Asia Credit Research

OCBC Bank

Industrial REITs Sector Update

Monday, 22 February 2016

Key Takeaways

- The quarter ending 31 December 2015 continued to be weak for the Industrial REIT sector. Occupancies across the industrials property sector have fallen, with lease rentals to remain soft in the coming quarter.
- Over the medium term, the Industrial REIT sector is likely to face structural challenges, not just from the on-going economic restructuring within Singapore but also from new supply competition across the border.
- Credit profile deterioration has happened, with more Industrial REIT players seeking alternative sources of funding to increase debt headroom. Much of the deterioration was driven by debt-funded acquisitions abroad and corrosion in portfolio asset values.
- Nevertheless, on the back of regulatory caps over aggregate leverage levels and the broader strategic importance of the industrial sector to Singapore, there is little cause for concern over the "investment-grade" standing for the sector.
- Whilst useful for portfolio diversification, AREIT and MINT continue to be rich in our view. Better risk/reward combination could be found among smaller issuers. We have introduced in this report, such issuers who could be interesting for yield pick-up.
- In aggregate, we like the SBREITSP'18s and think the credit spreads on AAREIT SP'19s may narrow.
- Among the higher-yielding securities, we prefer VITSP'18s over bonds in SSREITSP's curve, though we caution that both issuers are on negative credit outlook.

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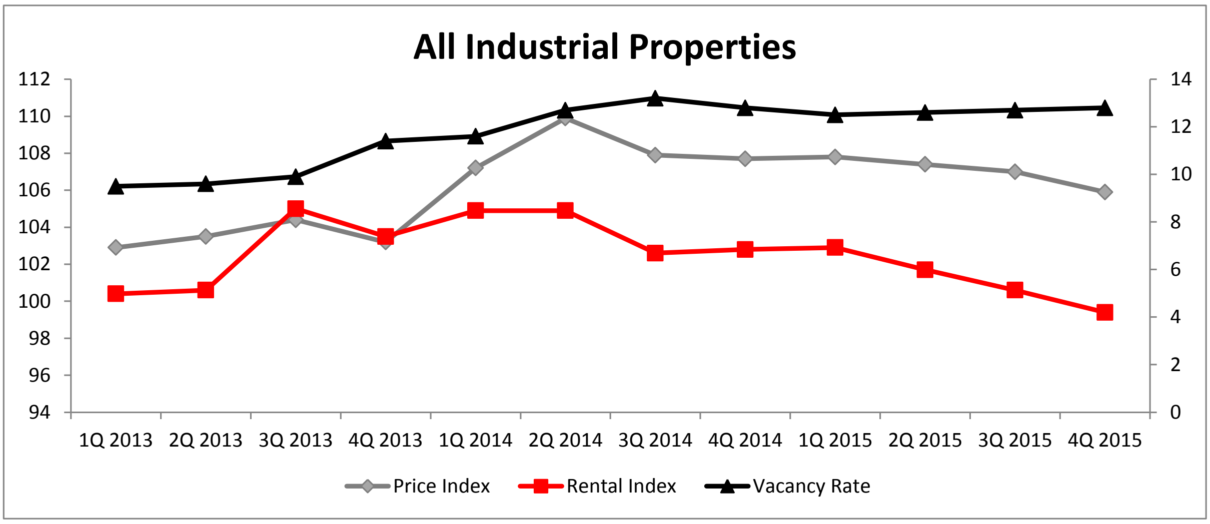
A) Corrosion in Singapore asset base but controlled

Based on price and rental indices released by JTC, prices of industrial properties have risen at a faster rate compared to rents since end-2012, despite vacancies for the overall sector inching steadily upwards to ~10% by end-2015 (Q12013: 7.0%). In addition, within Singapore, 2.9m sqm is expected to be added to total industrial stock in 2016 and 1.7m sqm in 2017. Of these, >90% will comprise of factory and warehouses. In contrast, the preceding 3-year average annual demand has been at ~1.2m sqm, exerting downward pressure on occupancy. These are strong signals that asset prices are set to correct further in the near term, in particular in the multiple-user factory space which has been subjected to some speculative tensions from individual investors seeking returns in a low-yield investment environment. Sector-wide, the role of the Singapore government as the largest industrial land owner mitigates supply issues, while regulatory restrictions on aggregate leverage help underpin the "investment-grade" characteristics of Industrial REITs.



