

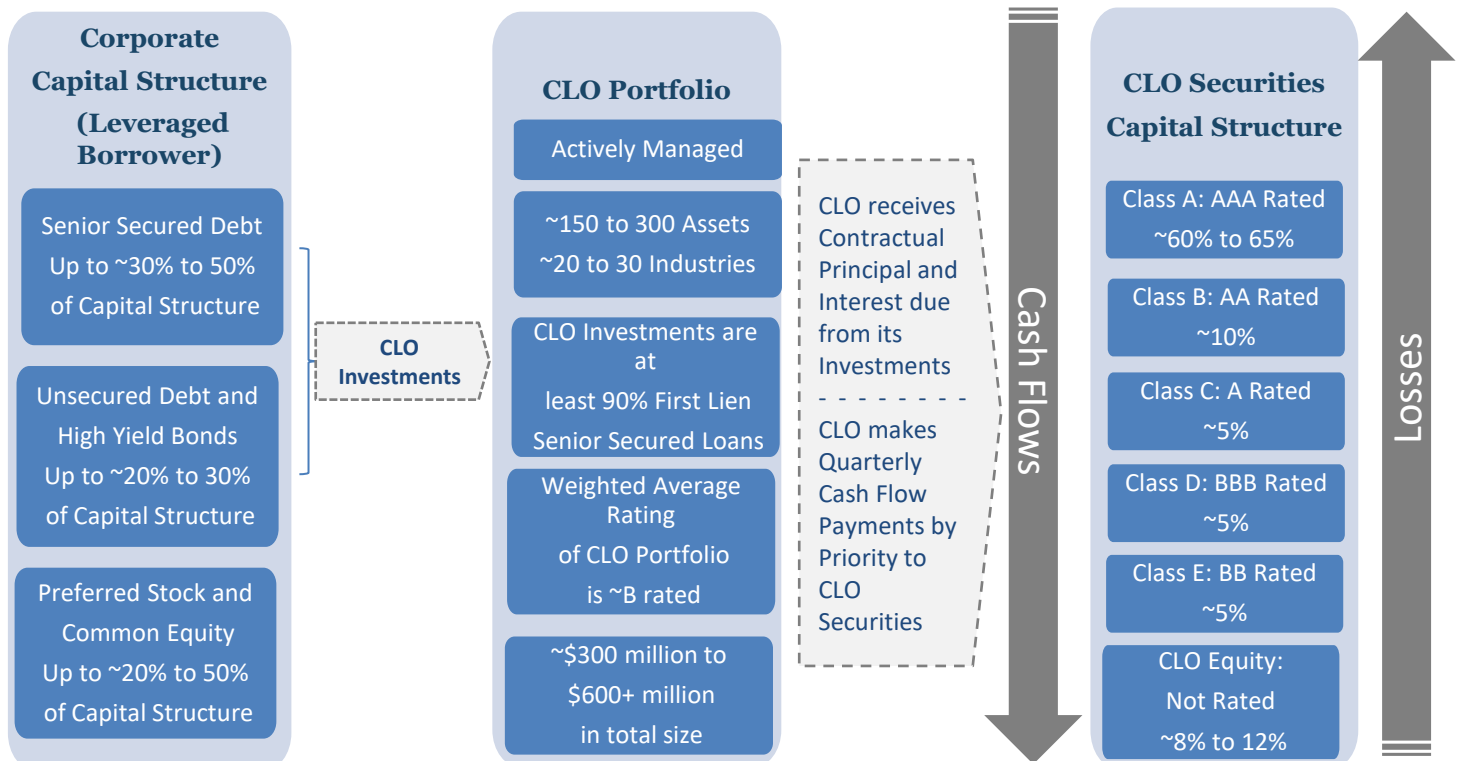
WHAT IS A CLO?

A Collateralized Loan Obligation (“CLO”) structure is a securitization vehicle.

