JUNE 2022

European leveraged loans:
An allocation that's here to stay

Executive Summary

We believe the European leveraged loan market is one of the most compelling yet underappreciated asset classes within the sphere of global credit. Over the past two decades, the asset class has evolved into a distinct opportunity set, while also building a performance track record that stands out among competing asset classes. For example, European leveraged loans have generated a higher average rolling five-year Sharpe ratio over the past ten years compared to U.S. loans, U.S. and European high yield bonds, emerging market corporates as well as U.S. and European equities[1]. Additionally, the asset class has produced 10 consecutive calendar years of positive total returns, delivering 4.6% on an annualised basis[2]. We believe this leading risk-adjusted performance is positioned to continue if one considers the current market environment. The asset class consistently offers one of the highest yields across the public credit markets, while an exclusively institutional investor base should support a stable return profile given their longer-term investment horizon as well as the pricing power of CLO investors.

The credit performance of European leveraged loans has been a notable driver of the attractive risk-adjusted return profile. The asset class has achieved lower average defaults and higher recovery rates compared to other segments of the leveraged credit markets[3]. Furthermore, the rate of improvement across these metrics has also been superior[3]. This could be attributed to the underlying borrower base that increasingly consists of larger and more mature companies in addition to tenured private equity sponsors. Structural and compositional features of the asset class have also promoted the credit performance. For example, the asset class is almost entirely categorised as first lien, while the opportunity set is well diversified across countries and sectors, with notably large allocations to industries that are generally less cyclical in nature. Notably, European loans typically bring diversification across a broader portfolio given that there is a limited amount of overlap when compared to the companies that appear in European equity and high yield bond markets.

The rate structure of the asset class is another key factor when considering risk-adjusted performance. Negative underlying base rates impact the all-in yield of fixed rate bonds; however, this dynamic is negated in the loan market through Euribor floors. Moreover, fixed rate bonds are negatively impacted by upward moves in interest rates, while loans are insulated from this impact given their floating rate characteristics.

The significant increase in "cov-lite" loans has been a notable change to the asset class and is arguably a detrimental development from a lender's standpoint. However, this dynamic provides an issuer with more flexibility to focus on navigating through difficult periods thereby potentially improving the investor's default experience. Additionally, we believe the increasingly important integration of ESG factors by both borrowers and lenders could be a large driver of change within the asset class, but will ultimately make loans an attractive place for those investors who are focused on sustainable investments.

This paper demonstrates an attractive investment opportunity that we see in the European leveraged loan market, making the case that the asset class should be considered as a core holding in a well-diversified portfolio.

1. Source: ICE BofA, Credit Suisse, Bloomberg. Data covers ten years to December 2021. See Endnotes for additional information.
2. Source: Credit Suisse. Data as of December 2021. European loan represented by the Credit Suisse Western European Leveraged Loan Index.
3. Source: Credit Suisse. Data as of December 2021. European loan metrics are superior when compared to European high yield, U.S. high yield and U.S. loans.

European leveraged loans: An allocation that's here to stay

The evolution and compelling performance of European leveraged loans

- A large and increasingly liquid opportunity set
- Leading risk-adjusted returns
- Returns going forward are supported by attractive yields
- Institutional ownership promotes stability

The attractive risk-adjusted return profile is driven by: (1) strong and improving credit performance

- Low default and high recovery rates
- Maturation of the borrower base
- Seniority in the capital structure
- A diverse opportunity set
- Defensive sector composition

(2) the rate structure of the asset class

- Protection from negative rates
- Well-positioned for rising rates

Shifting market dynamics that investors should be aware of

- The prevalence of covenant-lite loans
- Growing focus on Environmental Social and Governance ("ESG") considerations

European Leveraged Loans: The Basics

European leveraged loans are a form of debt issued by companies that typically hold a publicly available credit rating below investment grade. They are floating rate instruments that pay a Euribor base rate, which resets periodically (usually every three months), plus a spread that provides investors with a satisfactory level of compensation for the additional credit risk that they are assuming, compared to a "risk-free" investment.

Leveraged loans are generally classified as secured 1st lien instruments, which means that a loan investor has first claim on the company's assets and cashflows in the event that the company defaults on their debt repayments.

The evolution and compelling performance of European leveraged loans

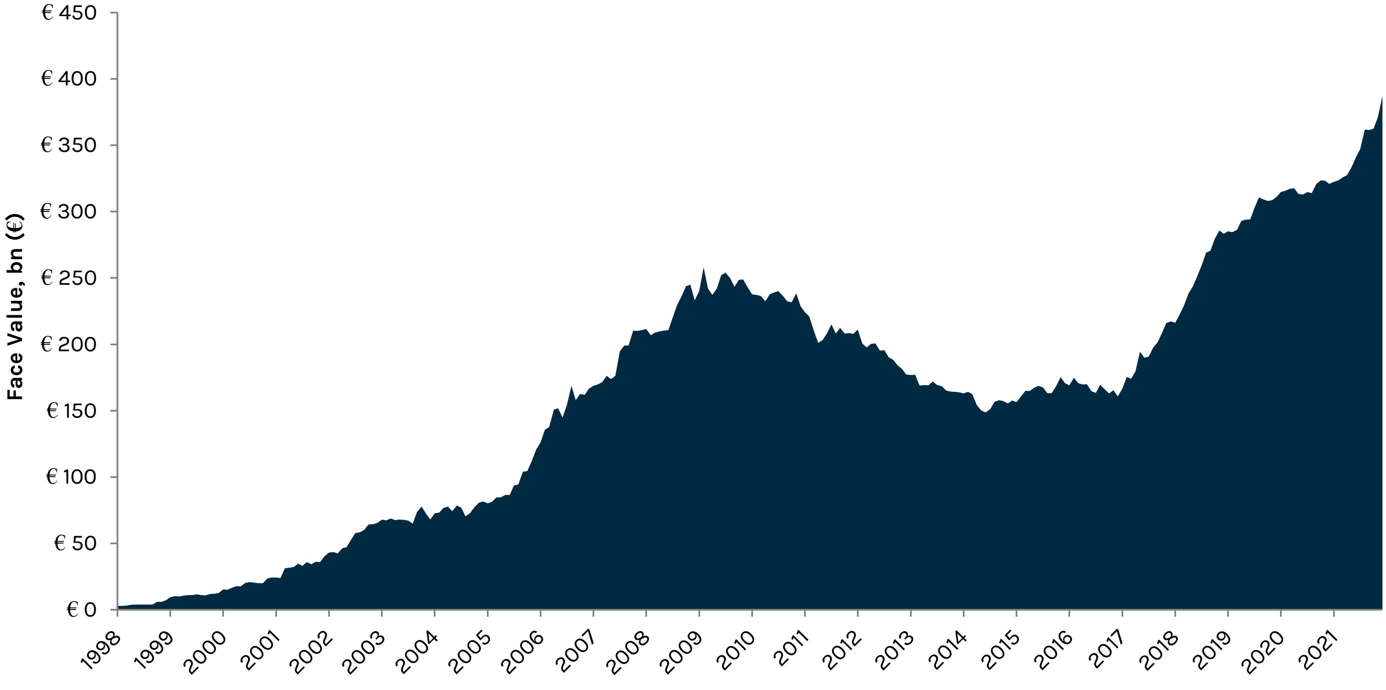
A large and increasingly liquid opportunity set:

With over €350 billion outstanding and around 500 individual issues, the European leveraged loan market has evolved into a distinct segment of the financial markets. The asset class has seen considerable growth having more than doubled in size over the past five years (Figure 1).

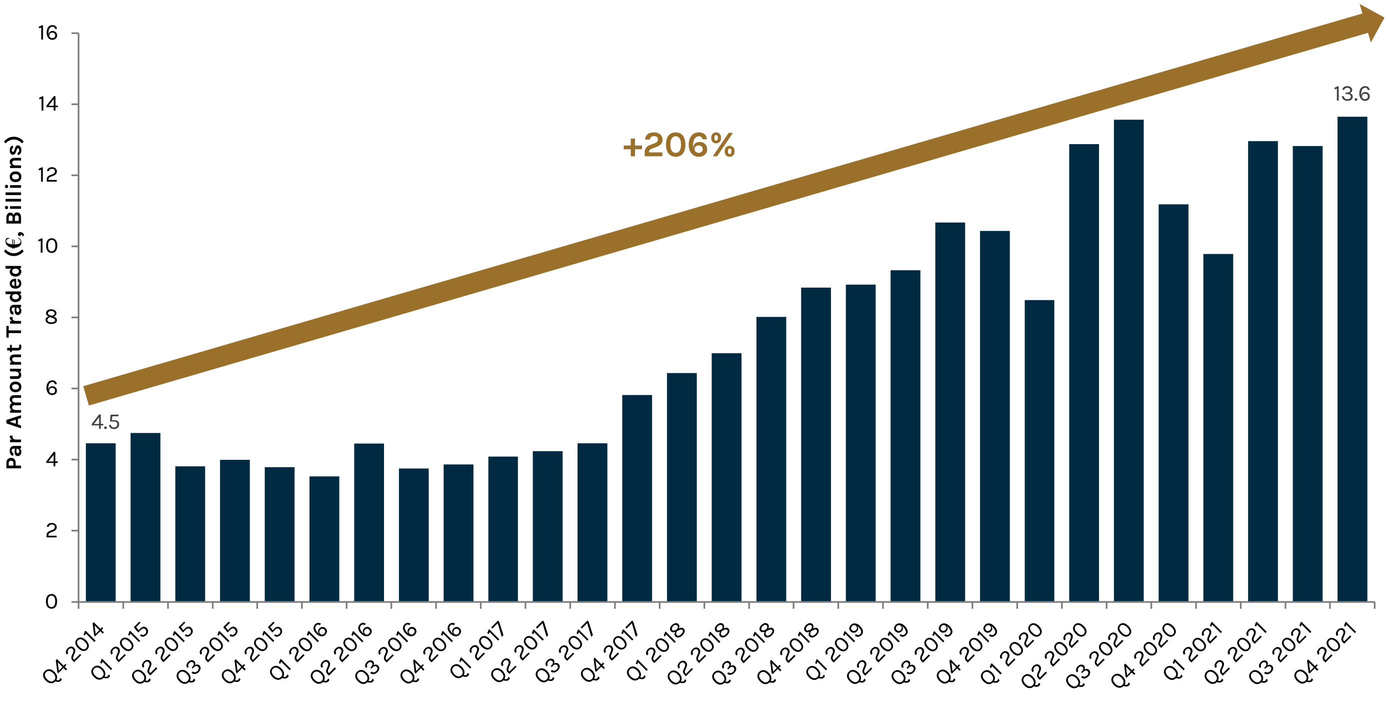
The combination of significant growth and a larger pool of issuers across which to invest has led to increased liquidity within the asset class. This dynamic is evidenced in Figure 2, which shows a 206% increase in quarterly trading volumes across 15 major sell-side banks since the fourth quarter of 2014. As a result, large-scale investment managers can potentially trade loans in the hundreds of millions of euros over the course of a few days.

