



Floating-Rate Loans:

Core value remains as the need for selectivity rises

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Scott Page is a vice president of Eaton Vance Management, co-director of the floating-rate loan group and portfolio manager on Eaton Vance's floating-rate loan team. He is responsible for buy and sell decisions, portfolio construction and risk management for the firm's floating-rate loan strategies. He joined Eaton Vance in 1989.

Scott began his career in the investment management industry in 1981. Before joining Eaton Vance, he was affiliated with the Dartmouth College Investment Office, as well as Citicorp and Chase Manhattan Bank in corporate finance/lending and credit review.

Scott earned a B.A. from Williams College and an MBA from the Amos Tuck School at Dartmouth College. He has served as a member of the board of directors of the LSTA (Loan Syndications and Trading Association). He is a CFA charterholder.

Scott co-authored "An Overview of the Loan Market" in the Handbook of Loan Syndications and Trading (2007). His commentary has appeared in Bloomberg, Business Week, Dow Jones Investment Advisor, Forbes, Investor's Business Daily, SmartMoney, Kiplinger's, USA Today and The Wall Street Journal, and he has been featured on CNBC.



The Case for Loans: Not Just for Rising-Rate Periods

A compelling strategic allocation, particularly today

Strategically

- High yield per unit of duration
- Negative correlation with U.S. Treasurys historically
- Senior/secured fundamental lending proposition, with low loan-to-value
- Income-centric returns have composed majority of performance over time
- May blend well with traditional fixed income

Today

- Instant relief for today's ZIRP environment
- Hedge heightened bond risk with near-zero duration and "anti-bond" characteristics
- Scenarios that favor loans – those with flat or rising rates – dominate potential return outcomes ahead
- Strong fundamentals (low defaults); favorable technical factors

Data provided is for informational use only. Past performance is no guarantee of future results. It is not possible to invest directly in an Index. See end of report for important additional information. ZIRP is zero interest rate policy. Anti-bond characteristics refers to loans floating-rate, as opposed to fixed-rate, structure.



Floating-Rate Loan Primer

The basics

- Corporate debt issued by below-investment-grade borrowers
- Most issuers are significant in size and scale – and many are familiar household names
- Companies undertake loans for recapitalizations, acquisitions and refinancings
- Coupon income from floating-rate loans resets regularly (about every 40-60 days on average) to maintain a fixed spread over a variable base rate, usually LIBOR
- Loans are often referred to as “senior and secured”: They typically have the highest priority of claims in an issuer’s capital structure and are secured by specific collateral
- Other common monikers: bank loans, leveraged loans, senior loans (all are synonymous)

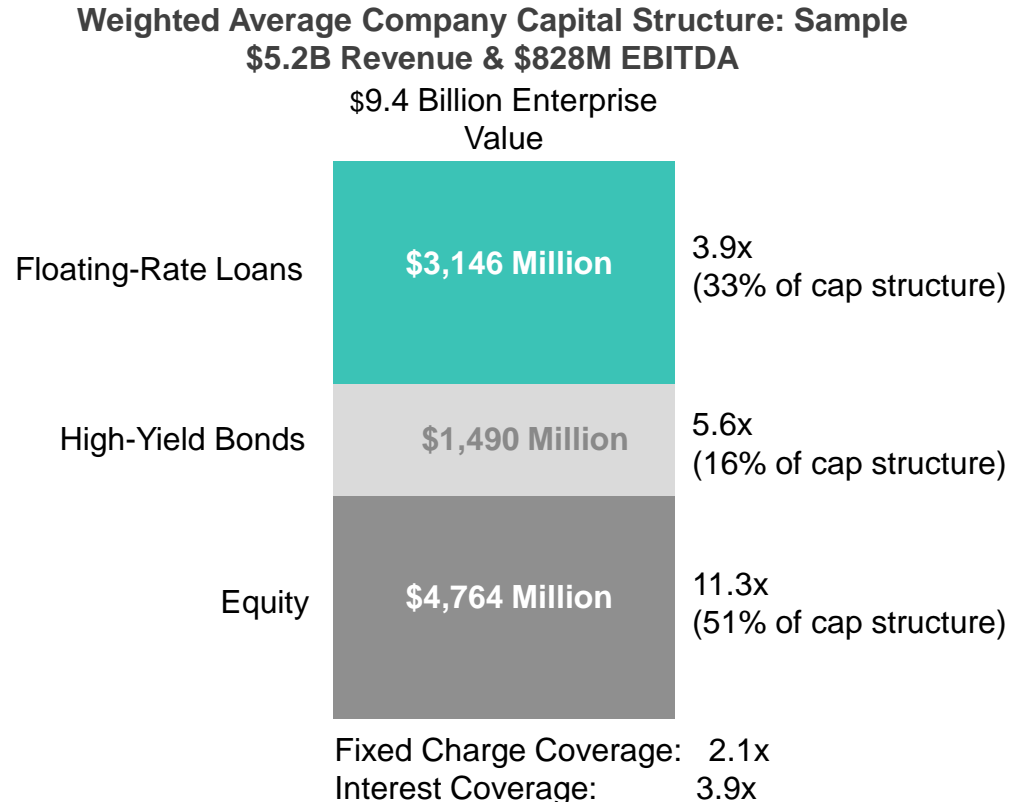
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Fundamental Lending Proposition

Senior secured, low loan-to-value lending to significant corporate issuers

- Floating-rate loans represent a senior layer of issuer capital structure
- Substantial junior capital cushion provides low loan-to-value
- Secured by collateral including issuer accounts receivable, inventory, property, plant, equipment and/or stock



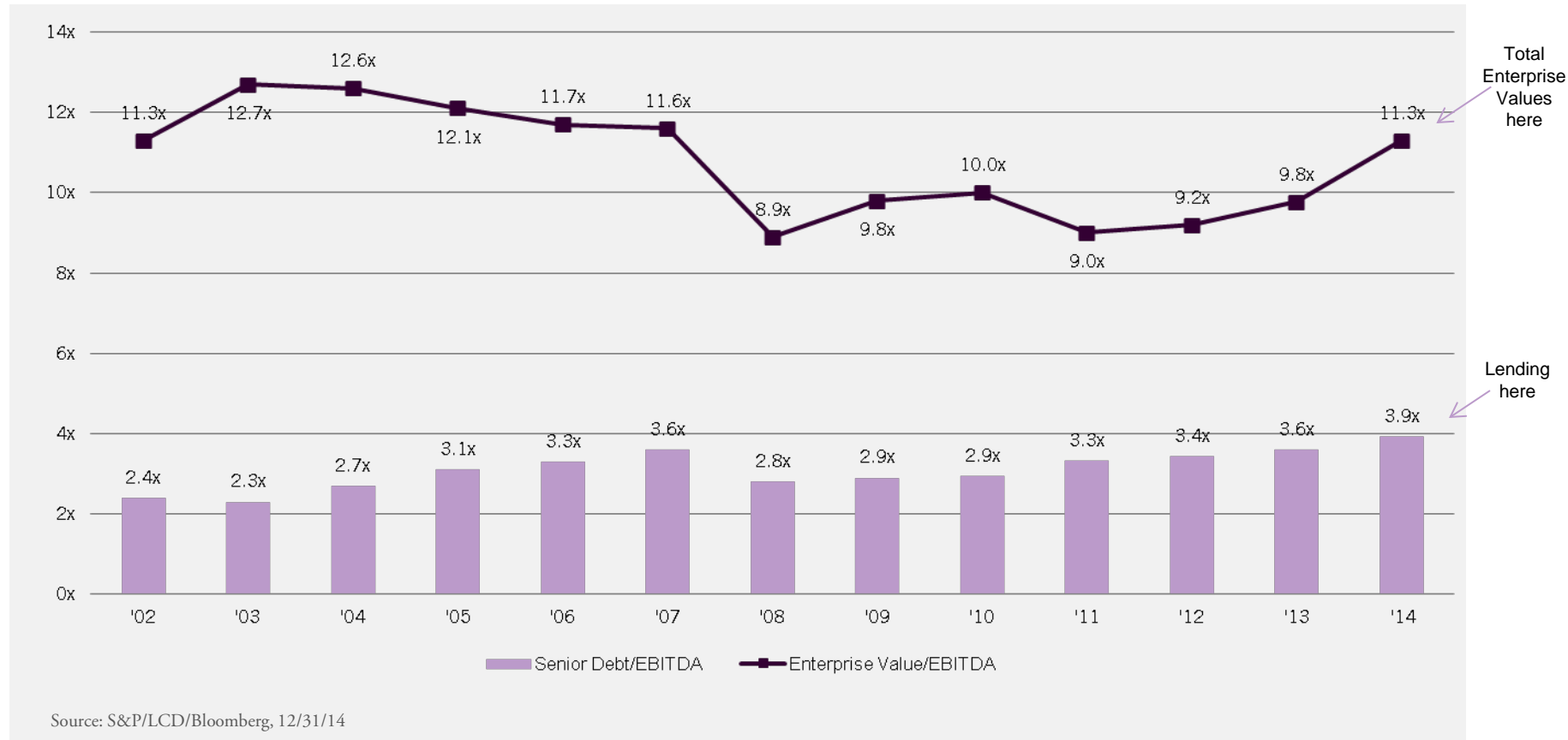
Source: Eaton Vance, 12/31/14

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Debt & Enterprise Values as EBITDA Multiples

