

Leveraged loan activity slowed during Q4 2014...

- Leveraged loan volume dropped to a three-year low during Q4 2014
- New-issue volume fell to \$68.6 billion including \$45.9 billion of institutional loans, from \$126.7 billion including \$89.1 billion of institutional loans during Q4 2013
- M&A-related loan activity fell to \$40.2 billion during Q4 from a post-credit-crunch high of \$80.7 billion during Q3
- LBO segment of M&A lending was a relative bright spot, as volume was \$16.0 billion, up 12% year-over-year although also down marginally from the prior quarter
- In 2014, M&A lending had its best year since the credit crunch as issuers tapped the market for \$254 billion of loans to fund acquisitions and LBOs, including \$200 billion of institutional tranches
- Covenant-lite share of overall institutional new-issue volume remained strong at 57%, though this represents a 1.5-year low

...Strong year for second-lien volume despite weak finish...

- Demand for junior-claim loans was hit hard during Q4 due to outflows from loan and high-yield funds
- With first-lien loan prices cheaper, CLOs were less inclined to reach for second-lien paper
- Second-lien clearing yields surged to a two-year high of 10.83% in December, from 10.32% at the end of November and a range of 8.87% – 10.31% earlier in the year
- Second-lien volume declined to \$4.2 billion during Q4, the lowest quarterly total since Q3 2012
- Nonetheless, 2014 was a record year for second-lien issuance, at \$36.6 billion, versus \$29.2 billion in 2013 and a prior high of \$29.6 billion from 2007

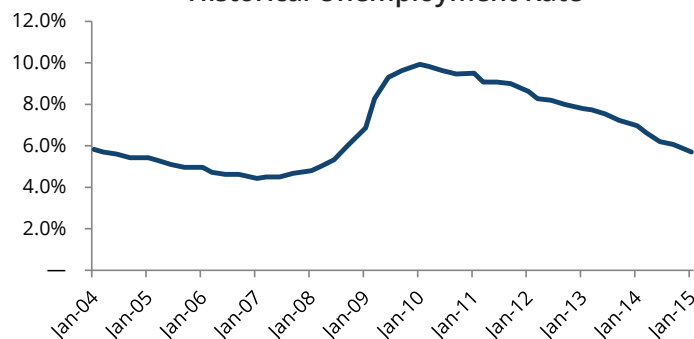
...Modest decline in leveraged loan volume expected in 2015 in light of more restrictive regulatory environment

- Arrangers expect Q1 2015 to resemble Q4 2014, with modest volume skewed toward M&A-driven loans
- In the final 2014 reading, the pipeline stood at \$33.0 billion, of which \$31.4 billion was M&A-related
- The biggest uncertainty hanging over the market is regulation
 - Underwriters are feeling pressure from the OCC and Fed
- More restrictive regulations are expected to benefit issuers as underwriters will likely be competing fiercely for those loans expected to easily pass regulatory muster
- Most strategists think CLO issuance will decline in 2015 from 2014's record pace due to concerns about regulation and rates, though it is likely to remain robust

Macroeconomic Resurgence Continues

- Key macroeconomic indicators improving
 - Unemployment rate ended 2014 at 5.6%
 - GDP growth accelerating
 - Heightened consumer confidence
- Quantitative easing may be halted in the near-term in response to strengthening the economy
- Improving macroeconomic environment resulting in relatively benign conditions for borrowers

Historical Unemployment Rate



Sharp Decline in Oil Prices Having Impact on Global Markets

- Crude oil prices have dropped to under \$50 / barrel from over \$100 / barrel a year ago
- The current oil price decline is being driven less by a decline in demand than by an increase in supply
- Russia and Venezuela, two of the largest exporters of oil, are negatively impacted financially by the sharp decline in oil prices
- Investors are shunning speculative-grade debt and pulled \$1.05 billion from U.S. mutual and ETFs that buy leveraged loans in the week ended Dec. 10, an unprecedented 22nd straight week of withdrawals
- Declining oil price is putting downward pressure on HY bond market as shale gas and oil companies represent a healthy percentage of new issuance in recent years

