



European CLO Rated Debt Snapshot

December 2020

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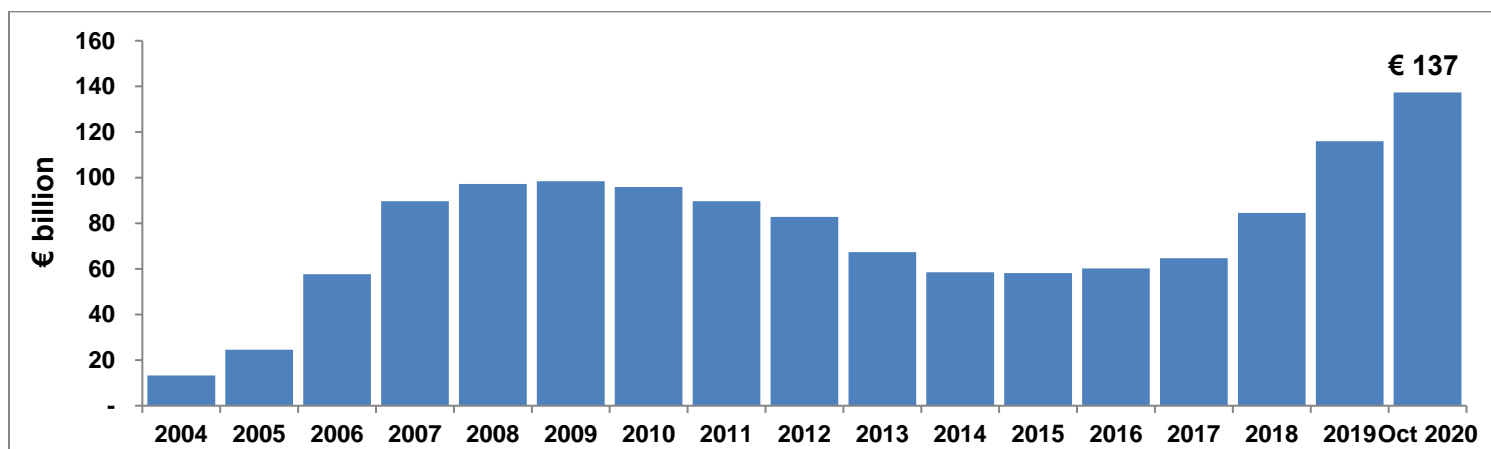
Invesco Structured Securities

Invesco's capabilities in structured securities spans residential and commercial mortgage-backed securities, consumer loan focused asset-backed securities and US and European collateralized loan obligation (CLO) debt capabilities. The Structured Investments Team at Invesco managed, as of Sept. 30, 2020, USD43.2 billion in dedicated retail and institutional funds, as well as components of multi-strategy offerings. Each quarter, our structured team will provide short market updates to highlight opportunities and activities across our diverse asset classes. This quarter, our European CLO team provides an update on its market.

European CLO market update

The European CLO market has seen notable creations, with October marking one of the busiest new issuance months post-COVID. The Euro CLO market has grown at a cumulative average growth rate (CAGR) of close to 16% since 2015.¹ Year-to-date, 58 new Euro CLOs have priced totaling €19.6 billion, compared to 95 Euro CLOs totaling €37.2 billion in the same period last year.² The recent rally in European corporate credit, coupled with low European loan default rates, should encourage further CLO creation. Barclays and JP Morgan have forecasted new European CLO creations to reach €25-30 billion in 2021.³ Given that more clarity now exists around macro events (post the US election and given positive progress on potential COVID vaccines), CLO demand continues, amid lower loan supply. While this dynamic is supportive of European CLO creations, we are aware of the difficulties that CLO managers face when raising outside equity capital. However, secondary AAA CLO spreads have continued to tighten to the 130-150 basis point range, thanks to strong demand.⁴ Post-COVID new issue AAA's have tested even tighter spreads. We are encouraged that Overcollateralization (OC) test failures have remained limited among European CLOs and only a few transactions have diverted interest proceeds.⁵ European CLOs tend to be structurally more conservative (less leverage) than their US counterparts, with larger equity and single-B tranches. Furthermore, European CLO underlying collateral pools tend to be more jurisdictionally diverse, allowing for different recovery dynamics versus their US counterparts. We continue to monitor CLO mezzanine tranche widening, as a second wave of lockdowns across the eurozone is upon us. We are reminded that CLO AAA tranches sustained no defaults through the global financial crisis.⁶

Figure 1: Euro CLO market size



Source: Barclays Research through Oct. 31, 2020. Includes new issue CLOs, refinancings and resets.

