

Deleveraged Loan Market

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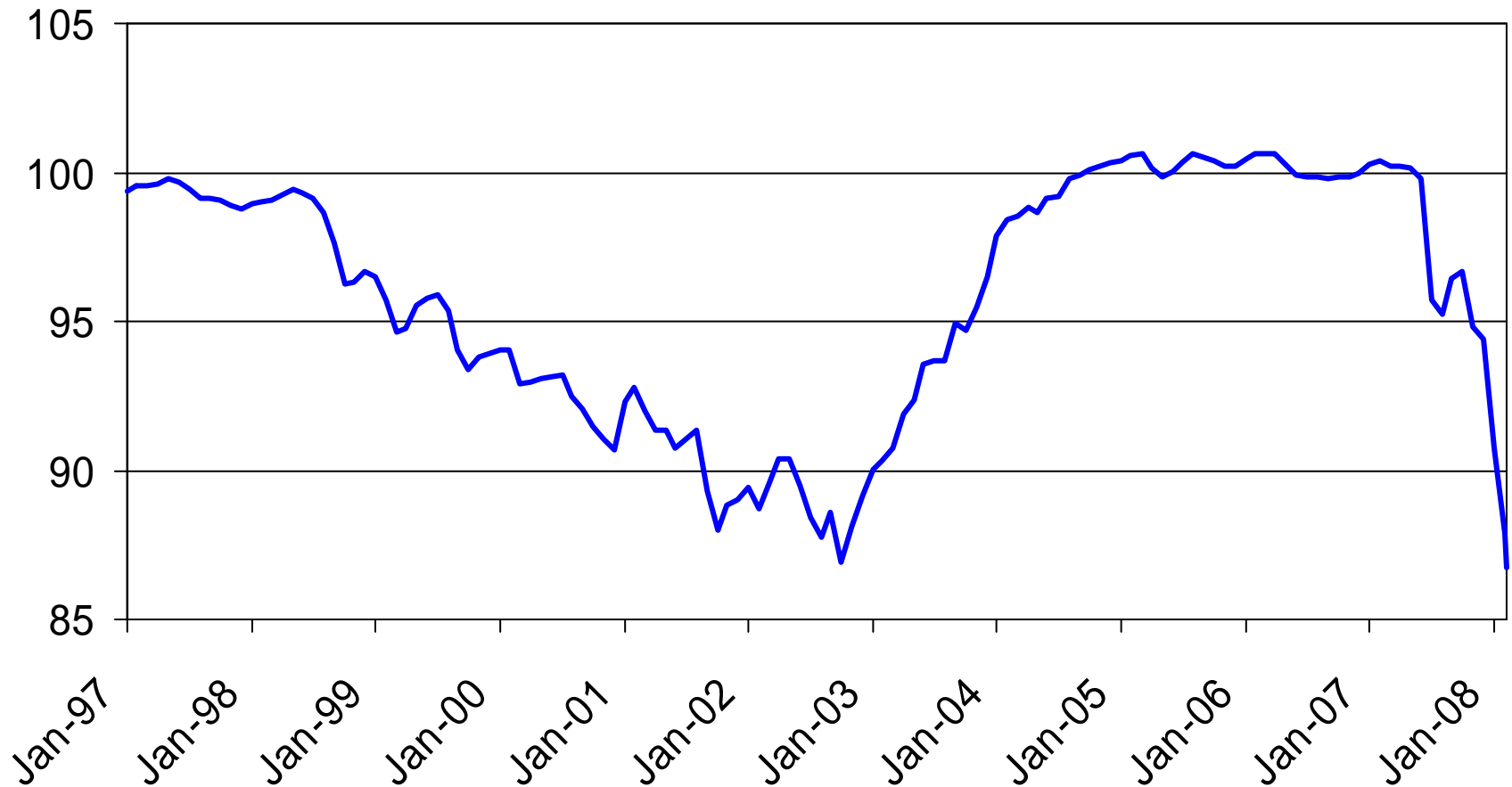
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Current State of Play

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Price of The S&P/LSTA Index Loans

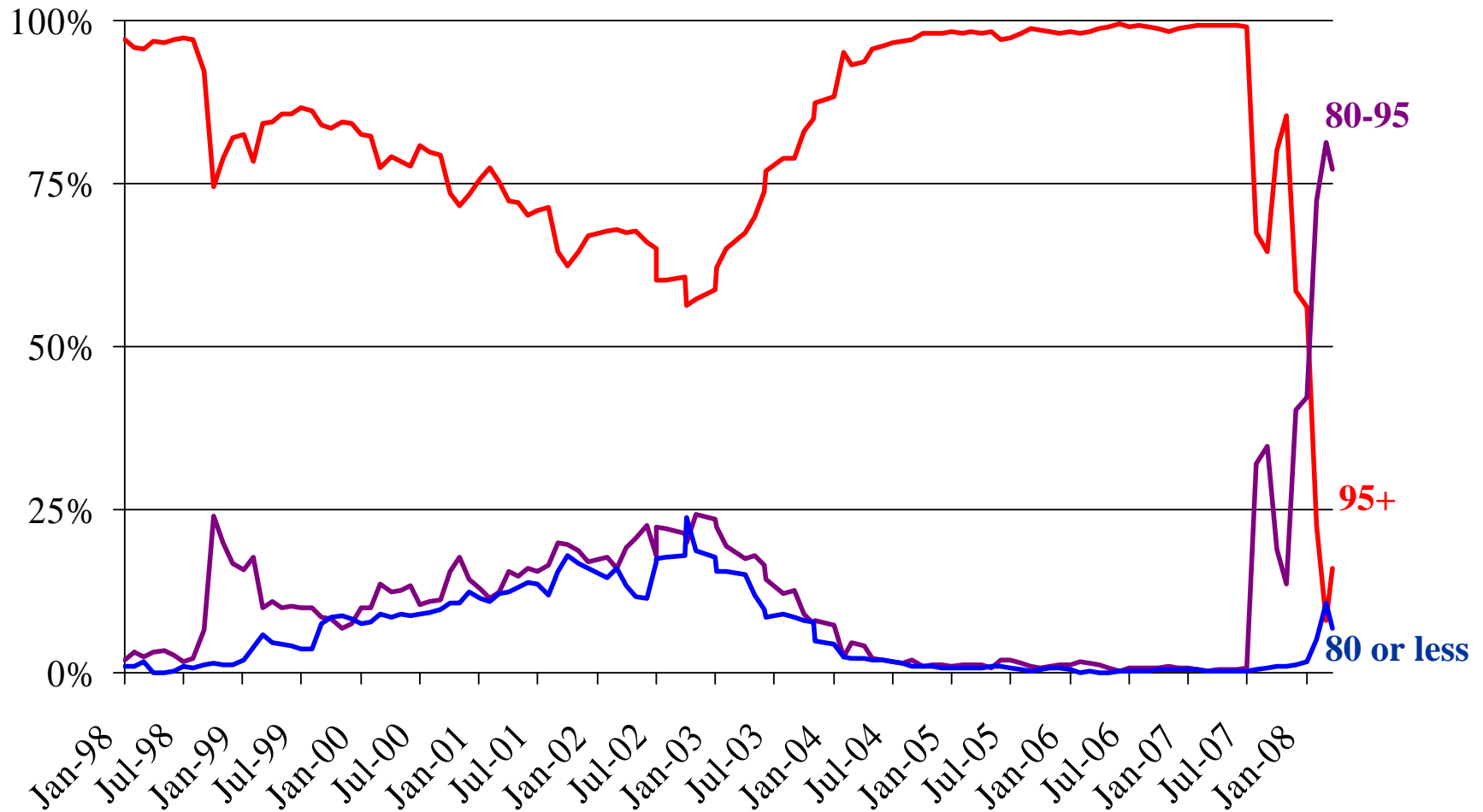


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Price Distribution of The S&P/LSTA Index Loans

