Senior Loans 101

To generate sufficient income, relative to both historical standards and inflation, consider allocating to senior secured loans as they offer yields comparable to those of high yield bonds, but with less duration risk due to their floating rate coupons. And because loans are more senior in their capital structure, they have historically witnessed lower relative levels of volatility than fixed-rate high yield. Learning more about the nuances, mechanics and potential benefits of senior loans can help you to move beyond traditional bond markets and integrate this asset class into portfolios.

What are senior secured loans?

Issued by below investment-grade rated firms (often familiar brand name companies; see Appendix) senior secured loans are typically used to refinance existing debt or to finance corporate actions such as acquisitions, leveraged buyouts, dividends, etc.

The cash flows of senior loans are similar to most other fixed income securities in that investors receive interest payments (also known as coupons), typically on a quarterly basis, and repayment of principal at maturity or redemption. However, these coupon payments are slightly nuanced relative to plain vanilla bonds.

First, the interest payment of a senior loan is variable. Coupon payments fluctuate as they are tied to a reference rate such as SOFR (Secured Overnight Financing Rate). Second, a "fixed spread" is added on top of the reference rate to compensate investors for the additional credit risk they assume, as senior loans are below investment-grade rated debt. And third, the reference rate may sometimes have a "floor" which protects investors from the coupon falling below a certain level if interest rates decline. As the reference rate fluctuates daily, the coupon payment resets, generally every quarter. See below for an example of how a coupon payment might be calculated.

Coupon payment example

Reference Rate	SOFR
Fixed Spread	4.0%
Floor	1.0%
Scenario 1	SOFR is 3.5% at Quarter End 3.5% SOFR + 4.0% fixed spread = 7.5% interest payment
Scenario 2	SOFR is 0.5% at Quarter End The SOFR floor is activated as the market rate is below the 1.0% threshold 1.0% SOFR floor + 4.0% fixed spread = 5.0% interest payment

The information contained above is for illustrative purposes only.

Other key features of senior secured loans include their payback preference and pledged collateral. The issue is "senior," as holders of these loans have a priority claim over other creditors in the event of a default. For firms with multiple issuances of debt, there is generally a capital structure, or hierarchy, in which creditors are paid back. The senior creditors are paid out first, and any remaining funds are split among the subordinated debtholders.

And lastly, the loan is "secured" because assets are pledged as collateral for the loan if interest or principal payments cannot be met by the issuer. This offers senior secured loan investors recourse, as the assets backing the loan could be liquidated to repay the creditors.

Figure 1: Borrower's capital structure

The information contained above is for illustrative purposes only.

Loan market landscape and investor base

The size of the senior loan market has grown at a compound annual rate of approximately 13% from about $90 billion in 2001 to $1.6 trillion in 2025.[1] Two-thirds (66%) of senior loan demand comes from managers of collateralized loan obligations (CLOs),[2] a structured product backed by a diversified pool of senior loans. The next largest owners of loans are hedge funds and separate accounts (27%) The remaining 7% is owned by mutual funds and ETFs.[3]

Senior loans versus CLOs

A collateralized loan obligation (CLO) is a security backed by a diversified pool of senior loans. The CLO manager will issue debt and equity in order to raise cash from investors, then use this cash to purchase millions of dollars in senior secured loans. The cash flows generated from the underlying senior loans are then passed on to the investors, however they are not paid out equally.

Debt issued by a CLO is divided into difference slices, or "tranches." Each tranche has a different risk profile due to varying claims on cash flow from the portfolio of loans. Tranches with the most senior claim might be assigned a rating of AAA, while subordinated tranches are rated lower. As with any other investment decision, investors select tranches based on the tranche's risk profile and expected returns.

As the CLO generates cash flows, the funds are paid to investors in a waterfall-like fashion. The senior-most tranche will be made whole first. After they are repaid, the mezzanine tranches receive their payments. This continues until all debt tranches receive what they are owed and any excess cash is then distributed to the equity investors.

