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# European Senior Secured Loans

February 2019

**David Milward**

Head of Loans



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# Agenda

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- Market overview
- Opportunities in European Loans

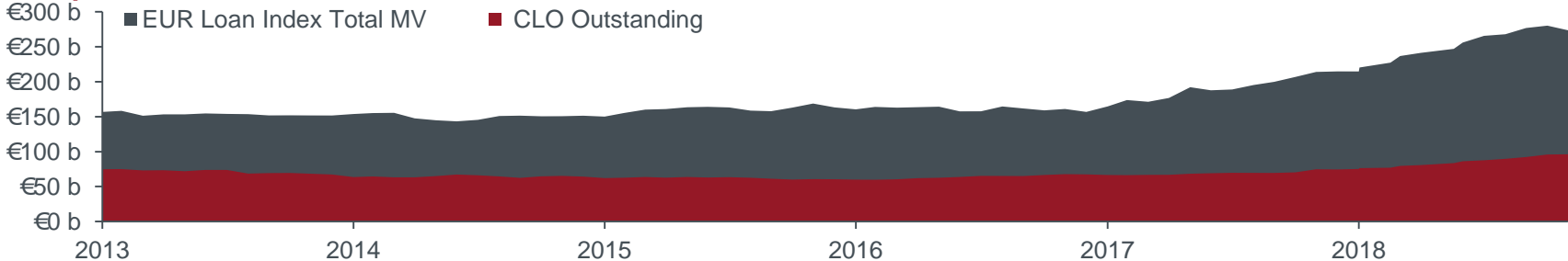
# Market overview



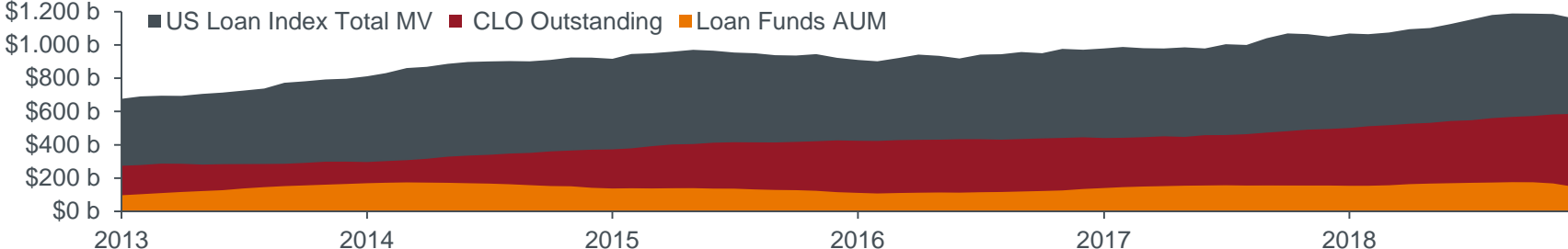
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# Loan market growth

