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European Leveraged Finance, First Quarter 2012

Highlights and Market Environment

- European leveraged finance issuance (leveraged loans and high yield bonds) opened on a stronger note than in the last quarter of 2011, with €45.5 billion issued in the first quarter of 2012, a fourfold increase from Q4’11 (€9.3 billion) and a 17.0% increase from 1Q’11 (€38.9 billion). The continued financial market strain from the sovereign debt crisis, weak macroeconomic backdrop, and bank capital ratio requirements continued to play out in the first quarter. Market share of high yield bond issuance was 41.1% in 1Q’12, compared to 39.7% in 4Q’11 and 54.1% in 1Q’11.

Market and Economic Environment

- According to the January European Central Bank (ECB) bank lending survey, banks reported, on net, a further tightening of lending standards in the first quarter, both for small- and medium-sized enterprises (SMEs) and large enterprises. Standards for long-term loans tightened considerably more than short-term loans in the first quarter. The recessionary backdrop, negative industry outlooks, and bank capital requirements contributed greatly to tightened standards, while less important factors included bank liquidity positions, bank access to refinancing, and risk to collateral demanded. Factors that contributed to easing standards, albeit minor, were bank and non-bank competition, as well as market financing.

- More generally, however, loan demand plummeted in the first quarter, with loans primarily utilised to restructure debt. Factors contributing to decreased demand included fixed investments and mergers & acquisitions.

- While coordinated central bank actions alleviated funding pressures in banks in the fourth quarter of 2011, Basel III rules, limited funding access, and bank capital raising needs have placed heavy constraints on bank lending. The need for European banks to raise €115 billion in additional capital has placed pressure on banks to rein in lending and subsequently access to balance sheet has been reduced, with further reductions expected in the next few months. Thomson Reuters noted that several European retail banks reduced amounts they are willing to take on deals by more than 50%. 

Issuance

Issuance: Leveraged Loans

- Leveraged loan issuance, which includes first lien, second lien, and mezzanine financing, totalled €26.8 billion in 1Q’12, a fourfold increase quarter-over-quarter (4Q’11’s issuance of €5.6 billion) and an increase of 50.2% from 1Q’11 (€17.9 billion). According to S&P, the loan pipeline at the end of March 2012 was an extremely light €33 million.

- Approximately €0.1 billion of second liens and €0.2 billion of mezzanine loans were issued in the first quarter. Pricing spreads for institutional loans widened by 24.7 basis points (bps), while pro rata loans tightened by 0.3 bps. Mezzanine loans tightened by 22.3 bps.

- The tiering of the loan markets continued to persist in the first quarter of 2012, with corporates from higher quality sovereign countries enjoying cheaper access to the markets. Differences of more than 100 bps continue to persist between companies from higher rated sovereign countries (Germany, Netherlands), compared to companies from weaker sovereigns (France, Spain).

- According to Dealogic, the leading sectors in leveraged loan issuance for the first quarter were machinery (€8.0 billion), followed by construction/building (€5.3 billion), and computers & electronics (€2.69 billion). The largest deal was a transaction from Schaeffler Technologies AG, an amend & extend (“A&E”) transaction on a €7.7 billion credit facility signed in August 2009.

- Two-thirds of the deals by euro amount in the first quarter of 2012 were A&E transactions; an additional 10% were private equity exits through secondary buyouts.

- The share of deals aimed to refinance and/or repay debt (inclusive of A&E deals) jumped to 74.3% in 1Q’12, compared to 47.4% in 4Q’11 and 45.2% in 1Q’11. The share of LBO/MBO deals remained unchanged from the previous quarter, at 23%.

---

1 Thomson Reuters, EuroLoanMarketPulse, 16 April 2012.
• The primary CLO market remained quiet in the first quarter or 2012, with the two deals completed retained (Cosmo Finance 2012-1; Societa Italiana Per La Cartolarizzazione Dei CRE 2012-1). SME issuance declined in the first quarter to €7.7 billion, a decline of 71.9% and 50.9%, respectively, quarter-over-quarter and year-over-year. The majority of deals were retained, with only €1.0 billion placed.

