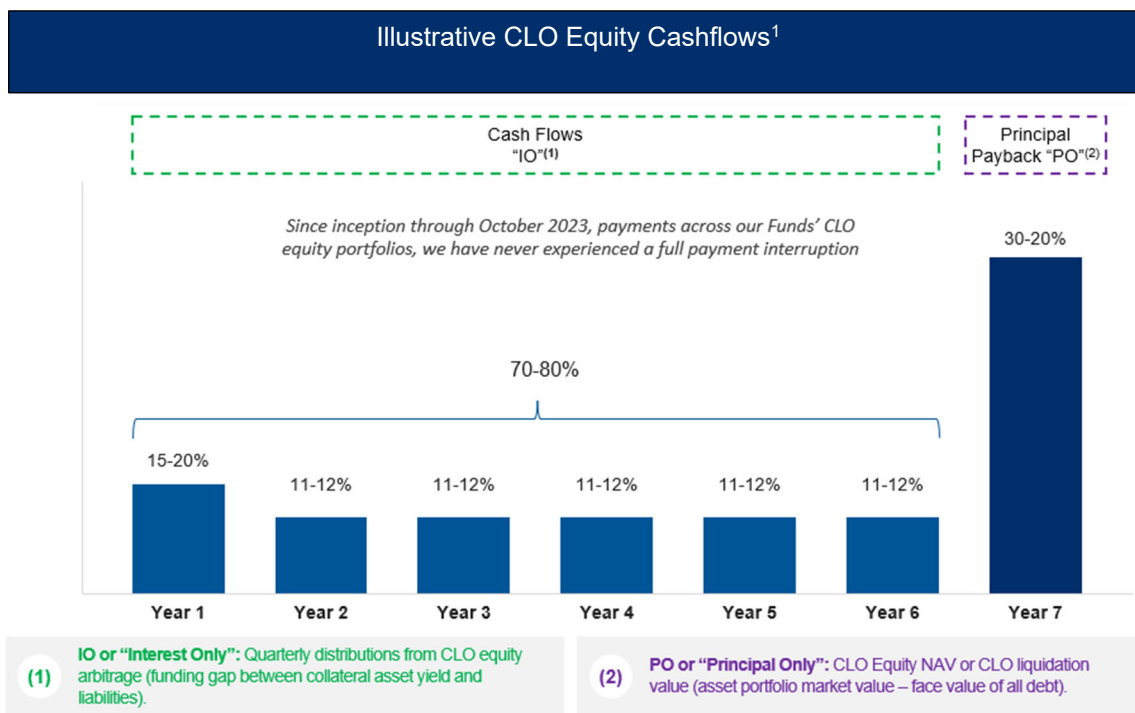


A Closer Look at Secondary CLO Equity Pricing

We believe secondary markets provide compelling entry points into CLO equity based on market observations this year. One of the easiest illustrations of this is through the higher implied discount rates (or forward rate of return) at observable market levels. We see secondary CLO equity opportunities providing better relative value compared to comparable new issue CLO equities, which remain very challenging from a risk-return perspective. Here, we take a closer look at some key metrics in secondary CLO equity pricing—focusing on a CLO equity's observable price premium (or discount) in relation to its underlying loan portfolio NAV (the estimated residual market value of the loan portfolio a CLO equity investor could receive if the CLO's loan portfolio were to be liquidated at that time). Based on Clarion's observations, secondary CLO equities are recently pricing at a discount or a slight premium to the underlying value of the loan portfolio, which we believe makes for a compelling entry point for investors.

As a reminder, a CLO equity investor receives the residual net cashflows of a CLO, which is broken down into two main forms of cashflows over the life of a CLO:

1. Interest generated through CLO's net interest margin ("NIM") and often referred to as "IO" cashflows. These cashflows represent the net difference between the cashflows from the underlying loan portfolio less interest payments to the CLO debt (the funding costs of a CLO). A CLO's NIM can be expressed generally as the underlying loan portfolio's spread less the weighted cost of debt of the CLO. It is important to remember that the loan portfolio of a CLO (its assets) and the CLO debt tranches (its liabilities) are both floating rate and based off SOFR (and thus generally base rate neutral). Moreover, the spread on a CLO's debt is generally fixed at issuance for its life (although CLOs have embedded refinancing options that could lower this cost to the benefit of the CLO equity holders). With these considerations in mind, a key driver of a CLO equity's NIM is the underlying loan spread. As the underlying loan portfolio spread increases, so does the CLO equity NIM (and conversely decreases as loan spread compresses).
2. The ultimate liquidation value of the loan portfolio after incurring a lifetime of realized credit losses from bankruptcies or loss-making sales of loans (offset by lifetime realized gains from trading the loan portfolio and discounted loan purchases that ultimately paydown at par).



Most of the cashflow over the full life of a CLO equity security would be expected to come from the cumulative NIM distributions (about 70% to 80%); whereas the final liquidation value of the loan portfolio would only make a small portion of the overall cashflows to CLO equity investors.¹ But most recently, in secondary markets, many CLO equities are trading at or near the liquidation value (also referred to as "PO" cashflows), with little credit in price given to the long periods of expected IO cashflows of many CLOs.²

So, we asked: what factors cause a secondary CLO equity to trade above or below liquidation NAV?

