AltScape

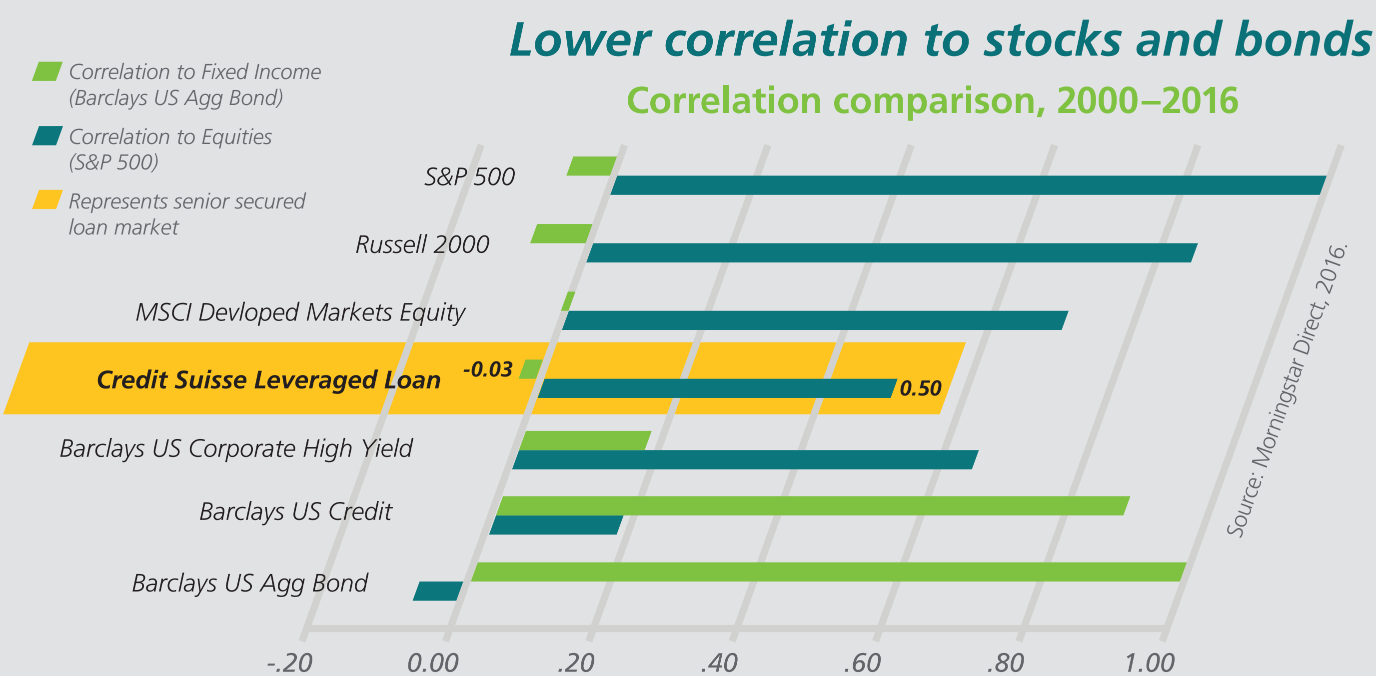
Gaining Perspective on Alternative Investments

Leveraged Loans: A New Approach to Diversification

In the past, portfolios were typically built from nothing more than stocks, bonds and cash. But several trends have severely undermined this model. International and U.S. financial markets have integrated into one global market with transactions updating in fractions of a second. Add volatility to rising interest rates and highly correlated markets and it is obvious that stock-and-bond investors need a new plan.

The search for non-correlated assets

Senior secured loans offer multiple characteristics to brace traditional portfolios against these challenges. Historically, this asset class, also known as "leveraged loans," has been negatively correlated to U.S. Treasuries and shown low correlations with equities and other fixed-income asset classes. Non-correlated assets increase diversification and may temper portfolio volatility.



The illustration above shows the 16-year correlation of returns between the S&P 500 Index, the Barclays U.S. Aggregate Bond Index and the other indexes shown which are considered representative of certain asset classes; indexes are not managed and cannot be used to predict future results of any investment. An index's returns may not reflect the deduction of sales charges or management fees, which may be substantial. Investors cannot invest directly in an index.[1]

Floating rates help mitigate interest-rate risk

Bond prices move counter to interest rates, i.e., whenever interest rates rise, bond prices fall and vice versa. The longer the duration, the more bond prices fluctuate with changing interest rates. This is known as interest-rate risk.

Because floating-rate securities like senior secured loans contain a base rate that resets at regular intervals, they may hedge against rising interest rates and inflation.

The inverse relationship of fixed-rate bond prices and interest rates

If Interest Rates Rise **If Interest Rates Fall**

Senior secured loans temper the impact of rising interest rates because their rates typically reset every 30 or 60 days. On the other hand, significant credit risk and valuation risk should be discussed with your financial advisor before investing in senior secured loans.

Conclusion

Given their floating rates and history of negative-to-low correlation with other fixed-income investments, senior secured loans have potential to be an effective strategy for improving diversification, enhancing income and mitigating volatility in traditional stock-and-bond portfolios.

What is AltScape?

AltScape is an educational resource to help financial advisors and their clients expand their definition of diversification and embrace the role of alternative investments in mitigating risk, enhancing returns and hedging inflation—to target better portfolio outcomes.

For information, contact your financial advisor or visit provasicapital.com

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Alternative investments may involve higher fees, limited liquidity, greater volatility and the possibility of significant losses compared to certain traditional investment strategies. Alternative investments may not be suitable for all investors. Leveraged loans or senior secured loans may involve significant risks including but not limited to credit and valuation risks. Credit risk is the potential that a company may default on its debt obligations and is increased when a company has a lower credit rating. Valuation risk occurs when an asset is overvalued and is worth less than expected upon sale or maturity and may be caused by thinly traded or volatile markets.

Past performance is neither indicative nor a guarantee of future results. Diversification does not ensure a profit or guarantee against a loss.

About Us: Provasi Capital Partners LP offers access to specialized investment strategies through a multi-manager approach presenting advisors and their clients with unique options for allocating capital, managing risk, and diversifying assets. Provasi Capital Partners LP is a member of FINRA/SIPC.

[1]The S&P 500 and Russell 2000 Indexes are considered representative of large-cap and small-cap U.S. equities, respectively. The Barclays U.S. Corporate High Yield Index is considered representative of the fixed-rate, non-investment grade debt market. The MSCI Developed Markets Index is considered representative of developed market stocks. The Barclays U.S. Credit Index is considered representative of publicly-issued, SEC-registered U.S. corporate and specified foreign debentures and secured notes. The Credit Suisse Leveraged Loan Index is considered representative of the U.S. floating-rate bank loan market.