European Union Referendum - Brexit

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On June 23rd 2016 the British people narrowly voted to leave the EU in an historic referendum. Polls had predicted a close race but the incumbent membership was expected to prevail. Accordingly, the result came as a shock to the general public, institutions and even the politicians in the "*Leave*" campaign. The fallout in the financial markets was immediate as investors unwound positions skewed towards a "*Remain*" outcome and then priced-in the heightened economic and political uncertainty. As outlined below, the senior secured loan markets in the US and Europe have been impacted by these events. The global financial markets continue to react, however the senior secured loan market remains attractive demonstrated by continued high coupon and relatively low volatility.

For your information, please see www.invesco.com, regional sites, key word Brexit for thought leadership from various Invesco constituencies, including global economic, European equity and emerging market commentary related to Brexit.

In relation to the global senior secured loan market, we expect higher levels of volatility. In addition, we are cautious of the potential drag on UK, EU and even global GDP growth as a result of the decision. However, we believe opportunities will present themselves and any significant selloff should be met with strong investor demand. The underlying aspects of the senior secured loan asset class remains intact—wider yields should balance increased volatility and allow for a tremendous opportunity.

We remain in the very early stages of what is likely to be a lengthy process and period of uncertainty. The ultimate outcome is unknown even for the UK, which could see further changes to the referendum voted on last week. Questions remain: Will other members tempt fate in the same manner as the UK? If so, more significant changes to the current construct will be required and the markets will likely experience even further challenges as global economies suffer.

While the vote to leave was a surprise, we have been shifting our portfolios up quality over the past 12 months and believe they are well positioned to potentially benefit longer term investors. Our investment analysts continue to monitor all of our portfolio holdings in light of their exposure to Brexit and the EU. We continue to see stable credit fundamentals across the global senior secured loan market with a few identifiable risks. This pull back in risk has caused risk adjusted spreads in excess of 200 bps* over historical averages, implying a default rate well in excess of our expectations.

* Historical spread, price and yield less historical credit loss of L+383 versus L+592 as of June 29, 2016. Historical averages from January 31, 2000 to May 31, 2016. Source: Credit Suisse Leveraged Loan Index.

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