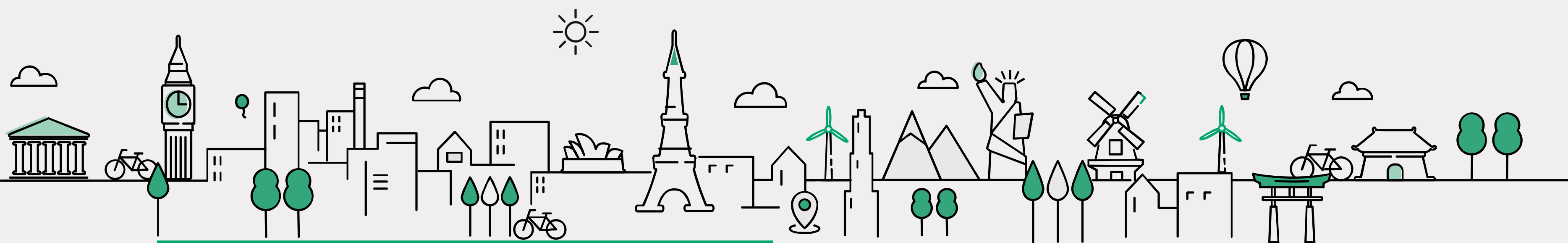
For Professional Investors – Marketing Communication

SENIOR SECURED LOANS: THE CURRENT SCENARIO

Exploring the risk-reward profile of the loan asset class at this point of the cycle



BOLOGNA, JUNE 2019

BNP PARIBAS ASSET MANAGEMENT

The asset manager for a changing world

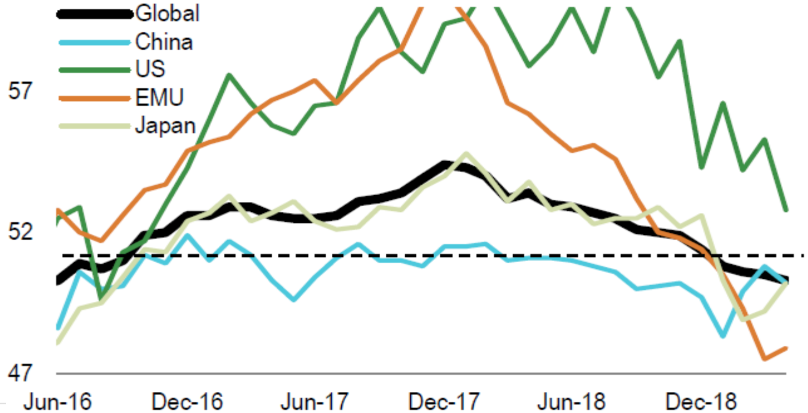
Contents

1 MACROECONOMIC ENVIRONMENT FOR CORPORATE CREDIT

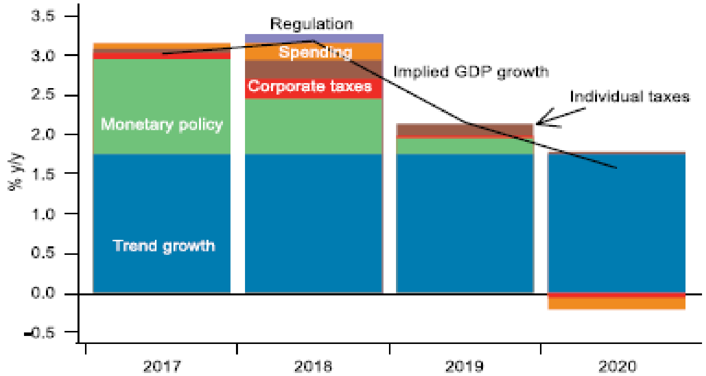
Synchronised global slowdown

Driven by fading policy stimulus, trade frictions and capacity constraints

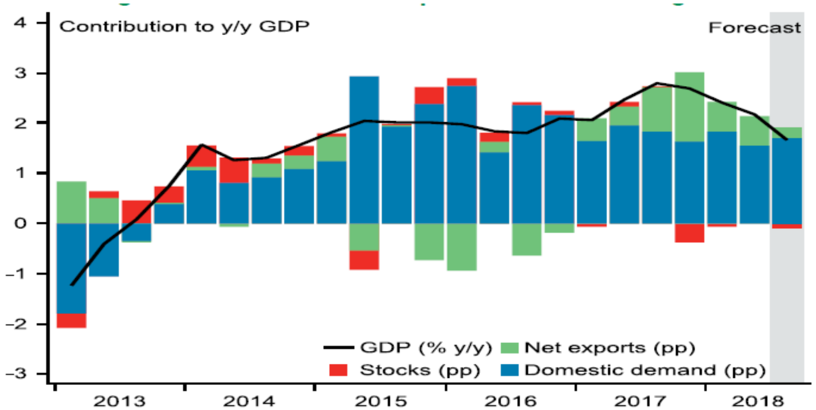
PMI Evolution across major global economies



US: Fading stimulus on GDP growth



Eurozone: Growth impacted by depressing exports



BNP Paribas GDP growth &inflation forecasts

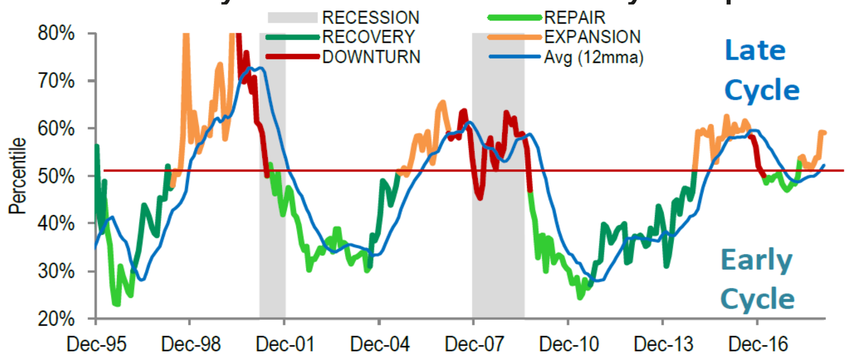
	2017	2018	2019F	2020F
GDP growth (% y/y)				
US	2.2	2.9	2.7	1.8
Eurozone	2.5	1.8	1.1	1.0
China	6.8	6.6	6.2	6.0
Global	3.8	3.7	3.4	3.6
CPI inflation (% y/y)				
US	2.1	2.4	2.1	2.0
Eurozone	1.5	1.8	1.3	1.3
China	1.6	2.1	2.2	2.6

Source: Eurostat, Markit, BEA, CBO, BLS, Fed, Macrobond, BNP Paribas Bank, BNP Paribas AM, May 2019

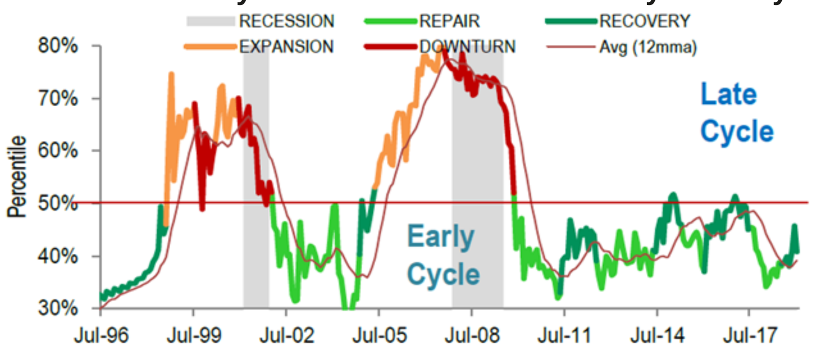
Weak goldilocks scenario exposed to downside risks

Whilst recession risk has increased, an imminent turn in the credit cycle is not our base case scenario