Figure 1 and 2: A deep and tradeable opportunity set

European leveraged loan market size



European leveraged loan trading volumes across 15 banks



Top chart source: Credit Suisse. European Leveraged Loan Market represented by the Credit Suisse Western European Leveraged Loan Index. Data as of December 2021. Bottom chart source: Loan Market Association. Data as of December 31, 2021. The traded par volume data comes from 15 participating banks who are members of the Loan Market Association.

Leading risk-adjusted returns:

European leveraged loans have delivered favourable risk-adjusted returns over the past 10 years when considering the average rolling Sharpe ratio over the same period compared to many other liquid global alternatives (Figure 3).

In our view, one of the key merits to the European leveraged loan asset class is its track record of low volatility. It is this lower level of volatility (standard deviation) that has driven the Sharpe ratios higher. As shown in Figure 4, European loans have produced materially lower levels of volatility compared to many other segments of the market, such as high yield bonds and equities.

The Sharpe ratio is not the only way to see the stability and consistency of the European leveraged loan return profile. Over the past 17 years, European leveraged loans have delivered the highest number of positive years of total returns compared to other competing markets. Furthermore, as of December 2021, European leveraged Loans have produced the longest period of consecutive positive calendar year returns (figure 5).

Figure 3 and 4: Leading Sharpe ratios driven by low levels of volatility

Average 1 month rolling 5yr Sharpe ratio from 31/12/2011 to 31/12/2021

Average 1 month rolling 5yr volatility from 31/12/2011 to 31/12/2021

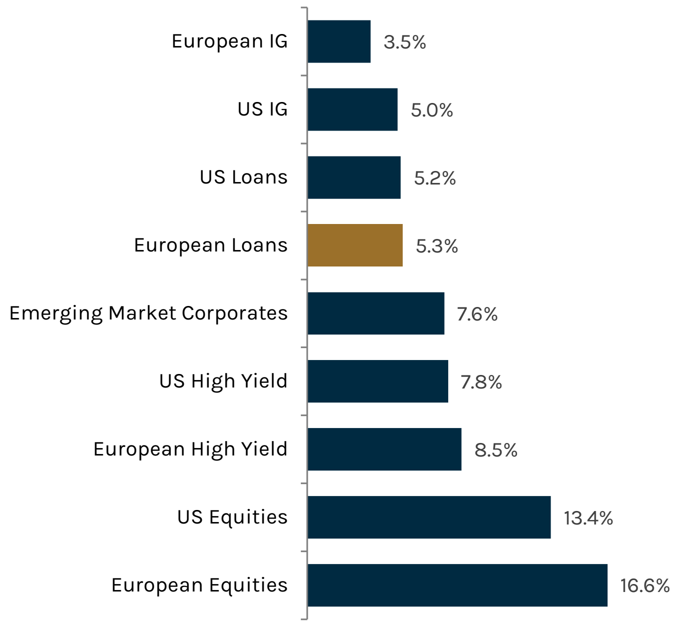


Figure 5: Consistency across calendar years

	Euro Loans	US Loans	Euro HY	US HY	EM Corps	Euro IG Corps	US IG Corps	Euro Equities	US Equities
No. of positive calendar year returns since 2005	**15**	14	13	14	12	13	12	12	15
No. of negative calendar year returns since 2005	**2**	3	4	3	5	4	5	5	2
No. of consecutive positive calendar year returns	**10**	3	3	3	0	0	0	1	3

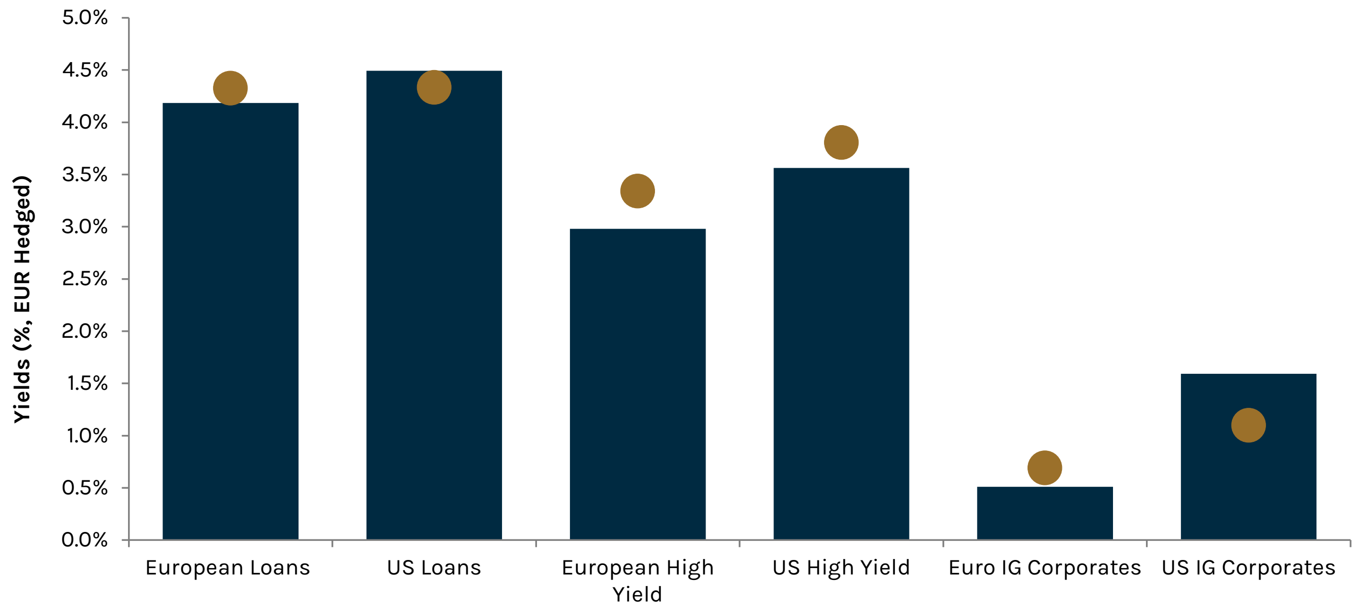
Source: ICE BofA, Credit Suisse, Bloomberg. Data as of December 2021. See Endnotes for additional information.

Returns going forward are supported by attractive yields:

European loans have consistently provided a yield of ~4%+, which compares favorably to high yield in the U.S. and Europe and is more than eight times greater than the five-year average of European investment grade corporate bond yields.

We believe this measure of valuations suggests that the return experience across global leveraged credit markets should be favourable going forwards; however, if we couple this with the aforementioned characteristic of low volatility, European leveraged loans appear well placed to continue delivering attractive risk-adjusted returns.

Figure 6: EU loans have strong comparative yields vs. global credit alternatives



	European Loans	US Loans	European High Yield	US High Yield	Euro IG Corporates	US IG Corporates
Current	4.18%	4.49%	2.98%	3.56%	0.51%	1.59%
5yr Average	4.33%	4.33%	3.34%	3.81%	0.69%	1.10%
Average Rating	B	B	BB	B	BBB	BBB

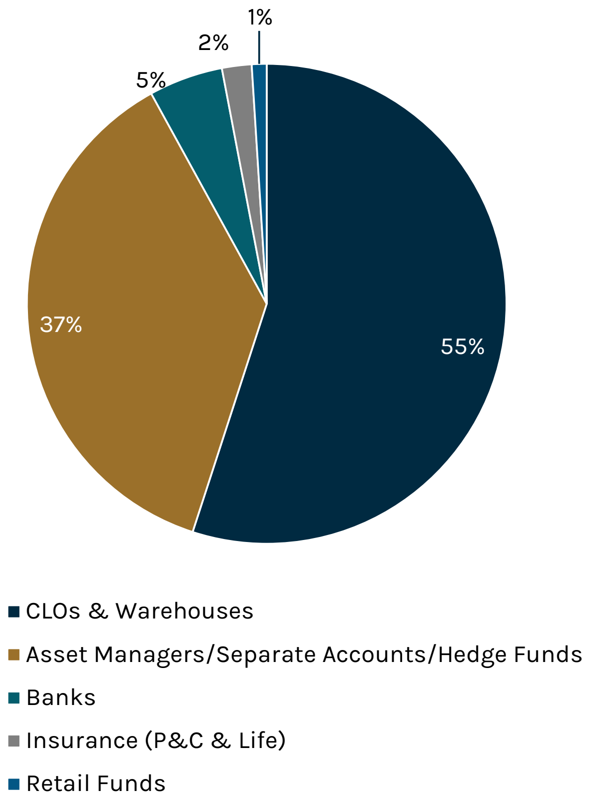
Source: ICE BofA, Credit Suisse, Bloomberg. Data as of December 2021. See Endnotes for additional information.