## European market



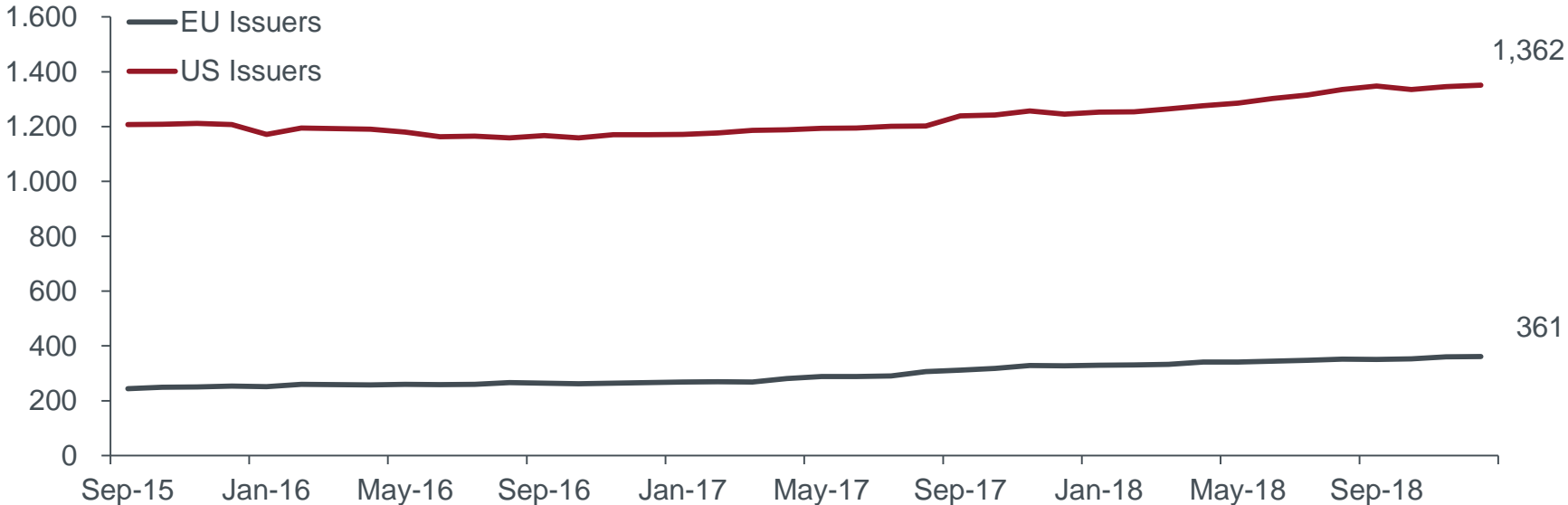
## US market



Source: Credit Suisse, Refinitiv, as at 31 December 2018

# Growth in number of issuers

## Credit Suisse Leveraged Loan Indices

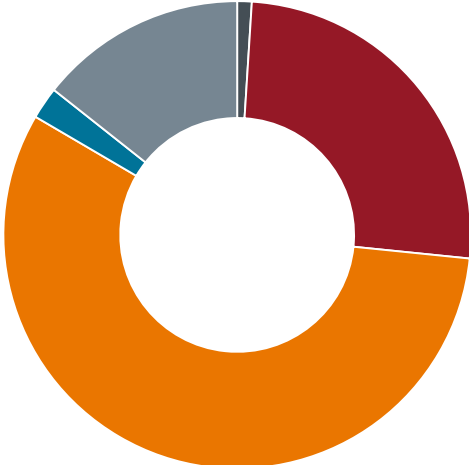


Source: Credit Suisse, as at 31 December 2018

# Market trends

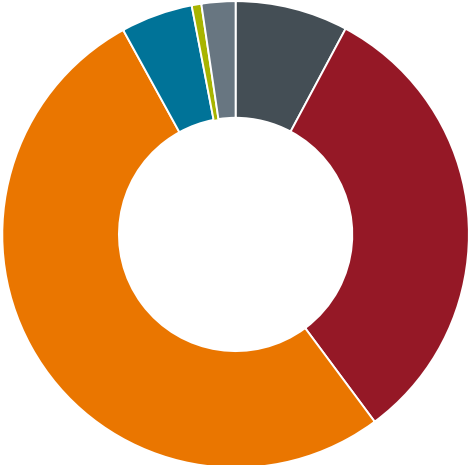
## Rating breakdown

EUR Index



- Split BBB
- Split BB
- Split B
- CCC/Split CCC
- Default
- NR

US Index



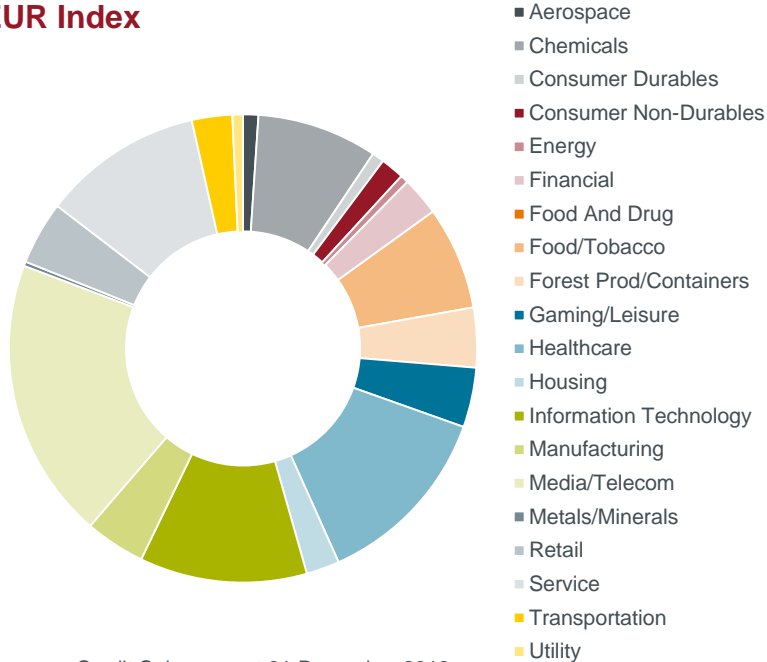
- Split BBB
- Split BB
- Split B
- CCC/Split CCC
- Default
- NR

Source: Credit Suisse, as at 31 December 2018

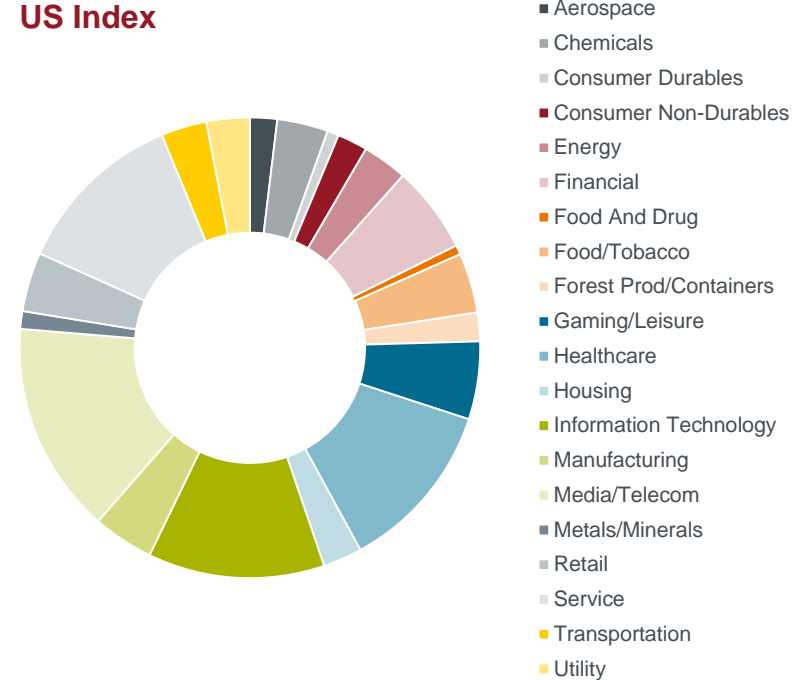
# Market trends

## Sector breakdown

### EUR Index



### US Index



Source: Credit Suisse, as at 31 December 2018

# Global CLO issuance

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2018 saw record CLO issuance for both US and European markets

