

# It's time to put the shop in order

After a lacklustre year for the CLO market, the 539 respondents to our comprehensive survey are increasingly calling for structural changes, from electronic trading to standardised documents

by Tom Davidson

**W**hat kind of market are we in right now? When we ran our *Creditflux* CLO Census in 2021 the answer was easy. After a banner year, our respondents were in an ebullient mood, with over 80% agreeing that the CLO arbitrage had been great. Their greatest concern was the impending transition from Libor to Sofr.

Last year, global macro-economic challenges plunged leveraged loan markets

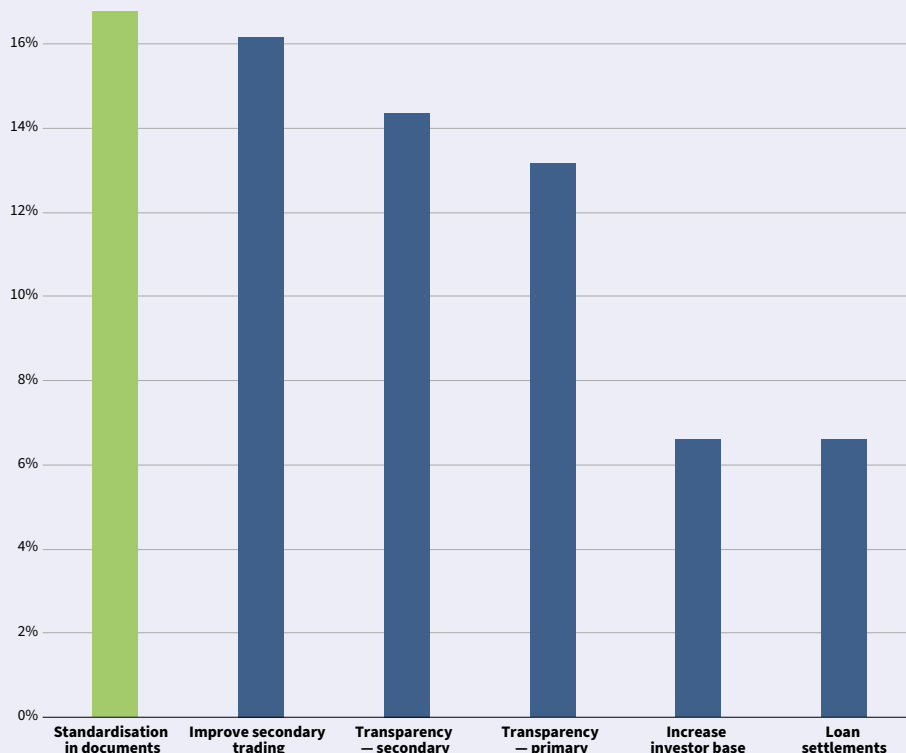
to stressed levels, and the biggest gripe in our census was that there are not enough investors: 14.4% of respondents called for a broader investor base.

So what does our CLO Census say about market sentiment this year? The answer is more mixed. It hasn't been a bad year (global issuance stands at \$130bn as we go to press), but it hasn't been a great one. The spectre of recession looms over Europe, and even in the US talk of a soft landing is receding. Both those trends are reflected in the census.

The concerns about the CLO investor base, which were so prevalent last year, have fallen away. Only 6% of respondents chose that option in our freeform question on what they would change about the CLO market.

This result is reflected in our question explicitly asking about our readers' biggest worries for the year ahead. As usual, we divided these results between four broad types of market participant. Last year, "Lack of investor participation" scored in the 20s for bankers, managers and service providers

## What would you change in the CLO market?



•• *Add CLO AAAs to agg. index and other critical benchmarks*

•• *Build a more global model, in which there is standardisation between US CLOs and European CLOs*

•• *Consolidation of many outstanding managers who are not active*

alike. This time that more than halved, to less than 10% for bankers and services providers, and 12% for managers.

Investors themselves didn't care either year. Instead they worry about defaults and downgrades in the underlying collateral. This year, those concerns have spread to become the major worry for every segment of the market, albeit with some differences on whether defaults or downgrades are more concerning. Many respondents added an extra nuance to that though, specifying recovery rates in particular as their greatest fear.

### New year, old problems

If expanding the investor base has fallen off the market's wishlist, what replaced it? Three old issues were at the top of our "What would you change in the CLO market?" question: standardising CLO documentation; improving the secondary trading process; and increasing the transparency of almost every aspect of the market.

