Developments in Structured Products and Derivatives

Dominique Gallego, Craig Stein, Joseph Suh

17th Annual

Private Investment Funds Seminar

Tuesday, January 15, 2008

Schulte Roth & Zabel LLP

About the Speakers

Schulte Roth & Zabel

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Dominique Gallego is a partner in the Tax Group at Schulte Roth & Zabel LLP. She concentrates on U.S. federal income tax matters related to structured finance transactions, financial products and investment funds.

Dominique received her LL.M. in International Taxation from New York University School of Law in 2001. She obtained her J.D., *cum laude*, from Ateneo de Manila University in Manila, Philippines, in 1998. She earned her B.S.A.E., *summa cum laude*, from De La Salle University in Manila, Philippines, in 1992. Before joining SRZ, she was an associate at Sidley Austin LP.

Dominique is a recipient of the AT&T Asia Pacific Leadership Award and a member of the New York State Bar Association, the American Bar Association and the Integrated Bar of the Philippines.

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Craig Stein is a partner in the Structured Products & Derivatives Group at Schulte Roth & Zabel LLP. His practice focuses on structured finance and asset-backed transactions, credit derivatives and fund-linked derivatives. He has been recognized by peer-review publications as a leader in the industry. *Chambers USA 2007* said of Craig: "Clients and peers have 'nothing but great things to say about' him. He is 'a great thinker and excellent credit derivatives operator.'"

Craig speaks and writes widely on advanced financial products. His articles have appeared in *Credit*, *Loan Market Week*, *Derivatives Week* and elsewhere, and he has been a speaker and panelist at conferences on hedge funds and innovative investment products.

Craig earned his J.D., *cum laude*, from the University of Pennsylvania Law School and his undergraduate degree, also *cum laude*, from Colgate University. He is a member of the American Bar Association, the New York State Bar Association and the ISDA Credit Derivatives Market Practice Committee.

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Joseph Suh is a partner in the Structured Products & Derivatives Group at Schulte Roth & Zabel LLP. His practice focuses on credit derivatives, total return swaps, fund-linked derivatives, fund-linked notes, collateralized debt obligations and other asset-backed securities. He has represented dealers, issuers and managers in connection with a wide range of structured finance, derivative and fund-linked products, including private equity and hedge fund CFOs, bespoke CDS trades, hedge fund-linked notes, portable alpha trades and other hedge fund-linked derivatives.

Joseph received his B.A. from Cornell University and his J.D. from Fordham University School of Law, where he was associate editor of the *Fordham Law Review*. He is a member of the New York State Bar Association and a recipient of the Lawyers Alliance for New York's prestigious Cornerstone Award.

A frequent speaker and author, Joseph co-wrote "Keeping up with the Hedges," published in *Hedge Fund Manager* and penned "Impact of Proposed Changes to FASB 140 on Private Equity and Hedge Fund CFOs" for *Securitization News*. Last year, he spoke on "U.S. Mortgage, CDO, Synthetics and Consumer ABS Markets" at an SRZ Investors and Issuers Program.

Outline

Schulte Roth & Zabel

Developments in Structured Products and Derivatives

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1) Leveraged Products
   a) Fund-linked derivatives
      i) Common transactions
         (1) Call options
         (2) Total return swaps
         (3) Fund linked notes
      ii) Hedge fund derivative transactions can be linked to:
         (1) Single funds
         (2) Funds of funds
         (3) Fund indices
      iii) The dealer typically hedges itself by purchasing units of the relevant funds, funds of hedge funds or portfolio of funds.
      iv) Call options
         (1) Features
            (a) A call option grants the option buyer the right, but does not impose the obligation, to purchase a notional amount of a hedge fund in the future.
            (b) The option buyer pays a premium to the option seller at inception for this right.
            (c) Call options can generally be cash or physically settled.
            (d) Hedge fund-linked call options are typically cash settled if the option is in-the-money.
               (i) I.e., if the strike price is less than the then current value of fund, upon exercise of the option, the seller will pay the difference between the value of the fund and the strike price to option buyer. In addition, the financing fee payable by the option buyer is netted out.
            (e) Call options can generally be "American style" (exercisable at any time) or "European style" (exercisable at maturity only).
         (2) Corporate issues
            (a) Additional termination events
               (i) Knock-out triggers and other NAV-based triggers (impact of redemptions and new investments). These triggers may be tied to the funds referenced in the call option but some may be tied to the fund that is entering into the call option.
               (ii) Triggers related to changes to documents, investment strategies, etc. These triggers may be tied to the funds referenced in the call option but some may be tied to the fund that is entering into the call option.

