
Collateralized Loan Obligations (CLOs)

Breaking down CLOs

How this powerful structured product can help protect investor capital.

Yieldstreet



What is a CLO?

A Collateralized Loan Obligation (CLO) is a securitized portfolio of 100+ senior-secured corporate loans.

A **\$1T+ market** in the U.S., most common in the institutional investing space

Source: JPMorgan. As of Nov 2022.

Targets quarterly **income** and capital **appreciation** from the underlying loans

Diversified with **100+** senior-secured corporate loans issued by major corporations

Managed by **prominent asset managers** like Blackrock, Blackstone, Ares and Apollo

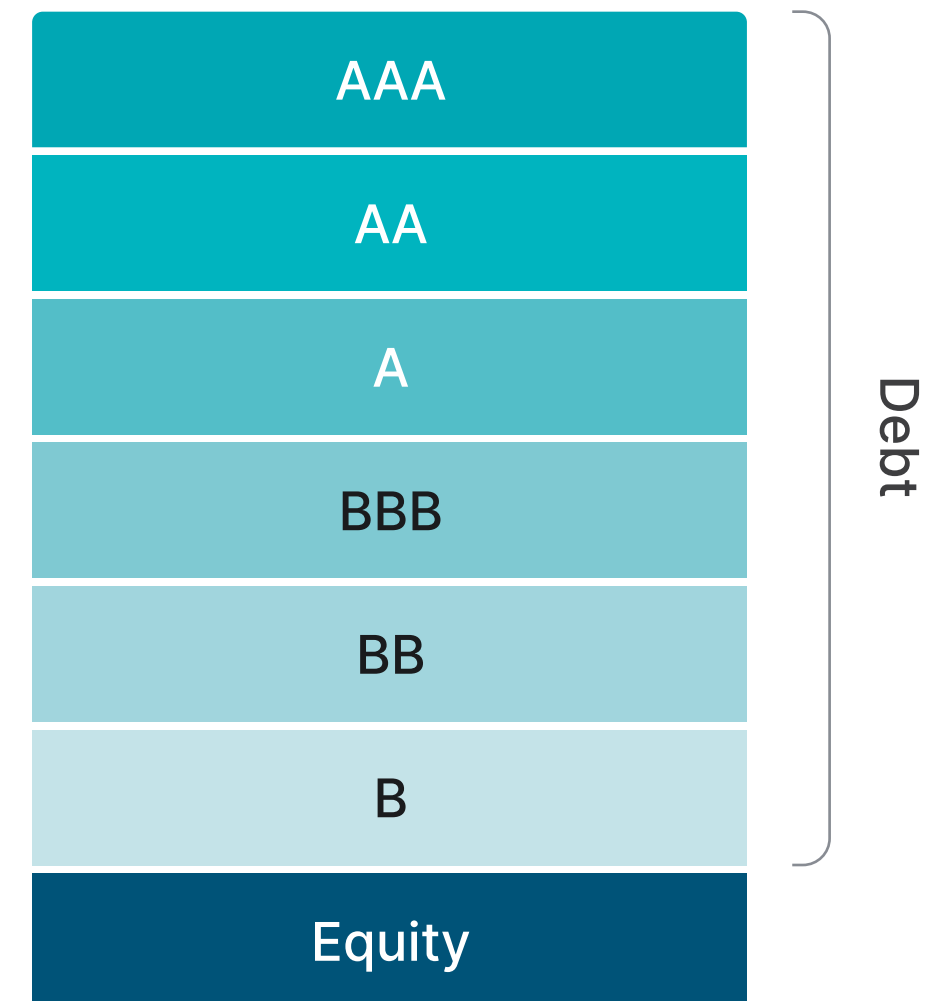
How CLOs work

Unique tranche structure

When a CLO is newly issued, an asset manager raises money to purchase the portfolio of loans from debt and equity investors (like yourself).

The debt portion of the CLO is organized into multiple levels, known as **tranches**, that investors can select from. A final equity tranche sits at the bottom.

