SYMPHONY
FLOATING RATE SENIOR LOAN FUND

BROMPTON FUNDS

COMPELLING VALUE FOR SENIOR LOANS - MARCH 2020

At an average price of approximately 79 cents on a dollar of par value for the broad index[1], the Senior Loan market appears to be pricing in a worst-case scenario, implying that all the loans in the market will default. Due to their senior-secured nature, Senior Loans have historically demonstrated a high level of capital preservation. According to Moody's, the average ultimate recovery rate for Senior Loans is 80.4% which means that Senior Loans are currently trading below the historical average recovery value for loans that are held through default. Of the 3 major default cycles over the past 30 years, the worst average recovery rate for loans was 75.8% (during the Tech Wreck in the 1999-2004 time frame).[2] The current average price of the Senior Loan market is approximately equal to the average recovery levels experienced by lenders for Senior Loans that defaulted during the Global Credit Crisis.[2]

Senior Loan Index - Average Price[1]

This deeply discounted pricing for the Senior Loan market is reflected in the NAV of Senior Loan funds. In addition, the market prices of many Senior Loan closed-end funds (including SSF.UN) currently reflect an additional discount of 20-30% to the NAV. As a result, current Senior Loan CEF trading prices imply a 100% default rate for the loan market, with an average recovery value far below that realized for defaulted loans during the most severe credit events over the last 30 years.

The global effort to defeat the COVID-19 virus will negatively impact corporate earnings and is expected to lead to a higher level of default rates over the next few quarters. However, the chance of all businesses failing is unlikely. Most at risk are sectors such as Energy, Travel & Leisure, and Gaming which represents less than 12% of the SSF.UN portfolio.[3] Although the fallout from COVID-19 will negatively impact earnings, in most cases this is expected to be a Common Equity concern, with many Senior Loan borrowers having a number of deep layers of subordinated capital to protect lenders.

Looking at the global financial crisis, if you bought both loans and equities in July of 2007 (when loans were still at par and the S&P 500 was hitting new highs) and held through the selloff, your total return was positive with your loan investment by September of 2009. For equity investors, it was not until March 2012 that you were back above water (roughly two and half years later).[4]

[1] *Source: Credit Suisse, as at March 20, 2020. Senior Loan Index is represented by the Credit Suisse Leveraged Loan Index.*

[2] *Source: Moody's Ultimate Recovery Database - Lessons from 1,000 Corporate Defaults. November 30, 2011.*

[3] *As at February 28, 2020.*

[4)] *Source: Credit Suisse, Thomson Reuters Datastream*

BROMPTON FUNDS

VALUE
INTEGRITY
PERFORMANCE

THE FOUNDATION FOR EXCELLENCE

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