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Credit Market Activism through Covenants

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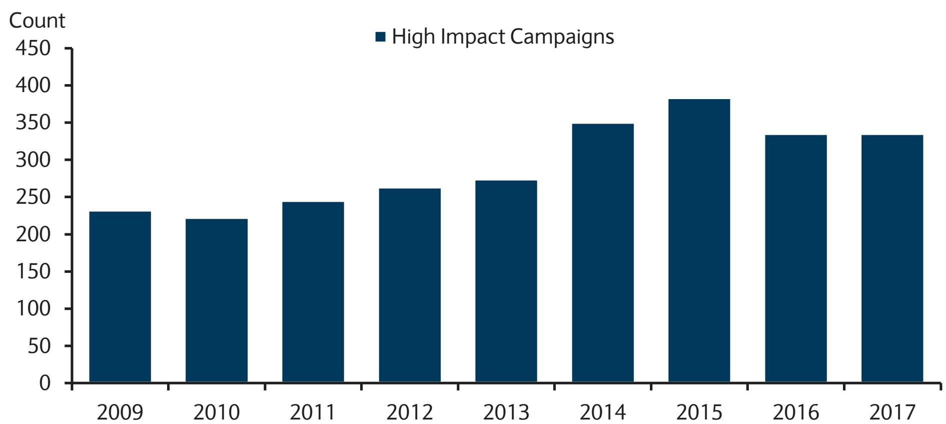
As the credit cycle matures, issuers tend to push the envelope on leverage, structure, and terms. This cycle is somewhat unique, as the Leveraged Lending Guidelines put a limit on increases in leverage. Instead, issuers have pushed for covenants that allow room for more options if the company or market struggles. Investors are now pushing back against corporates that have sought to move assets creatively relying on covenant loopholes. Based on recent successful investor pushback efforts, we believe a number of stressed credits could see back-and-forth between investors and issuers.

The Upside from Bondholder "Activism" Has Increased

Investor activism is common in the equity market. Shareholders aggressively push companies to create value in any number of ways, including changes in leverage, asset sales, spin-offs, etc. (Figure 1). Historically, there has been very little reason for such activism in the bond market considering the capped upside for bonds. However, hedge funds and distressed investors have been forced to dig even deeper because they are facing a limited opportunity set, as the distressed ratio of the performing high yield and loan markets remains paltry (Figure 2) and the amount of bankrupt bonds and loans is fairly modest (Figure 3).

FIGURE 1
High-Impact Equity Shareholder Activism Campaigns



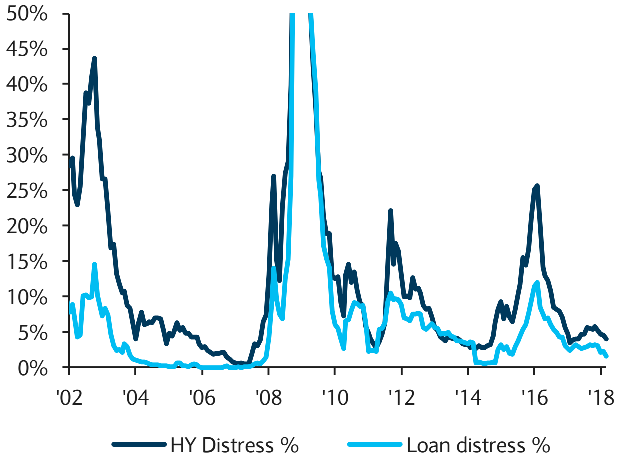
Note: FactSet SharkRepellent defines 'high-impact activism' as a campaign involving market-moving objectives.
Source: Barclays Research, Factset

In general, we believe that bond market investors have been taking a more activist and often litigious approach by contesting corporate actions with respect to potential covenant violations. In such situations, creditors often form groups, hire sophisticated advisors, and use trade publications (such as Debtwire or ReOrg Research) to publicize the issue regardless of whether litigation is ultimately pursued.

Traditionally, these types of aggressive actions were reserved most often for distress, but more recently, investors have expressed concern about potential covenant violations regarding bonds trading at much higher levels where a par takeout is less enticing for investors. The impetus for this push was a September 2016 decision by the US District Court for the Southern District of New York in Wilmington Savings Fund Society, FSB v. Cash America

FIGURE 2

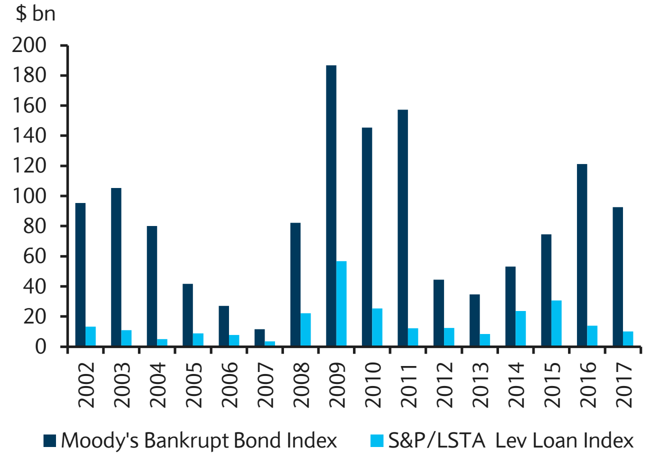
High Yield and Loan Distressed Ratios



Source: Bloomberg Barclays Indices, S&P LCD

FIGURE 3

Par Amount of Defaulted Debt in the MBBI and S&P/LSTA Leveraged Loans Index



Source: Moody's, S&P LCD

International, Inc. The court found that when Cash America dividended 80% of a wholly owned subsidiary to its shareholders, it violated a covenant with respect to asset transfers. The company argued that if that were the case, bondholders could use their customary right to accelerate on an event of default and put the bonds back to the company at par. The court disagreed and ruled that the bondholders were entitled to the substantially higher make-whole price. The key to the finding was that Cash America committed a "voluntary" violation of its indentures when it chose to transfer the assets and that there did not need to be bad faith by the company in order to require it to pay a make-whole premium.[1]

