

## Deleveraged Loan Market

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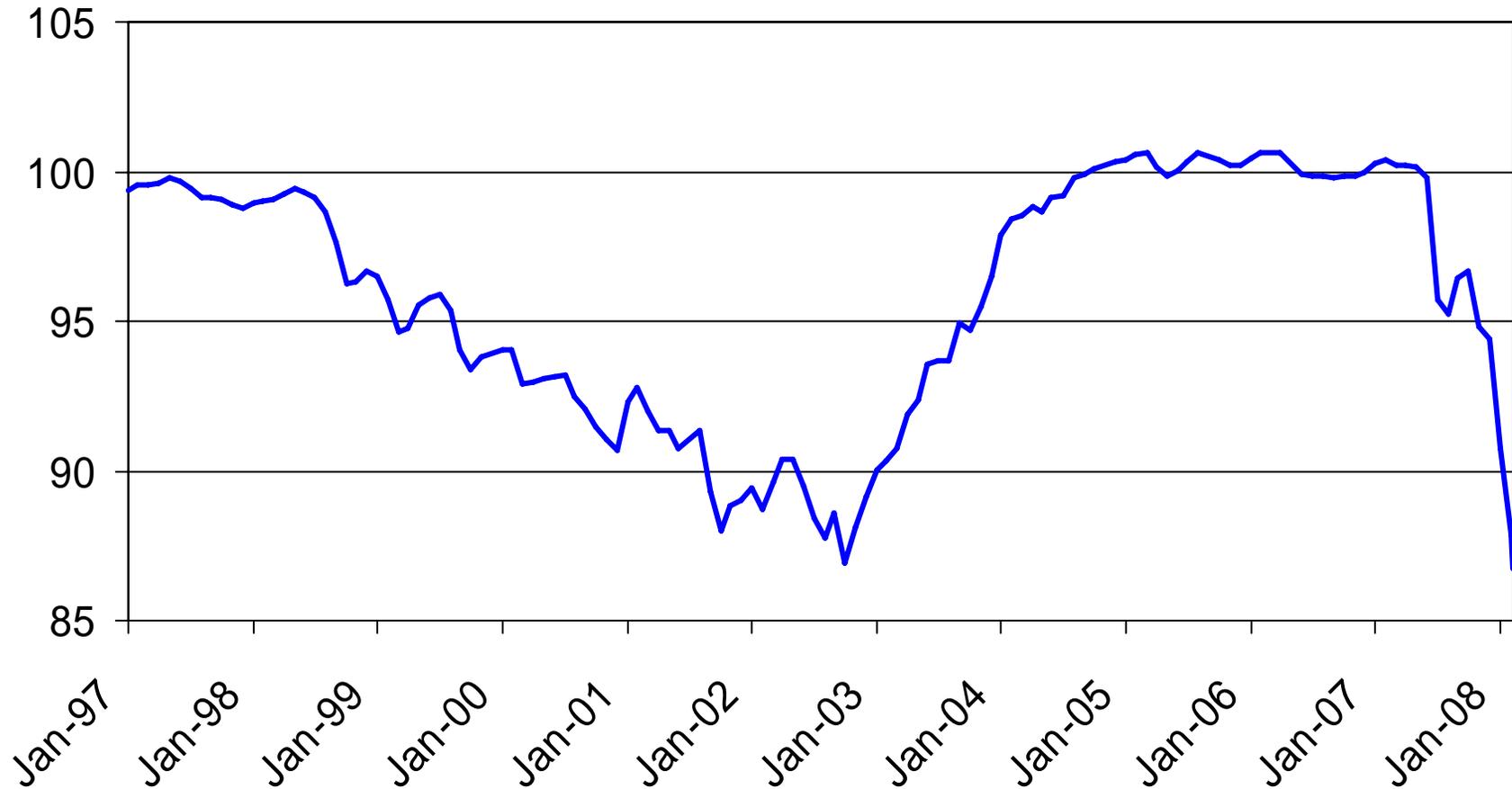
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# Current State of Play

