

Building new ways to evaluate CLOs

For CLO investors, there is no longer a question of whether a particular CLO will be reworked; instead, they must judge when, and how dramatically, its terms will change. By *Tom Davidson*

More time goes into amending, updating and reworking CLOs than actually launching new deals. Last year, 432 CLO modifications took place globally, with 158 resets and 274 refinancings, Creditflux data shows. By contrast, 265 new issue CLOs priced in the same period.

This year the pace of refinancings and resets is expected to grow, especially in the US. If the LSTA court ruling removing US risk retention for broadly syndicated CLOs is upheld, then reworking 2016 vintage deals in particular will be much easier. Current forecasts are for as much as \$140bn of refinancings and resets in 2018.

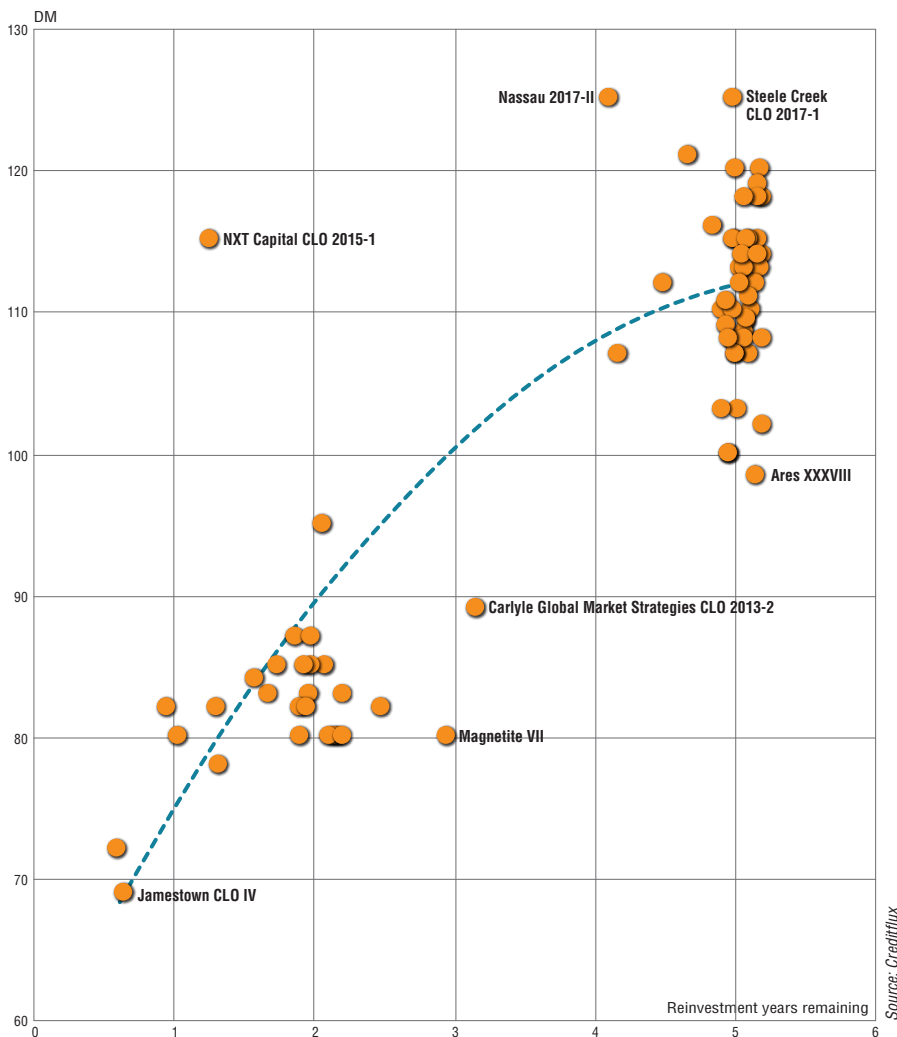
One result is that CLO investors are no longer limited to cookie-cutter deals fitting the two-year non-call and four-year reinvestment model. The refi and reset market has created a new breed of investors that favour shorter-dated paper, which has translated into new issue CLOs coming in all shapes and sizes as equity investors search for the best deal economics. The past couple of months alone have seen static CLOs price, along with those featuring two, three, four and five-year reinvestment periods.

