

Floating-Rate Loan Market: Fact and Fiction

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Agenda

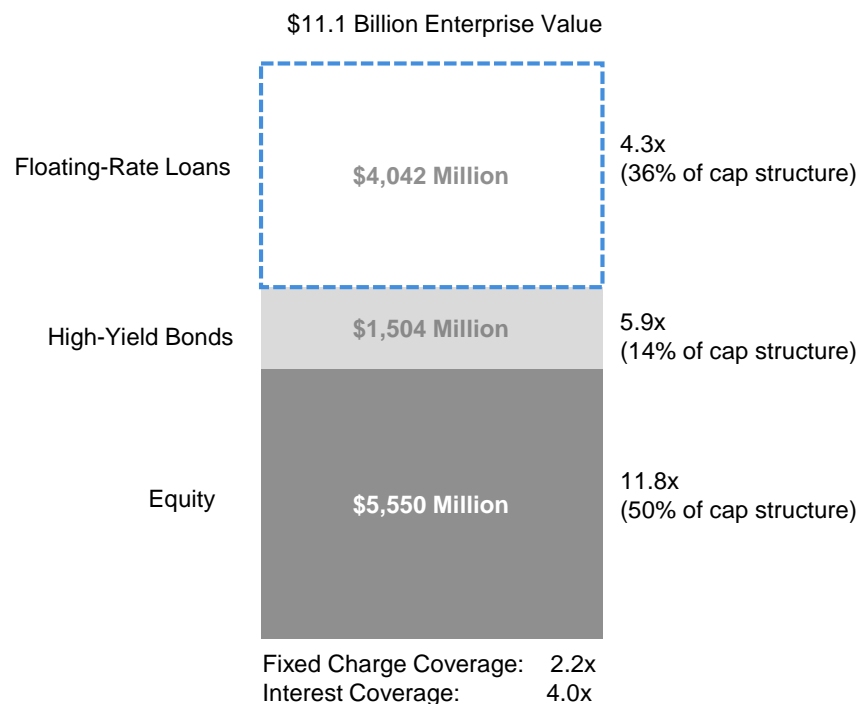
- Bank Loan Primer
- Current State of the Loan Market – Don't Let Truth Get in the Way of a Good Story
- CLOs – An Attractive Risk/Return Profile

3 | Loans Represent the Senior Layer of Issuer Capital Structure



- 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

Weighted Average Company Capital Structure: Sample \$4.3B Revenue & \$940M EBITDA



Source: Eaton Vance, 12/31/18. Past performance is not a reliable indicator of future results. Data provided is for informational use only. It is not possible to invest directly in an Index. See end of material for important additional information and disclosures. This information is for illustrative purposes only, is subject to change at any time and should not be considered investment advice or a recommendation to buy or sell any particular security or adopt any particular strategy. The sample is an average of all loans currently tracked across the Eaton Vance loan platform as of 12/31/2018. Does not represent any particular issuer or product. EBITDA is defined as earnings before interest taxes depreciation and amortization.

4 | Many Large & Well-Known Companies Issue Loans



Issuer	Industry	Maturity Date	Spread	Corp. Ratings
Charter Communications	Cable & Satellite Television	Apr 2025	L+200	BB+/Ba2
Clarivate Analytics	Business Equipment & Services	Oct 2023	L+325	B+/B3
Dell	Electronics/Electrical	Sep 2023	L+200	BB+/Ba1
First Data	Business Equipment & Services	Apr 2024	L+225	B+/Ba3
HCA	Health Care	Mar 2023	L+175	BB/Ba1
Intelsat Jackson	Telecom	Nov 2023	L+375	CCC+/Caa2
Inventive	Health Care	Jun 2024	L+225	BB-/B3
Nielsen Finance	Publishing	Oct 2023	L+200	BB+/Ba3
Refinitiv	Electronics/Electrical	Sep 2025	L+375	B/B3
Reynolds Group	Containers & Glass Products	Jan 2023	L+300	B+/B2
Scientific Games	Lodging & Casinos	Aug 2024	L+275	B/B2
Univision	Radio & Television	Mar 2024	L+275	B+/B2
Valeant Pharmaceuticals	Drugs	Jun 2025	L+300	B/B3
VICI Properties	Lodging & Casinos	Dec 2024	L+225	BB/Ba3
Warner Music Group	Leisure Goods/Activities/Movies	Nov 2023	L+213	B+/B1

Source: LCD, an offering of S&P Global Market Intelligence, 12/31/18. Past performance is not a reliable indicator of future results. Data provided is for informational and illustrative purposes only. This is an example only and is not intended to represent the allocation of any fund/account/strategy. This list represents a sample of some of the larger and more liquid loans in the S&P/LSTA Leveraged Loan Index as determined by LCD. This sample is not necessarily representative of the other issuers in this index, which will vary based on factors including size and liquidity. This information is not to be construed as investment advice or a recommendation to buy or sell any particular security. Investors should consult an investment professional prior to making any investment decisions. It is not possible to invest directly in an index. See end of material for important additional information and disclosures.

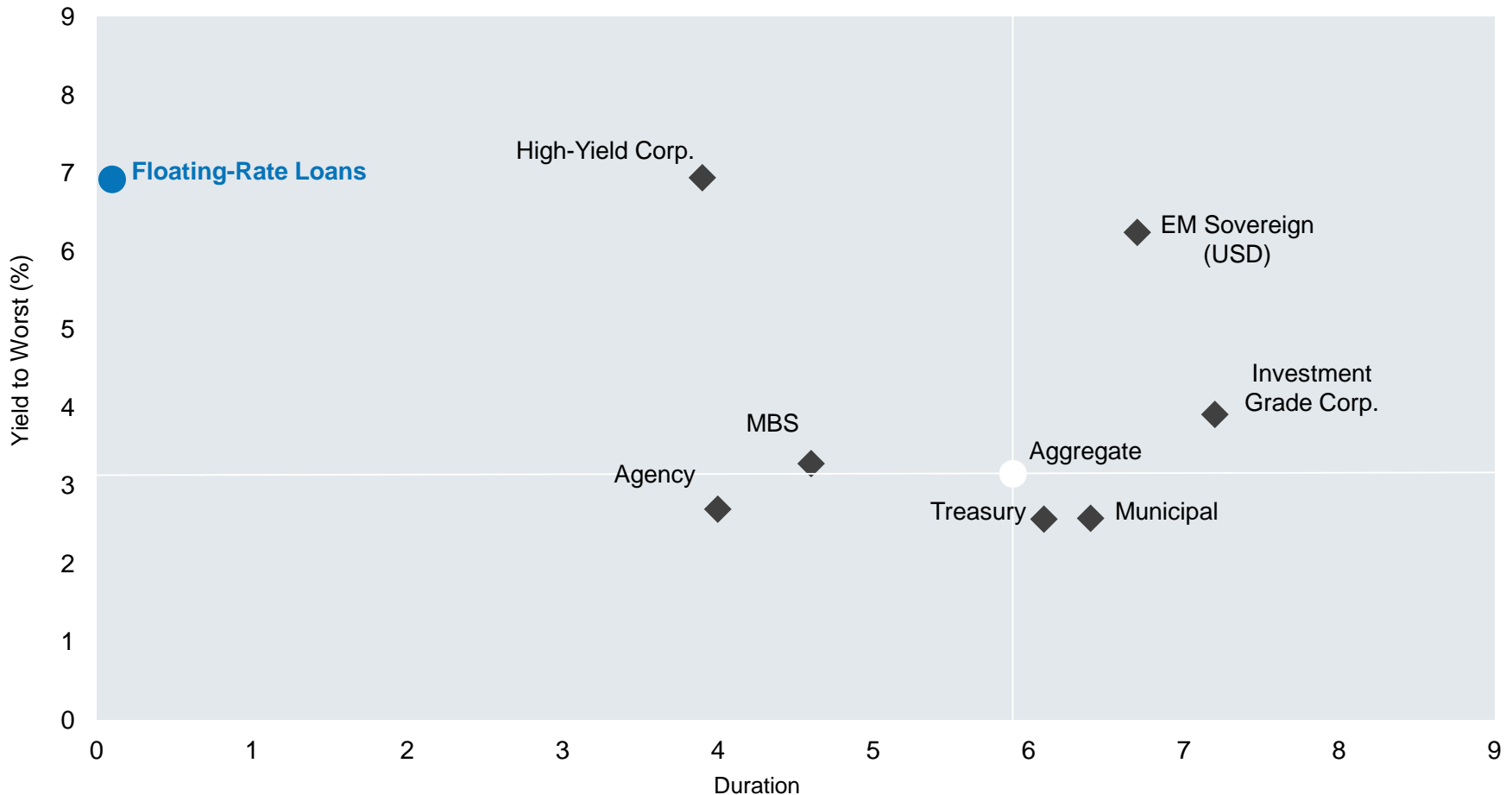
5 | Where Loans Fit in the Corporate Debt Universe



	US Investment Grade	US Floating-Rate Loans	US High Yield
Size of Market	\$5.19 T	\$1.17 T	\$1.18 T
# of Issues	5,831	1,433	1,818
Credit Quality	A3/Baa1	BB-/B+	B1
Base Rate	US Treasuries	LIBOR	US Treasuries
Structure	Fixed	Floating	Fixed
Duration	7.2 yrs.	--	3.9 yrs.
Yield to Worst	3.9%	6.9%	6.9%
Maturity	10.8 yrs	5.1 yrs	5.8 yrs

Sources: Bloomberg Barclays, ICE Data Indices LLC, and LCD, an offering of S&P Global Market Intelligence. Data as of 1/31/2019. US Investment Grade measured by the Bloomberg Barclays US Corporate Index. US Floating-Rate Loans measured by the S&P/LSTA Leveraged Loan Index. US High Yield measured by the ICE BofA/ML US High Yield Index.