(iii) Key person triggers. Usually, these are tied to the managers running the fund that is entering into the call option.

(b) NAV adjustments and other valuation issues

(i) Dealer is the calculation agent.

(ii) Dealer will require haircuts for failure to meet certain portfolio criteria and other criteria that may not be in the control of the manager.

(c) Reporting obligations

(i) Reports by the referenced funds.

(ii) Reports by the fund buying/entering into the investment.

(3) Tax issues

(a) Will option be respected as an option for tax purposes?

(b) Will option create tax ownership of the fund interest itself?

(c) What is character of income generally on cash settlement?

(d) Any constructive ownership transaction (I.R.C. 1260) issue?

v) Total return swap

(1) Features

(a) The total return payer pays to the total return receiver the return on a notional amount of hedge fund interests.

(b) The total return receiver makes an upfront payment to the total return payer and the difference between the notional amount and the upfront payment represents the leveraged or the borrowed portion of the trade. The total return receiver will pay a financing fee to the total return payer.

(c) Cash settlement can occur periodically but most of the time the settlement is done at the end of the trade.

(2) Corporate issues

(a) Knock-out triggers and other NAV-based triggers (impact of redemptions and new investments). These triggers may be tied to the funds referenced in the total return swap but some may be tied to the fund that is entering into the total return swap.

(b) Triggers related to changes to documents, investment strategies, etc. These triggers may be tied to the funds referenced in the total return swap but some may be tied to the fund that is entering into the total return swap.

(c) Key person triggers. Usually, these are tied to the managers running the fund that is entering into the total return swap.

(3) NAV adjustments and other valuation issues

(a) Dealer is the calculation agent.

(4) Dealer will require haircuts for failure to meet certain portfolio criteria and other criteria that may not be in the control of the manager.

(5) Reporting obligations

(a) Reports by the referenced funds.

(b) Reports by the fund buying/entering into the investment.

vi) Tax issues

(1) Is this really a notional principal contract for tax purposes?

(2) Dealer's hedge and how the hedge is created may materially impact the overall tax characterization.

(3) Potential constructive ownership transaction under I.R.C. § 1260.

vii) Fund-linked notes

(1) Features

(a) Fund-linked notes are debt instruments for which the payout is linked to a financial underlying (either principal, interest or both).

(b) Hedge fund-linked notes, like other hedge fund derivative products, can be customized to suit investor preferences.

(i) E.g., partial principal protection, minimum fixed coupon, increased participation in fund, capped upside.

(ii) Hedge fund-linked notes can be principal protected but in such case, the investor gets a de-levered product.

(c) In the case of leveraged fund linked notes, the investor makes a payment on the notes that is less than the par amount thereon and the difference represents the financed amount of the transaction. This is similar to a total return swap but it is embedded into a note structure.

(2) Corporate issues

(a) Additional termination events

(i) Knock-out triggers and other NAV-based triggers (impact of redemptions and new investments). These triggers may be tied to the funds referenced in the fund linked note but some may be tied to the fund that is buying the fund linked note.

(ii) Triggers related to changes to documents, investment strategies, etc. These triggers may be tied to the funds referenced in the fund linked note but some may be tied to the fund that is buying the fund linked note.

(iii) Key person triggers. Usually, these are tied to the managers running the fund that is buying the fund linked note.

(b) NAV adjustments and other valuation issues

(i) Dealer is the calculation agent.

(ii) Dealer will require haircuts for failure to meet certain portfolio criteria and other criteria that may not be in the control of the manager.

