

Corporate Credit Monthly Update

September 2017

« European economic releases were on a positive track »



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September started off in a climate of uncertainty. North Korea launched another missile test and, at the same time, a violent hurricane swept across Texas, leaving many victims in its wake. Fortunately, the markets got a boost from solid US economic results. The focus in Europe was on labour law reforms in France, the German elections (won by Angela Merkel), and the secessionist movement in Catalonia. European economic releases were on a positive track despite persistently low inflation. Consumption

improved stronger than expected in the UK despite the uncertainties surrounding Brexit. The ECB is expected to provide information on the recalibration of European monetary policy in October. Against this backdrop, the EUR depreciated slightly against the USD.

US High Yield returned a solid performance in September, helped by receding macro stress, optimism surrounding the release of the GOP tax plan, ongoing equity strength, and a firmer backdrop for Energy bonds, all despite a steady rise in Treasury yields and a heavy new-issue calendar.

EM High Yield credit continued to perform well on the back of i) healthy global growth, ii) contained inflation pressures, iii) the likelihood of a cautious approach to stimulus withdrawal by policymakers and iv) large money inflows into EM credit. All sectors and regions returned positive performances throughout the month.

Companies in the Spotlight

SMCP (Europe)

On 18 September 2017, French fashion retailer SMCP filed an IPO prospectus with the AMF, with a flotation expected by the end of the year. Proceeds will be used for debt repayment and expansion. Chinese shareholder Shandong Ruyi, which currently holds 82% of the company, plans to remain a controlling shareholder with approximately 51% ownership. The refinancing operations will improve the company's pro-forma net leverage by 0.4x to 2.3x. Once the IPO and refinancing operations are complete, only €191.7m of the 2023 notes will remain outstanding, which the company plans to redeem in 2018 and 2019.

United Rentals (US)

United Rentals announced a proposed offering of \$750m in eight-year notes with an add-on offering of 4.875% notes due 2028. Proceeds will back the borrower's \$1.3Bn acquisition of Neff Corp. United Rentals also hosted an investor meeting in September. The company continued to show strong volumes per utilization and sees the current cycle being extended until at least 2019, even without a new infrastructure spending bill.

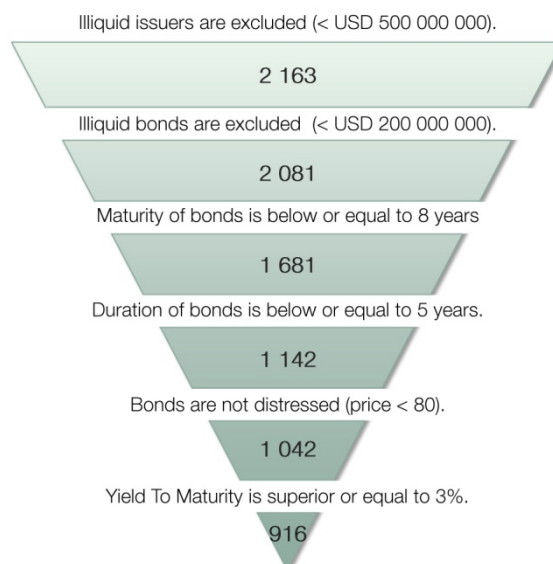
Mobtel (Emerging Countries)

Mobtel, the largest mobile operator in Russia and CIS, reported solid Q2 earnings including revenue up 16% thanks to currency appreciation and volume increase, as well as strong EBITDA margin growth from 39% to 41.2% thanks to better cost control. Leverage, at 1.0x, is the lowest among Russian peers. Positive FCF increased sharply on the back of lower capex.

Anaxis AM Universe

The universe studied by Anaxis AM for the management of its portfolios and the publication of this document is as follows :

On 2 786 European, US and EM corporate bonds (ex-Financials)
(H7PC, JC4N and HYEY indices)



Significative Primary Issues

EUR

Issuer	Coupon	Maturity	Amount	Rating
Almaviva	7.250%	2022	€250M	B2
Intralot	5.250%	2024	€500M	B1
Louvre Bidco	4.250%	2024	€270M	B2
Nidda Bondco	3.500%	2024	€735M	B2
Ovako AB	5.000%	2022	€310M	B3
Vallourec	4.125%	2022	€250M	B-

US

Issuer	Coupon	Maturity	Amount	Rating
Chesapeake	8.000%	2027	\$1.3Bn	Caa2
United Continental	4.250%	2022	\$400M	Ba3

EM

Issuer	Coupon	Maturity	Amount	Rating
Viking Cruises	5.875%	2027	\$550M	B3
Wynn Macau	4.875%	2024	\$600M	B1

