

# Surf 100 – AAA/Aaa CPDO

A Breakthrough in Synthetic  
Credit Investments





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## Executive Summary

- ABN AMRO is pleased to present **Surf 100 – Constant Proportion Debt Obligation** (CPDO)
- Surf 100 is a new form of synthetic credit investment that carries a **AAA/Aaa rating from S&P and Moody's** on both principal and coupons and pays a **coupon of €+[100]bppa**
- Surf 100 is designed to have a stable rating with a high **likelihood of “cashing-in”** into an investment with no further credit risk for the investor until maturity and all scheduled coupons and principal will be paid until maturity
- Surf 100 aims to pay high coupons by taking leveraged exposure to a basket of credit indices. Surf 100 utilises variable leverage in order to control risk
- The CPDO is suitable for investors who:
  - Seek to take high grade exposure in a form that has not had value eroded by movements in correlation as has occurred in the CDO market
  - Require high rating of principal and coupon payments, but without the necessity of principal protection
  - Wish to diversify their current structured credit portfolio
  - Require liquidity for structured products



## Structured Credit – Recent History

- The theme for structured credit investments linked to Investment Grade credit portfolios, has been one of consistent spread tightening over the past 3 years
- While a portion of this spread compression can be accounted for by tighter corporate credit spreads due to the strong bid for credit, the impact of correlation has played a very significant part
- May 2005 highlighted to investors how volatile correlation can be - since then it has steadily declined
- This decline has been led by investors who want reduced correlation sensitivity by buying tranches with higher attachment points. As a result a large amount of the value in mezzanine and senior CDO tranches has been eroded, shifting value into the far riskier equity portion of the capital structure
- The CPDO is a new form of high quality structured credit investment which does not rely on the level of correlation for pricing
- While the CPDO will display some similar characteristics to a traditional CDO, such as highly rated principal and coupon payments, the price of the CPDO is not directly impacted by movements in correlation



## Summary Terms & Conditions

<b>Issuer</b>	Castle Finance I, a Jersey SPV	<b>Issue Price</b>	100%
<b>Swap Counterparty</b>	ABN AMRO NV.	<b>Issue Amount</b>	EUR [100,000,000]
<b>Rating* (S&amp;P/Moody's)</b> [AAA/Aaa]		<b>Scheduled Redemption Amount</b>	100%
<b>Scheduled Coupon</b>	€+[100]bps pa	<b>Maturity</b>	10 years after issue date
<b>Credit Portfolio</b>	Linked to highly liquid credit indices. Size determined by transparent non-discretionary rules	<b>Liquidity</b>	Daily, provided by ABN AMRO
<b>Credit Indices</b>	50% iTraxx Europe, 50% DJ CDX.IG	<b>Fees</b>	1% = arrangement fee 20 bppa = administration fee 3.5 bppa x Maximum Leverage = Leverage Facility Fee

Coupon Notes			
Currency	Rating	Coupon	Maturity
EUR	[AAA/Aaa]	Euribor + [100]	10 yrs
USD	[AAA/Aaa]	Libor + [100]	10 yrs

*\*Ratings are preliminary and subject to final review of transaction documents. Please refer to modelling assumption section on page 28 <sup>(1)(2)</sup>*



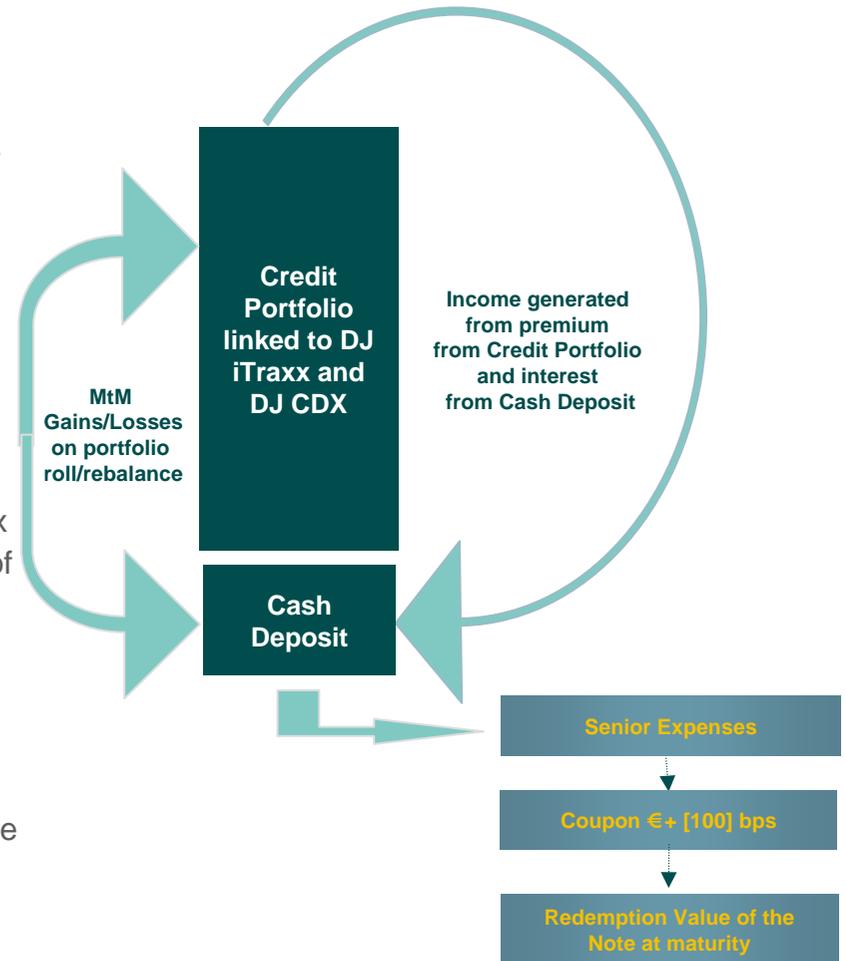
# Surf 100 Structural Mechanics





## What is the CPDO?

- A CPDO is a fixed income instrument with cashflows that have a high and rated likelihood of payment
- A CPDO aims to pay the stated coupons by taking leveraged exposure to a notional portfolio of credit indices. It comprises of exposure to a Credit Index Portfolio and a cash deposit
- The Credit Index Portfolio aims to generate sufficient returns to enable the coupon payments to be made
- The Target Portfolio Size of the Credit Index Portfolio is set such that the present value of the expected income from the Credit Index Portfolio is linked to the difference between the present value of the coupons and principal due under the Note and Note NAV
- Once the current Note NAV equals the present value of the payments due under the Note, the Credit Index Portfolio will be unwound and no further credit exposure taken





