Suffolk County Council

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A PRUDENTIAL Company

The M&G Debt Opportunities Fund

Key features

- A focussed portfolio of UK and European distressed debt
- Fundamentally sound issuers where M&G already invests
- Actively managed by our specialist restructuring team
- Full access to our highly regarded credit research
- Credit-driven, disciplined and risk averse
- A proven track record
- Target returns of at least 15% per annum

Agenda

- The opportunity
- M&G's restructuring expertise
- Investment process
- Fund structure

What leads companies to become distressed?

A range of problems (real or anticipated) can cause distress

- Issues specific to the company
  - underperformance (trading, breach of covenants or other defaults)
  - financial condition (over leveraged, impending maturity)
  - problems with/change of ownership or management
- Market Issues
  - market failure
  - structural issues/change of technology
  - natural disasters

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Why lend to distressed companies?

What are the minimum prerequisites?

- The company's problems have a solution
  - fundamentally sound
  - viable business plan
- The debt instruments facilitate the solution
  - trading at significant discounts to par (YTM >15%) but covered by break-up value
  - the means to take control of the assets if necessary
  - Maturity (or other restructuring event) will pre-date the expected life of the fund
- M&G can influence the solution
  - Existing holding means we are tracking opportunities long before we invest
  - Large holdings means we can influence how the company's problems are solved

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Increasing opportunities

Financial stress to provide attractive investments

- High levels of financial distress expected to continue into 2012, 2013 and beyond due to "wall of maturities" and continuing poor economic conditions
- Within the next four years €180bn* of loans and high yield bonds, along with around €500bn** of commercial real estate debt will mature
- Withdrawal of bank finance due to balance sheet restrictions providing excellent opportunities for informed and experienced alternative lenders such as M&G
- In our experience, selective provision of capital can conservatively deliver returns of 15% p.a.

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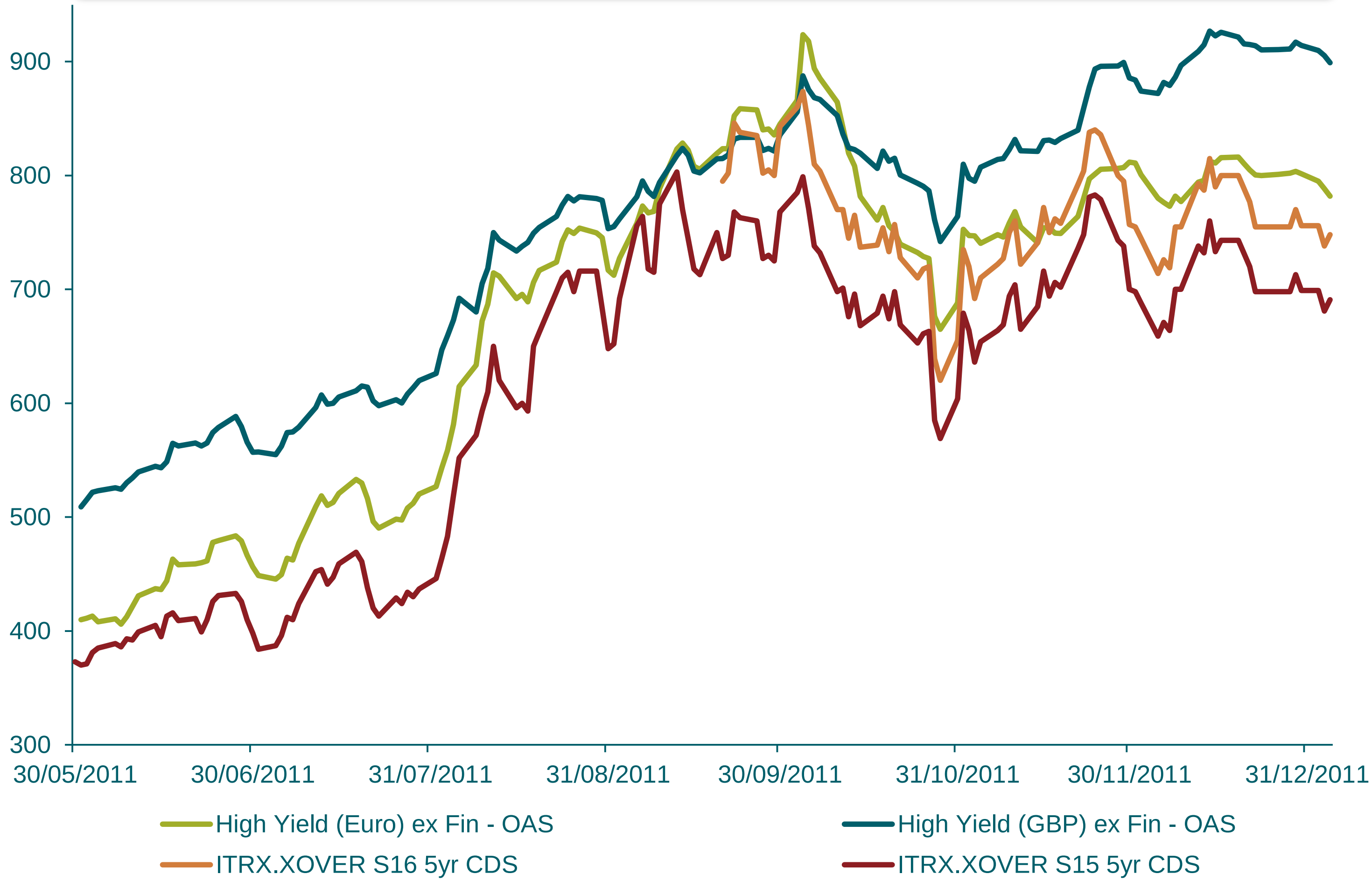
Source: * S&P LCD, December 2011. **RBS 1 July 2011