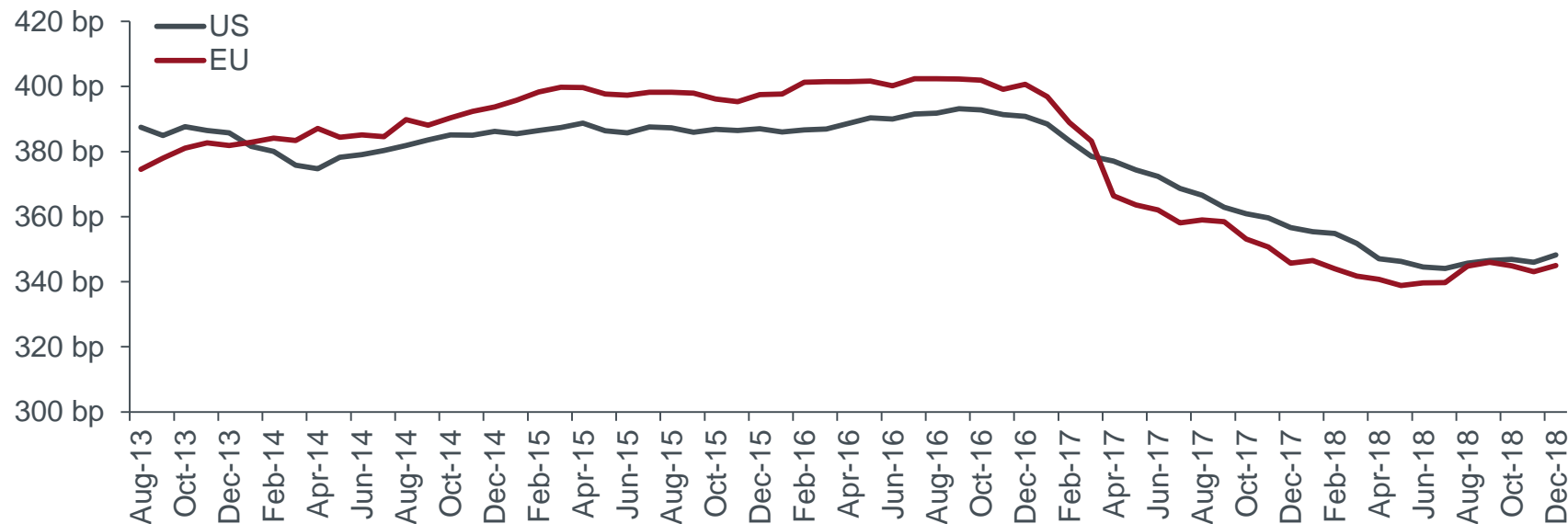
	Euro CLO issuance (€ Billions)	US CLO issuance (\$ Billions)
2012	0	56.40
2013	7.76	81.33
2014	14.29	123.56
2015	13.79	98.54
2016	16.82	72.42
2017	20.37	117.02
2018	27.31	128.11

Source: Thomson Reuters, S&P Global, Bloomberg as at 31 December 2018



# Market trends

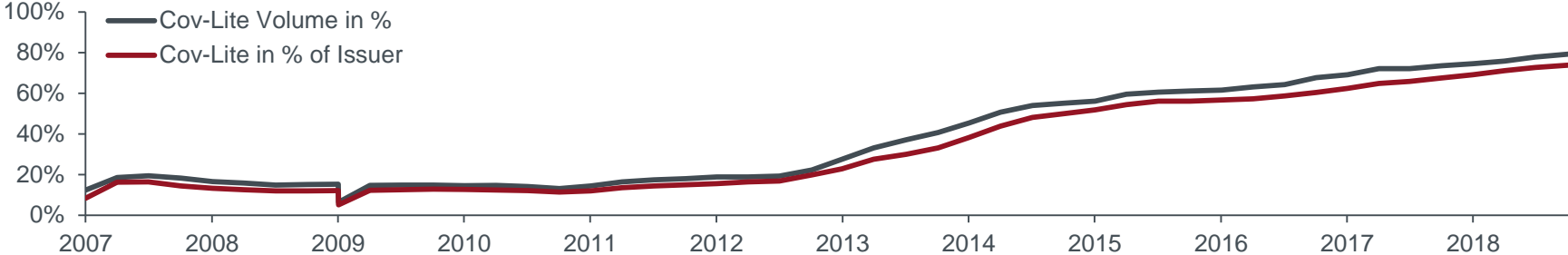
## Historical spreads



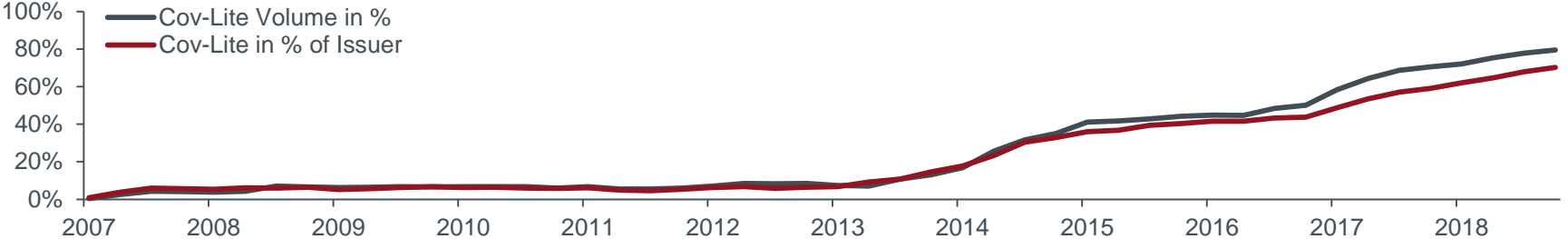
Source: Credit Suisse, as at 31 December 2018

# Cov-Lite Analysis by Issuer

## Cov-Lite in % of Issuer - US



## Cov-Lite in % of Issuer - Europe



## Larger companies issue Cov-Lites

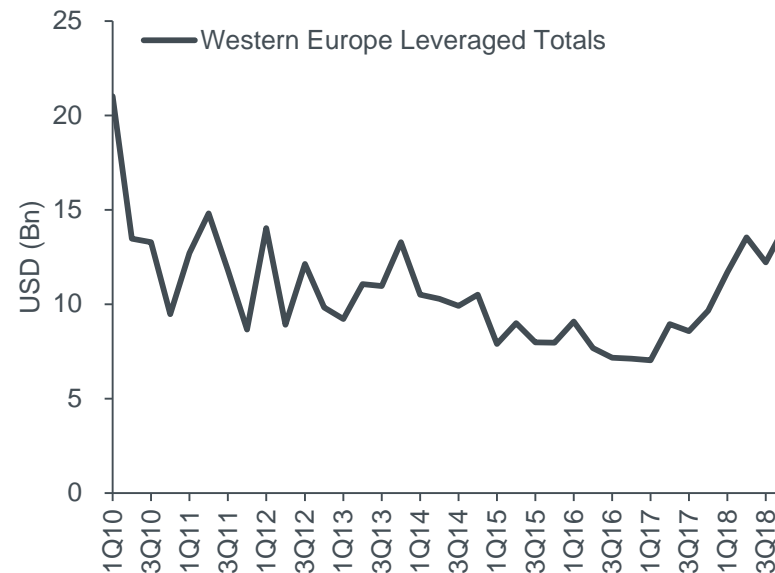
Source: Credit Suisse, Information per 31 Dec 2018; Weighted by volume/market value

