



Asset Class Overview

Senior Secured Bank Loans

A senior secured bank loan is a privately arranged corporate debt instrument that provides capital to a company (usually below investment grade) and is syndicated to a group of banks and institutional lenders. These loans are structured, arranged and administered by a commercial or investment bank—known as arrangers. Loans are typically issued in conjunction with leveraged buyouts, mergers or acquisitions. The company's payment of interest and repayment of principal on its bank loan is usually contractually senior to any other form of debt or equity.

Because of the unique private nature of senior secured bank loans, they are typically purchased through large institutional investors. Institutional, high net worth and retail investors can get direct exposure to the bank loan asset class in a variety of formats—including separate accounts, commingled institutional vehicles, leveraged and quasi-leveraged investment vehicles, closed-end mutual funds and open-end retail mutual funds.

I. Senior secured bank loans as a form of capital

As a form of capital, bank loans are typically: 1) senior to the claims of other creditors, 2) protected by performance and leverage-based covenants, and 3) secured by collateral, such as property, inventory, guarantees and intangibles. This conservative structure helps to minimize the downside risk if a company faces difficulty. Conversely, another form of capital that may be available to the company would be the issuance of high yield bonds. High yield bonds typically are unsecured and have a subordinated claim on the collateral of the company. Borrowers typically look at a number of factors when determining how to capitalize their firm, including the following:

	Senior Secured Bank Loans	High Yield Bonds
Claim on the Assets of the Company	Senior With a senior claim, if the company faces financial hardship, the senior secured lender has a priority claim which supports the higher recovery in the event of default.	Subordinated

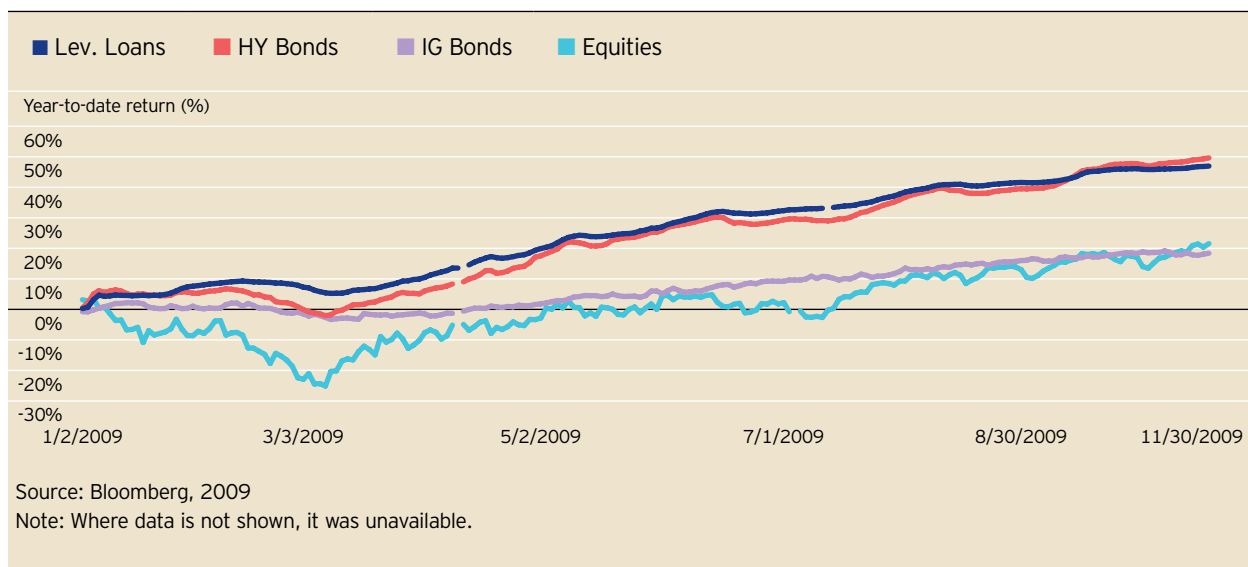
All Data as of December 2009, unless otherwise stated. Source: Invesco, unless otherwise stated. All references to Invesco refer to Invesco Senior Secured Management, Inc.