(c) Reporting obligations

(i) Reports by the referenced funds.

(ii) Reports by the fund buying/entering into the investment.

(3) Tax issues

(a) Is this really debt for tax purposes?

(b) Is it a contingent payment debt instrument that generates significant phantom income?

(c) Is this an investment unit?

(d) Potential constructive ownership transaction under I.R.C. § 1260.

(e) Rev. Rul. 2008-1 and Notice 2008-2.

b) What is "portable alpha?"

i) Features

(1) Portable alpha is a strategy whereby investors get exposure to a non-correlated investment within an existing portfolio in order to improve its risk adjusted returns.

(2) In the context of hedge fund portable alpha trades, the investor buys units of the portable alpha fund, thereby getting exposure to alpha and beta in one package.

(3) Dealers enter into total return swaps on market indices ("beta" source) with newly created funds ("portable alpha fund") that pledge units of the reference hedge fund ("alpha" source) to the dealer counterparty as collateral.

(4) The difference between the notional on the beta and the value of the alpha investment is the leverage or the borrowing under the trade.

(5) If beta trade goes against the portable alpha fund, the fund collateral may be liquidated to meet any required margin call.

(6) A key goal is for alpha returns to be able to offset all or much of the financing costs under the beta.

ii) Corporate issues

(1) Pledging of collateral.

(a) Consent rights

(i) Fund documents have broad transfer consent requirements for transfers and assignments.

(ii) Can consent be obtained?

(b) Custodial arrangements

(i) Fund interests held in the name of custodian.

(ii) Custodian agrees to act as securities intermediary or custodian for the secured party.

(c) Opinions

(i) Can perfection opinions be delivered?

(2) Asset isolation.

(a) Multi-series issuers should be particularly careful.

(3) Additional termination events

(a) Knock-out triggers and other NAV-based triggers (impact of redemptions and new investments). These triggers are usually tied to the fund collateral but some may be tied to the fund investing in the beta derivative.

(b) Triggers related to changes to documents, investment strategies, etc. These triggers are usually tied to the fund collateral but some may be tied to the fund investing in the beta derivative.

(c) Key person triggers. These triggers are usually tied to the fund collateral but some may be tied to the fund investing in the beta derivative.

(4) NAV adjustments and other valuation issues

(a) Dealer is the calculation agent.

(b) Dealer will require haircuts for failure to meet certain portfolio criteria and other criteria that may not be in the control of the manager.

(5) Reporting obligations

c) Loan total return swaps

i) Features

(1) A bank loan TRS is a derivative contract governed by the International Swaps and Derivatives Association (ISDA) master agreement.

(2) One counterparty (the TRS payer) pays to the other counterparty (the TRS receiver) all of the interest, fees, and market value appreciation on a bank loan or a portfolio of bank loans in exchange for a floating rate plus spread, hedge transaction expenses (assignment fees and legal fees, if any), and market value depreciation.

(3) The TRS receiver posts an initial margin to the TRS payer. The difference between this initial margin and the notional amount is the leverage or borrowed portion.

(4) TRS receiver may have obligation to post periodic margin as the loan or portfolio of loans referenced by the swap declines in value.

(5) The required initial margin amount varies depending upon the creditworthiness of the TRS receiver as well as the credit and liquidity characteristics of the underlying loan or portfolio of loans.

ii) Rationale for using total return swaps

(1) Primary motivation: the desire for leverage

(2) Important ancillary benefits:

(a) The ability to "rent" the back office of a financial institution that has the infrastructure needed to close and maintain bank loans, because building and operating a loan back office is an expensive proposition.

(b) In a TRS, the TRS payer, usually a large financial institution, uses its existing loan settlement infrastructure, and passes on the net returns via a transaction that investors can process through their existing derivative infrastructure.

(c) TRS can also be utilized as an interim "warehouse" line prior to the issuance of a CLO or for positions that cannot be included in a CLO, such as excess concentrations, assets that have experienced ratings migration, and defaulted securities.

(3) Minimal up-front costs:

(a) There are only a few legal documents to negotiate as the result of the limited number of parties involved in the transaction.

