

Credit Asset Management Quarterly



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Related Research

Reviewing and Rating Asset Managers
18 June 2009

Reviewing and Rating Credit Asset Managers
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22 December 2009

Funds of Hedge Funds Quarterly – Q110,
5 February 2010

Global Economic Outlook
22 December 2009

European Senior Credit Investor Surveys
Fitch's defaults and transitions studies

Executive Summary

- ▶ This is the first issue of Fitch Ratings' Credit Asset Management Quarterly report, commenting on trends, developments and pertinent issues in the credit asset management industry. This publication is based on a review of credit as an asset class managed by traditional and alternative investment portfolio managers. Comments in this report are not intended to suggest trading strategies, but rather provide observations on credit as an asset class, from both a technical and fundamental perspective.
- ▶ Research indicates that credit over the past 12 months has been an attractive asset class from a risk-return perspective. Market technicals have been a strong driver behind the significant credit spread tightening observed since March 2009, as credit markets began to normalise and capital returned. While market participants continue to highlight that spreads still represent solid historical value, they also point out that downside risks and volatility persist.
- ▶ Rising concerns over sovereign debt have recently shown that credit as an asset class remains vulnerable to negative headlines, renewed volatility and risk aversion. For example, in early 2010, rising sovereign and contagion concerns have placed pressure on credit as an asset class, with the situation in Greece prompting fears of contagion to other countries. Increased sovereign risk poses challenges for credit managers, as credit risk has been partly transferred from the private to the public sector. Credit managers also highlight refinancing risk in commercial real estate and leveraged loans as an upcoming fundamental pressure.
- ▶ The performance of credit sub-asset classes showed little differentiation over the last nine months of 2009, although there have been differences in the magnitude and timing of rallies, as well as differentiation by debt class seniority. Going forward, credit selection, asset allocation and trading acumen (active credit management) may become more critical.
- ▶ In this first issue, Fitch presents articles on the future of investment grade (IG) corporate bond management, post the 2009 rally, and an update on rising sovereign risk in 2010.
- ▶ Fitch examines how managers have adapted their investment processes and resources to new IG Corp credit market challenges following an easy "beta ride"; this includes the need for more active credit selection and allocation, and a return to relative strategy vs 'long beta' strategies.
- ▶ Sovereign risk has recently become a critical issue for credit managers and has led to more active involvement in

sovereign risk as a credit sub-class. Managers are adapting strategies to deal with this newly emerging source of volatility and downside risk, as discussed in this report.

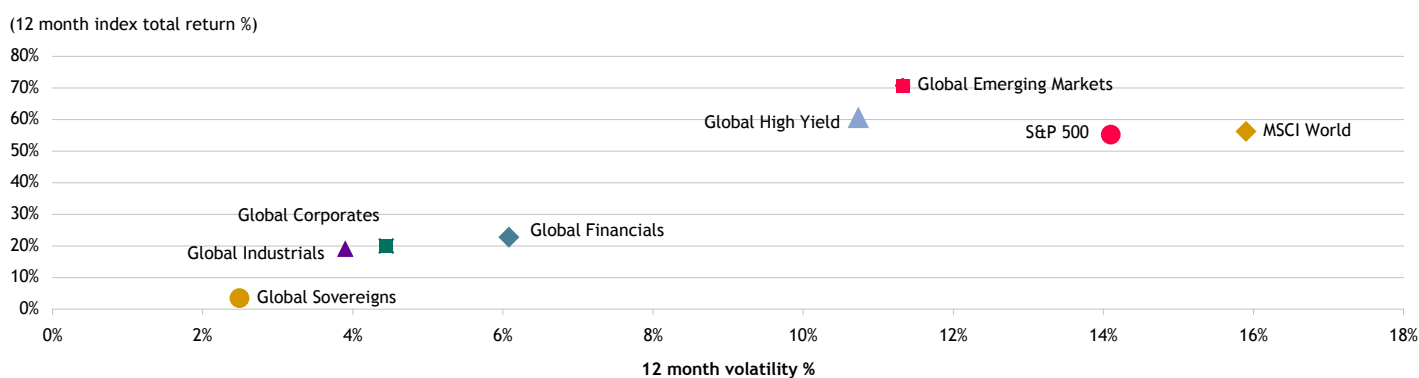
- › 2009 saw record debt issuance, especially IG debt. 2009 issuance was supported by bank loan disintermediation and positive inflows from investors, who put cash to work in credit at the expense of cash, money markets and equities. While those credit managers interviewed by Fitch expect these positive drivers to remain in 2010, they also expect the volume of issuance to be lower and more irregular.
- › In addition to fundamental credit selection and asset class allocation, the ability of credit managers to exploit

opportunities afforded by market volatility will be a key differentiator this year. Given continued headline risks – such as sovereign risk – the ability to incorporate macro-economic and credit market scenarios into the portfolio through a top-down or hedging process is also perceived as a key performance driver for 2010, along with individual credit selection.

- › Lastly, the report summarises key elements of Fitch’s asset manager ratings – including Manager ratings for credit asset managers – which assess managers along five dimensions: company and staffing; credit selection; portfolio and risk management; investment administration; and technology.