# Liquidity

## European trading volumes

- Q4 2018 total volume of €17.6 billion was traded\* which is equivalent to approximately €191m per day
- Loans are traded actively by the brokers. In any given day the top ten positions can be found across approximately 5-8 axes of the 18 available\*\*
- Loans trade in block sizes of €2-5m
- Successful execution of auctions in distressed market environments

Note: \* Markit European Loan Volume Survey  
\*\* RBS, Citi, CS, Deutsche, JPM, UBS, GS, BNP, MS, Barclays, BAML, HSBC, Natixis, Cantor, Jefferies, Nomura, SG, Commerzbank

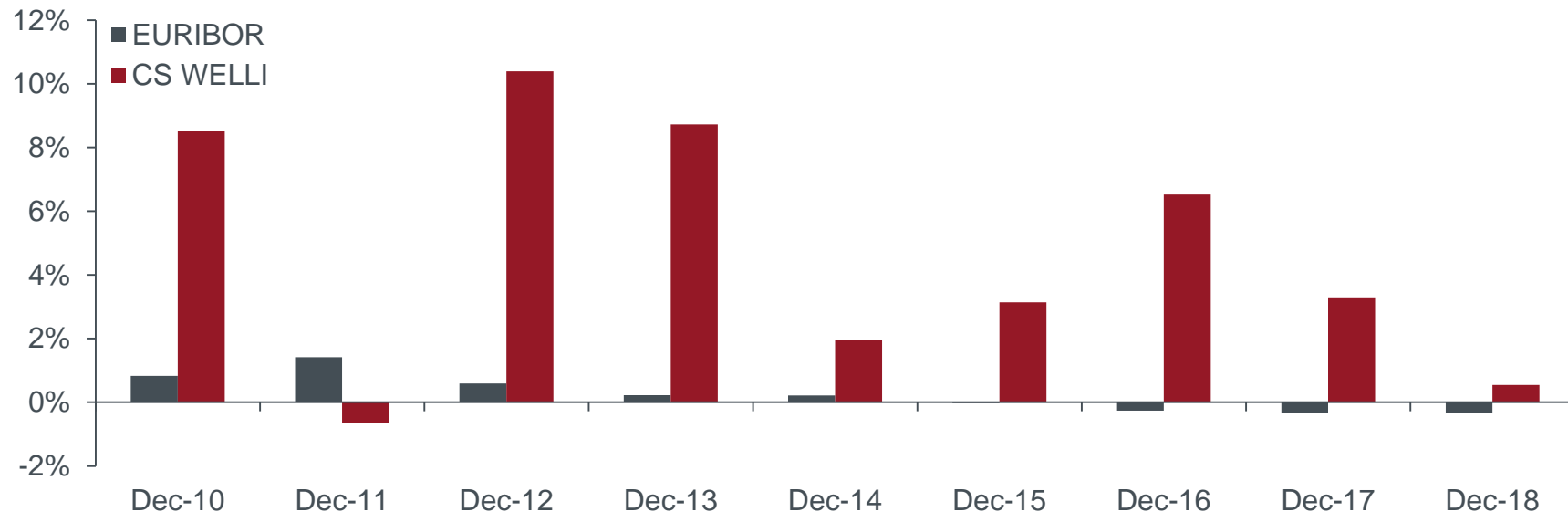


Source: Thomson Reuters, as at 31 December 2018

# Market returns

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## Historic returns



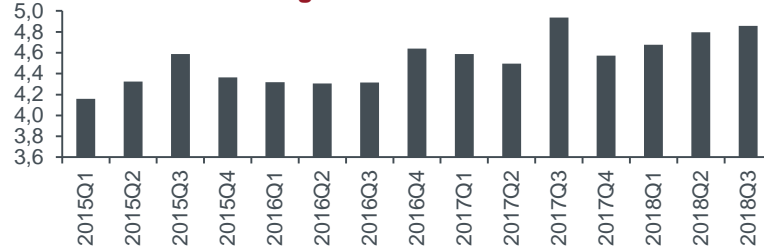
Source: Credit Suisse, as at 31 December 2018

