



RCP & Partners GmbH

Risk rating of asset managers: the investor's measure of trust

CSAM – Credit Suisse Asset Management Deutschland



2 Very good

Manager Rating – Parameters

Date	2003–12–08
Units	Credit Suisse Asset Management (Deutschland) GmbH (CSAM-DE), Credit Suisse Asset Management Kapitalanlagegesellschaft mbH (CSAM KAG)
Client Groups	Institutional Clients
Asset Classes	European Fixed Income

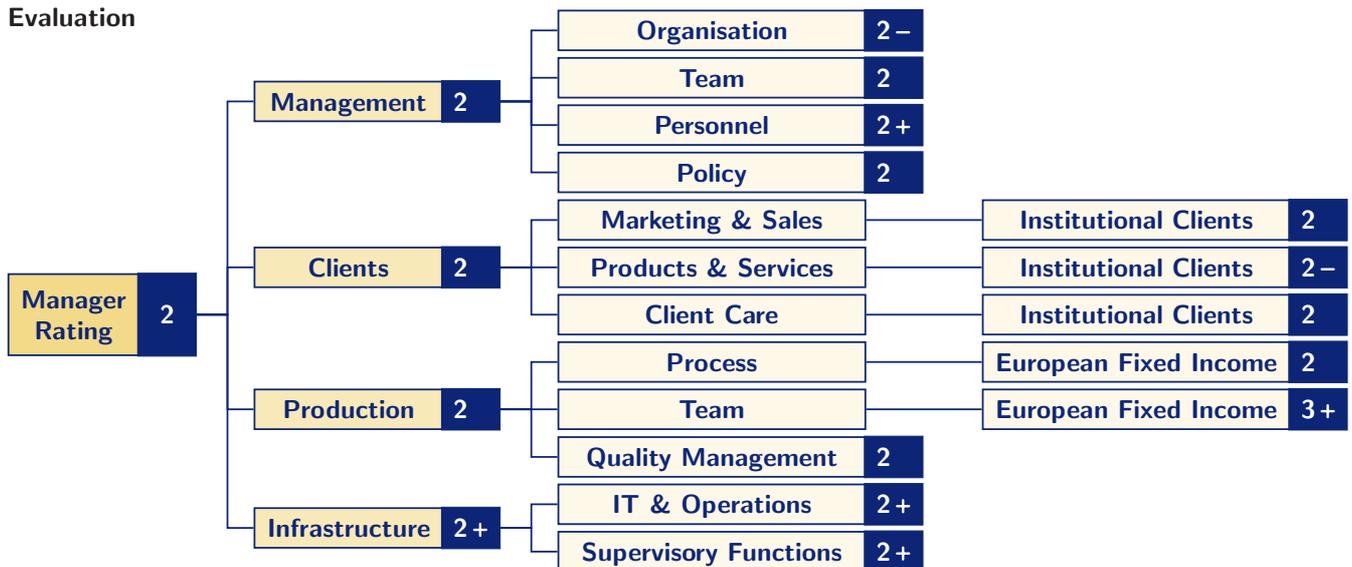
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Manager Rating	
+1	Excellent
+2	Very good
+3	Good
+4	Satisfactory
+5	Inadequate
+6	Insufficient

Manager Rating – Results

Evaluation



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Introduction

The present rating evaluates the entities CSAM-DE and CSAM KAG, both located in Frankfurt am Main. The activities of CSAM Immobilien KAG, a subsidiary of CSAM-DE, are not part of the evaluation.

Management

CSAM in Germany is fully integrated in the international and European organisation of *Credit Suisse Asset Management* (CSAM) which itself belongs to *Credit Suisse Group* (CSG). The European CSAM has a clearly defined business strategy with quantified objectives, which are pursued consistently. This also applies to CSAM in Germany. CSAM KAG has a share of ca. 1% of the German *spezialfonds* market, taking the lead position of foreign KAGs. In the German mutual funds market CSAM is one of the strongest foreign firms.

Both (in fact all three) legal entities are related by a clear, cross-entity functional structure and joint committees. Compensation for losses and consolidation of profits among the three entities is governed by formal arrangements. There are no financial commitments or guarantees by its parent company, although this would be desirable. CSAM's operation in Germany is highly profitable while being soundly capitalised. CSAM Immobilien KAG contributes to a larger, CSAM KAG to a lesser extent to its profits.

Integration with the European CSAM-organisation is also reflected in the boards of directors. They are composed of regional and functional heads of the European CSAM, but do not include independent members. The latter would further improve management control, even though the arguments for the current construction are understandable.

The BVI code of conduct was formally implemented in October 2003. Since then all staff of CSAM in Germany have to commit themselves to adhering to these rules. An internal *Code of Conduct* describes the basic values of CSAM and, among others, places the interest of clients before those of CSAM and its employees.

