

# ASSET BACKED SECURITIES

Continuing Education Programme

30 September 2021

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Client Portfolio Manager



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# AGENDA

- What is a Securitised Asset?
- An Overview of the ABS Market
- Why Do Investors Allocate to ABS?
- The Elephants in the Room

## Alphabet Soup?



ABS

WAL

CMBS

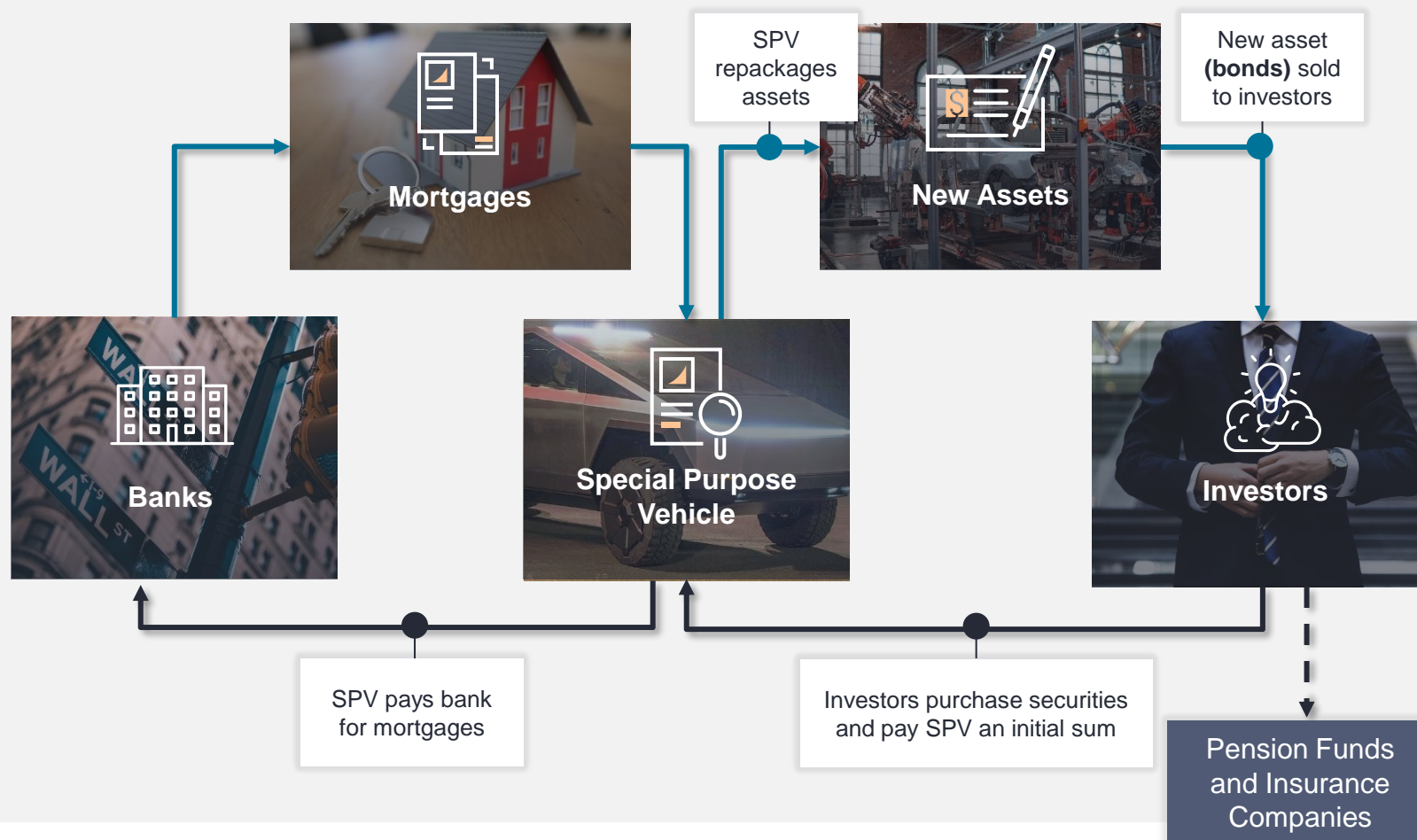
SPV

CLO

RMBS

# WHAT IS SECURITISATION?

Process of transforming an illiquid asset through financial engineering into a tradeable asset-backed security



