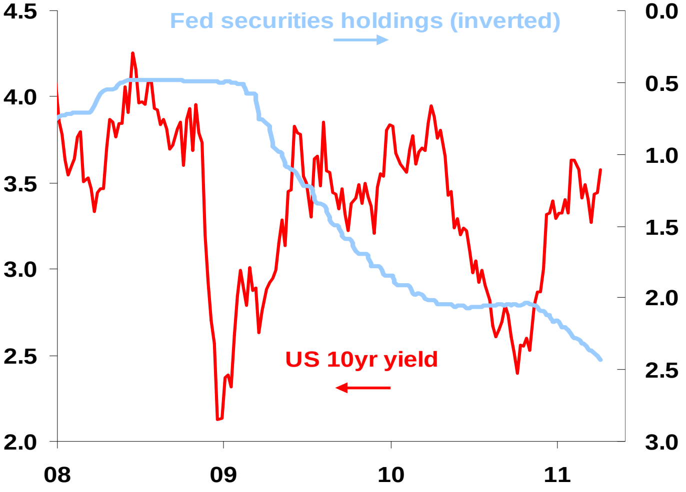
QE and rates

Yields not very correlated with QE

Fed security holdings, $tn, vs US 10yr yield, %



- Opinions deeply divided on the end of QE
- Treasury market impact has received most attention

QE has had little obvious effect on bond yield levels…

Source: CIRA, Federal Reserve, Bloomberg

QE and risky assets

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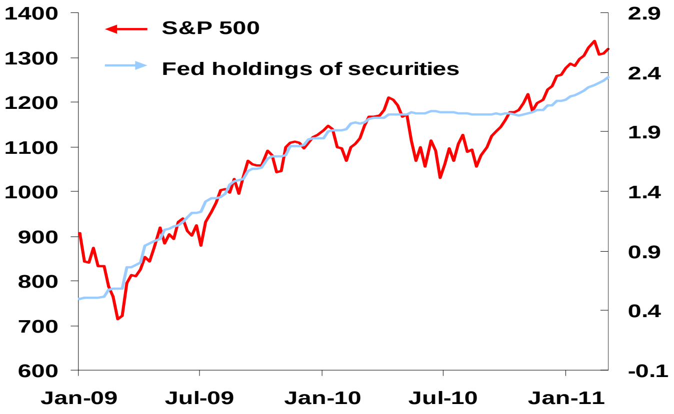
S&P correlates with QE

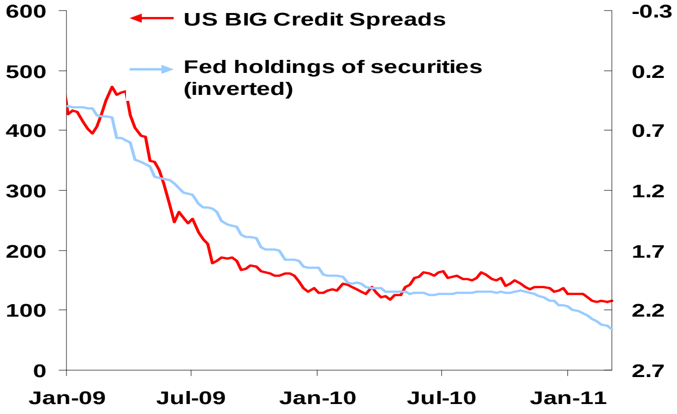
Fed security holdings, $tn, vs S&P 500



Sources: CIRA, Federal Reserve, Bloomberg.

Credit spreads correlate with QE

Fed security holdings, $tn, vs US credit spreads, bp



Sources: CIRA, Federal Reserve.

