DEALS OF THE YEAR

One thing characterises the deals we have selected as our pick of the corporate bond issues, CDO structures and securitisations of the year: innovation. While we have kept one eye on the deals that most impressed the buy side, those that were well bid in the secondary market and those that succeeded against all odds, it's the groundbreaking deals we really chose to highlight with these awards – the ones that really stood out from the crowd. And we weren't short of deals to choose from. In such a chaotic year, from the mega fallen angels of GM and Ford in May to the subsequent correlation volatility that wreaked such havoc on CDOs, structurers had to be creative and responsive to buyers' needs in order to tempt investors into the market.

Deals were selected at editorial discretion in consultation with investors, bankers and issuers.

Reports by the Credit *team.*

DOLLAR INVESTMENT GRADE

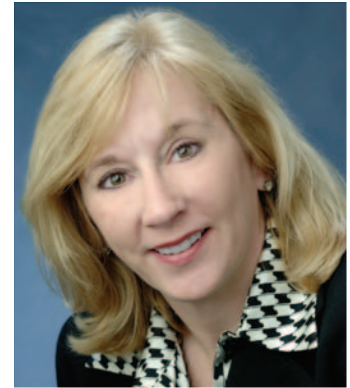
WINNER: RESIDENTIAL CAPITAL

Bookrunners: Banc of America Securities, Bear Stearns, Citigroup, JPMorgan

Residential Capital Corporation (ResCap), the holding company of General Motors Acceptance Corp's residential mortgage operations, issued its inaugural bond offering in June to a welcome reception from investors. Initially announced as a benchmark offering of two-, five- and 10-year notes with guidance for a $2.5 billion deal, the deal was upsized to a $4 billion three-tranche senior debt offering that featured a $1 billion two-year floating-rate note, a $2.5 billion five-year fixed-rate bond and a $500 million 10-year fixed-rate tranche, on the back of overwhelming investor interest.

Given ResCap's relationship with GMAC and General Motors, which were downgraded to junk only the month before, investors were naturally circumspect about the fair value of the ResCap credit story. But as Corey Pinkston, managing director in the high-grade capital markets group at joint lead manager Banc of America Securities, explains: "What was most unique about the ResCap deal was that for the first time, in order to issue unsecured term notes, a wholly owned subsidiary was implementing structural protections to insulate the business operations and security holders from any issues facing the parent companies." These protections included a separate board of directors with two independent members, strict separation of assets and a strong operating agreement.

ResCap and its lead underwriters, Banc of America Securities and Bear Stearns, undertook what Louise Herrle, treasurer of Residential Capital, describes as an "exhaustive roadshow" attended by over 200 institutional accounts in both the US and Europe, to reassure investors of the operational separation of ResCap from its parents. "Given that we were asking for investors to buy ResCap without the benefit of a track record in the market as well as the volatility around our parent and associated rating uncertainty, we included a step-up coupon in the structure which helped encourage them to get involved in the transaction," she says.



Louise Herrle, Residential Capital

Interest in the deal was such that ResCap closed the book when orders reached $17 billion. Priced at the midpoint between GMAC spreads and its closest peer Countrywide Financial, investors were drawn to what was an attractive spread for a pure play in US residential mortgages. Andrew Harding, head of fixed income at Cleveland-based Allegiant Asset Management, says: "ResCap was really the credit story of the year in the new-issue markets. It caught people's attention because of the uniqueness of the entity, the structure of the deal and its pricing, then tremendous secondary market performance."

credit says... In its inaugural bond issue, ResCap understood the importance of a well-received transaction, grabbing the attention of the primary markets with an intriguing credit story and a thoughtful structure to reward investors.

RUNNER-UP GENENTECH

Bookrunners: Goldman Sachs, Citigroup

San Francisco-based biotechnology company **Genentech** launched its inaugural bond issue in July, generating investor interest with a deal that represented an opportunity for diversification within the healthcare sector away from big pharmaceutical to medical technology.

As a result, the deal was four times oversubscribed for an eventual deal size of $2 billion in three tranches: $500 million of five-year senior notes, $1 billion of 10-year senior notes and $500 million of 30-year bonds. The rating agencies contributed to the positive momentum with upgrades for Genentech from both Standard & Poor's and Moody's.

