

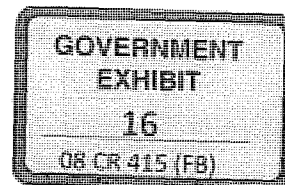
0001 - 0:00

1 [START Conference ID 1052946]

2 MS. MALLOY: Uh, thank you for joining us. This
3 call is for Bear Stearns High Grade Structured
4 Credit Strategies to discuss the recent
5 volatility in the CDO mark-market and our current
6 leverage levels. Um, the following conference
7 call is strictly for current investors in the
8 fund. If you are not a current investor who
9 was specifically invited to attend this
10 conference call by a Bear Stearns sales
11 representative, please disconnect now and call
12 Heather Malloy or Ken Mak at 800-436-4148 for
13 additional information on the fund. Ralph
14 Cioffi, Senior Portfolio Manager, will be
15 moderating the call.

16 MR. CIOFFI: And-and the call's actually for the
17 High Grade Structured Credit Strategies and
18 the leveraged version of the High Grade
19 Structured Credit Strategies. We have, uh, quite a
20 bit to go over so I want to initially just hit
21 on some of the high points and leave a lot of
22 um, time for Q & A, um... which we anticipate there'll
23 be plenty of.

24 The return estimates for February are uh, +1.56
25 for High Grade and -1.56 for Enhanced. Um, the



0002 - 1:10

1 differential in return between the two funds
2 is-is obvious, the Enhanced Fund is leveraged, uh
3 where the HGS only uses our repo leverage, and
4 as-uh most of you probably know from reading the
5 papers and listening to the talking heads on
6 TV, there was a significant widening of
7 spread, uh, the last week or so of the month of, uh,
8 February. The bulk of the negative return for the
9 Enhanced Fund was a result of us, uh, ramping
10 assets for a CDO that we are pricing in March.
11 Um, and as a result, most of that negative number
12 should be reversed in March once we sell the
13 assets into the CDO. Um, that should bring, um, uh, the
14 uh-- well, not taking into account what mark to
15 markets may occur in March - uh that's about \$11
16 million in mark to market in the Enhanced Fund
17 that we should be getting back in, in March.
18 Um, in terms of our hedges, we-we-we currently primarily
19 hedge with the ABX, which is the major market
20 index that most dealers and hedge funds use to
21 hedge their subprime exposure. We have, uh,
22 between the ABX and single-name shorts that we
23 have entered into, we have about \$2.5 billion
24 in total short positions, and I-I anticipate
25 holding those hedges indefinitely. Our, ahm, our

0003 - 2:46

1 subprime credit model that-that we've been using, uh,
2 still shows that there's significant loss
3 and-and/or price decline in those major market
4 indices, so we want to hold on to those
5 hedges. Uh, they are-they are costly, uh they certainly
6 eat into the carry, but I think right now, given,
7 uh, the uncertainty and the volatility, we want to-we
8 want to stay, uh, as hedged as possible. Um, we think
9 it's um, uh, prudent to do so, and-and-um we may even
10 take them up to some extent, uh, more so in the single-
11 name space than in the ABX space because, as you
12 know, with our surveillance system we've been
13 pretty uh-efficient and effective at-at monitoring
14 the single-name exposures and we've been-we've been
15 very-very good at hedging those single-name exposures
16 out. Um, on the um funding side, we've accomplished
17 quite a bit in, uh, in the last two weeks. On Friday,
18 we executed a-a \$4 billion, uh, CP funding facility with
19 BofA, and we have the option to take that up-up
20 to 5 billion, assuming, uh, we have assets that we
21 want to put into that facility. And that's a
22 very attractive funding facility; the-the CP, uh,
23 liquidity cost is 20 basis points, and with
24 spreads widening as significantly as they have
25 in the-in the marketplace, we've got a very efficient