Credit Market Review

12 Month Global Index Risk/Return Profile (as of 1March 2010)



Source: Fitch, Bloomberg

Credit & Market Index Performance (as at 28 February 2010)

Index	Name	Total Return (%)				Risk (%) 12 Mo Volatility
		1 Mo	3 Mo	6 Mo	12 Mo	
GOBF	Merrill Lynch Broad Market Global Financials	0.4%	2.2%	6.4%	22.8%	6.1%
GOBI	Merrill Lynch Broad Market Global Industrials	0.7%	1.5%	4.6%	19.0%	3.9%
GOBC	Merrill Lynch Broad Market Global Corporates	0.5%	1.7%	5.2%	20.0%	4.4%
HWO0	Merrill Lynch Broad Market Global High Yield	0.3%	5.1%	15.1%	60.5%	10.7%
GOPG	Merrill Lynch Broad Market Global Sovereigns	0.5%	0.0%	1.5%	3.5%	2.5%
IC00	Merrill Lynch Broad Market Global Emerging Markets	1.1%	8.2%	15.1%	70.8%	11.3%
SPX	S&P500	2.7%	1.1%	12.9%	55.2%	14.1%
MXWO	MSCI World	1.2%	-2.2%	8.0%	56.2%	15.9%

Source: Fitch, Bloomberg, Merrill Lynch

Technical Factors

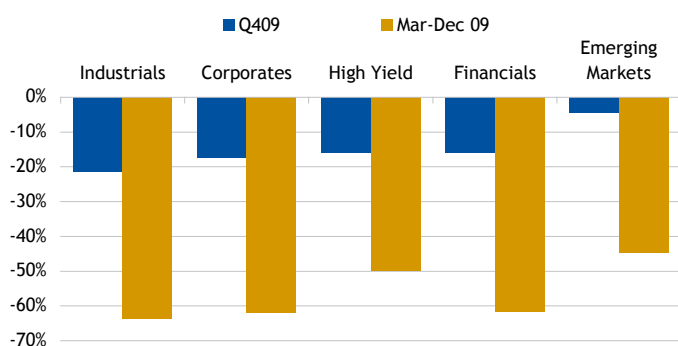
Increased volatility following spread tightening across the board in 2009

Throughout 2009, indicators of credit market performance showed signs of improvement, in line with positive economic indicators for the asset class. The credit asset class benefited from a positive environment (see Fitch report, “*Global Economic Outlook*”, December 2009), largely characterised by low inflation rates, low interest rates and the global economic recovery (driven by government stimulus). Credit

managers gradually revised their macro-outlook throughout 2009, contributing to improving market sentiment in the second half of the year. Perceived systemic risk declined sharply, reflecting government efforts to stabilise the financial system.

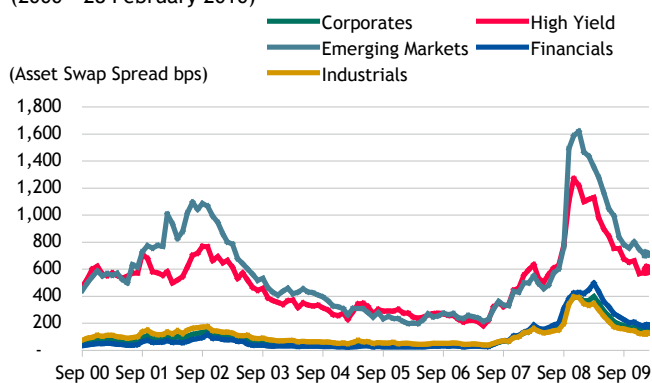
Since March 2009, credit markets have shown broad-based, substantial spread tightening, benefiting throughout the year from the end of forced selling flows, improved liquidity and positive news, which boosted investor sentiment. Strong inflows into the asset class have been supportive of this spread compression.

Global Cash Index Spread Movements - Percentage



Source: Fitch, Bloomberg, Merrill Lynch

Global Cash Index Spread Movements - Nominal (2000 - 28 February 2010)



Source: Fitch, Bloomberg, Merrill Lynch

Volatility and risk aversion have increased since mid-January 2010

This period of spread tightening resulted in a degree of market volatility. Risk aversion increased, as highlighted in Fitch's most recent fixed-income investor survey (see press release: “*Fitch: European Investor Sentiment Strengthens Further Despite Sovereign Debt Concerns*”, published 8 February 2010). Across the credit sub-asset classes – despite the recent tightening and notwithstanding the recent volatility – spreads are still well above their average over the last decade, as shown in the table below.

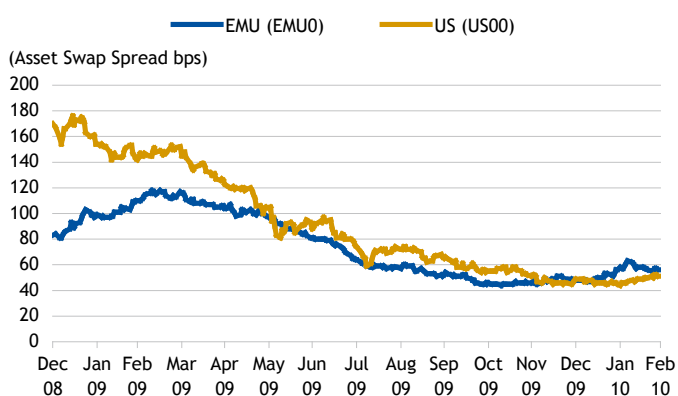
While credit sub-asset classes experienced a general spread tightening in 2009, some differentiation can be observed in the magnitude and timing, as highlighted in the graphs below. For example, the US broad market has rallied earlier than the European market. Similarly, subordinated financials experienced some stresses as late as March 2009, and, according to certain credit portfolio managers, are still exhibiting a wide spread relative to senior debt. Another example can be found in the leveraged loan sector, where credit portfolio managers have observed a strong recovery in senior tranches while mezzanine tranches have lagged.

