

AN INTRODUCTION TO FLOATING-RATE LOANS

What are floating-rate loans?

These loans are designed with interest rates that adjust to market rates. Floating-rate loans are a form of debt financing typically negotiated between a group of banks and a corporation. They're often extended to companies with higher levels of debt compared to cash flow, carrying a greater credit risk than investment-grade bonds. While floating-rate loans are below investment-grade (or below BBB-) quality, they're higher up on the capital structure and secured by the issuer's assets so they have higher recovery rates in the event of a default. Floating-rate loans are also known as bank loans, senior loans, leveraged loans and syndicated loans.

How do interest payments work?

Unlike traditional bonds, floating-rate loans do not make a fixed interest payment each payment period. Instead, coupons vary based on prevailing interest rates. The interest rate adjusts or "floats" with market rates, so they carry little to no interest rate risk. Investors can typically expect to receive interest payments that increase as rates increase, or vice versa. This reset feature makes the income earned from floating-rate loans responsive to changes in short-term interest rates.

When is the best time to invest in floating-rate loans?

The best time to invest in floating-rate funds is usually when credit fundamentals (i.e., economic growth, and corporate growth and profits) are positive and when interest rates are low and expected to rise.

How can investors access floating-rate loans?

Investors can buy individual floating-rate bonds through a broker, or they can invest in floating-rate loan mutual funds that invest only in floating-rate securities.

How might a floating-rate fund complement a portfolio?

If you want to keep up with rising interest rates and inflation, you may want to consider a floating-rate loan fund. As an alternative to traditional or fixed-rate bond investments, these products can help diversify your portfolio while providing incremental income potential and help to protect against interest rate risk.

Reasons to consider floating-rate loans:

- They may offer an attractive level of income
- They can protect against price deterioration during inflation and when interest rates rise
- They may help reduce overall portfolio volatility



To learn more about how this asset class might complement your portfolio, speak with your financial advisor. For additional investor education materials, please visit [columbiathreadneedleus.com](https://www.columbiathreadneedleus.com).

Why consider floating-rate investments?

A hedge against inflation and interest rate risk:

When market rates rise, the interest paid by borrowers on these loans increases, helping to protect the loan's principal market value. This offers an advantage over traditional fixed-rate bonds, which generally experience price declines if interest rates rise. The fact that the interest paid on these loans adjusts with current rates means that they can act as a hedge against inflation.

Compelling income generation:

Floating-rate loans are considered lower credit quality than investment-grade bonds and, consequently, have historically paid higher yields to investors.

Higher recovery rates in default situation:

Floating-rate loans are typically secured by collateral and have a senior position in a company's capital structure, meaning that they have a higher priority claim on the borrower's assets versus other creditors.

Portfolio diversification:

Historically, they've displayed low correlations with most equity and fixed-income asset classes, enhancing diversification and potentially reducing portfolio volatility.



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What are some of the risks associated with floating-rate loans?

Like any asset class, floating-rate loans have drawbacks as well as benefits. Most notably, they carry greater credit risk than high-quality bonds since the loans are made to companies with a greater potential for default or loss. It's important to evaluate this against their high recovery rate.

Also, loan values tend to fluctuate with the market's appetite for risk and have higher liquidity risk due to their longer settlement times. Despite these risks, floating-rate loans have performed well in rising rate environments. Before investing, please review the risk information carefully.

Floating-rate loans typically present greater risk than other fixed-income investments as they are generally subject to legal or contractual resale restrictions, may trade less frequently and experience value impairments during liquidation.

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