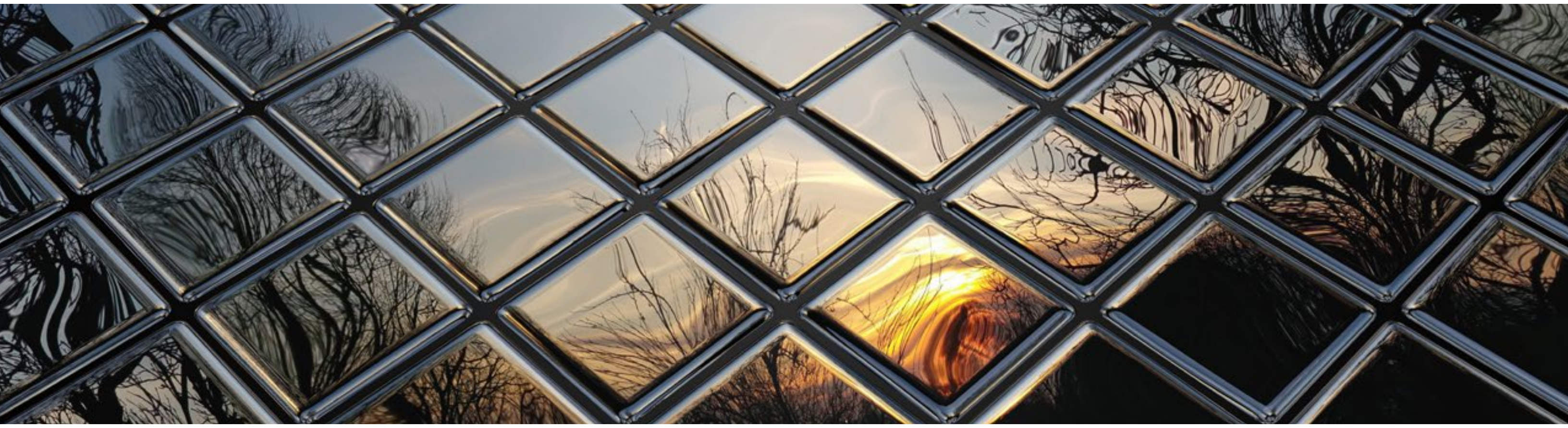
Insights

March 2021



Alternative Credit: 2021 Outlook

While there were a range of fundamental factors—including corporate debt vulnerabilities and continued geopolitical tensions—to suggest the credit cycle was in a mature state heading into 2020, the exogenous shock of a global pandemic was not on many radars. The swift recovery of risk assets after the initial Covid-19 selloff was perhaps as unexpected, but lenders responsive to last year's shifting liquidity environment likely were well positioned for this rebound.

At First Eagle Alternative Credit, the alternative credit business of First Eagle Investment Management, we are relentless about understanding where the risks to our capital lie, emphasizing robust underwriting and the continual oversight of our portfolio companies. There are numerous variables to consider as we assess the alternative credit environment in 2021—not just the ongoing pandemic and the aftershocks of policy responses to it, but a whole host of excesses that accumulated in the years following the financial crisis and have yet to be washed away. Net net, we expect the economy's recovery from the dislocations of Covid-19 will be protracted in general, with a few industry-specific exceptions, though another near-term spike in defaults seems unlikely barring some significant setback or adverse change in monetary or fiscal policy.

While generating meaningful current income from traditional fixed income assets is likely to remain a challenge in 2021, the environment should generally be supportive of flexible portfolios able to allocate across the alternative credit spectrum as relative-value opportunities emerge.

Key Takeaways

- A benign credit market in early 2020 was thrown into disarray with the onset of the Covid-19 pandemic before massive central bank intervention helped restore order and renew investor confidence.
- With companies eager to bolster their balance sheets in the face of economic lockdowns, 2020 saw record levels of issuance in investment grade and high yield bonds. Net new issuance of loans lagged, however, as the market for collateralized loan obligations took several months to return to trend in an environment that rewarded duration.
- Fundraising for private debt slowed in 2020, and limited partners showed a clear bias toward established general partner relationships rather than launching new diligence efforts with unfamiliar lenders in a remote environment.
- With substantial monetary and fiscal stimulus likely to persist but the wounds of 2020 still raw, 2021 looks set to be a year of "muddling through." Though not without its risks—both systemic and idiosyncratic—such a backdrop would be generally supportive of well-selected credit assets.
- With a focus on generating structurally defensive income through rigorously underwritten investments offering attractive risk-adjusted returns, First Eagle Alternative Credit remains biased toward assets at the top of a company's capital structure—senior-secured, first-lien loans, both broadly syndicated and directly originated.

