



# An Introduction To CLOs And CLO Equity

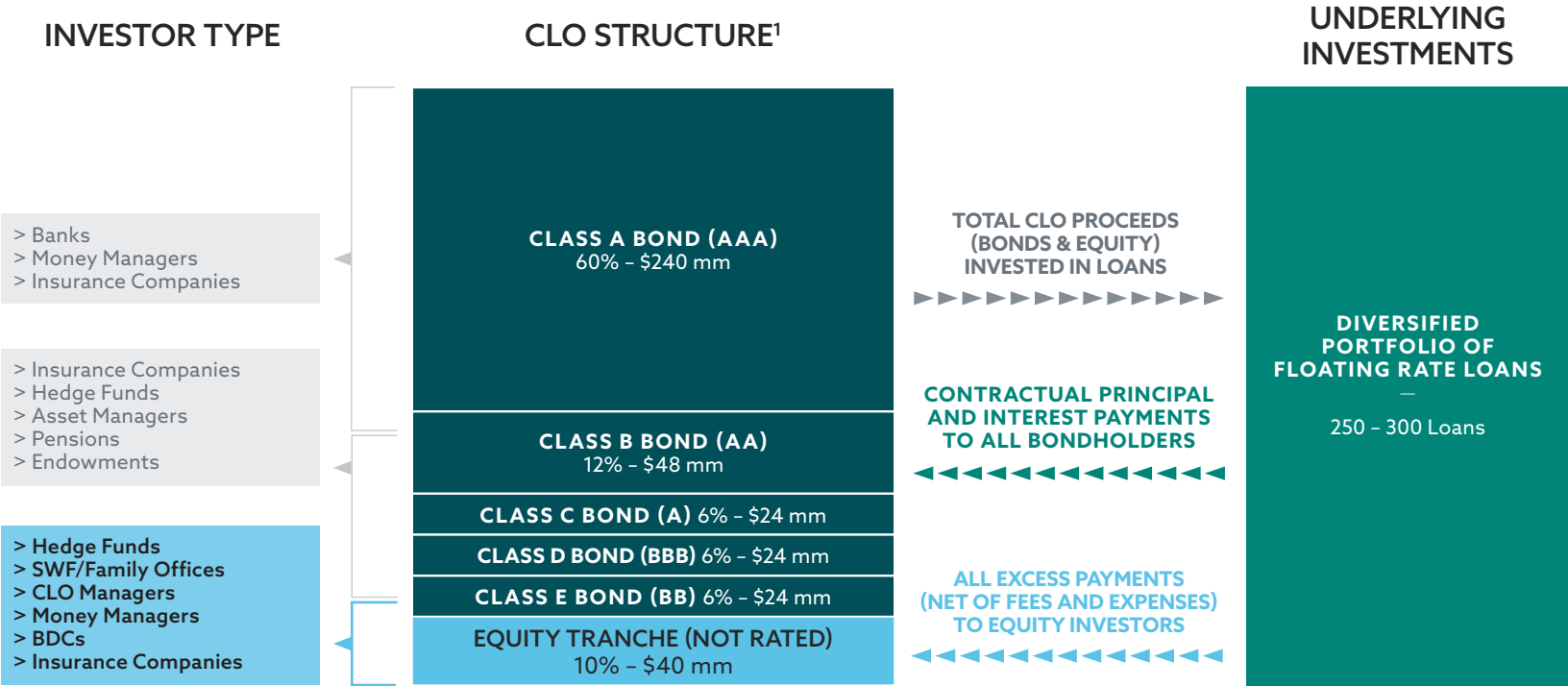
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# An Introduction | CLOs and CLO Equity

## WHAT IS CLO EQUITY?

- > A collateralized loan obligation (CLO) is a special purpose investment vehicle that issues bonds at different rating levels as well as an unrated equity tranche to raise funds. The CLO then invests those proceeds in a diversified pool of floating rate loans
- > Bond investors are paid on a quarterly basis according to their seniority in the capital structure. Equity tranche investors receive all of the excess payments each quarter. The equity tranche bears the risk of the first loss but also captures the potential upside



CLO equity has been a consistent source of income for investors, producing a ~14% realized IRR over the last 20 years<sup>2</sup>

(1) The total deal size in this example is \$400M. SWF stands for sovereign wealth fund; BDCs stand for business development companies. (2) BofA Global Research. April 2025. Cash-on-cash equity returns are the ratios of cash distributions versus the par amount of equity invested. Average return and standard deviation (shown on the CLO Equity: Hybrid Equity/Debt Investment slide) for vintage years 2003 through 2022. Includes returns for redeemed deals. The 20-year period misses vintage years 2008-2010 due to a lack of data for deals. IRR stands for internal rate of return.

