Invesco Senior Secured Loans

US Loan Market Snapshot

Monthly US Loan Market Update and Fund Commentary: June 2016

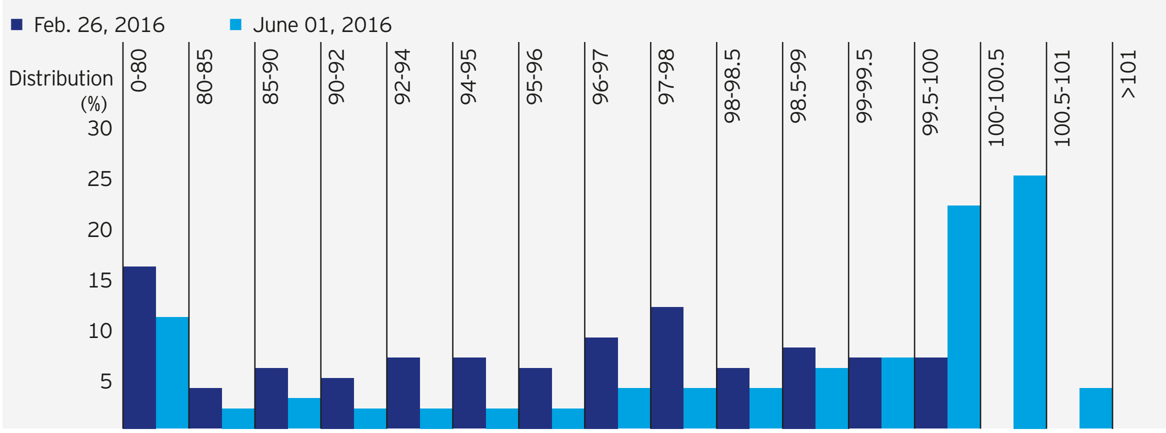
The loan market returned 0.89% [1] in May- the third consecutive month of returns in excess of the coupon. Loan prices have benefited from the positive tone that has persisted across the broader capital markets. Loans outperformed high yield bonds (0.72%), 10 y ear Treasuries (-0.09%), and Investment Grade Bonds (-0.06%) during the month.[2] Year-to-date returns of 4.49% have exceeded the returns of the S&P 500 but have not kept pace with high yield bonds largely due to loans' muted volatility and lower sensitivity to the rally in commodity prices.

Since mid-February macroeconomic indicators have improved, commodity prices have stabilized, and technicals have firmed. The pace of CLO issuances has improved from earlier this year, outflows from retail mutual funds has moderated, and supply has remained relatively slow. We expect the new issue and refinancing pipeline to grow as spreads continue to tighten. The recent strong performance combined with limited new issue supply has pulled higher quality deals closer to par and in some cases above par. This dynamic has fostered an environment supportive of opportunistic refinancing and re-pricing transactions offering some issuers the opportunity to reduce spreads and extend maturities.

Loans in the lower quality end of the risk spectrum performed the best in May. The CCC-rated loan segment returned 3.57% compared to 0.60% for BB-rated loans and 0.95% for B-rated issues.[1] From a sector perspective, the energy and metals and mining sectors posted strong outperformance versus the broader index.

Despite the average price in the loan market of $93.81, the majority of the market trades above 99 with smaller percentage of stressed and distressed outliers weighing on the broader average. As of month end, 60% of Credit Suisse Leveraged Loan Index was priced between $90 and $100 and 25% above par. At the current average price, senior secured loans are providing a 6.56% yield. [1]

Figure 1: The average price in the market has improved as higher quality names have pulled to par
Distribution of Loans in the Barclays US High Yield Loans Index



Source: Barclays as of May 31, 2016.

Average loan price includes all loans January 1997 through May 2016.

Fundamentals

- In general we believe that fundamentals remain favorable, supported by a slow but positive GDP growth rate. The US GDP growth rate for the first quarter was revised higher to 0.8% fr om a 0.5% annualized rate during the first quarter.
- Year over year EBITDA growth among S&P/LSTA Leveraged Loan Index issuers that file results publicly was 7.1% in the f irst quarter- modestly higher than the 7.0% in Q4'15 but at the lo wer end of the post- recession range.[1]
- There were four new defaults or downgrades to "D" in May–F airway, Dex Media, Seventy Seven Operating, and Atlas Iron– ele vating the trailing 12 month default rate to 1.96% at the end o f May.[1]

