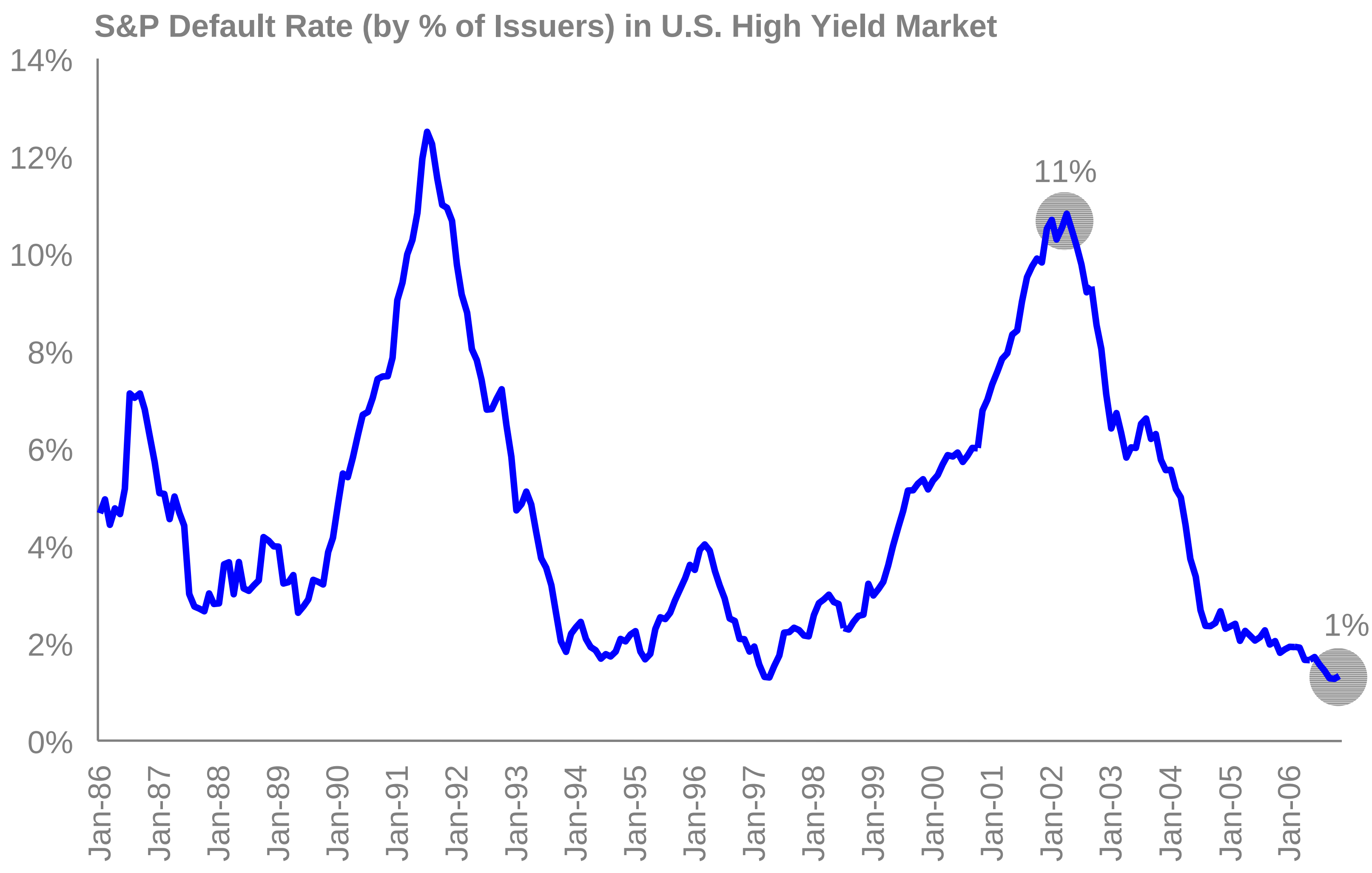
Current Credit Environment

On the surface all looks good

- Corporate balance sheets remain healthy
- Corporate earnings are high
- Unemployment and inflation are low
- Default rates are at record low levels
- More liquid debt market than ever
  - High investor confidence
  - New debt structures and instruments
- A great time to be a credit investor……or is it?