One US manager explained the need as: "Simplify the new issue process by reducing and/or standardising steps". That view was shared by another manager, who replied: "Why is the issuance process so hard? We act like a super esoteric asset class despite the

size of the CLO market."

The responses in the secondary market fell into two broad camps. Many participants called for improved transparency on secondary trades, from better post-trade colour or even from transaction prices. Another, larger group, focused on the flaws in b-wics, with calls for "more efficient b-wic processes", "reduced amounts of time spent on b-wics" and "electronic trading please".

The calls for more transparency also expanded to the underlying loans themselves, with "especially for middle market loans" a frequent qualifier. Respondents also called for warehousing and primary process transparency — and one would like "standardised historical manager performance".

### Will we ever see electronic trading?

We anticipated the calls for changes to

the b-wic process with a specific question: "When will we see electronic trading of CLOs?" According to market sources the actual answer is next month, for one or two platforms, so we should perhaps have phrased it as "widespread electronic trading". Respondents seem to have taken that as the question anyway, with most respondents remaining sceptical. A full 46% of respondents chose 2026 or later.

The frequently discussed topic of the US loan maturity wall seems to be receding though. 58% were only a little worried, with a further 27% unconcerned.

### Thoughts on captive equity

The other hot topic this year has been the growth of captive equity funds (vehicles set up to invest in the equity of a single manager). This year, new issuance [» page 5](#)

# 46%

The number of respondents who believe widespread electronic trading of CLOs will arrive sometime after 2026. 15% don't think it will ever be implemented

## CLO primary

### Which US CLO arranger is best at syndicating to a wide group of investors?

	%
1 JP Morgan	25.3
2 Bank of America	19.9
3 Citi	10.8
4 Nomura	7.0
5 Morgan Stanley	4.8

### Which European CLO arranger is best at syndicating to a wide group of investors?

	%
1 Barclays	18.8
2 Jefferies	16.8
3 Deutsche Bank	11.9
4 Citi	9.9
5 BNP Paribas	8.9

### Which arranger is best at structuring US CLOs?

	%
1 JP Morgan	18.1
2 Bank of America	15.4
3 Citi	12.1
4 Goldman Sachs	6.6
4 Jefferies	6.6

### Which arranger is best at structuring Euro CLOs?

	%
1 Jefferies	27.2
2 Barclays	16.3
3 Deutsche Bank	8.7
3 JP Morgan	8.7
5 Bank of America	7.6

### Which arranger provides the best access to US loans?

	%
1 JP Morgan	42.8
2 Bank of America	18.6
3 Citi	10.3
4 Goldman Sachs	4.8
4 Morgan Stanley	4.8

### Which arranger provides the best access to European loans?

	%
1 JP Morgan	31.4
1 Barclays	14.3
3 Deutsche Bank	11.4
4 Citi	8.6
5 Bank of America	7.1

### Which arranger provides the best US CLO warehouse service?

	%
1 Bank of America	14.7
2 BNP Paribas	11.0
3 JP Morgan	9.8
4 Goldman Sachs	9.2
5 Citi	8.6

### Which arranger provides the best European CLO warehouse service?

	%
1 Barclays	22.1
2 BNP Paribas	16.9
3 Citi	9.1
4 Bank of America	7.8
4 Deutsche Bank	7.8