Source: JTC Quarterly Market Report for 4Q2015; price and rental indices re-scaled to 100 at 4th quarter 2012

B) Longer term structural changes

Alternative Supply Source: Relative to residential projects in Iskandar which have gotten off to a slow start, there are much stronger impetuses for industrialists to expand and/or move production facilities to Iskandar (eg: Malaysia's continuous pro-foreign labour policies, high-level G-to-G support, cost advantages). While the impact of this development on Singapore rental prices is likely to be gradual (at least over a 3-5 year period), the region provides viable alternative source for industrial space given the near-proximity to Singapore. Nusajaya Tech Park has broken ground in mid-2014, with a 40% pre-commitment for its start-up phase spanning 28 hectares (280,000 sqm). Nusajaya Tech Park is spread across 210 hectares (2.1m sqm) and will be developed in three phases over nine years. The park targets to provide ~836,000 sqm of business space when fully completed. Nusajaya Tech Park is owned by Ascendas and UEM Sunrise on a 60:40 basis. In July 2015, Japanese kereitsu Mitsui entered into a partnership agreement with Nusajaya Tech Park to develop built-to-suit ("BTS") warehouses and factories in the industrial park catering to the leasing market. Nusajaya Tech Park, with its freehold facilities is located ~10km away from Port Tanjung Pelepas and ~35 minutes away from Tuas. Tenants who have expressed an interest in taking up space include those from the business process outsourcing, data centre operators, logistics and precision engineering sectors.

Source: Google Maps

Organic Growth vs. Inorganic Growth: Beyond investment return considerations of the "buy vs. build" decision, more Industrial REITs (and their Sponsors) will be strategizing on ways to stay relevant in light of the on-going economic restructuring where there will be less need for traditional industrial properties. Within Singapore, higher operational risk is expected as Industrial REITs take on a more active role in real estate development. Future capital needs will be channelled towards the redevelopment of existing assets and embarking on greenfield projects to cater to market demand for higher specification/customized properties, especially amongst high-value FDI investors whom Singapore would like to attract. In July 2015, the MAS green-lighted higher development limits of 25% (from 10% currently), subject to approval from unitholders and meeting certain holding period criteria. This policy has started to take effect on 1 Jan 2016.

Geographical Diversification: Driven by the lack of acquisition opportunities in the local market, we also saw a continuation of industrial REITs making major inroads into the Australian market. While the AUD has weakened ~15% against the SGD from February 2014, we view the geographical diversification in itself to be credit positive. Based on information disclosed, the REITs who have entered the Australian market have hedged their exposure to the AUD. As of 31 December 2015, AREIT has 11% contribution from Australia to portfolio value while AAREIT and CACHE are at 15% and 13% respectively.

C) Deterioration in credit ratios and the rise of alternative financing structures

We have observed a marked rise in leverage levels across the Industrial REIT sector, attributable to increased debt funding used for acquisitions. The following is a list of major acquisitions made by Industrial REITs over the last 12 months:

Name	Brief Description	Funding Source
AREIT	Acquired 6-20 Clunies Ross, Australia for SGD82m at an NPI yield of 6.6% (post-transaction cost)	Equity funded
AREIT	Proposed acquisition of One@Changi City from a related party for SGD420m, with an NPI yield of 5.9% (post-transaction cost)	Mixture of scrip to vendors (~SGD210m) and new equity raised
AREIT	26 Australian logistics and distribution centres in October and November of 2015, purchase price of SGD1.0bn, with an NPI yield of 6.0% (post-transaction cost)	Onshore loans of AUD600m (~SGD600m) and perpetual securities of SGD300m

