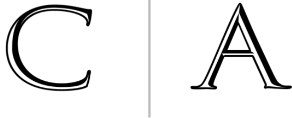

CAMBRIDGE ASSOCIATES LLC

GLOBAL DISTRESSED INVESTING: FOCUS ON NON-MARKETABLE STRATEGIES AND INVESTMENT VEHICLES

June 2001

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GLOBAL DISTRESSED INVESTING

Introduction

Institutional investors, most recently in awe of venture capital and growth funds, appear to be warming to the idea of distressed investing. A number of mutual funds have increased their allocations to distressed debt and many private equity portfolio advisors are recommending an increased allocation.

Is this the time to invest in distressed securities? If so, what are the most sensible strategies and vehicles for investing? Which are the strongest fund managers pursuing those strategies? What are the downside risks?

This report seeks to answer these questions in light of what appear to be favorable market conditions for distressed investing. As a supplement to the annual Cambridge Associates report *U.S. Distressed Company Investing*, this report focuses more attention on the non-marketable strategies and investment vehicles and explores some of the global opportunities.

Distressed Investing Defined

- Distressed securities include fixed income and equity securities in public and private companies in financial distress. These companies typically have filed, or are likely to file for Chapter 11 bankruptcy, allowing them to remain in possession of their businesses and control operations, with the flexibility to work with creditors to reorganize the business and temporarily suspend interest payments.
- Investments in distressed debt vary in their focus from early- to late-stage situations, senior to subordinated debt, and also include non-traditional areas such as high-yield bonds and emerging markets debt.
- Typical sellers of distressed debt are banks, insurance companies, institutional investors, mutual funds, high-yield funds, and collateralized bond obligations (CBOs).
- Typical buyers are private equity and hedge fund managers seeking to obtain undervalued assets of financially distressed companies. The amount of risk a manager assumes is dependent on several factors including price and recovery value, level in the capital structure, liquidity, concentration of holdings, and the use of leverage. Managers may seek control or non-control positions depending on the nature of the investment.
- Low asset prices limit the downside risk of owning the securities of distressed companies, while the possibility of successful company reorganization and ongoing stability provides considerable

upside potential. However, the possibility exists that the investor may lose all or part of an investment if a distressed company fails to emerge from bankruptcy.

- Distressed securities managers pursue either active or passive investment approaches. Active managers will accumulate significant amounts of the distressed securities in a particular company in order to assist in or develop a restructuring plan. Active management also allows investors to block unattractive reorganization plans.
- There are various definitions of the point at which a security is technically classified as "distressed." For example, a loan or bond is generally defined as distressed if it is trading at greater than 800 to 1200 basis points over Treasuries, or when the yield on a high-yield bond exceeds 20%.

Types Of Distressed Opportunities

Broadly speakly, there are four main types of distressed opportunities: financial reorganization, operational turnarounds, liquidations, and opportunities defaulting into an "other" category. Investors may utilize different types of distressed strategies (defined later) to invest in each opportunity.

- **Financial Reorganization.** Opportunities arise from companies with positive operational cash flow but too much debt on their books. Financial reorganization opportunities occur generally when companies have filed or are in pre-stages of filing for Chapter 11 bankruptcy protection. Companies in this situation need to rebalance their balance sheet through debt restructuring, in effect shifting some weight from their burdening debt. In most cases, companies work with their creditors to trim their debt obligations, issue additional equity to rebalance their books and regain the position to meet their financial obligations.
- **Operational Turnarounds.** These opportunities generally involve reorganization and/or reconfiguration of company management. In some situations, turnaround efforts attempt to keep the existing management team in place, as this is the path of least resistance. In many situations however, individuals with operational turnaround expertise are recruited from industry to replace key management positions within the company.

  Operational turnaround opportunities often stem from a lengthy period of underperformance and distress. Due to the nature of the situation and the inherent risks involved in the opportunity, investments in such companies trade at severe discounts and are often considered a longer-term investment. As a result, this type of opportunity is not as attractive to many investors; they are both time and labor intensive, and often involve a significant amount of risk over other distressed opportunities.

- **Liquidations.** Liquidations involve companies proven to be no longer viable. Companies in liquidation do not have or have no prospects of achieving positive cashflows. As a result, opportunities generally involve companies that have failed to recover under Chapter 11 bankruptcy protection and have subsequently filed for Chapter 7 (liquidation process). Chapter 11 grants a company legal protection to continue operating while working out a repayment plan, i.e., a plan for reorganization, with a committee consisting of the company's major creditors. Chapter 7 involves closing down a company and distributing its assets to its creditors.
- **Other.** Numerous credit-type investing opportunities fall under this catch-all category. Opportunities include asset plays, debtor in possession (DIP) lending, distressed real estate, and opportunities involving consumer debt. *Asset plays* involve situations where a company is worth more by breaking it up into smaller independent pieces. *DIP lending* involves lending senior debt capital to a company in Chapter 11 so it may carry itself through its debt-restructuring phase. The lender provides the company with the capital it needs to maintain its operations during this transition. The nature of DIP lending almost always places it at the top of the capital structure. *Distressed real estate* opportunities include buying real estate, loans, and loan portfolios, at severely discounted prices. Often financial lending institutions hold the loans on their books as either defaulted and bad loan debt or as valueless collateral. Distressed investors buy the loans and then try to re-sell the loans to a third party at a higher price.

The risk and return profiles of distressed managers' investments depend not only on the types of opportunities they target (described above) but also on the strategies they pursue (described below).