RUNNER-UP VERIZON

Bookrunners: ABN Amro, Barclays Capital, Citigroup

Telecommunications company **Verizon** issued its first benchmark deal for more than two years in September, with a two-part deal sold in 10- and 30-year tranches. Investors say that the deal was attractive as the first benchmark deal from a Regional Bell Operating Company in 2005.

Joint underwriter Barclays Capital says that the tranching strategy of the deal "reduced execution risk for a jumbo 30-year by demonstrating very tight benchmark pricing". The 10-year priced flat to Verizon secondary markets with no new-issue premium and the 30-year priced about 4bp through Verizon secondary comparables. The order book was almost three times oversubscribed.

DOLLAR HIGH YIELD

WINNER: SUNGARD

Bookrunners: Banc of America Securities, Citigroup, Deutsche Bank, Goldman Sachs, JPMorgan, Morgan Stanley

With an abundance of cash in the hands of private equity sponsors, leveraged buyout (LBO) deals stole the show in the US high-yield market in 2005 as investors were given access to a number of first-time issuers subject to takeover.

Dan Toscano, head of loan syndication at joint bookrunner Deutsche Bank, says: "2005 will go into the leveraged finance books as the year of the LBO." And the star of the LBO market in 2005 was software company SunGard Data Systems, which sold a blockbuster $7.5 billion in high-yield bonds and loans in July to fund the largest leveraged buyout since the $31 billion RJR Nabisco takeover in 1989.

After a successful financing, the $11.3 billion takeover of SunGard was completed in August by a consortium of seven private equity firms led by California-based Silverlake Partners. SunGard sold $2 billion of senior unsecured notes due 2013, comprising a $1.6 billion fixed-rate tranche bearing 9.125% and a $400 million floating-rate tranche at a rate of 450 basis points over six-month Libor. The firm also issued a $1 billion tranche of 10.25% senior subordinated notes due 2015. The largest chunk of the debt offering was a $4 billion term loan.

The deal aimed to utilise every pocket of the market between floating-rate, fixed-rate, senior and subordinated notes. But coming from an issuer that was new to the high-yield space, it was subject to considerable scepticism prior to the roadshow.

AJ Murphy, director in high-yield capital markets at Deutsche Bank, says: "We hadn't seen any sizeable deal at all in the leveraged software market. That was the big question that needed to be digested." And Michael Ruane, chief financial officer at SunGard, says: "At the time we were getting ready to issue, there were some concerns just because the high-yield market was in a state of flux. But I don't think anybody had any doubts about getting this deal done. It was more a question of how well it would be received."

Dan Toscano, Deutsche Bank

Moody's and Standard & Poor's downgraded SunGard to junk status reflecting the increased leverage for the company – net debt to Ebitda reached 7x as a result of the deal – but the issue was nevertheless healthily subscribed. "It was certainly anchored by the blue-chip base of high-yield investors," says Deutsche Bank's Murphy. "Nobody passed on the credit."

Dan Fasciano, head of fixed income at Morley Fund Management in Boston, was one such investor. "It was an LBO that was a performer," he says.

credit says... The SunGard deal was a resounding success and paved the way for the completion of several other LBO deals in the US. Although there was some initial scepticism regarding SunGard's multiple tranches, the bond offering was issued above par and continues to trade well in the secondary market.

RUNNER-UP
NEIMAN MARCUS

Bookrunners: Banc of America Securities, Credit Suisse First Boston, Deutsche Bank, Goldman Sachs

Dallas-based department store chain **Neiman Marcus** issued a $1.2bn two-part 10-year deal in September as part of the financing for a $5.1bn LBO by Texas Pacific Group and Warburg Pincus. The issuer and underwriters made adjustments to fill the book, withdrawing a seven-year $850m senior secured note and almost doubling the secured term loan from $1bn to $1.975bn. However, investors took notice of a structural innovation in the deal called the 'toggle', created by CSFB. This feature, a provision of the senior unsecured notes, allows the issuer to elect to pay interest in additional bonds instead of cash every quarter.

RUNNER-UP
TEXAS GENCO

Bookrunners: Citigroup, Deutsche Bank, Goldman Sachs, Morgan Stanley

Late in December 2004, **Texas Genco** issued $1.125bn of 10-year senior notes as part of a $3.6bn debt financing for its LBO by a private equity consortium made up of Texas Pacific Group, Blackstone Group, Kohlberg Kravis Roberts and Hellman & Friedman. The high-yield bond portion marked the second largest single tranche offering of the year and with a coupon of 6.875%, it was seen as one of the tightest pricings in recent history of LBOs. The transaction was a success for the issuer and the private equity firms in particular: just 12 months later, Texas Genco is set to be resold to NRG Energy for almost double the price.

