CapitalStructure

FUND IN FOCUS: Accunia bolsters presence in CLO market with new listed funds; weighs Single and Double B CLO relative value.

Denmark-based credit manager Accunia is ramping up its presence in the CLO market. The firm issued its second European CLO last month and recently launched two CLO funds - one with an investment grade mandate and the other targeting mezzanine and equity tranches.

According to Mads Romild, CIO at Accunia, the CLO funds will consider investments in all types of CLOs, including refinancings, resets and new issues and will add risk from both primary and secondary markets. Listed on NASDAQ Copenhagen, Accunia's CLO funds target High Net Worth (HNW) individuals and private investors.

"We try to take advantage of dislocations in pricing," said Mr. Romild. "For example, when the refi/reset wave started credit spreads were more or less unchanged comparing refis with resets/new issues. That made refis more attractive given the shorter duration. That has somewhat changed but we do still consider the refi/reset and new issue of CLOs."

Of importance to the managers are collateral quality, documentation and deal structure. "We will not invest in any CLO tranches where we don't feel comfortable with the collateral," said Mr. Romild. "The collateral is the most important and second to that the documentation and structure of the deal. We also need to be comfortable with how a manager acts in different types of environments especially through a crisis as we saw in 2008-10."

Finding relative value in today's market is tough given the tightening in spreads in recent months. However, Mr. Romild pointed to Double B CLO tranches that seem to be a bit softer at present, particularly in new issues where the market has widened slightly. At the Single B CLO level, Accunia is currently underweight. Having added a lot of risk in this part of the capital structure last year when spreads were above 1000bp, the firm has recently taken profit in those tranches.

"We will be looking at adding risk again in Single Bs when spreads go above 800bps or if the Double B spreads compress further, which I expect they will at some point," said Mr Romild. "Realistically that's not going to happen this year, but hopefully there is going to be some volatility and the market could look a little different in 2018," he added.

Volatility could be more technical than fundamental-driven, suggested Mr. Romild, particularly in the case of Single B CLOs. In the past, widening in this sector has purely come down to the fact that a few accounts active in that space stopped adding risk.

The expected return on Accunia's CLO funds is between 1.5% and 2.0% per annum on the CLO Investment Grade fund and between 6.0% and 7.0% on the CLO Opportunity fund – both net of fees. The funds are open-ended and will pay out a quarterly dividend.

Next year Accunia is planning to launch another fund: The Accunia Opportunity Credit Fund will invest in asset classes in which the firm is already active. These include ABS, CMBS, subordinated debt in financials, Capital Relief Trades and other illiquid strategies.

Slow and steady CLO issuance

On the managed CLO side, Accunia is planning slow and steady issuance: investors can expect to see one Accunia CLO every twelve months.

"We do not want to print several deals a year, we prefer to bring one deal every 12 months," said Sergio Grasso, CIO of Accunia's CLO management platform. "This allows us to be more cautious in the investments and to bring something that offers investors something different in terms of collateral characteristics and the underlying credit."

He added: "What we do not want to do is copy our previous deal or a copy of a deal done by another manager."

In September Accunia priced its second CLO, **Accunia European CLO II** . In comparison to its inaugural deal, which priced in July 2016, this deal was more broadly syndicated and did not involve a successor manager. In Accunia's first deal PGIM acted as successor manager. The investor base was also broader for Accunia's latest CLO, according to Mr. Grasso, with the US/European split more heavily weighted in Europe than the previous deal.

Accunia is currently in talks to set up another vehicle before year end, with the intention of pricing the next CLO in 2018.

While Mr. Grasso does not anticipate any major shocks to the market, getting the arbitrage to work remains the persistent challenge. "There is constant compression in the underlying assets - for example assets are being refinanced and repriced - so the challenge is to make the arbitrage work for the subordinated noteholders," he said.

"The equity investors have to be happy with the return they receive and the liabilities must work. If equity returns are not as expected the managers need to sacrifice some of the fees. If there is volatility in the assets and liabilities, managers must anticipate these movements so that the arbitrage works," he added.

Looking ahead, both Messrs. Grasso and Romild are constructive on the outlook for the CLO sector with the expectation that defaults will remain relatively low. However, of concern to Mr. Romild is the emergence of more aggressive structures in new issue CLOs, where equity leverage is rising in certain deals and becoming more similar to leverage ratios seen in US CLOs.

"That is something we are taking into consideration," said Mr. Romild. "However, we still think that both US and Euro CLOs offer very good relative value in comparison to other asset classes within the structured credit space."

FACT SHEET

Fund Name/Names: European CLO Investment Grade and Accunia European CLO Opportunity

Listing: NASDAQ Copenhagen

Total AUM: Total commitment c.DKK 550m (€74m).

Number of Investment Professionals: 11 (fund-specific, two PMs)

Investments: European Investment Grade CLO 2.0s / Mezzanine and Equity CLO 2.0s

Investors: HNW Individuals and Private Investors

Management Fees: IG 35bps / Opportunity 80bps

Subscriptions, redemptions and valuations: Two times per month (mid and end)

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