BNPP credit cycle indicator*: US is in late cycle expansion

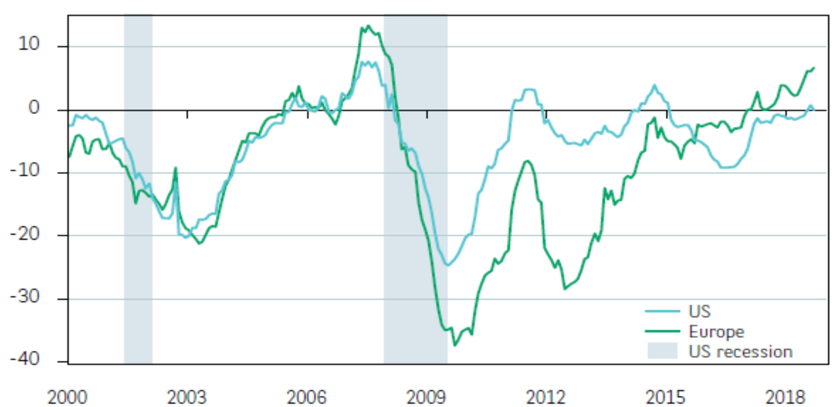


BNPP credit cycle indicator*: EU is still early in the cycle



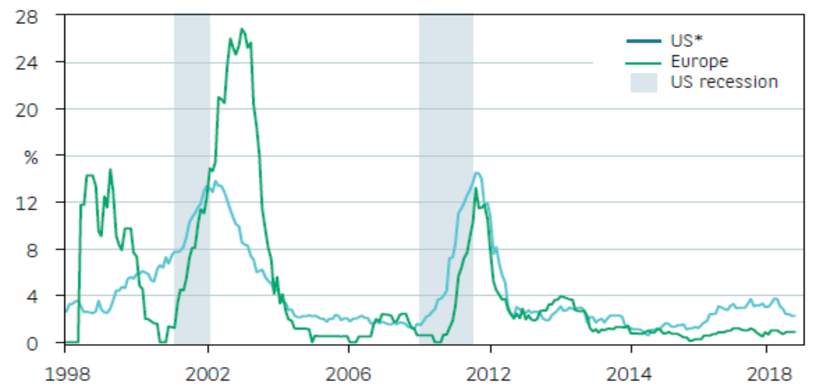
* Indicator constructed based on the average percentiles of 5 selected credit cycle indicators, including leverage, credit conditions, risk appetite, policy and economy. The cyclical stage is determined by the position vis-à-vis (1) the above 50% threshold and (2) the trend vs. the 12m moving average.

IG credit upgrade-downgrade ratio (6m moving average)



Data as at 31 October 2018

HY default rates (trailing 12-months)



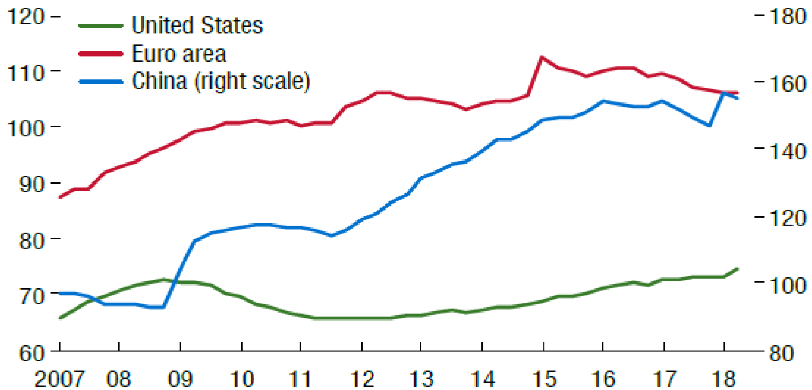
Data as at 31 October 2018

Source: Bloomberg, Capital IQ, BAML, BNP Paribas, BNP Paribas Asset Management, February 2019

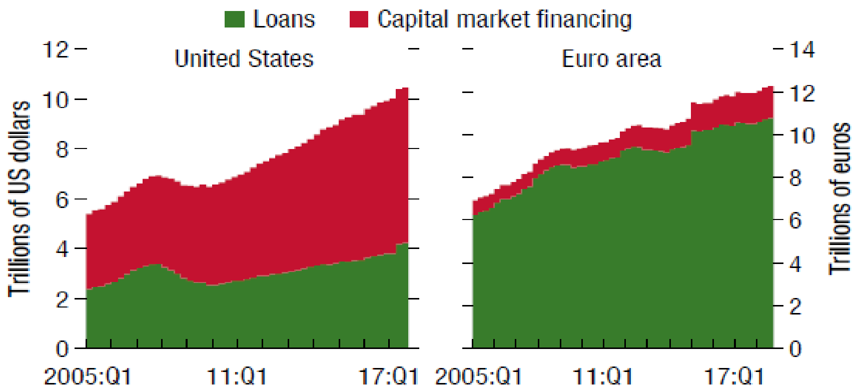
On top of structural developments in broader credit markets

Corporate debt expansion, particularly in risky segments and higher reliance on capital markets

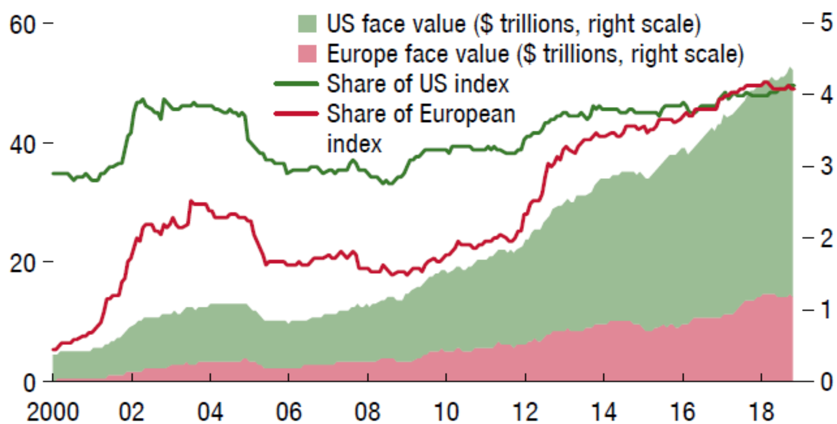
Non-financial firms: Debt to GDP, by Region (%)



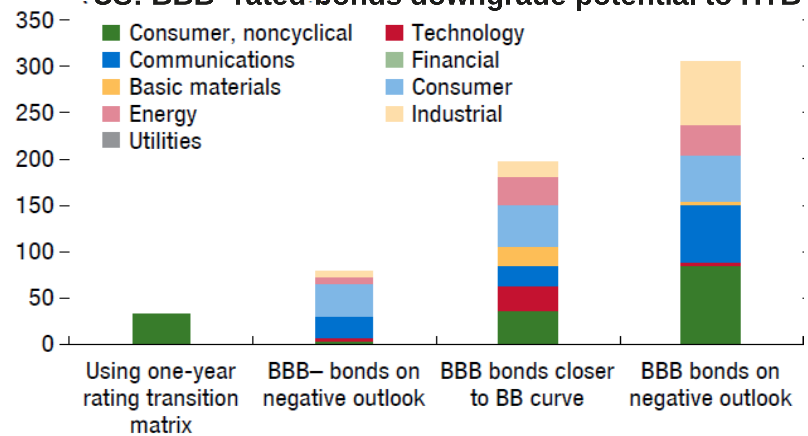
Non-financial sector reliance on capital market financing



BBB-rated bonds in IG[1] indices (% of total, USD trillion)



US: BBB[3] rated bonds downgrade potential to HYB[2]



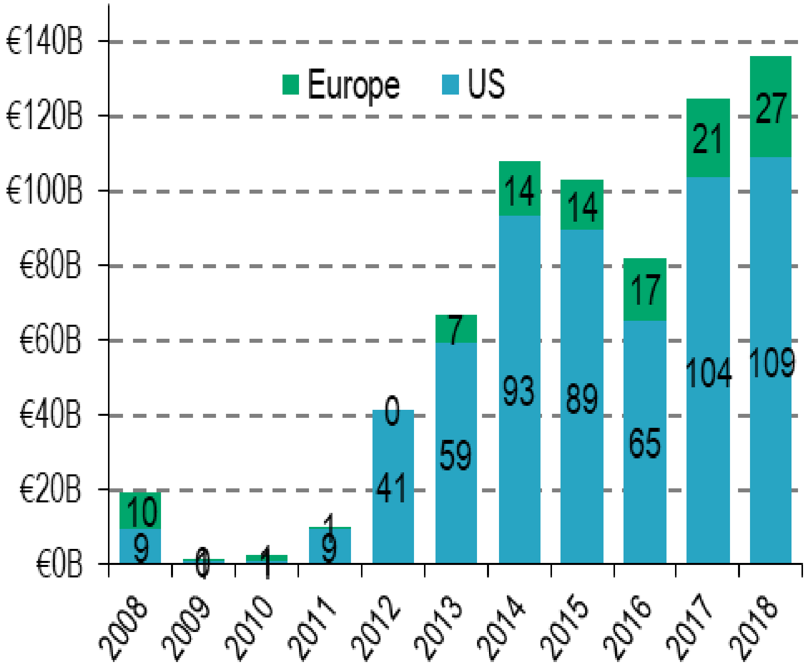
Source: IMF, Financial Stability Report, April 2019. [1]IG: Investment Grade. [2]HYB: High Yield Bonds. [3]Rating from S&P Ratings.

