



STRICTLY CONFIDENTIAL

# UBS Global CDO Group

Presentation on Product Series (POPS)

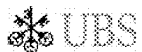


January 2007

# Agenda

---

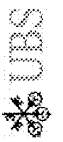
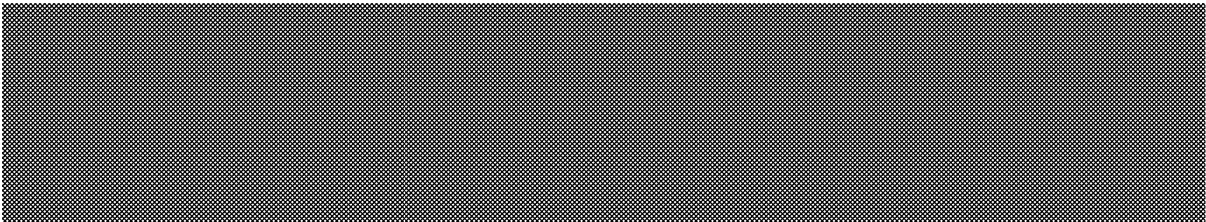
- SECTION 1**                      **What are CDOs?**
- SECTION 2**                      **The CDO Market in 2007**
- SECTION 3**                      **The UBS Global CDO Group**
- SECTION 4**                      **CDO Issuers**
- SECTION 5**                      **CDO Investors**
- SECTION 6**                      **Secondary Trading**
- SECTION 7**                      **CDO Research**
- SECTION 8**                      **New Market Developments (CDO equity funds, PCV, CDS CDOs)**
- SECTION 9**                      **UBS CDO Contacts**



SECTION 1

---

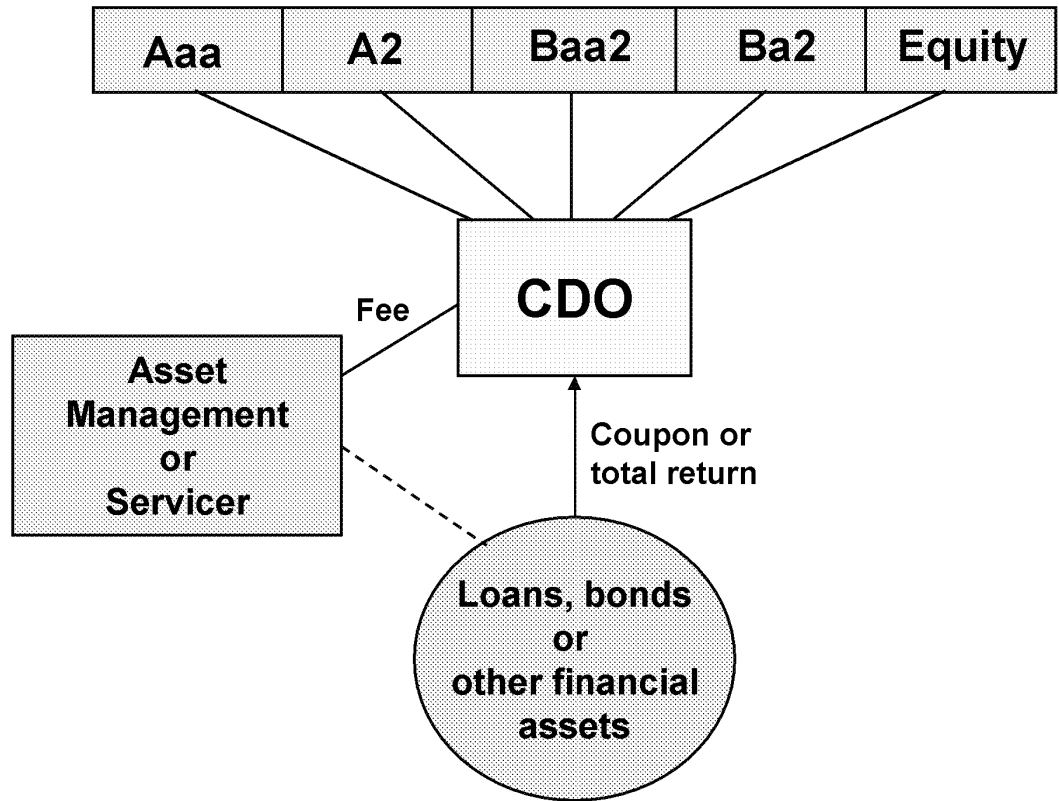
What are CDOs?



# What is a CDO?

---

- Characteristics of a CDO**
- ◆ Leveraged investment vehicle formed to invest in a diversified pool of assets
  - ◆ The pool is financed through the issuance of multiple classes of debt and equity



## CDO Overview

---

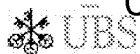
- ◆ **CDOs fall into two broad categories:**
  - Arbitrage
    - Investment vehicle to take advantage of market opportunities providing investors with a leveraged exposure to the underlying assets and generating management fee income for the manager
  - Balance Sheet
    - Generally used by banks to achieve accounting and/or regulatory relief through the securitization of assets already owned
  
- ◆ **The vast majority of recent issuance has been in the arbitrage cashflow sector of the market**

## CDO Overview

---

Arbitrage CDO issuance has been driven by several factors, including:

- ◆ **Ability for issuers to obtain non-recourse term financing for underlying asset pool**
  
- ◆ **Risk tranching allows the CDO to provide various risk/return combinations tailored to individual investor requirements**
  
- ◆ **Ability for asset managers to expand their product offerings, diversify their investor base and generate incremental fee income**
  
- ◆ **Adaptability of CDO framework and application of CDO technology to non-traditional asset classes**
  - Hedge funds
  - Private equity
  
- ◆ **Growth In European and Asian markets**
  
- ◆ **Growth of synthetic structures**
  - CDS of ABS, CMBS securities
  - Loan CDS
  - CDS of CDOs



## Collateral Manager Rationale

---

- ◆ **Increase enterprise value**
- ◆ **Increase assets under management**
  - Stable fee stream due to term nature
  - Diversify fee stream
- ◆ **Leverage existing asset management infrastructure and credit coverage**
- ◆ **Expand product offerings**
- ◆ **Diversify investor base**
- ◆ **Long-term transactions**
- ◆ **Avoids “hot money”**

## Cashflow CDO Overview

---

- ◆ **The key concepts underlying Cashflow CDO structures are:**
  - Diversification
  - Credit quality
  - Recovery rates
  - Tranching of risk
  
- ◆ **Via CDO technology, a pool of primarily below investment grade assets can be financed with predominantly investment grade debt**
  
- ◆ **The resulting “spread” arbitrage allows CDOs to adequately compensate investors throughout the capital structure for the various risk tranches created**



## Features of Cashflow CDOs

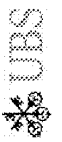
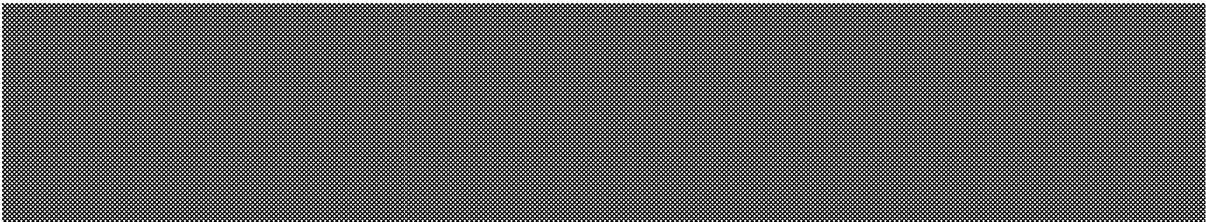
---

- ◆ **A manager is employed to oversee the purchase of the initial collateral pool and manage the portfolio over the life of the transaction. The manager provides numerous benefits to the CDO over its life**
  - Initial portfolio selection
  - On-going portfolio monitoring
  - Adjustment of portfolio in response to macro developments over the life of the transaction
  
- ◆ **In return for its services the manager is paid an ongoing management fee. The manager's interests are aligned with those of the various investors in the CLO through manager co-investment in the CLOs equity**

