

AFP® Annual Conference



— November 7-10, 2010 | San Antonio —

ORIGINAL
ESSENTIAL
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INFORMATION



Approaching Credit Decisions in a Post-crisis Environment

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SVB Asset Management

Agenda

- Common approaches and challenges faced by corporation and asset managers
 - Optimizing diverse information channels and analytical tools
 - Avoiding potential conflicts of interest with outside vendors
 - Importance of independent corporate cash-focused research
 - Creating a corporate cash management-focused credit process
 - Identifying suitable issuers and implementing a surveillance process
-

Any Questions?

Most presentations end asking “Any Questions?” Ours begins with this approach:

You should have a lot of questions as you approach credit decisions.

Pre-2007 Approach

- What do Moody's and Standard and Poor's say about credit risk?
- Write a credit policy based on published credit ratings and follow the rule.

Post-2007 Approach

- How should our company conduct an internal credit review?
- How current does the information we rely on have to be?
- How often should we perform credit checks?
- What is the staff time required to adequately assess creditworthiness?

Use of Metrics

- Liquidity ratios
- Working capital as a percentage of sales
- Cash as a percentage of short term debt
- Quick ratios
- Current ratios

Recent News – Warning Signs

- Late filings of financial statements
- Lenders renegotiating terms
- Delisting threats
- Executives resigning

Check Credit Every Sale or Purchase

- Check credit each time rather than relying upon a once-a-year check
- Review credit more rigorously if payment terms are extended or purchase of a security is of a longer tenor
- For investment purchases, ask for the prospectus and then read it

Sample of Credit Vendors

- Dun and Bradstreet
- Investortools, Inc.
- Credit Risk Monitor
- Credit and Management Systems, Inc.
- Experian

Identifying a Philosophy

Know where you're going via:

- Direct access to a buy-side-only credit team
- Direct access to a true portfolio manager
- High transparency on risk, compliance and credit

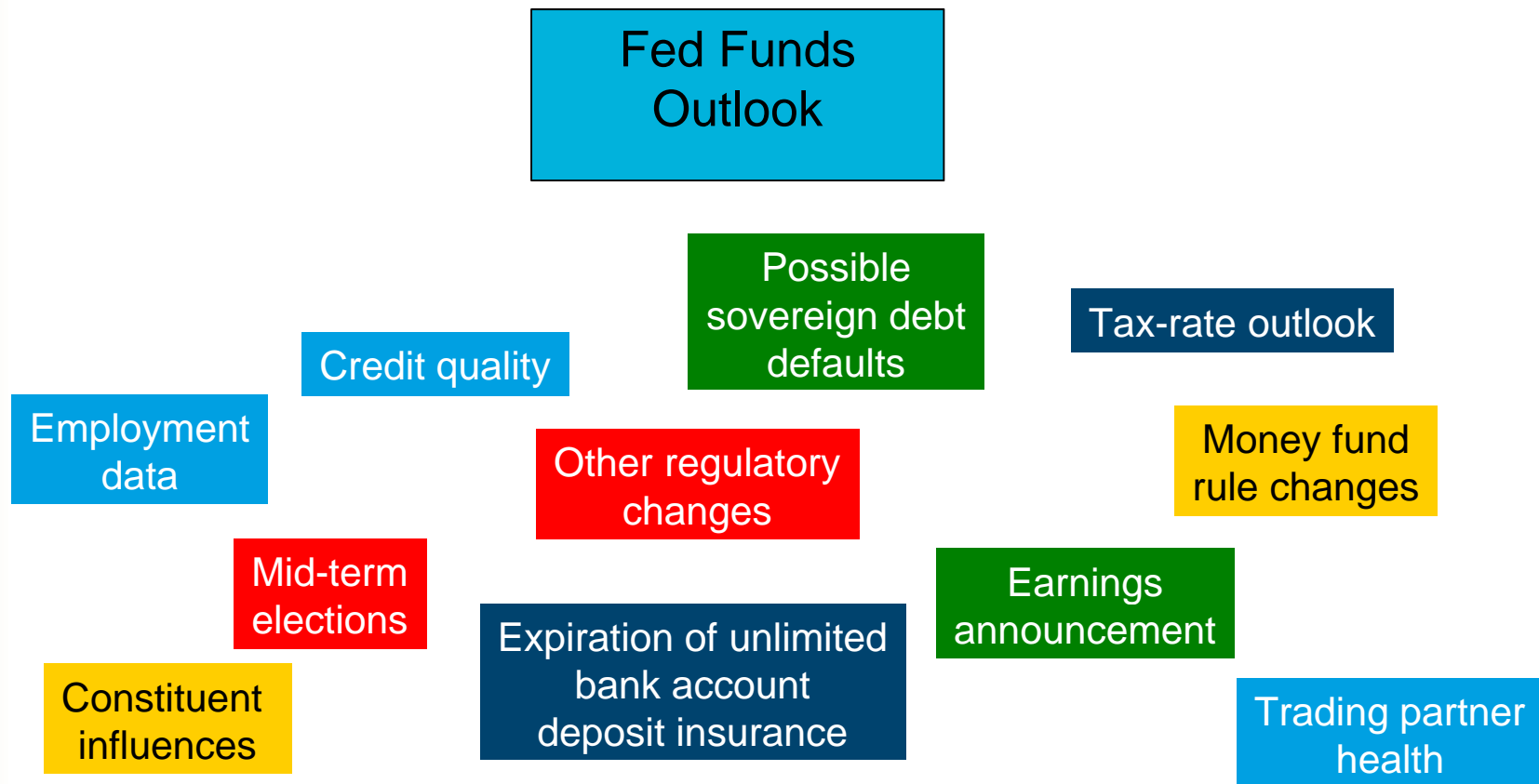
Communicate with boards, committees and peers via:

