



Gaining Perspective on Alternative Investments

Advancing Portfolio Goals Amid Rising Interest Rates

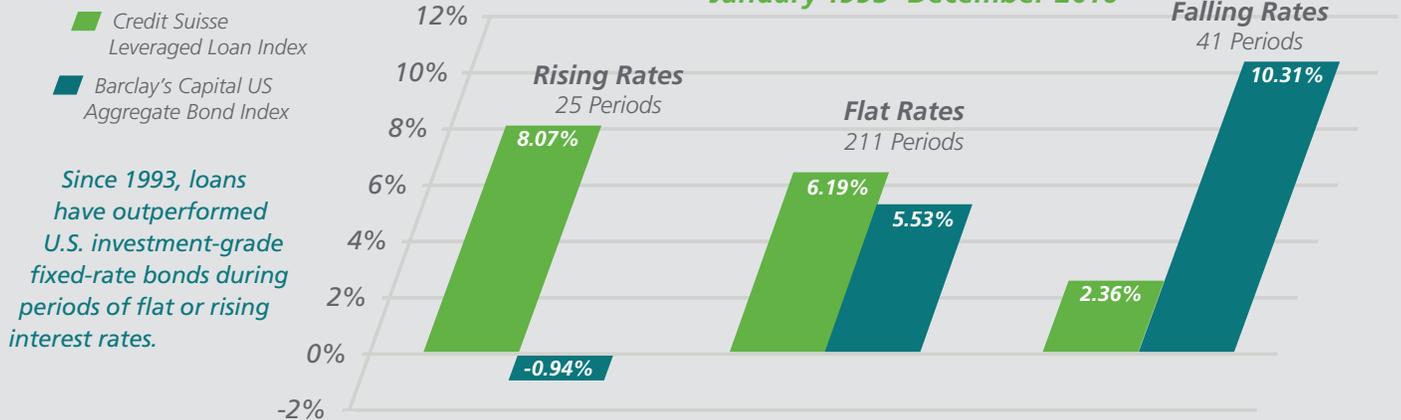
As an asset class, senior secured floating-rate loans offer specific characteristics with the potential to enhance traditional fixed-income portfolios in three key areas: producing income, countering interest-rate risk and preserving principal.

24-year history of outperforming the fixed-rate U.S. bond market

Senior loans have outperformed the investment-grade U.S. bond market in the majority of 1-year rolling-return periods from 1993 to 2016. More importantly, with interest rates near historic lows, floating-rate senior secured loans have outperformed fixed-rate U.S. bonds by more than 900 basis points on average during periods of rising interest rates.¹

Loans Perform Well When Interest Rates Rise

January 1993–December 2016



Rising, falling and flat rate periods are measured by the change in the yield of the 10-year U.S. Treasury over rolling 12-month periods, from January 1993 to December 2016. Rising or falling rates are defined as any period when the yield on the 10-year Treasury bond increased or decreased at least 1%. There were 277 rolling 12-month periods starting January 1, 1993 and ending December 31, 2016.

¹Returns sourced by Provasi Capital Partners LP from Morningstar Direct. The Credit Suisse Leveraged Loan Index represents the senior secured loan market, while the Barclay's Capital U.S. Aggregate Bond Index represents the fixed-rate U.S. investment-grade bond market. Indexes are not managed and do not incur fees. It is not possible to invest directly in an index.

Please note that fixed-rate investment-grade corporate bonds and senior secured loans differ in terms of liquidity, safety and price volatility, as well as fees and expenses. Senior secured loans may involve higher risks, including the possibility of default and loss of principal, as they are generally issued to companies with below-investment-grade credit ratings, are not insured or guaranteed.

Interest-rate risk should be a bond investor's #1 concern

With interest rates poised to rise from historic lows, bond investors are facing a well-known adversary: interest-rate risk. Bonds are an integral component of portfolio construction, but given the reality that bond prices dip when interest rates rise, it's clear that investors need an effective strategy for mitigating this risk.

Floating interest rates—a key characteristic that underpins this asset class—provide three key benefits to portfolios containing fixed-rate bonds:

- **Income:**

Floating rates mean that interest payments will automatically increase as interest rates rise.

- **Portfolio diversification:**

Returns are negatively correlated with treasuries and have a low correlation with most bonds.

- **Principal preservation:**

Rates typically adjust every 30 or 60 days, reducing the impact of price declines resulting from rising interest rates.

Of course, all investments involve some degree of risk. Investments in senior secured loans involve significant credit risk and valuation risk and may not be suitable for all investors.

Conclusion

Rising interest rates and low fixed-income returns are clear indications that investors need a strategy for mitigating interest-rate risk. An investment in senior secured loans introduces unique characteristics that may help to maintain income, preserve portfolio value and mitigate interest-rate risk and inflation.

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.

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