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King Street's Choi on Opportunities in the CLO Market

"The CLO Market Is Just a Much More Transparent Market": Young Choi on What King Street and Rockford Tower Are Bringing to XFLT

Young Choi
Partner & Portfolio Manager
King Street Capital Management

Chuck Jaffe, in this episode of The NAVigator podcast, interviewed Young Choi, Partner & Portfolio Manager at King Street Capital Management, where he also serves as Global Head of Trading and portfolio manager of Rockford Tower. Choi explains what King Street and its $14 billion Rockford Tower CLO platform are bringing to XFLT since taking over the fund's management, and lays out why CLOs' floating-rate tranches have benefited from higher-for-longer rates even as benign-looking credit indices mask real dispersion underneath. He also details where King Street is finding relative value today — secondary CLO equity over new issue, selective debt in resets and refinancings — and makes the case for why CLOs, despite occasional comparisons to private credit, are a fundamentally more transparent, liquid, and structurally protected asset class with a virtually loss-free record through the GFC and COVID.

TOPICS DISCUSSED

- King Street and Rockford Tower's appointment of XFLT — what the $30 billion credit manager and its $14 billion CLO platform are bringing to the fund
- Why CLOs' floating-rate tranches are benefiting from higher-for-longer rates, even as benign-looking credit indices hide real dispersion underneath the surface
- How relative value keeps rotating — across Europe vs. U.S., and debt vs. equity — and why today's best opportunity looks different than it did three months ago
- Where King Street is finding value right now: secondary CLO equity over new issue, and selective debt plays in resets and refinancings
- The CLO ETF market's rapid growth toward roughly $2 billion a month in inflows, and what a new wave of AAA buyers means for spreads
- Why CLOs aren't private credit — key differences in liquidity, price transparency, and disclosure — and the structural protections behind a virtually loss-free record through the GFC and COVID

The discussion is educational in nature and intended to help investors and advisors better understand the tools, trade-offs, and data points involved in evaluating income-focused strategies.

THE CONVERSATION

CHUCK JAFFE

We're talking about the structured credit market with Young Choi, portfolio manager for the XAI Floating Rate and Alternative Income Trust. This is The Navigator.

Welcome to The Navigator, where we talk about all-weather active investing and plotting a course to financial success with the help of closed-end funds. The Navigator is brought to you by the Active Investment Company Alliance, an industry organization representing the entire closed-end fund business, from investors and users up to fund managers, sponsors, and creators. If you're looking for excellence beyond indexing, The Navigator will point you in the right direction. And today, we're looking in the direction of collateralized loan obligations and the structured credit markets with Young Choi. He's a partner at King Street, where he serves as global head of trading and portfolio manager of Rockford Tower and King Street's opportunistic credit strategy. Rockford Tower recently took over management of XFLT — that's the XAI Floating Rate and Alternative Income Trust. You can learn about that fund at XAInvestments.com, and you can learn more about closed-end funds generally at AICAlliance.org. That's the website for the Active Investment Company Alliance. Young Choi, thank you for joining me on The Navigator.

YOUNG CHOI

Thanks for having me, Chuck.

CHUCK JAFFE

Let's start with just a little bit of background on the firm, from the standpoint that King Street — I think there's a good likelihood that more investors know it, but they may not know Rockford Tower.

And you've now taken over management of XFLT; that was at the end of July. So help us understand Rockford Tower and King Street, and how it all kind of works together and what it's bringing to the fund.

YOUNG CHOI

Sure, absolutely — and perhaps I can share some high-level information on King Street before addressing the rest of the question. King Street was founded in 1995 and is a global alternatives credit manager with approximately $30 billion in AUM across different credit funds and strategies — a 30-year track record investing across the global credit markets over a number of market cycles. We have a global footprint and presence with eight offices globally, in North America, Europe, and Asia. And then lastly, in terms of our greatest asset, our employees: we have over 200 employees globally, over 70 investment professionals, of which 40 are research and credit analysts — I think this is an important distinction for us.

Now, with regards to Rockford Tower: King Street launched Rockford Tower in 2017, and currently Rockford Tower manages approximately $14 billion in AUM across 19 U.S. CLOs, 10 European deals, a CBO transaction, as well as SMAs, in addition to the XAI-related funds you'd mentioned. Rockford Tower is focused really on managing performing credit within the syndicated corporate loan, bond, and securitization markets, including CLOs and ABS tranches, and is fully integrated into the King Street platform.

