



A Primer on Leveraged Loans

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The Bank Loan Asset Class... A Review

A Unique Asset Class...

- With Several Monikers
 - “ Bank Loans”, “Leveraged Loans”, “Floating Rate Debt”, “Senior Secured Debt”
- Description
 - Term Loans to Non- Investment grade corporations primarily in the US and Europe
- Characteristics
 - Senior
 - Secured
 - Floating Rate
 - 5-9 year maturity
- Attributes
 - Ultra Short Duration (reset average 55 days)
 - Low Correlations to other Fixed Income and Equity Asset Classes
 - Historically stable, low volatility returns

Role in the Capital Structure – Senior Secured Bank Loans

Investment Grade

Commercial Paper

High-Grade Bonds

Equity

Non-Investment Grade

Senior Secured Bank Loans

High-Yield Bonds

Equity

Unique Features – Senior Secured Bank Loans

- **Senior:** Most Senior Element of Borrower's Capitalization
- **Secured:** Typically Collateralized by Accounts Receivable, Inventory, Property, Plant, Equipment, and/or Stock
- **Floating-Rate:** Interest Rates Reset Every 45-60 Days
- **Amortizing:** Stated Maturity of 5-9 Years
Typical Average Life of Approximately 2-3 Years

Average Company Capital Structure

\$ 3 Billion Revenue - \$500 Million EBITDA

\$5 Billion Market Capitalization



Fixed Charge Coverage **1.6x**
Interest Coverage **2.7x**

Distinctive Total Return Profile – Senior Secured Bank Loans

Higher current income vs. LIBOR offsets expected credit losses

Hypothetical Total Return Calculation:

3-Month LIBOR ¹	1.20%
Spread Over LIBOR ²	<u>2.00% - 3.00%</u>
Current Yield	3.20% - 4.20%
Credit Losses ³	<u>(0.60%)</u>
Hypothetical Total Return ⁴	2.60% - 3.60%

Net value of loans fluctuates and investors in bank loans may experience losses

1. US Dollar 3-Month LIBOR as of 1/31/09.
2. Eaton Vance estimate based on 17 plus year historical spread information. Spread will fluctuate.
3. Eaton Vance estimate based on 17 plus year historical default information. Credit losses will vary from year to year.
4. Hypothetical total return based on the assumption that 3-Month LIBOR, Spreads and Credit Losses remain constant for the duration of the year.

Note: The above is illustrative of a hypothetical calculation and will not reflect actual results achieved by an investor. Please refer to the Appendix for additional disclosure. There is no guarantee that an investment will be profitable and, in fact, a particular client may experience loss of capital.

