

CDO manager of the year Babson Capital

Babson has been in the CDO business for over 10 years and continues to break new ground

BABSON CAPITAL has been a market leader in collateralised debt obligations (CDOs) for more than a decade, having launched its first collateralised bond obligation in 1991. This year has seen the firm continue to blaze a trail, with its acquisition of London-based Duke Street Capital Debt Management, the creation of one of the first CDO equity funds, taking over deals from other managers and excelling in the collateralised loan obligation (CLO) business.

Babson's CDO business manages \$12 bil-

mier European CLO managers. "The Duke Street deal for me wasn't about buying a CLO manager, it was about buying into the European loan and mezzanine market. I think the ability to manage European loans is going to be important not just in CLOs but important in the long-only space," says Crandall.

Duke Street has been re-branded as Babson Capital Europe and has roughly €2.1 billion under management, making it Europe's largest non-bank loan manager. "The European banks are still very big players for their balance sheet, which makes it a very different market from the US. However, we're convinced that, over time, it's going to become more of a traded market, and there is going to

2005. The firm is also in talks with other managers to take over transactions in 2005. This strategy is one Babson will continue to pursue to increase its business.

Crandall says that with a team of 25 loan analysts who follow about 400 names, it would be an unusual portfolio for Babson not to know a lot about the credits, making it relatively easy for the firm to take over deals. In addition, Babson has another team of 13 who invest in outside CDOs – roughly \$2 billion worth. "We've invested in over 75 different collateral managers in over 170 different transactions. We've got a huge database of every deal that's out there. We do our own modelling and cashflow work on all these deals. Because we've got all



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be more of a space for professional managers," says Crandall.

The Great Lakes CDO equity fund was another market-leading deal brought to the market by Babson this year. "We thought that if there was ever a product that cried out for a fund-of-funds approach, this might be it," says Crandall. "We were out talking to investors and we found an awful lot of interest in CDOs as a concept, but except for the really largest investors it seemed to us that it was difficult for the typical investor to compare one manager with another, one structure with another, as well as compare the differences, for example, between the arbitrage going on in European loans, US loans, US investment grade or US ABSs." Crandall expects funds such as Great Lakes to become a significant part of what happens with CDO equity in the future.

Babson has also been active in acquiring deals from managers that have either run into trouble or want to leave the CDO business. Having already taken over four deals, Babson is set to take over five more investment-grade and high-yield CDOs on the first business day of

these pieces, we're a pretty logical firm to talk to if you're looking at getting out of managing a deal," says Crandall.

CLOs have been a mainstay of Babson's business. This year, the firm completed two US leveraged loan transactions totalling \$900 million and one €450 million European loan deal. "We've got almost a perfect opportunity in terms of what's going on with investor demand on the one hand and still semi-reasonable valuations on the other hand to do US and European loan deals," says Crandall, adding he expects Babson to remain strong in CLOs for the foreseeable future. The firm has also been active in CDOs of ABSs and CDOs of CDOs, another area it plans to concentrate on in the New Year.

Babson has completed a few synthetic investment-grade CDOs over the years, and Crandall expects future activity in synthetics to be done largely on a reverse enquiry basis. These deals will be structured with new twists, which could be using less leverage to create a more stable return platform, the ability to trade more actively or the ability to do long/short trades. ■

lion in CLOs, emerging market, investment-grade and high-yield CDOs, as well as CDOs of asset-backed securities (ABSs) and CDOs of CDOs.

"The way I've described it to the people here is, it may not be a once in a generation opportunity but it's probably a once in a decade opportunity to grow our business," says Roger Crandall, managing director and head of corporate securities at Babson Capital.

One big step towards increasing Babson's CDO business was completed in May with the acquisition of Duke Street Capital Debt Management, recognised as one of the pre-