Capital at risk. The value of investments and the income from them may fall as well as rise and is not guaranteed. Investors may not get back the full amount invested.

Syndicated Loans - A Safe Port in a Storm

February 2022

Against a backdrop of economic recovery but the prospect of rising interest rates, where can credit investors look for yield while protecting themselves from interest rate risk?

A Challenging Year

Persistent global inflationary pressures, combined with economic recovery in many countries, have triggered a significant change in central bank monetary policy. A hawkish shift by the US Federal Reserve in early January and the European Central Bank and Bank of England in early February, have led markets to price in a more rapid hiking cycle than previously predicted.

In this changing policy environment, we expect the hunt for yield and protection from rising interest rates will be key themes dominating fixed income investors’ agendas this year. We believe floating rate, high yielding assets are well positioned to meet these challenges.

European Syndicated Loans - An Effective Solution?

Within corporate credit, investors can seek protection from rising interest rates via short duration or floating rate strategies.

The advantage of a floating rate strategy is that by definition it is short duration, yet it also seeks to capture credit spread. This feature enables the strategy to benefit from rising interest rates, which means it may represent a compelling way for investors to access the market or reposition their existing fixed income allocations.

As a result, we believe European syndicated loans (an institutional, floating rate, high yielding asset class) may offer fixed income investors’ an interesting opportunity in the current market environment.

Torben Ronberg

Head of Syndicated Loans

Prior to joining Muzinich, Torben worked for ECM Asset Management Limited, a Wells Fargo company, where he was Head of Sub-Investment Grade responsible for overseeing all loan and high yield investments in asset-class-specific portfolios, as well as across ECM’s multi-asset-class portfolios. Prior to this Torben was with the Danske Bank Group based in Copenhagen and London. Torben has more than 20 years of experience in corporate banking - the leveraged finance market in particular. Torben holds an Executive MBA from London Business School.

Muzinich & Co. views and opinions as of February 2022, and subject to change without notice.
Key Features and Benefits

In our view, European syndicated loans offer the following intrinsic features and benefits.

- Floating rate instruments floored at a base rate of zero percent on the downside and floating over the base rate on the upside, which can prove beneficial when rates rise.
- Coupon - stable and attractive (cash margin in the 4% area)¹
- High seniority within an issuers’ capital structure (typically senior secured instruments) - therefore among the first to be repaid in the event of default.
- Established secondary trading market - provides liquidity.
- Large investible universe totalling €387bn of nominal value consisting of 563 issues from over 400 issuers - offering a diverse pool of opportunities ²
- Institutional-only investor base (mainly Collateralised Loan Obligation vehicles (CLOs), banks and other institutional investors). With this ‘sticky’ money comes less likelihood of outflows.
- Pre-payable at par at any time by the issuer - contributing to reduced volatility.
- Approximately three-quarters of the investible universe are currently single-B rated, offering the potential for high yields ³
- In 2021, over half the new issuance was driven by merger & acquisition activity, with most of the remainder being refinancing and recapitalization transactions* - we expect this trend to continue, presenting a robust investment pipeline ⁴

Risk: There can be no guarantee that the investment strategy will be successful, and the value of the investment may go up as well as down.

*Please note that these may not necessarily be representative of future deals. Past activity is mentioned for illustrative purposes only.

Historical Performance

We believe that European syndicated loans have shown to be a resilient and attractive asset class over time.

- The trailing 12-month par default rate for European loans for 2012-2021 has been 2.37% on average, and this rate has been particularly muted over the last 5 years (0.97% on average).⁵ The trailing 12-month par default rate was approximately 2.57% in 2020 and approximately 0.6% for 2021 which we believe shows the resilience of the asset class.⁶ The main reasons for this are the generally defensive sector exposure of the asset class, and the high degree of private equity-owned companies which can draw on ample support in times of financial stress.
- From 1985-2021, the long-term average recovery rate for defaulted positions was approximately 69% (compared to senior unsecured high yield bonds in the range of 20-40%) ⁷

<table>
<thead>
<tr>
<th>Date</th>
<th>Europe (S&amp;P ELLI)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec 2012</td>
<td>6.59%</td>
</tr>
<tr>
<td>Dec 2013</td>
<td>2.88%</td>
</tr>
<tr>
<td>Dec 2014</td>
<td>4.88%</td>
</tr>
<tr>
<td>Dec 2015</td>
<td>2.12%</td>
</tr>
<tr>
<td>Dec 2016</td>
<td>2.40%</td>
</tr>
<tr>
<td>Dec 2017</td>
<td>1.11%</td>
</tr>
<tr>
<td>Dec 2018</td>
<td>0.11%</td>
</tr>
<tr>
<td>Dec 2019</td>
<td>0.44%</td>
</tr>
<tr>
<td>Dec 2020</td>
<td>2.57%</td>
</tr>
<tr>
<td>Dec 2021</td>
<td>0.62%</td>
</tr>
</tbody>
</table>


