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Tall Tree Investment Management, LLC

a Delaware limited liability company

October 30, 2013

By E-Mail Submission

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Ms. Jennifer J. Johnson
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Executive Secretary
Attention: Comments
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550 17th Street, N.W.
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Ms. Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090
rule-comments@sec.gov

Re: **Notice of Proposed Rulemaking, Credit Risk Retention**
SEC (Release No. 34-64148; File No. S7-14-11); FDIC (RIN 3064-AD74);
OCC (Docket No. OCC-2013-0010); FRB (Docket No. R-1411);
FHFA (RIN 2590-AA43); HUD (RIN 2501-AD53)

Ladies and Gentlemen:

Tall Tree Investment Management, LLC ("TTIM") is pleased to submit these comments in response to the joint Further Notice of Proposed Rulemaking, 78 Fed. Reg. 57928 (Sept. 20, 2013; originally released Aug. 28, 2013) ("FNPRM"), concerning risk retention and the implementation of Section 941 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act").

I. Overview.

Tall Tree Investment Management, LLC ("TTIM") submits these comments to address how the proposed risk retention regulations contained in the FNPRM would adversely affect collateralized loan obligations ("CLOs") and the commercial loan market, how features of CLOs already provide extensive and adequate incentives that align CLO Managers' interests with those of CLO investors as required by Section 941, and how, if regulation is deemed necessary, other alternatives would protect investors without causing extensive harm to CLOs, loan markets, credit markets, and competition.

In particular, Tall Tree Investment Management, LLC ("TTIM") is very concerned that the proposed regulations would significantly and adversely affect the formation and continued operation of CLOs, along with the support they provide to the commercial loan market and the United States economy. CLOs present none of the risks presented by the originate-to-distribute model that Section 941 was designed to address, and a range of incentives ensure that CLO Managers act consistently with investors' interests. CLO performance during the recent financial crisis confirms the robustness of these incentives, and the subsequent resurgence of the CLO market clearly demonstrates investors confidence that their interests are fully protected in the CLO market today. For these reasons, additional regulation requiring CLO Managers to retain more credit risk would produce no benefits and would substantially harm competition and the public. This result would be especially unfortunate because various alternatives are available that would far better advance the public interest.

II. Our Experience with CLOs and Commercial Loan Markets.

For background, Tall Tree Investment Management, LLC (TTIM) was founded in July 2005 and is based in Chicago, Illinois. TTIM is an independent, employee owned, specialty asset manager that is focused on non-investment grade credit investments particularly senior secured loans. TTIM recently manages three CLO funds, Founders Grove CLO Ltd; Grant Grove CLO, Ltd and Muir Grove CLO Ltd. Our AUM was $826MM as of July 15, 2013. TTIM is an investment advisor registered with the Securities and Exchange Commission ("SEC").

TTIM was formed by ten former members of the Senior Loan Group of Morgan Stanley Investment Management Inc. (MSIM). The investment professionals of TTIM have worked together since 1999, as a part of the team that in the early 2000s managed $17Billion of primarily senior secured loans held by public mutual funds, CLO funds and separate accounts. The funds managed included the Van Kampen Senior Loan Fund, Van Kampen Senior Income Trust, Morgan Stanley Prime Income Trust, Van Kampen CLO I, Van Kampen CLO II and three institutional separate accounts.

TTIM team members have extensive experience in secured lending and high yield securities including: senior loans (widely syndicated and middle market), asset based lending, structured finance, fixed income securities (high yield and investment grade corporate and municipal bonds), real estate, project finance, vendor finance and leasing. As the Managing Member and founder of this firm, I have personally managed CLO related funds for 15 years and have been involved with CLO technology for over 20 years.

Tall Tree Investment Management, LLC's market role and experience provides us with a clear understanding of the current CLO market, CLOs' performance during and since the recent financial crisis, and the likely adverse effects of the proposed regulations. That said, we would like to offer a few observations about the CLO structure as in many of my discussions with regulators there seems to be a misunderstanding of the mechanics of these vehicles. The structure of a CLO is sound and meets the intent of the proposed risk retention rules as the structure was based on that of a commercial bank. As with a commercial bank the basis of investor protection is FUNDED subordination particularly due to the fully FUNDED EQUITY required in a CLO. Like a bank, the funded equity of a current CLO is approximately 10% at the closing of a CLO. Once the equity is funded, it cannot leave the vehicle except through the absorption of realized credit losses. During the reinvestment period until the CLO notes are fully redeemed, if required subordination or interest coverage tests that protect the debt investors are not met, (through realized losses or imposed haircuts to the carrying value of underperforming loans) the interest waterfall ensures that the equity cushion will be increased by diverting interest proceeds from distributions to the equity to instead purchase additional collateral and if that action is insufficient to restore required cushions then interest proceeds are further used to repay the most senior notes (AAA) until the CLO is de-leveraged into subordination compliance. Either action is an infusion of cash equity into the CLO. The second investor protection is that the collateral base of a CLO is composed of widely syndicated loans that are well understood, sound and transparent collateral. The borrowers are significant companies that are well known, many are SEC public filers with public debt and equity securities. Loans have an active secondary market with visible and verifiable prices. The third investor protection is transparency. The collateral is well understood and visible to the market; investor reporting by an independent trustee is performed monthly and quarterly; investor payment date reports and compliance with the waterfall is determined by the Trustee working with the CLO Manager and is reviewed and approved by independent auditing firms under agreed upon procedures. Finally, collateral selection and reinvestment within the CLO is actively managed by a SEC registered investment advisor that has a fiduciary duty to all investors in the CLO. Alignment of interests of the CLO Manager with the entire capital structure is provided through the structure of the vehicle, the terms of the Collateral Management Agreement and the regulations governing the CLO Manager. The structural protections of collateral eligibility, quality tests, interest diversion and FUNDED subordination all work together to insulate the CLO debt investor from excessive risk. There is no better example of how durable this structure is than the performance results of the CLO 1.0 transactions that operated during the financial crisis and survived with virtually no loss to rated notes and cumulative cash flows to the equity averaging over 20% per annum AFTER interest diversion to buy collateral or to redeem senior notes, even though many of the equity interests and managers did not receive any subordinated distributions during the height of the financial crisis.

III. The Proposed Rules Would Adversely Affect Us, Other CLO Managers, Commercial Lending, Borrowers, and Investors.

Our experience in the CLO market leaves us with no doubt that the proposed rules would significantly and adversely affect the formation and scope of future CLOs.

The requirement that CLO Managers retain five percent of the face value of the CLO's assets – in addition to the very significant credit risks already assumed through the CLO Managers' compensation structure – would very adversely affect CLO formation. Many CLO Managers, including us, are too small to secure or devote funds of that magnitude for positions that cannot be disposed of or hedged – no matter what the competing business opportunities or demands. For other CLO Managers that might have the financial capacity to hold such a significant position, doing so would require a restructuring of current business models and anticipated returns – making a once viable business much less profitable, requiring that CLO Managers instead devote those funds to other, more productive uses. A final point on the proposed structure of risk retention is that under any risk retention scheme, the equity component of the retained risk MUST be able to receive some current payment during the reinvestment period and through the amortization period from excess cash flow if all protective tests are being met or the economic incentives for a manager to participate in CLO formation will simply not exist as the cost of the retained risk will exceed the economic return from the management activities.

It is essential to understand that the proposed risk retention regulations are in no way reasonably proportionate to the CLO Manager's financial incentives and control of credit risk. Regulators have suggested that the CLO Manager controls credit risk because they select the assets. We strongly reject that notion. The underwriting banks in the loan syndicate control the entire process of loan underwriting and distribution as a CLO Manager is specifically prohibited from participating in underwriting activities and cannot define the terms of a loan. The CLO Manager is duty bound to the CLO investors to keep the CLO fully invested subject to the agreed upon collateral eligibility critera. The primary tool used by the CLO Manager to manage the conflicting demands of being fully invested while manageing loan underwriting risk that is more agressive than desired is to decline certain loans and to broadly diversify those that are accepted. CLO Managers have proven through CLO performance that they have skillfully balanced those competing demands. In terms of proportionality to financial incentives, the 5% proposed risk retention requirement represents at least <u>10 years</u> of full fee gross earnings of a CLO Manager before expenses and taxes. A very efficient asset manager has direct costs of more than 50% for people and overhead to provide their services (and small managers may have direct cost percentages approaching 90%) due to the inefficient nature of the commercial loan asset class. In the FNPRM, it is suggested that a CLO Manager should be able to provide the needed capital for the proposed risk retention through debt or equity financing of the management company. However, it is clear that obtaining the financing for debt financing of risk retention capital cannot be supported with what would become an implied EBITDA leverage of more than 20X. In addition it would not be feasible for such a CLO Manger to be accepted as counterparty for a repo facility to finance the debt portion of vertical risk retention. Similarly, raising equity capital at the manager level to fund a vertical risk retention strip would be highly unlikely. This is due to the fact that the vertical risk retention has a return of less than a portfolio of unlevered loans due to the requirement that the equity component cannot receive a current yield therefore, with a total return of less than 5% it is unlikely that the verticle risk retention will have a sufficient current yield to attract equity investment capital. Lastly, the proposed horizontal risk retention is not feasible as a fee for service investment manager is NOT an investment company and has no practical way to fund and retain such credit risk.

Our market assessment is that the proposed regulations would cause a dramatic decrease in the size and functioning of the CLO market as a whole. We are aware of the survey of CLO Managers that indicated that the decrease in CLO offerings is anticipated to be in the order of 75 percent.[1] We generally agree with that assessment, and are concerned that it may well be too optimistic particularly considering the impact of the European rule 122A that has effectively shut down the European CLO market entirely. We are also aware of the broad range of comments and record evidence that establish that the proposed rules would adversely affect the formation and continued operation of the CLO market.[2] We agree with the factors identified in those comments and assess that those factors will contribute to the magnitude of the decrease in CLO formation identified in the LSTA survey. Indeed, the FNPRM itself anticipates these adverse effects on CLOs and competition.[3]

Our experience also indicates that this resulting decrease in the formation of CLOs would have profoundly negative implications for the commercial loan market. CLOs are vital to supporting the loan syndication process and to providing liquidity necessary to the efficient functioning of many of the most important sectors of the commercial loan market and thus the United States economy. If the proposed rules were implemented and adversely affected CLOs in the manner we anticipate, then borrower costs would increase, many borrowers would be shut out of the loan market altogether, the secondary market would become considerably less liquid, and many floating rate investors would be denied a valuable and attractive set of investment opportunities. Competition in the provision of loans and investment products would decrease. Those adverse results pose broad risks to the efficient functioning of the loan markets, and the adverse effects on borrowers would have further adverse effects on production efficiency, innovation, employment, and consumer prices.

Lastly, TTIM has met directly with the Federal Reserve of New York and the Federal Reserve Board of Governors (on October 3, 2013) and the Federal Deposit Insurance Corporation (on October 28, 2013) to discuss the structure of CLOs, the commercial loan market, small managers and proposed risk retention rules. A copy of the materials presented to and discussed with these institutions is attached for the record. In this document, we have included abundant background information and detailed financial anlysis of the proposed risk retention rules and the impact on the loan and CLO markets.

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[1] *See* LSTA Letter Comment, July 29, 2013 at 3–6.

[2] *See* LSTA Letter Comment, Aug. 1, 2011 at 14–17; LSTA Letter Comment, Apr. 1, 2013 at 14–16; LSTA Letter Comment, July 29, 2013 at 3–9; SIFMA Letter Comment, June 10, 2011 at 70; American Securitization Forum Letter Comment, June 10, 2011 at 137; JP Morgan Chase & Co. Letter Comment, July 14, 2011 at 50; Financial Services Roundtable Letter Comment, Aug. 1, 2011 at 32; Bank of America, Letter Comment, Aug. 1, 2011 at 29-30; Wells Fargo Letter Comment, July 28, 2011 at 29; White & Case Letter Comment, June 10, 2011 at 2.

[3] *See* 78 Fed. Reg. 57962.

IV. Additional Regulation of CLOs Is Inappropriate and Unnecessary.

A. Commercial and Regulatory Factors Already Align the Interests of CLO Managers and CLO Investors.

The proposed credit risk retention rules fail to account for the very significant factors that already ensure that CLO Managers select and manage CLO assets prudently and in investors' interests. CLO Managers do not employ the "originate-to-distribute" model of securitization that contributed to the financial crisis and prompted Congress to enact Section 941. The nature of CLOs, and their role in the commercial loan market and in the provision of securities to investors, ensures that they operate independently and that managers' interests are completely aligned with CLO investors' interests. This alignment of interests, and related lack of any need for risk retention regulation to further align those interests, arises from the following characteristics of CLOs.

First, CLO Managers act independently of loan originators and managers and exercise independent judgment in selecting among loans originated by unaffiliated entities. They are free from potential conflicts and disincentives related to the originate-to-distribute model and attract investors based in large measure on this independence, the resulting quality of asset selection and their investment track record. This provides a strong incentive for continued selection of higher-quality assets.

Second, CLO Managers bear significant risk through their deferred, contingent compensation structure that has been shaped and ratified by the market. CLO Managers receive their primary sources of compensation only if they deliver returns and maintain credit loss protection for their investors: they are compensated principally as the most subordinated CLO investors secure their returns, and a large component of their compensation is received only after the CLO has performed well over most of its life for all classes of investors, including those whose securities are most at risk. CLO Managers' compensation structure places a premium on careful selection and management of assets, aligning their interests with investors' interests. Indeed, investors and the competitive process have shaped and ratified the compensation structure of CLO Managers. In this very fundamental sense, CLO Managers already have a significant portion of their compensation as skin in the game – and creating that alignment of interest, which already exists in the structure of CLOs, is the entire point of the proposed regulations. The FNPRM recognizes and acknowledges this alignment of investor and CLO Manager interests created by the compensation structure in CLOs.[4] This should be recognized and not disregarded.

Third, almost all CLO Managers are registered investment advisors, with associated fiduciary duties – and potential liabilities for failure to comply with those duties – to their investors and the SEC. This status triggers a separate and quite effective regulatory and supervisory regime that also provides incentives for careful selection and management of assets.

Fourth, the assets selected by CLO Managers have been evaluated through multiple

[4] *See* 78 Fed. Reg. 57963.

layers of underwriting and market decisions. These include the loan arrangers' decisions in underwriting the commercial loans, the market's evaluation in pricing and syndicating the commercial loans, and the CLO Manager's decisions in selecting or not selecting certain commercial loans for the CLO to purchase. Often, the assessments reflected in secondary market pricing also contribute to the selection of high-quality assets.

Fifth, CLO Managers actively manage their loan portfolios for much of the life of a CLO. This active role is unlike that for many other types of ABS, and further protects investors. Through this active management, CLO Managers can limit losses and secure additional gains. As a result of the short life of a commercial loan, of 20-22 months, the CLO Manager will be active in redeploying principal received as commercial loans payoff over the life of the transaction. In this management role, the CLO Manager exercises independent judgment and has every incentive to act only in the best interest of CLO investors.

Finally, CLO Managers select – and CLO investors demand – commercial loans with features that protect investors. Prominently, CLO Managers select senior secured loans. This often ensures complete or very substantial recovery and loss protection even in the event of default, and is an important reason why CLOs protected investors so well during the recent financial crisis. The commercial loans are senior to other lenders to the borrowers, and receive significant recoveries on default.

B. CLO Performance Confirms the Adequacy of Existing Incentives and Investor Protections.

The historically strong performance of CLOs demonstrates the concrete and practical results of these unique features of CLOs. Despite the massive financial crisis that resulted in widespread losses among other asset classes, CLOs performed exceptionally well. Although CLOs experienced ratings downgrades, the vast majority of CLO notes that were originally rated AAA retained ratings of AA or higher during the crisis.[5] And most significantly, CLOs experienced *de minimis* events of default and even lower rates of financial loss.[6] The Board of Governors of the Federal Reserve has acknowledged the low default rate among CLOs during the financial crisis, which it attributed in part to the incentive alignment mechanisms inherent to CLOs.[7] In addition, the capital structure of CLOs helped protect investors during the financial crisis. When the prices of the commercial loans fell, the par value coverages tests declined and payments under the CLO waterfalls were redirected to pay down the senior notes of the CLO until the par value tests were again satisfied. Payments to subordinate notes and the CLO Managers were suspended and the subordinate portion to the CLO Managers were suspended until such tests again were satisfied.

We are aware of numerous comments submitted in this rulemaking that confirm the

[5] *See* LSTA Letter Comment, August 1, 2011 at 7.

[6] *Id*.

[7] *See* Board of Governors of the Federal Reserve, Report to Congress on Risk Retention 62, Oct. 2010.

strong performance of CLOs during the financial crisis.[8] Our experience as direct participants in the industry accords with these views. We believe that this record of performance demonstrates that the existing safeguards and incentive alignments in the CLO industry more than adequately meet the goals of Section 941.

C. In Light of These Incentives and Performance History, Additional Regulation Would Provide No Public Interest Benefits.

Because existing commercial and regulatory incentives fully align the interests of CLO Managers and CLO investors, additional risk retention requirements would not redress any market failure or further align those interests. Because CLO Managers select assets independently of loan originators, and do not operate as part of an "originate-to-distribute" model, the operations of CLOs present none of the risks to investors that Section 941 was designed to address. As set out above, the recent performance of CLOs confirms that no additional risk retention requirements are needed.

We agree with other commenters that have analyzed the language and purpose of Section 941 and have shown that Congress did not intend to impose risk retention requirements on CLO Managers.[9] Presumably, Congress did not intend to do so precisely because CLOs present none of the problems Section 941 was designed to fix. Because CLO Managers facilitate the CLOs' purchase of assets, they do not directly or indirectly sell or transfer assets to the CLO – and are thus not within the scope of the statutory definition of "sponsor" as the FNPRM incorrectly asserts.[10]

We also agree with that, in light of the high costs and absence of benefits arising from imposing credit risk retention requirements on CLO Managers, the FNPRM should be revised to exempt CLO Managers from the credit risk retention requirements – assuming that those requirements even apply.[11] If the agencies believe that certain types of CLOs pose a risk to

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[8] *See* LSTA Letter Comment, Aug. 1, 2011 at 7; LSTA Letter Comment, April 1, 2013 at 19; LSTA Letter Comment, July 29, 2013 at 2 and Appendix A; American Bar Association Business Law Section Letter Comment, July 20, 2011 at 90-93; American Securitization Forum Letter Comment, June 10, 2011 at 134-135; SIFMA Letter Comment, June 10, 2011 at 69; Morgan Stanley Letter Comment, July 27, 2011 at 18; Bank of America Letter Comment, Aug. 1, 2011 at 23; Wells Fargo Letter Comment, July 28, 2011 at 29; The Center for Capital Markets Competitiveness of the United States Chamber of Commerce Letter Comment, Aug. 1, 2011 at 4; Cong. Himes and other Members of Congress Letter Comment, July 29, 2011 at 2.

[9] *See, e.g.*, LSTA Letter Comment, Aug. 1, 2011 at 7–14; LSTA Letter Comment, Apr. 1, 2013 at 17–19; LSTA Letter Comment, July 29, 2013 at 9–10; American Bar Association Business Law Section Letter Comment, July 20, 2011 at 93–95; SIFMA Letter Comment, June 10, 2011 at 68–69; American Securitization Forum, June 10, 2011 at 135–136; JP Morgan Chase & Co. Letter Comment, July 14, 2011 at 53–60; The Financial Services Roundtable Letter Comment, Aug. 1, 2011 at 31–32; Morgan Stanley Letter Comment, July 27, 2011 at 21; Bank of America Letter Comment, Aug. 1, 2011 at 23–30; Wells Fargo Letter Comment, July 28, 2011 at 26–29; White & Case Letter Comment, June 20, 2011 at 1–7; Cong. Himes and other Members of Congress Letter Comment, July 29, 2011 at 1–2.

[10] *Compare* 78 Fed. Reg. 57962.

[11] *See, e.g.*, LSTA Letter Comment, Aug. 1, 2011 at 17–19; LSTA Letter Comment, Mar. 9, 2012; LSTA Letter Comment, Apr. 1, 2013 at 23; American Bar Association Business Law Section Letter Comment, July 20, 2011 at

investors, or that further restrictions on which CLO Managers can qualify for an exemption are appropriate, a commercially sensible set of "ring-fencing" qualifications has been proposed in comments already submitted.[12]

V. Other Regulatory Alternatives Would Be Preferable to the Agencies' Proposed Approach.

Although we believe that the intended scope of Section 941, the Report noted in footnote 7 and the facts surrounding the operation of CLOs indicate that it would be a significant mistake to impose the risk retention requirements on CLO Managers, alternative regulatory approaches would meet the agencies' objectives of Section 941 while causing far less harm to CLOs, CLO Managers and the commercial loan markets.

We think that the Open Market CLO concept has merit in that it acknowledges the differences between CLO Managers and the ability of CLO Managers to fund such risk retention. The provisions that generally work and are consistent with market practice include (1) removing the requirement that the CLO Manager be responsible for risk retention, (2) that the CLO Manager make all loan acquisitions in the either the primary or secondary open market, (3) that less than 50 percent of assets held by the CLO are originated by affiliates (could be 0% for most managers) and (4) the restriction on ABS assets as a component of the collateral pool. Provisions that need significant reconsideration are (1) restrictions on collateral being limited to 100% CLO Eligible Loan Tranches and (2) shifting risk retention to Syndicate Banks and Loan Underwriters.

