LOOMIS | SAYLES

INFO SHEET

JUNE 30
2019

Loomis on Loans

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

PERFORMANCE HIGHLIGHTS

The bank loan market experienced a mostly coupon-clipping quarter with slight price appreciation. As in the first quarter, high-quality and liquid names in the index saw larger price increases amid conservative investor sentiment.

	2Q 2019	1-YEAR
S&P/LSTA "All" Leveraged Loan Index	1.68%	3.97%
S&P/LSTA BB Index	1.82%	4.08%
S&P/LSTA B Index	1.72%	4.22%

Source: S&P Capital IQ, as of 6/30/19.

MARKET STATISTICS

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

	PRICE	3-MONTH CHANGE	SPREAD
S&P/LSTA "All" Leveraged Loan Index	96.79	0.4%	L+342
S&P/LSTA BB Index	98.80	0.6%	L+263
S&P/LSTA B Index	97.15	0.2%	L+378

Source: S&P Capital IQ, as of 6/30/19.

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

VOLATILITY AND YIELD: THE SECRET LIFE OF LOANS

Some investors view bank loans only as a tactical play that can benefit from rising interest rates. This narrow view can lead those investors to overlook two potential additional benefits that loans can bring to a portfolio: reduced volatility and enhanced yield potential.

First, let's consider volatility. Volatility exists for a variety of reasons, but a common one across asset categories is the fear of loss. Such fears of loss revolve around the idea that a company is worth a lot less than it used to be, perhaps due to poor prospective earnings or because markets have put too much irrational exuberance into its price. However, bank loan investors are not typically in the upside business, as they are only looking to be paid back at a reasonable interest rate. Loans are structured to include both seniority and security in order to improve their chances of exactly that by making them more attractive than stocks and most bonds.

The value of seniority and security is worth considering in the latter stages of credit cycles when rates may not rise or even may fall to some extent. We are talking about the nervous stage, which can last for years, when investors believe that someday a recession could bring bad markets but it could be a while, and in the meantime investors need to earn a return. Just as most investors would not sell all their stocks or bonds in that environment, we think they should not sell all their loans either.

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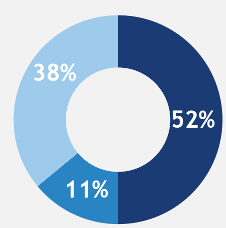
TECHNICAL TOPICS

Investor Share of Institutional Leveraged Loans Outstanding (as of June 30, 2019)

CLOs Loan Funds (mutual funds & ETFs) Other



- Size of the bank loan market is $1.2T
- Year-to-date growth has been 1.4% amid slow new issuance
- Despite continued outflows from retail investors totaling $10.1B, CLO issuance remained positive at $36B. CLO formation has been restrained by challenging market conditions for CLO equity holders.

Source: S&P Capital IQ LCD.
Source of Graph: LPC Collateral, Lipper from Refinitiv.

FOCUS ON FUNDAMENTALS

We maintain our moderately constructive 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	4.3X
Average Enterprise Value	$5.2B

Source: Loomis Sayles as of 6/30/19.

VOLATILITY AND YIELD: THE SECRET LIFE OF LOANS, CONTINUED

So how can loans add value when markets get nervous? The graphics below show how loans have performed versus high yield bonds and equities in down markets. Loans have historically shown smaller maximum drawdowns, fewer negative return months, and lower return volatility than high yield or equities. In addition, in their worst months loans have done better than high yield or equities most of the time. Therefore, due to their seniority and security, bank loans tend to reduce volatility in a portfolio.

Bank Loans Have Won in Bad Loan Months*

	SENIOR LOANS	HIGH YIELD	S&P 500
Worst Month	-13.2%	-16.3%	-16.8%
Best Month	8.7%	11.3%	10.9%

Bank Loans Have Won in Bad High Yield and/or Equity Months

WORST 50 MONTHS:	LOANS BETTER	HY WORSE	S&P 500 WORSE	HY OR S&P 500 WORSE
Senior Loans		56%	60%	70%
High Yield	88%			
S&P 500	96%			

Bank Loans Have Had Smaller Drawdowns

BIGGEST DRAWDOWNS	SENIOR LOANS	HIGH YIELD	S&P 500
1 Month	-13.2%	-16.3%	-16.8%
3 Months	-27.9%	-33.0%	-32.9%
12 Months	-32.6%	-35.0%	-53.0%

Bank Loans Have Had Fewer Negative Return Months

	SENIOR LOANS	HIGH YIELD	S&P 500
# of Negative Return Months	56	84	94

Bank Loans Have Had Lower Return Volatility

	SENIOR LOANS	HIGH YIELD	S&P 500
Return Volatility	1.6%	2.4%	4.3%

Source: Bloomberg and S&P Capital IQ
For the period 1/1/1997 – 6/30/2019. Asset classes reflect the S&P/LSTA Leveraged Loan Index, the ICE BofAML US High Yield Index and the S&P 500 Index.
**The worst performing month is October 2008 for each index. The best performing month for the bank loan and high yield indexes was April 2009; and, the best performing month for equities was October 2011*

Investing involves risk including possible loss of principal.
Please see Key Risks on the next page.

