
The Future of the Leveraged Loan Market

Meredith Coffey – LSTA

Tom Newberry – Credit Suisse

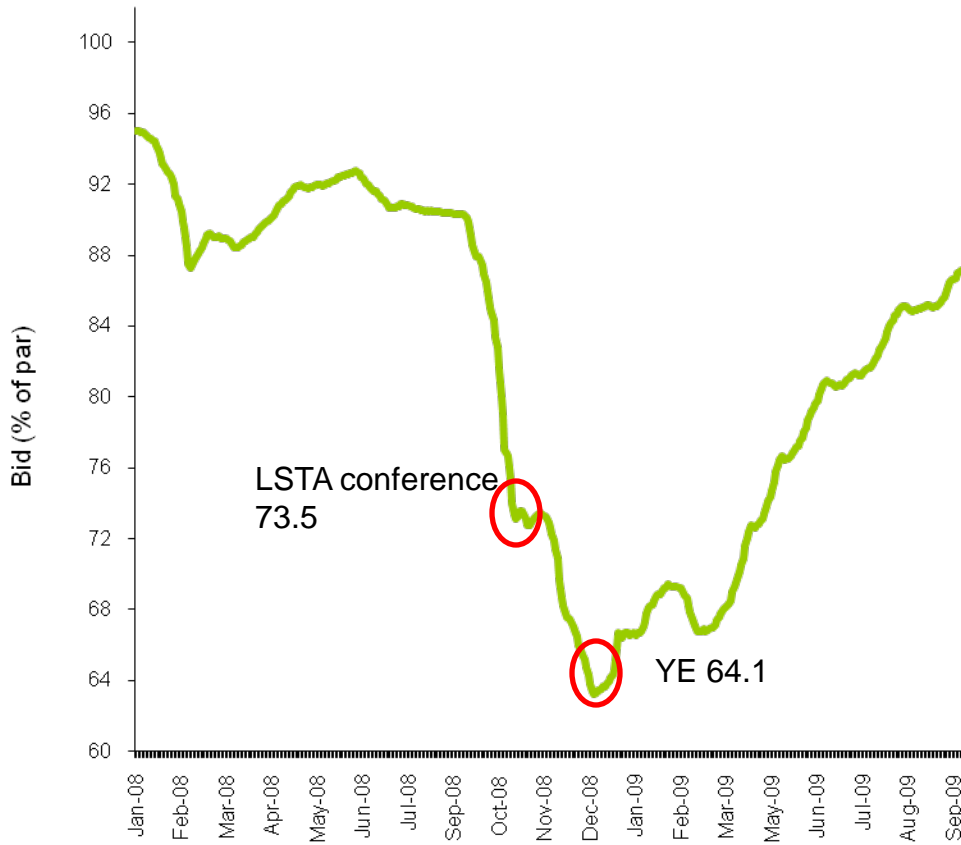
Andy O'Brien – JP Morgan Chase

Rick Stewart – Nomura

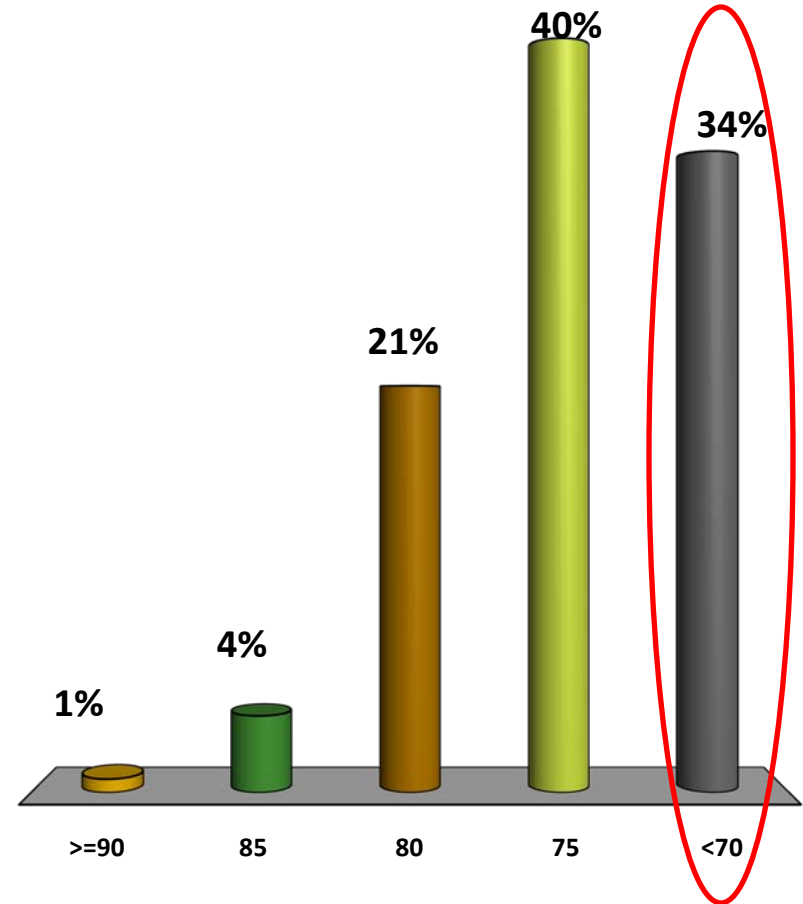
Greg Stoeckle – INVESCO

