SPIVA® Senior Loans Scorecard

Year-End 2013

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RESEARCH

Summary

- In recent years, floating-rate bank loans, or senior loans, have emerged as a growing asset class.
- Recognizing the importance of this asset class, particularly if a rising-interest-rate environment is expected in the short- to medium-term, S&P Dow Jones Indices developed the S&P Indices Versus Active (SPIVA) Scorecard dedicated to senior loans.
- This SPIVA Scorecard measures the performance of actively managed floating-rate bank loan funds vs. their benchmark, the S&P/LSTA U.S. Leveraged Loan 100 Index.
- Active funds fared well over the 12-month period ending Dec. 31, 2013, with the majority of active funds (60%) outperforming the benchmark.
- However, when viewed over medium- to long-term, three- and five-year horizons, 61.54% and 90.48% of the active loan participation funds underperformed the benchmark, respectively.
- Over the past five years, the number of loan participation funds has nearly doubled, from 21 to 40, which is a testament to the growing popularity of the asset class.

SPIVA Methodology

S&P Dow Jones Indices obtains information from the Center for Research in Security Prices' (CRSP) Survivor-Bias-Free U.S. Mutual Fund Database. Updated quarterly and distributed with a monthly lag, the database is designed to facilitate research on the historical performance of open-ended mutual funds by using survivor-bias-free data.

The SPIVA Senior Loans Scorecard applies the fundamental principles of the well-regarded SPIVA Scorecard to the senior loans asset class.

The popularity of SPIVA stems from a few unique attributes.

- Survivorship bias correction: Many funds might be liquidated or merged during a period of study. However, for someone making an investment decision at the beginning of the period, these funds are part of the opportunity set. Unlike other commonly available comparison reports, SPIVA Scorecards account for the entire opportunity set–not just the survivors–thereby eliminating survivorship bias.
- Apples-to-apples comparison: Fund returns are often compared to popular benchmarks such as the S&P 500, regardless of size or style classification. SPIVA Scorecards avoid this pitfall by measuring a fund's returns against the returns of a benchmark appropriate for that particular investment category.

- Asset-weighted returns: Average returns for a fund group are often calculated using only equal weighting, which results in the returns of a USD 10 billion fund impacting the average in the same manner as the returns of a USD 10 million fund. An accurate representation of how investors fared during a particular period can be ascertained by calculating weighted average returns, in which each fund's return is weighted by net assets. SPIVA Scorecards show both equal- and asset-weighted averages.

- Style consistency: SPIVA Scorecards measure style consistency for each style category across different time horizons. Style consistency is an important metric because style drift (the tendency of funds to diverge from their initial investment categorization) can have an impact on asset allocation decisions.

- Data cleaning: SPIVA Scorecards avoid double counting multiple share classes in all count-based calculations, using only the share class with greater assets. Because this is meant to be a scorecard for active managers only, index funds, leveraged and inverse funds, and other index-linked products are excluded.

S&P Dow Jones Indices selected open-ended mutual funds that are defined by Lipper as Loan Participation Funds and reported net performance for an interval of time within the last 10 years. These funds invest primarily in participation interests in collateralized senior corporate loans, which have floating or variable rates. Funds that did not meet a minimum high-yield allocation of 50% and a minimum bank loan allocation of 50% as of the most recent quarter-end were excluded.

Report 1: Percentage of Fund Share Classes Outperformed by the Index

This report reflects the percentage of fund share classes that underperformed the S&P/LSTA U.S. Leveraged Loan 100 Index (TR) over one-, three- and five-year periods.

Exhibit 1: Percentage of Fund Share Classes Outperformed by the Index

Comparison Index	One Year (%)	Three Years (%)	Five Years (%)
S&P/LSTA U.S. Leveraged Loan 100 Index (TR)	40	61.54	90.48

Source: S&P Dow Jones Indices and CRSP. Data as of Dec. 31, 2013. Charts and graphs are provided for illustrative purposes. Past performance is no guarantee of future results.