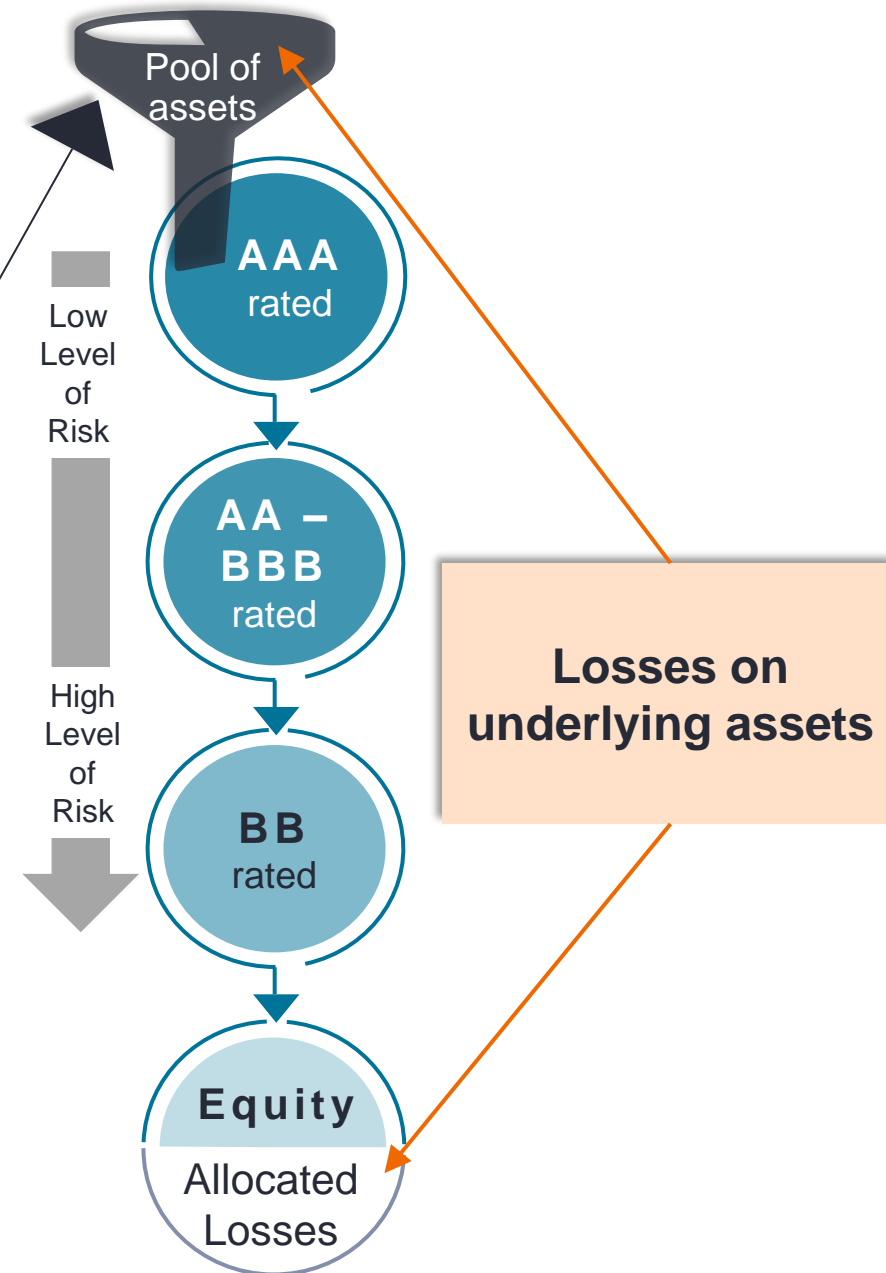
## Importance in the Economy

- Funding tool for the economy
- Allows for the de-risking or transfer of risk from balance sheets
- Provides influx of cash to make additional loans
- Provides investors with access to assets often only held on originators balance sheet

# HOW SECURITISATION WORKS

## Examples

- Residential mortgages (RMBS)
- Commercial mortgages (CMBS)
- Credit Cards
- Car Loans
- Secured Loans (CLO)





