

White Paper

The strategic case for AAA CLOs in DC Portfolios

For professional clients only



Executive summary: practical recommendations for navigating CLOs

Collateralised Loan Obligations (CLOs) are gaining traction as a useful addition to diversified fixed income portfolios. Despite their potential to improve portfolio construction, many investors remain cautious due to the complexity of CLOs and lingering concerns from the Global Financial Crisis. This paper draws on the experience of the People's Pension ("PP") and Invesco to offer practical guidance for asset owners, managers, and consultants. It explores how CLOs – particularly AAA-rated tranches – can be integrated into mainstream fixed income strategies, and how delivery mechanisms like ETFs and funds of one can simplify access. By improving transparency and collaboration across stakeholders, CLOs can be better understood and more effectively used within long-term investment frameworks.

For asset owners

AAA-rated CLOs can enhance fixed income portfolios by offering diversification, liquidity, and the potential for strong risk-adjusted returns. Rather than viewing them as niche or opportunistic, asset owners may want to consider integrating CLOs into their core high-grade allocations. Delivery mechanisms such as ETFs or funds of one can simplify access and reduce operational complexity.

For asset managers

Managers play a pivotal role in supporting integration by aligning CLOs structurally with core fixed income strategies. This includes streamlining data and systems to manage complexity without adding workflow burdens, and fostering collaboration between CLO and traditional fixed income teams to break down silos.

For consultants and advisers

Consultants could consider helping clients move beyond outdated perceptions, especially those shaped by the Global Financial Crisis. Clear, jargon-free communication and practical guidance are essential to build understanding and confidence in CLOs as part of a modern fixed income toolkit.

Rethinking fixed income: why CLOs? Why now?

In today's pension landscape, delivering better outcomes for members is more than a regulatory requirement – it's a strategic imperative. As schemes evolve, the design of fixed income portfolios is under the spotlight. Traditionally, fixed income has been seen as a defensive allocation. But that's changing. Investors are now looking for ways to make fixed income work harder – seeking better returns, more effective risk management, and support for long-term member objectives.

"The best results for members come from true partnership – combining the strengths of asset managers and pension providers to create solutions that are greater than the sum of their parts."

Chris Fagan | Chair of The People's Pension Scheme Investment Committee

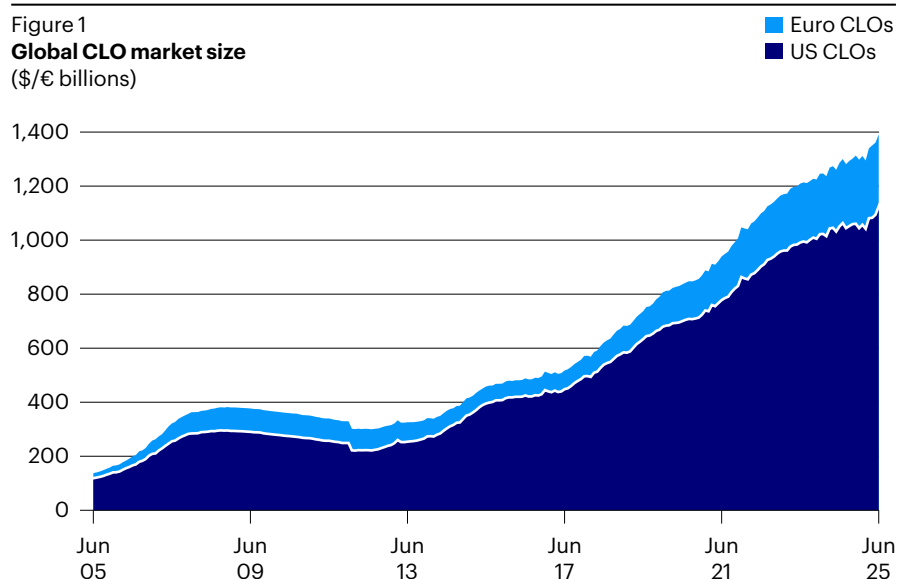
At People's Pension, we've adopted a solutions-oriented lens to rethink how fixed income can work harder for members. Our partnership with Invesco is central to this approach, leveraging deep expertise, shared values, and a commitment to innovation.