Institutional ownership promotes stability:

The growth of the asset class has been underpinned by strong demand from an exclusively institutional investor base. For instance, collateralised loan obligations (CLOs) are estimated to own over 50% of the market, while the next largest investor type comes in the form of separately managed accounts and funds for investors, such as insurance companies and pension funds (Figure 7). This ownership composition has meant that demand for the asset class has a relatively low sensitivity to prevailing market sentiment, which has helped to characterise a stable return profile. For example, institutional investors tend to have a long-term investment horizon, meaning the asset class tends not to suffer from short-term technical pressures associated with retail fund outflows. Moreover, the CLO investor base has a degree of pricing power given their significant proportion of ownership. As a result, there tends to be a floor on valuations within the new issue market that aligns with a CLO investor's return targets.

Figure 7: Institutional ownership composition

European leveraged loan ownership



Source: Barclays. Estimated breakdown of European leveraged loan ownership as of October 2021. https://live.barcap.com/PRC/publication/DR/FC_lb_1598001775249_TEJ-IH4gfiB-IH4g_5f9b36e8a4709e29b8b66b40

In summary, we believe the European leveraged loan market has developed into a distinct and tradeable opportunity set that the investor community can consider as part of a strategic asset allocation. The favourable performance of the asset class is driven by a foundation of low-risk attributes that feed into a compelling risk-adjusted return profile, and there are several characteristics that suggest this performance may persist. The following section takes a closer look at the factors that have driven the impressive track record of attractive risk-adjusted returns.

The attractive risk-adjusted return profile is driven by:

(1) strong and improving credit performance

Low default and high recovery rates:

Default and recovery rates are key metrics to consider when assessing below-investment grade asset classes. A default is typically associated with significant downward price action, and investors ultimately getting back less than they originally lent to a given company. As such, limiting the default experience can have an important bearing on the volatility and risk-adjusted return profile of an asset class.

European leveraged loans have historically fared well relative to other segments of the leveraged credit markets when comparing default and recovery rates. Default rates are lower than the U.S./European high yield and U.S. loan markets over the past five years and are tracking in line with these markets over longer time periods (figure 8). The recovery rate experience has been even more impressive, with European loans at the top of the pile over a 5, 10 and 15-year lookback period (figure 9). We believe both metrics have contributed towards the favourable volatility and risk-adjusted return profile the asset class has exhibited on a consistent basis over time.

Figure 8: Leveraged credit default rates

	5yr Average	10yr Average	15yr Average
European Loans	**0.9%**	**2.0%**	**2.4%**
US Loans	2.0%	1.9%	2.3%
European High Yield	1.3%	1.2%	1.7%
US High Yield	2.9%	3.0%	3.5%

Figure 9: Leveraged credit recovery rates

	5yr Average	10yr Average	15yr Average
European Loans	**65.4%**	**58.7%**	**55.9%**
US Loans	51.7%	54.7%	55.2%
European High Yield	38.1%	44.4%	40.4%
US High Yield	43.9%	46.5%	46.8%

Source: Credit Suisse. Distressed exchanges included in default rate calculation. Data as of December 31, 2021. See Endnotes for additional information.

Maturation of the borrower base:

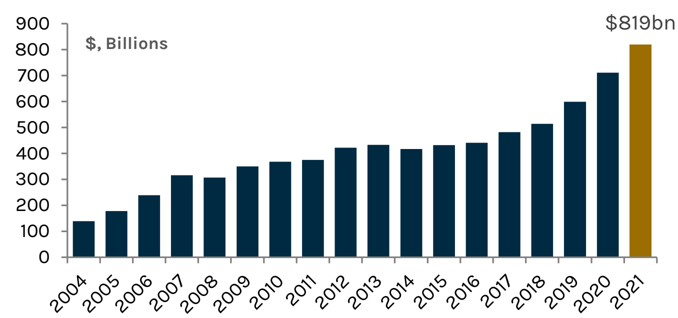
What is also notable about the default and recovery trends is the rate at which they have improved in the European leveraged loans space compared to other leveraged credit markets. In our view, this underlines the extent to which the European loan market has matured in recent years. For instance, around 70% of new Loan issuance over the past 10 years has been associated with private equity sponsored credits. As shown in Figure 10, the European private equity market has also grown and matured in recent years, with sponsors increasingly willing to provide the necessary support to their portfolio companies in difficult periods, thus avoiding a default scenario. Additionally, the market has become more diversified over time, with an increased number of mature companies that are larger, more established, and less likely to default when compared to smaller issuers that are increasingly turning to the direct lending markets to raise capital. Figure 11 below demonstrates this theme by conveying the rise in the average size of new issues that have come to the market. These deals have more than tripled over the past 10 years from approximately €200 million to €700 million.

Seniority in the capital structure:

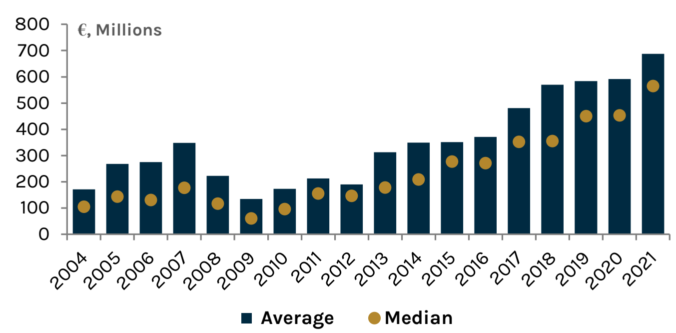
Over 95% of the leveraged loan universe is classified as 1st lien senior secured debt. This classification places the asset class in an elevated position within a company's capital structure. Investors in 1st lien debt benefit from a higher certainty of income as they will be prioritised with regards to interest payments. In addition, they also have the first claim on a company's assets in the event of a default and liquidation. The fact that the loans are "secured" implies that they are supported by assets pledged by the company; for example, shares of operating companies or physical assets such as machinery or plants. Meanwhile, over 70% of the high yield bond market is classified as unsecured and therefore sits below loans in the capital stack. This characteristic helps to explain why bonds have typically experienced lower recovery rates in the event of default (figure 9). Equity investors sit at the bottom of a company's capital structure and will only receive dividend payments once all financial obligations with debtholders have been met.

Figure 10 and 11: Increasing average deal sizes and private equity market

European private equity buy-out fund - assets under management

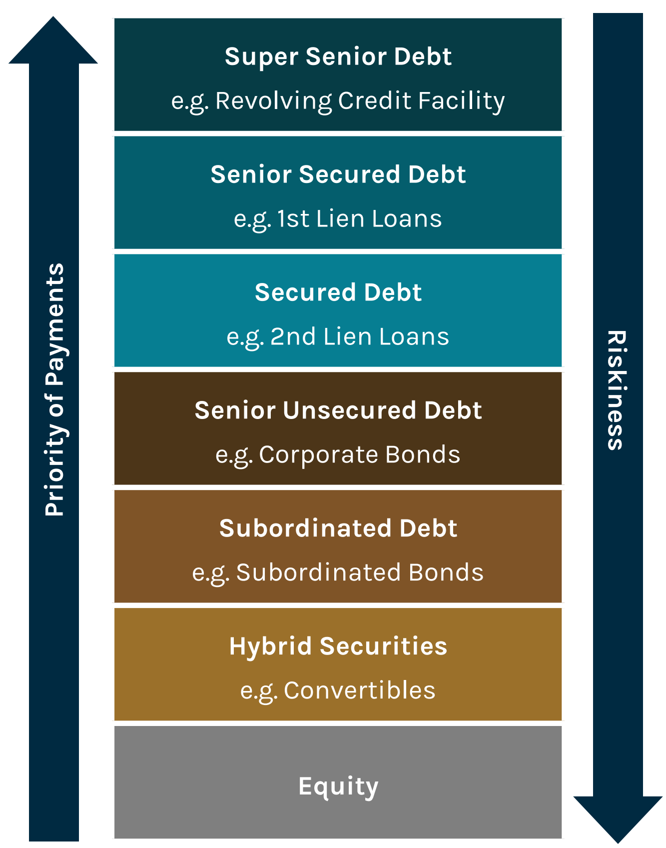


Average and median new issue deal size – first lien European leveraged loans



Source: S&P LCD, Prequin. Bottom chart excludes amendment transactions, add-ons and cross border tranches from US-based issuers. Data as of December 2021

Figure 12: Typical corporate capital structure



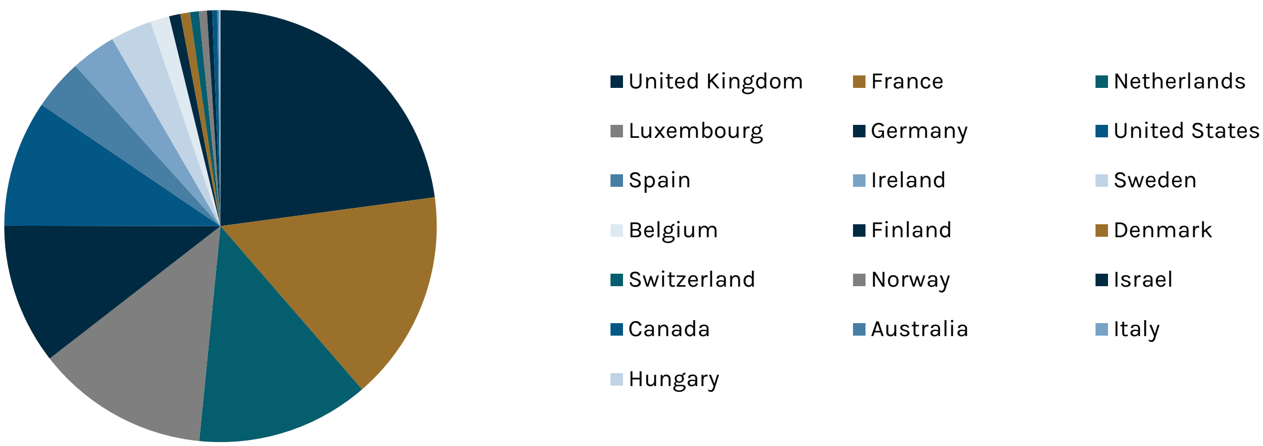
Source: Ares Management

A diverse opportunity set:

Credit risk can be materially reduced if a portfolio benefits from a well-diversified opportunity set. With over 560 loan deals issued by companies operating in 20 distinct industry sectors across 19 countries, we believe the composition of the European leveraged loan market provides ample levels of diversification within the opportunity set (figures 13 and 14),. Furthermore, the change in these compositions over time also reveal increased diversification. For example, the media/telecom sector made up more than 30% of the total market back in 2010; however, this has since reduced to around 15% as of December 2021, with other sectors such as technology, healthcare and chemicals taking a notably higher share of the market.