It is important to realize that just like with investing in plain vanilla bonds, credit risk could materially hinder returns, especially in subordinated debt and equity tranches. Due to the waterfall of payments, it is possible that if negative credit events occur, the lower tranches and/or equity investors might not be repaid.

Figure 2: Annual returns: CLOs versus senior loans and high yield bonds (%)

2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
23.31	9.39	2.51	-0.69	17.49	10.15	0.44	14.41	7.09	6.16	-0.77	18.45	13.34	8.50
15.55	7.41	1.60	-1.10	13.79	7.48	-0.13	8.85	6.07	5.35	-2.72	13.47	8.95	7.49
9.67	5.29	1.52	-4.61	10.16	4.12	-2.27	8.64	3.12	5.20	-11.21	13.32	8.20	5.90
Performance Dispersion (%)													
13.64	4.10	0.99	3.92	7.33	6.03	2.71	5.77	3.96	0.96	10.44	5.13	5.13	2.60

U.S. High Yield U.S. CLO Mezzanine Debt U.S. Loans

Source: Blackstone Credit and Insurance, as of 12/31/2025. **The performance data quoted represents past performance. Past performance does not guarantee future results.** U.S. CLO Mezzanine Debt represented by J.P. Morgan CLOIE A/BBB/BB weighted at 33% each, U.S. High Yield represented by ICE BofAML U.S. High Yield Constrained Index (HUC0), and U.S. Loans represented by S&P/LSTA Leveraged Loan Index. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable.

Senior loans versus high yield (And other types of corporate debt)

On the surface, senior secured loans might appear very similar to high yield corporate debt, as both securities are issued by below investment-grade rated issuers and offer higher yields than that of investment-grade corporate bonds. However, there are several differentiating characteristics between these two securities types.

Starting with the most basic, as previously explained, senior loans pay a floating rate coupon that typically resets every quarter, whereas high yield corporates pay a fixed interest rate, typically in semi-annual installments, over the life of the bond. This leads to a large divergence in interest rate sensitivity between the two. Due to their resetting coupon payment, senior secured loans typically have a duration of 0.25 years while high yield debt broadly has a duration of approximately 2.7 years as of end of December 2025, although the duration of individual bonds will vary.[4] This longer duration can be a headwind, especially during periods of rising rates.

Key differences also arise when it comes to investor protections. Unlike senior secured loans, high yield corporate bonds are typically not secured by any underlying asset. That is to say, issuers of these bonds do not pledge collateral to secure the loan. This is important because, in the event of bankruptcy or liquidation, there are generally no assets to back the high yield bond issuance.

Furthermore, issuers of senior secured loans are generally more restricted in the management of company finances due to covenants. Covenants are provisions in a credit agreement or indenture that restrict the issuer from performing certain actions (or require them to perform certain actions). These provisions are widely viewed as a benefit to holders of bonds and loans, as they offer guardrails for how the issuer can use its capital.

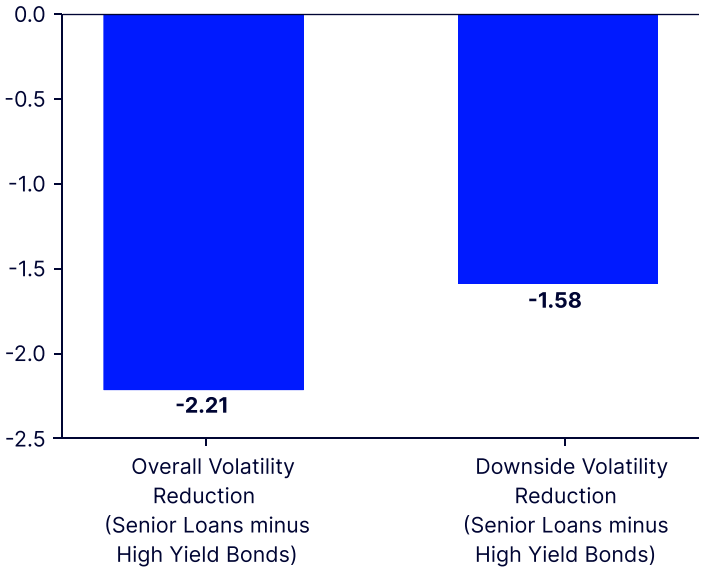
Examples of covenants include prohibiting the issuer from incurring additional debt, selling certain assets, or making cash dividend payments over a previously agreed upon amount. They might also oblige the issuer to achieve certain financial ratios and deliver financial statements to creditors in a timely fashion.