# Price of The S&P/LSTA Index Loans

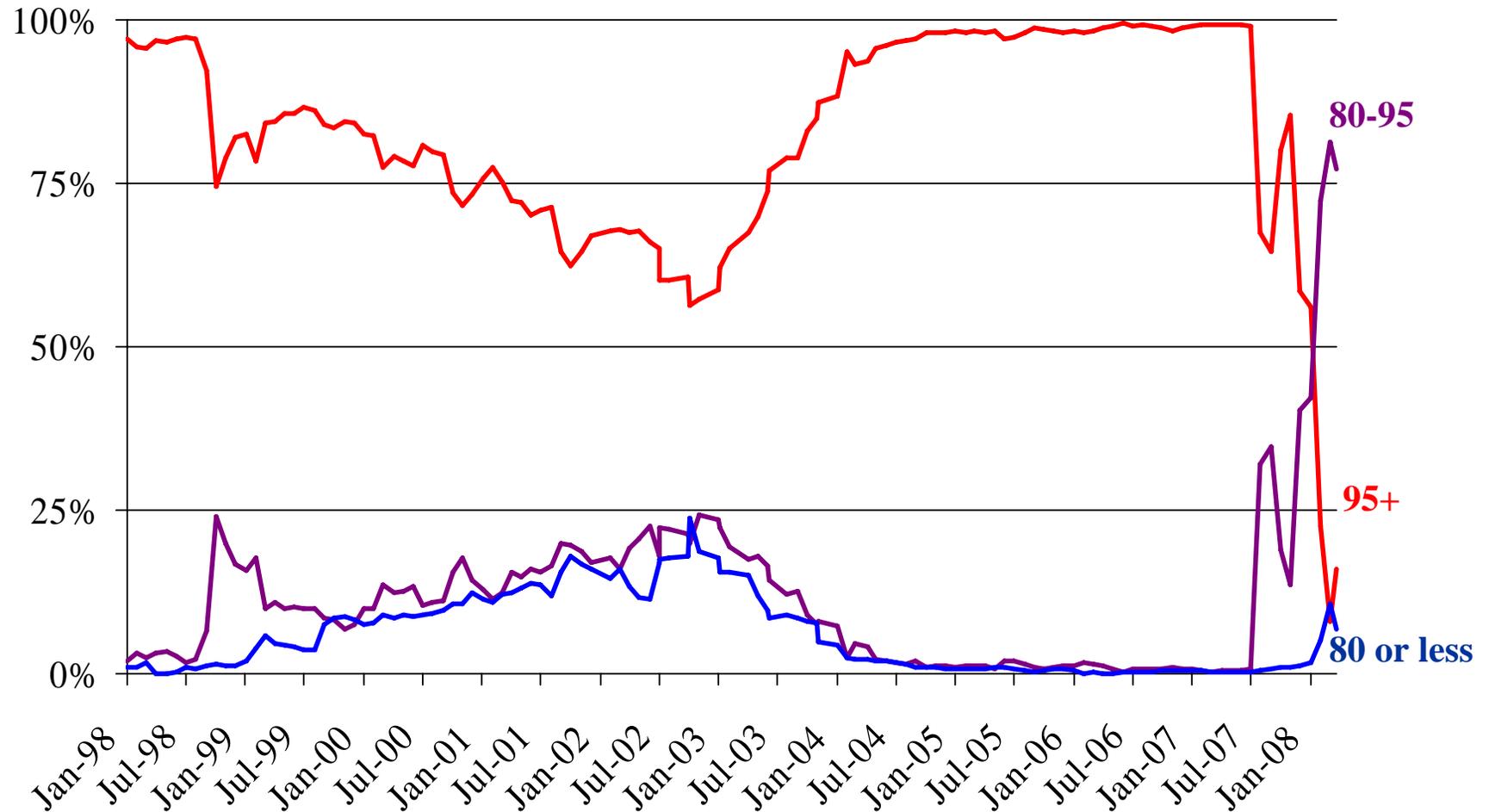
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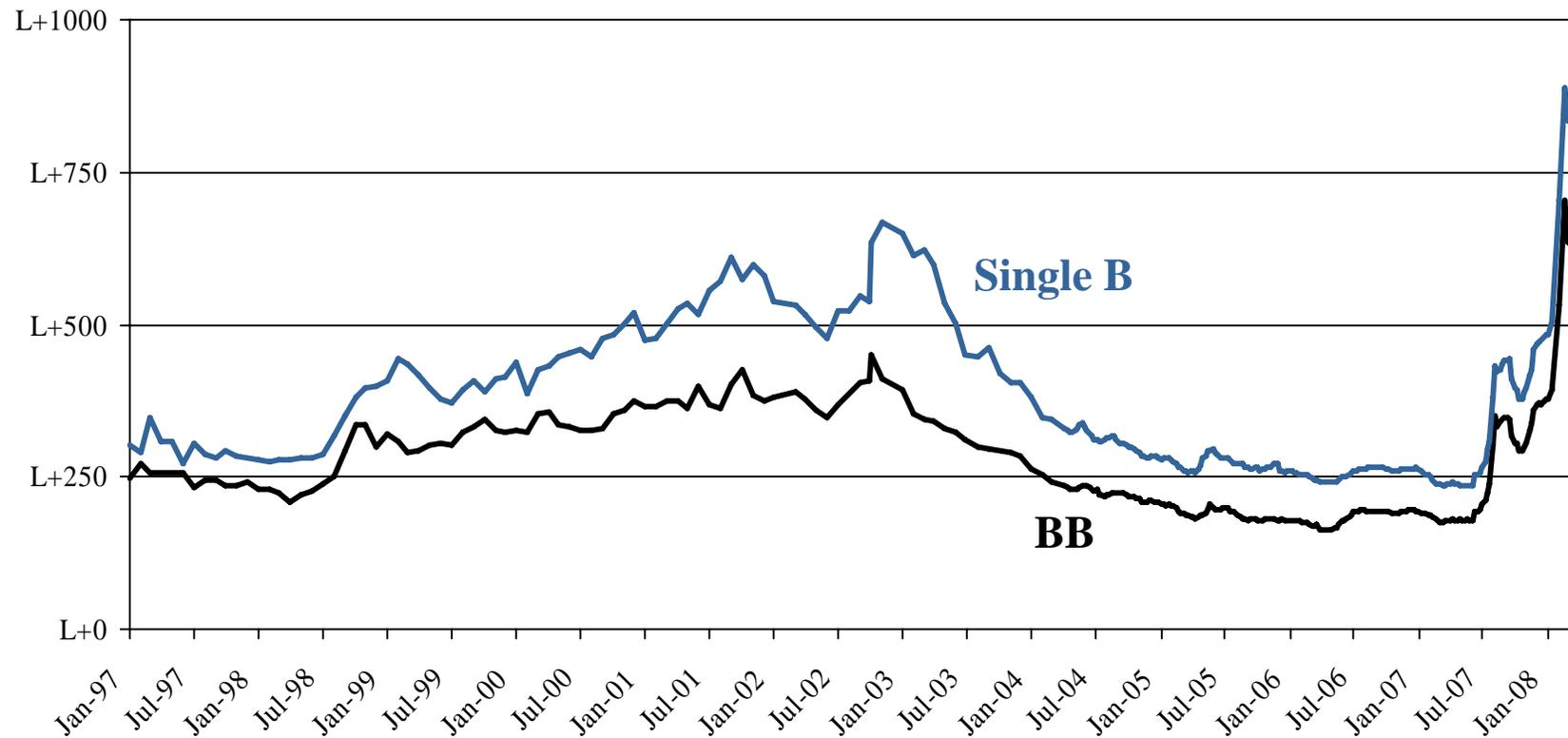
# Price Distribution of The S&P/LSTA Index Loans



