Fair Oaks AAA CLO UCITS ETF (FAAA)

This issue's ETF of the month is Fair Oaks' FAAA, which launched as Europe's first 100% CLO UCITS fund since 2019

This month's product in the spotlight sees Fair Oaks Capital navigate a regulatory minefield to unveil Europe's first collateralised loan obligation (CLO) ETF.

The Fair Oaks AAA CLO UCITS ETF (FAAA) is listed on the Deutsche Boerse and London Stock Exchange as a listed share class of the firm's existing Luxembourg-domiciled mutual fund, the Fair Oaks AAA CLO fund.

FAAA is actively managed and captures euro-denominated AAA-rated CLOs, which are bundles of non-investment grade loans, often first lien bank loans to businesses or private equity borrowers, which are grouped into tranches of 150 to 250 loans by CLO managers and sold to investors.

STAT ATTACK

Ticker	FAAA
TER	0.35%
Yield to maturity	3.7%
Weighted average maturity	2.8 years
Target gross return	Euribor + 1.3% PA

Data as at 20 September

The ETF marks Europe's first 100% CLO fund approval since 2019, with rival issuers including Tabula Investment Management and VanEck awaiting approval of their CLO ETFs by the Central Bank of Ireland (CBI).

Fair Oaks' first-to-market status has been achieved by the firm vaulting several regulatory hurdles, including launching the ETF as a share class of an existing strategy, divergence between the CLO stances of the CBI and Luxembourg's Commission de Surveillance du Secteur Financier (CSSF), capturing only European CLOs and preventing access by unsophisticated investors.

A Fair Oaks spokesperson told *ETF Stream*: "FAAA is available on platforms for professional and informed retail investors, but not available to retail on an execution-only basis. A clearly defined target market was one of the many considerations during the approval process."

Aside from representing an impressive piece of regulatory navigation, FAAA provides a unique exposure for ETF investors in Europe, with CLOs offering relatively high yields, short duration, while only capturing high-rated issuance.

Nathan Sweeney, CIO at Marlborough, commented: "As a fund selector, I am excited about the launch of FAAA, a compelling development in the fixed income space.

"The product's strong track record of AAA CLOs – with no defaults in over 25 years – installs confidence in its ability to deliver attractive, risk-adjusted returns in a floating-rate format. Following the news, we will be keen to investigate further."

However, it appears even if ETFs such as FAAA are eventually opened up to a broader investor base, the specialist nature of their underlying may make them better-suited to a more sophisticated audience.

Goncalo Machado, investment manager at InvestEngine, said the "complex nature" of CLOs means they will be hard to market and allocate to on behalf of less sophisticated end clients.

"With the risk-free rate where it is, despite any incoming interest rate cuts, I do not believe the risk-reward is present at the moment," he said.

Furthermore, even though CLOs are different to the collateralised debt obligations (CDOs) and 'bespoke tranche opportunities' at the heart of the Global Financial Crisis (GFC), it appears a cultural hurdle of guilt by association remains in the minds of some investors and regulators.

"Let us also not forget the ghosts from 2008 which will haunt any product of this nature going forward," Machado added.

"As a fund selector, I am excited about the launch of FAAA, a compelling development in the fixed income space... we will be keen to investigate further"