

Dow Jones TRAC-XSM: A Suite of CDS Indices

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ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST.

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- Overview of Options on DJ TRAC-X

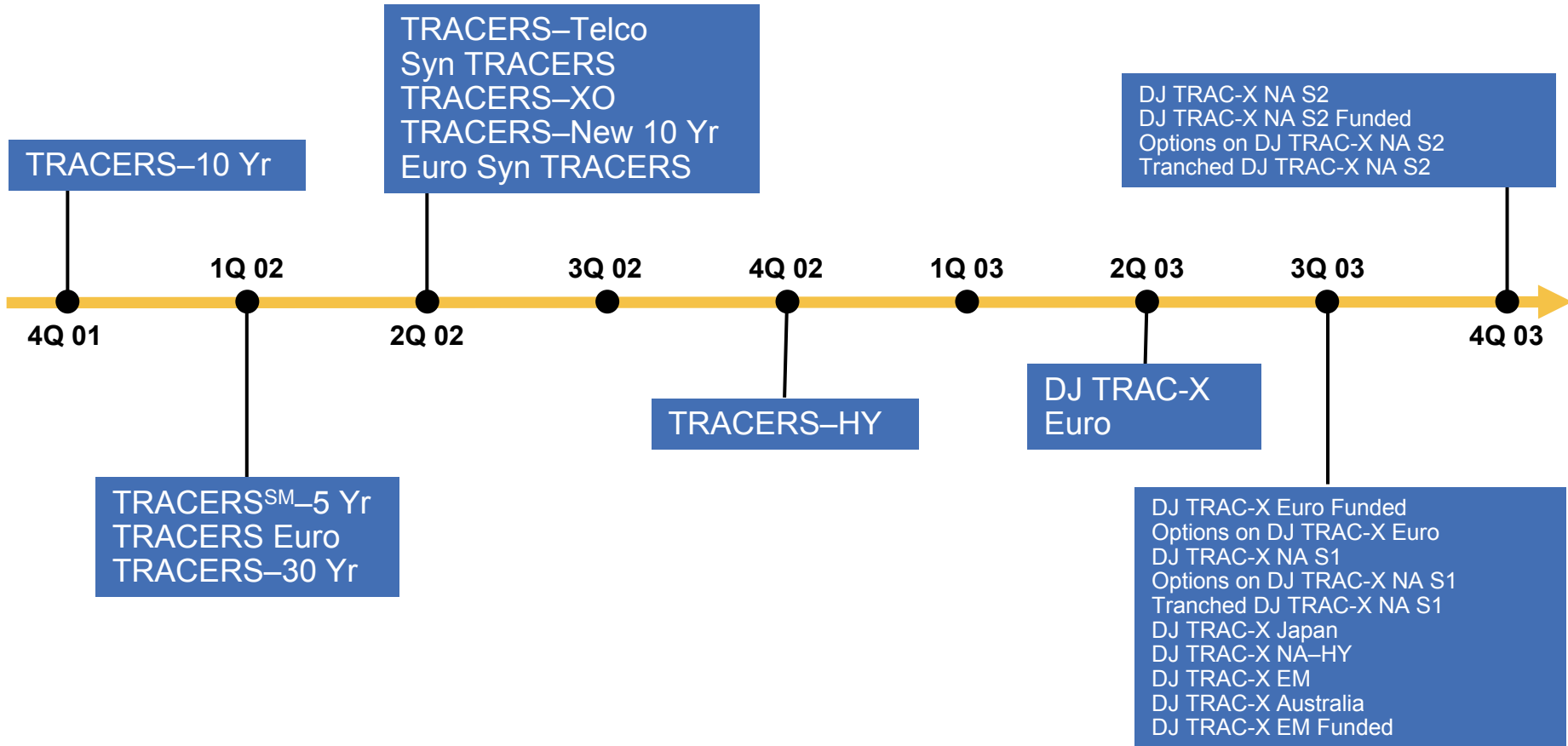
Section 1: Overview of DJ TRAC-X Program

Overview of DJ TRAC-X

With liquidity and diversification, the DJ TRAC-X suite of products empower market participants to:

- Go long or short credit
- Invest with and without leverage
 - Unfunded products
 - Funded Products
- Gain exposure to specific points on the credit curve
 - 4 year product
 - 5 year product
 - 5.5 year product
 - 10.5 year product
- Gain exposure to specific corporate sectors:
 - Industrials
 - Consumer products
 - TMT
 - Financials
- Gain exposure to various geographies
 - North America
 - Europe
 - Asia
 - Japan
 - Australia
 - Emerging Markets
- Gain exposure to specific credit qualities
 - Investment grade
 - High Beta
 - High yield

The Evolution of DJ TRAC-X



Note: TRACERSSM is a service mark owned by Morgan Stanley.

Section 2: Overview of NA Series 2 Unfunded Products

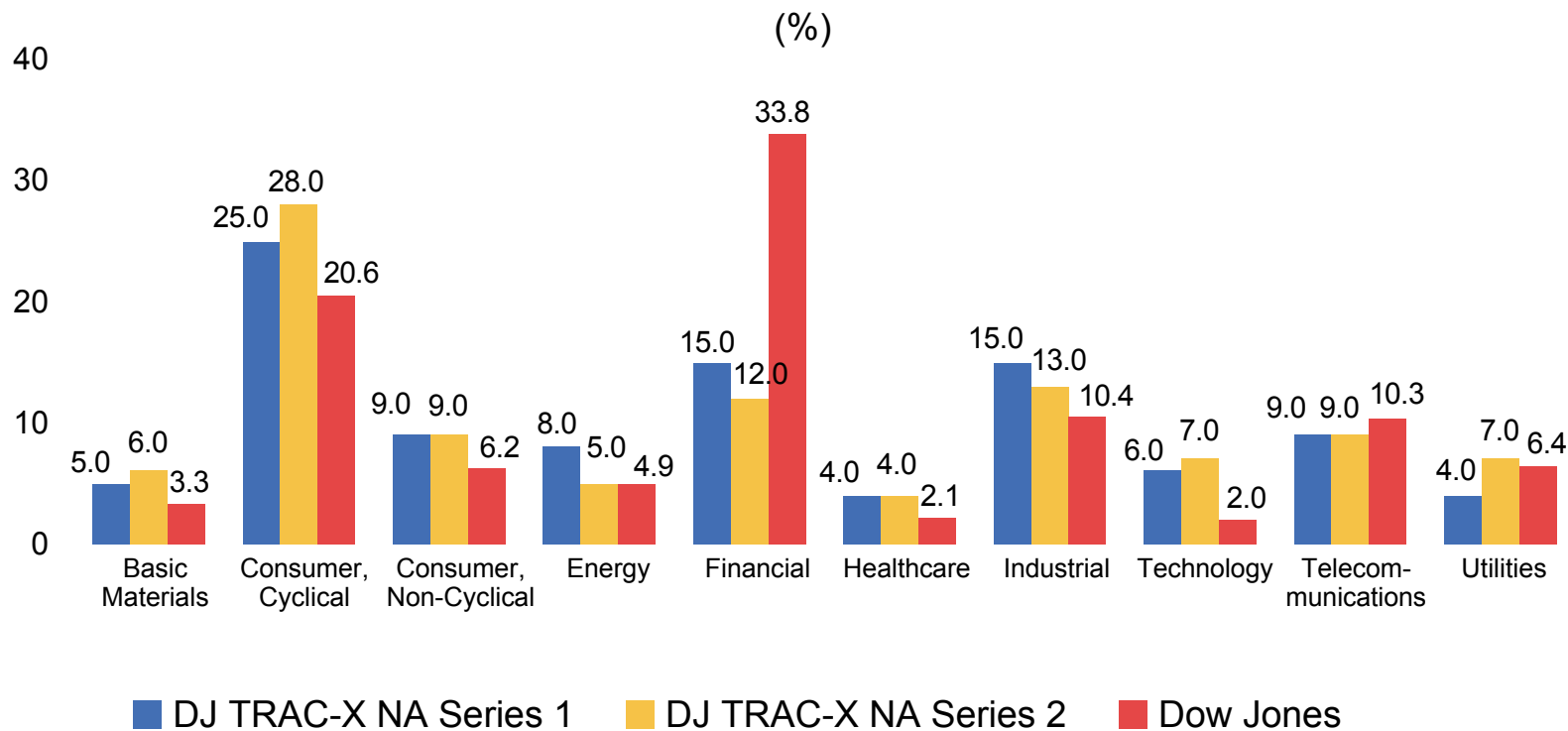
Portfolio Characteristics

Portfolio Characteristics

- 100 most liquid credits based on JPMorgan and Morgan Stanley trading volumes over the last six months
 - Excludes counterparty conflicts resulting in reduced exposure to the bank and finance sectors
 - Credits must have more than \$250MM of non-convertible debt maturing past March 2008
- Strictly investment grade credits, no high yield or distressed credits are included
- Equal weightings for all credits
- Diverse pool of credits across industry sectors represents a broad exposure to the investment grade corporate market
- [Baa2] implied weighted average rating factor from Moody's
- Reference Entities cannot be added and will only be removed upon the triggering of a credit event
- Offered in three products:
 - March 20, 2009 maturity
 - March 20, 2014 maturity
 - High Beta portfolio / March 20, 2009 maturity. Comprised of the 40 widest spread reference entities at the time of launch. [Baa3] implied average rating factor from Moody's