MLT	Strategic acquisition of Coles Chilled Distribution in August 2015 (long lease tenure of 19 years) at a purchase price of SGD255.3m. Acquisition NPI yield of 5.6%, lower than that exhibited by portfolio immediately prior to acquisition	Fully debt funded, helping to boost the attractiveness of the acquisition
CACHE	Acquisition of 3 more Australian properties, collective purchase price SGD94m during the 4th quarter of 2015	Equity funded
SBREIT	Acquisition of Technics Offshore building in May 2015 at a purchase price of SGD97m	Equity funded
VIT	Proposed acquisition of 30 Pioneer Road with a purchase price of SGD45m	Targeted to be funded via a mixture of equity and debt
VIT	Acquisition of 2 properties, one in Tai Seng and the other in Ubi, collective purchase price of ~SGD133m	Mixture of equity and debt

Leverage Ratio	As at 31 Dec 2015	As at 31 Dec 2014
AREIT	37.1%	33.0%
MINT	29.3%	32.8%
MLT	38.9%	34.6%
AAREIT	31.4%	31.5%
CACHE	39.5%	30.7%
SBREIT	36.0%	35.0%
CREIT	36.7%	34.4%
VIT	38.3%	43.7%
SSREIT	41.7%	38.0%
Median	37.1%	34.4%

Note: (1) Leverage defined as Gross Debt to Total Assets

We continue to hold the view that the MLT perps MPTSP 5.375% '49c17 is likely to be called in September 2017 as the coupon will reset at SDSW5+418 bps, raising funding cost to ~6.4%. Given the heightened call possibility, the MLT perp is more "debt-like". Sector-wide we are cautious on any further acquisitions which are non-accretive on a standalone basis, especially as leverage levels have crept up at a time where there is lower financial flexibility from equity markets. Within the Industrial REIT sector, only AREIT and MINT command a premium above net asset values, perhaps as a knee-jerk reaction towards "flight to safety". With aggregate leverage creeping up, we believe that REITs have been issuing perpetual securities in part to reduce their aggregate leverage levels. For example, AREIT issued deeply subordinated perps in October 2015 (AREITSP 4.750% 'c20). The reset rate after the initial 5 years is SDSW5+243 bps, effectively without a meaningful step-up at point of issuance. These perps have also been given full equity treatment per accounting rules and do not count towards MAS's definition of leverage for the application of 45% restrictions for now. Looking forward, we believe more REITs may follow the footsteps of AREIT and MLT in issuing perps as an alternative to equity to help shore up capital.

D) Adequate liquidity buffer

We remain comfortable in adjusting leverage levels for the issuance of perps on a case-by-case basis, however, perp distributions behave more "debt-like" in our view. As REITs are traded for their distribution visibility in equity markets, (ie: with an implicit understanding that rental incomes after deducting costs and capex are passed to unitholders), it follows that REIT managers' ability to withhold distributions to perpetual holders is limited in practice. Both the current perp issuances MLTSP 5.375% '49c17 and AREIT SP 4.750% incorporate a dividend stopper which prohibits distributions to unitholders distributions are unpaid to perp holders.

Coverage Ratio	9MFY2016	9MFY2015
AREIT	5.2x	4.1x
MINT	8.4x	8.6x
MLT	4.6x	5.4x
AAREIT	3.7x	3.1x
Median	4.9x	4.8x
Coverage Ratio	**FYE Dec 2015**	**FYE Dec 2014**
CACHE	5.4x	8.4x
SBREIT	4.5x	5.3x
CREIT	3.5x	3.9x
VIT	2.9x	3.1x
SSREIT	3.0x	2.7x
Median	3.5x	3.9x

Note: (1) "9MFY" – nine months ended financial year; March financial year end
(2) Coverage ratio defined as EBITDA / Total Interest
(3) MLT's numbers include distribution to perp holders
(4) VIT's numbers excluding rental support income

Based on headline numbers, AREIT's coverage ratio has improved to 5.2x, however, it is more realistic to factor in the perp distribution. On a proforma basis, coverage ratios for AREIT will be closer to 4.5x, with a possibility that this will decrease further. We find sector-wide coverage levels to have dropped, in line with the combined effects of softening rental incomes and higher debt service costs. However, coverage remains adequate in relation to their covenanted levels.