• European CLO outstandings, including SME deals, decreased 10.8% on an annualized basis in the first quarter, ending March 2012 at €285.0 billion. Both non-SME CLO and SME CLOs shrank 7.0% and 13.2%, respectively, in the first quarter of 2012 on an annualized basis.

Primary issuance in 1Q’12 totalled €18.1 billion on 39 deals, a fourfold increase quarter-over-quarter (€3.7 billion) but a decrease of 11.0% year-over-year (€21.02 billion). The decrease year-over-year stemmed primarily from the decline in issuance from emerging market Europe, while developed market Europe continued to maintain issuance at levels seen last year.

Primary issuance in developed markets Europe in the first quarter was €17.6 billion on 37 deals, while in emerging markets Europe primary issuance was €1.1 billion on 2 deals. Six new debut issues were brought to market in developed markets Europe: Welltec A/S; Schaeffler Finance; Lowell Group Financing, Talvivaara Mining Co, Numericable Finance & Co, and Viridian Group. In emerging markets Europe one payment-in-kind (PIK) deal emerged: Eileme 1.

High yield issuance for refinancing and/or repayment of debt ticked up slightly in 1Q’12 to 48.0% of all deals by euro amount, compared to 35.8% and 44.1%, respectively, quarter-over-quarter and year-over-year.

Use of senior secured debt structures increased in 1Q’12 to 39.8% by euro amount, compared to 25.3% and 44.7%, respectively, quarter-over-quarter and year-over-year. Usage continues to remain predominantly from developed markets Europe; in the first quarter of 2012, no emerging market deals were senior secured.

• Continuing the trend that emerged in the fourth quarter of 2011, USD-denominated issuance in Europe, especially developed market Europe, continued to represent a larger share of European corporate issuance than prior years. While USD-denominated issuance has always been a mainstay in emerging markets Europe, USD-denominated issuance has traditionally represented only a fifth of high yield issuance in developed market Europe (10-year average of 22.1%). In the first quarter of 2012, 39.8% of issuance was denominated in USD, compared to 48.1% in Q4’11 and 21.3% in 1Q’11. Other European debt markets saw a similar rise in USD-denominated issuance in 4Q’11 and 1Q’11, particularly public structured finance deals.

Returns & Credit Quality

• European high yield led total returns in the first quarter, in part buoyed by a recovery of European corporate bonds more generally and a general selloff of equities. On a total return basis, high yield and leveraged loans returned 12.6% and 4.2%, respectively, quarter-over-quarter.

• While Moody’s expected increases to the default rate to remain moderate in 2012, the rating agency noted that the reduction of exposure by banks could lead to a liquidity crisis for some weaker-performing companies. With $325 billion in refinancing needs for the period 2012-2015 and a greater proportion of B-rated names and unrated LBOs due in 2013 and beyond, Moody’s noted that B-rated companies would find it challenging to refinance their 2013 maturities in time when competing against upcoming LBO maturities.

• According to S&P, downgrades continued to exceed upgrades in both emerging and developed market Europe. In developed market Europe, the downgrade of several sovereigns in the first quarter drove the downgrade ratio upward, with 77 downgrades and 16 upgrades in 1Q’12. Both sovereigns and more particularly banks dominated downgrade headlines in the first quarter, with 40 downgrades stemming from bank downgrades (which, in turn, were impacted by sovereign downgrades). The few up-

6 Moody’s, “Liquidity will be diminished by sovereign and banking pressures”, 3 April 2012.
grades were concentrated largely in the automotive and consumer products sectors.

- Emerging market Europe also received more downgrades than upgrades (3 downgrades to 1 upgrade), but remained relatively quiet.