Types Of Distressed Strategies

Active vs. Passive

Active investors seek to add value by exerting influence on a company during the reorganization process. They try to obtain significant positions in a distressed or bankrupt company in order to create blocking positions to directly influence the reorganization process. A more aggressive subset is control investing, which seeks a significant stake (e.g., 51%) in a specific class of securities in order to dictate the direction and the outcome of the reorganization process, possibly by submitting a restructuring plan or replacing management. To minimize risk in building these control positions, firms may begin by "seeding" their portfolio with several severely discounted "toe-hold" positions which allow them greater access to confidential firm information. From this point, they invest incrementally through active trading of debt securities of these companies to gradually obtain control. This enables investing firms to influence not only the timing of reorganization in the bankruptcy process, but also the ultimate structure of the issuer's reorganized balance sheet and the resulting enterprise value post-bankruptcy. Firms employing this strategy

may replace management, assemble new boards of directors and take active roles in company restructuring. Generally, the holding period of these investments is close to five years. Because of the longer-term nature of these investments and the additional private equity characteristics of these funds, lock-up features tend to be more "private equity-like," typically five years or longer. Generally, because of the concentrated and illiquid nature of the investments, these firms have a higher risk, higher expected return profile on a deal-by-deal basis than passive strategies.

Unlike active investors, passive investors do not directly participate in the reorganization process and tend to focus on public market trading into and out of positions. Investors employing a passive strategy typically target more liquid, senior debt and non-control situations. Passive managers may provide investors more liquidity, but the investments may have limited relative upside due to the senior level in the capital. Passive investors tend to focus more on trading strategies, holding investments for shorter periods and trading out for a profit. Key skills necessary in this strategy include effective security valuation and trading efficiency. Firms must also have knowledge of the bankruptcy process and the factors that drive company distress. Cash management and market assessment skills are important as well. Since this strategy is shorter term, firms must quickly identify mis-priced securities, trade into them effectively, assess a proper exit point, and exit efficiently through trading strategies.

Early vs. Late Stage

Some conservative distressed funds, looking for relatively liquid investments, will seek early-stage opportunities, possibly investing in lower quality investment grade bonds (e.g., S&P triple B rated) just above the high-yield market, in the hope that a company will avoid filing formal Chapter 11 and the debt will quickly reemerge as higher quality investment grade.

Alternatively, early-stage investors willing and able to handle more illiquid investments can target deeper discounted securities in the capital structure at the beginning of the bankruptcy process. Firms investing at this stage must effectively monitor and actively manage the bankruptcy and restructuring until an exit opportunity arises. The downside risk for early-stage investors is that they often invest in the beginning of the reorganization process and do not maintain control positions.

Investors seeking more liquidity, and a more passive role typically invest in the later stages of bankruptcies.

Investment Vehicles and Fund Structure

Distressed funds can be divided into two basic groups: "private equity" type funds with three- to five-year or longer lock-up provisions and "hedge funds" with annual, quarterly, or monthly redemption options. *One basic rule of thumb is that investors should be certain that the liquidity provisions of the fund match the liquidity of the underlying portfolio*. Private equity funds, with captive capital, can invest in less liquid positions, including early-stage bankruptcies, take "active" positions, and hold more concentrated portfolios. Active distressed investors often take seats on bankruptcy committees, but are then restricted from trading with outsiders. Conversely, managers of "hedge fund" vehicles tend to focus on more liquid, later-stage bankruptcies, invest passively, or hold more diversified portfolios. For further discussion about distressed hedge funds, see our *U.S. Distressed Company Investing* report. Below, we focus on examples of private equity type vehicles.

Private Equity Funds

In Exhibits 4, 5, and 6 we summarize the firm background, fund size, strategy, investment vehicles and terms offered by several distressed funds managers. Examples of funds with three- to five-year lock-up periods and active but non-control positions that are senior in the capital structure include OCM Opportunities and Whipporwill; also included are funds such as Moore Asia and Lone Star which invest in special situations, namely Japanese loan portfolios. Examples of funds with lock-up periods of five or more years, opportunistically investing in both control and non-control positions with an emphasis on senior securities include Goldman Sachs Special Situations Fund in Asia and Cerberus in the United States, Japan, and rest of Asia. Examples of funds with long lock-up periods and control positions (often beginning with toe-hold positions), willing to invest in severely discounted junior securities include MD Sass Resurgence, CSFB Global Opportunities, and OCM Principal Opportunities.

Where To Invest: Capital Structure Hierarchy

The characteristics, distribution, and relative risk levels of investing in different parts of the distressed capital structure are illustrated in Exhibit 1 and summarized below.

- Bank Debt – Senior security that has claim prior to a junior obligation and equity guaranteed through a corporation's assets and other collateral which may include term loans and revolving credit facilities. Debtor-In-Possession (DIP) financing and asset-based lending is often the most senior debt in the capital structure as it provides working capital to a company in Chapter 11, during reorganization or bankruptcy.

- Creditor Claims – Including trade claims, equipment leases, guarantees, contracts for goods or services, and other types of obligation held by non-trade creditors.
- Publicly Traded Bonds – Junior or unsecured obligations traded in the public market usually consisting of high-yield corporate bonds.
- Preferred Stock – Class of capital stock that pays dividends at a specified rate and that has preference over common stock in the payment of dividends and the liquidation of assets. Preferred stock does not ordinarily carry voting rights.
- Common Stock – Units of ownership of a public corporation. In the event of liquidation the claims of secured and unsecured creditors and owner of bonds and preferred stock take precedence over the claims of common stock.

Favorable Market Conditions For Distressed Investing

As reported in the recent report on distressed investing, there is considerable debate over whether the current conditions are ripe for investing. Some investors regard the current environment as attractive as that of 1990-91, the golden age of distressed investing. Other more cautious investors are quick to point out the significant differences between today's market and that of 1990-91. In those days, there was an extraordinary confluence of factors: economic recession, widespread collapse of the banking sector and subsequent fire-sale conducted by the Resolution Trust Corporation, and the demise of Drexel Burnham and the resulting collapse of many high-yield bonds issued to ill-conceived LBOs. Today, although the economy is slowing, the banking sector is relatively healthy and therefore less willing to indiscriminately dump troubled loans.

