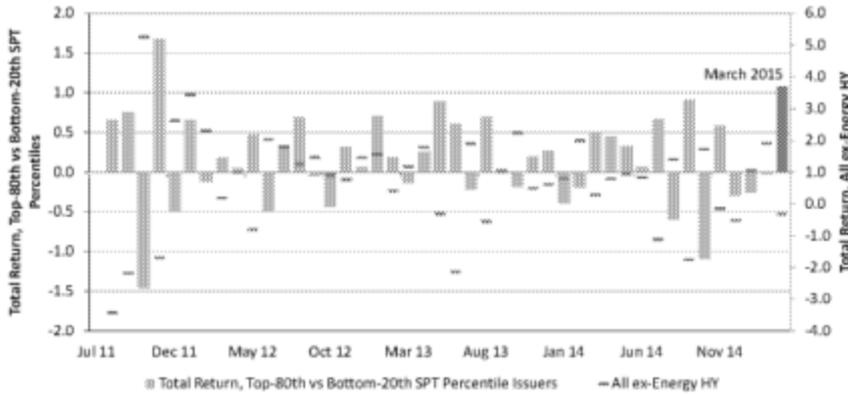




A HY portfolio allocation strategy we introduced last month has done well in its inaugural live performance period, registering a 1.1% outperformance of top-80th percentile over bottom-20th percentile names, as ranked by spread-per-turn (Figure 2). Another important attribute of this performance differential is that it is not a function of a simple high-beta outperformance, in that overall ex-energy HY index was down 0.3% for the month, and its CCC component was down by 0.7%. We will update our readers on the new composition of both baskets for April in the chartbook report to be published next week.

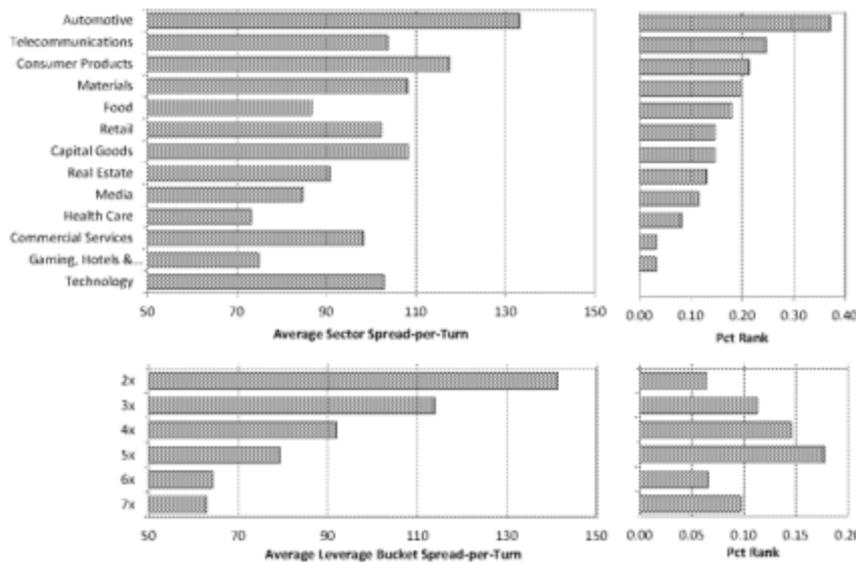
Figure 2: Total return performance of top-80th vs bottom-20th percentile baskets, ranked by ex-ante spread-per-turn (backtested prior to March 2015)



Source: Deutsche Bank

Taking this analysis a step further in this publication, we are introducing sector spread-per-turn readings, averaged on an issuer basis. As a reminder, selection criteria for this exercise includes min 10 names per sector (average count is 20), ex financials, real estate, and energy, max total leverage under 6x in BBs, 8x in Bs, and 10x in CCCs, max spreads under 600bp, 800bp, and 1,000bp in each rating category respectively. Figure 3 below presents the results.

Figure 3: Average spread-per-turn in sectors and leverage buckets



Source: Deutsche Bank