- High yield bond default rates diverged between Moody’s and S&P in the first quarter, with the former reporting a decline in default rates (2.3% in 1Q’12, compared to 3.0% in 4Q’11) and the latter reporting a slight rise in default rates (2.3% in 1Q’12, compared to 1.6% in 4Q’11). Three defaults were reported by Moody’s and Standard and Poor’s: Petroplus Holdings, Yell Group, and ERC Ireland.
1. Leveraged Finance Overview

1.1. European Leveraged Issuance by Type

[Graph showing European Leveraged Issuance by Type from 2004 to Q1 2012]

1.2. European Leveraged Issuance by Percentage

[Graph showing European Leveraged Issuance by Percentage from 2004 to Q1 2012]

1.3. European Leveraged Issuance Average Deal Size

[Graph showing European Leveraged Issuance Average Deal Size from 2004 to Q1 2012]

1.4. Bank Credit Standards

[Graph showing Bank Credit Standards from Apr. 2007 to Apr. 2012]

1.5. Factors Affecting Bank Credit Standards

[Bar chart showing Factors Affecting Bank Credit Standards from Apr. 2012]

1.6. Loan Demand

[Graph showing Loan Demand from Apr. 2007 to Apr. 2012]

---

A positive net percentage number signifies tightening bank credit; a negative net percentage number signifies easing credit.

A positive net percentage signifies the factor contributed to tightening credit standards; a negative net percentage signifies the factor contributed to easing credit standards.

A positive net percentage signifies increased demand; a negative net percentage signifies decreased demand.
1.7. Factors Affecting Loan Demand

Factors Affecting Loan Demand
Apr. 2012

- Debt Restructuring
- Loans from Other Banks
- Equity Issuance
- Loans from Non-Banks
- Debt Issuance
- Inventories, Working Capital
- Internal Financing
- M&A, Restructuring
- Fixed Investment

Net Percentage

Source: ECB

1.8. Global Comparison – High Yield Issuance

<table>
<thead>
<tr>
<th>€ Billions</th>
<th>2012</th>
<th>2011</th>
<th>Prior 2010</th>
</tr>
</thead>
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<tr>
<td></td>
<td>Q1</td>
<td>Q2</td>
<td>Q3</td>
</tr>
<tr>
<td>United States</td>
<td>55.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>10.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Europe</td>
<td>23.5</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

A positive net percentage signifies a factor that contributed to higher demand; a negative net percentage signifies a factor that contributed to lower demand.
2. Issuance – Leveraged Loans

2.1. European Leveraged Loan Issuance By Loan Type

![Graph showing Leveraged Loan Issuance by Loan Type (2004-2012:Q1)](source: Dealogic, Thomson Reuters LPC)

2.2. European Leveraged Loan Issuance by Industry Sector

![Graph showing Leveraged Loan Issuance by Industry Sector (2012:Q1)](source: Dealogic)

2.3. Forward Pipeline of Leveraged Loan Market

![Graph showing Forward Pipeline of Leveraged Loan Market (2010:Q1 - 2012:Q1)](source: Standard & Poor's LCD)

2.4. S&P ELLI Total Institutional Loans Outstanding

![Graph showing S&P ELLI Total Institutional Loans Outstanding (2005 - 2012:Q1)](source: Standard & Poor's LCD)

2.5. S&P ELLI Ratings Diversification

![Graph showing S&P ELLI Ratings Diversification (2006 - 2012:Q1)](source: Standard & Poor's LCD)

2.6. European Leveraged Loan Ratios

![Graph showing European Leveraged Loan Ratios (2011:Q2)](source: Fitch Ratings)

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5 Data from Fitch ratings are on a lag.
2.7. Institutional and Pro Rata Spreads