6 | Coupon Structure Delivers Near-zero Interest Rate Duration



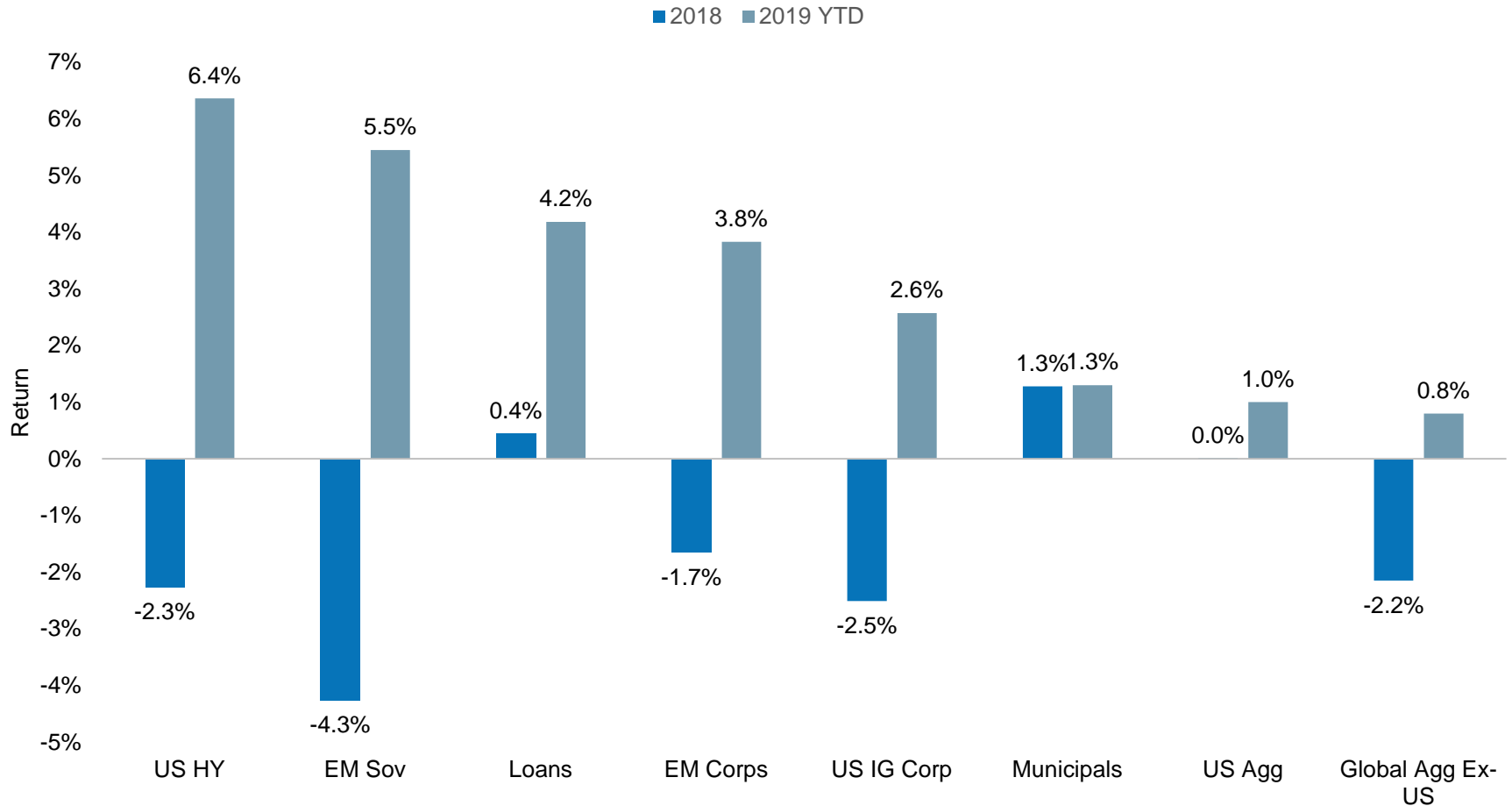
Source: Bloomberg Barclays, JPMorgan, ICE Data Indices, LLC and LCD, an offering of S&P Global Market Intelligence, 1/31/19. Data provided is for informational use only. It is not possible to invest directly in an Index. Yield to worst is the lowest potential yield that can be received on a bond without an issuer actually defaulting. Duration is a measure of the sensitivity of a bond's price to a change in interest rates. Treasury represented by Bloomberg Barclays U.S. Treasury Index. Agency represented by Bloomberg Barclays U.S. Agency Index. Aggregate represented by Bloomberg Barclays U.S. Aggregate Index. MBS represented by Bloomberg Barclays U.S. Mortgage Backed Securities (MBS) Index. Investment-Grade Corporate represented by Bloomberg Barclays U.S. Corporate Index. Municipal represented by Bloomberg Barclays Municipal Bond Index. Emerging Markets Sovereign (USD) represented by JPMorgan Emerging Markets Bond Index Plus (EMBI+). High Yield Corp. represented by Bloomberg Barclays U.S. Corporate High Yield Index. Floating-Rate Loans represented by S&P/LSTA Leveraged Loan Index.

7 | Calendar Year Loan Index Performance



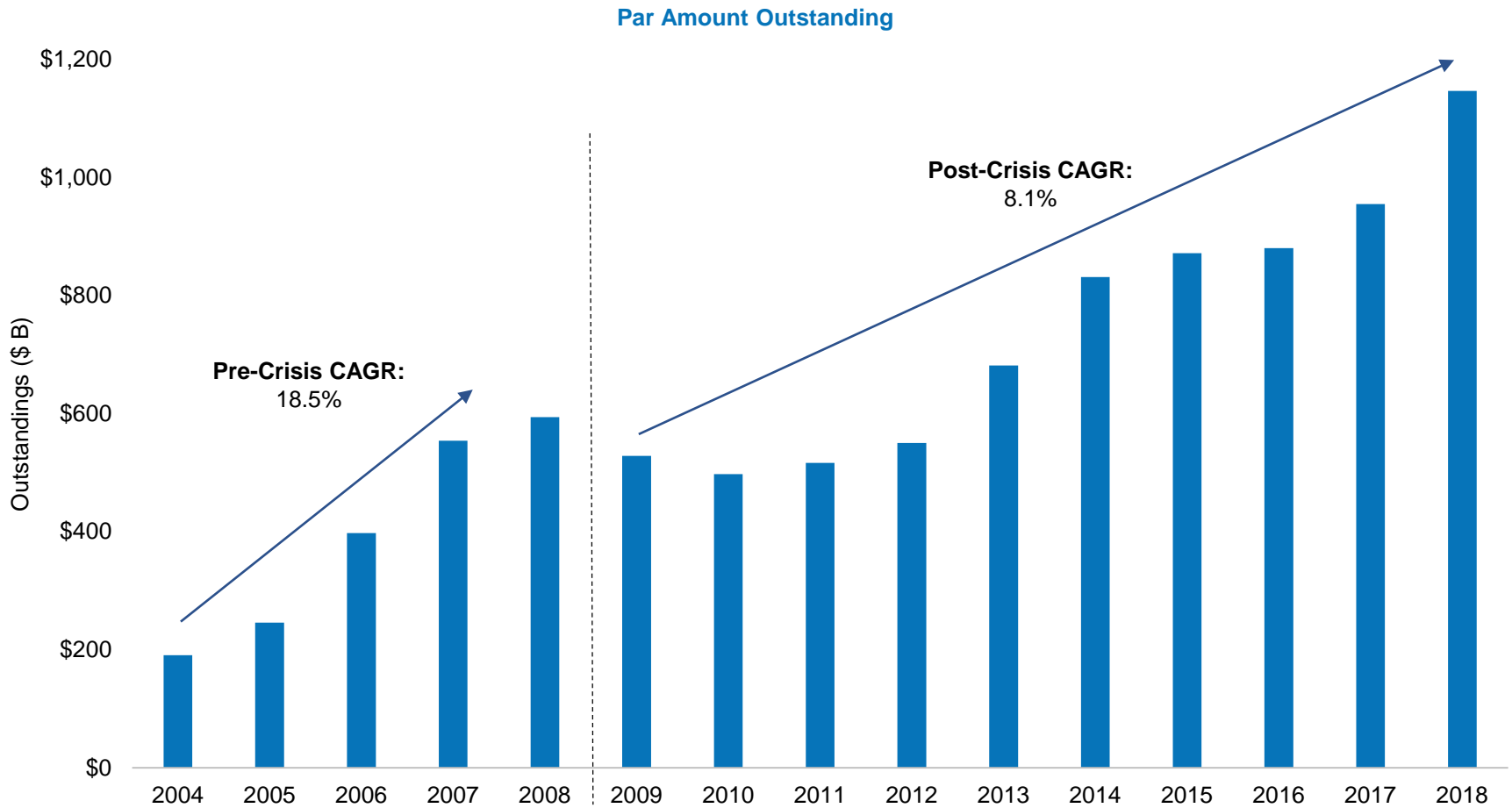
Sources: LCD, an offering of S&P Global Market Intelligence, as of 12/31/2018. Data provided is for informational use only. Indexes are unmanaged, do not reflect the deduction of fees and expenses, and are not available for direct investment.