2 CURRENT DYNAMICS IN THE CORPORATE LOAN MARKET

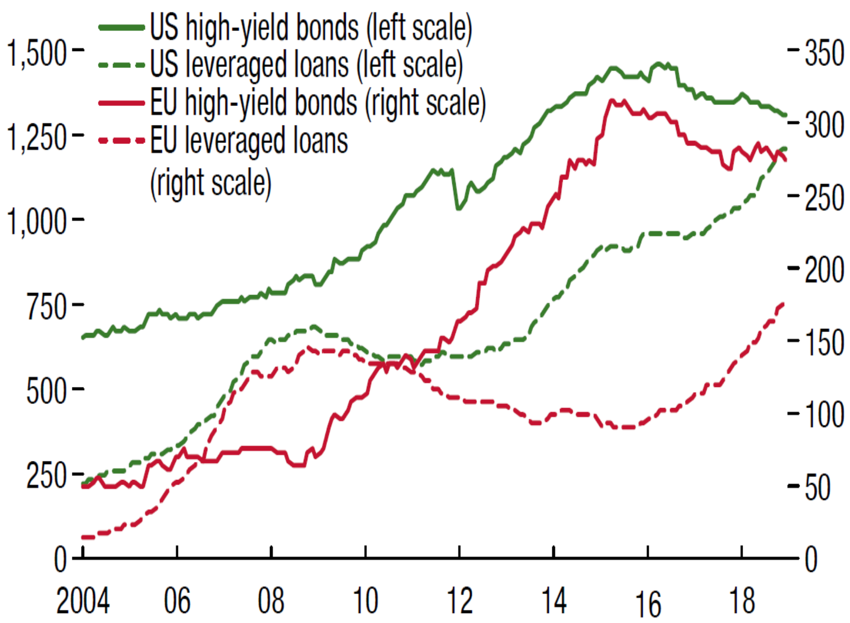
Strong capital formation

Driving market growth and secondary market liquidity

Arbitrage CLO[1] volume: US and Europe



Leveraged finance market size in the US and Europe

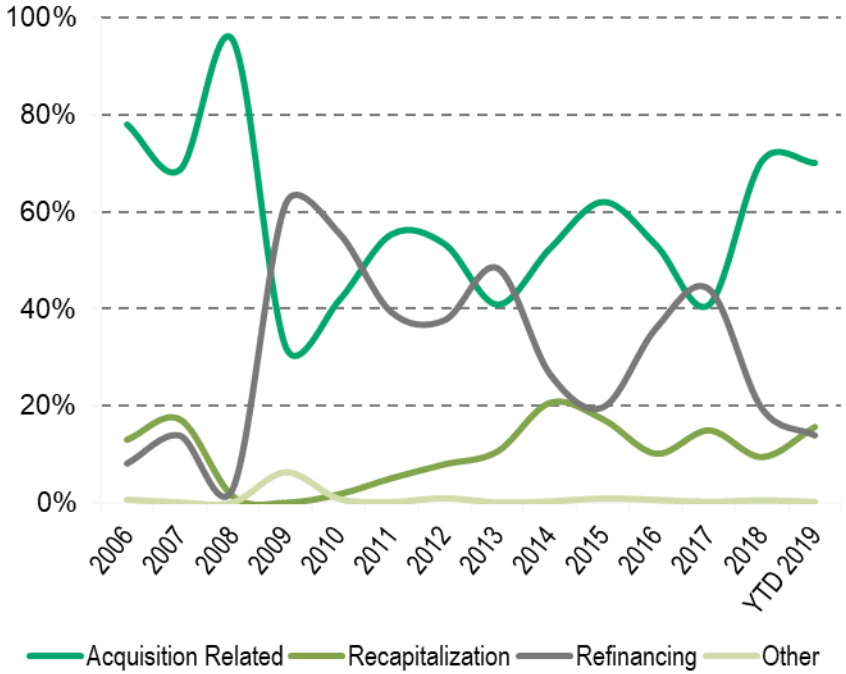


Source: S&P/LCD, December 2018, IMF, Financial Stability Report, April 2019 . [1]CLO: Collateralised Loan Obligations.

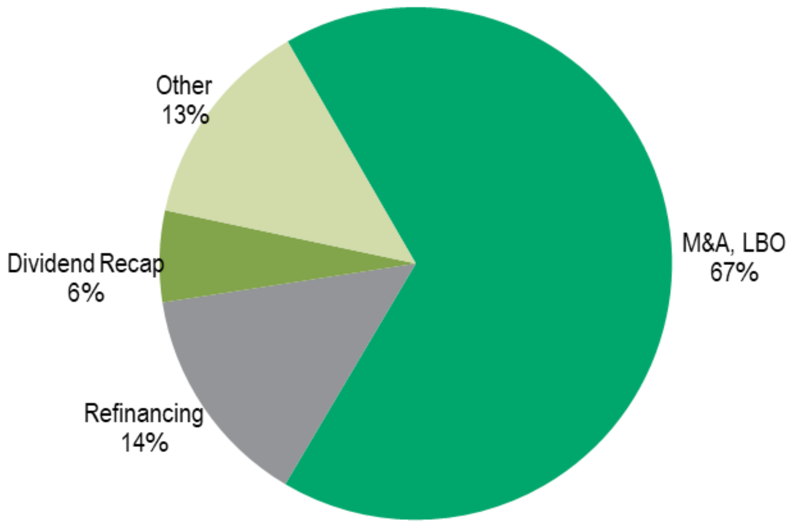
Dynamic primary market

Boosted by corporate M&A[1] activity

European loan market: New issue breakdown by deal purpose (based on volume)



US loan market: Institutional New issue breakdown by deal purpose (based on volume)

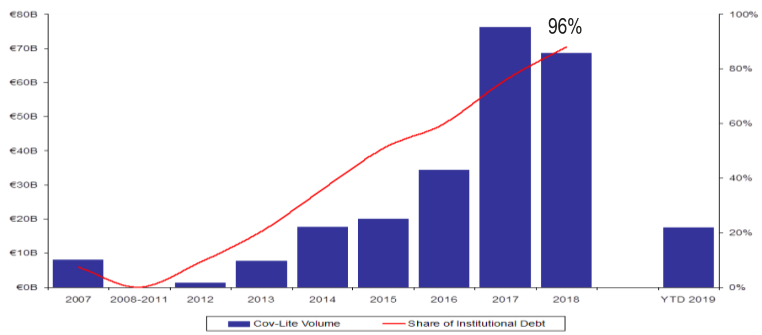


Source: S&P/LCD, April 2019. [1]M&A: Mergers and Acquisitions.

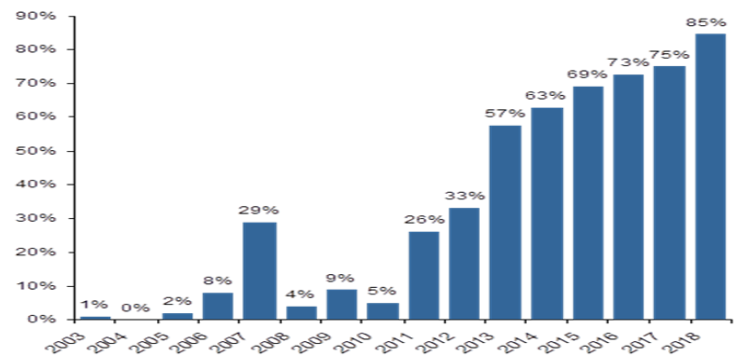
Growing share of institutional investors

Leading to a convergence of covenant provisions between the corporate loan and HYB markets

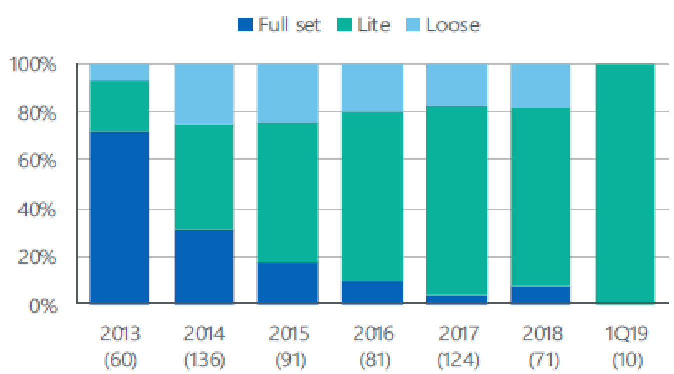
European loan market: Annual institutional volume of Cov-lite transactions



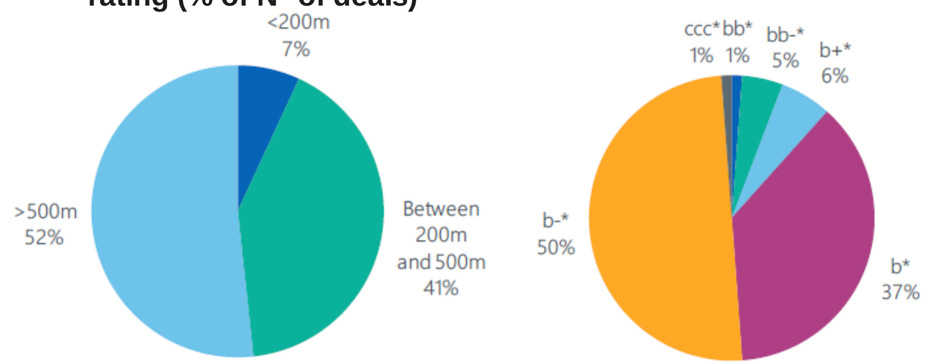
US loan market volume: New-issue US Cov-lite loans (% of all institutional loans)