Why now?

Opportunities have increased

European high yield market indicators



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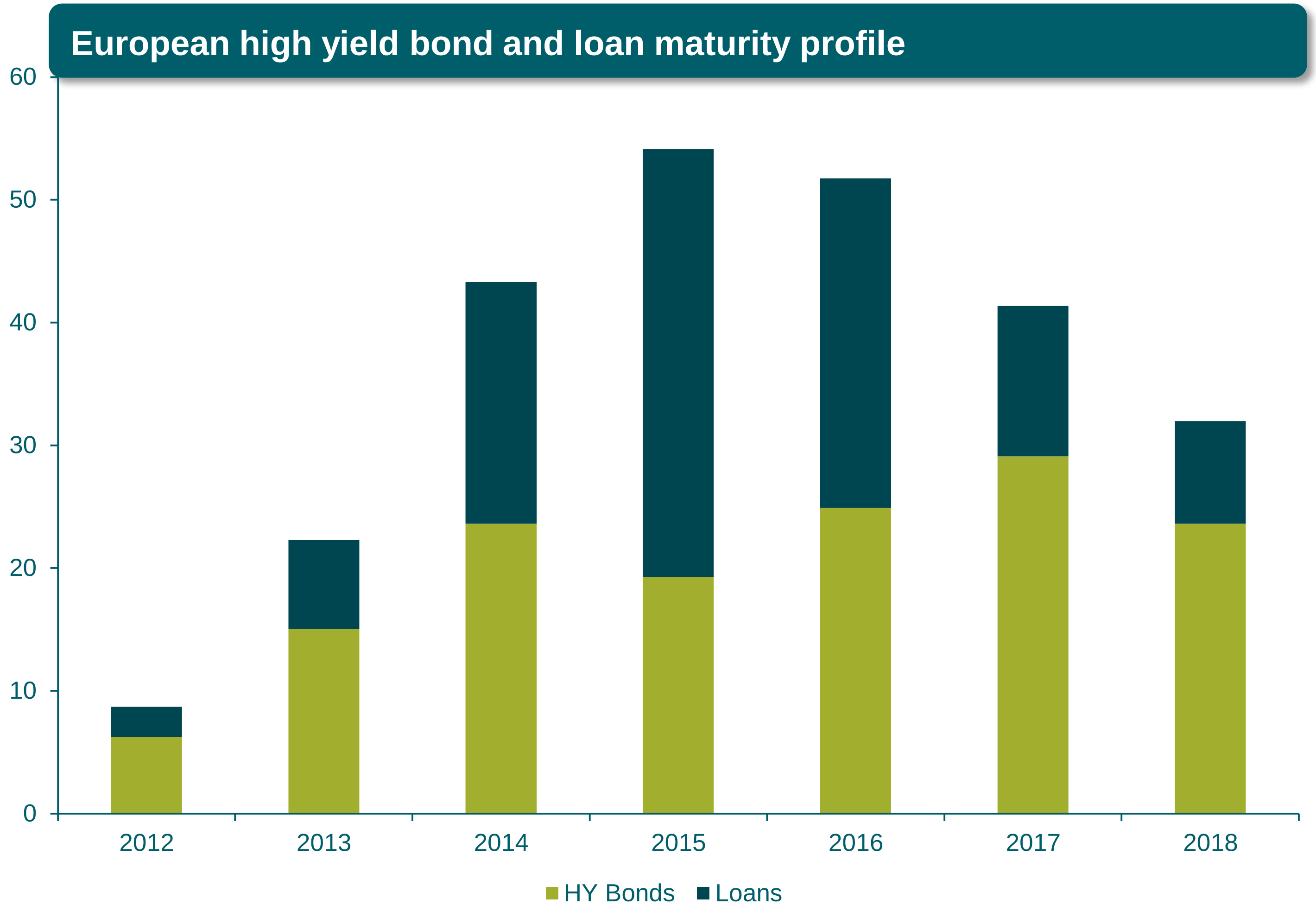
Source: Barclays Capital Live, 5 January 2012