EURO INVESTMENT GRADE

WINNER: VATTENFALL

Bookrunners: Citigroup, JPMorgan, Merrill Lynch

Vattenfall's €1 billion perpetual hybrid deal was a hot favourite among investors and quickly emerged as 2005's euro high-grade corporate bond deal of the year. It is the first-ever perpetual security from a Nordic issuer and achieved the highest equity treatment at the tightest spread ever.

Simon Surtees, head of credit research at Gartmore Asset Management in London, believes the deal had a discernible effect on the market. "The transaction heralded a number of hybrid securities and showed that the market was amenable to the asset class, one that looks as though it is here to stay," he says.

The deal was marketed at between 187.5bp and 200bp and launched at the high end of price talk. The good spread and strong performance of the Swedish utility's hybrid transaction was a fillip for investors.

For Klaus Oster, head of credit research at Deka Investment in Frankfurt, it was the spread performance of the bond after launch that set the deal apart from other primary issuance. "It has been the best performing hybrid capital security of the year in the secondary market, tightening in from 195bp over swap spreads to 140bp," he says.

Klaus Aurich, head of investor relations at Vattenfall in Stockholm, explains that the transaction was a good strategic fit for the Swedish utility's financial profile. "The reason for tapping the hybrid securities market is that we are a state-owned company so we have limited access to equity capital. Considering the equity element, this transaction helps us to enhance our financial flexibility. We have a commitment to stay in the single-A rating category and though it is hard to estimate the extra debt that we can take on, issuing hybrids increases our headroom," he says.

The transaction was awarded Basket D treatment by Moody's (75% equity credit) and received 60% equity treatment from S&P. Citigroup explains that the offering was structured specifically in order to achieve this treatment, by having no specified maturity, indefinite cumulative optional deferral, mandatory interest payment cancellation and capital replacement provision.

Klaus Aurich, Vattenfall

But it was not just the structural aspects that attracted investors as the Swedish utility also has a strong business profile. The firm's record half-year results were matched by the release of even more robust third-quarter figures. Vattenfall has a strong position in northern Europe, being number one in the Nordic region, number three in the German electricity market and one of the major players in Poland. Bookrunners Citigroup, JPMorgan and Merrill Lynch quickly built up a €2.5 billion order book and the deal was sold to over 160 accounts, predominantly insurance companies and pension funds.

credit says... With yield being the name of the game this year, the subordinated bond enabled investors to achieve more value by going as deep as possible into the company's capital structure.

RUNNER-UP
DONG

Bookrunners: BNP Paribas, Deutsche Bank, Morgan Stanley, Nordea

The €1.1bn 1,000-year hybrid deal from **Dansk Olie & Naturgas** (Dong) was nominated on account of its strong performance, good execution and informative roadshow. Despite being a debut credit, investors believe the hybrid structure is well suited to companies such as Dong that have stable cashflows and a strong business model. Dong attracted €3bn of orders for its €1.1bn hybrid and was priced at 220bp over mid-swaps. The bonds had rallied to 160bp by December. Joint underwriter BNP Paribas says the deal is the inaugural hybrid issue by a company with no outstanding bonds and the first hybrid transaction executed in a senior/hybrid tranched format.

RUNNER-UP
LANXESS

Bookrunners: Citigroup, HVB, JPMorgan

Although German chemicals company **Lanxess**, which was spun off from Bayer this year, has no track record in the capital markets, investors were quick to voice their support for its debut transaction. For Michael Schiller, portfolio manager at Deutsche Asset Management in Frankfurt, the merits are simple: "It is an improving credit story and the bonds have posted excellent performance," he says. Joint lead managers Citigroup, HypoVereinsbank and JPMorgan built up a €1.8bn order book for the €500m seven-year bond that priced at 118bp over swaps. On being freed to trade, the deal tightened by 5bp and by early December the bonds were trading at 70bp over.

EURO HIGH YIELD

WINNER: WIND

Bookrunners: Deutsche Bank, ABN Amro, Banca IMI

The most tensely anticipated deal of the year turned out to be a huge success. Italian telecoms company Wind's dual tranche €825 million/$500 million senior notes attracted more than €4 billion of orders from more than 400 accounts – an unprecedented amount, says lead underwriter Deutsche Bank. The third largest euro high-yield deal ever, it was part of a financing package to fund Wind's $12 billion leveraged buyout by the Weather Consortium – itself the largest ever buyout in Europe.