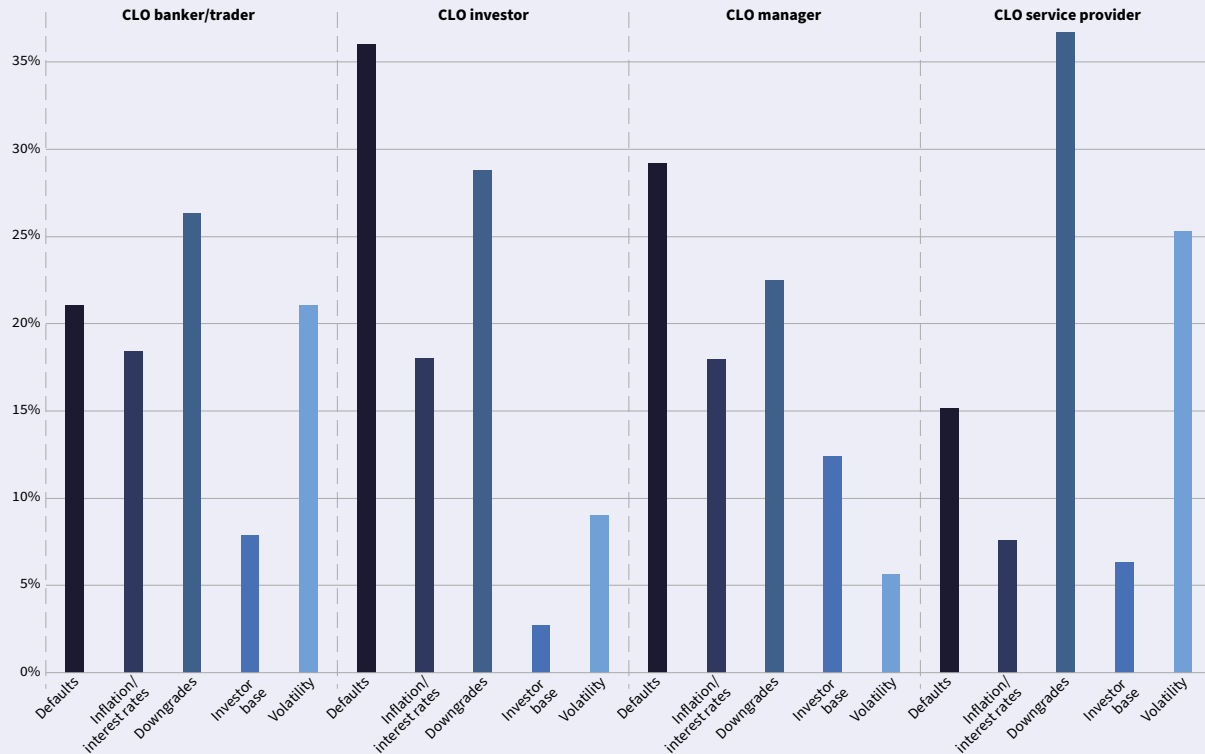
### US CLO new issues\*

	%
1 BofA	15.9
2 JP Morgan	13.5
3 Goldman Sachs	11.7
4 Citi	11.6
5 Barclays	8.3

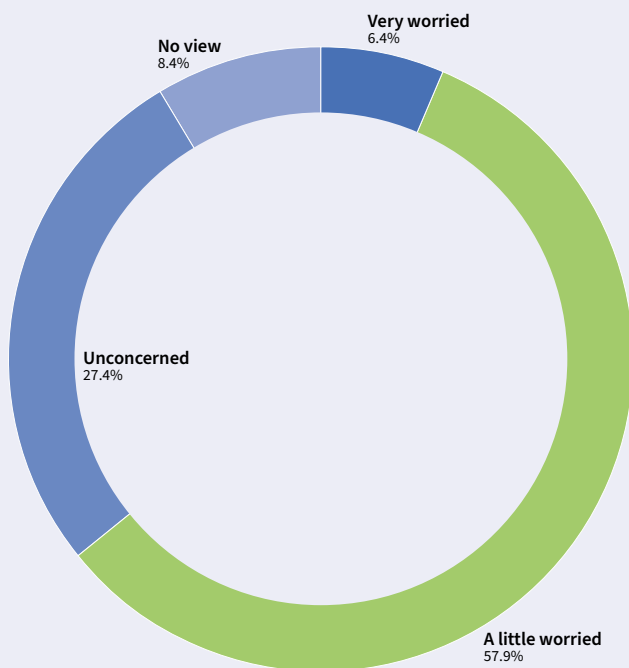
### European CLO new issues\*

	%
1 BNP Paribas	14.6
2 JP Morgan	14.4
3 Barclays	13.6
4 BofA	10.3
5 Jefferies	10.3

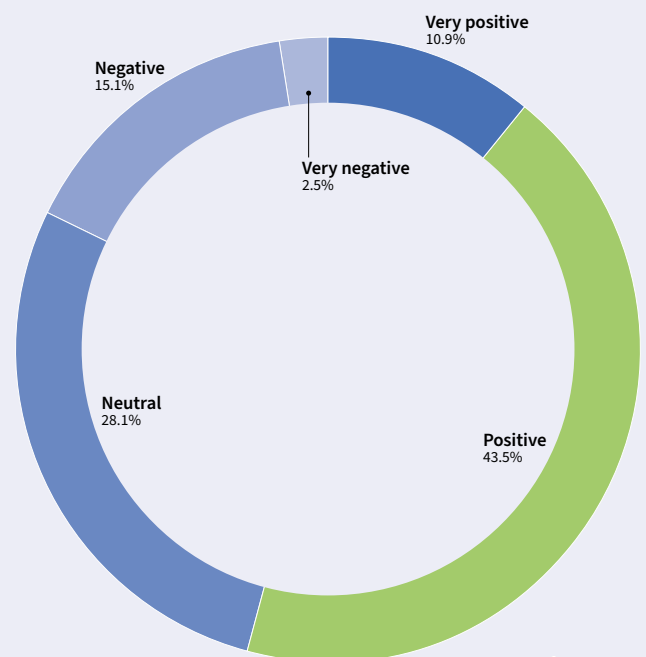
## What worries you the most heading into 2024?