## Dynamic Leverage Control

- The Portfolio Size is dynamically adjusted in order to actively target payment of the stated coupon (€+100bppa) and repayment of the principal at maturity
- The Current Portfolio Size is adjusted to equal the Target Portfolio Size on each roll date
- In addition, if at any time the Current Portfolio Size differs from the Target Portfolio Size by more than 25%, then the Current Portfolio Size is adjusted to equal the Target Portfolio Size
- The Current Portfolio Size cannot be larger than the Maximum Portfolio Size
- Taking leverage in this controlled manner means that there is no potential upside from over-leveraging, however investors are rewarded with a very tight distribution of returns and the potential to reduce the risk in the later years of the transaction



**NAV = Cash Deposit  
+/- MtM of Credit  
Index Portfolio**



## Behaviour of the Target and Maximum Portfolio Size

**Dynamic Leverage.** The size of the Credit Portfolio is dynamically adjusted in order to actively target payment of the stated coupon (€+100bppa) and repayment of the principal at maturity. It is calculated in reference to the Target Portfolio Size and limited by the Maximum Portfolio Size

- The **Target Portfolio Size** is a dynamic measure designed to increase and decrease risk in a controlled manner
  - The Target Portfolio Size calculation has been designed such that the coupon and principal can achieve a high and stable rating, comparable to a CDO
  - The Target Portfolio Size is calculated by comparing the income expected from the current portfolio with the payments promised to be made (including those for the note coupon, expenses, defaults, etc)
  
- The **Maximum Portfolio Size** limits the amount of total leverage that the transaction can have
  - The Maximum Portfolio Size is calculated so that the assumed 1-day loss on the Credit Portfolio cannot be more than the Note NAV
  - The Maximum Portfolio size is subject to an absolute limit of 9x

**In essence, the CPDO only uses the leverage it needs to make the scheduled principal and interest payments**



## Index Portfolio Benefits

- The credit portfolio is comprised of credit swaps on 5 year DJ CDX and ITraxx indices
  - DJ CDX and iTraxx are liquid indices and provide broad diversified exposure to the credit market
  
- Every six months, current index positions are unwound and new index swaps are entered into. This has 3 key benefits
  - The credit indices are rolled over each 6 months into new series of indices. Rolling the index swaps ensures that the credit portfolio always references the latest index series and benefits from the index selection rules, i.e. entities downgraded to below investment grade and less liquid credits are removed and replaced by investment grade and more liquid entities
  - Older series become illiquid quickly. Rolling the index swaps each 6 months ensures greater liquidity in the credit portfolio and help to keep rebalancing costs low
  - Under normal market conditions income from extra premium and mark-to-market gains may be generated by extending the maturity of the index swaps to 5.25 yrs from 4.75yrs at each index roll date



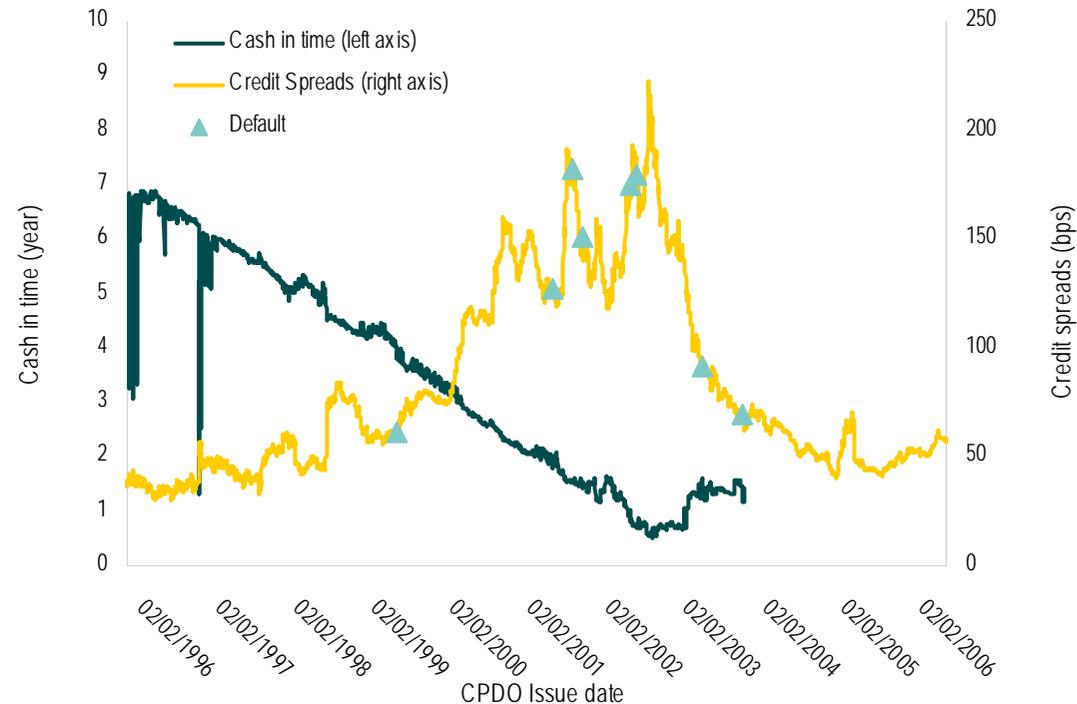
# Note Performance





# Hypothetical Historical Cash-In Analysis

- A hypothetical CPDO issued on any date between Feb 1996 and Dec 2003 should have already cashed in – investors would have no exposure to further credit risk