Plagued by bad press ahead of its November launch, the market feared the deal was just too big. Investors found it difficult to understand why an Egyptian-controlled firm – the Weather Consortium is led by Egyptian business Naguib Sawiris – wanted to buy an Italian wireless and fixed-line business.

According to Bruce Mackenzie, in high-yield capital markets at Deutsche Bank in London, the turnaround in sentiment came during pre-marketing. "Perception towards the deal did a complete 180," says Mackenzie. "We were able to market off strong Q3 numbers, significant cost savings and a €290 million pre-payment of the bank facility which gave the deal a lot of momentum."

Demonstrating sustainability for the long-term outlook attracted more long-only investors to the deal, as well as hedge funds. "It was a credit the long-only guys could really sink their teeth into. Not many high-yield companies can boast Ebitda of $1.5 billion," says Mackenzie.

As a result, the roadshow was "outstanding", he says, with record attendances. In London, more than 100 people came to two separate sessions. "To attract that much attention was phenomenal," says Mackenzie. Such interest kept the firm's borrowing costs under 10%, which, considering the difficult state of the US market at the time, was a "huge result".

Bruce Mackenzie, Deutsche Bank

As part of the financing package, a portion of the bridge loan was repackaged into a note, which for Craig Abouchar, senior fund manager at Insight Investment in London, was the real path-breaking part of the transaction. "By doing this, they were able to bring the booming euro leveraged loan market to bond investors, the vast majority of whom would have been unable to invest directly in loans."

Abouchar reckons that if high-yield issuance in 2006 is as slow as last year, these types of transactions will become increasingly important to investors. "It is also further evidence of the continuing trend of convergence among various instruments in the leveraged finance world," he says.

> **credit says... From dog deal to top dog, Wind overcame poor sentiment pre-launch to become the most sought-after high-yield paper of the year. Clever repackaging of the bridge loan heightened the appeal for long-only investors and brought new buyers to the table. Little wonder it's kicking up a storm.**

RUNNER-UP
CELL C

Bookrunner: Citigroup

After the downgrades of autos giants GM and Ford effectively closed the global high-yield market in May, South African telecoms firm **Cell C** was among the first to brave the waters with its €670m deal in June. The original deal had been pulled the month before due to the difficult market conditions, and its subsequent success so soon afterwards, with some restructuring to attract cautious investors, gained it – and sole bookrunner Citigroup – some kudos, even from rival bankers. "It was an unknown entity; they were able to get it done. That was pretty good," says one rival investment banker not connected to the deal.

RUNNER-UP
TIM HELLAS

Bookrunners: JPMorgan, Deutsche Bank, Lehman Brothers, Merrill Lynch

Greek mobile phone company **TIM Hellas**'s €12.8bn deal to finance its buyout from Telecom Italia was the largest ever European all-bond financed LBO. It was also the fourth largest global high-yield deal in 2005, after SunGard, Intelsat and Qwest, and the largest ever forward-rate note. The deal had originally been structured as a dual-tranche euro and dollar deal, but strong demand in Europe – the orderbook reached €5bn from more than 230 accounts and was eight times covered – enabled the bookrunners to pursue an all-euro transaction, which had been the company and its sponsors' preferred option.

STERLING INVESTMENT GRADE

WINNER: NETWORK RAIL

Bookrunners: Dresdner Kleinwort Wasserstein, HSBC, UBS

The inaugural issue for Network Rail, since becoming a direct sovereign obligation of the UK government, was voted by institutional investors as the leading corporate bond in the sterling high-grade category. The deal was the largest sterling unsecured non-financial transaction in 2005, and the change in guarantor resulted in a lowering of the issuer's risk weighting from 20% to zero.

"This was the first benchmark deal under the company's new status as a pure UK sovereign risk, making it a true gilt surrogate, and it received rapid acclaim in the market," says Pierre Blandin, global co-head of primary rates at Dresdner Kleinwort Wasserstein (DrKW).

Tim Barker, head of credit research at Morley Fund Management, points to the borrower's and bookrunners' good work in the execution of the deal and the smooth placement of £1 billion of bonds. "The deal excelled simply because of the fact that it was a well-managed, sizeable transaction that got away without disrupting other parts of the market and without leading to any sell-off in the triple-A credits," he says.

