



HEROES of the **FALL**

KangaNews is proud to present its awards for the best houses, deals, issuers and personalities in the Kangaroo, Australian domestic, Kauri and New Zealand domestic bond markets in 2008. Votes from investors, issuers and intermediaries were collated to produce the results in the following pages.

BY LAURENCE DAVISON AND KIMBERLEY GASKIN

There is no better time to run annual fixed income awards than during the biggest crisis in financial markets history. In such times heroes and villains are thrown into sharp relief, as proved to be the case in the *KangaNews* Awards 2008.

Market participants did a lot of soul-searching during the voting process, weighing the merits of various institutions, deals and individuals against a turbulent market backdrop. As a consequence, the award winners of 2008 are among the most deserving ever to be handed a gong.

The year 2008 marks the first time, after *KangaNews* introduced annual awards for the Kangaroo and Kauri bond

markets in 2007, that voters were asked to nominate the best houses, deals and issuers in the Australian and New Zealand domestic bond markets, as well as the Australian securitisation market. This coincides with the expanded coverage of *KangaNews* during the year to include these markets.

In terms of methodology, the Awards are based on market votes. *KangaNews* canvassed a wide selection of investors, issuers and intermediaries for feedback on this year's awards. Over the month of November and early December team members contacted the majority of key investors and intermediaries in the Australian and New Zealand markets, as well as a representative cross-section of domestic and international issuers.

The results speak for themselves.



Enrico Massi

RBC CAPITAL MARKETS

Support from the sovereign, supranational and agency (SSA) issuers which dominated Kangaroo issuance in 2008 for Enrico Massi, Sydney-based managing director and head of debt capital markets Asia Pacific at RBC Capital Markets (RBCCM), centred on his personal drive and insights into the market as well as the volume his team generated over the year.

Says Thomas Møller, executive vice president and CFO at Kommunalbanken Norway in Oslo: “Among an unusually large number of very competent originators in the Kangaroo market, Enrico stands out with his energy and never-ending drive to make deals happen even in a tough environment.”

Mustafa Sari, vice president in charge of AUD funding at KfW Bankengruppe (KfW) in Frankfurt, adds: “Enrico was the guy with the best insight in the market, a variety of options, and a view concerning future developments.”

Stefan Goebel, co-head of treasury at Rentenbank in Frankfurt, says: “Massi deserves credit for putting a very strong personal effort into making deals work in a challenging environment.” Goebel also appreciates Massi’s willingness to make the call when he thinks a deal won’t work. Jens Hellerup, director and deputy head of funding at Nordic Investment Bank in Helsinki, agrees: “Massi knows the Kangaroo market extremely well. If he doesn’t see a deal he will tell it straight away and we have never been disappointed by following his advice.”

European Investment Bank (EIB)’s nomination was based on volume. Says Richard van Blerk, capital markets officer at EIB in Luxembourg: “While many Kangaroo originators have the power to impress with their extensive knowledge of and experience in Kangaroo markets, it is in the end the amount of trades that settles the final score for EIB. As such, Enrico and his origination team deservedly win this award because in 2008 RBCCM managed to print no less than 60 per cent of EIB’s Kangaroo volume.”

KangaNews spoke to Massi about RBCCM’s approach to the market and the teamwork he believes led to the 2008 award.

Issuers voted for you in this award not only for your insights, but also for your honest approach to the market. What gives you the confidence to tell it like it is, especially in such a competitive environment?

The Australian dollar market, including Kangaroos, is of critical importance to RBCCM. Our experience has allowed us to build franchise and credibility with issuers and investors

which we value immensely. We feel we have an excellent read on the market based on our trading and distribution flows and these provide us with an opportunity to be an active lead manager that understands what deals will work and why.

Are there some specific examples of RBCCM going out on a limb in 2008, to the benefit of clients?

We spend a fair amount of time analysing and assessing the market, flows and spread movements so we can move quickly to capitalise with the best transaction possible. There are several deals this year that come to mind.

One that stands out is the KfW August 2011s. As a new point in the KfW curve, we discussed at length with the issuer the market’s acceptance of this line, in particular as it is in close proximity to other KfW bonds (Feb 11s and Jan 12s). The demand for current coupon paper and KfW’s desire and flexibility to meet market demand allowed us to launch this deal. The bond was increased several times in 2008 to total A\$1.4 billion (US\$89.5 million).

Another deal that stands out is the 2013s issued by International Finance Corporation (IFC) – the only debut Kangaroo issuer in 2008. The inaugural A\$500 million deal was issued in February and increased in June to total A\$1 billion. Timing on both deals was just right, combining the momentum for a new and high-quality name, current coupon appetite and a convergence of global demand for Australian dollar bonds.

Finally, two deals that have defied conventional wisdom in 2008 were the taps of the EIB January 2017s. In a market in which the yield curve has been predominantly flat to negative, these were not the most obvious deals to bring to market. However, the flows and activity we were seeing in this bond and that part of the curve proved that the increases were warranted. We had several discussions with EIB around the rationale for these trades and after their due diligence we were pleased to have delivered successfully. The EIB 2017 is now one of the largest and most liquid benchmarks in the long end of the Kangaroo yield curve.

You have also stressed the strength of your team, both in Australia and globally, as one reason for RBCCM’s deal volume in the Kangaroo market.

This is a team effort through and through. From a Sydney perspective, I work with a small DCM/syndicate team: Gerard Perrignon, James Arnold and Michael Levenston. We operate very closely with our trading and sales teams to understand flows, market dynamics and activity. From a broader DCM perspective we benefit greatly from our global origination force in Europe, the US and Canada. Our focus on SSA issuers and the many currencies in which we deliver for them means we have the benefit to speak with them daily about the Australian dollar market and we can do this in the context of their broader funding needs. This is important as it means we have a live appreciation of the issues they are going through, which allows us to be more focused in our approach to them. •

RBC Capital Markets

In volume terms, the Kangaroo market in 2008 coped as well as could be expected with the evaporation of issuance from outside the sovereign, supranational and agency (SSA) sector. While non-SSA volume dropped to zero in 2008 from A\$12 billion (US\$7.6 billion) in 2007, the triple-A segment actually grew, up to A\$10.5 billion in 2008 from A\$7.3 billion the previous year.

The reduction in diversity of sectors left only a select number of intermediaries able to remain active in 2008: over 90 per cent of the total volume was brought to market by RBC Capital Markets (RBCCM), TD Securities (TD) and Commonwealth Bank of Australia, with the two Canadian houses together accounting for almost 79 per cent of deal volume.

RBCCM AHEAD OF THE CURVE

In this environment, it is little surprise that RBCCM and TD dominated nominations in the Kangaroo Primary House of the Year category, with RBCCM coming out on top for the second consecutive year.

Says Richard van Blerk, capital markets officer at European Investment Bank (EIB) in Luxembourg: "The integration of primary and secondary markets into one business model for the Kangaroo markets has served both Canadian houses very well. And with the rest of the market in fear over the extensive balance sheet consumption of this approach, business keeps looking good for RBCCM and TD as they can pinpoint demand early on the back of their active secondary involvement and pitch trades that sell well before other houses have reached their levels of comfort on the sizeable EIB trades." He adds that EIB could have easily voted the other way around for the two Canadian houses, "given the way these two are ahead of the others". Van Blerk concludes: "In the end we made the final decision based on the primary volumes, and hence RBCCM is EIB's pick as top Kangaroo house for 2008."

Other issuers lauded RBCCM's consistent commitment to the Kangaroo market. Says Stefan Goebel, co-head of treasury at Rentenbank in Frankfurt: "RBCCM showed a strong focus on our needs as a borrower and has demonstrated a constant level of high-quality advice. They have made deals work in a challenging market environment and shown a strong commitment to the sector."

Bart van Dooren, head of funding and investor relations at Bank Nederlandse Gemeenten (BNG) in the Hague,

agrees: "RBCCM really deserves this prestigious award as they play a leading role in the Kangaroo market. The bank's consistent presence gives it the opportunity to inform investors as well as issuers on the developments in this market."

DEAL FLOW SPEAKS VOLUMES

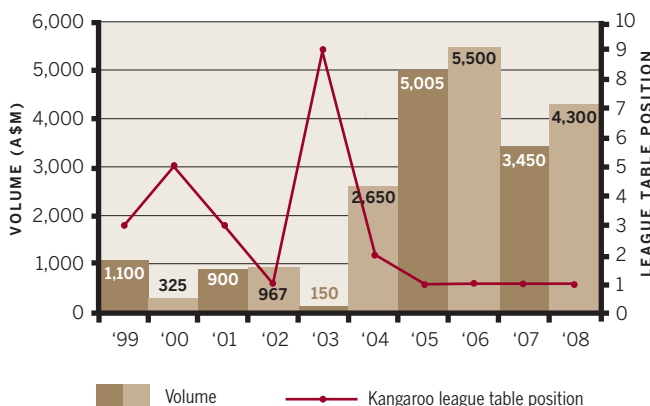
In terms of deal volume RBCCM has been rewarded for its work. The bank led A\$4.3 billion of Kangaroo deals in 2008. This, together with the single domestic transaction RBCCM led, puts the bank in an impressive first place in *KangarooNews's* all-Australian league table for 2008 excluding self-led deals and fourth place in the same league table when self-led deals are included (see p43).

And although he acknowledges challenging conditions are likely to continue to prevail in 2009, Enrico Massi, managing director and head of debt capital markets Asia Pacific at RBCCM in Sydney, also says the bank has scope to broaden its client base. "Our success with SSA issuers means it is easy to categorise us as an SSA house," he comments. "We are proud of our credentials with this issuer sector but we also have a broader DCM platform that encompasses several currencies across a variety of issuer bases. Where we see opportunities to broaden our footprint in the Australian dollar market, our aim is to do so."

As for the prospects for the next full year, after a quiet second half of 2008 Massi expects the Kangaroo market to return in a gradual manner, especially as SSAs are now competing with the new wave of government-guaranteed banks. "This market has been in existence for over 12 years and we are confident that it will come back," he says. "Both domestic and international investors are becoming more involved in the market and that will pave the way for new-issue opportunities. Demand will determine which names come to market sooner and we aim to be involved in restarting the market at the earliest opportunity." •

KANGAROOS LED BY RBC CAPITAL MARKETS:

VOLUME AND LEAGUE TABLE POSITION 1999-2008



SOURCE: KANGANEWS DECEMBER 15 2008

TD Securities

A key feature of the way the Kangaroo market developed in 2008 was evidence of an increasing integration of the primary and secondary markets. The segment of Kangaroo buyers, especially in the supranational, sovereign and agency (SSA) sector, that prefers to buy paper through the secondary market was more important than ever as intermediaries saw their own balance sheet capacity slashed.

As a result, retaining the capability to be active in the primary market has been increasingly dependent on secondary market coverage and vice versa, with houses only being able to commit to bringing new deals when they are confident of secondary flows. This situation was supported in the nominations for *KangaNews's* Kangaroo market awards, with TD Securities (TD) and RBC Capital Markets (RBCCM) not only dominating votes in both the primary and secondary market categories but also being praised by issuers for their early adoption of a combined approach to the two markets.