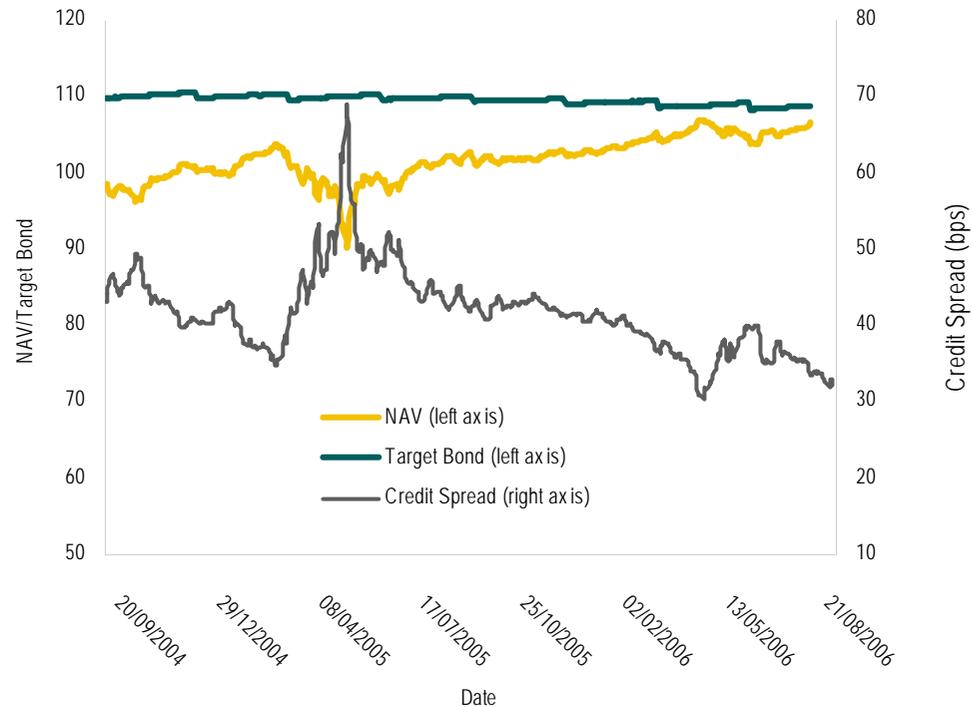


A pro-forma spread history derived from MSCI Euro Credit Index (sourced from Bloomberg) with 1% AAA, 8% AA, 39% A and 52% BBB weighting has been produced as a proxy for the spread history for a 50%iTraxx/50%CDX basket (the weightings are the actual rating weightings in a current 50%iTraxx/50%CDX basket). Applied interest rates are actual corresponding interest rates derived from historical interest rate curves (sourced from Bloomberg). These parameters are run through the CPDO model (which has certain other modelling assumptions, including roll cost and curve shape as per base case assumptions). This analysis is based on a theoretical analysis of the past and no assurance can be given with respect to future returns. The assumptions illustrated above are unlikely to be consistent with actual experience



## Hypothetical Historical Cash-In Analysis

- A CPDO issued in September 04 would currently be close to cash in
- Leverage decreases from an initial 9 times to a current 7 times



Spread history derived from 50%iTraxx Series 2 and 50%CDX Series 3 plus going forward rolled Series. Applied interest rates are actual corresponding interest rates derived from historical interest rate curves (sourced from Bloomberg). These parameters are run through the CPDO model (which has certain other modelling assumptions, including roll cost and curve shape as per base case assumptions). This analysis is based on a theoretical analysis of the past and no assurance can be given with respect to future returns. The assumptions illustrated above are unlikely to be consistent with actual experience



# Relative Value





## Why “CPDO”?

- “CP” stands for Constant Proportion and offer the following advantages over traditional CPPI
  - The CPDO is the first product utilising Variable Leverage technology to structure a note for credit investors who require a full rating for both principal and coupons
  - Normal CPPI technology on fixed income assets takes a fixed income underlying and repackages it to produce equity like return distributions by always running at maximum leverage. The CPDO only leverages sufficiently to pay the stated coupon and principal at maturity
  - Unlike traditional CPPI, the CPDO is more likely to sell protection at higher levels and buy protection back at lower levels
  - Unlike traditional CPPI, there is much less likelihood of forced unwinding of portfolio positions due to risk limit breaches
  - Unlike traditional CPPI, there is no principal protection, but both coupon and principal are rated, making the CPDO ideal for investors who are comfortable with the risks in structured credit but do not wish to pay for principal protection



## Why “CPDO”?

- “DO” stands for Debt Obligation and offers the following advantages over CDOs
  - Unlike CDOs, there is a possibility of cashing-in to a risk free coupon paying bond prior to maturity, which means that credit risk need not be taken for the full life of the note
  - The CPDO has no direct price exposure to correlation
  - Like CDOs, both the coupon and principal are rated
  - The CPDO does not suffer from adverse portfolio selection as the credit portfolio is linked to the on-the-run credit default swap indices



# Rating Criteria & Stability





## Rating Agencies Methodology

- S&P and Moody's have determined that Surf 100 will earn sufficient returns to pay timely coupon of €+[100]bppa and principal at maturity to achieve a [AAA/Aaa] rating
- There are three issues that are paramount for both agencies in assessing the risks at a given rating level
  - **Credit Spread Movements**
    - The quantitative analysis of the rated return must assess the income and mark-to-market gains and losses due to the reconfiguring and rebalancing of the CDS indices over the life of the transaction. Spread changes may also trigger a cash-out event
  - **Credit Defaults**
    - Credit defaults are generated by CDO Evaluator by S&P and CDOROM by Moody's
  - **Structural Considerations**
    - Rebalancing rules, treatment of index rolls, bid/offer spread effects, running fees, payment of coupons, in addition to the market and credit risk of the index portfolio, are taken into account in the rating modelling process
- **S&P** <sup>(1)</sup> benchmarks the probability of receiving the rated coupons and principal at maturity to the default probability of an S&P bond with the same rating and tenor
- **Moody's** <sup>(2)</sup> compares promised cash flows to actual cash flows generated by the model. The difference (ie expected loss) is compared to the expected loss of a Moody's bond with the same rating and tenor

<sup>(1)</sup> <sup>(2)</sup> Refer to modelling assumption section on page 28



## Rating Sensitivity – S&P

- The performance and S&P rating of the CPDO is sensitive to the evolution of credit spreads, defaults, and roll cost over time
- The rating of the CPDO appears to be stable under a range of simulated default, credit spread, and roll cost scenarios