Portfolio Characteristics (cont'd)

Industry Distribution (Dow Jones Classifications)

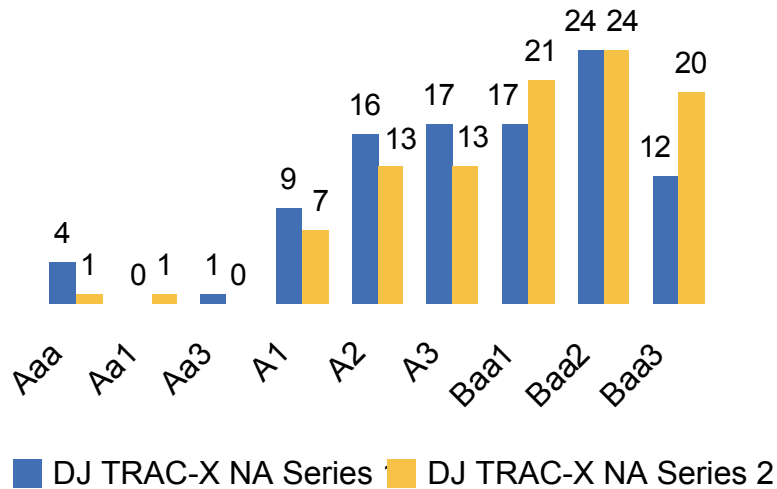


Portfolio Characteristics (cont'd)

Moody's and S&P's Ratings (1)

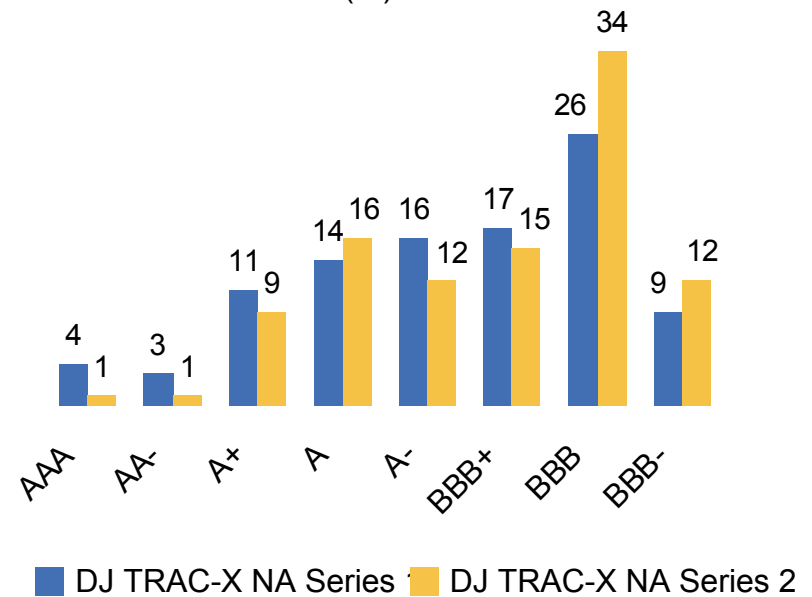
Moody's Rating Distribution

(%)



S&P Ratings Distribution

(%)



Note: (1) Issuer and Bond level ratings as of September 29, 2003

DJ TRAC-X NA Series 2 Description (cont'd)

General Characteristics

- Investors can buy or sell credit protection
- Maturities are March 20, 2009 and March 20, 2014
- March 10, 2009 also offered as a High Beta product
- Payment Dates will be the 20th of each March, June, September and December, similar to the standard for single name credit default swaps

Premium and Up-Front Payments

- The premium on the DJ TRAC-X NA Series 2 is set for the life of the transaction at the time of initial pricing
- Each Reference Entity in the DJ TRAC-X NA Series 2 portfolio will have the same premium which will also be the premium for the overall DJ TRAC-X NA Series 2
- In the event that a Reference Entity has a Credit Event triggered, the premium on the remaining DJ TRAC-X NA Series 2 portfolio will not change
- The transaction will trade with an up-front payment to reflect the current change in market level from the initial premium
- Although traded on an up-front basis, DJ TRAC-X NA Series 2 will be quoted on a premium basis

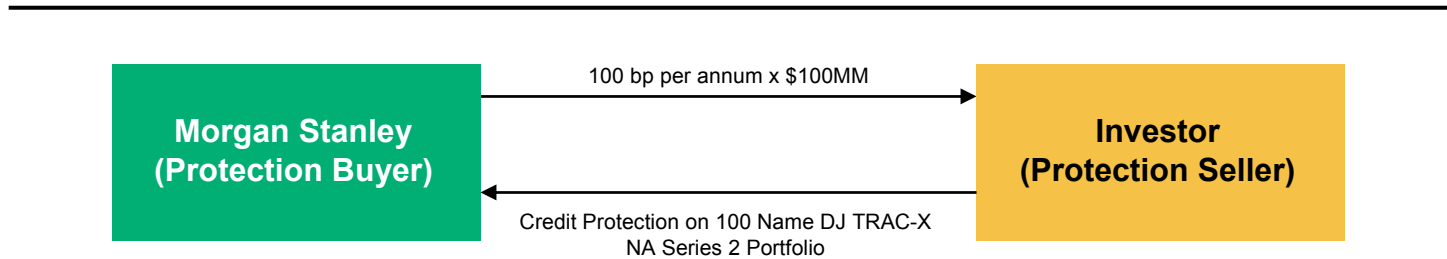
Accrued Premium

- DJ TRAC-X NA Series 2 trades with accrued premium much like a bond
- Upon entering a new transaction, the seller of protection will pay an up-front payment to the buyer equal to the amount of accrued premium from the last payment date to the settlement date. In exchange, the seller will receive a full 90 days of premium on the first payment date

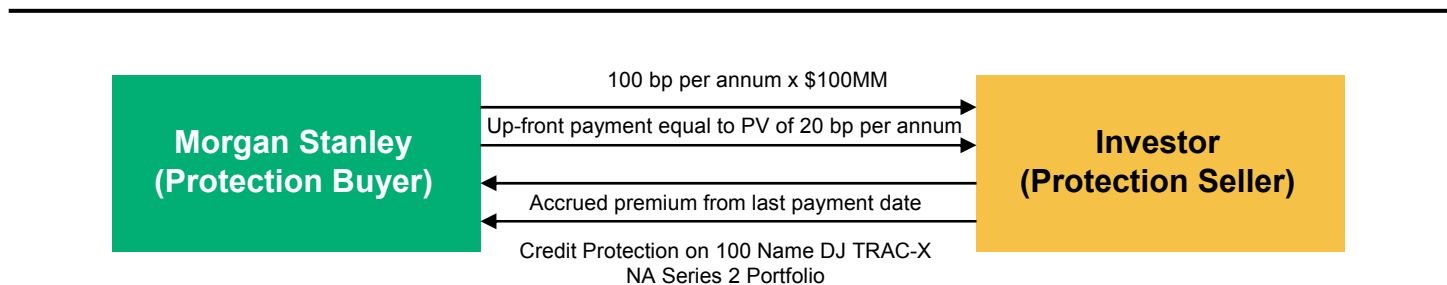
DJ TRAC-X NA Series 2 Description (cont'd)

Transaction Diagram

At Inception



New Transaction After Market Moves 20 bp Wider



DJ TRAC-X NA Series 2 Description (cont'd)

Transaction Diagram Description

- At inception, the premium on the DJ TRAC-X NA Series 2 will be set for the life of the transaction
- As the market moves, an up-front payment (either paid or received) will be required to enter into or exit the DJ TRAC-X NA Series 2
- This up-front payment represents the present value difference between the market and the deal spread
- The seller will also pay the amount of premium which has accrued from the last payment date to the settlement date. In return, the seller will receive a full 90 days of premium on the first payment date

DJ TRAC-X NA Series 2 Description (cont'd)

