Janus Henderson
INVESTORS

ASSET-BACKED SECURITIES (ABS)

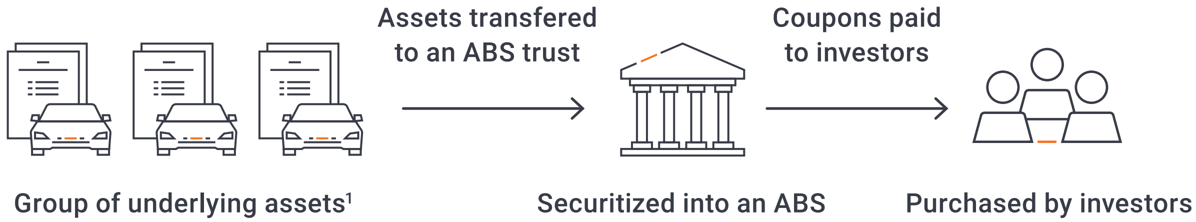
A securitized products primer

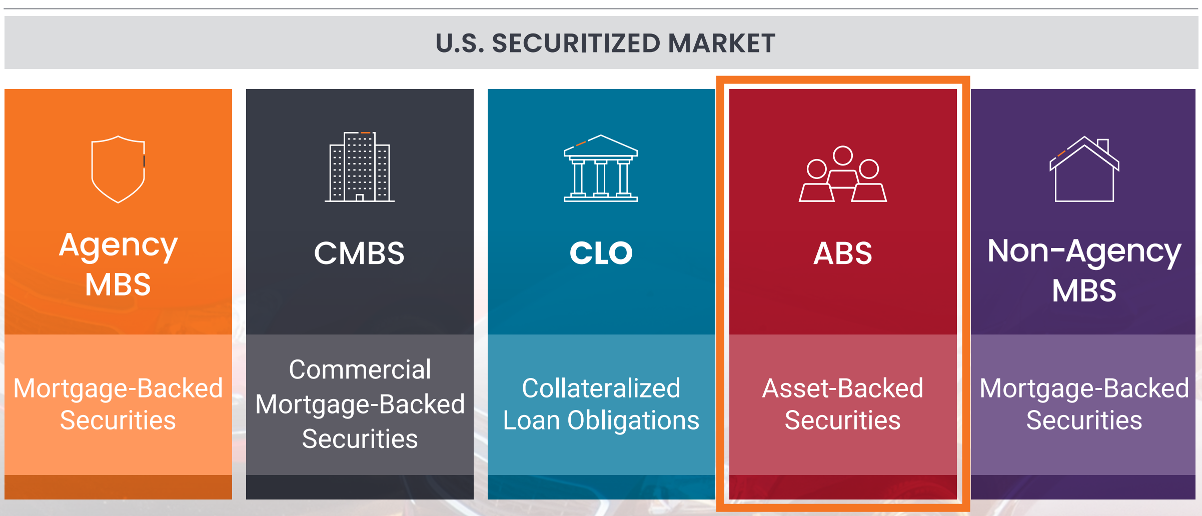
WHAT ARE ASSET-BACKED SECURITIES?

Asset-backed securities (ABS) are pools of similar **cash-flowing assets** that are packaged together, or **securitized**, into investable securities and sold to investors.

The largest subsectors of **cash-flowing assets** include auto loans, credit card receivables, and student loans, all of which grant investors exposure to the consumer credit market. A range of smaller subsectors give investors access to either consumer or commercial credit depending on the nature of their cash flow streams.

Securitizations are bonds created via the bundling of contractual debt, such as mortgages, bank loans, or auto loans. These bundles are repackaged into buckets – or tranches – and sold to investors. Investors receive the cash flows from the underlying loans (in the form of interest and principal payments) as a return on their investment.