- The asset class has delivered positive returns in 84% of the calendar quarters since 1998 ⁸
- The average cash margin of the index over the last 10 years was approximately 4.2% ⁹ and the average cash margin at 31st January 2022 for the index was approximately 3.8%.
- The asset class generated an annualised 10-year return of approximately 4.6%, with an annualised volatility of approximately 5.4% (to 31st December 2021) ¹⁰

<table>
<thead>
<tr>
<th>Date</th>
<th>Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec 2012</td>
<td>10.39%</td>
</tr>
<tr>
<td>Dec 2013</td>
<td>8.73%</td>
</tr>
<tr>
<td>Dec 2014</td>
<td>1.96%</td>
</tr>
<tr>
<td>Dec 2015</td>
<td>3.14%</td>
</tr>
<tr>
<td>Dec 2016</td>
<td>6.52%</td>
</tr>
<tr>
<td>Dec 2017</td>
<td>3.30%</td>
</tr>
<tr>
<td>Dec 2018</td>
<td>0.55%</td>
</tr>
<tr>
<td>Dec 2019</td>
<td>5.03%</td>
</tr>
<tr>
<td>Dec 2020</td>
<td>2.38%</td>
</tr>
<tr>
<td>Dec 2021</td>
<td>4.63%</td>
</tr>
</tbody>
</table>

The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy.

Source: CS Plus Platform - Credit Suisse Western European Leveraged Loan Index, as of 31st December 2021. Index performance is for illustrative purposes only. You cannot invest directly in the index.
A Constructive Outlook

Following a 4.63% positive annualised total return in 2021, the asset class has demonstrated resilience in 2022 amid wider financial market volatility, generating a total return of approximately -0.21% year to date (to 9th February 2022). We are currently constructive on the asset class, which we expect to deliver mid-single-digit returns on an annualised basis over the next few years.

In our view, corporate fundamentals of European syndicated loan borrowers are solid, underpinned by their available liquidity, high interest coverage ratios and margin resilience.

Trailing 12-month default rates are close to zero and are expected to remain subdued. Loan market technicals appear solid on the back of the high demand for floating rate, short duration assets; CLOs are a main driver of demand. Valuations are also fair, with an average market price of approximately 98.7, implying a 3-year discount margin (spread) of approximately 4.1% (compared to approximately 3.7% for the European high yield bond market).

For credit investors seeking yield and protection from rising interest rates, we believe European syndicated loans may offer a compelling choice in today’s rates-driven investment environment.

A large, liquid, steady asset class with what we believe has a healthy pipeline, potentially attractive coupon and a floating rate that may benefit when rates rise, presents an interesting investment case that could warrant a closer look.

The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy.

Our Capabilities

We are an active investor in syndicated loans globally, managing over US$4 billion in global syndicated loans, across pooled funds and segregated accounts.

We have an experienced team of 9 investment professionals and invest in syndicated loans globally.

Over the last 5 calendar years (2017-2021), S&P Market Intelligence has tracked 24 issuers in default in the European syndicated loan market, whilst the portfolios managed by the team have experienced only 1 default over the same period, with negligible loss on the position, having been able to exit immediately.

On the back of our strong track-record of outperformance versus the reference Credit Suisse Western European Leveraged Loan Index, we offer both institutional and retail-friendly (ELTIF) investment solutions, providing the full spectrum of investors access to syndicated loans.

Sources:
1. CS Plus Platform - Credit Suisse Credit Suisse Western European Leveraged Loan Index, as of 31st January 2022
2. IBID
3. IBID
4. S&P Global Market Intelligence, as of 31st December 2021
5. S&P Global Market Intelligence Loan Commentary Data, as of 31st December 2021
6. IBID
7. Moody’s Investors Services, as of 31st December 2021
8. CS Plus Platform - Credit Suisse Western European Leveraged Loan Index, as of 31st December 2021
9. IBID
10. IBID
11. IBID
12. CS Plus Platform - Credit Suisse Western European Leveraged Loan Index, as of 9th February 2022
13. CS Plus Platform - Credit Suisse Western European Leveraged Loan Index, as of 31st December 2021
14. CS Plus Platform - Credit Suisse Western European Leveraged Loan Index, as of 31st January 2022
15. ICE Platform, ICE BofA BB-B European Currency Non-Financial High Yield Constrained Index (HP4N), as of 31st January 2022
16. Muzinich as of January 31st 2022
17. S&P Market Intelligence as of 31st December 2021
Index Descriptions

CSWELLI - The CS Western European Leveraged Loan Index is designed to mirror the investable universe of the Western European leveraged loan market. Loans denominated in US dollar or Western European Currencies are eligible for inclusion. The index is rebalanced monthly on the last business day of the month instead of daily. Qualifying loans must have minimum outstanding balance of $100 million (in local currency), issuers with assets located in or revenues derived from Western Europe, at least one year long tenor, be rated “BB” or lower, fully funded and priced by a third party vendor at month-end.

