

# Introduction to Bank Loans

## A Primer for Institutional Clients

Putting clients first.



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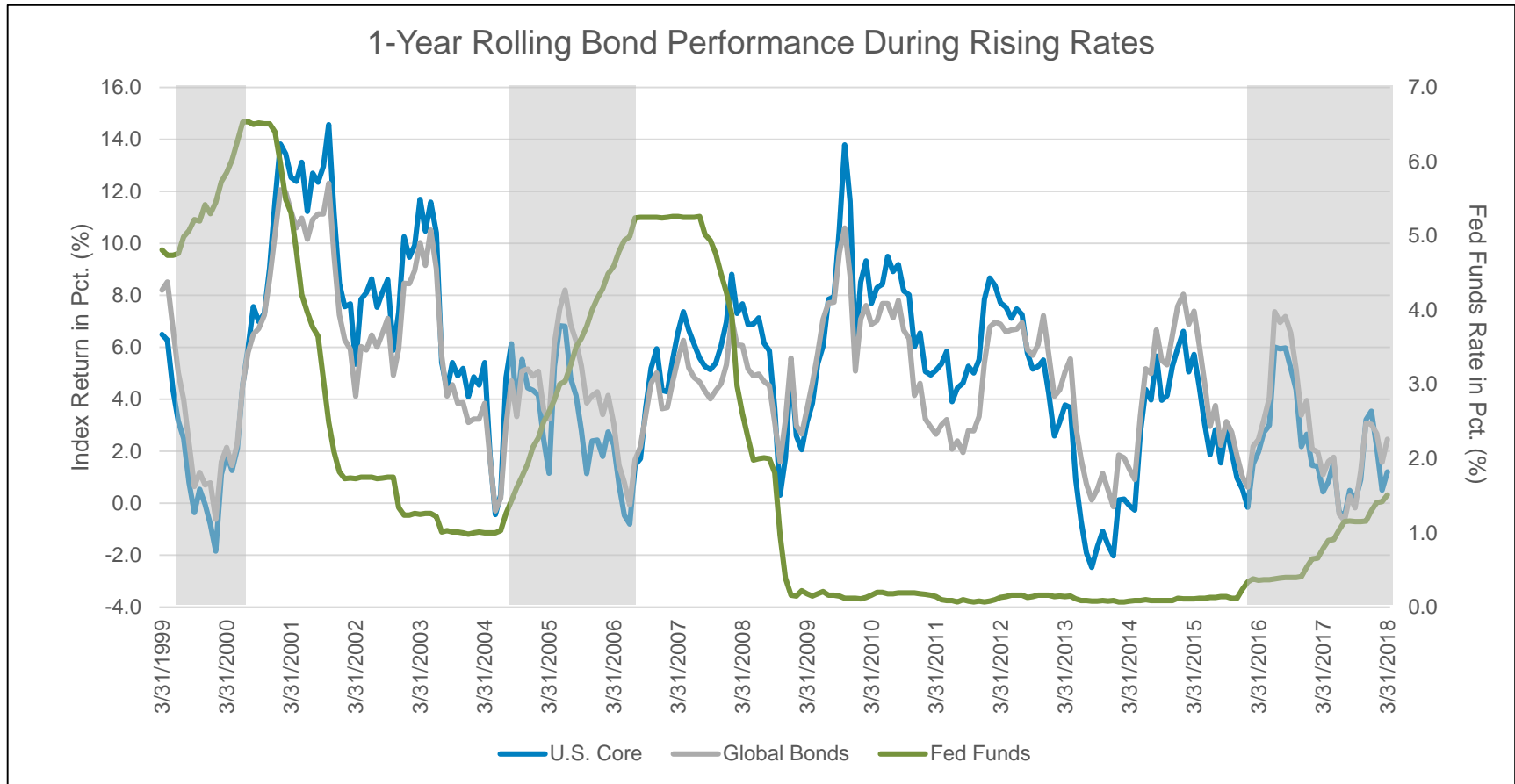
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# The Investment Challenge

- 1) Expected return from a traditional institutional portfolio will be challenged to meet return targets, and
- 2) As interest rates rise fixed income security prices have historically declined



Source: Expected return and correlation are from the "2018 JPMorgan Long-Term Capital Market Assumptions", St. Louis Federal Reserve, Morningstar and AndCo Consulting as of March 2018

# Addressing the Investment Challenge

***Bank loans have characteristics that can address these challenges:***

- **Bank loans offer returns which are typically higher than those of Core bonds, but with generally lower credit risk than comparable to high yield bonds**
  - Bank loans trade based on a spread to an index, typically LIBOR, with comparable yields to high yield bonds
  - Bank loans are higher in the issuing company's capital structure and are often collateralized by assets which can reduce the potential for loss of capital in the event of a default
- **Bank loans offer investors floating coupons designed to minimize interest rate sensitivity**
  - Bank loan coupons reset every 90 days which can mitigate interest rate risk and potentially limit drawdowns during periods of rising interest rates

***Ultimately, these benefits improve the risk-return characteristics of a traditional institutional portfolio, resulting in a more optimal asset allocation for institutional investors***

# Defining Bank Loans

- Bank loans have structural features that are unique and differentiated relative to fixed coupon high yield bonds: seniority in the capital structure and floating rate coupons
- Being senior in the capital structure and collateralized has historically led to higher recovery rates in the event of a default
- Bank loans have floating rate coupons which are highly sensitive to short-term interest rates. Given that the coupons reset every 30-90 days, bank loans have little to no duration

Characteristic	Description	Benefit
Senior Secured	Typically secured by assets and senior in a capital structure to bonds and equity	<b>Downside protection and higher recoveries</b> – Loans typically provide a higher recovery in the case of default and seniority in the capital structure allows the lender to be repaid first
Restrictive Covenants	Bank loans typically require that borrowers maintain pre-determined credit metrics	<b>Control</b> – This provides a lender more control over a borrower's strategic initiatives and allows a lender options to help control a borrower when performance deteriorates
Floating Rate Coupon	Bank loans typically set the interest payments to a floating rate index, such as LIBOR, plus a spread compensating you for the credit risk	<b>Mitigates interest rate risk</b> – The floating rate coupon helps keep pace with the market in rising rate environments
Recovery vs. High Yield Bonds	Bank loans are more senior in a firm's capital structure than bonds	<b>Recovery</b> – Being senior and secured by assets increases the likelihood of recovery of capital in the event of default

# Institutional Investments in Bank Loans

- Institutional investors began investing in the late 1980s as banks sold or syndicated their corporate loans
- The Loan Syndications and Trading Association (LSTA) was formed in 1995 with the goal of fostering cooperation and coordination between market participants
  - Indexes were created
  - Loan ratings were standardized
- By the early 2000s, collateralized loan obligations (CLOs) were the primary driver of new loan issuance
- During the Financial Crisis in 2009, bank loans experienced similar default levels as high yield bonds. However, investors were able to recover significantly more assets as a result of the pledged collateral
- Easy monetary policies from global central banks resulted in a surge of new loan issuance as investors sought higher yielding assets. The bank loan market has grown to more than \$1 trillion in market capitalization
- More recently, as the Federal Reserve has started to raise interest rates, investors have looked to bank loans as a way to hedge interest rate risk

# Benefits of Implementing an Allocation to Bank Loans

## Risk-Adjusted Return Potential

Bank loans are anticipated to generate an attractive long-term, risk-adjusted return profile relative to equities and fixed income according to the below

	Return	Standard Deviation
Bank Loans	5.28	7.75
Core Fixed Income	3.32	3.75
Global Fixed Income	2.71	6.50
High Yield	5.59	8.50
U.S. Large Cap	6.41	14.00
U.S. Small Cap	7.35	18.84

Source: Forecast returns are from the "2018 JPMorgan Long-Term Capital Market Assumptions"

# Benefits of Implementing an Allocation to Bank Loans

## Diversification

Bank loans typically exhibit a lower correlation with traditional equities and fixed income due mainly to the duration profile of the asset class

	Bank Loans	Core Fixed Income	Global Fixed Income	High Yield	U.S. Large Cap	U.S. Small Cap
Bank Loans	1.00					
Core Fixed Income	-0.07	1.00				
Global Fixed Income	-0.14	-0.07	1.00			
High Yield	0.80	0.19	0.17	1.00		
U.S. Large Cap	0.55	0.00	0.14	0.69	1.00	
U.S. Small Cap	0.51	-0.02	0.03	0.65	0.96	1.00

Source: Forecast returns are from the "2018 JPMorgan Long-Term Capital Market Assumptions"



# Benefits of Implementing an Allocation to Bank Loans

## Calendar Year Returns

Bank loans have historically provided consistent absolute returns with less volatility compared to traditional equity and fixed income assets

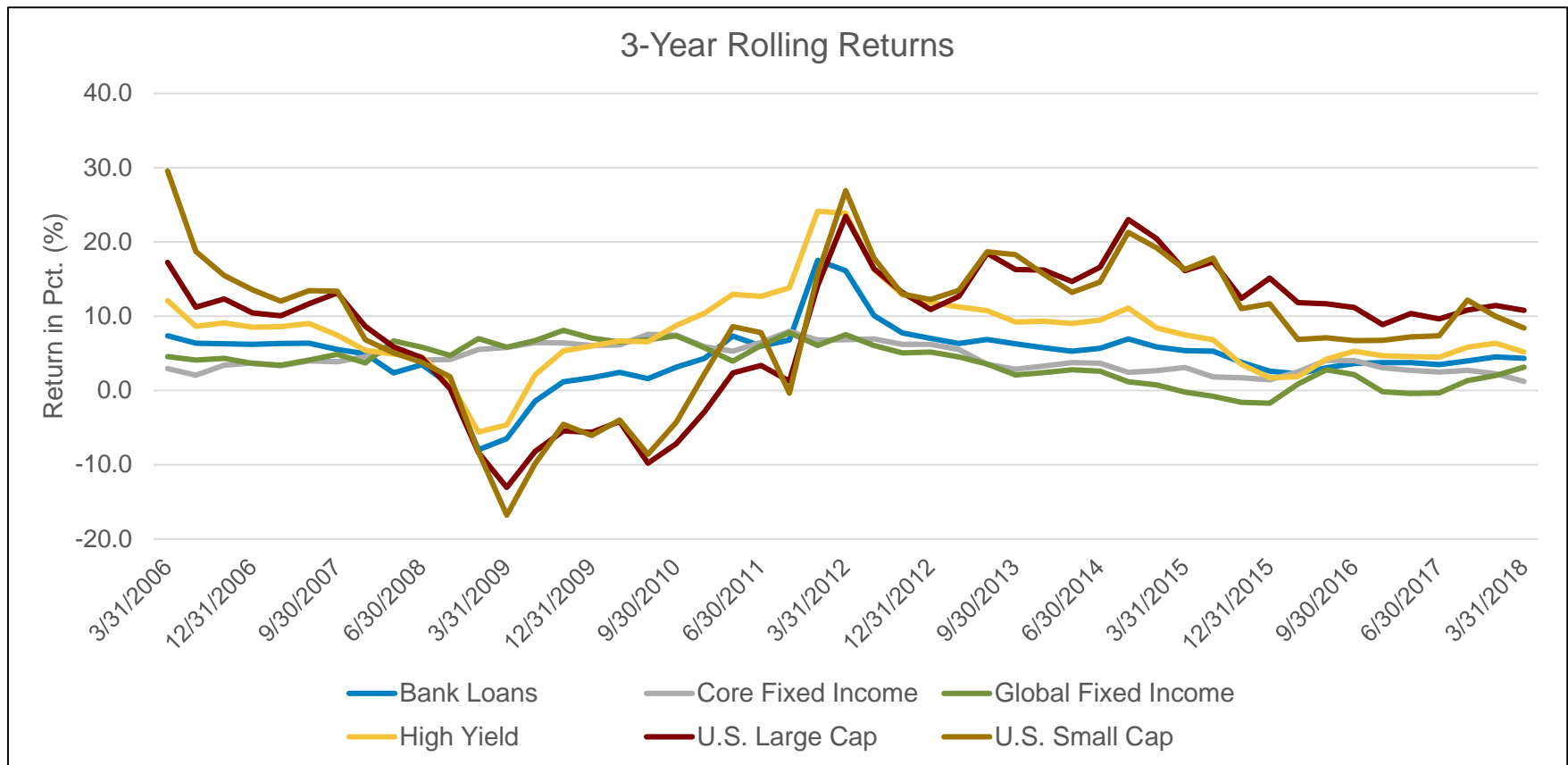
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Bank Loans	4.2%	9.9%	-0.4%	2.1%	6.2%	9.4%	1.8%	10.0%	44.9%	-28.8%
Core Fixed Income	3.5%	2.6%	0.5%	6.0%	-2.0%	4.2%	7.8%	6.5%	5.9%	5.2%
Global Fixed Income	7.4%	2.1%	-3.2%	0.6%	-2.6%	4.3%	5.6%	5.5%	6.9%	4.8%
High Yield	7.5%	17.1%	-4.5%	2.5%	7.4%	15.8%	5.0%	15.1%	58.2%	-26.2%
U.S. Large Cap	21.8%	12.0%	1.4%	13.7%	32.4%	16.0%	2.1%	15.1%	26.5%	-37.0%
U.S. Small Cap	14.6%	21.3%	-4.4%	4.9%	38.8%	16.3%	-4.2%	26.9%	27.2%	-33.8

Source: Morningstar as of December 2017. Past performance is no guarantee of future returns.