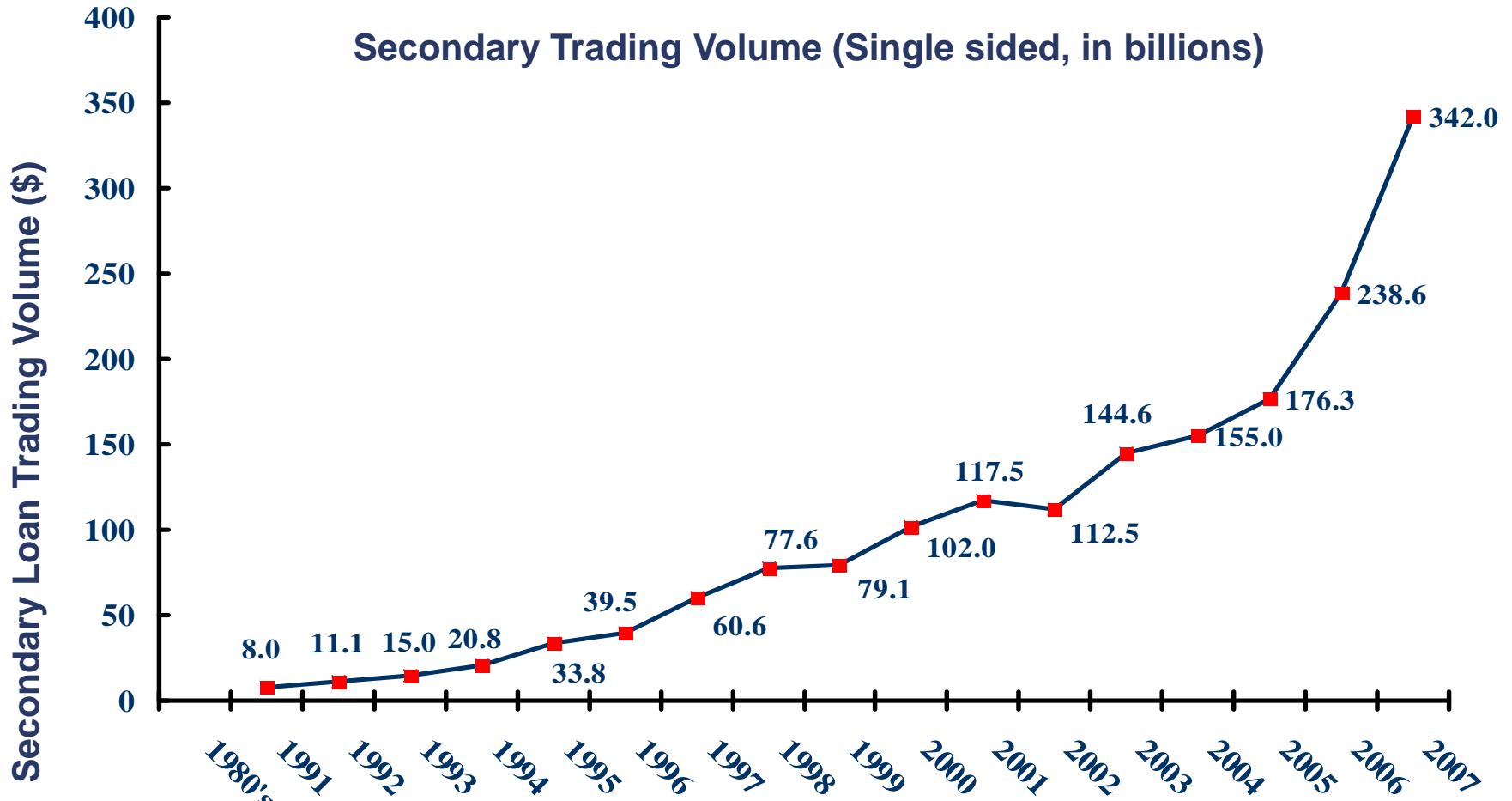
Source: Eaton Vance, Bloomberg

Senior Secured Status Lowers Credit Risk vs. Unsecured Debt

Average Recovery Rate

Senior Secured Bank Loans	82%
Senior Unsecured Bonds	38%

Evolution of Market – Senior Secured Bank Loans



- Launch of Prime Rate Funds
- Secondary market expansion and major bank loan indices created (Citi, Goldman, Lehman)
- S&P assigns private placement ratings
- Moody's ratings begin
- LSTA/LPC Pricing Service Launched – Shift from fair value to mark to market.
- S&P Launches Recovery Ratings
- Rapid Growth of European market
- Emergence of second lien and covenant lite loans
- CLOs targeted at financial institutions with risk considerations
- Loan underwriting by investment banks



Source: Reuters Loan Pricing Corporation/DealScan, Eaton Vance

Correlation Matrix – Senior Secured Bank Loans

Monthly Return Correlation Matrix

(1/1991-12/2008)