1) No defaults				3) No defaults / Roll cost 5% / 0.25bp bid/ask			
Year	0bps portfolio spread	+10bps portfolio spread	+20bps portfolio spread	Year	0bps portfolio spread	+10bps portfolio spread	+20bps portfolio spread
0	AAA	AAA	AAA	0	AAA	AAA	AAA
1	AAA	AAA	AAA	1	AAA	AAA	AAA
3	AAA	AAA	AAA	3	AAA	AAA	AAA
5	Cash-in	AAA	AAA	5	Cash-in	AAA	AAA

2) 1 default per annum				4) 1 default per annum / Roll cost 5% / 0.25bp bid/ask			
Year	0bps portfolio spread	+10bps portfolio spread	+20bps portfolio spread	Year	0bps portfolio spread	+10bps portfolio spread	+20bps portfolio spread
0	AAA	AAA	AAA	0	AAA	AAA	AAA
1	AAA	AAA	AAA	1	AAA	AAA	AAA
3	BBB	AAA	AAA	3	BBB	AAA	AAA
5	Below BBB	AAA	AAA	5	Below BBB	AAA	AAA

*In the above analysis, the rating model was run from the issue date to the forward rating simulation point using the default and spread paths illustrated in order to model the note performance to the rating simulation point. The spread starts from an initial spread of [32bps] and increases linearly at the rate shown per annum until the rating simulation point with 1bps roll cost for scenarios 1 and 2. The rating model is then re-run using the current S&P base case modeling assumptions at that future point in time to determine a potential rating. No assurance can be given with respect to future performance or future ratings. The assumptions underlying the analysis illustrated above are unlikely to be consistent with actual experience. In addition, S&P can change their rating assumptions, rating models and the way they monitor the rating at any time*



## Rating Sensitivity – Moody’s

- The performance and Moody’s rating of the CPDO is sensitive to the evolution of credit spreads, defaults, and roll cost over time
- The rating of the CPDO appears to be stable under a range of simulated default, credit spread, and roll cost scenarios

1) No defaults				3) No defaults / Roll cost 5% / 0.25bp bid/ask			
Year	0bps portfolio spread	+10bps portfolio spread	+20bps portfolio spread	Year	0bps portfolio spread	+10bps portfolio spread	+20bps portfolio spread
0	Aaa	Aaa	Aaa	0	Aaa	Aaa	Aaa
1	Aaa	Aaa	Aaa	1	Aaa	Aaa	Aaa
3	Aaa	Aaa	Aaa	3	Aaa	Aaa	Aaa
5	Cash-in	Aaa	Aaa	5	Cash-in	Aaa	Aaa

2) 1 default per annum				4) 1 default per annum / Roll cost 5% / 0.25bp bid/ask			
Year	0bps portfolio spread	+10bps portfolio spread	+20bps portfolio spread	Year	0bps portfolio spread	+10bps portfolio spread	+20bps portfolio spread
0	Aaa	Aaa	Aaa	0	Aaa	Aaa	Aaa
1	Aa2	Aaa	Aaa	1	Aa2	Aa1	Aa1
3	A1	Aaa	Aaa	3	A3	Aa3	Aa1
5	Baa3	Aa1	Aaa	5	Ba1	A1	Aa1

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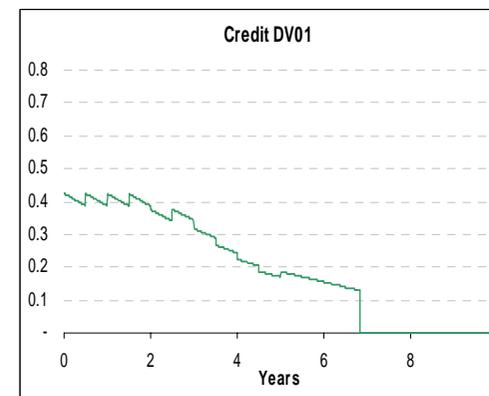
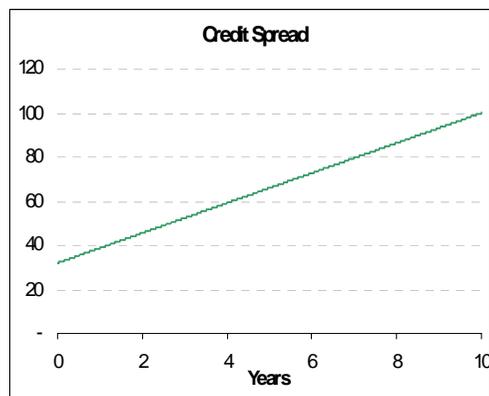
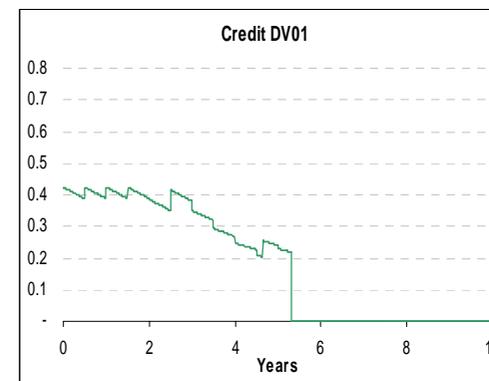
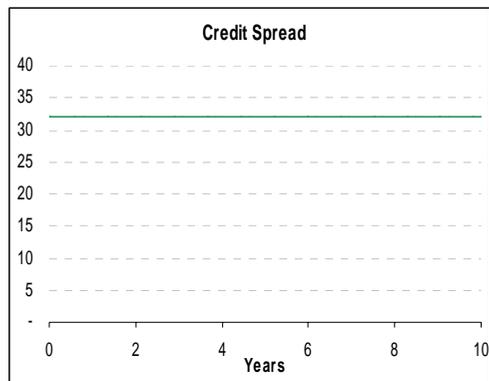
# Sensitivity Analysis





## Sensitivity Analysis

- The performance of CPDO is analysed for various credit spread scenarios
- The related strategy value and credit DV01 of the notes are illustrated