Investor tranches



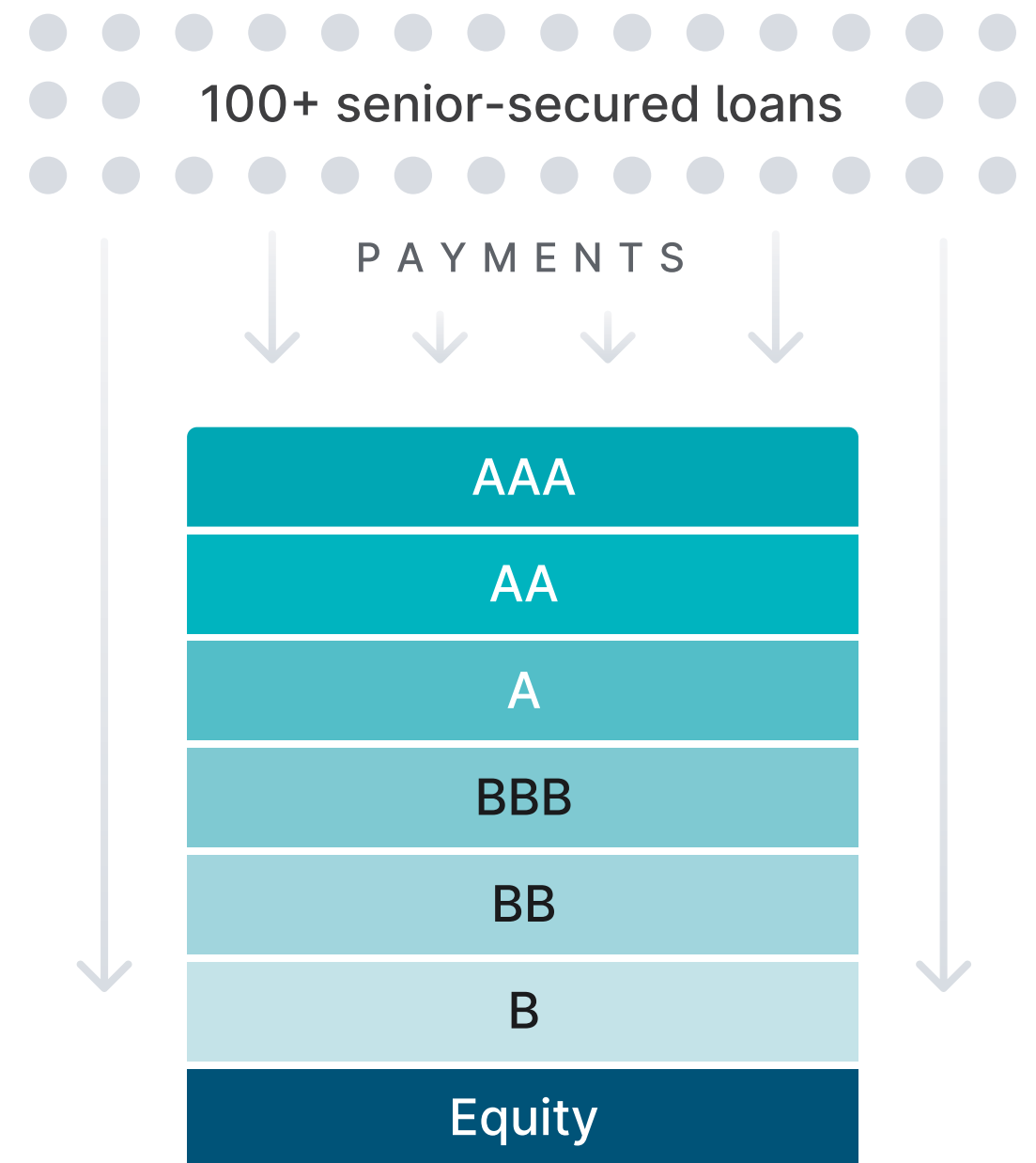
Top-down payment priority

As the 100+ loans in the CLO portfolio distribute principal and interest, cash flows from the top tranche down on a quarterly basis.

Not until all interest owed to the AAA tranche is paid does AA receive payments, and so on.

Common misconception

Loans in a CLO are not assigned to tranches based on credit quality. Instead, payments from the 100+ loans are pooled together and flow down through the tranches.