Cash Asset Swap Spread Historical Analysis

Data	Emerging Markets	High Yield	Financials	Corporates	Industrials
Actual Spread (1-2010), bps	711	601	183	148	126
Average Spread, 2000-date, bps	572	492	92	97	109
Median Spread, 2000-date, bps	468	455	41	65	89
Standard Deviation, 2000-date, bps	328	229	109	86	74

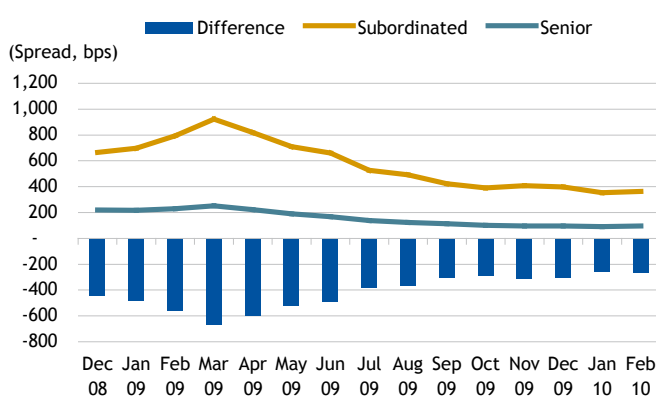
Source: Fitch, Bloomberg, Merrill Lynch

European/US Broad Market Cash Indices



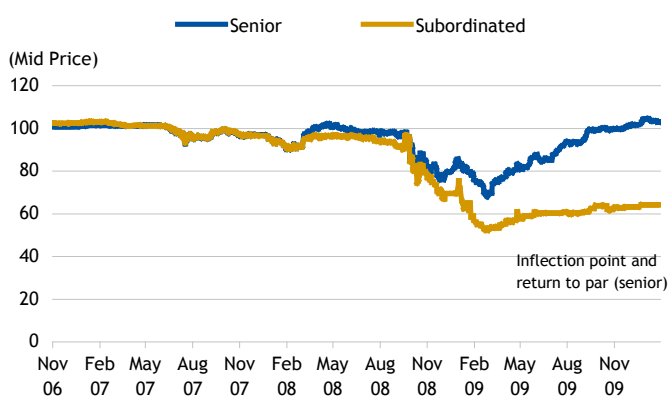
Source: Fitch, Bloomberg, Merrill Lynch

EMU Financial Cash Indices Asset Swap Spreads



Source: Fitch, Bloomberg, Merrill Lynch

Markit LevX (Aggregated)



Source: Fitch, Markit

CDS - Cash Basis

Itraxx Europe X-Over Series 11 vs ML Euro High Yield Constrained



Source: Fitch, Bloomberg

Sector CDS Spreads (as of 31 December 2009, Europe)

Sector	Average CDS Spread (5YR, bps)	% Change		
		3Mo	6 Mo	12Mo
Autos	161	-18.25	-43.18	-69.15
Consumers	108	-7.21	-15.37	-60.07
Energy	66	-9.43	-24.77	-68.15
Financials	81	14.00	-26.00	-50.48
Senior				
Sub	134	27.80	-21.55	-35.19
Industrials	104	-4.04	-41.11	-77.86
TMT	77	-11.14	-24.85	-60.56

Source: Fitch, Fitch Solutions

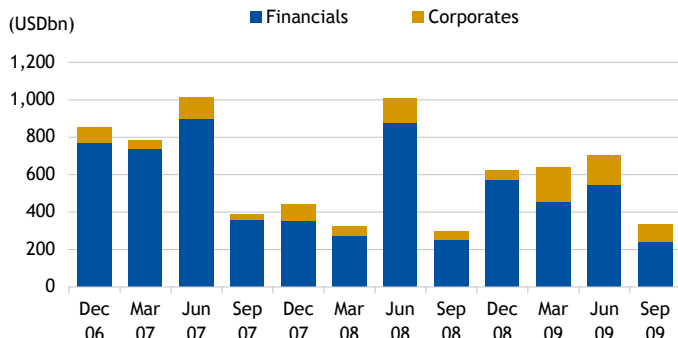
A consistent tightening trend was observed within the corporate sub-asset class, with some differentiation by sector.

Fund Flows – Supply and Demand Dynamics

Supply: bond issuance picked up over the first half of 2009, slowing down in the second half. Bond issuance (to support

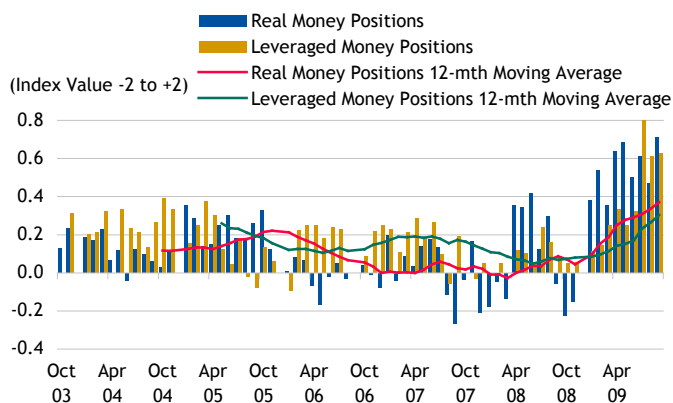
capital raising) has been a supporting factor for credit, as it reflects the ability of the corporate sector to refinance and rebuild balance sheets. While issuance levels were up substantially in the first half of 2009, they remained below comparable pre-crisis periods in 2006 and 2007. Some managers noted the risk that reduced flow could have on future issuance volumes, pricing and credit terms.