The primary feasiblity risk to this concept is that CLO Eligible Loan Tranches do not presently exist in the market today. The entire concept of the Open Market CLO as proposed is dependent on the assumption that underwriters, syndicate banks; CLO investors and borrowers will accept the costs and risks of a CLO Eligible Loan Tranche. Should this option be incorporated as a basic requirement of an Open Market CLO and not be accepted and promptly implemented by the syndicated loan market, the result will likely be a near complete shutdown of CLO formation and the resulting impact to borrowers from a credit starved marketplace. We expect that this construct is likely to be objected to by underwriters due to additional costs of administration and more important, the fact that the proposed risk retention for underwriters of CLO Eligible Loan Tranches conflicts with risk management practices of commercial banks as encouraged to date by the relevant regulators. With the additional risks and costs, underwriters may simply refuse to create such tranches syndicating loans to alternative buyers if such buyers exist (they do not at the present time) or withdrawing from the market entirely. Borrowers and particularly private equity sponsors may not accept the structure due to additional restrictions of the loan as well as the potential for higher borrowing costs. CLO equity investors may not find this an attractive notion due to the uncertainty of the continued availability of qualifying

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93–95; SIFMA Letter Comment, June 10, 2011 at 71–72; American Securitization Forum, June 10, 2011 at 138–139; The Financial Services Roundtable Letter Comment, Aug. 1, 2011 at 33; Bank of America Letter Comment, Aug. 1, 2011 at 30; Wells Fargo Letter Comment, July 28, 2011 at 29; Loan Market Association Letter Comment, Aug. 1, 2011 at 2.

[12] *See* LSTA Letter Comment, Mar. 9, 2012 at Appendix A.

collateral throughout the reinvestment period. Alternatively, if the concept is acceptable to underwriters, borrowers and investors, at a minimum there would need to be a multi-year phase in process to assure sufficient qualifying collateral in the market place to provide appropriate diversity to construct a sound portfolio.

Given the historical performance of CLOs without mandated risk retention, we suggest that additional protections could also be achieved as an alternative to risk retention through enhanced structural requirements for an eligible Open Market CLO that could include such features as enhanced waterfall schemes that maintain funded equity cushions in CLOs ensuring that realized losses will be covered from excess interest earnings throughout the life of the CLO. Other enhancements or restrictions can be incorporated into collateral eligibility tests that recognize the current practices of the syndicated loan market. “Standard” collateral eligibility rules for Open Market CLOs could be fashioned that reflect market practices and still can limit risk of the loan pools. Many of these loans are SNC rated and perhaps this is another existing standard that could provide some guidance for crafting effective, well understood, regulator examined eligibility standards.

In another alternative example, the LSTA has proposed that CLO Managers could retain credit risk, consistent with the statutory requirements, by holding a set of securities that embody the compensation structure currently endorsed by the market and purchasing an interest in the CLO’s equity.[13] Both the securities and the equity interest would confirm the alignment of interests between the CLO Manager and the CLO investors. The cash outlay for the proposed equity interest may be manageable for most CLO Managers even a small manager such as TTIM. We endorse that approach as far preferable to FNPRM. While such a construct may be more acceptable generally, we suggest that there is a need to recognize the wide range of sizes and the financial capabilities of investment managers and suggest bifurcating the universe of CLO Managers between large and small institutions applying a lower standard of regulatory compliance for smaller managers than larger managers as has been the case for smaller mortgage brokers and for smaller banking institutions in many of the regulatory efforts to date.

Similarly, we endorse proposals that would reduce any risk retention requirement on a *pro rata* basis to the extent that a CLO’s assets are comprised of higher-quality loans. A material portion of the loans that we and other CLO Managers select are higher-quality loans under any commercially reasonable definition, present very limited risks to investors, and should be taken into account in setting the amount of any credit risk that the CLO Manager must retain. However, we believe that the Qualifying Commercial Loan Exemption does not address the CLO market as the concept does not seem to recognize the credit market demand served by CLOs. CLOs are lenders to non-investment grade borrowers while the FNPRM suggests CLOs of Qualifying Commercial Loans would be a securitization of investment grade credit. This is not a feasible concept as the economics of the CLO liability structure is greater than the interest rate on the underlying loan pool and therefore there is insufficient cash flow to service the debt structure or to reward equity investors with an investment return. In addition, the complexity of the compliance rules suggested in the FNPRM makes an already economically challenged structure less compelling due to compliance related costs. We suggest that this concept could be

[13] *See* LSTA Letter Comment, Apr. 1, 2013.

effective if the definition of a Qualifying Commercial Loan were to be modified to include the terms of a typical well structured "BB" rated loan that would allow a significant majority of the loans held by CLOs to qualify as a Qualifying Commercial Loan today.

In addition and significantly, we support the expansion of the definition of the parties, including those that may be associated with or advised by the CLO Manager, that are eligible to hold the risk retention in a manner that would satisfy Section 941's requirements. In each of our CLO transactions, key investors in the equity of the CLO transaction played an important role in the selection of the eligibility criteria, formation of a warehouse for the purchase of commercial loans prior to the closing of the CLO, and structuring of the CLO transaction itself, in addition to funding the equity risk of the CLO transaction. Having such parties, rather than the CLO Manager, retain credit risk makes considerable sense in terms of the objectives of Section 941 and the effect on the CLO market. Because parties coordinating with the CLO Manager may contribute to the selection of the initial assets, having them retain credit risk advances the goal of improving incentives related to asset selection. Such parties often have investment, rather than investment management, as their core business, making it more appropriate that they retain the requisite risk retention interest. In addition, they may do so without causing the disincentives and adverse impacts that arise when the CLO Manager is required to retain an economic interest that is substantially in excess of its economic participation in the transaction. In essence, similar to the B-Piece Option proposed for CMBS, the provider of the cash funded equity in a CLO transaction should be allowed to qualify to provide the risk retention requirement.

Finally, in whatever form the final regulations take, we support the ability of the risk retention holder of a CLO to receive a current cash return on its invesmtent in the equity of the CLO, subject of course, to the waterfall of the CLO structure. In a CLO, unlike any asset class that involves static pools of assets such as RMBS or CMBS, before any payment is made to the equity of the CLO all of the collateral quality tests must be satisfied as to the market value of the commercial loans compared to the outstanding balance of various classes of the rated notes issued by the CLO and the interest coverage ratio with respect to the more senior classes of the notes of the CLO. If such tests are not satisfied, proceeds are utilized to purchase additional assets or pay down the most senior liabilitites until the tests are once again in compliance. This distinguishes CLOs becasue the origianl equity is not static, cash flow can be diverted to make sure the original collateral quailty tests are maintained, and increased if necessary to protect the more senior notes. Only after these tests are satisfied, can payments then be made to the equity. The FNPR limits payments to the equty further with respect to comparing those payments against payments of principal to the notes in the structure, which is unfair and does not recognize the significant benefit provided by the equity in the CLO, and the fact that the waterfall itself is the mechanism which establises the ski in the game for the equity of the CLO. Any further restriction does not recognize the significant contribution of the equity of the CLO through the waterfall and subject the CLO structures to an unfair economic burden.

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Tall Tree Investment Management, LLC appreciates your consideration of these comments and would be pleased to provide additional information or assessments that might assist in your decision-making process. Please feel free to contact William D. Lenga, Managing Member and CEO in the event you have questions regarding these observations and conclusions.

Sincerely,

s/*William D. Lenga*

William D. Lenga
Managing Member and CEO

Confidential

Tall Tree Investment Management, LLC

Meeting with the FDIC-Washington
Discussion of the proposed Risk Retention Rules and Open Market CLOs

October 28, 2013

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I. Opening Comments

Opening Comments

Attending in Person	Title	Firm
William D. Lenga	Managing Partner and Senior Portfolio Manager	Tall Tree Investment Management, LLC
Daniel J. Hartnett	Partner - Structured Finance	Kaye Scholer, LLP
Attending by Conference Call		
Frank Sherrod	Chief Operating Officer/Compliance Officer	Tall Tree Investment Management, LLC
Brian Buscher	Risk Manager and Portfolio Analyst	Tall Tree Investment Management, LLC
Blaine Reed	Secondary Markets Analyst and Trader	Tall Tree Investment Management, LLC
Douglas Winchell	Senior Credit Officer and Portfolio Manager	Tall Tree Investment Management, LLC
Gregory White	Senior Credit Analyst and Portfolio Manger	Tall Tree Investment Management, LLC
Ernst Hodge	Senior Credit Analyst and Portfolio Manger	Tall Tree Investment Management, LLC
Zara Tan	Operations Manager	Tall Tree Investment Management, LLC
Michael Iannaccone	President & Managing Partner	MDI Investments, Inc

- Introduction and welcoming remarks
- Purpose of this presentation is to:
  - Provide a small CLO manager prospective of the Proposed Risk Retention Rules
  - Provide background data on the related topics
- Topics to be discussed include:
  - Description of the CLO Manager
  - Discussion of the Non-Investment Grade Loan Market
  - Discussion of the CLO Market and Cash Flow CLOs
  - Discussion of the Proposed Risk Retention Rules
  - Closing Comments
  - Q and A

II. Introduction to Tall Tree Investment Management, LLC

All material in this section provided by Tall Tree Investment Management, LLC

Overview of Tall Tree Investment Management, LLC
Background and Description

- Tall Tree Investment Management, LLC (TTIM):
  - Founded July 2005, based in Chicago, Illinois
  - Independent, employee owned, specialty asset manager
  - AUM of $826MM as of July 15, 2013
  - SEC registered investment advisor[1]
- TTIM was formed by ten former members of the Senior Loan Group of Morgan Stanley Investment Management Inc. (MSIM[2]). The investment professionals have worked together since 1999, as a part of the team that managed the Van Kampen Senior Loan Fund, Van Kampen Senior Income Trust, Morgan Stanley Prime Income Trust, Van Kampen CLO I, Van Kampen CLO II and three institutional separate accounts. During this period, AUM peaked at $17BB and at the time that the team left MSIM, AUM was $6.5BB.
- Team members have extensive experience in secured lending and high yield securities including: senior loans (widely syndicated and middle market), asset based lending, structured finance, fixed income securities (high yield and investment grade corporate and municipal bonds), real estate, project finance, vendor finance and leasing. In addition, the team has extensive distressed debt investment and workout experience and has successfully repositioned large underperforming investment portfolios.

[1] *Registration as an investment advisor does not constitute an endorsement of the firm by the SEC nor does it indicate that the advisor has attained a particular level of skill or ability.*

[2] *MSIM was a wholly-owned subsidiary of Morgan Stanley & Co. Incorporated*

Experience, Process and Capabilities[1]

Asset Class Investment Experience

- The TTIM Team has experience with a broad range of secured and unsecured non-investment grade credit products. Our hands on experience encompasses all disciplines in the credit and lending process from the beginning of the origination and structuring of a loan through the workout of a troubled loan situation. Our asset experience within the past ten years of managing funds on a fee for service basis includes:
  - Senior Secured Loans (both broadly syndicated and middle market)
  - Senior Unsecured Loans
  - Floating Rate Notes
  - Second Liens Loans
  - Asset Based Loans
  - Real Estate Lending (construction and permanent financing)
  - Leasing and vendor financing
  - Middle Market Loans
  - Debtor-In-Possession Financing
  - Discounted and Distressed Debt Investing (secured, unsecured, leases, structured product and trade claims)
  - Equity securities of re-organized companies
  - Structured Finance Obligations

[1] *The TTIM Experience, Process and Capabilities denoted is as of the end of September 2013 and is subject to change without notice*

Experience, Process and Capabilities[1]
Platform Experience

- Members of the TTIM Team have managed non-investment grade debt investments in a wide variety of investment vehicles that include cash flow arbitrage CLOs, market value funds, closed end-continuously offered and closed end exchange traded public mutual funds, separate accounts, bank and insurance company general account portfolios and proprietary funds. As a Team, we have managed the following platform types (Manager-Fund Name-Issuance Date-AUM):
  - 1940 Act Mutual Funds
    - MSIM-Van Kampen Senior Loan Fund - Closed End Continuously Offered Fund
    - MSIM-Van Kampen Senior Income Trust - Closed End Continuously Offered Fund
    - MSIM-Morgan Stanley Prime Rate Income Trust - Closed End Exchange Traded Fund
  - Structured Product Funds[2]
    - MSIM-Van Kampen CLO I (1997) - $1.25BB Original Issue Amount
    - MSIM-Van Kampen CLO II (1998) - $550MM Original Issue Amount
    - TTIM-Founders Grove CLO, Ltd. (2006) - $300MM Original Issue Amount
    - TTIM-Grant Grove CLO, Ltd. (2007) - $300MM Original Issue Amount
    - TTIM-Muir Grove CLO, Ltd. (2007) - $500MM Original Issue Amount
  - Institutional Separate Accounts[2]
    - MSIM-Single Investor CLO - $1BB Total Investor Allocation
    - MSIM-US Insurance Company - $300mm Total Investor Allocation
    - TTIM-Single Investor Market Value Fund - $200MM (Liquidated)

1 The TTIM Experience, Process and Capabilities denoted is as of the end of September 2013 and is subject to change without notice
2 William Lenga served as portfolio manager of all funds noted

III. Discussion of the Non-Investment Grade Syndicated Loan Market

Discussion of the Non-Investment Grade Syndicated Loan Market
Overview

- Key Attributes of Senior Secured Loans as an Asset Class:
  - Senior most position in the capital structure of the borrower
  - Loans are generally secured and contain protective financial and maintenance covenants
  - Recovery rates on defaulted loans are higher than bonds due to seniority in capital structure and collateral security
  - The interest rate is floating over LIBO as the underlying interest rate
  - Loans can be prepaid, generally without penalty
  - The vast majority of loans are Publicly Rated by Moody's and S&P
  - Many borrowers on the loans are public SEC filers with SOX compliant financial statements
  - Secondary market pricing is available from three pricing services Markit, LPC and Bloomberg
  - Many of these loans are Shared National Credits reviewed by the OCC
- What is the non-investment grade syndicated loan market?
  - Size
  - Industry distribution
  - Ratings distribution
  - Key Credit Metrics of Leveraged Loans
  - Earnings Metrics of Leveraged Loans
- Who are the participants in Leveraged Loans?
  - Loan Fund Managers
  - Arrangers and Agent Banks
  - CLO Underwriters

Discussion of the Non-Investment Grade Syndicated Loan Market

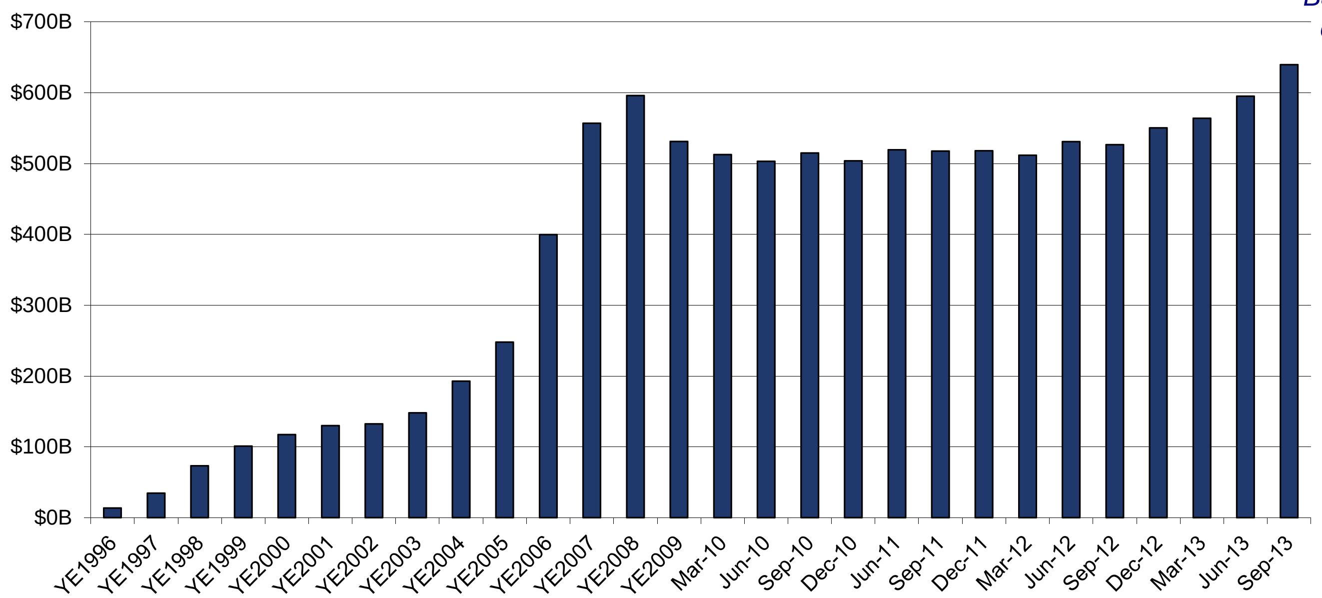
Key Attributes of Syndicated Loans

- The loans are senior in the capital structure of the borrower
- The loans are generally secured by substantially all assets of the borrower
- Recovery rates are generally higher because of seniority in the capital structure and collateral security
- Loans are structured as floating rate debt using LIBO as the underlying interest rate
- Loans can be pre-paid, generally without penalty
- Nearly all of the loans are publicly rated by Moody's and S&P
- Private information on public companies
- A majority of the loans contain protective or financial maintenance covenants
- Many of these loans are Shared National Credits reviewed by the OCC
- Many borrowers are public SEC filers with SOX compliant financial statements
- There is a vibrant private secondary market for loans providing market liquidity to the asset class
- Secondary market pricing is available from three pricing services Markit, LPC and Bloomberg
- Loans are competently structured by major banking, investment bank and finance companies
- Loan documentation is competently prepared by major US law firms
- Loan Agency agreements help to ensure proper administration and compliance of the loan facility for all lenders
- Loans are an inefficient asset class to manage due to administrative demands associated with loans including actual assignments
- The Loan Syndicate provides additional assurance that many qualified investors are reviewing the loan as "gatekeepers" for the market

Discussion of the Non-Investment Grade Syndicated Loan Market

Size of Non-Investment Grade Syndicated Loan Market 3Q2013

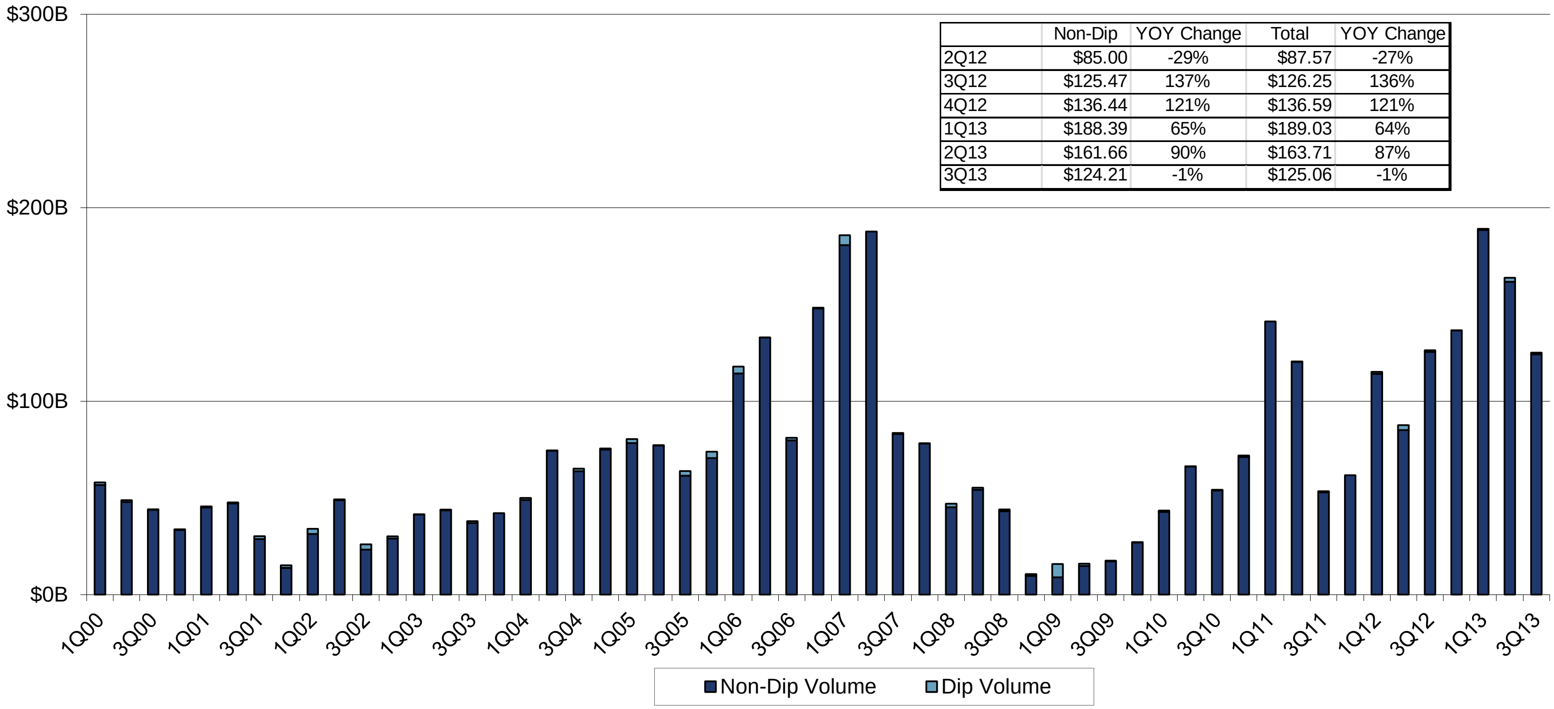
Based on 3Q2013 total outstanding loans of $639.7 billion