Covenants are not an exclusive feature to senior secured loans, as high yield bondholders typically require similar conditions. However, relative to high yield bonds, senior secured loans generally have more covenants and are more restrictive.

The final key difference relative to high yield bonds deals with payback priority. Senior secure loans sit higher in the issuer's capital structure than subordinated high yield debt. This means if the issuer defaults, holders of senior loans are legally entitled to be made whole before the high yield bond investors. This is critical as there might be nothing left to disburse once the senior loan creditors recoup their investment.

Putting this all together, it should be no surprise that senior secured loan investors have historically experienced higher recovery rates compared to high yield corporate bond holders (56% versus 40%).[5] Furthermore, senior loans have historically experienced less volatility than high yield bonds. Since September 2008, loans have seen 2.21% less overall volatility and, more importantly, 1.58% less downside volatility (both annualized figures).[6]

Figure 3: Volatility reduction of senior loans versus high yield bonds (%)



Source: Morningstar, 09/30/2008 to 12/31/2025. **The performance data quoted represents past performance. Past performance does not guarantee future results.** Loans represented as the Morningstar LSTA U.S. Leveraged Loan 100 Index. High yield bonds represented as the ICE BofA U.S. High Yield Index.

Lastly, most of what was mentioned in comparison to high yield corporate bonds also holds true for investment-grade corporate bonds. These bond issues also have fixed interest payments and are generally not secured. However, because investment-grade rated firms have historically experienced lower default rates, investors generally do not require the same level of assurances than high yield debt investors. As a result, covenant protections on investment-grade rated issues are usually quite minimal.

Figure 4: Senior loans versus high yield and investment-grade bonds at a glance

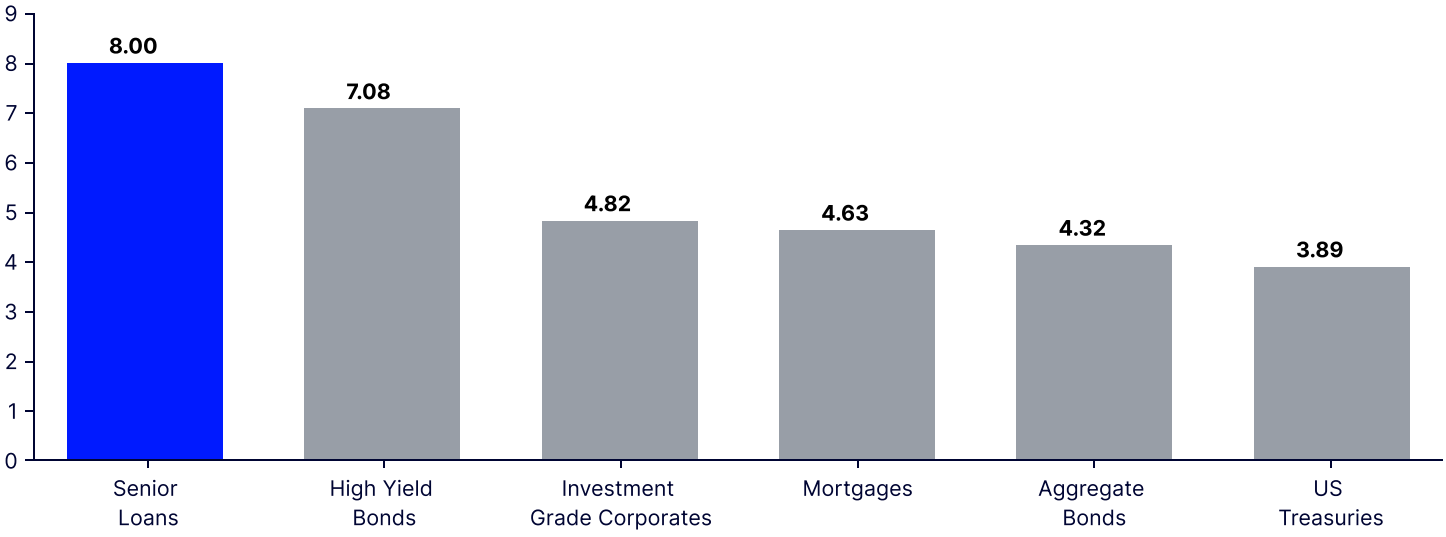
	Senior Secured Loans	High Yield Corporate Bonds	Investment-Grade Corporate Bonds
Typical Credit Rating	<= Baa1/BBB-	<= Ba1/BB+	>= Baa3/BBB-
Interest Payments	Floating (SOFR + Fixed Spread)	Fixed	Fixed
Secured?	Yes	Mostly unsecured	No
Priority	Generally recovers ahead of unsecured debt	Generally subordinated to secured debt	N/A
Covenants	Can be numerous and more restrictive	Typically fewer in number and less restrictive	Minimal
Recovery on Default	Higher given seniority and security	Lower given subordination in the capital structure	N/A