Nevertheless, the supply of distressed securities has never been greater and there is evidence it is continuing to grow. Record breaking default levels, over $400 billion, already exceed those of 1990 ($204 billion) and the face value of these debts is about $650 billion (versus $300 billion in 1990) according to Edward Altman. Analysts' predictions of future default rates range from 6% to 11% or higher which would create upwards of $40 billion per year in high-yield defaults. Furthermore, this supply could continue to increase due to the huge amount of junk bonds issued in the 1990s that is coming due soon: $28 billion this year, $53 billion in 2002, and $66 billion in 2003. Many of these debtor companies will no doubt have trouble paying off the principal or refinancing. Numerous factors have generated this enormous supply, notably, exuberance, overbuilding, deteriorating lending standards, high fuel prices, poor management, and a record issuance of high-yield debt from the years 1994-99. Of course a sizeable portion of today's debt is concentrated in two sectors: telecommunications and technology. Many of these companies have never approached operational profitability and the value of their assets is uncertain. For example, Iridium bondholders have discovered that the company's major "asset," its network of satellites, is actually a liability because of the cost of removing the satellites from orbit.

Many buyers who thrived amid the ruins of the 1991 debt market have closed shop, largely due to poor performance in recent years when default rates went down and poor companies were able to get capital. However, the landscape today is populated with willing buyers ranging from distressed specialists to multi-strategy arbitrage and value hedge funds. Of particular interest in this report are the new breed of investors who have adopted much more sophisticated, specialized and resource-intensive strategies, with highly skilled analysts and sector experts, utilizing features of private equity to exploit the evolving market conditions, not only in the United States, but on a global scale.

While many managers find more than ample supply of distressed opportunity in the United States (OCM), increasingly managers are attracted overseas by special situations such as in Japan (Goldman Sachs, Moore Asia, Lone Star) and emerging markets (CSFB) where the private equity-type investment vehicles can be effectively used to create value from vast market inefficiencies. Furthermore, even though distressed investing is considered to be cyclical, it is possible for different national economies, and sectors, simultaneously to be at different parts of the distressed investing cycle, perhaps lagging one another. To the extent a fund manager can anticipate and exploit these differences, especially by using investment vehicles with greater control and longer lockup periods, greater returns can be sustained over time.

The primary drivers of value in these non-U.S. regions are 1) vast supply of severely discounted public and private debt with limited capital available from the local public markets, banks or private investors, 2) companies with poorly run businesses but potentially attractive assets, particularly for export markets, 3) traditional family-owned businesses with viable products but lack of management skills, market research and technology, 4) ability to gain a toe-hold position, invest incrementally and eventually take control of the restructuring and reorganization process of promising local businesses and 5) strategic partners who are seeking overseas acquisitions without undertaking the arduous and complex task of restructuring. However, even when some or all of these conditions pertain, there are enormous risks to be considered including limited legal remedies and protections, uncertain and changing bankruptcy laws, fraud and corruption, limited and unreliable disclosure, currency fluctuations, and political unrest.

The regions outside of the United States that seem to be attracting most attention for the more illiquid, private equity-type investments are Asia, and increasingly, Latin America. Distressed funds have generally avoided Europe due to the vagaries of local bankruptcy proceedings and creditor-unfriendly job protection policies. In Asia, after a partial recovery from the crisis in 1997-98, it is apparent that many of the "quick fixes" are not working, with record numbers of defaults, big liquidations, and stalled banking reforms, especially in Japan and Korea. Fund managers, such as Moore Asia and Cerberus, are focusing on distressed real estate and corporate loans, using financially driven restructurings to achieve value. In other parts of Asia, including Indonesia, Malaysia, and Thailand, and in Latin America, principally Mexico and Argentina, more aggressive fund managers, such as CSFB, are seeking to buy up severely

discounted bonds in family owned businesses, take control and participate actively in restructurings and post-bankruptcy workouts. Significantly discounted securities may allow managers to make profits even with some continued economic decline in these regions, although the opportunities are likely to increase in the coming year.

Special Situation in Japan

After ten years of recession, with a crippling failure of the government to undertake desperately needed structural and financial reforms, Japan faces a staggering mountain of distressed debt in excess of $1 trillion. In contrast, there is a huge relative shortage of capital to finance the debt, estimated at less than $300 million, hence a potentially attractive opportunity for distressed investing. The principal ways to exploit this situation are 1) secured and unsecured loans, 2) corporate liquidations, equivalent to Chapter 7 in the United States, but typically faster—less than two years, and 3) corporate restructurings, equivalent to Chapter 11 under a new law effective April 2000. Goldman Sachs, Cerberus, and Moore Asia all participate in these types of investments. Of particular attraction are severely discounted bank loan portfolios, available for bulk purchase, often at five to ten cents on the dollar. Managers segment these loans, exploiting immediate opportunities for arbitrage and holding the remainder for restructurings. In addition to purchasing loans, some managers, notably Lone Star, have expanded their scope to purchasing troubled banks (Shinsei Bank), but they are encountering enormous difficulties in imposing efficiency standards and reforms.

One of the keys to success in Japan is having a strong, well connected, well respected local presence, which usually takes many years for foreign managers to establish. Many of the deals are only available through auctions, which tend to be limited to very few bidders (three or four), carefully selected on the basis of political/industry connections. Goldman Sachs has a sizeable local network, Lone Star and Cerberus have many people on the ground and Moore Asia is slowly building a presence.

Despite positive initiatives in bankruptcy laws and accounting rule changes and enormous Government equity infusions into the banking system, the prospects for economic recovery are not optimistic. Furthermore, there is a deep cultural aversion to Western-style restructurings which may involve layoffs, especially with the unemployment rate at an all time high of 4.3%. To free itself from the deflationary cycle, Japan must undertake politically unpopular measures, highly unlikely before the upcoming elections; however the new Prime Minister, Junichiro Koizumi, has signaled his strong intent to push ahead with aggressive reforms. In view of this tremendous macroeconomic uncertainty, it is extremely difficult to predict future expected returns.

A more comprehensive survey of distressed investing opportunities in Japan will be undertaken in the near future.

