Invesco Senior Secured Loans

European Loan Market Snapshot

Monthly European loan market update: February 2016

Returns

- The Credit Suisse Western European Leveraged Loan Index ("CS WELLI") posted a total return of negative 0.32% in January (See Figure 1) as 0.38% of interest was more than offset by 0.69% of capital depreciation.[1]
- In terms of broader market sentiment, January picked up where December left off, as investors across both equity and debt markets continued to fret about global growth, commodity prices and increasingly about the European banking sector. While European Senior Secured Loans ("SSL") remained relatively resilient to these themes, they were not immune. The year started with the underlying technicals in the loan market balanced with demand from Collateralized Loan Obligation (CLO) warehouses and new institutional loan flows matched by a solid supply of new loan issuance. However, towards the end of the month some weakness crept into secondary prices for two reasons. Firstly, cross holdings from European High Yield Mutual Funds and US Loan Mutual Funds sold higher price loans (less volatile) to build up cash position or meet redemptions. Secondly, CLO warehouses opened over the last few months are well ramped (invested) and shunned the secondary market in favor of the primary loan market.
- Heightened risk awareness reflected in relatively higher demand for better quality SSLs. For example, BB rated loans returned 0.10%, while single B returned negative 0.44% and CCC returned negative 3.44% during the month of January, continuing the trend of BB rated loans outperforming single B and CCC rated loans for the fifth straight month.[1]
- From a sector perspective, Energy continued to be the laggard with a negative 11.05% return during January. Consumer Durables (-1.70%) and Aerospace (-1.35%) were the other larger contributions to the CS WELLI negative performance.[1]

Fundamentals

- Although macroeconomic data was mixed in January, Eurozone growth looks to be supported, particularly by domestic tailwinds. Specifically, improving household incomes and corporate earnings driven by lower oil prices. However, external tailwinds are diminishing due to slowing global growth offsetting the benefits of a depressed euro on exports. Nevertheless, any weakness in European data is likely to lead to more aggressive action from the European Central Bank in the coming months, which should benefit risk assets.
- There were no new defaults in January 2016. Accordingly, the trailing 12 month default rate on the CS WELLI was unchanged at 0.60% at the end of January 2016.[1]

Technicals

- Primary institutional loan issuance reached €6.6 billion over 20 deals in January, almost double the same period last year.[2] In fact, new issuance volume was the highest since July 2014 - a phenomenal statistic given the weakness in the broader equity and fixed income markets.
- Notable loan deals in syndication in the period included:
  - €1.125 million SSL facilities to support 3i's dividend recapitalization of Netherlands based discount house goods retailer, Action. The tranche is guided to price at E+4.75-5.0% and issued guidance of €0.9950.[2]
  - €640 million SSL facilities to support KKR's acquisition of Webhelp, the French-based call-center business. The tranche priced at L+5.50% and issued at €0.9850.[2]
  - £365 million SSL facilities to support KKR's acquisition of LGC, the UK based provider of reference materials, genomics solutions, and analytical testing products and services to various industries. The tranche priced at E+4.75% and issued at €0.9950.[2]
- Collateralized Loan Obligation (CLO) formation in January was €0.41 billion representing one deal which was more or less in line with the same period last year.[2] We expect total volume for the year to come in at €13-15 billion (versus €13.6 billion in 2015).

Valuations

- The average lagging 3 month new issue institutional spread was EURIBOR + 4.66%, 6 basis points (bps) higher than December. However, All-in-Yields tightened by 0.11% to 5.62% as a lower number of cross-border deals (40% in December vs. 28% in January) meant fewer deals with floors (60% in December vs. 43% in January). Credit metrics remained relatively conservative for new deals in January with first lien leverage and total leverage amounting to 4.4 times and 4.6 times respectively, well below the peak levels from 2006 and 2007.[2]
- The Credit Suisse Western European High Yield Bond Index total return was negative 1.24% in January (See Figure 1), materially underperforming the loan market. At the end of the month of January SSLs still lead High Yield bonds on a spread adjusted basis. Spread-to-three year take out for SSL was 5.36% versus European High Yield Bond Spread-to-Worst of 6.54%.[2]