Source: Blackstone, as of 12/31/2025.

Senior loans versus high yield (And other types of corporate debt)

Investors may realize various benefits by allocating to senior secured loans. For starters, senior loans might be an attractive option for income-seeking investors due to their elevated yield (8%).[7] As seen in Figure 5, this is the highest yield of all the fixed income asset classes displayed.

Figure 5: Yield to maturity of senior loans versus other traditional fixed income sectors (%)

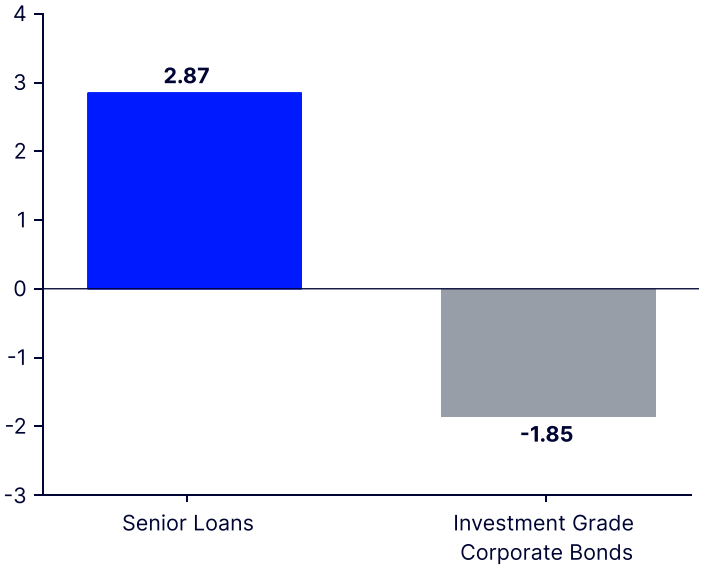


Source: Bloomberg Finance L.P., as of 12/31/2025. **The performance data quoted represents past performance. Past performance does not guarantee future results.** Senior loans represented as the S&P USD Select Leveraged Loan Index. High yield bonds represented as the ICE BofA U.S. High Yield Index. Investment-grade corporates represented as the Bloomberg U.S. Corporate Bond Index. Mortgages represented as the Bloomberg U.S. MBS Index. Aggregate bonds represented as the Bloomberg U.S. Aggregate Bond Index. US Treasuries represented as the Bloomberg U.S. Treasury Bond Index. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable.

