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CDO Spotlight:
Year-To-Date Trading Activity In Outstanding Rated U.S. CLO Transactions

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Given the revolving nature of managed collateralized loan obligation (CLO) portfolios, we are providing year-to-date trading information--both purchases and sales--made by the managers of the CLO transactions that we rate. In doing so, we hope to give market participants some insight (as inferred from their sales and purchases of corporate debt) into the credit views and trends that managers in the CLO sector seem to be forming.

So far in 2009, U.S. CLO managers have made gross purchases amounting to approximately $60 billion in collateral assets, and have made gross sales of approximately $35 billion. (The proceeds managers use to make purchases come from both collateral sales and the prepayments on assets they hold in the CLO's portfolio.)

Purchases And Sales By Sector

Year-to-date, the health care sector (as categorized by CDO Evaluator asset codes) has had the greatest net inflow (that is, the greatest positive difference between purchases and sales within the sector), and the auto sector has had the greatest net outflow (the greatest negative difference between purchases and sales within the sector) (see table 1).

Table 1

Top Five Net Sector Purchases And Sales (Year-To-Date)

Purchases	Sales
Health care	Automotive
Business equipment and services	Lodging and casinos
Telecommunications	Building and development
Chemicals and plastics	Radio and television
Retailers (with the exception of food and drug)	Equity REITs and REOCs

The exit of CLO managers from the auto, media and entertainment, and building and development sectors is consistent with both the economic impact these sectors have sustained and the significant number of downgrades and defaults in these sectors earlier this year, in our view. In our opinion, these sectors suffered in the generally weak economy, and market participants may be questioning the long-term outlook for many companies in these sectors.

The telecommunications and health care sectors have been relatively stable in 2009. For example, HCA Inc., a health care company, was the second-highest exposure (by principal amount) across our rated universe of U.S. CLO portfolios as of third-quarter 2009 (see "Quarterly U.S. Cash Flow CLO Exposure Report As Of Third-Quarter 2009," published Nov. 5, 2009, on RatingsDirect), and was also the largest single purchased obligor across all of our rated U.S. CLOs year-to-date on a gross basis (by "gross" we mean the purchase without taking into account the sales).

Purchases And Sales By Obligor

Based on trustee reports we received for our rated U.S. CLO universe, we identified and ranked the top 25 obligors that the U.S. CLO managers purchased on a gross basis year-to-date according to par amounts (see table 2). We then identified and ranked the top 25 obligors that the managers sold on a gross basis during the same period according to par amounts (see table 3).

Table 2

Top 25 Obligors Purchased By Standard & Poor's Rated U.S. CLO Transactions (Year-To-Date)

Ranking*	Issuer name¶
1	HCA Inc.
2	Lyondellbasell Industries AF SCA
3	Calpine Corp.
4	Nielsen Co. B.V.
5	Sungard Data Systems Inc.
6	CSC Holdings Inc.
7	Georgia Gulf Corp.
8	Flextronics International Ltd.
9	Graham Packaging Holdings Co.
10	Firth Rixson Ltd.
11	Dollar General Corp.
12	NRG Energy Inc.
13	UPC Holding B.V.
14	CHS/Community Health Systems Inc.
15	Texas Competitive Electric Holdings Co. LLC
16	Intelsat Corp.
17	Health Management Associates Inc.
18	Huntsman International LLC
19	Newpage Corp.
20	Mediacom Broadband LLC
21	Cedar Fair L.P.
22	Cricket Communications Inc.
23	Service Master Co.
24	Consolidated Communications Inc.
25	First Data Corp.

*By par amount purchased. ¶We consolidated entities with multiple subsidiaries or holding companies.

Table 3

Top 25 Obligors Sold By Standard & Poor's Rated U.S. CLO Transactions (Year-To-Date)

Ranking*	Issuer name¶
1	Idearc Inc.
2	Daimlerchrysler Financial Services America LLC
3	Realogy Corp.
4	Lyondellbasell Industries AF SCA

Table 3

Top 25 Obligors Sold By Standard & Poor's Rated U.S. CLO Transactions (Year-To-Date) (cont.)	
5	Texas Competitive Electric Holdings Co. LLC
6	Ineos Group Holdings PLC
7	Delphi Corp.
8	Ford Motor Co.
9	Charter Communications Operating LLC
10	Lear Corp.
11	Wrigley (Wm.) Jr. Co.
12	Tribune Co.
13	Sungard Data Systems Inc.
14	Graham Packaging Holdings Co.
15	Harrah'S Operating Co. Inc.
16	CSC Holdings Inc.
17	Boston Generating LLC
18	Freescale Semiconductor Inc.
19	Nielsen Co. B.V.
20	Neiman Marcus Group Inc.
21	Nuveen Investments Inc.
22	Newpage Corp.
23	Golden Nugget Inc.
24	Michaels Stores Inc
25	Georgia Gulf Corp.

*By par amount sold. ¶We consolidated entities with multiple subsidiaries or holding companies.

There seem to be few surprises in table 3, in our view. Many of the obligors on the list have defaulted or filed for bankruptcy over the past 12 months (Idearc, Lyondell, Charter, Lear, etc.) or were downgraded to the 'CCC' or 'CC' rating category (Ineos, Realogy, etc.), making them potentially less desirable for CLOs to hold in their portfolios. This may be attributable to the constraints of the 'CCC' buckets in CLOs and the effects they can have on overcollateralization (OC) test levels. (For more information on OC test calculations, see "A Guide To Overcollateralization Tests And 'CCC' Rating Haircuts In U.S. CLOs," published Dec. 23, 2008, on RatingsDirect.)

Why do some obligors appear on both lists?

Multiple factors may be behind the year-to-date trend of certain sales and purchases. For example, some of the higher rated obligors, like Nielsen BV, appear on both the purchase and sale list. In our view, this may reflect a healthy divergence in credit views by different managers of these CLO portfolios. Nielsen, a New York-based media company, had a high ranking on the purchase list and also appeared on the sale list. In our view, Nielsen may have been attractive to some CLO managers, who decided to purchase Nielsen's debt at what they may have viewed as attractive pricing points. Other CLO managers, however, may have been concerned about the company's financial profile and its exposure to the radio and television sectors and decided to sell out of the name.

In the case of Lyondell, which filed for bankruptcy in January 2009, its position on the list of top 25 sales may be a result of the uncertainty surrounding the companies reorganization after its Chapter 11 bankruptcy filing. At the same time, it may also be on the list of top obligors purchased due the unique "roll-up" provisions of the debtor-in-possession (DIP) financing, which may have been a factor in CLO managers' participating in such DIP financing. However, it may also be because some CLO managers perceived value in the loan at relatively low prices.

The Nielsen and Lyondell examples, however, represent only one of perhaps several possible rationales of why an obligor may be on both lists, particularly given that the long measurement period (over 10 months) may be obscuring certain trends that otherwise may have been more discernible. For example, most CLO managers may have sold obligors that appear on the sale list earlier this year and repurchased them later this year at more attractive valuations and pricing levels. In other words, CLO managers' views on the credits and sectors may not be as divergent as they might seem.

Going forward, we plan to provide the market with more frequent updates on the sales and trading of CLO portfolios. We hope this will provide meaningful insights into the trends going on in the traded loan market.