- At the end of 3Q2013, the syndicated loan market reached an all time high for outstanding loans of $639.7 Billion with nearly a $100 Billion increase in outstanding loans since year ago levels
- This growth has been supported from inflows into loan mutual funds, BDC formation (another retail loan fund equivalent) and expansion and additional CLO Issuance offset somewhat by outflows from High Yield Bond Funds

Source: S&P Leverage Commentary and Data Research

Discussion of the Non-Investment Grade Syndicated Loan Market
Quarterly Issuance of Leveraged Loan Market through 3Q2013



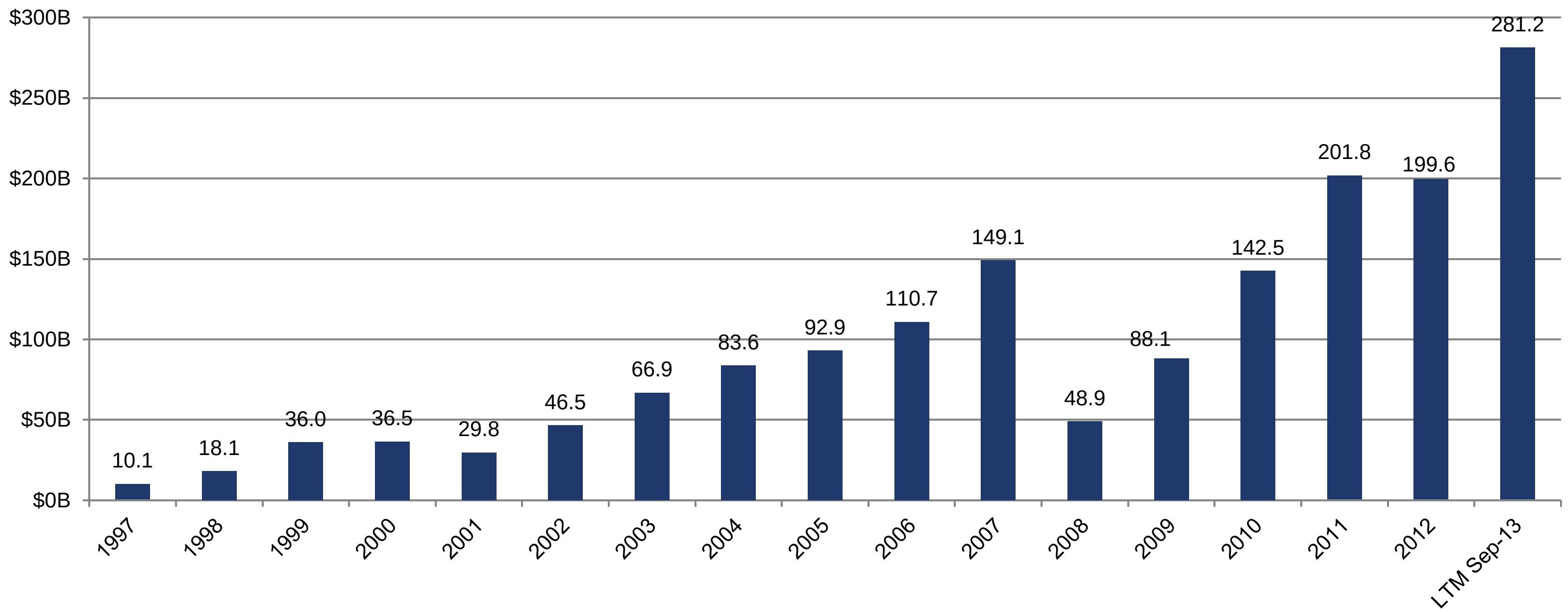
	Non-Dip	YOY Change	Total	YOY Change
2Q12	$85.00	-29%	$87.57	-27%
3Q12	$125.47	137%	$126.25	136%
4Q12	$136.44	121%	$136.59	121%
1Q13	$188.39	65%	$189.03	64%
2Q13	$161.66	90%	$163.71	87%
3Q13	$124.21	-1%	$125.06	-1%

- For the Trailing Twelve Months issuance was $610B offset by prepayment activity of nearly $320B
- Volume of issuance is clearly correlated with funds flow into the asset class and particularly increased issuance of CLOs

Source: S&P Leverage Commentary and Data Research

Discussion of the Non-Investment Grade Syndicated Loan Market

Repayment Amount for Syndicated Loans through 3Q2013

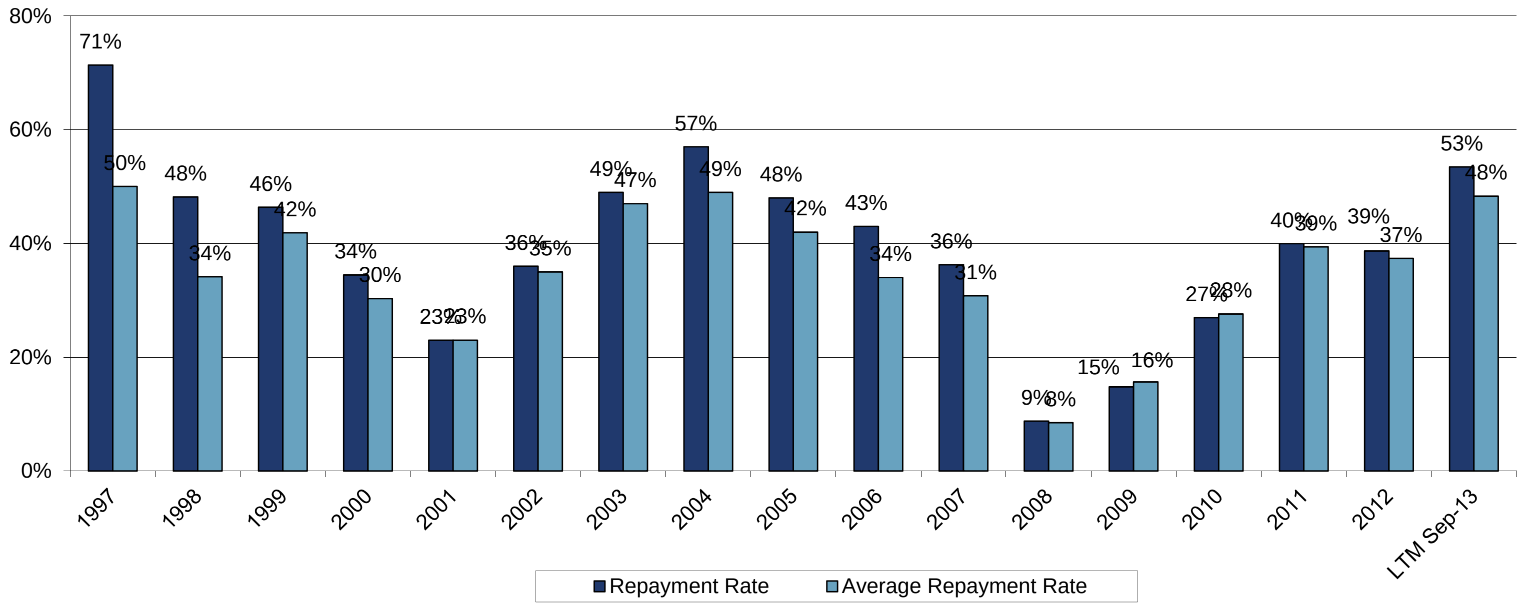


- Repayment and more important, prepayment before scheduled maturity, of the loan generally without prepayment premium is a key structural feature of loans
- The prepayment aspect of the loans are a key reason that the CLO structure incorporates collateral reinvestment features as the average actual life of a commercial loan is historically 18 to 24 months
- Prepayment allows managers to reposition portfolios without relying on the secondary market to do so
- Reinvestment risk includes coupon reduction, asset selection, maturity extension all of which are mitigated by the CLO's reinvestment criteria

Source: S&P Leverage Commentary and Data Research

Discussion of the Non-Investment Grade Syndicated Loan Market

Repayment Rate for Syndicated Loans through 3Q2013



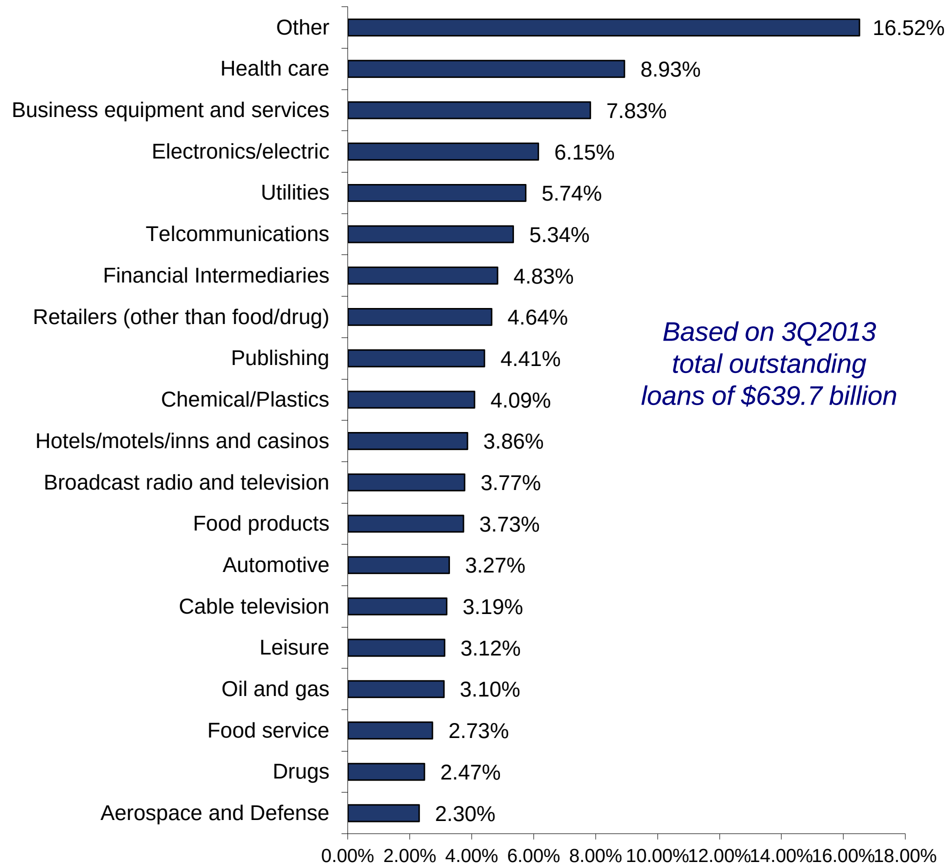
- As can be seen in the chart above, the average repayment rate for the past 15 years has been approximately 40% per year
- Repayment rates are impacted by underlying interest rates, floating rate spread environment and fund flow into alternate debt markets
- Most repayment activity over this time period is due to a declining spread environment with event driven repayment the second primary factor
- There is a high correlation between funds inflow into the institutional investors that invest in loans and spread compression that encourages repayment and refinancing

Source: S&P Leverage Commentary and Data Research

Discussion of the Non-Investment Grade Syndicated Loan Market

Industry Distribution of Outstanding Loans 3Q2013

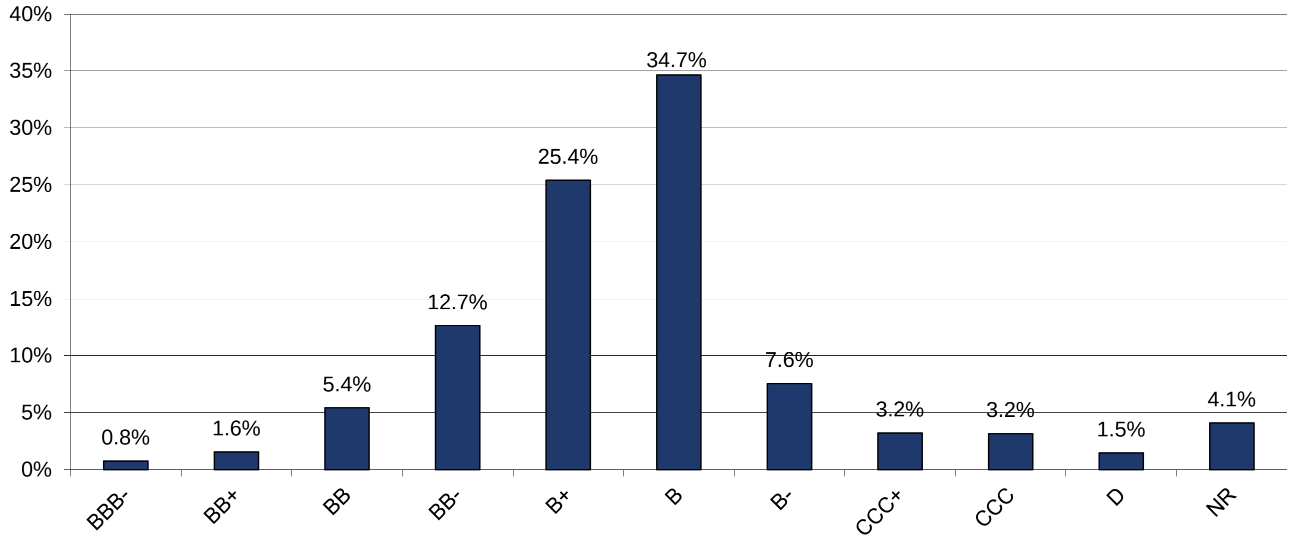
- The loan market has a diversified industry representation
- This diversification is an essential component of portfolio construction in CLOs
- Typically industry risk in a CLO is managed by a concentration limit of 10-12% for the top industry and three other industries of no more that 8-10%
- Industry concentration risk is further restricted with rating agency methodology that considers concentration of both industry and issuers within industry clusters that are believed to be correlated



Source: S&P Leverage Commentary and Data Research

Discussion of the Non-Investment Grade Syndicated Loan Market

Ratings Distribution by Outstanding Loans 3Q2013



Based on 3Q2013 total outstanding loans of $639.7 billion

- The "Institutional" Syndicated Loan Market credit profile is centered on single B rated issuers. This is the rating profile that would generally be observed in a CLO portfolio.
- Bank participation in this market is limited due to high capital charges and FDIC assessment issues and with respect to insurance company lenders there are limits for weaker borrowers due to NAIC regulations.
- The proposed credit metrics of a "Qualifying Commercial Loan" would map more to a BBB or A rated borrower. This is NOT the profile of the loans in a CLO that center on B rated loans. In addition, a CLO constructed on Qualifying Commercial Loans would not make economic sense as there would be no positive interest margin between the loans and the CLO funding costs.
- As can be seen in the graph above, the BBB and better market is a very small portion of the total universe of widely syndicated loans that would map to the criteria of Qualifying Commercial Loans and would not address the credit needs of the non-investment grade borrower.

Source: S&P Leverage Commentary and Data Research

Discussion of the Non-Investment Grade Syndicated Loan Market

Ratings Distribution of Originated Loans by Loan Rating through 3Q2013

Rated leveraged loan volume																
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	1Q-3Q13	3Q13
Split BBB/BB or higher	22.2%	17.9%	20.8%	17.8%	9.9%	3.9%	2.6%	4.7%	7.3%	26.9%	9.7%	13.5%	17.6%	13.1%	9.4%	8.5%
BB+/BB/BB-	51.8%	57.8%	56.5%	60.7%	46.3%	39.4%	35.4%	39.5%	33.5%	42.2%	56.9%	44.3%	38.7%	35.0%	30.5%	34.8%
Split BB/B	6.6%	10.1%	13.1%	10.0%	17.4%	12.1%	20.5%	16.1%	27.6%	16.4%	17.5%	20.3%	15.5%	17.2%	15.7%	12.6%
B+/B/B-	19.3%	13.7%	9.0%	11.3%	24.7%	44.1%	39.6%	37.2%	25.5%	12.4%	13.1%	20.6%	27.2%	31.1%	40.1%	41.3%
Split B/CCC, CCC	0.0%	0.4%	0.6%	0.2%	1.7%	0.5%	1.8%	2.5%	6.2%	2.2%	2.7%	1.3%	0.9%	3.6%	4.3%	2.8%
Total volume	$135B	$108B	$95B	$91B	$131B	$205B	$208B	$362B	$394B	$85B	$32B	$188B	$308B	$372B	$421B	$112B
Rated Institutional loan volume																
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	1Q-3Q13	3Q13
Split BBB/BB or higher	3.7%	6.3%	10.7%	13.3%	4.3%	0.8%	1.6%	3.7%	5.1%	12.9%	4.5%	6.7%	1.4%	6.1%	6.6%	6.1%
BB+/BB/BB-	59.9%	59.5%	54.3%	60.7%	43.3%	31.2%	27.0%	33.0%	29.7%	43.6%	51.7%	42.4%	36.0%	29.0%	25.9%	31.7%
Split BB/B	9.2%	18.5%	21.5%	12.7%	19.6%	14.0%	19.9%	19.0%	29.4%	22.7%	21.3%	23.7%	19.7%	21.0%	17.4%	13.7%
B+/B/B-	27.2%	15.3%	12.7%	12.9%	31.1%	53.1%	48.9%	40.7%	28.2%	19.0%	18.7%	25.4%	35.9%	39.2%	44.9%	45.1%
Split B/CCC, CCC	0.0%	0.4%	0.9%	0.3%	1.6%	0.9%	2.6%	3.5%	7.6%	1.8%	3.7%	1.9%	7.0%	4.7%	5.2%	3.3%
Total volume	$40B	$35B	$29B	$52B	$80B	$127B	$142B	$260B	$311B	$52B	$22B	$133B	$213B	$272B	$348B	$96B

- The table above summarizes the distribution of credit ratings as of origination over time for both the broader leveraged loan market as well as the institutional sub-segment
- Volume represents dollar amount of loans issued for the period noted
- There is some apparent data inconsistency with the prior slide as the prior slide is based on the Corporate Credit rating or the probability of default rating while the ratings shown here are the issue ratings that reflect the recovery adjusted ratings of the loan issue

Source: S&P Leverage Commentary and Data Research

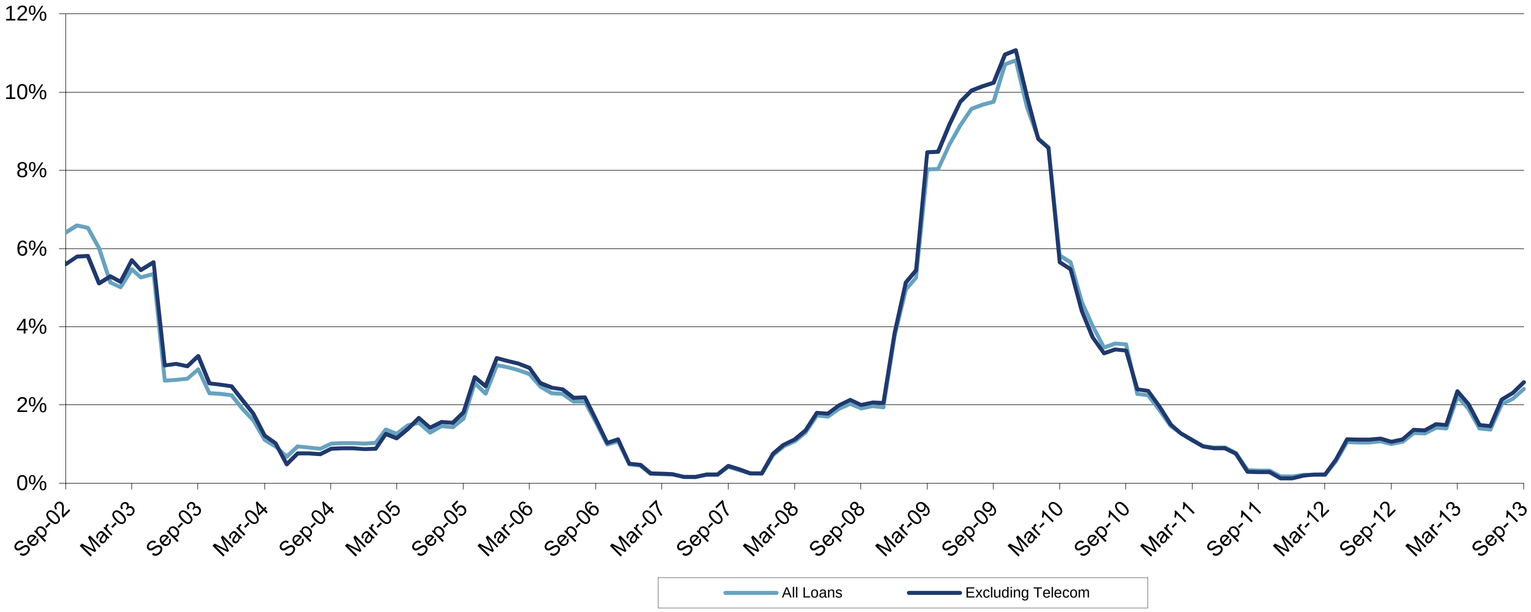
Discussion of the Non-Investment Grade Syndicated Loan Market

