



The CLO market shows signs of life

GS Global ECS Credit Strategy Research

March 31, 2011

Alberto Gallo, CFA
Goldman, Sachs & Co.
1-917-343-3214
alberto.gallo@gs.com

The Goldman Sachs Group, Inc. does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

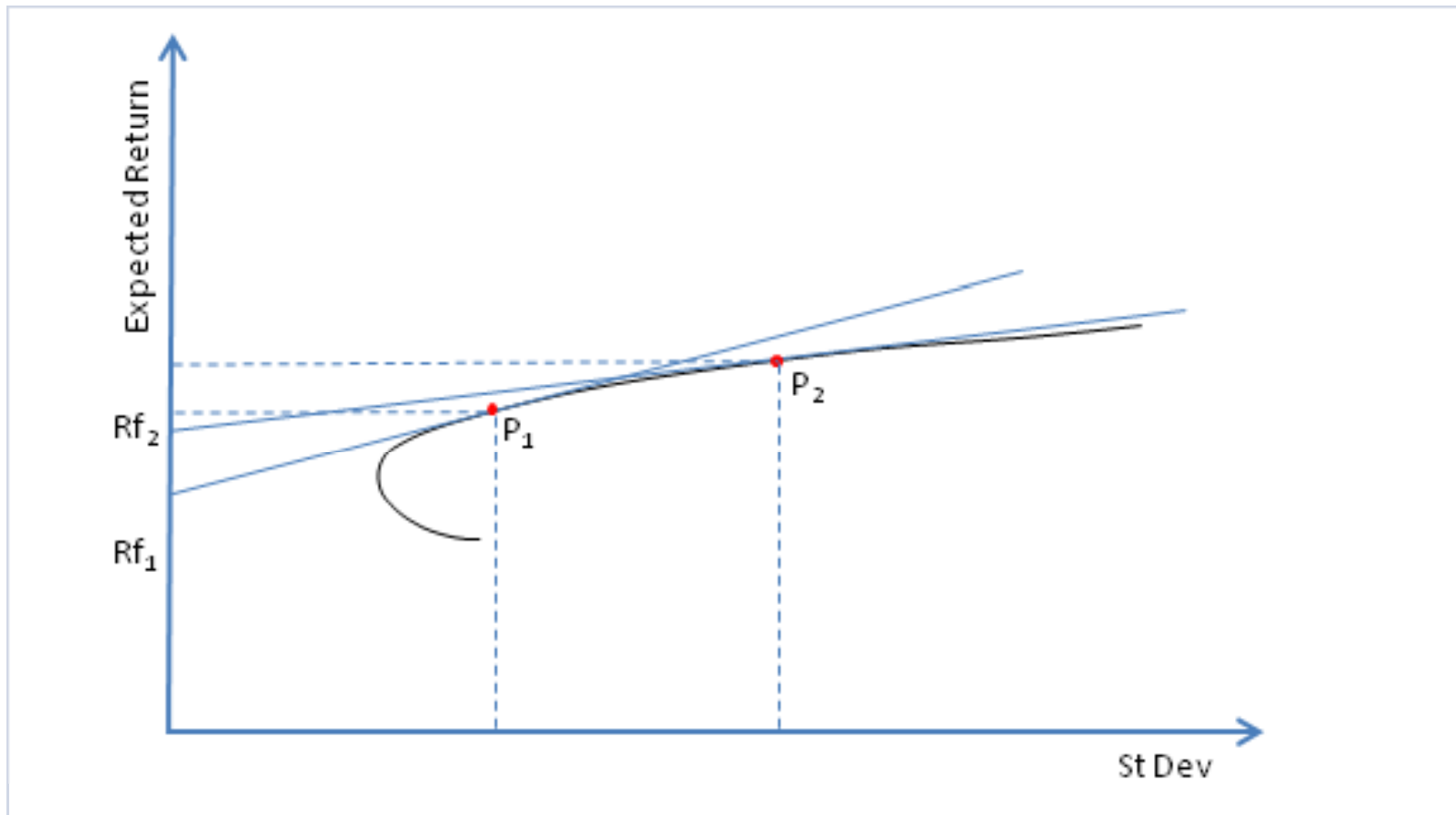
For Reg AC certification, see the disclosures. Other important disclosures follow the Reg AC certification, or go to www.gs.com/research/hedge.html.

