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INVESTOR PROFILE

Primus targets illiquid names

When entrepreneur **Jay Shidler** first dreamed up the concept of **ePrimus**, the dotcom craze was just beginning to gather pace and the potential for the internet to transform established markets seemed almost unlimited.

Where ePrimus differed from other web start-ups of that era, notably **Creditex** and **CreditTrade**, was that it was never intended to be an intermediary in the credit derivatives market. Instead it would be a pure credit investor. But as with other internet ventures, a large part of the business plan centred on bypassing traditional intermediaries. The company hoped hedgers would buy protection from ePrimus directly using its online facilities.

But the company that was finally launched in March is very much a post-dotcom version of ePrimus. Now known simply as **Primus**, it is not an internet start-up but a standalone, triple-A-rated investor in credit default swaps. "Our focus now is on our core area of expertise: credit," says **Tom Jasper**, the company's chief executive. Rather than bypassing intermediaries, the company hopes to deal with a wide range of dealers and interdealer brokers.

Primus's long gestation period has allowed it to learn from the mistakes that others have made. The company now recognises that credit derivatives are not about to migrate wholesale to electronic forms of trading. "The credit swap business is a story business," says Jasper. "People like to talk about things. It is hard to do that through a website."

Standalone pioneer

In fact, Primus now has a rather more interesting point of difference than its ability to transact online. It is the first standalone company established specifically to sell protection on a single name basis. Unlike triple-A-rated monoline insurers, it will not get involved in the structured credit market. And unlike other triple-A counterparties, it relies for its financial strength not on the backing of some well-endowed parent but on the quality and consistency of its investment strategy.

"We have a number of things in our favour," says Jasper. "First, we are a new counterparty. Second, we have triple-A ratings from both **Moody's** and **Standard & Poor's**. Third, we are backed by a strong and very supportive investor group. And fourth, we have a breadth and capacity across many of the less actively traded names in the credit derivatives market."

Furthermore, Primus will be a buy-and-hold investor. "We are strictly a seller, not a dealer," says Jasper. "We will only buy protection where we see that a credit is migrating and want to exit that name. We will not hedge credit risk in order to take a trading profit."

Investor name: Primus Financial Products

Investor type: standalone derivatives company

Portfolio size: $5.5 billion expected in first year

Credit appetite: single-name investment grade

Its willingness to sell protection on less actively traded names should make Primus a highly sought-after counterparty. In addition, the firm will trade using standard ISDA credit default swaps, rather than requiring tailored documentation. "We are in the business of selling protection on the whole universe of investment-grade names globally," says Jasper. "That amounts to between 1,000 and 1,400 names. Our strategy is to develop a diversified portfolio of investment-grade risk."

However, Jasper does not believe that Primus needs its own research function to keep a track on all these different credits. Instead, he expects Primus to be an active user of rating agency, investment bank and other third-party research and data. "Ultimately, we will form our own credit judgements as to whether we like a credit or not," he says. "These are mostly publicly listed names. We don't intend to do any fundamental research on them."

More than a CDO

Although Primus's investment strategy will be closely scrutinised by the rating agencies, the company is more than simply a large CDO. One of its key advantages over a synthetic CDO, which needs to ramp up relatively quickly, is that Primus has the freedom to sit out from the market for a time if it doesn't like the prices on offer. "We will build our portfolio at a time and in a place that makes sense to us," says Jasper.

That process should begin in early May, when Primus will begin trading. In the meantime, the company is putting documentation in place with a number of different counterparties. Another of Jasper's immediate priorities is to take on additional staff. The current head count of around eight should rise to around 20 by the end of the year.

The group's main operating company, **Primus Financial Products**, is owned by a holding company **Primus Guaranty**, which, in spite of its name and Bermuda domicile, is not an insurance company. The Primus group does, however, include a reinsurance company, which will in due course be used as a transformer, allowing Primus to write business in formats other than ISDA credit default swaps.

Primus Financial Products will start out with $220 million in capital as well as a $115 million excess-of-loss insurance policy. Jasper expects that Primus will build a book of business in the order of $5.5 billion in magnitude in its first year and then grow further.

The launch of Primus comes as it completes a second round of equity financing. Joining **the Shidler Group** as equity investors are **XL Capital**, **Radian Group**, **Calpers/PCG Corporate Partners** and **Aegon USA**. The four institutions together contributed $155 million in new equity.