- Demonstrated oversight
- Clear understanding of the fundamental risks of each investment type
- Digestible ways of communicating risk

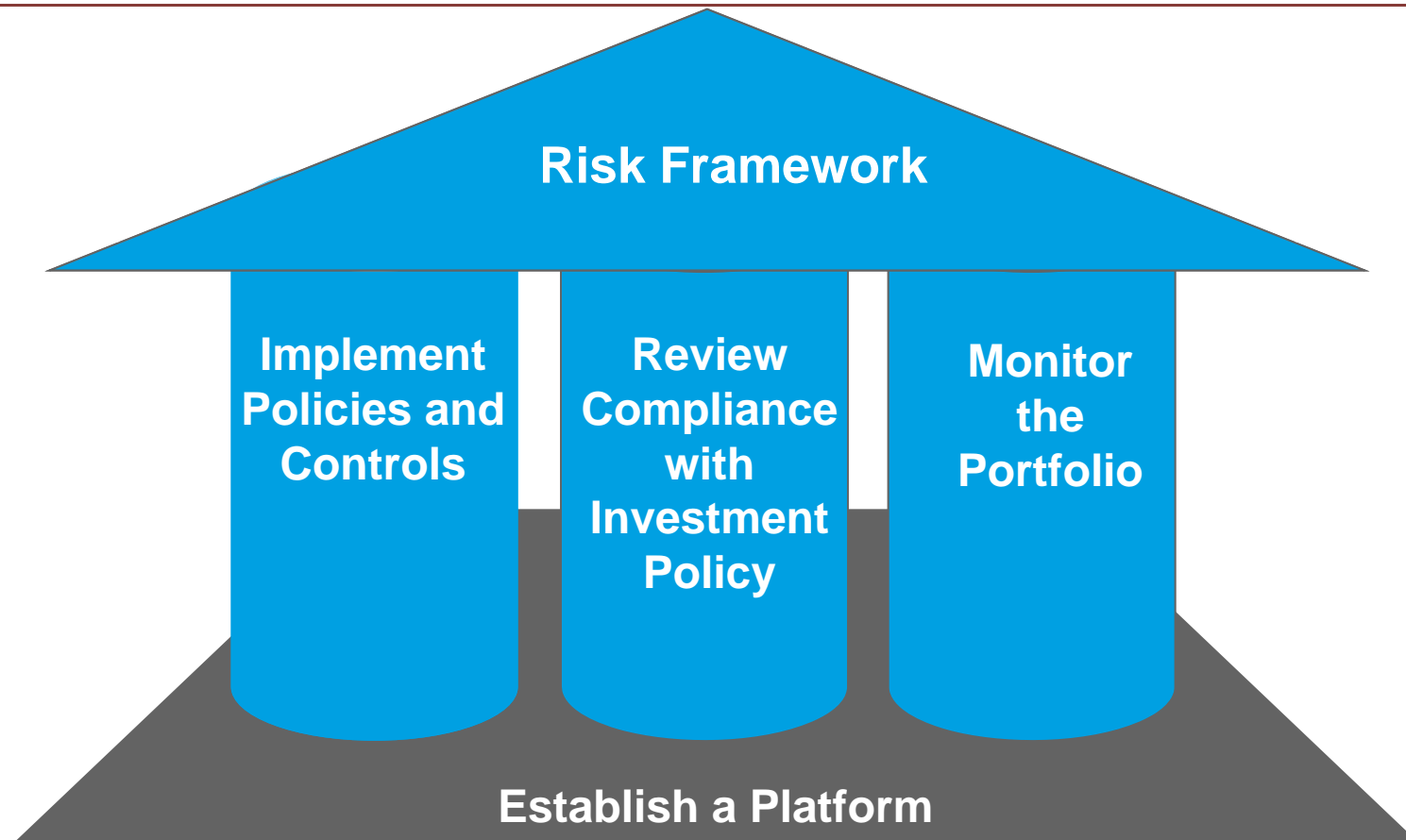
Raise your value by:

- Eliminating the “Don’t know what you don’t know” phenomenon
 - Abolishing the need to “trust” managers to do the right thing
 - Being able to drive more return per unit of risk
-

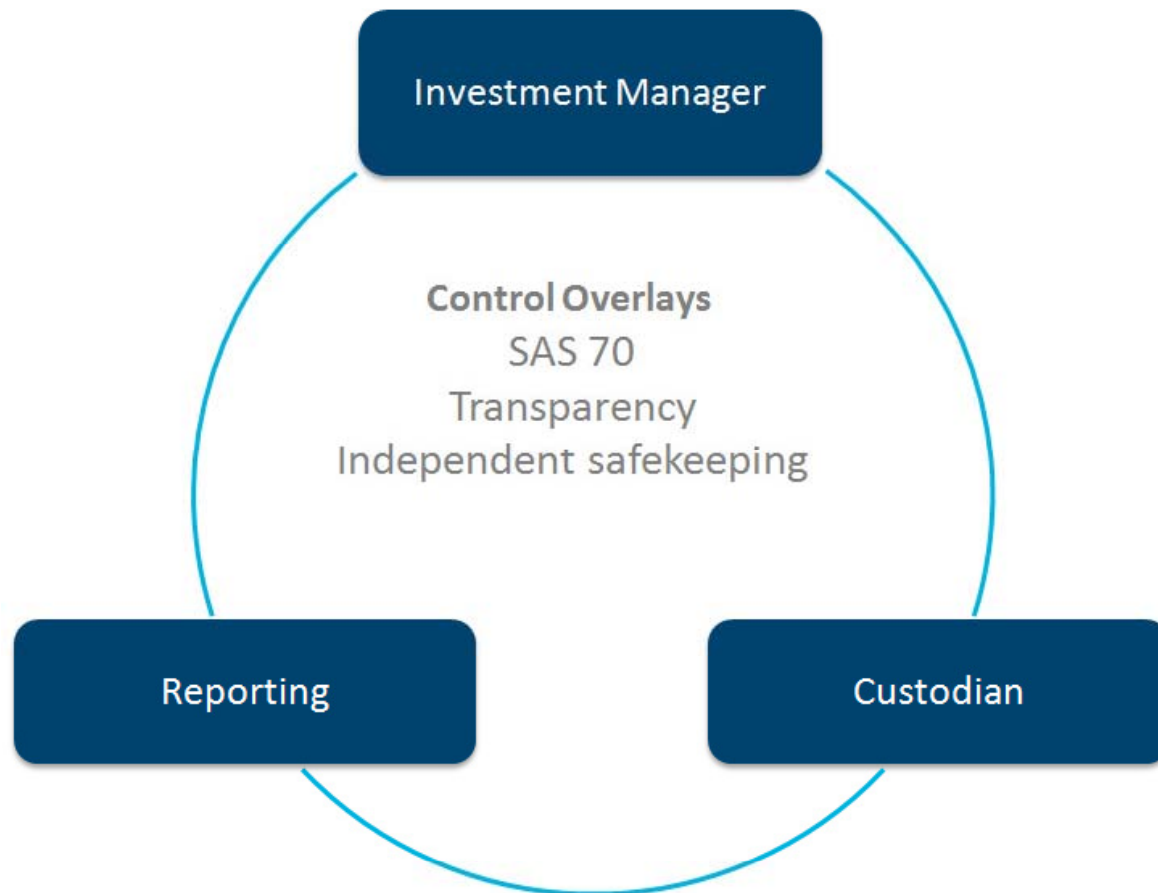
Know the Key Factors Affecting Your Portfolio



Risk Framework: Policies and Controls



Risk Framework: Control Overlays



Risk Framework: Daily Compliance and Credit Quality Verification

Compliance Guidelines

Overview Accounting Compliance Risk Performance User Settings Feedback Reconciliation Logout

Index: ML 3 Month T-Bill (G001)

Investment Style: Enhanced Cash

Compliance Status: **Non-Compliant**

Daily investment policy compliance analysis.