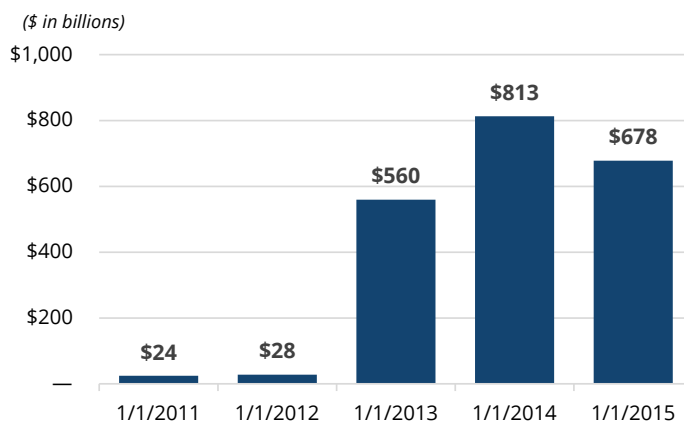
Crude Oil Historical Price Chart



Assets Under Management of BDCs Increased Rapidly Since Recession

- The category of publicly-traded BDCs is growing rapidly as total assets under management of 49 publicly-traded BDCs has surged from \$24 billion in 2011 to \$678 billion today
- BDCs typically are closed-end investment companies that invest primarily in the debt and equity of small public and private companies
 - Yields can be attractive because of the BDCs' exposure to high credit risks
 - Debt is typically senior secured and set to float with interest rate benchmarks
- As the assets under management of BDCs is increasing, investors are beginning to track BDC trends more closely
 - Wilshire Associates recently launched an index tracking debt-focused BDCs
 - According to Wilshire's research, BDCs are currently averaging yields of more than 10%

Historical Assets Under Management of 49 Publicly Traded BDCs



Key Market Indicators

Indices	2014				Dec 2013
	Dec	Nov	Oct	Sep	
10-Year Treasury	2.17%	2.18%	2.35%	2.52%	3.04%
DJIA	17,823	17,828	17,391	17,043	16,577
S&P 500	2,059	2,068	2,018	1,972	1,848
NASDAQ	4,736	4,792	4,631	4,493	4,177
iShares HY Corporate Bond Fund	89.5	91.5	92.4	91.0	92.6
iShares Barclays Aggregate Bond Index	110.0	110.8	109.9	109.0	106.0
Total Return*					
10-Year Treasury	0.79%	1.84%	0.66%	(1.24%)	(1.88%)
DJIA	0.40%	2.86%	3.60%	(0.23%)	3.19%
S&P 500	0.42%	2.69%	3.81%	(1.40%)	2.75%
NASDAQ	0.26%	3.70%	4.76%	(1.82%)	2.97%
iShares HY Corporate Bond Fund	0.20%	(1.08%)	0.95%	(1.98%)	0.41%
iShares Barclays Aggregate Bond Index	0.37%	0.66%	0.50%	(0.61%)	(0.56%)
Commodities					
Crude Oil	\$53.27	\$66.15	\$80.54	\$46.47	\$98.42
Natural Gas	\$2.90	\$4.09	\$3.96	\$4.12	\$4.19
Gold	\$1,185	\$1,176	\$1,172	\$1,212	\$1,202
Currencies					
EUR in USD	\$1.21	\$1.24	\$1.25	\$1.26	\$1.38
USD in JPY	119.81	118.74	112.09	109.70	105.15
USD in CNY	6.20	6.14	6.11	6.14	6.05
GBP in USD	\$1.56	\$1.56	\$1.60	\$1.62	\$1.66

*Includes dividend / interest payments, when applicable

Average New-Issue Pricing - B+/B	2014				Dec 2013
	Dec	Nov	Oct	Sep	
Total Spread	581.2	579.4	577.0	520.6	452.0
YTM	6.05%	6.04%	5.96%	5.43%	4.85%

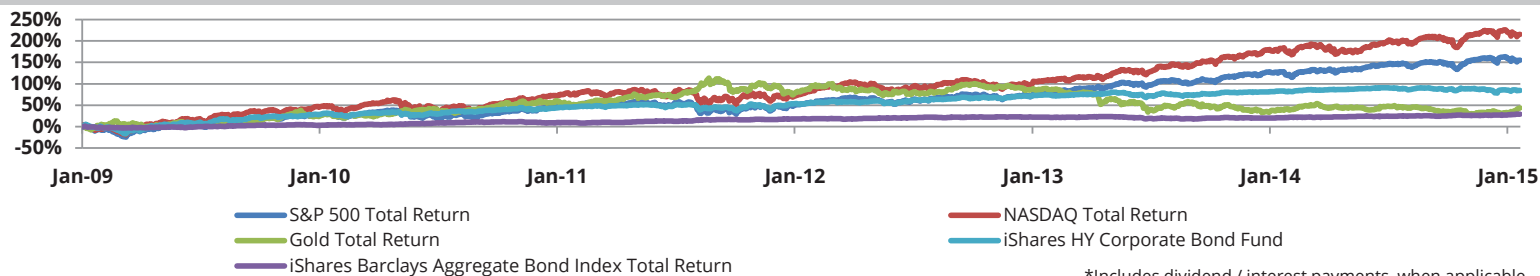
New-Issue Deal Flow					
Monthly Volume (\$ in billions)	15.3	29.8	21.5	62.8	34.6
Monthly Number of Loans	35	60	55	92	63
YTD Volume (\$ in billions)	527.5	512.2	482.4	460.9	606.7
YTD Number of Loans	901	866	806	751	948

