



KILGOUR ADVISORY GROUP

Investor Bulletin

Selling Your MAV Notes, October 2010

An increasing number of original investors are considering selling their MAV notes. As prices have been increasing lately, original MAV holders may be considering a number of questions as year-end approaches:

- Is now the time to sell?
- Who's buying MAV notes?
- How should I go about selling?

This brief paper outlines the key questions original MAV investors need to consider when deciding whether to sell their holdings.

Is Now the Time to Sell?

The first MAV trades in 2009 were executed with a strip of MAV2 Pooled Notes (A1, A2, B, and C) being sold for a weighted average price of less than 40% of par. Today, that same strip can be sold for more than 60% of par. This is an over 50% price increase in approximately 18 months.

While market prices have risen dramatically since the restructuring completed in January 2009, our general view continues to be that current prices being offered do not yet reflect the intrinsic value of the MAV notes. While credit conditions have improved greatly since 2009 and risks are generally much lower, MAV note buyers still attach a hefty discount to the notes in order to compensate for the illiquidity and complexity of the notes.

Original investors who do not have an immediate use for the proceeds of any sale are probably best served by holding on to their notes for the time being. However, holders who are in need of cash or who simply have a planned use of proceeds that exceeds the implicit yield to maturity of their MAV notes might want to consider a sale of all or a portion of their portfolio.

Who's Buying the MAV Notes?

By now, most original holders will have been contacted by at least one or two investment dealers looking to buy MAV notes. In fact, we are aware of more than a dozen dealers and investors who are actively acquiring these notes. Most of the end buyers are US based hedge funds that will either deal directly with a holder or, more likely, through one of the US based dealers that have been attempting to originate paper from original investors.

While there are quite a few investors, the market remains somewhat opaque. Bid/Offer spreads remain quite wide for all but the most liquid notes, and on some of the tracking notes it can be as much as 10% of par value. Additionally, there are very few buyers for many of the MAV2 and MAV3 tracking notes.



How Should I Go About Selling?

Our experience in working with many original MAV holders who have chosen to sell is that significant benefit can be achieved by employing a rigorous and exhaustive competitive bidding process. Additional effort invested in the process can pay off handsomely in ultimately achieving best execution in the market. Some basic guidelines for capturing the best prices in the market are outlined here:

- *Set a reserve price* – Before going to market, establish a price below which you are not prepared to sell; and above which you will sell. By setting a hard reserve price, you will avoid making irrational and potentially costly decisions in the heat of the moment, particularly if the bids are lower than expected.
- *Establish a bidder list* – While it may be tempting to deal with the dealer who's been calling you for the last few months, or to ask your banker to help you find a buyer, this will almost certainly result in leaving significant proceeds on the table. Get to know the entire slate of buyers and include them in the bid list. On any given day, you never know who's going to have the best price.
- *Conduct a Competitive Auction* – A competitive, properly structured auction will flush out the best prices for the notes you are offering. In the auctions we have facilitated, we have seen wide variations in the prices and have yet to see a situation where any one bidder had the best prices across the full slate of notes offered. Through a rigorous and exhaustive competitive process, you will achieve the best pricing on your notes.

In sum, the recent increase in market prices for MAV notes is encouraging. While the market is not fully liquid, notes can be sold if investors are prepared to accept a discount due to their illiquidity and complexity. Further, selling notes effectively in this illiquid, opaque market requires a rigorous, competitive process.

If you would like to discuss your situation in confidence, please call or email us at your convenience.

Cheers,

Colin Kilgour

ck@kilgourgroup.com

416.315.4884

Dan Williams

dw@kilgourgroup.com

416.786.7078