Report 2: Survivorship

This report shows the number of Loan Participation Funds that existed at the beginning of the period in question, as well as the percentage of funds that survived until the end of the period.

If a fund reported a return for the first month in a period, it is included in the beginning-period figures. Similarly, if a fund had a return for the last month in a period, it is included in the ending-period figures.

Exhibit 2: Loan Participation Fund Survivorship

Period	No. of Funds at Start	Survivorship (%)	Style Consistency (%)
One-Year	40	100	100
Three-Year	26	96.15	96.15
Five-Year	21	90.48	90.48

Source: S&P Dow Jones Indices and CRSP. Data as of Dec. 31, 2013. Charts and graphs are provided for illustrative purposes.

Report 3: Equal-Weighted Fund Share Class Returns

This report shows the equal-weighted average returns of funds in a particular category for the one-, three- and five-year periods.

For every month in the period, S&P Dow Jones Indices takes all funds that are in existence in the category and calculates the simple average return. The returns from all the months in the period are then compounded. These returns are compared to the respective benchmark index returns. The funds used in the averaging process in one month might not be the same as those used in the next months, because some funds may have merged or liquidated, new funds could have been created and some funds may have had their categories changed.

Most reports that claim to show average active fund performance report on the funds in a category at the end of the period and then take the average of their historical returns. The SPIVA methodology offers a more accurate picture of active fund performance by calculating the average performance of the active funds in existence in a given category each month, not just at the end of the period.

Exhibit 3: Equal-Weighted Fund Returns

Fund Category	One Year (%)	Three Years (Annualized %)	Five Years (Annualized %)
S&P/LSTA U.S. Leveraged Loan 100 Index (TR)	5.02	5.31	14.28
Loan Participation Funds	5.45	5.40	12.46

Source: S&P Dow Jones Indices and CRSP. Data as of Dec. 31, 2013. Charts and graphs are provided for illustrative purposes. Past performance is no guarantee of future results.

Report 4: Asset-Weighted Fund Share Class Returns

This report shows the asset-weighted average returns of funds in a particular category for the one-, three- and five-year periods.

For every month in the period, the S&P Dow Jones Indices takes all the funds in the category and calculates the average return by weighting each fund's return by its month-end assets. The returns from all the months in the period are then compounded. These returns are compared with those of the benchmark. The funds used in the averaging process in one month might not be the same as those used in the following months, as some funds could have merged or liquidated, new funds may have been formed and some funds might have had their categories changed.

Most fund reports do not show asset-weighted returns. The SPIVA Senior Loans Scorecard presents an accurate picture of asset-weighted active fund performance in a category by calculating this for all active funds in existence in the category each month.

Exhibit 4: Asset-Weighted Fund Returns

Fund Category	One Year (%)	Three Years (Annualized %)	Five Years (Annualized %)
S&P/LSTA U.S. Leveraged Loan 100 Index (TR)	5.02	5.31	14.28
Loan Participation Funds	5.06	5.01	12.00

Source: S&P Dow Jones Indices and CRSP. Data as of Dec. 31, 2013. Charts and graphs are provided for illustrative purposes. Past performance is no guarantee of future results.

Report 5: Quartile Breakpoints of Share Class Returns

This report shows the return below which the performance of a specified portion of funds in the population lies. For instance, the first quartile signifies the return below which 75% of the funds in the population lies.

Exhibit 5: Loan Participation Funds Quartile Breakpoints

Period	Third Quartile	Second Quartile	First Quartile
One-Year	4.51	5.2	5.88
Three-Year	4.46	5.16	5.53
Five-Year	11.17	12.25	13.26

Source: S&P Dow Jones Indices and CRSP. Data as of Dec. 31, 2013. Charts and graphs are provided for illustrative purposes. Past performance is no guarantee of future results.

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