E) Bigger may not be better, better value elsewhere

Despite their differences, we think Industrial REITs can be placed into three distinct groupings as follows:

Buckets	Characteristics	List
Bellwethers	• Defensive • Indirect government ownership • Lower concentration risk	• AREIT • MINT • MLT
Mid-Caps	• Overall well managed assets • Higher customer concentration risk vs. Bellwethers • Possess management flexibility to respond to structural changes	• AAREIT • SBREIT • CREIT
Yield Plays	• Weaker asset base and more susceptible to asset value corrosion • REIT anchored by 1-2 major properties • Lower coverage ratios at ~3.0x	• VIT • SSREIT

Note: CACHE is not included as it has no outstanding bonds on issuance

Overview of Mid-Caps and Yield Plays

AAREIT: AIMS AMP Capital Industrials REIT ("AAREIT"), with a market cap of SGD834m holds a portfolio of warehouses, light and high tech industrial and business park properties. It is the only non-Bellwether Industrial REIT to have diversified geographically into the Australian business park office market, in part due to the strong on-the-ground presence of its two Australian sponsors. The REIT's largest individual unitholder is Dragon Pacific Assets Limited with ~11% and ~20% owned by its Sponsors, AIMS Financial Group and AMP Capital. AIMS Financial Group is a privately owned non-bank financial services group based in Australia while

AMP Capital is one of Australia's leading investment managers. AAREIT is the "re-incarnation" of Macarthur Cook Industrial Property Trust, a REIT that was listed in 2007 and went into financial difficulties during the 2008-2009 financial crisis. In end-2009 to early 2010, the REIT was "bailed-out" by AMP Capital and other financial investors via successive recapitalisations and a re-positioning of its asset portfolio. AMP Capital and AIMS Financial Group also managed to secure control over the REIT Manager despite competing attempts by Cambridge Industrial Trust ("CREIT"), a Mid-Cap peer.

AAREIT's portfolio is concentrated on 20 Gul Way and Optus Centre. On a combined basis, these two properties make up ~36% of total portfolio value. Optus Centre was acquired in February 2014 and is a freehold property that was purpose-built as a campus for Optus (a wholly-owned subsidiary of Singtel). 20 Gul Way (a ramp-up warehouse and logistics facility) was re-developed for CWT Limited. On a combined basis, CWT Limited and Optus makes up ~35% of AAREIT's rental income for the quarter ended 31 December 2015. Despite the high concentration of these tenants, both rental income streams are underpinned by relatively long leases. There has been some news with regards to possible change in ownership of CWT Limited (and/or its underlying business streams). Any such change is unlikely to affect the sanctity of the underlying lease contracts though that could bring about an alteration in counterparty credit risk. As of reporting date, we are Neutral CWT Limited.

AAREIT has three SGD bonds issued under its SGD500m Multicurrency MTN Programme set up in mid-2012. These non-callable bonds are issued by AACI REIT MTN Pte Ltd, a wholly-owned subsidiary of the AAREIT Trustee. There is no change of control provisions attached. Despite upcoming refinancing needs (SGD100m due in August 2016); we view refinancing risk to be low given its healthy leverage levels at 31% and SGD144m of undrawn available facilities. During 9MFY2016, interest coverage ratios have also risen to 3.7x (9MFY2015: 3.1x), comfortably above the covenanted 1.5x. Given AAREIT's experience in executing transformational developments, we believe it is able to face the structural headwinds. We view the issuer's credit outlook to be neutral, with a tilt towards spreads narrowing for the underlying securities.

