Why more investors are looking at CLOs

CCLO CIBC Income Advantage Fund – ETF Series

A users guide for CLOs

Collateralized Loan Obligations (CLOs) aren't new — but gaining access to them through a mutual fund or ETF is. They have shown resilience during various market conditions and are gaining attention for one big reason:

Their potential to provide attractive income opportunities without necessarily increasing credit risk.

Did you know?

CLOs rated BBB and above maintained near-zero default rates during significant market events, including the Great Financial Crisis (2007-2008) and the COVID-19 pandemic.

Source: Standard & Poor's as of December 2024.

What makes CLOs stand out in today's market?

A large and high-quality credit market

- CLOs play a significant role in the credit market, with the US CLO market exceeding $1 trillion in size.
- CLOs are structured in tranches, or layers, that range from AAA (highest quality, lowest risk) down to BB, B and equity (higher risk, higher potential return).

61% of CLO exposure available to investors is in the **highest-quality AAA-rated tranche**.

Size of CLO market compared to more familiar bond markets
(in billions)

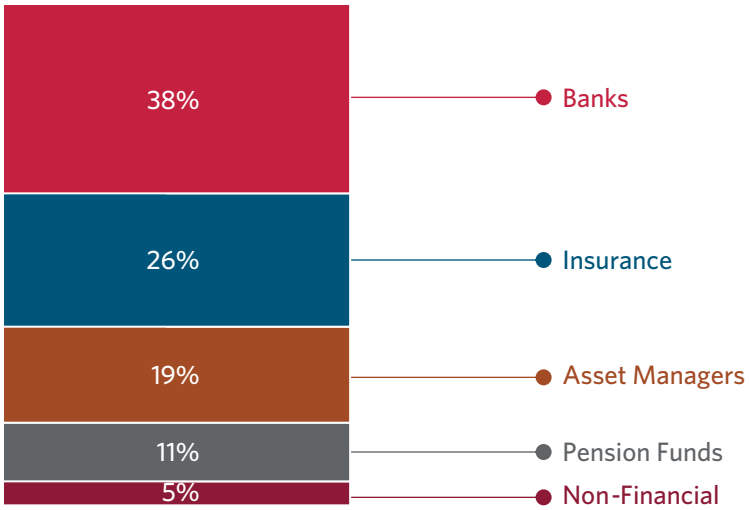


Source: JPMorgan, Bloomberg
Based on market value, Canadian dollar equivalents
As of February 2025

Who invests in CLOs?

- Major institutional investors, including banks, insurance companies, and pension funds, are key participants in the AAA CLO market, seeking attractive yields with minimal interest rate risk.
- This institutional demand enhances liquidity and pricing in the AAA CLO market, providing investors with access to high-quality investment opportunities.

Participants in AAA CLO market: Dominated by banks and insurance companies



Source: US Treasury Department

Due to rounding, amounts presented herein may not add up precisely to the total.

As of June 2020

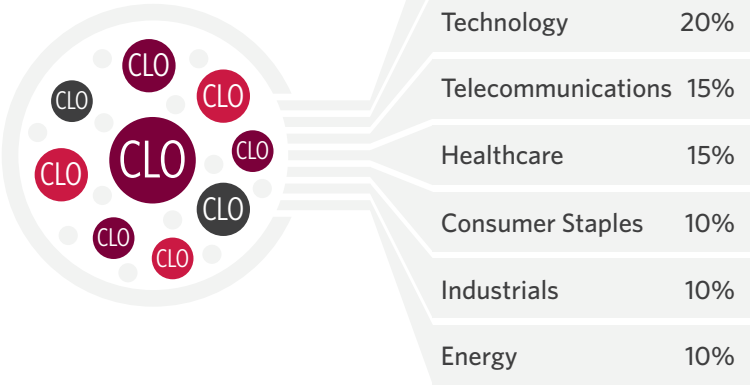
What's inside a CLO

- CLOs often include loans from reputable global lenders and borrowers, combining loans from major large and mid-size companies like Verizon and American Airlines.
- These securities typically consist of a diverse range of loans across various sectors, which may contribute to overall diversification of the CLO.

High-quality CLOs are typically issued by top tier financial institutions and alternative managers such as Ares, Blackstone, and Apollo, some of the largest and most recognizable names in lending.

