Join the debate

KKR Financial's decision to cancel some mezzanine CLO notes (bringing the deals back into compliance with their par value tests) attracted a number of view from subscribers on Creditflux's comments forum. One reader called it "another fine example of triple A noteholders being exposed to further substantial tail risk due to equity noteholder/manager actions", while another wondered whether investors in the KKR permanent capital vehicle were taking a hit for the benefit of other vehicles managed by the firm. KKR's actions, which Creditflux was the first to report on (Manager takes drastic action to deleverage CLOs, online news 29 July) were one of the biggest talking points in the structured credit market last month.

Another US manager and another US listed vehicle were also the focus of many subscriber comments on www.creditflux.com last month. Cohen & Company affiliate Alesco Financial disclosed "internal control deficiencies" prompting much mock-surprise among readers that illiquid structured assets could be hard to value.

However, the big talking point on the Crediflux website last month remained the parallel US and UK legal cases involving Lehman Brothers CSOs. Readers have waded in at length to discuss the ramifications of this complex dispute which one reader called "another nail in the coffin of structured credit".

You said it

"The days of being a 'high yield' specialist are gone. Sales people are mirroring their client base and selling all leverage products. The flight of talent to agency brokers is a flight to quality, while the traditional banks (with flawed models and compensation structure) are forced to pick from a smaller talent pool."

A subscriber comments on our cover story from last month "Banks rush to hire in high yield sales people"

Asian banks by-pass dealers and turn to hedge funds for valuations

Asian institutions that have large holdings of CDOs and other structured assets have begun working directly with western asset managers to get a better idea of their valuations, according to sources in the region. Holders have become increasingly nervous of relying on the valuations and restructuring solutions provided by investment banks and, according to several sources, are selectively sending out lists in order to get the views of external buy-side firms on the value of their assets.

Billarook's Spence (left) and Mudie

However, to date few Asian banks or other institutions are willing to pay for valuations and analysis. "Investors in Asia have a need for advisory services," says James Mudie. "But they typically do not have the budget to employ a firm as a valuation advisor. They are also justifiably concerned about confidentiality and about making sure that any advice they receive is genuinely independent."

Mudie is co-founder of Billarook, a new advisory firm that aims to put investors in touch with a western asset manager who specialise in a particular asset class. The firm is not a broker seeking to cross the trades with a buyer – which may be just as well since most Asian holders are not looking to sell assets at the moment.

Instead, it provides an introduction between an investor and a fund manager that can provide it with valuations. The fund manager gains a relationship which may be a source of future business from a region where many buy-side firms lack direct contacts. "Several fund managers have capacity and expertise that Asian investors would find very useful." says Billarook's co-founder Jamie Spence. "For hedge funds, this can be a very good use of their in-house resources."

Billarook is well placed to provide a credible link between Asian investors and western asset managers since its two principals are well known veterans of the Asian structured products market. Spence has distributed structured products in Asia banks including RBC, where he was head of structured products marketing in the region. Mudie is one of the best know buy-side officials in Japan's structured credit market, having headed the business at Shinsei. He moved to Aozora to head a business group that brought together all the bank's international exposures, where he stayed until June 2008.

Manager plans first Brazilian DIP fund

A São Paulo-based fund manager has launched what is thought to be the world's first hedge fund targeting Brazilian debtor-in-possession loans. Vision Brazil Investments, a multi-strategy manager, is in the relatively early stages of marketing a fund provisionally called the Vision Brazil DIP Fund, according to Felipe Lopes, who is responsible for investor relations at the firm. The firm's other investment strategies include real estate lending, structured consumer debt and loans to agriculture.

The fund would tap into the growing investors appetite for the highly secured short-term loans made to companies in bankruptcy. What is unusual about this fund is that it does not target DIP loans in the US, but those issued by Brazilian companies. The firm is thought to be marketing the fund to investors outside Brazil who want exposure to these assets.

Although Brazil does not have an active DIP loan business at the moment, it is one of the very few jurisdictions in the world in