(4) Flexibility:

(a) Transactions can be easily amended over time as market conditions change.

(5) Compared to collateralized loan obligations, TRS offers the following advantages:

(a) lower leverage (4–8 times vs. 12 times for CLOs)

(b) provide shorter tenors (one to three years vs. 12-year finals/nine-year average lives for CLOs)

(c) quicker execution

(d) fewer trading restrictions (no rating agencies)

iii) Types of total return swaps

(1) Single-name TRS

(a) Allows an investor (the total return receiver) to leverage one bank loan at a time, similar to the way that bonds are financed through repo transactions

(b) Offers a high degree of flexibility:

(i) Each one can be tailored to address loan types or trade sizes that may not conform to the terms of a typical portfolio swap.

(c) Swap payments are usually exchanged two business days following loan interest payment dates and the market value appreciation or depreciation payment is made at maturity of the swap.

(2) Portfolio TRS

(a) Allows investors to lock in term exposure to a pool of loans meeting a set of predefined criteria.

(b) A typical portfolio swap will include a weighted-average credit rating requirement and obligor and industry concentration limits.

(c) Many portfolio swaps include a non-standard bucket that allows for loans that do not fit into the predetermined criteria.

(i) In exchange for the flexibility, these loans are subject to case-by-case haircuts.

(d) As long as the portfolio is managed within the defined constraints, the investor is free to actively manage the underlying credits.

(e) Portfolio TRS's have been referred to as "CLO Lite" transactions because they resemble a stripped-down version of a typical publicly syndicated CLO.

(f) Typical features of a portfolio swap:

(i) Not rated

(ii) Fewer portfolio constraints

(iii) Less stringent diversification

(iv) No minimum spread test

(v) Shorter duration than the typical CLO

(g) Features of a portfolio TRS:

(i) More attractive financing terms for investors (longer tenor, lower haircut, and financing cost) than a collection of single-name swaps because a portfolio is inherently less volatile.

(ii) May also be executed on a limited recourse basis.

(iii) Swap settlements are usually exchanged on a netted basis monthly or quarterly.

(3) Full recourse vs. limited recourse

(a) Full recourse:

(i) Under a standard portfolio TRS, the total return receiver is exposed to the full loss in value of the underlying loans.

(ii) Full-recourse transactions are, on average, subject to a lower swap spread and reduced collateral requirement.

(b) Limited recourse:

(i) Under a limited recourse TRS, the total return receiver's risk is capped at a certain amount, usually the haircut posted at the inception of the swap.

(ii) The transaction terminates when the portfolio declines in value by a specified percentage, unless the total return receiver elects to post additional collateral or agrees to sell down the portfolio until the posted haircut is within the requirements for the reduced portfolio size.

(iii) Typically, to reduce the likelihood of breaching a market value trigger, the limited-recourse structure would include intermediate cash trapping and deleveraging triggers.

(iv) Limited-recourse portfolio TRS's are used by investors who have a limited ability to post variation margin and by those who simply want to limit their downside risk.

(v) Limited-recourse transactions can also be repackaged into credit-linked notes for those investors who would prefer a funded investment rather than entering into a derivative.

iv) Corporate issues:

(1) Market value for posting purposes

(2) Final price determination

(3) Voting and control

(4) Reports and notices

(5) Portfolio criteria

v) Tax Issues:

(1) What is the total return swap for U.S. Federal income tax purposes?

(2) Are there expense deductibility issues for U.S. individual investors?

(3) Does the swap create unrelated business taxable income (UBTI) for U.S. tax-exempt investors?

(4) Does one look-through the swap for the U.S. trade or business analysis for offshore investors?

(5) Annual mark-to-market requirement under proposed U.S. Treasury regulations.

2) Investment Opportunities in the Structured Products Market

a) Structured credit opportunity funds—investing in CDOs

i) Key corporate structural issues for investors to consider in investing in CDOs

(1) PIKs. Usually referred to as a deferrable note.

