Leveraged Finance News

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Are Pension Funds the Next Wave of Loan Buyers?

Money managers are hoping pension funds and insurance companies will become big buyers of leveraged loans, picking up the slack from collateralized loan obligations.

It's a new asset class for many institutional investors. To the extent that pension fund have invested in bank loans in the past, it's often been through CLOs. Insurance companies are more familiar with leveraged loans, but they tend to have exposure through CLOs, too. That's partly because, before the financial crisis, loan spreads were low and CLOs allowed them to leverage their returns.

"Given the ebbs and flows of the market over the last five years, more of these investors want to own the outright asset, rather than getting their exposure through a structured vehicle," said **Leland Hart**, who heads the bank loan team in **BlackRock**'s leveraged finance group. "In addition, loans are cheap outright on a price or spread bases, and leverage is not needed to create a high return."

BlackRock, the world's biggest money manager, already has many pension funds and insurance companies as clients. The firm is pitching loans to these kinds of investors, both on the basis of their returns and as a way to diversify.

"My gut is that, in the next three to five years [pension funds and insurance companies] will be one of, if not the most important incremental investors to the market," Hart said. "In many ways it will be an offset to the CLO industry, which is slowly shrinking."

(See **Pension Funds** on page 5)

Inside This Issue

Data

Cheap, Any Way You Look At It

Martin Fridson, global credit strategist at **BNP Paribas Investment Partners**, is taking issue with the way Wall Street calculates default forecast pricing. Fridson thinks he has a better way to calculate the level of corporate defaults being priced in by the high yield bond market, and his method indicates that junk bonds may not be quite the screaming bargain sell-side firms say they are.

Many Wall Street firms use what's known as the breakeven spread method, which, as the name suggests, uses spread levels to calculate the level of defaults. In an Oct. 4 report, Fridson cited a breakeven forecast method used by sell-side banks that he said gives a default rate of 9.3%. By comparison, Fridson's distressed ratio method, which bases its calculations on distressed trading levels, indicates the market is only pricing in a default rate of 6.7%.

Both of those levels are much higher than the actual trailing 12-month

(See **HY Default Pricing** on page 6)

Monroe's Koenig: Unitranche to Dominate

Theodore Koenig, president and CEO of **Monroe Capital**, says that the middle market will be the place to be for one-stop shopping in the form of unitranche deals. Monroe manages more than $700 million in the debt and equity of mid-cap and small-cap companies, and it's a big proponent. Koenig says unitranche deals, which combine senior and subordinated debt in a single instrument, account for more than 80% of the firm's activity. *Leveraged Finance News* sat down with Koenig to get his views on this and other structures, the health of middle-market companies, and the sectors most likely to provide steady deal flow.

LFN: *Is unitranche something that is going to become more commonplace?*

Koenig: The product accounts for 80%-

(See **Q&A** on page 7)

MARKET BUZZ

PPD Buyout Debt Includes $1.325B Term Loan

LOANS

Pharmaceutical Product Development is seeking $2.2 billion of debt to finance its buyout by **Carlyle Group** and **Hellman & Friedman**, according to a person with knowledge of the matter. The company is seeking a $1.325 billion first-lien term loan, a $175 million revolver and $700 million of bridge financing. **Credit Suisse**, **JPMorgan**, **Goldman Sachs** and **UBS** are arranging the credit facility, the company said. Carlyle and Hellman & Friedman have agreed to buy Pharmaceutical Product Development in a deal valued at $3.9 billion.

RBC Capital Markets and **BMO Capital Markets** have committed to provide a $925 million credit facility to back the $1.6 billion buyout of **99 Cents Only Stores** by **Ares Management** and **Canada Pension Plan Investment Board** (CPPIB). The financing consists of a $525 million first-lien term loan, a $250 million bridge facility and a $150 million asset-backed revolver. RBC has committed to two-thirds of the financing to BMO's one-third, according to documents filed with the Securities and Exchange Commission. The commitment letter puts price talk on the term loan at Libor plus 600 bps, with a 1.5% Libor floor. The bridge facility has open pricing of Libor plus 950 bps, with a 1.5% Libor floor and a step-up clause increasing the price by 50 bps every three months. The ABL revolver is expected to be untapped at closing. The company announced the buyout agreement on Oct. 11. Ares will invest $371 million and CPPIB will invest $265 million in equity.

Neustar has a $700 million financing commitment from **Morgan Stanley** to fund the telecommunications company's acquisition of **TARGUS**. Neustar announced last week that it had agreed to pay $650 million in cash for TARGUS, a provider of caller identification services. According to a regulatory filing, Morgan Stanley has committed to finance a $600 million term loan B and a $100 revolver backing the deal.

Credit Suisse has established price talk on a $325 million term loan backing **OpenLink**'s buyout, according to a person with knowledge of the deal. The senior secured loan is being talked at Libor plus 650 bps, with a 1.5% Libor floor and an OID of 96-97 cents on the dollar. There is

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a soft-call premium of 101. The credit facility also includes a $50 million revolver that is being talked at the same levels. Commitments are due Oct. 25. Open Link provides software for participants in the global commodity, energy, agribusiness, commercial/industrial and financial markets. The company agreed last month to be acquired by Hellman & Freidman.

Emdeon firmed up pricing on its $1.224 billion term loan B last week as commitments came due, according to sources. A **Bank of America Merrill Lynch**-led bank consortium establishing pricing at Libor plus 550 bps, with a 1.25% Libor floor and a 97 OID. This fell at the tight end of talk, which included ranges of Libor plus 550-575 bps for the interest rate and 96-97 for the OID. Emdeon also briefly sought a step to Libor plus 525 bps when total leverage is less than 5.75x, but it dropped the step from the terms. The seven-year term loan, rated BB- by **Standard & Poor's** and Ba3 by **Moody's Investors Service**, still has a 101, one-year soft-call premium. The facility also includes a $125 million, five-year revolver priced at Libor plus 525 bps, with no floor. **Barclays Capital**, Citigroup, Goldman Sachs and **SunTrust Robinson Humphrey** are the other banks on the deal. The facility and $750 million of senior notes back Blackstone Capital Partners' purchase of a controlling stake in Emdeon. The issuer next week also plans to price $375 million in senior notes due 2019 via Barclays, Bank of America Merrill Lynch, Citigroup, Goldman Sachs and SunTrust.