Massive Central Bank Intervention Distorted Normal Credit Market Dynamics in 2020

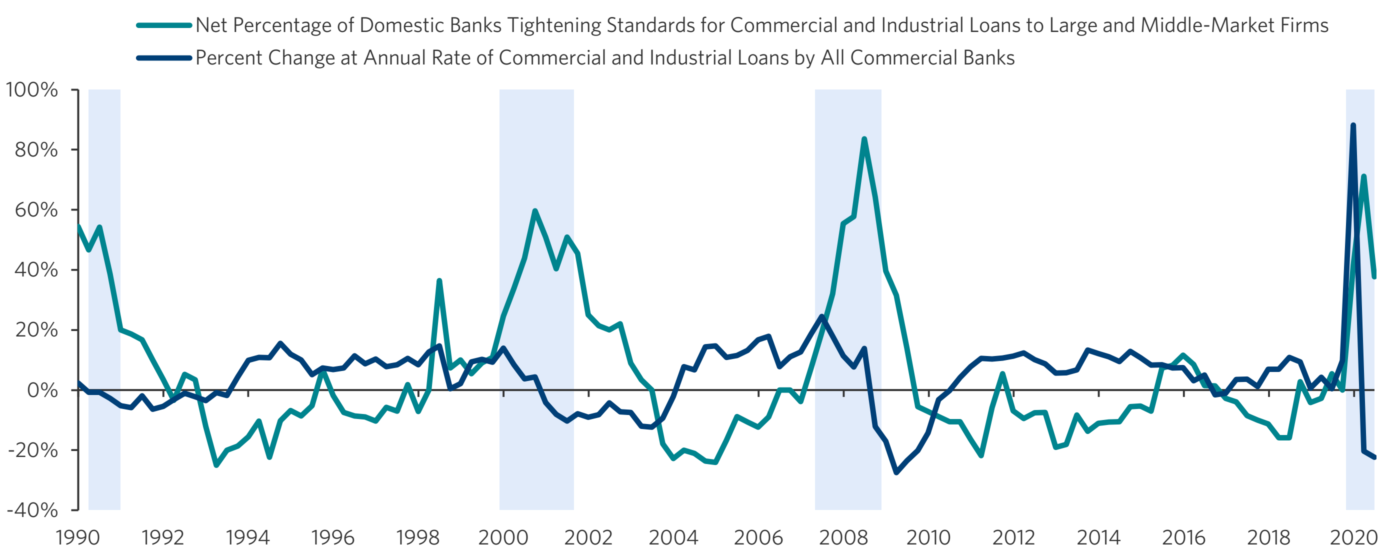
Despite a bit of volatility toward the end of 2019, credit markets entered 2020 on fairly decent footing; public market investors continued to welcome opportunities to pick up additional yield, while the private space had good deal flow and ample dry powder prepared to meet it. Though we were well into the late stages of a long-running credit cycle heading into 2020, a cycle's age alone is not necessarily cause for concern. With capital plentiful, mature credit cycles can be a fruitful environments for lenders, as companies look to further lever their balance sheets by refinancing existing credit facilities at lower rates and/or using borrowing proceeds to fund such activities as leveraged buyouts, mergers and acquisitions, and capital expenditures.

Credit markets entered 2020 on fairly decent footing, unaware of the exogenous shock that would soon bring economies to a standstill and batter corporate balance sheets.

In a typical credit cycle, a gradually slowing economy impairs corporate cash flow generation, which over time translates into deteriorating credit metrics and rising leverage levels for borrowers and potential liquidity concerns for lenders. The availability of capital is one way to look at the progression of a credit cycle, and it provides a good illustration of the pronounced velocity of changes in lending dynamics during 2020. Exhibit 1 depicts the net percentage of domestic banks tightening their underwriting standards for large and middle-market firms in the US alongside the compounded annual rate of change in commercial and industrial loans. As of January 2020, the net percentage of banks reporting tighter lending standards was pretty much zero. Of course, none could foresee an exogenous shock like the Covid-19 pandemic and the swift impact it would have on economic activity and corporate balance sheets. From mid-March into April, credit market conditions had deteriorated in earnest, and access to capital was limited to only the most robust issuers. Overall corporate issuance fell 60% year-over-year, with days passing between the pricing of new issues, and most companies were forced to rely on cash holdings and bank revolvers to meet their near-term capital needs. Public markets were quick to price in these disruptions. Spreads gapped across credit types and ratings; at the March peak, about 40% of the high yield bond market was trading at distressed levels, defined as a spread to Treasuries greater than 1,000 basis points.[1]