0004 - 4:19

1 funding vehicle that, uh, will-will-will allow us to
2 generate a-a very high return on-on capital. And away
3 from the return on capital, the added benefit is
4 we're able to move almost \$4 billion worth of
5 assets that we have in the hedge fund off of
6 repo and move them into the BofA CP facility.
7 That also raises about 110 million of
8 additional cash capital in both the High Grade
9 and the Enhanced Fund, so we, um, we-we-that's-that's a
10 very valuable transaction for us. And if we do, um,
11 take the option of raising that funding from 4
12 to 5 billion, we have the ability to add
13 another billion dollars of assets into that
14 facility at today's levels. Uh, so the added
15 liquidity, the-the increase in the repo capacity,
16 is a great, great position to have the two
17 hedge funds in at this point.
18 Additionally, we are working to restructure a
19 facility that we talked about in the past
20 that's called CIRC, which is a \$4 billion
21 facility we have with, uh, Dresdner Bank. That is
22 also being, uh, converted into a, uh, um, uh, -- we call
23 it a "super-senior funding" at the top, but it's
24 effectively like commercial paper. Um, that's
25 going to have the benefit is-of-of, comparable to

0005 - 5:47

1 the BofA facility, of adding, uh, getting back
2 cash because the, uh, um, the subordination amount in
3 that vehicle will be coming down. So we'll be
4 adding back, uh, some cash there--

5 MR. MCGARRIGAL: A little over \$100 million.

6 MR. CIOFFI: About 100 million from that
7 facility. So between that and the BofA, we're
8 going to add over \$200 million worth of
9 additional cash to the-to the hedge fund. That cash
10 plus what we currently have between High Grade
11 and Enhanced, uh, will bring our c- our cash positions,
12 um, to over \$400 million. So we'll have plenty of
13 liquidity and we'll have plenty of repo
14 capacity as well.

15 Um, all right, what's my bottom line takeaway
16 here? Well, we've talked about the hundred
17 year storm and the 4 and 5 standard deviation
18 moves, and how we felt we were effectively
19 able to hedge that mark-to-market volatility,
20 and certainly in High Grade we've done that.
21 Um, in Enhanced, we've effectively done that, save
22 for that CDO warehouse, which I said we'll-we'll be
23 getting most of that mark-to-market back in
24 March. We put ourselves in a position to have
25 added liquidity because of the CP facility,

0006 - 7:02

1 added f-funding capacity because of our ability
2 to pay down repo, and we're-we're now at a point
3 where spreads are equal to if not wider than
4 where they were when we started the fund in
5 '03. So there's tremendous opportunity.
6 Uh-that being said, we still see a-a-a challenging
7 environment over the next month or two or
8 three. The market is searching for a trading
9 floor, if you will. Uh-the market has been
10 pretty stable the last week or so. The ABX
11 index has actually rallied significantly, um, and
12 the CDO market is somewhat stabilized as well.
13 Dealers have liquidated quite a bit of
14 inventory and, uh, spreads have somewhat
15 stabilized, but, um, we anticipate some more
16 volatility, and we're well positioned to-to-to take
17 advantage of that.
18 The other thing we've talked quite a bit about
19 in the past is our Rampart facility which is a
20 permanent capital vehicle for our CDO equity.
21 The, um, the SEC filing is April 6th. Our IPO is still
22 on schedule for, um, let's call it July or August
23 of, uh, this year. Market, equity market
24 conditions, um-um, are -- you know, the success of that
25 will be dependent upon the equity market.

0007 - 8:23

1 Um, Rampart is primarily, uh, a CLO vehicle. We do
2 have some CDO equity in there that has
3 subprime exposure, but we've hedged quite a
4 bit of that. Um, and the m-majority of the assets
5 there are-are-are CLO equity pieces, which, so far
6 CLOs -- bank loans -- have not been impacted.
7 High grade credit and high-yield credit
8 spreads widened initially last week, but
9 they're back, they're back -- they've tightened
10 up quite a bit. So the IPO is still in, uh, in place
11 and we're, uh, you know, we're optimistic about
12 the prospects for that.

13 So that's uh, again, I said I'd kind of hit-hit on
14 the high points and leave-leave plenty of time for Q
15 & A, and that's-that's what I'd like to do now, open
16 it up to Q & A.

17 OPERATOR: Okay, thank you, if you have a
18 question at this time please press the 1 key
19 on your touchtone telephone. Once again, if
20 you have a question at this time please press
21 the 1 key on your touchtone telephone. One
22 moment, please. Our first question comes from
23 Brad Alford from Alpha Capital. Your line is open.

