

The Actuarial Profession
making financial sense of the future

Non-Bank Finance
Steve Birch, Partner & Head of Manager Research, Hymans Robertson



Loans
An asset class overview

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Agenda

- Asset class characteristics
- Pros and cons
- Fit with clients

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Some sources of debt finance for a company

- Revolving credit lines
- Bank term loans
- Public debt
- Third party (senior secure) loans
- ...bank de-leveraging is having an impact

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Senior secure loans overview

- Floating rate (LIBOR plus X%)
- Stated maturity at 5-7 years, but early pre-pay is common
- First ranking on assets in the event of a default
- Not rated, but typically BB equivalent
- Available in primary and secondary markets



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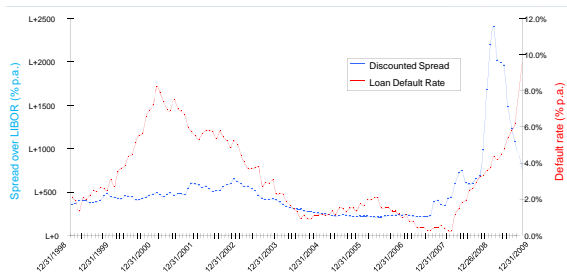
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Pros and Cons

Pros	Cons
Floating rate	Default risk
Attractive spread / income	Liquidity risk
Short-dated & potential for pull to par	Mark to market price volatility
Frequent investor information	Limited proof of stock picking skill
Some technical market support	Bull market & education

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Recent spread & default history



Source: Eaton Vance

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Recent returns history

Loans index performance

Annual	YTD Q4 2009	2008	2007	2006	2005	2004
S&P Leveraged Loans Index*	46.1	-29.1	2.0	6.8	5.1	5.2
Credit Suisse Leverage Loans Index*	42.0	-28.8	1.9	7.3	5.7	5.6

* Please note that it is not possible to invest passively on an index basis in loans.

Example: sensitivity of returns to default and recovery on a forward looking basis (absolute returns)

	Recovery									
Default	0%	10%	20%	30%	40%	50%	60%	70%	80%	
5%	4.0	4.5	5.0	5.5	6.0	6.5	7.5	8.0	8.5	
10%	-1.5	-0.5	1.0	2.0	3.0	4.0	5.0	6.0	7.5	
15%	-7.0	-5.0	-3.5	-2.0	-0.5	1.5	3.0	4.5	6.0	
20%	-12.0	-10.0	-8.0	-5.5	-3.5	-1.5	1.0	3.0	5.0	

* As of Dec 31 2009. Absolute Returns have been calculated assuming a LIBOR return of approximately 2.8%.

Use for clients

- Strategic
 - Stand-alone exposure
 - Absolute return / alternatives allocation
 - Part of a LDI swap / LIBOR payment structure
- Tactical
 - Part of diversified bonds allocation
 - Diversified absolute return bond mandate
 - Off-benchmark on sterling gilt / credit mandates

Means of access

- Passive & derivative
 - Not available / attractive
- Active funds offering primary & secondary mix:
 - Range of targets / credit quality
 - Single name concentration
 - European vs. US exposure
- Active 'private equity like' closed end funds
 - Primary only secured loans
 - 'Bank' finance

Thank You

- Any questions?