The Cash America ruling raised the stakes for bondholders alleging a covenant violation outside the bankruptcy setting. In the wake of that decision, from late 2016 and into January 2017, several new issues incorporated provisions in their indentures with respect to no premium on default that were specifically designed to avoid the implications of the Cash America ruling. For example, the prospectus for the FedEx Corp notes issued in January 2017 included the following text with a more in depth explanation in the indenture: "For the avoidance of doubt, the requirement to pay any Make-Whole Premium shall only arise in connection with our voluntary election, if any, to redeem notes pursuant to the optional redemption provisions described in this section, and not in connection with any other payment, distribution, recovery or satisfaction of the notes." The pushback to this was strong, resulting in the text being removed from all subsequent new issues. Such language was noticeably absent from FedEx Corp's January 2018 new issue prospectus. As a result, with the exception of a few deals done immediately following the Cash America decision, there is now case law to support make-whole prices for "voluntary" violations of covenants.

Covenant Activism Despite Weaker Covenants

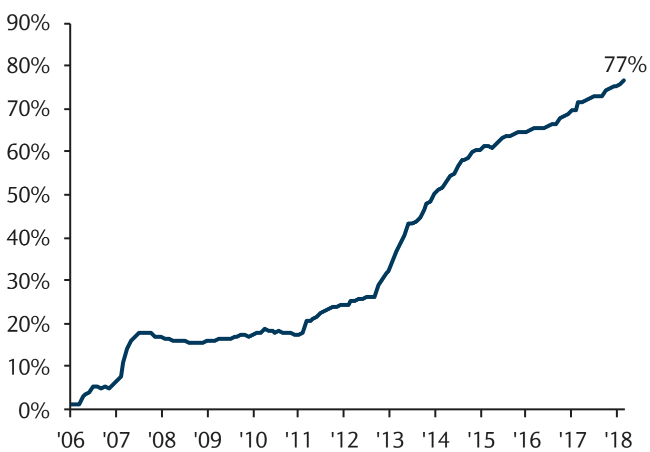
As discussed above, the focus on covenant breaches has been targeted toward the bond market (often including credits that have actively traded CDS) as opposed to the loan market. There are two main reasons that investors have turned their attention in that direction. The first has to do with the current point in the cycle. The majority of loans are trading at or above par, and contrary to the bond market, there is no concept of being made whole with almost everything callable within a maximum of 12 months. Put simply, with only 4% of the S&P LSTA loan index below $90, the upside is limited.

[1] Corporate Finance Alert: Court Ruling May Broaden Noteholders' Ability to Receive Redemption Premiums Following Indenture Defaults, October 5, 2016.

Second, the proliferation of the covenant-lite structure in the loan market has meant that the hammer that loan investors typically had at their disposal is no longer an option. While the first reason can be temporary, the second is likely to continue to push investors to focus on the bond market more than the loan market for these types of trades. The institutional loan market is now 77% covenant-lite (Figure 4), and more than 90% of loans that are not covenant-lite have two or fewer covenants (Figure 5). The trend is unlikely to change in the near term, as CLO demand is outpacing loan supply (Figure 6) and issuers are not penalized for issuing covenant-lite loans (Figure 7).

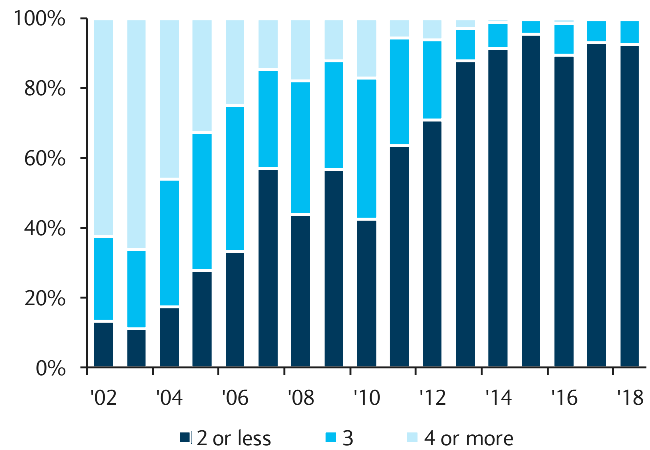
Loans becoming predominantly covenant-lite moves them more in line with the structure of bond covenants and in select instances can even make them more disadvantaged. Regardless, covenants across both markets have worsened significantly as measured by the Moody's Covenant Quality Index (Figure 8). This has been predominantly expanding baskets for permitted investments and movement of assets or cash, providing free and clear incremental debt that is not subject to tests, and expanding secured baskets. As discussed below, even though these baskets have expanded, they are also where actions are most commonly questioned, especially regarding older indentures that did not include the same loose provisions.