Based on Clarion's observations, the premium (or discount) in a CLO equity's price relative to its underlying loan portfolio NAV, is directly correlated with the NIM of that CLO equity. This may suggest that market participants may be more willing to pay a premium for a CLO with stronger future IO distributions. CLO equities with higher net interest margins tend to receive a higher price premium relative to deals with lower NIMs. This slight premium in price can also be approximated by a CLO equity's projected distributions (generally up to the next two quarterly payments based on Clarion's observations). In short hand CLO lingo: "NAV plus two payments." In the instances where a CLO equity is priced in-line with its loan portfolio NAV, the purchaser is essentially paying for the residual market value of the loan portfolio with little to no credit given to the future CLO equity IO or NIM distributions in the

¹ Source: Clarion Capital Partners, as of September 29, 2026. The projected cashflow profile is illustrative and hypothetical. Assumes the CLO equity investment is held from the deal's closing date through a projected call two years following the end of the deal's reinvestment period. Calculated as the total projected periodic cashflows to CLO equity over the life of a CLO divided by CLO equity par.

² Clarion Capital Partners, as of September 29, 2026. Based on Clarion's secondary market observations.

purchase price. A CLO equity priced at a discount to NAV may reflect purchasers trying to compensate for deals with low NIMs and thus lower projected CLO equity cash yields through their purchase price. We believe low NIMs lately have been caused by persistent spread compression on the CLO loan portfolios.

We observed secondary CLO equity pricing correlates with CLO equity NIMs.³ Based on our observations, CLO equities with NIMs of 130 basis points or more generally price at a premium to the underlying loan mid-price NAV, whereas CLO equities with lower NIM price at a discount.⁴ One way to support a strong or weak correlation is through a statistical measure known as “R-squared.” Based on Clarion’s observations, the “R-squared” between NIM and premium/(discount) in price was 54% (for reference 100% reflects a perfect correlation). This measure is derived from the plot of secondary CLO equity observations shown further below. This graph shows the relationship of a CLO’s NIM with the price premium/(discount) to its underlying loan NAV. This data suggests that as a CLO’s NIM increases (moving right along the x-axis) the higher the premium buyers are willing to pay. Conversely, as NIM lowers (thus lowering future IO distributions) the more discount a buyer will look for in compensation.

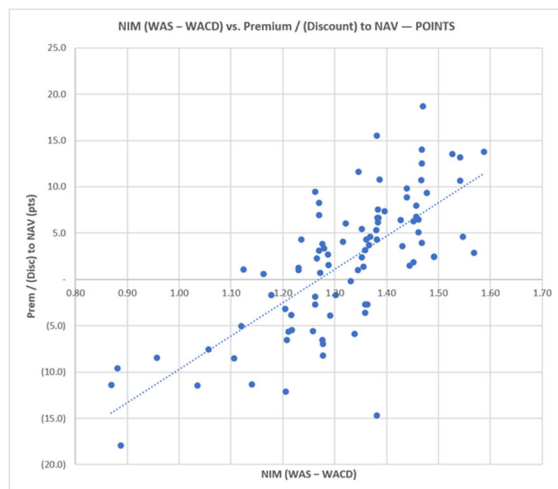
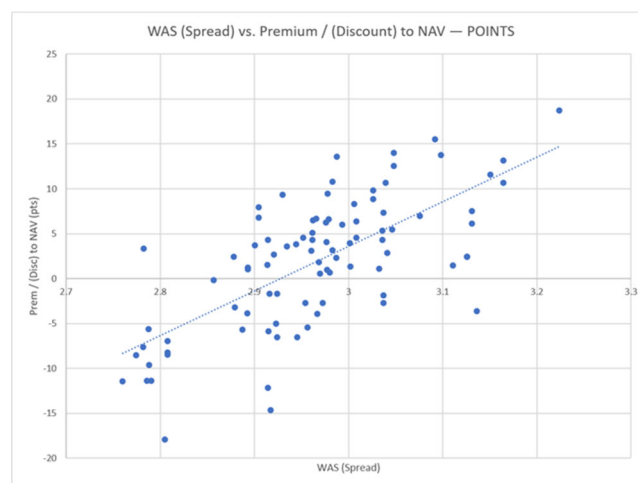
We then sought other metrics that would show such high correlation. The underlying loan spread (called “WAS”) of a CLO’s portfolio demonstrates a similar relationship (although not as strong). Across the same data sample, the “R-squared” between loan portfolio spread and premium/(discount) in price was nearly 48%.⁵ This chart displays a similar relationship to the NIM discussion above.

With new issue CLO equity markets remaining challenged, we believe the secondary market can offer compelling CLO equity opportunities at attractive entry points for new investors—particularly when unpacking the price driving relationships between a CLO equity’s observable market price in conjunction with the underlying loan portfolio WAS and its NIM.

³ Clarion Capital Partners, as of September 29, 2026. Based on Clarion’s secondary market observations.

⁴ Clarion Capital Partners, as of September 16, 2026. Based on secondary market observations from June 30th 2026 to September 16th 2026 and includes 90 observations in Clarion’s sample. In addition, the sample only includes CLOs with three years or more left in reinvestment and a minimum underlying loan portfolio NAV of 20 points.

⁵ Clarion Capital Partners, as of September 16th 2026 and based on the same observations as outlined in a previous footnote.

Premium/Discount in CLO Equity Price by
Net Interest Margin (in points of par)⁴Premium/Discount in CLO Equity Price by Loan
Spread (in points of par)⁵

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