Leveraged Loan Insight & Analysis

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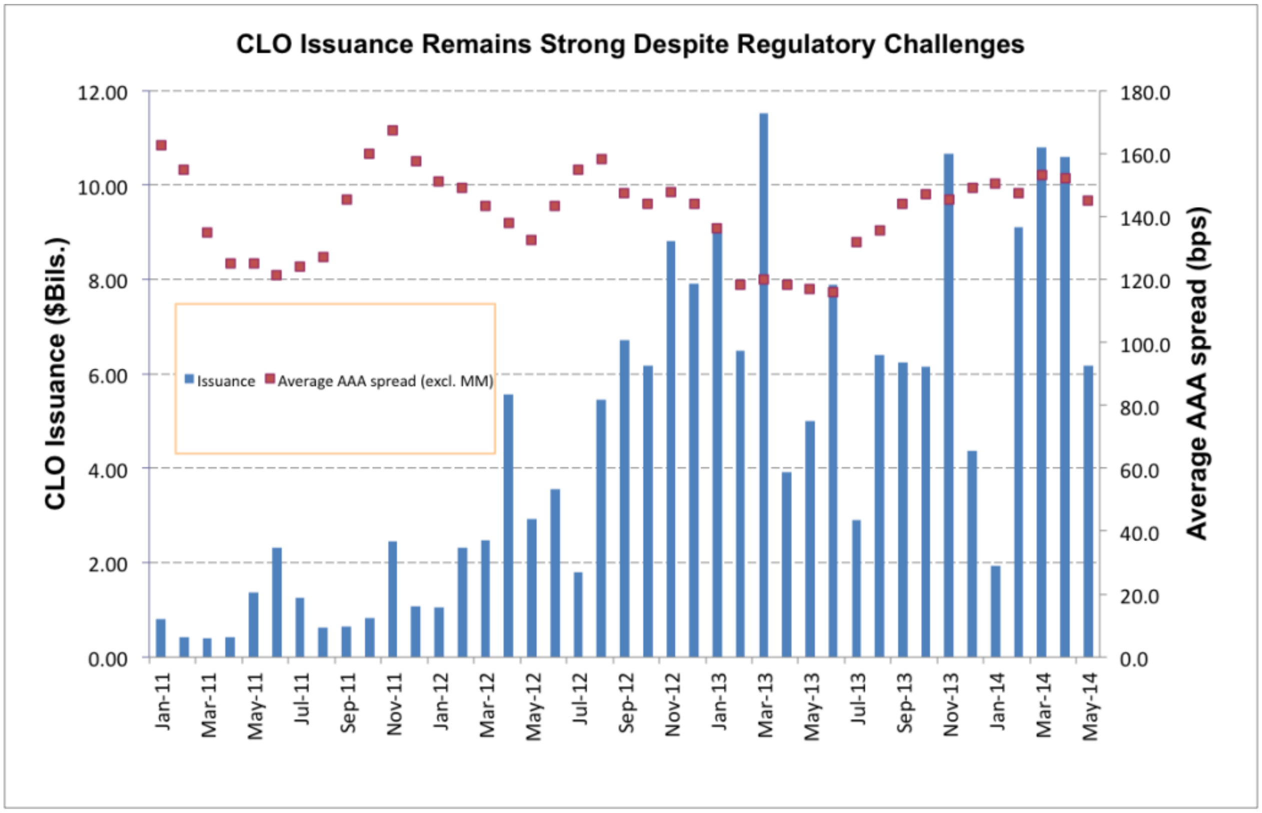

CLO issuance remains strong thanks to a broadening and growing AAA investor base and a growing number of first time managers. So far this year, almost $41 billion of CLO paper has been issued,up from the $33 billion issued through at this time last year. Dealing with a softer secondary, the average bid on the SMi100 dropped 37 bps in April to the 99 context, and primary yields backing up, CLO managers have been able to pick up yield and assets, thanks to a busier M&A pipeline. The average spread on new issue AAA CLO notes remained stable at 151 bps in April and has ticked down to the high 140s on recent deals. With attractive spreads, market participants note the growing appeal of CLOs has broadened the investor base, with new investors picking up the slack for banks under pressure from regulators. On April 7, regulators announced they would extend the conformance period for Volcker rule compliance to 2017 from 2015. However, as reported by the LSTA, more specificity emerged that any CLO notes bought or sold after December 31, 2013 are also no longer eligible for the extension and would have to be divested by banks by 2015, which could make it “prohibitively expensive from a capital perspective for bank dealers to take these securities into inventory to provide liquidity to sellers of CLO securities.”

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