# DIFFERENT TYPES OF SECURITISATION

## 5 MAJOR TYPES



### Real Estate Related

RMBS  
CMBS



### ABS

Consumer Loans  
Auto Loans  
Credit Card Loans  
Student Loans



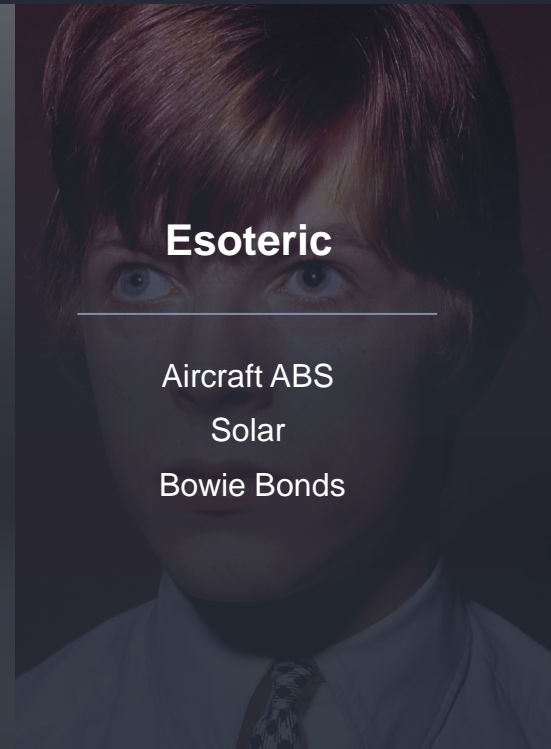
### Commercial

Trade Receivables  
Whole Business  
Securitisations  
Commercial Leases



### Structured Credit

CLOs

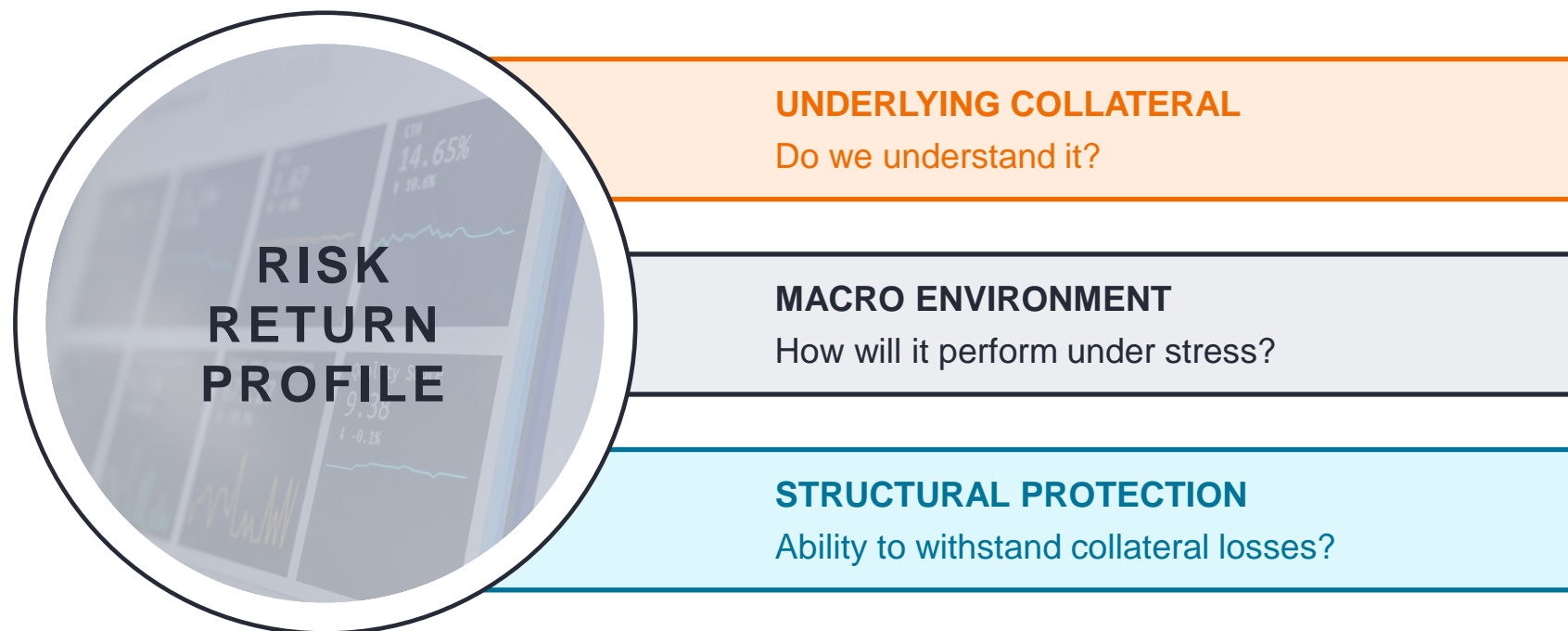


### Esoteric

Aircraft ABS  
Solar  
Bowie Bonds

# KEY DYNAMICS TO UNDERSTAND WHEN ANALYSING ABS

Simplifying a complex asset class



Source: Janus Henderson Investors, Bloomberg, as at 30 September 2021.

