Fifth Third Capital Markets
Market Update

January 6, 2015

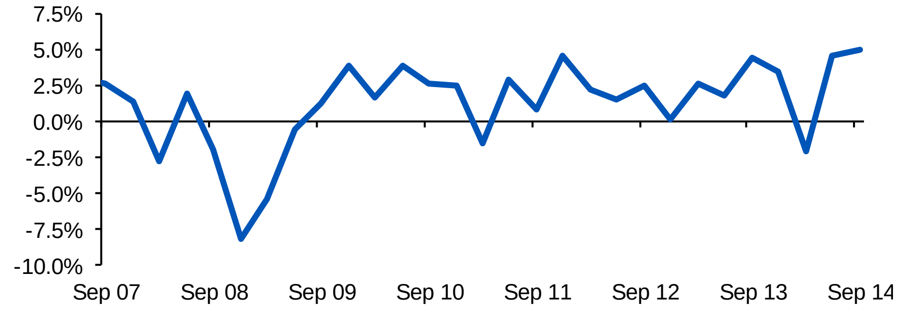
FIFTH THIRD BANK

Salient Economic Conditions

ECONOMIC GROWTH ACCELERATING

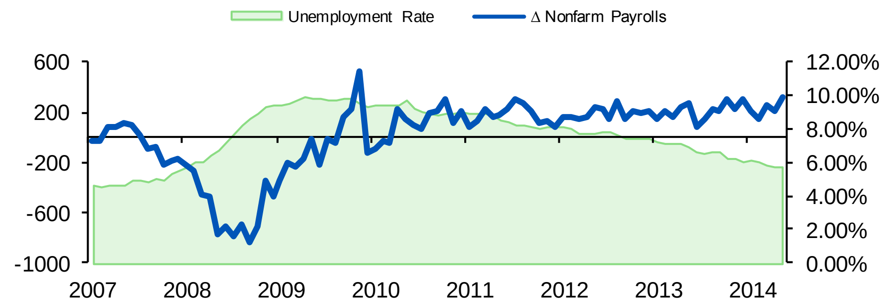
- Economic growth accelerated in Q3 as GDP increased +5.0% (QoQ ann.).
- ISM Manufacturing DEC registered modestly below expectation but remains expansionary @ 55.7 (vs. survey 57.5): ISM Non-Manufacturing NOV exceeded expectation @ 59.3 (vs. SEP 57.1).
- Employment conditions continued improvement as Non-Farm Payroll (NFP) additions NOV (Establishment Survey) registered +321K (highest since JAN 2012) with prior two month additions revised +44K. Twelve-month trend avg. NFP additions @ +225K.
- Unemployment Rate NOV (Household Survey) was unchanged @ 5.8% as more workers seeking employment entered the labor force. Labor Force Participation Rate climbed to 62.8% vs. 62.7% in SEP. Broader Underemployment Rate (U6) NOV decreased to 11.4% , a six-year low, (vs. OCT 11.5%) as labor market "slack" continues to decline with both the duration of unemployment and the % of long term unemployed falling significantly.
- Wage growth accelerated: Avg Hrly Earnings NOV MoM rose 0.4% and YoY increased 2.1% (vs. 2%); Avg Wkly Hrs OCT unch. @ 34.6.
- Retail Sales Core (Ex Auto and Gas) NOV rose +0.6% vs. 0.5% OCT, reflecting "stimulus" from lower oil and gasoline prices and higher equity values (i.e. wealth effect").
- Consumer Confidence DEC climbed to 92.6 (near seven year high reached in OCT) vs. NOV 88.7 supported by lower energy/gasoline prices, higher stock valuations and improved job market.
- Consumer Inflation remains subdued: PCE Core (YoY) NOV unch @ 1.4%; CPI Ex Food & Energy (YoY) NOV @ 1.7%.
- Upcoming releases: ISM Non-Mfg DEC on 1/6; ADP Employment DEC on 1/7; Non-Farm Payroll Additions & Unemployment Report DEC on 1/8 (survey of 240K & 5.7%)

US GDP



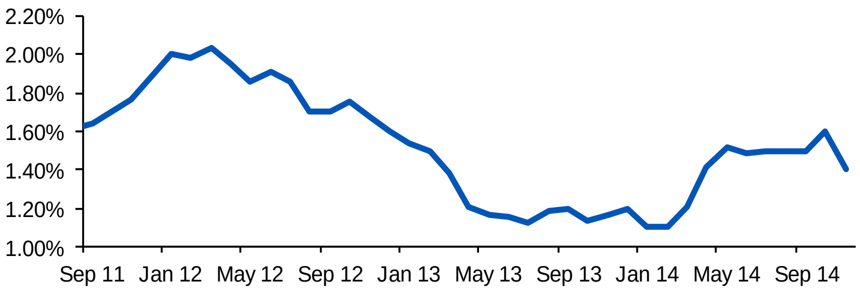
Source: Bloomberg as of 12/24/14

Nonfarm Payrolls (000s) vs. Unemployment Rate



Source: Bloomberg as of 11/30/14

US Personal Consumption Expenditure Core Price Index YoY



Source: Bloomberg as of 12/23/14

Salient Monetary/Fiscal Conditions

MONETARY POLICY TRANSITIONING – "PATIENT" RATE NORMALIZATION 2015

DECEMBER 17th FOMC MEETING

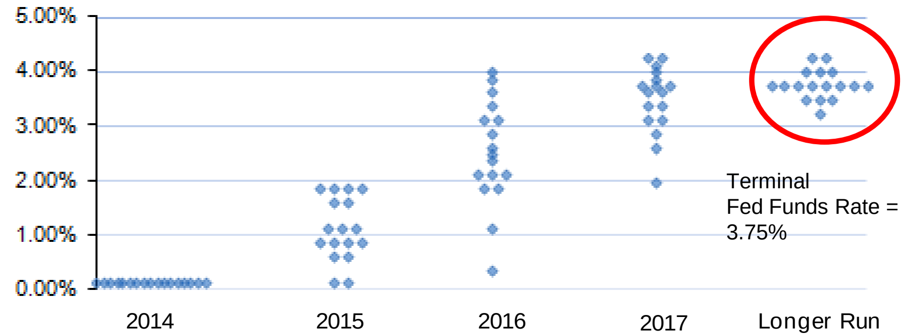
- FOMC maintained policy concern is risks to growth but "nearly balanced":
  - Economic activity expanding at a moderate pace;
  - Labor market conditions "improved further, with solid job gains", "lower unemployment rate", and "underutilization of labor resources continues to diminish.";
  - Likelihood of inflation below 2% target has "diminished somewhat".
- Policy Statement, Summary of Economic Projections (SEP) and Chair Yellen's Press Conference indicated a gradual approach to rate normalization and conveyed the data dependency of future monetary policy action.
  - Statement substituted "patient" for "considerable time" pertaining to the inception of fed funds rate hikes/policy normalization.
  - SEP moderately upgraded GDP growth and employment estimates and modestly downgraded inflation forecast.
  - Projected targeted fed funds rates were modestly reduced to a more accommodative path of rate hikes vs. September projections.
    - Median projected fed funds rate decreased 15-25bps through end of 2017.
  - Yellen stated that employment and inflation levels over the next "couple" of meetings are unlikely to warrant the beginning of rate normalization, but most FOMC members anticipate improving conditions in 2015 will support a 'more" normal rate environment.

FOMC FORECAST VS. FUTURES MARKET

- FOMC median target fed fund rate forecasts @ 1.125% for YE2015; 2.50% for YE2016; and 3.625 for YE2017.
  - Fed Funds futures market continues to trail FOMC median forecasts: DEC FF 2015 @ .605%; DEC FF 2016 @ 1.495%.

Source: Policy Statement, Chair Yellen Press Conference and FOMC Summary of Economic Projections December 17, 2014.

FOMC Fed Funds Rate Forecast



Source: FOMC Summary of Economic Projections December 17, 2014

Fed Funds Rate Contract Table

Contract	Yield	Contract	Yield
March 2015	0.1200	September 2016	1.3050
June 2015	0.2000	December 2016	1.4950
September 2015	0.3900	March 2017	1.6650
December 2015	0.6050	June 2017	1.8000
March 2016	0.8450	September 2017	1.9150
June 2016	1.0850	December 2017	2.0000

Source: Bloomberg as of 1/5/15

Interest Rate Environment / Management Opportunities

- Treasury Curve bull flattened since 12/23 on declining inflation expectations in the EU and related heightened expectations for ECB Sovereign QE announcement at 1/22nd meeting which has strengthened the USD (divergent monetary policies) and increased relative value of US fixed income market.
  - 2Y UST @ 0.665% vs. 0.74%: Resistance @ 0.47% and Support @ 0.80%.
  - 5Y UST @ 1.57% vs. 1.74%: Resistance @ 1.47% and Support @ 1.80%.
  - 10Y UST @ 2.046% vs. 2.27%: Resistance @ 1.86% and Support @ 2.40%.
- Swap Curve bull flattened on factors affecting Treasury yield curve and spread expansion on rate lock related to corporate note and bond issuance .
  - 3Y and 5Y swaps traded @ 1.26% and 1.70%, respectively (vs. 1.35% and 1.87%).
  - 7Y and 10Y swaps traded @ 1.94% and 2.16%, respectively (vs. 2.14% and 2.39%).
- Daily momentum conditions are modestly bullish across the curve. Treasury market surveys indicate positioning is ultimately neutral, with penultimate shorts significantly exceeding shorts.
- Cap premiums for contracts with terms up to 5Y are at or above the 200-100-50 day moving averages given heightened volatility stemming US economic outperformance/Fed rate normalization juxtaposed to EU disinflation/ECB monetary policy accommodation. Swaption (short term options on term swaps) volatility for contracts on swaps with terms out to 10Y rose (steepening across vol surface) and trading above the 200-100-50 day moving avg. Cancelable s > 1Y inexpensive relative to averages.
- Executing a swap contract with a term maturity > 2 yrs. provides an historically low and determinable cost of debt capital/cash flows to avert future heightened volatility and escalation in forward inflation expectations and rates.
- Pay-Fixed Rate Premiums decreased near 5 YR AVG due to flight to quality/relative value trade stemming from EU disinflation concerns and expected ECB Sovereign QE.
  - 3M Libor @ 25.560 bps vs. 5Y Swap @ 1.70% (mid) = 1.444% premium vs. 5 YR AVG @ 1.47%.
- The execution of Forward Starting or Step-Coupon Swaps enable borrowers to capture presently low swap term rates and float for an initial period, or pay progressively tiered fixed rates to benefit from current low floating and front end forward rates. In addition, forward starting swaps can effectively extend the term of existing swaps and reduce the contractual fixed rates of existing swaps via “blend & extend” swaps. Issuer’s planning future debt issuance can undertake forward starting/cash settling swap as a “rate lock” to avert rising future term rates.
  - Forward Starting swap rates offer low forward “premium” rates out to 12 months: 1Y FS 4Y swap @ 2.00%, approx. 30bps higher than 5Y spot.
  - Step Coupon swap rates offer a selected initial low rate (based on present low forward rates) tranche followed by a “solved” higher rate tranche which equates to comparable spot swap term rate. 5Y Step Coupon Swap wherein 1Y – 2Y @ 1.00% and 3 – 5 yrs @ 2.20% .
- Issuers of high yield callable fixed rate notes can pursue comparative advantage by raising funds in long term debt capital markets and executing fixed to float/fair value swaps to appropriately align to asset composition and reduce total interest expense. Initial positive carry on 7Y fixed to float (3M Libor) indicative at 1.68% (mid).