Europe loans: Split by type of covenants (% N° deals)



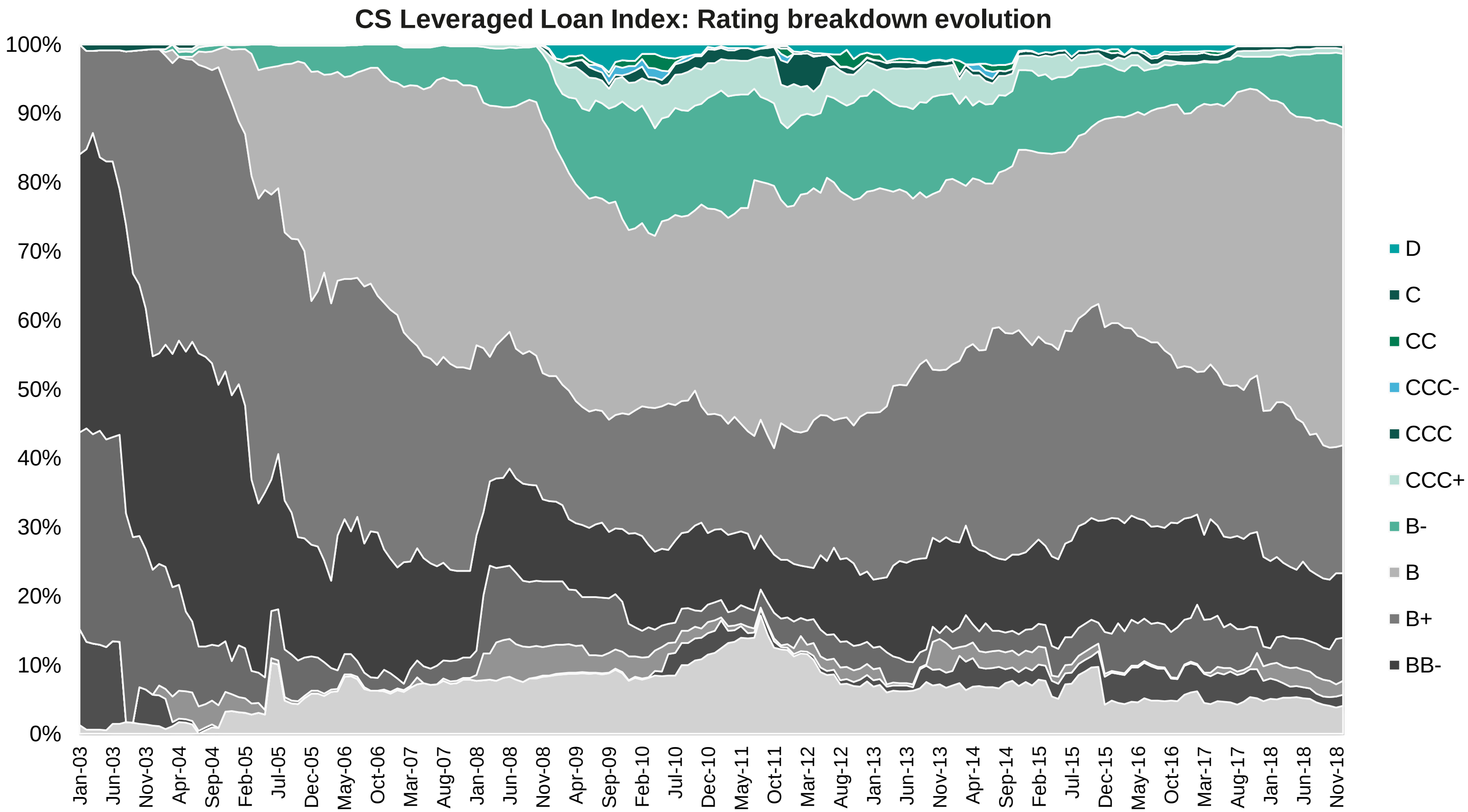
European Cov-lite/ loose loans: Split by company size and rating (% of N° of deals)



Source: S&P/LCD, December 2018; Fitch Ratings, April 2019

Focus will shift towards rating migration

The changing paradigm into the next credit cycle

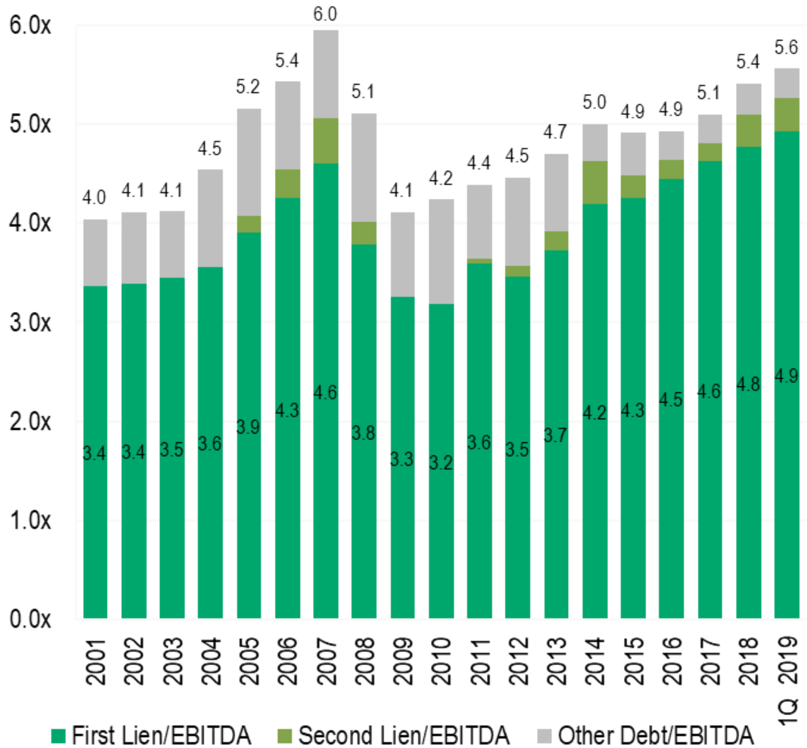


Source: Credit Suisse, December 2018

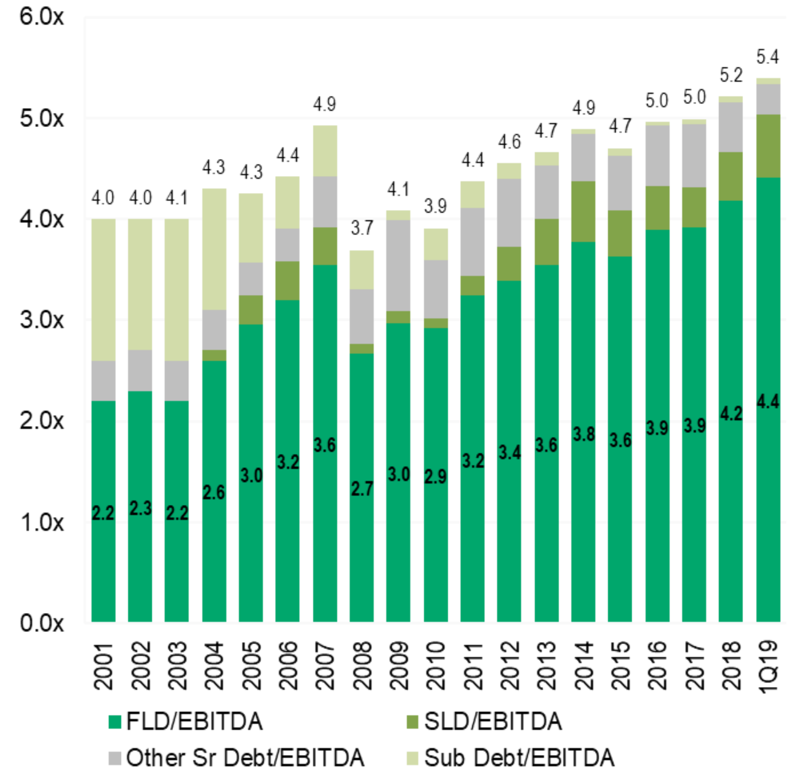
Rising leverage metrics across the US and Europe

On the back of the structurally lower cost of debt and the mix of new financing situations

