

European Loans



Investment Opportunities in Fixed Income and Private Debt Portfolios

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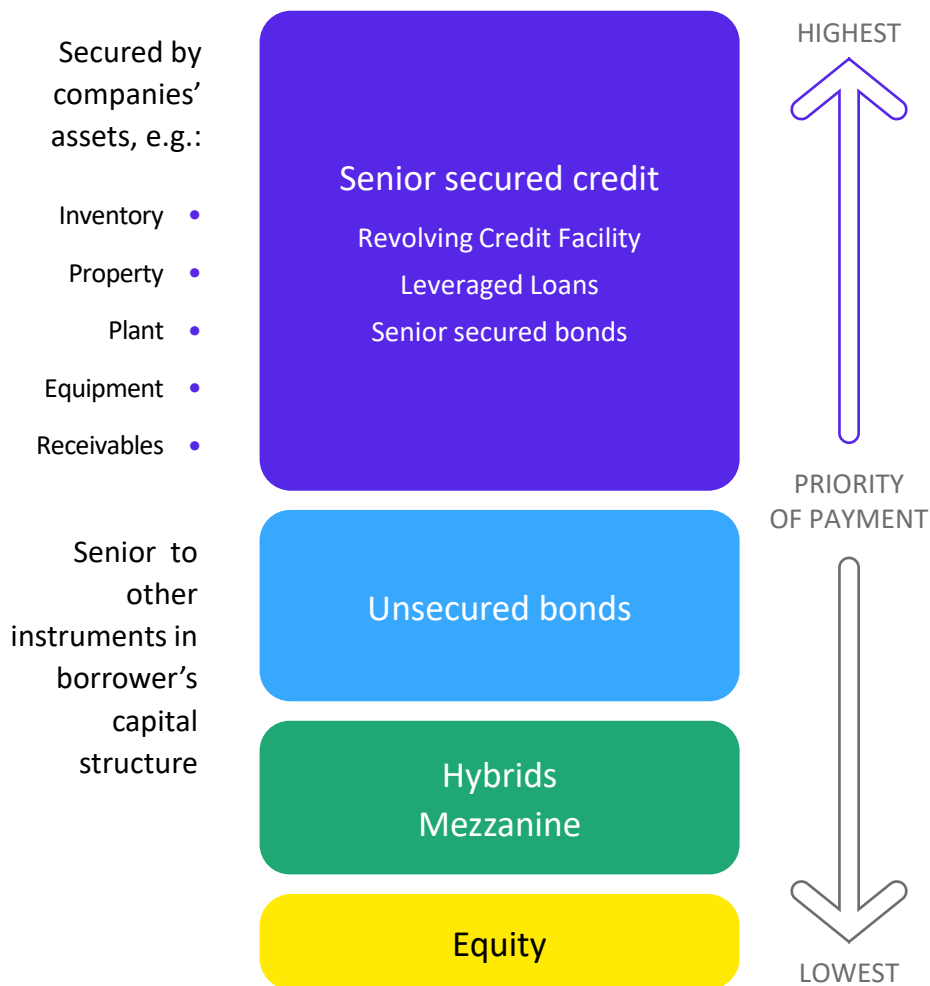
dpn Asset & Liability Convention 2024



What are leveraged loans?

Secured loans where the borrower is sub-investment grade rated

Sample capital structure



Jargon buster

(Broadly) syndicated loans

Bank loans

Underwriting process

Syndication

First lien

Second lien

Discount margin

CLO

Arbitrage

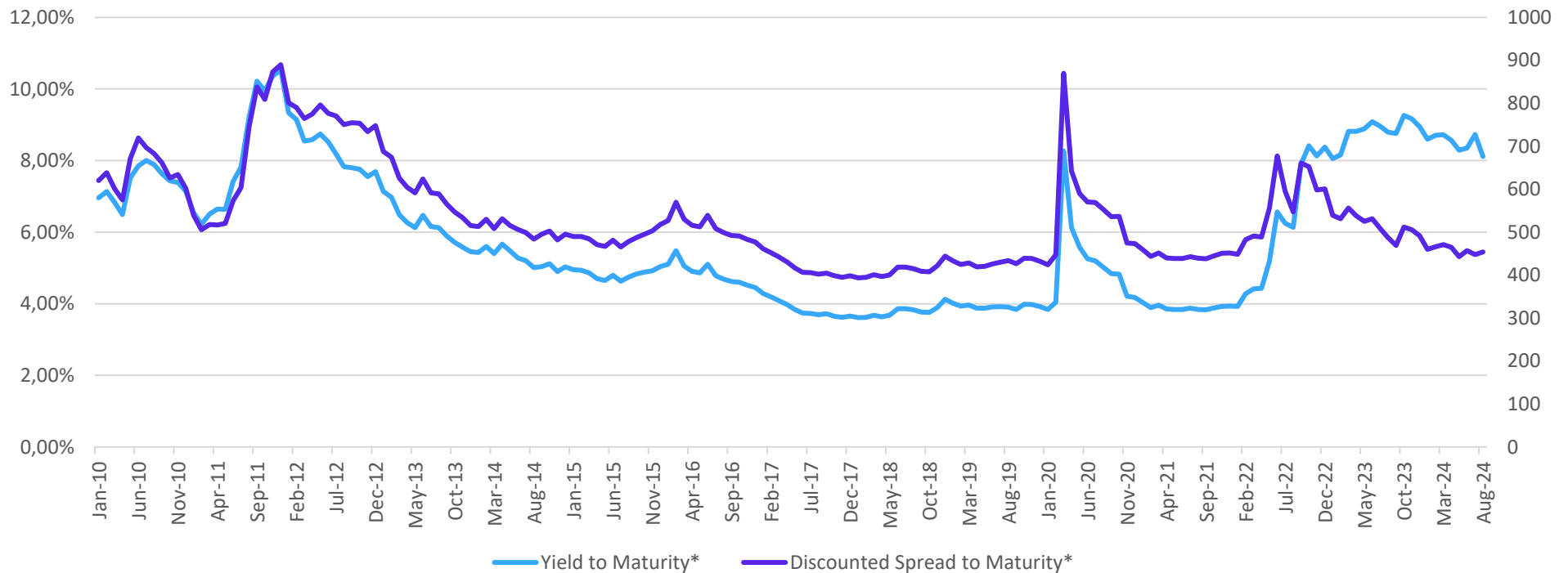


Why invest in loans?

