



ANGELO, GORDON & CO.

CAPITAL MARKET'S PERSPECTIVES

SECOND QUARTER 2014

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ANGELO, GORDON & CO. is a privately held investment management firm that was founded in 1988 to focus on alternative money management activities and currently has assets under management of \$26 billion. The firm's investment philosophy combines fundamental in-depth research and a conservative valuation approach with a diversification strategy designed to reduce downside risk and protect principal.

Investment disciplines encompass four principal business lines: (i) credit; (ii) real estate; (iii) private equity and (iv) multi-strategy. Funds are managed in single-strategy vehicles or multi-strategy vehicles. A great deal of synergy exists among the investment teams and their ability to work together has proven to be a key element in the firm's success.



BRUCE MARTIN
Portfolio Manager
Non-Investment Grade
Corporate Credit

The markets delivered textbook style returns for the second quarter and year-to-date. As global economies experienced slowing growth, central banks continued their accommodative policies leading to slightly declining interest rates and positive investment performance for virtually all security classes. Second quarter and year-to-date produced the following returns respectively: the S&P 500 up 5% and 7.1%; the 10 Year Treasury bond up 2.7% and 6.1%; the investment grade bond market up 2.6% and 5.8%;* the high yield bond market up 2.4% and 5.7%;** and the Leveraged Loan Index up 1.5% and 2.8%.*** Complacency and lack of volatility in financial markets have ironically become the new cause for concern, presumably because this can lead to increased use of leverage and less tolerance for surprises. Peripheral events we are monitoring include conflict in the Ukraine and/or Iraq; second quarter earnings weakness; and retail loan fund outflows, even as the CLO market continues to generate new demand for loans at a record pace.

* Credit Suisse US Liquid Corporate

** JP Morgan Domestic HY Bond Index

*** Credit Suisse Leveraged Loan Index

THOMAS FULLER
Portfolio Manager
Distressed Debt

Leveraged finance is in high gear and new issuance is well on track to surpass last year's record levels. Both the bond and loan markets are robust with investors keen to capture the relatively higher yields offered despite the below investment grade nature of the issuers. In the U.S., real rates of default remain low and markets are fully priced. The European market, however, continues to bear fruit. The commercial banking community across the continent is demonstrating serious resolve to repair their balance sheets and dispose of non-core assets. With levered corporate loans in particular, the banks are availing themselves of the secondary market to sell at meaningful discounts, with pricing in the 80s for some performing loans and as low as the 50s and 60s for non-performing loans where a full restructuring is likely.

ARTHUR PEPONIS
Portfolio Manager
Private Equity

The private equity market has continued the trends that we have seen over the last year or so. Deal volume remains robust and is on pace to have a year comparable to 2013. The market remains highly competitive for assets. This is driven by a number of factors. The amount of "dry powder" for buyout funds is near historical highs. Further, as credit investors search for yield, the amount and terms that private equity funds receive from banks and the debt market are similar to those received during the buyout boom of 2005 to 2007. Leverage multiples have increased throughout the first half of 2014 and issuer friendly terms such as "covenant-lite" represent 65% of issuance. Not surprisingly, these factors translate into higher multiples for sellers. We continue to see upward pressure on purchase price multiples. More frequently, sponsors are "pre-empting" investment banker M&A processes and offering sellers low to mid-teens EBITDA multiples for their companies. The effect is a robust exit environment for sponsors. Through the first half of 2014, private equity exits by dollar volume were ahead of last year's record pace. The equity, M&A, and credit markets were all open in the second quarter for sponsors to monetize assets.

DAVID KAMIN
Portfolio Manager
Merger Arbitrage

Merger arbitrage spreads during the second quarter could be described as a barbell. The average annualized net spread was +10% with some deals as wide as 30-40%; however, the median spread was approximately 4%. The second quarter experienced a surge in M&A activity fueled by unsolicited or hostile approaches, the much talked about tax inversion deals, and the continuance of 'mega deals.' Some highlights during the quarter included deals in Allergan Inc, Covidien Plc, DIRECTV Inc, and Questcor Pharmaceuticals. While activism continues to play a role in corporate decisions, there has been a slight shift to push for either an outright sale or a split of companies instead of repurchases and dividends – Icahn on Family Dollar Stores and Elliott Management pressing Riverbed Technology are just two examples. Year-to-date, 2014 is on track to be the strongest year for M&A since 2007 as confidence in the global economy is returning to CEOs and the board room.

PORTFOLIO MANAGERS' CORNER *(continued)*

GARY WOLF

Portfolio Manager
Convertible Arbitrage

Global convertible bonds returned 3.7%* in the second quarter, versus 5.04%** for global equities. The BAML U.S. Convertible Hedge Index was up 2.7% during the period. Primary market activity accelerated sharply, with \$32 billion of new deals priced during the quarter. The largest transactions included convertibles from Citrix Systems, Cobalt Intl Energy, Yamada Denki and Toray Industries, with proceeds for each exceeding \$1 billion. Global year-to-date issuance total now stands at \$52 billion, compared to \$40 billion at the same time last year. Strong issuance leads to opportunities to put money to work in new deals. Overall, new issues continued to perform well, despite slightly more demanding initial valuations, offering investors a steady source of returns. June was a particularly strong month for new issuance and the global supply ultimately started putting pressure on secondary market valuations, which had reached fairly challenging levels in the balanced segments of the market, especially in Europe and Japan. This should provide attractive entry points in the second half of the year, particularly in Japan, where value is beginning to appear.

*Barclays Global Convertible Bond Index

**MSCI World Index

TODD DITTMANN

Portfolio Manager
Energy Direct Lending

Year-to-date, the energy direct lending opportunity has been decidedly oil and gas flavored. Companies in the oil and gas space substantially expanded their capital budgets due to repeated drilling success, continued production gains, robust operating margins, and healthy commodity prices. As their capital expenditures balloon, smaller oil and gas companies have a significant need for third party capital as they regularly outspend cash flow. Additionally, evidence is mounting that smaller oil service borrowers are also beginning to spend more, driven by their need to replace and repair aging equipment. Broad-based utilization and day rate increases across most services and equipment classes are further pushing oil service spend. We anticipate that in the absence of material adverse commodity price movements, this developing trend will continue.

JONATHAN LIEBERMAN

Portfolio Manager
Residential and Consumer Debt
(RMBS/ABS)

RMBS and ABS markets continued to deliver strong and solid investment returns during the second quarter across all strategies and sectors. Credit, Agency, and ABS experienced credit spread tightening as securities prices appreciated in response to modest supply and strong investor demand for yield products. Fears that interest rates would rise due to Fed tapering of agency MBS and Treasury securities proved unfounded. Similarly, geopolitical issues continued to have little effect on liquidity, demand, or underlying borrower performance. Trading volumes did experience material declines in April and May before significantly rebounding in June. Negative net issuance for RMBS and ABS coupled with real money demand for higher yielding assets remained a positive technical. With respect to borrower performance, the trend of improving consumer and mortgage credit quality continued to hold during the spring. The severe winter weather delayed and slowed the important spring home sales market. Home sales volumes did show signs of accelerating in late May and June. Uneven supply of homes and last year's sharp rise in home values are a headwind for future housing value increases. Investor purchases of single family homes and expanding access to mortgage credit should provide a solid floor for housing values. Since the beginning of May over \$8 billion of supply has come to market in legacy whole loans offering attractive yields and favorable risk profiles.

ANDREW SOLOMON

Portfolio Manager
Real Estate Debt (CMBS)

During the second quarter of 2014 the song remained largely the same for the CMBS market. New issue deals were well-received, with spreads continuing to tighten, despite deteriorating underwriting standards. In the legacy space, the highest quality securities showed little change in price, but demand for securities with incremental yield was robust. As a result, legacy junior AAAs ("AJs"), lower rated legacy classes, and new issue bonds rated single A and lower tended to show the largest price improvements during the quarter. Several other market dynamics also helped boost pricing in the market. Rising commercial real estate valuations, a supply/demand imbalance, and generally better than expected outcomes from liquidations of problematic legacy loans at levels have all lent support to the market. After several consecutive years of volatile Springs in the CMBS market, the fairly benign first half of 2014 and lack of market volatility has given market participants more incentive to reach for yield.

PORTFOLIO MANAGERS' CORNER *(continued)*

GORDON J. WHITING
Portfolio Manager
Net Lease Real Estate

The net lease market continues to offer a robust supply of deals. Sellers have been enticed into the market for many reasons including cap rate compression and a broad array of alternative opportunities for redeploying cash. Additionally, many companies are seeing a pick-up in sales growth and are looking to expand their facility footprints. For example, in the logistics market, as more retail sales move to the internet, companies are looking to build distribution centers closer to urban areas to shorten delivery times. The tame interest rate environment led to a continued aggressive lending environment during the quarter and we have seen loan quotes with 6 and 7 year interest-only periods, primarily from CMBS lenders. According to Real Capital Analytics, \$60 billion of sale leaseback transactions were completed in 2013 and the market expectation is for 2014 deal volume to run at similar levels.

ADAM SCHWARTZ
Portfolio Manager
Head of U.S. and Europe
Real Estate

Real estate valuations continued to accelerate in the second quarter following the public market rebound in REIT values which have added 16% year-to-date. Private market values in the core space (Green Street Commercial Property Price Index) are up 3% over the prior 3 months and 5% over the trailing 12 months while the broader market as tracked by Moody's indicates 12 month returns closer to 15%. These increases are supported by capital increasingly searching for excess yield and pushing non-gateway city prices higher, narrowing the historically wide gap between the Tier 1 and non-Tier 1 cities. Increasing property values were driven by declines in interest rates as well as improving property fundamentals and continued capital flows into both real estate debt and equity. Through April, overall sales volume is up 20% over last year.

