

FINDING OPPORTUNITY IN SECURITIZED PRODUCTS

JULY 2026



Fort Washington
Investment Advisors, Inc.

A member of Western & Southern Financial Group

▼ *Uncompromised Focus®*

TABLE OF CONTENTS

Key Points.....	3
What are Securitized Products?.....	3
Evolution of Securitization.....	6
Securitization Post-GFC.....	6
The Ratings Agencies.....	7
Shadow Banking and Structural Appeal.....	8
Relative Value	10
Diversification Benefits	11
Liquidity/Complexity Premium	12
How Securitized Products Fit in a Fixed Income Portfolio.....	14
Conclusion.....	14
Fort Washington.....	15

OVERVIEW



SCOTT WESTON

Managing Director,
Senior Portfolio Manager

Securitized markets have matured notably in the last 10 to 15 years and may offer attractive yields and diversification. This paper outlines the evolution of Securitized Products and how investors may benefit from allocating to the growing asset class.

KEY POINTS

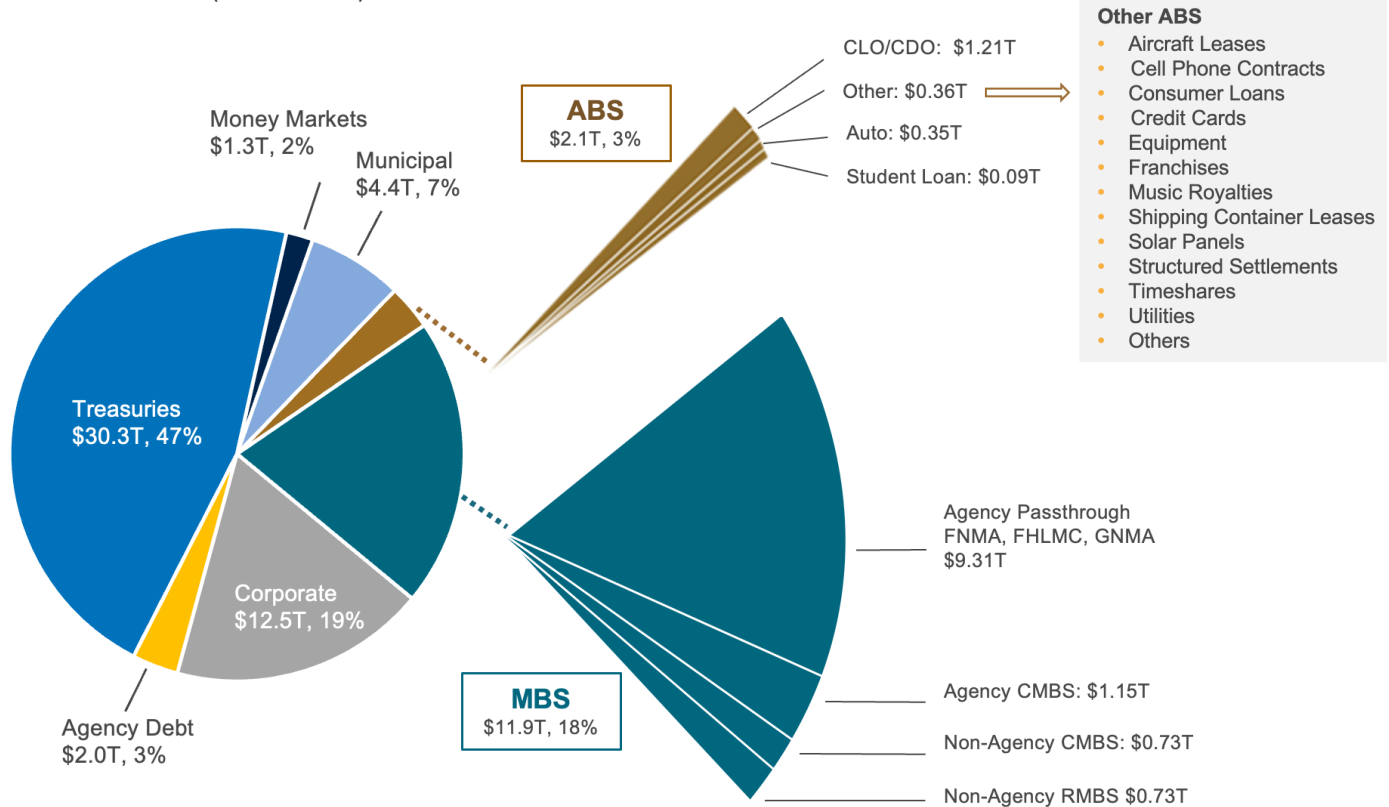
- ▶ Securitized products may offer an attractive long-term risk/return profile and potential sources of both income and return
- ▶ Securitized products can provide investors diversification relative to other fixed-income sectors
- ▶ While many investors may dismiss this segment of the fixed income market as “too risky,” it is our objective to highlight the changes following the Great Financial Crisis (GFC), as well as the structural appeal and relative value of securitized products

WHAT ARE SECURITIZED PRODUCTS?

