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European CLOs hit tight levels with new deal

Chenavari Investment Managers priced its third ever European CLO at its tightest levels last week, though triple-A spreads were a touch wider than other recently issued deals as sources say manager tiering is creeping into the European market.

By David Bell *06 Mar 2017*

Chenavari's €350m Toro European CLO 3 was arranged by **Barclays** and closed on Friday last week, with the senior triple-A rated notes sold at 96bp over three month Euribor.

The structure sold debt tranches down to the single-B level, resulting in a weighted average cost of debt of 190bp for the structure, which Mick Vasilache, partner and senior portfolio manager of Chenavari, said was historically low for the platform. Chenavari saw a "significant broadening" of the investor base, he added.

Compared to other recent deals, the triple-A notes at 96bp were slightly wider — CVC sold its equivalent notes at 93bp in early February, while Blackstone/GSO priced a triple-A piece at 92bp over one week later.

ICG priced its St Paul's CLO VII at 95bp over at the end of January.

One investor said that a small level of price tiering between managers is being observed in European CLOs. The European market has typically seen greater homogeneity among spread levels achieved by managers, unlike the US market which has seen much greater variation between managers perceived to be in higher or lower tiers in terms of quality.

From triple-A to triple-B, the investor said that spread levels were at record tight levels in the 2.0 era. But at the junior end of the stack, spreads are still wide of historic tight levels.

Part of the reason for this, he suggested, was the impact of regulatory regimes such as Basel III and Solvency II, which have heavy capital weights for low rated debt, discouraging some institutional investors.

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