



The CLO Investor

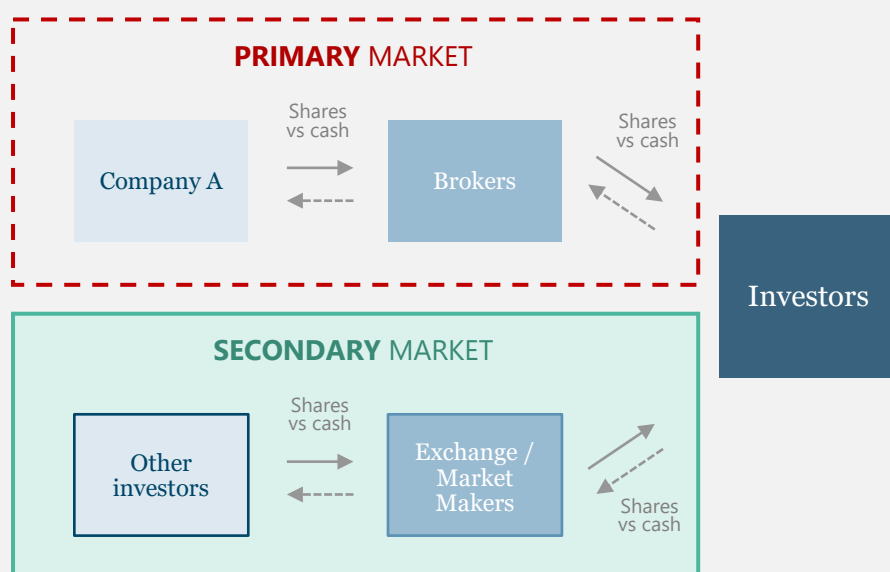
Brief insights into trends and news shaping CLO investing

Issue No. 5, June 2025

The trillion behind the ticker

We are often asked about the liquidity of CLO ETFs, including their 'average daily trading volumes' or available 'free float'. Given these measures are how investors typically analyse the liquidity in shares of a company, it is natural to use the same measures for ETFs. However, these measures are all focused on the secondary market and investors risk missing a key difference between trading shares in a company and in an ETF. ETFs have an easy-to-access primary market which sets the foundation for liquidity in any ETF product.

While companies do have primary market activities, such as initial public offerings ("IPOs") or rights issues, these only occur at the direction of a company. Therefore, they are not a source of daily liquidity in that company's shares for investors. If an investor wants to buy €10mm of Company A's shares, they are not able to demand the company issue €10mm shares. Likewise, if an investor wants to sell €10mm, they cannot demand the company buy back the shares. They must perform both actions in the secondary market and, as a result, they must consider how active the secondary market is.



1. Traditional liquidity analysis

Secondary market focus

Primary market ignored

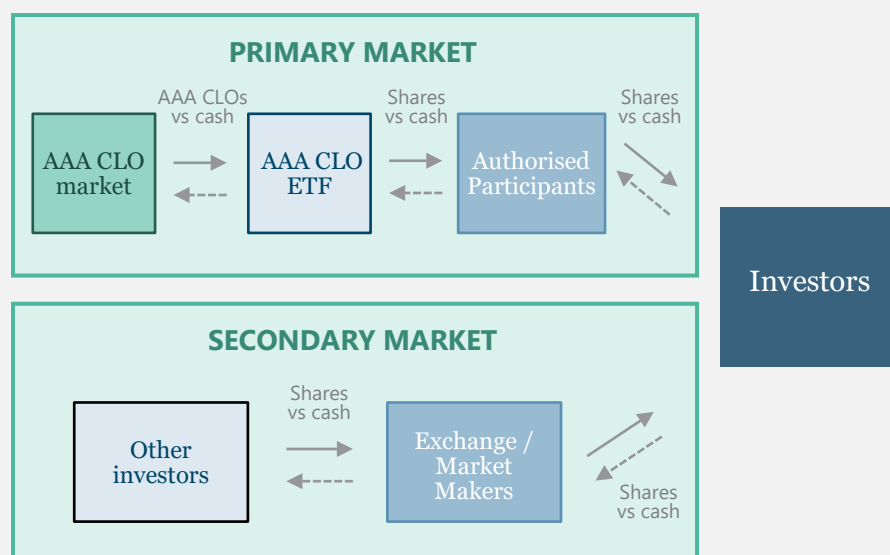
Limited investor control and infrequency

"Daily traded volume" or 'total free float' commonly analysed

ETFs are different. ETFs have an easy-to-access primary market. An institutional investor can go to the ETF, via an Authorised Participant ("AP"), and provide the ETF with €10mm cash in exchange for ETF shares. Similarly, that investor can take €10mm shares and exchange these with the ETF for cash in return. When an ETF receives cash in this format, it will access the market and buy assets for the fund to own. When an investor requests the return of cash, the ETF will sell assets.



ETFs also have a secondary market, where investors can trade shares in the ETF via market makers on the exchange. However, the secondary market is not a necessary avenue for liquidity in the same way that it is for shares in a company. Instead, what drives liquidity in an ETF is the liquidity of the underlying asset class.