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## KEY INVESTOR CONSIDERATIONS FOR BROADLY SYNDICATED LOAN CLOs

### Diversification

—  
Typically, a CLO contains hundreds of loans representing a wide range of sectors. CLO captive equity provides vintage diversification as well

### Low Default History

—  
Since its inception in 1999, the Morningstar LSTA US Leveraged Loan Index has had an average default rate of just 2.44%<sup>1</sup>

### Seniority

—  
A CLO's underlying collateral typically consists of high yield, senior secured loans which sit near the top of a company's capital stack, ranking ahead of unsecured bonds and equity

### Front-Loaded Returns

—  
Typically, CLOs are structured to front-load returns with quarterly payments compared to delayed private equity returns (i.e., J-curve)

### Actively Managed

—  
During the reinvestment period (typically five years), a CLO portfolio can be actively managed and optimized for various market environments

### Secondary Trading

—  
Loans can be traded through agent or third-party banks; generally, quotes and markets are provided daily<sup>2</sup>

### Floating Rate

—  
CLO assets and liabilities are floating, based off SOFR

### Size

—  
The average loan tranche size in the Morningstar LSTA US Leveraged Loan Index is \$1.07B<sup>1</sup>

### Transparency

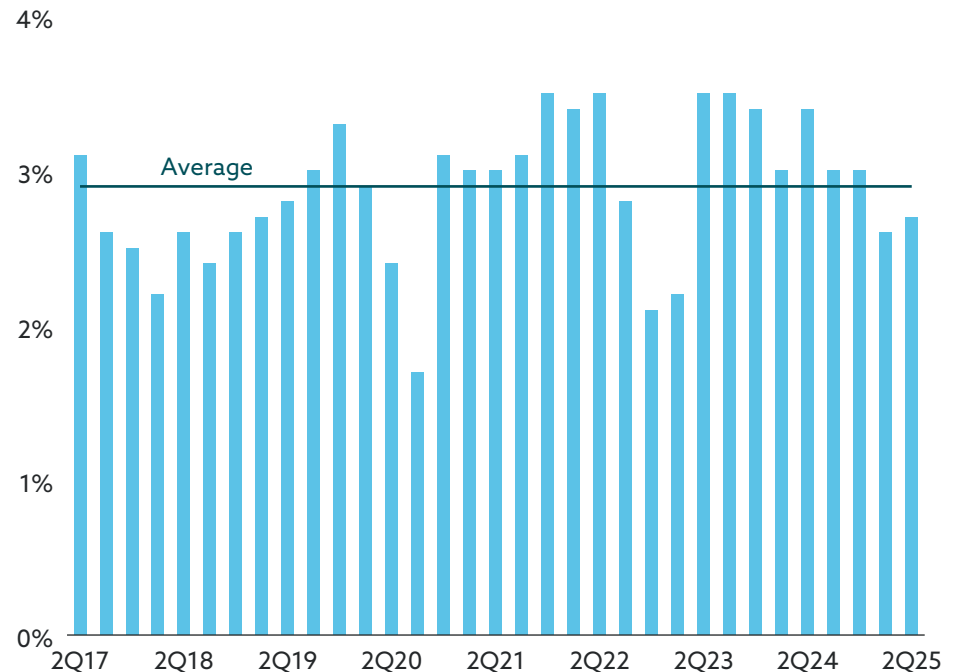
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## CLO EQUITY: HYBRID EQUITY/DEBT INVESTMENT