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

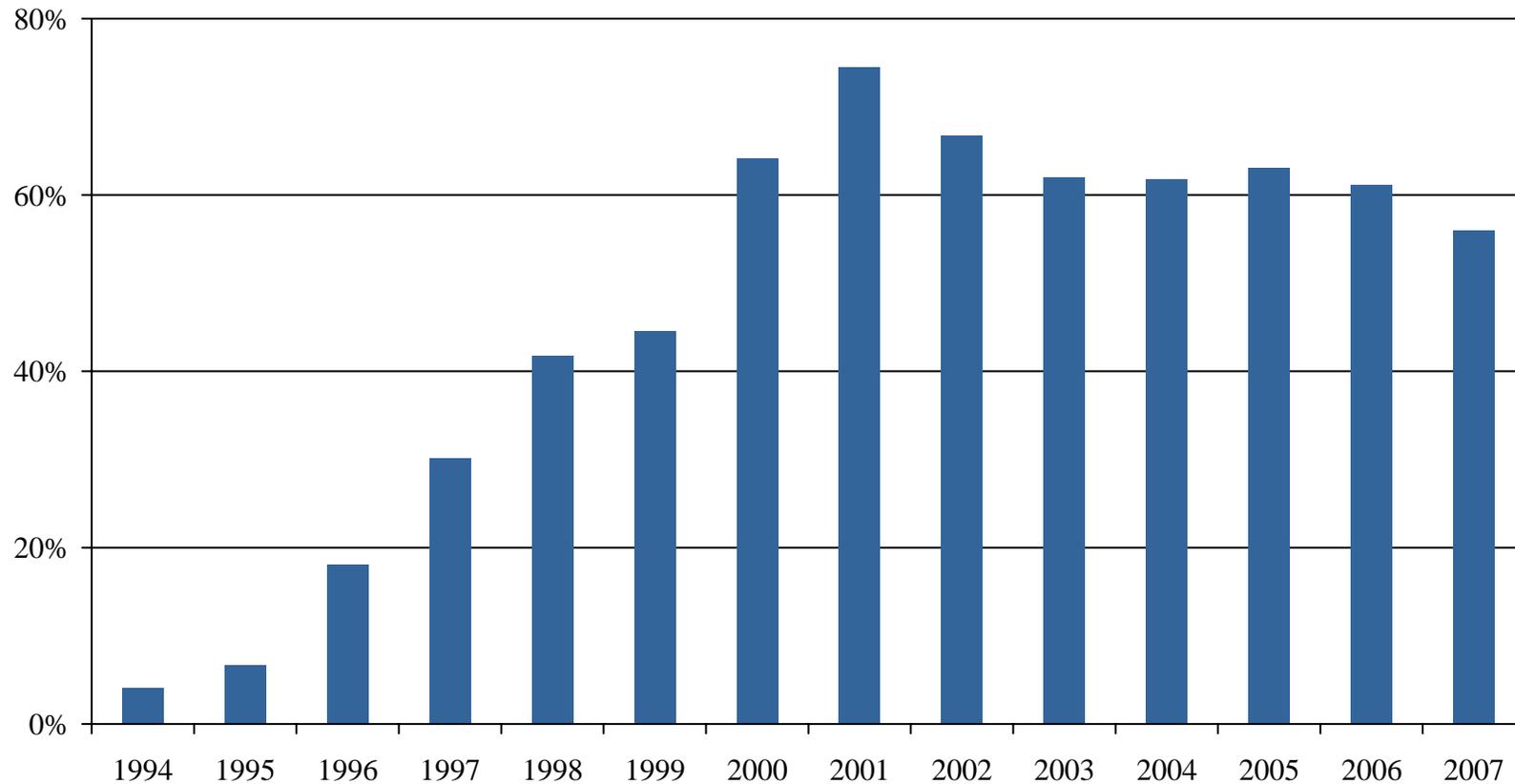


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# Market Technicals

# CLO's Share of the Institutional Loan Market

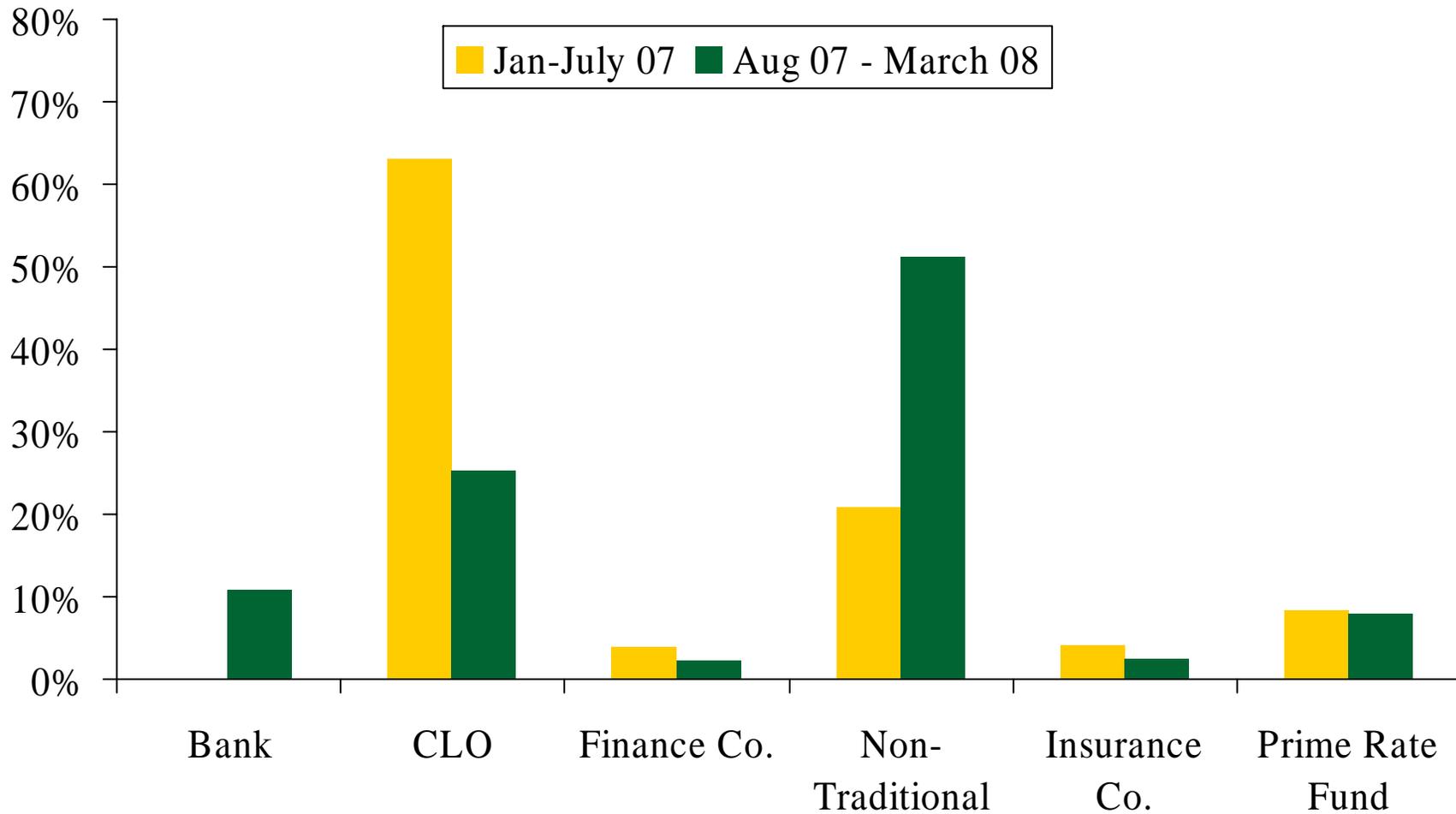
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# Share of the Institutional Loan Market – Pre- & Post-Correction