Historical Performance

Due to the limited nature of distressed investing dedicated funds, historical performance data are somewhat sparse. However, general trends can be established. For performance purposes, the Cambridge Associates database universe has been segmented into those funds employing a hedge fund structure and those funds employing a lock-up structure. Return trends for each follow:

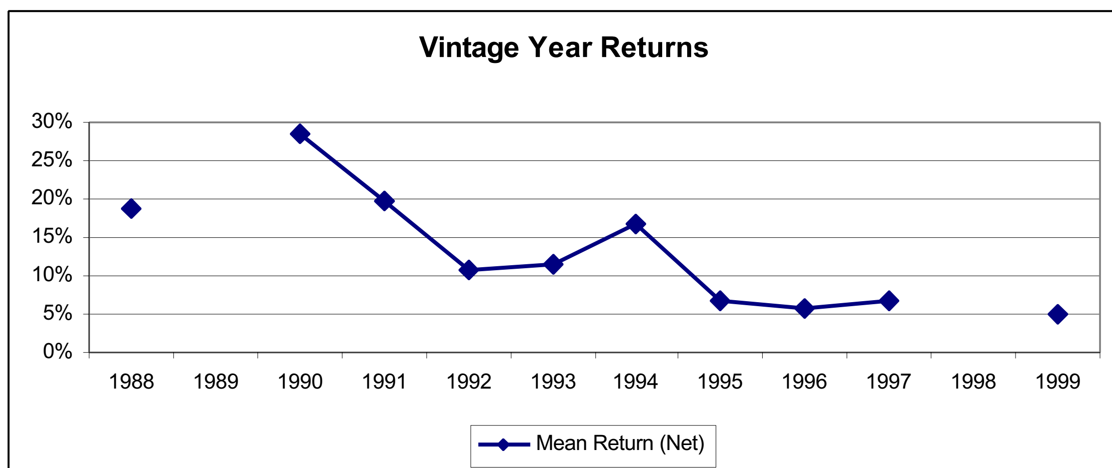
Hedge Fund Structure		
Year	**Median (%)**	**# of Funds**
1991	36.8	10
1992	23.9	10
1993	29.8	12
1994	7.9	13
1995	17.9	16
1996	20.2	22
1997	16.8	26
1998	-1.7	27
1999	13.5	29
2000	4.3	30

Lock-up Fund Structure (TWR)		
Year	**Mean (%)**	**# of Funds**
1989	6.1	2
1990	-1.9	5
1991	43.3	8
1992	17.7	11
1993	30.8	17
1994	13.1	21
1995	12.3	25
1996	11.7	28
1997	21.4	30
1998	8.2	32
1999	4.3	38
2000	11.9	38

Lock-up Fund Structure (IRR by Vintage)		
Year	**Mean (%)**	**# of Funds (vint)**
1988	18.7	2
1989	-	0
1990	28.6	3
1991	19.7	3
1992	10.7	3
1993	11.5	7
1994	16.8	3
1995	6.7	5
1996	5.8	4
1997	6.7	7
1998	-	0
1999	5.1	5

Distressed hedge fund returns have trended downward in the 1990s, showing a loss in 1998, partially due to the Russian debt crisis and the "Asian flu." Lock-up fund returns were high in the early 1990s when conditions were difficult and somewhat similar to today's conditions. Returns flattened in the mid-1990s near the low to mid-teens level on average. In 1998, returns fell due to the conditions mentioned above and in 1999 because of the improving economy. As difficult conditions increased in late 2000, returns on distressed debt funds were pulled up, an increase that is expected to continue in 2001.

Returns by vintage year for lock-up funds mirror time-weighted returns to a certain extent. Funds commenced in the early 1990s and therefore investing the bulk of their capital in the early 1990s have seen high returns relative to other vintage years. These returns generally trended down through the rest of the 1990s, resulting in vintage year returns of under 10%.



Summary

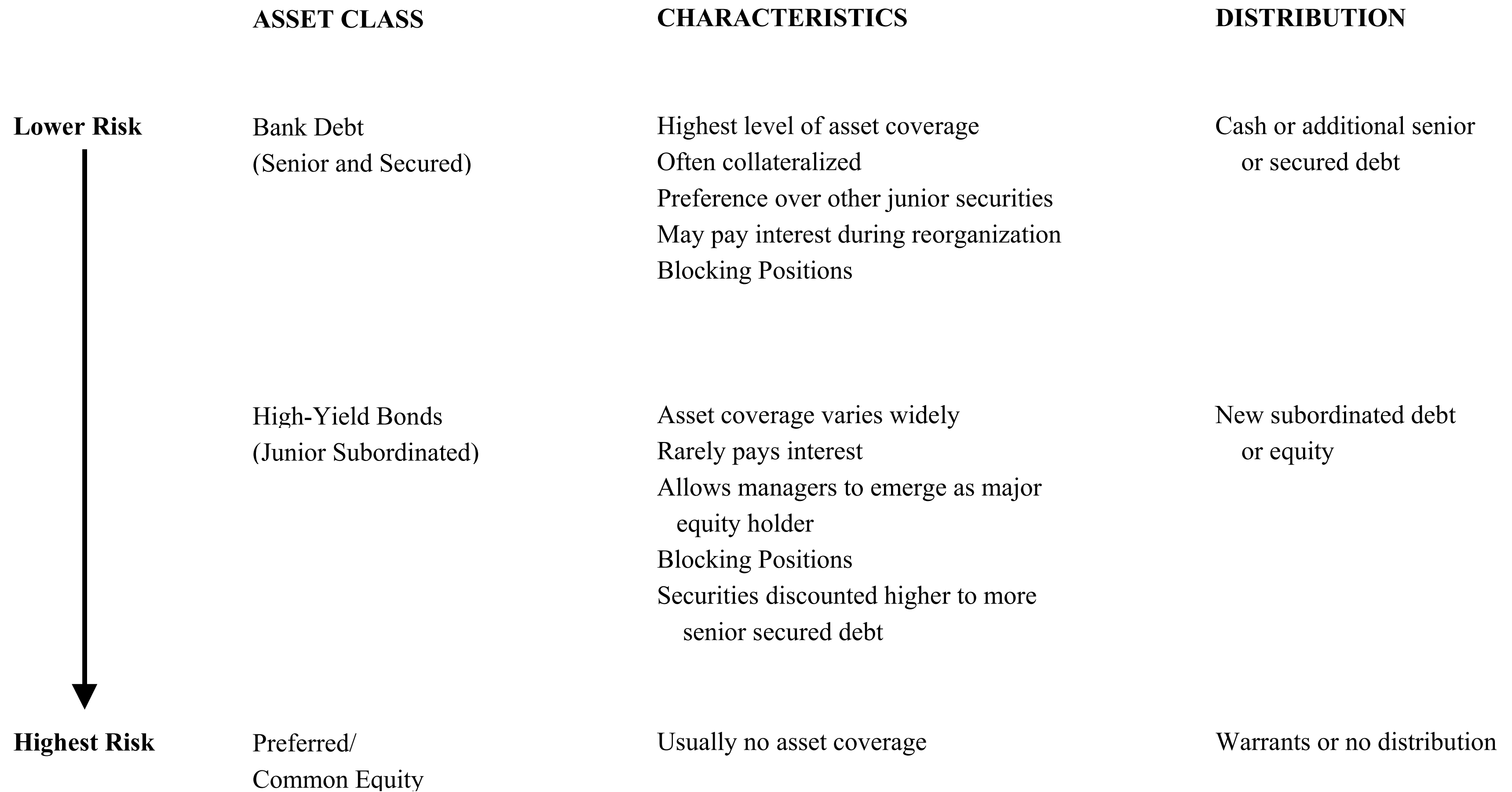
Is this the right time to invest in distressed securities? **Probably yes**, if you are not trying to "time the market" and have already decided to maintain a target allocation to this asset class, because there are many skilled managers with ample deal flow. **Probably no**, if you believe that we have not yet reached the bottom of the economic cycle because what appear to be "bargains" today, may in fact become worthless. Furthermore, because of the tremendous supply of distressed debt, there will likely be plenty of opportunities for several years to come.

