

RIDGEWORTH INSIGHTS: LEVERAGED LOAN AND HIGH YIELD



Collective Strength. Individual Insight.



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RIDGEWORTH FUNDS

RidgeWorth Seix Floating Rate High Income
RidgeWorth Seix High Income
RidgeWorth Seix High Yield

EXECUTIVE SUMMARY

- Despite a brief pause in the wake of the United Kingdom's vote to leave the European Union, otherwise known as Brexit, leveraged finance posted the best returns in years. Data indicated the U.S. economy is showing improvement, with a revised first quarter gross domestic product (GDP) and robust employment report late in the quarter.
- Demand strengthened in the leveraged loan market, driven largely by collateralized loan obligations (CLOs), while new loan issuance went primarily to repricing and refinancing transactions.
- Fundamentals in most high yield sectors remain strong. Defaults in the high yield market plummeted in the second quarter.

The leveraged loan and high yield markets posted strong returns in the second quarter. After recovering from the brief Brexit-related downturn, the CS Leveraged Loan Index was up 2.86% for the quarter, while the Barclays High Yield Index rose 5.52%. This was the best performance since third quarter 2012 for loans and fourth quarter 2011 for bonds. Fundamentals remain strong, with default rates declining sharply.



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The primary driver of the leveraged finance market, the U.S. economy, showed improvement in the second quarter. First quarter GDP was revised to 1.1% in the final estimate, up from the 0.5% published initially. The Manufacturing sector remained in positive territory, and job growth rebounded strongly in June from a weak report in May.

LEVERAGED LOANS

Fundamentals remain relatively strong, and since the loan market has little exposure to Europe, direct impact from the Brexit vote has been minimal. Defaults are expected to be 3% in 2016 on a par-weighted basis, below the long-term average of 3.3%, according to J.P. Morgan. As for technical conditions, supply bounced back and demand picked up, though an impact from the Brexit vote was evident at the end of the quarter.

Issuance in the second quarter was strong, representing a rebound from the first quarter. The institutional market issued about \$86 billion in the quarter, up from about \$41 billion in the first quarter, the largest amount since third quarter 2014. Adding in the pro-rata market, total issuance came to about \$119 billion, up from approximately \$91 billion in the first quarter.

Overall, most of the new issuance in the second quarter went to repricing and refinancing transactions; so the amount of new money in the market was modest, and the size of the market remained unchanged.

On the demand side, while retail inflows were essentially flat, demand from the CLO portion of the market improved sharply. CLO issuance jumped from about \$8 billion in the first quarter to about \$17.5 billion in the second. June was particularly strong, with issuance of approximately \$6.6 billion.

Improved demand in April and May led to higher prices while June saw prices fade toward the end of the month in the wake of the Brexit vote.

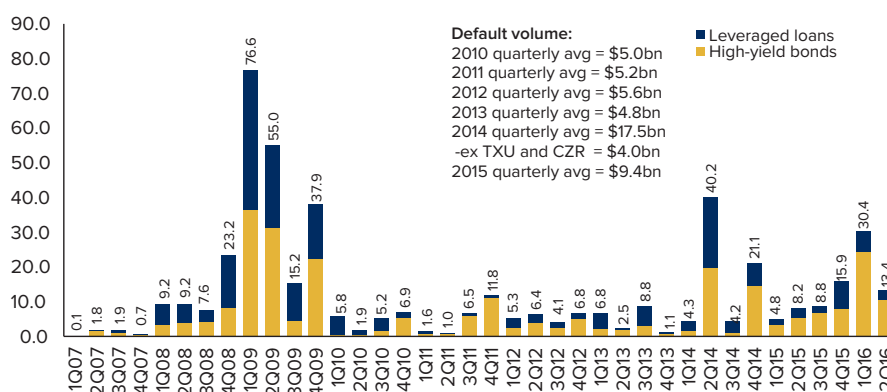
Approximately 33% of the market was priced at or above par in May, though that faded to around 20% in June. Still, this is up solidly from the previous quarter.

HIGH YIELD

High yield bonds also posted a strong performance, driven in part by the increase in the price of oil, which rose a little more than 20% in the quarter. Outperformance occurred primarily in the lower quality credits. Although there was some volatility during the quarter, spreads tightened by approximately 80 basis points (bps), an improvement over the first quarter in which spreads remained roughly unchanged. Spread tightening was led by CCCs, where the narrowing amounted to roughly 400 bps.

As for fundamentals, defaults for the total of high yield bonds and leveraged loans were reduced by half during the quarter. They fell from over \$30 billion in the first quarter to \$13.4 billion in the second quarter. The overall default rate was 3.56%, but when Energy and Metals & Mining are excluded, defaults drop to about half a percent. So, excluding these troubled sectors, defaults are still at very low levels. In June, only two companies defaulted, marking the lowest number since October and the third consecutive monthly decline, according to J.P. Morgan.

Exhibit 1: Quarterly Default Volume



Source: J.P. Morgan; July 1, 2016.

While long-term debt in relation to earnings before interest, tax, depreciation and amortization (EBITDA) has increased over the past few quarters, when commodity-

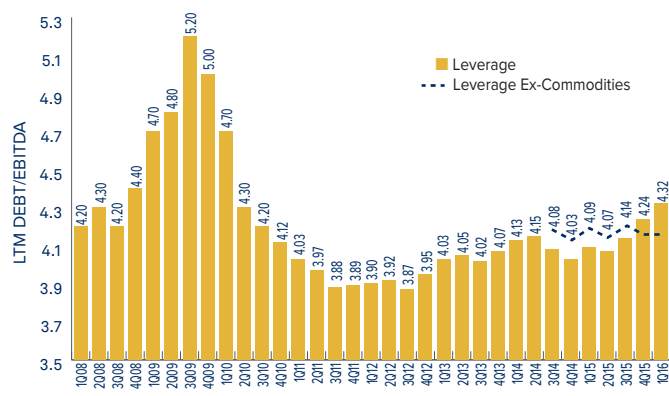


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related industries are excluded, that ratio has been in decline. And at 4.2x, it remains roughly in line with recent years. Similarly, interest coverage for high yield as a whole remains moderate at 4.52x. Excluding commodities-related industries, the ratio is 4.84x.