SECTION 2

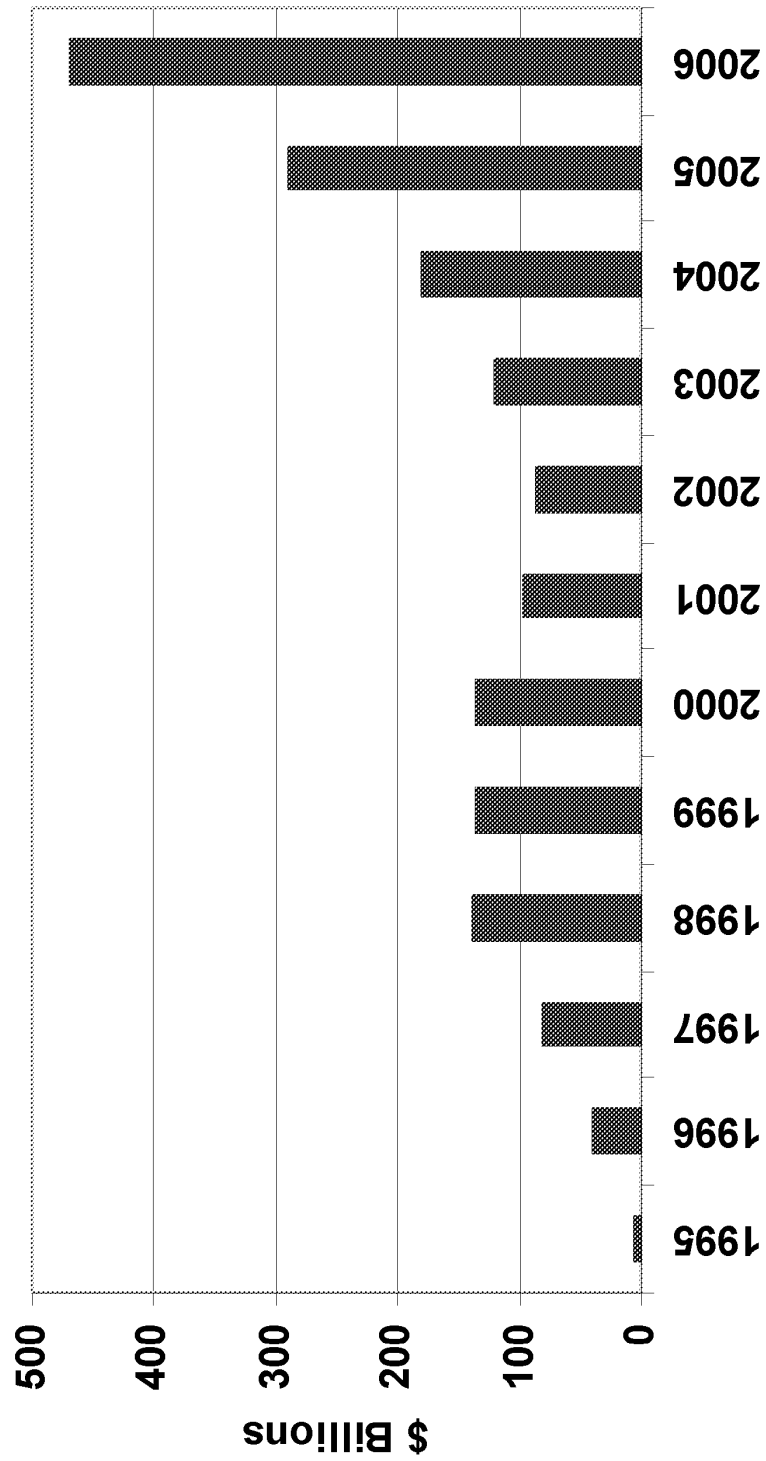
---

The CDO Market in 2007



## Global CDO Issuance

First originated in 1987, annual CDO issuance did not break \$3 billion until 1995. 2006 issuance was \$ 465 billion



# Global CDO 2006 Rankings

## Global Collateralized Debt Obligations—2006

Rank (Incl Money Market tranches)	Managers	Proceeds (US\$mm)	Market Share	No. of Issues
1	Merrill Lynch	53,812.9	13.6	62
2	Citigroup	45,191.5	11.4	64
3*	UBS	29,602.6	7.5	60
4	Deutsche Bank AG	26,469.0	6.7	42
5	Wachovia Corp	26,315.0	6.6	40
6	Credit Suisse	23,911.2	6.0	35
7	Banc of America Securities LLC	21,175.2	5.3	37
8	Bear Stearns & Co Inc	20,456.4	5.2	37
9	JP Morgan	18,324.2	4.6	42
10	Goldman Sachs & Co	17,993.4	4.5	24

\*UBS ranked #6 excluding Money Market tranches and excludes unfunded /B12f

## Global Structured Finance Collateralized Debt Obligations –2006

Rank (Incl Money Market tranches)	Managers	Proceeds (US\$mm)	Market Share	No. of Issues
1	Merrill Lynch	45,641.4	20.2	45
2	Citigroup	29,690.4	13.2	32
3*	UBS	26,027.3	11.5	50
4	Deutsche Bank AG	19,346.7	8.6	29
5	Credit Suisse	17,427.0	7.7	22
6	Bear Stearns & Co Inc	13,271.3	5.9	21
7	Goldman Sachs & Co	10,747.6	4.8	10
8	Banc of America Securities LLC	8,564.3	3.8	16
9	Wachovia Corp	8,171.8	3.6	12
10	Lehman Brothers	6,189.0	2.7	7

\*UBS ranked #3 excluding Money Market tranches and excludes unfunded

Source: Thomson Financial Securities Data as of 12/31/06



# SIFMA's (The Bond Market Association) Annual CDO Conference 2006

---

## **2006 CDO Investors Conference Draws Record Attendance**

On October 4, the Association hosted the fourth annual *CDO Investors Conference* at the Grand Hyatt in Grand Central Station in New York City. This industry-produced event drew a record crowd with over 600 registrations.

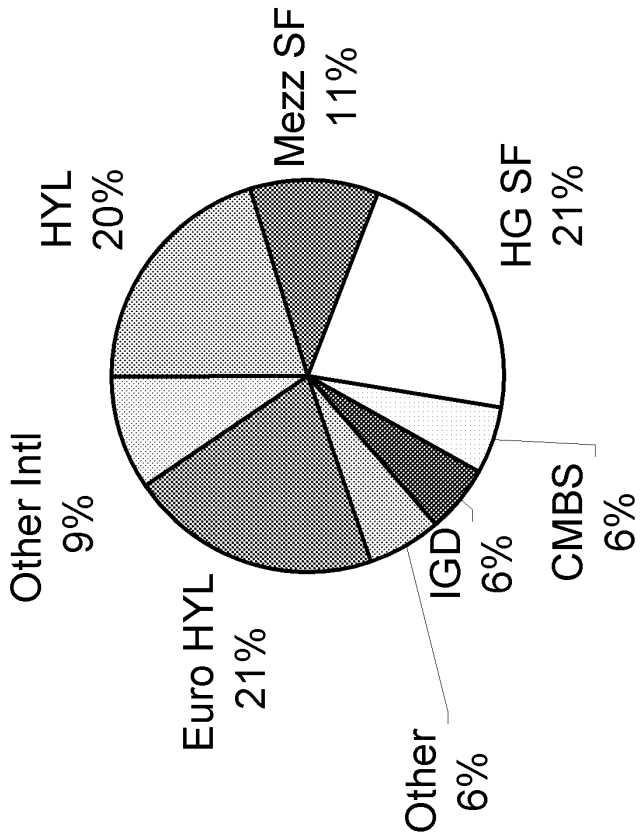
The Association's CDO conference is unique among other conferences as it allows for an unbiased, cross-market glimpse into the CDO market. As the CDO market has exploded in recent years and expanded into ever more asset classes, the Conference has grown as well, this year for the first time featuring a panel on the market for credit default swaps and its interactions with the burgeoning synthetic CDO market.

Other topics covered at the event included the convergence of cash and synthetic CDO markets, a panel focusing on CDOs of ABS; and the traditional favorite "CDO Traders Panel," which was a colorful display of insights from top investment bank CDO traders.

published: 10.4.06 from SIFMA (Securities Industry and Financial Markets Association)

## 2006 Global CDO Issuance

Loans backed 41% of global issuance in 2006, SF backed 42%



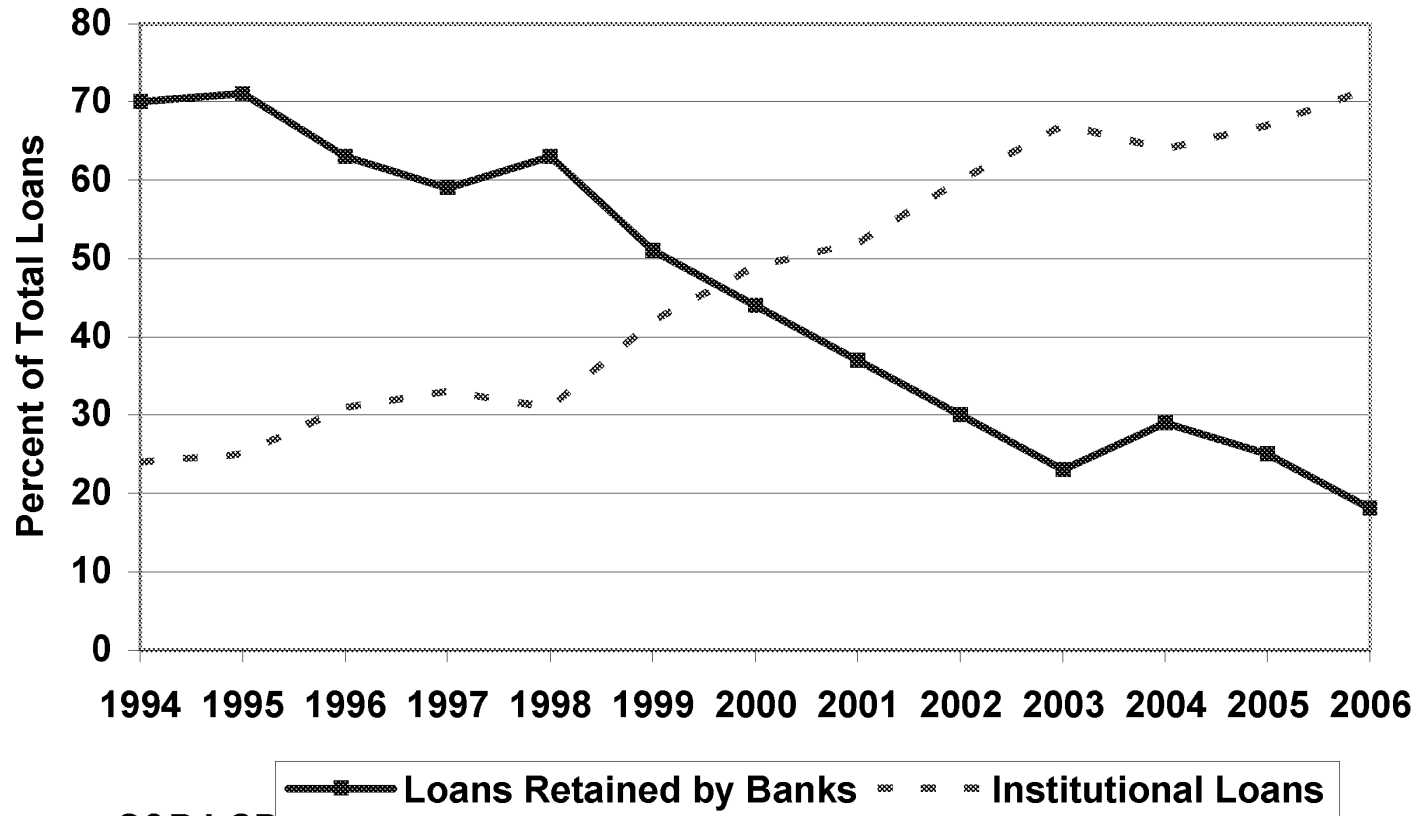
## From Disrespect to Bullies

---

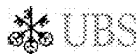
- ◆ **CDOs regained respect in 2004 and have now become bullies in their respective collateral markets**
  
- ◆ **Three CDO collateral types are 47% of U.S. CDO issuance**
  - High yield loans – 29%
  - Mezzanine mortgage ABS – 15%
  - Trust preferred – 3%
  
- ◆ **CDO focus on these assets has lead to:**
  - An increase in the underlying's issuance
  - Tightening of the underlying's spread
  - An impact on the overall U.S. economy that goes well beyond the CDO market