- Collateral is primarily floating rate, first lien senior secured loans (at least 90%), and broadly syndicated.
- Credit ratings for the collateral assets are typically rated BB+ through B-, with a weighted average portfolio rating of approximately B.

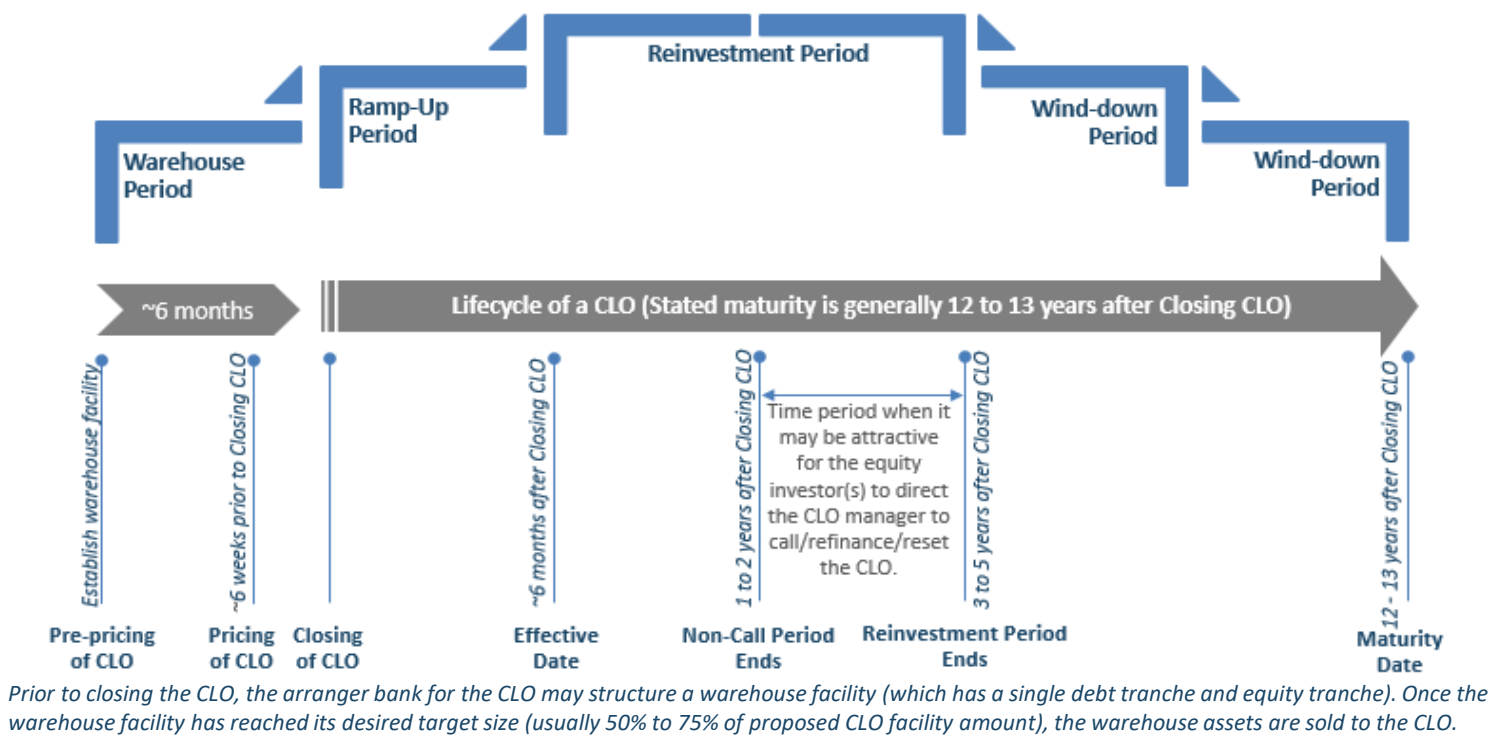
CLOs issue several debt tranches and equity and use the proceeds to build a diversified portfolio of assets, which is actively managed by a CLO manager.