…but a significant effect on credit and equity prices

How it’s worked

Big QE purchases = Big market rally

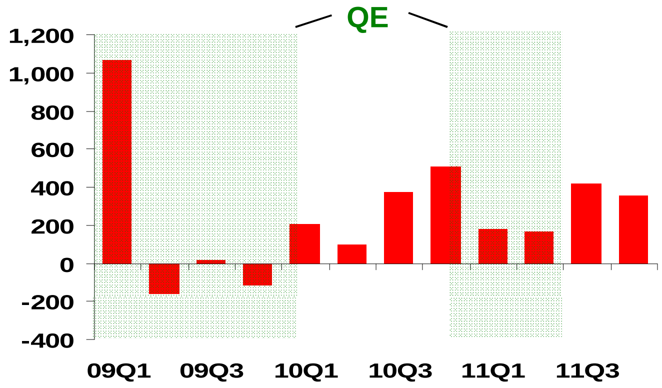
Weekly cumulative market performance since 2009 by size of Fed purchases of securities

Gain in:	-- Weeks with purchases of: -- >$10bn	<$10bn
US BIG (bp)	-265	-46
S&P 500 (cum. %)	37%	6%
S&P 500 (points)	372	42
# of weeks	48	66

Source: CIRA, Federal Reserve, Bloomberg

QE absorbed nearly all new US issuance

Issuance (net of redemptions) minus QE purchases, UST + Corp + MBS + Agencies + ABS, $bn



Source: CIRA, Federal Reserve, SIFMA

QE reduced net bond supply to almost zero

Where did all the money come from?

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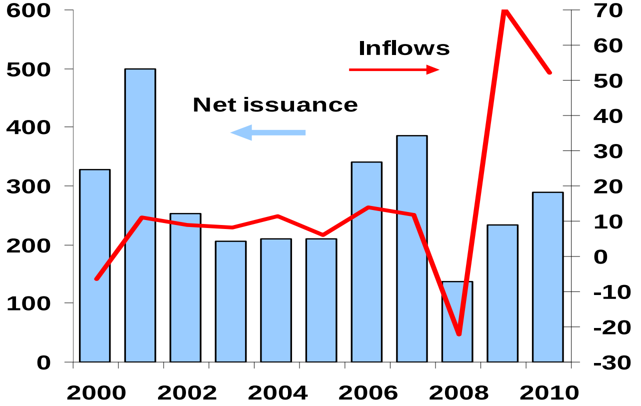
More demand, same supply

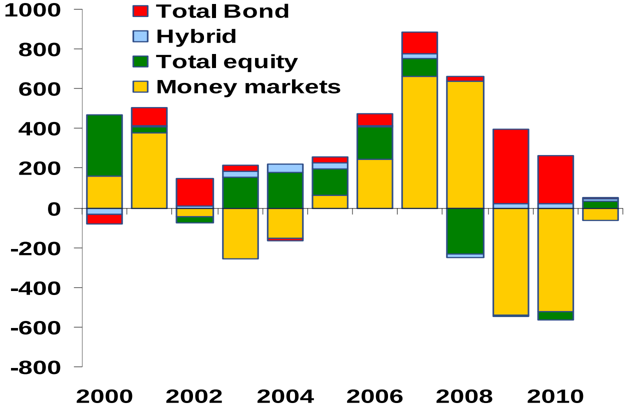
Corporate mutual fund inflows vs net bond issuance, $bn



Sources: CIRA, ICI.

The money market pendulum

US mutual fund inflows by asset class, $bn



Sources: CIRA, ICI. 2011 data are not annualized.

Low rates are driving money into risky assets…

How long will the inflows last?

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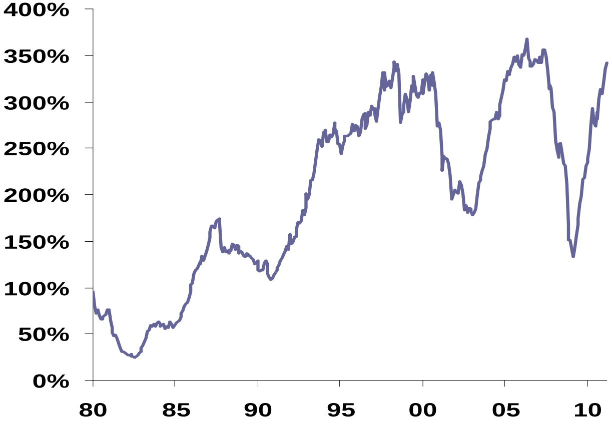
Risk appetite at record highs