8 | Credit Rebounding in 2019

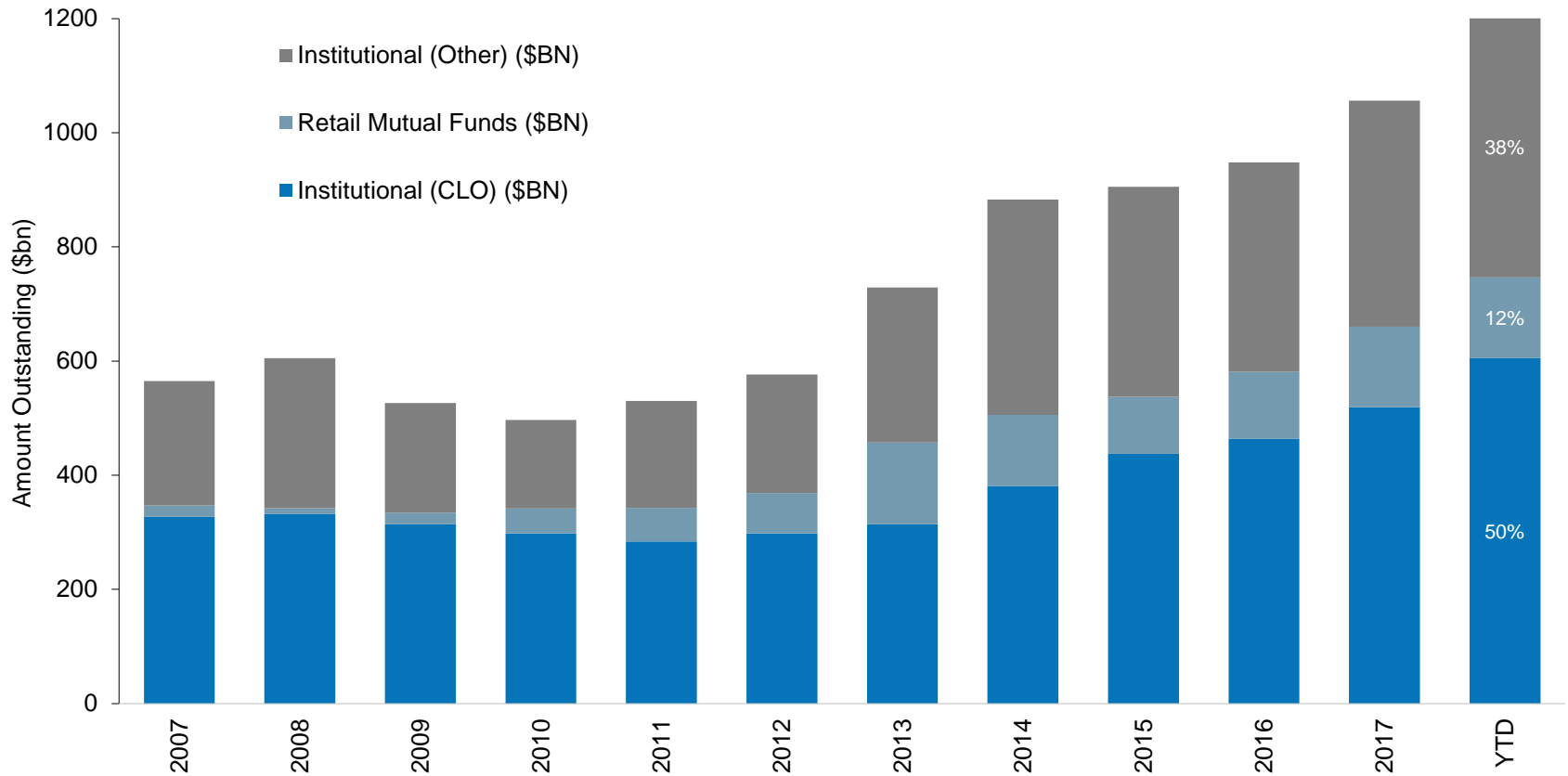


Source: Morningstar as of 2/28/19. Data provided is for informational use only. Past performance is no guarantee of future results. Loans represents the S&P/LSTA Leveraged Loan Index. US HY represents the ICE BofA/Merrill Lynch US High Yield Index. Municipals represents the Bloomberg Barclays Municipal Bond Index. EM Corps represents the JPMorgan CEMBI Broad Diversified. US Agg represents the Bloomberg Barclays US Aggregate Bond Index. US IG Corp represents the Bloomberg Barclays US Corporate Bond Index. Global Agg Ex-US represents the Bloomberg Barclays Global Aggregate Bond Ex-USD Index. EM Sov represents the JPMorgan EMBI Global Diversified.

9 | Growth Rate of Loan Market

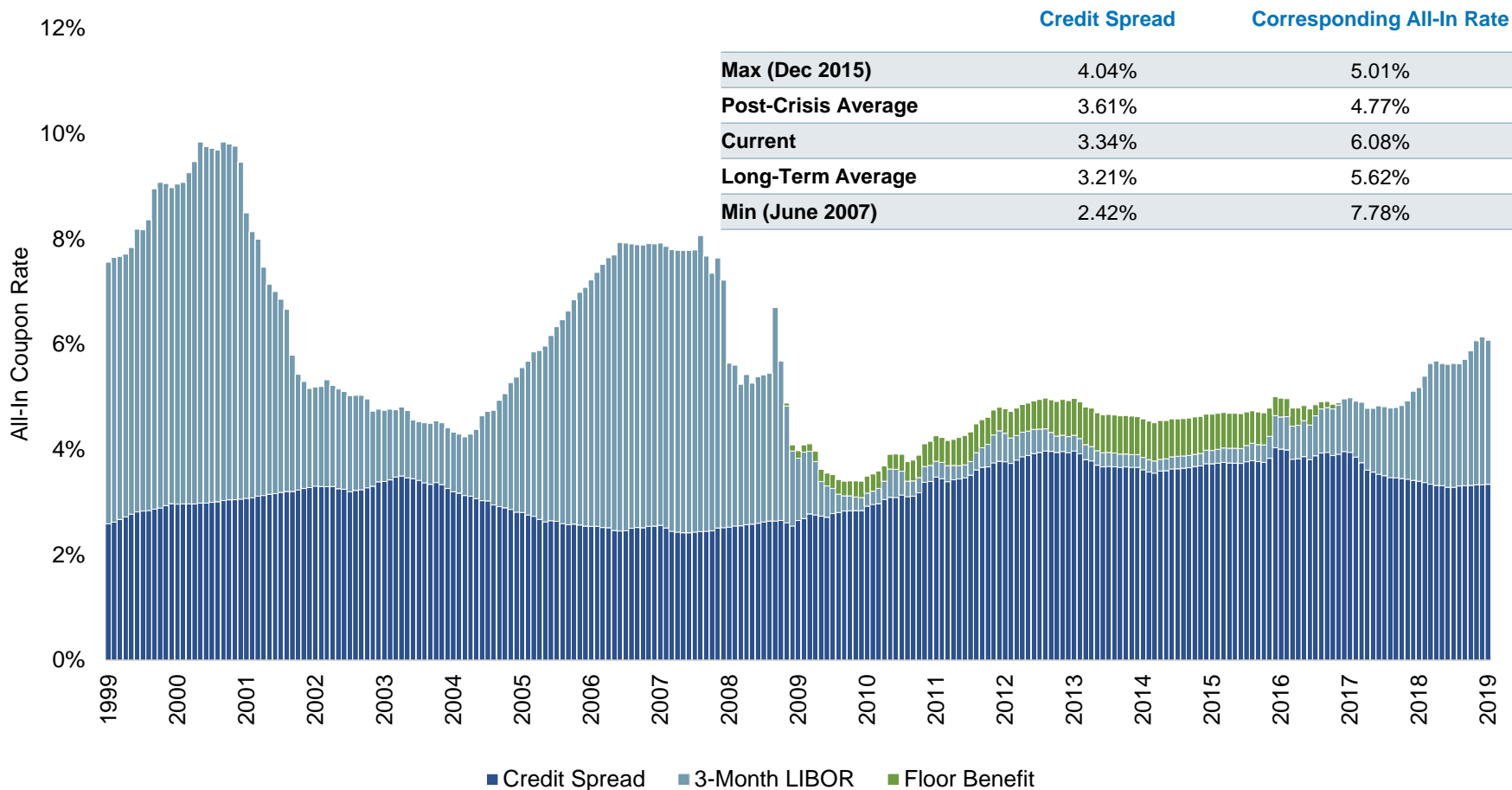


10 | Retail Funds Represent a Small Segment of the Loan Market



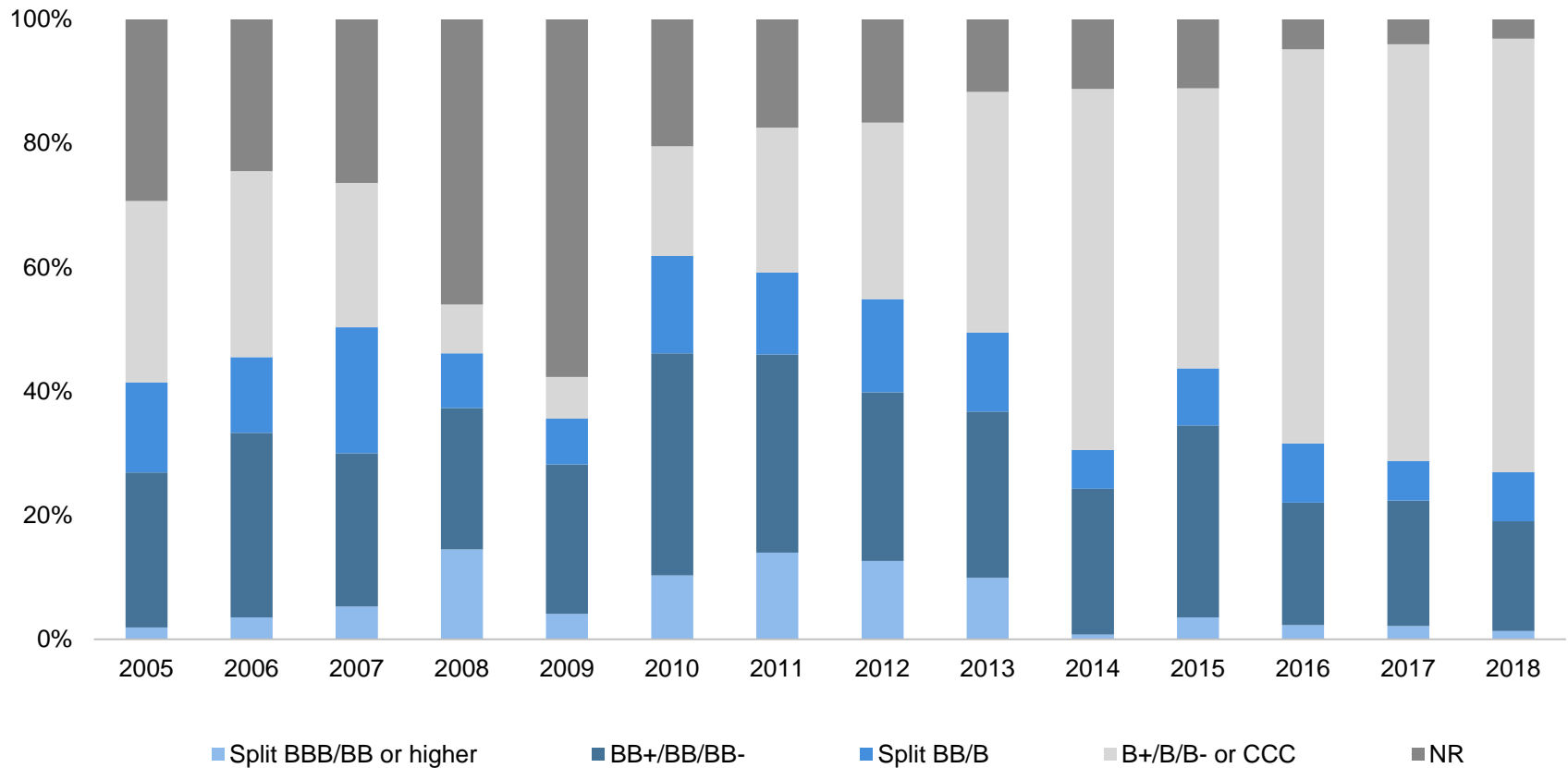
Source: JPMorgan as of 12/19/2018. Data provided is for informational use only.