The evolving role of CLOs

CLOs have become a much more significant part of the global credit landscape. The global CLO market now stands at approximately \$1.4 trillion, having nearly tripled in size over the last decade as demand for diversified, resilient credit exposure has surged.¹ This growth reflects a shift in how investors view CLOs: not just as niche or complex instruments, but as a more mainstream way to access actively managed pools of senior loans with attractive income potential and robust structural advantages.

CLOs are a practical way to access a broad, actively managed pool of senior loans, with the added benefit of structural advantages. For pension funds, this means more options to meet member needs.

Figure 1
Global CLO market size
(\$/€ billions)



Source: BofA Global Research, Intex through 30 June 2025.



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Out of

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investment grade rated CLO tranches
tracked by S&P Global Ratings, only

19

have ever been impaired³

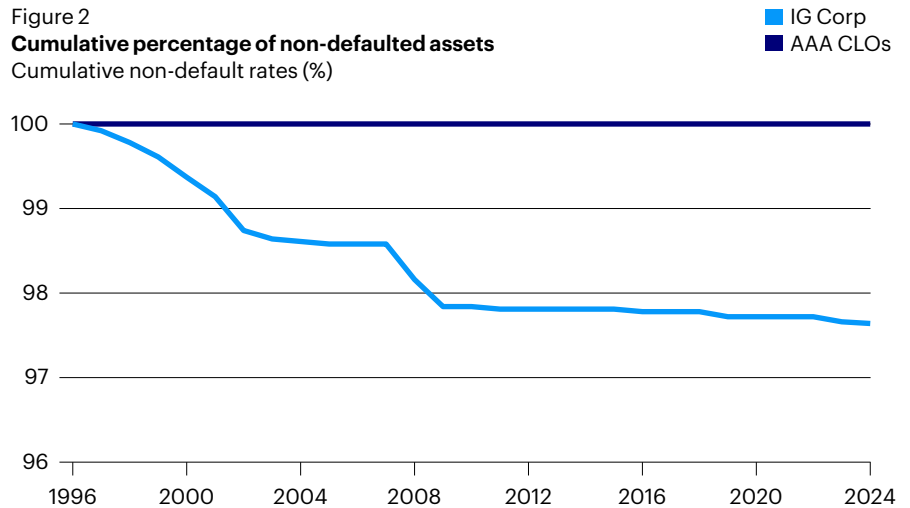
What do CLOs actually offer?

AAA-rated CLOs stand out for their combination of high credit quality, floating-rate exposure, and resilience across market cycles.² Their low duration profile can provide a natural hedge against inflation and rising interest rates, while their historical default track record adds confidence to their risk profile. In fact, out of 23,808 investment grade rated CLO tranches tracked by S&P Global Ratings, only 19 have ever been impaired, and AAA tranches have a record of zero impairments.³

CLOs incorporate rigorous structural advantages, including regular coverage and collateral quality tests. If these are breached, the structure automatically redirects cashflows to cushion senior note holders and de-lever the portfolio, further reducing risk.

Figure 2

Cumulative percentage of non-defaulted assets
Cumulative non-default rates (%)



