

July 2011

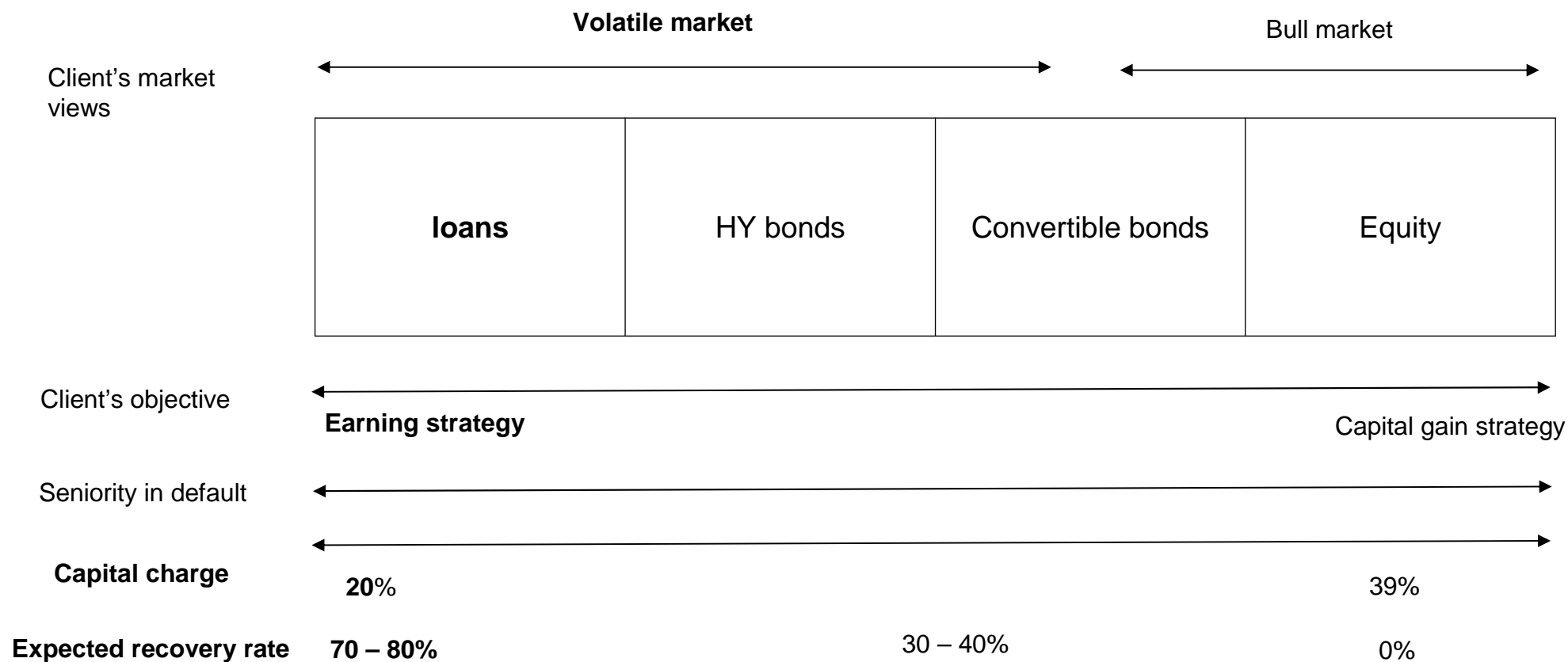
Why investing in Corporate Loan ?

AXA Structured Finance

Key selling points

- **Corporate loans are a true asset class giving**
 - **embedded diversification** on the **credit curve** and in a **global portfolio : no overlap with other large asset classes.**
 - **high liquidity** : allowing active portfolio and risk management, even during the crisis.
 - **access to a very large market**: twice larger than HY in Europe, with ca EUR 300 bn of outstanding, more than 350 issuers, highly diversified in terms of industries and countries, with a limited exposure to peripheral countries.
 - **security and seniority** .
 - **embedded duration hedge** : thanks to its floating rate structure.
 - **accessible to a wide array of investors** as the market is **desintermediating** further post crisis.
- **Attractive risk / return profile : Euribor +450bps** with 6 -7% annualized volatility, similar to Short duration HY bonds but with higher seniority
- **Good market timing in term of**
 - **valuation : good entry point.**
 - **asset sourcing** : strong rebound in Primary issuance.
 - **attractive relative value** vs HY bonds.
 - **recurrent and stable earnings** : good investment in a volatile market.
- **AXA IM distinctiveness**
 - **first entrant** in the market (in 2000), one of the largest dedicated platform in Europe.
 - **11 years of experience** on European and US corporate loans within AXA Structured Finance.
 - **strong risk management process** : **1% default** on average vs. **5% on the market.**
- **Targeted client segments** : insurance companies (**SCR around 20%, i.e. Return on SCR >30%, better than equities**), pension funds, and family offices with 3 to 5 years investment horizon.