In Europe, bank disposals of stressed, distressed, and non-core real estate assets are accelerating. Last year saw a total of €30.3 billion of real estate loan sales in Europe and thus far this year, €29.9 billion has already transacted. It is estimated that in 2014 there will be over €50 billion in real estate loans sold. Pricing in the large (over €1 billion) NPL space continues to be very competitive as the majority of money raised for the European real estate opportunity is focused on this area. Conversely, we continue to see very attractive relative and absolute pricing in the deal sizes under €100 million where there is much less competition and success relies on both fixing the capital structure as well as correcting asset sub-performance. As distressed asset and loan sales accelerate, financing, aside from exotic structures, remains very subdued with commercial real estate credit availability in the UK recording negative 1% growth in Q2.

WILSON LEUNG
Portfolio Manager
Head of Asia Real Estate

After a year of strong growth in China's residential market, we began to see some weakening in the first quarter of the year. Residential sales volume fell 5.8% in Q1 and pricing fell an estimated 2.1% on a national basis compared to Q1 2013. The drivers of this decline are a combination of a high base in 2013 and a tightening of credit by the large state banks which began in mid-2013. This is a cycle that we are familiar with and have seen three times in the past nine years. In the first phase, strong underlying demand for residential product drives up volume and price. Subsequently, the government steps in to reign in price growth and moderate demand by reducing credit and implementing individual purchase restrictions. Volume falls as buyers take a wait-and-see attitude. Developers then moderately reduce prices to attract buyers back to the market. If the pullback in the market is too severe, the government will then loosen its policies that restrict demand. In this down cycle, attractive buying opportunities may exist as developers struggle with lower sales volumes and large inventories of undeveloped residential land.

As we had expected, vacancy in the Tokyo office sector declined below 7% as new supply was absorbed by tenants expanding and taking advantage of the low rent environment. Rents, as a result, have begun to rise for the first time in six years. Japanese REITs and foreign core buyers continue to inject more capital into core Japanese real estate, although spreads between cap rates and borrowing costs remain wide at 300+ bps. There are attractive opportunities at the opportunistic end of the investing spectrum where there is limited capital to buy transitional assets that need physical upgrades and professional leasing and management. In Korea, the Seoul office market showed signs of a recovery with vacancy declining in the first quarter to 11%. There is an exceptionally limited amount of opportunistic capital in this high barrier to entry market, which provides opportunity for these types of transactions.



JOB MARKET

Macro Economics

Five Year Trend

US – Unemployment Rate

As of 6/30/2014

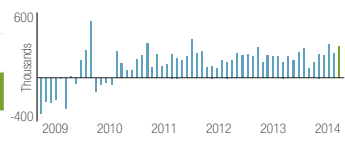
Latest Level	6.1
Changes from Prior Month	(0.2)
Latest Direction	Improving
Frequency	Monthly



US – Non Farm Payroll

As of 6/30/2014

Latest Level	288.0
Changes from Prior Month	64.0
Latest Direction	Improving
Frequency	Monthly



US – Labor Participation Rate

As of 6/30/2014

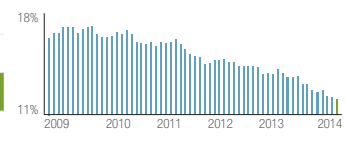
Latest Level	62.8
Changes from Prior Month	0.0
Latest Direction	No Change
Frequency	Monthly



US – U-6 Unemployed & Margin & Part Time as % of Labor Force & Margin

As of 6/30/2014

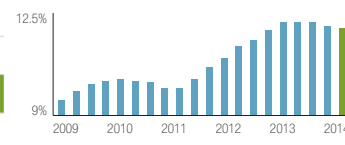
Latest Level	12.1
Changes from Prior Month	(0.1)
Latest Direction	Improving
Frequency	Monthly



Eurozone Unemployment Rate

As of 3/31/2014

Latest Level	11.7
Changes from Prior Quarter	(0.1)
Latest Direction	Improving
Frequency	Quarterly



INFLATION

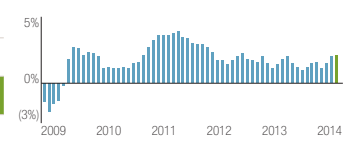
Macro Economics

Five Year Trend

US Consumer Price Index (CPI) Y-o-Y %

As of 5/31/2014

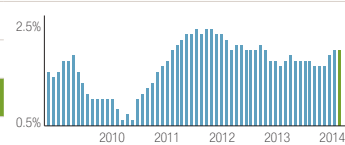
Latest Level	2.1
Changes from Prior Month	0.1
Latest Direction	Increasing
Frequency	Monthly



US CPI Goods Excl Food and Energy Y-o-Y %

As of 5/31/2014

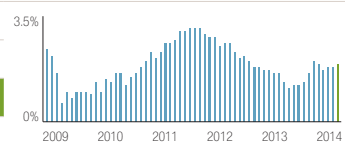
Latest Level	1.9
Changes from Prior Month	0.1
Latest Direction	Increasing
Frequency	Monthly



US Producer Price Index (PPI) Y-o-Y %

As of 6/30/2014

Latest Level	1.9
Changes from Prior Month	0.1
Latest Direction	Increasing
Frequency	Monthly



GDP GROWTH

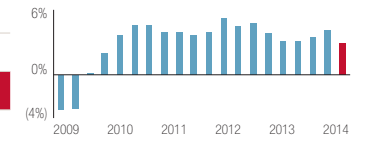
Macro Economics

Five Year Trend

US – GDP Y-o-Y %

As of 3/31/2013

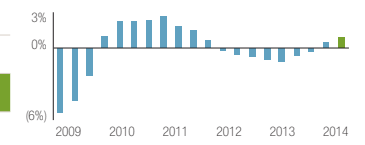
Latest Level	2.9
Changes from Prior Quarter	(1.2)
Latest Direction	Decelerating
Frequency	Quarterly



Eurozone – GDP Y-o-Y %

As of 3/31/2013

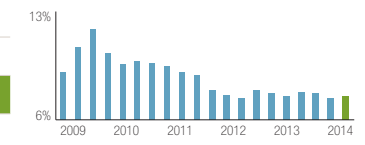
Latest Level	0.9
Changes from Prior Quarter	0.4
Latest Direction	Improving
Frequency	Quarterly



China – GDP Y-o-Y %

As of 6/30/2014

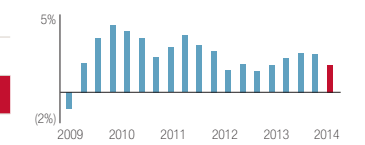
Latest Level	7.5
Changes from Prior Quarter	0.1
Latest Direction	Improving
Frequency	Quarterly



World – GDP Y-o-Y %

As of 3/31/2013

Latest Level	1.8
Changes from Prior Quarter	(0.7)
Latest Direction	Decelerating
Frequency	Quarterly



HOUSING

Macro Economics

Five Year Trend

Existing Home Sales

As of 5/31/2014

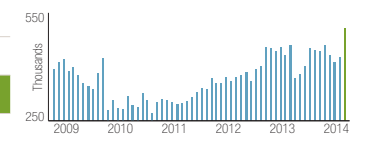
Latest Level	4.9
Changes from Prior Month	0.2
Latest Direction	Improving
Frequency	Monthly



New Homes Sales

As of 5/31/2014

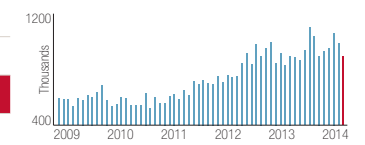
Latest Level	504
Changes from Prior Month	15
Latest Direction	Improving
Frequency	Monthly



Housing Starts

As of 6/30/2014

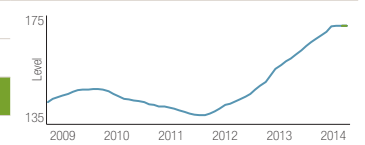
Latest Level	893
Changes from Prior Month	(170)
Latest Direction	Decelerating
Frequency	Monthly



Case-Shiller Index of Home Value in 20 cities

As of 6/30/2014

Latest Level	171.7
Changes from Prior Month	0.3
Latest Direction	Improving
Frequency	Monthly



Source: Bloomberg (All)

ECONOMIC DASHBOARD *(continued)*

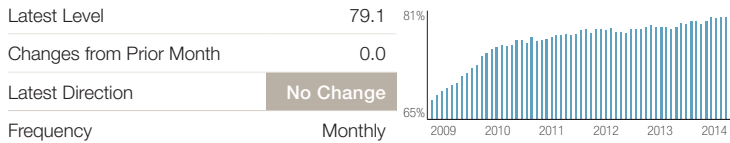
ECONOMIC & MARKET CONFIDENCE

Macro Economics

Five Year Trend

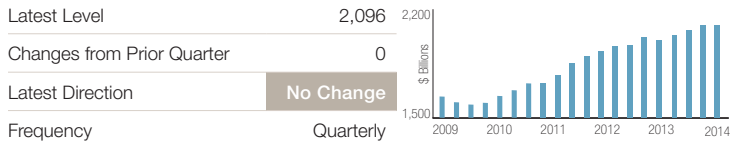
Capacity Utilization as a % of Capacity

As of 6/30/2014



Private Fixed Investment Nonresidential SAAR

As of 3/31/2014



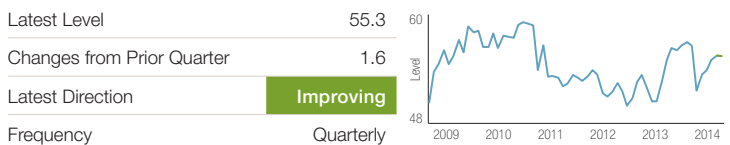
Residential Fixed Investment as a % of GDP