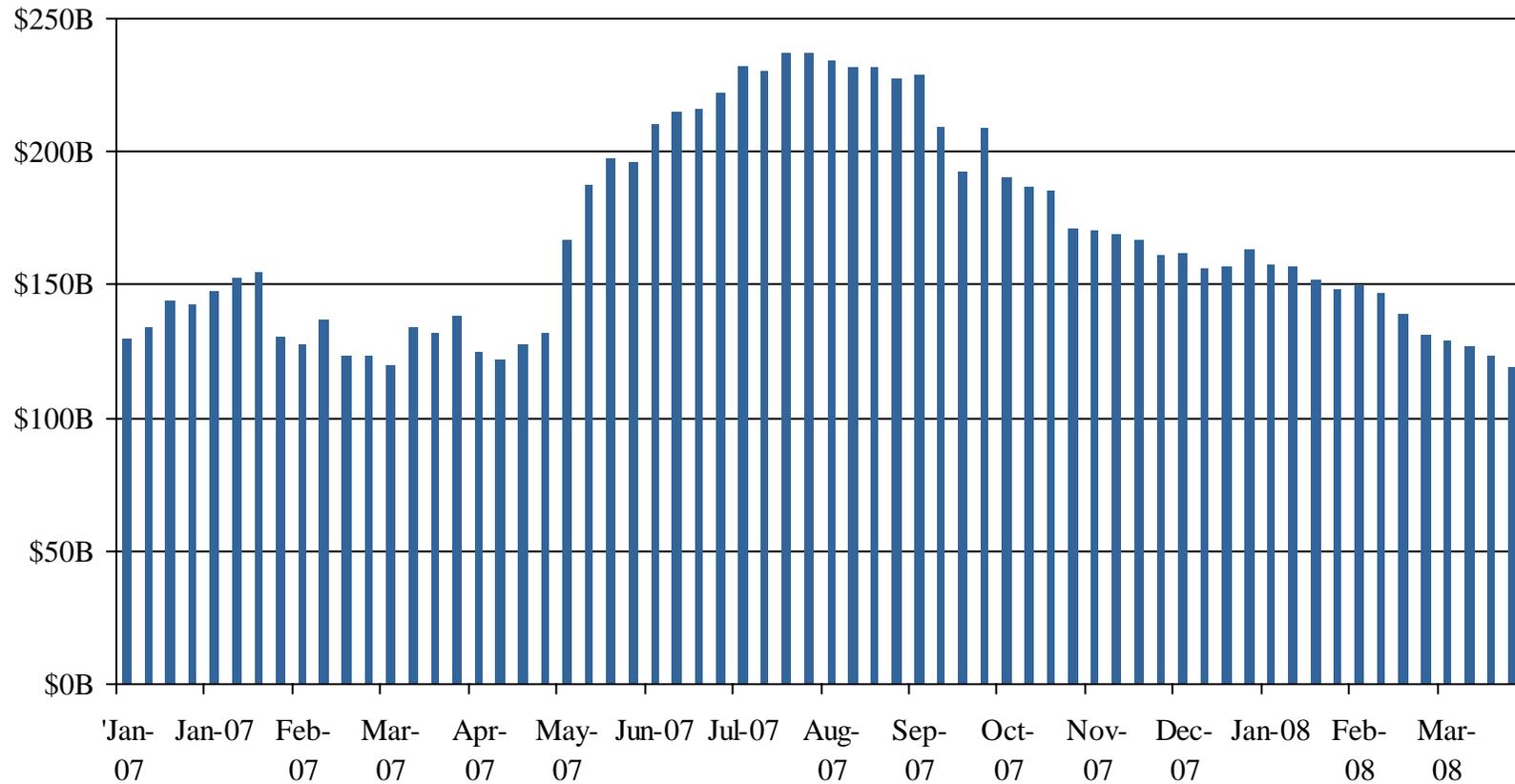


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# Underwriting overhang

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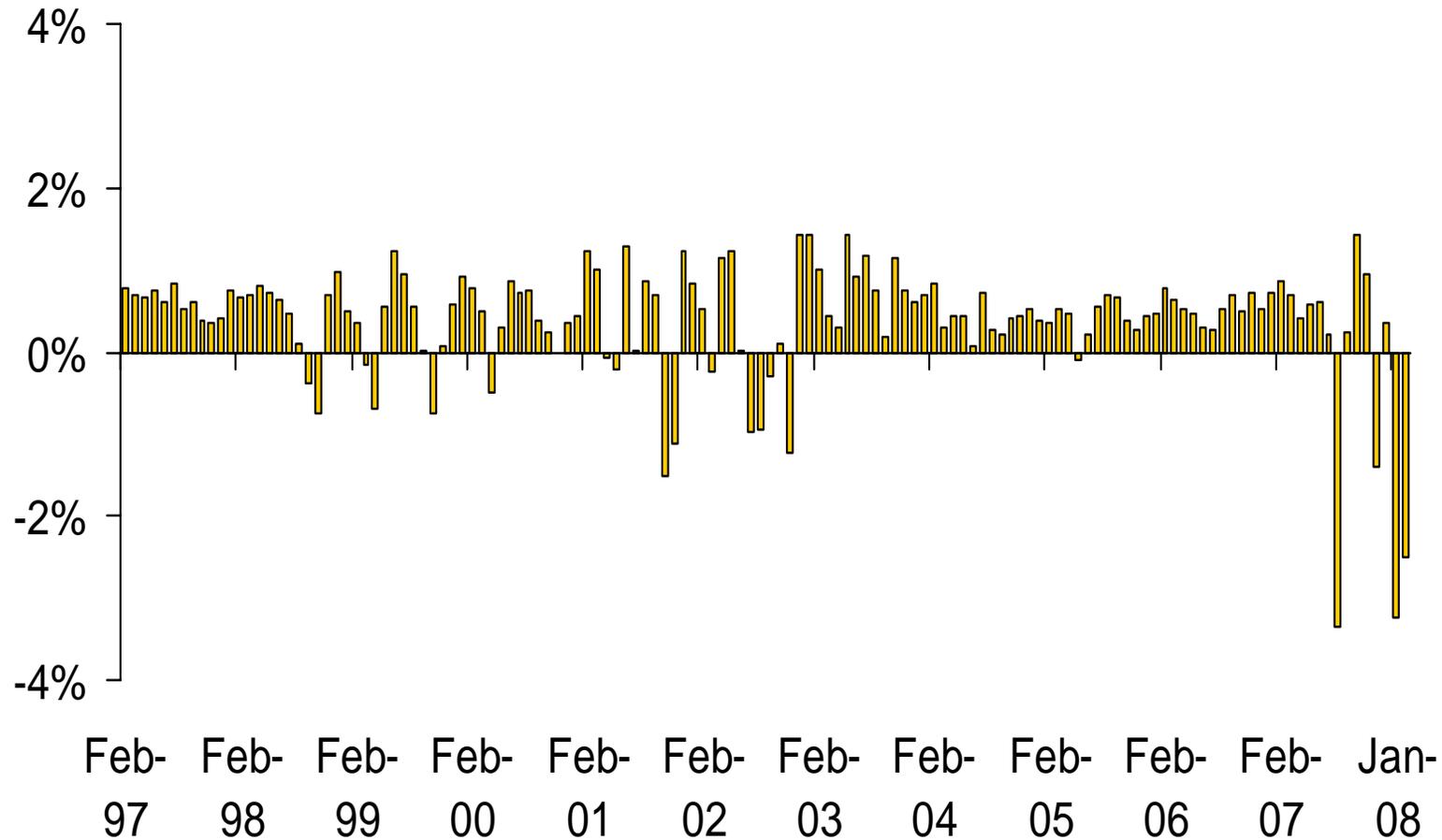
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# Living in the future