11 | Decomposing Loan Coupons

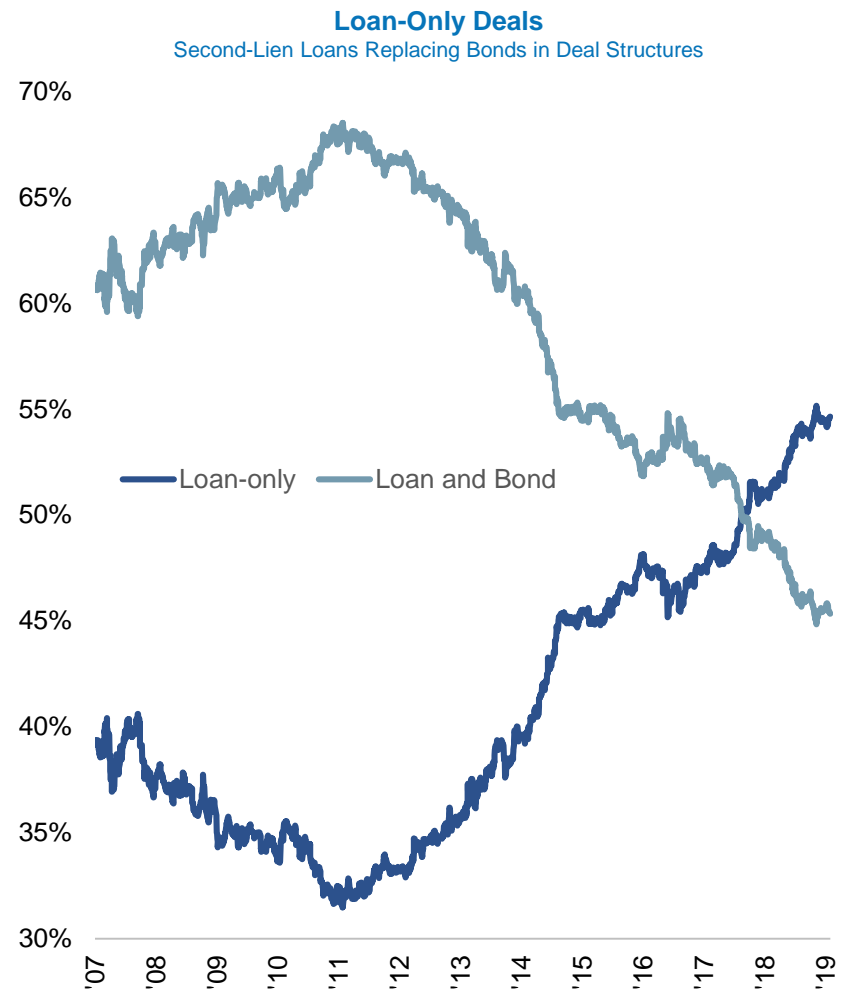
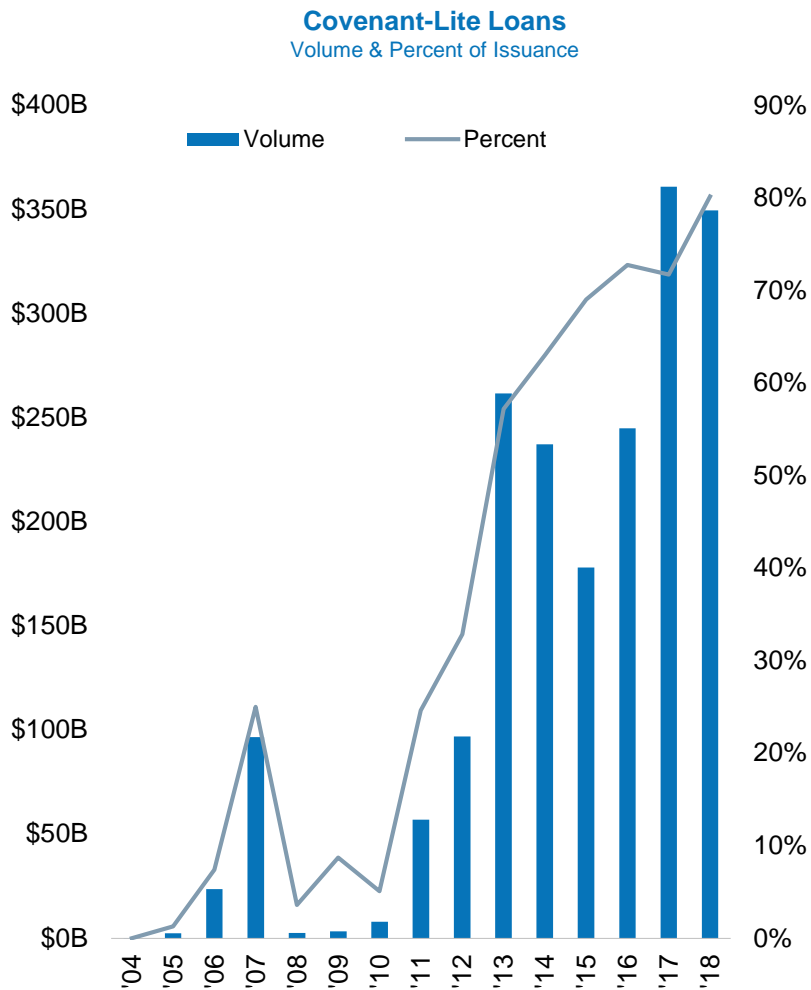


Sources: Eaton Vance, St. Louis Federal Reserve, and LCD, an offering of S&P Global Market Intelligence, 1/31/2019. Past performance is not a reliable indicator of future results. Data provided is for informational use only. Credit spread and floor benefit data are shown on a weighted average basis. LIBOR floor benefit is measured as the difference between prevailing LIBOR rates and the average LIBOR floor. *Excludes Facilities in Default.

12 | Negative Trend - Loan Issuance Credit Quality Has Eased



13 | Negative Trend - Weakening Structures Require Active Managers' Attention



Sources: S&P/LCD, 12/31/2018.

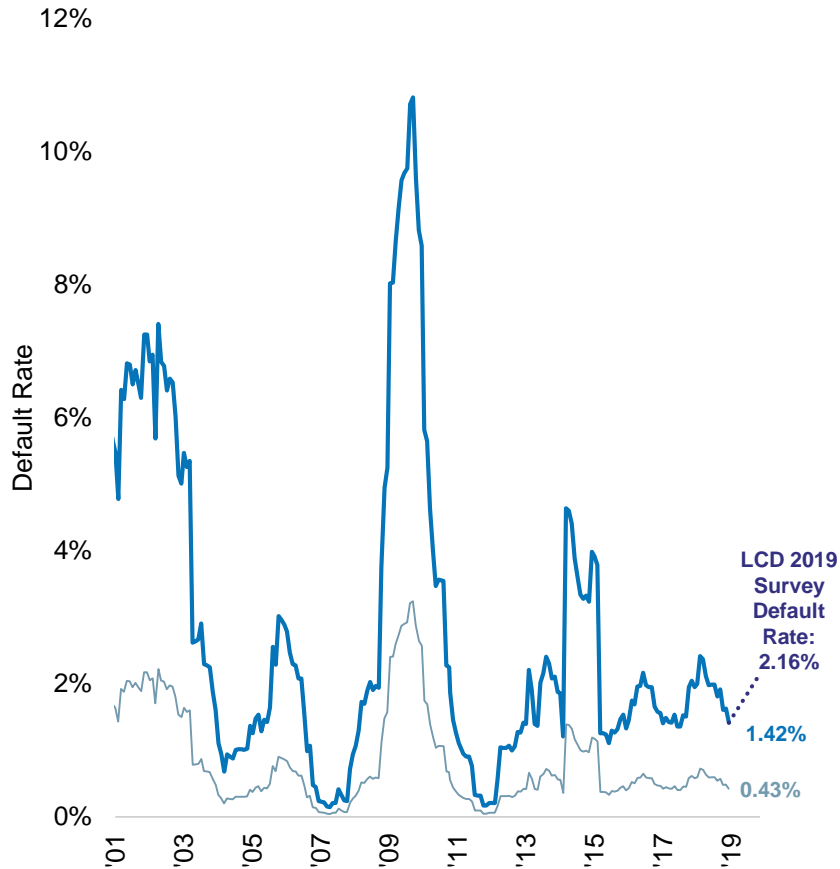
Source: JPMorgan as of 1/31/2019.

14 | Historically, Loans Have Limited Credit Issues



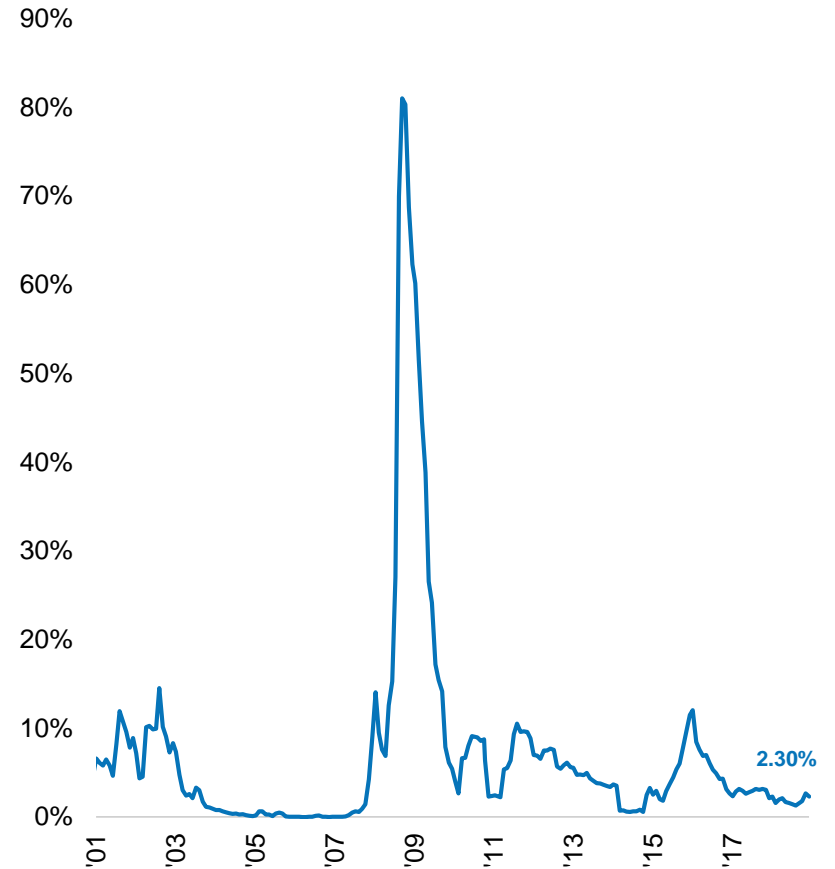
Credit Performance

Annualized Default Rate Near All-Time Lows



Loans Below \$80: The “Distress Ratio”