Our analysis has demonstrated that in today's distressed environment, the investor can choose from a broad spectrum of strategies that range from highly liquid hedge funds investments to private equity type vehicles with longer lock-up periods and varying degrees of active involvement and control positions. We have focused on the private equity type investment vehicles with longer lockup periods because we believe these allow greater flexibility for exploiting changing market conditions and special situations, not only in the United States, but on a global scale. Generally speaking, if a full-blown distressed cycle arrives, marked by a severe supply/demand imbalance, investors in lock-up funds should weather the storm better. Even the large-capitalization, late-stage distressed portfolios will experience limited liquidity in such conditions.

Finally, we have identified and compared certain fund managers pursuing these multiple strategies and have produced some historical performance data, indicating some of the important risk/reward characteristics of distressed investing.

Exhibit 1

WHERE TO INVEST?: DISTRESSED CAPITAL STRUCTURE



	ASSET CLASS	**CHARACTERISTICS**	**DISTRIBUTION**
Lower Risk	Bank Debt (Senior and Secured)	Highest level of asset coverage Often collateralized Preference over other junior securities May pay interest during reorganization Blocking Positions	Cash or additional senior or secured debt
↓	High-Yield Bonds (Junior Subordinated)	Asset coverage varies widely Rarely pays interest Allows managers to emerge as major equity holder Blocking Positions Securities discounted higher to more senior secured debt	New subordinated debt or equity
Highest Risk	Preferred/ Common Equity	Usually no asset coverage	Warrants or no distribution

