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PRIVATE MARKETS
institute

Building diversified portfolios with CLOs

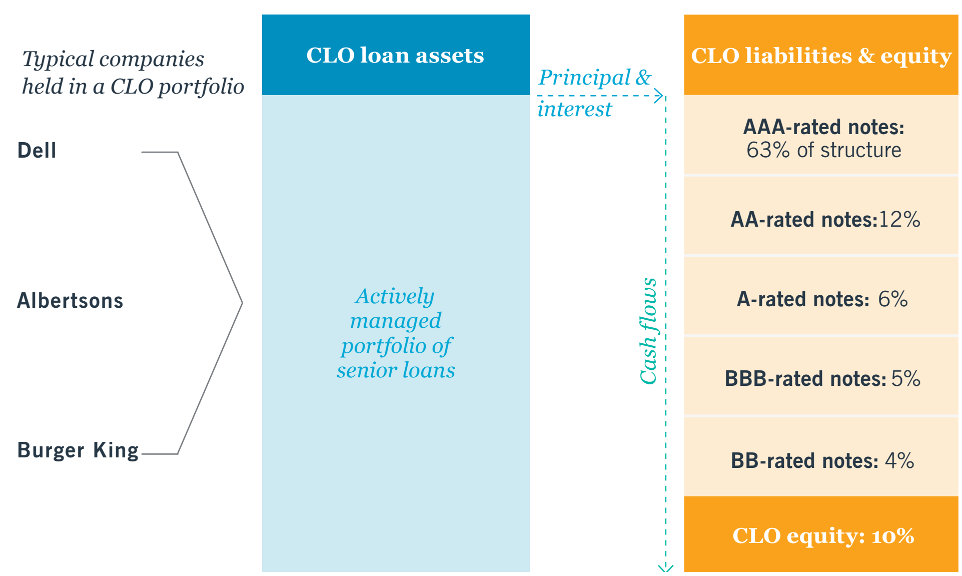
Collateralized loan obligations (CLOs) offer investors a wide variety of risk-return profiles and can play a powerful role in a portfolio allocation. CLOs offer enhanced income, a lower default experience versus similarly rated corporate bonds and diversification benefits for core bond portfolios. Once available only to institutional investors, CLOs are gaining attention from individuals who recognize the material benefits of this asset class.

WHAT ARE CLOs?

CLOs are diversified, actively managed portfolios of broadly syndicated senior loans issued by corporate borrowers. These are pools of loans that are securitized or repackaged into interest-bearing securities of varying degrees of risk and yield and sold to investors based on their portfolio objectives. These securities, also known as tranches, can trade actively in the secondary market.

The junior-most tranches, starting with equity, absorb any losses from the portfolio first and are in turn compensated with the highest levels of yield and return. CLOs are not impacted by mark-to-market movements in their underlying loan portfolios and are not subject to margin calls or forced selling. This allows CLO portfolios to be managed through price volatility and potentially create trading gains when loan prices are dislocated.

How CLOs work



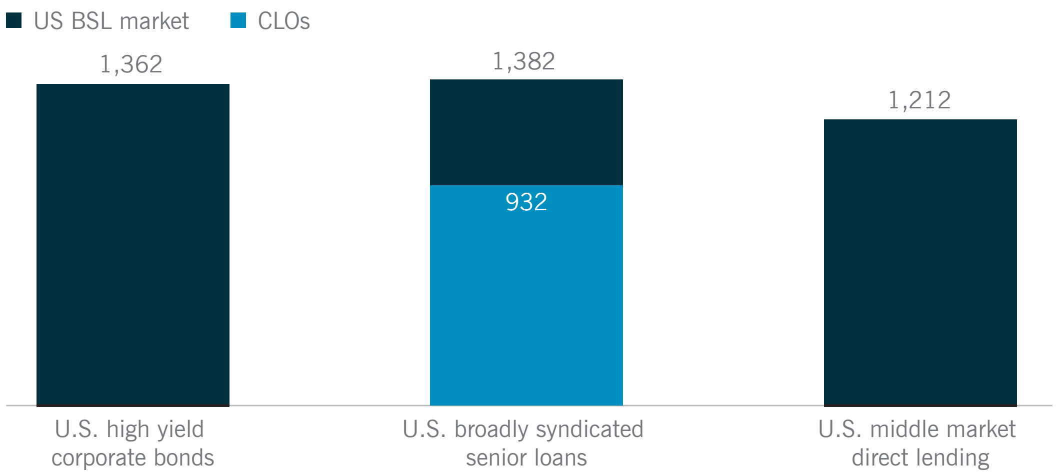
For illustrative purposes only. Asset allocation does not assure a profit or protect against loss. In a CLO structure, senior tranches (generally rated investment grade) have payment priority over junior/mezzanine tranches (generally rated below investment grade or unrated). The subordinate tranche in a CLO structure is frequently referred to as CLO equity or the residual tranche. CLO equity receives the residual cash flows from a CLO portfolio's loan assets after the CLO debt tranches receive their contractual interest payments.