Why now?

Opportunities will continue to increase: The maturity wall



Source: S&P LCD, December 2011

The M&G approach to distressed debt investment

Key differentiators

- The Fund will target a small number (10 - 20) of fundamentally sound companies already well known to M&G, often where M&G has a pre-existing investment
- The approach is risk averse, credit driven and disciplined
- Investment decisions will be based on fundamental enterprise values using thorough credit and legal analysis
- The Fund will not engage in the speculative credit trading that often follows the public announcement of a restructuring or a default
- However, investments will be actively managed throughout the restructuring process to maximise returns to include:
  - joining and influencing Steering Committees/Coordinating Committees
  - exiting the investment by way of sale, redemption at maturity or take out (early negotiated redemption)

Alignment of Interests

Considerable advantages from investing alongside other M&G funds

- Visibility across a vast portfolio: multiple issuers, asset classes and situations
- Access to all the credit and legal diligence M&G has already undertaken
- Ability to represent a significant holding without deploying significant capital or using leverage

No conflicts of interest between The Debt Opportunities Fund and other M&G funds

- Are The Debt Opportunities Fund and the existing holders interests aligned? → The goal is always the same – maximise value
- How will opportunities be allocated? → In accordance with M&G's detailed existing policy
- Will the Fund purchase securities from existing funds? → Only in a rare circumstance where a fund sells for a 'technical' reason

M&G's restructuring team

- One of the largest and most experienced teams of private and public debt analysts in Europe
- A dedicated restructuring team with a long-term track record of successful distressed debt investment.
- Over 300 UK and European restructurings since 2005
- Extensive contacts in the fixed income restructuring and insolvency communities
- The investments will be in companies that are already well known to M&G due to our position as one of the largest and most widely respected credit investors in Europe

Our track record

Proven ability to extract value from distressed situations

- Track record since 2007 is comfortably above target return
- 300 plus restructurings for M&G's portfolios
- Investments in 50+ securities since 2007
- Sample returns:
  - BAA: 19%*
  - Taylor Wimpey: 52%*
  - Dometic: 40%°*
  - Deceuninck: 3%*
  - Alliance Medical: -1%

Source: M&G, 30 November 2011 ◦ Arithmetic average of six trades across capital structure , * Annualised where investment held for >12 months

M&G's 4 stage process

Tried and tested investment strategy

Identify	*Analyse*	*Monitor/Execute*	*Active Management/Exit*
On-going process	**3 weeks to 6 months**	**On-going process**	**On-going process**
Target list • Existing holdings • Target yield • Events • 50+ names and growing	**Checklist (full due diligence)** • Financial analysis • Legal analysis • Scenario analysis • Risk-adjusted yield analysis	**Investment** • On-going monitoring • Target yield • Optimise timing	**Active Management** • Join committee • Negotiate/influence restructuring • Exit through sale, refinancing or enforcement proceeds
Restructuring Team	**Restructuring Team & Credit Analysts**	**Restructuring Team, Credit Analysts & Dealers**	**Restructuring Team**

