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Europe's next generation of CLO managers favour ESG

by Hugh Minch

An emerging generation of new European CLO managers are aiming to make their deals compliant with environmental, social and governance (ESG) criteria, with aspiring manager Fair Oaks Capital looking to make its forthcoming inaugural CLO an 'ethical' transaction, according to market sources.

...our CLO indenture will include ESG eligibility criteria

Roger Coyle
Partner
Fair Oaks

Earlier this year Permira Debt Managers became the first to issue a CLO with ESG requirements written into its documentation, meaning the vehicle is unable to invest in whole sectors that fail to satisfy ESG criteria, from firearms to gambling. Permira priced Providus CLO I in February via Bank of America Merrill Lynch.

Sources say DWS, the asset management arm of Deutsche Bank, is also looking at ESG compliance for its nascent European CLO management business. A spokesperson for DWS declined to comment on the matter.

The market is monitoring Permira's deal closely to see if ESG restrictions limit performance. The criteria were considered credit neutral by Moody's in a research paper published in April, with the ratings agency citing how CLOs' exposure to non-ESG compliant credits is "minimal". But managers are spying an opportunity to sell their products to ethically focused institutional investors.

Roger Coyle, a partner at London-headquartered Fair Oaks, says: "We are currently ramping up a European CLO in line with our internal ESG guidelines, and our CLO indenture will include ESG eligibility criteria. This is driven by our corporate ideals rather than investor demand, which has been limited in our market. But we think that CLO investors will increasingly demand greater focus on this area."