Securitized products are the second-largest segment of the entire public U.S. bond market, comprising \$14 trillion (22% of the market) and surpassed in size only by U.S. Treasuries at \$30 trillion. Corporate Bonds, while generally perceived to be more commonplace than securitized products, are surprisingly a smaller portion of the market, at \$12.5 trillion (19% of the market). The remaining \$8 trillion is split across smaller sectors including municipal bonds, government agency debt, and money markets. The securitized products market encompasses both Mortgage-Backed Securities (MBS) and Asset-Backed Securities (ABS), which fall into two categories: government/agency (securities ultimately backed by key government agencies including Fannie Mae, Freddie Mac, and Ginnie Mae), and non-agency (securities without the support of a government entity). The focus of this paper is on the non-government guaranteed, or non-agency, segment of the securitized products market. This segment comprises just over 5% of the total U.S. bond market, or \$3.6 trillion (Figure 1).

► Figure 1: The U.S. Bond Market is over \$64 Trillion

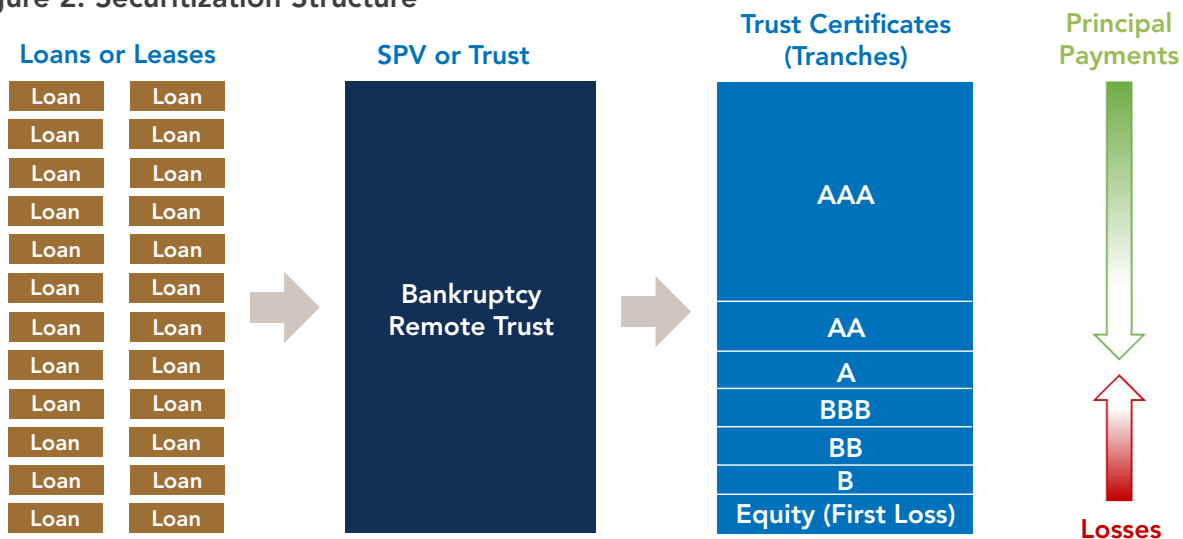
- U.S. Bond Market is over \$64 Trillion
- Securitized (MBS & ABS) is 22% of the market



Source: SIFMA and Bank of America – Treasury, MBS, ABS, Corporate, Agency and Money Market data as of 12/31/2025. Municipal data as of 9/30/2025.

Securitization is the process by which financial assets are pooled and placed into a bankruptcy remote trust (the assets of which are protected from the depositor and/or sponsor of the trust), so they can be repackaged into both equity and interest-bearing securities, also known broadly as asset-backed securities. The cash flows from the underlying assets are passed through to owners of the trust's securities based on rules outlined in the governing document of the trust. These rules create distinct classes, or tranches, which have differing priority of principal repayment and differing application of losses. This results in securities with a range of maturity and risk profiles and, ultimately, return profiles. This tailoring of risk increases the appeal of the trust's securities to a wider range of investors with varying risk and return objectives (Figure 2).

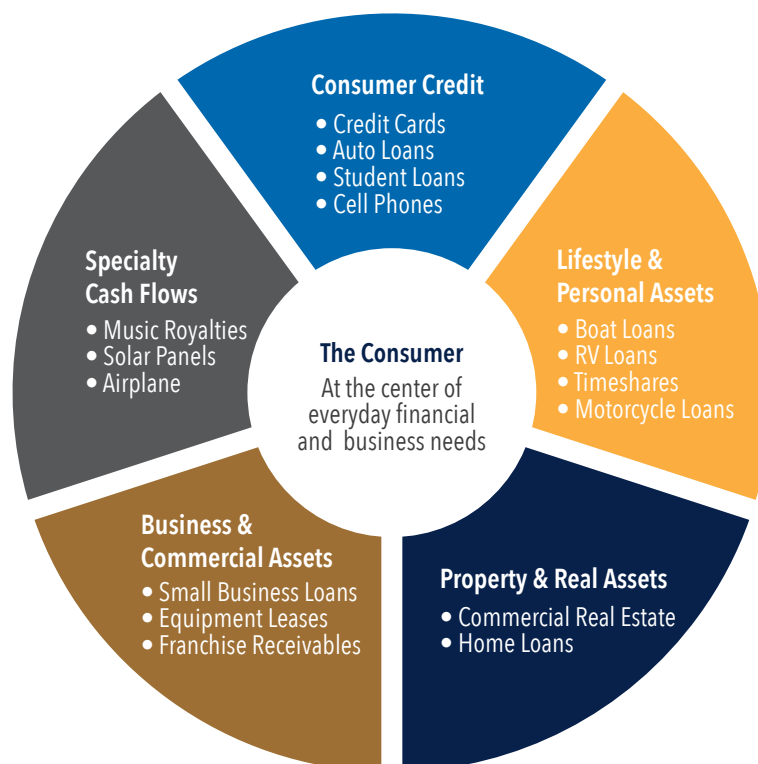
► Figure 2: Securitization Structure



Source: Fort Washington. Tranches with highest credit ratings are senior in the capital structure of the Trust and, therefore, have first priority on the Trust's assets.

