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Private Placement Securities: Another Option for Institutional Investors

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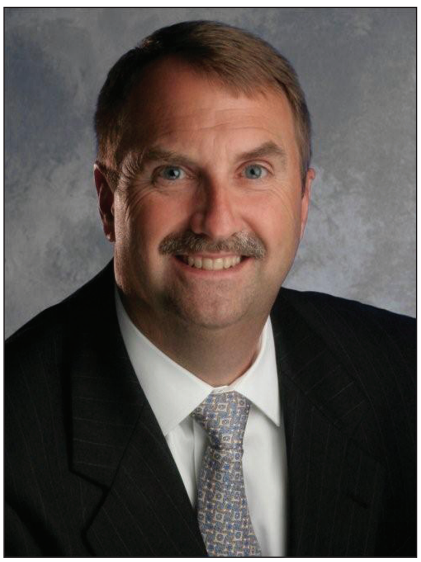

Private placements are a negotiated sale in which securities are sold directly to investors, rather than through broker dealers in a public offering. They are exempt from registration with the Securities and Exchange Commission (SEC) under Regulation D of the Securities Act of 1933. They also are open to larger investment institutions that meet standards which allow the purchase under this SEC exemption.

Privately placed debt encompasses a wide variety of fixed income structures including secured and unsecured corporate obligations, lease related financing for real property (real estate investment trusts and pass-through obligations) and personal property from equipment leases on rail cars and aircraft to operating equipment and inventory, project finance, asset backed loans and government agency securities. This asset class averaged $39B in new issuance for the last 5 years with roughly a 50:50 split between domestic and foreign credits.

Private placements provide enhanced yield, diversification and defensive characteristics not found in comparably rated public securities as well as access to mid market, privately owned and foreign issuers not available in the public market. Also through the due diligence process, private placements provide unprecedented access to the company's management team. Private placements are issued in an unlisted, less liquid format, normally on equal structural priority with bank funding. Agency ratings are not required for private placements, with the exception of National Association of Insurance Commission ratings which are required for insurance company investments.

Why private placements? This assets class offers financial covenant protection, a promise by a borrower (or guarantor) relating to the business or condition of the borrower. Covenants minimize the risk that the loan will not be repaid by attempting to assure the continued creditworthiness of the borrower. Private placements have higher recovery values under distressed conditions. Due to the less liquid nature of private placements, this asset class offer excess spread over public debt securities.

Private placements are less liquid due to smaller deal sizes and a smaller number of buyers. The deal settlement is longer due to complexity of documentation of the deal structure. Price discovery is less transparent due to the smaller size of the secondary market. This asset class also has a higher cost to administer and underwrite.

Scott Sell has over 28 years of experience in fixed income investment analysis, selection and trading. His areas of investment specialization include domestic and foreign debt issuance for privately-placed and public corporate investment, real estate investment trusts, credit tenant and equipment leasing, project financing and U.S. government agencies.