

# Lenox CDO, Ltd.

A CDO Squared Managed by:

**DYNAMIC CREDIT  
PARTNERS, LLC**

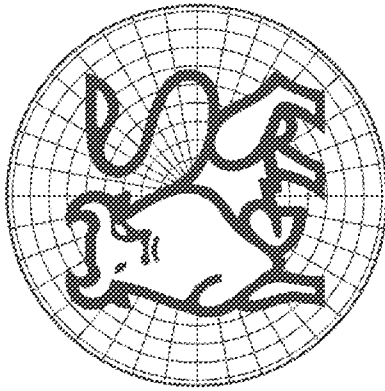
Dynamic Credit Partners, LLC

November 2005

Confidential Materials Prepared For Discussion



Global Markets & Investment Banking Group



CONFIDENTIAL

## **Important Notice**

This Confidential Discussion Material (this "Material") outlines certain characteristics of a proposed collateralized debt obligation transaction ("CDO"). This Material is presented solely for purposes of discussion to assist prospective investors in determining whether they have a preliminary interest in investing in a transaction with the general characteristics described herein. This transaction is in a structuring phase and there may be material changes to the structure, terms and assets prior to the offering of any securities (the "Securities").

This Material is not an offer to sell, or a solicitation to buy, the Securities or any other investment. Any such offering of the Securities will only be made pursuant to a final offering circular relating to the Securities (the "Offering Circular"), which will contain material information not contained herein and to which the prospective purchasers are directed. In the event of any such offering, this Material will be deemed superseded, amended and supplemented in its entirety by the Offering Circular (including any preliminary version thereof). None of the Issuer, the Co-Issuer, Dynamic Credit Partners, LLC (the "Manager") and Merrill Lynch or any of their respective affiliates makes any representation or warranty, express or implied, as to the accuracy or completeness of the information contained herein and nothing contained herein shall be relied upon as a promise or representation as to past or future performance of the Issuer, the Co-Issuer or any other entity. The information contained herein does not purport to contain all of the information that may be required to evaluate such securities and any recipient is urged to read the Offering Memorandum relating to such securities and should conduct its own independent analysis of the data referred to herein. The Manager and Merrill disclaim any and all liability relating to this information, including, without limitation, any express or implied representation or warranty for statements contained in and omissions from this information. None of the Issuer, the Co-Issuer, the Manager or Merrill expects to update or otherwise revise the information contained herein except by means of the Offering Memorandum relating to such securities. The securities and obligations of the Issuer and the Co-Issuer are not issued by, obligations of, or guaranteed by the Manager, Merrill, their respective affiliates, or other organizations or its investment professionals.

This Material is confidential and proprietary to Merrill Lynch, Pierce, Fenner & Smith, Incorporated and its affiliates (collectively, "Merrill Lynch") and, accordingly, except as described below, this Material is to be treated as strictly confidential and not disclosed directly or indirectly to any party other than the recipient and its advisers or used for any purpose other than to make a preliminary analysis of the Securities. Notwithstanding the foregoing, recipients of this Material and each employee, representative or other agent of any such recipient may disclose to any and all persons, without limitation of any kind, the U.S. federal income tax treatment and tax structure of the CDO issuer and all materials of any kind, including opinions or other tax analyses, that are provided to the recipients relating to such tax treatment and tax structure. This authorization to disclose such tax treatment and tax structure does not permit disclosure of information identifying the CDO issuer, the investment adviser, the collateral manager or any other party or the pricing (except to the extent pricing is relevant to tax structure or tax treatment) of the CDO.

No person has been authorized to give any information or make any representations other than the information contained herein, as amended and superseded by the information contained in the Offering Circular relating to the eventual offering, if any, of the Securities. The Securities described herein, if offered, will not be registered with the U.S. Securities and Exchange Commission. This document may not be disseminated other than (1) within the United States of America, to investors that are (A)(i) "qualified institutional buyers" (as defined in Rule 144A under the U.S. Securities Act of 1933, as amended (the "Securities Act") or (ii) "accredited investors" within the meaning of Rule 501(a) under the Securities Act and, in each case, who are also (B)(i) "qualified purchasers" within the meaning of Section 3(c)(7) of the U.S. Investment Company Act of 1940, as amended, ("Investment Company Act") or (ii) "knowledgeable employees" with respect to the issuer of the Securities within the meaning of Rule 3c-5 promulgated under the Investment Company Act and (2) outside the United States of America, to non-U.S. persons in offshore transactions in reliance on Regulation S under the Securities Act. The offer or sale of the Securities may be further restricted by law and the restrictions set forth in the Offering Circular. Potential investors are required to inform themselves of and to observe any legal restrictions on their involvement in the transaction. Additional net worth and/or sophistication requirements may be required of individual non-US persons. Application will be made to list the Notes and Preference Shares on the Irish Stock Exchange Limited ("Irish Stock Exchange"). There can be no assurance that listing on the Irish Stock Exchange will be granted.

Prospective investors should not construe this Material, the Offering Circular or any prior or subsequent communication as legal, accounting or tax advice. Certain information herein is presented in summary form and is not complete. In addition, certain information contained herein has been provided by third parties and has not been independently verified by Merrill Lynch and Merrill Lynch makes no representation or warranty, express or implied, as to the accuracy or the completeness of such information. An investment in the Securities presents substantial risks and investors should be prepared to suffer a loss of their entire investment. Prior to making an investment decision, an investor should conduct such investigations as such investor deems necessary in order to determine if an investment in the Securities offered by the Offering Circular is appropriate and suitable for such investor and should consult such investor's own legal, accounting and tax advisers in order to determine the consequences of an investment in such Securities and to make an independent evaluation of such investment. With respect to Institutional Clients, Merrill Lynch is acting in the capacity of an arm's length contractual counterparty and not in the capacity of a financial advisor or fiduciary.



**THE ATTENTION OF POTENTIAL INVESTORS IS DIRECTED TO THE RISK FACTORS AND TAX CONSIDERATIONS WHICH WILL BE DESCRIBED MORE FULLY IN THE OFFERING CIRCULAR TO BE PROVIDED**

## **Important Notice**

Forward Looking Statements: Any hypothetical illustrations, forecasts and estimates contained in this Material are forward looking statements and are based upon assumptions. Hypothetical illustrations are necessarily speculative in nature, and it can be expected that some or all of the assumptions underlying the hypothetical illustrations will not materialize or will vary significantly from actual results. No representation is made that any returns indicated will be achieved or that all assumptions have been considered or stated. Further, there is no assurance that the actual portfolio will be purchased and sold in a manner consistent with the assumptions. Accordingly, the hypothetical illustrations are only an estimate. Actual results will differ and may vary substantially from the hypothetical illustrations shown. In addition, certain analyses are based on mathematical models that use hypothetical inputs to calculate results. As with all models, results may vary significantly depending upon the values of the inputs used. Models used in any analysis may be proprietary, making the results difficult for any third party to reproduce. Moreover, hypothetical performance analyses will address only certain aspects of the characteristics of the Securities and will not provide a complete assessment of the results that may follow from all possible contingencies (including default, interest rate and other scenarios and certain economic features of the Securities, including call features and cash flow diversion events). Prospective investors should understand the assumptions used in any analysis and evaluate whether they are appropriate for their purposes. Prospective investors should further consider whether the behavior of these Securities should be tested based on assumptions different from those used to prepare the analyses. Neither the Manager or Merrill Lynch assume any duty to update any forward looking statement.

Note to Historical Data: Any historical investment results of any person or entity described in this Material are not indicative of the CDO issuer's future investment results. Such results are intended only to give potential investors information concerning the general experience of the relevant person or entity as an asset manager or adviser and is not intended as a representation or warranty by Merrill Lynch or any other person or entity as to the actual composition of or performance of any future investments that would be made by the CDO issuer. The nature of, and risks associated with, the CDO issuer's future investments may differ substantially from (and will be subject to constraints that were not applicable to) those investments and strategies undertaken historically by such persons and entities. There can be no assurance that the CDO issuer's investments will perform as well as, or in a manner similar to, the past investments of any such persons or entities. For these reasons, there are limitations on the value of the hypothetical illustrations contained herein. This Material is provided to you on the understanding that as a sophisticated investor, you will understand and accept its inherent limitations, will not rely on it in making any investment decision with respect to any Securities that may be issued, and will use it only for the purpose of discussing with Merrill Lynch your preliminary interest in investing in a transaction of the type described.

Potential investors are urged to conduct their own investigation regarding the underlying asset classes, including reviewing any sources cited herein and obtaining additional information regarding the underlying collateral.

**AN INVESTMENT IN THE NOTES WILL NOT BE APPROPRIATE FOR ALL INVESTORS. STRUCTURED INVESTMENT PRODUCTS, LIKE THE SECURITIES, ARE COMPLEX INSTRUMENTS, AND TYPICALLY INVOLVE A HIGH DEGREE OF RISK AND ARE INTENDED FOR SALE ONLY TO SOPHISTICATED INVESTORS WHO ARE CAPABLE OF UNDERSTANDING AND ASSUMING THE RISKS INVOLVED. ANY INVESTOR INTERESTED IN PURCHASING THE NOTES SHOULD CONDUCT ITS OWN INVESTIGATION AND ANALYSIS OF THE PRODUCT AND CONSULT ITS OWN PROFESSIONAL ADVISERS AS TO THE RISKS INVOLVED IN MAKING SUCH A PURCHASE.**

**AN INVESTMENT IN THE NOTES IS EXPECTED TO HAVE LIMITED LIQUIDITY. NO SECONDARY MARKET EXISTS FOR THE NOTES AND NONE MAY DEVELOP.**

**A SIGNIFICANT OR TOTAL LOSS OF INVESTMENT COULD OCCUR UNDER CERTAIN SCENARIOS. PAST PERFORMANCE DOES NOT GUARANTEE FUTURE RESULTS.**

For UK investors only: This document has been approved for distribution in the UK by Merrill Lynch International, which is regulated by the Securities and Futures Association. The securities described herein are not available in the UK to private investors as defined by the Securities and Futures Association. This document is only communicated to, and is directed at, (a) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (the "Order"), (b) high net worth entities, and other persons to whom it may otherwise lawfully be communicated, falling within Article 49(2)(a)-(d) of the Order or (c) any client of Merrill Lynch International Bank Limited (or any UK affiliate) who are either an "intermediate customer" or "market counterparty" for the purposes of the FSA Handbook, all such persons together being referred to as "relevant persons". In addition to being an intermediate customer, an investor must also have at least US\$5 million (or equivalent) in net investments. This document must not be acted on or relied on by persons who are not relevant persons". Any investment or investment activity to which this document relates is only available to relevant persons.

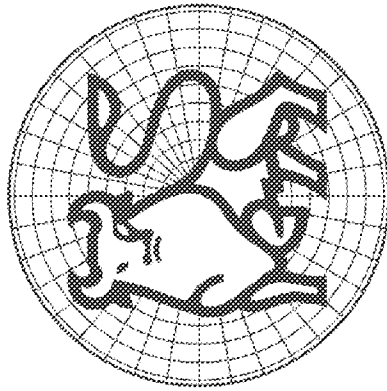


**THE ATTENTION OF POTENTIAL INVESTORS IS DIRECTED TO THE RISK FACTORS AND TAX CONSIDERATIONS WHICH WILL BE DESCRIBED MORE FULLY IN THE OFFERING CIRCULAR TO BE PROVIDED**

**Table of Contents**

1. Executive Summary
  2. Asset Class Selection
    - A. Structured Finance Securities
    - B. Leveraged Loans
    - C. Dynamic Portfolio
  3. Transaction Highlights
  4. Risk Factors
  5. About the Collateral Manager
    - A. Overview
    - B. Investment Process
    - C. Related Strategies
    - D. Past Performance
    - E. Biographies
  6. Tax Considerations
- Appendix I – Cashflow Formulas
- Appendix II – Example of CDO Analysis and Surveillance





# 1. Executive Summary

**Executive Summary**

- Lenox CDO, Ltd. (“Lenox CDO”) plans to issue \$255.0MM of CDO securities secured by structured finance collateral. Lenox CDO is a newly formed collateralized debt obligation (“CDO”) fund managed by Dynamic Credit Partners.
- Dynamic Credit Partners, on behalf of Lenox CDO, will primarily purchase tranches from ABS CDOs as well as seek to capitalize on other opportunities in CLOs and HELs.
- Lenox CDO plans to issue the following nine classes of securities:

**Assets**

**ABS CDOs, High Yield CLOs, HEL**

**CDO Securities<sup>(1)</sup>**

STANDARD & POOR'S AAA
\$240MM Class A-2 AAA (Moody's/ S&P)
\$100MM Class E-1 AAA (Moody's/ S&P)
\$100MM Class E-2 AAA (Moody's/ S&P)
\$100MM Class E-3 AAA (Moody's/ S&P)
\$100MM Class D A1/A (Moody's/ S&P)
\$40MM Class E-4 BBB (Moody's/ S&P)
\$100MM Class E-2 BBB (Moody's/ S&P)
\$25.0MM Preference Shares Not Rated



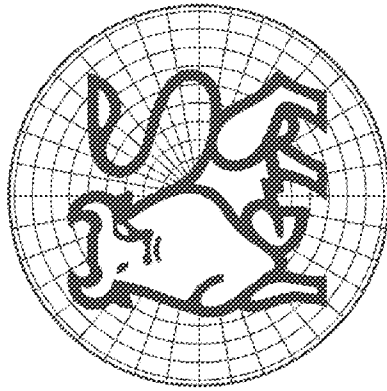
<sup>(1)</sup> This transaction is in the structuring phase and the actual structure of the transaction, the characteristics of the Preference Shares, and the composition of the collateral may differ from those presented.

## Executive Summary

### Introduction to Dynamic Credit Partners, LLC

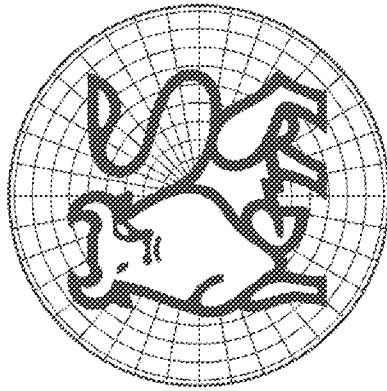
- Experienced team of structured finance professionals with requisite specialized skills for sourcing opportunities, analyzing security risk/reward via proprietary models and systems, and conducting portfolio construction/optimization
- Dynamic Credit Partners' (DCP) proprietary analytic methodology emphasizes stress testing of securities against metrics not used by others in the market – it evaluates ratings migration and economic/credit behavior under a wider and more complex variety of scenarios – compared to the "constant annual default" or other simplistic scenarios. DCP has over 750 CDOs modelled in its database
- DCP manages structured finance CDOs. The first is the \$250 million Stockbridge CDO, backed by a portfolio of investment grade mezzanine CDO debt tranches; priced September 2004, Stockbridge bears a stable projected equity IRR. DCP has several current new CDO mandates
- The Dynamic Credit Opportunities Funds (DCOF) seek to take advantage of asset mispricings of collateralized debt obligations (CDOs) and asset-backed securities (ABS), whether in distressed CDO and ABS debt tranches, or discounted purchases of CDO equity
- DCOF I, launched in early 2004, has invested opportunistically in discounted CDO debt and equity tranches in the secondary market, and has performance of over 30% in its first 18 months (net of all fees). DCOF II launched in August, 2005
- DCP was formed in 2003, and is a Registered Investment Adviser with the United States Securities and Exchange Commission
- DCP has eight full-time and three part-time professionals





## 2. Asset Class Selection





## A. Structured Finance Securities

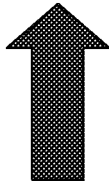
## Structured Finance Securities

### Lenox CDO and Structured Finance Securities

- The underlying securities of Lenox will be backed by a pool of assets that consists partially of ABS, CMBS and RMBS (collectively, “Structured Finance Securities”)
- Investment in Lenox CDO Notes offers indirect exposure to Structured Finance Securities

### Historical Defaults (1)

Historical default rates for Baa-rated  
Structured Finance Securities<sup>(2)</sup>



RMBS one-year average default rate (1993 – 2004) ~0.1% <sup>(3)</sup>  
 CMBS one-year average default rate (1993 – 2004) ~0.2% <sup>(4)</sup>  
 ABS one-year average default rate (1993 – 2004) ~0.2% <sup>(5)</sup>

Historical default rates for AAA/AA-rated  
Structured Finance Securities<sup>(6)(7)(8)</sup>



RMBS one-year average default rate (1978 - 2004) < 0.01%  
 RMBS one-year average default rate (2004) <0.01%  
 ABS one-year average default rate (1982-2004) <0.01%  
 ABS one-year average default rate (2004) <0.01%

(1) Certain of the information contained has been obtained from third party sources and neither Merrill Lynch, the Manager, nor any of their respective affiliates makes any representation or warranty, express or implied as to the accuracy or the completeness of such information. Certain of the information is presented in summary form. Potential investors are urged to conduct their own investigation regarding the underlying asset class including reviewing any sources cited herein and obtaining additional information regarding the underlying collateral. The data discussed in this Overview relates only to historical investment performance. Future investment performance may vary. See “Important Notice.”

(2) Source: Moody’s Investors Service, “Default & Loss Rates of Structured Finance Securities: 1993-2004,” July 2005.

(3) This number denotes the average annual number of material impairments in Baa-rated (original rating) RMBS analyzed in the study. The total number of RMBS analyzed in this study across all rating categories is 5,750.

(4) This number denotes the average annual number of material impairments in Baa-rated (original rating) CMBS analyzed in the study. The total number of CMBS analyzed in this study across all rating categories is 3,496.

(5) This number denotes the average annual number of material impairments in Baa-rated (original rating) ABS (excluding Manufactured Housing which are prohibited in typical transactions) analyzed in the study. The total number of ABS analyzed in this study across all rating categories is 9,993.

(6) Source: Standard and Poor’s, “Rating Transitions 2004: U.S. ABS Rating Stability Improves Despite Adverse Behavior of Manufactured Housing Securities”, January 20, 2005.

(7) Source: Standard and Poor’s, “Rating Transitions 2004: U.S. RMBS Stellar Performance Continues to Set Records”, January 21, 2005.

(8) Structured Finance Securities consist of ABS, CMBS and RMBS for purposes of the studies. The final composition of the collateral to be acquired is subject to change and will be determined at or around the time of pricing of the Notes based on market conditions and other factors applicable at that time.



Structured Finance Market Overview (1)

Rating Stability (1) (2)

According to a recent Moody's study, the long-term historical average (1983-2004) of unchanged ratings of Structured Finance Securities and CDO Securities was 92.3%, which compares favorably to the 77.6% average of unchanged ratings of corporate bonds in each year for the same period.