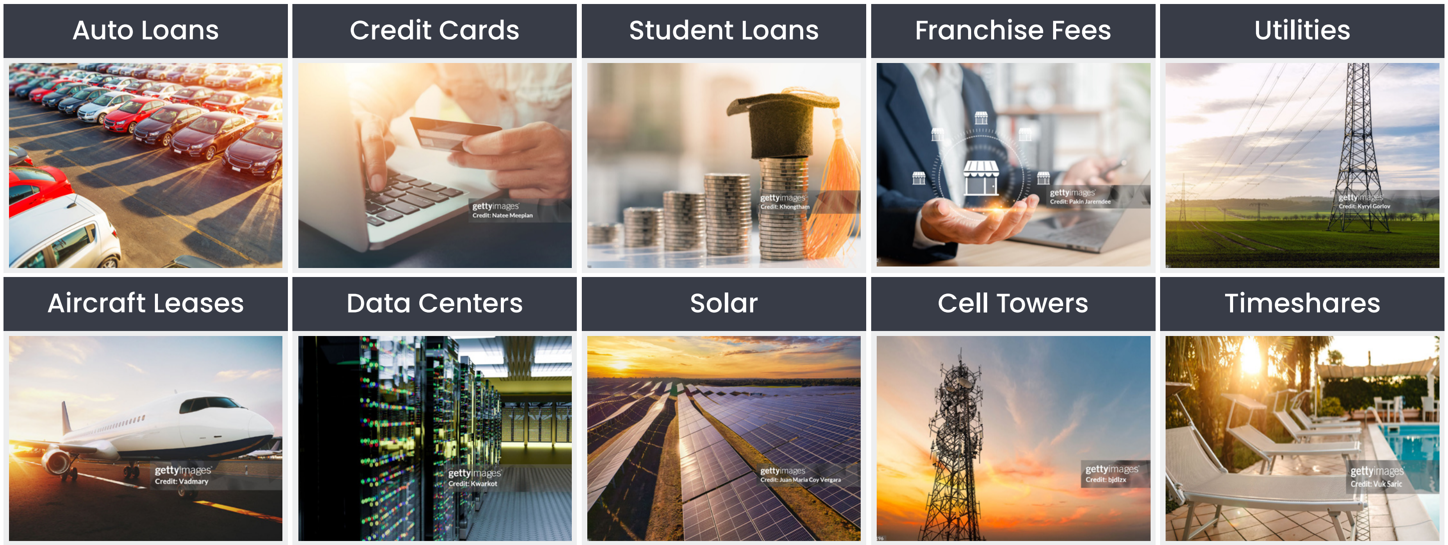




[1] It is important for investors in ABS to distinguish between underlying physical assets (e.g., vehicle) and the associated assets that go into the securitization (e.g., auto loan). In the case of auto ABS, investors are purchasing securities created via the bundling of auto *loans*, and the interest and principal paid by borrowers represents the cash flows on the assets. While the physical vehicles are not being securitized, if a borrower defaults on their loan, the vehicle can be repossessed and sold to fulfill the loan.

Composition of the U.S. ABS market

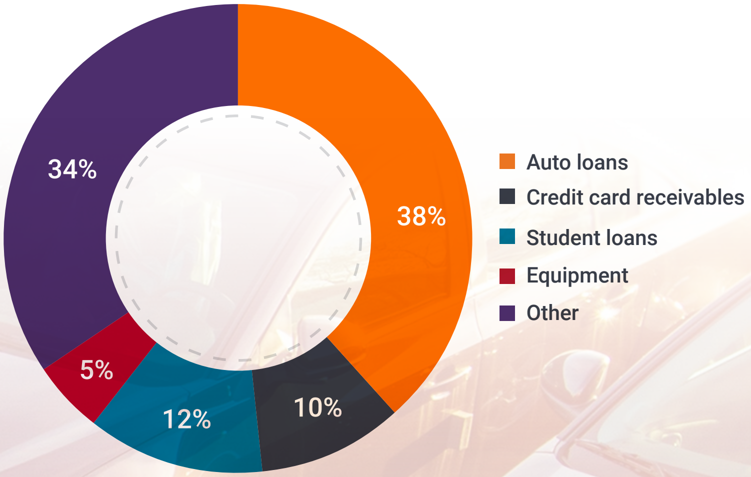
At over $800 billion in size, the U.S. ABS market allows for investment in a wide variety of consumer and commercial cash-flowing assets, including but not limited to:



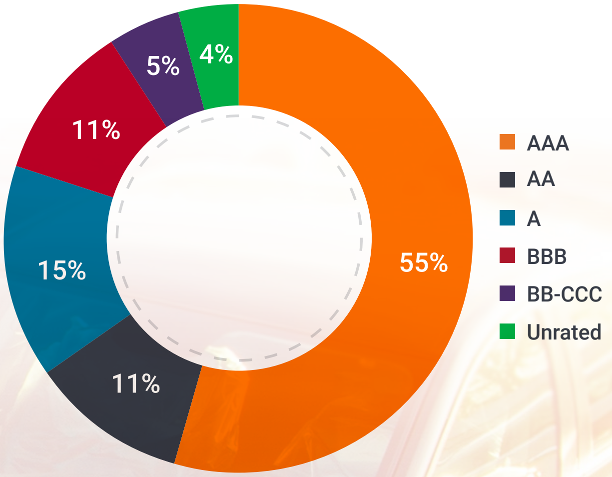
The U.S. ABS market contains over 580 issuers, including Fortune 500 companies such as Toyota, BMW, and American Express, as well as many household names such as Taco Bell, Domino's Pizza, and John Deere.[2]

Auto loans, credit cards, and student loans comprise about 60% of the U.S. ABS market. ABS also exhibit strong credit ratings, with more than half of all U.S. ABS carrying the coveted AAA credit rating.[3] This compares favorably to the corporate investment-grade bond market, which includes only two companies (Johnson & Johnson and Microsoft) that are rated AAA.

U.S. ABS market by subsector



U.S. ABS market by credit rating



Source: Bank of America, as of 31 May 2024.

[2] References made to individual securities do not constitute a recommendation to buy, sell or hold any security, investment strategy or market sector, and should not be assumed to be profitable. Janus Henderson Investors, its affiliated advisor, or its employees, may have a position in the securities mentioned.

[3] Most large ABS issuers are rated by one of the three major rating agencies (Fitch, Moody's, and S&P). Due to cost and other constraints, smaller issuers commonly seek a rating from a non-major agency, such as Kroll Bond Rating Agency (KBRA). In our view, there is no material difference in the dependability of ratings from major and non-major agencies.

Lender exposure

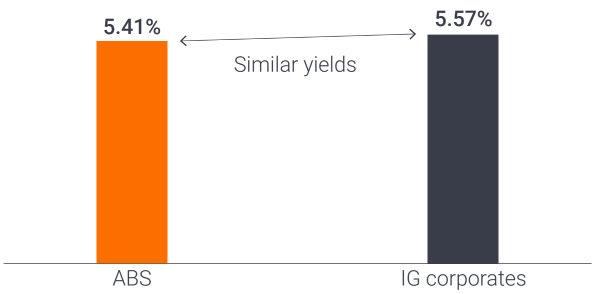
One of the key differences between ABS and many other fixed income assets is that ABS provide access to the vast U.S. consumer lending market. While U.S. Treasuries and corporate bonds give investors exposure to the U.S. government and to corporate issuers, respectively, ABS offer investors access to a broad range of consumer and commercial loans, or cash flow streams.

FIXED INCOME SECTOR	BORROWER EXPOSURE		
	U.S. Government	Corporate / Commercial	Consumer
ABS		✔	✔
U.S. Treasuries	✔		
Corporates		✔	
Agency MBS	✔		
Non-agency mortgages			✔
CMBS	✔	✔	
CLOs		✔	

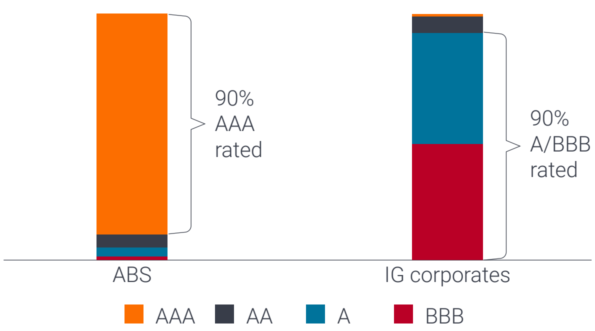
ABS vs. corporate bonds

For many investors, ABS can be an alternative to other debt instruments like investment-grade (IG) corporate bonds. While corporate bonds are an important component of a fixed income portfolio, the addition of ABS may help improve risk-adjusted returns due to their attractive yields, high credit quality, inherently low duration, and low correlation to equities.

