

The Value in CLOs

TXPERS Conference

What is the Opportunity?

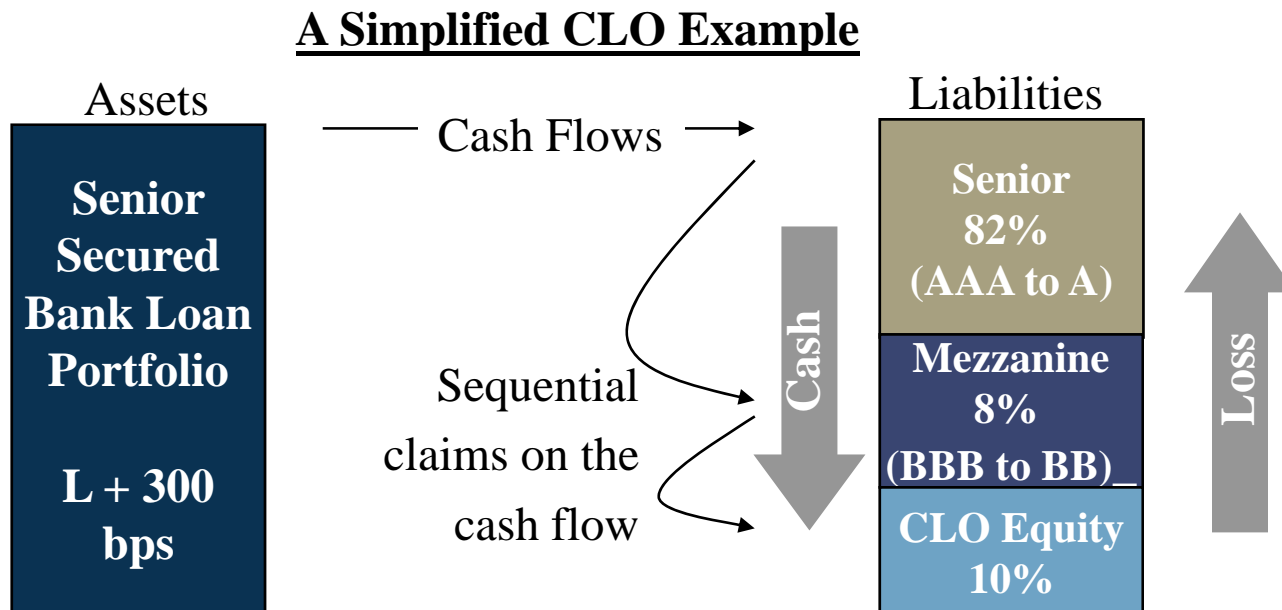
- The pace of deterioration and increasing complexity of the global credit markets has created a unique opportunity in CLO investments to potentially generate attractive absolute returns.
- Reasons for the Dislocation in the asset class:
 - Overly aggressive assumptions on the projected default rate
 - Forced sellers due to the unwinding of leverage
 - Rating downgrades on various tranches across the capital structure
- Despite recent downgrades of CLO tranches and rising defaults in the underlying collateral, with the appropriate asset mix, the current yield on CLO investments can achieve returns in the mid 20%* range.

* Targeted returns are inherently subject to significant economic, market and other factors that may adversely affect the performance of the assets.

What is a CLO?

Collateralized Loans Obligations are investment vehicles that allow investors to gain access to a diversified pool of senior secured bank loans at varying risk and return levels.

- CLOs seek to take advantage of the difference in yield between the assets and liabilities
- The performance of the CLO is tied to the credit performance of the underlying senior secured bank loans