Current High Yield Default Rates at Cyclical Lows



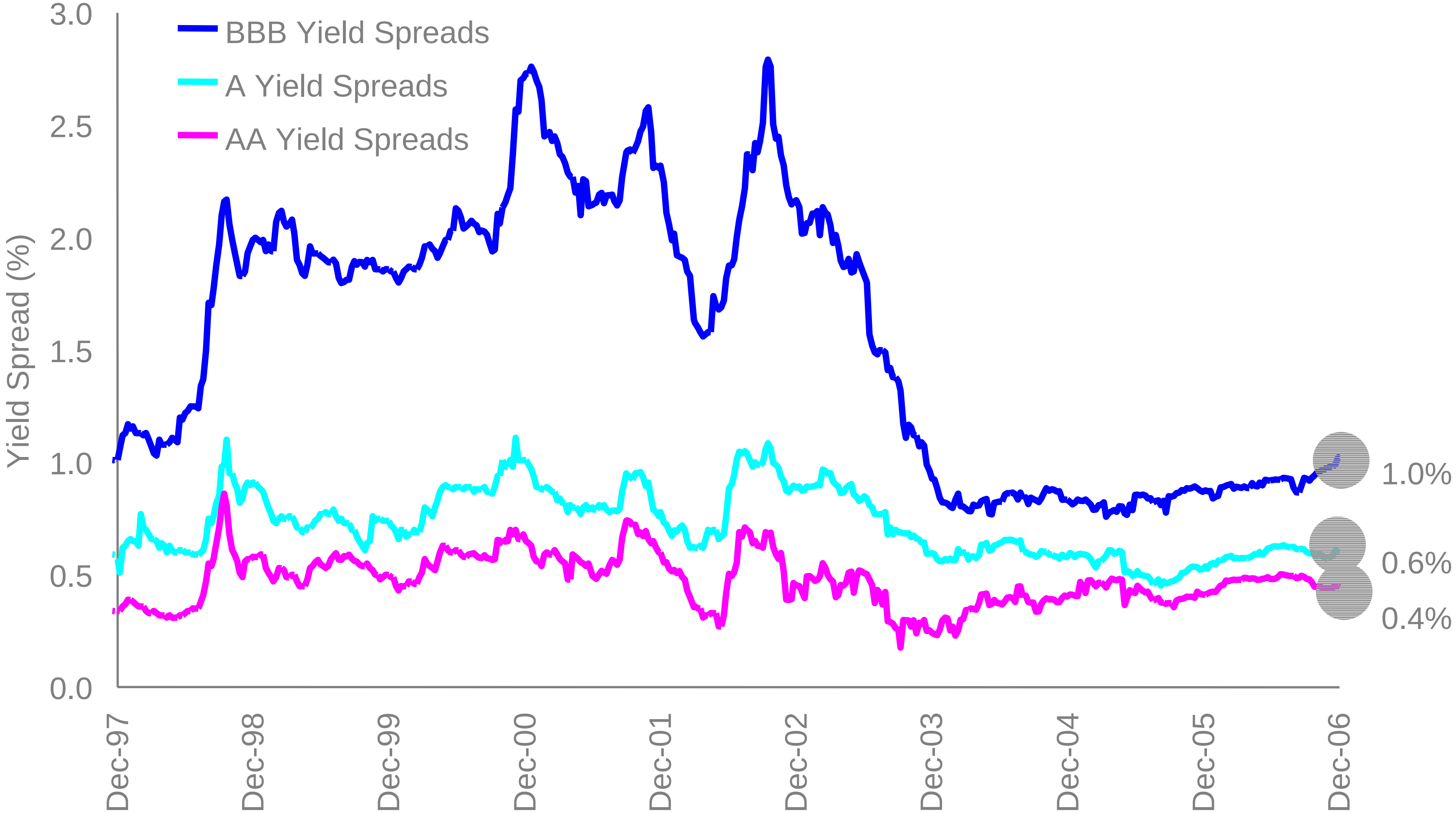
Source: credit\credit presentation 2007

Risk Premiums at Historic Low Levels

Source: credit\credit pres…(ML master …) 12/31/06

Cautious Over the Corporate Bond Market

Yield Spreads Relative to Canadas*



* Source: SC Mid-Term Bond Index

Source: bonds/charts/credit…/bbb&aa … 1/17/07

Sampling of Current Risk Premiums versus Previous Peaks

Canadian BBB/BB Issuers (5-year New Issue Spreads)

	Jan 2007	Sept 2002
BCE	+60	+250
Telus	+55	+2000
Fining	+75	+250
Rogers Cable	+150	+500
Cogeco Cable	+175	+550
Shaw Comm.	+150	+450