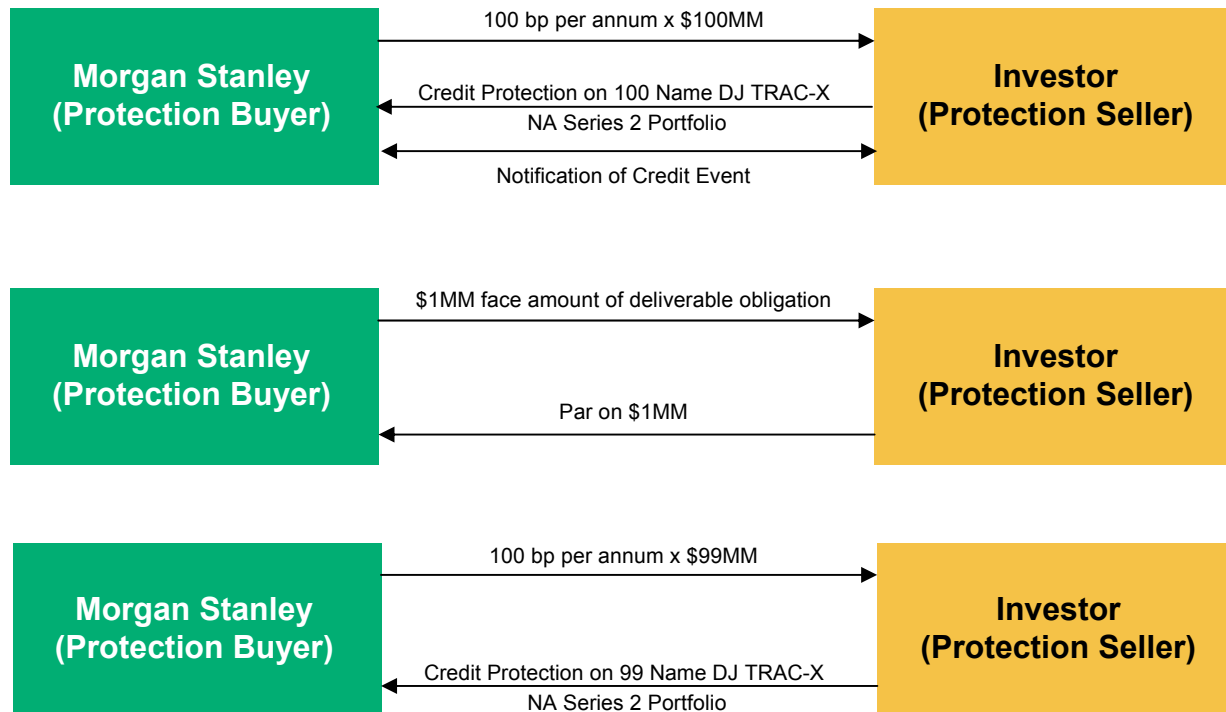
Credit Events and Mechanics

- Credit Events are Bankruptcy and Failure to Pay
- Credit Events can occur any time from and including the Effective Date to and including the Scheduled Termination Date
 - The Effective Date for the DJ TRAC-X NA Series 2 will always be the initial launch date regardless of when a transaction is entered into between counterparties
 - A single Effective Date allows increases or decreases in notional amount to be booked as a single transaction and therefore facilitates the one page supplement in the documentation process
 - This feature makes sellers of credit protection on DJ TRAC-X NA Series 2 liable for any Credit Event which occurred on or after the initial launch date
 - By limiting Credit Events to Bankruptcy and Failure to Pay, it is unlikely that a Credit Event will have occurred prior to a trade date without the parties' knowledge. In the unlikely event that a Credit Event had occurred prior to a trade date and had not been triggered, the economic exposure to the seller of protection is limited to the difference between the mark to market value attributable to that Reference Entity and the mark to market value of the asset the seller receives as a Deliverable Obligation
- Buyer or Seller can be Notifying Party
- Upon the triggering of a Credit Event by either the buyer or the seller with respect to one of the Reference Entities in the portfolio, the effected Reference Entity will be removed from the portfolio and physically settled in accordance with the standard procedure for credit default swaps
- Credit Event notices may not be sent after Scheduled Termination Date (no additional 14 days for notice delivery)

DJ TRAC-X NA Series 2 Description (cont'd)

Transaction Diagram

Credit Event on a Reference Entity Assuming a \$100MM Notional Amount



DJ TRAC-X NA Series 2 Description (cont'd)

Early Exchange Option

- An investor may exchange a DJ TRAC-X NA Series 2 transaction for a single-name transaction on each (and every) of the Reference Entities in the portfolio upon three Business Days notice
- The exchange fee for exercising the early exchange option is 25 basis points multiplied by the exchanged amount
- An investor may only execute the Early Exchange Option if:
 - The amount exchanged is at least USD 2,000,000 per Reference Entity *or*
 - An investor is exchanging the entire transaction
- The transaction will be exchanged for a single-name credit default swap contract for each Reference Entity unless both parties agree to cash settlement
- The premium for each single name credit default swap will be the same spread as the DJ TRAC-X NA Series 2
- All other terms will remain the same

DJ TRAC-X NA Series 2 Description (cont'd)

Documentation

- DJ TRAC-X NA Series 2 will use the 2003 ISDA Credit Derivative Definitions
- Documentation has been structured to allow for streamlined execution of transactions. The documents will consist of the following items:
 - Master Confirmation
 - Schedule of Reference Entities and Reference Obligations (Annex 1 to the Master Confirmation)
 - Transaction Supplement (Annex 2 to the Master Confirmation)
 - Form of Exchanged Reference Entity Confirmation (Annex 3 to the Master Confirmation)
- Investors will sign two Master Confirmations, one where the Investor is a net seller of protection and one where the Investor is a net buyer of protection. Investors do not need to sign both Master Confirmations initially

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CREDIT DEFAULT SWAPS for ticker TRACX CDS Page 1/ 1
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	ISSUER	SPREAD	MATURITY	SERS	RTNG	FREQ	TYPE	CNTRY/CURR
1)	TRAC-X NA 03/09	100	3/20/09	1	N.A.	Qtr	CDS TRACX	US /USD
2)	TRAC-X NA 03/14	100	3/20/14	2	N.A.	Qtr	CDS TRACX	US /USD
3)	TRAC-X NA HB	100	3/20/09	3	N.A.	Qtr	CDS TRACX	US /USD
4)	TRAC-X EUROPE	60	9/20/08	TRX1	N.A.	Qtr	CDS TRACX	EU /EUR
5)	TRAC-X JAPAN	50	9/20/08	1	N.A.	Qtr	CDS TRACX	JP /JPY
6)	TRAC-X AUSTRALIA	30	3/20/09	A	N.A.	Qtr	CDS TRACX	US /USD
7)	TRAC-X JAPAN	35	3/20/09	2	N.A.	Qtr	CDS TRACX	JP /JPY
8)	TRAC-X N AMERICA	100	9/20/08	B	N.A.	Qtr	CDS TRACX	US /USD
9)	TRAC-X EM	407	12/20/08	TRX1	N.A.	S/A	CDS TRACX	US /USD
10)	TRAC-X BBB	100	9/20/08	BBB	N.A.	Qtr	CDS TRACX	US /USD
11)	TRAC-X HY	450	6/20/08	HY	N.A.	Qtr	CDS TRACX	US /USD
12)	TRAC-X EUROPE	60	9/20/08	TXCP	N.A.	Qtr	CDS TRACX	EU /EUR
13)	TRAC-X EUROPE	60	9/20/08	TXIN	N.A.	Qtr	CDS TRACX	EU /EUR
14)	TRAC-X EUROPE	60	9/20/08	TXSB	N.A.	Qtr	CDS TRACX	EU /EUR
15)	TRAC-X EUROPE	60	9/20/08	TXSR	N.A.	Qtr	CDS TRACX	EU /EUR
16)	TRAC-X EUROPE	60	9/20/08	TXTM	N.A.	Qtr	CDS TRACX	EU /EUR

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 920410
 Hong Kong 852 2977 6000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2003 Bloomberg L.P.
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Deal Information and Calculator

GRAB Corp CDSW
 2<GO> to save curve source
CREDIT DEFAULT SWAP CPU:100

Deal Information	Spreads
Reference: TRAC-X NA 03/09	Source: D Defaults
Counterparty: TRAC-X NA 03/09 Deal#: SPK300A0	2<GO> Save Source
Ticker: TRACX CDS Series: 1	Curves: 20<GO> View Rates
Business Days: USD Settlement Code: USD	Benchmark: S 23 A Ask
Business Day Adj: 1 Following	US BGN Swap Curve
Notional Amt: 10.00 MM Currency: USD	23<GO> Reference Entities
Effective Date: 10/ 3/03 Day Count: ACT/360	24<GO> Addl Description
Maturity Date: 3/20/09 Month End: N	Par Cds Spreads Default
Payment Freq: Q Quarterly First Cpn: 12/22/03	Flat: Y (bps) Prob
Pay Accrued: T True Next to Last Cpn: 12/22/08	6 mo 100.00 0.008469
Use Curve Rate: T True Date Gen Method: B Backward	1 yr 100.00 0.016818
Recovery Rate: 0.40 22<GO> Coupon Dates	2 yr 100.00 0.033196
Deal Spread: 100.00 bps	3 yr 100.00 0.049318
	4 yr 100.00 0.065154
	5 yr 100.00 0.080882
	7 yr 100.00 0.111125
	10 yr 100.00 0.154726
	Frequency: Q Quarterly
	Day Count: ACT/360
	Recovery Rate: 0.40
	21<GO> Save Par Cds Sprds
Calculator	
Settlement Date: 10/11/03 Model: J  JPMorgan	
Cash Settled On: 10/16/03	
Curve Date: 10/10/03 Repl Sprd: 100.00 bps	
Market Value: 16.05 Days: 8	
Accrued: -2,222.22 Sprd DV01: 4,867.53	
Total Value: -2,206.18 IR DV01: -.03	
Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 920410 Hong Kong 852 2977 6000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2003 Bloomberg L.P. H003-639-0 10-Oct-03 16:53:52	