The wild ride: Secondary prices...and forecasts

U.S. Secondary loan prices



LSTA 2008 audience poll:
Where will loan prices be on 12/31/2008?

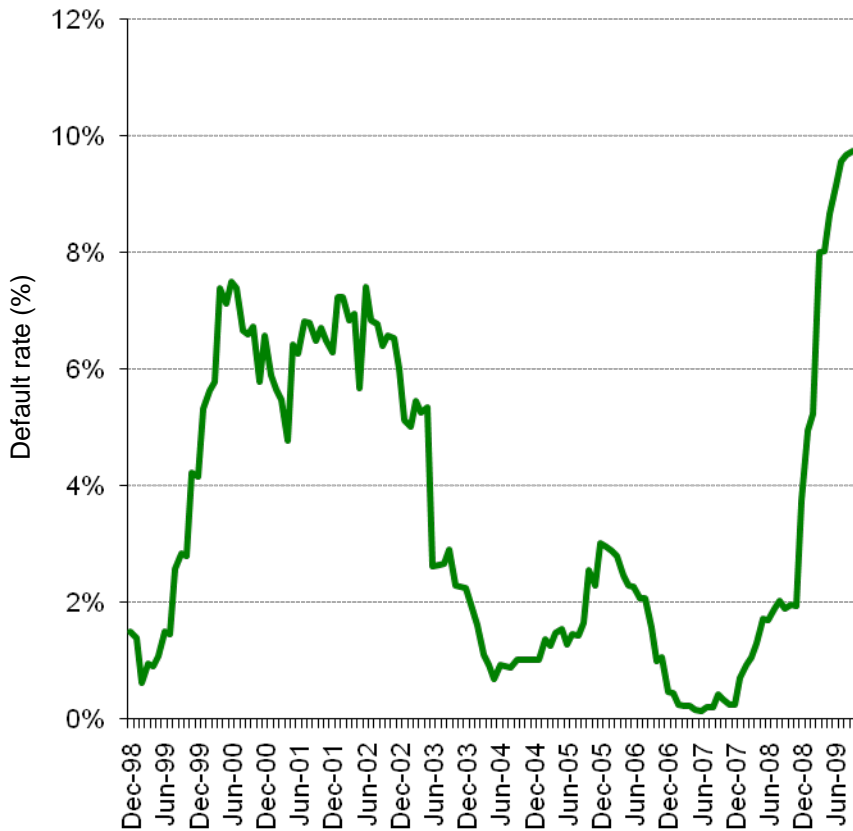


Source: LSTA, LSTA/ThomsonReuters MTM Pricing

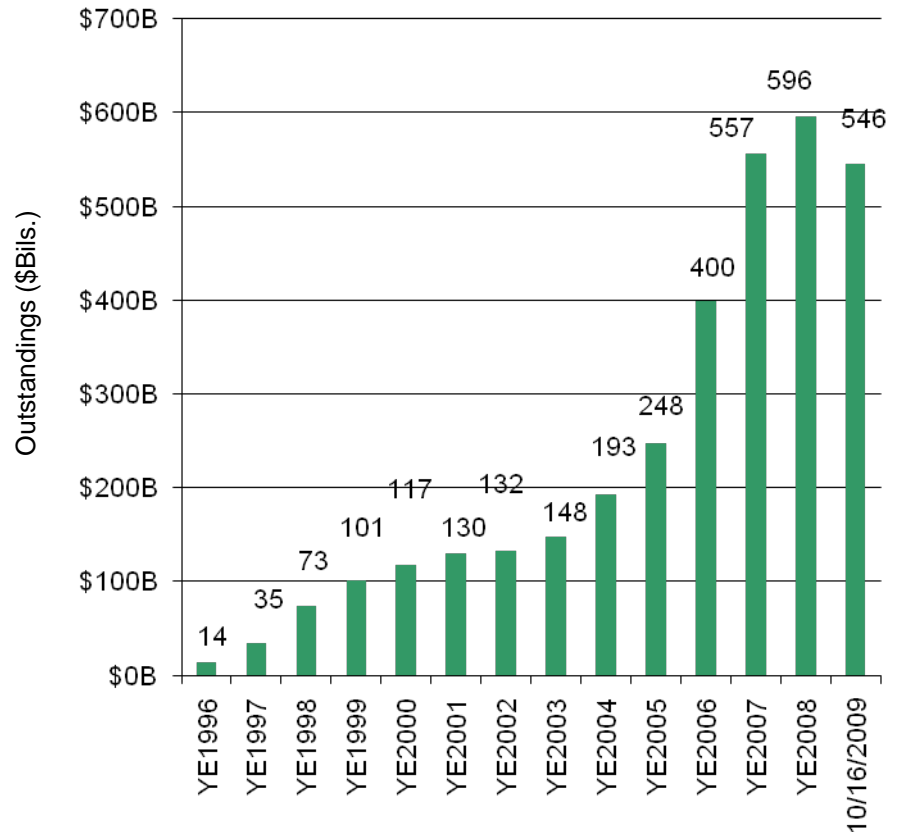
Technical vs. fundamentals?