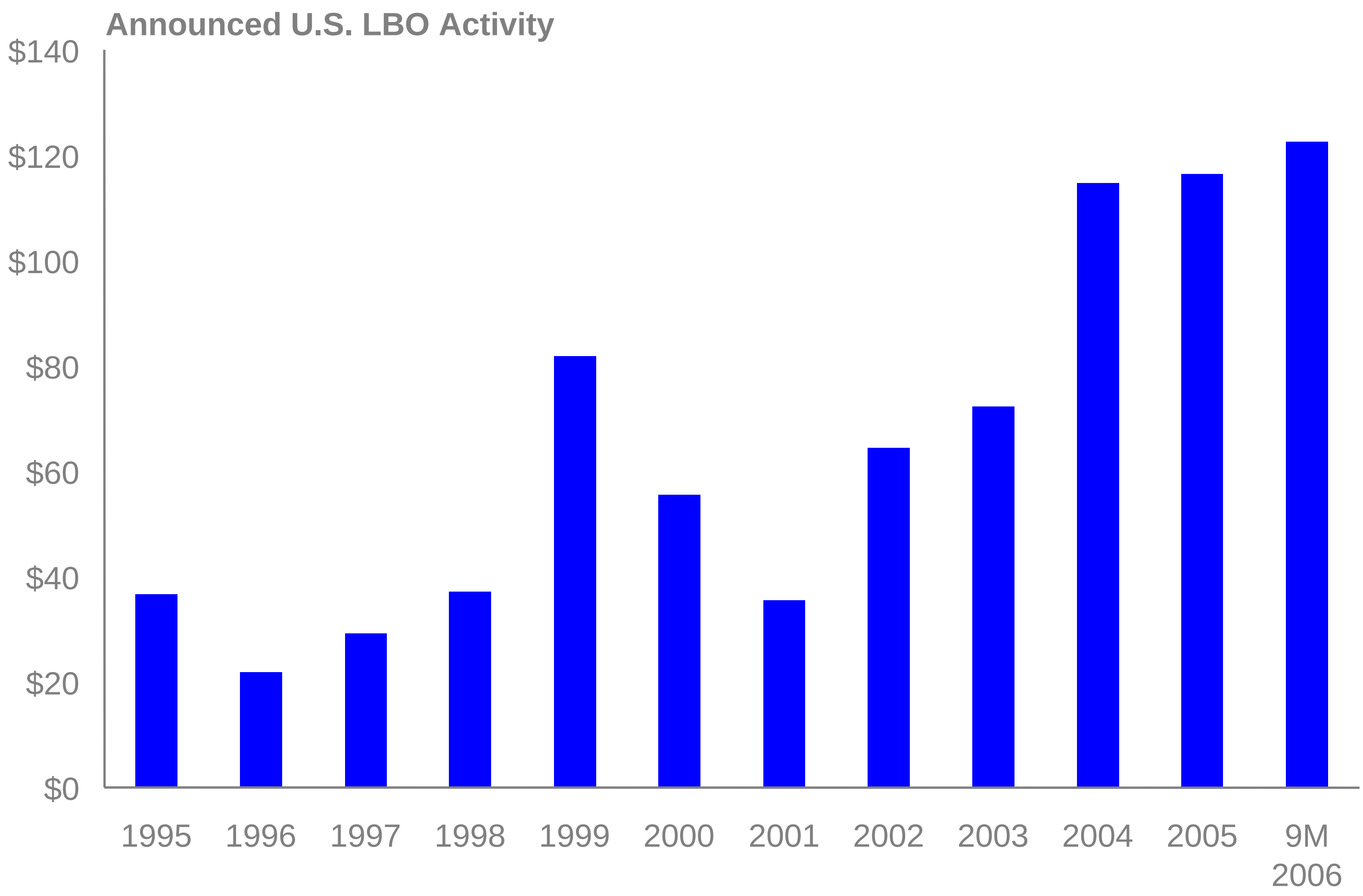
Global Issuers

Country	Maturity	Jan 2007	Sept 2002
Brazil	2012	+95	+1675
Colombia	2012	+120	+875
Mexico	2012	+70	+290
Peru	2012	+90	+775
Philippines	2010	+100	+500
Russia	2010	+70	+510
Lebanon	2016	+450	+1250
Venezuela	2018	+225	+1100
Iraq	2028	+550	N/A (deal issued Jan/06)