One-Year Rating Transition Matrices in All Structured Finance Categories

Structured Finance Securities and CDOs (2004 only)

Rating from:	Rating to:						
	Aaa	Aa	A	Baa	Ba	B	Caa or below
Aaa	99.15%	0.33%	0.22%	0.22%	0.09%	0.08%	0.03%
Aa	6.67%	90.52%	1.46%	0.39%	0.18%	0.30%	0.48%
A	1.45%	4.56%	91.30%	1.55%	0.52%	0.17%	0.45%
Baa	0.29%	0.92%	3.70%	90.58%	2.48%	0.73%	1.29%
Ba	0.19%	0.25%	1.02%	2.952%	86.47%	4.13%	5.02%
B			0.11%	0.22%	3.65%	81.07%	14.94%
Caa or below						0.70%	99.30%

Structured Finance Securities and CDOs (1983-2004)

Rating from:	Rating to:						
	Aaa	Aa	A	Baa	Ba	B	Caa or below
Aaa	98.97%	0.69%	0.20%	0.07%	0.03%	0.02%	0.03%
Aa	5.70%	91.01%	2.12%	0.71%	0.19%	0.19%	0.13%
A	1.12%	2.85%	92.83%	2.05%	0.66%	0.24%	0.25%
Baa	0.40%	0.60%	2.54%	90.48%	3.34%	1.34%	1.29%
Ba	0.13%	0.10%	0.71%	3.38%	86.12%	3.72%	5.84%
B	0.06%		0.08%	0.47%	2.00%	85.98%	11.42%
Caa or below					0.05%	0.42%	99.53%

(1) Source: "Structured Finance Rating Transitions: 1983-2004", Moody's Investors Service, February 2005.

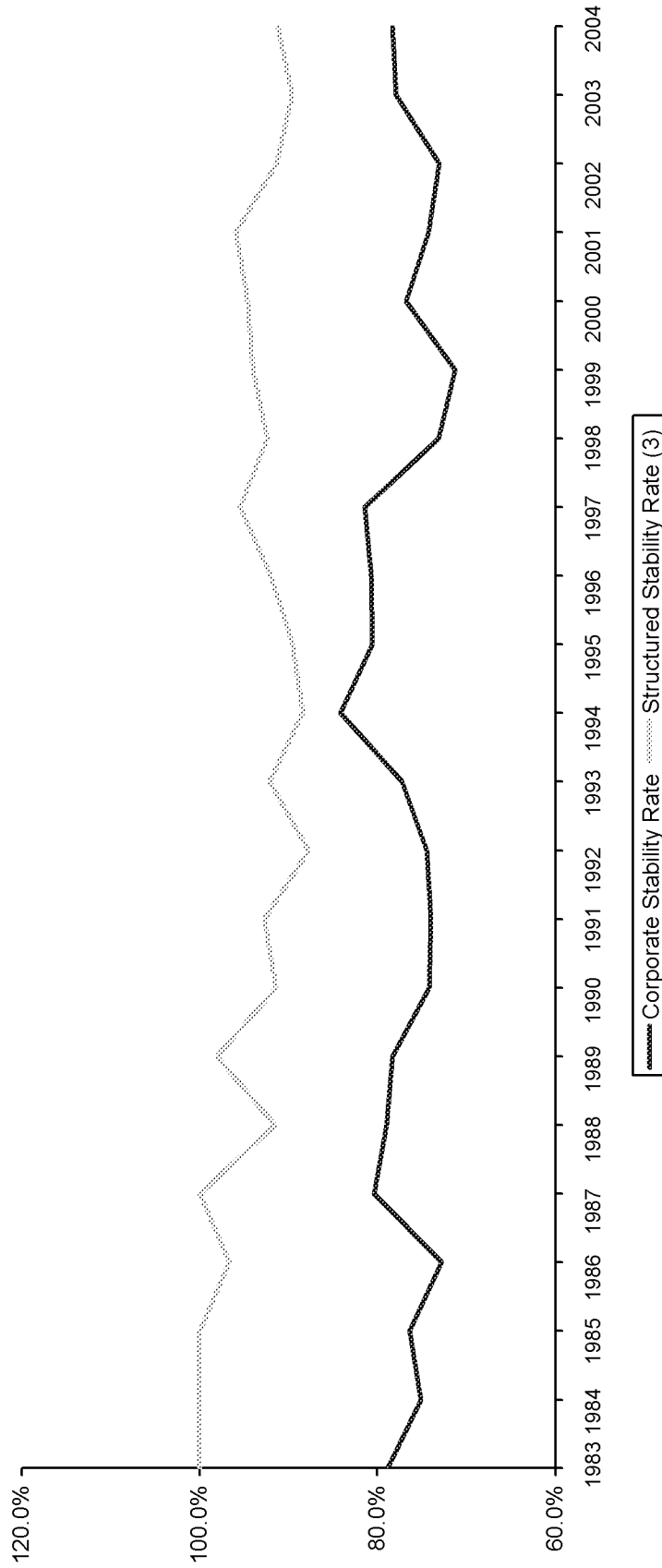
(2) Certain of the information contained has been obtained from third party sources and neither Merrill Lynch, Dynamic Credit nor any of their respective affiliates makes any representation or warranty, express or implied as to the accuracy or the completeness of such information. Certain of the information is presented in summary form. Potential investors are urged to conduct their own investigation regarding the underlying asset class including reviewing any sources cited herein and obtaining additional information regarding the underlying collateral. The data discussed in this Overview relates only to historical investment performance. Future investment performance may vary. See "Important Notice".



# Structured Finance Market Overview

## Rating Stability (cont'd) (1) (2)

Rating stability in Structured Finance Securities and CDO Securities was more than 10 percentage points higher than in corporate bonds in 2004. It has been higher since 1983.



(1) Source: "Structured Finance Rating Transitions: 1983-2004", Moody's Investors Service, February 2005.

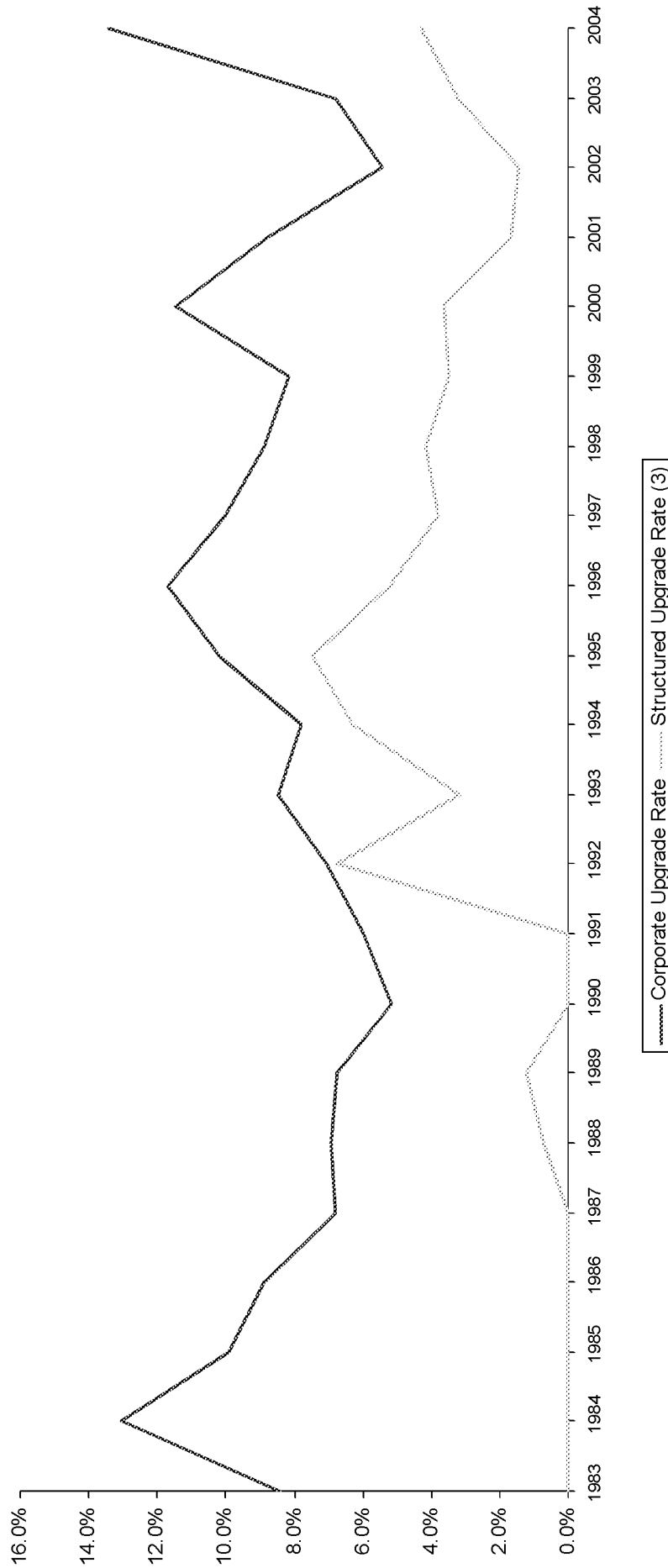
(2) Certain of the information contained has been obtained from third party sources and neither Merrill Lynch, Dynamic Credit nor any of their respective affiliates makes any representation or warranty, express or implied as to the accuracy or the completeness of such information. Certain of the information is presented in summary form. Potential investors are urged to conduct their own investigation regarding the underlying asset class including reviewing any sources cited herein and obtaining additional information regarding the underlying collateral. The data discussed in this Overview relates only to historical investment performance. Future investment performance may vary. See "Important Notice".

(3) "Structured" refers to Structured Finance Securities including CDO Securities



# Structured Finance Market Overview

## Low Ratings Volatility - Upgrade Rates (1) (2)

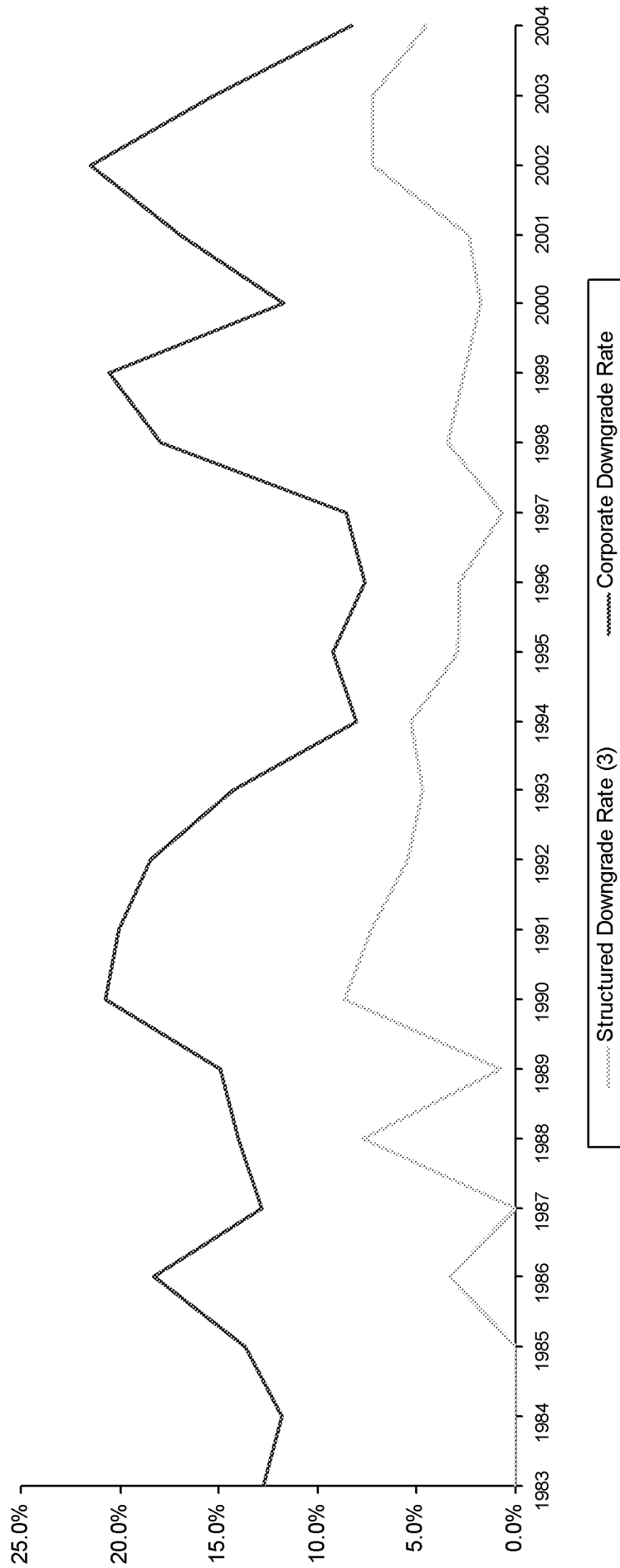


(1) Source: "Structured Finance Rating Transitions: 1983-2004", Moody's Investors Service, February 2005.  
 (2) Certain of the information contained has been obtained from third party sources and neither Merrill Lynch, Dynamic Credit nor any of their respective affiliates makes any representation or warranty, express or implied as to the accuracy or the completeness of such information. Certain of the information is presented in summary form. Potential investors are urged to conduct their own investigation regarding the underlying asset class including reviewing any sources cited herein and obtaining additional information regarding the underlying collateral. The data discussed in this Overview relates only to historical investment performance. Future investment performance may vary. See "Important Notice".  
 (3) "Structured" refers to Structured Finance Securities including CDO Securities



## Structured Finance Market Overview

Low Ratings Volatility - Downgrade Rates (1) (2)

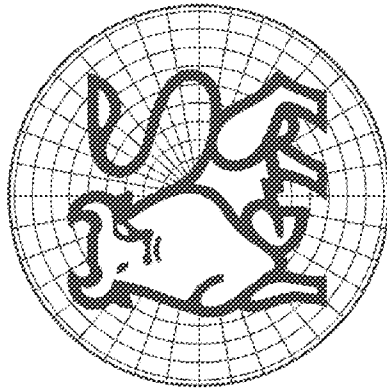


(1) Source: "Structured Finance Rating Transitions: 1983-2004", Moody's Investors Service, February 2005.

(2) Certain of the information contained has been obtained from third party sources and neither Merrill Lynch, Dynamic Credit nor any of their respective affiliates makes any representation or warranty, express or implied as to the accuracy or the completeness of such information. Certain of the information is presented in summary form. Potential investors are urged to conduct their own investigation regarding the underlying asset class including reviewing any sources cited herein and obtaining additional information regarding the underlying collateral. The data discussed in this Overview relates only to historical investment performance. Future investment performance may vary. See "Important Notice".

(3) "Structured" refers to Structured Finance Securities including CDO Securities





## B. Leveraged Loans

## Leveraged Loans

### Lenox CDO and Leveraged Loans

- The [20]% of the underlying assets in Lenox will be backed by a pool of assets that consists of "Baa" & "Ba" rated CLOs (collectively, "Leveraged Loans")
- Investment in Lenox CDO Notes offers indirect exposure to the Leveraged Loan Market

### Leveraged Loan Market Overview

- The leveraged loan market is a large market with average annual issuance of over \$170 billion over the past 5 years <sup>(1)</sup>
  - Current market conditions are favorable<sup>(1)</sup>
    - Borrower leverage levels remain low relative to the prior 15 years
    - Default rates remain low after their downward trend from highs in the fourth quarter of 2000
  - CLOs and other funds represent over 65% of the investor base for the institutional loan market <sup>(2)</sup>
    - Structuring loans to satisfy the requirements of the CLO market (spread, rating, etc.) is an important part of the syndication process
    - CLOs may help drive the market clearing levels by virtue of their market position
- Loans possess inherent structural and credit protections that make them well suited to supporting moderate leverage
  - Capital structure seniority
  - Covenant and security package
- Loans possess certain long-term characteristics
  - Risk adjusted returns
  - Low volatility
  - Low total return correlation with other asset classes
  - High recovery rates, with average recovery rates of 85% from 1987 to 2004 <sup>(1)</sup>

Past performance is no guarantee of future results and is not indicative of the performance of the issuer.

(1) See graphs on page 18.

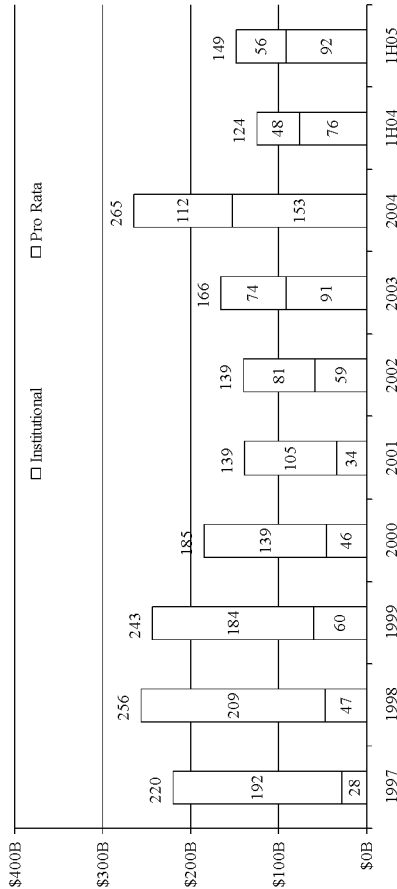
(2) Source: S&P/PMD Leveraged Lending 3Q 2004. Industry breakout as of 9/24/04; Comprises all loans, including those not tracked in the LSTA/LFC mark-to-market service. Vast majority are institutional tranches. S&P's "U.S. Loss-Stats Database", last updated Feb 2004; contains 2,365 defaulted loans and bonds that defaulted between 1987 - Feb 2004.