Expand All Collapse All

Duration

	Limit	Actual
Max Maturity from Settle (in years)	3.000	3.005
Weighted Average Maturity (type 6)	1.500	0.617

Sectors

Credit

☐ S&P Only

☐ Moody's Only

☐ Higher of S&P and Moody's

☐ Lower of S&P and Moody's

☐ Fitch Only

☐ Highest of S&P, Moody's, and Fitch

☒ Lowest of S&P, Moody's, and Fitch

Changing this setting will also change your Ratings Usage assumption that is used to compute the account's average credit rating.

	Limit	Actual
Investment Grade	100.000 %	100.000 %
Non-Investment Grade	0.000 %	0.000 %
A-1+ / P-1	100.000 %	0.000 %
A-1	100.000 %	0.000 %
Split	0.000 %	0.000 %
A-2 / P-2	0.000 %	0.000 %

Concentration

Currency

Liquidity

Undo Save

Each investment policy parameter tracked against its allowable limits. Keep historical violations on record.

Your Asset Managers' Credit Platforms – The Importance of an Independent and Dedicated Team

Focus

- Capital preservation, sufficient liquidity
- Credit oversight without divided loyalties
 - Do they have a dedicated corporate cash investor perspective
 - Are their approved issuers 'the last word'
 - Who decides when to sell?
 - Credit decisions entirely independent from portfolio structuring
- Emphasis of fundamental analysis of a smaller number of asset classes, in the high-grade, highly liquid corporate cash investments universe

Goals

- **Know the answer to the question:** "If committees need to discuss the credit risk of individual investments, should my manager be making such investments?"
 - Avoid default risk & liquidity traps
 - Minimize downgrade risk & headline risk
 - Cash investment risk has small upside, tremendous downside.
 - Never lose sight that shareholders and boards want firms to focus on business risk.
-

Demand Direct Access and Timely Support

Ensure communication and service level agreements by having managers:

- Provide direct access to credit for audit support and portfolio reviews
- Commit to 'real time' communication of rating downgrades, focusing on rating updates, analysis and recommendations
- Provide credit write-ups upon request

Credit Process: Disciplined and Methodical

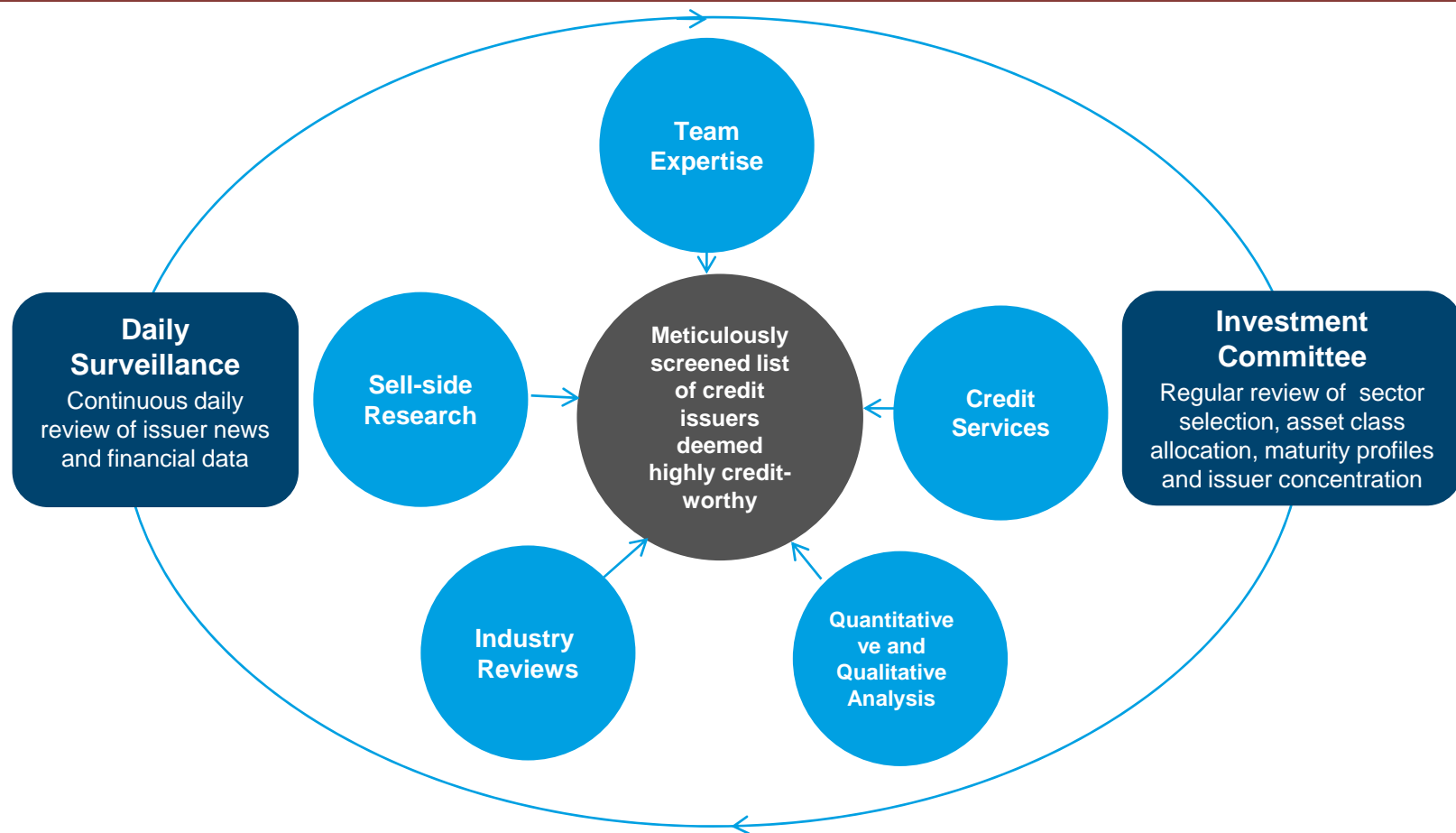
Identify suitable issuers and then ensure fit with clients' investment policy

