

THOMSON REUTERS PRICING SERVICE

Thomson Reuters Pricing Service meets your need for validated end of day evaluated prices to support portfolio, fund and single security valuations. 100 fixed income professionals in New York, London, Tokyo, Singapore and Bangalore provide evaluated prices on over two million taxable and non-taxable issues, including government, corporate and convertible bonds, and RMBS, ABS and derivative securities.

Evaluations are available daily at all industry standard valuation cut-off times. Current customers include banks, brokers, insurance companies, mutual funds, fund administrators, custodians and software vendors. Evaluations are used for net asset value calculations, research, statement processing, portfolio valuation and risk management.

Thomson Reuters pricing methodologies incorporate bond terms and conditions, proprietary pricing models and real-time quotes from contributing dealers. They are produced by expert

evaluation staff with market experience working to rigorous quality assurance procedures. Terms and conditions are collected and maintained by Thomson Reuters global team of data analysts.

Evaluation models are developed and maintained by the renowned EJV fixed income development team at Thomson Reuters. Dealer quotes are obtained from the Thomson Reuters extensive IDN contributions network, supplemented by direct market relationships between evaluators and sell-side participants.

WHAT IS AN EVALUATED PRICE?

It is an assessment at a specific time of the fair market value of a security. Evaluated prices provide a superior price compared to composite or contributed prices which may be out of date at the valuation cut-off.

The fair market value assessment is consistent with the accounting guidelines outlined in FAS 157 and IAS 39, and takes into account:

- dealer quotes and trade prices
- the inherent risk of each security including credit, prepayment, industry, market, and liquidity
- the terms and conditions of each security
- prices of other instruments by the same issuer, or issuers of similar industry sector

PRICING METHODOLOGY

Thomson Reuters produce evaluations using two primary methodologies: model and 'dollar' pricing

Most issues are priced by the model approach which incorporates a benchmark for each market, credit spreads and other variables. Thomson Reuters

evaluators adjust the spread and variables for each issue according to daily market movements, rather than relying on algorithms or automated contributions. The result is superior accuracy compared to matrix based pricing or other purely model based approaches.



Dollar pricing is applied mainly to issues that are unique in their structure, or to high-yield securities, particularly when the issuer of those securities has defaulted on a bond or has fallen below investment grade. These issues are individually priced. Inputs include quotes from the primary dealer and other market makers, and traded prices in the security or related benchmark issues.

For over the counter derivatives, Thomson Reuters has an extensive library of models available to provide custom valuations of unique derivative securities using the methodology most appropriate to your holding.

PRICE CHALLENGES

The ability to challenge prices is an important part of Thomson Reuters customer service. Thomson Reuters evaluators respond to your price challenges prior to the next day's pricing cycle and customers are encouraged to discuss pricing levels directly with evaluators.

SERVICE AND QUALITY

Thomson Reuters evaluators and analysts work to a series of metrics relating to:

- new issue timeliness
- new issue accuracy
- pricing accuracy
- factor accuracy and timeliness
- price challenge response times
- customer satisfaction with quality of response

Thomson Reuters pricing models include a series of intra-day and end-of-day quality and tolerance checks to ensure price and factor accuracy. A daily tolerance report is distributed that alerts you to any price moves outside usual tolerances.

To give you additional insight into market moves for the day and help you anticipate how your portfolio will move, Thomson Reuters Pricing Service produces a daily commentary that outlines major market moves and trading information.

VALUATION RISK

Thomson Reuters evaluated prices are part of the Valuation Risk offering from Thomson Reuters. The credit crunch and ensuing global financial crisis have raised new challenges for our customers in valuing their assets and assessing their exposure to the market place.

Thomson Reuters has a number of compelling propositions which will help you understand and manage your exposure across the enterprise:

- Thomson Reuters Pricing Service to help value existing assets
- comprehensive reference and counterparty data through Thomson Reuters DataScope to assess market and credit risk
- Thomson Reuters risk and market data platforms and analytics libraries to integrate proprietary data and models alongside those provided by vendors and third parties.