01 High level of income

All-in yields are near 10-year highs, providing attractive income and a comfortable carry cushion

European loan all-in yields are near 10-year highs¹



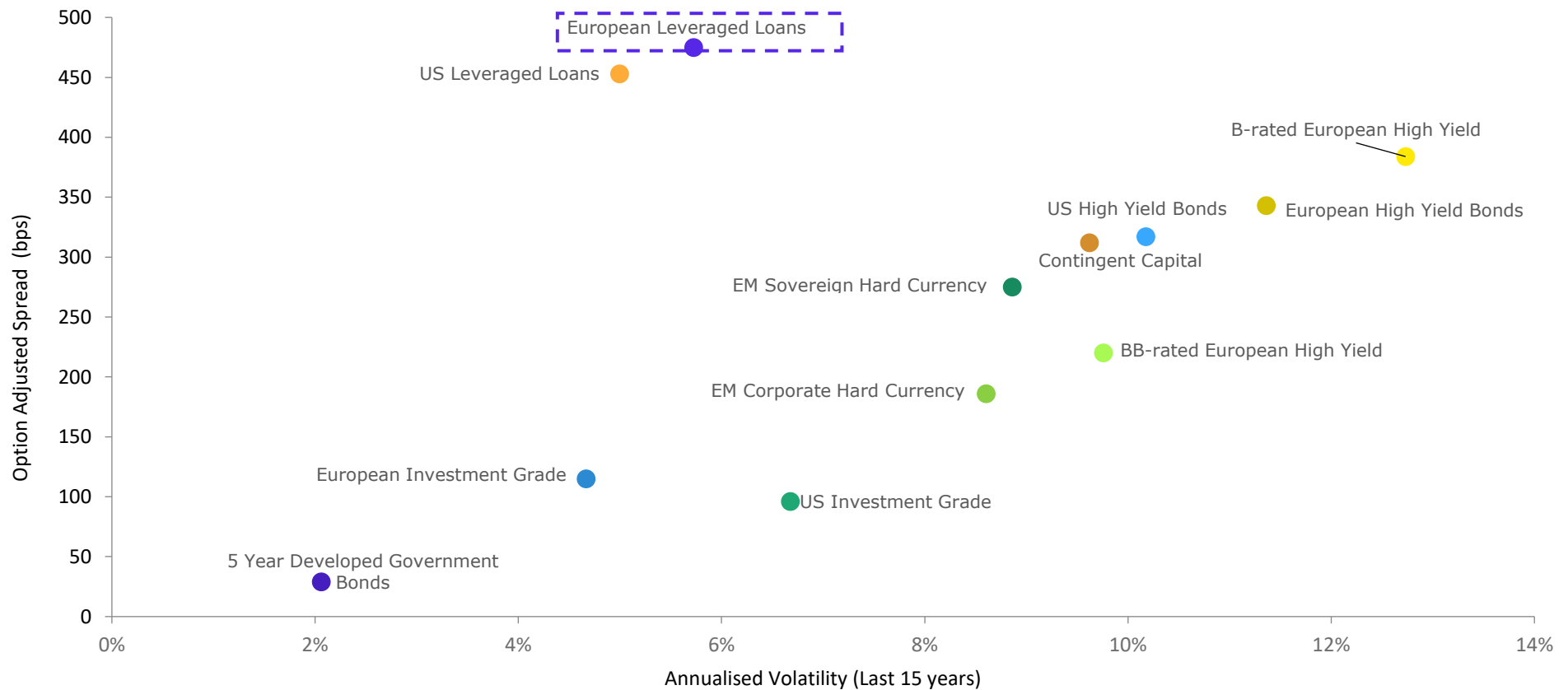


Why invest in loans?

02 Diversification

Due to the floating rate nature of loans, they provide an attractive diversifier in a market that is predominantly fixed rate in nature, with attractive risk-adjusted return