GrafTech International obtained a new five-year, $570 million revolver, the company said last week. The new facility represents a $310 million increase over the prior agreement and extends the maturity by three years, to October 2016, with improvements to rates, terms and conditions, according to the company. The facility was syndicated to a group of lenders including JPMorgan, Bank of America Merrill Lynch and **BNP Paribas**. GrafTech, which produces graphite electrodes and other carbon based products, said the new credit agreement "funds traditional working capital requirements and provides a stronger platform for growth, organically and through acquisitions." The Parma, Ohio-based company is rated BB+ by Standard and Poor's. GrafTech's previous revolver, which it obtained in April 2010, was set to mature in April 2013. The old facility paid an interest rate of Libor plus a margin ranging from 2.5% to 3.5%, depending on the company's total net leverage ratio and/or senior unsecured rating or, in the case of dollar denominated loans, the alternate base rate plus a margin ranging from 1.50% to 2.50%, according to a regulatory filing.

Cal Dive has obtained an amended credit facility that loosens the financial covenants, the company said last week. In exchange, the marine contractor agreed to cut the borrowing available under its revolver in half, to $150 million, and pay a higher interest rate. As of June 30, the company's outstanding borrowings under the revolver were $34 million. The amendment does not affect a $150 million term loan that is part of the same senior secured credit facility; Cal Dive will continue to be subject to the scheduled quarterly principal payments on the loan. Under the revised terms of the agreement, Cal Dive's maximum permissible debt-to-Ebitda ratio for the fiscal quarter ending Dec. 31, 2011 rises to 5.0x from 4.25x. For the following fiscal quarter ending March 31, 2012, Cal Dive has agreed to an even steeper cut in revolver capacity, to $75 million, in exchange for a temporary exemption from a leverage ratio. However if the company's leverage ratio exceeds 5.0x, its Ebitda for the trailing 12 months must be at least approximately $25 million.

BONDS

Kinetic Concepts called off a $900 million bond tranche backing its buyout last week and now plans only a two-tranche deal: $1.65 billion in senior secured second-lien notes, denominated in dollars. Proceeds will help finance the company's acquisition by Canada's **Apax Partners**, the Canada Pension Plan Investment Board and Canada's **Public Sector Pension Investment Board**. The deal values the San Antonio-based maker of medical bandages and other injury care products at $6.3 billion. Lead bookrunner Morgan Stanley is joined by Bank of America Merrill Lynch, Credit Suisse, RBC and UBS. Banks are also shopping a $2.2 billion term loan and a $200 million revolver to fund its buyout. Moody's Investors Service rated the unsecured notes Caa1 and gave the second-lien notes a rating of B3. Moody's rated the term loan and revolver Ba2. S&P assigned a CCC+ rating to the unsecured notes and a B rating to the second-lien notes. S&P rated the loan BB-.

Preliminary data showed junk bond funds taking in cash last week while loan fund outflows slowed, according to **EPFR Global**. High yield bond funds took in $407 million over the four-day period ending Wednesday, Oct. 13, including $229 million on Tuesday, according to EPFR. Leveraged loan fund outflows may be moderating, though should still be negative for the week, according to EPFR. Leveraged loan funds made a one-day gain of $41 million on Tuesday, which was the largest single-day intake for loan funds since July. Investors removed $363 million from high yield bond funds the previous week, more than reversing the $327 million they added the week before, according to **Lipper FMI**. Investors also pulled another $315 million from funds that invest in bank loans during the Oct. 4 week, which was the 10th consecutive week of loan fund outflows.

(See MARKET BUZZ on page 4)

Pro Rata Activity Stays Strong in Q3

Deposit-rich banks held on to their share of funding in the syndicated loan market in the third quarter, even as market turmoil caused new issuance to slump.

Now, dollar-funding shortages at European banks are adding another dimension to the tumult that could cut both ways for domestic banks. A pullback by the competition could mean better pricing, but a withdrawal of liquidity could also make it harder to get deals done.

Yields on leveraged loans jumped 130 bps from the second quarter to 7.3% in the third quarter and issuance slumped 40% to $96 billion, according to data from **Thomson Reuters LPC**.

But the amount funded by banks was roughly stable at about $65 billion as the proportion of deals taken down by institutional investors continued to fall. Meanwhile, intense competition among banks helped keep loan spreads for investment-grade borrowers flat and issuance strong.

Overall, dislocations in the syndicated loan market appear to represent sympathetic tremors emanating from broader financial disorder, rather than the fundamental breakdown that took hold during the height of the financial crisis, according to analysts at Thomson Reuters LPC.

Default rates for leveraged loans remain low, and there is less to go wrong: the pipeline of debt to be placed with nonbank investors stood at about $13 billion in September, compared with about $125 billion at the beginning of 2008.

Moreover, structured investment vehicles, a class of investors that proved vulnerable and immolated in a spiral of fire sales, have never fully reconstituted.

Still, as long as financial conditions remain unsettled and rates stay high, **Frances Beyers**, an analyst at Thomson Reuters LPC, said she expects leveraged loan activity to slump further.

In the investment-grade universe, thin spreads have meant that the economics of lending has always depended on cultivating relationships with borrowers that involve other revenue streams.

Beyers said she expects that funding problems European banks have encountered will cause them to be even more scrupulous about reserving their balance sheets for core customers, pushing rates higher.

That would translate into better terms for U.S. lenders, but greater anxiety over placing debt.

Amy Carlson, head of the debt capital markets group at **KeyCorp**, said that many clients have large funding needs.

"They're international. They have a lot of businesses to support," she said. "It does get hard for our clients to figure out: Who's in our bank group? Who can help me in Asia? Who can help me in Europe?"

Beyers said, "At the end of the day you still want to have a liquid market."

Loan Market Buzz

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Laredo Petroleum last week completed a $200 million upsized add-on bond issuance. The Tulsa, Okla.-based oil and natural gas provider issued the 9.5% senior notes due 2019 after upsizing the deal by $50 million. The bonds priced at 101 to yield 9.25%. The total tranche is now $550 million. The company plans to use the proceeds to help repay its existing revolver debt in preparation for an initial public offering of its stock. Lead bookrunner Bank of America Merrill Lynch was joined by Goldman Sachs, JPMorgan and **Wells Fargo**.

PEOPLE NEWS

Crescent Capital Group started a European credit strategy and added a managing director who will oversee the effort, the Los Angeles-based firm said last week. **Christine Vanden Beukel** joins as a managing director to head Crescent Credit Europe from the firm's newly opened London office. Vanden Beukel was most recently a senior managing director in the London office of **Clayton, Dubilier & Rice**. She previously served as an alternative asset manager focused on credit markets in the London office of **GSC Group** and worked with GSC predecessor Greenwich Street Capital Partners.

