

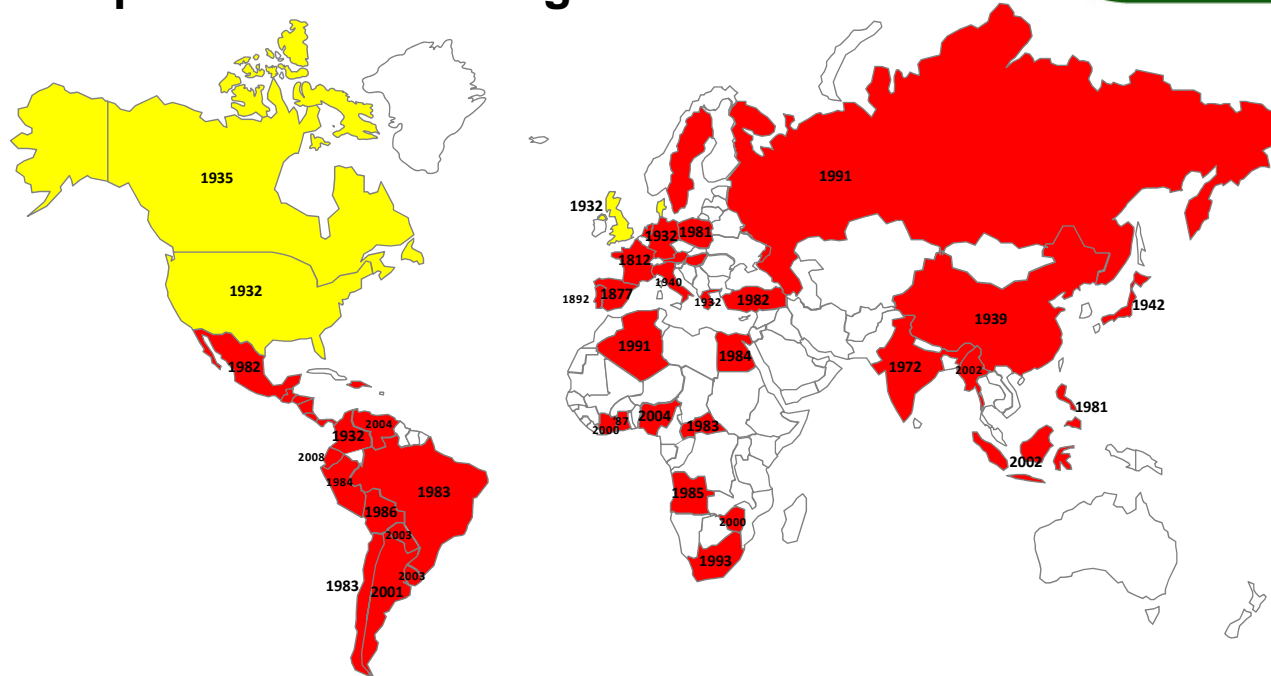
Corporate Debt Financing and Economic Recovery

