



“Non-traditional strategies for investing in Asia”

CDOs Re-visited

Sng Tong Yew

19th February 2008

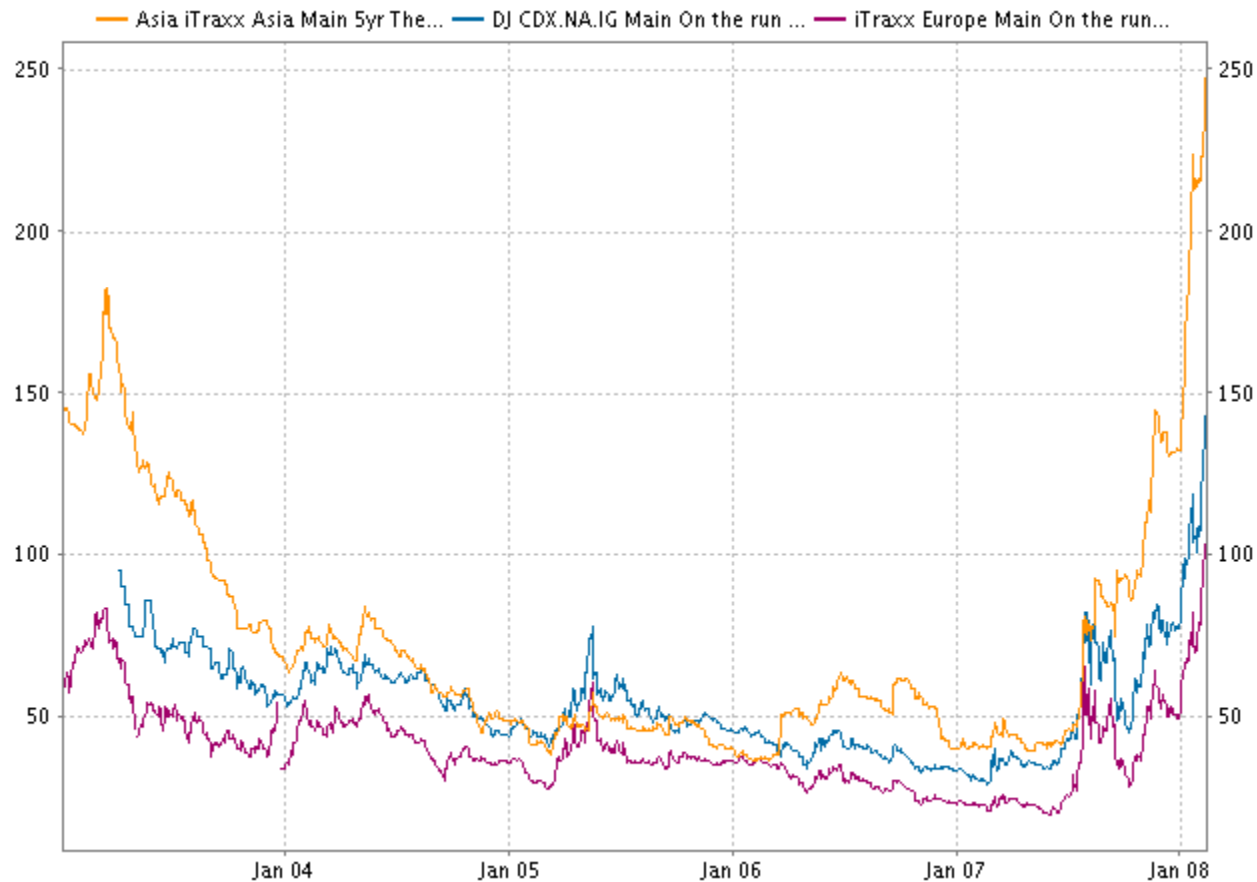
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The Rise in Credit Risk

- ◆ Explosion in Perceived Market Risk (Phase 1).
- ◆ Rise in Idiosyncratic Risk (Phase 2).