Market Is Pricing in Limited Problems Ahead

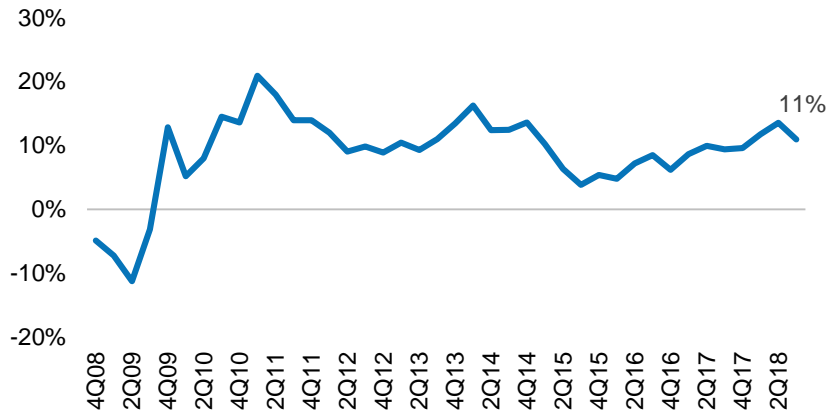


Sources: LCD, an offering of S&P Global Market Intelligence, as of 1/31/2019. Data provided is for informational use only. Indexes are unmanaged, do not reflect the deduction of fees and expenses, and are not available for direct investment. Performance data quoted represents past performance for the asset class shown, which is no guarantee of future results. Default rate measures the trailing 12-month period by principal amount.

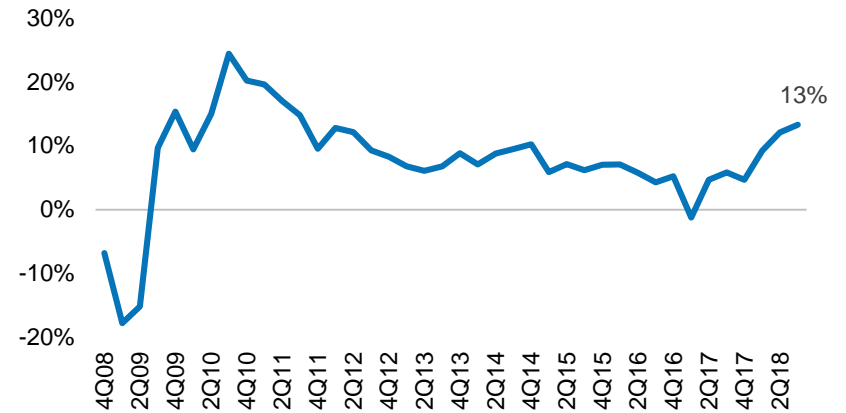
15 | Issuer Fundamentals Remain Strong



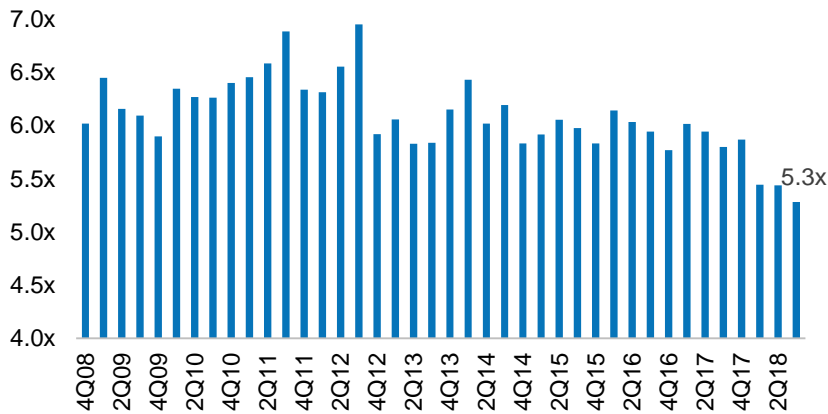
YOY Revenue Growth



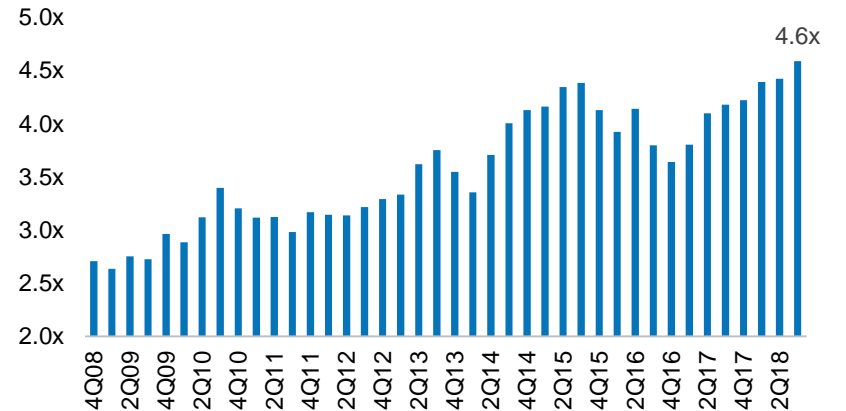
YOY EBITDA Growth



Total Leverage



Interest Coverage



Source: LCD, an offering of S&P Global Market Intelligence, as of Q3 2018.

16 | Comparing the 2007 LBO Market to Today

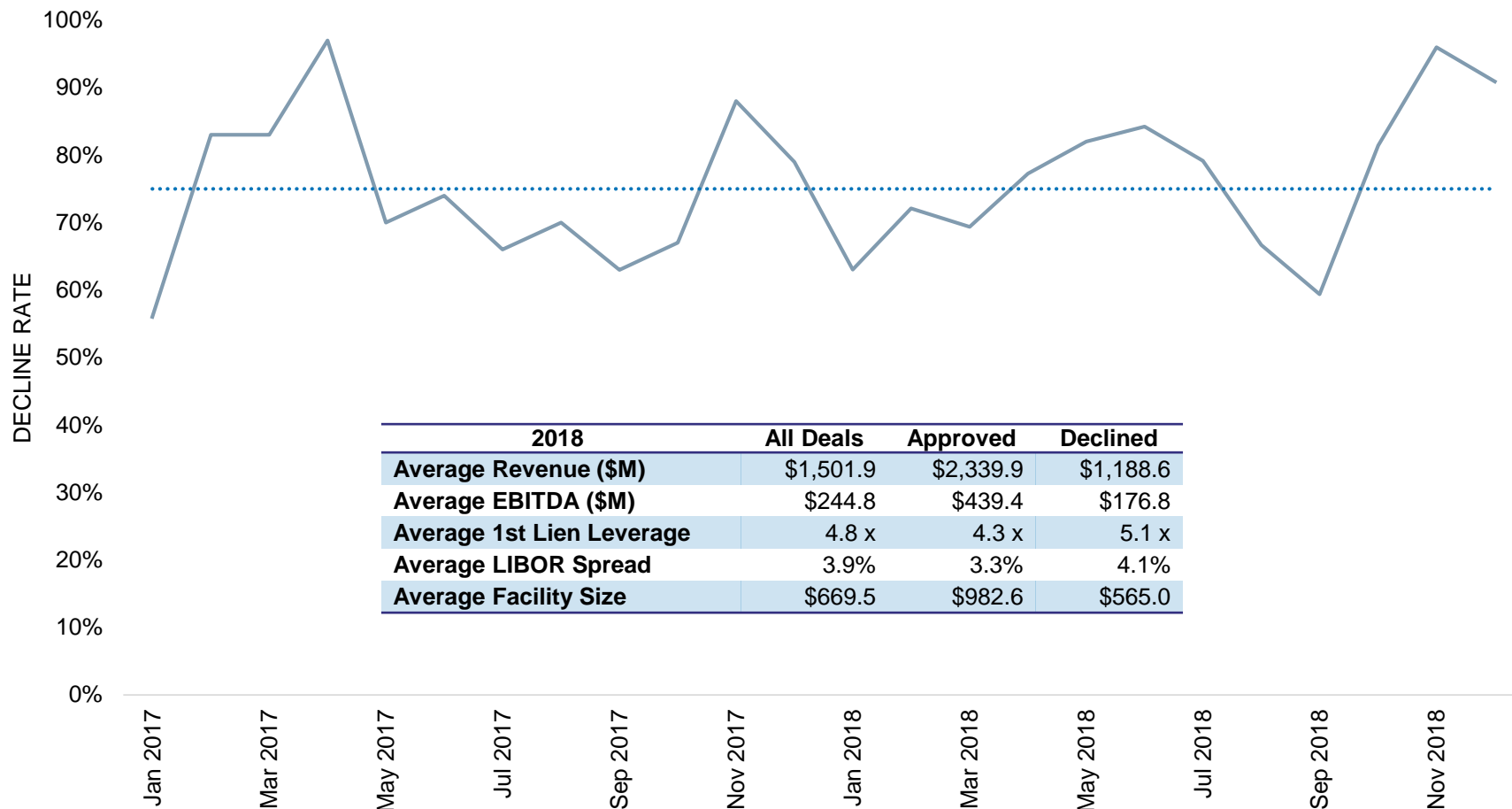


Top 12 Largest LBO Transactions	2007	2017	2018
Avg. Pro Forma Adjusted EBITDA (\$M)	\$1,525	\$550	\$642
Avg. EBITDA Adjustment (as % of Pro Forma Adjusted EBITDA)	13%	29%	28%
Avg. Total Equity Contribution (as a % of Purchase Price)	23.5%	38.2%	43.0%
Avg. Adjusted Gross First Lien Debt Multiple	4.91x	4.52x	4.61x
Avg. Adjusted Gross Total Debt Multiple	8.05x	5.90x	6.30x
% with Initial Pro Forma Adjusted Gross Debt Multiple >6x	75%	58%	67%
% with Initial Pro Forma Adjusted Gross Debt Multiple >7x	58%	8%	25%
% with Initial Pro Forma Adjusted Gross Debt Multiple >8x	33%	0%	0%

17 | Active Management Is Important - New Deal “Decline Rate”