# Bank and Institutional Loan Share

Banks' historic role as loan holders has diminished and their role as loan originators and distributors has increased

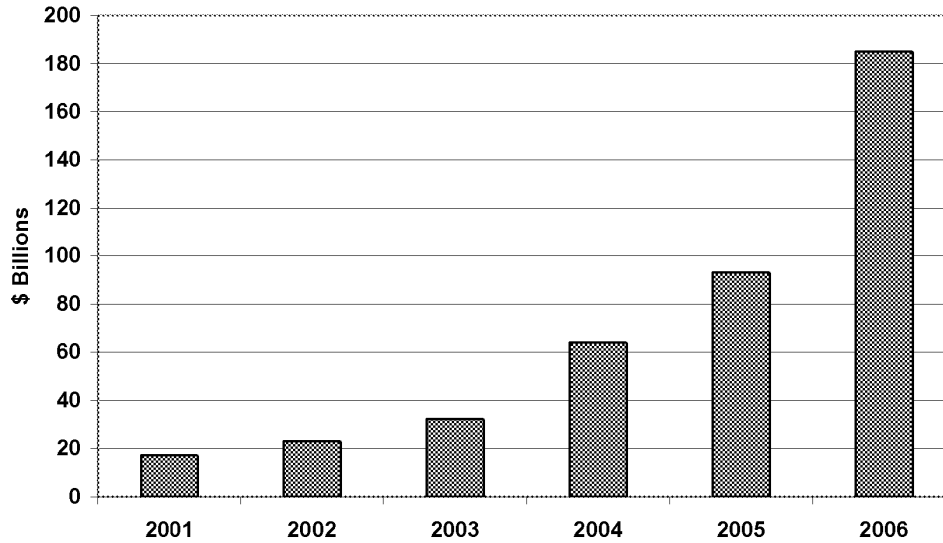


Source: S&P LCD



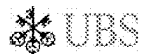
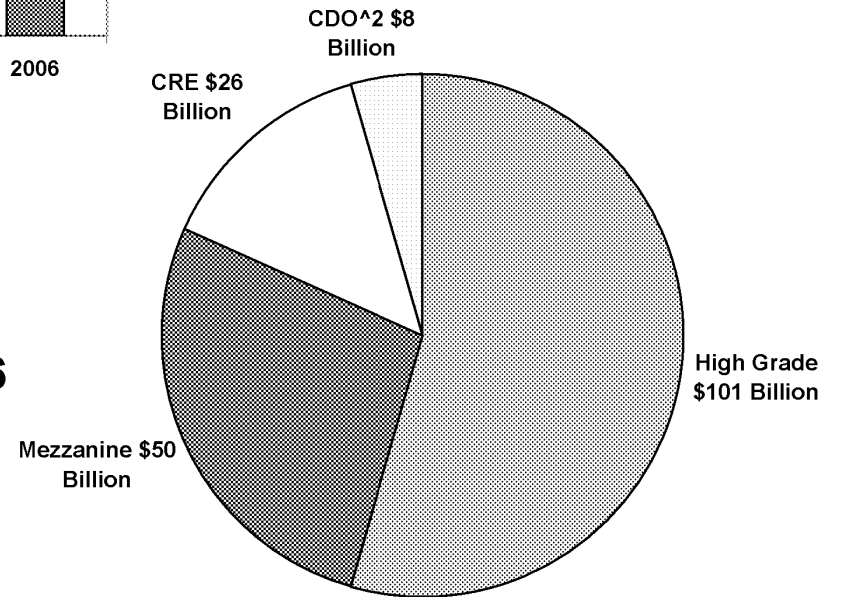


# Structured Finance CDOs



**Growth of SF CDOs**

**SF CDO Collateral 2006**



## 2005 Resi B&C Issuance by Tranche

---

Mezz SF CDO purchases are focused on 8% of tranches rated A to BB

<b>S&amp;P Rating</b>	<b>\$ Million</b>	<b>\$ Million</b>	<b>% Percent</b>
AAA	345,025	345,025	82.3%
AA+	17,273	40,957	9.8%
AA	17,487		
AA-	6,197		
A+	6,768	19,251	4.6%
A	7,716		
A-	4,768		
BBB+	4,668	12,054	2.9%
BBB	4,258		
BBB-	3,128		
BB+	1,091	1,784	0.4%
BB	661		
BB-	32		
B+	27	74	0.0%
B	27		
B-	20		
NA	29,072	34,178	8.1%
NR	5,086		
Total	453,303	453,303	100.0%

Source: MCM Structured Finance Watch



## Growth of Subprime Mortgage Issuance

---

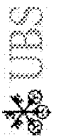
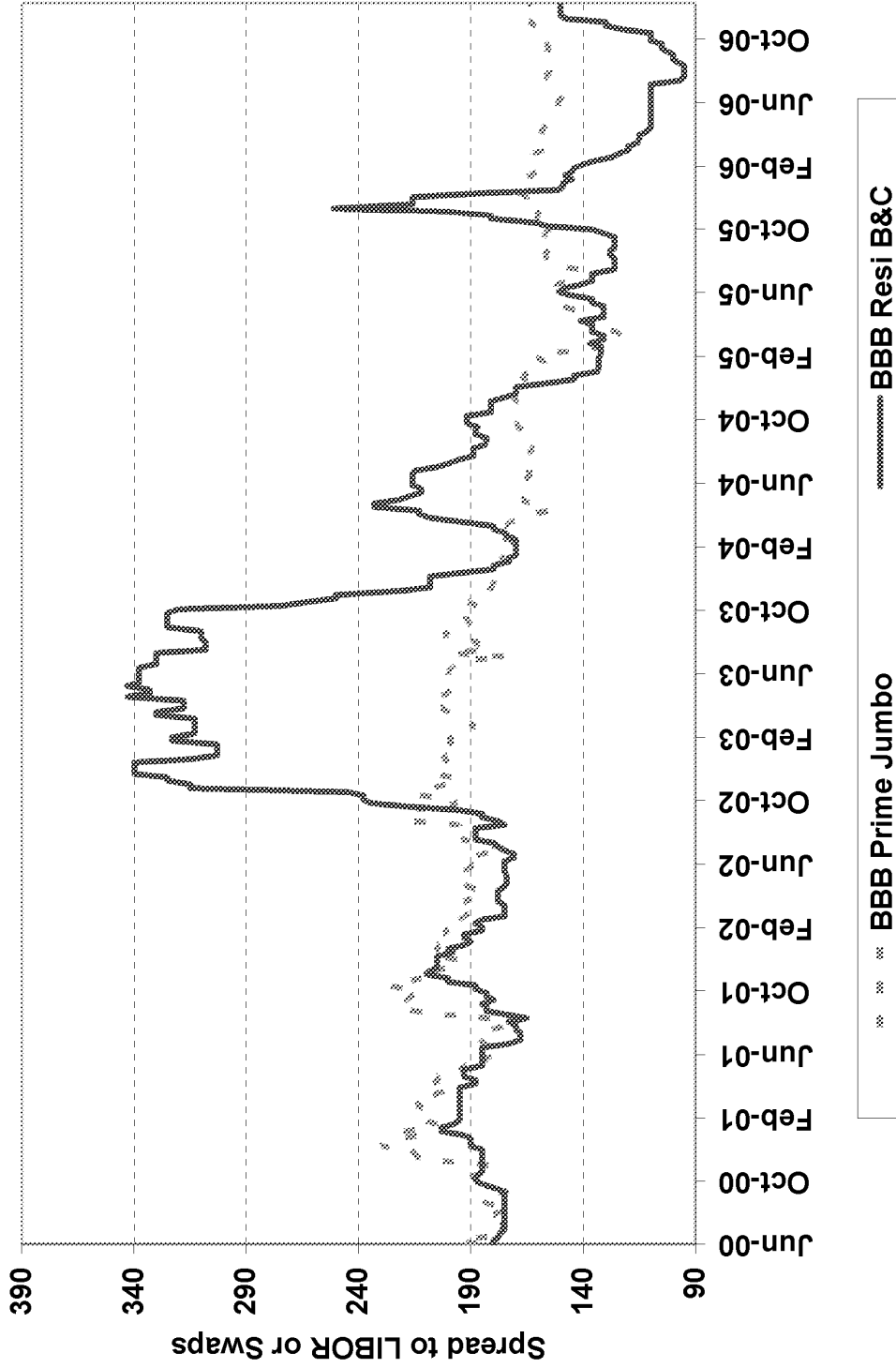
CDOs have helped propel subprime mortgage issuance

Year	Total MBS Issuance \$ Millions	Subprime Issuance	
		\$ Millions	%
1995	318,058	17,772	6%
1996	440,541	30,769	7%
1997	487,016	56,921	12%
1998	929,163	75,830	8%
1999	832,977	55,852	7%
2000	605,165	48,145	8%
2001	1,354,819	87,053	6%
2002	1,858,381	122,681	7%
2003	2,718,170	194,959	7%
2004	1,883,033	362,549	19%
2005	2,151,635	464,990	22%
3Q2006	1,539,776	341,903	22%