Asset class positioning : the loans are the perfect investment.



Investing in corporate loan is an absolute return investment with diversifying credit exposure and no duration risk

What are the advantages of a Corporate Loan?

- Senior Secured **Loans are the most senior debt liability** in the capital structure of a corporate entity.
- **It is the most traditional and widespread way to finance corporates.**
- The loans benefit from a pledge on the assets of the company that will **enhance the expected recovery** in case of default (historically **70-80% recovery**).
- They also offer a **thorough documentation and covenants package** giving **an information advantage** together with high visibility and control on the company for the benefit of lenders.
- **Corporate loans exist for a long time** : this **market** was a **bank monopoly until the early 2000's**. **Desintermediation started 10 years ago** but is **accelerating** further in the face of Basel III
- **The loan is a floating rate** instrument, earning a base **rate** (typically Euribor or Libor) + **spread**
- Its economic Maturity is **typically 3 to 4 years**
- It is a **largely syndicated product** (typically 100 investors in a transaction) although banks often remain a lender (lenders benefiting from alignment of interest + bank's underwriting standard)
- Examples of issuers:
 - France: Pages Jaunes, Picard Surgeles, Numericable, Afflelou, Elior
 - UK: NewLook, Premier Food, NTL Virgin Media, Ineos,
 - Germany: Kabel Deutschland,
 - The Netherlands: UPC, Casema, Hema,

That is the perfect timing to invest in Corporate Loans

■ Good entry point :

- Current market yield = euribor + 500bp over 4 years
- Expected market excess spread : euribor +350bps assuming 4% default rate and 60% recovery per annum (conservative scenario)
- Our portfolio expected return is euribor + 450bps

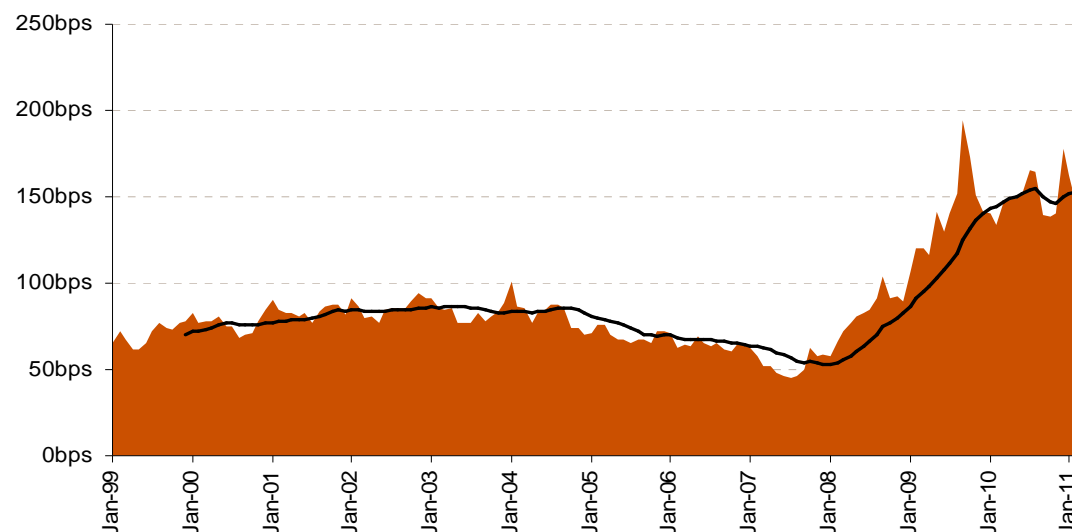
■ Strong new primary issuance rebound offering more protection for the investors

- o more equity cushion and lower debt/EBITDA ratio
- o more stringent covenants i.e. better protection
- o attractive risk return (higher spread per turn of leverage)

■ Enhanced sourcing capability allowing better selectivity :

thanks to reduced competition from pure CLO players.