## How concerned are you about the US loan maturity wall?



## Is the growth of captive equity funds a positive or negative development?



## CLO secondary

Which arranger is most willing to make markets in US CLO tranches?		%
1	Bank of America	18.1
2	Citi	15.9
3	Morgan Stanley	13.8
4	Nomura	12.3
5	JP Morgan	9.4

Which arranger is most willing to make markets in European CLO tranches?		%
1	Morgan Stanley	25.0
2	Bank of America	9.7
2	Barclays	9.7
2	Citi	9.7
2	Deutsche Bank	9.7

Which firm provides the best secondary CLO platform?		%
1	Valitana	50.8
2	Kanera	25.4
3	Citi Velocity	10.2
4	KopenTech	6.1
5	Moody's Analytics	4.9

## Reporting & administration

Which firm provides the best CLO portfolio management service?		%
1	Valitana Vantage	47.2
2	Kanera	22.1
3	IHS WSO	5.5
3	US Bank	5.5
4	Allvue	4.7

Which CLO trustee provides the clearest, most timely and accurate reporting?		%
1	US Bank	56.7
2	BNY Mellon	10.6
3	Wilmington Trust	8.9
4	Computershare	7.2
5	Deutsche Bank	5.6

Which firm provides the best offshore fund administration service?		%
1	Walkers	50.3
2	Maples Fiduciary	22.9
3	AlterDomus	9.8
4	TMF	5.2
5	Intertrust SPV	3.9

Which firm provides the best CLO accounting services?		%
1	Deloitte	59.0
2	EY	13.5
3	KPMG	12.8
4	PWC	9.0
5	Citi Virtus	4.5

Which firm provides the best CLO docs service?		%
1	Dealscribe	46.0
2	Semeris	27.4
3	Claira	19.4
4	ReviewPort	5.6
5	Eigen	1.6

## Legal services

Which law firm provides the best service to US CLO managers?		%
1	Dechert	27.1
2	Milbank	18.8
3	Schulte Roth & Zabel	13.9
4	Paul Hastings	6.3
4	Allen & Overy	5.6

Which law firm provides the best service to European CLO managers?		%
1	Paul Hastings	17.6
2	Cadwalader	14.7
2	Milbank	14.7
4	Schulte Roth & Zabel	11.8
5	Clifford Chance	7.4

Which law firm provides the best service to US CLO arrangers?		%
1	Paul Hastings	37.6
2	Cadwalader	14.5
3	Allen & Overy	9.4
3	Dechert	9.4
5	Latham & Watkins	6.0

Which law firm provides the best service to European CLO arrangers?		%
1	Cadwalader	31.6
2	Paul Hastings	21.1
3	Allen & Overy	14.0
4	Milbank	7.0
5	Latham & Watkins	5.3

Which law firm has been best at advocating on behalf of the US CLO industry?		%
1	Dechert	25.0
2	Milbank	14.6
3	Cadwalader	10.4
3	Paul Hastings	10.4
5	Schulte Roth & Zabel	6.3

Which law firm has been best at advocating on behalf of the European CLO industry?		%
1	Cadwalader	30.8
2	Milbank	15.4
3	Paul Hastings	11.5
4	Allen & Overy	7.7
4	Dechert	7.7

Which firm provides the best offshore legal services?		%
1	Walkers	48.0
2	Maples & Calder	32.7
3	Appleby Global	12.0
4	Matheson	4.0
5	Arthur Cox	2.7

## Analytics

Best US CLO research		%
1	Bank of America	50.0
2	JP Morgan	11.8
3	Nomura	10.1
4	Wells Fargo	7.9
5	Citi	6.2

