

CQS Strategy Perspectives

Where Now for Credit?

NOVEMBER 2015



Summary

- Credit market trading liquidity has fallen from pre-Crisis levels, driven by regulatory change, a shift in market participants and significant growth in the size of the market (relative to the size of the Street).
- This 'new normal' for credit trading exhibits greater volatility and more persistent mispricings. We believe the opportunity set has increased across different parts of the credit market and across capital structures.
- Tactical trading and adept credit selection will become more valuable as entry and exit costs increase.
- A flexible platform with a mandate to invest in multiple types of credit assets across currencies, markets and capital structures is key to exploiting the greater number of observable price anomalies.
- We believe the 'new normal' is ideally suited for patient (longer lockup) and flexible (multi-asset in scope) capital with a global footprint across all parts of credit markets, utilising strong credit selection skills.

Introduction

"Liquidity" has been a prominent topic for credit market participants over the last several years, and has emerged frequently in conversations with our clients and counterparties. We recognise that market liquidity has changed meaningfully due to structural and behavioural factors. The data shows a sizeable reduction in liquidity since pre-Crisis; it also shows that liquidity was unusually high in the few years prior to 2008. Rather than viewing today's environment as unusual, we view the 2003 to 2008 period as the outlier – and today as reverting to a 'new normal'.

The 'new normal' credit market structure is an extremely harsh environment for some. We are likely to see higher price volatility, greater periods of 'overshooting' and sizeable gap moves (up or down) given fewer buffers in the system. Investment platforms which face short-term (daily or weekly) redemption risk, that operate with high mark-to-market leverage and daily margining requirements, or which are constrained to investing in narrow sections of the credit markets will find the 'new normal' environment to be quite challenging.

Change is often disturbing, particularly when it impacts how markets operate. However, we are not as concerned as some about the current state of market liquidity as an impediment to outperformance. On the contrary, we believe that the opportunity set in the current environment favours patient and flexible capital, which can identify and harvest opportunities across an increasingly segmented credit market.

In the last seven years, the size of credit markets and the breadth in number and type of credit securities traded have grown significantly. Over the same period, we have seen dramatic shifts in financial market regulations affecting the type and size of market participants who actively trade credit risk. As the manner in which credit markets trade has evolved, we have adapted the way in which we invest.

We believe that this 'new normal' requires adept talent in trading, research and risk management. We think that credit markets have become more fragmented in this 'new normal' – both across capital structures as well as geographic regions. This environment favours flexible capital under a global platform which can best assess relative value across capital structures and across different markets.

We welcome price volatility, as it allows patient capital better entry and exit levels as liquidity permits. We consider the current retreat by Dealers as an opportunity to deploy capital in highly convex structures with attractive risk-reward profiles. In short, we think current liquidity concerns are overdone and miss the emergence of a larger and more attractive opportunity set.

We like the 'new normal'. We believe that current market conditions are providing the best credit-pickers' market for fundamentally-driven investors like us since 2011.

Credit Market Liquidity

What has changed?

Liquidity is commonly defined as the degree to which an asset can be bought or sold in the market without meaningfully affecting its price. For a given size, there is a trade-off between immediacy and realised price. It is also important to distinguish between global liquidity (the overall looseness of financial conditions) and market liquidity (the ability and cost of trading). We are focusing here solely on market liquidity, how changes in the ease

with which we enter or exit positions affect our ability to generate alpha and alter the size of our opportunity set of attractive trades.

Changing the rules of the game

A key consequence of the Crisis and its aftermath for market liquidity was the dramatic shift in financial market regulation, coordinated on a global scale and with implications for all market participants.

The more critical changes affecting Dealers' willingness and ability to provide liquidity include:

- Significant increase in regulatory capital requirements
- New constraints on total balance sheet size
- Elimination of proprietary trading operations
- Imposition of annual 'stress tests' by regulators on portfolios, trading and risk management
- Regulators 'embedding' staff directly into Dealers
- Revised risk-weights and underwriting procedures for structured products
- Standardisation of margin requirements for derivatives
- Strong encouragement to shift derivative trading to common clearing platforms (CCPs)

These changes, in aggregate, have had several direct effects on Dealers:

- Dealers face large increases in the (regulatory) cost of capital for holding credit assets
- Consequently, Dealers are less willing to offer leverage to investors and only then at a higher cost
- Dealers are strongly discouraged, if not prohibited, from actively holding risk on a proprietary basis
- Consequently, market-making is constrained to pure risk intermediation (e.g. simple brokerage)
- Closer regulatory scrutiny, from 'embedded' regulatory staff to the annual 'stress test' reviews, discourage Dealers from engaging in any activity or new business that might appear to be aggressive
- Hence, we have fewer new financial products and consequently less volume and liquidity from new products
- Increased transparency, standardisation of margin and encouragement of CCPs for derivative transactions significantly reduces the profitability of the market-making business for single-name CDS and CDS indices
- Harsher risk-weights and underwriting procedures make it more challenging to create structured products
- These changes reduce the profitability of market-making, and make it harder to retain quality trading talent

These in turn result in higher price volatility for credit markets in the face of idiosyncratic credit events or broader elevated risk premia. The Street is no longer the marginal buyer (seller) of risk. As a result, credit markets have lost a key counter-cyclical buffer.