As of 3/31/2013



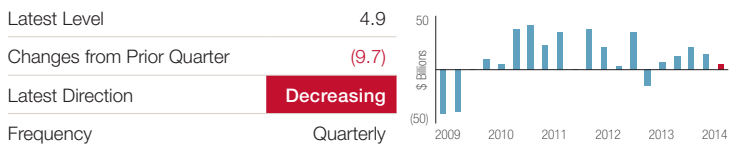
ISM Manufacturing Index

As of 6/30/2014



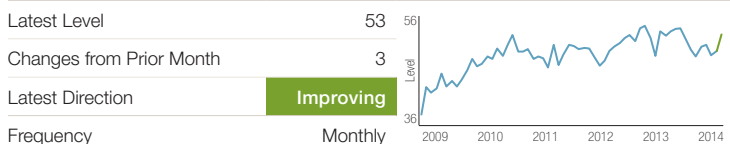
Manufacturing Inventory Change Q-o-Q \$

As of 3/31/2014



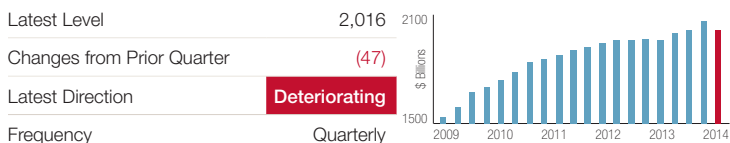
Architecture Firms Billings Index

As of 5/31/2014



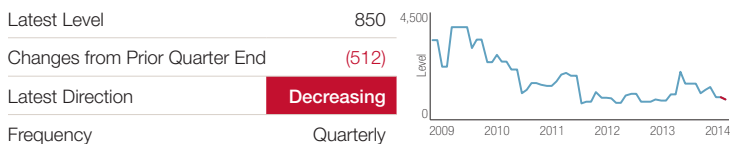
Exports of Goods/Services

As of 3/31/2014



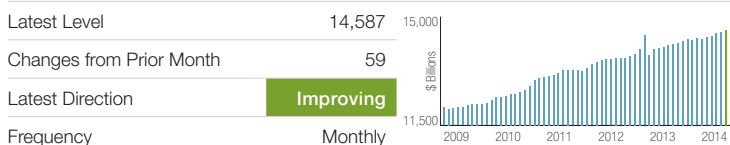
Shipping Rates

As of 6/30/2014



Personal Income Level

As of 5/31/2014



ECONOMIC & MARKET CONFIDENCE *(continued)*

Macro Economics

Five Year Trend

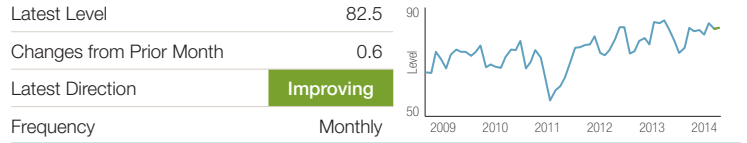
US Retail Chain Store Sales Y-o-Y

As of 6/30/2014



Michigan Consumer Confidence Sentiment

As of 6/30/2014



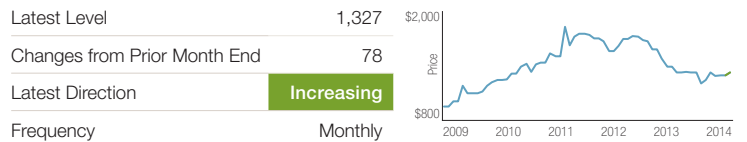
COMMODITIES

Macro Economics

Five Year Trend

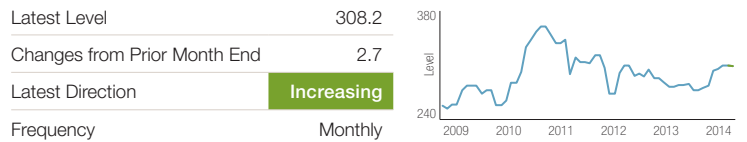
Gold

As of 6/30/2014



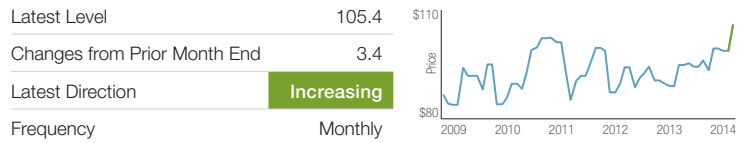
Reuters/Jefferies Commodity Index

As of 6/30/2014



WTI Crude Oil Price

As of 6/30/2014



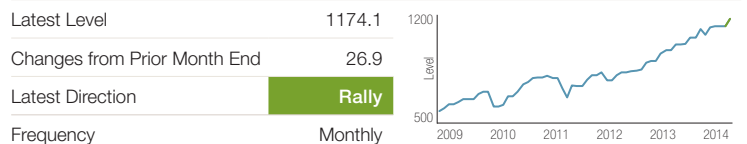
EQUITY

Macro Economics

Five Year Trend

US Equity Markets – Russell 3000

As of 6/30/2014



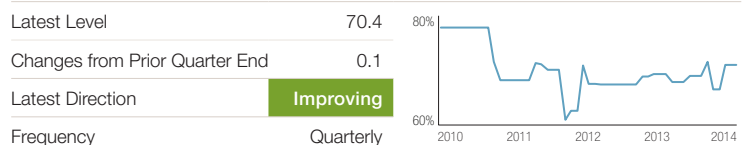
US Equity – VIX

As of 6/30/2014



S&P 500 Percentage Exceeding Earning Estimates

As of 6/30/2014



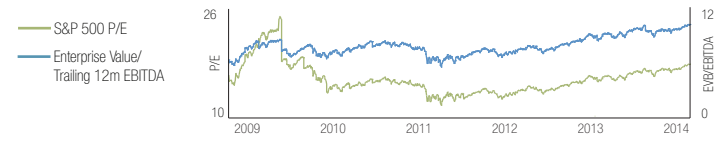
Source: Bloomberg (All)

ECONOMIC DASHBOARD *(continued)*

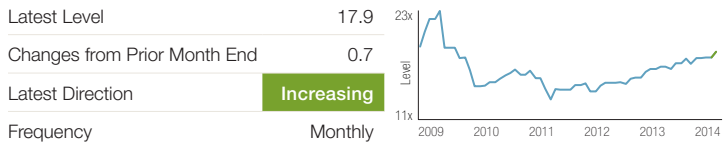
EQUITY

Macro Economics Five Year Trend

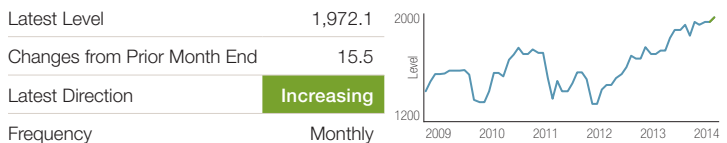
S&P 500 Historical Valuation Levels



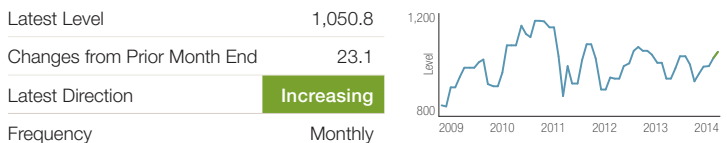
Trailing P/E on S&P 500 As of 6/30/2014



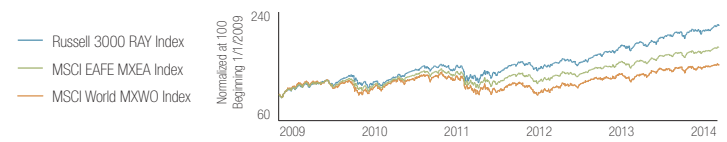
Equity Markets – MSCI EAFE As of 6/30/2014



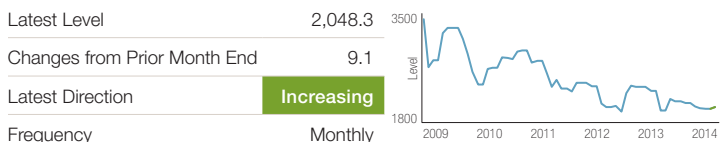
Equity Markets – MSCI Emerging Markets As of 6/30/2014



Russell 3000, MSCI EAFE, MSCI World



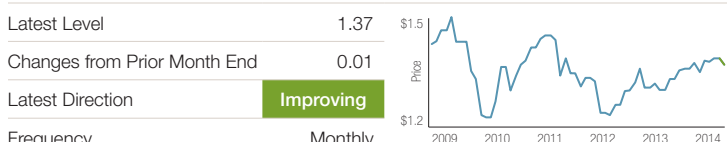
Equity Markets – Euro Stoxx As of 6/30/2014



