

INSIGHT: Staff-lite CLO managers under scrutiny as more firms look to enter European market.

CapitalStructure

All CLO managers produce lengthy pitch books presenting the firm's skill sets and geographic spread, outlining their investment philosophy, and listing the names of their key personnel from chief investment officers down to analysts and traders. Some, such as Barings, BlackRock and Oaktree, like to include the biographies of some key professionals. In these documents CLO managers all appear to have impressive resources and capabilities. But what are investors really looking for, particularly from managers entering the European market for the first time?

The emergence of new CLO managers in Europe has been one of the key talking points in 2018, with several deals completed and more in the works. Firms such as Anchorage Capital, Voya Alternative Investments and Permira have launched deals to date, while King Street, Insight Investments, Sound Point, Neuberger Berman, Angelo Gordon & Co, Invesco, and Fair Oaks are preparing new deals.

"From our experience, investors across the CLO capital structure usually prefer to see a CLO team on the ground in Europe," said Tyler Wallace, portfolio manager at Fair Oaks Capital. "Because of the nuances of the European loan market, as well as the different languages, it's important to have local analysts with experience in multi-jurisdictional markets."

Platforms currently range from fully-staffed, Europe-based teams, to "satellite" operations backed largely by an existing US-based platform. All but one European CLO manager is understood to have a portfolio manager based in London.

According to Aza Teeuwen, partner and portfolio manager at TwentyFour Asset Management, some of the newer CLO managers are understaffed in Europe and rely heavily on their US analyst team.

"Investors should focus a lot on manager due diligence - it's great arguing that a large cable company should be analysed and monitored by a US-based analyst so that analyst can compare trends. But what does he or she know about a cable company in France? If it performs there's no problem, but what happens if it starts underperforming for whatever reason?"

Mr. Teeuwen added that in reality most of the managers are well staffed, but he questioned staff levels at the ones that are growing rapidly and still have pretty much the same team as when they started.

Pierre Mirat, partner and head of fundraising and investor relations at Paris-based Cartesia, said his firm needed to get comfortable with the manager before investing in the equity of a CLO deal. He typically expects a US CLO manager to have four to five senior analysts based in Europe - analysts with more than 10 years of experience and expertise in key areas such as healthcare, chemicals, TMT, retail, business services and consumer electronics. These analysts who are on the ground in Europe are then expected to liaise with analysts in the US for a more global overview of the specific sectors.

Mr. Mirat also views as particularly important that local traders and risk managers are sufficiently experienced in the European credit markets. "We carefully scrutinise the investment process and how investment decisions (and rejections) are made; it is also important for us to know how the firm has dealt in the past with stressed or distressed credit situations," he said.

Some investors, on the other hand, are less concerned by a manager's headcount. One investor said he would not reject a deal outright simply because a US manager lacked sufficient staff based in Europe. Another commented that some established CLO managers in Europe did not have a big team, but had a smaller number of very experienced people.

“You also see some managers that have a large number of analysts, but job descriptions for the analysts are blurred between the CLO team and other products managed by the firm. So it’s not always number of analysts that counts.”

The investor said a platform should have five analysts, or at a bare minimum four, to be able to properly analyse a universe of around 200 positions. Another investor underlined the importance of a middle office for settling loans as fast as possible, daily compliance checks, and risk management.

Hiring spree slows

The job market for CLO personnel in Europe was very active in the first half of 2018, according to a recruitment consultant, but has slowed a little since the summer. Those hiring have included King Street, Voya, Tikehau, and Permira.

Commenting on new CLO manager operations in Europe, the consultant said European-based teams tended to be quite small, with one senior portfolio manager and three to four junior/intermediate analysts - but added that finding candidates at the intermediate level could be fairly difficult.

Fair Oaks Capital is another such firm that has been building a team of professionals ahead of the launch of its debut European CLO. Mr. Wallace said the market was currently relatively tight for hiring personnel, but not impossible. From a hiring point of view, Mr. Wallace said the sweet spot for analysts tended to be someone with three to seven years of loan market experience, as the candidate should have knowledge of deals from 2012 onwards and could hit the ground running. Mr. Wallace said candidates tended to come from other asset managers, leveraged finance origination teams or bank loan portfolio teams, but added that “capital market/bank trained candidates do not necessarily translate into buy-side candidates.”

The Fair Oaks CLO team will comprise a portfolio manager (Mr. Wallace) and four to five analysts in Europe, backed up by analysts in the US who will analyse cross-border transactions.

Permira Debt Managers was also notable for building up its presence in Europe, adding Pierre Driant to its CLO team from OZ Management before the summer - joining a team that also added Andrew Lawson (head of capital markets) and credit analysts Charlotte Claraco, Ryan McGahon and Natalie Taiwo last year. Voya has meanwhile been advertising for a candidate to add to its team of four professionals in London.

The recruitment consultant commented that while hiring in this segment had become quieter in recent weeks, there might well be another round of hiring once the CLO managers started to see some returns on their venture into the European market.