Refinitiv LPC's
US Large Corporate
Buyside & Sellside Survey Results
4Q20 Review/1Q21 Preview

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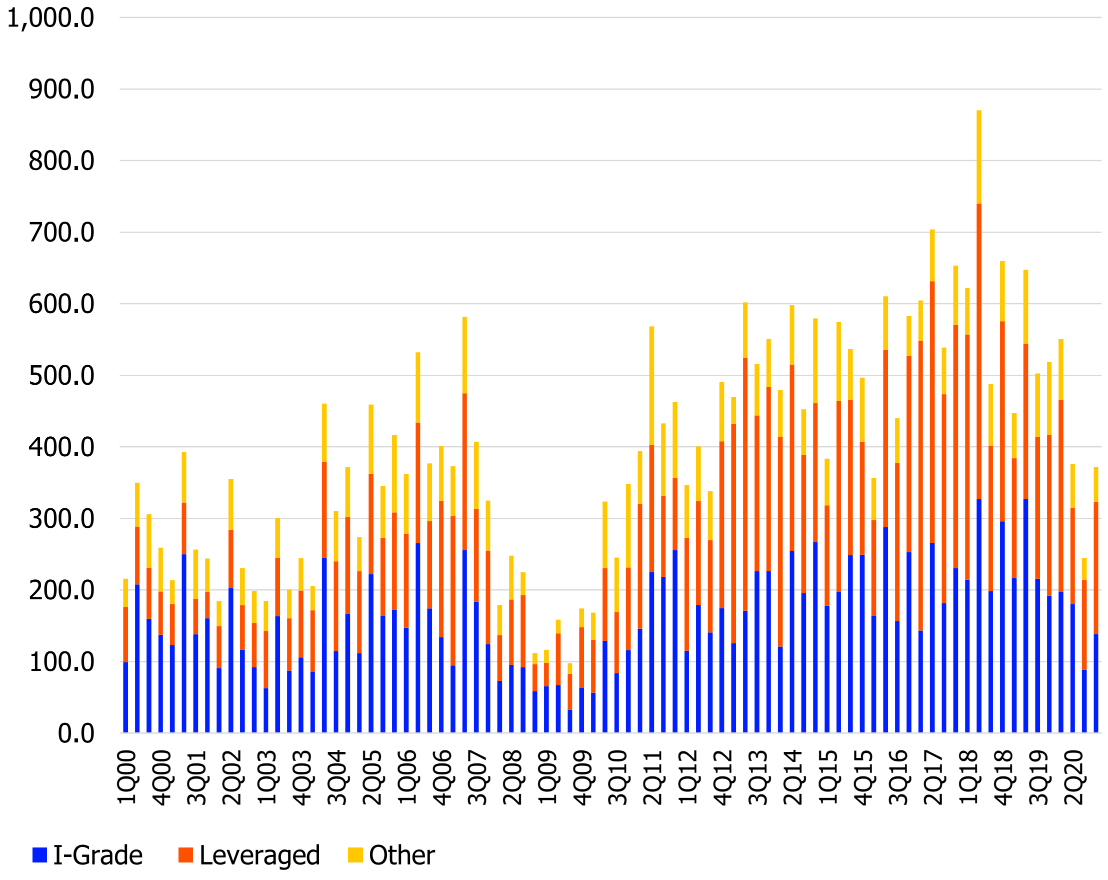
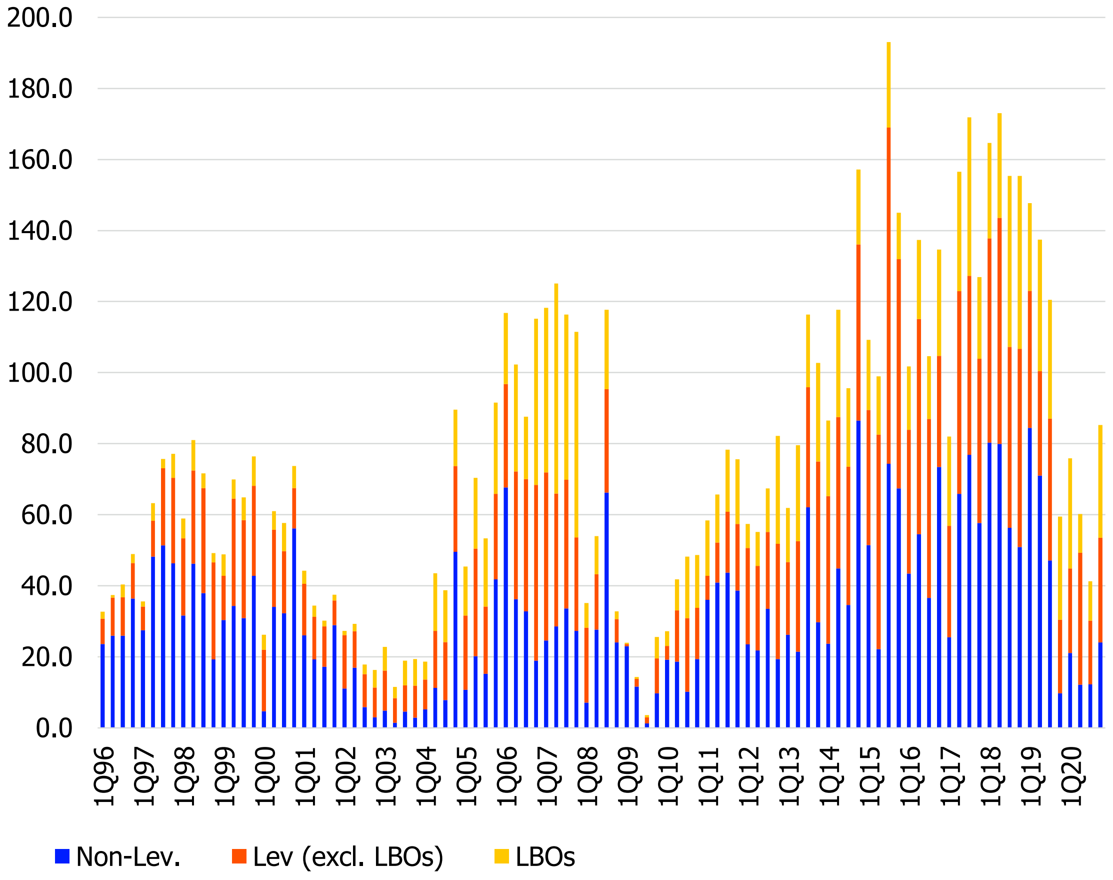
Lending picked up in 4Q reaching $372B, a 52% jump from 3Q but down 28% vs. 4Q19

"We have been all systems go the entire pandemic." – *US Regional Bank Lender*

US syndicated loan issuance ($B)



US M&A loan issuance ($B)



Source: Refinitiv LPC

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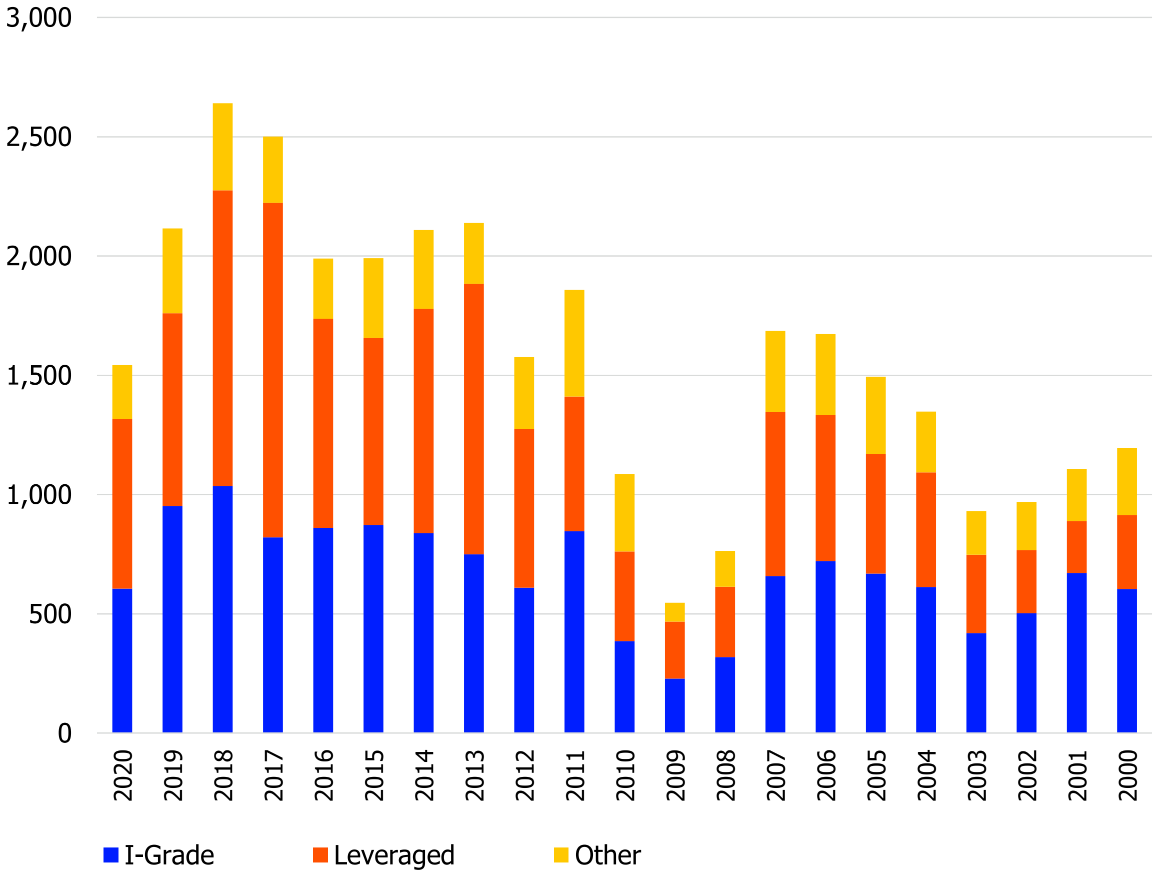
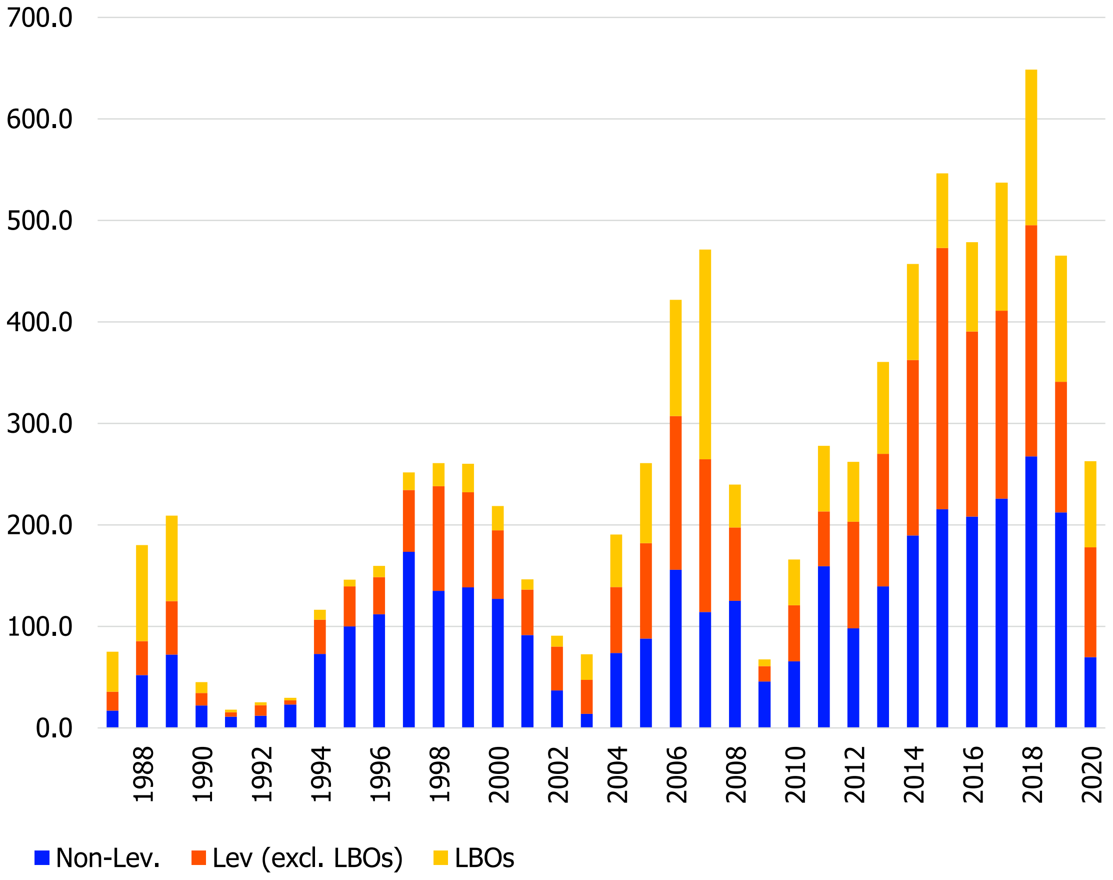
Overall US Syndicated lending activity was US$1.5Trn in 2020, a ten-year low

"Covid came out of nowhere and impacted our market so dramatically and so quickly. The outcome post-Covid has been as surprising. Loan volumes are down materially year over year while the bond market is up dramatically." – *US Arranger*

US syndicated loan issuance ($B)



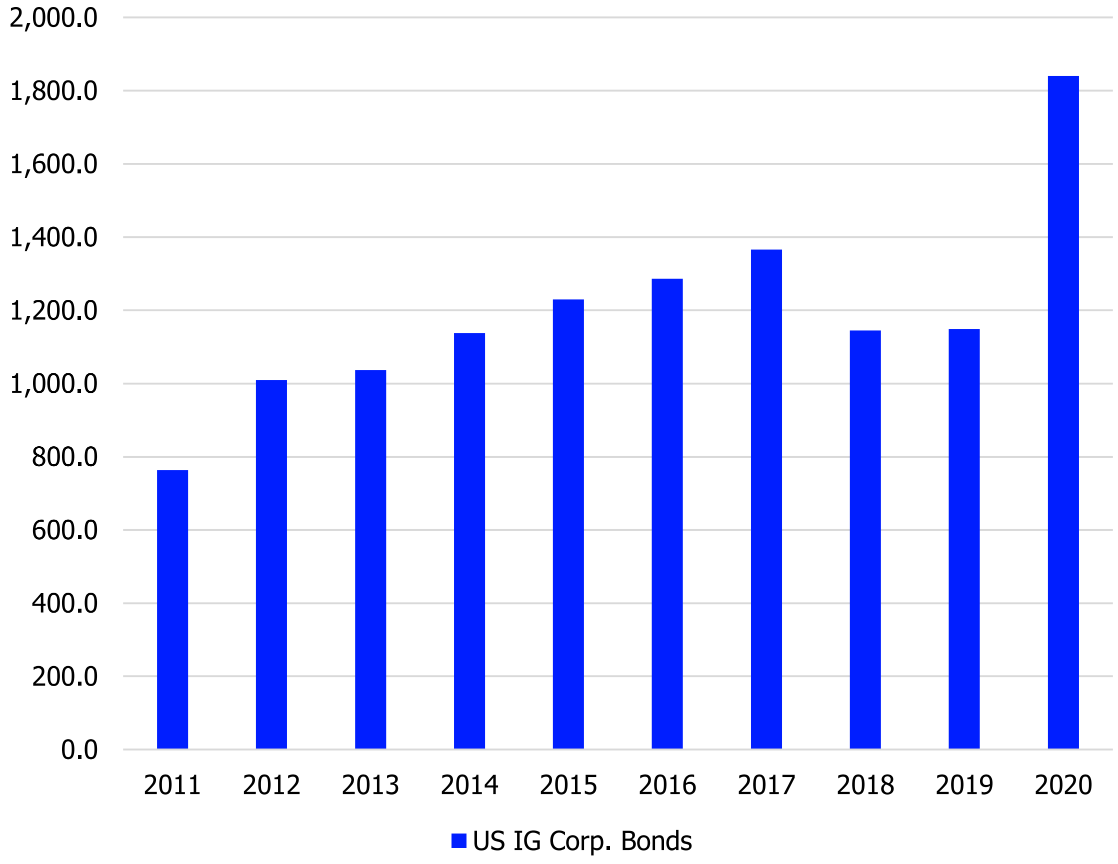
US M&A loan issuance ($B)

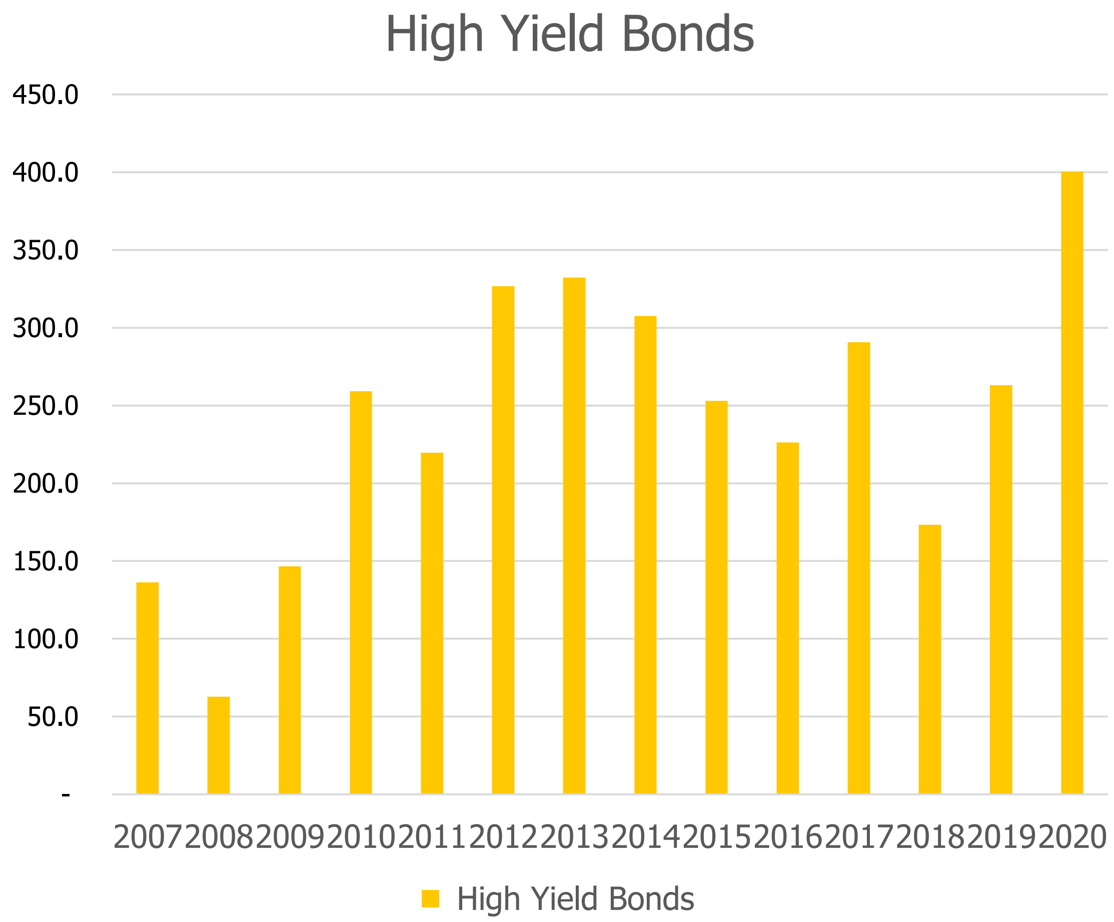


Source: Refinitiv LPC

IG bond issuance hit record of $1.8Trn in 2020, up from $1.1Trn in 2019, beating prior record of $1.4Trn in 2017; HY bond issuance hit $400B in 2020, highest volume ever, up from $263B in 2019, beating prior record of $332B in 2013

US IG corp. bond issuance ($B)





Source: Refinitiv

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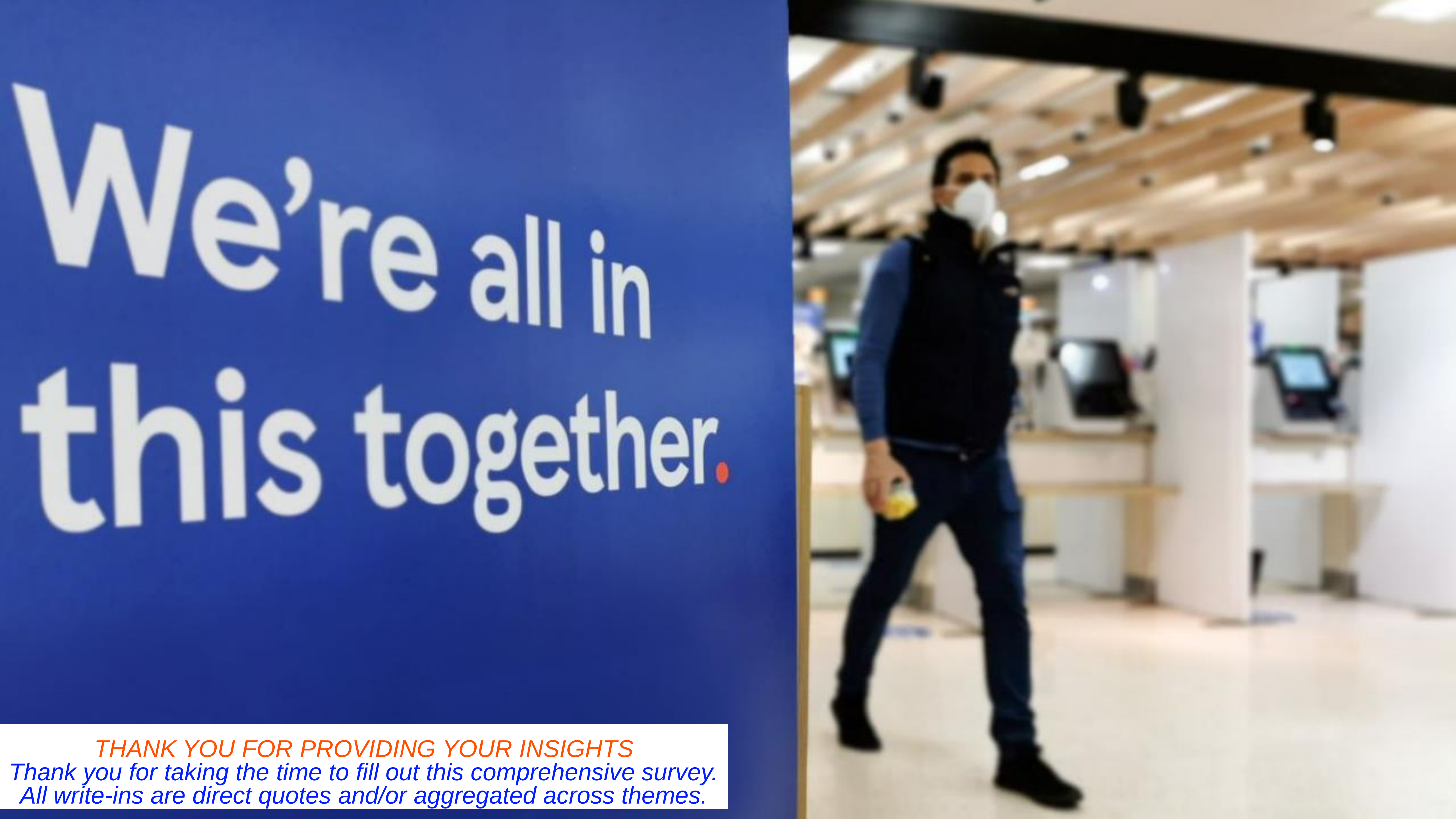


THANK YOU FOR PROVIDING YOUR INSIGHTS

Thank you for taking the time to fill out this comprehensive survey.
All write-ins are direct quotes and/or aggregated across themes.

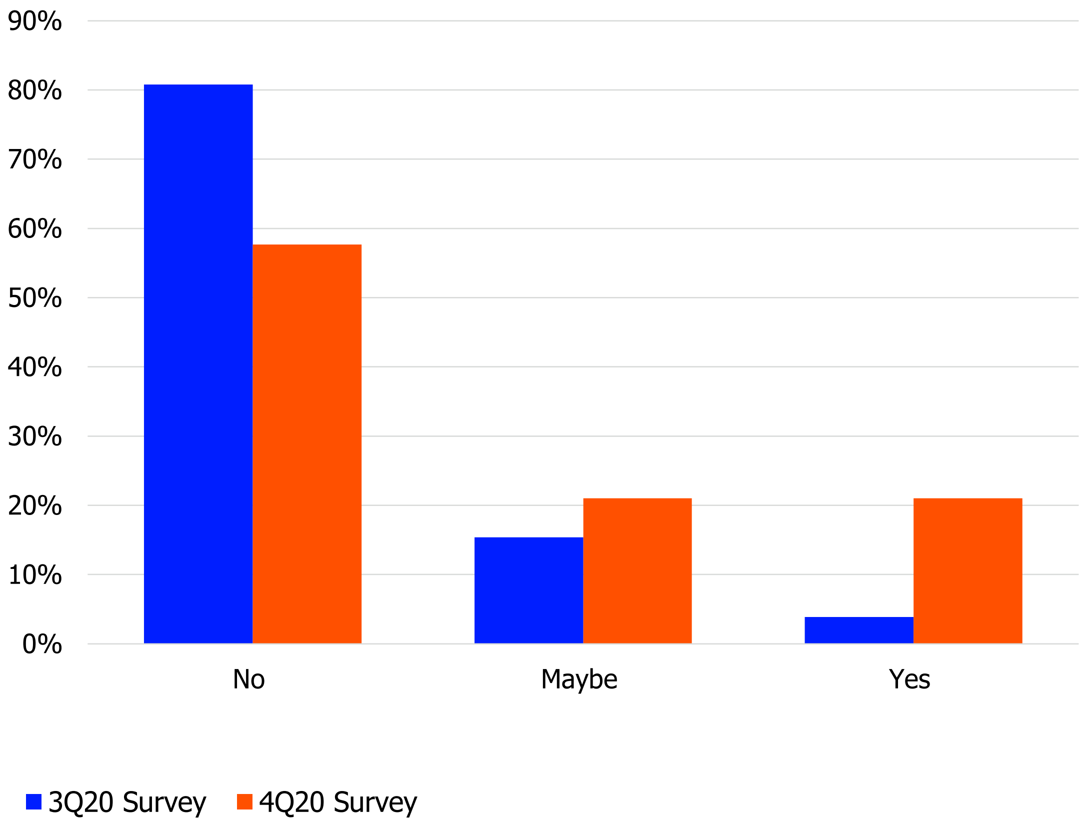
Are we out of the woods yet?