Explosion in perceived market risk

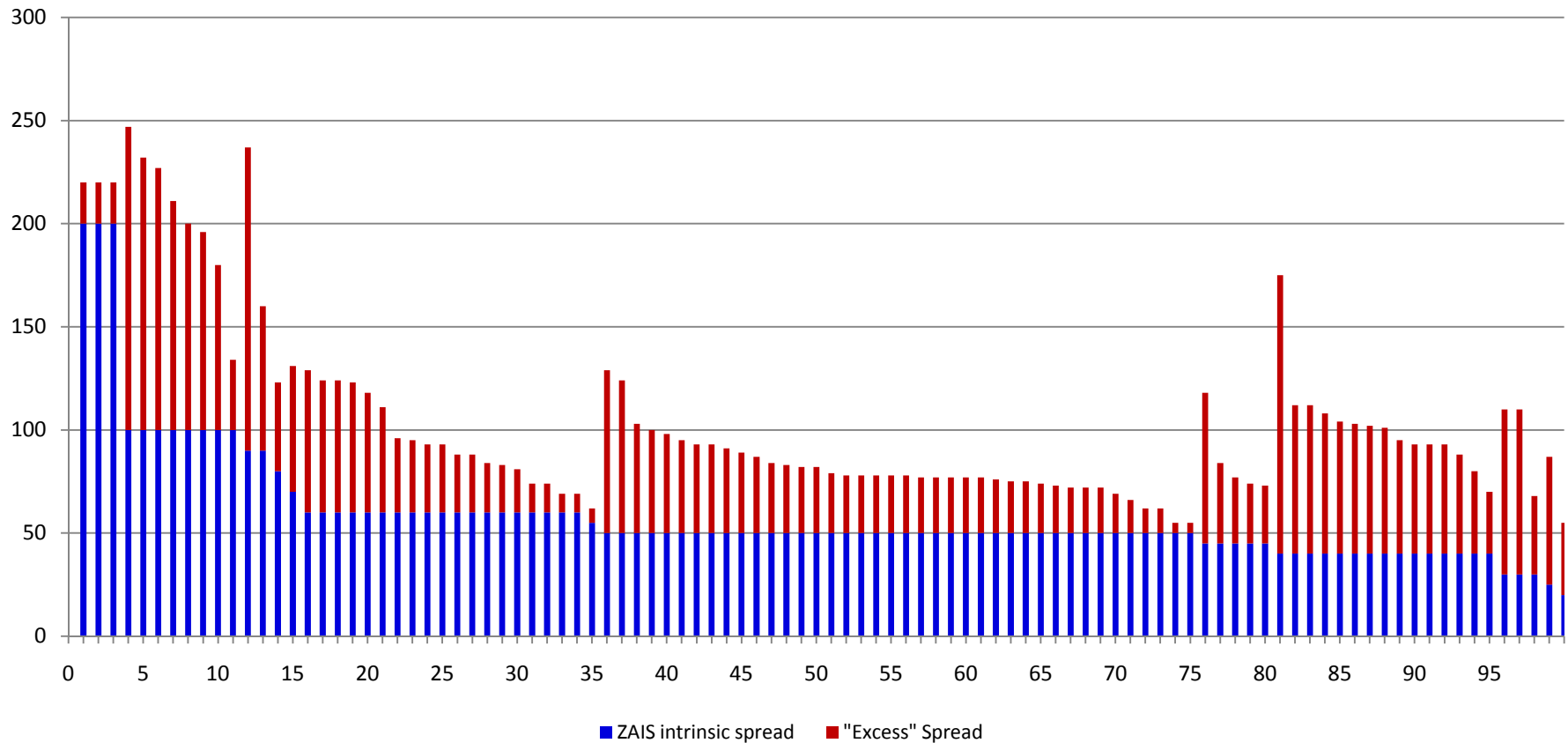
- ◆ CDX, iTraxx Asia and iTraxx Europe 5Y spread.