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	Senior Secured Bank Loans	High Yield Bonds
Collateral	Secured Senior secured bank loans are typically secured by all the unencumbered assets that the company owns.	Unsecured or Secured
Interest Rate	Floating Interest rates are typically a fixed spread over a floating base rate of LIBOR. As LIBOR contracts reset every 30-90 days, the base rate changes. Floating interest rates are more attractive to investors and less attractive to issuers in a rising rate environment.	Fixed Interest rates are set as a fixed coupon and do not change over time. Issuers tend to favor high yield bonds in a lower rate environment.
Principal Repayment	Amortization, Prepayments from Excess Cash Flow, Asset Sales and Debt or Equity Proceeds Bank loans are freely prepayable, offering issuers a lot of flexibility in using the bank loan market as a short-term bridge to public debt or equity. In contrast, issuers give up some of their flexibility by making assurances that the loan will be paid back from excess cash or asset sales.	At Call or Maturity with Sinking Fund Bonds may only be repaid at a call date or maturity. Bonds repaid at a call date typically require a premium to par.
Financial Covenants	Numerous restrictive financial covenants Bank loans typically have leverage and cash flow covenants that protect the lender's interests.	Few Covenants
Information Flow	Private Information Access to management financial reports and projections which may include material non-public information.	Public Financial Reports
Transferability	Generally \$5 million minimum to core institutional investors.	\$1,000 Minimum

II. Asset class performance



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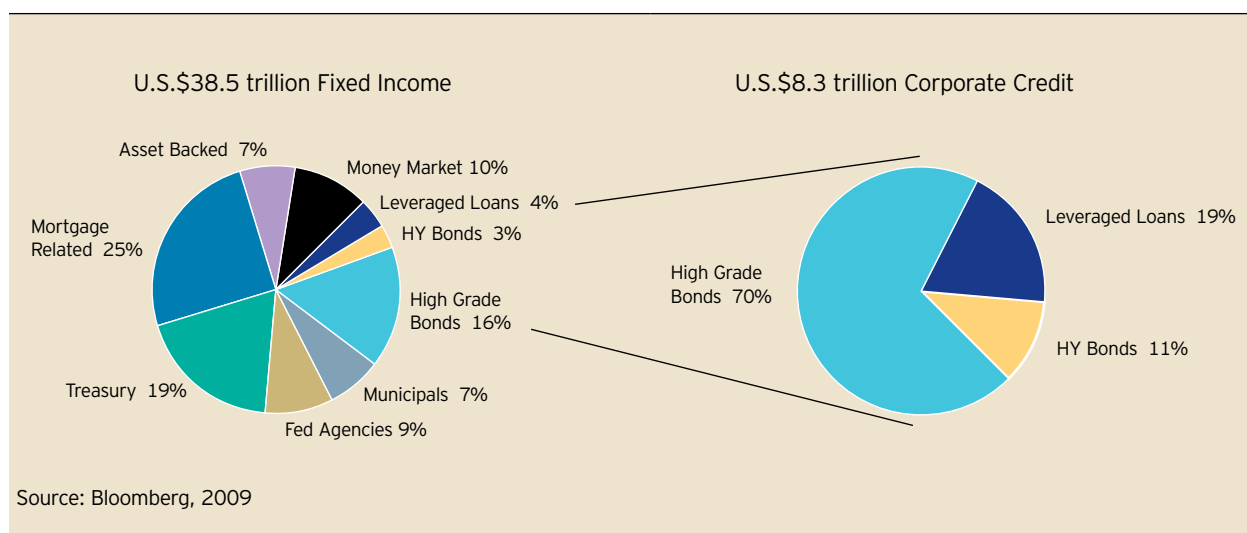
The preceding chart shows the year-to-date performance of various asset classes, including senior secured loans, high yield bonds, equities and investment grade corporate bonds. From the chart, you can see the relative out performance of bank loans and high yield bonds through November 2009, reflecting the rapid rebound of the technical dislocation experienced in 2008. While both senior secured loans and high yield bonds have experienced year-to-date returns upwards of 50%, unlike more traditional duration-exposed fixed income assets, bank loans will allow investors to benefit from future increases in interest rates and hedge against inflation risks.