Source: Bloomberg

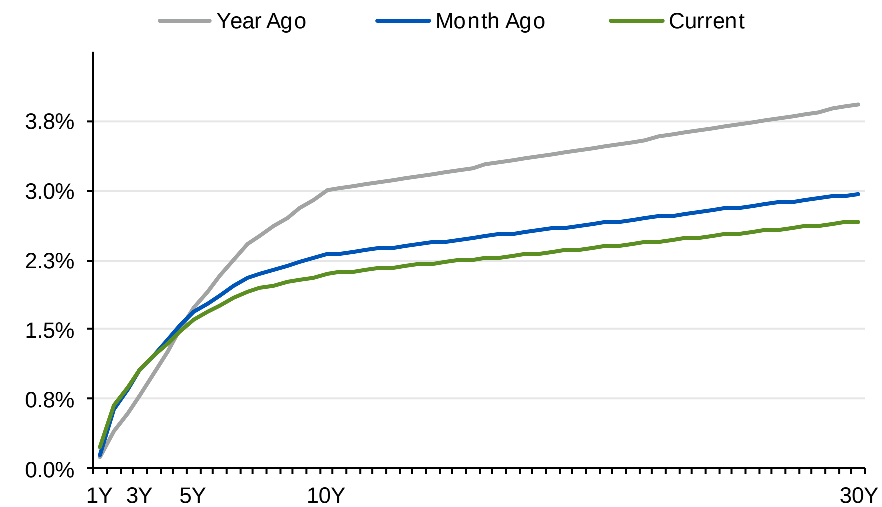
Libor Futures, Treasury Yield, Swap & Volatility Data

Eurodollar Futures

Contract	Yield	Contract	Yield
March 2015	0.285	March 2018	2.420
June 2015	0.455	June 2018	2.480
September 2015	0.670	September 2018	2.535
December 2015	0.925	December 2018	2.590
March 2016	1.180	March 2019	2.625
June 2016	1.425	June 2019	2.665
September 2016	1.655	September 2019	2.700
December 2016	1.855	December 2019	2.735
March 2017	2.015	March 2020	2.760
June 2017	2.155	June 2020	2.795
September 2017	2.265	September 2020	2.825
December 2017	2.360	December 2020	2.865

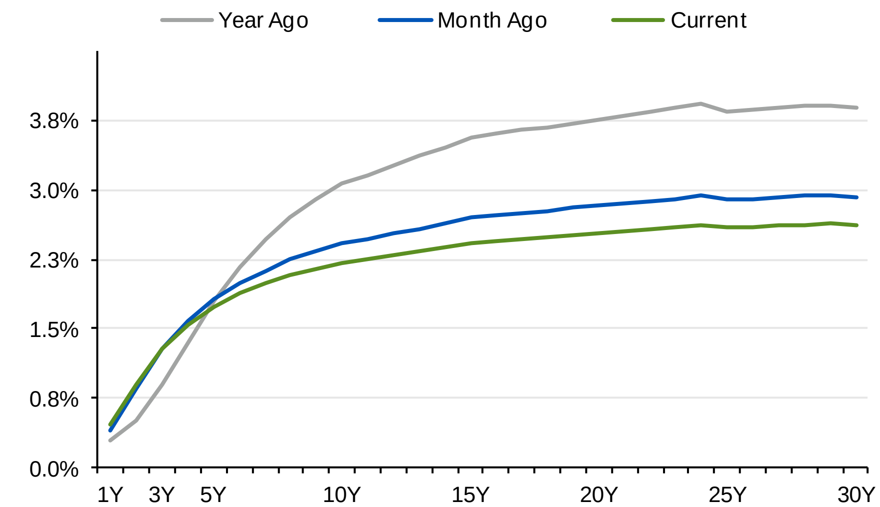
Source: Bloomberg as of 1/5/15

Treasury Yield Curve



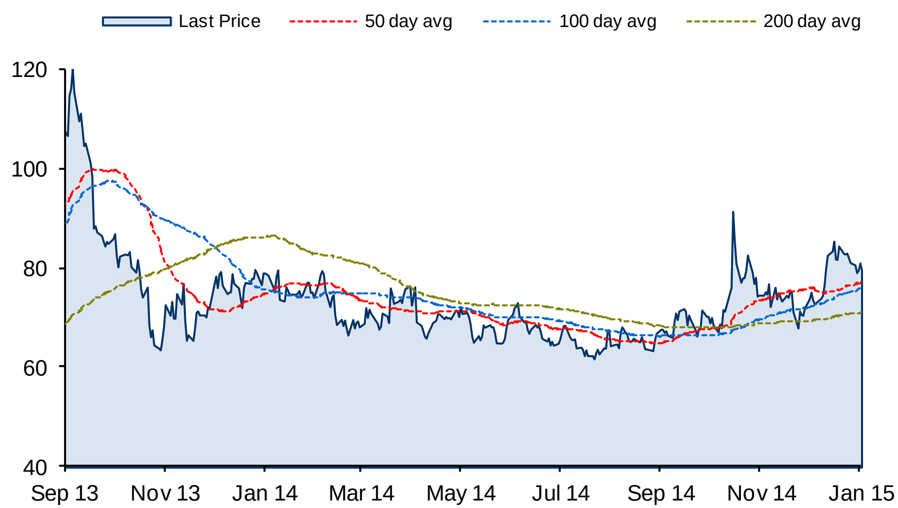
Source: Bloomberg as of 1/5/15

Swap Curve (%)



Source: Bloomberg as of 1/5/15

Implied Volatility – 5-Year Swaption



Source: Bloomberg as of 1/5/15

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Equity Capital Markets Overview

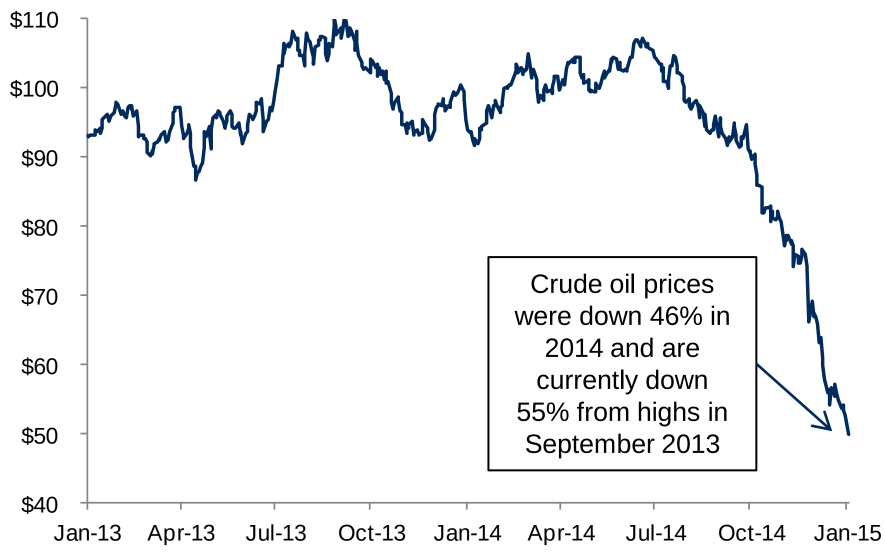
- 2015 is off to a volatile start amidst the threat of lower oil and a weakening global economy
  - Energy stocks, materials producers, industrials and financial stocks are leading the declines in the S&P as crude oil prices dipped below $50 a barrel for the first time since April 2009
- Despite these concerns however, the outlook of Wall Street forecasters remain positive for 2015, looking for an average advance of 8% for the S&P (the smallest advance in the past four years)
  - Building throughout 2014, equity mutual funds have seen sizable inflows in October and November – $19.7B and $15.7B, respectively
- From a new issue perspective, the forward calendar looks to be building as the last week of December alone saw 10 newly filed IPOs
  - Assuming volatility remains in check we look for solid new issue activity to continue in 2015

Equity New Issuance Detail

	2014			2013		
Deal Type	Proceeds ($B)	Mkt Share %	# Deals	Proceeds ($B)	Mkt Share %	# Deals
IPOs	$93.9	33%	263	$60.2	22%	213
Follow-ons	$152.3	53%	555	$170.8	63%	594
Convertibles	$42.0	15%	111	$42.2	15%	130
Total	$288.2		929	$273.2		937

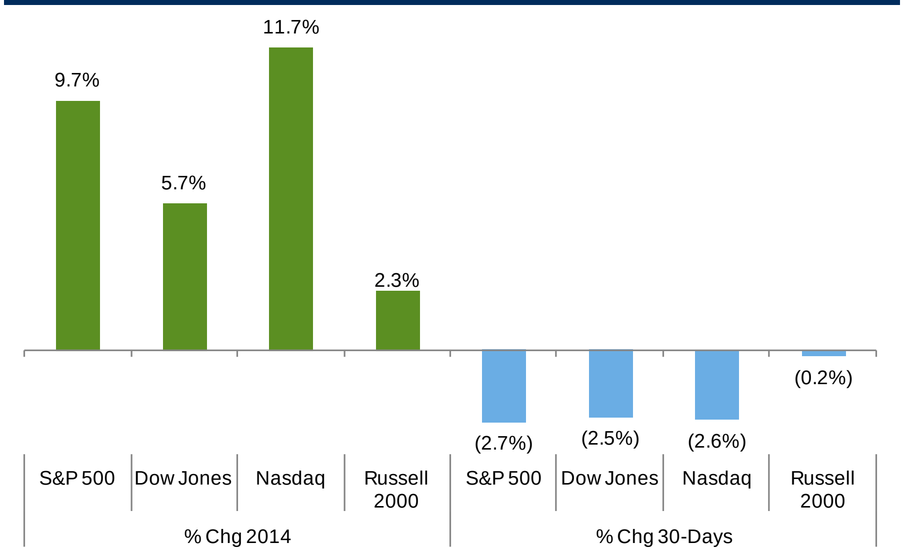
Source: Dealogic

2 Year Trend in Crude Oil Prices



Source: Bloomberg

Market Performance – Percentage Change



Source: Bloomberg

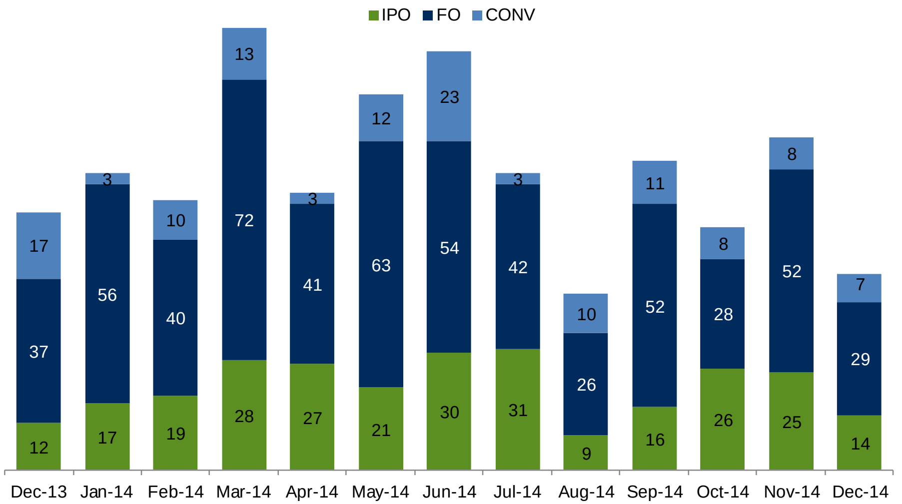
Data excludes closed end funds, SPACs, offerings <$25M and issuers with market capitalization of <$25M

