

generally will not have any voting or other contractual rights of ownership with respect to the Reference Obligation. The Issuer will not directly benefit from any collateral supporting the Reference Obligation and will not have the benefit of the remedies that would normally be available to a holder of such Reference Obligation. In addition, in the event of the insolvency of the Synthetic Security Counterparty, the Issuer will be treated as a general creditor of such Synthetic Security Counterparty, and will not have any claim with respect to the Reference Obligation. Consequently, the Issuer will be subject to the credit risk of the Synthetic Security Counterparty as well as that of the reference entity. As a result, concentrations of Synthetic Securities entered into with any one Synthetic Security Counterparty will subject the Notes to an additional degree of risk with respect to defaults by such Synthetic Security Counterparty as well as by the reference entity. One or more Affiliates of the Initial Purchaser and Placement Agent may act as Synthetic Security Counterparty with respect to all or a portion of the Synthetic Securities, which relationship may create certain conflicts of interest. See “—*Certain Conflicts of Interest.*” Moody’s or S&P may downgrade any Class of Senior Notes then rated by it if a Synthetic Security Counterparty to a material portion of the Synthetic Securities held by the Issuer has been downgraded by Moody’s or S&P, respectively.

The Collateral Manager will not be obligated to perform independent credit analyses of any Synthetic Security Counterparties or entities that may guarantee the obligations of any such Synthetic Security Counterparty, although all Synthetic Security Counterparties (or guarantors) are required to have (i) a long-term senior unsecured rating of at least “A1” by Moody’s (and if rated “A1” by Moody’s, such rating is not on watch for downgrade), and a long-term senior unsecured rating by S&P of at least “A+” at the time they enter into a Synthetic Security.

Defaulted Obligations. Upon any Collateral Obligation becoming a Defaulted Obligation, such Defaulted Obligation may become subject to either substantial workout negotiations or restructuring, which may entail, among other things, a substantial reduction in the interest rate, a substantial write-down of principal, and a substantial change in the terms, conditions and covenants with respect to such Defaulted Obligation. In addition, such negotiations or restructuring may be quite extensive and protracted over time, and therefore may result in substantial uncertainty with respect to the ultimate recovery on such Defaulted Obligation. The liquidity for Defaulted Obligations may be limited, and to the extent that Defaulted Obligations are sold, it is highly unlikely that the proceeds from such sale will be equal to the amount of unpaid principal and interest thereon. Furthermore, there can be no assurance that the ultimate recovery on any Defaulted Obligation will be at least equal to either the minimum recovery rate assumed by any Rating Agency in rating the Securities or any recovery rate used in connection with any analysis of the Securities that may have been prepared by the Initial Purchaser, the Placement Agent or any other person for or at the direction of Holders of any Securities.

Ramp-Up Risk. The Issuer expects that, as of the Closing Date, it will have purchased (or entered into commitments to purchase) approximately U.S. \$401,000,000 in Aggregate Principal Balance of Collateral Obligations. During the Ramp-Up Period, the Issuer expects that the Collateral Manager on behalf of the Issuer will purchase additional Collateral Obligations from Principal Proceeds (and diverted Interest Proceeds) until the Aggregate Principal Balance of the Collateral Obligations is equal to at least U.S. \$450,000,000 (including amounts prepaid on Collateral Obligations and sales proceeds of Collateral Obligations that in either case have not yet been reinvested) in accordance with certain criteria. After the Ramp-Up Period, the Aggregate Principal Balance may still increase or decrease as a result of removal and addition of Collateral Obligations.

Prior to the Closing Date, the Issuer acquired a part of the initial portfolio of Collateral Obligations pursuant to warehouse arrangements under which an Affiliate of the Initial Purchaser purchased a participation in those assets. Under these arrangements, the Issuer will not be entitled to any of the interest accrued on these assets prior to the Closing Date. On the Closing Date, the Issuer will use a portion of the net proceeds of the issuance of the Notes to repurchase those participations. The price paid to repurchase the participations will be based on the price of the relevant Collateral Obligations at the time of their original acquisition (subject to certain adjustments), which may be higher or lower than the market value of those obligations on the Closing Date.

The ability of the Issuer to acquire an initial portfolio of Collateral Obligations that satisfy the Investment Criteria at the projected prices, ratings, rates of interest and any other applicable characteristics will be subject to market conditions and availability of such Collateral Obligations. Any inability of the Issuer to acquire Collateral Obligations that satisfy the Investment Criteria specified herein may adversely affect the timing and amount of payments received by the Holders of Notes and the yield to maturity of the Notes and the distributions on the