Wednesday, April 28, 2010

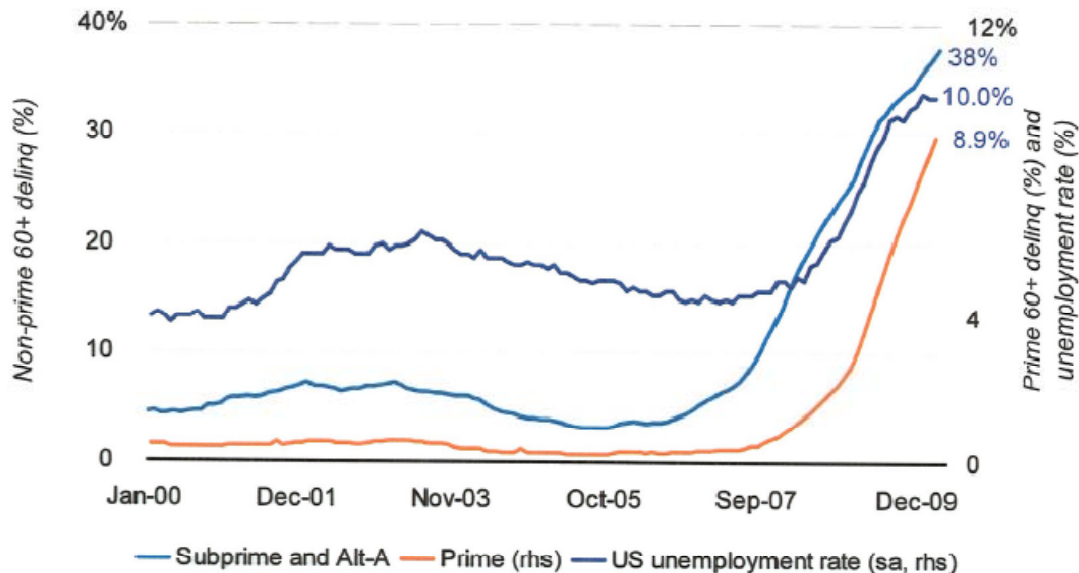
9:30 AM - 10:45 AM



A map for world sovereign default



Rapid rise in serious delinquencies leads to rapid rise in foreclosures ~18 months hence



Capital market recovery has been highly correlated to company size

Capital structure breakdown for Q2 2009—Q1 2010 bond and loan issuance

Size of capital structure	Number of issuers pricing bonds or loans	Number of issuers outstanding	Percent of issuers that priced bonds or loans over the past 12 months
\$300mm or less	147	1,055	13.9%
\$301 mm to \$999 mm	177	632	28.0%
\$1B to \$3B	144	297	48.5%
\$3B and greater	57	96	59.4%

Source: JPMorgan.

Where to invest?

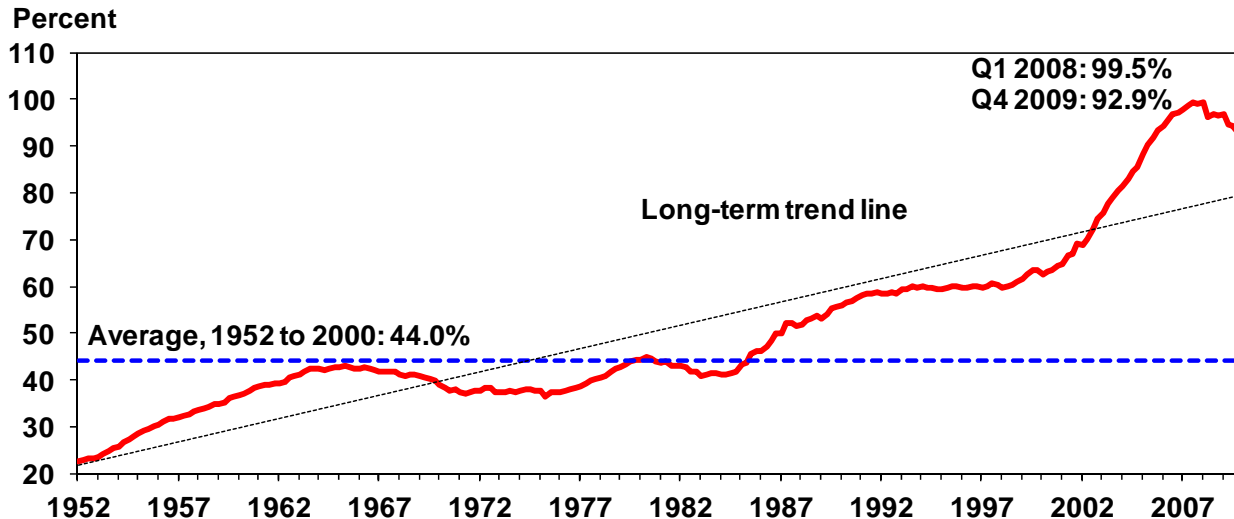
- Distressed debt
- Reorganization equities
- Mid cap vs. large cap
- Structured debt: CLOs
- Asset-backed corporate debt

Conclusion

- Credit offers decent but not great value
 - Spreads remain wide to historic averages
 - Absolute returns are low to historic averages
- Good point in cycle to invest but uncertain macro environment
- Attractive opportunity to generate alpha

