CLOs: will they play a role in the next stage of the financial crisis?

In the last 20 years financial markets have experienced three major crises.
The first one was the dot-com bubble: from the march 2000 top to the October 2002 bottom the Nasdaq lost 78% and regained the same level after 13 years in 2015.
The bubble was characterized by a sudden deflation of unrealistic prices and by the awareness of the failure of the myth of the New Economy with its unsustainable equity multiples, however, there were no critical issues at the level of the real economy
The second crisis was the “subprime crisis”: from the top in October 2007, to the bottom in March 2009, the S&P lost more than 50% and it took four years and unprecedent central banks interventions to regain the same level in May 2013. In this moment the correlation between FED Balance sheet and Equity market starts to become stronger and stronger. Only in 2017 the Equity market is able to rise with a stable liquidity thanks to the expansionary fiscal policy but when the FED tried to normalise monetary policy in 2018 the equity market crashed (-20% in Q4 2018) and starting from July 2019 the FED started to cut rates and inject liquidity again. And the markets started to rise again.
In 2011 summer the PIIGS suffered an unprecedent sovereign debt crisis, spreads exploded (Italy 10y yield jumped from 3,5% to 7%) and this led the ECB to buy peripheral debt, cut interest rates and implement unconventional policies (LTRO) for some 1000 billion euro.
In 2020 it was the COVID-19 turn and we are aware of the toll taken on the economy: broken supply chains, record unemployment, default of small businesses. But there’s another threat to the economy, that is on banks’ balance sheets, and it could be quite scary. Its name is CLO, that is a loan made to businesses, most of the times troubled businesses.

CLOs wrap leveraged loans, made to companies that have reached their borrowing limits. There are more than $1 trillion worth of leveraged loans currently outstanding. The majority are held in CLOs.
While the BIS estimate of the overall size of the CDO market in 2007 was $640 billion, the one for the CLO market in 2018 was $750 billion and more than $100 billion have been created since then.
Despite many say that CLOs move the risk of leveraged loans outside the banks, the BIS estimates that banks worldwide held at least $250 billion worth of CLOs (end of 2018), the Financial Stability Board warned that 14 percent of CLOs—more than $100 billion worth—are unaccounted for (December 2019) and for the 30 “global systemically important banks”, the average exposure to leveraged loans and CLOs was roughly 60% of capital on hand.
It is true that no AAA-rated layer of a CLO has ever lost principal but we also have to recall that Fitch Ratings has estimated that as of April 2020, more than 67% of the 1,745 borrowers in its leveraged-loan database had a B rating and the main reason why a CLO’s rating is so high is due to the supposed decorrelation among the several leveraged loans that are mixed in.
In this context, with the fate of real economy that remains uncertain, the Sword of Damocles of a possible wave 2 of Covid-19 cases, the now-imminent US election amid the trade war between China and US, what we do not need is major banks with balance sheet problems. Hopefully, regulators will help and in the future banks will play their old role in the economy, borrowing and lending money on their responsibility instead of farming decisions out to credit-rating agencies.

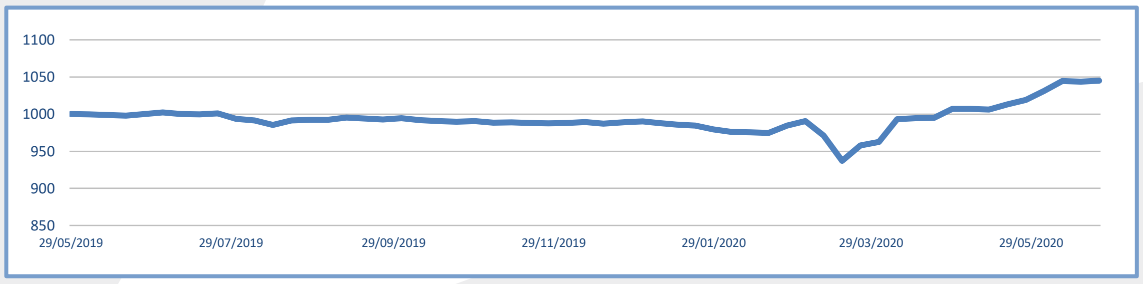
THE MANAGER'S COMMENT

During June the market in general remained in a risk-on attitude, as confirmed also by the positive performance of the main global equity indexes. Notably, these results were achieved with increased volatility, most likely related to some signs and fear of a second wave occurrence of the virus.
The average spread on the US investment grade index tightened nicely by roughly 25 basis points, as the Federal Reserve further reinforced its commitment to support the market. High Yield credit spreads saw a bumpier road, and closed the month flat.