THE CLO MARKET IS A MATERIAL DRIVER OF CORPORATE FINANCING

At nearly $1 trillion in size[1], the CLO market is the largest investor in the broadly syndicated loan (BSL) market, which companies look to for financing among other options such as bonds and private credit. Having weathered various market cycles, CLOs continue to witness investor interest grow from a limited set of institutional investors to a broader audience that includes banks, insurance, pensions, family offices and wealth clients.

Outstanding below investment grade market: CLOs represent over two-thirds of the U.S. BSL market

($ billions)



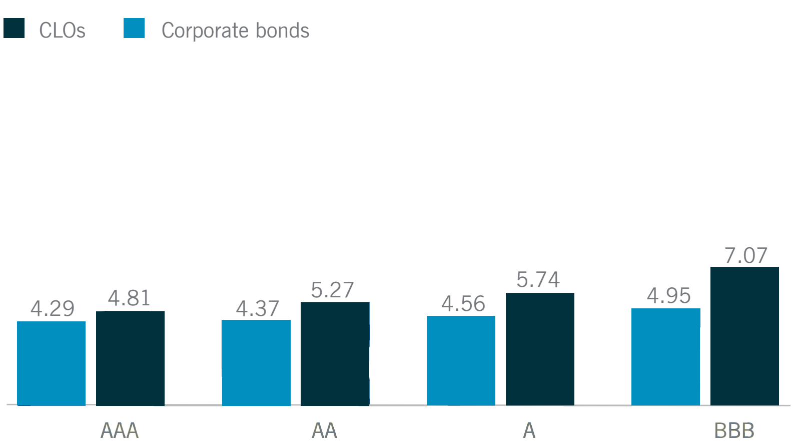
Data sources: BofA CLO Factbook 16 Oct 2024, Preqin, and the U.S. Federal Reserve as of Jun 2023.

ENHANCED INCOME

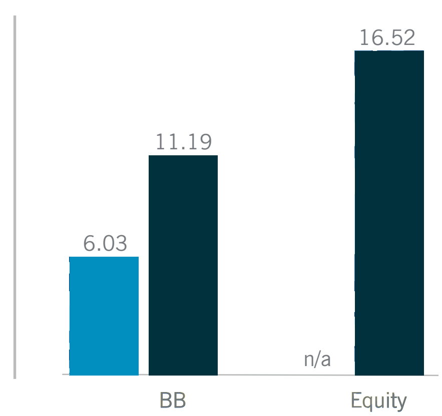
CLOs offer enhanced yields and return potential compared to similarly rated corporate bonds or loans, as well as other fixed income options.

CLO debt yields compared to similarly rated corporate bonds (%)

INVESTMENT-GRADE DEBT STRATEGY



OPPORTUNISTIC DEBT AND CLO EQUITY

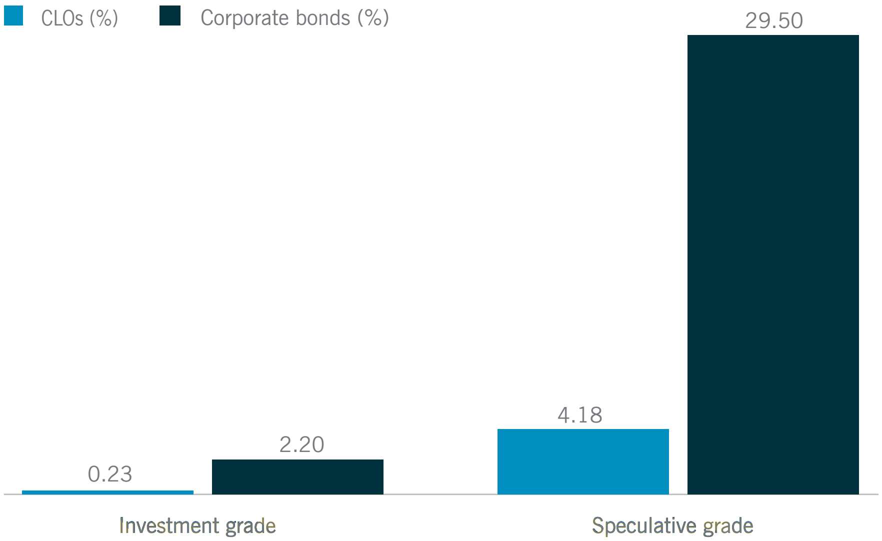


Data sources: Nuveen, Bloomberg, JPMorgan, Bank of America as of 30 Sep 2024. **Performance data shown represents past performance and does not predict or guarantee future results. Yield:** The yield quoted is yield-to-maturity except for CLO equity which is the median annualized U.S. broadly syndicated loan obligations equity distribution.

REDUCED DEFAULT RISK

Despite their higher yields, CLOs historically have endured far fewer defaults across the rating spectrum than corporate bonds or loans. Notably, next to zero AAA to A rated CLO tranches have defaulted in the roughly 30-year history of the market.