Defaults vs. outstandings

Loan default rate

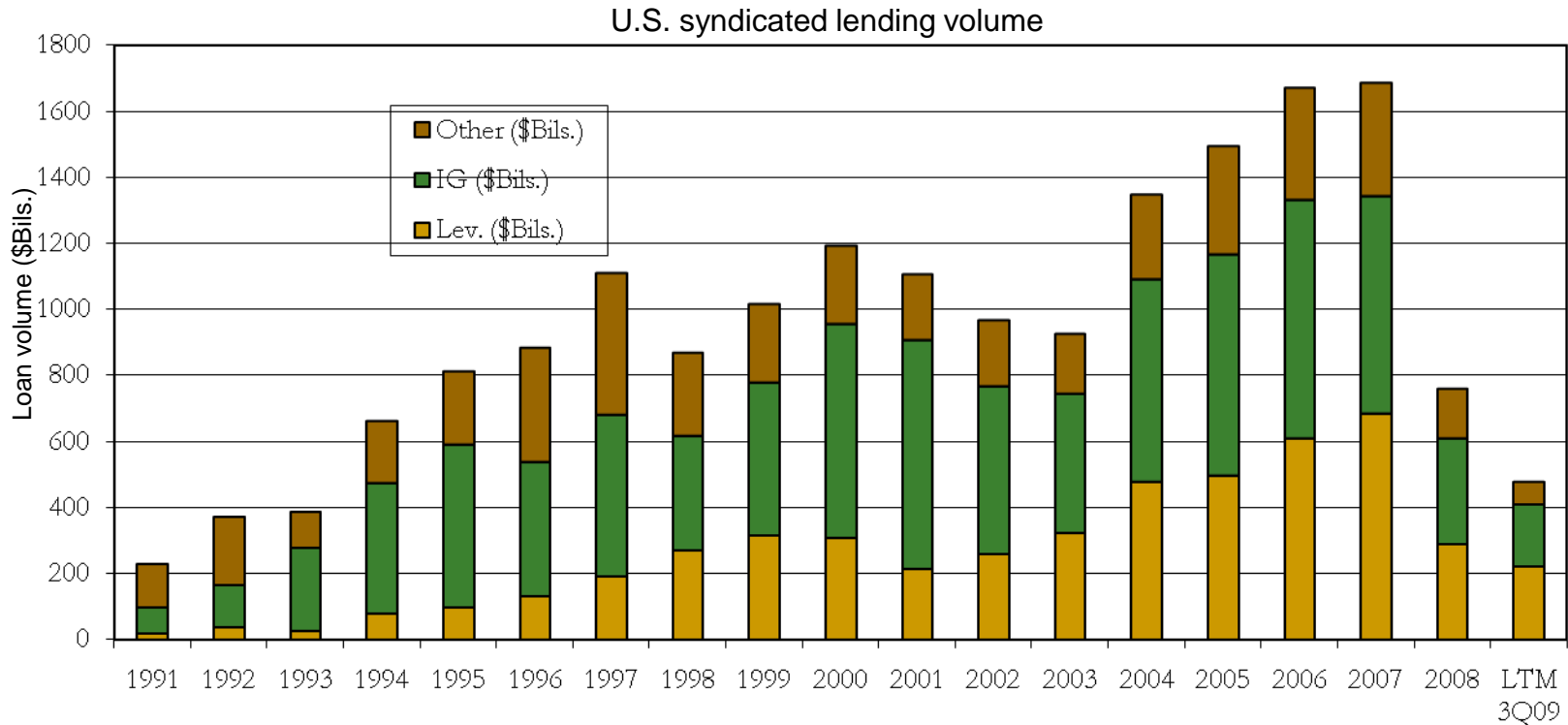


Index outstandings



- Default rate hits record levels
- However, institutional loan outstandings decline by nearly 10%