Spread and volatility (hedged to €) for major fixed income assets²



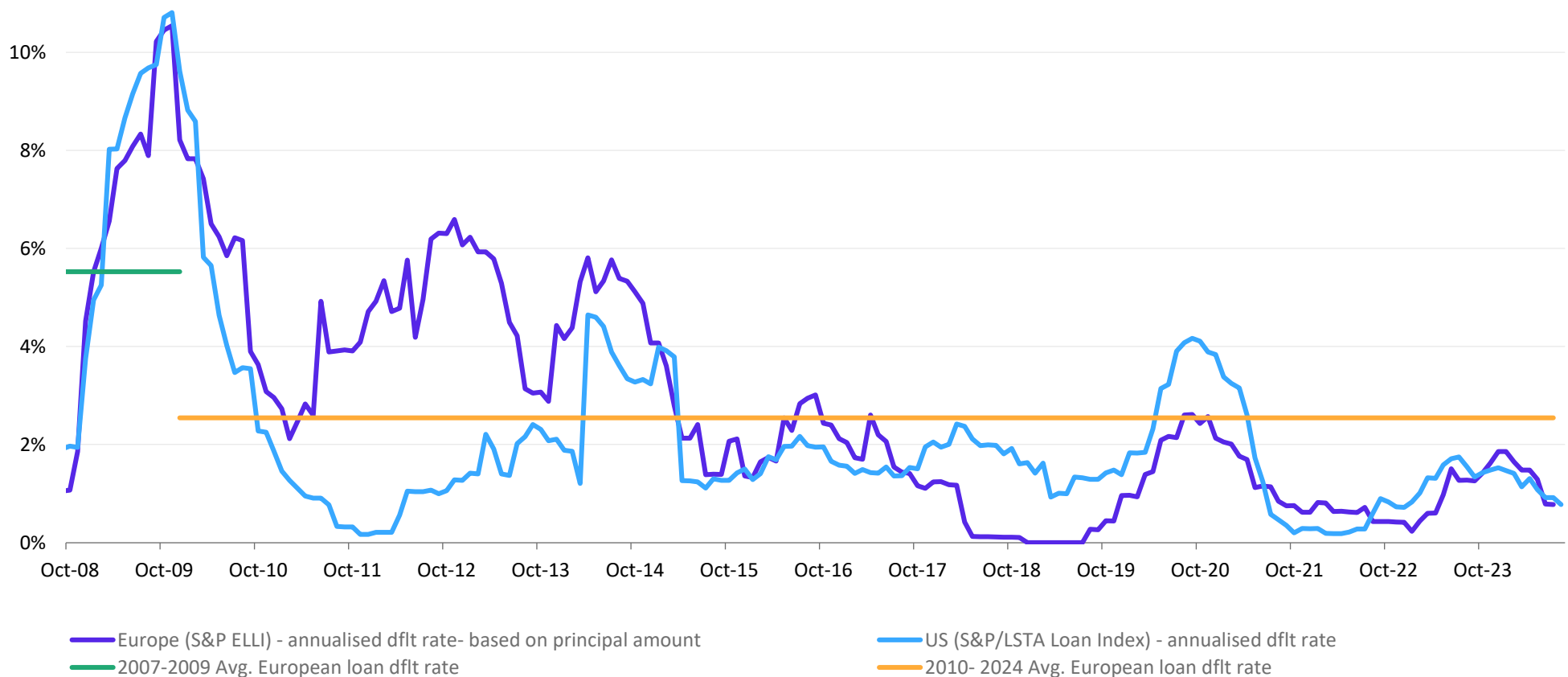


Why invest in loans?

03 Low default rate

Leveraged loans are typically issued by private equity owned companies. These owners have the financial clout to support companies during more challenging parts of the economic cycle.

European and US issuer-weighted Loan default rates (%)



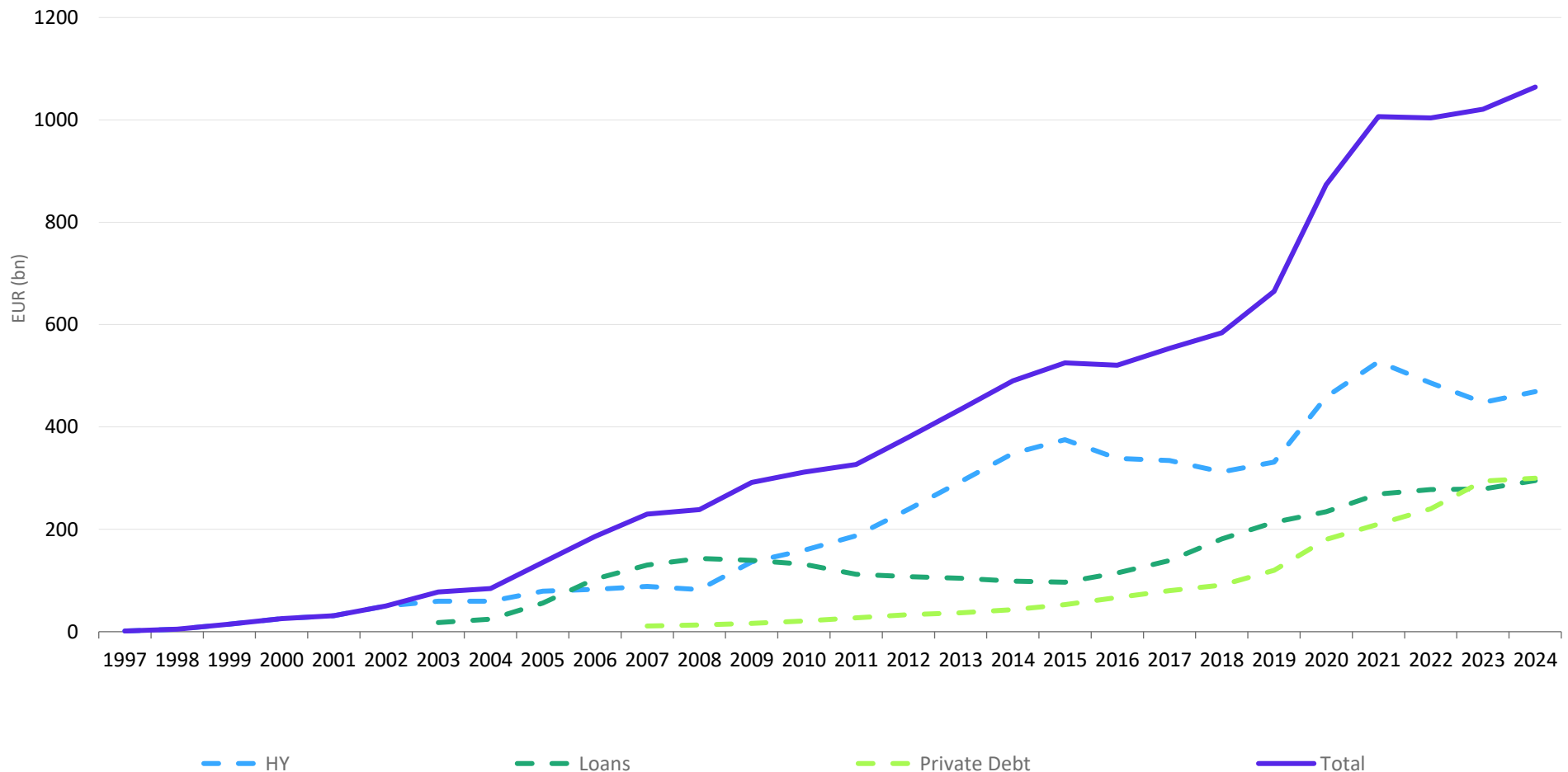


Why invest in loans?

