Lessons Learned Over Years of CLO Investing

Insights from Polen Capital's CLO Leadership Team

Rick Richert, CFA

Co-Lead, CLO Platform, Portfolio Manager

Prior to joining Polen Capital in 2023, Rick worked as the Head of the U.S. Par Loan and CLO Platform at Sound Point Capital. At Sound Point Capital, Rick focused on managing the senior floating rate funds and the CLO business, launching the first CLO in 2012, and building the platform. Rick received a B.S. in Accounting from Southern College and M.B.A. from the University of Michigan.

Q. How did you get started in this business?

For me, working on the buy-side in finance was particularly attractive because it's a business that rewards objective, fact-based analysis. I joined MetLife in the Private Placement group, where each investment also included an on-site due diligence process to underwrite the credits. I quickly moved on to help start the Bank Loan unit in the late 1990s, as the asset class was just transitioning from lend-and-hold on banks' balance sheets to lend-and-distribute to hundreds of investors. This is when the broadly syndicated market began its quick rise, reaching about $2 trillion globally today.[1]

Q. What do people often misunderstand about CLOs?

There is a common belief among investors that a good measure of the liquidity of a loan is how many dealers quote that loan. While certainly there is some positive correlation there, it can be an overly simplistic understanding. I'd suggest that a better way to view actual liquidity and, therefore, cheaper optionality in managing the loan pool is evaluating the size of the bid-ask spread in combination with how widely syndicated the loan is. These two factors would give investors a much better understanding of the actual liquidity of each loan in the CLO.

Q. What are some common pitfalls for CLO managers?

There a several pitfalls I've seen CLO managers fall into over my career. One is attempting to run a CLO the same way you would run an unleveraged bank loan fund. This inevitably places the CLO at too much risk to adequately weather volatile times. The main return feature to CLO equity investors is derived from the fact you have liabilities locked in for 12 years at a minimum, with reset/refi options available to potentially create even longer time horizons.

Another pitfall I've observed is when CLO managers run their businesses for aggressive AUM growth. I believe this is at odds with the best outcome for CLO equity investors. The CLO debt market will recognize this motivation and add a premium to the debt spreads, which will lower the cash flow arbitrage and ultimately hurt CLO Equity returns.

> **Managing a CLO platform for more measured, thoughtful growth benefits the equity investors, all else equal.**

Q. What excites you as you look to the future?

The CLO market has exhibited impressive resilience through some large tests in the market, such as the Global Financial Crisis, the oil shock of 2014-15, and the COVID-19 pandemic. In our view, the CLO market will create the demand for leveraged loans and therefore enable a key method of how companies finance themselves for many decades to come. With the experience of Polen's Leveraged Credit Team coupled with our CLO leadership, we are excited to create a CLO platform that will add value to the stability of this growing market and create compelling, client-focused outcomes for our investors.

[1] Bloomberg, Broadly Syndicated Loans: market size, structure and historical return profile, June 2025

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Roman Rjanikov

Co-Lead, CLO Platform, Portfolio Manager

Roman joined DDJ Capital in 2007, which was subsequently acquired by Polen Capital in 2022. Prior to 2007, Roman spent four years as an Equity Research Analyst at MFS Investment Management and served as a Senior Financial Analyst at Hewlett-Packard Company, where he spent six years in several locations across the U.S., Switzerland, and Russia. Roman received an M. Sc. in Finance and Accounting from Plekhanov Russian University of Economics and an M.B.A. (with distinction) from Harvard Business School.

Q. What led to the launch of Polen's CLO platform?
For most of my tenure at this firm, my colleagues and I agreed that expanding into the CLO business would be a logical step, given our underwriting expertise and experience in the leveraged loan space. We believed that our deep understanding of companies and industries could help generate attractive returns for CLO investors. However, as a boutique high yield manager, we lacked the resources to enter the business.

Things changed dramatically after we joined forces with Polen in 2022. With the backing of a larger firm willing to invest in the growth of our Leveraged Credit franchise, we could finally bring this product to market. To this end, we've expanded our investment team leadership and added several new analysts.

Q. What do people often misunderstand about CLOs?
The biggest misconception I've encountered is that underwriting loans within the CLO collateral pool doesn't need to be as thorough as for, say, a CCC-rated bond or an illiquid asset.

Some believe that the higher level of diversification within the pool and the fact that loans tend to be "the first dollar out" in the capital stack provide sufficient protection to justify a lighter underwriting process. We disagree.