	3 Mo T-Bill	1 Yr Treas.	1-3 Yr Treas.	1-10 Yr Treas.	10+ Yr Treas.	High Grade Corp.	High Yield Corp.	S&P 500	Senior Flt. Rate Loan Master Composite (gross)
3 Month Treasury Bill	1.00	0.53	0.31	0.14	0.01	0.10	0.11	0.16	0.18
1 Year Treasuries		1.00	0.91	0.77	0.50	0.45	-0.09	-0.10	-0.17
1-3 Year Treasuries			1.00	0.94	0.71	0.61	-0.05	-0.10	-0.21
1-10 Year Treasuries				1.00	0.88	0.75	-0.04	-0.11	-0.23
10+ Year Treasuries					1.00	0.84	0.09	-0.03	-0.14
High Grade Corp. Bonds						1.00	0.50	0.26	0.21
High Yield Corp. Bonds							1.00	0.58	0.62
S&P 500								1.00	0.41
Senior Floating Rate Loan Master Composite (gross)									1.00

1. Correlations based on monthly returns for each category from 1/1991 through 12/31/2008.

2. High Grade Corporate Bonds represented by the Lehman Brothers Credit Index.

3. High Yield Corporate Bonds represented by Merrill Lynch High Yield Master II.

4. The information for the Senior Floating Rate Master Composite is based upon all fully discretionary, fee-paying accounts which are eligible for inclusion and is presented gross of fees. Composite gross returns are calculated in U.S. dollars and include the reinvestment of distributions, after transaction costs, foreign withholding taxes and other direct expenses, but before management fees, custody charges and other indirect expenses. Such fees and expenses would reduce the returns shown. Please refer to the additional important information and disclosure and the fully compliant GIPS® presentation for this Composite contained in the Appendix. It is not possible to invest directly in an Index. Past performance does not predict future results.

Senior Secured Bank Loan Returns

Calendar Year	S&P/LSTA Leveraged Loan	BC Aggregate	Citigroup 3-Month	ML 1-3 Treasury
	Index Annual	Index Annual	T-Bill Annual	1-3 Treasury Annual
1997	7.6	9.7	5.2	6.7
1998	5.3	8.7	5.1	7.0
1999	3.7	-0.8	4.7	3.1
2000	5.0	11.6	6.0	8.0
2001	4.2	8.4	4.1	8.3
2002	1.9	10.3	1.7	5.8
2003	9.9	4.1	1.1	1.9
2004	5.2	4.3	1.2	0.9
2005	5.1	2.4	3.0	1.7
2006	6.8	4.3	4.8	4.0
2007	2.0	7.0	4.7	7.3
2008	-29.1	5.6	1.8	6.6

Risk /Return Characteristics

	10 Years Ending 06/30/07		10 Years Ending 12/31/08	
	Annualized Returns	Risk Std. Dev.	Annualized Returns	Risk Std. Dev.
S&P/LSTA Leveraged Loan Index:	5.34%	1.92	0.81	6.29
Citigroup 3 Month T-Bill Index :	3.66	0.51	3.30	0.50
Merrill Lynch 1-3 Government Index:	4.61	1.58	4.74	1.6
BC Aggregate	6.02	3.76	5.63	3.84

Selected Large Institutional Flow Loans*

Selected by Standard & Poor's

	Spread	Corp. Ratings	Indicative Price	Spread to Maturity
Celanes	L+150	BB/Ba2	82.5	L+602.22
Charter	L+200	CC/Caa3	75.25	L+951.79
Community Health	L+225	B+/B1	80.75	L+707.06
First Data	L+275	B/B2	62.5	L+1292.13
Ford	L+300	CC/Caa3	33.5	L+3450.89
Georgia-Pacific	L+200	BB-/Ba3	83.25	L+733.35
Harrah's	L+300	CCC/Caa3	55.25	L+1579.23
HCA	L+225	B+/B2	79.75	L+809.70
Michael's Sores	L+225	B-/B3	52	L+1902.45
Neilsen Company	L+200	B/B2	72.5	L+1013.43
NRG	L+150	B+/Ba3	88.75	L+499.20
Sungard	L+175	B+/B2	80.25	L+732.53
TXU	L+350	B-/B2	58.875	L+1616.23
Univision	L+225	B-/B3	43.25	L+2141.05
William Wrigley Jr C	L+350	NR/NR	98	L+582.35
Average	L+237		69.76	L+1240.91

(3/10/2009)

*Source: Standard & Poor's LCD (Standard & Poor's Leveraged Commentary & Data)"

"Selected" indicates, selected by Standard & Poors.