Ongoing Support from Global Liquidity

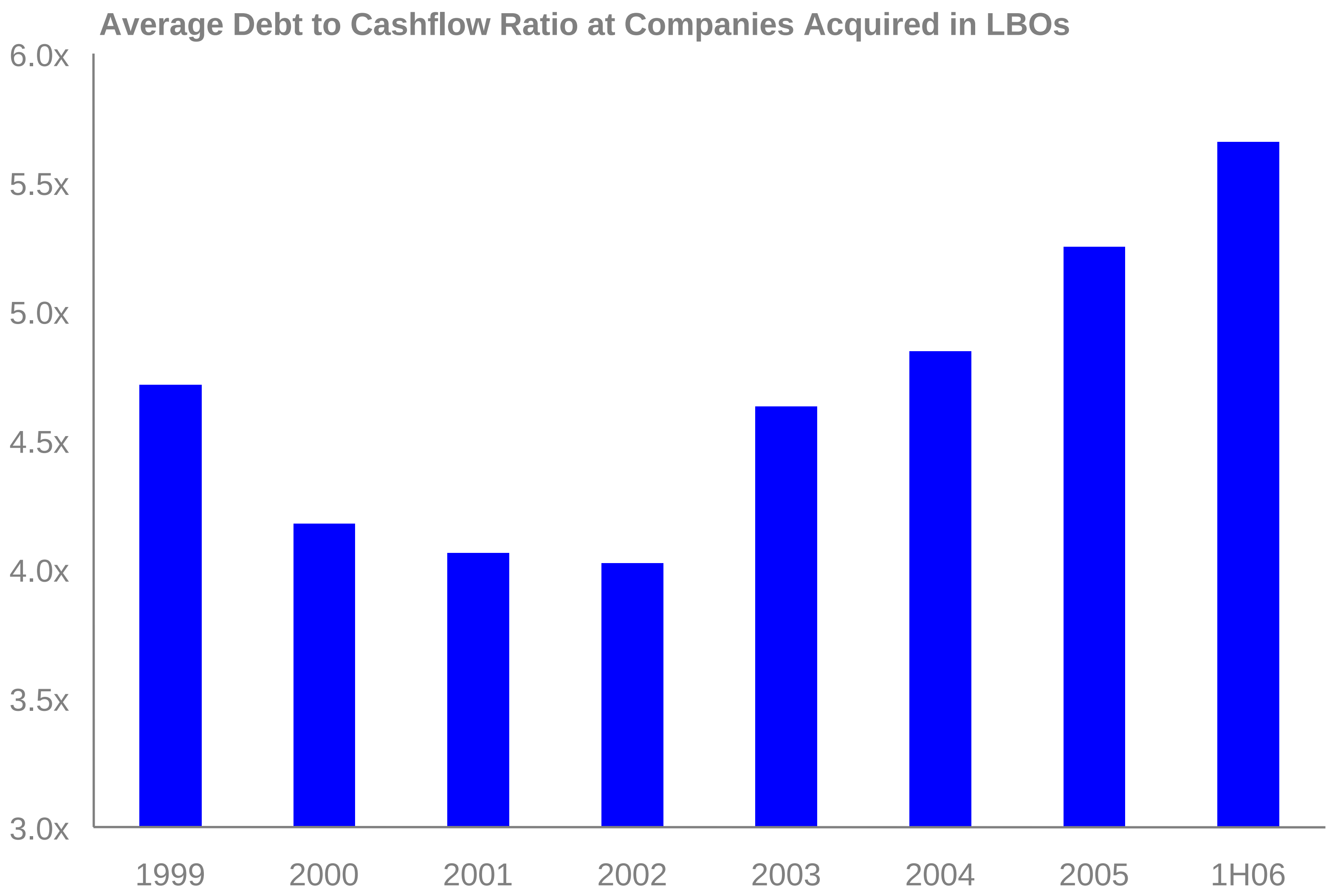
Source: IMF, US Federal Reserve

Volume of LBO Activity (in Billions)



Source: credit\credit presentation 2007

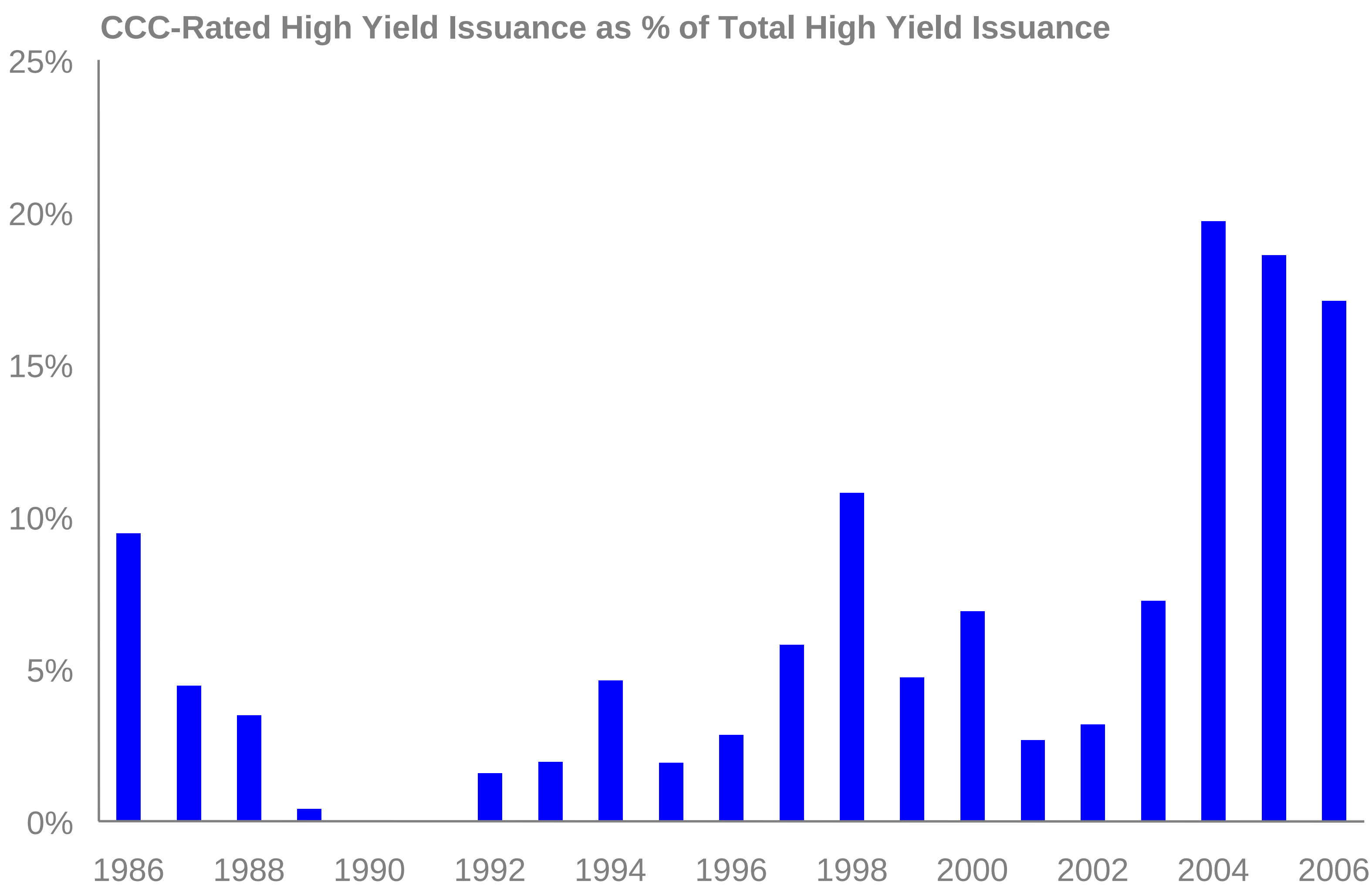
LBO Leverage Approaching Previous Peak Levels