SECONDARY INVOLVEMENT BOOSTS PRIMARY

However, TD beat RBCCM to the post in the secondary market house nominations.

Richard van Blerk, capital markets officer at European Investment Bank (EIB) in Luxembourg, comments: "Both Canadian houses perfectly understand the edge that active secondary involvement can provide on the primary side; where RBCCM was our leading primary Kangaroo house for 2008, TD was the only house snapping at its heels. It is the integrated approach of primary and secondary markets that allows TD to reach levels of comfort with our sizeable trades earlier than others, and especially with the introduction of EIB's January 2012 – one of the few new lines of 2008 – early detection of investor appetite in secondary flows was of key importance in the decision to launch."

These market dynamics are acknowledged by TD. Says Joe Azzam, Sydney-based managing director, international fixed income Asia Pacific at the Canadian bank: "The Kangaroo market is very much a secondary market at present. We recognise that it is vital for us to retain our strong secondary presence so that we are able to be on the front foot when primary opportunities become available once more, and we are also pleased to be in a position where market users continue to see us as a liquidity provider."

Although TD has earned a reputation for its strong secondary market presence – 2008 marks back-to-back wins in the Kangaroo Secondary Market House award – the interrelationship of the two is indicated by the bank's continuing presence as a primary house as well. The bank led A\$3.9 billion (US\$2.5 billion) of new paper for its clients in 2008, accounting for 37.4 per cent of the total Kangaroo market volume in 2008. This places TD second in the Kangaroo league table for the year (see p44), trailing RBCCM by just A\$400 million.

SUPPORTING SECONDARY MARKET LEVELS

Mustafa Sari, in charge of AUD funding at KfW Bankengruppe in Frankfurt, highlights TD's support of secondary market levels as a key strength. He comments: "In the secondary market category, it was pretty close between RBCCM and TD. But TD worked their short positions much faster and always pitched for potential further taps, whereby also supporting our secondary market levels."

The secondary presence has been maintained despite the twin pressures of the reduced capacity to hold bonds felt by all intermediaries and a Kangaroo market that has seen a brace of key developments making secondary activity more challenging. On the former issue, Azzam acknowledges that TD's activity has diminished overall but grown compared with its competitors, as a result of operating in a constrained environment.

Meanwhile, Kangaroo investors are now transacting in larger tickets in the Kangaroo market, while the aggregate size of SSA benchmark lines has also grown. "The scale of institutional transactions in the Kangaroo market has clearly grown," says Alistair Gibbins, vice president and director, trading, at TD in Sydney. "We are now routinely dealing with secondary market orders of A\$50 million or more." He says TD has been able to keep up with the pace of change through the strength of its international distribution capabilities.

During 2008 EIB increased its 2013 Kangaroo bond to become the first A\$2 billion individual line in the SSA sector and while no other Kangaroo line had reached that size by year end, there were over 20 A\$1 billion-plus bonds in the market, with eight different SSA issuers having at least one line of that size. "To be considered a serious market-maker you are expected to bid on 10 per cent of a line, and in the Kangaroo market that now means A\$100-200 million," says Azzam. "It has been a very rapid move to that scale and I think we have dealt with this as well as anyone."

Performing as a secondary market house in the Kangaroo sector in 2008 mirrored the situation in the domestic vanilla market in that finding new buyers of bonds was a key task of intermediaries (see p28). And despite a highly challenging basis swap and a flood of flow out of non-core currencies by a number of international investors, Gibbins says there have been and continue to be opportunities. He explains: "Part of the ability to find new homes for bonds is based on the repricing we have seen – new levels have brought new investors into the market." •

European Investment Bank's A\$500 million 7% January 2012 transaction

LEAD MANAGER: TD SECURITIES

European Investment Bank (EIB) has long been a market leader in the Kangaroo universe. Awarded *KangaNews's* inaugural Kangaroo Issuer of the Year award in 2007, the supranational remained one of the staunchest Kangaroo market users of 2008, bringing a total of A\$3.05 billion (US\$1.9 billion) – or 29 per cent of total Kangaroo market volume – in six deals over the course of the year.

SIZE AND LIQUIDITY COUNT

The 2008 year opened with a bang for EIB, which priced the winning transaction on January 11 – the first of only six deals in 2008 to total A\$500 million, the biggest deal size over the year. In fact, four out these six half-billion transactions were issued by EIB, but the January deal was the only new line issued in 2008 by the supranational.

The new four-year point on EIB's Kangaroo curve received early plaudits for its size and liquidity. The deal, led by TD Securities (TD), priced at 68 basis points above the benchmark 5.75 per cent 2012 Australian government bond. Participants were just as interested in its maturity as its pricing, with the deal finally breaking a 'new-line drought'. One of just five new lines issued into the Kangaroo market over 2008, the deal was the first new pricing point issued in seven months – since JPMorgan's A\$950 million deal on June 14 2007; all other activity in the market during this time came via top-ups.

Peter Dalton, director in debt capital markets at TD in Sydney, says one key to the success of the transaction was plenty of groundwork. "We worked hard scoping out the market in the period before Christmas 2007. It was clear that the market was ready for a new line after so many increases over 2007 and EIB – with its long history in the Kangaroo market – was the right name," he comments.

Timing was also a factor. With just A\$2.45 billion issued in the Kangaroo market over the second half of 2007, investors were thirsty for new paper. "There was money available at the very beginning of the year," says Dalton. "At the time investors were looking for opportunities to invest and the size of the EIB transaction and the supranational's longstanding Kangaroo programme gave real confidence in the deal." Eila Kreivi, Luxembourg-based head of funding for the US and Asia Pacific

at EIB, agrees, saying the execution of the award-winning 2012 deal was made easier by the strong buying appetite that prevailed in the first half of the year. "At this time everyone participated in the party – we had domestic investors coming back into our Kangaroo bonds, as well as central banks and Japanese, European, and even some US investors," she comments.

Proof of the appeal of the trade lay in its broad distribution, with some 15 investors participating in the deal. Fund managers accounted for 40 per cent of buyers; central bank investors 25 per cent; bank investors 23 per cent; and semi-governments 12 per cent. The transaction also had good domestic investor participation, with 54 per cent of the total sold to local accounts; 25 per cent to Asia; 15 per cent to Japan and 7 per cent to Europe.

Dalton says the deal was a watershed in terms EIB's issuance for the rest of 2008: "It certainly enhanced the prominence of EIB's programme and the perceived ease of price discovery for the issuer's bonds."

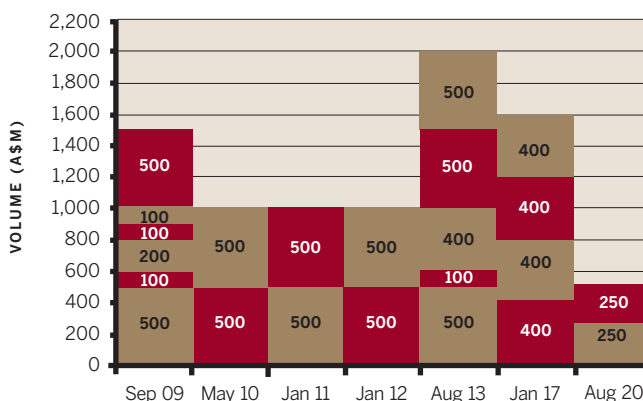
AUD A STRATEGIC CURRENCY FOR EIB

The Aussie dollar was a key currency for EIB over 2008, comprising over 4 per cent of overall funding of €58 billion (US\$73 billion) in the year to November 30. Says Kreivi: "We had a record year in 2008 and, because financial institutions were absent from the Kangaroo market, we were in fact the largest Kangaroo issuer overall in 2008 – not just the largest triple-A Kangaroo issuer as in 2007."

Revaluation of semi-government securities in the second half of 2008, in the wake of the revision of the rating outlook for the state of New South Wales by Standard & Poor's and speculation over the likely implications of the government guarantee on bank bonds, had a significant impact on Kangaroo issuance – only A\$290 million was priced by two issuers in the second half. And although in December Kreivi said further Kangaroo issuance was not yet on the cards, she added: "We are hoping things will improve in 2009." •

EIB'S OUTSTANDING KANGAROO BONDS

(ORIGINAL AND TAPS)



SOURCE: KANGANEWS DECEMBER 15 2008

KfW Bankengruppe

The votes were always going to be tight in the Kangaroo Issuer of the Year category given the outstanding commitment shown by sovereign, supranational and agency (SSA) heavyweights European Investment Bank (EIB) and KfW Bankengruppe (KfW). Although EIB – last year’s category winner – was in fact the biggest Kangaroo issuer of the year, market participants awarded the accolade to KfW in 2008.

The German federal agency, which celebrated its 60th anniversary in 2008, issued A\$1.65 billion (US\$1.05 billion) in the Kangaroo market over 2008 in five deals, making it the second-largest issuer. KfW’s total Kangaroo issuance sits at A\$8.55 billion, with total outstandings of A\$6.85 billion.

RESPONDING TO INVESTORS IS CRUCIAL

Investors were impressed with the execution of KfW’s deals over the course of a difficult 2008. They also praised the issuer’s reactivity to the needs of the buying community. Most notable was the agency’s rapid construction of a very large August 2011 line over the year.

Although KfW already had a 5.5 per cent February 2011 line in the Kangaroo market, in February 2008 the agency priced a new 2011 bond – the 7.5 per cent August 2011s. Four of the five deals done by KfW in the Kangaroo market in 2008 were August 2011s and at the close of the year the line stood at A\$1.4 billion. Comments Enrico Massi, head of debt capital markets Asia Pacific at RBC Capital Markets in Sydney – which co-led the inaugural August 2011 trade with Citigroup and jointly led two of the increases with TD Securities (TD): “Two key points of attraction assisted this: current market coupon and the right tenor for many investors.”

Peter Dalton, Sydney-based vice president and director in debt capital markets at TD, which was on the top line of two of the taps with RBCCM and solely led the third increase, adds: “This was a successful bond from day one – it was increased by A\$200 million in April, A\$400 million in May and then by another A\$400 million three weeks later. This activity illustrates the strong demand.”

Klaus-Peter Eitel, vice president, capital markets at KfW in Frankfurt, adds: “All the taps were well placed as can be seen by the speed with which we were able to create a liquid line without jeopardising performance.”

KfW’s only other Kangaroo deal in 2008 was a A\$250 million increase of its January 2012 line, brought in January. And although the last Kangaroo deal of the year from the

agency was the final increase to the August 2011 bond completed in June, Horst Seissinger, head of capital markets at KfW in Frankfurt, expects KfW will be able to return in force in 2009. “Towards the end of the year an unfavourable basis swap and an unfavourable comparison with the Aussie semi-governments meant we weren’t as competitive as we should have been compared to the semis,” he comments.