Assets typically securitized include residential mortgage loans, auto loans, credit card receivables and commercial real estate loans. Less common assets include equipment leases, tax liens, shipping container leases, solar panel loans, cash flows from restaurant franchises, and many others (Figure 3). Most people are surprised to learn how many of their personal financial obligations are funded through securitization.

► Figure 3: Securitization and the Consumer



EVOLUTION OF SECURITIZATION

Modern securitization in the United States dates to 1970 when the Government National Mortgage Association (Ginnie Mae) sold securities backed by a portfolio of mortgage loans. The idea was to make investing in residential mortgages more attractive to banks and institutional investors. This would increase available capital and lower the cost of home ownership. In the 1980s, tranching became a significant advancement with the introduction of collateralized mortgage obligations (CMOs), as well as new asset types including auto loans, credit card receivables and the first commercial mortgage-backed security (CMBS) in 1984.

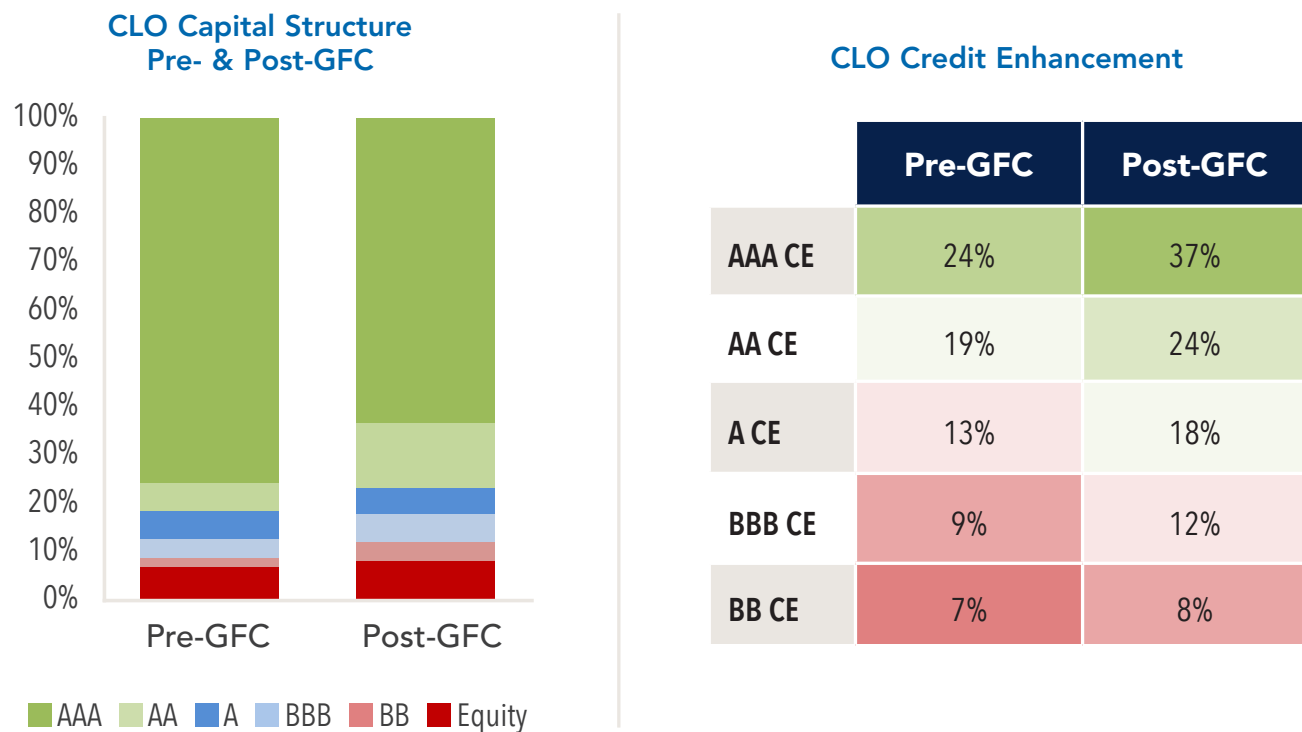
The securitization market evolved rapidly with more collateral types and innovative structures, particularly in the non-agency, or privately sponsored, mortgage markets. The first sub-prime residential mortgages were securitized in the early 1990s. Exponential growth in the non-agency mortgage market through the 1990s and early 2000s changed the dynamic between lenders and borrowers. Traditionally a bank lent money for a mortgage to its customer, held the mortgage loan on its balance sheet, and maintained a relationship with the customer. As securitization exploded, many bank (and non-bank) originators shifted to an “originate-to-securitize” model and retained no exposure to the loans—the alignment of interest between originator and investor, and the relationship with the borrower, broke down. This resulted in weak collateral underwriting, deteriorating securitization structures and, ultimately, the mortgage crisis which devolved into the Great Financial Crisis (GFC) in 2007-2008.