04 Attractive alternative to private debt

The European loan market is more liquid and more mature than the private debt market

European sub-investment grade market



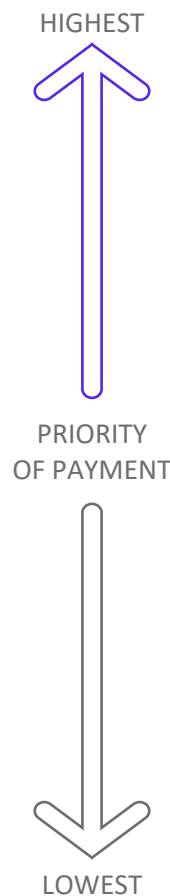
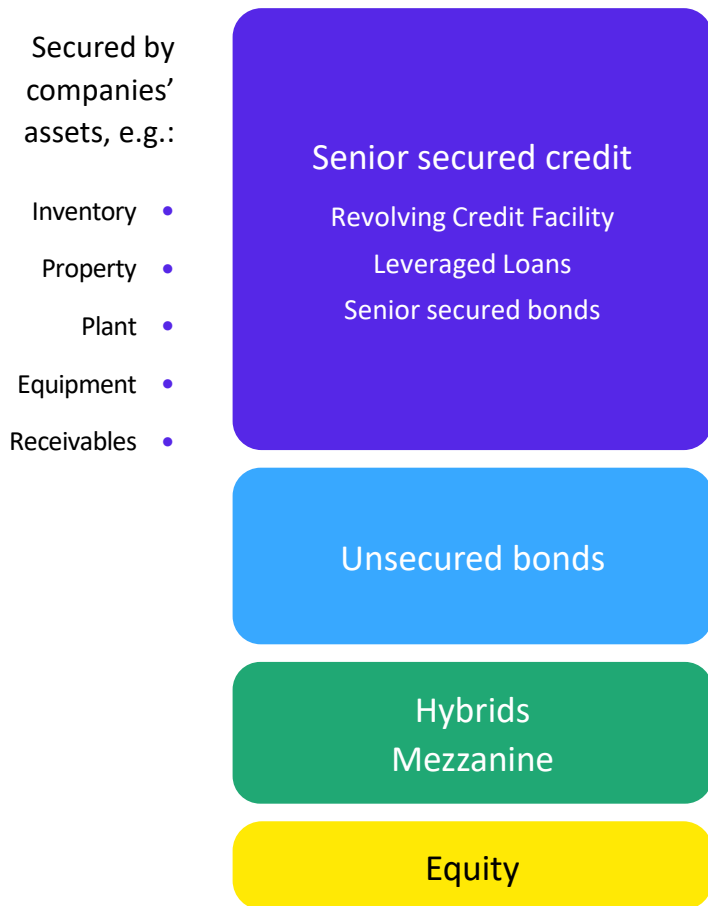


Why invest in loans?

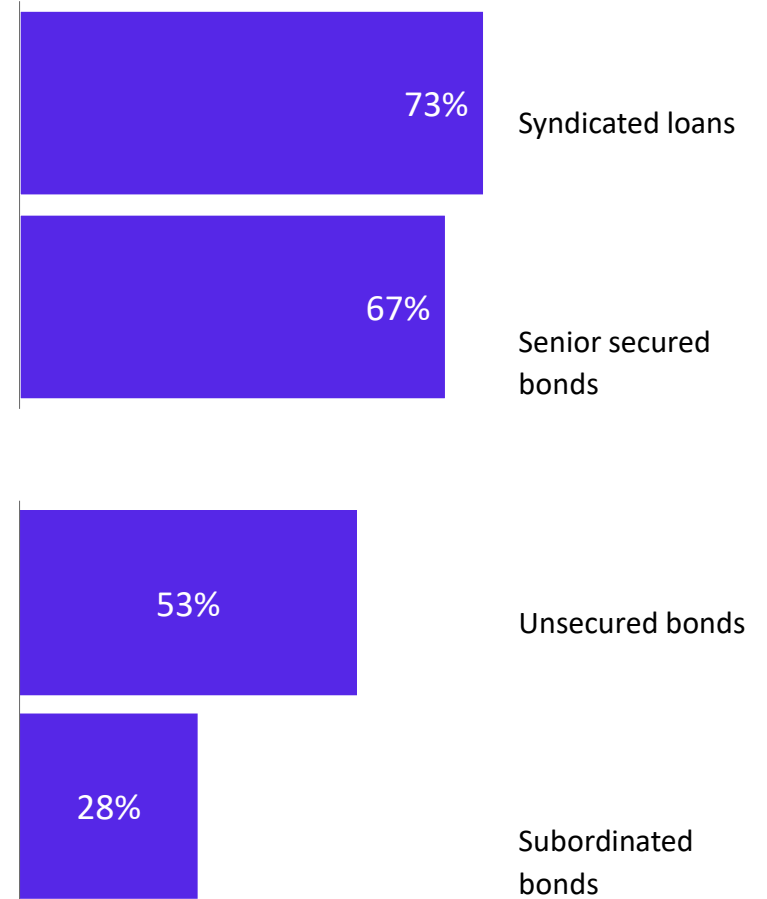
05 Senior Secured provides protection

Senior secured credit investors receive priority of payment and benefit from a higher debt recovery rate compared to other segments of the sub-investment grade credit market