Source: Standard & Poor's

Source: credit\credit presentation 2007

Proportion of CCC-Rated High Yield Issuance Maintaining Peak Levels



Source: credit\credit presentation 2007

Structured Credit Products Pose Significant Systemic Risks

- The marginal buyers of credit risk today are structured vehicles such as collateralized debt obligations (CDOs) and collateralized loan obligations (CLOs).
- The boom in CDO issuance underpins much of the current credit landscape including:
  - LBO-driven leveraged loans and high yield bonds
  - sub-prime mortgages
  - infrastructure financing
  - emerging market debt

CDO Structure

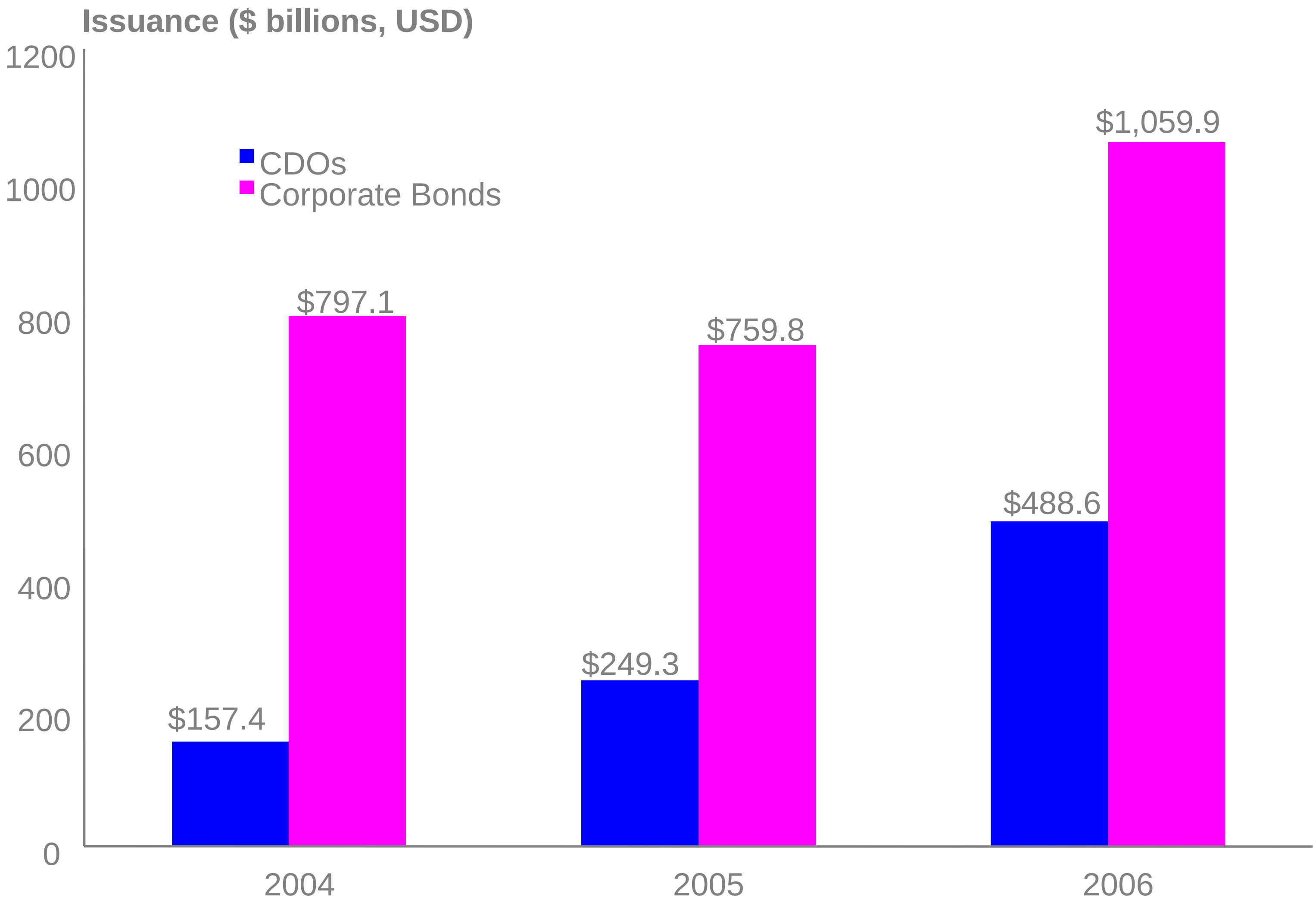
Creating Varied Levels of Credit Exposure

