



US Market Commentary: CLO Q&A--Monroe Capital's Enas on navigating middle market challenges and opportunities

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LFI caught up with Chris Enas, managing director and deputy portfolio manager for CLOs at Monroe Capital, to discuss the firm's middle market CLO platform and current market trends. Enas emphasizes that asset retention and selectivity are critical as managers navigate a wave of repricing and refinancing amid compressed spreads and subdued LBO and M&A activity. Middle market CLOs, he notes, generally price Triple A tranches at a 30-35bps premium to BSL CLOs, reflecting the illiquidity of underlying assets. Monroe leverages its large direct origination team to source proprietary deals and maintain a selective approach, with about half of recent transactions being add-ons for existing borrowers.

Monroe, a Chicago-based lender and asset manager, manages \$21.6bn in assets, with a focus on middle market loans. The firm has a team of over 300 employees with over 115 investment professionals. Senior management averages 26 years of industry experience. In March 2025, Monroe announced a strategic partnership with Wendel Group to support growth and expand Monroe's US private credit platform. Monroe's CLO platform has \$4.4bn AUM in 17 active US CLOs. Monroe reviews over 2,100 transactions annually, allowing the firm to be highly selective, closing approximately 125 deals per year. The firm maintains strong risk controls, daily compliance checks and robust IT support. Monroe is a UN PRI signatory and enforces a formal ESG policy. Clients include pensions, insurance and high-net-worth individuals.

Q&A

LFI: What is your background and Monroe's current CLO platform focus?

Enas: I joined Monroe in 2014 starting in credit underwriting and currently serve as Deputy Portfolio Manager for our CLO platform. I have over 15 years experience in credit underwriting across middle market private credit, the syndicated loan market and financial valuation. Prior to Monroe, I was in the BSL space at Denali Capital. Monroe manages 17 active middle market CLO vehicles. We typically issue one to two new deals each year and regularly evaluate strategic alternatives for refinancings and resets.

LFI: What trends are shaping the middle market CLO space right now?

Enas: Asset retention is key. Managers face a wave of repricing and refinancing as spreads compress. Additionally, deal flow is challenged by a slow LBO and M&A market, so managers must be selective in underwriting and originating new deals. While default rates have recently been attracting attention, recovery rates are a just-as-important statistic.

LFI: How does middle market CLO Triple A pricing compare to BSL CLOs?

Enas: In a robust market, middle market Triple A tranches price at a 30-35bps premium to BSL CLOs for new issues. Resets and refinancings fluctuate based on duration and vintage risk. Reset pricing may carry a slight premium due to legacy assets and portfolio stress. Refinancings offer meaningful cost savings, especially for Triple A notes.

LFI: What challenges do middle market CLOs face?

Enas: Middle market CLOs inherently invest in assets that are less liquid than BSL CLOs. While this carries many benefits, including higher spreads and a greater ability to work through challenging situations, which should maximize recoveries, it also requires that MM CLOs rely on private credit estimates and shadow ratings. For third-party investors, there is not the same degree of information on pricing of the underlying assets as in BSL CLOs due to the illiquid nature of the asset class. As a result, CLO investors must understand how managers underwrite, originate and manage deals. The strategy differs from BSL CLOs, which focuses more on relative value trading and relatively higher diversity. Monroe blends in some lightly syndicated transactions, but prioritizes directly originated products.

LFI: Why is the pace of CLO liquidation lower in middle market CLOs compared to the BSL market?

Enas: Middle market CLOs hold illiquid assets. BSL managers can call deals more frequently because the assets are more liquid and the pools are more diverse. Middle market managers originate proprietary transactions, and transferring these assets to third parties can sometimes be less practical. As a result, the hold periods for MM CLOs tends to be a bit longer and a larger portion of the returns will be generated by the quarterly distributions, which benefit from the higher spreads available in less liquid assets.

LFI: Are larger managers moving downstream and affecting terms in the lower middle market?

Enas: The market has always been highly competitive. LBO activity drives the private credit asset space, and periods with less deal flow can require managers to get creative to source attractive, differentiated deals. Some managers compete in new segments or offer more flexible terms, including lower interest rates. Monroe protects its platform through leveraging its large direct origination team, which calls directly on PE sponsors and investment banks, allowing it to see a significant number of transactions in a given year and be highly selective. Furthermore, with a large existing portfolio, there is a great opportunity to continue to grow with existing borrowers. About half of our recent deals are add-on transactions for existing borrowers.

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