Sample capital structure



Average debt recovery

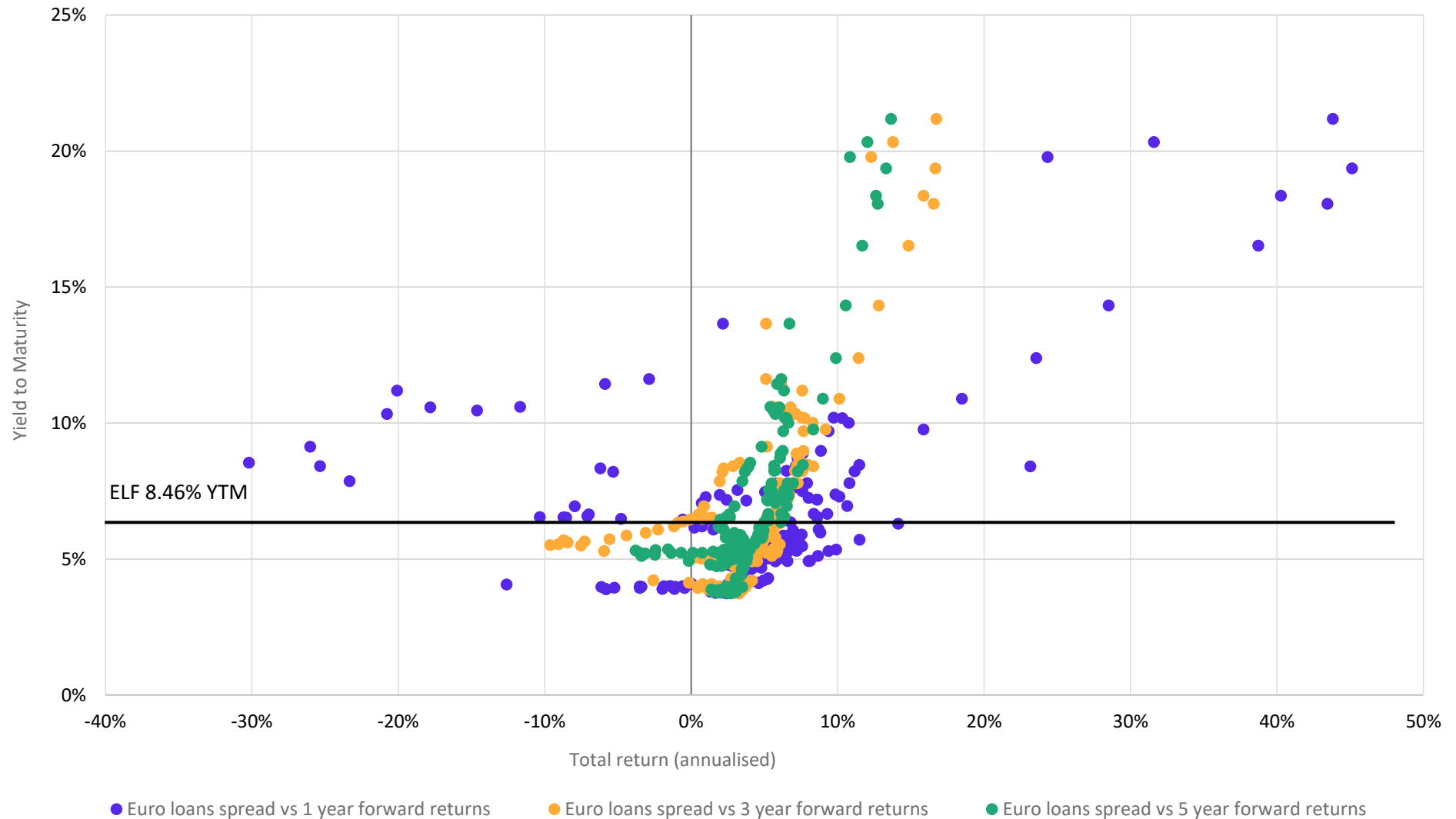


■ Long-term average



Is now a good time to invest?

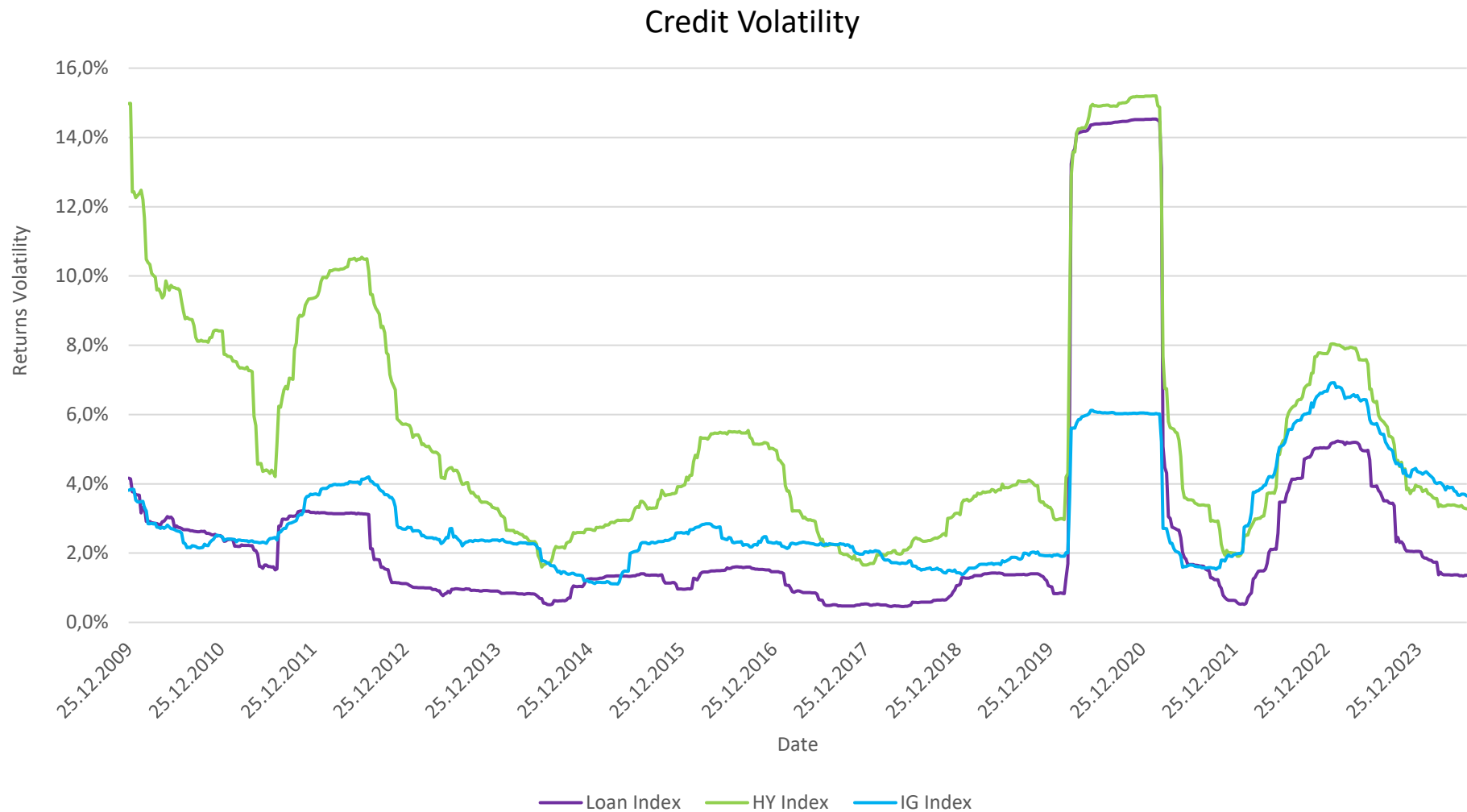
European loan spreads versus 1,3 and 5 year forward returns





Should investors time their entry into the market?