"Yes, some more (credit) pain to go, but not nearly what was feared. Looks like the vaccine, liquidity, and government intervention largely worked." – *Investor* ; "Not quite: getting out of the woods is likely to be driven by the COVID vaccine rollout. While we may see the edge of the forest, our view is some event risk remains." – *US Regional Lender*

Are we out of the woods yet?

- Almost…Seeing some light, but not totally out.
  - Close - we know what problems could return. Can our borrowers adjust to them. Evolve or suffer consequences.
  - Close, but we will need to see that the vaccine is helping numbers.
- Yes…the Democrats and Fed are going to continue to provide stimulus to the economy.
  - For the most part. Some sectors will lag a bit in their recovery due to the recent spike and shutdowns but overall impact will start to mitigate.
  - Only if we are properly expecting vaccine distribution and efficacy
- No…but the market is acting like it is; doesn't care; is irrationally exuberant!
  - Default rates are still being predicted to climb. COVID impact to many businesses still working their way through the new normal
  - There is still fragility and questions around implications of the second lockdown wave on businesses with positive but weakened cash flows
  - We can't keep printing money to cover up the economic fallout from Covid
  - Vaccine has to be shown to work

Are we out of the woods yet? (% of respondents)



Source: Refinitiv LPC's Quarterly Buyside & Sellside Survey

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From one set of worries to another…What is the next shoe to drop?

"I don't expect another shoe to drop; Nothing that would have a lasting impact (i.e. lack of a stimulus bill). We are pretty bullish on what Q1 will look like; Seeing lots of positive flows into the asset class; projecting solid CLO creation in 2021 – enough to represent good year. M&A pipeline has not been all that robust. Feels like we are setting ourselves for opportunistic refinancing activity." – *US Leveraged Underwriter*

What is the next shoe to drop?

Responses from 3Q20 Pre-Election Survey

- Election volatility
- Another liquidity rush; increased defaults
- Fall COVID surge, more significant seasonal impact on restaurant/retail business segments
- Commercial real estate will become a real problem; the can has been kicked down the road but delinquencies and evictions will rise
  - Urban real estate…mortgage market...credit card debt…
- Continued pressure on consumer spending without federal stimulus, especially as corporate layoffs could increase
- Sustainability of colleges/higher education during COVID (millions of dollars to be lost over the coming months)
  - Private colleges/universities (liberal arts college and research universities remain resilient; less selective schools fold, with smaller schools and those which lack a strong brand, large endowment and/or desirable location being the first to go)?

What is the next shoe to drop?

Responses to Current Survey

- With the Fed having fewer tools to use in managing inflation risk, will they be able to lead an economic recovery given the economic and sovereignty dynamics being experienced abroad and the shifting political tides at home?
- Post -election transition to new power
- What kinds of post-election & post-pandemic policy/ regulatory changes and impacts? Will M&A activity be affected?
- Lingering portfolio issues that don't clear up; worried about defaults and credit losses; second round of amendments for stressed borrowers
- Uptick in Covid cases or a strain that can't be handled/virus mutation; Covid vaccine rollout
- Uncertain demand environment amidst Covid resurgence
- Longer term impacts/economic changes due to Covid: what was temporary vs. here to stay"? (especially in sectors like HC and consumer or the reality of slow recovery in travel/leisure; Commercial Real Estate restructurings, as companies need less office space)
- Eventual Fed reversal; Unemployment numbers will creep up
- Potential Brexit exit snafus

Source: Refinitiv LPC's Quarterly Buyside & Sellside Survey

What were the 3 biggest surprises/impacts to your business in 4Q?

"We are surprised by the rapid and aggressive ways in which lenders have actively returned to the market." – *Leveraged Underwriter*
"Lifelines for damaged companies." – *CLO Manager*

Write-in responses aggregated by themes

- Abundance of capital flowing in to support companies irrespective of sectors, both IG and NIG
  - Airlines getting government and market support allowing the bank debt to remain well bid
  - Casino/Service companies despite Covid impact, making strong recoveries
  - The ability for Covid-impacted businesses to have continued access to liquidity in the midst of a second wave of infections
- Improving rating outlook; Portfolio performance continues to be strong (and rising with secondary levels)
- Non-accrual asset trends have not been as severe as expected across all debt asset classes
- Varying degrees of investor base views of negotiating work out next steps; Activism among bigger holders
- Documentation erosion continues; Aggressive terms; Full leverage; Second lien momentum among the broad market

Write-in responses aggregated by themes

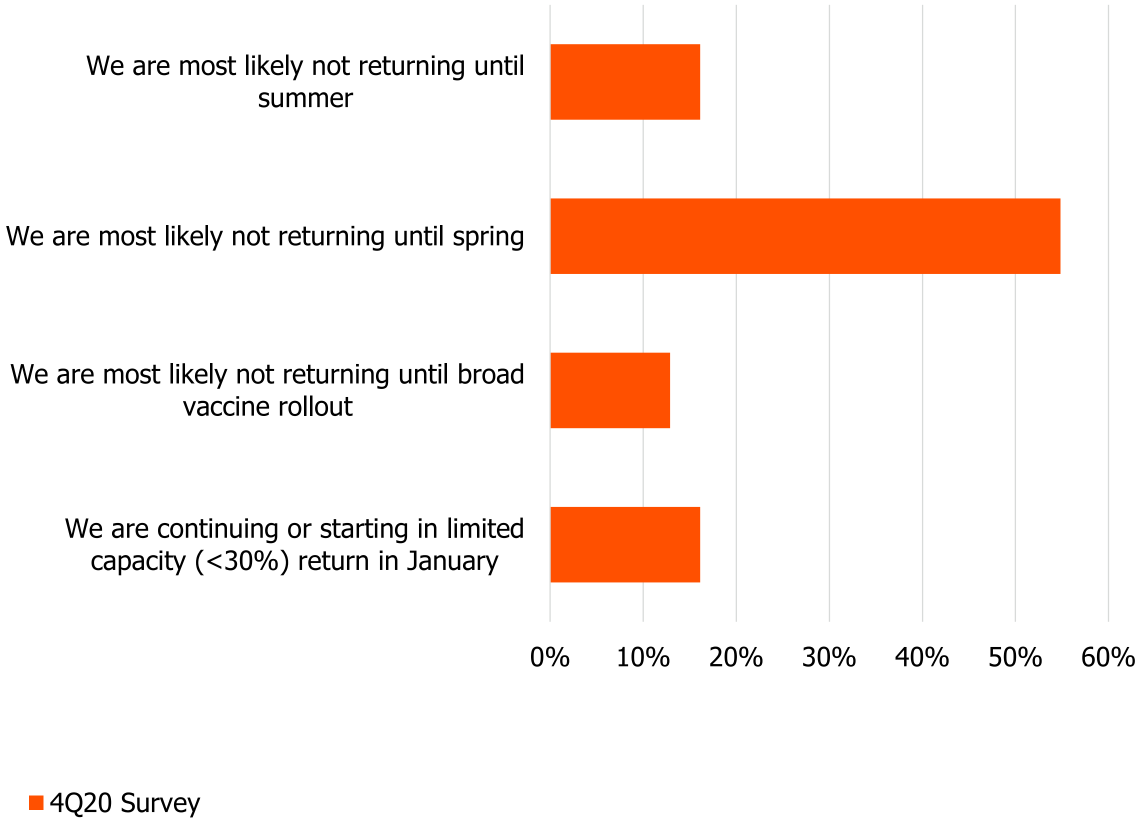
- Continued Success of FED/ECB
- Market relative strength post election in spite of additional impact to the economy from spike and shutdowns
- Voracious appetite of the market; Inflows; Resiliency of CLO issuance: it hit original 2020 expectations; Tightening of CLO spreads/; New CLO formation; new CLO equity investors
- Continued yield compression in a yield-driven market
- The relative underperformance of BB credit as the markets recovered; The massive rally in triple-C credit
- Escalating enterprise valuation multiples; Lack of M&A deals needed financing
- Pricing recovery for high rated borrowers
- Declining or no LIBOR floors given the funding costs of lenders
- ESG adoption putting pressure on the coal sector, making it uninvestable
- Intense competition for deals; Direct Lenders coming down to even smaller non-sponsor sector

Source: Refinitiv LPC's Quarterly Buyside & Sellside Survey

When are we going back to work?

"It has been proven we can work remotely. Hats off to IT departments and overall tech that's occurred in last decade that has allowed all of this. I don't think anybody would have said it would be as seamless." – *US Lender*

Are plans being announced for segmented re-opening of your office? (% of respondents)



"I have different view: I prefer 3 days in the office/2 days at home. So I can get up and out and get a change of pace.

There's a lot of value to all being together in the same room:

- just hearing the banter and the commentary that occurs when you're with people all doing the same thing is valuable
- traders coming over or walking down to the trading desk talking to sales
- hearing your colleague in the seat next to you trying to get a deal done

There is real value even beyond psychological value of camaraderie; real value in being together.

If you're a senior guy, it's human nature…if I dial into a meeting and 4-5 of my colleagues are in a room sitting around a table, I really should have been in the office for this meeting.

I wouldn't call it peer pressure. It's pressure I place on myself to get in and it trickles down to associates. I've been going in a couple days a week because I'm not as efficient at home as in the office where the systems are better, latency not there, high efficiency printers don't run out of ink or breakdown. I have a headset, a board, all my tools, and it is a lot easier to get thigs done.

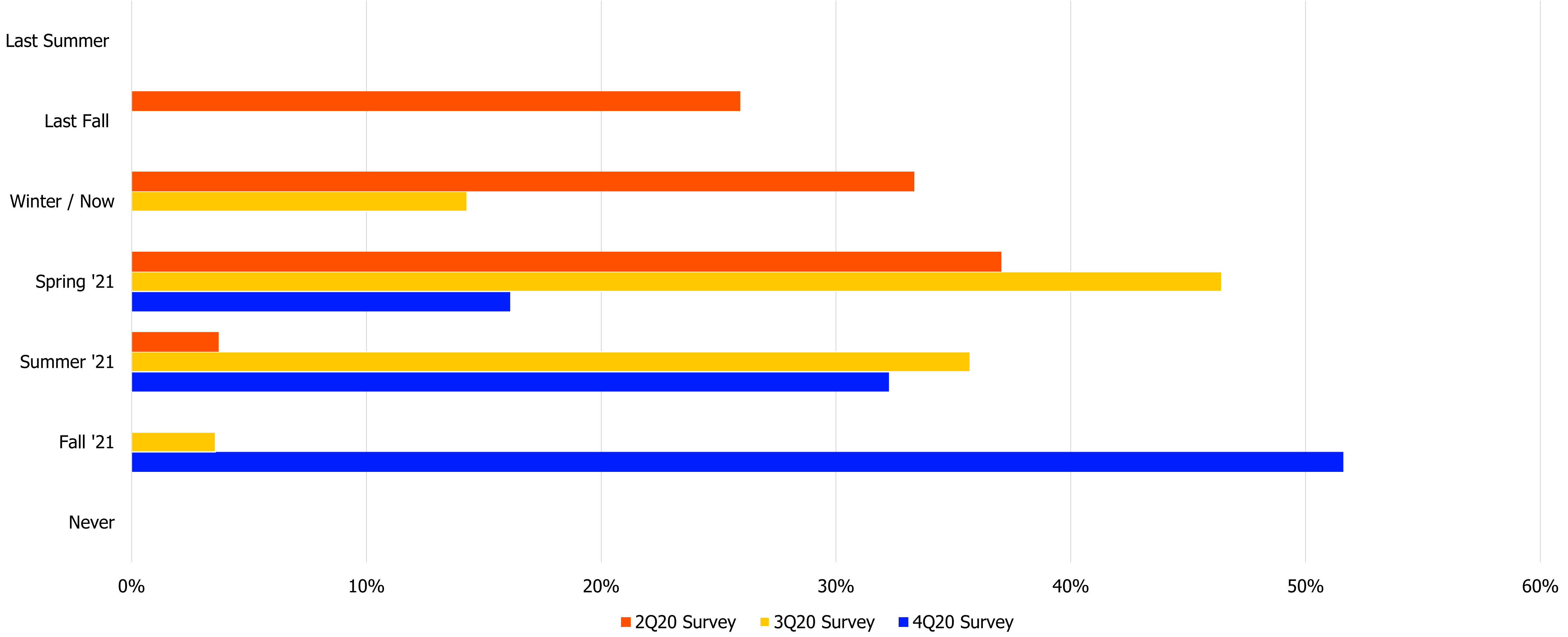
Once people start going back to the office, they will realize how much more efficient they can be. It won't be right away, it will take 6 months or a year; when everybody gets the ok to come in."

– US Leveraged Underwriter

Source: Refinitiv LPC's Quarterly Buyside & Sellside Survey

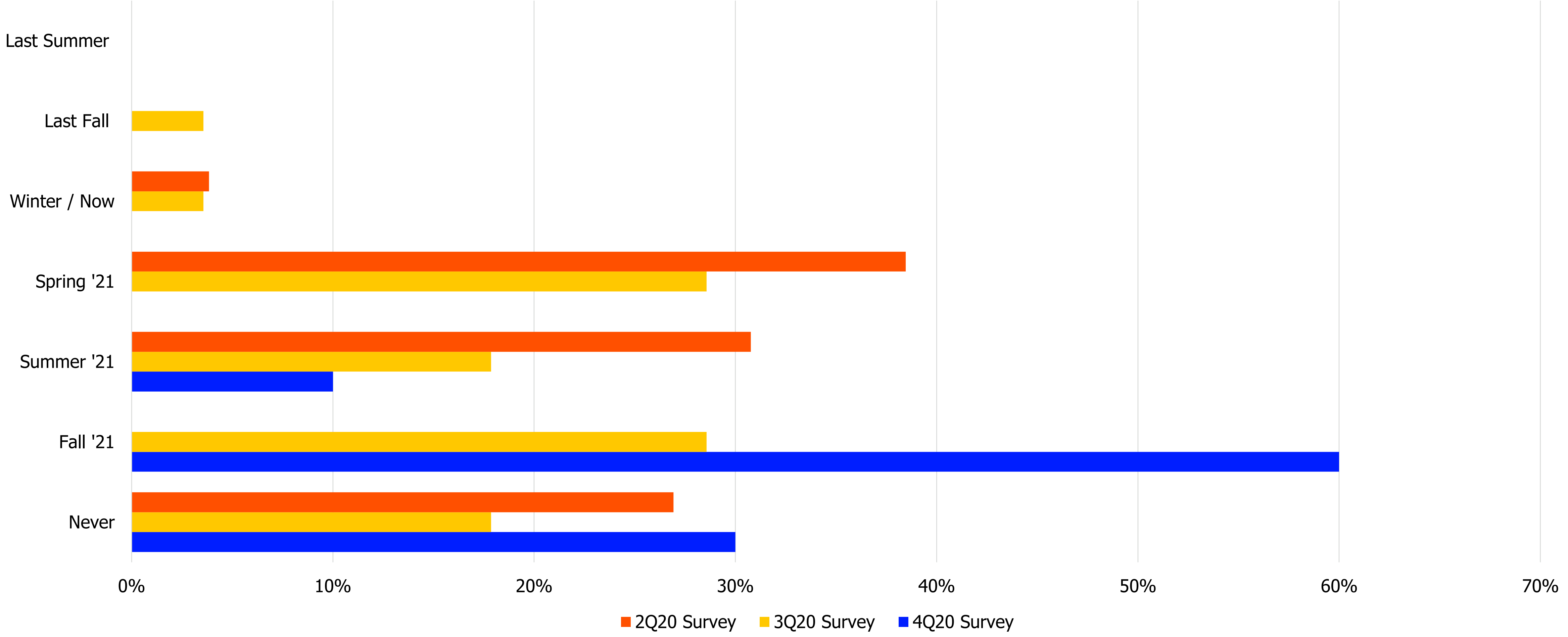
When do you expect to meet more than a handful of clients face to face?

“There will be clients who don’t want people to come and see them. Living in rural or suburban Denver, you may not want a whole team of NYC bankers coming into your offices. Does the client even want you there before we get into are you yourself comfortable going there? It will be everybody’s personal preference.” – *Leveraged Underwriter*



When do you expect to shake hands?

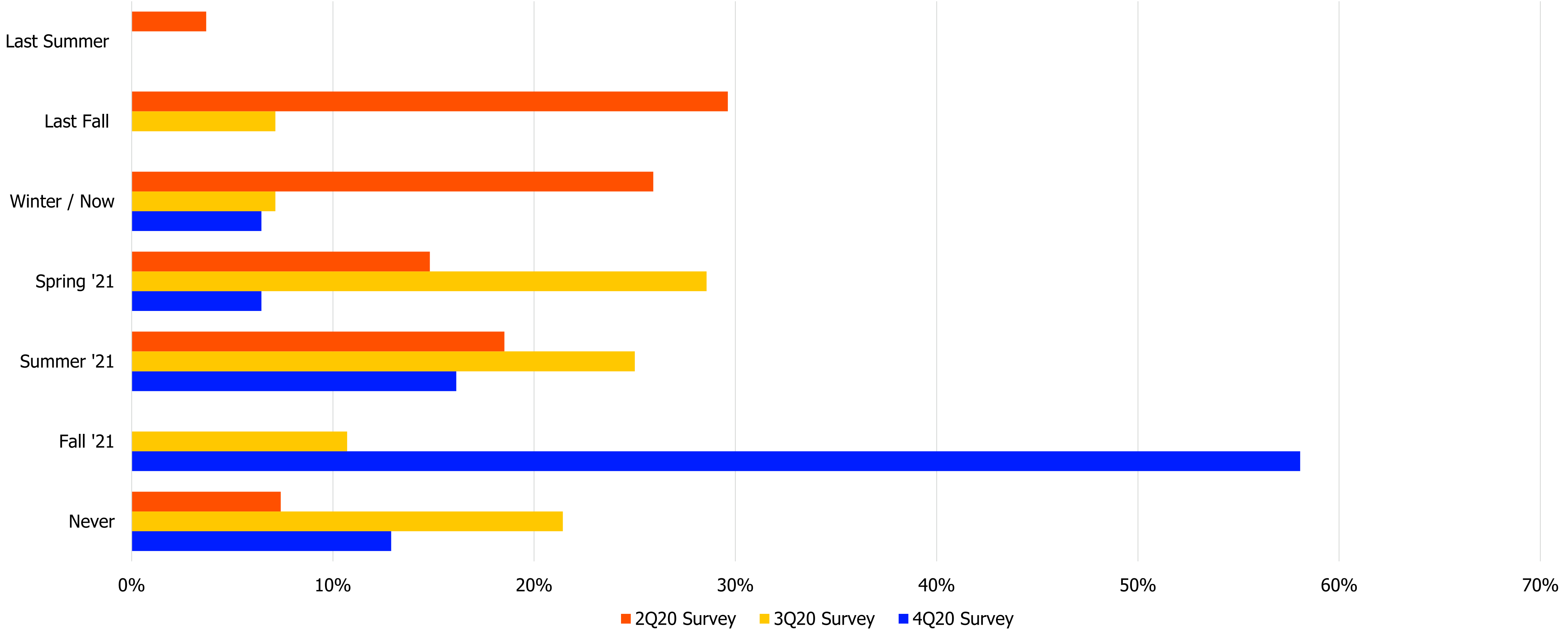
"For the PE folks, doing deals remotely is tough, if they are going to buy a company, they are betting on management, they will want to visit. You can look at consultants on a piece of paper, interview CFOs and auditors but that doesn't tell you what kind of person they are, how driven are they? That is one very important thing that was missing in 2020 and it could take a couple years (to get back to that)." – *Leveraged underwriter*



 Source: Refinitiv LPC's Quarterly Buyside & Sellside Survey

When do you expect to take mass transit to work regularly? (3 days/week or more)

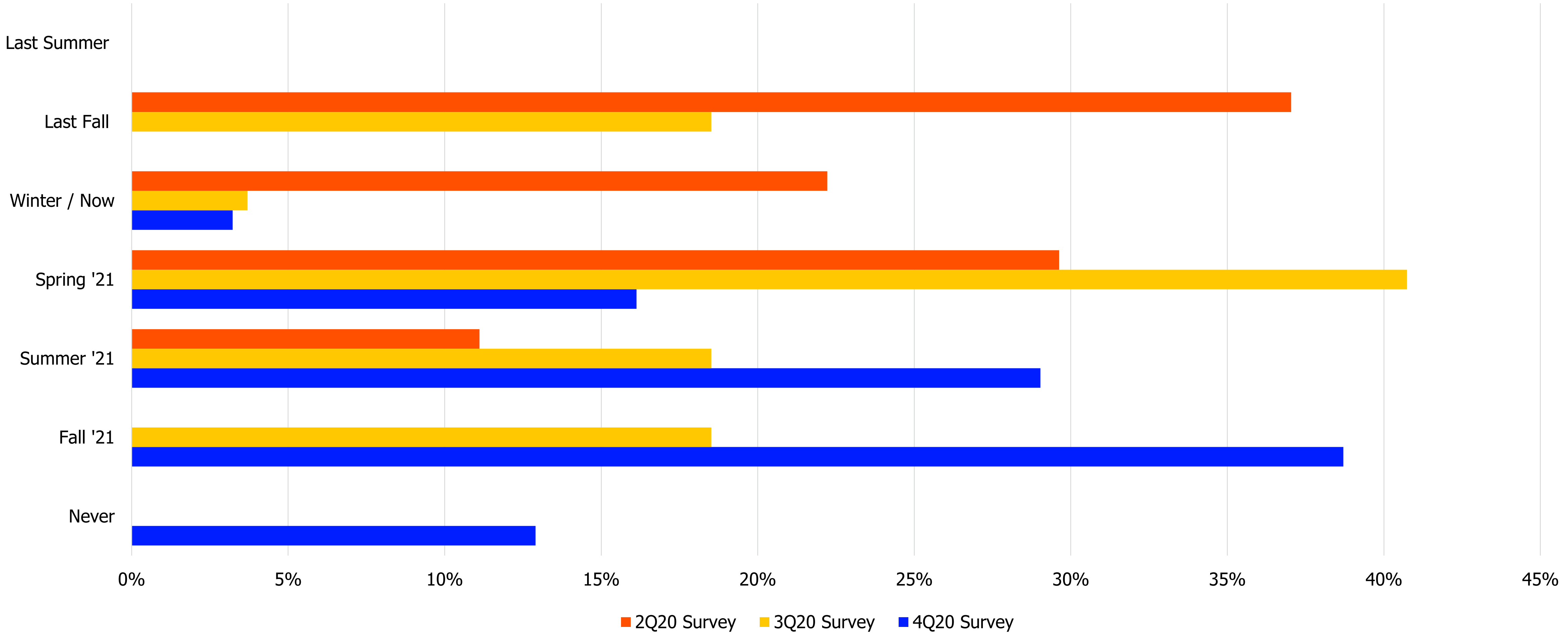
"Hopefully remote work is the way forward; there's so much flexibility; we have 15-20% that were invited to come back but not pressured; we are taking a tempered approach. It makes no sense to haul yourself on a commute to sit in front of a computer and do what you're doing now." – *US Lender*



 Source: Refinitiv LPC's Quarterly Buyside & Sellside Survey

When do you expect to work in a shared office?

