



Emad A. Zikry, President and Chief Executive Officer

144A Securities

A security type that bridges the gap between public bonds and traditional private placements has worked itself into the fabric of fixed income investing. That security type is the 144A. The integration of 144A's into the world of public bonds has been due to a variety of factors. From the perspective of issuers, the major advantages are increased flexibility, and lower issuance costs. From the buyers perspective the advantages are a wider universe of issue selection, and greater liquidity among that selection. An indication of just how thoroughly integrated 144A's have become is their inclusion in corporate bond components of the major bond market indices. In fact, there 144A issues in the Lehman Brothers Aggregate Index (364) than there are intermediate are more (321) or long (171) utility issues. The breadth of their inclusion virtually mandates their use by managers who are measured against those indices.

Structure and Buyers

144A securities are structured to combine Rule 144A with a Section 4(2) exemption of the Securities Act of 1933 thus allowing both Qualified Institutional Buyers ("QIBs") and Institutional Accredited Investors ("IAs") to be eligible to participate in the primary and secondary 144A market. IAs include most institutional investors with total assets in excess of \$5 million; QIBs include institutions that own and/or manage in excess of \$100 million of securities.

Underwritten, Not Agented

Unlike traditional private placements which are "agented" transactions sold privately through an intermediary such as an investment bank, 144As are "underwritten", whereby investment banks buy the securities and then resell them to institutional investors. These underwritten 144A transactions carry the characteristics of public securities. In order to have access to a broad array of institutional investors, issues need to be rated by either Standard & Poor's or Moody's, or both.

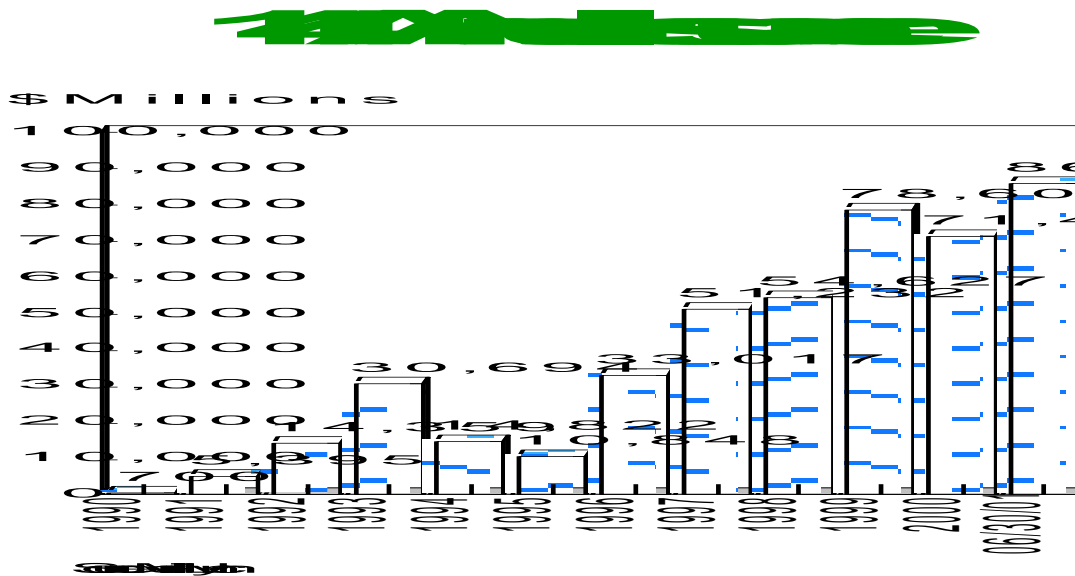
Documentation and Covenants

Typically, 144As are larger than traditional private placements, and they have standardized documentation. As with a public offering, the documents will include an offering memorandum – which will contain the issuers' latest financial statements – the underwriting agreement and fiscal agency agreement. In traditional private placements, covenants are negotiable, which is not the case with public securities. 144A securities, like public issues, have non-negotiable covenants. All

documentation on 144As and public securities is standardized, whereas with private placements it is unique for each security.

Liquidity

With a 144A market size now in the hundreds of billions of dollars the liquidity of 144As has definitely improved. (See chart below.) While still not on a par with registered public bonds the gap in their respective bid-offer spreads has narrowed. This convergence has led to a distribution pattern for 144As that mirrors that of public bonds, with total-rate-of-return investors as the most active participants in the 144A market. Underscoring this is the fact that nearly all Wall Streets broker/dealers trade 144A issues from the same desk as they trade other corporate bonds.



For the reasons stated above, particularly diversification, and their inclusion in the market indices, 144A securities have become important tools in the management of active fixed income portfolios. considers 144A securities to be an integral part of fixed income management and consistently uses them to provide diversification and yield enhancement to our clients' portfolios.

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