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BofA reveals top CLO managers through covid by market value and distributions

by **Hugh Minch**

Bank of America's research desk has highlighted eight CLO managers with the best performance statistics through the covid-19 crisis, based on market value change and interest distributions.

The results suggest Brigade, CSAM, Elmwood, Fortress, Golub, Bardin Hill, Post and York emerge from the crisis performing best on these metrics.

The research team, led by managing director Chris Flanagan, used a total return metric which looked at market value change since February 2020 and interest distributed to bondholders the past 12 months as a percentage of par.

"This method would control for differences in deal structures and cost of liabilities that can skew equity distributions," the report says. "Since we are taking only interest distributions to rated debt (and not principal paydowns), we account for lower equity distributions due to OC/ID [over-collateralisation/interest diversion] test breaches."

BofA found that across the market, CLO portfolio values are up 0.6 points relative to February 2020 and net asset values are up by three points. Managers that traded through covid gained around 60bp on average, while 80bp of par was burnt since February 2020. Since then, equity distributions have averaged three points per quarter, which is low due to OC test breaches and the impact of high Libor on July distributions.

"Portfolios with greater market value declines also had lower interest distributions led by OC ratio breaches" the researches say. "Although CLO portfolio values are now back or higher vs pre-covid levels, we highlight managers [...] that were in the top quartile for both high market value increase and high total interest distributions over the past four quarters".

The research identifies three manager strategies on display in 2020. The first category of managers were defensive from the start, selling their triple Cs early on in the crisis. A second group held their downgraded assets through the sell-off and through to recovery, while a third category had lower triple C exposure pre-covid and could take advantage of the early volatility while maintaining their OC cushions.

Managers in the top quartile for market value change through covid & equity distributions over the past 4 quarters

Manager	Past 4 quarters interest (% of par)	Market value change	Past 12-month average quarterly equity cash on cash	Par build (adjusted for defaults)
Brigade	4.1	1.3	3.8	-0.1
CSAM	3.8	1	3.7	-0.4
Elmwood	4.2	1.1	4.4	0.5
Fortress	4.6	2.1	3.6	0.7
Golub	3.8	2	3.3	0.4
Halcyon	3.9	1.3	3.5	-1.3
Post	3.9	1	3.9	-0.1
York	3.9	1.1	4.1	-0.2

Source: BofA Global Research, Intex, Markit. Data as of April 15, 2021, managers listed arranged alphabetically and for deals within reinvestment only.

BofA also looked at managers that have continuously performed well across different market cycles. The research team compared the same metrics to the 2015 to 2016 oil and gas default wave, the retail credit events of 2017 and 2018, idiosyncratic risk events in 2019 as well as covid.

"This allows investors to test if managers have been consistent (out)performers under different credit conditions", the authors wrote.

BofA identified the following managers as consistently performing well on the above metrics: Allstate, Barings, BlackRock, Brigade, GoldenTree, Golub, Napier Park, Octagon, Palmer Square and Sixth Street.

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