S&P DOW JONES INDICES

S&P DOW JONES INDICES VERSUS ACTIVE FUNDS (SPIVA®) SCORECARD: SENIOR LOANS

A UNIQUE SCORECARD FOR THE ACTIVE VERSUS PASSIVE DEBATE

Mid-Year 2012

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Released twice a year, the S&P Dow Jones Indices Active Versus Passive Funds (SPIVA) Scorecard compares the performance of actively managed mutual funds to that of relevant benchmark indices. With this paper, we are pleased to introduce a new series, SPIVA Scorecard: Senior Loans, which applies the well-regarded SPIVA methodology to the senior loans asset class.

The popularity of SPIVA stems from a few unique attributes:

- *Survivorship bias correction:* Many funds might be liquidated or merged during a period of study. However, for someone making an investment decision at the beginning of the period, these funds are part of the opportunity set. Unlike other commonly available comparison reports, the SPIVA Scorecard accounts for the entire opportunity set—not just the survivors—thereby eliminating survivorship bias.

- *Apples-to-apples comparison:* Fund returns are often compared to those of popular benchmarks regardless of their investment category. SPIVA Scorecards avoid this pitfall by measuring a fund's returns against the returns of a benchmark appropriate for that particular investment category.

- *Asset-weighted returns:* Average returns for a fund group are often calculated using only equal weighting, which results in the returns of a large fund affecting the average in the same manner as a small fund. Equal-weighted returns measure average fund performance, while asset-weighted returns measure the performance of the average invested dollar. The SPIVA Scorecard offers both equal- and asset-weighted averages.

SPIVA Scorecards are the only comprehensive, periodic available sources of such data, and can be found online at **www.spindices.com/spiva**.

SPIVA METHODOLOGY

DATA

We receive CRSP Survivor-Bias-Free US Mutual Fund Database information from the Center for Research in Security Prices (CRSP). The database, updated quarterly and distributed with a monthly lag, is designed to facilitate research on the historical performance of open-ended mutual funds by using survivor-bias-free data.

For this analysis, we selected open-ended mutual funds that are defined by Lipper as Loan Participation Funds and reported net performance during an interval of time within the last 10 years. These funds invest primarily in participation interests in collateralized senior corporate loans, which have floating or variable rates.

Once the universe of funds with a Lipper objective of Loan Participation was captured, we inspected the data and excluded funds that did not meet a minimum high-yield allocation of 70% and a minimum bank loan allocation of 70% as of the most recent quarter-end.

In order to compute asset-weighted returns, we also retrieved the monthly net assets for each share class where available. There were cases, however, where certain funds reported performance but not monthly net assets. The impact of this is that the universe of funds used to compute equal-weighted returns may differ from that used to compute asset-weighted returns for some time periods.

KNOWN BIASES IN MUTUAL FUND DATA[1]

Return histories are sometimes duplicated in the database. For example, if a fund started in 1962 and split into four share classes in 1993, each new share class of the fund is permitted to inherit the entire return/performance history. This can create a bias when averaging returns across mutual funds.

REPORTS

Report 1: Percentage of Fund Share Classes Outperformed by the Index
This report reflects the percentage of fund share classes that underperformed the S&P/LSTA US Leveraged Loan 100 Index over year-to-date (YTD), one-, three- and five-year periods.

Report 1: Percentage of Funds Outperformed by the Index

Comparison Index	YTD	One-Year	Three -Year	Five-Year
S&P/LSTA US Leveraged Loan 100 Index	79.47%	66.67%	73.56%	93.65%

Source: S&P Dow Jones Indices and CRSP. Data as of June 30, 2012. Charts and graphs are provided for illustrative purposes. Past performance is no guarantee of future results.

Report 2: Survivorship
This report shows the number of fund share classes that existed in a particular category at the beginning of the period in question, as well as the percentage of fund share classes that survived until the end of the period.

If a fund reported a return for the first month in a period, it is included in the beginning-period figures. Similarly, if a fund had a return for the last month in a period, it is included in the ending-period figures.

