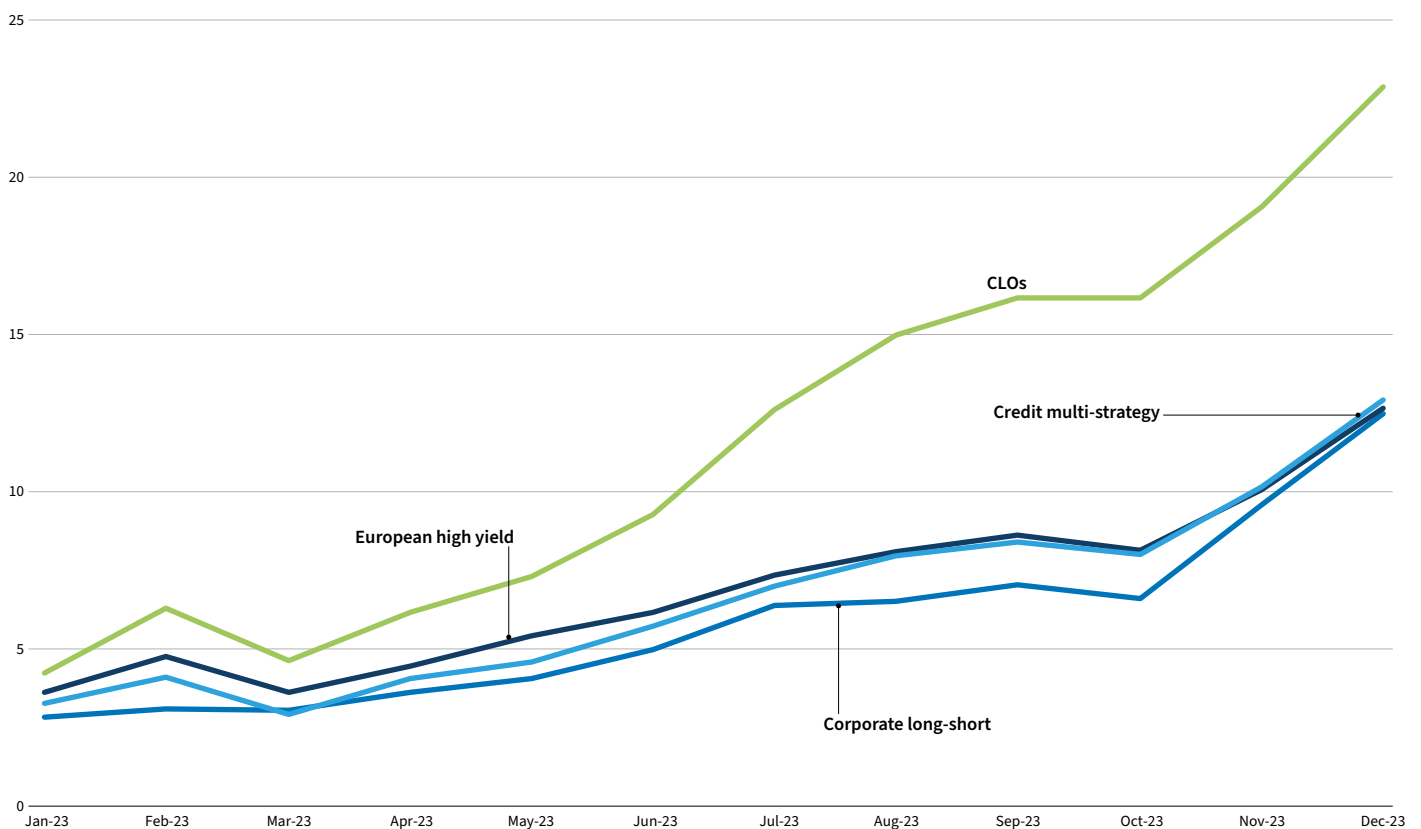


# A strong year for CLO strategies

Our universe of credit funds put past pain behind them to deliver impressive returns in 2023. But which strategies were the best performers, and how did they achieve such good numbers?