COMPANY NEWS

Nonfinancial companies in the U.S. are in better shape to weather a recession than they were four years ago, according to a report issued by Moody's. But signs of weakening credit conditions are on the rise. The report notes that companies have built up more than $1 trillion in cash through restructuring and the economic recovery. Companies have cut operating costs, conserved cash, and increased stock repurchase activity and merger efforts. And analysts believe that the worst of the global turmoil is behind us. But the current climate presents some challenges, especially to lower-rated the companies. Concerns about the global economy and the European sovereign debt crisis could help put corporate issuers under pressure and limit debt market access. And there are some signs of weakening credit quality. Corporate downgrades have outpaced upgrades for two straight months, the first time downgrades have outnumbered upgrades since September of 2009. "This is consistent with rising risk aversion in credit markets, widening high yield credit spread and reduced debt issuance," Moody's analysts said in the report.

PENSION FUNDS
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The $250 billion currently in CLOs account for roughly half of the leveraged loan market's $500 million in assets (although these structured investment vehicles don't invest exclusively in loans). Historically, CLOs have snapped up an even larger percentage of new loan issuance. But most of the CLOs outstanding were issued in 2006 and 2007 and are nearing the end of their reinvestment periods. Despite a mini-boom in the first part of this year, new CLO issuance isn't enough to replace this lost investment capacity.

"We don't expect CLOs to be as big a part of the market as they have been historically," said **Steve Rixham**, head of product management for high yield investments at **Babson Capital Management**. "They should be a meaningful piece, but retail will be bigger than it was historically, and institutions will be a bigger piece as well." He said this would result in "a more balanced investor base."

Until recently, it looked like bank loan mutual funds might plug the gap as retail investors and small businesses poured money into these products in anticipation of rising interest rates. But the Federal Reserve's commitment to keep interest rates low has reduced the appeal of bank loan funds, and over the past 10 weeks they have seen more than $6 billion walk out the door, according to **Lipper.**

Rixham said that a number of pension funds have exposure to loans through high yield funds, though it tends to be relatively small. There are also pension funds that dipped their toe into the cash loan market after the credit crunch, when valuations were hit so hard that it made sense to look at these instruments as a tactical or strategic investment.

"Some could not move fast enough, they did the research, then put their pencils down," he said. "Now they're revisiting it, trying to figure if it's a strategic or core allocation: we believe it should be core, we think the question should be are you market, over or underweight."

Wooing pension funds and insurance companies is a slow process, however. Hart says that, while their interest in leveraged loans is "material and increasing," winning investment mandates is "more of a march, instead of a race."

The loan market's idiosyncracies may be a hurdle for some investors. Settlement of trades is much slower than it is for more liquid, listed instruments. And unlike high yield bonds, loans are private contracts. Some pension funds are restricted to investing in securities. Institutional investors may also need to get comfortable with the lack of call protection loans offer relative to junk bonds.

"Clearly, when the market ebbs and flows, investors ask for call protection ... but also remember that loans are secured, so there's a trade off," Hart said. "You have to weight one against the other as an investor. And the issuers do the same."

On the other hand, he said, bank loans are analogous to private placements, an asset class pension funds, at least, are very comfortable with, "only [loans] are floating-rate, shorter-term instruments that happen to be more liquid. Philosophically, that's not that big a leap of faith, or it shouldn't be for them."

John Bell, a portfolio manager in the fixed income group at **Loomis Sayles**, said his firm has been educating pension funds about bank loans for years, starting in 2004. "We were often the first in the door, because it's a new asset class for some," he said. "They put it in an alternatives bucket, comparing it to hedge funds. It should be in the high yield bucket."

Bell thinks leveraged loans may be a tough sell for some institutional investors so long as interest rates remain low. "Pension fund investing is driven by consultants, who want to be pushing the latest, best thing. So they may wait until rates rise" to pitch loans, he said.

"Interestingly, the retail market has been more focused on rising rates than the institutional market," Bell said. "This time retail was faster (to invest), partly because they were in money market funds. I generally feel small business owners and people like that are very concerned about when rates will rise, whereas pension funds that hear about risk may actually wait to see if rates rise."—*ABC*

LEVERAGED LOAN FORWARD CALENDAR

Announce Date	Issuer	Issue	Amt ($mm)	Commit Date	Price Talk	Banks	Use of Proceeds	Industry
10/6/11	OpenLink	TL	325	10/15/11	L+650 @ 96-97, 1.5%	CS	Buyout	Technology
10/6/11	Emdeon	TL	1224	10/14/11	L+550 @ 97, 1.25%	BofA	Buyout	Healthcare/Hospitals
10/5/11	Open Text	TLA	600	10/21/11	L+250	Barclays, RBC	Refinance	Technology
10/5/11	Kinetic Concepts	TLB	2200	10/19/11	L+575 @ 95-96	BofA	Buyout	Healthcare/Hospitals
10/5/11	Tensar	TLB	190	10/20/11	N/A	Barclays	Refinance	
10/5/11	Tensar	TLC	110	10/20/11	N/A	Barclays	Refinance	
9/21/11	Web.com	TL	600	N/A	L+550 @ 96.5-97	JPM	Buyout	Diversified Services
9/21/11	Web.com	2nd Lien	150	N/A	L+950 @ 96.5-97	JPM	Buyout	Diversified Services

Source: Leveraged Finance News

HY Default Pricing
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global default rates for speculative-grade companies, which **Moody's Investors Service** puts at 1.8% as of Sept. 30 and **Standard & Poor's** calculates at 1.94%.

These rates have been falling since 2009, and the ratings agencies expect them to keep falling until the year's end before starting to rise again, slowly, next year. Moody's expects the global speculative-grade default rate to drop to 1.4% by the end of 2011 then increase to 2.15% by the third quarter of 2012.

But neither the breakeven spread method nor the distressed ratio method are designed to measure, or even predict, actual defaults; they are designed to measure the level of default reflected in market prices. So it's a question of how much current market prices overstate the risk of default, and by implication, are a bargain.

"A case can be made that the high yield market is cheap, based on much lower default rate forecasts produced by non-market based methods," Fridson said in the Oct. 4 report, which was co-authored by reseach analyst Camille Mcleod-Salmon. "Investors should take care, however, not to overstate the extent of the apparent undervaluation."

The report points out that the distress ratio method has a better track record than the breakeven spread method, even if both methods overshot the ups and downs of the past few years. Fridson and Mcleod-Salmon say that, when retroactively calculated for all year ends from 1998 to 2010, the distress ratio method was closer to the actual default rate (see chart, below).