Network Rail's head of corporate finance, Samantha Pitt, explains that one of the firm's strategic objectives was to build out a liquid maturity curve in sterling. "We wanted to fill in the yield curve and so sounded out the investor community on what maturity they preferred and consensus was for a 15-year deal," she says.

One notable aspect of the transaction was the impressive pricing achieved. "At the time, it was the tightest we had ever priced at and is more in line with our peer group," she adds, noting that pricing was at the tight end of pricing guidance of 20–22bp over gilts. Both EIB and KfW's June 2021 deals were bid at gilts plus 19bp and 21bp respectively at the time of pricing.

Pierre Blandin, DrKW

There was such overwhelming demand for the transaction that the initial £500 million met with orders in the region of £1.4 billion in just 24 hours, resulting in the deal being upsized by another £500 million. DrKW's Blandin puts the deal's success down to scarcity of supply at the long end of the triple-A maturity curve, the quality of the credit and the spread on offer.

Network Rail's Pitt was also pleased with the final placement of the paper as the borrower was able to promote its name to non-traditional sterling investors successfully, as roughly 14% of the issue was sold outside the UK. "The number of first-time buyers and the large proportion that were non-UK is testament to our efforts in marketing our credit to the investor community," she says.

credit says... Investors were ultimately satisfied with what they received from the transaction: a good credit story, stable ratings and effectively UK government risk paying 20bp over.

RUNNER-UP
BSKYB

Bookrunners: Barclays Capital, Citigroup, JPMorgan

Broadcasting giant **BSkyB** takes a runner-up spot with its £400 million issue that was part of a £1 billion-equivalent fund-raising package, the remainder being denominated in dollars. One attraction for investors was the rarity of the credit in the market: the last time BSkyB issued was in 1999.

The borrower was successful in diversifying its investor base by attracting new clients to its credit and pricing the deal in a volatile credit market that had recently seen General Motors and Delphi downgraded by Standard & Poor's. Nonetheless, the borrower was able to launch the deal without any untoward problems, say investors.

RUNNER-UP
ITV

Bookrunners: Barclays Capital, Royal Bank of Scotland, UBS

The first transaction under the **ITV** name received orders of £1.1bn from 108 buyers, but printed at £325m and inside price guidance. Although investors stated concerns about ITV, they praised the borrower's openness on the roadshow. A change of control was included that allayed some fears around the borrower being a leveraged buyout candidate. "It was critical that we launched a good transaction that performed well and sets the tone for future issuance and performance," says Charles van der Welle, director of treasury at ITV in London. UK accounts took 75% of the trade, with the rest distributed across Europe and Asia. Asset managers took 70% of the paper.

EMERGING MARKETS

JOINT WINNERS: BRAZIL, MEXICO

Brazil bookrunners: Banco Itau, Goldman Sachs, JPMorgan
Mexico bookrunners: CSFB; JPMorgan

Latin America led the way for innovative financing in emerging markets this year, with the most creative solutions being those that opened up the market for local currency-denominated securities, say buyers. "The best deals have been those that have focused on local markets in emerging debt," says David Dowsett, senior portfolio manager at BlueBay Asset Management in London.

2005 saw two such major deals: the first ever sovereign issue from Brazil denominated in its own currency, the real; and three series of warrants from Mexico, enabling investors to exchange Mexican-issued US dollar-denominated debt at expiry for peso-denominated bonds.

Brazil's 10-year, 12.5% R3.4 billion bond ($1.46 billion) was launched in September, brought to market by Goldman Sachs, JPMorgan and Brazil's Banco Itau. Mexico issued 2.5 million warrants (an equivalent notional of $2.5 billion of bonds) structured by JPMorgan and CSFB in November. Both deals have helped the governments of each country insulate themselves from exchange rate shocks and encouraged more international investors into their domestic markets. "Of the two, the most interesting was the Mexico deal," says Dowsett. "It's good for the development of the local currency markets; it's good for the Mexicans because it tightens up their spreads and reduces the cost of funding; and it's good for investors, as the process of reducing their external debt holdings and increasing their local currency holdings is a process they want."

For Toby Nangle, fixed-income investment manager at Baring Asset Management, it was the Brazil deal that showed real flair. As the coupon and interest payments are made in dollars at the US dollar/real exchange rate on the applicable date, part of the appeal is that it brings the investor exposure to the real – a "hot market" this year, says Nangle.