KFW COMMITTED TO KANGAROOS

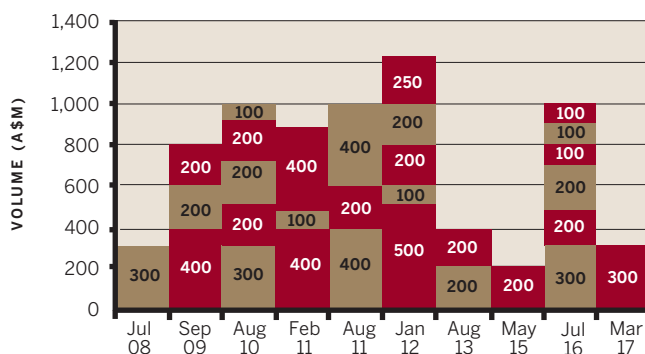
Nonetheless, Australia remains a strategic market for KfW. Says Frankfurt-based Mustafa Sari, responsible for AUD funding: “We are keen to see the Kangaroo market open again. However, even in times when issuance is low, we make sure that we update our documentation on a regular basis – this is one way of showing investors that we are confident we will be in the market for the long term.” Towards the end of November 2008 KfW was in the process of updating its Kangaroo documentation, including adding the capability for debut issuance in New Zealand’s Kauri bond market.

Overall KfW’s funding volume for 2008 reached €74.4 billion (US\$93.7 billion) by November 30, with its target of €75 billion well within reach. KfW raised debt in 22 different currencies over the year, of which Aussie dollars via the Kangaroo market comprised 3 per cent.

KfW’s 2008 funding achievements are particularly impressive considering the €7.2 billion rescue and eventual sale of IKB Deutsche Industriebank (IKB), in which KfW had a 90.8 per cent stake. Seissinger says the IKB event did not impact KfW’s funding programme at all: “International investors knew that investing in the credit risk of KfW is in fact the same as investing in the credit risk of the Federal Republic of Germany, so there was no negative impact on funding costs.”

And although he acknowledges the funding challenges ahead, Seissinger argues that KfW’s size and deep history in so many markets is a big advantage. “We are established in different markets. The return of confidence – particularly in the interbank market – comes at different times in these markets, so we can start issuing in the markets which pick up first.” •

KFW’S OUTSTANDING KANGAROO BONDS (ORIGINAL AND TAPS)



SOURCE: KANGANEWS DECEMBER 15 2008

Westpac Institutional Bank

The profile of issuance in the Australian domestic market in 2008 was one of reduced diversity with a reliance on top-rated credits. The overwhelming majority of Australian domestic deal volume over the year came from transactions from the big four local banks, in predominantly self-led deals.

With their double-A ratings apparently secure and the inclusion of their debt on the Reserve Bank of Australia's list of acceptable securities for repo, the big four seemed like a relatively liquid investment for fund managers. The size of deals from these domestic powerhouses and their prominence in the market was also boosted to a reasonable level by the importance of their peers as investors; indeed, one of the characteristics of the Australian debt market in 2008 was the phenomenon of balance sheet sharing – large banks buying and holding each others' repo-eligible debt to shore up liquidity while making a return above the risk-free level.

A CLEAR WIN

Despite the apparently generic nature of much of the vanilla debt issued in Australia in 2008, one primary market house stood out among its peers. With some of the biggest asset managers in the market responding to *KangaNews's* awards voting process, Westpac Institutional Bank (Westpac) was given first-place honours in the primary market house category by over half the voters – the clearest win in any category.

James Meighan, senior fixed interest portfolio manager at IAG Asset Management in Sydney, sums up the commonly-held view: "Westpac has shown a good ability to come to investors and to market in a timely fashion and get its deals done with no delay. Every issue they have done has been successful and their execution has been brilliant."

Other investors highlight the Westpac team's impressive communication with the market – a factor to which the bank's Sydney-based executive director, debt and hybrid securities, Simon Ling, also draws attention. "We were very aware of the amount of work that needed to be done in 2008 to have a chance of bringing a deal to market," he says. "That meant making sure we kept the market informed even at times when deals couldn't be done or could only be brought in a way that did not show up on league tables."

Westpac performed on league tables as well, however. By December 15 2008 the bank was placed third on *KangaNews's*

domestic vanilla league table – including self-led transactions – leading just over A\$6.4 billion (US\$4.1 billion) from 15 domestic deals (see p43). While the majority of deals the bank was involved in were self-led, Westpac was also on the top line of three domestic vanilla deals for other issuers over the year.

COVERAGE ACROSS THE BOARD

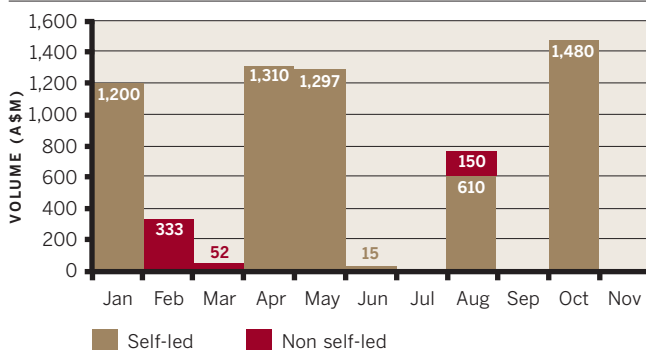
Ling says across-the-board coverage is one of Westpac's strengths. "We are not just active in self-led deals. During 2008 we were in the market with a lot of different products including private placements in Australia and the US, hybrids, deals in New Zealand, asset-backed securities and even convertibles," he comments. "If as a house you are only active in a limited range of products you can run out of things to talk about in times like these, whereas we have been able to continue going to our clients to discuss possible solutions to their funding needs."

In addition, Ling says Westpac was able to find a diversity of buyers for its self-led deals. "It hasn't simply been a round-robin of other banks' repo books but a decent spread of real money investors as well," he explains. "The biggest issue in 2008 was timing, and I think that will continue: deals will be sold when liquidity can be identified rather than the old environment of chasing best price."

There are also hopes that 2009 will bring an environment more conducive to diverse issuance sources. "We are a lot more positive about 2009 than we were," Ling says. "Not necessarily in terms of spreads – the sheer volume of issuers needing to borrow in the pipeline will ensure pricing stays wide for some time – but our feeling is that investors will be brought back into the market by government-guaranteed bank deals, which will give us the opportunity to price everything else."

This could even mean the emergence of a sustainable public corporate bond market in Australia. Ling explains that a more constrained bank lending environment could force Australian corporate names into the public markets in a systemic fashion, while a reappraisal of asset classes may also bring more retail buyers into the bond market. He predicts 2009 will be "the year of the retail bond" with investors who have lost money in the equity market moving into fixed income. •

PUBLIC DOMESTIC DEAL VOLUME LED BY WESTPAC IN 2008



SOURCE: KANGANews DECEMBER 15 2008

UBS Investment Bank

Providing secondary market liquidity in the turbulent environment of 2008 was harder than ever before. Internal liquidity pressures at every bank saw balance sheet availability slashed, radically reducing intermediaries' room to manoeuvre in an environment where many investors were looking to sell and traditional buyers were either much less active or departed the market entirely.

There were several periods during the year in which liquidity in physical assets dried up almost completely, with fund managers as a consequence flooding into cash and near-cash products as the only means to ensure redemption demands could be met. Some money managers were even forced to stop redemptions as they were unable to guarantee sufficient liquidity to manage them.

Redemption fear and balance sheet restriction have combined to make intermediaries' secondary coverage more vital than ever and, simultaneously, harder than ever to provide. By common consent, fund managers have regularly approached bond houses to bid on their assets to fund redemptions, but with little capacity to hold paper the banks have needed to find somewhere to place bonds in a diminished investor market.

OFFERING A CONSISTENT EXIT OPPORTUNITY

Throughout these difficult times, a handful of houses – including ANZ Banking Group (ANZ) and Westpac Institutional Bank – earned market kudos for continuing to make prices and offer investors a consistent exit opportunity from positions. On top of the pile in the eyes of *KangaNews's* awards voters is UBS Investment Bank (UBS), which also tops the *KangaNews* league table for domestic non-self led vanilla deals in Australia in 2008 (see p43). The bank also earned respect for providing liquidity to the market in transactions it did not itself bring.

“Over the year UBS really stood out as the house which was always there, able and willing to make prices in securities across the board – from sovereign debt right through the credit markets,” says Robert Camilleri, senior manager, credit at Aviva Investors in Melbourne.

With parent UBS AG having written down US\$49 billion of bad debt exposures – the most of any European bank – the Australian credit trading team was forced to work in 2008 under the same balance sheet constraints as any of its peers. Sydney-based executive director and head of credit trading

Australia, Luke Fay, says balance sheet availability in 2008 was clearly lower than prior years, and as such he ascribes the firm's success to the domestic fixed income sales team's hard work at maximising distribution channels in Australia, as well as UBS's diverse global distribution.

“The volatility created serious challenges for secondary market trading and you needed to adapt fairly quickly,” says Fay. “We have placed a high priority on pricing and turnover and found that with a diversified client base and a diversified trading business you can still price most risk trades, albeit with increased P&L volatility.”

Steven Cario, UBS Sydney-based director and credit trader, continues: “Providing liquidity has undoubtedly been challenging but the question has really been one of finding homes for bonds, and we have had success in promoting new and innovative distribution lines.”

In fact, Cario says the hammering credit took over the year in mark-to-market combined with the flood of selling from distressed investors brought the asset class onto the radar of some new groups of buyers, the interest of which UBS was able to attract to continue making markets when it could not take as many bonds on its own book as before. He explains: “We have been looking at high net worth and sophisticated investors making direct fixed income investments they might not previously have made. Credit has become an attractive asset class for those buyers – if a traditional ‘equity guy’ can buy a bond from a good name at 90 cents in the dollar yielding 10 per cent or more for three years, that is very appealing to some clients.”

UBS's trading team also earned kudos from the traditional investor base, with one fund manager who contributed to the awards process specifically singling out Fay and Cario for praise – both of whom moved to the Swiss bank from ANZ in 2006.

SELLING PRESSURE WILL CONTINUE IN 2009

Regarding the outlook for 2009 the UBS team says there are chinks of light but the issues are far from fully resolved. Cario says it is impossible to put a number on the size of the remaining overhang in the secondary market. He adds that a persistently declining equity market will inevitably redouble selling pressure in fixed income as investors rebalance into falling equity portfolios to meet mandated asset allocation demands.

Fay agrees that the journey down the road to recovery, while it may already have begun, will not be uneventful. “We saw significant global de-leveraging for much of 2008 and while the market may be relatively buoyant into year-end there are still many issues to be resolved,” he explains.