This combination enables your organisation to achieve transparent, consistent and accurate valuations from front to back office and ensure that all users of that information across the enterprise are supported by common underlying data and pricing. As a result you will be better placed to comply with regulatory requirements, manage your exposures and maximize risk adjusted returns.

PRICE UPDATES

Thomson Reuters DataScope offers the following evaluated pricing service updates:

US – Premium Pricing Files at
3pm and 4pm EST, End-of-Day at 7pm EST

Europe – Premium Pricing Files at
4:15pm and 6pm GMT, End-of-Day at 11:00 pm GMT

Asia-Pacific Premium Pricing Files at
3pm and 4:15pm JST, End-of Day at 6pm JST

ASSET	COVERAGE	METHODOLOGY
AMERICAS		
Treasuries	Bills, Notes, Bonds, STRIPS	Thomson Reuters receives daily valuations on bills, notes, bonds and STRIPS from multiple contributors including Tradeweb
Agencies	Discount Notes, Bonds, Medium Term Notes (MTNs, FRNs, STRIPS)	Agencies individually evaluated on an OAS basis or nominal spread for non-callable issues
Investment Grade	Notes, Bond, MTNs, Yankees	Evaluated on nominal spread or OAS basis depending on how the market trades a security or sector
High Yield	High Yield, HY Preferred Stock	Individually evaluated, mostly on a dollar basis using the lead underwriter as primary source of information
Convertible Bonds	US Convertible Bonds and Convertible Preferred Stock	Uses Thomson Reuters internal convertible pricing model, uses a delta model incorporating a real time equity feed
Fixed-Rate Mortgage Pools	GNMA, FNMA, FHLMC, SBA, TBA, Balloon and Graduated payment	All seasoned pools are priced off MBS TBA prices. TBA prices are obtained from market makers and live trading systems. Seasoned quotes are obtained from dealer community and trade prices.
Adjustable-Rate Mortgage Pools	GNMA, FNMA, FHLMC, SBA, COFI, Hybrid, CMT	Individually evaluated on an BEEM(Bond Equivalent Effective Margin) basis
Agency CMO, Non-Agency CMOs, Commercial Mortgage Backed Securities (CMBS)	Fixed Rate, IO/PO (Interest Only/Principal Only) Simple and Complex Floaters and Inverse Floaters	Individually evaluated using OAS and nominal spread. OAS valuations use the Andrew Davidson prepayment model and Thomson Reuters OAS calculator. Cashflows are calculated internally
Asset Backed Securities	Auto and Boat loans, Credit Card, Home Equity and Recreational Vehicle loans	Price evaluated on nominal spread basis and collateral evaluation takes into account credit enhancements, insurance, prepayment speeds and delinquencies on losses
Syndicated Loans	Syndicated bank loans	LSTA pricing methodology – average of bids and offers from the broker/dealer community. Evaluated prices to be introduced in 2009
Derivatives	CDS (Credit Default Swaps) IRS (Interest Rate Swaps) OTC Equity options and warrants Bond Futures Currency options, Swaps, Forwards Caps and Floors Swaptions Commercial Paper	Extensive library of analytics
EUROPE, MIDDLE EAST, AFRICA		
Investment Grade	All EMEA markets covered	Evaluated on nominal spread or OAS basis depending on how the market trades a security or sector
High Yield	All EMEA markets covered on customer request	Individually evaluated, mostly on a dollar basis using the lead underwriter as primary source of information
Asset Backed Securities	Residential Mortgage-backed Securities	Price evaluated on nominal spread basis and collateral evaluation takes into account credit enhancements, insurance, prepayment speeds and delinquencies on losses
Islamic	Sukuk	Priced on a dollar price basis using broker-derived data
Syndicated Loans	Syndicated bank loans	Priced using averages of bids and offers from the broker/dealer community.
ASIA		
Investment Grade	All Asian markets including Australia/NZ	Evaluated on nominal spread or OAS basis depending on how the market trades a security or sector
Asset Backed Securities	Australian RMBS Asian MBS	Price evaluated on nominal spread basis and collateral evaluation takes into account credit enhancements, insurance, prepayment speeds and delinquencies on losses

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