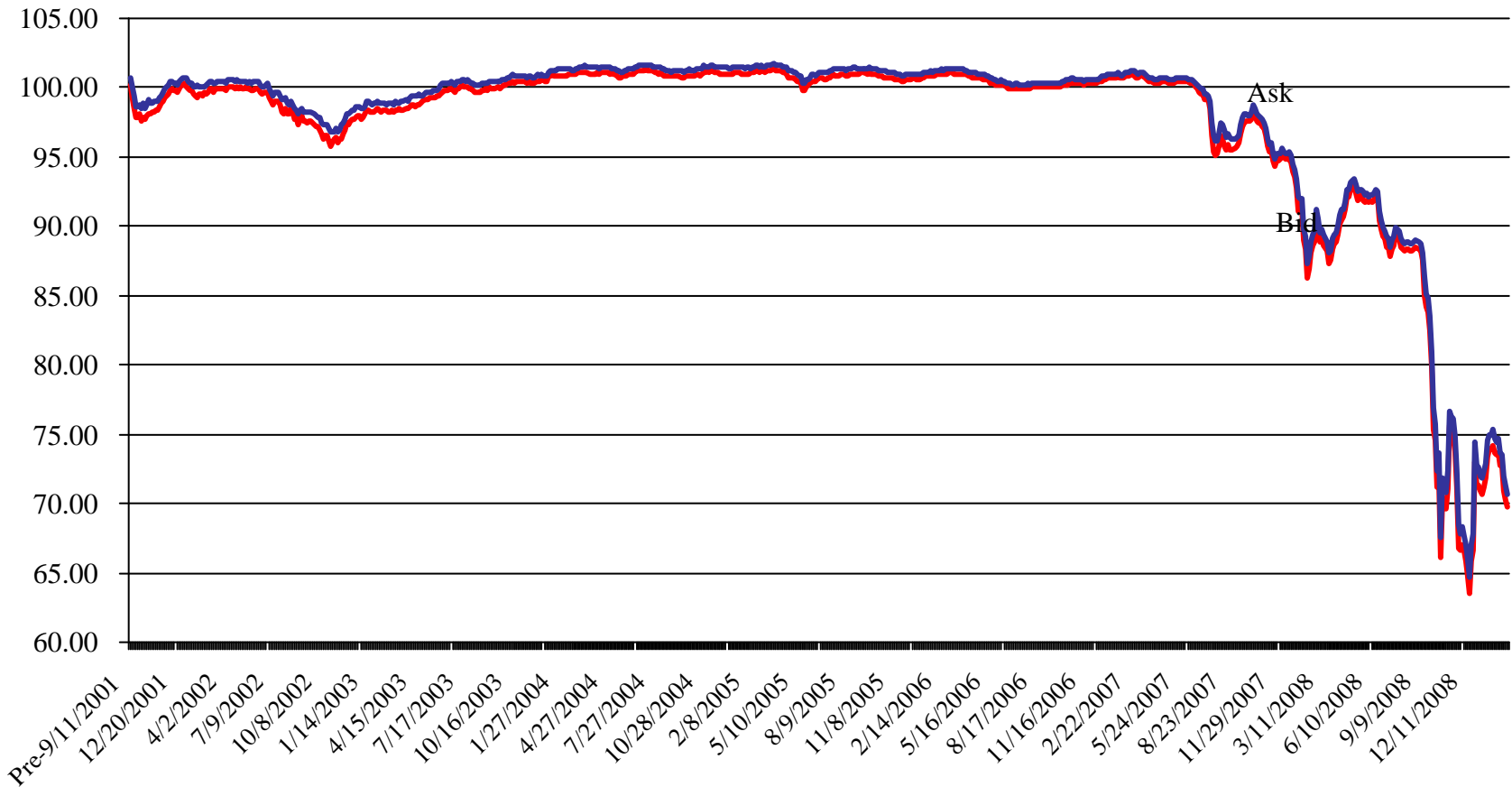
Large Institutional Flow Loans represent the most liquid loans in S&P LSTA Leverage Loan Index as determined by S&P.