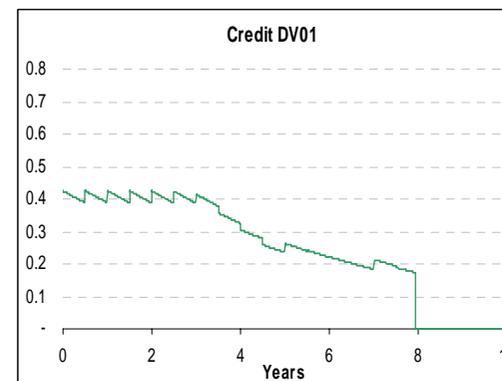
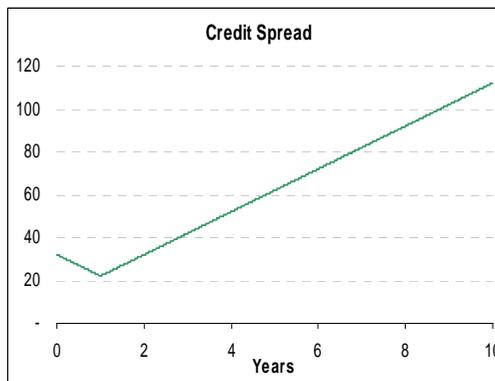
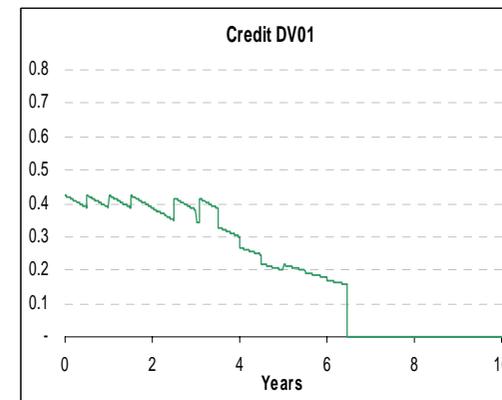
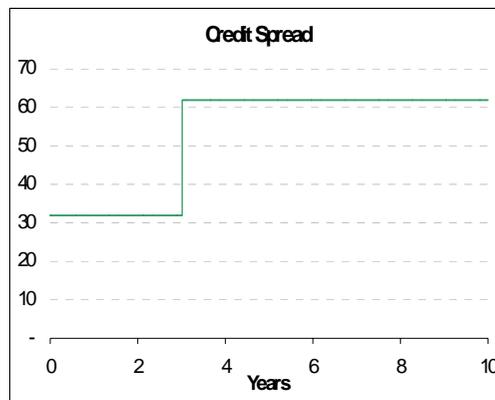


*\* An assumed number of defaults of 0.43 per year are assumed to occur – this is based on S&P historical 1 year default rates (from 1981 to 2003) for a basket with a rating distribution of 1% AAA, 8% AA, 39% A and 52% BBB which is the current distribution of a 50%iTraxx/50%CDX basket. This and the illustrated spread paths are run through the CPDO model (which has certain other modeling assumptions, including roll cost and curve shape as per S&P base case assumptions). No assurance can be given with respect to future performance. The assumptions underlying the analysis illustrated above are unlikely to be consistent with actual experience.*



## Sensitivity Analysis

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# Conclusion





## Conclusion

- Surf 100 notes are a unique asset class and is a fully rated product in the credit market that uses an alternative leverage technology to traditional CDOs
- Surf 100 notes offer the opportunity for traditional fixed income investors to achieve stable, rated regular coupons with a tight fixed income like distribution of returns and will expand the universe of investors who can participate in the credit product space
- As the value of [AAA/Aaa] CDO and LSS tranches eroded over the past year largely because of correlation sensitivity, Surf 100 can achieve superior returns in the form of a highly rated leveraged product where pricing is not dependent on correlation risk
- When compared to similar fixed income synthetic credit products, Surf 100 exhibits strong relative value
- Surf 100 references highly liquid credit indices which are transparent, rules based and non-proprietary. Exposure to these indices ensures liquidity, no adverse selection and relative WARF stability



# ABN Amro in new structured credit offering

By Paul J Davies

ABN Amro has launched a product that aims to give fixed-income investors fully-rated and leveraged exposure to the main credit derivatives indices in the US and Europe.

The Dutch bank closed the first issue of the new investment last week, having sold two tranches of notes worth \$100m and €100m. It expects to close a second stage this week after placing another three tranches of notes worth ¥10bn, A\$100m, and NZ\$100m.

Steve Lobb, ABN's global head of structured credit marketing, said the bank expected the new structure to have an impact similar to the introduction of synthetic collateralised debt obligations which give exposure to part of a pool of credit derivatives. "We think this is the most exciting development in credit investing since the single-tranche CDO," he said.

The notes are based on a new structure with the ungradeable title "constant proportion debt obligations" (CPDOs). It shares features with two popular structured credit products of recent years: synthetic CDOs and credit CPPI (constant proportion portfolio insurance).

It is a true fixed-income product, rated triple-A by Standard & Poor's to pay a regular coupon of Libor plus 200 basis points. But, said ABN, it would not be exposed to the correlation risks of a synthetic CDO.

Correlation is what drives the pricing differences between differently rated tranches of synthetic CDOs. It is a complex mathematical output of CDO models and can change in sudden, unexpected and costly ways.

Credit CPPI, meanwhile, is not always a truly fixed-income product because while such deals are always rated for principle protec-

tion, it is much more difficult to rate their regular payment of coupons. For investors who are constrained to invest in rated products, accounting for a CPPI can be difficult.

"A lot of investors need a rated product, but with CPPI it's difficult to rate the coupons," said Richard Whittle, global head of credit and alternatives trading at ABN. "Synthetic CDOs can fit the picture, but many investors either don't like correlation risk or have enough of it and want to diversify."

The investment works by selling protection on the main US and European indices of investment grade credit default swaps, which are a kind of insurance against non-payment of corporate debt.

To generate a high level of income from these indices, the structure will sell protection on a notional credit exposure worth up to 15 times the initial investment.

This investor's original principle is kept on deposit, acting as a margin for the unfunded protection selling on the CDS indices, which S&P highlighted as a source of risk because a sudden leap in default rates when the deal was highly leveraged would be likely to wipe out the principle.