With so many options opening up, estimating the average life of a tranche, and hence its true value, has become a significant challenge for investors. The issue is compounded for investors in the secondary CLO market, who may have only a few days to analyse deals that have been posted on bid-wanted lists.

In addition to looking at underlying CLO portfolios and manager track records, investors also have to

US triple-A spread (bp) vs years left on reinvestment

(past 3 months)



Source: Creditflux

ask themselves: “How likely is it that this deal will be refinanced or reset once the call lock expires?”

However, some market participants are starting to deliver toolkits that can help secondary CLO investors gauge the value of a CLO tranche. For example, Citi and Moody’s Analytics recently

announced an initiative to bring a daily updated matrix of discount margins/yields to Citi’s Citi Velocity trading, data and analytics platform. The aim is to help CLO buyers quickly determine value when trading opportunities present themselves.

Prior to the partnership, Citi Velocity provided data about CLO

tranches including high-level deal metrics, secondary market colour, deal documents (indentures, offering memorandums and reports) and historical pricing. The new collaboration will add detailed price analysis for a variety of scenarios, as well as significant extra detail comparing the CLO and its manager with the rest of the market.

The service will calculate a DM as if a CLO runs to maturity (under a 0% prepayment assumption and a 20% prepayment scenario). It also works out DMs for CLOs if they are called at the first possible opportunity; called one year after the non-call period expires; and called at the end of the reinvestment period.

The new analytics will be available to all Citi Velocity US CLO clients. Currently, the service only covers US debt tranches.

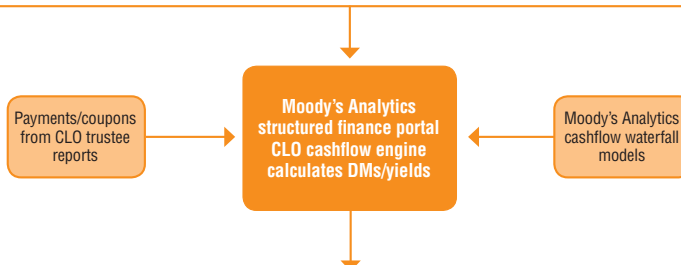
The collaboration between Citi and Moody's Analytics reflects the increasing competition in the banking sector, and banks' belief that technology has become a differentiating factor. Also, recent advances have made it much easier to combine and update third-party data into a trading platform, which has led to the new Moody's Analytics data being displayed in widgets within Citi Velocity.

As well as making it easier for Citi to integrate new content, advances also enable quick updates to the widgets themselves, so changing market sentiment and the needs of CLO investors can be quickly reflected in the data they see.

Moody's Analytics already has plans to work with Citi on future improvements to the three Citi Velocity widgets. Moody's Analytics staff say the primary aim for the next iteration is to give Citi Velocity clients more flexibility to customise their widgets, including the abilities to alter the scenario parameters used for price analysis and to choose the fields for the deal and manager analysis sections.

CLO trading: scenario analysis

| US CLO scenarios | | | | | |
|------------------------|------------------------|--------------------------|--------------------|--------------------|-----------------------|
| | To maturity with 0 CPR | To maturity with 20% CPR | First call | Next call + 1 year | Call at reinv end |
| Settle date | T + 2 days | T + 2 days | T + 2 days | T + 2 days | T + 2 days |
| Default rate (CDR) (%) | 2 | 2 | 2 | 2 | 2 |
| Prepay rate (CPR) (%) | 0 | 20 | 20 | 20 | 20 |
| Loss rate (%) | 30 | 30 | 30 | 30 | 30 |
| Recovery lag (months) | 12 | 12 | 12 | 12 | 12 |
| Reinvest price | 100 | 100 | 100 | 100 | 100 |
| Call option | maturity | maturity | next callable date | next call + 1 year | reinv period end date |
| Call price | 100 | 100 | 100 | 100 | 100 |