Equity Capital Markets Update

- With 263 deals pricing for $94B in proceeds, 2014 marked the strongest year for IPOs since 2000 which saw 392 IPOs price for $102B
  - 17 $1B+ IPOs came to market in 2014 including the largest IPO on record, Alibaba, at $25B; 2013 and 2001 previously held the top spot for $1B+ IPOs with 10 in each of those years
  - The supply in the IPO market allowed investors to be selective on pricing – 38% of deals priced below the range in 2014 versus 26% in 2013 – however, after market performance was solid with new issues trading up 14% on average on the first day and 19% in the first month
- Follow-on activity was also strong in 2014 with the volume of deals (555) second only to 2013 (595); proceeds of $155B raised in 2014 are the 4th highest looking back over the past 20 years
  - Throughout the year strong equity markets drove primary issuance for use in acquisition financing, debt repayment and growth capital
  - New issues were well received with shares trading up just under 2% on their first day and just over 2% in their first month

Source: Dealogic

YTD Issuance by Month



Source: Dealogic

Price Performance - IPOs

Month	Totals: Proceeds ($M)	Totals: # of Deals	Pricing Range: Above	Pricing Range: Within	Pricing Range: Below	% Change: Offer / 1-Day	% Change: Offer / 1 Mo
Jan-14	$5,836	17	18%	41%	41%	24.1%	36.9%
Feb-14	$1,955	19	11%	63%	26%	11.2%	32.9%
Mar-14	$4,259	28	25%	64%	11%	24.5%	9.6%
Apr-14	$8,811	27	7%	41%	52%	8.8%	5.2%
May-14	$5,498	21	19%	38%	43%	7.9%	27.3%
Jun-14	$8,755	30	27%	47%	27%	13.0%	17.8%
Jul-14	$9,017	31	23%	29%	48%	12.0%	18.2%
Aug-14	$970	9	11%	33%	56%	7.0%	21.5%
Sep-14	$30,787	16	19%	31%	50%	20.3%	13.4%
Oct-14	$6,257	26	15%	38%	46%	4.8%	17.0%
Nov-14	$8,179	25	16%	52%	32%	15.4%	14.7%
Dec-14	$3,561	14	43%	14%	43%	22.5%	25.8%
2014	**$93,887**	**263**	19%	43%	38%	**14.0%**	**18.7%**

Source: Dealogic

Price Performance – Follow-ons

Month	Totals: Proceeds ($M)	Totals: # of Deals	Mix of Proceeds: 100% Primary	Mix of Proceeds: 100% Secondary	Mix of Proceeds: Mixed	% Change: Offer / 1-Day	% Change: Offer / 1 Mo
Jan-14	$9,177	56	73%	18%	9%	3.4%	5.9%
Feb-14	$8,891	40	70%	18%	13%	3.3%	7.3%
Mar-14	$18,378	72	51%	38%	11%	1.1%	(6.1%)
Apr-14	$8,077	41	83%	12%	5%	0.4%	(1.4%)
May-14	$20,924	63	65%	30%	5%	1.8%	9.3%
Jun-14	$20,997	54	57%	35%	7%	1.2%	0.5%
Jul-14	$10,640	42	74%	21%	5%	1.2%	2.5%
Aug-14	$5,347	26	50%	38%	12%	2.8%	7.3%
Sep-14	$15,278	52	71%	27%	2%	0.4%	(5.1%)
Oct-14	$6,092	28	86%	11%	4%	2.1%	7.0%
Nov-14	$19,524	52	46%	46%	8%	1.6%	(0.2%)
Dec-14	$8,966	29	62%	34%	3%	1.4%	7.2%
2014	**$152,290**	**555**	65%	28%	7%	**1.7%**	**2.1%**

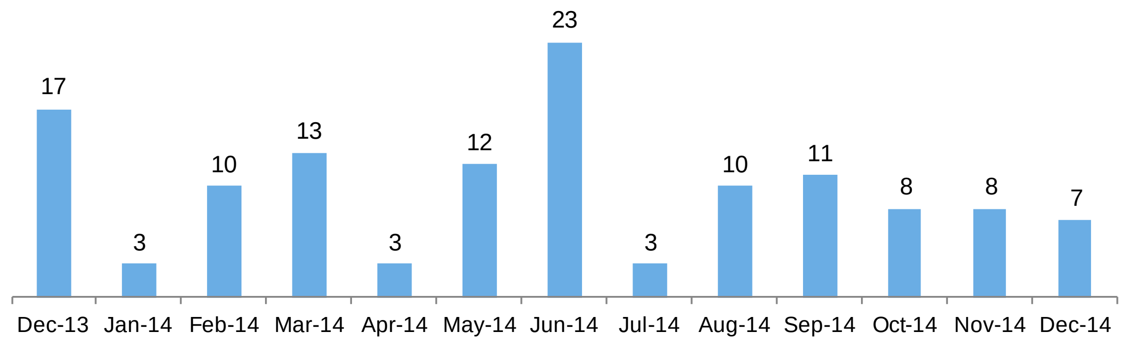
Source: Dealogic

Data excludes closed end funds, MLPs, BDCs, SPACs, offerings <$25M and issuers with market capitalization of <$25M

Convertible Market Activity

- Convertible issue volume was slower in the second half of 2014 with 47 deals pricing for $18.1B vs 64 deals for $24.0B in the first half
- Notably, convertible preferred offerings were more prevalent in November and December, accounting for 27% of issuance (vs. 9% for all of 2014)
- Mid and small cap issuers accounted for 80% of convertible issuance in 2014 (42% and 38%, respectively) (1)
- Expect overall convertible issuance to increase when equity market volatility increases
- Institutional investor interest for new issues remains strong given appetite for yield and potential equity upside

Convertible Market Activity by Month



	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14
Amt ($B)	4.4	0.7	5.8	3.1	2.1	4.0	8.3	2.0	3.4	5.3	2.6	2.4	2.3
Avg Amt ($M)	259	227	580	237	705	331	362	667	343	482	329	298	328

Source: Dealogic

Sizing and Pricing of Recent Convertible Offerings

Date	Issuer	Size ($M)	Mkt Cap ($M)	% Mkt Cap	Convertible Type	Maturity (yrs)	Coupon (%)	Conv Prem (%)	Call Spread Prem (%)	Original Price Talk Coupon	Original Price Talk Premium	Sector	Registered (Y/N)
12/19/14	Washington Mutual	$600	$368	163%	Mandatory	NA	3.00%	0%	-	-	-	Finance	N
12/11/14	IGI Laboratories	125	557	22%	Cash Pay	5	3.75%	27%	-	3.25% - 3.75%	25% - 30%	Healthcare	N
12/9/14	Envestnet	150	1,630	9%	Cash Pay	5	1.75%	33%	-	1.5%-2.0%	30% -35%	Technology	Y
12/9/14	T-Mobile	1,000	20,870	5%	Preferred	NA	5.50%	20%	-	-	-	Telecom	Y
12/5/14	ANI Pharmaceuticals	125	605	21%	Cash Pay	5	3.00%	30%	80%	-	-	Healthcare	Y
12/5/14	PROS Holdings	125	754	17%	Cash Pay	4	2.00%	30%	75%	1.75%-2.25%	27.5%-32.5%	Technology	N
12/2/14	Quidel	173	817	21%	Cash Pay	6	3.25%	35%	-	-	-	Healthcare	Y
11/21/14	Lexicon Pharmaceuticals	80	517	15%	Cash Pay	7	5.25%	20%	-	4.75% - 5.25%	20% - 25%	Healthcare	N
11/19/14	Kindred Healthcare	150	1,277	12%	Preferred	3	7.50%	0%	-	-	-	Healthcare	Y
11/18/14	Redwood Trust	200	1,568	13%	Cash Pay	5	5.63%	15%	-	-	-	REIT	N
11/17/14	LGI Homes	75	344	22%	Cash Pay	5	4.25%	30%	-	3.75% - 4.25%	30% - 35%	Construction	N
11/17/14	William Lyon Homes	100	525	19%	Preferred	3	5.50%	0%	-	-	-	Construction	Y
11/12/14	Isis Pharmaceuticals	425	6,071	7%	Cash Pay	7	1.00%	30%	-	0.5% - 1.0%	30% - 35%	Healthcare	N
11/7/14	CTI BioPharma	35	343	10%	Preferred	NA	0.00%	(15%)	-	-	-	Healthcare	Y
11/5/14	LinkedIn	1,323	27,094	5%	Cash Pay	5	0.50%	35%	75%	0% - 0.5%	40% - 45%	Technology	N
	AVERAGE	$312	$4,223	24%		5	3.46%	19%	77%				
	MEDIAN	$150	$754	15%		5	3.25%	27%	75%				

Source: Dealogic

(1) Large Cap = market capitalization >$5B, Mid Cap = market capitalization of $1B-$4.9B, Small Cap = market capitalization of <$1B
Note: Data excludes issuers below $25M in market capitalization, offerings below $25M in size, PIPEs, closed end funds and SPACs