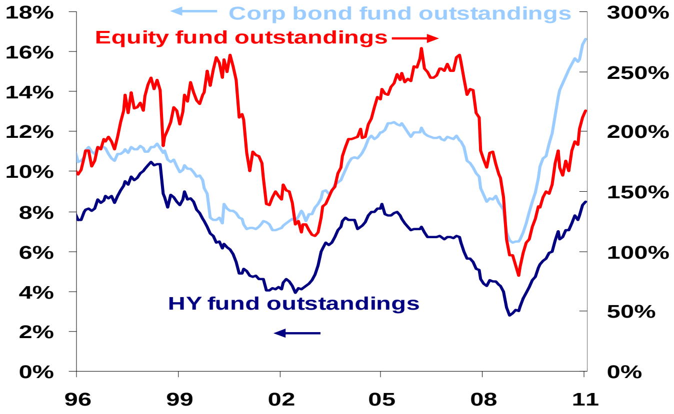
Investor holdings of long-term mutual funds, % money market fund holdings



Sources: CIRA, ICI.

HY and equities less stretched than corp

Mutual fund investments by asset class, % money market fund holdings



Sources: CIRA, ICI.

High grade positions already very stretched; HY and equities less so

How value has changed

	S&P Forward P/E Ratio	High Yield Spread / YTW
Dec 2008	12.0x	2000 bps / 22%
Apr 2011	13.5x	480 bps / 7%

Source: Bloomberg. As of 4/21/11. Both December 2008 and April 2011 figures represent
1 month averages.

Recent LBOs

	J.Crew	Del Monte	Jo-Ann
Pre-Acquisition Valuation			
EV / 2011 EBITDA	5.5x	6.2x	5.0x
Date of LBO	11/23/10	11/25/10	12/23/10
Post-LBO Pro-Forma Leverage			
Net Total Debt / 2011 EBITDA	5.0x	6.5x	5.2x

Sources: Bloomberg, GoldenTree estimates.

Equity vs. corporate debt

Security	2011 EV/EBITDA	Leverage	FCF/Equity Market Cap	YTW
Gannett Co Equity	5.1x	1.7x	19%	
McClatchy Unsec Bonds		5.1x		9.0%
Macy's Inc. Equity	5.0x	1.5x	11%	
Michaels Stores Unsec Bonds		5.0x		7–7.5%
LifePoint Hospitals Equity	6.0x	2.6x	7%	
Vanguard Unsec Bonds		5.8x		8.5%
Iasis Unsec Bonds		5.7x		8.2%

Sources: Bloomberg, GoldenTree estimates.

High yield premium below historical average

Current Market Yield	–	Historical Default Rate x (1 – Recovery Rate)	=	Market Return
7%	–	4% x (1 – 30%)	=	4.2%
		7 Year Treasury Bond	=	2.8%
		High Yield Premium		1.4%