"There seems to be little doubt that the percentage of issues that the market regards as highly vulnerable to default is a better gauge of future default rates than the spread-versus-Treasurys," it says.

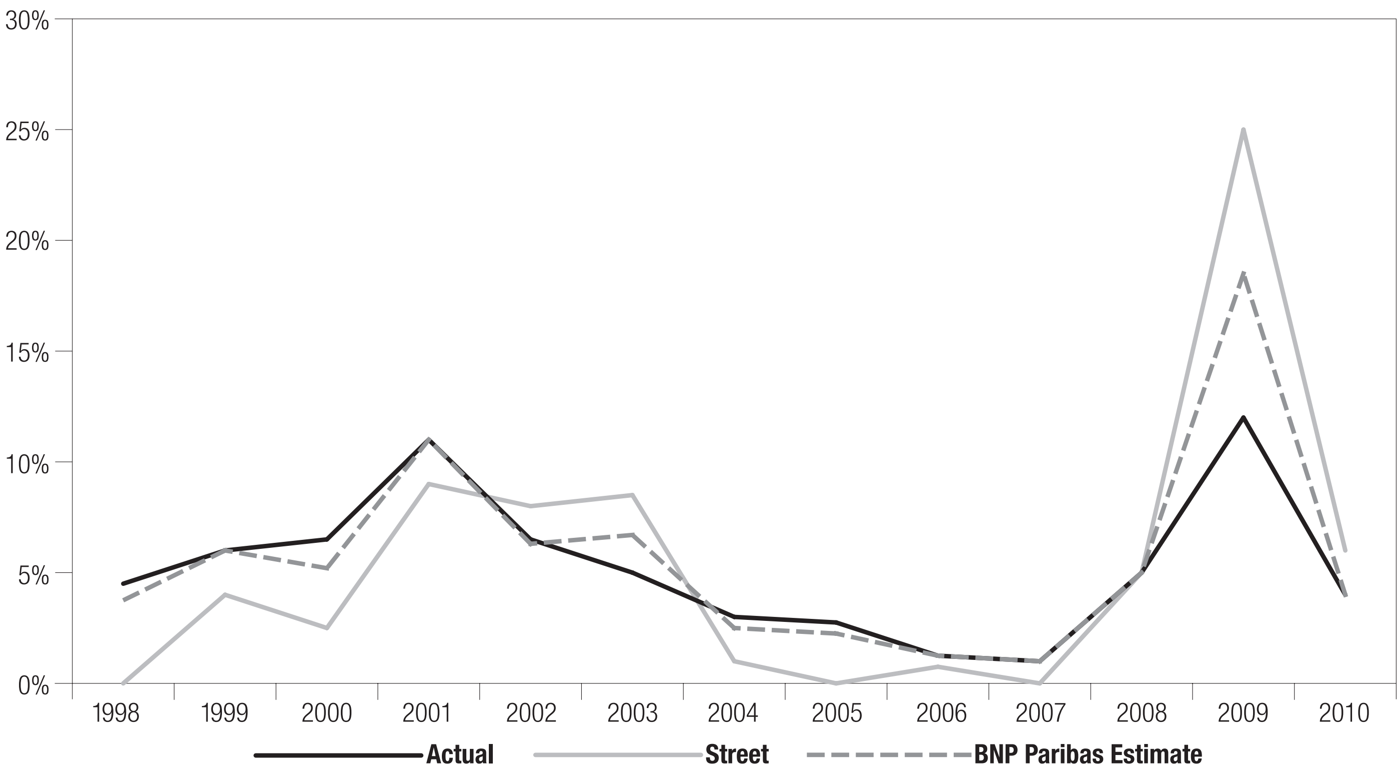
A spokesman with **JPMorgan,** a firm with a widely used default forecasting model that uses the breakeven spread method, said its default forecaster was not available for comment. Both calculations show that high yield bonds are relatively cheap, given the priced-in defaults and the forecast of actual defaults. How the market prices in defaults informs investors as to the value they will be getting from the market. Such a difference, if widely viewed by investors, would impact high yield investment decisions.

Moody's and S&P do track the percentage of speculative-grade bonds trading at distressed levels, which they define as a non-defaulted bond with an option-adjusted spread of greater than 1,000 basis points.

Fridson's report notes this is useful for calculating how the market is pricing in defaults because the same market forces that are shaping future defaults are shaping secondary junk bond trading today, and can be measured through the distressed ratio.

Fridson is a well regarded figure in the industry. He served as director of high yield at Merrill Lynch after working for **Morgan Stanley**. He briefly formed his own investment firm before joining with BNP last year. His articles and research are widely cited and used. *—MS*

Default Rate Forecast Error
Calculated retroactively for year ends 1998-2010



Source: Edward I. Altman, New York University; Bank of America Merrill Lynch

Q&A
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plus of what we're doing right now. The reason is that, from a borrower's perspective, it's user-friendly. There's a lot of certainty about it. And anything that's user-friendly and provides high levels of certainty is going to expand. We're gearing up to do a lot more of them because in 2012 and 2013, that's going to be the future of what we do... I think a lot of the middle market deals will be done with some form of unitranche debt. It's not to say there's not going to be senior and there won't also be mezzanine, but if I look at what we're doing and the opportunities we're seeing in the lower middle market, we can provide the most value to the sponsors, the companies, the borrowers and management teams by being a very dependable and stable provider of unitranche debt.

The middle market is traditionally more insulated from macroeconomic factors; are volumes better than in the large-cap market?
It's more consistent volumes. Right now, there aren't good volumes anywhere. From a macro standpoint, there's not a lot of deal activity going on because it's a period of high uncertainty. The lower middle market tends to be more insulated from the larger markets, because it's not as dependent on macro factors. It's more micro factors that affect the individual companies as opposed to what's happening in Europe or Greece or Washington.

Do you think the lower middle market will remain insulated?
The middle market historically lags the larger market. It's never completely insulated but it historically lags. So when the larger market's issues tend to hit, the middle market tends to be three to six months behind. Ultimately it will be affected but you'll see a period of time, whether it's 90 days or 100 days, where it will filter down.

Do you agree with the assessment that Europe is headed for a wall and a great falling to pieces?
It won't fall to pieces. Europe's been around for a long time. It's not going anywhere. The challenge that Europe has is that you've got 17 different countries that need to come together and resolve the problem. The United States can take unilateral action to protect the U.S. economy. It can print money, it can tighten credit, and it can loosen credit. It can decide to raise taxes and to cut the budget. There's a tremendous amount of debate that happens and a lot of mind-numbing political challenge to do that. It's exacerbated 17 times in Europe. It's not that there isn't a solution. I'm not very optimistic that you're going to have 17 different independent countries come up with what's best for Europe because there is no "what's best for Europe." …You've got countries that would commit political suicide if they committed to what Greece wants them to commit to. Merkel may agree to it, but it's going to cost her her job if she does. That's a huge problem. It's not only an economic issue, and you've got an overlay of political problems... it's intractable.