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Our checklist

Minimum prerequisites for investment

Checklist	
Underlying business is sound	☑
Assets underpin recovery	☑
Financial diligence confirms value	☑
Legal diligence confirms clear path through restructuring	☑
Ability to join creditor committee or otherwise influence restructuring	☑
Strategy for managing spoiling tactics of equity and other creditors	☑
Debt yield to maturity >1500 bps	☑
More than one way to exit and unlock value	☑

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Case study

Taylor Wimpey

Checklist	Taylor Wimpey	
Underlying business is sound	House builder with dominant market position and valuable land bank	☑
Assets are tangible and underpin recovery	Valuable land bank	☑
Financial diligence confirms value	Sensitised valuation of business confirmed target return likely even in liquidation scenario	☑
Legal diligence confirms clear path through restructuring	Bonds were subordinated to material pension liability but were secured against valuable land bank	☑
Ability to join creditor committee or otherwise influence restructuring	Opportunity to build upon significant existing M&G holdings Relationships with investors in the bank and bond committees and the relevant advisory firms	☑
Strategy for managing spoiling tactics of equity and other creditors	Opportunity to build blocking stake (>25%) in the bonds to provide : (1) protection against an uneconomic deal, and (2) ability to influence terms of restructuring	☑
Debt yield to maturity >1500 bps	Bonds were trading around £0.20p (YTM>2400)	☑
More than one way to exit and unlock value	Liquid market for the company's debt post-restructuring. Money-good in liquidation scenario.	☑

Prospective investments

Target list case study: Eircom

Checklist	Eircom	
Underlying business is sound	Irish telecoms business whose dominance in fixed line services underpins its EBITDA	☑
Assets are tangible and underpin recovery	Unmatched fixed line infrastructure	☑
Financial diligence confirms value	Sensitised valuation of business confirms value breaks below the 1st Lien	☑
Legal diligence confirms clear path through restructuring	Structure allows cram down of junior debt: (1) FRN and PIK bonds vulnerable, and (2) 2nd Lien has some protection	☑
Ability to join creditor committee or otherwise influence restructuring	Significant existing holding across other M&G funds Relationships with investors on 1st Lien, 2nd Lien and bond committees and the relevant advisory firms	☑
Strategy for managing spoiling tactics of equity and other creditors	Singapore Telecom paid only option price for the equity when it bought its stake from Babcock & Brown and therefore: (1) is more likely to inject further equity than run an aggressive restructuring process that may result in it losing the company, (2) has funds to make required investment in new technologies. 1st Lien unlikely to want to own the business or support a bid for the business from the out-of-the-money PIK notes. 2nd Lien has some protection but must avoid over playing its hand in negotiations.	☑
Debt yield to maturity >1500 bps	1st Lien trades around €0.62.5c (YTM > 19%) 2nd Lien trades around €0.08c (YTM > 97.5%)	☑
More than one way to exit and unlock value	There is a liquid market for the company's debt. Restructuring imminent.	☑

Source: Bloomberg, 5 January 2011

Investible universe

Drawing upon our expertise in a wide range of asset classes

- Leveraged Loans
- Corporate Bonds
- Asset Backed Securities
- Property Debt
- Private Placements
- Infrastructure debt
- Equity (including equity options and warrants)

Return drivers

Sources of income and capital gain

- Capital appreciation, coupon income or insolvency dividends
- The ability to accept equity and distributions of assets to replace debt
- An investment lifecycle that is sufficiently long to enable the returns on equity or assets received to be maximised

Exit strategies

Ensuring maximum value can be achieved

- Maturity:
  - the instrument is held to maturity and redeemed at face value
- Sale of instrument:
  - M&G sells the instrument in the secondary market
- Debt buy back or take-out:
  - the instrument is bought back by the company or redeemed early at a negotiated price
- Sale of company:
  - in a situation where M&G has received equity, the Fund will either sell or hold the equity to ensure maximum value is extracted
- Asset disposal through a formal insolvency process:
  - sale of debtors assets and subsequent receipt of insolvency dividends.