Fay concludes: “Traditional investors starting to favour credit over equity, combined with the new investors in this space, will help generate credit fixed income market liquidity in the first half of 2009. However, the continued efforts of governments and central banks globally, combined with successful bank recapitalisation and orderly corporate de-leveraging, remain the key for recovery in financial markets.” •

AMP Group Finance Services' A\$350 million 9% May 2011

LEAD MANAGERS: JPMORGAN AUSTRALIA AND
UBS INVESTMENT BANK

During 2008 the collapse of issuance in some areas of Australia's bond markets was to some extent offset by a degree of buoyancy elsewhere. The pain caused by the disappearance of financial institution Kangaroo issuers was negated somewhat by renewed triple-A volumes from sovereign, supranational and agency (SSA) issuers in the first half of the year, while low headline volumes in the public securitisation market were propped up by internal, balance sheet deals and government buying.

A TRICKY ENVIRONMENT FOR NON-BANKS

In the domestic vanilla market, respectable aggregate annual public volume of A\$36.2 billion (US\$23.1 billion) by December 15 2008 was based on a massive weighting of transactions from Australia's big four banks and a clutch of offshore double-A rated names issuing through local branches. Meanwhile, the picture for smaller local bank and non-bank issuers was close to calamitous, with only A\$5 billion issued by two single-A rated banks and A\$274 million issued by BBB+-rated Bank of Queensland in the public market.

For this reason, AMP Group Finance Services (A/A2) (AMP Group)'s A\$350 million two-tranche fixed and floating rate May 2011 transaction priced on May 8 drew notice from voters for the sheer fact of having been completed in an incredibly difficult environment. Lead managers JPMorgan Australia (JPMorgan) and UBS Investment Bank (UBS) claim a book of over 20 investors – including the bulk of the local real money fund managers. The deal succeeded in attracting buyers in a market where fund managers were hoarding cash to an unprecedented degree.

From the issuer's perspective, doing a deal in 2008 was made even more challenging as AMP is not a frequent borrower. "We had not been in the market for several years before the May 2008 deal so we really had to re-acquaint ourselves with debt investors as well as renew their familiarity with the credit," says AMP Group's Sydney-based group treasurer, Bryan Dean.

And Dean O'Hara, head of fixed income syndicate at UBS in Sydney, concurs: "Although there is a long-standing

relationship between AMP Group and the investor base the joint leads took the view that this would effectively be a debut transaction. As a result we did a roadshow for the issuer and went through a process of rejuvenating interest in the credit through our sales teams – we believe the deal really benefited from that."

ISSUER FLEXIBILITY PARAMOUNT

Both lead managers commend the issuer on its flexibility in responding to the market, especially in allowing a deal to be completed in what all parties acknowledge was a very small window for deals of this kind in May. "The borrower was absolutely key in the process," O'Hara says. "Their team was open to the information provided and aware of market conditions, both of which are vital to the ability to complete transactions in this environment."

Stuart Raynes, executive director syndicate, debt capital markets at JPMorgan in Sydney, adds: "Critical to the success of the deal was having a borrower that understood and was receptive to market conditions. The leads agreed a number of price points, including credit default swaps, and went out with price guidance in a challenging market. Working with a couple of lead investors, and then follow-on demand, we were able to agree a market clearing level that both investors and the issuer were happy with. The deal saw decent oversubscription and with scaling resulted in some price performance in the following weeks that indicated it had been correctly allocated and priced."

Coming to market at a level of 170 basis points over swap clearly illustrated the change in pricing environment from the last time AMP was a public issuer; in April 2004 AMP Bank, then rated BBB+, sold two-year paper at 35 basis points over swap. But AMP Group's Dean says the issuer was conversant with the new pricing environment. He explains: "We were in a market which didn't really have suitable price comparisons and where past history was not going to provide much of a guide. In the context of a market that has become even wider subsequently, and as the only non-bank issuer in this market in 2008, we were very happy with what we achieved."

The continuing deterioration of the market from an issuer perspective was thrown into harsh relief on December 10 when Commonwealth Bank of Australia priced its own 2011 transaction, with paper from that double-A rated credit coming at 160 basis points over swap.

Raynes also says the circumstances of the AMP Group deal reflect the likely ongoing challenges in primary markets for real money investor-led deals. He says: "The year 2008 – and this looks to be repeated in 2009 – was all about picking the new-issue windows and having the conviction to go to market. What looked like a relatively high borrowing cost in May looks like a very competitive funding deal in a post-Lehman world. The success of the AMP Group deal was about getting consensus from both the investors and the issuer about a fair clearing level." •

Westpac Banking Corporation

In a year which featured complete domination of domestic issuance by Australia's big four banks, it should not come as a shock that the market voted for one of those names as issuer of 2008. What might be more surprising is the strength of the backing for Westpac Banking Corporation (Westpac), with the bank's name recurring frequently on Australian investors' voting sheets.

With the issuer having completed its merger with St. George Bank (St. George) and remaining busy right up to the last days of 2008 – bringing a A\$2.5 billion equity placement on December 9 and pricing its first government-guaranteed debt deal for US\$1.5 billion of 2011 paper in Rule 144a format a day later – *KangaNews* spoke to Westpac's Sydney-based treasurer, Curt Zuber, about his firm's funding in 2008 and the prospects for 2009.

How did Westpac differentiate itself in a market that was dominated by issuance from the major banks?

More than ever, consistency and transparency were important to the market in 2008 and providing both was key to us as an issuer. We have continued to be out in the market throughout the period of crisis, stepping up our conversations with investors through presentations, conference calls, roadshows and other meetings. We have had a dedicated debt investor relations representative as a full-time part of our treasury team for some years, which has been a real advantage. Many companies have a predominantly equity setup but we have been rewarded by debt investors in the past 12 months for building our focus on their market over six or seven years.

We have also maintained a coordinated, global approach by having people on the ground in all the major centres we issue into. That allows us to have constant contact with markets around the world and helps us ensure we can approach each of them in a timely manner when conditions are right to do so.

Which particular deals do you think have best characterised your success in 2008?

I don't think any individual deal stands out above the combined result we achieved. In 2008 we were able to deliver one of the largest funding outcomes ever from an Australian bank in one of the most challenging environments ever experienced: Westpac and St. George raised over A\$50 billion combined in term markets in the 2007/08 financial year.

Westpac and other Aussie banks spread their funding nets wider in 2008, for example tapping the Samurai market. What challenges did that pose?

We definitely had to be more flexible about how we sourced funds in 2008, using for example more private placements and more taps than previously. Simply put, we did more deals in the past year – over 240 term trades. This highlights the importance of having strong infrastructure in legal and compliance to support the differing requirements of all the jurisdictions in which we were active.

The benefits of diversification have been known for a number of years. But never has it been clearer that a truly diversified funding base positions you better to weather storms. We consider it important to maintain the relationships we have established in markets like the Samurai and Uridashi and to build on our achievements from 2008.

Westpac will have to redouble its funding efforts in 2009, with the highest level of maturities among Australian banks in the year ahead.

How is 2009 shaping up from your point of view?

Although we are reluctant to make precise projections, the combined term funding target for the group in the current financial year [which ends on September 30 2009] is expected to be around A\$25 billion, including St. George. Impacting this is a continuation of stronger deposit growth and lending growth easing as a result of the slowing economy. We are certainly not expecting 2009 to be as big a funding year as 2008.

The biggest question for bank issuers at the turn of the year is how the market will respond to government guarantees.

In the short term I think we will see a few deals under the guarantee by Australian banks offshore, especially in the US dollar and sterling markets. But it is getting close to the point where investors want a break and there remains a lot of supply to be digested. It could take up to six months for that supply-demand imbalance to work through. However, there are signs that guaranteed deals are going well so far – they seem to have been well placed and to have tightened in the secondary market. So I am still confident we will deal with the issues, given time.

How do you think the guarantee story will play out?

All banks desire an eventual return to an unguaranteed market, and even while the guarantee system is in place there could still be room for both guaranteed and unguaranteed deals. While it is still too early to say, my feeling is we are working towards the removal of the guarantee at the point when the market no longer demands it – when investors reach the point where they would rather have some extra yield than the protection offered by issuers paying for a government guarantee. •

Macquarie Bank

In a year in which the ravaged public securitisation market in Australia tracked at just under 20 per cent of 2007 levels, investors and issuers were always going to focus more on execution than volume when voting for the best securitisation intermediary of 2008. But according to market participants, this year's winner, Macquarie Bank (Macquarie), scored on both counts.

Over the year to December 15 the bank led A\$2.24 billion (US\$1.43 billion) of AUD-denominated primary market securitisation deals, almost 24 per cent of the total A\$9.34 billion of public Aussie dollar tranches brought to market. Macquarie also put in a strong showing for taking Australian securitisation issuers offshore. Four deals by Australian borrowers over the year had combined euro and Aussie dollar tranches and Macquarie was involved on the top line in all these deals. As a result, the bank sits comfortably atop the *KangaNews* league tables for the Australian securitisation market in 2008, when self-led transactions are included (see p45).

PRIMARY MARKET CHALLENGE

Given the dearth of primary market issuance and the avalanche of high-quality Australian dollar assets tumbling out of offshore-based structured investment vehicles, market participants agree the primary market was a particularly problematic landscape over 2008, with the secondary market overhang acting as a real deterrent to the normalisation of pricing.

Against such a backdrop, intermediaries faced a stiff challenge to facilitate primary issuance, says Sean Carmody, head of fixed income, Australia at Barclays Global Investors in Sydney. "The vicious cycle of spread contraction and widening weighed heavily on the primary market," he comments. "In addition, wide spreads on short-dated asset-backed commercial paper did not encourage the term market." The difficult conditions meant any intermediary able to place deals was doing well, says another fund manager: "Macquarie was the most active player in the primary market and they still managed to be there as a secondary market liquidity provider."

But it was Macquarie's involvement in a series of groundbreaking non-mortgage securitisation deals that really ignited investor enthusiasm. On March 31 the Aussie securitisation market was opened by the A\$341 million equivalent Crusade ABS Series 2008-1 Trust, an auto- and equipment-backed transaction including a €100 million (US\$126 million) tranche. The deal paved the way for three large and similarly innovative deals on which Macquarie was joint lead manager: Bank of Queensland's A\$628 million

equivalent Reds deal; the A\$1.2 billion equivalent SMART transaction from Macquarie Leasing; and St. George Bank's A\$1.23 billion equivalent Crusade deal. The SMART transaction – winner of the *KangaNews* Securitisation Deal of the Year award (see p32) – was the first Australian auto- and equipment-backed transaction to be sold into Europe with repo eligibility from the European Central Bank, a feat replicated by St. George Bank. Comments Adrian Bentley, executive director, debt markets, at Macquarie in Sydney: "We were really pleased to bring such an innovative deal in terms of size, structure and asset class in so turbulent a year."

ABILITY TO IDENTIFY POCKETS OF DEMAND

Of its involvement in non-mortgage securitisation deals, Bentley says the foundation Macquarie laid with both Australian issuers and international investors in this asset class during 2007 enabled the bank to identify key pockets of demand from which public deals could be built. "Those investors who had available cash were looking to diversify away from mortgages in the wake of market dislocation arising from both large secondary supply and the contagion fear effect from the US and UK residential sectors," he comments.