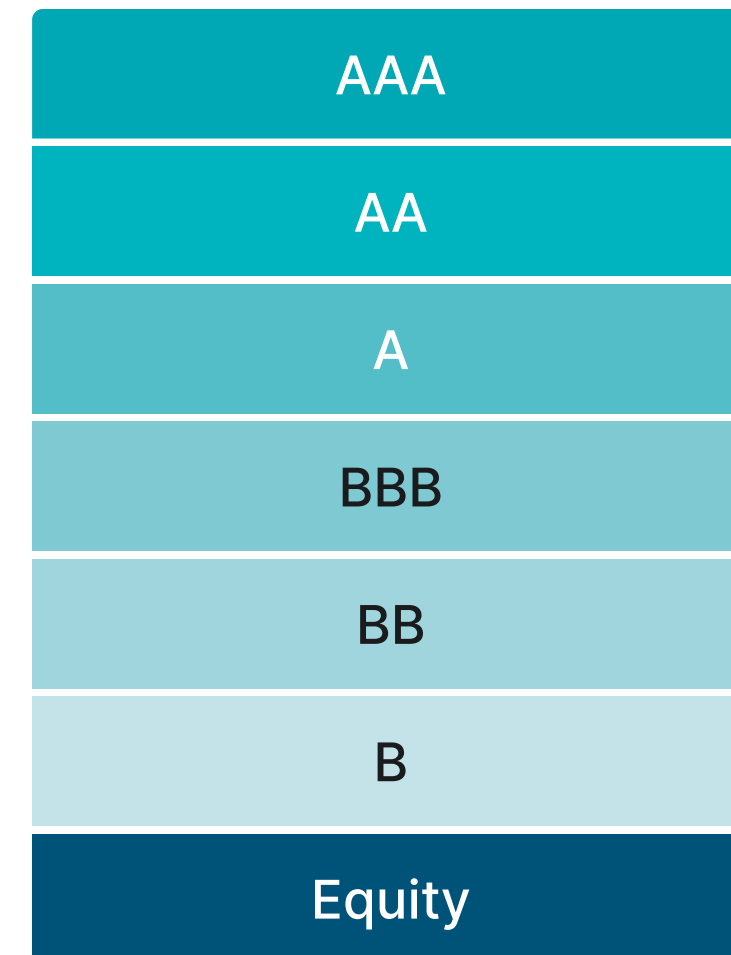
Risk and return

Because the top tranche (AAA) is the first to be paid, it is the lowest risk. As a result, it also has a correspondingly lower yield.

As you move down tranches, target yield will increase alongside potential risk of default.

In the lowest equity tranche, investors receive any additional cash flow after the debt investors are paid.

↓ Lowest risk and yield



↑ Highest risk and yield

Ultra-low default rates

When a single loan defaults, all investors can be impacted. In a CLO, a handful of the 100+ loans defaulting is likely to only impact investors in the equity tranche.

CLO historical default rate

0.12%

Loan historical default rate

3.00%

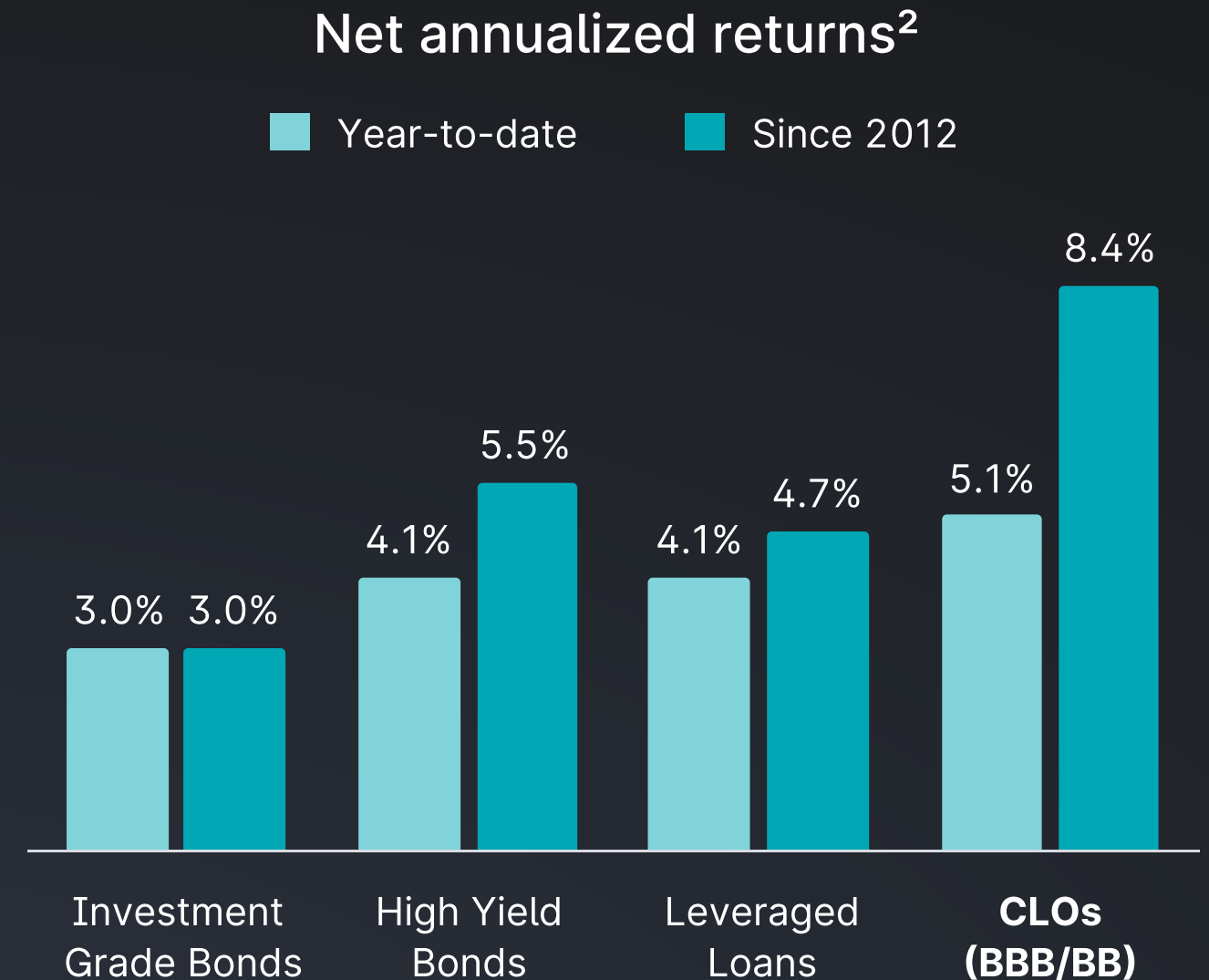
Source: JPMorgan. As of January 2023. Based on the long-term average par-weighted default rates.