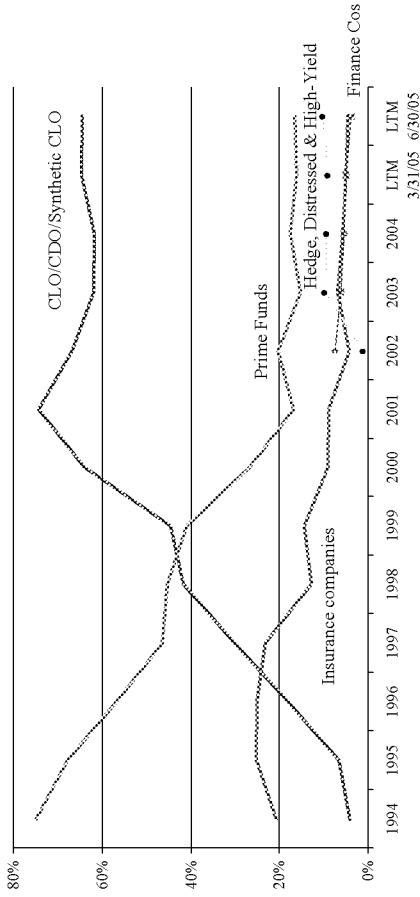


**Asset Class Selection  
Leverage Loan Market**

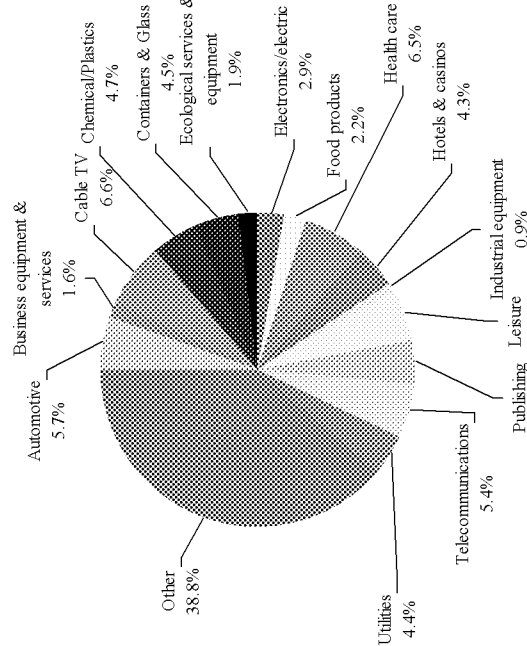
**New Issue Volume**



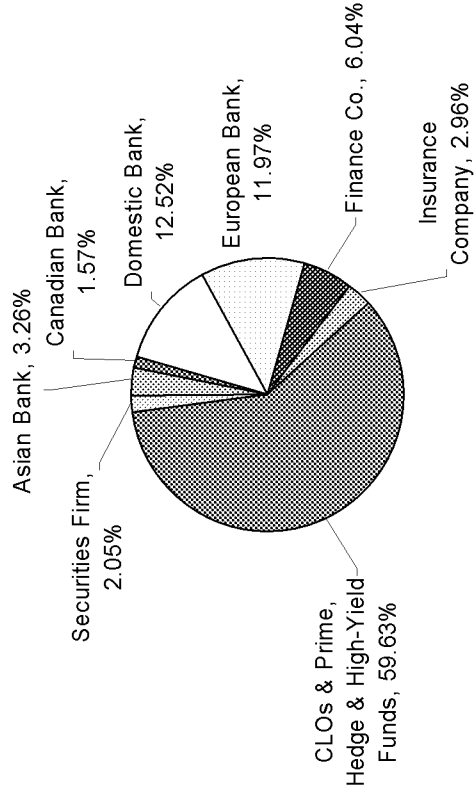
**Loan Market by Investor Type**



**Loans by Industry**



**Institutional Investor Types, LTM 6/30/05**



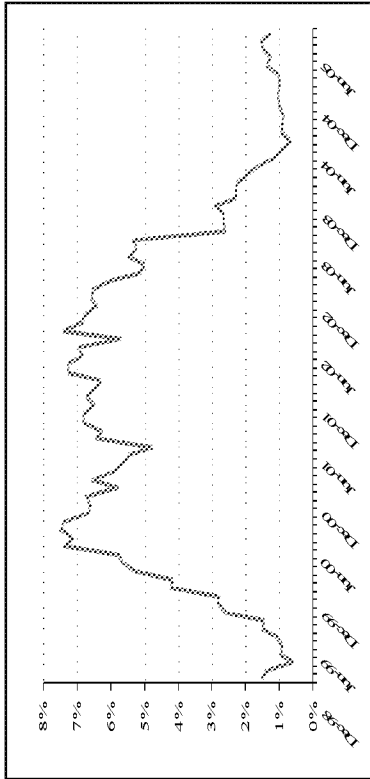
Source: S&P/PMD Leveraged Lending Review 2Q 2005. Industry breakout as of July 2005. Comprises all loans, including those not tracked in the LSTA/LPC mark-to-market service. Vast majority are institutional tranches.



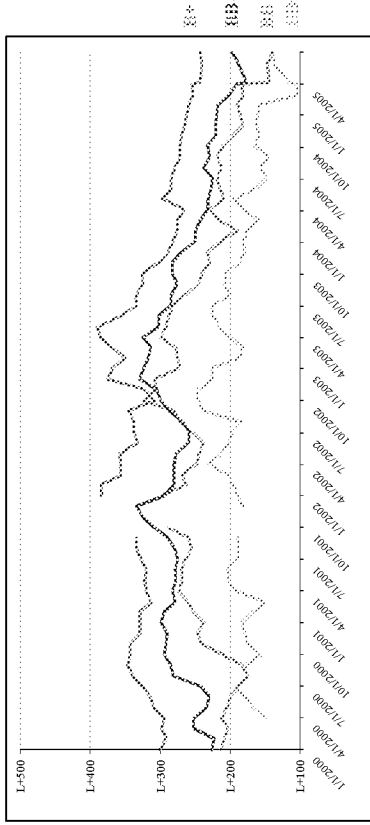
## Asset Class Selection Leveraged Loan Market

Current market dynamics highlight the relative strength of loans

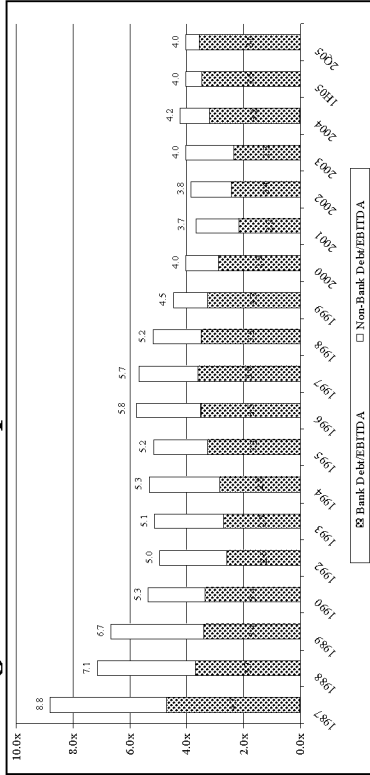
Lagged 12-month Default Rate (1)



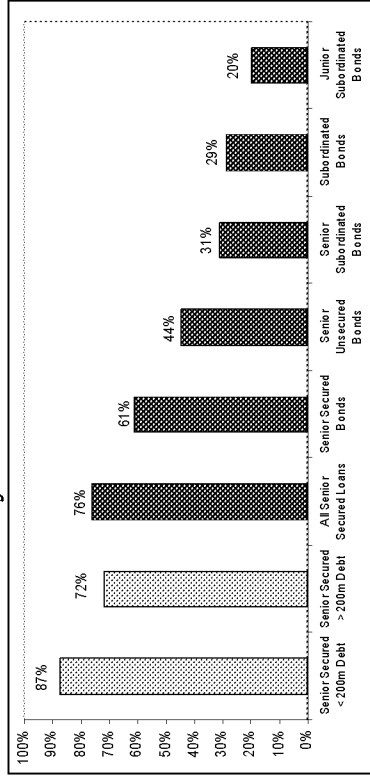
Leveraged Loan Spread Averages (1)



Leveraged Debt Multiples (1)



Ultimate Recovery Rates (2)



- Leveraged loan default rates have exhibited a steady downward trend since late 2002
- Default rates and recovery rates tend to be negatively correlated; therefore, as default rates continue to decline recovery rates should improve from their already strong levels (3)

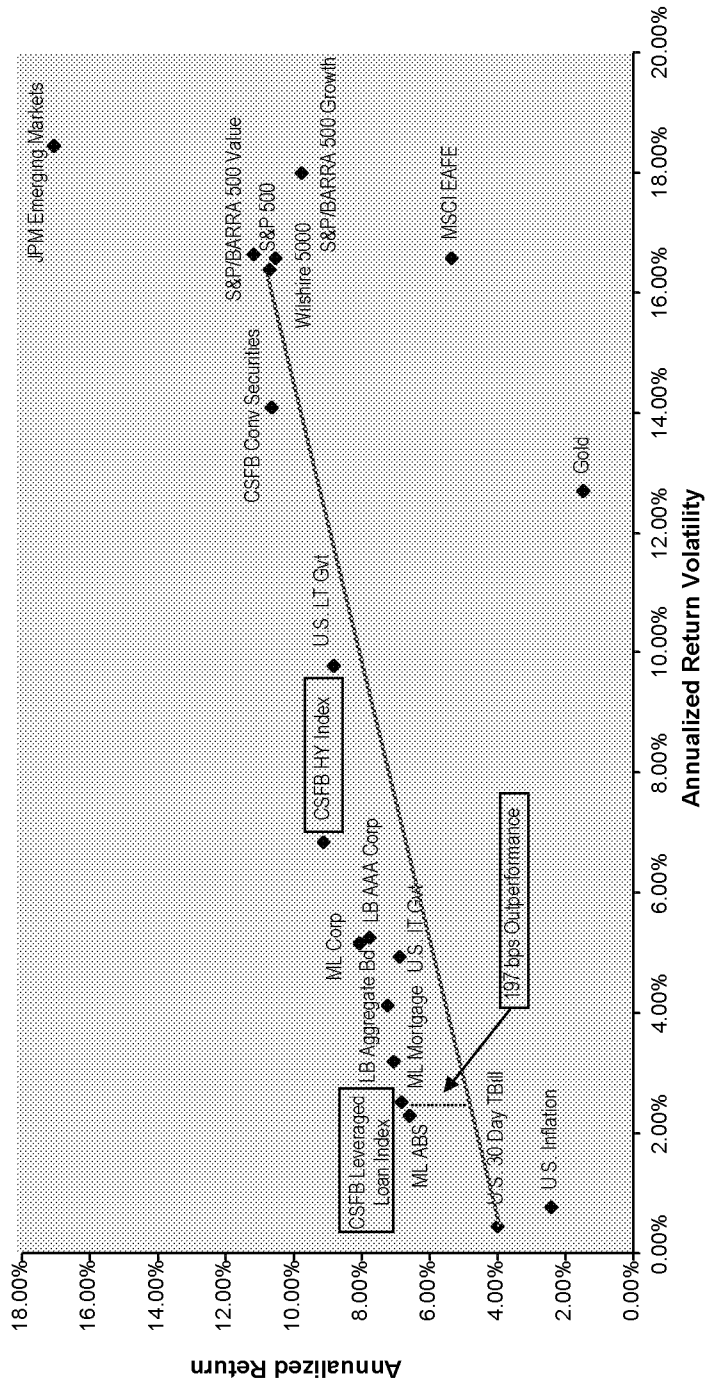


(1) Source: S&P/PMD Leveraged Lending 2Q 2005  
 (2) Source: Merrill Lynch CDO Research, "CDOs - A View from the Tranches", December 7, 2004.  
 (3) Source: S&P "U.S. LossStats Database"; database last updated October 2004; contains loans and bonds that defaulted between 1987-Oct 2004

## Asset Class Selection Leveraged Loan Market

### The Case For Leveraged Loans

#### Risk/Reward Characteristics of Various Assets: 1992-2003



From 1992 to 2003

One of the best risk/reward tradeoffs of any asset class.

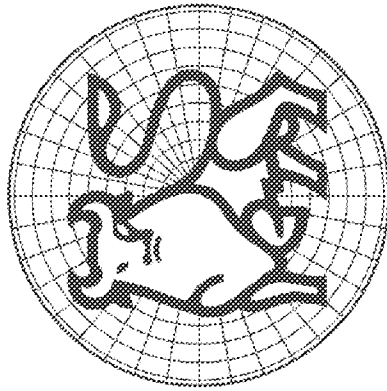
- Not one year of negative performance.
- Very Low Price Volatility.
- Low correlation to other asset classes and interest rates.
- Cumulative Returns competitive with other spread products.
- Conclusion: A viable complement or supplement to traditional fixed income investments.

The CSFB Leveraged Loan Index and the CSFB High Yield Index are representative of leverage loan and high yield portfolios, respectively. The indexes are not subject to any of the fees or expenses to which the portfolio would be subject. It is not possible to invest in these indexes. The indexes are used for comparison purposes only. It should not be assumed that the issuer will invest in any specific assets which comprise the index. [The index does not include the reinvestment of income and is not redacted for any assumed trading costs, management fees or other expenses.]  
Past performance is no guarantee of future performance or success.

Source: CSFB, Lipper, Ibbotson Associates.



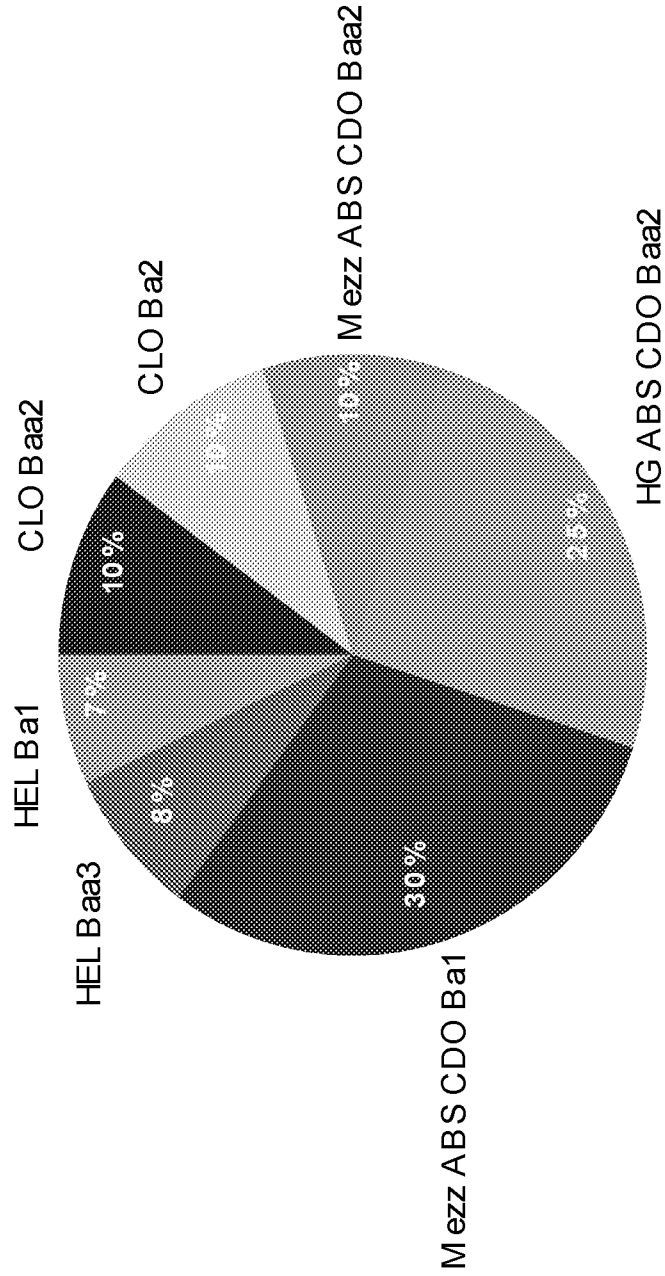
DYNAMIC CREDIT  
PARTNERS, LLC



## C. Lenox CDO Portfolio

## Lenox Portfolio

### Lenox CDO Projected Portfolio Composition <sup>(1)</sup>



(1) This is an indicative portfolio based on expected portfolio guidelines and total return. All information shown on this page is for illustrative purposes only. The actual structure of the final transaction, including the composition of the collateral to be acquired, will be determined at or around the time of pricing of the Notes based upon market conditions and other factors applicable at that time. The actual portfolio on the Closing Date may be materially different from the one presented above and the portfolio is expected to change over time. In addition, certain of the assumptions contained herein have been made for modeling purposes and it is unlikely that such assumptions will in fact be realized.

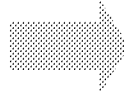


## Lenox Portfolio Advantages of Deleveraging

### Benefits of the Pro Rata Paydown Structure

#### Early Principal Paydown

- From the inception of the transaction, principal paydowns on the underlying collateral will be used to pay down the notes on a pro rata basis, subject to the Priority of Payments, until 50% of the collateral has amortized.<sup>(1)</sup>

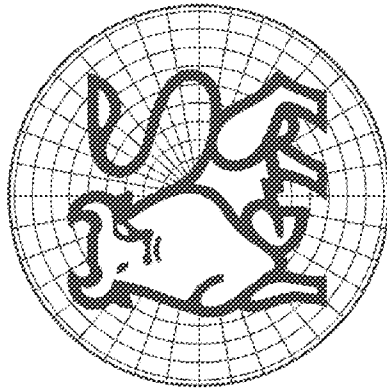


#### Benefits to Noteholders

- Principal payments are expected upon the first distribution date.
- Build up of overcollateralization levels.



(1) In the event that 50% of the collateral has amortized or a coverage test is not in compliance, principal paydowns on the underlying collateral will be used to pay down the notes on a sequential basis in order of seniority beginning with the Class A1 Notes.



### 3. Transaction Highlights

**Transaction Highlights (1)(2)**

**Summary of Proposed Terms**

**Type** CDO of CDOs **Manager** Dynamic Credit Partners, LLC  
**Issuer** Lenox CDO, Ltd. **Total Size** \$255.0 MM

Class	Type	Ratings (M/S)	Par/Investment Amount	Target Average Life (3)	Legal Maturity Date	Minimum Denomination
A-1	First Priority Senior Secured Floating Rate Notes	Aaa/AAA	\$145.0 MM	6.1 yrs	November 14, 2043	\$250,000 minimum \$1,000 increments
A-2	Second Priority Secured Floating Rate Notes	Aaa/AAA	\$2.0 MM	6.2 yrs	November 14, 2043	\$250,000 minimum \$1,000 increments
B-1	Third Priority Secured Floating Rate Notes	Aa1/AA	\$31.0 MM	6.2 yrs	November 14, 2043	\$250,000 minimum \$1,000 increments
B-2	Third Priority Secured Fixed Rate Notes	Aa1/AA	\$14.0 MM	6.2 yrs	November 14, 2043	\$250,000 minimum \$1,000 increments
C	Fourth Priority Mezzanine Secured Floating Rate Notes	Aa2/AA-	\$8.0 MM	6.2 yrs	November 14, 2043	\$250,000 minimum \$1,000 increments
D	Fifth Priority Mezzanine Secured Floating Rate Notes	A1/A	\$10.0 MM	6.2 yrs	November 14, 2043	\$250,000 minimum \$1,000 increments
E-1	Sixth Priority Mezzanine Secured Floating Rate Notes	Baa1/BBB	\$4.0 MM	6.2 yrs	November 14, 2043	\$250,000 minimum \$1,000 increments
E-2	Sixth Priority Mezzanine Secured Fixed Rate Notes	Baa1/BBB	\$16.0 MM	6.2 yrs	November 14, 2043	\$250,000 minimum \$1,000 increments
	Preferred Shares	NR/NR	\$25.0 MM		November 14, 2043	\$250,000 minimum \$1,000 increments (4)

Collateral Profile	
<ul style="list-style-type: none"> <li>Maximum Single Issue Concentration: 2.00%</li> <li>Maximum Single Issue Concentration for HEL: 1.00%</li> <li>Maximum Single Servicer Concentration: 7.5% (5)</li> </ul>	<ul style="list-style-type: none"> <li>Maximum Moody's Average Rating Score: 800(Baa3/ Ba1)</li> <li>Weighted Average Floating Spread: 4.00%</li> <li>Minimum Number of Issuers: 50</li> <li>Minimum Rating: Ba2</li> </ul>

(1) All the information shown on this page is for illustrative purposes only. The transaction is at a structuring phase, and the actual structure of the transaction and characteristics of the offered securities and the composition of the collateral may differ from those presented herein. Definitions and other terms will be fully described in the Offering Circular. It is contemplated that the "Collateral Profile" would apply on and after the the ramp-up completion date. Merrill Lynch may, but is not obligated to notify and update these terms.  
(2) Merrill Lynch may, but is not obligated to make a market in the Offered Securities.  
(3) Please see "Transaction Highlights - Structuring Assumptions" for a description of modeling assumptions. Based on an auction call in [8.25] years from closing. Assumes 0.0% Defaults.  
(4) With some exceptions (yet to be determined).