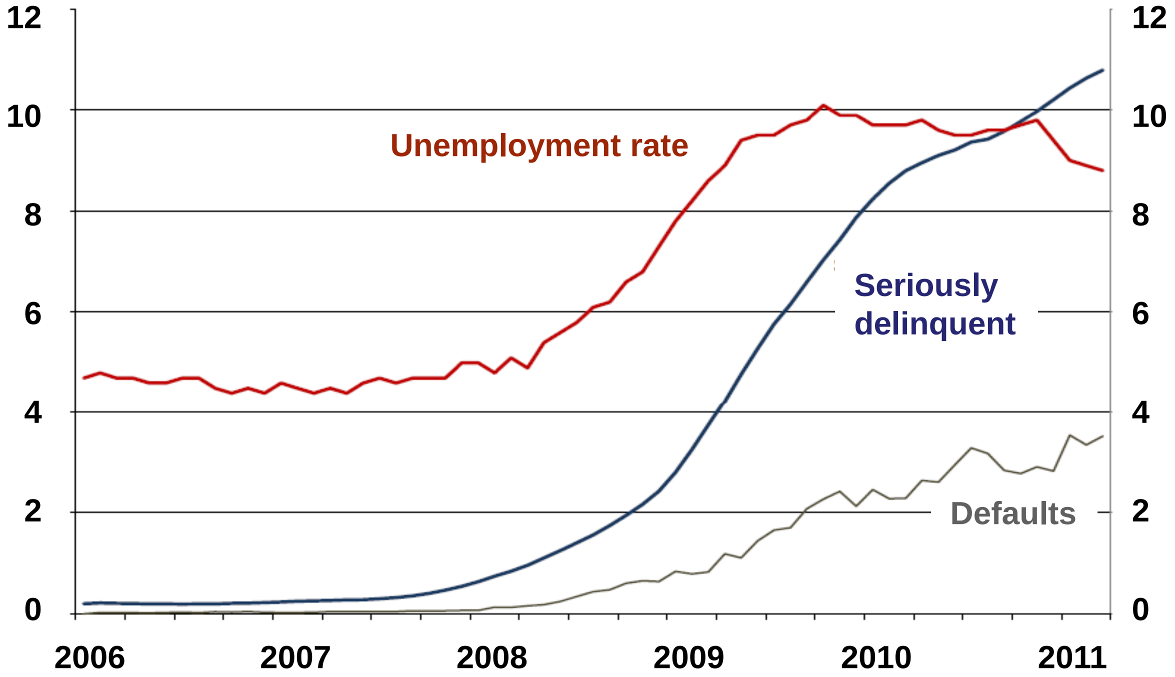
Source: Bloomberg. As of 4/21/11.

Excess returns are dependent on low default rates continuing

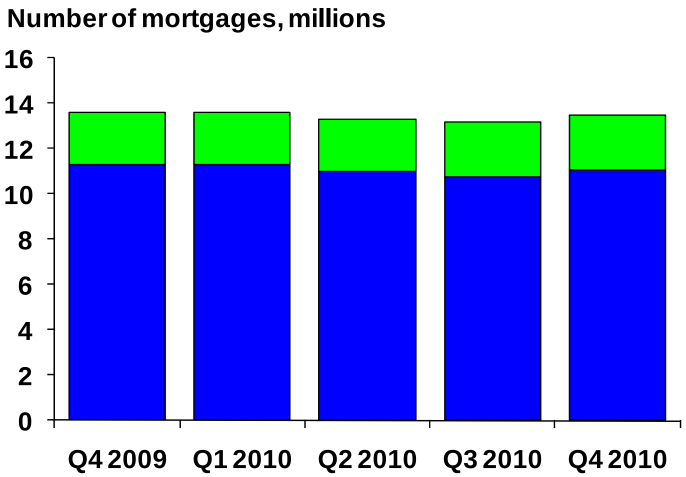
High Yield Index 10 Year Annualized Return	=	8.4%
Forward Looking		
Assuming 2011E Default Rate (2%)	=	5.6%
Assuming Historical Default Rate (4%)	=	4.2%
Assuming Above Average Default Rate	=	??

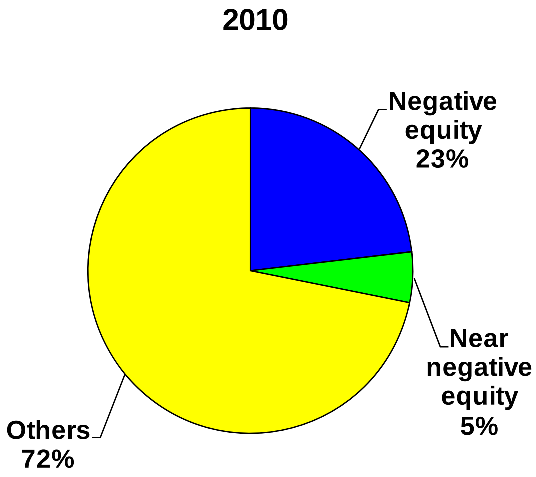
Source: Bloomberg. As of 4/21/11. Return assumptions do not include premium for early calls and bond tenders.

Prime mortgage delinquencies



Eleven million homes are still under water





Source: CoreLogic.

