Janus Henderson
INVESTORS

MARKET OVERVIEW

Collateralized Loan Obligations (CLOs)

JAAA seeks to provide exposure to the high-quality, floating-rate CLO market.

Collateralized Loan Obligations (CLOs)

are managed portfolios of bank loans that have been securitized into different instruments of varying credit risk and thus varying credit ratings. CLOs are increasingly the linkage between the needs of smaller companies seeking financing and investors seeking higher yields.

LEVERAGED LOAN MARKET	CLO MARKET	AAA CLOs
$1T	$700B	$450B

BANK LOANS form the building blocks of CLOs and are issued by banks to smaller companies that cannot typically access the bond markets. The loans carry credit ratings below investment grade and are often used by companies to refinance their existing debt, make an acquisition, or recapitalize their company.

SECURITIZATIONS are financial instruments created via the pooling of bank loans (in the case of CLOs), home mortgages, auto loans, or other assets that generate revenue. These bundles are then sold to investors, who collect the income from the underlying loans or assets.

70+% OF COMPANIES IN AMERICA HOLD BELOW INVESTMENT GRADE RATINGS

Because CLOs are portfolios of loans, and actively managed by a specialist CLO manager, they have had lower default rates than the broader loan market.

CLOs may offer many advantages over bank loans

	LOANS	CLOs
FLOATING-RATE YIELDS	√	√
GREATER DIVERSITY	X	√
INVESTMENT GRADE	X	√
CASH-FLOW PROTECTIONS	X	√

Liquidity improved in 2020

When bond market volatility peaked during the COVID-19 crisis, the most severe liquidity crisis in a decade, trading volumes in many fixed income markets fell. But volumes surged in CLOs and the AAA rated tranches comprising the majority of the volume, setting a new monthly record for the asset class.

Rapid growth allows more investors to participate

Historically, most CLOs were privately placed into the hands of large institutional investors. But as the CLO market has grown, more opportunities for investors to include CLOs in their portfolios are emerging.

GROWTH OVER THE LAST 5 YEARS

100%

GROWTH RATE OF CLO MANAGERS

3x OVER THE LAST DECADE

MONTHLY ISSUANCE OF CLOs

$10+ BILLION

AGE OF THE CLO ASSET CLASS

~30 YEARS

Size of the Leveraged Loan Market, CLO Market, and AAA CLOs: Janus Henderson, Bloomberg, as of 31 October 2020.
Percent of American companies with below-investment-grade ratings: Security Industry / Financial Market Association (SIFMA), 2019
CLOs have had lower default rates than loans: JPMorgan, as of 31 July 2020.
Improving Liquidity: Bank of America Merrill Lynch.
Growth over the last five years: Bloomberg as of 30 September 2020.
Growth rate of CLO managers: Wells Fargo Securities.
Monthly issuance of CLOs: JPMorgan North America Securitized Product Weekly Research as of 14 August 2020.

Please see back page for sources, definitions, and disclaimers

CLOs are constructed by a CLO manager who selects loans to put in a portfolio. With the pool as collateral, the manager issues different-rated securities to investors. As the underlying pool of leveraged loans pays income or principal, distributions are made to the securities.

BANK LOANS	CLO MANAGER	INVESTORS
COMPANIES NEED LOANS	MANAGERS OVERSEE A POOL OF LOANS	INVESTORS SELECT THE RISK THEY WANT

CLOs are designed to prioritize the AAA securities. CLO managers regularly test whether the security has sufficient collateral; if not, the structure diverts cash flows originally intended for the lower-rated tranches to the highest tranches, starting with AAA.

DEFAULT RATE NEEDED OVER A 12-MONTH PERIOD TO IMPAIR AN AAA RATED CLO

36%

HIGHEST DEFAULT RATE SEEN IN THE GLOBAL FINANCIAL CRISIS (GFC)

12%

DEFAULTS IN AAA OR AA CLOS IN THE 30 YEARS THEY HAVE BEEN ISSUED

0

Highly rated bonds are scarce. Even U.S. Treasuries are not AAA rated by S&P.

AAA CREDIT ENHANCEMENT

62%

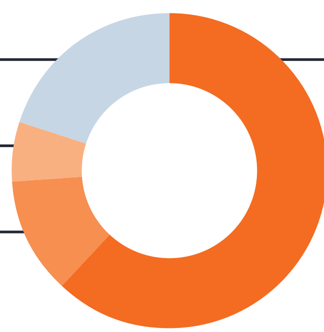
IMPROVEMENT SINCE THE GFC. THIS HAS HELPED THE CLO MARKET GROW AND EXPAND.

80% OF CLOS ARE ISSUED WITH AN A OR HIGHER CREDIT RATING

BELOW A: **20%**

CLOs RATED A: **6%**

CLOs RATED AA: **12%**



CLOs RATED AAA

62%

JAAA: JANUS HENDERSON AAA CLO ETF BUYS AT LEAST

90%

AAA RATED

JANUS HENDERSON AAA CLO ETF

- Primarily invests in floating-rate AAA rated CLOs
- Provides the lower cost, transparency and liquidity of an Exchange Traded Fund (ETF)

Default rate need over a 12-month period to impair a AAA rated CLO: S&P Global Market Intelligence as of 30 June 2020.

