

# Some Fund Managers Praise Virtues Of Collateralized Debt Obligations

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LONDON—Two fund-management divisions of **Société Générale** are asking investors to brave two of the most volatile markets with issues of collateralized debt obligations with exposure to emerging-market bonds.

Barep Asset Management on Tuesday closed a \$217 million (€223.6 million) collateralized debt obligation—a bond where payment obligations are backed up by a portfolio of other debt securities. The deal, called Lafayette and issued in April, has as its collateral emerging-market sovereign bonds.

Meanwhile, **TCW Group Inc.** of Los Angeles is marketing \$255 million in bonds backed up by emerging-market corporate and sovereign credits in a deal called GEM Ligo.

The CDO market has seen huge ratings volatility in the past year as the economic slowdown has hurt the underlying collateral for these securities.

Meanwhile, worries over Brazil are creating uncertainty for emerging markets.

The total return on J.P. Morgan's emerging-market bond index has fallen 10.5% from the year's highs. And some asset-backed-securities investors won't even look at CDOs or emerging-market deals.

Bankers say issuers have learned their lessons and CDO structures have changed. Given current nerves, CDOs could be a good way for the uninitiated to test emerging markets through a diverse portfolio of credits.

For the fund managers issuing these bonds, they can increase the size of their portfolio, spread their investor base and arbitrage the difference between what they receive on the assets they buy and what they pay on the deal itself.

With emerging-market ABS, "at least here you have a tangible asset to back up your bond and it's pretty much secured debt," said Sanjeev Kumar, a director at

Delamore & Owl Group, a private client hedge-fund group.

His company is arranging a \$60 million bond backed up by credit-card receivables originated by Turkish company AKK Credit and an ABS deal issued out of Royal Nepal Airways.

The CDO is a great way to invest in emerging-market debt because it limits exposure to any one country at 5%, offering significant diversification, said James Edwards, head of emerging markets at Barep. Many straight emerging-market funds assign weightings in line with an index, which can concentrate risk, he added.

Barep's Mr. Edwards also said he believes that CDOs are a great way to expand the profile of an asset class, in this case emerging-market debt.

However, CDOs haven't always provided investors the protection that they associate with the asset-backed bond market, traditionally regarded as a safe haven.