

Project Atlas

A low-angle photograph of the Atlas sculpture in front of a tall skyscraper under a blue sky with clouds. The sculpture is a muscular man holding a globe, with several rings of the zodiac or celestial spheres around it. The skyscraper is a modern building with many windows, and the sky is a clear blue with some white clouds.

Business
Plan
Presentation

Barclays Capital

December 21, 2003

Agenda



- The Atlas Manifesto
- Business Platform
- CMBS Market
- The Team
- Plan Execution
- Summary
- Next Steps

The Atlas Manifesto





Barclays Capital Articulated an Important Strategic Objective . . .

- We understand Barclays Capital is interested in adding Real Estate Debt Capital Markets (**CMBS**) to its U.S. Fixed Income franchise in order to . . .
- Round out its Global Fixed Income **Products**
- Better meet Its **Clients' needs**
- Augment Its global **securitization/distribution**
- Enhance **cross-selling** opportunities; and
- Position Barclays Capital for long term **growth**



. . . Where Project Atlas Would
Be Well-suited And Applicative

Mission Statement

To create a fully **integrated** real estate finance and capital markets operation with distinct **competitive advantages** at a global financial services firm, whose plans call for establishing a significant **CMBS** market presence in the United States.

This will be accomplished with a cohesive team of seasoned and **“athletic”** professionals who proffer impressive track records, and **aligned interests** in an entrepreneurial format



Project Atlas Experienced a Precocious Genesis . . .

- First pursued in **1995 at J.P. Morgan** . . .
- . . .and later revisited in **1999 at Morgan Stanley**
- Both institutions had all the component parts . . .
- . . . but responses were consistent: “Great Idea, But Not Feasible Here”
- **Insurmountable Issues:** Conflicts of Interest / Turf Battles / Buy-Sell Culture Clashes / Investment Fund Covenants / Fiduciary Violations / Organizational Inertia / Disagreements over Allocation of Resources and P&L
- Realization: “**A Competitive Advantage**” if founded as a fully integrated operation with aligned interests



. . . And Its Evolution Accelerated In 2003 for a 2004 Launch

- **June** – Crafted Philosophy & Strategy
- **July** – Recruited Team & Prioritized Selections
- **August** – Finalized “Depth Chart” & Developed Timeline for Implementation
- **September** – Principals Formulated Line Operating Plans
- **October** – Hosted “Meet & Greet” – Finalized Team & Modified Line Operating Plans
- **November** – Hosted “Roll-Up” – Completed Consolidated Plan & Began Marketing to Targeted Sponsors



The Rationale Behind The Eponym May Appear Obvious . . .

- Atlas, the titan of Greek Mythology, possessed prodigious **strength**. . .
- . . . enabling him to hold the world above his head for **eternity**
- Therefore, in the context of founding a fully integrated real estate franchise, the associative eponym connotes important program features . . .
- market strength, through the **competitive advantages** it will possess. . .
- . . . And **value in perpetuity**, through the lasting growth and shareholder value it will create



. . . But It Also Has Important Intrinsic Meaning . . .

- Question: What book is consistently ranked by various national book clubs as the **second "most influential" book** ever written (behind the Bible)?
- Answer: "**Atlas Shrugged**" by Ayn Rand
- Creative minds think new thoughts, discover new knowledge and develop innovations
- The mind is the **source** of all wealth creation



. . . And Much Substance, As Evidenced By Its Bibliography . . .

- Atlas Shrugged – Ayn Rand
- Buffett, the Making of an American Capitalist – Roger Lowenstein
- Business at the Speed of Thought – Bill Gates
- Getting to Yes – Roger Fisher & William Ury
- Good to Great – Jim Collins
- Pathways to Success – Dale Carnegie
- The Art of War – Sun Tzu
- The Five Patterns of Extraordinary Careers – James Citrin & Richard Smith
- The Handbook of Fixed Income Securities – Frank Fabozzi (Editor)
- The One Minute Manager – Ken Blanchard & Spencer Johnson
- The Pyramid Principle – Barbara Minto
- The Seven Habits of Highly Effective People – Steven Covey
- Unlimited Power – Anthony Robbins
- We Shall Not Fail – Celia Sandys & Jonathan Littman
- Who Moved My Cheese – Spencer Johnson