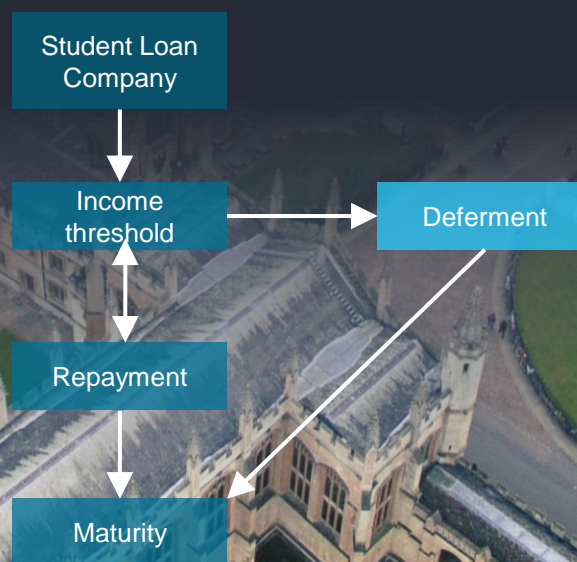


# CASE STUDY: STUDENT LOANS

## Background

- Unusual consumer loans because they can flow in and out of repayment without becoming delinquent.
- The government initially planned to raise total of £15 billion by 2023 from selling SLABS, however the program ended after 2 transactions at about half that size
- 2000-2010 cohorts by year of study
- Investor demand would include bank treasuries, insurance investors, pension fund investors, asset managers and hedge funds`

## Cash Waterfall



## Analysing the risk of the underlying pool, investor questions

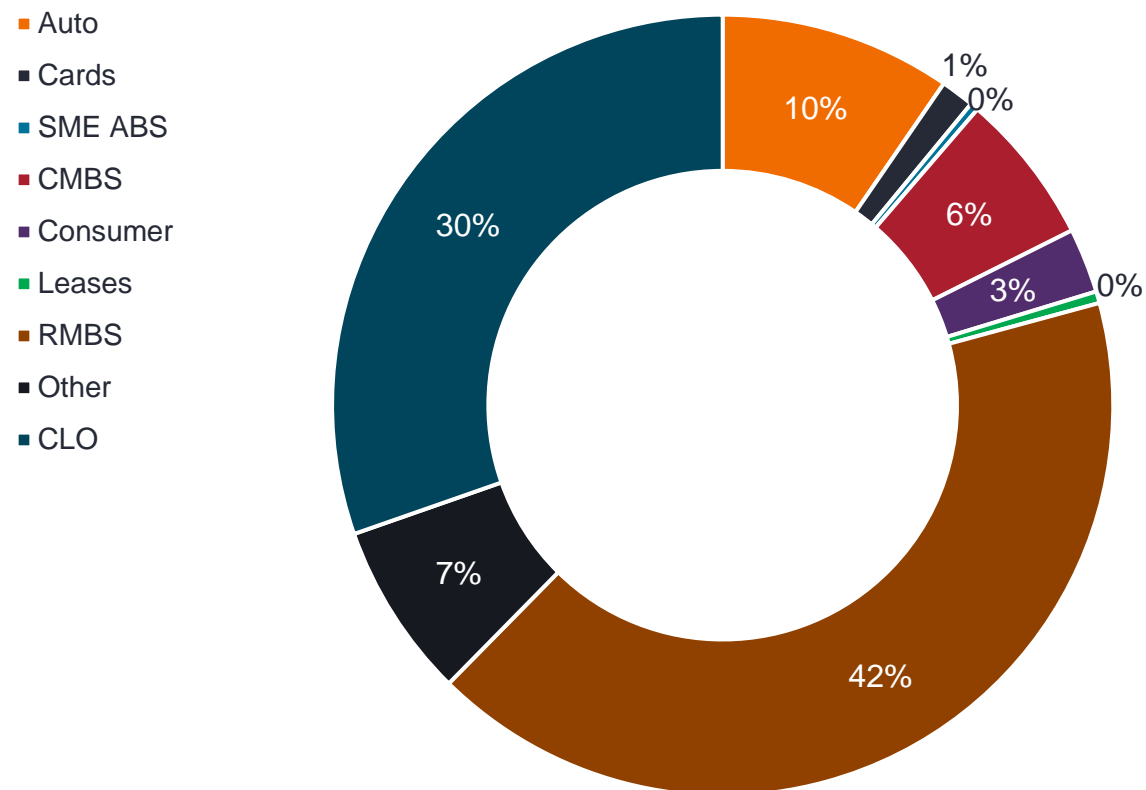
- What university did they go to?
- How old are they now?
- What degree did they study?
- What are they earning now?