DJ TRAC-X NA Series 2 Reference Entities

Name	Rating ⁽¹⁾⁽¹²⁾		Dow Jones Classification
	Moody's	S&P	
1. Aetna Inc.	Baa3	BBB	Healthcare
2. Albertson's, Inc.	Baa1 *-	BBB	Consumer, Non-Cyclical
3. Alcoa Inc.	A2	A-	Basic Materials
4. ALLTEL Corporation	A2	A	Telecommunications
5. Altria Group, Inc.	Baa2	BBB+	Consumer, Non-Cyclical
6. Amerada Hess Corporation	Baa3	BBB	Energy
7. American Electric Power Company, Inc.	Baa3	BBB	Utilities
8. American Express Company	A1	A+	Financial
9. AOL Time Warner Inc.	Baa1	BBB+ *-	Consumer, Cyclical
10. Arrow Electronics, Inc.	Baa3	BBB-	Industrial
11. AT&T Corp.	Baa2	BBB	Telecommunications
12. AT&T Wireless Services, Inc.	Baa2	BBB	Telecommunications
13. Baxter International Inc.	A3	A	Healthcare
14. BellSouth Corporation	A1	A+	Telecommunications
15. The Boeing Company	A2 *-	A	Industrial
16. Bombardier Inc.	Baa3	BBB-	Industrial
17. Bristol-Myers Squibb Company	A1	AA-	Healthcare
18. Cargill, Incorporated	A1	A+	Industrial
19. Carnival Corporation	A3 *-	A-	Consumer, Cyclical
20. Caterpillar Inc.	A2	A	Industrial
21. Cendant Corporation	Baa1	BBB	Consumer, Non-Cyclical
22. Centex Corporation	Baa2	BBB	Consumer, Cyclical
23. Cingular Wireless LLC	A3	BBB+	Telecommunications
24. CIT Group Inc.	A2	A	Financial
25. Citizens Communications Company	Baa2	BBB	Telecommunications

Notes: (1) Issuer and bond level ratings as of September 29, 2003.

(2) *-/+ indicate negative or positive watch.

DJ TRAC-X NA Series 2 Reference Entities

(cont'd)

Name	Rating ⁽¹⁾⁽¹²⁾		Dow Jones Classification
	Moody's	S&P	
26. Clear Channel Communications, Inc.	Baa3	BBB-	Consumer, Cyclical
27. Comcast Cable Communications, Inc.	Baa3	BBB	Consumer, Cyclical
28. Computer Associates International, Inc.	Baa2	BBB+	Technology
29. Computer Sciences Corporation	A2	A	Technology
30. ConAgra Foods, Inc.	Baa1	BBB+	Consumer, Non-Cyclical
31. Constellation Energy Group, Inc.	Baa1	A-	Utilities
32. Countrywide Home Loans, Inc.	A3	A	Financial
33. Cox Communications, Inc.	Baa2	BBB	Consumer, Cyclical
34. CVS Corporation	A2	A	Consumer, Cyclical
35. Danaher Corporation	A2	A+	Industrial
36. Deere & Company	A3	A-	Industrial
37. Delphi Corporation	Baa2	BBB-	Consumer, Cyclical
38. Dominion Resources, Inc.	Baa1	BBB+	Utilities
39. The Dow Chemical Company	A3	A-	Basic Materials
40. Duke Capital Corporation	Baa1	BBB+	Utilities
41. Eastman Chemical Company	Baa2	BBB	Basic Materials
42. Eastman Kodak Company	Baa3	BBB-	Consumer, Cyclical
43. Electronic Data Systems Corporation	Baa3	BBB	Technology
44. EOP Operating Limited Partnership	Baa1	BBB+	Financial
45. Federated Department Stores, Inc.	Baa1	BBB+	Consumer, Cyclical
46. FirstEnergy Corp.	Baa2	BBB	Utilities
47. FleetBoston Financial Corporation	A1	A	Financial
48. Ford Motor Credit Company	Baa1	BBB	Consumer, Cyclical
49. General Electric Capital Corporation	Aaa	AAA	Industrial
50. General Mills, Inc.	Baa2	BBB+	Consumer, Non-Cyclical

Notes: (1) Issuer and bond level ratings as of September 29, 2003.

(2) *-/+ indicate negative or positive watch.

DJ TRAC-X NA Series 2 Reference Entities (cont'd)

Name	Rating ⁽¹⁾⁽¹²⁾		Dow Jones Classification
	Moody's	S&P	
51. General Motors Acceptance Corporation	Baa1	BBB	Consumer, Cyclical
52. Goodrich Corporation	Baa3	BBB-	Industrial
53. Halliburton Company	Baa2 *-	BBB *-	Energy
54. Hewlett-Packard Company	A3	A-	Technology
55. Ingersoll-Rand Company	A3	BBB+	Industrial
56. International Business Machines Corporation	A1	A+	Technology
57. International Paper Company	Baa2	BBB	Basic Materials
58. The Kroger Co.	Baa3 *+	BBB	Consumer, Non-Cyclical
59. Liberty Media Corporation	Baa3 *-	BBB-	Consumer, Cyclical
60. Loews Corporation	A3 *-	A *-	Financial
61. Marriott International, Inc.	Baa2	BBB+	Consumer, Cyclical
62. The May Department Stores Company	Baa1	BBB+	Consumer, Cyclical
63. Maytag Corporation	Baa2	BBB	Consumer, Cyclical
64. MBNA Corporation	Baa2	BBB	Financial
65. McDonald's Corporation	A2	A	Consumer, Cyclical
66. MeadWestvaco Corporation	Baa2	BBB	Basic Materials
67. Monsanto Company	Baa1	A	Technology
68. Motorola, Inc.	Baa2 *-	BBB	Technology
69. Nabors Industries, Inc.	A3	A-	Energy
70. News America Incorporated	Baa3	BBB-	Consumer, Cyclical
71. Nordstrom, Inc.	Baa1	A-	Consumer, Cyclical
72. Progress Energy, Inc.	Baa2	BBB	Utilities
73. Radian Group Inc.	A2	A	Financial
74. Raytheon Company	Baa3	BBB-	Industrial
75. Ryder System, Inc.	Baa1	BBB	Industrial

Notes: (1) Issuer and bond level ratings as of September 29, 2003.

(2) *-/+ indicate negative or positive watch.

DJ TRAC-X NA Series 2 Reference Entities

(cont'd)

Name	Rating ⁽¹⁾⁽¹²⁾		Dow Jones Classification
	Moody's	S&P	
76. Safeway Inc.	Baa2	BBB	Consumer, Non-Cyclical
77. SBC Communications Inc.	A1	A+	Telecommunications
78. Sears Roebuck Acceptance Corp.	Baa1	BBB	Consumer, Cyclical
79. Sempra Energy	Baa1	A-	Utilities
80. Simon Property Group, L.P.	Baa2	BBB *-	Financial
81. SLM Corporation	A2	A	Financial
82. Southwest Airlines Co.	Baa1	A	Consumer, Cyclical
83. Sprint Corporation	Baa3	BBB-	Telecommunications
84. Sun Microsystems, Inc.	Baa1 *-	BBB	Technology
85. SUPERVALU INC.	Baa3	BBB	Consumer, Non-Cyclical
86. Target Corporation	A2	A+	Consumer, Cyclical
87. Textron Financial Corporation	A3	A-	Industrial
88. Toys "R" Us, Inc.	Baa3	BBB-	Consumer, Cyclical
89. Transocean Inc.	Baa2	A-	Energy
90. Tyson Foods, Inc.	Baa3	BBB *-	Consumer, Non-Cyclical
91. UnumProvident Corporation	Baa3	BBB-	Financial
92. Valero Energy Corporation	Baa3	BBB	Energy
93. Verizon Global Funding Corp.	A2	A+	Telecommunications
94. Viacom Inc.	A3	A-	Consumer, Cyclical
95. Visteon Corporation	Baa2 *-	BBB *-	Consumer, Cyclical
96. The Walt Disney Company	Baa1	BBB+ *-	Consumer, Cyclical
97. Wells Fargo & Company	Aa1	A+	Financial
98. Weyerhaeuser Company	Baa2	BBB	Basic Materials
99. Whirlpool Corporation	Baa1	BBB+	Consumer, Cyclical
100. Wyeth	A3	A	Healthcare

Notes: (1) Issuer and bond level ratings as of September 29, 2003.

(2) *-/+ indicate negative or positive watch.

