Market Update Note: Covid-19 (Coronavirus)

As Coronavirus continues to spread across the globe, we wanted to reassure our investors that its impact is being closely monitored across the portfolio and we have spent considerable time analysing those sectors and individual credits which we believe may have higher short-term liquidity risk from any short-term supply shock out of Asia as well as a medium to longer term earnings decline as the virus spreads across Europe and potentially the Americas.

As we move into the close of the month of February, loan markets for the month are down -0.66% in the US and -0.38% in Europe, and YTD at -0.11% and +0.29% respectively. In HY, the impact has been more significant with the US down -1.20% and Europe -0.79% and -1.11%/-0.66% respectively.

Looking at market secondary performance, we continue to see two way flows in higher quality issuers as investors seek to position defensively. It is clear that lower quality issuers have seen pressure although in the distressed space valuations are usually driven by issuer specific fundamentals.

Our base case scenario has been that this will be a six to nine month issue for corporate borrowers, however there is a growing concern that this recovery could take longer and impact global growth more widely than what was experienced during the SARS outbreak. Earnings pressure from virus-related disruptions will constrain the ability of certain issuers to reduce leverage and with that possibly could increase distress for lower quality issuers. We continue to believe that global credit markets will remain supported by central bank policy and government led fiscal stimulus.

The portfolio has been positioned conservatively since the start of the year as we had concern around global growth and the impact central bank policy has had on fixed income assets. As of January month end, the weighting to senior secured at 86% (incl. cash) & floating rate assets at 85% will mitigate some of the broader mark to market volatility experienced across other segments of the capital structure. We will remain diversified across industries with a focus on large liquid capital structures in industry leaders which we anticipate will perform well in a short term recession. In addition, the strategy is now seeing a significant growth in the credit opportunities segment of the market which as of recent quarters has been focused on existing issuers and now will be able to actively rotate into this dislocation to drive performance when the market stabilises.

As the situation develops in the coming weeks / months, we will provide an update, especially in light of more detailed information being released by our portfolio companies. We are of course very happy to speak to any investors directly to discuss these implications on the strategy.

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