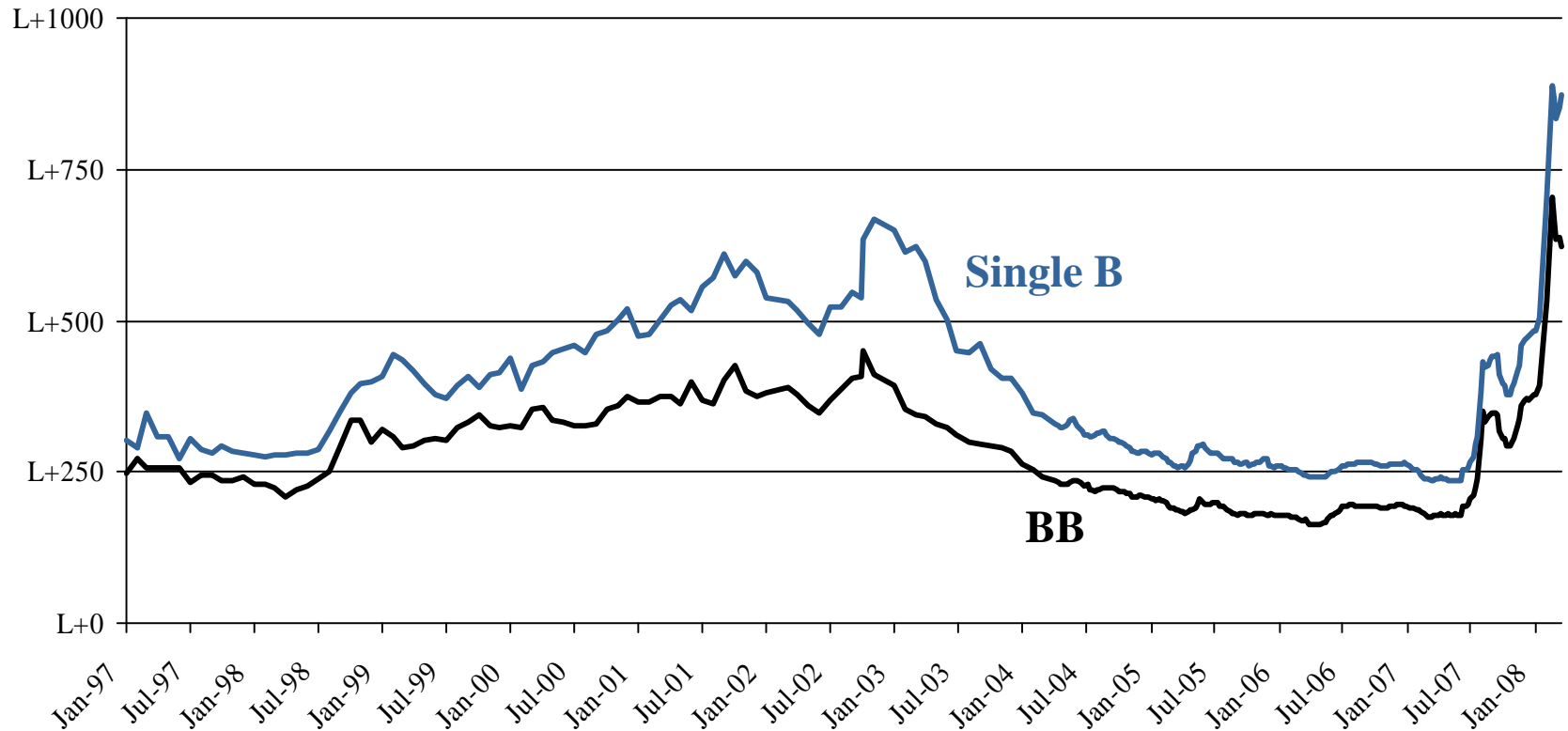


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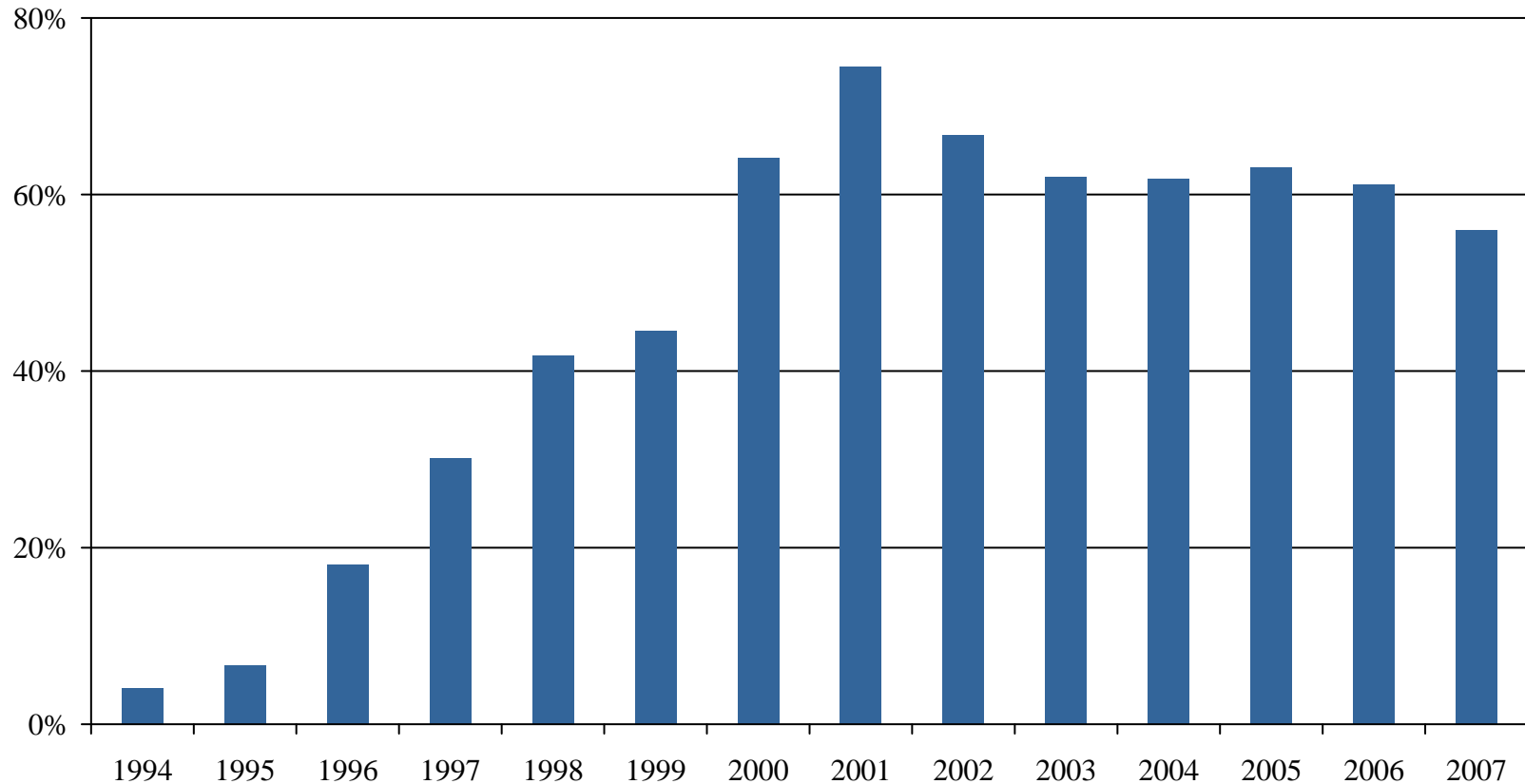
Average discounted spread of S&P/LSTA index loans, by rating