Moreover, the elimination of proprietary trading from Dealers and the reduced supply (and higher cost) of leverage offered by Dealers to investors mean that there are fewer people taking short positions in credits, and the sizes of the positions are smaller. As a result, the short base of credit risk is smaller in aggregate. Consequently, there is less short-covering (i.e. buying back a short risk position) upon a sudden drop in price, again, removing a counter-cyclical buffer and increasing price volatility.

Finally, the higher cost and reduced supply of leverage offered to investors only reduced further their capacity to be a marginal buyer (seller) of risk: less leverage means smaller position sizing.

Changing the size and quality of the playground

In response to the Crisis, central banks embarked on a period of near-zero policy rates combined with programmes of asset purchases (Quantitative Easing, or QE) that was unprecedented in size (both absolute and relative to GDP). This had important consequences for credit markets:

- Significant growth in the outstanding stock of corporate bonds as issuers replaced bank loans with bonds and took advantage of historically low rates to increase net borrowings (see Figures 1 and 2). The demand for corporate bonds was driven by a growing pool of investors seeking yield in any form as rates compressed. The demand was strong from both retail investors looking to offset near-nil deposit rates as well as institutional investors managing a liability book (e.g. pension, insurance) which rose in size as discount rates fell.

As a result, the stock of US\$ corporate bonds grew strongly from \$2.6tr in January 2005, to \$3.6tr in January 2009 to \$8.2tr by September 2015.¹

- Over time, this has led to a gradual, and now accelerating releveraging of corporate credits as replacement of existing bank debt has been overtaken by aggregate new borrowing. In the face of historically-cheap funding, corporates relevered – leverage metrics for US investment grade corporates are higher now than pre-Crisis levels. We believe this releveraging trend has been one key driver of the recent increase in dispersion of credit spreads within major indices.
- QE and the resultant increased retail demand for credit led to a dramatic growth in Exchange Traded Funds (ETFs). These funds provide retail investors (and some

Figure 1: European High Yield Bond Market
BAML Index (HE00)²

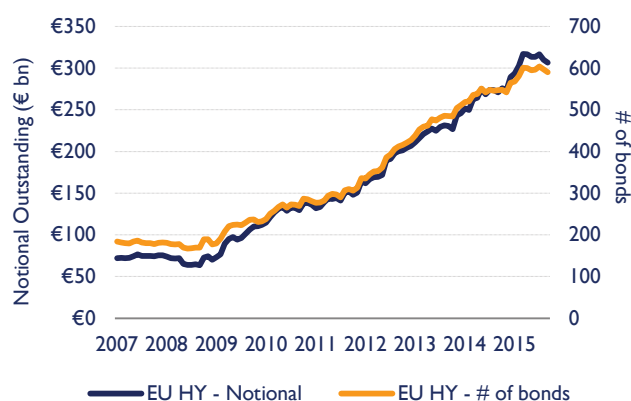
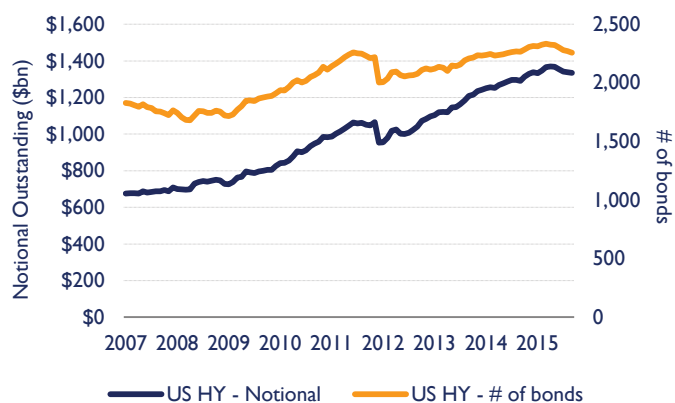


Figure 2: US High Yield Bond Market
BAML Index (H0A0)³



¹Source: SIFMA, US Bond Market Issuance and Outstandings, updated 3 November 2015. ^{2,3}BoAML, 1 September 2015.

institutional investors) an efficient way to buy and sell a diversified portfolio of corporate bonds, with liquidity similar to that of equities. The outstanding stock of corporate bond ETFs grew from \$5.3bn in 2005 to \$74bn by 2010 to \$210bn in 2014⁴.

ETFs became active procyclical players in corporate bond markets, largely because they are used actively by retail and institutional investors. ETFs become buyers of bonds when they receive retail inflows and become sellers upon retail outflows. Importantly, ETFs are largely benchmark-based, so their trading activity exacerbates the differences in liquidity between benchmark and non-benchmark constituents.