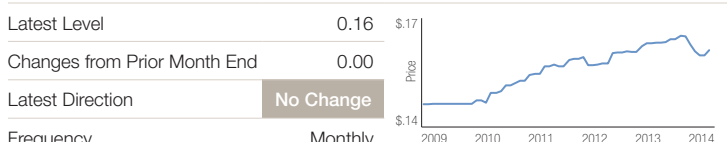
FOREIGN EXCHANGE RATE

Macro Economics Five Year Trend

Euro Spot Rates vs 1 USD As of 6/30/2014



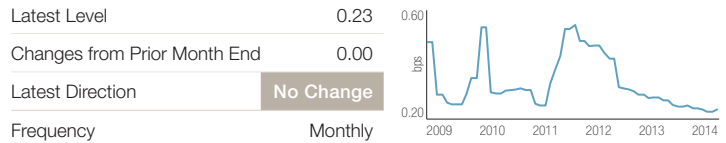
Yuan Spot Rate vs 1 USD As of 6/30/2014



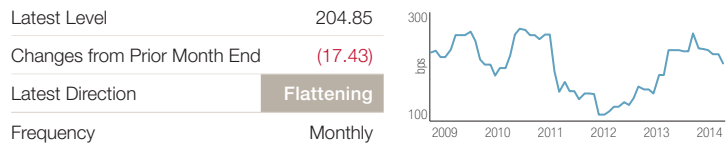
RATES

Macro Economics Five Year Trend

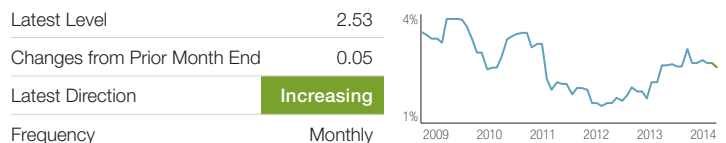
LIBOR 3M As of 6/30/2014



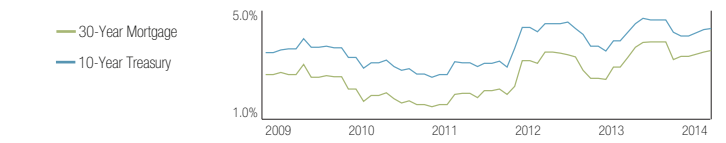
Swaps 2Y vs 10Y As of 6/30/2014



Treasury 10 Yr Yield As of 6/30/2014



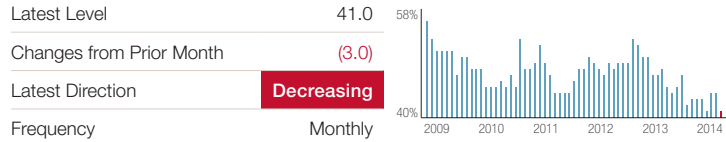
30 Yr Mortgage and 10 Yr Treasury



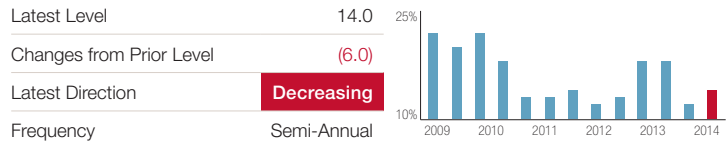
POLITICS

Macro Economics Five Year Trend

NBC NEWS/WSJ Poll Obama Approval Rating⁽¹⁾ As of 6/22/2014



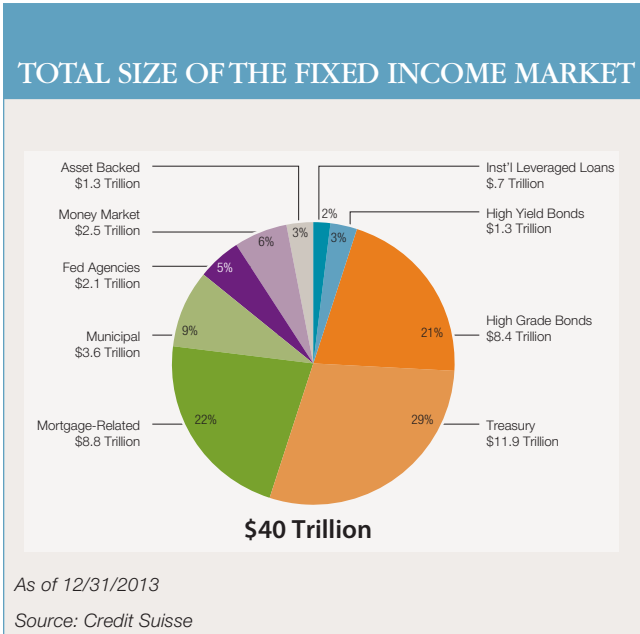
NBC NEWS/WSJ Poll Congress Approval Rating⁽¹⁾ As of 6/22/2014



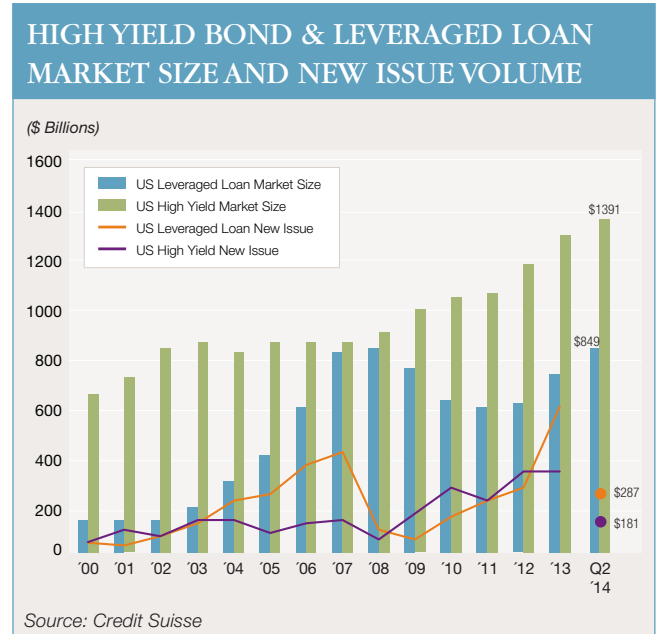
Source: Bloomberg (Except where noted)
(1) NBC News/Wall Street Journal Survey

"Latest Direction" is from the last "Frequency" measurement

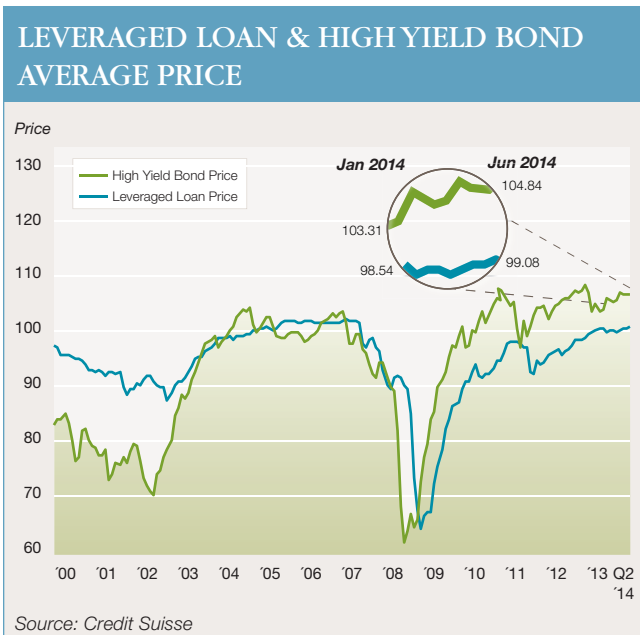
NON-INVESTMENT GRADE CORPORATE CREDIT



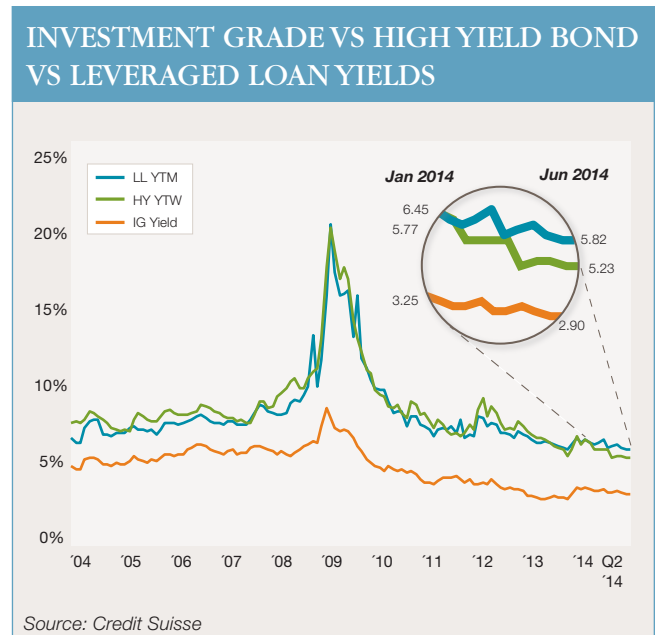
High yield bond and leveraged loan markets are ~\$2 trillion in size



High yield bond and leveraged loan markets continue to expand to keep up with investor demand for yield



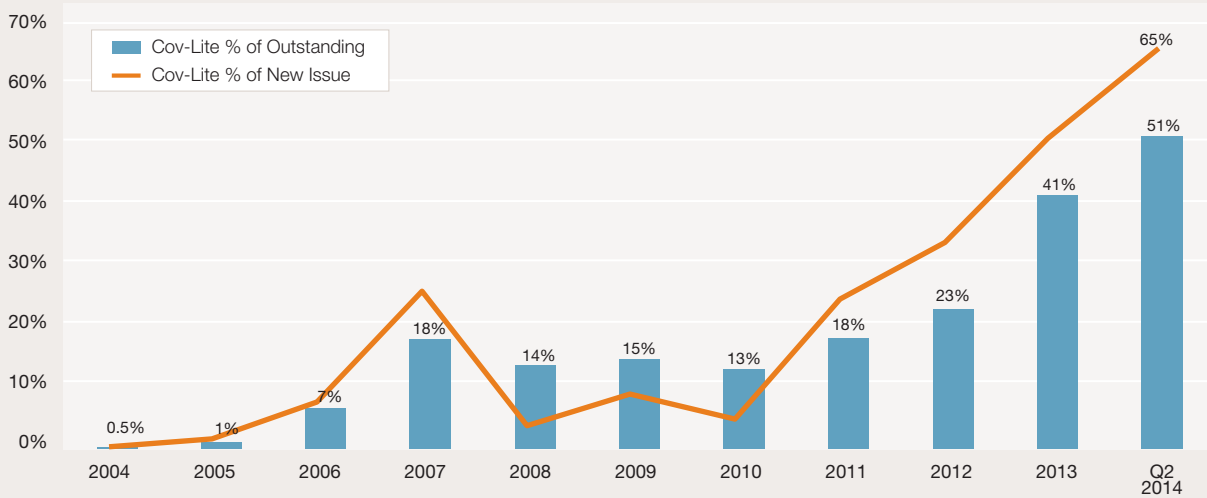
Little room left for further price appreciation in high yield bonds



Corporate securities yielding near their all-time lows. Leveraged loan yield attractive compared to lower in the capital structure high yield bond yield

NON-INVESTMENT GRADE CORPORATE CREDIT *(continued)*

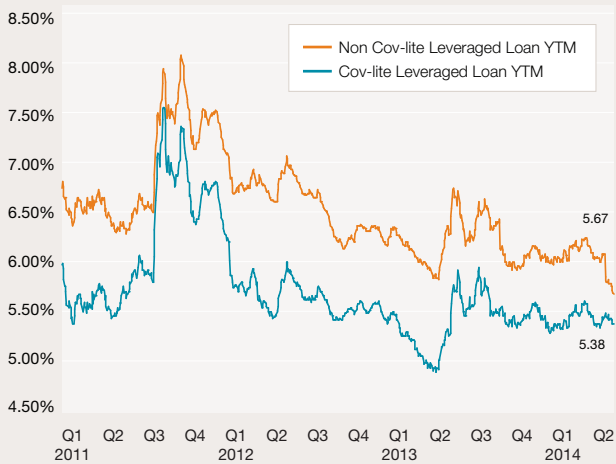
COV-LITE PERCENTAGE OF NEW ISSUE LOANS & PERCENTAGE OF OUTSTANDING LOANS



Source: JP Morgan/Credit Suisse

A new reality for loan investors?