"I am surprised by how slow we all are in terms of returning to the office." – *US Regional Lender*



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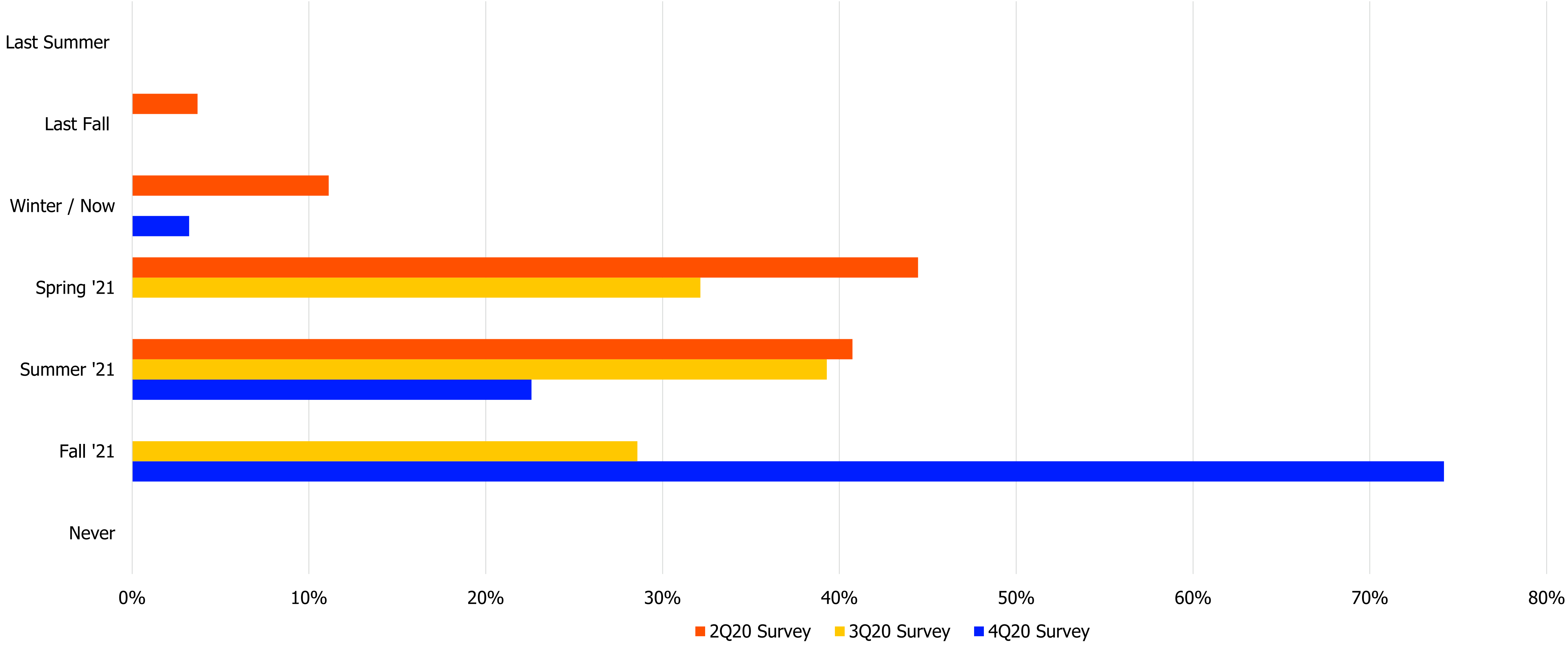
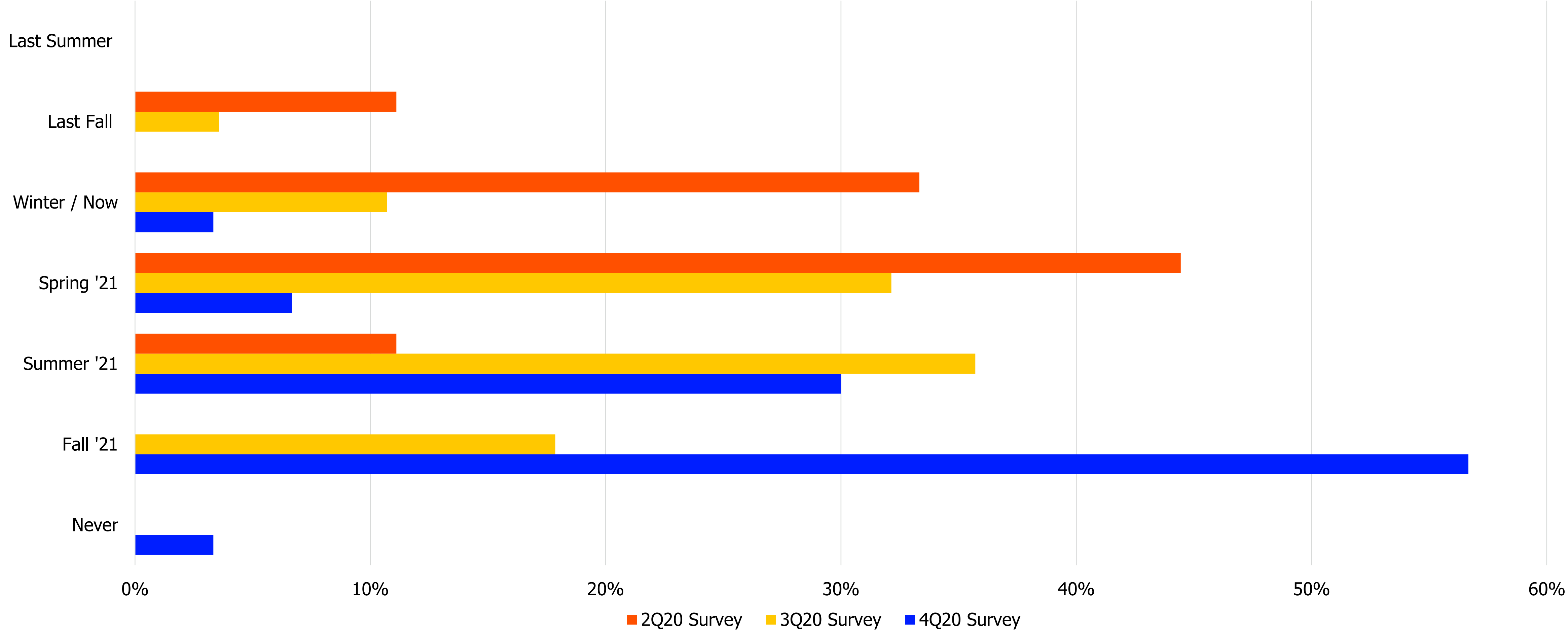
When do you expect to attend a local conference/networking event?

Over 70% of buyside and sellside respondents said earliest would be fall of this year.



When do you expect to get on a plane to do introductory face to face meeting for new business or due diligence?

"(Looking ahead) there is value in seeing people, shaking hands, and if you think getting on a plane will give you a marginal benefit to getting a piece of business, you're getting on a plane." – *US Leveraged Underwriter*



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Survey write-in: When you start work every day, what are your top 3 priorities?

"1. Team is healthy/happy; 2. Didn't miss a global headline; 3. No landmines in portfolios." – *Asset Manager*

Write-in responses aggregated across themes:

- Virus outbreaks in customer operating plants
- Watching for business shutdowns/temp closures
- Normal transactional requests/maintenance
- Managing risk in the portfolio
- Trying not to lose par
- Performance versus the benchmark
- Making a list so that I can push to get through it when there is a lull
- Make a list of people to contact who I have not been in contact with for a period of time
- Assessing market conditions and competitive landscape
- Winning new business
- Building CLO pipeline
- New issue

Write-in responses aggregated across themes:

- Connectivity of the team & connectivity with management
  - Motivating and engaging team
- Macro headlines & M&A announcements
- Secondary levels & primary calendar

1. Deals on my plate
2. Staying on top of rapidly evolving market conditions
3. Maintaining appropriate level of engagement with colleagues

1. Credit risk monitoring
2. International team collaboration
3. customer contacts / relationship management

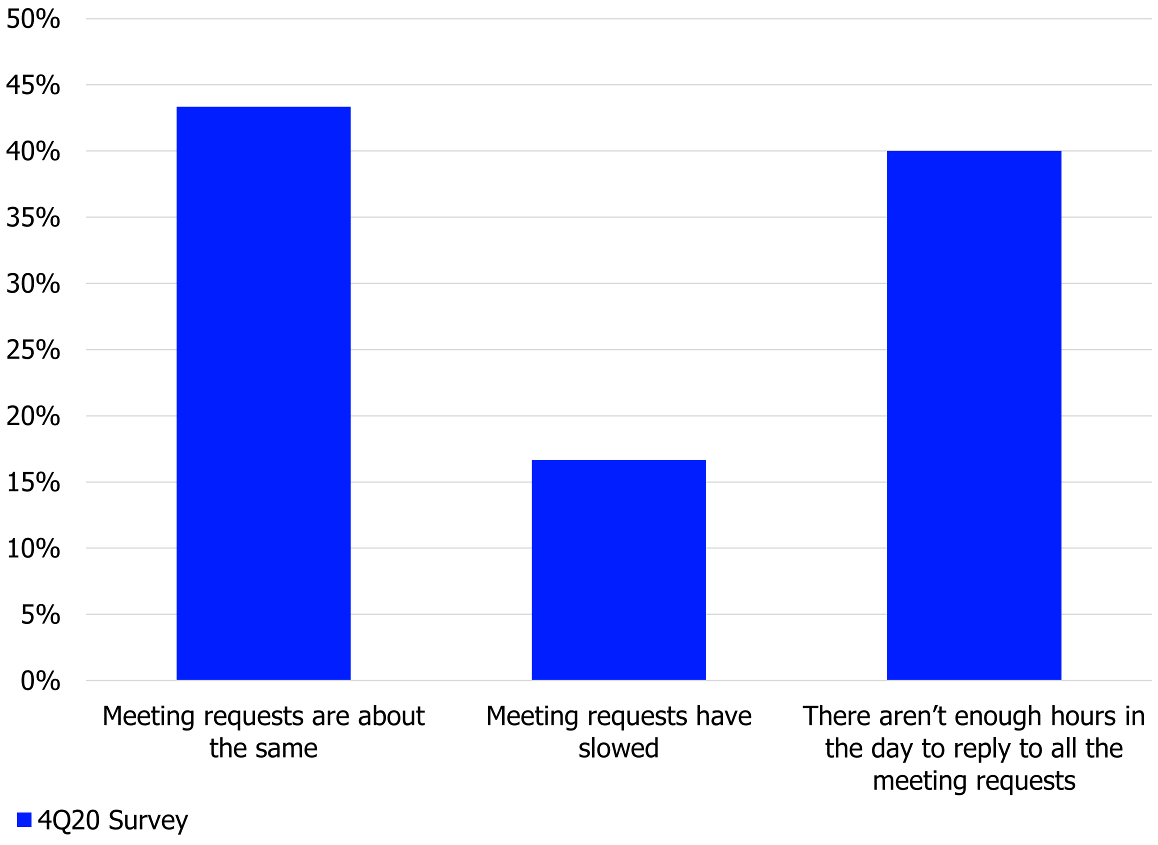
1. Clients
2. Existing positions
3. New opportunities

Source: Refinitiv LPC's Quarterly Buyside & Sellside Survey

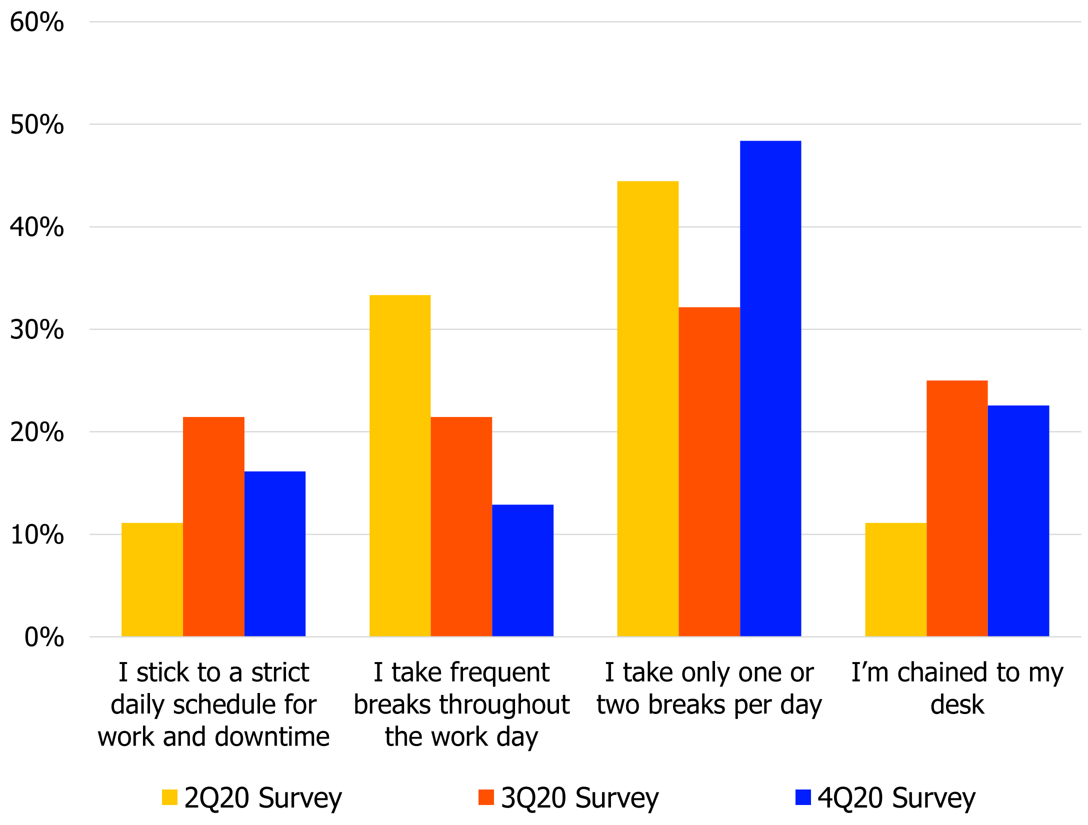
How is the pace of virtual meetings changing?

"In the months following Covid, we had deeper and more discussions because we were trying to all figure it out together. Some of these features of how we are doing business may stick - we will still go to conferences and there will still be dinners but the remote way of doing business won't go away entirely." – *US Arranger*

How has the pace of meetings and calls changed?



Do you have better control of your downtime? (% of respondents)

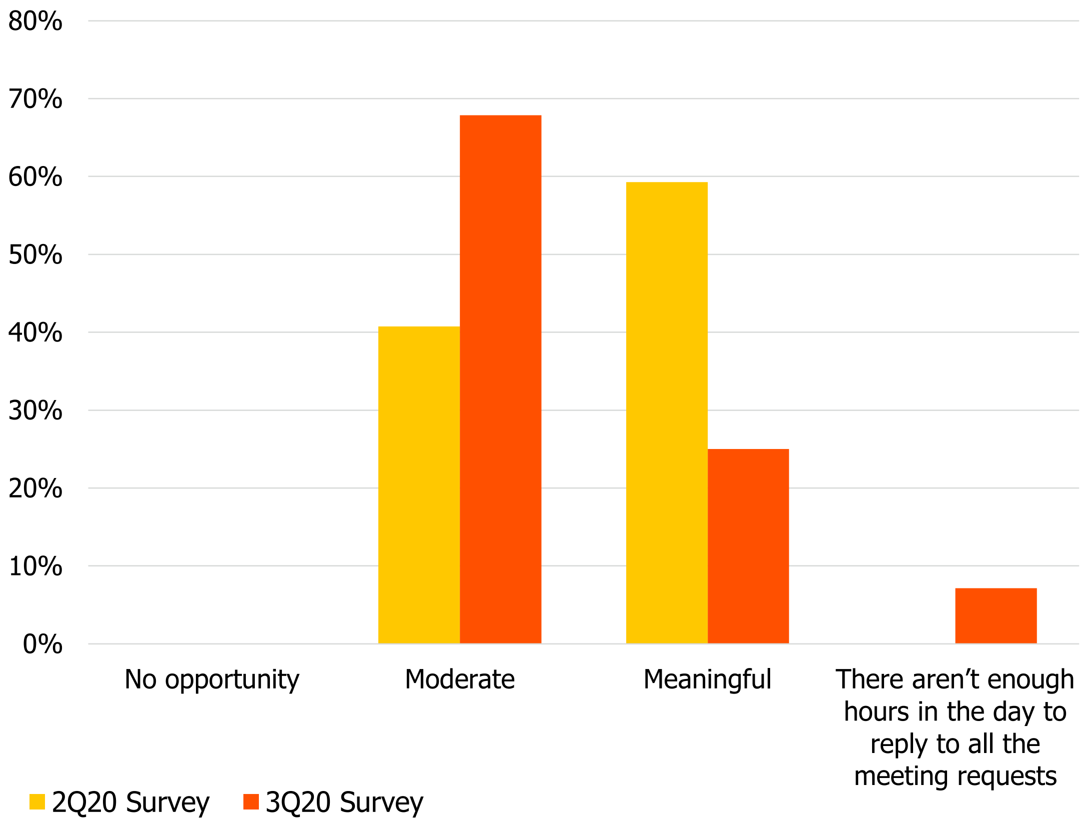


 Source: Refinitiv LPC's Quarterly Buyside & Sellside Survey

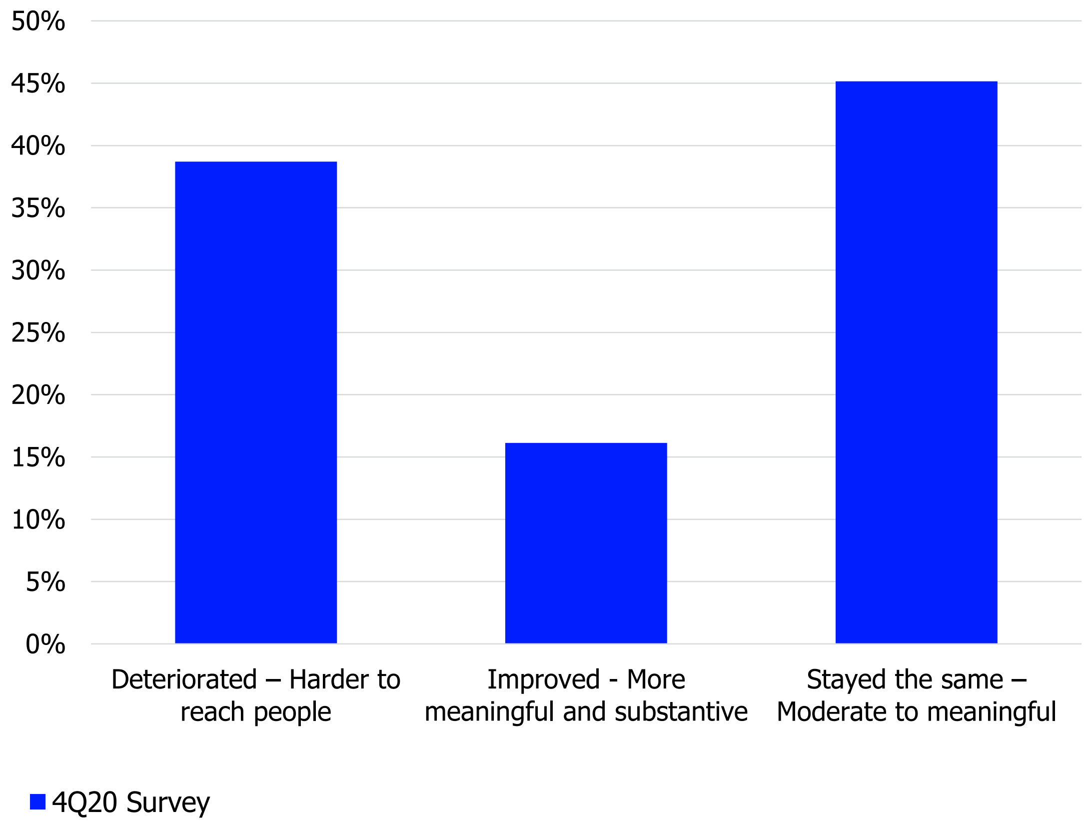
More than one third of respondents said virtual engagement deteriorated in 4Q

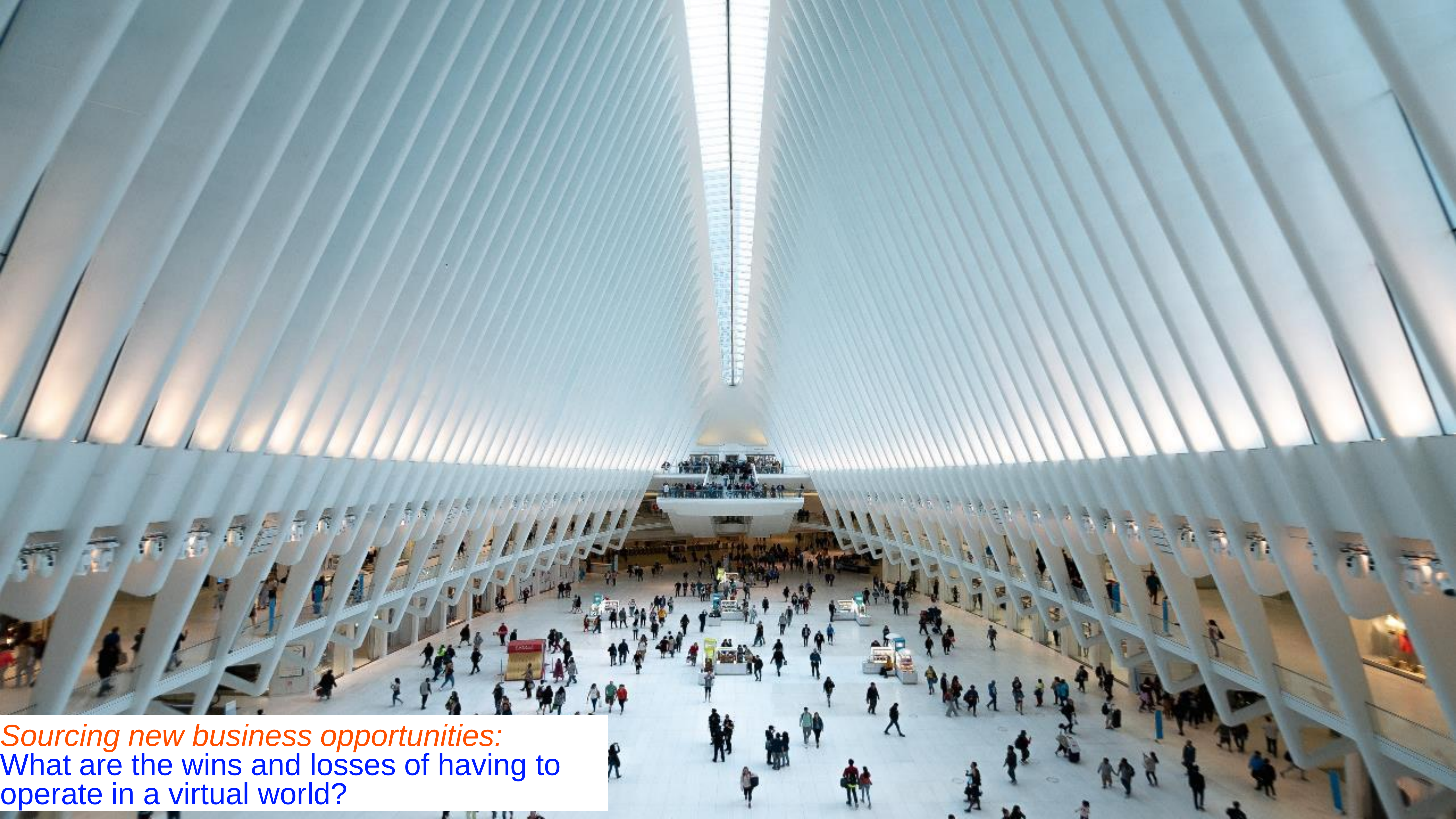
"As far as your existing client base, it may be better in virtual world, it becomes easier. Companies need financial advice and capital so we have become closer to our existing clients. New clients are tougher though." – *US Arranger*

Are you able to adequately engage with your clients/co-workers? (2Q & 3Q Surveys)



Current Survey: How has the quality of engagement with clients and co-workers changed?





Sourcing new business opportunities:
What are the wins and losses of having to operate in a virtual world?

What are the wins in trying to pitch/source new business virtually?

Write-in responses aggregated across themes:

- Zoom meetings still taking hold vs. phone calls
  - People still willing to take calls
  - Zoom meetings are getting more effective
- Easier to schedule meetings; nobody is "out of office"
- Able to meet w/ multiple clients in different geographies in a single day
- Clients are more available, accessible, more willing to meet virtually
  - Clients are open and more receptive to talk
  - More captive audience
  - More willingness to engage in discussion and re-examining of priorities
  - Meetings are expedited, more concise with less small talk

Write-in responses aggregated across themes:

- Everyone is on the same playing field (i.e. virtually)
- Providing capital solutions to companies
- Provides additional time for deals not having to drive or fly to clients and more free time due to lack of travel
- More zooms than would have had in person meetings – more opportunity to deepen relationships with investors
- Meeting time kept
- More inclusive; More team members can attend
- Cost savings
- Knowing your competition as new business generation is non-existent
  - Investors seem to prefer sticking with existing manager
  - Repeat clients come back to who they know and trust

Source: Refinitiv LPC's Quarterly Buyside & Sellside Survey

On the other hand, what are the losses in trying to pitch/source new business virtually?

Write-in responses aggregated across themes:

- Missing personal connections that are more easily and naturally developed and maintained in person
- Missing in-person meetings and conferences
- Harder to read the room
  - Harder to read all counter-parties' body language in sale process; Lack of face to face makes "closing" harder
  - Discussions are less interactive; Casual conversation is limited
  - No pre- or post-meeting debriefs with colleagues or socializing with clients
  - Loss of the informality is negatively impacting creativity; Instead, encouragement of a systematic grid process without discussion (structures, bank groups, etc.)
  - Much harder to determine level of engagement
  - Difficult to assess larger groups of management

Write-in responses aggregated across themes:

- Less fund creation away from CLOs
- Still hard for clients to onboard new managers
- Hard to develop completely new business
- Hard to get new relationships
- Harder to pitch new ideas to new people
- Multi-product pitches harder to do smoothly
- No connectivity issues in face-to-face meetings
- Less travel as a downside
- Work from home fatigue
- Harder for younger people who do not have the established network
- People are more easily distracted when on virtual calls

Source: Refinitiv LPC's Quarterly Buyside & Sellside Survey

As you head into 2021, what are your 5 biggest questions/concerns/worries/unknowns?

Write-in responses aggregated across themes:

- The market adjusting to SOFR
- Cyclical vs. long term trends affecting certain industries
  - Oil & Gas - Will Midstream M&A or consolidation begin in 2021?
  - Retail - Will box retailers actually open more stores?
  - Despite easy borrowing conditions - can the Airlines avoid restructuring in the future?
- Permanent changes to the protections in the asset class/ collateral, additional debt layering etc.
  - How much looser can EBITDA add-backs actually get?
  - Will the flexibility provided by lenders in response to Covid become the customer expectation going forward?
- How will we address the super priority debt exchange issue?
- Permanent changes to the protections in the asset class/ collateral, additional debt layering etc.

