RIDGEWORTH INVESTMENTS®
Collective Strength. Individual Insight.

MANAGING RISK IN A MARKET DEPENDENT ON IT

GEORGE GOUDELIAS

Senior Portfolio Manager, RidgeWorth Seix Floating Rate High Income Fund

"We strive to find undervalued companies that possess positive catalysts that we believe will generate consistent returns through an investment cycle."

—George Goudelias

Performance in the leveraged loan market depends largely on investors' appetite for risk. It's an area of the market where a fundamentally based, risk-managed approach to credit analysis has the potential to deliver above average returns.

That's the approach followed by George Goudelias, Senior Portfolio Manager of the **RidgeWorth Seix Floating Rate High Income Fund**. It's a process that hones in on the most creditworthy and liquid portion of the leveraged loan market, avoiding over-concentration by sector or issue.

"We focus on companies that generate strong, free cash flow with issuers that possess solid asset coverage and demonstrate positive price action," Goudelias says. "Our mantra is to capture as much of the upside as possible while protecting the downside, and I think that's where we shine."

That downside and the risks inherent in the leveraged loan market have been center stage, as the asset class was roiled by tumbling oil prices, geopolitical instability and market volatility. "Now is the time for investors to pay attention to fundamentals, which is best done through active managers who possess a rigorous process," he adds.

In this issue of PM Perspectives, Goudelias discusses the Fund's methodology, which centers on investing in companies with strong balance sheets to reduce the inherent risk associated with leveraged loans.

Q: What's your case for investing in leveraged loans in 2016?

A: Because their debt is more senior in the capital structure, leveraged loans are in a more protected position than other fixed income asset classes such as high yield bonds. It's also attractive because as economic growth picks up, rates may start to increase and leveraged loans protect investors in that situation with their floating rate structure. With the U.S. economy in a better position than other developed markets, domestic leveraged loans are attractive and relatively insulated from turmoil in international markets. The majority of the leveraged loan asset class is very much U.S.-focused, such as cable companies and hospitals that don't have international exposure.

Q: Describe your bottom-up research process.

A: Within our targeted universe – BB and B rated loans with issue sizes greater than $200 million – we conduct bottom-up, company-specific research that covers asset protection, cash flow, management team, liquidity sources and competitive position. We favor companies with positive industry fundamentals, pricing power within their industries and favorable demographic trends with an improving outlook. We strive to find undervalued companies that possess positive catalysts that we believe will generate consistent returns through an investment cycle.

If a company meets those standards, we proceed to a relative valuation assessment using proprietary industry models, deciding whether to add to the portfolio based on credit versus price. Evaluating leveraged loan investments takes a great deal of sophisticated research, and we pride ourselves on our in-depth process designed to add alpha to leveraged loan returns while stressing principal protection.

Q: The Fund has been described as index agnostic. How does that work in practice?

A: We are aware of the index but we don't manage to it. That gives us freedom to follow our process and go where the value is. That could mean that we underweight sectors, completely avoid sectors or overweight sectors where we are identifying more issues that meet our investment criteria.

Q: How do you manage portfolio risk on an ongoing basis?

A: We operate within a strict surveillance system that continually monitors each issue for compliance, credit and performance. We'll sell a leveraged loan or security once we identify a negative fundamental change or if it has reached the targeted performance goal we set when it was purchased. Any issues that significantly underperform their peers are subject to automatic credit review. Our team also monitors loan details for strict adherence to loan covenants, prepayment characteristics and other requirements. We try to avoid positions that may amplify risk, including leveraging, shorting and derivatives beyond basic cash management.

Q: Since the financial crisis, some investors are wary of sectors such as leveraged loans due to liquidity fears. Is this concern valid?

A: As the leveraged loan market has matured, the market has become more liquid. The leveraged loan market has grown in size and depth. The asset class is maturing and proving it can be as functional as other fixed income sectors. Investment managers can employ specific strategies to proactively manage liquidity and hedge against illiquidity. For example, a fund could maintain a cash allocation to meet investor liquidity demands.