. . . And Sound Guidance From Its Vaunted Advisory Triad

- **Charles Trunz** – Former President of J.P. Morgan Securities
- **Michael Hanna** – Former Group Head of various Fixed Income Franchises at DLJ and Smith Barney (Derivatives, Mortgage Backs, Municipals)
- **Howard Keenan** – Founder of Yorktown Partners & its Related “Energy Partners” Funds

Business Platform





The Business Platform Has Inter-Dependent Operating Segments . . .

- Banking
 - Small Loans (\$0.5 million – \$4 million)
 - Conduit (\$4 million – \$25 million)
 - Large Loans (\$25 million +)
- Capital Markets
 - Hedging
 - Primary Issuance (CMBS, CDO's)
 - Secondary Trading
- Investments
 - High-Yield Debt (**Organic**)
 - "Fix and Flip" Equity



. . . In a Flat Organization With the Right Skill Sets and Appropriate Incentives . . .

- Each Segment Managed by a **Principal**, with Collaborative Oversight By Managing Principal
- **Risk** Positions
 - Originated by **Life Company Lenders**
 - Hedged, Structured and Distributed by Highly Experienced Capital Markets Personnel
 - Subordinate Risk **Backed by Principals**
- Performance-Based Compensation
 - Principals Accountable for Separate **Line P&L**
 - Bonus Pool = 35% of Net Earnings (Line & Group components foster **collaboration**)



. . . Especially With Regard To Backing Our Deals . . .

- **One Third Of Bonus Is Invested** (Tax Free) In The Atlas High Yield Funds (75% Debt / 25% Equity)
- Invested Bonus **Must Remain For Five Years** (Vests 20% Each Year)
- Demonstrative And Unparalleled **Support** For Each Deal
- Incentive To Execute **Sound** And Well Structured **Transactions**
- Promotes Long Term **Franchise Value**



. . . Which Collectively Translate into Compelling **Competitive Advantages**

- Operating **Efficiencies**
- Focused Bottom-line Management
- Elimination of Capricious “Kick Out” Risk
- Pricing And Structuring Flexibility (i.e.,
Capacity to Win Any Deal Desired)
- One-stop Shopping For Clients
- Freedom from Conflict Of Interest Concerns

CMBS Market





The U.S. Market for CMBS has Grown Considerably . . .

- The U.S. Commercial Mortgages Market **exceeds \$2 Trillion** in Aggregate Balances Outstanding
- Originated Commercial Mortgage Outstanding
 - Banks & Thrifts = \$1.0 Trillion Securitized Trusts = \$500 Billion
 - Insurance Co's = \$250 Billion Agencies & Other = \$300 Billion +
- Primary Issue CMBS Market = **\$80 Billion per annum (U.S.)**
- There are roughly 50 CMBS Market Participants
- Of this, 12 are Well-Established (>\$2 Billion/Yr.), and would be Barclays Capital' Direct Competition(they include: BS/BofA/Citi/CSFB/DB/RBSGrch/GS/JPMC/LB/ML/MS/Wach)
- Interestingly, **no one has a fully integrated operation**