Borrowing levels well in check; Lending about 3.9x EBITDA to companies worth 8-12x

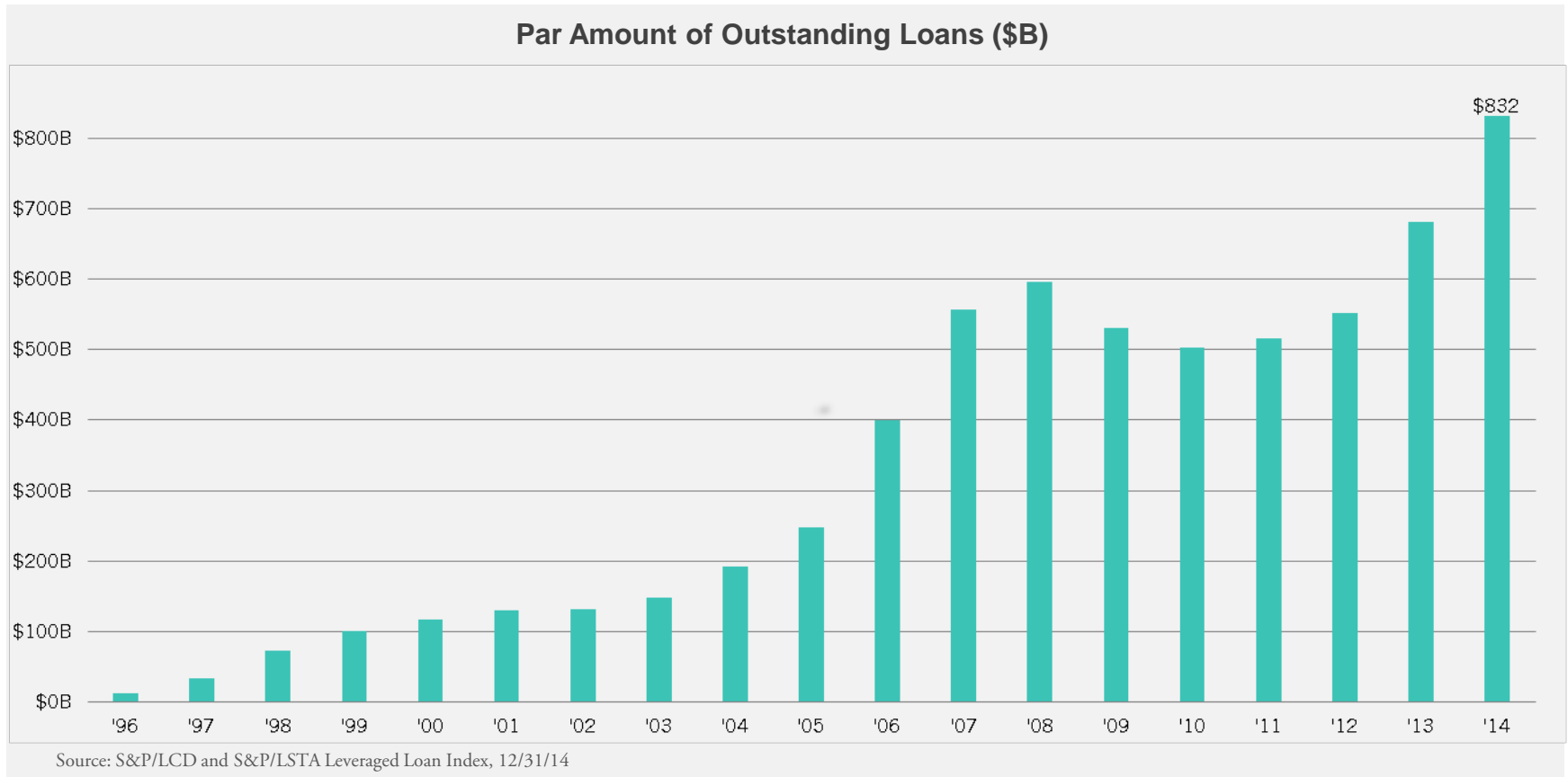


Data provided is for informational use only. Past performance is no guarantee of future results. It is not possible to invest directly in an Index. See end of report for important additional information. Defined as issuers with EBITDA of more than \$50M. Prior to 2011, media and telecom deals were excluded. EBITDA adjusted for prospective cost savings or synergies. Chart reflects the levels of floating-rate debt among floating-rate loan issuers in Standard & Poor's universe. Total enterprise values reflect multiples of S&P 1500 as reported by Standard & Poor's.



Market Has Remained Stable at \$500+ Billion

A major income market segment; About half the size of the high-yield bond market

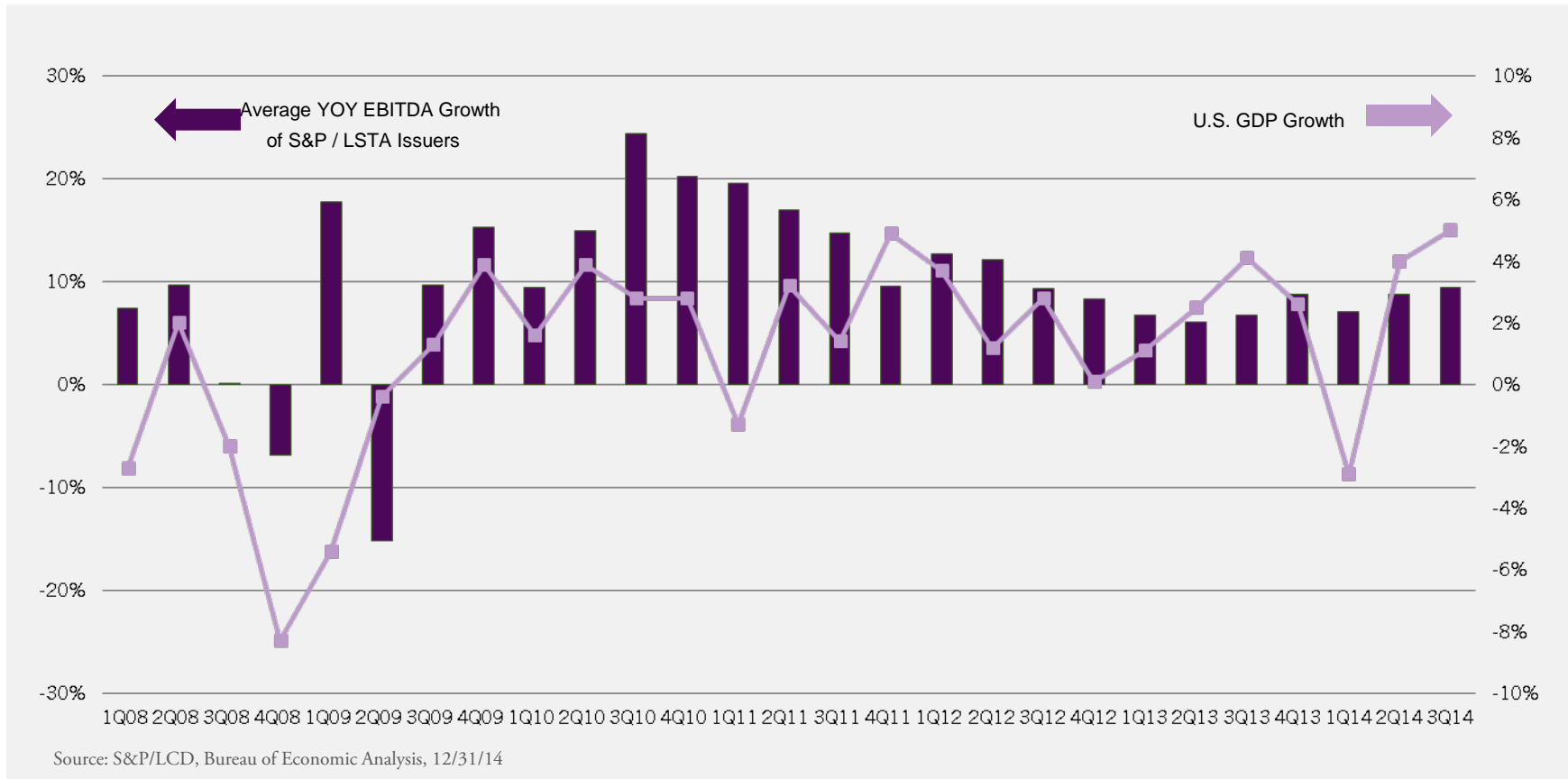


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EBITDA Growth

Positive EBITDA & GDP Growth (despite low GDP environment)