Analysts employed by non-US affiliates are not registered/qualified as research analysts with FINRA in the U.S.

From an 'unlevered equilibrium' to a partial recovery in the shadow banking system



In an unlevered world, investors add risky assets to match their return targets
A return in financial leverage should favor secured, high Sharpe ratio products



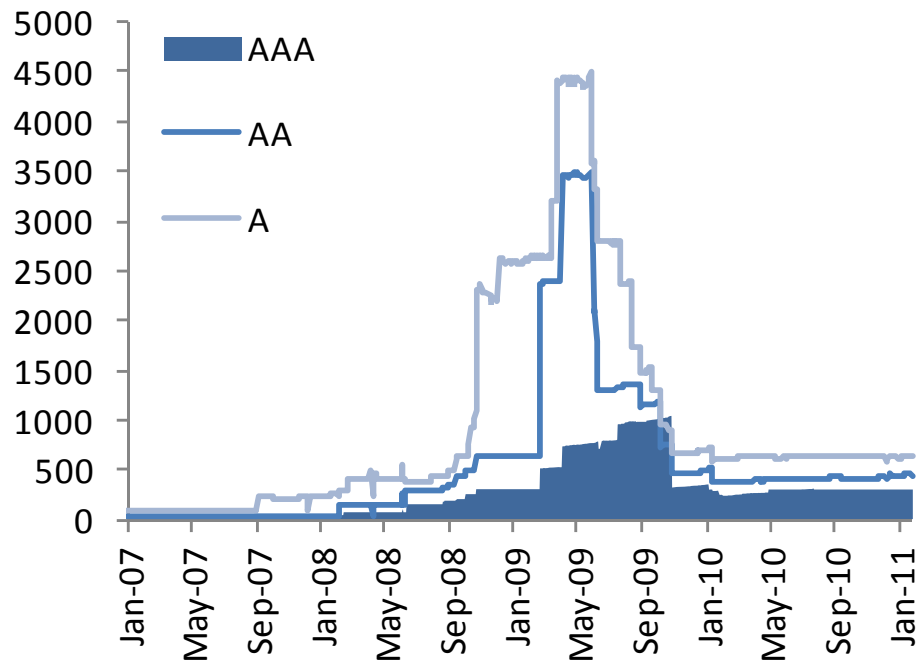
Source: Goldman Sachs Credit Strategy, Bloomberg, S&P LCD

Will financial leverage return to boost the search for yield?



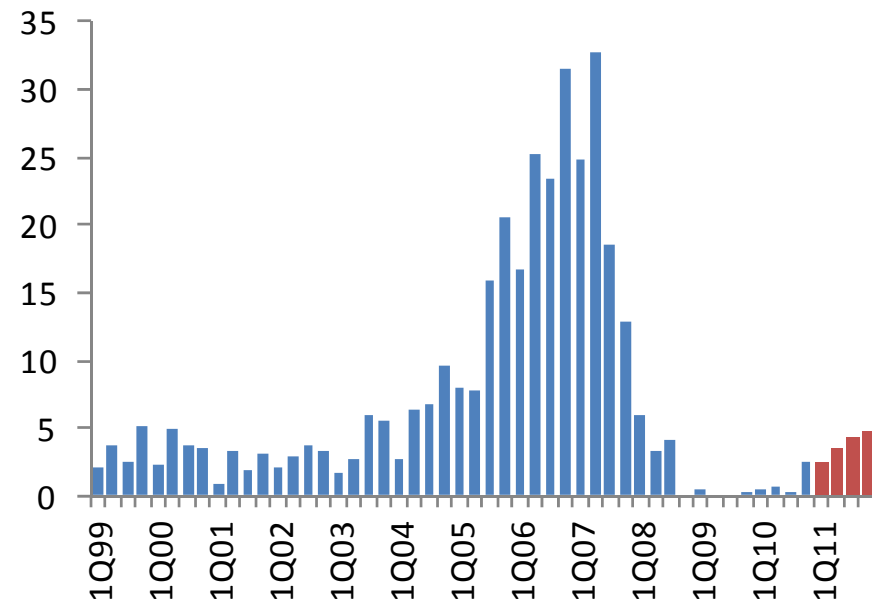
CLO tranches have only partially recovered