Mortgage debt to household income ratio

1952 to 2009

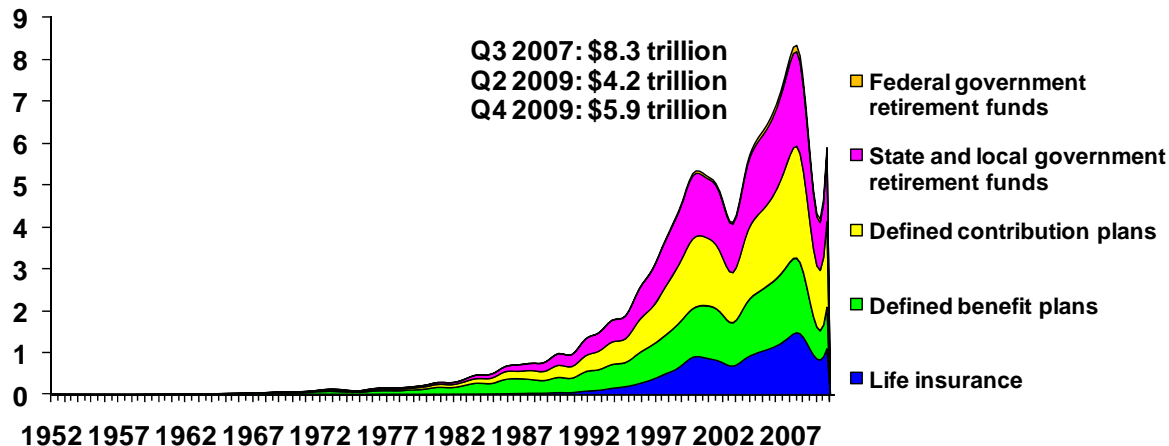


Source: Federal Reserve, Flow of Funds.

Household retirement assets declined by \$2.4 trillion from peak

1952 to 2009

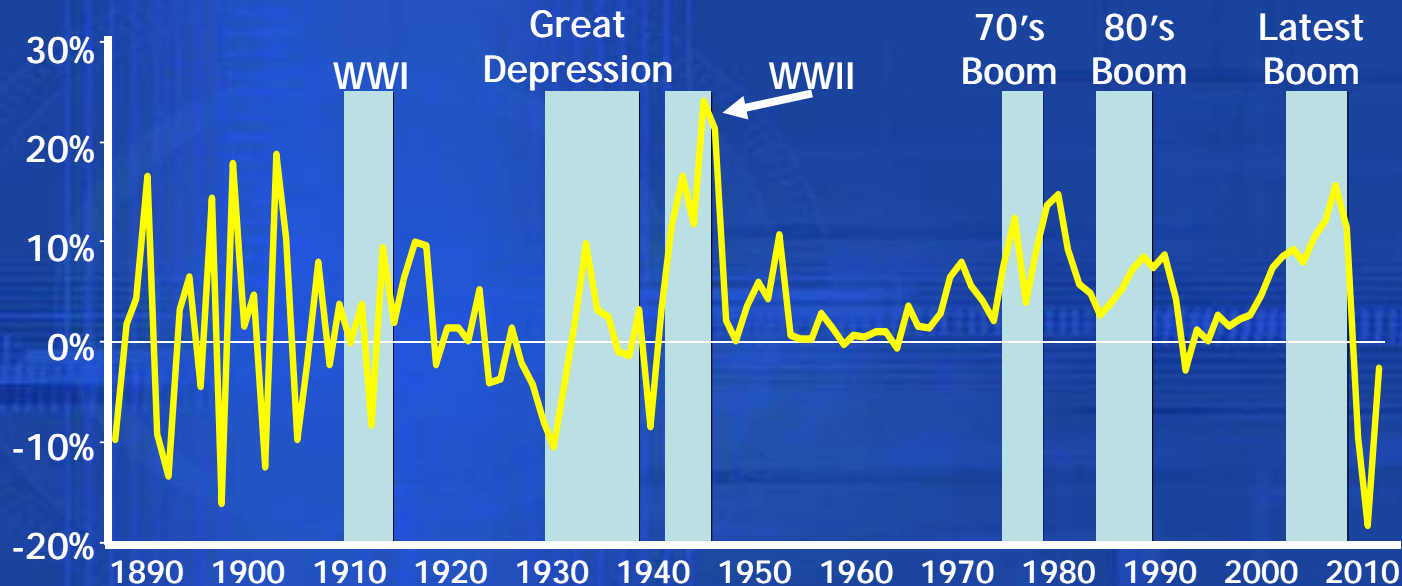
Pension funds, retirement funds and life insurance assets, US\$ trillions