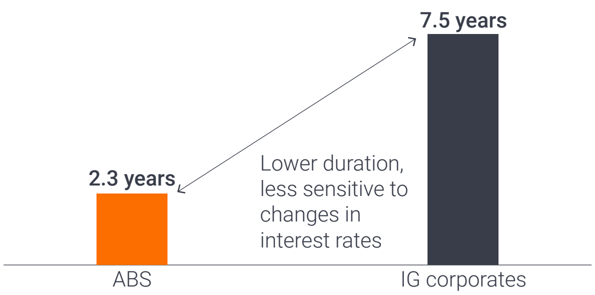
Average yield to worst (Jun 2023 - Jun 2024)



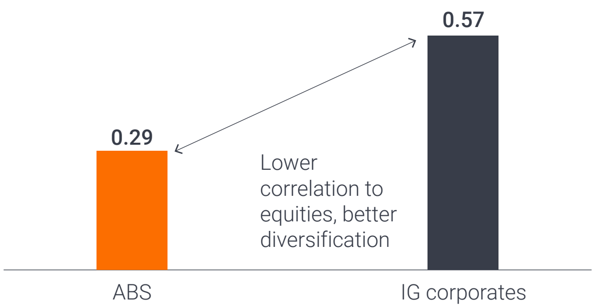
Index credit quality



Average duration (Jun 2014 - Jun 2024)



Correlation to S&P 500® Index (Jun 2014 - Jun 2024)



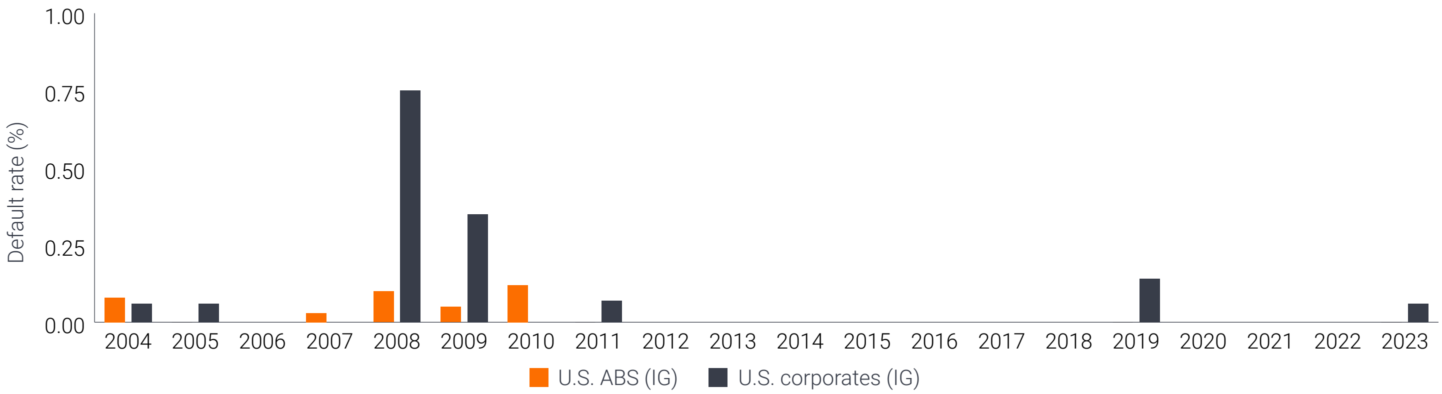
Source: Bloomberg, as of 30 June 2024. Indices used to represent asset classes: ABS = Bloomberg U.S. Aggregate Asset-Backed Securities Index, IG corporates = Bloomberg U.S. Corporate Bond Index. **Past performance does not predict future returns.**

Investor protections

Default rates for ABS have historically compared favorably to investment-grade corporate credit. In fact, from the late 1990s through June 2024, no AAA ABS has defaulted, while 2002 was the only year in which the AA bucket experienced a default.

