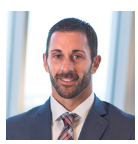
FIXED INCOME

European CLOs: 101

INSIGHTS

European CLOs offer resilient access to floating-rate credit, supported by strong structural protections, diversified loan exposure, and a maturing market that's drawing increasing global investor interest.



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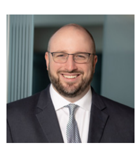


Bo Trant
Client Portfolio Manager

Collateralized loan obligations (CLOs) are becoming an increasingly important component of Europe's leveraged finance ecosystem, offering investors a resilient way to access floating rate credit through shifting market cycles.

At their core, **European CLOs** are actively managed, securitized investment vehicles backed by a diversified pool of predominantly senior secured loans made to corporate borrowers across the region. As with U.S. CLOs, the structure offers investors floating-rate credit exposure through a well-established, multi-tranche format that distributes risk across the capital structure. Investors can choose among debt and equity tranches to align with their preferred risk-return profile, while benefiting from broad portfolio diversification, active credit management by the collateral manager, and robust structural protections.

Beyond these similarities, **European CLOs reflect the nuances of a loan market that is smaller, more geographically diverse, and more tightly regulated than in the U.S.** These distinctions influence how European CLOs are constructed, how they behave through credit cycles, and why many global investors view them as a complementary allocation to U.S. CLOs.

Broadly Syndicated CLOs: Europe vs. the U.S.

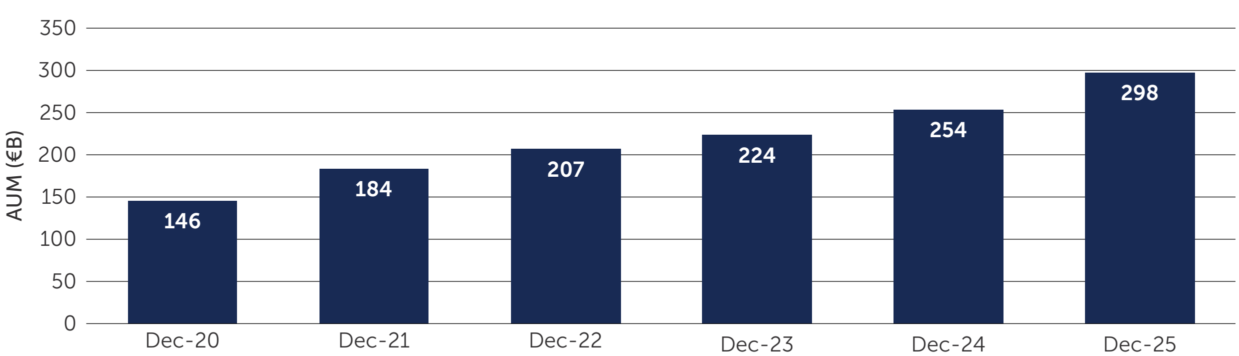
Because U.S. CLOs represent roughly $1 trillion of the broader $1.4 trillion global CLO market, they serve as a natural reference point for most investors evaluating European transactions.

MARKET SIZE AND PORTFOLIO COMPOSITION

Similar to the European leveraged loan market, **the European CLO market is roughly one-third the size of its U.S. counterpart.** As a result, European CLO portfolios typically hold 150–200 obligors versus 200–300+ in typical U.S. CLO portfolios. That said, European CLOs are a dominant buyer of the region's leveraged loans—while U.S. CLOs represent roughly 67% of their domestic market, that percentage rises to about 82% in Europe.

Given the smaller underlying loan universe, European secondary loan and CLO markets are slightly less liquid than in the U.S., resulting in a market where trading depth and speed can be more limited during periods of volatility. Even so, **the market's growth trajectory has been notably strong,** with European CLO issuance expanding more rapidly than the U.S. in recent years—a trend we expect to continue as both issuers and investors increasingly operate across both regions.

Figure 1: European CLO AUM (€B)



Source: BofA. As of December 31, 2025.

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BUYER BASE

Insurers and ETFs have historically played a smaller role in the European CLO market, largely because of regulatory capital charges and jurisdiction-specific constraints (the thinner buyer base has primarily created opportunities for U.S. buyers seeking relative value). But the landscape is evolving: expected changes to Solvency II could meaningfully improve capital treatment for AAA tranches, potentially increasing participation from investors with regulated balance sheets. In addition, the rise of UCITS-compliant CLO ETFs has begun to broaden access for wealth and retail investors, further supporting incremental growth in demand.