Exhibit 1. Lending Conditions in 2020 Were Easy…Until They Weren't

Second Quarter 1990 through Fourth Quarter 2020



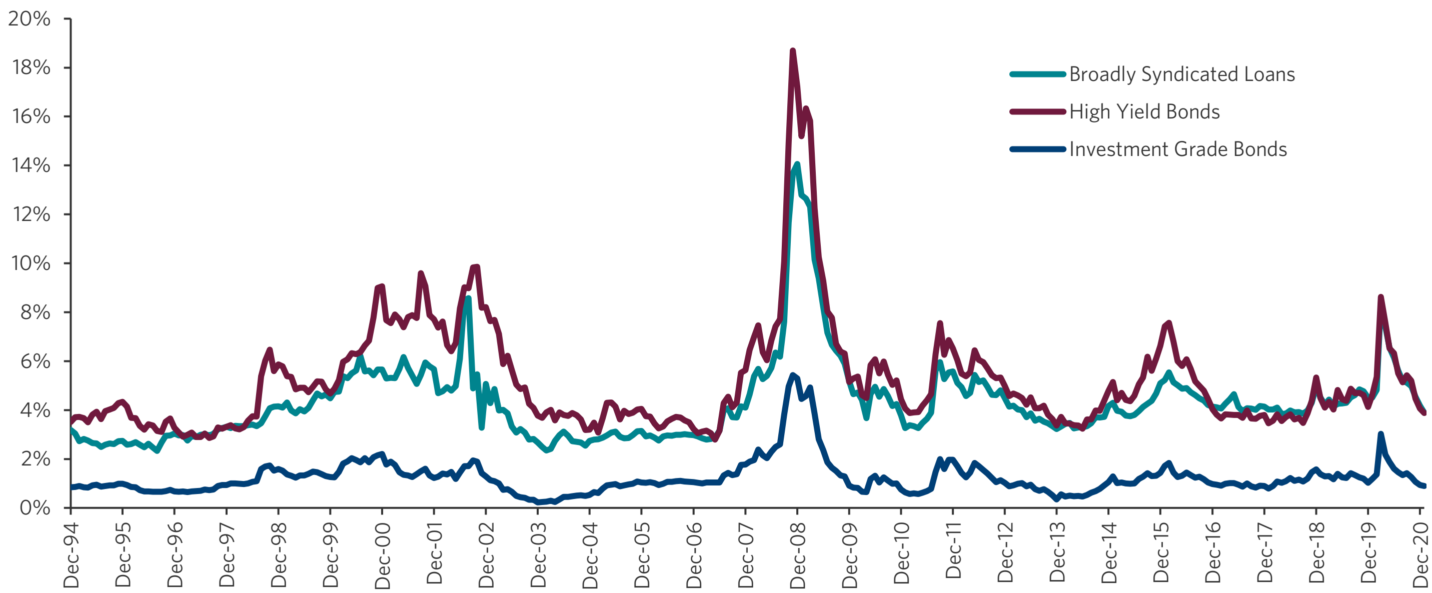
Note: US recessions are shaded; the end date of the current recession is to be determined.
Source: Federal Reserve; data as of January 1, 2021.

1. Daleep Singh, "The Federal Reserve's Corporate Credit Facilities: Why, How and for Whom," Remarks at The U.S. Chamber of Commerce's Center for Capital Markets Competitiveness (October 20, 2020).

Quick and decisive action by central banks worldwide—perhaps taking a lesson from their hesitant reaction to the global financial crisis in 2008—pulled public credit markets back from the brink. Policy rates were slashed, massive levels of quantitative easing were pushed out, and programs to ensure market liquidity were introduced. For its part, the Fed rolled out all the facilities it implemented in response to the global financial crisis plus new programs such as the purchase of corporate bonds in the primary and secondary markets. Though the utilization of some of these facilities remained low throughout 2020, the existence of the Fed backstop had its desired effect. Investors quickly returned to public credit markets, driving spreads sharply tighter across issue quality, as shown in Exhibit 2.

Exhibit 2. After a Violent March Spike, Credit Spreads Ended 2020 Near Pre-Pandemic Levels

Yield Spread to 10-Year US Treasury



Source: Federal Reserve Bank of St. Louis, Credit Suisse; data as of December 31, 2020.
Broadly Syndicated Loans represented by Credit Suisse Leveraged Loan Index. High Yield Bonds represented by ICE BofA US High Yield Index, Investment Grade Bonds represented by ICE BofA US Corporate Index

In contrast, the Fed's relief actions were less impactful on midsized companies. The central bank found few takers for its Main Street Lending Facility, which was intended to direct funds to businesses too small to tap the capital markets and too big for the Paycheck Protection Program—a cohort estimated to represent 40% of the economy. Though the Fed had allotted $600 billion to purchase loans issued by banks through this program, less than $17 billion was extended. A survey of banks responsible for underwriting loans under the facility—which was discontinued January 8, 2021—found that loan officers considered the terms unattractive for lenders and overly restrictive for borrowers.[2]

High yield bonds outperformed loans in 2020, as assets with duration risk benefitted from falling interest rates.

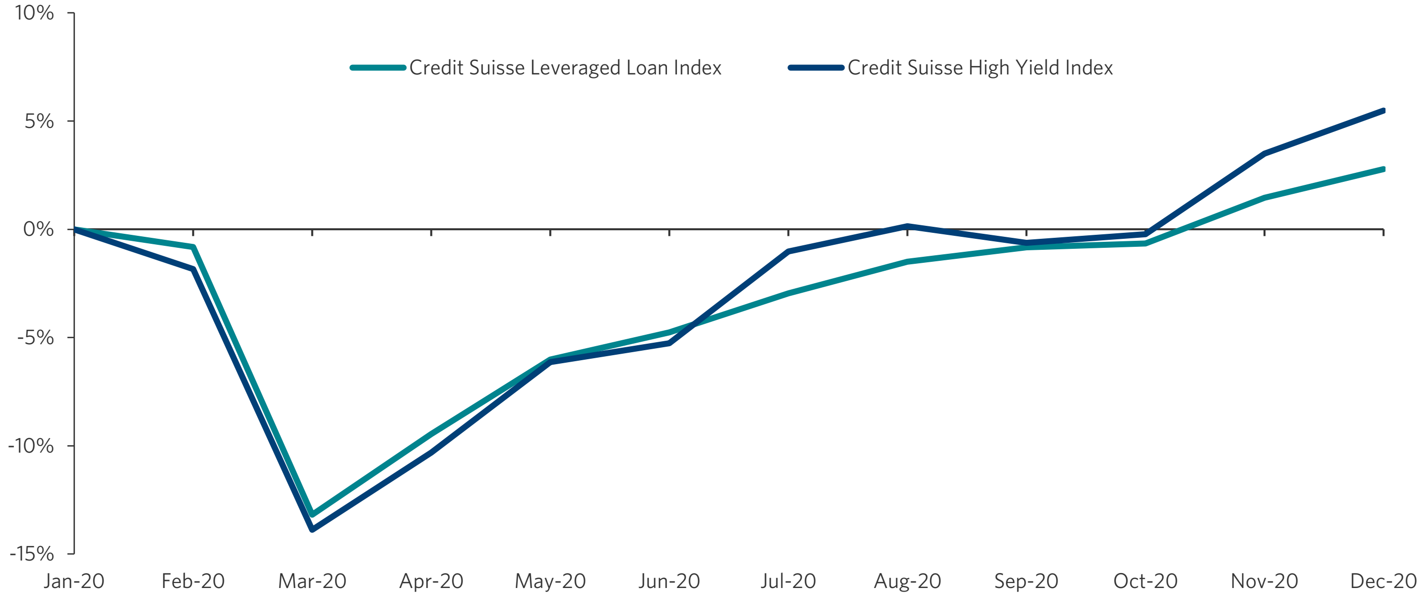
Public Alternative Credit Markets Recovered, but at Different Paces

