

EUROPEAN LOAN MARKET

MONTHLY REVIEW

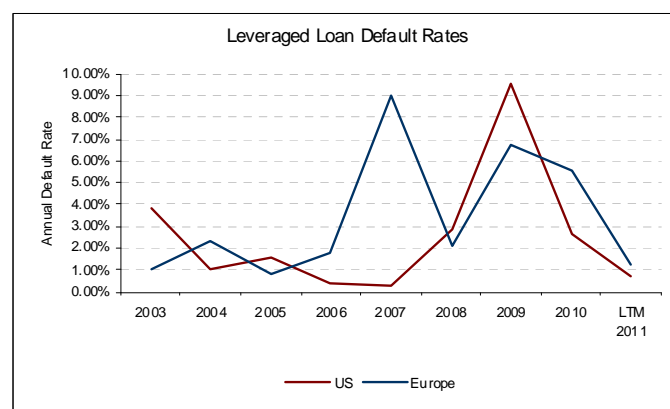
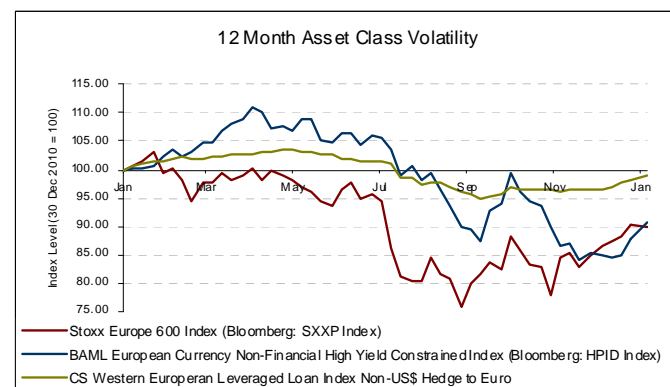
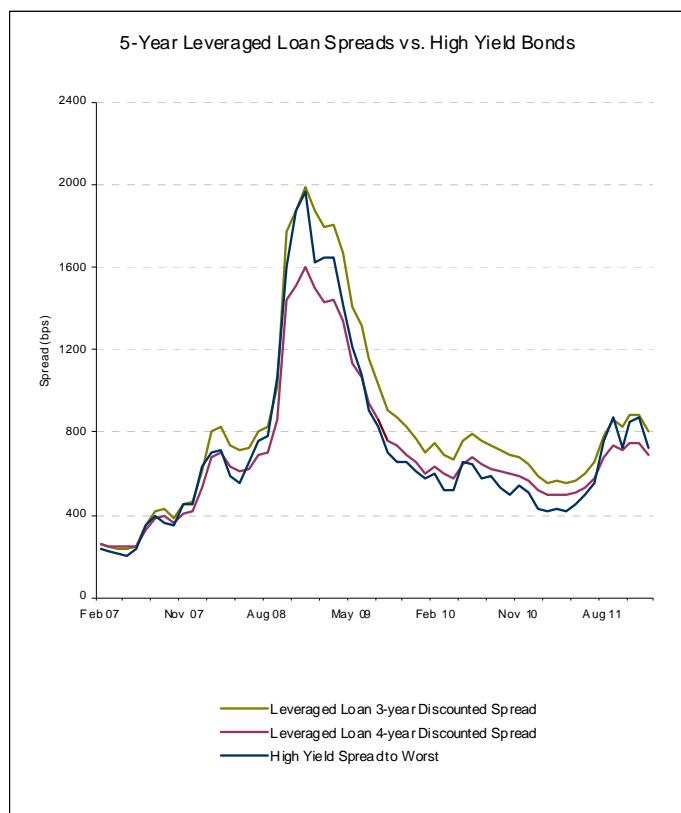
January started 2012 extremely positively for the European sub-investment grade credit markets (senior secured loans -74bps¹ and high yield bonds -134bps²). The rally has been largely technical, with investors coming in to the year with high cash balances, dealer inventory low and for the most part, a lack of new issue to soak up demand for paper. Whilst the short-term forecasts around recession in Europe have remained unchanged, the rally was really sparked by increasing investor comfort that the Greek situation would be resolved without an uncontrolled default, and a separation of sovereign credit risk with both Spain and Italy materially tightening in the month. The technical picture in loans has also been strengthened by a growing trend of European issuers refinancing debt in the US markets. Ceva Logistics, Kabel Deutschland and ONO are all examples of this. This starkly illustrates the differential in spreads between European and US credit markets, when European borrowers can borrow more cheaply in dollars, even allowing for the significant extra cost of hedging the currency risk. With one investment bank telling us that they believed the cost of funding for the companies was approximately 70 bps cheaper by issuing in dollars when factoring in the currency swap.

