Invesco Senior Secured Loans

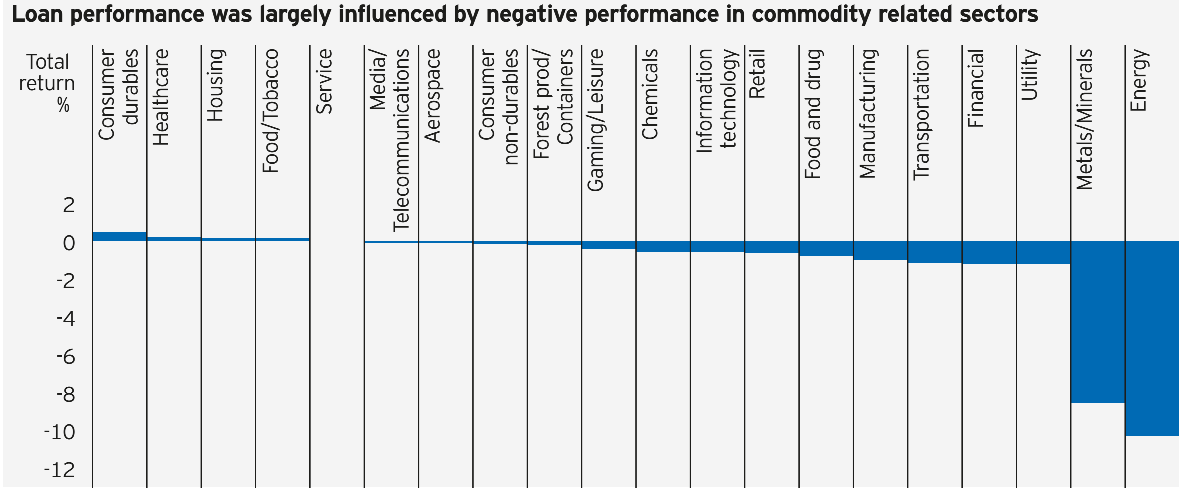
US Loan Market Snapshot

Monthly US loan market update: February 2016

Senior secured loans returned -0.65% in January, marking the 8^{th} consecutive month of negative returns.[1] Loan prices were pressured by same concerns that have permeated the broader capital markets for the last few months- concerns surrounding China and global growth prospects, negative sentiment on the US economy, and continued volatility in commodity sectors. A weaker technical backdrop also weighed on loan performance as CLO issuance slowed and outflows from retail mutual funds continued. Despite weaker technicals, volatility remained low when compared to other "risk" assets. Loan performance trailed 10 year Treasuries (+3.24%) and High Gr ade Bonds (+0.30%), bo th benefiting from the flight to quality and the tailwind from declining rates. However loans outperformed both high yield bonds (-1.58%) and the S &P 500 (-4.96%).[2]

Despite the loan index's relatively low exposure to commodities (Energy 2.6%, Me tals/Minerals: 1.4%), the outsized negative performance in those sectors was a large contributor to the overall index's performance.[3] Fundamentals in the senior secured loan market remain supportive in general, outside of a few pockets of weakness. As in previous months, there has been a bifurcation in performance across the risk spectrum with higher quality BB rated deals outperforming the broader market. BB rated loans returned -0.24% v ersus -0.71% f or B rated loans and -3.58% f or CCC rated issues.[4]

Loan performance was largely influenced by negative performance in commodity related sectors



Source: Credit Suisse Leveraged Loan Index as of Jan. 31, 2016.

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

The average price in the loan market at the end of January was $90.63. At the current price senior secured loans are providing a 7.46% yield. [5]

Fundamentals

- There were four new defaults in January, the highest monthly total since January of 2010. The January defaults included Sports Authority, Inc., Arch Coal, RCS Capital Corporation, and printing and specialty paper producer NewPage Corporation (a.k.a. Verso Corporation). However, the trailing 12 month default rate declined during the month to 1.3% as the r oll-off of Caesars Entertainment's $5.6 billion default more than offset the $3.6 billion of new volume.[6]
- The 1.3% tr ailing 12 month default rate remains below the 3.1% his torical average and our expectations are for defaults to remain below historical averages in 2016.
- US GDP grew at 0.7% in the f ourth quarter and 2.4% f or the full year 2015. While the pace of growth slowed in Q4, a low but positive GDP growth environment is supportive of loan fundamentals.

