Structured Finance

Santiago CDO Limited

HIGHLIGHTS

- **Global Emerging Markets Cashflow CDO managed by Pacific Investment Management Company LLC (PIMCO)**
- **US$400mn Emerging Markets Debt Portfolio**
- **Investment by IFC in US$13mn Class C Notes and US$15mn Subordinated Notes**
- **Portfolio guidelines ensure a corporate exposure of at least 50%**
- **Incentives to invest at least 15% of portfolio into primary non-blue chip corporate issues**

THE ASSET MANAGER

The Pacific Investment Management Company LLC (PIMCO), founded in 1971, is a privately held asset manager, majority owned by Allianz since 2000. Based in Newport Beach California, PIMCO employs 226 professionals and 426 support staff. As of March 31, 2005, PIMCO had a combined total of US$464 billion under management. Emerging Markets (EM) have been part of the PIMCO investment process since the early 1980s—with PIMCO first managing EM debt in 1994 and issuing the first public mutual fund in 1997. As of December 31, 2004, PIMCO's EM holdings represented US$19.1 billion, ranking PIMCO amongst the largest EM market participants. PIMCO is the asset manager for numerous collateralized debt obligations (CDOs), but Santiago CDO Ltd. is only PIMCO's second emerging markets CDO transaction, and their first with corporate emerging markets exposure exceeding 20%.

OBJECTIVES

IFC facilitated the transaction by making a sizeable equity commitment at the inception stage. This commitment was contingent on the transaction including a significant amount of exposure to emerging market corporates; IFC's target client base. Additionally, during the structuring of the transaction, IFC worked with PIMCO and the arranger to develop incentives in the transaction for the asset manager to invest at least 15% of the portfolio (approximately two times IFC's investment) into non-blue chip emerging market corporate primary issues. As both emerging market sovereigns and blue chip corporates are often able to successfully tap international investors directly, this bucket of 15% was established to help introduce a new class of emerging market borrowers to the international capital markets. Also, by stipulating that this 15% bucket is for primary issuance only, IFC was able to ensure that the proceeds of investment will be for the direct benefit of corporates in need of financing.

THE STRUCTURE

Santiago CDO Ltd. is a bankruptcy remote managed arbitrage CDO. The transaction incorporates over-collateralization and interest coverage tests common to most cashflow CDOs. Breach of such tests would cause early paydown of the rated notes in the transaction. During the reinvestment period of five years, PIMCO will have broad discretion to substitute up to 20% of the underlying exposures in the pool of underlying assets per annum so long as, among other things, the rated notes have not been downgraded. The collateral portfolio may be invested in both cash and synthetic collateral obligations, as well as covered and naked credit short obligations, allowing for flexible risk management. Sovereign exposure is capped at 50% and the collateral management fee includes a performance component which is contingent upon reaching the 15% bucket of non-blue

International Finance Corporation
World Bank Group

chip corporate new issuance. Following a three year non-call period, the rated notes can be optionally redeemed at the direction of the holders of at least 50% of the subordinated notes, thus allowing them to capture appreciation in the underlying collateral pool.

OUTCOME

Through this transaction, IFC facilitated the creation of a securitization vehicle which i) enables large credit-rating sensitive institutional investors to access emerging market debt securities, ii) is structured to include an exposure to EM corporate debt of at least 50%, and iii) is influenced in composition of the underlying collateral to include primary issues by non-blue chip EM corporates; a group of borrowers for which access to the international capital markets has been extremely limited.

CLASS DESIGNATION	A	B	C	Subordinated	Z*
Original Principal Amount	212,000,000	68,000,000	32,000,000	88,000,000	20,000,000
Average Life	9.3 years	9.5 years	9.6 years	N/A	N/A
Pricing Date	March 18, 2005				
Closing Date	April 6, 2005				
Stated Maturity	April 18, 2017				
Moody's Rating	Aaa	A2	Baa3	N/A	N/A
S&P Rating	AAA	A	BBB-	N/A	Private Rating
Deferred Interest	No	Yes	Yes	N/A	N/A
Interest Rate	6-month LIBOR + .40%	6-month LIBOR + 1.30%	6-month LIBOR + 3.00%	Variable	Variable
IFC Investment			13,000,000	15,000,000	

*Class Z Combination Notes represent certain Subordinated Securities packaged with certain zero-coupon notes