Source: Inside MBS & ABS, based on SEC filings and industry surveys

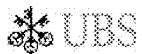
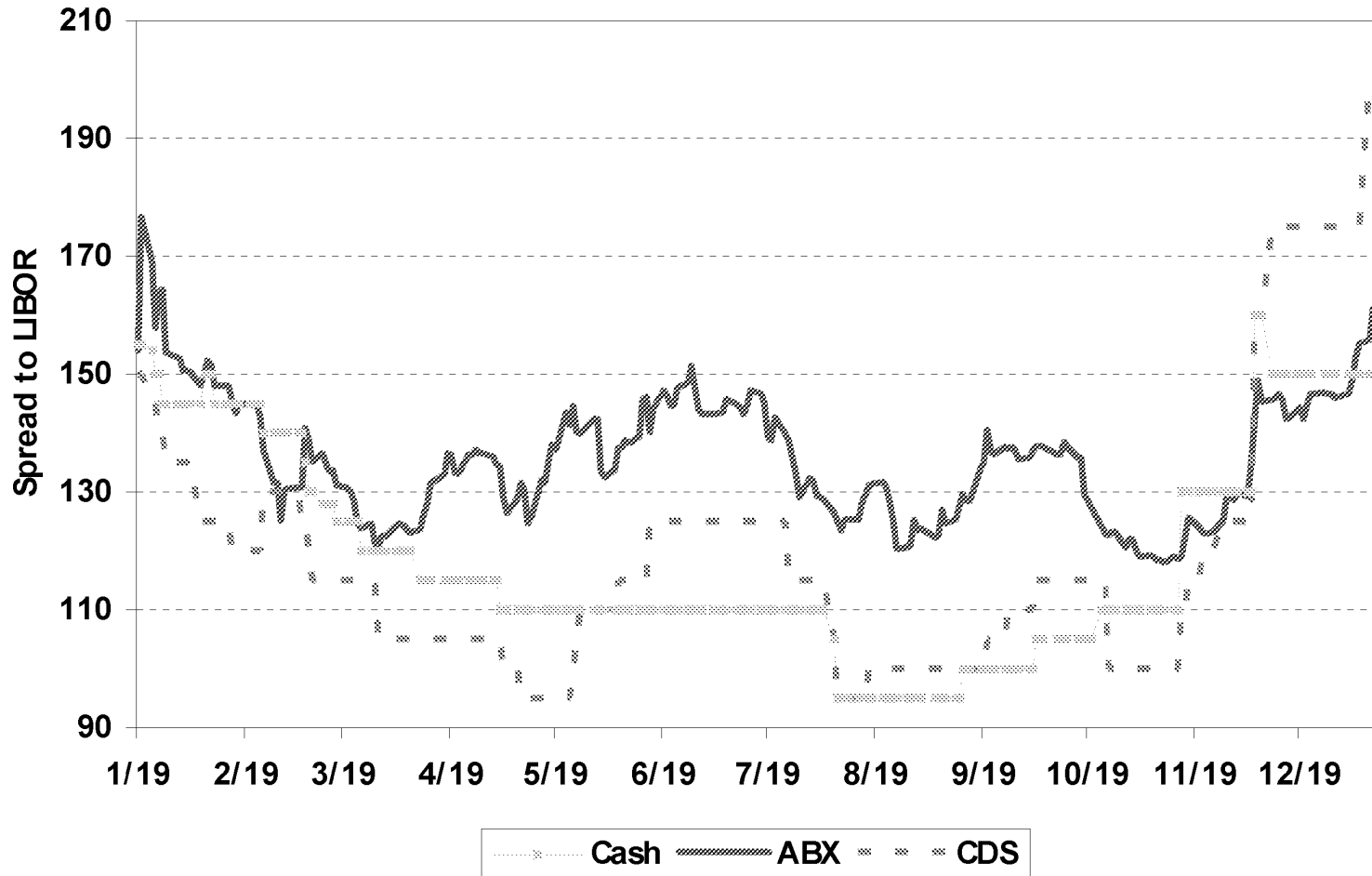
# BBB Resi B&C vs. BBB Prime (Jumbo) Spreads

The SF CDO bid has led to Resi B&C spread volatility



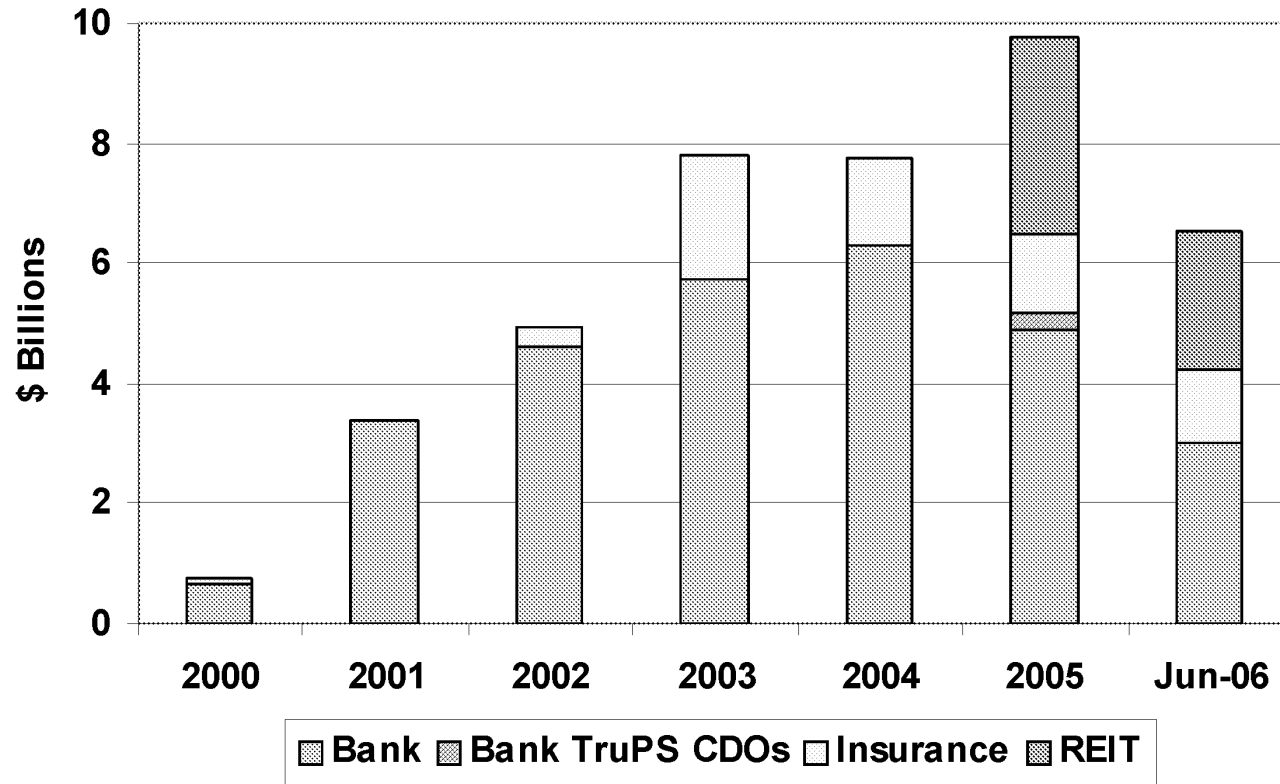
# BBB Resi B&C Cash, CDS, and ABX Spreads

The SF CDO bid has led to basis volatility



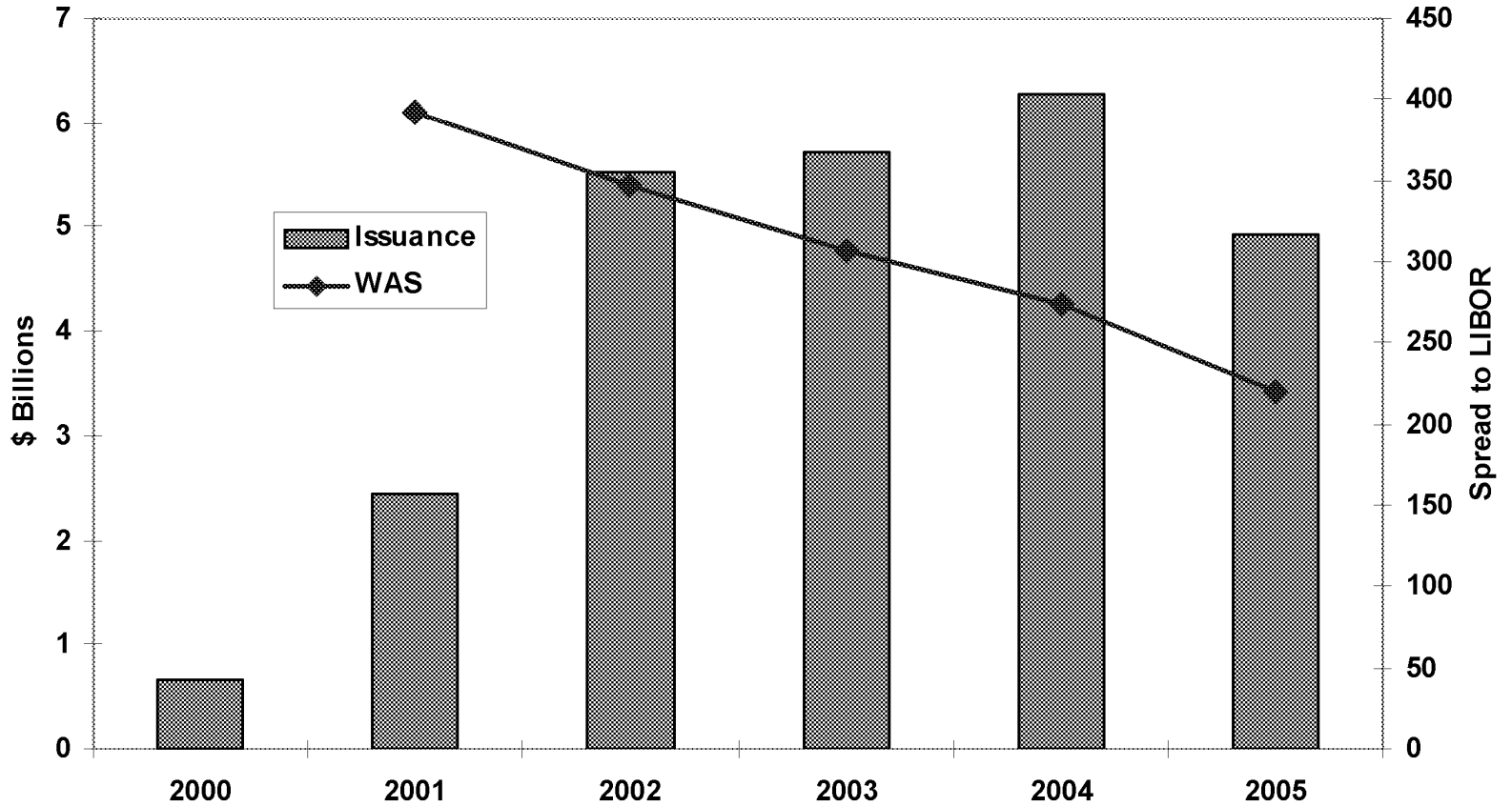
# TruPS CDO Issuance

Smaller institutions would not be able to issue TruPS except for CDOs

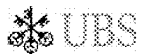


# Bank TruPS CDO Issuance and Trust Preferred Spreads

CDOs have lowered bank TruPS spreads



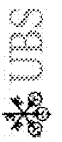
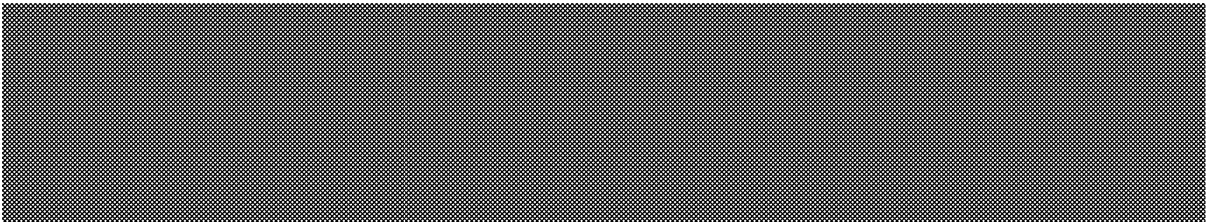
Source: FitchRatings, UBS Calculations