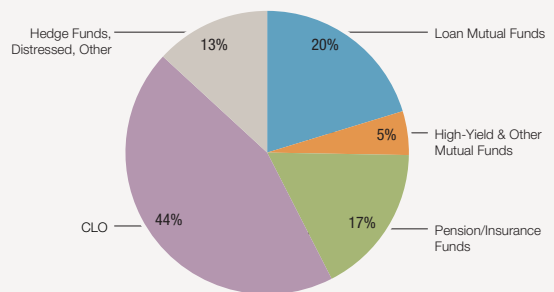
COV-LITE VS NON-COV-LITE LEVERAGED LOAN YIELD



Source: JPMorgan

Buyers indicated covenant-lite loans were underwritten to higher quality borrowers while lower quality loans were more likely to receive covenants

HOLDERS OF LEVERAGED LOANS



As of 12/31/2013

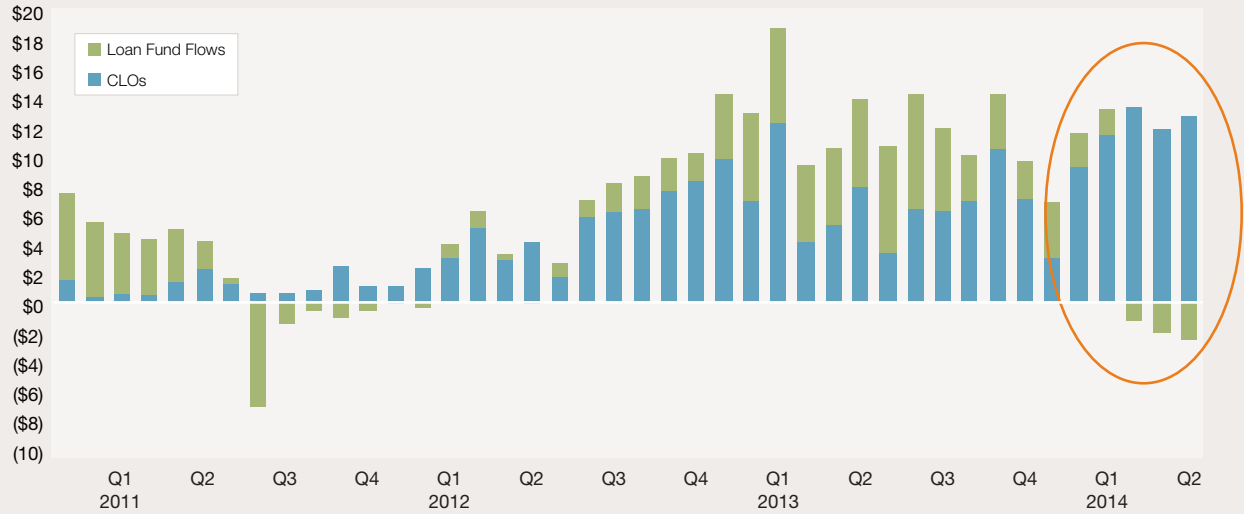
Source: JPMorgan

Leveraged loans are held by a diverse group of investors

NON-INVESTMENT GRADE CORPORATE CREDIT *(continued)*

LOAN MUTUAL FUND FLOWS AND CLO ISSUANCE

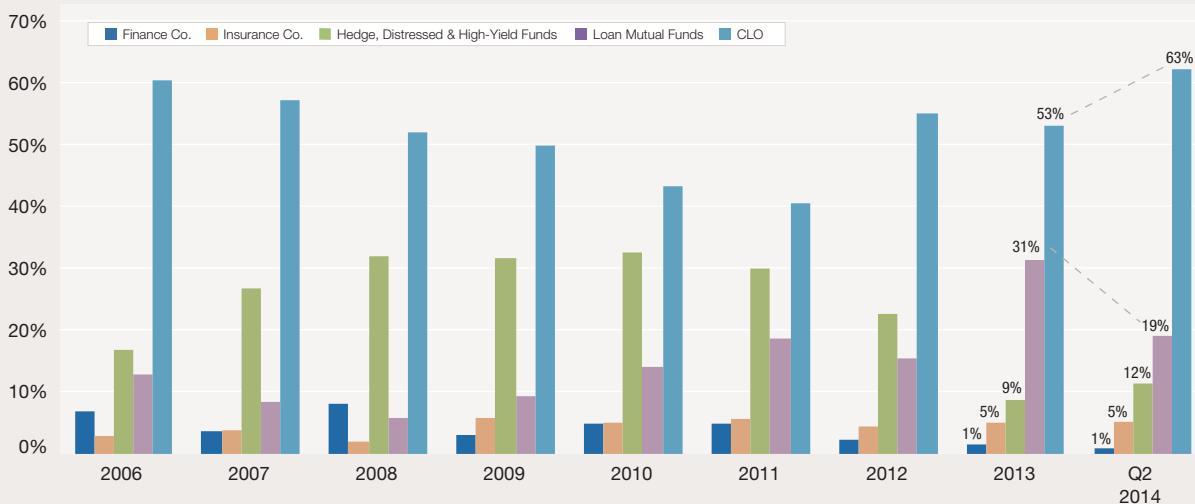
Fund Flows and CLO Issuance (\$ Billions)



Source: JPMorgan

Following 21 consecutive months of positive inflows, loan mutual funds saw outflows during each month of Q2 2014. CLO issuance continues to dominate net inflows for the loan market

BUYERS OF NEW ISSUE LEVERAGED LOAN BY INVESTOR TYPE

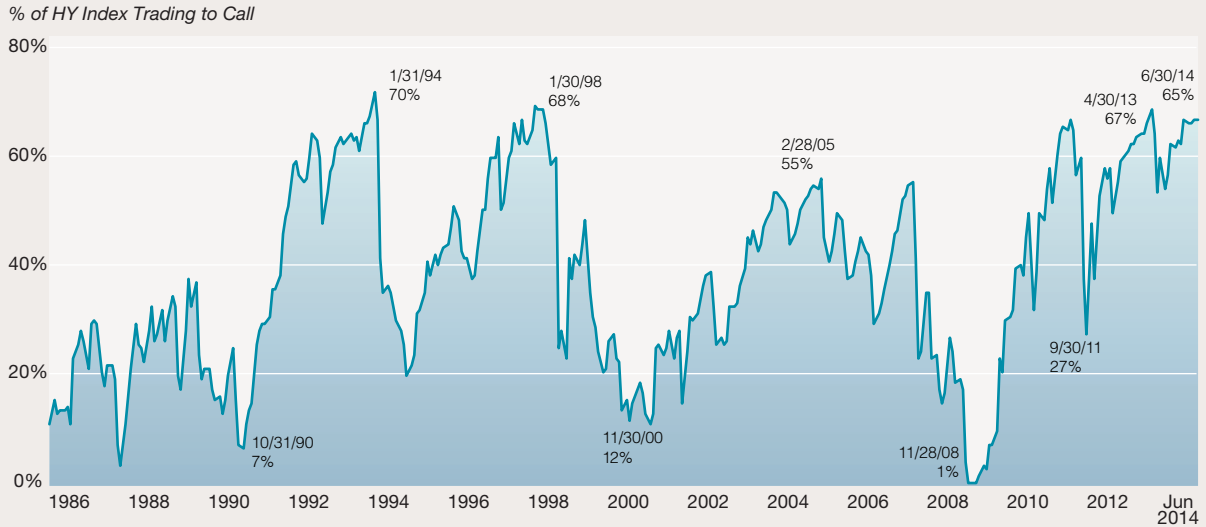


Source: S&P Capital IQ

CLOs and high yield mutual funds increased their share of the new issue market as loan mutual funds adjusted for recent outflows

