Loyola University Chicago; Panel Presentation - April 1, 2008

William Blair & Company®

Christopher T. Vincent, CFA
Principal, Head of Fixed Income
Investment Management

(312) 364-8153
cvincent@williamblair.com
“Any onset of increased investor caution elevates risk premiums and, as a consequence, lowers asset values and promotes the liquidation of the debt that supported higher asset prices. This is the reason that history has not dealt kindly with the aftermath of protracted periods of low risk premiums.”

— Alan Greenspan, August 26, 2005
The Virtuous Investment Circle.

- Ample liquidity has driven down financing spreads, which in turn has created the perfect backdrop for financial sponsors. This in turn has provided a valuation price floor on equity multiples.
- Look for the weak link in the liquidity chain...

Morgan Stanley

Please see additional important disclosures at the end of this report.
Central Banks Withdraw Liquidity…

Figure 1. Target Short Rates in the United States, Europe, and United Kingdom, 2001–2007

Sources: BOE, ECB, and Federal Reserve.

William Blair & Company®
...But the Void is Filled by Hedge Funds...

![Bar Chart: Global Hedge Fund Asset Under Management, 2001-2006]

- **Source:** Hedgeweek
...And Creative Financing Vehicles…

Figure 3. Asset-Backed Commercial Paper Market, 2001–2007 (As of 8 Aug 07)

Sources: Federal Reserve and Standard & Poor’s.
...And Structured Credit.

Structured Credit Issuance

Source: Citigroup
Capital Markets vs. Depository Institutions

Trends in Credit Intermediation
(Share of Private Nonfinancial Debt Outstanding)

Source: Federal Reserve

Morgan Stanley
What’s Good for General Motors Goldman Sachs is Good for…
February 9, 2007  HSBC said its 2006 charge for bad debts is $10.6 billion, 20% above forecast.

June 20, 2007  Two Bear Stearns hedge funds are close to being shut down. (WSJ Online)
Elevated Risk Premiums in Credit,

A Rated - Banking And Brokerage 10Yr

<table>
<thead>
<tr>
<th>Key</th>
<th>Axis</th>
<th>Name</th>
<th>Last</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>SD</th>
<th>SD Change</th>
</tr>
</thead>
</table>

This document is for information purposes only and should not be regarded as an offer to sell or as a solicitation of an offer to buy the products mentioned in it. No representation is made that any returns will be achieved. Past performance is not necessarily indicative of future results; any information derived herein is not intended to predict future results. This information has been obtained from various sources, including where applicable, entered by the user; we do not represent it is complete or accurate. Users of these calculators are hereby advised that Lehman Brothers takes no responsibility for improper, inaccurate or other erroneous assumptions to the extent such data is entered by the user hereof. Opinions expressed herein are subject to change without notice. The securities mentioned in this document may not be eligible for sale in some states or countries, nor suitable for all types of investors.

William Blair & Company®
In Mortgages,

The Difference Between Jumbo 30-Year Fixed Mortgage Rates And Conforming 30-Year Fixed Mortgage Rates

Source: Bianco Research
Average yields on 30-day asset-backed paper rated A1 (second highest rating) have risen by about 90 bps in the past month.
The Liquidation of Debt Supporting Higher Asset Prices

- Commercial paper outstanding has fallen dramatically as investor appetite has shifted towards lower-risk securities

**U.S. Commercial Paper Outstanding**

Source: Federal Reserve, Bloomberg
The Virtuous Cycle in Reverse in M&A…

Source: Bianco Research

William Blair & Company
...And in Alternative Investments.

$32 billion pulled from hedge funds

New York, July 14 - Investors pulled an estimated $32 billion out of hedge funds in July, the most since 2000, and August could be even worse, according to a report released Tuesday.

The TrimTabs Barclay Hedge Fund report is a partnership between TrimTabs Investment Research, a California research group known for its estimates of mutual fund flows, and BarclayHedge, a hedge fund data company. The report said investors have an estimated $1 trillion in cash, and the data is from July.

"If the data is complete for August will not be available until later in September, but outflows could be even greater," they said.

Funds of hedge funds saw an estimated $2 billion of outflows in July, according to the report. Through June, those funds, which invest in hedge funds, had experienced estimated inflows of $162 billion, the report said.

"We believe deleveraging and risk reduction by funds of hedge funds was a major cause of the turbulence in the credit markets and the equity markets in July and August," said Charles Biderman, chief executive of TrimTabs. "As we noted in our June report, the worst of the selling in the hedge-funds world is probably finished."

It is likely that the requests for redemptions from funds of hedge funds triggered the hedge-fund unwinding that began in May, which began to unwind the market cap of the U.S. stock market and probably another $2 trillion of the market cap of non-U.S. stock markets, Biderman said.

Most hedge funds require a 30-day redemption notice, so requests for July redemptions actually began in May and June, he said.
The Expectation (and Hope) is that Structured Credit has...
Hedge Funds Buy Nearly 30% of U.S. Structured Credit
(Buyers by Region)

Source: Citigroup
Hedge Funds Buy a Higher Proportion of the Riskiest Structured Credit
(Buyers by Tranche)
Professional Biography

Christopher T. Vincent – Principal, CFA

Chris Vincent is head of the Fixed Income Group within William Blair & Company's Investment Management Department. He joined William Blair & Company in June 2002 as a fixed-income portfolio manager. Chris began his institutional investment career in 1983 and was previously a managing director/senior fixed-income portfolio manager with Zurich Scudder Investments for 14 years. Before that he was with Ralston Purina Company for five years in the treasury department in the plan sponsor role, where he was responsible for fixed-income investments for the company's benefit plans. He has been affiliated with the Uhlich Children's Advantage Network in Chicago since 1991 as a trustee, treasurer, and advisory board member. He serves on the board of the CFA Society of Chicago and is a member of the CFA Institute. Chris was inducted into the prestigious Davenport Society at the University of Missouri in 2005. Education: B.S.B.A., University of Missouri, M.B.A.; Saint Louis University.
Disclosure

This information has been prepared solely for informational purposes and is not intended to provide or should not be relied upon for accounting, legal, tax, or investment advice. The factual statements herein have been taken from sources believed to be reliable, but such statements are made without any representation as to accuracy or completeness. Opinions expressed are current opinions as of the date appearing in this material only. These materials are subject to change, completion, or amendment from time to time without notice and William Blair & Co., LLC is not under any obligation to keep you advised of such changes. All views expressed in this presentation are those of the presenter, and not necessarily those of William Blair & Co., LLC.