- > CLO equity is a "carry" product that is designed to provide quarterly cash-on-cash returns
  - 2.9% average quarterly return since 2017<sup>1</sup>
- > It can be considered a hybrid debt/equity instrument given quarterly payments of excess cash flows and the return of capital at the end of life
- > CLO equity returns have historically shown lower volatility versus public equities
  - CLOs are closed-end and non-mark to market vehicles, so intermittent market volatility does not cause forced selling or diverted cash flows
  - CLO equity generated an average 20-year realized IRR of 13.7% with a standard deviation of 9.0%<sup>1</sup>
  - Conversely, the S&P 500 generated a 20-year average annual return of 9.8% with a standard deviation of 14.8%<sup>2</sup>

## HISTORICAL US CLO CASH-ON-CASH EQUITY RETURNS<sup>1</sup>



(1) BofA Global Research, April 2025. Cash-on-cash equity returns are the ratios of cash distributions versus the par amount of equity invested. Average return and standard deviation for vintage years 2003 through 2022. Includes returns for redeemed deals. The 20-year period misses vintage years 2008-2010 due to a lack of data for deals. (2) Morningstar. 20-year average annual return and standard deviation from 2003 through 2022. Past performance is no guarantee of future results. Returns shown do not represent or predict the performance of any fund.

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## CLO EQUITY VS. OTHER PRIVATE ASSET CLASSES

- > CLO Equity offers income potential like Private Credit, but with less interest rate sensitivity, more diversification and more liquidity
- > The broadly syndicated loans that make up CLOs provide exposure to Private Equity assets on a senior secured basis

HISTORICAL US CLO CASH-ON-CASH EQUITY RETURNS

	CLO Equity	Private Credit	Private Equity
Income (Return Product)	Yes	Yes	No
Interest Rate Sensitivity	Low (both assets and liabilities are floating rate)	Medium (only assets are floating rate)	--
Diversification	High (hundreds of loans)	Medium (dozens of loans)	Medium (dozens of portfolio companies)
Liquidity	Active (underlying loans can be actively managed)	Limited	Limited
Ranking for Underlying Assets	Senior	Senior/subordinated	Subordinated
Returns	12-15% <sup>1</sup>	8-12% <sup>2</sup>	15-20% <sup>3</sup>

As of 31 December 2024. (1) CLO Equity range based on historical return figures from BofA Global Research and Intex. 5 August 2024. Using a weighted average of vintage years, the average quarterly equity distribution was 3.3% for the 10 years through Q2 2024. Annualized that figure equals 13.7%. (2) Private Credit range based on historical return figures from J.P. Morgan. "Credit Watch: Private Credit Uncovered – Uncovering Even More." 5 April 2024. USD private credit had a near 10-year return (2014-3Q23) of 8.4%. We used that as the bottom end of our range given today's higher interest rates. (3) Private Equity range based on historical return figures from Cambridge Associates. "First Half 2023 US PE/VC Benchmark Commentary" 5 January 2024. US private equity, which includes buyout and growth equity funds only, had a 10-year return of 16.9% through 30 June 2023.

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## PPM CLO PLATFORM



### Clients Invest in a Credit Process That Actively Manages to Optimize the Portfolio

PPM is a credit focused active manager that has operated in the loan and CLO market since 1999



### Relationship With Jackson Financial Inc. (JFI)

JFI and its affiliates have provided funding for first-loss warehouse capital and subordinated notes directly and/or through its interest in the CLO asset manager<sup>1</sup>



### Manager Has Skin-in-the-Game Alongside Investors

The CLO asset manager, JFI and/or its affiliates currently hold majority controlling equity positions in all PPM CLOs



### Extensive Infrastructure From a Large Asset Manager

PPM is an \$80 billion asset manager

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This presentation utilizes the following Benchmark: The Morningstar/LSTA Leveraged Loan Index (the "LL Index"). The LL Index is a market-value weighted index of U.S. dollar denominated institutional leveraged loan portfolios. Loan facilities are eligible for inclusion in the LL Index if they are a senior secured facility, have a minimum initial term of one year, a minimum initial spread of base rate (LIBOR/SOFR) + 125 bps, and a minimum initial size of \$50 million. The LL Index is rebalanced on a weekly basis. Loans are removed from the LL Index when they are no longer priced, no longer meet the stated index eligibility criteria, or repaid. Loans in default remain in the LL Index unless they fail to meet the stated index eligibility criteria.

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