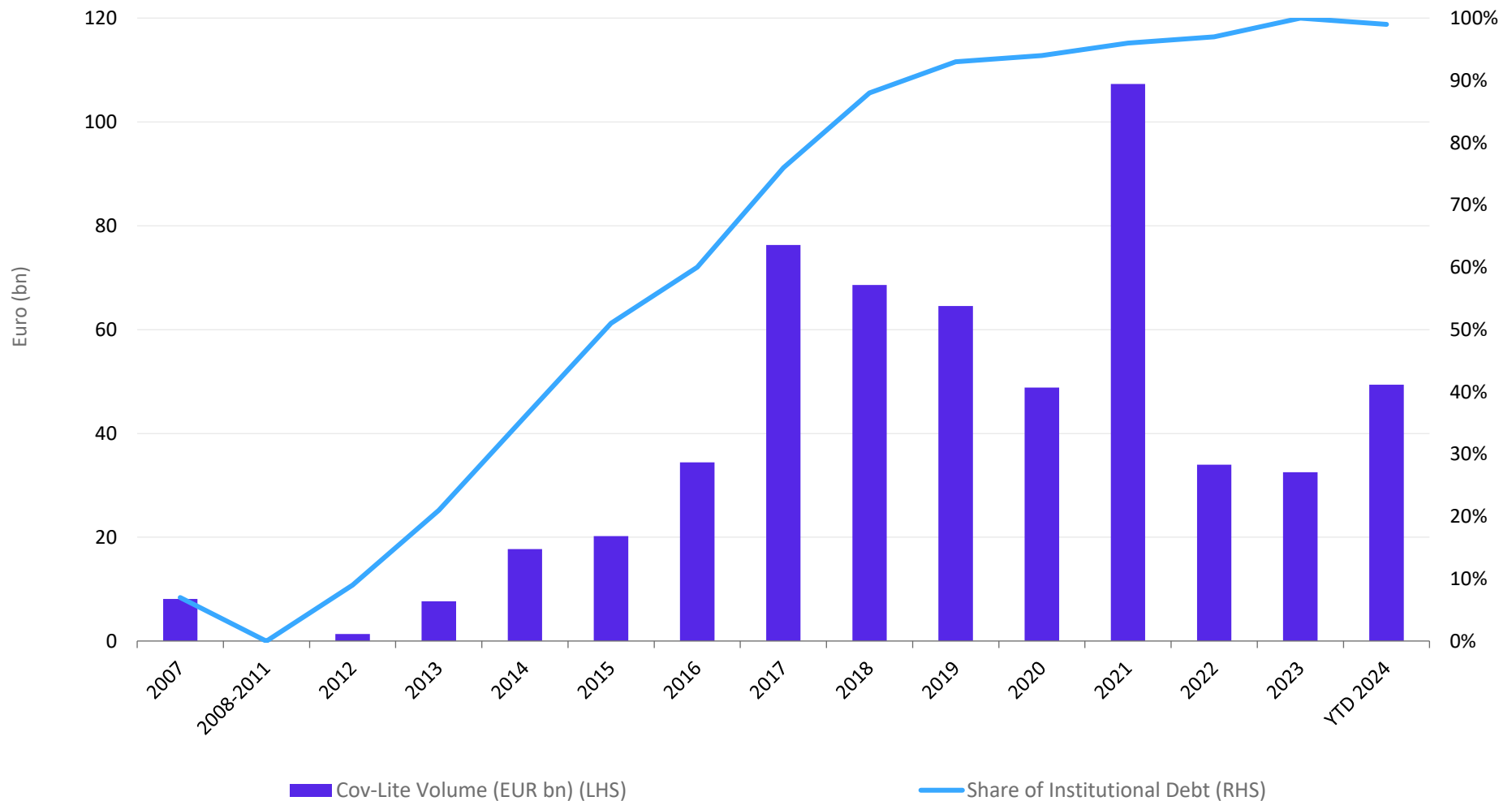
Credit volatility throughout time





What are some of the risks you currently worry about?