Write-in responses aggregated across themes:

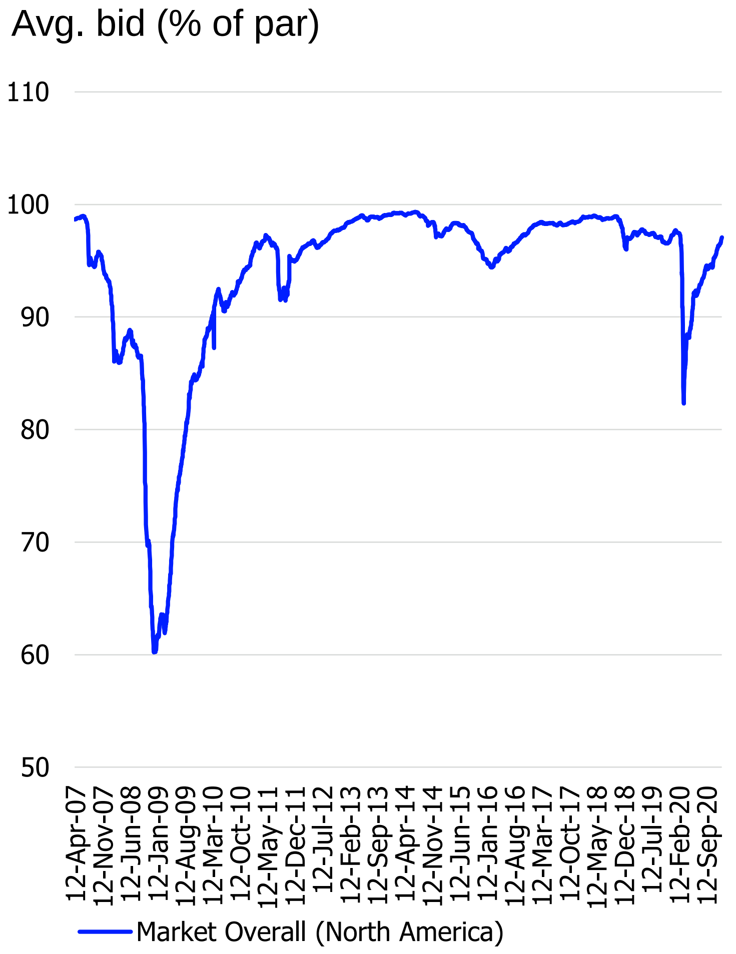
- Vaccine effectiveness and delivery
- US consumer; Timing of US/global economic recovery; Deficit; Global trade; Geopolitical flare-ups
- Political divisiveness and its longer-term impact on business and commerce
- Divergence of Main street and Wall street
- Where is the revenue going to come from? How many more businesses will be impacted?
- Changes in business and cultural trends resulting from virus
  - Will my team ever want to be back in the office? Longer term impact on junior development
  - How will we jumpstart back into business as usual? What is the new business as usual?
  - What does the new New York city look like?

 Source: Refinitiv LPC's Quarterly Buyside & Sellside Survey

Leveraged Lending

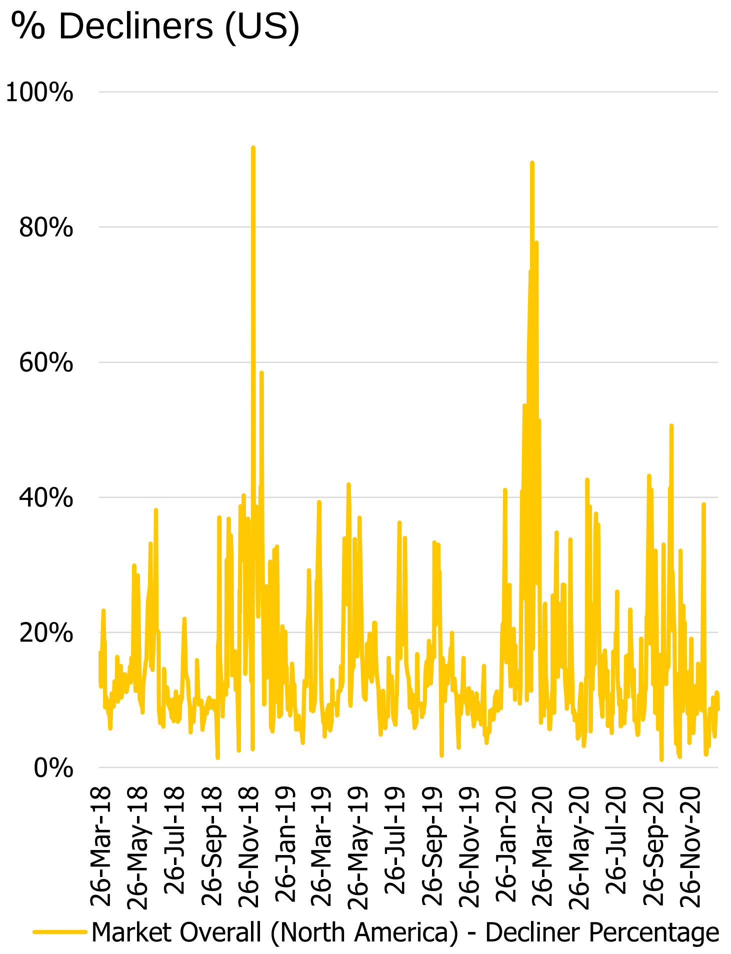
Strong demand in high yield gave loan market time to regain its footing

"The loan market traded down precipitously and it was heightened by the CLO buyer which went into hibernation." – *US Arranger*
"We may be through the worst, but more defaults will come as stressed credits run out of time and flexibility." – *Asset Manager*



"We always knew the loan market was very dependent on the CLO buyer base, which was dependent on the triple-A buyer base. Initially in the pandemic, spreads gapped out, it was hard to finance CLOs. A lot that had been issued went into static mode and were unable to buy new issues so the loan market had its own set of problems.

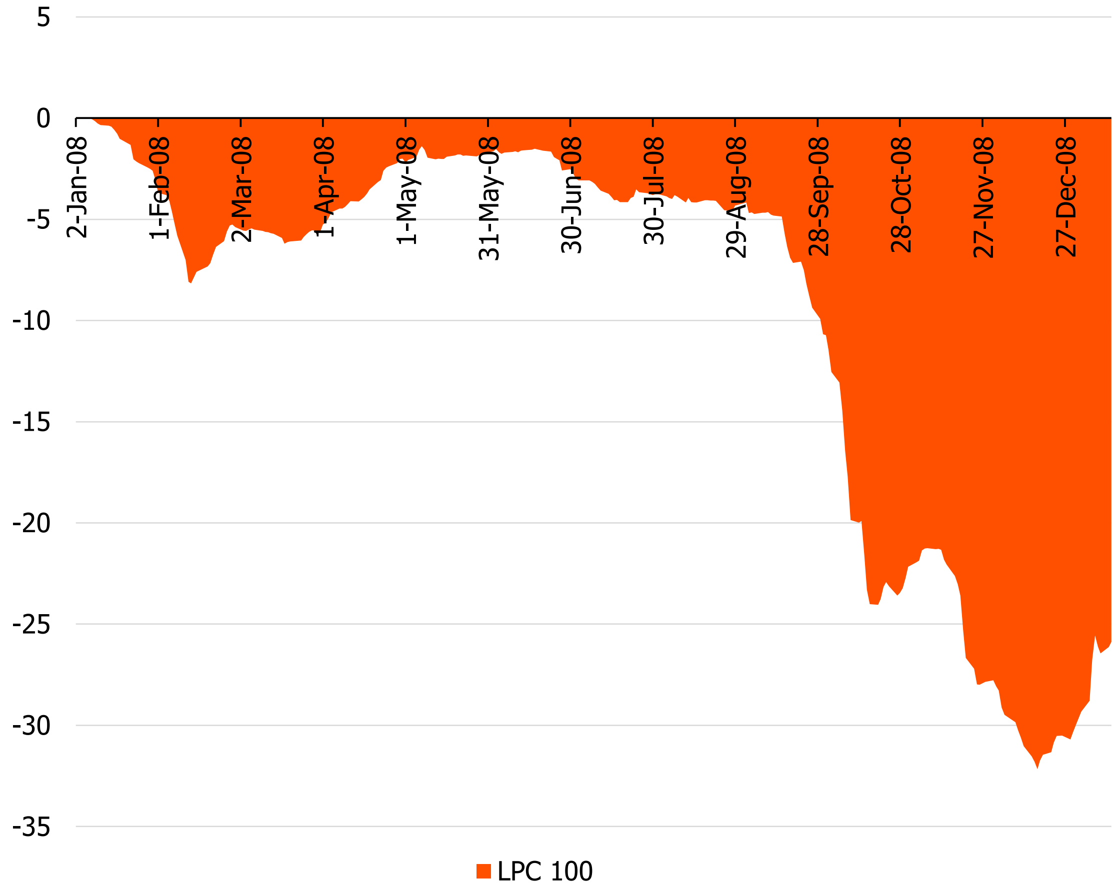
Meanwhile there was strong demand in high yield, issuing secured high yield bonds instead of loans, which investors loved at top of the capital structure. This helped fix poor technicals because new issue of loans stopped for a long time. This allowed cash to build and the loan market to largely repair itself." – *Underwriter*



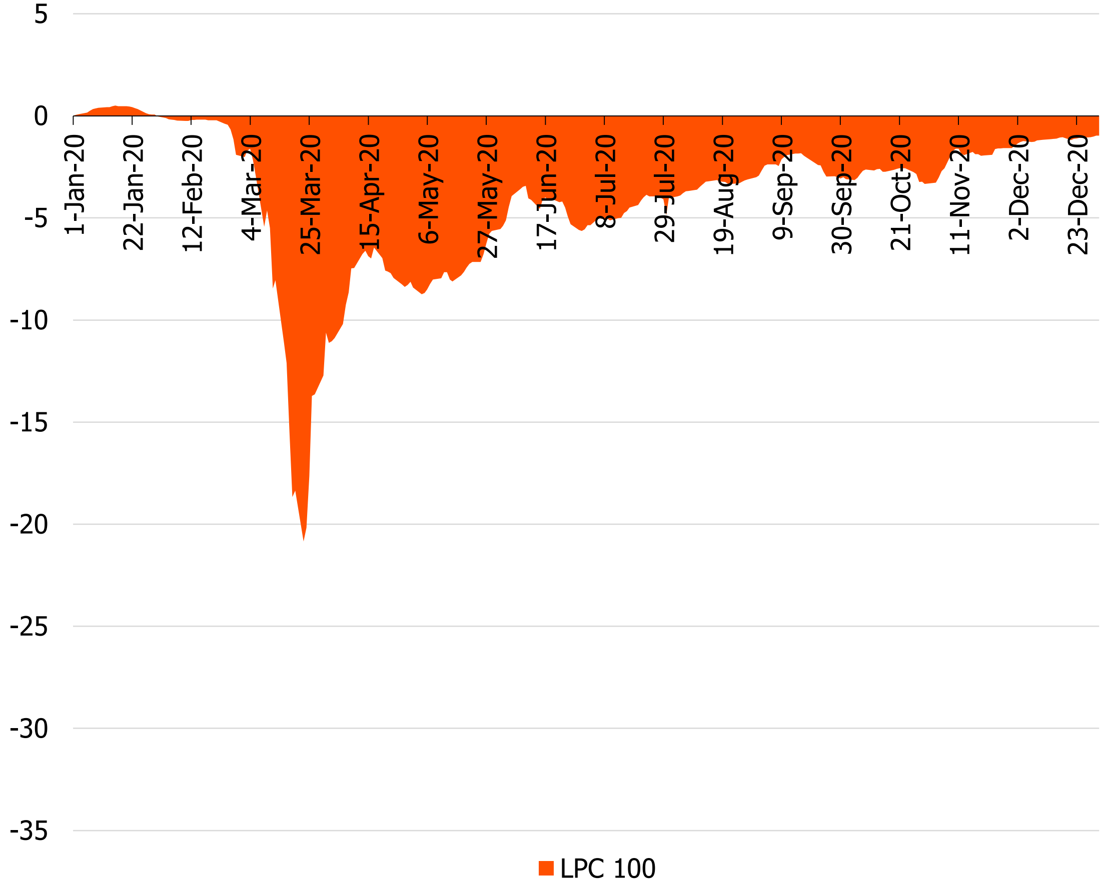
Source: US: LSTA/Refinitiv LPC MTM Pricing

Secondary loan prices ended 2020 nearly flat, after steep/dramatic then slow/gradual recovery from 21 point drop through March 23rd on pandemic shock

2008 Cumulative daily bid change (points)



2020 Cumulative daily bid change (points)



 Source: Refinitiv LPC

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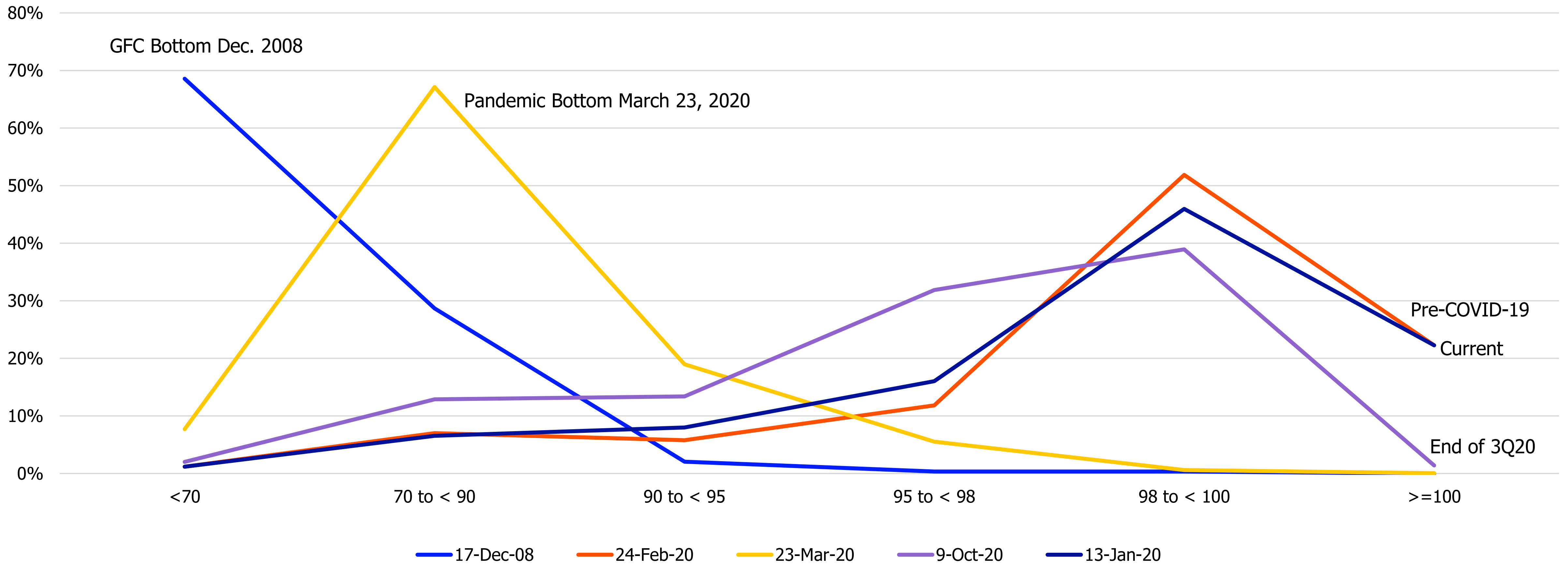
Current distribution of secondary bid levels nearly mirrors Feb. 24th/pre-pandemic

"The Fed took months to do in 2008-2009 what it did in a matter of weeks in 2020 and the market took comfort in that, believing that although this is really bad, it's not permanent and there will be a solution by way of vaccine. This was the hope at the beginning and has come to fruition." – *Asset Manager*

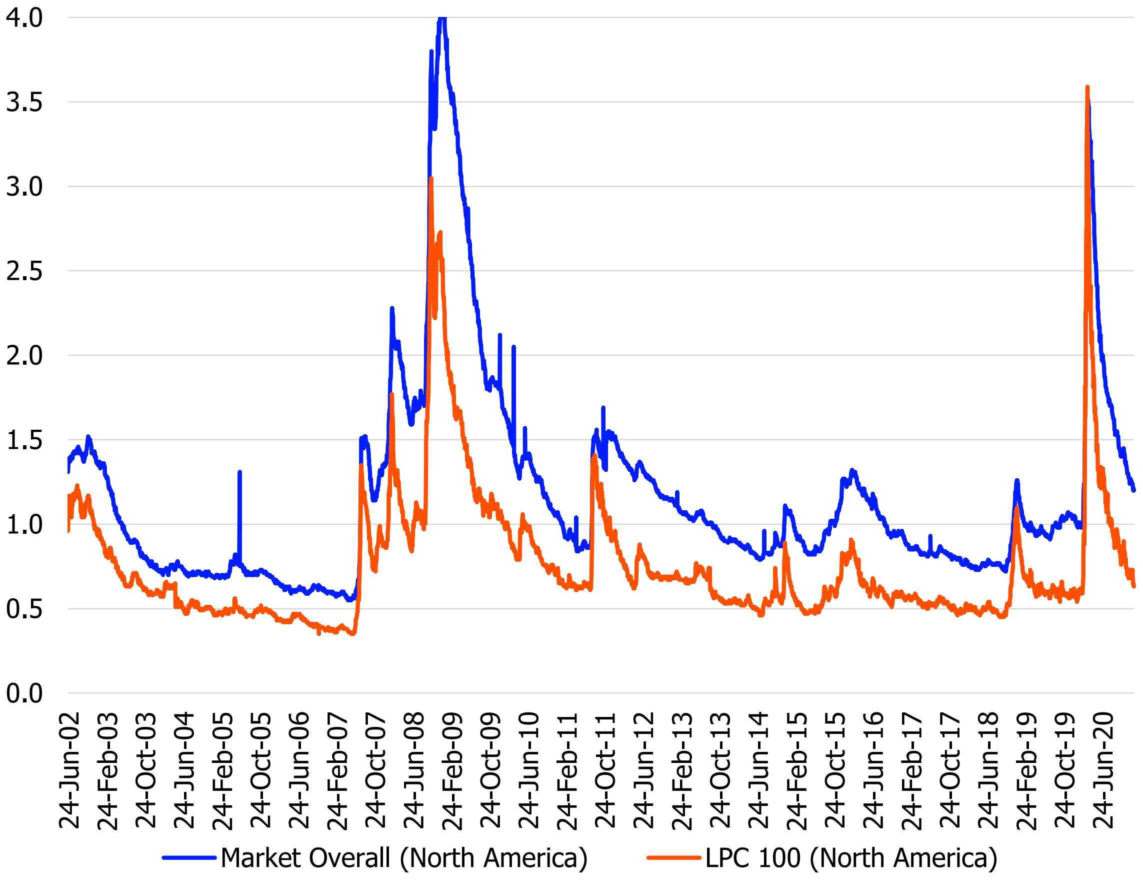
Secondary bid levels (% of facilities)



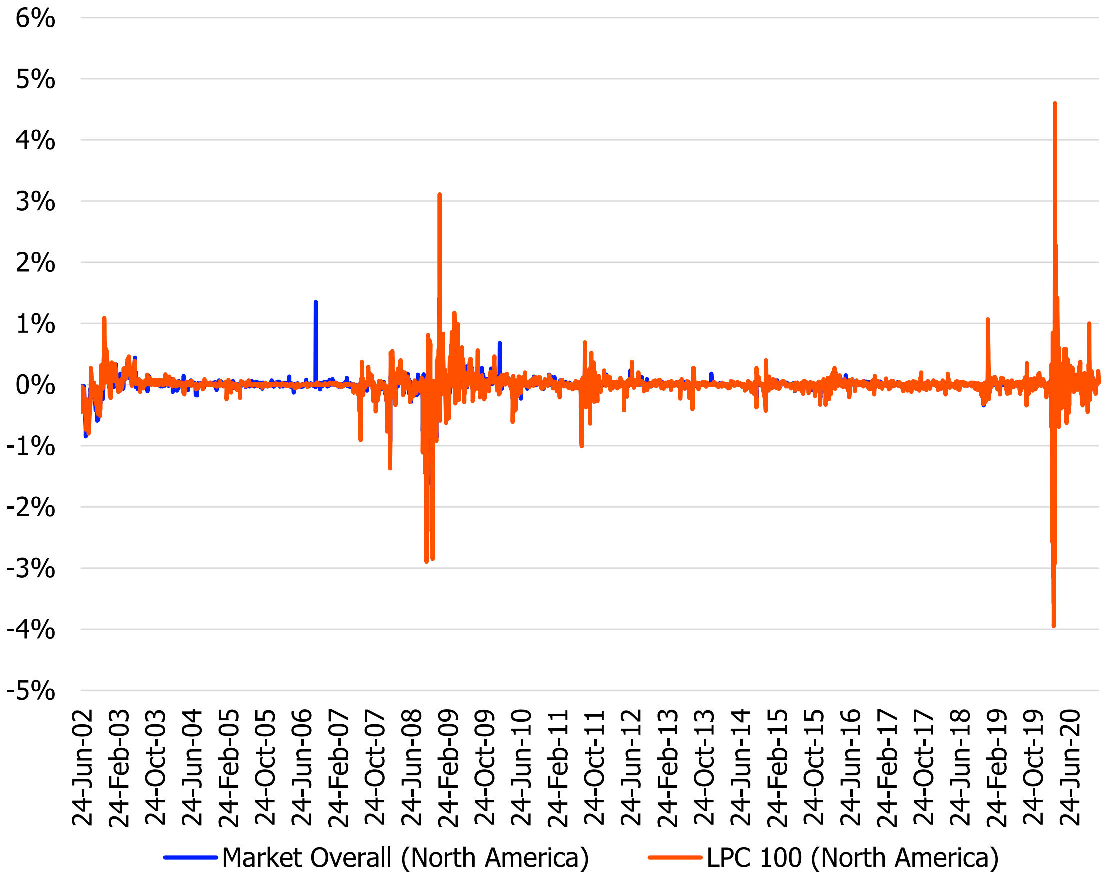
Source: US: LSTA/Refinitiv LPC MTM Pricing

Bid/ask spread narrowed back to historical norms below 1.5 points after widening to 3.5 points during initial pandemic shock in March

Avg. bid/ask spread (pts)



Daily bid change (%)

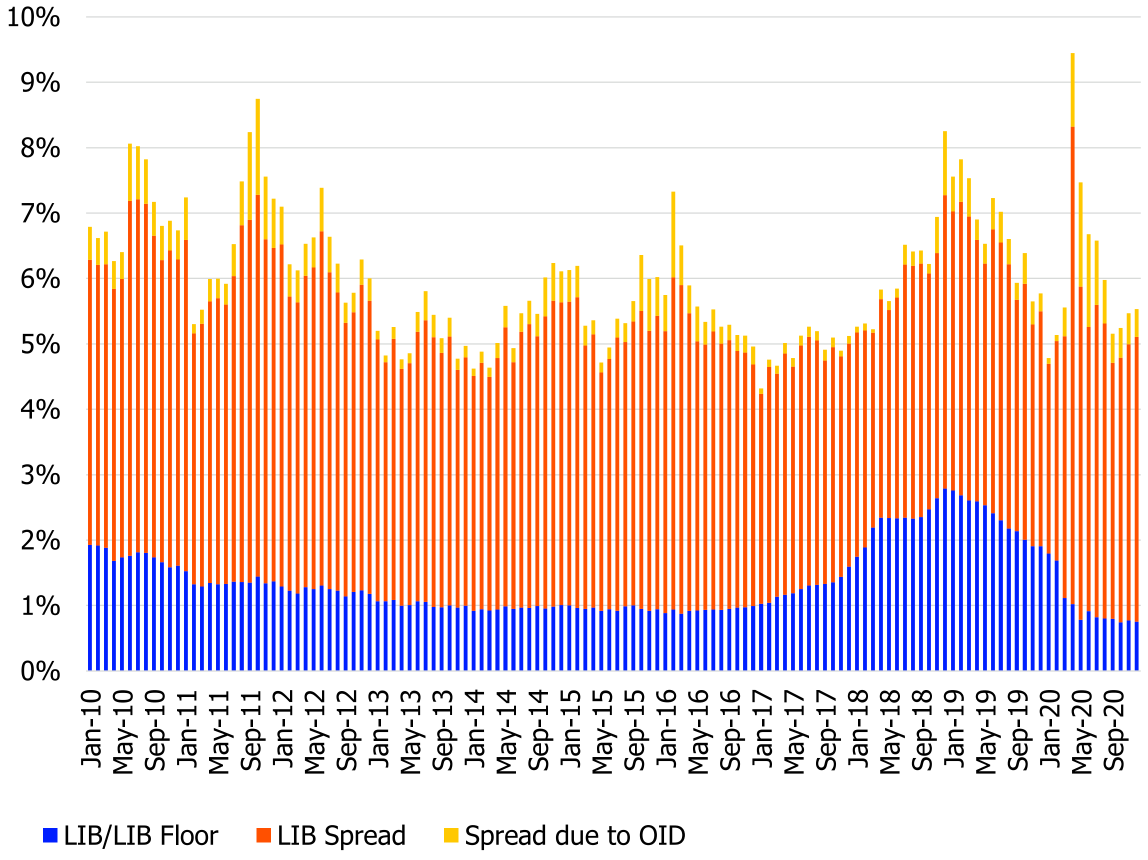


Source: LSTA/Refinitiv LPC MTM Pricing

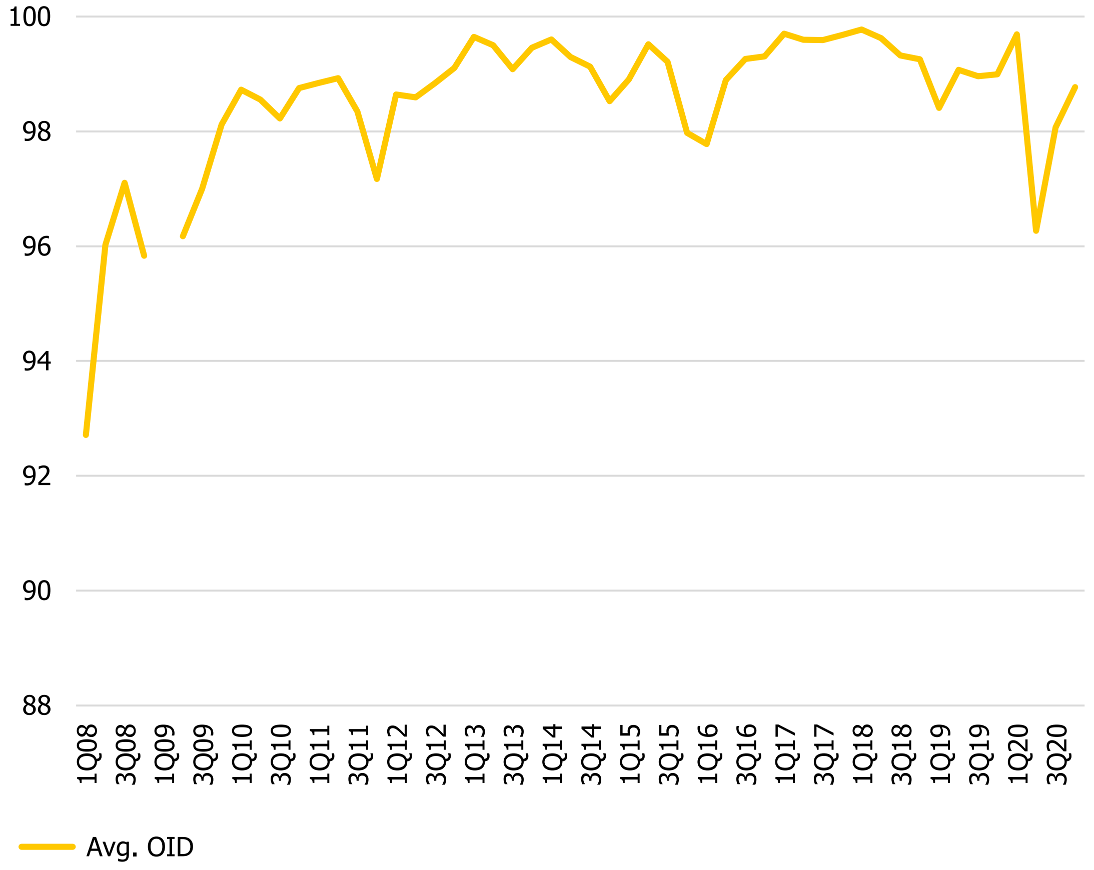
Primary market yields spiked and recovered gradually