So what happened...

Anatomy of a Price Dislocation

1. Historically stable asset class → Quest for spread → Application of leverage through securitization, TRS, other → Increased systemic risk
2. Hedge funds and others granted unprecedented access to cheap leverage
3. Wall Street creates supply glut
4. Sub-prime credit crisis caused increased risk aversion
5. CLO/ CDO Issuance freezes
6. Liquidity markets freeze
7. Margin calls and market value triggers force liquidation of credit-worthy assets across asset classes. Significant auction activity in Jan/Feb and Sept/Oct/Nov 2008
8. Lehman, AIG, Global bank crisis and deleveraging

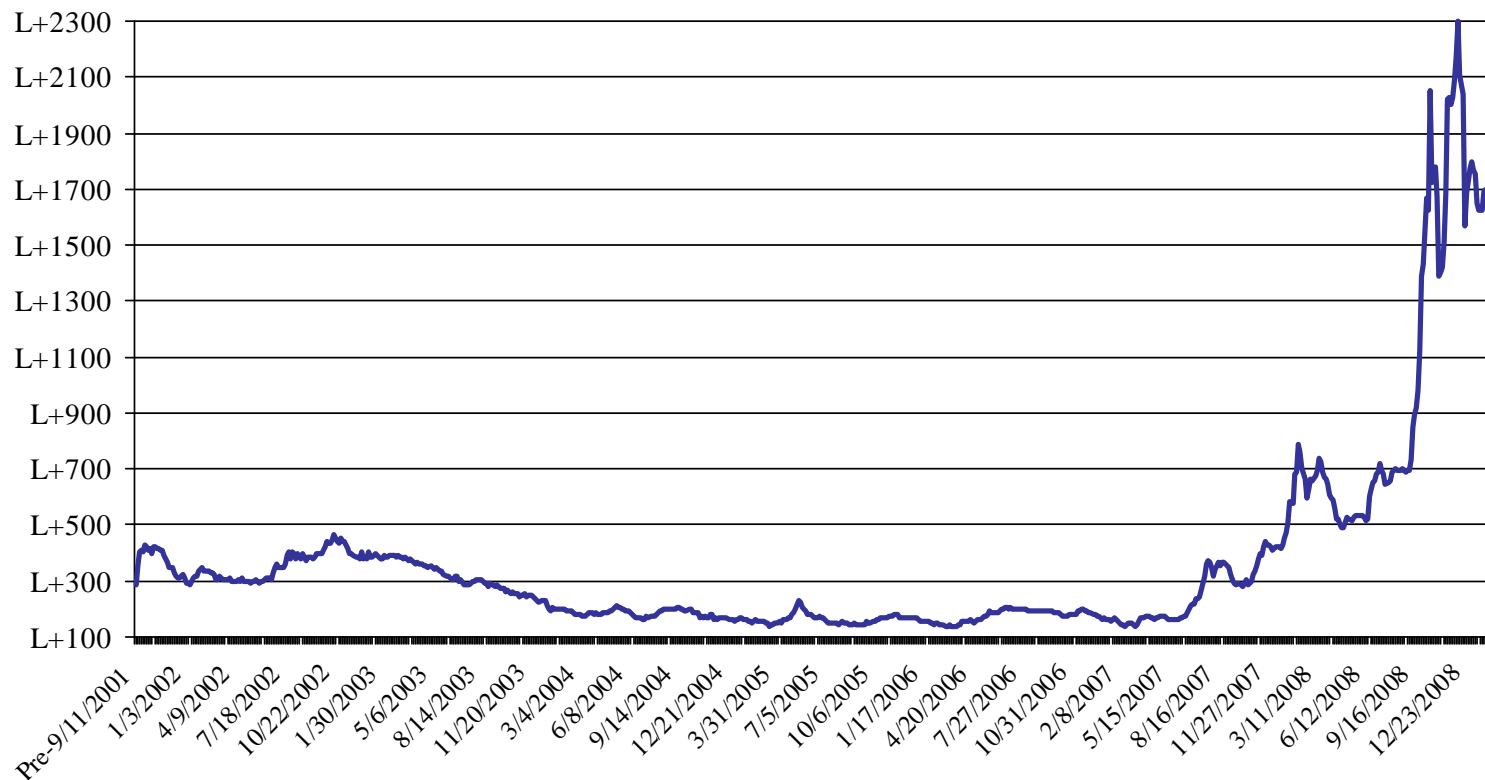
Average Bid and Ask of "Flow" Loans Thru 3/10/09