The activity on the Fund was gather in the first half of the month, when the Fund took profit from the dividend exposures and the call options on ENI. A new position on Intesa dividends was set up anticipating a potential repricing. Particular care was dedicated to tactical adjustments to the overall exposure to US markets, as well as taking some profits from single stock positions.

KYRON EQUITY ABSOLUTE RETURN

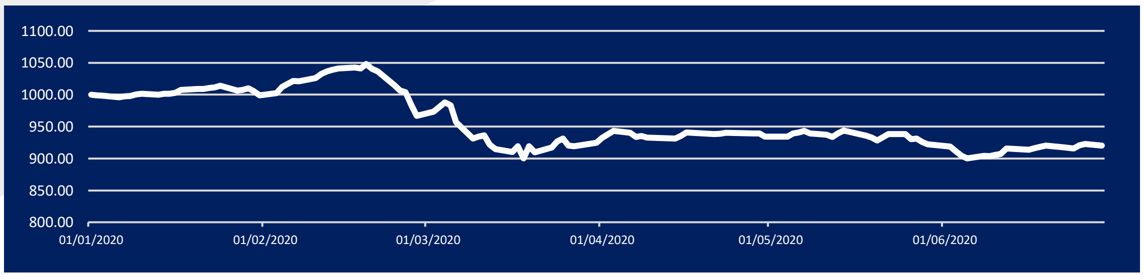
Share A1 - LU1918787364			
Performance		**Statistics**	
Last quarter	8.6%	**VaR**	2.2%
YTD	5.5%	**Ex-Ante Volatility**	5.1%
MTD	1.4%	**NAV/Share**	1045.1
Since inception	4.5%	**Sortino Index**	N/A



The average spread on the US investment grade index tightened nicely by roughly 25 basis points, as the Federal Reserve further reinforced its commitment to support the market. High Yield credit spreads saw a bumpier road and closed the month flat.
The Fund maintained a conservative allocation, with no equity exposure throughout the month: the monthly performance was slightly negative owing to the USD depreciation.

KYRON GLOBAL SMART TREND

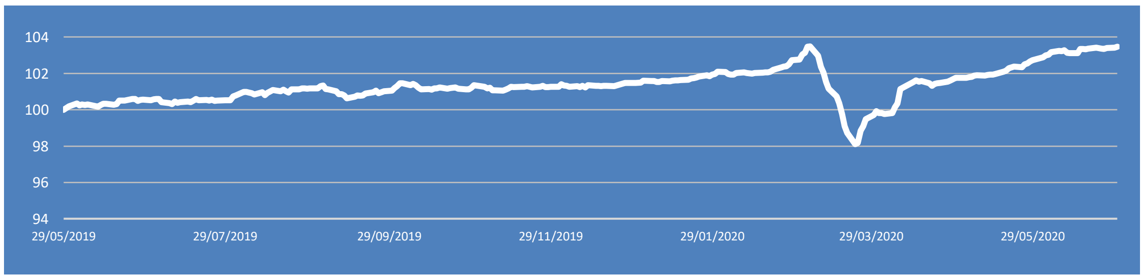
Share A1– LU2082325338			
Performance		**Statistics**	
Last Month	0.2%	**VaR**	4.7%
YTD	-7.9%	**Ex-Ante Volatility**	8.7%
Since inception	-7.9%	**Sortino Index**	N/A
NAV/Share	920.2	**Worst Month**	-4.4%



The conduct of the Fund took profit from a few small positions which recovered from the March lows, as well as switching from inflation-linked to nominal bonds and reinvesting in solid investment grade names. To enhance protection in case of renewed turmoil, we have implemented a call spread on US Treasuries.