"We saw a massive rally and rates that are unbelievable by historical standards. It was a Fed induced technical creating a wave of cash looking for spread assets that benefits high yield and will keep benefiting the high yield market." – *US Leveraged Underwriter*

US institutional first lien loans primary market all-in yields



Original Issue Discount (% of par)

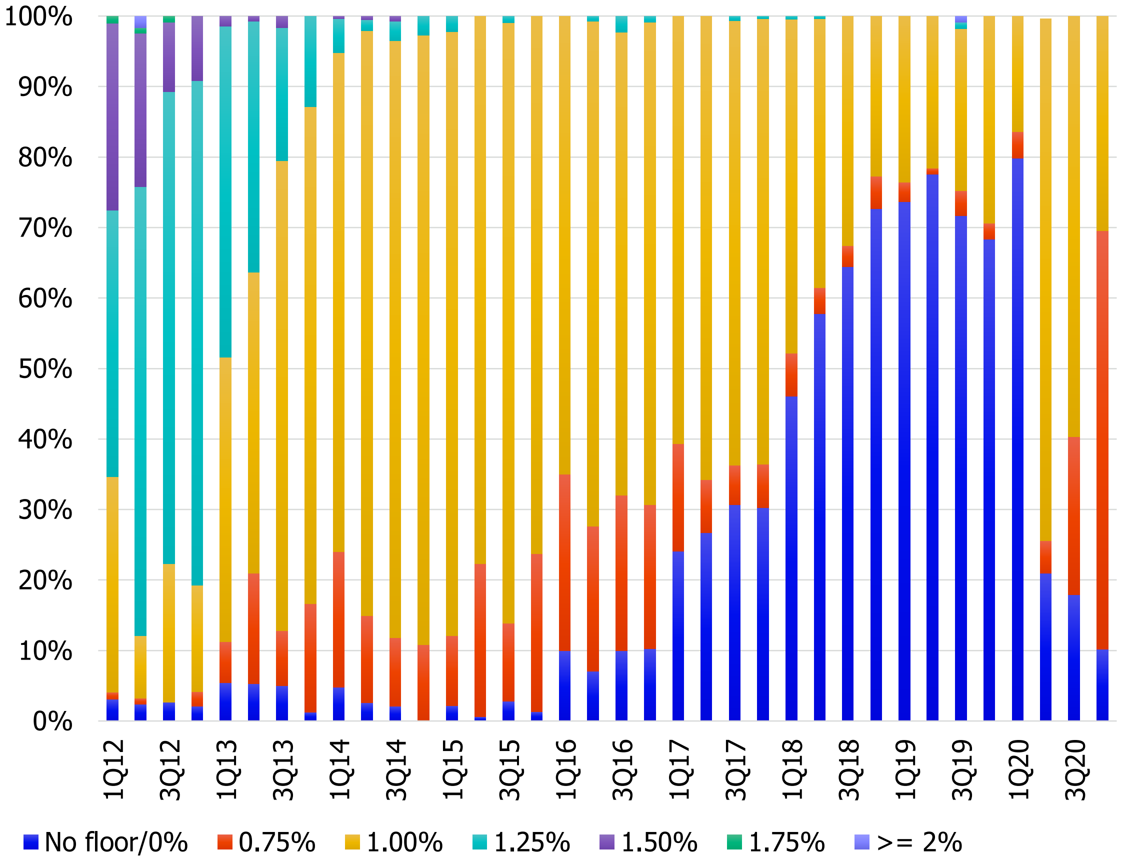


 Source: Refinitiv LPC

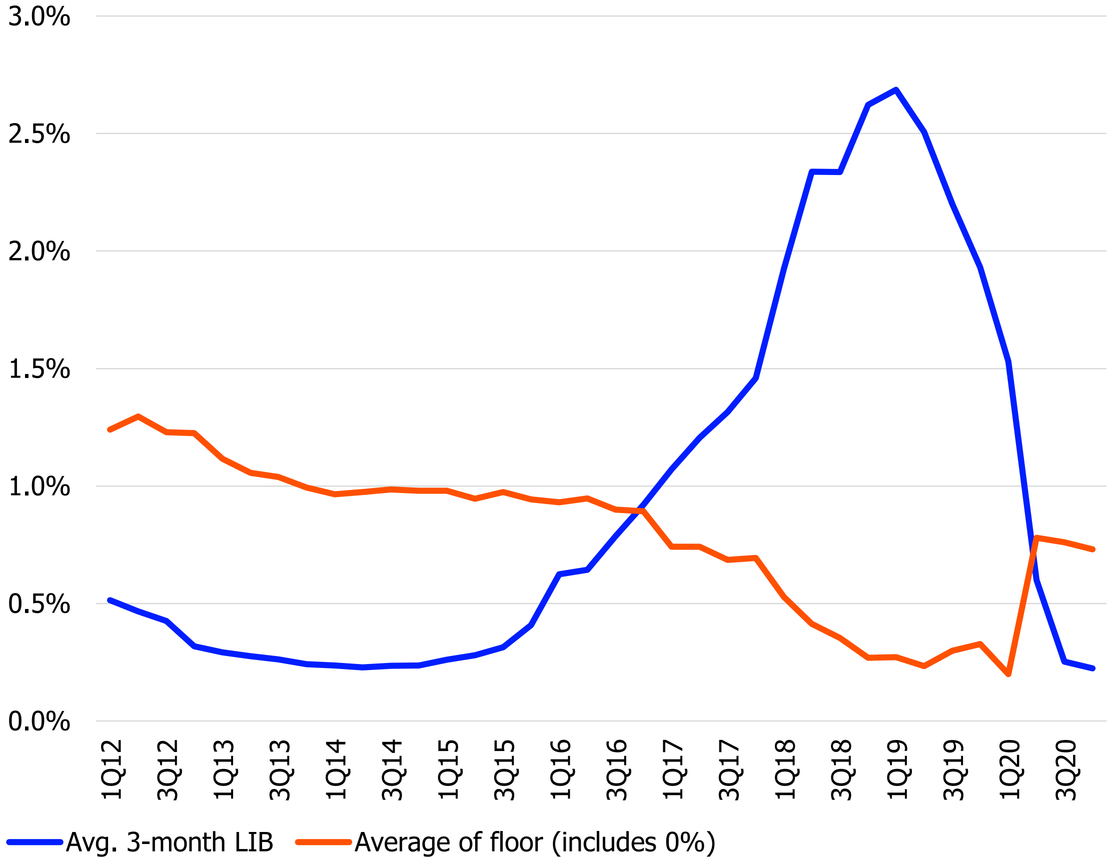
Libor floors came back at 1% most commonly but eroded to 0.75%

'We are thinking about what could potentially derail the current exuberant investing environment in 2021? The longer-term/enduring impacts from the pandemic on the high yield/loan markets and changes in CLO docs to embrace different restructuring scenarios to maximize returns." – *Asset Manager*

Share of institutional term loans with Libor floors (%)



Average Libor floor

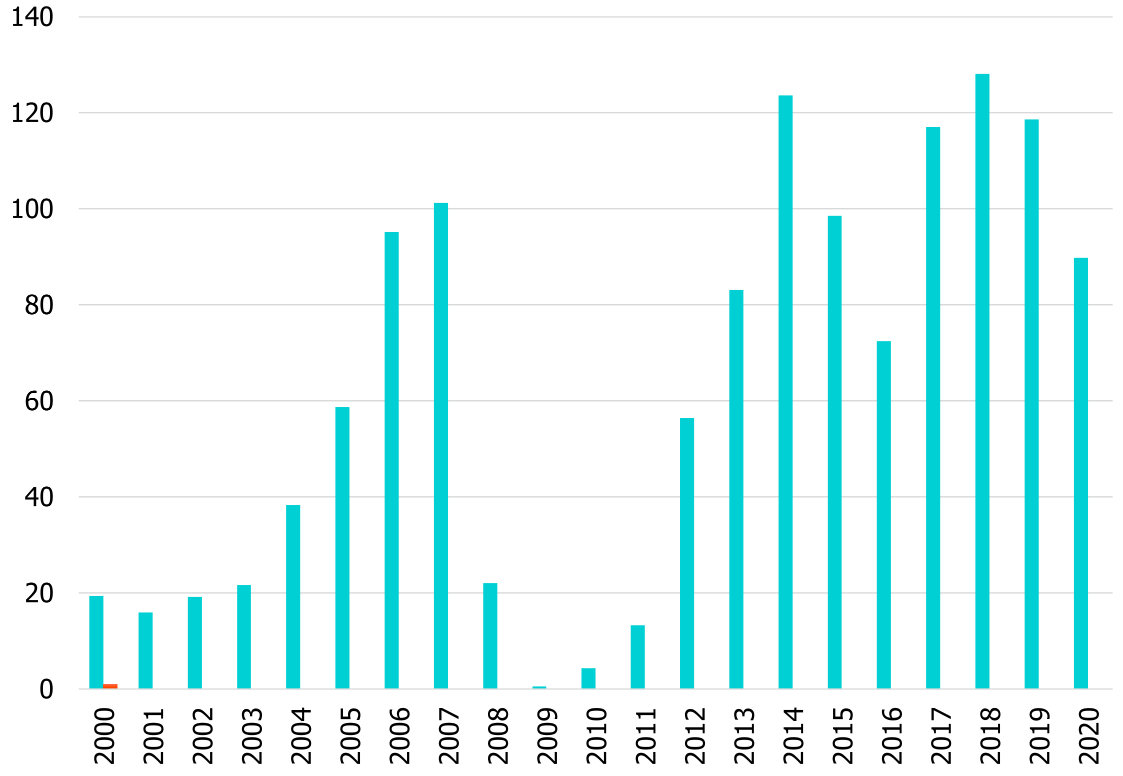


 Source: Refinitiv LPC

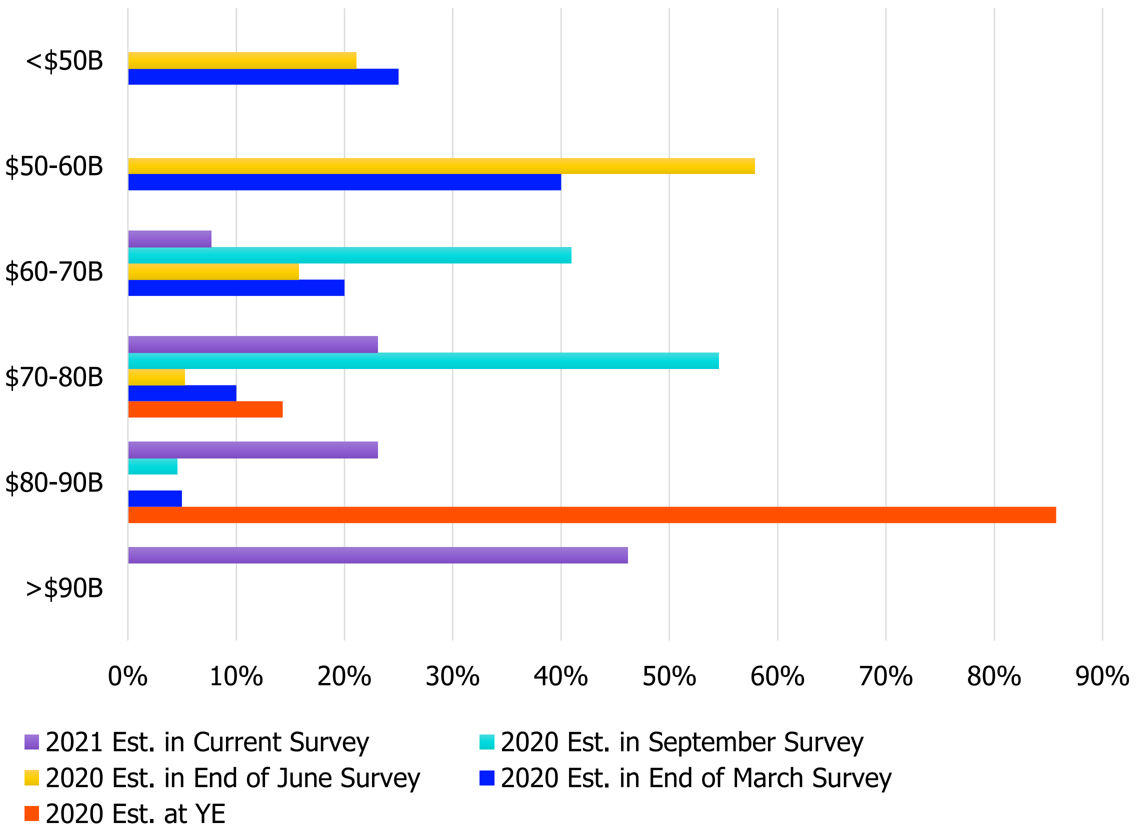
CLO issuance ended the year at $90B; survey estimates for 2021 reveal expected increase to >$90B

"With the CLO volume that occurred into the end of the year and as we turn the corner, pricing will continue to trend lower and document implications will follow accordingly." – *CLO Manager*

Annual new issue CLOs ($B)



LPC Market survey responses: Annual CLO issuance estimates (% of survey respondents)



 Source: Refinitiv LPC, Refinitiv LPC's Quarterly Buyside & Sellside Survey

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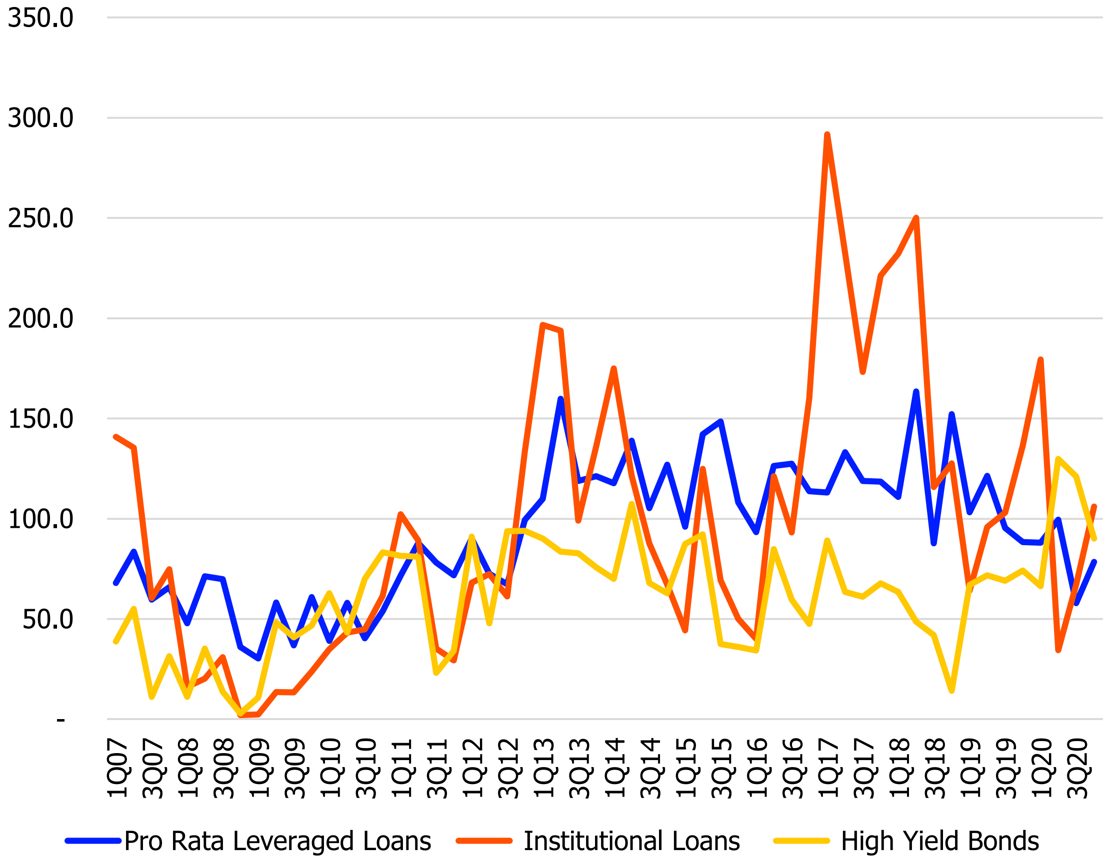
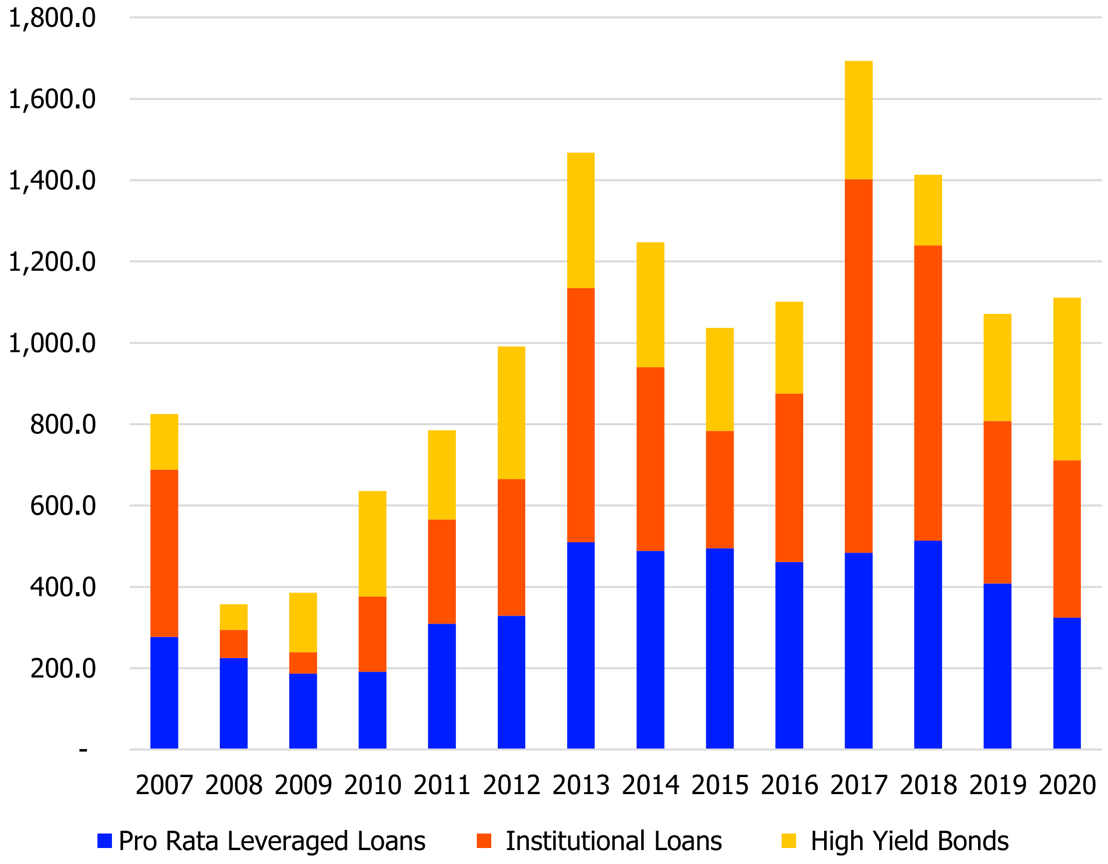
Leveraged loan issuance ends the year at $711B; down 12% from 2019's $808B

"We have seen some changes and rationalization at banks, but if you survived this year, you're in it for the long haul. It has been a terrible year and hopefully the vaccine rolls out quickly. If somebody would have said bond markets would have opened up as fast as they did, blasting through records, I would've said you're crazy. But equities are flying and the loan market is fundamentally strong. All positive surprises against the backdrop of a horrible year." – Lender

Leveraged loan and high yield bond issuance ($B)



Leveraged loan and high yield bond issuance ($B)



 Source: Refinitiv LPC

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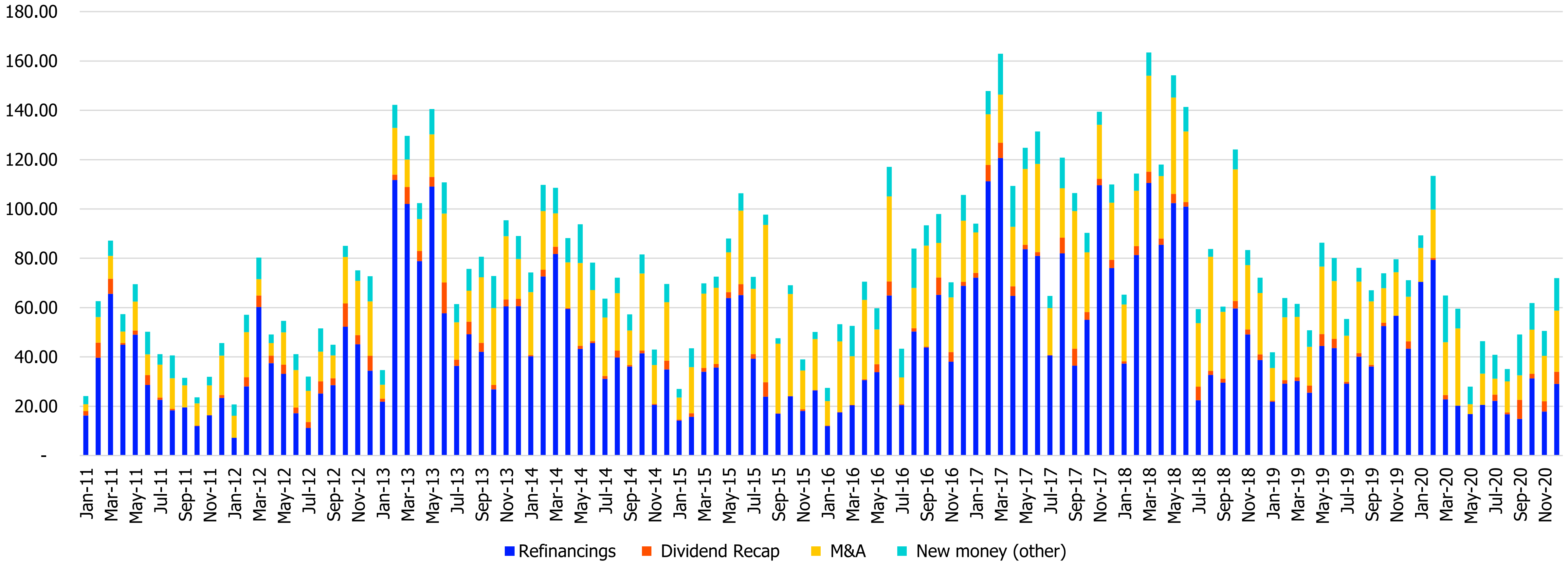
Leveraged refinancings finished 2020 at $362B while M&A financing was $193B, down 20% and 24% respectively vs. 2019

Leveraged loan issuance ($B)