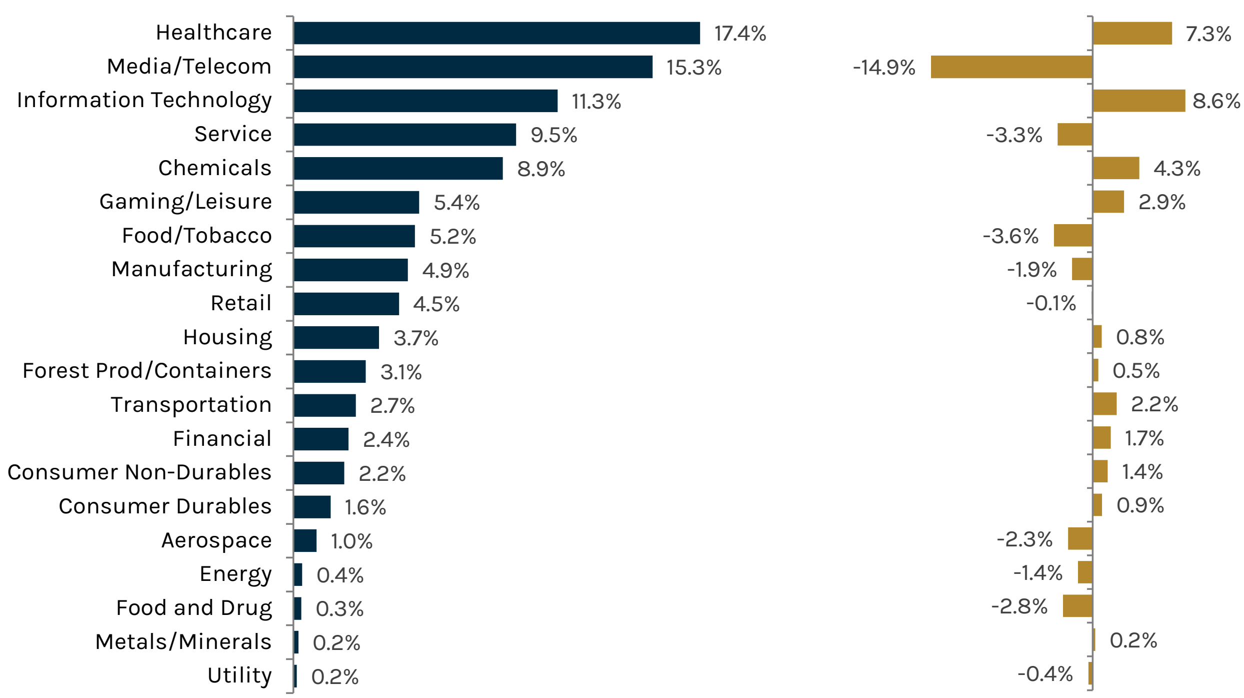
Figure 13 and 14: Diversification across sectors and geographies

Country breakdown (Market value %)



Source: Credit Suisse. European Leveraged Loan Market country breakdowns represented by the Credit Suisse Western European Leveraged Loan Index. Data as of December 2021

Industry breakdown (Market value %) **Change since 2010**

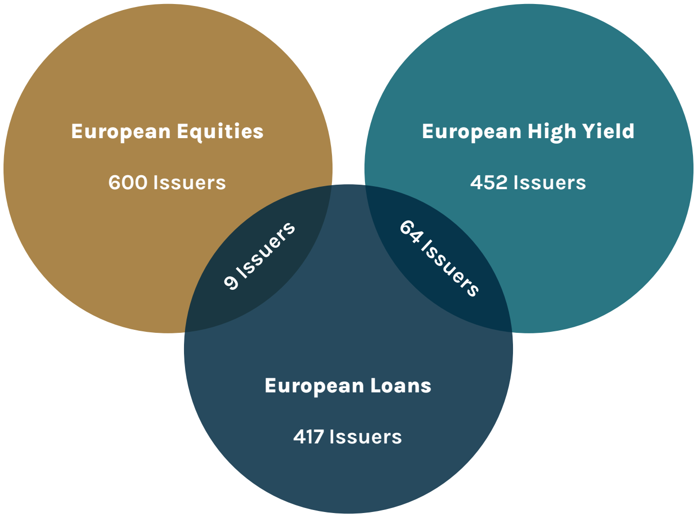


Source: Credit Suisse. European Leveraged Loan Market industry breakdowns represented by the Credit Suisse Western European Leveraged Loan Index. Data as of December 2021

In addition to diversification within the opportunity set, we believe that the European leveraged loan market also diversifies a broader portfolio by exposing an investor to many companies that are not present in European equity and high yield indices. As highlighted earlier in this paper, the majority of European leveraged loan volumes have been associated with private equity sponsored companies. As a result, there are just nine issuers in the European leveraged loan index that overlap with public European equities (Eurostoxx 600). Moreover, most issuers in Europe tend to choose either the loan or bond market in order to raise debt. Since 2009, the average proportion of loan-only and bond-only primary market supply within the European leveraged credit markets has been over 80%. Consequently, there are only 64 issuers with both loans and bonds outstanding in Europe. Meanwhile, within the US leveraged credit markets, it is more common to see issuers access both the high yield and loan markets in order to raise capital.

The low levels of issuer overlap with other European asset classes helps ensure that investors in European leveraged loans are truly diversifying their portfolios, providing an increased number of idiosyncratic opportunities while also improving the overall credit risk profile.

Figure 15: Limited overlap across European markets



Source: ICE BofA, Credit Suisse, Bloomberg. European Loans represented by the Credit Suisse Western European Leveraged Loan Index. European High Yield represented by the ICE BofA European Currency high Yield Constrained Index (HPC0). European Equities represented by the Euro Stoxx 600 Index. Data as of December 2021

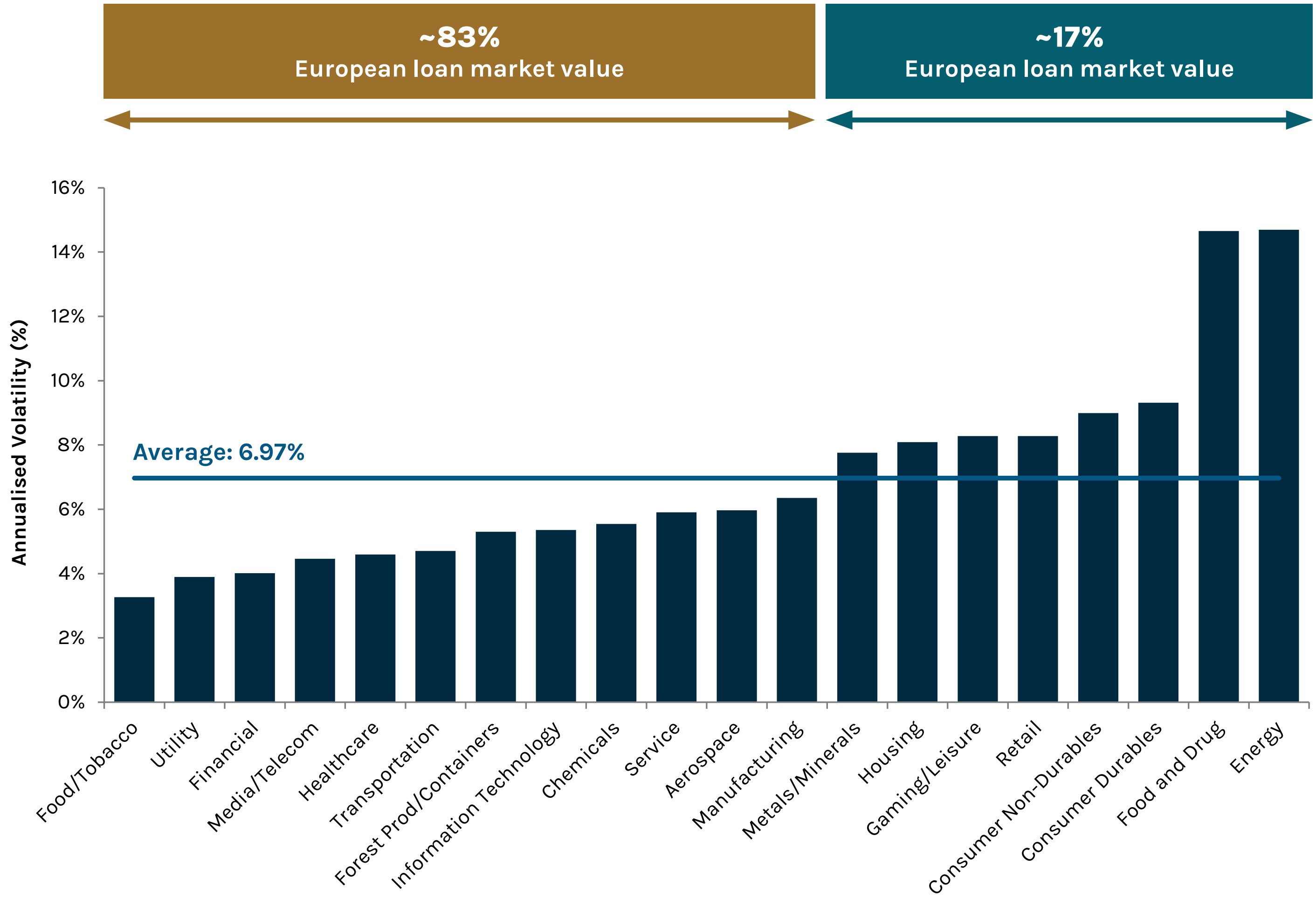
Defensive sector composition:

Another compositional factor to highlight concerns the sector distribution within the asset class. European leveraged loans have a lower weight to some of the more cyclical sectors that exhibit relatively high levels of volatility. For example, 83% of the asset class (in market value terms) has a 10-year annualised volatility below the market average.