2. ETF liquidity analysis

Active primary market

Important CLO ETF liquidity factor

An ETF acts as a conduit

Liquidity is a function of the underlying asset

In Fair Oaks AAA CLO ETF's case, it's AAA CLO notes which are very liquid

In the case of AAA CLOs, the underlying market is highly liquid. AAA CLOs are actively traded in size and on a daily basis in the secondary markets, with average monthly auction volumes reaching €485mm in 2024 (with four months above €600mm).¹ On the CLO primary side, €49bn volume printed in 2024, of which AAAs comprised roughly 60% - an average monthly run rate of €2.5bn.¹ AAA CLO ETFs merely provide a conduit for accessing this pool of liquidity.

An institutional investor can approach an AP and execute an order to buy a CLO ETF at end of day NAV, or intra-day at the AP's market price. In the first instance, for a CLO ETF trade, the AP will charge a small fee on top of NAV (approximately 3bps). In the second instance, a CLO ETF bid offer spread of usually less than 20bps will be charged.

Investors wishing to conduct liquidity analysis on AAA CLO ETFs should therefore initially look at the liquidity and size of the AAA CLO market (€693n¹ currently outstanding globally) and how this compares to their proposed investment size. For example, an investor looking to invest €50mm in the Fair Oaks AAA CLO ETF could do so, at NAV, plus approximately 3bps via an order with an AP. €50mm is a fraction of the total AAA market liquidity and, as always, Fair Oaks would be actively selecting investments based on our usual in-depth investment process and fund constraints.

We believe that by understanding the roll of the primary ETF market, investors can better grasp the true liquidity of CLO ETFs and how they are able to provide efficient access to the underlying AAA CLO market at minimal cost.

Should you have any queries, please do not hesitate to contact us and for those looking to explore the topic in greater detail, please see our whitepaper, [Finding Liquidity at the Core](#). For those, looking for a refresher on how CLO ETFs work, please see our whitepaper, [A New Way to Invest in AAA CLOs](#).



Endnotes

1. Bank of America “European CLO Databank - May-25” and Fair Oaks Capital data as at 04-Jun-25.

Disclaimer

FOR INSTITUTIONAL AND INFORMED INVESTORS ONLY. NO OTHER PERSONS SHOULD RELY ON THE INFORMATION CONTAINED WITHIN THIS DOCUMENT. This document relates to the Fair Oaks AAA CLO Fund (the “Sub-Fund”), a sub-fund of Alpha UCITS SICAV. In making any investment in the Sub-Fund, investors should rely solely on the prospectus (“Prospectus”), the relevant supplement (“Special Section”) and the Key Investor Information Document (“KIID”) (together the “Offering Documents”) and not any information set out in this document. The distribution of this document in jurisdictions other than the United Kingdom may be restricted by law and therefore persons into whose possession this document may come should inform themselves about and observe any such restrictions. In particular this document is not for distribution in or into the United States or Canada.

Copies of the Prospectus, the Special Section and information about investor rights (which are each only available in English) may be obtained at: <https://fairoakscap.com/>. Copies of the KIIDs (which are available both in English and the languages of each EU country in which the Sub-Fund has been passported) may be obtained from Waystone Management Company S.A (the “Management Company”) at: <https://www.waystone.com/our-funds/waystone-managed-funds/>

Marketing communications issued in the European Economic Area (“EEA”): This document has been issued and approved by Gestion Fondo Endowment, Agencia De Valores, S.A. which is authorised and regulated by the Spanish Comisión Nacional del Mercado de Valores (CNMV) as an authorised investment firm in accordance with the Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments, as amended (MiFID).

Marketing communications outside of the European Economic Area (“EEA”): This document has been issued and approved by Fair Oaks Capital Limited and its affiliates (together “Fair Oaks Capital”). Fair Oaks Capital Limited (FRN: 604090), 1 Old Queen Street, London SW1H 9JA, is authorised and regulated by the United Kingdom Financial Conduct Authority.

Past performance is no indication of future results. Inherent in any investment is the potential for loss. Target returns and distributions are hypothetical targets only and are neither guarantees nor predictions or projections of future performance. There can be no assurance that such targeted returns will be achieved or that the product will be able to achieve its investment objective, policy or strategy or avoid substantial losses. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice. The content of this document does not constitute investment advice nor an offer for sale nor a solicitation of an offer to buy any product or make any investment.

No undertaking, representation, warranty or other assurance is given, and none should be implied, as to, and no reliance should be placed on, the accuracy, completeness or fairness of the information or opinions contained in this document. Any views expressed in this document were held at the time of preparation and are subject to change without notice. The information contained in this document is subject to completion, alteration and verification. Save in the case of fraud, no liability is or will be accepted for such information by Fair Oaks or any of its directors, officers, employees, agents or advisers or any other person.

The distribution of this document in jurisdictions other than the United Kingdom may be restricted by law and therefore persons into whose possession this document may come should inform themselves about and observe any such

Please refer to the disclaimer of this document. Past performance is no indication of future results. Inherent in any investment is the potential for loss.



restrictions. In particular, information contained within this document is not for distribution in or into the United States or Canada. Any failure to comply with these restrictions may constitute a violation of the securities law of such jurisdictions.