Minutes

BSAM Pricing Committee

6/4/2007
10:00 AM
237 Park, High Grade Conference Room, 7th fl.

Attendees – Members of the Pricing Committee that were in attendance included Gerry Cummins, Jim D'Sidocky, Frank Galdi, John Geissinger and Mary Kay Scucci. Also in attendance were Sam Turvey, Ralph Cioffi, Guri Virdi and Charles Goff.

1. High Grade Fair Valuation – April Marks and NAV

Discussion Item

- The committee met to discuss the status of the April marks and NAV. It was noted that during the month, the fund was neither a buyer or seller and that no investors came into or out of the fund, including BS&Co.
- The committee also reviewed additional analysis provided by Cummins which detailed month-over-month changes in dealer prices.
- The committee followed-up on the status of new marks received by Lehman for the ABACUS bonds. As of Friday May 29th Lehman had 35 securities to re-price and had not done so. Lehman did provide new marks for the ABACUS bonds and indicated that they are comfortable with the new marks provided (per Cioffi).
- It was noted that the April NAV includes novated swaps of approximately $16-$17 million (peek was $22 million).
- G. Cummins led the pricing committee's discussion of the status of Rampart valuation. Smita's (Rampart) valuation estimate has been received and will take another week for complete review. PFPC's trial balance (which was used for Simina's valuation) was up 2%. In the past changes to their initial valuation have been small. Also, no markdowns in the underlying collateral is expected. The portfolio manager (Cioffi) added that he also believes that the pace of downgrades (in general) to be moderating. Thus we should be comfortable in using their estimate in the NAV calculations. All in all, marking the estimate up or down is not expected to have a significant impact (estimated ¾ of a point).
- The committee revisited the discussion of the Goldman marks received on the ABACUS bonds. It was noted that Goldman uses a correlation model, marking to model, using their implied default correlations assumptions;. This was thought to be consistent with what they had always done. Goldman's mark of 87 on the AMSS bond was thought to be low. The committee decided that we need to stick with the pricing policy; use the average of dealer marks received (GS and LEH) for pricing the ABACUS bonds.
- The committee discussed the reasons the final NAV will differ markedly from the estimate. In general, many of the positions that were marked down received dealer marks after release of the estimate.
- The Portfolio Manager discussed May pricing issues with two positions. On position (approx. $20 million) had been marked by CSFB and the other (approx. $40 million) had been marked by Lehman.

Resolution

- Follow the pricing policy in marking the AMSS bond by taking the average of the dealer marks received (Goldman and the new Lehman marks).
- Approved final valuation of the ABACUS bonds
- Use the estimated valuation for Rampart (provided by Smita) in April NAV calculations.
- Cioffi to send HF Ops the desk's fair valuation and justification for all inputs used in the fair valuation.

2. Missing Marks

Discussion Item

- As of 6/4/07 there were approximately 35-40 marks that have not received a dealer mark. The portfolio manager indicated that pricing for all of the corporate bonds should be available on Bloomberg/Trace.

Resolution

- Have Ervin send corporate synthetics list to Manny
- Obtain list of corporate securities from Ervin

3. Additional Issue Not Initially on Agenda - May Issues

Discussion Item

- The Portfolio Manager (Cioffi) led the discussion on two positions where he plans to challenge the dealer marks received. One position (approx. $20 million) marked by CSFB received a May mark of 40 (down from par during the prior months) and another marked by Lehman which we previously had been receiving a price.
    - For the $20 million position marked by CSFB, the projected impact (per Cioffi) would by 60 bps to High Grade SCS and 100 bps to Enhanced Leverage.
    - For the $40 million position marked by Lehman, there was a conflict as to the marks supplied by the dealer – "spread" bid vs. "price" bid. The spreads implied (and computed by the HG team) by the dealer price received were thought to be unreasonable and not consistent with the price [AA, 250DM; A, 850DM]. The dealer countered with a spread bid (again thought to be unreasonable by the HG team) of AA, 1250DM and A, 850-1000DM. Subsequent to that the dealer countered with a price bid.
- As a result of the "back-and-forth" with the dealer, the Portfolio Manager requested to fair value these two positions for May.
- The pricing committee reiterated the need to be consistent with the process to price the bonds in arriving at a fair valuation (neither too high, nor too low)
- The committee (briefly) discussed the topic of "should we be pricing for liquidation?" During the discussion it was noted that some of the marks received are both up and down for May. Thus it would be challenging to determine where the actual value is. The committee agreed that there is a need to discuss this further when pricing for May.

Resolution

- Portfolio Manager (Cioffi) to provide HF Ops their fair valuations of the bonds.
- Cioffi check all Lehman securities priced per a spread in May and re-check Lehman's April marks for same securities.
- Inputs for High Grade team's fair valuation need to be justified.
- Set up another Pricing Committee for tomorrow