There is also risk for ABN, because the investor is limited to losing only the original principle with ABN making up any losses beyond.

The product aims to reach a point before final maturity where enough returns have been generated to cover all future coupon payments with an investment in a risk-free bond.

The leverage in the deal is lifted or lowered depending on how far the value of the notes are from reaching this "cash in" point, which the bank said was expected to be hit after about seven years, three years ahead of maturity.

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## ABN markets fully rated constant proportion credit note

ABN Amro is marketing the first constant proportion credit product to garner triple-A ratings for both principal and interest payments.

The deal, Chess II, is called a constant proportion debt obligation (CPDO), a variation on traditional constant proportion portfolio insurance. It offers investors a static exposure, with dynamic leverage, to the investment grade on-the-run Dow Jones CDX and iTraxx European credit indices. The portfolio will be rebalanced every six months with the index roll, and leverage can be increased or decreased according to strict predefined parameters, depending on the fund's net asset value. Unlike a CPPI, investors' principal is not guaranteed, although for the first time in such a product, interest payments are rated in line with the fund's principal rating of triple-A, by Standard & Poor's.

Some credit marketers view rated coupons as the "holy grail" of constant proportion credit products, such as CPPI. The asset class has grown rapidly in recent years, as it allows investors to take a leveraged view on credit, but offers greater management flexibility and resilience to spread widening than a traditional long-only CDO. However, the investor base has been held back in part by the product's unpredictable returns, as interest payments are not fixed, but will depend on the success of the strategy. This lack of income certainty makes it

harder for banks holding CPPI to match fund, and can make it less efficient from a regulatory capital perspective, as the uncertainty of the interest component requires a higher charge.

ABN's deal uses CPPI technology, but is in fact almost diametrically opposite to a standard CPPI. In a standard credit CPPI a portion of principal is set aside to cover the cost of principal protection, and the remainder is invested in a leveraged "risky strategy", which is either managed or static. If the remaining principal, or cushion, is eroded through defaults or a severe spread widening, then the deal collapses and investors' principal is returned.

In this deal, the principal provides the net present value of the fund at launch, and is leveraged according to a formula so that the present value of expected income under the CDS will cover the difference between the net asset value of the note, and the present value of all future coupons. As the premia are paid, the net asset value of the fund should grow, and the amount of leverage needed will decrease, with the NAV eventually rising to match the net present value of future coupons. At that point the deal will "cash in", and the swaps are unwound. If the NAV of the note falls, the fund will increase leverage, according to a fixed set of rules, to fill the difference between the NAV and the present value of future coupons.

"It's effectively the inverse of a normal CPPI," said Cian Chandler, an analyst at Standard & Poor's in London. "In a normal CPPI you are always looking at the difference between the NAV and the bond floor, and the more the NAV falls, the less you can leverage. Here you have a positive

**"If the NAV of the note decreases, then the value you can leverage increases"**

trigger: you are constantly looking at the difference in NAV and the cash-in point. That affects the notional you can leverage, and it means that if the NAV of the note decreases, then the value you can leverage increases, which may allow the note to get back on track after poor performance."

Investors' exposure to a credit event is relatively modest, as the swaps will be rebalanced with each index roll. If index spreads widen, any loss on the NAV should be offset by the higher premia at the next roll. Investors' main risk, therefore is if a credit were to default, causing losses, but spreads in the broader index were to remain tight. However, the fund can suffer a substantial fall in NAV before it has to be unwound — a "cash-out" event is triggered if the note NAV falls to 10%.

Standard & Poor's was able to rate the deal by modelling the portfolio spread using historic inputs for the long-term mean, spread volatility, and mean-reversion speeds.

While the deal may be a substantial step forward in structured credit, applying the technology to other asset classes, or to a more dynamically managed product may be more challenging.

"There are two key issues," said Chandler. "Here the management of the portfolio is predefined, with no subjective elements. If we were looking at a managed portfolio we would have to look at extreme scenarios, both positive and negative, based on the parameters in the management agreement."

Another possible limitation is the type of exposure that could be referenced by this kind of product.

"We are comfortable looking at 0-100% on long portfolios, because we are just looking at spread performance," said Chandler. "If you wanted to do a deal with tranches you would need to take a view on correlation, and at this point we are not comfortable doing that."

The bank is offering three tranches, with a seven year average life and legal maturity in 2016, denominated in euros, dollars and yen.

The deal is in the early stages of marketing, and the coupons on offer have not been disclosed. ABN declined to comment on the deal. □



## Key Risk Factors

### Credit Risk

- Investors are exposed to the credit risk of the underlying credit portfolio
- In case of defaults or spread widening on each roll date the Note NAV will be negatively affected and the size of the credit portfolio may be increased or reduced
- Leverage may increase the magnitude of losses
- The Note is not guaranteed by ABN AMRO. CPDO is not a principal protected note. Actual amounts of interest and principal paid on the notes are subject to the investment strategy performance

### Price Volatility

- The NAV of the note is sensitive to credit spreads of the underlying portfolio of index swaps
- The price of the notes may be lower than the initial purchase price
- The traded price may be different from the NAV of the notes due to supply and demand issues
- Leverage may increase the magnitude of price volatility

### Cash-Out Event

- If the NAV falls to 10% or lower, a “cash-out” event will be triggered and the credit portfolio is fully unwound
- No coupon will be paid after a cash-out event and any recovered value will be paid to noteholders

### Performance and modelling risk

- Past performance may not be representative of future performance
- Current modelling assumptions are unlikely to be consistent with actual performance of CPDO
- Key modelling assumptions are set out in S&P/Moody’s base case assumption



# Modelling Assumptions





## Modelling Assumptions

- S&P base case assumptions
  - [10,000] Monte Carlo simulations
  - Portfolio constituting 50% iTraxx Europe and 50% CDX.IG
  - Expected defaults produced by CDO Evaluator 3.0
  - Roll cost of 1 bps
  - Curve shape fitted conservatively as per today's curve
  - Initial portfolio spread of 32bps with a volatility of 15%, mean reversion (MR) = 40bps at the end of year 1, and MR = 80 at the end of year 10
  - Upfront fee 100bps, Administrative and structuring fees 20 bppa of the Note Notional, and Leverage Facility fee 3.5 bppa of the Maximum Notional Size
  