Sensitivity to interest rates is another important consideration. Because high yield corporate bonds pay a fixed coupon, they have much higher duration risk (2.72 years),[8] whereas senior loans' resetting coupon greatly reduces their sensitivity to changes in rates. This means that senior secured loans are generally more efficient in balancing pursuit of yield with interest rate risk, as their yield-per-unit of duration registers at 32 versus 2.6 for high yield corporate bonds.[9]

Expanding upon duration risk, holders of senior secured loans are likely to benefit more during periods of rising rates as a result of the resetting coupon. In fact, during three-month periods when both the US 5-Year and 10-Year Treasuries climbed more than 30 basis points, senior secured loans, on average, returned 2.87% for investors compared to investment-grade corporates' -1.85%.[10]

Figure 6: Average 3-month return when both the us 5- and 10-year treasuries rise 30 basis points or more (%)



Source: Bloomberg Finance L.P., 09/30/2008 to 12/31/2025. **The performance data quoted represents past performance. Past performance does not guarantee future results.** Senior loans represented as the Morningstar LSTA U.S. Leveraged Loan 100 Index. Investment-grade corporates represented as the Bloomberg U.S. Corporate Bond Index. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable.

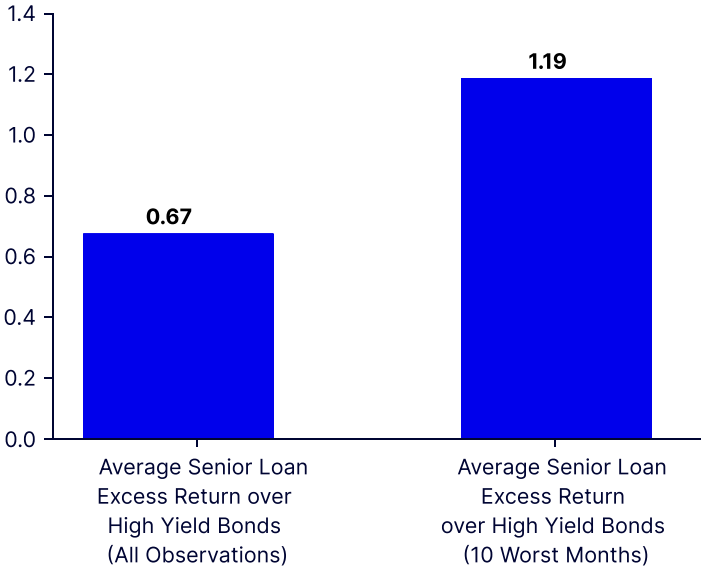
In addition to their attractive yield and duration profile, senior loans have also been more resilient during periods of market drawdowns, compared to similarly rated corporate bonds.

First, it is important to understand credit spreads in the context of bond market drawdowns, as this is generally how below investment-grade credit is priced. A credit spread, also known as a yield spread, is simply the yield differential between a risk-free security, such as a US Treasury, and another debt security of similar maturity. The difference in yield between the two securities represents the extra yield investors require for taking on additional credit risk. In times turmoil, credit spreads grow wider as investors generally seek safer investments, pushing yields upward on less risky investments, and flee riskier debt, causing those yields to rise.

In times of widening credit spreads, senior secured loans have proven to hold up better than high yield bonds. When analyzing monthly changes in below investment-grade credit spreads, senior loans have outperformed high yield bonds by an average of 0.67% when spreads widen more than 20 basis points over the month.[11] And when limiting the analysis to the ten worst spread widening months, senior loans' average excess return over high yield bonds increases to 1.19%.[12]