As a result, ETFs are now an important marginal buyer (seller) of credit risk, despite the fact that their aggregate sized \$210bn pales compared to the corporate bond holdings of insurance companies or mutual funds, \$2.7tr or \$2.3tr, respectively⁵.

- The amount and proportion of credit managed against a bond index has grown. In addition to the rapid growth in ETFs, mutual funds focused on corporate bonds, largely benchmarked to an index have also seen dramatic growth. Mutual funds' corporate bond holdings have grown from \$660bn in 2005 to \$2.3tr in 2014⁶. This growth of a benchmarked investor base offering daily liquidity has encouraged a bifurcated pattern of liquidity. Bonds not included in an index saw a significant drop in liquidity. Similarly, price volatility increases for bonds as they drop in (or out) of any bond index.
- The amount of credit owned by search-for-yield investors has grown. This group of investors are reacting to global policy easing, which has led to near-zero yields for bank deposits and most short-dated government bond markets. Of note, this has seen non-US holdings of corporate bonds rise by 60% over the last ten years to \$2.9tr.⁷ This investor base is important in that they will likely re-allocate out of corporate bonds once central bank policy rates and government bond yields start to rise.

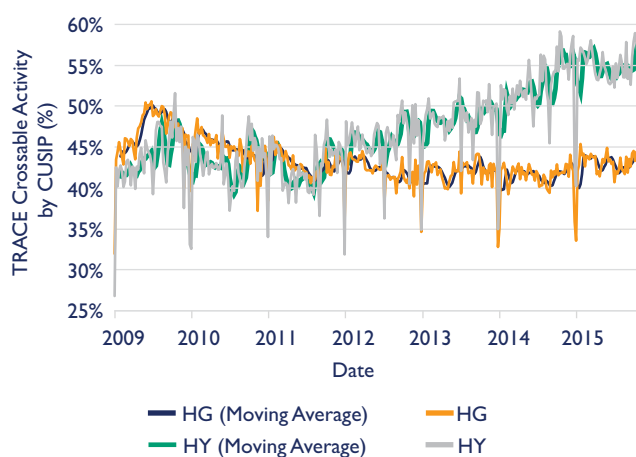
Conclusion

The outstanding stock of corporate bonds has grown significantly, helped by a similarly large growth in the universe of both benchmark-oriented investors and also less-sticky investors through ETFs.

Changing the way in which we trade credit

Dealers have largely transitioned towards a more brokerage-style model, where they are reluctant to take on risk unless they are confident that they can lay off the risk in a short time horizon. In addition, regulatory changes have altered not only the price and size of risk that Dealers will take on but also the price and size of leverage they will extend. The significant growth in the outstanding stock against a reduced Street operating under a brokerage model means that the 'exit door' for large position holders has gotten uncomfortably small. Figure 3 shows the proportion of corporate bond volumes that were "crossed" – meaning that the Dealer took minimal risk. The proportion has risen meaningfully and consistently for US high yield bonds (the grey lines), highlighting the continued shift towards a brokerage model.

Figure 3: TRACE Crossable Activity by CUSIP⁸



^{4,5,6,7}Source: Federal Reserve Board, Financial Accounts of the United States: Z.I Statistical Release, updated 18 September 15. ⁸MarketAxess 10 November 2015.

This means that trading must be more tactical.

Empirically, things are not all bad and actually appear to be improving over the last two to three years. Figure 4 shows trading activity under several metrics looking at daily trading volume (for the US market) as a proportion of the total outstanding stock, as a proportion of the 'liquid' outstanding stock (i.e. the BOA corporate bond indices). It illustrates these metrics declining steadily until mid-to late 2012, after which they begin to stabilise or trend upward.

MarketAxess also tracks the bid-ask spread across the US and European corporate bond markets, using a more refined measure to weigh for trade size and type of activity. Unfortunately, the data history only goes back about five years. However, as can be seen in Figure 5, it also shows a gradual improvement since 2009 and more recent stabilisation in the US. Interestingly, Figure 6 shows moderate worsening conditions in European High Yield over the last two years.

The data also shows that corporate bond turnover has stabilised, after dropping significantly from pre-Crisis levels. Figure 4 looks at average daily trading volumes for US high yield and US investment grade corporate bonds relative to the notional outstanding of the tradeable market (using the BOA-ML bond index as a proxy) as well as the notional outstanding of the entire corporate bond stock (using the SIFMA outstanding stock data). It shows a meaningful drop since the pre-2008 period, an improvement since 2012 and relatively stable trading turnover in the last year.

Conclusion

Empirical evidence of market liquidity demonstrates stabilisation at a lower level of activity.