# ASSET BACKED SECURITIES MARKET OVERVIEW





# INVESTABLE ABS UNIVERSE – €527bn



Source: RBS, as at September 2021.

Note: Totals may not add up due to rounding. Figures exclude retained issuance by banks.

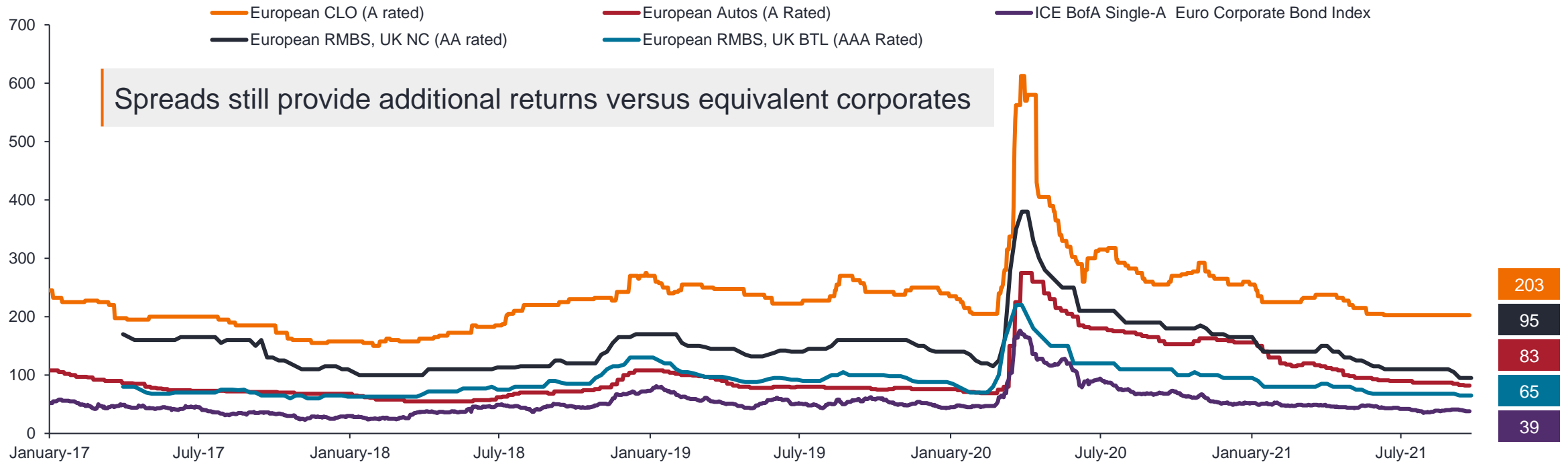
# TYPICAL CORPORATE BONDS AND ABS COMPARED

	Corporate Bonds	Asset Backed Securities
<b>Maturity</b>	Fixed maturity date	Amortising with variable payment profile
<b>Interest rate</b>	Fixed	Floating
<b>Security</b>	Unsecured	Secured on mortgage or loan portfolio
<b>Leverage</b>	Low to medium but often limited restriction on additional borrowing	High for equity but not for senior classes
<b>Management and business risks</b>	Various including corporate event (M&A) risks	Largely mortgage or loan performance specific

Source: Janus Henderson Investors, as at September 2021.

# EUROPEAN COMPARATIVE SPREAD TRENDS

## ABS vs. High Grade Corporate Spreads (bps)



Source: JP Morgan, ICE BofA Single-A Euro Corporate Index, as at 24 September 2021.