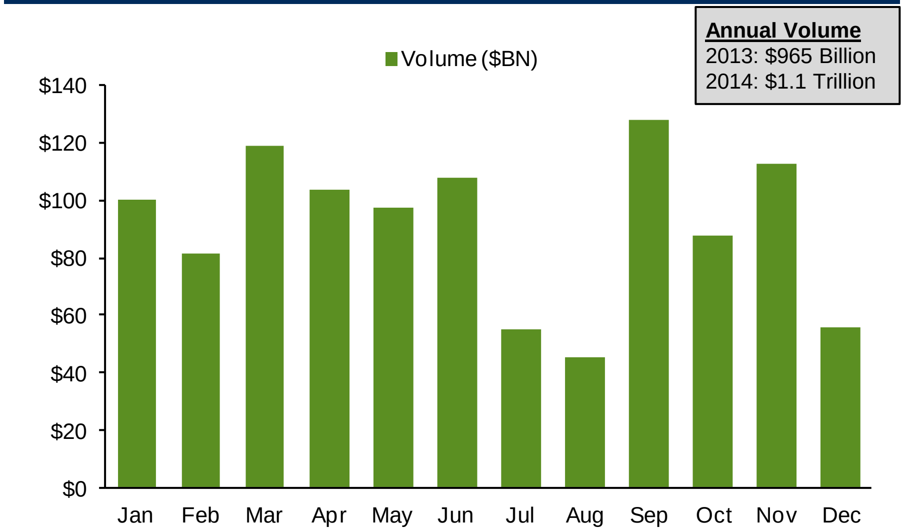
FIFTH THIRD BANK

2014: IG Primary Market Activity Review

Commentary

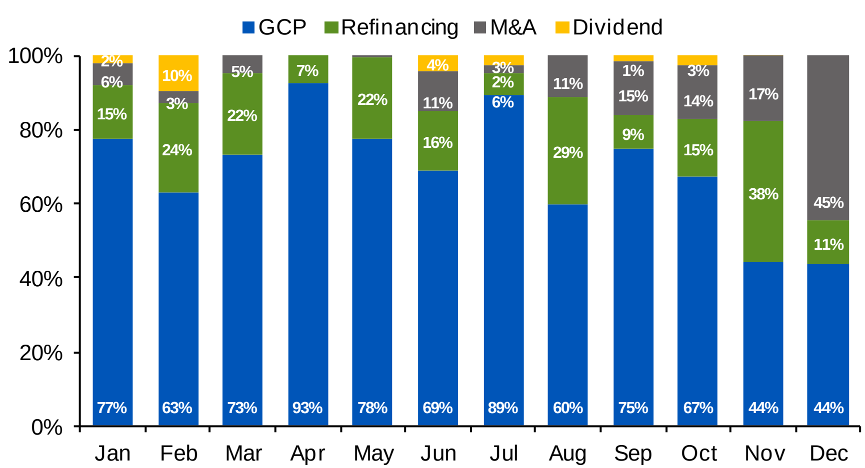
- 2014 was a record year for the Investment Grade market, with issuance volume breaking the $1 trillion mark in November. The momentum carried into December and the year finished at $1.1 trillion on 1,513 deals. Contributing factors to the record volume include historically low borrowing costs, record M&A activity, and shareholder friendly actions (e.g., share buybacks and dividends) driven by activist shareholders.
- The high level of supply was supported by strong investor demand, given the asset class' perception as a "safe-haven." During times of the year when the broader market entered "flight-to-quality" and "risk-off" modes, the IG asset class remained relatively resilient, maintaining generally positive fund flows and narrow price movements compared to its risk counterparts, Equity and High Yield.
- GCP was the main UOP during the year, tallying $767 billion in volume, up $76 billion from the previous year. Refinancing was the second highest source of supply coming in at $197 billion, an increase of $55 billion from last year. M&A driven deals accounted for $108 billion dollars and Dividend/Equity friendly purposes were $20 billion for the year.
- 2015 is likely to see a comparable, if not increased level of activity to 2014. Many of same factors driving factors of 2014 will roll-over into 2015. Issuers will look to take advantage of low Treasury yields and spreads to address funding needs ahead of Fed Funds rate hikes later in 2015. January tends to open up with a slew of FIG/Yankee issuers, and 2015 will likely continue the trend.

Monthly Issuance



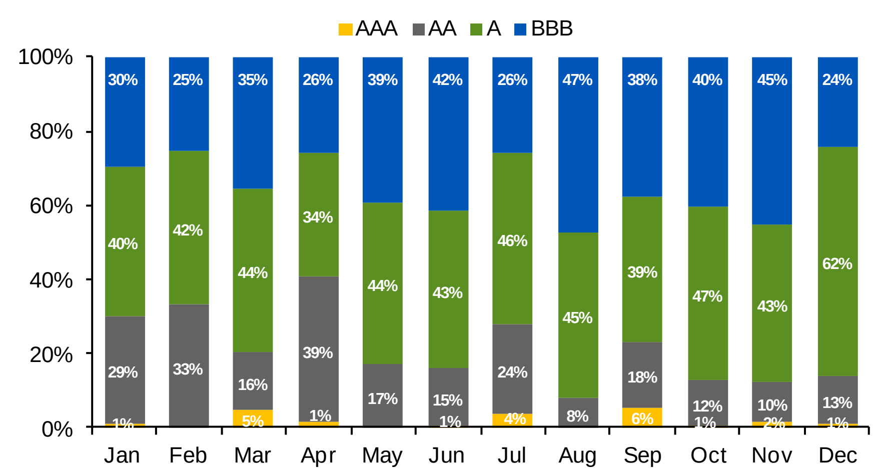
Source: IFR Markets

UOP Composition



Source: IFR Markets

Credit Profile



Source: IFR Markets

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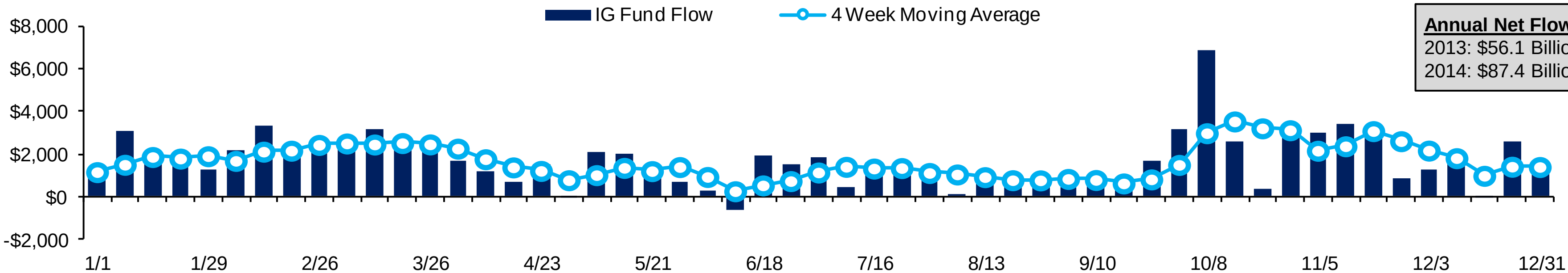
2014: IG Demand & Deal Execution

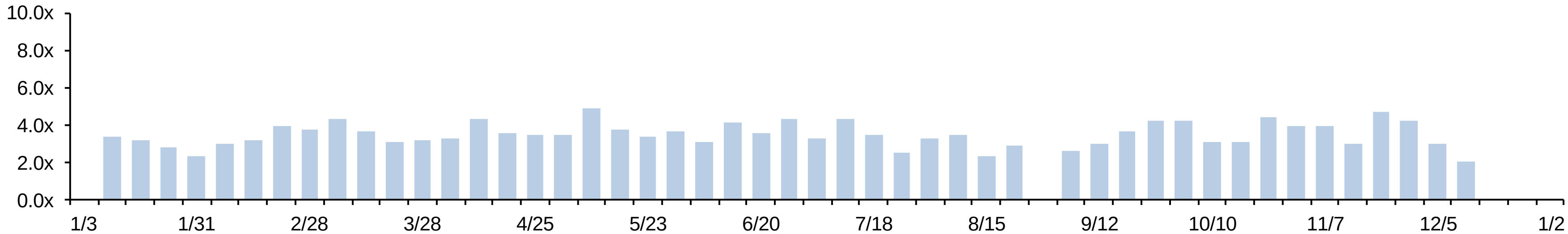
Weekly Fund Flows



Annual Net Flows
2013: $56.1 Billion
2014: $87.4 Billion

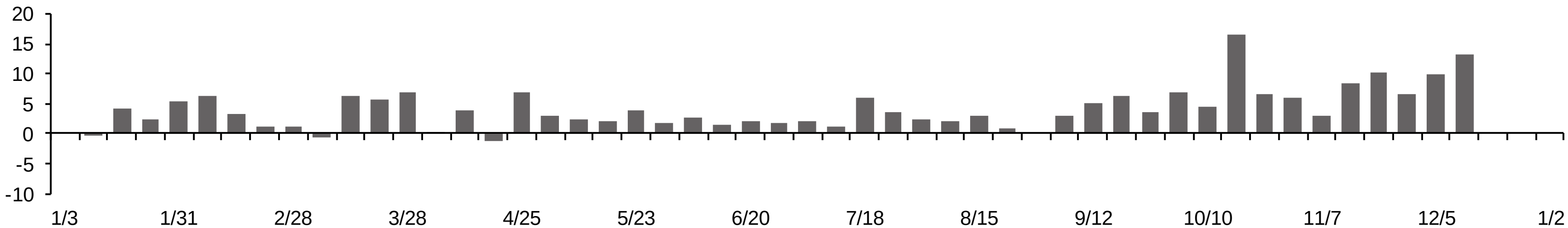
- The asset class saw robust inflows for the majority of 2014, seeing only 3 weeks of negative outflows. From June 18th to December 10th investment grade funds saw 26 consecutive weeks of positive fund flows and only three weeks of nominal outflows.
- The end-of-year concerns of rapidly declining oil prices in the broader markets seemed to have had little effect on the asset class outside of the energy sector.

Weekly Average Oversubscription



- Investor demand remained resilient, with oversubscription levels generally consistent throughout most of the year. Tapering toward the conclusion of 2014 was in line with the year-end slow down of activity.

Weekly Average NIC (bps)



- Concessions remained relatively low throughout most of the year. New issue concessions (NICs) did tick up in the last quarter due to heightened volatility in the markets and elevated new issue supply, as M&A related activity began to pick up.

