CVC CREDIT PARTNERS

Market Update Note: 13th March 2020

Following our 2nd March note addressing the initial impact of the Coronavirus outbreak, global credit markets have continued to experience significant volatility in the past weeks, driven by (i) the continued expansion of the Coronavirus epidemic on a global scale, and (ii) the break-up of the OPEC+ alliance and downward pressure on crude oil pricing.

As at 12th March, leveraged loan markets month-to-date ("MTD") were down -6.22% in Europe and -6.41% in the U.S., and year-to-date ("YTD") -6.71% and -7.18%, respectively. In HY, the impact continued to be more acute with MTD Europe down -7.89% and U.S. -8.27%, and YTD at -9.45% and -9.95%, respectively. The dislocation seen in credit markets, however, has been dwarfed by that seen across equity markets with the FTSE100 index returning -20% MTD and -31% YTD.

Current market volatility and uncertainty has led investors to "safe haven" assets, driving the U.S. 10-year and 30-year treasury yields below 1% for the first time, and the UK 10-year and 30-year GILTs to near-zero this week.

As we expected in our prior note, the impact on global credit markets has been supported by central bank policies and government-led fiscal stimulus globally. U.S. and UK central banks reduced rates this week by 50bps to record lows and the ECB announced €120bn of bond purchases and additional bank loans. Fiscal stimulus measures were announced globally that included tax breaks, debt relief measures and direct funding support for businesses.

In light of these developments, our base case scenario remains a six to nine month disruption period for issuers, however, this could be further extended depending on the development of the epidemic in the coming weeks and into Q2.

Portfolio Impact

The impact of the above events is being closely monitored across the portfolio, and we are actively risk managing individual positions that we believe could be most exposed to these events. This includes pre-emptively divesting positions in issuers with material Italian operations, issuers in the transportation, leisure and logistics sectors, and structured finance positions subject to higher volatility, and utilising sale proceeds to build up cash positions.

We remain in active dialogue with issuers of credit positions we currently hold, and today the portfolio remains conservatively positioned with regards to industries and regions most severely affected by recent events: (i) zero exposure to oil and gas and related sectors (ii) <10% exposure to hotels, leisure and transportation sectors and (iii) <2% exposure to issuers domiciled in China, Iran and Italy, the regions most affected by the epidemic to date. In addition, refinancing risk in the portfolio remains low, with no portfolio maturities in 2020, and under 20% of the portfolio maturing in the following two years.

We further believe the current environment will create attractive investment opportunities, particularly in the credit opportunities segment driven by the technical dislocation across this asset class. However, we remain cautious in adding new positions to the portfolio, and only where we have real conviction the issuer is well positioned in light of current events.

As the situation continues to develop in the coming weeks, we will provide further updates, and are of course very happy to speak to any investors directly to discuss these implications on the strategy.

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