Net Fixed & Floating Rate International Bond & Note Issuance



Source: BIS, Fitch

Citi Credit Investor Inflows Index



Source: Citi Investment Research and Analysis

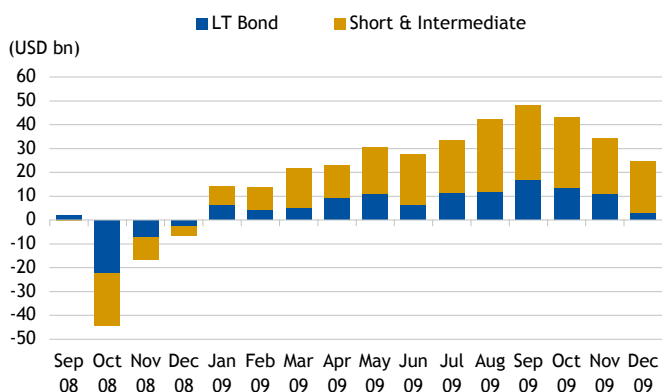
Demand evidenced by positive inflows but momentum is slowing. Strong, positive inflows to credit continued until Q409. Indeed, according to data from Lipper, bond funds, most of which have credit exposures, have registered sustained positive inflows since the beginning of 2009 and as a result, were an important contributor to the credit rally. In total, bond funds saw net inflows of USD356.7bn during 2009, compared to (net) inflows of USD64.3bn to equity funds and net outflows of USD503.6bn from money market funds (source: Lipper). Since September, the amount of money flowing into bond funds has begun to decrease. Unlike money market funds – which have sustained 11 months of continuous outflows due to low yields – flows into bond funds remain positive, although, on the retail side, some credit funds are now reporting outflows.

In terms of the type of money flowing into credit, the Citigroup Investor Inflows Index shows that the early part of 2009 was characterised by real money investors returning to credit, followed by leveraged investors as lending conditions eased.

As a final indicator of reducing flows in the credit asset class, the following chart presents cumulative inflows to the three largest credit-orientated exchange traded funds (ETFs¹).

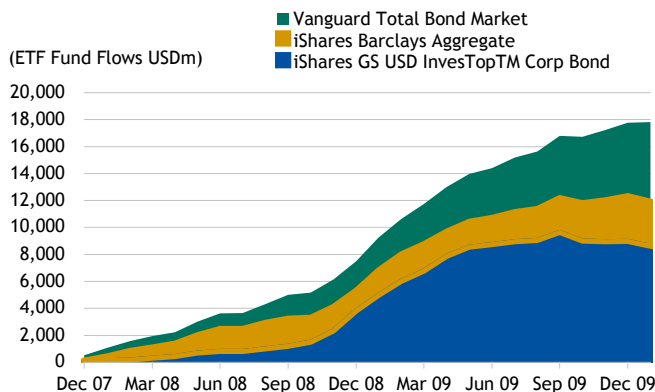
The trend is supported by Fitch’s most recent fixed-income investor survey (“European Senior Credit Investor Survey Q110”, published 25 February 2010), which illustrates how sovereign outlook weighs on improving European investor sentiment, thereby reducing their risk appetite.

Bond Fund Flows



Source: Lipper, Fitch

Credit Orientated ETF Cumulative



Source: Fitch, Bloomberg

¹ iShares GS USD InvesTopTM Corporate Bond Fund (LQD US); iShares Barclays Aggregate (AGG US); Vanguard Total Bond Market ETF (BND US)

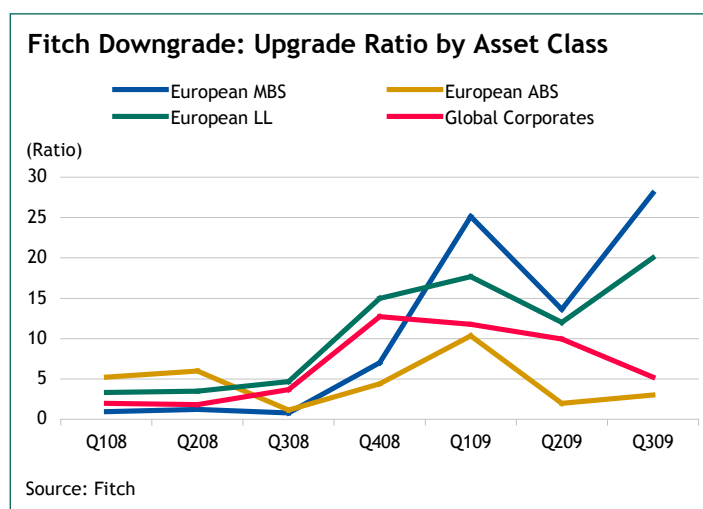
Fundamental Factors

Improving fundamentals reflective of weak economic growth

Despite a recessionary increase in downgrades and defaults, improvements in corporate and bank financial strength have been supportive of credit fundamentals in 2009. Cash preservation, primarily achieved through reductions in CAPEX, operating expenses and dividends, has been a key driver in the slowing rate of corporate downgrades and defaults; it has also supported a rebound in corporate profits, allowing debt reductions and recapitalisation.