Bentley believes the successful auto- and equipment-backed deals of 2008 provide a good base for further activity in 2009. "However, we need a period of relative stability before appetite re-ignites in any meaningful way. Right now the only way to get a primary issue away is to line up a cornerstone investor."

According to Kevin Lee, division director, debt markets at Macquarie in Sydney, the primary challenge intermediaries faced during 2008 was navigating a landscape with so many moving parts. "With bad news from offshore, deleveraging, legislative changes, changed pricing paradigms and finally some domestic economic pressure it was hard for many to remain on an even keel," he comments. Nonetheless, Lee maintains Macquarie was able to be a staunch secondary market player over the course of the year. "We continue to be active in trying to bring buyers and sellers together," he comments. "No intermediary can stand in the centre of the market and take all the excess supply, but we always try to be transparent in our pricing and available to investors looking to trade."

Lee says he is still weighing up the likely impact of the government guarantee for bank bonds on demand for highly-rated securitisation deals, but he is emphatically supportive of the Australian Office of Financial Management's A\$8 billion mandate to participate in the Australian securitisation market. "On the issuer side it provides some funds to the non-bank sector. Maintaining competition will help the market. On the capital markets side, it won't improve things overnight but at least it gives opportunity for some price points to be set," he says.

Bentley is confident the asset-backed market will revive – over time. He says: "The quality of Australian collateral is outstanding. However, activity will continue to be buffeted by the wash of the long-term deleveraging process that will continue for some time to come." •

SMART Series 2008-1E Trust A\$1.2 billion ABS deal

SPONSOR: MACQUARIE LEASING

LEAD MANAGERS: JPMORGAN, MACQUARIE BANK AND ROYAL BANK OF SCOTLAND

In the denuded landscape that was the Australian securitisation market of 2008, investors had little cause for rejoicing. And yet both the domestic and offshore buying communities were heartened by signs of new life when several issuers brought innovative auto- and equipment-backed loans to market. For investors, the most impressive of these was the A\$1.2 billion (US\$767 million) equivalent SMART Series 2008-1E Trust auto- and equipment-backed issue from Macquarie Leasing.

SUCCESS OF EURO DEALS

The SMART transaction was the third Aussie auto deal sold into Europe in 2008 – following a A\$341 million transaction from St. George Bank and a A\$628 million deal from Bank of Queensland (BoQ). But some unique features catapulted SMART to the forefront.

The deal, which was issued on June 16 and has a maturity of May 14 2009 for the Class A-1 notes and June 14 2015 for all other classes, was upsized from A\$650 million on the back of strong demand from Europe.

The Australian dollar tranches included A\$157.4 million of A1+/P-1 rated paper with a 0.3-year expected weighted average life priced at 80 basis points over the one-month bank bill swap (BBSW) rate and A\$220 million of triple-A rated 2.13-year expected weighted average life paper priced at 145 basis points over BBSW. The euro segment consisted of two identical tranches aggregating €455 million (US\$573 million) of 2.16-year weighted average life paper priced at 125 basis points over three-month Libor.

A total of 21 accounts participated in the transaction, with the efforts of Royal Bank of Scotland (RBS) and JPMorgan on the top line along with Macquarie Bank (Macquarie) strongly assisting the distribution effort.

Says Adrian Bentley, executive director, debt markets at Macquarie in Sydney: “It became apparent in February that there was investor demand for auto collateral and we took advantage of the opportunity for Aussie auto transactions. Macquarie has spent a lot of time over recent years building a strong presence in

the auto space in Australia and the SMART deal was a function of our knowledge of both the collateral and the investor base.”

Sarah Hofman, senior director, structured capital markets at RBS in Sydney, adds: “In addition to our European distribution network we were able to bring our strong derivatives credentials into play by offering the cross-currency swap facility. We were still able to execute the swap even though the deal was significantly upsized.”

Hofman says European investors were impressed with the quality of the underlying collateral, which included a high proportion of novated leases. “Investors definitely want more information and the issuer worked hard to provide the detailed information that was requested,” she comments.

INCREASED PERCEPTION OF LIQUIDITY

The issue created a further benchmark for Australian securitisation with the use of the ARC Funding repackaging vehicle enabling investors in the euro-denominated tranches to buy the notes in a repackaged form that qualified for repo eligibility with the European Central Bank (ECB). It was the first from an Australian issuer to gain repo-eligible status with the ECB, paving the way for a similar transaction in July from St. George Bank’s Crusade vehicle.

Although qualifying for repo-eligible status has a cost attached, Bentley says it was an important factor in the perception of liquidity. “We would always look to be able to offer this in the future if deal size permits,” he comments.

The deal was the fourth SMART offering since the beginning of 2007 and the second from Macquarie Leasing over this period to have a euro-denominated tranche. But Lloyd Thomas, managing director at Macquarie Leasing in Sydney, says the 2008 trade was more challenging than previous deals the issuer has sold into the European market. “In the past sellers were able to dominate pricing. The power has now passed to the buyers so all issuers have to show they are really selling quality assets,” he comments.

A real challenge was the ability to gauge appetite accurately, adds Thomas. “It was hard to know prior to the roadshow how much we would be able to sell. One month before we anticipated A\$300 million or A\$400 million.”

A benefit Macquarie Leasing enjoyed was offshore investors’ familiarity with the SMART programme. “The story hadn’t changed – we had the same type of assets and the same management in place. We were also assisted by the strong performance of prior SMART deals,” says Thomas.

He adds that the desire for diversification away from mortgages reflects a fundamental shift in views on tenor, with investors looking for shorter duration deals, and a change in perception of the mortgage asset class relative to auto assets. “Mortgages were flavour of the month previously because they had longer maturities and people thought a house was better than a car. Now they want shorter assets and investors are more interested in auto assets because although they are depreciating, repayments take that into account,” Thomas explains. •

Bank of Queensland

Public securitisation deals in 2008 which were sold to a wide range of investors saw more focus than usual on auto- and equipment-backed transactions. Over the course of the year to December 15 A\$3.96 billion (US\$2.5 billion) of these asset-backed security deals came to market, with €1.2 billion (US\$1.5 billion) sold by Australian issuers via four euro-denominated tranches – strong testimony to the quality of Australian assets and their appeal offshore.

Four public deals topped the A\$500 million equivalent level and two topped A\$1 billion. But it was Bank of Queensland (BoQ) – which issued its pioneering A\$628 million equivalent Reds EHP Trust Series 2008-1E deal on April 30 – that investors voted as their favourite securitisation issuer of 2008.

CONSISTENCY IS REWARDED

In spite of the difficulties faced over 2008, investors say BoQ is both consistent and committed. In a challenging market the buying community values above all things accessibility and information – two arenas in which BoQ excels, according to investors. “BoQ has always been accessible, visible and very proactive with investors,” comments one. Another adds: “They have always provided detailed data on their pools – they didn’t wait for a credit crisis to be forced into it.”

While the roadshow process for the Reds transaction was smooth, Brisbane-based treasurer at BoQ, Len Stone, says investors are now particularly focused on granular data about underlying collateral. “It is always important to be able to easily produce the type of data investors need,” he says. Stone expects investors will continue to have a heightened focus on data over 2009 as they return to doing their own fundamental research and analysis on transactions rather than relying on rating agencies.

He also notes greater interest in the bank itself as opposed to merely the deal it is marketing. “We have always supplied information on the bank as the servicer and originator of the assets, but it has never been as big a focus of investors. In 2008 half the questions we heard during an investor presentation were about the bank itself, rather than the deal,” says Stone.

BoQ’s securitisation issuance in 2008 was relatively limited compared with previous years – in 2007 A\$2.9 billion was issued via the Reds programme and in 2006 A\$2.3 billion. Traditionally the bank has derived some 25 per cent of its total A\$5-6 billion in annual funding from this market, but with global securitisation markets experiencing such volatility and the unwinding of the offshore structured investment vehicles

(SIVs) – traditionally big buyers of Aussie dollar product – the buying base has become more limited.

Stone says BoQ has consciously broadened its investor base in response to the collapse of appetite from the SIVs. “Before when we went to Europe we didn’t go to places like Switzerland or the Netherlands. Now we do go there as that’s where the money is,” he comments.

REDS PAVES THE WAY

The 2008 deal was the sixth from the Reds programme and the first to feature a multi-currency platform – with a €100 million tranche. Although St. George Bank’s Crusade vehicle had already issued an auto deal that also included a €100 million tranche in March, the size of the BoQ deal – almost double the A\$341 million from Crusade – immediately attracted investor attention, opening the way for the billion dollar-plus deals from other issuers later on in the year, and ensuring their smooth passage both onshore and offshore.

“The Reds deal was a quantum leap from the first Crusade offering in terms of size,” says Adrian Bentley, executive director, debt markets at Macquarie Bank in Sydney. “The euro tranche was much smaller than in the subsequent Crusade and SMART deals. However, the predominantly domestic investor base responded favourably to the collateral on offer during a window of relative stability.” Fourteen investors participated, with 67 per cent of the book taken by domestic accounts.

The issuer’s first foray into the euro-denominated market was predicated on carefully assessed demand, says Stone: “We had been looking at the euro-denominated market for some time and at the beginning of 2008 we perceived a pocket of demand for auto- and equipment-backed assets as European investors were looking for diversification away from mortgages.”

Stone acknowledges that the path to Europe was already well-trodden, but he adds that issuers faced a real challenge in 2008. “These auto deals were by no means easy. The market has changed so significantly that you can no longer simply announce a transaction, bring it to market and see it filled immediately. A great deal of careful planning and the strategic inclusion of cornerstone investors is now much more important,” he comments.

The Reds deal, jointly led by Macquarie Bank and HSBC, really demonstrated the power of intermediaries’ diverse distribution networks – a resource that will become increasingly important as issuers scabble for funding, says Stone.

BoQ has yet to articulate a firm target for funding via the securitisation market in 2009. Stone says the bank is taking a flexible approach, particularly given it has no major maturities until the second quarter. BoQ does have an application in with the Australian Office of Financial Management for co-investment in a securitisation transaction, but the government agency has yet to announce the results of its next round of investments. In the meantime, says Stone, the bank is not turning its back on any markets. He comments: “We will continue to search for the right funding opportunities.” •

Mallesons Stephen Jaques

In a ringing endorsement of the depth and experience of the capital markets team, Mallesons Stephen Jaques (Mallesons) has been named *KangaNews* Law Firm of the Year for the second consecutive year.

In a year in which client relationship management was paramount for service providers, Mallesons demonstrated that its extensive domestic and international experience in structuring, negotiating, documenting and advising on the full range of capital markets products stood the firm in good stead to service Australian debt capital markets participants. Voters in the 2008 awards applauded the depth of the capital markets team – which boasts over 40 lawyers in Australia, Hong Kong/China and London – its consistency in turbulent market conditions and its deep understanding of Australian and offshore markets.

