



Insights

A New Way to Invest in AAA CLOs

Europe's first AAA CLO ETF explained

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Marketing communication for Institutional and Informed Investors only

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Europe's first AAA CLO ETF explained

ETFs have enabled a broader range of investors to gain access to different asset classes, thereby unlocking new investment opportunities. Fair Oaks' AAA CLO ETF offers investors daily liquidity to a previously difficult to access corporate credit market, along with transparency and cost efficiency.

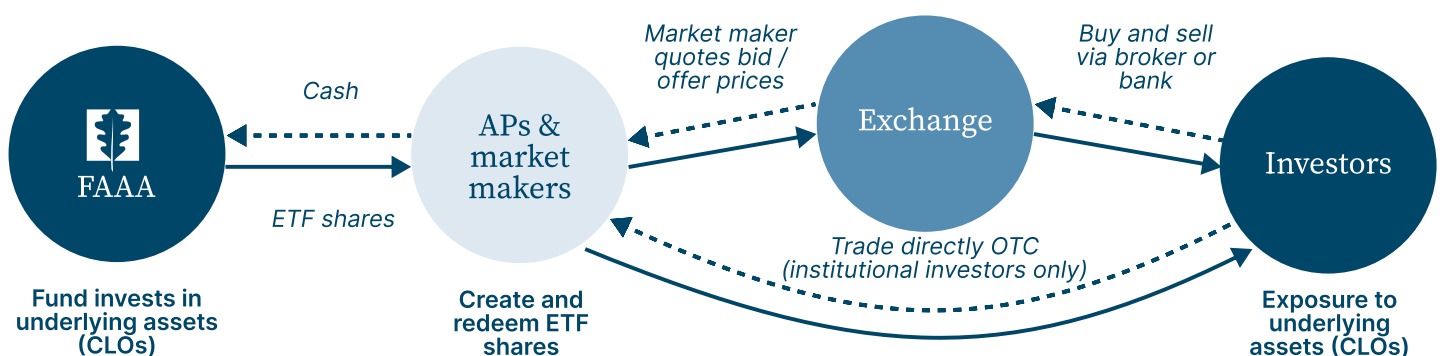
CLO ETFs have become increasingly popular in the US, given the structural benefits and higher return profile of CLOs, all within the accessibility and tradability of an ETF wrapper. Fair Oaks brings this asset class and structure to Europe in the form of the first European CLO ETF.

In Europe, access to higher yielding floating-rate debt is challenging for investors to obtain. With fixed income yields less attractive in an uncertain rate environment, investors should look for alternative sources of returns to provide diversification to portfolios, without taking additional risks of illiquidity or complex and costly structures. CLOs provide exposure to floating-rate corporate credit through public markets.

Access to CLOs has largely been reserved for banks, pension funds, insurance companies and other specialist institutional investors. As ETFs promote liquidity, transparency and democratization of assets, the use of this structure to invest in CLOs has opened barriers for new investors. Therefore, a wider audience can benefit from the higher spread, downside protection and diversification of CLOs.

Efficient trading with daily liquidity

CLO ETFs trade in the primary and secondary markets, creating liquidity across multiple channels. This enables investors to access CLOs in a low cost, transparent and accessible way.



1. **ETF asset liquidity (CLO market):** The large size and liquid nature of the CLO market helps to provide underlying liquidity for ETFs. The global CLO market stands at \$1 trillion and growing, with both large primary market volumes and active secondary market trading. Investors trading a CLO ETF can gain direct access to the fund's actively managed portfolio of CLOs.
2. **Primary market liquidity:** Shares in the primary market are created and redeemed by Authorised Participants. This allows market makers to manage large flows without a supply-demand imbalance and allows the ETF share price to track the NAV of the fund's CLO assets. Institutional investors can also buy and sell shares directly with Authorised Participants via over-the-counter primary trades.
3. **Secondary market liquidity:** The ETF is available on multiple exchanges, such as the London Stock Exchange and Deutsche Borse, enabling a pan-European investor base daily access to CLOs. Secondary trading of shares occurs on exchanges via brokers with bid and offer prices set by market makers. This democratises access to a wider investor base and provides investors more control.

European ETFs are usually UCITS funds. UCITS is a widely-recognised cross-border framework which promotes standardization of certain procedures, ensures appropriate governance structures and requires minimum portfolio diversification and risk management. This therefore reduces counterparty risk and enables access to a broader investor base.

