FINANCIAL TIMES
TUESDAY 10 JANUARY 2017
FT.COM

Structured Investment Products

GoldenTree raises $600m for risky loan funds

Credit hedge fund targets double-digit returns and seeks to meet new rules

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GoldenTree Asset Management has raised $600m from investors for a new fund that will issue bonds backed by risky loans, using the private capital to meet tougher new rules facing the industry this year.

The New York-based, $24bn credit fund has finished fundraising for the new vehicle, GoldenTree Loan Management, after it eclipsed an initial target of $500m.

It presents itself as a way to satisfy new risk retention regulations, which came into force in the US last month. Managers of collateralised loan obligations are now required to retain 5 per cent of the economic interest of each new deal they issue in an attempt to align the incentives of managers with those of investors.

CLOs bundle loans into one security, before slicing up the total into "tranches" and offering investors different returns based on the amount of risk they are willing to take.

The new fund, structured as a "capitalised manager vehicle", will retain the riskiest tranches of debt in all new deals, equating to roughly the bottom 15 per cent of the capital structure. GoldenTree, which has invested $30m of its own capital, or 5 per cent in the fund, is targeting double-digit returns from a basket of broadly syndicated corporate loans. GoldenTree anticipates that other credit funds could follow its lead.

Steve Tananbaum, GoldenTree's chief investment officer, said it believed it had "created an improved structure for investing in the CLO market that we believe can provide enhanced returns".

The new vehicle has drawn large investors, including public pension funds, insurance companies and sovereign wealth funds from Asia, North America and Europe. It has a four-year horizon, requiring investors to lock up their capital for longer.

There has been speculation that Donald Trump's administration could seek to roll back the new risk retention rules but any change, if it did occur, would be likely to evolve slowly.

CLO issuance climbed last quarter, as managers rushed to get deals done before the new rules came into effect on December 24. Analysts predict issuance will fall short of last year's $72bn as risk retention requirements begin to bite. S&P Global, the rating agency, is forecasting about $60bn in new deals in 2017.

Since GoldenTree was founded in 2000, it has issued more than $10bn in CLOs. About half of that is still outstanding. GoldenTree said that its issuance volumes were unlikely to materially change, aiming to issue between two and four new CLOs this year.

"There was a rash of issuance in Q4 last year and even top tier managers were coming out with a lot of issuance," said Jason Merrill, a structured specialist at Penn Mutual Asset Management. "It is hard to see CLO issuance being that strong in the first quarter."