KYRON FIXED INCOME

Share B1 – LU1918787018			
Performance		**Statistics**	
Last quarter	3.7%	**VaR**	0.7%
YTD	2.0%	**Ex-Ante Volatility**	1.4%
Since inception	3.5%	**Average Rating**	AA-
NAV/Share	103.4	**Duration**	1.9 anni



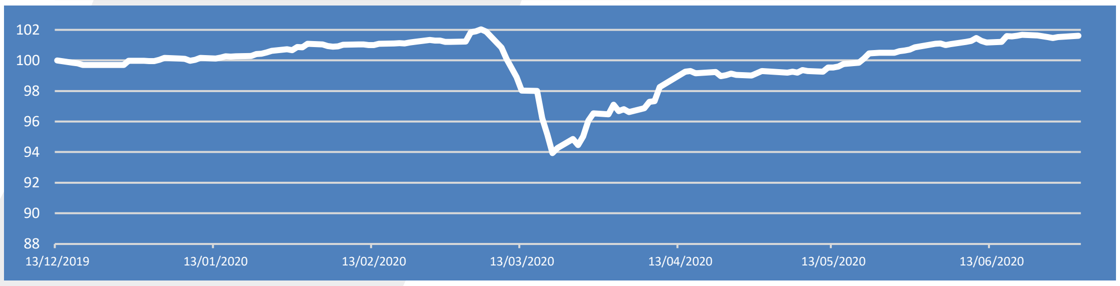
Data as of 30/06/2020

AISM LUXEMBOURG

KYRON GLOBAL CORPORATE ESG BOND

A couple of new issuers have been selected in the subordinated space and a new ETF, focused on long duration corporate bonds, has been included to lengthen the duration and boost the yield pick-up of the portfolio. The bet on Gold, deployed during March, has been closed with a nice profit. The Fund's monthly performance was approximately +0.75% bringing the year to date performance to +1.66%.

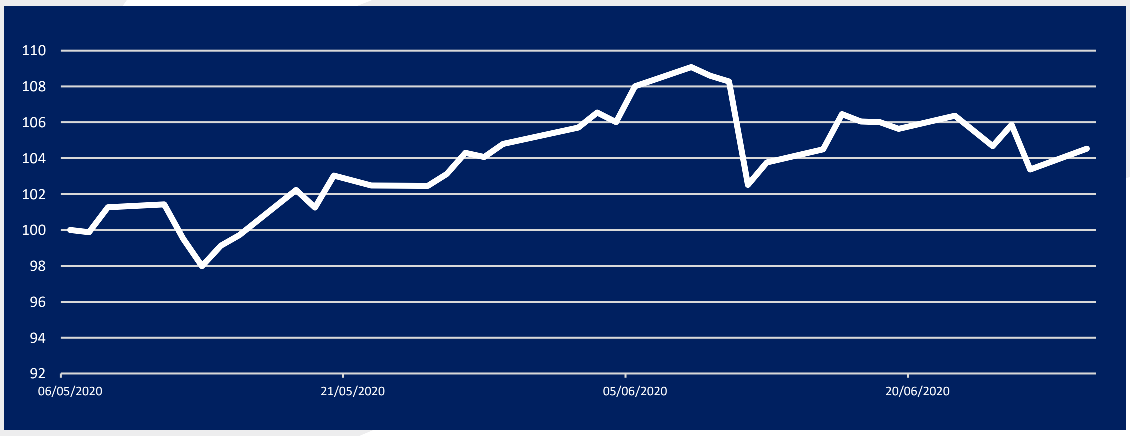
Share A1 – LU2082324448			
Performance		Statistics	
Last quarter	5.1%	VaR	1.5%
YTD	1.6%	Ex-Ante Volatility	2.9%
Since inception	1.6%	Average Rating	A
NAV/Share	101.6	Average ESG Rating	A+



KYRON GLOBAL EQUITY ESG

During the month of June, the Fund offered a positive return of roughly 1.3%, slightly underperforming the major US equity large cap indices. Equity investors continue to price a marked rebound in economic activity, which has led sectors such as industrials and consumer discretionary to outperform the market as a whole. However, IT companies remain the brightest star, with a June performance of +7%. Its heavy weight among major equity indices is helping the overall market perform surprisingly well, despite still worrisome economic data (although improving), to say the least. We can explain the current euphoria, but we cannot justify it; equity investors seem focused on the massive fiscal and monetary stimuli implemented during Q2, and on a missing alternative to the asset class due to the extremely low interest rate levels, while (incorrectly) ignoring the many risks still ahead of us. Therefore, with a conservative view in mind, we prefer to overweight business models (IT and Consumer non-cyclical companies) that are capable of withstanding a recession that as of today has still to show its full magnitude.