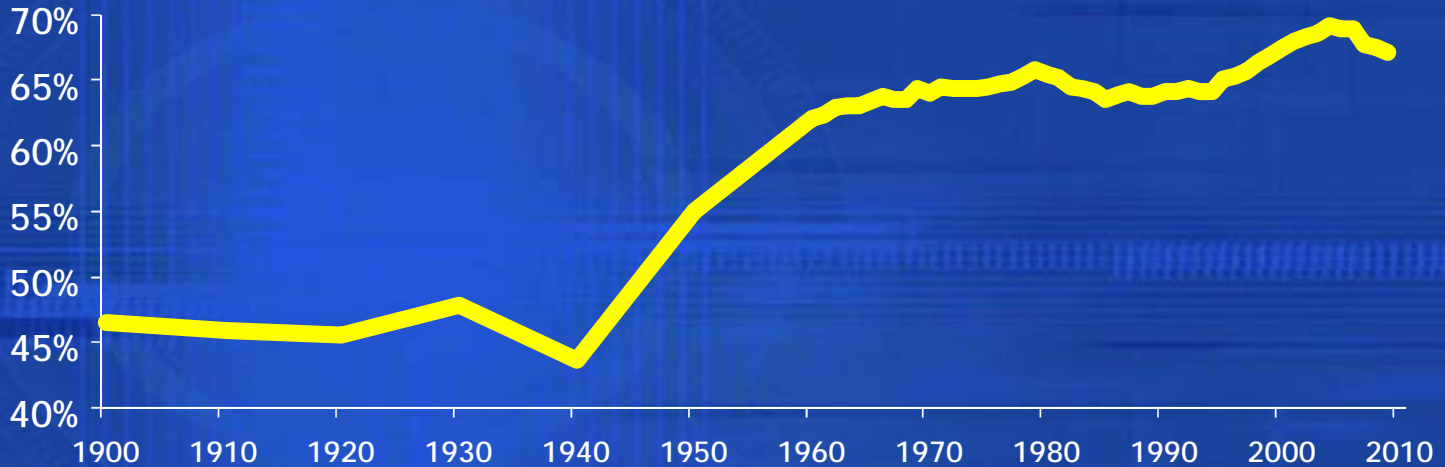
Source: Federal Reserve, Flow of Funds.