Average Spread per turn of total leverage (at closing)

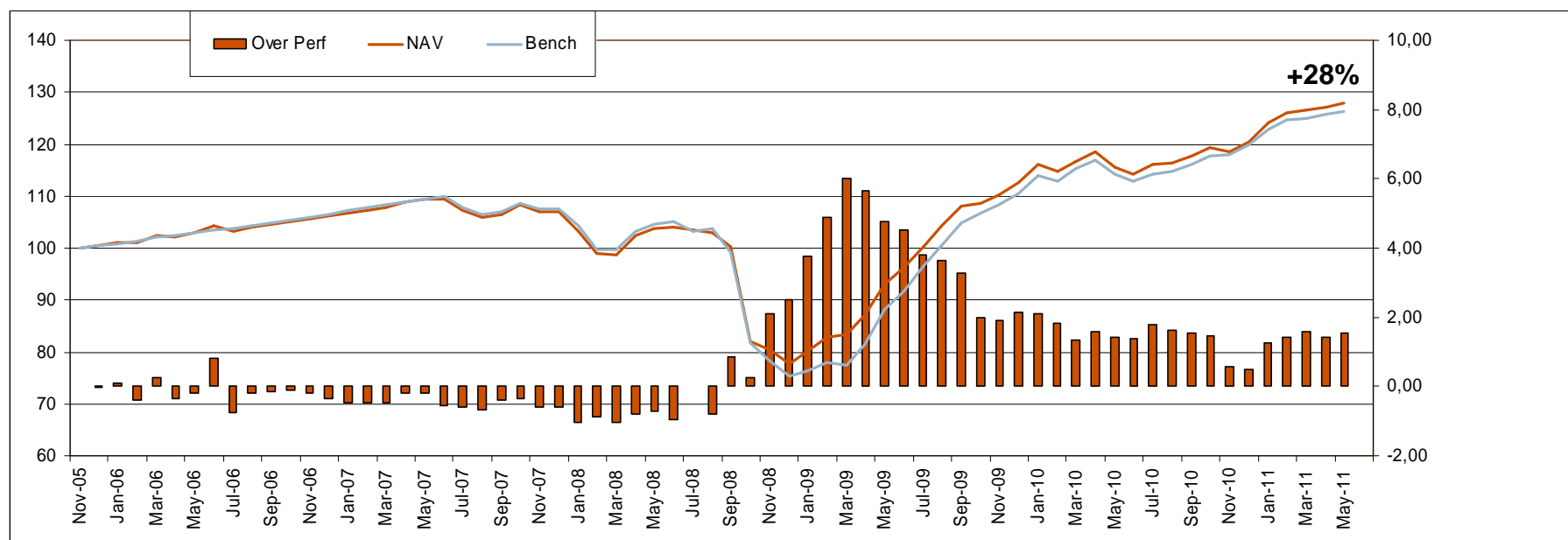


AXA IM distinctiveness

- **One of the five largest players in Europe by AuM and staff** => 17 front office people out of which 7 dedicated research analysts, which allows to better access flows from brokers and get privileged treatment in primary allocations.
 - Main competitors are Prudential M&G as traditional asset manager (open ended fund €1.3bn in the UK), Alcentra, Babson, ICG as high yield and loan boutiques
- **One of the most experienced team in Europe, first entrant in the market – 11 years of track-record** as a team, 12 years of average experience for the individuals.
- **The most diversified European platform dedicated to managing Corporate Loans** : CLOs, mandates, dedicated vehicles, open-ended funds. Manages European loans as well as US loans.
- **In-house structuring capability to offer ad-hoc solution** (optimization under Solvency II, accounting or P&L constraints)
- **Superior track-record in credit selection – 1.1% default rate p.a. across all funds** vs. 5% on average for the non-investment grade asset class globally according to S&P.
- **1st decile on CLO management returns : 100% of AXA CLOs are paying cash flows to their Equity clients, when less than 60% of other managers are doing it !**
- **Clear management style & sound systematic process**
 - total return strategy process
 - replicating the market in bull phases but significantly over performing in bear phases.
 - strong focus on credit selection & defaults reduction.
 - more and more emphasis on optimizing return under Solvency II constraints (ie shorten duration and focus on higher-rated portion of the market, targeting 18-20% capital charge).

Our offer & existing clients

- **Dedicated solutions :**
 - 4 existing mandates amounting to ca. EUR 2,750 M.
 - 4 closed-end CLOs, amounting to EUR 1,500 M.
- **One open ended fund : ELF (European Loans Funds) = 1 QIF targeting institutional clients, current AuM of EUR 50 M with AXA UK being the anchor investor**
- Here below a composite performance of our strategies vs. the CS WELLI benchmark



ELF : European Loan Fund – Performance to May-11

Cumulative Performance	1 month	3 month	LTM	Perf Euribor 3M LTM +
ELF	0,3%	0,8%	7,0%	593 bps