According to Mallesons' internal data, the firm acted on 137 out of the 259 debt capital markets transactions in 2008. Mallesons says this includes 46 out of 81 domestic vanilla transactions; four out of six Australian domestic hybrids; 34 out of 38 Kangaroo deals; 17 out of 31 securitisation tranches; and 30 out of 83 deals issued by Australian issuers offshore excluding US issuance.

For Sydney-based partner Greg Hammond, a highlight of 2008 was consolidating the firm's strong position in the Kangaroo and overall debt capital markets. "We have built an exceptional team to service Kangaroo clients, including Ken Astridge and Phil Harvey in Sydney and Rowan Russell in London. It is pleasing to see the groundwork laid over five to 10 years paying such handsome dividends during tough times."

Although reluctant to pinpoint a single standout transaction, Hammond believes the team's work on an array of hybrid deals has really showcased Mallesons' capabilities. "Those deals were extremely intense given timeframes were often compressed at the client's request. We were able to call upon a large team to get things done very quickly," he explains.

Hammond says one of the biggest challenges legal practitioners are facing is managing the increased anxiety of clients regarding the ability to execute transactions and refinance maturing deals. "We are spending a lot of time helping people understand what markets are open and how those markets can be accessed," he comments. "The availability of the Australian government's guarantee scheme will hopefully bring some stability and greater understanding as to what sources of funding are likely to be available."

A second key challenge is understanding what the global realignment of banks means for Australia. "A number of very significant institutions are facing difficulties and undergoing significant restructuring. This could have huge implications for their Australian outposts next year," he says.

Looking forward, Hammond expects to see significant activity around restructuring of securitisation transactions and special-purpose vehicles as well as subordinated and mezzanine instruments associated with project finance and private equity deals. He also anticipates more work with semi-governments as they prepare for the changes in interest withholding tax and look at restructuring their segmented domestic and offshore programmes into more holistic global programmes •

BNY Mellon Australia

Last year's win in this category may have come as a bit of a surprise; but this year's certainly should not. In 2007 BNY Mellon Australia (BNY Mellon) leapfrogged Austraclear as the *KangaNews* Issuing and Paying Agent (IPA) of the Year following Austraclear's strategic decision to halt accepting new IPA business in the wake of the merger of the Sydney Futures Exchange and the Australian Stock Exchange.

Events over the course of 2008 proved that last year's win was by no means a fluke. BNY Mellon dominated the voting for this award on the basis of its client service and visibility.

It has been an interesting year for the firm. Apart from weathering the difficulties assailing global and local financial markets and consolidating its Australian business in the face of the shifting competitive landscape, BNY Mellon underwent a significant change with the acquisition of Trust Company's 50 per cent holding in BNY Trust Australia on April 20 – a move which the firm says underlines its commitment to the Australian market.

According to Paul Wilden, managing director, Asia Pacific, the biggest challenge IPAs are negotiating is the issuance drought afflicting global and domestic capital markets. "Our focus has been on maintaining momentum and providing excellent service to existing clients," he comments.

In spite of the challenging environment, Wilden says the Australian business is by no means slowing down. With a local team of 80 corporate trust professionals, he emphasises that BNY Mellon is in a unique position to provide a full range of document custody, collateral agent and trustee services as well as analytics, investor reporting and servicer requirements. "Our

robust domestic business, coupled with our global strength – the firm services US\$12 trillion in outstanding debt from 56 locations around the world – represents a very strong service offering,” he says. And the global firm is by no means retreating in the face of a turbulent market, adds Wilden.

For Sydney-based head of business development, Australia, Jennifer Scott-Gray, BNY Mellon’s servicing focus has been key to its success in the IPA space. “BNY Mellon is a banker’s bank. It is a sophisticated servicing company which services assets for banks. It registers and holds these assets and when required releases them. We do this all day, every day, in multiple jurisdictions, in multiple currencies and in multiple time zones. The fact that it is one of our core functions gives clients real confidence,” she says.

Scott-Gray adds that markets are changing so rapidly from week to week it is hard to predict what additional direction the business may take in 2009. But she and Wilden both anticipate a lot of activity in debt restructuring as defaults escalate and companies seek to stave off default with early intervention.

As for the Australian market, although Austraclear has announced plans to re-enter the IPA game, Wilden and Scott-Gray aren’t losing any sleep. “The market values consistency above all things in an IPA and we have certainly demonstrated that,” says Scott-Gray. •



AUSTRALIAN RATING AGENCY OF THE YEAR

No winner in 2008

The mantle of most tricky category in a difficult year for fixed income awards can only be ascribed to the Rating Agency of the Year. Given developments in global structured credit markets and their domino effect across financial markets, as well as the perception that rating agencies in general were behind the eight ball as the credit crisis deepened, it was virtually impossible to collect any consistent investor votes for this category.

As a result, *KangaNews* decided to withdraw the category for 2008 in the hope that relationships between the beleaguered rating agency sector and investors will stabilise enough to re-introduce the award in 2009.

The most challenging task the rating agencies are facing is likely to be the restoration of investor and client confidence and – a corollary to that all-important goal – complying with whatever regulatory imposts are forced upon them.

While no Australian investors are really questioning the corporate ratings given by the rating agencies, ongoing disappointment continues to wrack investors burned by the weakness of structured credit ratings and their inherently flawed assumptions. The old chestnut of conflict of interest – due to issuers paying for ratings rather than investors – was taken out for yet another airing during 2008. But there seems to be little expectation that this issue will ever be resolved given the limited ability of fund managers to pay the kinds of fees issuers will stump up for their ratings. Although the business model is clearly fractured, it is hard to see that the revenue model can change in any meaningful way and still be able to support the existence of the rating agencies.

Nonetheless, change of a certain type has already begun. On November 13 Senator Nick Sherry, Australian Minister for Superannuation and Corporate Law, announced significant reforms to the regulation of credit rating agencies and research houses, following a review conducted at the request of the government by Treasury and the Australian Securities and Investment Commission (ASIC). ASIC will remove the agencies’ exemption from holding an Australian Financial Services License – a measure also extended to all research houses.

Under the new legislation rating agencies will also be required to issue an annual compliance report outlining in detail to ASIC how they have complied with the recently updated International Organisation of Securities Commissions (IOSCO) Code of Conduct Fundamentals for agencies. This will also ensure uniform international regulation.

“The government believes requiring agencies to report annually on the quality and integrity of their ratings processes, conflicts of interest management and their responsibilities to the investing public and issuers, are all important new steps that will boost the integrity of our financial system,” said Sherry.

ASIC will also ensure that, as part of the new Australian regime, there will be no diminution of the agencies’ adherence to the regulatory measures currently in place, or likely to be put in place, by the US Securities and Exchange Commission. These include such issues as strengthened surveillance arrangements, limits or prohibitions on securities trading by staff of rating agencies and rules on the receipt of gifts by staff.

The Australian government has announced plans to convene a roundtable of key investors in Australia to discuss the role they can play in developing initiatives to drive improvements in the development, due diligence assessment and usage of ratings, and to ensure they are active in investor-side initiatives at the international level. It also plans to provide the G-20/Financial Stability Forum (FSF) with the new Australian Annual IOSCO Code Compliance Report as a proposed model mechanism for jurisdiction reporting that will then allow national regulators to conduct a coordinated annual comparative global monitoring review of IOSCO Code compliance.

There is no doubt that the research and analysis task will change profoundly for investors, particularly in the structured

credit space, as they seek more granular information from issuers for their own assessments. Says Kumar Palghat, managing director at Kapstream Capital in Sydney: “The landscape has definitely tilted. This series of relationships – between issuer, investor, intermediary and rating agency – will shift dramatically.”

Most Australian investors, though unwilling to vote for one stand-out rating agency in Australia over 2008, are in fact reasonably understanding of the agencies’ predicament. In addition, they are adamant that no investor should ever have abrogated their responsibility by relying solely on any third party.

David Bickford, head of investments at nabCapital, points out that it is not just the rating that the agencies publish that is important – it is also the data. “You need to be across this type of data to be able to accurately assess a deal and its pricing. It would be very difficult for investors to do their job without this information.”

James Meighan, senior portfolio manager, fixed interest at IAG Asset Management in Sydney, believes the flood of acrimony may be obscuring a deeper issue – the behaviour of irresponsible asset managers. “No-one forces you to buy poor instruments. You cannot outsource independent research to a rating agency and every professional should know that. If they aren’t capable of analysing risks internally they shouldn’t be managing money,” he comments.

These are not isolated views among institutional fund managers, who expect a real renaissance in independent

research from within the asset management community. Says Anne Anderson, head of Australian fixed income at UBS Global Asset Management in Sydney: “The macro environment and the funding environment changed so radically and so quickly it would have been very difficult for the credit rating models to anticipate. All investors haven’t learned that you cannot delegate research to any third party.”

John Honan, associate director, diversified funds at Ausbil Dexia in Sydney, points out that all the rating agencies have been reasonably proactive with investors: “They have had to be.”

While no agency received a full seal of approval in the 2008 awards voting process, investors do have emphatic views on which agency handled the crisis better than others.

On an international scale Standard & Poor’s seems to be winning the public relations war – at least in terms of sheer screen time. However, Fitch was the agency most cited by Australian investors as the least affected – primarily due to its smaller size in the Australian market. Says Anderson: “Fitch didn’t fly as close to the fire in the first place so it is easy for them to step forward now. They have put out some quality and topical research and a lot of opinion-based research that has informed the debate.”

Another fund manager says Fitch has been the most proactive agency in 2008. He comments: “The team has been very communicative. They have come to see us individually and held a number of public conferences over the year to keep investors informed.” •

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ANZ

The Kauri market, perhaps more than any other in Australia and New Zealand, has had its intermediaries to thank for its relative robustness in 2008. The logistics of Kauri issuance are challenging at the best of times – no other market features a range of issuers as geographically distant – but the achievement of maintaining any of the momentum of the 2007 issuance explosion from supranational, sovereign and agency (SSA) issuers is a real testament to the handful of banks with a presence in the market.

Having been boosted by fresh demand from local bank liquidity books for government-proxy paper with Reserve Bank of New Zealand repo-eligibility, the hopes of 2007 were that the strong showing from SSA issuers in Kauri market would build on the initially positive signs of demand from offshore while adding a sustainable bid from domestic fund managers. But in 2008 economic circumstances reduced the appeal of the carry trade for much of the year, while Kiwi institutional investors were fighting fires of their own in credit markets. These developments to some extent delayed the further development of the Kauri market in 2008.

Five houses were active Kauri intermediaries over the year – ANZ, Bank of New Zealand (BNZ), RBC Capital Markets, TD Securities and Westpac New Zealand – and all received some recognition from voters in the 2008 *KangaNews* awards. BNZ ran a close second in the voting, garnering particular notice from the international issuer community. But with issuer votes split the decider was a slight preference for ANZ from the local investor base, resulting in a second consecutive year win for the bank.

