CIFC Asset Management

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CIFC Portfolio Intelligence

A Standout Asset Class: Demystifying Senior Secured Loans

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Featured Views and Insights

In today's evolving credit landscape, Broadly Syndicated Senior Secured Loans (BSLs) remain one of the most compelling yet often underappreciated asset classes. BSLs are a vital holding for investors seeking high yield and low-duration exposure with strong risk-adjusted returns, in our opinion. Despite some skepticism, we believe this often stems from a misunderstanding of the risk portion of potential returns and the unique structural advantages BSLs offer.

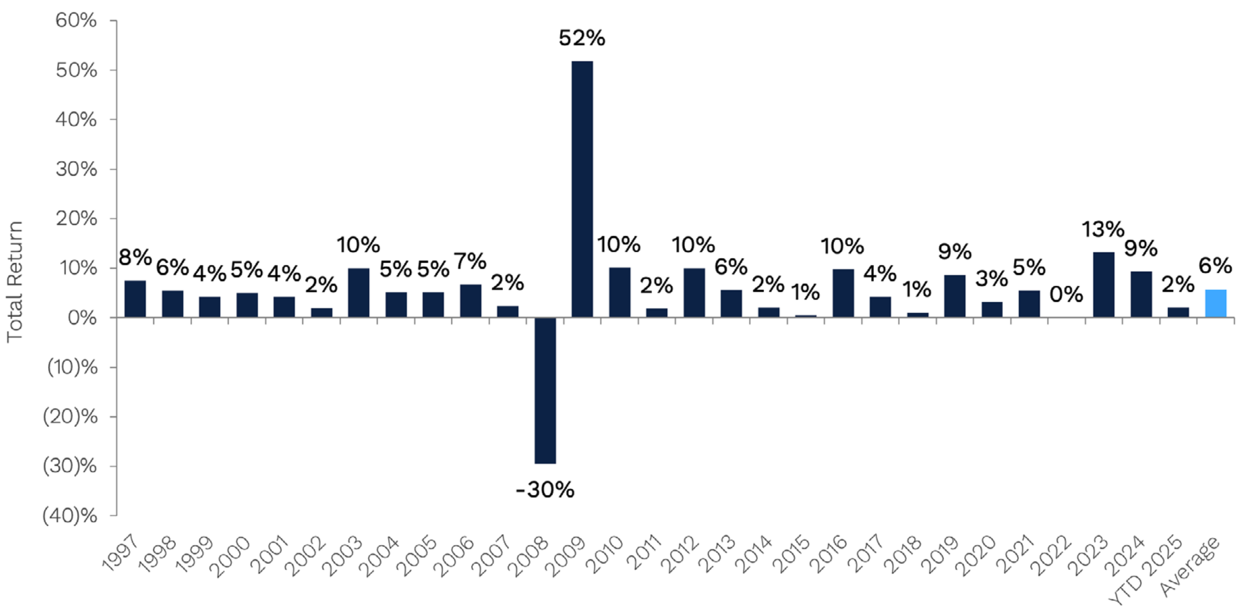
Stan Sokolowski, is Senior Managing Director, Senior Portfolio Manager and Deputy Chief Investment Officer

Mr. Sokolowski has 34 years of credit, portfolio management and trading experience. He is the lead portfolio manager for CIFC's Corporate Credit Loan Funds and a member of the firm's Investment Committee. Mr. Sokolowski has a broad range of investment management skills and experience in private and public credit markets. He has invested and traded across the spectrum of credit from high yield to investment grade as well as distressed and stressed credit, fixed and floating rate instruments, bonds, loans, CDS and index products.