# Loan market leverage

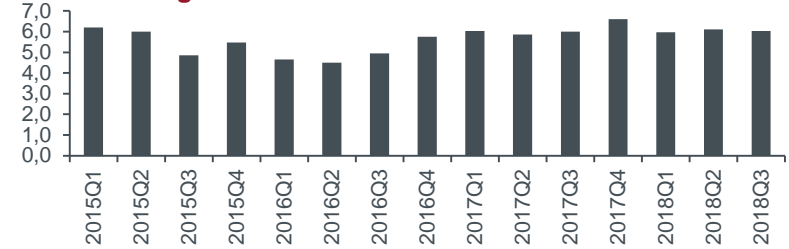
## Debt to EBITDA\* multiples

### EUR Leverage

#### Senior Secured Leverage

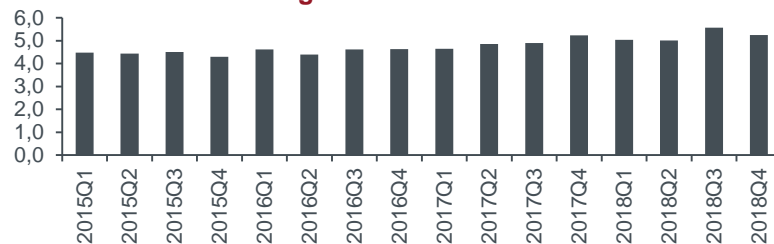


#### Total Leverage

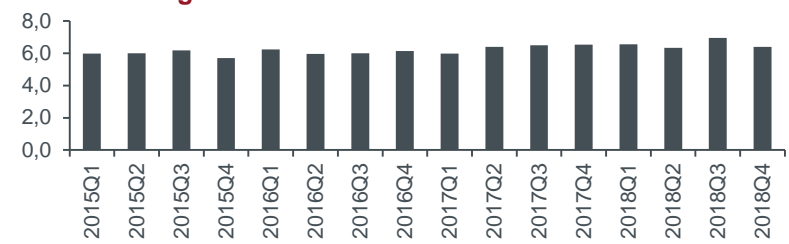


### US Leverage

#### Senior Secured Leverage



#### Total Leverage



Source: Bloomberg, Thomson Reuters as at 31 December 2018

Note that numbers excludes repricings

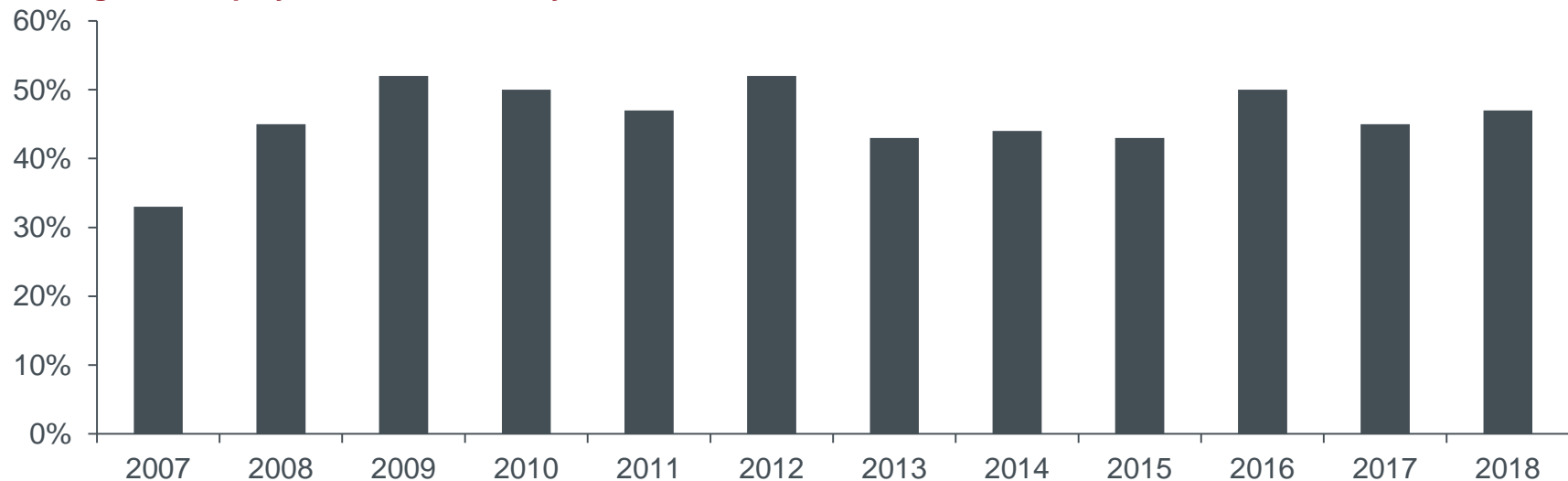
\* EBDITA – Earnings Before Interest, Tax, Depreciation & Amortization

# Loan market equity contributions

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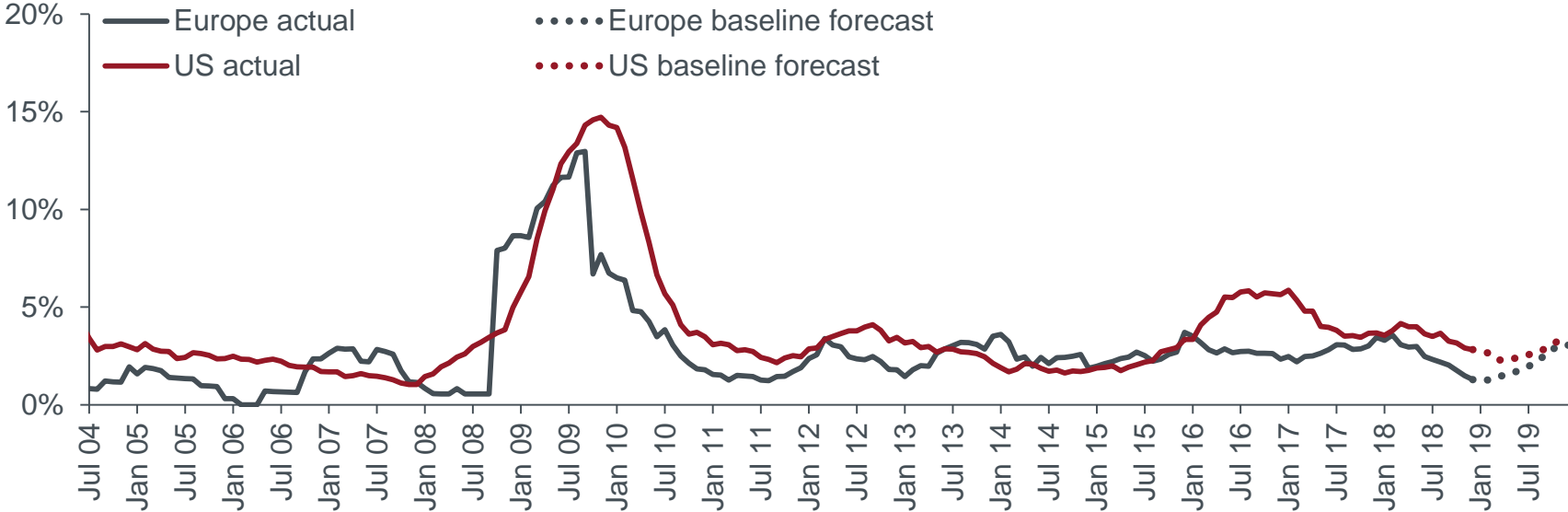
## Substantial equity cushions offer downside protection

### Average total equity contribution to buyouts



Source: LCD, an offering of S&P Global Market Intelligence, as at 31 December 2018

# Sub-investment grade default trends



Source: Moody's, as at 31 December 2018

Note: Issuer weighted rolling annual default rates. Data beyond December 2018 is forecast and must not be considered accurate. Target return estimates cannot be guaranteed