NON-INVESTMENT GRADE CORPORATE CREDIT *(continued)*

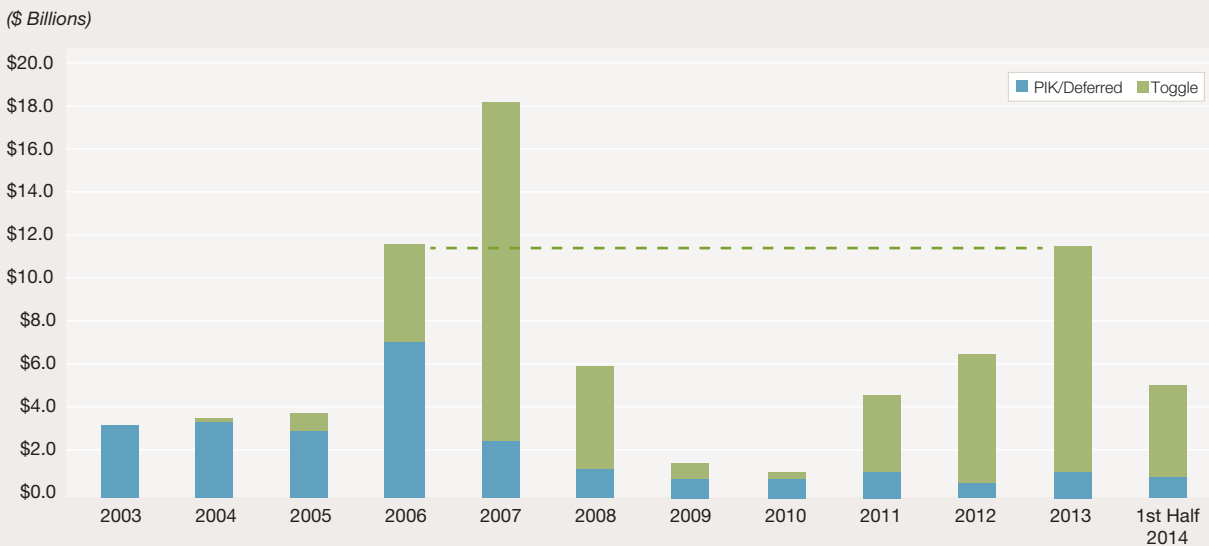
PERCENTAGE OF HIGH YIELD BONDS TRADING AT OR ABOVE CALL PRICE



Source: Credit Suisse

Current level near all-time high and market peaks

AMOUNT OF PIK AND PIK TOGGLE ISSUANCE



Source: JPMorgan

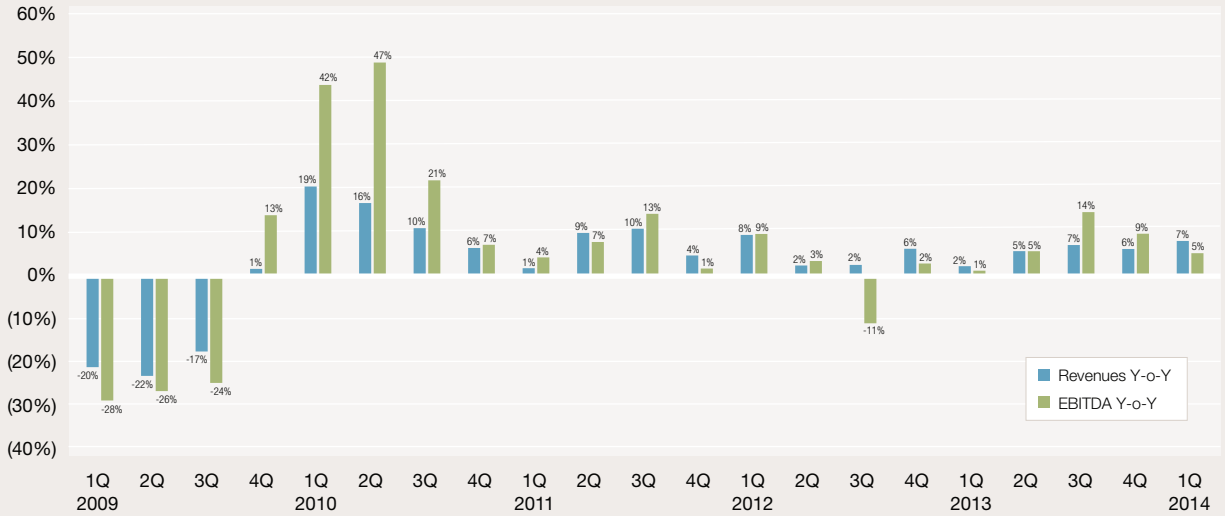
PIK Payment-in-kind

Credit standards continuing to get looser which is a sign of a “toppy market”

NON-INVESTMENT GRADE CORPORATE CREDIT *(continued)*

HIGH YIELD REVENUE AND EBITDA GROWTH

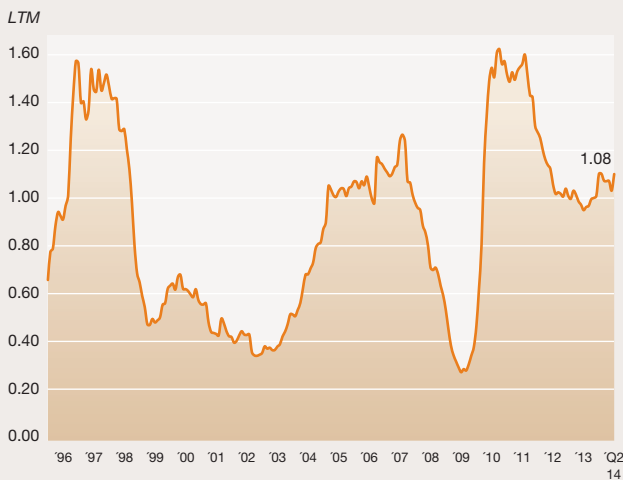
Y-o-Y Last Quarter Annualized



Source: JPMorgan, S&P Capital IQ.

Non-investment grade borrowers continue to increase revenues and EBITDA as economy slowly improves

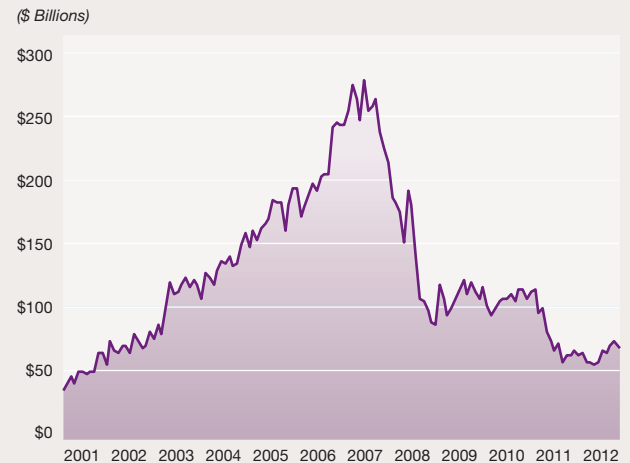
UPGRADE-TO-DOWNGRADE RATIO



Source: JPMorgan

Corporate balance sheets continue to strengthen

PRIMARY DEALER POSITIONS - CORPORATE SECURITIES

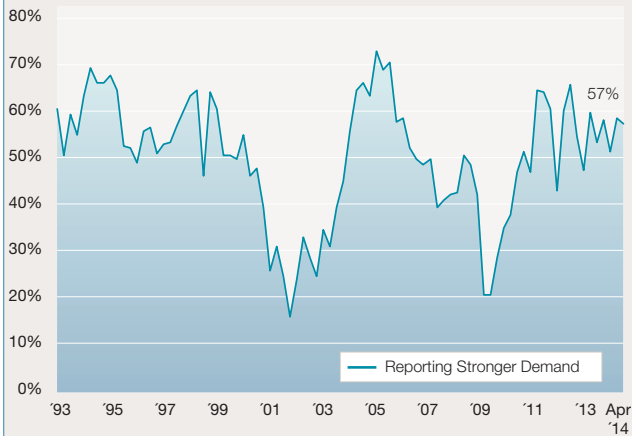


Source: Bloomberg

Reduced bank balance sheets will increase volatility in periods of market sell-offs

NON-INVESTMENT GRADE CORPORATE CREDIT *(continued)*

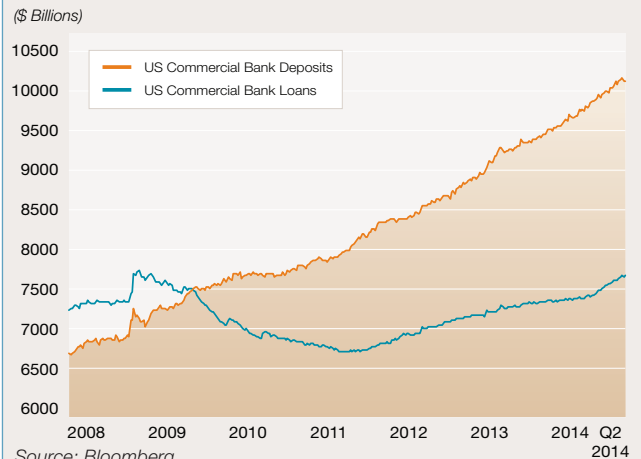
BANK LENDING SURVEY - PERCENTAGE REPORTING STRONGER DEMAND FOR COMMERCIAL AND INDUSTRIAL LOANS



Source: Bloomberg

Bank Lending Surveys are sometimes referred to as "Senior Loan Officer Surveys"

US BANK DEPOSITS VS US BANK LOANS



Source: Bloomberg

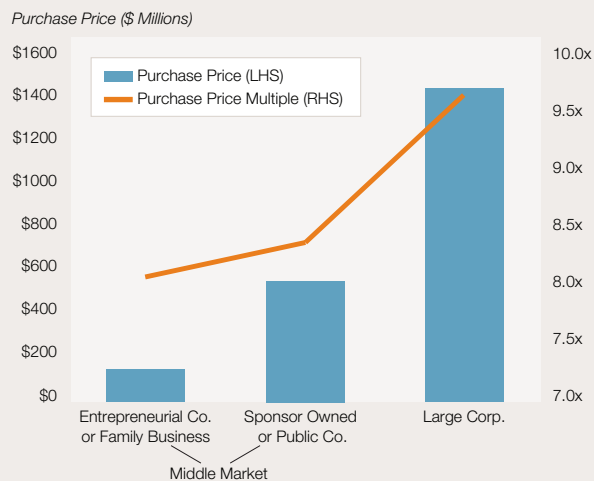
US Commercial Bank Loans and Leases include commercial and industrial loans, loans secured by real estate, loans to finance agriculture production, and loans to individuals including credit card loans

Deposits include bank liabilities deposits

Credit demands expanding as economy grows

Bank deposits have steadily increased since 2008 and are up approximately 40%. Although bank lending has picked up over the last several years, it still has not reached 2008 levels.

AVERAGE PURCHASE PRICE & MULTIPLE FOR LBO'S

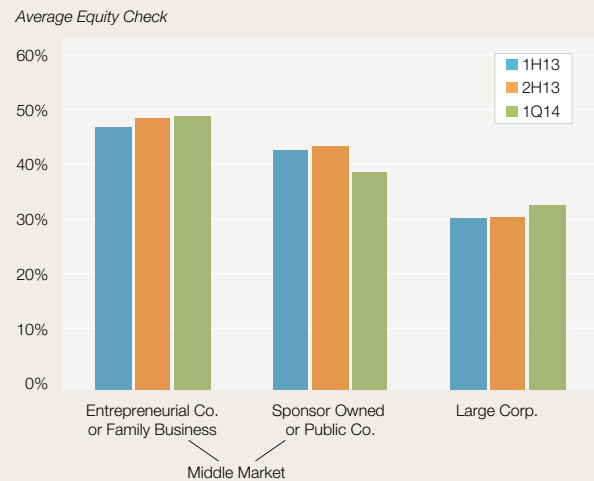


Purchase Price Multiple also known as EBITDA Multiple

Source: Thomson Reuters LPC (Q1-14)

Middle Market buyouts are, on average, at lower EBITDA multiples...