SECURITIZATION POST-GFC

The securitization markets improved markedly after the GFC with stronger collateral underwriting and enhanced securitization structures. The Dodd-Frank Wall Street Reform and Consumer Protection Act strengthened the securitization markets by reducing risks and increasing oversight of banks, lenders and underwriters. Significant improvements included risk retention requirements to ensure alignment of interest between originators, sponsors and investors; the creation of “qualified mortgages” with more stringent underwriting guidelines including an assessment of a borrower’s ability to repay; and the creation of the Consumer Financial Protection Bureau (CFPB) which ensured reasonable lending terms for consumers. In addition to the increased regulatory oversight, investors and rating agencies demanded securitization structures with more credit enhancement, more effective performance triggers, and better collateral quality. Even collateralized loan obligations (CLOs), one of the securitization models that was validated during the GFC and performed well, saw significant structural improvements when the market reopened in 2011 (Figure 4).

The securitization markets today are vastly different compared to the pre-GFC period. When securitization came to a standstill and banking teams were slashed, there was a massive migration of skill and knowledge from the investment banking side of the business to investment management. A number of former bankers and analysts founded investment firms to capitalize on the market dislocation, while others established data analytics companies to support securitized investing. Because of this talent migration and the proliferation of capabilities (better tools and data), the investing side of the business made a giant leap forward, expanding the breadth and depth of securitized markets.

► Figure 4



Source: Fort Washington.

THE RATING AGENCIES

The rating agencies, much maligned for their role in the “race to the bottom,” have seen significant reform. Prior to the GFC, competitive pressures incentivized rating agencies to issue overly optimistic ratings in an effort to increase market share. Institutional investors seeking higher ratings for better capital treatment provided further incentives for rating inflation. These factors combined to promote weaker collateral underwriting and weaker structural protections for investors.

Dodd-Frank implemented reforms in four key areas: it reduced the reliance of regulators on ratings to set capital requirements (banking and insurance); it increased the legal liability of credit rating agencies; it gave the SEC more power to regulate the rating agencies; and it sought to reform the issuer-pay model (outcome to be determined). While the ratings offered by the agencies should only be treated as a single input into a robust risk analysis and investment decision-making framework (and not relied upon exclusively), it is clear that their criteria have improved. The resulting changes produced superior securitization structures, which the rating agencies have maintained, or further improved.

SHADOW BANKING

Today, non-agency securitizations are playing an increasingly important role in the broader financial markets. As banking regulation tightens, bank lending has become more selective. The implementation of Basel III and Dodd-Frank, along with enhanced regulatory and supervisory measures following the failures of First Republic Bank, Silicon Valley Bank, and Signature Bank in 2023, has required banks to assume less risk and maintain higher levels of liquidity in their asset portfolios.

As a result, alternative sources of capital are necessary to support a healthy economy. The securitization and private capital markets have evolved into a form of “shadow banking,” effectively replacing much of the lending function traditionally performed by banks. High-yield leveraged loans (i.e., bank loans), which were historically originated and held on the balance sheets of regional and commercial banks, are now the primary underlying assets in collateralized loan obligations (CLOs). Strong institutional investor demand for CLOs has made them one of the largest segments of the asset-backed securities (ABS) market. Other assets traditionally financed by banks—such as consumer loans, equipment leases, multifamily property loans, and solar panel loans—are now increasingly funded through securitization and private credit markets.