First, any loss of principal is just as painful, if not more so, given the leverage within the CLO structure, especially for CLO equity holders. Second, loans are constrained by their par value, meaning there won't be enough "winners" to offset "losers" as might happen in a bond or equity portfolio. Third, even if the risk is just a near-term "mark-to-market" risk, there is a significant opportunity cost in buying a loan too soon, e.g., paying par today when you could pay 97 tomorrow. We encourage our team to be as thorough in their analysis of CLO positions as they are in generating ideas for all our strategies.

Q. What are some common pitfalls for CLO managers?
Many CLO managers focus too much on "filling the baskets." For example, they may first decide what percentage of the pool will be BB-rated and then try to choose the best BBs that fit this criterion. This approach can result in selecting second or third-best ideas, which can hurt long-term returns. Unlike many other managers, we focus on the best risk-return for each security and issuer based on the spread and credit fundamentals. We then find a place for it in the portfolio(s) based on the guidelines. While this may result in somewhat more active management of the CLO pool, we believe it is the most prudent way to generate superior outcomes for the CLO equity investors.

Q. What sets Polen Capital apart?
We let our analysts do what they do best: analyze companies and industries rather than chase an "idea generation treadmill." This approach fosters deep sector knowledge and a greater sense of relative value. We believe our analyst team is among the most knowledgeable and experienced in the U.S. leveraged credit space.

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Jim Stehli

Co-Lead, CLO Platform

Prior to joining Polen Capital in 2023, Jim was Managing Director and Head of U.S. CLO and Securitized Products Trading at Mizuho Americas. Before that, he worked at CRT Capital Group focusing on Securitized Products. Jim received a B.S. in Finance from Binghamton University.

Q. How did you get started in this business?
After my university graduation, I began working at Morgan Guaranty Trust in a risk management role. I eventually moved to the mortgage-backed securities and investment grade corporate desk at J.P. Morgan Securities Inc. After a period of working in New York, I accepted a transfer to Tokyo. What I thought would be a short stint overseas turned into more than six years in Japan and Singapore in a variety of professional posts. This experience was invaluable, as it broadened my perspective and gave me a greater appreciation for global markets and diverse cultures.

Q. What are some common investor misperceptions that you've witnessed over your career?
Some CLO investors tend to underestimate the liquidity premium of CLOs when risk assets trade off. Tranche sizes are much smaller. When you buy $5 million in BBs on a $600 million CLO, the BB-rated tranche size is around $22-25 million. Furthermore, not every CLO from a given manager is alike. While collateral overlap will exist across any manager's deals, the vintage will dictate certain differences, and the same loans can be acquired at different times and different prices. This means that not all BBs are alike, tail risk can be different, and the outstanding class size of $25 million doesn't lend itself to being liquid in the same way as a BB-rated high yield bond or leveraged loan with $2 billion+ outstanding.

It's important for CLO investors to understand what they own. They may receive attractive diversification within the CLO itself, but the tranche sizes are smaller and can impact liquidity when markets are "risk-off."

> **In my experience, successful CLO investors receive strong underwriting support up front and demonstrate patience when markets dislocate.**

Q. What are some common pitfalls for CLO managers?
Many times, I've seen CLO managers perform well at the collateral level but fail to connect with certain CLO investors. Some managers believe that if they perform well, then CLO debt and equity buyers will find them. It usually doesn't happen that easily. Managers typically move around from one arranger to the next as they issue their CLOs. So, it really falls back on the manager to develop and maintain their own CLO investor relationships over time. Arrangers can make introductions to new buyers entering the market, but it's on the manager to understand the investors in their CLO tranches and be proactive in maintaining those relationships over time.

Q. What sets Polen Capital apart?
I believe the combined experience of Polen Capital's team gives us an ideal engine to construct and maintain outstanding loan portfolios. I see this translating into high-quality CLO offerings that resonate with our investors. CLOs are an excellent complement to the existing skills of our Leveraged Credit Team, so it's a natural extension for us. Polen's focus on nurturing deep relationships with clients is another major advantage. I know from experience that it's important to connect with clients and explain the "why" when things are working, as well as when markets are challenging.

Q. What excites you most as you look to the future?
I'm excited to help build Polen's CLO business. It's very synergistic for us. I'm also looking forward to introducing the firm to a more global client base, as we seek to connect with new investors.

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Important Disclosures

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