Adjustments to Lehman Brothers Global Family of Indices[i[i]]

As fixed income capital market trends change, investors' needs move along with them. In order to keep pace with investors, debt indices must evolve by changing the securities that comprise them and the rules by which they are chosen. After speaking with global investors and security issuers, Lehman Brothers announced that effective October 1, 2003 they will be implementing several important changes to their indices. These changes reflect a market sentiment that is more consistent with the views of today's investors. Because so many fixed income portfolios are benchmarked against one of the Lehman Brothers indices, it is important to understand their composition. Therefore, we thought that you might find a summary of the highlights of the index changes useful.

One of the biggest changes is the liquidity constraint for the U.S. Aggregate Index. Effective October 1st, in order to be included in this index, securities will need to be at least $200 million in size instead of the current $150 million. Some of the international Aggregate indices already require their securities to be $300 million and, according to Lehman Brothers, the U.S. Aggregate Index gradually will as well. This change affects Treasury, agency, credit, and mortgage-backed securities only. CMBS and ABS will not be affected, with the former having a criteria of $500 million initial deal size and $300 million current deal size and the latter requiring that each tranche have $25 million outstanding and be part of a $500 million deal. The liquidity change will reduce the number of securities in the U.S. aggregate by about 12% and the market value will decrease by about 1.6%.

The second critical change to the indices is the introduction of the use of the more conservative between a Moody's and S&P rating in determining the rating category in which a security will be held in the indices. Currently all split rated securities are carried at their Moody's rating. After October 1st simply the most conservative rating will prevail. Currently 9.6% of the U.S. investment grade and high-yield credit indices have split ratings.

When the rating change is incorporated with the liquidity change, the quality breakdown of the U.S. Aggregate Index will be affected as follows:

Rating	Current Weight	10/1/03 Weight	Change
Aaa/AAA	74.66%	75.02%	+0.36%
Aa/AA	5.16%	2.47%	-2.69%
A/A	10.54%	11.02%	+0.48%
Baa/BBB	9.64%	11.49%	+1.85%

The weightings of the individual sectors would change as well as shown below:

Sector	Current Weight	10/1/03 Weight	Change
U.S. Treasury	21.80%	22.16%	+0.36%
U.S. Agency	12.57%	12.16%	-0.42%
U.S. Credit	27.50%	27.04%	-0.46%
U.S. MBS	33.80%	34.25%	+0.45%
U.S. ABS	1.82%	1.85%	+0.03%
U.S. CMBS	2.51%	2.55%	+0.04%

The other changes to the indices will have less broad impact than the aforementioned. These include:

- Capital securities that contain step-up coupon features that move a security's coupon payments from fixed to floating will now qualify for index inclusion and will have a maturity date equal to the step-up date.

- Taxable municipal bonds will be added back to the U.S. Aggregate Index. They were removed in the late 1990s due to a decline in issuance, but as origination resumed in 2003 to fund many U.S. state and local deficits, this asset class is relevant again. At the $200 million liquidity threshold 42 of the 24,820 taxable municipal issues (with a par value of $22.3 billion) would qualify for inclusion in the U.S. Aggregate Index. The current index classification of these bonds would place them in the non-corporate part of the U.S. Aggregate Index.

- Captive finance issuers will now be classified under the parent company's classification. For example Ford Motor Credit and General Motors Acceptance Corp. will be classified in the Industrial sector under Autos instead of in the Finance sector under Captive Finance. This change would increase the Industrial Sector within the Credit Index from 42.85% to 47.90% and decrease the Financial Institutions Sector from 33.62% to 28.57%.

- A new sector called Public Organizations Sector is being considered for inclusion on January 1, 2004. This sector would be comprised of the non-corporates from the U.S. Credit Index as well as all Treasuries, sovereigns, agencies, supranationals, and government authorities (Canadian provinces, taxable municipals). This change would decrease the Credit Index as a percentage of the U.S. Aggregate Index by 4.7%, while increasing the Government Sector by 4.1%.

- With the assistance of modeling support, Lehman Brothers would like to add Danish MBS to the Global Aggregate and Pan European Aggregate Indices by July 1, 2004.

- GHLC Bonds, which are Japanese mortgage agency obligations, will be added to the Japanese Aggregate Index.

- Effective April 1, 2004, eligible securities from Eastern European countries, beginning with Poland and Hungary, will be added to the Pan-European and Global Aggregate Indices.

These changes will allow the indices to better reflect the weightings of the various sectors of the debt capital markets as well as the more conservative market sentiment that is prevalent in today's financial environment.

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i[i] Information provided by Lehman Brothers Fixed Income Research, Global Family of Indices, June 30, 2003