As shown in Exhibit 3, total returns on the high yield bond and syndicated loan markets bottomed out at nearly identical levels in March. High yield bonds outperformed over the balance of 2020, however, as assets with duration risk benefitted from falling interest rates. Though syndicated loans—given their floating rates—have minimal duration exposure, this market also clawed its way comfortably back into positive return territory by the end of the year.

2. Source: Federal Reserve; data as of January 9, 2021.

Exhibit 3. High Yield Bond Performance Outpaced Syndicated Loans in 2020

Total Return, January 1 through December 31, 2020



Source: Credit Suisse; data as of December 31, 2020.
Past performance does not guarantee future results.

All in all, we believe the technical dynamic in the loan market appears favorable, as the resumption of steady CLO demand should absorb lower levels of net new issuance.

This preference for bonds relative to loans in 2020 is also reflected in the issuance data. By mid-September, high yield bond issuance had already established a new annual record, and it finished the year at $421 billion, well above the previous high-water mark of $332 billion set in 2012.[3] While volume was at first driven by junk issuers looking to secure liquidity in frozen markets, as the year progressed issuance became marked by companies looking to lock in lower rates and push out maturities on their existing debt, including floating-rate loans.

Though loan-market issuance finished 2020 on a positive note, driven by loans financing mergers and acquisitions, full-year volume was down 7% from 2019 and net new issuance—which accounts for loans that were refinanced, in some cases by bonds—was basically flat. In terms of demand, the issuance of collateralized loan obligations (CLOs), which own about two-thirds of syndicated loans outstanding, has returned to trend levels since coming to a virtual standstill in March. All in all, the technical dynamic in the loan market appears favorable, as the resumption of steady CLO demand should absorb lower levels of net new issuance.

Private Credit Markets Favored Scale Lenders

Direct lending usually refers to the origination of loans by nonbank lenders—typically asset managers, business-development companies (BDCs), CLOs, hedge funds, insurers and other institutional investors—to mid-sized companies too big for commercial bank loans but too small to tap the capital markets for their financing needs. Paying a floating-rate coupon and having a typical maturity of five to seven years, these unrated loans offer a spread premium to public debt securities in exchange for reduced liquidity and exposure to relatively smaller borrowers. Direct lenders partner with borrowers to create customized financing solutions that meet the borrower's needs and timeline, and in exchange are able to influence the loan's structure and protective covenants and gain greater access to management teams, which helps support more comprehensive due diligence. Private lending opportunities each have their own unique risk-return profile and are available across the debt stack, though senior-secured loans are the most popular.

3. Source: Securities Industry and Financial Markets Association; data as of January 26, 2021.

The nature of direct lending historically has resulted in lower default rates and higher recovery rates than evident in public bond markets.