Average indicative spreads for US CLO tranches, by ratings



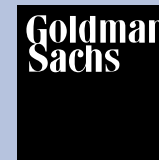
CLO issuance is anemic, but we expect it will recover

CLO levered loan activity. S&P estimates for 2011 in red



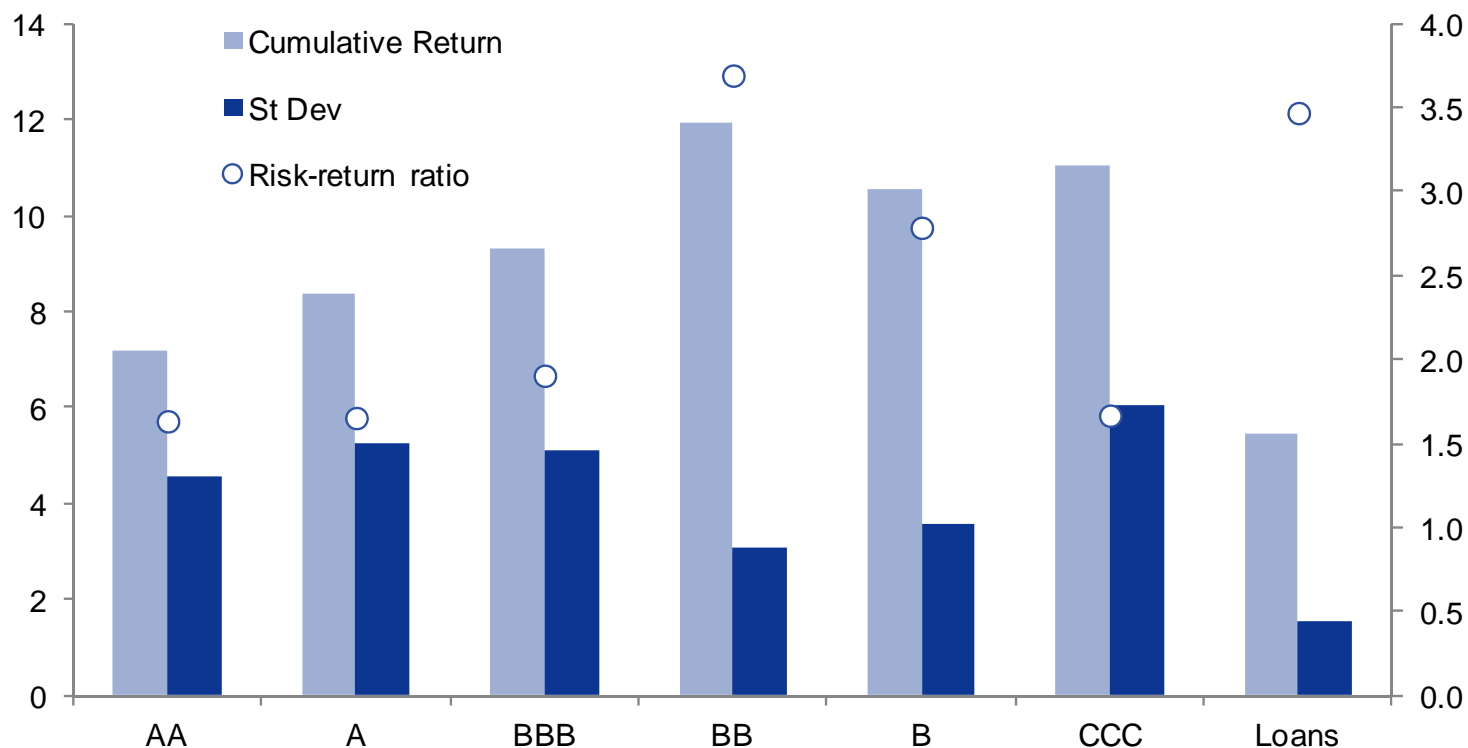
Source: Goldman Sachs Credit Strategy, Bloomberg, S&P LCD

