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GE Bond Fund Investors Cash Out After Losses From Subprime

By Christopher Condon and Rachel Layne - Nov 15, 2007

Nov. 15 (Bloomberg) -- A short-term bond fund run by General Electric Co.'s GE Asset Management returned money to investors at 96 cents on the dollar after losing about $200 million, mostly on mortgage-backed securities.

The GEAM Trust Enhanced Cash Trust, a short-term bond fund with about $5 billion in assets, told non-GE investors on Nov. 8 that they could withdraw their money before losses mounted. Enhanced cash funds usually offer higher yields than money- market funds by investing in riskier assets.

All outside investors, who together held ``several hundreds of millions of dollars'' in the fund, pulled their money, Chris Linehan, a GE Asset Management spokesman in Stamford, Connecticut, said yesterday in an interview. Most of the fund's money before the redemptions came from GE's corporate pension plan and remains invested.

Enhanced cash funds ``never promised to be stable value, though investors may have believed that,'' said Peter Crane, founder of Crane Data LLC, the Westborough, Massachusetts-based publisher of the Money Fund Intelligence Newsletter. There are a number these funds ``under duress,'' he said.

Barron's first reported the GE fund's losses yesterday.

Linehan said the losses were from mortgage-backed securities, including those linked to subprime home loans. He couldn't say how much the fund had invested in mortgage debt. The fund didn't own collateralized debt obligations, which are securities backed by pools of bonds and loans, or commercial paper or notes issued by structured investment vehicles, known as SIVs.

Taking More Risk

The collapse of the subprime-mortgage bond market, caused by rising defaults by home buyers with poor credit histories, has driven down global debt prices as investors flee all but the safest investments.

Some money managers market enhanced cash funds, as well as ultra short-term bond funds, as alternatives to money funds, which are considered the safest investments outside of insured bank accounts and government debt. Money funds are required to hold debt that matures in 13 months or less, with a weighted average maturity of 90 days or less. The securities must have top short-term corporate debt ratings. Money funds strive to maintain a $1 a share net asset value.

Short-term bond funds have more leeway to boost yields by buying lower-rated securities. Some have run into trouble amid the credit squeeze, including the $1.4 billion State Street Limited Duration Bond Fund, which lost more than a third of its value in the first three weeks of August, the Boston Globe reported Aug. 28.

Money Funds

Several money-market funds have recently shown signs of strain from subprime-related holdings. Bank of America Corp., the nation's second-largest bank, said Nov. 13 that it may provide as much as $600 million to funds that bought asset- backed securities. Legg Mason Inc., SEI Investments Co. and SunTrust Banks Inc. also have stepped in to make sure investors don't lose money by arranging financing so their funds don't fall below the $1 a share net asset value, known as ``breaking the buck.''

Funds that channel mortgage debt to other investors, such as SIVs, have also come under stress. Unable to refinance their debt, SIVs including Cheyne Finance Plc have defaulted.

Worried that the turmoil among SIVs will further hurt the commercial paper market, banks have rallied behind U.S. Treasury Secretary Henry Paulson's efforts to put together what's being a called a Super-SIV, to be run by Bank of America, Citigroup Inc. and JPMorgan Chase & Co.

The Super-SIV would buy assets from SIVs in an attempt to prevent a forced sale of the roughly $320 billion in assets held by the 30 entities.

GE Asset Management, a unit of Fairfield, Connecticut-based GE, oversees more than $198 billion for individual and institutional investors, as well as pension funds for its parent company.

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