# Opportunities in European Bank Loans



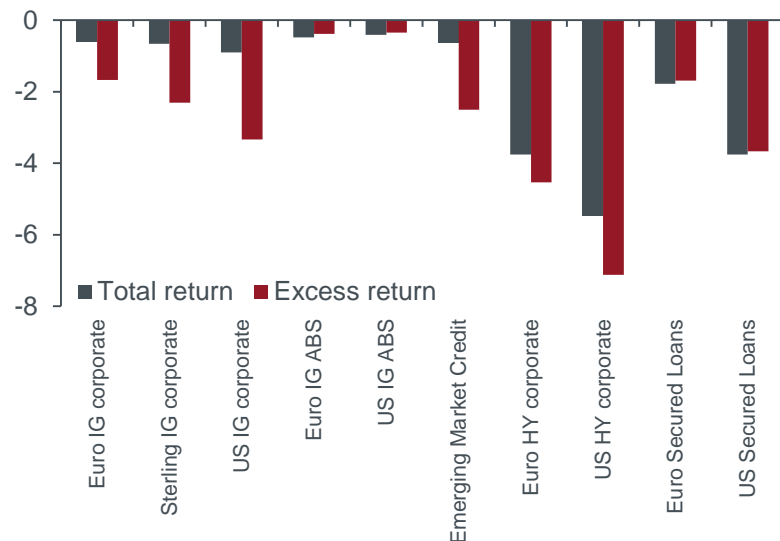
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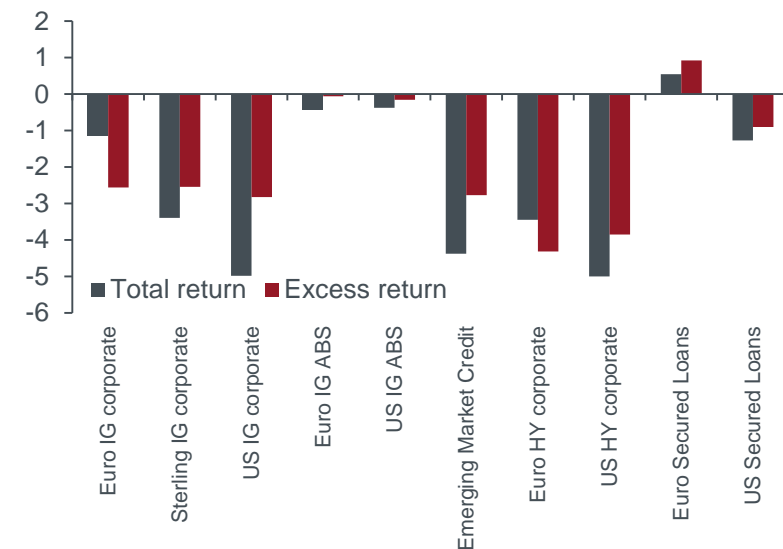
# Market returns

## € hedged returns

Market returns – Q4 (%)



Market returns – FY 2018 (%)



Source: Janus Henderson Investors, Bank of America Merrill Lynch, Credit Suisse, Barclays, as at 31 December 2018

Note: For fixed rates excess return is vs swaps. For floating rate assets it is total return less Libor. Returns are hedged to Euro.  
See disclaimer for benchmarks used

# Fixed Income market review cont.

## L3Y and L5Y for all of the above asset classes

### Total return p/a

	Janus Henderson Secured Loan Fund	EU Loans	US Loans	US Corp Master	Euro Corp	Sterling Corp	US High Yield Master II	Euro High Yield	High Yield US EM Corp Plus
1Y Return	1.22%	0.55%	-1.68%	-4.98%	-1.14%	-3.40%	-5.00%	-3.63%	-4.79%
3Y Return	3.75%	3.43%	2.80%	1.13%	1.98%	3.64%	5.01%	3.91%	5.79%
5Y Return	3.69%	3.07%	1.94%	1.95%	2.71%	4.54%	2.35%	3.58%	3.41%

