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MAV notes on Rating Watch with Positive Implications

Yesterday, DBRS placed the MAV2 A1 and A2 notes under review with positive implications. Barring a near term meltdown in global credit markets, we would expect to see both classes of notes upgraded at least one notch once the review is complete. The A1 notes are currently rated “A (high) (sf)” while the A2 notes are rated “BBB(low) (sf)”.

While investors will welcome this announcement from DBRS, it is unlikely to have a significant immediate impact on the market prices for the notes as many buyers have already priced such an upgrade into their recent bids.

By the same token, at Kilgour Advisory Group our internal credit analysis ‘upgraded’ these notes some time ago as trigger risk abated to the point of immateriality and structural risks were addressed. Beyond that, the credit risk associated with the underlying leveraged super senior (LSS) swaps, with only minimal exceptions, has diminished considerably as global credit conditions have improved since the restructuring was completed in January 2009.

Lastly, the collateral that supports the swaps remains strong with only a few areas of concern. In our view, the current subordination provided by the B and C notes provides strong protection from the remaining trouble areas in the LSS and collateral. This view has been reflected in our valuation models for some time.

Please feel free to call us at your convenience to discuss this or any other development regarding the MAV notes. We continue to support MAV investors on a full time basis and have done so continuously since 2007.

Kilgour Advisory Group
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