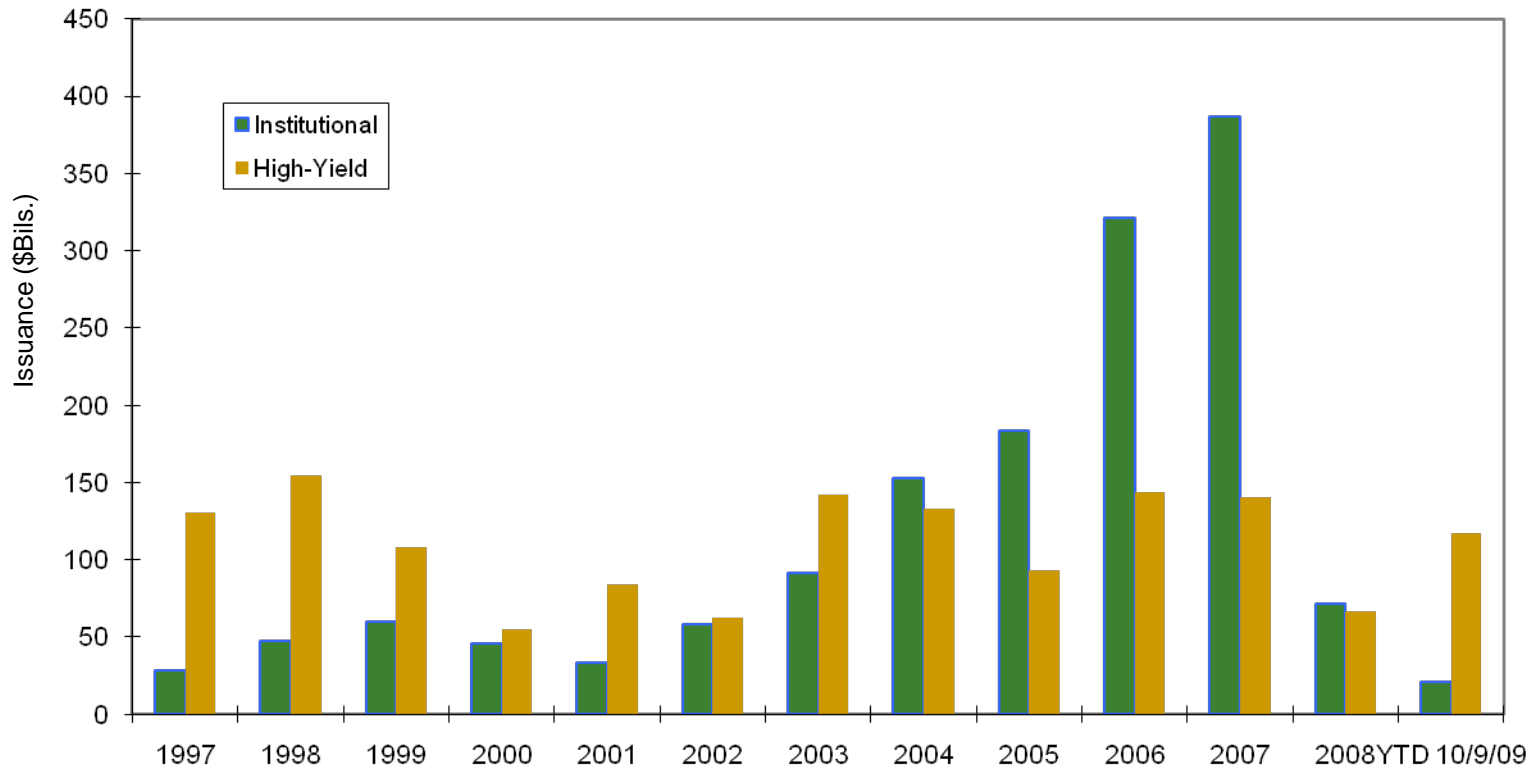
U.S. Syndicated loan volumes



- Overall primary loan volume is down materially
- At less than \$500B, new loan volume in LTM 3Q09 is at lowest level since 1993