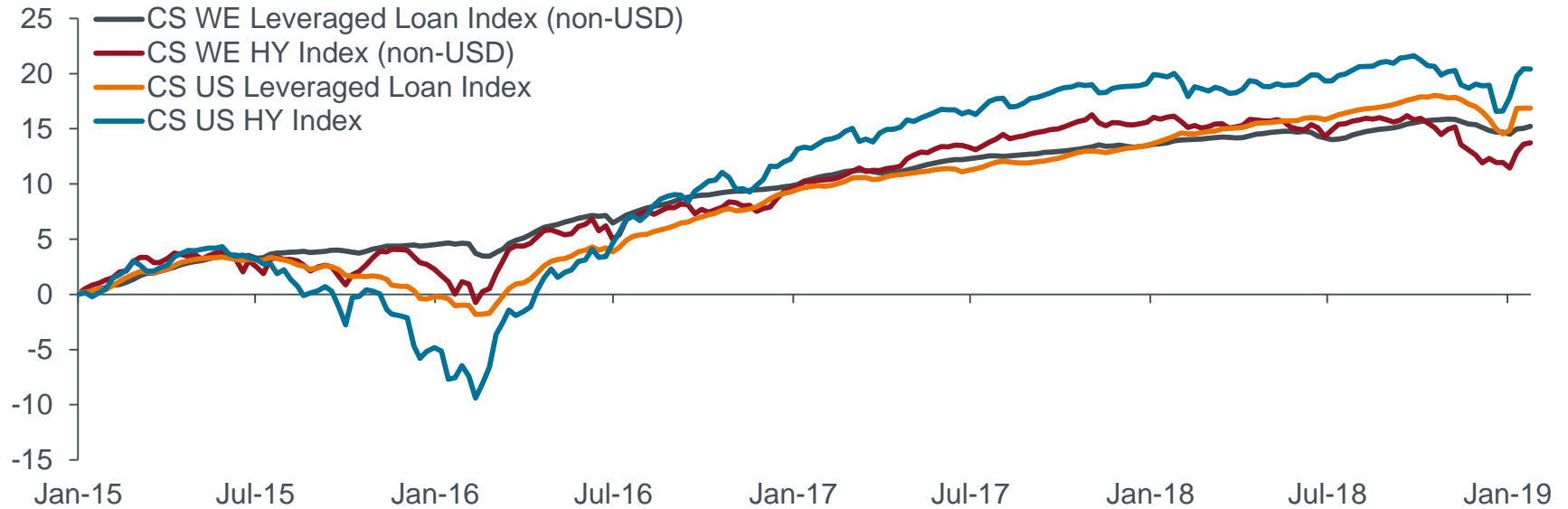
### Volatilities

	Janus Henderson Secured Loan Fund	EU Loans	US Loans	US Corp Master	Euro Corp	Sterling Corp	US High Yield Master II	Euro High Yield	High Yield US EM Corp Plus
1Y	1.38%	2.03%	3.18%	3.07%	0.83%	2.94%	3.72%	3.36%	4.73%
3Y	1.78%	2.21%	2.85%	3.65%	2.12%	5.90%	4.75%	4.05%	5.20%
5Y	1.50%	1.93%	2.61%	3.66%	2.40%	5.98%	5.15%	4.22%	6.73%

Source: Janus Henderson Investors, Bloomberg, as at 31 December 2018  
Returns are EUR Hedged

# Total return of HY vs loans

Loans deliver returns with lower volatility than high yield



Source: Credit Suisse, as at 31 January 2019

Note: Non USD Returns hedged to Euro

# Attractive compensation for credit risk

## Illustrative loss adjusted returns across European credit

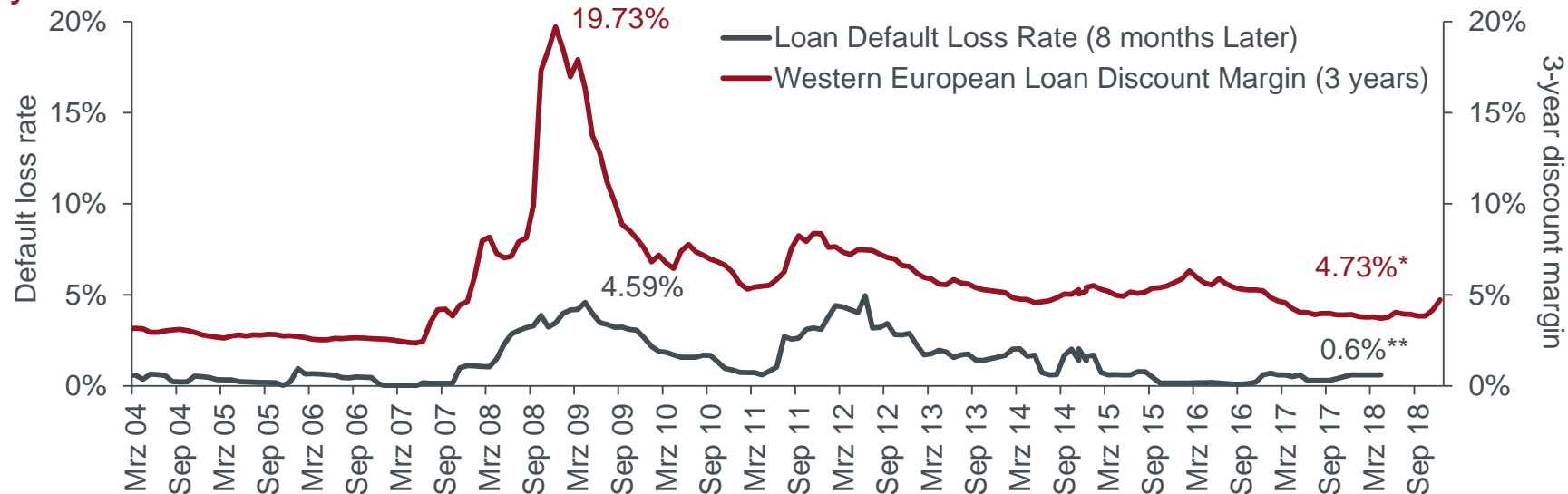
	Current spread %	5 yr cumulative default rate %		Assumed loss severity %	5 yr cumulative loss rate %		Excess return pa %	
		Average	Worst		Average	Worst	Average	Worst
Corporate - Investment Grade	1.0	0.7	4.0	55	0.4	2.2	0.9	0.5
High Yield	4.0	8.5	21.3	55	4.7	11.7	3.1	1.7
Secured Loans	4.4	8.5	21.3	30	2.6	6.4	3.9	3.1

Source: Janus Henderson estimates as at 30 September 2018. Illustrative scenarios based upon historical data. Target returns cannot be guaranteed

Note: Current spreads sourced from BoA ML Euro Corporate Index (Libor OAS), BoA ML Euro High Yield Index (Libor OAS), CS Western Europe Leverage Loan Index (3 year discount margin). Corporate default rates based upon annual cohort 5 yr cumulative default data from Moody's (report dated October 2017) since 1983. High Yield default cohort data has been used for Secured Loans as this is the typical issuer rating level. Loss severities are generic long term average estimates by Janus Henderson, based on ultimate average recovery data analysis from Moody's for differing seniority of debt.

# European Secured Loans

Actual losses from actual loan defaults are running at around 0.1% – but loans yield above 4%