Superior Risk-Adjusted Returns

BSLs have historically delivered attractive risk-adjusted returns, particularly when compared to traditional fixed income instruments. For example, the Morningstar LSTA U.S. Leveraged Loan Index shows lower volatility than high yield bonds, in the last 25 years, despite similar credit quality. On the private credit side, BDCs and upper middle market direct loans, while higher-yielding, generally face liquidity constraints and often untested default risks in volatile environments. In addition, while BDCs may offer equity upside, we believe they also introduce equity-like volatility. Asset-based loans (ABLs), while secured, can often be concentrated in niche or stressed borrowers. Investors may perceive BSLs' roughly 6% annualized returns over the past twenty-five plus years as sometimes low. However, the stability and consistency of these risk-adjusted returns are very compelling, in our opinion. The return stream of BSLs demonstrate they have an ability to perform in a variety of markets, interest rate and economic environments, including recession, prosperity, inflation, and deflation. BSLs balance yield, safety, and accessibility, making them what we believe to be a core portfolio holding.

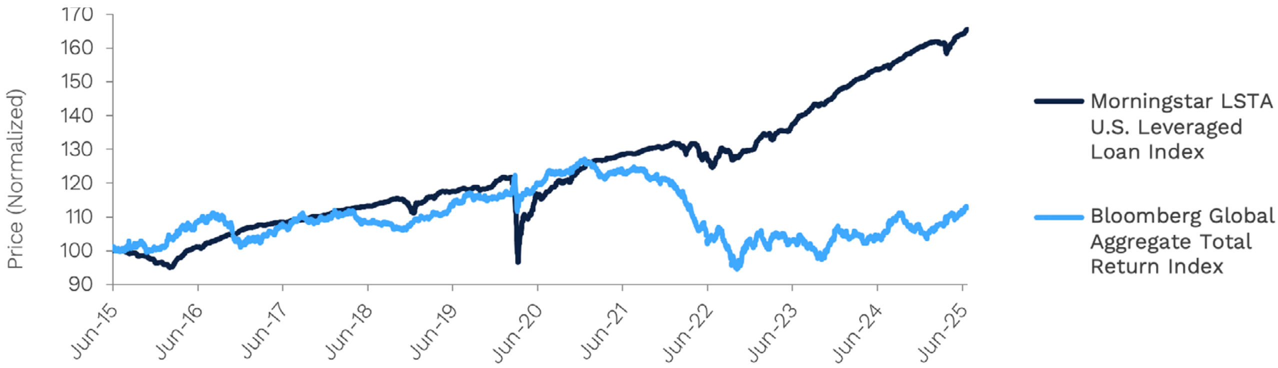
J.P. Morgan Leveraged Loan Index Total Return 1997-YTD 2025[1]



Traditional Fixed Income is Failing Investors

With nearly 80% of the $71 trillion Bloomberg Global Aggregate Total Return Index, (the "Agg") yielding less than 5% and the index itself offering a mere ~3.5% yield, barely outpacing inflation, it is difficult to get excited about traditional fixed income. Its 7-year duration also leaves it highly exposed to rate expectations and volatility, and over the past decade, it has delivered a paltry 0.82% annual return, with negative returns in four of the last five years. In contrast, Broadly Syndicated Senior Secured Loans have returned ~9% last year, ~8% annually over five years, and ~5% over ten years, with negligible duration risk due to coupons that reset approximately every three months. As floating-rate instruments, senior in the capital structure and backed by collateral, BSLs are designed to provide robust income and downside protection, making them a compelling alternative in today's volatile rate environment, in our view.

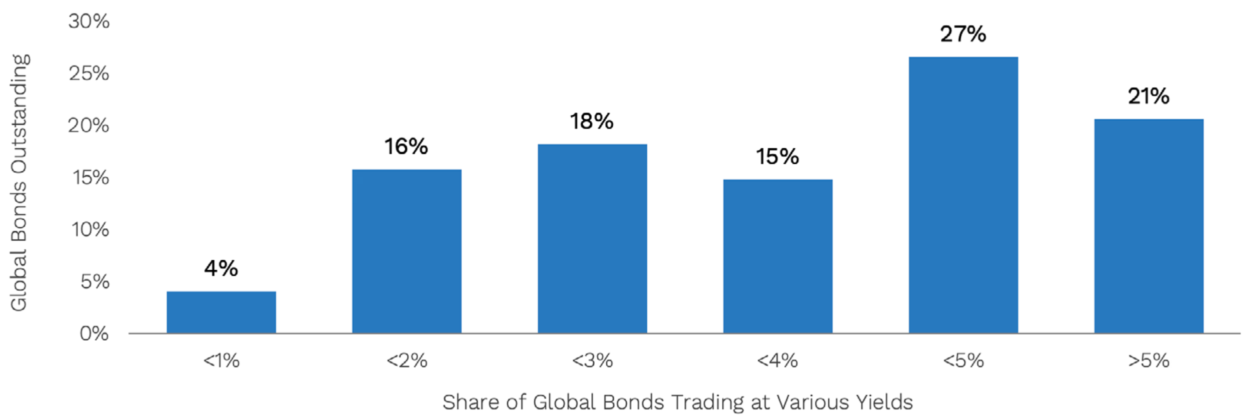
Morningstar LSTA U.S. Leveraged Loan Index vs Bloomberg Global Aggregate Total Return Index[2]