24 MR. ALFORD: Um, yes, do you have an estimated
25 return for, uh, March, year to date?

0008 - 9:40

1 MR. CIOFFI: Um, we don't because, as is normally
2 the case, we-we mark our hedges daily, um, but we
3 mark our assets towards month end. And quite
4 frankly, we've been spending all of our time
5 making certain we have our February marks in
6 order, um, and we still have, I would say, about
7 10 marks that are missing. We've marked them
8 ourselves for-for February. Um, but, um, you know, we-
9 the reason we deem this still an estimate is we're
10 waiting for those last marks. We think we've
11 marked, marked conservatively; um, and then of
12 course we have to send everything to the fund
13 administrator. But I-I don't want to give you
14 an estimate for-for March just yet.

15 OPERATOR: Okay, thank you. Our next question
16 comes from Joel Dryer, from LL Partners. Your
17 line is open.

18 MR. DRYER: Every time I-uh call in the name of
19 my company changes, does that make you nervous?

20 MR. CIOFFI: [Laughs] Ha-ha-No.

21 MR. TANNIN: The only thing that makes us
22 nervous, Joel, is you're not the first caller
23 this time to get your question in.

24 MR. DRYER: Um, I-I-I got on the call at 10:02, so I
25 missed two minutes of your quick presentation.

0009 - 11:02

1 Um, February, uh, because of the volatility in the, uh,
2 leveraged high-grade, uh, markets -- if I understood the
3 tail end of what you said -- was that, uh, um, there was a
4 timing issue and that, uh, the mark to market, uh, got-got hit.

5 MR. CIOFFI: Yeah, let me, I'll give you the exact,
6 let me give you the exact numbers. Um, we had
7 ramped about 250 to 260 million of assets for
8 a CDO that we were, that we are doing with JP
9 Morgan Chase.

10 MR. DRYER: Alright.

11 MR. CIOFFI: And we have a-a committed facility
12 from them and an engagement letter. Um, between,
13 call it February 20th and the end of the
14 month, CDO spreads massively widened.

15 MR DRYER: Right.

16 MR. CIOFFI: Um, we hadn't hedged that position
17 because we had anticipated selling it into the
18 warehouse. We're not going to-we're not going to do that
19 until either this week or next week. So those
20 positions net-net were marked down about, um,
21 \$11-plus million for-for February.

22 MR. DRYER: Right.

23 MR. CIOFFI: We'll get that back in March when
24 we-when we sell them to the-to the warehouse at our cost.
25 And we have the super-senior funding, which is

0010 - 12:28

1 the most important part of that capital
2 structure, locked in from two-month-ago spreads.

3 MR. DRYER: Right.

4 MR. CIOFFI: So, the arbitrage--

5 MR. DRYER: Which were narrower at the time.

6 MR. CIOFFI: Right. So the arbitrage to the
7 equity piece we'll be taking back, even though
8 we're selling the assets at last month's
9 prices in March because the super senior is
10 priced at, you know, those old levels, the
11 equity IRR is still north of 40%, which is
12 where it would be today if we were to price a
13 new CDO today.

14 MR. DRYER: Right, with the wider spreads.

15 MR. CIOFFI: Right.

16 MR. DRYER: So the-the net results for February in
17 terms of performance -- did you say what that
18 was going to be?

19 MR. CIOFFI: Uh, down 1.56.

20 MR. TANNIN: For-for the Enhanced fund. Up 1.56
21 for the High Grade fund.

22 MR. DRYER: The Enhanced would be down 1.56
23 but you're going to pick up all of that, uh, the next month?

24 MR. CIOFFI: In-in, uh, in March. I mean, we debated --
25 look, we debated whether or not we even would

0011 - 13:28

1 mark it in February but--

2 MR. DRYER: Right -- no that's all right, you
3 got to mark it to market.

4 MR. CIOFFI: We debated--

5 MR. DRYER: No, I understand that--

6 MR. CIOFFI: Yeah.

7 MR. DRYER: And I don't want to make you go
8 over your logic here. But, uh, so, you're going
9 to pick up all that, all that -- you're going
10 to pick up a 156 basis points in March. Does
11 that mean that when you pick up the 156 basis
12 points in March that February will, in fact,
13 have been just a-a-a push? A zero month?