Tranche	Default rate	Total tranches
AAA	0%	3,545
AA	0%	2,864
A	0%	2,372
BBB	0%	2,156
BB	0.4%	1,758
B	2.3%	384

Source: S&P Global CLO Spotlight: U.S. CLO Tranche Defaults. As of April 1, 2023. Past performance is not indicative of future performance.

Our thesis

The **BBB and BB tranches** of CLOs have the opportunity to deliver some of the **most attractive risk-adjusted returns in fixed income**.



Source: Yieldstreet, Prytania, JPMorgan. As of 5/31/2023.

Diversified CLO Portfolio I

Our first Diversified CLO Portfolio is expected to offer exposure to two BBB CLOs and one BB CLO.

Each CLO in the portfolio provides exposure to 200+ underlying loans (600+ total).

Target net annualized return¹

10%

Term

24 months

Sub-advisor of the Fund



[Learn more about this offering →](#)

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1. The target net annualized return represents a projected annual target rate of interest or annualized target return, and not returns or interest actually obtained by fund investors. Target interest or returns are based on an analysis performed by Yieldstreet of the potential cash inflows and outflows related to the transactions in which the strategy or fund has engaged and/or is anticipated to engage in over the estimated term of the fund. There is no guarantee that targeted interest or returns will be realized or achieved or that an investment will be successful. Actual performance may deviate from these expectations materially, including due to market or economic factors, portfolio management decisions, modeling error, or other reasons. Gross targets do not reflect the impact that the deduction of advisory fees and other expenses would have on returns.
 2. Source: Yieldstreet, Prytania, JPMorgan. As of 5/31/2023. CLO BBB/BB is represented by a custom index of 60% JPMorgan CLO BBB Index and 40% JPMorgan CLO BB Index. CLOs are represented by the JPMorgan CLO Index, Investment Grade by the JPMorgan US Liquid Index, High Yield by the JPMorgan Domestic High Yield Index and Leveraged Loans by the JPMorgan Leveraged Loan Index. Past performance is not indicative of future performance.

Alternative investments involve specific risks that may be greater than those associated with traditional investments; are not suitable for all clients; and intended for experienced and sophisticated investors who meet specific suitability requirements and are willing to bear the high economic risks of the investment. Investments of this type may engage in speculative investment practices; carry additional risk of loss, including possibility of partial or total loss of invested capital, due to the nature and volatility of the underlying investments; and are generally considered to be illiquid due to restrictive repurchase procedures. These investments may also involve different regulatory and reporting requirements, complex tax structures, and delays in distributing important tax information.

Diversification does not ensure a profit or protect against a loss in a declining market.