## Transaction Highlights Structuring Assumptions <sup>(1)</sup>

### Timing

Closing Date	December 8, 2005
Payment Dates	Quarterly, starting May 14, 2006
Mandatory Auction Call	May 14, 2014
Non-Call Period	Ending February 14, 2010
Ramp-Up Period	Ending May 1, 2006. At least [70%] of the Collateral Portfolio is expected to be purchased or identified at closing.

### Fees and Expenses <sup>(2)</sup>

Senior Management Fees	20.0 bps
Subordinate Management Fees	30.0 bps
Trustee/Admin Fees	7.0 bps
Incentive Management Fee	10.0% of excess cash flows once an equity IRR of 10% is achieved
PIK Swap Fee	8.0 bps
Closing Fees <sup>(4)</sup>	

### Benchmark Assumptions

First Period LIBOR <sup>(2)</sup>	4.01%
10 Year Swap Rate	4.56%

### Collateral Assumptions <sup>(1)</sup>

Weighted Average Spread	4.00%
Maximum Weighted Average Life	7.5 yrs
Principal Amount	\$250MM
Minimum Rating at Initial Purchase	Ba2
Maximum Weighted Average Rating	800 (Baa3/Ba1)

### Coverage Tests <sup>(3)</sup>

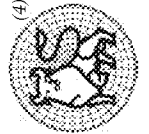
	O/C Tests	Initial O/C	I/C Tests	Initial I/C
Class A/B/C	117.0%	125.0%	120.0%	174.0%
Class D	112.7%	119.0%	115.0%	163.4%
Class E	106.0%	108.7%	110.0%	140.7%

<sup>(1)</sup> These assumptions are general and are not conclusive or exhaustive. Actual collateral characteristics may be different from those assumed and even if they are the same on a weighted average basis, the use of individual securities in the actual CDO structure may substantially change the results indicated. Note of the assumptions contained herein are meant to be historical descriptions not predictors of future performance. In addition, certain of the assumptions contained herein have been made for modeling purposes and it is unlikely that such assumptions will in fact be realized. No representation or warranty is made by Merrill Lynch or the Manager as to the reasonableness of such assumptions or as to any other financial information contained in such models (including the assumptions on which they are based). These assumptions have certain inherent limitations, and will be affected by any changes in the structure or assets for this transaction. As a sophisticated investor, you should review each assumption carefully and make your own determination as to its completeness, accuracy or reasonableness. Actual collateral characteristics may be different from those assumed and even if they are the same on a weighted average basis, the use of individual securities in the actual CDO structure may substantially change the results indicated. No representation is made that such assumptions are accurate or complete or do not contain errors, or that alternative modeling techniques or assumptions would not be more appropriate or produce significantly different results. This material is provided to you for the purpose of discussing with Merrill Lynch your preliminary interest in investing in a transaction of the type described. Any investor should rely only upon the final offering materials for the definitive conditions and terms of the offering. Neither Merrill Lynch nor the Manager assumes any responsibility for the accuracy or validity of the results of such models. See additional assumption in Appendix A.

<sup>(2)</sup> As of 9/8/05. Calculated on the outstanding collateral balance as of the first day of each period.

<sup>(3)</sup> If the Class A/B/C IC or Class A/B/C OC test is breached, interest will be used to pay down the principal of the Class D Notes. If the Class E IC or Class E OC test is breached, interest will be used to pay down the principal of the Class E Notes.

<sup>(4)</sup> On the Closing Date, the Co-Issuers will use a portion of the gross proceeds from the offering to pay various fees and expenses, including expenses, fees and commissions incurred in connection with the acquisition of the Collateral, structuring and placement agency fees payable to legal, accounting, rating agency and other fees. Closing fees and expenses reduce the amount of the gross proceeds of the offering available to purchase Collateral and, therefore, the return to purchasers of the Securities. Rating agencies will consider the amount of net proceeds available to purchase Collateral in determining any ratings assigned by them to the Securities. For information about the amount of such fees and expenses, please review the final Offering Circular before investing.



**Transaction Highlights<sup>(1)</sup>**

**Interest Proceeds Payment Waterfall**

Taxes Paid by the Co-Issuers
Senior Expenses (capped)
Senior Collateral Management Fee
Senior Hedge Counterparty Payments
Class A, Class B, and Class C Note Interest <sup>(2)</sup>
Class A/B/C Coverage Test Payments <sup>(3)</sup>
Class D Note Interest
Class D Note Coverage Test Payments <sup>(4)</sup>
Class D Note Deferred Interest
Class E Note Interest <sup>(5)</sup>
Class E Note Coverage Test Payments <sup>(4)</sup>
Class E Note Deferred Interest
Subordinated Management Fee
Incentive Fee
Preferred Shares

**Principal Proceeds Payment Waterfall**

Payment to cover certain Interest Proceeds Shortfall
If sequential pay event <sup>(2)</sup> , the Class A, Class B Notes, and Class C Notes will be paid in Sequential Order until fully paid. Else, payment of the Principal on the A, B, and C notes (pro. rata in accordance with outstanding principal amounts outstanding) up to the Class A/B/C Pro rata Principal Payment Cap for such distribution date. <sup>(3)</sup>
Class D Note Current Interest not paid in full in interest waterfall
If sequential pay event <sup>(2)</sup> , payment of Principal on the Class D Notes (including deferred interest) until fully paid. Else, payment of Principal on Class D Notes (including deferred interest) up to the Class D Pro rata Principal Payment Cap for such distribution date. <sup>(5)</sup>
Class E Note Current Interest not paid in full in interest waterfall
Payment of Principal on the Class E Notes (including deferred interest) until fully paid
Unpaid Expenses, Hedge Payments, Manager Fee
Equity Payments

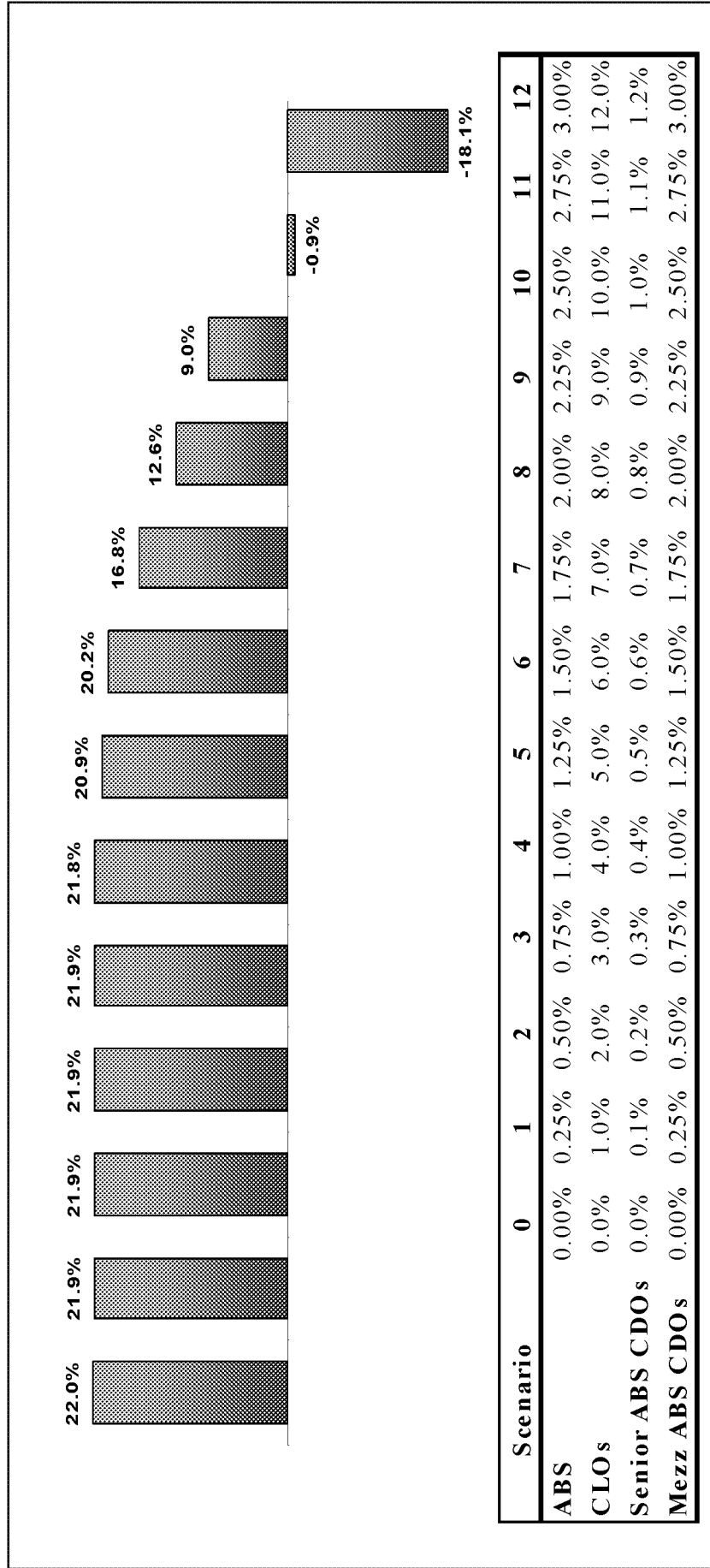
**Priority of Payments**

(1) All information on this slide is for illustrative purposes only. This transaction is at a structuring phase and the actual structure of the transaction may differ from those presented herein.  
 (2) A Sequential Pay Event occurs when at least [50]% of the collateral pool has amortized or when a coverage test triggers.  
 (3) Class A/B/C Pro rata Principal Payment Cap is equal to the total amount of available principal proceeds multiplied by the aggregate amount of Class A, Class B, and Class C Notes outstanding divided by the total amount of Class A, B, C, D, and E Notes outstanding  
 (4) If the Class A/B/C IC or Class A/B/C OC test is breached, interest will be used to pay down the principal of the Class C Notes. If the Class D IC or Class D OC test is breached, interest will be used to pay down the principal of the Class D Notes. If the Class E IC or Class E OC test is breached, interest will be used to pay down the principal of the Class E Notes.  
 (5) Class D Pro rata Principal Payment Cap is equal to the total amount of principal proceeds available at that point in the waterfall multiplied by the total amount of Class D Notes outstanding divided by the total amount of Class D and Class E Notes outstanding.



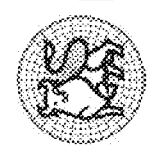
**Transaction Highlights**  
**Transaction Analysis**

**Preference Share Hypothetical Return (IRR) (1) (2) (3) (4)**



*CDO/CLO defaults are applied on the underlying collateral level. ABS defaults are applied on the deal level.*

Future market and economic conditions are difficult to predict. Future market or economic conditions that materially differ from those on which the assumptions are based may have a negative impact on the performance of Lenox CDO, Ltd.. For these reasons, there are limitations on the value of this or any other hypothetical illustration. This information is not intended to be either an express or implied guaranty of investment performance.



(1) Constant Annual Default Rates. Assumes 60% recovery for ABS collateral, 70% recovery for CLO collateral, 75% recovery for High Grade ABS CDOs, and 60% recovery for Mezzanine ABS CDOs.  
 (2) All information shown is for illustrative purposes only, actual results may vary. See "Important Notice."  
 (3) Please see Appendix for a description of Collateral Cashflow Formulas  
 (4) Please see "Transaction Highlights - Structuring Assumptions" for a description of modeling assumptions.

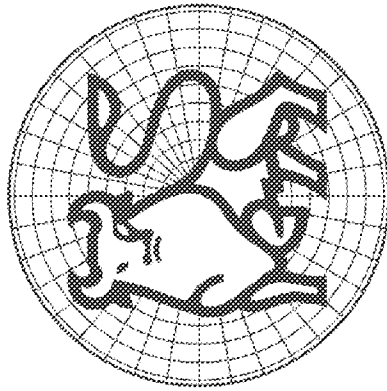
## Transaction Highlights

### Form of Offering<sup>(1)</sup>

<b>Form of Securities</b>	Rated Notes: DTC/Euroclear Preference Shares: Physical/Euroclear
<b>U.S. Investors</b>	Rated Notes: Qualified Purchasers/QIBs Preference Shares: Qualified Purchasers /Accredited Investors or QIBs
<b>SEC Registration Exemption</b>	4(2) / Rule 144A / Regulation S
<b>Investment Company Act Exemption</b>	3(c)(7)
<b>Domicile/Form of Issuer</b>	Cayman Islands Exempted Company
<b>Domicile/Form of Co-Issuer</b>	Delaware Corporation
<b>Expected Listing</b>	Irish Stock Exchange (Notes Only) <sup>(2)</sup>



(1) Terms are subject to change without notice. Potential Investors should review the Offering Circular in detail prior to making a decision to invest in the Securities.  
(2) There can be no assurance that the listing of the Notes on the Irish Stock Exchange will be granted.



## 4. Risk Factors

## Risk Factors

AN INVESTMENT IN THE SECURITIES DESCRIBED IN THIS INFORMATION, IF SUCH OFFERING IS CONSUMMATED, WILL INVOLVE CERTAIN RISKS. SET FORTH BELOW IS A SUMMARY DESCRIPTION OF CERTAIN OF THE RISKS TO WHICH AN INVESTOR IN THE SECURITIES WOULD BE SUBJECT. A DETAILED LIST OF RISK FACTORS WILL BE INCLUDED IN THE OFFERING CIRCULAR (INCLUDING THE PRELIMINARY AND FINAL VERSIONS THEREOF). AN INVESTOR SHOULD NOT MAKE ANY DECISION TO INVEST IN THE SECURITIES UNTIL AFTER SUCH INVESTOR HAS HAD AN OPPORTUNITY TO READ AND REVIEW CAREFULLY THE OFFERING CIRCULAR.

**Limited Liquidity.** There is currently no market for the Offered Securities. Although Merrill Lynch may from time to time make a market in any class of Offered Securities, it is under no obligation to do so. In the event that Merrill Lynch commences any market-making, it may discontinue the same at any time. There can be no assurance that a secondary market for any of the Offered Securities will develop, or if a secondary market does develop, that it will provide the holders of such Offered Securities with liquidity of investment or that it will continue for the life of the Offered Securities. In addition, the Offered Securities are subject to transfer restrictions and can only be transferred to certain transferees. Consequently, an investor in the Offered Securities must be prepared to hold its Offered Securities for an indefinite period of time.

**Limited-Recourse Obligations.** The Notes will be limited-recourse obligations of the co-issuers, payable solely from the collateral pledged by the issuer to secure the Notes. None of the security holders, members, officers, directors, managers or incorporators of the issuer, the co-issuer, the trustee, the administrator of the issuer, the Collateral Manager, Merrill Lynch, any of their respective affiliates and any other person or entity will be obligated to make payments on the Notes. Consequently, the holders of the Notes must rely solely on amounts received in respect of the collateral for the payment of principal thereof and interest thereon or liquidation. There can be no assurance that the distributions on the collateral pledged by the issuer to secure the Notes will be sufficient to make payments on any class of Notes, in particular after making payments on more senior classes of Notes and certain other required amounts ranking senior to such Notes. The issuer's ability to make payments in respect of any Class of Notes will be constrained by the terms of the Notes of classes more senior to such class and the indenture. If distributions on the collateral are insufficient to make payments on the Notes, no other assets will be available for payment of the deficiency and, following liquidation of all of the collateral, the obligations of the co-issuers to pay such deficiencies will be extinguished.

**Payments in respect of the Preference Shares.** The issuer will pledge substantially all of its assets to secure the Notes and certain other obligations pursuant to the indenture. The proceeds of such assets will only be available to make payments in respect of the Preference Shares as and when such proceeds are released from the lien of the indenture in accordance with the priority of payments that will be set forth therein. There can be no assurance that, after payment of principal and interest on the Notes and other fees and expenses of the co-issuers in accordance with such priority of payments, the issuer will have funds remaining to make distributions in respect of the Preference Shares.

**Suitability.** An investment in the offered Securities is not appropriate for all investors. Structured investment products are complex instruments and are intended for sale only to sophisticated investors. A significant or total loss of investment could occur under certain scenarios.



**The summary risk factors presented above are generic to the investment category, do not present all of the risks specific to this transaction or the collateral and are subject in their entirety to the complete presentation of risk factors in the final Offering Circular.**

THE ATTENTION OF POTENTIAL INVESTORS IS DRAWN TO THE RISK FACTORS WHICH ARE DESCRIBED IN THE OFFERING CIRCULAR TO BE PROVIDED

## Risk Factors

Subordination of Each Class of Subordinate Notes and the Preference Shares. No payment of interest on any class of Notes will be made until all accrued and unpaid interest on the notes of each class that is senior to such class and that remain outstanding has been paid in full. Except as otherwise described in, and subject to, the priority of payments that will be set forth in the offering circular, no payment of principal of any class of Notes will be made until all principal of, and all accrued and unpaid interest on the Notes of each class that is senior to such class and that remain outstanding have been paid in full. There can be no assurance that, after payment of principal of, and interest on, the Notes and other fees and expenses of the Co-Issuers in accordance with the priority of payments, the Issuer will have funds remaining to make distributions in respect of the Preference Shares. If an event of default occurs, so long as any Notes are outstanding, the holders of the most senior class of Notes then outstanding will be entitled to determine the remedies to be exercised under the indenture. It is anticipated that so long as any Class A and Class B Notes are outstanding, the failure on any payment date to make payment in respect of interest on the Class C Notes, Class D Notes, and Class E Notes will not constitute an event of default under the indenture and such interest will be deferred and capitalized. Remedies pursued by the holders of the class or classes of Notes entitled to determine the exercise of such remedies could be adverse to the interest of the holders of the other classes of notes. It is anticipated that, to the extent that any losses are suffered by any of the holders of any Offered Securities, such losses will be borne, first, by the holders of the Preference Shares, second, by the holders of the Class E Notes, third, by the holders of the Class D Notes, fourth, by the holders of the Class C Notes, fifth, by the holders of the Class B Notes, and sixth, by the Class A Notes.

Volatility of the Preference Shares. The Preference Shares represent a leveraged investment in the underlying collateral. Therefore, it is expected that changes in the value of the Preference Shares will be greater than the change in the value of the underlying collateral, which will be subject to credit, liquidity, interest rate and other risks. Utilization of leverage is a speculative investment technique and involves certain risks to investors. The indebtedness of the issuer under the Notes will result in interest expense and other costs incurred in connection with such indebtedness that may not be covered by proceeds received from the Collateral. The use of leverage generally magnifies the issuer's opportunities for gain and risk of loss.

Nature of Collateral. The collateral will be subject to credit, liquidity, interest rate, market, fraud, operations and structural risk. The amount and nature of the collateral securing the Notes will be established with a view to withholding certain assumed deficiencies in payment occasioned by defaults in respect of the securities included in the collateral. If any deficiencies exceed such assumed levels, however, payments on the Notes and distributions on the Preference Shares could be adversely affected. To the extent that a default occurs with respect to any security included in the collateral, it is not likely that the issuer will receive the full amount of principal and interest owing to the issuer in respect of such security. The market value of the collateral generally will fluctuate with, among other things, the financial condition of the obligors on or issuers of the securities included in the collateral, the remaining term thereof to maturity, general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates.