Leveraged loans have shown exceptional risk-adjusted returns



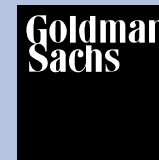
Leveraged loans and double-B bonds have outperformed last year and continue to show resilience

Total returns, annualized standard deviations and risk-return ratios for 2010

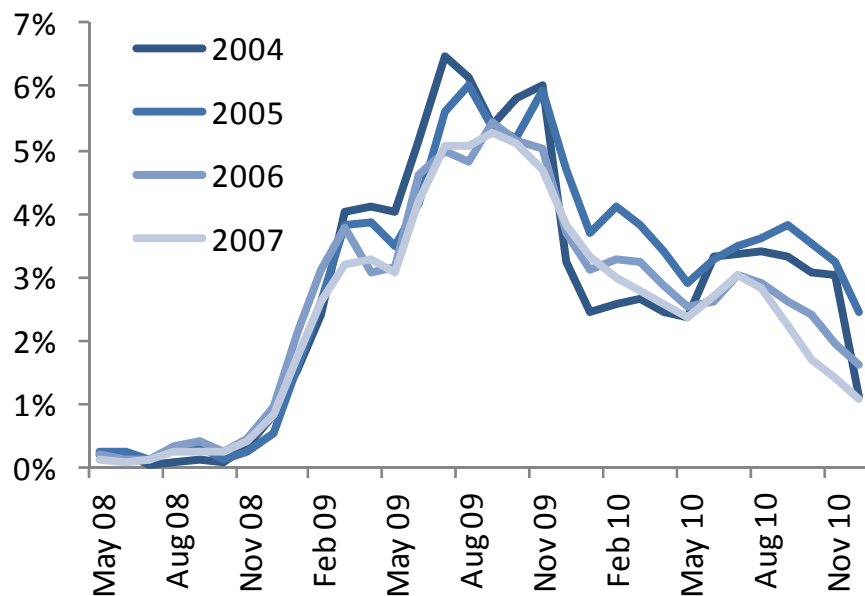


Source: Goldman Sachs Credit Strategy, CapIQ.

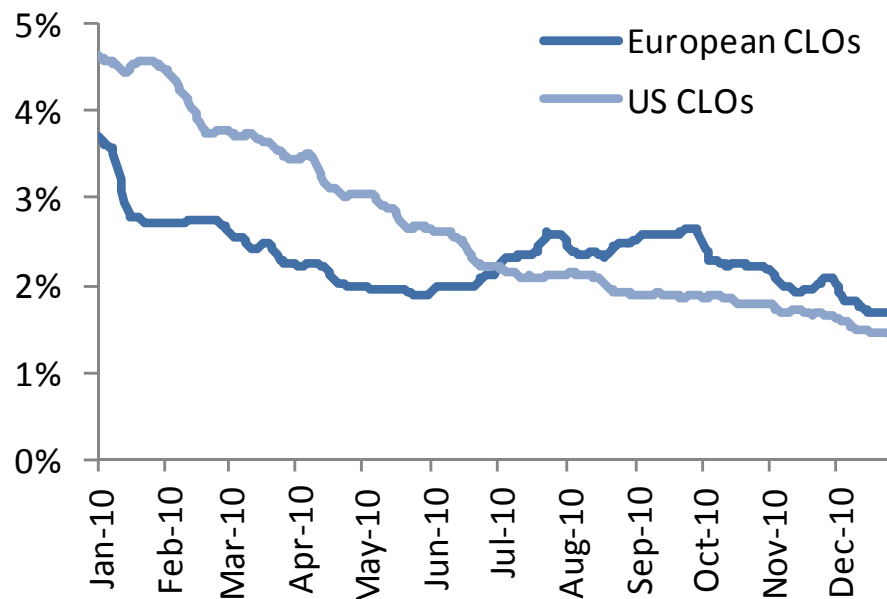
CLOs have weathered the crisis



Credit quality has held up well in CLO deals
Showing the % of collateral in default, by vintage