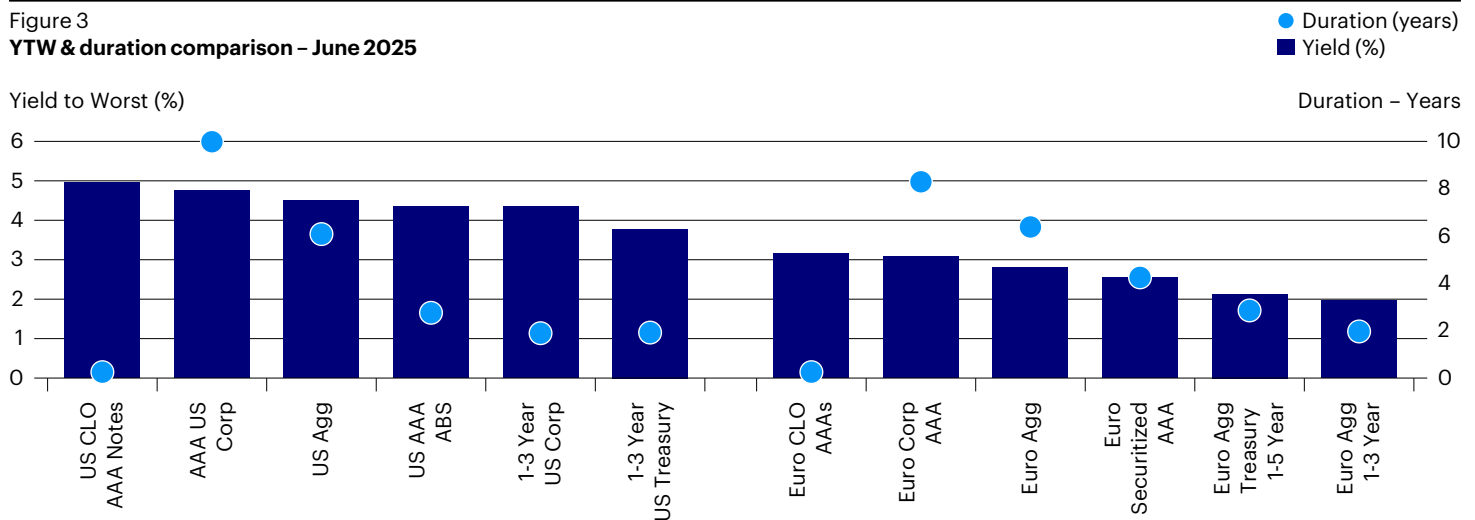
Source: S&P Global Ratings, 2024 Annual Global Leveraged Loan CLO Default And Rating Transition Study.
Past performance does not predict future returns.

CLO AAAs can offer a yield pickup that far outpaces similarly rated corporate bonds,⁴ with volatility levels two to three times lower than the broad US and European investment grade corporate bond markets over the past five years.⁵ Their floating rate structure can also provide a natural hedge against interest rate volatility and inflation, helping to protect member outcomes in uncertain markets.

"AAA-rated CLOs combine income, floating-rate protection, and manageable volatility – making them a practical fit for DC portfolios."