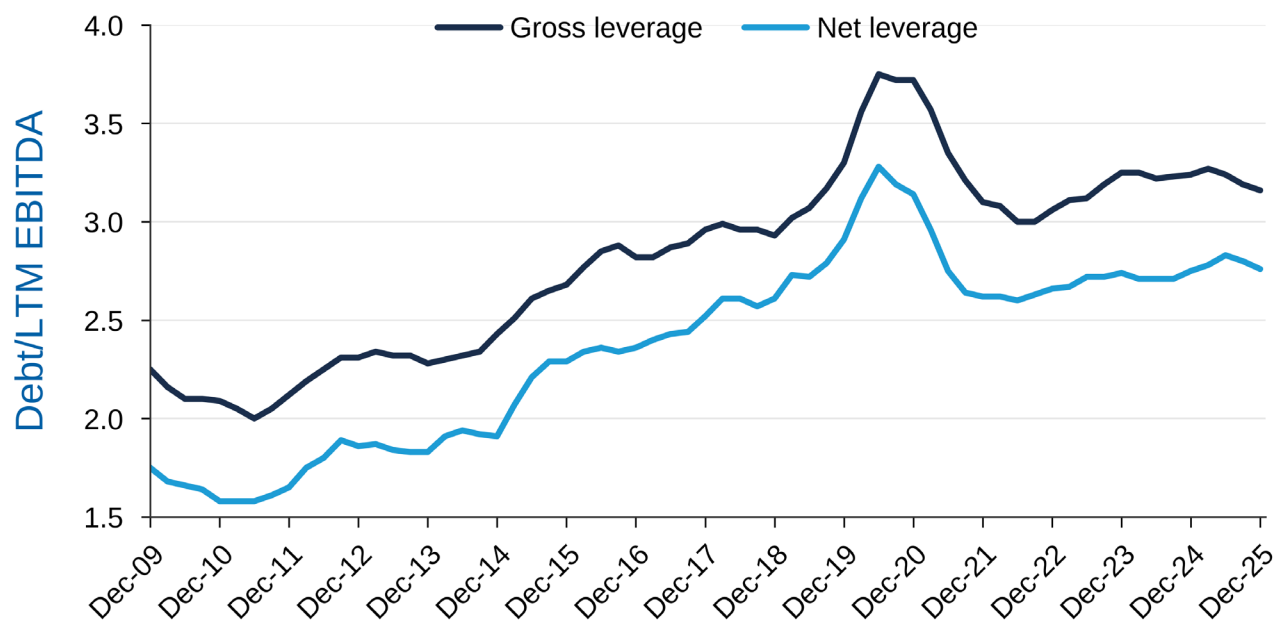
STRUCTURAL APPEAL

Structurally, an ABS is attractive because it is secured debt, most commonly backed by a fixed pool of assets. A well-known trustee serves as a gatekeeper, distributing cash flows to the various parties to the trust and issuing a monthly “health” report on both the underlying assets and the structural features of the trust. The rules governing these trusts tend to be strict, with dynamic triggers (structural changes that occur if the trust and its assets are performing poorly), which can further enhance protections for debt holders. For investors willing and able to process this monthly health report, there is a degree of predictability in future cash flows. Deterioration in cash flow is typically related to macro-economic fundamentals but can occasionally result from weak collateral underwriting, poor performance by the servicer of the asset pool or, in rare circumstances, fraud.

This contrasts with corporate bonds, which also exhibit macro-related performance characteristics, but tend to carry more idiosyncratic risk. The risks can take many forms, including political risk, policy risk, industry disruption, natural disasters, and fraud. Examples include regulatory risk—PG&E’s increased liability from California wildfires in 2018; litigation risk—Mallinckrodt’s opioid litigation during 2017–2020; and commodity price risk—the oil price collapse from late 2014 through 2016. Additionally, there are numerous examples of technological innovation disrupting industries, such as cellphone cameras upending the camera business, and Amazon disrupting traditional brick-and-mortar retailers.

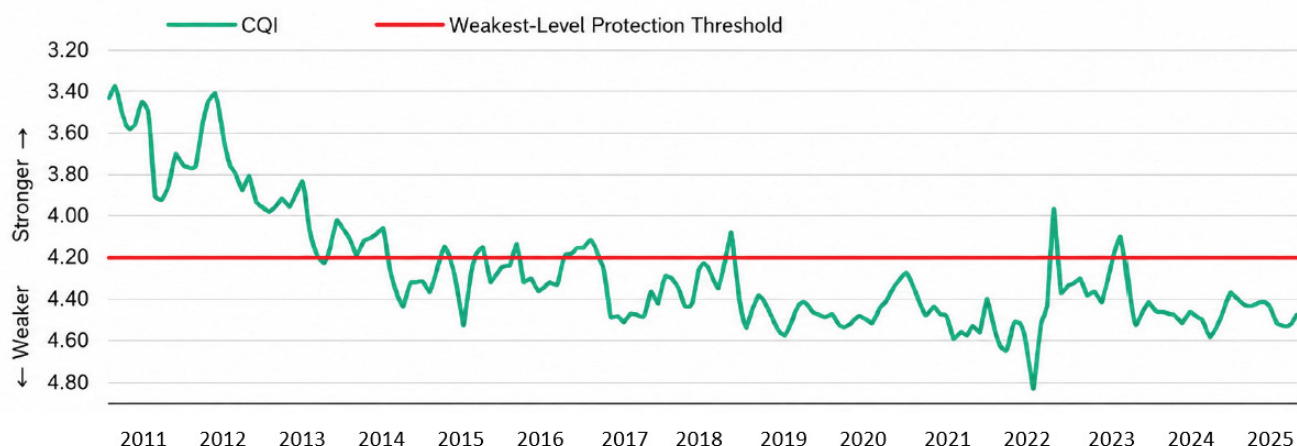
Fundamental risk in the corporate bond market has increased as both gross and net leverage have risen from post-GFC lows (Figure 5). For much of this period, historically low interest rates helped offset this impact by making it easier for companies to service higher debt levels. However, since 2021, rates have risen meaningfully, and debt service burdens are increasing as companies refinance at higher costs. At the same time, investor protections have weakened, as covenants, the legal provisions designed to safeguard lenders, have eroded significantly since the GFC (Figure 6).

► **Figure 5: Median Leverage: Non-Financial, Non-Utility U.S. Issuers**



Source: BofA Credit Market Strategist 3/1/2026.