Clients

For the current rating the **institutional business** of CSAM in Germany was considered. In this client group sales and client care are provided by the same personnel. Here, CSAM stands out for its disciplined sales process. Due to the organisation by sector or client segment, relationship managers can draw on good knowledge of the respective client requirements.

In Germany, CSAM can offer a broad range of investment products, partly drawn from international CSAM units. For clients, this international co-operation is transparent, because in every case implementation is conducted by a local portfolio manager. Apart from traditional active and passive products on the equities and fixed income side, CSAM also offers products which are not benchmark-driven. These include mandates which are oriented towards achieving a *Positive Absolute Return* (PAR). Here, even in an assumed

worst case, a risk cushion should remain or a positive return be achieved. Apart from *spezialfonds*, CSAM offers for smaller mandates a wide range of institutional classes of mutual funds (I- and D-Shares). The extent of the services on offer is, in contrast, significantly smaller.

The product development process, co-ordinated on a European level, is highly structured and is implemented with due controls. The consistency encountered is rare in the industry.

Reporting can be adopted or extended reasonably flexibly according to client requirements (e.g. statistical ratios, IAS). From the end of 2003 all reports should be available to clients on-line. The production of reports is very efficient. However, with regard to content and design, we still see room for improvement.

As a whole, client service is provided on a very high level.

Production

The investment process for the asset class **European Fixed Income** has been embedded in CSAM's global and European platform since 2000. In a combination of top-down and bottom-up approaches, strategic decisions are mainly taken on a global level, but then are regionally interpreted and locally implemented. The teams involved utilise adequate tools from scorecards to optimisation models.

The construction of model portfolios is decentralised and takes place in different production locations, one of them being Frankfurt. The implementation of these models in client portfolios is conducted in every case by a local portfolio manager. The portfolio manager has certain degrees of freedom to select individual securities and to allocate between different rating segments, which is only partly justified by the large extent of customisation among client portfolios. This holds even more for PAR-Accounts, which depend more strongly on the client's risk profile for their management.

An important base for the investment process is the analysis of global and European research teams, co-ordinated from London with participants from all production locations. Apart from a specialised team for single macroeconomic themes there is also research on credits, *pfandbriefe* and ABS. Most portfolio managers are at the same time analysts. All research results and meeting minutes as well as external research are available from a common research database. Considering the variety of themes to be covered, the available European resources seem to be comparably undersized.

Trading is completely out-sourced to *Credit Suisse (Deutschland)*, resulting in a clear separation of functions avoiding conflicts of interest: clear orders, pre-checked for investment restriction by the portfolio manager and for order execution by the trading desk, exclusively on best execution principles. The document flow is almost completely electronic, the settlement highly automated.

The investment process is managed predominantly according to functional responsibilities. However, the local CIO is responsible for the correct implementation of the investment decisions, resulting in comprehensive controls. Addi-

tionally, an independent quality control takes place within the separately organised risk management function. Here, for all portfolios – sometimes individually – criteria are defined and regularly monitored by a committee. In case of deviations the respective portfolios are put on a watch-list and corrective measures are taken.

The performance data were certified according to AIMR- and DVFA-PPS as well as GIPS. However, at the end of 2003 the current composites will only offer a history of three years.

Infrastructure

The internal IT department already covers the most tasks. Furthermore, the group provides support for specific topics and there is co-operation with external partners. The latter have been selected after competitive comparison.

The IT infrastructure consists of products of well-known manufacturers and conforms with CSG standards. This holds in particular for the additional technical safety features of the software.

Data which is important for business continuity is replicated in short cycles to back-up systems. Emergency desks are available exclusively for CSAM, but their distance is not sufficient for some scenarios. The business continuity plans were tested successfully.

The administration of investment accounts will be given up at the end of the year due to low volume, slimming this area even further. Existing accounts will be transferred to *European Bank for Fund Services GmbH* (ebase), offering a similar service with a CSAM co-branding.

The fund accounting tasks are to a large extent automated and efficiently carried out. This has become possible in particular by working in the majority of cases with a “house custodian”. This custodian was selected in an objective contest and does not belong to CSG. The clear separation increases cost transparency and avoids conflicts of interest.

The risks outside of the investment process are recorded in both a quantitative and qualitative way and regularly monitored by comparing with threshold values. In comparison with other financial services providers, there is a clear best-practice gap here which needs to be closed. This concerns in particular the monitoring of the more qualitative operational risks.

Compliance leans on the international guidelines of CSAM, supplemented by local requirements and specific rules as the BVI code of conduct. The compliance rules exceed international standards in some points. Compliance with the rules has to be confirmed by employees annually. Consciousness of the topic of compliance among employees is especially highlighted.