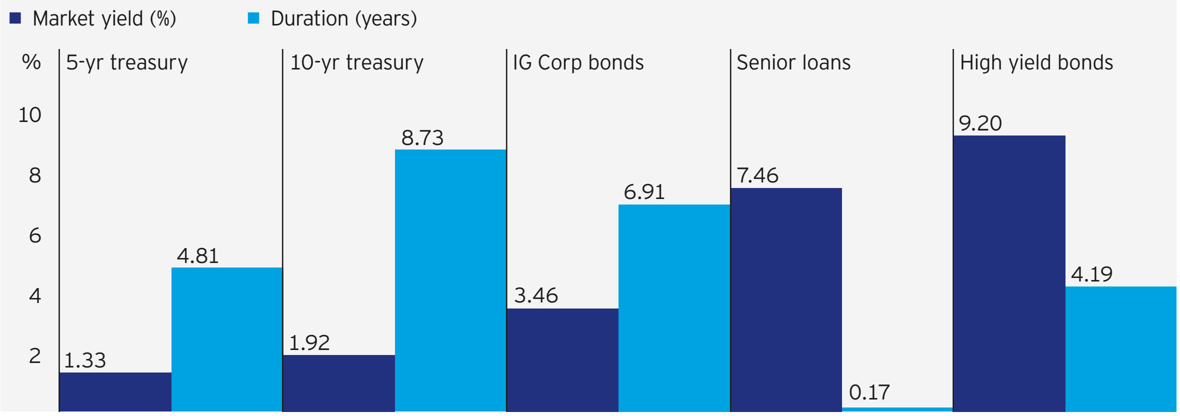
Technicals

- The market for new issue CLO's was modest in January with only two new deals pricing for $826 million- the lowest monthly volume since October of 2011.[7]
- The pace of outflows from retail mutual funds moderated to -$2.3 billion following December's outflows of -$6.2 billion, but remained persistent. The loan asset class has reported outflows in 20 of the last 22 months totaling a net -$55.5 billion.[7] The influence of retail mutual funds on the loan market continues to wane with $115 billion in total AUM versus a peak of $175 billion in March of 2014. This represents 13.2% o f total loans outstanding - down from the peak of 25% in February 2014.[8]
- With limited demand from new issue CLO's, continued outflows from retail mutual funds, and a general "risk-off" tone, new issue loan supply was muted in January. New issue loan volume totaled $9.7 billion in January. Average monthly volume in 2015 was $27.2 billion.[9] Higher quality "BB" rated new issue deals continued to be well received by the market. Notable deals this month included a $2.5 billion loan backing the acquisition of Petco Animal Supplies. The "B" rated deal priced at L+475 with a 1.0% f loor and $98 issue price versus original price talk of L+450 with a 1.0% f loor and 98.5-99 issue price.
- With limited new issue supply and muted demand, loan prices were further buoyed by repayments of several large loans- notably repayments of Crown Castle's ~$2 billion term loan and The Weather Channel's ~$1 billion term loan. In total there were $12.2 billion in repayments in January.[10]

Relative value / Market opportunity

Loans have remained relatively insulated from broader market volatility largely due to the low commodity exposure and defensive position at the top of the capital structure. While treasury rates declined during the month- benefiting longer duration asset classes- the yield on the 10-year ended January at its lowest level in 10 months. We believe that loan fundamentals remain generally supportive and the current price discount and average yield in the market imply default rates far in excess of our expectations.

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 Jan. 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 corporate 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	100-07	1.33%			4.81
10-Year Treasury	102-29	1.92%			8.73
Barclays US Agg Index	104.28	2.34%	T+ 0.90		5.44
Barclays IG Index	102.94	3.46%	T+ 1.86		6.91
ML US HY Index	87.07	9.20%	T+ 7.80		4.19
S&P/LSTA Leveraged Loan Index	**90.63**	**L + 7.47**	**T + 6.35**	**7.46%**	**45-60 Days**

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

1 S&P LCD (Leveraged Commentary and Data) as of Jan. 31, 2016; Total returns stated are for the S&P LSTA Leveraged Loan Index
2 High Grade Bonds: J.P. Morgan High Grade Index; High Yield Bonds: J.P. Morgan US HY Index, as of Jan. 31, 2016. All returns stated are total returns.
3 Credit Suisse Leveraged Loan Index as of Jan. 31, 2016
4 S&P/LSTA Leveraged Loan Index as of Jan. 31, 2016
5 S&P LCD as of Jan. 31, 2016. Loan market as represented by the S&P LSTA Leveraged Loan Index.
6 S&P LCD as of Jan. 31, 2016
7 J.P. Morgan as of Feb. 1, 2016
8 S&P LCD as of Dec. 31, 2015
9 J.P. Morgan as of Jan. 31, 2016
10 Deutsche Bank as of Feb. 1, 2016

Important information

All data provided by Invesco unless otherwise noted. All data is US dollar and as of Dec. 31, 2015, unless otherwise noted. Average loan price includes all loans January 1997 through December 2015.

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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