14 MR. CIOFFI: Yeah. February would have been
15 about a-a push to maybe down 25 bps.

16 MR. DRYER: Ah, okay. So, that's what I was
17 looking for, is what our kind of adjusted bps
18 were, and maybe you said that earlier.

19 MR. CIOFFI: Actually -- I didn't say that, but--

20 MR. DRYER: Oh, okay. That's to me a more
21 relevant number. So, the adjusted bps are 0
22 to 25 bps down. Okay, that-that makes a lot more
23 sense. And then, you're going to pick up all
24 -- so-so you're starting out March net zero.
25 Spreads have substantially widened. You're

0012 - 14:21

1 now in a position to take advantage of some of
2 that widening?

3 MR. CIOFFI: Yeah, we-we are. And-and, for a number
4 of reasons. We mentioned the CP facility we
5 have with BofA, uh, which gives us 4 billion of--

6 MR. DRYER: Right.

7 MR. CIOFFI: Yeah, you heard all that, Joel.

8 MR. DRYER: Right, yeah.

9 MR. CIOFFI: Yeah.

10 MR. DRYER: So-so you're-you're going to put that into
11 play you think in March--

12 MR. CIOFFI: Well, you know what, we're
13 actually talking about putting that into play
14 over a three- or four-month period.

15 MR. DRYER [simultaneous]: You think spreads
16 are going to widen some more?

17 MR. CIOFFI: One of the good things -- excuse me?

18 MR. DRYER: Because you think spreads are
19 going to widen more?

20 MR. CIOFFI: It's not actually because I think
21 they're going to widen more, I just don't
22 think they're going to compress--

23 MR. DRYER: Oh, okay.

24 MR. CIOFFI: --in the next six months. We may
25 be wrong, and in fact, I mention the ABX index

0013 - 15:03

1 has been tightening here, which-which is surprising
2 given all the negative news. Um..

3 MR. TANNIN: Although not-not surprising given the
4 number of short positions.

5 MR. CIOFFI: Right, right, the technical is-is
6 pretty short. I mean, the fundamental on that
7 AB-on that subprime space we see as continuing to
8 deteriorate, and that's why we have so much in
9 the way of hedges, both-both on single-names that
10 we're short -- specific deals we don't like --
11 as well as the-t-the market index.

12 MR. DRYER: So your shorts are starting to
13 come home too?

14 MR. CIOFFI: Oh yeah-yeah. I mean, the shorts, I
15 mean we made -- the shorts, I don't know the
16 exact numbers but, uh, I mean, I-I've got them
17 generally speaking - but, um, we, um, we had, you know,
18 well over \$140 or 50 million of mark-to-market
19 gains in our-in our hedges--

20 MR. DRYER: Right.

21 MR. CIOFFI: --both single name and index. We
22 marked that -- even with a 1.5% gain in High
23 Grade -- we marked assets down a lot. We
24 marked assets down a lot. So we're not - the hedg- it's
25 not that the hedges went up but we didn't mark

0014 - 16:09

1 the assets down. We marked-we marked CDOs down quite a
2 bit. I mean, to give you an example, AAA CDO
3 spreads now are-are anywhere from 75 to 100 basis
4 points, I mean, 60 to 100 depending upon the
5 deal. I mean, there's variations on-on the CDO AAA that-that
6 are, you know, there's 100 shades of gray, if
7 you will, but they do vary. Those are the
8 spreads we were buying in '03.

9 MR. DRYER: Right, yeah.

10 MR. CIOFFI: And-and, you know, double yeah, AAs are 120,
11 well call it AAs can be anywhere from 100 to 200.

12 MR. DRYER: Right. So when you leverage that
13 8, 9 to 1, that's gonna -- you're gonna start
14 hitting your stride again.

15 MR. CIOFFI: Well, that's -- you got it, you
16 got it. And with the CP facility and, um,
17 restructuring the CIRC, we've got, uh, we've got a lot of
18 capacity. I-I don't, I'm sure there's-there's other
19 funds out there that have capacity, but we
20 certainly are in-in a pr- I think a pretty enviable
21 position from that perspective.

22 MR. DRYER: Did you, uh, -- other than what you
23 consider to be hedges off of your long
24 positions -- did you just take-did you take-a fair amount of
25 just outright short positions because of your

0015 - 17:23

1 feeling on the marketplace? That you would
2 not consider, I mean-I mean, you could call them
3 technical hedges, but you really didn't put
4 them on as hedges, you just put them on as a-as a
5 gauge in the market?