One bank liquidity book manager says: “ANZ and BNZ have both been supportive of the Kauri market all along. But ANZ gets the nod because it has been able to be more consistent in deal flow. It has also been the most visible in what remains a patchy secondary market.”

ANZ acted as lead or joint lead on 13 – just over half – the Kauri deals in 2008, including three of the five debut transactions. The Kauri volume brought to market by ANZ was NZ\$1.25 billion (US\$667 million) for the year – 36 per cent of the total volume in 2008.

Issuers commend the intermediary market as a whole as well as ANZ. Richard Jackson, Brisbane-based general manager, financial markets at Queensland Treasury Corporation – which wins the Kauri Issuer of the Year award (see p39) – says: “We really rely on the intermediaries to support what is a small market in New Zealand. They have done well enough that even though

investors are always searching for liquidity, they have not been in touch with us to ask us to provide it. The support is also there in the primary side – we were in discussions with ANZ for many, many months before we did our first Kauri deal in 2007.”

Stefan Goebel, co-head of treasury at Rentenbank in Frankfurt – who voted for ANZ first in the Kauri House award, adds: “Both ANZ and BNZ have made deals work in the Kauri market and contributed to the building of a broader investor base.”

Dean Spicer, head of DCM New Zealand at ANZ in Wellington, says: “Despite the challenges in the Kauri market in 2008 we were pleased to see the market continue to develop.” He adds that noteworthy achievements were a number of new names participating for the first time. “The changes that kick-started the market in 2007 have bedded down and in some ways it became a more challenging environment in the latter part of 2008 with the emergence of the government guarantee. But we also saw an up-tick in secondary market activity which has an impact on primary business by boosting investor confidence in the product overall.”

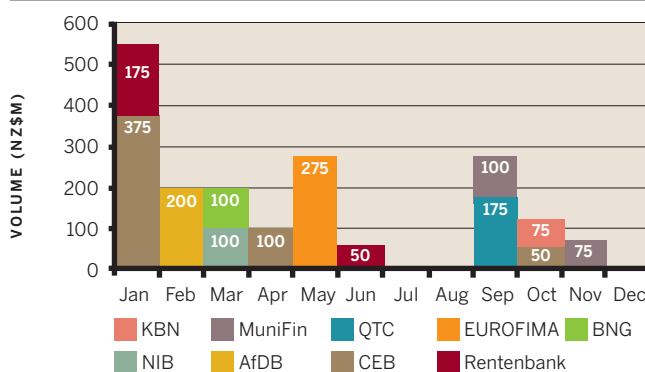
And despite the upheaval, Spicer is confident New Zealand will not be a flash-in-the-pan market for SSAs. “New investors have continued to come into the market, especially from offshore. This is one of the clearest signs that the Kauri format is gaining acceptance as the standard for NZD issuance,” he explains. “The full impact of competing supply from government-guaranteed issuance remains a question mark, but we feel the SSAs will still have a place in investors’ portfolios.”

Nonetheless, Spicer acknowledges there is clearly still room for wider investor participation in Kauri bonds, and he affirms ANZ’s commitment to facilitating investor information through roadshows and any other available means.

“The Kauri market is sustainable,” he concludes. “At times during 2008 the market was quiet, but only during periods that did not favour issuance. It is a positive sign that deals came when circumstances were right and that at other times the market was able to clear without an overhang of supply.” •

KAURI DEALS LED BY ANZ IN 2008

(SOLE OR JOINT LEAD ROLE; BY PRICING DATE)



SOURCE: KANGANEWS DECEMBER 15 2008



KAURI DEAL OF THE YEAR

Council of Europe Development Bank's NZ\$375m 7.75% Nov 2011

LEAD MANAGERS: ANZ, TD SECURITIES

Over 2008 a surprising number of issuers – five – accessed New Zealand's Kauri bond market for the first time. Inter-American Development Bank was first off the mark with a deal which priced in December 2007 but settled in January 2008. Other debut issuers were African Development Bank, EUROFIMA and Municipality Finance.

But it was the NZ\$375 million 7.75 per cent 2011 inaugural deal from Council of Europe Development Bank (CEB) (AAA/Aaa/AAA), led by ANZ and TD Securities (TD) and priced on January 23, that garnered the most enthusiasm from investors in the awards voting process. Being a new issuer and having issued the biggest single transaction in the market overall during the year earned recognition from the market.

The deal priced at 89.5 basis points over the benchmark New Zealand government bond or 20 basis points below swap. According to ANZ 59 per cent of the bonds were placed domestically and Dean Spicer, head of debt capital markets New Zealand at the bank, says demand was seen from both fund managers and bank liquidity books. Peter Dalton, vice president and director in debt capital markets at TD in Sydney, adds: "The geographical spread of offshore investors from Asia, Japan, Europe and the Middle East, as well as one account from Australia, was pleasing.

Offshore buyers included a number of central banks and asset managers."

Arturo Seco Presencio, head of funding at CEB in Paris, says the Kauri deal was a long time in the making. "CEB visited New Zealand investors a couple of years before debuting in the Kauri bond market in 2008. We started looking at issuing in the market when it first opened for SSA issuers, so it is particularly pleasing to be recognised with this award." He adds that the strong local investor participation certainly met CEB's primary requirement in entering the Kauri bond market – to achieve investor diversification.

For Seco Presencio, careful choice of lead managers was crucial to the success of the transaction. He comments: "CEB chose ANZ and TD to lead its inaugural Kauri deal as we have a long-standing relationship with TD in non-core markets and

it is important to have a house with strong domestic expertise – not just for execution but also for payment and other issues."

According to Spicer another appeal of the winning deal is that it performed favourably in the secondary market over 2008 – and he attributes this to the widespread distribution achieved in the primary market. "The maturity date matches that of one of the New Zealand government bonds and there was also a lot of interest in that part of the curve. In addition, CEB was the first new name to price in 2008 and in big volume. This combination of factors drove domestic investor interest in the primary deal," he explains.

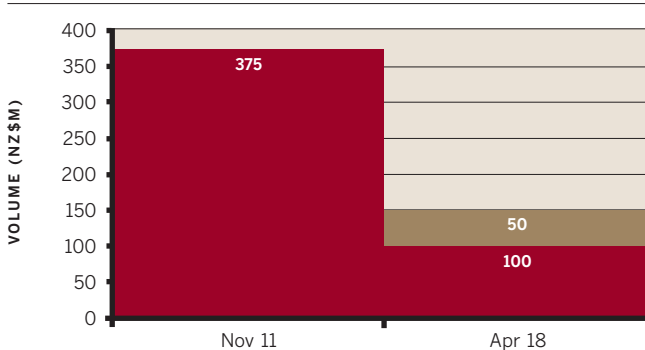
One of the biggest challenges for sovereign, supranational and agency (SSA) issuers in 2008 was finding long-dated funding. In addition to its 2011 Kauri bond, CEB was able to bring a 10-year bond in the Kauri market – the 7.5 per cent April 2018s, issued for NZ\$100 million in April and increased by NZ\$50 million in October.

Says Seco Presencio: "Our biggest challenge in the Antipodean markets in 2009 is to issue long-dated debt in both the Kangaroo and Kauri bond markets." In fact, he says finding duration in all markets will be a key task for SSAs over the coming year. "There has been huge concentration in the short part of the curve in 2008," says Seco Presencio. "Getting longer-dated funding will be a question of demand and price. In 2009 we hope to see some demand beyond five years."

The issuer's foray into the Australian and New Zealand markets has reaped substantial benefits. In 2006 the Aussie dollar comprised 20 per cent of total annual funding, in 2007 it was 13 per cent and in 2008 it was 9 per cent. Meanwhile, in 2008 the Kiwi dollar comprised 8 per cent of CEB's annual funding volume of €3.5 billion (US\$4.4 billion) – all provided by the Kauri market. Says Seco Presencio: "These are significant numbers, which underline our commitment to the markets. We would like to maintain around 10 per cent of our annual funding from the Kangaroo and, if possible, the Kauri bond markets."

He adds that if demand for Kauris persists in 2009, entering the market in as difficult a year as 2008 should position CEB well for further issuance. •

CEB'S OUTSTANDING KAURI BONDS



SOURCE: KANGANEWS DECEMBER 15 2008

Queensland Treasury Corporation

Although 2008 saw overall Kauri market volume ease off after the explosion of deals from supranational, sovereign and agency (SSA) issuers the year before, there were still a number of new, innovative or otherwise notable issuers in a market which continues to develop despite rough waters.

Inter-American Development Bank, Council of Europe Development Bank (CEB), African Development Bank, EUROFIMA and Municipality Finance all brought their first Kauri deals to market in 2008, while World Bank – winner of the Kauri Issuer of the Year award in 2007 and the first SSA borrower to come to New Zealand – priced the first such bond to be structured for distribution to the retail market.

Most of these issuers received notices from the market during the 2008 awards voting process, with CEB attracting particular interest from the domestic investor base and World Bank perennially popular among intermediaries. But the issuer with the clearest cross-section of votes in 2008 was Queensland Treasury Corporation (QTC), which became the first ever Australian semi-government Kauri issuer when it debuted in the market with its 2017 line in 2007.

By following its inaugural deal with two increases in 2008, QTC became the biggest Kauri issuer of the year – with NZ\$500 million (US\$267 million) issued – and the second-largest SSA issuer by outstanding volume, with its NZ\$875 million 2017s trailing only European Investment Bank's NZ\$900 million in two maturities.

Investors in New Zealand are clearly comfortable with the QTC name and the execution of its Kauri trades. "The deals QTC has done have always seemed well placed and shown good secondary levels, which is helped by the kind of name recognition they get as an issuer," says Andrew Michl, head of credit at ING New Zealand. "New Zealand investors are conversant with the way local government works in terms of tax-raising powers and so forth, so even though QTC is different from our local authority issuers it offers a degree of comfort."

However, QTC has also not rested on its laurels as a familiar name. Michl adds: "QTC did a strong roadshow in 2008 and has also shown really good investor relations over a number of years. That approach is valued by investors, especially at times like these."

These factors are also highlighted by QTC's bankers – a list which has included ANZ, RBC Capital Markets, TD Securities and Deutsche Bank for Kauri transactions. "QTC's presence,

having increased their 2017 line twice during the year, was a real highlight of the market in 2008," says Dean Spicer, head of DCM New Zealand at ANZ. "QTC has impressed the market by committing to an annual roadshow and the issuer has also been involved in additional dialogue with investors. All these factors contribute to QTC's strength as an issuer."