High Beta Reference Entities

Name	Rating ⁽¹⁾⁽¹²⁾		Dow Jones Classification
	Moody's	S&P	
1. Albertson's, Inc.	Baa1 *-	BBB	Consumer, Non-Cyclical
2. Altria Group, Inc.	Baa2	BBB+	Consumer, Non-Cyclical
3. Amerada Hess Corporation	Baa3	BBB	Energy
4. American Electric Power Company, Inc.	Baa3	BBB	Utilities
5. AOL Time Warner Inc.	Baa1	BBB+ *-	Consumer, Cyclical
6. Arrow Electronics, Inc.	Baa3	BBB-	Industrial
7. AT&T Corp.	Baa2	BBB	Telecommunications
8. AT&T Wireless Services, Inc.	Baa2	BBB	Telecommunications
9. Bombardier Inc.	Baa3	BBB-	Industrial
10. Cendant Corporation	Baa1	BBB	Consumer, Non-Cyclical
11. Citizens Communications Company	Baa2	BBB	Telecommunications
12. Comcast Cable Communications, Inc.	Baa3	BBB	Consumer, Cyclical
13. Computer Associates International, Inc.	Baa2	BBB+	Technology
14. Delphi Corporation	Baa2	BBB-	Consumer, Cyclical
15. Duke Capital Corporation	Baa1	BBB+	Utilities
16. Eastman Kodak Company	Baa3	BBB-	Consumer, Cyclical
17. Electronic Data Systems Corporation	Baa3	BBB	Technology
18. FirstEnergy Corp.	Baa2 *-	BBB *-	Utilities
19. Ford Motor Credit Company	Baa1	BBB	Consumer, Cyclical
20. General Motors Acceptance Corporation	Baa1	BBB	Consumer, Cyclical
21. Goodrich Corporation	Baa3	BBB-	Industrial
22. Halliburton Company	Baa2 *-	BBB *-	Energy
23. International Paper Company	Baa2	BBB	Basic Materials
24. Liberty Media Corporation	Baa3 *-	BBB-	Consumer, Cyclical
25. MBNA Corporation	Baa2	BBB	Financial

Notes: (1) Issuer and bond level ratings as of September 29, 2003.

(2) *-/+ indicate negative or positive watch.

High Beta Reference Entities (cont'd)

Name	Rating ⁽¹⁾⁽¹²⁾		Dow Jones Classification
	Moody's	S&P	
26. MeadWestvaco Corporation	Baa2	BBB	Basic Materials
27. Motorola, Inc.	Baa2 *-	BBB	Technology
28. News America Incorporated	Baa3	BBB-	Consumer, Cyclical
29. Progress Energy, Inc.	Baa2	BBB	Utilities
30. Raytheon Company	Baa3	BBB-	Industrial
31. Safeway Inc.	Baa2	BBB	Consumer, Non-Cyclical
32. Sprint Corporation	Baa3	BBB-	Telecommunications
33. Sun Microsystems, Inc.	Baa1 *-	BBB	Technology
34. SUPERVALU INC.	Baa3	BBB	Consumer, Non-Cyclical
35. Toys "R" Us, Inc.	Baa3	BBB-	Consumer, Cyclical
36. Tyson Foods, Inc.	Baa3	BBB *-	Consumer, Non-Cyclical
37. UnumProvident Corporation	Baa3	BBB-	Financial
38. Valero Energy Corporation	Baa3	BBB	Energy
39. Visteon Corporation	Baa2 *-	BBB *-	Consumer, Cyclical
40. Weyerhaeuser Company	Baa2	BBB	Basic Materials

Notes: (1) Issuer and bond level ratings as of September 29, 2003.

(2) *-/+ indicate negative or positive watch.

Section 3: Overview of Funded DJ TRAC-X

DJ TRAC-X NA Series 2 Funded Notes

Overview

- DJ TRAC-X NA Series 2 Funded Note Trust Units (the “Notes”) consists of the following:
 - A credit-linked note referencing either DJ TRAC-X NA Series 2 Index or DJ TRAC-X NA High Beta Series 2 Index
 - Collateral arrangement provided through a Securities Loan Agreement
- The Note should reflect the performance of the DJ TRAC-X NA Series 2 Index, a diversified portfolio of investment grade U.S. corporate credits
 - DJ TRAC-X NA Series 2 Index consists of 100 actively traded investment grade reference entities
 - DJ TRAC-X NA High Beta Series 2 Index consists of a 40 name sub-set of DJ TRAC-X NA Series 2 Index and represents a high beta relationship to the market
- The Notes will be offered globally only to Qualified Institutional Buyers who are also Qualified Purchasers (for purposes of Rule 3(c)(7) under the Investment Company Act)
- ERISA investors will be deemed to make certain representations in connection with their acquisition of Notes
- **The Notes provide all the benefits of unfunded DJ TRAC-X in an efficient funded form**

Product Details

DJ TRAC-X NA Series 2 March 2009

- Issuer: DJ TRAC-X NA Series 2 March 2009, a limited purpose Delaware statutory trust (the “Trust”)
- Form of Issuance: Trust Units
- Launch Date: October 9, 2003
- Effective Date (Default risk begins): October 3, 2003
- Scheduled Termination Date: March 25, 2009
- Size: [\$500MM]
- Collateral: A Securities Loan Agreement under which government, agency, investment grade corporate or asset-backed securities will be lent to the Trust
- Fixed Rate Coupon: 4.25%
- Ratings: [Baa2/BBB by Moody’s and Fitch, respectively]
- Credit Default Swap Reference Portfolio: DJ TRAC-X North America Series 2 March 2009
- Minimum Denominations: \$250,000 and \$1,000 increments thereafter

Product Details

DJ TRAC-X NA High Beta Series 2 March 2009

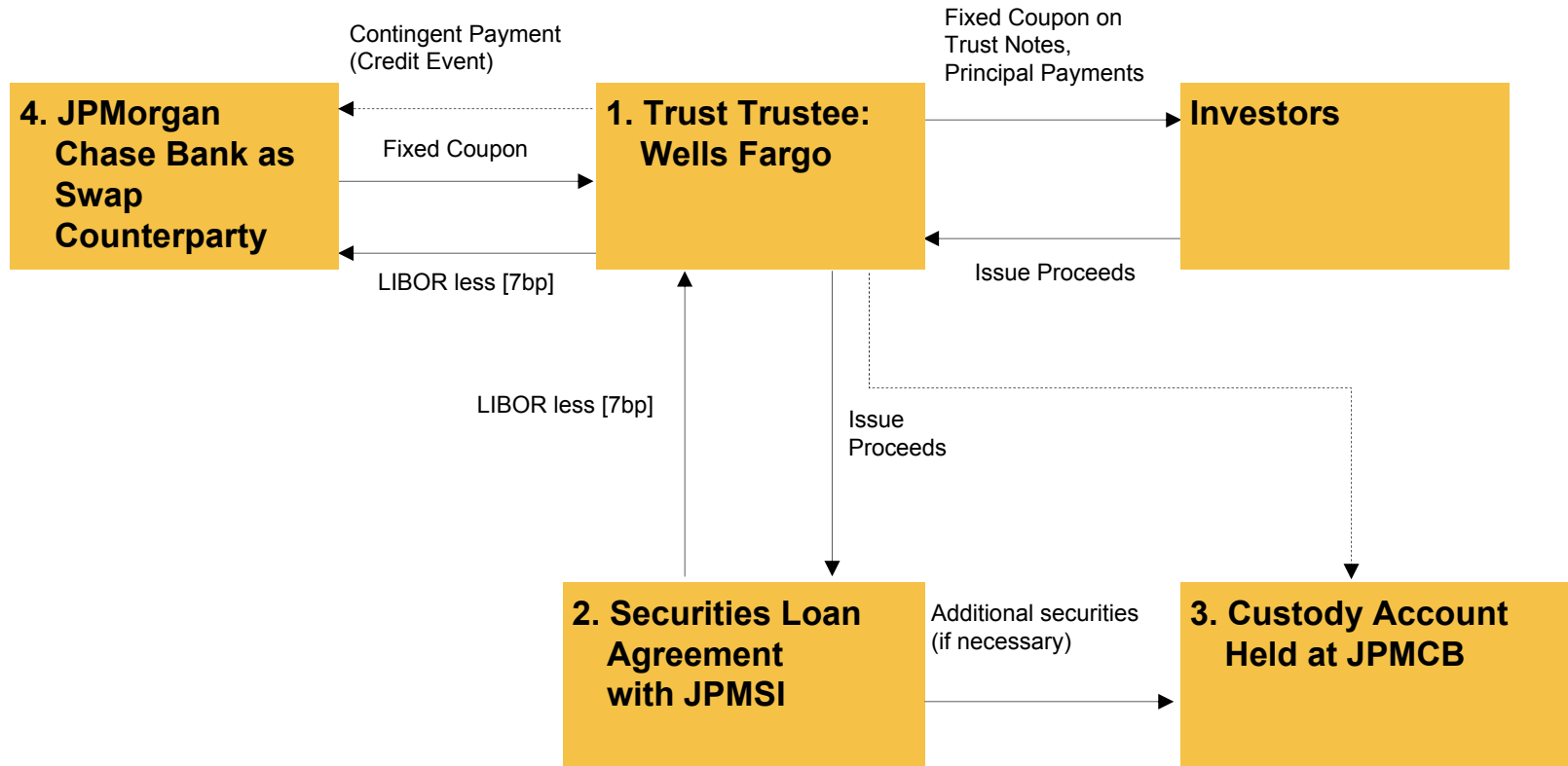
- Issuer: DJ TRAC-X NA High Beta Series 2 March 2009, a limited purpose Delaware statutory trust (the “Trust”)
- Form of Issuance: Trust Units
- Launch Date: October 9, 2003
- Effective Date (Default risk begins): October 3, 2003
- Scheduled Termination Date: March 25, 2009
- Size: [\$300MM]
- Collateral: A Securities Loan Agreement under which government, agency, investment grade corporate or asset-backed securities will be lent to the Trust
- Fixed Rate Coupon: 4.75%
- Ratings: [Baa3/BBB- by Moody’s and Fitch, respectively]
- Credit Default Swap Reference Portfolio: DJ TRAC-X NA Series 2 High Beta March 2009
- Minimum Denominations: \$250,000 and \$1,000 increments thereafter

Structure

The Notes are structured as follows:

1. A Delaware trust is established to issue notes
2. JPMorgan Securities Inc. lends securities (the “Loaned Securities”) to the Trust in return for the issue proceeds
3. The Loaned Securities are deposited in a custodial account for the benefit of the Trust
4. The Trust enters into a credit default swap referencing the DJ TRAC-X NA Series 2 Index with the Swap Counterparty, JPMorgan Chase Bank

Structure ⁽¹⁾ (cont'd)



Note: (1) Diagram assumes Notes are issued at par.