Rating migration highlights deceleration in downgrade activity

Overall, the fundamental picture in Q409 remains negative: downgrades continue to exceed upgrades, as illustrated in the table and chart below.



However, there are indications that the fundamental credit picture is improving. In the second half of 2009, Fitch's downgrade rates across key sectors began to slow:

- › downgrades of corporates rated by Fitch contracted 52% between the second and third quarters of 2009.

- › global bank downgrades decreased by 50% over the third quarter of 2009.
- › the downgrade:upgrade ratio in European leveraged loans contracted to 10:9 in the fourth quarter, compared to 23:1 in the third quarter.

The “New Austerity” and the risk of a double-dip recession remain the biggest threats to improving credit fundamentals.

Key Takeaways

Credit portfolio managers expect more dispersion in credit performance

Effectively, credit has experienced a beta rally, with consistent spread tightening as the credit markets have returned to something closer to normality. That said, many managers now feel that this recovery has reached a point where spreads are not as ‘cheap’ relative to fundamentals. Nevertheless, they point out that mispricing opportunities exist (and are expected to continue) in some sub-asset classes and some individual credits, particularly following sector or geographic shocks and volatility spikes. Therefore, in addition to fundamental credit selection and asset class allocation, the ability of credit managers to exploit opportunities afforded by market volatility will be key to deliver excess return.

Credit managers expect persistent macro economic uncertainties and sovereign risk to persist

Looking ahead, portfolio managers believe that any continuation of the observed trends in the credit markets will be dependant on the recovery gaining further traction in 2010. By contrast, a sluggish economic picture could lead to the market trading in a narrow range. Key new issues for credit managers in 2010 include sovereign credit concerns and interest rate and forex volatility. Therefore, incorporating macro-economic and credit market scenarios into the portfolio through a top-down or hedging process is perceived as a key performance driver for 2010, along with individual credit selection.

Rating Action Statistics

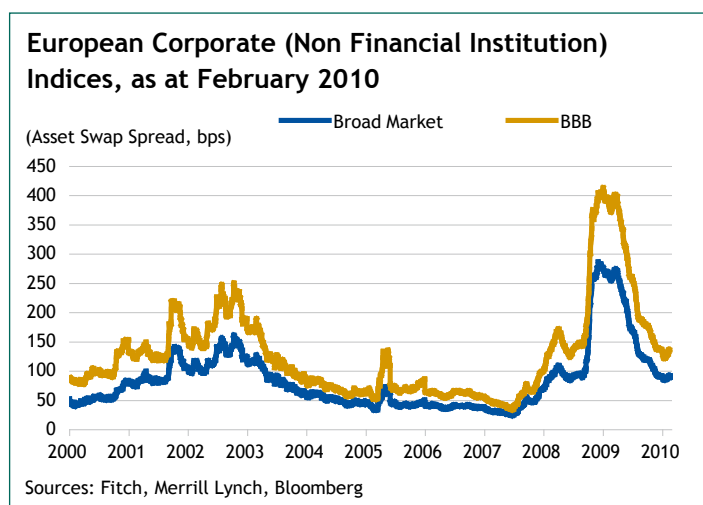
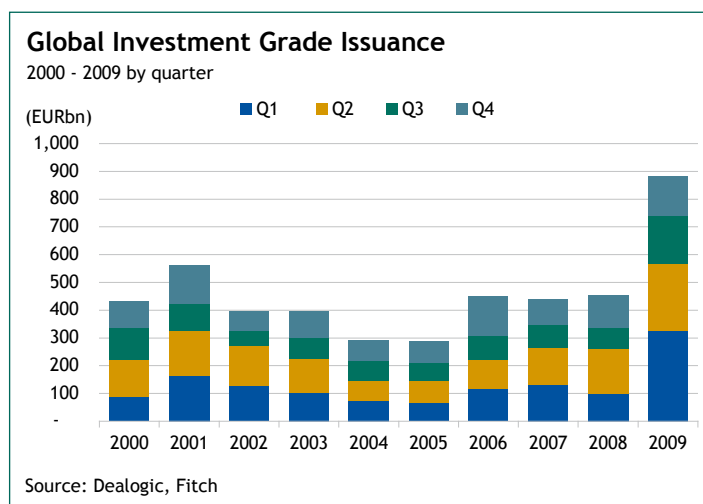
Asset Class	Downgrades (% of Total Rating Actions in 2009)	% on Rating Watch Negative as of 31 Dec 09	% on Outlook Negative as of 31 Dec 09
Global Structured Finance	78%	2%	10%
European Leveraged loans	23%	7%	28%
Global Corporates	44%	3%	18%

Source: Fitch

Industry Spotlight – Investment Grade Corporates and Sovereigns

Where Next for IG Corporates After a Year of Riding Beta?