Average Secondary Spread to Call

Selected Large Institutional Flow Loans

Loan Spreads are spreads to 18-month call if average bid is par or higher, 2 years if average bid is 98 but less than par and 3 years if the average bid is less than 98



Source: Standard & Poor's LCD

Discounted spread is a spread to maturity based on the bid level and stated amortization schedule.

Past performance is no guarantee of future results.

"Selected" indicates, selected by Standard & Pools.

Large Institutional Flow Loans represent the most liquid loans in S&P LSTA Leverage Loan Index as determined by S&P.

Example: Effective Annualized Spread

Effective Spread to Repayment (L+235 Loan at price of 70*)

	<u>Repayment</u>	<u>Effective Annualized Spread**</u>
Historical Average Life	2 Years	L+2530
Estimated Average Life	3 Years	L+1816
	4 Years	L+1459
Estimated Legal Maturity	5 Years	L+1244

* Spread and loan price are approximations of the weighted average spread and weighted average loan price in an Institutional Senior Loan Fund Composite. Calculations are based on a 70% purchase price and spread and LIBOR rates have been grossed up appropriately. The LIBOR rate used is 1.2%, which is reflective of the approximate weighted average LIBOR contract in the portfolio.

** Effective annualized spread = $((\text{Nominal spread}/\text{Purchase Price}) + (\text{Libor rate}/\text{Purchase Price}) + ((\text{Discount to Par}/\text{Purchase Price})/\text{Yrs. To Repayment})) - \text{Libor Rate}$

** Before Credit Losses

The above Example is presented for illustrative purposes only, should not be considered investment advice or a recommendation to buy or sell any particular security. The information is partly based upon the experience of EVM and the holdings a single representative account in the Composite as of 12/31/08, which account was chosen because it is unrestricted and fairly represents the over investment style of the manager. No representation or warranty is made as to the reasonableness of the assumptions made or that all assumptions used in achieving the above illustration have been stated or fully considered. Changes in the assumptions may have a material impact on the information presented. This information is supplemental to the fully compliant GIPS® presentation for the Composite contained herein. Please refer to the GIPS® presentation and the Appendix for important additional information and disclosure. Past performance does not predict future results.

