

### Fund in focus: [Symphony Floating Rate Senior Loan Fund \(SSF.UN\)](#)

Senior Loans are commonly known for having floating rate coupons - a feature that can help limit interest rate risk and provide for higher income in a rising rate environment. However, many investors may not realize that Senior Loans may help mitigate volatility across various market environments. Additionally, current yields and prices for Senior Loans imply total return potential that is comparable to long-term equity return expectations, presenting a compelling risk-reward opportunity for investors looking forward.

Senior Loans rank senior in the capital structure of a company and are secured by assets, meaning they have the highest priority claim on the pledged assets of the borrower in the event of a default. This protective feature has historically contributed to higher recoveries for investors. The average recovery rate for loans in default has averaged 64% compared with 40% for high yield bonds, according to J.P. Morgan.<sup>1</sup> A combination of seniority, security, and low duration has led to loans being a resilient asset class historically, with lower volatility, lower drawdowns and higher risk-adjusted returns compared to high yield bonds and equities, as shown in the charts below.

### Senior Loans Versus High Yield and Equities

	Annualized Return	Volatility	Return Per Unit of Risk
<b>Senior Loans</b>	<b>5.37%</b>	<b>5.40%</b>	<b>1.0</b>
High Yield Bonds	7.07%	8.36%	0.8
S&P 500 Index	9.87%	14.79%	0.7
Russell 2000 Index	8.61%	19.29%	0.4

*Source: Credit Suisse, Refinitiv Datastream, as at April 28, 2023. Returns are for the period starting January 31, 1992 (inception of the Senior Loan Index). Senior Loans and High Yield Bonds are represented by the Credit Suisse Leveraged Loan Index and the ICE BofA U.S. High Yield Index, respectively.*

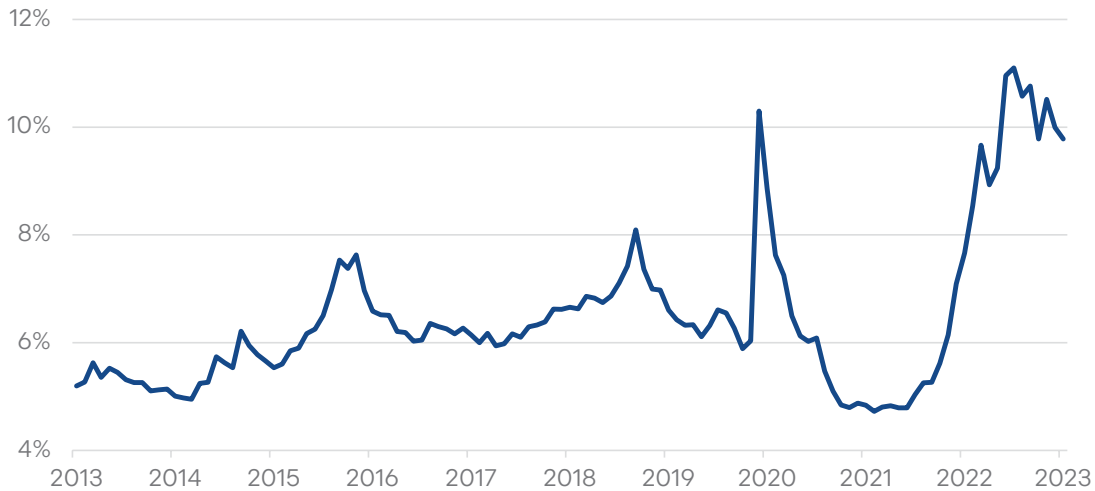
### Senior Loans Performance During Market Drawdowns

	Tech Bubble 08/31/00-10/31/02	Global Financial Crisis 09/28/07-02/27/09	COVID-19 Pandemic 01/31/20-03/31/20	Inflation Spike 12/31/21-12/30/22
<b>Senior Loans</b>	<b>1.8%</b>	<b>-24.5%</b>	<b>-13.6%</b>	<b>-1.1%</b>
High Yield Bonds	-10.2%	-26.1%	-13.1%	-11.2%
S&P 500 Index	-39.9%	-50.2%	-19.6%	-18.1%

*Source: Credit Suisse, Refinitiv Datastream. Senior Loans and High Yield Bonds are represented by the Credit Suisse Leveraged Loan Index and the ICE BofA U.S. High Yield Index, respectively.*

The total return opportunity in loans is driven by two factors. First is the income component which has trended higher with rising interest rates. Today, loans offer a current yield of 9.2% on average, which on its own is attractive, not only relative to historical levels but also relative to the level of yield that can be earned in other asset classes.<sup>2</sup> The second source of potential return is from loan prices returning to par value. The average price of loans is currently 93% of par, creating the potential for capital appreciation in addition to the income.<sup>2</sup> The current price and spread level for the Senior Loan Index implies a total return opportunity of close to 10%, assuming the discount is amortized over three years, as shown in the chart below.