Tranche	% of Capital Structure	Rating	Coupon
Super Senior	77.5%	AAA	LIBOR +26 bps
Senior	9.0%	A	LIBOR +75 bps
Mezzanine	2.75%	BBB	LIBOR +180 bps
Junior Mezzanine	2.75%	BB	LIBOR +475 bps
Equity	8.0%	NR	Residual cash flow

- Low quality debt can be repackaged to create AAA- rated securities
- Permits investors to select desired level of credit exposure
- However, ratings often driven by quantitative models rather than fundamental analysis

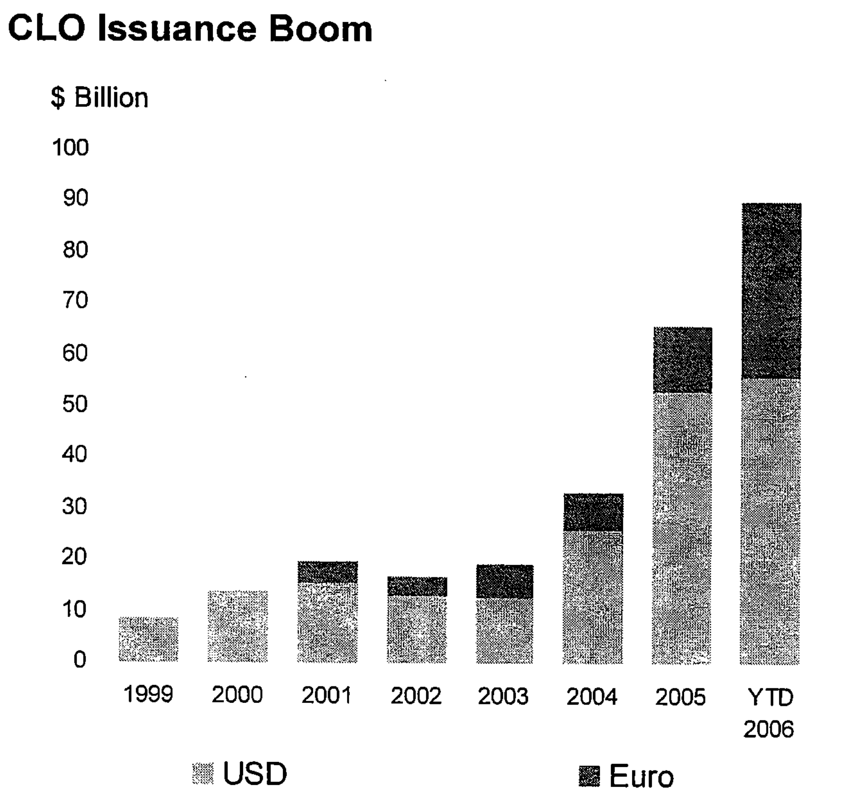
Source: Douglas Lucas, “The Evolving CDO Market”
Merrill Lynch, Credit Derivatives Handbook 2006