# ASSET BACKED SECURITIES THROUGH THE CRISIS

## **The Elephants in the Room**

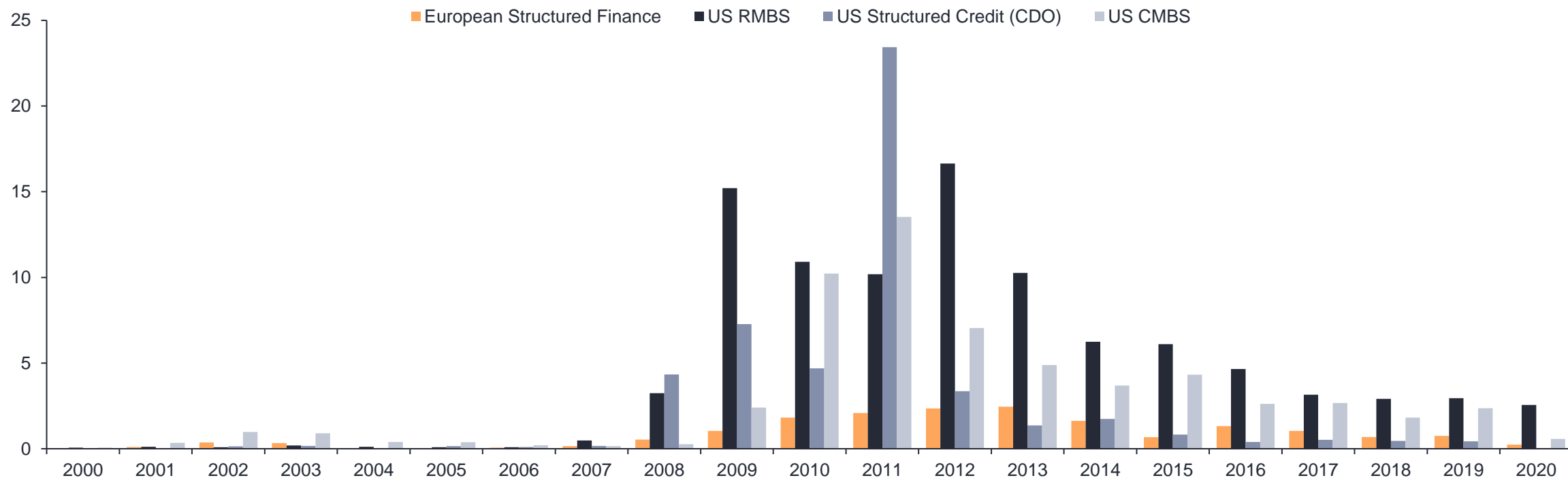
Great Financial Crisis, Liquidity and Performance





# EUROPEAN ABS PERFORMANCE IS STRONG HISTORICALLY

## One Year Default Rates

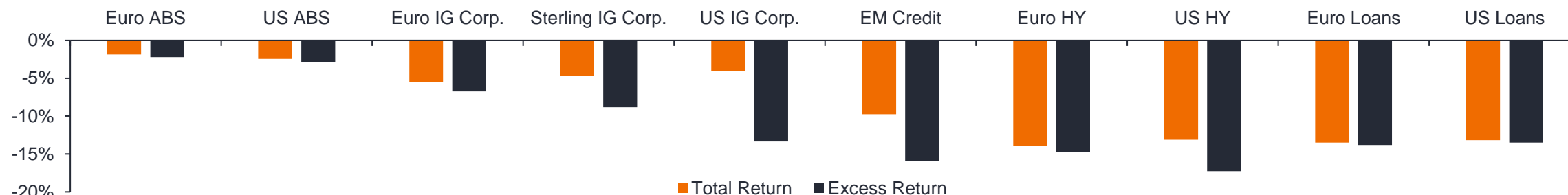


Source: S&P Global Ratings, as at 13 May 2021.

