Ouch!

July has been a very difficult month for the credit markets. The market is down about 3½% for the month. None of us expected such an abrupt move.

I. What caused the weakness:

- Greed and complacency led to a tolerance for increased leverage and weaker lending standards.
- Cracks in the sub-prime mortgage market brought pressure on certain highly leveraged hedge funds and CDO's.
- Lack of transparency in hedge funds and CDO's bred a climate of fear of the unknown that heightened market insecurity.
- A heavy financing calendar (estimated at about $300 billion for the second half) brought too much supply on the market at a time when CLO demand for loans significantly deteriorated.

II. What about fundamentals:

- The credit markets are discounting default rates greater than 7%. Current default rates are below 2% and, under all likely scenarios, are not expected to increase much above 3% over the next 18 to 24 months.
- Economic data continues to be supportive of the financial markets. U.S. and European GDP growth should remain in the 2 ½ % to 3% range and Asian growth is expected to be substantially higher.
- Corporate balance sheets and cash flows are strong and are expected to remain strong.

III. Conclusion:

- The companies in our portfolios remain good credits. They have not suffered any deterioration in their fundamentals. We are buying good quality bonds at about 9% in the U.S. and 8% in Europe. We are buying loans at spreads considerably above three hundred basis points over Libor/Euribor.
- The market correction has had the salutary effect of creating tighter credit standards and shifting the balance of power from borrowers to lenders.
- Company fundamentals will become more important. The market will be less tolerant of low quality CCC credits.
- This represents an outstanding buying opportunity. The credit market has already discounted a near disaster environment. Other markets have not done so. Our market represents value both on a relative and absolute basis.

July 30, 2007