Ted Koenig

"Mezzanine is in a tough spot. It's going to be ... for the next several years."

What are you and people in other middle-market groups doing to prepare for continued trouble from Europe?
We are very focused on staying high in the capital stack and making sure that our underwriting is very, very thoughtful. Our business is one where we don't tolerate loss. We underwrite to a credit-first mentality. That's incredibly important at times like this. We were able to get through the last downturn in '07, '08, '09 in very good shape, and we're one of the few that were able to get through it. Many folks aren't in business today because of that. I'm very focused on making sure that we stay very determined and redouble our efforts on credit.

What is your view on the state and near future of the mezzanine market? Is mezzanine poised for a big comeback or will it get lost in the shuffle?
Mezzanine is in a tough spot. It's going to be in a tough spot for the next several years. The risk/return equation doesn't add up with an economy that's rarely consistent and not very strong. In a strong economy, there's a decent risk return. In a tough economy, in a tough cycle you've got to be very, very cautious in the mezzanine area.

Has the recent downturn in equity markets changed your equity coinvestment business at all?
Not really. The equity coinvestments we do tend to be where we're very familiar with the company in terms of deals where we're doing the debt, where we like the company's prospects, the niche, its management team, the sponsor. We are very selective in the companies that we make equity covinvestments in. For us to do that is a tremendous vote of confidence that we have in a deal…

Would you consider investments outside of the U.S. and Canada?
We've talked about it over time. It goes back to risk/reward. Right now the best risk/reward is in the U.S. and Canada and the reason I feel that way is because there's the most stability and it's hard enough to take underwriting risk and credit risk. What I don't think is appropriate is for a lenders to take regulatory risk or enforcement risk in terms of country risk and bankruptcy risk and legal risk. Outside of the U.S. is very difficult. The markets are not as well developed for creditors' rights.

Are club deals becoming more common, and would that be a way to expand the range of deal sizes Monroe is active in?
(See **Q&A** on page 12)

MOST RECENT CLOSED U.S. LEVERAGED LOANS

Close Date	Borrower	Facility Amount ($ mil)	Tranche Amount ($ mil)	Loan Type	Maturity	All Agents
10/07/11	Sapphire Power Finance LLC	210.0	185.0	RevCred/Term Ln	10/07/18	BARCLAYS/RBC/ CIT-GROUP/GECC
10/07/11	Sapphire Power Finance LLC	210.0	25.0	RevCred/Term Ln	10/07/16	BARCLAYS/RBC/GECC
10/03/11	Laramie Energy II LLC	300.0	300.0	Rev Cred Fac	10/03/15	JPM/BNP-PARIBAS/ WELLS-FARGO
09/30/11	BJ's Wholesale Club Inc	1,275.0	1,075.0	Term Loan	09/30/18	DEUTSCHE-BANK/CITI/ BARCLAYS/JEFFERIES
09/30/11	BJ's Wholesale Club Inc	1,275.0	200.0	Term Loan	03/31/19	DEUTSCHE-BANK/CITI/ BARCLAYS/JEFFERIES
09/30/11	Garden Ridge Corp	330.0	250.0	RevCred/TLB	09/30/17	BOA-MERRILL/UBS-BANK
09/30/11	Garden Ridge Corp	330.0	80.0	RevCred/TLB	09/30/16	BOA-MERRILL/UBS-BANK
09/30/11	George Little Management LLC	95.0	10.0	RevCred/Term Ln	09/30/17	GECC/SUNTRUST-BK
09/30/11	George Little Management LLC	95.0	85.0	RevCred/Term Ln	09/30/17	GECC/SUNTRUST-BK
09/30/11	Byrider Finance Inc	30.0	30.0	Rev Cred Fac	06/12/14	BOA
09/30/11	HCA Inc	2,500.0	2,500.0	Rev Cred Fac	09/30/16	BOA/WF/JPM/ CITI/BARCLAYS/ DEUTSCHE-BANK/RBC
09/30/11	Levi Strauss & Co	850.0	850.0	Rev Cred Fac	09/30/16	JPM/BOA/WELLS-FARGO/ HSBC
09/30/11	McAllister Towing & Transport	85.0	85.0	Rev Cred Fac	09/30/16	BOA
09/30/11	Tidewater Finance Co	70.0	70.0	Rev Cred Fac	12/11/12	BOA
09/30/11	Drayer Physical Therapy	65.0	10.0	RevCred/TLB	09/30/14	MADISON-CAPITAL/ PNC-BANK-CORP
09/30/11	Eastern Fish Co	95.0	95.0	Rev Cred Fac	11/01/15	WF
09/30/11	Forum Energy Technologies Inc	900.0	300.0	RevCred/TLA	10/03/16	WF/BOA/CITIBANK/ DEUTSCHE-BANK/JPM
09/30/11	Forum Energy Technologies Inc	900.0	600.0	RevCred/TLA	10/03/16	WF/BOA/CITIBANK/ DEUTSCHE-BANK/JPM
09/30/11	Gables Residential Trust	205.0	205.0	Rev Cred Fac	09/30/14	WF
09/30/11	Gordian Group Inc	59.0	5.0	RevCred/Term Ln	09/30/16	GOLUB-CAPITAL/NEW-STAR
09/30/11	Gordian Group Inc	59.0	54.0	RevCred/Term Ln	09/30/16	GOLUB-CAPITAL/NEW-STAR
09/30/11	Vanguard Natural Resources LLC	715.0	715.0	Rev Cred Fac	09/30/16	CITI/BNP-PARIBAS
09/30/11	IVESCO LLC	80.0	80.0	Rev Cred Fac	02/12/14	WF
09/30/11	Briggs & Stratton Corp	500.0	500.0	Rev Cred Fac	09/30/16	JPM/US-BANK-NA
09/30/11	4300 Crescent LLC	155.0	155.0	Term Loan	09/30/15	WELLS-FARGO/BOA/ HELABA-LANDES
09/30/11	Echo Bridge Entertainment LLC	49.3	15.0	RevCred/Term Ln	09/30/12	JPM
09/30/11	Echo Bridge Entertainment LLC	49.3	34.3	RevCred/Term Ln	09/30/12	JPM
09/30/11	Knoxville HMA Holdings LLC	510.0	360.0	RevCred/TLA	09/30/14	SUNTRUST-BK/ DEUTSCHE-BANK/ RBS/WELLS-FARGO
09/30/11	Knoxville HMA Holdings LLC	510.0	150.0	RevCred/TLA	09/30/14	SUNTRUST-BK/ DEUTSCHE-BANK/ RBS/WELLS-FARGO
09/30/11	LRE Operating, LLC	500.0	500.0	Rev Cred Fac	09/30/16	WF/BOA/BNP-PARIBAS/ CITI/RBC
09/30/11	Legacy Reserves LP	1,000.0	1,000.0	Rev Cred Fac	09/30/16	BNP-PARIBAS/WF/ BBVA/UBS-BANK/ US-BANK-NA
09/30/11	Marquette Transportation Co	50.0	50.0	Rev Cred Fac	07/15/14	WF/JPM/BANK-MONTREAL/ ALLY-FIN/RBS
09/30/11	Midcontinent Commun	100.0	50.0	Term Loan A	03/31/17	SUNTRUST-BK/WELLS-FARGO
09/30/11	Midcontinent Commun	100.0	50.0	Term Loan A	03/31/18	SUNTRUST-BK/WELLS-FARGO
09/30/11	PPT Management Holdings, LLC	36.8	4.0	RevCred/Term Ln	10/03/16	MIDCAP/NXT-CAP
09/30/11	PPT Management Holdings, LLC	36.8	32.8	RevCred/Term Ln	10/03/16	MIDCAP/NXT-CAP
09/30/11	PetroQuest Energy Inc	100.0	100.0	Rev Cred Fac	09/30/16	JPM/WELLS-FARGO/ CAPITAL-ONE
09/30/11	Regency Entertainment USA Inc	500.0	500.0	Rev Cred Fac	09/30/16	JPM/BOA
09/30/11	Road Ranger LLC	65.7	20.0	RevCred/Term Ln	09/30/14	JPM