As reflected in the chart below, based on current yield and the forward LIBOR curve, the expected yield to maturity of bank loans is approximately 10.5%. Invesco views bank loans as an alternative duration hedge relative to more traditional fixed income asset classes.

	Yield to Maturity	Swapped	At Forward LIBOR
5 Year Treasuries	2.17%		
10 Year Treasuries	3.35%		
I.G. Credit	4.70%		
HY Bonds	9.49%		
Senior Secured Bank Loans	L + 8.10%	10.55%	10.50%

Source: Invesco, 2009

III. Significance in the capital markets



As reflected in the preceding diagram, the senior secured bank loan market represents a significant part of the outstanding market for U.S. corporate debt. Corporate debt, defined as bonds and loans to corporations, represents 23% of the \$38 trillion fixed income market. Of corporate debt outstanding, bank loans represent approximately 19% of the market, nearly two times the size of the more mainstream high yield bond market.

Risks of bank loans

Bank loans are subject to the credit risk of nonpayment of principal or interest. Substantial increases in interest rates may cause an increase in loan defaults. Although the loans will generally be fully collateralized at the time of acquisition, the collateral may decline in value, be relatively illiquid, or lose all or substantially all of its value subsequent to investment. Bank loans are also subject to liquidity, prepayment, recovery, spread and call risk. Because bank loans invest mainly in investments rated below investment grade, they are subject to heightened credit risk.

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Who is the loan investor?

There are three primary-investor constituents: 1) banks and finance companies, 2) institutional investors who invest in an unleveraged or leveraged format, and 3) retail investors via mutual funds.

Banks and finance companies include commercial banks, savings and loan institutions, and securities firms that usually provide investment-grade loans. These are typically large revolving credits that back commercial paper or are used for general corporate purposes or, in some cases, acquisitions. For leveraged loans, banks typically provide unfunded revolving credits. Finance companies have consistently represented less than 10% of the leveraged loan market, and tend to play in smaller deals – \$25 million to \$200 million. These investors often seek asset-based loans that carry wide spreads and that often feature time-intensive collateral monitoring.

Institutional investors in the loan market include large pension plans, public endowments, corporate treasury units, insurance companies and private equity. These investors can gain access to the loan market in a number of ways:

1. **Separate accounts.** Separate accounts can be established for investors with customized terms and conditions. In order to get sufficient diversity (of obligors and industries), a typical separate account will have a minimum investment of \$75 million.
2. **Commingled institutional funds.** Commingled funds allow investors to gain access to a diversified pool of bank loans with an investment less than \$75 million. Liquidity and redemption are subject to the terms of the commingled pool.
3. **Moderately leveraged structures.** Because of the stability of the asset class, banks and investment banks frequently provide leverage in the form of total return swaps (TRS). Here an investor would gain access to the bank loan asset class by posting margin and using that margin to purchase loans in TRS format with anywhere from 2-5 times leverage.
4. **Collateralized loan obligations.** Collateralized loan obligations are structured vehicles set up to hold and manage pools of leveraged loans. The special-purpose vehicle is financed with several tranches of debt (typically a 'AAA' rated tranche, a 'AA' tranche, a 'BBB' tranche, and a mezzanine tranche) that have rights to the collateral and payment stream in descending order of rating. In addition, there is an equity tranche that is usually not rated. CLOs are created as arbitrage vehicles that generate equity returns through leverage, by issuing debt 10 to 11 times their equity contribution.

Retail investors can invest in Prime Funds, which are mutual funds that invest in leveraged loans. Prime funds were first introduced in the late 1980s. Most of the original prime funds were continuously offered funds with quarterly tender periods. Managers then rolled out true closed-end, exchange-traded funds in the early 1990s. It was not until the early 2000s that fund complexes introduced open-ended funds that were redeemable each day. While quarterly redemption funds and closed-end funds had remained the standard through the mid-2000s as the secondary loan market developed and liquidity improved, the open-end funds took market share and raised their profile by mid-2009 to account for 25% or so of the loan assets held by mutual funds.

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