. . . But some believe it is still
in its nascent stage

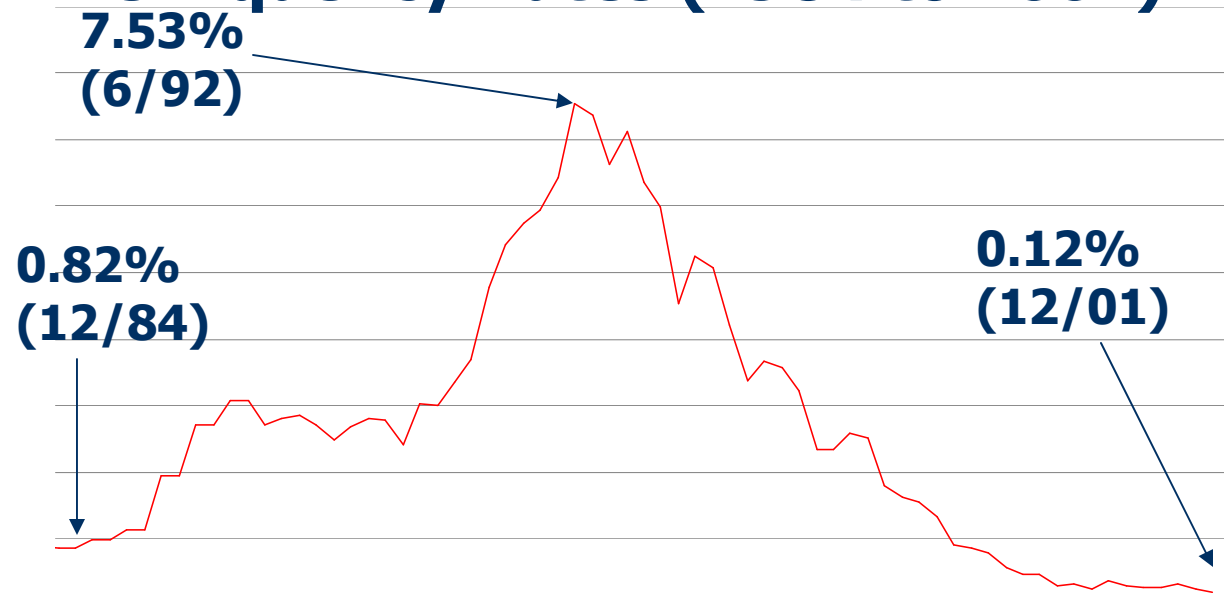
- Annual Commercial Mortgage Refinancings= **\$200 Billion +** per year, and will grow over the next few years
- **Only 25%** of Commercial Mortgages have been securitized – Up from 17% in 1996
- In addition to benefiting from a growing market, through Project Atlas, Barclays Capital would be positioned to grab market share from **Insurance Companies** (long term fixed rate loans), **Banks** (short-term mini-perm floating rate loans) and fare extremely well in head-to-head competition with **Capital Markets Lenders** (Fixed & Floating)



Life Co Lending is Decidedly Conservative . . .

Life Company Delinquency rates are typically 1/10th to 1/20th of capital markets lenders, and comparatively better than most other portfolio lenders as a group

Delinquency Rates (1984 to 2001)





. . . And As A Result, Life Ins. Co. Underwriting Can Yield Some Substantial Benefits

- **Superior Capital Structures** from the rating agencies (Typically 8% - 13% AAA subordination)
- **Tighter Bond Pricing** (Investment Grade Bonds can trade 2-3 bp tighter than a typical competitor's new issue)
- **More Flexibility** can be offered to borrowers with regard to cash reserves, SPVs and call provisions
- This adds up to a dramatic **Competitive Advantage**

The Team





The 7 Principals Possess An Impressive **Experience Base** . . .

- Years in Real Estate = 122 (Avg.=**17**)
- Loans Originated = **\$18.4 B** (6 with experience)
- Securitizations / Dispositions = **\$53.3 B (All)**
- Funds Managed = **\$8.3 B** (3 with experience)
- Appraisals = **\$6.4 B** (2 with experience)



. . . Realized At Market Leading Financial Institutions

- The Principals have cultivated diverse skill sets in real estate and capital markets and have arranged for certain key personnel to join their respective teams. Some of the **representative firms** are shown below.
 - Aegon
 - AXA/Equitable
 - GMAC
 - JPMorgan(Chase)
 - Lend Lease
 - Morgan Stanley
 - Nationwide
 - Nomura
 - TIAA
 - Union Central Life



The Principals' Skill Sets Are Well-Suited For Their Roles . . .