Key Credit Metrics of Syndicated Loans by Rating Category

	BB/BB-									B+/B								
	2006	2007	2008	2009	2010	2011	2012	1Q-3Q13	3Q13	2006	2007	2008	2009	2010	2011	2012	1Q-3Q13	3Q13
Pro Rata Spread																		
Average	L+175.27	L+167.78	L+293.58	L+361.96	L+326.02	L+257.33	L+234.69	L+227.38	L+235.71	L+259.09	L+236.98	L+327.98	L+411.96	L+431.17	L+425.65	L+423.82	L+353.57	L+367.86
Min	L+100.00	L+87.50	L+200.00	L+225.00	L+200.00	L+175.00	L+125.00	L+125.00	L+175.00	L+100.00	L+100.00	L+125.00	L+200.00	L+225.00	L+175.00	L+150.00	L+150.00	L+175.00
Max	L+300.00	L+250.00	L+500.00	L+450.00	L+450.00	L+425.00	L+400.00	L+450.00	L+350.00	L+400.00	L+400.00	L+575.00	L+600.00	L+675.00	L+650.00	L+650.00	L+600.00	L+525.00
Weighted Average Institutional Spread																		
Average	L+183.10	L+186.46	L+349.74	L+371.47	L+381.48	L+325.57	L+343.90	L+281.39	L+293.48	L+262.62	L+251.62	L+397.37	L+483.57	L+478.54	L+444.35	L+467.25	L+378.33	L+397.04
Min	L+137.50	L+125.00	L+175.00	L+275.00	L+300.00	L+250.00	L+250.00	L+200.00	L+200.00	L+175.00	L+150.00	L+225.00	L+225.00	L+300.00	L+275.00	L+275.00	L+225.00	L+225.00
Max	L+300.00	L+350.00	L+600.00	L+550.00	L+600.00	L+450.00	L+500.00	L+425.00	L+400.00	L+425.00	L+500.00	L+600.00	L+750.00	L+850.00	L+675.00	L+825.00	L+675.00	L+625.00
Pro Rata Term																		
Average	5.11	5.22	4.63	4.15	4.65	4.87	4.83	4.71	4.58	5.32	5.54	5.34	3.92	4.78	4.89	4.86	4.85	4.92
Min	3.00	3.60	1.80	2.30	3.00	3.00	2.80	1.10	1.10	0.99	1.90	3.00	2.75	3.00	1.50	1.30	2.70	2.80
Max	6.00	7.00	7.00	7.00	5.00	6.00	5.50	5.20	5.00	7.00	7.00	7.80	6.00	6.00	6.00	6.00	6.00	6.00
Weighted Average Institutional Term																		
Average	6.21	6.30	5.90	6.01	5.85	6.39	6.24	6.10	6.10	6.30	6.48	6.21	4.86	5.81	6.02	5.84	5.84	6.05
Min	1.30	2.20	3.50	3.00	3.08	4.50	3.00	3.00	3.00	1.50	1.08	2.00	0.50	3.10	1.75	2.30	2.70	3.00
Max	8.70	8.00	8.50	8.00	7.00	7.75	8.20	8.20	7.00	8.50	8.50	8.50	7.00	7.50	7.33	7.50	7.70	7.40
Sample Characteristics																		
Observations	130	106	37	30	85	96	125	122	32	329	428	73	50	239	320	436	552	126
Average ($MM):																		
Loan Amnt	$910.70	$1,277.68	$831.11	$882.40	$827.13	$1,019.07	$923.84	$1,306.74	$1,415.10	$611.71	$774.51	$1,209.45	$364.04	$478.17	$493.71	$444.90	$872.13	$923.61
Revenues	$3,019.28	$3,004.26	$2,808.89	$8,592.03	$3,412.86	$4,527.28	$2,695.42	$3,379.06	$4,438.73	$1,308.30	$1,850.47	$3,716.49	$1,807.06	$1,334.98	$1,400.88	$1,786.99	$1,731.86	$1,191.49
EBITDA	$439.10	$707.04	$596.82	$642.59	$601.62	$600.11	$663.15	$719.32	$709.96	$205.69	$287.12	$558.67	$298.63	$221.99	$232.15	$276.96	$287.56	$287.22
Debt/EBITDA	3.79x	4.27x	3.08x	3.40x	3.18x	3.62x	3.57x	3.68x	3.91x	4.79x	5.32x	4.98x	4.22x	4.29x	4.57x	4.69x	4.83x	4.82x
EBITDA/Cash Interest	4.49x	3.78x	7.50x	5.15x	5.59x	5.19x	6.06x	7.64x	5.98x	3.02x	2.54x	3.20x	3.68x	3.78x	3.72x	3.92x	3.94x	3.78x
Senior Debt/EBITDA	2.60x	3.29x	1.83x	2.09x	2.26x	2.65x	2.65x	3.53x	3.73x	3.88x	4.31x	3.51x	3.16x	3.38x	3.76x	3.89x	4.70x	4.74x

Source: S&P Leverage Commentary and Data Research

Discussion of the Non-Investment Grade Syndicated Loan Market
Payment Default Rate by Principal Amount for Syndicated Loans



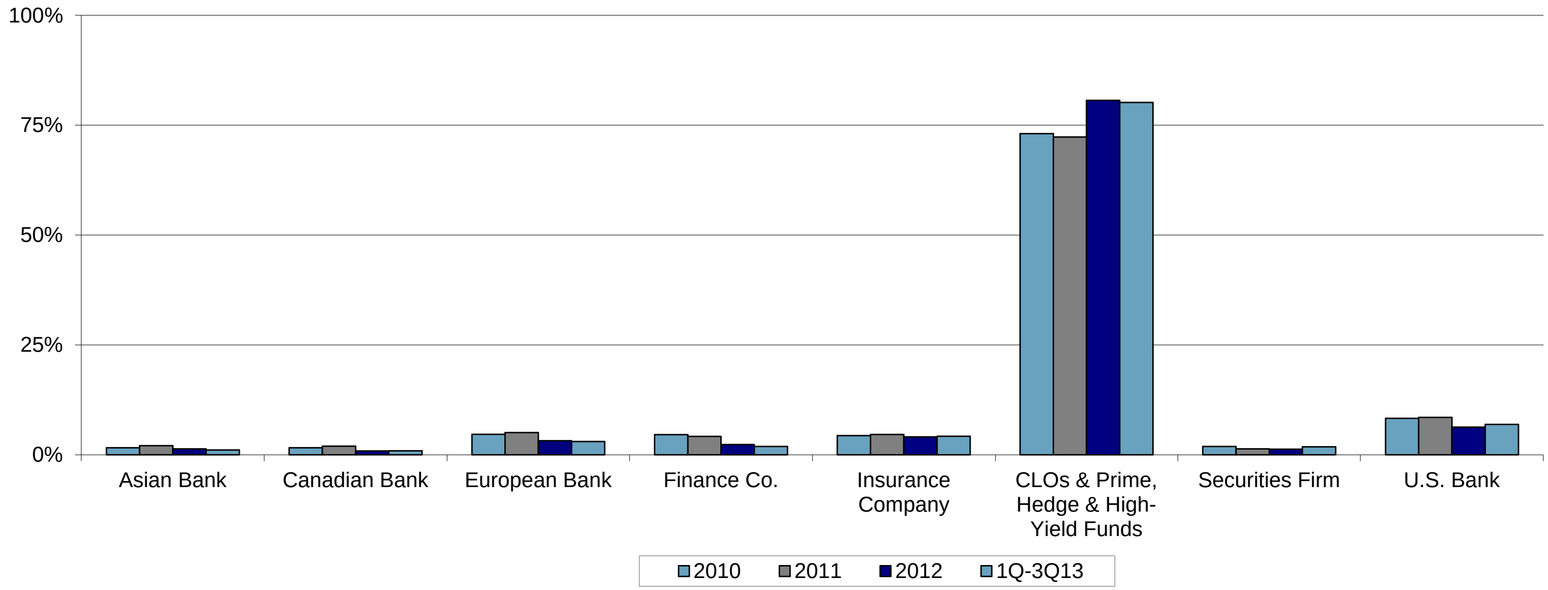
- The above table describes the default rate of syndicated loans over the past 10 years, spanning two major credit cycles, averaging approximately 3% over all loans and industries
- The peak default rate occurred during the Financial Crisis of 2008 to 2010 peaking at approximately 12%
- This rate includes distressed exchanges generally of securities lower in the capital structure. Therefore, the data overstates the rate of actual payment default of loans as it includes debt lower in the capital stack.
- The typical CLO base case modeled default rate is based on 2% annual defaults with an expected loss of 30% of principal on the defaulted loan
- Statistics are typically measured by the secondary market value of the loan at 30 days after default

Source: S&P Leverage Commentary and Data Research

IV. Market Participants in the Loan and CLO Markets

Market Participants in the Loan and CLO Markets

Loan Market Investors by Broad Categories



- The chart above describes in graphic form the distribution of investors by broad categories post Financial Crisis
- Grouped together in this table are CLOs and Mutual Funds that invest in loans. This group provides 80% of the available capital for non-investment grade loans
- The next slide expands the breakout within the fund segment over a longer period of time

Source: S&P Leverage Commentary and Data Research

Market Participants in the Loan and CLO Markets

Loan Market Investors by Broad Categories

	Asian Bank	Canadian Bank	European Bank	Finance Co.	Insurance Company	CLOs & Prime, Hedge & High-Yield Funds	Securities Firm	U.S. Bank
1994	17.2%	5.3%	18.6%	4.9%	6.3%	17.2%	1.1%	29.5%
1995	14.1%	4.7%	19.1%	5.1%	6.2%	16.4%	1.4%	33.1%
1996	11.0%	5.9%	17.4%	3.1%	8.0%	22.1%	2.9%	29.7%
1997	11.1%	3.5%	15.8%	4.1%	6.7%	25.6%	3.8%	29.3%
1998	7.1%	7.3%	21.0%	4.5%	4.8%	25.8%	1.8%	27.8%
1999	3.7%	4.6%	14.7%	6.5%	5.2%	36.5%	0.5%	28.3%
2000	4.3%	5.0%	10.1%	4.3%	1.3%	47.9%	1.6%	25.4%
2001	1.5%	2.6%	8.4%	9.2%	4.6%	47.8%	2.2%	23.6%
2002	1.7%	2.2%	9.1%	7.6%	4.0%	55.9%	2.0%	17.5%
2003	1.1%	1.6%	6.5%	9.2%	4.6%	62.0%	0.6%	14.4%
2004	3.8%	1.5%	11.4%	6.4%	3.5%	60.1%	1.4%	12.0%
2005	3.1%	1.2%	8.5%	7.0%	2.1%	64.8%	1.1%	12.3%
2006	2.3%	0.9%	7.5%	5.9%	2.1%	71.8%	2.0%	7.5%
2007	2.2%	1.2%	5.8%	3.8%	1.8%	77.4%	2.3%	5.5%
2008	2.3%	2.3%	9.0%	6.9%	1.4%	63.8%	3.5%	10.8%
2009	0.6%	3.4%	7.2%	4.6%	3.8%	61.3%	4.7%	14.3%
2010	1.6%	1.6%	4.6%	4.6%	4.4%	73.1%	1.9%	8.3%
2011	2.1%	1.9%	5.1%	4.2%	4.6%	72.4%	1.3%	8.5%
2012	1.3%	0.9%	3.2%	2.3%	4.1%	80.7%	1.2%	6.3%
1Q-3Q13	1.1%	0.9%	3.0%	1.9%	4.2%	80.2%	1.8%	6.9%

- This table covers a longer time period for the data set just reviewed on the prior slide
- The relative decline in participation by banking organizations is very clear with this table
- The growth in the CLOs, Prime, Hedge and High-Yield Fund category has clearly filled the funding gap from all of the regulated lenders in the US, Europe, Canada and Asia

Source: S&P Leverage Commentary and Data Research

Market Participants in the Loan and CLO Markets

Distribution within the Institutional Loan Market Investors Subset

	Hedge, Distressed & High-Yield Funds	Prime Rate Fund	CLO
2002	0.7%	12.8%	42.3%
2003	7.0%	10.9%	44.1%
2004	6.3%	11.9%	41.8%
2005	8.3%	12.0%	44.5%
2006	13.4%	10.2%	48.2%
2007	22.4%	7.1%	47.9%
2008	22.7%	4.1%	37.1%
2009	21.4%	6.2%	33.7%
2010	26.4%	11.5%	35.2%
2011	24.3%	15.2%	32.9%
2012	19.6%	13.3%	47.7%
1Q-3Q13	7.0%	26.4%	46.8%

- This table further defines the participation rate of the CLO investor in the non-investment grade loan market
- Moreover, what is also clear is that during the financial crisis, hedge and distressed funds filled the funding gap of reduced CLO and mutual fund participation
- Today the role of mutual funds is also evident as retail money flows have significantly increased in anticipation of rising interest rates

Source: S&P Leverage Commentary and Data Research

Market Participants in the Loan and CLO Markets
Participants in the Loan and CLO Market

- The next several slides attempt to dimension the impact of the proposed risk retention parameters on the parties that participate in the CLO Market, namely the CLO Manager, the Bank Loan Syndicate and the CLO Underwriter
- CLO Managers:
  - For CLO Managers, the key take away is that the proposed 5% risk retention represents more than 10 times the annual gross earnings of CLO Managers based on a historical typical 20bps senior fee and 30bps sub fee. For CLO 2.0 transactions, the management fee levels have been less than historic ranging from 20 to 40 bps total.
  - For the top 25 CLO Managers if AUM levels were maintained at current levels and proposed risk retention rules were in place, the total risk retention required would be nearly $7.2B for the top 25 and $13.6B for the entire population of CLO Managers.
  - This compares to gross estimated revenues from CLO management business before expenses and taxes of $1.36B for ALL CLO Managers based on historic fee levels of 50bps on assets under management.
  - Note that the top 25 CLO Managers represent 14.5% of the manager universe and 52% of the outstanding balances. Even with this concentration, the remaining CLO Managers still manage $128B of outstanding loans and represent an important source of funding to the non-investment grade loan market.
  - Lastly we prepared a similar analysis of recent issuers of CLO 2.0. We note the difference in the list of CLO 1.0 and 2.0 issuers and suggest that CLO 2.0 issuance may not be able to replace CLO 1.0 outstanding amounts based on issuance levels of 2012 and 2013.
- For Loan Syndicate Banks we have used Leveraged Loan League Tables to estimate the universe of potential Eligible CLO Tranches, the 20% required underwriting amount, the 5% risk retention amount and a very, very rough estimate of fee income from the syndication efforts based on a gross underwriting fee of 4% of the issue amount.
- For CLO Underwriters, we again created league tables by arranger, tried to estimate fee income from these efforts assuming a fee of 1% of notional securities issued.

Market Participants in the Loan and CLO Markets
Participants in the Market-CLO Investors by Outstanding Rated Notes as of 3Q2013

25 LARGEST CLO MANAGERS BY OUTSTANDING RATED NOTES

Rank	Manager	Current Rated Note Balances	Deal Count	Average CLO Size	Estimated 5% Risk Retention Capital Required	Estimated Gross Annual Earnings from CLO Funds
1	Highland Capital Management	$11,089,681,696	18	$616,093,428	$554,484,085	$55,448,408
2	Ares Management	$10,978,564,800	26	$422,252,492	$548,928,240	$54,892,824
3	Credit Suisse Asset Management	$9,943,765,847	25	$397,750,634	$497,188,292	$49,718,829
4	GSO/Blackstone Debt Funds Management	$9,775,030,588	27	$362,038,170	$488,751,529	$48,875,153
5	Apollo Credit Management	$8,925,699,138	23	$388,073,876	$446,284,957	$44,628,496
6	CIFC Asset Management	$7,903,198,814	25	$316,127,953	$395,159,941	$39,515,994
7	Carlyle Investment Management	$7,772,880,776	22	$353,312,763	$388,644,039	$38,864,404
8	Babson Capital	$6,578,687,208	21	$313,270,819	$328,934,360	$32,893,436
9	ING Capital Advisors	$5,920,741,839	14	$422,910,131	$296,037,092	$29,603,709
10	KKR Financial Advisors II	$5,649,642,957	6	$941,607,160	$282,482,148	$28,248,215
11	MJX Asset Management	$5,168,238,820	11	$469,839,893	$258,411,941	$25,841,194
12	Prudential Investment Management	$4,774,405,237	11	$434,036,840	$238,720,262	$23,872,026
13	CVC Credit Partners	$4,744,510,559	15	$316,300,704	$237,225,528	$23,722,553
14	Symphony Asset Management	$4,744,208,200	10	$474,420,820	$237,210,410	$23,721,041
15	LCM Asset Management	$4,452,920,429	13	$342,532,341	$222,646,021	$22,264,602
16	Invesco	$4,260,784,908	13	$327,752,685	$213,039,245	$21,303,925
17	Guggenheim Investment Management	$4,027,896,010	6	$671,316,002	$201,394,801	$20,139,480
18	PineBridge Investments	$4,006,879,686	14	$286,205,692	$200,343,984	$20,034,398
19	GoldenTree Asset Management	$3,982,350,000	6	$663,725,000	$199,117,500	$19,911,750
20	Alcentra	$3,973,266,932	14	$283,804,781	$198,663,347	$19,866,335
21	Golub Capital Incorporated	$3,937,060,638	11	$357,914,603	$196,853,032	$19,685,303
22	RiverSource Investments	$3,828,140,983	8	$478,517,623	$191,407,049	$19,140,705
23	Octagon Credit Investors	$3,659,780,329	9	$406,642,259	$182,989,016	$18,298,902
24	Oak Hill Advisors	$3,602,999,912	7	$514,714,273	$180,149,996	$18,015,000
	Total for Top 25 Managers	$143,701,336,309			$7,185,066,815	$718,506,682
	Total for Remaining 146 Managers	$128,088,095,972			$6,404,404,799	$640,440,480
	Grand Total	$271,789,432,281			$13,589,471,614	$1,358,947,161

Market Participants in the Loan and CLO Markets

Top 25 Issuers/Managers of New Issue CLO 2.0 in 2012 and 2013 through 3Q2013

Manager	2012 $ CLOs Issued	Estimated Annual Fee Stream 50pbs	2013 $ CLOs Issued	Estimated Annual Fee Stream 50bps	Total 2012 and 2013 $ CLOs Issued	Cumulative Annual Fee Stream for 2012 and 2013	Estimated Risk Retention Amount of 5%
Blackstone	$1,591,400,000	$7,957,000	$3,343,771,000	$16,718,855	$4,935,171,000	$24,675,855	$246,758,550
CSAM	$2,249,300,000	$11,246,500	$2,414,125,000	$12,070,625	$4,663,425,000	$23,317,125	$233,171,250
Carlyle	$2,215,480,000	$11,077,400	$2,199,800,000	$10,999,000	$4,415,280,000	$22,076,400	$220,764,000
CIFC	$2,703,025,000	$13,515,125	$1,584,245,000	$7,921,225	$4,287,270,000	$21,436,350	$214,363,500
Ares	$1,726,400,000	$8,632,000	$1,756,450,000	$8,782,250	$3,482,850,000	$17,414,250	$174,142,500
Prudential	$1,542,400,000	$7,712,000	$1,742,200,000	$8,711,000	$3,284,600,000	$16,423,000	$164,230,000
Symphony	$1,421,250,000	$7,106,250	$1,660,000,000	$8,300,000	$3,081,250,000	$15,406,250	$154,062,500
CVC	$1,282,600,000	$6,413,000	$1,679,120,000	$8,395,600	$2,961,720,000	$14,808,600	$148,086,000
Oak Hill	$1,812,200,000	$9,061,000	$1,125,900,000	$5,629,500	$2,938,100,000	$14,690,500	$146,905,000
MJX	$1,695,000,000	$8,475,000	$1,190,250,000	$5,951,250	$2,885,250,000	$14,426,250	$144,262,500
ING	$1,603,648,000	$8,018,240	$1,055,600,000	$5,278,000	$2,659,248,000	$13,296,240	$132,962,400
Octagon	$1,034,250,000	$5,171,250	$1,447,453,000	$7,237,265	$2,481,703,000	$12,408,515	$124,085,150
LCM	$1,410,750,000	$7,053,750	$965,250,000	$4,826,250	$2,376,000,000	$11,880,000	$118,800,000
Goldentree	$1,113,600,000	$5,568,000	$1,257,153,400	$6,285,767	$2,370,753,400	$11,853,767	$118,537,670
Och Ziff	$1,070,800,000	$5,354,000	$1,253,250,000	$6,266,250	$2,324,050,000	$11,620,250	$116,202,500
Golub	$1,176,848,000	$5,884,240	$1,015,360,000	$5,076,800	$2,192,208,000	$10,961,040	$109,610,400
Apollo	$1,672,550,000	$8,362,750	$434,499,000	$2,172,495	$2,107,049,000	$10,535,245	$105,352,450
Sankaty	$1,036,500,000	$5,182,500	$1,049,300,000	$5,246,500	$2,085,800,000	$10,429,000	$104,290,000
Babson	$1,080,340,000	$5,401,700	$952,280,000	$4,761,400	$2,032,620,000	$10,163,100	$101,631,000
Blue Mountain	$1,027,250,000	$5,136,250	$942,850,000	$4,714,250	$1,970,100,000	$9,850,500	$98,505,000
PineBridge	$932,500,000	$4,662,500	$1,012,432,000	$5,062,160	$1,944,932,000	$9,724,660	$97,246,600
Onex	$848,175,000	$4,240,875	$1,026,450,000	$5,132,250	$1,874,625,000	$9,373,125	$93,731,250
Alcentra	$810,500,000	$4,052,500	$1,045,250,000	$5,226,250	$1,855,750,000	$9,278,750	$92,787,500
Halcyon	$798,880,000	$3,994,400	$979,800,000	$4,899,000	$1,778,680,000	$8,893,400	$88,934,000
Canyon	$600,000,000	$3,000,000	$1,132,500,000	$5,662,500	$1,732,500,000	$8,662,500	$86,625,000
Total Top 25	$34,455,646,000	$172,278,230	$34,265,288,400	$171,326,442	$68,720,934,400	$343,604,672	$3,436,046,720
All Others	$22,075,747,000	$110,378,735	$28,629,702,035	$143,148,510	$50,705,449,035	$253,527,245	$2,535,272,452
Grand total	$56,531,393,000	$282,656,965	$62,894,990,435	$314,474,952	$119,426,383,435	$597,131,917	$5,971,319,172