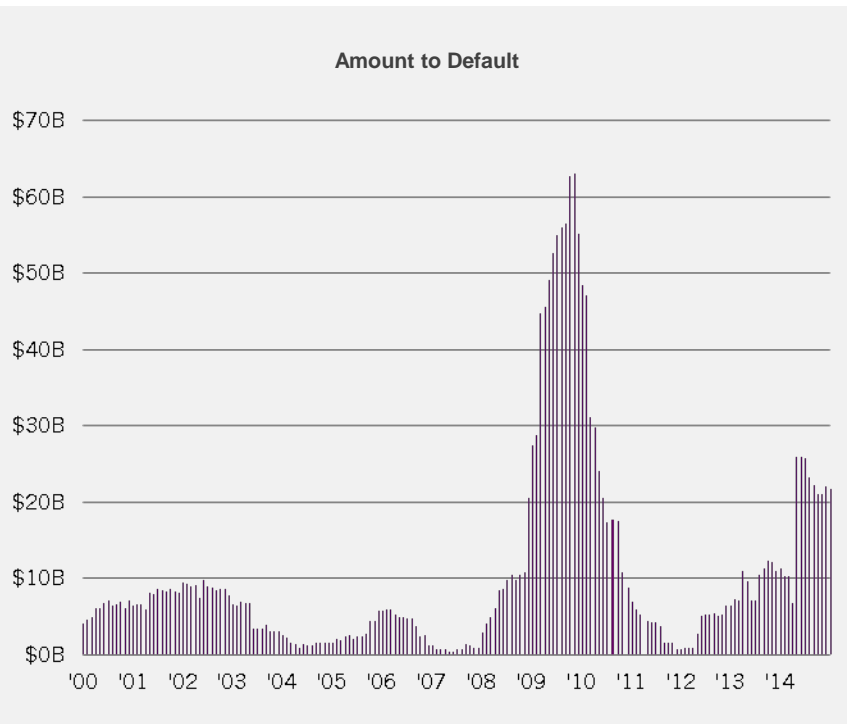
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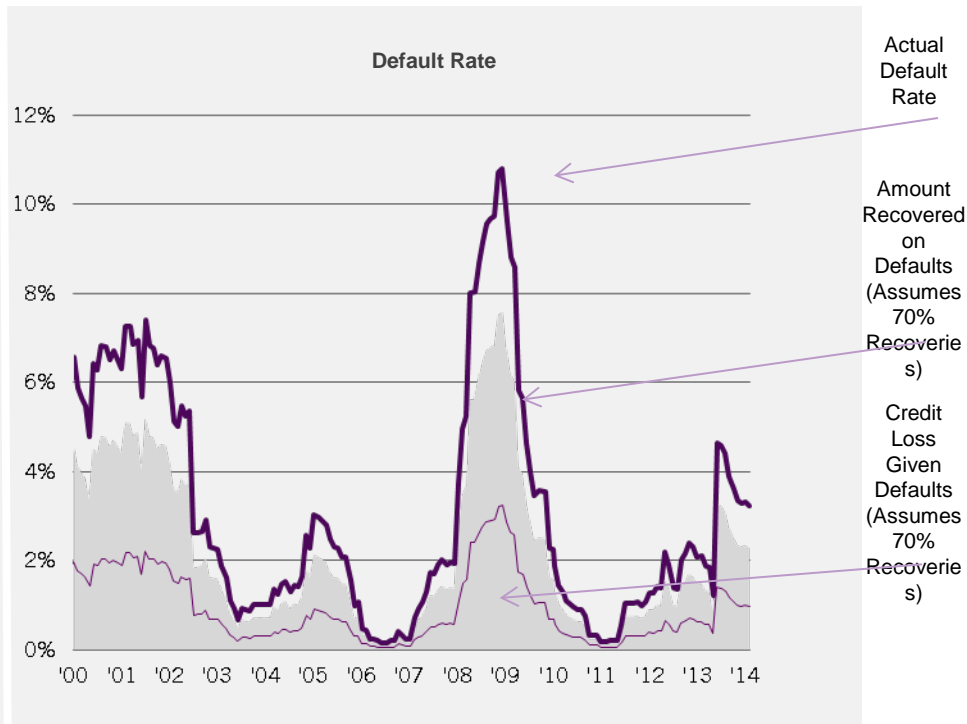
Default Rates Well Below Long-Term Averages

Sound fundamentals have helped limit default scenarios

Lagging Twelve-Month Default Rate by Principal Amount



Source: S&P/LCD and S&P/LSTA Leveraged Loan Index, 12/31/14



Source: S&P/LCD and S&P/LSTA Leveraged Loan Index, 12/31/14

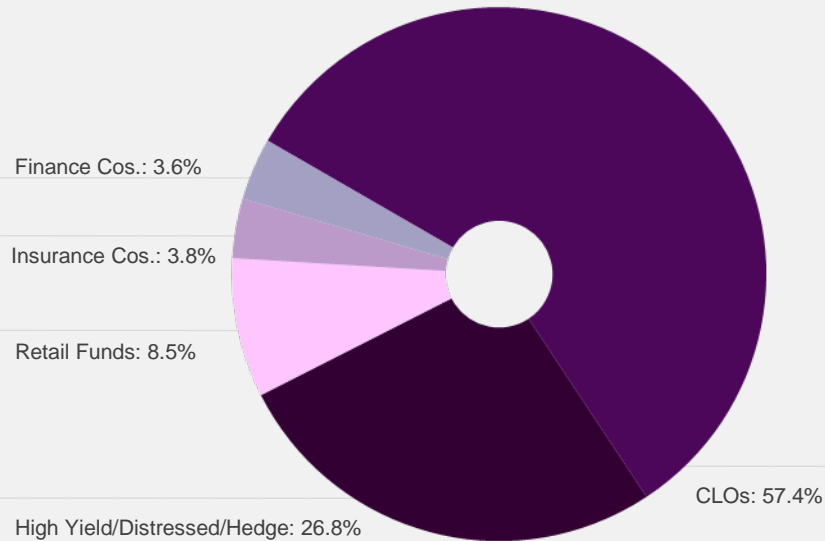
Data provided is for informational use only. Past performance is no guarantee of future results. It is not possible to invest directly in an Index. See end of report for important additional information. Default rate is calculated as the amount default over the last twelve months divided by the amount outstanding at the beginning of the twelve-month period.



Loan Market Demand Analysis

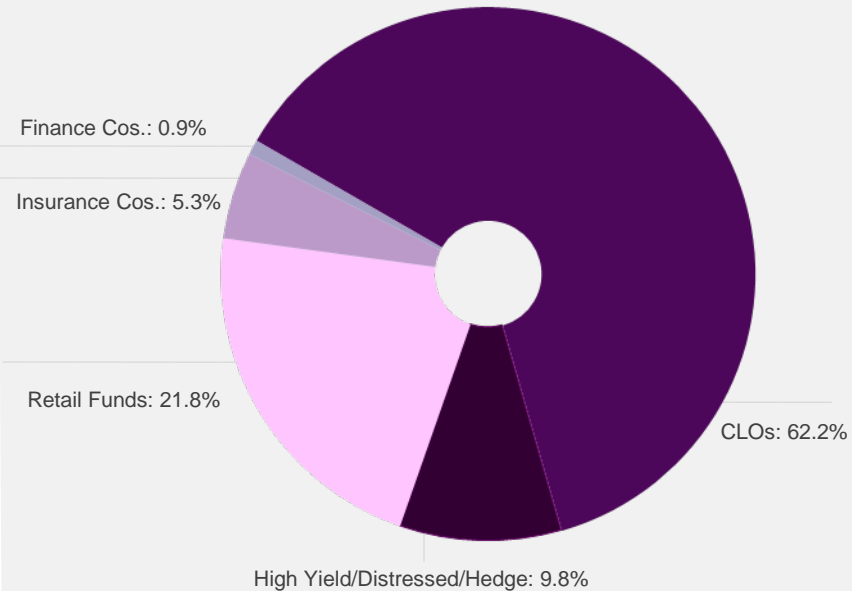
Distribution of Floating-Rate Loan Demand