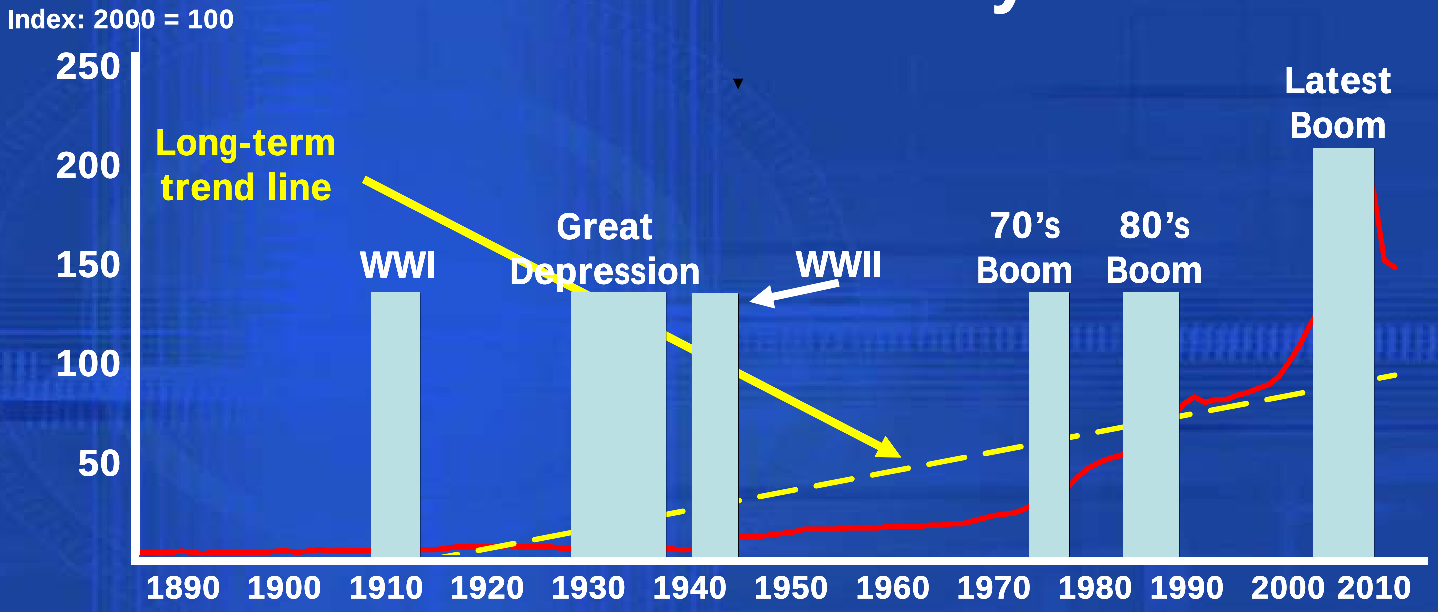
The Nature of Credit

1. Credit is what counts, not leverage.
2. Most loans to real estate are not investment-grade.
3. Interest rates are volatile and unpredictable.
4. Credit research is more than ratings.
5. Sovereign debt is historically risky.
6. Debt values underpin all capital markets.

Fallacy:

"Any loan to real estate is a good loan … "