The investment case for *AAA-rated CLOs*

Attractive returns

CLOs can offer higher returns than other fixed income products

Resilient asset class

No AAA-rated CLO has ever defaulted (25+ year track record)

Access to rated floating rate debt

Assets pay 3-month Euribor plus a margin

Low volatility profile

AAA-rated CLOs have demonstrated a 5-year historical volatility marginally higher than (2yr) German government bonds and significantly less volatility than other fixed income products such as IG corporate bonds

For more information, please visit <http://www.clo-etf.com/insights>

A CLO ETF can be used for strategic allocation – taking a long-term approach to investing in CLOs while benefiting from the transparency of the structure, with full portfolio holdings and

daily pricing made widely available. Alternatively, investors can allocate tactically – taking advantage of the daily liquidity and efficiency of the structure to flexibly rebalance portfolios or quickly gain exposure to the asset class.

Transparent European credit access

Unlike some other fund structures, ETFs enable transparent exposure to the underlying fund holdings, gaining efficient and quick access to the asset class. While US investors have been able to gain access to CLOs through US CLO ETFs for some time, certain European investors have been unable to access the asset class in the same way. Importantly, EU and UK ‘institutional investors’ are required to comply with securitisation (risk-retention) regulations when gaining exposure to CLOs, meaning that it is important that assets within a fund are compliant with those regulations.

Historically, allocating to European corporate credit funds has often meant investors are forced to accept additional risks such as illiquidity or opacity of investment portfolios. A European ETF exposed to CLOs allows investors to access floating-rate European credit and also benefit from a CLO’s structure as well as the transparency of an ETF. While CLOs are an established market, the asset class has been largely reserved for large institutional investors such as banks, pension funds, insurance companies and other specialist investors. A European CLO ETF therefore opens access to this asset class to a broader investor base.

Active portfolio management

As the CLO market has grown to over \$1 trillion globally, portfolios can be actively traded to efficiently generate returns for investors. While CLO market growth has increased liquidity, pricing dispersion has also increased, requiring additional investment due diligence.

There is currently no investable CLO index for investors to use to gain access to the market. Instead, an investment in CLOs requires investment analysis and selection and portfolio construction, ideally by an experienced investment manager specialising in corporate credit and CLOs.

Fair Oaks has deep expertise in this market, having multiple decades of combined experience and a broad coverage of European corporate credit – actively investing in senior secured loans, high-yield bonds and CLO debt notes across the capital structure. Other investors may not be resourced to perform bottom-up analysis to fundamentally value CLOs to the same degree. Fair Oaks can assess the opportunities in the primary or secondary markets and tactically allocate by identifying sources of relative value.

An actively managed CLO ETF, such as the **Fair Oaks AAA CLO ETF**, can provide investors with the confidence to invest in the CLO market alongside large institutional investors, while diversifying their portfolios. By allocating to a CLO ETF, investors can unlock access to the alternative credit asset class, offering the potential for higher returns than other fixed income assets.

Disclaimer

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Investors may not create or redeem ETF Shares of the Sub-Fund directly with the Company. Only Authorised Participants may trade directly with the Sub-Fund. Investors must buy and

sell ETF Shares on the secondary market, being those stock exchanges on which the ETF Shares trade, although certain investors may be able to create/redeem through Authorized Participants. Please refer to the Offering Documents for further details. There can be no guarantee that an active trading market for ETF Shares will develop or be maintained on such exchanges or that those exchange listings will be maintained.

ADDITIONAL INFORMATION

Notice to Swiss investors: The distribution of the Sub-Fund is restricted exclusively to qualified investors in accordance with art. 10 para. 3 of the Swiss Collective Investment Schemes Act. Performance results referring to a period of less than twelve months are no reliable indicator for future results due to the short comparison period. Issuance and redemption commissions are not included in the performance figures. The domicile of the Sub-Fund is Luxembourg. For interested parties, the Offering Documents, articles of association as well as the annual and semi-annual reports may be obtained free of charge from the Swiss representative and paying agent in Switzerland: RBC Investor Services Bank S.A., Esch-sur-Alzette, Zurich Branch, Bleicherweg 7, CH-8027 Zurich.



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