Thorough in-depth research and rigorous decision-making process

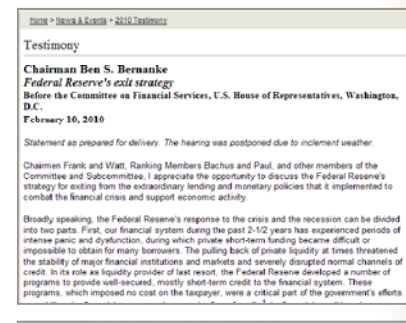
Established controls within systems and processes

Ongoing surveillance of issuers and their industries and when to sell procedures

Continual Surveillance and Proactive Action: Crucial When there is a Relevant Market Event



- Securities and Exchange Commission (SEC)
- Federal Reserve
- Treasury Department
- Federal Deposit Insurance Corp (FDIC)
- House Committee on Financial Services
- International Monetary Fund
- Senate Committee on Banking, Housing, and Urban Affairs
- European Central Bank
- Federal Housing Finance Agency



CREDIT RESEARCH

U.S. CREDIT ALPHA

Event Risk Rears Its Not-So-Friendly Face

Standard

Credit market sentiment improved as peripheral concerns faded and bond expectations rose, but the real estate, in particular, remains a concern.

Investment Grade: Credit Alpha

Although the IG sector has been highly volatile, the impact of the event on the overall market has been limited. The market has been able to absorb the shock of the event, and the overall market has been able to maintain its focus on the real estate sector.

Situation Room

Fan and Exit

Investment Grade: Credit Alpha

Although the IG sector has been highly volatile, the impact of the event on the overall market has been limited. The market has been able to absorb the shock of the event, and the overall market has been able to maintain its focus on the real estate sector.

Barclays Capital

Money Fund Intelligence

February 2010

SEC Passes New Market Fund Rule

SEC Chairman Mary Jo White announced that the SEC has passed a new rule for money funds. The rule is designed to strengthen the regulation of money funds and to provide investors with more information about the risks of investing in money funds.

Credit Suisse

Media Release

Credit Suisse Group AG

February 2010

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Fitch Ratings

Media Release

Fitch Ratings

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Corporates

Market Pulse

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J.P.Morgan

Toyota

Toyota

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Moody's

Moody's Investors Service

Moody's

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Weekly Credit

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Global Credit Portal

Global Credit Portal

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Third-party research reports and rating agencies' updates

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 Association for Financial Professionals®