The US market however is not open for every European borrower, and the start of 2012 saw European Companies launch a handful of new issues. Schaeffler came with an attractive Euribor Floor; the first seen for some time, and both Ineos and Matterhorn also announced deals in European currencies. Whilst Schaeffler and Ineos did also issue in dollars, the ability of European corporates to access the US and European market does bode well for the refinancing risk associated with the well documented maturity wall in 2014-15. This continues to validate our belief that capital markets are efficient over the medium term and that good quality companies with appropriate capital structures will continue to be able to refinance when the debts are due.

Source: 1) Credit Suisse Institutional Western European Leveraged Loan Index, 2) Bank of America Merrill Lynch European Currency Non-Financial High Yield Constrained Index (HPID)

Credit Suisse Western European Leveraged Loan Index, Non US\$, Hedged to €

	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
1 month total return	1.50%	0.41%	0.57%	0.52%	-1.20%	-0.94%	-3.37%	-2.24%	1.96%	-1.27%	0.27%	2.50%
1y ann. total return	10.84%	9.05%	8.18%	11.43%	11.38%	8.83%	4.64%	1.13%	1.56%	0.07%	-1.23%	-1.44%
3y ann. total return	8.19%	8.39%	7.38%	7.08%	6.49%	6.75%	5.46%	6.22%	14.04%	15.14%	16.85%	17.10%



Data: Credit Suisse Western European Leveraged Loan Index, Non US\$, Hedged to €

Data: Credit Suisse, High Yield and Leveraged Loan Default Review, 7th October 2011

IMPORTANT NOTICE

ADDRESSEE ONLY: This Document is issued by Babson Capital Europe Limited (“Babson Capital Europe” or the “Company”) and is designed for the “Addressee” only. The information contained in the Document is confidential, is designed for investment professionals only and should not be passed to or relied upon by private investors. This Document may not be reproduced or circulated without prior permission. No statements or representations made in this Document are legally binding on Babson Capital Europe or the recipient.

It should be noted that unless otherwise mentioned, the views contained in this Document are those of Babson Capital Europe. These views may no longer be current and may have already been acted upon by Babson Capital Europe.

NO OFFER: The Document is for information purposes only. Information on specific securities is included for information purposes only. The Document does not constitute an offer to sell, or the solicitation of an offer to purchase, securities in any jurisdiction. Babson Capital Europe only supplies information on certain products and services and does not provide investment advice based on individual circumstances. This Document is not, and must not be treated as, investment advice, investment recommendations, or investment research.

The information contained in the Document should not be construed as either projections or predictions. The Company makes no representation or warranty, express or implied, regarding the accuracy, completeness or adequacy of the information. Past performance is not a reliable indication of future performance. The value of any investment and the income from it can go down as well as up and you may get back less than you invest. Where appropriate, changes in the currency exchange rates may affect the value of your investment.

Before making any investment decision, it is recommended that you seek independent investment, legal, tax, accounting or other professional advice as appropriate. Babson Capital Europe accepts no duty of care to you in relation to investments.

OTHER RESTRICTIONS: The distribution of this Document is restricted by law. No action has been or will be taken by Babson Capital Europe to permit the possession or distribution of the Document in any jurisdiction other than the UK where action for that purpose may be required. Accordingly, the Document may not be used in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. Persons to whom the Document is communicated should inform themselves about and observe any such restrictions.

Any service, security, investment, fund or product outlined in this Document may not be generally available to or suitable for you or available in your jurisdiction. It is your responsibility to ensure that any service, security, investment, fund or product outlined is available in your jurisdiction before any approach is made regarding that service, security, investment, fund or product.

INFORMATION: Babson Capital Europe is authorised and regulated by the Financial Services Authority in the United Kingdom (ref no. 194662) and is Company registered in England and Wales (No. 03005774), whose registered address is 61 Aldwych, London, WC2B 4AE. For further information about Babson Capital Europe Limited please visit our website at www.babsoncapitaleurope.com or call Tatja Karkkainen on +44 (0)20 3206 4546.