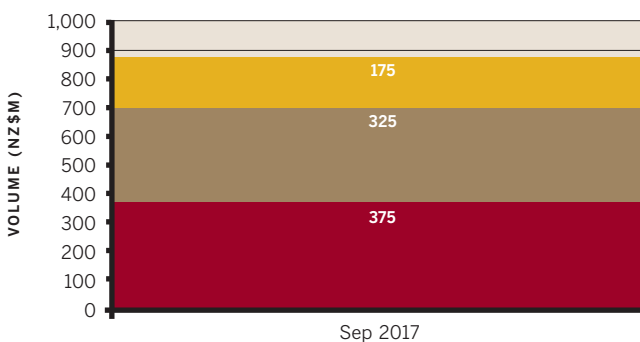
The semi-government takes the task of interacting with investors very seriously. Richard Jackson, general manager, financial markets at QTC in Brisbane, comments: "We approach New Zealand as an issuance market in much the same way as we do any other. We like to think we are known for our transparency, with communication through our dealer group as well as a regular programme of meeting investors face-to-face. Although we naturally have our own objectives, we are also aware of our position as a price taker and therefore of how important it is to meet investors on a regular basis."

While QTC is monitoring the reduction in Kauri issuance volume since the second half of 2008, the state treasury also remains confident market development is on track. Jackson says: "The Kiwi market still has a lot to offer issuers – for example some of the investors who came into our transactions more recently, especially from Europe and the US, are big, serious names. The atmosphere at the end of 2008 is one of self-protection but when the market returns to some degree of normality we expect there will be opportunities once more."

If this proves true a likely next course of action for QTC is building on the success of its 2017 bond with additional maturities. The longer tenor of its single outstanding line has meant QTC's Kauri deals have tended to attract a mainly offshore investor base. However, the success of the issuer in impressing the domestic investor base is a positive sign that it may be able to offer a deal at the shorter end of the curve.

"The next opportunity for us might be to issue a shorter-maturity Kauri, as New Zealand banks tend to prefer these deals to longer tenors," says Mike Gibson, QTC's senior portfolio manager, financial markets. "In an ideal world we would like to add one or two new maturities to our existing Kauri over the coming years. However, of course it also depends on the cost of funds being comparable with other benchmark markets." •

QTC'S KAURI BOND: INAUGURAL DEAL AND TAPS



SOURCE: KANGANEWS DECEMBER 15 2008

NEW ZEALAND DOMESTIC
BOND HOUSE OF THE YEAR

ANZ

The New Zealand domestic bond market was a curious beast in 2008, going some way towards making up in diversity what it lacked in size.

Although just NZ\$6.64 billion (US\$3.54 billion) was issued by local firms over the year to December 15, when deals that were still open as the year approached its end are factored in a total of 22 issuers approached the public markets during 2008.

That list of issuers includes New Zealand's biggest banks but also non-bank finance companies like South Canterbury Finance and MARAC Finance, utilities including Genesis Energy and Transpower Finance, local authority names such as Auckland City Council and Dunedin City Treasury, and even a smattering of true corporates like Telecom New Zealand, Fonterra and Fletcher Building.

By way of contrast, Australian firms issued A\$36.2 billion (US\$23 billion) of public vanilla term debt in the year to December 15 2008, all from just 15 names. Furthermore, the Australian market showed virtually no appetite for banks rated below double-A and even less for non-bank names.

While the majority of the deals from non-bank issuers in New Zealand were small, with line sizes of NZ\$50 million not uncommon, to stand out as an intermediary across the market – and especially to the diversification-hungry institutional fund managers who make up the core of voters in the *KangaNews* awards – a bond house had to show capability in all markets. In a market operating under the same liquidity constraints as any other – perhaps worse, due to its small scale – being perceived as a strong secondary market presence also earned kudos.

The winning house, ANZ, displayed an across-the-board presence in 2008 by being on the top line of deals from three local council issuers, two finance companies, one utility and three corporates – four times as many non-self-led deals as its nearest competitor – and taking a clear lead in *KangaNews*'s domestic league table when self-led transactions are excluded (see p47). Another major deal brought by ANZ, the NZ\$835 million self-led hybrid from April 18, was the year's largest deal in New Zealand but as a T1 it does not show up on vanilla league tables.

Fund managers also highlight ANZ's professionalism and market support. Andrew Blackler, New Zealand fixed interest manager at BT Funds Management in Auckland, says: "ANZ stands out in this market for two key reasons. First, they have a well-resourced and experienced DCM team. Secondly, they showed the best appetite for providing two-way liquidity in the corporate market in 2008."

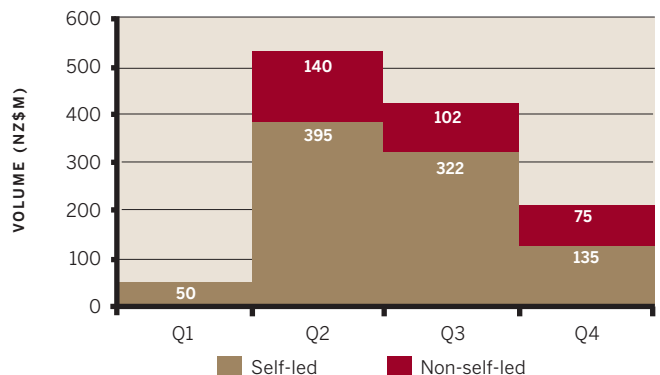
With conditions difficult for intermediaries and a secondary market which has never been anything other than patchy, ANZ's head of DCM New Zealand, Dean Spicer, says supporting the market required more communication than ever in 2008. "In the secondary market maintaining our offering was a case of being in touch with the investor base to find pockets of demand – clearly no house has been able to take down lots of supply without having an idea of where it might be placed," he explains. "Retail demand has helped, and transactions issued in that format generally performed best over the year. Although there may be a price to pay for that in the primary market, institutional investors who participated in those deals have been rewarded for doing so."

The issue of retail demand is another reason bond houses in New Zealand have to adopt a multi-faceted approach so as to offer their clients the widest range of options; with retail buyers becoming increasingly significant as the year wore on, ability to distribute to that market became a key skill. During 2008 ANZ acted on a number of retail deals, with a further transaction for Wellington Airport open as year-end approached.

"The majority of issuance in the first part of the year was predominantly from banks and SSA Kauris," says Chris O'Neale, director, DCM at ANZ. "But later on, retail demand for diversity away from the financial sector emerged strongly. One only needs to look at the success of the corporate issues to see how strong that demand is and we expect issuers to continue to take advantage of that at the start of 2009."

O'Neale also reaffirms ANZ's commitment to the institutional investor base, saying the swing to retail predominance is a product of market circumstances. He says those circumstances will change in time: "The latter part of 2008 was driven by tapping into retail demand. However, there was some institutional participation and it was satisfying to meet that demand in trying times. It's a matter of listening to what fund managers want, whether it be duration, names or anything else, and securing pockets of demand." •

NZ DOMESTIC VANILLA DEALS LED BY ANZ IN 2008



DOES NOT INCLUDE OPEN TRANSACTIONS AS AT DECEMBER 12 2008
SOURCE: KANGANEWS DECEMBER 15 2008

Bank of New Zealand

As with the *KangaNews* awards for the Australian market, the intention for New Zealand was to have an award for both a Domestic Deal and a Domestic Issuer of the Year. However, the profile of the New Zealand debt market in 2008, featuring a multiplicity of small-volume issuers, made collating nominations in both categories and finding a clear winner a tricky task. Some investors favoured deals from top-rated local banks while on the issuer side plumping for corporate or finance company issuers; others did the exact opposite.

In the end, the clearest common factor to emerge was the presence in both the deal and issuer categories of Bank of New Zealand (BNZ), which was also the biggest single issuer in the New Zealand domestic market in 2008. Overall, including its NZ\$448.4 million (US\$239 million) Tier 1 capital transaction from March, BNZ brought some NZ\$2.04 billion of paper to its home market, with maturities out as far as 2015. The issuer also reopened the domestic bond market at the end of October after a period of dormancy stretching back nearly two months.

CONSISTENCY AND EXPERIENCED ORIGINATORS

BNZ's popularity as an issuer has been helped by its consistency and by its experienced originators. "We have been running a credible bond programme in New Zealand for a number of years and we also have a very strong in-house origination team," says Wellington-based head of balance sheet management, Mahes Hettige. "We do everything we can to cater to market demand, especially by using BNZ Capital to ensure that the timing and deal construction meets that demand."

The T1 deal was singled out as a highlight by a number of institutional investors, despite the fact it was structured as a portfolio investment entity (PIE) transaction which offers tax advantages for retail buyers but is not so favourable to fund managers. Andrew Blackler runs a number of retail funds in his role as fixed interest manager at BT Funds Management New Zealand in Auckland. He says: "The PIE structure stood out as innovative and is one of the things that marked BNZ out."

Hettige adds: "The T1 deal was a very well-rehearsed transaction in terms of the work we put into distribution and the conversations we had with brokers before the deal came to market. That enabled us to be the first to use the innovative PIE feature, which was extremely well received."

Patrick Mullins, head of capital markets origination at BNZ

in Auckland, says the issuer could possibly repeat what has been a very successful transaction when the time is right, adding that the structure of the BNZ's Tier 1 offers potential for a return to the market. "Previous hybrids in this market have featured one-year resets, whereas the BNZ deal has a five-year reset. That has really helped support performance in the secondary market," he explains.

RETAIL VS INSTITUTIONAL INVESTOR INTEREST

The importance of the retail market to New Zealand issuers makes it challenging for local banks to keep institutional investors onside, as the banks often appear to pay up for deals they price in international markets while taking advantage of more favourable retail levels at home. BNZ is conscious of this issue and does its best to manage it.

Mullins acknowledges that managing institutional investor demands in the context of more favourable pricing both offshore and in the domestic retail market is a consistent challenge for every bank. However, he also points out that traditionally it has been the offshore markets that have delivered tighter pricing for banks.

Hettige continues: "Although there is currently greater size generally available to us in offshore deals, we do not forget that the domestic market provided us with a large chunk of our term funding – over NZ\$1.6 billion in 2008 – which certainly helped achieve our objectives. We also remain clearly focused on investor diversity both at home and offshore."

BNZ is also coming to terms with the impact of government guarantees on bank term debt, which again seem likely to have a different impact in its home market and abroad. "It is likely we will take advantage of the New Zealand government guarantee to issue offshore but we have not yet decided on the timing of that move, which will really depend on how the market plays out," says Hettige. "New Zealand continues to be regarded as a solid, well-managed economy on a fundamental level and we have not received any feedback that investors will be negatively comparing our guarantee with that of Australian or even European banks."

By contrast, he adds that although by December 10 2008 BNZ had issued the first – and only – government-guaranteed bond in New Zealand (see *KangaTrends* p9), the bank does not plan to make much use of the guarantee for domestic funding. "Domestically, we strongly believe the investor base will continue to favour the yield offered by unguaranteed paper and we have indicated we do not expect to use the guarantee for our local deals. That could change if the market deteriorates but at this stage that is how we see the situation remaining."

By December 12 2008 that belief was backed by market activity. Both BNZ and ASB Bank had priced post-guarantee domestic deals, of NZ\$135 million and NZ\$70 million respectively, without taking advantage of the government wrap. In addition, when in mid-November 2008 BNZ tested demand for a guaranteed transaction to retail investors with a 2010 deal, it found just NZ\$25 million of appetite for the product. •