► **Figure 6: Moody's Covenant Quality Indicator (CQI)**

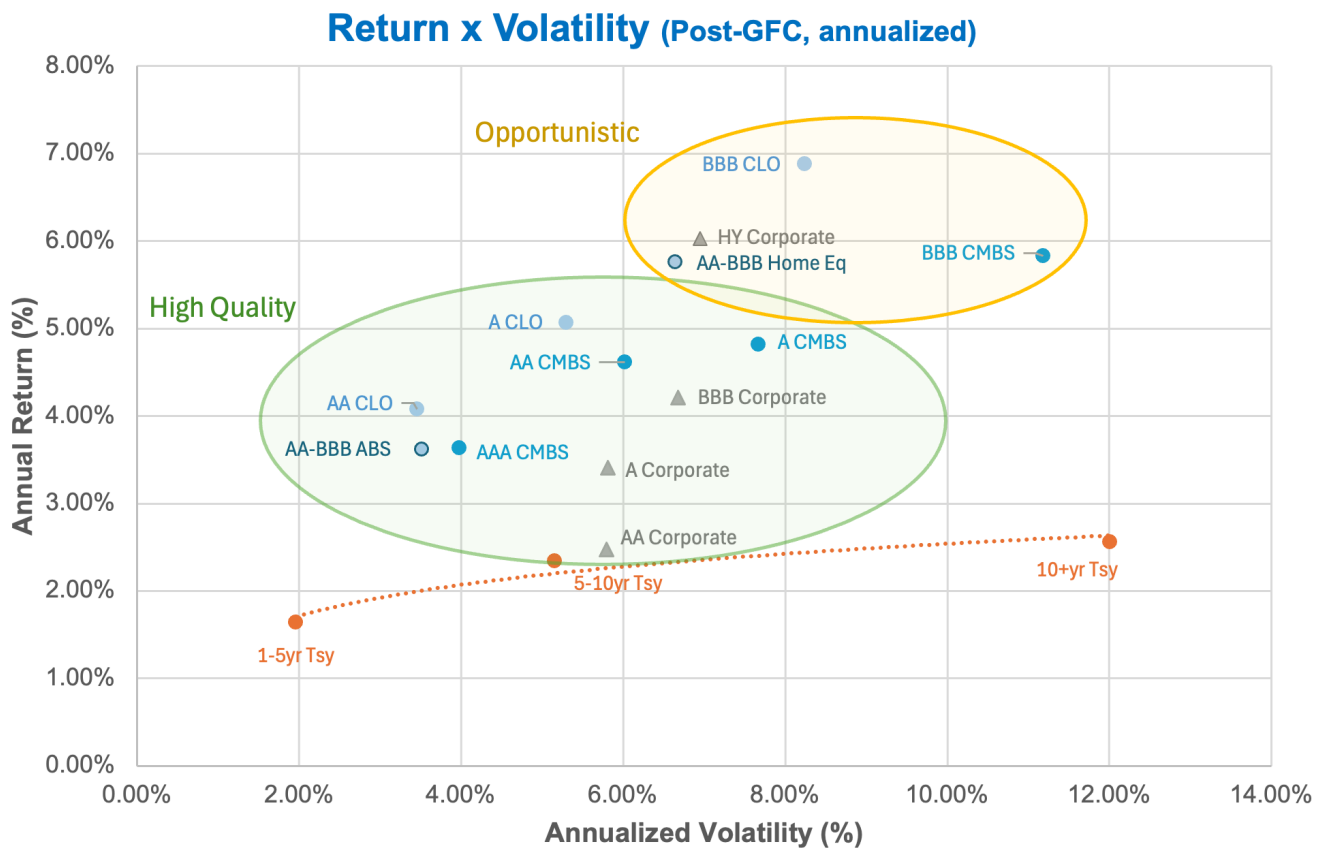


Note: CQI improved with more protective bonds from issuers rated B1 and below
Source: Moody's Ratings as of 12/31/2025

RELATIVE VALUE

In the post-GFC period, securitized credit demonstrated a more efficient risk-return profile relative to traditional corporate bonds, as illustrated in the return-versus-volatility analysis (Figure 7). Across multiple sectors—including ABS, RMBS, CMBS, and CLOs—securitized investments have generated returns comparable to, and in many cases exceeding, those of investment grade and high yield corporates, but with higher credit quality and generally lower realized volatility. This dynamic reflects fundamental structural advantages of securitized instruments including collateral backing, tranche-based credit enhancement, higher spread for a given credit rating, and typically lower spread duration, all of which help dampen downside credit risk and reduce sensitivity to interest rate shocks. By contrast, corporate bonds—particularly unsecured credit—have exhibited greater sensitivity to both interest rate movements and cyclical corporate fundamentals. The result is a more efficient risk-return profile for securitized credit, suggesting that investors have historically been compensated at least as well, if not better, for assuming structured credit risk versus traditional corporate exposure.

► Figure 7



Source: Bloomberg, Palmer Square, Bank of America, Fort Washington. Data for the 15 year period ending 12/31/2025

DIVERSIFICATION BENEFITS

In addition to favorable standalone characteristics, securitized credit provides meaningful diversification benefits within a broader fixed income portfolio. Correlation analysis over the same period highlights that securitized sectors have exhibited lower correlation with both investment grade and high yield corporates, driven by their differentiated risk profile (Figure 8). While corporate bonds are primarily influenced by macroeconomic growth, corporate earnings, and equity market sentiment, securitized assets are more closely tied to underlying collateral performance, structural protections, and idiosyncratic consumer or real asset fundamentals. This distinction has historically resulted in more resilient performance during periods of market stress and interest rate volatility. Incorporating securitized credit into a portfolio therefore not only enhances return potential but also improves overall portfolio efficiency—shifting the efficient frontier outward through a combination of higher risk-adjusted returns and reduced aggregate volatility.