Market Technicals

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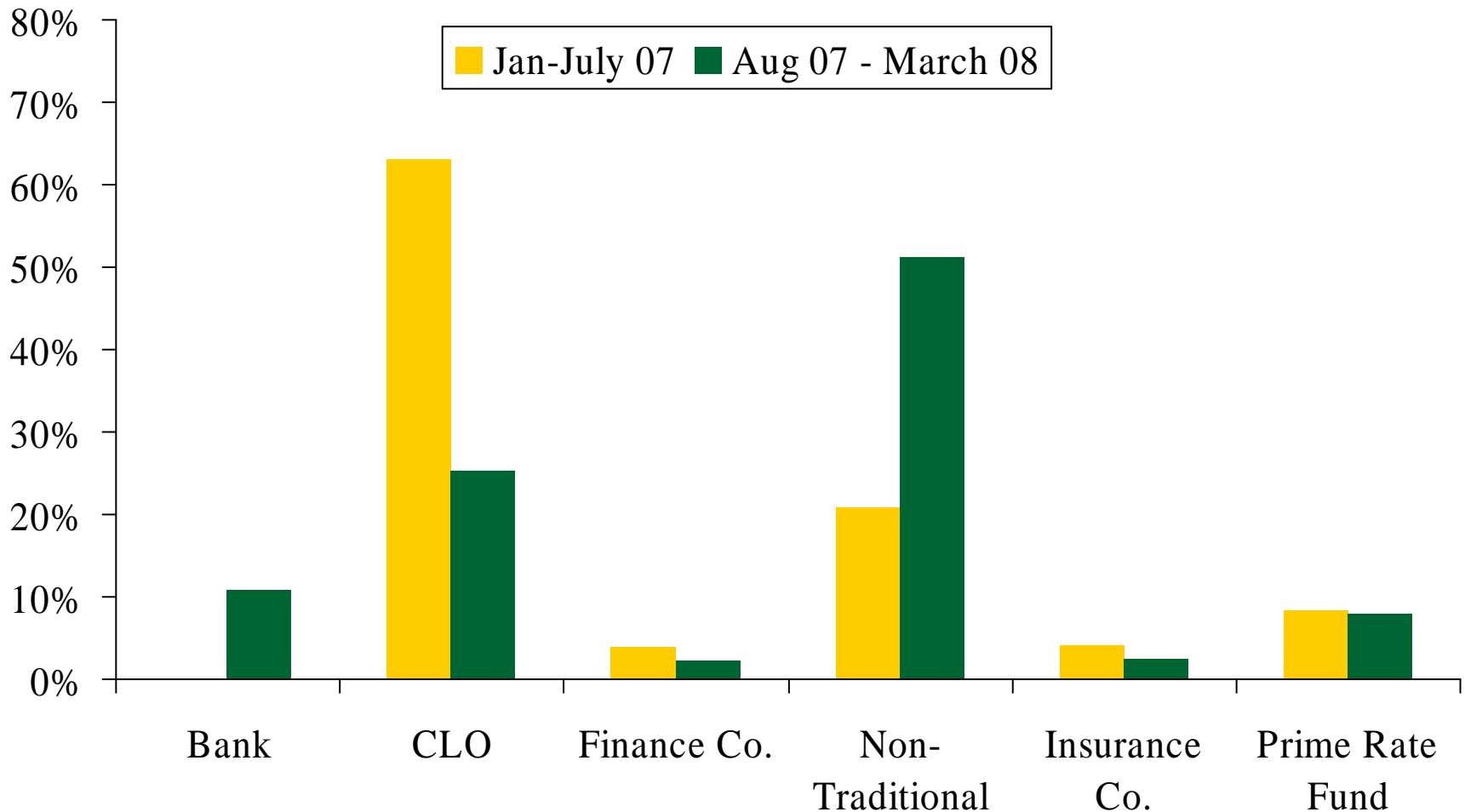
CLO's Share of the Institutional Loan Market