Distribution of Institutional Primary Market Demand
Q4 2007



Source: S&P/LCD, 12/31/14

Distribution of Institutional Primary Market Demand
Q4 2014



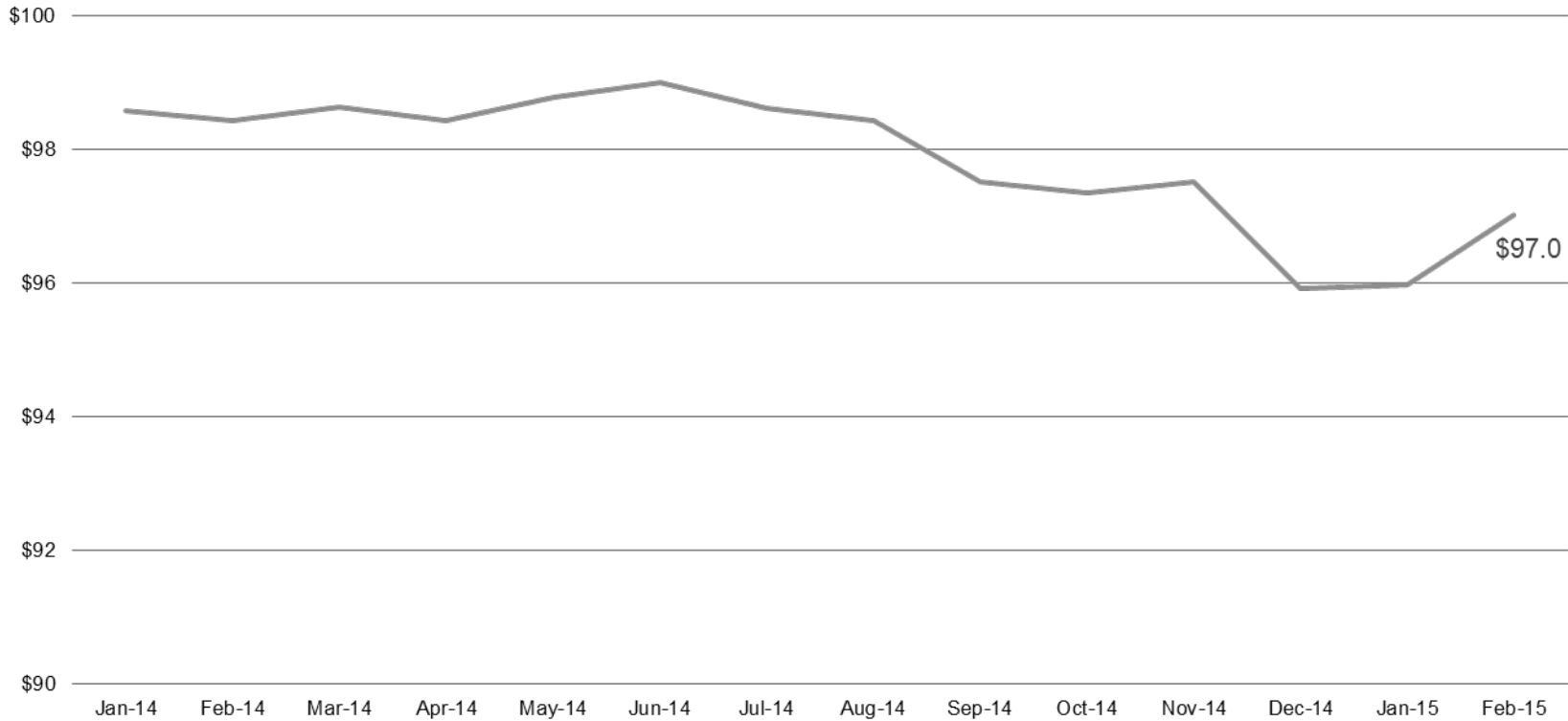
Source: S&P/LCD, 12/31/14

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Loan Prices Have Recently Rebounded after Soft Technicals of Q4 2014



Average Prices



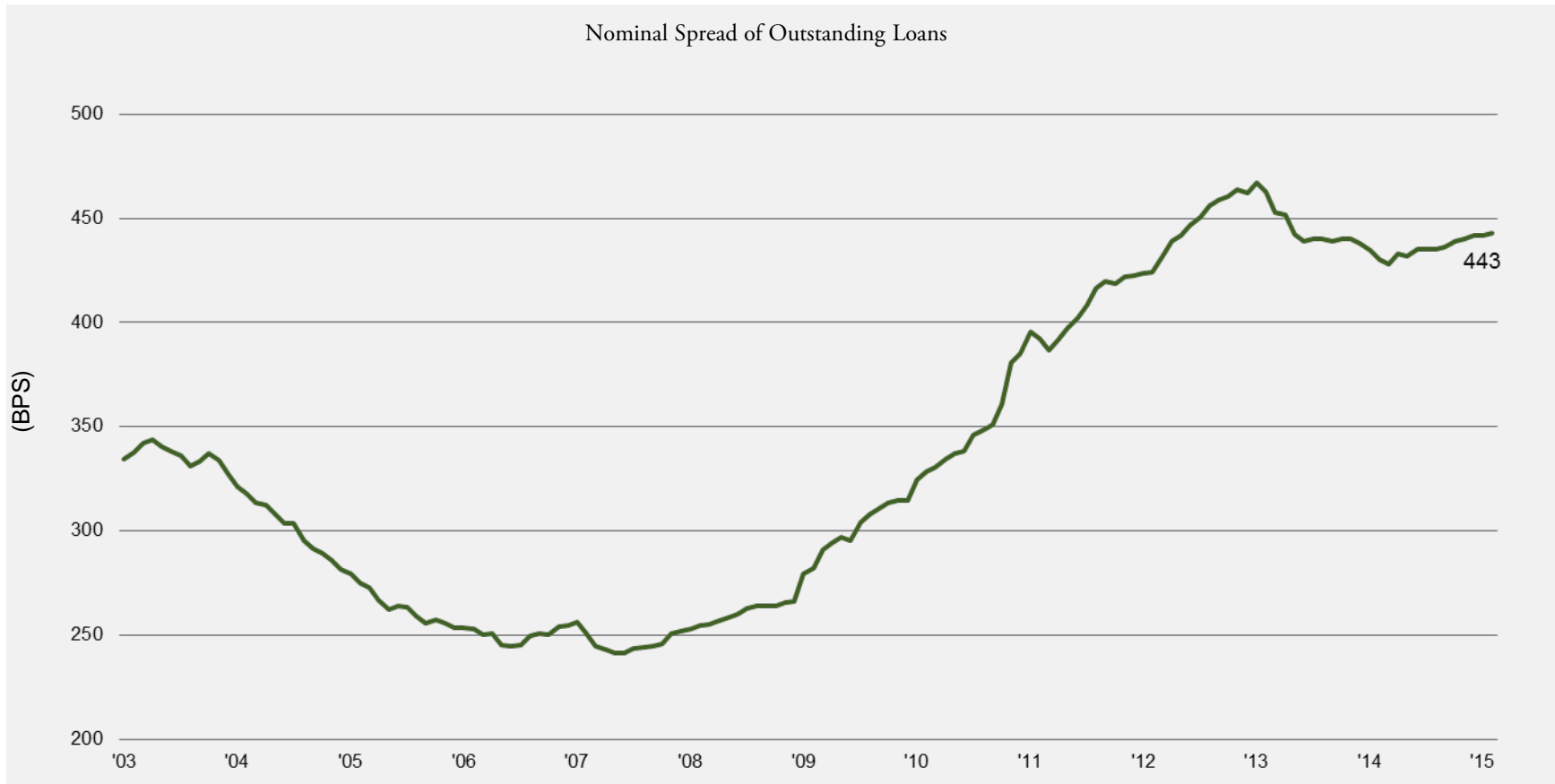
Source: S&P/LCD and S&P/LSTA Leveraged Loan Index, 2/28/15