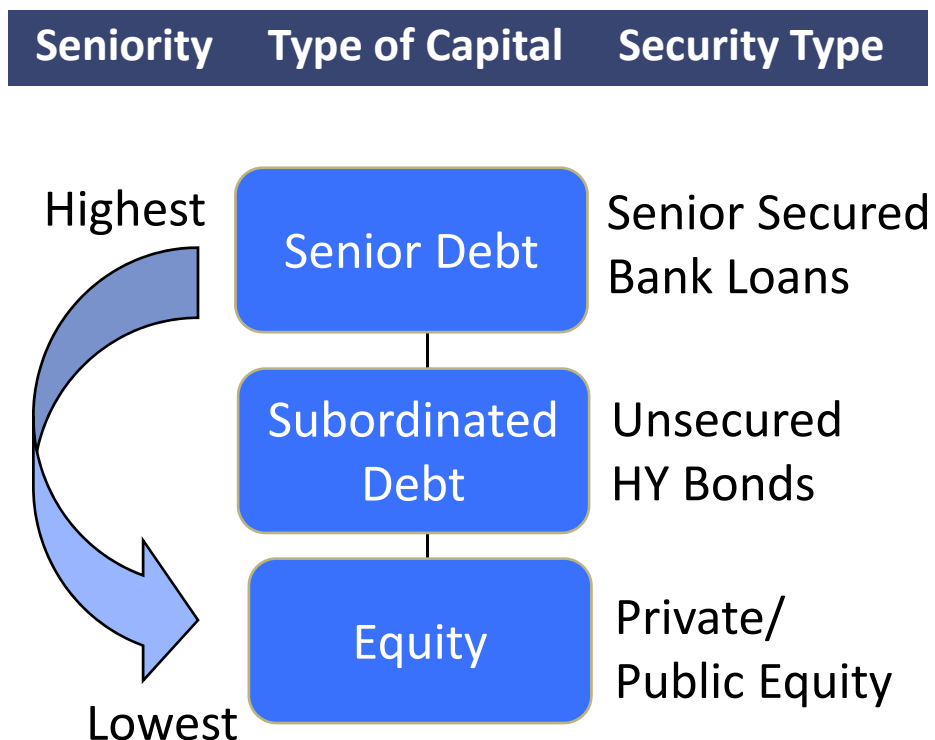


What are the Underlying Investments?

Senior Secured Bank Loans – as the most senior part of the capital structure, bank loans have historically shown lower risk of capital losses

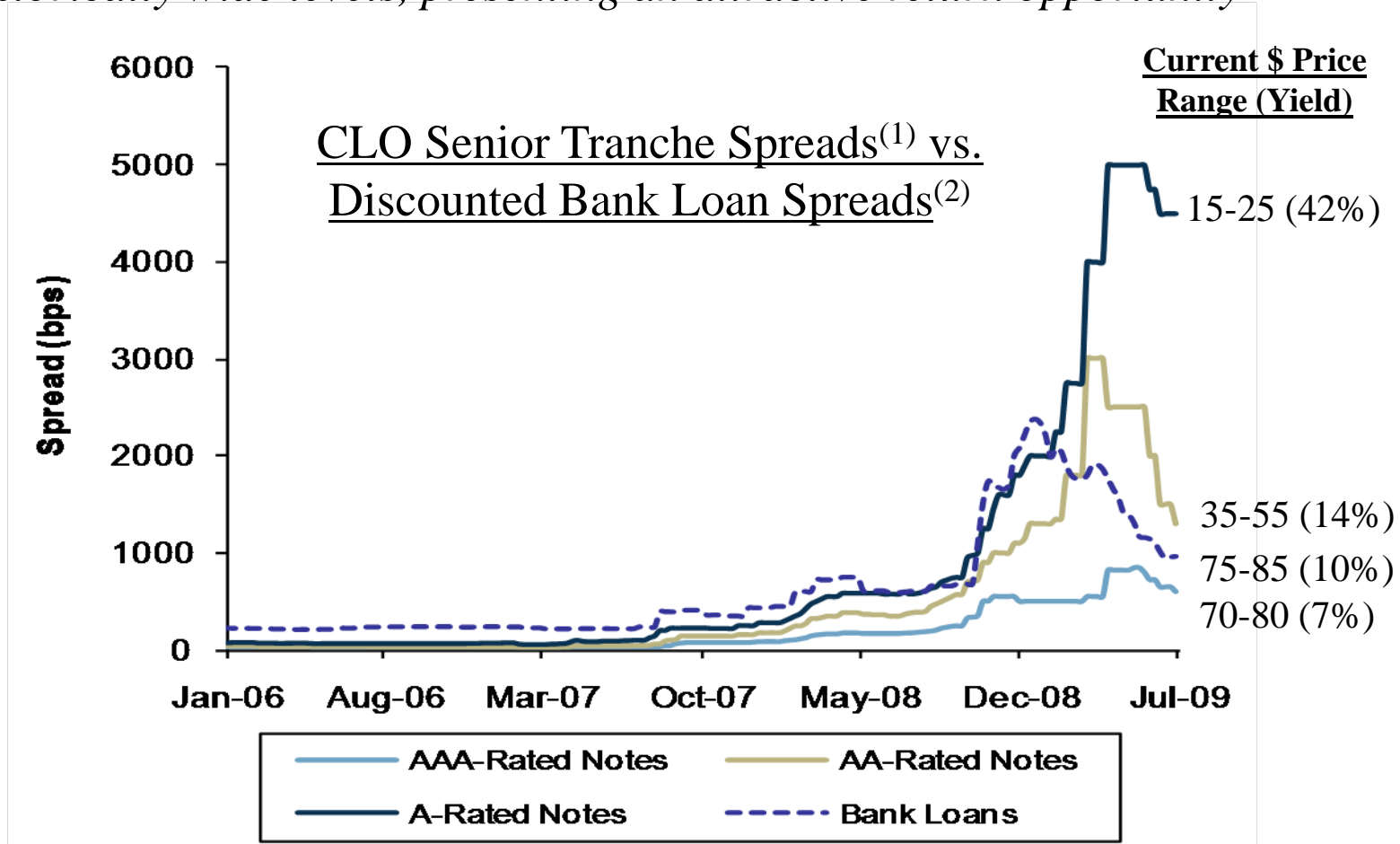
Bank loans are the most senior in the corporate capital structure

- Generally secured by accounts receivable, inventory, and all other assets
- Floating interest rates set at a spread over LIBOR or Prime
- Usually governed by financial and other maintenance covenants
- Ongoing access to monthly/quarterly financials and senior management



What are the Current Yields of CLO Bonds?

