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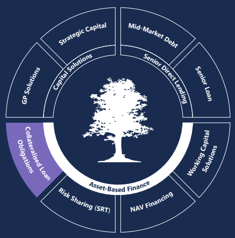


CLO Insights Series

The Standard of Care in a CLO

October 2025

The Standard of Care is a core tenet of the management of a CLO.

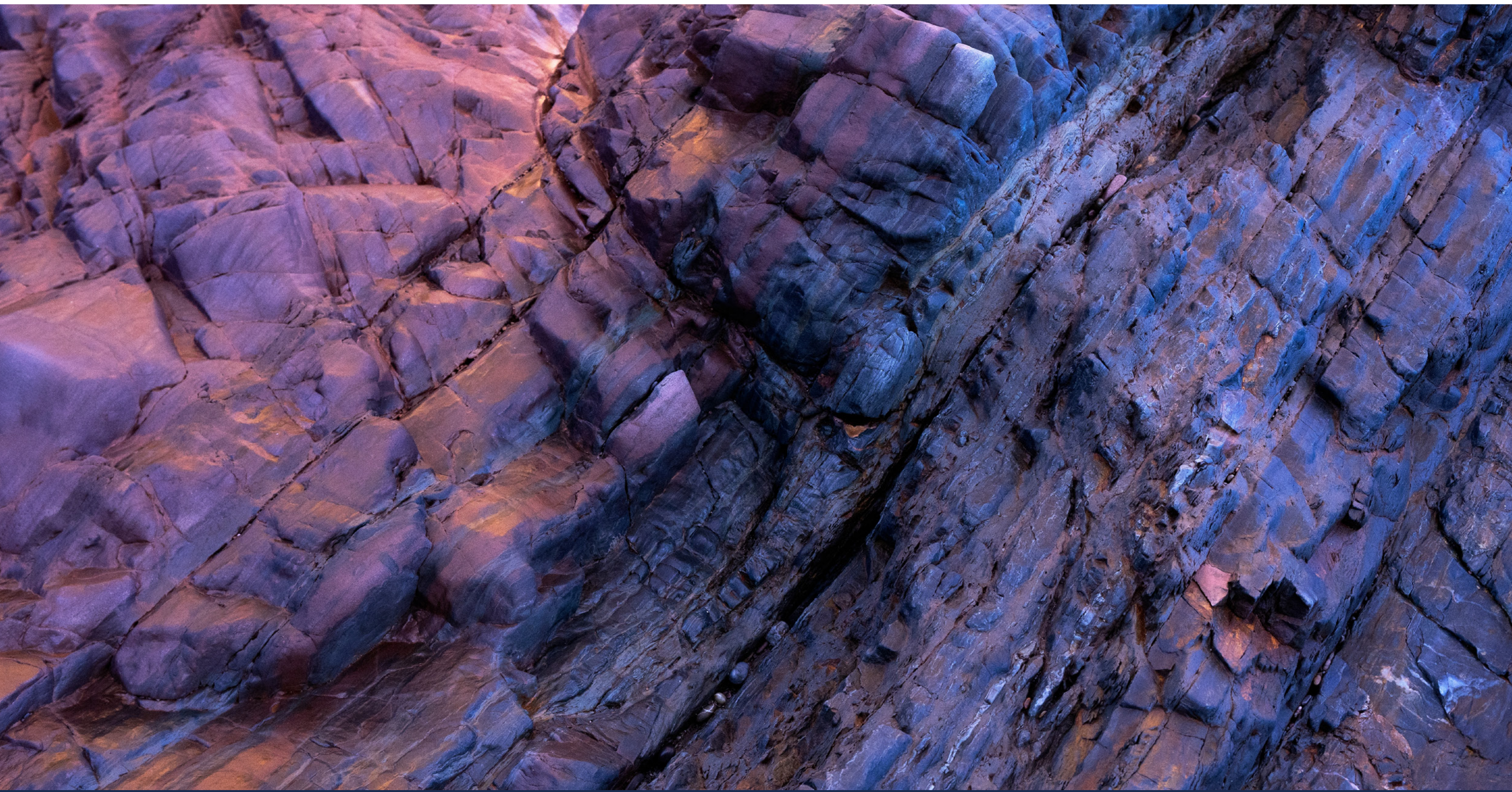
This article looks at the importance of this principle and discusses what it means in practice for the management of a CLO.

The CLO Manager is a key participant in, and driving force behind, a CLO transaction. It initiates the creation of a CLO, assembles a portfolio of assets with financing from the arranger and generally manages the portfolio of loans throughout the life of the CLO subject to the criteria and tests set out in the Collateral Management Agreement.

The Standard of Care refers to the requirement for the CLO Manager to perform its obligations, duties and discretions under the Collateral Management Agreement with reasonable care and in good faith consistent with practices and procedures followed by reputable institutional managers of international standing managing similar assets in the CLO.