2.8. Mezzanine Spread

**Institutional and Pro Rata Spreads**

*Source: Dealogic, AFME, SIFMA*

**Mezzanine Spread**

*Source: Dealogic, AFME, SIFMA*
3. Issuance – High Yield Bonds Overview

3.1. European HY Bond Issuance, Developed and Emerging Market

3.2. European HY Bond Issuance, Sponsored vs. Corporate

3.3. European Corporate Bonds ex Banks and Financials, Outstanding (EUR-Denominated Securities Only)

3.4. European Corporate Bonds ex Banks and Financials, Average Deal Size (EUR-Denominated Securities Only)

3.5. European Corporate Bond Issuance by Rating

3.6. European Corporate Bond Issuance by Tenor
3.7. European HY Use of Proceeds

European HY Issuance By Use of Proceeds
2004 - 2012:Q1

Source: Dealogic, AFME/SIFMA

3.8. European HY Issuance, Senior Secured Share

European HY Issuance, Senior Secured and Unsecured
2006 - 2012:Q1

Source: Bloomberg, Dealogic

4. Issuance – European Developed Market High Yield Bonds

4.1. European Developed Market HY Bond Issuance

European Developed Market HY Bond Issuance
2004 - 2012:Q1

Source: Dealogic

4.2. European Developed Market HY Issuance by Currency

European Developed Market HY Issuance by Currency
2004 - 2012:Q1

Source: Dealogic

4.3. European Developed Market HY Issuance by Industry

European Developed Market HY Issuance by Industry
2012:Q1

Source: Dealogic

4.4. European Developed Market HY Issuance by Country of Risk

European Developed Market HY Issuance by Country of Risk
2012:Q1

Source: Dealogic
4.5. European Developed Market HY Issuance, Fixed vs. Floating

![European Developed Market HY Bond Issuance, Fixed vs Floating](chart1)

Source: Dealogic

4.6. European Developed Market HY Issuance, Sponsored vs. Corporate

![European Developed Market HY Issuance, Sponsored vs Corporate](chart2)

Source: Dealogic

4.7. European Developed Market HY Rating Distribution at Issuance

![European Developed Market HY Rating Distribution at Issuance](chart3)

Source: Dealogic, AFME/SIFMA
## 4.8. European Developed Market HY Bond Issuance

<table>
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<th>Issuer</th>
<th>Industry Group</th>
<th>Date</th>
<th>Currency</th>
<th>Amount (Millions)</th>
<th>Coupon</th>
<th>Moodys</th>
<th>S&amp;P</th>
<th>Fitch</th>
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<td>Wienerberger AG</td>
<td>Construction/Building</td>
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<td>Chemicals</td>
<td>20/01/2012</td>
<td>USD</td>
<td>400</td>
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<td>CEVA Group plc</td>
<td>Holding Companies</td>
<td>27/01/2012</td>
<td>USD</td>
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<td>Ba3</td>
<td>B+</td>
<td>B</td>
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<td>Telecommunications</td>
<td>31/01/2012</td>
<td>USD</td>
<td>750</td>
<td>6.875</td>
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<td>B+</td>
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<td>3M EURIBOR + 600</td>
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<td>CCC+ CCC+</td>
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<td>Faurecia SA</td>
<td>Auto/Truck</td>
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<td>140</td>
<td>9.375</td>
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<td>5.000</td>
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<td>Ba1</td>
<td>BB+</td>
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<td>USD</td>
<td>500</td>
<td>5.250</td>
<td>Ba2</td>
<td>BB-</td>
<td>BB+</td>
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<td>500</td>
<td>5.500</td>
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<td>Areen plc</td>
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<td>BB</td>
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<td>7.750</td>
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<td>B+</td>
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<td>03/03/2012</td>
<td>EUR</td>
<td>350</td>
<td>6.750</td>
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<td>BB</td>
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<td>HeidelbergCement Finance BV</td>
<td>Construction/Building</td>
<td>04/03/2012</td>
<td>EUR</td>
<td>300</td>
<td>4.000</td>
<td>Ba1</td>
<td>BB+</td>
<td>B+</td>
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<td>250</td>
<td>4.625</td>
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<td>BB+</td>
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<td>300</td>
<td>7.625</td>
<td>Ba2</td>
<td>BB-</td>
<td>BB-</td>
</tr>
<tr>
<td>Fiat Finance &amp; Trade Ltd SA</td>
<td>Auto/Truck</td>
<td>07/03/2012</td>
<td>EUR</td>
<td>850</td>
<td>7.000</td>
<td>Ba3</td>
<td>BB</td>
<td>BB</td>
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<td>Fresenius Finance BV</td>
<td>Healthcare</td>
<td>08/03/2012</td>
<td>EUR</td>
<td>500</td>
<td>4.250</td>
<td>Ba1</td>
<td>BB+</td>
<td>B</td>
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<tr>
<td>Rexel SA</td>
<td>Computers &amp; Electronics</td>
<td>11/03/2012</td>
<td>USD</td>
<td>400</td>
<td>6.125</td>
<td>Ba2</td>
<td>BB</td>
<td>BB</td>
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<tr>
<td>Jaguar Land Rover plc</td>
<td>Auto/Truck</td>
<td>12/03/2012</td>
<td>GBP</td>
<td>300</td>
<td>8.250</td>
<td>B1</td>
<td>B+</td>
<td>BB-</td>
</tr>
<tr>
<td>Lemmixinen Oyj</td>
<td>Construction/Building</td>
<td>13/03/2012</td>
<td>EUR</td>
<td>70</td>
<td>10.000</td>
<td>B1</td>
<td>B</td>
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<td>Lowell Group Financing plc</td>
<td>Finance</td>
<td>14/03/2012</td>
<td>GBP</td>
<td>200</td>
<td>10.750</td>
<td>B1</td>
<td>BB</td>
<td></td>
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<tr>
<td>SPIE SA</td>
<td>Construction/Building</td>
<td>15/03/2012</td>
<td>EUR</td>
<td>375</td>
<td>11.000</td>
<td>Caa1</td>
<td>CCC+</td>
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<td>Talvivaara Mining Co Ltd</td>
<td>Mining</td>
<td>16/03/2012</td>
<td>EUR</td>
<td>110</td>
<td>9.750</td>
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</table>

