

The financial crisis was the making of 'em

Some of the largest and best performing CLO managers before the crisis were fairly nimble by today's standards – but these 1.0 outperformers are now among the biggest names in the industry

by **Charlie Dinning**

Possibly the most important aspect of credit management is performing not only during good times, but also through bad. In which case, judging modern-day CLO management performance is difficult given that managers have enjoyed relatively serene conditions in the loan market over the past several years, with the oil and gas crisis of 2014 having a fairly limited impact on CLO portfolios.

The roster of 130 or so CLO managers globally have yet to be truly tested since the financial crisis a decade ago, with

several managers active today having yet to experience any sort of CLO downturn after moving into the industry post-2010. But if we look back at more established managers, our study of CLO IRRs shows that a number of managers that were founded well before the 2008 crisis not only survived the crash, they excelled through it and after it.

Size doesn't always matter

Outperformers from before 2008 tended to be some of the less frequent issuers. For example, Guggenheim Partners delivered the highest average US CLO IRR for its

redeemed deals, with 25.52% returns from its four 1.0 deals. The New York-based manager was ranked as the 38th largest CLO manager globally by Creditflux in 2010. 2007's Copper River CLO was the best of the manager's collection. It generated a 34% IRR. All four of Guggenheim's deals continued to pay out during the crisis, not missing a payment to equity until the CLOs were winding down.

It is a similar story in the European CLO market, with CVC Credit Partners averaging 17.20% through three European CLOs. When we conducted our ranking of the

US DEALS

Top 10 1.0 deals by final IRR

Deal	Manager	Vintage	Redemption date	IRR (%)	Multiple of money	Term size	Leverage
1 Jackson Square	GSO	24-Mar-09	28-Jul-09	154.67	1.400	0.345	3.62x
2 Copper River	Guggenheim	11-Jan-07	20-Jan-15	34.00	3.448	8.030	10.82x
3 Madison Park Funding V	CSAM	26-Apr-07	27-Nov-17	31.24	3.909	10.597	11.80x
4 Apidos Cinco	Apidos/CVC	30-May-07	15-Nov-16	30.63	3.531	9.471	11.50x
5 Madison Park Funding IV	CSAM	22-Feb-07	22-Sep-17	29.10	3.669	10.589	12.25x
6 Stone Tower	Stone Tower/Apollo	24-Jul-03	24-Aug-05	28.89	1.566	2.088	20.54x
7 Madison Park Funding VI	CSAM	26-Sep-07	26-Jul-17	28.77	3.705	9.838	11.45x
8 Denali Capital VII	Denali Capital	22-May-07	23-Oct-17	27.83	3.397	10.430	13.17x
9 Cent CLO 14	Riversource/Columbia	06-Mar-07	17-Apr-17	27.45	4.153	10.123	12.11x
10 Madison Park Funding II	CSAM	16-Feb-06	27-Jun-16	26.54	3.648	10.367	12.91x

Top 10 managers by final IRR (1.0 deals)*

Manager	Average IRR (%)	Deals
1 Guggenheim	25.52	4
2 GoldenTree	24.10	3
3 CSAM	22.77	16
4 FOC/First Eagle	21.96	3
5 Apidos/CVC	21.70	7
6 CIFC	21.07	9
7 Riversource/Columbia	20.56	9
8 Five Arrows	20.35	3
9 Voya	19.29	8
10 GSO	18.58	17