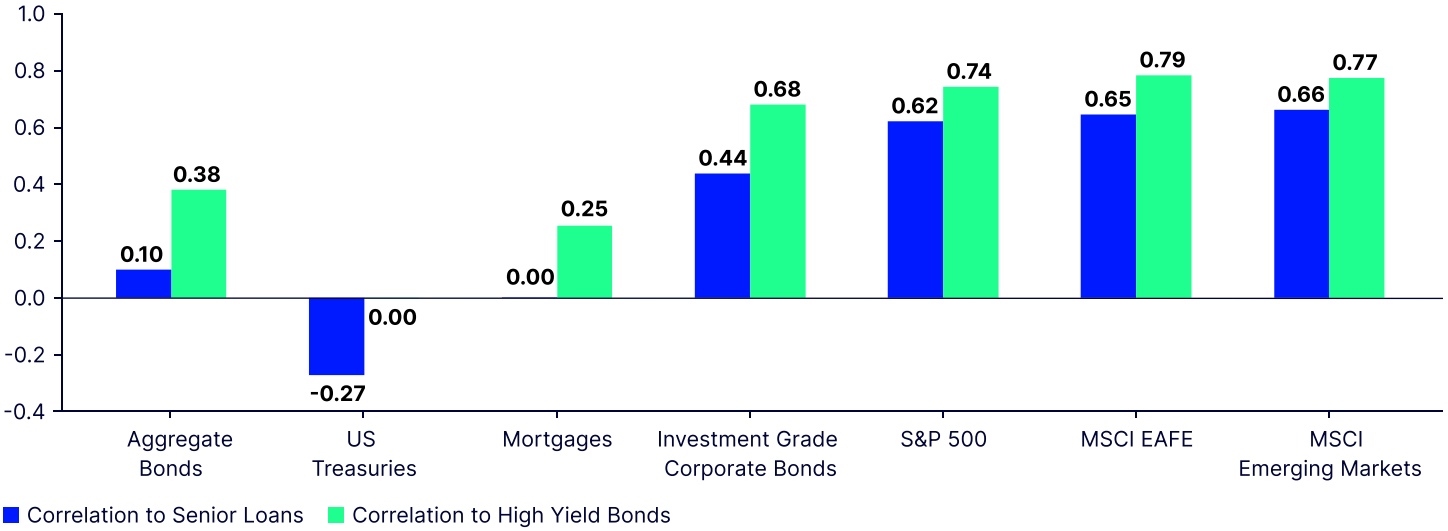
Finally, within the context of portfolio construction, senior secured loans may offer investors more diversification. Relative to high yield bonds, senior loans have historically exhibited lower correlations to all selected major asset classes in the chart below. While senior loans are approximately 12 percentage points less correlated to equities than high yield bonds, their difference in correlation to fixed income sectors is about twice that amount.[13] This could benefit to investors as allocating to assets that are uncorrelated can potentially build more efficient portfolios; a key tenet of modern portfolio theory.

Figure 7: Average monthly excess return when credit spreads widen more than 20 basis points (%)



Source: Bloomberg Finance L.P., 09/30/2008 to 12/31/2025. **The performance data quoted represents past performance. Past performance does not guarantee future results.** Senior loans represented as the Morningstar LSTA U.S. Leveraged Loan 100 Index. High yield bonds represented as the ICE BofA U.S. High Yield Index. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable.

Figure 8: Correlation of senior loans and high yield bonds versus other traditional asset classes



Source: S&P Dow Jones, Bloomberg Finance L.P., 09/30/2008 to 12/31/2025. **The performance data quoted represents past performance. Past performance does not guarantee future results.** Monthly frequency of returns used. Senior loans represented as the Morningstar LSTA U.S. Leveraged Loan 100 Index. High yield bonds represented as the ICE BofA U.S. High Yield Index. Aggregate bonds represented as the Bloomberg U.S. Aggregate Bond Index. US Treasuries represented as the Bloomberg U.S. Treasury Bond Index. Mortgages represented as the Bloomberg U.S. MBS Index. Investment-grade corporates represented as the Bloomberg U.S. Corporate Bond Index. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable.

Appendix

Loan issuers include many familiar "household names"

Burger King	Arby's	Poland Spring	Staples	Michaels
American Airlines	Restoration Hardware	Harbor Freight	Golden Nugget	Charter Communications

The information contained above is for illustrative purposes only.