SECTION 3

The UBS Global CDO Group



## Executive Summary

---

UBS is a market leader as a global CDO underwriter

◆ **UBS is a market leader in CDO origination focused on-going partnerships with premier asset managers**

- Ranked #3 in Global CDOs (Including Money Market tranches/B12d & B12e) final league table in 2006<sub>1</sub>
- Ranked #3 in US CDOs (Including Money Market tranches) final league table in 2006<sub>1</sub>
- Ranked #3 in Global SF CDOs (Including Money Market tranches) final league table in 2006<sub>1</sub>
- 36 CDO transactions priced 2006 (v. 18 deals total in 2005)
- 21 cashflow CDOs fully placed into the market > \$1 billion including since 2004
- 25 repeat issuers since 2004
- UBS closed \$400mm Opera Structured Credit Limited CDO Equity Fund managed by AXA IM Paris, SA
- Expanding product focus beyond loans & ABS to include CREs/CMBS CDOs, Trups, listed funds (PCVs), closed end funds, exotics, European CLOs/CDOs and CDO/CLO<sup>2</sup> products
- Active secondary CDO trading in US and UK (4 dedicated traders)

◆ **Global distribution platform**

- Dedicated structured products sales force with global presence in North America, Europe, Middle East and APAC
- Unparalleled private bank network

◆ **Respected #1 ranked CDO Research with our monthly “CDO Insight”**<sub>3</sub>





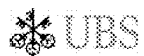
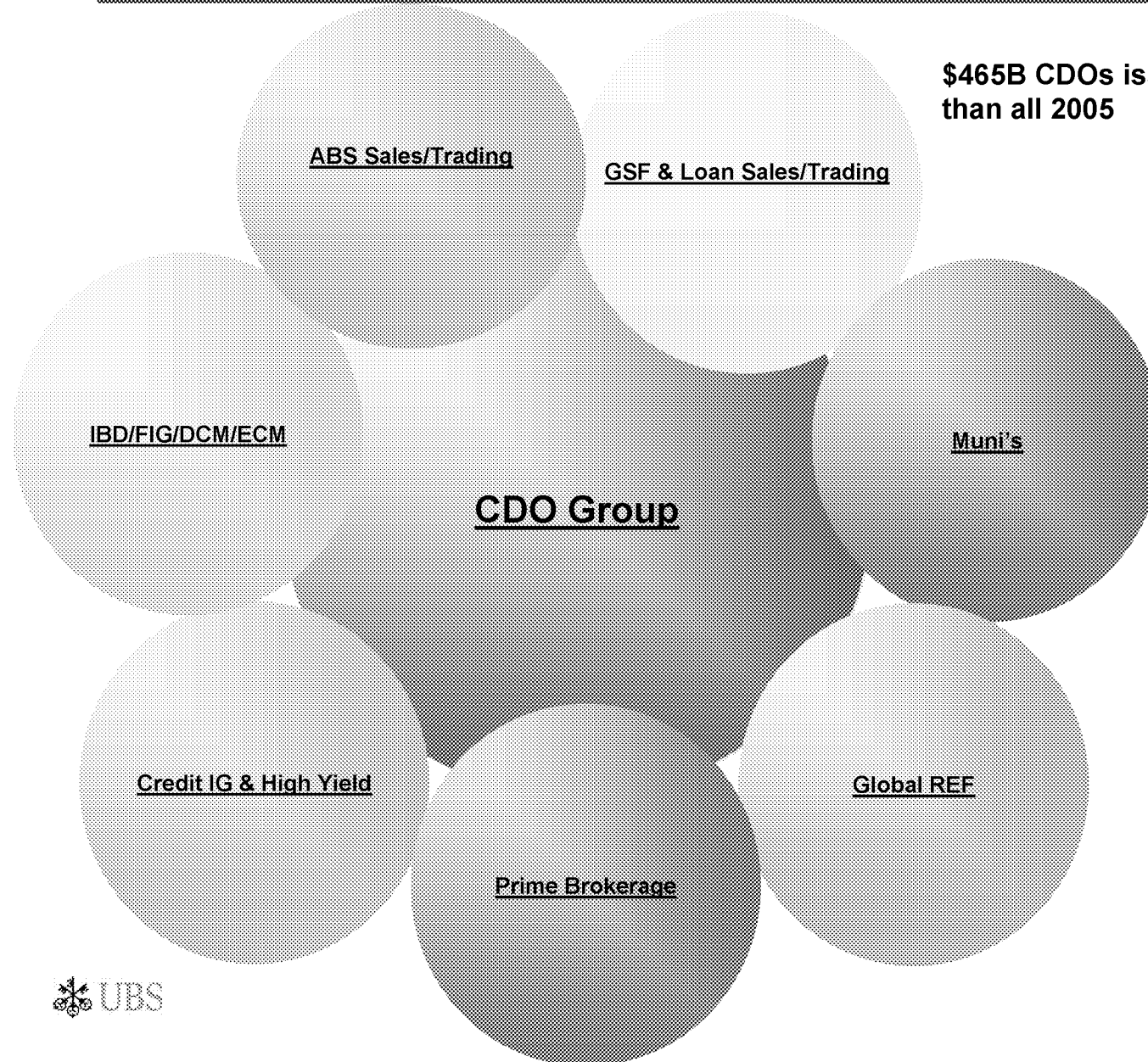




# CDO Managers, Investors and Products Impact the Entire Firm

---

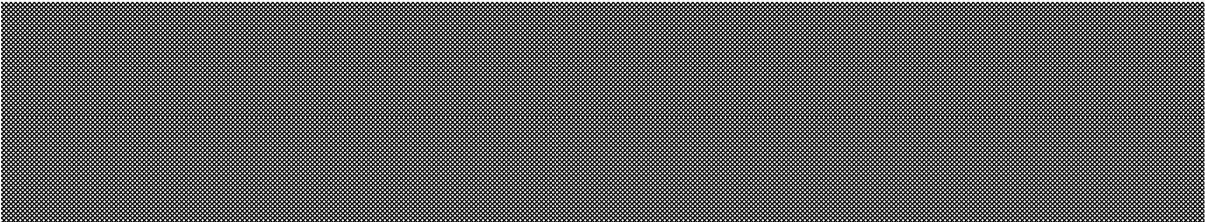
**\$465B CDOs issued in 2006, 53% greater than all 2005**





SECTION 4

CDO Issuers





## The UBS/Client Value Proposition

---

### What we provide to key clients..

- ◆ Growth Strategies
- ◆ A Relationship across the firm
- ◆ Partnership
- ◆ Access to UBS' balance sheet
- ◆ Liquidity
- ◆ Competitive Execution
- ◆ Research and trade ideas
- ◆ Credit Delta and analytics
- ◆ New issues allocation

### What we expect from key clients..

- ◆ A Relationship / Partnership for Growth
- ◆ Quality repeat business
- ◆ Market intelligence
- ◆ Idea reciprocation
- ◆ Being their 1<sup>st</sup> call

---


**UBS AG must identify and focus on partners for growth in high margin structured products, successfully delivering UBS AG**

---

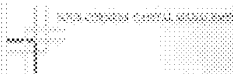
# 2006 UBS Global CDO Group Issuers

 <b>GSCSF 2005-1</b> GSC Partners \$500mm January 2006	 <b>Magi Funding I CLO</b> Henderson €300 February 2006	 <b>Duke X CDO</b> Ellington \$1200mm March 2006	 <b>Lancer Funding</b> ACA Management \$1500mm March 2006	 <b>Ischus High Grade I</b> Ischus Capital \$1200mm March 2006	 <b>Belhurst CLO</b> Invesco \$450mm March 2006
 <b>Long Hill 2006-1</b> Alliance Capital \$800mm March 2006	 <b>Opera Structured Credit</b> AXA Invest Mgmt \$400mm March & July 2006	 <b>Vertical ABS CDO 2006-1</b> Vertical Capital \$750mm April 2006	 <b>Furlong CDO</b> Invesco \$500mm June 2006	 <b>Vertical ABS CDO 2006-2</b> Vertical Capital \$500mm June 2006	 <b>ACA CLO 2006-1</b> ACA Capital \$350mm June 2006
 <b>Montauk Point II</b> Fortis \$500mm June 2006	 <b>ART CDO 2006-1, Ltd.</b> Allianz Risk Transfer \$1,000mm July 2006	 <b>Bering CDO I</b> Terwin Money Management \$400mm July 2006	 <b>Nautilus RMBS CDO III</b> Ramius \$400mm July 2006	 <b>Cherry Creek CDO I</b> Surge Capital \$300mm July 2006	 <b>E*Trade ABS CDO V</b> E*Trade Global AM \$300mm August 2006

# 2006 UBS Global CDO Group Issuers



**ACA-Aquarius**  
ACA Management  
\$2bn  
August 2006



**Four Corners**  
**Four Corners**  
\$300mm  
September 2006

**TABS 2006-5, Ltd**  
Tricadia  
\$1500mm  
September 2006



**GSC 2006-4**  
GSC Partners  
\$750mm  
October 2006



**Vertical-Virgo**  
Vertical Capital  
\$2000mm  
October 2006



**Sorin Real Estate CDO V, Ltd.**  
Sorin Capital Mgmt  
\$600mm  
October 2006




**Buchanan SPC**  
Bear Stearns Asset Mgmt  
October 2006

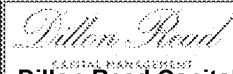


**RAIT ONE CDO I, Ltd.**  
RAIT Investment Trust  
\$1000mm  
November 2006


**Brooklyn Structured Finance 2006**  
Deutsche Invest Mgmt  
\$1000mm  
November 2006



**Ocean Trails CLO-1**  
West Gate Horizons Advisors  
\$350mm  
November 2006



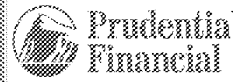
**Dillon Read Capital CMBS 2006-1**  
DRCM  
\$1000mm  
November 2006