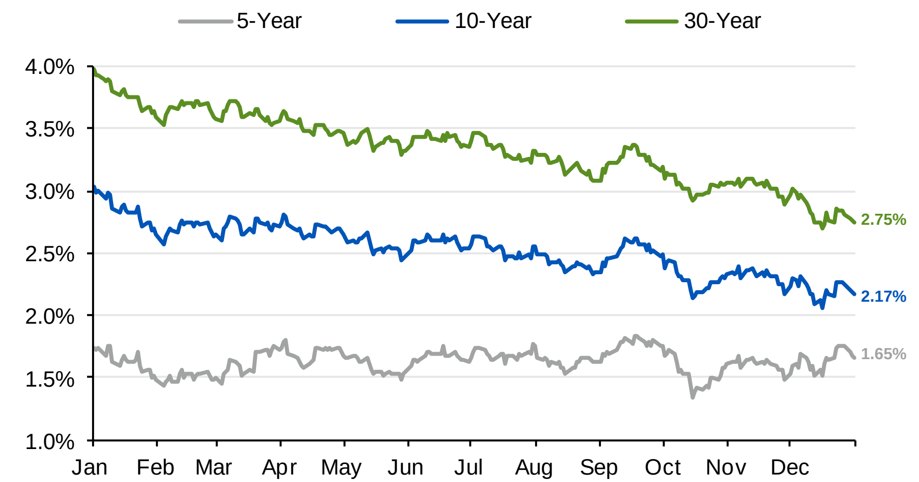
Source: IFR Markets

2014: IG Secondary Market Activity Review

Commentary

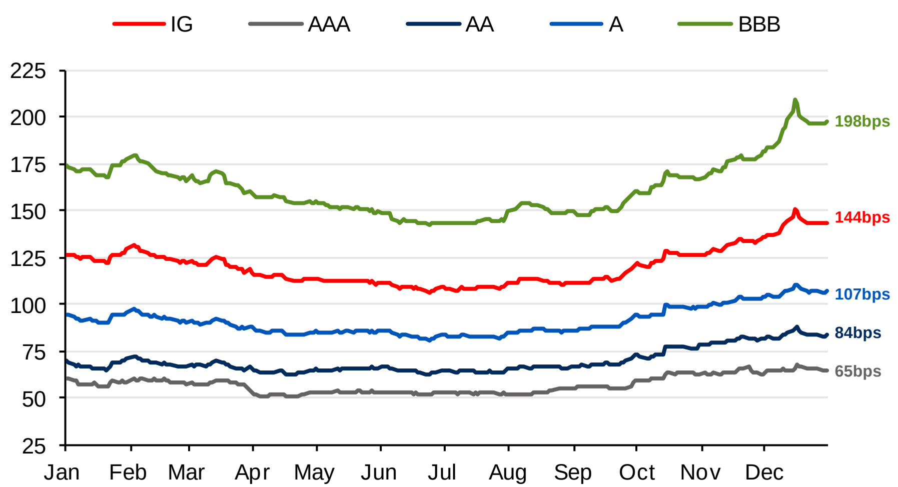
- Since Mid-October the broader market has seen several bouts of volatility, due to a host of concerns, including economic stagnation in major global players (Euro Zone, Japan, China), geopolitical risks (Russia/Ukraine Conflict), and rapidly declining commodity prices. Despite these risk factors, investor confidence in the asset class remained strong throughout 2014, seeing 26 consecutive weeks of net fund inflows at one point and only three weeks of nominal outflows. 2014 cumulative net fund inflows totaled $87.4 million, easily surpassing 2013's $56.1 million.
- Despite Fed tapering and an improving domestic economy, Treasury yields marched lower in 2014, given the weaker global rate and economic landscape as well as continued heightened geopolitical risks, as noted above. The 30-year Treasury yield was down 117 bps on the year from 3.92%, while the 10-year was down 82 bps on the year from 2.99%.
- IG spreads were the tightest during June and July, with the lowest spread at 106bps on 6/24/2014. Coupled with declining Treasuries, the IG index yield troughed at 2.87% on 10/15/14. Since the mid-year lows, the IG index has gradually widened amidst the heightened volatility and robust supply, with the widest reading at 151bps on 12/16/2014. The index has since come back down, finishing 2014 at 144bps, up 17bps from the beginning of the year. Although year-end spreads were higher than at beginning of 2014 levels, the IG index yield closed lower for the year at 3.21% versus 3.33% at the beginning of the year.

US Treasuries



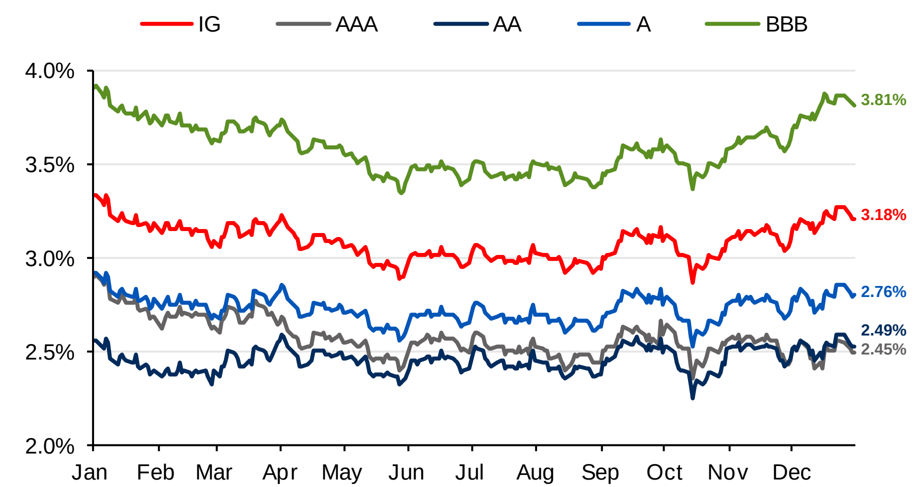
Source: IFR Markets

Spreads



Source: IFR Markets

Yields



Source: IFR Markets

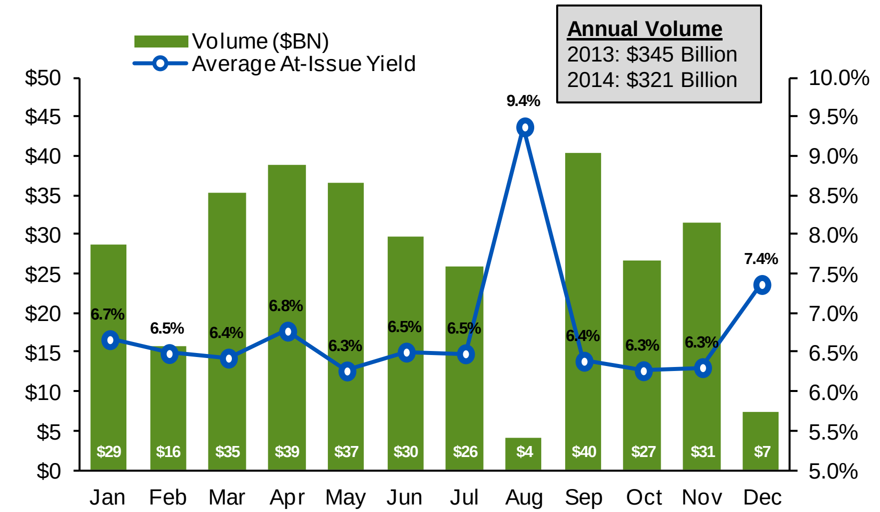
FIFTH THIRD BANK

2014: HY Primary Market Activity Review

Commentary

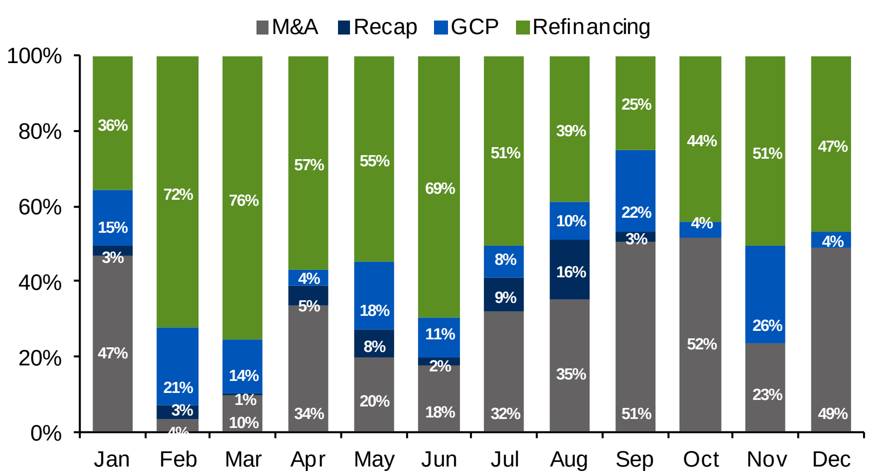
- 2014 was yet another strong year for the high yield primary market. 591 deals priced for $321 billion, marking a third consecutive $300 billion+ volume year (the only $300 billion supply years on record). The $321 billion 2014 volume total came in 7% below 2013's $345 billion of primary market activity.
- Debut issuers continued to provide a healthy source of supply for the market. Debut issuers accounted for 119 deals and $54.7 billion of supply, easily surpassing the 109 deals and $42.2 billion figure from 2013.
- Refinancing continued to be the prominent source of primary market supply, accounting for 52% of total volume (matching the 52% 2013 contribution). Amongst other UOP, Recap and GCP supply took a backseat to M&A, which saw a substantial increase from year ago levels in terms of total $ amount and % of total supply. M&A supply closed the year at $98 billion, or 31% of total supply, up from $73 billion, 21% of supply in 2013.
- The primary market was highly active during the first half of 2014 amid favorable conditions. Declining Treasury yields and solid credit fundamentals maintained asset class demand which resulted in overall tighter yields over this period. However, valuation concerns and a surge of geo-political headlines in July brought about a market correction that muted summer activity. Although October and November saw healthy levels of supply, the fourth quarter saw investors being increasingly selective with credit amid heightened macro volatility and strained liquidity. As such, supply was dominated by higher rated, seasoned issuers and/or M&A related financings over this period. December activity was very light, as the energy contagion and year-end wind down effectively shut down the market mid-month.