- CLOs are typically \$300 million to \$600 million in size.
- Debt tranches are rated AAA through BB (with a single B tranche on occasion).
- Quarterly payments are made per a “waterfall” mechanism defined in the CLO indenture, with the AAA debt tranches having first payment priority, followed by the AA debt tranche and so on. Any potential collateral losses are incurred in reverse order, with the equity absorbing such losses first, and if such losses exceed the equity outstanding, followed by the junior debt and so on.



The corporate capital structure and the CLO portfolio and CLO securities capital structure are for illustrative purposes only. An actual CLO and corporate structure may vary substantially from the above example.

LIFECYCLE OF A CLO



CHARACTERISTICS OF CLOS

- Structural protections for debt tranches include quarterly overcollateralization (“OC”) and interest coverage (“IC”) tests. Should an OC or IC test fail, a “self-curing” mechanism per the CLO indenture either partially or fully diverts interest payments from the junior tranche alongside any applicable diverted reinvestment principal proceeds to pay down the most senior debt tranche outstanding in order of priority (AAA, AA and so on) or purchases additional collateral until the test(s) is in compliance. The AAA and AA tranches (the “Senior Notes” of the CLO) are not subject to the OC or IC tests, and therefore are not subject to any interest payment diversion.
- Floating rate interest payments provide a hedge against duration/interest rate risk.
- Active management of a diversified portfolio, subject to ongoing concentration limits and collateral quality test covenants per the CLO indenture.
- Transparency due to comprehensive and monthly reporting requirements, rating agency monitoring and trustee oversight.
- During the 30-year U.S. CLO history (from the early 1990’s through year-end 2021), there have been no defaults of AAA tranches, one default of an AA tranche, five defaults of an A tranche, nine defaults of a BBB tranche and twenty-four defaults of a BB tranche (out of approximately 2,200 rated BB tranches)¹.
- At closing, the debt tranches benefit by having more collateral assets in the CLO, than the total amount of debt outstanding.

¹) Based on the ratings issued by a nationally recognized statistical rating organization (“NRSRO”).

CLO MARKET HISTORY & GROWTH DRIVERS

- The CLO market was established in the early 1990s. There have been two distinct periods of CLOs.
 - Primary deals issued from the early 1990s to the Great Financial Crisis (GFC), around 2009, are referred to as CLO 1.0.
 - CLO 2.0/3.0 deals were issued after the GFC; these transactions have stronger covenants and higher quality collateral portfolios.
- In 2021, primary CLO issuance totaled ~\$185 billion, with resets/refinancings totaling ~\$240 billion. In 2022, primary CLO issuance was ~\$129 billion and resets/refinancings were ~\$25 billion.
- The U.S. CLO market has grown to ~\$900 billion as of year-end 2022, up from ~\$600 billion four years prior.
- The anticipated growth of the leveraged loan market (~\$1.4 trillion as of 12/31/22) should result in a corresponding increase in CLOs. CLOs represent the largest investor group (~65%) in the leveraged loan market.
- Institutional and retail investor interest is expected to continue to expand given the risk adjusted returns and low default rates of CLO debt and equity tranches.
- Establishment (in June 2022) of an electronic trading platform (by Octaura Holdings, created by seven major CLO banks) will provide better market execution and trading information.

CLO MANAGERS

- There are approximately 150 U.S. CLO managers.
- The top 50 CLO managers are private equity credit affiliates, hedge funds, insurance companies and traditional asset management firms.
- ~25 CLO managers have in excess of \$10 billion of CLO assets under management.
- Some of the largest U.S. CLO managers include:
 - Credit Suisse Asset Management, CIBC Asset Management, Blackstone, Octagon Credit Investors, Carlyle Group, Prudential Financial, Ares Management, MJX Asset Management, Sound Point Capital Management, and Voya Alternative Asset Mgmt.

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