

Short duration CLO equity

Area of expertise: Alternative investments

Theme: Structural solutions



Overview

- The US CLO market is becoming more open to creativity in deal structures and investment strategies
- Strong demand for seasoned CLO deals has inspired the creation of short duration CLOs
- DB is a pioneer in this space, having launched the first short duration CLO in the US market in May of 2014 for the leading credit manager, Ares Management
- DB's CLO team have several short duration CLO deals in the pipeline

DB CLO Pipeline

Target Pricing	Manager
Late September/Early October	Regiment Capital - Cavalry V (Short Duration)
Mid/Late October	Ares
4Q14	Mountain Hawk IV (WAMCO)
4Q14	Benefit Street VI (Providence)
1Q15	LCM
1Q15	Blackrock

Characteristics of short duration CLOs

Short duration CLOs combine the best features of 1.0 and 2.0 CLOs, and offer an attractive alternative versus CLO 1.0 or refinanced 2011/2012 CLO bonds:

- Significant Original Issue Discount when compared to typical 2.0 new issue deals
- Very little or no reinvestment period, and one year non-call period creates more bullet like debt vs. regular CLOs
- Capped amend-to-extend activity and capped reinvestment of prepayments gives more certainty over debt and equity life when compared to typical CLOs
- No issuer repurchase of notes, modification of weighted average life rule, which are two debt unfriendly features in many CLOs
- Equity is positive IRR to one year call (this is not the case for any new issue 2.0)
- The short duration CLO deals marketed through DB are Volcker compliant

The evolution of CLOs

	CLO 1.0	CLO 2.0	Short Duration CLO
Launch	Pre Credit Crisis	Post Credit Crisis	2014
Non-Call Period	3-5 Years	~2 Years	1 Year
Reinvestment Period	6-7 Years	3-4 Years	1 Year
Final Maturity	14-16 Years	11-12 Years	10 Years

Example deal: Ares XXX – Closed May 2014 z

Key features:

- Ares managed CLO with vanilla loan collateral
- 100% ramped at close
- No reinvestment period
- Non call period of one year, and a 10 year legal final
- No single tranche refinancing/re-pricing, no issuer repurchase of notes
- Simplified documentation and structure, lower fee deal vs typical 2.0 CLOs
- Post closing, the manager has ability to reinvest a maximum of 50% of loan prepayments and 100% of credit risk/credit improved sales, provided certain conditions are satisfied

Capital Structure

Class	Rating (Moody's)	Par Amount (\$)	Percentage	WAL (years)*	Coupon	DM	Price
Class A Notes	[Aaa]	[240,000,000]	[66.5]%	[3.0]	L + [0.85]%	L + [1.10]%	[99.27]%
Class B Notes	[Aa2]	[33,000,000]	[9.1]%	[5.2]	L + [1.45]%	L + [1.80]%	[98.31]%
Class C Notes	[A2]	[17,000,000]	[4.7]%	[5.2]	L + [2.20]%	L + [2.75]%	[97.41]%
Class D Notes	[Baa2]	[14,000,000]	[3.9]%	[5.2]	L + [2.85]%	L + [3.60]%	[96.55]%
Class E Notes	[Ba2]	[20,500,000]	[5.7]%	[5.2]	L + [4.20]%	L + [5.15]%	[95.80]%
Equity	NR	[36,250,000]	[10.0]%	N/A	N/A	N/A	[87.03]%
TOTAL		[360,750,000]	[100.0]%		L + [1.28]%	L + [1.62]%	

* WAL & Price calculated based on a 25% CPR, 2% CADR, 70% recovery and 5.2yr Call with 50% prepayments reinvested in equal or shorter maturity assets as long as the WAL is greater than 2.0 years