Monthly Issuance



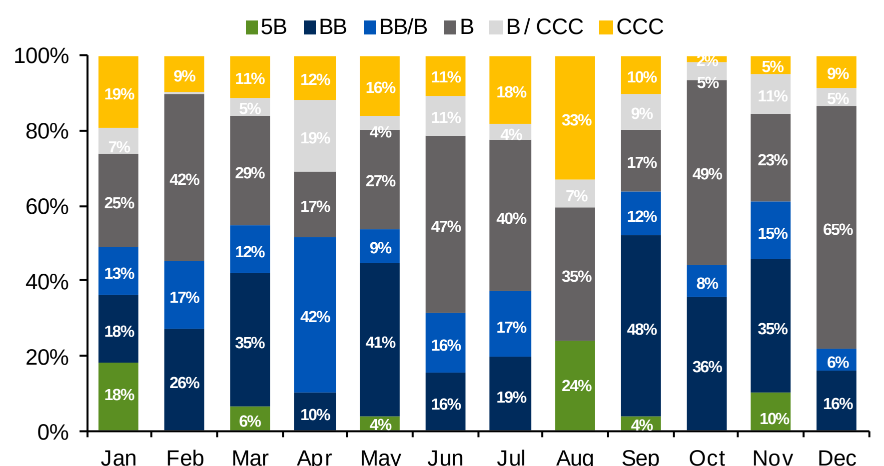
Source: IFR Markets

UOP Composition



Source: IFR Markets

Credit Profile Composition



Source: IFR Markets

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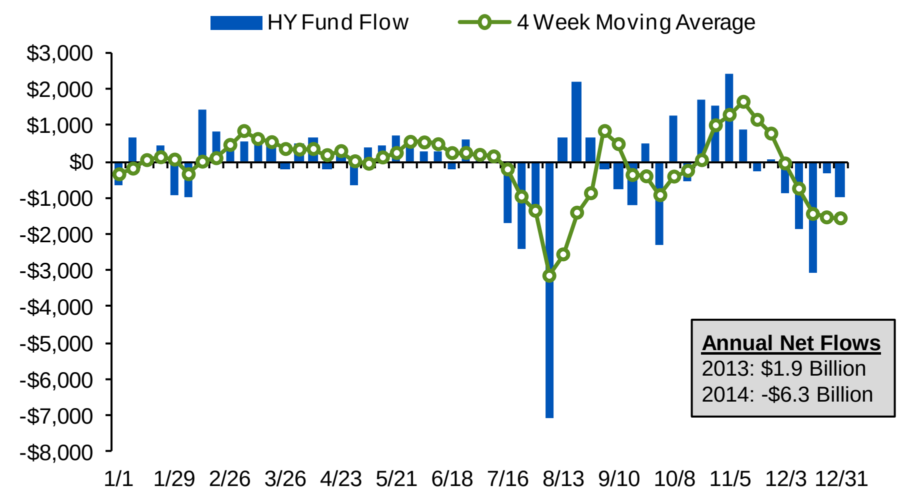
2014: HY Demand & Deal Execution

Commentary

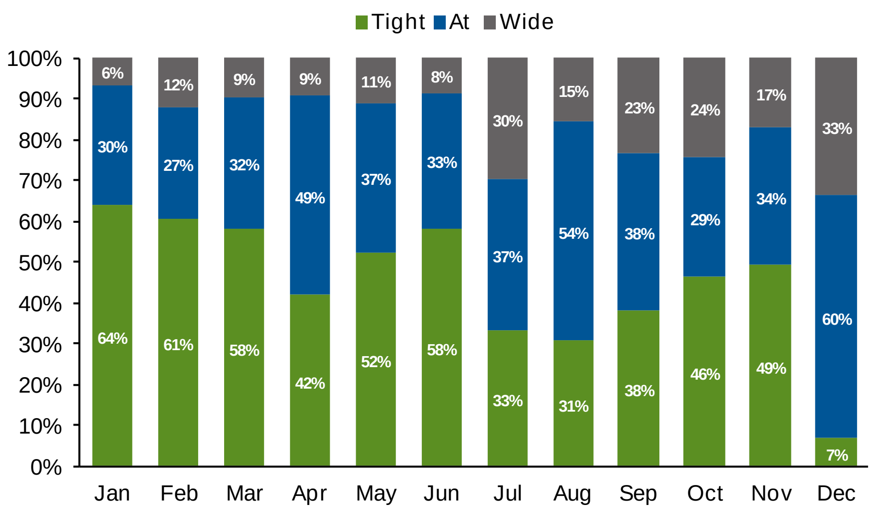
- Demand indicators and primary market execution exhibited similar seasonal themes to primary market supply.
- The high yield asset class saw fairly consistent, and largely positive fund flows during the first half of the year. Declining Treasury yields, coupled with solid credit fundamentals helped to maintain a high level of demand for asset class over this period. At the halfway mark of the year, the net fund flow figure stood at $6.6 billion.
- A mid-summer correction and asset class revaluation of risk had a material effect on investor capital movement. A four-week run of outflows totaling $12.6 billion from mid-July to August, easily wiped out the asset class' net gain for the year. During the second half of the year, capital movement was largely in spurts, with streaks of outflows and inflows. 2014 net fund flows ended at -$6.3 billion, unable to recover from the hemorrhage of cash from the asset class earlier in the year.
- Deal execution was largely favorable for most of the year but also noticeably bifurcated between the first and second halves of the year. The higher percentage of deals priced wide coincided with the heightened volatility and upward movement in yields during the second half of the year. With underwriters having to manage price talk expectations against a re-pricing of risk, the majority of deals continued to price at or tight of official price talk levels. Notably, a few M&A related offerings in the fourth quarter were heard to have faced some challenges clearing the market, resulting in significantly wider pricing to expectations.

HY Fund Flows



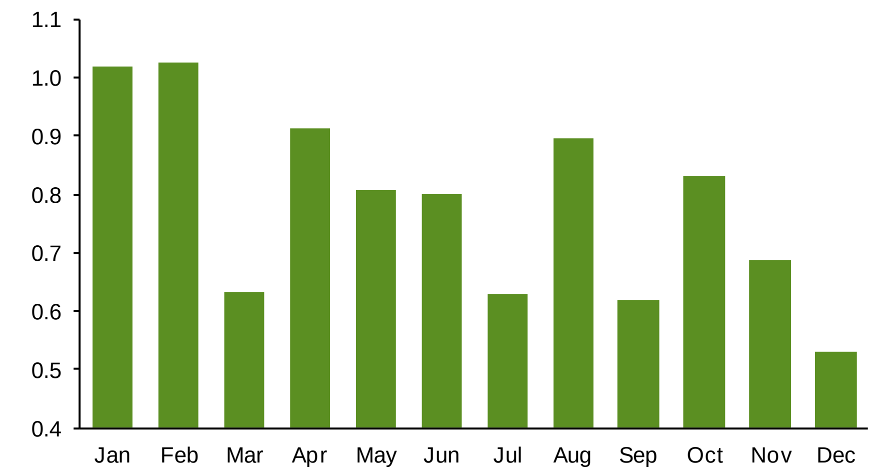
Source: IFR Markets

Deal Execution (vs Marketed Price Talk)



Source: IFR Markets

Average Break Performance (pts)



Source: IFR Markets

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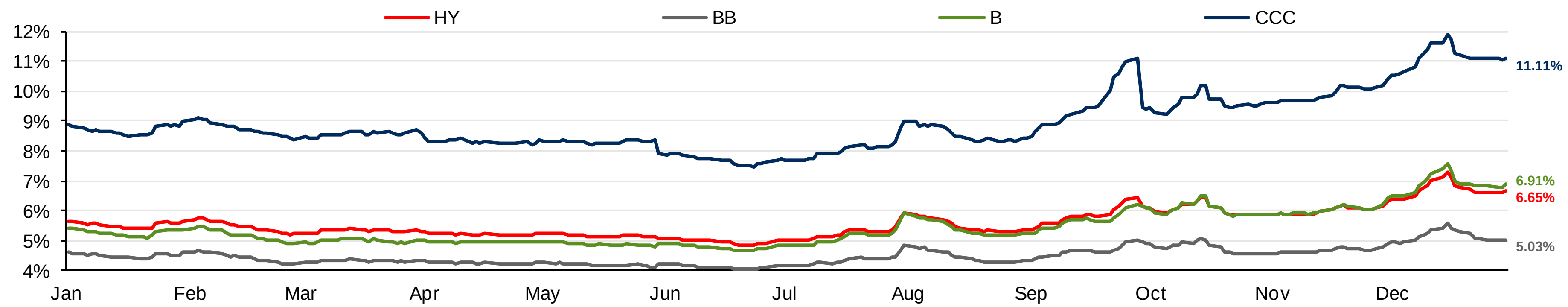
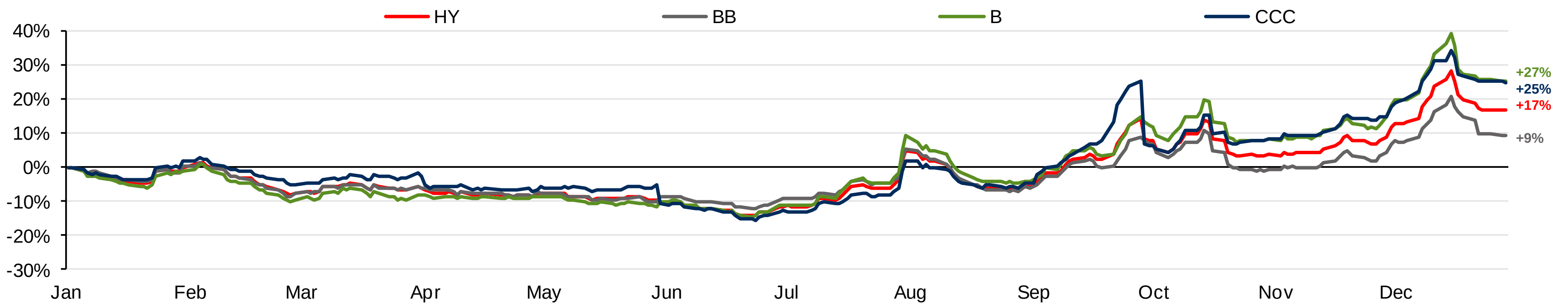
2014: HY Yield Movement Review

Yields (%)



- Index yields spent the first six months of the year grinding tighter supported by strong technicals and fundamentals. Opening the year at 5.66%, the index declined to an all time new record low of 4.85% on 6/23.
- After hovering around record low levels at the end of June, the market navigated through some corrections from late summer to the fall due to confluence of factors including, stretched valuations, heightened macro volatility, strained liquidity and heavy supply (M&A). The gapping out of yields starting in late November was largely attributed to the fallout out from the drop in oil prices. With the Energy sector accounting for approximately 15% of the asset class, heavy upward yield pressure stemmed from the indiscriminate sell-off of the sector, which inevitably led to a broader market sell-off by year-end.

Yield Movement (% change from beginning of year)



- Despite the HY Index closing the year at 6.65% (99bps and 17% higher than beginning of the year levels), the index continues to remain at attractive historical levels. By comparison, the 2010-current HY Index average is 6.88% (current level is 23bps lower) and the trailing 10-year average (2005-2014) is 8.55% (current level is 190bps lower).