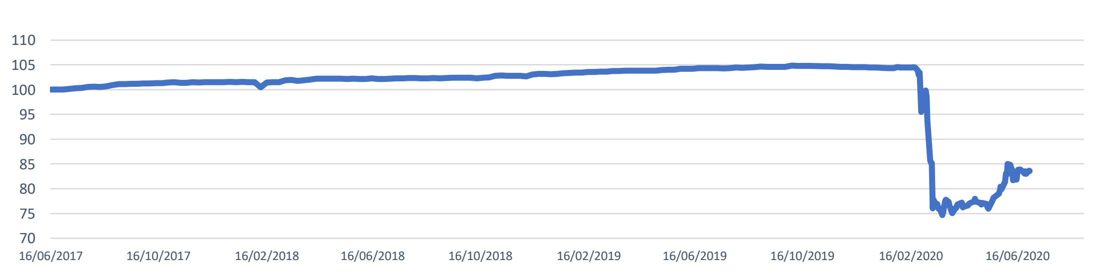
Share A1 - LU2125127964			
Performance		Statistics	
Last quarter	4.5%	VaR	9.4%
YTD	4.5%	Ex-Ante Volatility	16.0%
Since inception	4.5%	Average ESG Rating	A+
NAV/Share	104.5	P/E Ratio	33.4



PHARUS AVANTGARDE

Volatility (V2X index) started the period at 30.09%, on June 1st, while increasing up to 41.41% by the 12th of June due to new virus cases escalation and second pandemic wave fears. The pledge of new economic stimulus from the EU as well as comfortable economic data helped to stabilize the volatility values back around 30%. The Fund kept the exposure under control, opening options structures to recover the loss, by profiting from the weekly option premium which cover the cost of the Long CALL with November expiry. The bond portfolio added a performance contribution of +0.37%. The DJ Eurostoxx50 (SX5E) index registered +6.03% in the period. The performance YTD of the index stood at -13.6%

Share I - LU1620769817			
Performance		Statistics	
Last Month	4.5%	Volatility	8.4%
YTD	-19.9%	Sharpe ratio	-0.8
Since inception	-16.4%	Average Yield	0.005%
NAV/Share	83.5	Averarge duration	0.49 years

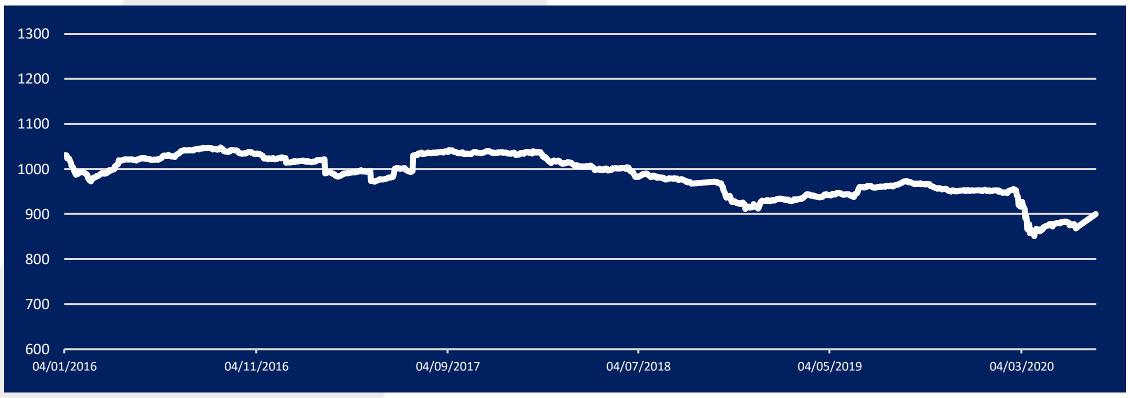


Data as of 30/06/2020

In June, the market became more volatile, but it continued to have appetite for risky assets, along with defensive ones (Treasuries / Gold). A new downturn could arise in markets if the pandemic trend continues. In fact, the US are among the countries with the worst situation in terms of infection and death, whereas Europe continue to see infections trend lower every week. But vigilance prevails as the global infection figure continued to rise. If a second wave of infection would come, all the effort from central banks and states in term of economy stimulus could vanish.
AISM Low Volatility remained positioned in a conservative way, increasing duration on US government bonds, but also increasing the delta of the Fund on equities. These movement allowed the Fund to rebound in June.

LOW VOLATILITY

Share I - LU0677960717			
Performance		**Statistics**	
Last Month	0.9%	**Volatility**	5.2%
YTD	-7.9%	**Sharpe ratio**	-1.1
Since inception	-12.3%	**Average yield**	2.1%
NAV/Share	876.3	**Averarge duration**	4.9 years



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