Charlotte Vincent | Co-Head of Fixed Income People's Pension

Figure 3
YTW & duration comparison – June 2025



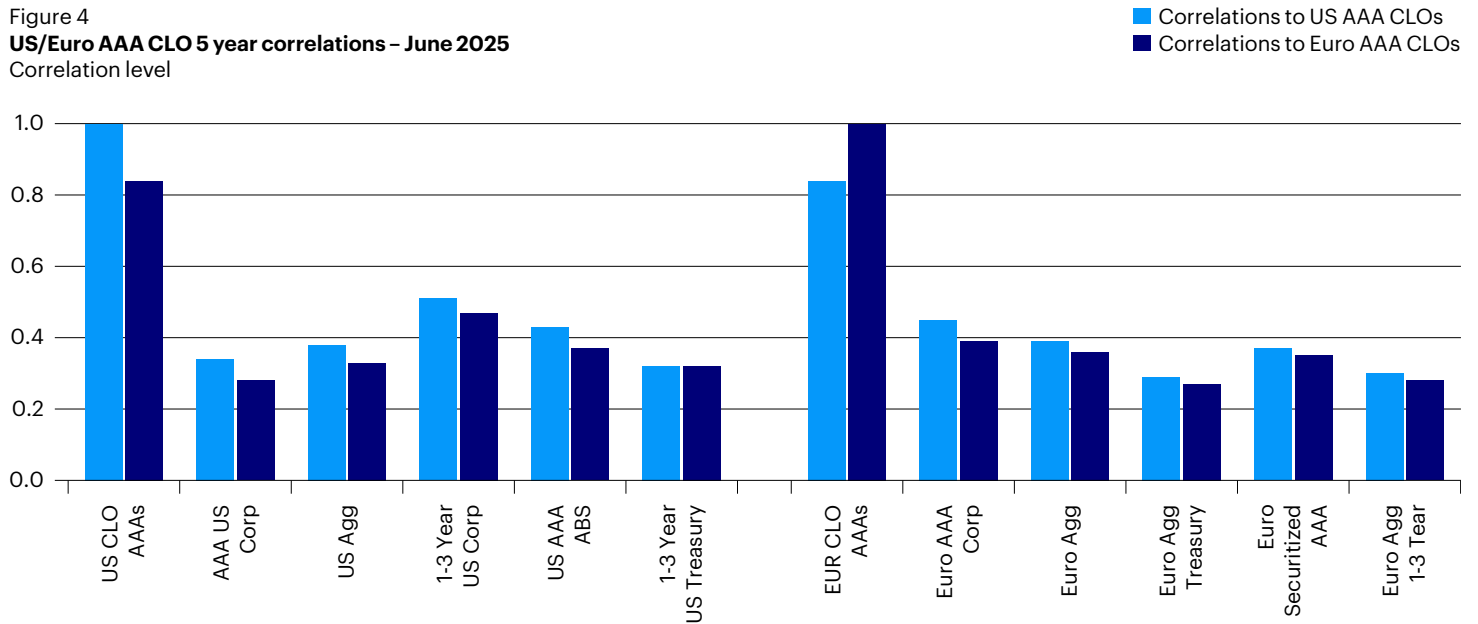
Source: Yield represented by Yield to Worst (YTW). US CLO AAA Notes represented by J.P. Morgan Euro CLOIE AAA Index, AAA US Corporates by Bloomberg U.S. Aaa Corporate Index, AAA US ABS by Bloomberg US Agg. ABS AAA Index, Bloomberg US Aggregate Bond Index by US Agg, 1-3 Yr Treasuries by U.S. Treasury: 1-3 Year Index and 1-3 year U.S. Corp by component of the US Agg index. Euro CLO AAA Notes represented by J.P. Morgan Euro CLOIE Index. Euro Agg 1-3yr by Euro-Aggregate: 1-3 Year Index. Euro Securitized AAA by Bloomberg Euro-Aggregate: Securitized – AAA Index. Euro Agg by Bloomberg Euro-Aggregate Index. Euro Corp IG by Bloomberg Euro-Aggregate: Corporate Index. Euro Corp AAA by Bloomberg Euro-Aggregate Corporate Aaa Index and Euro Agg Treasury 1-5 Yr by Euro-Aggregate: Treasury Index 1-5 Year. All Euro indices are hedged to Euro. An investment cannot be made directly in an index. Past performance does not predict future returns. All data as of 30 June 2025.

CLOs can enhance yield without compromising credit quality, and their modest correlation with traditional bonds and equities supports diversification. This is particularly valuable in DC plans, where portfolio resilience and return consistency are key to member outcomes.

By including CLOs, investors can tap into a broader opportunity set, reducing potential for concentration risk and improving overall portfolio resilience.

“Diversification is at the heart of our investment philosophy. CLOs deliver this on two fronts: across hundreds of loans and through low correlation with other asset classes.”