Competitive Yield with Lower Volatility

BSLs have historically delivered yields competitive with High Yield Bonds but with lower duration risk and better recovery prospects. The Agg has underperformed in real terms due to rate volatility, duration drag and inflation sensitivity. These conditions continue to challenge the Agg today.

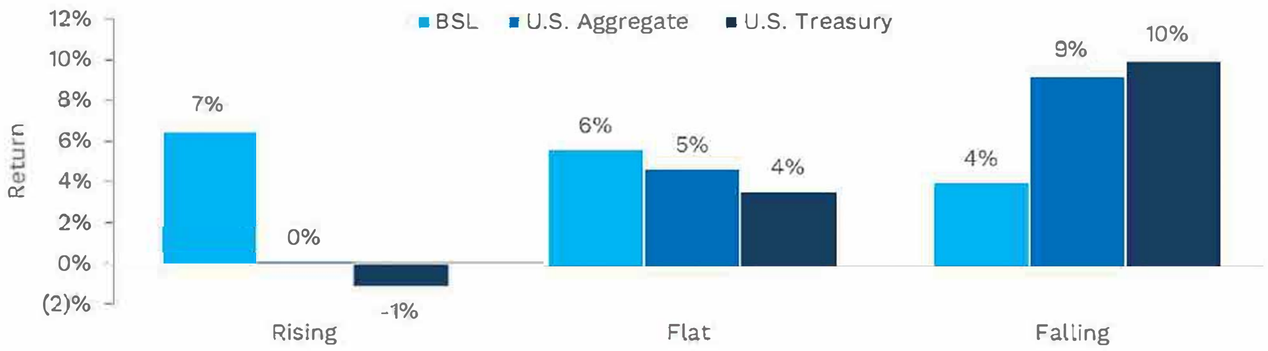
~80% of Bonds in the Bloomberg Global Aggregate Yield Less Than 5%[3]



Income Advantage in All Rate Environments

Unlike traditional fixed-rate bonds, BSLs are floating rate instruments, making them particularly attractive in periods of rising interest rates. However, BSLs also have a history of delivering a solid income profile in flat and falling rate environments, as shown in the chart below. This feature helps preserve purchasing power and reduces duration risk, which has significantly impacted traditional bond portfolios over the past decade.

Credit in Rising, Flat and Falling Rate Environments[4]



Yield and Duration[5]

