

Soros joins firms using leverage to break into CLO seniors

Buying CLO triple-As with leverage has been one of the hottest hedge fund trades this year, with these assets still yielding north of 140 basis points over Libor. Now sources say Soros Fund Management, a \$29 billion firm, has got in on the act to take down senior CLO tranches for the first time.

Established by renowned investor George Soros in 1969, Soros Fund Management now operates as its founder's family office.

Soros is perhaps best known for earning over \$1 billion by going short UK sterling risk in a trade that earned him the title of "the man who broke the Bank of England."

His firm is understood to have been a buyer of CLOs for a few years, but it has until now focused on junior tranches.

According to one CLO arranger, the New York-based firm has been a buyer of CLO equity in deals led by top-tier managers. Beyond this, Soros has also purchased double-B and single-B rated CLO tranches.

It is unclear how Soros is executing its leveraged triple-A CLO play, but one source close to the situation says that

the firm has not engaged a bank to lend against CLOs.

"It's an opportunistic trade. They do not have an account with a single dealer, rather they will ask a CLO arranger if leverage is available on a deal-by-deal basis," says the New York-based official.

A spokesperson for Soros declines to comment on the CLO strategy.

Another hedge fund that has been a buyer of CLO triple-As with leverage is Kansas City-based Palmer Square Capital Management. But the firm's founder Chris Long cautions

that the market hasn't fully developed yet.

"This trade is still in the very early innings," says Long. "There are really only a few banks that are providing leverage for it."

According to a Credit Alpha research piece authored by Barclays, between seven and nine turns of leverage are available for hedge funds should they choose to start a CLO triple-A investment programme.

Barclays estimates that a leveraged CLO strategy could yield between 9.6% and 10.1%.



Long: 'early innings'