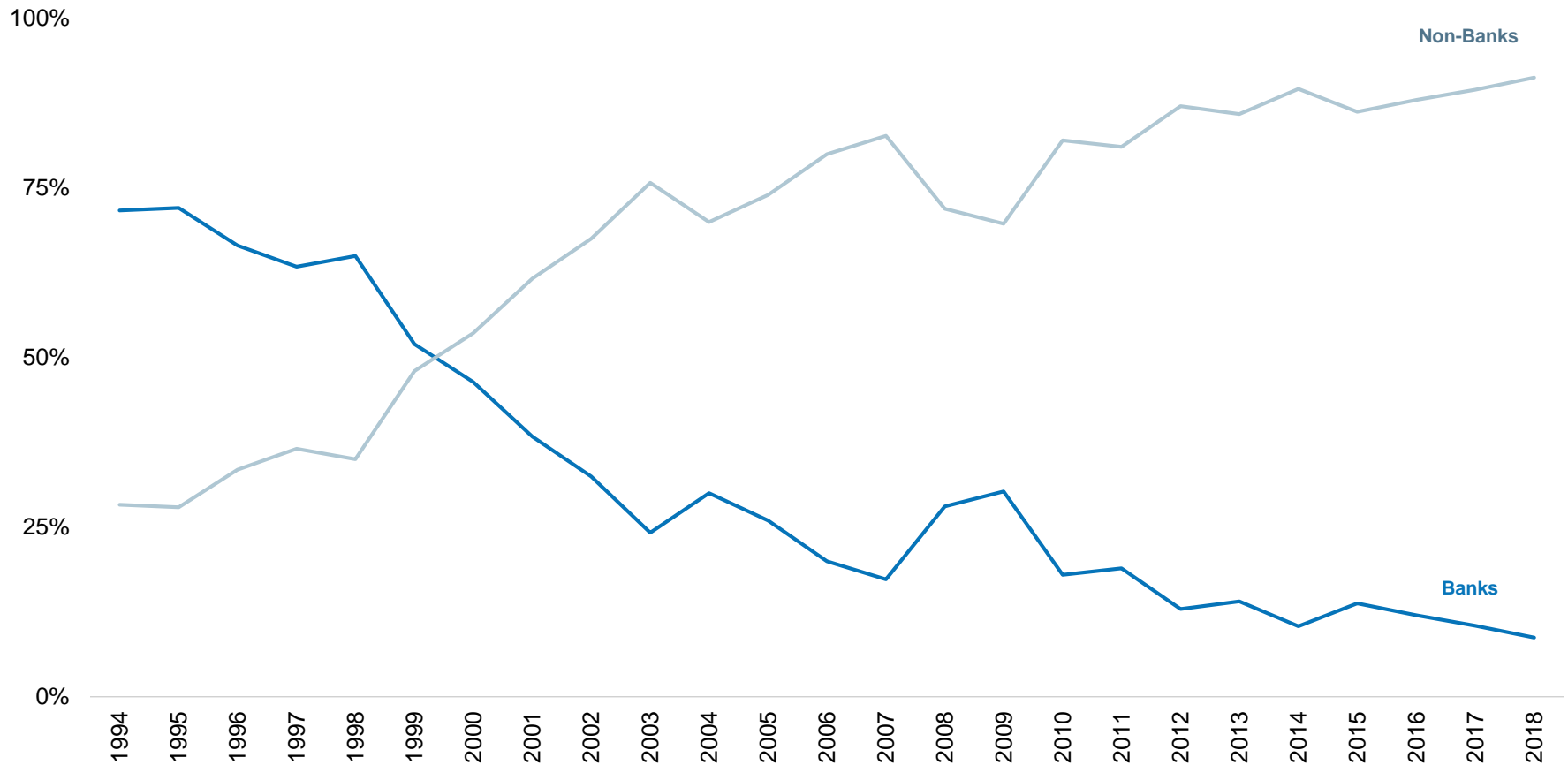


Eaton Vance Floating-Rate Loan Portfolios 2017 - 2018

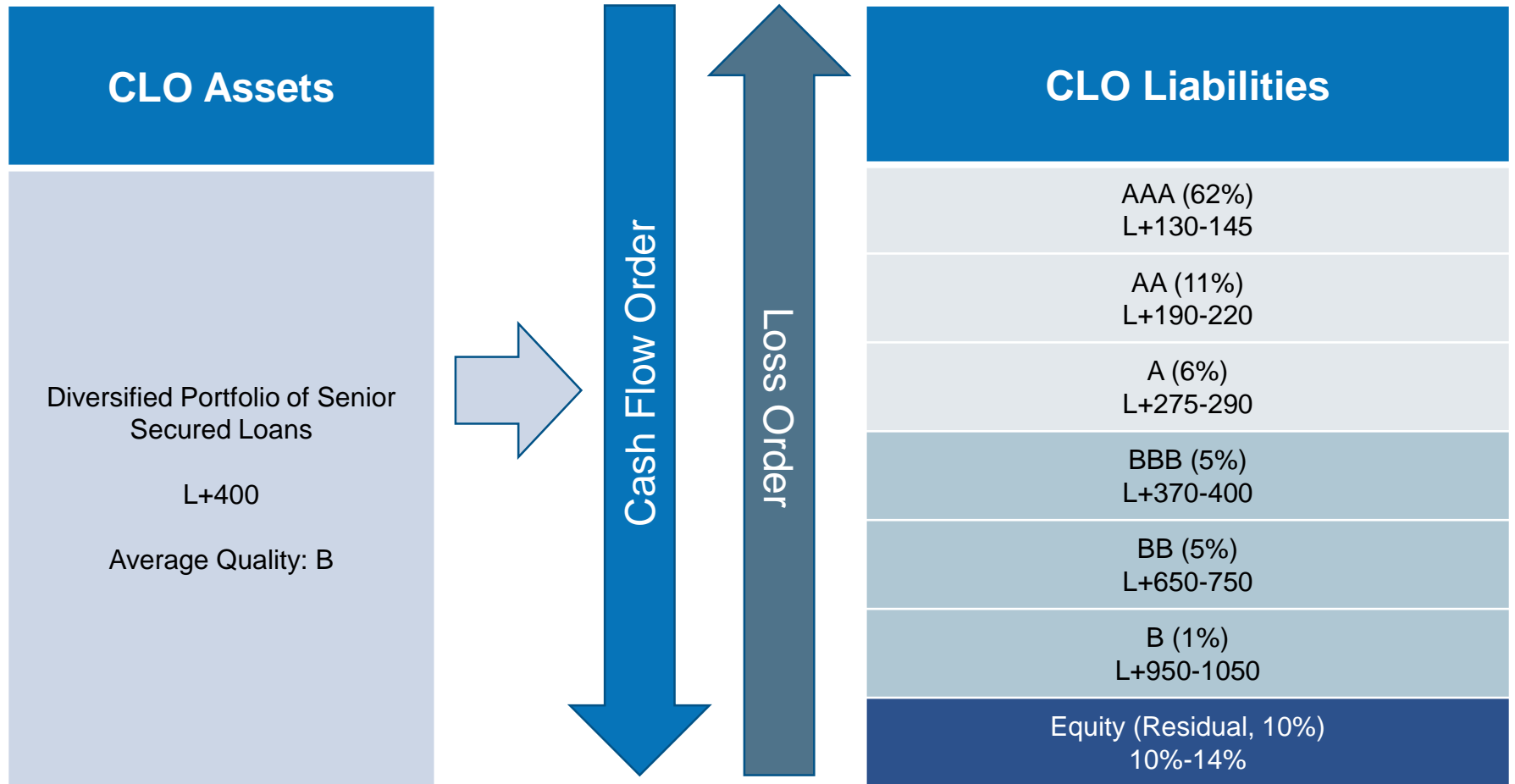


Source: Eaton Vance, 12/31/18. Past performance is not a reliable indicator of future results. This information is for illustrative purposes only. The data is an average of all loans currently tracked but not already owned across the entire Eaton Vance loan platform as of 12/31/2018. Does not represent any particular issuer or product.

18 | Why CLOs Exist – Banks Are Reducing Exposure to Loans



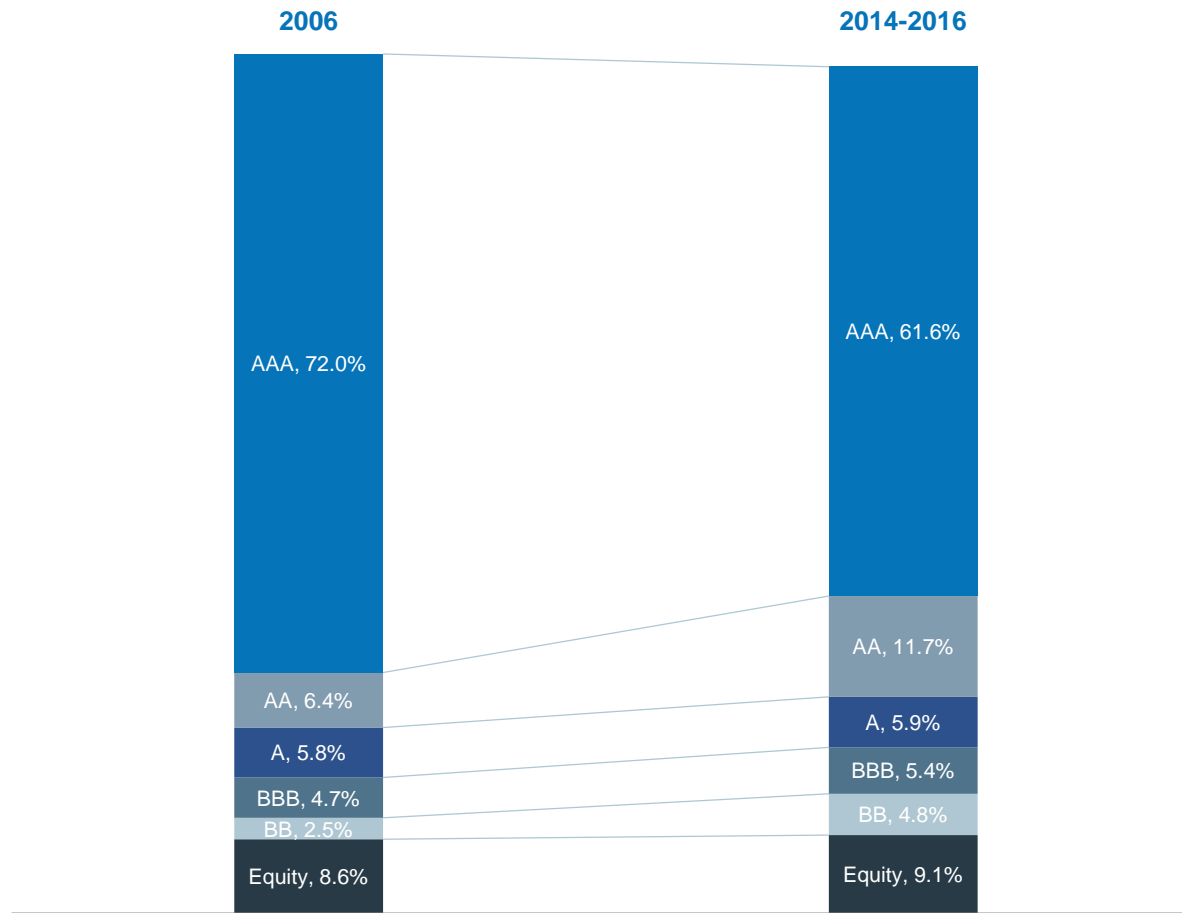
Source: S&P/LCD, 12/31/2018. Highly leveraged loans only (pre-1996: L+250 and Higher; 1996 to date: L+225 and higher). Excludes left and right agent commitments (including administrative, syndication, and documentation agents, as well as arranger). Non-banks include institutional, insurance, and finance companies.