EUROPEAN DEALS

Top 10 1.0 deals by final IRR

Deal	Manager	Vintage	Redemption date	IRR (%)	Multiple of money	Term size	Leverage
1 Harbourmaster PR 3	Harbourmaster/GSO	19-Jul-07	20-Mar-18	21.77%	3.141	10.677	13.57x
2 Cordatus Loan Fund II	CVC	25-Jul-07	26-Feb-18	20.72%	2.965	10.600	9.84x
3 Duchess II	Barings	24-Apr-03	24-Apr-07	18.82%	1.686	4.003	8.13x
4 Cordatus Loan Fund I	CVC	30-Jan-07	02-Mar-18	17.56%	2.670	11.093	7.87x
5 Jubilee I-R	Alcentra	08-May-07	23-Apr-18	17.00%	2.363	10.967	9.87x
6 Harbourmaster CLO 1	Harbourmaster	30-Mar-01	31-Jul-06	16.73%	1.695	5.340	14.72x
7 Harbourmaster 9	Harbourmaster/GSO	08-May-07	23-Apr-18	16.60%	2.370	10.967	11.82x
8 Eaton Vance CDO X	Eaton Vance	27-Mar-07	22-Feb-18	16.58%	2.300	10.918	13.77x
9 Jubilee VI	Alcentra	24-Aug-06	28-Mar-18	16.27%	2.485	11.600	9.00x
10 Iron Hill	Guggenheim	27-Mar-08	20-Jan-16	15.98%	2.779	7.822	10.83x

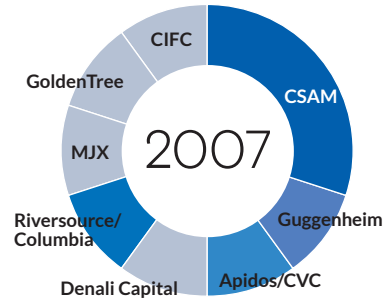
Top 10 managers by final IRR (1.0 deals)*

Manager	Average IRR (%)	Deals
1 CVC	17.20	3
2 Eaton Vance	13.23	2
3 Indicus/Ares	12.32	2
4 PGIM	12.21	3
5 Oak Hill	12.05	2
6 Pinebridge	12.03	2
7 Cairn	10.95	2
8 CSAM	10.18	4
9 Harbourmaster/GSO	9.84	15
10 Alcentra	9.82	17

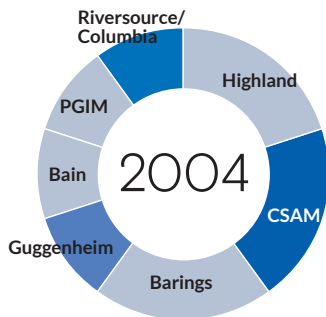
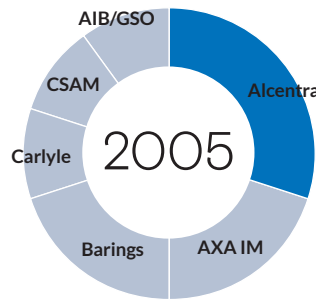
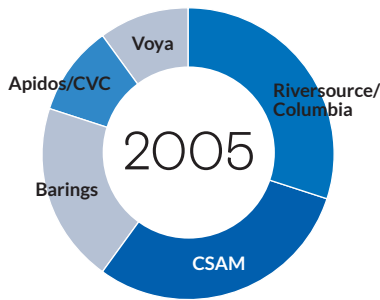
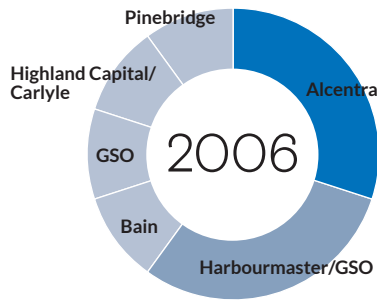
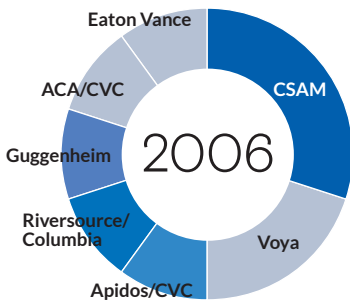
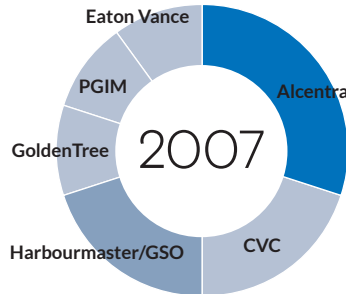
Source: CLO-I * Excludes managers with only one deal

