



House of the year, credit

ABN Amro



Richard Whittle, ABN Amro

> “Two or three years ago, ABN Amro was a probably a tier-two institution when it came to credit derivatives,” says Steve Lobb, London-based global head of structured asset marketing for the Dutch bank. “But we made a conscious decision to invest in the area and we are now the clear market leader in putting innovation into action in 2005.”

The bank’s achievements are too vast to mention in full here, but it has certainly expanded the horizon of structured credit products both at an institutional and retail level.

Tellingly, ABN brought CPPI technology to the credit market. In April 2004 the bank launched Rente Booster – a 10-year capital-guaranteed deal which paid Dutch retail investors a fixed coupon of 1.2%, with further payouts dependent on the performance of the iTraxx Europe index.

And ABN has continued to innovate with CPPI. In April, Axa Investment Managers (Axa IM) launched an innovative retail structured product linked to the performance of credit default swaps, utilising ABN’s strength in the market. Patrimoine Obligation Croissance (POC) is a principal-protected eight-year credit derivatives fund targeted at private investors in France and Monaco. Axa IM manages the credit default swaps (CDS) portfolio on a day-to-day basis, while ABN structured the product and guarantees the principal using a form of CPPI designed to be applied to credit derivatives. The total-return product was designed to provide solid performance when credit markets are stable and to outperform in times of uncertainty.

Nicole Montoya, head of the credit team at Axa IM in Paris, says that private investors have shown interest in the product because it gives superior diversification compared with equities or bonds. “The CDS gives exposure to pure credit risk with very low sensitivity to interest-

rate movements,” she says. “In addition, the investment remains in the fixed-income environment, which is less volatile than equities but still sensitive to market news, such as a company’s good results.”

Richard Whittle, ABN’s London-based global head of exotic credit derivatives, notes that it was the first credit CPPI transaction to be managed and it was also the first structured credit transaction to be issued as a UCITS III-compliant fund. The issue size of the fund was €80 million and it was extremely well received by ABN’s and Axa’s retail networks in France and Monaco, Whittle says. What’s more, the successful conclusion of the POC transaction rapidly led to the development of ABN’s Synergie notes – a long/short credit CPPI aimed at institutional investors, he adds. “Understanding our clients ongoing service, liquidity and reporting requirements is essential to building a strong working relationship,” he notes, adding that POC came to market after 12 months work with Axa IM.

Other interesting offerings from the Dutch powerhouse include the Catamaran bond, managed by Ixis Asset Management, which allows investors to profit from changes in interest rates and benefit from the opportunities provided by corporate bonds.

The bond, which has a 10-year duration and a 100% capital guarantee, can consist of CDS, bonds, interest rate swaps and swaptions. Whittle says Ixis AM has the flexibility to allocate between duration and credit exposure, and the deal has been exclusively sold to ABN’s Dutch retail network. ABN is also in the process of rolling out the bond in other countries and through third parties.

ABN has also brought innovation to the retail market for collateralised debt obligations. In March, for example, Monte Paschi Asset Management, the fund management arm of the world’s oldest bank, Banca Monte dei Paschi di Siena, used ABN’s expertise to target high-net-worth and retail investors in Australia. Its Alpha Notes was a seven-year A\$55 million (\$42.6 million) deal, arranged by ABN and structured as a combo note designed to give investors greater protection on their principal while enabling them to take more risk on the coupon component.

Why ABN Amro won

ABN Amro has made significant investments in its credit business and has emerged as the industry champion of product innovation. Axa IM, for one, has been impressed by the bank’s excellence in the area and the Dutch powerhouse shows no sign of slowing down.