

Higher Yields and Protection from Rising Interest Rates

For investors seeking higher yield from a fixed-income solution and protection against the impact of rising interest rates, floating-rate investing can provide an effective complement to a traditional fixed-income portfolio.

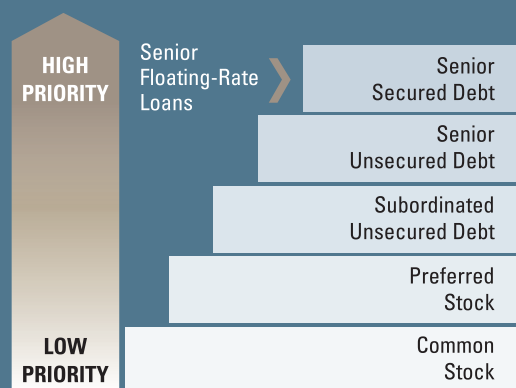
A floating-rate income fund can offer compelling advantages for investors as floating-rate investments are an effective tool to boost yield, offer protection from interest rate increases and tend to have low correlations to most asset classes.

Although floating-rate loans may not seem as attractive right now with rates so low, as rates are expected to rise, this asset type may be just what investors need to protect themselves from the impact of rising rates.

Rank in the Capital Structure

‘Senior’ refers to the debt’s rank in the borrower’s capital structure, holding claims to assets ahead of those of other liabilities in the event of default, as illustrated below.

Floating-Rate Loans: Senior in the Borrower’s Capital Structure



The Facts About Floating-Rate Loan Investing

Floating-rate loans are senior secured loans made by banks to non-investment-grade companies where the coupon payment is determined based on a specified interest rate – typically the London Interbank Offered Rate (LIBOR) – plus a spread. LIBOR is the rate at which many banks from around the world offer to lend money to one another.

As a floating-rate loan’s coupon rate resets or “floats” with the prevailing rate of interest, typically at a 30-, 60-, or 90-day frequency, these bonds typically have virtually no duration risk. As a result of the reset mechanism, rates paid on these loans change as the short-term market interest rates rise and fall. In contrast, traditional bonds pay fixed rates which stay the same for the term of a bond, regardless of what happens to interest rates.

Impact of Moving Interest Rates

	Impact On	Fixed-Income Bonds	Floating-Rate Loans
When Interest Rates Rise	Price	▼	—
	Coupon	—	▲
When Interest Rates Fall	Price	▲	—
	Coupon	—	▼

Floating-Rate Loans vs. Traditional Bonds

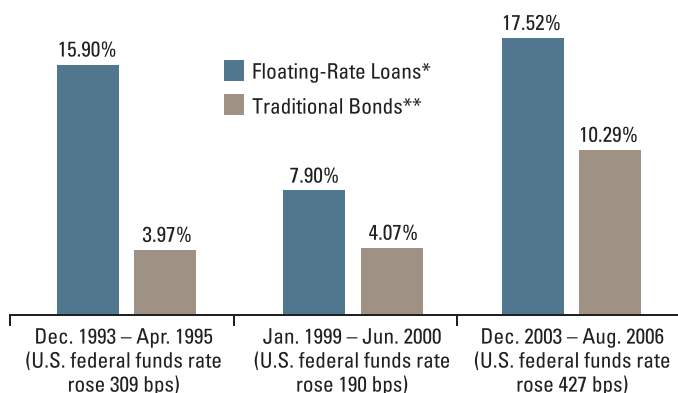
Traditional bonds have played a particularly critical role during the last few years and will continue to do so; however, with rates expected to rise, investors must consider the duration risk of their portfolio. In contrast to traditional bonds, floating-rate loans offer minimal duration risk, providing attractive opportunities to investors as an enhancement to a traditional core fixed-income allocation.

Advantages of Floating-Rate Loan Investing

1. Performance in Rising Rate Environments

Since prices are frequently reset using a floating benchmark interest rate like LIBOR, floating-rate loans have virtually no duration risk and have historically performed well in rising-rate environments. As seen below, floating-rate loans provided significantly higher returns than traditional bonds in the last three periods of rising interest rates. However, it is important to note that floating-rate loans do carry extra risk because these are lower-quality debt and their prices can fluctuate at times. Investors are paid higher yields to compensate for this additional risk.

Floating-Rate Loans Outperformed Traditional Fixed Income Investments During Periods of Rising Rates



* Floating Rate Loans are represented by the Credit Suisse Leveraged Loan Index.
 ** Traditional Bonds are represented by the Barclays US Aggregate Bond Index which is an index of U.S. dollar denominated, investment-grade U.S. corporate, government and mortgagebacked securities.

Source: Morningstar Direct. U.S. federal funds data from Federal Reserve Economic Data (FRED). All returns are in US\$.

2. Enhanced Fixed-Income Diversification and Low Correlations with Other Asset Classes

Investing in assets with lower correlation to existing holdings is an effective technique to provide portfolio diversification. By offering a low correlation to traditional fixed-income instruments, floating-rate loans can diversify fixed-income exposure and help to reduce overall portfolio volatility.