# Benefits of Implementing an Allocation to Bank Loans

## Rolling Returns

Bank loans have historically provided investors with similar returns as traditional assets with lower volatility

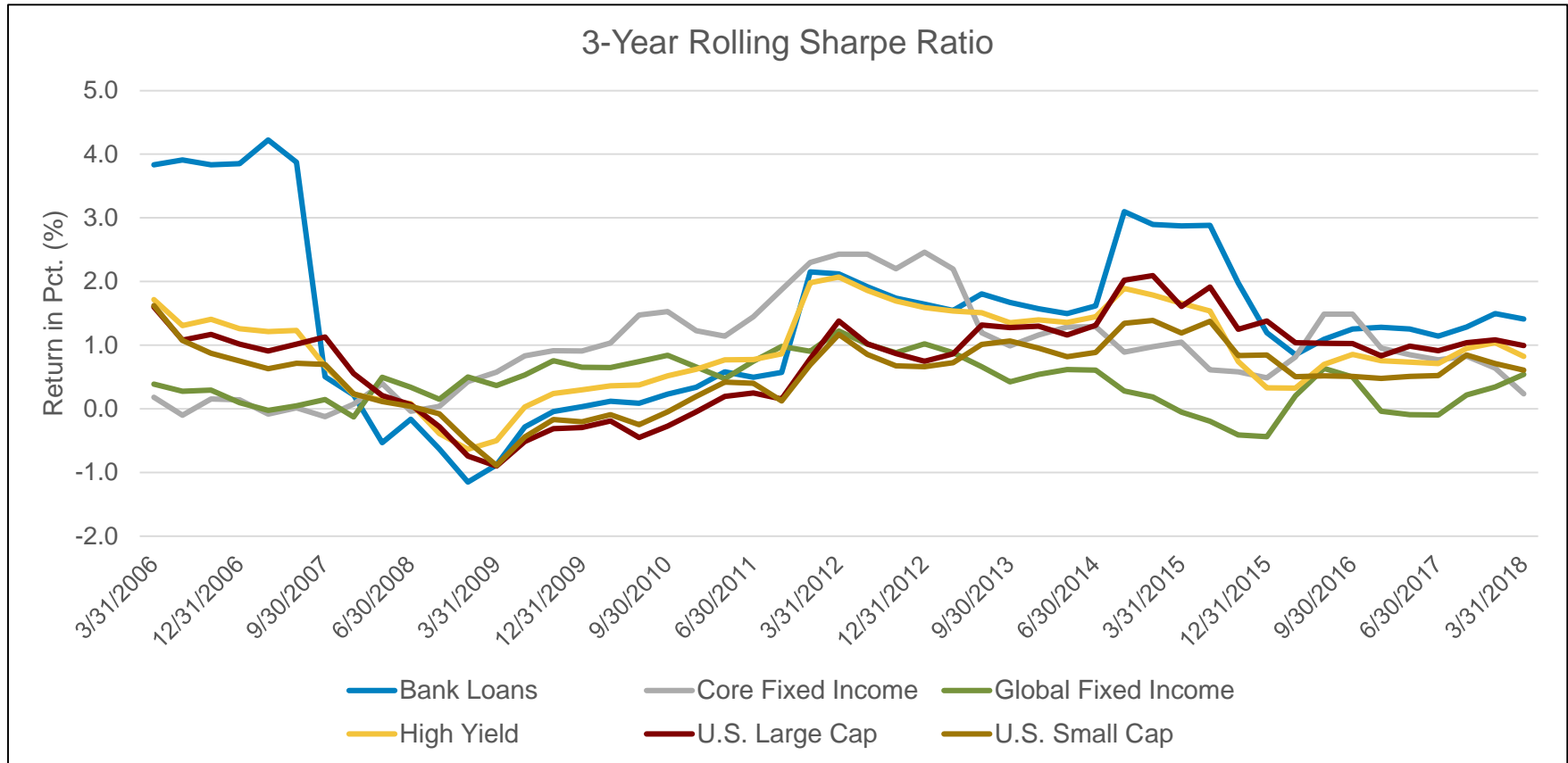


Source: Bloomberg Barclays, Standard & Poors and AndCo Consulting as of March 2018

# Benefits of Implementing an Allocation to Bank Loans

## Risk-adjusted Returns

Bank loans have historically provided investors with high risk-adjusted return compared to traditional assets

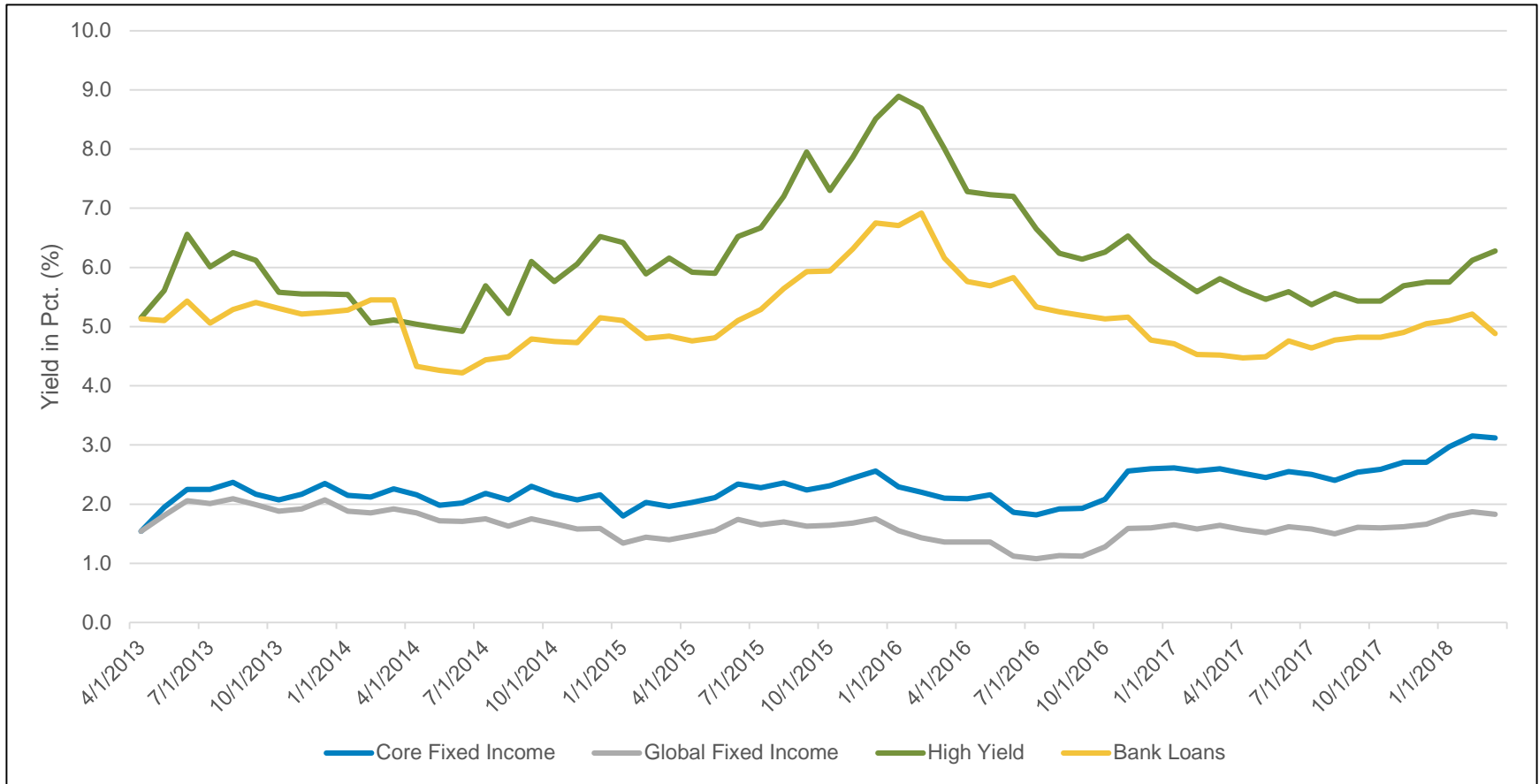


Source: Bloomberg Barclays, Standard & Poors and AndCo Consulting as of March 2018

# Benefits of Implementing an Allocation to Bank Loans

## Yield Enhancement

Bank loans have historically provided investors with enhanced yields compared to core and global bonds



Source: Bloomberg Barclays, Standard & Poors and AndCo Consulting as of March 2018

# Benefits of Implementing an Allocation to Bank Loans

## Downside Protection

Given their seniority in the capital structure and collateral, bank loans have historically protected investors' capital with lower default rates and higher recovery rates

	Default Rate (%)		Average Recovery Rate (%)	
	High Yield	Bank Loans	High Yield	Bank Loans
1995	2.3	0.5	42	94
1996	1.4	1.3	47	57
1997	0.9	0.6	54	78
1998	1.4	0.9	38	74
1999	4.1	2.5	31	51
2000	4.5	5.3	26	57
2001	9.2	6.8	28	57
2002	15.5	8.1	30	63
2003	4.3	3.8	44	67
2004	1.3	1.0	53	83
2005	2.6	1.6	51	86
2006	0.7	0.4	66	66
2007	0.5	0.2	60	89
2008	5.5	2.9	35	54
2009	9.4	9.6	27	43
2010	1.6	2.5	58	51
2011	1.8	0.7	54	55
2012	1.7	1.9	55	57
2013	0.9	1.4	58	65
2014	2.1	3.0	61	56
2015	3.4	1.6	37	58
2016	3.6	1.5	30	63
2017	1.3	1.8	49	62
<b>Yearly Averages</b>	<b>3.5</b>	<b>2.6</b>	<b>45</b>	<b>65</b>

Source: JPMorgan, Credit Suisse and AndCo as of December 2017

# Implementation Considerations – Risks and Unique Characteristics

## *Primary considerations to implementing a Bank Loans allocation:*

- **Economic:**
  - Bank loans are sensitive to economic growth conditions. Periods of decelerating growth marked by declining interest rates can negatively impact returns
- **Default:**
  - As with all other bonds, it is possible for a company to default on its loan payments. However, bank loans sit higher in the capital structure of the borrowing company compared to subordinated bonds, and as such, have a higher probability of recovery in the event of a default
- **Liquidity:**
  - While bank loan markets have experienced considerable growth in recent years, liquidity can be challenging during risk-off periods marked by widening credit spreads
  - Bank loans typically trade on a T +29 basis which can result in mismatched in cash flows
- **Prepayment:**
  - There is a risk that the borrowing company may choose to repay the loan early which may impact expected cash flows and subject investors to reinvestment risk
- **Ratings:**
  - The borrowing company's creditworthiness may deteriorate which can result in a rating downgrade which can affect the market value of the loan
- **Fees:**
  - Fees for bank loan funds are higher than other public fixed income options. Fees typically range between 0.5% and 1.0%

# Implementation Considerations – Manager/Strategy Selection

## *What does AndCo look for when evaluating bank loan managers?*

- **Team stability:**
  - Due to the long-term nature of the investments, we generally believe that it is critical to partner with a team that has had minimal turnover of key professionals responsible for generating the firm's track record
- **Size, depth and resources:**
  - Compared to more efficient sectors of the fixed income market, bank loans are labor intensive in nature and require considerable resources. Given this, we tend to favor larger managers with well-resourced research capabilities
- **Ability to add value through active management:**
  - Demonstrated capabilities of adding value through techniques such as sector rotation, security selection, and negotiating contracts
- **Product design and investment policy constraints:**
  - Bank loan funds contain corporate credit exposures. The ability to access attractive terms on these structures will generally impact total return
- **Portfolio construction process:**
  - Most bank loan funds are constructed with a greater focus on relative return compared to a benchmark. The ability to control positioning sizing and limit risk should impact total return
- **Track record:**
  - Have demonstrated an ability to generate net returns consistent with the investment strategy across market cycles
- **Terms:**
  - Reasonable fees and terms that are consistent with institutional market standards

# The Bank Loans Opportunity

## ***AndCo's View***

- Allocating 2% to 5% of an institutional portfolio to bank loans is a reasonable long-term strategic allocation, depending on the investor's objectives
- We view bank loans as a component of a long term strategic allocation, not a short-term trade idea
- We believe a steady and consistent allocation to bank loans can further diversify a portfolio and potentially add return depending on the portfolio funding source
- We prefer strategies which offer investors the opportunity to participate in broadly-syndicated loans with the potential to mitigate liquidity and credit risks
- We prefer that clients access bank loan strategies through commingled funds given the liquidity profile of the space and the potential for defaults and workouts



# Bank Loan Terms

**Alpha:** A measure of performance on a risk-adjusted basis.

**Basis Point (BPS):** refer to a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01% (0.0001), and is used to denote the percentage change in a financial instrument.

**Bloomberg Barclays Capital U.S. Aggregate Bond Index:** Also known as 'core' bonds. An index that represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities.