Market Participants in the Loan and CLO Markets

Top 25 Lead Arrangers for New Money League Table YTD 3Q2013

Underwriter	Rank	Mkt Share(%)	Amount USD ($MM)	Issues	Estimated CLO Tranche Size ($MM)	Estimated 20% of Syndicate ($MM)	Estimated 5% Hold of CLO Tranche ($MM)	Estimated Under-writing Fees at 4% ($MM)
JP Morgan	1	11.5	$23,420	220	$13,502	$4,684	$675	$937
Bank of America Merrill Lynch	2	11.3	$23,122	249	$13,330	$4,624	$666	$925
Credit Suisse	3	7.7	$15,785	138	$9,100	$3,157	$455	$631
Barclays	4	7.4	$15,202	117	$8,764	$3,040	$438	$608
Wells Fargo & Co	5	7	$14,267	146	$8,225	$2,853	$411	$571
Goldman Sachs & Co	6	5.3	$10,883	108	$6,274	$2,177	$314	$435
Citi	7	5.3	$10,734	91	$6,188	$2,147	$309	$429
Deutsche Bank AG	8	4.9	$10,005	107	$5,768	$2,001	$288	$400
General Electric Capital Corp	9	4.6	$9,403	135	$5,421	$1,881	$271	$376
RBC Capital Markets	10	4.4	$8,968	87	$5,170	$1,794	$259	$359
Morgan Stanley	11	4.2	$8,631	89	$4,976	$1,726	$249	$345
BMO Capital Markets	12	2.6	$5,306	77	$3,059	$1,061	$153	$212
Jefferies LLC	13	2.6	$5,235	58	$3,018	$1,047	$151	$209
UBS	14	2.5	$5,125	58	$2,955	$1,025	$148	$205
SunTrust Robinson Humphrey	15	1.7	$3,483	73	$2,008	$697	$100	$139
KeyBanc Capital Markets	16	1.6	$3,318	53	$1,913	$664	$96	$133
PNC Bank	17	1.6	$3,262	65	$1,881	$652	$94	$130
US Bancorp	18	1.6	$3,170	44	$1,827	$634	$91	$127
Fifth Third Bancorp	19	0.9	$1,903	37	$1,097	$381	$55	$76
Mitsubishi UFJ Financial	20	0.8	$1,644	20	$948	$329	$47	$66
RBS	21	0.8	$1,576	35	$908	$315	$45	$63
HSBC Bank PLC	22	0.7	$1,519	22	$876	$304	$44	$61
Nomura Holdings Inc	23	0.7	$1,375	14	$793	$275	$40	$55
Madison Capital Group	24	0.6	$1,295	16	$747	$259	$37	$52
Macquarie Group Ltd	25	0.5	$1,083	13	$624	$217	$31	$43

Market Participants in the Loan and CLO Markets

Top 25 Lead Arrangers All Leveraged Loans League Table YTD 3Q2013

Underwriter	Rank	Mkt Share(%)	Amount USD ($MM)	Issues	Estimated CLO Tranche Size ($MM)	Estimated 20% of Syndicate ($MM)	Estimated 5% Hold of CLO Tranche ($MM)	Estimated Underwriting Fees at 4% ($MM)
Bank of America Merrill Lynch	1	13	$100,103.35	507	$57,710	$20,021	$2,885	$4,004
JP Morgan	2	11.9	$91,838.62	390	$52,945	$18,368	$2,647	$3,674
Credit Suisse	3	7.7	$59,346.27	248	$34,213	$11,869	$1,711	$2,374
Wells Fargo & Co	4	7.2	$55,440.52	277	$31,961	$11,088	$1,598	$2,218
Barclays	5	7.1	$54,682.46	224	$31,524	$10,936	$1,576	$2,187
Citi	6	6.7	$51,543.72	184	$29,715	$10,309	$1,486	$2,062
Deutsche Bank AG	7	6.4	$49,357.61	224	$28,455	$9,872	$1,423	$1,974
Goldman Sachs & Co	8	6.1	$46,994.43	205	$27,092	$9,399	$1,355	$1,880
Morgan Stanley	9	5.1	$39,386.96	175	$22,707	$7,877	$1,135	$1,575
RBC Capital Markets	10	3.9	$29,752.39	146	$17,152	$5,950	$858	$1,190
General Electric Capital Corp	11	2.8	$21,556.59	181	$12,427	$4,311	$621	$862
UBS	12	2.6	$19,650.54	117	$11,329	$3,930	$566	$786
Jefferies LLC	13	1.8	$13,506.91	84	$7,787	$2,701	$389	$540
SunTrust Robinson Humphrey	14	1.7	$13,226.43	119	$7,625	$2,645	$381	$529
BMO Capital Markets	15	1.6	$12,224.73	110	$7,048	$2,445	$352	$489
KeyBanc Capital Markets	16	1.2	$8,993.13	78	$5,185	$1,799	$259	$360
PNC Bank	17	1.1	$8,775.96	90	$5,059	$1,755	$253	$351
RBS	18	1.1	$8,359.43	74	$4,819	$1,672	$241	$334
US Bancorp	19	1.1	$8,164.08	69	$4,707	$1,633	$235	$327
BNP Paribas Group	20	0.8	$6,307.39	38	$3,636	$1,261	$182	$252
HSBC Bank PLC	21	0.7	$5,384.36	35	$3,104	$1,077	$155	$215
Mitsubishi UFJ Financial	22	0.6	$4,528.00	25	$2,610	$906	$131	$181
Scotiabank	23	0.5	$4,139.96	21	$2,387	$828	$119	$166
Credit Agricole CIB	24	0.5	$4,077.54	20	$2,351	$816	$118	$163
Macquarie Group Ltd	25	0.5	$4,067.88	27	$2,345	$814	$117	$163

Market Participants in the Loan and CLO Markets

CLO 2.0 Arranger League Tables 2012 and 3Q2013 YTD

Underwriter	2012 $ Underwritten	Rank	Estimated Fees	2013 $ Underwritten	Rank	Estimated Fees	Total Underwritten	Rank	Estimated Fees
Bank of America	$7,461,000,000	2	$74,610,000	$9,133,605,000	2	$91,336,050	$16,594,605,000	2	$165,946,050
Barclays	$407,750,000	17	$4,077,500	$845,000,000	14	$8,450,000	$1,252,750,000	14	$12,527,500
BNP	-	23	$0	$726,600,000	15	$7,266,000	$726,600,000	16	$7,266,000
Cantor & Greensledge	-	23	$0	$317,700,000	20	$3,177,000	$317,700,000	25	$3,177,000
Citigroup	$11,892,860,000	1	$118,928,600	$11,576,072,070	1	$115,760,721	$23,468,932,070	1	$234,689,321
Credit Suisse	$3,970,390,000	6	$39,703,900	$3,709,400,000	8	$37,094,000	$7,679,790,000	6	$76,797,900
Credit Suisse & Mitsubishi	$395,900,000	19	$3,959,000	-	24	$0	$395,900,000	24	$3,959,000
Deutsche Bank	$2,277,220,000	10	$22,772,200	$4,234,254,000	6	$42,342,540	$6,511,474,000	8	$65,114,740
Deutsche Bank & PNC	$513,630,000	15	$5,136,300	-	24	$0	$513,630,000	20	$5,136,300
Goldman Sachs	$2,856,000,000	7	$28,560,000	$3,753,782,000	7	$37,537,820	$6,609,782,000	7	$66,097,820
GreensLedge	$687,700,000	14	$6,877,000	$1,025,750,000	13	$10,257,500	$1,713,450,000	13	$17,134,500
GreensLedge & Natixis	-	23	$0	$195,000,000	22	$1,950,000	$195,000,000	29	$1,950,000
Guggenheim	$320,000,000	20	$3,200,000	$140,000,000	23	$1,400,000	$460,000,000	22	$4,600,000
Jefferies	$1,756,500,000	11	$17,565,000	$2,537,500,000	10	$25,375,000	$4,294,000,000	10	$42,940,000
Jefferies & Mitsubishi	$404,000,000	18	$4,040,000	-	24	$0	$404,000,000	23	$4,040,000
JPMorgan	$5,096,750,000	4	$50,967,500	$4,394,300,000	4	$43,943,000	$9,491,050,000	4	$94,910,500
Lloyds	-	23	$0	$520,000,000	17	$5,200,000	$520,000,000	18	$5,200,000
Mitsubishi & Wells	$509,870,000	16	$5,098,700	-	24	$0	$509,870,000	21	$5,098,700
Morgan Stanley	$5,113,075,000	3	$51,130,750	$7,062,403,400	3	$70,624,034	$12,175,478,400	3	$121,754,784
Natixis	$1,558,000,000	12	$15,580,000	$2,409,419,965	11	$24,094,200	$3,967,419,965	12	$39,674,200
Nomura	$763,500,000	13	$7,635,000	$405,150,000	19	$4,051,500	$1,168,650,000	15	$11,686,500
RBS	$2,709,745,000	8	$27,097,450	$2,685,685,000	9	$26,856,850	$5,395,430,000	9	$53,954,300
Stifel	-	23	$0	$310,000,000	21	$3,100,000	$310,000,000	26	$3,100,000
Stormharbour	-	23	$0	$514,500,000	18	$5,145,000	$514,500,000	19	$5,145,000
UBS	$2,618,000,000	9	$26,180,000	$1,357,300,000	12	$13,573,000	$3,975,300,000	11	$39,753,000
UBS & Mitsubishi	$300,000,000	22	$3,000,000	-	24	$0	$300,000,000	28	$3,000,000
Wells	$4,611,639,000	5	$46,116,390	$4,386,387,000	5	$43,863,870	$8,998,026,000	5	$89,980,260
Wells & BMO	$307,864,000	21	$3,078,640	-	24	$0	$307,864,000	27	$3,078,640
Wells & Mitsubishi	-	23	$0	$655,182,000	16	$6,551,820	$655,182,000	17	$6,551,820
Total	$56,531,393,000		$565,313,930	$62,894,990,435		$628,949,904	$119,426,383,435		$1,194,263,834

V. Discussion of the Cash Flow CLO Market

Discussion of the Cash Flow CLO Market
Summary of Discussion Topics

1. Focus on the proposed Open Market CLO framework as opposed to Balance Sheet CLOs
2. Thoughts on why CLOs work in the sense of protecting the interests of investors
3. Capital structure of CLO 1.0 and CLO 2.0
4. Managers role in of the life cycle of a CLO
5. Discussion of participants involved with the CLO
6. Structural protections from the interest waterfall
7. Structural protections from principal waterfall
8. Cash flows generated by the CLO for the equity/subordinate debt tranche and how this is the primary protection for CLO rated debt

Discussion of the Cash Flow CLO Market

CLO Basics- Why we think that CLOs work

- Syndicated Loans as the collateral base of CLOs represent well understood, sound and transparent collateral as discussed in the previous section of this presentation.
- Collateral selection and reinvestment with in the CLO is actively managed by a SEC Registered Investment Advisor.
- The structural protections of collateral eligibility, quality tests, interest diversion and FUNDED subordination all work together to insulate the CLO debt investor from excessive risk.
- Transparency is a key attribute of CLOs. The collateral is well understood and visible to the market; investor reporting by an independent trustee is performed monthly and quarterly; investor payment date reports and compliance with the waterfall is determined by the Trustee working with the CLO Manager and is reviewed and approved by independent auditing firms under agreed upon procedures.
- Funded Equity is the basis for a CLO structure. During the reinvestment period if subordination tests are not met, the interest waterfall ensures that the equity cushion may be increased if required by diverting interest proceeds from distributions to the equity to instead purchase additional collateral and if that action is insufficient to restore required cushions then interest proceeds are further used to repay the most senior notes (AAA) until the CLO is de-leveraged into subordination compliance. Either action is an infusion of equity into the CLO.
- Alignment of interests of the CLO Manager with the entire capital structure is provided through the structure of the vehicle, the terms of the Collateral Management Agreement and the regulations governing the CLO Manager, a Registered Investment Advisor.
- There is no better example of how durable this structure is than the performance results of the CLO 1.0 funds that operated during the Financial Crisis and survived with virtually no loss to rated notes and cumulative cash flows to the equity note holders averaging over 20% per annum AFTER interest diversion to buy collateral or to redeem senior notes.

Discussion of the Cash Flow CLO Market

Comparison of Cash Flow and Balance Sheet CLO Motivations

	Arbitrage CLO	Balance Sheet CLO
Typical Issuer	Asset Manager	Specialty Finance Company
Purpose	Management Fees Funding Gap	Cheaper Funding Term Financing
Collateral Origination	Issuer Not Involved Manager Purchases in Primary / Secondary	Issuer Involved Issuer Originates
Primary Collateral Type	Broadly Syndicated Loans	Middle Market Loans
Collateral Management	Actively Managed	Static

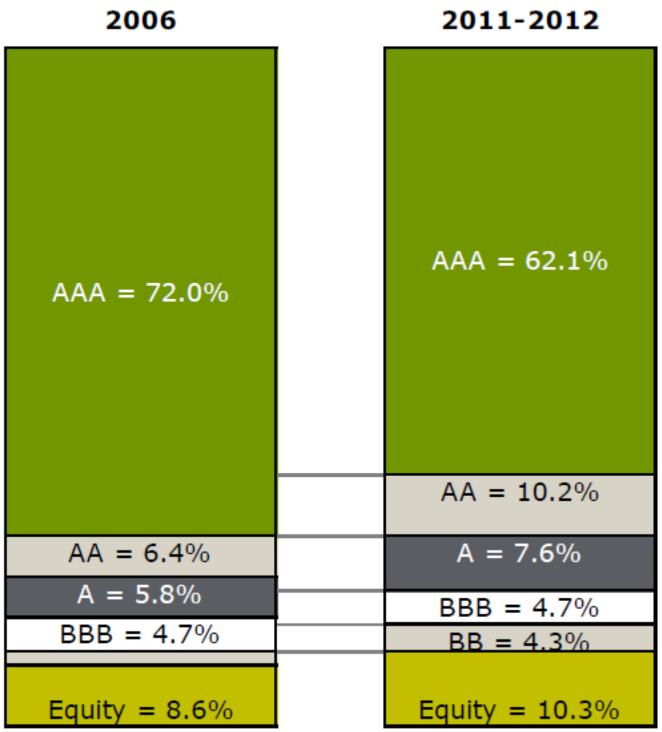
Source: Wells Fargo Securities

- The table above summarizes a number of key differences in motivations between the manager of an Open Market CLO from the manager of a Balance Sheet CLO
- The Open Market CLO Manager operates as a SEC Registered Investment Advisor under an asset management model that is a fee for service business similar to the framework for any other separate account or mutual fund investing in loans
- Institutional investors without direct access to the loan market view CLOs as a pooled interest in loans with term funding
- The Balance Sheet CLO Manager uses CLO technology as a term funding mechanism supporting the origination and distribution of commercial loans or in the case of banks to manage regulatory capital exposures

Discussion of the Cash Flow CLO Market

Capital Structure of CLO 1.0 versus CLO 2.0

- The capital structure of a CLO was based on that of a commercial bank with the AAA tranche reflective of the deposit base, with the equity in the CLO of similar thickness to core equity and the mezzanine tranches of the CLO being the other non-insured borrowings and other funding liabilities of the bank
- Like a bank, the key protection in the structure is funded subordination that provides loss protection to the AAA and AA notes
- The 2006 Capital Structure shown on the left is that of a representative CLO 1.0 transaction
- The 2011-2012 Capital Structure shown on the right is that of a representative CLO 2.0 transaction
- The clear change is the increased equity in the capital structure as well as increased Mezzanine thickness providing additional FUNDED subordination to the AAA and AA securities



Avg. Structure, by Vintage

Source: S&P, Moody's, Creditflux, Intex, Wells Fargo Securities, LLC

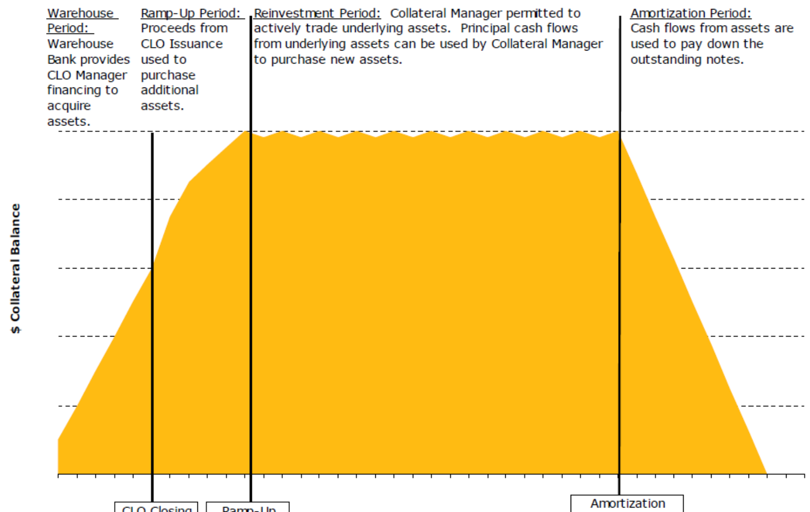
Discussion of the Cash Flow CLO Market
Structural Enhancements of CLO 1.0 versus CLO 2.0

	CLO 1.0 Vintage 2003-2008	CLO 2.0 Vintage 2010 -
Credit Support	Lower	Higher
Excess Spread	Higher	Lower
Coupon	Lower	Higher
Reinvest. Period	5-7 years	3-4 years
Non-Call Period	3-5 years	2 years
CLO Bucket	5-10%	0%
Wt. Avg. Cost of Debt	50-70 bps	170-225 bps
Note Cancellation to Improve OC	N/A	No
Tranche Refinancing	N/A	After Non-call period

Source: Intex, Moody's, S&P, Wells Fargo Securities LLC

- CLO 2.0 also adds structural enhancements in addition to improved capital structure
- In addition to criteria noted in the table above, CLO 2.0 structures will also have:
  - More restrictive collateral requirements
  - More restrictive trading limits
  - More protection to rated note holders with respect to duration

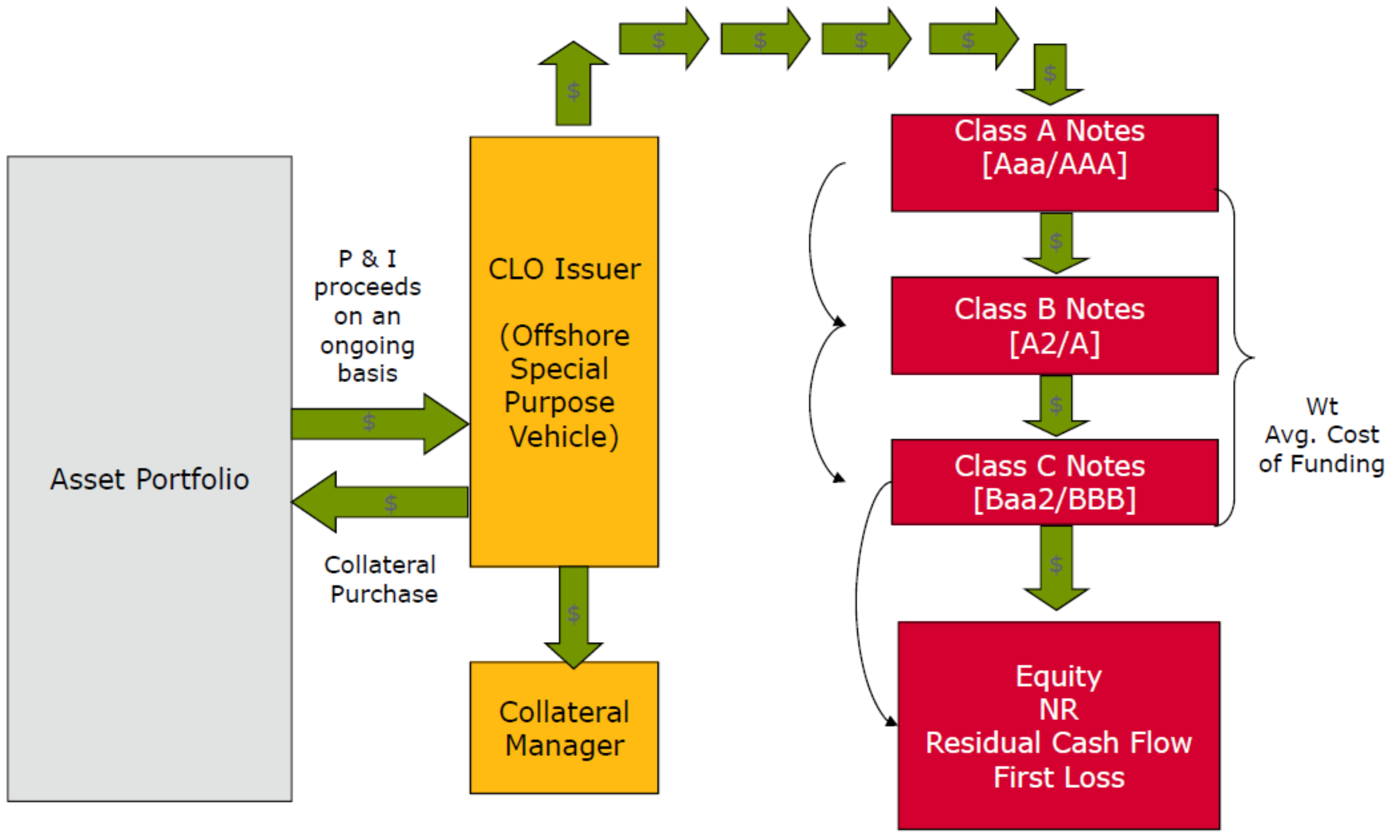
Discussion of the Cash Flow CLO Market
Life Cycle of a CLO



