An investor's guide to understanding Collateral Loan Obligations (CLOs)

What is a CLO?

A Collateralized Loan Obligation (CLO) is a type of financial product that combines corporate loans into one package. CLOs are split into sections or layers known as tranches, which have different levels of risk and return. This structure can be appealing for individual investors who want to diversify their investments and increase their income potential.

Who invests in CLOs?

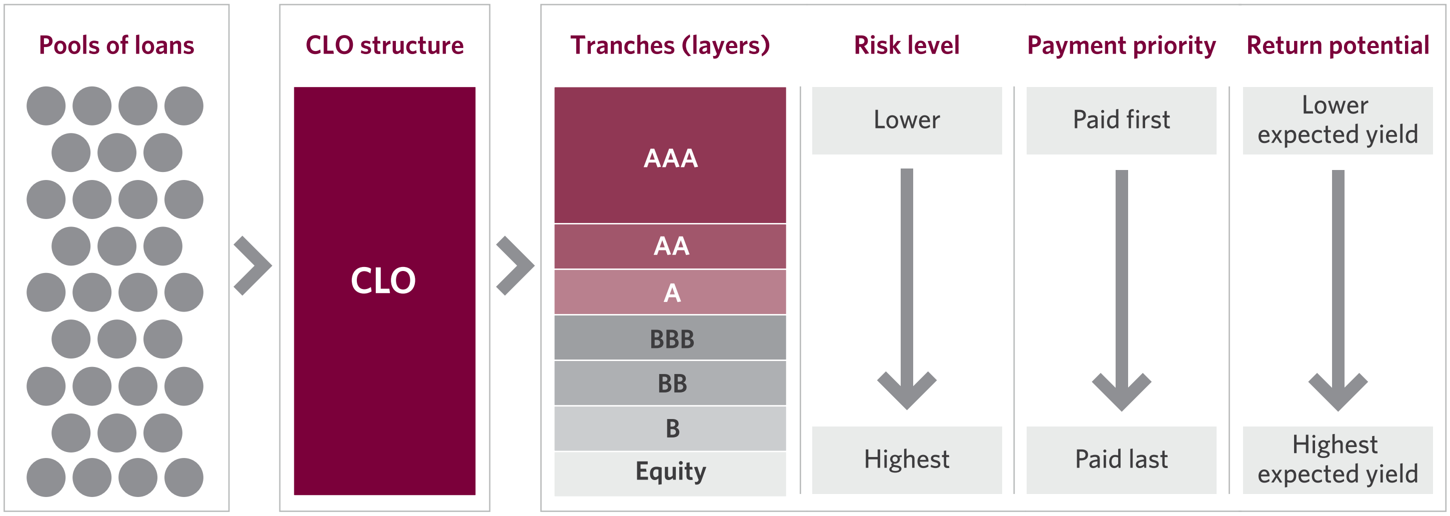
- **Institutional investors:** These include pension funds and insurance companies.
- **Individual investors:** Typically, invest through mutual funds or ETFs that focus on CLOs.

Why do CLOs exist?

- **For companies:** CLOs provide loans that help with growth and daily operations.
- **For financial institutions:** They assist in managing risk and freeing up funds for additional loans.
- **For investors:** CLOs offer the possibility of returns and income from loan payments.

How are CLOs structured?

CLOs are made up of a collection of loans from different borrowers. These loans create cash flows that support the CLO structure. CLOs are divided into parts called tranches, which have different levels of risk and return. Each tranche has a specific order for payments. This layered system provides various investment choices for different levels of risk tolerance. Payments are made in a sequence known as a waterfall, with tranches organized from the lowest to highest risk.