Endnotes

1 JP Morgan, as of 12/31/2025.

2 Barclays US Credit Alpha, Blackstone, as of October 2024.

3 Barclays US Credit Alpha, Blackstone, as of October 2024.

4 Bloomberg Finance, L.P., as of 12/31/2025. High yield debt represented as the ICE BofA U.S. High Yield Index.

5 JP Morgan Default Monitor, as of 01/6/2026. Reflects 16-year average for High Yield and Loans.

6 Morningstar, 09/30/2008 to 12/31/2025. Loans represented as the Morningstar LSTA U.S. Leveraged Loan 100 Index. High yield bonds represented as the ICE BofA U.S. High Yield Index.

7 Morningstar, as of 12/31/2025. Senior loans represented as the S&P USD Select Leveraged Loan Index.

8 Bloomberg Finance, L.P., as of 12/31/2025. High yield corporate bonds represented as the ICE BofA U.S. High Yield Index.

9 Bloomberg Finance, L.P., as of 12/31/2025. Calculations by Americas ETF Research. Assumes the duration of senior loans is 0.25 years. Senior loans represented as the S&P USD Select Leveraged Loan Index. High yield bonds represented as the ICE BofA U.S. High Yield Index.

10 Bloomberg Finance, L.P., 09/30/2008 to 12/31/2025. Senior loans represented as the Morningstar LSTA US Leveraged Loan 100 Index. Investment-grade corporates represented as the Bloomberg U.S. Corporate Bond Index.

11 Bloomberg Finance, L.P., 09/30/2008 to 12/31/2025. Senior loans represented as the Morningstar LSTA U.S. Leveraged Loan 100 Index. Below investment-grade corporate bonds represented as the ICE BofA U.S. High Yield Index. Below investment-grade credit spreads represented by the Bloomberg U.S. Corporate High Yield Bond Index option adjusted spread.

12 Bloomberg Finance, L.P., 09/30/2008 to 12/31/2025. Senior loans represented as the Morningstar LSTA U.S. Leveraged Loan 100 Index. Below investment-grade corporate bonds represented as the ICE BofA U.S. High Yield Index. Below investment-grade credit spreads represented by the Bloomberg U.S. Corporate High Yield Bond Index option adjusted spread.

13 Bloomberg Finance, L.P., 09/30/2008 to 12/31/2025. Monthly frequency of returns used. Senior loans represented as the Morningstar LSTA U.S. Leveraged Loan 100 Index. High yield corporate bonds represented as the ICE BofA U.S. High Yield Index.

statestreet.com/investment-management

Information Classification: General Access

Glossary

Basis Point One hundredth of one percent, or 0.01%.

Bloomberg U.S. Corporate Bond Index Measures the investment-grade, fixed-rate, taxable corporate bond market.

Correlation Measures the relationship between two variables for the historical period selected. A correlation's measure is always between -1 and 1. A positive correlation indicates that the two securities move in tandem with each other. A negative correlation indicates that the two securities move inversely of each other. A correlation of zero indicates that the two variables have no correlation.

Credit Spread Difference in yield between a US Treasury bond and a debt security with the same maturity but of lesser quality.

ICE BofA U.S. High Yield Index Measures US dollar denominated below investment-grade corporate debt publicly issued in the US domestic market.

S&P/LSTA Leveraged Loan 100 Index Designed to reflect the largest facilities in the leveraged loan market.

Standard Deviation Measures the historical dispersion of a security, fund or index around an average. Investors use standard deviation to measure expected risk or volatility, and a higher standard deviation means the security has tended to show higher volatility or price swings in the past.

Yield Income produced by an investment, typically calculated as the interest received annually divided by the investment's price.

Yield to Worst An estimate of the lowest yield that you can expect to earn from a bond when holding to maturity, absent a default. It is a measure that is used in place of yield to maturity with callable bonds.

Important Risk Information

Investing involves risk including the risk of loss of principal.

ETFs trade like stocks, are subject to investment risk, fluctuate in market value and may trade at prices above or below the ETFs' net asset value. Brokerage commissions and ETF expenses will reduce returns.

Diversification does not ensure a profit or guarantee against loss.