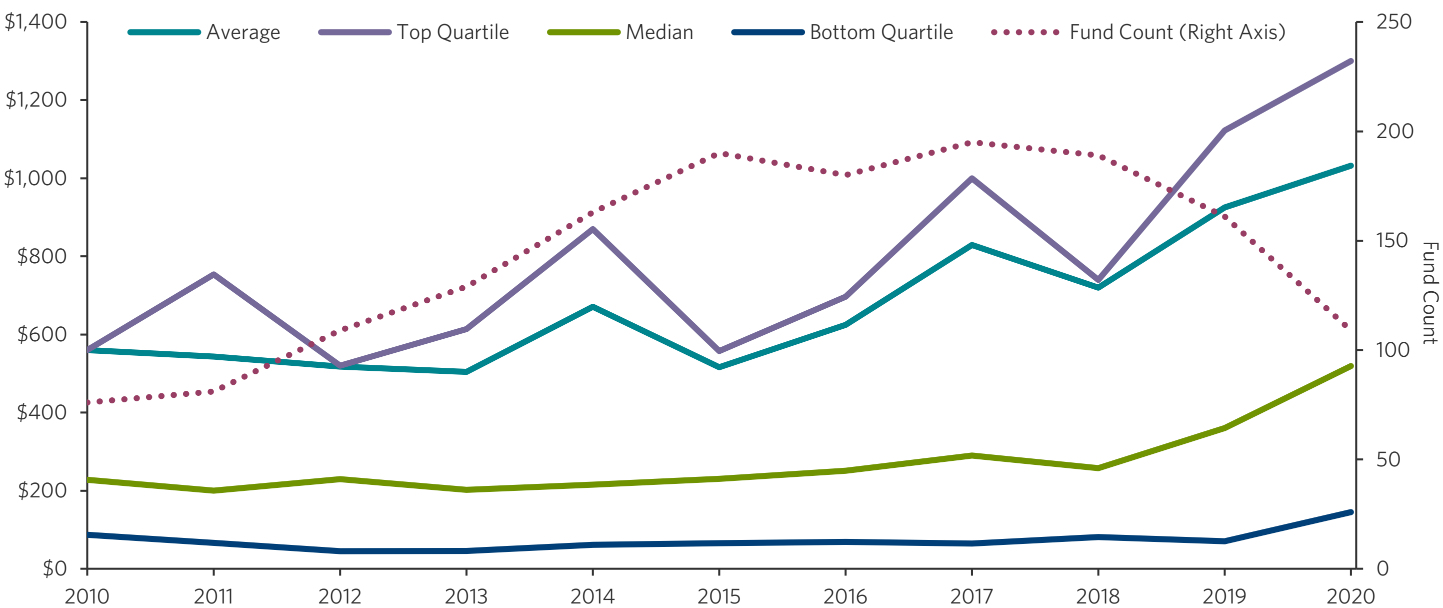
As an opaque market with very limited secondary market liquidity and lack of daily mark-to-market requirements, direct lending offers little in the way of high-frequency data by which to judge the short-term impact of broad macro and market fluctuations such as those that occurred in 2020. However, we do know that the nature of lending in this space historically has resulted in lower default rates and higher recovery rates than evident in public bond markets. Borrowers in many cases are sponsored by private equity funds that are economically incented to provide their portfolio companies with the resources necessary to succeed over time; lenders, too, are motivated to work constructively toward solutions with borrowers rather than seek redress.

While measured changes in credit availability typically provide companies time to incrementally adjust their business plans and balance sheets to account for deteriorating economic and credit conditions, the window of opportunity for such activity was truncated sharply in 2020. At the onset of the crisis, sponsors pulled out all the stops to free up as much liquidity as possible, borrowing under revolvers, issuing secured and unsecured debt and equity. Since then, sponsors have been keenly focused on maintaining strong liquidity positions, maximizing optionality and expanding the runway for their companies through a variety of solutions, including rescue financing, covenant modifications, payment holidays, cost cutting and even radical changes to business models.

Fundraising for private debt slowed last year. Capital raises for private debt in 2020 was around $110 billion, down more than 25% from 2019. Fund count was down even more sharply—41%—as limited partners appeared to be relying on established general partner relationships rather than embarking upon new diligence with unknown quantities in a remote environment. As shown in Exhibit 4, the median private debt fund closing through the end of the third quarter was sized at about $630 million, a 75% increase from full-year 2019.[4]

Exhibit 4. Larger, Established Private Debt Funds Have Benefitted from Virtual Dealmaking Environment

Global Private Debt Fund Sizes in Millions of Dollars, 2010 through 2020



Source: PitchBook; data as of February 24, 2021.

4. PitchBook, "2020 Annual Private Fund Strategies Report," February 24, 2021.

First Eagle Alternative Credit: Flexibility and Selectivity

Flexibility and selectivity are key elements to First Eagle Alternative Credit's approach to constructing portfolios of non-traditional credit assets. The flexibility to allocate capital to both public and private markets facilitates an opportunistic approach in an effort to generating attractive current income and total return, while our selectivity seeks to mitigate downside risk relative to other higher-yielding fixed income strategies. For example:

- **Public markets.** Within publicly traded markets, careful investment selection may help offset loosened covenant protections. Senior secured loans, for instance, historically have provided significantly better recovery rates upon corporate default or restructuring compared to high yield bonds due to their higher position in the capital structure and collateral backing.
- **Private markets.** Given their smaller scope and the nature of their business models, borrowers in the direct lending space tend to be much less levered than their larger public-market brethren. Further, the origination and bilateral negotiation of direct loans—whether as part of a club or as a single lender—typically provides lenders with significant influence over the loan's structure and its protective covenants as well as greater access to management teams. Combined, these dynamics have allowed direct lenders to apply a level of underwriting discipline unavailable in public fixed income markets and thus generate better recovery rates over time.

While the above can serve as useful rules of thumb, as market conditions grow more complicated and pricing more idiosyncratic across what is a massive investment opportunity set, strong underwriting and rigorous due diligence is essential to determine whether the yield on an individual asset—loan or bond—is adequate compensation for its risks. Further, resource-intensive investments like tradable credit and direct lending also demand scale that facilitates the efficient deployment of investor capital by providing access to a wide network of deals and the lending capacity to commit more capital to borrowers.