It is currently anticipated that 70% of the collateral will have been purchased by the closing date. The issuer expects that it will have purchased 100% of the collateral by the ramp-up completion date, and that the collateral will satisfy the coverage tests. However, there can be no assurance that this will occur. Failure to satisfy the coverage tests may result in repayment or redemption of all or a portion of the Notes (in accordance with the priority of payments to be specified in the Offering Circular).

Early Redemption of the Notes. In addition to the risk of early redemption of the Notes discussed in the immediately preceding paragraph, the notes may be subject to early redemption 4 years after the closing date at the election of a majority in interest of the holders of the Preference shares. It is anticipated that if a coverage test is breached, interest proceeds and then principal proceeds will be applied to pay principal on the Notes until the applicable coverage test is met. In addition, it is anticipated that if the Notes have not been paid in full prior to May 14, 2014 an auction of the collateral will be conducted and subject to satisfaction of certain conditions, will be sold and used to redeem the Notes. The Notes may also be subject to early redemption on the occurrence of certain adverse tax events to be described in the Offering Circular.

Certain Conflicts of Interest. The activities of the Collateral Manager, Merrill Lynch and their respective affiliates may result in certain conflicts of interest.



**The summary risk factors presented above are generic to the investment category, do not present all of the risks specific to this transaction or the collateral and are subject in their entirety to the complete presentation of risk factors in the final Offering Circular.**

THE ATTENTION OF POTENTIAL INVESTORS IS DRAWN TO THE RISK FACTORS WHICH ARE DESCRIBED IN THE OFFERING CIRCULAR TO BE PROVIDED



## Risk Factors

*Pro Rata Payment of Notes.* If, on any determination date, (i) no event of default has occurred and is continuing, (ii) no Principal Proceeds have been applied on any Payment Date (or will be applied on the related Payment Date) to cure a breach of the Class A/B/C Overcollateralization Test, and (iii) the aggregate principal balance of all Collateral Debt Securities equals or exceeds 50% of the collateral balance (as of the ramp-up completion date), Principal Proceeds may be applied on such Payment Date to pay principal of the Notes pro rata and not sequentially. This will have the effect of junior Classes of Notes being paid principal prior to the payment in whole of more senior Classes of Notes. [If a sequential pay period commences due to the occurrence of an event described in clause (ii) or (iii) of the first sentence of this paragraph, a pro rata pay period will not occur thereafter.]

*Conflicts of Interest Involving the Collateral Manager.* Various potential and actual conflicts of interest may arise from the overall investment activities of the Collateral Manager and its affiliates for their own accounts or for the accounts of others. The Collateral Manager and its affiliates may invest for their own accounts or for the accounts of others in securities that would be appropriate investments for the issuer and they have no duty, in making such investments, to act in a way that is favorable to the issuer or the holders of the Offered Securities. Such investments may be different from or the same as those made on behalf of the issuer. The Collateral Manager and its affiliates may have economic interests in or other relationships with issuers in whose obligations or securities the issuer may invest. In particular, such persons may make and/or hold an investment in securities that may be *pari passu*, senior or junior in ranking to an investment in securities of the same issuer that are held by the issuer or in which partners, security holders, officers, directors, agents or employees of such persons serve on boards of directors or otherwise have ongoing relationships. Each of such ownership and other relationships may result in securities laws restrictions on transactions in such securities by the issuer and otherwise create conflicts of interest for the Issuer. In such instances, the Collateral Manager and its affiliates may in their discretion, subject to certain restrictions, make investment recommendations and decisions that may be the same as or different from those made with respect to the issuer's investments.

Although the Collateral Manager personnel will devote as much time to the issuer as the Collateral Manager deems appropriate, personnel may have conflicts in allocating their time and services among the issuer and other accounts advised by the Collateral Manager and/or its affiliates. In addition, the Collateral Manager and its affiliates, in connection with their other business activities, may acquire material non-public confidential information that may restrict the Collateral Manager from purchasing securities or selling securities for itself or its clients (including the Issuer) or otherwise using such information for the benefit of its clients or itself.

The Collateral Manager and any of its affiliates may engage in any other business and furnish investment management and advisory services to others, which may include, without limitation, serving as collateral manager or investment manager for, investing in, lending to, or being affiliated with, other entities organized to issue collateralized bond obligations secured by securities such as those included in the collateral and other trusts and pooled investment vehicles that acquire interests in, provide financing to, or otherwise deal with securities issued by issuers that would be suitable for inclusion in the collateral. The Collateral Manager will be free, in its sole discretion, to make recommendations to others, or effect transactions on behalf of itself or for others, that may be the same as or different from those effected on behalf of the issuer, and the Collateral Manager may furnish investment management and advisory services to others who may have investment policies similar to those followed by the Collateral Manager with respect to the issuer and who may own securities of the same class, or which are the same type as, the securities included in the Collateral.

Although the Collateral Manager or one of its affiliates may at times be a holder of the Offered Securities, its interests and incentives will not necessarily be completely aligned with those of the other holders of the Offered Securities (or of the holders of any particular class of the Notes or of the Preference Shares). Furthermore, although the Collateral Manager is expected to purchase Preference shares, it is not required to maintain minimum holdings in the Preference shares.



**The summary risk factors presented above are generic to the investment category, do not present all of the risks specific to this transaction or the collateral and are subject in their entirety to the complete presentation of risk factors in the final Offering Circular.**

THE ATTENTION OF POTENTIAL INVESTORS IS DRAWN TO THE RISK FACTORS WHICH ARE DESCRIBED IN THE OFFERING CIRCULAR TO BE PROVIDED



## Risk Factors

*Conflicts of Interest Involving Merrill Lynch.* Certain of the Collateral Debt Securities acquired or to be acquired by the Issuer will consist of obligations of issuers or obligors, or obligations sponsored or serviced by companies, for which Merrill Lynch or an affiliate thereof has acted as underwriter, agent, placement agent or dealer or for which Merrill Lynch or an affiliate thereof has acted as lender or provided other commercial or investment banking services. Merrill Lynch or an affiliate thereof may structure issuers of Collateral Debt Securities and arrange to place such Collateral Debt Securities with the Issuer. Merrill Lynch or an affiliate thereof may also act as counterparty with respect to one or more Synthetic Securities. In its role as counterparty with respect to Synthetic Securities, Merrill Lynch or one of more of its affiliates may manage a pool of Reference Obligations with respect to the Synthetic Securities and make determinations regarding those Reference Obligations. In addition, an affiliate of Merrill Lynch may act as Hedge Counterparty under one or more Hedge Agreements with the Issuer.

Moreover, Merrill Lynch or its affiliates may from time to time enter into derivative transactions with third parties with respect to the Offered Securities or with respect to Collateral Debt Securities acquired by the Issuer, and Merrill Lynch or its affiliates may, in connection therewith, acquire (or establish long, short or derivative financial positions with respect to) Offered Securities, Collateral Debt Securities or one or more portfolios of financial assets similar to the portfolio of Collateral Debt Securities acquired by (or intended to be acquired by) the Issuer. Merrill Lynch, its employees, affiliates and employees of affiliates will receive compensation in connection with the structuring of the CDO and/or distribution of the Securities. These activities may create certain conflicts of interest, and there can be no assurance that the terms on which the Issuer entered into (or enters into) any of the foregoing transactions with Merrill Lynch (or an affiliate thereof) were or are the most favorable terms available in the market at the time from other potential counterparties.

It is anticipated that, in the event that the transaction will include an administrative agency agreement, an affiliate of Merrill Lynch, as administrative agent, would become successor collateral manager, if the Collateral Manager were removed pursuant to the collateral management agreement. If this occurs, such affiliate could experience conflicts of interest similar to those described above with respect to the collateral manager.

*Significant Fees Reduce Proceeds Available for Purchase of Collateral Debt Securities.* On the Closing Date, the Co-Issuers will use a portion of the gross proceeds from the offering to pay various fees and expenses, including expenses, fees and commissions incurred in connection with the acquisition of the Collateral, structuring and placement agency fees payable to Merrill Lynch, the manager, and legal, accounting, rating agency and other fees. Closing fees and expenses reduce the amount of the gross proceeds of the offering available to purchase Collateral and, therefore, the return to purchasers of the Securities. Rating agencies will consider the amount of net proceeds available to purchase Collateral in determining any ratings assigned by them to the Securities. For information about the amount of such fees and expenses, please review the final Offering Circular before investing.

*Purchase of Collateral Debt Securities.* It is anticipated that all or most of the securities that will be purchased by the issuer on the date on which the Offered Securities are issued will be purchased from one or more portfolios of securities held by affiliates of Merrill Lynch or the Manager pursuant to separate warehousing agreements between such affiliates of Merrill Lynch and the Collateral Manager. Some of the securities subject to such warehousing agreements may have been originally acquired by Merrill Lynch from the Collateral Manager or one of its Affiliates. The issuer will purchase securities included in such warehouse portfolios only to the extent that such purchases are consistent with the investment guidelines of the issuer, the restrictions contained in the indenture and the collateral management agreement and applicable law. The purchase price payable by the issuer for such securities will be based on the purchase price paid when such securities were acquired under the warehousing agreements, accrued and unpaid interest on such securities as of the date they are acquired by the issuer and gains or losses incurred in connection with hedging arrangements entered into with respect to such securities. Accordingly, it is likely that the issuer will bear the risk of market changes subsequent to the acquisition of such securities and related hedging arrangements pursuant to the warehousing agreements as if it had acquired such securities directly.



**The summary risk factors presented above are generic to the investment category, do not present all of the risks specific to this transaction or the collateral and are subject in their entirety to the complete presentation of risk factors in the final Offering Circular.**

THE ATTENTION OF POTENTIAL INVESTORS IS DRAWN TO THE RISK FACTORS WHICH ARE DESCRIBED IN THE OFFERING CIRCULAR TO BE PROVIDED

## Risk Factors

***Auction Call Redemption.*** If the Notes have not been redeemed in full prior to the Payment Date occurring in May 14, 2014, then an auction of the Collateral Debt Securities will be conducted and, provided that certain conditions are satisfied, in particular with respect to the sufficiency of anticipated proceeds from the proposed sale of the Collateral Debt Securities, the Collateral Debt Securities will be sold and the Notes will be redeemed on such Payment Date. If such conditions are not satisfied and the auction is not successfully conducted on such Payment Date, the Collateral Manager will conduct auctions on each Payment Date thereafter, however, the Notes will not be redeemed until the conditions are satisfied.

***Redemption and Diversion of Interest Proceeds.*** The Securities will be subject to redemption under the circumstances described in the Offering Circular (including, under certain circumstances, upon the failure of certain financial coverage tests to be satisfied). Any such redemption may cause the economic return from an investment in the Securities to vary from the economic returns that may be modeled in this Information. In addition, the failure to satisfy certain financial coverage tests could result in an elimination, deferral or reduction in the payments to be made to holders of one or more classes of notes or equity securities, which could adversely impact the economic return realized by such holders.

***Application of Principal Proceeds.*** Principal Proceeds from the Collateral Debt Securities, except for sales proceeds that are reinvested during the substitution period in substitute Collateral Debt Securities, will be used to pay principal on the Notes. The timing of receipts of principal on the Collateral Debt Securities will depend on, among other factors, the rate of prepayments on Collateral Debt Securities which may be influenced by the level of interest rates and economic conditions. The Issuers cannot predict the actual rate of principal payments that will be experienced on the Collateral Debt Securities. After the rampup completion date, there will be no further purchases made in the portfolio.

***Redemption of Class D Notes.*** If Preference Shareholders have received distributions on the Preference Shares sufficient to achieve a Dividend Yield of [20]% during the related calculation period for such Payment Date, any remaining Interest Proceeds will be applied to redeem the Class D Notes. While the anticipated effect of this feature is to accelerate the payment of the Class D Notes, the Issuers cannot predict whether Interest Proceeds received on the Collateral Debt Securities will be sufficient to make such redemptions. Moreover, if the Class D Notes are redeemed sooner than anticipated due to this feature, investors in the Class D Notes may not be able to reinvest the proceeds in investments with the same yield.

***CDO of CDOs.*** The assets held by Lenox CDO, Ltd. ("Lenox CDO") which back the Offered Securities consist of (i) Asset Backed Securities including RMBS, and CMBS, (ii) Leveraged Loans (CLOs) and (iii) ABS CDOs. A portion of the assets held by Lenox CDO may consist of ABS CDO securities; provided that the securities issued by any one CDO may not exceed 2% of Lenox CDO's portfolio. As a result, purchasers of the Offered Securities must understand that if they hold debt or equity issued by other CDOs, their credit exposure to such CDOs will increase to the extent securities issued by those CDOs are also included in the assets of Dynamic CDO.

***CDO Obligations and CLO Obligations.*** A significant portion of the Collateral Debt Securities acquired by the Issuer will consist of CDO Obligations and CLO Obligations. "CDO Obligations" are Asset-Backed Securities issued by an entity formed for the purpose of holding or investing in a pool of commercial and industrial bank loans, obligations and debt securities subject to specified investment and management criteria (each such pool, an "Underlying Portfolio"). "CLO Obligations" are CDO Obligations the Underlying Portfolios of which include commercial and industrial bank loans. Additionally, a portion of the obligations in the Underlying Portfolios of the CDO Obligations may consist of CDO Obligations.

CDO Obligations generally have underlying risks similar to many of the risks set forth in these Risk Factors for the Offered Securities, such as interest rate mismatches, trading and reinvestment risk and tax considerations. Each CDO Obligation however, will involve risks specific to the particular CDO Obligation and its Underlying Portfolio.



**The summary risk factors presented above are generic to the investment category, do not present all of the risks specific to this transaction or the collateral and are subject in their entirety to the complete presentation of risk factors in the final Offering Circular.**

THE ATTENTION OF POTENTIAL INVESTORS IS DRAWN TO THE RISK FACTORS WHICH ARE DESCRIBED IN THE OFFERING CIRCULAR TO BE PROVIDED

## Risk Factors

A significant portion of the Collateral Debt Securities to be acquired by the Issuer will be rated below investment grade. The lower rating of such securities reflects a greater possibility that adverse changes in the financial condition of an issuer or in general economic conditions or both may impair the ability of the issuer to make payments of principal and interest. Accordingly the Collateral Debt Securities will have greater credit, insolvency and liquidity risk than investment grade obligations and, therefore, a greater risk of loss. In addition to credit and liquidity risk, obligations rated below investment grade have greater volatility than investment grade obligations. Future periods of uncertainty in the United States economy and the possibility of increased volatility and default rates in the below investment grade sector may further adversely affect the price and liquidity of below investment grade obligations in this market.

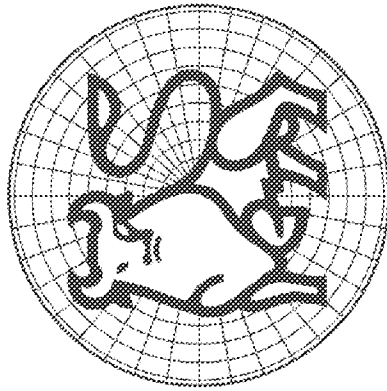
Reliance on the Manager. The Manager is experienced in the management of CDO vehicles investing primarily in leveraged loans and high yield bonds but has no experience managing CDO of CDOs.

Investment in CDO Equity. CDO equity securities are a first loss, leveraged credit position. An investor in a CDO is exposed to a portfolio of diversified credits, but only a portion of those credits need to default (recovery values adjust this range upward) for clients that invest in CDO equity securities to lose 100% of their original investment — hence the leveraged credit position. Client loss is limited to original investment. CDO debt tranche investors effectively loan money to CDO equity investors. Criteria governing a CDO will divert cashflow intended for equity to start paying down debt in the event that certain coverage ratios (over-collateralization and interest coverage tests) are triggered. Collateral deterioration is the cause for these ratios to be triggered. This may result in a cutoff of cashflow to CDO equity securities for some time and potential phantom income tax issues. Equity investors are leveraged. Spread movement in the underlying collateral portfolio will have exaggerated mark-to-market effect on client positions. These cashflows are amortizing in nature, i.e., investors do not normally receive their full principal at maturity. CDO equity returns are projected in terms of the IRR of this stream of cashflows. The earlier cash is received, the higher the IRR will be.

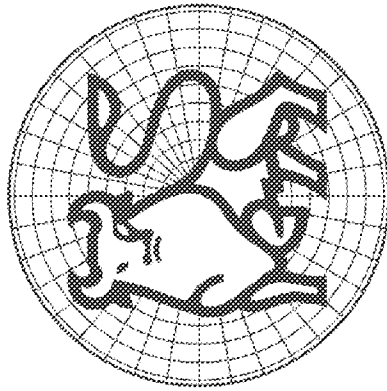


**The summary risk factors presented above are generic to the investment category, do not present all of the risks specific to this transaction or the collateral and are subject in their entirety to the complete presentation of risk factors in the final Offering Circular.**

THE ATTENTION OF POTENTIAL INVESTORS IS DRAWN TO THE RISK FACTORS WHICH ARE DESCRIBED IN THE OFFERING CIRCULAR TO BE PROVIDED