**Kleros RE III CDO**  
Cohen Bros  
\$1000mm  
November 2006




**Duke XII CDO**  
Ellington  
\$2250mm  
November 2006




**Dryden XVI**  
Prudential Financial  
\$500mm  
November 2006




**Opportunity Fund I**  
Global Leveraged Capital  
\$400mm  
December 2006



**Tasman CDO Squared**  
Credaris  
\$300mm  
January 2007



**Church Tavern Advisors**  
\$500mm  
January 2007



**Careel Bay 2006-1 CDO**  
Allegiance  
\$750mm  
January 2007

# UBS Global CDO Group's Issuers 2004-2006

## UBS led CDO transactions

Deal Name	Investment Manager	Issue Size (US\$mm)	Status	Collateral	Type	Notes
Telos CLO 2007-2	Tricadia	400	In Process	Middle Market CLO	Arbitrage CF	
ABCLO 2007-1	AllianceBernstein	350	In Process	Snr secured loans	Arbitrage CF	
Nantucket CLO II	Fortis	300	In Process	Snr secured loans	Arbitrage CF	
Tasman CDO Squared	Credaris	300	Priced Dec '06	Hybrid Mezz CDO	Arbitrage CF	
Sherwood III	Church Tavern	500	Closed Jan '07	Hybrid Mezz CDO		
Careel Bay 2006-1 CDO	Allegiance	750	Closed Jan '07	Hybrid Mezz CDO		
Dryden XVI	Prudential Financial	500	Closed Dec '06	Snr secured loans	Arbitrage CF	
GLC Credit Opportunity Fund I	Global Leveraged Capital	400	Closed Dec '06	Distressed/Mezz Loans	Arbitrage CF	
Wasatch CLO	Invesco	600	Closed Nov '06	Snr secured loans	Arbitrage CF	UBS co-lead
Brooklyn Structured Finance-2006	Deutsche Invest Mgmt	1000	Closed Nov '06	High Grade CDO	Cash	
Duke XII CDO	Ellington	2250	Closed Nov '06	Mezzanine ABS		
Kleros RE III CDO	Cohen Brothers	1000	Closed Nov '06	Mezzanine ABS		
Sorin Real Estate CDO V, Ltd	Sorin Capital Mgmt	600	Closed Nov '06	80% Prime Neg Am RMBS	Cash	
Buchanan SPC	Bear Stearns Asset Mgmt	N/A	Closed Nov '06	Mezzanine RMBS	Synthetic	
RAIT CRE CDO I, Ltd	RAIT Investment Trust	1000	Closed Nov '06	Commercial Real Estate	Cash	
Ocean Trails CLO-1	West Gate Horizons	350	Closed Nov '06	Snr secured loans	Arbitrage CF	
Dillon Read CMBS 2006-1	DRCM	1000	Closed Nov '06	Mezzanine Hybrid	Arbitrage CF	
Vertical-Virgo	Vertical Capital	2000	Closed Oct '06	Mezzanine ABS/RMBS	Arbitrage CF	92% CDS, 8% cash
GSC 2006-4	GSC Partners	750	Closed Oct '06	Mezzanine ABS/RMBS	Arbitrage CF	75% CDS, 25% cash
TABS 2006-5	Tricadia	1500	Closed Sept '06	Mezzanine ABS	Arbitrage CF	
E* Trade ABS CDO V	E* Trade Global AM	300	Closed Aug '06	Mezzanine ABS	Arbitrage CF	95% IG
ACA-Aquarius	ACA	2000	Closed Sept '06	Mezzanine ABS	Arbitrage CF	100% ABS CDS
Four Corners III	Four Corners	300	Closed Sept '06	Snr secured loans	Arbitrage CF	
ART CDO 2006-1	Allianz Risk Transfer	1000	Closed Aug '06	High Grade ABS	Arbitrage CF	Static RMBS pool
Bering CDO I	Terwin Money Mgmt	400	Closed Aug '06	Mezzanine ABS	Arbitrage CF	RMBS pool
Opera Structured Credit	AXA IM	400	Closed	CDO Equity	Fund	Closed in Mar '06 & Jul '06
Nautilus RMBS CDO III	Ramius	400	Closed Jul '06	Mezzanine ABS	Arbitrage CF	Static RMBS pool
Cherry Creek CDO I	Surge Capital	300	Closed Jul '06	Mezzanine ABS	Arbitrage CF	Static Mezz pool
ACA CLO 2006-1	ACA	350	Closed Jul '06	Snr secured loans	Arbitrage CF	
Furlong CDO	INVESCO	500	Closed Jun '06	Mezzanine ABS	Arbitrage CF	95% ABS CDS
Vertical ABS CDO 2006-2	Vertical Capital	500	Closed Jun '06	Mezzanine ABS	Arbitrage CF	100% ABS CDS
Montauk Point II	Fortis	500	Closed Jun '06	Mezzanine ABS	Arbitrage CF	
Vertical ABS CDO 2006-1	Vertical Capital	750	Closed Apr '06	Mezzanine ABS	Arbitrage CF	70% ABS CDS
Duke X CDO	Ellington	1,200	Closed Apr '06	Mezzanine ABS	Arbitrage CF	75% ABS CDS
Lancor Funding	ACA Management	1,500	Closed Mar '06	High Grade ABS	Arbitrage CF	
Ischus High Grade I	Ischus Capital	1,200	Closed Mar '06	High Grade ABS	Arbitrage CF	
Long Hill 2006-1	Alliance Capital	800	Closed Mar '06	Mezzanine ABS	Arbitrage CF	55% ABS CDS
Belhurst CLO	Invesco	450	Closed Mar '06	Snr secured loans	Arbitrage CF	
Magi Funding I CLO	Henderson	€ 300	Closed Feb '06	Snr secured loans	Arbitrage CF	



# UBS Global CDO Group's Issuers 2004-2006

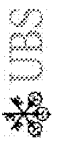
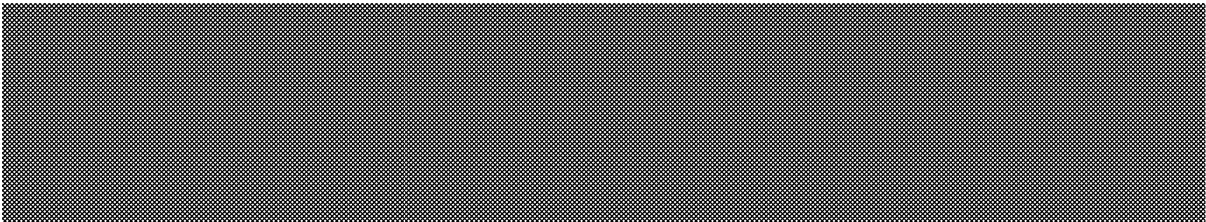
## UBS led CDO transactions

Deal Name	Investment Manager	Issue Size (US\$m)	Status	Collateral	Type	Notes
GSCSF 2005-1	GSC Partners	500	Closed Jan '06	Mezzanine ABS	Arbitrage CF	60% ABS CDS
Nautilus RMBS CDO II	Ramius	400	Closed Dec '05	Prime RMBS	Arbitrage CF	Static RMBS pool
North Street 2005-8	UBS Principal Finance	1,500	Closed Dec '05	Reference ABS pool	Synthetic	
Pinetree CDO	Deerfield Capital	300	Closed Nov '05	Mezzanine ABS	Arbitrage CF	
Duke IX CDO	Ellington	2,500	Closed Nov '05	Mezzanine ABS	Arbitrage CF	70% ABS CDS
Dryden IX	Prudential Financial	500	Closed Oct '05	Snr secured loans	Arbitrage CF	Low Leverage dual currency
GSC CDO VI	GSC	400	Closed Oct '05	Middle market loans	Arbitrage CF	
ACA ABS 2005-2	ACA	450	Closed Aug '05	Mezzanine ABS	Arbitrage CF	20% below invst grade
Dryden IX	Prudential Financial	500	Closed Oct '05	Snr secured loans	Arbitrage CF	Low Leverage dual currency
North Street 2005-9	UBS Principal Finance	1,000	Closed Jul '05	Reference Loan Pool	Synthetic	
Vertical ABS CDO	Vertical	420	Closed Jun '05	Mezzanine ABS	Arbitrage CF	UBS co-lead
Nautilus RMBS CDO	Ramius	510	Closed May '05	Prime RMBS	Arbitrage CF	Static RMBS pool
Stanton ABS CDO I	UNIQA	€ 310	Closed May '05	Euro ABS	Arbitrage CF	UBS co-lead
Oryx European CLO	AXA IM	€ 410	Closed May '05	Snr secured loans	Arbitrage CF	
Longport II CDO	Delaware Investment	300	Closed Apr '05	Mezzanine ABS	Arbitrage CF	
Duke VIII CDO	Ellington	1,160	Closed Apr '05	Mezzanine ABS	Arbitrage CF	Largest Mezz ABS CDO
North Street 7	UBS Principal Finance	228	Closed Mar '05	Reference ABS pool	Synthetic	
Market Square CLO	Deerfield Capital	300	Closed Mar '05	Snr secured loans	Arbitrage CF	
Summit RMBS CDO	Summit Investments	400	Closed Feb '05	BBB RMBS	Arbitrage CF	100% RMBS
Belle Haven	NIB Credit	1,000	Closed Dec '04	High Grade ABS	Arbitrage CF	ABCP Senior funding
Margate ABS CDO	Delaware Investments	1,000	Closed Dec '04	High Grade ABS	Arbitrage CF	
Laguna ABS CDO	PIMCO	1,250	Closed Oct '04	High Grade ABS	Arbitrage CF	ABCP Senior funding
MCG Loan Trust 2004	MCG Capital Corp	400	Closed Sep '04	Middle market loans	Financing CF	
North Westerly II	NIB Capital	€ 413.5	Closed Sep '04	European lev loans	Arbitrage CF	
Whatley CDO I	DL Babson	400	Closed Jun '04	Mezzanine ABS	Arbitrage CF	
North Street 6	UBS Principal Finance	245	Closed May '04	Reference ABS pool	Synthetic	
Centurion CDO VII	American Express	1,100	Closed May '04	Snr secured loans	Arbitrage CF	
Duke VI CDO	Ellington	950	Closed Apr '04	Mezzanine ABS	Arbitrage CF	
EMBS IV	DL Babson	200	Closed Feb '04	Mezzanine ABS	MV CDO	
GSC CDO V	GSC	600	Closed Dec '04	Middle market loans	Arbitrage CF	
Monument Park CDO	Blackstone Debt Advisors	1,000	Closed Jan '04	Snr secured loans	Arbitrage CF	Innovative low lev structure