| PRICE ANALYSIS: DM (BPS) / YIELD (%) | | | | | |
|--|------------|-------------|--------------|-----------------|------------------|
| POWERED BY MOODY'S ANALYTICS STRUCTURED FINANCE PORTAL | | | | | |
| Price | TM - 0 CPR | TM - 20 CPR | First Call | Next Call + 1YR | Call @ Reinv End |
| 100.00 | 525 / 7.87 | 525 / 7.87 | 523 / 7.04 | 525 / 7.39 | 525 / 7.60 |
| 100.50 | 516 / 7.78 | 516 / 7.78 | 304 / 4.82 | 482 / 6.96 | 503 / 7.38 |
| 101.00 | 508 / 7.69 | 508 / 7.69 | 87 / 2.63 | 440 / 6.53 | 481 / 7.16 |
| 101.50 | 499 / 7.61 | 499 / 7.61 | -127 / 0.47 | 399 / 6.11 | 460 / 6.94 |
| 102.00 | 491 / 7.52 | 491 / 7.52 | -340 / -1.65 | 357 / 5.68 | 438 / 6.72 |
| 102.50 | 482 / 7.44 | 482 / 7.44 | -550 / -3.74 | 316 / 5.27 | 417 / 6.50 |
| 103.00 | 474 / 7.35 | 474 / 7.35 | -759 / -5.80 | 275 / 4.85 | 395 / 6.29 |

Settles: Jan 25th, 2018 [Click here for more options](#)

| DEAL ANALYSIS | | | | | | | |
|---|----------|-----------|---------------------|--|--------------------|----------|--------|
| POWERED BY MOODY'S ANALYTICS STRUCTURED FINANCE PORTAL | | | | | | | |
| Asset Price Distribution | Unpriced | <70 | 70-80 | 80-90 | 90-95 | 95-100 | >=100 |
| | - | 0.23% | 0.39% | 0.41% | 1.38% | 12.40% | 85.19% |
| Headline Industries* | | % of Deal | Deal Exposure (USD) | | | WA Price | |
| CORP - Retail | | 3.21 | 16,954,435 | | | 96.96 | |
| Oil & Gas | | 3.26 | 17,197,367 | | | 100.98 | |
| Biggest Caa/CCC Assets | | % of Deal | Rating* | Industry | Current Face (USD) | | |
| Immucor, Inc. Term Loan B3 | | 0.54 | B1 / CCC+ | CORP - Healthcare & Pharmaceuticals | 2,823,879 | | |
| Sedgwick Claims Management Services, Inc. Second Lien Term Loan | | 0.47 | Caa2 / B | CORP - FIRE: Banking, Finance, Insurance & Real Estate | 2,500,000 | | |

| MANAGER ANALYSIS | | | | | |
|--|--------------|-------------|------------------|-----------------|--|
| POWERED BY MOODY'S ANALYTICS STRUCTURED FINANCE PORTAL | | | | | |
| Current AUM (MM) | U.S. Manager | | European Manager | | |
| # of Deals | \$ 5,887 | | € 1,206 | | |
| | 11 | | 3 | | |
| Average Purchase Loan Spread (bps 12-mo trailing) | U.S. Manager | U.S. Cohort | European Manager | European Cohort | |
| | 327.38 | 353.52 | 334.17 | 335.39 | |
| Average Purchase Loan Price (12-mo trailing) | 99.76 | 99.50 | 99.76 | 99.81 | |
| Annualized Equity Return (%) | 15.78 | 16.29 | 17.62 | 16.27 | |
| Annualized Default Rate (%) | 0.22 | 0.64 | - | 0.17 | |

Screenshots: Citi Velocity. Data source: Citi