

Working Capital Finance Note Programs

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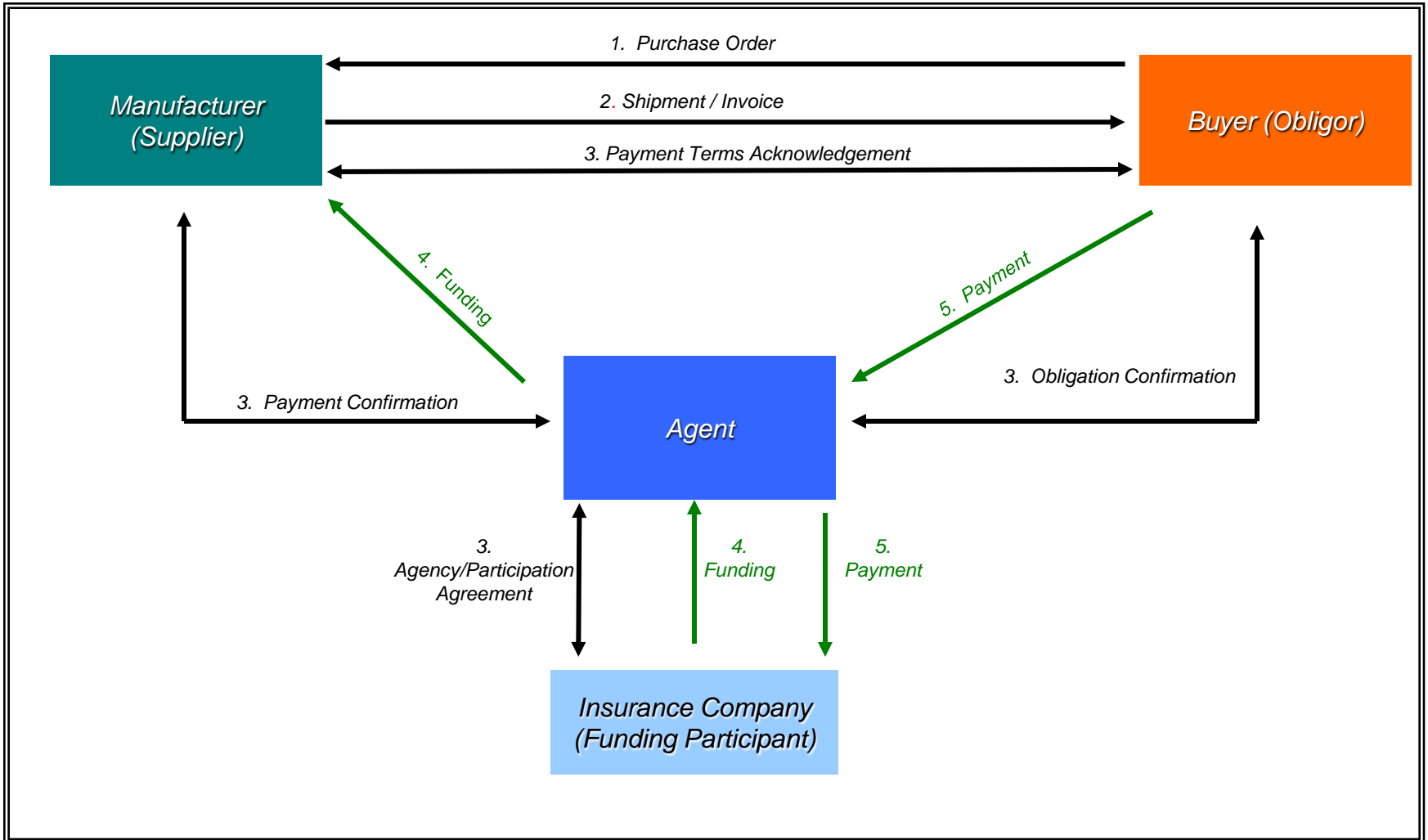
Agenda

- ▶ Working Capital Finance Note Program Overview
 - What are WCFNPs?
 - Sample Deal Structure
 - Program Benefits
 - Portfolio Management
 - Risk Profile
 - Summary

What Are WCFNPs?

- ▶ Program that allows for the purchase and sale of short-term obligations due from investment grade obligors.
- ▶ Like commercial paper: short-term, issued at a discount, matures at par, Pari-passu to other senior unsecured obligations
- ▶ Maturities range from 30 to 360 days (typically 60–180 days).
- ▶ Less liquid than commercial paper; compensated via significant liquidity premium.
- ▶ Non-exchange traded, comparable to Private Placement
- ▶ Agent manages the workflow.

Sample Deal Structure



Program Benefits

Obligor

- Increased ability to extend payment terms to suppliers
- Added liquidity to supply chain

Supplier

- Enhanced cash flow visibility
- Liquidity
- Lower cost of funds

Insurance Company

- Superior returns relative to similar duration securities
- Flexible Investment commitments
- Risk diversification

Portfolio Management

- ▶ Pickup in yield compared to bond obligation
- ▶ Insurance company maintains flexibility to select programs based on buyer and maturity date
- ▶ Minimal interest rate risk
- ▶ More frequent credit decisions than bond
- ▶ Increased access to desired issuers

- ▶ Retailer Example (as of October 2010):

	WCFN Program	Comm. Paper	2 Year Bond
Rating	NAIC 2	A-2/P-2	BBB/Baa2
Pricing	L + 175 bps	L + 3 bps	L + 79
Tenor	180 days	180 days	2 Years
Seniority	Sr. Unsecured	Sr. Unsecured	Sr. Unsecured

Risk Profile

Credit

- Short Tenor
- Flexible maturities and funding commitments
- Access to investment grade credits not publicly available
- Ability to underwrite each program/Not relying on rating

Operational

- Agent acts as a form of Paying Agent by using “Specified Accounts” specific to the program
- Use of Agent simplifies transaction
- Asset purchase as “True Sales/Participations” segregates asset from the Agent
- Agent is traditionally a large financial institution

Summary

- ▶ Working capital finance note programs allow for the purchase and sale of short-term obligations due from investment grade obligors
- ▶ These programs have similar characteristics to other short-term assets: issued at a discount, matures at par, pari-passu to other senior unsecured obligations
- ▶ Working capital finance note programs offer flexibility and selectivity in portfolio management
- ▶ An attractive yield alternative to other short term assets with comparable risks