Lagging 12-Month Default Rates					
By Number	0.62%	0.75%	0.64%	0.64%	1.61%
By Principal Amount	3.24%	3.33%	3.28%	3.34%	2.11%

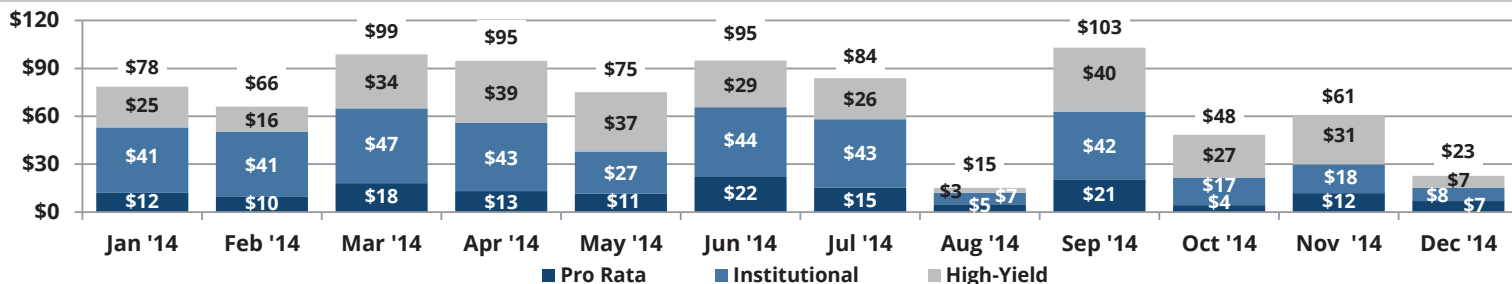
Average Credit Statistics on Highly Leveraged Loans					
Lev Thru First-Lien Debt	3.8x	4.3x	4.0x	4.3x	3.3x
Lev Thru Senior Debt	4.9x	5.2x	5.1x	5.1x	4.7x
Total Debt / EBITDA	5.1x	5.2x	5.1x	5.2x	4.8x

Institutional First-Lien Statistics					
% of Tranches with Floors	100.0%	100.0%	100.0%	88.1%	100.0%
Labor Floor Level (bps)	101	100	98	98	100
% Flex Down	26%	30%	19%	17%	31%
% Flex Up	30%	25%	33%	29%	11%

