

January, 2012

Manager Recap –

60 SECONDS WITH RAY KENNEDY

A Review of Today's High Yield Environment

On our January 12th conference call, Ray Kennedy, co-portfolio manager of the Hotchkis & Wiley High Yield strategy shared his thoughts on the 2011 high yield market and the outlook for 2012. The following recap highlights his views.



Ray Kennedy
Portfolio Manager

Top 10 Takeaways

1. Current fundamentals appear very attractive and high yield investors may be able to capture double digit returns that are competitive with historical equity returns; if European ills worsen, single digit returns may be in order
2. Most credits are in good shape and leverage levels, in general, have fallen to levels last seen in 2005 (low leverage environment)
3. The high yield market did not meet expectations in 2011 and lagged higher quality fixed income
4. Although defaults were at very low levels (approximately 1%) headline risks in Europe, Asia and the U.S. resulted in a flight to safety and impacted high yield returns
5. Volatility became the norm in 2011 and bouts of illiquidity surfaced
6. Corporate balance sheets continue to improve and management remains conservative
7. Approximately 50% of high yield debt has been refinanced over the past 2-3 years
8. New issuance should have good flow with approximately \$200B coming to market in 2012 as compared to \$250B in 2011 and \$300B in 2010
9. Within a \$1 trillion high yield universe, about 15% of current issues are callable; we expect 50% to be called and significant pay downs to occur
10. High yield as an asset class has become more established for investors as a result of an attractive risk/reward relationship

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