# S&P/LSTA index returns by month

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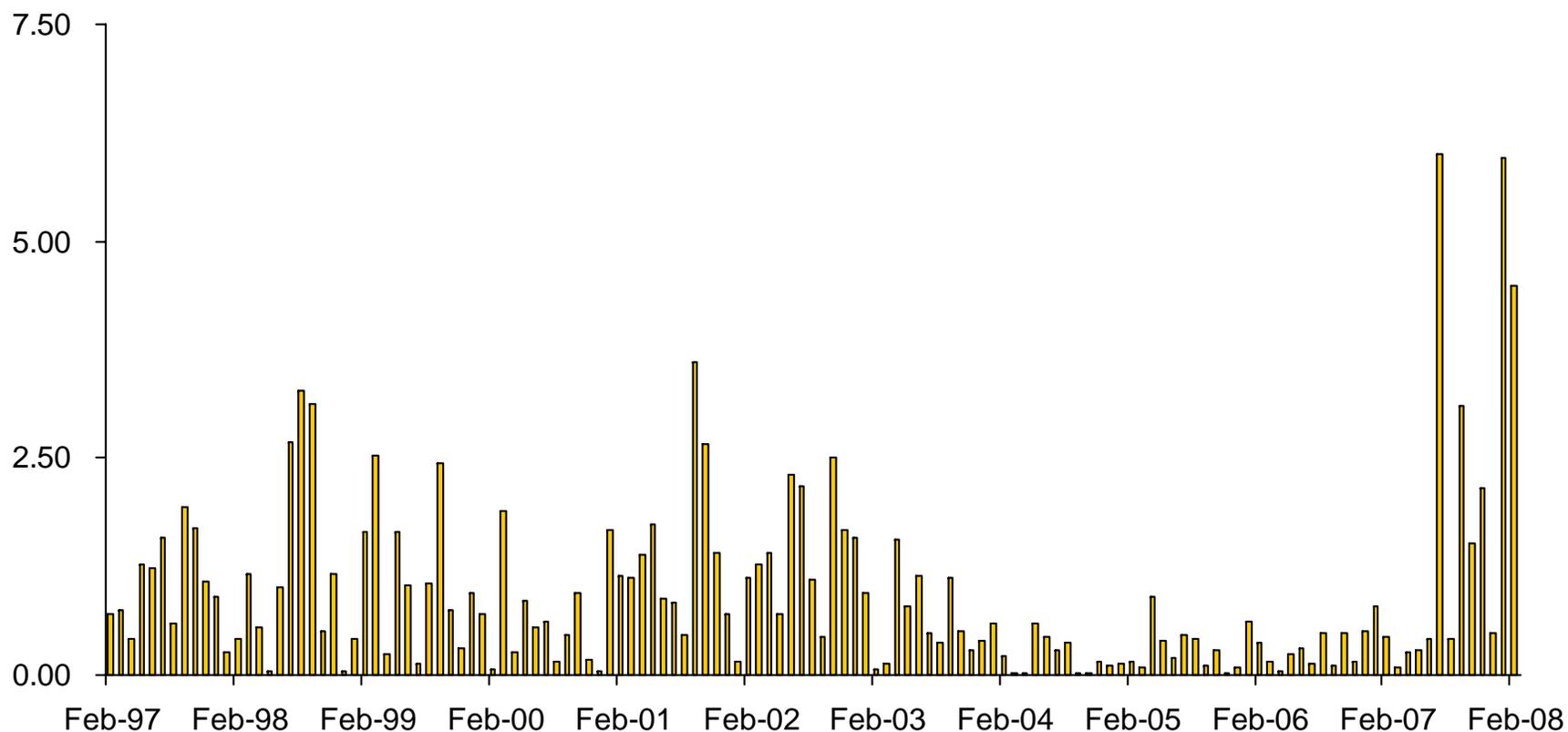


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## S&P/LSTA index returns – standard deviations from the mean



*Source: Standard & Poor's LCD*

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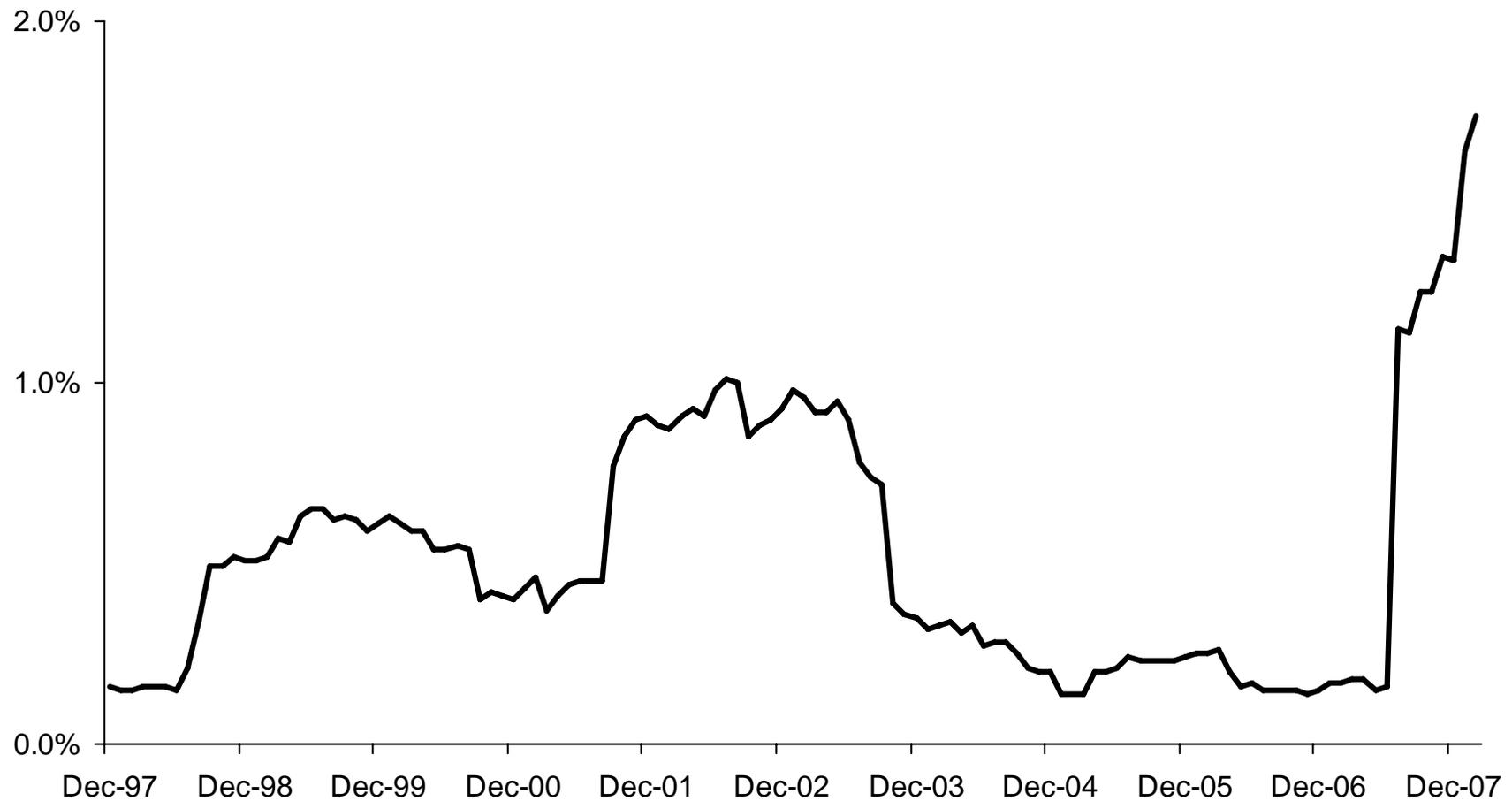
## Six sigma moves in the stock market