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Spreads Reasonable



Spreads remain well wide of prior-era lows



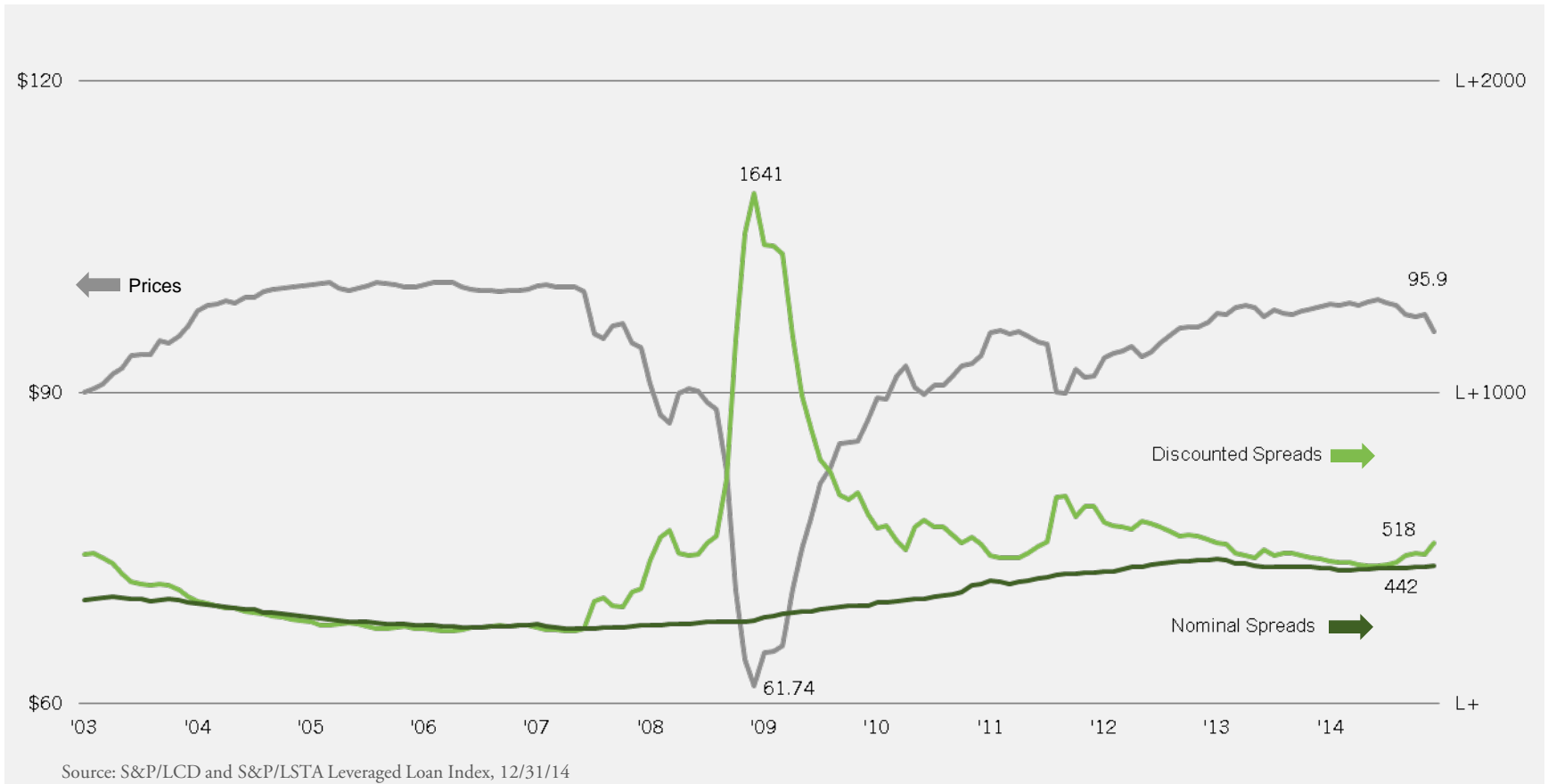
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Prices & Spreads

Elevated spreads; Discounted valuations



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Historical Spread Analysis

Spreads over time and across ratings

Breakdown	YE 2004	YE 2005	YE 2006	YE 2007	YE 2008	YE 2009	YE 2010	YE 2011	YE 2012	YE 2013	YE 2014
Spread to Call – 3 years											
All Loans Index	L+257	L+237	L+250	L+461	L+2373	L+703	L+555	L+717	L+559	L+482	L+561
BB Loans Index	L+200	L+170	L+193	L+397	L+1719	L+456	L+394	L+474	L+408	L+360	L+448
B Loans Index	L+279	L+257	L+264	L+519	L+3014	L+759	L+630	L+698	L+546	L+484	L+617
CCC Only Index	L+480	L+591	L+613	L+1042	L+5544	L+1459	L+1123	L+2097	L+1483	L+1330	L+1044
Second-Lien Index	L+551	L+533	L+512	L+892	L+5633	L+1899	L+1015	L+1146	L+898	L+772	L+1071
Middle-Market Index	L+350	L+299	L+330	L+515	L+2430	L+1225	L+799	L+787	L+695	L+655	L+777
Spread to Call – 4 years											
All Loans Index	L+263	L+241	L+251	L+412	L+1885	L+614	L+517	L+652	L+538	L+472	L+534
BB Loans Index	L+208	L+175	L+194	L+355	L+1370	L+416	L+389	L+456	L+412	L+361	L+430
B Loans Index	L+286	L+261	L+266	L+462	L+2381	L+657	L+576	L+644	L+537	L+483	L+586
CCC Only Index	L+489	L+584	L+606	L+929	L+4385	L+1262	L+967	L+1730	L+1264	L+1177	L+985
Second-Lien Index	L+553	L+533	L+514	L+810	L+4527	L+1603	L+915	L+1045	L+870	L+774	L+1014
Middle-Market Index	L+348	L+301	L+326	L+469	L+1961	L+1123	L+731	L+742	L+680	L+648	L+736
Spread to Maturity											
All Loans Index	L+267	L+244	L+252	L+372	L+1641	L+609	L+512	L+633	L+529	L+466	L+518
BB Loans Index	L+213	L+180	L+196	L+320	L+1198	L+415	L+388	L+447	L+413	L+361	L+419
B Loans Index	L+293	L+264	L+268	L+409	L+2006	L+635	L+568	L+629	L+532	L+483	L+566
CCC Only Index	L+496	L+577	L+602	L+822	L+3605	L+1262	L+974	L+1688	L+1276	L+1119	L+949
Second-Lien Index	L+553	L+533	L+516	L+727	L+3787	L+1517	L+928	L+1041	L+852	L+776	L+954
Middle-Market Index	L+346	L+303	L+323	L+444	L+1929	L+1123	L+762	L+736	L+678	L+644	L+711

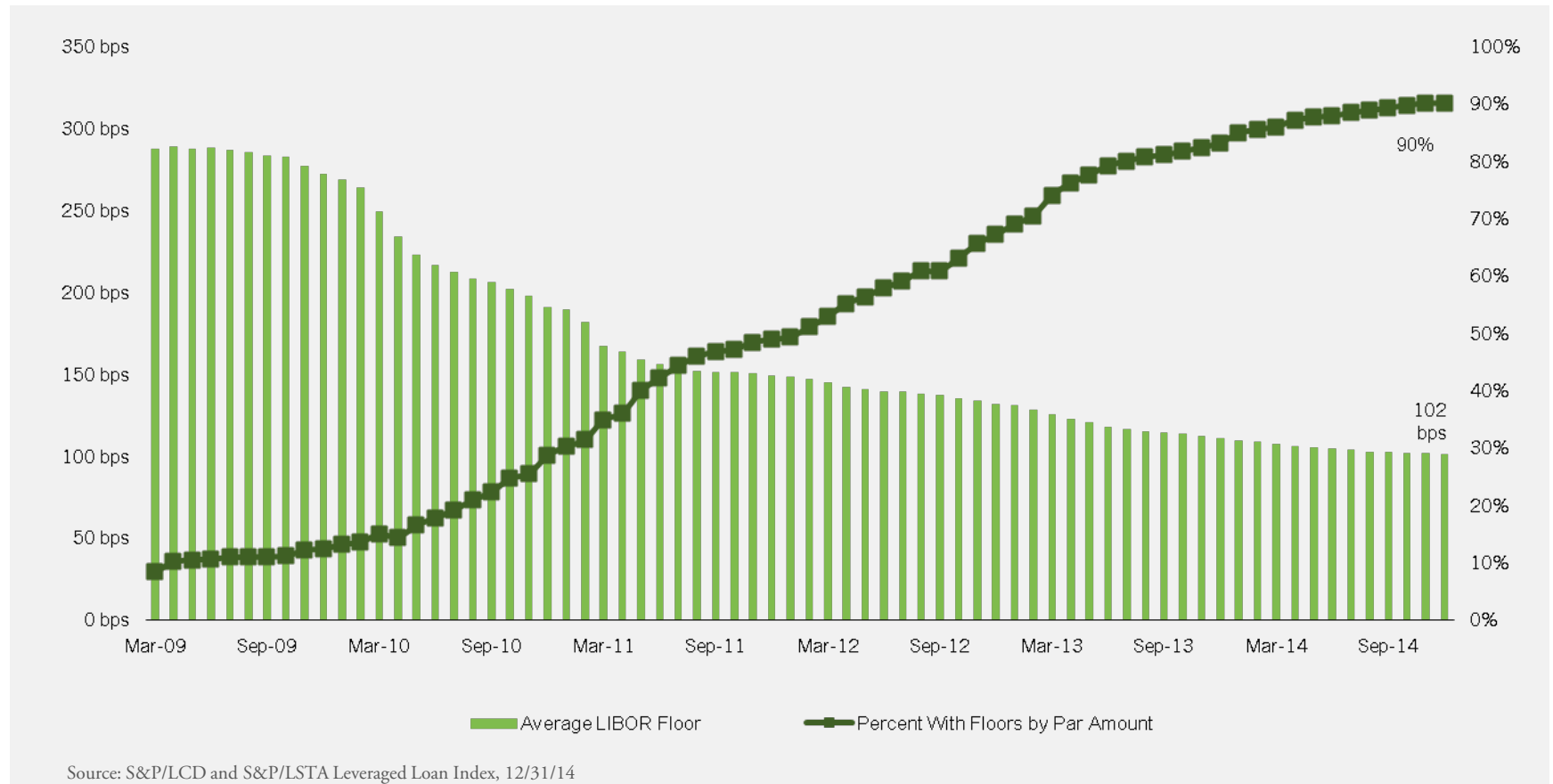
Source: S&P/LCD and S&P/LSTA Leveraged Loan Index, 12/31/14