[1] http://w w w.crsp.com/documentation/pdfs/MFDB_Guide.pdf, page 1.

Report 2: Survivorship	No. of Fund Share Classes at Start	No. of Fund Share Classes at End	Survivorship (%)
YTD	156	151	96.79
One-Year	137	132	96.35
Three-Year	88	87	98.86
Five-Year	65	63	96.92

Source: S&P Dow Jones Indices and CRSP. Data as of June 30, 2012. Charts and graphs are provided for illustrative purposes.

Report 3: Equal-Weighted Fund Share Class Returns

This report shows the equal-weighted average returns of funds in a particular category for the YTD, one-, three- and five-year periods. The eligible population in a given category is determined on a monthly basis.

For every month in the period, we calculate the simple average return of all the existing funds in each category. We then compound the returns from all the months in the period. These returns are compared to the respective benchmark index returns. Note that the population of funds used in the averaging process one month might differ from that used the next month since some funds could have merged or liquidated, new funds could have been formed, and some funds could have switched categories.

Most reports that purport to show average active fund performance report on the funds in a category at the end of the period, and then take the average of their historical returns. The SPIVA methodology offers a more accurate picture of active fund performance by calculating the average performance of the active funds in existence in a given category each month—not just the end of the period.

Report 3: Equal-Weighted Fund Returns

Index/Peer Group	YTD (%)	One-Year (%)	Three-Year Annualized (%)	Five-Year Annualized (%)
S&P/LSTA US Leveraged Loan 100 Index	4.89	3.52	9.77	4.51
Lipper Loan Participation Funds	4.06	3.13	8.88	3.01
Difference	0.83	0.39	0.89	1.50

Source: S&P Dow Jones Indices and CRSP (Lipper Loan Participation Fund returns). Data as of June 30, 2012. Charts and graphs are provided for illustrative purposes. Past performance is no guarantee of future results.

Report 4: Asset-Weighted Fund Share Class Returns

This report shows the asset-weighted average returns of funds in a particular category for the YTD, one-, three- and five-year periods. The eligible population in a given category is determined on a monthly basis.

For every month in the period, we calculate the average return by weighting each fund's return by its month-end assets. We then compound the returns from all the months in the period and compare the returns to those of the benchmark. Note that the population of funds used in the averaging process one month might differ from that used the next month since some funds could have merged or liquidated, new funds could have been formed, and some funds could have switched categories.

Report 4: Asset-Weighted Fund Returns

Index/Peer Group	YTD (%)	One-Year (%)	Three-Year Annualized (%)	Five-Year Annualized (%)
S&P/LSTA US Leveraged Loan 100 Index	4.89	3.52	9.77	4.51
Lipper Loan Participation Funds	3.91	2.98	8.55	2.90
Difference	0.97	0.54	1.22	1.60

Source: S&P Dow Jones Indices and CRSP. Data as of June 30, 2012. Charts and graphs are provided for illustrative purposes. Past performance is no guarantee of future results.

Report 5: Quartile Breakpoints of Share Class Returns

This report shows the return below which the performance of a specified portion of funds in the population lies. For instance, the first quartile signifies the return below which 75% of the funds in the population lies.

Exhibit 5: Quartile Breakpoints

YTD	First Quartile	Second Quartile	Third Quartile
Lipper Loan Participation Funds	4.55%	4.08%	3.58%
One-Year	YTD	One-Year	Three-Year Annualized
Lipper Loan Participation Funds	3.65%	3.29%	2.83%
Three-Year	YTD	One-Year	Three-Year Annualized
Lipper Loan Participation Funds	9.78%	8.72%	7.55%
Five-Year	YTD	One-Year	Three-Year Annualized
Lipper Loan Participation Funds	3.46%	2.83%	2.34%

Source: S&P Dow Jones Indices and CRSP. Data as of June 30, 2012. Charts and graphs are provided for illustrative purposes. Past performance is no guarantee of future results.

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