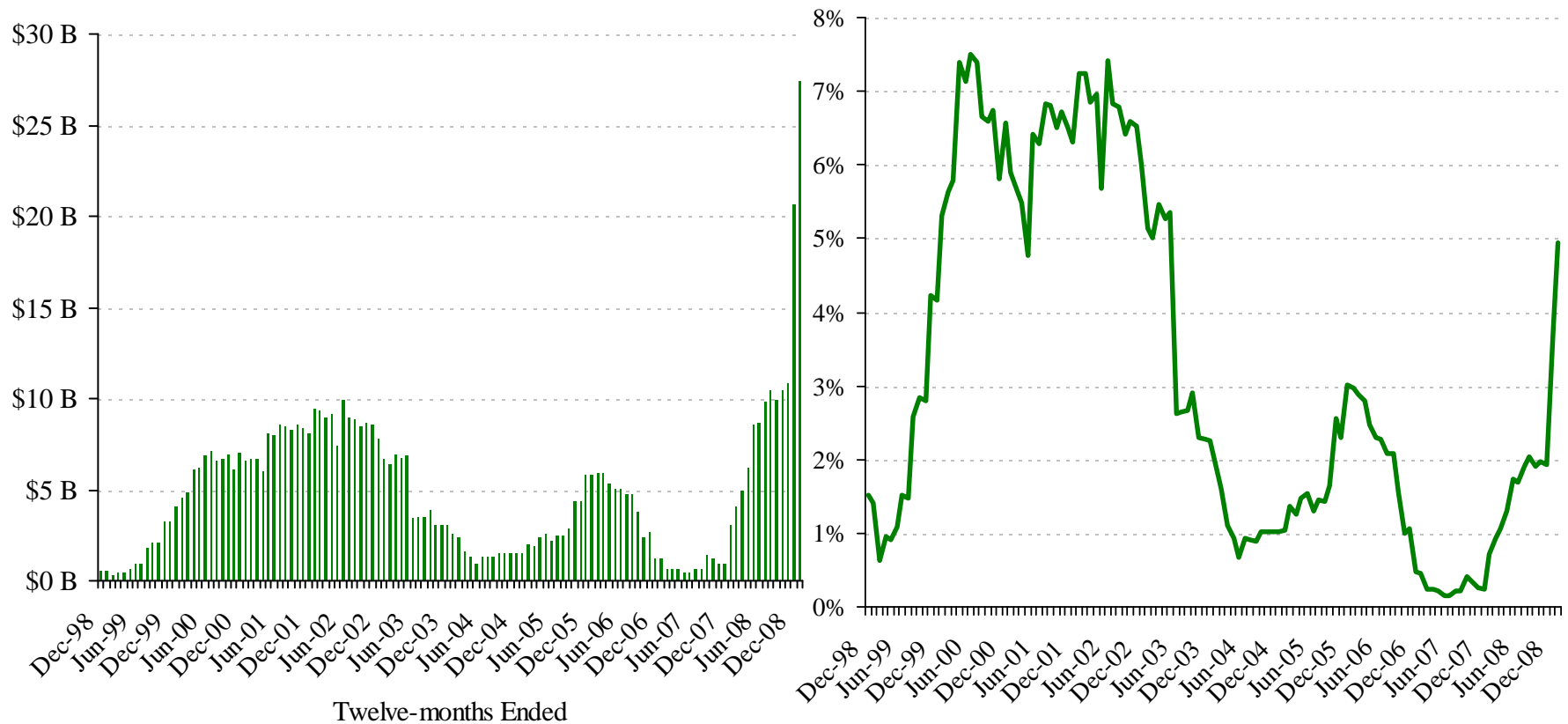
What about defaults?

Lagging Twelve-Month Default Rate by Principal Amount & Rolling Twelve-Month Principal Amount of Index Defaults (1/31/09)

Comprises all loans, including those not tracked in the LSTA/LPC mark-to-market service
 Vast majority are institutional tranches

Rolling 12-months Principal Amount to Default

Lagging 12-months Default Rate by Principal Amount



Default rate is calculated as the amount default over the last twelve months divided by the amount outstanding at the beginning of the twelve-month period.