FIGURE 4
Share of Covenant-Lite Loans over Time



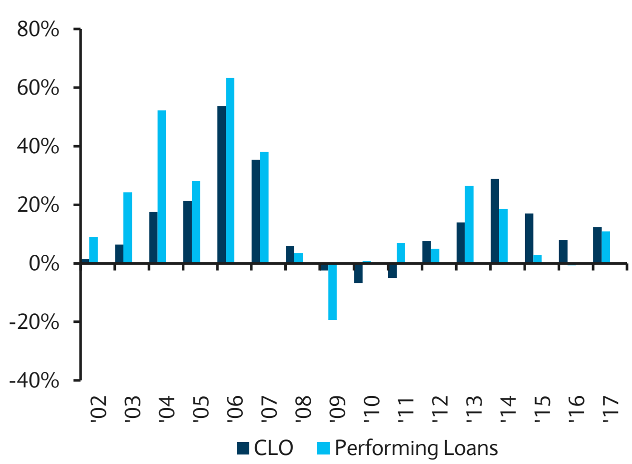
Source: S&P LCD

FIGURE 5
Distribution of First-Lien Loans by Number of Covenants



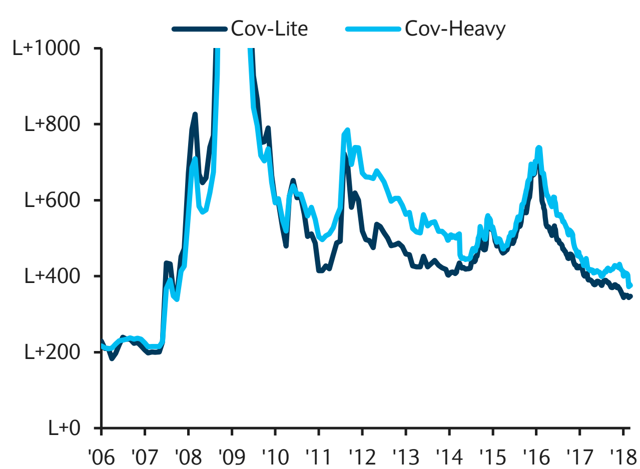
Source: S&P LCD

FIGURE 6
Year-over-Year Growth in Outstanding Notional of CLOs versus Performing Loans



Source: SIFMA, S&P LCD

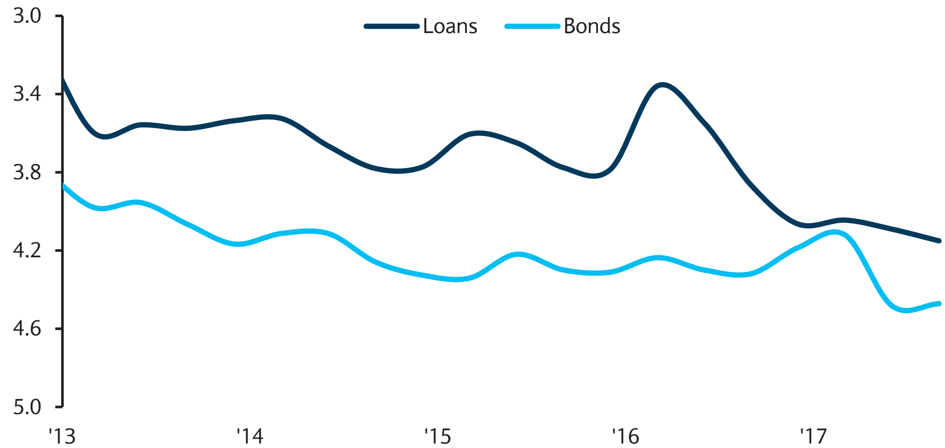
FIGURE 7
Covenant-Lite versus Covenant-Heavy Three-Year Discounted Spreads



Source: S&P LCD

FIGURE 8

Moody's Covenant Quality Index



Note: Covenant scores are based on a five-point scale ranging from 1 (most protective covenant packages) to 5 (weakest covenant packages). Source: Moody's, Barclays Research

Indenture Flashpoints

Stressed companies with their backs against the wall often look for any loopholes in an indenture in order to survive for another day. While it is impossible to provide a full list of these loopholes, there are a few covenants in high yield indentures that issuers have exploited more frequently in recent years.

- **Asset Sales** – This covenant customarily stipulates that a company must apply the proceeds of asset sales to either repay debt or invest in the business. However, there may be carve-outs for certain assets, a basket amount that is not subject to the provision, or less stringent restrictions if the company is under a certain leverage ratio. Therefore, the company could potentially use the asset sale proceeds in a more equity-friendly fashion or, in the case of private equity-sponsored companies, use such proceeds for transactions that involve other sponsor-owned entities.

- **Permitted Investments** – There is a basket for permitted investments that is excluded from other tests in the indenture. The size of these baskets has increased over time, along with exceptions within the basket for related businesses. This has been used to make investments in unrestricted subsidiaries in a manner that takes assets away from the restricted group on which bondholders and loanholders have a direct claim.

- **Restricted Payments** – Baskets for restricted payments usually build based on a ratio related to consolidated net income or similar metrics. Over time, the amount of carve-outs in these baskets has increased substantially. Often, restricted payment limitations are eliminated completely when the company is under certain leverage ratios, which allows it to dividend cash or assets to equity holders.