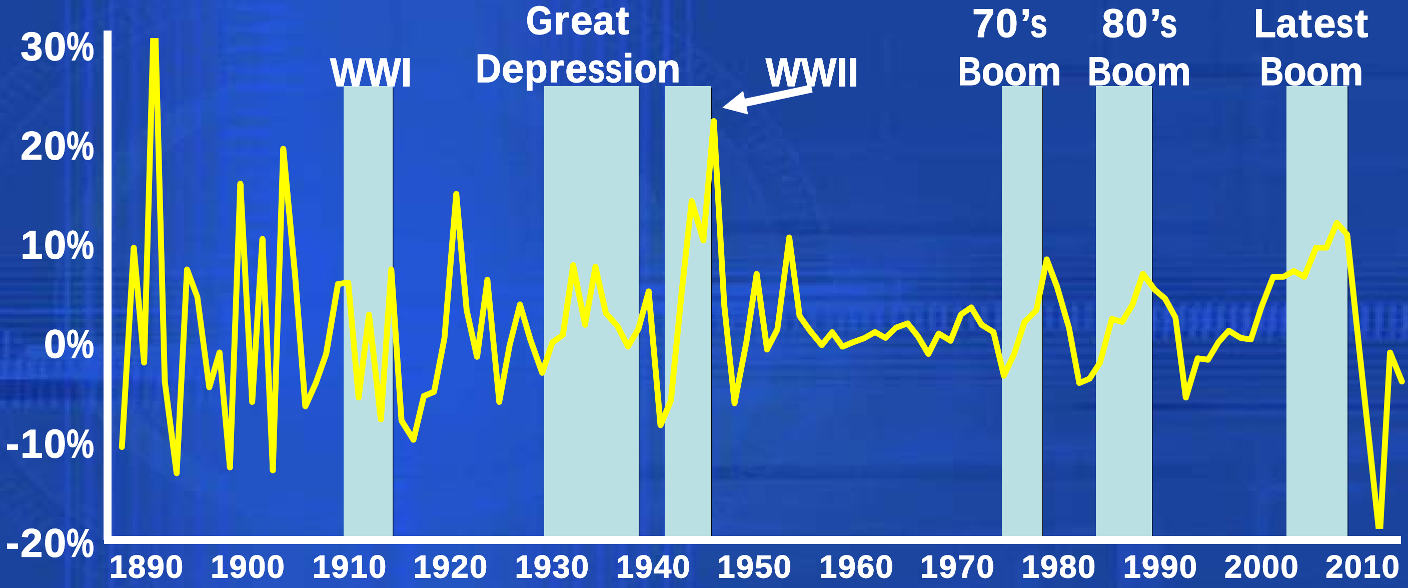
The latest run-up of home prices was extraordinary



Sources: Robert Shiller, Milken Institute (Annualized growth rate of nominal home index: 3.1%)

Home prices don't go up forever

Change in home prices in 120 years



Sources: Robert Shiller, Milken Institute.

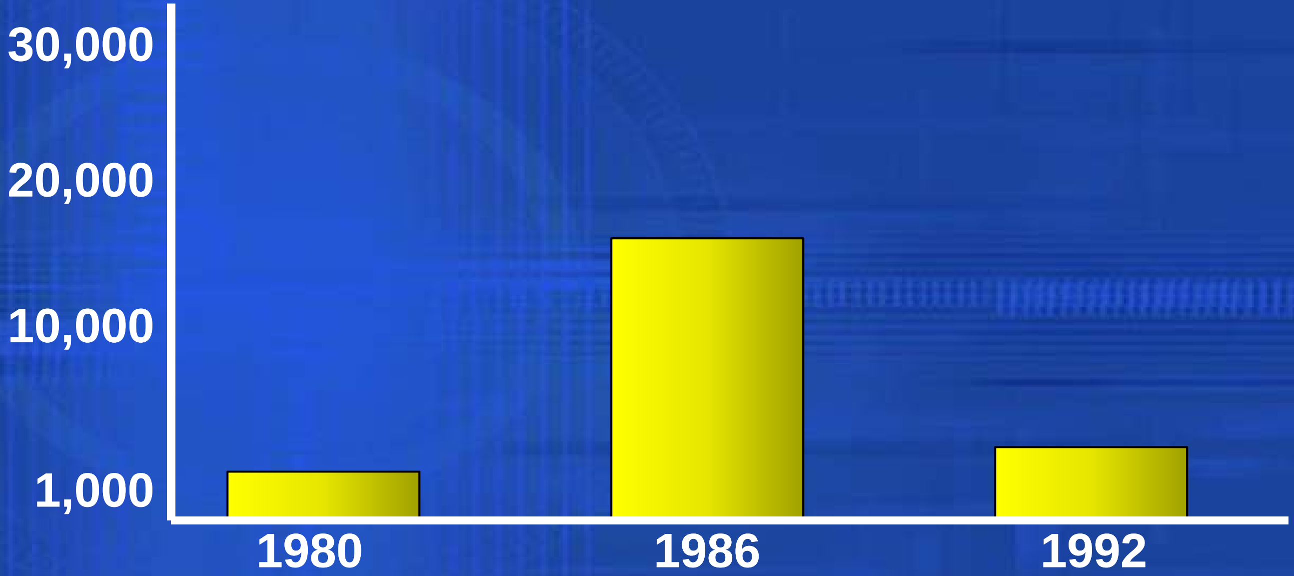
Most Texas Banks were AAA in the 1980s

First RepublicBank Corporation

The prices of residential real estate in Houston (in real terms) declined 40% from 1983-1988.