Cumulative default/impairment rates for CLOs (1993-2023)[2] and corporates (1998-2023)[3]



Data sources: **Corporates:** 10-year horizon average cumulative issuer-weighted global default rates by alphanumeric rating, 1998-2023 from Moody's "Default Trends – Global: Annual default study: Corporate default rate to moderate in 2024 but remain near its long-term average"; **CLOs:** US CLOs, 10-year horizon WR-unadjusted cumulative impairment rates by original rating, 1993-2023 from Moody's "Impairment and loss rates of global CLOs: 1993-2023."

CLO DEBT IS A STRONG FIXED INCOME DIVERSIFIER

Allocating to CLOs may help to further diversify a traditional allocation to fixed income, given the low correlations to core bonds, including Treasuries, mortgages and investment grade corporates. CLOs are a floating-rate asset class and exhibit very little sensitivity to interest rate changes, which reduces both rate risk and correlations to other fixed income sectors.

Low correlations to other fixed income options

31 Dec 2011 to 30 Sep 2024

High correlation — Low correlation

	CLO A	CLO BB	Senior loans	HY corporates	Treasuries	Broad bond market	MBS	IG corporates
CLO A	1.00	0.90	0.90	0.67	-0.11	0.15	0.06	0.44
CLO BB		1.00	0.83	0.65	-0.11	0.13	0.04	0.40
Senior loans			1.0	0.80	0.20	0.49	0.42	0.72
HY corporates				1.00	-0.13	0.16	0.07	0.47
Treasuries					1.00	0.94	0.86	0.74
Broad bond market						1.00	0.94	0.91
MBS							1.00	0.79
IG corporates								1.00

Data sources: Nuveen and Bloomberg as of 30 Sep 2024. **Representative indexes: CLO A:** J.P. Morgan CLO A Index; **CLO BB:** J.P. Morgan CLO B Index; **Senior loans**: Morningstar LSTA US Leveraged Loan Index; **High yield corporates:** ICE BofA US High Yield Index; **Treasuries:** Bloomberg US Treasury Total Return Index; **MBS:** Bloomberg US MBS Total Return Index; **IG corporates:** Bloomberg US Corporate Total Return Index; **Broad bond market:** Bloomberg U.S. Aggregate Bond Index; **MBS:** Bloomberg US MBS Total Return Index; Performance of all cited indices is calculated on a total return basis and includes income reinvestment but does not reflect taxes and investment advisor or other fees that would reduce performance in an actual client account. The chart does not represent the past performance of any Nuveen strategy. **Performance data shown represents past performance and does not predict or guarantee future results. It is not possible to invest directly in an index.**

For more information, please consult with your financial professional and visit nuveen.com.

1 Data sources: BofA CLO Factbook 16 Oct 2024.

2 Data sources: **Corporates:** Annual issuer-weighted corporate default rates by letter rating from Moody's "Default Trends – Global: Annual default study: Corporate default rate to moderate in 2024 but remain near its long-term average"; **CLOs:** US CLOs trailing 12-month impairment rates by cohort rating from Moody's "Impairment and loss rates of global CLOs: 1993-2023."

3 Data sources: **Corporates:** 10-year horizon average cumulative issuer-weighted global default rates by alphanumeric rating, 1998-2023 from Moody's "Default Trends – Global: Annual default study: Corporate default rate to moderate in 2024 but remain near its long-term average"; **CLOs:** US CLOs, 10-year horizon WR-unadjusted cumulative impairment rates by original rating, 1993-2023 from Moody's "Impairment and loss rates of global CLOs: 1993-2023."

J.P. Morgan CLO A Index is designed to track the A-rated components of the USD-denominated, broadly syndicated CLO market. **J.P. Morgan CLO B Index** is designed to track the B-rated components of the USD-denominated, broadly syndicated CLO market. **The Bloomberg U.S. Aggregate Bond Index** is an unmanaged, market-value weighted index used as a benchmark by bond traders and the managers of mutual funds and ETFs to measure their relative performance. It comprises taxable U.S. investment grade, fixed rate bond market securities, including government, government agency, corporate, asset-backed, and mortgage-backed securities with maturities between one and 10 years. **The Bloomberg US Treasury Index** measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury. Treasury bills are excluded by the maturity constraint, but are part of a separate Short Treasury Index. **The Bloomberg US Corporate Bond Index** measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers. **Bloomberg US MBS Total Return Index** measures the performance of the U.S. agency mortgage pass-through segment of the U.S. investment grade bond market. **ICE BofA US High Yield Index** tracks the performance of U.S. dollar denominated below investment grade corporate debt publicly issued in the U.S. domestic market. **Morningstar LSTA US Leveraged Loan Index** are a set of capitalization-weighted syndicated loan indexes based upon market weightings, spreads and interest payments.

Important information on risk

Investing involves risk; principal loss is possible. Debt or fixed income securities are subject to market risk, credit risk, interest rate risk, call risk, derivatives risk, dollar roll transaction risk and income risk. As interest rates rise, bond prices fall. Below investment grade or high yield debt securities are subject to liquidity risk and heightened credit risk. Any investment in collateralized loan obligations or other structured vehicles involves significant risks not associated with more conventional investment alternatives.

Nuveen, LLC provides investment solutions through its investment specialists.

This information does not constitute investment research as defined under MiFID.

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