Identify Issuers – Key Criteria for Approved Issuers

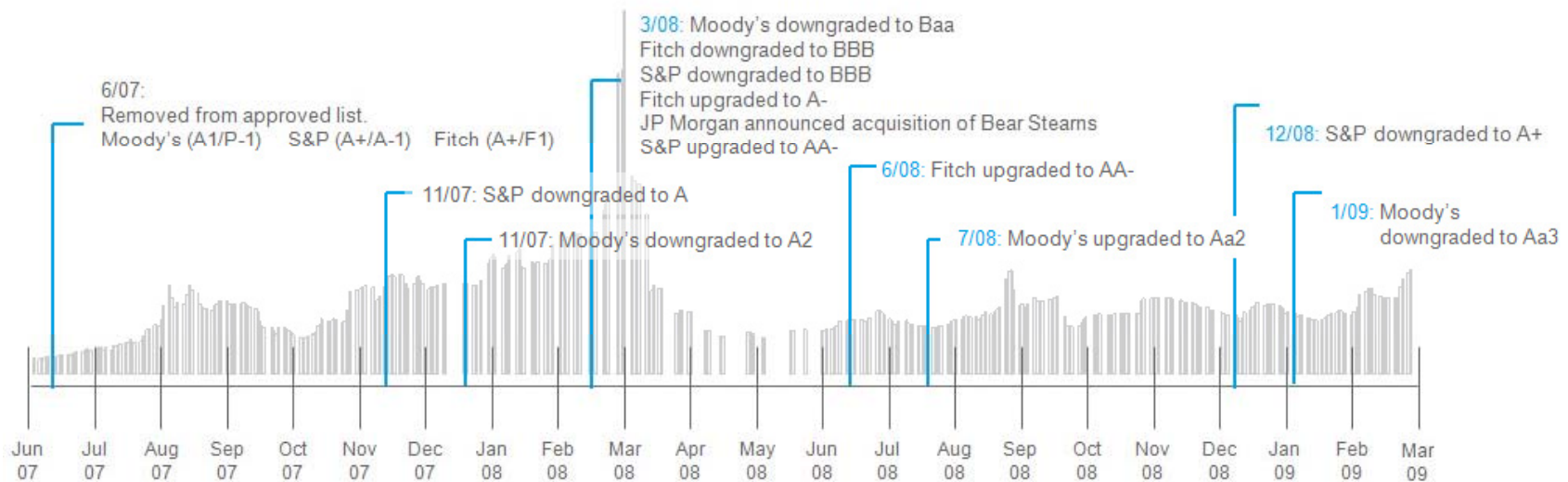
Keep Every Dollar Safe (KEDS)

1. Understanding of the business
2. Strong franchise value
3. Diversified business lines
4. Strong balance sheet and cash flow generation
5. Strong liquidity profile
6. Robust capital to absorb downturns
7. Management with solid track record
8. Minimal headline risks
9. Quality and timeliness of the disclosure
10. Strong collateral performance and sponsor's interest alignment for asset-backed securities

11. Knowing when to sell vs. when to stop buying

SVB Asset Management

Credit Process in Action: Bear Stearns Downgrade

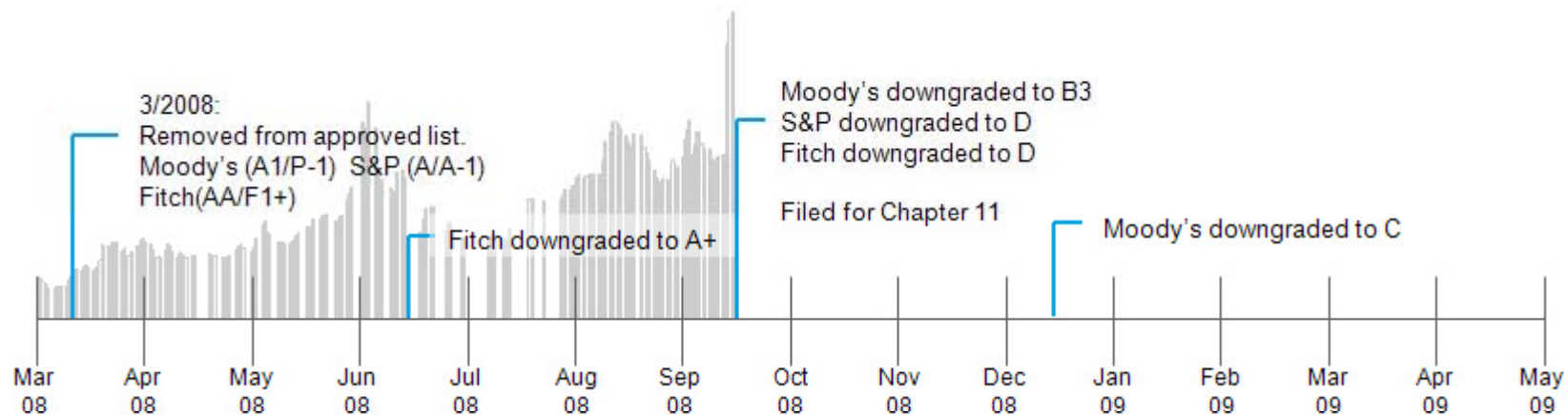
**BEAR
STEARNS**

*Graphs show relative volatility of the 5-year CDS spread (benchmark to gauge credit risk linked to bonds or loans). Source: Bloomberg