- Moody's base case assumptions
  - [10,000] Monte Carlo simulations
  - Portfolio constituting 50% iTraxx Europe and 50% CDX.IG
  - Expected defaults produced by CDOROM
  - Roll cost produced by Moody's rating transition matrices
  - Initial portfolio spread of 32bps. Spread process as per Leverage Super Senior framework
  - Upfront fee 100bps, Administrative and structuring fees 20 bppa of the Note Notional, and Leverage Facility fee 3.5 bppa of the Maximum Notional Size



# Post Execution Servicing







# Reference Portfolio



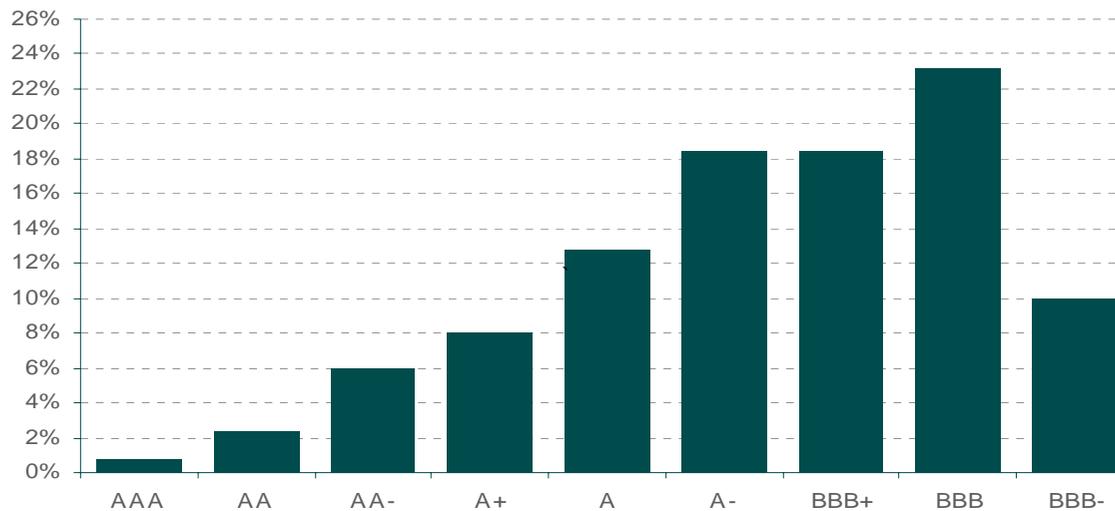


## Index Characteristics

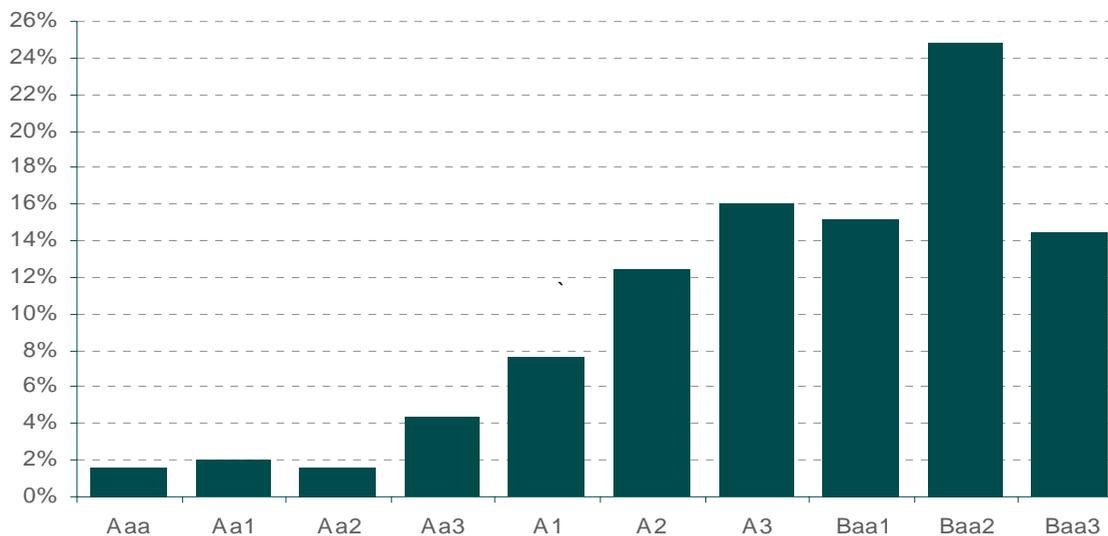
- Credit portfolio is linked to the 5 year CDS indices comprised of 50% iTraxx Europe and 50% DJ CDX.IG, currently comprising 250 reference entities
- iTraxx Europe is comprised of the top 125 investment grade European credits in terms of volume traded in the six months prior to index launch
- DJ CDX.IG is comprised of the top 125 investment grade North American credits in terms of volume traded in the six months prior to index launch
- The indices are rolled each March and September, with sub investment grade and illiquid entities be removed and replaced with liquid investment grade credits
- Administered by an independent third party, International Index Company ([www.indexco.com](http://www.indexco.com))
- IIC indices are objective, independent and fully rules-based
- IIC indices and swap pricing is accessible to all market participants, thereby increasing liquidity and transparency



