



GLOBAL CREDIT UPDATE

by Dahlia Verjee, February 2010

This week has been a perfect example of the main theme and outlook we have for 2010; that is a year that will be categorised by pockets of volatility couched in a continually improving fundamental background. The week started out on a positive note with the continuance of solid new issuance across the board but the EM monetary tightening and Greek debt concerns have masked the positive macro data and improving corporate fundamentals being reported. The consolidation since September 2009 is similar to that of March-August 2004, which preceded a continued rise in the 'Growth' phase, a time which we feel has key similarities to the present market situation.

The Sovereign contagion has been the current driver of volatility across all asset classes in the last week or so. While much depends on the response of Greece and the Eurozone, we continue to believe this will not be resolved immediately and therefore will continue to be a market focus until it is no longer seen as a systemic threat, but an idiosyncratic situation. We believe that the rest of Southern Europe and Ireland are considerably less vulnerable than Greece given their lower government financing requirements. Nevertheless, domestic retail banks in Southern Europe remain vulnerable to widening CDS spreads if contagion spreads. With US unemployment data due out later today, any outlier numbers will drive the market but near consensus may stabilise things in the short term as the focus on the macro data will shift attention back onto the fundamentals.

As we had anticipated a more volatile trading environment going into the end of 2009, with a continued focus on capital preservation we have been positioning across the portfolio to take advantage of this current situation and shifting risk reward. We have used periods of market strength earlier in January to take profits on positions that have benefitted from significant tightening and in which we see limited potential for further upside. This in turn allows us to take advantage of the current noise and risk aversion to rotate into stronger conviction calls at more attractive entry levels, often benefitting from an overall better credit rating across the portfolio, and in many cases, a better position in companies' capital structure from the perspective of the bond investor.

We have also used periods of market strength this year to put on low-cost macro hedge strategies via instruments that we believe deliver the most effective and efficient hedge to the overall portfolio. These would include option structures on credit indices, equity indices and treasuries. Typically, these hedges express our view that whilst the market will remain volatile, the upper and lower bounds of the trading range we have witnessed over the last 6 months will broadly stay intact.

Biographies



Dahlia Verjee
Senior Trader

Dahlia joined Thames River Capital in December 2009. Previously she was at Deephaven Capital Management as a Trader focused primarily on European HY and leveraged loans. Prior to Deephaven, she was a Trader/Analyst at DB Zwiir (UK) / ZS Capital (UK) focusing on European HY and IG Credit and she held positions at Close Brothers Corporate Finance and Ernst & Young. Dahlia has a MA (Cantab) Philosophy from Downing College, University of Cambridge and Management Studies Tripos from Judge Institute, University of Cambridge. She qualified as a Chartered Accountant in 2003.



Stephen Drew
Fund Manager

Stephen joined Thames River Capital in May 2009. He was previously at Tudor Capital where he worked from 2003 to the end of 2008. Stephen managed a Relative Value Credit portfolio, and produced strong returns for most of that period. He also developed extensive risk management tools during his tenure there. Initially he focussed on European and US credit before broadening out into all credit, fixed income and equity instruments. Stephen's investment approach is fundamentally research driven, with thematic macro hedging. Prior to Tudor Capital, he worked at JP Morgan Chase as co-head of European Credit Trading. Prior to 1999, he held trading positions at Paribas, Lehman Brothers and Salomon Brothers. He has a BSc (Mathematics) from Newcastle City University.

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