We take several steps to maintain liquidity, which include restricting our investment universe to liquid issuers. Our focus on larger issuers with familiar names and transparent valuations is another discipline designed to ensure we build in as much liquidity to the portfolio as possible.

Q: What strengths does your leveraged finance team bring to bank loan analysis?

A: Our portfolio managers and analysts have extensive backgrounds and tenure within the industry with an average of more than 15 years of industry experience. We structure our research team by industry rather than asset class and cover the entire capital structure. Organizing research in this way provides deeper understanding of an entire company profile by analyzing issuers from both the loan and bond perspective.

Our fully integrated leveraged finance team strives to ensure optimal exploitation of capital structure inefficiencies and fosters communication flow, idea generation and healthy debate across the high yield and leveraged loan sectors. Many leveraged loan funds have less than five years on the market; our Fund launched in 2006 and we've developed valuable experience through the market cycles of the past 10 years.

Q: What are the specific advantages of investing in the RidgeWorth Seix Floating Rate High Income Fund?

A: The Fund's size means we're small enough to be nimble in this space, but big enough to gain efficient market access. The Fund provides diversification across sectors with plenty of capacity to grow. One of our major advantages is the culture of Seix, a fixed income boutique characterized by discipline, experience, independence and agility. For more than 20 years, Seix Investment Advisors has managed high yield and investment grade fixed income. Regardless of the market and economic environment, we maintain our discipline, executing a sound, transparent and repeatable investment philosophy and process. That positions the Fund for above average, risk-adjusted returns.

Bonds offer a relatively stable level of income, although bond prices will fluctuate providing the potential for principal gain or loss. Intermediate-term, higher-quality bonds generally offer less risk than longer-term bonds and a lower rate of return. Generally, a fund's fixed income securities will decrease in value if interest rates rise and vice versa. Floating rate loans are typically senior and secured, in contrast to other below-investment grade securities. However, there is no guarantee that the value of the collateral will not decline, causing a loan to be substantially unsecured. Loans generally are subject to restrictions on resale. The value of the collateral securing a floating rate loan can decline, be insufficient to meet the obligations of the borrower, or be difficult to liquidate. Participation in certain types of loans may limit the ability of a fund to enforce its rights and may involve assuming additional credit risks. Although a fund's yield may be higher than that of fixed income funds that purchase higher rated securities, the potentially higher yield is a function of the greater risk of that fund's underlying securities.

The assertions contained herein are based on RidgeWorth's opinion. This information is general and educational in nature and is not intended to be authoritative. All information contained herein is believed to be correct, but accuracy cannot be guaranteed. This information is based on information available at the time, and is subject to change. It is not intended to be, and should not be construed as, investment advice. Investors are advised to consult with their investment professional about their specific financial needs and goals before making any investment decisions.

Alpha is a measure of performance on a risk-adjusted basis.

Credit ratings noted herein are calculated based on S&P, Moody's and Fitch ratings. Generally, ratings range from AAA, the highest quality rating, to D, the lowest, with BBB and above being called investment grade securities. BB and below are considered below investment grade securities. If the ratings from all three agencies are available, securities will be assigned the median rating based on the numerical equivalents. If the ratings are available from only two of the agencies, the more conservative of the ratings will be assigned to the security. If the rating is available from only one agency, then that rating will be used. Ratings do not apply to a fund or to a fund's shares. Ratings are subject to change.

Before investing, investors should carefully read the prospectus or summary prospectus and consider the fund's investment objectives, risks, charges and expenses. Please call 888.784.3863 or visit ridgeworth.com to obtain a prospectus or summary prospectus, which contains this and other information about the funds.

©2017 RidgeWorth Investments. All rights reserved. RidgeWorth Investments is the trade name for RidgeWorth Capital Management LLC, an investment adviser registered with the SEC and the adviser to the RidgeWorth Funds. RidgeWorth Funds are distributed by RidgeWorth Distributors LLC, which is not affiliated with the adviser. Seix Investment Advisors LLC is a registered investment adviser with the SEC and a member of the RidgeWorth Capital Management LLC network of investment firms. All third party marks are the property of their respective owners.

RIDGEWORTH INVESTMENTS®

Collective Strength. Individual Insight.