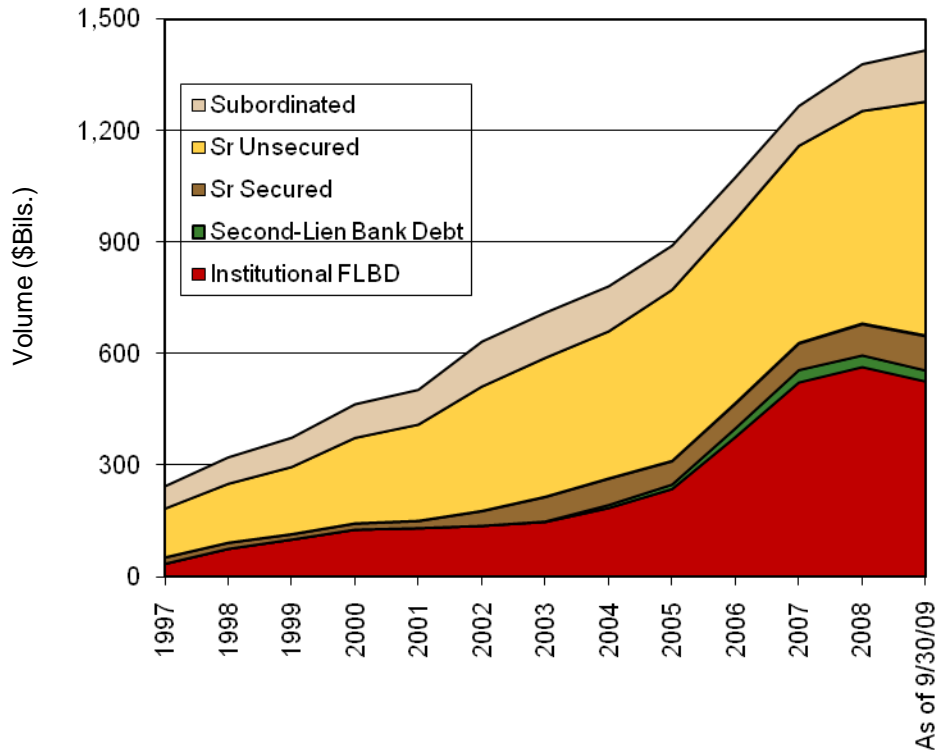
HY bond issuance soars, institutional loan issuance falls