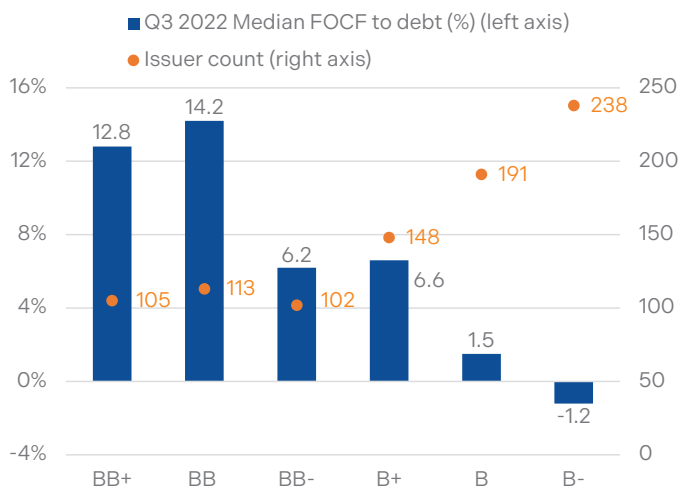
## Loan Yields Have Risen Following Several Interest Rate Hikes Loan Index 3-Year Yield



Source: Credit Suisse, as at April 28, 2023. Loan Index is represented by the Credit Suisse Leveraged Loan Index.

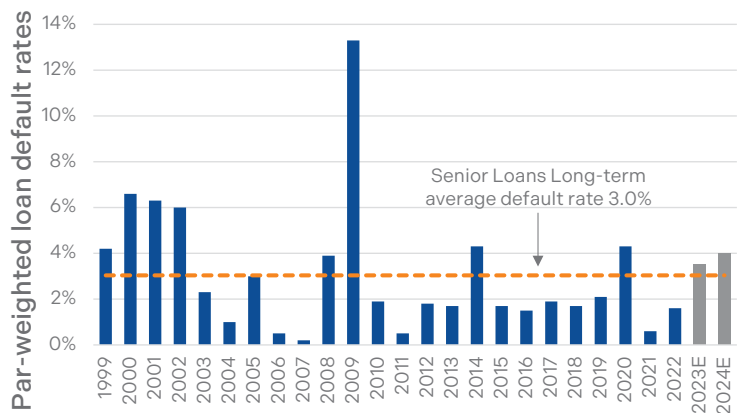
The fundamental backdrop for loans and credit risk assets broadly may become more challenging as higher financing costs and a slowing economy weigh on issuers' profitability. However, the loan market overall appears well positioned to weather this risk. Interest coverage levels, particularly for higher-rated loans, are generally strong, as shown in the chart below (left) and a low number of near-term maturities should limit the need for most borrowers to access capital in a potentially tighter credit environment. U.S.\$54.5 billion of loans are expected to mature by the end of 2024, which represents less than 4% of the loan market.<sup>3</sup> While defaults are expected to rise, they are coming off near historic lows and are expected to rise towards long-term average levels. According to J.P. Morgan, the average default rate for loans is forecasted to be 3.5% in 2023 and 4.0% in 2024, as shown in the chart below (right). Loans appear to already be pricing in a meaningful amount of default risk. Conservatively assuming 50% of defaults are recovered, the discount in the market today implies a 14% cumulative default rate.

### Overall loan market well positioned to weather higher rates and slowing economy, but risk rises in lower rated issuers



Source: S&P Global, February 7, 2023.

### Expect defaults to rise towards long-term average



Source: J.P. Morgan as of May 1, 2023.

At the May policy meeting, U.S. Federal Reserve Chair Jerome Powell hinted that the FOMC may be ready to end its rate hiking cycle. Historically, Senior Loan performance has been strong following the start of the pause phase, as shown in the chart below. In the last 30 years there were four times when the FOMC paused rate increases, and pauses lasted about nine months on average before a rate cut. At the end of the June 2006 rate hiking cycle, the Federal funds rate peaked at 5.25%, in line with today's rate. In the twelve months following, Loans returned 7.6%. Since the Loan Index was trading at 99% of par at the time of the pause, this return was comprised primarily coupon income. Today, Loans offer the potential for additional upside from a return to par from current price levels.

### Senior Loan Returns After End of Rate Hike Cycle

Last Hike	Fed Funds Rate	Cut Date	Loan Forward Returns			
			3 Months	6 Months	9 Months	12 Months
18-Dec-18	2.25-2.50	30-Jul-19	3.3%	4.7%	5.7%	7.1%
28-Jun-06	5.25	17-Sep-07	1.6%	3.4%	5.9%	7.6%
15-May-00	6.50	02-Jan-01	2.2%	3.1%	4.7%	5.2%
31-Jan-95	6.00	05-Jul-95	2.4%	5.2%	7.2%	8.8%
<b>Average</b>			<b>2.4%</b>	<b>4.1%</b>	<b>5.9%</b>	<b>7.2%</b>

Source: Federal Reserve, Credit Suisse. Loan performance is represented by the Credit Suisse Leveraged Loan Index.

While uncertainty around the future path of inflation, interest rates and economic growth poses some challenges for investors, we believe the high current yields and defensive features of Senior Loans can provide a cushion against potential market declines and barring a deep and prolonged recession, Senior Loans can offer an attractive total return opportunity through a combination of high income and price appreciation.

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1. Source: J.P. Morgan, as at May 1, 2023. Reflects the 25-year average issuer-weighted recovery rate.

2. Source: Credit Suisse, as at April 28, 2023. Based on the Credit Suisse Leveraged Loan Index.

3. Source: PitchBook LCD; Morningstar LSTA US Leveraged Loan Index, as at March 24, 2023.

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