

Projects from CNH Partners, Connecticut

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Drivers of Corporate Bond Credit Spreads

In this project you will examine why the credit spread between GM debt and GMAC debt are different. GMAC credit spread (200bp) is tighter than GM credit spread (280bp). If GM is downgraded then massive amount of debt will have to change hands, and fear of the resulting lack of liquidity may be the reason for the higher credit spread for GM provided GMAC debt is not down graded at the same time. For that not to happen it must be the case that the parent corporation can not grab GMAC assets in times of bankruptcy. You will provide the answers! CNH Partners will provide you with data on bond prices and credit spreads. You will have to go out and read the bond indentures carefully as well as the charter of the two firms and explain why the credit spread on the two securities are different. Would you recommend any trading strategy that will earn superior returns? How will you evaluate the risk in that strategy?

Investing in Distressed Securities

Investing in Distressed Securities is an important hedge fund strategy. It was one of the best performing hedge fund strategies during 2003 and 2004. In this project you will study the different securities issued by TWR (Tower Automotive) which has filed for protection under Chapter 11 of the U.S. bankruptcy code, and evaluate their risk-return profile. The firm has been hit by rising steel prices and has been facing severe pressure to keep prices down from automobile manufacturers. Prior to filing for bankruptcy protection their stock traded at 77 cents. They have straight debt, convertible debt, and bank debt outstanding. They have also raised \$900 million from debtor-in-possession financing. You will analyze the company and figure out who will get what in bankruptcy. What negotiating tactics will parties holding different types of securities issued by the company will engage in? What will each security holder receive as a result of the reorganization? What trading strategies would you recommend to profit from Tower's distressed situation? For that you will have to go into a detailed analysis of the indentures associated with each security and the organization structure of the firm.