Moctar Fall, head of EM debt capital markets at JPMorgan, the bookrunner on both winning deals

Brazil and Mexico scored a number of firsts with their deals. Brazil's was the first government bond issued in the real, following corporates such as Banco Bradesco, and Eletropaulo Metropolitana. The month after the sovereign issue, Moody's upgraded Brazil to Ba3 from B1 citing its "newly acquired resilience" to political shocks, and prompting some analysts to predict that Brazil could reach high-grade status within two years.

Mexico's offering represents the first time an emerging market sovereign has used a stand-alone warrant to facilitate an exchange transaction or issued a tradable instrument that allows investors to switch external debt into local markets.

credit says... Local currency issues have marked the maturity of Latin American markets, and should help the region avoid the shocks it has suffered in the past. Investors piled into the paper, voting with their feet for exposure to this hot market.

RUNNERS-UP
SBERBANK, VNESHTORGBANK

Sberbank bookrunners: ABN Amro, HSBC
VTB bookrunners: Barclays Capital, Deutsche Bank, HSBC, JPMorgan

Russia's top two state-owned banks took the two runners-up slots for different yet equally innovative financing deals in 2005: **Vneshtorgbank**'s (VTB) $750 million, 3.715% 10-year subordinated deal issued on January 31, and **Sberbank**'s $1 billion three-year loan priced at Libor plus 55bp and issued on November 9.

Paul Brooker, HSBC's head of debt finance for EMEA who worked on both deals, says that each bond scored a first in its own way. The VTB deal was the first lower tier 2 deal of its kind, and opened up the market for other Russian issuers. "This had never been done before in Russia," says Brooker. Sberbank's loan was its first since the Russian crisis of 1998, and was the largest and cheapest loan ever arranged in the region. "In terms of pricing it was absolutely groundbreaking," says Brooker. The deal also "really opened up the market for other borrowers", he adds.

Steve Cook, senior credit analyst at Commerzbank, picked both VTB and Sberbank as his top emerging markets deals for 2005, but opted for Sberbank's 2015 subordinated paper issued in February instead of its loan. "The VTB 15s and Sberbank 15s both traded well in the subsequent secondary market and at times flat to their senior unsecured curves," he says.

SECURITISATION

WINNER: WHINSTONE CAPITAL MANAGEMENT

Bookrunners: Barclays Capital, Lehman Brothers

The innovative nature of Northern Rock's Whinstone Capital Management transaction presented investors with no hesitation in acclaiming it the best securitisation of 2005. The deal was the first European securitisation programme to transfer first-loss risk through a credit default swap contract.

For many investors the novel use of credit derivatives technology gave further kudos to the borrower's position as an innovator within the securitisation market. "Whinstone is not a straightforward building society securitisation issue; it is a new twist on the genre and takes structured finance to another level," says Tim Barker, head of credit research at Morley Fund Management in London.

Another advocate, Yoshio Shimizu, portfolio manager for European asset-backed securities at Fischer Francis Trees & Watts, believes other deals in the market paled in comparison this year. "By securitising the reserve funds in a very liquid and tradable form, investors were able to access a part of the capital structure that they do not normally have exposure to, and at a decent spread pick-up in comparison to current spread levels in the market," he says.

The transaction represented the largest public placement of double-B risk – £117.4 million – and one of the largest subordinated debt issuances ever in the European market. In addition, fund managers welcomed the opportunity to boost yield by buying a new form of UK prime RMBS risk as the deal allowed Northern Rock to offset more risk from its balance sheet.

David Johnson, operational director for securitisation at Northern Rock, explains that the Whinstone transaction allowed the UK mortgage lender to reference the reserve funds of 13 Granite transactions, three of which are stand-alone issues and the remaining 10 under the Master Trust programme. "The beauty of it is in its simplicity, parcelling the reserve funds and writing a credit default swap thereby transferring the majority of Northern Rock's first-loss risk to the international capital markets," he says.

David Johnson, Northern Rock

John Dziadzio, head of European structured finance origination at Lehman Brothers, explains the deal's objective was to align Northern Rock's rating agency, economic and regulatory capital requirements. More importantly he views the deal as a defining moment in the evolution of the securitisation markets.

"Whinstone was the major factor behind Standard & Poor's raising the outlook on Northern Rock, which highlights that structured finance and securitisation technology can be a key and core strategy to impact corporate objectives," he says.

credit says... Northern Rock was applauded for true innovation in securitisation technology and investors welcomed the opportunity of taking more exposure to a seasoned ABS issuer.