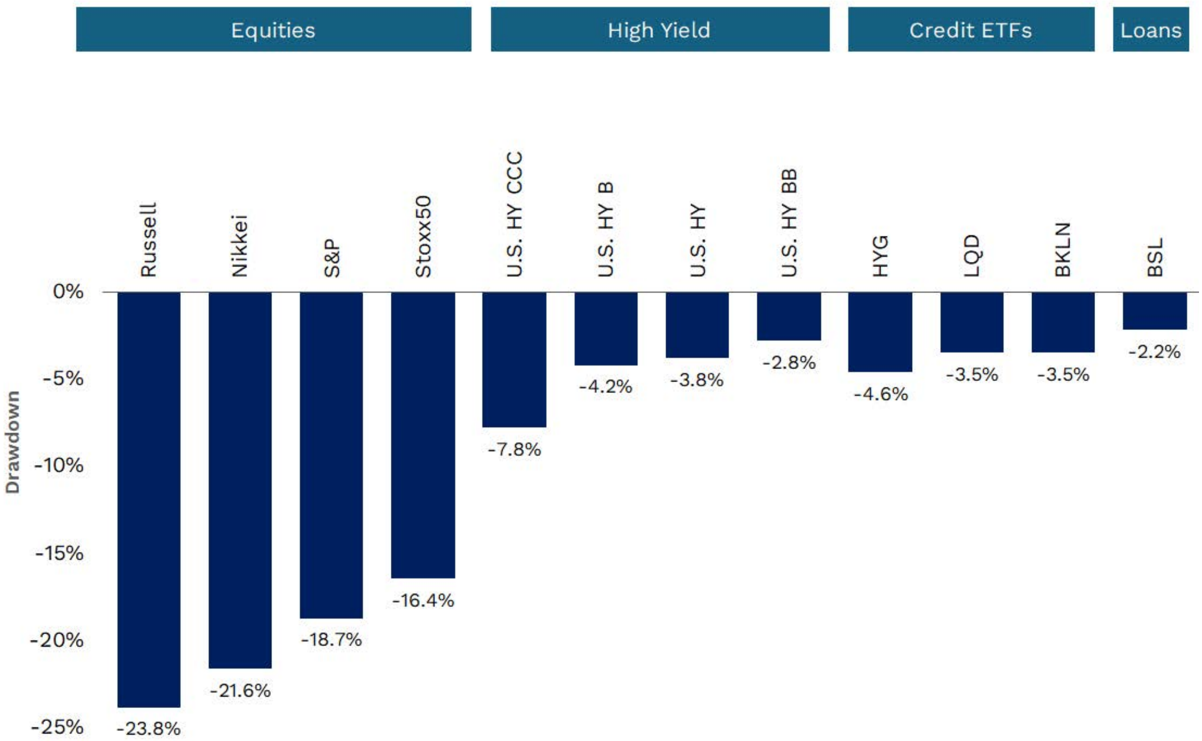
Liquidity and Transparency

When compared to certain other credit asset classes, we found the $1.6Tn BSL market offers greater liquidity and transparency. These loans are actively traded in the secondary market and are typically rated by major credit agencies, providing investors with more visibility and flexibility. This liquidity far exceeds that of private credit and asset-based lending, which are generally held to maturity and lack true price discovery.

Resilience

Since the Morningstar LSTA U.S. Leveraged Loan Index started 29 years ago, BSLs have delivered positive returns 28 of those years. They have outperformed high yield bonds in downturns due to their secured nature and lower correlation with equities. During the most recent Liberation Day tariff storm, BSLs were down approximately 1.84% while the VIX exploded some 164%. At the same time, equities entered bear market territory (down about 20%), and after an initial short-lived gain, the Treasury Bond ETF (TLT) lost over 8% in the following weeks. Importantly, BSLs have demonstrated a similar resilience profile through most market shocks.

The Credit Market Drawdown Year-to-Date Has Been Muted[6]