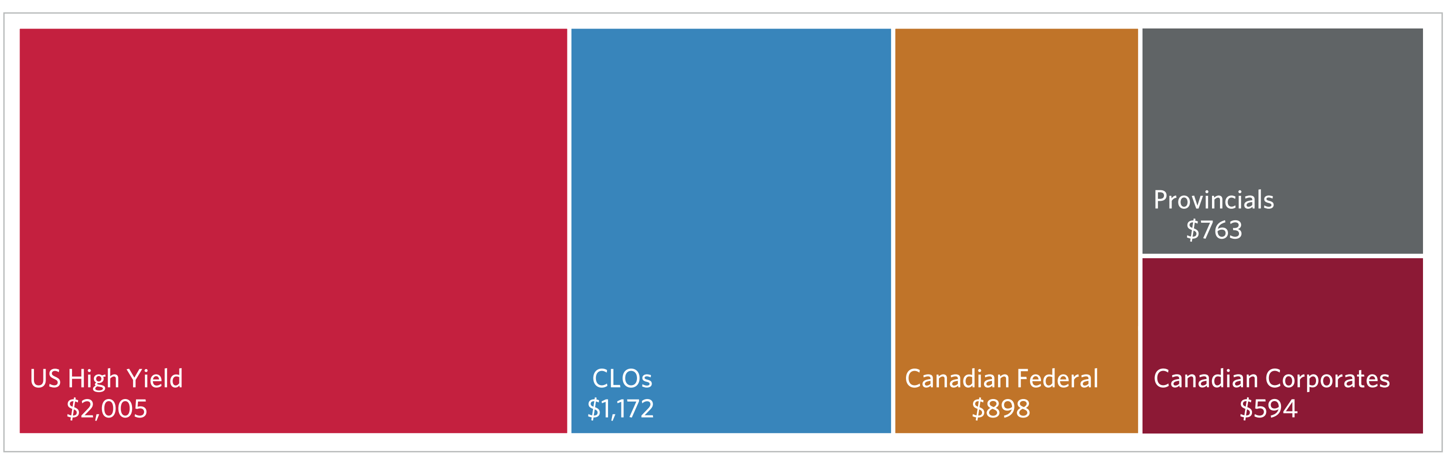
For illustrative purposes only; not intended to describe any specific CLO.

It is important to note that CLOs are rated by credit rating agencies, which assess the likelihood of default on the underlying loans. Higher-rated tranches, such as AAA, indicate lower default risk, while lower-rated tranches carry higher risk but also the potential for greater returns.

Size of CLO market compared to more familiar bond markets

(in billions)

While the CLO market may be less familiar to individual investors, it is a significant and well-established segment of the financial landscape, surpassing the size of many traditional bond markets.



Source: JPMorgan, Bloomberg

Based on market value, Canadian dollar equivalents

As of February 2025

Why invest in CLOs

Unique asset class

CLOs provide investment opportunities not typically found in traditional fixed-income funds.

Higher yield potential

They can offer better returns compared to standard fixed-income investments.

Floating rate advantage

Many CLOs adjust to interest rate changes, which can protect against rising rates.

Broad diversification

Investing in CLOs gives access to a wide range of secured loans, reducing risk across different sectors.

How to invest in CLOs?

Individual investors can invest in CLOs through a fund that focuses on investing in CLOs, like the **CIBC Income Advantage Funds**. These funds use an actively managed fixed income strategy that invests in primarily AAA tranches of CLOs, which are the highest quality, and safest CLOs. These funds aim to balance potential returns and income while managing risk. The active management approach allows the funds to adapt to market changes with the goal of enhancing performance over time.

Discover if CIBC Income Advantage Funds are right for you by speaking with your licensed financial professional or visit renaissanceinvestments.ca/CLO.

All information in this document is at May 2025 unless otherwise indicated and is subject to change.

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CIBC Income Advantage Fund and CIBC U.S. Dollar Income Advantage Fund, (the Funds) invest primarily in a diversified portfolio of U.S. floating-rate collateralized loan obligations (CLOs) rated AAA. The Funds intend to invest at least 80% of their assets in AAA rated CLOs (at the time of purchase) but may also invest in CLO AA and/or A rated CLO tranches (at the time of purchase). This rating does not constitute a guarantee, may be downgraded, and in stressed market environments, it is possible that even senior CLO tranches could experience losses due to actual defaults, increased sensitivity to defaults due to collateral default, and the disappearance of the subordinated/equity tranches, market anticipation of defaults, as well as negative market sentiment with respect to CLO securities as an asset class.

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