## Rating Distribution of Reference Portfolio



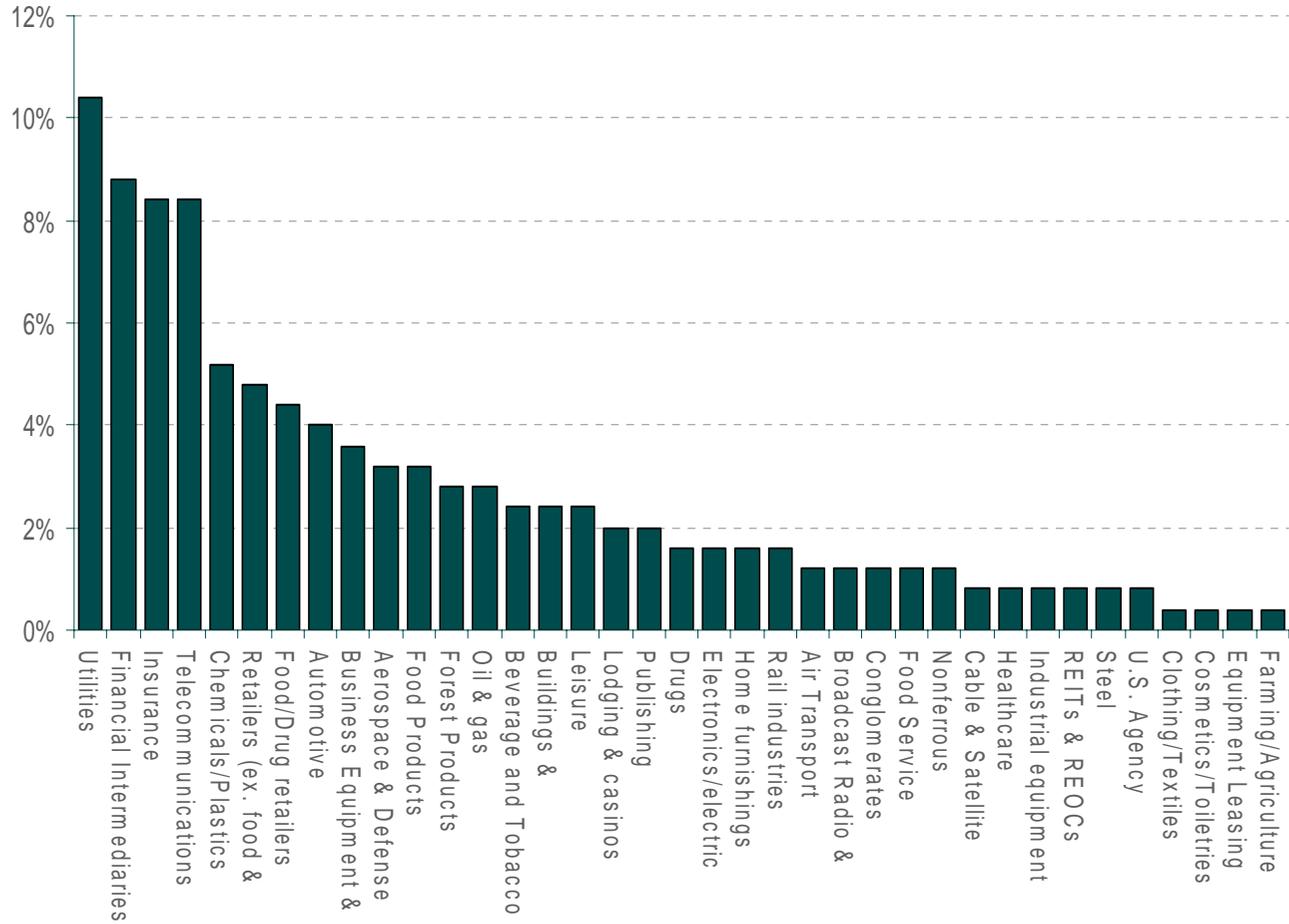
Source: S&P



Source: Moody's



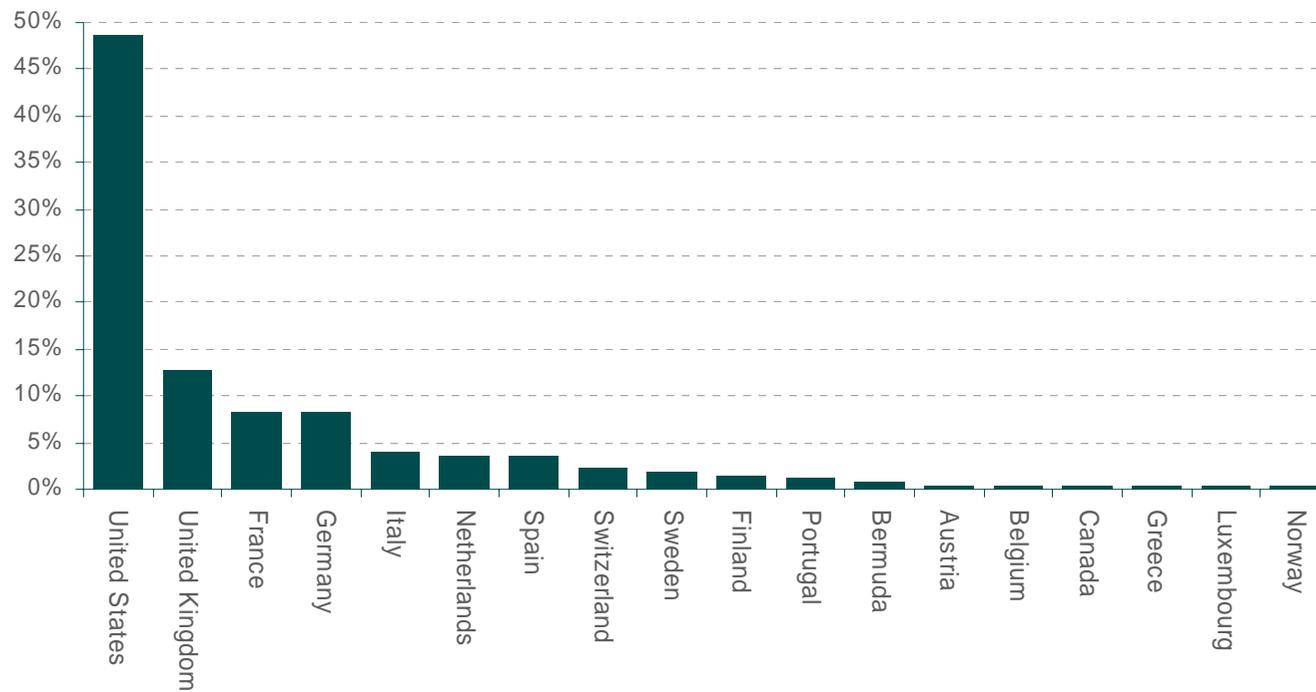
## S&P Industry Distribution of Reference Portfolio



Source: S&P



## Geographic Distribution of Reference Portfolio





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