The Standard of Care is defined in the Collateral Management Agreement and is a pervading theme in the management of a CLO. It profoundly determines the investment and portfolio management activities of the CLO Manager.

Provided that the CLO Manager acts in accordance with the Standard of Care, it will be entitled to follow its customary and usual administrative policies and procedures in performing its duties under the Collateral Management Agreement.



The Standard of Care in Practice

There are several areas that are relevant to the exercise of the Standard of Care in practice, including the following:

- The CLO Manager must undertake appropriate due diligence and exercise due care in selecting assets that fit the Eligibility Criteria and make sure the Issuer gets good title.
- The CLO Manager shall take reasonable care to avoid any action that would breach any law, regulation or contractual restriction applicable to the Issuer or subject the Issuer to taxation anywhere other than its home jurisdiction.
- The CLO Manager has an obligation to make reasonable efforts to give the Collateral Administrator and the Issuer information about the asset portfolio that these parties need to create investor reports.
- The CLO Manager must monitor the underlying assets and make any determinations regarding the classification of such assets for the purposes of the CLO, including in connection with any restructuring.
- The CLO Manager may sell assets and reinvest the proceeds in accordance with the Collateral Management Agreement.
- The CLO Manager may exercise any discretions on behalf of the Issuer in relation to any proposed amendment, modification, waiver or consent under the terms of any portfolio asset.
- The CLO Manager may arrange and negotiate the execution, modification and/or closing out of hedge transactions on behalf of the Issuer.

Limitation of Liability

Despite the obligations outlined above, the CLO Manager is not to be liable for any loss or damage resulting from its failure to satisfy the Standard of Care.

The exceptions to this are:

- acts or omissions constituting bad faith, wilful misconduct or gross negligence.
- if the information supplied by the CLO Manager contains a material untrue statement which is misleading.
- if the information provided by the CLO Manager omits a material fact which is misleading.

Conclusion

The CLO Manager is obliged to manage the capital entrusted to it with the same level of skill and attention which it exercises with respect to comparable assets that it may manage for itself and its other clients.

The CLO Manager needs to think about the Standard of Care every time it makes a decision on behalf of the Issuer.

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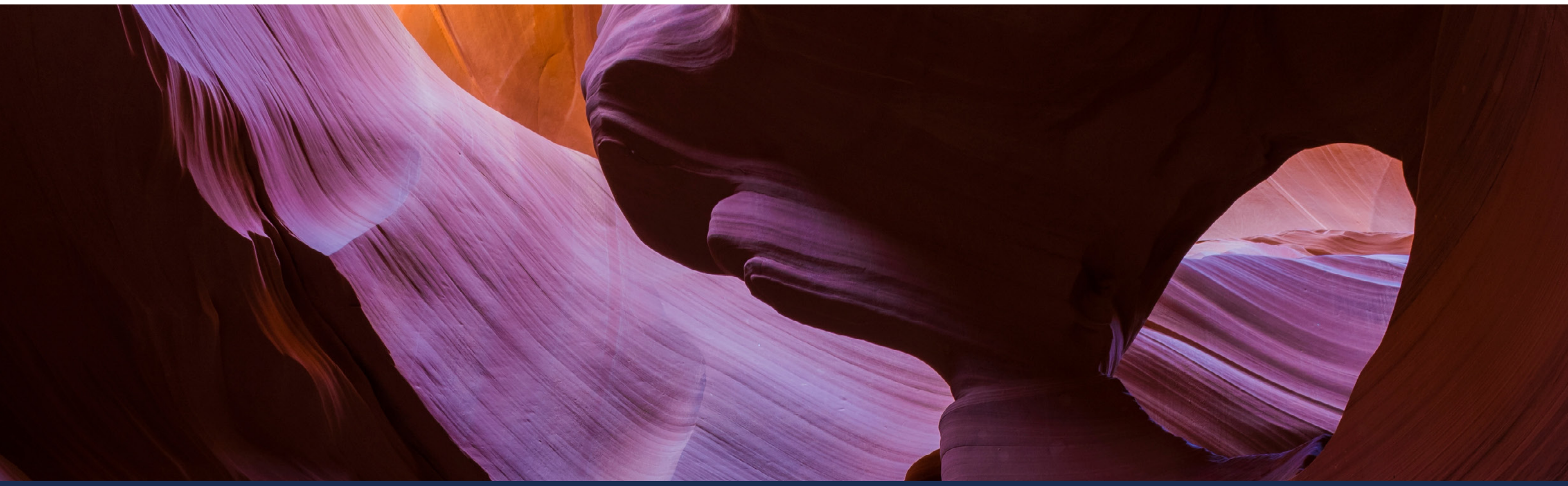

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