SECTION 5

---

CDO Investors



## Investor Rationale

---

- ◆ **Access diversified investment pool**
- ◆ **Access collateral manager expertise**
- ◆ **Access asset classes not otherwise available**
- ◆ **Isolate investment from price volatility in underlying assets**
- ◆ **Tailor risk /return profile**
- ◆ **Debt**
  - Spread premium over similarly rated corporate and structured paper
  - Better rating performance versus corporates
- ◆ **Equity**
  - Leveraged exposure to underlying assets
  - Non-recourse term leverage
  - Non-correlation to traditional asset classes

# Investors

---

## Senior notes (AAA & AA)

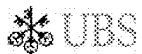
- ◆ Monolines
- ◆ Conduits
- ◆ Banks
- ◆ Insurance companies

## Mezzanine notes (A to BB)

- ◆ Insurance companies
- ◆ Money managers
- ◆ Structured vehicles/CDOs
- ◆ Hedge funds

## Equity

- ◆ Hedge funds
- ◆ Banks
- ◆ Insurance companies
- ◆ Pension funds
- ◆ Private clients





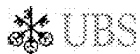
# Mezzanine RMBS CDO Capability Managed by Ellington

Duke IX Equity Breakdown - 19 Different Investors Worldwide

Duke IX Debt Breakdown - 39 Different Investors Worldwide (excl. Super Senior)



	Americas	European	Asia Pacific
Equity	26.7%	45.5%	27.8%
Debt	37.6%	58.8%	3.6%

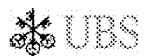


# Syndicated Loan CDO Capability Managed by Invesco

Belhurst Equity Breakdown - 8 Different Investors Worldwide  
 Belhurst Debt Breakdown - 20 Different Investors Worldwide

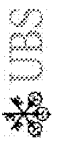
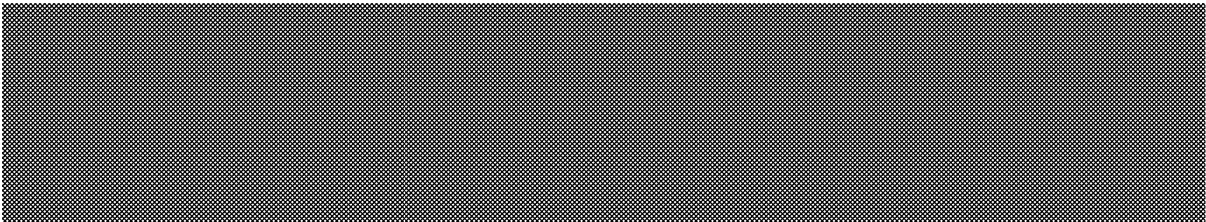


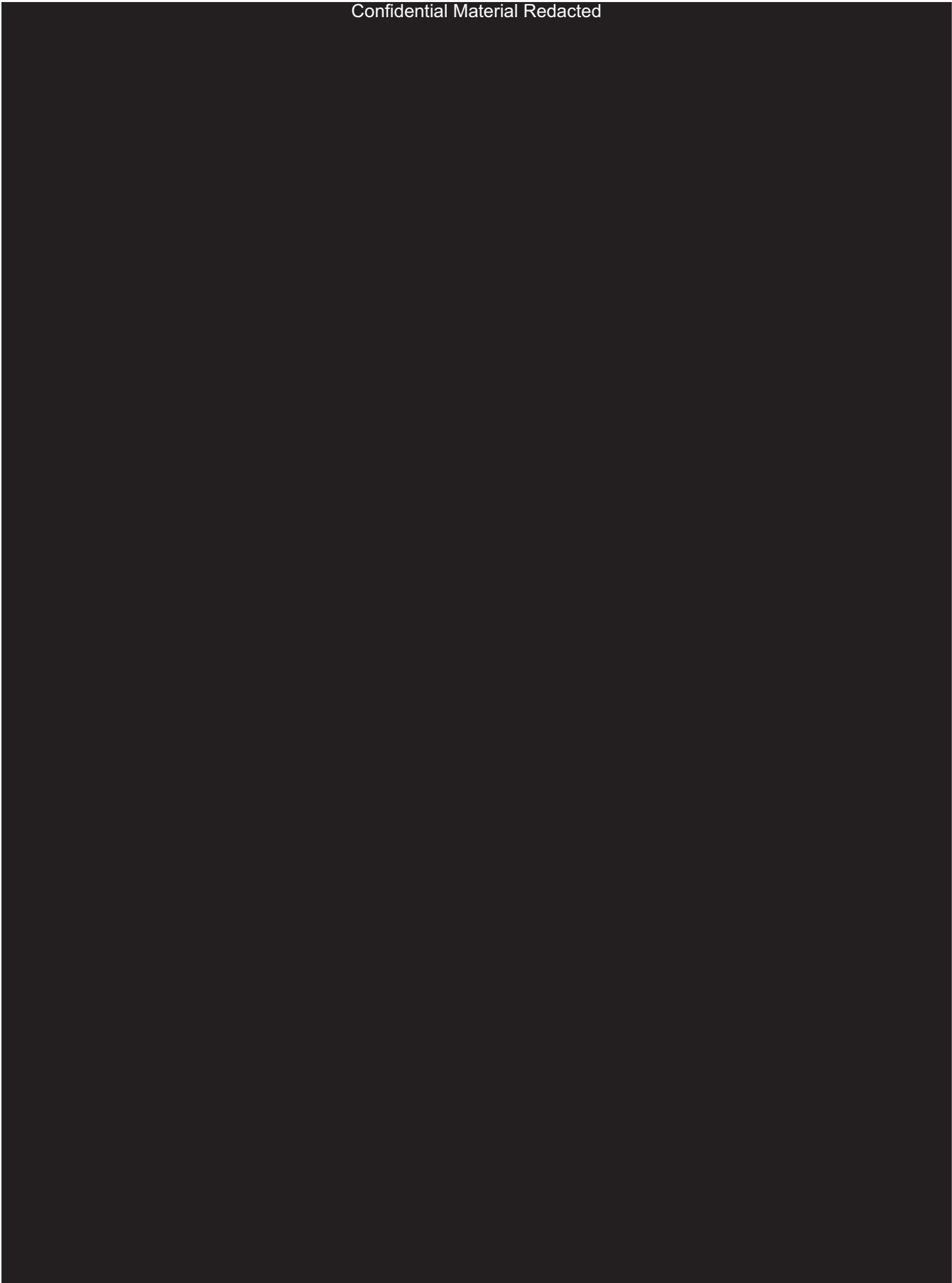
	Americas	European	Asia Pacific
<b>Equity</b>	62.5%	25.0%	12.5%
<b>Debt</b>	45%	30%	25%



SECTION 6

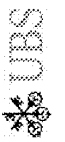
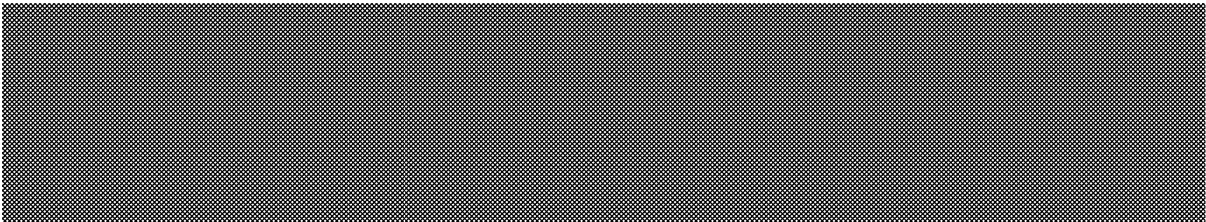
Secondary Trading





SECTION 7

CDO Research





UBS Investment Research

CDO Insight

# CDO Research

- ◆ UBS CDO research is ranked #1 in the *Institutional Investor* fixed income research survey.
- ◆ *CDO Insight* addresses topical issues of importance to CDO investors and issuers. It reaches an audience of over 2,000 market participants.
- ◆ Monthly performance reports assess the health of 45 UBS-distributed CDOs.
- ◆ Annual conferences in London and New York attract hundreds of CDO investors and managers. Luncheon presentations and conference calls provide other forums for research distribution.
- ◆ *Collateralized Debt Obligations: Structures and Analysis*, 2<sup>nd</sup> edition, was published by Wiley/Fabozzi in 2006. Its entire contents were written by UBS CDO research.
- ◆ *CDO Insight* is emailed to market participants and available on [www.ubs.com](http://www.ubs.com). *CDO Insight* and UBS CDO performance reports are also available on [www.mtgslrat.com](http://www.mtgslrat.com).