Private equity capital raising was off by about one-third in 2020, as the industry raised the least capital since 2015. Momentum began to rebuild in the fourth quarter, however, and we believe there are likely to be ample opportunities moving forward for alternative lenders as sponsors look to put a record $1.3 trillion of dry powder to work.[5]

We believe there are likely to be ample opportunities for alternative lenders as private equity funds look to put a record $1.3 trillion of dry powder to work.

The Environment Should be Supportive of Credit in 2021…

Significant monetary and fiscal accommodation seems likely to persist in 2021 and beyond. Fed rhetoric suggests that it recognizes the potentially long tail of the pandemic's impact and is prepared to maintain extraordinary levels of support in terms of asset purchases and zero interest rate policy for some time. In addition, the central bank's adoption of an inflation-averaging approach to managing its target suggests that it will encourage a period of realized inflation in excess of its 2%, pushing the timing of potential rate hikes out even further. While Democratic control of the White House, the Senate and the House of Representatives increases the likelihood of ongoing fiscal stimulus in 2021, their slim advantage in the Senate—a 50-50 split with Republicans, with Vice President Harris serving as a tiebreaking vote if necessary—may serve as a check on the type of massive spending that was earlier speculated to be a strong possibility in the event of a November "blue wave" while also tempering very progressive, antibusiness policy impulses. These conditions are generally supportive of consumption and corporate assets.

Of course, the trajectory of the global health crisis remains the biggest wildcard for investment performance going forward. While the December rollout of vaccines provided a sense of hope, it would be premature to assume the worst of the economic dislocations from Covid-19 are over, though central bank liquidity provisions appeared to truncate the downside. But just as fiscal support mitigated the pandemic's most severe impacts in 2020, it's also likely to smooth out the snapback and to delay a return to a normal environment in which economies and financial markets can operate smoothly without government intervention.

5. PitchBook, "2020 Annual Private Fund Strategies Report," February 24, 2021.

As a result, we may face a period of "muddling through" in 2021 in which companies that otherwise likely would have gone bankrupt or been acquired at bargain prices are able to access capital and to stumble along, zombie-like, for some period of time. On the other hand, this also provides optionality for businesses that have compelling reasons to exist in the long term and serves as a bridge to a more rational operating environment in the future. The things we saw take place in 2020—revolver borrowings, new credit facilities, extension of maturities and increased focus on liquidity management—are all productive steps for businesses with solid longer-term prospects, even in challenged industries. We believe our borrowers, in particular, have done a tremendous job managing their cost structures, which is both a testament to the quality of these management teams and a proof point for why we place such importance on management when making credit decisions.

For direct lending and broadly syndicated loans, a little interest rate volatility would serve as a welcome reminder of the benefits of floating-rate instruments.

For credit, such a muddling-through scenario is not the end of the world. For direct lending and broadly syndicated loans, a little interest rate volatility would serve as a welcome reminder of the benefits of floating-rate instruments. We've seen some of this in early 2021, as yields on long government bonds have reclaimed pre-Covid levels. A pickup in near-term inflation also wouldn't be the end of the world for credit, though it would present complications depending on the economic backdrop. In a growing economy, companies may be able to maintain their margins in the face of rising input prices by passing along marginal cost increases to consumers. This price flexibility tends to be lacking in an economy that is stagnant or contracting, however, leaving inflation to eat into corporate margins over time and to undermine the environment for credit.

