

exercise of any redemption rights (or tender offers or exchange offers for such obligations), the prevailing level of interest rates, the redemption price, the actual default rate and the actual level of recoveries on defaulted obligations, the level of reinvestment of certain types of proceeds after the Reinvestment Period, prepayments and the amount and frequency of any sales of Collateral Obligations by the Investment Manager and the ability of the Investment Manager to invest in additional Collateral Obligations. A shortening of the average life of the Rated Notes may adversely affect returns on the Subordinated Securities.

The Collateral Obligations actually acquired by the Issuer may be different from those expected to be purchased by the Investment Manager, on behalf of the Issuer, due to market conditions, availability of such Collateral Obligations and other factors. The actual portfolio of Collateral Obligations owned by the Issuer will change from time to time as a result of sales and purchases of Collateral Obligations.

The Issuer will cause the redemption (in whole but not in part) of all Classes of the Notes, as described under, and subject to the conditions described in, "Description of Certain Terms of the Securities — Optional Redemption." In addition, the Notes may be accelerated upon the occurrence of an Event of Default, as described under "The Indenture and the Fiscal Agency Agreement — Events of Default; Acceleration." There can be no assurance that, upon any Rated Notes Redemption, the proceeds realized would permit any payment on the Subordinated Securities after all required payments are made in accordance with the Priority of Payments, or upon an acceleration of the Notes, the proceeds realized would be sufficient to pay the Rated Notes in full and permit any payment on the Subordinated Securities. In particular, the market prices of the Collateral Obligations and any payment due to Hedge Counterparties will affect returns on the Subordinated Securities. In addition, a Rated Notes Redemption or acceleration of the Notes could require the Investment Manager to liquidate positions more rapidly than would otherwise be desirable, which could adversely affect the realized value of the obligations sold.

**Notes Surrendered by Holders Will be Cancelled.** Notes may at any time be tendered by a holder for no payment to the Trustee for cancellation ("Surrendered Notes"). Surrendered Notes will be cancelled and no longer deemed Outstanding for certain purposes under the Indenture such as the exercise of voting rights. However, for purposes of the Overcollateralization Ratio and the Event of Default Par Ratio, any such Surrendered Notes will be deemed to (i) remain Outstanding and thus will not affect the calculation of the Overcollateralization Tests or the Event of Default Par Ratio, until all Notes of the applicable Class and each Higher Ranking Class have been retired or redeemed and (ii) have an Aggregate Outstanding Amount equal to the Aggregate Outstanding Amount as of the date of surrender, reduced proportionately with, and to the extent of, any payments of principal on Notes of the same Class thereafter. See "Description of Certain Terms of the Securities—Surrender of Notes."

**Tax Considerations.** An investment in the Securities involves complex tax issues. See "Certain Income Tax Considerations," below, for a more detailed discussion of certain tax issues raised by an investment in the Securities.

As discussed in more detail below, the Issuer expects to conduct its affairs so that it will not be treated as engaged in a trade or business within the United States (including as a result of lending activities). As a consequence, the Issuer expects that its net income will not become subject to U.S. federal income tax. There can be no assurance, however, that the Issuer's net income will not become subject to U.S. federal income tax as a result of unanticipated activities, changes in law, contrary conclusions by the U.S. Internal Revenue Service (the "IRS"), or other causes. If the Issuer were determined to be engaged in a trade or business within the United States, its income (computed possibly without any allowance for deductions) would be subject to U.S. federal income tax at the usual corporate rate, and possibly to a branch profits tax of 30% as well. The imposition of such taxes would materially affect the Issuer's financial ability to make payments on the Securities.

Although the Issuer does not intend to be subject to U.S. federal income tax with respect to its net income, income derived by the Issuer may be subject to withholding or gross income taxes imposed by the United States or other countries. In this regard and subject to certain exceptions, the Issuer may generally only acquire a particular Collateral Obligation if, at the time of commitment to purchase, either the interest payments thereon are not subject to withholding tax or the issuer of the Collateral Obligation is required to make "gross-up" payments. Similarly, the Issuer may generally only enter into a Securities Lending Agreement in respect of any Collateral Obligations if the substitute interest payments received thereunder are not subject to withholding tax or the counterparty is required to make "gross-up" payments. The Issuer may, however, be subject to withholding or gross income taxes in respect of commitment fees, letter of credit fees, securities lending fees, facility fees, and other similar fees, as well as with respect to substitute dividend payments, interest and disposition proceeds in respect of Collateral Obligations not