- **Sale-Leasebacks** – The covenant that monitors sale-leasebacks is designed to make sure lenders are repaid if a sale-leaseback occurs when there is not room for the assets to move through another basket. With an increase in industries that are utilizing opco/propco structures, the terms of sale-leasebacks are being scrutinized even more closely. With the new tax bill encouraging leveraged companies to implement sale-leasebacks as a means to avoid interest caps, we expect this covenant to remain in focus.

- **Unrestricted Subsidiary** – Typically, moving an asset to an unrestricted subsidiary would require utilizing some form of dividend basket room or be a specific carve-out in the permitted investments covenant. However, there may be a leverage level under which this designation is permitted if certain other metrics are met. This allows companies to remove assets from bondholders or loanholders to potentially raise financing elsewhere.

These are some of the covenants that have been challenged or become topical recently. However, the list is by no means exhaustive considering that other items such as limitations on liens will remain as important as ever, with stressed companies looking to provide an incentive to investors through up-tier exchanges when possible. Just like many of the covenants above, baskets for permitted liens have increased in recent years. In addition, most complicated situations will involve a combination of these restrictions affecting what a company can do.

Recent Examples of Creative Transactions

Companies make changes to their capital structure frequently with little fanfare. In the past few years there have been several examples that have been more contentious. Some of these have been resolved and others are ongoing.

JCrew Brand is covered by Hale Holden

- In a move made in late 2016 that is now leading to changes in what investors demand from credit agreements and indentures, **J. Crew** transferred certain intellectual property (IP) to an unrestricted subsidiary. This was accomplished through the use of the permitted investments basket, as the value of the IP did not exceed the size of the carve-outs in the basket. The company then raised debt at the unrestricted subsidiary that was backed by the IP. This allowed J. Crew to raise significant liquidity at a time when it was in financial stress. The transaction was done as a negotiated exchange, with the bondholder group also buying into the loan to assure consent approval. The transaction, along with poor financial results, was followed by the existing bonds falling from the $80 range to below $40. Barclays Research currently rates the new IPCo-backed note Market Weight. Also in 2016, **Claire's Stores** used a similar rationale with respect to permitted investments to swap debtholders into entities backed by its international stores and one backed by its IP.

- **Hot Topic** implemented a spin-off of its Torrid business in May 2015. The Torrid business was valued at $55mn, but bondholders objected to this valuation as a violation of the "fair market value" clause in the asset sale covenant. In addition, bondholders objected on the grounds that this violated aspects of the covenant related to transactions with affiliates. Bondholders sent a notice of default to the company in July 2017 and in November filed a lawsuit. Subsequently, the bondholders released their claims from the litigation after Torrid agreed to provide a guarantee to the Hot Topic debt. While this was a negotiated settlement as opposed to the Cash America ruling, it nonetheless represents success for the bondholders, and bonds that had dropped in price from above par before the spin-off to $69 in December 2017 almost immediately returned to par.

- In mid-2016, **Intelsat** came under scrutiny by Aurelius Capital Management. The activist investor alleged that Intelsat violated the restricted payment (RP) covenant under its 2020 indenture when it paid a $360mn dividend to Intelsat Jackson. According to Aurelius, Intelsat improperly computed the amount of debt that needed to be included in its debt/adjusted EBITDA calculation. Thus, when properly accounting for its indebtedness, the company's debt/adjusted EBITDA ratio was 6.01x, versus the required 6.0x to allow for a RP to be paid. The company and Aurelius exchanged a series of letters outlining their respective positions on the matter throughout 2016. After the bonds rallied, the parties ceased their exchanges.

Windstream and Uniti Group are covered by Jeff Harlib

- With **Windstream** already under fundamental pressure in 2017 and bonds trading at a substantial discount to par, Aurelius contended that the 2015 CSAL/Uniti spin-off of network assets constituted a sale-leaseback transaction under the indenture and that proceeds needed to be applied to reduce outstanding bonds on a pro rata basis. WIN maintains that it was not a sale-leaseback transaction, as the CSAL/Uniti lease was incurred at the holding company of the issuer. The company and Aurelius remain engaged in litigation while the bonds sit at distressed levels.

Sprint is covered by Jeff Harlib

- There is an argument with respect to **Sprint** that there was a covenant violation with respect to bonds issued by the Sprint Capital entity. The thesis is that spectrum securitization structures ($3.5bn from 2016 and recently closed $3.9bn offering) constitute a sale-leaseback transaction under the indenture, and due to a broad definition of "property," the spectrum at unrestricted subs would be property and "attributable debt" would be the present value of lease payments, violating the available capacity under the liens covenant. If correct, holders could seek make-whole at prices well above par, as the bonds do not mature until 2028 and 2032. Those two bonds rallied significantly when reports of the potential covenant violations first emerged, but since then, most of the premium has evaporated from the Sprint Capital bonds. The company has consistently indicated that spectrum transactions were not sale-leaseback transactions, as defined, and hence there is no covenant issue.

Credits That Could Face Investor Pushback in the Future

As mentioned above with respect to the Cash America decision, investors pushed back when new clauses that prevented make-wholes on an event of default entered base indentures. The clause has not reappeared since January 2017, representing a win for lenders. During most of the record-low volatility in 2017, it was difficult for investors to achieve that many victories related to covenants if they wanted to be allocated new issue bonds or loans. However, the market turmoil that began in February 2018 has allowed investors to regain some negotiating leverage with issuers.