Highest default rate seen in the Global Financial Crisis: JPMorgan, "CLOs: not the CDOs of yore," June 2020.

Number of defaults in AAA or AA rated CLOs: Security Industry / Financial Market Association (SIFMA).

AAA credit enhancement since the GFC: JPMorgan, "CLOs: not the CDOs of yore," June 2020.

Percentage of CLOs by rating: Guggenheim Investments, "Understanding Collateralized Loan Obligations (CLOs)," May 2019.

Note that JAAA fund pursues its investment objections by investing, under normal circumstances, at least 90% of its net assets (plus any borrowings made for investment purposes) in CLOs of any maturity that are rated AAA (or equivalent by a nationally recognized statistical rating organization at the time or purchase, or if unrated, determined to be of comparable credit quality by Janus Capital.

CLOs can be an attractive addition to a diverse portfolio of government and corporate bonds, and complement other securitized holdings, such as mortgage-backed securities (MBS) and asset-backed securities (ABS).

Yield Potential

CLOs have offered a premium over corporate bonds across the rating spectrum.

5-YEAR AVERAGE SPREAD OVER U.S. TREASURIES

AAA CLO	AA CLO	A CLO
1.75x	0.8x	1.1x
AAA CORPORATES	AA CORPORATES	A CORPORATES

AAA CLOs' 5-year average yield is 1.4%.

Floating Rates

High-quality floating-rate bonds are difficult to find in the U.S. Investors have traditionally favored the bank loan market but had to accept lower credit quality to do so. With CLOs, investors can achieve floating-rate exposure from AAA assets.

U.S. CORPORATE BOND ISSUERS THAT WERE RATED AAA

50 IN 1990

2 TODAY

Floating-rate securities pay a yield that rises and falls with the prevailing interest rate, making their prices less sensitive to changes in rates. When investors are concerned about the potential for interest rates to rise, increasing allocations to floating-rate securities can be prudent.

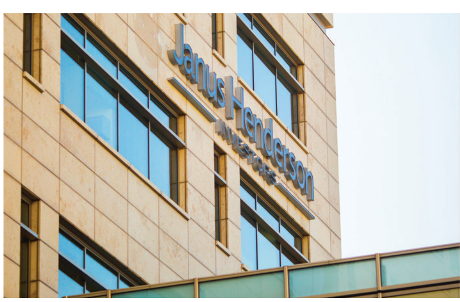
Diversification

AAA CLOs may help diversify a traditional fixed income portfolio as they have historically had very low or negative correlations to U.S. equities and many bond markets.

CLOs' CORRELATION TO U.S. EQUITIES, HIGH -YIELD BONDS AND U.S. CORPORATE BONDS

NEGATIVE

CLOs' correlation to U.S. Treasuries and the U.S. Aggregate Bond Index is 0.03.



We believe our rigorous CLO issuer due diligence and portfolio construction process can provide consistent risk-adjusted returns and low correlation to traditional fixed income asset classes.

CLO yield premium over similarly rated corporate bonds: Bloomberg Barclays rating-category sub-indices for corporate bonds, JPMorgan discount margin indices for CLOs. Bloomberg, as of 30 September 2020.

AAA CLO correlations to equities and other fixed income asset classes: Bloomberg, as of 31 July 2020. Note: Indices used to represent asset classes; S&P 500, US High Yield (iBoxx $ High Yield Index), US Investment Grade (iBoxx $ Investment Grade Corporate Bond Index), US Government 1-5 Year (Bloomberg Barclays US Gov/Credit Float Adjusted 1-5 YR Index), US Aggregate Bond (Bloomberg Barclays US Aggregate Bond Index).

THE JANUS HENDERSON SECURITIZED TEAM

- JAAA has three Portfolio Managers
- Global securitized research team of 10 analysts, with an average 11 years of experience
- Supported by 18 global credit analysts and 33 global equity analysts

John Kerschner, CFA

Head of U.S. Securitized Products

John Kerschner is Head of U.S. Securitized Products at Janus Henderson Investors and a Portfolio Manager of the Multi-Sector Credit strategy and Mortgage-Backed Securities ETF. He also has co-managed the fixed income portion of the Perkins Value Plus Income strategy since 2018. In his role as Head of U.S. Securitized Products, Mr. Kerschner primarily focuses on mortgage-backed securities and other structured products. Prior to joining Janus in 2010, Mr. Kerschner was director of portfolio management at BBW Capital Advisors. Before that, he worked for Woodbourne Investment Management, where he was global head of credit investing. Mr. Kerschner began his career at Smith Breeden Associates as an assistant portfolio manager and was promoted several times over 12 years, becoming a principal, senior portfolio manager and director of the ABS-CDO group.

Mr. Kerschner received his bachelor of arts degree in biology from Yale University, graduating cum laude. He earned his MBA from Duke University, Fuqua School of Business, where he was designated a Fuqua Scholar. Mr. Kerschner holds the Chartered Financial Analyst designation and has 30 years of financial industry experience.