Past market performance is no guarantee of future results.

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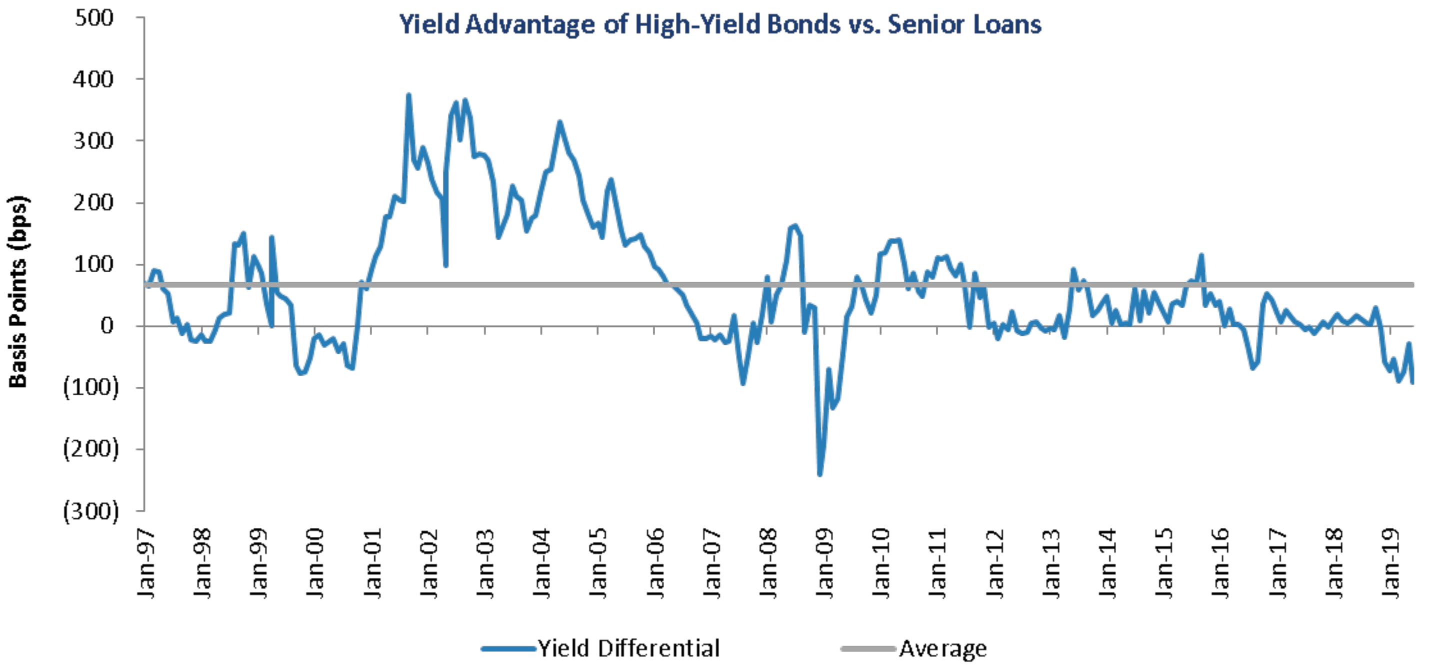
VOLATILITY AND YIELD: THE SECRET LIFE OF LOANS, CONTINUED

Nothing comes for free, and there is a price to be paid for reducing portfolio volatility. Versus stocks, loans give up possible upside. Versus high yield bonds, loans usually offer less yield, as high yield bonds have additional risk being junior and unsecured. Currently, however, that may not be the case, assuming a three-year effective life for loans, as the chart below illustrates. For those investors needing income, we believe bank loans feature an attractive yield, especially in the current environment.



Data Source: S&P Capital IQ and Bloomberg, since inception of the S&P/LSTA Leveraged Loan Index, 1/1/1997, through 6/30/19.

Asset allocation is always difficult, especially as the business and credit cycles age. History suggests that someday there will be a major and sustained flight to quality that will favor cash and Treasuries over riskier assets. Until that time, we think loans should be considered in many portfolios as a yield producer and a volatility reducer.

DISCLOSURE

KEY RISKS

Credit Risk, Issuer Risk, Interest Rate Risk, Liquidity Risk, Derivatives Risk, Leverage Risk, Counterparty Risk, Non- US Securities Risk, Prepayment Risk, Extension Risk and Management Risk.

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All indices are unmanaged and do not incur fees. You cannot invest directly in an index.

Past market performance is no guarantee of future results. MALR023820-1019