Loan market exposure to covenant-lite structures

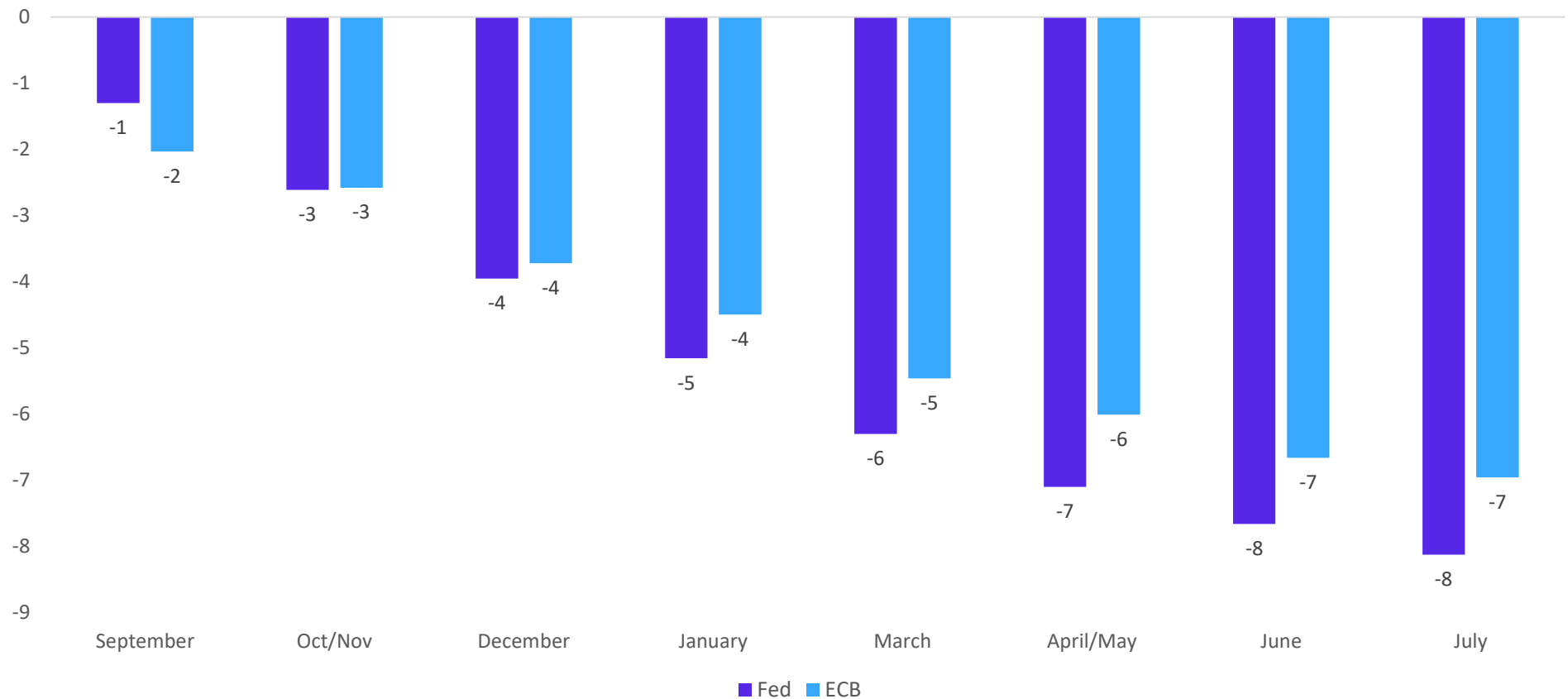




What are some of the risks you currently worry about?

Rate cuts to reduce yield on portfolios

Cumulative Cuts Priced Into Current Easing Cycle



Source: Bloomberg. As of 31-August-2024.



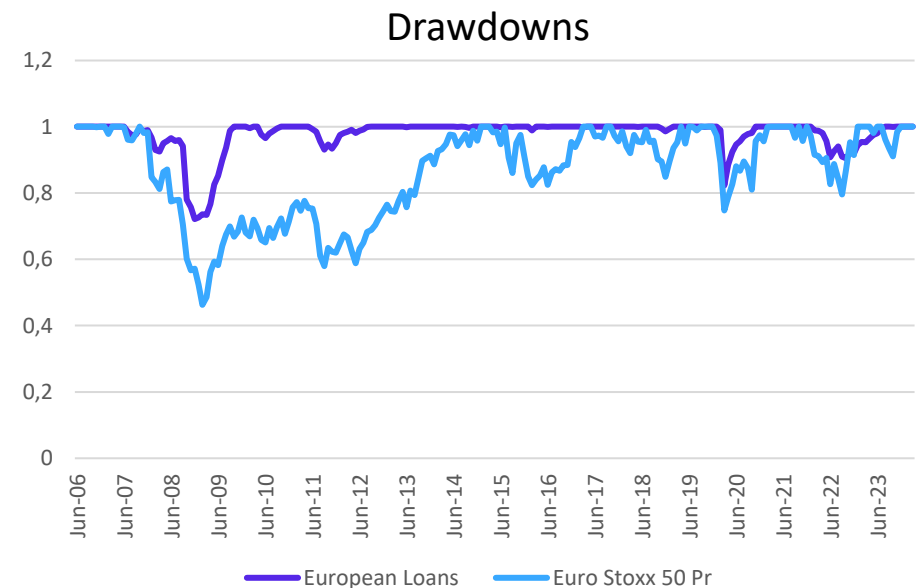
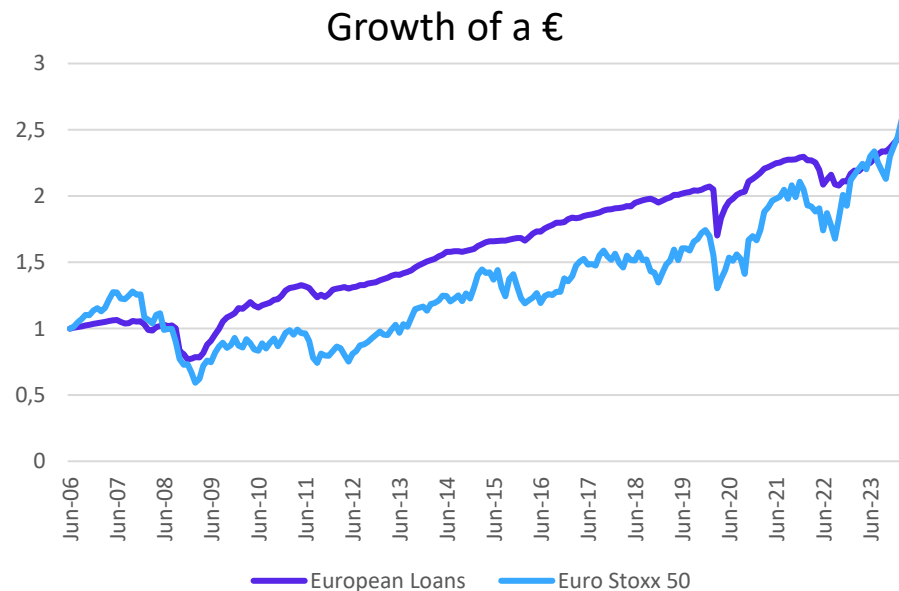
How does the European loans market compare to Direct Lending?

	European Leveraged Loans	European Direct Lending
Currency	EUR, GBP	EUR, GBP
Market cap (EUR bn)	279	200
Average deal size (EUR mm)	c.730	c. 100
Tenor	7 years	3-7 years
Coupon type	Floating	Floating
Secured	100%	100%
Historical credit loss rate per annum	0.9%	1.2%
Estimated default rate 2024	2.5%	3%
Publicly rated	95%	0%
Liquidity	Average	Low
Valuation frequency	Daily	Quarterly
Price volatility	Average	Low
Average rating	B	Unrated
Vehicle	open-ended	closed-ended with capital calls
Advantages	Liquidity Flexibility to make tactical asset allocation changes Long history with established managers	Illiquidity premium Regulatory capital benefits Low volatility



Could Basel IV have an impact on demand for Bank Loans?

	EUROPEAN LOANS	EUROPEAN EQUITIES
Return	5.2%	5.7%
Volatility	7.9%	17.7%
Return to risk	0.65	0.32
Correlation	0.53	0.53
Max. drawdown	-27.9%	-53.7%
Worst month	-17.10%	-16.18%
Basel IV reg cap risk weight	100%	250%
Basel IV reg cap requirement for €100m investment	8m	20m





Allspring's European Loans capability

Why European Loans and Allspring?