Dan Mikulskis | CIO People’s Pension



Source: Correlation based on monthly total returns over the trailing 5 years ended 30 June 25. US CLO AAA Notes represented by J.P. Morgan Euro CLOIE AAA Index, AAA US Corporates by Bloomberg U.S. Aaa Corporate Index, AAA US ABS by Bloomberg US Agg. ABS AAA Index, Bloomberg US Aggregate Bond Index by US Agg, 1-3 Yr Treasuries by U.S. Treasury: 1-3 Year Index and 1-3 year U.S. Corp by component of the US Agg index. Euro CLO AAA Notes represented by J.P. Morgan Euro CLOIE Index. Euro Agg 1-3yr by Euro-Aggregate: 1-3 Year Index. Euro Securitized AAA by Bloomberg Euro-Aggregate: Securitized – AAA Index. Euro Agg by Bloomberg Euro-Aggregate Index. Euro Corp IG by Bloomberg Euro-Aggregate: Corporate Index. Euro Corp AAA by Bloomberg Euro-Aggregate Corporate Aaa Index and Euro Agg Treasury 1-5 Yr by Euro-Aggregate: Treasury Index 1-5 Year. All Euro indices are hedged to Euro. An investment cannot be made directly in an index. Past performance does not predict future returns. All data as of 30 June 2025.

Why haven’t DC Schemes used CLOs before?

CLOs have been around for decades, but their reputation took a hit after the Global Financial Crisis (GFC). Many investors still associate securitised products with the risks that surfaced during that period. In reality, CLOs – especially the AAA tranches – performed well through the crisis, with very low impairment rates.⁶ But perceptions have been slow to change.

Operational complexity and a lack of straightforward access have also been barriers. The rise of CLO ETFs and improved reporting standards are now making it easier for DC schemes to consider these assets as part of their core fixed income allocation.

Addressing complexity and liquidity

CLOs are not simple instruments. They come with layers of complexity – structural features, different tranches, and a need for ongoing oversight. Liquidity can also be a concern, especially compared to traditional government or corporate bonds. However, these challenges can be managed.

This is where the partnership with Invesco can add real value. Invesco’s experience as a leading CLO manager means we can navigate the complexity, provide clear reporting, and offer access through vehicles like ETFs that deliver daily liquidity and transparent pricing. Open architecture structures and robust oversight systems help us keep track of risks without adding unnecessary operational burden.

“CLOs do require specialist knowledge and robust systems, but with the right approach, the complexity is manageable. Our job as an asset manager is to make these investments accessible and understandable for clients.”

Michael Craig | Head of European Bank Loans, Invesco

Manager alignment, active management, and oversight

The UK Securitisation Regulation requires CLO managers to retain a 5% net economic interest, ensuring their incentives are closely tied to the long-term performance of the assets.

Invesco's platform brings institutional-scale capabilities to CLO investing, with over 125 professionals and deep coverage across US and European credit markets. Their structured approach to portfolio construction, manager selection, and risk oversight helps ensure that CLO allocations are robust and responsive to market dynamics.

"Active management is crucial in the CLO market. Selecting the right managers and deals, managing risk, and capturing relative value are all areas where expertise makes a real difference. Equally, manager alignment is critical. By retaining a meaningful stake, we ensure our interests are directly linked to the long-term outcomes for our clients and their members."

Scott Baskind | Head of Global Private Credit/CIO, Invesco

"While the market is complex, Invesco's experience and resources allow us to navigate it thoughtfully, always with the best interests of members in mind."

Dan Mikulskis | CIO People's Pension

The ETF wrapper: making CLOs accessible to DC investors

The rise of CLO ETFs has transformed access to the asset class. With over \$39 billion in AUM, these vehicles offer daily liquidity, price transparency, and simplified settlement. They make CLO investing more accessible, enabling diversified exposure across managers, vintages, and tranches – without the operational complexity of direct investment. While CLO ETFs currently represent less than 3% of the global CLO market, their rapid growth is expanding access for a wide range of investors, including DC plans.

"Demand for actively managed ETFs has been accelerating in both the US and Europe, and we are in a strong position of being able to leverage expertise from across our global investment capabilities to deliver proven strategies through our highly efficient UCITS ETF platform."