SVB Asset Management

Credit Process in Action: Lehman Brothers Downgrade

LEHMAN BROTHERS



**Graphs show relative volatility of the 5-year CDS spread (benchmark to gauge credit risk linked to bonds or loans). Source: Bloomberg*

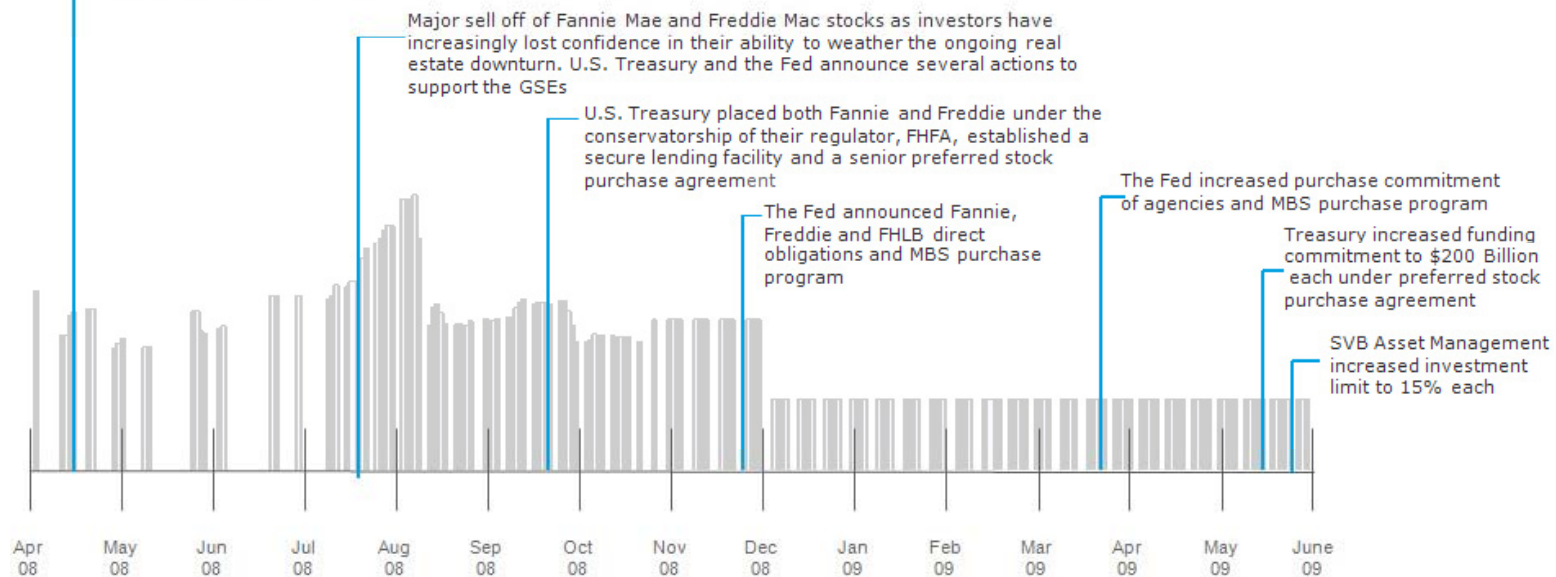
SVB Asset Management

Credit Process in Action: Fannie Mae and Freddie Mac



4/2008: SVB Asset Management imposed investment limit for Fannie Mae and Freddie Mac to 5% each due to significant deterioration in financial performance, headline and funding risk concerns.