CDOs – Big Business in Fixed Income Markets

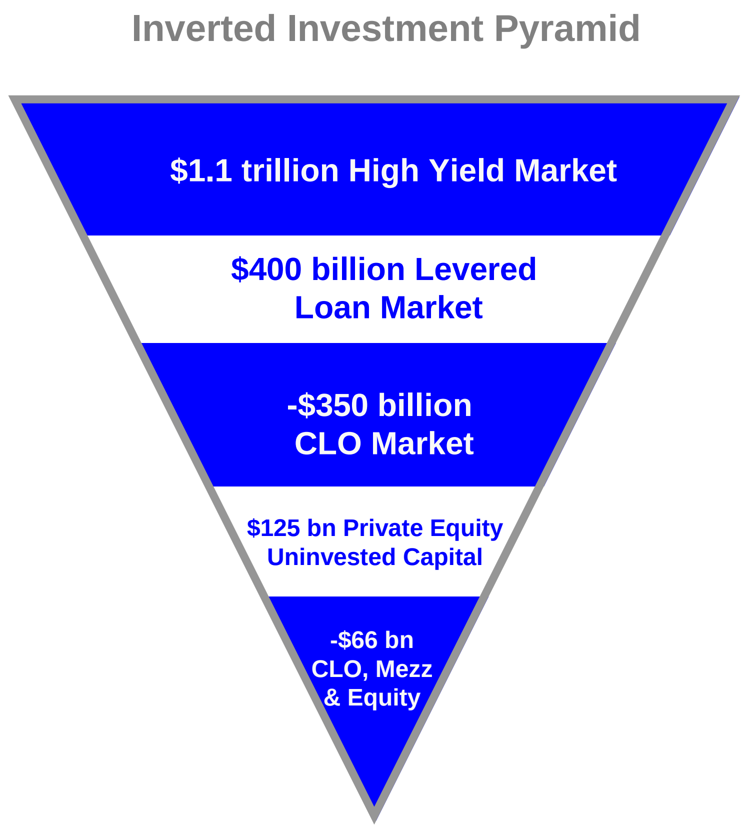


Source:SIFMA

So Much Rests on So Little

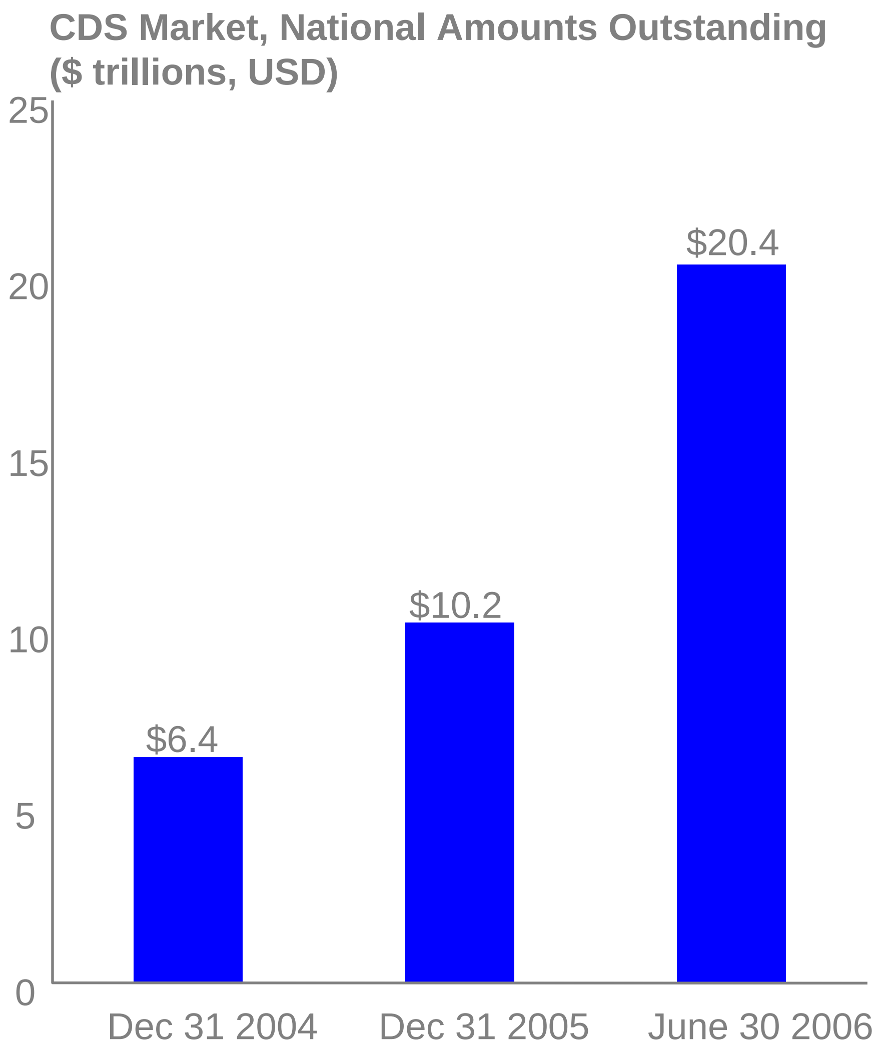


Source: Morgan Stanley, Moody's



Source: Morgan Stanley

Extraordinary Growth in Credit Default Swaps



Source: BIS

- By comparison, global corporate bond market as at June 30, 2006 was $5.6 T.

CDS – What Are They?

Buy a Corporate Bond

"Get a Bundle of Risks"

Credit Risk

Funding Risk (Swap Spread Risk)