**Bloomberg Barclays Capital Global Aggregate Bond Index:** Also known as 'global' bonds. An index that represents securities that are SEC-registered, taxable, and denominated in local currency. The index covers the global investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities.

**Below Investment Grade:** Also known as "junk bond" is a security rated below investment grade having a rating of BBB- or below. These bonds are seen as having higher default risk or other adverse credit events, but typically pay higher yields than better quality bonds in order to make them attractive. They are less likely to pay back at par/\$100 cents on the dollar.

**Beta:** A measure of the volatility of a security or portfolio in comparison to the market as a whole.

**Correlation:** A statistical measurement of the relationship between two variables. Possible correlations range from +1 to -1. A zero correlation indicates that there is no relationship between the variables. A correlation of -1 indicates a perfect negative correlation and +1 indicates a perfect positive correlation.

**Default:** When a borrower (issuer of debt) has failed to fulfill their obligations or conditions on their debt.

**Duration:** A commonly used measure of the potential volatility of the price of a debt security, or the aggregate market value of a portfolio of debt securities, prior to maturity. Securities with a longer duration generally have more volatile prices than securities of comparable quality with a shorter duration.

**Gross Domestic Product (GDP):** The monetary value of all the finished goods and services produced within a country's borders in a specific time period.

**Management Fee:** A fee paid to the Investment Manager for its services, typically as a percentage of aggregate capital commitments. Management fees in a mutual fund typically range from 0.50% to 1.0% of assets.

**Primary Market:** The market in which securities are created and firms sell stocks and bonds to the public for the first time.

**S&P/LSTA U.S. Leveraged Loan Index:** The index used to reflect the performance of the largest facilities in the leveraged loan market.

**Secondary Market:** The market in which investors purchase securities or assets from other investors, rather than from issuing companies themselves.

**Sharpe Ratio:** A reward-to-variability ratio and a measure of the excess return (or Risk Premium) per unit of risk in an investment asset or a trading strategy.

**Sovereign Bonds:** Bonds issued by governments, or government-backed, entities.

**Spread:** The difference between the quoted rates of return or yield on two different investments, usual of different credit qualities but similar maturities.

**Standard Deviation:** A measure of the dispersion of a set of data from its mean. The more spread apart the data, the higher the deviation. Calculated by the square-root of the variance.

**Tracking Error:** A divergence between the price behavior of a position or a portfolio and the price behavior of a benchmark. This is often in the context of a hedge or mutual fund that did not work as effectively as intended, creating an unexpected profit or loss instead.

**Yield:** The income return on an investment, such as the interest or dividends received from holding a particular security. The yield is usually expressed as an annual percentage rate based on the investment's cost, current market value or face value

# Investment Options

**Purpose for this Manager Evaluation Report**

This search has been conducted to identify possible candidates for the addition of an allocation to Bank Loans.

**Investment Options for this Manager Evaluation Report**

<b>Firm Name</b>	<b>Strategy Name</b>	<b>Vehicle</b>	<b>Management Fee</b>	<b>Investment Minimum</b>
Credit Suisse Asset Management	Credit Suisse Floating Rate Hi Inc Instl (CSHIX)	MF	0.70%	\$250,000
Loomis Sayles	Loomis Sayles Senior Floating Rate and Fixed Income (LSFNX)	MF	0.75%	\$1,000,000
Pacific Life Fund Advisors	Pacific Funds Floating Rate Income I (PLFRX)	MF	0.71%	\$500,000

## Definition and Characteristics

The U.S. Bank Loan category is defined as corporate loans rated BB or below by an established credit rating agency, which is often categorized as non-investment grade. The most popular benchmarks for the category are the Standard and Poors/Loan Syndications & Trading Association (S&P/LSTA) Leveraged Loan Index and the Credit Suisse Leveraged Loan (CSLL) Index. Both the S&P/LSTA and CSLL Indexes focus on US domestic corporate issues which contain US dollar denominated loans. Both focus on floating-rate loans which typically reset their coupon payments every 90 days based on a reference index such as 90-day LIBOR.

## Role within a Portfolio

The Bank Loan category can play an important role in a diversified fixed income portfolio. Bank Loans offer larger coupons compared to U.S. Treasury, Agency and investment grade corporate bonds with the added potential for price appreciation in the event of an improvement in the economy, or performance of the issuing company. Importantly, bank loans offer the added benefit of a shorter duration profile because of the frequent coupon resets. Bank loans generally provide lower correlation to other sectors of the fixed income market, along with less sensitivity to interest rate risk. An allocation to bank loans may provide portfolio diversification benefits.

## Benchmark and Peer Group

This Bank Loan search report will use the following benchmark and peer group:

**Index – S&P/LSTA Leveraged Loan Index:** The index is a market value-weighted index which covers the U.S. Corporate non-investment grade floating-rate loan market and contains over 1,200 issues. The index is composed of U.S. dollar-denominated corporate loans in a variety of sectors a minimum \$50 million par amount outstanding and minimum initial maturity of greater than one year.

**Morningstar Category – Bank Loan:** Bank-loan portfolios primarily invest in floating-rate bank loans instead of bonds. In exchange for their credit risk, these loans offer high interest payments that typically float above a common short-term benchmark such as the London Interbank Offered Rate, or LIBOR.

	Credit Suisse Floating Rate Hi Inc Instl	Loomis Sayles Sr Floating Rate and F/I N	Pacific Funds Floating Rate Income I
<b>Firm Information</b>			
Year Founded	1/1/1997	1/1/1926	1/1/2007
US Headquarters Location	New York, NY	Boston, MA	Newport Beach, CA
Number of Major Global Offices	2	3	1
Year Began Managing Ext. Funds	1/1/2004	1/1/1926	1/1/2007
Firm AUM (\$ M)	382,200	266,656	7,400
Ownership Type	Subsidiary	Subsidiary	Subsidiary
Largest Owner (Name)	Credit Suisse	NGAM	Pacific Life
Employee Ownership (%)	0	0	0
Qualify as Emerging Manager?	No	No	No
<b>Team Information</b>			
Decision Making Structure	Team	PM-Led	PM-Led
Number of Decision Makers	5	2	2
Names of Decision Makers	5 decision makers	J. Bell, K. Perry	JP Leasure, Michael Marzouk
Date Began Managing Strategy	1998	2011	2007
Date Began with Firm	1997-2008	2001	2007
Number of Products Managed by Team	7	2	1
Number of Investment Analysts	18	5	13
Investment Analyst Team Structure	Sector/Industry analysts	Generalists	Sector/Industry analysts

The source of data and figures provided is generally the respective managers. Certain data represents AndCo's view and could differ from the manager's interpretation. The most current AUM of each strategy may therefore differ from what is currently stated.

	Credit Suisse Floating Rate Hi Inc Instl	Loomis Sayles Sr Floating Rate and F/I N	Pacific Funds Floating Rate Income I
<b>Strategy Information</b>			
Inception Date	6/1/1998	9/30/2011	1/1/2007
Open/Closed	Open	Open	Open
Primary Benchmark	Credit Suisse Leveraged Loan	S&P/LSTA Leveraged Loan	Credit Suisse Leveraged Loan
Secondary Benchmark	N/A	N/A	N/A
Peer Universe	Bank Loan Universe	Bank Loans	Bank Loan Universe
Outperformance Estimate (%)	.5-1	0.75-1	.5-1
Tracking Error Estimate (%)	1-1.5	1-1.5	1
Strategy AUM (\$ M)	3,500	3,608	3,200
Strategy AUM as % Firm Assets	12	1	40
Investment Approach - Primary	Bottom-up	Combination	Bottom-up
Investment Approach - Secondary	Quantitative	Fundamental	Fundamental
<b>Portfolio Construction Information</b>			
Broad Style Category	Bank Loans	Bank Loans	Bank Loans
Style Bias	Relative Value	Relative Value	Relative Value
Duration Constraint Type	N/A	N/A	Absolute
Duration Constraint (%)	N/A	N/A	1-year maximum
Sector Constraint Type	Absolute	Absolute	Relative
Sector Constraints (%)	Max 25%	Bank Loans: 65-100; Other FI: 0-35	3x Index Weighting
Typical Sector/s Overweight	N/A	N/A	N/A
Typical Sector/s Underweight	N/A	N/A	N/A
Typical Number of Holdings	425-475	200-300	80-150
Average Full Position Size (%)	1.25	0.5	.5-1.5
Maximum Position Size (%)	5	5	5
Annual Typical Asset Turnover (%)	25-35	N/A	100
Annual Typical Name Turnover (%)	25-35	N/A	30-50
Max <BBB Credit (%)	N/A	N/A	100
Maximum Foreign Exposure (%)	30	20; EMD: 10	20
Maximum Cash Allocation (%)	5	Varies; Current: 3	10
Derivatives Used?	No	Yes	No

The source of data and figures provided is generally the respective managers. Certain data represents AndCo's view and could differ from the manager's interpretation. The most current AUM of each strategy may therefore differ from what is currently stated.

As of 6/30/2018

	Credit Suisse Floating Rate Hi Inc Instl	Loomis Sayles Sr Floating Rate and F/I N	Pacific Funds Floating Rate Income I
<b>COMPOSITION</b>			
# of Holdings	458	366	171
% Asset in Top 10 Holdings	7.59	6.43	13.28
Asset Alloc Cash %	8.74	8.66	6.50
Asset Alloc Equity %	0.21	0.41	0.00
Asset Alloc Bond %	89.97	89.99	93.50
Asset Alloc Other %	1.08	0.93	0.00
<b>STATISTICS</b>			
Average Eff Duration	0.56	0.29*	0.30
Average Eff Maturity	2.94	5.19*	5.28*
Average Coupon	4.39	N/A	5.38*
Yield to Maturity	6.01	N/A	N/A
Average Credit Quality	B	N/A	B
<b>SECTOR ALLOCATION</b>			
Government %	0.00	0.00	0.00
Government Related %	0.00	0.00	0.00
Municipal Taxable %	0.00	0.00	0.00
Municipal Tax-Exempt %	0.00	0.00	0.00
Bank Loan %	74.19	81.91	90.93
Corporate Bond %	9.43	6.69	2.58
Agency Mortgage-Backed %	0.00	0.00	0.00
Non-Ag. Res. Mortgage-Backed %	0.00	0.00	0.00
Commercial Mortgage-Backed %	0.16	0.23	0.00
Asset-Backed %	3.56	0.00	0.00
Cash & Equivalents %	8.74	8.66	6.50

Morningstar Direct does not provide fundamental data for S&amp;P/LSTA Leveraged Loan Index.

\*The source of the noted figure is the respective manager.

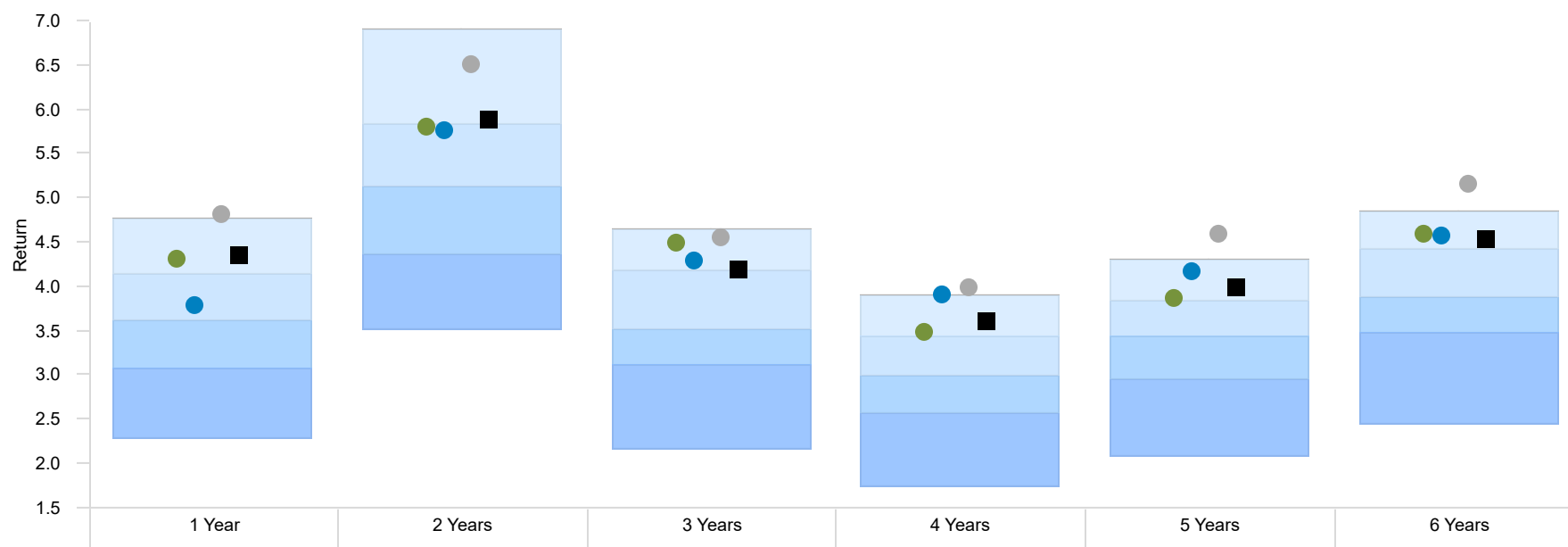
As of 6/30/2018

	Credit Suisse Floating Rate Hi Inc Instl	Loomis Sayles Sr Floating Rate and F/I N	Pacific Funds Floating Rate Income I
<b>MATURITY DISTRIBUTION</b>			
Maturity 1-3 Yr %	8.03	4.25	4.66
Maturity 3-5 Yr %	18.89	28.10	13.92
Maturity 5-7 Yr %	52.08	53.43	67.49
Maturity 7-10 Yr %	6.92	4.21	7.02
Maturity 10-15 Yr %	2.49	0.00	0.00
Maturity 15-20 Yr %	0.00	0.00	0.00
Maturity 20-30 Yr %	0.51	0.00	0.00
Maturity 30+ Yr %	0.00	0.00	0.00
<b>QUALITY DISTRIBUTION</b>			
Credit Qual AAA %	0.75	7.03	6.60
Credit Qual AA %	0.00	0.00	0.00
Credit Qual A %	0.95	0.00	0.00
Credit Qual BBB %	11.24	0.00	2.46
Credit Qual BB %	35.15	12.90	23.68
Credit Qual B %	43.86	60.46	57.64
Credit Qual Below B %	4.84	18.71	9.62
Credit Qual Not Rated %	3.20	0.90	0.00