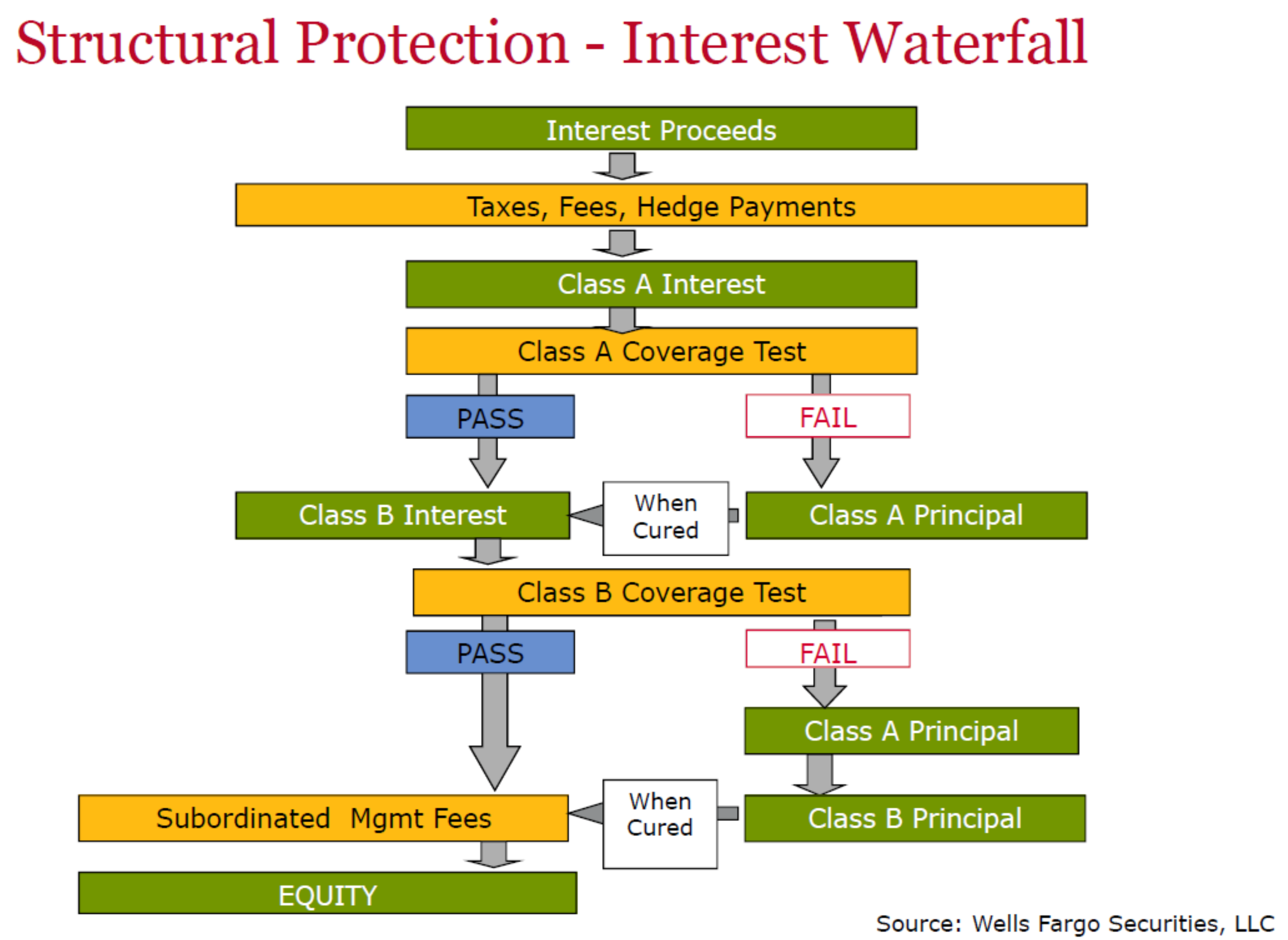
Source: Wells Fargo Securities, LLC

- Warehouse Phase -Today if a warehouse is used, it is typically a TRS line of credit that allows acquisition of collateral in the primary and secondary loan market. Assets selected generally require approval of TRS provider. SPV can be the owner of the collateral. The typical goal is to have 70% of collateral acquired by the CLO closing date. Assets in the SPV are at actual cost to the manager under a SEC best execution standard.
- Closing Date-Date that the CLO is funded by the debt investors.
- Post Close Ramp Up Period -TRS financing is un-wound at the closing date, asset acquisition continues to invest additional cash into eligible collateral.
- Effective Date - Date that all conditions of ramp up of portfolio have been concluded and rating agencies affirm ratings.
- Reinvestment Period - The period wherein interest collections are distributed to debt and equity and principal proceeds are reinvested in collateral by the manager. Please note that no return of capital or principal payments are made to Equity holders during this period.
- Amortization Period - Interest proceeds continue to be distributed to debt and equity holders and principal proceeds are distributed to note holders in order of seniority until fully repaid at which point the residual capital or principal is distributed to the equity or subordinated interests.

Basic Structure



Source: Wells Fargo Securities, LLC



Structural Protection - Interest Waterfall
Interest Proceeds
Taxes, Fees, Hedge Payments
Class A Interest
Class A Coverage Test
PASS
FAIL
Class B Interest
When Cured
Class A Principal
Class B Coverage Test
PASS
FAIL
Class A Principal
Subordinated Mgmt Fees
When Cured
Class B Principal
EQUITY
Source: Wells Fargo Securities, LLC

Discussion of the Cash Flow CLO Market

Sample Actual CLO 1.0 Interest Waterfall

Interest Proceeds for the relevant period include, among other things, the following: interest payments, commitment fees and facility fees received on Collateral Obligations and Eligible Investments; accrued interest in connection with the sale of Collateral Obligations (so long as certain conditions have been satisfied), if so designated by the Collateral Manager; all amendment and waiver fees, late payment fees, securities lending fees, and other fees, if so designated by the Collateral Manager; net payments received pursuant to Hedge Agreements (other than termination payments paid under Hedge Agreements; upfront payments made by a Hedge Counterparty; and Liquidation Proceeds); proceeds from additional issuance of Subordinated Securities and any principal and interest payments on Eligible Investments purchased with Interest Proceeds.

- Pay taxes (if any), and accrued & unpaid fees and expenses and indemnities of service providers, and accrued & unpaid expenses of Issuers up to a cap, and hedge payments other than termination payments
- Pay current then any accrued and unpaid Senior Collateral Management Fee
- Pay interest on Class A Notes
- Pay interest on Class B Notes
- To the extent not paid with Principal Proceeds: Remedy failure of Class A/B Coverage Test(s) by redeeming Class A Notes and Class B Notes sequentially
- Pay interest (then deferred interest) on Class C Notes
- To the extent not paid with Principal Proceeds: Remedy failure of Class C Coverage Test(s) by redeeming Class A Notes, Class B Notes and Class C Notes sequentially
- Pay interest (then deferred interest) on Class D Notes
- To the extent not paid with Principal Proceeds: Remedy failure of Class D Coverage Test(s) by redeeming Class A Notes, Class B Notes, Class C Notes and Class D Notes sequentially
- Pay interest (then deferred interest) on Class E Notes
- If Class E Par Value Test fails: Remedy failure of Class E Par Value Test by redeeming Class E Notes until test is in compliance or Class E Notes have been paid in full
- In case of an Effective Date Ratings Downgrade Event: Pay down principal of the Notes sequentially until paid in full or ratings reinstated
- During the Reinvestment Period, use the amount (up to 50 % of remaining Interest Proceeds) necessary to remedy failure of the Class E Reinvestment Test, to purchase Collateral Obligations
- Pay accrued and unpaid expenses and indemnities of the service providers and the Issuers not paid above
- Pay to interest (then deferred interest) to Senior Subordinated Notes
- Pay Subordinated Collateral Management Fee
- Pay Senior Subordinated Note Principal
- Pay Incentive Collateral Management Fee | Pay Junior Subordinated Notes

Senior Collateral Management Fee is paid in front of all rated debt

Subordinated Collateral Management Fee is paid AFTER all rated debt and Senior Equity

Incentive Collateral Management Fee is paid at the very bottom of the waterfall

* Unscheduled Principal Payments and Sale Proceeds of Credit Improved Obligations and Credit Risk Obligations may be reinvested at the discretion of the Collateral Manager after the Reinvestment Period

Discussion of the Cash Flow CLO Market

Sample Actual CLO 1.0 Principal Waterfall

Principal Proceeds for the relevant period include, among other things, the following: all principal payments on Collateral Obligations and Eligible Investments; any amounts or distributions received on any Defaulted Obligations if the outstanding principal amount thereof has not been received by the Issuer; all premiums including prepayment premiums; unused proceeds from the Offering other than reinvestment income; Sale Proceeds; and net termination payments paid under Hedge Agreements and any upfront payments made by a Hedge Counterparty.

To the extent not paid with Interest Proceeds	Pay taxes (if any), accrued & unpaid fees, expenses and indemnities of service providers, and accrued & unpaid expenses of issuers up to a cap
To the extent not paid with Interest Proceeds	Pay current then any accrued and unpaid Senior Collateral Management Fee
To the extent not paid with Interest Proceeds	Pay interest on Class A Notes
To the extent not paid with Interest Proceeds	Pay interest on Class B Notes
If the Class A/B Coverage Test(s) fail	Remedy failure of Class A/B Coverage Test(s) by redeeming the Class A and Class B Notes sequentially
To the extent not paid with Interest Proceeds	Pay interest (then deferred interest) on Class C Notes
If the Class C Coverage Test(s) fail	Remedy failure of Class C Coverage Test(s) by redeeming the Class A, Class B and Class C Notes sequentially
To the extent not paid with Interest Proceeds	Pay interest (then deferred interest) on Class D Notes
If the Class D Coverage Test(s) fail	Remedy failure of Class D Coverage Test(s) by redeeming the Class A, Class B, Class C and Class D Notes sequentially
To the extent not paid with Interest Proceeds	Pay interest (then deferred interest) on Class E Notes
Upon Effective Date Ratings Downgrade Event to the extent not remedied by Interest Proceeds	Pay down principal of the Notes sequentially until paid in full or ratings reinstated
During Reinvestment Period	Either (a) purchase Collateral Obligations in accordance with Reinvestment Criteria or (b) invest in Eligible Investments pending purchase of Collateral Obligations, or (c) redeem the Notes sequentially if, in the Collateral Manager's judgment, it is impractical or not beneficial to reinvest Principal Proceeds
After Reinvestment Period *	Pay down principal of the Notes sequentially *
To the extent not paid with Interest Proceeds	Pay accrued and unpaid expenses and indemnities of service providers and the Issuers not paid above
To the extent not paid with Interest Proceeds	Pay to interest (then deferred interest) to Senior Subordinated Notes
To the extent not paid with Interest Proceeds	Pay Subordinated Collateral Management Fee
To the extent not paid with Interest Proceeds	Pay Senior Subordinated Note Principal
	Pay Incentive Collateral Management Fee / Pay Junior Subordinated Notes

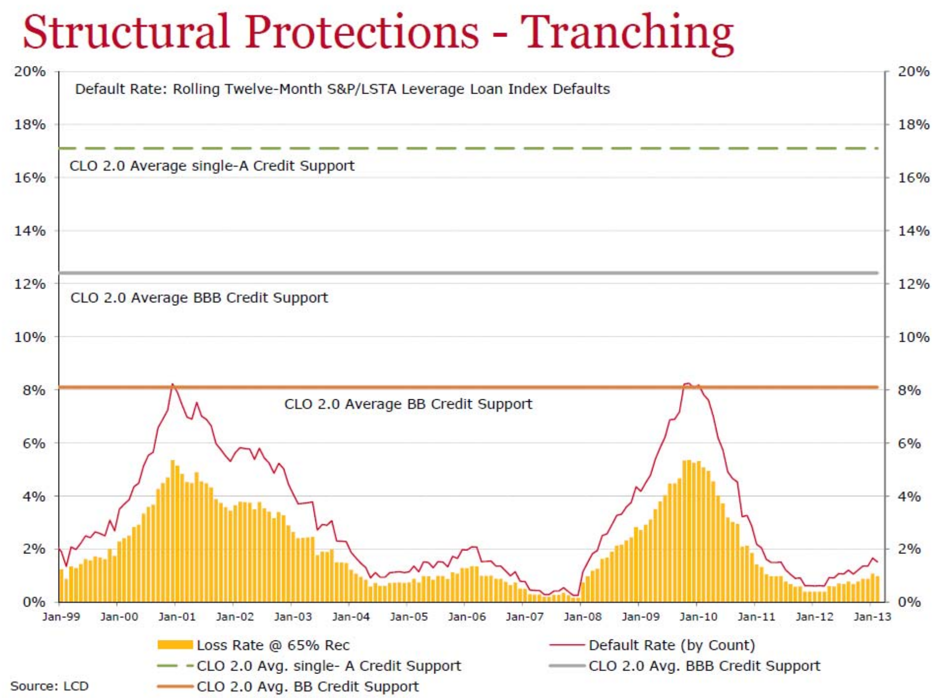
Senior Collateral Management Fees not paid through interest proceeds may be paid through principal proceeds

Subordinate Collateral Management Fees that are not paid through the interest waterfall may be paid through the principal waterfall

Incentive Collateral Management Fees not paid through the interest waterfall are paid through the principal waterfall at the end of the transaction

* Unscheduled Principal Payments and Sale Proceeds of Credit Improved Obligations and Credit Risk Obligations may be reinvested at the discretion of the Collateral Manager after the Reinvestment Period

Discussion of the Cash Flow CLO Market
Structural Protections from Subordination



- This slide demonstrates the structural protections to note holders from realized losses due to defaults.
- The solid line is the actual default rate of loans over a 14-year time line with the bars representing the realized losses from those defaults.
- The horizontal lines suggest the attachment point for BB, BBB and A notes. As can be clearly seen, the rated notes have significant protection from default loss.

Discussion of the Cash Flow CLO Market

Break Even Loss Rates for Rated Debt

Default Rates Required to Cause Break in Principal

	Loan Recovery Rate: 70%		Loan Recovery Rate: 65%	
Class	Annual Default Rate	Cumulative Default Rate	Annual Default Rate	Cumulative Default Rate
Class A Notes	100%	98%	100%	98%
Class B Notes	54%	99%	39%	88%
Class C Notes	28%	79%	23%	70%
Class D Notes	18%	63%	15%	55%
Class E Notes	12%	49%	10%	42%

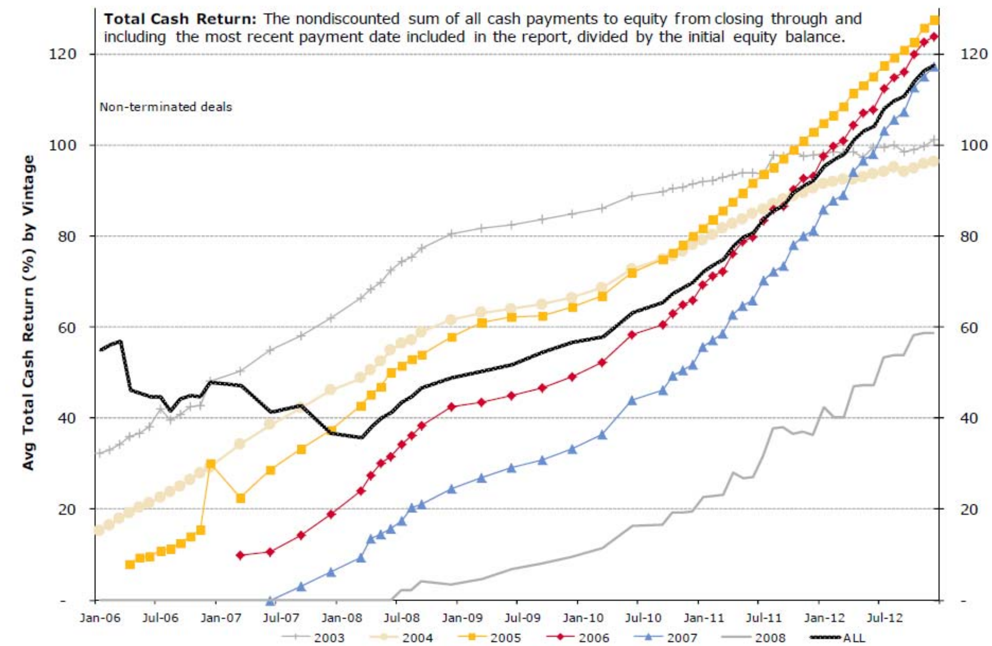
Cumulative Defaults: total amount of defaults over deal life, compared to initial asset par

Taken from representative 2012 CLO
Source: Wells Fargo Securities LLC, Intex

- This table extends the analysis on the prior page to provide data on cumulative losses from defaults.
- The Class notation comports to the securities with Class A=AAA notes, Class B=AA notes; Class C=A notes; Class D=BBB notes and Class E=BB notes.
- As you will note above with recoveries of 65% the structure will survive 10% annual defaults (last row) or a cumulative 42% defaults at the 65% recovery rate before there is one dollar of realized principal loss on the Class E note and so on up the capital structure. At the AAA level, there can be 100% defaults per year or a cumulative rate of 98% and a recovery of 65% before the AAA notes would realize the first dollar of loss.

Discussion of the Cash Flow CLO Market

Historical Total Cash Return of CLOs by Vintage



Source: Moody's Equity Score Report, 3/2013

- The graphs above show the historical cumulative cash flows to the equity tranches by year of origination though YE2012 with the solid line representing the aggregate performance of all outstanding CLOs for the given date.
- At a 12% annual return to equity that is a standard modeled equity base case return, the cash flows provide an additional 133 bps of default loss protection to the rated notes. In other words, the approximately $4.8MM of cash flows that would be trapped in the waterfall under certain conditions is sufficient to offset the expected loss of 35% on an additional $13MM of defaults per annum.
- This cash flow is diverted under the interest waterfall when collateral coverage tests for the rated debt is breached. The primary reason for such diversion is due to so called CCC Haircuts that discount the value of underperforming collateral before default related losses are realized. The CCC Haircuts typically mark to market the lowest value CCC rated assets in the pool and in doing so, recognize impairment before a loss is realized through default or trading activity.