20 | Structural Changes/Improvements in the CLO Market



- CLO 1.0 debt worked during financial crisis.
- CLO 2.0/3.0 has even more credit enhancement.



21 | CLO Overview Example



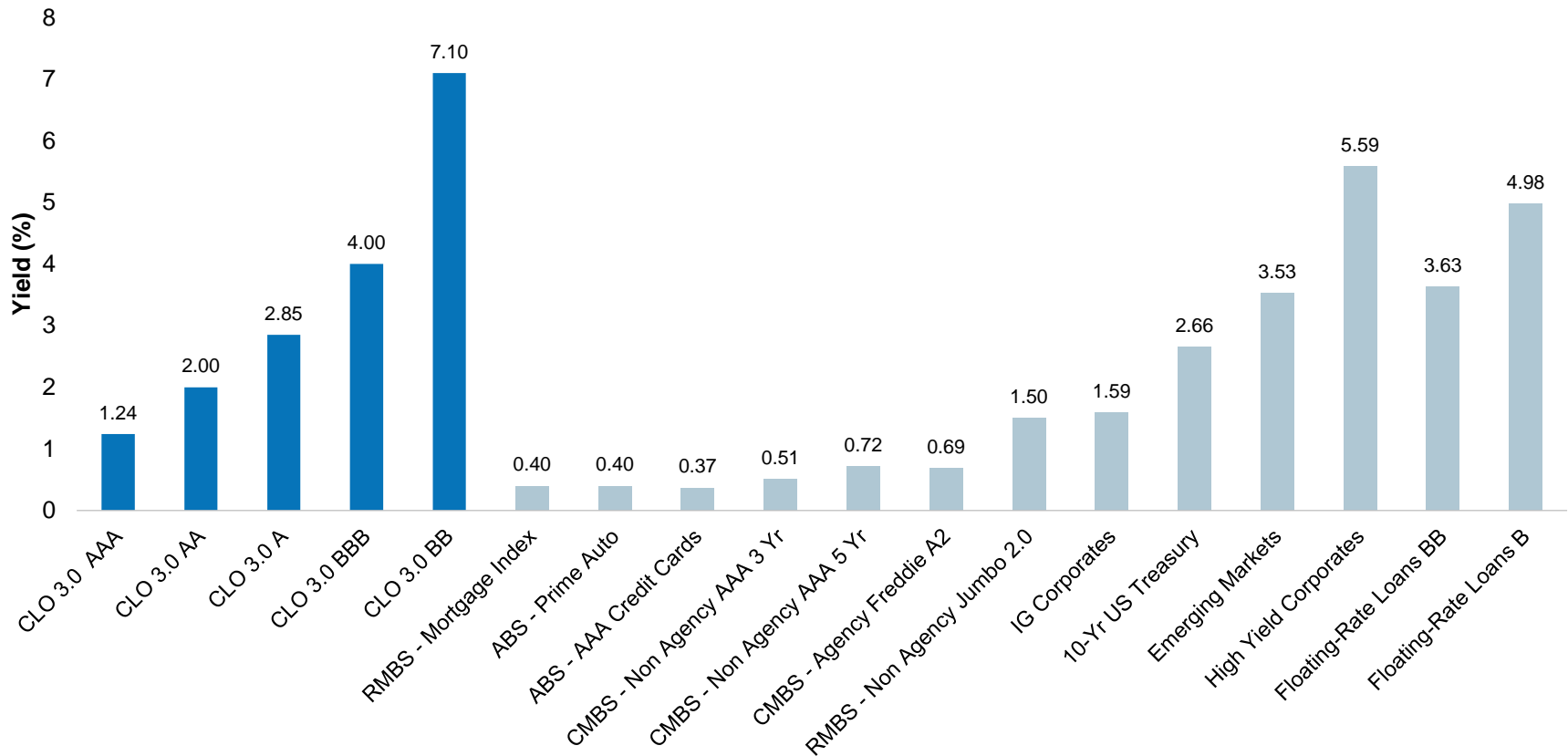
- Deal size typically \$400-\$800 million
- 2-year non-call, 4- to 5-year reinvestment period, 12- to 13-year maturity

Liquidation Coverage				
Class	Rating	Assumed Par	Loss Tolerance	Par coverage
Class A-1	AAA	325,000,000	175,000,000	153.85%
Class B-1	AA	55,000,000	120,000,000	131.58%
Class C	A	27,500,000	92,500,000	122.70%
Class D	BBB	27,500,000	65,000,000	114.94%
Class E	BB	25,000,000	40,000,000	108.70%
Class F	B	10,000,000	30,000,000	106.38%

22 | CLO Spreads Are Competitive With Other Asset Classes

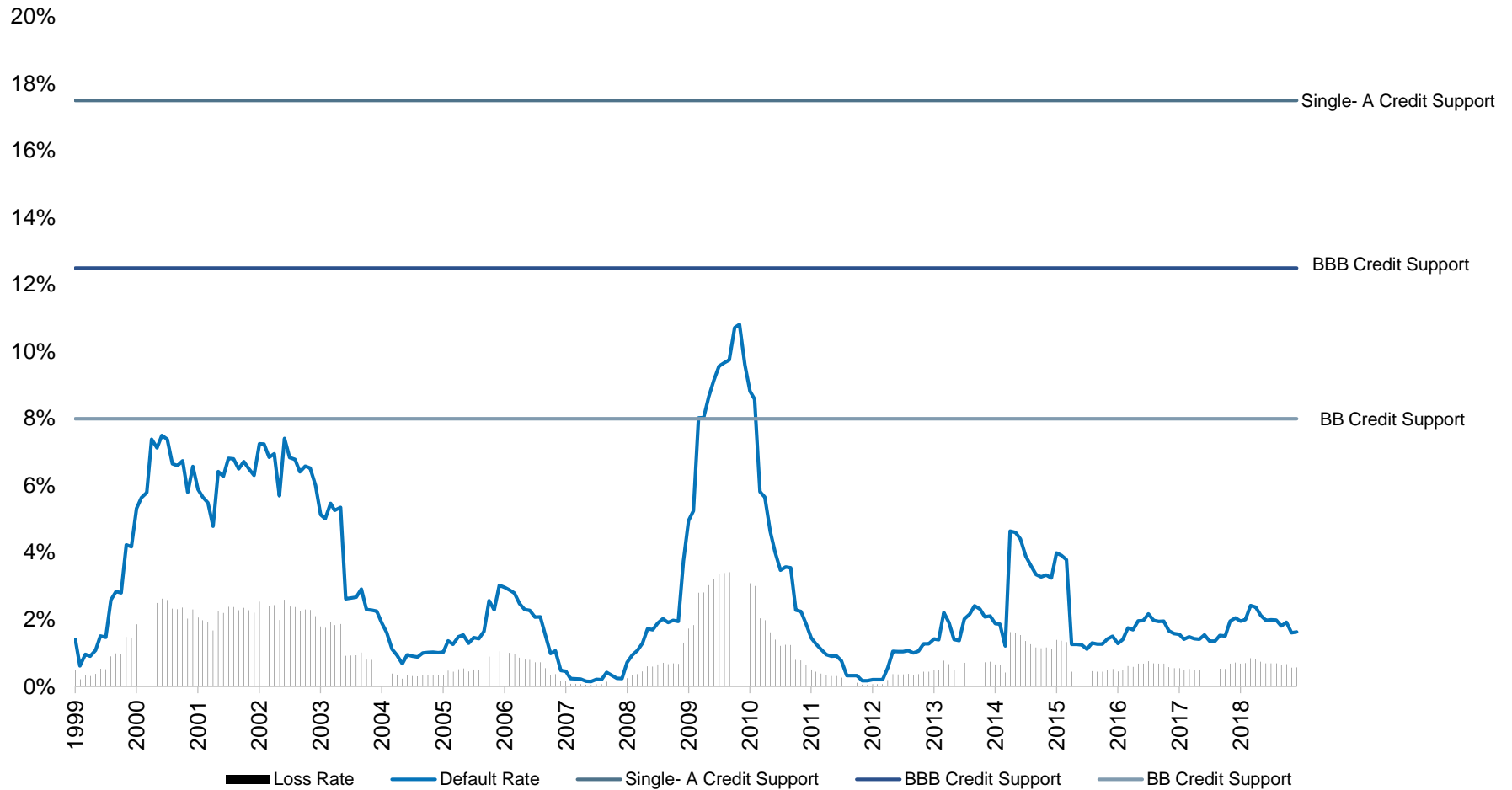


Select Bond Sector Spreads over Benchmark
 (Indicative levels, new issue or on-the-run)



Sources: Morgan Stanley Research CLO Tracker, Wells Fargo Cross-Sector Weekly and S&P/LSTA Leveraged Loan Index, 12/31/2018. Benchmarks for assets above include 10-year US Treasury, discount margins, and swaps. Data provided is for informational use only. Past performance is no guarantee of future results. It is not possible to invest in an index.

23 | CLO Tranche Credit Support Has Worked Historically



Source: S&P/LCD, 12/31/18.