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Special Topic: LIBOR Floors

Majority of new issue loans have LIBOR floors today; Yield enhancer

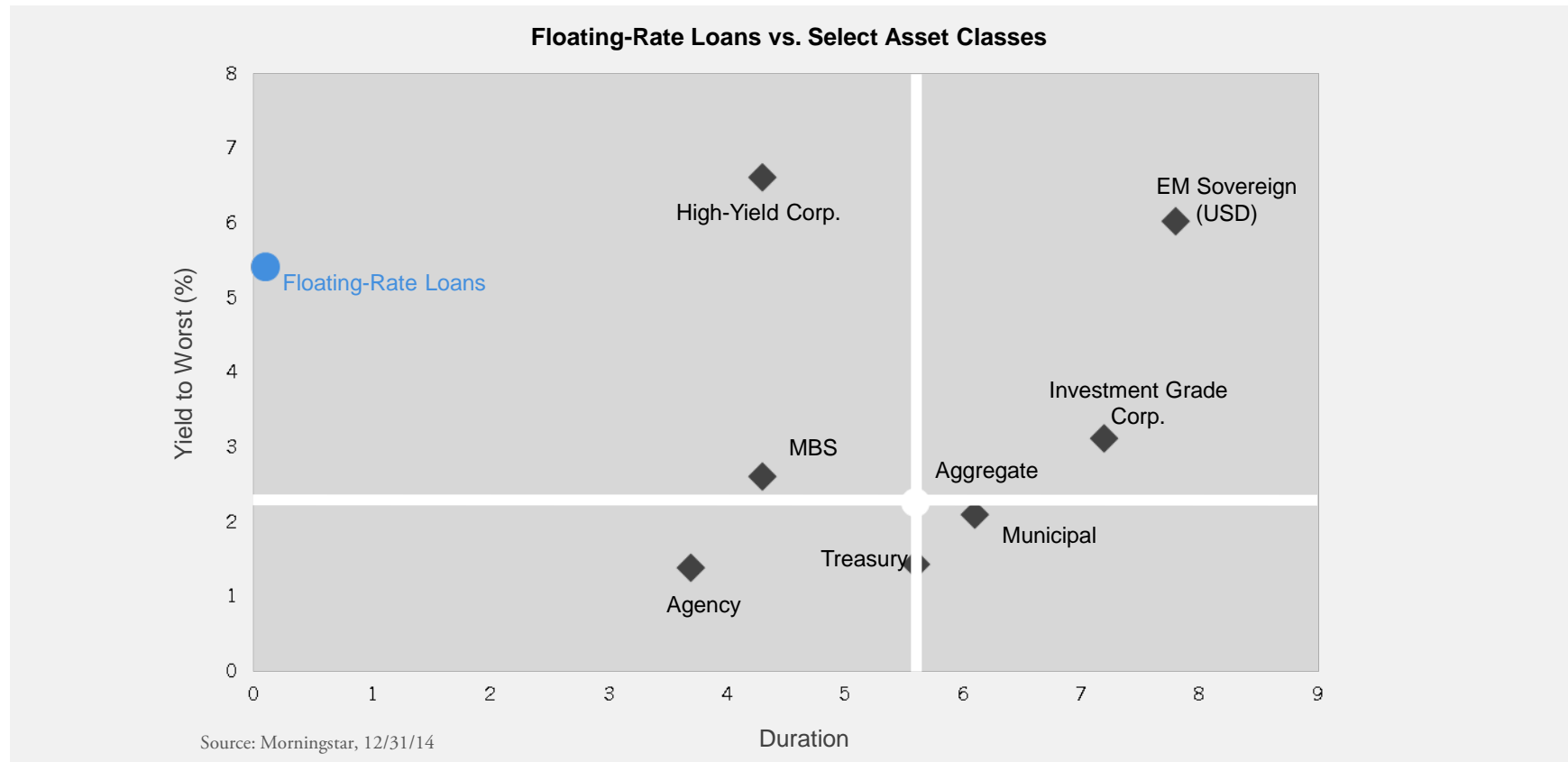


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High Yield Per Unit of Duration

Loans may help amplify yield today, while significantly shortening portfolio duration

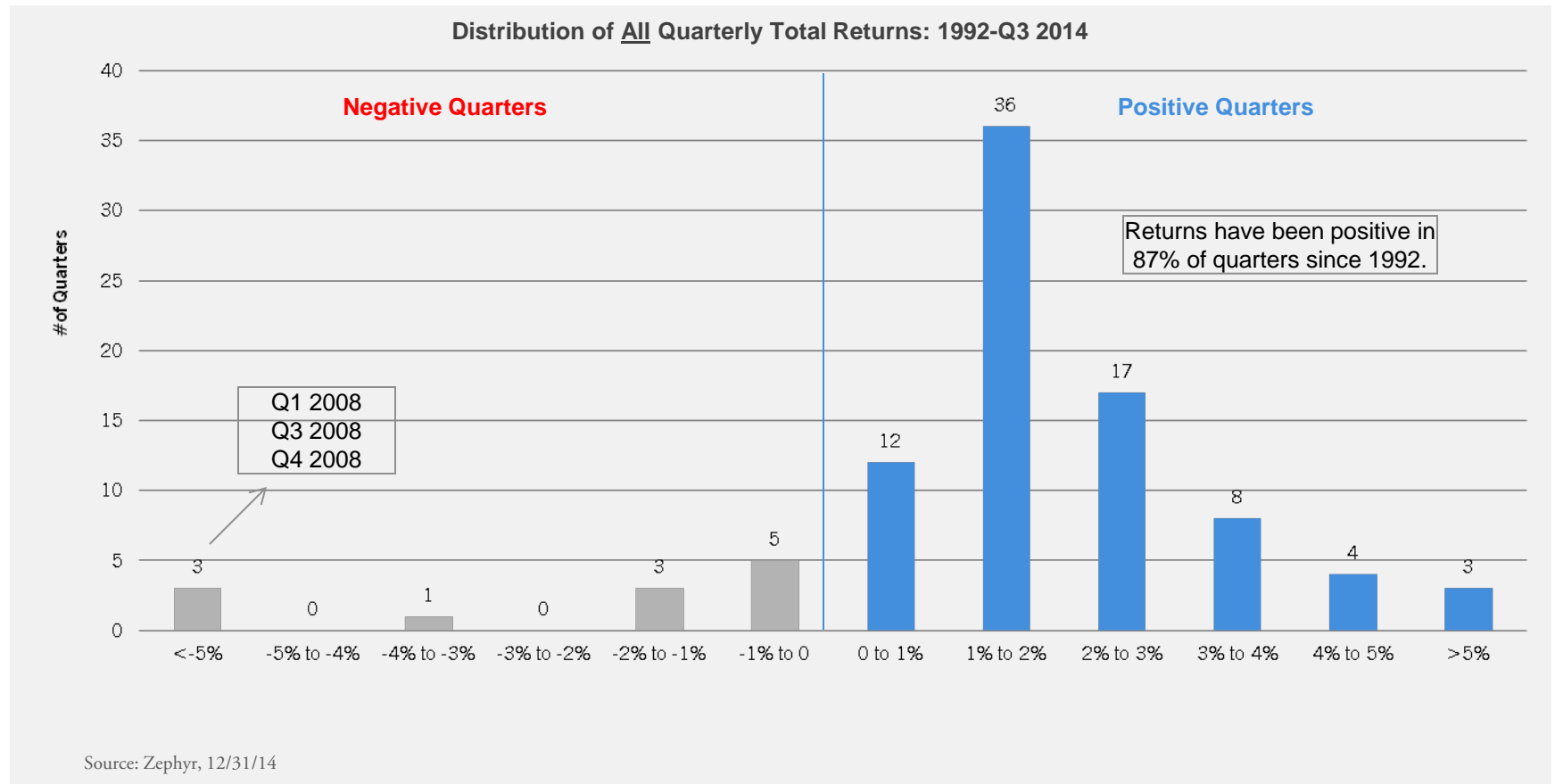


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Positive Return Tendencies for 20 Years

1%-2% per quarter most common historically; Skew has helped drive tendencies positive