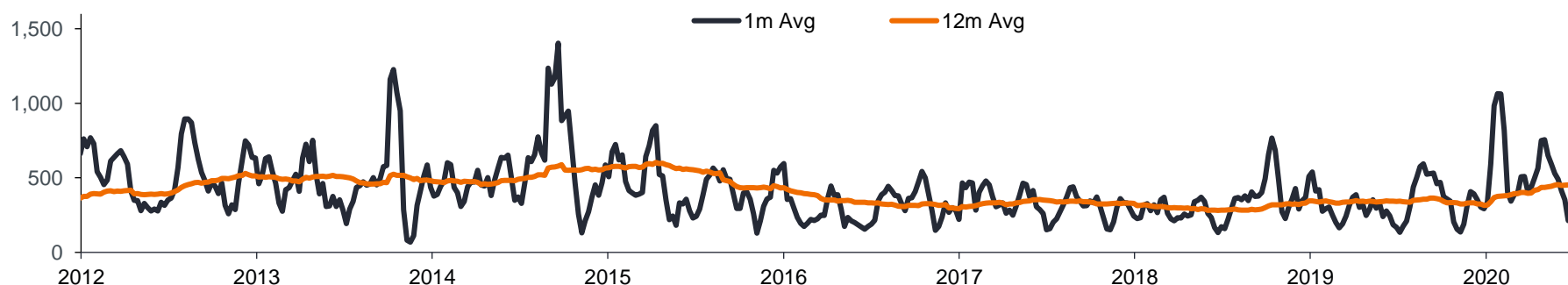
# SHOWING RESILIENCE AMID THE RECENT TURMOIL

European ABS is a high quality asset class that has provided downside protection and liquidity during the covid-19 crisis

## Selected Credit Index Returns (31/12/19 – 31/03/20)



## Volume in Euro (millions)



Substantial 'Bid wanted in competition (BWIC)' activity even during periods of market stress

Source: Janus Henderson Investors, Bloomberg, as at 31 December 2020.

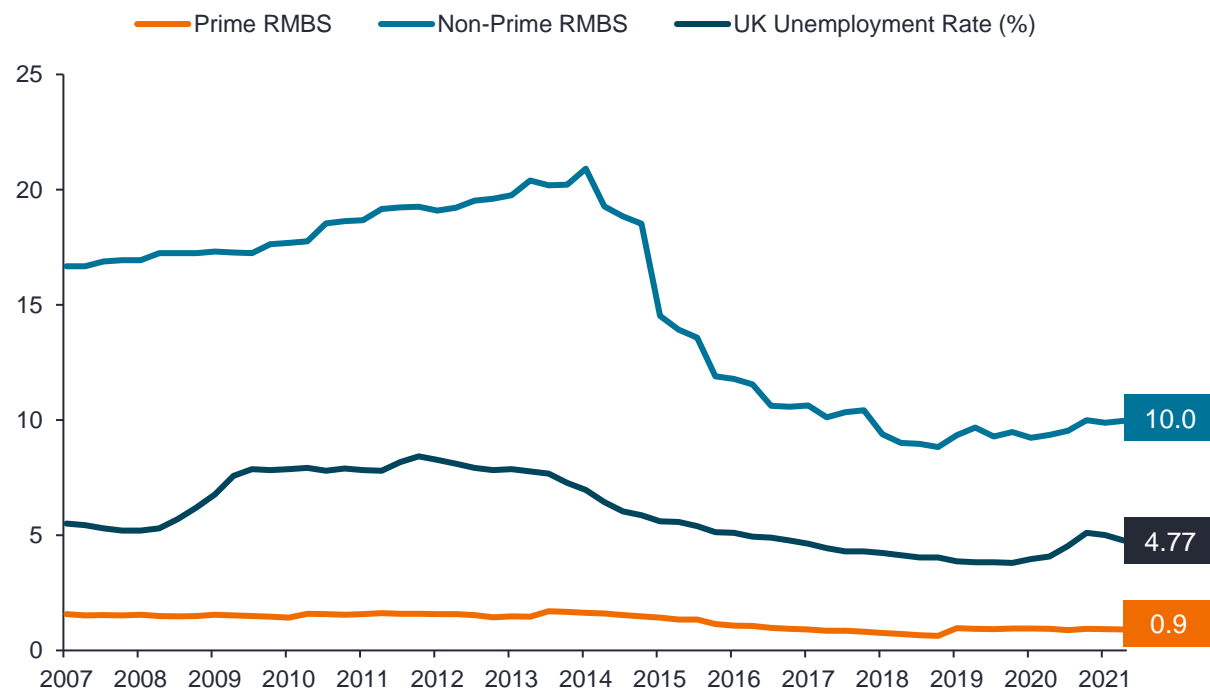
Notes: Returns are hedged to USD, gross of fees. Excess returns are versus swap rates for fixed rate asset classes and Libor for floating rate assets.