Source: Robert Shiller's Web Site

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- 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

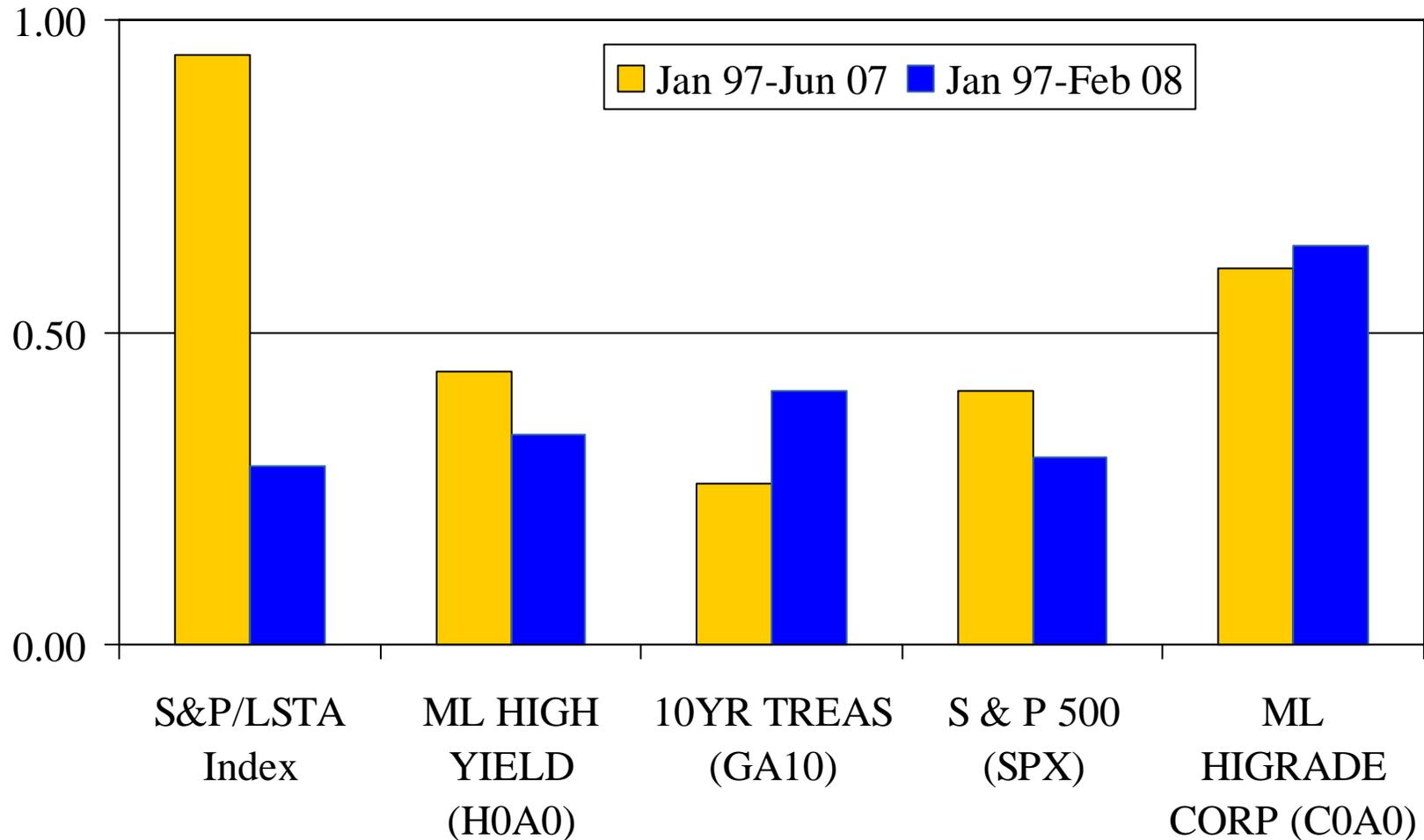
## Lagging 12-month standard deviations of S&P/LSTA index returns



*Source: Standard & Poor's LCD*

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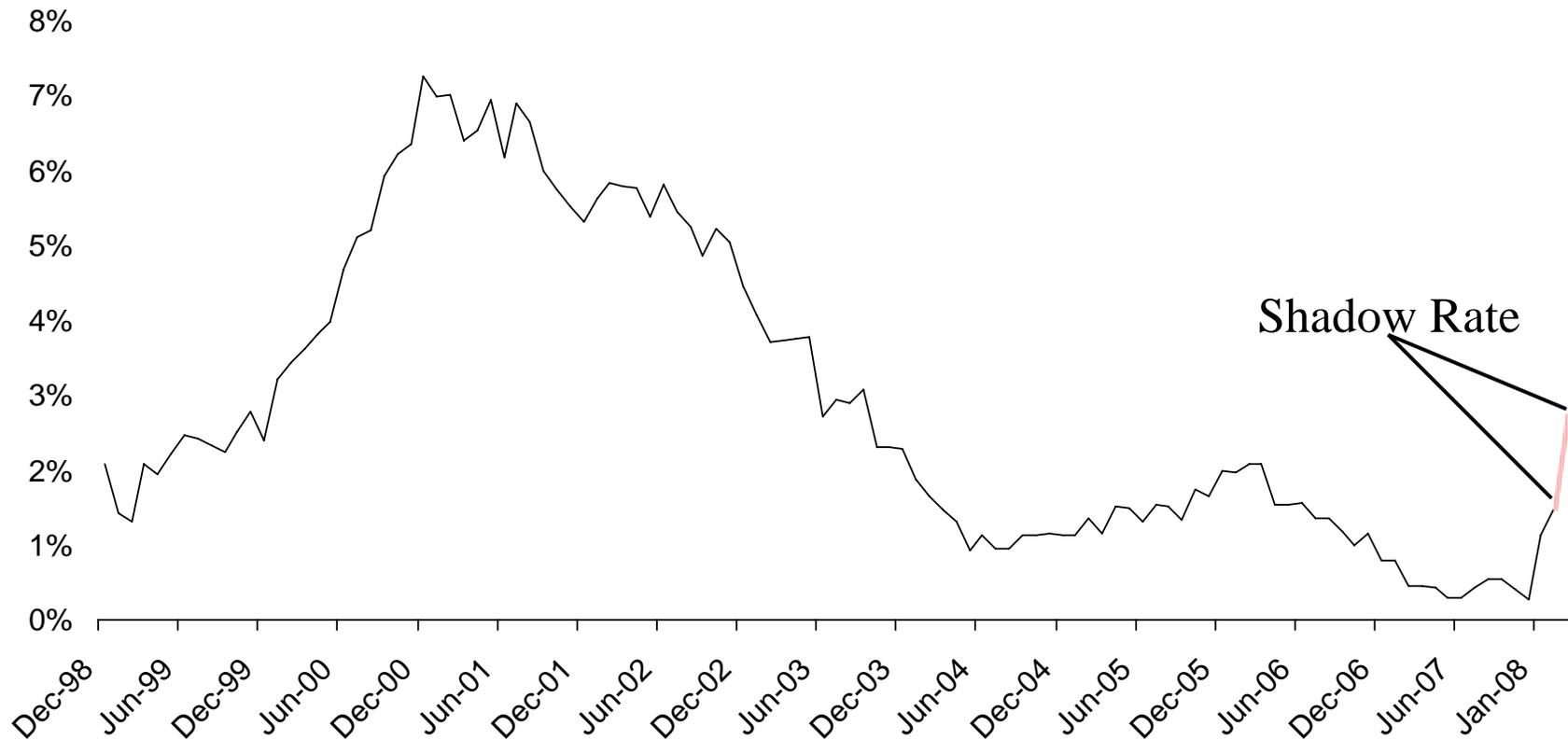
# Sharpe Ratio S&P/LSTA Index versus Other Asset Classes