*PIK (Payment in Kind)*

Source: Bloomberg, Dealogic
5. Issuance – European Emerging Market High Yield Bonds

5.1. European Emerging Market HY Bond Issuance

5.2. European Emerging Market HY Bond Issuance by Currency

5.3. European Emerging Market HY Issuance by Industry

5.4. European Emerging Market HY Issuance by Country of Risk

5.5. European Emerging Market HY Issuance, Fixed vs. Floating

5.6. European Emerging Market HY Issuance, Sponsored vs Corporate
5.7. European Emerging Market HY Rating Distribution at Issuance

Source: Dealogic, AFME/SIFMA

5.8. Emerging Market HY Bond Issuance

<table>
<thead>
<tr>
<th>Issuer</th>
<th>Industry Group</th>
<th>Date</th>
<th>Currency</th>
<th>Amount (Millions)</th>
<th>Coupon</th>
<th>Moody's</th>
<th>S&amp;P</th>
<th>Fitch</th>
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<tr>
<td>Eileme 2 AB</td>
<td>Telecommunications</td>
<td>19/01/2012</td>
<td>EUR</td>
<td>543</td>
<td>11.750</td>
<td>B3</td>
<td>B-</td>
<td>B-</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>USD</td>
<td>500</td>
<td>11.625</td>
<td>B3</td>
<td>B-</td>
<td></td>
</tr>
<tr>
<td>Eileme 1 AB†</td>
<td>Telecommunications</td>
<td>09/02/2012</td>
<td>USD</td>
<td>201</td>
<td>14.250</td>
<td>Caa1</td>
<td>B-</td>
<td></td>
</tr>
</tbody>
</table>

†PIK (Payment in Kind)

Source: Bloomberg, Dealogic
6. Credit Quality

6.1. European HY Default Rate

European HY Default Rate (LTM) Apr. 2010 - Mar. 2012

Source: Standard & Poor's

6.2. European Loan Default Rate

European Loan Default Rate (LTM) 2006:Q1 - 2011:Q2

Source: Fitch Ratings

6.3. Developed Europe Issuer Rating Actions

S&P Developed Europe Issuer Rating Actions 2008 - 2012:Q1

Source: Standard & Poor's

6.4. Emerging Europe Issuer Rating Actions

S&P Emerging Europe Issuer Rating Actions 2008 - 2012:Q1

Source: Standard & Poor's

6.5. Developed European Industry Rating Actions by $ Amount

S&P Developed Europe Issuer Rating Actions by $ Amount ex Sovereign & Banks 2012:Q1

Source: Standard & Poor's

6.6. Emerging European Industry Rating Actions by $ Amount

S&P Emerging Europe Issuer Rating Actions by $ Amount ex Sovereign & Banks 2012:Q1