Home prices don't go up forever

Change in home prices in 100-plus years

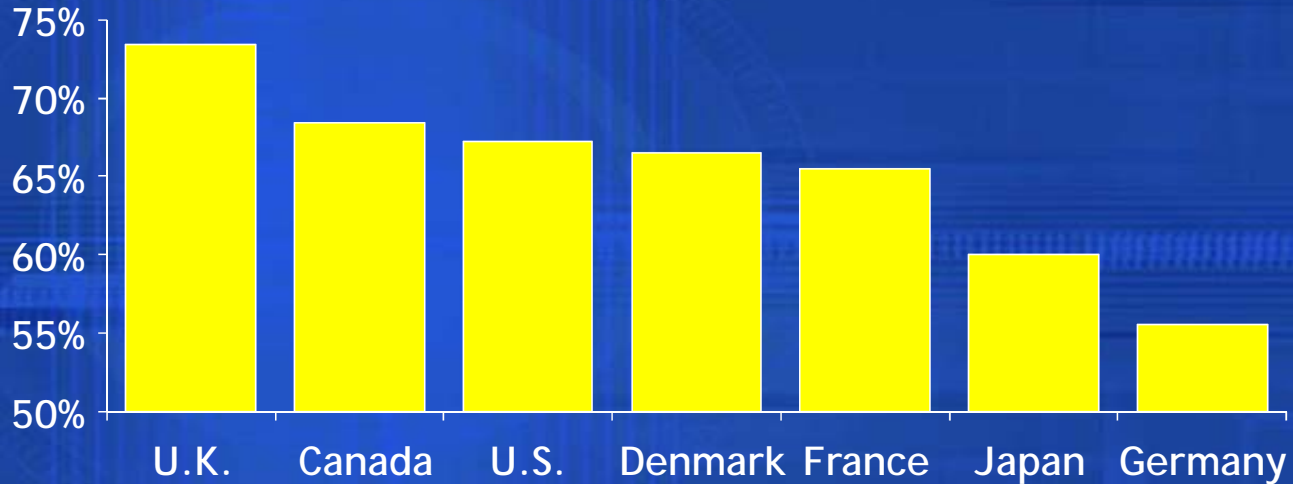


Historical U.S. Home Ownership Rates



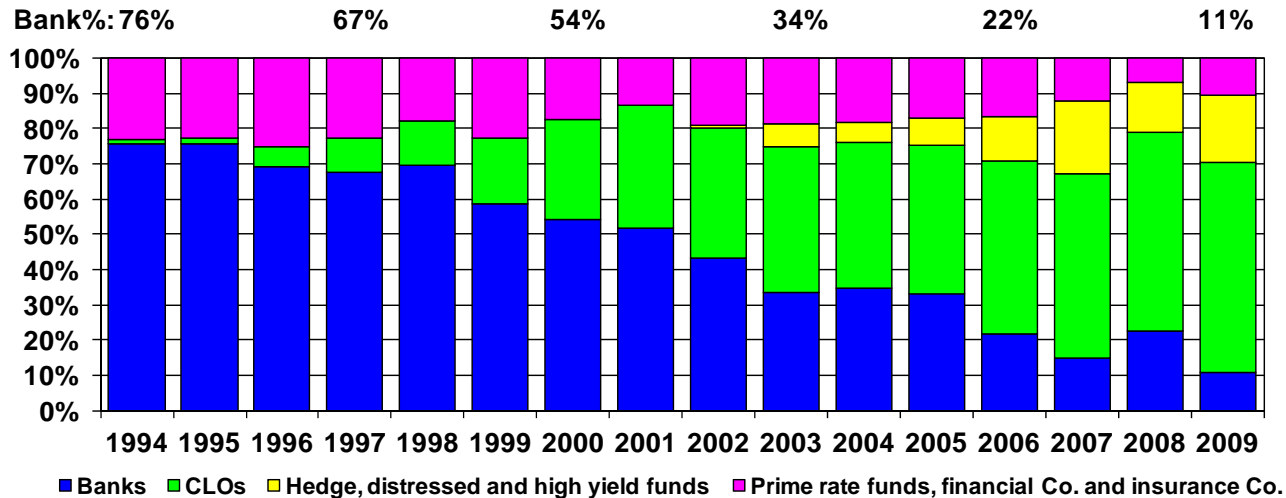
Sources: HUD, *Historical Statistics of the United States*, Milken Institute.

Current Home Ownership Rates



The institutional investor base for non-investment grade loans has evolved over the last decade...

Syndicate % in non-investment grade loans



Standard & Poor's Ratings

New Issues: 1/1/2000 to 9/30/2008

Investment-Grade Securities

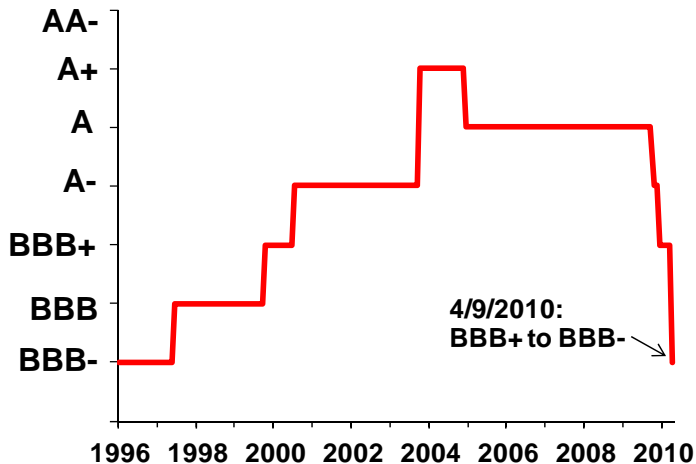
AAA	16,907
AA+	240
AA	2,098
AA-	3,414
A	2,602
A-	2,027
BBB+	903
BBB	1,371
BBB-	1,359

Non-investment Grade Securities

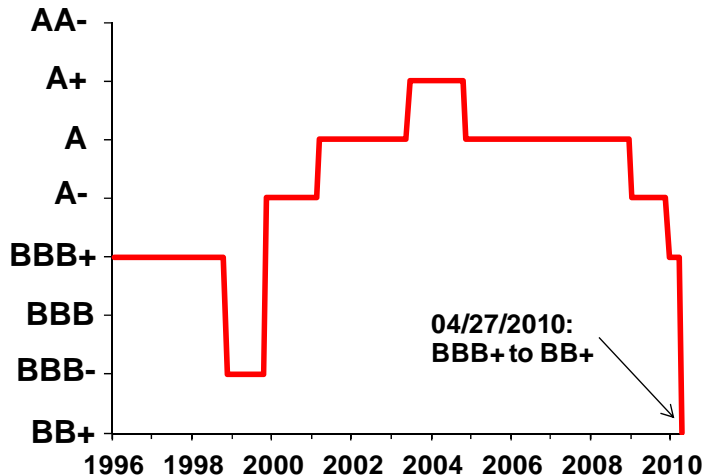
BB+	238
BB	313
BB-	331
B+	339
B	330
B-	1,189
CCC+	293
CCC	214
CCC-	104
CC	36
C	11

Sovereign ratings for Greece plummeted

Fitch's foreign currency long-term issuer ratings



S&P's foreign currency long-term issuer ratings



Sources: Standard & Poor's, Fitch Ratings, Bloomberg, Milken Institute.