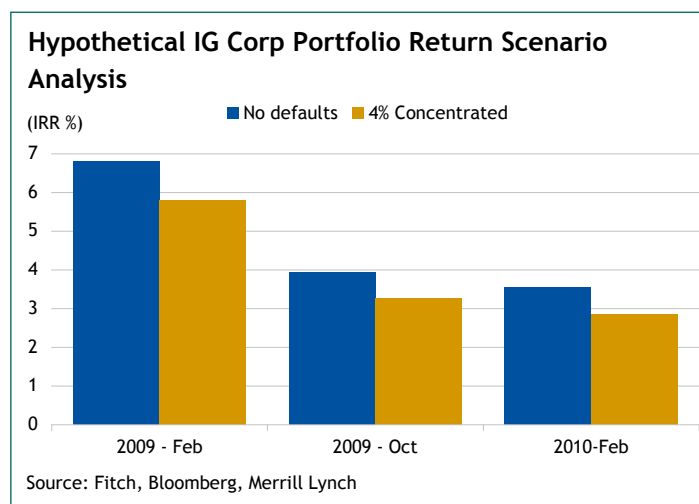
2009 was an historic year that saw a record issuance of European IG corporate bond debt globally, as illustrated in the chart below.



Shifting investment strategies likely to reflect new market dynamics for credit

After the rapid and significant spread narrowing since February 2009, as illustrated in the chart above, many IG asset managers now perceive upside potential to be lower and volatility to be higher; spread widening and downgrade (and default) risk largely depends on the strength of the current economic recovery and the impact of the sovereign debt crisis. Moreover, at current yield levels, any additional upside is much more limited.

The chart below illustrates the reduced expected returns on a representative IG portfolio over five years under a no default and a 4% concentrated (ie all in one year) default scenario (assuming a 30% recovery). It also demonstrates the substantial carry returns that were derived in 2009.



Specifically, the chart shows the effect of spread compression on the return of a bond portfolio. Under the conditions in February 2009, the portfolio would have generated an expected 6.8% Internal Rate of Return (IRR), assuming no defaults over a five year investment horizon, which compares to the 3.6% IRR expected on a substantively similar portfolio in February 2010.

Throughout 2009, many IG credit managers and investors embraced beta IG credit exposure, buying spreads and coupons (but not necessarily the issuer, often for fixed time horizon funds). Credit managers unable to invest in higher yielding credits may now adopt individual credit selection at current spread levels, especially as financial conditions begin to normalize, asset price correlations diminish and the performance of individual companies increasingly diverge. Some portfolio managers have therefore made the argument that buy and hold strategies and directional bets will be less appropriate investment strategies going forward. Instead, IG credit managers and investors expect to implement more flexible total return strategies, already popular in the non-IG credit space, as the credit cycle progresses.

Has the time come for a renewed focus on individual credit selection?

After the recent broad-based rally, managers now expect much greater dispersion in credit performance. This expected credit dispersion would create a favourable environment for strong credit selection. Similarly, after such an undifferentiated rally, spread levels may not reflect fundamental differences

between companies and industrial sectors. As a result, relative value strategies may become more useful. For example, more lenient lending standards may lead to a resurgence of corporate restructuring and/or M&A activity.

Credit selection looking to reconcile fundamental quality and spreads in a still volatile market

Market participants expect fundamental analysis to play a more important role in future. Moreover, credit managers believe the opportunity cost for an incorrect credit decision will be much higher. In the past, IG managers often used spread analysis tools to take decisions, mostly based on valuations and technical signals, which were often disconnected from fundamentals. Managers now expect that corporate credit analysis will have to combine both perspectives to anticipate early credit deterioration (or improvement) before materialising in spread movements. A strong fundamental quality-spread analysis is therefore being applied in support of classic relative value trades. Quantitative credit analysis is nevertheless still widely used for universe screening or risk management purposes, to determine whether tail risk is priced appropriately or to hedge portfolios.

A renewed focus on macro-economic factors and equity volatility

The most pro-active managers are strengthening the link between macro-economic, equity, and credit research. The future credit quality of a company is dependent on the speed and duration of the economic recovery, the state of the banking system, and the effect they have on a company's sector and geographic region. Similarly, informed macro-economic views are a major input in any credit spread curve analysis, as credit spread curves are highly correlated to the economic cycle (which is currently exhibiting a steepening trend). Furthermore, strategies to identify which bond structures are going to best perform in a given macro scenario are being applied and credit portfolio managers expect these strategies to be rewarding. As a result, certain asset managers have focused on front-ended maturities which may benefit from debt exchanges and refinancing.

Given uncertain macro-trends, strategies for analysing how economic factors – such as inflation, commodity prices, consumer spending, etc – will affect individual credits, sectors, and regions have become increasingly important to those credit portfolio managers interviewed by Fitch.

Credit managers have also highlighted the risk of equity volatility (and deeper equity market correction) for the credit markets, particularly the CDS market, which is closely correlated to equities. Fitch observes that credit managers are now strengthening their top-down investment processes to define and monitor advanced signals of equity volatility and to anticipate the effect on credit spreads.

Less directional market with better liquidity: relative value is back

Credit portfolio managers have highlighted how improved liquidity conditions make it possible to efficiently execute more active, long-short relative value strategies. For instance, some managers take the view that currently, some low beta issues (telecoms, utilities) have become expensive in comparison to higher beta names. Sector rotation or re-allocation trades may therefore be implemented on that basis to reflect relative total return expectations.

