

Preparing to pounce

Infrastructure readied in expectation of asset price bottoms

Distressed asset prices are said to be nearing the bottom, as evidenced by the number of new investment funds preparing to enter this space within the next few months. However, industry calls for enhanced control and risk monitoring within structured finance portfolios means that asset managers will need to have the appropriate technology and infrastructure in place before doing so.

Doug Long, evp, business strategy at Principia Partners, says that the emergence of a number of new investment funds and signs from hedge funds that they are looking at this area suggests that asset prices have hit, or are close to hitting, the bottom. Pension funds and insurers are targeting long-term investments in this space via distressed debt funds, while some on-balance-sheet operations within banks – especially those that have more capital – are beefing up their operations in and exposure to the asset class.

"There is a wave of investors getting ready to invest in structured finance assets at distressed levels, but nobody is going to get a mandate to invest without the right controls and surveillance in place," Long notes.

According to one credit opportunity fund manager, the implementation of suitable technology is of the utmost importance for his fund, which invests in both corporate and structured credit assets. Meanwhile, industry policy groups – such as the Counterparty Risk Management Policy Group – have also highlighted the importance of increased control within structured finance portfolios, as well as enhancements to the risk monitoring and management of such on- and off-balance sheet exposures.

Principia is one vendor that has updated its offering in an attempt to address such demands, by introducing Principia SFP (Structured Finance Platform) Version 6. The offering is expected to be implemented by a range of organisations – managers within bank treasuries, off-balance sheet operations and investment funds, and especially those that have to quickly adapt themselves to the new environment.

"The industry bodies have given their recommendations, and now it is the responsibility of the banking organisations and service vendors to provide the suitable infrastructure. We are providing an operational backbone, but we need to see all sectors of the market acting together. This is key to giving organisations the ability to restore investor confidence," comments Long.

But not all market participants are convinced that structured finance asset prices have reached their ultimate lows. According to the credit opportunity fund manager: "I believe that asset prices reaching the bottom will be indicated by an uptick in transactions, both in the primary and secondary market."

He concludes that, while his fund has begun investing in distressed structured credit, his firm is in absolutely no rush to buy such assets.

Anna Carlisle