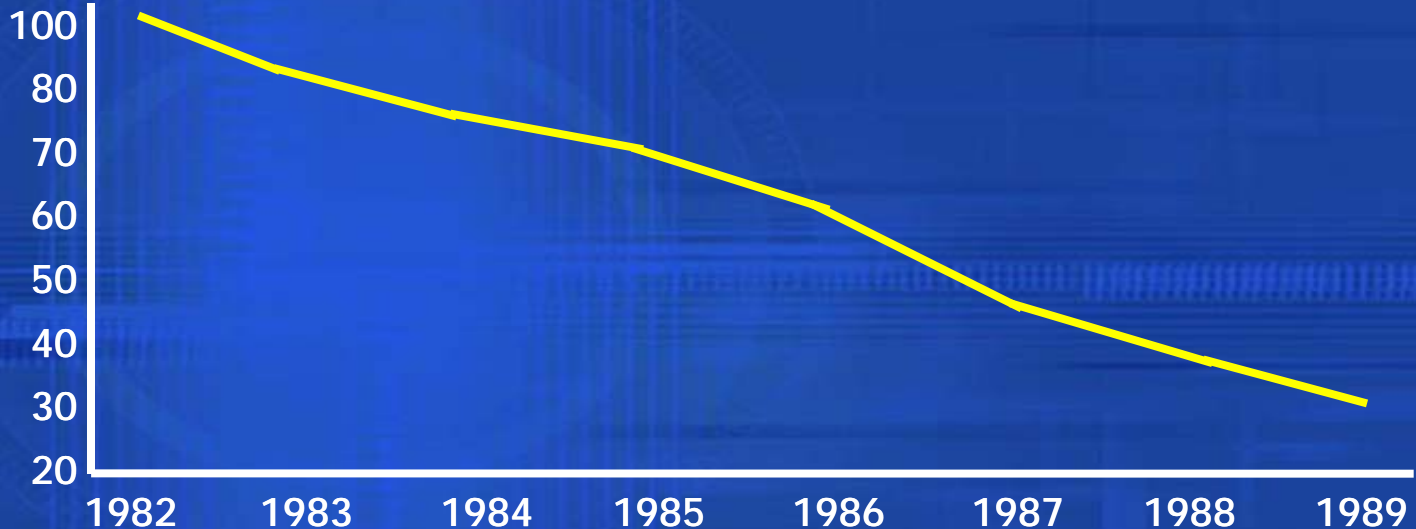
Sovereign Debt Has Long Been Suspect

“When national debts have once been accumulated to a certain degree, there is scarce, I believe, a single instance of their having been fairly and completely paid.”