Source: Standard & Poor's

1 Data from Fitch Ratings are on a lag.
2 Numbers include both corporate and sovereigns.
3 Numbers include both corporate and sovereigns.
## 6.7. European Defaults

<table>
<thead>
<tr>
<th>Issuer</th>
<th>Industry Group</th>
<th>Country</th>
<th>Date</th>
<th>Reported By</th>
<th>Reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petroplus Holdings AG</td>
<td>Oil &amp; Gas</td>
<td>Switzerland</td>
<td>January 2012</td>
<td>Moody's/S&amp;P</td>
<td>Bankruptcy</td>
</tr>
<tr>
<td>Yell Group PLC</td>
<td>Media &amp; Entertainment</td>
<td>United Kingdom</td>
<td>January 2012</td>
<td>Moody's/S&amp;P</td>
<td>Distressed Exchange</td>
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<tr>
<td>ERC Ireland Preferred Equity</td>
<td>Telecommunications</td>
<td>Ireland</td>
<td>February 2012</td>
<td>Moody's/S&amp;P</td>
<td>Missed Coupon</td>
</tr>
</tbody>
</table>

Source: Moody's, Standard & Poor's
7. Relative Value
7.1. European HY Bonds, Cash vs. Synthetic

7.2. European Leveraged Loans, Cash vs. Synthetic

8. Total Return
8.1. European HY Bond Total Return

8.2. European Leveraged Loan Total Return

8.3. Asset Class Total Return
Summary of the Methodologies
Adopted for this Report

1. Leveraged Issuance – Overview
1.1. – 1.3. Leveraged Loans and High Yield Bonds
Leveraged loan data are sourced from Thomson Reuters LPC and Dealogic.

Leveraged loan data from Thomson Reuters LPC are defined primarily as having sub-investment grade ratings and/or a margin spread minimum of 200 basis points (spread minimums will vary from year to year to make Thomson LPC’s cutoff). Leveraged loan aggregates will include first lien, second lien, and mezzanine financing. Discrepancies in Thomson Reuters LPC data are due to rounding and/or currency rate of exchange.

Leveraged loan data from Dealogic are defined primarily as coming from a leveraged or highly leveraged European deal; loan tranches must have sub-investment grade ratings, or, if unrated, a margin spread minimum of 125 basis points over a benchmark (e.g., Euribor, LIBOR). Under these guidelines, sub-investment grade-rated loans with a margin spread of less than 125 basis points are included. Deals must be European and are inclusive of both developed and emerging market Europe as defined in high yield criteria in Section 3. Deals must also be marketed either in Europe or in the United States. Loans not EUR-denominated are converted to EUR as of credit date for purposes of aggregation. Aggregates include new money as well as non-new money deals.

Criteria for high yield bond transactions can be found in Section 3, 4, and 5.

1.4. – 1.7. Bank Lending Surveys
Data for loan demand and credit standards are sourced from the ECB’s bank lending survey. Graph numbers are net percentages of reporting banks.

1.8. Global Comparison – High Yield Issuance
Data for global high yield issuance are sourced from Dealogic. Asian deals are inclusive of Japan and Australia.

2. Issuance – Leveraged Loans
2.1. – 2.2.
Leveraged loan issuance data are sourced primarily from Dealogic and Thomson Reuters LPC. For more details on qualifying criteria, please refer to section 1.

2.3. Forward Pipeline of Leveraged Loan Market
Forward leveraged loan pipeline data are sourced from S&P LCD.

2.4. S&P ELLI Total Institutional Loans Outstanding
Total institutional loan outstanding data are sourced from S&P LCD and are outstanding loans in the S&P ELLI index.

2.5. S&P ELLI Ratings Diversification
S&P ELLI ratings diversification are the percentages of currently outstanding loans in S&P’s ELLI index that are rated accordingly. Data are provided by S&P LCD.

2.6. European Leveraged Loan Ratios
European leveraged loan ratios are sourced from Fitch Ratings and are debt/EBITDA ratios across Fitch’s shadow rated universe. Transactions included in the ratio include new as well as existing transactions and ratings may be assigned at various points in time throughout the year.