Discussion of the Cash Flow CLO Market

Rating Transition for CLO Notes

Ratings Transition – U.S. BSL and MM CLO Summary

	MOODY'S CURRENT RATING (as of 3/6/2013)							
ORIG	Aaa	Aa2	A2	Baa2	Ba2	B2	Caa2	Ca-C
Aaa	91%	9%	0%	0%	0%	0%	0%	0%
Aa2	28%	58%	12%	1%	0%	0%	0%	0%
A2	13%	15%	44%	25%	3%	0%	0%	0%
Baa2	0%	3%	10%	36%	47%	3%	1%	0%
Ba2	0%	0%	2%	4%	64%	22%	4%	3%

	S&P CURRENT RATING (as of 3/6/2013)							
ORIG	AAA	AA	A	BBB	BB	B	CCC	CC
AAA	55%	43%	1%	0%	0%	0%	0%	0%
AA	12%	77%	10%	1%	1%	0%	0%	0%
A	5%	12%	68%	12%	1%	1%	0%	0%
BBB	0%	1%	4%	66%	17%	7%	4%	0%
BB	0%	0%	1%	3%	59%	24%	13%	1%

U.S. CLOs currently outstanding, per Intex

Source: Bloomberg, S&P, Moody's, Wells Fargo Securities, LLC

- This table summarizes ratings transition from original rating to current rating
- The table does not address rating volatility by time during and after the financial crisis
- Ratings reflect both collateral and fund performance but also the impact on rating agency methods affecting the rating methodology for both the collateral as well as the CLO securities

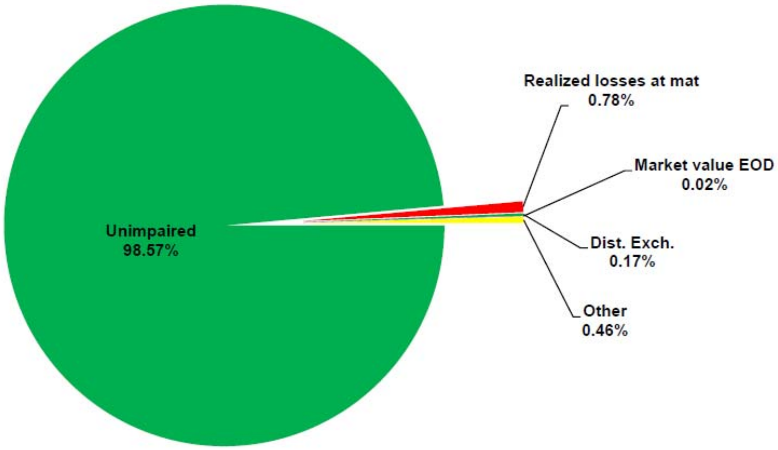
Discussion of the Cash Flow CLO Market

Historical Impairment Rate from 1996 to 2012

- The single most important matter affecting investor perception of the structured product market is the occurrence of a realized loss on a debt investment
- As can be seen in the chart prepared by the LSTA with data from Moody's shows that realized losses for the past 16 years has been nearly non-existent
- This performance record covers three phases of CLO technology development and three credit cycles including the most severe and prolonged downturn since you know when
- Why? Collateral; Structure; Cash Subordination; Transparency; Active Collateral Management

Performance: CLO note impairments have been all but non-existent

Cumulative impairment rate from Jan 1996 to May 2012



Source: Moody's Investors Service

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VI. Discussion of the Proposed Risk Retention Rules for Open Market CLOs

Discussion of Proposed Risk Retention Rules for Open Market CLOs

- What are the financial incentives of each party?
  - CLO Manager
  - Arranger/Agent Banks
  - CLO Arranger
- Comments on Proposed Risk Retention Alternatives:
  - CLO Manager Holding Horizontal or Vertical Risk Retention
  - "Open Market CLO" Option
  - Qualifying Commercial Loan Exemption
- What is "right" about the CLO model?
  - Funded Equity
  - Transparent Underlying Collateral
  - Registered Investment Advisor with fiduciary duty to the CLO debt investors and equity holders
  - Structural Protections of Rated Note holders
  - Governance protection for equity holders

Discussion of Proposed Risk Retention Rules for Open Market CLOs
Financial Aspects of CLO Underwriting and Management

- CLO Manager Fees:
  - Warehouse Management Fees
  - Structuring Fees
  - Collateral Management Fees
    - Senior Management Fee historically of 10-20bps per annum based on notional par of collateral
    - Subordinated Management Fee historically of 15-40bps per annum based on notional par of collateral
    - Incentive fee that typically is 20% of interest or principal cash flows over a base IRR return amount
  - Managers typically are NOT paid a fee to transfer assets and typically do not sell assets between funds
  - In the current market, running fees are in a range of 20 to 50bps annually and the base return amount is set at 12% for the start of the incentive fee
- Arranger/Syndicate Banks Fees:
  - Syndication fees of 1% to 5% of the face amount of the loan debt raised
  - Agent Bank fees for ongoing administration of the syndicated credit including assignment fees
  - Loan Trading spread for agented transactions
  - Warehousing income through fees, interest carry (if leverage is provided to warehouse) and trading income
- CLO Underwriter Fees
  - Warehouse spread income if risk is retained by underwriter
  - Underwriting Fees for CLO Debt and Equity Securities range from 70 to 150bps
  - CLO Security Trading

Discussion of Proposed Risk Retention Rules for Open Market CLOs
Comments on Risk Retention Held by the Manager

- Through out the risk retention matrix of securitization vehicles the key element considered by the proposed risk retention rules is an originate to distribute model (sometimes called the "moving" business).
- The amount of risk retention contemplated in the proposed rules is proportionate to the amount of fees generated by the origination activities that represent upfront payments, primarily from the asset transfer price into the CLO from the originator. Risk retention attempts to align the interest of the originator paid with upfront fees and no residual risk of this activity with that of the long term investor (sometimes called the "storage" business).
- The CLO business is based on sophisticated institutional investors outsourcing the management of a specialized asset class to knowledgeable SEC Registered Investment Advisors that are fiduciaries to the advised investors. The business model is based on fee for service that is an advisory business as opposed to an originate to distribute or a principal finance based model. Inherent in this model is an asset light balance sheet as the capital that is managed is generally from a third party. The model is based on a very small fee against large asset balances.
- The risk retention proposal does not consider that the vast majority of managers with this business model simply do not have the capital base OR the ability to raise capital of this magnitude at the CLO Manager level given the fee stream earned in this model. As noted previously and in the following slide, a 5% required risk retention represents at least 10 years of full fee gross earnings of a CLO manager before expenses and taxes. A very efficient asset manager has direct costs of more than 50% for people and overhead to provide their service (and small managers may have costs approaching 90%) due to the inefficient nature of the loan asset class. It is clear that obtaining the financing for debt or equity cannot be supported with the implied EBITDA leverage of more than 20X. In addition it would not be feasible for such a CLO Manger to be accepted as counterparty for a loan or repo facility to finance a vertical strip and it is unlikely that the horizontal strip will not have a sufficient current yield to attract investment capital.

Discussion of Proposed Risk Retention Rules for Open Market CLOs

Comments on Risk Retention Held by the Manager

- The current proposal does not seem to consider the cost of capital or the returns available on the required risk retention. As proposed, the yield on the retained risk would yield less to the investor than a proportionate whole loan portfolio invested in identical assets. As unlevered loans yield about 4 to 5%, the total yield on the vertical risk retention would be less as no payments to the equity representing the excess spread could be made until the end of the life of the CLO. In the case of a horizontal risk retention holding, there would be no return to the holder until the liquidation of the CLO.
- The risk retention proposal requires that the capital at risk be the CLO Managers capital or that of a majority owned subsidiary of the CLO Manager. Again, this suggests that either the CLO Manager raise principal capital for the manager entity or be acquired by an entity that is able to meet the risk retention requirements. The asset management business is based on independent managers providing investment advice to advised investors on a fee for service basis and the proposed rules do not accept this industry wide structure that serves trillions of investor dollars in the mutual fund market as well as the CLO market.
- The credit risk of loans is determined by the underwriters of the loans not the CLO Manager. Risk retention requirements should focus on the party that controls the risk.

Discussion of Proposed Risk Retention Rules for Open Market CLOs

Comments on Risk Retention Held by the Manager

- Besides the business model issue, there are other matters that need to be considered with the proposed risk retention that include-
  - Financial consolidation of the CLO by the CLO Manager is likely under either the vertical and particularly the horizontal option, as clearly the CLO Manager will be the primary beneficiary of most CLOs.
  - As drafted, risk retention must be satisfied at the CLO Manager level or it's majority owned affiliate so an advised fund or investor will not qualify (as has been adopted by the EU recently) and therefore, the likely way this condition is satisfied is that the CLO Manager is owned by the fund or investor.
  - However because of consolidation rules, as noted above, the loans and related liabilities could be grossed up on the balance sheet of the fund or investor. This could be problematic for 1940 Act funds as owner of the CLO Manager due to leverage limitations of such funds including BDCs. In addition, we question the wisdom of 1940 Act funds taking on the operating risks associated with owning CLO Managers exposing investors accustomed to passive funds, insulated from these sorts of operating risks.
  - Income tax treatment of the retained interest would likely create phantom income for the CLO Manager requiring the payment of taxes in cash on the undistributed cash flows. So besides no current income flowing to the first loss tranche held by the CLO Manager, the CLO Manager would have additional cash outflows to pay cash taxes further diluting earnings. This is particularly an issue under horizontal retention.
  - Fair value requirement for computing the amount of risk retention is very complicated with the actual notional amount of securities held by the party responsible for holding the risk retention higher than the 5% level contemplated in the proposed regulations. The tax issue noted above adds to both the complexity of the calculations and the actual percentage of the risk held by the CLO Manager. This situation creates great uncertainty with respect to determining if an Securitizer is compliant with the proposed rules.

Discussion of Proposed Risk Retention Rules for Open Market CLOs
Risk Retention Held by Manager

25 LARGEST CLO MANAGERS BY OUTSTANDING RATED NOTES as of 3Q2013

Rank	Manager	Current Outstanding Rated Note Balances	Deal Count	Average CLO Size	Estimated 5% Risk Retention Capital Required	Estimated Gross Annual Earnings from CLO Funds
1	Highland Capital Management	$11,089,681,696	18	$616,093,428	$554,484,085	$55,448,408
2	Ares Management	$10,978,564,800	26	$422,252,492	$548,928,240	$54,892,824
3	Credit Suisse Asset Management	$9,943,765,847	25	$397,750,634	$497,188,292	$49,718,829
4	GSO/Blackstone Debt Funds Management	$9,775,030,588	27	$362,038,170	$488,751,529	$48,875,153
5	Apollo Credit Management	$8,925,699,138	23	$388,073,876	$446,284,957	$44,628,496
6	CIFC Asset Management	$7,903,198,814	25	$316,127,953	$395,159,941	$39,515,994
7	Carlyle Investment Management	$7,772,880,776	22	$353,312,763	$388,644,039	$38,864,404
8	Babson Capital	$6,578,687,208	21	$313,270,819	$328,934,360	$32,893,436
9	ING Capital Advisors	$5,920,741,839	14	$422,910,131	$296,037,092	$29,603,709
10	KKR Financial Advisors II	$5,649,642,957	6	$941,607,160	$282,482,148	$28,248,215
11	MJX Asset Management	$5,168,238,820	11	$469,839,893	$258,411,941	$25,841,194
12	Prudential Investment Management	$4,774,405,237	11	$434,036,840	$238,720,262	$23,872,026
13	CVC Credit Partners	$4,744,510,559	15	$316,300,704	$237,225,528	$23,722,553
14	Symphony Asset Management	$4,744,208,200	10	$474,420,820	$237,210,410	$23,721,041
15	LCM Asset Management	$4,452,920,429	13	$342,532,341	$222,646,021	$22,264,602
16	Invesco	$4,260,784,908	13	$327,752,685	$213,039,245	$21,303,925
17	Guggenheim Investment Management	$4,027,896,010	6	$671,316,002	$201,394,801	$20,139,480
18	PineBridge Investments	$4,006,879,686	14	$286,205,692	$200,343,984	$20,034,398
19	GoldenTree Asset Management	$3,982,350,000	6	$663,725,000	$199,117,500	$19,911,750
20	Alcentra	$3,973,266,932	14	$283,804,781	$198,663,347	$19,866,335
21	Golub Capital Incorporated	$3,937,060,638	11	$357,914,603	$196,853,032	$19,685,303
22	RiverSource Investments	$3,828,140,983	8	$478,517,623	$191,407,049	$19,140,705
23	Octagon Credit Investors	$3,659,780,329	9	$406,642,259	$182,989,016	$18,298,902
24	Oak Hill Advisors	$3,602,999,912	7	$514,714,273	$180,149,996	$18,015,000
	Total for Top 25 Managers	$143,701,336,309			$7,185,066,815	$718,506,682
	Total for Remaining 146 Managers	$128,088,095,972			$6,404,404,799	$640,440,480
	Grand Total	$271,789,432,281			$13,589,471,614	$1,358,947,161

Discussion of Proposed Risk Retention Rules for Open Market CLOs

Comments on Open Market CLO Option

- The Open Market Concept has merit in that at least there is an acknowledgement of the differences between CLO funds, manager structure and ability of CLO Managers to fund the proposed risk retention.
- Provisions that generally work, are consistent with market practice or could work include:
  - Removing the requirement that the CLO Manager be responsible for risk retention
  - Loan acquisition in the open market, either secondary or primary
  - Less than 50 percent of assets originated by affiliates (could be 0% for most managers)
  - Restriction on ABS assets
- Provisions that need reconsideration
  - Restrictions on collateral being limited to 100% CLO Eligible Loan Tranches
  - Shifting risk retention to Syndicate Banks and Loan Underwriters
- Comments
  - CLO Eligible Loan Tranches do not presently exist in the market today. If this notion were feasible and acceptable to underwriters, borrowers and investors, there would need to be a multi-year phase in process to assure sufficient qualifying collateral in the market place to provide appropriate diversity to construct a portfolio.
  - This suggestion is likely to suffer push back from Syndicate Underwriters due to additional costs of administration and more important, the fact that the proposed risk retention for underwriters of CLO Eligible Loan Tranches conflicts with risk management practices of commercial banks as encouraged to date by the relevant regulators.
  - With the additional risks and costs, Syndicate Underwriters may simply refuse to create such tranches syndicating loans to alternative buyers or alternative leverage structures such as TRS funded leverage.

Discussion of Proposed Risk Retention Rules for Open Market CLOs

Comments on Open Market CLO Option

- Comments continued-
  - Borrowers and particularly private equity sponsors may not accept the structure due to additional restrictions of the loan as well as the potential for higher borrowing costs.
  - CLO equity investors may not find this an attractive notion due to the uncertainty of the continued availability of qualifying collateral through out the reinvestment period.
- Recommendations for Consideration
  - Bifurcate the universe of CLO managers between large and small institutions applying a lower standard of regulatory compliance for smaller managers than larger managers as has been the case for smaller mortgage brokers and for smaller banking institutions.
  - Allow options for risk retention to include advised funds/investors of SEC Registered Investment Advisors keeping with the long standing practices of the investment fund industry. Managers may be more likely to successfully raise funds of risk capital that accept the limits of risk retention than raising actual funding into the management company itself. Funded equity is the best protection for debt investors regardless of who provides that capital.
  - Consider alternative waterfall schemes that maintain funded equity cushions in CLOs ensuring that realized losses will be funded from earnings. Key to this notion would be the need to allow for an allowance for credit losses within the vehicle that does not create phantom taxable income for equity investors.
  - Consider the fact that Underwriting Syndicate Banks; CLO Investors and Borrowers may be unwilling to accept the costs and risks of a CLO Eligible Loan Tranche making the concept infeasible.
  - Consider that “standard” collateral eligibility rules for Open Market CLOs could be fashioned that reflect market practices and still can limit risk of the loan pools. Many of these loans are SNC rated and perhaps this is another existing standard that could provide some guidance for crafting eligibility standards.

Discussion of Proposed Risk Retention Rules for Open Market CLOs

Comments on Qualifying Commercial Loan Exemption

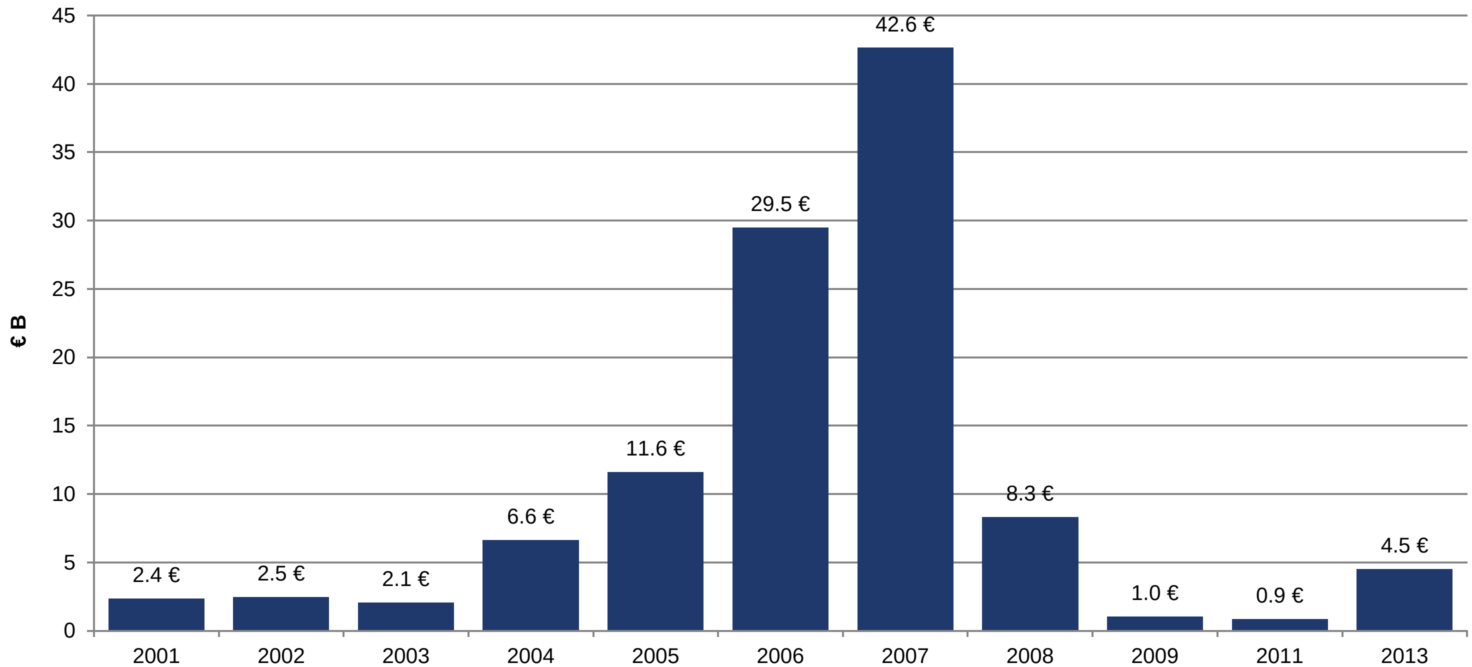
- The Qualifying Commercial Loan Exemption concept does not seem to recognize the credit market demand served by current cash flow CLOs. CLOs are lenders to non-investment grade borrowers while this proposal suggests the securitization of investment grade credit.
- This is not a feasible concept for current CLOs as the economics of the CLO liability structure is greater than the interest rate on the underlying loan pool.
- In addition, the complexity of the compliance rules suggested in the draft proposal make an already economically challenged structure less compelling due to compliance related costs.
- Perhaps the intention is yet a third category of CLOs that is provided to assist bank originators to create balance sheet, investment grade CLO's without cash funded risk retention. However, if that is the case the concept has not been recognized by the market as such.