Institutional loan , HY bond issuance

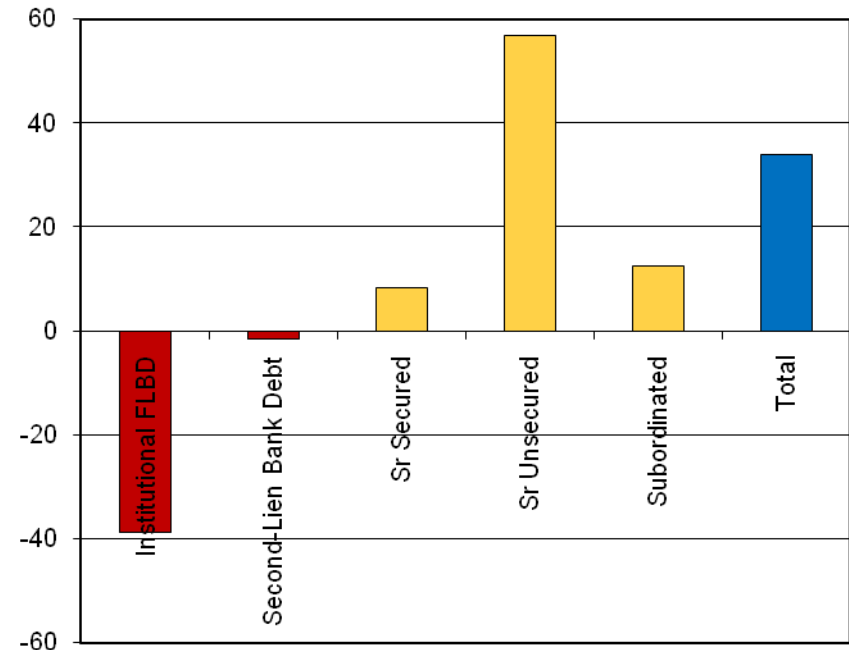


Rebalancing? Loan outstandings shrink, HY bond outstandings grow

HY bond, inst loan outstandings



Change in outstandings

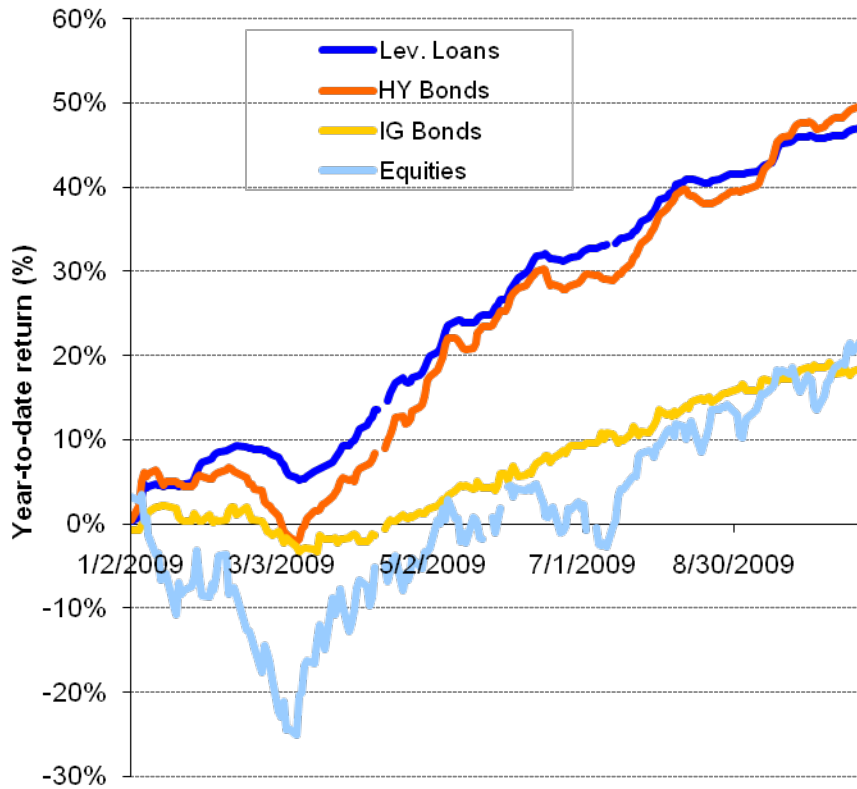


- Institutional loan outstandings shrank in 2009, HY bond outstandings grew
- All told, HY finance outstandings increased slightly

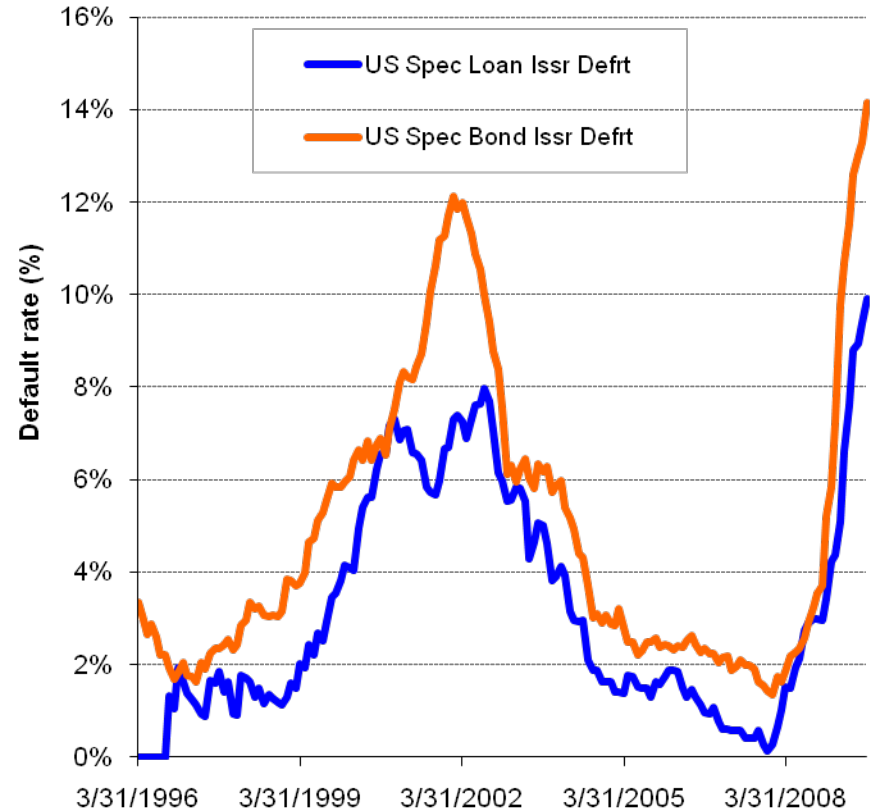
Source: S&P/LCD, Merrill Lynch

Returns & Risk across asset classes

YTD returns



Default rate



Source: ThomsonReuters LPC, S&P/LSTA Leveraged Loan Index, Merrill Lynch U.S. High Yield Index, Merrill Lynch U.S. Corporate Master Index, S&P 500 Index, Moody's