Exhibit 2

DISTRESSED SECURITIES MANAGERS:
SAMPLE FUND COMPOSITION

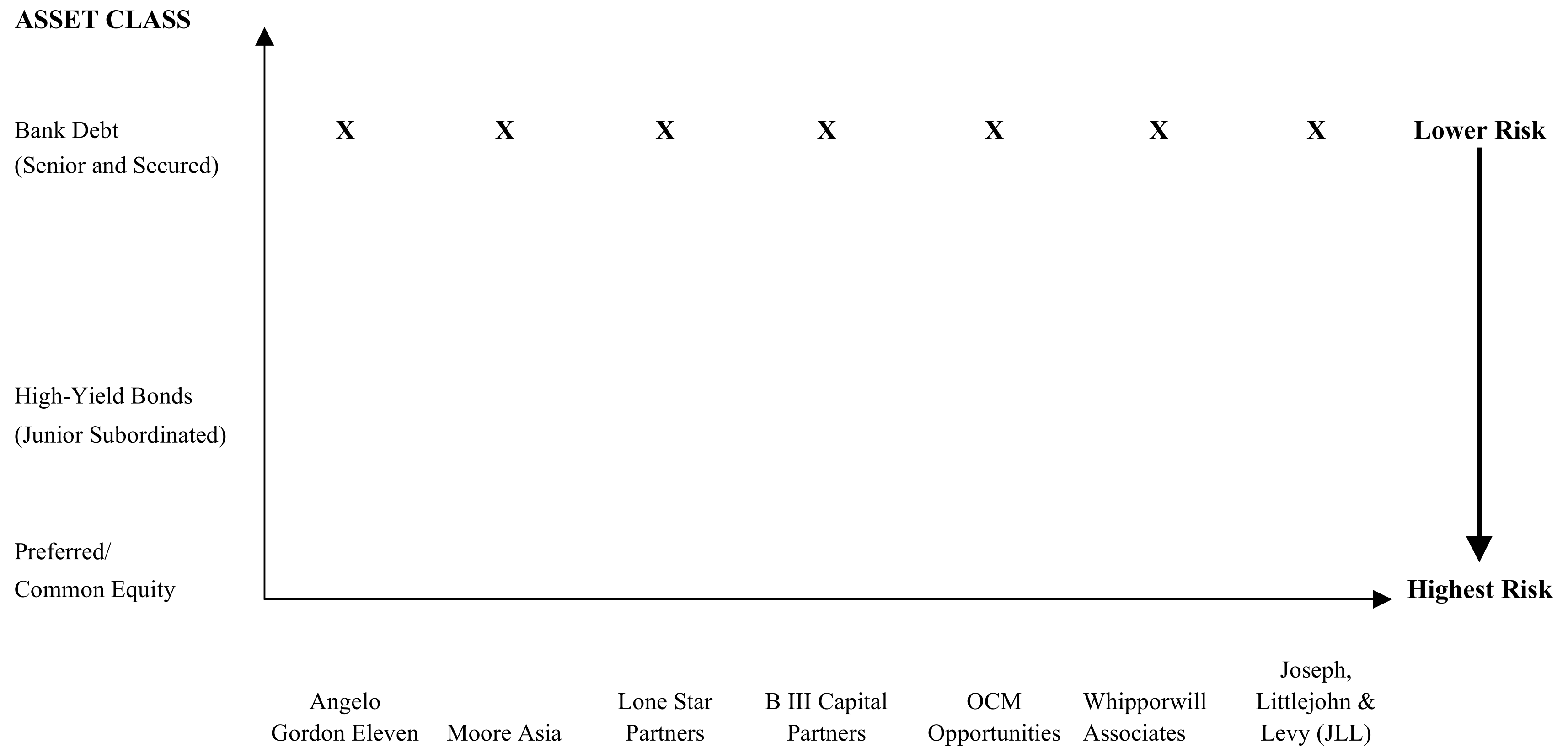


Exhibit 2 (continued)