Manager involvement in top 10 deals by IRR

US CLOs issued 2003-2007

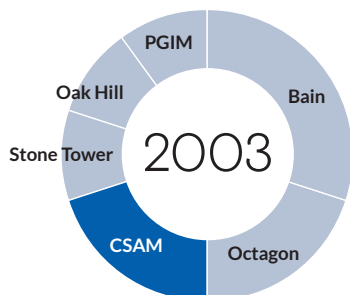


European CLOs issued 2005-2007



14.9%

average IRR
for US 1.0 CLOs



largest CLO managers in 2010, CVC was not present in the top 50. But all three of the manager's redeemed euro CLOs had a 100% record for never missing an equity distribution. The best performer by IRR was Cordatus Loan Fund II (20.72%), which priced in 2007 before being redeemed earlier this year.

Staying current on equity distributions certainly boosts CLO performance, but managers can still turn things around should an overcollateralisation test breach force them to miss a payment date. Eaton Vance X is an example of how a CLO can recover, having missed a payment to equity in 2009 before going on to deliver a final IRR to equity of 16.58%. The manager's only other European deal, Eaton Vance VII, did not pay out at all during 2010 and 2011 but generated an overall IRR of 9.87%. This was enough for Eaton Vance to rank among the top 10 managers in Europe, with an average IRR of 13.23% across its two deals.

Both Eaton Vance deals were dual-currency transactions with exposure to US and European loans and liabilities that were denominated in US dollars and euros from tranches rated triple A all the way down to equity. For Eaton Vance X, euro-denominated notes made up 58.82% of the deal, whereas for Eaton Vance VII it was slightly higher at 62.32%. These are the only two European deals Eaton Vance has ever done, with the manager yet to return to European CLO management. Over in the US, the manager has also reduced its involvement. It has only four US 2.0s to its name.

Getting off to a fast start

It is commonly believed that a high first equity payment gives an indication that more good things are on the way, and our data backs this theory up. In the US and Europe, the deal that made the highest first payment as a percentage of the equity tranche went on to have the highest IRR.

In Europe, Harbourmaster Pro Rata 3's first payment was over 10% of its equity

Methodology

- US CLO data includes 1.0 broadly syndicated deals only and excludes CBOs and middle market CLOs.
- Multiples of money has been calculated by dividing aggregate equity payments to date

by the notional size of subordinate notes.

- All data was sourced from CLO-i.
- IRR calculations are based on equity taken at par.

Doughnut charts

- Data set refers to manager

share in the top 10 deals (by IRR) in each vintage.

Joint managers

- Used for deals which were originated by one manager and subsequently acquired by another.



For the 2003 to 2007 vintages, CSAM had at least two deals in the top 10 IRR ranking in each year

tranche and the deal went on to return 21.77% over its life.

But there is more than one way to reach the top in CLO performance. Some of the 1.0 market's best performers took the opposite approach. They produced a stream of steady distributions before making a huge back-ended payment upon redemption. Guggenheim's Iron Hill CLO paid a little over 1% on its first payment, but when redeemed in January 2016 it paid out just under 175% of the equity tranche as a final payment.

These differing strategies are also evident in the US. Stone Tower Capital, bought by Apollo Global Management in 2011, priced its Stone Tower CLO in 2003 off the back of a downturn. Its first payment was a little over 7% to equity, before paying out over 120% of the equity tranche when it was redeemed two years later for an IRR of 28.89% and sixth place in our top 10.

The best performing CLO of all time was Jackson Square, which generated an IRR of 154.67%. The deal was launched by GSO Capital Partners and was one of the few CLOs to price in 2009. It was redeemed in just four months and had a two-tranche structure with \$187 million of class A notes and a \$51.7 million equity tranche.

The GSO CLO took advantage of distressed prices in the loan market, buying assets at a significant discount and holding these as they rallied towards par. Jackson Square returned almost 90% of the principal of its equity on its first payment. The transaction underlines how CLOs can be at their strongest during periods of turmoil and why managers crave volatility in the loan market.