Matt Tagliani | Head of EMEA ETF Product, Invesco

ESG integration: keeping standards high

ESG integration is central to our approach. Invesco applies a proprietary ESG framework, with analyst-assigned ratings, annual reviews, and full look-through reporting. This ensures transparency and alignment with responsible investment standards, supporting both regulatory compliance and member trust.

"Our partnership is committed to best-in-class ESG integration, leveraging Invesco's global research capabilities and People's Pension's stewardship expertise. Together, we set high standards for responsible investing, ensuring that our portfolios are both resilient and aligned with members' values."

Charlotte Vincent | Co-Head of Fixed Income People's Pension

Continual innovation for member outcomes

At People's Pension and Invesco, we are committed to continually improving our investment proposition. Each enhancement is designed to improve retirement outcomes for DC savers, ensuring our approach remains at the forefront of industry best practice.

Beyond CLOs, the broader case for securitisation is gaining traction. While it accounts for around 50% of GDP in the US, Europe lags significantly at just 7%. Expanding the European securitisation market could unlock substantial economic growth, lower borrowing costs, and create new investment opportunities for long-term capital providers like pension schemes.

*"It is clear that CLOs present a unique investment opportunity by offering the potential for an attractive yield, floating-rate protection, and diversification that can be difficult to find elsewhere. This is why we launched our AAA CLO ETFs, including GBP-hedged share classes of both our USD and EUR AAA CLO ETFs specifically for our UK investors, including DC investors, allowing them to benefit from the strengths of this asset class while ensuring they receive the oversight and transparency they desire. Partnering with Peoples Pension has been an excellent way to unlock the full potential of CLOs, providing access to opportunities for DC Master trusts and allowing end DC members to enjoy the benefits that come with this asset class."*⁷

Mary Cahani | Head of UK DC Distribution, EMEA Invesco

Our partnership demonstrates how asset managers and pension funds can work together to deliver more for members – combining innovation, expertise, and a shared commitment to seeking better outcomes.

Conclusion: four things to know about CLOs

CLOs aren't new, but they're finally getting a fair hearing in fixed income portfolios. Here's what matters:



They do a job

AAA-rated CLOs offer income, floating-rate risk mitigation, and diversification. That's useful in today's market, especially for schemes looking to get more from their bond allocations.



They're not as scary as they sound

The structures are well-tested, and the top-rated tranches have a strong track record – even through tough markets. There are complexities, for example liquidity risk, but these are manageable with the right support.



Access is easier than it used to be

ETFs and fund-of-one structures are making CLOs more accessible, with daily pricing and better transparency. That's a big shift from even a few years ago.



It takes teamwork

Asset owners, managers, and consultants all have a role to play. When everyone's aligned – on data, delivery, and communication – CLOs can be a practical part of long-term portfolio design.

¹ BofA Global Research, Intex through 30 June 2025.

² J.P. Morgan CLOIE AAA Index and J.P. Morgan Euro CLOIE AAA Index, as of 31 August 2025.

³ Source: S&P Global Ratings, 2024 Annual Global Leveraged Loan CLO Default And Rating Transition Study. Past performance does not predict future returns.

⁴ Source: Yield represented by Yield to Worst (YTW). US CLO AAA Notes represented by J.P. Morgan Euro CLOIE AAA Index, AAA US Corporates by Bloomberg U.S. Aaa Corporate Index, AAA US ABS by Bloomberg US Agg. ABS AAA Index, Bloomberg US Aggregate Bond Index by US Agg, 1-3 Yr Treasuries by U.S. Treasury: 1-3 Year Index and 1-3 year U.S. Corp by component of the US Agg index. Euro CLO AAA Notes represented by J.P. Morgan Euro CLOIE Index. Euro Agg 1-3yr by Euro-Aggregate: 1-3 Year Index. Euro Securitized AAA by Bloomberg Euro-Aggregate: Securitized – AAA Index. Euro Agg by Bloomberg Euro-Aggregate Index. Euro Corp IG by Bloomberg Euro-Aggregate: Corporate Index. Euro Corp AAA by Bloomberg Euro-Aggregate Corporate Aaa Index and Euro Agg Treasury 1-5 Yr by Euro-Aggregate: Treasury Index 1-5 Year. All Euro indices are hedged to Euro. An investment cannot be made directly in an index. Past performance does not predict future returns. All data as of 30 June 2025.