Some of the least volatile sectors within the asset class make up a significant portion of the total market value. For instance, telecoms/media and healthcare are among the five least volatile sectors, representing 22% and 12% of the market on average over the past 10 years respectively. Unsurprisingly, energy has been the most volatile sector, however its ten-year average weight in the index is less than 2%.

Figure 16: The majority of the asset class is comprised of non-cyclical sectors

10-year annualised volatility - Sector breakdown



Source: Credit Suisse. European Leveraged Loan Market industry breakdowns represented by the Credit Suisse Western European Leveraged Loan Index. Data as of December 2021

The attractive risk-adjusted return profile is driven by:

(2) the rate structure of the asset class

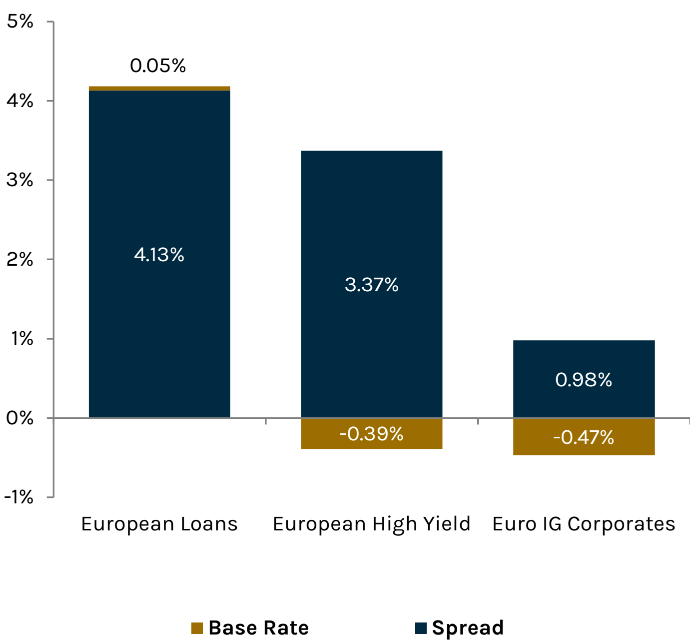
Protection from negative rates:

A prominent theme that has characterised fixed income markets in recent years – particularly those in Europe – has been negative interest rates, which have proved to be a drag on all-in yields in the bond markets (Figure 17).

In contrast, the European leveraged loan market has benefitted from this dynamic given the fact that 97% of the asset class has a Euribor floor of 0% or above, which effectively removes the impact of negative rates across the asset class. The benefit these floors have provided compared to incorporating a negative rate into the all-in yield has increased as Euribor has fallen deeper into negative territory over time (Figure 18 and 19).

Figure 17: Base rates are a drag on European bond market yields

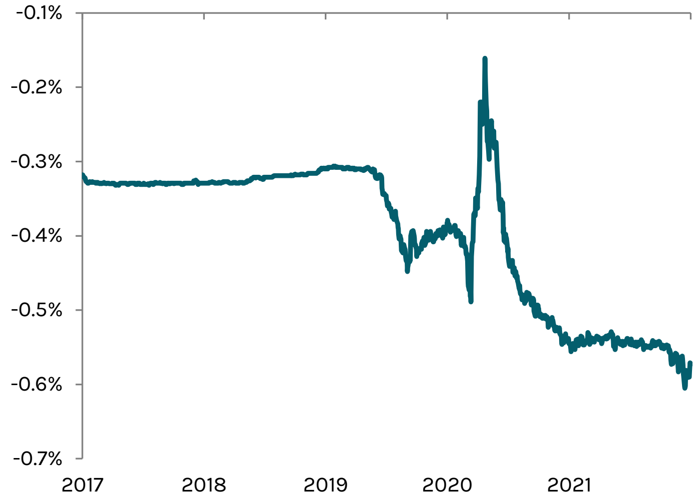
Yield composition



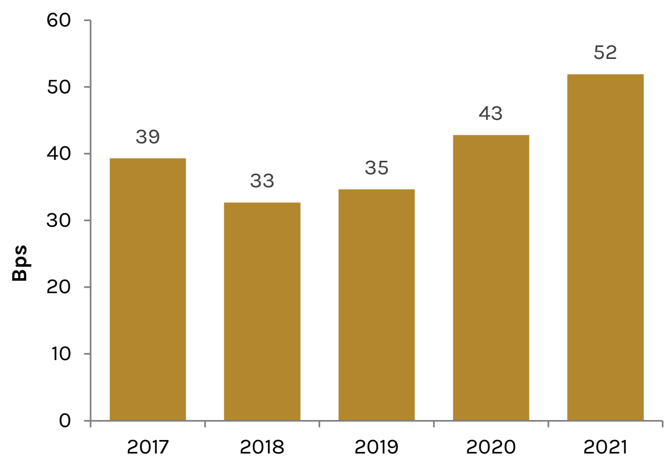
Source: ICE BofA, Credit Suisse. Data as of December 2021. Loan indices use the 3yr yield and 3yr discount margin, while bond indices use the yield to worst and option adjusted spread when calculating the yield composition. Data as of December 2021. Please refer to endnotes for additional information.

Figure 18 and 19: The benefit of Euribor floors has increased over time

Three-month Euribor



Average new issue Euribor floor benefit



Source: Bloomberg, LCD. Data as of December 2021

Well-positioned for rising rates:

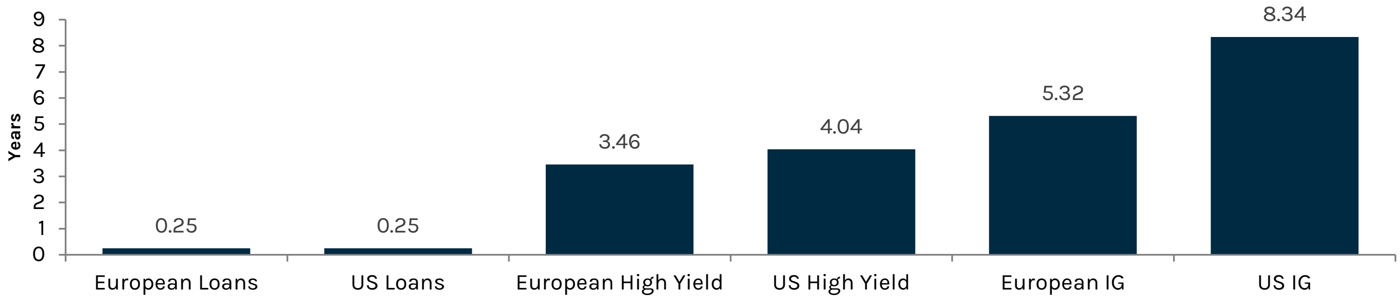
Duration measures the sensitivity of a given asset class to movements in interest rates. As depicted in Figure 20, European leveraged loans have a duration that is significantly below that of bond markets attributable to their floating rates that typically adjust every three months based on Euribor.

Certain fixed income asset classes have benefitted from having a relatively high duration profile and the capital appreciation uplift that has come from interest rates moving consistently lower over the past few decades (Figure 21). For example, over 70% of the total return from European IG corporates has been driven by base rates over the past 15 years compared to around 30% in the loan market (Figure 22).

With interest rates near historic lows, and in many cases tracking in negative territory, bonds are unlikely to receive the same level of performance uplift from duration going forward, while the downside risk of rising rates will remain a prominent theme. The low duration profile of the European leveraged loan market will ensure the asset class is shielded from rising rates. Moreover, we believe loan valuations stand to benefit if Euribor moves back into positive territory given that yields will periodically adjust upwards, ensuring the underlying "risk-free" rate adequately compensates investors as compared to other segments of the credit market.

Figure 20: Loans have low duration given their floating rate characteristic

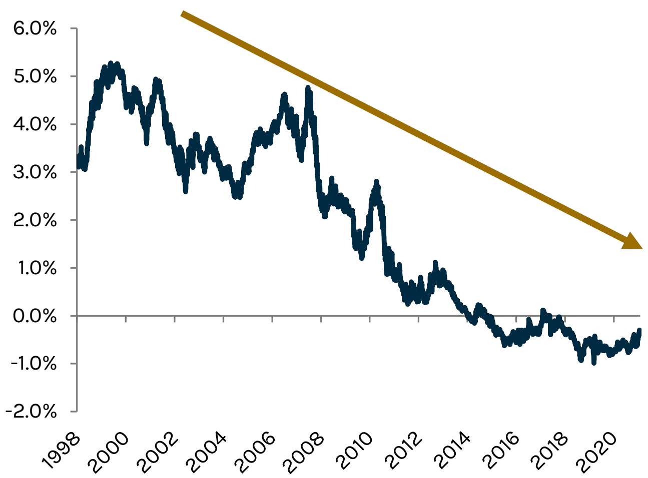
Duration profile across credit markets



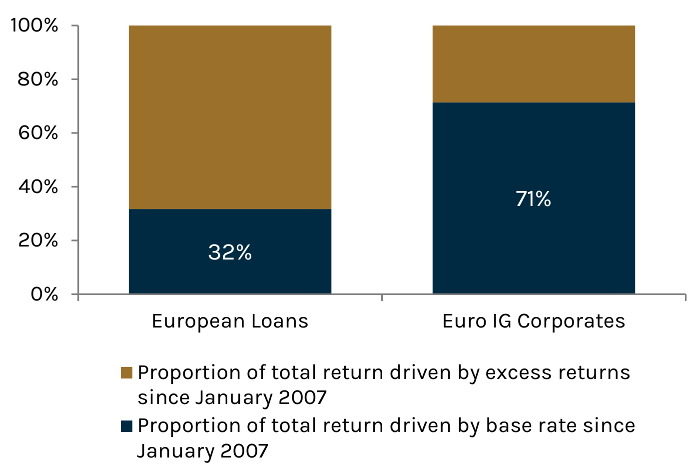
Source: ICE BofA, Credit Suisse. Data as of December 2021. Please refer to endnotes for additional information.