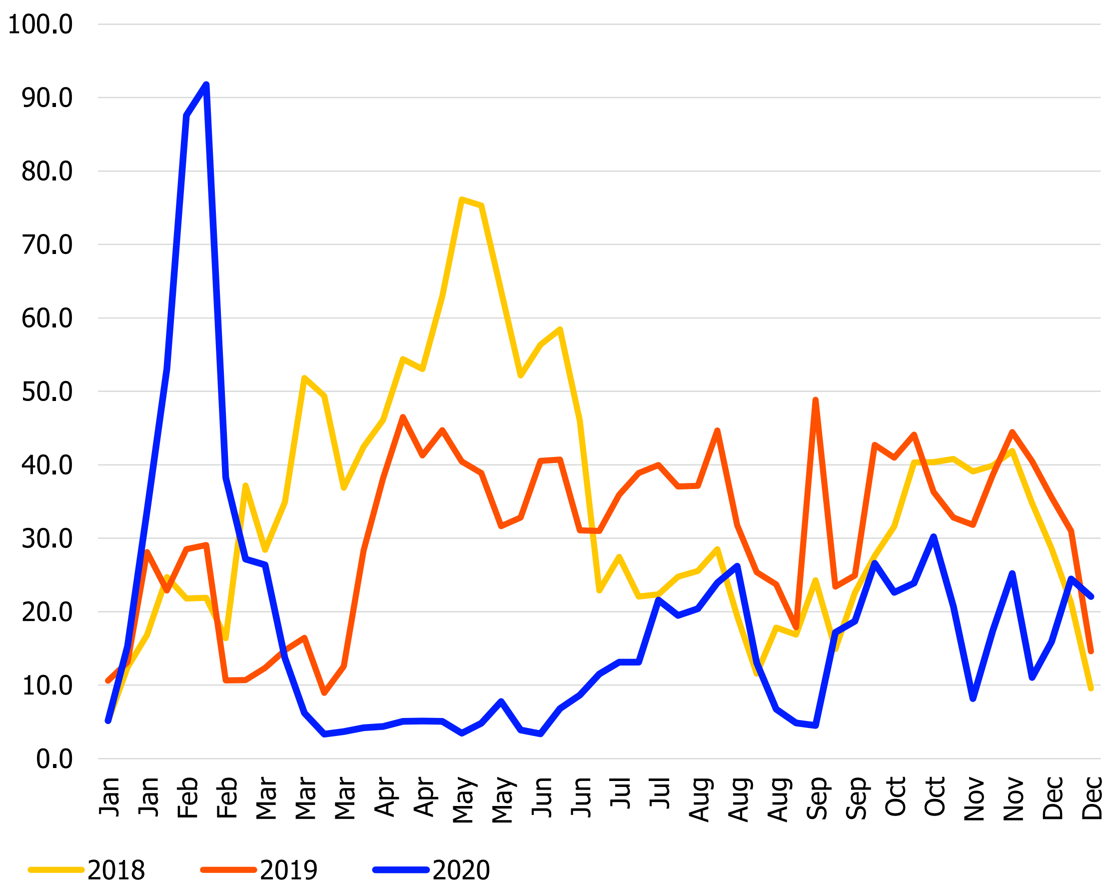


 Source: Refinitiv LPC

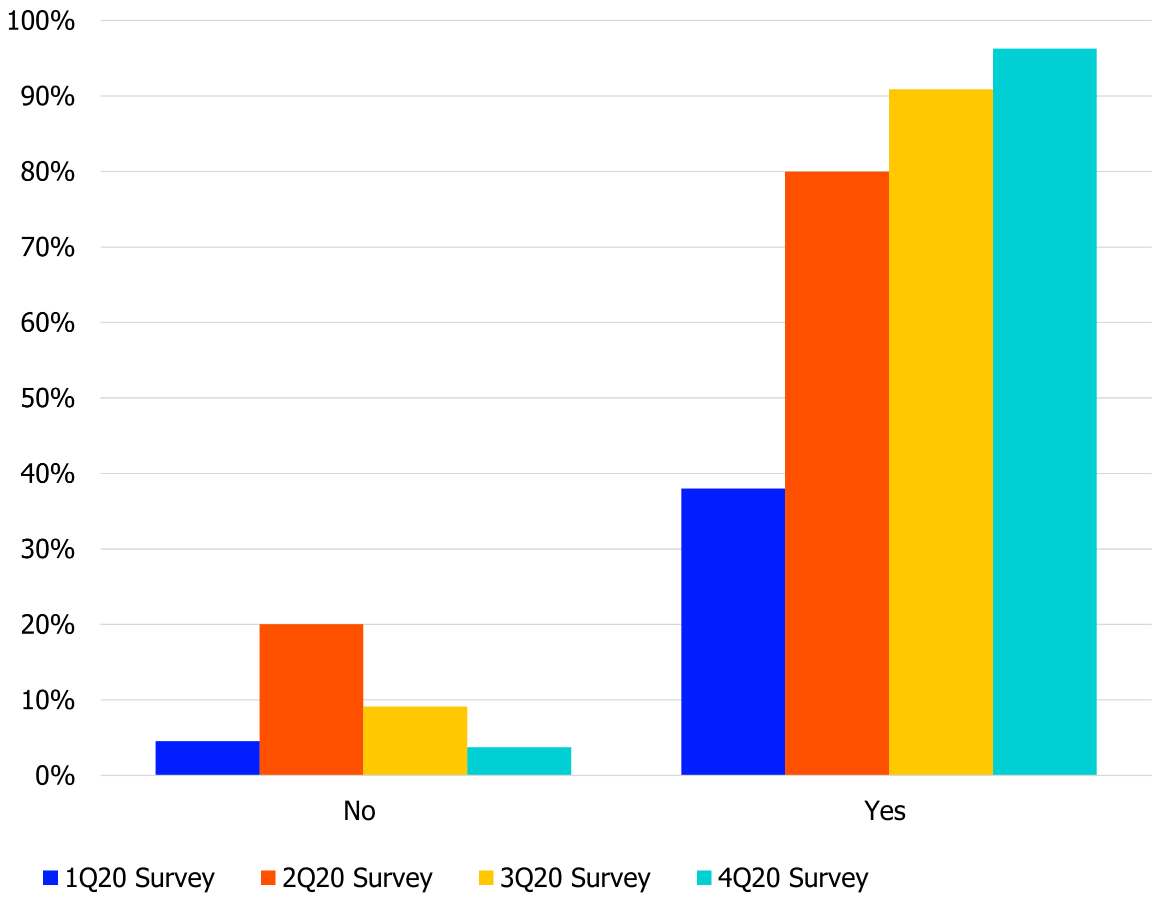
Lenders say pipeline feels much better post vaccine approvals

“A lot of M&A were put on hold in March and April and came back in the second half of the year. Thanks to that and the street wasn’t long into terms of commitments going into the pandemic so things got done. – *Leveraged Underwriter*

Institutional loan pipeline ($B)



Do you expect new LBO financings? (% of respondents)

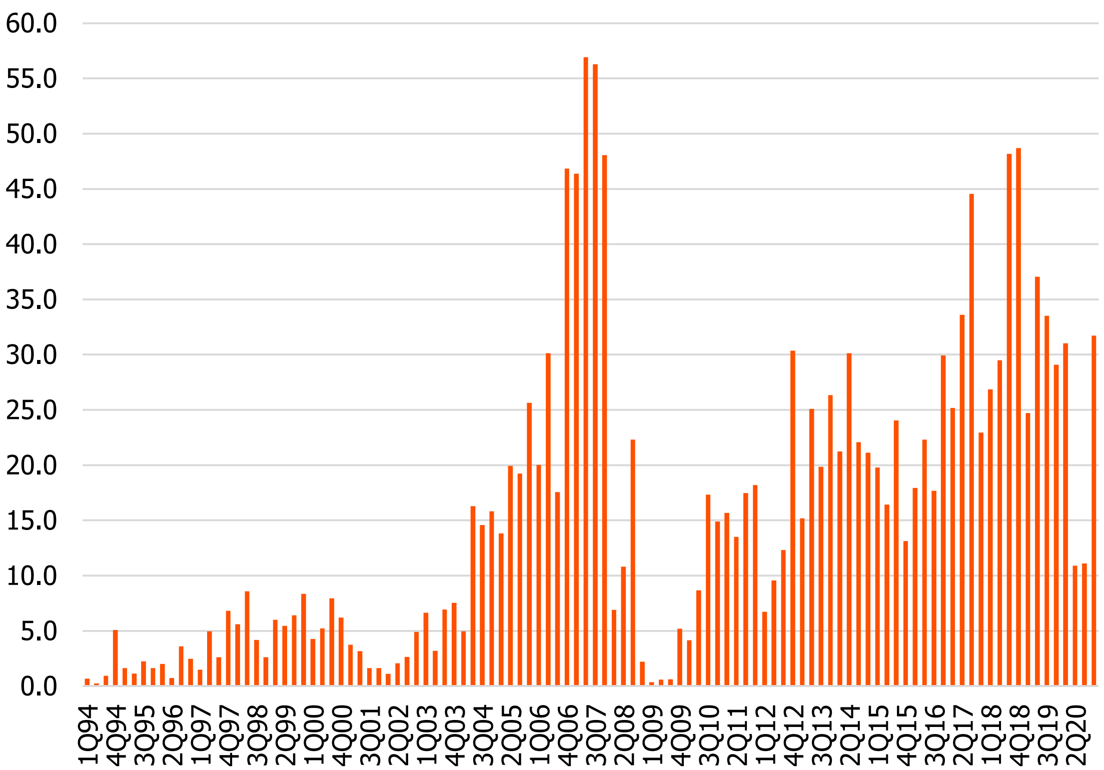


Source: Refinitiv LPC

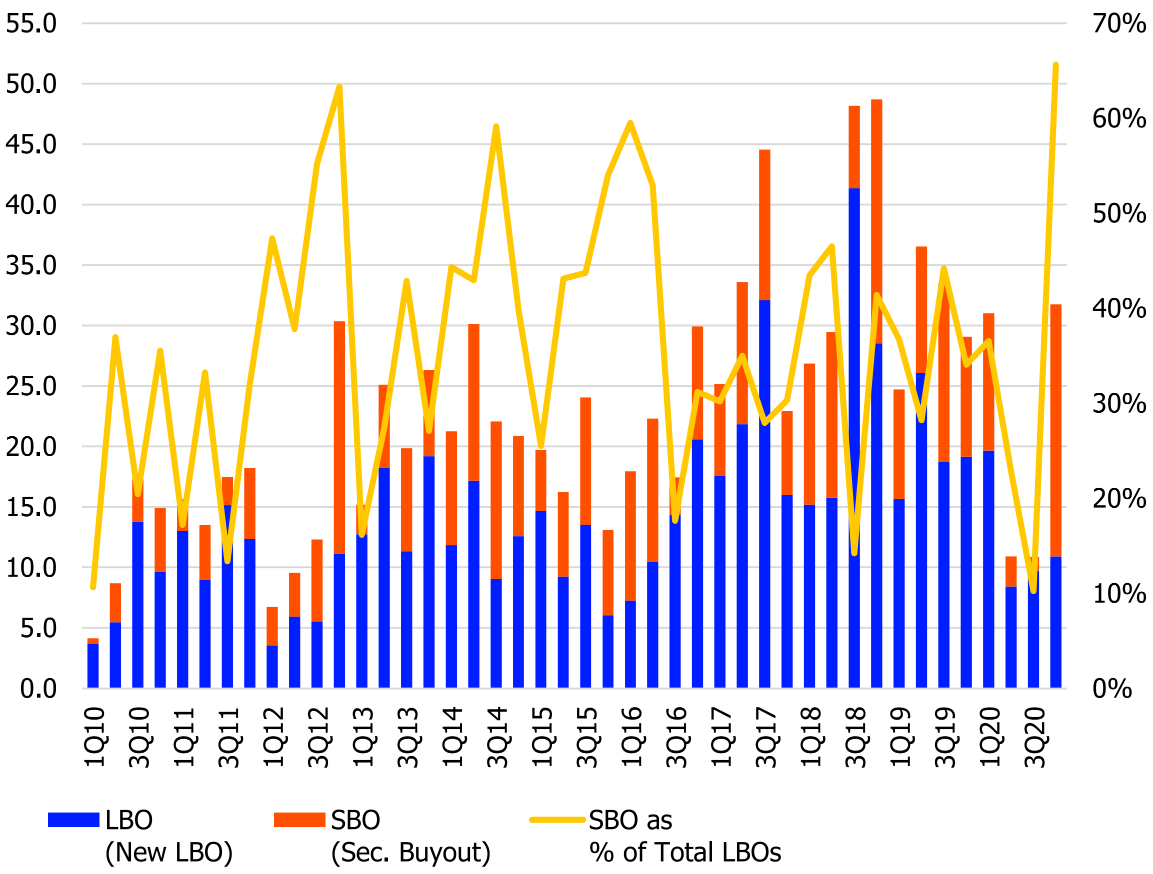
LBO loan issuance jumped in the fourth quarter to $31.7B, from the $11B range in 2Q-3Q

"We still worry about the impact of rising interest rates on risk assets and poor investor protections in deal documents." – *US Asset Manager*

Quarterly Overall Market LBO issuance ($B)



Sponsored LBO and Secondary Buyout Volume

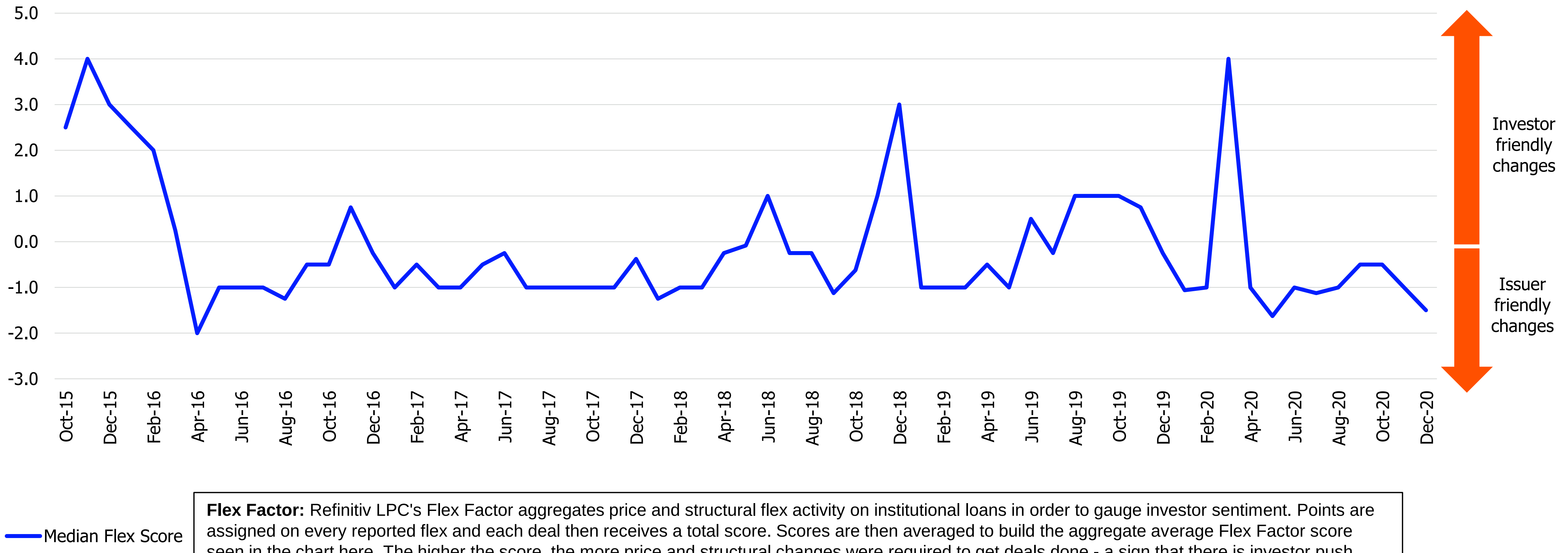


For Full CLO, Retail Funds, Deals, Leveraged Coverage see Leveraged Loan Monthly on LoanConnector.com

Source: Refinitiv LPC

US institutional market dominated by borrower-friendly price and/or structural changes in December

Flex Factor - US

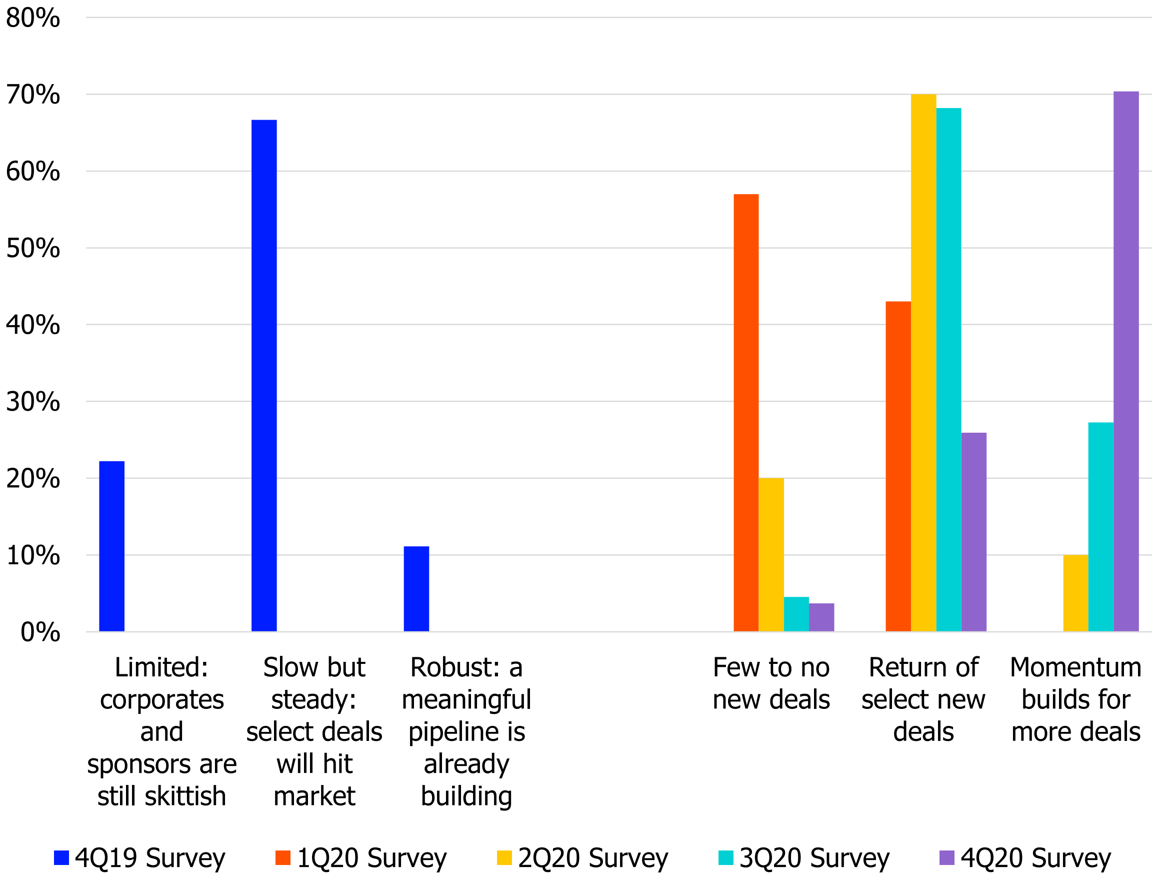


Flex Factor: Refinitiv LPC's Flex Factor aggregates price and structural flex activity on institutional loans in order to gauge investor sentiment. Points are assigned on every reported flex and each deal then receives a total score. Scores are then averaged to build the aggregate average Flex Factor score seen in the chart here. The higher the score, the more price and structural changes were required to get deals done - a sign that there is investor push back. Conversely, scores below zero signify issuer-friendly flex activity. For a deal level breakdown of the flex activity, please see the "Table" tab within the Excel download linked on this page.

M&A is expected to pick-up, making up for lost time

"The cause for optimism is that the M&A machine continues surging as private equity continues to find ways to put money to work." – *US Lender*

What do you expect for M&A deal flow?



Underwriters and asset managers:

- M&A will really take off in 2021. We are not alone in that; this is very much a market consensus view.
- Larger deals will dominate 1Q2021 activity.
- There have been a number signed up at the end of 2020 that will roll out syndications in 1Q21.
- Hopefully momentum will build for 2nd half of the year activity.
- M&A will be prevalent as companies who "have" to do something will be active. Some PE funds are out of funds so will have to sell portfolio companies.
- The pace of M&A is increasing.
- Based on our conversations with sponsors, LBO issuance in 1Q21 should be very robust.

 Source: Refinitiv LPC's Quarterly Buyside & Sellside Survey

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From a credit perspective, has the market been through the worst, or do you expect more deterioration as a result of Covid-19?

"From here it can go either way, still too many uncertainties to see a clear path. Worst is probably behind us but the potential for the 'death by 1,000 cuts' remains high." – *Lender*

No…

- More … starting to happen as we speak
- Maybe not so much "more" but rather a prolonged period of elevated problems
- Been through the worst but there will be residual effects for years
- Not more per se, but continued decline in Covid-impacted businesses as consumer behavior has changed
- Documentation seems to get worse and worse; even to the point where even some of the sacred things are falling by the wayside.
- There will be more permanent fall out from changes in the way business is done and prioritization
- Market has seen the lows and worst for the overall market but certain credits will experience distress with lower recoveries. Secondary levels are not reflective of the downside of a restructuring. People always seem surprised by this and restructurings will be more fierce this time around.
- Many of those already impacted will continue to be...recovery for many others will be slow.

Yes…

- We have definitely been through the worst
- We should have seen the worst
- Market has been through worse; we now have clarity into "haves" and "have-nots"
- We are through the worst but defaults will continue to rise at a slower rate
- The trough is behind us, but the recovery will be slow
- Been through the worst - that was March of '20. Positive trends since middle of Q2
- Loan market will stabilize; expect equities to be flat to down

 Source: Refinitiv LPC's Quarterly Buyside & Sellside Survey

What is your biggest concern for 1Q21 regarding the leveraged loan market?

Responses aggregated across themes

- Pace of vaccine rollout and continued implementation of lock-downs; Lingering COVID effects not priced into the market
- Degradation in credit structure; Maybe sponsors push too much on terms; the legal structure and protections truly getting eroded/negated/changed, req lender, unrestricted subsidiaries, etc.
- Credit standards and pricing discipline give way to chase for yield and income.
- Excess demand and liquidity. Hunt for yield driving irrational exuberance in the market.
- Q1 could still be bumpy as we start seeing the impact of the recent rise in case and shutdowns but by the middle to end of Q1 things stabilize and we see volumes start to move higher
- Overlevered companies that can't grow into new cap structures

Responses aggregated across themes

- Rollout of pent-up deals alongside increased volatility or negative news
- Second shutdown and Washington inability to agree causes second round of defaults
- Emerging markets left behind and bleeds into US
- Increase in downgrades and restructurings leading to continued liability management transactions and litigation
- Fate of "zombie" credits
- Full blown recession with companies having borrowed what they can running out of liquidity
- Creditor fights this time around will likely be heavily contested
- The declining quality of the index with most new issue coming in the low single-B category
- Continued disintermediation from strong bond issuance

 Source: Refinitiv LPC’s Quarterly Buyside & Sellside Survey

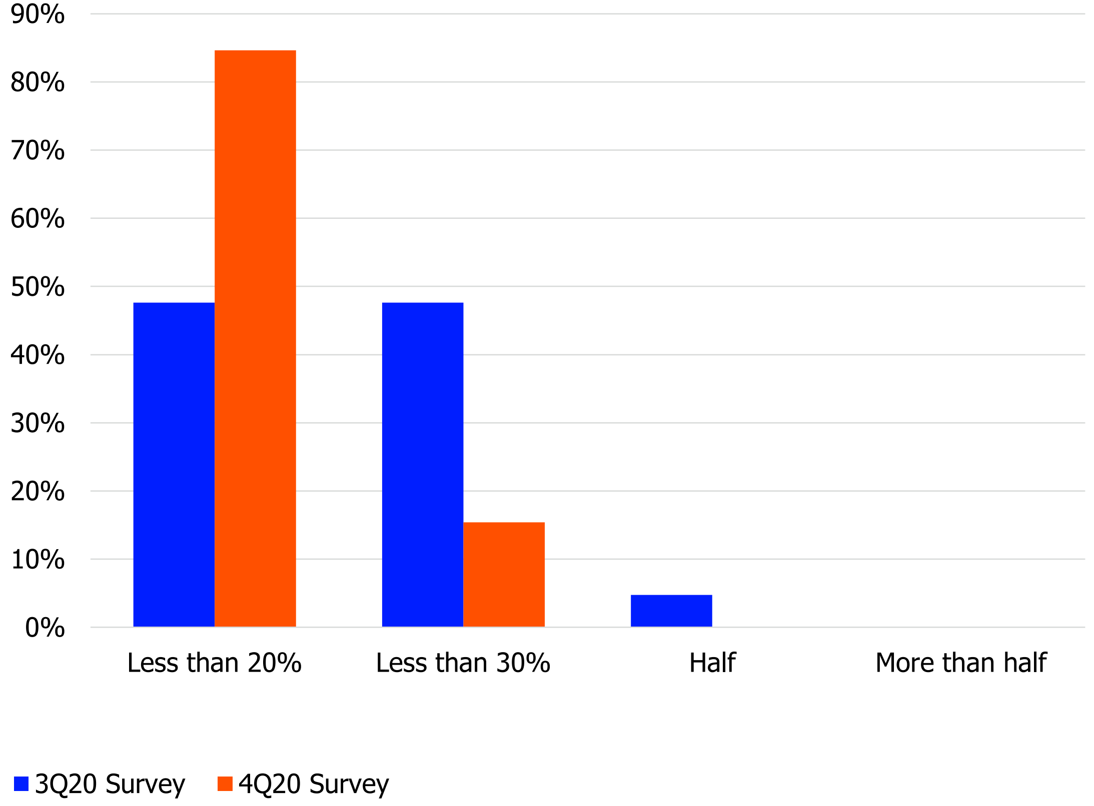
Where do you see cause for optimism?

Most respondents (83%) indicated less than one fifth of their portfolios were represented by the most severely Covid-impacted issuers, 17% said less than a third, down from half of respondents in 3Q20 survey.

Cause for optimism?

- Candidly we're not sure credit structure and economic recovery trends will be in alignment
- Default rates have remained relatively low
- Have to increase new transaction deal flow but feels like a 2nd half rally is possible
- Government intervention in capital markets continues
- Optimism from an attractive arbitrage for the CLO market and slower but maybe prolonged defaults allow managers to differentiate themselves
- CLOs behaved as advertised and remained source of capital for below IG companies. Distressed players provided floor for CCC companies
- Vaccines roll out quickly and the economy begins to acellerate recovery
- The M&A machine continues surging as Private Equity continues to find ways to put money to work
- Sponsors will continue to contribute reasonably large equity checks for new LBO's

What share of portfolios do you believe are represented by the most severely Covid-impacted issuers?



 Source: Refinitiv LPC's Quarterly Buyside & Sellside Survey

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Does the leveraged loan market return to “normal” in 2021? What does a new “normal” look like?

Yes…

- It has already normalized, just with higher leverage and lower ratings
  - It’s not like there weren't any defaults but companies have held on longer and companies in industries that were severely impacted had access to capital to help them ride it out
- The positive momentum from Q4 continues and it does fully return by 4Q21 and will get back to 2019 deal flow levels
- The market is there for some industries, we are just waiting on other industries that were more impacted
- Economy stabilizes and starts a full trend back up in Q2 as pandemic fades and loan market responds in full force
- More M&A, more refinancing, less rescue and workout
- If by normal you mean record tight yields and a wide-open market despite a pandemic, maybe we have more of the same

No…

- Don't expect monumental change in M&A deal flow; M&A is getting more expensive

New “normal”…

- 2021 will be aggressive and active
- Normal as in it will be a coupon year
  - Coupon plus 150 bps?
  - 4-6% return?
- More primary flow to the "clubbed" private market and continued slow-down of the BSL market
  - Syndicated second liens and the high yield market as compelling alternatives to privately-placed junior capital
  - What do syndications look like with anchors and private placements accounting for higher percentage of deals, merging of HY/2L/Pref market?
- As long as the CLO bid/formation remains strong
- A recovery in the ultimate level of Libor or SOFR would help
- No in-person bank meetings or road shows?