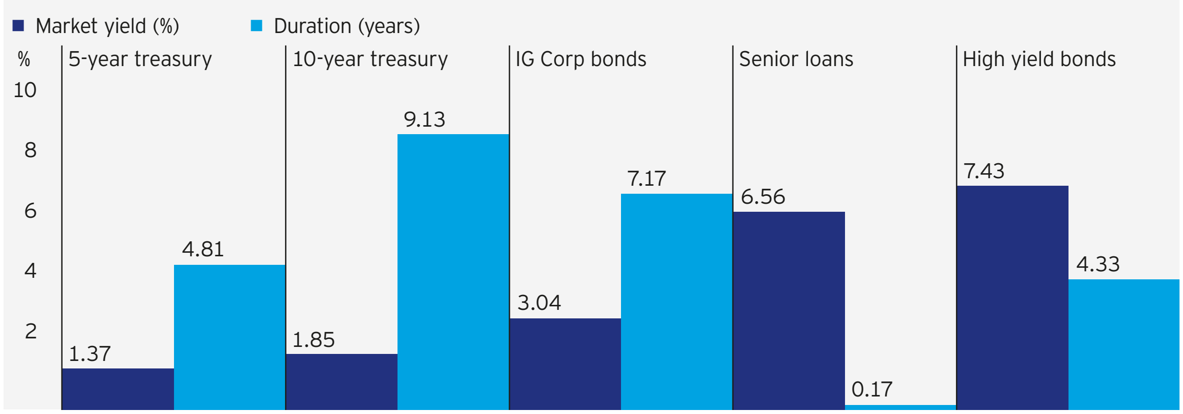
Technicals

- Technicals remained firm during the month with demand driven by institutional accounts, steady CLO issuances, and a moderation of retail mutual funds outflows. Retail mutual funds and ETF's had an inflow of $277 million in May. Year-to-date loan funds have reported outflows of -$6.0 billion versus -$4.9 billion for the same period last year.[3]
- CLO volume declined to $4.9 billion in May from $5.9 billion in April. Year to date CLO issuance has totaled $19.6 billion versus $54.1 billion during the same period last year.[3]
- New issue loan volume increased to $32.9 billion in May versus $19.9 billion in April. However, $10.6 billion of the new issue volume was in the form of repricing transactions. New issue loan volume remains far below last year's pace with $88 billion of issuance versus $149.9 billion over the same period last year.[3]

Relative value/market opportunity

Loans have continued to build momentum and despite several months of strong performance and spread compression, they continue to offer spreads in excess of historical averages and imply a default rate that we believe is unlikely to occur. Recent Fed commentary has indicated that an interest rate increase could occur in the near to medium term. Loans are well positioned for increasing rates due to their high coupon and short duration. The macroeconomic indicators that the Fed has highlighted as requirements for increasing rates- healthy GDP growth, low unemployment, and healthy inflation- should continue to be supportive of healthy fundamentals.

Loans continued to offer investors a high level of current income with short duration



Source: Bloomberg L.P., Barclays, BAML, S&P LCD as of May 31, 2016. Investment grade corporate bonds represented by a subset of Barclays U.S. Aggregate Index; the senior secured loan asset class is represented by S&P/LSTA Leveraged Loan Index; and high yield bonds represented by BAML High Yield Master Index. Past performance cannot guarantee comparable future results. An investment cannot be made directly in an index. Diversification does not guarantee a profit or eliminate the risk of loss.

	$ Price	Yield (%)	Spread to worst	At forward Libor	Duration (years)
5 year treasury	100-00	1.37%			4.81
10 year treasury	97-31	1.85%			9.13
Barclays US Agg Index	105.42	2.20%	T + 0.75		5.53
Barclays IG Index	106.43	3.04%	T + 1.42		7.17
ML US HY Index	94.68	7.43%	T + 6.06		4.33
S&P/LSTA Leveraged Loan Index	**93.81**	**L + 5.73%**	**T + 5.53**	**6.56%**	**45-60 Days**

Source: Bloomberg L.P., Barclays, BAML and S&P LCD as of May 31, 2016. Loan yields incorporate LIBOR forward curve as of May 31, 2016. Loan "spread to worst" and "At Forward LIBOR" incorporate LIBOR forward curve as of May 31, 2016.

1 S&P LCD (Leveraged Commentary and Data) as of May 31, 2016; Total returns and yields stated are for the S&P LSTA Leveraged Loan Index
2 HY Bonds: BAML HY Master Index; Investment Grade: BAML High Grade Corporate Index. Data as of May 31, 2016.
3 J.P. Morgan as of May 31, 2016

Important information

All data provided by Invesco unless otherwise noted. All data is US dollar and as of May 31, 2016, unless otherwise noted. Average loan price includes all loans January 1997 through May 2016.

Most senior loans are made to corporations with below investment-grade credit ratings and are subject to significant credit, valuation and liquidity risk. The value of the collateral securing a loan may not be sufficient to cover the amount owed, may be found invalid or may be used to pay other outstanding obligations of the borrower under applicable law. There is also the risk that the collateral may be difficult to liquidate, or that a majority of the collateral may be illiquid.

Compared to investment grade bonds, junk bonds involve a greater risk of default or price changes due to changes in the issuer's credit quality. Diversification does not guarantee a profit or eliminate the risk of loss.

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