Not surprisingly, these negotiations have focused on many of the covenants discussed above. When new issues have struggled, amended terms have shrunk general baskets for permitted investments or restricted payments, dictated the use of asset sale proceeds, and limited the carve-out for secured debt. While this might be considered standard practice in a less issuer-friendly market, some of the items that investors are pushing back against are clearly colored by the recent experiences in stressed situations, including J. Crew most prominently. For example, Coty Inc. had similar clauses that would have allowed the company to move investments beyond creditors' reach, but these were eliminated in the final documents ("Coty Debt Deal Shows Investors Burned by J. Crew Are Now Awake," Bloomberg News, April 5, 2018). Increasingly, material intellectual property is becoming a more carefully defined term and its use with respect to permitted investments and unrestricted subsidiaries is limited.

These changes should augur well for investor protections in the latest crop of deals if the market or company faces trouble. For the portion of the market that is already stressed, such protections often do not exist. Therefore, we expect the use of the types of transactions detailed in the previous section to continue, with the potential for some push-back from investors. We think a key component of investors' consideration of the ability to take an active stance is the liquidity runway of the issuer, as the length of time until the company hits a wall is directly related to the risks of challenging a transaction.

Frontier Communications is covered by Jeff Harlib

- As **Frontier Communications** bonds have traded to stressed levels and the company has utilized its secured debt capacity (under the CTF indentures) to tender for 2020-21 notes, it has been reported that holders of CTF bonds may pursue an amendment to allow additional secured debt, benefiting their position versus the legacy notes (see "Frontier Communications Creditors Jockey in Refinancing Push," *WSJ*, April 5, 2018). Based on the recent pattern of bondholders challenging more aggressive actions by stressed corporates, investors in legacy notes could question whether the liens covenants in the legacy indentures allow as much debt as the company believes. We are currently Underweight the longer-dated legacy notes that all trade with 15%+ yields.

Community Health Systems is covered by Rishi Parekh

- **Community Health Systems** has noted its intent to exchange the 2019 and 2020 unsecured notes into new second-lien notes. Based on our read of the covenants, if the company amends the 2019 and 2020 covenants with exit consents as part of the exchange, the permitted investment basket in the remaining bonds is materially larger. Considering the operational issues plaguing the company, the negative free cash flow, and high leverage, the company could take advantage of this increased basket to spin off assets. Rishi Parekh remains Underweight rated across the structure, as he believes the operational pressure could impair new second-lien debt, existing unsecured bonds, and possibly first-lien debt.

Tenet Healthcare is covered by Rishi Parekh

- **Tenet Healthcare** has committed to deleveraging, with asset sales as the likely avenue. The covenants in the bonds are lenient, and asset-sale proceeds do not need to be applied directly to debt paydown. Therefore, if the company successfully sells Conifer, we expect it to focus its repayment efforts on unsecured bonds trading below or close to par. As a result of the limited upside, Rishi Parekh rates most of the Tenet unsecured as Market Weight (not including the 2031s).

Neiman Marcus Group is covered by Hale Holden

- Last year, **Neiman Marcus** removed from the creditor group MyTheresa, two stores, and a distribution center. The company is fast approaching the 2020 loan maturity wall, and we think it is setting up for a negotiated exchange before it loses leverage with investors. Other options include secured debt, which could involve $650mn of term loan capacity, a $250mn general-lien basket, or using company-owned real estate. In addition, the company could look to capacity available in its permitted investment basket. NMG's new CEO, Geoffroy van Raemdonck, noted that within a "period of months" he will provide a strategic framework that we believe would also be a catalyst for a potential amend-and-extend transaction. Hale Holden rates the NMG notes Market Weight given valuation concerns considering his baseline comfort at a 2018 EV/EBITDA of no more than around 6.5x, compared with almost 10x net leverage currently and the unsecured bonds trading in the $60 range.

- Bonds backing **PetSmart's** acquisition of Chewy.com have struggled since issuance last May, with secured bonds currently in the low $70s and unsecureds in the high $50s. This has caused investors to question what the company might do next. There has been speculation that it could undo the acquisition by spinning off Chewy ("PetSmart in Debt-Market's Doghouse as Lenders Fear Chewy Spinoff," *Bloomberg News*, December 7, 2017). The company had sizable restricted payment capacity at the time of the deal, and that basket could be larger today. If restricted payment capacity or permitted investment carve-outs were used to spin off part or all of Chewy, investors would be left in a position similar to the Hot Topic case mentioned above.

Revlon Consumer Products is covered by Hale Holden; hale.holden@barclays.com; 1-212-412-1524 BCI, US

- **Revlon** has recently undergone management changes and may re-evaluate its capital structure, as earnings have declined. The 2021 bonds are the first maturity and have the strongest covenants. If these bonds are redeemed, restricted payment capacity would be up to $925mn as long as they can meet the 2x fixed charge coverage test. With respect to the company's term loan, it contains the ability to make unlimited investments in non-guarantor subsidiaries that are restricted subsidiaries. This led to enough market discussion about the potential for an IP transfer similar to the J. Crew transaction that the company's CFO and COO took the highly unusual step of stating that "contrary to false rumors and pure speculation in public reports, a material asset transfer is not being considered." Regardless, we think the company is likely to look at ways to address the 2021s in the short to medium term. However, we prefer the 6.25% 2024s and term loan to the 5.75% 2021s. Even though the 2021s have a preferential position in the debt structure (ie, first to mature, more restrictive covenants), our caution involves the ability to model the turnaround and potential need for additional funding to bridge the operational turnaround. We view the IP value as significant, think that over time the company should be able to improve EBITDA margins, and would expect recovery at around 1x sales. Despite continued support from the sponsor, the difficulty of forecasting the turn is what makes us prefer the lower dollar-priced 2024s or term loan as opposed to the 2021s.