European loan market: Annual pro format Debt / EBITDA Ratios of primary deals



US loan market: Average Debt / EBITDA Ratios of primary deals

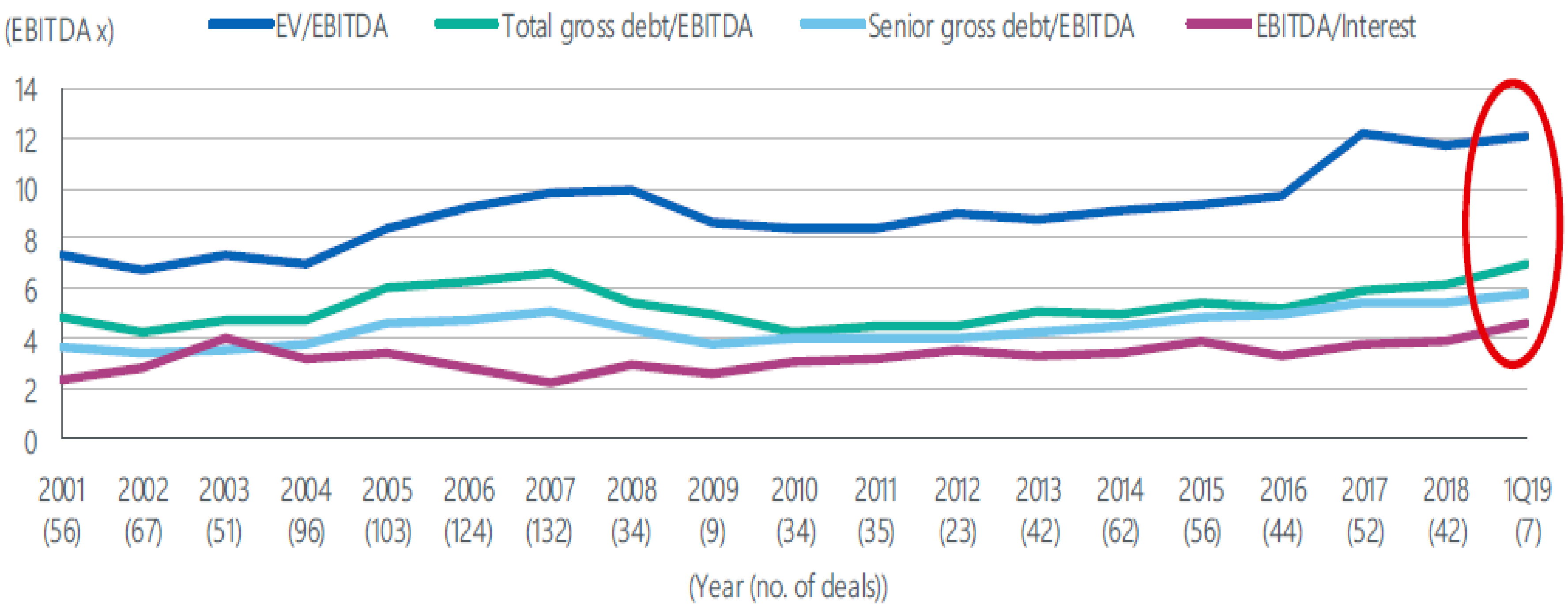


Past performance is not indicative of future performance. Source: S&P/LCD, April 2019.

Significant enterprise value cushion

Providing mitigation to increasing leverage multiples

Fitch Credit Opinions Database: Enterprise Value (EV), leverage and interest cover average metrics at closing in Europe



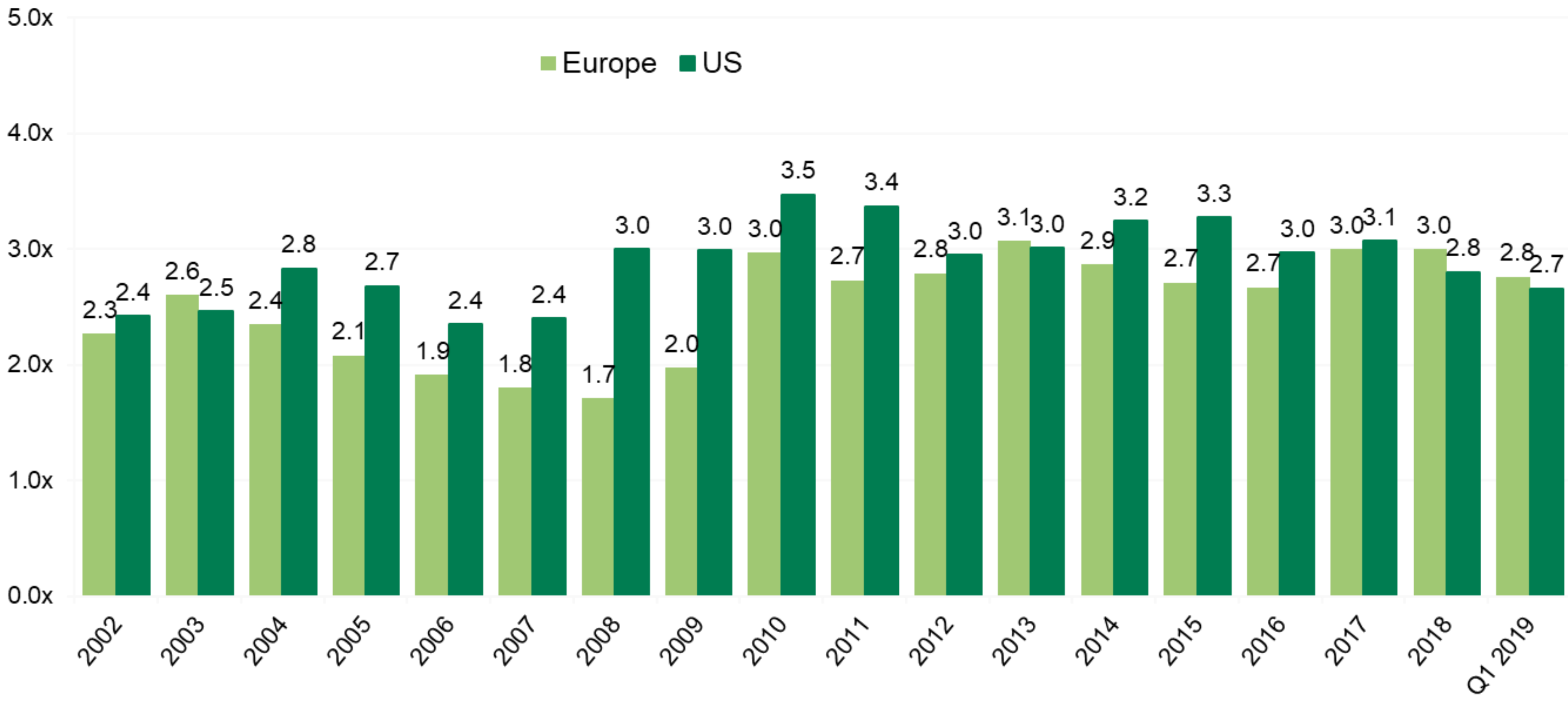
Note: Multiples are based on a Fitch EBITDA which may differ from the reference EBITDA used in information memoranda and marketing materials.

Past performance is not indicative of future performance. Source: Fitch Ratings Credit Opinions Database, April 2019.

Healthy interest coverage ratios

The stabilizing factor in the low cost of debt environment

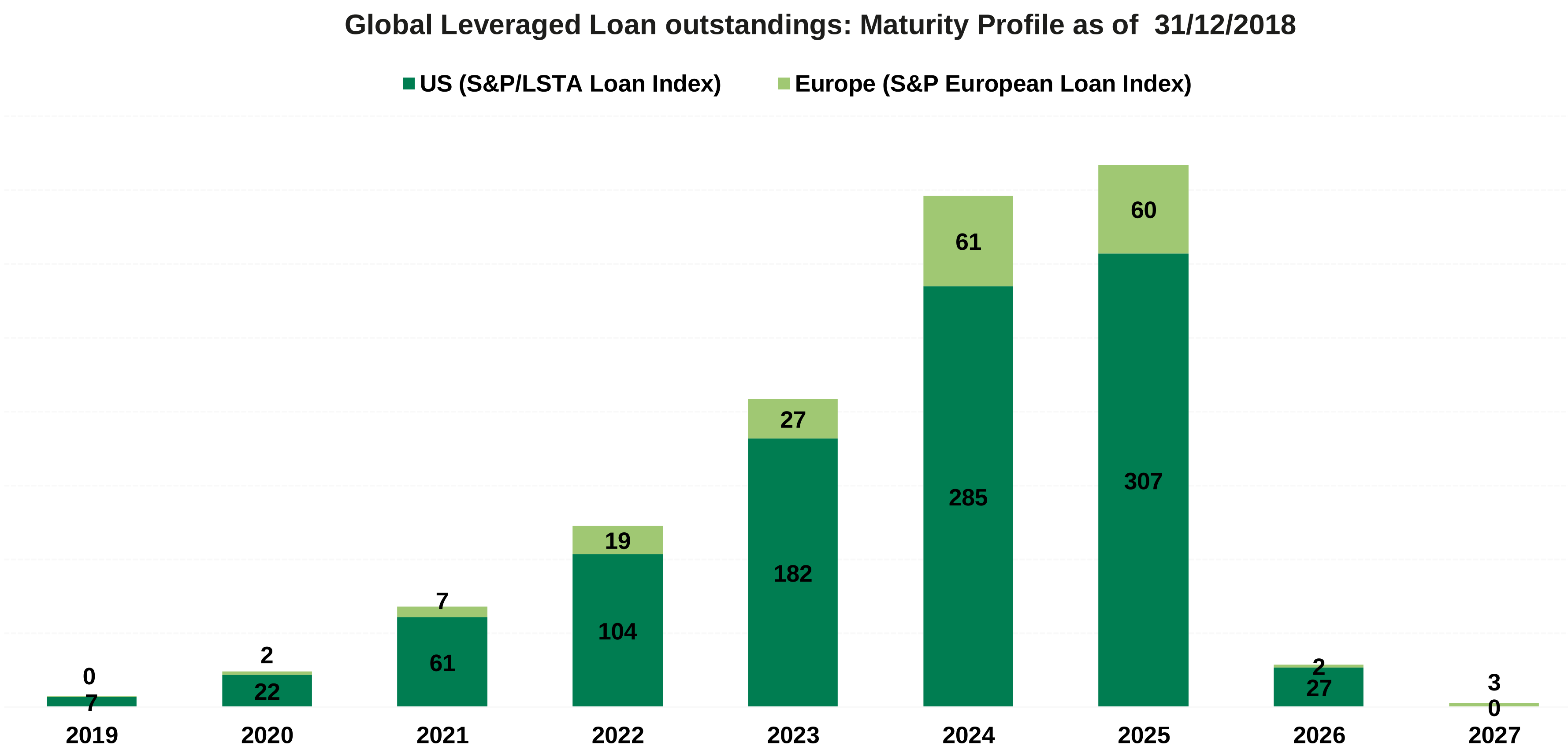
Global loan market: Average ((EBITDA-Capex)/Cash Interests) ratio of new issue loans (US / Europe) of primary deals