- Banking – All Principals Have Experience Running Commercial Mortgage Lending Operations at Leading **Life Insurance Companies**
- Capital Markets – All Have Extensive Experience (**\$34 Billion+**) Running Desk or Deals (CMBS & CDOs) at **#1 CMBS Ranked** Wall Street Firms
- Investments – This Principal **Founded** And Manages Diverse (Mezz., B-Notes, N.I.G. CMBS, Fund of Funds, Timber, Energy, RE Devel.) Real Estate Investment Funds At A Major **Life Insurance Company**, And Is The **Architect** Of Its Global Commercial Mortgage Credit Evaluation & Rating Framework



. . . And Spencer Young Has Logged Nine Pioneering Years In CMBS Leadership Roles


- Launched the **J.P. Morgan** Principal Transaction CMBS business, including role as Architect & Chief Operating Officer of the J.P. Morgan Commercial Mortgage Conduit
- Ran the **Morgan Stanley** Commercial Mortgage Conduit
 - Boosted annual production five-fold to \$2.5 billion in two years
 - Originated Large Loans and Loan Pool Purchases
- Created the **CreditSource ® Commercial** Program, an important cross-selling product, which sourced principal transactions through Morgan Stanley's Retail Brokers
- Created and service-marked Morgan Stanley's **IQ®** "Institutional Quality" brand of CMBS having an intrinsic shareholder value > \$250 million

Plan Execution





Much Has Gone Into the Project Atlas Plan . . .



Project Atlas

Wed. 10/8/03 @ 2:00 – 5:00 PM
 Cornell Club (212-986-0300)
 6 East 44th Street (between Fifth & Madison Avenues)
 New York, NY 10017

The “Meet & Greet”

Format: An informal meeting of all eight prospective Principals of Project Atlas in a relaxed setting at a discrete, yet convenient location in Midtown Manhattan

Agenda

- 2:00 p.m. Introductions (informal)
- 3:00 p.m. Philosophy
- 3:15 p.m. Consolidated Business Plan
- 4:00 p.m. Sponsorship
- 4:15 p.m. Next Steps & Timetable
- 4:30 p.m. Q & A (wrap up by 5:00 p.m.)


Other Information

Venue: Cascadilla Room on the 5th Floor

Suggested Dress: Business Attire (first impressions are lasting impressions)

Refreshments: Will be served

Request: Please be prompt – plan to arrive between 2:00 p.m. and 2:15 p.m.



Project Atlas

Friday, 11/7/03 @ 10:00 AM – 4:00 PM
 Cornell Club (212-986-0300)
 6 East 44th Street (between Fifth & Madison Avenues)
 New York, NY 10017

The “Roll-Up”

Format: A review and discussion of each of the Operating Plans comprising Project Atlas, as presented by the respective Principals heading up each platform. This will be followed by an open forum to address the critical path actions necessary for the timely execution of the consolidated plan.

Agenda

- 10:00 am Arrivals
- 10:15 am Discussions with Targeted Sponsors
- 10:30 am Consolidated Business Plan Overview
- 11:00 am Conduit Program
- 11:30 am Large Loan Program
- 12:00 pm Small Loan Program
- 12:30 am Trading Desk
- 1:00 pm Transaction Management
- 1:30 pm High Yield Fund
- 2:30 pm Open Forum for Discussion of Issues
- 3:30 pm Next Steps & Timetable
- 4:00 pm Wrap Up

Note: A series of short breaks will be introduced throughout the day

Other Information

Venue: Fall Creek Room on the 5th Floor

Suggested Dress: Business Casual

Refreshments: Light breakfast fare (at the outset)
 Buffet style working lunch (starting at noon)
 Coffee, Tea & Soft drinks (available throughout the day)

- **Key Meetings** were discretely held at the Cornell Club in New York (See Above Example Agenda)
- **Constant Communication** and **Plan Development**



. . . And the Team is Poised to Execute the Rollout . . .

- Systems Development of Rigorous **Pricing Models**
- Development of Sound **Underwriting Guidelines**
- Integration of **Credit Rating Framework**
- Establishment of **Offices**
- Bringing on Board The Respective **Principals** Over a 3 month period
- Working out Infrastructure, Communications and Systems **Integration**
- **Initiate Strategic Joint Venture Discussions**
- Completing **Other Key Hires**



. . . So That We May “Hit the Ground Running” in Our Originations . . .