6 MR. CIOFFI: Well-we-we-we-We did; we did. We've done that
7 recently, where we're, let's call it, we're-we're
8 more net short. So, um, we probably are g-- we're
9 going to experience a little more
10 mark-to-market volatility. But again, you
11 know, it's marked to market. And what
12 typically has happened in the past -- as all of
13 you've heard me say and talk about -- our
14 hedges are going to be marked day to day and
15 they move intraday. The assets just don't
16 move that much. In fact, in February, they
17 didn't start moving out really until around,
18 be-between the 20th and the 28th. The bulk of
19 that move was probably in the last three or
20 four days of the month, actually. Um, now, we
21 were marking our assets. We-we knew they were
22 going to be wider. Um, I think we underestimated
23 a little bit [laughs] how much they would
24 widen out, but, um, they did, and-and um--
25 MR. TANNIN: Although again, uh, uh, the context here

0016 - 18:36

1 is critical. First and foremost, um, the dialogue
2 with our repo counterparties -- which at the
3 end of the day is the most important dialogue
4 and the only real meaningful dialogue, you
5 know, that occurs at this period of time -- was
6 one of real transparency and calmness. We
7 didn't have, um, a single repo counterparty, um, call us
8 up with, you know, some sort of crazy mark on
9 any of the positions.
10 So the--again, the--80% of our return from
11 day one is carry, so our ability to do, um, capital
12 markets arbitrages come and go, right? And it
13 was, there was lots of stuff to do in 2003 and
14 2004, and very little to do in 2005 and 2006.
15 In 2007, we see, you know, I would guess, that we would
16 see more opportunities to do some of our
17 capital markets arbitrage, but the return for
18 the fund is the cash flow return.
19 And what you've seen in the last two weeks of
20 February, right, is a very volatile ABX market
21 that's volatile for lots of reasons that are, um,
22 not independent, but only secondarily related
23 to fundamental underlying credit deterioration
24 in AA and AAA assets. So, first of all,
25 February was a month end for broker-dealers.

0017 - 20:03

1 So you had pressure on the broker-dealers to
2 rationalize marks with an index that is really
3 not completely appropriate to match off
4 against those very high quality assets. And
5 as the market moves forward -- and again we've
6 seen relative calmness and-and stability begin to
7 reassert itself in the CDO market -- there's
8 every reason to think that the-the spreads that
9 were basically thrown out, you know, by the
10 dealers, the marks were really, you know, um, not
11 willy-nilly, but conservatively given to us by
12 the dealers at the end of February, there's
13 every reason to think that-that there's going to be
14 some stability coming into the market at the
15 high grade end of the spectrum. So um--
16 MR. CIOFFI: Well, we, yeah, there should be,
17 not only will we get this CDO mark back, but a
18 lot of these assets we marked down
19 significantly should come back as well. The
20 rationale being that the ABX index is what
21 everyone was using as the rationale for
22 marking down CDOs has rallied significantly
23 from the Feb. 28 level. But again, I do want
24 to reiterate, the assets are slow to get
25 marked down, they may be slow to get marked

0018 - 21:19

1 up. But I don't want to take those hedges
2 down until I feel there's a-a-a-a normalcy to the market,
3 meaning there's-there's several weeks if not-if not a
4 couple of months of-of trading at-at current levels.
5 Um, so I think-I think it's important to keep that in
6 mind, from a risk-management perspective. We
7 certainly-we certainly could've taken the hedges off at the
8 lows, but we chose not to. We did reduce, we
9 did realize some significant gains, and then
10 we started adding to the hedges as the ABX
11 started moving up again because we-we-we thought it
12 prudent against our exposures. Same with the
13 single-name exposures, we're monitoring all
14 these portfolios, and we-we-we see deterior-deterioration
15 early, and we've been, we made a lot of money
16 in, uh, in January and February on our single-name
17 credit protection. Those single names both
18 hedged positions we owned, as well as they
19 were net shorts, just-just deals we didn't like.
20 MR. DRYER: So -- and I'm sorry to-sorry to keep asking
21 questions here Ralph... You're supposed to--
22 that's when you say, 'It's okay, Joel.'
23 MR. CIOFFI: Okay; maybe you're asking
24 questions that others would want to ask as well.
25 MR. DRYER: Um, we keep talking about the mark

0019 - 22:48

1 down on the CDOs, but what-what was the-what was the primary
2 category of the assets, uh, within the CDO structures?