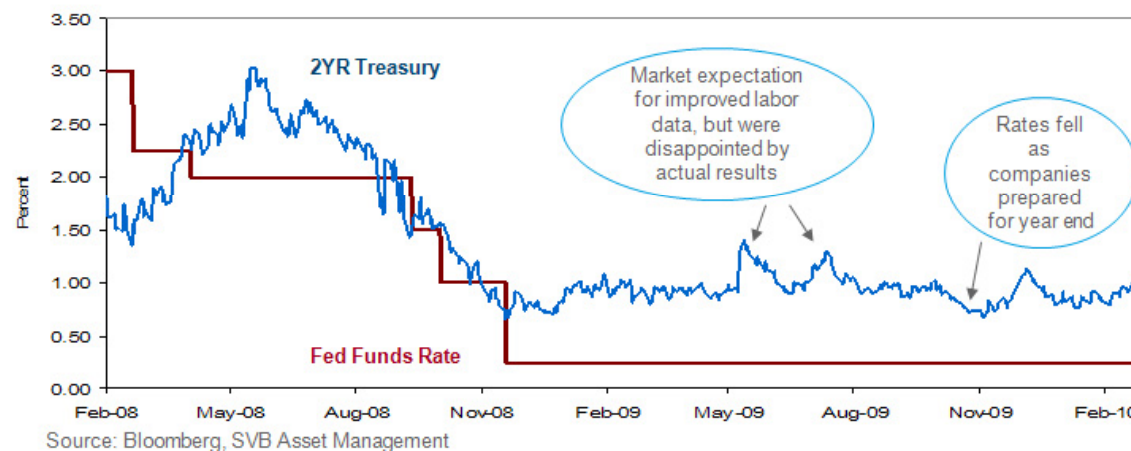
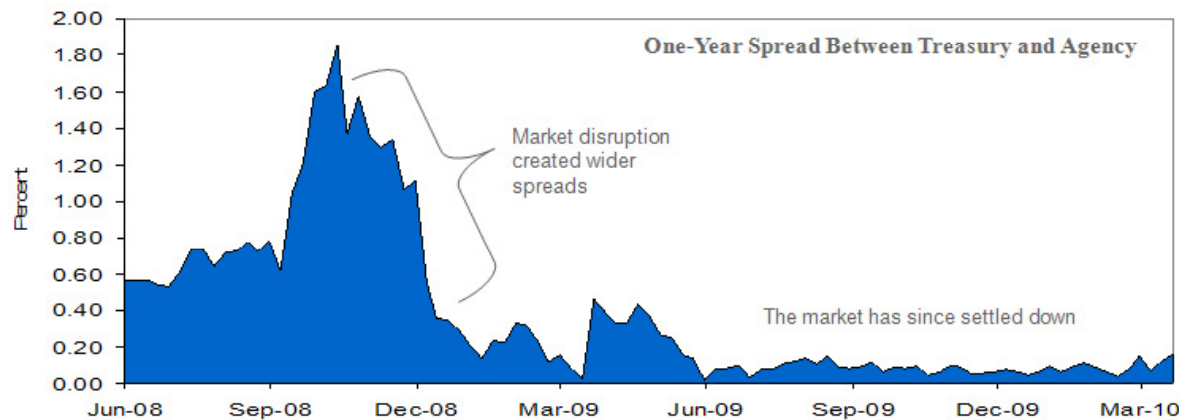
Moody's - Fannie Mae (Aaa/P-1) - Freddie Mac (Aaa/P-1)
S&P - Fannie Mae (AAA/A-1+) - Freddie Mac (AAA/A-1+)



Fannie and Freddie's CDS are no longer traded since placed under conservatorship

*Graph shows relative volatility of the 5-year CDS spread (benchmark to gauge credit risk linked to bonds or loans). Source: Bloomberg

Spread History and Market Volatility are Important Liquidity And Credit Considerations



Money Funds Were Not Created Equal, but They Became that Way...

- **Money funds are significant credit intermediaries or quasi banks but without:**
 - FDIC guaranteed deposits
 - Regulatory and capital rules
 - With homogenous asset concentration
 - With less certainty of liabilities (withdrawals) relative to assets
 - With future exposure to a currently unknown risk (or perceived risk) that affects each one of your peers as well
- ***The susceptibility of money funds to investor flight risk have not been addressed by SEC***
- **The “Bottleneck Effect”**
- ***Because of these disadvantages, in addition of understanding a fund’s risk mitigation efforts, these factors matter :***
 - 1) *The solid integration into a larger financial provider*
 - 2) *Your ability to gain access to the fund provider*
 - 3) *The independence of the fund provider from your asset manager*

Surveillance of Money Fund Providers Requires the Same Rigorous Due Diligence

- **Assess:** Proactively assess strength and stability of the funds in changing economic environment
- **Review:** Conduct regular reviews of liquidity profiles, investment exposures, asset allocations, funds risk metrics and fund asset stability
- **Communicate:** Maintain regular communications with fund managers to review strategies and shareholders' concentration, and assess preparedness in changing economic environment
 - Fact sheet, holdings list
 - SEC letter, ICI website

Conclusion

- Redefine your philosophy based on the possible use of the funds
- Create a comprehensive strategy beginning with a Fed outlook and followed by other major decision points
- PLUG IN - and don't expect to unplug until your cash is gone
- Constantly re-evaluate both your decisions and the decisions of your investment partners

What you need to do

- Stay on top of your portfolio
- Satisfy auditors
- Present to the board
- Perform due diligence
- Be up to date in the market
- Be aware of your relationships

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Questions?

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Resources: SVB Asset Management publishes newsletters, advisories and commentary about the latest economic and investment developments.

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