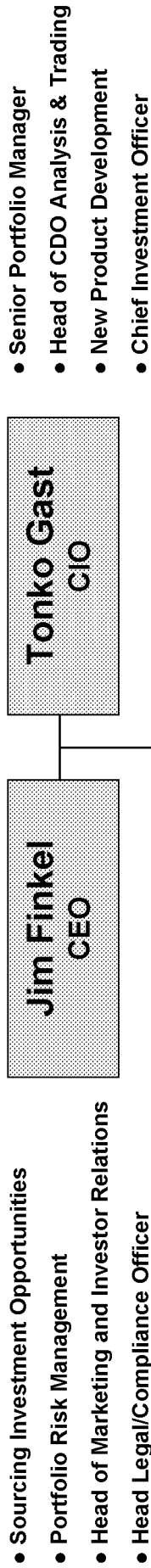


## **5. About the Collateral Manager**



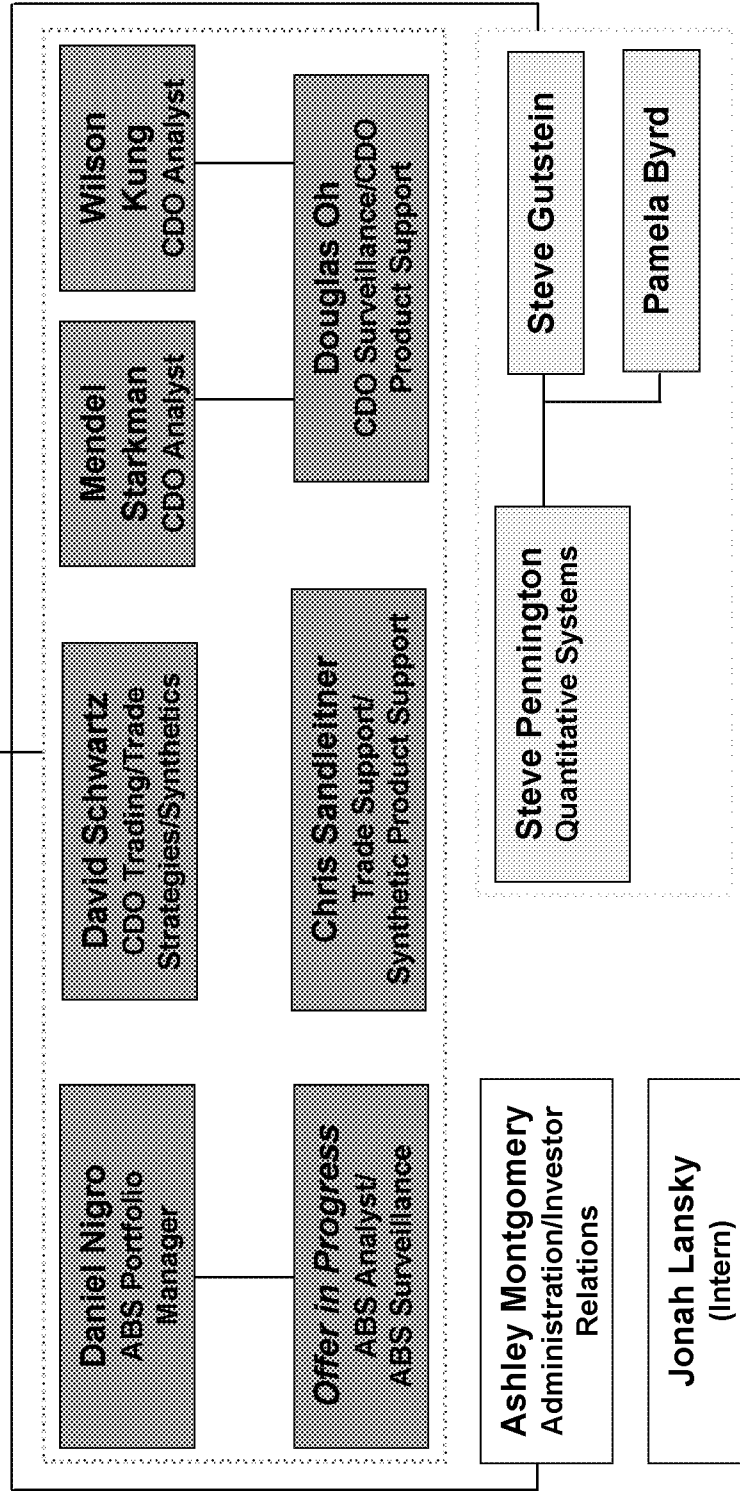
## A. Collateral Manager Overview

## Manager Overview Organization



- Sourcing Investment Opportunities
- Portfolio Risk Management
- Head of Marketing and Investor Relations
- Head Legal/Compliance Officer

- Senior Portfolio Manager
- Head of CDO Analysis & Trading
- New Product Development
- Chief Investment Officer



## Manager Overview Our Edge: Sourcing

- Both principals have long been involved in the CDO and ABS markets and their experience and contacts provide the ability to cast the widest possible net for finding attractive investments
- Dedicated individual for continuous sourcing & trade execution allows for better allocation and stable dealer relationships
- Wide Range of Dealer and Regional Brokers:

ABN-Amro	Deutsche Bank	Mezirow
Bank of America	Dresdner	Mizuho
Barclays	Fieldstone Capital	Monte dei Paschi
Bear Stearns	Goldman Sachs	Morgan Stanley
Blaylock	Greenwich Capital	Prebon Yamane
CDC/Ixis	Guggenheim	RBC
Christopher Street	Guy Butler Rothschild	RBS
CIBC	HSBC	R.W. Pressprich
Citigroup	ICP	Societe Generale
CSFB	JP Morgan Chase	UBS
Descap	Lehman Brothers	United Capital
	Merrill Lynch	Wachovia Securities



## Manager Overview Our Edge: Analytics

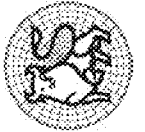
Utilizing a centralized data warehouse infrastructure, DCP blends its proprietary analytics and reporting systems with various third-party applications

### Proprietary Systems:

- CDO Analytics: Cash Flow replication, Monte Carlo simulations & Re-ratings analysis
- ABS trading database and agency loss & prepayment assumption models
- CDO Universe-CDO surveillance system tool set
- ABS Universe-ABS surveillance system tool set, integrated with dealer and Intex Solutions data files

### Third-Party Applications:

- INTEX (RMBS Cash Flow Analytics, ABS & CDO Surveillance)
- TREPP (CMBS Cash Flow Analytics)
- Loan X (Loan Prices)
- Bloomberg (Ratings, Rating Watches, Factors, Coupons, Spreads)
- KDP (Prices, Credit analysis, and Ratings)
- CRT (Credit Analysis, Prices)
- Goldman Sachs (Bond Prices)





## Manager Overview

### What are CDOs?

- CDOs ("Collateralized Debt Obligations") are essentially closed-end, actively managed, credit-related bond funds that employ leverage to enhance such funds' returns. The "magic" of CDOs is that the leverage employed is highly efficient non-recourse, term funding provided by the capital markets. The major credit rating agencies made this financing technique available in 1996, and the CDO market exploded with over \$1 trillion of issuance since then

### Why CDOs?

- CDOs continue to offer great relative value compared to most other securitized products. CDOs tend to have wide spreads for their relative rating classes, are rated by both major rating agencies, benefit from a highly conservative rating process and have lower leverage ratios compared to other ABS products

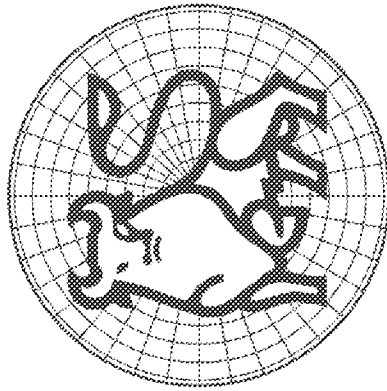
### Why ABS?

- The asset-backed securities (ABS) sector also provides good value, particularly in the home equity loans and sub-prime mortgage sectors
- The conservative structures of ABS products mitigate concerns over issues such as the US "housing bubble" and excessive consumer debt. A high degree of transparency also provides adequate collateral background and structural information to investors
- ABS has the highest Sharpe ratio in the Lehman Brothers Investment Grade Bond Universe and within ABS, residential mortgage-backed securities offer the highest spreads, and a low degree of ratings volatility

### Why Now?

- Despite the overall tightening in the liquid credit markets, certain CDO and ABS tranches continue to provide additional rewards to investors for accepting complexity, as opposed to credit, risk. For example, cash flows on many of these products cannot be run on Bloomberg
- Structural features and discounts can provide "cushion" against future credit events
- Bank capital ratios and other regulatory changes make certain CDO and ABS tranches less favorable for traditional institutional holders, capping the investor universe
- Specialization, experience and market contacts are a distinct advantage in this niche





## B. Investment Process

## CDO Investment Process Overview

**Sourcing**

Both Principals have been involved in the CDO market from its inception, and their experience and contacts provide the ability to cast the widest possible net for finding attractive investments

**Initial Screening**

Based on latest CDO information—check quality and cash generating ability of the collateral, position in capital structure

**Deal Analysis**

**Qualitative Analysis**

- Review Offering Memorandum, Indenture
- Conduct Manager due diligence (teams, incentives)
- Review Manager's trading history
- Assess Current trading flexibility in structure
- Conduct Legal due diligence

**Proprietary Quantitative/Credit Analysis**

- Examine collateral risk statistics
- Collateral credit analysis
- Re-engineer deal cash flow waterfall
- Re-rate cash flows
- Assess structural protection of tranches under consideration
- Stress test analysis (assets specific, interest rates, reinvestment rates, prepayment rates)
- Assess PiK risk
- Assess ratings migration risk

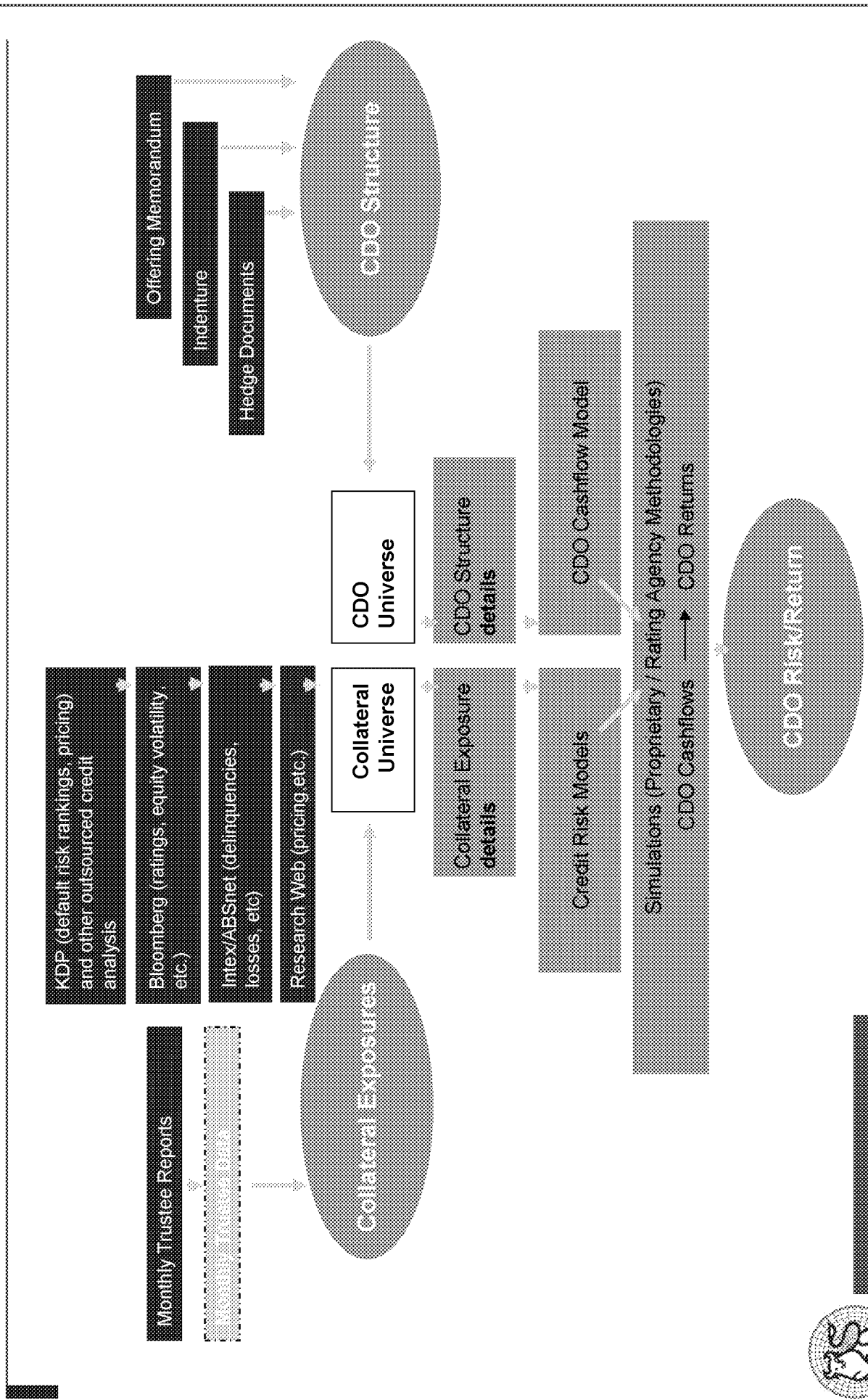
**Generate Formal Risk/Return Analysis Report**

**Investment Decision & Portfolio Construction**

Manager's Principals come to a decision on maximum size and maximum price based on Risk/Return Analysis Report and portfolio construction considerations (diversity, maturity, etc.)—all decisions must be unanimous



# CDO Investment Process Data Flow



## CDO Investment Process

### 1<sup>st</sup> level review: Initial Screening

- **Rating Criteria**  
(Investment or Non-Investment Grade)
- **Manager Review**  
(Quality and Performance of Managers)
- **Collateral Review**  
(ABS, HY, IG, Loans, Performing vs. Non-Performing)
- **Structural Review**  
(I/C, O/C Triggers, Haircuts, Waterfall)
- **Relative Value Review**  
(Does Spread Level make sense vs. Risk & Market?)
- After an initial screening and review of the security a brief discussion follows between the trader and the principals as to the interest and feasibility of the potential position
- **Documentation:** If a position is accepted for further review, the following security documentation is requested:
  - 1) Offering Circular, 2) Hedge/swap terms, 3) Collateral (including ABS stratifications where applicable), 4) Zero CDR and break-even cash flow runs (for back-testing against DCP's model), and 5) Rating Agency Research, where relevant



## **CDO Investment Process**

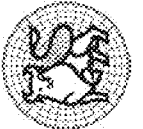
### **2<sup>nd</sup> level review: Data Standardization and Modeling**

#### **Collateral Data Standardization**

- Download collateral file into proprietary model and database
- Third-party data migration
  - Bloomberg (Ratings, Rating Watches, Factors, Coupons, Spreads)
  - KDP (Prices and ratings)
  - CRT (Prices)
  - Goldman Sachs (Prices)
  - Loan X (Prices)
  - ABS database (ABS Principal, Prepayment and Loss Assumptions)
- Create collateral overview with various stratifications (sector, ratings, size etc.)

#### **Reverse Model Deal Structure into DCP Proprietary Model**

- Waterfall (Priority of Payments)
- Fees
- Prepayment Features
- Reserve Accounts
- Cumulative Loss Factors
- Step-up Coupons
- Haircuts on Downgraded or Excess CCC-rated Collateral
- O/C and I/C Triggers
- Hedges
- Class X or Combination Notes
- Other Special Structural Features



## CDO Investment Process

### 3<sup>rd</sup> level review: In-depth Quantitative Deal Analysis

#### CDO Collateral Characteristics:

- Static and dynamic collateral risk parameters are used to model the specific collateral risk
  - Static Collateral parameters include: principal amount, coupon (fixed/floating), maturity
  - Dynamic Collateral parameters include: bond prices, ratings, equity volatility, Altman z-scores

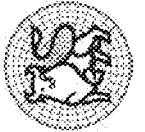
#### CDO Structure Cash Flows:

- Capable of modeling any structural feature:
  - CDO Collateral: pik-ability, prepayments, reinvestments, etc.
  - CDO Structure: cash flow diversion triggers, complex triggers depending on rating migration, interest rate hedges, turbo prepayment features, incentive fee calculations, etc.

#### CDO Tranche Credit Risk:

- Independent "Re-rating" by DCP to test strength of rating
- Certain risks usually not taken into account by marketplace (using "off-the-shelf" products), and rating agencies, such as:
  - large individual obligor exposures
  - changing sector concentrations
  - lagging ratings
  - persistent negative correlation between default rates and recovery rate

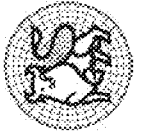
*This approach also allows DCP to monitor exposures, and explicitly value early exit opportunities*



## **CDO Investment Process**

### **3rd level review: In-depth Qualitative Deal Analysis**

- CDO Manager due diligence (teams, incentives)
- CDO Manager's trading history and peer performance ranking
- Key Man provisions
- CDO Manager's Commitment to deal such as equity participation
- Current and future trading flexibility in structure
- Legal due diligence
- CDO Manager removal rights
- Events of Default
- Call rights





## CDO Investment Process

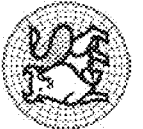
### 4<sup>th</sup> level review: Portfolio Construction

#### Optimal investment size is set after analyzing:

- Incremental portfolio risks
- CDO investment parameters, limiting concentrations in (among other things):
  - underlying asset sectors
  - deal structures
  - vintages
  - managers

#### Investment Decision and Portfolio Construction:

- Principals come to a decision on maximum size and maximum price based on Risk/Return Analysis Report and portfolio construction considerations (diversity, maturity, etc.)
- All decisions must be unanimous

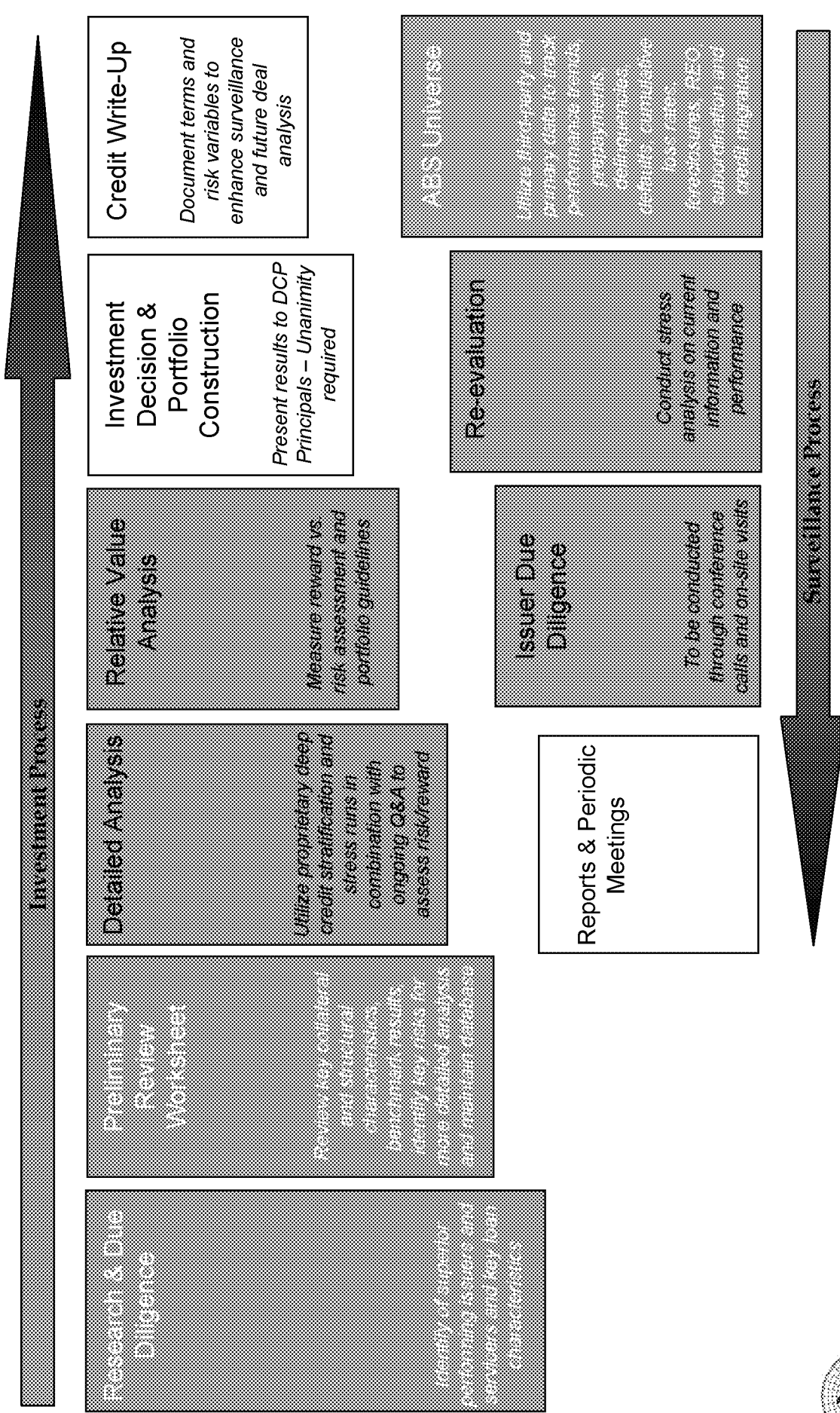


## **CDO Investment Process Ongoing Asset Surveillance and Risk Monitoring**

- Consistent monitoring and re-evaluation: monthly investor report based on data reported by Trustee of each investment
- Database approach utilizes "CDO Asset Universe" and third-party data, enabling DCP to currently track over 30,000 asset line items on a continuous basis and monitor performance indicators such as rating changes, equity volatility, and price movements
- Quarterly re-ratings analysis
- Manager Level Analysis (asset selection, trading trends, firm stability)
- Surveillance of positions via a top-down approach enables principals and analysts to monitor positions on a regular basis
- Twice-weekly ABS Ratings Migration reporting
- Monthly surveillance meeting for open discussion of all positions held in DCP-managed funds