Investments in Senior Loans are subject to credit risk and general investment risk. Credit risk refers to the possibility that the borrower of a Senior Loan will be unable and/or unwilling to make timely interest payments and/or repay the principal on its obligation. Default in the payment of interest or principal on a Senior Loan will result in a reduction in the value of the Senior Loan and consequently a reduction in the value of the Portfolio's investments and a potential decrease in the net asset value ("NAV") of the Portfolio.

Bonds generally present less short-term risk and volatility than stocks, but contain interest rate risk (as interest rates rise, bond prices usually fall); issuer default risk; issuer credit risk; liquidity risk; and inflation risk. These effects are usually pronounced for longer-term securities. Any fixed income security sold or redeemed prior to maturity may be subject to a substantial gain or loss.

Investing in high yield fixed income securities, otherwise known as "junk bonds", is considered speculative and involves greater risk of loss of principal and interest than investing in investment-grade fixed income securities. These Lower-quality debt securities involve greater risk of default or price changes due to potential changes in the credit quality of the issuer.

During periods of increasing interest rates, changes in the coupon rates of variable or floating rate securities may lag behind the changes in market rates or may have limits on the maximum increases in coupon rates. Alternatively, during periods of declining interest rates, the coupon rates on such securities will typically readjust downward resulting in a lower yield. Floating rate notes are generally subject to legal or contractual restrictions on resale, may trade infrequently, and their value may be impaired when the Fund needs to liquidate such securities.

All information is from SSGA unless otherwise noted and has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy, reliability or completeness of, nor liability for, decisions based on such information and it should not be relied on as such.

The information provided does not constitute investment advice and it should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell a security. It does not take into account any investor's particular investment objectives, strategies, tax status or investment horizon. You should consult your tax and financial advisor.

The value of the debt securities may increase or decrease as a result of the following: market fluctuations, increases in interest rates, inability of issuers to repay principal and interest or illiquidity in the debt securities markets; the risk of low rates of return due to reinvestment of securities during periods of falling interest rates or repayment by issuers with higher coupon or interest rates; and/or the risk of low income due to falling interest rates. To the extent that interest rates rise, certain underlying obligations may be paid off substantially slower than originally anticipated and the value of those securities may fall sharply. This may result in a reduction in income from debt securities income.

Generally, among asset classes, stocks are more volatile than bonds or short-term instruments. Government bonds and corporate bonds generally have more moderate short-term price fluctuations than stocks, but provide lower potential long-term returns. U.S. Treasury Bills maintain a stable value if held to maturity, but returns are generally only slightly above the inflation rate.

Intellectual Property

Distributor: State Street Global Advisors Funds Distributors LLC, member FINRA, SIPC.

United States: State Street Global Advisors, One Congress Street, Boston, MA 02114. T: +1 617 786 3000.

Australia: State Street Global Advisors, Australia, Limited (ABN 42 003 914 225) is the holder of an Australian Financial Services License (AFSL Number 238276). Registered office: Level 14, 420 George Street, Sydney, NSW 2000, Australia. Telephone: +612 9240-7600. Facsimile: +612 9240-7611.

Japan: State Street Global Advisors (Japan) Co., Ltd., Toranomon Hills Mori Tower 25F 1-23-1 Toranomon, Minato-ku, Tokyo 105-6325 Japan. T: +81-3-4530-7380. Financial Instruments Business Operator, Kanto Local Financial Bureau (Kinsho #345), Membership: Japan Investment Advisers Association, The Investment Trust Association, Japan, Japan Securities Dealers' Association.

Singapore: State Street Global Advisors Singapore Limited, 168, Robinson Road, #33-01 Capital Tower, Singapore 068912 (Company Reg. No: 200002719D, regulated by the Monetary Authority of Singapore). T: +65 6826-7555. F: +65 6826-7501.

ID3747300-4232346.7.1.GBL.RTL 0126 Exp. Date: 01/31/2027

Not FDIC insured. No bank guarantee. May lose value.