Source: IFR Markets

Loan Market Update

Broadly Syndicated Market

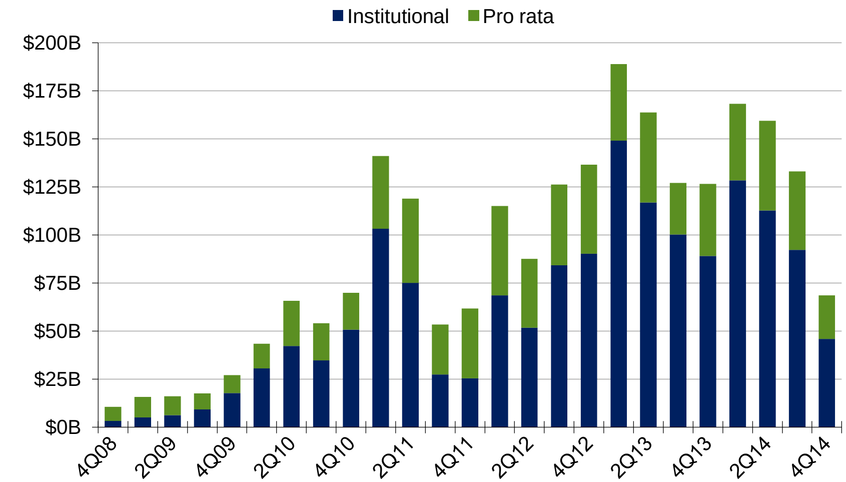
- After a very strong start to 2014, The broadly syndicated market closed 2014 on a bit of a sour note as volume fell dramatically and yields pushed higher in the fourth quarter. 4Q volume came in at $68.6 billion, which was the lowest level since 3Q 2011. In addition, single-B and double-B new-issue YTMs reached their highest levels in more than two years.
  - One of the most telling trends of the fourth quarter was the decline in cov-lite volume as a % of total volume. After hovering in the 63% - 66% range for the past 5 quarters, new-issue covenant volume fell to 57% as investors appeared to signal a change in their overall risk appetite.
- The Q4 decline in volume was broad based with opportunistic transactions (refinancings, dividend recaps, repricings) experiencing the largest QoQ and YoY declines. The lone bright spot for the quarter was LBO activity, which "only" fell by 6% QoQ and was up slightly YoY.
  - After a flurry of repricing activity to start the year ($80 billion in Q1 alone), repricings fell below $25 billion (combined) for the last three quarters of the year.
- In addition to falling supply, demand for broadly syndicated transactions also appeared to wane over the last three months of the year. CLO issuance remained strong; however, the flight of retail investors continued and the streak of retail fund outflows reached nine months in December.

Middle Market

- Following the lead of the broadly syndicated market, conditions in the middle market were relatively weak in the fourth quarter as issuance slowed and yields moved higher. Issuance in the traditional middle market was particularly slow with modest 4Q volume contributing to total year volume of $36 billion falling well below 2013 and 2012.
  - While overall volume trails previous years, M&A issuance outperformed and increased from $5.8 billion in 2013 to $6.8 billion in 2014 (17% YoY increase).
- Despite narrowing in December, middle market yields closed 4Q 2014 at their highest level since 4Q 2012. For the quarter, new-issue yields for middle market loans closed at an average YTM of 6.64% compared to 5.85% the prior year.

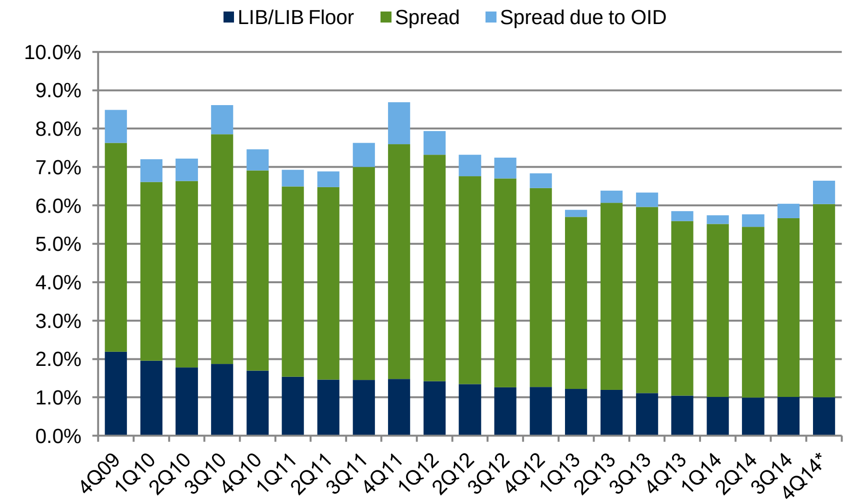
Traditional Middle Market defined as: loan size </= $100 million and sales size </= $500 million

Leveraged Loan Volume ($ in billions)



Source: S&P Capital IQ LCD

Middle Market New-Issue Yields



Source: LPC Loan Connector

*4Q14 data as of December 22nd, 2014

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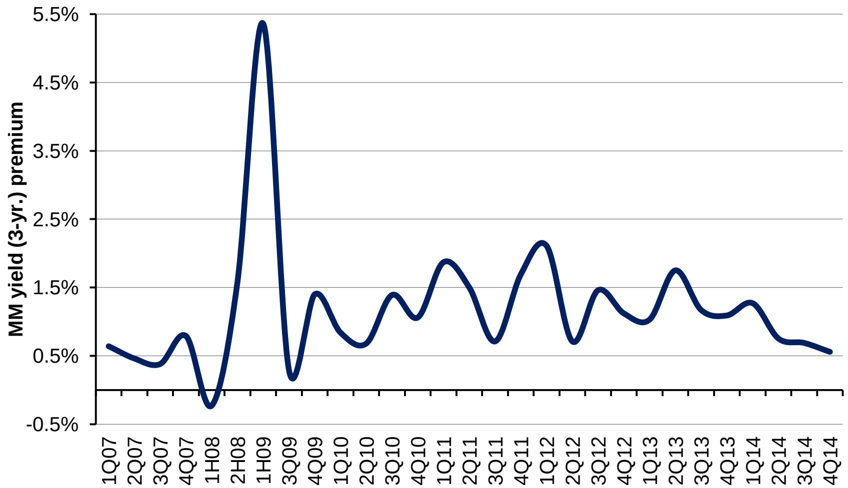
Loan Market Update

Middle Market Yield Premium



In 4Q 2014, the middle market yield premium (over large corporate yields) fell to its lowest level since 3Q09, standing at just 56 bps. Overall, yields in both markets are at their highest levels in the past couple of years as market volatility and softness pushed primary yields higher. In December, the middle market yield premium actually disappeared as the average large corporate yield increased to 6.29% versus 6.15% for middle market loans.

Source: Thomson Reuters LPC

Recent New-Issue Transactions

BB	Corporate Rating	Spread/Floor/OID	YTM
Crown Holdings	BB/Ba2	325 / 75 / 99.5	4.15%
Cable & Wireless	BB/Ba2	450 / 100 / 99.25	6.04%
B/E Aerospace	BB+/Ba2	325 / 75 / 99.5	4.15%
Norwegian Cruise	BB-/Ba3	325 / 75 / 99.5	4.15%
Block Communications	BB-/Ba3	350 / 75 / 99.5	4.41%
B	**Corporate Rating**	**Spread/Floor/OID**	**YTM**
Electrical Components	B+/B2	475 / 100 / 99.5	5.98%
ATI Physical Therapy	B/B2	400 - 425 / 100 / 98.5-99	5.53%
Liberty Cablevision	B-/B3	350 / 100 / 97	5.13%
Cengage Learning	B/B2	600 / 100 / 99	7.44%
AmWINs	B/B2	425 / 100 / 99	5.61%
Middle Market	**Corporate Rating**	**Spread/Floor/OID**	**YTM**
Oasis Outsourcing	NR/NR	475 - 500 / 100 / 99	6.20%
CRGT	B-/NR	650 / 100 / 98	8.17%
Eyemart	B/B1	400 / 100 / 99.5	5.19%
Hospice Compassus	NR/NR	475 / 100 / 99	6.09%
New Media	B/B2	550 - 575 / 100 / 99	7.03%

* Includes loans of up to $500 million

Source: S&P Capital IQ LCD

Average New-Issue Statistics

	Spread / Floor	OID	YTM
BB	361 / 82	99.3	4.67%
B	458 / 100	98.7	5.98%

Source: S&P Capital IQ LCD; S&P/LSTA Leveraged Loan Index

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Commodities Environment And Opportunities

Crude Oil

- With no countries announcing production cuts, the global supply glut that started in 2014 continues to persist. West Texas Intermediate oil dropped below $50 per barrel for the first time since April 2009.
- Russian output has risen to a multi-decade high while at the same time Iraq, the second largest OPEC producer, announced plans to boost exports to a record this month. In December, Iraq exported 2.9 million bpd and they expect to increase that to 3.3 million bpd in January.
- With many participants on holiday the final days of 2014, traders were anxious to short the market as the new trading year begins. The price drop for both barrels may also be increasing as the US dollar continues to strengthen and risk aversion returns to the market. Equities are starting the year with a weaker tone and troubles in Greece are back in the headlines.
- Rig counts in the US are starting to decline as prices fall. Rigs targeting oil dropped by 17 to 1,482 this week, according the Baker Hughes website. Rig count got as high as 1,609 last year when prices were trading closer to $100/bbl.

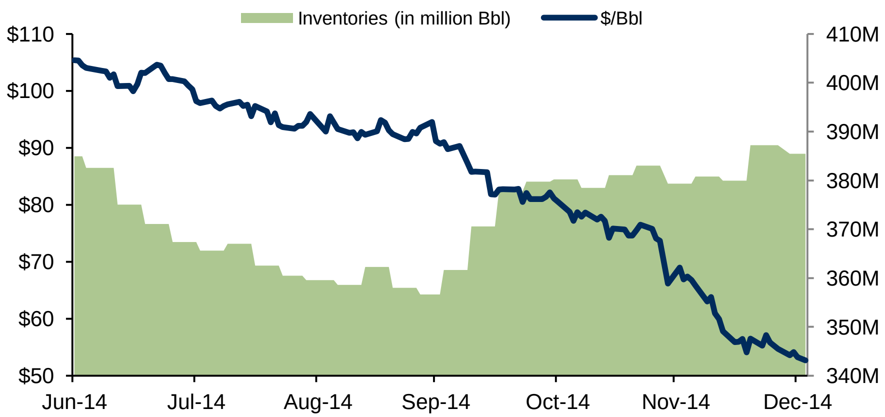
Natural Gas

- Prompt natural gas prices have rallied to start January, after a 29%drubbing to finish out 2014. An arctic blast of cold air has covered much of the Midwestern portions of the US. This is expected to push east, bringing snow and ice to coastal regions. This unexpected weather is boosting demand and accelerating withdrawals from storage sites.
- Near-term upside pressures on prices is expected to subside rather quickly. Most models have weather returning to more normal or warmer-than-normal temperatures by mid-January.
- The frigid weather has brought back memories of last year's polar vortex. Traders will continue to monitor changes in the outlook and closely watch weekly inventory levels.