# ABS Investment Process Overview



## ABS Investment Process Collateral & Scenario Analysis

### Collateral Composition

- Distribution of coupons
- Distribution of FICOs
- Distribution of LTVs
- Loan Purpose – Refinance, Cashout, Purchase
- Property types (Single Family Residence, PVD, Condo, MH, Multi Family)
- Occupancy Type: Primary Investment Second Home
- Loan types (2-28, 3-27, IO, Fixed, Floating, JUMBO, 1<sup>st</sup>/2<sup>nd</sup> Lien etc.)
- Documentation of levels on loans; deeper examination
- Origination channels
- Geographic concentrations

### Expected Loss and Scenario Analysis

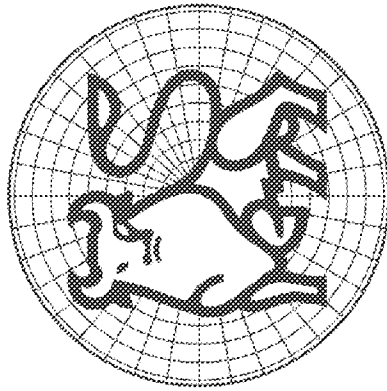
- Prepayment Stress for different collateral types (Fixed, ARM, IO, 1<sup>st</sup> lien, 2<sup>nd</sup> lien, JUMBO etc.)
- CDR and cumulative loss analysis
- Home price appreciation & depreciation stresses (recoveries)
- Loss tolerance under higher severities – 40%, 50%, 60%

### Available Funds Cap risk mitigation through forward curve stress scenario analysis

- 200 bp above forward LIBOR curve



### Ratings Migration and step-down scenarios



## B. Related Strategies

## Related Strategies

### Dynamic Credit Opportunities Funds – Overview

- Dynamic Credit's Opportunities Funds have a "deep value" approach, but also employ relative value and "structure" event-driven attributes
- These Funds invest opportunistically in discounted CDO debt and equity tranches, and ABS, mainly in the secondary market
- Fund I launched in early 2004 and closed to new investors in December 2004
- Fund II launched in August 2005 and is open to investors. It has an additional focus on the distressed ABS-backed CDO sector
- Target net returns of 12-15%, with significant focus on current cash flow
- Secondary market spreads of structured finance assets remain wide because:
  - Idiosyncratic CDO structures create a "complexity discount"--few investors have the analytic infrastructure to evaluate these instruments
  - CDO portfolios backed by high yield bonds suffer "lagging impairment" due to the credit events of 2001/2002 – trading constraints imposed upon such CDOs prevent restructuring
  - Erosion already showing in credit quality of "newer" CDOs (investment grade- & ABS-backed CDOs), adding to historic problems of high yield CDOs
- Methodology emphasizes the protection of invested capital at low levels of credit risk
- Focus on exit strategies allowing realization of enhanced value of tail pieces



## Related Strategies DCOF I – Fund Structure

- Fund Size: Maximum [\$75 million]; \$27 million committed as of January 2005; over 85% invested to date
- Minimum Investment: \$1 million
- Correlation: Low expected correlation with equity or fixed income indices
- Leverage: Low (no greater than 1x cost of assets), if used at all
- General Partner: Dynamic Credit Partners, LLC, an investment adviser registered with the SEC
- Subscriptions: Monthly [June 30, 2005], then closed
- Commitment Period: GP may draw and invest funds until [June 30, 2006]
- Distributions of Income: Quarterly
- Management Fee: 2% p.a. during Commitment Period, 1.5% p.a. thereafter
- Incentive Fee: 20% only after full return of LP investment and 5% per annum thereon (compounded)
- Term: 5 years, with 2 one-year extensions; no redemptions (LPs may elect to dissolve Fund if, after 2 years, market value of portfolio is 30% below cost)
- Significant investment by Principals of the GP in the Fund & Key Person lock-ups
- Parallel Offshore Structure: Cayman Islands Ltd. Company as Feeder Fund
- Administrator: Meridian Fund Services (New York and Bermuda)
- Legal: Orrick, Herrington & Sutcliffe, LLC
- Auditor: Rothstein, Kass LLC
- Prime Broker: Bear, Stearns & Co.



## **Related Strategies DCOF II – Fund Structure**

- **Target Fund Size:** \$150 million, launched in August, 2005
- **Target Minimum Investment:** \$5 million, which may be waived at Investment Manager's discretion
- **Correlation:** Low expected correlation with equity or fixed income indices
- **Leverage:** Low (no greater than 2x cost of assets)
- **Investment Manager:** Dynamic Credit Management, LLC, an affiliate of Dynamic Credit Partners, LLC, which is an investment adviser registered with the U.S. SEC
- **Subscriptions:** Monthly
- **Class A:** no lockup, monthly redemption thereafter  
3% management fee, 25% performance fee (high water mark)  
3% penalty for redemption  
Class A will be limited to no more than 10% of the Fund
- **Class B:** 1-year lockup, quarterly redemption thereafter  
“Soft lockup” option – redemption can be made within the 1 year period, with a 4% early redemption penalty  
2% management fee, 20% performance fee (high water mark)
- **Class C:** 3-year lockup, with a rolling 3-year commitment or option to convert to Class B if not redeemed.  
1.5% management fee, 15% performance fee (high water mark)
- **Distributions of Income:** not anticipated but may be made at the discretion of the Manager
- **Principals of the Investment Manager** intend to invest in the Fund in a 3-year lockup class; further commitment via retention in the Fund of specified % of incentive fee allocation
- **Structure:** Cayman Islands Ltd. Company Master Fund –  
Cayman Islands Ltd. Company as Offshore Feeder Fund & Delaware LLC as Domestic Feeder Fund
- **Administrator:** Meridian Fund Services (New York and Bermuda)
- **Prime Broker:** Bear, Stearns & Co.
- **Auditor:** Rothstein, Kass LLC
- **Legal:** Orrick, Herrington & Sutcliffe, LLC





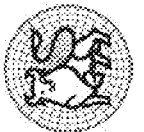
## Related Strategies Stockbridge CDO Ltd - Summary

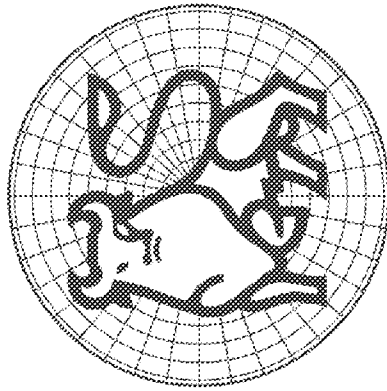
- Stockbridge CDO Ltd. is a \$250 million cash flow CDO, collateralized by a diversified portfolio of high quality CDO tranches
- Citigroup priced the Stockbridge CDO in September 2004. The CDO was fully subscribed in all tranches. It is rated by both S&P and Moody's
- Dynamic Credit Partners is solely responsible for the analysis, asset selection, asset disposition and on-going surveillance of the portfolio
- All of the portfolio collateral are rated investment grade, with a weighted-average Moody's rating of A3
- Approximately 20% of the portfolio consists of CDOs collateralized by European credits, which have lower correlation with the rest of the portfolio. Very efficiently priced fx swaps were executed to mitigate the "cost" of this diversity
- All collateral principal proceeds, including any proceeds from Credit Risk Sales, are used to amortize the Notes
- Structural features providing greater protection to the debt tranches include features such as excess spread "turbo" paydowns, additional O/C tests that reinvest interest, and fast pay O/C features
- The CDO demonstrates high tolerance to default rates on the underlying collateral. The annual default rates at which the yields on the debt tranches are negatively affected are many multiples of the historical average default rates



## **Related Strategies DCP's Current CDO Initiatives**

- DCP has mandated 3 CDO projects, totalling \$2.25 billion, with two leading investment banks:
  - Lenox CDO, Ltd., and
  - Two \$1 billion High Grade ABS-backed CDOs
- Each CDO will have "equity" tranches having targeted returns that compete with other alternative investment return profiles
- Due to confidentiality and compliance reasons, DCP cannot provide further detail at this time
- These transactions are expected to be marketed later in 2005 by the arranging investment banks





## C. Past Performance

**Past Performance  
DCOF I Performance (unaudited)**

<b>Performance</b>	
(Inception) March 2004	-2.53% <sup>(1)</sup>
April 2004	-0.52%
May 2004	-0.45%
June 2004	2.80%
July 2004	0.83%
August 2004	0.79%
September 2004	1.64%
October 2004	-1.23%
November 2004	3.88%
December 2004	3.05%
January 2005	4.42%
February 2005	0.98%
March 2005	2.89%
April 2005	4.97%
May 2005	1.62%
June 2005	2.49%
July 2005	0.92%
August 2005	0.71%
<b>Return since Inception</b>	<b>30.66%</b>

net of all fees and expenses

<b>Volatility</b>	
Monthly Average Return	1.56%
Monthly Standard Deviation	2.04%
Annualized Sharpe Ratio	2.45
Current Leverage Employed	None

Note: These estimates have been made on a good faith basis according to GAAP, with certain exceptions given the illiquid nature of the Fund's assets. Returns are based in part on dealer month-end price indications of the Fund's investments. Dealer marks are from the original underwriter of each investment and are produced once per month; they may not accurately reflect where a particular investment might be sold. As the Sharpe Ratio is based on a very small data set, its interpretation as a performance measure requires caution. Past performance is not indicative of future results.  
<sup>(1)</sup> loss created by negotiated initial fees, not portfolio performance.



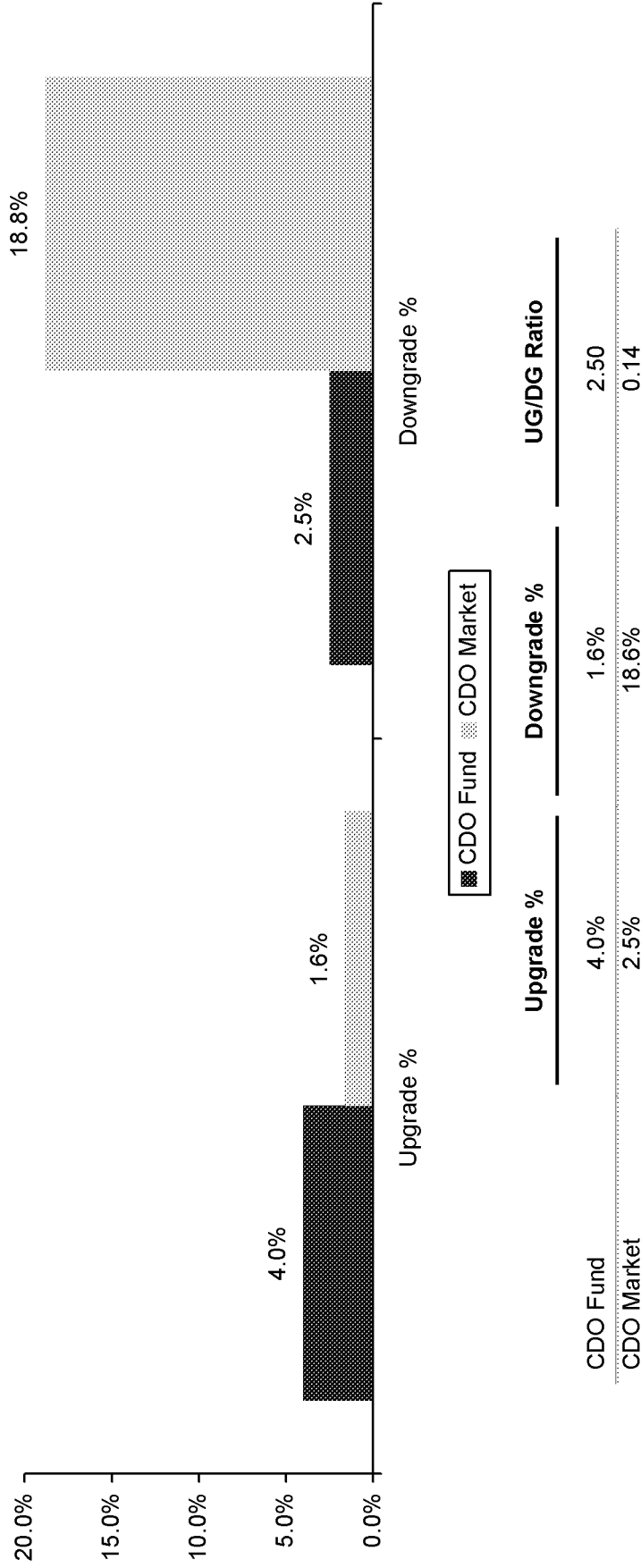
## **Past Performance Track Record at Prior Institution**

- Tonko Gast was the Senior Portfolio Manager of a CDO Fund established under a joint venture between ABN AMRO and Sumitomo Life, which was launched 2001
- The CDO Fund reached its maximum investment amount of approximately \$250mm by the beginning of 2003. It was comprised of:
  - 43 mezzanine CDO tranches, broadly diversified over collateral types: loans, ABS, investment grade and high yield bonds and synthetics
  - Average credit quality: A2 by Moody's
  - Portfolio actual coupon yield: 190bp; target coupon yield at inception was approx. 140 bps
- Maintained a single A Moody's Fund rating and a Moody's Market Risk Rating of 2 (on a scale of 1-6) since inception
- The Fund's focus was on CDO rating stability, achieved by:
  - avoiding over-levered deals
  - limiting static pool synthetic 'dealer arbitrage' CDOs
  - avoiding aggressive, poorly incentivised managers
  - purchasing tranches in deleveraging CDOs
  - seeking out tranches with attractive 'turbo' prepayment features
  - seeking out tranches that benefited from underestimated excess cash flows



## Past Performance Track Record at Prior Institution

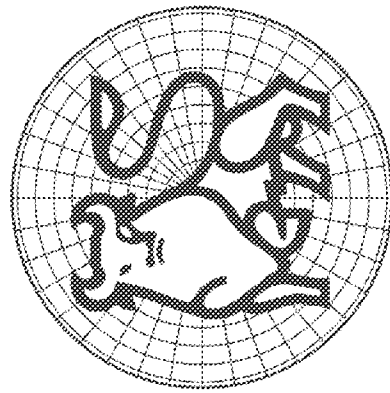
- Rating actions per CDO investment compared: CDO Fund<sup>(1)</sup> outperforms the CDO Market



- Only 2 positions in the CDO Fund were downgraded; 2 positions have been upgraded
- CDO Market statistics where compiled from published rating agency data, using the same vintage distribution as the CDO Fund and the same period that Tonko Gast held responsibility



<sup>(1)</sup> The CDO Fund had a mix of mezzanine tranches of CLOs (~60%), ABS CDOs and HY Bond CDOs. Majority was 2002 vintage (70%) and the rest evenly distributed over 1999, 2000 and 2001. Average rating was BBB. ~30% EUR deals and ~70% USD deals.



## C. Biographies

**Biographies**

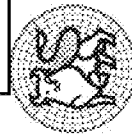
<p><b>James K. Finkel</b></p>	<p>Mr. Finkel is the co-founder and CEO of Dynamic Credit Partners, LLC, and the co-manager of DCOF I and DCOF II. Jim is primarily responsible for sourcing investment opportunities, the portfolio’s risk management, marketing and compliance. Jim has over 18 years experience in the structured finance field, and has transacted in CDOs since 1996.</p> <p>Prior to founding DCP, for three years, he was Managing Director of the European CDO team at Deutsche Bank (London), and previously was a senior member of the structured products/ derivatives group at Bear Stearns in both London and New York (1996-2000). In his career, Jim has originated, structured (and restructured) and traded and distributed over \$10 billion of CDO and structured credit products. Jim also has significant mortgage-backed and asset backed experience from his first trading desk position with Nomura Securities in 1992-1994.</p> <p>Jim’s experience as a tax lawyer for 6 years with Cadwalader in New York (1986-1992) provides in-depth knowledge of documentation and structural nuances within the CDO and ABS sector. Jim highest degrees are an M.Sc. from the London School of Economics and a LL.M. (Taxation) from New York University.</p>
<p><b>Tonko Gast</b></p>	<p>Mr. Gast is the co-founder and CIO of Dynamic Credit Partners, LLC, and the co-manager of DCOF I and DCOF II. He is responsible for all systems, models, as well as portfolio optimization, specific analysis of CDO positions, and monitoring the Fund’s overall credit and interest rate exposure. He has been a financial engineer for over 6 years, always with a focus on complex fixed income products.</p> <p>From early 2001 until 2003, Tonko was the Senior CDO Portfolio Manager at ABN AMRO running a \$250mm CDO mezzanine strategy. He was responsible for the complete investment process, including design and development of CDO analysis, creation of CDO rating agency replication models and CDO portfolio risk monitoring tools, analysis of primary and secondary CDO opportunities, collateral manager due diligence, investment decisions, trading, hedging and portfolio management, and investor reporting. The fund run by Tonko had a significant outperformance ratio to the greater CDO market in terms of credit upgrades and downgrades, and attained a solid Moody’s fund rating (A) and market risk rating (MR2).</p> <p>Prior to ABN AMRO, Tonko was a financial engineer and quantitative analyst with SNS Asset Management, designing a complex bond portfolio simulator. He also created models analyzing the risk/return of a variety of alternative investments, including CDOs and derivative instruments. In addition to an M.Sc. in Economics, Tonko has completed advanced education in Financial Engineering at the University of Amsterdam, and in Credit Risk Modeling at Stanford Business School.</p>