Past performance is not indicative of future performance. Source: S&P/LCD, April 2019.

Limited refinancing risk in the mid term

Providing issuers with significant leeway to face potential macroeconomic downside risks



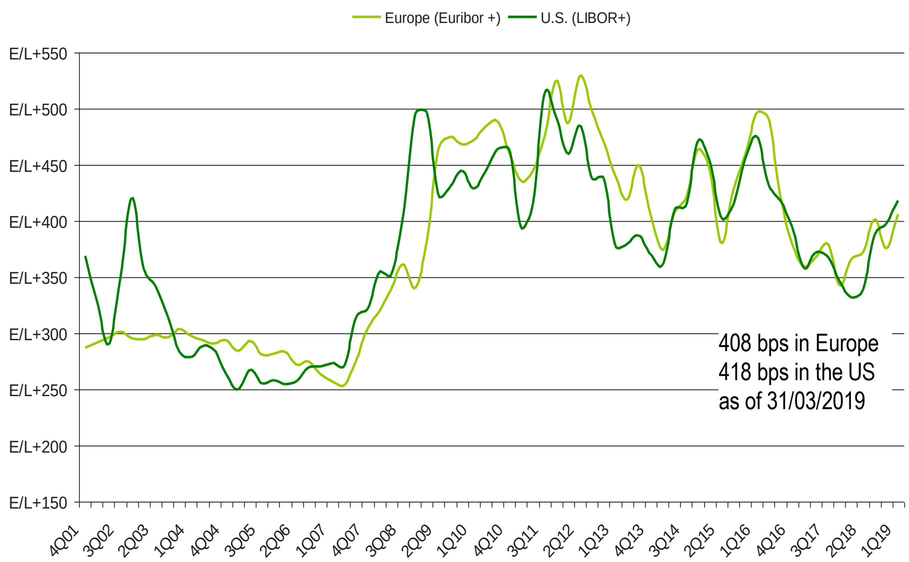
Source: S&P/LCD, February 2019.

3 RISK-REWARD PROFILE OF THE CORPORATE LOANS

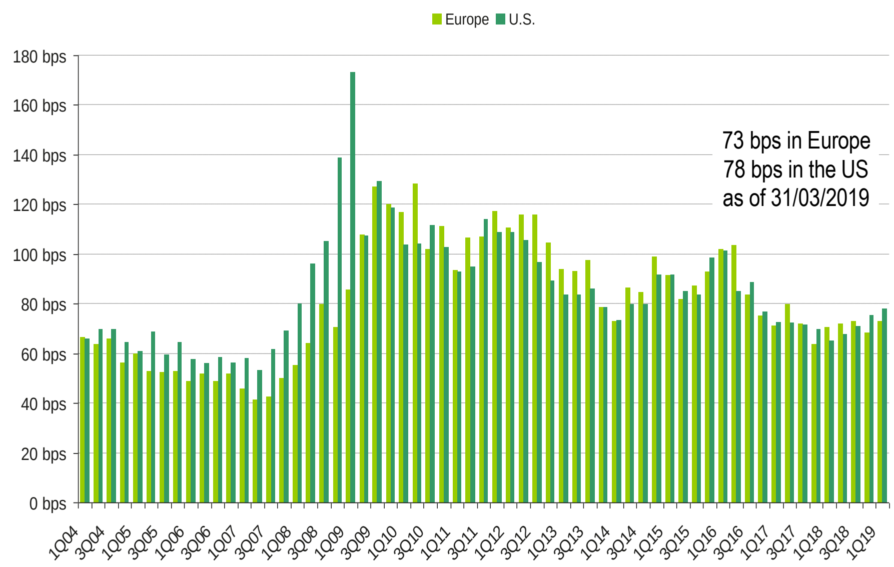
Spread conditions and marginal risk compensation

Positive primary spread evolution vs. the situation at the beginning of 2018

Global loan market: credit spread of the new issuances



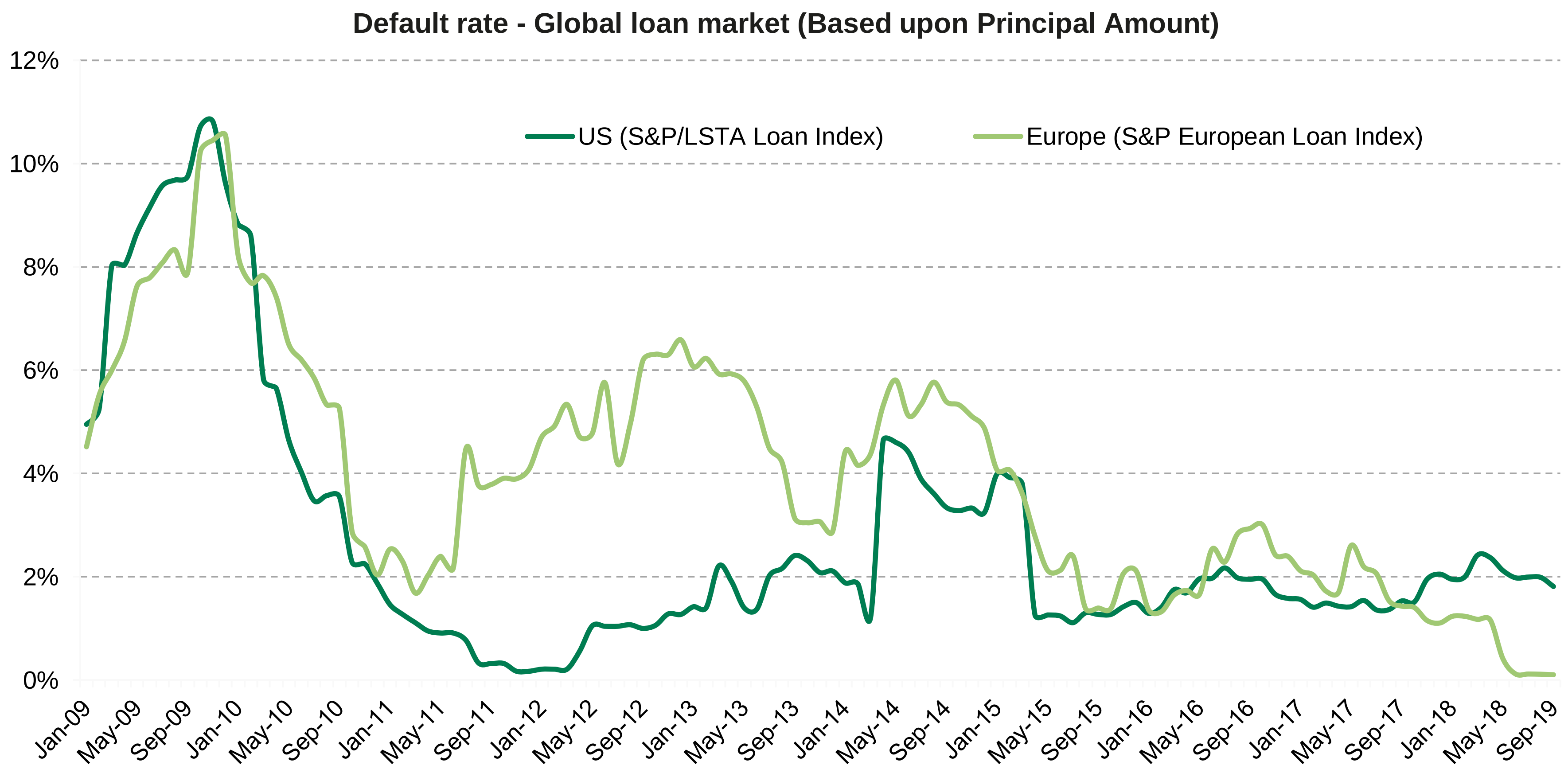
Global loan market: credit spreads per unit



Past performance is not indicative of future performance. Source: S&P/LCD, April 2019.