# Quantitative Review

Peer Group (5-95%): Open End Funds - U.S. - Bank Loan



	1 Year	Rank	2 Years	Rank	3 Years	Rank	4 Years	Rank	5 Years	Rank	6 Years	Rank
Credit Suisse Floating Rate Hi Inc Instl	3.79	40	5.76	27	4.30	19	3.91	5	4.17	8	4.57	17
Loomis Sayles Sr Floating Rate and F/I N	4.82	5	6.53	10	4.57	8	4.00	4	4.61	3	5.17	1
Pacific Funds Floating Rate Income I	4.33	15	5.81	25	4.50	12	3.50	21	3.88	21	4.60	16
S&P/LSTA Leveraged Loan TR	4.37	15	5.88	23	4.21	24	3.61	17	4.00	15	4.55	20

	1 Year	Rank	2 Years	Rank	3 Years	Rank	4 Years	Rank	5 Years	Rank	6 Years	Rank
Credit Suisse Floating Rate Hi Inc Instl	3.79	40	5.76	27	4.30	19	3.91	5	4.17	8	4.57	17
Loomis Sayles Sr Floating Rate and F/I N	4.82	5	6.53	10	4.57	8	4.00	4	4.61	3	5.17	1
Pacific Funds Floating Rate Income I	4.33	15	5.81	25	4.50	12	3.50	21	3.88	21	4.60	16
S&P/LSTA Leveraged Loan TR	4.37	15	5.88	23	4.21	24	3.61	17	4.00	15	4.55	20

● Credit Suisse Floating Rate Hi Inc Instl

● Loomis Sayles Sr Floating Rate and F/I N

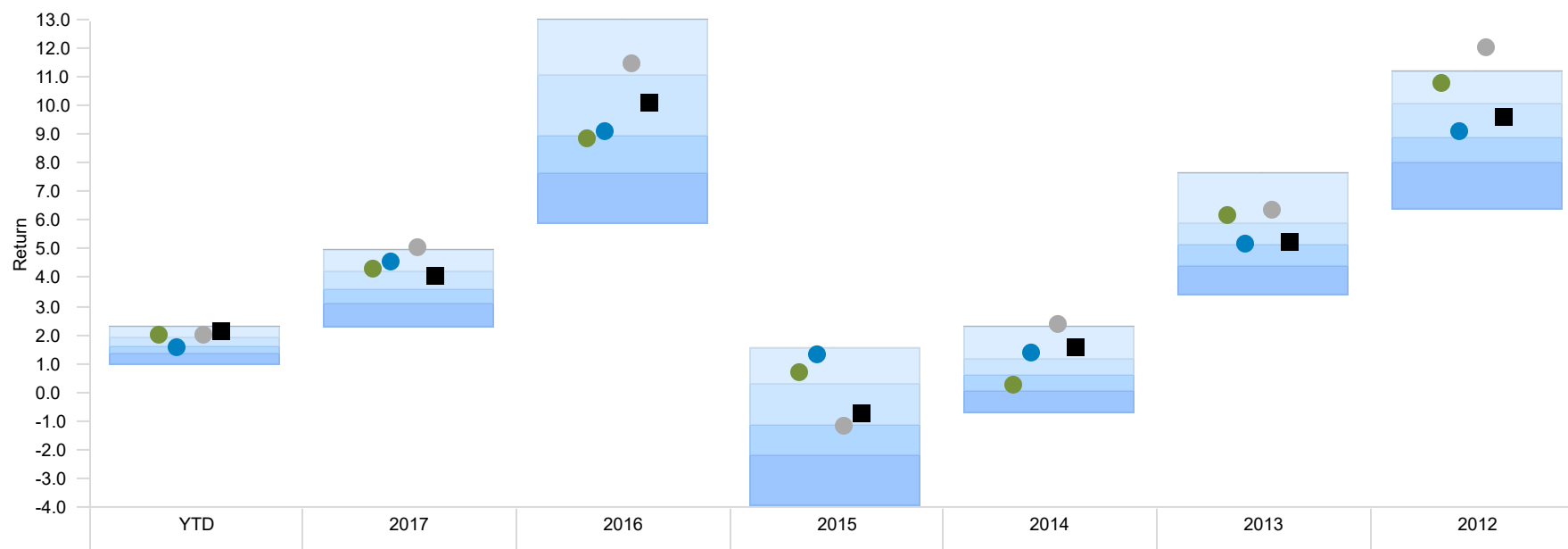
● Pacific Funds Floating Rate Income I

■ S&P/LSTA Leveraged Loan TR

Returns Net of Fees.

Performance data shown prior to fund's inception date represents extended performance of an older share class of the same strategy.

Peer Group (5-95%): Open End Funds - U.S. - Bank Loan



YTD Rank

2017 Rank

2016 Rank

2015 Rank

2014 Rank

2013 Rank

2012 Rank

	YTD	Rank	2017	Rank	2016	Rank	2015	Rank	2014	Rank	2013	Rank	2012	Rank
Credit Suisse Floating Rate Hi Inc Instl	1.58	50	4.57	12	9.11	49	1.37	7	1.38	19	5.24	47	9.13	45
Loomis Sayles Sr Floating Rate and F/I N	2.06	11	5.10	4	11.51	16	-1.14	49	2.41	5	6.39	15	12.04	1
Pacific Funds Floating Rate Income I	2.03	14	4.33	20	8.91	50	0.75	16	0.31	62	6.22	18	10.80	9
S&P/LSTA Leveraged Loan TR	2.16	7	4.12	28	10.16	35	-0.69	43	1.60	11	5.29	45	9.66	31

● Credit Suisse Floating Rate Hi Inc Instl

● Loomis Sayles Sr Floating Rate and F/I N

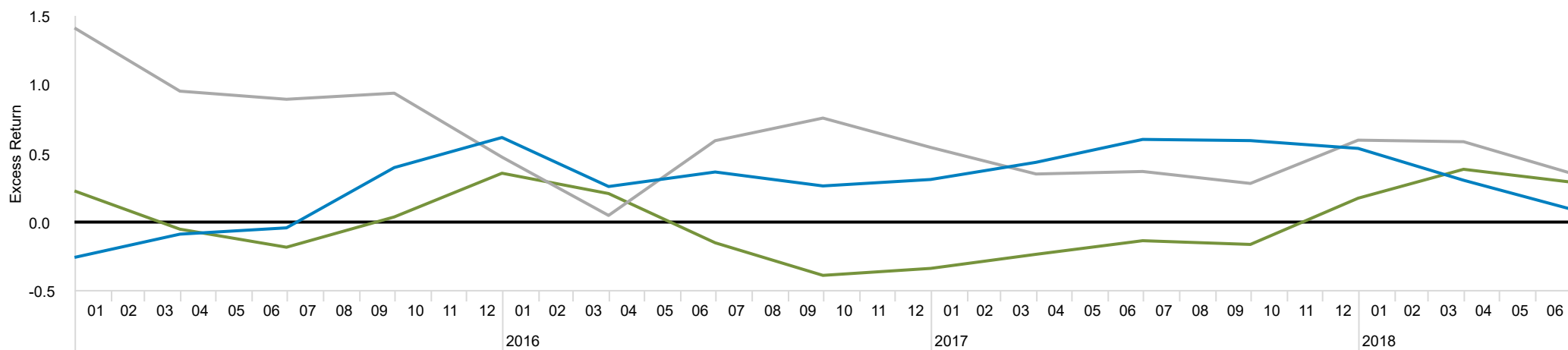
● Pacific Funds Floating Rate Income I

■ S&amp;P/LSTA Leveraged Loan TR

**Rolling Excess Returns**

Time Period: 1/1/2012 to 6/30/2018

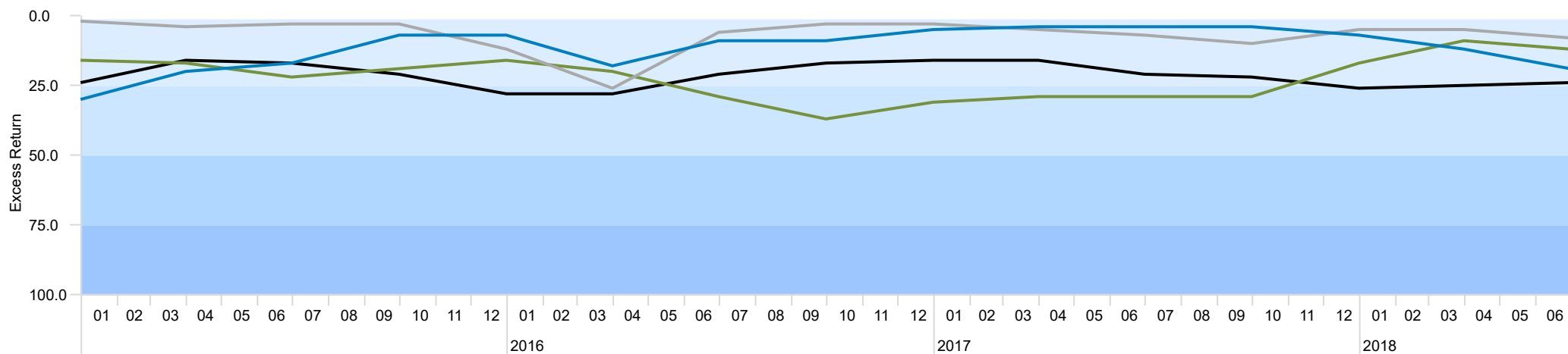
Rolling Window: 3 Years 3 Months shift Calculation Benchmark: S&amp;P/LSTA Leveraged Loan TR

**Rolling Excess Return Rankings**

Time Period: 1/1/2012 to 6/30/2018

Rolling Window: 3 Years 3 Months shift Calculation Benchmark: S&amp;P/LSTA Leveraged Loan TR

1st to 25th Percentile 26th to Median 51st to 75th Percentile 76th to 100th Percentile



Credit Suisse Floating Rate Hi Inc Instl

Loomis Sayles Sr Floating Rate and F/I N

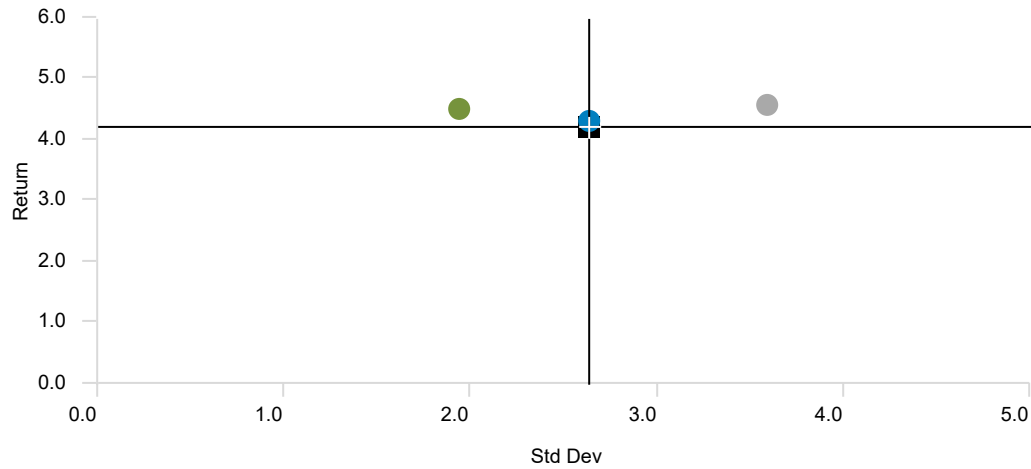
Pacific Funds Floating Rate Income I

S&amp;P/LSTA Leveraged Loan TR

**Risk-Reward: 3-Year**

Time Period: 7/1/2015 to 6/30/2018

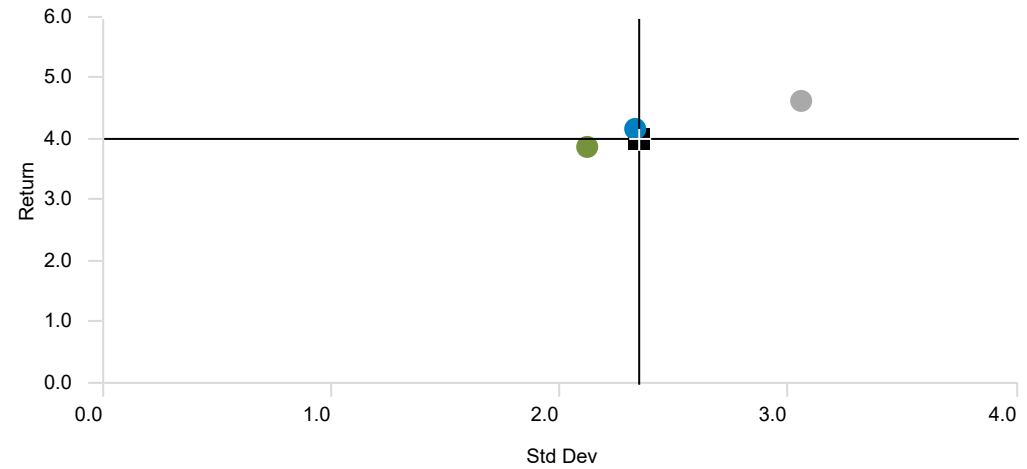
Calculation Benchmark: S&P/LSTA Leveraged Loan TR