Issuer	Issue	Maturity	Ask Price	Ask YTW	I-Spread
AACI REIT MTN Pte Ltd	AAREIT 3.800 '19	21/05/2019	100.94	3.489	146.9
AACI REIT MTN Pte Ltd	AAREIT 4.350 '19	05/12/2019	102.50	3.635	155.0

Indicative prices from Bloomberg as of 18 Feb 2016. We have not included the AAREIT 4.900 '16 due to its short maturity left

SBREIT: Soilbuild Business Space REIT ("SBREIT"), with a market cap of SGD664m holds a portfolio of business parks and industrial properties and is ~25% owned by its Sponsor, Soilbuild Group Holdings ("SBGH"). With a net lettable area of 3.5m sqf, occupancy of 96.8% and WALE of 4.8 years as at 30 December 2015, SBREIT's asset base is concentrated in Singapore, with a lower number of assets as compared to its peers, as well as a relatively uneven lease expiry profile. SBREIT's business parks (ie: Solaris, its landmark property and Eightrium @ Changi Business Park) which make up ~39% of its portfolio value provides some reprieve. Solaris is built as a multi-tenanted property but leased to a subsidiary of the Sponsor under a 5-year Master Lease Agreement with the REIT which will last until August 2018.

The REIT issued a SGD100m 3-year bond on 21st May 2015. This is the maiden issue from the REIT post the establishment of a SGD500m Multicurrency MTN Programme to refinance existing debt. The bond was priced at 3.45%, tightening from an initial guidance of 3.5%. The bond has embedded a change of control option to allow investors to put the bond at par if 1) Mr. Lim Chap Huat and SBGH together cease to own, directly or indirectly, 20% of the units in Soilbuild REIT, or 2) SBGH ceases to legally own at least 51% of the ordinary shares of Soilbuild REIT manager. Mr. Lim has been involved in Singapore's construction sector since 1976 and was listed number 29 under Forbes Singapore's 50 Richest for 2015.

As at FY2015, SBREIT has 25.2% of total monthly gross rental income attributable to the Offshore & Marine/Oil & Gas sector. We note that tenants in this industry may face pressure in the near term, especially new tenant Technics Offshore, a wholly-owned subsidiary of SGX-listed Technics Oil & Gas Ltd ("TOG") who alone accounts for 10% of total monthly gross rental income. The Technics property was acquired by SBREIT under a sales-and-leaseback arrangement in mid-2015 with a 15 year lease and an 18 month security deposit. With a fair aggregate leverage of 36% (inclusive of a SGD55m interest-free loan extended by the Sponsor) and no refinancing needs until May-2018, we view SBREIT's credit outlook to be neutral and like the SBREITSP 3.450% '18.

Issuer	Issue	Maturity	Ask Price	Ask YTW	I-Spread
SBREIT	SBREITSP 3.450 '18	21/05/2018	100.75	3.099	119.3

Indicative prices from Bloomberg as of 18 Feb 2016

CREIT: Cambridge Industrial Trust ("CREIT"), market cap of SGD655m has a Singapore-centric portfolio of light and general industrial properties, warehousing and logistics properties. A car showroom cum workshop located in Jurong East and business park in Changi make up the remaining 5% of portfolio value. Chinese tycoon Tong Jinquan (owner of Shanghai Summit) is the major unitholder with ~16%, which we believe is held purely as a financial investment. There are no Sponsors for CREIT. The indirect owners of the REIT Manager are the National Australia Bank Limited ("NAB"), Oxley Holdings Limited and Mitsui on a 56:24:20 basis. The REIT announced in mid-January 2016 that a strategic review is being undertaken, including possible acquisitions in the Australian and Japanese market. This comes on the heels that the ownership stakes in the REIT Manager are in play. In August 2015, the REIT announced that Oxley Holdings Limited has received interest from several parties with regards to its 24% stake, followed by NAB announcing the same on 22 October 2015 for its 56% stake. As of report date, there has been no firm transaction announced. Contractually, any change in control of the REIT Manager will have no impact on the bonds although this will have a broader impact on the REIT's direction.