⁵ 5 Year annualized volatility levels – J.P. Morgan CLOIE AAA Index (1.53), US IG Corporates (7.53), J.P. Morgan Euro CLOIE AAA Index (1.98), European IG Corporates (5.84). US and European investment grade corporates represented by components of the J.P. Morgan Global Corporate Index. All Euro indices are hedged to Euro. An investment cannot be made directly in an index. Past performance does not predict future returns. All data as of 31 August 2025.

⁶ Past performance does not predict future returns.

⁷ This Fund is only suitable for professional and advanced private investors. For further details, please consult the Fund's supplement.

Investment risks

For complete information on risks, refer to the legal documents.

Value fluctuation: The value of investments, and any income from them, will fluctuate. This may partly be the result of changes in exchange rates. Investors may not get back the full amount invested.

Credit risk: The creditworthiness of the debt the Fund is exposed to may weaken and result in fluctuations in the value of the Fund. There is no guarantee the issuers of debt will repay the interest and capital on the redemption date. The risk is higher when the Fund is exposed to high yield debt securities.

Interest rates: Changes in interest rates will result in fluctuations in the value of the fund.

Liquidity risk: It may be difficult for the Fund to buy or sell certain instruments in stressed market conditions. Consequently, the price obtained when selling such instruments may be lower than under normal market conditions.

CLO Debt Securities Risk: Highly rated tranches of CLO Debt Securities may be downgraded, and in stressed market environments even highly rated tranches of CLO Debt Securities may experience losses due to defaults in the underlying loan collateral, the disappearance of the subordinated/equity tranches, market anticipation of defaults, as well as negative market sentiment with respect to CLO securities as an asset class.

Many senior loans are illiquid, meaning that the investors may not be able to sell them quickly at a fair price and/or that the redemptions may be delayed due to illiquidity of the senior loans. The market for illiquid securities is more volatile than the market for liquid securities. The market for senior loans could be disrupted in the event of an economic downturn or a substantial increase or decrease in interest rates. Senior loans, like most other debt obligations, are subject to the risk of default. The market for senior loans remains less developed in Europe than in the U.S.

Alternative investment products, including private equity, may involve a higher degree of risk, may engage in leveraging and other speculative investment practices that may increase the risk of investment loss, can be highly illiquid, may not be required to provide periodic pricing or valuation information to investors, may involve complex tax structures and delays in distributing important tax information, are not subject to the same regulatory requirements as mutual portfolios, often charge higher fees which may offset any trading profits, and in many cases the underlying investments are not transparent and are known only to the investment manager. There is often no secondary market for private equity interests, and none is expected to develop. There may be restrictions on transferring interests in such investments.

Important information

This product is intended for professional investors only.

All data provided by Invesco unless otherwise noted. All data as at 30 September 2025, unless otherwise noted.

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For information on our funds and the relevant risks, refer to the Key Information Documents/Key Investor Information Documents and Prospectus, and the financial reports, available from [invesco.eu](https://www.invesco.eu). A summary of investor rights is available in English from [invescomanagementcompany.ie](https://www.invescomanagementcompany.ie). The management company may terminate marketing arrangements.

UCITS ETF's units/shares purchased on the secondary market cannot usually be sold directly back to UCITS ETF. Investors must buy and sell units/shares on a secondary market with the assistance of an intermediary (e.g. a stockbroker) and may incur fees for doing so. In addition, investors may pay more than the current net asset value when buying units/shares and may receive less than the current net asset value when selling them.

For the full objectives and investment policy please consult the current prospectus.

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