

CDO Asset Manager
Ratings/France
CAM Profile

**Societe Generale Asset Management
Alternative Investments (SGAM AI)**



Corporate Information

SGAM AI, Immeuble SGAM
170, place Henri Regnault,
La Défense 6, 92043 Paris,
La Défense Cedex, France
www.sgam-ai.com

Corporate Structure

Year Founded: 2003
Registration: IFSRA
Employees: 30
Management: 4
Research analysts : 11
Portfolio managers: 6
Support: 10

Analyst Contacts

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Summary

Société Générale Asset Management Alternative Investments (SGAM AI), founded in 2003, is a wholly-owned subsidiary of Société Générale Asset Management (SGAM, rated 'M2' by Fitch Ratings). As of September 2008, SGAM AI had EUR30.8bn assets under management invested in structured products (EUR21.1bn), hedge funds, private equity and real estate. The rating is primarily based on SGAM AI's extensive alternative credit management experience with a core competence in IG corporate synthetic CDO management. The rating also reflects the company's expertise in financial engineering, which, combined with recognised fundamental credit research capabilities, support advanced risk management and trading practices. Finally, the rating factors in the necessity for new management to reposition and restructure SGAM AI's impaired business franchise - through the planned merger with Lyxor - in the context of the current market turmoil.

IG Corp Structured Credit transactions under Management

(As of December 2008)

Name	Closing	Structure	Primary European loan type	Deal Size (USD M)
Quartz	2004	CDO squared	IG Corporate	370
Amber	2004	CDO squared	ABS and IG Corporate	300
Aura1	2005	CDO squared	IG Corporate	400
Algebra	2006	Synthetic single tranche CDO	IG Corporate	140
Pearl	2007	Long short synthetic CDO	IG Corporate	400
Topaz	2005	PPN on equity CDO	IG Corporate	450
Club Deal	2005	PPN on equity CDO	IG Corporate	100
Nomura	2007	Synthetic single tranche CDO	IG Corporate	140
Power Tranche	2006	Total return credit fund	IG Corporate	230
Kara	2006	Long/short credit DPI	IG Corp and CDS indices	30
Total				2,560

Source: SGAM AI

Strengths

- SGAM AI's long history of investment management includes 10 years' experience in structured products management.
- SGAM AI has an innovative range of actively managed products, partly structured in-house, leveraging its recognised financial engineering skills.
- SGAM AI has an influential and independent fundamental credit research team, whose focus on loss avoidance has proved adequate for CSOs investment objectives.
- Depth of resources available at SGAM AI and within the SGAM group, supporting a compact, empowered CSO Management team.

Challenges and Mitigants

- To obtain approval for and execute the planned merger with Lyxor, which will involve strategic repositioning and reorganisation of SGAM AI, while maintaining employee moral and focus. The IG Corp CDO business is not expected to be materially impacted.
- To preserve capital of CSOs in a dislocated market, making credit substitutions that reflect fundamental credit views, while adhering to structural constraints and limiting trading costs.
- To launch new credit products and services, capitalising on SGAM AI's recognised innovation and financial engineering strengths while exploiting investor's demand for simpler, transparent investment solutions.

Societe Generale Asset Management Alternative Investments

Score

Company & Management Experience

2

- While SGAM AI was established in 2003, the structured product business line was created in 1997.
- SGAM AI has developed a core competence in IG synthetic CDO (IG SCDO) management since 2004.
- SGAM AI's strong growth since inception was driven by financial engineering and product innovation.
- SGAM AI's business franchise has been adversely impacted by the credit crisis (AUM halved in 2008 principally as a result of market value declines and redemptions on enhanced cash funds).
- The SGAM and SGAM AI senior management team was largely renewed in 2008, with O. Lecler and F. Crayssac joining as SGAM AI's CEO and head of structured products respectively, both with over 10 years' tenure with Societe Generale Group.
- While the details of the planned merger with Lyxor were unknown to Fitch at the time of publishing, the agency views favourably a restructuring of the company but expects corporate instability at SGAM AI during the transition period.

Staffing

2+

- The structured asset management division represents 35% of SGAM AI total staff, the size and organisation of which remained largely stable in 2008.
- The CDO portfolio management team consists of six professionals, four of which are involved in IG SCDO management. The two senior IG SCDO portfolio managers (PM) have 13 years' experience in credit. The team is compact but provides a good level of focus on CDO portfolios.
- The independent fundamental credit research team is a central, shared resource at SGAM, staffed by 12 professionals with an average of five years' tenure and nine years' experience. A key challenge of the team is to cover the whole credit spectrum in a meaningful way for all its internal clients.
- The credit structuring team of 22, which provides legal and quantitative solutions, represents, in Fitch's opinion, a highly skilled group, albeit one that is under-used in the current environment.
- The CDO team also benefits from shared resources in the areas of Operations and IT (27 staff within SGAM AI) and the Risk Management team, which has been strengthened to 12 employees at SGAM.
- The CDO PM and credit research teams are both adequately staffed for current business needs.

Procedures & Controls

2+

- Robust control environment, with three clearly defined and well documented levels of control implemented by independent control functions.
- The Risk Management department adequately covers all key areas of risk within the organisation, but does not have a review programme specific to the CDO business.
- Active investment risk management and strict credit risk controls are embedded in the core investment processes. In particular, credit research acts as a credit risk control function, which is of particular relevance in a downturn.

Portfolio Management

2+

- Fundamental credit analysis is a function of the independent credit research team. Credit research authorises the assets for investment and assigns a code - assessing the event risk horizon - and an internal credit rating.
- Trading decisions are taken by the lead portfolio manager in line with research recommendations, but taking into account structural and relative value considerations. Fitch recognises the efficiency of the coordination between research and PM when defining substitutions to preserve capital rather than rating stability during the current crisis.
- Advanced (albeit less relevant in the current market) quantitative research and modelling capabilities of correlation products support the investment process. In particular, powerful pricing models support SGAM AI's negotiation power with counterparties.
- Portfolio monitoring is adequate, based on early warning signal systems and scenario analysis at the PM level; on-going monitoring at the credit analyst level - formalised in monthly and quarterly review meetings - remained prevalent in anticipating 2008 credit events.
- While Credit Research rightly anticipated sectorial or single name credit problems (such as Icelandic banks or AIG), wrong anticipations on Lehman and Freddie/Fannie, combined with an inability to trade out of a CDS position at an acceptable cost, resulted in a maximum cumulative subordination loss of 3.8%.

CDO Administration

2+

- Strong synthetic CDO administration capabilities are reflected in the use of robust modelling tools and substitution procedures.
- Clear, albeit not fully automated, transaction flows and reconciliations between SGAM AI, the arranger, trustee and portfolio administrator are in place.
- Data management and reconciliations are the responsibility of SGAM AI's middle-office, which is independent of PMs.
- SGAM AI provides detailed supplemental investor reporting and has reinforced its communication with investors during the credit crisis.

Technology

2

- SGAM AI's proprietary integrated portfolio management system - DREAMS - allows for straight-through processing and supports the reporting and reconciliation functions.
- Synthetic CDOs are however not set up on the DREAMS platform. The core synthetic CDO system is an Excel application fed by a database separate from the DREAMS database.
- The integration, automation and performance of the synthetic CDO systems are adequate, supported by a central database and pricing libraries.