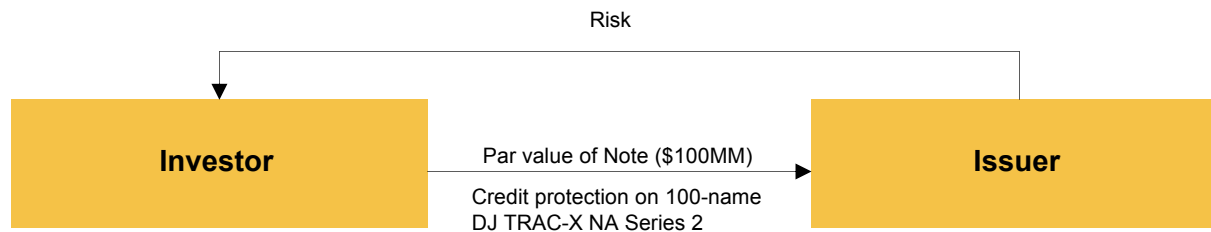
Collateral

- The collateral for the Note is provided through a Securities Loan Agreement (the “SLA”)
- The mechanics of the SLA are as follows:
 - Under the SLA, the Trust will post the proceeds from the sale of the Notes to JPMSI, as securities lending counterparty, as collateral for a securities loan
 - JPMSI will loan the Loaned Securities to the Trust
 - The Loaned Securities will be deposited in a Custody Account for the benefit of the Trust
 - The Loaned Securities will be marked to market daily and, if necessary, topped up with additional securities
 - Subject to certain limitations, JPMSI may substitute Loaned Securities in the Custody Account
 - Loaned Security portfolio composition is expected to include governments, agencies, investment-grade corporates, or asset-backed securities
- Moody’s anticipates the expected loss to the Trust from the SLA and Loaned Securities to be comparable to that of an investment contract guaranteed by an Aaa guarantor

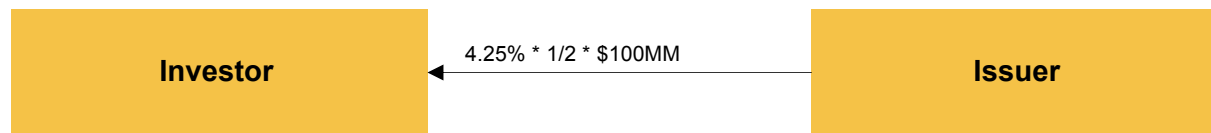
Transaction Diagram (cont'd)

Note Cash Flows

**At Initial Trade Date of DJ TRAC-X NA Series 2 Funded Notes
Assuming a \$100MM Notional Amount**



On Semi Annual Coupon Payment Dates (Assuming No Credit Events)



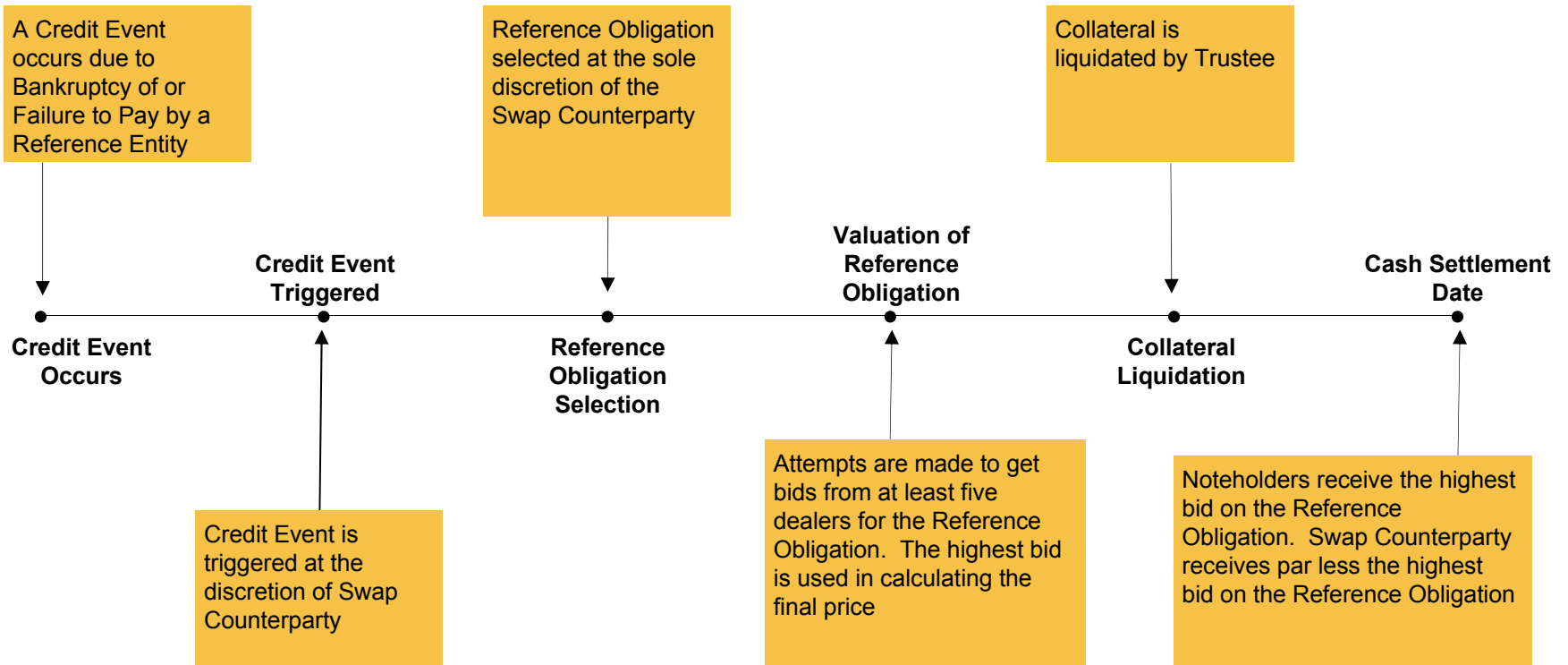
Transaction Diagram (cont'd)

Credit Event

- If a Reference Entity experiences a Credit Event, the notional amount of the Reference Entity will be cash settled
 - The Swap Counterparty chooses the Reference Obligation from which recovery rate will be calculated based on market valuation
 - Par value of SLA is liquidated, reducing total remaining collateral
 - The Note receives the recovery value on the underlying credit
 - The Swap Counterparty receives notional amount minus recovery value on the underlying credit
- Credit Events include Bankruptcy and Failure to Pay

Transaction Diagram (cont'd)

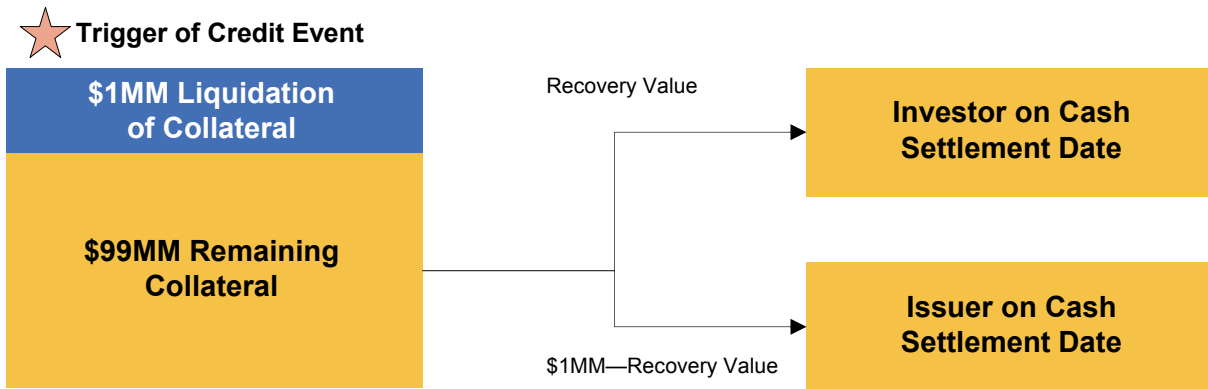
Sample Credit Event Timeline



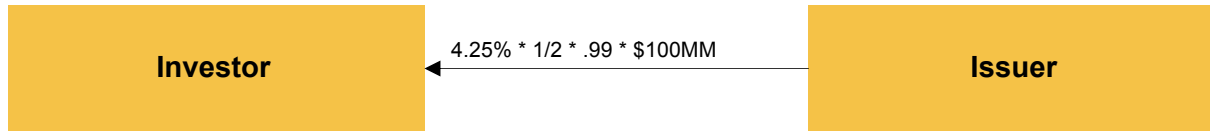
Transaction Diagram (cont'd)