Source: Thomson Reuters

MOST RECENT COMPLETED HIGH YIELD DEALS

Issue Date	Issuer	Principal Am ($mm)	Currency	Coupon %	Maturity	Moody Rating	Standard & Poor's Rating	Bookrunner(s)
10/12/11	Laredo Petroleum Inc	200	US	9.500	02/15/19	Caa2	CCC+	BofAML, JP Morgan, Wells Fargo Goldman Sachs
10/10/11	FMC Finace VIII SA	136.444	EUR	Floats	10/15/16	Ba2	BB	Credit Suisse
09/28/11	Heidelberg Finance BV	405.844	EUR	9.500	12/15/18	Ba2	BB	BNP Paribas, Citi, Deutsche Bank, ING, Banca IMI, Landesbank Baden-Wurttemberg, Mediobanca, RBS
09/27/11	HCA Inc	500	US	8.000	10/01/18	B3	B-	Barclays, Deutsche Bank, Goldman Sachs, Morgan Stanley, RBC, Wells Fargo
09/27/11	JELD-WEN Inc	460	US	12.250	10/15/17	B3	B-	BofAML, Wells Fargo, Barclays, KeyBanc Capital Markets Inc
09/26/11	Dolphin Subsidiary II Inc	800	US	7.250	10/15/21	Ba1	BB+	BofAML, Barclays, JP Morgan, Morgan Stanley
09/26/11	Dolphin Subsidiary II Inc	450	US	6.500	10/15/16	Ba1	BB+	BofAML, Barclays, JP Morgan, Morgan Stanley
09/26/11	Platinum Energy Solutions Inc	50	US	14.250	03/01/15	NR	NR	JP Morgan
09/21/11	Avis Budget Car Rental LLC	250	US	9.750	03/15/20	B2	B	Morgan Stanley, Citi, Credit Agricole, RBS, Scotia Capital (USA) Inc.
09/20/11	Bill Barrett Corp	400	US	7.625	10/01/19	B1	BB-	BofAML, JP Morgan, Deutsche Bank, Wells Fargo
09/20/11	Iron Mountain Inc	400	US	7.750	10/01/19	B1	B+	JP Morgan, Barclays, BofAML, HSBC, RBS, Scotia Capital (USA) Inc., Morgan Stanley
09/16/11	Sealed Air Corp	750	US	8.125	09/15/21	B1	BB	Citi, BofAML, BNP Paribas SA, Credit Agricole CIB
09/16/11	Sealed Air Corp	750	US	8.375	09/15/19	B1	BB	Citi, BofAML, BNP Paribas SA Credit Agricole CIB
09/15/11	El Paso Pipeline Part Ops LLC	500	US	5.000	10/01/21	Ba1	BB	Deutsche Bank, JP Morgan, BNP Paribas SA, Scotia Capital (USA) Inc.
09/15/11	Omnicare Inc	150	US	7.750	06/01/20	Ba3	BB	JP Morgan, Barclays, BofAML, Goldman Sachs, SunTrust Robinson Humphrey
09/08/11	Calumet Specialty Products	200	US	9.375	05/01/19	B3	B	BofAML, Barclays, JP Morgan
09/08/11	Fresenius Medical Care	400	US	6.500	09/15/18	Ba2	BB	JP Morgan, Credit Suisse, Barclays, Morgan Stanley
09/08/11	Fresenius Medical Care	555.324	EUR	6.500	09/15/18	Ba2	BB	JP Morgan, Credit Suisse, Barclays, Morgan Stanley
08/25/11	Brookfield Office Pptys Inc	202.429	C		n/a	nr	BB+	RBC, CIBC, Scotia Capital Inc, TD Securities Inc
08/22/11	NCIG Holdings	250	US	12.500	08/25/31	Ba2	NR	Macquarie Capital Group Ltd
08/16/11	Immucor Inc	400	US	11.125	08/15/19	Caa1	B-	JP Morgan, Citi, UBS
08/12/11	CrownRock LP	150	US	10.000	08/15/16	Caa2	CCC	Credit Suisse
08/12/11	Delta Air Lines Inc	102	US	7.125	10/15/14	Ba3	BB	Citi
08/11/11	Roc Finance LLC	380	US	12.125	09/01/18	Caa1	B	Credit Suisse, Deutsche Bank, Citadel Investment Group LLC
07/28/11	Carrols Rest-Hispanic Brands	200	US	8.875	08/15/16	B2	B	Wells Fargo, Jefferies & Co Inc
07/28/11	Tempel Steel Co	135	US	12.000	08/15/16	B3	B	Jefferies & Co Inc
07/27/11	AmeriGas Partners LP	450	US	6.250	08/20/19	Ba3	NR	Credit Suisse, JP Morgan, Wells Fargo, Citi
07/27/11	Antero Resources Finance Corp	400	US	7.250	08/01/19	B3	B	JP Morgan, Wells Fargo, Barclays
07/27/11	Ford Motor Cr Co LLC	1000	US	5.875	08/02/21	Ba2	BB-	Barclays,Goldman Sachs, HSBC, RBS
07/26/11	Bormioli Rocco & Figlio SpA	362.95	EUR	10.000	08/01/18	B1	BB-	JP Morgan, BNP Paribas SA