**Risk-Reward: 5-Year**

Time Period: 7/1/2013 to 6/30/2018

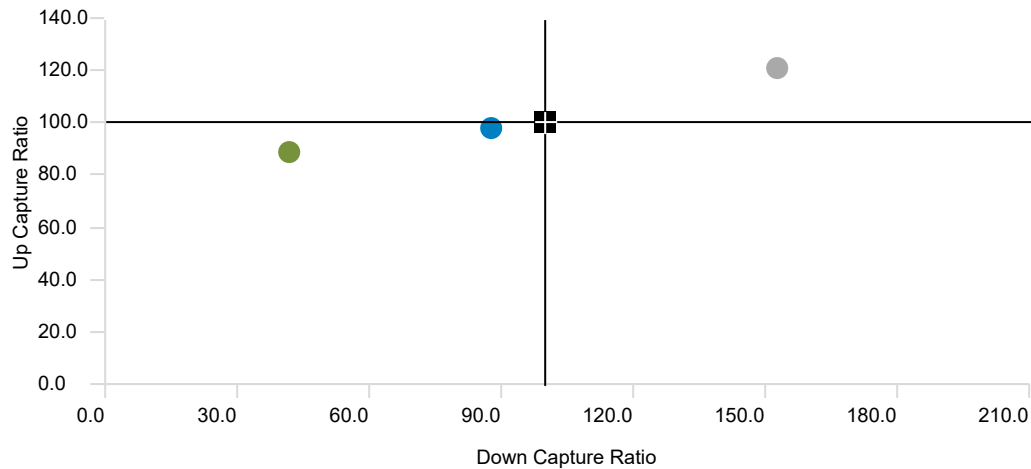
Calculation Benchmark: S&P/LSTA Leveraged Loan TR



**Up and Down Market Capture: 3-Year**

Time Period: 7/1/2015 to 6/30/2018

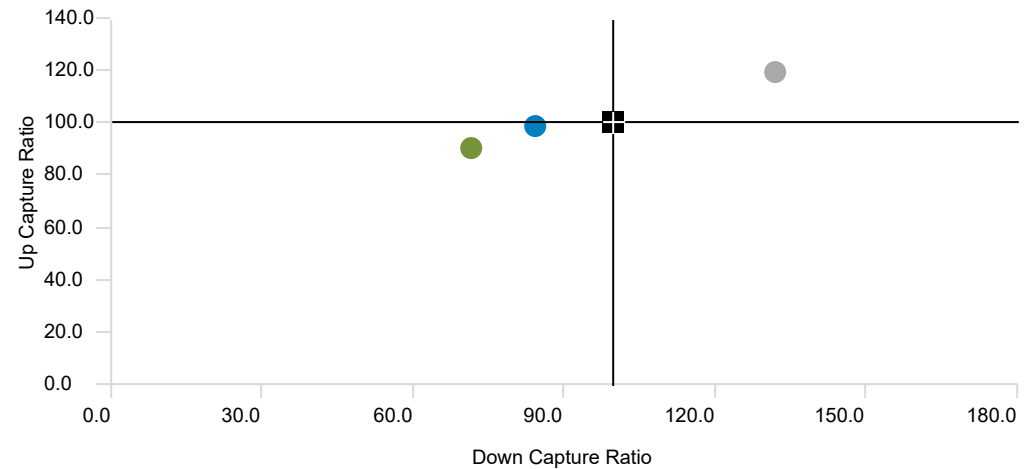
Calculation Benchmark: S&P/LSTA Leveraged Loan TR



**Up and Down Market Capture: 5-Year**

Time Period: 7/1/2013 to 6/30/2018

Calculation Benchmark: S&P/LSTA Leveraged Loan TR



● Credit Suisse Floating Rate Hi Inc Instl

● Loomis Sayles Sr Floating Rate and F/I N

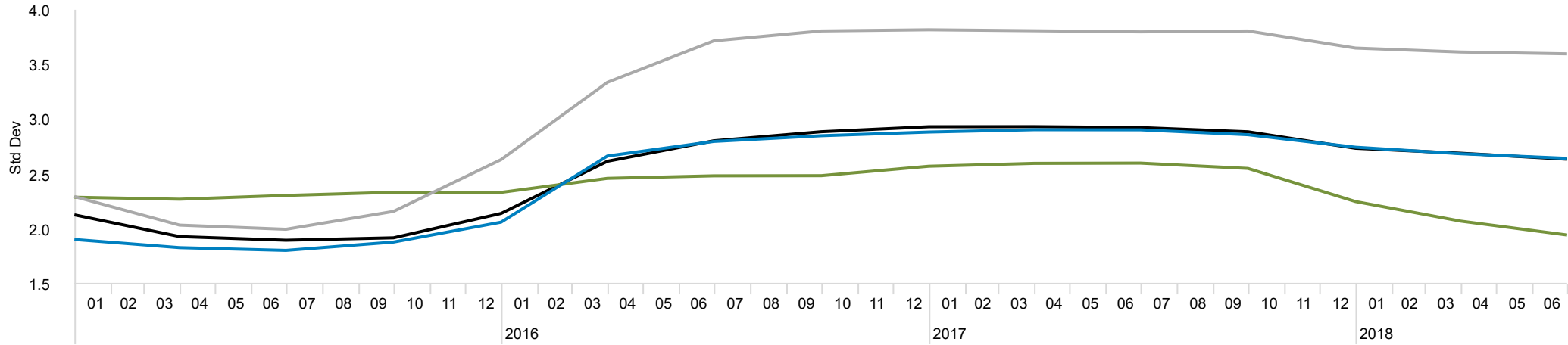
● Pacific Funds Floating Rate Income I

■ S&P/LSTA Leveraged Loan TR

### Rolling Standard Deviation

Time Period: 1/1/2012 to 6/30/2018

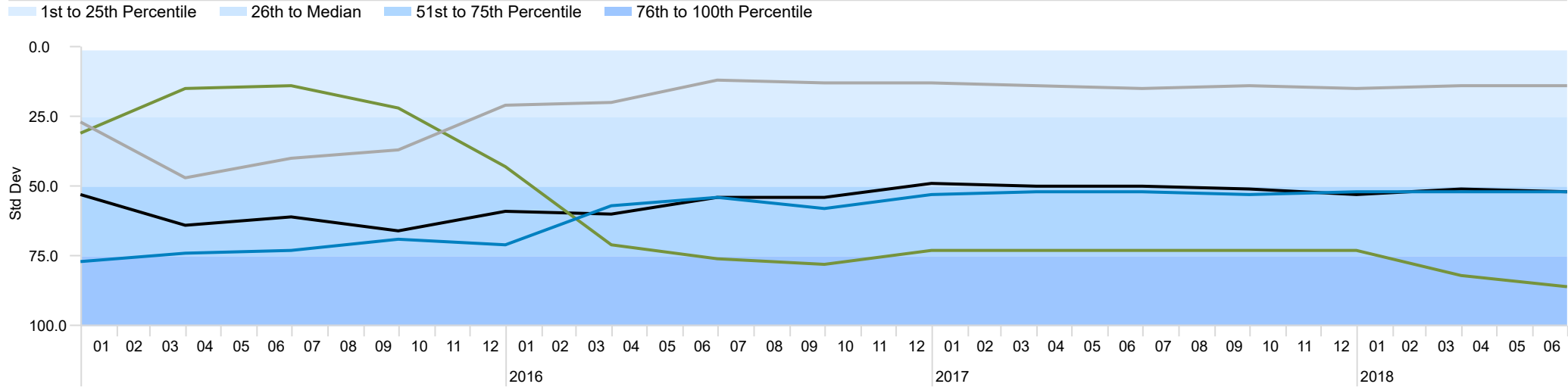
Rolling Window: 3 Years 3 Months shift Calculation Benchmark: S&P/LSTA Leveraged Loan TR



### Rolling Standard Deviation Rankings

Time Period: 1/1/2012 to 6/30/2018

Rolling Window: 3 Years 3 Months shift Calculation Benchmark: S&P/LSTA Leveraged Loan TR



— Credit Suisse Floating Rate Hi Inc Instl  
— S&P/LSTA Leveraged Loan TR

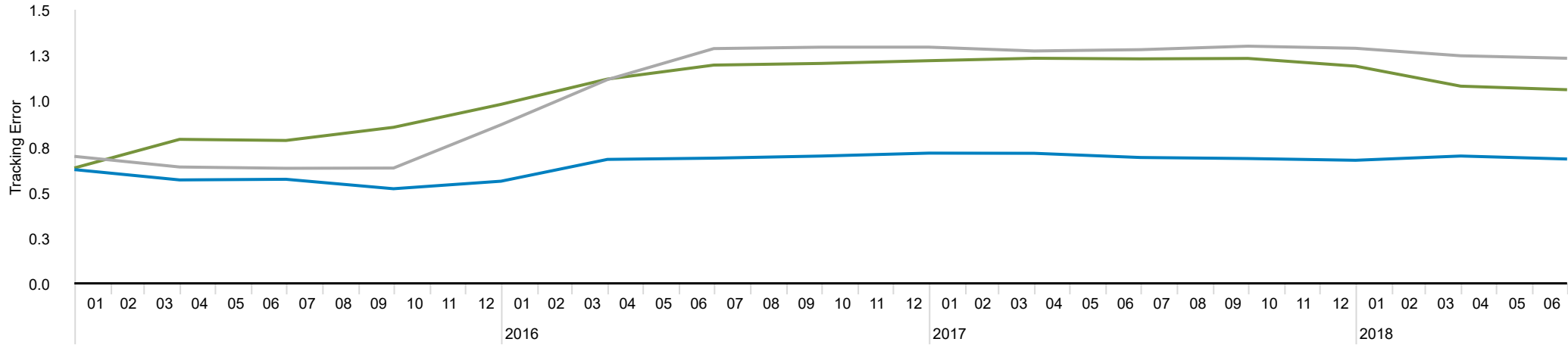
— Loomis Sayles Sr Floating Rate and F/I N

— Pacific Funds Floating Rate Income I

### Rolling Tracking Error

Time Period: 1/1/2012 to 6/30/2018

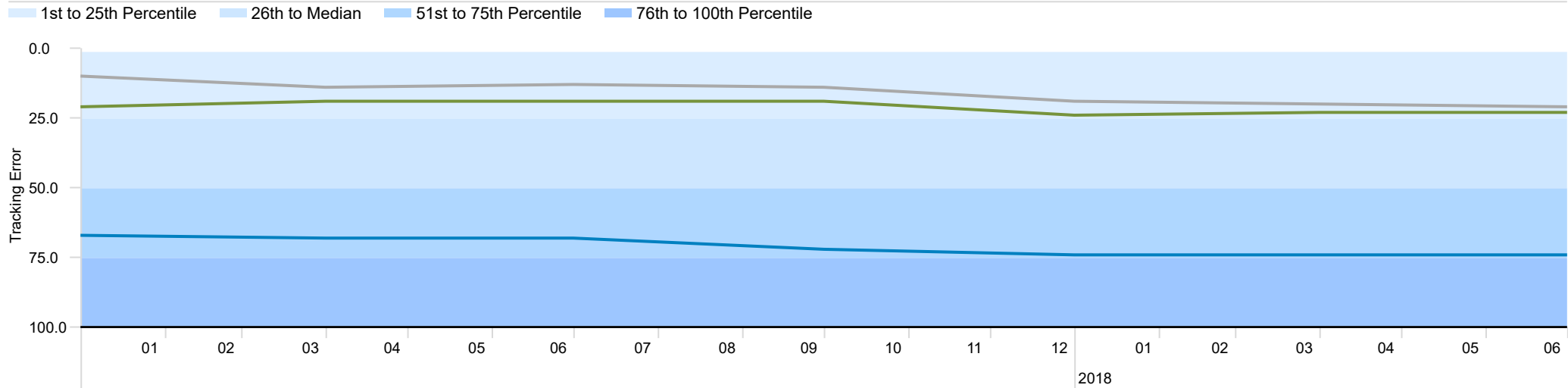
Rolling Window: 3 Years 3 Months shift Calculation Benchmark: S&P/LSTA Leveraged Loan TR