DISTRESSED SECURITIES MANAGERS:
SAMPLE FUND COMPOSITION

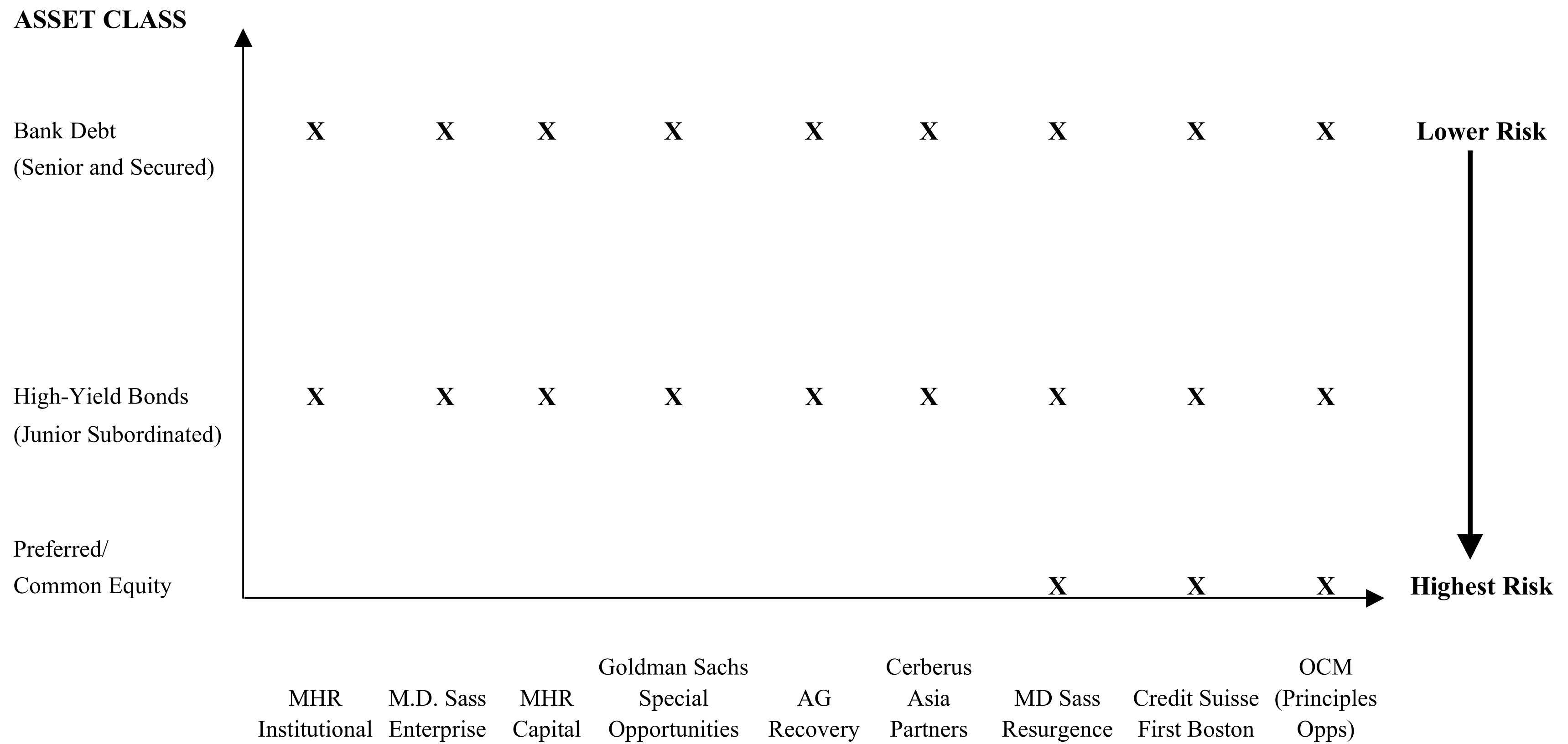


Exhibit 3

COMPARATIVE TERMS REVIEW

Hedge Fund Structure: Control and Liquidity

Term	**Angelo Gordon Eleven**	**M.D. Sass Enterprise**	**MHR Capital**
Firm Background	Currently $5.5 billion under management with 24% invested in distressed securities	Currently manages $139mm in Sass RE/Enterprise and $928mm in distressed securities	Currently manages $121mm in MHR Capital and $400mm in distressed securities
Most Recent Fund Size ($mm)	Angelo Gordon Capital Recovery Fund	M.D. Sass Resurgence	MHR Institutional
Distressed Strategy	The firm takes a conservative approach to bankruptcy investing. The preference is to invest in the top half of the capital structure through senior or secured debt rather than through the purchase of more junior securities such as subordinated debt or preferred stock. This way cash, rather than the equity of the reorganized company will be received at the conclusion of the bankruptcy. Therefore, any exposure to equity markets should be minimal. A passive, rather than active, stance is preferred in the bankruptcy proceedings, but from time to time, more active participation will be sought in order to maximize returns.	The fund invests in publicly and non-publicly-traded debt securities and trade and commercial obligations of companies that are or are likely to become subject to bankruptcy proceedings or that are engaging or have recently engaged in financial reorganizations, rights offerings, liquidations, funded recapitalizations, leveraged buyouts, "going private" transactions, spin-offs, work-outs or other special situations. Most investments are held from less than six months to three years. The fund generally limits its investments to no more than 15% of net assets in any single situation, and no more than 35% of net assets in the three largest positions. The General Partner has the discretion to short sell and to take an active role in financial reorganization process and/or management of companies.	The partnership focuses its investments on distressed public and private securities, including bank debt, trade claims, and post-reorganization securities. Investments are identified by the following: conducting detailed credit analysis for financially and legally complex situations; reviewing economic, market, and industry data; and utilizing an extensive network of existing relationships with industry specialists and investment professionals. The partnership actively manages the investment portfolio opportunities, including negotiating and implementing out-of-court restructuring and bankruptcy reorganizations to achieve superior returns. The partnership's investment strategy is generally the same as the strategy utilized by Dr. Rachesky while he acted as chief investment advisor to Mr. Carl Icahn.
Use of Leverage	N/A	Does not use leverage	N/A
Investment Vehicle and Terms	L.P. (Closed – Monthly entry, annual exit w/ 60-day notice.) 2% Management fee, plus 20% carried interest w/ a 7.5% cumulative preferred return.	Limited Partnership Fees: 1% Management, 20% Carried Interest.	1.500% of assets, plus 20% of net profits, subject to a one-year loss carryforward provision. (Monthly entry and annual exit with notice by November 1, after a one-year lockup.)

Exhibit 4:

COMPARATIVE TERMS REVIEW

Less Control, More Liquidity

Term	Moore Asia	Lone Star Partners
Firm Background	Joint Venture (1999) between Moore Capital and Strategic Value Partners (SVP).	First Institutional Fund-1995. Raised approx. $4.1 bil through four funds.
Most Recent Fund Size ($mm)	Japan Restructuring Fund (open) -$750m.	Lone Star Fund III (closed) - $2.2 bil. Fund IV expected late 2001.
Distressed Strategy	Diversified portfolio of corporate liquidations, secured loans, and corporate restructurings. Five separate pools of capital with individual deals having a medium term exit strategy (18 months) and separate closings for each. 100% Japan focused.	Global investment strategy in secured and unsecured non-performing loans (Asia), high leverage debt financing, and real estate related equity and debt (U.S. and Europe). Property types include traditional (office, industrial, retail) and non-traditional (assisted living facilities, leisure, and factory/production). Estimated two to five year holding period for each investment. Portfolio mix: 60% Japan, 10% other Asia, 20% U.S., 10% Europe.
Use of Leverage	Use of moderate leverage and currency hedging strategies.	Up to 70% of an investment's acquisition cost may be financed.
Investment Vehicle and Terms	L.P. (Five years, subject to two consecutive one-year extensions). During three-year investment period, the Fund is not required to make cash distributions, and is expected to reinvest all realized proceeds.	L.P. (Eight years. Subject to two consecutive one-year extensions). During three-year investment period, the Fund may retain and reinvest proceeds, not to exceed 15% of total commitments in the aggregate.

Term	OCM Opportunities	Whippoorwill Associates
Firm Background	The Principals have managed funds in the distressed debt, high-yield bond, and convertible securities since 1985. Currently $17bil under management.	Strategy Assets: $550mm. The Firm has raised four funds since 1990 inception.
Most Recent Fund Size ($mm)	OCM Opp. Fund III ($2.1 bil). OCM Opp. IV expected 2Q-3Q01.	Vega Partners V, ($250mm). Open, closing expected 2001.
Distressed Strategy	The Fund will invest in publicly traded debt securities and other obligations of financially troubled companies, and may occasionally invest in equity securities. The fund will target companies undergoing bankruptcy, reorganization, and debt restructurings. The fund targets both senior and secured securities investments and in most cases will not seek control positions.	Partnership investments will typically consist of public and private debt securities, bank loans, and trade creditor obligations that are all ready in default or have a high probability of defaulting. The partnership may also invest in subordinated debt instruments and may on occasion purchase public and private equity securities of distressed companies, and engage in short selling. The partnership may also invest in distressed real estate. The partnership will generally not invest for the purpose of gaining control of a distressed company, although it does take an activist approach.
Use of Leverage	No leverage utilized.	None implicitly stated.
Investment Vehicle and Terms	Ten-year Limited Partnership. Three-year investment period.	Limited Partnership (Eight years plus two-year extension). 20% interest subject to 10% preferred return. Five-year investment period

Exhibit 5

COMPARATIVE TERMS REVIEW

Hybrid Strategies—Control and Liquidity

Term	Goldman Sachs Special Opportunities	AG Recovery	Cerberus Asia Partners
Firm Background	International investment bank. Since 1986 Goldman Sachs has raised over $20 bil in 18 private equity funds. The Firm has made over 75 distressed investments since 1992.	$5.5 bil under management–multiple strategies including merger arb, convertible arb, distressed securities ($1.3bil), real estate, private equity, leveraged loans	This offering represents the fifth investment fund formed by Cerberus. Shortly afterward, the Manager formed two similar private investment funds: Cerberus International (June 1993) and Ultra Cerberus (August 1993).
Most Recent Fund Size ($mm)	Goldman Sachs Private Equity Partners 2000 - $5.3 bil	AG Capital Recovery Partners, L.P., $500mm, closed.	Cerberus Institutional Partners, L.P. Series II - $500mm Cerberus Asia Partners (Japan-Only) - $954mm
Distressed Strategy	The Fund will invest in broadly diversified distressed opportunities in Asia, including underperforming loans, public & private fixed income debt, claims, and asset specific trusts. The fund's geographic focus will be 60%-70% Japan and concentration will be limited to no more than 40% in any single (Asia) country, including Korea, Thailand, Indonesia and Hong Kong. The fund normally does not take control positions; thus the investments' performance relies significantly on the management of underlying assets.	AG will focus on commercial bank loans, publicly traded securities; companies have substantial capital needs, litigation problems, insufficient earnings to cover debt, depressed earnings caused by unfavorable operating conditions; instruments will include senior corporate debt, secured bank debt, defaulted high-yield bonds. Will favor more illiquid investments due to their size and presence in the (primarily U.S.) market. Want to be active investors, but may not take control positions.	The Fund will focus on purchases of troubled loan portfolios from Japanese financial institutions, but may also make investments in similar distressed opportunities in other parts of Asia, particularly in Thailand, Korea, Indonesia, and the Philippines. The Fund expects to purchase large pools of loans, where the Partnership may benefit from the arbitrage between the wholesale value of the pool and the value of individual or particular groups of loans within such pool.
Use of Leverage	Limited to the greater of 100% of total commitments, or 50% of NAV	The Partnership does not intend to use leverage.	No leverage anticipated.
Investment Vehicle and Terms	L.P. (Five years, with an extension of up to two years). Realized proceeds during the 18-month period following the closing date may be reinvested.	Limited Partnership (Seven years plus two one-year extensions). Permitted to reinvest rather than distribute all investment proceeds during the three-year investment period).	L.P. (The investment period will end on April 3, 2002.) Reinvestment Rights: 1) Allows the Limited Partner to reinvest any net proceeds on realized investments; 2) Allows the Limited Partner to reinvest any net proceeds, less an amount equal to the Fund's original cost on such investment; and 3) Allows the Limited Partners to receive all net proceeds realized during the Investment Period.