Defaults in European CLOs are now higher
Percentage of collateral in default

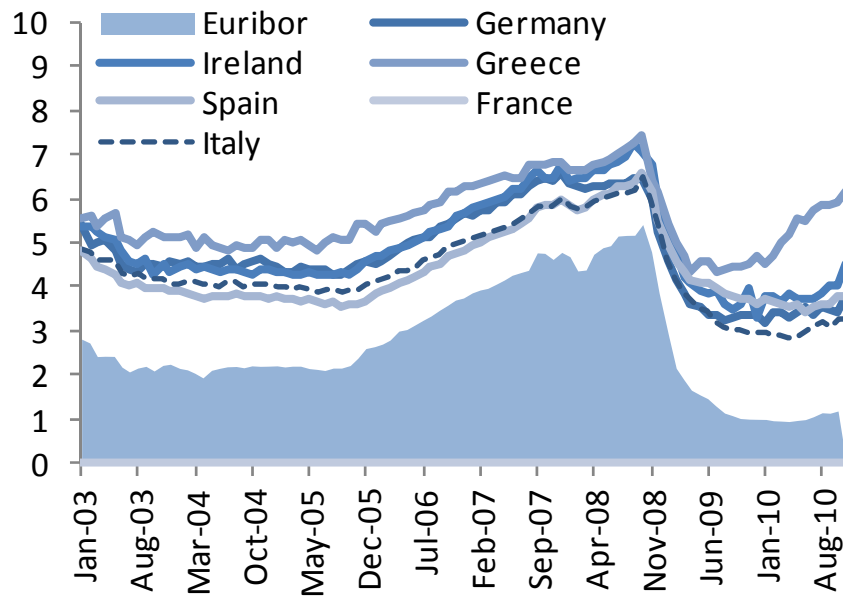


Source: Goldman Sachs Credit Strategy, Bloomberg, S&P, Creditflux CLO Master

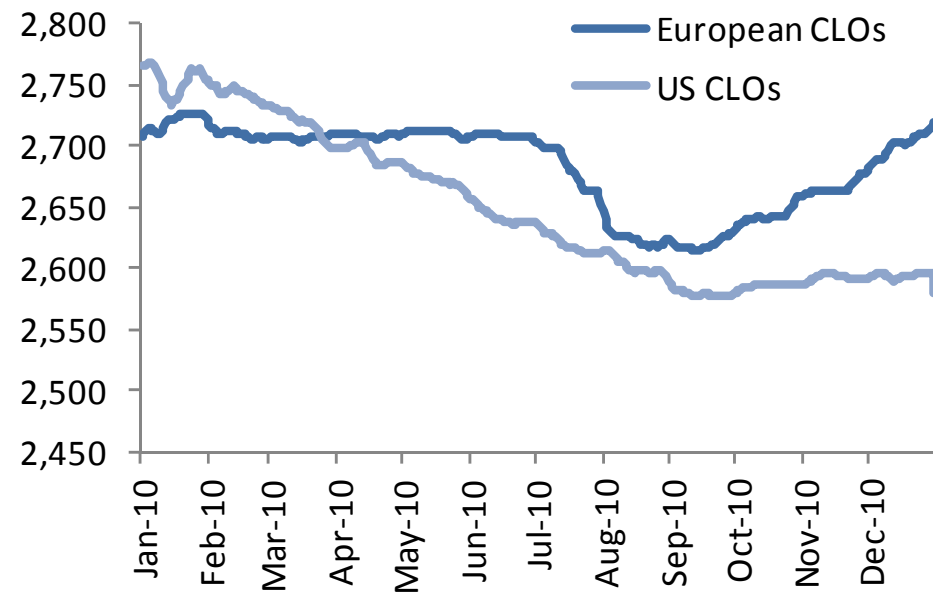
Europe's recovery will lag the US



Loan rates are already climbing in the periphery
Showing average loan rates for corporate borrowers



Rating quality is higher in the US
Showing weighted average rating actors (WARF) on CLOs