Analyst Certification

We, Hale Holden and Bradley Rogoff, CFA, hereby certify (1) that the views expressed in this research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

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Materially Mentioned Issuers/Bonds

J CREW BRAND LLC / J CREW BRAND CORP, CD/J
JCREWB 13 09/15/21, Market Weight (USD 117.50, 11-Apr-2018)
Valuation Methodology: Our Market Weight reflects limited upside at current level, given the lack of path to EBITDA growth. However, we recognize the asset coverage behind the IP notes and safety cash flow, given current operating trend.
Risks that May Impede Achievement of the Rating: Risk to our rating is rapid development of results in either direction.

NEIMAN MARCUS GROUP LLC/THE, CD/J/K/M
NMG 7 1/8 06/01/28, Market Weight (USD 77.25, 11-Apr-2018)
Valuation Methodology: Our Market Weight rating reflects that pressure from tourist spending and inventory clearance may continue to be offset by the company's ample liquidity and relatively long runway to maturities.
Risks that May Impede Achievement of the Rating: Risks include: a) a strong improvement in margins related to tighter inventory control driving levels higher; and/or b) continued weak traffic trends driving EBITDA lower and impairing recovery prospects.

NEIMAN MARCUS GROUP LTD LLC, CD/J/K/M
NMG 8 10/15/21, Market Weight (USD 64.00, 11-Apr-2018)
NMG 8 3/4 10/15/21, Market Weight (USD 64.50, 11-Apr-2018)
Valuation Methodology: Our Market Weight ratings reflects the potential for: 1) higher levels than in the past six months; 2) limited liability management options for the unsecureds; and 3) no visible path to deleveraging.
Risks that May Impede Achievement of the Rating: Risks include: 1) deterioration in results; 2) leverage through the bonds in excess of current enterprise value; and 3) potential negative actions to strip value by the sponsors.

REVLON CONSUMER PRODUCTS CORP, CD/J/K/M/N
REV 5 3/4 02/15/21, Market Weight (USD 76.75, 11-Apr-2018)
REV 6 1/4 08/01/24, Market Weight (USD 62.50, 11-Apr-2018)
Valuation Methodology: We rate Revlon Market Weight given a balanced outlook, favorable beauty industry dynamics, and what we view as a feasible path to deleveraging.
Risks that May Impede Achievement of the Rating: Risks to our Market Weight ratings include a more competitive beauty landscape, loss of customers as a result of the lack of a digital strategy, and potential M&A and ownership overhang.

TENET HEALTHCARE CORP, A/CD/CE/D/FA/J/K/L/M
THC 6 3/4 06/15/23, Market Weight (USD 98.75, 11-Apr-2018)
THC 7 08/01/25, Market Weight (USD 98.50, 11-Apr-2018)
THC 8 1/8 04/01/22, Market Weight (USD 104.75, 11-Apr-2018)
Valuation Methodology: A number of events should support EBITDA improvement in 2018. We expect more asset sales, believe the micro-hospital strategy is attractive, and forecast continued growth for USPI and an improvements from Conifer (and a possible sale of the segment). As with other acute-care providers, we anticipate continued pressure on volumes and operating expenses.
Risks that May Impede Achievement of the Rating: Weaker acute-care volumes, loss of business (specifically Conifer), weaker volumes from USPI, inability to improve free cash flow and execute on asset sales, and relative value.
THC 4 1/2 04/01/21, Market Weight (USD 99.50, 11-Apr-2018)
THC 4 3/4 06/01/20, Market Weight (USD 100.88, 11-Apr-2018)
THC 4 3/8 10/01/21, Market Weight (USD 98.88, 11-Apr-2018)
THC 5 1/2 03/01/19, Market Weight (USD 101.00, 11-Apr-2018)
THC 6 10/01/20, Market Weight (USD 104.00, 11-Apr-2018)
THC 6 3/4 02/01/20, Market Weight (USD 103.13, 11-Apr-2018)
THC 7 1/2 01/01/22, Market Weight (USD 105.75, 11-Apr-2018)
Valuation Methodology: There are a number of events that should support EBITDA improvement in 2018 (including decreased freestanding EDs): we expect more asset sales, we believe the micro-hospital strategy is attractive, and we forecast continued growth out of USPI and an improvement out of Conifer. Similar to other acute-care providers, we anticipate continued pressure on volumes and operating expenses.
Risks that May Impede Achievement of the Rating: Weaker acute-care volumes, loss of business (specifically Conifer), weaker volumes from USPI, inability to improve FCF and execute on asset sales, and relative value.