CSAM does it again and again

One-off deals are not, however, the best metric by which to measure overall manager performance. Equity investors are often seeking a manager that can demonstrate consistency and the ability to replicate success across numerous CLOs, so that when the next downturn comes, they know they are in safe hands.

Consistency is where Credit Suisse Asset Management has come out on top. For the 2003 to 2007 vintages, CSAM

GLOBAL MANAGERS

Top 30 managers by AUM: 2010

Manager	AUM (\$bn)	Deals
1 Babson (Barings)	21.3	33
2 Carlyle	21.1	36
3 Highland	17.8	24
4 GSO	16.7	30
5 Alcentra	16.6	32
6 Ares	13.5	24
7 CSAM	13.4	22
8 Harbourmaster	12.6	15
9 Invesco	10.7	24
10 ICG	9.6	15
11 KKR	8.6	6
12 ING	8.3	17
13 Deerfield	8.3	20
14 PineBridge	8.3	15
15 Prudential (PGIM)	7.5	14
16 Stone Tower	7.3	12
17 Columbia	6.5	11
18 GSC	6.5	14
19 Avoca	6.4	11
20 Pimco	6.4	12
21 Sankaty (Bain)	5.9	12
22 CIBC	5.7	13
23 Octagon	5.6	12
24 Halcyon	5.6	10
25 Oak Hill	5.4	8
26 Fortress	5.4	6
27 Prudential PLC (M&G)	5.2	14
28 3i (Investcorp)	5.0	6
29 CapitalSource	4.6	5
30 Black Diamond	4.6	5

Top 30 managers by AUM: 2018

Manager	AUM (\$bn)	Deals
1 GSO	26.3	45
2 CSAM	25.0	36
3 Carlyle	23.5	44
4 PGIM	21.8	39
5 Ares	18.1	31
6 CIBC	16.1	25
7 Octagon	15.7	26
8 MJX	14.4	25
9 CVC	13.9	26
10 KKR	13.0	24
11 Golub	12.9	22
12 Och-Ziff	12.7	24
13 THL	12.1	23
14 Voya	11.8	21
15 Sound Point	11.5	18
16 Barings	10.9	22
17 Investcorp	10.8	22
18 Alcentra	10.2	20
19 BlackRock	9.7	18
20 Apollo	9.6	16
21 Bain	9.4	20
22 Oak Hill	9.1	17
23 Onex	8.8	15
24 Fortress	8.4	13
25 BlueMountain	8.3	17
26 ICG	8.2	18
27 LCM	8.1	16
28 CBAM	7.9	7
29 Neuberger Berman	7.7	16
30 PineBridge	7.6	16



Deals that made the highest first payments as a percentage of equity went on to have the highest IRR

had at least two deals in the top 10 IRR ranking in each year. In total, CSAM's 16 1.0 CLOs had average returns of 22.77%, placing it third in the overall manager rankings, but with four of the top ten deals from the US 1.0 market. GSO is the only other manager in the top 10 with more deals to its name (17).

CSAM's average returns comfortably exceed the average IRR of the US 1.0 market. From the deals we have collected, the average sits at 14.94%; CSAM has 15 out of 16 deals that are above this mark, with the only deal that did not return higher than this being Atrium II (10.26%).

In Europe, Alcentra was a standout performer. Between 2005 and 2007, Alcentra

had three of the top ten deals every year, culminating in an average IRR of 9.82% across its 17 1.0 deals. This was higher than the European average of 7.50% and was highlighted by the fact that 12 of Alcentra's 17 deals returned over 7.50%.

2007 was the biggest year for the global CLO market prior to 2017. Over a quarter of all 1.0 US CLOs priced in 2007; it also saw 35% of all pre-crisis European CLOs price. With great volumes came lower financing costs for CLOs and, ultimately, better performance.

The CLO market is now bigger than ever and spreads are close to their tightest levels since the financial crisis. But it's also a more dynamic market with manager tiering affecting financing costs and the evolution of CLO repricing and par-flush mechanisms giving equity investors a new toolbox to work with in order to extract maximum value from a deal. All this makes it likely that, when the next downturn does come, there will be even greater dispersion in manager performance than for pre-crisis deals.