Figure 2: Euro CLO spreads relative to corporate credit (basis points)

Euro CLO Tranche²	Current Spreads	March 2020 Wides	'15-'16 Energy Wides	GFC Wides
AAA	150	375	173	800
AA	220	500	245	1720
A	320	663	370	1909
BBB	438	820	550	2121
BB	793	1350	800	2490

Asset Type²	Current Spreads	March 2020 Wides	'15-'16 Energy Wides	GFC Wides
EUR IG Bonds	119	260	193	485
EUR HY Bonds	500	1045	713	2255
EUR Loans	582	1288	693	2089

Source: JPM CLO Weekly Publication as of Nov. 6, 2020.

Invesco European CLO Rated Debt investment capability

Invesco began investing in CLO debt tranches in 2001 and currently manages over USD1.4 billion in CLO debt tranches.⁷ As one of the world's largest loan managers, Invesco's market presence and scale offers investors distinctive access to the asset class. Invesco's CLO Rated Debt Tranche investment strategy attempts to capture excess returns in both mispriced assets and execution in the secondary market. Invesco's CLO investment team is fully integrated within its Private Credit investment team, providing a single platform for analyzing and approving underlying loan credit risk. Invesco's proprietary internal risk rating framework, our fully integrated CLO and senior loan team, unparalleled credit analyst coverage of the loan universe and market presence provide Invesco with an early indication of downside risk, which facilitates a full understanding of fundamental risks in CLOs and the loan market.

Given our ability to invest across the CLO liability stack, Invesco is a trusted partner who can provide underwriters with decisive, value-added views on the market, transaction structures and pricing, i.e., "early looks". Given our presence in the loan market and status as a perennial CLO issuer, we have full access to both the primary and secondary CLO Rated Debt markets.

Many of Invesco's competitors have separate investment teams for senior loans and CLO Rated Debt, which limits their ability to efficiently analyze transactions. Invesco believes these teams (1) are unable to fully understand the collateral and unique structural characteristics of each CLO, and (2) do not adequately know the CLO managers and their track records in managing through market cycles.

Invesco's CLO Rated Debt strategy seeks to provide diversification across vintage and CLO managers based on the investor's desired risk tolerance. Investors may receive stable interest distributions and a competitive yield compared to other corporate credit investments.

About risk

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested.

Many senior loans are illiquid, meaning that the investors may not be able to sell them quickly at a fair price and/or that the redemptions may be delayed due to illiquidity of the senior loans. The market for illiquid securities is more volatile than the market for liquid securities. The market for senior loans could be disrupted in the event of an economic downturn or a substantial increase or decrease in interest rates. Senior loans, like most other debt obligations, are subject to the risk of default.

CLOs purchase below investment grade loans and actively manage a pool of loan assets to satisfy AAA-B rated CLO liabilities as well as CLO equity. Losses from underlying below IG loans are allocated based on CLO waterfall seniority as detailed in CLO documents. While there are many levels of protections within the CLO structure for senior CLO tranches, there is no guarantee that they will not experience losses if underlying loan defaults reach a certain level.

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All data provided by Invesco, as at October 31, 2020 in euros unless otherwise noted. Please note index returns represent total returns in respective base currencies.

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¹ Size of the European CLO market sourced by Barclays Research through Oct. 31, 2020. Includes new issue CLOs, Refinancings and Resets. Cumulative Average Growth Rate (CAGR) measures the size of the CLO market from Jan. 1, 2015 to Oct. 31, 2020.

² JPM CLO Weekly Publication as of Nov. 6, 2020.

³ J.P. Morgan Preliminary 2021 CLO Supply Forecast published on Nov. 6, 2020. Barclays Credit Research 2021 Leveraged Loan and CLOs Supply Outlook published on Nov. 13, 2020.

⁴ JPM CLO Weekly Publication as of Nov. 6, 2020.

⁵ Fitch Ratings Leveraged Finance & CLO Weekly published Nov. 6, 2020.

⁶ S&P Twenty Years Strong: A look Back at U.S. CLO Ratings Performance: CLO tranche defaults by original rating (1994-2018).

⁷ Invesco CLO Rated Debt AUM as of Oct. 31, 2020.