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FC: Barclays Bank PLC and/or an affiliate beneficially owns a short position of more than 0.5% of a class of equity securities of this issuer, as calculated in accordance with EU regulations.
GD: One of the analysts on the fundamental credit coverage team (or a member of his or her household) has a financial interest in the debt or equity securities of this issuer.
GE: One of the analysts on the fundamental equity coverage team (or a member of his or her household) has a financial interest in the debt or equity securities of this issuer.
H: This issuer beneficially owns more than 5% of any class of common equity securities of Barclays PLC.
I: Barclays Bank PLC and/or an affiliate is party to an agreement with this issuer for the provision of financial services to Barclays Bank PLC and/or an affiliate.
J: Barclays Bank PLC and/or an affiliate is a liquidity provider and/or trades regularly in the securities of this issuer and/or in any related derivatives.
K: Barclays Bank PLC and/or an affiliate has received non-investment banking related compensation (including compensation for brokerage services, if applicable) from this issuer within the past 12 months.
L: This issuer is, or during the past 12 months has been, an investment banking client of Barclays Bank PLC and/or an affiliate.
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O: Not in use.
P: A partner, director or officer of Barclays Capital Canada Inc. has, during the preceding 12 months, provided services to the subject company for remuneration, other than normal course investment advisory or trade execution services.
Q: Barclays Bank PLC and/or an affiliate is a Corporate Broker to this issuer.
R: Barclays Capital Canada Inc. and/or an affiliate has received compensation for investment banking services from this issuer in the past 12 months.
S: This issuer is a Corporate Broker to Barclays PLC.
T: Barclays Bank PLC and/or an affiliate is providing equity advisory services to this issuer.
U: The equity securities of this Canadian issuer include subordinate voting restricted shares.
V: The equity securities of this Canadian issuer include non-voting restricted shares.

Explanation of the Barclays Research Corporate Credit Sector Rating System

Overweight (OW):
For sectors rated against the Bloomberg Barclays U.S. Credit Index, the Bloomberg Barclays Pan-European Credit Index, the Bloomberg Barclays EM Asia USD High Grade Credit Index or the Bloomberg Barclays EM USD Corporate and Quasi-Sovereign Index, the analyst expects the six-month excess return of the sector to exceed the six-month excess return of the relevant index.
For sectors rated against the Bloomberg Barclays U.S. High Yield 2% Issuer Capped Credit Index, the Bloomberg Barclays Pan-European High Yield 3% Issuer Capped Credit Index excluding Financials, the Bloomberg Barclays Pan-European High Yield Finance Index or the Bloomberg Barclays EM Asia USD High Yield Corporate Credit Index, the analyst expects the six-month total return of the sector to exceed the six-month total return of the relevant index.

Market Weight (MW):
For sectors rated against the Bloomberg Barclays U.S. Credit Index, the Bloomberg Barclays Pan-European Credit Index, the Bloomberg Barclays EM Asia USD High Grade Credit Index or the Bloomberg Barclays EM USD Corporate and Quasi-Sovereign Index, the analyst expects the six-month excess return of the sector to be in line with the six-month excess return of the relevant index.
For sectors rated against the Bloomberg Barclays U.S. High Yield 2% Issuer Capped Credit Index, the Bloomberg Barclays Pan-European High Yield 3% Issuer Capped Credit Index excluding Financials, the Bloomberg Barclays Pan-European High Yield Finance Index or the Bloomberg Barclays EM Asia USD High Yield Corporate Credit Index, the analyst expects the six-month total return of the sector to be in line with the six-month total return of the relevant index.

Underweight (UW):
For sectors rated against the Bloomberg Barclays U.S. Credit Index, the Bloomberg Barclays Pan-European Credit Index, the Bloomberg Barclays EM Asia USD High Grade Credit Index or the Bloomberg Barclays EM USD Corporate and Quasi-Sovereign Index, the analyst expects the six-month excess return of the sector to be less than the six-month excess return of the relevant index.
For sectors rated against the Bloomberg Barclays U.S. High Yield 2% Issuer Capped Credit Index, the Bloomberg Barclays Pan-European High Yield 3% Issuer Capped Credit Index excluding Financials, the Bloomberg Barclays Pan-European High Yield Finance Index or the Bloomberg Barclays EM Asia USD High Yield Corporate Credit Index, the analyst expects the six-month total return of the sector to be less than the six-month total return of the relevant index.

Sector definitions:
Sectors in U.S. High Grade Research are defined using the sector definitions of the Bloomberg Barclays U.S. Credit Index and are rated against the Bloomberg Barclays U.S. Credit Index.
Sectors in U.S. High Yield Research are defined using the sector definitions of the Bloomberg Barclays U.S. High Yield 2% Issuer Capped Credit Index and are rated against the Bloomberg Barclays U.S. High Yield 2% Issuer Capped Credit Index.

Sectors in European High Grade Research are defined using the sector definitions of the Bloomberg Barclays Pan-European Credit Index and are rated against the Bloomberg Barclays Pan-European Credit Index.
Sectors in Industrials and Utilities in European High Yield Research are defined using the sector definitions of the Bloomberg Barclays Pan-European High Yield 3% Issuer Capped Credit Index excluding Financials and are rated against the Bloomberg Barclays Pan-European High Yield 3% Issuer Capped Credit Index excluding Financials.
Sectors in Financials in European High Yield Research are defined using the sector definitions of the Bloomberg Barclays Pan-European High Yield Finance Index and are rated against the Bloomberg Barclays Pan-European High Yield Finance Index.

Sectors in Asia High Grade Research are defined on Barclays Live and are rated against the Bloomberg Barclays EM Asia USD High Grade Credit Index.
Sectors in Asia High Yield Research are defined on Barclays Live and are rated against the Bloomberg Barclays EM Asia USD High Yield Corporate Credit Index.