## Top 4 Creditflux indices: cumulative returns 2023 (%)



by Tom Davidson, Kellie Ell & Shant Fabricatorian

After the pain of 2022, credit fund managers must have been praying that 2023 turned out better. It did. Even ignoring the outrageously good returns for CLO funds (we'll return to the 23% median return for that strategy later), most of our fund categories had a good year. Our indices for credit multi-strategy funds, corporate long-short funds, structured finance funds and European high-yield funds all posted 12-month returns from

12-13%, while US high yield funds were only a little behind on 10.4% for the year.

### Lupus Alpha leads the way

When you move beyond averages to the market's outperformers, the successes really jump out. Our top 30 funds for 2023 start at a 19.5% 12-month return, and go as high as 45% for Lupus Alpha CLO Opportunity Notes II.

All CLO vehicles benefited from being floating-rate investments in a high-rate environment, and this combined with a dramatic

rally in valuations to deliver strong passive performance. But Lupus Alpha clearly made some good decisions.

"Performance in our mandates in 2023 has been a result of our actions being taken before [the Ukraine and inflation] crisis (raising cash) and in market periods of stress (adding junior mezz bonds)," says Stamatia Hagenstein, co-portfolio manager with Michael Hombach at Lupus alpha Asset Management for CLO investments.

Lupus Alpha invested in a mixture of

## Top performing credit funds 2023

Fund Name	Manager	Category	Share Class	Currency	2023	Annualised return since inception	Launch date	AUM (\$bn)
Lupus Alpha CLO Opportunity Notes II	Lupus Alpha	CLOs	N/A	EUR	44.92%	9.74%	Aug-2013	<0.1
BK Opportunities Fund V	Crystal Fund	CLOs	USD	USD	36.93%	8.59%	Jul-2018	<0.5
Axiom Credit Opportunity	Axiom	Corporate long-short	A	EUR	36.58%	4.51%	Dec-2018	<0.5
Blueglen Opportunities Credit Fund I	Blueglen	Corporate long-short	C	USD	34.36%	23.53%	May-2022	-
Lupus Alpha CLO Opportunity Notes I	Lupus Alpha	CLOs	N/A	EUR	34.09%	13.42%	Sep-2012	<0.1
Spire Partners Credit Strategies Sub-Fund	Spire	Credit multi-strategy	S	EUR	34.00%*	7.64%	Apr-2018	<0.5
BK Opportunities Fund VII	Crystal Fund	CLOs	-	USD	33.69%	6.49%	Sep-2021	<0.5
Alcentra Structured Credit Opportunities Fund II	Alcentra	CLOs	I-B	USD	32.53%	16.19%	Feb-2011	<0.5
Blueglen European Credit Fund I	Blueglen	Credit multi-strategy	C	USD	31.08%	9.45%	Jun-2017	<0.5
Capital Four Structured Credit Opportunities Fund	Capital Four	CLOs	A	EUR	30.79%*	15.82%	May-2020	<0.1
CloverTree Opportunities Fund	Orchard	CLOs	A	USD	29.96%	21.91%	Mar-2020	<0.5
BK Opportunities Fund VI	Crystal Fund	CLOs	USD	USD	28.70%	6.62%	May-2019	<0.5
Sound Point Meridian Fund	Sound Point	CLOs	-	USD	28.32%	14.62%	Feb-2022	<0.5
Plutus CLO Fund	Prytania	CLOs	1	GBP	27.62%	0.82%	Sep-2020	<0.5
Descartes Fund — CLOEE 2021	Cartesia	CLOs	A	EUR	27.57%	9.04%	Nov-2021	<0.1
Cheyne Total Return Credit Fund	Cheyne	Corporate long-short	Accum	USD	27.18%*	4.25%	Mar-2020	<0.5
Blueglen European Credit Fund II-24	Blueglen	Credit multi-strategy	C	USD	26.92%	9.95%	Jun-2019	<0.1
Accunia European CLO Opportunity	Accunia	CLOs	A	DKK	26.87%	4.92%	Sep-2017	<0.5
Sound Point Harbor Fund	Sound Point	CLOs	Feeder	USD	25.68%	12.64%	Jul-2019	<0.5
Alegra ABS 1	Alegra	CLOs	N/A	EUR	25.30%	8.92%	Jul-2004	<0.5
Descartes Fund — CLOEE 2019	Cartesia	CLOs	A	EUR	25.11%	7.31%	Apr-2019	<0.1
Alegra ABS 2	Alegra	CLOs	N/A	EUR	24.21%	12.41%	Jun-2007	<0.1
Sumus Credit Opportunities Fund	CSAM	Credit multi-strategy	A	USD	23.48%	12.19%	Oct-2020	<0.1
Serone Key Opportunities Fund	Serone	Structured finance	-	USD	22.79%	10.21%	Sep-2013	<1.0
MWM1 — Dette Européenne Stratégique	Cartesia	Credit multi-strategy	EUR	EUR	20.60%	5.13%	May-2009	<0.1
CIFC Global Floating Rate Credit Fund	CIFC	Ucits credit	N/A	USD	19.95%	4.36%	Jan-2019	<0.5
ICG Total Credit Fund	ICG	European high yield	N/A	EUR	19.86%	6.33%	Jul-2012	<0.5
Athena Fund	Prytania	Structured finance	2008-1	USD	19.78%	5.76%	May-2008	<0.1
Ardesia CLO Opportunity Fund	Valeur	CLOs	A	EUR	19.52%	12.37%	Apr-2020	<0.1
Vibrant Ambar Fund	Vibrant	CLOs	B	USD	19.48%	13.15%	Jun-2020	<0.5