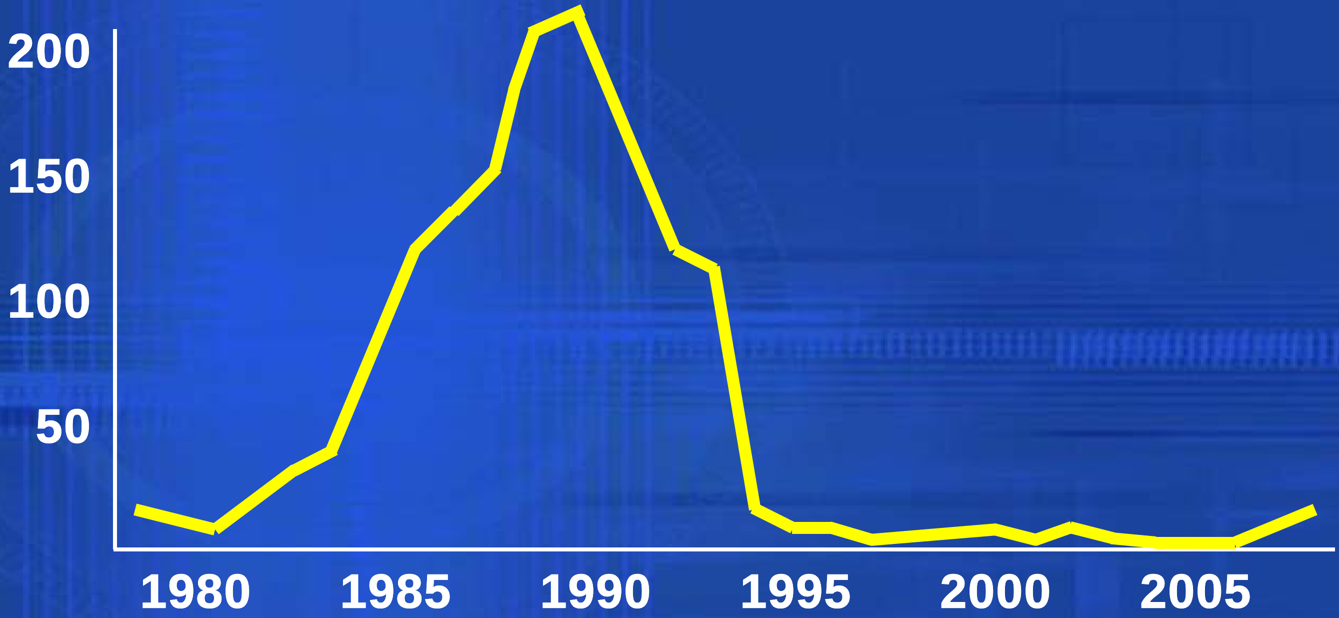
- OFEHO Housing Index / FRB study

Foreclosures in Houston



Source: Harris County Foreclosure Listing Service

Annual U.S. Bank Failures 1979-2007



Source: FDIC

When is a AAA not a AAA?

Mortgage loans

Mortgage bonds

AAA	80%
AA	11%
A	4%
BBB	3%
BB-Unrated	2%

High-grade structured-finance CDO

Senior AAA	88%
Junior AAA	5%
AA	3%
A	2%
BBB	1%
Unrated	1%

Mezzanine structured-finance CDO

Senior AAA	62%
Junior AAA	14%
AA	8%
A	6%
BBB	6%
Unrated	4%

CDO-Squared

Senior AAA	60%
Junior AAA	27%
AA	4%
A	3%
BBB	3%
Unrated	2%

Source: International Monetary Fund.