Figure 21 and 22: The long-term trend of lower rates has benefitted markets with a higher duration

German government bond 5-year yield



Duration has dominated returns in certain credit markets



Source: Bloomberg, ICE BofA, Credit Suisse. European Loans represented by the Credit Suisse Western European Leveraged Loan Index. Euro IG Corporates represented by the ICE BofA Euro Corporate Index (ER00). Data as of December 2021

Shifting market dynamics that investors should be aware of

It is important to note that the asset class has seen some compositional changes in recent years that may lead some investors to question whether the return profile will be impacted going forwards. Some of the most noteworthy changes include the rise in covenant-lite ("cov-lite") loans as well as the impact of environmental, social and governance factors becoming increasingly important to market participants.

The prevalence of covenant-lite loans:

A discussion on the leveraged loans market would not be complete without addressing the compositional shift to cov-lite loans. This dynamic first became prominent in 2013 and has since fast become the norm within the asset class – this is clearly evidenced within the primary market in which over 90% of new deals over the past three years have come with cov-lite structures (Figure 23).

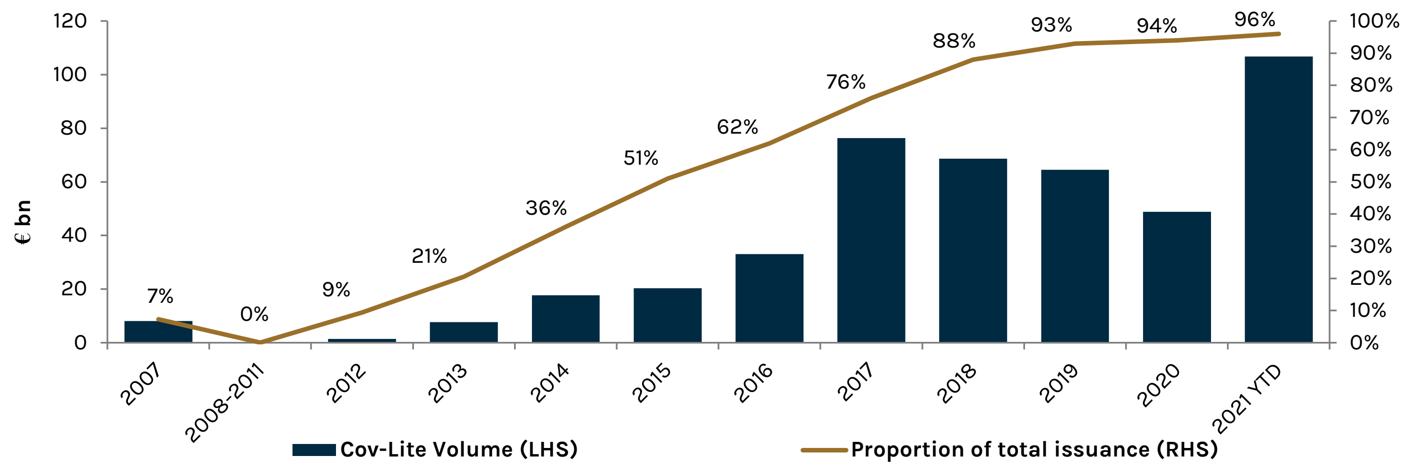
It is important to note that cov-lite does not mean that loans have simply disposed of their covenants. This label indicates that a given loan does not have maintenance covenants, but instead is likely to have incurrence covenants. Maintenance covenants require the borrower to maintain a certain level of activity. For instance, an issuer may have a maintenance covenant that requires net leverage (Total Debt less Cash/EBITDA) to be less than 6x, tested on a quarterly basis. If the test fails, the issuer incurs a default on their debt. Incurrence covenants, which have traditionally been found in the high yield bond market, are now a common feature of cov-lite loans. Incurrence covenants provide the issuer with more flexibility as the covenant is not tested on a periodic basis and will only take effect when an issuer takes a specific action. For example, an issuer's incurrence covenant may require that net leverage must be below 6x if a borrower wants to issue new debt. A default would only occur if new debt is issued while the net leverage ratio was above the stated limit.

Hence, maintenance covenants generally provide the lender with more protection for their investment. However, it is worth highlighting that the shift to a cov-lite environment also has its benefits. For example, if an issuer defaults on their debt due to failing a maintenance covenant, management time and company resources are steered away from improving business operations and may become more focused on addressing the default. Company resources may also be put towards executing a covenant waiver – something which can be a timely and bureaucratic process. The removal of these covenants allows management to concentrate on navigating through what could be a temporary downturn, which could ultimately enhance the fortunes/financial position of the company and allow the lender to potentially recover 100% of their initial investment.

As a result of the shift to cov-lite, the asset class is likely to support lower default rates as borrowers are afforded more flexibility to avoid covenant-related defaults, also known as technical defaults. For defaults experienced going forward, the recovery rates will potentially be lower than those seen historically as the default is more likely to be linked to a more severe debt servicing default (e.g., missing payments on interest or principal payments), rather than a technical default. However, as highlighted earlier in this paper, it is notable that European loan recoveries have moved higher despite the increasing prevalence of cov-lite loans.

Figure 23: Over 90% of new deals have been cov-lite over the past three years

Cov-lite loans in the institutional European primary market



Source: S&P LCD. Data as of December 2021

Growing focus on Environmental Social and Governance ("ESG") considerations:

Similar to most asset classes across the financial markets, Environmental, Social and Governance ("ESG") factors have become increasingly emphasized in the European leveraged loan market for both borrowers and lenders.

Regarding the composition of the asset class, European leveraged loans exhibit various characteristics that are beneficial to the investor who is mindful of sustainable investing. For example, the asset class has a very low exposure to the energy and transportation sectors (0.41% and 2.7% respectively) and hence businesses that are associated with high carbon footprints. Additionally, the market is weighted towards sectors that are generally associated with a lower carbon footprint such as telecoms, technology and services (~35% of market on aggregate).

A notable theme within the asset class over the past year has been the increasing proportion of leveraged loans with ESG-linked margin rachets. These are a dynamic mechanism to improve disclosure and to incentivise issuers to achieve certain defined ESG performance targets. A margin rachet will either increase or decrease the coupon that a loan issuer is required to pay based on achieving a particular set of objectives. The rachets increase the frequency of ESG data collection (typically annually) and in some cases the interest cost savings (if the margin ratchets down) are deployed into further ESG initiatives. ESG-linked margin rachets will typically increase or decrease the coupon by 5.0 to 7.5bps and the objectives will vary depending on the sector that the issuer operates within. Examples include:

- increase third party ESG rating;
- reduce Scope 1 and Scope 2 greenhouse gas emissions;
- reduce accident rate per hours worked; and
- reduce amount of non-recyclable materials used in product packaging.

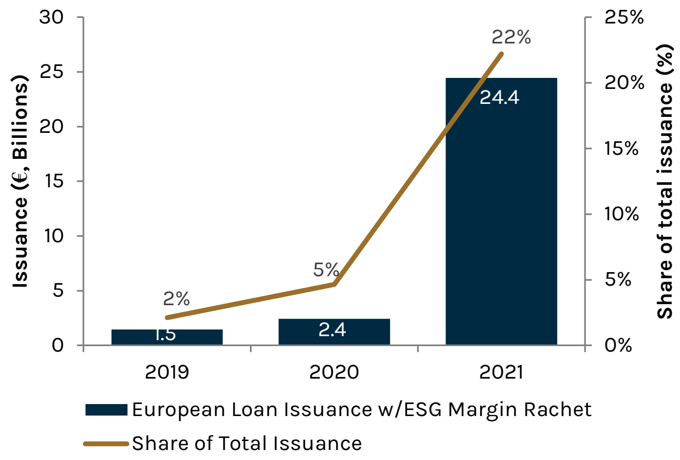
During 2019 and 2020, respectively, 2% and 5% of the total European leveraged loan issuance came with an ESG-linked margin rachet. However, 2021 saw a significant increase, with €24.5 billion of loan supply containing ESG-linked margin rachets – this equates to 22% of total volumes (figure 24).

Investors in leveraged loans have also undertaken measures to formalise the way in which they consider ESG factors. For instance, leveraged loan managers may explicitly:

- exclude sectors according to their responsible investment policy;

Figure 24 –The proportion of deals with ESG-linked margin rachets grew significantly in 2021

European leveraged loan issuance with ESG-linked margin rachets



Source: LCD. Data as of December 2021

- apply ESG ratings to identify the highest and lowest ranked names within portfolios and across the opportunity set; or
- formally engage with issuers requesting more specific ESG disclosures related to their industry and take a proactive voice to help promote ESG-related objectives.

Finally, as mentioned earlier in this paper, the majority of deals that come to the European leveraged loan market are from companies backed by private equity sponsors. Most private equity managers are responding to the demands of their underlying investors and developing ESG best practices that can be implemented across their portfolio companies through engagement with senior management. Over time, these measures, combined with demands from lenders in the leveraged loan community and regulatory frameworks – such as the Sustainable Finance Disclosure Regulation and the Task Force on Climate-Related Financial Disclosures – should lead to more formalised sustainability objectives and an improvement in the level of disclosures on ESG related data that can ultimately be used for leveraged loan investor due diligence and third party ESG ratings.