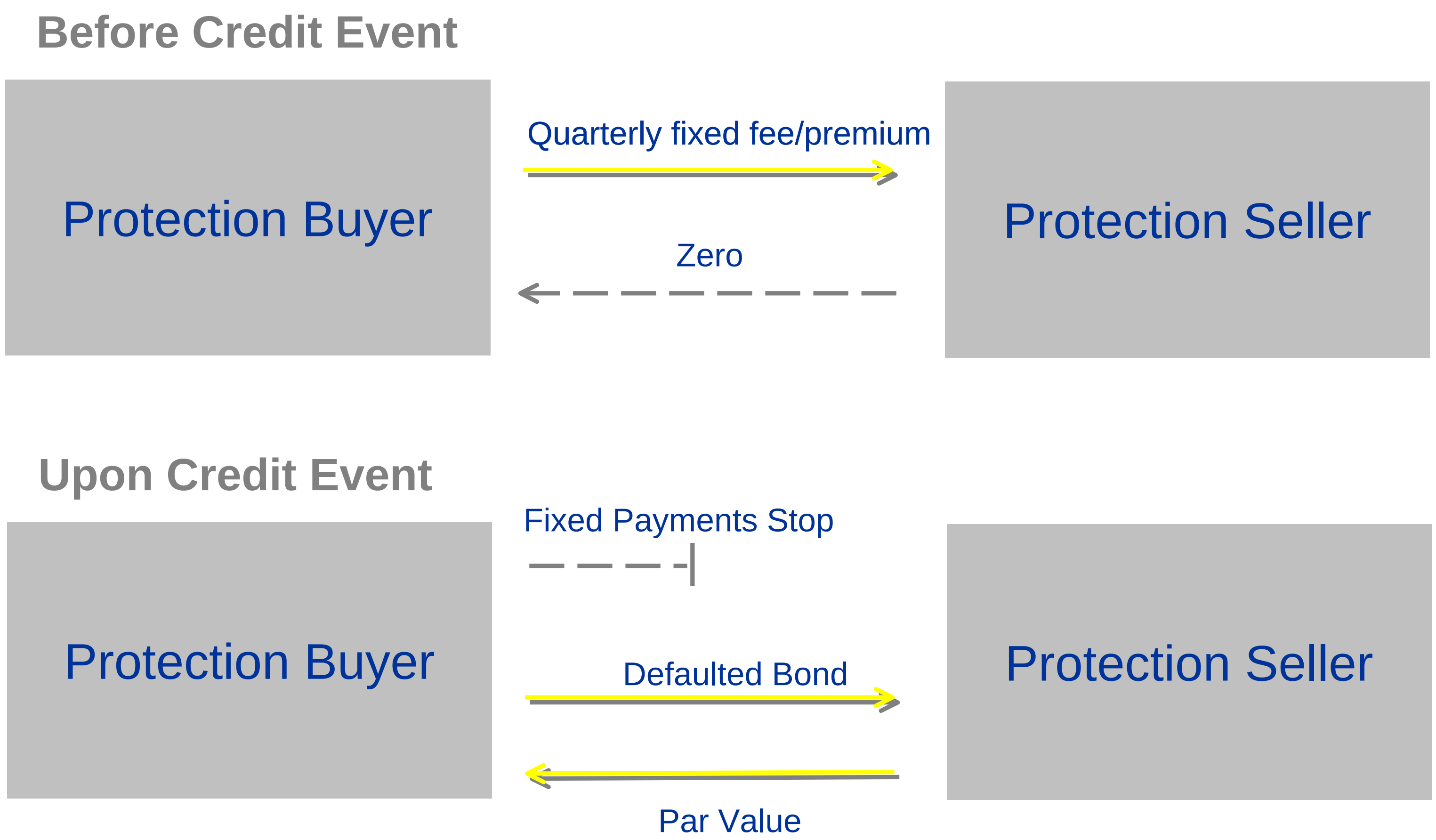
Risk Free Rate

Buy a Credit Swap

"Isolate One Risk"

Credit Risk Only

CDS – How Do They Work?



CDS and Leverage

- CDS have dramatically improved liquidity in credit markets
- But they also facilitate leveraged exposure to credit
  - Hedge funds are major users of CDS (possibly >50% of all CDS trading)*
  - New structured vehicles (eg. CPDOs, CPPIs, CDPCs) involve high degrees of leverage.

* Source: Financial Engineering News

Current Credit Environment – Summary

- A number of warning signs that credit cycle entering dangerous territory:
  - record LBO activity (9 of the 10 largest LBOs in history occurred last year)
  - amount of leverage applied to recent LBOs approaching previous peaks
  - record issuance of structured credit products causing distortions in pricing of credit
  - record issuance of high yield loans and CCC-rated bonds
- At the same time, the fundamental picture growing cloudier:
  - global economy slowing
  - U.S. housing market woes
  - central banks tightening across the globe
- Yet, risk premiums of all sorts (e.g. high yield credit spreads, emerging market spreads and subordination premiums) are all approaching historic lows

Current Credit Environment – Summary (cont'd)

- Current abundance of liquidity from Asia, petroleum producers and hedge fund/private equity complex could allow this precarious credit environment to continue for another 12-18 months
- Eventually, however, default rates will rise from current 20-year lows causing an abrupt rise in risk aversion and in credit spreads
- While corporate balance sheets are relatively healthy, the next credit cycle could be surprisingly vicious due to:
  - role of credit derivatives and structured credit products
  - heavy issuance of secured loans making future bankruptcies or "workouts" more complex and protracted
  - presence of hedge funds in "every layer" of the capital structure (possibly a de-stabilizing force leading to more bankruptcies than previous cycles)

Investment Management Presentation
to

CFA Victoria

April 10, 2007

Presented by: Damon Williams, Vice President