Source: Standard & Poor's LCD

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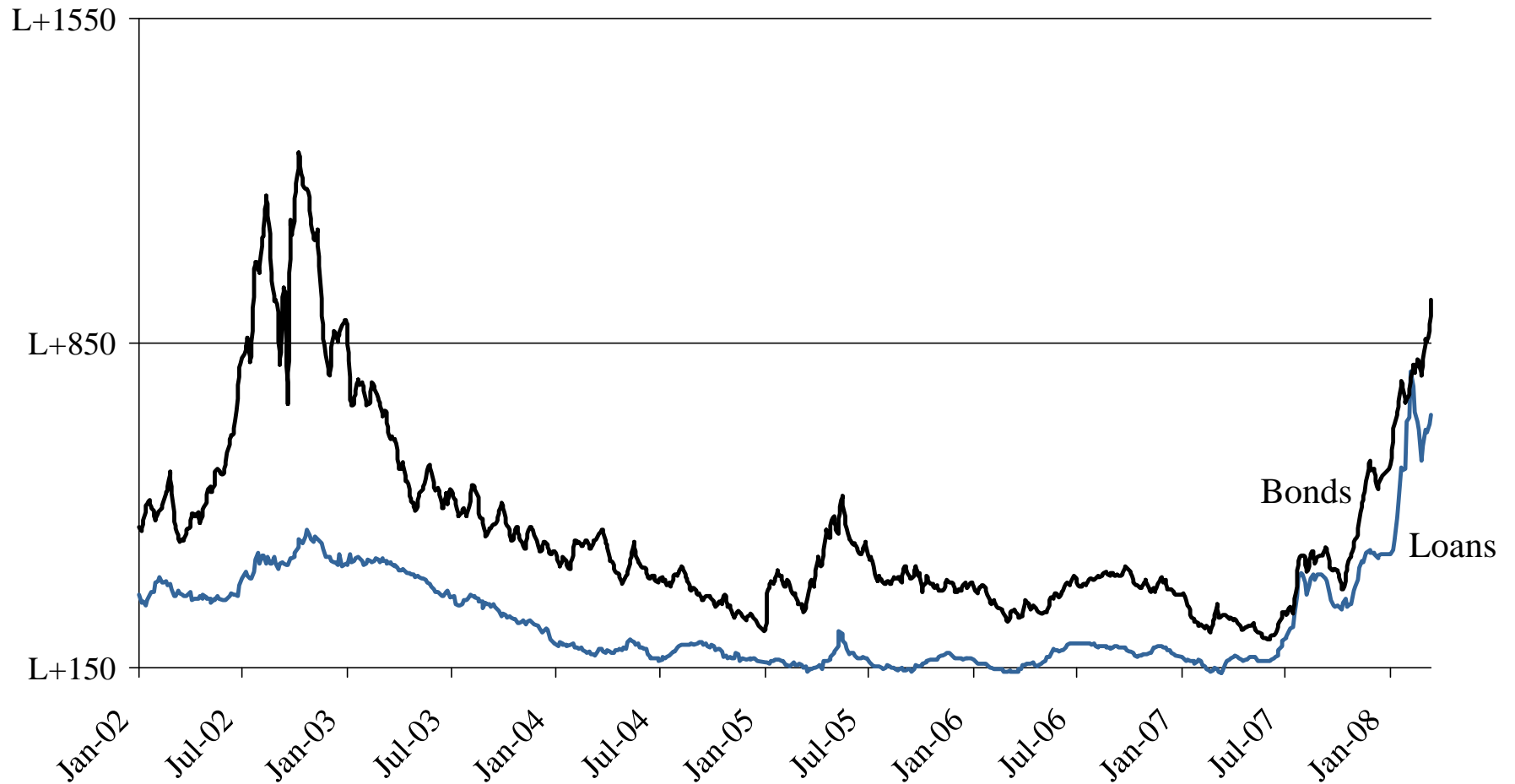
Share of the Institutional Loan Market – Pre- & Post-Correction



Source: Standard & Poor's LCD

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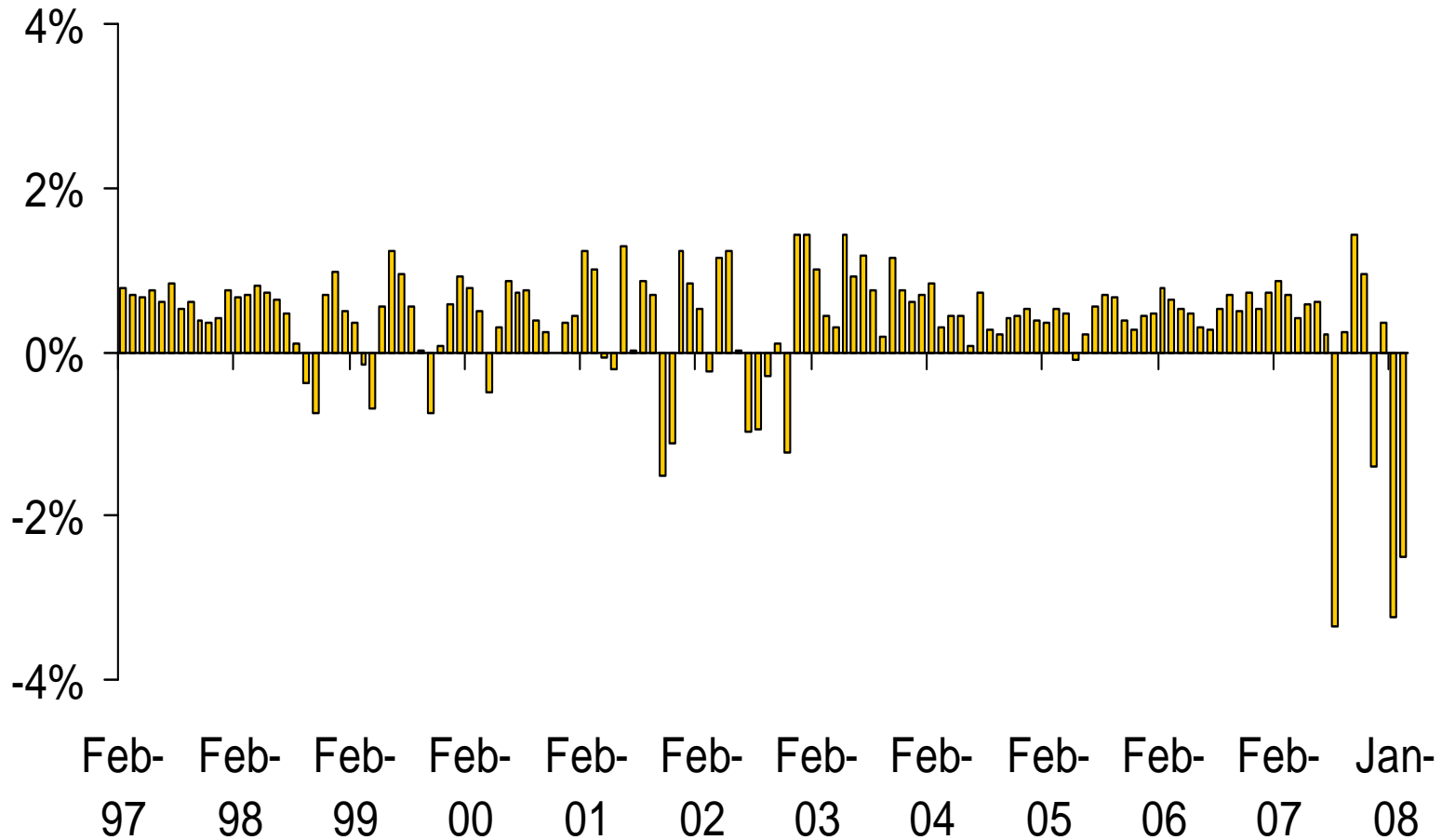
Relative Value – Average discounted spread of large loans versus bonds



Living in the future

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S&P/LSTA index returns by month