Rating Moves

Areva SA	S&P	↓	B-
Alcoa Nederland Holding	Moody's	↗	Ba2
Aston Martin Capital Holding	Moody's	↗	B2
BRF SA	Fitch	↓	BBB-
CEMEX Inc.	S&P	↗	BB
Grand City Properties SA	Moody's	↗	Baa1
Mondi PLC	Moody's	↗	Baa1
Teva Pharmaceutical	S&P	↓	BBB-
Toys R Us Inc	S&P	↓	D
Verisure Holding AB	Moody's	↗	Ba3
Volkswagen Financial Services	Moody's	↓	A3

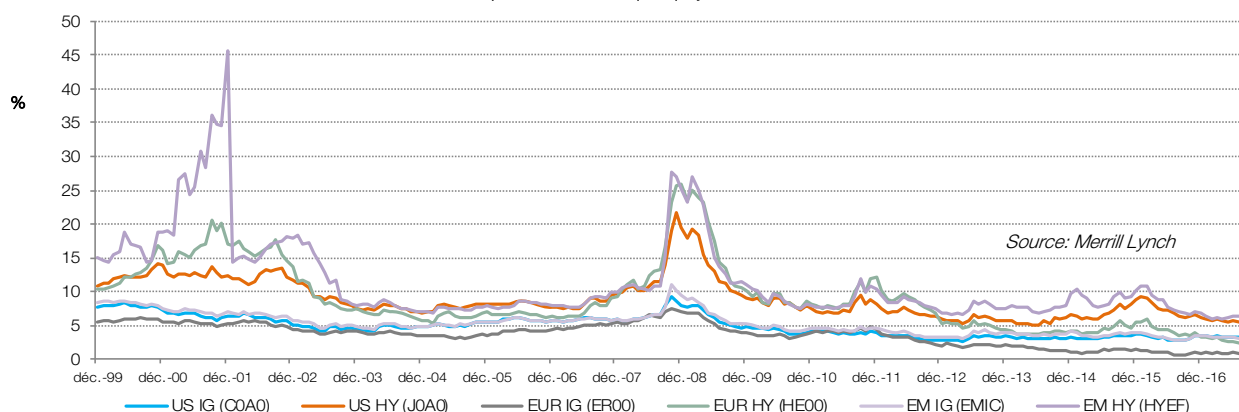
Macro Economic Events

- **Euro zone:** inflation hit a four-month peak in August at +0.3% month-on-month and +1.5% year-on-year, in line with the consensus.
 - **Germany:** Fitch confirmed its AAA rating with a stable outlook, thanks to Germany's persistently diversified, high value-added economy, solid institutions and sound public debt management. Furthermore, A. Merkel won the legislative elections with nearly 1/3 of the vote. Merkel's CDU/CSU block is virtually guaranteed to stick around for a fourth term at the head of Europe's leading power.
 - **France:** the OECD raised its growth forecast to 1.7% for 2017 (vs. 1.3% in June), while stressing, however, that reduced public spending and additional reforms are necessary.
 - **UK:** inflation gathered pace in August, hitting 2.9% yoy versus 2.6% in July, due in part to the significant increase in clothing and shoe prices (+4.6% yoy) and the depreciation of the pound sterling. Moody's lowered its rating to Aa2, referring to the expected decline in public finances and the negative impact of Brexit terms.
 - **Spain:** the Parliament of Catalonia passed a law authorizing a referendum to be held on the region's independence on 1 October. The Spanish government maintains that this initiative is illegal.
 - **Ireland:** Moody's raised its rating to A2 with a positive outlook, based on the country's stronger-than-expected economic growth and the progress achieved in balancing the budget.
 - **Portugal:** S&P raised its rating to BBB- with a stable outlook, thanks to the improvement in the economy and the budget position.
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- **World:** according to the WTO, global trade has recorded a sharp rebound. International trade is expected to grow 3.6% in 2017, outpacing the 1.3% achieved in 2016.
 - **US:** the framework for the tax reform was made public: corporate income tax cut from 35% to 20%, number of income tax brackets reduced and marginal rate lowered, income tax for pass-through businesses cut from 39.6% to 25%. Not surprisingly, the Fed unanimously decided to keep the fed funds rate within the 1% to 1.25% range.
 - **OPEC:** the cartel has estimated that global demand for OPEC oil will reach 32.83 million barrels/day in 2018, i.e. 410,000 more than its previous forecast.
 - **North Korea:** the dictatorship carried out the sixth underground nuclear test in the country's history.

