LOOMIS | SAYLES

INFO SHEET

MARCH 31 2019

Loomis on Loans

A quarterly look at data and topics in the syndicated loan market

PERFORMANCE HIGHLIGHTS

The bank loan market roared back to life very early in January, and then moved sideways for the rest of the quarter. High-quality and liquid names in the index saw the largest price increases as investor sentiment was muddled.

	1Q 2019	1-YEAR
S&P/LSTA "All" Leveraged Loan Index	4.00%	2.97%
S&P/LSTA BB Index	4.33%	2.69%
S&P/LSTA B Index	3.91%	3.27%

Source: S&P Capital IQ, as of 3/31/19.

MARKET STATISTICS

Prices recovered, led by BB-rated loans, and spreads remained stable as interest rates went unchanged and loan refinancing rates were low.

	PRICE	3-MONTH CHANGE	SPREAD
S&P/LSTA "All" Leveraged Loan Index	96.41	2.7%	L+339
S&P/LSTA BB Index	98.25	3.1%	L+257
S&P/LSTA B Index	96.97	2.5%	L+377

Source: S&P Capital IQ, as of 3/31/19.

John Bell, VP
Portfolio Manager

Michael Klawitter, VP, CFA
Portfolio Manager

Heather Young, VP, CFA
Strategist

Christos Maniatis, VP
Senior Portfolio & CLO Analyst

Emily Sweet, VP, CFA
Associate Product Manager

Cheryl Stober, VP
Product Manager
cstober@loomissayles.com

Questions or concerns about the bank loan market?
Email Cheryl to learn more.

Only the "Loan"-ly: What You Should Know about Loan-Only Structures

- What matters in a loan-only structure is how much enterprise value exists beneath the loan. If that value is equity rather than debt, good.
- Bonds beneath loans may increase the chance of default without changing the loan recovery outcome.
- Firm size may be the factor that actually deserves attention in the loan-only discussion.

Recent stories about loan-only structures suggest that the absence of subordinated debt in a company's capital structure implies a poorer outcome for loan recoveries in the case of default. Those arguing against loan-only structures seem to focus by implication on the value pad, or cushion, below the senior secured loans. Rather than calculate their own enterprise value, they infer value beyond the total debt outstanding based on the existence of bonds in a company's capital structure.

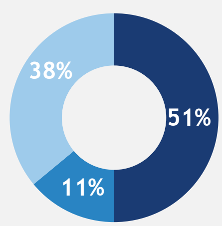
We think this view focuses on the wrong factor. We prefer to focus on the company's enterprise value and how much of a value pad supports an investment in the company's loans, regardless of its capital structure. In other words, if things go south for a company, how big is the value pad protecting a loan investment from loss?

In our view, the value pad supporting loans is the focus, rather than whether this value is capitalized with debt or equity. Take for example a company with an enterprise value of $1 billion that has $400 million of loans at the top of its capital structure.

TECHNICAL TOPICS

Investor Share of Institutional Leveraged Loans Outstanding (as of March 31, 2019)**

CLOs* Loan Funds (mutual funds & ETFs) Other



- Size of the bank loan market is $1.18T
- Year-to-date growth has been 2.9% amid slow new issuance
- Amid continued outflows from retail investors totaling $11B, CLO issuance remained fairly strong at $28.4B, held back by Q4 2018 ripples and AAA tranche technicals.

**Universe of 1,275 US CLOs.*
***S&P/LSTA Leveraged Loan Index outstanding as of 3/31/2019.*
Source: S&P Capital IQ LCD and Thomson Reuters LPC as of 3/31/2019.
Source of Graph: Thomson Reuters LPC.

FOCUS ON FUNDAMENTALS

We have a positive outlook on corporate fundamentals. Despite the late cycle environment, the vast majority of companies we follow continue to have slowly growing earnings.

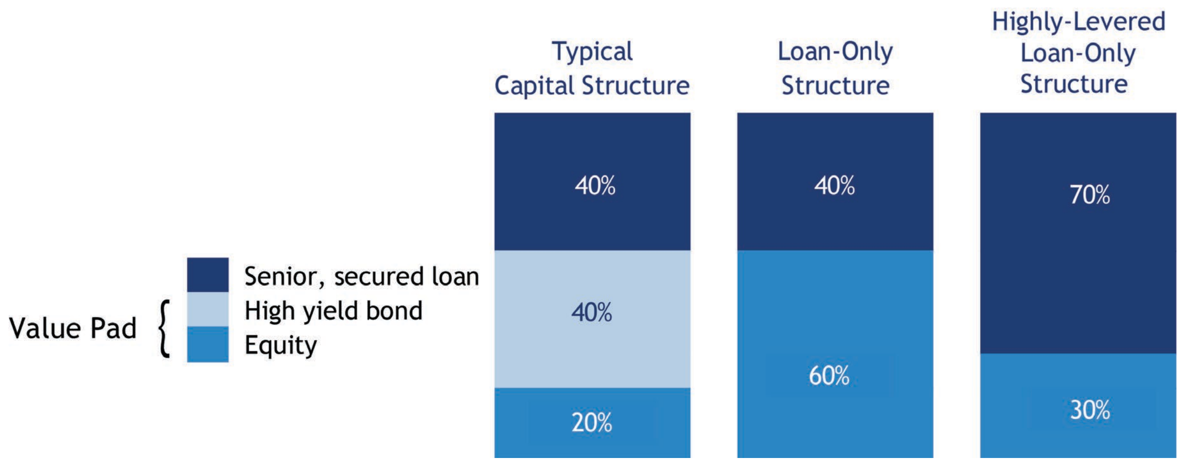
ISSUER STATISTICS	VALUE
Average Total Leverage	5.1X
Average Interest Coverage	4.4X
Average Enterprise Value	$5.3B

Source: Loomis Sayles as of 3/31/19.

ONLY THE "LOAN"-LY CONTINUED

WHAT YOU SHOULD KNOW ABOUT LOAN-ONLY STRUCTURES

As an investor in the loans, we would rather the company have $600 million of equity beneath its loans rather than $400 million of bonds and $200 million of equity. Bonds provide more chances to miss interest or principal payments, increasing the opportunity for default without altering the potential recovery of the loans. Because the loans are equally senior in the capital structure and are secured by the same collateral, loan recovery given default should be identical in both structures. All else equal, we prefer a capital structure with less chance of default.



The highly-levered loan-only structure could have a lower loan recovery because the value pad is smaller than in a typical capital structure (30% vs. 60%).

There is one element of the loan-only conversation that we think does deserve attention: company size. There are not many new companies that need hundreds of millions in debt. Without sufficient size to be attractive to the high yield bond market, smaller companies often seek financing through the loan market. Some believe smaller companies are more at risk of lower default recoveries, and they tend to receive lower ratings. As the loan market has grown in recent years, it has tilted to smaller, lower-rated loans.

The loan-only conversation is one consequence of this market change, not an indicator of the inherent value of bonds in a capital structure. As credit grantors, our job is to understand a company's enterprise value and to discriminate against companies with too small of a value pad under their loans. Relying on the existence of bonds is an incomplete way to accomplish this task. Loomis is highly focused on what borrowers are worth; it is a driving force in our decision to grant credit. We are happy to see borrowers with more equity and fewer bonds, everything else being equal.