Bank loan spreads and spreads on senior and mezzanine CLO debt remain near historically wide levels, presenting an attractive return opportunity



Past performance is not indicative of future results.

⁽¹⁾ Source: Wachovia Securities; June 30, 2009; figures represent effective discount margin on new issues.

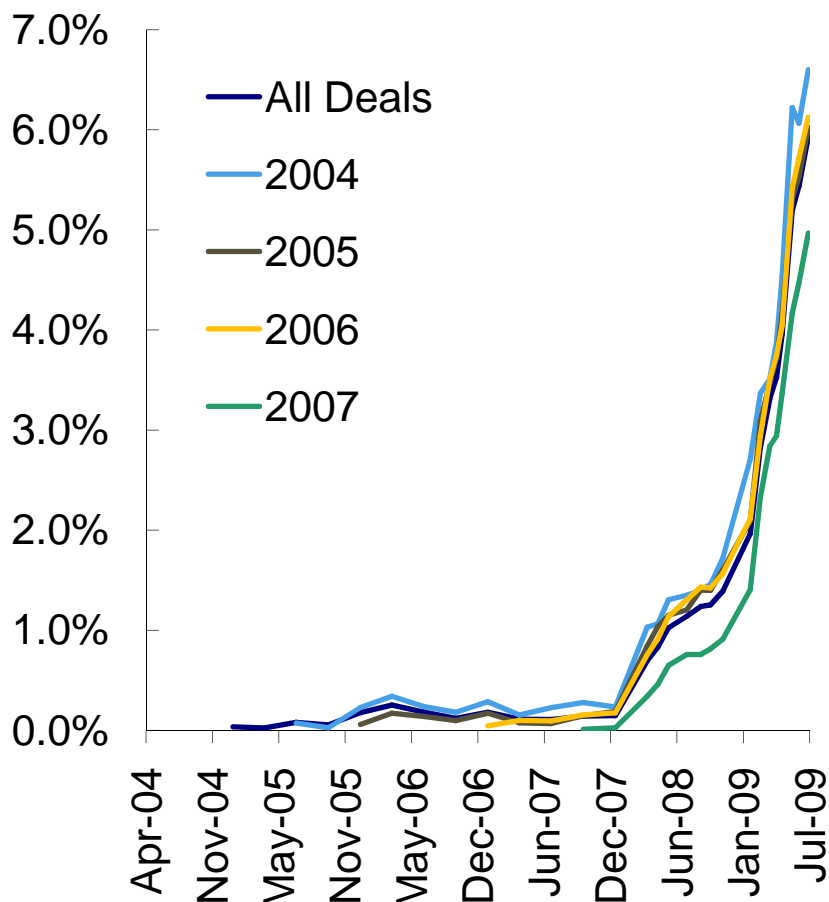
⁽²⁾ Source: S&P LCD Secondary Spreads by Rating & Industry Report; June 30, 2009; excludes facilities in default. Discounted spread assumes discount from par is amortized evenly over a three year life.

⁽³⁾ Source: Highland Capital Management; March 31, 2009.

What level of defaults can CLOs withstand?

Cash Flow CLOs continue to perform despite a rise in underlying loan default rates

Average Cash Flow CLO Portfolio Default Rate⁽¹⁾



Average Constant Annual Default Rate Required for First Dollar of Loss⁽²⁾

Rating	Vintage				
	2003	2004	2005	2006	2007
AAA	32.5%	31.5%	33.3%	32.4%	34.0%
AA	25.2%	20.8%	20.8%	21.5%	22.5%
A	14.8%	13.5%	13.7%	13.4%	13.7%
BBB	8.8%	8.7%	8.5%	8.7%	9.0%
BB	6.0%	6.7%	6.6%	5.9%	5.7%

Sources: (1) Intex, Citi Structured Credit Research 06/30/09; (2) Wachovia 11/7/08
 Past performance and returns are not indicative of future results

Why are CLOs different vs. other Structured Products?

Although CLO securities represent a subset of the CDO market, there are several key differences which set them apart from the broader universe of structured finance products:

- **Collateral:** CLO vehicles are generally backed by portfolios of senior secured bank loans issued by corporate obligors; they typically have no exposure to riskier residential and commercial mortgages
- **Structure:** CLO structures typically are governed by issuer and industry diversification limits, average ratings limitations, and overcollateralization tests
- **Credit Focus:** CLO structures are designed to gradually de-lever due to defaults and/or rating migration in the underlying portfolio, rather than mark-to-market changes in price. This allows CLO managers to focus on credit quality while avoiding technically-driven forced sales

Why the Opportunity is Now?

- Moody's expects to complete its current phase of CLO downgrades by the end of the third quarter for US CLOs and by the end of the year for Euro CLOs
- On July 9th, 2009 the Basel Committee approved their enhancement to the Basel II framework
 - Increasing regulatory capital requirements for former buyers of certain CLO assets such as banks and insurance companies
 - Further increases to regulatory capital requirements when accompanied with tranche downgrades
- Supply of assets in the market
 - Due to the events mentioned above, assets will be pushed to the market from forced sellers allowing for opportunistic investments