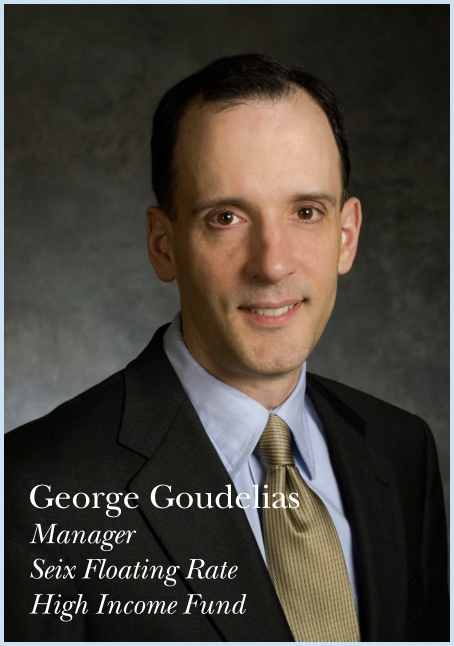
Seix Advisors on Leveraged Loans

An interview with George Goudelias at Seix Advisors

***Editor's note:** The Seix Floating Rate High Income Fund (ticker: SAMBX) generates an attractive yield while providing investors with an opportunity to hedge against the risk of a significant upward move in interest rates, a likely long-term consequence of the recent and unprecedented changes to U.S. fiscal and monetary policy. The fund invests primarily in floating rate, leveraged loans, also known as bank loans. These securities are generally issued by corporate borrowers with credit profiles below investment grade. They also typically rate in the senior secured part of a company's capital structure and are pegged to 90-day LIBOR. This strategy takes on credit risk but limits interest rate risk, a mix that appeals to many investors at this stage of the credit and interest rate cycle. Seix Advisors, which employees 20 credit research analysts and describes its investment style as bottom-up and research-oriented, manages over $25 billion in total fixed income assets, including approximately $11 billion in the high yield credit and $3.5 billion in leveraged loans.*

Here we interview George Goudelias, the Manager of the Seix Floating Rate High Income Fund.



George Goudelias
Manager
Seix Floating Rate High Income Fund

Q: *Please explain the difference between a floating rate bond and a fixed rate bond?*

A: The coupon on a floating rate security moves with changes in short-term interest rates, while a fixed rate bond pays the same coupon regardless of the level of current rates.

Q: *When is it better to invest in floating rate securities relative to fixed rate?*

A: When interest rates are rising. For example, the coupon of a floating rate security may start at 6.00% – a short-term rate of 2.00% plus a 4.00% spread at the same time a fixed rate security's coupon is 7.00%. If short-term rates rise to 4.00%, the fixed coupon remains at 7.00%, but the floating coupon jumps to 8.00% (4% plus the 2% spread). Conversely, if short-term rates fall 1.00%, the floating coupon drops to 5.00% while the fixed coupon remains at 7.00%.

Q: *How do LIBOR floors work?*

A: The LIBOR floor on a loan establishes the lowest possible coupon on a security. For example, if the LIBOR floor associated with a loan is 2.00% and the spread is 4.00%, the lowest possible coupon on the loan would be 6.00%. If LIBOR falls 0.50%, the coupon paid on the loan would remain at 6.00%. However, if LIBOR increases to 3.00%, the coupon would rise to 7.00%.

Q: *What percentage of the fund has a floor? What is the current rate of the average floor?*

A: Currently, 23% of the loans in the Fund have a LIBOR floor with an average of 2.22%.

Q: *What is the difference between senior unsecured bonds and senior secured loans?*

A: Senior secured loans are backed by collateral (assets such as property, plant and equipment, receivables, cash) and have structural seniority over senior unsecured bonds. In the event of a default, priority is given to bank loans. This helps to mitigate losses and investors are, therefore, more likely to experience a higher recovery than bondholders.

Q: *What are the historical differences in recovery rates for unsecured bonds and secured loans?*

A: From 1982 to 2009, Moody's reports that the average recovery rate for first lien bank loans was 59.1% compared to 32.6% for senior unsecured bonds.

Q: *What percentage of the fund is secured?*

A: As of July 31, 2010, 90.3% of the Fund is invested in senior secured loans; 9.7% is invested in senior unsecured loans.

Q: *What is the performance and volatility history of leveraged loans as an asset class?*

A: Since inception (June 30, 2006), the annualized return of the CSFB Institutional Leveraged Loan Index was 0.5% and the standard deviation was 7.9%, while the broader CSFB Leveraged Loan Index return was 3.0% with a standard deviation of 17.4%. This compares with the 3.9% return and 13.5% standard deviation for the fund.

Q: *How does the risk/return profile of leveraged loans compare with other risky asset classes over this period?*

A: Over the same period, the return of the S&P 500 Index was -3.0% and the standard deviation was 20.6%. The Merrill Lynch High Yield Bond Index produced an annualized return of 7.4% with a standard deviation of 18.0%.

Q: *2008 was the worst year in history for leveraged loans. How did your fund do in relation to the market in that year?*

A: The fund returned -21.8% vs. -15.8% for the CSFB Institutional Leverage Loan Index and -28.8% for the CSFB Leveraged Loan Index. Since 2008, the fund has experienced only one default, a 0.2% position in Big West Oil. That compares with an average cumulative default rate of 7.6% over the same period.

Q: *How does the current spread environment in leveraged loans compare to the historical spread environment?*

A: Leveraged Loan spreads are near their historic average.

Q: *What is your expectation of default rates and recovery rates going forward in speculative grade debt?*

A: Default rates continue to fall as issuers strengthen balance sheets by paying down debt and extending maturities. Defaults fell from over 14% in late 2009 to 5% at the end of July of this year. Moody's is forecasting that the rate will fall to 2% over the next 12 months.

Q: *What is the average current yield in your fund? How does that compare to the broader leveraged loan market?*

A: The average current yield on the Fund is 5.62%. This is higher than the broader leveraged loan market and reflects both the 23% weighting in loans with LIBOR floors and the 11% high yield bond weighting.

Q: *What is the average credit quality of the fund? How does that compare to the broader leveraged loan market?*

A: The BB average credit quality of the Fund is higher than the broader leveraged loan market.

Q: *Finally, what are your expectations for performance in both up and down periods versus the market as a result of your fund's average credit quality?*

A: Compared to the broad market, as measured by the CSFB Leveraged Loan Index, I would expect the Fund to outperform in down markets and participate in up periods, but lag when the lowest quality loans outperform.