- **\$1.0 billion (2004)**
 - Small Loans = \$200 million
 - Conduit loans = \$415 million
 - Large loans = \$375 million
- **\$2.55 billion (2005)**
 - Small Loans = \$595 million
 - Conduit loans = \$1,210 million
 - Large loans = \$750 million



. . . To Establish The Raw Material for the Ensuing Capital Markets Activity . . .

- CMBS = two joint deals -- \$700 million (2004); then a deal/quarter in 2005 (**\$2.3 billion – likely ranking in the top 10 for US CMBS**)
- CDO = two joint deals in 2005 (\$300 million)
- Secondary Trading = \$2.4 billion (2004) moving to \$5.4 billion in 2005 (**\$450 million per month**)
- Firmly Establish high quality brand of CMBS (similar to **"IQ"** by 2006)



. . . And Initiate Investment Activity at The Atlas High Yield Funds . . .

- 2004 Investments = \$104 million
 - Debt Fund = \$79 million (**100% organic**)
 - Equity Fund = \$25 million (3rd Party)
- 2005 Investments = \$392 million
 - Debt Fund = \$233 million (**100% organic**)
 - Equity Fund = \$126 million (**20% organic**)



. . . So That We May Attain The Respective Funds' Objectives

High Yield Debt Fund

- Targeted IRR = 12 – 16%
- Investment Period = 1 Yr.
- Eligible Assets: Subord. CMBS / B-Notes / Mezz. / Lev. IOs (Organically Derived)
- Geographic = U.S. Only

Equity Fund

- Targeted IRR = 15 – 18%
- Investment Period = 3 Yrs
- Eligible Assets: Fee Simple Real Estate Investments with value added opptnys. / CDO Equity (Organically Derived)
- Geographic = North America but < 20% non US



For Every Position, We Will be Focused on its Exit Strategy . . .

- **Securitization - Primary exit** for all debt
 - CMBS
 - CDO's
- Secondary Trading
- Whole Loan Trading
- "Cleanup" Calls
- Ongoing Property Sales at Stabilization



. . . This in Turn Will Drive Revenue, Earnings, Return on Capital . . .

- Operating Revenue:
 - \$30 million (2004)
 - **\$110 million (2005)**
- Earnings (Including Investments):
 - \$19 million (2004)
 - **\$114 million (2005)**
- Net to Sponsor:
 - \$13 million (2004)
 - \$83 million (2005)
 - Evolving to **\$200 million + per annum by Year 5**
- Return on Capital: **30% +**



. . . And Require the Commitment of Critical Resources

- Average Capital Requirements: (**\$220 million average over Five Years**)
 - Operations: \$19 million (2004); \$71 million (2005)
 - Total: \$36 million (2004); \$196 million (2005)
- Staffing
 - 2004: **47**
 - 2005: **65**
- Office space
 - Five locations
 - **NYC, Cincinnati, Dallas, Denver, San Francisco**
- **Technology**
 - Voice, data and analytics
 - Always connected

Summary





Project Atlas Is More Than A Business Plan . . .

- It is a **fully integrated** operation that will create competitive advantages difficult to replicate
- Principals Have “**Skin In The Game**” On All Deals
- Financial Interests Of Sponsor And Principals Are Aligned – **Entrepreneurial** Incentive Structure
- **Credit Risk** And Investment Exposures Will Be Managed By Experienced **Life Company Lenders** And Fund Managers
- Decentralized, Yet Highly **Collaborative** Decision Making Process
- Principals Possess A Vast And Highly Relevant **Experience Base**, and Business Ethics Beyond Reproach
- The Principals have a **Track Record** In Establishing Franchises And Products Of **Lasting Value**



. . . It is the integration of erudite business practices to create lasting franchise value

- By the Fifth Year of Operation, Incremental Shareholder Value created by Project Atlas could reach **\$2.0 Billion**
- . . . And importantly, the business will be **established for continued growth**

Next Steps



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