Credit Event

Upon a Credit Event on a Reference Entity in DJ TRAC-X NA Series 2
Assuming a \$100MM Notional Amount



After the Credit Event, Semi-Annual Coupon Payment Adjusts



Bloomberg Yield Calculator

```

GRAB                                     Corp  YA
Enter all values and hit <GO>.
                                     YIELD ANALYSIS          CUSIP:89235QAA
TRAC-X NA          TRACKX 4 1/4 03/09  NOT PRICED
PRICE              99.99                SETTLEMENT DATE 10/16/2003
current yield      4.250                W DRST
YIELD CALCULATIONS      MATURITY 3/25/2009
                                     TO 3/25/09 WORKOUT 1000M FACE
                                     PAYMENT INVOICE
STREET CONVENTION      4.253      4.253
U.S. GOVT EQUIVALENT  4.252      4.252
TRUE YIELD              4.252      4.252
EQUIVALENT 1/YR COMPOUND 4.298      4.298
JAPANESE YIELD (SIMPLE) 4.252      4.252
PROCEEDS/MMKT(ACT/360)

AFTER TAX:
INCOME 39.60% CAPITAL 20.00%  2.569  2.569

SENSITIVITY ANALYSIS
CNV DURATION (YEARS)      4.915  4.915
    ADJ/MOD DURATION      4.812  4.812
    RISK                   4.812  4.812
    CONVEXITY              0.270  0.270
PRICE VALUE OF A 0.01      0.04812  0.04812
YIELD VALUE OF A 0 3/2    0.00649  0.00649

CASHFLOW ANALYSIS
PRINCIPAL                999900.00
0 DAYS ACCRUED INT       0.00
TOTAL                    999900.00
I N C O M E
REDEMPTION VALUE        1000000.00
COUPON PAYMENT          231270.83
INTEREST @ 4.253%      25924.94
TOTAL                   1257195.77

R E T U R N
GROSS PROFIT            257295.77
RETURN                 2 /YR COMP  4.253

FURTHER ANALYSIS
HIT 1 <GO> TOTAL RETURN
HIT 2 <GO> PRICE TABLE

Australia 61 2 9777 8600  Brazil 5511 3048 4500  Europe 44 20 7330 7500  Germany 49 69 920410
Hong Kong 852 2977 6000  Japan 81 3 3201 8900  Singapore 65 6212 1000 U.S. 1 212 318 2000  Copyright 2003 Bloomberg L.P.
H003-639-3 10-Oct-03 17:00:23
    
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Section 4: Overview of Tranched DJ TRAC-X

Tranched DJ TRAC-X North America Overview

- Tranched DJ TRAC-X North America represent vertical slices of the overall portfolio default risk of the 100-name DJ TRAC-X North America
- While portfolio tranching is not new and has been used in ABS and CDO transactions for many years, the DJ TRAC-X North America tranches are the first attempts to create standardized, liquid, and transparent tranching credit risk. Bid/offer spreads are quoted each day on standardized tranches (0-3%, 3-6%, 7-10%, 10-15%, and 15-30%)
- This structure represents a major development in the investment grade CDO and structured credit markets by facilitating:
 - Increased transaction liquidity and total return investment potential relative to less liquid customized products
 - Transparent marking-to-market
 - Observation of market implied correlation breakdowns by tranche, reflecting demand for various parts of the capital structure
- Potential advantages over cash products:
 - Transparency
 - Liquidity (versus CDOs and other structured products)
 - Efficiency
 - Convenience of standardized terms and execution
 - Greater choices of leverage and default exposure are possible than with the underlying DJ TRAC-X alone

Tranched DJ TRAC-X North America Overview (cont'd)

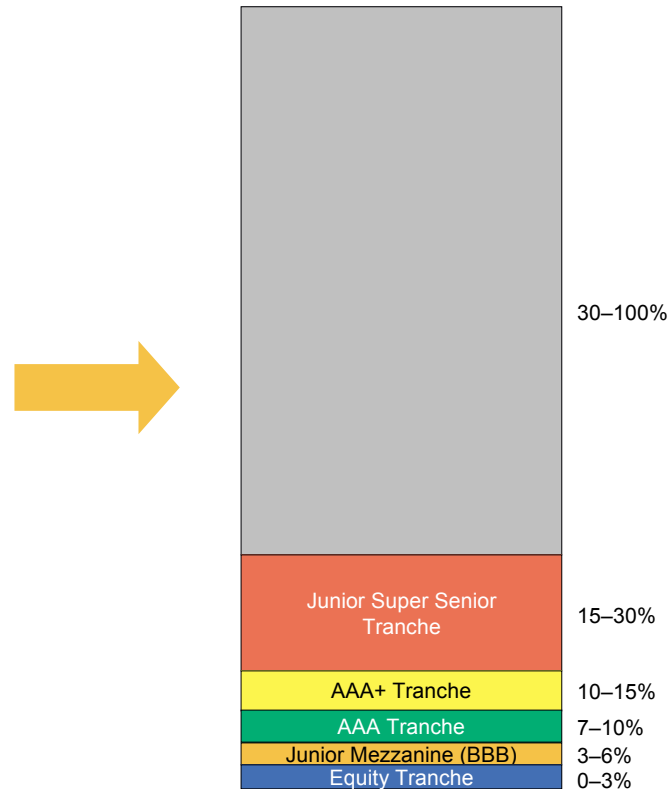
- Tranched DJ TRAC-X North America can provide users with an array of potential opportunities, including:
 - Potentially increased yield
 - Levered return on credit spreads
 - Risk management of loan, bond, or credit derivative portfolios
 - Risk management of less liquid tranched risk portfolios
 - Directional trading of implied correlation
 - Spread volatility trading opportunities
 - Capital structure arbitrage
- Users of Tranched DJ TRAC-X North America may include banks, insurance companies, hedge funds, money managers, and private wealth managers
 - Spread investors may find a more attractive profile of rating and spread to credit risk than is available in other markets or in the TRACERS alone
 - Portfolio hedgers can use the Tranched DJ TRAC-X North America as a proxy for specific layers of risk in their loan portfolios
 - Hedge funds may use DJ TRAC-X to go long or short the credit market on a levered basis and trade the Tranched DJ TRAC-X North America against the underlying. They may also “express a view” on the relationship between tranches and individual credits, or between DJ TRAC-X tranches and tranches of alternative custom portfolios

Next Evolution of DJ TRAC-X North America: Tranche Structure

DJ TRAC-X North America



Tranched DJ TRAC-X North America ⁽¹⁾



Note: (1) Tranched DJ TRAC-X North America are not rated, and there can be no assurances of what rating would actually be applied to any tranche by a rating agency

Next Evolution of DJ TRAC-X: Trading Tranches Credit

- The market has settled upon the following “standard” quoted tranches
- Delta, as used below, measures the magnitude of change in value of the tranche for a given change in the underlying DJ TRAC-X value

Tranched 100-name DJ TRAC-X (Illustrative Pricing as of October 9, 2003)

Tranche	Estimated Rating ⁽¹⁾	Market	Delta	Mid-Market Implied Correlation
15% – 30%	AAA (Junior Super Senior)	+ 7 / 11	0.40	28%
10% – 15%	AAA	+ 32 / 42	1.80	21%
7% – 10%	AAA	+ 80 / 100	4.40	16%
3% – 7%	BBB	+ 290 / 340	8.70	- %
0% – 3%	Not Rated	+ 41 pts. / 45 pts. & 500 bpa ⁽²⁾	9.90	17%
-	Underlying DJ TRAC-X	+ 56 / 58	-	-

Source: Morgan Stanley

Notes: (1) Tranched DJ TRAC-X North America are not rated, and there can be no assurances of what rating would actually be applied to any tranche by a rating agency

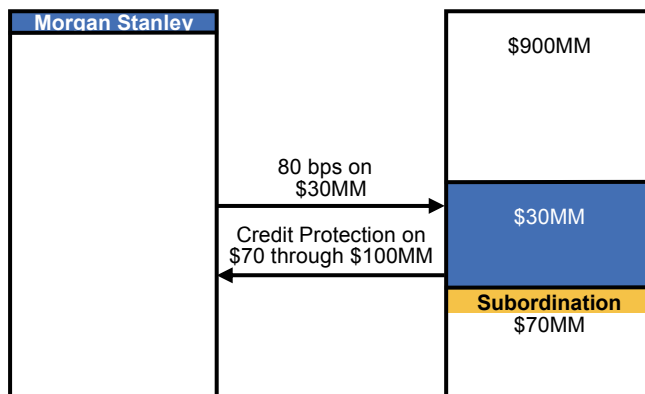
(2) 41 points is the up-front payment. 500 basis points are paid per annum. All other tranche spreads and the underlying DJ TRAC-X spread are quoted in basis points per annum

Tranched DJ TRAC-X North America Description

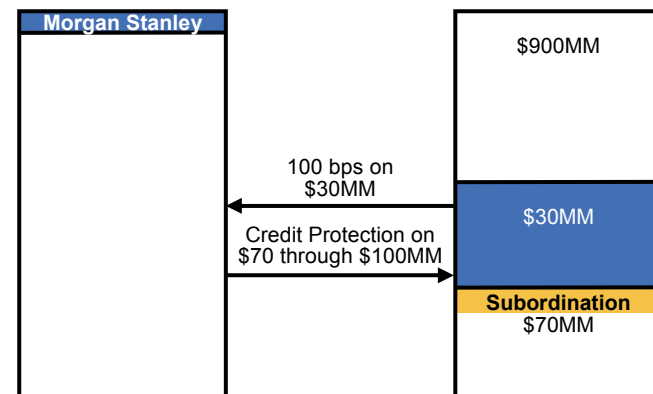
Example of \$1 Billion Notional Transaction in 7-10% Tranche

- As a protection *Seller*:
 - Counterparty receives 80 bps paid quarterly on the Outstanding Notional Amount
 - Counterparty pays cumulative loss amounts in excess of \$70MM, if any, subject to a maximum of \$30MM
- As a protection *Buyer*:
 - Counterparty pays 100 bps quarterly on the Outstanding Notional Amount to Morgan Stanley
 - Counterparty receives cumulative loss amounts in excess of \$70MM, if any, subject to a maximum of \$30MM

Counterparty SELLS protection



Counterparty BUYS protection



What Impacts the Value of Tranched DJ TRAC-X North America?

- Spread of DJ TRAC-X and its Underlying Components
 - All else remaining equal, wider spreads on the underlying portfolio will generally result in wider spreads on each tranche
- Actual Default Experience
 - Realized losses in the underlying portfolio will decrease the outstanding notional amount of the tranche directly affected by the loss
 - Realized losses also reduce subordination of all the remaining tranches, generally increasing spreads
- Time to Maturity
 - All else remaining equal, as tranched trades age, normally upward-sloping credit curves mean that spreads tend to decline
- Interest Rates
 - Since market values are calculated by discounted premium and default payments across various scenarios, higher interest rates will generally result in small positive or negative market values

What Impacts the Value of Tranched DJ TRAC-X North America? (cont'd)

- Implied Default Correlation