RUNNER-UP
FIP FUNDING

Bookrunners: Banca IMI, Barclays Capital, Lehman Brothers, Royal Bank of Scotland

The €3.7 billion **FIP Funding** transaction is a securitisation of the Italian Ministry of Economy and Finance's senior loan and real-estate fund and it won investor favour for placing the whole capital structure into the market via a public auction. "For the first time, an entire pool of commercial property was securitised, which gave investors the opportunity to buy into the equity tranche – the juicy part of the trade," says Fabrizio Viola, ABS portfolio manager at Generali Asset Management in Trieste. "The equity of the deal should be seen like a pure net present value project."

RUNNER-UP
SHIELD

Bookrunner: ABN Amro

ABN Amro's **Shield** launched just as voting closed, but even before the deal had hit the screens investors were in awe of it, mainly due to its sheer size: a whopping €22 billion. The deal is the largest ever securitisation in Europe of Dutch residential mortgage risk and represents part of ABN Amro's ongoing programme to strengthen its balance sheet.

Shield comprises €4 billion of funded notes backed by prime residential mortgages and €18 billion of credit default swaps. Investors viewed pricing as acceptable, ranging from 17 basis points over three-month Euribor for the most senior tranche to 700bp for the most junior.

STRUCTURED CREDIT

WINNER: CHEYNE CREDIT SPI

Arranger: JPMorgan

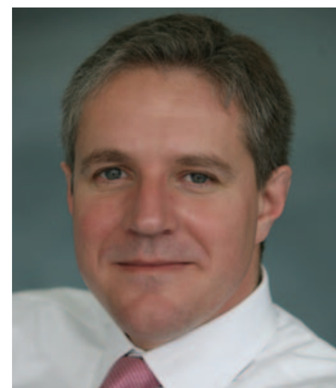
In August, JPMorgan and London-based hedge fund Cheyne Capital Management launched a novel long/short credit tranche fund with capital protection, Cheyne Credit SPI. Having collaborated on the deal since early 2005, the two partners structured and set up the risk systems around the derivatives-based transaction.

Marketed globally to structured credit investors and alternative investment accounts, the eight-year deal sold $300 million on its first closing, with 20 tickets written for 14 different investors across 11 countries in Europe and Asia. Developed to be long default risk while being relatively neutral to systemic changes in spread, the net asset value of the fund has exceeded expectations since launch with an 8.72% increase as of November 30.

The private placement deal is designed to allow for active management of default risk, correlation and spread exposure, giving Cheyne flexibility to manage actively long and short credit tranches, individual CDS positions through credit tranches, and long and short CDS names. Cheyne may trade collateralised synthetic obligations (CSOs) at any level of the capital structure (referencing their chosen portfolios), and can adjust CSO notionals, maturities, coupons, cashflows and subordination levels.

The fund is intended to generate returns through positive carry and gains from relative-value trading of individual credits; these returns are then insulated by the convex return profile achieved through the mix of long and short tranches. The fund's correlation exposure is managed through long/short tranches with different subordination levels.

Importantly, the deal also provides investors with principal protection using a similar concept to constant proportion portfolio insurance, but where direct investments are replaced with synthetic exposures. The synthetic portfolio insurance mechanism – the 'SPI' in the deal's name – relies on the value of an exposure to risk-free assets whose face value matches the protected principal at maturity, and the value of the synthetic exposure to the risky asset, which is the net asset value of the credit fund.



Oldrich Masek, global co-head of structured credit at winning arranger JPMorgan

JPMorgan retains the gap risk of the transaction – the risk that an investment's price will change overnight – and flexible leverage based on the underlying performance of the platform. The net asset value of the credit fund is determined on a daily basis, based on the performance of the managed CSO tranches.

credit says... JPMorgan and Cheyne Capital Management cherry-picked the best of the recent developments in credit and principal-protected products to structure this deal, which includes synthetic CDO tranches, long/short strategies and dynamic principal protection through synthetic portfolio insurance and highly rated collateral. The fund also seeks to benefit from market spread moves regardless of direction while keeping a neutral position to parallel correlation moves.

RUNNER-UP

EUROCREDIT OPPORTUNITIES I

Arranger: Deutsche Bank

Intermediate Capital Group (ICG) launched the first market-value CDO for the European markets in November, **Eurocredit Opportunities I**. The deal was arranged by Deutsche Bank, and invests in a broad range of leveraged debt, including senior, high-yield securities and distressed debt.