Loss-Given Default Matrix

Historical Experience

Loss-Given-Default Matrix										
Loss Severity (Loss less Recovery)										
Default Rate	10%	15%	20%	25%	30%	35%	40%	45%	50%	60%
1%	0.10%	0.15%	0.20%	0.25%	0.30%	0.35%	0.40%	0.45%	0.50%	0.60%
2%	0.20%	0.30%	0.40%	0.50%	0.60%	0.70%	0.80%	0.90%	1.00%	1.20%
3%	0.30%	0.45%	0.60%	0.75%	0.90%	1.05%	1.20%	1.35%	1.50%	1.80%
4%	0.40%	0.60%	0.80%	1.00%	1.20%	1.40%	1.60%	1.80%	2.00%	2.40%
5%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.00%	2.25%	2.50%	3.00%
6%	0.60%	0.90%	1.20%	1.50%	1.80%	2.10%	2.40%	2.70%	3.00%	3.60%
7%	0.70%	1.05%	1.40%	1.75%	2.10%	2.45%	2.80%	3.15%	3.50%	4.20%
8%	0.80%	1.20%	1.60%	2.00%	2.40%	2.80%	3.20%	3.60%	4.00%	4.80%
9%	0.90%	1.35%	1.80%	2.25%	2.70%	3.15%	3.60%	4.05%	4.50%	5.40%
10%	1.00%	1.50%	2.00%	2.50%	3.00%	3.50%	4.00%	4.50%	5.00%	6.00%
11%	1.10%	1.65%	2.20%	2.75%	3.30%	3.85%	4.40%	4.95%	5.50%	6.60%
12%	1.20%	1.80%	2.40%	3.00%	3.60%	4.20%	4.80%	5.40%	6.00%	7.20%
15%	1.50%	2.25%	3.00%	3.75%	4.50%	5.25%	6.00%	6.75%	7.50%	9.00%
20%	2.00%	3.00%	4.00%	5.00%	6.00%	7.00%	8.00%	9.00%	10.00%	12.00%

September 2008 Market Consensus For 2008 - 2009

Peak Default Levels - Recession 2001-2002

December 2008 Market Consensus For 2009 - 2010

* Market prices are trading on average at a 10% discount to Par

Source: BSAM Bank Loan Team: Bear Stearns Asset Management Loan Team
Loss Severity represents loss less recovery.

Craig P. Russ

Craig is a Vice President and Portfolio Manager of Eaton Vance's senior loan funds. He is a co-manager for several Eaton Vance senior loan funds and has been a member of Eaton Vance's Bank Loan Team since 1997. Prior to joining Eaton Vance, Mr. Russ was a Vice President in the Specialized Lending Division of State Street Bank. Mr. Russ is a graduate of Middlebury College and studied at the London School of Economics and Political Science.

Appendix

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Investment results for the Composite include all fully discretionary, fee paying accounts managed in this for the periods shown. Gross returns are calculated in U.S. dollars and are after transaction costs, any foreign withholding taxes and other direct expenses, but before management fees, custody charges and other indirect expenses and include the reinvestment of distributions. Such fees and expenses would reduce the returns shown. EVM’s schedule of fees for an account managed in this style is described in Part II of Form ADV which is available upon request. For a separately managed account in this style with a value of \$100 million the investment advisory fees would be 0.475% per annum. An account growing at an annual rate of 5.55 % for the period shown and subject to such fees would produce a 5.05% return. This Composite includes an investment company advised by EVM whose holdings may differ significantly from that of a separately managed account. The returns experienced by a particular client, including a separately managed account, will be different from those included in this presentation.

The Composite is compared to the Standard & Poor’s/Loan Syndications and Trading Association Index. The Index is broad-based and commonly used as a representation of the universe of loans purchased in this Composite portfolio. The Index is unmanaged and does not incur management fees, transaction costs or other expenses associated typically associated with a separately managed account in this style. It is not possible to directly invest in an Index. The hypothetical information presented does not represent the results that any particular investor actually attained and is based, in part, on hypothetical assumptions and the experience of EVM. Certain of the assumptions have been made for modelling purposes and are unlikely to be realized. No representation or warranty is made as to the reasonableness of the assumptions made or that all assumptions used in achieving the returns have been stated or fully considered. Hypothetical results have many inherent limitations and no representation is made that any account will or is likely to profit similar to those shown in the models. Actual performance results may differ, and may differ substantially, from the hypothetical model performance. Changes in the assumptions may have a material impact on the hypothetical performance presented.

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