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BEST RISK MANAGEMENT HOUSE

UBS

The investment bank has benefited from a focus on long-term relationships and advice

The events of the past 12 to 18 months have been a perfect opportunity for investment banks to prove to their clients their worth as risk managers. The US yield curve surprised almost everyone, refusing to move in response to interest rate rises by the Federal Reserve; the US dollar continued to weaken against major currencies before an unexpected rally in the past couple of months; commodity, and especially oil, prices have helped create new investment opportunities for some investors, while on the flipside causing a degree of pain to various corporate earnings; and equity markets have left many investors disappointed.

Several investment banks have stepped up with innovative solutions to a variety of client concerns. What makes this year's winner, UBS, stand out is its different approach to the business, one that has started to bear fruit in the past 18 months or so.

At its core is more of a focus on long-term relationship development and advice rather than using prowess in the flow business as its calling card – though that's certainly important, and UBS has that in most of the major products. That's also not to belittle our other shortlisted banks, JPMorgan and Deutsche Bank, whose bankers can point to impressive deals where advice was more important than execution.

But UBS is gaining a reputation for putting the client back in control of its risk management processes. "We've been working on this for three years, and especially so in the last



Peter Ghavami

year and a half," says Peter Ghavami, co-head of European fixed income and rates sales. "We're doing a very good job of focusing on the real needs and problems of institutions and high net-worth investors."

One example is the bank's award-winning CreditDelta product. This tool, developed over the past few years, lends clients specific analytics not available elsewhere to allow them to make optimal portfolio management decisions. As *Euromoney* wrote in its March 2005 technology poll, "both long-only users and hedge funds have always liked [CreditDelta's] rich-cheap, relative value, z-score, breakeven, and asset versus benchmark mapping functions. They can choose what they want to maximize – say spread, coupons, or returns – and what they want to control – tracking error, number of trades, rating, or whatever – and CreditDelta will provide them with a roadmap of trades and costs. That's invaluable for a fund manager competing for increasingly complex pension fund mandates."

UBS has also set up sector-by-sector teams to advise clients on the big issues. "We've set up teams for specific sets of problems focusing on entire sectors," says Ghavami. "The team is made up of people from equities, fixed income,

and investment banking, with the idea being to have a team that understands the issues and can provide customized solutions."

A good example is the life and pensions group, which has been advising clients on asset-liability issues, an increasingly hot topic in the past 18 months as pension and insurance funds grapple with their mismatches. One firm, in the UK, needed advice on how to implement a long-term matching strategy while preserving its capacity to leverage its fixed-income team's stock selection skills. Having determined the fund's cashflow liabilities and its regulatory yield-curve exposure, UBS then restructured the fund to a less constrained benchmark, with any duration lost replaced by a series of swaps.

UBS is also a major player in FX derivatives. A good example is how it has spearheaded the flex forward. This helps solve the need of a client that is neither looking for protection on changes in the FX rate nor seeking to benefit from a strengthening in one currency, but just needs a fixed rate for a transaction it knows it will have to do at some undefined point in the future, where a traditional forward will not help. The flex forward allows the client to sell at a predetermined fixed rate, with any variability in the forward covered by a small charge in the form of additional forward points.

UBS's strong equity derivative franchise has addressed its one slightly weaker link, the US market. In part that's being solved by the investment bank's overall expansion in the US, but in part by acquisition. Last year UBS bought Schwab Capital Markets, a small deal that happened to make the bank the largest trader of cash equities and options in the US.

That has added to what was already a top equity derivatives franchise, and has allowed the firm greater flexibility in its equity-based risk management advisory work.

Ghavami attributes much of the firm's success in these products, as well as across risk management, to the general focus of the bank. "We've continued to invest in young talent, right through the downturn, and also we don't take a quarter-by-quarter approach to the business. We look ahead five years. That's how we got to where we are today."