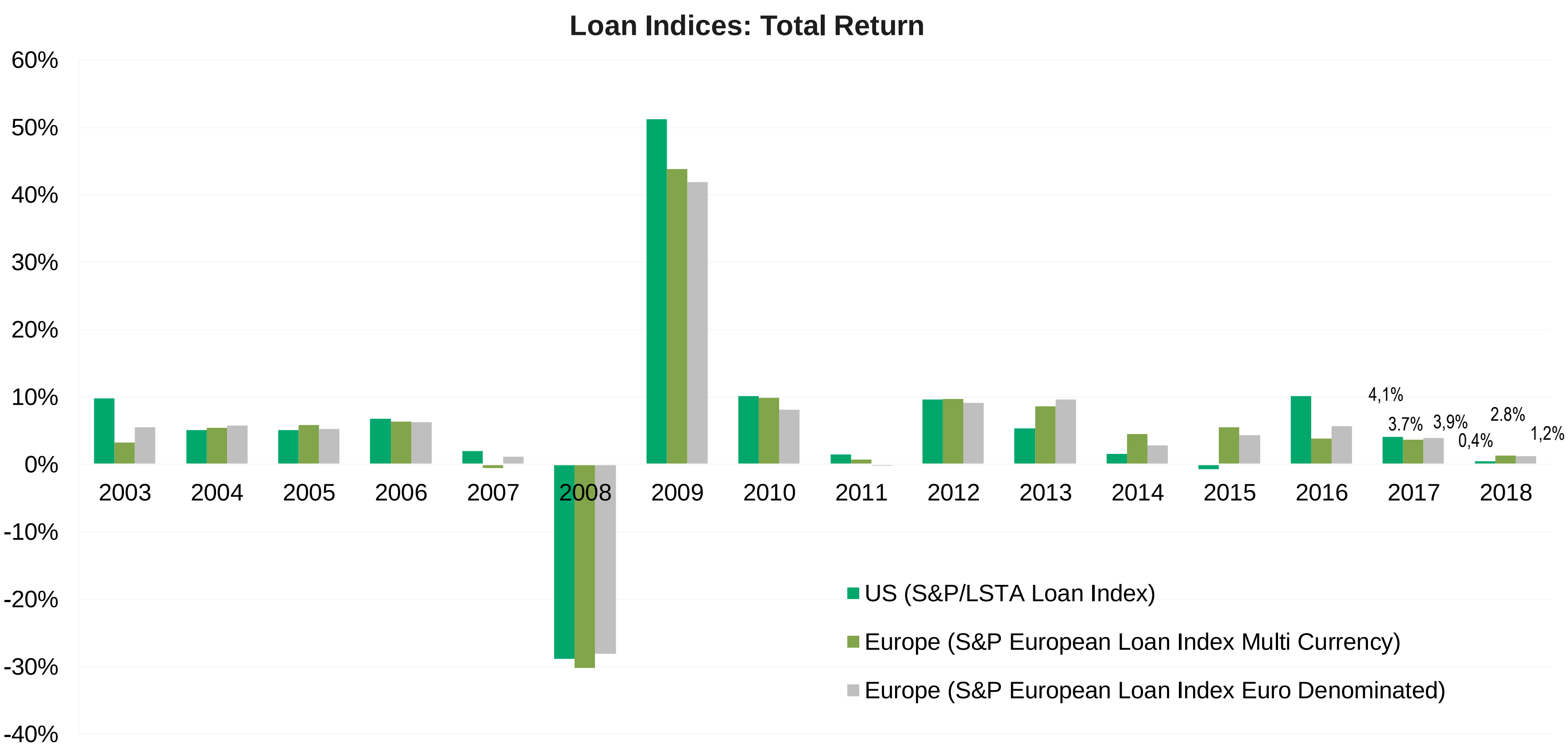
Low default environment

Translating into attractive risk adjusted returns



Past performance is not indicative of future performance. Source: S&P/LCD, February 2019.

Loans have historically delivered resilient returns

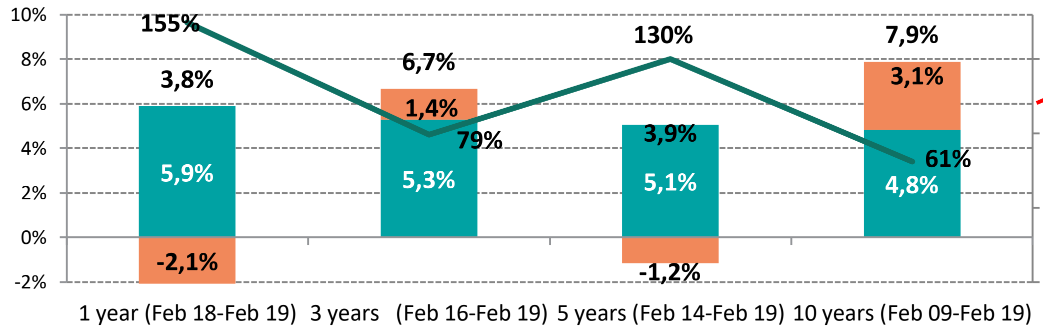


Past performance is not indicative of future performance. Source: S&P/LCD, February 2019.

With most of the return derived from contractual cash carry

Historical Breakdown of Returns

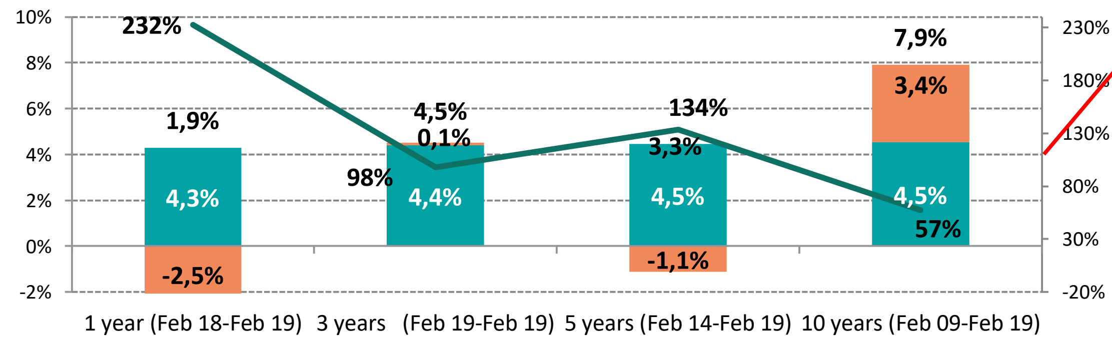
US Loans



Average Weight of Interest Return on Total Return: 87%

Interest retrunn (RHS)
Principal return (RHS)
Total return (RHS)
% of Interest return (LHS)

Europe Loans



Average Weight of Interest Return on Total Return: 93%

Interest retrunn (RHS)
Principal return (RHS)
Total return (RHS)
% of Interest return (LHS)