CREIT has the least customer concentration risk among the mid-cap issuers, however, we view that it is susceptible to structural shifts facing the sector. CREIT is also expected to convert more properties from single tenancy to multi-tenancy, extending the negative trend on occupancy and lease rates in 2016. CREIT's trust deed provides a limitation where equity issuances (other than by way of a rights issue offered on a pro-rata basis to existing unitholders) in a financial year must not exceed 10% of the value of total assets. This contractually reduces CREIT's financial flexibility to raise equity via a private placement against bond issuing peers and more imminent during periods where the ratio between market equity values and NAVs are equal or positive. Leverage levels have risen to ~37% from 34% as at 31 December 2014, putting it in the median against the peer group. Interest coverage ratios are healthy at 3.5x FYE December 2015 though, declining from 3.9x during the same period last year. We expect it to fall further in FY2016.

CREIT has three SGD bonds issued under its SGD500m Multicurrency MTN Programme set up in February 2012. These non-callable bonds are issued by Cambridge-MTN Pte Ltd, a wholly-owned subsidiary of the REIT Trustee. Unlike the majority of SGD bond issuances, CREIT's most recent issuance (CREITSP 3.95% '20) was proactively marketed to Malaysian-based investors which we believe drove down pricing due to the perceived scarcity value. We are neutral CREIT but caution heightened volatility across the curve. We believe more compelling investment from a relative value basis can be found elsewhere.

Issuer	Issue	Maturity	Ask Price	Ask YTW	I-Spread
Cambridge-MTN Pte Ltd	CREITSP 3.500 SP'18	05/11/2018	101.00	3.110	115.6
Cambridge-MTN Pte Ltd	CREITSP 4.100 '20	29/04/2020	101.25	3.773	163.5
Cambridge-MTN Pte Ltd	CREITSP 3.950 '20	21/05/2020	101.30	3.616	147.4

Indicative prices from Bloomberg as of 18 Feb 2016

VIT: Viva Industrial REIT ("VIT"), market cap of SGD600m has a portfolio of Singapore-centric business parks, light industrial properties and a logistic facility. As of report date, Mr Tong (owner of Shanghai Summit and major unitholder of CREIT) is the major unitholder with ~54% interest. The Sponsors, namely, Ho Lee Group Trust ("HLGT") and Kim Seng Holdings Pte Limited ("KSH") hold ~12% in aggregate. The Sponsors and Shanghai Summit own ~70% of the REIT manager, with United Engineers Developments Pte Ltd ("UED"), (wholly-owned by United Engineers Limited) and key members of the REIT management team holding the rest. VIT has been granted a Right of First Refusal ("ROFR") over 6 properties by its Sponsors, Shanghai Summit and UED. The REIT has a highly concentrated asset profile versus its peers, 2 core assets UE BizHub East (business park portion) and Viva Business Park (previously known as Technopark@ Chai Chee) makes up ~60% of total portfolio asset value as at 31 December 2015.

VIT issued a SGD100m 4-year bond on 19 Sep 2014 from its SGD500mn Multicurrency Medium Term Note Programme established in August 2014. The programme was given an initial rating of "BBB-" by S&P. However, citing concerns over aggressive debt-funded acquisitions, the rating was downgraded to "BB+" in July 2015. Concurrently the Issuer's Corporate Credit Rating was downgraded to "BB" from "BB+". In aggregate, VIT raised SGD173mn in equity (strongly supported by existing unitholders) in 2H2015 to fund various growth initiatives. These moves have moderated VIT's leverage levels to 38% as at 31 December

2015 from 44% as at 31 December 2014.

Weighted average lease terms ("WALE") held steady at 3.8 years whilst weighted average land lease of the portfolio by valuation decreased to 37.4 years (FY2014: 40.9 years). This number is heavily skewed towards UE BizHub East which has a long land tenure of 52 years. 36% of VIT's portfolio by value has remaining land tenure of less than 15 years. We view heightened financial risk with VIT given uncertainty surrounding older assets (eg: JTC-related policy risks, requisite capital expenditures and divestment considerations).

