INCOME RESEARCH + MANAGEMENT

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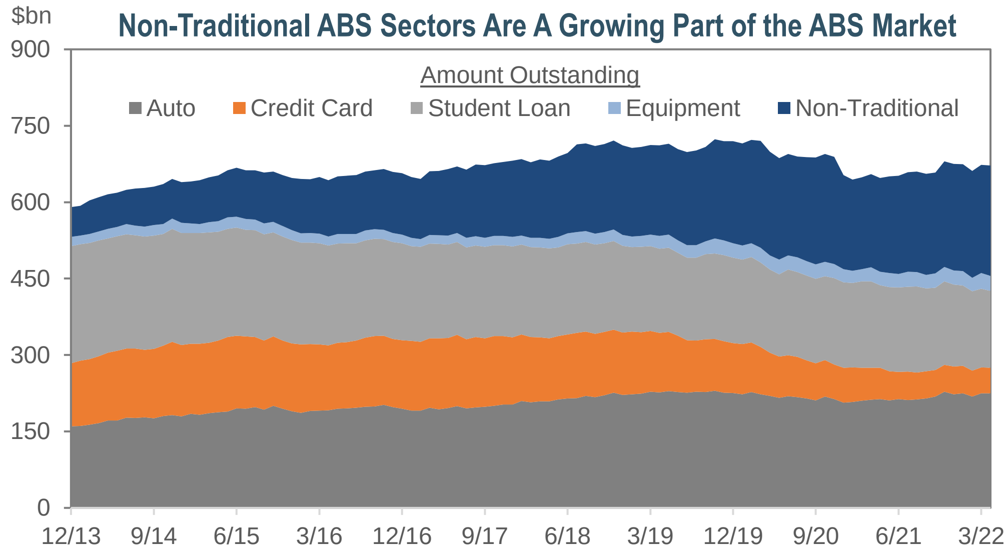
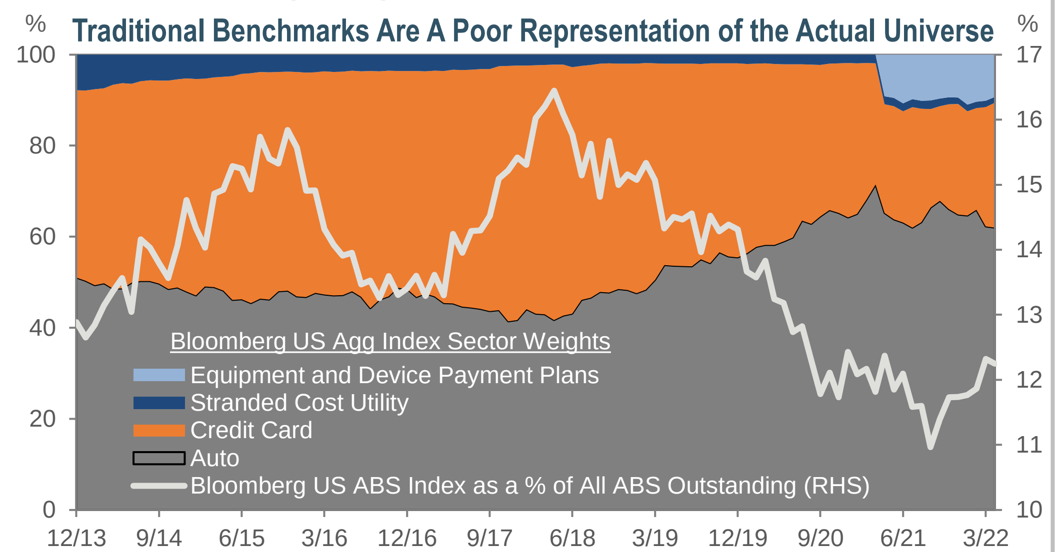
Evolution of the Asset-Backed Securities (ABS) Market

Non-Traditional ABS Sectors Are A Growing Part of the ABS Market



Traditional Benchmarks Are A Poor Representation of the Actual Universe



- The ABS market began in the 1980s with the introduction of prime automobile, credit card, equipment lease, and consumer loan securitizations. The market quickly grew from $1 billion of issuance in 1985 to over $40 billion of issuance in 1990. The early composition of the ABS universe is reminiscent of the ABS sectors currently in the Bloomberg Aggregate Index (Agg). The collateral types included in the Agg were traditionally limited to autos, credit cards, and stranded cost utilities, although motorcycles, equipment, and device payment plans were added in recent years.
- Today, the ABS market totals almost $700 billion– a small slice of the overall fixed income market but comparable to the size of the short-duration investment-grade corporate market when you include the roughly $800 billion of CLOs outstanding. Non-traditional subsectors, such as franchise royalties, single-family rentals, triple-net-leases, data centers, collateralized loan obligations (CLOs), aircraft and railcar leases, and music royalties, were a large contributor to the sector's growth but are not included in many market indices. As a result, less than 15% of the ABS market is index-eligible due to index inclusion rules excluding specific sectors (in addition to excluding floating-rate bonds, 144a securities without registration rights, securities without at least one rating from the 3 major rating agencies, and small issues/tranche sizes).
- At IR+M, we believe the ABS sector offers investors the opportunity to add incremental value across fixed income portfolios. Given the expansion of available collateral types, managers can create even more diversified allocations to ABS subsectors. We believe bottom-up security selectors can find attractively priced securities, especially in the front-end, across both traditional and non-traditional sectors, and index- and non-index-eligible bonds.

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