Correlation Crédit Suisse Leverage Loan Index versus Global Indices

January 1, 2004 – December 31, 2013
 Converted to Canadian dollars

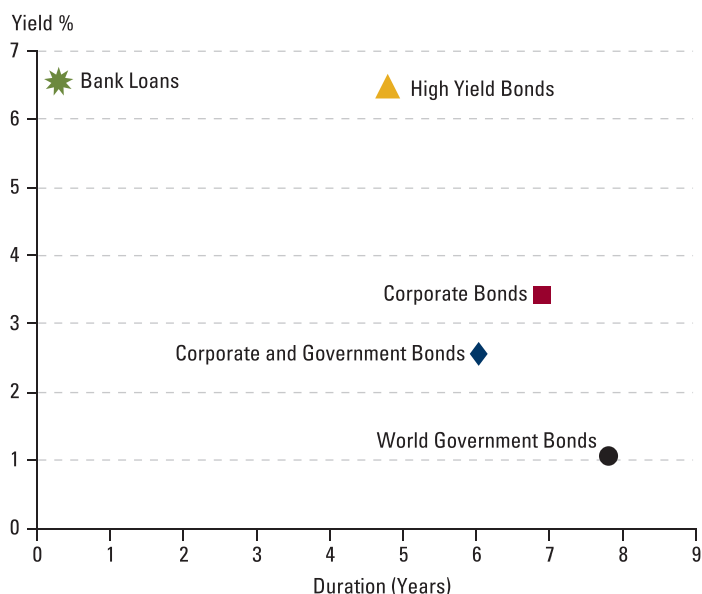
Asset Class	Correlation
Credit Suisse HY	0.86
IA SBBI US Inflation	0.71
Barclays US Agg Bond	0.62
JPM EMBI Global	0.55
Barclays US Treasury 5-7 Yr	0.49
S&P 500	0.35
MSCI World	0.22
FTSE NAREIT All REITs	0.14
DEX Universe	0.03
S&P/TSX Composite	-0.18
CBOE Gold	-0.32

Source: Morningstar Direct

3. High Yield and Low Duration

Floating-rate loans can provide relatively high yield, very low duration, and the potential for capital appreciation.

High Yield and Low Interest Rate Sensitivity (as of December 31, 2016)

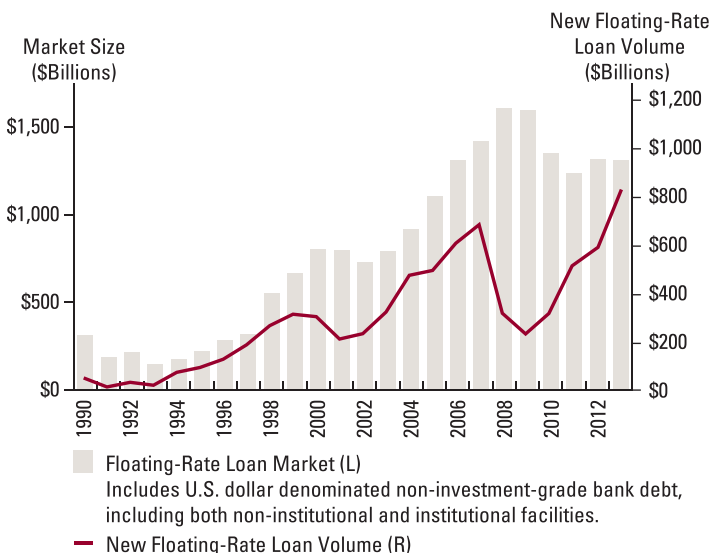


Source: Bank of America Merrill Lynch, Credit Suisse, LPC

Importance of this Unique Asset Class

Since the late 1980s, the floating-rate loan market has witnessed tremendous growth. Today, the market holds \$1,312 billion in assets and continues to attract interest from institutional and retail investors. In fact, the floating-rate market is roughly the same size as the much more well-known high-yield bond market.

Floating-Rate Loan Market Size (as of December 31, 2013)



Source: Credit Suisse, LPC

Strategies for Incorporating Floating-Rate Loans into an Income Portfolio

As the loan market is limited to institutional investors, mutual fund products like the **Renaissance Floating Rate Income Fund** provide ease-of-access to this asset class.

There are few actively-managed funds dedicated to floating-rate loans and the Renaissance Floating Rate Income Fund can offer a distinct enhancement to a traditional fixed income portfolio.

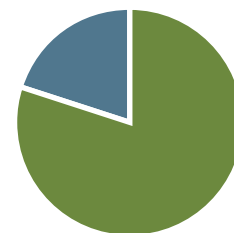
While each investor's unique objectives must be considered, floating-rate loans can be used in combination with high-yield bonds to tactically re-allocate an investor's core fixed income holdings in anticipation of rising interest rates. Moreover, investors seeking a portfolio yield boost may choose to maintain a strategic allocation to floating-rate loans.

In summary, this asset class provides investors with:

- Performance in rising rate environments
- Fixed income diversification with a low correlation to other asset classes
- High yield and low duration

Target Allocation of the Fund

Fund Details	
Loans	80%
High-Yield Bonds	20%



Fund Details	Canadian Dollars – Class A	U.S. Dollar Purchase Option – Class A	Canadian Dollars (Hedged) – Class H
Front-End Load	ATL2503	ATL2506	ATL2479
Low Load	ATL2504	ATL2507	ATL2480
Back-End Load	ATL2505	ATL2508	ATL2481
MER ¹	1.80%	1.80%	1.78%

Fund Details	Canadian Dollars – Class F	U.S. Dollar Purchase Option – Class F	Canadian Dollars (Hedged) – Class FH
Fund Code	ATL2511	ATL2512	ATL2483
MER ¹	0.92%	0.92%	0.90%

Sub-Advisor:

Ares Management LLC is headquartered in Los Angeles with offices across the U.S., Europe and Asia, and is supported by approximately 700 employees across four operating divisions.

- Invests in tradable securities, including broadly syndicated leveraged loans, high-yield bonds and other fixed income investments.
- Portfolio managers average more than 15 years of relevant experience investing in below-investment-grade debt.
- Disciplined approach places a high priority on the preservation of principal (primarily through default avoidance) and by minimizing downside risk.



¹ MER as at August 31, 2020. Please refer to the Annual/Interim Management Reports of Fund Performance for further details.

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