Any differences among portfolio securities currencies, share class currencies, and your home currency will expose you to currency risk. Please see end of presentation for index descriptions.

**Past performance is not a guide to future performance.**

# UK MORTGAGE MARKET

## Default Rates and Unemployment (Sep 2007 – June 2021)



- Forbearance
- Furlough
- Interest Rates
- Stamp Duty Relief
- Home Working Environment
- Lender Criteria

RISHI SUNAK

Source: Janus Henderson Investors, Moody's, Bloomberg, as at 30 June 2021.

# HISTORICAL LOSSES ON UNDERLYING COLLATERAL ACROSS SECTORS

Structured to absorb extreme loss scenarios

## Credit Support Levels versus Historical Losses

	Typical Credit Support	Worst Historically Observed Losses*	Credit Support Multiple for Historical Losses
Prime RMBS AAA	14%	1%	20x
Non-Prime RMBS AAA	26%	4%	6x
Non-Prime RMBS AA	21%	4%	5x
Non-Prime RMBS A	10%	4%	3x
Near Prime Auto ABS AAA	44%	5%	9x
CLO AAA	42%	8%	5x
CLO AA	29%	8%	4x
CLO A	23%	8%	3x
CLO BBB	15%	8%	2x
CLO BB	10%	8%	1x

Source: Janus Henderson Investors, Moody's, selected individual transactions from investor presentations, as at 8 June 2021.

Note: \*Worst historically observed losses: CLOs – based on worst 5-year cumulative defaults for the period between 2007 – 2020, based on Moody's speculative grade default data and recovery rate of 65%. Prime and non-conforming RMBS – based on cumulative losses for the period 2007 – 2019. Prime auto ABS – based on Moody's 5-year cumulative loss data on deals up to 2013, Near prime auto – based on selected individual transactions worst vintage cumulative defaults and 40% recovery rate. Janus Henderson estimates for illustrative purposes only. Each transaction will be different and the above are Janus Henderson's ABS team views and should not be construed as advice.



# SECURED CREDIT

## Why Invest?

**Interest rate  
protection**

Predominately  
floating rate coupons  
to protect against  
rising interest rates

**Diversification**

Exposure to risks not  
typically found in  
traditional portfolios

**Security**

Security provides  
downside protection  
in uncertain  
economic  
environment

**Illiquidity  
premium**

Can be captured by  
long term investors

**Returns**

Seek attractive risk  
adjusted returns  
compared to  
investment grade  
bonds;  
Broad range of  
returns dependent  
on risk and liquidity  
profile

Source: Janus Henderson Investors, as at 30 September 2021.

# APPENDIX



# BIOGRAPHY



**Kareena Moledina**

Client Portfolio Manager

Kareena Moledina is a Client Portfolio Manager at Janus Henderson Investors responsible for Corporate Credit and Asset-Backed Securities strategies. Prior to joining Janus Henderson in 2018 as a senior product specialist, Kareena was a senior investment consultant from 2015 with Aon Hewitt, where she was in charge of researching fixed income products and building Aon's fixed income fund of fund solutions. Before that, Kareena spent six years at BlackRock, most recently as a portfolio manager on the UK fixed income team in London and prior to that as an associate in the portfolio analytics group.

Kareena earned a BSc degree (Hons) in actuarial science from the University of London, CASS Business School. She has 13 years of financial industry experience.

Source: Janus Henderson Investors, as at August 2021



# INDEX DESCRIPTIONS

**Euro ABS:** Bloomberg Barclays Pan European FRN ABS Bond Index

**US ABS:** ICE BofA Floating Rate Asset Backed Securities Index

**Euro IG Corp:** ICE BofA Euro Corporate Bond Index

**Sterling IG Corp:** ICE BofA Sterling Corporate Bond Index

**US IG Corp:** ICE BofA US Corporate Bond Index

**EM Credit:** ICE BofA US Emerging Markets Liquid Corporate Plus Index

**Euro HY:** ICE BofA European Currency Non-Financial High Yield 2% Constrained Index

**US HY:** ICE BofA US High Yield Index

**Euro Loans:** Credit Suisse Western European Leveraged Loan Index

**US Loans:** Credit Suisse Leveraged Loan Index

Source: Janus Henderson Investors, as at August 2021



## Contact us

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