(a) If notes senior to such deferrable notes are outstanding, the failure on any payment date to make payment in respect of interest on such deferrable notes will not constitute an event of default under the indenture and such interest will be deferred and capitalized and paid on subsequent payment dates if funds are available.

(b) Investors in such deferrable notes need to consider the likelihood that cash flow will be diverted to start paying down debt senior to such notes in the event that certain coverage ratios (over-collateralization and interest coverage tests) for notes senior to such deferrable class are triggered.

(2) Triggerless deals. Over-collateralization and interest coverage tests can protect senior notes by paying down the principal balance of such notes in the event a senior OC or interest coverage test is breached.

(a) Investors in senior notes should consider that investing in a triggerless deal may not offer them as much protection as deals with over-collateralization and interest coverage tests.

(b) Investors in subordinated notes and equity may desire to invest in triggerless deals to ensure interest and principal is not diverted away under such a scenario.

(3) Super-senior O/C EOD: an OC test breach as an event of default under the indenture.

(a) If there is a breach of the super-senior test, the super-senior may be able to call for a liquidation of the collateral and accelerate the deal.

(b) Due diligence by potential junior investors and equity holders should include reviewing servicer reports to determine if a breach of the senior OC test or any relevant OC/IC test is likely in the deal.

(4) Post-acceleration interest proceeds waterfall:

(a) If there is an event of default and an acceleration of the notes, interest proceeds may be used to pay down principal of the notes (sequentially) before any interest is distributed to the equityholders.

(b) In addition, if the conditions are met for a liquidation, it is typical that junior noteholders will not receive any interest or principal on their notes until all outstanding interest and principal is paid down on the senior notes.

(c) If there is a liquidation of the collateral, in most deals equityholders will not receive any distributions until all outstanding interest and principal is paid on the notes and all outstanding administrative fees, management fees and any synthetic and hedge counterparty termination fees are paid.

ii) Tax issues

(1) U.S. taxable investors are the persons who need to worry most about these types of investments.

(2) PIKs typically generate original issue discount ("OID") and potentially significant phantom income.

(3) CDOs are typically passive foreign investment companies ("PFICs") and may sometimes be, controlled foreign corporations ("CFCs").

(4) A U.S. shareholder in a PFIC needs to think about making a qualified electing fund (QEF) election. A QEF election will result in the U.S. shareholder recognizing her pro-rata share of the CDO's ordinary income and net capital gain regardless of the amount of cash distributions received from the CDO. In the absence of a QEF election, gains from disposition of PFIC equity and "excess distributions" are treated as if (i) such gain was ratably earned over the taxpayer's holding period and (ii) the taxpayer was subject to the highest rate of tax in the prior taxable years; the taxpayer is required to pay an interest charge as if the taxpayer was delinquent for the prior taxable years.

(5) A 10% (by vote) U.S. shareholder in a CFC (i.e., more than 50% of the CDO's equity, by vote/value is owned by 10% U.S. shareholders) has to include her pro-rata share the CDO's "subpart F" income. Unlike a QEF election, a 10% shareholder doesn't elect to recognize such income but must recognize such income. All subpart F income is ordinary income regardless of whether the CDO has capital gains.

(6) A U.S. shareholder subject to the PFIC/QEF rules can have long-term capital gain upon disposition of CDO equity whereas a 10% U.S. shareholder in a CFC generally recognizes ordinary income upon disposition of CDO equity.

b) Acquisition of CDO managers/management right acquisitions—investing in CDO managers.

i) Main corporate issues

(1) Getting exposure to a CDO manager

(a) Buying the manager's business through stock sale, merger; or

(b) Buying the management rights of specific CDOs from manager; or

(c) Injecting cash into the managing entity in exchange for minority or majority stake in the manager.

(2) Consent issues

(a) Generally, a transfer of management rights and obligations may require consent of a super majority of the noteholder/equity holders and satisfy the Rating Condition.

(b) Termination for cause: Depending on how the sale of the business is structured, a termination for "cause" may occur under the collateral management agreement and typically will require noteholder/equity holder consent and satisfy RAC.

(c) Change in creditworthiness may trigger consents.