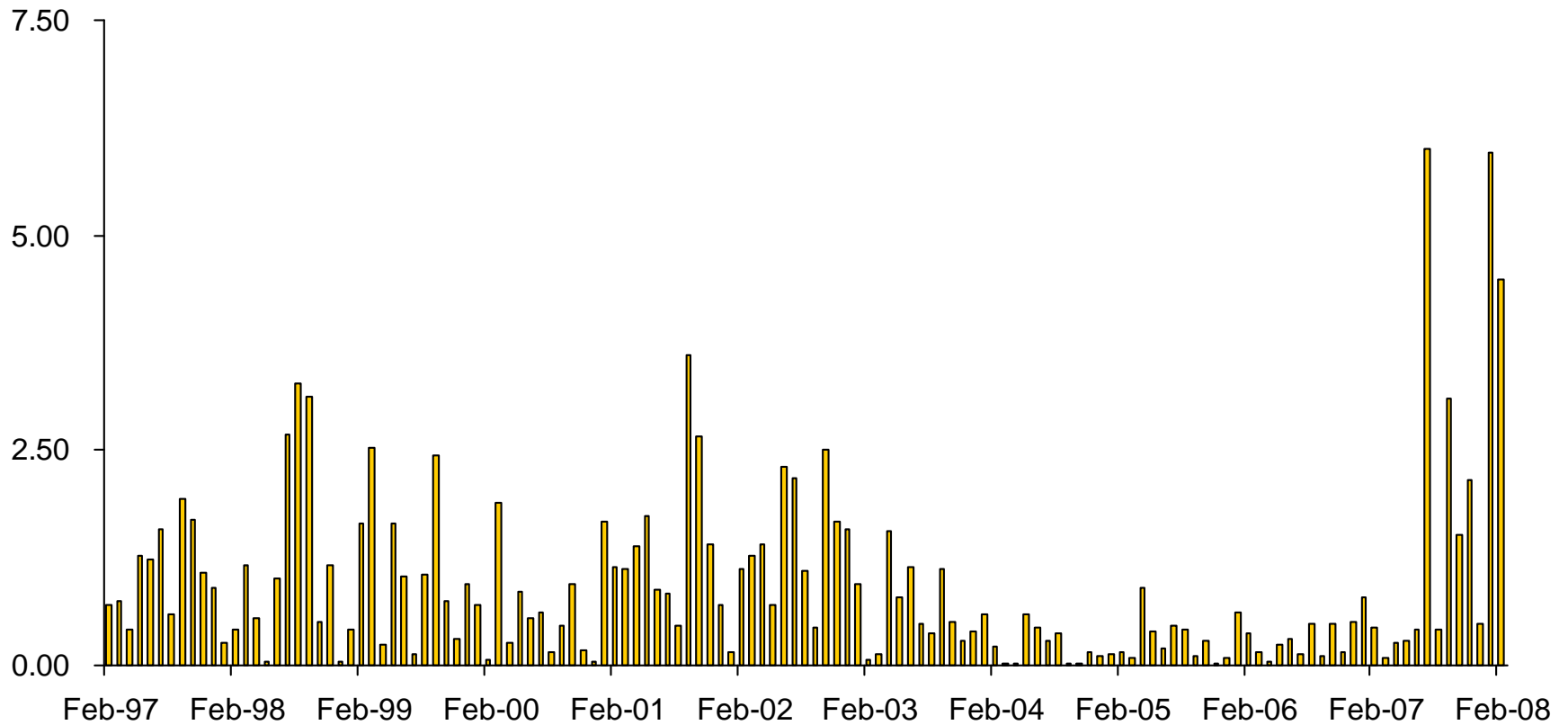


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S&P/LSTA index returns – standard deviations from the mean



Source: Standard & Poor's LCD

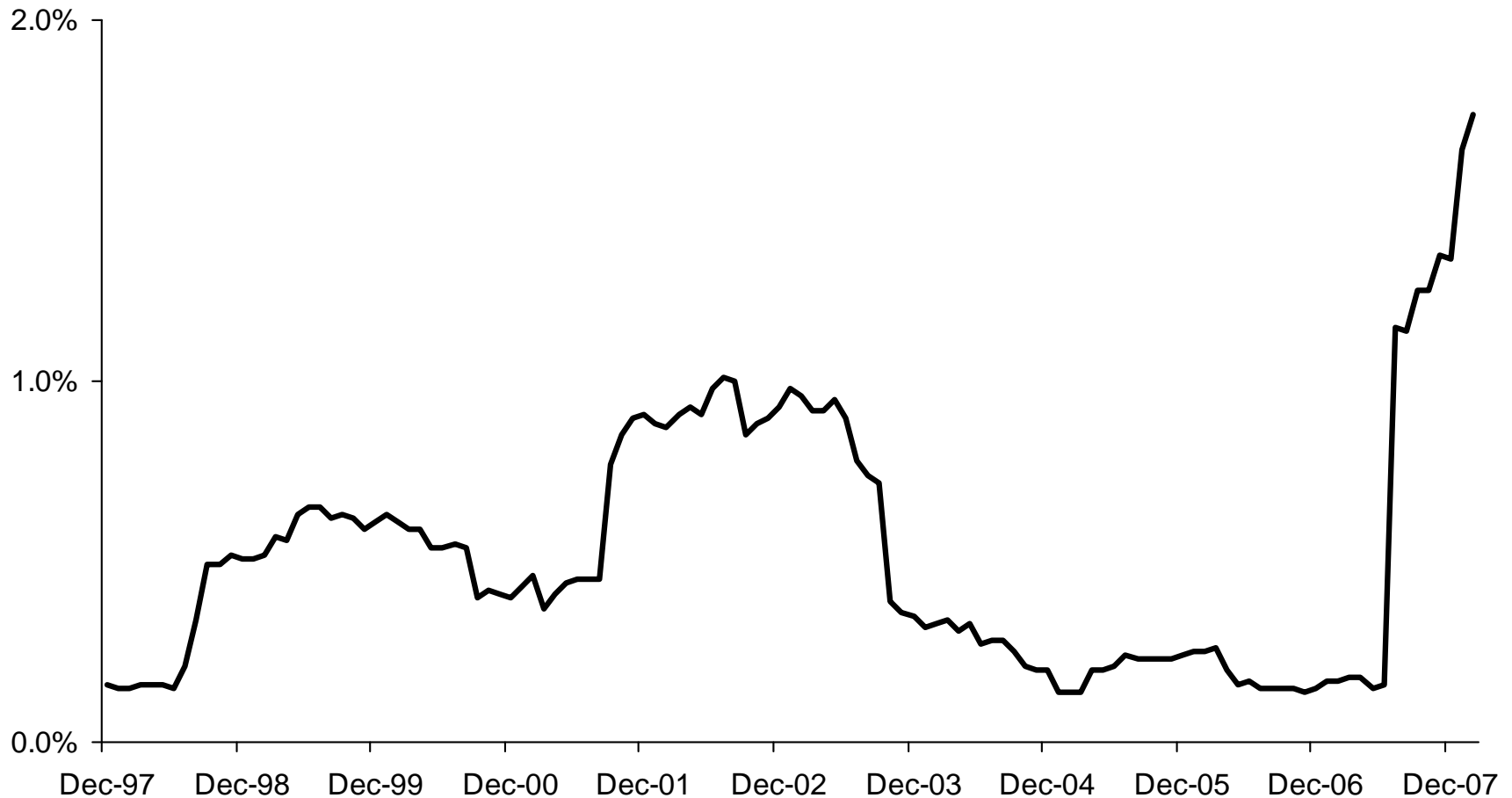
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Six sigma moves in the stock market

Source: Robert Shiller's Web Site

- November 1929: down 26.5%, or 7.8 standard deviations
 - April 1932: down 24.0%, or 6.4 standard deviations
- ** November 1987: down 12.6%, or 3.07 standard deviations