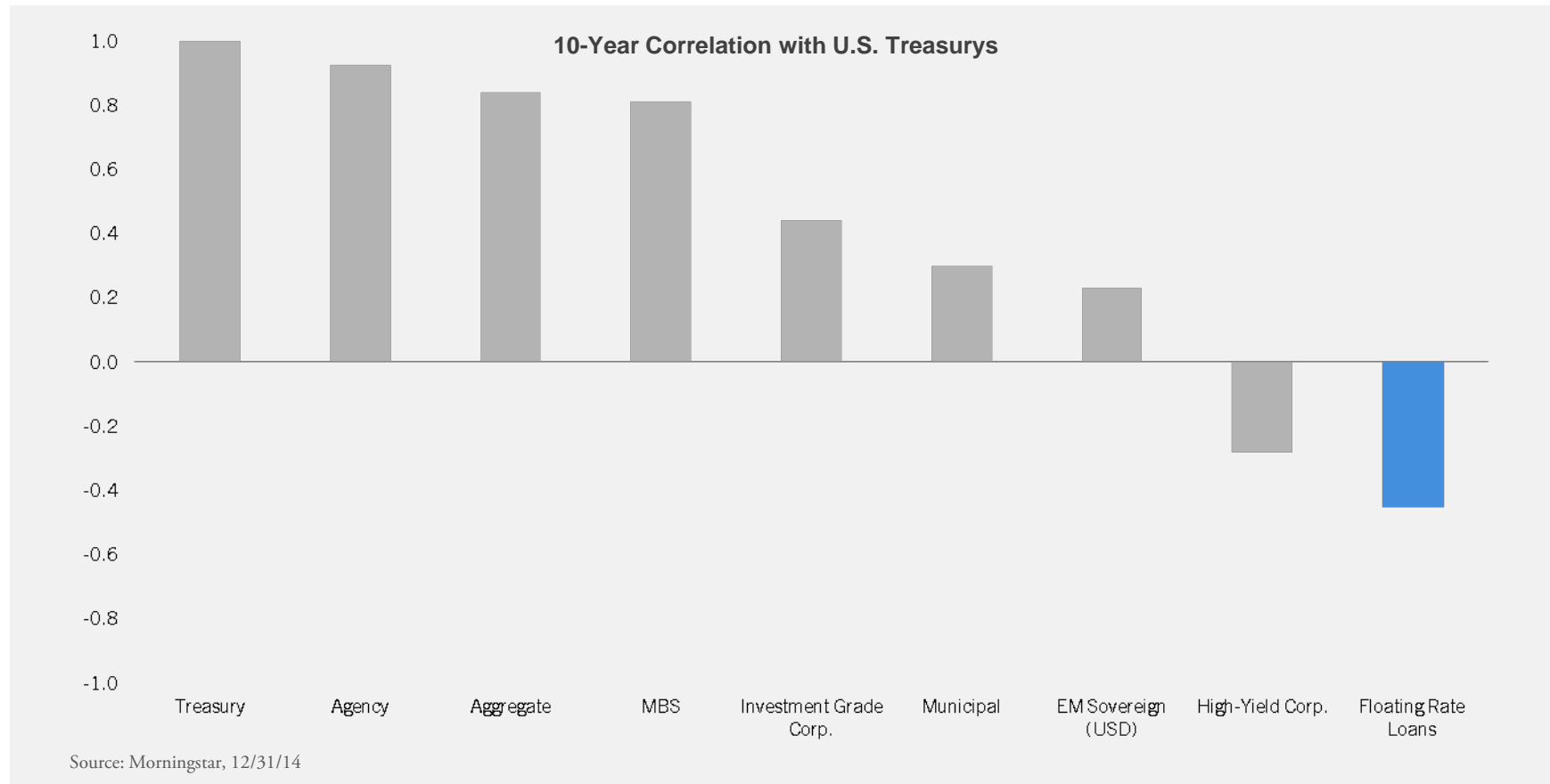


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Negative Correlation a Hedge for High-Quality Bonds

“Anti-bond” characteristics: May help offset core bond positions driven by interest rates



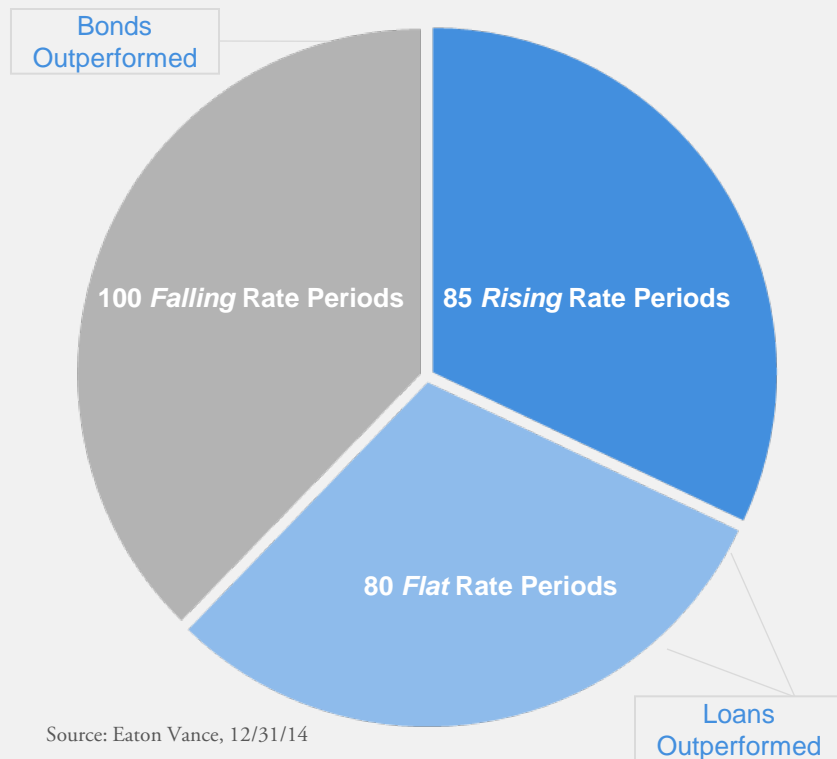
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Despite a Historic “Bull Run” in Bonds...

...Loans outperformed bonds in majority of intra 1-year periods

Distribution of All Rolling 1-Year Return Periods: 1992-2014



Distribution of All Rolling 1-Year Return Periods: 1992-2014

- 85 Rising Rate Periods
 - Summary:** Avg. Return for 85 1-Year Periods
 - Loans: 7.35%
 - Bonds: 4.64%

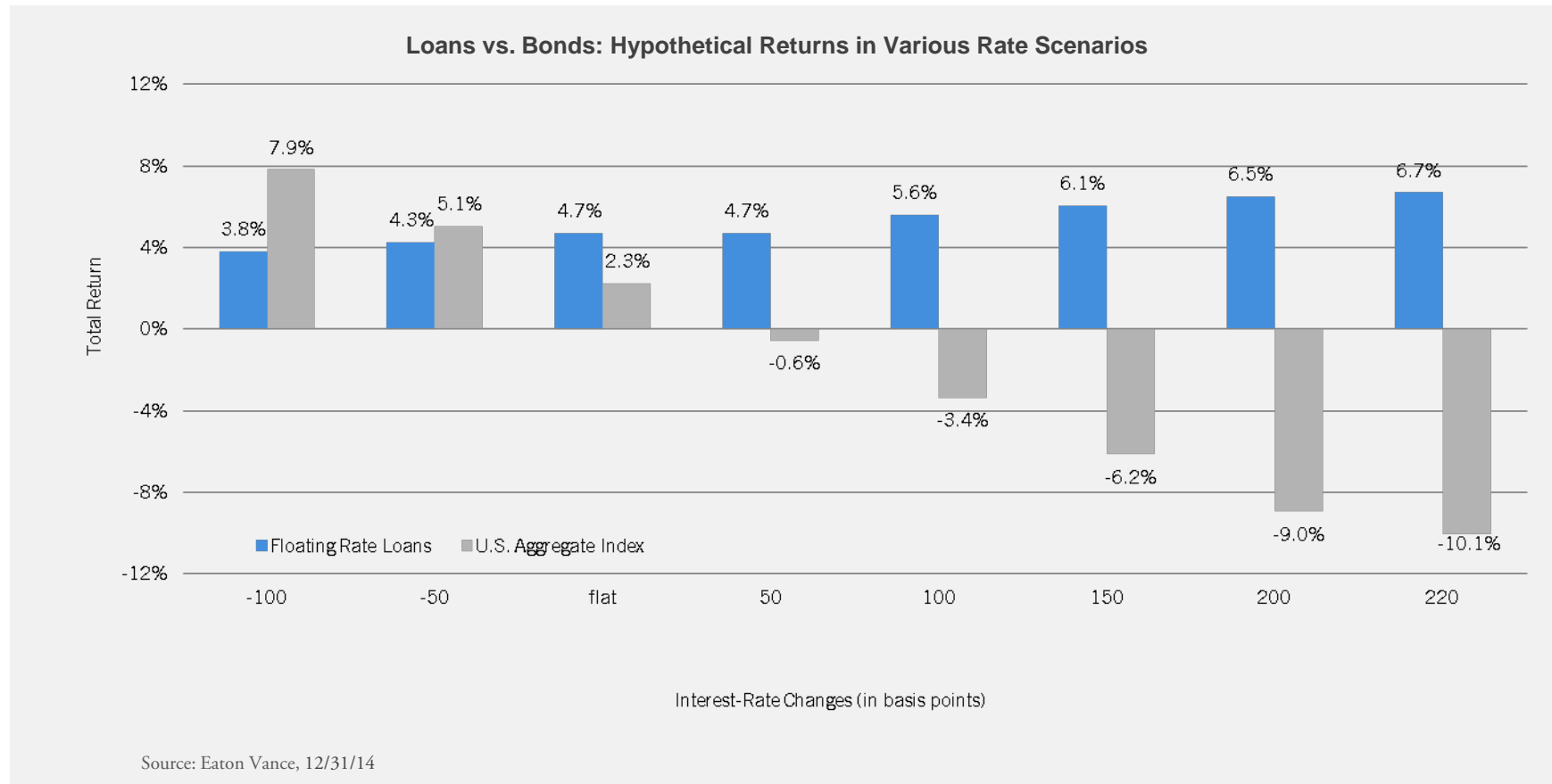
- 80 Flat Rate Periods
 - Summary:** Avg. Return for 80 1-Year Periods
 - Loans: 9.24%
 - Bonds: 5.72%