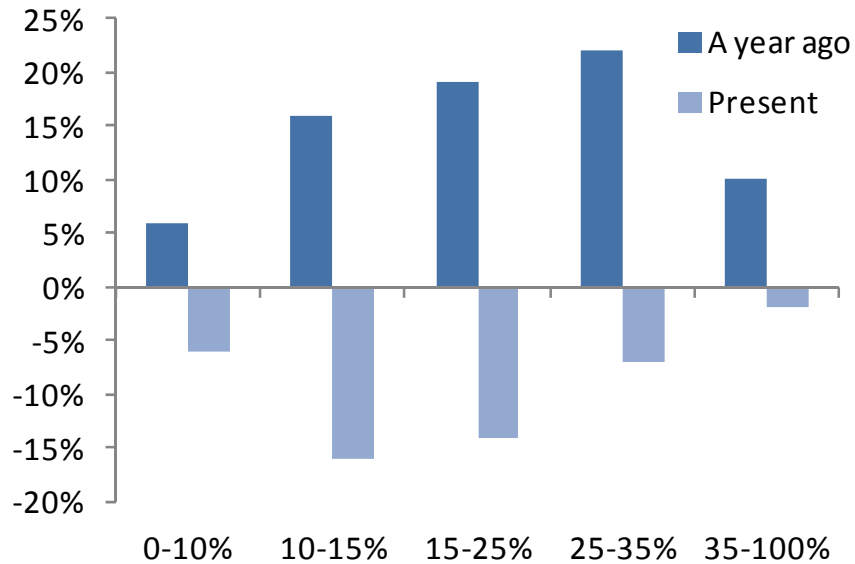
Source: Goldman Sachs Credit Strategy, Bloomberg, S&P, Creditflux CLO Master, ECB