Interest in the deal was so strong that ICG enlarged the deal from the €260 million planned a month before launch to €400 million at close. Investors say that ICG's proven track record across credit cycles, as well as its reputation as a leading manager in the leveraged loan mezzanine markets in the UK, was a key attraction for the deal.

RUNNER-UP

FORT DEARBORN CDO 2005-1

Arranger: Bear Stearns

In August 2005, Bear Stearns and Vanderbilt Capital Advisors launched **Fort Dearborn CDO 2005-1**, a privately placed, managed CDO of credit default swaps referencing a $500 million pool of mezzanine US dollar residential mortgage-backed securities, asset-backed securities (ABS), commercial mortgage-backed securities, ABS CDO securities and collateralised loan obligation securities. The CDO has pay-as-you-go swaps on each reference asset with Bear Stearns. Investors were attracted to the ability to invest in a CDO of securitised assets managed by Vanderbilt's CDO team, which has a long history of managing asset-backed securities both at Vanderbilt and at predecessor firms.

DOG DEALS

For every winning deal there's a loser, and investors were not shy in nominating their pick of the worst deals of 2005. For one portfolio manager in New York, the year started badly with a toxic refinancing deal for radioactive waste disposal firm **Envirocare** in Utah. "This deal was done in January and then recapped just six weeks later, with the bank debt at 100% of the original capital structure from January," says the un-named investor. The sponsors then took out all their cash plus a dividend, leaving the investor that nominated this as the worst deal of the year wondering: "How much can change in six weeks?"

Women's clothing house **Escada** was another deal that proved to be less than fashionable with investors. According to one asset manager in London, the €200m 7.5% bonds due 2009 and 2012, issued in March, performed stronger than they deserved to, given the firm's family share ownership, reliance on cyclical, unpredictable fashion exposure and a narrow range of product lines. Nonetheless the deal performed well in the aftermarket – prompting this seething investor to comment: "It reflects badly on the European high-yield market that this bond has performed so well."

Agribusiness firm **Syngenta** reaped a poor harvest from the €500m 10-year bond it first tried to issue in April. Wading straight into choppy waters as fallout from the leveraged buyout of Danish cleaning firm **ISS** wreaked havoc with the market, it resisted calls from investors for a change-of-control covenant, and targeted pricing of 45–50bp over swaps. After switching investment banks in order to bring the deal to market, the bonds eventually priced at 50bp, and with the covenants and terms investors had wanted. Still, it left a bad taste in the mouths of buyers. "It was ridiculous that Syngenta did not believe the initial feedback from investors," says one European investor.

US publisher **Knight Ridder** brought $400 million of 12-year notes 5.75% in August, and with the company levered up to woo shareholders, bondholders were "spitting venom" on the pre-issue conference call. Price talk widened to make it more attractive to them, but the company was put up for sale just a few weeks after the bond issue. As a result the bonds, which were priced at 160bp over Treasuries at launch, were in the 300bp range by December. "Bondholders got abused," says the New York-based asset manager whose ire was raised by this particular deal.

Another dog in August, was the Dutch cable company **UPC**. Losing three points immediately on launch, investors joked that the firm's acronym stood for Under-Performing Credit.

Going into the autumn, software company **Unisys** attracted some unwelcome attention for its $550m issue, brought to market mostly to retire some existing debt early. A profit warning in October hit the bonds' performance squarely.

And as the year drew to a close, Russia's **Evrazholding** provided a foil to the success of Gazprom and Kazakh oil company TCO, which had both been a big hit with investors. The steel company – the largest in Russia – came to market in early November with $750m of 10-year notes at 8.25%. One New York-based investor complained the deal size was not well communicated and had been over-emphasised. As a result, "it traded like a dog."

BOOKRUNNER ROLL OF HONOUR

You've seen the winning deals, but which banks should be congratulating themselves on a job well done? The bookrunner roll of honour is no substitute for quantitative market share league tables – but it does indicate which banks are building the most groundbreaking deals in the market today. The result is a resounding victory for JPMorgan, which worked on no fewer than four of the nine winning deals. Indeed, the only category in which the bank is not represented with either a winning deal or a runner-up is in securitisation.

Points were awarded as follows: three points for each time a bookrunner brought a category winner to market, and one point for each time one of its deals placed as a runner-up.