

# COLLATERALIZED LOAN OBLIGATION (CLO) EVALUATION METHODOLOGY

Thomson Reuters provides end of day prices on Global Cash Collateralized Loan Obligations (CLOs). These include both broadly syndicated and middle market CLOs. Each CLO security is individually priced by Thomson Reuters Pricing Service incorporating the following information, techniques, and resources:

- Granular loan-level data
- Thorough structural analysis
- Moody's Analytics' CDONet library and cashflow engine
- Credit assumptions: Prepayment and default speeds/recoveries
- Pricing assumptions/discount margins
- Thomson Reuters evaluation staff/vigorous quality control checks
- Market news from Reuters editorial staff

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### GRANULAR LOAN-LEVEL DATA

Accurate analysis of Collateralized Loan Obligations requires a granular approach to loan level information. Thomson Reuters evaluators assess the concentration and quality of various loan level buckets such as Second Liens, Covenant Lites, and other Structured Product Assets. Particular emphasis is also placed on the assessment of the CCC rated and Defaulted loan buckets, which can greatly affect the performance triggers and cashflows in the deal.

Additionally, Thomson Reuters has the advantage of leveraging Thomson Reuters LPC loan pricing platform, the leading loan price provider, to calculate and assess the Weighted Average Price of each CLO's portfolio of assets.

### THOROUGH STRUCTURAL ANALYSIS

Thomson Reuters evaluators perform thorough checks on all structural features of each CLO such as the credit enhancement of each bond and various performance triggers (including overcollateralization tests, interest coverage and diversion tests, as well as any turbo features). The evaluators carefully analyze the reinvestment language specific to each deal, as well as the collateral manager's performance and capabilities.

### MOODY'S ANALYTICS CDONET

Thomson Reuters incorporates Moody's Analytics CDONet Library. CDONet is a comprehensive global CLO deal library, covering close to 100% of the market. The group employs rigorous quality checks to ensure accurate content and cashflows.

### SCENARIO ASSUMPTIONS: PREPAYMENTS, DEFAULTS AND RECOVERIES

Evaluators tailor prepayment, default and recovery assumptions specific to each CLO deal – observing recent deal performance as well as forming various projections based on the quality of the collateral, collateral manager capabilities and macroeconomic conditions. All underlying assets of the CLO are aggregated into several buckets in order to ensure proper default and recovery analysis (for example, second lien loans will have lower recoveries than first lien loans). Evaluators review all weekly dealer research on the CLO sector, as well as maintain constant communication with the broker/dealer community to continually update all assumptions.



**PRICING ASSUMPTIONS/DISCOUNT MARGINS**

In addition to reviewing weekly dealer research and commentary on discount margins applied to various parts of the CLO capital structure, the evaluators also carefully monitor the daily Bid List activity. Evaluators collect prices/spreads from trades, covers, and reserves. Constant communication with the broker/dealer community also allows the evaluators to assess Bid List “talk” prior to the trades.

End of day evaluations are derived at 3pm and 4pm each day by discounting projected cash flows with updated discount margins.

**THOMSON REUTERS EVALUATION STAFF AND QUALITY CONTROL**

CLOs are evaluated within Thomson Reuters

Pricing Service – a group of over 115 fixed income specialists with trading, sales, and data backgrounds. Each evaluator is a specialist in one or more sectors, and is responsible for gathering quotes, as well as maintaining current spreads and speeds. Maintaining relationships with “street” contacts enables them to obtain up-to-date market information.

Thomson Reuters employs vigorous quality control checks to ensure pricing accuracy. All issues that are flagged must be viewed by the assigned evaluator, as well as the desk team leader before prices are released to customers. Below are two reports used in the quality control process:

- **Tolerance report** – a daily report that shows all bonds moving by more than a predetermined percentage
- **Unchanged report** – a daily report that alerts the evaluation team of any loan that has not changed price in five business days. Evaluators attempt to obtain new broker quotes on these issues

**MARKET NEWS**

Reuters Editorial staff covers all financial markets globally, including the Structured Products market. They have significant relationships with all dealer desks in major market locations. Evaluators are notified of all new issuances, news stories, and credit events.

**CONTACT INFORMATION**

**Americas evaluation desk** – 8:00am to 6:00pm ET

**Asia evaluation desk** – 8:00am to 6:00pm JST

**Europe evaluation desk** – 9:30 am to 5:30pm GMT

Customers with specific questions or concerns can call the Thomson Reuters Evaluation Desk directly at 1-866-NY1-BOND or send email to one of the following regions:

Region	Email
Americas	BondDesk@thomsonreuters.com
EMEA	RPSEurope@thomsonreuters.com
Asia Pacific	RPSAsia@thomsonreuters.com

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