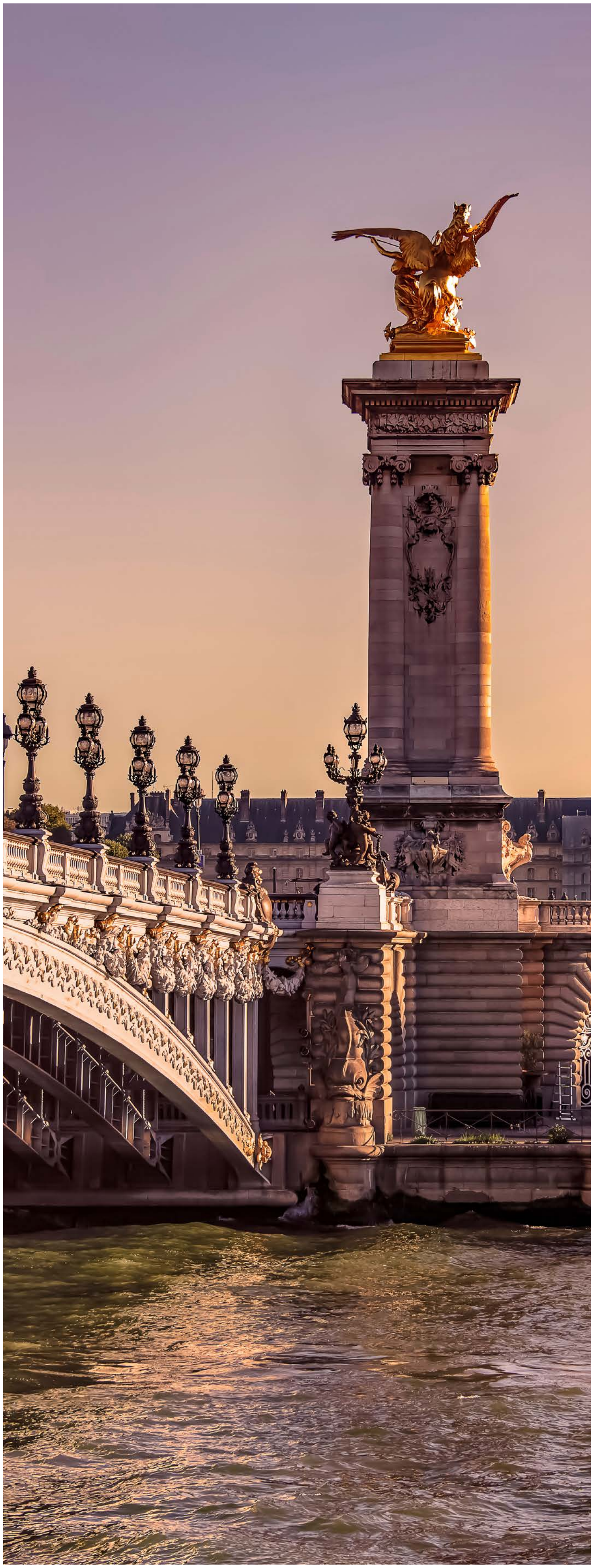
The rise of cov-lite loans and an ever-increasing focus on ESG has led to a significant shift in the asset class composition, and in the case of ESG, should continue to drive change in the market in the years ahead. Even though these changes are expected to remain in place, we believe that they will have a limited impact on the risk-adjusted return profile of the European leveraged loan market and could potentially have a positive impact to the investment experience.

Conclusion

The European leveraged loan market has become a distinct asset class within the financial markets, with an increasingly liquid and diverse range of underlying issuers that provide investors with access to secured debt. The market has a robust track record for producing consistent returns, coupled with relatively low levels of volatility, and we believe it is well placed to continue this trend when considering relative valuations and the ownership composition.

The attractive risk-adjusted profile has been buoyed by improving default and recovery trends, which could be explained in part by the maturation of the asset class. An elevated position in the capital structure, the composition of the asset class from a sector standpoint as well as a diversified opportunity set are also supportive of credit performance. The rate structure of European leveraged loans has also bolstered the risk-adjusted return profile. Unlike bonds, loans are protected from the downside risk of rising interest rates, while the advent of Euribor floors ensures that the impact of negative rates can be largely mitigated. The prevalence of cov-lite loans has arguably provided issuers with a higher degree of financial flexibility at the expense of the lender. However, the additional flexibility could provide attractive outcomes for both parties, as covenant structures are brought more in line with those seen in the high yield bond market. Finally, ESG has become an increasingly important feature of investing in the asset class, with both leveraged loan issuers and investors taking steps to formally address this topic, as evidenced by the significant increase in leveraged loans with ESG-linked margin rachets and in the formal incorporation of ESG factors into the investment process.

By adding the benefits of diversification, and potentially boosting risk-adjusted returns, we believe these features make a strong case for investing in European leveraged loans as a distinct core holding within a broader, diversified portfolio.



End Notes

Executive Summary and Figure 3 - Source: ICE BofA, Credit Suisse, Bloomberg. European Loans represented by the Credit Suisse Western European Leveraged Loan Index. US Loans represented by the Credit Suisse Leveraged Loan Index. European High Yield represented by the ICE BofA European Currency high Yield Constrained Index (HPC0). US High Yield represented by the ICE BofA US High Yield Constrained Index (HUC0). Emerging Market Corporates represented by the ICE BofA Emerging Markets Diversified Corporate Index (EMSD). European Equities represented by the Euro Stoxx 50 Index. US Equities represented by the S&P 500 Index. Data as of December 2021

Figure 4 - Source: ICE BofA, Credit Suisse, Bloomberg. European Loans represented by the Credit Suisse Western European Leveraged Loan Index. US Loans represented by the Credit Suisse Leveraged Loan Index. European High Yield represented by the ICE BofA European Currency high Yield Constrained Index (HPC0). US High Yield represented by the ICE BofA US High Yield Constrained Index (HUC0). Emerging Market Corporates represented by the ICE BofA Emerging Markets Diversified Corporate Index (EMSD). European Equities represented by the Euro Stoxx 50 Index. US Equities represented by the S&P 500 Index. Data as of December 2021

Figure 5 - Source: ICE BofA, Credit Suisse, Bloomberg. European Loans represented by the Credit Suisse Western European Leveraged Loan Index. US Loans represented by the Credit Suisse Leveraged Loan Index. European High Yield represented by the ICE BofA European Currency high Yield Constrained Index (HPC0). US High Yield represented by the ICE BofA US High Yield Constrained Index (HUC0). Emerging Market Corporates represented by the ICE BofA Emerging Markets Diversified Corporate Index (EMSD). European Equities represented by the Euro Stoxx 50 Index. US Equities represented by the S&P 500 Index. Data as of December 2021

Figure 6 - Source: ICE BofA, Credit Suisse. European Loans represented by the Credit Suisse Western European Leveraged Loan Index. US Loans represented by the Credit Suisse Leveraged Loan Index. European High Yield represented by the ICE BofA European Currency high Yield Constrained Index (HPC0). US High Yield represented by the ICE BofA US High Yield Constrained Index (HUC0). Euro IG Corporates represented by the ICE BofA Euro Corporate Index (ER00). US IG Corporates represented by the ICE BofA US Corporate Index (C0A0). Loan indices use the 3yr yield, bond indices use the yield to worst. Data as of December 2021

Figure 8 and 9 - Source: Credit Suisse. European Loans represented by the Credit Suisse Western European Leveraged Loan Index (“CSWELLI”) and U.S. Loans represented by the Credit Suisse Leveraged Loan Index (“CSLLI”). Distressed exchanges included in default rate calculation. European High Yield is represented by the Credit Suisse Western European High Yield Index and US High Yield is represented by the Credit Suisse US High Yield Index. Distressed exchanges included in default rate calculation. Data as of December 31, 2021

Figure 17 - Source: ICE BofA, Credit Suisse. European Loans represented by the Credit Suisse Western European Leveraged Loan Index. European High Yield represented by the ICE BofA European Currency high Yield Constrained Index (HPC0). Euro IG Corporates represented by the ICE BofA Euro Corporate Index (ER00). Loan indices use the 3yr yield and 3yr discount margin, while bond indices use the yield to worst and option adjusted spread when calculating the yield composition. The risk-free rate includes the impact of the FX hedge. Data as of December 2021

Figure 20 - Source: ICE BofA, Credit Suisse. European Loans represented by the Credit Suisse Western European Leveraged Loan Index. US Loans represented by the Credit Suisse Leveraged Loan Index. European High Yield represented by the ICE BofA European Currency high Yield Constrained Index (HPC0). US High Yield represented by the ICE BofA US High Yield Constrained Index (HUC0). Euro IG Corporates represented by the ICE BofA Euro Corporate Index (ER00). US IG Corporates represented by the ICE BofA US Corporate Index (C0A0). Data as of December 2021

Index Definitions

The Credit Suisse Leveraged Loan Index ("CSLLI") is designed to mirror the investable universe of the $US-denominated leveraged loan market. The index inception is January 1992. The index frequency is daily, weekly and monthly. New loans are added to the index on their effective date if they qualify according to the following criteria: 1) Loan facilities must be rated "5B" or lower. That is, the highest Moody's/S&P ratings are Baa1/BB+ or Ba1/BBB+. If unrated, the initial spread level must be Libor plus 125 basis points or higher. 2) Only fully-funded term loan facilities are included. 3) The tenor must be at least one year. 4) Issuers must be domiciled in developed countries; issuers from developing countries are excluded.

The Credit Suisse Western European Leveraged Loan Index ("CSWELLI") is designed to mirror the investable universe of the leveraged loan market of issues which are denominated in US$ or Western European currencies. The issuer has assets located in or revenues derived from Western Europe, or the loan represents assets in Western Europe, such as a loan denominated in a Western European currency. Loan facilities must be rated "5B" or lower. That is, the highest Moody's/S&P ratings are Baa1/BB+ or Ba1/BBB+. Only fully funded term loan facilities are included and the tenor must be at least one year. Minimum outstanding balance is $100 million and new loans must be priced by a third-party vendor at month-end. The index inception is January 1998.