2.7. – 2.8. Loan Spreads
Loan spread data are sourced from Dealogic under our criteria for leveraged loans (see Section 1). For purposes of loan spread calculations, deals marketed in the US are excluded. Spreads are a weighted average of spread margin on new leveraged issuance on a rolling twelve months basis, and are typically benchmarked to LIBOR or EURIBOR. Institutional loan spread data are inclusive of 2nd lien; pro rata spreads include all revolvers and term loan A (Tla).

3. Issuance – High Yield Bonds Overview
High yield bond transactions are sourced primarily from Dealogic, with supplemental information sourced from Bloomberg. High yield transactions are defined as transactions with a Dealogic “effective” rating of equal or less than BB+, and may include unrated transactions based on issuer and desk notes. Split-junk rated transactions are generally excluded.

European issuance, inclusive of both emerging market Europe and developed market Europe, are defined as an issue having a Dealogic “deal nationality” as well as “nationality of risk” within Europe issued in the euro, foreign, and global markets; deals marketed locally are excluded. Sovereign, sub-sovereign, and supranational parent issuers are excluded from issuance, as well as ABS/MBS issuers.

Emerging market Europe and developed market European issuance are defined by nationality of risk, rather than nationality of deal, and although primarily sourced from Dealogic, are ultimately subject to AFME’s discretion. Emerging and developed market issuance are mutually exclusive and will contain no overlap unless otherwise mentioned.

European emerging market bonds are further defined with having a minimum deal size of €75.0 million; deals on the same day from the same issuer are aggregated for the purpose of meeting this minimum. Russian ruble (RUB)-denominated issuance are excluded due to differences in terms and documentation; as of 4Q’10 this criteria no longer applies and may be included on a case by case basis.
3.2. European HY Issuance by Sponsor
Data for high yield issuance by sponsor are sourced from Dealogic. LBO deals are defined as all high yield transactions whose issuer parent is a public or private finance entity (i.e., a financial sponsor), regardless of use of proceeds.

3.3. – 3.4. European Corporate Bonds Outstanding
Data for European corporate outstanding are sourced from Bloomberg and AFME/SIFMA estimates. Criteria for European corporate bonds are: bonds must be placed in the domestic, euro, foreign, and global markets with a nationality of issue and risk from a European developed or emerging market country as defined by AFME. Corporate bonds exclude all issuance from banks and financials, and additionally excludes all covered bonds, warrants, deposit notes, receipts, and certificates of deposit. Only EUR-denominated issues are counted in this calculation.

To qualify as an investment grade corporate bond, a security must have a minimum of one investment grade rating from Moody’s, Standard and Poor’s, or Fitch Ratings. Split-rated securities are also included in investment-grade numbers. To qualify as a high yield corporate bond, a security must have a minimum of one sub-investment-grade rating from Moody’s, Standard and Poor’s, or Fitch Ratings; withdrawn ratings are not counted for purposes of determining high yield. Unless otherwise specified, high yield outstanding totals in discussion commentary will include non-rated securities, regardless of the credit quality of the debt or issuer.

Corporate bonds outstanding include certain securities that may be considered corporate securitisations or structured finance securities; while all effort is made to exclude the latter, the former will be counted toward the corporate bonds outstanding total, and will subsequently overlap to some extent to AFME structured finance outstanding numbers.

3.5. European Corporate Bond Issuance by Rating
Data for HY issuance by rating are sourced from Dealogic, Bloomberg, and the three rating agencies. The composite rating is determined by the lowest rating assigned by either Moody’s, Standard and Poor’s, or Fitch Ratings.

3.6. European Corporate Bond Issuance by Tenor
Data for HY issuance by tenor are sourced from Dealogic. “Other” includes perpetuals.

3.7. European HY Issuance By Use of Proceeds
Data for HY issuance by use of proceeds are sourced from Dealogic and aggregated for the purposes of this calculation. Please refer to Section 3 for criteria on high yield issue inclusion.

3.8. European HY Issuance, Senior Secured Share
Data for HY issuance by seniority are sourced from Dealogic and Bloomberg. “Senior Unsecured” totals include all bonds that are senior but not senior secured.