AVERAGE EQUITY CONTRIBUTION FOR LBO'S



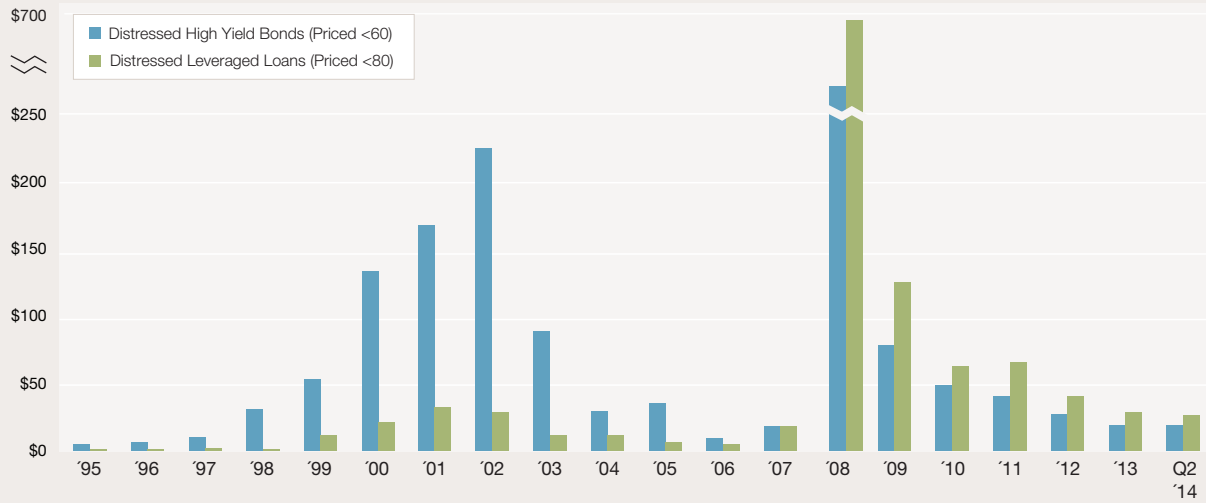
Source: Thomson Reuters LPC (Q1-14)

...and require larger equity contributions than large corporate buyouts

DISTRESSED DEBT – US

SIZE OF DISTRESSED DEBT MARKET

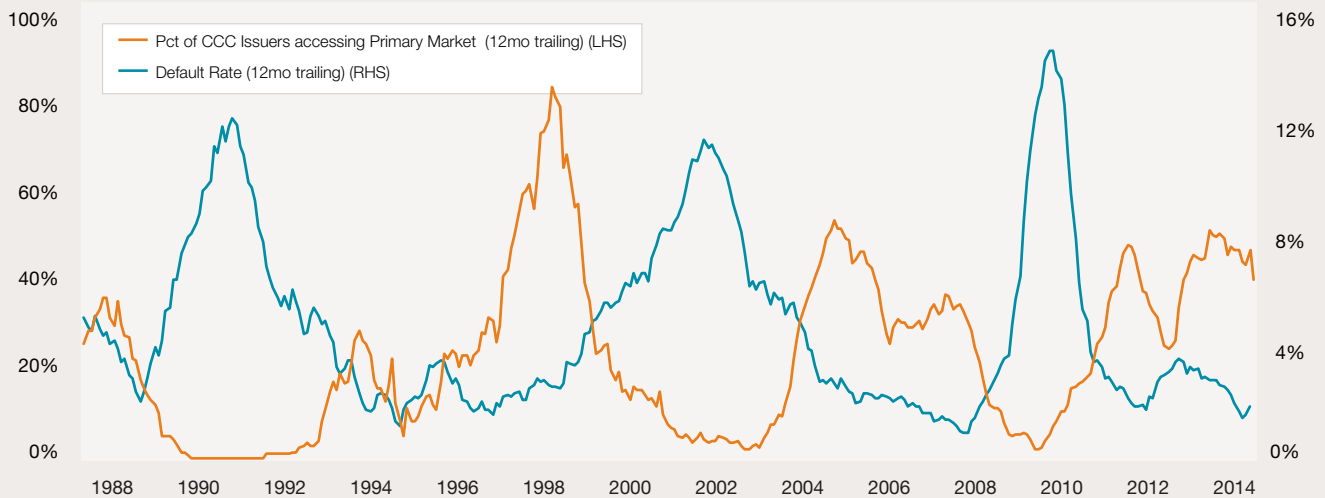
Par Amount (\$ Billions)



Source: Credit Suisse

While the size of the distressed debt market remains at familiar levels...

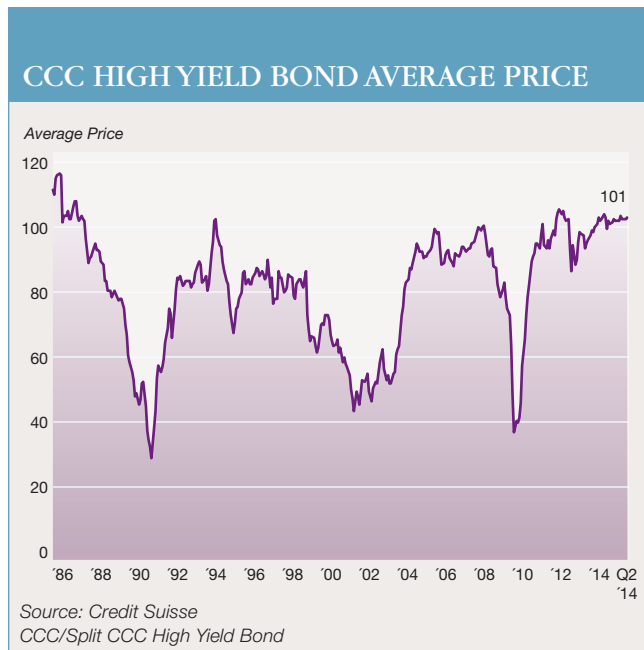
PERCENTAGE OF CCC ISSUERS ACCESSING PRIMARY MARKET VS DEFAULT RATE



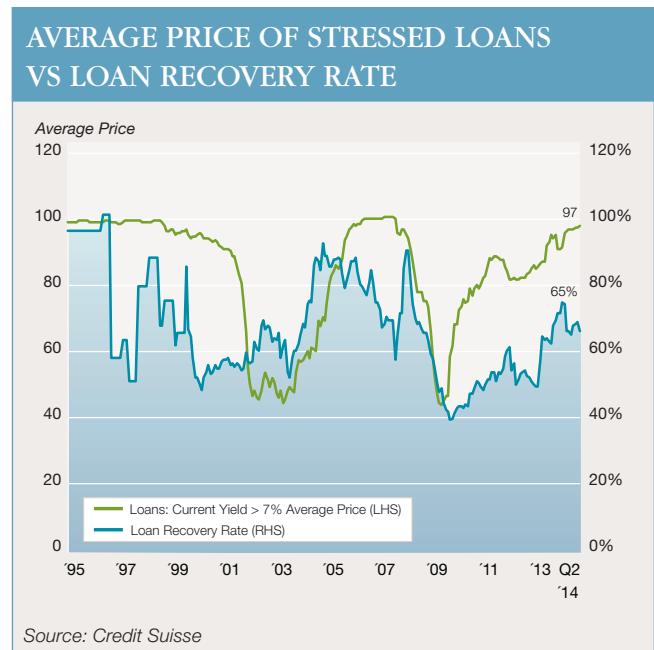
Source: BofA Merrill Lynch/Moodys

...Recent underwriting activity appears to follow prior cycles' trends, indicating an upcoming return to a higher default rate environment

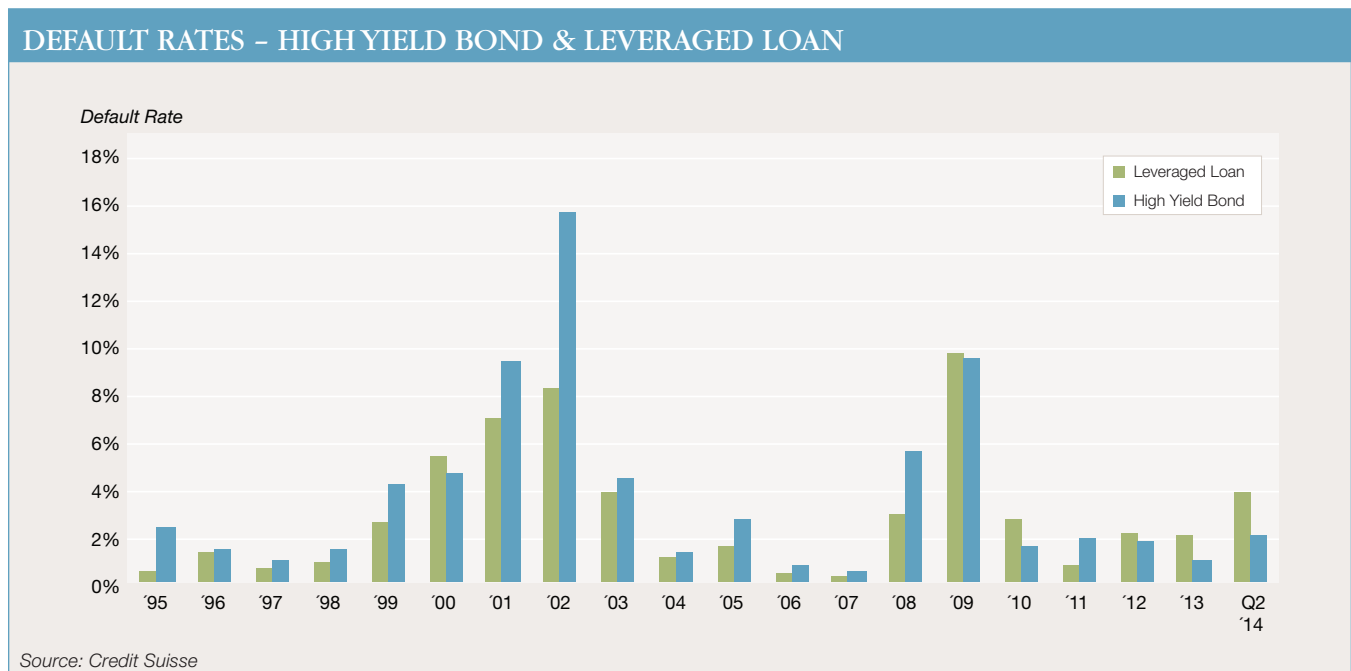
DISTRESSED DEBT – US (continued)