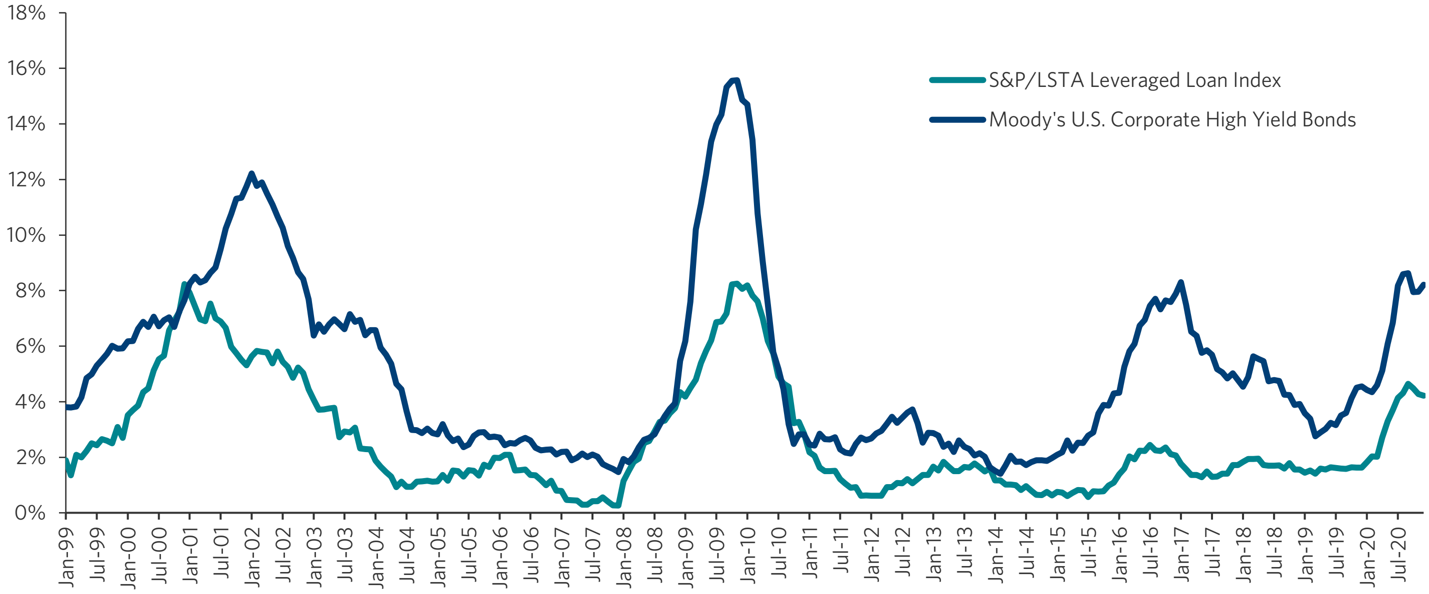
…Though Selectivity Will Be Key

While many companies were able to improve their liquidity position through the debt markets in 2020, the recession—which remains ongoing, remember—already has taken a serious toll on corporate balance sheets. Leverage has increased markedly among both investment-grade and speculative issuers. Credit downgrades in 2020 outnumbered upgrades by a wide margin, and the bias remains weighted heavily toward the downside among both investment grade and high yield issues.[6] As shown in Exhibit 5, trailing-12-month default rates in both the loan and high yield bond markets are trending at levels not seen since 2009.

6. Source: S&P Global Ratings Research; as of December 25, 2020.

Exhibit 5. Due to Seniority, Loans Typically Have Had Lower Default Rates Than Bonds

Trailing-12-Month Default Rate, as of December 31, 2020



Source: S&P/LSTA, Moody's Investors Service; data as of December 31, 2020.
Past performance does not guarantee future results.

While we recognize that appealing yields can be hard to find these days without taking on outsized risk, we remain focused on generating structurally defensive income through carefully selected assets offering attractive risk-adjusted returns. With this as a backdrop, we remain biased toward assets at the top of a company's capital structure—senior-secured, first-lien loans, both broadly syndicated and directly originated.

While we recognize that appealing yields can be hard to find these days without taking on outsized risk, we remain biased toward assets at the top of a company's capital structure.

The size of the First Eagle Alternative Credit platform facilitates access to a range of attractive opportunities in the primary loan market while also allowing us to opportunistically provide liquidity to other lenders in the secondary market when we can do so at attractive terms. We rely heavily on our quantitative framework for evaluating opportunities in the tradeable credit space, using our proprietary evaluations of cash flows, credit and collateral to generate differentiated views on credits and industries. We believe syndicated loans currently represent an attractive value proposition compared with high yield bonds generally, offering similar all-in coupons with the added potential benefits of seniority in the capital structure, collateral backing and floating rates that mitigate duration risk. Of late, we are finding particularly attractive risk-adjusted return prospects in loans rated B and B-.[7]

Though private debt fundraising was sidetracked by Covid-19 last year, record levels of dry powder suggests to us that there will continue to be considerable capital competing for deals in the direct-lending space. That said, we expect opportunities should continue to feature full covenant packages and rational pricing. At the end of the day, however, underwriting discipline is essential to capturing the economics of a deal. If a lender is relying on a loan's covenant protections in order to be repaid, that loan probably should not have been extended in the first place. Our focus has been on borrowers with business models that offer good cash flow visibility and thus appear well positioned to service their debt; technology companies with subscription-based revenues, for example, or health care businesses focused on essential services like dentistry and optometry.

7. A credit rating, as represented by the Credit Quality Break- down, is an assessment provided by a nationally recognized statistical rating organization (NRSRO) of credit worthiness of an issuer with respect to debt obligations, including specific securities, money market instruments, or other bonds. Ratings are measured on a scale that generally ranges from AAA (highest) to D (lowest); ratings are subject to change without notice. Not Rated (NR) indicates that the debtor was not rated and should not be interpreted as indicating low quality. For more information on the Standard & Poor's rating methodology, please visit standardandpoors.com and select "Understanding Ratings" under Rating Resources.

Conclusion

Yields on traditional credit instruments have remained structurally low throughout the post-global financial crisis era, and the policy responses to the Covid-19 pandemic imply the interest rate landscape is unlikely to improve anytime soon for those seeking income. Despite these persistently low yields, fixed income market dynamics—extended durations, deteriorating credit quality and weakening investor protections, among others—suggest the risk of owning these bonds or portfolios benchmarked to popular indexes has increased across multiple dimensions in recent years.

Having participated in the alternative credit markets for more than 30 years and multiple market cycles, First Eagle Alternative Credit understands that at the end of the day investment success isn't measured by industry-level defaults or recovery rates or ratings trends—it's about the specific assets held. While the renewed ebullience of risk markets may suggest otherwise, the economic stresses of the Covid-19 pandemic are ongoing and are likely to continue to test borrowers and lenders alike. We believe it is uncertain environments like these that truly prove out a lender's underwriting skill, credit selection, portfolio construction and risk management capabilities, and we look forward to the challenge.

Why First Eagle Alternative Credit?