- 100 Falling Rate Periods
 - Summary:** Avg. Return for 100 1-Year Periods
 - Loans: 2.84%
 - Bonds: 7.69%



The Future: Will Rates Rise, Stay Level or Fall?

Looking ahead, most interest-rate scenarios favor loans (thanks to generationally low rates)

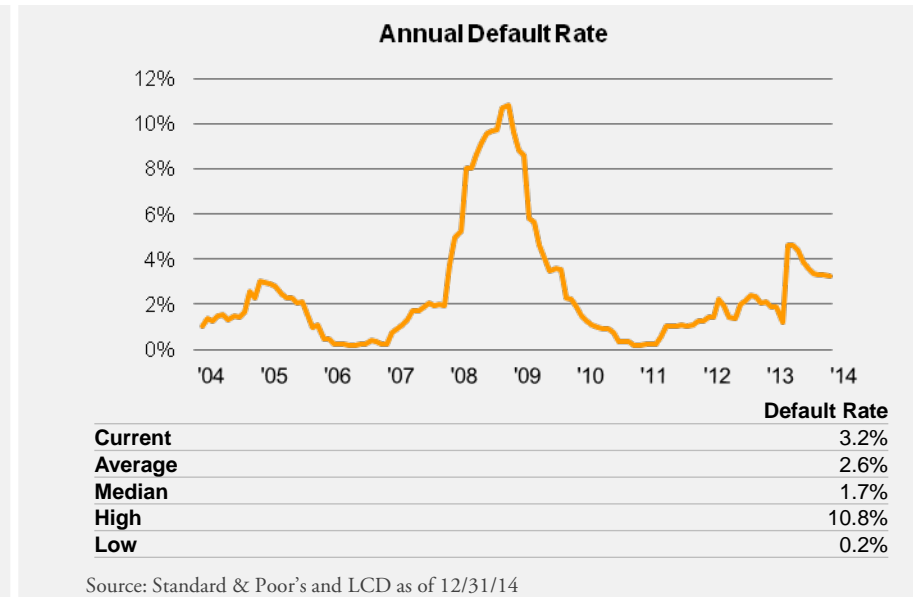
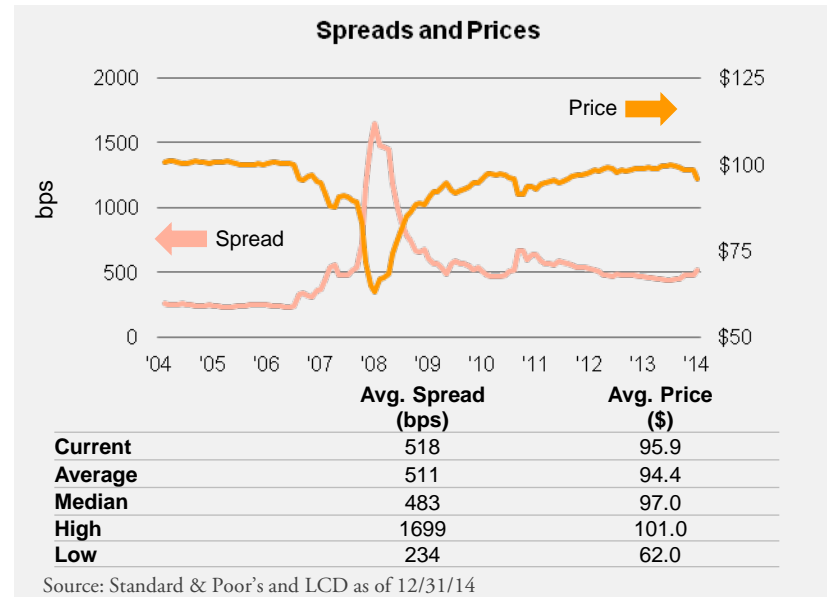


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Floating-Rate Loan Market Update

Characterized by strong fundamentals, low defaults and discount prices



	Averages						Total Returns (%)						
	Price (\$)	Yield (%)	Nominal Spread (bps)	Secondary Spread (bps)	Life (yrs.)	Duration (yrs.)	1-Mo.	3-Mo.	YTD	1Y	3Y	5Y	10Y
S&P/LSTA Leveraged Loan Index	95.9	5.42	442	561	5.05	0.1	-1.25	-0.51	1.60	1.60	5.46	5.57	4.90
BBB	98.3	3.84	320	382	4.83	-	-0.46	0.02	1.16	1.16	3.06	3.74	3.91
BB	98.0	4.43	371	448	5.09	-	-0.74	0.34	1.52	1.52	4.14	4.59	3.90
B	96.4	5.89	476	617	5.12	-	-1.45	-0.72	1.43	1.43	5.85	6.12	4.93
CCC	93.4	9.74	756	1044	5.02	-	-0.83	-0.46	6.09	6.09	11.49	9.84	6.65
D	60.3	-	-	-	-	-	-10.24	-11.84	2.30	2.30	12.73	7.04	-4.69

Source: Standard & Poor's as of 12/31/14



Fixed Income Asset Class Return Analysis (%)

Complementary performance experience over time for bond investors

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Higher ↑	EM (Local Currency) 22.97	EM (Local Currency) 6.27	EM (Local Currency) 15.22	EM (Local Currency) 18.11	Treasury 13.74	High Yield 58.21	EM (Local Currency) 15.68	Municipal 10.70	EM (Local Currency) 16.76	High Yield 7.44	Municipal 9.05
	Global Agg Ex-U.S. 12.55	Bank Loan 5.06	High Yield 11.85	Global Agg Ex-U.S. 11.03	MBS 8.34	Bank Loan 51.62	High Yield 15.12	Treasury 9.81	High Yield 15.81	Bank Loan 5.29	Investment Grade 7.46
	High Yield 11.13	Municipal 3.51	Global Agg Ex-U.S. 8.16	Treasury 9.01	Global Agg Ex-U.S. 4.40	EM (Local Currency) 21.98	Bank Loan 10.13	Investment Grade 8.15	Investment Grade 9.82	MBS -1.41	MBS 6.08
	Investment Grade 5.39	Treasury 2.79	Bank Loan 6.74	MBS 6.90	Municipal -2.47	Investment Grade 18.68	Investment Grade 9.00	MBS 6.23	Bank Loan 9.66	Investment Grade -1.53	Treasury 5.05
	Bank Loan 5.17	High Yield 2.74	MBS 5.22	Investment Grade 4.56	Investment Grade -4.94	Municipal 12.91	Treasury 5.87	High Yield 4.98	Municipal 6.78	Municipal -2.55	High Yield 2.45
	MBS 4.70	MBS 2.61	Municipal 4.84	Municipal 3.36	EM (Local Currency) -5.22	Global Agg Ex-U.S. 7.53	MBS 5.37	Global Agg Ex-U.S. 4.36	Global Agg Ex-U.S. 4.09	Treasury -2.75	Bank Loan 1.60
	Municipal 4.48	Investment Grade 1.68	Investment Grade 4.30	Bank Loan 2.08	High Yield -26.16	MBS 5.89	Global Agg Ex-U.S. 4.95	Bank Loan 1.52	MBS 2.59	Global Agg Ex-U.S. -3.08	Global Agg Ex-U.S. -3.08
Lower ↓	Treasury 3.54	Global Agg Ex-U.S. -8.65	Treasury 3.08	High Yield 1.87	Bank Loan -29.10	Treasury -3.57	Municipal 2.38	EM (Local Currency) -1.75	Treasury 1.99	EM (Local Currency) -8.98	EM (Local Currency) -5.72

Source: Morningstar as of 12/31/14

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