24 | CLOs Have Been Tested Across Credit Cycles – CLOs Have Been Resilient



10-Year Impairment Rate by Orig. Rating, 1993-2016

	U.S. CLO	Global CDO (ex CLO)	U.S. CMBS	U.S. CMBS (ex CRE CDO)	Corporates*
Aaa	0.0%	29.9%	1.6%	0.4%	0.1%
Aa	0.0%	40.2%	7.8%	4.4%	0.7%
A	0.2%	45.4%	14.1%	9.6%	2.3%
Baa	3.0%	49.1%	18.6%	14.8%	3.7%
Ba	5.1%	47.5%	42.4%	40.4%	16.2%

10-Year Impairment Rate by Orig. Rating, 1993-2016

	U.S. CLO	U.S. RMBS Alt-A/Option ARM	U.S. RMBS Sub-Prime	U.S. RMBS Non-Agency Jumbo
Aaa	0.0%	39.8%	8.4%	7.2%
Aa	0.0%	81.6%	38.4%	35.7%
A	0.2%	85.5%	69.7%	42.4%
Baa	3.0%	91.3%	89.0%	57.7%
Ba	5.1%	96.0%	93.7%	61.0%

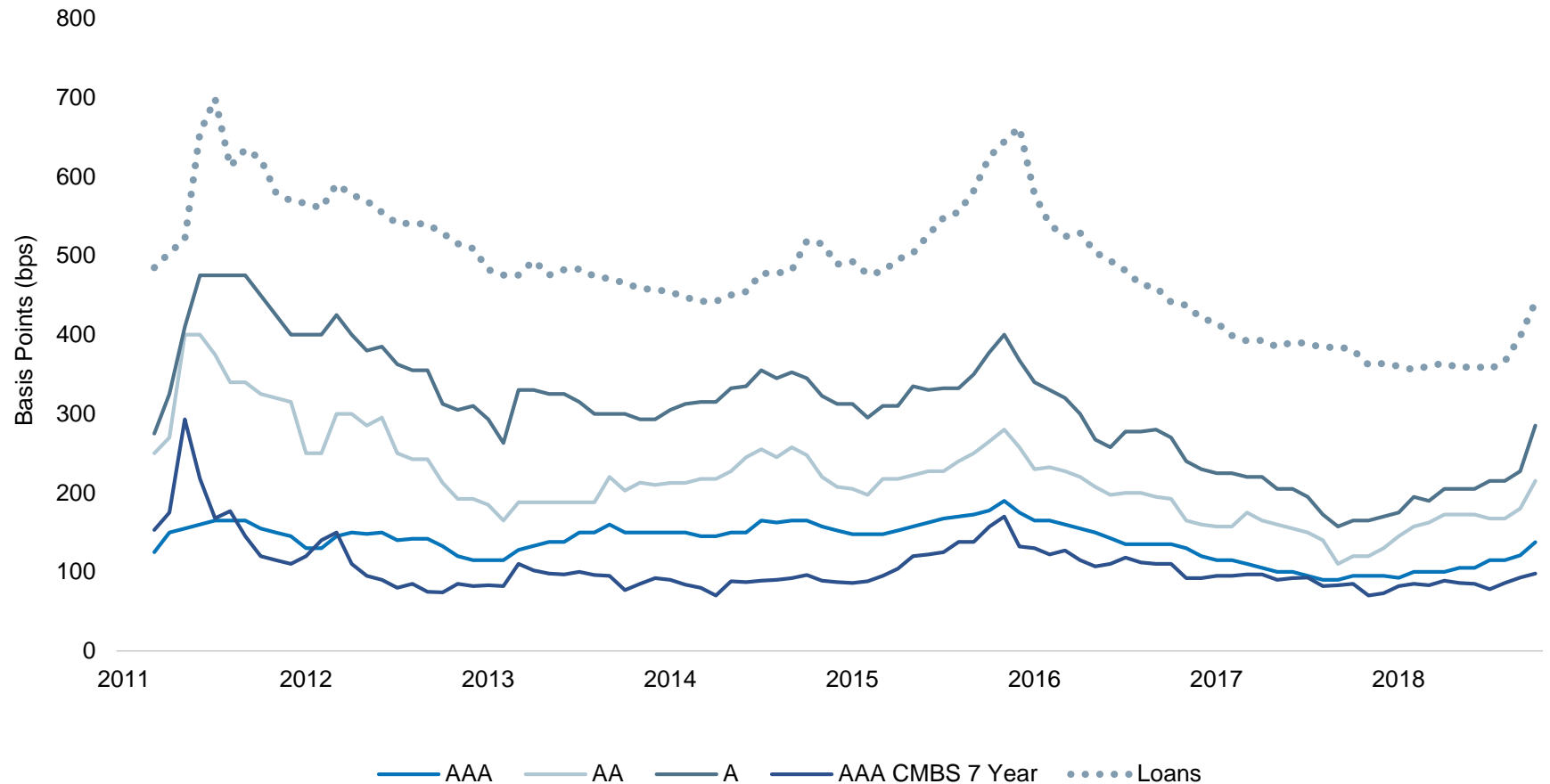
*Avg. Global Corp. Cumulative Default Rate from 1983-2016.

Source: Moody's, Wells Fargo Securities, Wells Fargo Research

25 | Volatility of Post-Crisis CLOs vs. First-Lien Loans



Post Crisis CLO Spreads: AAA, AA, A and CMBS

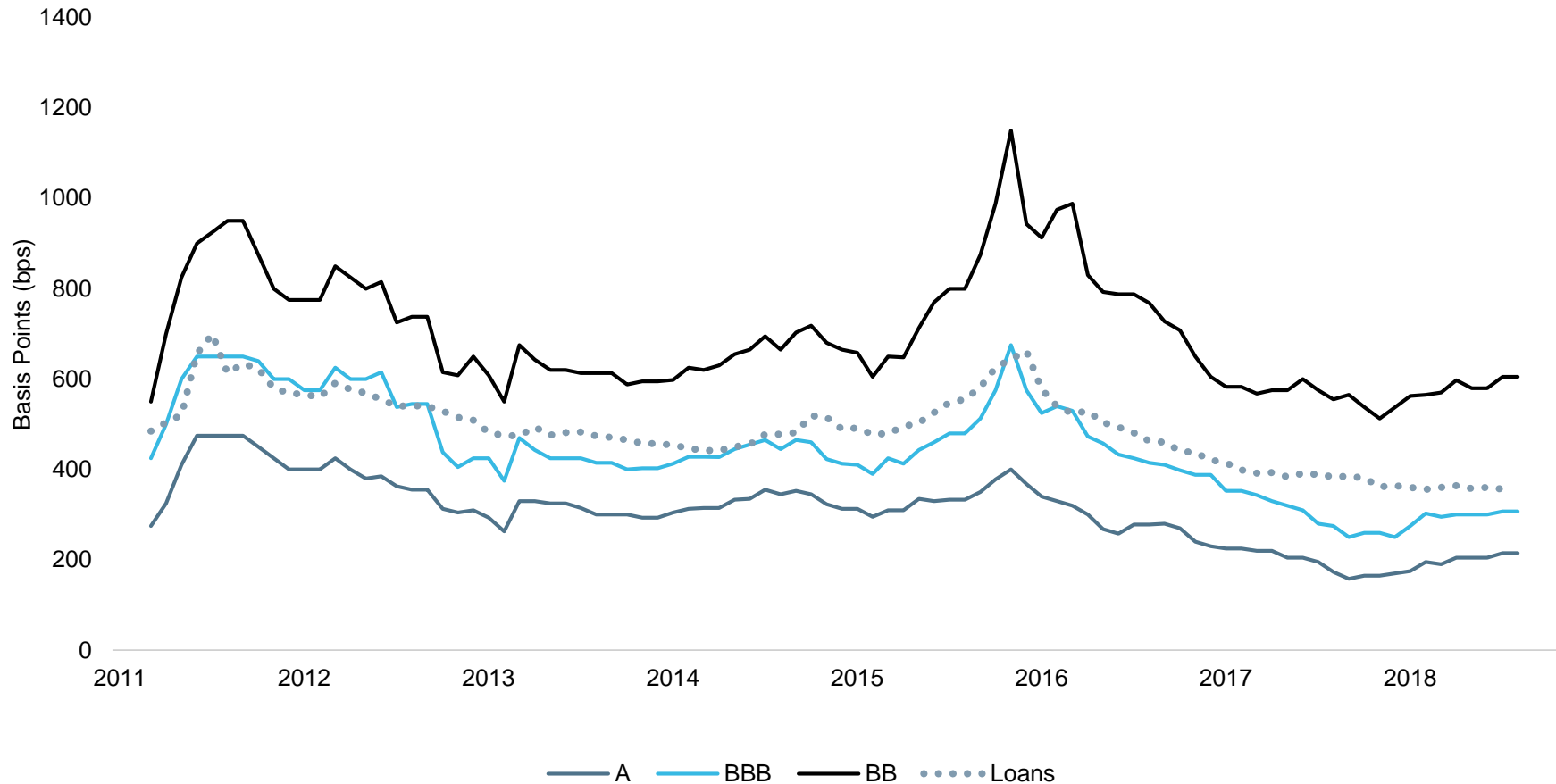


Source: Citibank Velocity, LCD,12/31/2018. Loans represent the S&P/LSTA Leveraged Loan Index.

26 | Volatility of Post-Crisis CLOs vs. First-Lien Loans



Post Crisis CLO Spreads: A, BBB, BB and Loans



Source: Citibank Velocity, LCD, 12/31/2018. CLO tranches are USD 2.0 CLOs. Loans represent the S&P/LSTA Leveraged Loan Index.

Key Takeaways

- Despite recent negative media headlines, the fundamentals of the corporate floating-rate loan market remain positive and have resulted in limited credit losses
- Looser credit structures and increased leverage in loan deals require active management and disciplined investing
- CLOs offer outsized return potential compared to debt of similar credit quality, but require expertise in the underlying portfolio credits as well as thorough structural analysis



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General risk considerations – Floating-rate loans are primarily below-investment-grade debt obligations, which are considered speculative because of the increased credit risk of their issuers. Floating rate-loans and other debt securities are subject to the risk of increases in prevailing interest rates, although floating-rate securities are less susceptible to this risk than other fixed-rate obligations. Generally, bond values will decline as interest rates rise. However, because floating rates on senior loans only reset periodically, changes in prevailing interest rates can be expected to cause some fluctuation in a portfolio's value. Similarly, a sudden and significant increase in market interest rates, a default in a loan in which a portfolio owns an interest or a material deterioration of a borrower's creditworthiness may cause a decline in value. Floating-rate loans may be more susceptible to adverse economic and business conditions and other developments affecting the issuers of such loans. Although senior floating-rate loans are generally collateralized, there is no guarantee that the value of collateral will not decline, causing a loan to be substantially unsecured. No active trading market may exist for many loans, and some loans may be subject to restrictions on resale, which may also prevent the manager from obtaining the full value of a loan when sold. The views and strategies described may not be suitable for all investors. The strategy should not be considered a complete investment program.

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