So while Rockford Tower was established in 2017, it's worth noting that King Street has been a longtime investor in corporate credit for over 30 years, and an investor in the CLO and structured credit markets for nearly 20. At a very high level, what we aim to do is maintain an active management approach. In general, as credit investors, we like to say the underwriting is never finished — there's always new information that comes up to enhance your thesis. We have a similar ethos around portfolio management, where the portfolio is never fully optimized, so there's always a trade that can be done to improve and enhance the portfolio. I think it's that active management that we look to bring to the XAI funds.

CHUCK JAFFE

It's interesting because in there you used the words "performing credit." This has been a market where, with interest rates going up and being higher for longer, everyone was expecting we'd have more credit that maybe stopped performing — is that the right way to phrase it? We haven't really seen that; we have seen some shifting in risk. So give us your overview right now on CLOs and the opportunity they provide, given where rates are right now.

YOUNG CHOI

Sure. I think there are a couple of things. First and foremost, CLOs — the debt tranches are floating rate — so as you've had higher for longer, and increasing rates at least recently, that directly benefits the yield within the CLO instruments. So there's been a tailwind over the course of the last couple of years within the CLO market.

The other element you brought up is the stress or distress that people were expecting. From a very high level, if you look at the credit markets, if you look at the indices, everything seems relatively benign. But once you peel back the onion and look at the underlying layers, what you actually find is quite a bit of dispersion. There's a cohort of loans and credits that are performing fine, and another cohort that isn't — you see this huge bifurcation in how different credits have performed, even though the indices themselves look relatively benign at a high level. I think that creates a lot of opportunities, especially for credit investors with experience. When I think about our firm in particular — multiple decades of investing through the credit cycle — being able to pick the winners and losers within this dispersion is an important element of what we're looking to do.

CHUCK JAFFE

One of the things that's become clear to me as I watch this space — which I do increasingly, because there's a fair amount of this activity happening in closed-end funds — is that we've seen a lot of growth internationally when it comes to CLOs. Is it the same opportunity? Is it a better opportunity? I talk with people all the time about investing in stocks and comparing U.S. to international markets, but from an interest-rate and CLO perspective, how different are the markets, and where's the opportunity best?

YOUNG CHOI

What's really interesting is that, as we all know, the opportunity set changes all the time. So what I tell you today in terms of what's really compelling, if you ask me three months from now, the answer has likely changed. What we've found throughout our history is that relative value — whether it's across geographies, Europe versus U.S.; different parts of the capital structure and seniorities; bonds versus loans; different asset classes — is constantly changing along a number of these dimensions. At certain points in time, Europe may be a much more fertile ground to invest in versus U.S. credit, and vice versa.

We've seen that throughout our history. If you look at the European sovereign debt crisis, for instance, in the 2010 to 2015 period, we saw a lot of opportunity coming out of Europe. In 2015 and 2016, when energy was having significant issues, particularly in the U.S., we saw a lot of opportunities in U.S. CLO markets. So the opportunity set is constantly changing, and that's one of the reasons we aim to have a dynamic approach to capital allocation — because relative value is constantly changing, and you're looking to find, across the globe and across different asset classes, what's most interesting at that point in time, and direct capital to those areas.

CHUCK JAFFE

From the perspective of debt CLOs versus equity CLOs — how different are those opportunities right now, and where are the better or more intriguing opportunities?

YOUNG CHOI

That's a great question. If you think about debt versus equity within CLOs, sometimes they're competing against each other — sometimes more value will be within the equity part of the capital structure, and at other times within the debt component. The way we look at it now, in the CLO market generally, is that we're finding value in the secondary equity markets. In the equity markets you have the primary market — new issue coming to market — and the secondary market; we're generally finding more value in the secondary, given how challenged the arbitrage within CLO markets is today. On the debt side, it's been more specific opportunities — whether it's in resets or refinancings, picking specific bonds. But broadly, where we're finding value has been on the secondary equity side, and then sporadically in the debt markets as well.

CHUCK JAFFE

Speaking of competing opportunities — one of the things we've seen happening in the CLO market is the emergence of some ETFs that cover the same space. It's simple competition; not necessarily good or bad. But does that change market conditions at all? When you bring a force as big as ETFs tend to be, does that change what's going on in the market?

YOUNG CHOI

The growth of the CLO ETF market is really nothing short of remarkable. CLO ETFs started in early 2021, and it took until early 2022 to eclipse the $1 billion AUM mark. Today, in 2026, if you track monthly inflows into CLO ETFs, they've been averaging around $1.8 billion — nearly $2 billion a month. So in a fairly short period, over the course of five years, the market has really, really grown.