At the present point in the credit cycle, some market neutral long short portfolio managers believe they may be more successful by shorting credits to express their credit views. For instance, a manager could choose to concentrate positions on weak IG companies which it believes are likely to be downgraded. More sophisticated capital structure arbitrage trades, (where a manager is long the junior and short the senior debt, for example) have also been highlighted by managers as providing better opportunities now than in the past. Nonetheless, managers view such strategies with caution, as some trades may remain very sensitive to technicals which could jeopardise the strategy, such as a spike in illiquidity for example.

The slow return of leverage

Leverage is used to magnify returns in a low-spread environment for long managers, or provide more capital to exploit arbitrage opportunities for hedge funds. In the current market, managers have highlighted to Fitch the increased challenge of delivering required excess returns. Anecdotal evidence indicates that managers are starting to increase the use of leverage in their portfolios; this reflects an increased risk appetite from investors chasing yield, as well as increased access to leverage at more attractive terms and prices.

Bottom line: the ideal IG Corp credit manager, a “fundamentalist experienced trader”

The current market environment, and the one that is expected to prevail for the foreseeable future, should favour active IG credit managers that are able to demonstrate the required credit selection skills, rather than passive credit managers. Identifying credit managers with superior credit research capabilities, that in turn drive the investment process, will be important. Resources dedicated to research should be sufficiently deep to meaningfully cover a large and expanding universe of IG credit. Furthermore, incorporating cross-market information and macro-views and outlooks into research and the bottom-up selection process can provide an information edge. Trading and liquidity analysis skills will come to the fore – to effectively implement relative value or arbitrage trade ideas – as will access to market information and relationships with dealers. These and other critical areas of assessment are described in Fitch's criteria report, “*Reviewing and Rating Credit Asset Managers*”, published 27 July 2009.

Sovereign Risk: A Rising Concern for Credit Managers

CDS spreads have started to tier the market

Sovereign risk has emerged as a critical issue for credit managers. Sovereign balance sheets have deteriorated due to the recession and fiscal easing. Combined with the significant proportions of private debt accumulated over the last decade – which has now been nationalised – this has resulted in a reduced ability to meet social and economic expenses. The events in Dubai and Greece have raised the profile of sovereign risk for credit managers and investors, reflecting concerns about a “new austerity” and a “double-dip” recession.

Risk of Greek crisis spreading to the most vulnerable countries of the euro zone

Investors have been focused on Portugal, Ireland, Italy, Greece and Spain recently, with investor sentiment becoming increasingly negative in early 2010, as illustrated in the CDS data presented below:

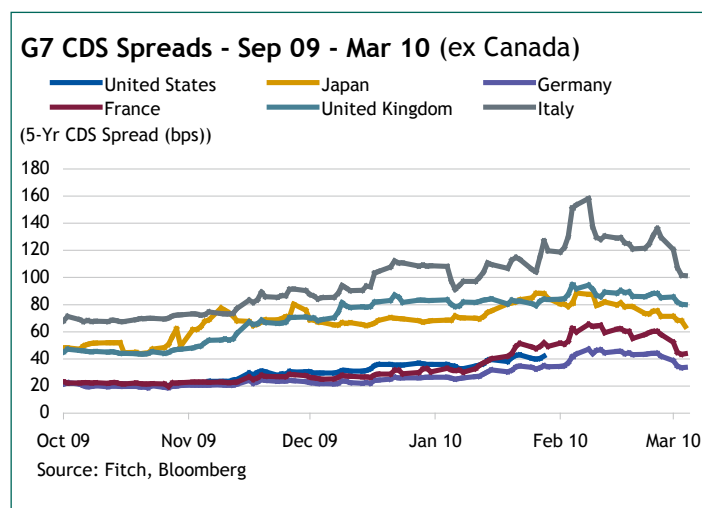
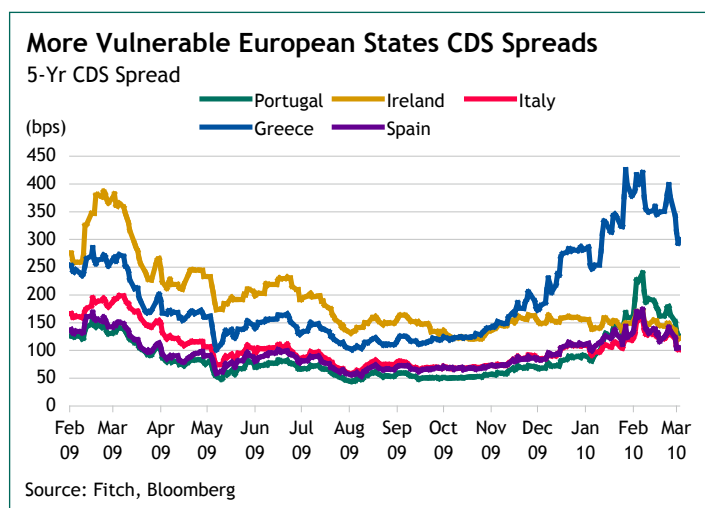
A primary concern among the credit portfolio managers interviewed by Fitch is that such countries may be unable

to reduce their budget deficits and, as a result, impact the fragile global economic recovery underway. In this sense, the most high-profile country has been Greece, where managers are paying close attention to the possibility of a bilateral (EU) or unilateral (eg France or Germany) bail-out, as well as the credibility in Greece’s published statistics and fiscal commitments. The potential loss of Greek government paper eligibility as collateral with the ECB could be a trigger for further sovereign (and potentially economic) deterioration. Market concerns relating to Greece are well demonstrated in the CDS data above. Throwing the net wider, the housing market – particularly the Spanish and Irish housing markets – remains a general concern among credit managers.