### Rolling Tracking Error Rankings

Time Period: 1/1/2012 to 6/30/2018

Rolling Window: 5 Years 3 Months shift Calculation Benchmark: S&P/LSTA Leveraged Loan TR



— Credit Suisse Floating Rate Hi Inc Instl  
— S&P/LSTA Leveraged Loan TR

— Loomis Sayles Sr Floating Rate and F/I N

— Pacific Funds Floating Rate Income I

**Correlation Matrix**

Time Period: 1/1/2012 to 6/30/2018

	1	2	3	4
1 Credit Suisse Floating Rate Hi Inc Instl	1.00			
2 Loomis Sayles Sr Floating Rate and F/I N	0.96	1.00		
3 Pacific Funds Floating Rate Income I	0.90	0.86	1.00	
4 S&P/LSTA Leveraged Loan TR	0.96	0.95	0.92	1.00

**Correlation Matrix (Excess Returns vs. S&P/LSTA Leveraged Loan TR)**

Time Period: 1/1/2012 to 6/30/2018

Calculation Benchmark: S&amp;P/LSTA Leveraged Loan TR

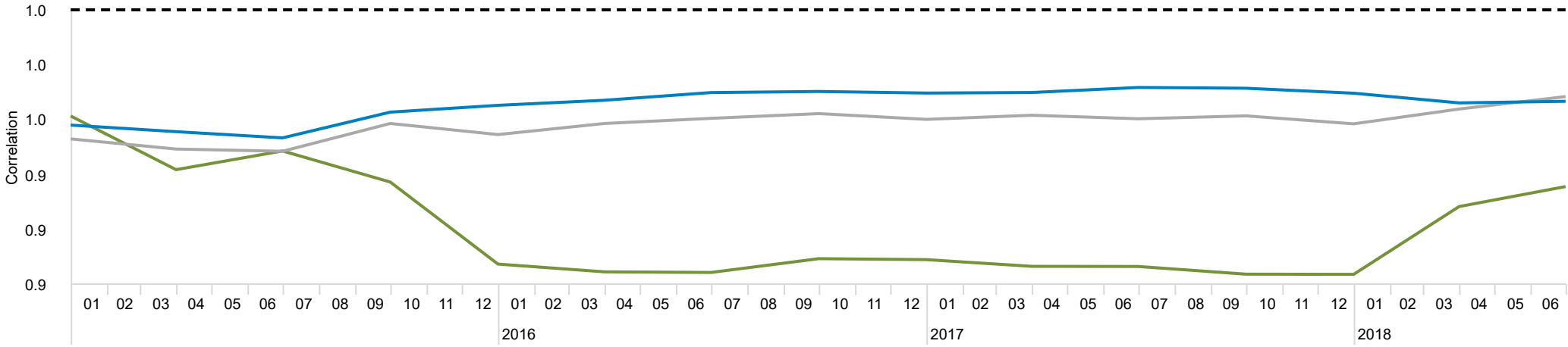
		1	2	3	4
1 Credit Suisse Floating Rate Hi Inc Instl	S&P/LSTA Leveraged Loan TR	1.00			
2 Loomis Sayles Sr Floating Rate and F/I N	S&P/LSTA Leveraged Loan TR	0.32	1.00		
3 Pacific Funds Floating Rate Income I	S&P/LSTA Leveraged Loan TR	0.25	-0.30	1.00	
4 S&P/LSTA Leveraged Loan TR	S&P/LSTA Leveraged Loan TR				1.00



**Rolling Correlation**

Time Period: 1/1/2012 to 6/30/2018

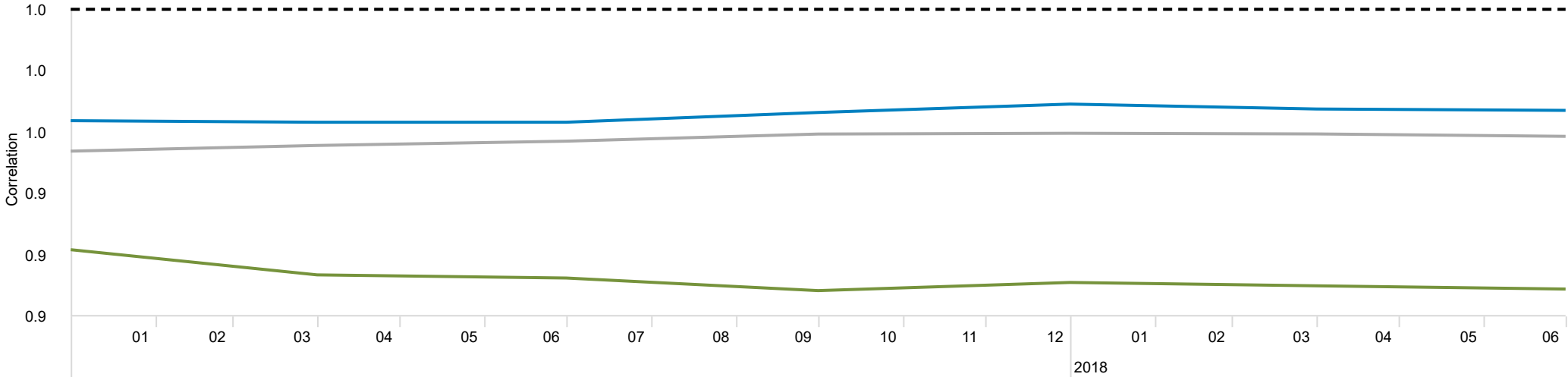
Rolling Window: 3 Years 3 Months shift



**Rolling Correlation**

Time Period: 1/1/2012 to 6/30/2018

Rolling Window: 5 Years 3 Months shift

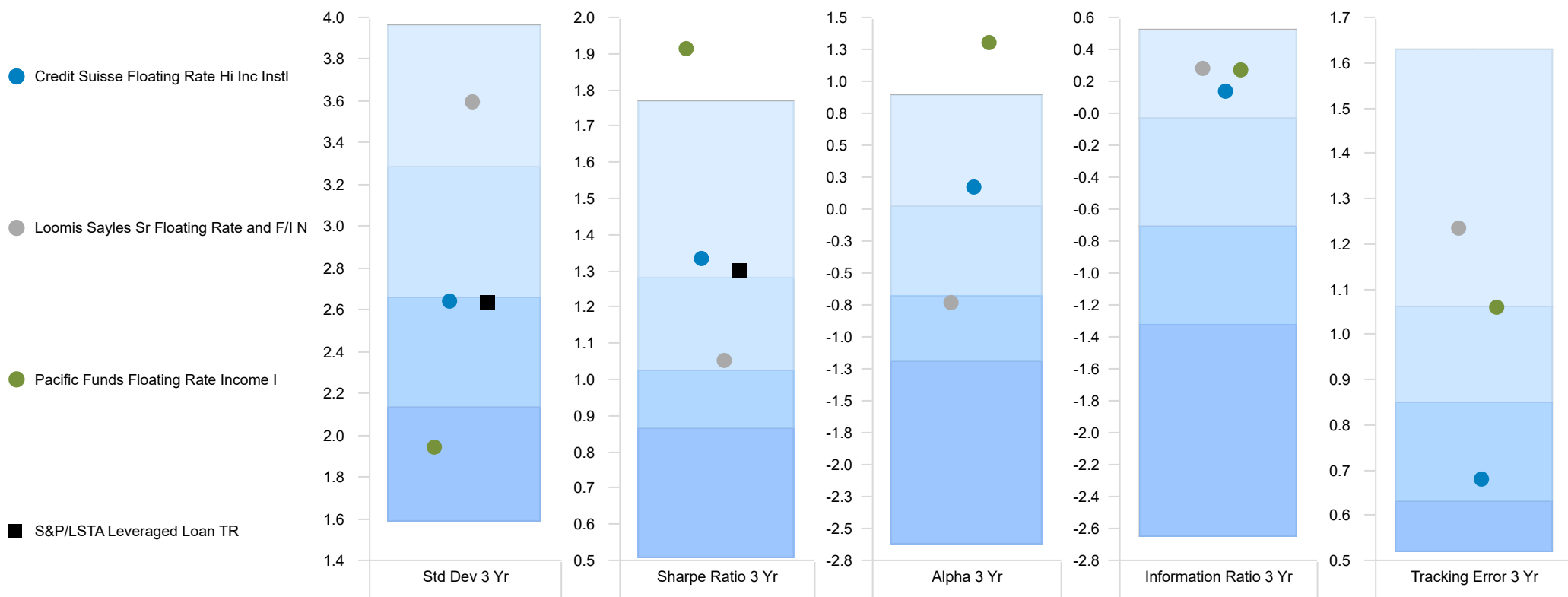


— Credit Suisse Floating Rate Hi Inc Instl

— Loomis Sayles Sr Floating Rate and F/I N

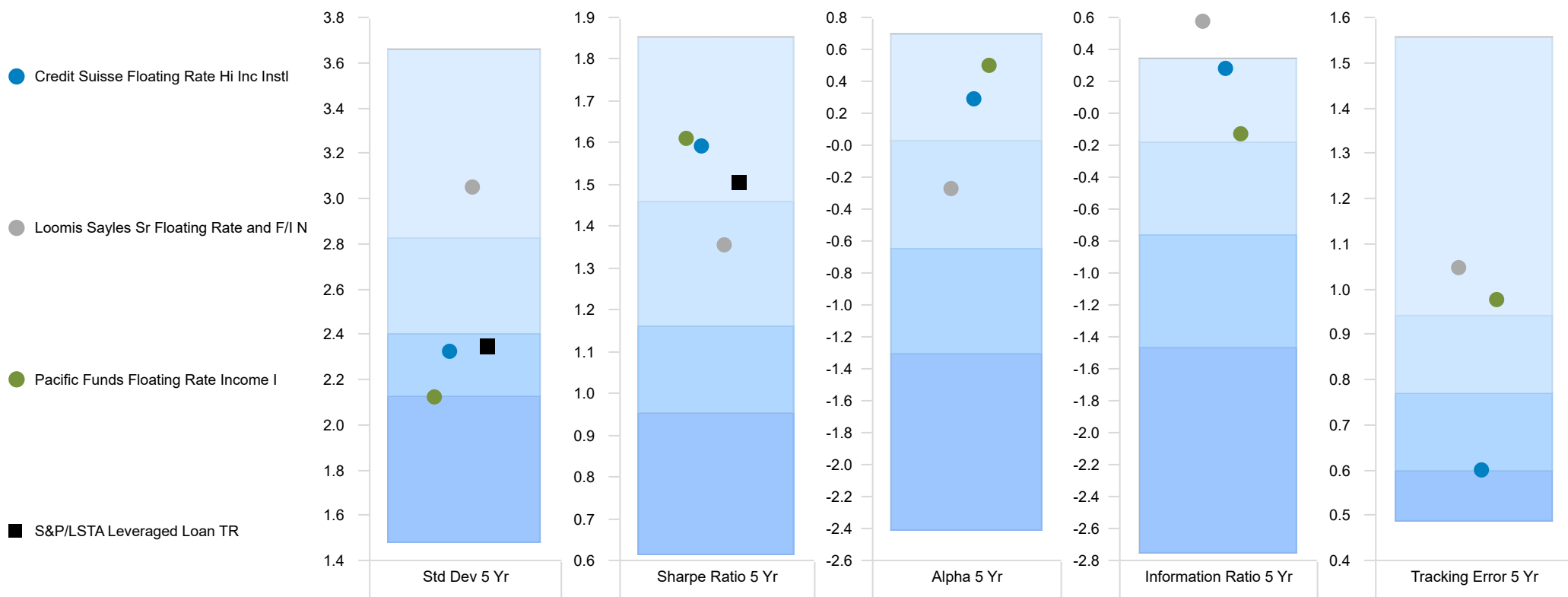
— Pacific Funds Floating Rate Income I

--- S&P/LSTA Leveraged Loan TR



Time Period: 7/1/2015 to 6/30/2018

	Std Dev	Rank	Sharpe Ratio	Rank	Alpha	Rank	Information Ratio	Rank	Tracking Error	Rank
Credit Suisse Floating Rate Hi Inc Instl	2.64	52	1.35	19	0.18	19	0.14	18	0.68	70
Loomis Sayles Sr Floating Rate and F/I N	3.60	14	1.06	45	-0.73	52	0.29	10	1.23	20
Pacific Funds Floating Rate Income I	1.94	86	1.93	3	1.32	3	0.27	11	1.06	25
S&P/LSTA Leveraged Loan TR	2.64	52	1.31	23	0.00	26			0.00	100