\*Estimates

# 45%

12-month return for Lupus Alpha CLO Opportunity Notes II

short, clean, out-of-reinvestment equity, long cash-flowing equity and junior mezzanine bonds, which were added at attractive prices. Equity positions narrowed the discount between their market value NAV and adjusted par value.

“Out-of-reinvestment period equity pieces benefited from the fact that they hadn’t been trading with a premium before the crisis. Deals within their reinvestment period added value due to trading and increase of WAS driven by amend and extend activity, while the increase in rates added an equity-like coupon payment for our junior mezz bonds, which could be acquired at attractive prices during periods of market stress,” says Hombach.

Hagenstein adds: “We would describe our current investments as being conservatively

## Top performing funds by category

Category	2023 index	Top fund	Manager	2023
Credit multi-strategy	12.93%	Spire Partners Credit Strategies Sub-Fund	Spire	34.00%
Corporate long-short	12.45%	Axiom Credit Opportunity	Axiom	36.58%
Structured finance	12.23%	Serone Key Opportunities Fund	Serone	22.79%
CLOs	22.86%	Lupus Alpha CLO Opportunity Notes II	Lupus Alpha	44.92%
US high yield	10.36%	Flat Rock Core Income Fund	Flat Rock	13.34%
European high yield	12.64%	ICG Total Credit Fund	ICG	19.86%
Ucits credit	7.30%	CIFC Global Floating Rate Credit Fund	CIFC	19.95%

positioned if volatility returns to the market but still able to add value, as you will probably see in the early returns of 2024.”

### Strong returns in corporate long-short

Beyond CLO funds, the other category to stand out was corporate long-short. As mentioned, the category index achieved a middling full-year return of 12.45%, but that hides a number of high performers. Funds from Axiom and Blueglen came third and fourth across all our funds, with returns of 36.58% and 34.36%, respectively.

Funds following risk averse strategies also outperformed. Serone’s Key Opportunities Fund was our best-performing structured finance fund, with a full-year return of 22.79%. According to Serone, it rotated

capital into safe positions through the year, which improved returns while increasing downside protection. The fund also generated a cash-on-cash yield of more than 20%.

Chief investment officer Serj Walia says: “Over the last 12 years the fund has provided investors with a circa 15% net annualised return with only one down year.”

Eagle-eyed readers may have already spotted that winners in a number of other categories were boosted by CLO exposure. For example, Flat Rock Global had the best performing US high yield fund, which CIO Shiloh Bates attributes to the mix of investments. “A majority of investments are middle market loans, owned alongside a mix of other debt securities, some of which are CLOs,” he says.