(d) Change of control may trigger consents.

(e) Key man provisions may trigger consents.

(f) Investment Advisers Act of 1940: Under Section 205(2) of the Investment Advisers Act, the "client" must consent to a change of control. Meeting the requirement of the Investment Advisers Act can be accomplished in two ways:

(i) Have the board of directors of the issuer consent to the change of control; and/or

(ii) Have the equity holders consent to the change of control.

(3) Static vs. managed deals.

(a) Managed deals allow the collateral manager to change the composition of the portfolio easier than a static deal and possibly improve the performance of the deal.

(b) However, in a turbulent trading environment with less liquid assets, managed deals translate into increased exposure to liability for possible breaches under the collateral management agreement.

(c) Even in managed deals, the manager's ability to trade in and out of positions may be cut-off due to the end of the reinvestment period or if OC/IC Test levels are breached or if the manager chooses not to reinvest because beneficial trading opportunities are not available.

(d) Static deals mean less work for the manager since the manager does not have to acquire more collateral; it merely has to dispose of certain assets (i.e. typically the collateral manager in a static deal is required to (under certain circumstances) dispose of defaulted securities, equity securities, credit risk securities and credit improved securities).

(e) Investors need to ascertain if the present value of the future income stream of the expected management fees over the life of the deal is greater than the purchase price plus the present value of the expected management expenditures (including possible liability for breaches) for the life of the deal.

ii) Liability for actions taken by prior manager

(1) Liability depends on how the sale of the collateral manager business is structured

(a) For a merger or stock sale, the succeeding collateral manager will be liable for all of the actions by the prior collateral manager. However, with respect to an asset sale, the succeeding collateral manager will generally not be liable for a breach of a representation or warranty made by the prior collateral manager in the collateral management agreement.

(b) Liability may also depend on the state of the deal and whether the deal is static or not.

(2) Management fees

(a) Senior management fees

(b) Subordinate management fees

(c) Incentive management fees

(d) Key Issues for management fees

(i) Ascertain if the collateral manager can defer the fees and if deferred fees are entitled to interest and at what interest rate.

(ii) Senior management fees are paid at the top of the waterfall. However, subordinated and incentive fees are paid at the bottom of the waterfall.

iii) Main tax issues.

(1) Management companies are typically partnerships for tax purposes.

(2) Management companies are engaged in a U.S. trade or business.

(3) Where is value of the business? This may impact how much capital gain and ordinary income sellers will recognize.

(4) Many management companies are comprised of individual principals and there may be corporate buyers for the business. Having a corporate entity buy into the management company will require the management company to shift to an accrual method of tax accounting.

Presentation

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Fund Linked **Derivatives**

Fund Linked Derivatives

- Call Options
- Total Return Swaps
- Structured Notes

Using **Fund** Linked **Derivatives**

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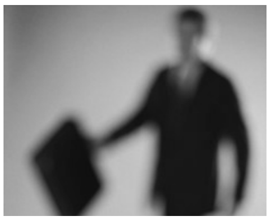
Fund Linked Derivatives: Call Options



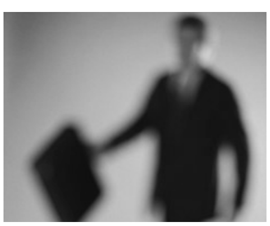
Pays Premium

Grants Option Right

Client

Dealer

Fund Linked Derivatives: Total Return Swap



Upside
Exceeding
Financed Amount

Client

Dealer

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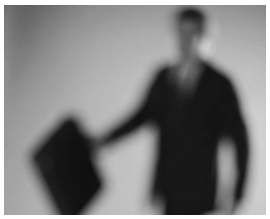
Fund Linked Derivatives: Total Return Swap