Figure 1

Total return (EUR, in %)	2014	Q1 15	Q2 15	Q3 15	Q4 15	2015	Nov 15	Dec-15	Jan-16	LTM cumulative	YTD cumulative
Credit Suisse Western Europe Leveraged Loan Index (EUR-HDG)	1.96	2.22	1.14	0.00	-0.25	3.14	-0.11	-0.32	-0.32	2.38	-0.32
Credit Suisse Western European HY Index (EUR-HDG)	4.31	2.97	-0.47	-2.07	0.99	1.36	0.43	-1.95	-1.24	-0.66	-1.24
Bloomberg Europe 500 Index	7.84	16.34	-3.22	-8.20	5.64	9.19	2.85	-4.96	-6.32	-4.44	-6.32
FTSE All-Share Index	1.47	4.76	-1.54	-5.64	4.02	1.25	0.61	-1.26	-3.07	-4.38	-3.07
10-Year UK Government Bond	11.97	0.43	-3.02	2.23	-1.22	-1.65	0.86	-0.92	3.26	-2.15	3.26
10-Year Euro Government Bond	15.65	4.09	-5.27	2.39	-0.23	0.72	0.46	-1.37	3.63	1.51	3.63

Source: Credit Suisse, as at 31 January 2016. Past performance is not a guide to future returns. An investment cannot be made directly in an index.

1 Credit Suisse Western European Leveraged Loan Index (CS WELLI) as at 31 January 2016
2 Standard & Poor's, Loan Market Commentary and Data (LCD) as at 31 January 2016

Important Information

All data provided by Invesco, as at 31 January 2016, unless otherwise noted.

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.

This document is written, unless otherwise stated, by Invesco professionals. The opinions expressed herein are based upon current market conditions and are subject to change without notice. This document does not form part of any prospectus. This document contains general information only and does not take into account individual objectives, taxation position or financial needs. Nor does this constitute a recommendation of the suitability of any investment strategy for a particular investor. While great care has been taken to ensure that the information contained herein is accurate, no responsibility can be accepted for any errors, mistakes or omissions or for any action taken in reliance thereon. Opinions and forecasts are subject to change without notice. The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested. Neither Invesco Ltd. nor any of its member companies guarantee the return of capital, distribution of income or the performance of any fund or strategy. Past performance is not a guide to future returns. This document is not an invitation to subscribe for shares in a fund nor is it to be construed as an offer to buy or sell any financial instruments. As with all investments, there are associated inherent risks. This document is by way of information only. Asset management services are provided by Invesco in accordance with appropriate local legislation and regulations.

This document is not an offering and is not intended for and should not be distributed to, or relied upon, by members of the public. Circulation, disclosure, or dissemination of all or any part of this document to any unauthorized person is prohibited.

This document may contain statements that are not purely historical in nature but are "forward-looking statements," which are based on certain assumptions of future events. Forward-looking statements are based on information available on the date hereof, and Invesco does not assume any duty to update any forward-looking statement. Actual events may differ from those assumed. There can be no assurance that forward-looking statements, including any projected returns, will materialize or that actual market conditions and/or performance results will not be materially different or worse than those presented.

All material presented is compiled from sources believed to be reliable and current, but accuracy cannot be guaranteed. Investment involves risk. Please review all financial material carefully before investing. The opinions expressed are based on current market conditions and are subject to change without notice. These opinions may differ from those of other Invesco investment professionals.

The distribution and offering of this document in certain jurisdictions may be restricted by law. Persons into whose possession this marketing material may come are required to inform themselves about and to comply with any relevant restrictions. This does not constitute an offer or solicitation by anyone in any jurisdiction in which such an offer is not authorised or to any person to whom it is unlawful to make such an offer or solicitation.