01

- European Loans market was born in 2004 – Allspring is in the market since 2004
 - Best risk-return profile in Fixed Income: 8% yield with <0,25 years of duration*
 - Positive returns expected in bear (+3,5%), base (+7,5%) and bull (+8,5%) scenario
 - 18 years GIPS compliant track record beating the benchmark by > +3% p.a.
 - AIFMD regulated fund and separate accounts
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What type of clients invest with us?

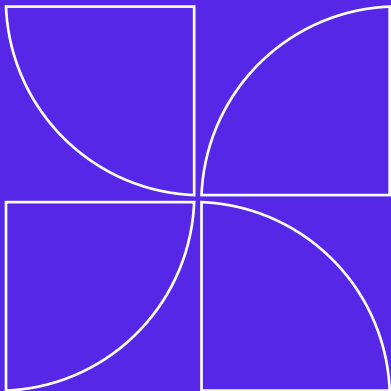
02

- Short duration Investors managing strategic cash reserves
 - Investors looking for floating rate paper
 - Private debt investors interested in a semi-liquid alternative
 - Banks: Basel IV capital adequacy will treat European Loans favorably vs. Equity
 - Institutional investors as part of a diversified allocation
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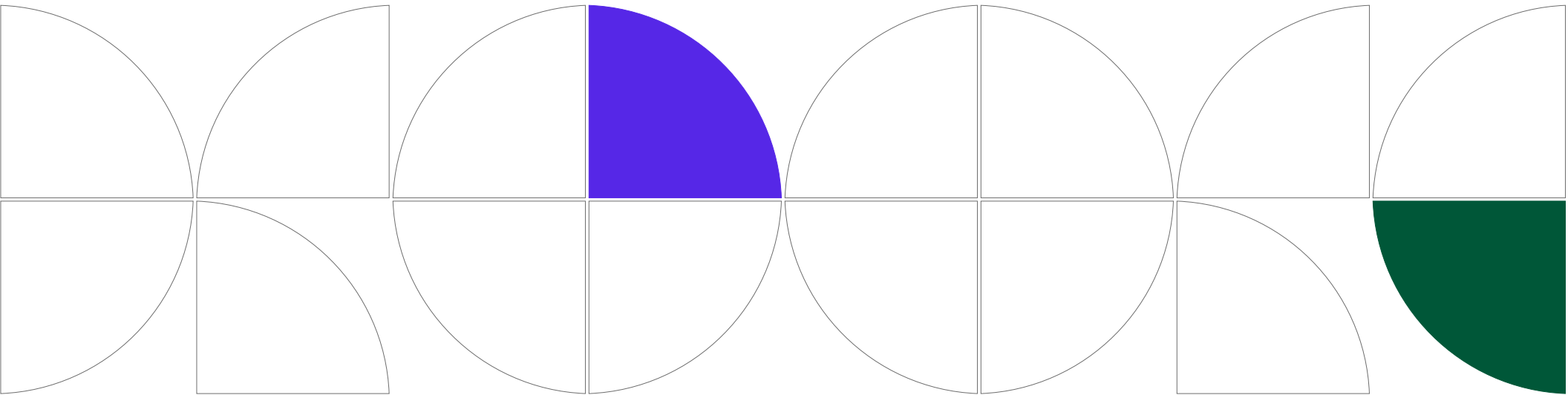
What are the latest market trends?

03

- Increased focus on sustainability: rise of Art. 8 SFDR classification
- Vehicle innovation: ELTIF 2.0
- Leveraged Loans – direct lending joint product offering
- CLO market growth



Appendix





European Loans Fund (AIF)

Objectives and process

- Provides investors with periodic returns from an actively managed portfolio of predominantly European debt obligations and primarily senior secured obligations
- Makes investments based on their characteristics that demonstrate their capacity to provide the liquidity required in order to be able to make any payments due by the fund
- Selects obligations or other instruments considered to offer superior yields and relative credit stability
- Monitors individual obligor, country risk, maturity and asset-type categorisation in order to avoid excessive concentrations of risk to protect against any significant effects from underperformance by any single investment
- Has the ability to hedge or reduce tail risk and to protect the portfolio from systematic market shocks primarily through the swap market
- Has an independent team that provides risk management framework and monitoring

Fund risks

Sub-investment-grade debt obligations risk

These have a greater risk of loss of principal and interest than higher-rated debt obligations and are likely to be significantly less liquid than investment-grade securities.

Liquidity risk

Credit markets may from time to time become less liquid, leading to valuation losses on investments. The sale of portions of the investments under these circumstances could incur losses that would not have occurred otherwise.

Leverage risk

Certain transactions, including the use of some types of derivatives, may give rise to a form of leverage that can provide greater potential for losses from changes in market prices. An adverse change in the relevant price level can result in a loss of capital that is more exaggerated than would have resulted from an investment that did not involve the use of leverage inherent in the derivative contract.

Derivatives risk

The use of derivatives presents risks different from, and possibly greater than, the risks associated with investing directly in traditional securities. The use of derivatives can lead to losses because of adverse movements in the price or value of the underlying asset, index or rate, which may be magnified by certain features of the derivatives.

Distressed and defaulted obligations risk

It may be difficult to obtain information as to the true condition of companies issuing these obligations. In any reorganisation or liquidation proceeding relating to a company in which the fund invests, the fund may lose all or part of its investment and/or may be required to accept payment over an extended period of time.



Senior Secured Fund (AIF)

Objectives and process

- Provides investors with periodic current income returns and capital appreciation by investing primarily in senior-secured debt and related products of mainly sub-investment-grade corporate obligors based in Europe as well as other global issuers
- Acquires primarily senior-secured obligations not less than half of which are expected to be of European origin and credit risk
- Selects obligations or other instruments that offer superior yields and relative credit stability
- Monitors individual obligor, country risk maturity and asset-type categorisation in order to avoid excessive concentrations of risk to protect against significant effects from underperformance by any single investment
- May seek to mitigate a proportion of market risk from such investments and to hedge generally against tail risk and systematic market shocks primarily through the swap market

Fund risks

Sub-investment-grade debt obligations risk

These have a greater risk of loss of principal and interest than higher-rated debt obligations and are likely to be significantly less liquid than investment-grade securities.

Liquidity risk

Credit markets may from time to time become less liquid, leading to valuation losses on investments. The sale of portions of the investments under these circumstances could incur losses that would not have occurred otherwise.

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