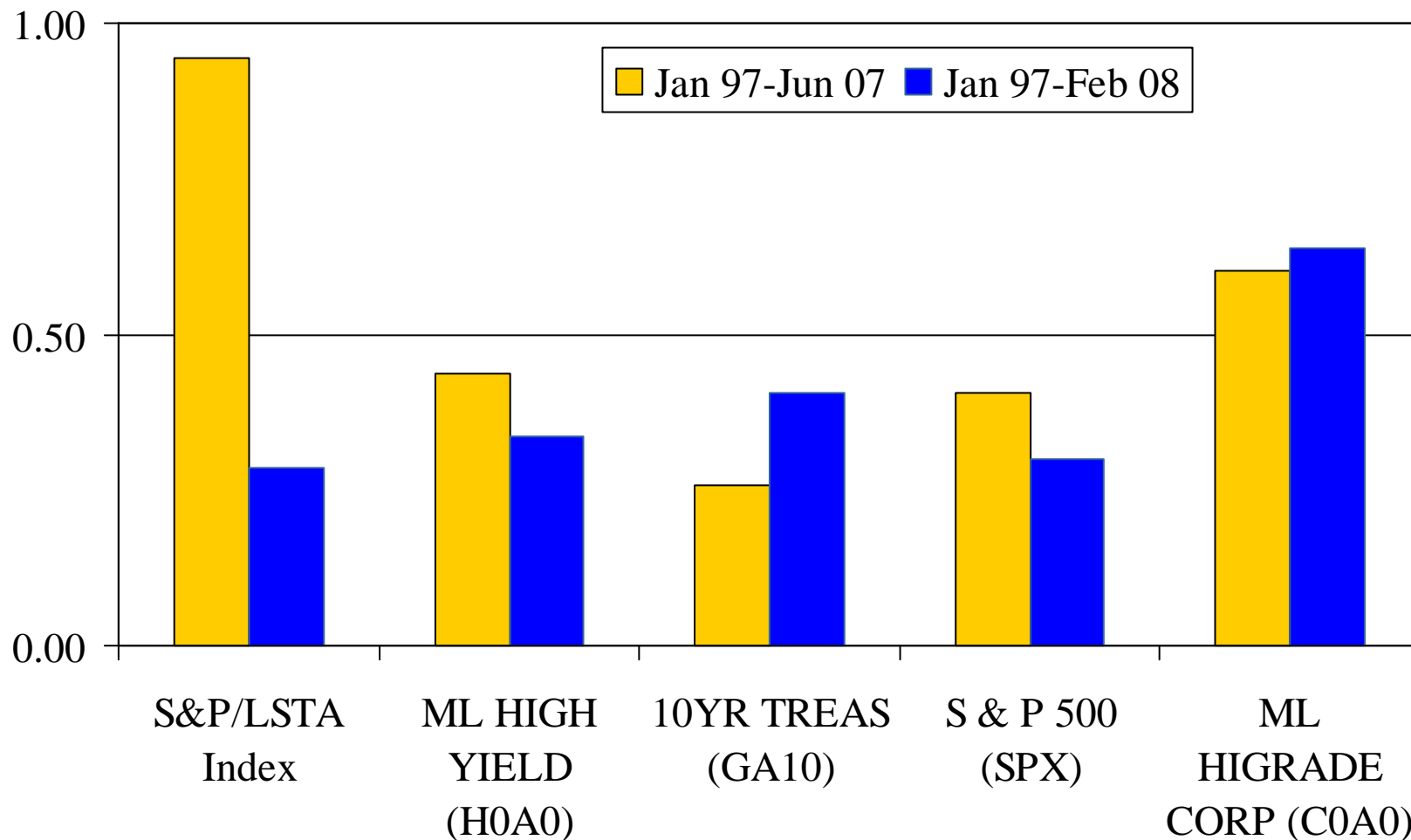
Lagging 12-month standard deviations of S&P/LSTA index returns



Source: Standard & Poor's LCD

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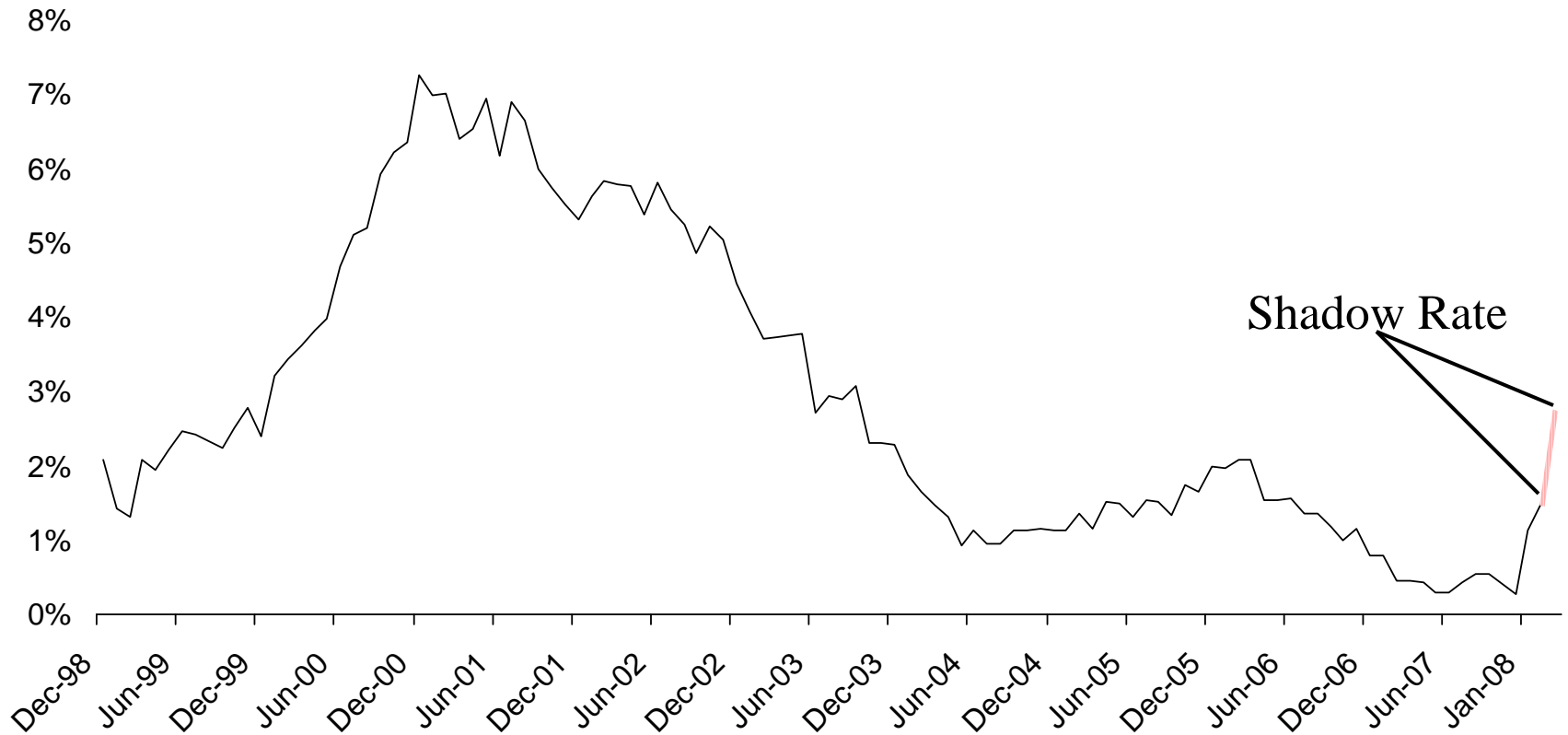
Sharpe Ratio S&P/LSTA Index versus Other Asset Classes