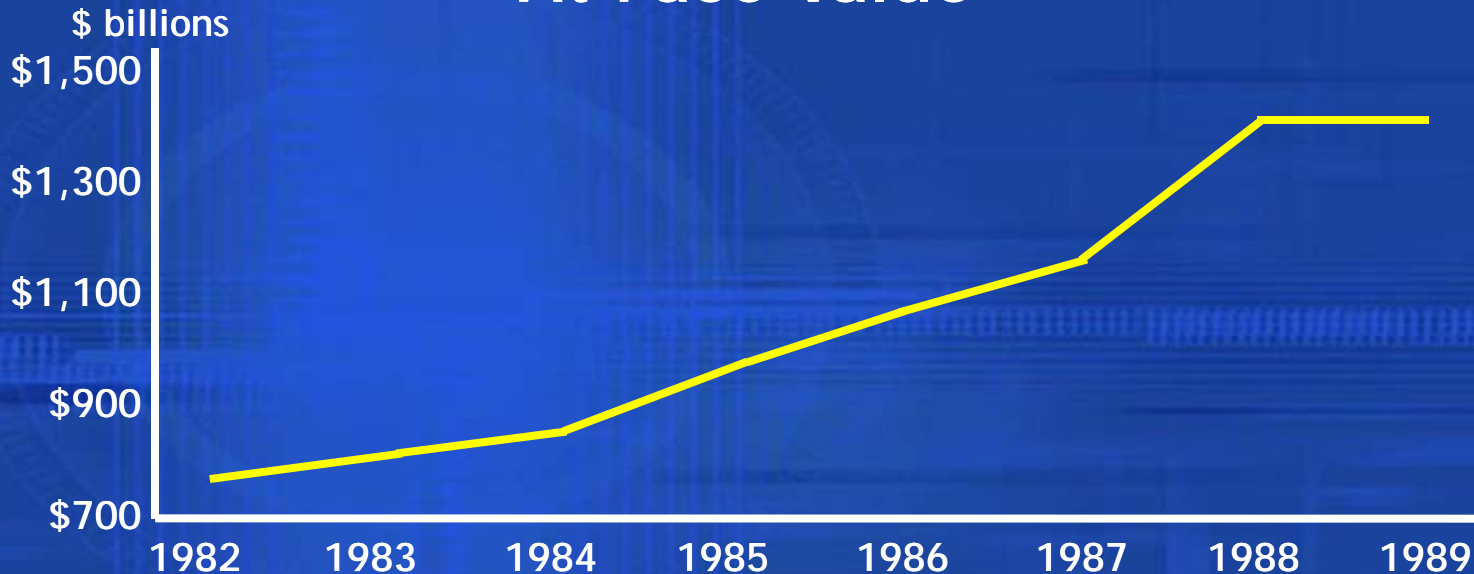
Adam Smith

Secondary Market Prices of Third-World Debt

Cents on the dollar

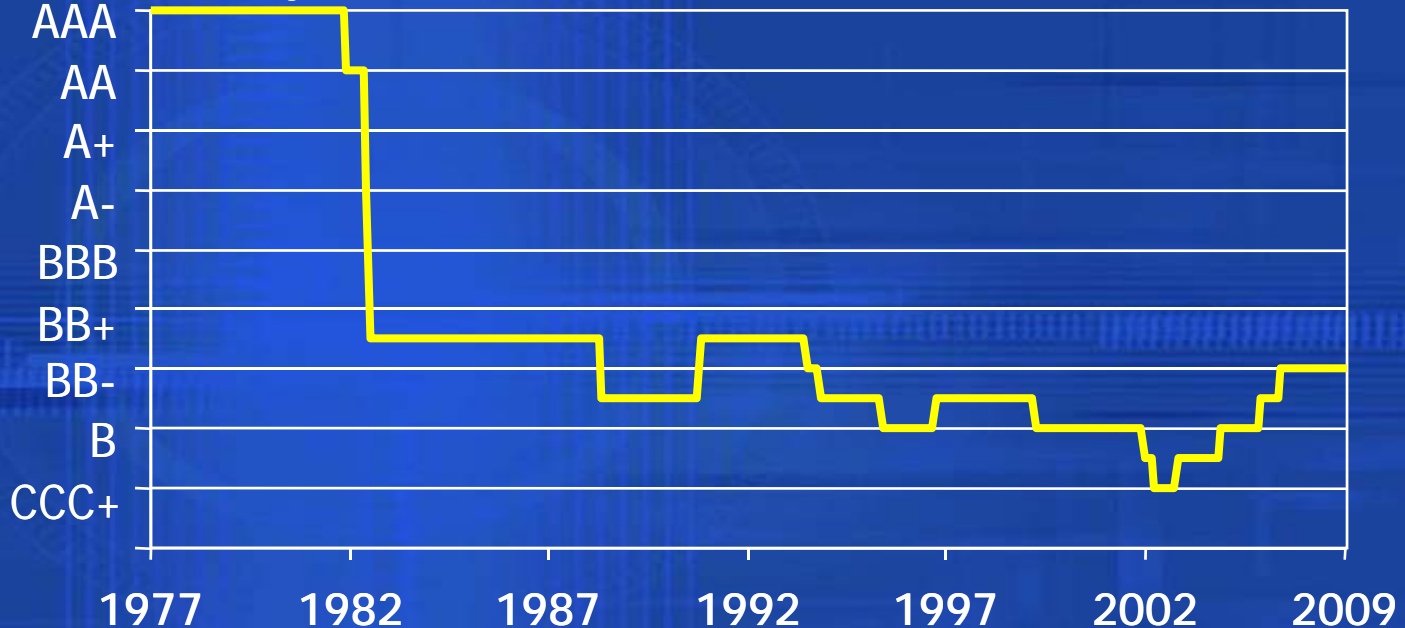


U.S. Lending to Third-World Countries At Face Value



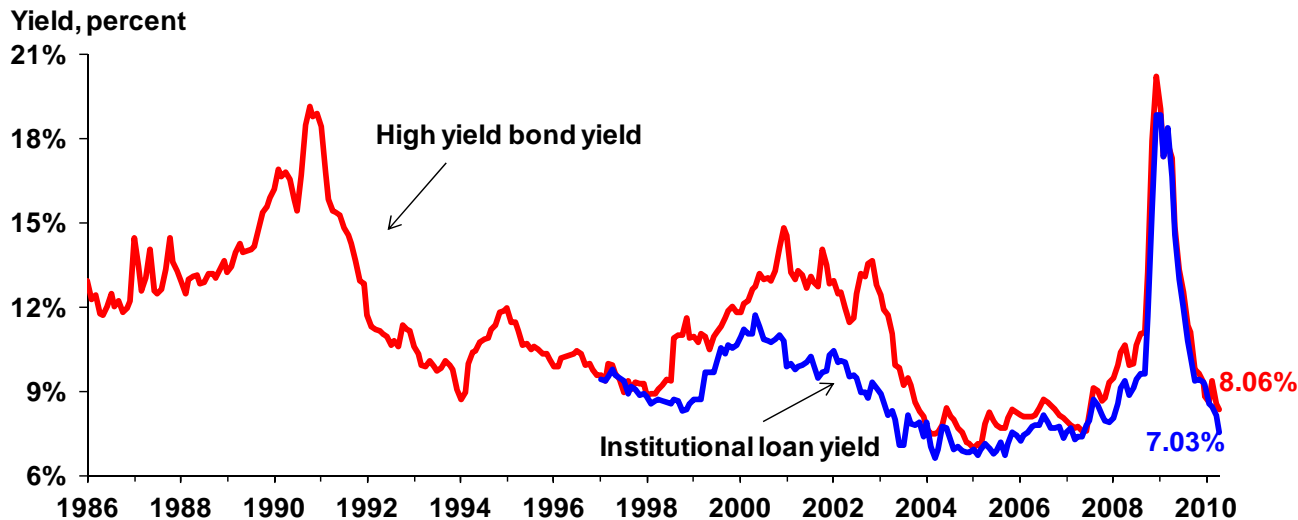
Venezuela's Sovereign Debt Rating

S&P Credit Rating





Leverage finance yields



Are the biggest banks in the world too big to fail? *Trillion dollar banks, ranked by assets, 2009*

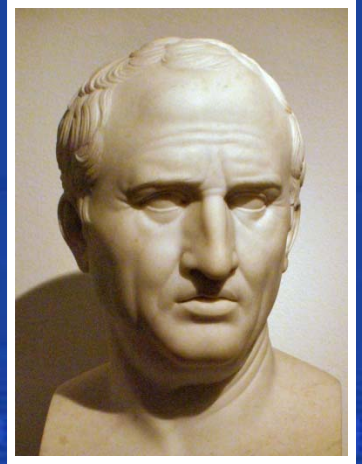
Bank	Country	Total Assets (US\$ trillions)	Market Cap (US\$ billions)
1 BNP Paribas	France	2.9	93
2 Royal Bank of Scotland	U.K.	2.7	38
3 HSBC Holdings	U.K.	2.4	178
4 Mitsubishi UFJ	Japan	2.3	73
5 Credit Agricole	France	2.2	40
6 Barclays	U.K.	2.2	66
7 Bank of America	U.S.	2.2	180
8 Deutsche Bank	Germany	2.2	48
9 JPMorgan Chase	U.S.	2.0	179
10 Citigroup	U.S.	1.9	123
11 Mizuho Financial	Japan	1.7	32
12 ICBC	China	1.7	241

Bank	Country	Total Assets (US\$ trillions)	Market Cap (US\$ billions)
13 ING	Netherlands	1.7	38
14 Lloyds Banking	U.K.	1.7	64
15 Banco Santander	Spain	1.6	111
16 Societe Generale	France	1.5	47
17 Unicredit	Italy	1.4	58
18 China Construction Bank	China	1.3	184
19 Sumitomo Mitsui	Japan	1.3	45
20 UBS	Switzerland	1.3	60
21 Bank of China	China	1.3	149
22 Wells Fargo	U.S.	1.2	162
23 Commerzbank	Germany	1.2	11
24 AXA	France	1.0	51

Sources: Bloomberg, Milken Institute.

Note: Market capitalization is from March 19, 2010.

“The budget must be balanced, government indebtedness must be reduced, the arrogant authorities must be moderated and controlled, people should learn to work again instead of living off the public dole.”



-Marcus Cicero
106 - 43 B.C.

Comparison: 1973-76 and 2008-10

Dow Jones Industrial Average, 1973-1976

Dow Jones Industrial Average, 2008-2010