There's value in equity and mezzanine tranches



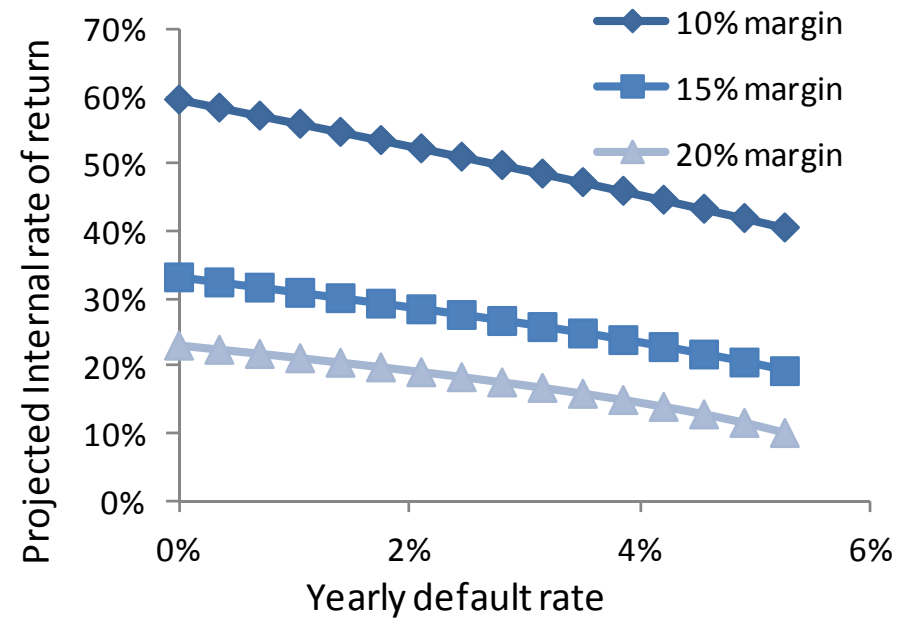
Margins for equity have normalized

Showing average changes in margins over the past years



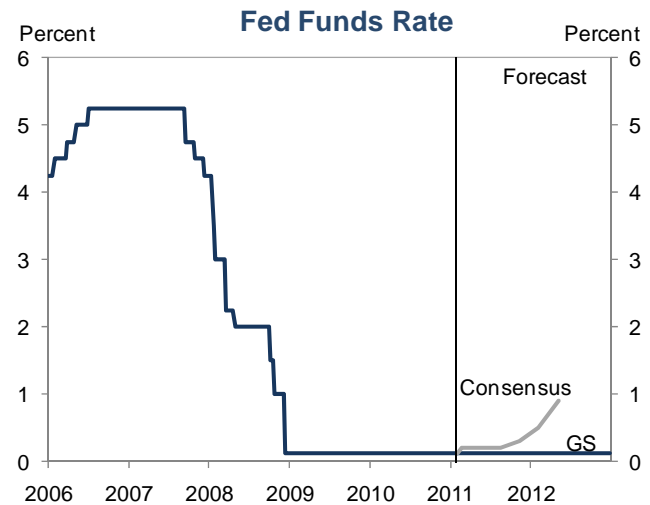
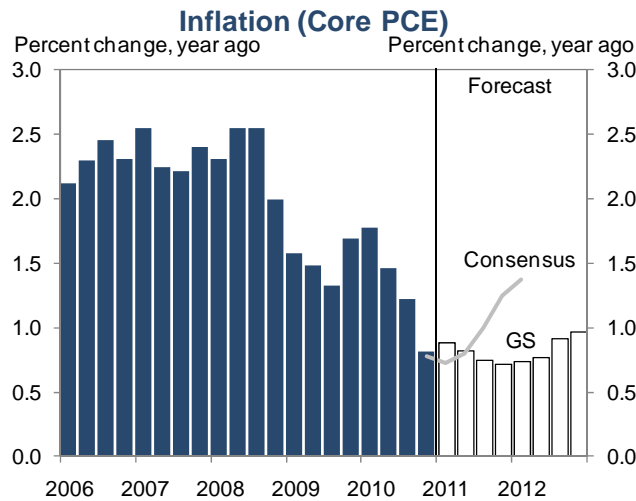
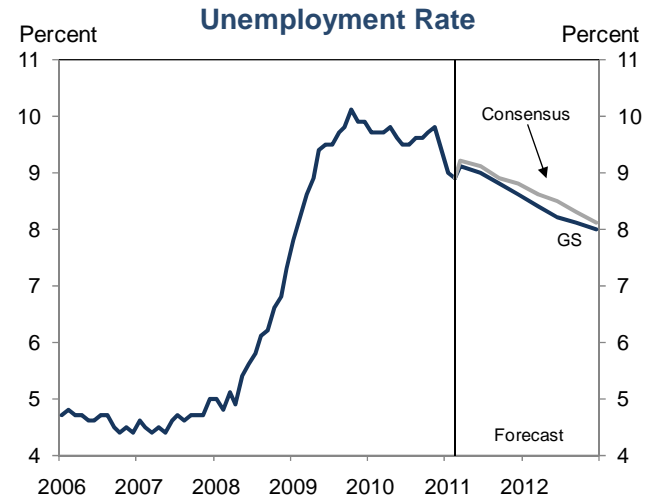
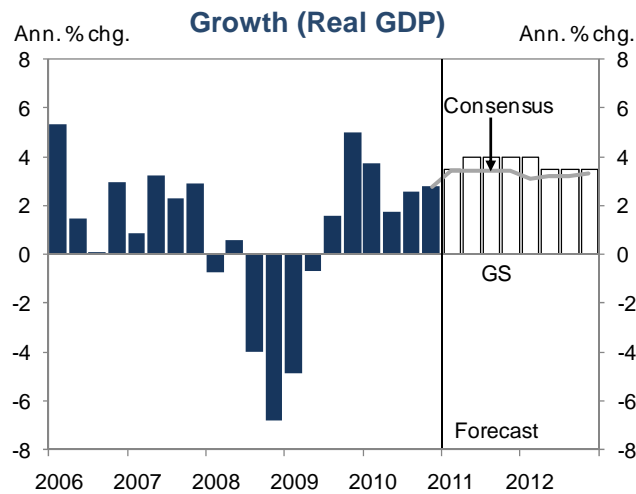
LCDX equity can give double digit IRRs

Showing potential IRR depending on margins and default rates



Source: Goldman Sachs Credit Strategy. The IRR scenario refers to LCDX 5-year S15 0-8%

GS US macro forecasts vs. consensus



Actual Data
 Blue Chip Consensus Forecasts (February 2011)*

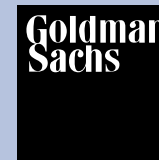
Source: Goldman Sachs ECS Research.