Sectors in EEMEA and Latin America Research are defined on Barclays Live and are rated against the Bloomberg Barclays EM USD Corporate and Quasi Sovereign Index. These sectors may contain both High Grade and High Yield issuers.

To view sector definitions and monthly sector returns for Asia, EEMEA and Latin America Research, go to https://live.barcap.com/go/research/EMSectorReturns on Barclays Live.

Explanation of the Barclays Research Corporate Credit Rating System

For all High Grade issuers covered in the US, Europe or Asia, and for all issuers in Latin America and EEMEA (excluding South Africa), the credit rating system is based on the analyst's view of the expected excess return over a six-month period of the issuer's index-eligible corporate debt securities* relative to the expected excess return of the relevant sector, as specified on the report.

Overweight (OW): The analyst expects the six-month excess return of the issuer's index-eligible corporate debt securities to exceed the six-month expected excess return of the relevant sector.
Market Weight (MW): The analyst expects the six-month excess return of the issuer's index-eligible corporate debt securities to be in line with the six-month expected excess return of the relevant sector.
Underweight (UW): The analyst expects the six-month excess return of the issuer's index-eligible corporate debt securities to be less than the six-month expected excess return of the relevant sector.
Rating Suspended (RS): The rating has been suspended temporarily due to market events that make coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including where the Investment Bank of Barclays Bank PLC is acting in an advisory capacity in a merger or strategic transaction involving the company.
Coverage Suspended (CS): Coverage of this issuer has been temporarily suspended.

Not Covered (NC): Barclays' fundamental credit research team does not provide formal, continuous coverage of this issuer and has not assigned a rating to the issuer or its debt securities. Any analysis, opinion or trade recommendation provided on a Not Covered issuer or its debt securities is valid only as of the publication date of this report and there should be no expectation that additional reports relating to the Not Covered issuer or its debt securities will be published thereafter.

For all High Yield issuers (excluding those covered in EEMEA or Latin America), the credit rating system is based on the analyst's view of the expected total returns over a six-month period of the rated debt security relative to the expected total return of the relevant sector, as specified on the report.

Overweight (OW): The analyst expects the six-month total return of the debt security subject to this rating to exceed the six-month expected total return of the relevant sector.
Market Weight (MW): The analyst expects the six-month total return of the debt security subject to this rating to be in line with the six-month expected total return of the relevant sector.
Underweight (UW): The analyst expects the six-month total return of the rated debt security subject to this rating to be less than the six-month expected total return of the relevant sector.
Rating Suspended (RS): The rating has been suspended temporarily due to market events that make coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including where the Investment Bank of Barclays Bank PLC is acting in an advisory capacity in a merger or strategic transaction involving the company.
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Where a recommendation is made at the issuer level, it does not apply to any sanctioned securities, where trading in such securities would be prohibited under applicable law, including sanctions laws and regulations.

*In EEMEA and Latin America (and in certain other limited instances in other regions), analysts may occasionally rate issuers that are not part of the Bloomberg Barclays U.S. Credit Index, the Bloomberg Barclays Pan-European Credit Index, the Bloomberg Barclays EM Asia USD High Grade Credit Index or Bloomberg Barclays EM USD Corporate and Quasi Sovereign Index. In such cases the rating will reflect the analyst's view of the expected excess return over a six-month period of the issuer's corporate debt securities relative to the expected excess return of the relevant sector, as specified on the report.

Distribution of ratings assigned by Barclays Corporate Credit Research at the bond level:
24% have been assigned an Overweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Buy rating; 60% of bonds with this rating category are investment banking clients of the Firm; 71% of the issuers with this rating have received financial services from the Firm.
54% have been assigned Market Weight rating which, for purposes of mandatory regulatory disclosures, is classified as a Hold rating; 57% of bonds with this rating category are investment banking clients of the Firm; 76% of the issuers with this rating have received financial services from the Firm.
22% have been assigned an Underweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Sell rating; 50% of bonds with this rating category are investment banking clients of the Firm; 82% of the issuers with this rating have received financial services from the Firm.

Explanation of the Barclays EM Sovereign Credit Issuer Rating System
Overweight (OW):
The analyst expects the three-month excess return of the country's index eligible bonds to exceed the three-month excess return of the Bloomberg Barclays EM USD Sovereign Index.
Market Weight (MW):
The analyst expects the three-month excess return of the country's index eligible bonds to be in line with the three-month excess return of the Bloomberg Barclays EM USD Sovereign Index.
Underweight (UW):
The analyst expects the three-month excess return of the country's index eligible bonds to be less than the three-month excess return of the Bloomberg Barclays EM USD Sovereign Index.
Rating Suspended (RS):
The rating has been suspended temporarily due to market events that make coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including where the Investment Bank of Barclays Bank PLC is acting in an advisory capacity.

Distribution of ratings assigned by Barclays Emerging Markets Sovereign Research at the issuer level:
34% have been assigned an Overweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Buy rating; 15% of issuers with this rating category are investment banking clients of the Firm; 62% of the issuers with this rating have received financial services from the Firm.
37% have been assigned Market Weight rating which, for purposes of mandatory regulatory disclosures, is classified as a Hold rating; 36% of issuers with this rating category are investment banking clients of the Firm; 86% of the issuers with this rating have received financial services from the Firm.
29% have been assigned an Underweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Sell rating; 64% of issuers with this rating category are investment banking clients of the Firm; 100% of the issuers with this rating have received financial services from the Firm.

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