(Source: JPM)

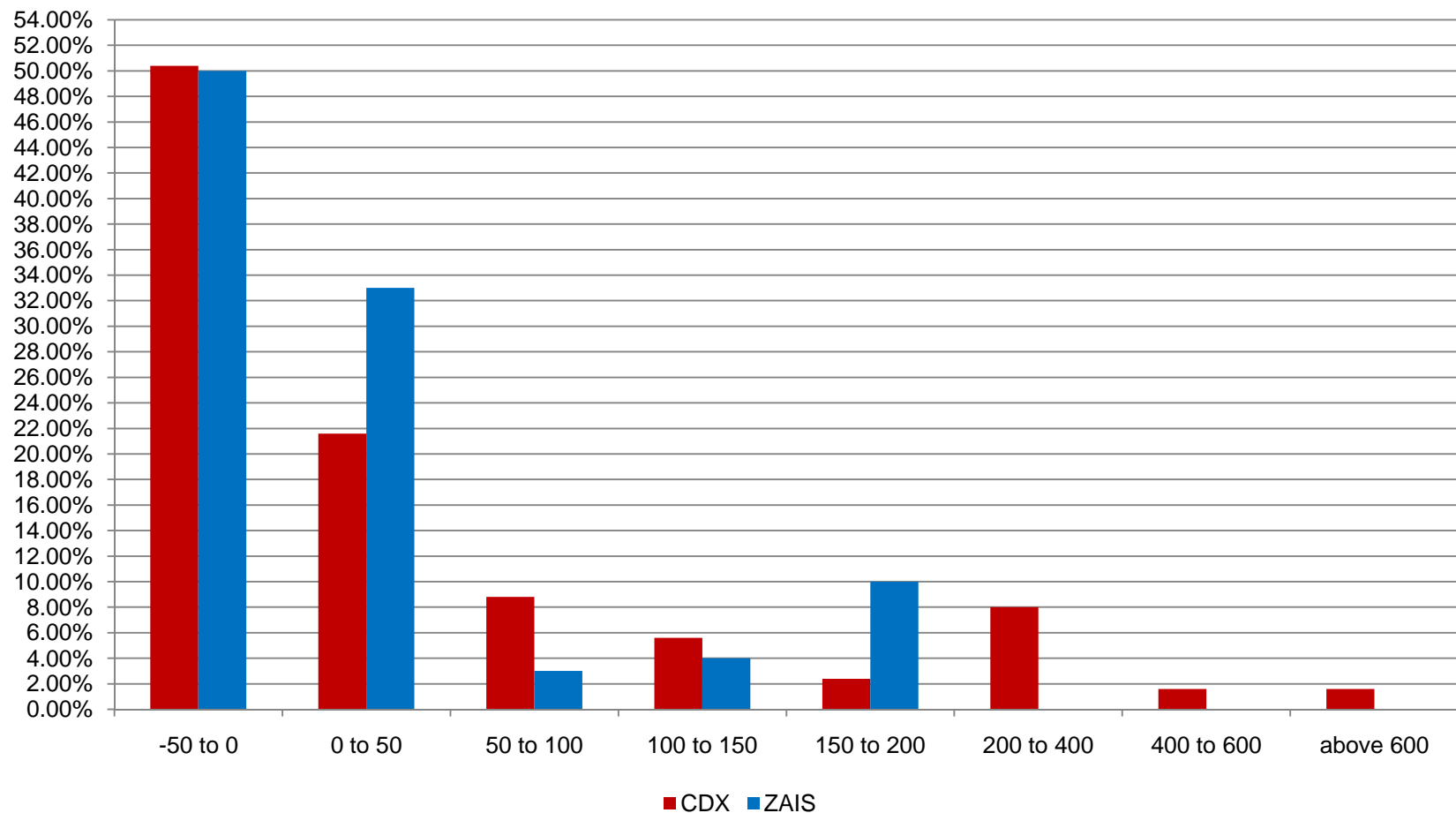
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CDO: Pooling of "excess" spread



Spread Distribution

- ◆ Spread distribution of CDX IG and ZAIS portfolio. (Spread to median ratio).



Tools to mitigate idiosyncratic risk

- ◆ Fundamental approach:
 - Country analysis/concentration.
 - Sectoral analysis/concentration.
 - Internal credit rating model.
 - External credit research.

- ◆ Technical approach:
 - Correlation analysis.
 - Spread outlook.
 - Relative spread performance of obligors.