AlbaCore says COVID-19 brings new benchmarking focus for CLO investors.

AlbaCore Capital was one of six new managers to enter the European CLO market in 2020 with its debut deal, **AlbaCore European CLO I**. Launching in the middle of a global pandemic was not ever something the manager had envisaged, but it says daily scrutiny of the portfolio and a willingness to sell positions has been key.

AlbaCore's first warehouse was established in September 2019 in conjunction with BofA Securities. The deal priced in June after being upsized to €232.65m from an original €201.9m. The deal size as well as the par subordination reflected the atypical market conditions of the time: the Triple A notes had as much as 46.5% of credit enhancement, while the structure featured no Single B rated tranche. Small clips of AlbaCore EURO CLO I's Class A, D and E notes traded in the secondary market in September, in each case the cover being above the reoffer price.

"Before the pandemic, investors were focused on manager differentiation - how newcomers would stand apart from more established managers," said Deborah Cohen Malka, deputy portfolio manager and managing director at AlbaCore. "The pandemic has brought a new focus for investors: who was able to navigate the pandemic and manage risks most effectively."

AlbaCore Capital Group aims to differentiate itself from other European CLO managers by adopting a strategy that it describes as fundamentalist and bottom-up with a consistent focus on capital preservation.

"We are credit pickers, focused on downside protection, absolutely focused on relative value, and our portfolio management is hands-on," said Ms. Cohen Malka. "We review our portfolio on a daily basis and are not afraid to sell."

She explained that during the early days of the pandemic the warehouse actively traded out of several positions and reinvested in more resilient industries based on the team's relative-value analysis.

ESG factors are also a key feature of AlbaCore's CLO investment strategy. This discipline is not only present in its CLOs but also across the entire AlbaCore platform; the senior investment team has integrated ESG factors into its investment process for over a decade. Its ESG approach in the CLO puts potential investments through a rigorous screening process with ESG factors ranked against peers and with the possibility of a further screen from AlbaCore's internal ESG committee, which has members from across business functions.

Investors consulted by CapitalStructure commented on AlbaCore's "sensible" approach to reducing exposures to names - even if they liked them - in order to find better relative value elsewhere. They also felt that AlbaCore did a good job at differentiating itself when its inaugural deal was roadshowed.

In the months immediately following the launch of AlbaCore's CLO, leveraged loan deal flow was relatively limited. However, the high yield bond market offered opportunities that the manager was able to take advantage of with the 12.5% fixed-bond investment bucket.

Since September there has been a healthier pipeline of loans, and, with markets currently seeing positive momentum off the back of vaccine news, Ms. Cohen Malka expects M&A activity to continue to bolster the pipeline of transactions going into 2021.

“Today there is a lot more optimism in the market. However, we are still focused on downside protection and portfolio management; being disciplined and avoiding losers,” said Ms. Cohen Malka. “We will maintain our rigorous approach to credit analysis.”

“Looking forward to 2021, we have made a commitment to issuance in the European market with the establishment of our Risk Retention Vehicle, AlbaCore Loan Management, but for now we are focused on the current maiden CLO.”