3 MR. CIOFFI: Well, it's-it's-it's mortgage -- it's
4 subprime and it's midprime mortgages. There's
5 some credits and CLOs, some loan credit and
6 high grade credit, but it-it's mostly subprime.

7 MR. DRYER: Yeah but that's, that's what I was
8 hitting at, is what-what was the breakdown of most
9 the CDOs? You know, was it 75% subprime mortgages?
10 Was there some corporate debt in the CDOs? I mean...

11 MR. CIOFFI: Well, it's all over the place.
12 But if you remember from our, um, from our December -- I
13 guess just -- I can't remember if we did it
14 December or January, but, um, we-we went through what
15 our additions to the CDO book were in '06.
16 And again, the most of the mark downs that
17 occurred were-were '06 originations; and although
18 in '06 we didn't buy a subprime bond, uh,
19 directly, we did buy \$7.7 billion of CDOs that
20 were issued. The majority, 85%, were AA rated
21 or higher, and of that, only -- the underlying
22 collateral that was represented by-by those
23 CDOs -- only 28% was this late-'05, '06
24 originations, which everyone is most concerned
25 about because of the, you know, the

0020 - 24:14

1 underwriting standards and the concern about, um,
2 you know, the lax underwriting standards,
3 which we-which we discussed.
4 So, I'm not saying it's not appropriate that
5 CDO spreads widened, they-they definitely should
6 have. What I'm saying is, the ABX has rallied
7 probably 10, at least 10 maybe 15% at the
8 lower end of the -- you know at the BBB-
9 category -- from Feb. 28. My point is that the
10 CDOs may not get marked up that quickly. They
11 were slow to get marked down. They're
12 probably going to be slow to get marked back
13 up. So we're going to have - you-you-whenever-whenever the
14 market goes through a period of volatility,
15 that we-that we experienced literally in 5 days, 6
16 days, it's not going to come back and have a
17 normal trading period, um, trading pattern. The
18 relationship between the hedges has changed.
19 And it-it'll-it'll be, whether it's several weeks or
20 two months or another week, we don't know, but there'll be
21 some normalcy and, there'll be some, um, there-there'll be
22 some normalcy in trading and the hedges and
23 assets should-should start moving more in sync again.
24 So yeah, they should've been marked down.
25 The point is it took a while for them to be

0021 - 25:31

1 marked. It's probably going to take a while
2 for them to be marked back up.
3 MR. TANNIN: And-and what's going to happen over
4 the next, you know, number of months is - and-and
5 this we saw happening already in January --
6 that the-the market, which in 2005 and 2006
7 tightened uniformly across every single asset
8 class and across every single kind of manager
9 -- what we saw happen in January, which, um, will
10 only, um, intensify over the next few months, is
11 that particular tranches and particular kinds
12 of collateral deals will begin to trade with
13 spreads that are, um, relevant for that particular
14 deal. So, um, as in any sort of, at-at any time
15 where there's a readjustment, right, the-the
16 ability, our ability to identify assets that
17 are wide and should be wide, and assets that
18 are wide and should not be wide, gives us
19 additional opportunity. So, um, there's
20 tremendous opportunity now from a credit point
21 of view to differentiate between, um, diverging
22 credit behavior in the underlying assets. And,
23 in-and-in addition to that, when-when-when Ralph says that
24 we own -- and it's true, most of the CDOs that
25 we purchased are backed in some form by

0022 - 26:55

1 subprime, the way in which they're backed by
2 subprime differs substantially from deal to
3 deal. So, we have some deals where we, now we
4 own AA and AAAs off of all of them, but some
5 of the deals are securitizations of AA and AAA
6 subprime, some of them are securitizations of
7 A subprime, and some of them are
8 securitizations of BBB subprime, and the
9 subordination in each of those deals is
10 different depending upon the collateral. So
11 all of these things which are, we took, you know,
12 tremendous time and effort evaluating before
13 we bought them. You know, at the end of
14 March, or at the end of-of February, things kind
15 of widened out all in one clump, right? And
16 now what we'll see going forward is things
17 tighten back that should tighten back, and
18 things that shouldn't tighten back won't tighten back.
19 MR. CIOFFI: Yeah, there's just going to-there's going to be
20 a-a tremendous bifurcation of the market.
21 MR. DRYER: So yeah, I mean, that leads me-that leads me
22 into what my last and final question was,
23 before I let somebody else punch their one
24 key, which was, how are you going to knock the
25 cover off the ball given the-given the market situation?

