

## 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

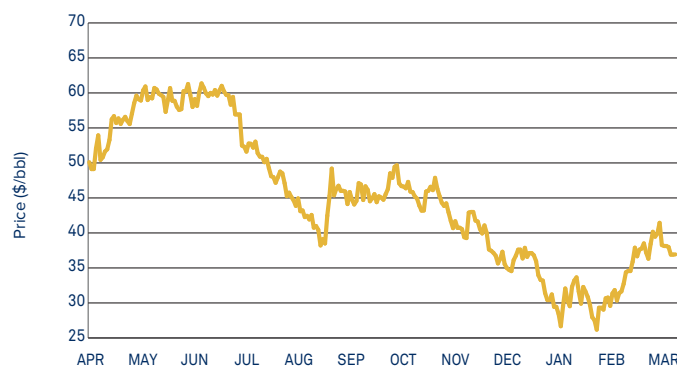
- Early in the first quarter, investors' concerns about the health of the global economy led to a risk-off stance.
- Central bank actions and a sharp rebound in commodities prices led investors back to higher-risk investments.
- Issuance remains soft in the leveraged loan market, but technicals and fund flows are improving.

After a challenging January and February, the leveraged loan and high yield markets ended the first quarter of 2016 on relatively high notes. Investors concerned about the health of the global economy and the continued decline in commodity prices generally took a risk-off approach early in the period, leading to declines for below-investment-grade securities. However, easing measures by several central banks and a meaningful recovery in commodity prices fueled a more aggressive approach by investors that benefited the leveraged loan and high yield markets.

The Barclays U.S. Aggregate Index advanced 3.03% during the three months through March, the Credit Suisse (CS) Leveraged Loan Index returned 1.33% and the Barclays U.S. Corporate High Yield Index rose 3.35%.

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**LEVERAGED LOANS**

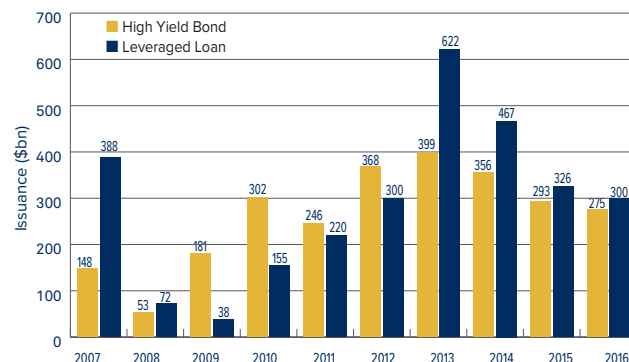
A sharp rebound in prices for commodities—including oil as well as metals such as iron ore—helped drive performance for leveraged loans late in the first quarter. The Energy, Metals and Mining, Manufacturing and Utilities sectors had come under considerable pressure late in 2015 owing to a protracted downturn in commodity prices. As prices recovered in the latter half of the first quarter, the Energy and Metals and Mining sectors benefited, in particular, gaining approximately 10% and 11%, respectively (as represented by the CS Leveraged Loan Index).

**Exhibit 1: Price of Oil (Trailing 12 Months)**


Source: FactSet, data pulled 4/20/16.

As leveraged loans rallied to end the quarter, issuance ticked slightly higher. Monthly issuance in March hit roughly \$20 billion—an increase from January and February, but still approximately 30% lower than in March 2015. Issuance of collateralized loan obligations also picked up in March after a weak start to the year, but remained well below levels during the same period last year.

Overall, U.S. loan issuance fell to \$112 billion in the first quarter, a 29% decline from last year's fourth quarter and the lowest quarterly result since late 2011.<sup>1</sup> Investors' risk-off stance early in the period reduced demand for leveraged loans, contributing to the slowdown in issuance.

**Exhibit 2: Historical and Projected Issuance (2007-2016 Forecast)**


Source: J.P. Morgan, data pulled December 2015.

**HIGH YIELD BONDS**

The first quarter was similarly fractured for high yield bonds, with a largely negative environment early in the period, a rebound later in the quarter amid rising commodity prices and a more risk-on stance among investors.

The high yield market, as represented by the BofA ML High Yield Cash Pay Index, posted negative returns during the first six weeks of the period, with BB-rated securities falling 3.7%, B-rated bonds declining 5.6% and CCC-rated issues tumbling 9.7%. The Energy sector was down nearly 20% during the year's first six weeks, and high yield option-adjusted spreads widened to 887 basis points.

The high yield market improved dramatically after mid-February. BB-rated issues returned 7.6%, B-rated bonds rose 8.55% and CCC-rated credit jumped nearly 15%. The rebound in commodity prices fueled a 26.5% rise in the Energy sector and a 17.4% gain for Metals and Mining. A rosier economic picture also served as a tailwind for high yield bonds.

<sup>1</sup> Source: Reuters, "Bank fees on US leveraged loans shrivel with dealflow," April 5, 2016.



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Default rates rose during the period to 3.22% in March from 2.35% at the end of February, but the bulk of those defaults were contained in the Energy and Metals and Mining sectors. Excluding those issues, the default rate was a much more manageable level of 0.41%—indicating that most of the decline in high yield fundamentals has occurred in commodities-related sectors rather than broadly throughout the market.

## OUTLOOK

We remain constructive on the leveraged loan market in the near term, particularly because of its attractive valuations. Economic data continues to be supportive of reasonable economic growth rates, which tend to be positive for this asset class. That said, we will continue to watch fund flows and other technical factors in the leveraged loan market, and will review corporate fundamentals during the upcoming earnings season. We believe that the kind of volatile, challenging market environment we see today is best addressed through active management, which is core to our investment approach.

We expect the high yield market to continue to recover, particularly if energy prices keep stabilizing and the fundamentals of non-commodity related sectors remain moderately positive. We expect to see rising defaults, particularly in the Energy and Metals and Mining sectors. Nevertheless, we see potential opportunities in the Energy sector, particularly among low-cost natural gas producers in the Appalachian Basin. And we believe that current spread levels more than compensate investors for any increase in defaults, even after the strong rebound late in the first quarter.

Barclays U.S. Aggregate Index is an unmanaged index of U.S. bonds, which includes reinvestment of any earnings and is widely used to measure the overall performance of the U.S. bond market.

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.

BofA Merrill Lynch High Yield Cash Pay Index is an unmanaged index used as a general measure of market performance consisting of fixed-rate, coupon-bearing bonds with an outstanding par which is greater than or equal to \$50 million, a maturity range greater than or equal to one year and must be less than BBB/Baa3 rated but not in default.

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.

The option-adjusted spread is the measurement of the spread of a fixed income security rate and the risk-free rate of return, which is adjusted to take into account an embedded option.

## 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 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 \$37.9 billion in assets under management as of March 31, 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](http://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](http://seixadvisors.com).