Figure 4: US Corporate Bond Market Turnover
SIFMA Average Daily Trading Vol as % of SIFMA IG and HY notional outstanding⁹

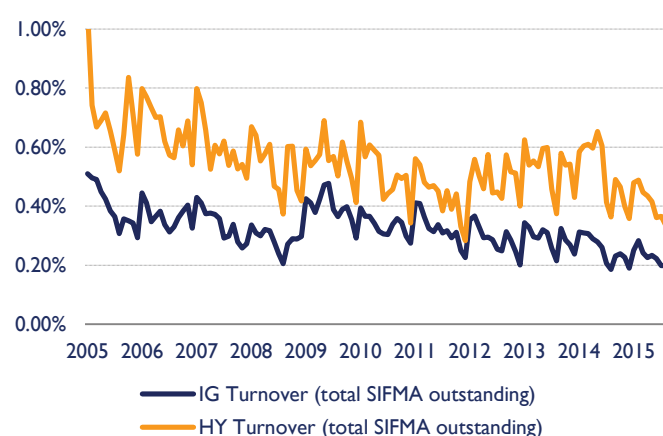


Figure 5: MarketAxess Bid-Ask Spread Index (BASi)™¹⁰

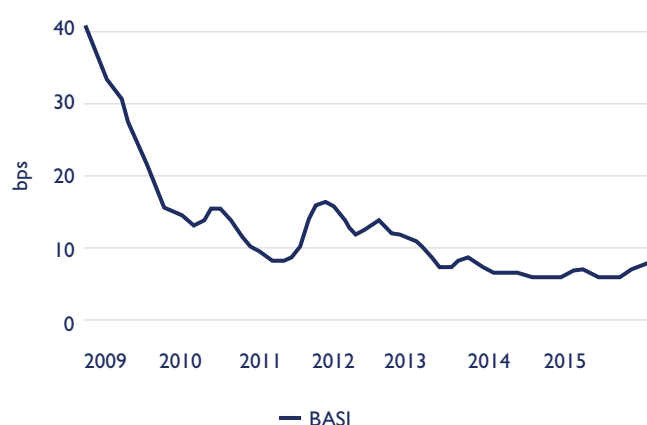
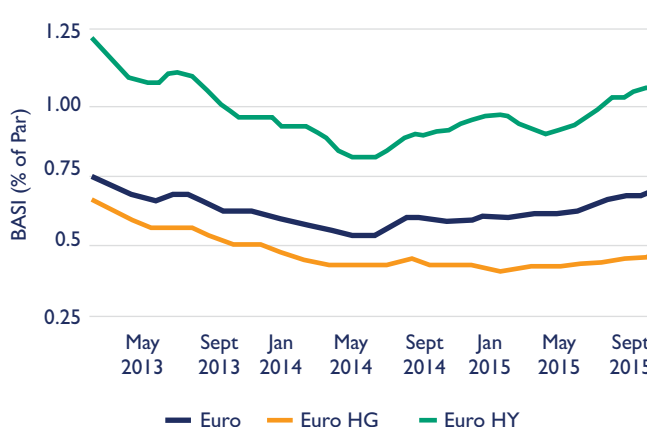


Figure 6: MarketAxess Bid-Ask Spread Index (European BASi)™¹¹



⁹Source: SIFMA, 1 September 2015. ¹⁰MarketAxess, 10 November 2015. ¹¹MarketAxess as of 26 October 2015.

A Larger Opportunity Set

The 'new normal' has significant implications for credit markets, both in structure and scope. Credit markets have expanded rapidly since the Crisis, largely as a function of QE. The market is larger in absolute size, relative size to GDP, number of issuers, number of bonds and (importantly) different types of securities from across the capital structure. One additional characteristic of the post-Crisis environment was a high degree of correlation of credit spreads across geographic regions, sectors and even different parts of the credit asset class. Everything was trading on beta. As the changes outlined previously began to take effect, the correlated price activity diminished. In the last few years, we have instead observed more volatility in credit spreads across different parts of the market – dispersion is rising and correlation is falling.

The increased retreat of Dealers from risk-taking and the greater fragmentation of investors into benchmark-focused or regional-focused portfolios only exacerbated the difference in price activity observed across markets.

Below, we present four examples of how increased market segmentation present opportunities.

#1: Relative value across currencies: € vs. US\$ senior secured loans

One excellent example of market segmentation has been visible across global senior secured loans. From 2011 through the early part of 2015, US senior secured loan mutual funds and hedge funds experienced significant inflows from investors seeking yield in a less rate-sensitive/low-duration structure. For context, US senior secured loan mutual funds saw more than two years of uninterrupted weekly inflows, driven by a doubling of the mutual-fund AUM focused specifically on senior secured loans. We observed a similar growth in CLO volumes, which rose from \$54bn to \$124bn between 2012 and mid-2015 (with the number of CLO managers rising from 66 to 105 over the same period)¹².