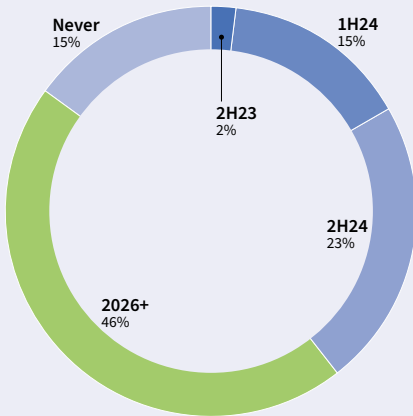
Best European CLO research		%
1	Deutsche Bank	20.2
2	Bank of America	19.1
2	Barclays	19.1
4	Citi	10.1
4	JP Morgan	10.1

Best CLO valuation service		%
1	Houlihan Lokey	23.8
2	Kanera via Bloomberg	22.7
3	JP Morgan Pricing Direct	15.5
4	IHS Markit	11.6
5	BofA PriceServe	6.1

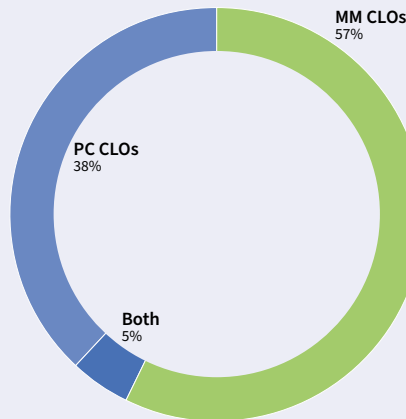
Best CLO analytics service		%
1	Valitana	47.9
2	Kanera	24.8
3	Intex	17.6
4	Moody's Analytics	7.5
5	Trepp	2.3

●●  
*We act like a super esoteric asset class despite the size of the CLO market*

## When will we see electronic CLO trading?



## Should we call them MM CLOs or PC CLOs?



*Captive equity funds are a positive — but indiscriminate use creates bad transactions and alienates investors*

*PC CLOs are not a fad — they will become a bigger part of the aggregate balance sheet*



## CLO investors

Best US CLO equity investor		%
1	Eagle Point	48.0
2	Sound Point	7.0
3	GoldenTree	4.0
3	Lakemore	4.0
3	Oxford Funds	4.0

Best Euro CLO equity investor		%
1	Napier Park	16.7
2	Alcentra	9.5
2	Serone	9.5
4	Permira	7.1
5	YMER	4.8

Best US CLO junior debt investor		%
1	Eagle Point	42.3
2	GoldenTree	7.7
3	Apollo	5.1
4	Barings	3.8
4	Blackstone	3.8
4	Oak Hill	3.8

Best Euro CLO junior debt investor		%
1	Apollo	14.6
1	Alcentra	12.2
1	Napier Park	9.8

Best US CLO senior debt investor		%
1	Blackrock	12.8
1	PGIM	12.8
3	Eagle Point	9.0
4	Barings	5.1
4	JPM CIO	5.1

Best Euro CLO senior debt investor		%
1	Apollo	11.9
2	Blackrock	9.5
3	AXA	7.1
3	Commerzbank	7.1



## Rating agencies

Which rating agency does the best job for US CLO investors?		%
1	Moody's Inv. Services	38.6
2	Standard & Poor's	36.1
3	Fitch Ratings	19.6
4	Kroll	5.7

Which rating agency does the best job for European CLO investors?		%
1	Moody's Inv. Services	33.3
2	Standard & Poor's	28.1
3	Fitch Ratings	21.1
4	Kroll	7.0
5	DBRS Morningstar	5.3

has been dominated by deals supported by such funds, with more traditional third-party equity funds almost entirely absent.

We wanted to know if this is a good thing. The answer seems to be yes — for most people. 54% chose positive or very positive, compared with just 18% choosing negative or very negative. One respondent summed things up very well: “The growth of captive equity funds is a positive, ensuring more growth in the CLO asset class. But their indiscriminate use, in an environment where arbitrage is lacking, is a negative, creating bad transactions, alienating investors in the long term and drawing regulatory scrutiny.”

### Middle market for ever

Of course, the burning question of our age is: “Should we call them MM CLOs or PC CLOs?”

There has been a trend from certain banks and managers to push for the relabelling of

this market. So far it seems that’s still a step too far — 57% of respondents want to stick with MM CLOs. There were also calls for the market to adopt both terms, and a reminder that whatever name is used, this is an area

## Methodology

- The 2023 CLO Census was an online survey open for two weeks from 5-20 October. We received 539 responses, compared to 389 in 2022.
- We asked respondents to indicate if they were a CLO manager, investor, banker/trader or service provider.
- We vetted responses line-by-line and eliminated

cases where companies voted for themselves or for affiliates.

- We would like to thank the CLO community for its support.