► Figure 8

CORRELATIONS—HIGH QUALITY

Asset Class	Sector	AA CLO	AA-BBB ABS	AAA CMBS	MBS Index	IG Corp	BBG Agg
Securitized	AA CLO	1	0.72	0.35	0.06	0.45	0.16
Securitized	AA-BBB ABS		1	0.70	0.43	0.70	0.54
Securitized	AAA CMBS			1	0.76	0.86	0.87
Securitized	MBS Index				1	0.79	0.94
Corporate	IG Corporate					1	0.91
Aggregate	Bloomberg Agg						1

CORRELATIONS—OPPORTUNISTIC

Asset Class	Sector	BBB CMBS	BBB CLO	AA-BBB HomeEq	BBB Corp	HY Corp
Securitized	BBB CMBS	1	0.59	0.50	0.47	0.44
Securitized	BBB CLO		1	0.64	0.50	0.63
Securitized	AAA-BBB Home Eq			1	0.75	0.60
Corporate	BBB Corporate				1	0.77
Corporate	HY Corporate					1

Source: Bloomberg, BofA and Fort Washington

LIQUIDITY/COMPLEXITY PREMIUM

The spread pickup in securitized credit tends to be positive and material in most market conditions. Securitized investors are effectively trading idiosyncratic risk in corporate bonds for incremental illiquidity risk and a complexity premium in the securitized sectors. This liquidity premium is driven by several factors including the size of the market, pricing transparency and the number of investors and dealers willing to transact in a security at any given time.

Many of the securitized sub-sectors are much smaller markets with fewer investors (measured in the hundreds, versus thousands for some corporate bonds). Quite a few of these sectors are in the \$3 billion to \$50 billion size range, too small for the larger asset aggregators to invest effectively, but large enough for a “right-sized” manager to build meaningful positions. While many of these sub-sectors have matured and are increasingly appropriate for a wider investor base, they can be less efficient and subject to technical pressures (supply and demand). Corporate bonds, while enjoying a larger investor base, have seen dealer participation and inventories pared back considerably in the post-GFC period due to the Dodd-Frank Act and the Basel III framework. As a result, liquidity risk in the corporate market is much higher today (Figure 9). In normally functioning markets, the liquidity in both corporate and securitized bonds is similar. However, when markets become dislocated, corporate bonds tend to have more sponsorship, exhibit less volatility and recover more quickly.

► Figure 9: Dealer Inventories as % of Market Volume

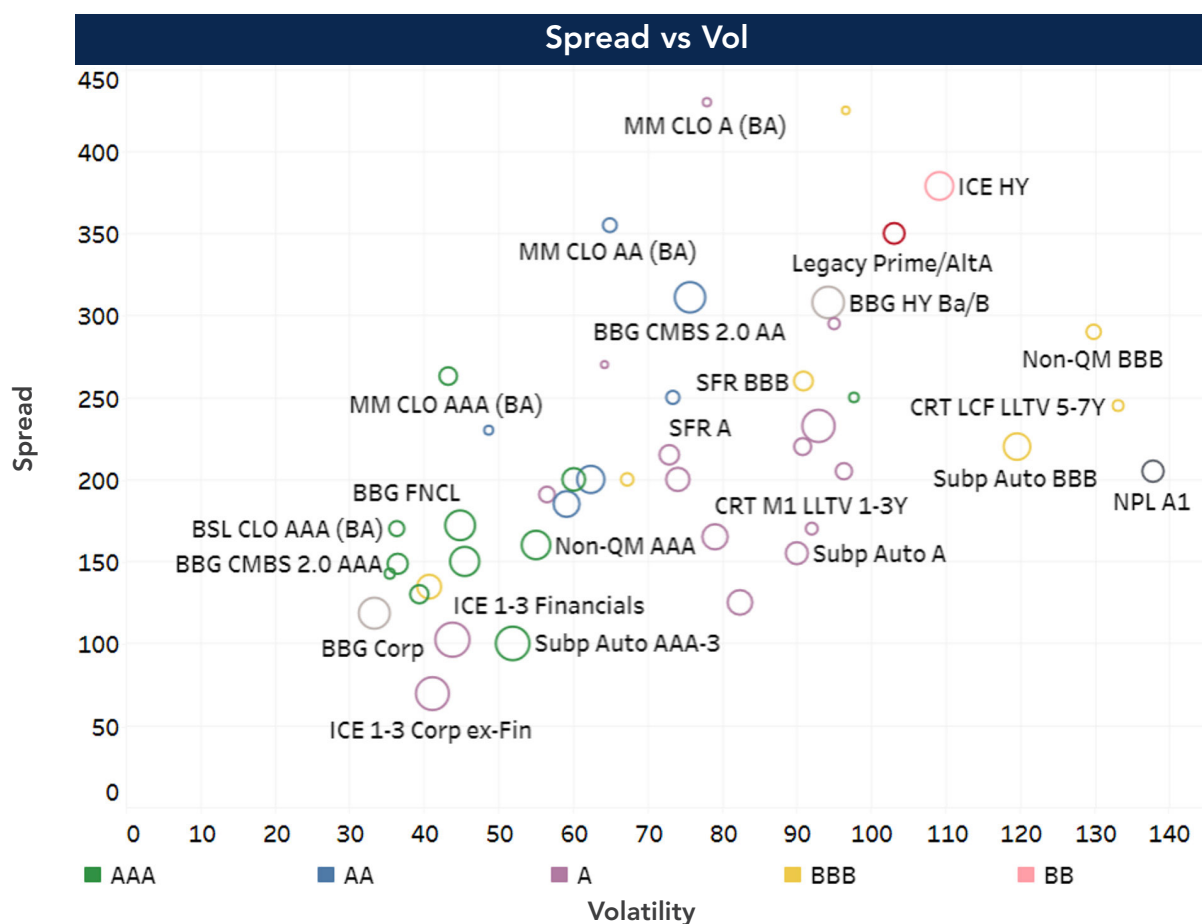


Note: Definition of dealer inventories has changed over time; therefore, BofA Global Research made certain assumptions.