**“Computers are useless, they can only give answers”
-- Pablo Picasso**

Default trends

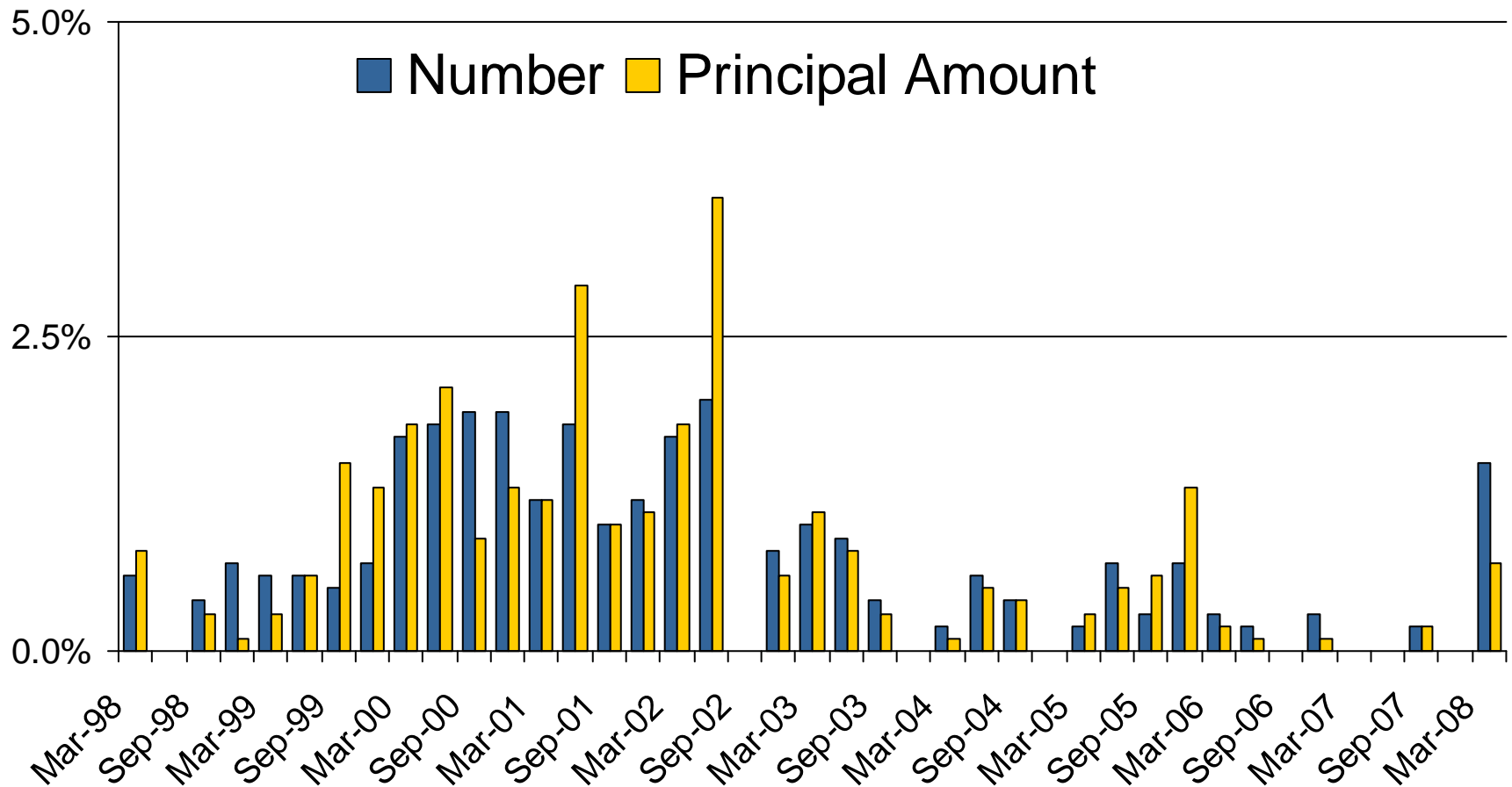
Lagging Twelve-Month Default Rate by Number of Issuers



