

► WINNER

EUROPEAN CREDIT MANAGEMENT

THE FLEXIBILITY it offers clients to choose their own benchmark or interest rate risk is one of the characteristics that has earned European Credit Management its second successive award in this category after barely six years of existence, according to managing director Stephen Zinser.

ECM, which manages 11 pooled products and one segregated account, acquired 94 new clients and €4.57bn in net new assets last year, taking total assets under management to €11.6bn. Says Zinser: "Flexibility is one of the things that have enabled us to win business. They choose their own benchmark or interest rate exposure, to which we add alpha through management of credit risk."

Founded in 1999, ECM specialises exclusively in European fixed income. Zinser notes: "Our focus is on credit analysis, fundamentals, and portfolio analysis to develop strategies. I think we're unique [in the European fixed income field] in having so many people focused on just one thing."

"We don't do FX, we don't do interest rates and duration, we only look at credit spreads. Big firm or little firm, that's one of the largest numbers of people looking at a single asset class."

Zinser emphasises the firm's rapid growth but also its continuity at the top. ECM hired more than 20 people in the course of 2004 and the staff now totals 90, including 14 on the research side, but no senior investment professionals have left over the past three years.

According to head of research Joe Biernat, ECM's philosophy is very tied into its investment process. He says: "A top-down view of the economy and where spreads are going are a very important part of every investment decision. We subject every credit in our portfolio to rigorous analysis."

"We look at every source of information out there, such as rating agency reports. Before we buy anything for the portfolio we conduct fundamental analysis, as you'd expect, of the annual report and the offering memorandum. But, very importantly, we meet with everybody we're about to put in the portfolio on a one-on-one basis, generally here in our office. We establish a rapport with management and we talk to them regularly thereafter."

"It's time-consuming but it's absolutely critical. It's very important, particularly on the investment-grade portion of the portfolio, not to have major blow-ups. We avoid it by rigorous diversification within the portfolio, and by very carefully scrutinising everything in

it. Everybody on the investment committee is expected to work together to avoid mistakes."

The investment committee numbers no fewer than 22 portfolio managers and research professionals, whom Biernat says bring "complementary but distinct skills" to the process. He adds: "Many people in the company have multi-year experience on the sell side, and they're good at relative value, particularly on the investment-grade side but also high yield."

"Adding together the two skills of relative value and fundamental credit in the reviewing of the portfolio every day leads to a better performance in good times and bad than a classic benchmark manager making underweight and overweight decisions. The guts of our business - the discipline and value of total return - is in our view the secret of our success."

Zinser expects ECM to continue to grow strongly. "I think that both in credit and equities, we're looking at a lower-return world, but historically we have the ability to produce good returns in times of both high and low volatility."

HIGHLY COMMENDED: T. ROWE PRICE

The European bond team at T. Rowe Price emphasise the rigour of their investment approach. Says David Stanley, a vice-president responsible for selection and credit analysis of European corporate bonds: "It's a very clean product. We invest 100% in investment grade corporate euro-denominated bonds. We do not invest in high yield or any crossovers."

"A lot of potential investors who are asset allocators don't necessarily want us to have some exposure in high yield and not necessarily know what they're going to end up with."

"If people want high yield, they can make a separate allocation."

According to Stanley, T. Rowe Price's corporate bond business relies very much on in-house research. "I think we've done a good job in integrating members of the team in London and New York," he says, "through regular meetings as well as the transfer of staff."

HIGHLY COMMENDED: WESTERN ASSET MANAGEMENT

Jim Hirschmann, chief executive of Western Asset Management, stresses the importance of the firm's team structure - 54 investment professionals at the end of last September - as a key differentiating factor, and notes that Wamco has not lost an investment professional to a competitor for more than 10 years.

Adds deputy CIO Steve Walsh: "Having a team approach sounds like a great marketing pitch, but investment decisions, whether taken by the investment desk in London, Pasadena or Singapore, are really made as a group. We encourage a lot of input into the major decisions we make and the investment themes we adopt. It's not just having a team of good people, it's utilising them and giving them an opportunity to contribute to our strategy." 