A risk of contagion to the G7 laggards

If the crisis deepens, it may impact the second circle, ie the G7 countries, potentially spreading to the UK and Italy. The following chart details the changes in G7 sovereign CDS spreads over the last quarter of 2009. A clear distinction has emerged, with CDS spreads indicating a higher perceived risk in the UK, Italy and Japan, relative to the other G7 members.

As shown in the table below, there is also substantial variation among rating categories.



Sovereign CDS Spreads (as of 12 February 2010)

Fitch Rating Group	Number	Average Spread (bps)	Min Spread (bps)	Country (Min)	Max Spread (bps)	Country (Max)
AAA	15	46	20	Norway	137	Spain
AA	11	97	56	Australia	1,054	Argentina
A	9	99	73	Chile	191	Bahrain
BBB	8	169	116	Thailand	352	Greece
BB	7	220	163	Colombia	513	Latvia
B	4	495	970	Ukraine	1,011	Venezuela

Source: Fitch, Bloomberg

Emerging countries have emerged stronger

Interestingly, incumbent “emerging markets” have largely demonstrated positive momentum. Many emerging market countries have shown much greater resilience in this crisis compared to previous ones, particularly the larger emerging markets (such as the BRICS, other than Russia). While performance has not been equal across all emerging economies, notably with weaker performance among many of the smaller emerging economies – including those in Eastern Europe, which have received supranational support (G7/IMF/EU) – key differentiating factors among the better performing emerging economies have included the large stocks of foreign assets and foreign currency reserves accumulated by their central banks. Indeed, Fitch forecasts (see “*Global Economic Outlook*”, 22 December 2009) net external debt across the emerging markets to reach -62.7% of current external receipts in 2010, ie the position of emerging markets as net lenders to the global economy has contributed to their resilience and momentum.

The implications for credit managers

Credit managers believe sovereign risk has the potential to remain a key source of volatility for the duration of 2010. Furthermore, they highlight that sovereign spreads were artificially lowered due to central banks zero interest rates policy and quantitative easing programmes – two drivers which are unlikely to remain in the medium term. As highlighted in a special report entitled “Eurozone Sovereign Pressures and Corporates : how they interact”, published 16 February 2010, Fitch Ratings acknowledges that a prolonged intensification of broader sovereign risk concerns would also lead to greater volatility in risk appetite and interest rates. This may potentially curtail the availability and pricing of credit from banks and the market to the corporate sectors of each of the affected economies.

Credit managers have placed an increased focus on the following sovereign-related risks:

- › Sovereign debt downgrade/default.
- › Government bonds spread widening/yield increase.
- › Inflation and interest rate increases.
- › Foreign exchange volatility.
- › Contagion to financial institutions (exposure to specific country).
- › Contagion risk to corporates (corporate taxes).

From a credit management perspective, sovereign risks can arise at three levels: (1) directly, when investments are made in government papers; (2) indirectly, via bank papers for which the sovereign may lack an ability to support, and finally; (3) when an individual credit is overly exposed to the economic fortunes of a country, such as a corporation with significant operations or earnings based in that country, or an international bank that had lent extensively to the particular country or its creditors.

In recognition of increased levels of sovereign risk, some credit managers have begun to reduce or hedge credit and duration exposure to direct or indirect sovereigns with heightened downgrade or default risk (as well as inflation and interest rate risk). Managers have not only reduced their direct allocation to such countries, but also their indirect exposure, for example reducing Spanish banks or Portuguese Telecoms and favouring companies that are internationally diversified. More protection buying has also been observed, in an effort to hedge exposure. Overall, managers highlight the relative value opportunities that emerge between countries and regions, not least between US and European credits.

Fitch's Framework for Analysing Credit Asset Managers

The last few years have seen diverse and challenging market conditions for credit asset managers. For credit investors, this highlights the importance of selecting credit managers with the right combination of skills, systems and experience to thrive as we move from the clear rally of 2009 into a more uncertain 2010. In response to this need, Fitch published updated criteria for reviewing and rating credit asset managers in 2009 (see the criteria report: "*Reviewing and Rating Credit Asset Managers*", dated 27 July 2009). Fitch's approach can provide investors with a useful guide for selecting credit asset managers, while focussing investors' analysis on particular risk factors. A Fitch Credit Asset Manager Rating provides investors with an independent opinion as to the manager's vulnerability to operational and investment management failure, based on an analysis of the following five categories:

1. Company and staffing
2. Credit selection
3. Portfolio and risk management
4. Investment administration
5. Technology

In terms of a balanced investment process, in a recent study (see report: "*Know Your Manager: Investor Guide to Robust Investment Processes*", dated 17 November 2009) the agency noted particular risks relating to manager selection – based on quantitative techniques – and analysed the more subtle, qualitative factors that influence the quality of an investment process. Specifically, the agency identified the characteristics of the most robust investment processes, and therefore those best equipped to cope with the reconciliation of fundamental and technical aspects.

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