HP4N - The ICE BofA ML BB-B European Currency Non-Financial High Yield Constrained Index contains all non-financial securities in The ICE BofA ML European Currency High Yield Index rated BB1 through B3, based on an average of Moody's, S&P and Fitch, but caps issuer exposure at 3%.

S&P ELLI - The S&P European Leveraged Loan Index is a market value-weighted index designed to measure the performance of the European leveraged loan market based upon market weightings, spreads and interest payments.

Please click here for important disclaimers relating to use of the Credit Suisse Western European Leveraged Loans Index referred to within this document.

Important Information

Muzinich & Co., referenced herein is defined as Muzinich & Co., Inc. and its affiliates. This material has been produced for information purposes only and as such the views contained herein are not to be taken as investment advice. Opinions are as of date of publication and are subject to change without reference or notification to you. Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy. The value of investments and the income from them may fall as well as rise and is not guaranteed and investors may not get back the full amount invested. Rates of exchange may cause the value of investments to rise or fall. Emerging Markets may be more risky than more developed markets for a variety of reasons, including but not limited to, increased political, social and economic instability; heightened pricing volatility and reduced market liquidity.

Alternative investments can be speculative and are not suitable for all investors. Investing in alternative investments is only intended for experienced and sophisticated investors who are willing and able to bear the high economic risks associated with such an investment. Investors should carefully review and consider potential risks before investing. Certain of these risks include: (a) Loss of all or a substantial portion of the investment; (b) Lack of liquidity in that there may be no secondary market for interests in the Fund and none is expected to develop in advance of an IPO; (c) Volatility of returns; (d) Restrictions on transferring interests; and (e) Potential lack of diversification and resulting higher risk due to concentration within one of more sectors, industries, countries or regions.

This material and the views and opinions expressed should not be construed as an offer to buy or sell or invitation to engage in any investment activity; they are for information purposes only. Opinions and statements of financial market trends that are based on market conditions constitute our judgement as at the date of this document. They are considered to be accurate at the time of writing, but no warranty of accuracy is given and no liability in respect of any error or omission is accepted. Certain information contained herein is based on data obtained from third parties and, although believed to be reliable, has not been independently verified by anyone at or affiliated with Muzinich and Co., its accuracy or completeness cannot be guaranteed. Risk management includes an effort to monitor and manage risk but does not imply low or no risk.

This discussion material contains forward-looking statements which give current expectations of the Fund’s future activities and future performance. Further, no person undertakes any duty or obligation to revise such forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Muzinich makes no representation or warranty (express or implied) with respect to the information contained herein (including, without limitations, information obtained from third parties) and expressly disclaims any and all liability based on or relating to the information contained in, or errors omissions from, these materials; or based on or relating to the recipient’s use (or the use by any of its affiliates or representatives or any other person) of these materials; or based on any other written or oral communications transmitted to the recipient or any of its affiliates or representatives in the course of its evaluation of Muzinich.

United States: This material is for Institutional Investor use only - not for retail distribution. Muzinich & Co., Inc. is a registered investment adviser with the Securities and Exchange Commission (SEC). Muzinich & Co., Inc. ’s being a Registered Investment Adviser with the SEC in no way shall imply a certain level of skill or training or any authorization or approval by the SEC.

Issued in the European Union by Muzinich & Co. (Ireland) Limited, which is authorized and regulated by the Central Bank of Ireland, registered in Ireland, company registration no. 307511. Address: 32 Molesworth Street, Dublin 2, D02 Y512, Ireland, issued in Switzerland by Muzinich & Co. (Switzerland) AG. Address: Registered in Switzerland No. CH-389.422.108. Registered address: Tödistrasse 5, 8002 Zurich, Switzerland. Issued in Singapore and Hong Kong by Muzinich & Co. (Singapore) Pte. Limited, which is licensed and regulated by the Monetary Authority of Singapore. Registered in Singapore no. 201624477K. Address: 6 Battery Road, #26-05, Singapore, 049909. Issued in all other jurisdictions (excluding the U.S.) by Muzinich & Co. Limited, which is authorized and regulated by the Financial Conduct Authority. Registered in England and Wales No. 3852444. Registered address: 8 Hanover Street, London W1S 1YQ, United Kingdom. 2022-02-17-8055