Exhibit 2: Leverage in the High Yield Market Remains Modest



Source: J.P. Morgan; July 1, 2016.

OUTLOOK

In the leveraged loan market, we believe that valuations are still fair and that yields are still attractive, given the relatively senior position of loans in the capital structure.

Barclays U.S. Corporate High Yield Bond Index is an unmanaged market value weighted index that covers the universe of fixed rate, non-investment grade debt.

Credit Suisse Leveraged Loan Index is a market-weighted index that tracks the performance of institutional leveraged loans.

Investors cannot invest directly in an index.

A Basis Point is equal to 0.01%.

Collateralized loan obligations are securities backed by a pool of debt, often low-rated corporate loans.

Credit Spreads are the difference between the yields of sector types and/or maturity ranges.

Credit Ratings noted herein are calculated based on S&P, Moody's and Fitch ratings. Generally, ratings range from AAA, the highest quality rating, to D, the lowest, with BBB and above being called investment grade securities. BB and below are considered below investment grade securities. If the ratings from all three agencies are available, securities will be assigned the median rating based on the numerical equivalents. If the ratings are available from only two of the agencies, the more conservative of the ratings will be assigned to the security. If the rating is available from only one agency, then that rating will be used. Ratings do not apply to a fund or to a fund's shares. Ratings are subject to change.

Gross Domestic Product (GDP) refers to the market value of all final goods and services produced within a country in a given period. GDP per capita is often considered an indicator of a country's standard of living.

Investment Risks:

Bonds offer a relatively stable level of income, although bond prices will fluctuate providing the potential for principal gain or loss. Intermediate-term, higher-quality bonds generally offer less risk than longer-term bonds and a lower rate of return. Generally, a fund's fixed income securities will decrease in value if interest rates rise and vice versa. Although a fund's yield may be higher than that of fixed

We're seeing pockets of value in Gaming and Aerospace & Defense. In the Energy sector, some pipeline companies still represent value on a selective basis.

In high yield, we believe the market can do well in an environment of 2% domestic economic growth. We see value in companies with robust fundamentals and durable business models that can continue to generate healthy cash flows and pay down debt. This would give them more financial flexibility if times become more difficult. We currently see value in homebuilders, which are benefiting from ultra-low interest rates, defensive companies, such as those in packaging, and issuers with larger market capitalizations. As for the Energy sector, although oil prices are expected to go higher, this is already priced into the market. We believe overall valuations, however, are not too rich.

In our opinion, leveraged finance will continue to be attractive in the coming months—in part because we expect it to be driven by the U.S. economy—and remains relatively insulated from turmoil in international markets. In addition, in this unprecedented low-rate environment, leveraged finance will remain appealing to investors in search of yield.

income funds that purchase higher-rated securities, the potentially higher yield is a function of the greater risk of that fund's underlying securities. Floating rate loans are typically senior and secured, in contrast to other below-investment grade securities. However, there is no guarantee that the value of the collateral will not decline, causing a loan to be substantially unsecured. Loans generally are subject to restrictions on resale. The value of the collateral securing a floating rate loan can decline, be insufficient to meet the obligations of the borrower, or be difficult to liquidate. Participation in certain types of loans may limit the ability of a fund to enforce its rights and may involve assuming additional credit risks.

The views expressed by the funds' managers are as of the quarter-end specified. This information is general in nature, provided as general guidance on the subject covered, and is not intended to be authoritative. It is subject to change without notice as market conditions change, and is not intended to predict the performance of any individual security, market sector, or RidgeWorth Fund. All information contained herein is believed to be correct, but accuracy cannot be guaranteed. Investors are advised to consult with their investment professional about their specific financial needs and goals before making any investment decision.

Before investing, investors should carefully read the prospectus or summary prospectus and consider the fund's investment objectives, risks, charges and expenses. Please call 888.784.3863 or visit ridgeworth.com to obtain a prospectus or summary prospectus, which contains this and other information about the funds.

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ABOUT RIDGEWORTH INVESTMENTS

RidgeWorth Investments—a global investment management firm headquartered in Atlanta, Georgia with approximately \$37.0 billion in assets under management as of June 30, 2016—offers investors access to a select group of boutique investment managers and subadvisers. RidgeWorth wholly owns three boutiques: Ceredex Value Advisors LLC, Seix Investment Advisors LLC and Silvant Capital Management LLC, and holds a minority ownership in Zevenbergen Capital Investments LLC. WCM Investment Management and Capital Innovations, LLC serve as subadvisers to the RidgeWorth Funds. Through these six investment managers, RidgeWorth offers a wide variety of fixed income and equity disciplines, providing investment management services to a growing client base that includes institutional, individual and high net worth investors.

For more information about RidgeWorth, its boutiques and its subadvisers, visit ridgeworth.com.



ABOUT SEIX INVESTMENT ADVISORS LLC

Seix Investment Advisors, one of RidgeWorth's investment management boutiques, has exclusively focused on managing fixed income assets since 1992. Seix seeks to generate competitive absolute and relative risk-adjusted returns over the full market cycle through a bottom-up focused, top-down aware process. Seix employs multi-dimensional approaches based on strict portfolio construction methodology, sell disciplines and trading strategies with prudent risk management as a cornerstone.

For more information about Seix, visit seixadvisors.com.