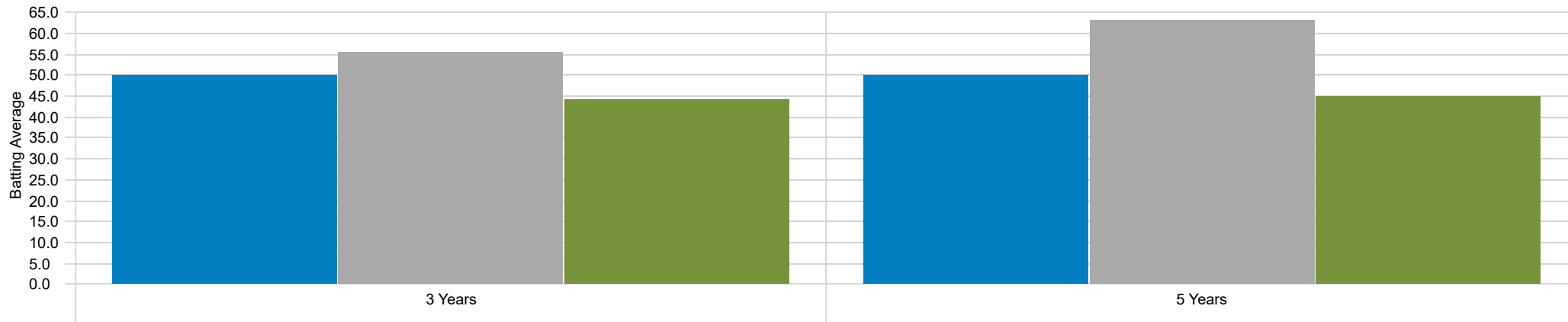


Time Period: 7/1/2013 to 6/30/2018

	Std Dev	Rank	Sharpe Ratio	Rank	Alpha	Rank	Information Ratio	Rank	Tracking Error	Rank
Credit Suisse Floating Rate Hi Inc Instl	2.33	60	1.60	16	0.30	16	0.29	7	0.60	74
Loomis Sayles Sr Floating Rate and F/I N	3.05	15	1.36	31	-0.26	32	0.58	4	1.05	21
Pacific Funds Floating Rate Income I	2.12	76	1.61	15	0.50	8	-0.12	20	0.98	23
S&P/LSTA Leveraged Loan TR	2.35	54	1.51	24	0.00	26			0.00	100

## Batting Average

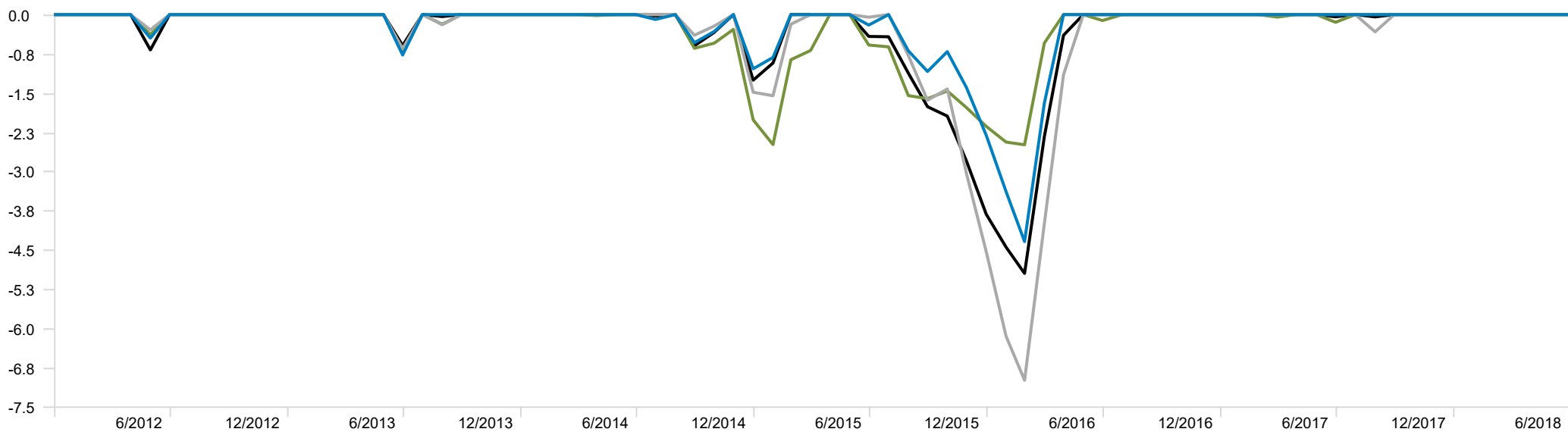
Source Data: Monthly Return Calculation Benchmark: S&P/LSTA Leveraged Loan TR



## Drawdown

Time Period: 1/1/2012 to 6/30/2018

Source Data: Monthly Return



— Credit Suisse Floating Rate Hi Inc Instl

— Loomis Sayles Sr Floating Rate and F/I N

— Pacific Funds Floating Rate Income I

— S&P/LSTA Leveraged Loan TR

**MPT Statistics: 3-Year**

Time Period: 7/1/2015 to 6/30/2018 Calculation Benchmark: S&amp;P/LSTA Leveraged Loan TR

	Credit Suisse Floating Rate Hi Inc Instl	Loomis Sayles Sr Floating Rate and F/I N	Pacific Funds Floating Rate Income I	S&P/LSTA Leveraged Loan TR
Return	4.30	4.57	4.50	4.21
Excess Return	0.10	0.36	0.29	0.00
Std Dev	2.64	3.60	1.94	2.64
Beta	0.97	1.32	0.69	1.00
Tracking Error	0.68	1.23	1.06	0.00
Sharpe Ratio	1.35	1.06	1.93	1.31
Alpha	0.18	-0.73	1.32	0.00
Information Ratio	0.14	0.29	0.27	
Batting Average	50.00	55.56	44.44	100.00
Up Capture Ratio	98.22	120.78	88.79	100.00
Down Capture Ratio	87.81	152.79	42.12	100.00

**MPT Statistics: 5-Year**

Time Period: 7/1/2013 to 6/30/2018 Calculation Benchmark: S&amp;P/LSTA Leveraged Loan TR

	Credit Suisse Floating Rate Hi Inc Instl	Loomis Sayles Sr Floating Rate and F/I N	Pacific Funds Floating Rate Income I	S&P/LSTA Leveraged Loan TR
Return	4.17	4.61	3.88	4.00
Excess Return	0.17	0.61	-0.12	0.00
Std Dev	2.33	3.05	2.12	2.35
Beta	0.96	1.25	0.82	1.00
Tracking Error	0.60	1.05	0.98	0.00
Sharpe Ratio	1.60	1.36	1.61	1.51
Alpha	0.30	-0.26	0.50	0.00
Information Ratio	0.29	0.58	-0.12	
Batting Average	50.00	63.33	45.00	100.00
Up Capture Ratio	98.99	119.60	90.27	100.00
Down Capture Ratio	84.46	132.08	71.67	100.00

# **Investment Option Narratives**

**Firm Overview**

CSAM is based in New York and has been registered with the Securities and Exchange Commission (SEC) since 1968, through its predecessor firm, BEA Associates. In 1997, all institutional investment management divisions within Credit Suisse were re-branded as one business: CSAM. The firm operates as a subsidiary of Credit Suisse AG, which is a publicly traded company on the New York Stock Exchange (ticker: CS). The firm manages in excess of \$382 billion in AUM across a wide variety of asset classes including equity, fixed income, commodities, currencies and alternatives.

**Team Overview**

CSAM's Credit Investments Group (CIG) is led by John Popp who serves as Global Head and CIO. Popp is supported by four PMs; Andrew Marshak, Louis Farano, Wing Chan and Thomas Flannery, with Flannery retaining final decision-making authority. Popp joined the firm in 1997, after having served as a founding partner and head of asset management for First Dominion Capital. Prior to joining CSAM in 1998, Flannery served as an associate at First Dominion Capital. Combined, the senior members of the CIG have more than 110 years of investment experience. The CIG leverages CSAM's team of more than 95 sector credit research analysts in addition to the firm's equity and commodities teams.

**Strategy Overview**

The team's investment philosophy is predicated on the belief that given the asymmetric risk profile of bank loans, security selection and risk avoidance are critical to achieving excess returns. The CIG employs a combination approach to portfolio construction that is multi-faceted. Beginning with the top-down approach, the CIG Credit Committee (the Committee) seeks to develop a macroeconomic viewpoint. Led by Popp, the Committee outlines both near and medium-term views of the credit markets on at least a monthly basis. These top-down viewpoints consider a variety of technical and fundamental factors affecting the global capital markets and serve as drivers for investment sourcing and idea generation.

Portfolio construction is implemented through the five phases of the CIG's investment process; origination, screening, credit analysis, security selection and risk management. The senior members of the team have been actively involved in the bank loan market since its inception. As such, the team benefits from new deal flow through its relationships with banks, LBO firms and sell-side counterparties. In addition, the CIG assesses investment opportunities on a daily basis using a relative value approach. The assessment also includes the allocation between loans, bonds and CLOs. Once an opportunity is identified, the credit analyst will create a screen which considers a variety of factors. If the opportunity is deemed worthy, the analyst will perform a company-specific analysis to determine its creditworthiness and ability to service the debt. If the opportunity is pursued, the analyst will present during the daily portfolio management meeting where the idea is vetted. A consensus by the Committee is required for a security to be approved for purchase.

Risk management and portfolio monitoring are ongoing. The CIG uses a proprietary system to review market conditions and monitor the forward calendar. Watch lists are generated based on criteria determined by the Committee and are used by the analysts to follow credits and industries to determine relative value as well as to track research notes. Finally, the PMs are responsible for buy and sell decisions in the strategy after receiving pre-compliance trade approval. The team does not employ a dedicated sell-stop process. Rather, credits are usually sold once they reach their relative value targets versus the peer group, the credit quality deteriorates or if there has been a material change with either the issuer's fundamentals or management team.

**Expectations**

The strategy has historically focused on the upper-end of the high yield credit spectrum which has resulted in a lower beta compared to more aggressive managers in the space. Given that, we would expect the strategy to perform well during risk-off periods marked by increasing credit spreads and rising defaults. Conversely, the strategy may lag its peers during strong up markets when higher beta and lower credit quality securities outperform.

**Points to Consider**

Many of the members on the CIG are nearing the age when retirement is considered. While we have not been given any indication that conversations between senior members of the team and Credit Suisse have taken place, we believe that it is important that Credit Suisse formalize a succession plan for the team. In the event Popp were to leave the CIG, we would re-evaluate our recommendation. Prior to 2011, the mutual fund version of the strategy was managed as a high yield strategy by another team. As part of an internal reorganization, CSAM assigned the strategy to the CIG's control and the mandate was changed to focus on bank loans. The mutual fund may invest up to 20% in off-benchmark exposures including high yield bonds and CLOs. Historically, high yield bond exposures have averaged between 5% to 10% while CLOs have averaged between 1% and 5%.

**Recommendation Summary**

We believe that CSAM enjoys a competitive advantage in the bank loan space due to their experienced management team and breadth of issuer coverage by a large industry research group. The firm's Credit Investment Group (CIG), which consists of Global Head and CIO John Popp and four PMs, is tasked with the management of the strategy. The founding members of the CIG have been managing assets together for more than 19 years and collectively have nearly 120 years of experience. The team is further supported by the firm's Sector Research and Portfolio Strategy teams consisting of more than 18 research analysts covering all sectors within the benchmark. The team utilizes a rigorous fundamental, bottom-up approach to credit selection with an emphasis placed on loss avoidance. As evidence of the process, both the absolute and risk-adjusted returns have been strong. Importantly, the team has demonstrated the ability to rotate away from risk and avoid drawdowns. The strategy is offered in a wide variety of vehicles with low minimums and competitive fees. As such, we believe the strategy is worthy of consideration by clients seeking a high-quality exposure to the space.

**Firm Overview**

Loomis Sayles & Company, was founded in 1926 and is a wholly-owned subsidiary of Natixis Global Asset Management, L.P., the US-based subsidiary of Natixis which is based in Paris, France. Headquartered in Boston, Massachusetts, Loomis Sayles maintains offices in San Francisco, Detroit, London and Singapore and employs more than 675 professionals. The firm manages in excess of \$260 billion in AUM across a variety of equity, fixed income and multi-asset strategies.

**Team Overview**

Co-lead PMs Kevin Perry and John Bell have been at the helm of the Loomis Sayles Senior Floating Rate and Fixed Income strategy since its inception in 2011. The two PMs are supported by Michael Klawitter who serves as the primary backup PM, two analysts and two dedicated bank loan traders. Importantly, the Bank Loan Team has access to Loomis Sayles' large resource base. Among these resources are over credit 80 analysts and almost 50 traders along with various other investment professionals. While the team incorporates input from a variety of internal sources including Loomis Sayles' broad macro and credit research teams, Perry and Bell retain final investment decision-making authority.