Source: Thomson Reuters

HIGH YIELD SECONDARY GAINERS & LOSERS

(AS OF 10/12/11)

— TOP GAINERS —

Bond	Price 10/12/11	Price 10/6/11	Change	Yield 10/12/11	Yield 10/6/11	Spread 10/12/11
Franshion Dev LTD (USD) 6.75% 4/15/2021	83.875	61.5	22.375	9.35%	14.27%	722.41
Bumi Investment Pt (USD) 10.75% 10/6/2017 144a	94.625	72.625	22	12.04%	18.50%	1058.72
Franshion Dev. LTD (USD) 6.75% 4/15/2021 144a	82.875	61.875	21	9.53%	14.17%	740.61
Bumi Capital Pte (USD) 12% 11/10/2016 144a	98.125	77.625	20.5	12.51%	19.05%	1133.4
Agile Property Holdings LTD (USD) 8.875% 4/28/2017 144A	79.625	59.875	19.75	14.33%	21.63%	1302.78
Teleflex Inc. (USD) 6.875% 6/1/2019	98.875	79.625	19.25	7.07%	10.86%	525.61
Vedanta Resources PLC (USD) 8.25% 6/7/2021 144a	86.625	68.125	18.5	10.48%	14.47%	832.98
Agile Property Holdings LTD (USD) 8.875% 4/28/2017	80.25	61.875	18.375	14.14%	20.76%	1283.5
Vedanta Resources PLC (USD) 9.5% 7/18/2018	91.625	74.625	17	11.30%	15.71%	966.27
Vedanta Resources Plc (USD) 9.5% 7/18/2018	90.625	73.625	17	11.53%	16.01%	989.23
Vedanta Resources PLC (USD) 8.25% 6/7/2021	87.75	71	16.75	10.28%	13.76%	812.45
Marfrig Overseas Limited (USD) 9.5% 5/4/2020 144A	78.125	62.125	16	13.96%	18.46%	1199.23

— TOP LOSERS —

Bond	Price 10/12/11	Price 10/6/11	Change	Yield 10/12/11	Yield 10/6/11	Spread 10/12/11
Friendly Ice Cream Corp. (USD) 8.375% 6/15/2012	18.25	84.375	-66.125	532.53%	36.25%	53241.64
AMR Corp. (USD) 9% 9/15/2016	53	95.875	-42.875	26.72%	10.08%	2558.31
American General Financial Corp (USD) 6% 10/15/2014	73.75	89	-15.25	17.66%	10.34%	1711.88
American General Finance Corp (USD) 6% 12/15/2014 (1)	73.5	88.5	-15	17.20%	10.33%	1661.69
Mead Corp (The) (USD) 7.55% 3/1/2047	99.25	113.125	-13.875	7.61%	6.59%	442.84
Real Mex Restaurants Inc. (USD) 0% 12/23/2009	59.625	73.125	-13.5	67.85%	44.65%	6765.17
PrivatBank (USD) 9.375% 9/23/2015	81.5	93.75	-12.25	15.87%	11.38%	1503.19
UK SPV Credit Finance PL (USD) 9.375% 9/23/2015	81.5	93.75	-12.25	15.87%	11.38%	1503.19
Lifecare Holdings Inc (USD) 9.25% 8/15/2013	73.625	84.625	-11	28.74%	19.54%	2845.13
Donnelley R R & Sons Co. (USD) 6.125% 1/15/2017	82.75	92.375	-9.625	10.48%	7.92%	924.67
Sprint Capital Corporation (USD) 9.25% 4/15/2022	90.375	99	-8.625	10.81%	9.40%	857.94
May Dept Stores (USD) 6.9% 1/15/2032	97.375	106	-8.625	7.15%	6.37%	426.82

Source: The High Yield Advantage, Advantage Data Inc., (617) 261-9700.

HIGH YIELD BOND FUND PERFORMANCE

Name Of Fund	Total Net Assets 09/30/11 ($ Mil's)	12/31/10 To 10/12/11 % Change	Rank	Lipper Leader
Fidelity Real Est Hi Inc	691.5	4.52	1	
Westcore:Flex Inc;Rtl	58.5	3.68	2	
RvrPrk:Sh-Tm HY;Inst	18.8	2.75	3	
Aquila 3 Peaks HI;Y	151.3	2.61	4	
Crdt Suis Flt Rt HI;Inst	39.8	2.47	5	Y
Intrepid:Income;Inst	50.5	2.40	6	
Vanguard HY Corp;Adm	8,269.8	1.89	7	
J Hancock III:Cre HY;A	15.7	1.86	8	
PowerShares Fd HY Corp	527.2	1.61	9	
Calvert Fd:HY Bond;I	29.8	1.18	10	

Name Of Fund	Total Net Assets 09/30/11 ($ Mil's)	12/31/10 To 10/12/11 % Change	Rank	Lipper Leader
MainStay:Hi Yld Crp;A	3,131.8	1.18	10	
Toews Hedged Hi Yld Bd	38.5	1.13	12	
Fidelity Focused Hi Inc	746.6	1.09	13	
Columbia:Inc Opps;Z	770.4	0.99	14	
J Hancock II:HY Bd;NAV	448.7	0.80	15	
WellsFargo:ST HY B;Adm	250.1	0.70	16	
CNI:Hi Yld Bond;Inst	65.5	0.60	17	Y
Rainier:High Yield;Inst	16.2	0.59	18	
TIAA-CREF:Hi-Yld;Inst	573.6	0.57	19	
MEMBERS:High Income;Y	77.1	0.51	20	

Number of All High Yield Funds: 619
Lipper HI Curr Yld Bd IX: -1.77

Source: Lipper

LOAN SECONDARY ADVANCERS AND DECLINERS

(For the week ended October 12, 2011)