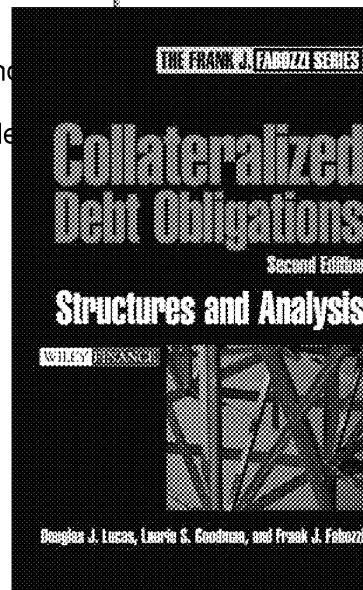
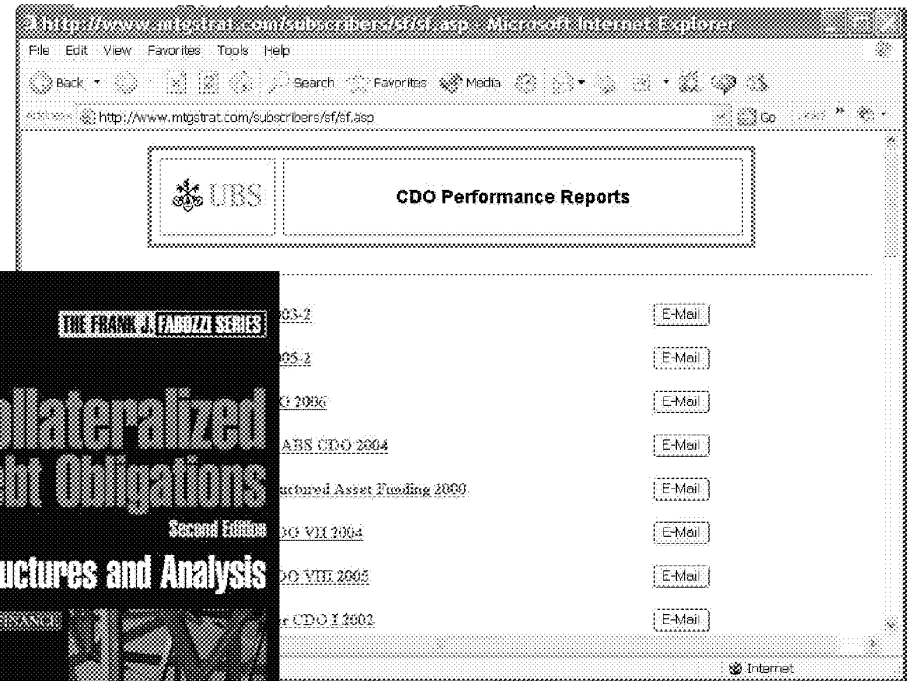
Market Highlights

> CDO Issuance continued at record pace in September. In most categories and geographies, arbitrage issuance to far in 2006 exceeds that of full year 2005. Spreads were relatively static in September, with the biggest change being a widening of A and BBB mezz ABS CDOs in response to concerns about slowing, or reversing, home price appreciation. See spread tables below and on page 2.

> ABS CDOs. Mezz hybrid ABS CDOs are the main sellers of protection in CDO credit default swaps, the topic of our page 4 article. Mezz hybrid ABS CDOs use CDO CDS to fill CDO allocations in their collateral portfolios for the same reasons they take on Res B&C risk in synthetic form: better access to vintages and managers than in the cash market, faster CDO ramp up, the ability to "buy" appreciated CDOs at par, and the opportunity to issue cheap unfunded super senior liabilities. The most popular underlying for CDO CDS are BBB and A tranches of mezz ABS CDOs. Protection buyers include hedge funds.

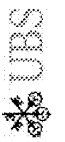
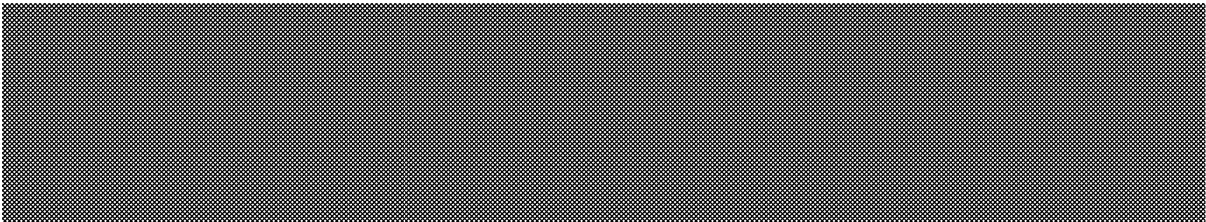
In This Issue  
Credit Default Swaps on CDOs...4

Douglas Lucas  
Analyst  
douglas.lucas@ubs.com  
+1-212-713-2640  
Matthew Pifer  
Analyst  
matt.pifer@ubs.com  
+1-212-713-2540  
Rebecca Manning  
Analyst  
rebecca.manning@ubs.com  
+1-212-713-2677



SECTION 8

New Market Developments



# Opera Structured Credit closed-end CDO Equity Fund

CDO Equity Fund managed by AXA Investment Managers Paris, SA

## Transaction Highlights

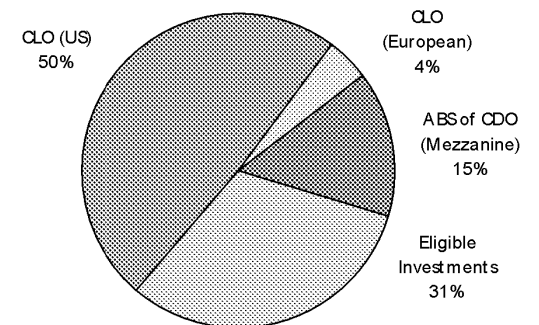
- ◆ The Opera fund is a CDO equity fund of fund investing in a diversified portfolio of CDO equity tranches selected and monitored by AXA IM
- ◆ The Fund will be managed by AXA Investment Managers (“AXA IM”) one of the largest and most experienced investors in the CDO market with approximately €2.8 billion CDO equity and debt investment portfolio under management
- ◆ More than \$400mm in commitments has been raised through September 30, 2006 with an additional close expected in the fourth quarter 2006
- ◆ Returns are targeted in the 11%-14% range
- ◆ Collateral
  - The portfolio will include US CLO, European CLO, ABS CDO, Investment Grade CDO and other CDO equity tranches, with an expected portfolio weighting of approximately 65% CLO's, 25% ABS CDO's and 10% other
- ◆ Structure
  - Opera is a close-ended fund with a 7 year expected life and a 10 year legal final maturity (subject to two one-year extensions)
  - The fund is structured as a master-feeder: All investments are made by a master vehicle with investors participating via two feeder funds. There is a US feeder fund for US taxable investors and a non-US feeder fund for non-US investors and US tax-exempt.
  - Structure allows investors to invest in either US dollar or Euros
  - The notes issued by the offshore feeder fund are listed on the Irish Stock Exchange

Notes:

1. Total commitments are USD equivalent after conversion of Euro-denominated commitments into Dollars at the spot market currency exchange rate at each respective closing; 50% of such commitments were drawn at closing.

- ◆ 1<sup>st</sup> Closing: Mar 2006 (\$197mm)<sup>1</sup>
- ◆ 2<sup>nd</sup> Closing: Jul 2006 (\$205mm)<sup>1</sup>
- ◆ Exp Final: Apr 2013
- ◆ Legal Final: Apr 2016

Master Vehicle Portfolio Composition as of July 31, 2006





# Vanderbilt Financial Trust “permanent capital vehicle”

CDO Equity Fund managed by Vanderbilt Capital Advisors LLC

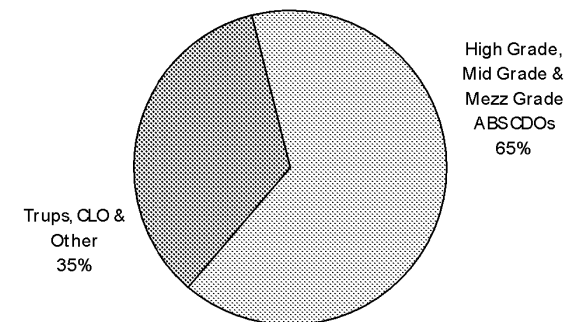
## Transaction Highlights

- ◆ \$[231] million CDO equity fund
- ◆ Vanderbilt Capital Advisors LLC (“Vanderbilt”)
  - … Vanderbilt has an established track record in CDO’s since 2002, having issued over \$13 billion of CDO securities in both synthetic and cash form across 16 CDO transactions
  - … One of the top 10 largest CDO managers in the US based on CDO asset under management<sup>1</sup>
- ◆ Structure
  - … Organized as a Delaware statutory trust investing primarily in the equity of CDO’s backed by residential mortgage-backed securities, commercial mortgage-backed securities, consumer and commercial asset-backed securities, corporate securities and loans, and trust preferred securities
  - … Investors participate via common shares that will be listed on the London Stock Exchange AIM
- ◆ Collateral
  - … Vanderbilt Financial Trust will acquire all or a majority of the equity in Vanderbilt managed CDOs as well as a limited number of CDO’s managed by third party asset managers
  - … To date the trust has invested in four CDOs managed by Vanderbilt: Diversey Harbor ABS CDO, Lincoln Avenue ABS CDO, Montrose Harbor CDO I, Ltd. and Mayflower CDO and two managed by third party managers
- ◆ Returns
  - … Targeted returns are in the 12%-15% range

Notes:

1. Source – S&P CDO Spotlight dated January 10, 2006

Target Asset Allocation



# ACA Aquarius 2006-1, Ltd Mezzanine RMBS via CDS of ABS Collateral

Non-Trigger Mezz Hybrid CDO managed by ACA Management, LLC

Class	Mdy / S&P	Size	Sub %	Spread
A1S	Aaa / AAA	\$1,276.00mm	36.70%	NA
A1J	Aaa / AAA	\$255.00mm	23.95%	3mL+43
A2	Aa2 / AA	\$177.00mm	15.10%	3mL+53
A3	A2 / A	\$80.00mm	11.10%	3mL+155
B2	Baa1 / BBB+	\$17.50mm	10.23%	3mL+260
B3	Baa2 / BBB	\$74.50mm	6.50%	3mL+325
B4	Baa3 / BBB-	\$20.00mm	5.50%	3mL+370
PS	NR / NR	\$110.00mm		
<b>TOTAL</b>		<b>\$2,000.00mm</b>		

- ◆ Closing : Sep 2006
- ◆ Exp Final : Sep 2014
- ◆ Legal Final : Sep 2046

## Transaction Highlights

### ◆ ACA Management, LLC

- The transaction is 12<sup>th</sup> ABS CDO managed by ACA Management LLC, with prior CDO issuance totaling \$12.8 billion of assets in 19 CDOs under management as of June 30, 2006

### ◆ Structure

- No cashflow diversion triggers – debt does not PIK due to OC breaches

### ◆ Target Portfolio

- Target WARF : 460 (“Baa2/Baa3”)
- Hybrid Collateral Pool : 90% CDS and 10% Cash



SECTION 9

UBS CDO Contacts