LIABILITY MANAGEMENT EXERCISES (LMEs)

While LMEs like priming and uptiering have become more common—and in some cases more agressive--in the U.S., they remain more constrained in Europe. Local legal frameworks and stricter directors' duties in certain jurisdictions help limit some of the more binary outcomes seen in U.S. restructurings, contributing to greater stability and predictability.

AT A GLANCE

Metric	Euro BSL CLO	U.S. BSL CLO
Market Size[1]	~€300 Billion	~$1 Trillion
Average Tranche Subordination	AAA 38%, BB 10%	AAA 36%, BB 8%
Average AAA Coupon	3M EURIBOR + 120 bps	3M SOFR + 115 bps
Weighted Average Rating Factor (WARF)	2800–2900	2700–2800
Risk Retention Required	Yes	No
Lowest Rated Debt Tranche	B	BB
CCC Bucket Limit	7.5%	7.5%
Bond Bucket	12.50%	5%
Number of Obligors	150–200+	200–300+
Average Loan Position Size	~0.50%	~0.30%

*Note: Figures are illustrative and not indicative of expected pricing levels

1. Source: BofA. As of February 13, 2026.

THE COLLATERAL BACKDROP: EUROPE'S LEVERAGED LOAN MARKET

European CLOs draw from a multi-jurisdictional loan market that spans the U.K., France, Germany, Benelux, the Nordics and Southern Europe. This breadth introduces **meaningful geographic diversification** as well as a range of legal and restructuring frameworks. While covenant lite loan issuance has become more prevalent across Europe in recent years, many jurisdictions are viewed as still offering stronger creditor protections than the U.S. Chapter 11 process.

Sector composition reflects a broad and mature corporate landscape. Industrial and health care borrowers are consistently among the largest issuers, while consumer discretionary and business services also represent meaningful portions of the loan universe. Technology and communications exposures tend to be lower relative to the U.S. market, contributing to different patterns of cyclicality and sector risk.

EUROPEAN CLO MANAGER UNIVERSE

Europe has roughly 70 active CLO managers—fewer than the 150+ in the U.S.—but the cohort continues to expand. The result is a market with enough diversity to support differentiated strategies while remaining concentrated enough for investors to underwrite manager quality and consistency across cycles.

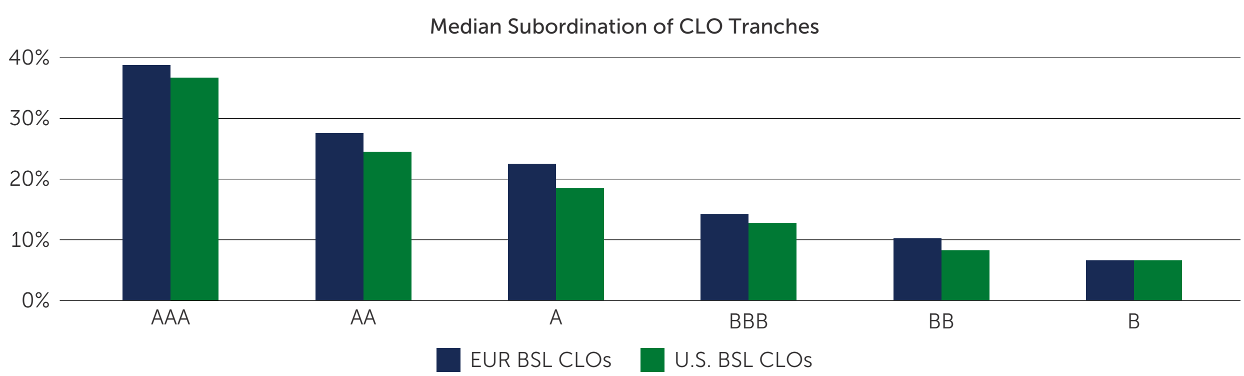
STRUCTURAL FEATURES OF EUROPEAN CLOS

Although European CLOs share the established CLO format, they typically incorporate more conservative structural protections. At the top of the capital structure, AAA tranches often benefit from approximately 38% subordination (compared to roughly 36% in typical U.S. transactions). This relatively higher credit enhancement generally extends down through AA, A, BBB and BB tranches.

European CLOs also feature **higher overcollateralization and interest coverage tests.** These guardrails automatically redirect cash flows to senior noteholders if collateral performance deteriorates—helping to preserve principal during periods of heightened stress.

In addition, European CLOs frequently permit larger allocations to fixed rate or floating-rate bond instruments than is the case in the U.S. This gives managers the flexibility to capture dislocations when pricing becomes attractive and enhance portfolio diversification, particularly given the higher average credit quality of the market.