*Inflation Consensus from Philadelphia Fed (Survey of Professional Forecasters)



Disclosures

March 31, 2011



Reg AC

We, Charles P. Himmelberg, Alberto Gallo, CFA, Lotfi Karoui and Annie Chu, hereby certify that all of the views expressed in this report accurately reflect our personal views, which have not been influenced by considerations of the firm's business or client relationships.

Company-specific regulatory disclosures

Compendium report: please see disclosures at <http://www.goldmansachs.com/research/hedge.html>.

This research discusses Rule 144a securities, which generally are available only to Qualified Institutional Buyers.

Regulatory disclosures

Global product; distributing entities

The Global Investment Research Division of Goldman Sachs produces and distributes research products for clients of Goldman Sachs, and pursuant to certain contractual arrangements, on a global basis. Analysts based in Goldman Sachs offices around the world produce equity research on industries and companies, and research on macroeconomics, currencies, commodities and portfolio strategy.

This research is disseminated in Australia by Goldman Sachs & Partners Australia Pty Ltd (ABN 21 006 797 897) on behalf of Goldman Sachs; in Canada by Goldman Sachs & Co. regarding Canadian equities and by Goldman Sachs & Co. (all other research); in Hong Kong by Goldman Sachs (Asia) L.L.C.; in India by Goldman Sachs (India) Securities Private Ltd.; in Japan by Goldman Sachs Japan Co., Ltd.; in the Republic of Korea by Goldman Sachs (Asia) L.L.C., Seoul Branch; in New Zealand by Goldman Sachs & Partners New Zealand Limited on behalf of Goldman Sachs; in Russia by OOO Goldman Sachs; in Singapore by Goldman Sachs (Singapore) Pte. (Company Number: 198602165W); and in the United States of America by Goldman Sachs & Co. Goldman Sachs International has approved this research in connection with its distribution in the United Kingdom and European Union.

European Union: Goldman Sachs International, authorised and regulated by the Financial Services Authority, has approved this research in connection with its distribution in the European Union and United Kingdom; Goldman Sachs & Co. oHG, regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht, may also distribute research in Germany.

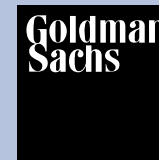
General disclosures

This research is for our clients only. Other than disclosures relating to Goldman Sachs, this research is based on current public information that we consider reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. We seek to update our research as appropriate, but various regulations may prevent us from doing so. Other than certain industry reports published on a periodic basis, the large majority of reports are published at irregular intervals as appropriate in the analyst's judgment.

Goldman Sachs conducts a global full-service, integrated investment banking, investment management, and brokerage business. We have investment banking and other business relationships with a substantial percentage of the companies covered by our Global Investment Research Division. Goldman Sachs & Co., the United States broker dealer, is a member of SIPC (<http://www.sipc.org>).

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desks that reflect opinions that are contrary to the opinions expressed in this research. Our asset management area, our proprietary trading desks and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this research.

Disclosures



We and our affiliates, officers, directors, and employees, excluding equity and credit analysts, will from time to time have long or short positions in, act as principal in, and buy or sell, the securities or derivatives, if any, referred to in this research.

This research is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Clients should consider whether any advice or recommendation in this research is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice. The price and value of investments referred to in this research and the income from them may fluctuate. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Fluctuations in exchange rates could have adverse effects on the value or price of, or income derived from, certain investments.

Certain transactions, including those involving futures, options, and other derivatives, give rise to substantial risk and are not suitable for all investors. Investors should review current options disclosure documents which are available from Goldman Sachs sales representatives or at <http://www.theocc.com/publications/risks/riskchap1.jsp>. Transactions cost may be significant in option strategies calling for multiple purchase and sales of options such as spreads. Supporting documentation will be supplied upon request.

All research reports are disseminated and available to all clients simultaneously through electronic publication to our internal client websites. Not all research content is redistributed to our clients or available to third-party aggregators, nor is Goldman Sachs responsible for the redistribution of our research by third party aggregators. For all research available on a particular stock, please contact your sales representative or go to <http://360.gs.com>.

Disclosure information is also available at <http://www.gs.com/research/hedge.html> or from Research Compliance, 200 West Street, New York, NY 10282.

Copyright 2010 The Goldman Sachs Group, Inc.

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of The Goldman Sachs Group, Inc