Source: Refinitiv LPC’s Quarterly Buyside & Sellside Survey

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What does a new "normal" depend on?
What does a new "normal" deals calendar look like?

What will it depend on?

- Low Covid related volatility
- Vaccine efficacy and rollout time
- Rate environment, government spending, and lack of shutdowns
  - Fed's ability to help lead a recovery and manage inflation risk
  - Monetary and fiscal stimulus continuing
- The economic and sovereignty dynamics being worked out around the globe
- Impact of political change
- Health of the CLO market, sources of liability financing and required IRR for equity investors
- Equity market strength
- M&A activity
- Further ratings actions or changes in outlook by S&P and Moody's
- Default cycle remains lower than forecast
- Liquidity; funding remains liquid including bonds and AAA

What does a "normal" deals calendar look like?

- Better mix of M&A and refinancing/opportunistic with more volatility (like the old days....many moons ago)
- Elevated levels of issuance as well as opportunistic refinancings, regardless of underlying economic conditions
- 2019 deal flow levels
- Q1 is actually going to be quick out of the books
- 5-8 or 10-15 deals announced per week?
- How does any meaningful due diligence get accomplished to make good decisions on M&A opportunities?
- More LBO and large M&A transactions
- Much along the lines of what after the election looked like
- Forward calendar of $20bn to $25bn or >= $30bn
- Under $20bn rolling issuance including refinancing
- More pre-marketing than historically
- Looking better and better. Aggressive terms and more activity for now

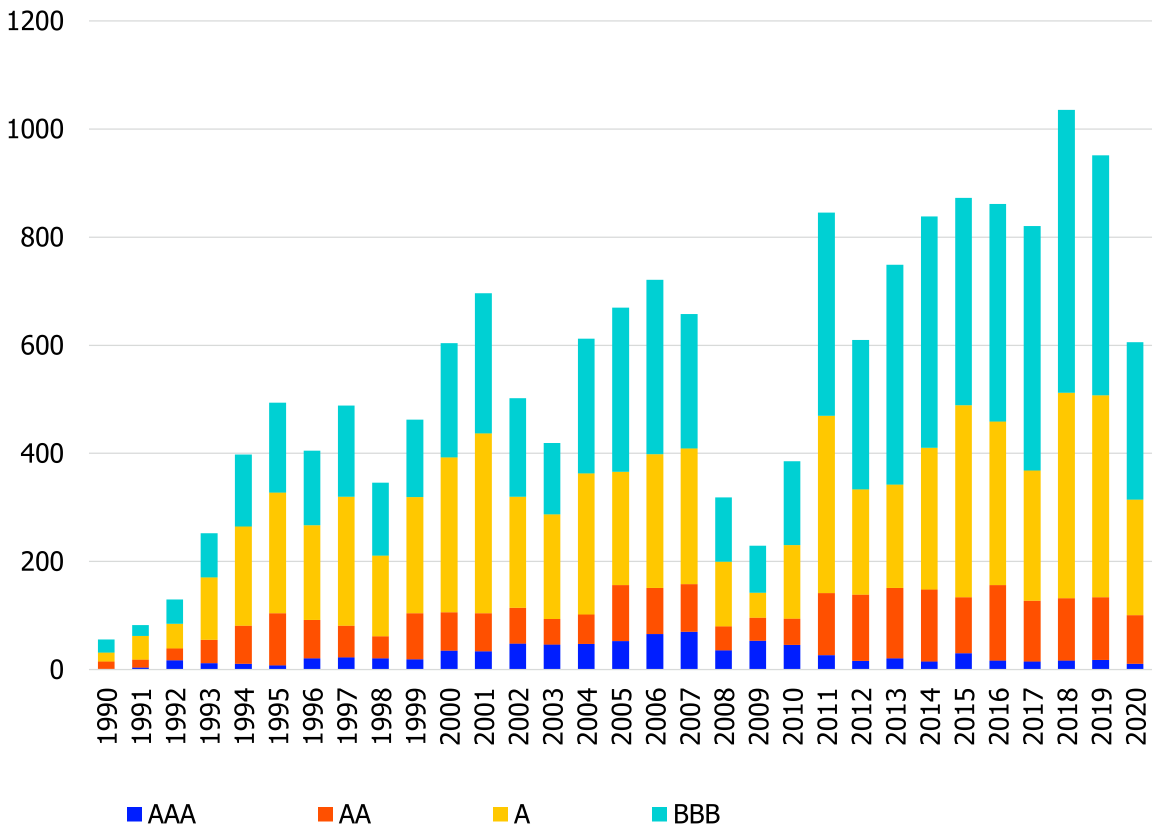
 Source: Refinitiv LPC's Quarterly Buyside & Sellside Survey

Investment Grade Lending

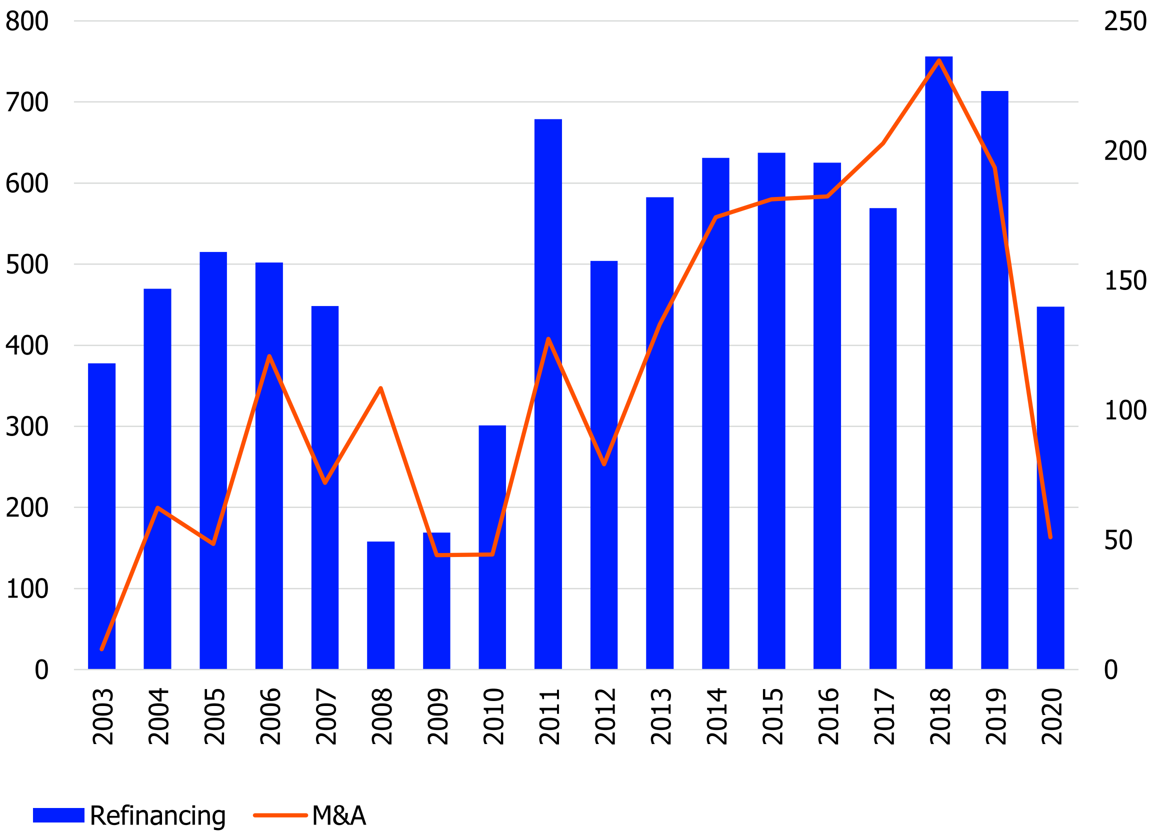
US investment grade refinancings & M&A financings fell 37% and 74% in 2020

"A lot of loan amounts were way down this year because if you could avoid going to refi facilities or to take bank capital, you did for the most part because you didn't want to engage in the harder conversations with banks occurring in 1H20, from spread and all-in coupon point of view and a very strong short end of the bond market which was much more attractive." – *US IG Lender*

I-Grade Loan Issuance ($B)



I-Grade refinancings and M&A ($B)



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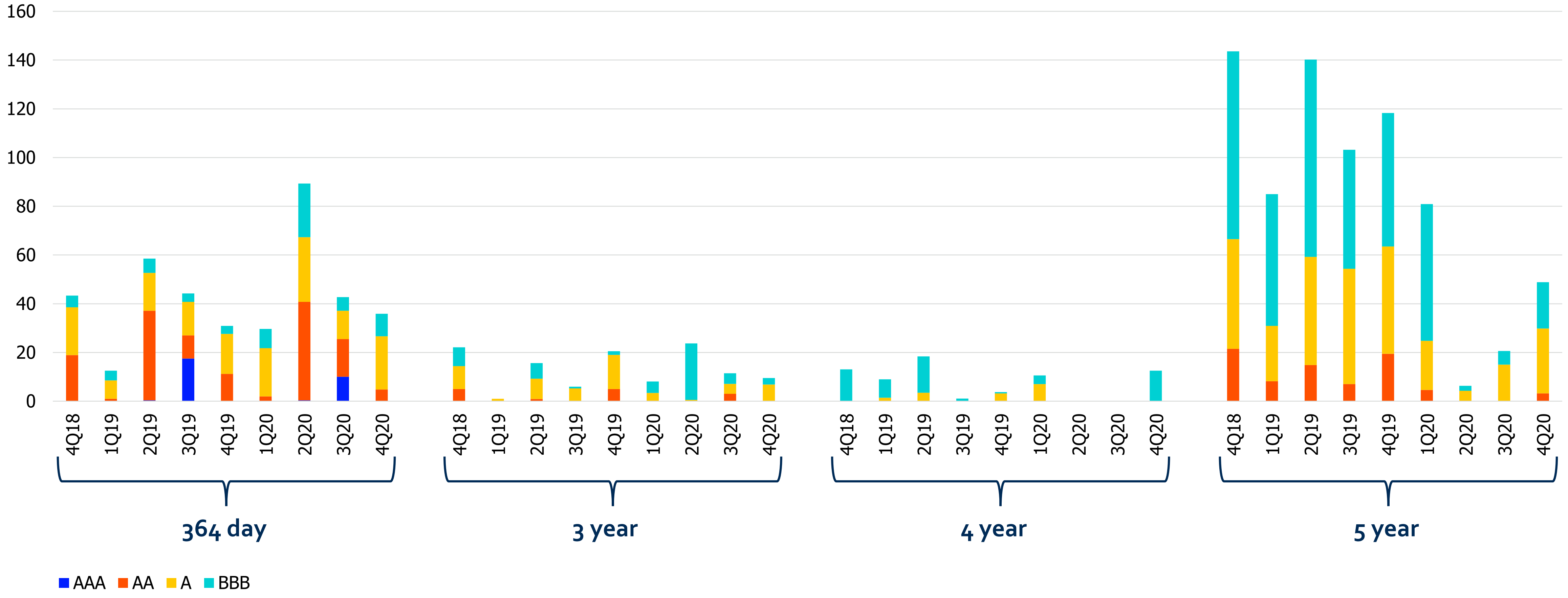
Five-year revolver volume inched back up in latter part of 2020

"2020 was a very unique year in the investment grade loan market because it was the first time we saw meaningful changes in tenors, terms and spreads since 2011-2012. March to May were quite challenging, a time of price discovery, but banks were willing to step up when capital was constrained and we are all impressed by how quickly the market has returned to a new normal, which is close to the old normal." – *US IG Lender*

Revolver volume by rating & tenor ($B)



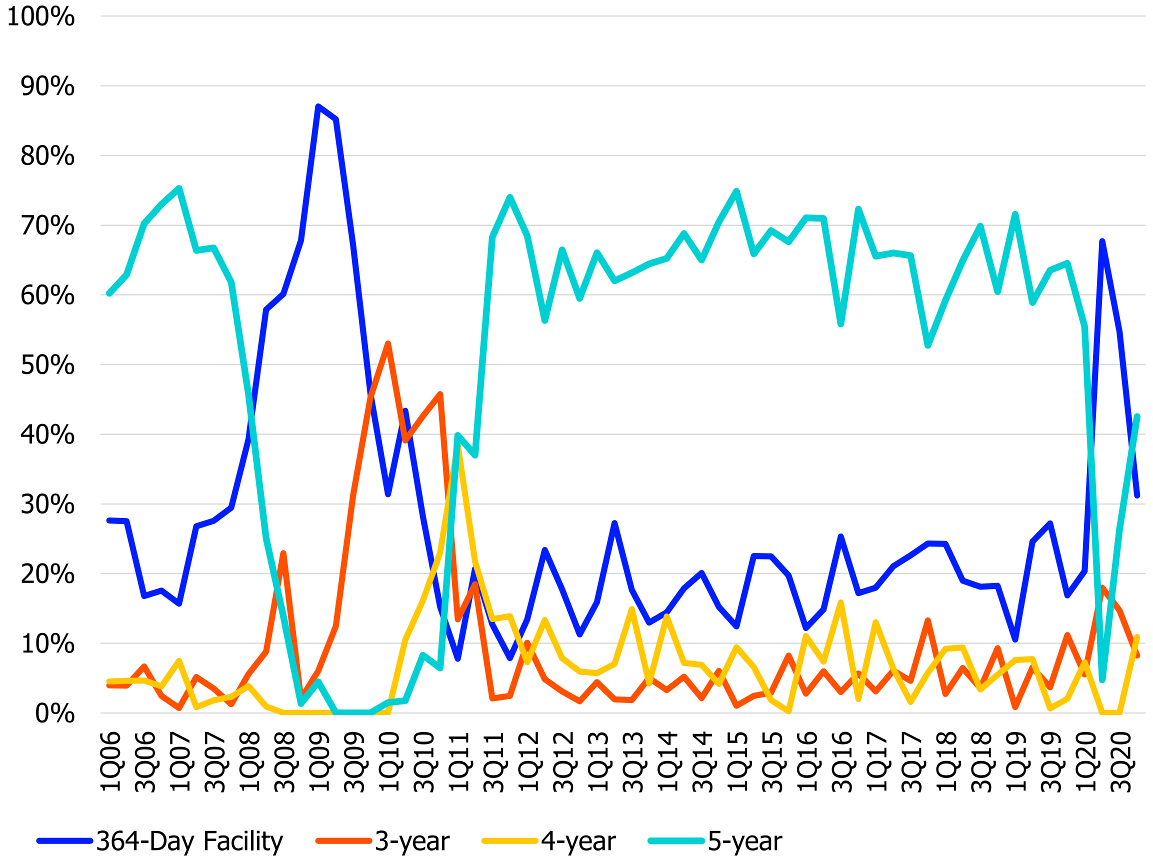
Note: see LPC's Investment Grade Loan Monthly for in-depth analysis

Source: Refinitiv LPC

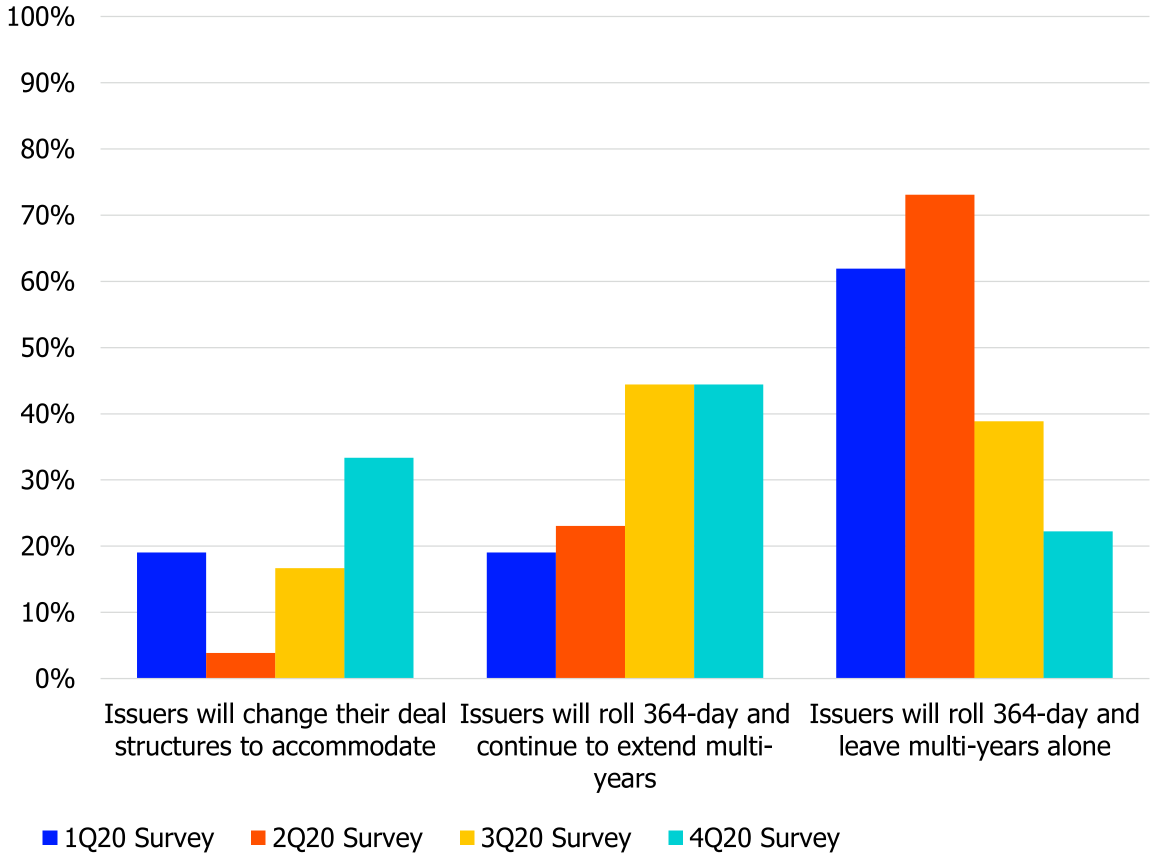
After hovering over 60% for the past 9 years, the share of 5-year revolvers plummeted during the pandemic in 2Q20 but recovered to 43% in 4Q20

"It's notable. It took us eight quarters to get back to regular way five-year financings when we came out of the storm in 2008-09. We are about to be back to regular way pricing way in two to three quarters. It is amazing how quickly we are bouncing back. The recovery has been remarkably fast."

Revolver tenor breakout – as a percent of IG revolver lending



What is your outlook for regular way refinancings?

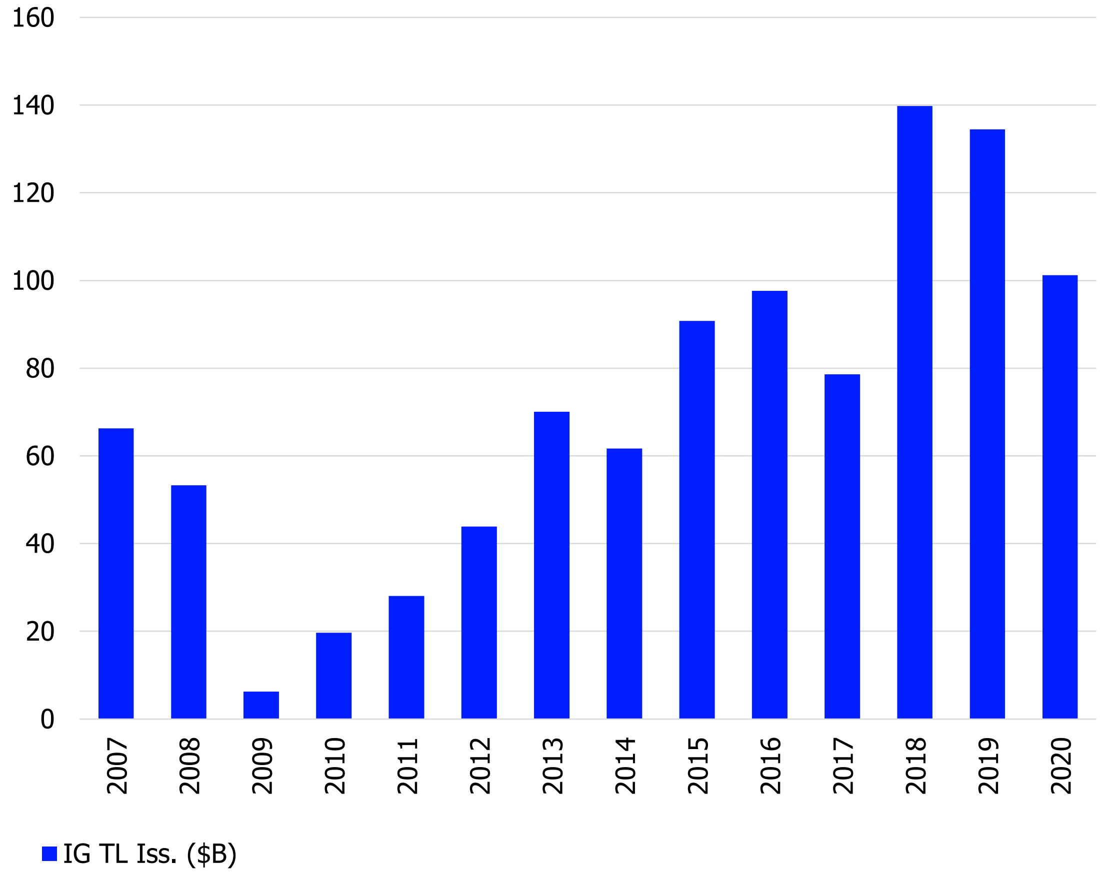


 Source: Refinitiv LPC

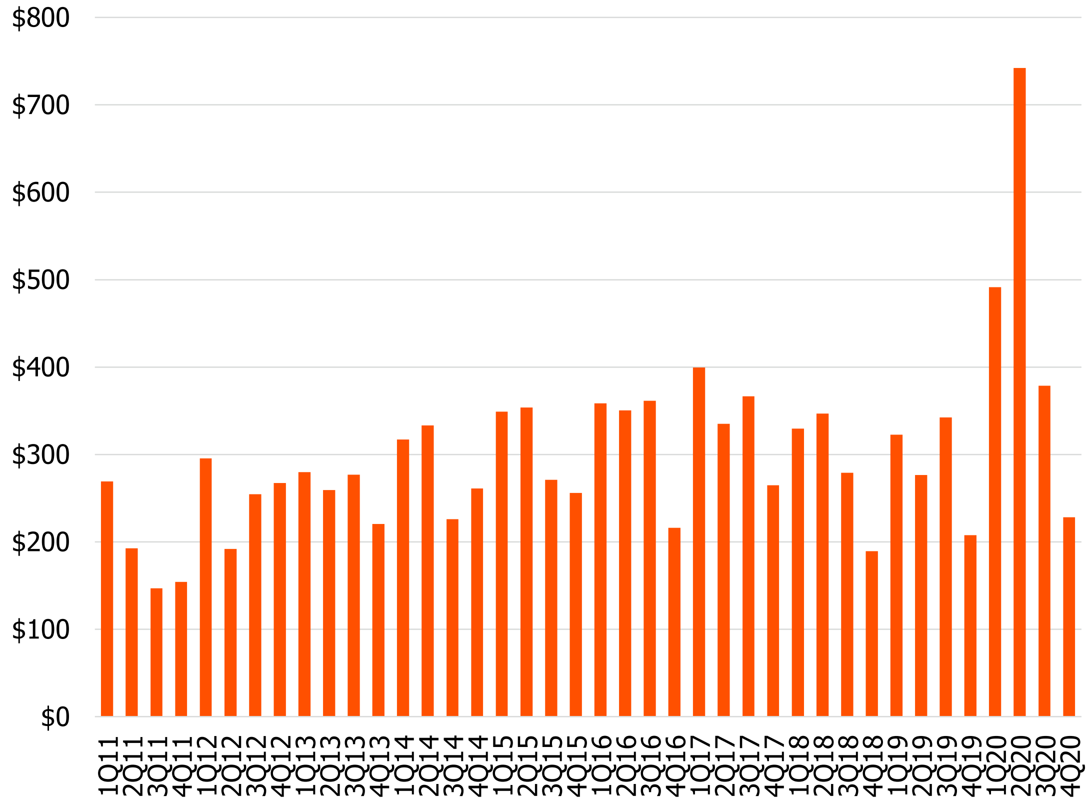
2020 US investment grade term loan issuance was 25% lower than 2019's US$134bn

"We saw a huge corporate identity crisis where they thought they knew the right amount of liquidity for their business but 2020 shifted that. We learned a dollar on balance sheet had more value than a dollar of committed capital. Does the trend of more liquidity persist or does the trend of same amount of liquidity but more in cash versus a credit facility persist?" – *US IG Lender*

US IG term loan issuance – annual ($B)



Quarterly IG corporate bond volume ($B)