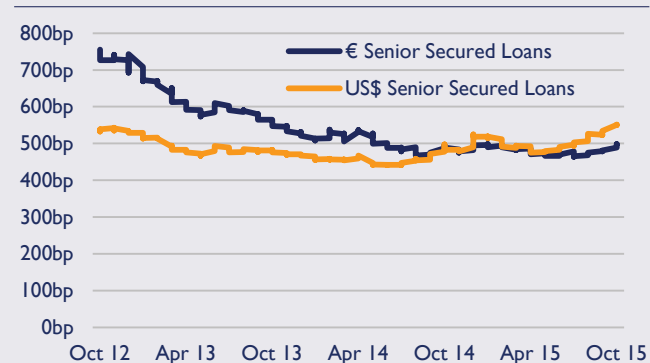
In contrast, European senior secured loans did not have such a widespread retail-driven support, as UCITs funds are largely restricted from owning significant amounts of senior secured loans. Moreover, with negative net CLO issuance in Europe due to more adverse regulations on Dealers, spreads and yields on euro-denominated senior secured loans remained attractive compared to US senior secured loans between 2012 and 2014.

This pricing differential began to reverse during the summer of this year, as US investors became more concerned over energy-related exposures within senior secured loans, as outflows from US senior secured loan funds accelerated, and as net CLO issuance in the US market

abated. Moreover, following a two-year period of concern and speculation over an imminent lift-off in rates by the Federal Reserve, the summer saw a reversal and growing speculation (ironically) that any rate rises would be deferred. All of these factors combined to see a widening in US senior secured loan spreads outright and relative to European senior secured loan spreads, as shown in Figure 7.

Now the differential in spreads between US and European senior secured loans looks attractive – European senior secured loans trading +55bp tighter (more expensive) than US senior secured loans, as expensive a relative differential as we have seen in the last five years (see graph below). We believe that this represents an attractive entry point for a re-allocation from European into US senior secured loans.

Figure 7: Senior Secured Loan Relative Value: US\$ vs. €¹³



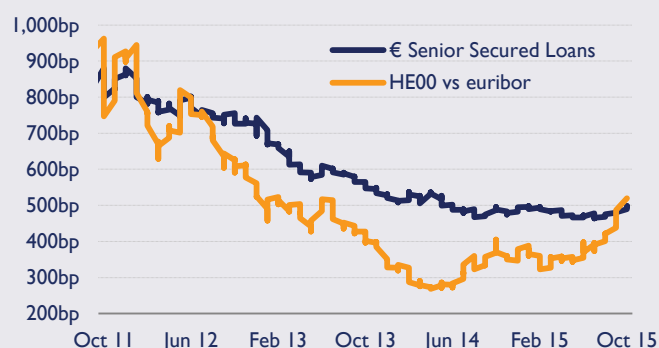
¹²Source: S&P Financial Services, S&P LCD Research, October 2015. ¹³S&P LCD Loan US\$ and € loan indices, spread-to-maturity (bp) as of 23 October 2015.

#2 – Relative Value between European high yield bonds and European senior secured loans

Looking back, there was significant value in European high yield bonds at the beginning of 2012. As global QE progressed, the reach-for-yield demand from investors grew significantly and demand for European high yield dramatically increased. Retail investors were keen to purchase yield to compensate for very low coupons from government and investment grade bonds – consequently, European high yield bond mutual funds and UCITs saw significant inflows. Additionally, global high yield credit funds saw equally strong growth of inflows, of which an increasing proportion was allocated into European high yield bonds. Of significant impact, institutional investors saw a marked increase in global high yield mandates in response to lower yields across other traditional fixed income markets. Finally, there was a material growth in all types of credit hedge funds focusing on both European and global credit markets.

European high yield borrowers were more than happy to meet this demand, and issuance of high yield bonds rose dramatically. The European high yield bond market tripled in size and in number of issuers between early 2010 and today.

Figure 9: € High Yield Bonds vs. € Senior secured loans¹⁴



We began to see segmentation within the European high yield credit market, as demand for high yield bonds outstripped demand for similar senior secured loans. By the start of 2013, European high yield offered little relative value over European senior secured loans (the latter offering better protection for investors and historically providing better recovery on default). By the middle of 2014, European high yield bond spreads were actually nearly 200bps tighter than those in European senior secured loans (see Figure 9) – investors were essentially being paid greater spread to move into a more senior position in the capital structure. European senior secured loan spreads did not compress in a similar fashion, in part, because liquid UCITs funds are largely restricted from investing in them. This relative valuation persisted for two years and has only recently reversed.

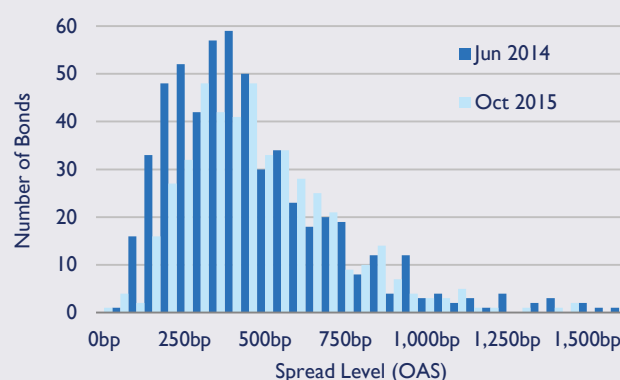
As can be seen in Figure 9 and 10 since June 2014, European high yield bond spreads have widened by 200bps to 500bps (OAS). In addition, because the average coupon on new bond deals dropped over the last four years (from 7.0% to 5.5%), retail investors actually bear greater capital loss to spread widening. Moreover, the dispersion within European high yield bond indices has widened as well. As a result, retail investors have experienced greater capital loss with more volatility since June 2014.

