THE GROWING APPEAL OF CLOs

Collateralized Loan Obligations—commonly known as CLOs—are a type of fixed income instrument consisting of corporate loans that are consolidated into securities.

Today, the global CLO market exceeds $1.4 trillion in size—and continues to expand.

Let's take a closer look at how CLOs work. CLOs are made up of senior secured loans that are backed by borrower assets and prioritized for repayment in case of default.

Each CLO typically holds between 250 and 500 senior secured loans, diversified across issuers and industries.

These loans are bundled together and divided into segments called "tranches." Each tranche carries a different risk and return profile. The AAA tranche at the top of the structure is the most senior and most protected. It receives loan payments first and is only impaired if losses exceed the buffer provided by all lower-rated tranches. This "waterfall" structure gives AAA CLOs remarkable resilience. Additionally, in default scenarios, the underlying bank loans have historically recorded solid recoveries providing an added layer of protection.

Now that we understand a bit more about how CLOs work, let's dive deeper into the key reasons that make them a compelling investment.

First—Attractive Income. CLOs typically offer higher yields relative to other investment grade fixed income sectors of similar credit quality.

Second—Strong performance. CLOs stand out as top fixed income performers. They've outpaced US Treasuries and the Aggregate indices, driven by higher yields and floating- rate coupons that rise with interest rate hikes. Plus, with less volatility than Treasuries or the Aggregate, they've delivered smoother, superior risk-adjusted returns.

Third—Diversification. CLOs have a low or even negative correlation to broad bond markets, which can make them a valuable addition for portfolio diversification

And fourth – Low Risk. CLOs have been experiencing remarkable growth because they can help to mitigate two primary risks in fixed income: Interest rate risk and credit risk. CLOs carry very low duration, with floating-rate coupons that adjust in line with interest rate changes. Their low duration shields them from interest rate shifts that can trigger significant drawdowns in rate-sensitive sectors like US Treasuries. Top-rated CLO tranches—AAA and AA—boast a 30-year track record with zero defaults and no capital losses.

PGIM is a top 10 global CLO manager. We are active across primary and secondary markets, combining scale, experience and discipline as leaders in this space. We have been investing in CLOs in client portfolios since 2009. Our global leveraged finance team, comprising of 66 members, is among the most deep and experienced in the industry. With 30+ securitized product specialists working closely with the leveraged finance team, PGIM brings deep credit expertise to CLO investing with integrated capabilities across public and private markets.

CLOs are represented by the JPM CLOIE Index as of 6/30/2025.

Top-rated tranches refer to AAA and AA tranches, as rated by Moody's. Source of defaults: Moody's as of June 2025, Jan 1993 to Dec 2024 10-yr cumulative WR-unadjusted defaults by original rating. **Past performance is not a guarantee of future results**.

PGIM CLO Ranking Source: S&P Global Market Intelligence Leveraged Commentary & Data, based on global assets under management, as of March 31, 2025.

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