Market Data Indices

Market Data Indices		Performance		Duration	Yield	Spread
		MTD	YTD	DTW	YTW	STW
High Yield						
JOA0	US HY Cash Pay	0.90%	7.07%	3.63	5.42%	362
HE00	Euro HY	0.59%	5.96%	3.32	2.35%	271
JC4N	US HY BB/B Non-Fncl Constr.	0.79%	6.38%	3.65	4.73%	293
H7PC	Euro HY BB-B EUR/GBP Non-Fncl Constr.	0.47%	5.30%	3.31	2.42%	263
HYEF	EM HY Ex. Subordinated Financial	0.83%	7.62%	3.57	5.85%	416
Investment Grade						
COA0	US Corporates Master	-0.23%	5.30%	7.13	3.18%	104
ER00	EMU Corporates	-0.20%	1.79%	5.21	0.80%	96
EMIC	Emerging Markets Corporates	-0.03%	5.30%	5.21	3.12%	138
Governments						
10Y US	10 Year US Benchmark	-1.90%	1.09%		2.33%	
10Y GE	10 Year German Benchmark	-0.98%	-2.52%		0.46%	

Corporate Bond Yield (YTW) by Index



Realized and expected inflation

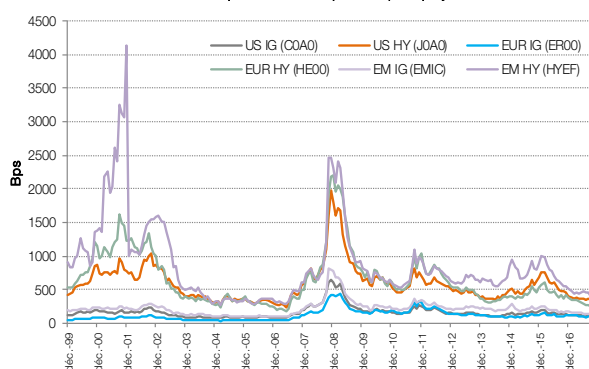
Exp. Inflation	Bloomberg's expected CPI 12M forward	September	August	July	6M	12M
US INF	US CPI Economic Forecast (YoY %)	2.00%	2.00%	2.10%	2.50%	2.20%
EURO INF	Eurozone CPI Economic Forecast (YoY %)	1.50%	1.50%	1.50%	1.70%	1.30%
Realized Inflation		September	August	July	6M	12M
US CPI	US CPI YoY		1.90%	1.70%	2.40%	1.50%
EUR CPI	Eurozone CPI YoY	1.50%	1.50%	1.30%	1.50%	0.40%

Source: Merrill Lynch

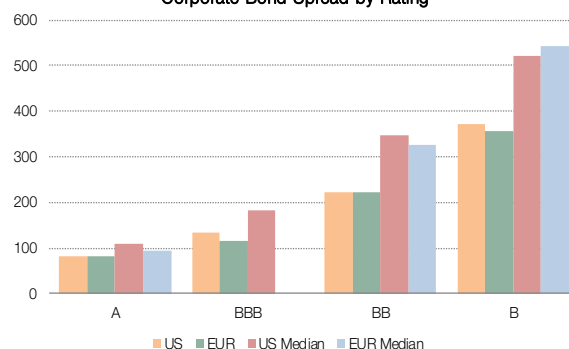
Corporate Bond Spreads

Corporate Bond Spreads (STW)		September	August	6M	12M	Median since Oct, 31 2002
COA0	US Corporates Master	104	113	120	138	140
ER00	EMU Corporates	96	99	117	111	115
EMIC	Emerging Markets Corporates	138	148	155	169	501
JOA0	US HY Cash Pay	362	389	400	501	501
HE00	Euro HY	271	281	359	418	441
HYEF	EM HY Ex. Subordinated Financial	416	457	467	576	501
COA3	US A	81	89	97	109	109
ER30	EURO A	82	83	100	93	94
EMAQ	EM A	111	120	128	136	95
COA4	US BBB	134	145	153	180	183
ER40	EURO BBB	116	121	143	141	
EM2B	EM BBB	175	189	200	227	161
JUC1	US BB	223	249	269	337	346
HE10	EURO BB	223	229	273	307	325
EM3C	EM BB	262	281	291	356	341
JUC2	US B	372	399	408	514	520
HE20	EURO B	357	386	485	565	541
EM6B	EM B	432	482	497	566	566

Corporate Bond Spreads (OAS) by Index



Corporate Bond Spread by Rating



Source: Merrill Lynch

Anaxis Asset Management

Anaxis Asset Management is the Anaxis group's asset management firm specialized in corporate bonds. For more than 10 years Anaxis Group has provided high performance and resilient investment solutions to European investors. Anaxis benefits from a team of experienced and recognized investment professionals. The team adopts a fundamental approach to credit, based on thorough financial analysis and a rigorous control of risks.

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