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1 I think the answer is there's a bifurcation
2 in the, of-of the quality of the credits, and you're
3 going to be able to-to really slam it on the ones
4 where you-where you see the credits haven't widened.
5 The credits-credits haven't narrowed enough to what
6 you think they should narrow to, so they're
7 still wide, so you can take advantage of the
8 widened credits because everything-everything got slammed.

9 MR. CIOFFI: Well--

10 MR. DRYER: Select-selective things are going to come
11 back and narrow, and those are the things
12 you're going to make money on.

13 MR. CIOFFI: Right. And-and also, we've got-we've got,
14 because of, you know, good planning and the
15 ability to structure these financing vehicles,
16 we're g-we're going to have oodles of liquidity, both
17 in cash and in repo and in CP. So, we're
18 going to be able to demand very, you know,
19 very good terms from our, from the street both
20 in structure as well as spread. So that is-that is
21 exactly right, that is exactly right. Okay,
22 question - uh next, someone else, please.

23 OPERATOR: Thank you.

24 MR. CIOFFI: Thank you, Joel.

25 MR. DRYER: You're welcome, thanks.

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1 OPERATOR: Our next question comes from Steve
2 Kris, with Legend Investment. Your line is open.

3 MR. KRIS: Yeah, hi, I, uh, missed the first couple
4 minutes also, so I apologize if I missed the
5 explanation, but-uh understanding the transaction
6 that caused the-uh drawdown for February in the
7 Enhanced, there's still quite a differential
8 with the-uh regular, uh, unleveraged fund--

9 MR. CIOFFI: Right, and-and-and the-and the answer is
10 leverage. We've been ramping up assets,
11 although-although not significantly so. We only drew
12 down about 200, up until -- let's say we drew
13 down 275 million of the-of the Barclays facility, and
14 as you know we have the ability to go up to 2
15 to 1 leverage.

16 MR. KRIS: Uh-huh.

17 MR. CIOFFI: We're at 0.4 to 1. So we've been
18 buying assets, um, and, um, uh, absent the CDO, uh, we still
19 would have underper--yeah you're exactly right, we
20 still would have underperformed HGS because
21 Enhanced is-is-is just more levered.

22 MR. KRIS: Is that the, uh, well aside from that --
23 obviously, more levered, you-you would assume
24 better performance on the same assets. But
25 the difference is you've been levering and

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1 buying assets at a time when they didn't
2 produce the returns--

3 MR. CIOFFI: Well, spreads-spreads widened on those
4 assets, exactly.

5 MR. KRIS: Okay, I got it.

6 MR. CIOFFI: Yeah.

7 MR. KRIS: Thank you very much.

8 MR. CIOFFI: Yeah.

9 OPERATOR: Thank you, if you have a question
10 at this time, please press the one key on your
11 touchtone telephone. One moment, please.

12 MR. CIOFFI: And-and-and one thing to just mention
13 today, I mean, when the spreads do come back
14 on a lot of these CDOs we marked down, then
15 obviously Enhanced has got, you know, got the additional
16 leverage going back the other way.

17 OPERATOR: I'm not showing any questions at this time.

18 MR. TANNIN: Okay, well, again, y-you guys can
19 always feel free to call me. I mean, there's-there's lots
20 to talk about in the subprime market, um, and, you know,
21 we have lots to say, so please, you know, feel
22 free to give me a call about anything.

23 MR. CIOFFI: Okay.

24 MS. MALLOY: Thank you very much.

25 MR. CIOFFI: Thank you very much.

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1 OPERATOR: Ladies and gentlemen, thank you for
2 participating in today's conference. This
3 concludes the program for today. You may now
4 all disconnect and have a wonderful day.
5
6 [END Conference ID 1052946]