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# Default trends

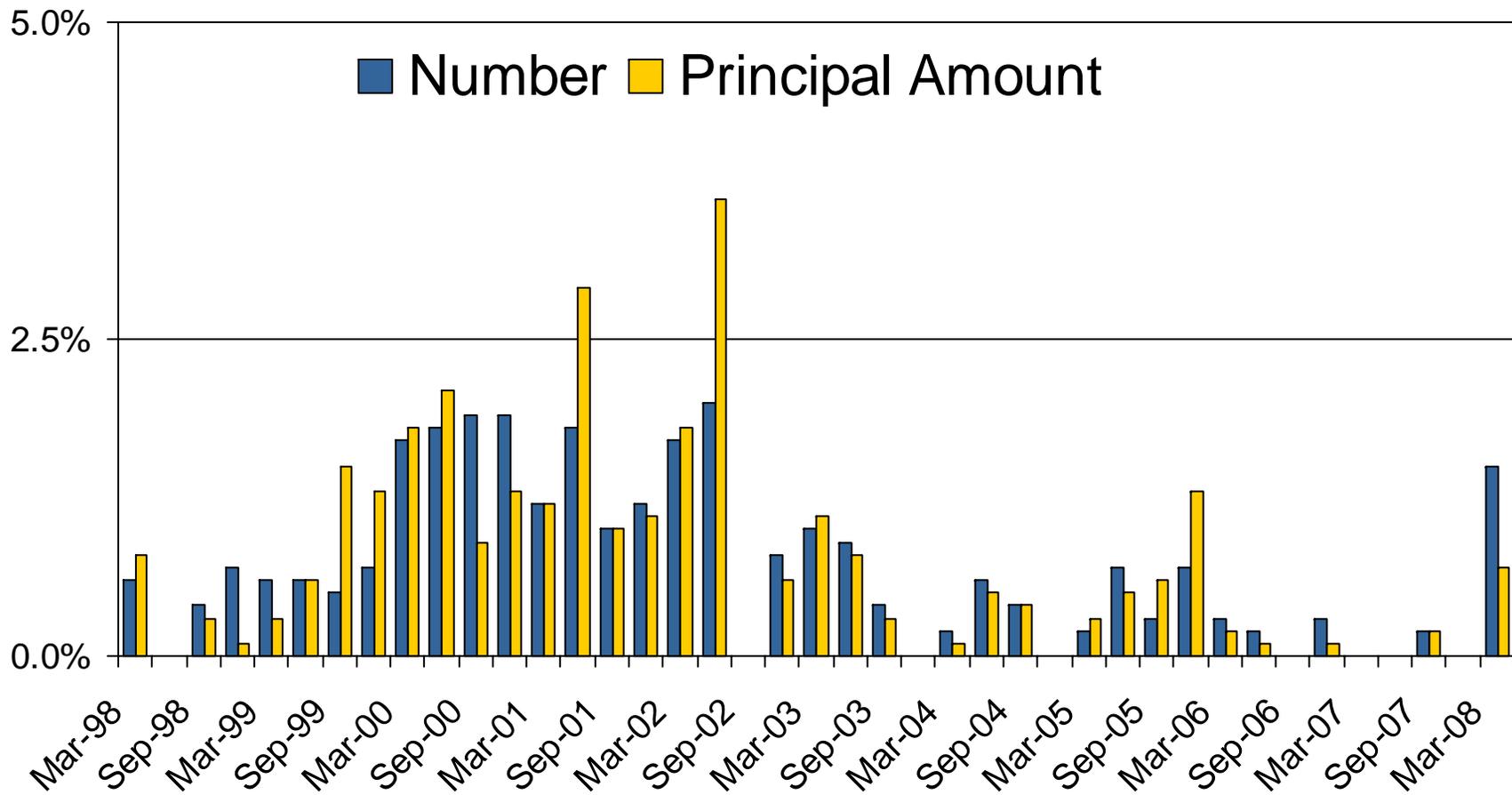
# Lagging Twelve-Month Default Rate by Number of Issuers