Figure 2: European CLOs Typically Benefit from Increased Subordination



Source: Barings. As of January 31, 2026.

PORTFOLIO CHARACTERISTICS

While issuer counts are lower in Europe due to the market's smaller size, geographic diversification is inherently broader. Borrowers span multiple sovereign and legal regimes, which can be beneficial when economic performance diverges across regions.

European leveraged loans also tend to offer slightly higher spreads than comparable U.S. loans, which helps support the arbitrage that underpins CLO equity returns and contributes to attractive relative value across the capital structure.

PERFORMANCE AND HISTORICAL BEHAVIOR

European CLOs have consistently demonstrated resilience across a wide range of macro and credit environments, from the Global Financial Crisis and the Brexit period, to COVID and the inflation driven rate volatility of 2022–2023. During these periods, structural protections—such as elevated subordination and the self-healing mechanisms embedded in coverage tests—have supported tranche stability.

Perhaps most notably, no European CLO 2.0 (a CLO issued after the Global Financial Crisis) has ever defaulted.[2]

Figure 3: European CLO Tranche Defaults—(CLO 1.0 vs. CLO 2.0)

	S&P European CLO Tranche Rating History			
	CLO 1.0		CLO 2.0	
Rating	Total Tranches	Default	Total Tranches	Default
AAA	481	0	854	0
AA	227	0	918	0
A	249	0	595	0
BBB	296	4	567	0
BB	211	15	528	0
B	11	1	474	0

Source: S&P Global Ratings. As of March 31, 2024.

Regulatory Considerations

Regulation is an important differentiator in the European market. EU and U.K. risk retention rules require CLO managers to retain at least 5% of each transaction, either via a vertical strip (5% of every tranche) or a horizontal strip (5% of the capital stack through equity). This "skin in the game" is intended to support alignment of interest between managers and investors.

2. Source S&P Global Ratings. As of March 31, 2024.

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CLO documentation in Europe also more frequently incorporates ESG related provisions, including exclusionary criteria and positive screening elements.

Looking ahead, expected updates to Solvency II—anticipated in January 2027—may **further enhance the attractiveness of highly rated European CLO tranches, particularly for insurance and pension investors.** Under the proposed update, capital charges for certain securitized exposures, particularly senior CLO notes, are expected to decline. If implemented, these changes would make European AAA CLOs more capital efficient, reinforcing their appeal as high quality, floating rate instruments for regulated European balance sheets.

Additionally, over the last 12–24 months, **rapid growth in CLO ETFs** globally—and the emergence of UCITS compliant CLO ETFs in Europe—has broadened access to the asset class, supporting greater participation from wealth and retail channels in what has historically been an institutional asset class.

The Emerging European Private Credit CLO Market

While still nascent, European private credit CLOs represent a natural extension of the region's growing private credit environment. These vehicles securitize directly originated middle market loans—typically smaller-EBITDA companies with higher spreads and more bespoke documentation than broadly syndicated loans. Because issuance remains limited, only a small number of managers currently have the sourcing scale to create sufficiently diverse portfolios that meet rating-agency requirements and the underwriting capabilities needed to bring these deals to market.

As private credit continues to expand across Europe, this segment may follow a path similar to the early U.S. middle market CLO market—initially niche, but increasingly common over time.

Key Takeaways

European CLOs offer investors a resilient and diversified way to access floating-rate European credit at their preferred risk-return profile. Supported by conservative structural features—such as higher subordination and robust coverage tests—and a long performance record that includes zero defaults among European CLO 2.0 tranches, the asset class has demonstrated strength across multiple market cycles.

Relative value also remains compelling, with European tranches often offering wider spreads than their U.S. counterparts, while benefiting from a mature 25+ year issuance history and growing adoption across institutional—and increasingly, wealth and retail—channels. Together, these factors continue to drive increasing global investor demand for European CLOs.

Barings' European CLO Platform

Barings is one of the larger, more established and innovative players in the European CLO Market

$55 B+
in Global CLO Capabilities

Top 15
Global CLO Issuer

€5 B
in European Managed CLO AUM

11 Years
of consecutive issuance in Europe, across different cycles

$34 B
of Global CLO tranche investment AUM

25+ Years
of CLO Issuance and Investment Experience

Barings First European CLO issued in 2001

Market's First European Private Credit CLO issued in 2024

Market's First Multi-Currency European Private Credit CLO issued in 2025

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