4. Issuance – European Developed Market

High Yield Bonds
4.1. – 4.8.
High yield bond issuance data are sourced from Dealogic. For further criteria on how high yield issuance are defined, please refer to section 3.

Developed European issuance are deals predominantly from western Europe and includes deals from Andorra, Austria, Belgium, Bulgaria, Cyprus, Switzerland, Germany, Denmark, Spain, Estonia, Finland, France, Faroe Islands, United Kingdom, Guernsey, Gibraltar, Greenland, Greece, Isle of Man, Ireland, Iceland, Italy, Jersey, Liechtenstein, Luxembourg, Monaco, Malta, Montenegro, Netherlands, Norway, Portugal, San Marino, and Sweden.

5. Issuance – European Emerging Market High Yield Bonds
5.1. – 5.8.
High yield bond issuance data are sourced from Dealogic. Criteria for all high yield issuance are found in section 3.

Emerging market European issuance deals are predominantly from eastern Europe but will also additionally include Turkey, the Russian Federation, Kazakhstan, Turkmenistan, Uzbekistan, Tajikistan, Azerbaijan, and Kyrgyzstan. Certain sub-investment grade countries are not included in the emerging market total, including, among others, Iceland and Greece.

6. Credit Quality
6.1. European HY Default Rate
European HY bond default rates are sourced from S&P and are on a trailing 12 month basis.

“Europe” for the S&P default rate is defined to include Austria, Belgium, Bulgaria, Channel Islands, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland and the United Kingdom. Countries are subject to revision.

6.2. European Loan Default Rate
European loan default rates, both mezzanine and senior leveraged loans, are sourced from Fitch Ratings and are on a LTM basis.

Adjusted rates for both mezzanine and senior loans are inclusive of Fitch’s CC*/C* shadow-rated leveraged credits, whereas unadjusted rates are exclusive of these rated credits.

6.3. – 6.4. European Issuer Rating Actions
European issuer upgrades and downgrades are sourced from S&P. The breakdown by emerging market and developed Europe are from AFME’s definition of developed and emerging markets and would be, under S&P’s guidelines, a combination of both European and EMEA rating actions. Multiple downgrades of a single issuer are counted separately. Rating actions are inclusive of both corporate (both credit and merger-related) as well as sovereign ratings.
6.5. – 6.6. European Issuer Rating Actions by $ Amount
Rating actions by US dollar amount, industry, and country are sourced from S&P. Breakdown by emerging market and developed Europe are from AFME’s definition of developed and emerging markets and would be, under S&P’s guidelines, a combination of both European and EMEA rating actions.

6.7. European Defaults
Defaults reported by either Moody’s or Standard and Poor’s in the European bond markets and loans markets, when available.

7. Cash and Synthetic
7.1. – 7.2. Loans and Bonds, Cash and Synthetic
Data are sourced from Markit and Thomson Reuters LPC. High yield bond cash and synthetic spreads from Markit; European leveraged loan cash bid prices from Thomson Reuters LPC, and European leveraged loans synthetic prices from Markit.

8. Total Return
8.1. European HY Bond Total Return
European HY bond total return data are sourced from the Bank of America-Merrill Lynch’s Euro High Yield Index (HE00). The index tracks the performance of EUR-denominated below-investment-grade corporate debt publicly issued in the euro domestic or Eurobond markets. Qualifying securities must have a below-investment-grade rating and an investment-grade rated country of risk. Qualifying securities must have at least one year remaining term to maturity, fixed coupon schedule and minimum amount outstanding of €100 million. Original issue zero coupon bonds, “global securities” (debt issued simultaneously in the Eurobond and euro domestic markets), 144a 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. Defaulted, warrant-bearing and euro legacy currency securities are excluded from the index.

8.2. European Leveraged Loan Total Return
Total return data are provided by S&P LCD and are total returns from S&P’s ELLI index, both ELLI and EUR-denominated ELLI. Total returns for ELLI EUR-denominated data are unavailable for 2003 and 2004.

8.3. Asset Class Total Return (Cash Basis)
Total returns are sourced from respective index owners and Bank of America-Merrill Lynch’s indices.
Disclaimer
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