Source: Standard & Poor's LCD

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# Quarterly Default Rate

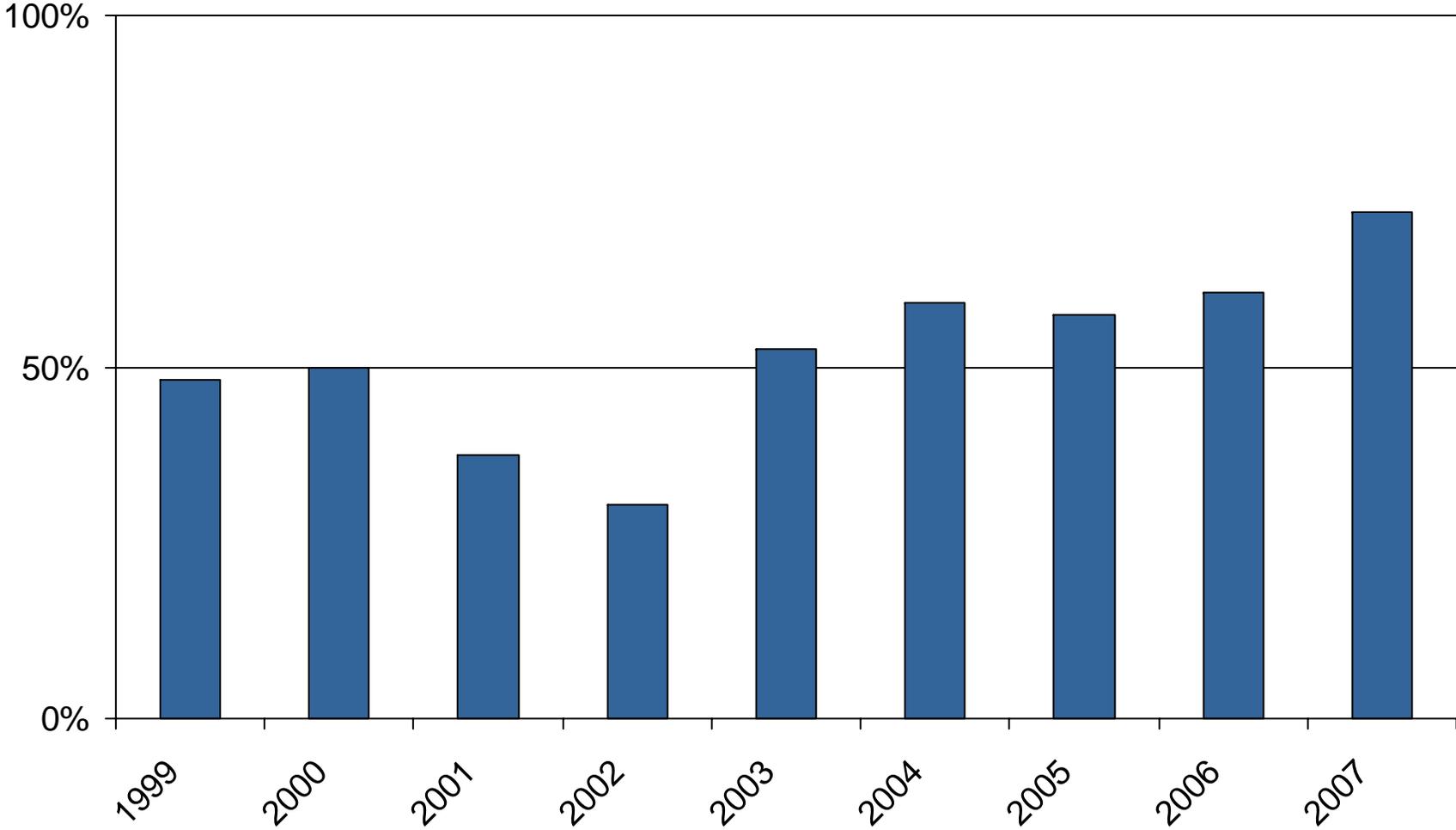


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# Credit Quality – % of Rated Institutional Volume at B+/B1 or Lower

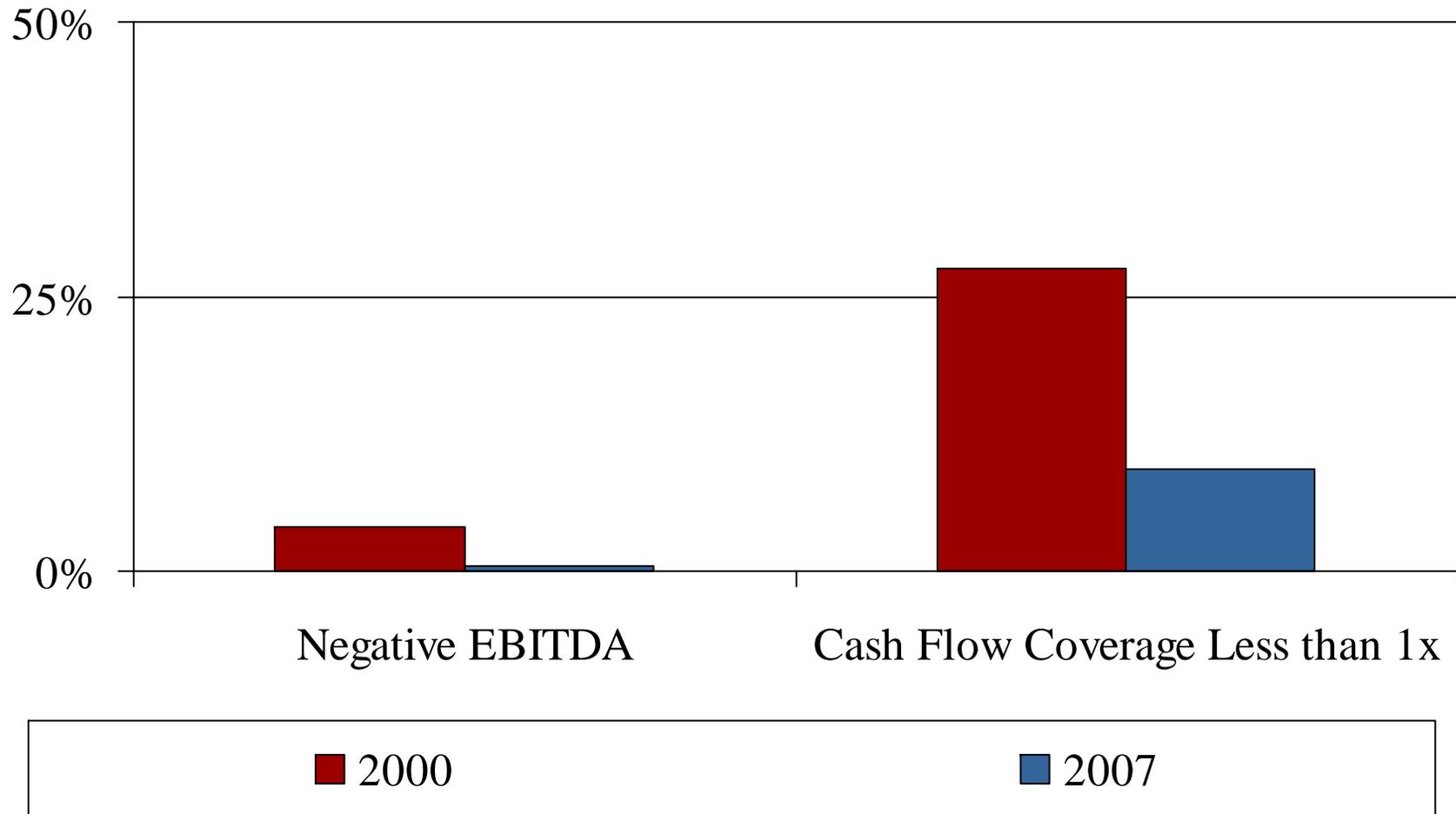


Source: Standard & Poor's LCD



## Initial credit structures – 2000 versus 2007

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Source: Standard & Poor's LCD

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# The value proposition

# Imputed default rates

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## 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%

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# Looking ahead

## Best guesses for 2008

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### **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 Thought

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

## 2008 Model Deals

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

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