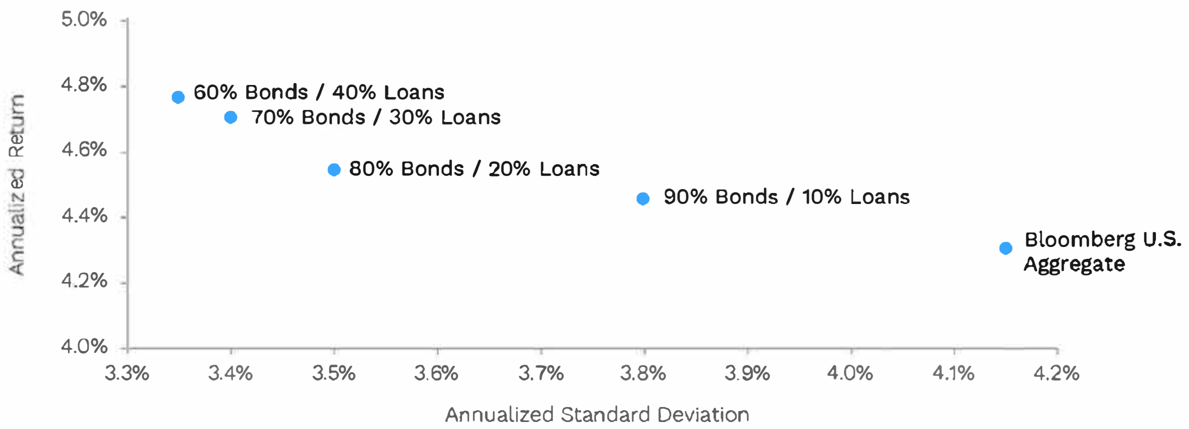


Complementary Role in Portfolios

Rather than viewing BSLs and private credit as mutually exclusive, they should be seen as complementary. While private credit may offer higher yields, we believe it often comes with less liquidity and higher idiosyncratic risk. We found BSLs, by contrast, to provide a more standardized and diversified exposure to large, rated issuers with institutional quality management teams. Also, historic analysis has shown that adding BSLs to a portfolio of traditional fixed income has the potential to increase returns and reduce risk.

"Broadly Syndicated Senior Secured Loans are not a tactical allocation – they are a strategic asset class that offers compelling income, risk-adjusted returns, and portfolio diversification."

Better Returns, Lower Risk[7]



Conclusion

Broadly Syndicated Senior Secured Loans are not a tactical allocation – they are a strategic asset class that offers compelling income, risk-adjusted returns, and portfolio diversification. BSLs offer a convincing blend of high yield, low duration, and structural credit protections, outperforming the Agg, rivaling high yield bonds in resilience, and surpassing upper middle market direct loans and BDCs in liquidity. As investors continue to navigate a complex macroeconomic environment, BSLs deserve a central role in any well-constructed portfolio.

1. Source: Bloomberg. Data as of June 30, 2025. Past performance is not an indication of current and future returns. Statements are the beliefs and observations of CIFC.
2. Source: Bloomberg. Data as of June 30, 2025. The Morningstar LSTA U.S. Leveraged Loan Index is a market value-weighted index designed to measure the performance of the U.S. leveraged loan market based upon market weightings, spreads and interest payments. The Bloomberg Global Aggregate Total Return Index is a flagship measure of global investment grade debt from a multitude local currency markets.
3. Source: Bloomberg (LEGATRUU). Data as of May 20, 2025. Past performance is not indicative of future results.
4. Source: Credit Suisse and Bloomberg Barclays Indices. "Rising" indicated by an increase of more than 50 bps. "Falling" indicated by a decrease of more than 50 bps. Data reflects rolling 12-month periods from January 1993 through December 2020. Most recent data available upon request.
5. Sources: Bloomberg, J.P. Morgan, ICE Data Indices, and PitchBook Data, as of June 30, 2025. Past performance is not an indication of current or future results. Data provided is for illustrative and informational use only. It is not possible to invest directly in an index. Yield to worst is the lowest potential yield that can be received on a bond without an issuer actually defaulting. Duration is a measure of the severity of bond's price to a change in interest rates. U.S. Treasury represented by Bloomberg U.S. Treasury Index. U.S Aggregate represented by Bloomberg Barclays Aggregate Index. MBS represented by Bloomberg U.S. Mortgage-Backed Securities (MBS) Index. Investment Grade Corp. represented by Bloomberg U.S. Corporate Index. Municipal represented by Bloomberg Municipal Bond Index. Emerging Markets represented by Bloomberg Barclays Emerging Market USD Aggregate Index. High Yield Corp. represented by Bloomberg U.S. Corporate High Yield Index. Floating Rate Loans represented by J.P. Morgan Leveraged Loan Index. Most recent data available.
6. Source: Bloomberg, ICE BoA, Morningstar LSTA U.S. Leveraged Loan Index, and JPM CLOIE. Data as of April 11, 2025. Past performance is not indicative of future results.
7. Source: Bloomberg and Credit Suisse, data as of June 30, 2024. Past performance is not indicative of future results

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