 - *Correlation* measures the propensity of a default of one obligor to be associated with increased or decreased probability of default of another obligor
 - *Implied Correlation*, as used in the Tranched DJ TRAC-X North America and synthetic market, is a single value which describes the “pairwise” default correlation in the portfolio
 - High default correlation implies a greater probability of having either very few or very many defaults. Low default correlation implies that default events are relatively more independent
 - In the context of the synthetic market, implied correlation can be thought of as a variable that defines the distribution of the premiums and risks associated with the underlying portfolio across the various tranches

What Impacts the Value of Tranched DJ TRAC-X North America? (cont'd)

- Implied Default Correlation (cont'd)
 - As a rule of thumb:
 - In more subordinate tranches, spread *decreases* as correlation rises
 - In more senior tranches, spread *increases* as correlation rises
 - Some tranches in the middle may be relatively insensitive to correlation
 - Correlation sensitivity also itself changes as underlying spreads move
 - As spreads widen overall, senior tranches start to behave more like subordinate tranches in terms of their sensitivity to correlation
 - As spreads tighten, the opposite is true

Bloomberg Pricing

GRAB		Corp		MSTT	
16:58 Tranchéd TRAC-X NA		PAGE 1 / 1			
Morgan Stanley Tranchéd TRAC-X NA					
	BID	ASK	Delta	Correlation	Time
1) 0-3% (PTS upfront with 500bps p.a.)	41.00	45.00	9.90	17%	9:02
2) 2-5%	653.00	713.00	11.60	21%	9:02
3) 3-7%	290.00	340.00	8.70	%	9:02
4) 7-10%	80.00	100.00	4.40	16%	9:02
5) 10-15%	32.00	42.00	1.80	21%	9:02
6) 15-30%	7.00	11.00	0.40	28%	9:02

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 920410
 Hong Kong 852 2977 6000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2003 Bloomberg L.P.
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Section 5: Overview of Options on DJ TRAC-X

Options on DJ TRAC-X North America (cont'd)

Description

- Options on DJ TRAC-X North America will work in a similar fashion to the over the counter (OTC) options market with only subtle variations
- Upon exercise of an Option on DJ TRAC-X North America (which is documented using standard ISDA Swaption terms), investors are placed into a standard DJ TRAC-X North America credit default swap
- The ability to trade volatility in credit using Options on DJ TRAC-X North America has potential benefits to both fixed income and equity investors. Therefore, the potential audience size and volume could be considerable

Options on DJ TRAC-X North America (cont'd)

Product Details (Options on Series 1)

- **Products**
 - Option to buy protection** (put/payer)
 - Option to sell protection** (call/receiver)
 - Straddle:** the combination of put and call with the same strike
- **Underlying**

DJ TRAC-X North America. The effective date for a credit event will be April 1, 2003, independent of when an option is traded
- **Expiration Date**

Currently traded expiration dates 12/20/03, 3/20/04, and 6/20/04
- **Option Premium**

Prices are quoted in basis points up front, settled at T+3 business days
- **Strike**

Initially, trading will be focused on a limited number of strikes, all of which will be near the spot DJ TRAC-X North America market
- **Exercise Type**

European (e.g., exercisable only at the Expiration Date of the option)
- **Settlement Upon Exercise**

Physical: on exercise, the parties will enter into a DJ TRAC-X North America swap. There will be upfront payment made in the same manner as is calculated for entering into a new DJ TRAC-X North America transaction

Options on DJ TRAC-X North America (cont'd)

Product Details

- **Knock out** No knock-out: prior to exercise, the option will always include all original. Reference Entities regardless of any credit events (subject to successor events) or any Reference Entity Removals
- **Market Makers** Morgan Stanley
Other market makers are expected to begin trading options shortly
- **Documentation** ISDA Swaption language used for option documentation
Standard DJ TRAC-X North America contract applies following any option exercise
- **Indicative quotes** As of October 9, 2003, based on a strike of 60bp

	<u>12/20/03 Expiration</u>
Option to Buy Protection:	\$0.31/\$0.41
Option to Sell Protection:	\$0.09/\$0.19
Straddle:	\$0.42/\$0.57

As of October 9, implied mid-market volatility on DJ TRAC-X North America was 43%

Option to Buy Protection

Sample Option Timeline for Series 1

Option Buyer pays option price based on:

- Current premium on DJ TRAC-X North America
- Implied volatility of underlying DJ TRAC-X North America
- Prevailing LIBOR rate curve
- Time to expiry of option
- Strike spread of option

After exercise, the Buyer makes regular quarterly premium payments under the DJ TRAC-X North America swap to the Seller.



Option Trade Date

Option Exercise Date

First Quarterly Payment Date

If the option is exercised:

- Option Buyer and Seller exchange an upfront premium equal to the net of:
 - PV of the difference between the quarterly payment and the strike spread
 - Accrued interest, if any
- Buyer and Seller enter into a DJ TRAC-X North America swap and each may trigger on any Credit Events that have occurred since April 1, 2003 (single name as well as Reference Entity Removal)
- Buyer and/or Seller may choose not to trigger on credit events until a later date, if recovery value is expected to change over time

Option Exercise: Sample Option Cash Flows

Option Buyer purchases an Option to Buy Protection from Morgan Stanley

- Strike spread = 60bp
- Black-Scholes Mid-Market Implied volatility = 43%
- Expiration date = December 20, 2003
- Premium paid (offer spread) = \$0.41

On the first quarterly payment date, the Buyer makes the first premium payment to the Seller at the rate of 100bp per annum

Option Exercise Date
(December 20)

Time = 0 (October 9)
Option Trade Date

March 20, 2004

Buyer exercises the Option to Buy Protection on the Expiration Date. Assuming that DJ TRAC-X North America has widened to 65bp (bid side, for mark to market):

- Option Buyer receives from Morgan Stanley the present value of 40bp per annum for the life of the swap contract. (40bp = 100bp contract premium – 60bp strike)
- Because the Option Exercise Date falls on a quarterly payment date, Option Buyer does not receive any accrued interest
- If Option Buyer marks to market the value of the contract, Option buyer would recognize a 5bp increase in value (5bp = 65bp market value – 60bp paid)

Payoffs of Options on DJ TRAC-X North America

Sample Diagram: Option to Buy Protection

- The Option to Buy Protection can also be thought of as:
 - The option to Sell Risk
 - A Put Option
 - A Payer Option
- As the value of the underlying increases (spreads widen), Options to Buy Protection increase in value and Options to Sell Protection decrease in value
- As of October 9, the DV01 one could use to estimate the breakeven point is approximately \$0.049/bp
 - For example, on an option with an upfront premium of \$0.41, the breakeven is roughly: $\$0.41 \div \$0.049/\text{bp} = 8.4\text{bp}$ greater than the strike price

Payoffs of Options on DJ TRAC-X North America

Sample Diagram: Option to Buy Protection (cont'd)

Sample Option to Buy Protection

Value of Option to Buy Protection at Expiration Date (December 20, 2003)