Even through the Global Financial Crisis (GFC), the default rate on investment-grade U.S. ABS did not rise above 0.12% in a calendar year, whereas IG corporates registered a post-2000 high default rate of 0.75%.

Investment-grade default rates: Corporates vs. ABS (2004 - 2023)



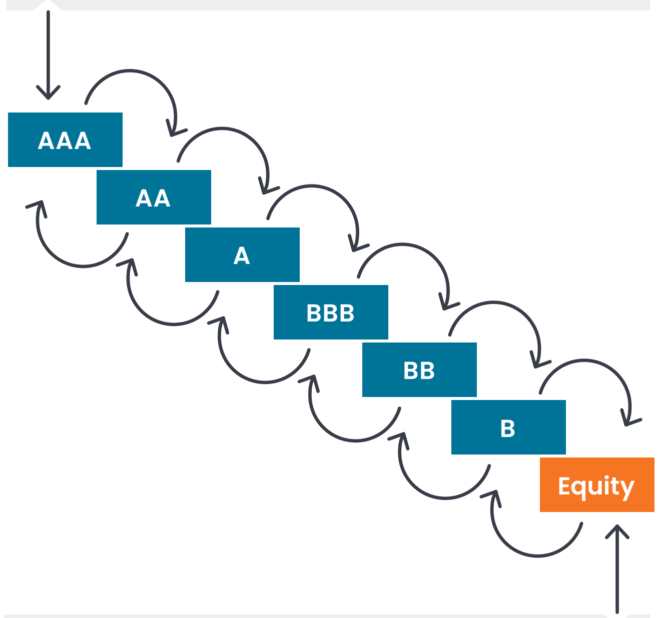
Source: S&P Global Ratings as of 31 December 2023.

The historically low default rates for the U.S. ABS market can be ascribed to consistent underwriting standards and a number of investor protections inherent within the ABS structure, including:

1. **Secured loans** – ABS are funded by a specific pool of assets and backed by the proceeds from those assets instead of the general financial strength of the issuing company. If the issuing company went bankrupt, the ABS would continue to pay interest as the underlying borrowers in the loan pool are obligated to continue making their monthly payments.
2. **Overcollateralization** – ABS structures benefit from overcollateralization, whereby the value of the underlying loans or assets exceeds the face amount of the ABS issued thereon. The additional collateral acts as a buffer in case of default and asset liquidation.
3. **Excess spread** – ABS structures typically benefit from excess spread (i.e., the interest received from the underlying loans typically exceeds the coupon payment paid to investors). The excess spread accumulates in the ABS trust over the life of the security, providing an additional source of loss protection should the ABS structure require it.
4. **Amortizing structure** – Some ABS securities, such as auto ABS, contain amortizing loans where monthly payments include both a principal and interest component. The systematic paying down of principal deleverages the ABS over time, reducing its risk.

ABS waterfall structure

Returns flow down, with loan repayments flowing to the AAA tranche first. The AAA tranche is last in line to incur losses.



Loan losses flow up, borne first by the equity tranche. The equity tranche gets paid last.

5. **Diversification** – In contrast to a corporate bond, where investors are exposed to a single borrower, ABS are usually comprised of pools of thousands of individual loans. This increased level of diversification improves their overall credit quality.

6. **Credit enhancement** – Like other securitized sectors, ABS are structured so that the AAA tranche is the first to receive payments from the underlying loans. Once payments to the AAA securities have been fulfilled, the AA tranche receives its payments, and so on. This is sometimes referred to as a waterfall structure. In the event of defaults, ABS provide additional credit enhancement through subordination, as cash flows are often diverted to the most senior bonds, starting with the AAA tranche and working down. Therefore, in times of stress, the senior tranches pay down quicker, giving investors their principal back sooner.

The importance of active management

There is no one benchmark that is representative of the ABS investment universe. Similarly, the Bloomberg U.S. and Global Aggregate Bond Indexes have de minimis exposure to the ABS market. As such, we believe investors who want to invest in ABS should seek out experienced active managers with a proven track record of investing in securitized markets.