Source: Credit Suisse, as at 31 December 2018

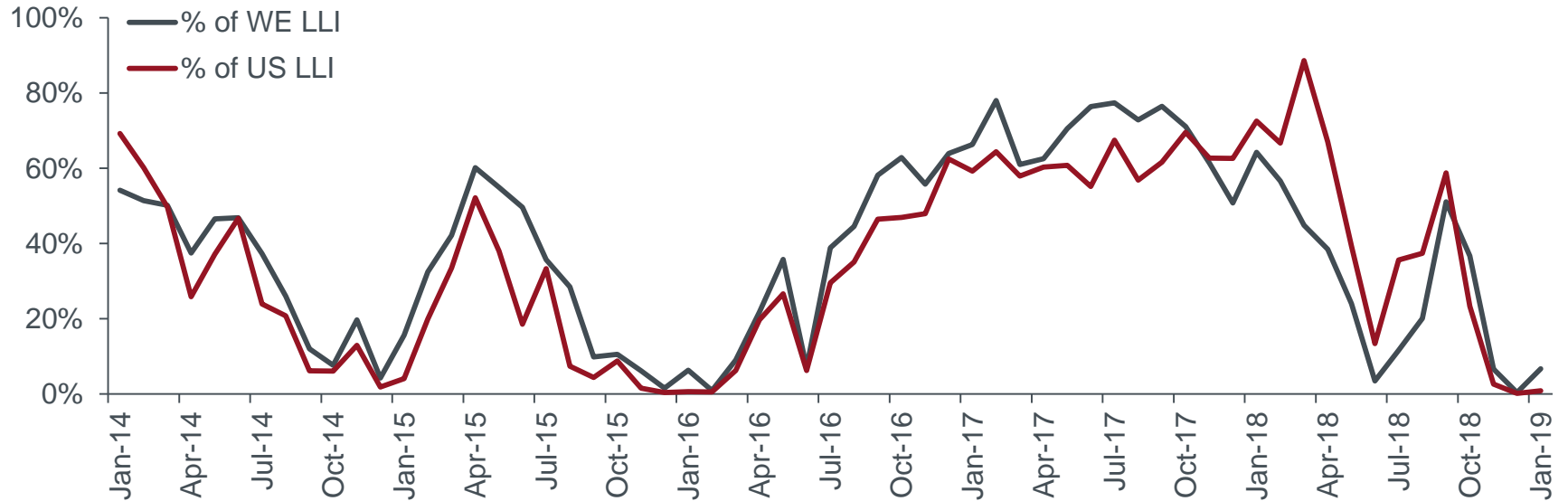
Note \* As at 31 December 2018

\*\* As at 31 April 2018

Sterling hedged returns

# Loan Market Premium Vanished

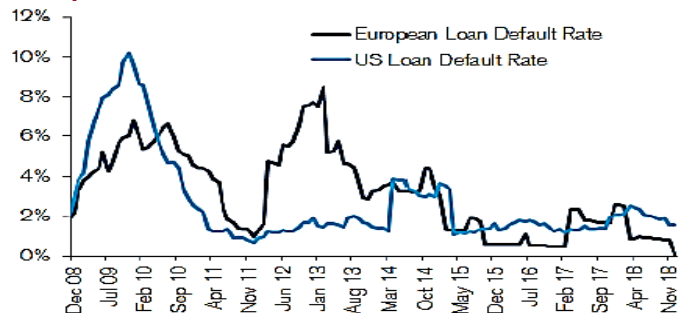
Few loans are now trading above par



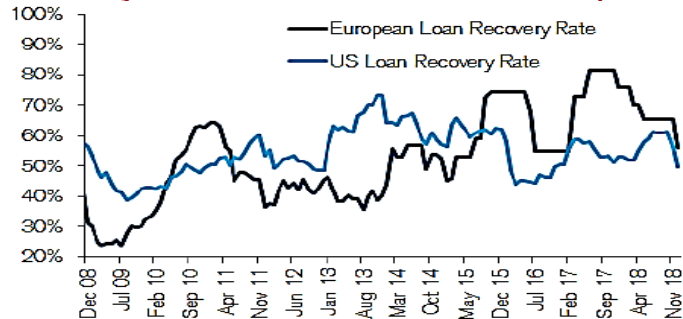
Source: Credit Suisse, Bloomberg, Markit, as at 31 January 2019

# European Secured Loans

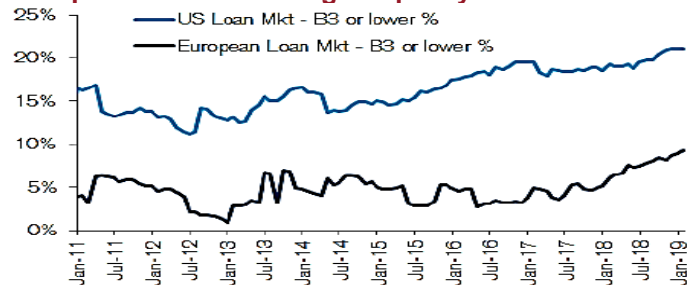
## European loan default rates lower than US



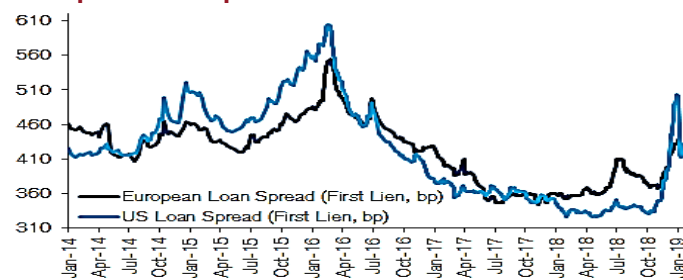
## Recovery trends similar between US and European loans



## European loan market higher quality than US



## European loan spread in line with US loans



Source: Credit Suisse, as at 28 January 2019

# Recent new issue terms

## Primary deals offering varying returns

	Primary market examples			
	Ahlsell	BVI	Univar	Amer Sports
Industry	Building Materials	Healthcare	Chemicals	Leisure
Interest rate	0 + 4.25 – 4.50%	0 + 4.25%	0 + 3 – 3.25%	0 + 4 – 4.25%
Price (p)	99.5	99 - 99.5	99.5	99.5
Adj EBITDA	E294m	E83m	\$895m	€300m
CCR	B2/B	B3/B	Ba3/BB	B+/B1
Total Leverage*	6.5x	7.1x	3.4x	9.1X
Senior Secured Leverage**	5.2x	6.0x	2.9x	4.8X
Est. Senior Equity Cushion	50%	50%	61%	49%
Maintenance Covenants	None	None	None	None

Source: Janus Henderson Investors, LCD news, as at 18 February 2019

Note: \* Total net debt / EBITDA \*\* Senior secured net debt / EBITDA

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**Janus Henderson Investors**

201 Bishopsgate, London EC2M 3AE  
Tel: 020 7818 1818 Fax: 020 7818 1819

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