

Prudential M&G



European Leveraged Loan CDO Asset Manager Profile

[CAM Ratings Definitions](#)

Prudential M&G (M&G) is the institutional marketing division of M&G Investment Management, a subsidiary of Prudential PLC. As of December 2006, M&G had EUR262bn of assets under management (AUM). M&G has been an active collateralised debt obligation (CDO) manager since 2001. It is now one of the largest and longest established multi-asset European CDO asset managers with 18 CDOs totalling EUR5.0bn under management.

M&G's CAM rating reflects the significant experience of M&G in CDO management, resulting from the long-term commitment to the CDO platform and the clearly articulated investment strategies supported by thorough credit research and monitoring practices, which are effectively leveraged in the administration of its CLOs. The rating also addresses staffing breadth and depth in all areas. M&G has successfully delivered superior performance of its collateralised loan obligations (CLO) under management.

Corporate Information

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CDO Contact

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Employees:
>1,400
(worldwide)

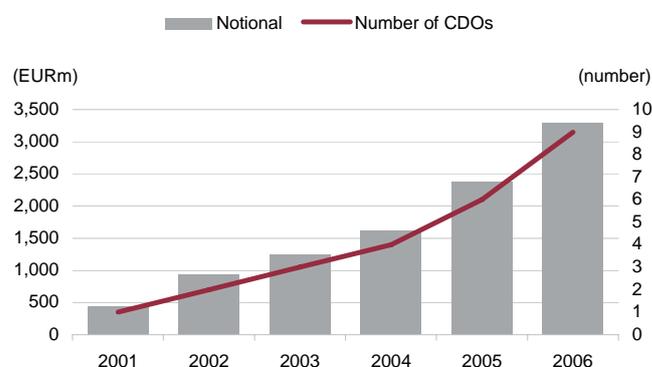
Year Founded:
(1931) 1999
FSA regulated

Leveraged Finance Contact

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130
investment
professional

CLOs & Multi-Asset CDOs Under Management



Source: Fitch

CLOs & Multi-Asset CDOs Under Management as of March 2007

Name	Closing	Structure	Primary Asset Type	Original Size
Panther I	Feb 2001	Cash Flow – Multi-Asset	European IG Bonds, Secured Loans, HYBs, ABS	GBP300m
Panther II	Jan 2002	Cash Flow – Multi-Asset	European IG Bonds, Secured Loans, HYBs, ABS	EUR500m
Leopard I	Jan 2003	Cash Flow – CLO	European Senior Secured and Mezzanine Loans	EUR307m
Leopard II	Apr 2004	Cash Flow – CLO	European Senior Secured and Mezzanine Loans, HYBs	EUR375m
Leopard III	Apr 2005	Cash Flow – CLO	European Senior Secured and Mezzanine Loans, HYBs	EUR350m
Panther III	Sep 2005	Cash Flow – Multi-Asset	European IG Bonds, Secured Loans, HYBs, ABS	EUR400m
Cougar I	Dec 2005	Cash Flow – CLO	European Senior Secured and Mezzanine Loans, HYBs	EUR140m
Leopard IV	May 2006	Cash Flow – CLO	European Senior Secured and Mezzanine Loans, HYBs	EUR384m
Panther IV	Dec 2006	Cash Flow – Multi-Asset	European Property B Notes, Secured Loans, HYBs, ABS	EUR400m
Total				EUR3,750m

Strengths

- Demonstrated credit selection supported by quality research and monitoring processes and extensive collateral access.
- Seasoned and established CDO manager with a strong commitment to the CDO platform.
- Extensive CDO administration capabilities with deep resources.
- Superior performance of CDOs under management

Challenges and Mitigants

- To maintain stability of staff in spite of a high demand for experienced staff in the leveraged loan market.
- To maintain investment discipline and a solid CDO performance track record through a downturn in the leveraged finance market.

Descriptive Profile

Company and Management Experience, 1

- Building on its strategic fixed income presence (48% of AUM) and credit expertise, M&G entered the CDO market in 2001 and has rapidly become one of the leading multi-asset CDO managers in Europe.
- M&G started to invest in European leveraged loans (LL) in 1999 and, as at January 2007, had EUR4.1bn of LL under management (45% being invested in CLOs).
- Senior management and portfolio managers have extensive industry experience and typically have long company tenures.

Staffing, 1- (1 minus)

- M&G employs 14 people in the structured credit products team (headed by D. Kent Kershaw) responsible for CDO management and 14 people in the leveraged finance team (headed by J. Foy).
- LL research analysts have an average of approximately nine years experience with two years of company tenure.
- Portfolio managers are supported by seven administrators who are in charge of all CDO operational management aspects.
- The core structured credit and leveraged finance teams demonstrate a good stability.
- Organisational size, structure and staffing resources reflect strong depth at all levels within the organisation.

Procedures and Controls, 1

- M&G has scalable and documented processes, providing support to a robust internal control environment.
- Various levels of committee oversight and strong control functions ensure that controls are effectively implemented.

Portfolio Management, 1- (1 minus)

- M&G has adopted a cautious and selective investment approach formalised in credit committees, with portfolio managers retaining the final investment decision.
- M&G has superior sourcing capabilities stemming from strong relations with arrangers and private equity sponsors since 1999 combined with an ability to buy large volumes across the capital structure.
- M&G operates a two-step investment analysis, with a "feasibility study" and a full due diligence stage. Rejection rates are approximately 45% at the "feasibility study" stage, rising to 55% of the investment universe at the full due diligence stage.
- Credit opinions are well documented and provide the necessary parameters to establish an informed decision-making process.
- Around 120 leveraged loans are monitored formally via a six-monthly review of all loans, and more frequent monitoring of watchlist names through a problem credit committee.

CDO Administration, 1

- M&G has excellent CDO administration capabilities, as reflected by the use of robust modelling tools, and through smooth interaction and reconciliation with the trustee.
- Trustee reports are supplemented by detailed portfolio manager commentaries.
- There is daily reconciliation with the trustee.

Technology, 1- (1 minus)

- The CDO team is supported by the 55-strong M&G IT department, providing extensive technological support.
- M&G runs Wall Street Office (WSO) for loan management and recording.
- In 2007, M&G completed the roll-out of CDO Sentry as a replacement CDO management system for CDO Net.
- WSO and CDO Sentry are standalone systems, but are integrated with various internal database and data providers.

CDO Performance, 2+

- The performance of M&G's leveraged loan portfolio has been robust, with no loan defaults in any of the CDO portfolios to date.
- Overcollateralisation (OC) tests have remained in compliance in all CDOs referencing loans to date, with OC cushions improving in the loan-only portfolios, indicating consistent par building.
- Interest coverage (IC) tests are stable in all CDOs, although there have been breaches of portfolio quality tests in some of the multi-asset CDO portfolios.
- Trading has been effective, allowing M&G to trade out of deteriorating credits early.
- Ratings of the issued notes have been stable, with the junior notes of Panther I upgraded in June 2006.
- Substantial distributions have been made to the equity holders of both the loan-only and multi-asset CDOs.

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For additional information, please see the CDO Asset Manager (CAM) report, available on the Derivative Fitch web site at www.derivativefitch.com.