ABS cover a broad universe of subsectors that each have different fundamental and technical characteristics, and which may perform uniquely through the market cycle.

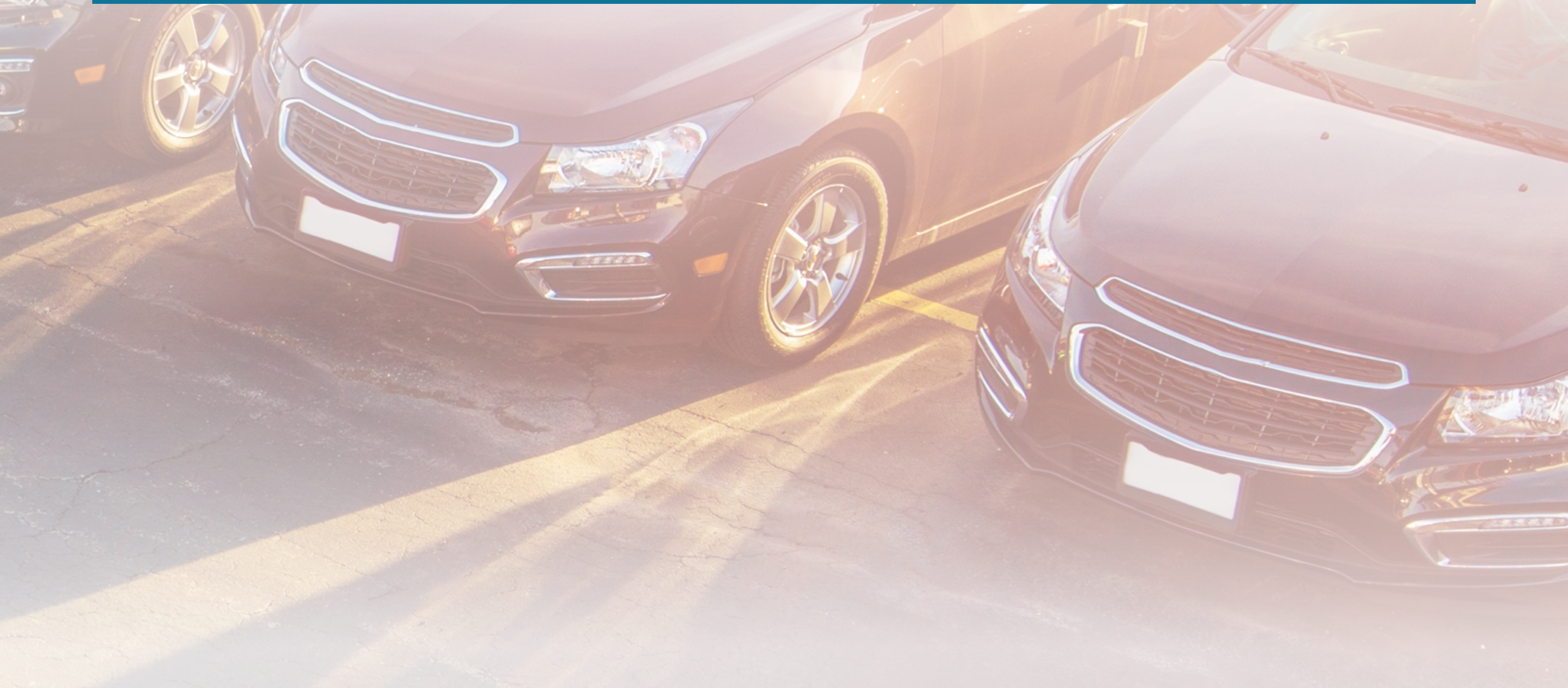
Therefore, investing in ABS requires specialized skill and experience to analyze each asset's investment case and determine how it might perform under varying economic scenarios. A deep understanding of each individual ABS is necessary, which means portfolios must be built with a truly bottom-up approach.