Top 10 Advancers

Facility	Previous Bid	Current Bid	Percent Change
Bankruptcy Management 10/10 2nd Lien TL	2.625	3.313	26.21
Caribe Information (4/06) TLb	14.125	16.5	16.814
GateHouse Media 2/07 Cov-Lite Delayed TL	19.7	22.375	13.579
GateHouse Media 2/07 Cov-Lite TLB	19.7	22.375	13.579
GateHouse Media 5/07 Cov-Lite TLC	19.7	22.375	13.579
US Power Gen Equity	3.813	4.188	9.835
Quiznos 5/06 2nd Lien TL	9	9.6	6.667
Panrico 9/10 Snr Opco TL	8	8.5	6.25
LightSquared 2/11 (Fixed 12%) Incremental TL	52.5	55.75	6.19
Algeco Scotsman 7/08 (CDN) B1(c) TLB1	65	69	6.154

Top 10 Decliners

Facility	Previous Bid	Current Bid	Percent Change
Bankruptcy Management 10/10 TLB	37.25	22.167	-40.491
CCS Medical 3/10 Equity	4	3	-25
Sprint Nextel (Unsecured 5/10) Revolving Credit	16	12.5	-21.875
Hanley-Wood 3/07 Cov-Lite TLB	45.125	39	-13.573
Contec 7/08 TLB	55	50	-9.091
Real Mex 7/09 (Fixed 16.5%) PIK TL	55	50	-9.091
Dinosol (2/07) Revolving Credit	13.333	12.5	-6.248
Dinosol (2/07) TLb	13.333	12.5	-6.248
Dinosol (2/07) TLc	13.333	12.5	-6.248
Dinosol 2/07 (EUR) B/C Pro Rata	13.333	12.5	-6.248

Source: Markit

CLOSED END LOAN FUND PERFORMANCE

Name Of Fund	Total Net Assets 09/30/11 ($ Mil's)	12/31/10 To 10/11/11 % Change	Rank
Pioneer Floating Rate Tr	479.9	-0.82	1
Invesco VK Senior Income	N/A	-0.90	2
Eaton Vance Sen Flt-Rt	483.7	-1.18	3
LMP Corporate Loan	116.3	-1.30	4
Blackstone/GSO Sr Flt Rt	281.0	-1.30	4
Eaton Vance Senior Inc	249.1	-1.34	6
Eaton Vance Flt-Rt Inc	551.8	-1.36	7
Invesco VK Sr Loan;IB	456.5	-1.37	8
Invesco Prime Income Tr	N/A	-1.40	9
BlackRock Dvsd Inc Strat	125.2	-1.70	10
BlackRock Flt Rt Inc II	135.8	-2.00	11
BlackRock Flt Rt Inc	257.3	-2.09	12
BlackRock Fltg Rate Inc	317.2	-2.37	13
First Tr Sr Fltg Rl II	347.1	-2.57	14
BlackRock Def Opp Credit	118.2	-2.75	15
Nuveen Senior Income	209.8	-2.98	16
Nuveen Float Rt Inc Opp	333.1	-3.58	17
Nuveen Float Rate Inc	533.0	-3.83	18
ING Prime Rate Trust	808.2	-4.35	19
ING Senior Income;C	286.6	-4.52	20

Source: Lipper

— Average % Change: -2.50 —
— Number of Funds: 29 —

Loanbase Statistics — Syndicated U.S. Loans

Data distribution as of October 13, 2011 (in millions)

	2008		2009		2010		2011	
M	All	Leverage	All	Leverage	All	Leverage	All	Leverage
Q1	278,888	127,832	116,359	29,849	144,572	65,496	388,403	179,952
No. packages	758	446	302	169	438	256	743	428
Q2	330,752	129,901	159,494	72,550	324,445	133,808	584,722	250,838
No. packages	792	465	454	297	689	398	1,027	532
Q3	267,756	146,147	102,603	56,890	234,183	98,213	432,859	143,824
No. packages	663	423	403	258	636	307	829	432
Q4	163,881	79,818	189,953	96,122	363,186	159,073	2,260	510
No. packages	439	285	482	325	823	420	4	2
Total Dollars	1,041,278	483,698	568,409	255,410	1,066,385	456,590	1,408,244	575,125
Total Packages	2,652	1,619	1,641	1,049	2,586	1,381	2,603	1,394

Q&A
continued from page 7

We currently do club deals. We'll do originated deals and we'll do club deals. The importance for us is that we have a meaningful role in the transaction where we can utilize our core competencies, which are underwriting and credit management. If we don't have a real opportunity to utilize those core competencies, there's not much value we can add to a large transaction where we're buying a small piece of it.

What sectors are showing the most promise right now in terms of middle-market deal flow?
'Promise' is a difficult word. I think in the healthcare area there's always opportunity because that market changes. In the defense and homeland security market there's some consistency, because the government continues to spend money there. They're cyclicals, so long as you don't hit a double-dip, the auto and auto-related industries are moving in the right direction. We were moving in the manufacturing area where there's been a tremendous amount of deferred cap ex, so that's going to come home to roost. It's going to continue to be deferred now in the short term, where there's so much uncertainty in the world. So there are pockets in industries that are good, and there are always good companies that are well managed and have defensible niches, and those are the ones we look to finance.

Are regional banks becoming more of a factor in the middle market?
Regional banks were a factor in the middle market. Probably 70% of the middle-market transactions in the mid 2000s were done with regional banks. Today, because of capital constraints and regulatory pressure, they're not so much a competitor as they are a partner. We do a lot of partner transactions with regional banks. We take some of the credit underwriting risk, and they will do more of the revolver and the cash management and deposit balance payments.

"Any time there's instability in the market, good people tend to move around. We're seeing a lot of that..."

Are you seeing a lot of small groups go into origination and then get out quickly? Are you seeing a lot of resumes from high yield execs?
We're seeing lots of resumes right now. We've hired a tremendous amount of people, and we continue to hire. We've opened up four offices and we've got a couple more on the board right now. Any time there's instability in the market good people tend to move around. We're seeing a lot of that, and my sense is that we'll continue to expand and serve the market as the market needs the products.

Are you seeing new LPs in the middle market?
Yes. Traditional fixed income investors that invested in large market debt are finding their way into middle market debt because it tends to be a little more predictable and less volatile.

Where are you looking to expand?
Today we're in L.A., Boston, Chicago, New York and Charlotte [N.C.]. I expect to see more in the Southwest and maybe the Southeast.

You added some origination staff earlier this year. Do you plan to continue to expand your origination group?
Yes. We continue to expand our origination capability as well as our underwriting capability. …We address the market needs as it comes about and right now there's a high level of need in the market. So we're in the process of hiring to address that need. *—MS*