- Decades of experience providing capital to middle-market companies through direct lending and other alternative credit investments
- Time-tested credit selection and risk management processes
- Experience and continuity of personnel and processes across multiple market cycles
- Scale necessary to effectively deploy investor capital broadly combined with a localized reputation as a trusted lender

An investment in a First Eagle Alternative Credit ("FEAC") strategy involves a number of significant risks. Below is a summary of some of the principal risks of investing in a FEAC strategy. Before you invest, you should be aware of various risks, including those described below. For a more complete discussion of the risks of investing in a FEAC strategy, please see the applicable offering document.

Direct Lending and Middle Market "Club" Loan Risk: Generally, little public information exists about these companies, and the Strategy is required to rely on the ability of the FEAC's investment professionals to obtain adequate information to evaluate the potential returns from investing in these companies. If FEAC is unable to uncover all material information about these companies, it may not be able to make a fully informed investment decision, and the Strategy may lose money on is investments. Private and middle market companies may have limited financial resources and may be unable to meet their obligations under their debt securities that the Strategy holds, which may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of the Strategy realizing any guarantees it may have obtained in connection with its investment. In addition, they typically have shorter operating histories, narrower product lines and smaller market shares than larger businesses, which tend to render them more vulnerable to competitors' actions and market conditions, as well as general economic downturns. Additionally, middle market companies are more likely to depend on the management talents and efforts of a small group of persons; therefore, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on the Strategy's portfolio company and, in turn, on the Strategy. Middle market companies also generally have less predictable operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position.

Bank Loan Risk: These investments potentially expose the Strategy to the credit risk of the underlying borrower, and in certain cases, of the financial institution. The Strategy's ability to receive payments in connection with the loan depends primarily on the financial condition of the borrower. Even investments in secured loans present risk, as there is no assurance that the collateral securing the loan will be sufficient to satisfy the loan obligation. The market for bank loans may be illiquid and the Strategy may have difficulty selling them. In addition, bank loans often have contractual restrictions on resale, which can delay the sale and adversely impact the sale price.

Below Investment Grade Rating Risk: Most of the credit instruments in which the Strategy invests, including its investments in syndicated bank loans, middle market "club" loans (senior secured loans in middle market companies funded by an arranged group of lenders that generally does not involve syndication), direct lending (consisting of first lien loans, including unitranche loans), asset-based loans, and high-yield bonds, will be rated below investment grade by rating agencies or would be rated below investment grade if they were rated. Below investment grade investments are often referred to as "high-yield" or "junk" securities. While generally providing greater income and opportunity for gain, below investment grade securities or comparable unrated securities may be subject to greater risks than securities or instruments that have higher credit ratings, including a higher risk of default. Because unrated securities may not have an active trading market or may be difficult to value, the Strategy might have difficulty selling them promptly at an acceptable price.

Credit Suisse Leveraged Loan Index: This index tracks the investable market of the U.S. dollar denominated leveraged loan market. It consists of issues rated "5B" or lower, meaning that the highest rated issues included in this index are Moody's/S&P ratings of Baa1/BB+ or Ba1/BBB+. All loans are funded term loans with a tenor of at least one year and are made by issuers domiciled in developed countries.

Credit Suisse High Yield Index: This index tracks the performance of domestic noninvestment-grade corporate bonds.

ICE BofA US High Yield Index: This index tracks the performance of US dollar denominated below investment grade rated corporate debt publicly issued in the US domestic market. To qualify for inclusion in the index, securities must have a below investment grade rating (based on an average of Moody's, S&P, and Fitch) and an investment grade rated country of risk (based on an average of Moody's, S&P, and Fitch foreign currency long term sovereign debt ratings). Each security must have greater than 1 year of remaining maturity, a fixed coupon schedule, and a minimum amount outstanding of $100 million. Original issue zero coupon bonds, "global" securities (debt issued simultaneously in the eurobond and US domestic bond markets), 144a securities and pay-in-kind securities, including toggle notes, qualify for inclusion in the Index. Callable perpetual securities qualify provided they are at least one year from the first call date. Fixed-to-floating rate securities also qualify provided they are callable within the fixed rate period and are at least one year from the last call prior to the date the bond transitions from a fixed to a floating rate security. DRD-eligible and defaulted securities are excluded from the Index.

ICE BofA US Corporate Index: This index tracks the performance of US dollar denominated investment grade rated corporate debt publicly issued in the US domestic market. To qualify for inclusion in the index, securities must have an investment grade rating (based on an average of Moody's, S&P, and Fitch) and an investment grade rated country of risk (based on an average of Moody's, S&P, and Fitch foreign currency long term sovereign debt ratings). Each security must have greater than 1 year of remaining maturity, a fixed coupon schedule, and a minimum amount outstanding of $250 million. Original issue zero coupon bonds, "global" securities (debt issued simultaneously in the eurobond and US domestic bond markets), 144a securities and pay-in-kind securities, including toggle notes, qualify for inclusion in the Index. Callable perpetual securities qualify provided they are at least one year from the first call date. Fixed-to-floating rate securities also qualify provided they are callable within the fixed rate period and are at least one year from the last call prior to the date the bond transitions from a fixed to a floating rate security. DRD-eligible and defaulted securities are excluded from the Index.

Indices are unmanaged and do not incur management fees or other operating expenses. One cannot invest directly in an index.

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