Exhibit 6

COMPARATIVE TERMS REVIEW

More Control, Less Liquidity

Term	**Joseph, Littlejohn & Levy (JLL)**	**MD Sass Resurgence**	**MHR Institutional**
Firm Background	Founded in 1987, the Firm has invested approx. $1.1 bil in three very concentrated funds.	Founded in 1989, the Firm has invested $2.0 bil in total capital; $1.1 bil in Control investments in 52 companies	Three partnerships, 1) distressed debt, 2) High-Yield, and 3) Special Situations. First Institutional non-marketable distressed Fund incepted 1997.
Most Recent Fund Size ($mm)	JLL Fund IV, L.P., $2 bil, open	MD Sass Fund III, $750m, closing 1Q or 2Q01.	MHR Institutional Partners LP, $200m, closed 1/00.
Distressed Strategy	The Fund holds concentrated portfolio of underperforming companies requiring 1) restructuring, 2) strategic redirection, or 3) enhanced management attention. The Fund makes control investments and partners with experienced management teams to 1) turn around existing business or 2) use the base business as a platform to grow via acquisitions. The Firm invests in out-of-favor industries including health care, food, automotive components, chemicals, broadcasting,, transporta-tion, and industrial manu-facturing and distribution.	The Fund invests in various classes of securities and other obligations of companies in financial distress or which have recently emerged from financial reorganization. Investments may be made prior to, during, or after a restructuring or bankruptcy. The Fund will invest up to 15% of commitments in companies that own real estate and up to 20% in gambling ventures. Wants to assume active role on creditors committee or Board of Directors.	The Fund invests in undervalued securities in inefficient market sectors (distressed debt, trade claims, post re-organization, special situations). The Firm identifies opportunities through several channels including chair creditor committees, blocking positions in reorganizations, and submitting alternative reorganization plans. The Fund will actively manage the investment portfolio opportunities (negotiating and implementing out-of-court restructuring and bankruptcy reorganizations).
Use of Leverage	Fund will utilize "prudent" (?) amount of leverage.	Low – the aggregate amount borrowed may not exceed 15% of tot. commit.	N/A
Investment Vehicle and Terms	L.P. (Ten years plus two one-year consecutive extensions. Reinvestment opportunties during six-year investment period includes invested capital in a company or bridge investment returned within 13 months.	Limited Partnership (Ten years plus two one-year extensions.) The Fund may reinvest distributions made during 5 year investment period equal to the cost basis of any investment held less than 36 months.	Limited Partnership (Ten years plus one two-year extension.). Reinvestment/recycling terms N/A.

Exhibit 6 (continued)

COMPARATIVE TERMS REVIEW

More Control, Less Liquidity

Term	OCM (Principal Opps)	Credit Suisse First Boston	B III Capital Partners
Firm Background	The Principals have managed funds in the distressed debt, high-yield bond, and convertible securities since 1985. Currently $17 bil under management.	Proprietary portfolio exceeding $2 bil. Recent fund-raising represents first time fund.	Managed two distressed funds at Fidelity (Belmont I and Belmont II). B III represents DDJ's first institutional fund.
Most Recent Fund Size ($mm)	Principal Opportunities Fund II, $1 bil –1.5 bil, closing mid 2001.	Global Opportunities Partners, $1.5 bil, closed.	DDJ Capital - B III & B IIIA (auxiliary) Capital Partners, $750mm aggregate, closed.
Distressed Strategy	In contrast to flagship distressed products (Opport. Funds I, II, III) which purchase distressed debt high in the capital structure, restructure, and seek to exit in less than three years, the current fund seeks equity positions for control, generating 25% minimum IRR over three to five years. Estimated ten to fifteen major transactions, small- to medium-sized U.S. tech and old-economy companies. Diversified U.S. focus.	Control Strategy—debt to equity control or control of reorganization process; mix of toe-hold investments (<$10m), followed by incremental investments to achieve control. Global investment focus.	The Fund will invest in U.S. publicly traded and privately held securities and other obligations of financially troubled companies. A majority of the Fund's investments will be in debt securities, which generally will be relatively senior in the capital structure and often secured. Investment size $10 million to $75 million with transactions having a minimum 18- to 24-month life cycle. DDJ generally leads deals, makes control investments, and works with management to effect a turn-around.
Use of Leverage	None implicitly stated.		
Investment Vehicle and Terms	Limited Partnership (Ten years. with one-year extensions.). Reinvestment terms not implicitly stated.	Limited Partnership, (Seven years plus two one-year extensions). Three-year commitment period with one year extra for follow-ons. Can reinvest any amounts realized during commitment period.	Limited Partnership, (Six years plus two consecutive one-year extensions). Four-year commitment period with reinvestment rights up to 10% of commitments.