Bloomberg
New CLO Managers Eye $1.3 Trillion Market, Betting on Return
By Eleanor Duncan and Carmen Arroyo
September 12, 2023

- Arini, Sona market Europe deals, several new firms debut in US
- Interest follows challenging period for CLO issuance, profits

A flurry of hedge funds, direct lenders and others are expecting a revival of the $1.3 trillion collateralized loan obligation market — and they want to be ready to reap the benefits when it happens.

Buzzy new names in credit like Arini, the hedge fund set up by former Credit Suisse Group AG star trader Hamza Lemssouger, and Sona Asset Management have been marketing their first European CLO deals. In the US, several new managers have sold deals recently, while private lender Antares Capital sold its first deal backed by broadly syndicated loans in August. See table for deal details.

CLO manager	Details	Comment
Arini	**Marketing** first European CLO deal	Didn't respond to request for comment
Sona Asset Management	**Marketing** first European CLO deal	Declined to comment
Serone Capital Management	**Hired** Steven Paget in April to lead push into CLOs in Europe	CEO said firm would issue when it makes sense
Antares Capital	Debut **BSL deal** in August	Confirmed debut deal
Warwick Capital Partners	Debut **deal** in US in August	Confirmed debut deal
MCCP Investment Partners	Debut **deal** in US in August	Spokesperson didn't respond to request for comment
Katayma Credit Management (subsidiary of **Kuvare Insurance Services**)	**Marketing** its first US transaction	Confirmed debut deal
Pemberton Asset Management	**Launched** debut deal in Europe	Declined to comment
AB CarVal Investors LP	Tapped Morgan Stanley to arrange debut European CLO, **Bloomberg reported**	Declined to comment

The renewed interest in CLOs, which repackage leveraged loans into bonds of varying risk and size, comes after a very slow year for the market. A dearth of M&A has squeezed the supply of new loans, while a lack of demand for the liabilities has pushed US CLO issuance down about 21% year-to-date compared with the same period last year. In Europe, new deals are down 12%, according to data compiled by Bloomberg.

Profits have also been squeezed for CLO managers over the past year. The lack of M&A meant they've had to turn to the secondary market, where loan prices have been rising. That mismatch between loan and bond prices hurt the arbitrage opportunity for CLOs — the gap between the yields CLO managers can earn on the loans they buy, and what they pay to finance themselves with the riskiest securities they issue known as equity.

But the firms setting up CLO platforms now are looking further ahead. They're betting that the market will recover as interest rates stabilize and deals pick up, and they hope to benefit from the steady income stream the asset class can provide.

"The new CLO platforms are hopeful that when economic activity resumes and therefore new loan supply resumes, they will be fully ramped up to operate," said Kos Vavelidis, a finance partner at DLA Piper. "Firms are taking steps now to build their platforms and their names in the market."

Spreads Improve

A key metric — CLO spreads — is already starting to improve. Triple-A rated portions of CLOs in the US, which make up 60% of the bonds, have come in, with some recent deals pricing at around 170 basis points over the Secured Overnight Financing Rate or tighter, after extending to around 260 basis points in late 2022 amid a lack of demand. European spreads have also tightened.

"New CLO collateral managers in the US who had opened warehouses months ago are starting to see a window to issue," said Dan Ko, senior principal and portfolio manager at Eagle Point Credit Management. "CLO AAAs have started to tighten, mainly driven by demand from Japanese banks, but there's still room to run."

For new entrants, CLOs can be a natural extension of their business, especially if they are already working in other types of high yield credit and are able to capitalize on volatile periods in the market. And managers can typically get a reliable income from CLOs, locking in as much as 0.5% of the value of the loan asset, plus bonuses, for six or seven years or longer.

"A lot of these shops like Arini are coming from more of a trading or hedge fund-style background," said Laila Kollmorgen, CLO investor at PineBridge Investments. "They have a view that there is going to be volatility and opportunity for trading, and are hoping to bring that skill set to managing CLOs, so that they can boost IRRs through active management and trading."