The ICE BofA US High Yield Master II Constrained Index ("HUC0") contains all securities in The ICE BofA US High Yield Master II Index but caps issuer exposure at 2%. Index constituents are capitalization-weighted, based on their current amount outstanding, provided the total allocation to an individual issuer does not exceed 2%. Issuers that exceed the limit are reduced to 2% and the face value of each of their bonds is adjusted on a pro-rata basis. Similarly, the face values of bonds of all other issuers that fall below the 2% cap are increased on a pro-rata basis. In the event there are fewer than 50 issuers in the Index, each is equally weighted and the face values of their respective bonds are increased or decreased on a prorata basis. Accrued interest is calculated assuming next-day settlement. Cash flows from bond payments that are received during the month are retained in the index until the end of the month and then are removed as part of the rebalancing. Cash does not earn any reinvestment income while it is held in the Index. The Index is rebalanced on the last calendar day of the month, based on information available up to and including the third business day before the last business day of the month. Issues that meet the qualifying criteria are included in the Index for the following month. Issues that no longer meet the criteria during the course of the month remain in the Index until the next month-end rebalancing at which point they are removed from the Index.

The ICE BofA European Currency High Yield Constrained Index (HPC0) contains all securities in The BofA European Currency High Yield Index but caps issuer exposure at3%. Index constituents are capitalization weighted, based on their current amount outstanding, provided the total allocation to an individual issuer does not exceed 3%. Issuers that exceed the limit are reduced to 3% and the face value of each of their bonds is adjusted on a pro-rata basis. Similarly, the face values of bonds of all other issuers that fall below the 3% cap are increased on a pro-rata basis. In the event there are fewer than 34 issuers in the Index, each is equally weighted and the face values of their respective bonds are increased or decreased on a pro-rata basis. Inception date: December 31, 1997.

ICE BofA Euro Corporate Index (ER00) tracks the performance of EUR denominated investment grade corporate debt publicly issued in the eurobond or Euro member domestic markets. Qualifying securities must have an investment grade rating (based on an average of Moody's, S&P and Fitch) and at least 18 months to final maturity at the time of issuance. In addition, qualifying securities must have at least one year remaining term to final maturity, a fixed coupon schedule and a minimum amount outstanding of EUR 250 million. Original issue zero coupon securities and pay-in-kind securities, including toggle notes, qualify for inclusion in the Index. Callable perpetual securities qualify provided they are at least one year from the first call date. Fixed-to-floating rate securities also qualify provided they are callable within the fixed rate period and are at least one year from the last call prior to the date the bond transitions from a fixed to a floating rate security. Contingent capital securities ("cocos") are excluded, but capital securities where conversion can be mandated by a regulatory authority, but which have no specified trigger, are included. Other hybrid capital securities, such as those issues that potentially convert into preference shares, those with both cumulative and non-cumulative coupon deferral provisions, and those with alternative coupon satisfaction mechanisms, are also included in the index. Euro legacy currency, equity-linked and securities in legal default are excluded from the Index. Securities issued or marketed primarily to retail investors do not qualify for inclusion in the index. Index constituents are market capitalization weighted. Accrued interest is calculated assuming next-day settlement. Cash flows from bond payments that are received during the month are retained in the index until the end of the month and then are removed as part of the rebalancing. Cash does not earn any reinvestment income while it is held in the index. Information concerning constituent bond prices, timing and conventions and index governance and administration is provided in the ICE BofA Bond Index Methodologies, which can be accessed on our public website (https://indices.theice. com), or by sending a request to iceindices@theice.com. The index is rebalanced on the last calendar day of the month, based on information available up to and including the third business day before the last business day of the month. New issues must settle on or before the calendar month end rebalancing date in order to qualify for the coming month. No changes are made to constituent holdings other than on month end rebalancing dates. Inception date: December 31, 1995.

ICE BofA US Corporate Index (C0A0) tracks the performance of US dollar denominated investment grade corporate debt publicly issued in the US domestic market. Qualifying securities must have an investment grade rating (based on an average of Moody's, S&P and Fitch), at least 18 months to final maturity at the time of issuance, at least one year remaining term to final maturity as of the rebalancing date, a fixed coupon schedule and a minimum amount outstanding of $250 million. Original issue zero coupon bonds, 144a securities (with and without registration rights), and pay-in-kind securities (including toggle notes) are included in the index. Callable perpetual securities are included provided they are at least one year from the first call date. Fixed-to-floating rate securities are included provided they are callable within the fixed rate period and are at least one year from the last call prior to the date the bond transitions from a fixed to a floating rate security. Contingent capital securities ("cocos") are excluded, but capital securities where conversion can be mandated by a regulatory authority, but which have no specified trigger, are included. Other hybrid capital securities, such as those issues that potentially convert into preference shares, those with both cumulative and non-cumulative coupon deferral provisions, and those with alternative coupon satisfaction mechanisms, are also included in the index. Equity-linked securities, securities in legal default, hybrid securitized corporates, eurodollar bonds (USD securities not issued in the US domestic market), taxable and tax-exempt US municipal securities and $1000 par preferred and DRD-eligible securities are excluded from the index. Index constituents are market capitalization weighted. Accrued interest is calculated assuming next-day settlement. Cash flows from bond payments that are received during the month are retained in the index until the end of the month and then are removed as part of the rebalancing. Cash does not earn any reinvestment income while it is held in the index. Information concerning constituent bond prices, timing and conventions and index governance and administration is provided in the ICE BofA Bond Index Methodologies, which can be accessed on our public website (https://indices.theice. com), or by sending a request to iceindices@theice.com. The index is rebalanced on the last calendar day of the month, based on information available up to and including the third business day before the last business day of the month. New issues must settle on or before the calendar month end rebalancing date in order to qualify for the coming month. No changes are made to constituent holdings other than on month end rebalancing dates. Inception date: December 31, 1972.

The Standard & Poor's 500 ("Domestic"), often abbreviated as the S&P 500, or just "the S&P", is an American stock market index based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ. The S&P 500 index components and their weightings are determined by S&P Dow Jones Indices.

The Euro STOXX 50 Index is a market capitalization-weighted stock index of 50 large, blue-chip European companies operating within Eurozone nations. Components are selected from the Euro STOXX Index, which includes large-, mid- and small-cap stocks in the Eurozone.

ICE BofA Emerging Markets Diversified Corporate Index ("EMSD") tracks the performance of US dollar denominated emerging markets corporate senior and secured debt publicly issued in the US domestic and eurobond markets. In order to qualify for inclusion in the Index an issuer must have primary risk exposure to a country other than a member of the FX G10, a Western European country, or a territory of the US or a Western European country. The FX-G10 includes all Euro members, the US, Japan, the UK, Canada, Australia, New Zealand, Switzerland, Norway and Sweden. Individual securities of qualifying issuers must be denominated in US dollars, must be senior or secured debt, must have at least one year remaining term to final maturity a fixed coupon and at least $500 million in outstanding face value. Qualifying securities must have at least 18 months to final maturity at the time of issuance. The index includes corporate debt of qualifying countries, but excludes sovereign, quasi-government, securitized and collateralized debt. Original issue zero coupon bonds 144a securities, both with and without registration rights, and pay-in-kind securities, including toggle notes, qualify for inclusion in the Index. Callable perpetual securities qualify provided they are at least one year from the first call date. Fixed-to-floating rate securities also qualify provided they are callable within the fixed rate period and are at least one year from the last call prior to the date the bond transitions from a fixed to a floating rate security. Securities rated Ca/CC or lower by any of the three rating agencies do not qualify for inclusion. Contingent capital securities ("cocos") are excluded, but capital securities where conversion can be mandated by a regulatory authority, but which have no specified trigger, are included. Other hybrid capital securities, such as those issues that potentially convert into preference shares, those with both cumulative and non-cumulative coupon deferral provisions, and those with alternative coupon satisfaction mechanisms, are also included in the index. Securities issued or marketed primarily to retail investors do not qualify for inclusion in the index. Equity-linked securities, securities in legal default and hybrid securitized corporates are excluded from the index. Index constituents are market capitalization weighted, subject to a 5% issuer cap. Issuers that exceed the limits are reduced to 5%, and the face value of each of their bonds is adjusted on a pro-rata basis. Similarly, the face values of bonds of all other issuers that fall below the cap are increased on a pro-rata basis. In the event there are fewer than 20 issuers, each is equally weighted and the face values of their respective bonds are increased or decreased on a pro-rata basis. Inception date: December 31, 2004.

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The outbreak of a novel and highly contagious form of coronavirus ("COVID-19"), which the World Health Organization has declared to constitute a pandemic, has resulted in numerous deaths, adversely impacted global commercial activity and contributed to significant volatility in certain equity and debt markets. The global impact of the outbreak is rapidly evolving, and many countries have reacted by instituting quarantines, prohibitions on travel and the closure of offices, businesses, schools, retail stores and other public venues. Businesses are also implementing similar precautionary measures. Such measures, as well as the general uncertainty surrounding the dangers and impact of COVID-19, are creating significant disruption in supply chains and economic activity and are having a particularly adverse impact on energy, transportation, hospitality, tourism, entertainment and other industries. The impact of COVID-19 has led to significant volatility and declines in the global financial markets and oil prices and it is uncertain how long this volatility will continue. As COVID-19 continues to spread, the potential impacts, including a global, regional or other economic recession, are increasingly uncertain and difficult to assess. Any public health emergency, including any outbreak of COVID-19 or other existing or new epidemic diseases, or the threat thereof, and the resulting financial and economic market uncertainty could have a significant adverse impact on investment portfolios and the value of their investments. The information herein is as of the dates referenced, and not all of the effects, directly or indirectly, resulting from COVID-19 and/or the current market environment may be reflected herein. The full impact of COVID-19 and its ultimate potential effects on portfolio company performance and valuations is particularly uncertain and difficult to predict.

REF: TCE-00171