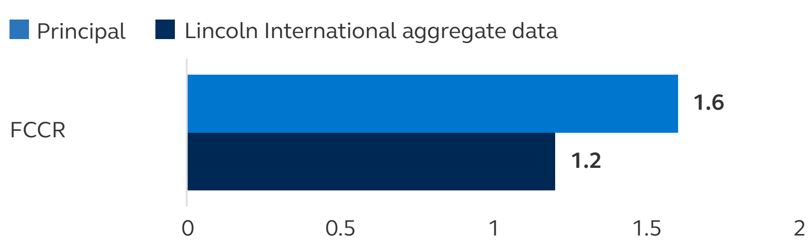
As of 31 December 2025. Source: LSEG LPC.

Creating a resilient portfolio: Disciplined underwriting and intentional portfolio construction

Portfolio performance relative to benchmark



Fixed-charge coverage ratio (FCCR)



As of 31 March 2025. Source: Lincoln International, Cliffwater Direct Lending Index. Lincoln International aggregate data is provided by Lincoln International which provides a valuation of the direct lending market and collections information directly from investment management firms and other sources. The loans originated are all discretionary loans. Peer group comparisons based on the available information, are for information purposes only and should not be relied upon as a significant basis for an investment decision. The comparisons provided above have been prepared as a guide and they are not intended to be exhaustive.

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Investing with Principal Alternative Credit: Deep insights and experience

Our dedicated direct lending team of experts brings deep insights in the middle market direct lending sector, with senior team members averaging over 20 years of credit investing experience. With over 40 specialists, the Principal Alternative Credit team originates, leads, underwrites, and manages the entire direct lending investment process from start to finish. Post close, the team closely manages the direct lending portfolio supported by legal, compliance, and business development experts.

Building on our strong relationships, we focus on originating proprietary direct lending deals and providing financing solutions to both sponsor- backed and non-sponsor backed middle-market companies throughout North America.

Strong origination capabilities

- Proprietary loan origination directly from borrowers and co-lenders, advisors, global Principal client network, and our Elevate by Principal platform
- Extensive coverage of more than 400 private equity firms for sponsor-backed lending

Stable capital base

- Supported by Principal's robust balance sheet commitment
- Invest alongside our clients in every deal and co-invest in strategies
- Strong external capital, offering a multiplier effect to capital commitment levels

Expansive capabilities

- Dedicated direct lending team with origination, structuring, underwriting, portfolio management, legal, and compliance experts
- Established capabilities to lead investments from start to finish
- Seasoned credit team experienced across industry verticals and debt assets

Rigorous underwriting process

- Focused on regional service providing business across diversified industries with strong cash flow for resiliency across business cycles
- Disciplined and rigorous underwriting process with high standards, strong covenants, tight credit agreements, and senior secured positions

PRINCIPAL ALTERNATIVE CREDIT:

Top 25 lender

(KBRA Direct Lending Deal Rankings, 31 December 2025)

Harness our expertise in lower middle market direct lending.
For more information, please talk to your Principal Asset Management representative.

[1] As of 31 December 2025. All assets under management figures shown in this document are gross figures and may include leverage, unless otherwise noted. Assets under management may include model-only assets managed by the firm, where the firm has no control as to whether investment recommendations are accepted or the firm does not have trading authority over the assets.

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Named a top retirement service provider with 46 recognitions from micro to mega market segments. 2024 NAPA Advisors' Choice Awards, Sept. 2024. Source: https://www.principal.com/businesses/protect-my-employees/retirement-plans/award-winning-retirement-solutions

[3] Assets under management as of 31 December 2024.

[4] As of 30 September 2025. Based on data since December 31, 2020. Sources: Bloomberg, LSEG LPC, Principal Global Investors. Yield to maturity compared to 10 Year UST, Bloomberg U.S. High Yield Index, S&P/LSTA U.S. Leveraged Loan 100 BB/B Index.

[5] As of 30 June 2025. Sources: Bloomberg, Cliffwater Direct Lending Index, S&P 500 S&P/LSTA Leverage Loan Index, Bloomberg U.S. Aggregate Bond Index, Bloomberg U.S. Municipal Index, Bloomberg U.S. Corporate Bond Index, Bloomberg U.S. Corporate High Yield Index. References the historical returns since September 30, 2004.

[6] As of 30 June 2025. Sources: Cliffwater Direct Lending Index, World Economic Forum. In the last three interest rate cycles the Cliffwater Direct Lending Index has remained positive.

Risk Considerations

Past performance does not guarantee future return. Investing involves risk, include possible loss of principal invested. Investments in private debt, including leveraged loans, middle market loans, and mezzanine debt, are subject to various risk factors, including credit risk, liquidity risk and interest rate risk. Asset allocation and diversification do not ensure a profit or protect against a loss. The strategy's objective of downside risk reduction/ protection may or may not be successful and as a result investors must be prepared to bear capital losses, including a loss of capital invested.

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