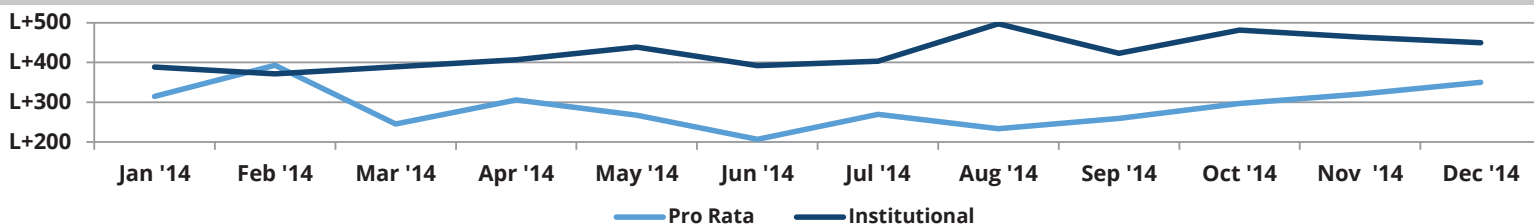
Stock Market Performance*



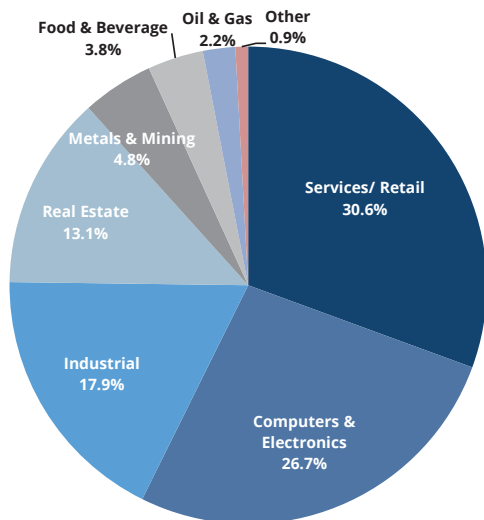
U.S. Leveraged Finance Volume - Loans and Bonds (\$ in billions)



Leveraged Loan New-Issue First-Lien Spreads

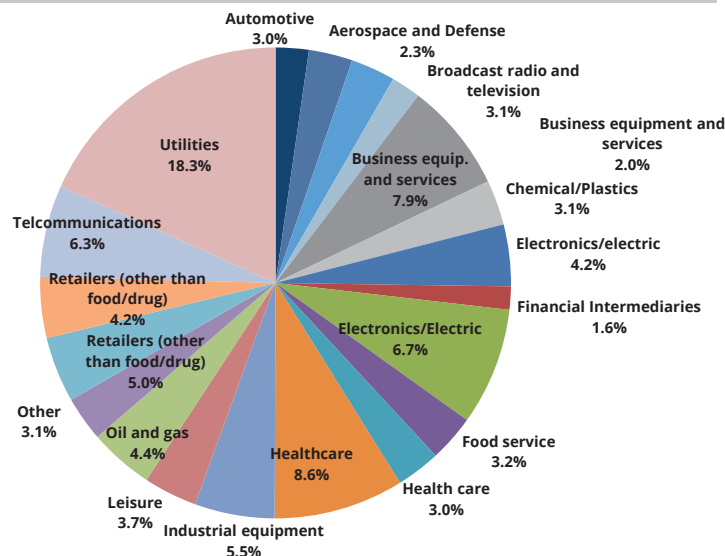


New-Issue Leveraged Loan Volume by Industry – 30 Days Ended 1/15/2015



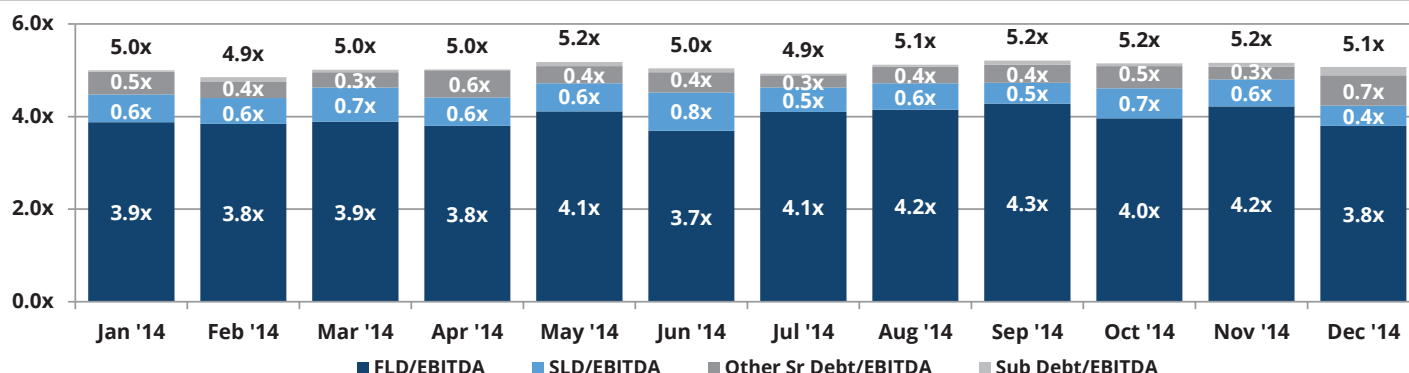
Total New-Issue Volume: \$16.0 billion (30 Days Ended 1/15/2015)

Par Amount of Outstanding Leveraged Loans by Industry – 1/9/2015



Total Par Amount of Outstanding Loans: \$834.0 billion (1/9/2015)

Average Debt Multiples of Highly Leveraged Loans



Sources: S&P LCD, TM Capital

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