Nick Childs, CFA

Portfolio Manager

Nick Childs is a Portfolio Manager at Janus Henderson Investors, a position he has held since 2018. He is responsible for managing the Mortgage-Backed Securities ETF, with a primary focus on valuing opportunities and managing exposure of mortgage-backed securities (MBS). Additionally, he is a Securitized Products Analyst. Prior to joining Janus in 2017 as a securitized products analyst, he was a portfolio manager from 2012 to 2016 at Proprietary Capital, LLC, where he managed alternative fixed income strategies specializing in MBS, absolute return investing. His work with Proprietary Capital included managing all major U.S. interest rate and MBS risks, modeling borrower behavior and MBS deal structure, and advancing market-neutral hedging strategies. Before that, he was vice president at Barclays Capital in their capital markets division, where he focused on securitized products from 2007 until 2012. Prior to joining Barclays, he was vice president at Lehman Brothers. He began his career at State Street Global Advisors in 2003.

Mr. Childs received his bachelor of science degree in finance with a minor in economics from the University of Denver. He holds the Chartered Financial Analyst designation and has 17 years of financial industry experience.

Jessica Shill

Assistant Portfolio Manager

Jessica Shill is a Securitized Products Analyst and Assistant Portfolio Manager at Janus Henderson Investors. Ms. Shill became assistant portfolio manager in 2020 and has held the analyst position since joining the firm in 2019. Prior to this, she was an intern and an analyst for the Wells Fargo Investment Portfolio.

Ms. Shill received her bachelor of arts degree in economics from Bryn Mawr College, where she graduated cum laude. She has 3 years of financial industry experience.

Index Descriptions

Bloomberg Barclays U.S. Corporate Bond Index measures the investment grade, US dollar-denominated, fixed-rate, taxable corporate bond market.
iBoxx USD Liquid High Yield Index measures the USD denominated, sub-investment grade, corporate bond market.

iBoxx USD Investment Grade Corporate Bond Index measures the USD denominated, investment grade, corporate bond market.

Bloomberg Barclays U.S. Government 1-5 Year Index measures the U.S. Treasury market for those securities with a tenor between one and five years.

Bloomberg Barclays U.S. Government/Credit Float Adjusted 1-5 Year Index is a float-adjusted version of the U.S. 1-5 year Government/Credit Index

S&P 500® Index reflects U.S. large-cap equity performance and represents broad U.S. equity market performance.

Index performance does not reflect the expenses of managing a portfolio as an index is unmanaged and not available for direct investment.

Credit quality ratings are measured on a scale that generally ranges from AAA (highest) to D (lowest).

Collateralized Loan Obligations (CLOs) are debt securities issued in different tranches, with varying degrees of risk, and backed by an underlying portfolio consisting primarily of below investment grade corporate loans. The return of principal is not guaranteed, and prices may decline if payments are not made timely or credit strength weakens. CLOs are subject to liquidity risk, interest rate risk, credit risk, call risk and the risk of default of the underlying assets.

Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based measure of the investment grade, US dollar-denominated, fixed-rate taxable bond market. The opinions and views expressed are as of the date published and are subject to change without notice. They are for information purposes only and should not be used or construed as an offer to sell, a solicitation of an offer to buy, or a recommendation to buy, sell or hold any security, investment strategy or market sector. No forecasts can be guaranteed. Opinions and examples are meant as an illustration of broader themes and are not an indication of trading intent. It is not intended to indicate or imply that any illustration/ example mentioned is now or was ever held in any portfolio. Janus Henderson Group plc through its subsidiaries may manage investment products with a financial interest in securities mentioned herein and any comments should not be construed as a reflection on the past or future profitability. There is no guarantee that the information supplied is accurate, complete, or timely, nor are there any warranties with regards to the results obtained from its use. Past performance is no guarantee of future results. Investing involves risk, including the possible loss of principal and fluctuation of value.

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Floating-rate yields: Floating-rate securities pay a yield that rises and falls with the prevailing interest rate, making their prices less sensitive to

changes in rates.

Investment-grade securities: A security typically issued by governments or companies perceived to have a relatively low risk of defaulting on their payments. The higher quality of these bonds is reflected in their higher credit ratings when compared with bonds thought to have a higher risk of default, such as high-yield bonds.

Cash-flow protections: The manager of a CLO is required to periodically ensure that there is more than enough collateral in the underlying loans to support the interest and principal for each tranche (or rating tier) of the CLO, starting with the AAA tranche and working down the rating tiers. If, at any point, there is insufficient collateral, the cash flows originally intended for the lower-rated tranches are diverted to the highest-rated tranches. As such, in a time of stress, the AAA tranches could be repaid sooner than expected, as opposed to later or less.

Tranche: In securitized products like CLOs, a tranche is one of a number of related securities offered as part of the same transaction, with each representing a different degree of risk and carrying a commensurate credit rating.

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Brokerage commissions may apply to ETF purchases and would reduce returns

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