We think this is only the early stage of a rotation. We believe that dispersion could increase even further should we begin to see a protracted exit from the asset class by the same investors who entered on a search-for-yield mandate. In the histogram below, we illustrate the change in spread distribution for individual issuers – now nearly 30% of the market is trading at spreads wider than 600bps, up from approximately 10% in early 2014.

Just as we preferred the risk-reward in European senior secured loans over much of 2013 and 2014 (getting paid more spread for a more senior credit position), we think that the technical dynamics are now shifting once again. Investor flows are leading to shifts in relative value opportunities within similar pools of credit risk. As European high yield bond spreads continue to widen more than European senior secured loans, we will look to tactical rotation out of senior secured loans and back in to bonds. We believe that the increased dispersion and see heightened volatility in European high yield bonds will only provide better tactical opportunities to execute this shift over time.

The key driver of the relative value rotation – both in mid-2013 and today – has been the segmentation of the investor base for European senior secured loans and the influx of non-dedicated investors into (and out of) European high yield bonds.

Figure 10: European High Yield Bond Dispersion of Spreads¹⁵



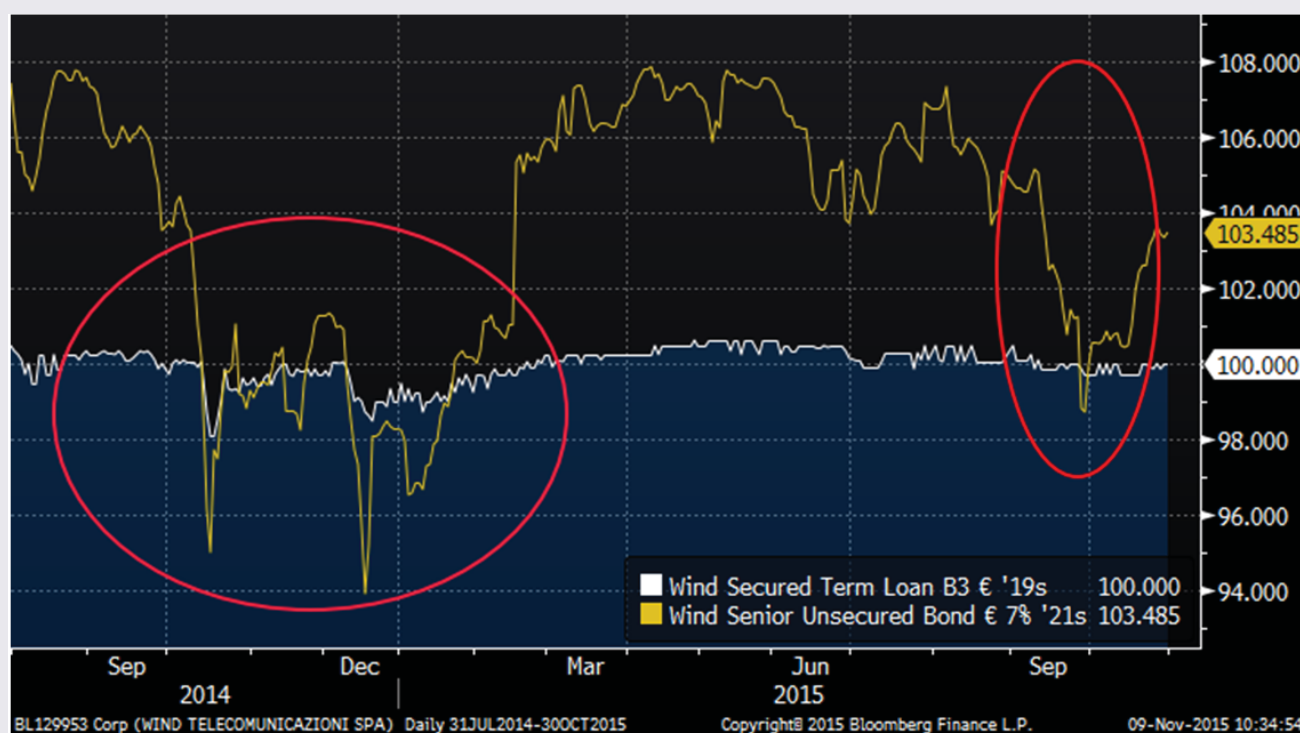
¹⁴Source: S&P LCD Loan € loan index, BAML Euro HY bond index (HE00), spread (bp) vs. euribor as of 23 October 2015. ¹⁵Bloomberg, Option Adjusted Spreads as of 23 October 2015.