There are a number of reasons for that, but in terms of what it's done to the market — particularly for AAAs, which is what the vast majority of CLO ETFs are focused on — it's added a significant new and growing buyer into that market, and spreads have compressed as a result. That's neither bad nor good; you have to think about the asset side too. In terms of what that means for equity: if you have really tight liabilities — if spreads have come in on the liability side — that's actually beneficial for CLO equity. But what it's done is inject a new entrant into the AAA space. Historically, the buyer base was large institutional banks in the U.S., Europe, and Japan, along with insurance companies and asset managers. Now you have this new, large, and growing investor in CLO ETFs.

CHUCK JAFFE

You talked about the growth we've seen in CLOs and CLO ETFs. Part of that has been the general market attraction to alternative income sources and things like private credit. There are definitely folks who want to act like collateralized loan obligations are private credit. I don't think that's how you see it — explain how they're different, and maybe why it would be a mistake to lump them together.

YOUNG CHOI

First, I agree with you — they're very different. But we do need to distinguish between the various types of CLOs, because there are multiple types with different underlying assets. There are CLOs that have private credit loans as the underlying collateral — that's a relatively small percentage of the market. The CLOs I'm referring to here are broadly syndicated loan CLOs — pools of loans to generally larger, more established companies.

Comparing these CLOs to private credit, there are several distinct differences. The first is the liquidity of the underlying collateral: the loans within CLOs are tradable, with markets and visible pricing — you can pull up a CLO, look at the assets, and see where almost every one of those loans is trading. That also allows the CLO to be actively managed; a manager can buy and sell all of the underlying collateral within a CLO at various prices. That dynamic element generally doesn't exist in the private credit world.

The second big difference is the level of disclosure. Live market pricing is a really good indicator of the fundamental performance of a loan; in the private credit category, there's very little, if any, price discovery, so it's often difficult to gauge how the underlying pool is actually performing. In addition, the financials of the underlying companies on loans within CLOs are generally much easier to obtain versus private credit loans — analyzing a pool of private credit loans is usually very difficult because the financials aren't readily available. For a CLO, you can see the pricing of nearly all the loans within the collateral pool, generally obtain the financials, and there's monthly reporting that tracks the transactions in and out of all of these CLOs. In short, the CLO market is just a much more transparent market.

CHUCK JAFFE

Because of that — there's talk that private credit, everybody wants it, everybody's adding it, and that works until, at some point, there's a problem. You can't foresee the blowup that's going to happen, but in every asset class, especially illiquid ones, once it gets popular, you tend to see a problem. So what you're suggesting is that this will impact the private credit market because it's not transparent, and it won't impact the CLO market. Do you worry, however — especially given closed-end funds trade at a discount — that if we see a blowup in private credit, CLOs will suffer not necessarily a blowup, but blowback, where maybe because they're conflated with private credit, we see a market that maybe becomes a buying opportunity, but has some struggles to get through?

YOUNG CHOI

Absolutely — I think those types of scenarios, where you see the baby thrown out with the bathwater, can lead to very interesting opportunities. If you think back to severe market dislocations we've had — the financial crisis, the GFC, or COVID — there were a lot of securities, a lot of asset classes, that may not have been impacted by that specific event, but saw material price action as a result. Whether you want to call it systemic risk or a broader impact across markets, I think those types of dislocations are actually very interesting times to deploy capital. So if you're seeing stress within the private credit markets — and again, it's hard to say if or when that will happen — but let's say it does, and it causes some contagion in other parts of the credit markets: I think that does lead to opportunities.

CHUCK JAFFE

But again, your base case is not that those problems are necessarily going to happen, and that meanwhile CLOs can continue to ride the wave we've seen and deliver to investor expectations.

YOUNG CHOI

Right — that is the base case, in terms of the companies continuing to perform. Now, naturally, the way CLOs are structured, there are safeguards and protections embedded into the structure for the different tranches of debt within the CLO, and I believe those structures are in place to protect investors. Historically — going back to your earlier question about why we've seen such growth in the ETF markets — if you look at the loss or impairment risk within CLO tranches, particularly the higher parts of the capital structure, you've seen very little to no impairment over the history of the CLO market, even going through the GFC, even going through COVID. You haven't had losses on AAAs or AAs, and I think even in single-A's, there may have been one tranche impaired throughout the entire history of CLOs. So CLOs have performed, and I think a lot of that is attributable to the structural protections within the structure.

CHUCK JAFFE

Young, great stuff. I appreciate you taking the time to join us on The Navigator. We'll talk to you again down the line.

YOUNG CHOI

Thanks again for having me, Chuck.

CHUCK JAFFE

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