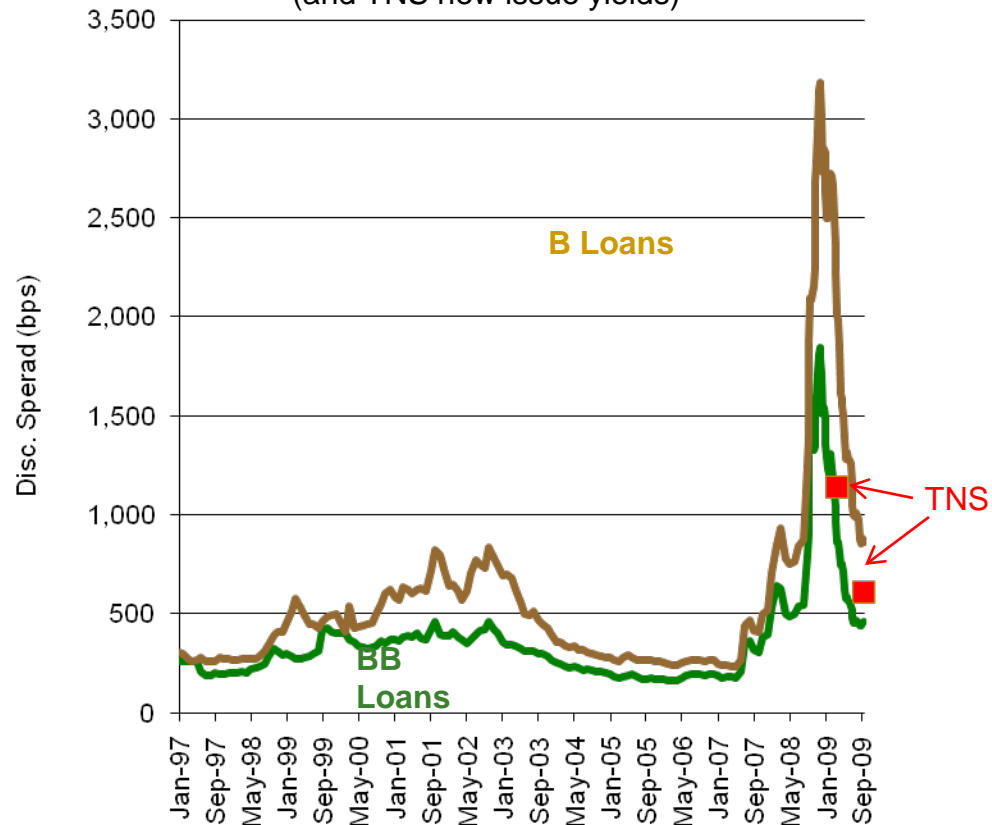


Secondary prices soar, spreads contract

U.S. Secondary loan prices



U.S. secondary yields (and TNS new issue yields)

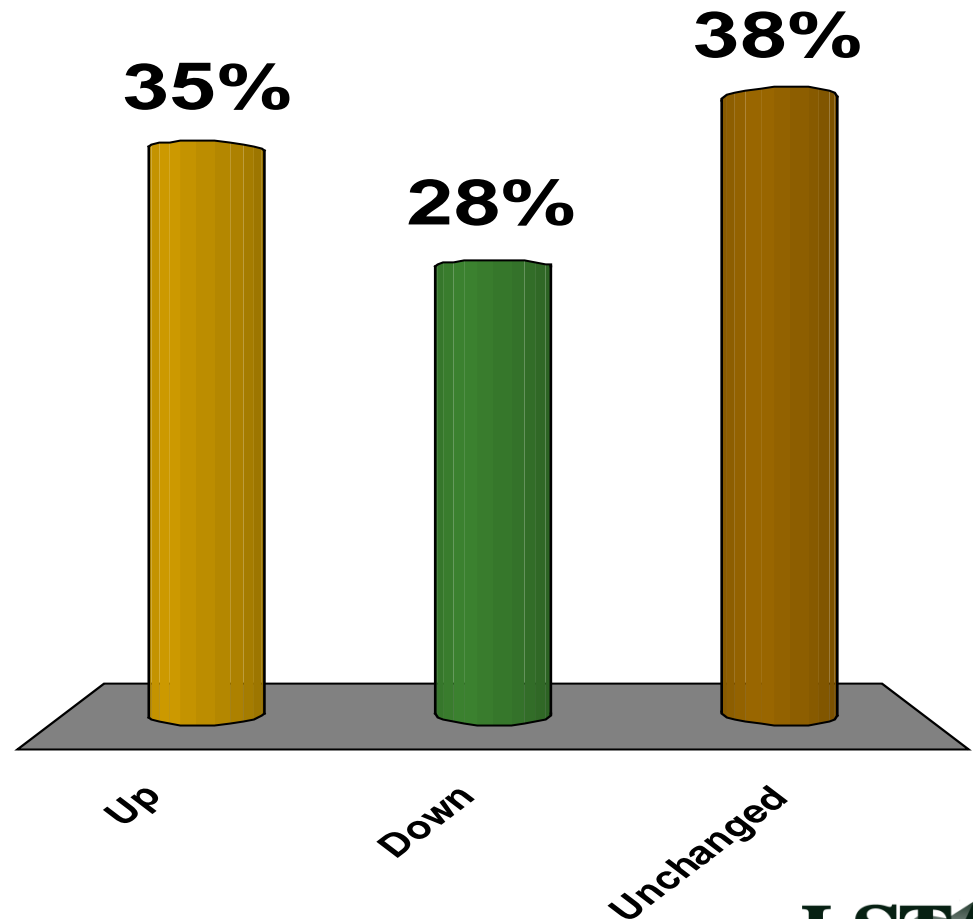


Source: S&P/LCD, LSTA/ThomsonReuters LPC MTM Pricing

Audience poll 1:

Where will secondary loan prices go through year end?

