

markets and overall economy which could have a significant adverse effect on the Issuer, the Collateral and the Securities.

Below Investment Grade Debt Obligations. It is expected that primarily all of the Collateral Obligations will be rated below investment grade. Such debt obligations have greater credit and liquidity risk than investment grade obligations. The lower rating of such obligations reflects a greater possibility that adverse changes in the financial condition of an obligor or in general economic conditions, or both, may impair the ability of the Issuer to make payments on the Securities. In addition, obligors of below investment grade debt obligations may be highly leveraged and may not have available to them more traditional methods of financing. During an economic downturn, a sustained period of rising interest rates, or a period of fluctuating exchange rates (in respect of those obligors located in non-U.S. countries), such obligors may be more likely to experience financial stress and may be unable to meet their debt obligations due to the obligors' inability to meet specific projected business forecasts or the unavailability of financing. Although recently default rates for below investment grade debt obligations have decreased relative to prior years, there can be no assurance that default rates will not increase, perhaps significantly, in the future. All risks associated with the Issuer's investment in such obligations will be borne by the holders of the Securities, beginning with the Subordinated Securities as the most junior Classes. See "—Defaults; Market and Credit Spread Volatility."

Limitations of Portfolio Diversification. The Indenture will require that certain levels of diversification are maintained or improved in connection with reinvestments. The Collateral Obligations are expected to consist primarily of below investment grade debt obligations. To the extent that below investment grade debt obligations as an asset class generally underperform or experience increased levels of credit losses or market volatility, the Collateral Obligations will likely experience credit and trading losses even with significant obligor and industry diversification. In addition, given the capital structure of the Issuer, any losses resulting from defaults and/or trading losses will be borne first by the Subordinated Securities, as the most junior Classes. Because the value of the obligations of any single obligor or industry sector will represent a higher percentage of the Aggregate Outstanding Amount of the Subordinated Securities (or any other junior Classes of Notes) than it represents in relation to the aggregate principal amount of the total portfolio, there can be no assurance that the diversification guidelines of the Indenture will be effective in minimizing losses on the junior Classes, particularly the Subordinated Securities.

Interest Rate Risk. There will be a rate mismatch between the Floating Rate Notes and a portion of the underlying Collateral Obligations. Although all or most Collateral Obligations are expected to bear interest at rates based on LIBOR, some may be based on other indices, and even those based on LIBOR will likely have reset dates or periods different from those of the Floating Rate Notes. The percentage of Collateral Obligations at any time is influenced by, among other factors, the amount and frequency of defaults, prepayments, sales by the Investment Manager of the Collateral Obligations and the amount of Collateral Obligations actually held by the Issuer at that time. As described under "Hedge Agreements," the Issuer may enter into one or more Hedge Agreements to manage the interest rate exposure of the portfolio of Collateral Obligations. However, there can be no assurance that any such Hedge Agreements will fully cover any deficiency in Interest Proceeds resulting from any interest rate mismatch. Furthermore, although any Hedge Counterparty will be a highly rated institution at the time of entering into the applicable Hedge Agreement, there can be no assurance that it will meet its obligations under the applicable Hedge Agreement. In addition, the actual principal balance of any fixed and floating rate mismatch between the Collateral Obligations and the Notes may not exactly match the notional balance under any Hedge Agreement. All risks associated with any rate, reset date or notional balance mismatch will be borne by the holders of the Securities, beginning with the Subordinated Securities as the most junior Classes. Changes in LIBOR applicable to the Floating Rate Notes may adversely affect returns on the Subordinated Securities.

Loans and Participations. Loans may become non-performing for a variety of reasons and may require substantial workout negotiations or restructuring that may entail, among other things, a substantial reduction in the interest rate and a substantial write-down of principal. While the Issuer may have limited rights to participate in such workout negotiations or restructuring and voting rights with respect to interests in loans it owns through assignments, the Issuer will not own a large enough interest to control any such activities or votes. In addition, when the Issuer holds a Participation, it may not have voting rights with respect to any waiver of enforcement of any restrictive covenant breached by a borrower. Selling institutions commonly reserve the right to administer the Participations sold by them as they see fit (unless their actions constitute gross negligence or willful misconduct) and to amend the documentation evidencing the obligations in all respects. However, most participation agreements provide that the