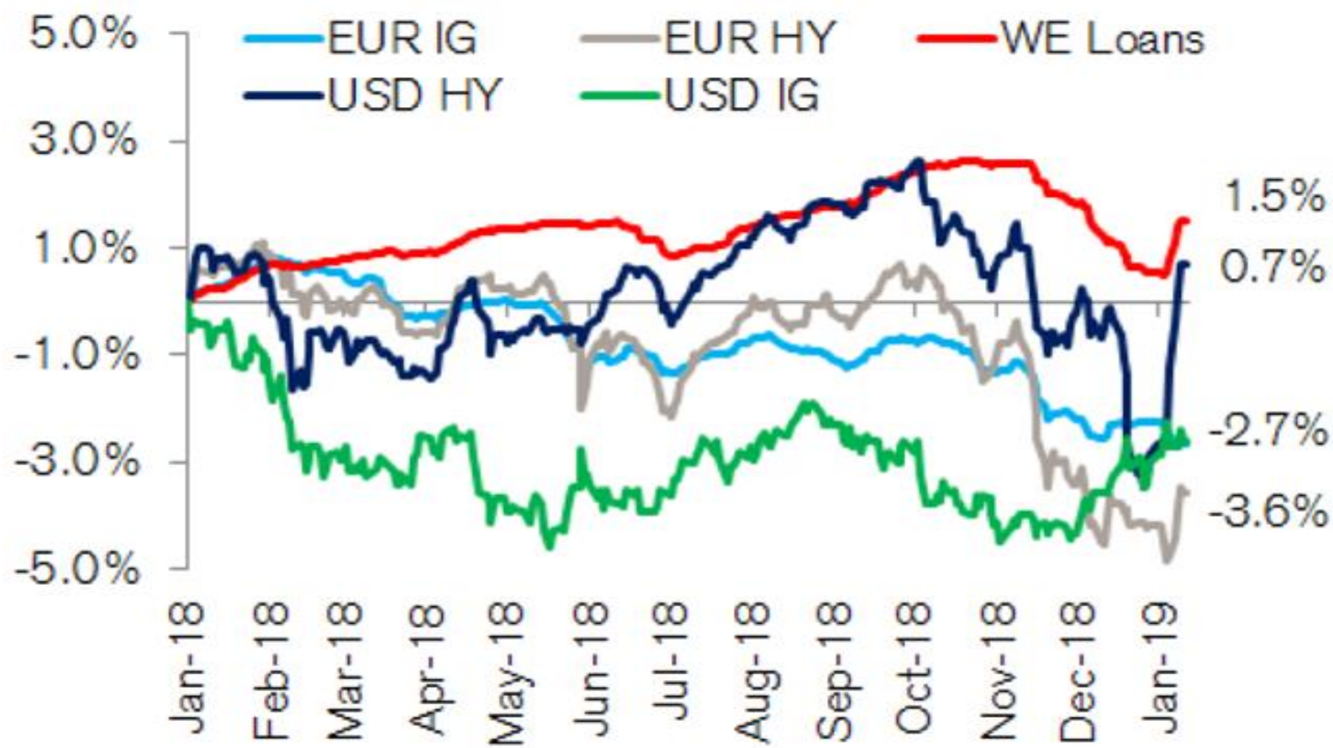
Income generation is the main driver of long term performance for the asset class

Past performance or achievement is not indicative of current or future performance. Source :CS Leveraged Loan index for US Loans, CS Western European Leveraged Loan index for European Loans, February 2019

Recent performance of the asset class

Following the significant volatility and major asset price correction in late 2018

Total returns in local CCY of fixed income asset classes in 2018



Source: Datastream, Credit Suisse, BNP Paribas AM, February 2019.

Asset allocation considerations

Senior Secured Instrument

Balanced risk profile

Top seniority in the capital structure

Strong recoveries in case of default

Consistent & Stable Income

Offers an attractive cash yield[1] in a low interest rate environment

EU: Euribor + 350-400bps[1]
US: Libor + 350-450bps[1]

Low Duration Income

Embeds a hedge against inflation and interest rate risk

Shortens the duration of an overall portfolio

Diversification Benefits

Provides access to a significant sub-set of the corporate credit market

Low correlation to some fixed income asset classes

Source: BNP Paribas AM, February 2019. [1]Past performance is not indicative of future performance.

Main Risks linked to an investment in the asset class

- **Illiquidity of the sub-fund's shares:** The investments are subject to market fluctuations and the risks inherent in investments in securities. The value of investments and the income they generate may go down as well as up and it is possible that investors will not recover their initial outlay.
- **Illiquidity of the sub-fund's investments:** The value of an investment may be affected by interest rate fluctuations. Interest rates may be influenced by several elements or events, such as monetary policy, the discount rate, inflation, etc.
- **Credit quality:** This is the risk that may derive from the rating downgrade of a loan issuer to which the sub funds are exposed, which may therefore cause the value of the investments to go down. Sub funds investing in high-yield loans present a higher than average risk due to the greater fluctuation of their currency or the quality of the issuer.
- **Liquidity risk:** There is a risk that investments made in sub funds may become illiquid due to an over-restricted market (often reflected by a very broad bid-ask spread or by substantial price movements), or if their "rating" declines or their economic situation deteriorates.
- **Long-dated nature of most investments:** Risks include: the lack of secondary market liquidity, valuation risks, the lack of standardisation and regulation, the risk of leverage, the risk of the counterparty.
- **Concentration:** This risk relates to the quality of the counterparty with whom the funds do business or enter into various transactions. This risk reflects the counterparty's ability to honour its commitments (payment, delivery, repayment, etc).
- **Market risk**: While the sub-fund is more focused towards a take-and-hold strategy versus a trading strategy, the sub-fund will be subject to market prices when acquiring, trading and disposing assets, in particular during the Ramp-up Period Period of the portfolio. In addition, the NAV is calculated based on market prices, which might over- or under-estimate the true value of the investment or not represent the actual price at which the investment could be sold.

Main Risks linked to an investment in the asset class

- **Interest rates**: An increase or decrease in interest rates may not be immediately reflected in the rates payable on the portfolio's underlying securities, while an increase in interest rates could have a negative impact on the quality of the sub-fund's investments.
- **Foreign exchange rates and hedging:** The currency of the assets of the sub-fund might differ from the sub-fund's currency of expression and consequently the sub-fund is subject to currency exchange fluctuations, with the sub-fund undertaking to hedge a certain percentage of the assets for a certain period. However, there is no assurance that currency hedging will be fully effective, as any unhedged portion remains exposed to currency exchange fluctuations, while in case of significant redemptions the sub-fund might be temporarily over-hedged.
- **Calculation of NAV:** The NAV per share of the sub-fund will be determined and communicated only after the value of its investments is determined. The NAV is based on data coming from a third party pricing service. The Investment Manager cannot opine on the accuracy of the prices obtained from a third party pricing service and by definition on the NAV based on such prices. There is no guarantee that the prices obtained from a third party pricing service represent fair value or will represent the value that will be realized by the sub-fund on the eventual disposal of the investment, a market price discovery, or that could in fact be realized upon an immediate disposal of the investment. Should the Company and/or the Investment Manager, change the method of valuation, than the same limitations as indicated above will hold for the new method of valuation.
- **Early redemption:** If the shareholder chooses to redeem its shares before there commended investment horizon, an early redemption fee will be charged according to the investment period of the shareholder as defined in the section Fees and Costs.
- **Reinvestment:** It is possible that the sub-fund will not be able to reinvest its net income or the capital generated by the realization of assets in the aforementioned Underlying Asset Classes at a similar level of risk-return.

Biographies

Vanessa Ritter, CFA, Head of Global Loans

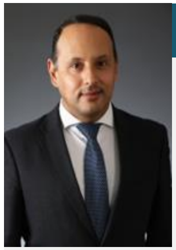
Vanessa Ritter is responsible for overseeing approx. $5Bn. of AUM across several global loan strategies, including CLOs, total return funds and small/mid-cap funds.

She is the Lead US Portfolio Manager and is responsible for a 18–person team based in New York and Paris. Vanessa has 25 years of investment experience primarily in Leveraged Loans, Private Placement bonds and Corporate Banking.

She joined BNP Paribas through BNP's predecessor firm, Fortis Investments, in 2008 from Genworth Financial where she was the Credit Risk Management Leader for the Private Placement Fixed Income Group overseeing an $11B bond portfolio. She was responsible for approving all new investments, recommending new deal structures, conducting impairment reviews and selecting collateral for 3 CDOs.

Prior to Genworth, Vanessa was a Senior Corporate Credit Analyst and Risk Manager for the Royal Bank of Canada where she analyzed and approved deals for a diversified portfolio of global credits.

Vanessa holds a Bachelor's degree in Economics from the University of Toronto, an MBA from the Ivey School of Business, and is a CFA charter holder.



Javier Peres Diaz, Head of European Loans

Javier joined the group in 2005 and holds the lead portfolio manager role in Europe within Global Loans. He is also a member of the team's investment committee and has oversight responsibilities for over EUR 4.5 Bn in AuM spread across several loan and private debt strategies.

Javier has over 19 years of combined experience in asset management and investment banking, with a core focus on leveraged finance spanning both the buy and sell-side. Prior to his current role, he was an associate director at BNP Paribas Corporate & Investment Banking where he acquired extensive, Pan European leverage finance experience. His responsibilities under this position covered the entire credit analysis, transacting and debt restructuring spectrum of leveraged loan financing situations across several industries and jurisdictions in Europe. He began his career as a corporate finance analyst at Compañía Americana de Inversiones S.A. where he gained significant M&A expertise in Latin America.

Javier holds a Bachelor's degree in Business Economics from Pontificia Universidad Católica de Chile, a Masters in Financial Management from Vlerick Business School, Katholieke Universiteit Leuven / Ghent University and an MBA from Manchester Business School, The University of Manchester.

Source: BNP Paribas AM, May 2019

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The performance data, as applicable, reflected in this material, do not take into account the commissions, costs incurred on the issue and redemption and taxes.

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