- A. Up
- B. Down
- C. Unchanged



Audience poll 2:

Will the primary loan market continue to surge?

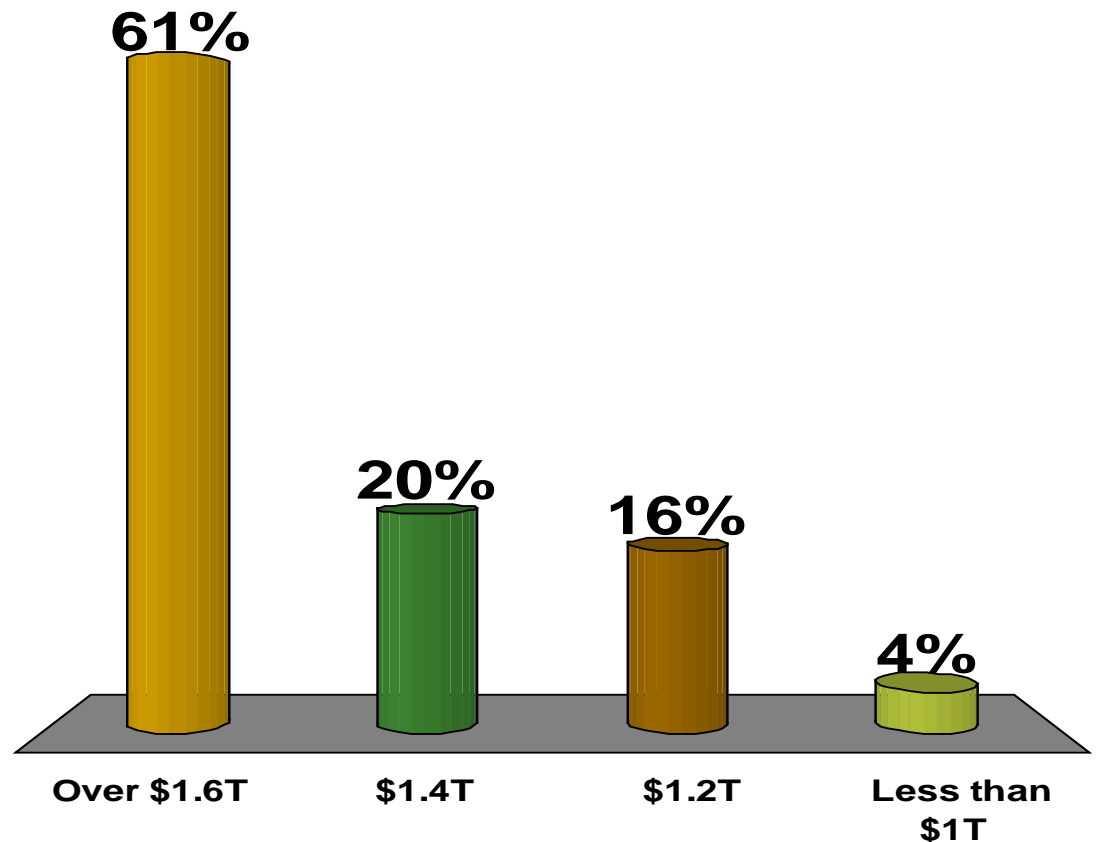
- A**
5% **Yes, we're back!** Market is much improved and spreads will continue to tighten
- B**
57% **Possibly:** Issuance is solid through YE, accelerates in 2010
- C**
29% **Probably not:** This is a blip – issuance stagnates, spreads remain high
- D**
9% **No way!** Economy is a mess, secondary will fall, spreads will rebound, issuance will dry up

Audience poll 3:

HY finance outstandings* are estimated at \$1.4T
What will HY finance outstandings be at YE 2011

- A. Over \$1.6T
- B. \$1.4T
- C. \$1.2T
- D. Less than \$1T

* HY finance outstandings defined as HY bonds and institutional loans



Audience poll 4:

Institutional loan outstandings are roughly \$550B

What will institutional loan outstandings be at YE 2011

- A. Over \$600B
- B. \$550B
- C. \$500B
- D. \$450B
- E. <400B

