

Focusing on performance

Assessing credit manager performance has never been more critical. That is why all eyes will be on this year's Creditflux Manager Awards

Managers are once again preparing to be judged against their peers at the Creditflux Manager Awards 2008. After the success of the Manager Awards 2007, which saw nearly 400 investors, managers and investment bankers gather for the glittering gala dinner and awards ceremony, all eyes are on who will take away the coveted trophies this time.



Creditflux Manager Awards 2008

10 September 2008

**V&A Museum, Cromwell Road,
London, SW7 2RL**

For further details or to book a table please contact Penny Lindeque on +44 20 7253 5238 or at plindeque@creditflux.com.

A unique performance-based approach measures the returns for each deal and fund on risk-adjusted criteria appropriate to each product. Unlike at awards events in other parts of the financial markets there are no awards for "best new deal" or "most innovative structure" in the subjective judgment of a group of judges. The only way for a manager to scoop an award is if its deals or funds outperform those of other managers.

The awards come at a time when manager performance is under the spotlight as never before. The September 2007 awards looked back on a mostly benign period for the credit market in which it was often difficult to differentiate performance. This year could hardly be more different. And as new capital slowly returns to the credit market, investors are eager to know which managers have really delivered good performance through the crisis.

Despite being very much in the mainstream media spotlight, structured credit remains an opaque market for many investors. The Manager Awards 2008 will once again shine a spotlight on CDO and fund performance to reveal the identity of the best managers.

The awards methodology, mostly unchanged from last year, is simple but transparent. Performance data for individual CDOs and funds is supplied by managers and dealers, and rigorously checked by Creditflux before the various critical performance measures are calculated.

For cash CDOs, awards will be

given to the managers of deals where management has added greatest value for both debt and equity investors during the life of the deal.

The CSO awards go to the managers who have done most to increase the value of single-tranche deals for the benefit of investors. The hedge fund, CPPI and market value awards recognise managers who achieve the

Award Categories

- **Best Cash CLO**
- **Best European Cash CLO**
- **Best ABS CDOs**
- **Best Trups CDO**
- **Best Corporate CSO**
- **Best CSO: innovative structured strategies**
- **Best Synthetic Equity CDO**
- **Best Long/Short Credit Hedge Fund**
- **Best Structured Credit Fund**
- **Best Credit Opportunity Fund**
- **Best CPPI/DPPI**
- **Best Cash CDO Manager**
- **Best CSO Manager**
- **Best Hedge Fund Group**
- **Creditflux Manager of the Year**

Submissions

Managers who wish to submit their CDOs or hedge funds for an award should contact Tom Davidson on +44 20 7253 4807 or email tom.davidson@creditflux.com to request the detailed methodology and submissions form as soon as possible. **The deadline for CDO submissions is 11 July 2008.**

best returns for investors on a volatility-adjusted basis.

Cash CDOs are those with a cash waterfall and an overcollateralisation or similar test to divert payments from junior to senior tranches in the event of par deterioration – regardless of the way their exposures are sourced. ‘Cash CDOs’ can therefore include deals where some or all of the assets are acquired through credit derivatives. For cash CDOs the awards are based on a ‘par plus’ ratio which combines annualised equity returns with par erosion to date as defined for the purpose of the overcollateralisation test, as shown opposite in figure 1.

The cash CDO awards are given to the manager of the CDO in each category with the highest par plus ratio.

To take account of the fact that vintage can be an important driver of

performance, we will give two awards in each CDO category. One is for the manager of the best recent deal – defined as one that has closed since 2006. The other is for the manager of the best seasoned deal – defined as one that was outstanding at 1 April 2007 and that closed before 2006.

CSOs must be managed by a ‘third-party’ manager. Tranches must be at least \$10 million in size. For mezzanine and senior tranches we base the results on analysis of the value of the change in subordination of the tranche, taking account of any cash gains in the trading account. For CSO equity we give our award to the manager of the deal with the greatest ‘appreciation rate’ as defined opposite, with adjustments made for zero-coupon products.

For credit hedge funds, CPPI products and market value deals, performance will be calculated using a combination of the Sharpe ratio and overall returns during the period from 30 June 2007 to 30 June 2008.

Figure 1

$$\text{par plus ratio} = \frac{\text{CV} + \text{PD}}{\text{IV}} + \frac{\text{EP}}{\text{IEV} \times \text{A}}$$

Where:

CV = current par value as defined by O/C test or equivalent at last payment date before 30th April

PD = cumulative total principal distributions

IV = initial par value at effective date as defined by O/C test

EP = cumulative total equity payments at last payment date before 30th April

IEV = initial equity value at closing date

A = 30/360 age in years from closing date to last payment date before 30th April

All time periods are calculated using the 30/360 day count convention

Equity payments and initial equity value should include both equity tranches and any co-issued notes with below market coupons

Figure 2

$$\text{appreciation rate} = \frac{(\text{CV} - \text{IV}) + \text{EP}}{\text{IV} \times \text{A}}$$

And:

$$\text{CV} = \left[\left(\frac{\text{INA}}{\text{IV}} \right)^{\left(\frac{\text{A}}{\text{M}} \right)} \times \text{IV} \right] \times \frac{\text{CNA} + \text{CA}}{\text{INA}}$$

Where:

CV = current tranche value

IV = initial tranche value at trade date

INA = initial outstanding notional amount at trade date

CNA = current outstanding notional amount at last payment date before 30th April

CA = change in current cash account balance between trade date and last payment date before 30th April

EP = cumulative total equity payments at last payment date before 30th April

A = age in years from trade date to last payment date before 30th April

M = time in years from trade date maturity

All time periods are calculated using the 30/360 day count convention



Where are they now?

Although our awards are intended to reward performance at a specific date (and make no attempt to predict future performance), it is always interesting to see how the previous winners are doing. Although we won't really know until this year's awards ceremony, looking at the current ratings of cash CDOs offers a crude snapshot of portfolio performance in the interim.

There have been no downgrades to the Best European CLOs (Harbourmaster 1 and Harbourmaster 5, both managed by Harbourmaster Capital Management), the Best Trups CDOs (Trapeza CDO I managed by Trapeza Capital Management and Alesco Preferred Funding X managed by Cohen) or the Best Recent Cash CLO (Deerfield's Market Square CLO I). The Best Seasoned CLO, GSC Partners Gemini Fund, managed by GSC Group, had its triple A notes downgraded earlier in the year after their monoline guarantor XL was downgraded. They have

since been upgraded due to the quality of their underlying assets.

The winners of the Best ABS CDO category have suffered along with the rest of their asset class, with both Invesco's Bluegrass ABS CDO II and South Coast Funding VIII, managed by TCW, suffering downgrades to all their notes.

But the senior notes in both deals are still at investment grade, so are doing better than most ABS CDOs.