**Strategy Overview**

The Bank Loan Team believes that credit markets typically overreact to negative corporate events, and as such, do not properly assess credit risk. As such, the team utilizes a rigorous bottom-up, fundamental approach to credit research to identify companies with perceived strong balance sheets and a willingness to pay. Specifically, within the bank loan space, bank loans tend to amortize quickly over a brief period, or are refinanced. Given those things, the team focuses on the company's probability of default over the next 12 to 24 months. Importantly, the team seeks to identify those loans that are overcollateralized which increases the probability of recovery in the event of a default. This approach is designed to mitigate the price volatility of the portfolio. Portfolio construction is a multi-step process that incorporates both top-down and bottom-up approaches. Loomis Sayles' top-down views are developed through a collaborative process of several groups within the Loomis organization. The Macro Strategies group meets regularly with Loomis' Chief Economist and other professionals to discuss economic, geo-political, and market news. In a similar fashion, the Sovereign group meets and is charged with evaluating similar macro questions. Each group presents their thoughts on countries and currencies at a monthly Global Asset Allocation meeting where macro and market outlooks are debated. In the end, the macro process is designed to provide a framework and outlook to be used by Loomis' sector and product teams. Similar to the top-down process, the sector teams meet regularly to develop recommendations across all fixed income markets and identify horizon returns and risk assessments by integrating the firm's macro views. The Bank Loan Team constructs the portfolio by evaluating relative value across sectors, both on and off benchmark and then selects securities recommended by the credit research team. The strategy's mandate is broad and invests at a minimum 65% in floating rate loans with the remaining portion allocated to high yield bonds, investment grade bonds and U.S. Treasury bonds. Portfolio risk is primarily controlled through diversification with position size limits providing a secondary control. Importantly, the team has access to a variety of third-party systems including Barclays Capital POINT, Yield Book, and Bloomberg which are used for scenario analysis as well as RiskInSite, which provides daily risk reports that compare the strategy to the benchmark by duration, sector, industry, quality, and country. Finally, the PMs meet regularly with the CIO, CIRO, and Risk Management Committee to confirm that the strategy meets all client guidelines.

**Expectations**

The strategy's goal is to beat the S&P/LSTA Leveraged Loan Index by 100 basis points gross of fees on an annual basis. According to Perry, the majority of the strategy's relative outperformance could result from the team's asset allocation decisions. The team seeks to overweight those securities and sectors that provide the highest relative value opportunities. As such, the strategy should be expected to perform well during periods of strong economic growth marked by narrowing credit spreads. Conversely, given the strategy's risk bias, it may underperform during periods of decelerating growth or rising credit spreads.

**Points to Consider**

Succession planning will be key for this team moving forward. Importantly, Perry informed us that Michael Klawitter has been identified as the next PM. Klawitter has more than 20 years of industry experienced focus on leveraged credit. While the loss of either co-PM would be material, given Klawitter's tenure and contributions to the team, his accession would most likely result in the continuation of the strategy with no resulting changes to client portfolios. The strategy's use of off-benchmark sectors can lead to periods of increased volatility relative to the benchmark. Historically, the tracking error has averaged around 100bps with a portfolio beta of more than 1.0. However, during the most recent period of spread widening in 2015, the strategy's beta increased to 1.2 as the team allocated more towards energy-related high yield bonds. The mandate provides flexibility to allocate to U.S. Treasury bonds as a way for the team to control the overall risk profile of the strategy. While we have confidence in the team's ability to identify and rotate into or away from risk, the approach may be too much for clients seeking a more conservative offering in the space. The mandate allows the team to employ leverage up to 33% in the mutual fund vehicle. Historically, the team has only modestly used the facility in normal markets with a maximum of 7.4% during the 4Q 2014. While we are confident in the team's ability to tactically use leverage for the benefit of the portfolio, it may result in periods of higher tracking error.

**Recommendation Summary**

The strategy offers investors a unique approach to leveraged finance markets. Specifically, the strategy's mandate has the flexibility to invest up to 35% of NAV in off benchmark allocations to U.S. Treasury, investment grade and high yield bonds and second lien loans. While we normally are skeptical of strategies that take such a broad view of the market, we are comforted by the fact that the team led by co-PMs Bell and Perry are long-tenured, experienced and have access to Loomis Sayles' deep credit research team. The strategy is diversified across over 250 exposures and invests a minimum of 65% in floating rate loans with the remainder in high yield and investment grade corporate bonds and U.S. Treasury bonds. Importantly, we hold Loomis Sayles' deep and experienced credit research team in high regard for their ability to underwrite credits. Investors considering the strategy should be comfortable with the flexibility provided by the mandate and the team's opportunistic approach to credit selection. As evidence of the approach, the strategy's beta has averaged nearly 1.2 since inception. Not surprisingly given the market environment since the strategy's inception, the performance of the strategy relative to its benchmark has been strong over all trailing periods as of March 2018. However, while the strategy has a seven-year track record, it has yet to be tested over a full market cycle. We take comfort in the fact that the co-PMs have considerable experience having worked together since 2001. Nonetheless, clients considering the strategy should consider the fact that the approach may potentially lead to higher levels of risk compared to more benchmark-like approaches. Finally, the strategy is available in a variety of vehicles with competitive fees. Given these things, we recommend the strategy for clients seeking broad exposure to leveraged credit markets guided by a seasoned team.



**Firm Overview**

Pacific Asset Management is a division of Pacific Life Advisors, an SEC registered investment advisory and subsidiary of Pacific Life Insurance Company. The firm was inceptioned in 2007, and was created to manage the parent company's internal assets. Pacific is headquartered in Newport Beach, CA, and is solely focused on fixed income investment management across a variety of mandates including short duration, core and leveraged finance. Currently, the firm manages over \$7.3 billion.

**Team Overview**

The strategy is co-lead by long-tenured co-PMs JP Leasure and Michael Marzouk. Bob Boyd serves as the Senior Director of Research and oversees the firm's sector credit analysts. The strategy is managed in a team-based approach with investment ideas originating from across the organization. Pacific's Investment Committee, which consists of the strategy PMs, the Head of Research Bob Boyd and Senior Managing Director Dominic Nolan, provides the macro framework which serves to guide the teams risk-taking. The committee meets regularly to review market conditions and portfolio exposures which the broader team meets more infrequently. In the event the team does not reach consensus when considering an idea, the co-PMs retain final investment decision-making authority.

**Strategy Overview**

The Pacific Corporate Bank Loan strategy seeks to outperform the Credit Suisse Leveraged Loan Index by employing a selective approach to the space. To achieve this, the team incorporates elements of top-down and bottom-up approaches to construct a portfolio with between 80-150 exposures with a focus on larger, more liquid issues. Portfolio construction begins with the Investment Committee's assessment of market conditions with a focus on various macro factors such as overall market health, interest rates and technical factors. The analysis is designed to identify market themes and industry dynamics that may influence the ability of issuers to pay in short and intermediate term outlooks. The output provides the framework for the strategy's risk budgeting and sector allocations.

Next, the credit research team then screens the bank loan universe for opportunities, focusing on issuers with more than \$100 million in EBITDA and issues sizes of more than \$300 million. From here, the team will evaluate companies on a fundamental basis by examining the issuers ability to pay interest and principal. Such metrics include enterprise valuations, leverage, free cash flow and industry position. Analysts are charged with evaluating the issuers capital structure given that they cover both loans and high yield bonds. Finally, the team seeks to invest in companies with strong management teams. The research team will regularly meet with management teams to help solidify its view.

Following the fundamental assessment, the analyst evaluates the structure of the issue paying strict attention to guarantors, collateral and maintenance covenants. Once complete, the analyst presents his evaluation to the broader investment team for approval where the idea is further vetted. Once consensus is reached on the fundamentals, the team discusses the relative value merits of the issue, both on a stand-alone basis and in the context of the aggregate portfolio. Ideas deemed to be of the highest conviction constitute roughly 60% to 80% of the total portfolio. Once implemented, the sponsoring analyst is charged with reviewing each issuer on a quarterly basis, or more frequently if warranted. Finally, sell decisions are made based on a combination of fundamental and pricing inputs with the goal of exiting positions prior to the credit deteriorating and price deterioration.

**Expectations**

Given Pacific's bias toward the higher end of the credit spectrum, and the team's focus on assessing an issuer's creditworthiness, we would expect the strategy to avoid negative credit events. Additionally, given that the strategy invests primarily in the largest, most liquid issues in the space, the strategy should exhibit strong downside protection relative to the index during periods of increased market volatility and credit spread widening. Conversely, during periods of strong credit markets when credit spreads tighten, lower quality credits tend to outperform, and as such, the strategy should be expected to lag its peers.

**Points to Consider**

Jason Rosiak, co-Head and PM, left the firm in March 2016. Rosiak, who joined the firm at its inception in 2007, oversaw the firm's portfolio management activities and was a member of the firm's Executive Committee. His decision to separate from the firm was amicable and deemed personal in nature. His PM responsibilities were assumed by Marzouk. While his loss was material, we are comfortable with the depth and experience of the team.

The strategy has seen significant growth in AUM in recent years. As recently as 2013, AUM stood at nearly \$500 million compared to nearly \$2.8 billion as of September 2017. The primary driver of growth in the strategy has been its adoption on a variety of retail-oriented platforms including Wells Fargo Advisors and LPL Financial. In total, AUM in the retail mutual fund stood at nearly \$1 billion as of September 2017. While significant growth in AUM, especially in less liquid markets, can be reason for concern, we take comfort in the fact that Pacific focuses on a unique opportunity set within bank loans where there is more than sufficient capacity left. However, in the event the strategy was to begin to experience deteriorating performance, or take on a more benchmark-like profile, we would feel compelled to revisit our recommendation.

**Recommendation Summary**

The Pacific Corporate Bank Loan strategy differentiates itself from the peer group by utilizing a high-conviction, concentrated approach that is designed to mitigate risk by avoiding deteriorating credits. Unlike many of its larger peers in the space, the team focuses primarily on identifying creditworthy, larger issuers which have been shown to historically outperform relative to small or middle-market loans which tend to be less trafficked in given their issue size. JP Leasure and Michael Marzouk serve as the team's co-PMs and are highly experienced with each having managed leveraged assets for more than 15 years. Importantly, the co-PMs benefit from the support of Pacific's seasoned 16-member credit research team, many of whom have served for more than a decade. Finally, the strategy is available in separate account, commingled pooled and mutual fund vehicles, all with competitive fees and low minimums. Given these points, we believe the strategy offers clients a differentiated and compelling option in the bank loan space.

**Alpha** - A measure of the difference between a portfolio's actual returns and its expected performance, given its level of risk as measured by beta.

**Batting Average** – A measure of a manager's ability to consistently beat the market. It is calculated by dividing the number of months in which the manager beat or matched an index by the total number of months in the period.

**Best Quarter**- This is the highest quarterly (3 month) return of the investment since its inception.

**Beta** - A measure of the sensitivity of a portfolio to the movements in the market. It is a measure of the portfolio's systematic risk.

**Down Period Percent** - Number of months below 0 divided by the total number of months.

**Downmarket Capture Ratio** - The ratio of average portfolio performance over the designated benchmark during periods of negative returns. A lower value indicates better product performance.

**Downside Std Dev** - This measures only deviations below a specified benchmark.

**Excess Return**- This is a measure of an investment's return in excess of a benchmark.

**Information Ratio** - This calculates the value-added contribution of the manager and is derived by dividing the excess rate of return of the portfolio by the tracking error. The higher the Information Ratio, the more the manager has added value to the portfolio.

**Longest Down-Streak Return** - Return for the longest series of negative monthly returns.

**Longest Down-Streak # of Periods** - Longest series of negative monthly returns.

**Longest Up-Streak Return** - Return for the longest series of positive monthly returns.

**Longest Up-Streak** - Longest series of positive monthly returns.

**Kurtosis** - Kurtosis indicates the peakedness of a distribution. For normal distribution, Kurtosis is 3.

**Max Drawdown** - The peak to trough decline during a specific record period of an investment or fund. It is usually quoted as the percentage between the peak to the trough.

**Max Drawdown # of Periods** - This is the number of months that encompasses the max drawdown for an investment.

**R-Squared** - The percentage of a portfolio's performance that can be explained by the behavior of the appropriate benchmark. A high R-Squared means the portfolio's performance has historically moved in the same direction as the appropriate benchmark.

**Return** - Compounded rate of return for the period.

**Sharpe Ratio** - Represents the excess rate of return over the risk free return divided by the standard deviation of the excess return. The result is an absolute rate of return per unit of risk. A higher value demonstrates better historical risk-adjusted performance.

**Skewness** - Skewness reflects the degree of asymmetry of a distribution. If the distribution has a longer left tail, the function has negative skewness. Otherwise, it has positive skewness. A normal distribution

is symmetric with skewness 0.

**Sortino Ratio** - The Sortino Ratio is similar to Sharpe Ratio except it uses downside risk (Downside Deviation) in the denominator. It was developed in early 1980's by Frank Sortino. Since upside variability is not necessarily a bad thing, Sortino ratio is sometimes more preferable than Sharpe ratio.

**Standard Deviation** - A statistical measure of the range of a portfolio's performance. It represents the variability of returns around the average return over a specified time period.

**Tracking Error** - This is a measure of the standard deviation of a portfolio's excess returns versus its designated market benchmark.

**Treynor Ratio** - Similar to Sharpe Ratio, Treynor Ratio is a measurement of efficiency utilizing the relationship between annualized risk-adjusted return and risk. Unlike Sharpe Ratio, Treynor Ratio utilizes "market" risk (beta) instead of total risk (standard deviation). Good performance efficiency is measured by a high ratio.

**Up period Percent** - Number of months above 0 divided by the total number of months.

**Upmarket Capture Ratio** - The ratio of average portfolio performance over the designated benchmark during periods of positive returns. A higher value indicates better product performance.

**Worst Quarter** - This is the lowest quarterly (3 month) return of the investment since its inception.

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