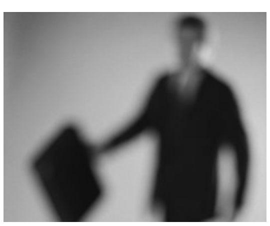
Client

Financing Costs

Downside Exceeding Upfront Payment

Dealer

Fund Linked Derivatives: Structured Notes

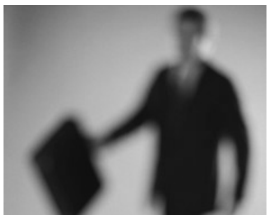


Client

Pays $70 Million

Dealer/Issuer

Fund Linked Derivatives: Structured Notes



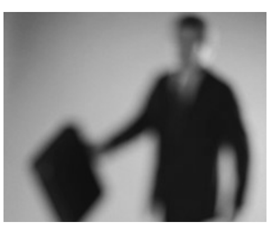
Client

Note Linked to
$100 Million Portfolio

$30 Million = "Loan"

Dealer/Issuer

Fund Linked Derivatives: Structured Notes



Client

Client receives...

Value of Portfolio
minus
$30 Million "Loan"
minus
Financing Costs

Dealer/Issuer

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Form of Contract $\stackrel{?}{\neq}$ Tax Treatment

Constructive Ownership

Transaction Issue

Fund Linked Derivatives

Corporate Issues

Portable **Alpha Trades**

Portable Alpha Trades

Your Investors

$1 Billion →

← Portable Alpha Fund Units

Your Portable Alpha Fund

Portable Alpha Trades

Your Portable Alpha Fund	$1 Billion → / ← Fund Shares	Funds (Alpha Source)

Portable Alpha Trades

Your Portable Alpha Fund

LIBOR + Spread ↓ ↑ Index Total Return on $1.5 Billion Notional

Dealer

Portable Alpha Trades

Your Investors

$1 Billion →

← Portable Alpha Fund Units

Your Portable Alpha Fund

$1 Billion →

← Fund Shares

Funds (Alpha Source)

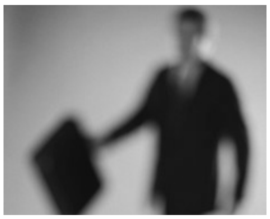
LIBOR + Spread ↓

↑ Index Total Return on $1.5 Billion Notional

Dealer

Loan **Total Return** Swaps

Loan Total Return Swaps



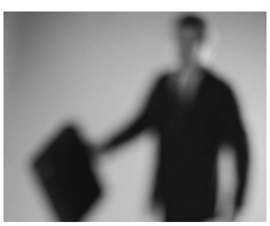
Client

Interest and Fees on Reference Loans

Upside Exceeding Financed Amount

Dealer

Loan Total Return Swaps



Client

Financing Fee

Downside Exceeding Upfront Payment

Dealer

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Loan **Total Return** Swaps
Corporate Issues

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Loan Total Return Swaps

- Notional Principal Contract

  or
- Financing

  or
- Other

Loan Total Return Swaps

- Investors
  - U.S. taxable
  - U.S. tax-exempt
  - Non-U.S.

Investing in **Collateralized Debt Obligations** and **CDO Managers**

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Sample CDO Structure

Assets Held by Issuer

$1.0+ Billion
Loans, Bonds
and Other Debt

Securities Issued

$700 Million Class A1
Notes
Aaa/AAA

$150 Million Class B
Notes
Aa2/AA

$50 Million Class C
Deferrable Notes
A2/A

$100 Million
Preference
Shares Not Rated

Investing in **CDO Securities**

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CDO Securities

Phantom **Income**

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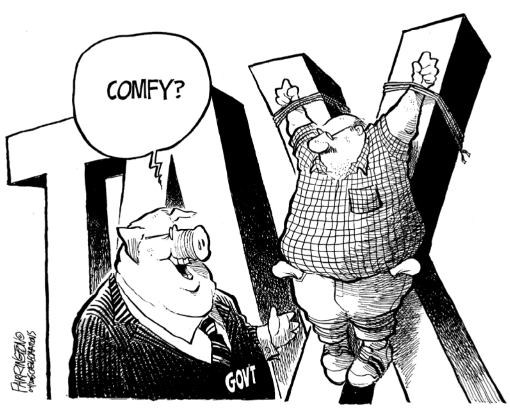
Investing in
CDO Managers



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