Sectors and companies you know

Sample sectors



Sample companies

- Verizon
- American Airlines
- PetSmart
- Virgin
- Hilton

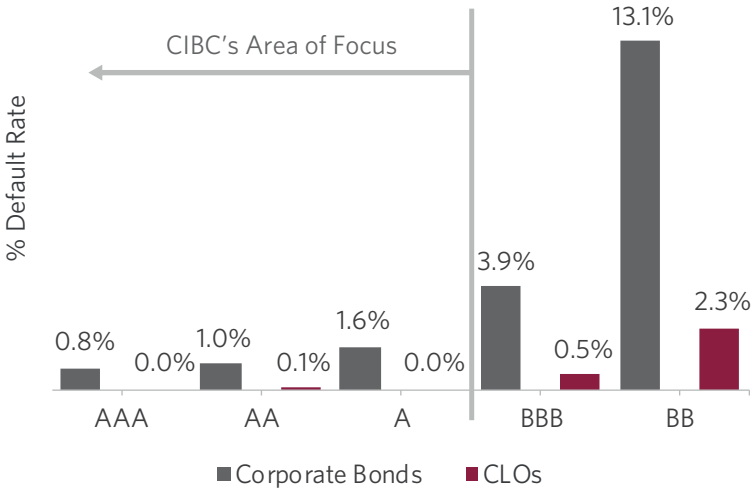
For illustrative purposes only, this represents an example of a potential CLO portfolio allocation.

Consistent through crisis

- BBB and above CLOs exhibited near-zero default rates during major crises, including the Global Financial Crisis (2007-2009), the European sovereign debt crisis (2010), the energy crisis (2014), and the COVID-19 pandemic.

Historically low default rates, even in times of stress, have helped high-quality CLOs build a strong long-term track record.

Default rates: CLOs vs traditional corporate bonds



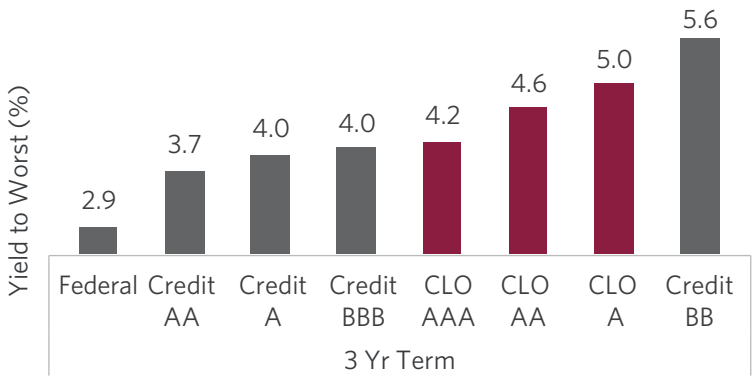
Source: Standard & Poor's
Based on 10 year cumulative default rates
CLO timeframe = 1997-2023 / Corporate Bond timeframe = 1981-2023
As of December 2024.

Higher income potential

- High-quality CLOs typically offer higher yields compared to traditional fixed-income securities of similar credit quality.

Many CLOs feature floating interest rates, which may help support income in a range of market conditions.

Better yield without sacrificing quality



Source: JPMorgan, ICE BofA, Bank of Canada, Evolve ETFs
Based on CAD-equivalent yields
As of January 2025

Unlocking diversification benefits

- With their low correlations to major bond markets, like Canadian corporate and Government bonds, CLOs can provide an opportunity for risk management.



High-quality CLOs may contribute to your portfolio's diversification strategy.

CLOs and their relationship with key asset classes

5-Year correlation trends

	AAA CLO	Money Market	GIC	Canadian Corporate Bonds	Canadian Government Bonds	US Corporate Bonds	US High Yield
AAA CLO	1.00						
Money Market	0.11	1.00					
GIC	0.25	0.92	1.00				
Canadian Corporate Bonds	0.56	0.12	0.18	1.00			
Canadian Government Bonds	0.21	0.18	0.15	0.90	1.00		
US Corporate Bonds	0.55	0.08	0.11	0.91	0.83	1.00	
US High Yield	0.75	0.00	0.06	0.81	0.62	0.84	1.00

Source: Bloomberg and Morningstar.
5-year correlation (March 1, 2020 - February 28, 2025)
AAA CLO represented by J.P. Morgan US CLOIE AAA Index
Money Market represented by FTSE Canada 91 Day T-bill Indexw
GIC represented by 3-year average GIC
Canadian Corporate Bonds represented by FTSE Canada All Corporate Bond Index
Canadian Government Bonds represented by FTSE Canada All Governement Bond Index
US Corporate Bonds represented by Bloomberg US Corporate Bond Index
US High Yield represented by Bloomberg US Corporate High Yield Bond Index

Why invest in CLOs

Unique asset class

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

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.

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Contact your CIBC representative to learn more about how to invest in CLOs or visit cibc.com/ETFs.

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