Rental support coming from Viva Business Park expired in November 2015, while rental support for UE BizHub East and Jackson Square will continue till November 2018. In FY2015, rental support amounted to SGD13.5m. Whilst this is credit neutral to the specific bond on issue given the short tenor, future issuances would have to factor in the risk that fully market-based rents will be lower. VIT's short term debt due in 2016 has been refinanced in February 2016, removing the bulk of the near-term refinancing risk. The next major refinancing requirements for VIT are the maturity of its SGD100m bonds. Credit risk of VIT is likely to heighten in the coming year, but we see better value in the underlying security (VIVASP 4.150% '18) versus its closest comparable, the SSREITSP 4.000% '18.

Issuer	Issue	Maturity	Ask Price	Ask YTW	I-Spread
Viva iTrust MTN Pte Ltd	VITSP 4.150 '18	19/09/2015	97.250	5.306	336.8

Indicative prices from Bloomberg as of 18 Feb 2016

SSREIT: Sabana Shari'ah Compliant Industrial REIT ("SSREIT"), market cap of SGD460m, has a portfolio of high tech and general industrial, warehouse and logistics properties, all located in Singapore. As of report date, Mr Tong (refer to CREIT and VIT) owns an 8.4% interest in the REIT, which we believe is held as a financial investment. The Sponsor, Vibrant Group Limited (previously Freight Links Group) is a leading logistics solutions provider in Singapore and owns ~7%. The REIT manager is 51% owned by the Sponsor, 45% owned by the senior management team and 5% owned by Atrium Asia Capital Partners (formerly, Tarian Capital Partners Pte Ltd).

SSREIT's 151 Lorong Chuan property makes up ~30% of its portfolio value and gross rental income. This is a multi-tenanted property which has seen its occupancy decline over the last few years since the expiration of its Master Lease in November 2013. Including 151 Lorong Chuan, five properties were on three-year Master Leases signed at time of IPO in November 2010. Of the remaining four properties, only one has managed to retain full occupancy post-expiry of its Master Lease. As the others have not been able to secure occupancy above 80%, the REIT Manager has begun taking steps towards disposing underperforming assets. Independent property valuers have assigned valuations of SGD1.14bn on SSREIT's portfolio as at 31 December 2015, marking a deterioration of ~9% compared to 31 December 2014. There is also a noticeable trend towards reducing lease rentals rates to secure occupancy, which is likely to accelerate in FY2016. Against the interest coverage covenant limit of 1.5x, SSREIT's coverage remains defensible at 3.0x in FY2015 (FY2014: 2.7x) while leverage is expected to remain elevated around the 40% mark (41.7% as at 31 December 2015).

SSREIT has SGD147m in short term debt, of which SGD90m fixed-term borrowing will need to be refinanced. We think the impending disposal of 200 Pandan Loop at SGD38m helps alleviate the refinancing risk, while the remaining SGD52m is financeable, albeit possibly at higher financing cost. SSREIT still has ~SGD376m in unencumbered assets, providing additional comfort. We think SSREIT is susceptible to looming structural challenges, with a view that credit spreads will widen against its peers.

Issuer	Issue	Maturity	Ask Price	Ask YTW	I-Spread
Sabana Sukuk Pte Ltd	SSREITSP 4.000 '18	19/03/2018	98.962	4.530	265.0
Sabana Sukuk Pte Ltd	SSREIT SP4.250 '19	03/04/2019	98.474	4.782	277.8

Indicative prices from Bloomberg as of 18 Feb 2015. We have excluded the SSREITSP 4.500'17, which is a convertible instrument

F) Conclusion and Recommendations

In this report, we have reviewed the latest quarterly performances of the Industrial REITs listed in Singapore. We remain Neutral across the Issuers we cover (Ascendas REIT, Mapletree Logistics Trust and Mapletree Industrial Trust) and continue to see these Bellwether Industrial REITs as defensible and useful for portfolio diversification. However, we view better risk/reward combination in the Mid-Cap category, especially more so following the narrowing of credit gap between the Bellwethers and their Mid-Cap issuers.

The High-Yield names trade ~200 bps above that of the Bellwether names for papers of a similar maturity and ~140 bps above that of Mid-Caps. Given the manageable tenor of the papers, we think these securities provide a reasonable return, however we think the operating environment for both these issuers will be increasingly challenged over the medium-to-longer term.

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