Source: BofA, Fort Washington

The complexity of the securitized markets is somewhat related to liquidity as it does work to reduce the buyer base. Securitized bonds require a high degree of specialization—both foundational knowledge and the ability to source, process and manage a high volume of complex data. This requires internal and external resources including third-party data providers, cash flow modeling, proprietary tools and databases (e.g., Figure 10). Fort Washington’s proprietary spread database compiles more than 100 indices from multiple data sources across many investable sub-sectors of the securitized market. It incorporates proprietary relative value metrics to help standardize the evaluation of current holdings against the broader securitized opportunity set for each investment strategy. Understanding the investor base, the complex securitization structures, how collateral risk is underwritten, and how and where securities are placed into the market are all critical to understanding potential fundamental and technical performance of a securitized bond. As more investors have acquired these skills since the GFC, the securitized markets have matured notably.

► Figure 10: Fort Washington Proprietary Database



Source: Fort Washington Investment Advisors.

HOW SECURITIZED PRODUCTS FIT IN A FIXED INCOME PORTFOLIO

Mortgage-backed securities, asset-backed securities, and commercial mortgage-backed securities comprise a wide swath of the fixed income market and are appropriate for use in most fixed-income portfolios, including both total return and asset-liability management mandates. For total return strategies, securitized products can satisfy a range of risk appetites—from high quality, short duration to higher risk, high-yield applications.

Short Duration:

Historically, securitized products have proven to be an efficient and liquid asset class in the front-end of the curve, offering attractive returns for the risk. Within the Morningstar Short Term and Ultra Short Bond categories, multi-sector securitized-focused funds have tended to be top quartile performers and can help outyield money market funds by 100 basis points or more.

Intermediate Duration/Core Bond:

Multi-sector securitized strategies fit nicely in a core bond, or core plus, framework. Treasuries make up the largest segment of the Bloomberg Aggregate Index at 43%, while Securitized (mainly agency mortgage-backed securities) comes in second with 25%, and Corporate bonds are the third largest with 19%. Top performing multi-sector securitized strategies can add 100 - 125 basis points of alpha to this Securitized sleeve (contributing ~30-35 basis points to the overall core portfolio) with similar price volatility and a modest increase in credit risk vs. the Securitized Index—a strong value proposition.

High Income:

Corporate high yield investors may consider a more opportunistic securitized strategy which invests in a combination of both investment grade and high yield securitized products. When evaluated through a credit and/or rate cycle, these strategies can produce similar returns relative to a high yield corporate index, but with a fraction of the volatility and with substantially lower credit risk.

Asset-Liability Management:

Lastly, short- to intermediate-duration asset/liability management frameworks can benefit from a multi-sector securitized strategy. The high spread, highly rated securitized assets tend to be more capital efficient for a regulated insurance company or bank, while offering compelling returns vs. comparably rated corporate bonds.

CONCLUSION

The securitized markets have made remarkable progress since the GFC. Every year, the investor base increases, particularly in the non-agency, or non-government guaranteed, segments of the markets. We have observed significant gains in the breadth and depth of these markets, with more investors, dealers, and investment banks participating, resulting in improved liquidity.

Importantly, institutional investors have broadly adopted securitized products and consultants and retail investors are increasingly interested. The insurance industry, spurred by private equity sponsors such as Apollo, Blackstone, Carlyle, and KKR, has recognized the value in the asset class and has moved increasingly into the non-agency securitized markets since 2017—industry exposure has increased from 9% to 17% of invested assets as of year-end 2025.*

Although these markets can be less transparent (limited TRACE reporting in the securitized markets) and more technical in nature, these factors actually help to generate compelling relative value opportunities. Investors with the right tools and resources to navigate the liquidity and complexity risks can expect to find promising return opportunities for the foreseeable future.

FORT WASHINGTON

Fort Washington has been investing actively in the securitized markets for more than 20 years and manages \$22 billion in securitized assets. Investors interested in adding a securitized product to the fixed income portion of their portfolio should consider the risks before buying. Fort Washington believes that active management is a key factor in successfully navigating this complex and inefficient marketplace.

*Asset growth estimate based on a proprietary insurance peer group study by Fort Washington Investment Advisors.

This publication has been distributed for informational purposes only and should not be considered as investment advice or a recommendation of any particular security, strategy, or investment product. Opinions expressed in this commentary reflect subjective judgments of the author based on the current market conditions at the time of writing and are subject to change without notice. Information and statistics contained herein have been obtained from sources believed to be reliable but are not guaranteed to be accurate or complete. Past performance is not indicative of future results.

© 2026 Fort Washington Investment Advisors, Inc.



**Fort Washington
Investment Advisors, Inc.**

A member of Western & Southern Financial Group

Uncompromised Focus®