VII. Concluding Remarks

Concluding Remarks

- What is the risk to the market place of risk retention requirement as proposed?
  - Impact on European Market due to 122A is a proxy for the potential impact of these proposals on the US CLO market
  - Maturity Profile of US CLO Funds
  - Maturity profile of underlying loans and refinancing risk to corporate borrowers causing increased defaults and business failures
  - Increased cost of credit
  - Fewer managers and loan funds
  - Interplay with FDIC assessment and impact on reducing available credit in the leveraged loan market

Concluding Remarks
European CLO Issuance Post 122A

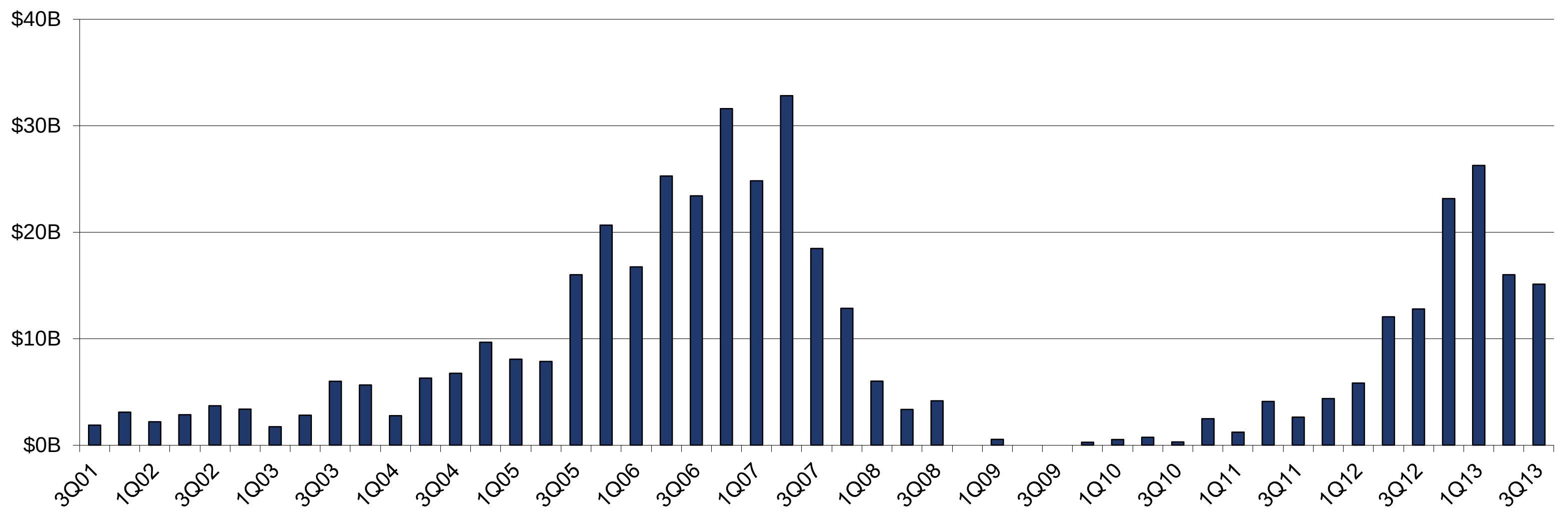


Source: Intex

- The European CLO market began to reemerge in 2013 from total shut down in 2010 and 2012
- The concept of Aligned Interest for non-bank affiliated asset managers was allowed in early 2013 only to be set aside again resulting in a complete shut down of the market

Concluding Remarks

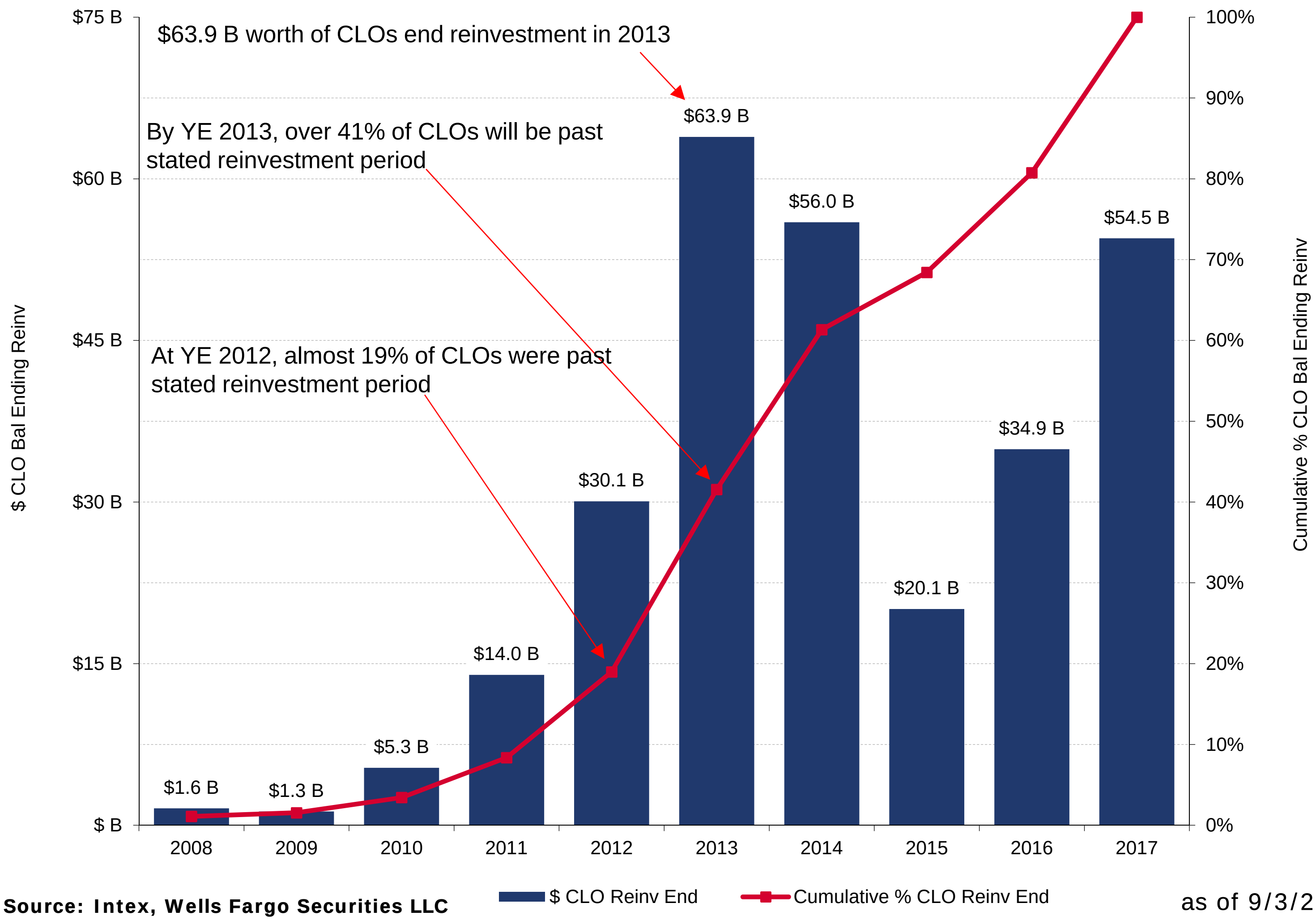
US CLO Issuance by Quarter



- The US CLO market started a broad recovery in reissuance in 2Q2012 through 1Q2013
- The decline in issuance in 2Q2013 and 3Q2013 is a direct result of the FDIC assessment rules that effectively removed mid sized banks from the AAA market
- With the change in regulations there was clearly a pull forward of CLO issuance for those managers with market access
- The result was to both decrease available AAA funding and to increase the cost of AAA funds from the 118bps range to 140+bps today
- The peak in fund inflow also contributed to a reduction in loan spreads and increased re-pricing activity in the loan market further impacting additional CLO issuance because of the reduction in equity returns

Source: S&P Leverage Commentary and Data Research

Concluding Remarks
Maturity Wall of CLO Funds

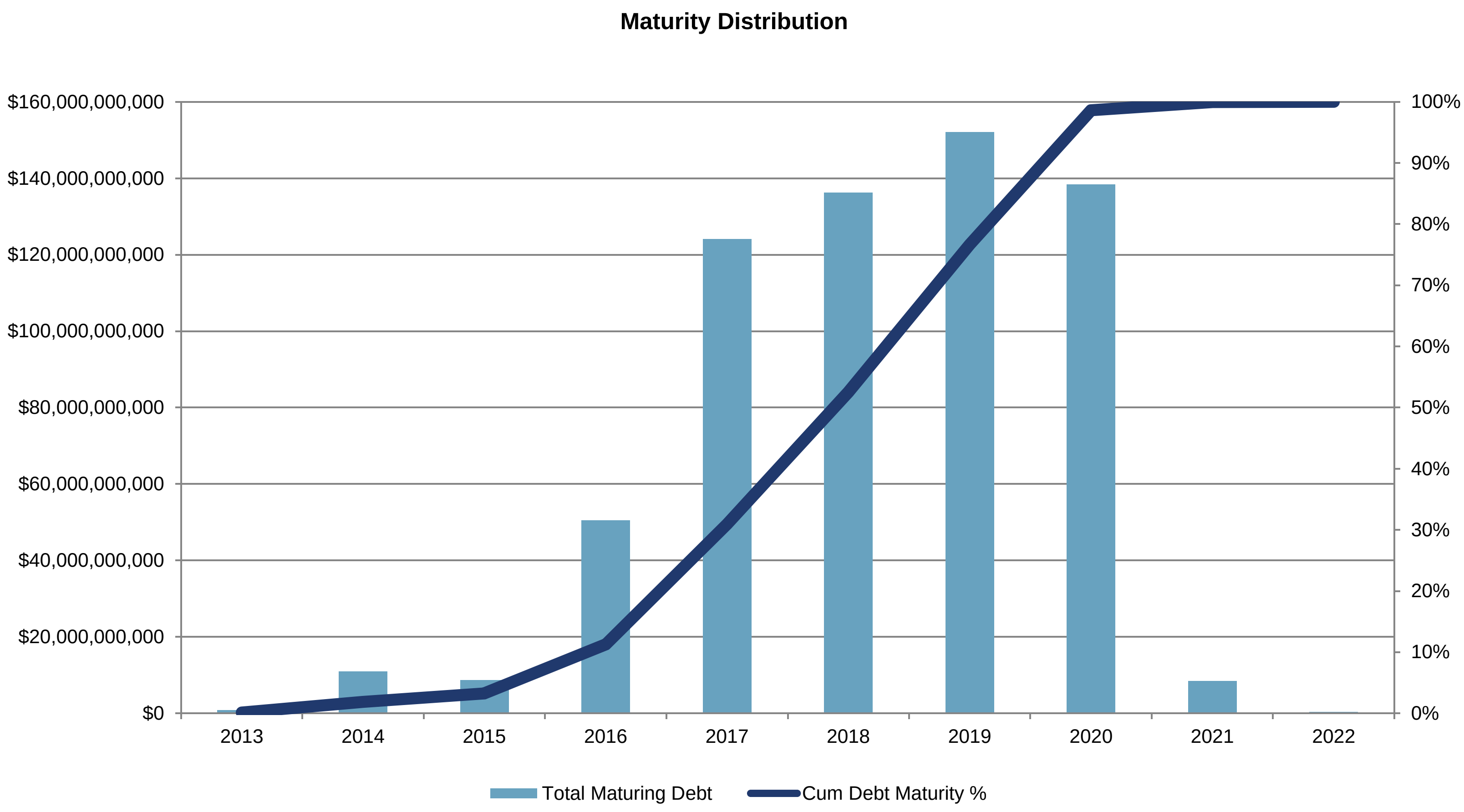


Source: Intex, Wells Fargo Securities LLC

as of 9/3/2013

Concluding Remarks

Maturity Distribution of US Leveraged Loans at 3Q2013



Source: S&P Leverage Commentary and Data Research

Concluding Remarks

Estimated Refinancing Risk of US Leveraged Loans

Maturity Year	Total Maturing Debt	HF	Prime/Loan fund	CLO	Total HF, Prime/Loan fund and CLO share	Maturing Debt at risk if CLO market reduces by x% due to risk retention		
		7%	26%	47%	80%	25%	50%	75%
2013	$ 801,542,954	56,108,007	211,607,340	375,122,103	642,837,449	93,780,525.64	187,561,051.27	281,341,576.91
2014	$ 10,961,359,676	767,295,177	2,893,798,954	5,129,916,328	8,791,010,460	1,282,479,082.10	2,564,958,164.19	3,847,437,246.29
2015	$ 8,627,256,683	603,907,968	2,277,595,764	4,037,556,128	6,919,059,860	1,009,389,031.88	2,018,778,063.76	3,028,167,095.64
2016	$ 50,519,727,477	3,536,380,923	13,337,208,054	23,643,232,459	40,516,821,436	5,910,808,114.76	11,821,616,229.53	17,732,424,344.29
2017	$124,023,334,996	8,681,633,450	32,742,160,439	58,042,920,778	99,466,714,667	14,510,730,194.51	29,021,460,389.01	43,532,190,583.52
2018	$136,205,390,538	9,534,377,338	35,958,223,102	63,744,122,772	109,236,723,211	15,936,030,692.92	31,872,061,385.85	47,808,092,078.77
2019	$151,994,422,528	10,639,609,577	40,126,527,547	71,133,389,743	121,899,526,867	17,783,347,435.75	35,566,694,871.50	53,350,042,307.25
2020	$138,401,388,392	9,688,097,187	36,537,966,535	64,771,849,767	110,997,913,490	16,192,962,441.81	32,385,924,883.62	48,578,887,325.43
2021	$ 8,409,462,500	588,662,375	2,220,098,100	3,935,628,450	6,744,388,925	983,907,112.50	1,967,814,225.00	2,951,721,337.50
2022	$ 300,000,000	21,000,000	79,200,000	140,400,000	240,600,000	35,100,000.00	70,200,000.00	105,300,000.00
	$630,243,885,742	$44,117,072,002	$166,384,385,836	$294,954,138,527	$505,455,596,365	$73,738,534,632	$147,477,069,264	$221,215,603,896

Non-Investment Grade Market Size as of 3Q2013		$639,700,000,000	Increase in non-CLO investors holdings needed to accommodate estimated CLO market reductions		
			25%	50%	75%
Investors:					
HF	7%	$44,779,000,000	165%	329%	494%
Prime/Loan fund	26%	$168,880,800,000	44%	87%	131%
CLO	47%	$299,379,600,000			
Subtotal	80%	$513,039,400,000			
Others	20%	$126,660,600,000	58%	116%	175%
Total	100%	$639,700,000,000			

$73,738,534,632 / $44,779,000000

Source: S&P Leverage Commentary and Data Research

Concluding Remarks

Options for Risk Retention should consider

- The “model” for CLO securitization should not be the RMBS or CMBS mortgage market
- That the CLO structure is sound; the collateral is known, understood and transparent and the alignment of interest is clear between Manager and Investors
- Economically feasible risk retention options
- Risk retention that recognizes the presence and operating structure of the SEC regulated investment management industry
- Risk Retention that is Proportional to economic incentives and risk creation
- Must allow for the continued efficient funding of business with non-investment grade rated credit ratings

VIII. Questions and Answers

IX. Tall Tree Investment Management, LLC, Team Biographies and Background Data

William D. Lenga

Mr. Lenga is the Managing Partner and Senior Portfolio Manager of TTIM. Mr. Lenga is responsible for all portfolio risk management, credit, structuring and trading functions. Prior to joining TTIM in June 2005, Mr. Lenga was employed by Morgan Stanley Investment Management Inc (MSIM) since July 1999 as an Executive Director in the Senior Loan Group (the group) where he was the portfolio manager responsible for the Van Kampen CLO I Ltd and Van Kampen CLO II Ltd. and several institutional separate accounts. Mr. Lenga also contributed to the workout of the group's distressed investments and the development of the group credit and trading processes. Mr. Lenga was also responsible for the group's institutional separate account business and implemented a successful asset gathering program. Prior to joining MSIM, Mr. Lenga was employed by Sanwa Business Credit Corp from 1984 to 1999 where his responsibilities included co-founding the firm's distressed trading group, managing, restructuring and disposition of the firms distressed assets and developing new business within the project finance, middle market and the leveraged and full equity tax oriented business segments. Mr. Lenga began his career at in 1981 at Continental Illinois National Bank and Trust Co. where he was a senior auditor. Mr. Lenga is a graduate of Northern Illinois University with a B.S. in Accountancy and Finance.

Frank Sherrod

Mr. Sherrod is the Chief Operating Officer and is primarily responsible for all non-credit related activities. Mr. Sherrod is also responsible for assisting in the negotiation and structuring of the funds managed by TTIM and for directing TTIM's loan operations and investor relations functions. In addition, Mr. Sherrod if the Chief Compliance Officer for the firm. Prior to joining TTIM in July, 2005, Mr. Sherrod was a Vice President in the Senior Loan Group at MSIM where he was responsible for negotiating, structuring and managing operational support and investor relations/reporting for the liquidity and leverage lines of credit and AAA rated preferred share offerings of the senior loan funds and the institutional separate accounts managed by the group. Mr. Sherrod also directed the group's loan operations and technology functions. Prior to joining MSIM in 2000, Mr. Sherrod was a Vice President at Fleet Capital Leasing (fka Sanwa Business Credit Corp). During his tenure at Fleet, Mr. Sherrod held management roles within the internal audit, loan operations, credit risk management/portfolio reporting and information technology functions. Prior to joining Fleet in 1988, Mr. Sherrod began his career at Continental Bank in 1984 as an internal auditor. Mr. Sherrod is a graduate of DePaul University with a B.S. in Accountancy and is a member of the American Institute of Certified Public Accountants and the Illinois CPA Society.

Michael Starshak, Jr.

Mr. Starshak is a portfolio manager and senior analyst at TTIM responsible for following industries: the broadcasting & entertainment-cinema, farming & agriculture, food & beverage, restaurants, healthcare and select retail. Prior to joining TTIM in July, 2005, Mr. Starshak was a Senior Analyst in the Senior Loan Group of MSIM where he was responsible for following the healthcare, pharmaceuticals, gaming, lodging, and leisure industries. Mr. Starshak also spent four years in the distressed and workout area at MSIM. Prior to joining MSIM in 1998, Mr. Starshak was a Product Manager at Labelmaster which he joined in 1989. Mr. Starshak is a graduate of Loras College with a B.A. in Marketing and a Minor in Classical Studies and has a MBA in Finance and International Business from Dominican University.

Douglas Winchell

Mr. Winchell is a portfolio manager and senior analyst at TTIM responsible for following industries: building materials/real estate, chemicals, containers/packaging, natural resources, ecological, electronics, finance, mining/steel, oil & gas and utilities. Prior to joining TTIM in July 2005, Mr. Winchell was a Vice President and Associate Portfolio Manager in the Senior Loan Group of MSIM where his responsibilities included following the building/real estate, containers/packaging, ecological and technology industries and evaluating distressed debt opportunities. Prior to joining the Senior Loan Group in 1999, Mr. Winchell was a Vice President in the high yield municipal and corporate bonds group. Prior to joining Van Kampen 1991, Mr. Winchell was employed by Fuji Bank where he established their Real Estate Group that lead, syndicated and participated in of high quality real estate and project finance transactions. Prior to joining Fuji Bank in 1986, Mr. Winchell started his banking career with First Chicago's construction lending group in 1983. Mr. Winchell received his BS in Management from University of Illinois and MBA in Management Information Systems from Dominican University. While at MSIM he held Series 7, 63 and 65 licenses.

Brian Buscher

Mr. Buscher is the operations manager responsible for the daily portfolio administration and operations, is the risk manager and portfolio analyst at TTIM, and is also responsible for portfolio compliance, risk management and analytics. Mr. Buscher is also responsible for following the gaming, leisure, lodging and structured finance industries. Prior to joining TTIM in July, 2005, Mr. Buscher was a Vice President at MSIM responsible for managing the loan operations functions supporting the loan funds managed by the Senior Loan Group of MSIM. Prior to joining MSIM in 1998, Mr. Buscher was a manager in the sales support areas of Kemper Investments, Inc. Prior to joining Kemper in 1996, Mr. Buscher was a Unit Manager and Sales support Representative at Van Kampen since 1993. He holds a B.A. in Business from Augustana College and when at MSIM he held Series 6, 26, and 63 licenses.

Blaine Reed

Mr. Reed is the secondary market analyst and trader at TTIM and is also an analyst responsible for following the broadcasting, diversified conglomerate-manufacturing, grocery and consumer products industries. Prior to joining TTIM in July 2005, Mr. Reed was Senior Associate of the Senior Loan Group of MSIM where he was responsible for providing secondary market analysis and trading for all MSIM Senior Loan Group Funds (except for the Morgan Stanley Prime Income Trust) since early 2002. Prior to managing the loan trading function, Mr. Reed was responsible for investing fund cash into short-term investment securities. Prior to joining the Senior Loan Group in 1998, he worked in various operational and service capacities for MSIM having originally joined the firm in 1996. Mr. Reed received a B.S. in Economics from the University of Houston. While at MSIM he held Series 6, 7, and 63 licenses. Mr. Reed is a Chartered Financial Analyst.

Zara Tan

Ms. Tan is responsible for supporting operations, marketing, investor relations, IT support and providing general office needs at TTIM. Prior to joining TTIM in July 2005, Ms. Tan was a Presentation Coordinator within the Senior Loan Group of MSIM. Prior to joining MSIM in 1999, Ms. Tan was a technical writer and administrative assistant at Bishop Engineering from 1994. Ms. Tan holds an A.A. in Legal Office Administration from Heald College as well as an A.A. in Pre-Dentistry from Centro Escolar University, Manila.

Ernie Hodge

Mr. Hodge is a portfolio manager and senior analyst at TTIM responsible for following industries: automotive, diversified manufacturing, and select retail. Prior to joining TTIM in June 2009, Mr. Hodge was a Vice President in the Morgan Stanley Investment Management (MSIM) Senior Loan Group. During his MSIM tenure, Mr. Hodge covered the printing and publishing, surface and personal transportation, diversified manufacturing and oil and gas industries. His responsibilities encompassed credit analysis, financial modeling, workouts and steering committee participation. In addition, Mr. Hodge was the liaison for the group's London office. Prior joining the Senior Loan Group in 1999, Mr. Hodge served as the Head of the Transportation Group at Credit Agricole Indosuez. Prior to that role he was a branch manager of the Chicago branch of National Westminster Bank as well as Head of Corporate and Lending Services of the Chicago and San Francisco branches. Mr. Hodge began his banking career at Continental Illinois National Bank. For a number of years he also served as a section leader at the Graduate School of Banking at the University of Wisconsin. Mr. Hodge received a BA from Westminster College and an MBA from the University of Kansas.

Greg White

Mr. White is a portfolio manager and senior analyst at TTIM responsible for the following industries: aerospace/defense, broadcasting (stressed/distressed), insurance, telecommunications, and transportation. With over 16 years of experience in investing and the last 10 years dedicated to the high yield asset class, Mr. White has invested through various economic and market cycles. Prior to joining TTIM, Mr. White was a Vice President in Morgan Stanley Investment Management's (MSIM) Senior Loan Group (SLG). During this period, Mr. White covered the broadcasting, chemical, technology, and telecommunications industries. These responsibilities encompassed a range of credit quality including significant experience in the stressed and distressed market. As the group's primary point person within these industry classifications, Mr. White represented SLG's interest on a number of steering committees driving results via out-of-court restructurings, Chapter 11 proceedings, 363 sales, and Chapter 7 proceedings, as well as secondary market activity. Prior to joining the SLG, Mr. White also served in several investment roles of increasing responsibility in the fixed income group covering the airport, general obligation, industrial revenue, transportation, and utility segments. Mr. White is a graduate of Northwestern University's Kellogg Business School of Management with an MBA in Finance and Illinois State University with a BS in Finance. He is a Chartered Financial Analyst and held the Series 7, 63, and 65 licenses while at MSIM.

X. Contact Information

Contact Information

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