ABS WEIGHT IN U.S. AGG

<0.5%

ABS WEIGHT IN THE GLOBAL AGG

<0.2%



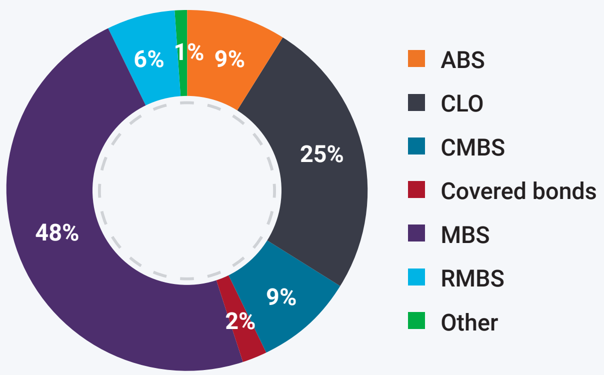
JANUS HENDERSON: SECURITIZED SPECIALISTS

We believe much of the value in active bond asset management comes from security selection. Characteristics of individual securities can vary widely, and it is the role of the asset manager – ideally armed with decades of experience and sophisticated analytic systems – to pick securities that offer better risk-reward potential and combine them into a portfolio with the yield and risk targets that investors seek.

We offer access to the growing and complex securitized market through our single-sector and full coverage products.

Janus Henderson securitized

▸ **$26.8B**
in firmwide securitized assets



Source: Janus Henderson Investors, Bloomberg, Morningstar, as of 31 December 2023.
Note: Firmwide assets include securitized products that may not be available in all regions and securitized portions of other fixed income strategies.

Dedicated U.S. ABS expertise

John Kerschner, CFA
- Head of U.S. Securitized Products, Portfolio Manager
- 33 years of financial industry experience

Will Palamet
- Securitized Products Analyst
- 12 years of financial industry experience

GLOBAL SECURITIZED PLATFORM

6 Portfolio Managers	9 Analysts
23 years average industry experience	13 years average industry experience

KEY INVESTMENT PARTNERS

Quantitative Research	Global Credit Research	Fixed Income Trading	Equity Central Research	Risk Management
4 analysts 12 years average experience	20 analysts 17 years average experience	15 traders 23 years average experience	35 analysts 17 years average experience	8 analysts 15 years average experience

FOR MORE INFORMATION, PLEASE VISIT JANUSHENDERSON.COM

Janus Henderson INVESTORS

Investing involves risk, including the possible loss of principal and fluctuation of value.

The **Bloomberg Global Aggregate Bond Index** is a broad-based measure of the global investment grade fixed-rate debt markets.

The **Bloomberg U.S. Aggregate Asset-Backed Securities (ABS) Index** is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index only includes ABS securities.

The **Bloomberg U.S. 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.

Fixed income securities are subject to interest rate, inflation, credit and default risk. The bond market is volatile. As interest rates rise, bond prices usually fall, and vice versa. The return of principal is not guaranteed, and prices may decline if an issuer fails to make timely payments or its credit strength weakens.

Securitized products, such as mortgage- and asset-backed securities, are more sensitive to interest rate changes, have extension and prepayment risk, and are subject to more credit, valuation and liquidity risk than other fixed-income securities.

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.

High-yield or "junk" bonds involve a greater risk of default and price volatility and can experience sudden and sharp price swings.

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.

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

The S&P 500 Index or Standard & Poor's 500 Index is a market-capitalization-weighted index of 500 leading publicly traded companies in the U.S.

Concentrated investments in a single sector, industry or region will be more susceptible to factors affecting that group and may be more volatile than less concentrated investments or the market as a whole.

Correlation measures the degree to which two variables move in relation to each other. A value of 1.0 implies movement in parallel, -1.0 implies movement in opposite directions, and 0.0 implies no relationship.

Diversification is a common investment strategy that entails buying different types of investments to reduce the risk of market volatility.

Yield to Worst (YTW) is a financial metric that helps investors assess the minimum yield they can expect from a bond under various scenarios. It accounts for the bond's yield in the worst-case scenario, considering factors like call provisions, prepayments, and other features that may affect the bond's cash flows.

Actively managed portfolios may fail to produce the intended results. No investment strategy can ensure a profit or eliminate the risk of loss.

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