#3: Relative value within an Issuer's Capital Structure

During periods of heightened volatility, credit spreads react differently across the capital structure of the same issuer. This is due to the variations in liquidity across different securities within the same capital structure, as a result of either perceived riskiness or segmentation of investor interest. One example was the Italian telecommunication credit, Wind SpA, during October 2014 – which was a period of broader credit market volatility in the face of mixed macro data, heightened geopolitical pressure and concerns over broader credit fundamentals. These concerns faded by mid-November 2014 after the ECB announced that it was considering expanding its QE

programme. As shown in Figure 12 (in the red circle), Wind's Senior Secured Loan dropped 2pts during this period of price volatility, while Wind's senior unsecured bond (€ 7% 2021) dropped nearly 10pts over the same period. This pattern repeated itself in another period of volatility in September 2015, with the Senior Secured Loan relatively unchanged against a 6pt price drop in the bonds. By tactically moving from the secured loan into the bond during the “air pockets”, an investor can exploit these relative value discrepancies within a company's capital structure and access potentially greater return opportunities.

Figure 11: Wind Telecomunicazioni SPA¹⁶



¹⁶Source: Bloomberg as at 30 October 2015. For illustrative purposes only. This is presented solely to show different strategies being pursued and is not intended to show performance or best or worst trades.

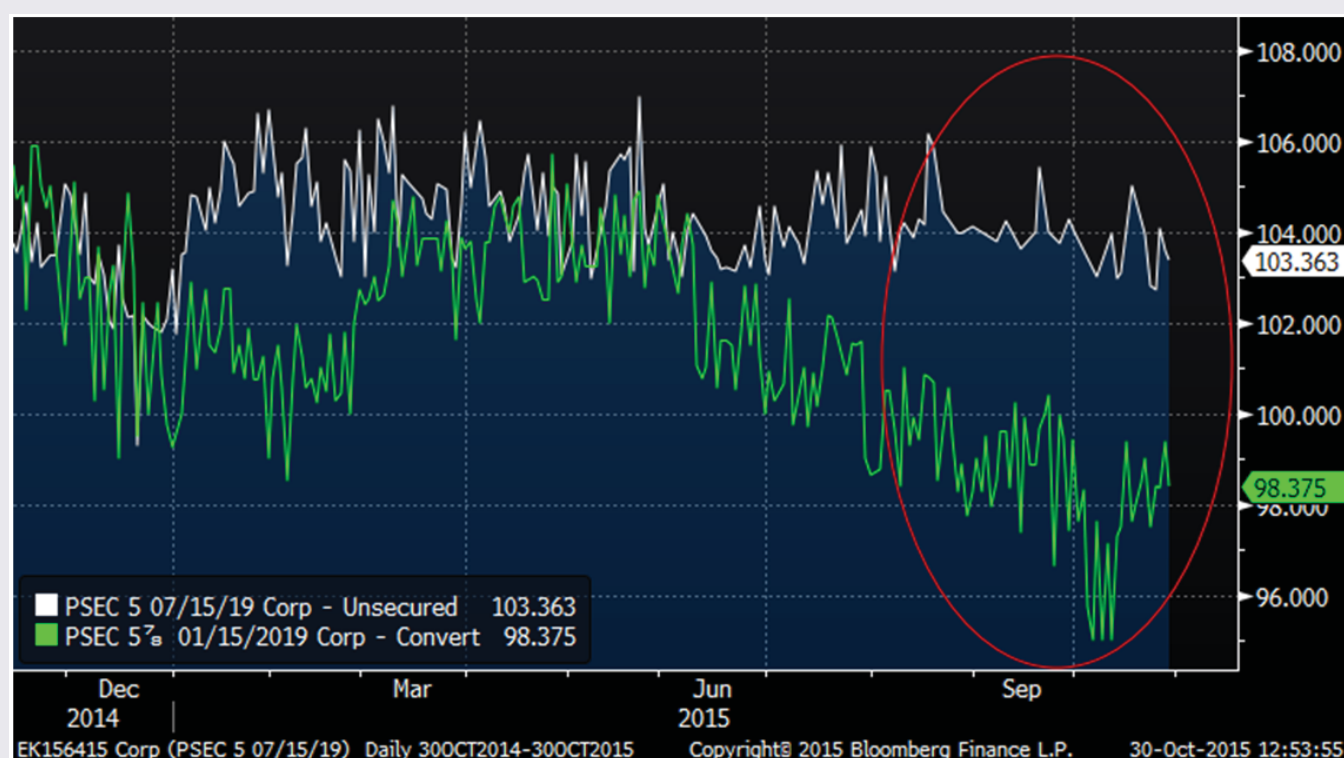
#4: Relative value across different credit assets

Many parts of credit markets have very segmented investor bases. Investors in senior secured loans differ in type, return horizon and risk-appetite from investors in structured credit, high yield bonds or convertible bonds. In the past year, we have found opportunities to exploit this gap in investor focus, particularly between convertible and unsecured bonds. The graph below highlights the example of Prospect Capital, a specialised mezzanine debt and equity lender. Prospect is a BBB-rated credit with unsecured bonds, convertible bonds and listed equity. Specifically, we find two Prospect bonds to be of interest: both mature in 2019, both rank pari-passu in

the capital structure but one is a convertible and the other is a senior unsecured bond. The convertible (5.875% Jan 2019) has a higher coupon and is offered below par, while the senior unsecured (5% Jul 2019) has a lower coupon but trades above par. Figure 12 shows the recent price history.