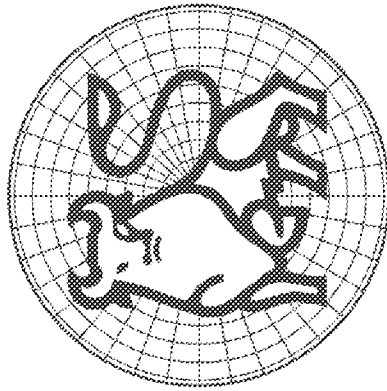




**Biographies**

<p><b>Daniel Nigro</b></p>	<p>Mr. Nigro is the ABS Portfolio Manager at Dynamic Credit Partners. He has over 20 years of fixed income experience on the buy-side, as an analyst, trader and portfolio manager. He has worked across all sub-sectors of the ABS market at both insurance companies and for a money manager. As a Co-Portfolio Manager and Head of Credit at Ischus Capital, LLC, Dan was responsible for all RMBS investments in their mezzanine and high grade structured finance CDOs. As a Portfolio Manager at MBL Life, he developed a macro strategy that more than tripled their ABS allocation on a dollar basis, while increasing their exposure across asset classes and ratings. Mr. Nigro also previously worked as a fixed income Portfolio Manager at JPMorgan Fleming Asset Management. Dan began his career as a private placement analyst at TIAA-CREF. Dan earned his MBA at the University at Buffalo in 1984, graduating <i>cum laude</i> and is a member of Beta Kappa Sigma, for his distinction in business studies. He also is a member of the CFA Institute and the NY Society of Securities Analysts.</p>
<p><b>David M. Schwartz</b></p>	<p>Mr. Schwartz responsibilities at Dynamic Credit Partners, LLC include CDO trading, developing trading and hedging strategies, analyzing synthetic securities, and spearheading new product initiatives. Prior to joining Dynamic Credit Partners in 2004, he worked for six years at Morgan Stanley and Goldman Sachs. As a structured credit strategist at Morgan Stanley, he was responsible for identifying CDO and ABS trading opportunities and developing proprietary research. At Goldman Sachs, he was a strategist in the currency and commodities division. Mr. Schwartz received a B.A. with honors in Applied Mathematics with Economics from Harvard University and a M.A. in Mathematics of Finance from Columbia University.</p>
<p><b>Mendel Starkman</b></p>	<p>Mr. Starkman is a CDO Analyst responsible for CDO modeling, investment analysis, and surveillance at Dynamic Credit Partners, LLC. Additionally, Mendel helps maintain DCP's internal data systems and is responsible for the efficiency of the firm's data management process. Prior to joining Dynamic Credit Partners, Mr. Starkman gained investment banking and financial modeling experience at Corinthian Partners, LLC. He holds a BS in Finance from Touro College and is completing his MBA at Baruch College of the City University of New York</p>
<p><b>Wilson Kung</b></p>	<p>Mr. Kung is a CDO Analyst at Dynamic Credit Partners, LLC. His structured credit experience, prior to joining DCP, includes analyzing and investing in cashflow CDOs for Blackriver Asset Management's credit hedge fund, and acting as head structurer and deal manager for new issue cashflow CDOs at Guggenheim Capital Markets. His other experience includes fixed income research and strategy in government securities at CSFB and mortgage-backed securities at MetLife Fixed Income Investments. He earned his B.A. in Economics from the University of Pennsylvania, and is a designated CFA.</p>





## 6. Tax Considerations

## Tax Considerations

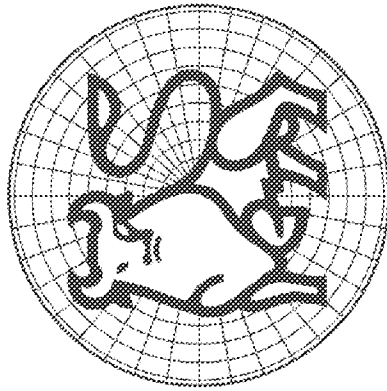
**CIRCULAR 230 NOTICE. THE FOLLOWING NOTICE IS BASED ON U.S. TREASURY REGULATIONS GOVERNING PRACTICE BEFORE THE INTERNAL REVENUE SERVICE: (1) ANY U.S. FEDERAL TAX ADVICE CONTAINED HEREIN, INCLUDING ANY OPINION OF COUNSEL REFERRED TO HEREIN, IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, BY ANY TAXPAYER FOR THE PURPOSE OF AVOIDING U.S. FEDERAL TAX PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER; (2) ANY SUCH ADVICE IS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS DESCRIBED HEREIN (OR IN ANY SUCH OPINION OF COUNSEL); AND (3) EACH TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.**

### U.S. Federal Income Tax Considerations

- Noteholders will be required to treat the Notes as debt for U.S. Federal income tax purposes. It is expected that the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes will be treated as debt for U.S. Federal income tax purposes.
- The Class C Notes and the Class D Notes may be issued with original issue discount ("OID"). A U.S. holder of a Note issued with OID generally must accrue OID into income on a constant yield to maturity basis without regard to cash payments actually received from the Issuer which could result in such U.S. holder owing tax on "phantom income."
- U.S. holders of Preference Shares will be treated as owning an interest in a "passive foreign investment company" ("PFIC") and are strongly urged to consult their tax advisors on the advisability of electing to treat the Issuer as a "Qualifying Electing Fund" ("QEF").
- Upon such election, a U.S. holder will be required to currently include its pro rata share of the Issuer's ordinary income and net capital gains without regard to the cash distributions actually received from the Issuer which could result in a U.S. holder owing tax on significant amounts of "phantom income."
- In the absence of such an election, a U.S. holder will be subject to potentially significant tax charges on gains on disposition and certain "excess" distributions (generally, distributions in any year exceeding 125% of the average amount received during the three preceding years or, if shorter, the U.S. holder's holding period). QEF inclusions or distributions from a PFIC are not eligible for either (i) the dividends received deduction or (ii) the preferential rate on dividend income.
- The Issuer could also be a controlled foreign corporation if U.S. persons that each own at least 10% of the Issuer's voting equity (for U.S. Federal income tax purposes) together own more than 50% of the Issuer's equity. If the Issuer were a CFC, a U.S. holder that owned 10% or more of the Issuer's voting equity (for U.S. Federal income tax purposes) (i) would not be subject to the PFIC rules described above and (ii) would recognize each year as ordinary income its pro rata share of the Issuer's "subpart F income" (which in the case of the Issuer would be its net earnings) without regard to the cash distributions actually received from the Issuer which could result in such 10% U.S. holder owing tax on significant amounts of "phantom income." Subpart F inclusions are generally not eligible for either (i) the dividends received deduction or (ii) the preferential rate on dividend income.
- U.S. investors that acquire Preference Shares at issuance will be required to file a Form 926 or a similar form with the U.S. Internal Revenue Service. In the event that such U.S. holder fails to file any such required form, such U.S. holder could be subject to a penalty (generally up to a maximum of \$100,000), computed in the amount of 10% of the fair market value of the securities purchased by such U.S. holder. Certain tax shelter reporting requirements may also apply to such a U.S. holder.
- A U.S. tax-exempt investor should generally not be subject to unrelated business income tax ("UBIT") as a result of an investment in the Notes or the Preference Shares unless such investor either (i) holds more than 50% of the Preference Shares and also holds Notes or (ii) holds Notes or Preference Shares that are debt-financed property.
- The Issuer expects to conduct its affairs so that it will not be treated as engaged in a trade or business within the United States for U.S. Federal income tax purposes, and accordingly, its income will not be subject to U.S. Federal income tax on a net income basis. The Issuer also expects that interest income from Collateral Debt Securities generally will not be subject to withholding tax imposed by the United States or other countries.
- If the assets of the Issuer were insufficient to repay the U.S. holders of the Preference Shares or Notes in full, such holders would generally recognize a capital loss on their investment for U.S. Federal income tax purposes. In addition, a U.S. holder may be limited in its ability to use such capital losses to offset income previously recognized with respect to the Preference Shares or Notes.

PROSPECTIVE INVESTORS SHOULD READ THE DISCUSSION OF U.S. TAX CONSIDERATIONS IN THE OFFERING CIRCULAR TO BE PROVIDED WHICH WILL INCLUDE MORE DETAILED INFORMATION REGARDING THE MATTERS ABOVE. NEITHER THIS OUTLINE NOR THE DISCUSSION OF U.S. TAX CONSIDERATIONS IN THE OFFERING CIRCULAR CONSIDERS THE CIRCUMSTANCES OF PARTICULAR INVESTORS. THEY ARE NOT SUBSTITUTES FOR TAX ADVICE AND PROSPECTIVE INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS.





## Appendix I: Cashflow Formulas

## Appendix I Collateral Cashflow Formulas

### Calculation of Collateral Defaults in each Period

$$\text{Defaults} = B * D / \text{PPY}$$

*where:*

B= Beginning performing collateral balance (w/o reduction for current amortization or prepayments)

D = Annual Default rate (%)

PPY = number of payments per year (e.g 4 for quarterly)

### Calculation of Interest Payments in each Period

$$\text{Interest} = (B - \text{Defaults}) * C * \text{DCF}$$

*where:*

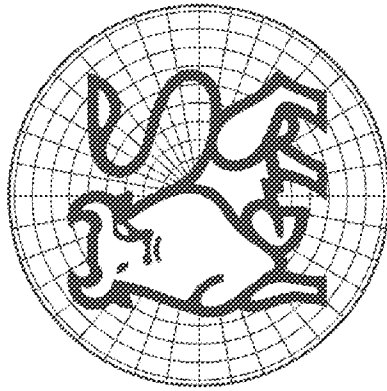
B= Beginning performing collateral balance (w/o reduction for current amortization or prepayments)

Defaults = defaults in the current period

C = collateral interest rate for the period

DCF = collateral daycount fraction for the period (expressed in years)





## Appendix II: Example of CDO Analysis and Surveillance

# Appendix II Example of CDO Analysis and Surveillance

CDO PURCHASE NOTICE (#6): Purchase of USD 2.6mm of Commodore-2 Subordinated Interests

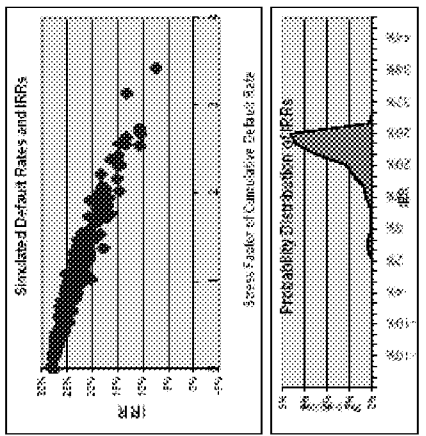
Deal Information		Receipt	
Deal Type:	ABS CDOs	Date:	28-Jul-04
Manager:	Fischer Francis Weiss & Mazs		
Deal Closed:	11-Dec-03	Minimum Denomination:	
End Non-Call Period:	12-Sep-03	Transfer Restricted?	N
End Reinv. Period:	12-Sep-03	Arranging Dealer:	Deutsche Bank
Stated Maturity:	12-Dec-08	Offering Counterparty:	Deutsche Bank
		Interest Over-Trip/Spread?	N
		Deal in Event of Default?	N
Currency:	USD		
Latest Trustee Update:	02-Jul-04		
		Cash Flow Trigger Description:	If either OC or IC test fails, excess cash flow in the interest waterfall is used to deliver the deal.
		IC Trigger vs Test	Current OC/Pass or Fail
			IC Trigger vs Test
			Current OC/Pass or Fail
Capital Structure - Tranches	Size (mm)	Coupon	Current Ratings (M/S&P/F)
A-1MM	188.0	L+ 6.25%	AAA/AAA/AAA
A-2A	37.8	L+ 6.87%	Aaa/AAA/AAA
A-2B	1.1	4.74% Fixed	Aaa/AAA/AAA
B	48.6	L+ 1.14%	Aaa/AAA/AAA
C	12.2	L+ 3.63%	Baa1/BBB/BBB
Equity	13.7		
Tranche Information			
Tranche	Subordinated Interests	Classification	Portfolio Information
USIP/IN	Commodore-2	Emerging Market CDO	% Bank Loans Sen. Sec. 0%
Learning	STC	CDO Equity	% Bank Loans Other 0%
Coupon	NA	Blind pool CDO	% Bonds EM Sovereign 0%
Cric Balance	13.7mm	Synthetic CDO	% Bonds EM Corporate 0%
Cur Balance	13.7mm	Market Value CDO	% Bonds (F/Y)rr Grade 0%
Factor	1.00	HY Bond CDO	% ABS 100.0%
Cric Moody's S&P/Fitch	BBB/BBB	HY Loan CDO	Nr Issuers 111
Cur Moody's S&P/Fitch	BBB/BBB	ABS CDO	WAR 304
Accrual Date	NA	CDO of CDO	Diversity Score 31.5
Margin	NA		
Stated Maturity	12-Dec-08		
Fresh	Clarity		
Payment Dates	12-Mar, Jun, Sep, Dec		
Saysout	NA		
Issuer Country	Caribbean		
Listing	Post Stock Exchange		
PK-able	Y		
Currency Pk-ing	N		
		Total Collateral Par Value (incl principal account)	\$ 301,748,432
		Far Cash-and-lower rated and wide priced positions \$ C	
		Mtreated as defaulted	
		Assumed recovery of these defaults \$ C	
		Total "performing" Par \$	301,748,432



# Appendix II Example of CDO Analysis and Surveillance

Transition Risk Analysis

Constant Annual Default Rate (CADR):	0.60%	0.80%	0.60%	0.75%	1.00%	1.00%	1.00%	0.80%	0.70%	0.60%	0.70%
IRR:	24.8%	24.8%	22.7%	20.6%	18.2%	17.8%	14.2%	10.5%	8.1%	6.0%	5.0%



Assuming Purchase Price of \$1	Stressed Base Case	Additional Stress Scenario: Higher Libor Rates	Additional Stress Scenario: Higher Correlation
Implied Moody's Rating of Investment	A3		
Amount of Exposure	\$100M	\$100M	\$100M
Stress Scenario	Moody's A3	Moody's A3	Moody's A3
2) Worst Case IRR	24.8%	24.8%	24.8%
3) Worst Case IRR	22.7%	20.6%	18.2%
4) Best Case IRR	20.6%	18.2%	14.2%
5) Best Case IRR	18.2%	14.2%	10.5%
6) Best Case IRR	14.2%	10.5%	8.1%
7) Best Case IRR	10.5%	8.1%	6.0%
Scenario Description:	The lowest of the SIF ratings is used and some collateral items are moved down based on pricing and deal-specific covenants.	Forward Libor Curve is increased by 150bp	Intra and inter-asset correlations are increased to 50%

**RISK SUMMARY**

- Inverted capital structure under stress scenarios; of investment grade quality
- Break-Even Scenario at 1.4% annual default rates (around 5 times higher than the expected annual default rate)

**Strengths:**

- General quality: 1.3 5% sub-paper with no stressed MGA paper; MGA CDO is not distressed; 2) seasoned hedge equity order (20-40%); that has given authorization to above 4 5%;
- Long Beach and 340T exposure was purchased as secondary positions; 4) only small MFR exposure; 5) 14% high quality credit cards that were purchased in 2003 at very wide spreads compared to today's market; 6) no ABS pooled leasing deals; 7) low American exposure (less than 0.2%);
- WARR 204 vs 305 required
- Exposure size is limited for lower rated collateral
- Well respected manager who has demonstrated conservative trading and portfolio management techniques
- High cash flow generation; projected average cash flow of ~\$20M; c.a. on invested amount
- Class CDO cushion is around 3.4% (in current deal it is only around 2.8%);
- Investor Class C reflects P/R risk transfer (Class C CDO cushion increases by about 30p.p.s.);
- Only small amounts on CCC-collateral
- Low reinvestment risk, since most of the collateral starts paying principal after 5 years
- No meaningful interest rate exposure

**Weaknesses:**

- Large exposure 44.4% to US residential market on the BBB level
- Mitigated by: front loaded equity cash flows and high initial Class C CDO cushion
- Downgrade potential for two residential sub-baskets: BAA1, 2001-4 MD; (SM, Smt) and CAAT 2001-4 MFD (4 Smt);
- Mitigated by: Well seasoned 2003 exposures vs. current 34-yr-old deals; and Baa1 haircut that occur only after 5%.
- Fixed swap rate increases over time
- Mitigated by: the front-loads the equity cash flows since the initial fixed swap rates are lower

**Investment Recommendation:**

Purchase of USE 2.8mm Par Amount of Comscore-2 Subordinated Interest at an all-in Price of 80 Centations.

This purchase conforms ~~with~~ ~~to~~ ~~the~~ current applicable Investment Guidelines.

By: \_\_\_\_\_

Name: J. Finkel \_\_\_\_\_

Title: J. Gast \_\_\_\_\_





## Appendix II Example of CDO Analysis and Surveillance

Commodore CDO II Ltd.  
12-13-04: Collateral Surveillance:

Print

Upgrades this month:

12/07/2004 MMT 2000-1 A, \$1,000,000,000: Moody's upgrades from A43 to Aaa. S&P upgrades from A- to AAA. Fitch upgrades from A- to AAA.  
12/09/2004 WESTO 2003-1 D, \$1,646,779,731: Fitch upgrades from BBB to A.

Downgrades since Purchase:

11/04/2004 LBMLT 2001-4 M3, \$4,300,000,000: Fitch downgrades from BBB to B+.

Fitch states that continued negative collateral and servicing performance of LongBeach deals was the reason for downgrade. Trustee report dated Dec. 6, 2004, states that it was also downgraded by Moody's. Moody's states that this is an error, but that the position is still on negative watch. S&P does not use this position, but the notched rating was lowered from BB+ to CCC+.

Collateral for LBMLT is in the middle of its peak default curve and default rates are expected to slow down in the next few months. Over the past four months CDRs have been 17.75, 15.37, 18.46, 10.17, respectively. Position holds to a constant CDR of 19 at 40 CPR. Full payout is still expected. Moody's downgrade is likely.

12/16/04: SAST 200-4 MF2, 4.6mm, was finally downgraded by Fitch from A to BBB. Position was downgraded in May from A2 to Baa2 by Moody's. The MF2s have built 10.3% credit enhancement (vs. 2% original) and hold to a 22 lifetime CDR at 40 CPR. Current CDR is 13. This deal experienced early losses and failed its loss and delinquency triggers in early 2001. Further extension with full payout expected.

Sales:

11/19/04 MMCA Automobile Trust 2000-2 B (Matured)

Purchases:

11/16/04 PGM1 2004-EA D 3mm at 100. BBB Provident Credit Card deal.

Notes and Areas of Continued Focus:

- LBMLT 2001-4 M3 has been placed on ECP watch list.
- SAST 2000-4 MF2 will be monitored for further downgrade
- Focus on manager's trading of secondary positions.
- Watch the percentage of the aggregate principal balance of underlying assets that have Moody's rating of "B+1" or below, Standard and Poor's rating of "BB+" or below or Fitch rating of "BB-" or below (including ratings which have been inferred from those assigned by another rating agency). The current percentage is 1.51%. Haircut begins after 5%.

Manager Call Highlights:

Manager states that both LBMLT 2001-4 M3 and SAST 2000-4 were purchased in the secondary market at BBB- spreads with expectations of a downgrade to BBB-. Manager does agree that Long Beach delinquency, default and severines have been higher than expected. However, the LBMLT position holds to severe stress scenarios and is the reason for his HOLD recommendation. The manager's other position of concern is LAEMH 2001-B A2, a Lehman Brothers manufactured housing bond that has performed worse than expected and was downgraded from Aaa to A1 by Moody's in September 2004. The manager expects full payout for this position but also understands the possibility of further downgrades. LAEMH 2001-B was also purchased as a secondary piece. Going forward, the manager does not expect to purchase further "distressed" secondary positions and will focus on the primary market. **Outlook: Good.**

12-13-04 Spoke with Kausik Barua, Portfolio Manager, 213-681-3006.