Fund structure

- A sub fund of an existing Limited Liquidity Qualifying Investor Fund (QIF); an umbrella investment company incorporated under the Irish Companies Act
- Targeting close in H1 12 with drawdowns linked to investments
- Full investment within two years
- Tax efficiency: Structure enables the Fund to take advantage of double taxation treaties across Europe. The VAT exempt status of the QIF structure means that management fees and administration fees are not subject to VAT;
- The Fund will be offered with both a EUR and GBP share class; the base currency is EUR.
- Investment management fee of 1.5% p.a. on drawn capital and a performance fee of 20% above 8% compound preferred return to investors

The life cycle of the fund

Prospective investment timeline

- **Years 0 – 2**
  The Fund will make the initial investments, drawing down investors' capital as assets are purchased
- **Years 0 – 4**
  Proceeds from assets that have been exited and/or any coupon/dividend income will be reinvested;
- **Years 4 – 5** (with options to extend to year 7)
  Proceeds from assets that have been exited and any coupon/dividend income will be distributed to investors

The M&G Debt Opportunities Fund

Taking the stress out of distressed investing

- A highly focussed portfolio of 10 – 20 fundamentally sound investments
- Fully aligned with M&G's existing exposure
- Actively managed taking full advantage of our restructuring expertise
- A proven track record of achieving exceptional returns

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Appendix

Investment restrictions

Prospective guidelines

- Permitted Instruments
  - Debt instruments where the issuer is currently in stressed, distressed or restructuring situations and where the issuer's main business operations is European (see definition above)
  - Derivatives for the purpose of hedging
  - Equity (including equity options and warrants).
- Concentration Restrictions
  - No more than 15% of the portfolio will be invested in any single issuer;
  - No more than 10% cash to be held by the Fund after the Reinvestment period;
- Leverage
  - Leverage will not be used at the Fund level.

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Biography

Paul Taylor

Head of Fixed Income Restructuring

Paul joined M&G in 2005 as a restructuring specialist in the fixed income team. Paul is responsible for the workout of problem credits across the wider fixed income team as well as private investments.

Prior to joining M&G, Paul was a senior manager at KPMG within their Corporate Restructuring team advising both debtors and creditors in turnaround situations, including facility negotiation, covenant setting, de-leveraging transactions and fallback planning.

Before this, he worked for IMG sports management as a financial controller for their football television rights business.

Paul has a BSc Hons in Economics/Biology from the University of Leeds and is an Associate of Chartered Accountants.

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Biography

Andrew Swan

Director of Fixed Income

Andrew joined M&G in 2005, as a Director of Fixed Income in the institutional fixed income team. His primary focus is developing our institutional bond business in the UK.

Prior to joining M&G, Andrew was a client relationship manager for Banquo Credit Management, responsible for developing relationships with institutional clients in the UK and Europe.

Previously, Andrew worked for Merrill Lynch, Deutsche Bank and Goldman Sachs, within fixed income trading and sales roles.

Andrew graduated from Birmingham University with degree in International Studies and has a MSc in International Relations from the London School of Economics.

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Biography

Andrew Amos

Director, Fixed Income Restructuring

Andrew joined M&G in August 2009 from US law firm, Jones Day. He is a qualified solicitor who has been specialising in restructuring and insolvency since 2001.

Andrew has experience with the restructuring of all fixed income asset classes including; leveraged loans, public bonds, private placements and asset backed securities. His focus is the analysis of debt, security and restructuring documents, working with complex capital structures and inter-creditor arrangements.

Andrew also has experience with formal insolvency procedures and large-scale banking and finance litigation. In addition to advising creditors, he has worked with debtors across a broad range of sectors and insolvency practitioners.

Andrew has an LLB from UWA Law School and is a member of the Law Society of England and Wales.

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Biography

Mustafa Van Hien

Manager, Fixed Income Restructuring

Mustafa joined M&G in May 2011 as part of the fixed income restructuring team. His work is primarily focused on assisting with the workouts of fixed income investments.

Mustafa is an English qualified solicitor. Prior to joining M&G he worked for four years at the international law firm Jones Day, at which he advised creditors, debtors and a variety of other stakeholders in all aspects of restructurings, insolvencies and distressed M&A.

Andy Bishop

Manager, Fixed Income Restructuring

Andy joined the fixed income restructuring team in June 2011. He has good restructuring experience through a number of corporate workouts, and good experience with distressed trades though his previous role as an FMA to the Internal Fund Managers (circa €60bn FUM). He also brings deep experience in portfolio management from his previous role.

Andy graduated from the University of Kent with a BA in History and is enrolled in the CFA program.

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