We find this type of mispricing attractive: the convertible has a higher coupon and a higher yield than the unsecured bond, yet retains the upside optionality of the equity. This mispricing is driven by both a segmented investor base and by reduced risk capital looking across assets.

Figure 12: Prospect Capital¹⁷



¹⁷Source: Bloomberg as at 30 October 2015. For illustrative purposes only. This is presented solely to show different strategies being pursued and is not intended to show performance or best or worst trades.

Implications for Investors

The 'new normal' credit market structure is an extremely harsh environment for some. We believe we will see higher price volatility, greater periods of 'overshooting' and sizeable gap moves (up or down) given fewer buffers in the system. Investment platforms which face short-term (daily or weekly) redemption risk, that operate with high mark-to-market leverage and daily margining requirements, or which are restricted to investing in specific areas within credit will find the current environment challenging.

We believe that investors need to consider platforms that are better suited to the 'new normal'.

Liability Management is Key

Price volatility will remain higher than in recent history for some time, potentially even more so as Dealers continue to retract from being marginal providers of liquidity and risk. We believe that volatility can be viewed as a benefit for patient capital, as it provides better entry and exit point for tactical traders. We believe that mispricings will persist for longer periods than in the past. Markets will overshoot on both the upside and the downside, as the traditional buffers have been denuded. Two examples of this was clearly evident in December 2014 and September 2015, whereby US high yield markets saw dramatic 'V-shaped' sell-offs into quarter end – see Figure 13. Both periods provided attractive entry points for investors with flexible capital and were not subject to daily liquidity.

Figure 13: Barclays US High Yield Index (OAS)¹⁸



¹⁸Source: Barclays US Corporate High Yield Average (OAS) as of 9 November 2015.

Expanding the opportunity set is advantageous

The growth in all parts of the outstanding credit stock combined with the proliferation of credit products across the capital structure means, by definition, the opportunity set for credit investors is larger. Additionally, there are fewer players who look across different parts of the credit markets as Dealers focus solely on market-making within each asset group, as the larger mutual fund and ETF players become benchmark-huggers, and more aggressive investors find they have less leverage available. Credit markets will become more segmented across capital structures and across geographic markets.

Credit Selection and Tactical Credit Trading Skills are Critical in the 'New Normal'

Dispersion in credit spreads has increased markedly over in the last year, and we believe that this trend will continue. Proper credit selection across geographic markets as well as within increasingly complex capital structures requires a strong and deep research bench. Similarly, the reduced market liquidity and increased number of credits, with securities offered across various parts of the capital structure, will require adept and tactical trading expertise. It is a credit-pickers environment, but this also means that the investment platform must be positioned to identify and trade in increasingly numerous and complex credit markets.

We Like the 'New Normal'

The broader macro outlook of low but positive growth is still favourable for credit spreads. Low but positive growth across major markets with supportive policymakers is, in our view, the 'sweet spot' for credit. Credit spread dispersion will continue to rise given increasing leverage; ultimately, defaults will rise as well. This remains a target-rich environment for credit pickers. Within this context, we view the reduced liquidity and resultant higher volatility to be advantageous to patient and flexible capital. Asset managers who have a global scope and the trading and research skillset to assess value across different parts of the credit market will be able to find and harvest the less crowded, better risk-reward investments.

About CQS

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backed securities, credit, loans and equities. Since inception, the firm has placed fundamental analysis at the heart of its investment process and we follow a collaborative multi-disciplinary approach seeking adjacencies across all areas in which we invest. Our robust operations and risk management platform provides all mandates with liquidity management and risk monitoring which, in our view, should enable our investment professionals to be more nimble and effective throughout all market environments.

¹Source: CQS, estimated as at 1 November 2015.

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Europe: MarketAxess Bid-Ask Spread Index (BASI) Developed by MarketAxess Research, the MarketAxess BASI demonstrates the relationship between overall market liquidity and transaction costs by tracking the spread differential between buy and sell trades of the most actively traded corporate bonds. The U.S. index is calculated daily using executed trade data from publicly-disseminated FINRA TRACE data and also incorporates trade data from the MarketAxess trading system. The European index is calculated using quoted price information available through Trax's end-of-day pricing feed, Trax Pricing. The quoted prices from Trax Pricing are also enriched with traded prices as a means of validating the data.

The S&P/LSTA Index tracks the 100 largest loans in the S&P Global Leveraged Loan Index, using market bids from third-party providers. LCD's European Leveraged Loan Index (the ELLI) is a gauge to track performance of the asset class in the European market.

The Barclays US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded. The US Corporate High Yield Index is a component of the US Universal and Global High Yield Indices. The index was created in 1986, with history backfilled to July 1, 1983.

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