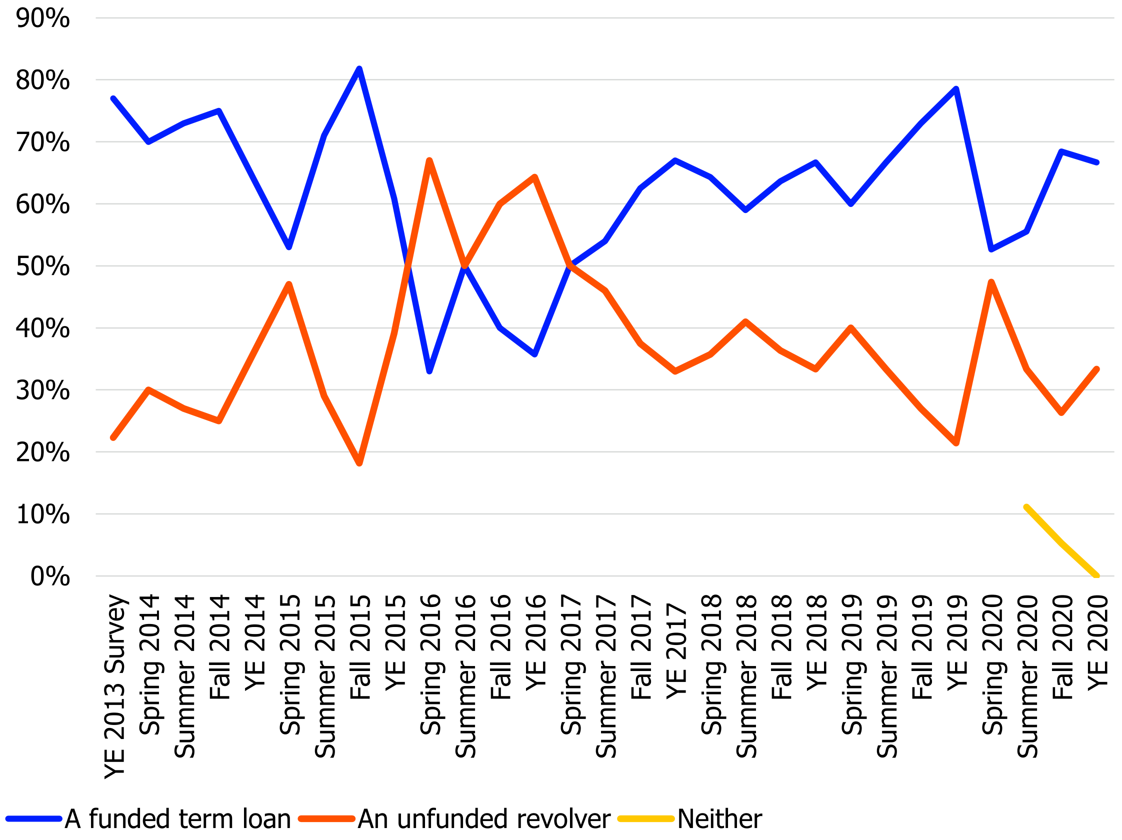


Source: Refinitiv LPC

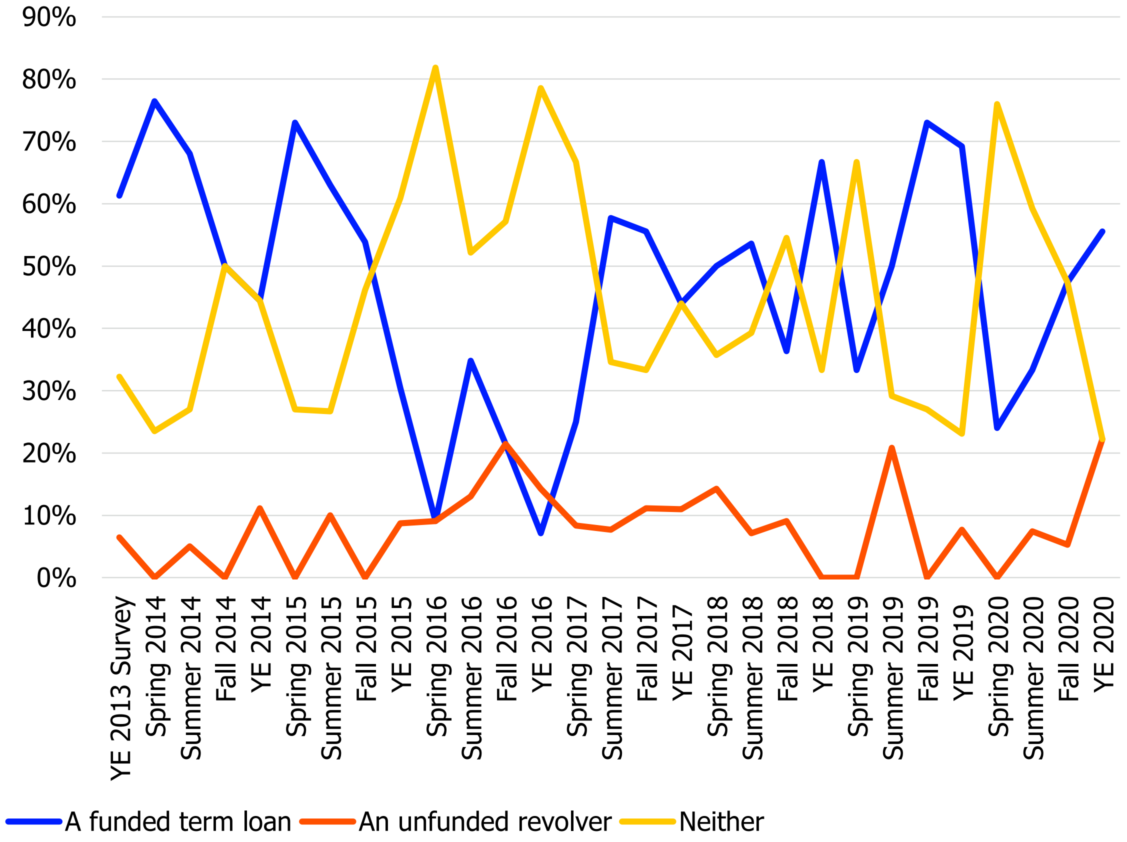
Lender preference for a term loan picks up even where there is a weaker relationship

"From a bank point of view, (some banks) want funded assets to augment or supplement returns and also expect to see more issuers say I can put a term loan in place, it gives me flexibility alongside the bond, so we expect to see more interest from both sides." – *US Lender*

Lender preference for a client with a strong relationship (% of respondents)



Lender preference for a client with a weaker relationship (% of respondents)

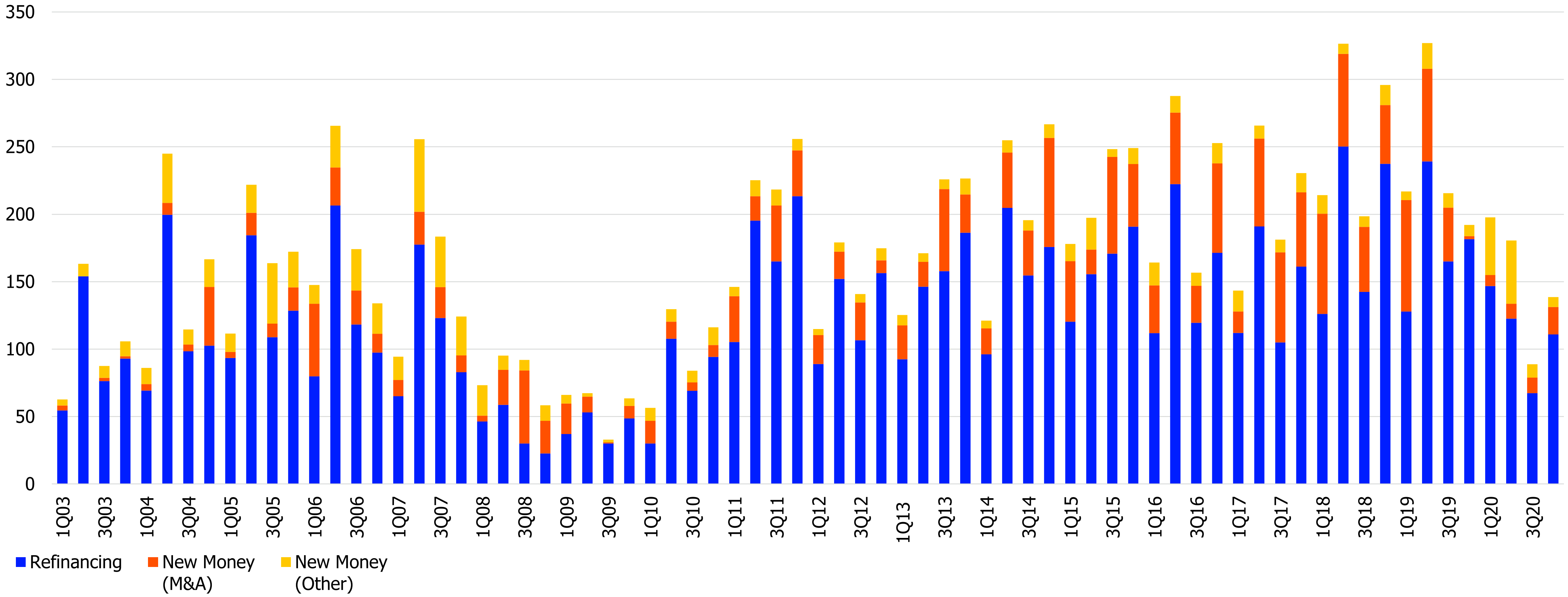


Source: Refinitiv LPC's Quarterly Buyside & Sellside Survey

Refinancing activity was slowest since 2010’s $300B, ending the year at $447.5B

Lenders believe refinancing activity will be very robust in 2021 as companies that held off this year are pretty anxious to get into the market that may have maturities in 2021/22. “Those companies feel more pressure to come but they’ll certainly have benefited from holding off.” – *IG Lender*

US investment grade loan issuance ($B)

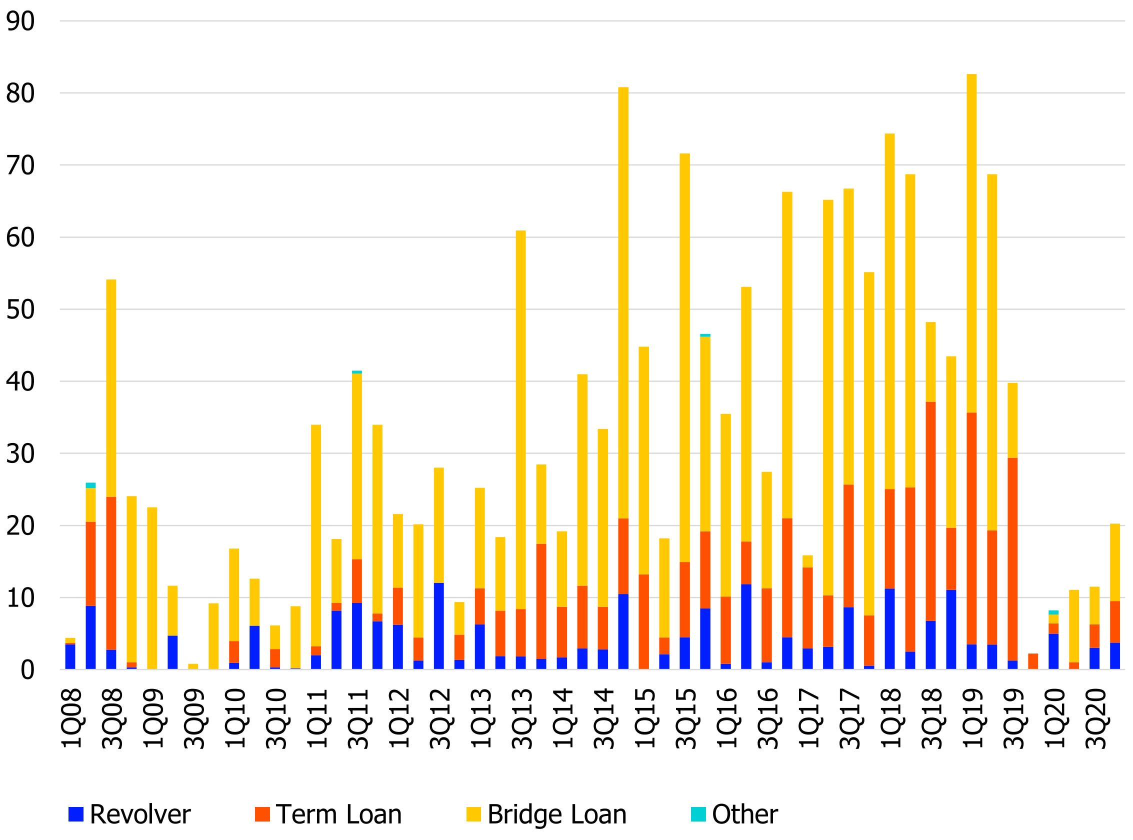


 Source: Refinitiv LPC

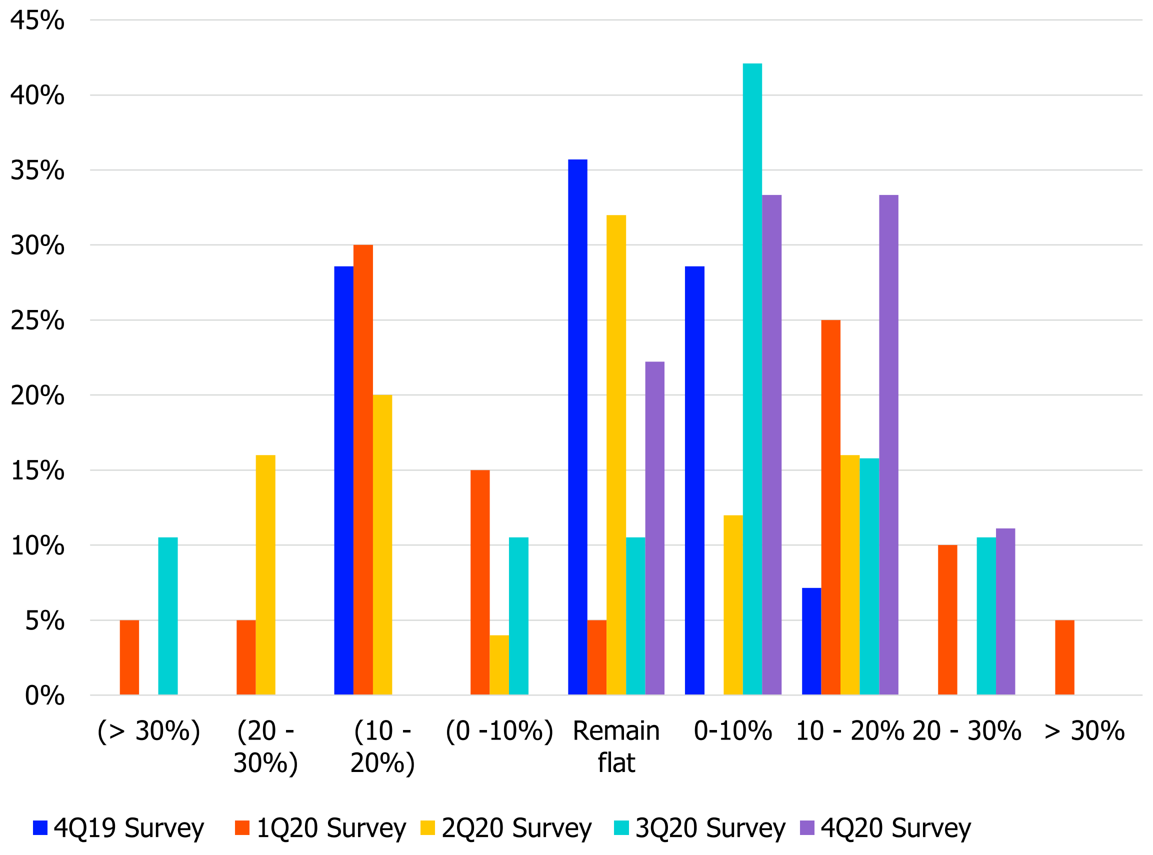
US IG M&A financings dropped to $51B, down 74% from 2019

"It was the same post-credit crisis where M&A at first was stock heavy deals, then we saw more cash and willingness to put leverage on the balance sheet. But you have to feel good about your own business if you are going to take that bet." – *US IG Underwriter*

US investment grade M&A issuance by loan type ($B)



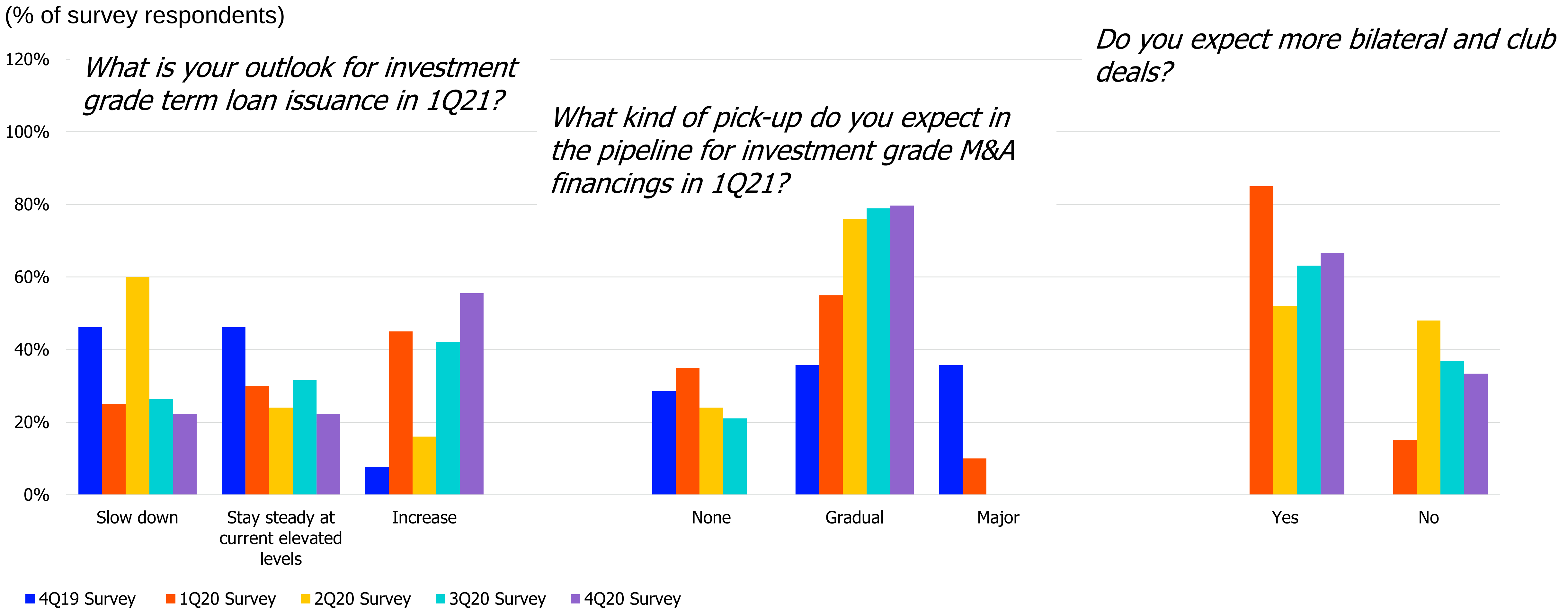
How will overall investment grade issuance change next quarter? (% of survey respondents)



Source: Refinitiv LPC , Refinitiv LPC's Quarterly Buyside & Sellside Survey

Lenders are hopeful for a pick-up in investment grade M&A

"There is a lot of pent-up demand (on the part of issuers). We saw strategic growth come to a halt during the height of the pandemic. Deals and trades that would have normally occurred during the year, we're catching up to now." – *US IG Underwriter*



 Source: Refinitiv LPC's Quarterly Buyside & Sellside Survey

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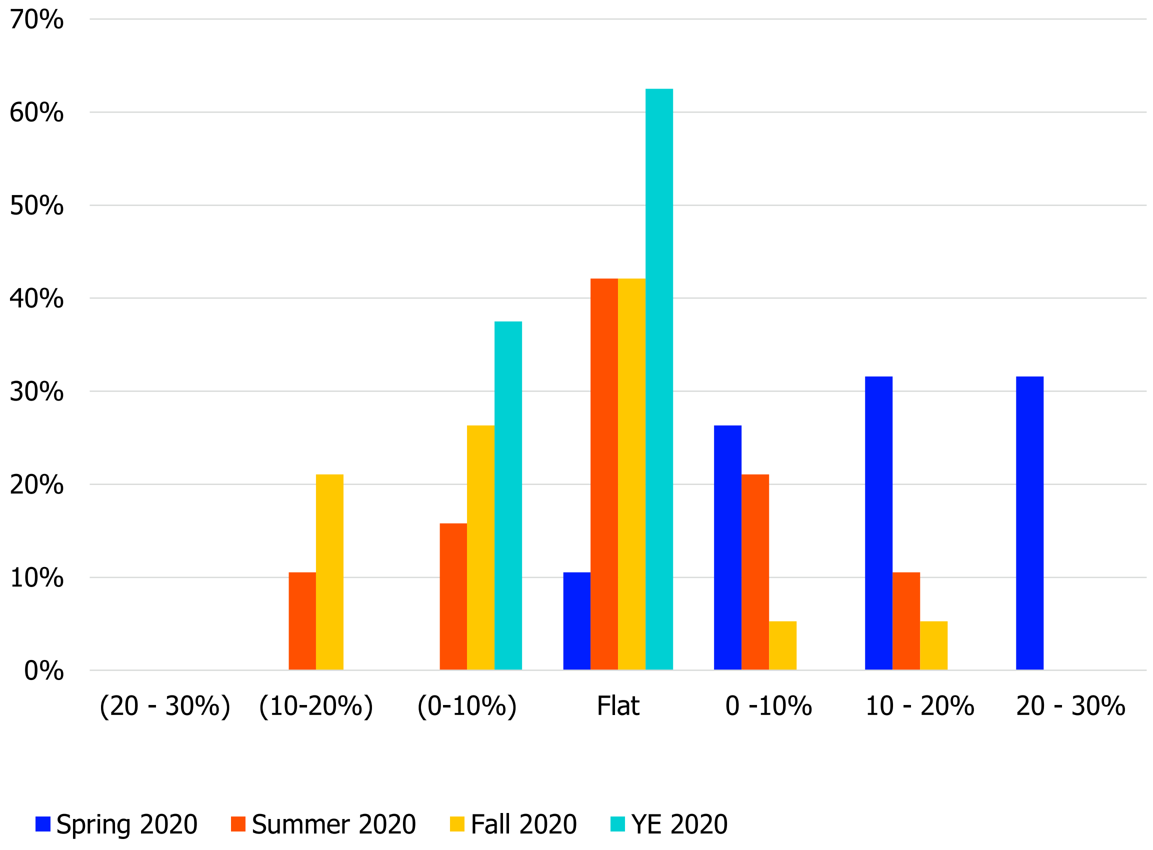
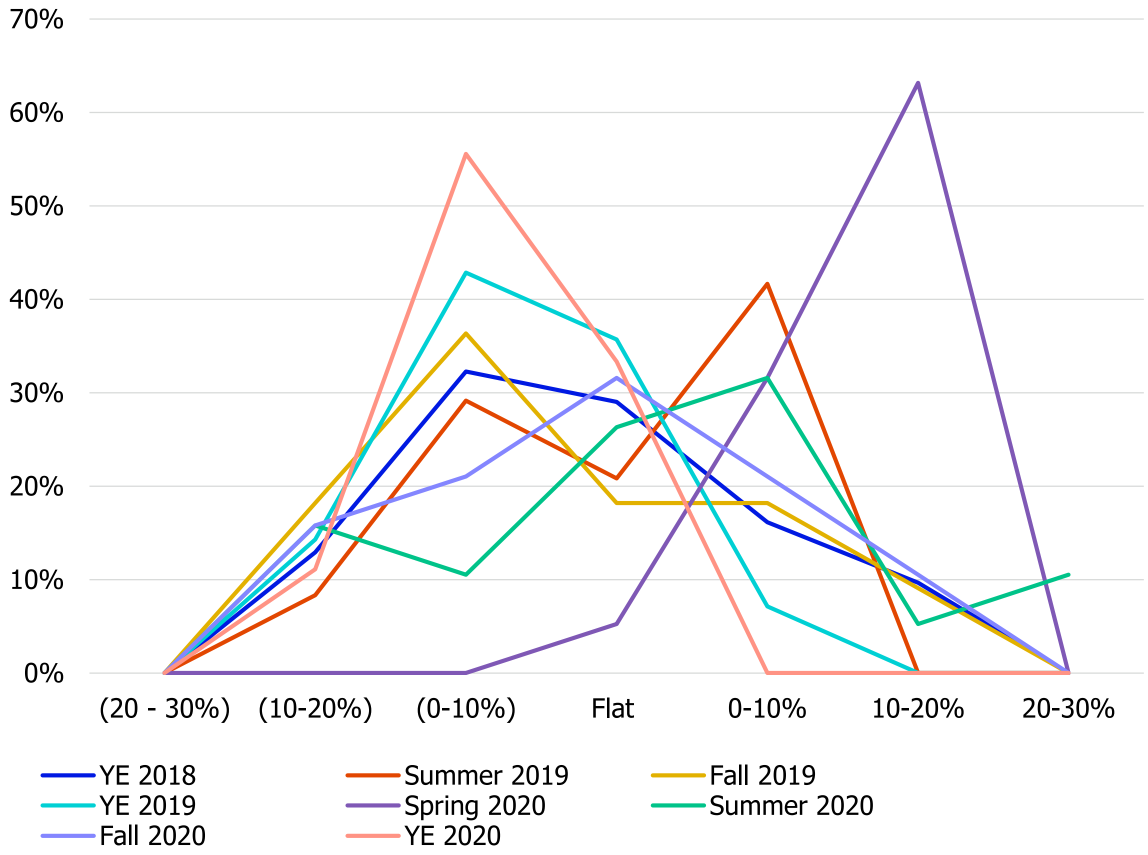
Pricing is expected to be flat to down as it normalizes

"2020 wasn't the year anyone expected. Lenders thought 2020 was going to be pretty good and it certainly changed quickly but the market showed resilience…People were anxious to shut the door on 2020 and start over. At the end of the day what will really drive it is some big M&A, but it will be a big year of refi volumes, after a weak year, we'll definitely get buoyed by that. Whether it's a super year will depend on big M&A." – *US IG Lender*

How will higher quality spreads change in the next quarter? (% of survey respondents)



How will BBB spreads change in the next quarter? (% of survey respondents)



Source: Refinitiv LPC's Quarterly Buyside & Sellside Survey

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