Source: Standard & Poor's LCD

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Quarterly Default Rate

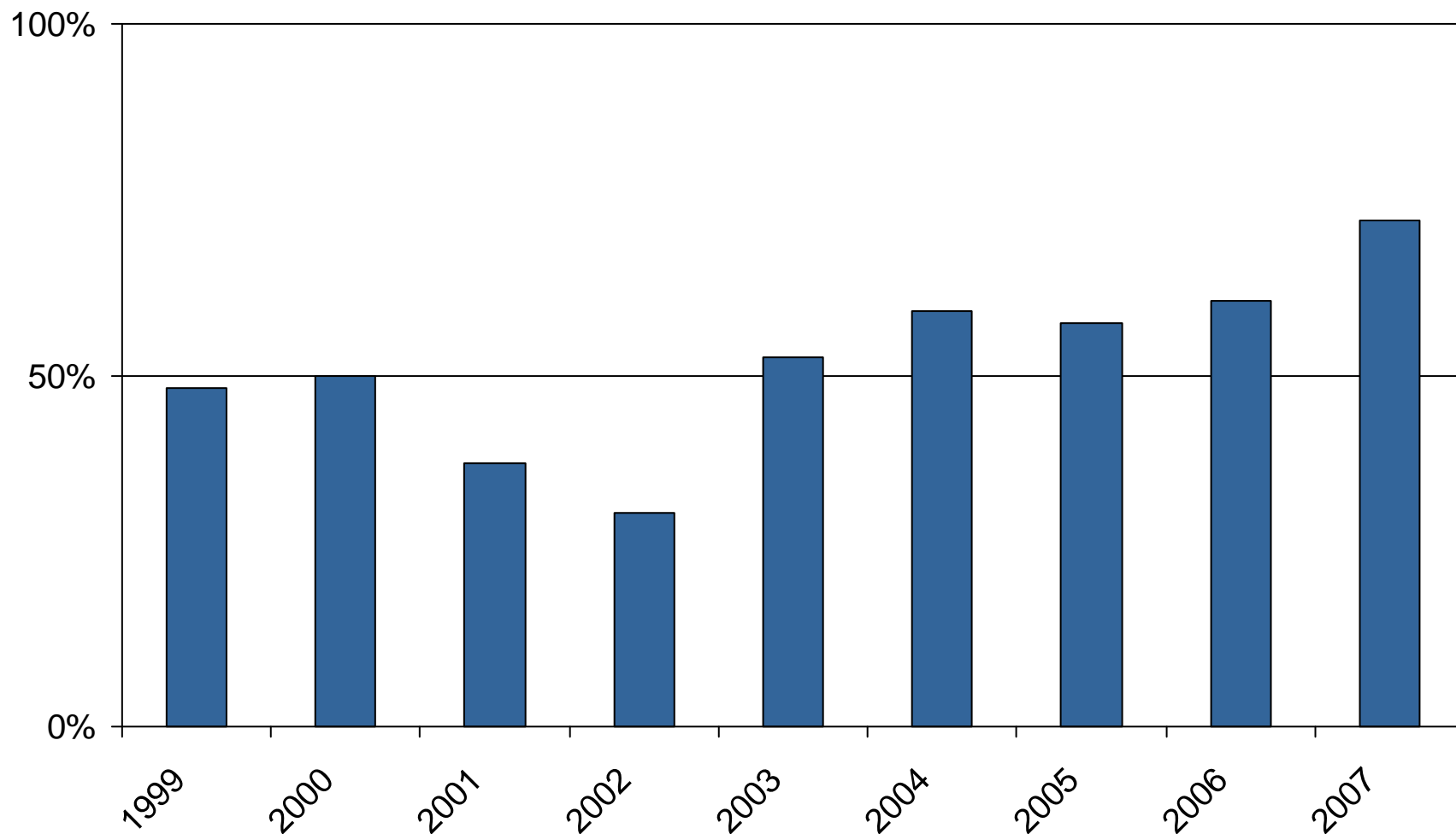


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Credit Quality – % of Rated Institutional Volume at B+/B1 or Lower

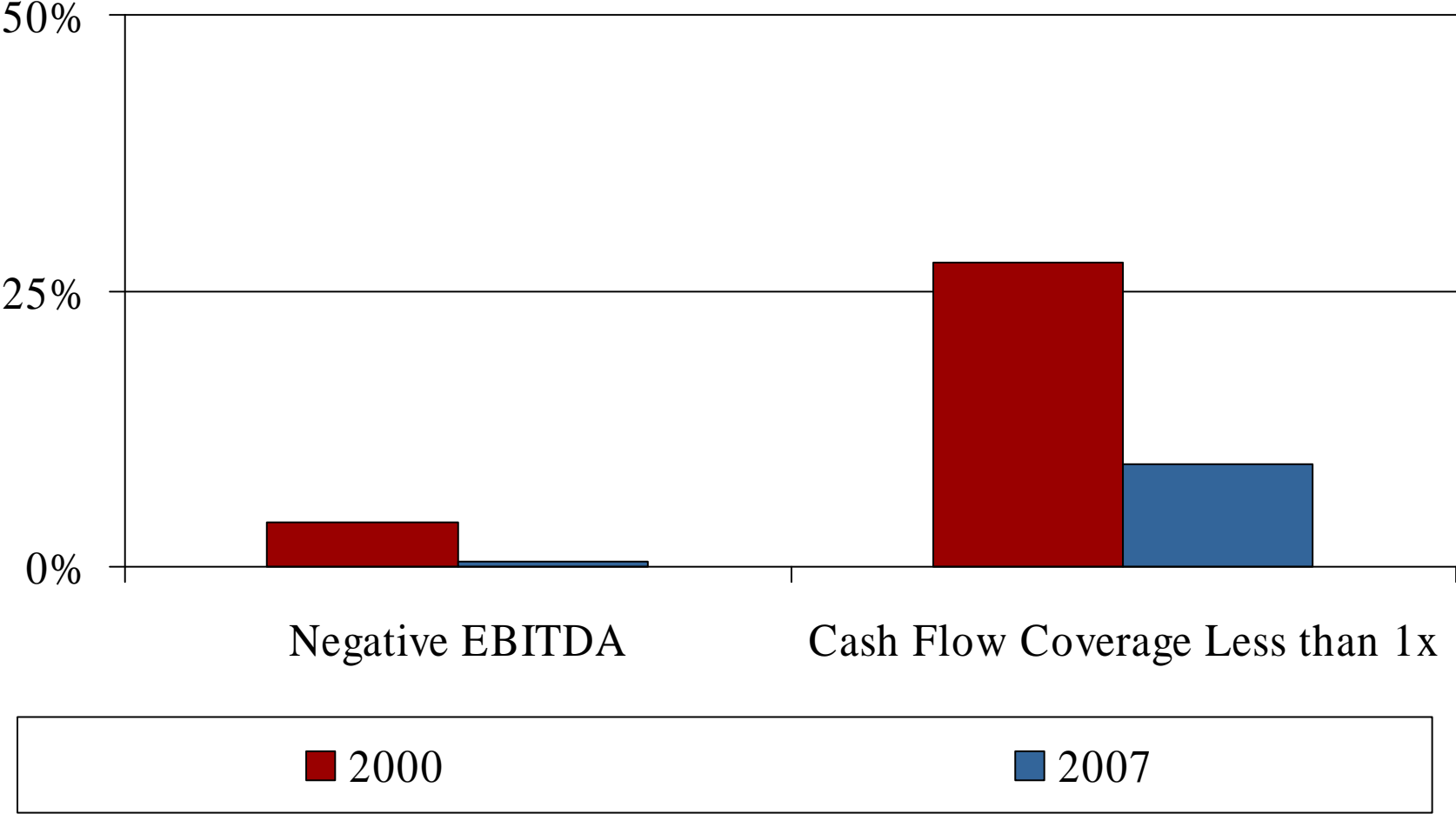


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Initial credit structures – 2000 versus 2007



Source: Standard & Poor's LCD

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The value proposition

Imputed default rates

Historical Risk Premium

Average historical spread of the S&P/LSTA Index (97 to date)	L+331
Less average credit loss (3% default rate * 30% loss given default)	90 bps
Average historical risk premium for loans	241 bps
Today's Index spread	L+610
Less historical risk premium	241 bps
Cushion against credit loss (above historical risk premium)	369 bps
Implied default rate (at 30% loss-given-default)	12.3%
First-quarter run-rate default rate	
by number	7.9%
by principal amount	3.5%
All-time high (2000)	8.2%
All-time high (high-yield; 1991)	12.5%

Looking ahead

Best guesses for 2008

Survive and Advance

- Steep declines in volume
- CLO – Small Numbers
- Fund raising – institutional money: little or no leverage
- Old pitch: high leverage/low beta
- New pitch: low leverage/high alpha
- Smaller, more conservative deals – High equity contributions
- Default rates trend higher
- Higher volatility continues

Areas of opportunity:

- Asset based lending
- Clubbish, off the run deals
- Rescue finance
- Middle market

Final Thoughts

“The golden age of private equity is over . . . for the next year or so, we will be in purgatory. We will have to atone for our sins a little bit” – David Rubenstein, The Carlyle Group

“The best loans are made in the worst time and the worst in the best” – time-honored lending proverb

2008 Model Deals

LBO Loan Averages	2001	1H07	1Q08
Spread	L+372	L+252	L+471
Leverage	4.1x	6.2x	4.8x
Senior Leverage	1.4x	5.4x	3.7x
Purchase Price Multiple	6.1x	9.8x	9.4x
Equity Contribution	31%	30%	46%
Cash flow coverage	2.0x	1.6x	1.8x

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