Metals

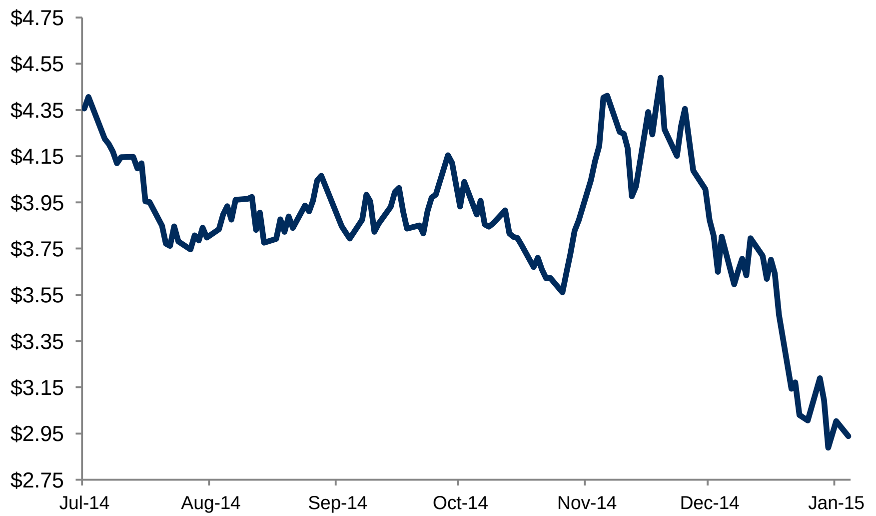
- Metals closed out December on a weak note, with a number of complexes falling below key support levels, including aluminum and nickel.
- Copper prices are now falling as we start the New Year. Comex copper has fallen to $2.76/lb, the lowest level since June, 2010. Prices have fallen as the cost to mine raw metals falls along with energy prices. Furthermore, analysts are worried about demand, with little growth seen in Europe and Japan this year.
- A slowdown in Chinese growth that started last year seems to be persisting, with little to no buying seen recently by the world's largest metal consumer.

WTI Crude Oil ($ / Bbl) vs. Total US Crude Inventories (Bbls)



Source: Bloomberg

NYMEX Henry Hub Natural Gas ($ / MMBtu)



Source: Bloomberg

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FOREX Environment and Opportunities

Policy Divergence

- The US Economy expanded 5% compared to less than 1% in the Eurozone which was more than Japan which was less than 0.5%.
- The US is expected to raise rates this year while the Euro zone, Japan and China are all expected to provide more stimulus to boost their economies.

Impending Political Risk

- The EUR fell to its lowest level in nine years after Draghi made comments regarding the risk of deflation and increased likelihood of the ECB QE. The first ECB meeting is Jan 22. and the market is expecting a large scale QE sooner than later as inflation and inflation expectations continue to move lower and the ECBs lack of progress on expanding its balance sheet towards 2012 levels.
- Greek elections are on Jan 25. There are some fears that this could pave the way for the country's exit from the Euro zone. A report in Saturday's German news magazine Der Spiegel, suggested the German government is ready to let Greece drop of the EUR if needed. Greek leftist opposition party Syriza continues to lead public opinion polls by 3.1 percentage points, though its lead over the ruling New Democracy party has narrowed slightly. Many are saying that Syriza's policies would risk fracturing relations with Euro zone partners, which have pledged EUR 240 billion in aid to prevent Greece from defaulting on its massive debt burden. Syriza has demanded debt relief from the Euro zone and promised to roll back many of the austerity and reform measures Greece has undertaken in exchange for aid.
- Continued political tension in Russia and Iraq is driving a higher crude output puling down Brent, thus putting more pressure on the commodity currencies. (CAD and NOK)

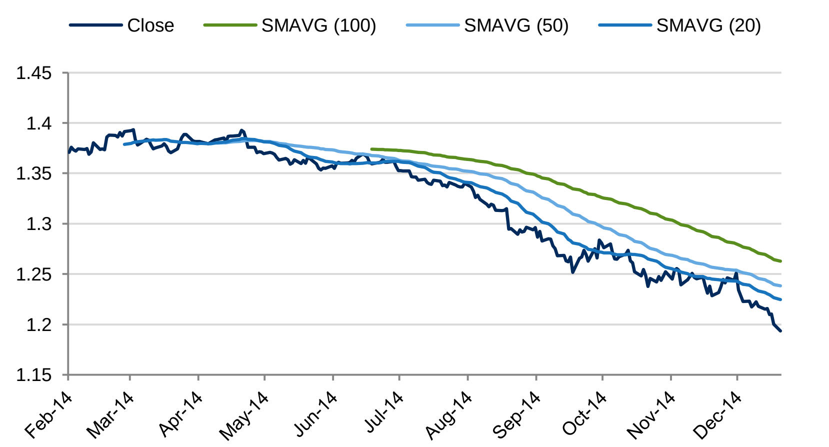
Global Deflation

- Global deflation has been an ongoing issue with the continued decline in commodity prices which has cause yield curves in both G10 and EM to flatten dramatically.
- The yield on the 10 year German bund sank below 0.5%, while the yield on the German five year slipped into negative territory for the first time ever. Yields on Spanish, Italian, and Irish 10 year-bonds also fell to new Euro area lows. JGB yields remain close to record lows as well.

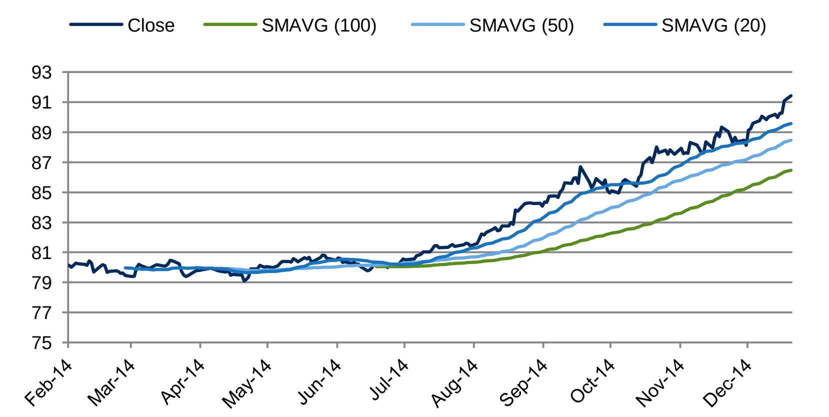
The USD rally marches on!

- The USD finished the year at its high. The dollar index (DXY) rallied more than 12% for the year and is at a nine year high boosted by continuing concerns about global growth outside of the US and weak commodity prices.
- Interestingly, the dollar index traded in the widest yearly range since 2010. Due to market volatility, many traders reduced their long positions but the market is still a USD bull and investors continue to get back into their longs.
- The dollar will continue to benefit from strong US economic numbers with the market expecting a rate hike in 2015 after a rather hawkish Yellen after the December FOMC meeting.

EUR / USD



USD Index



Source: Bloomberg

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Notes and Definitions

Average Hourly Earnings – An indicator of labor cost inflation and of the tightness of labor market

Average Weekly Hours – Measures an average of the number of hours worked per week by production workers in U.S.

BRICS – The acronym for an association of five major emerging national economies: Brazil, Russia, India, China and South Africa.

Collateralized loan obligations (CLOs) – A form of securitization where payments from multiple middle sized and large business loans are pooled together and passed on to different classes of owners in various tranches

Consumer Price Indexes (CPI) – A program that produces monthly data on changes in the prices paid by urban consumers for a representative basket of goods and services.

Dow Jones Index – A price-weighted average of 30 significant stocks traded on the New York Stock Exchange and Nasdaq

Durable or Core Capital Goods Orders – An economic indicator released monthly by the Bureau of Census that reflects new orders placed with domestic manufacturers for delivery of factory hard goods (durable goods) in the near term or future

Exchange-Traded Fund (ETF) - A security that tracks an index, a commodity or a basket of assets like an index fund, but trades like a stock on an exchange.

Federal Funds Rate (Fed Funds) – The interest rate at which depository institutions actively trade balances held at the Federal Reserve

GDP – Gross domestic product is the market value of the goods and services produced by labor and property located in the United States.

HY Index – A broad S&P index family designed to measure the performance of non investment-grade (high yield) and U.S. dollar-denominated bonds issued by U.S.-domiciled corporations.

IG Index – A broad S&P index family designed to measure the performance of investment-grade and U.S. dollar-denominated bonds issued by U.S.-domiciled corporations.

ISM Manufacturing – ISM Manufacturing Index compiles a composite diffusion index of national manufacturing conditions by the Institute of Supply Management. Readings above 50 indicate an expanding factory sector.

LME Index – London Metals Exchange Metals Index is a weighted index of six, designated, primary metals

MSCI Emerging Market equity index – An index created by Morgan Stanley Capital International (MSCI) that is designed to measure equity market performance in global emerging markets

Nasdaq Composite Index – A market-capitalization weighted index of the more than 3,000 common equities listed on the Nasdaq stock exchange

Non Farm Payroll – Nonfarm payroll employment is a compiled name for goods, construction and manufacturing companies in the US. It does not include farm workers, private household employees, non-profit organization employees, or government employees. It is an economic indicator released monthly by the United States Department of Labor as part of a comprehensive report on the state of the labor market.

Non manufacturing (Service) – ISM Non Manufacturing Index is an index based on surveys of more than 400 non-manufacturing firms' purchasing and supply executives, within 60 sectors across the nation, by the Institute of Supply Management.

Participation Rate – Refers to the number of people who are either employed or are actively looking for work. The number of people who are no longer actively searching for work would not be included in the participation rate.

PCE Core – Refers to the core Personal Consumption Expenditures Price Index (PCE PI), which measures the average price increase for American consumers on an annualized basis

Personal Income & Spending – A set of two data points produced by the Bureau of Economic Analysis that track personal income and monthly spending.

Retail Sales Advance & Control Group – A monthly measure of sales of goods to consumers at retail outlets; the control group excludes the volatile autos, gas and building supplies components

Russell 2000 Index – A small-cap stock market index of the bottom 2,000 stocks in the Russell 3000 Index

S&P 500 Index – A broad index that includes 500 American companies

Securities Markets Programme (SMP) – Interventions by the Eurosystem in public and private debt securities markets in the euro area to ensure depth and liquidity in those market segments that are dysfunctional.

The Euro Overnight Index Average is an effective overnight interest rate computed as a weighted average of all overnight unsecured lending transactions in the interbank market in Euros.

The Personal Consumption Expenditure (PCE) measure is the component statistic for consumption in GDP collected by the BEA. It consists of the actual and imputed expenditures of households and includes data pertaining to durable and non-durable goods and services. It is essentially a measure of goods and services targeted towards individuals and consumed by individuals.

The University of Michigan Consumer Confidence (Sentiment) Index is a consumer confidence index published monthly by the University of Michigan and Thomson Reuters. The index is normalized to have a value of 100 in December 1964.

U3 Unemployment Rate – The U3 unemployment rate is the percentage of all individuals above the age of 16 actively looking for work, but unable to find any within the past 4 weeks. Does not include individuals in the military, prisons, mental hospitals, and nursing homes. The Bureau of Labor Statistics publishes the figure on the first Friday of each month, covering the month just concluded.

Underemployment Rate – A measurement compiled by the U.S. Bureau of Labor Statistics that provides the broadest measure of labor underutilization defined as the total unemployed populace, plus all marginally attached workers, plus all persons employed part-time for economic reasons, as a percentage of the civilian labor force plus all marginally attached workers

Unemployment Rate (Household Survey) – Unemployment is defined by the Bureau of Labor Statistics (BLS) as people who do not have a job, have actively looked for work in the past four weeks, and are currently available for work. The BLS measures unemployment through monthly household surveys, also called the Current Population Survey (CPS).

Disclosures

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