Continued search for yield regardless of credit quality



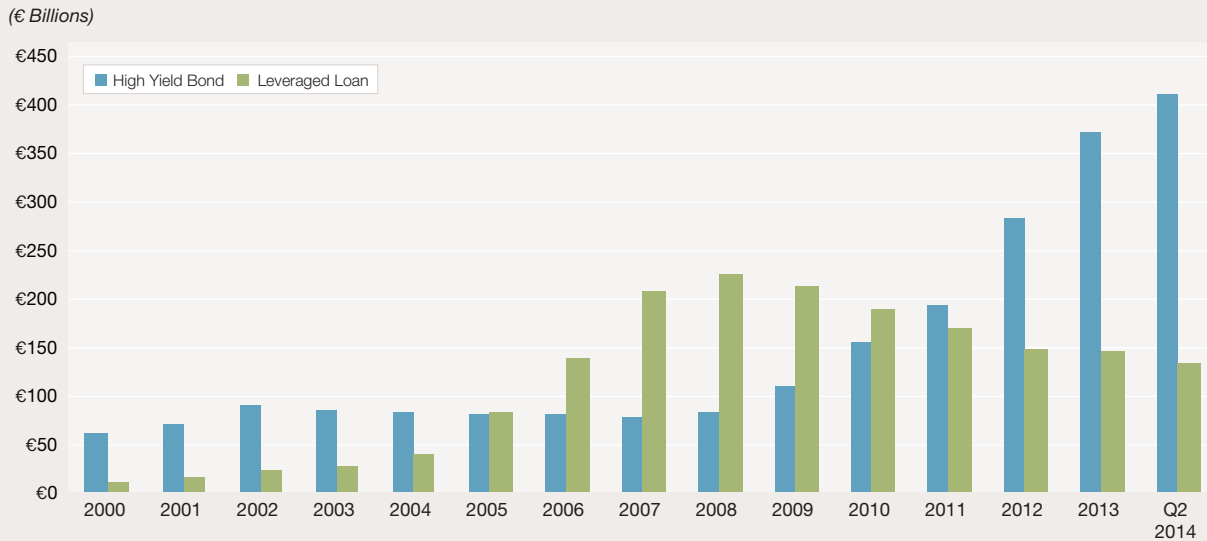
Defaulted loan “recovery rate” is highly influenced by broad market prices



Q2 2014 default rates rose in large part due to the TXU bankruptcy. Not including TXU, default rates remain below 2%, near cyclical lows

DISTRESSED DEBT- EUROPE

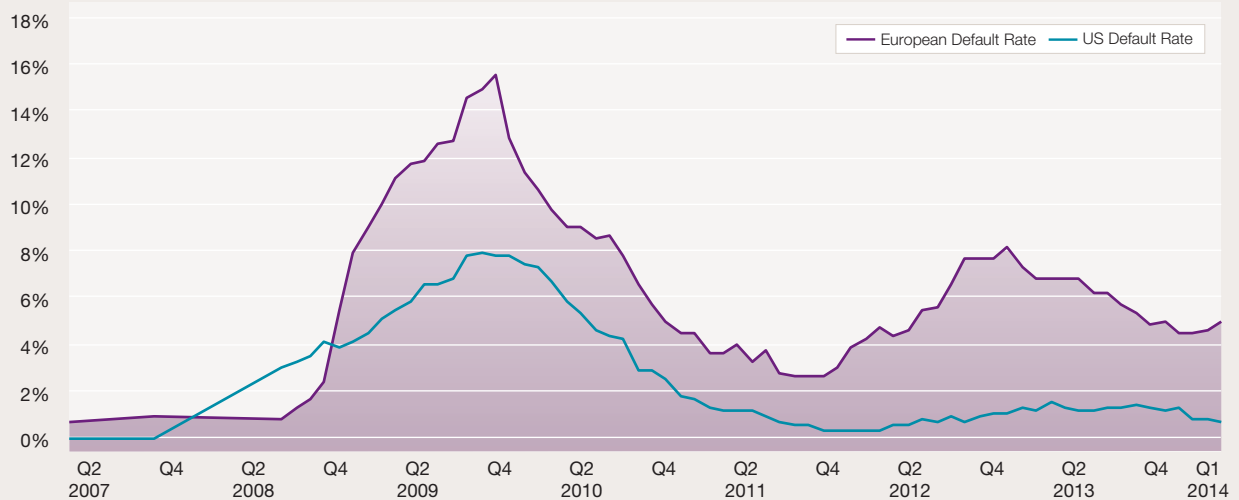
EUROPEAN HIGH YIELD BOND AND LEVERAGED LOAN MARKET



Source: CSFB

Growth of European high yield bond market is due, in part, to a lack of traditional bank lending

US AND EUROPEAN LEVERAGED LOAN DEFAULT RATE

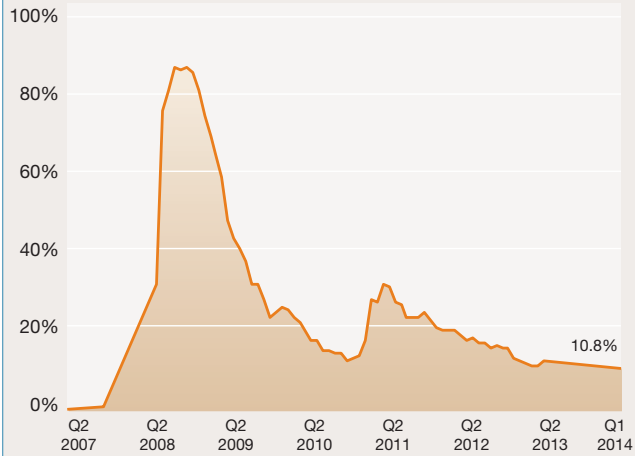


Source: S&P/LSTA Leveraged Loan Index, S&P European Leveraged Loan Index

European default rates outpace those in the US creating more distressed investment opportunities

DISTRESSED DEBT- EUROPE (continued)

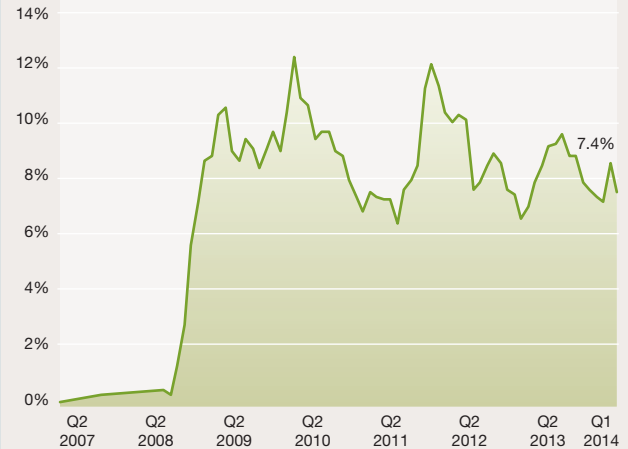
PERCENTAGE OF EUROPEAN LEVERAGED LOANS TRADING BELOW 80 CENTS ON THE DOLLAR



Source: S&P European Leveraged Loan Index

A sizeable amount of European leveraged loans remain at distressed prices

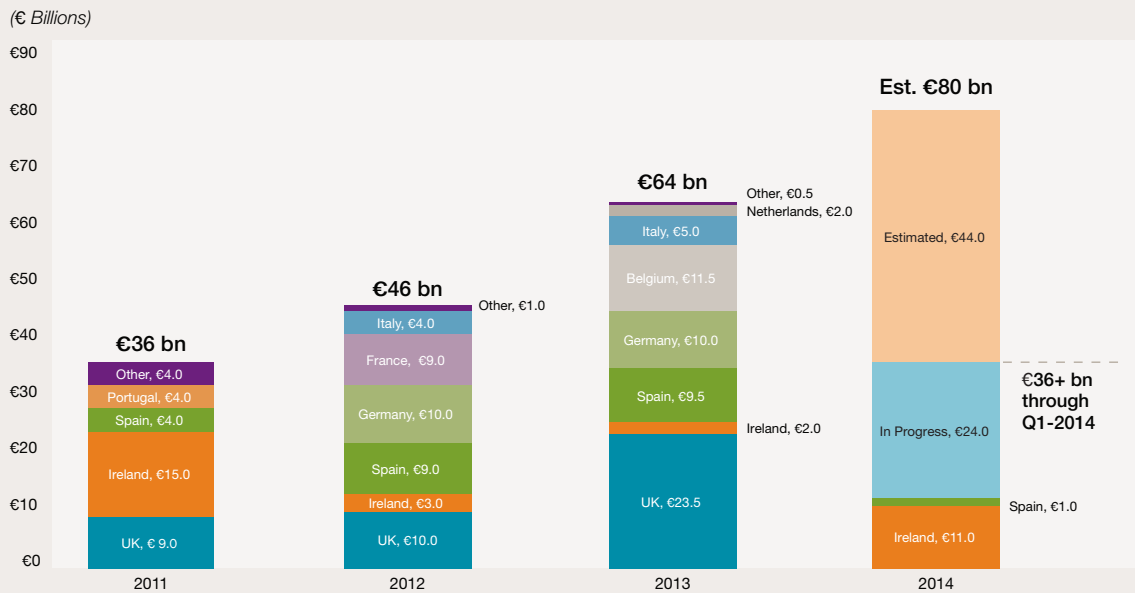
PERCENTAGE OF EUROPEAN LEVERAGED LOANS RATED CCC+ OR LOWER



Source: S&P European Leveraged Loan Index

Post 2008, a larger portion of leveraged loans are lower rated and will need to be restructured

EUROPEAN BANKS ARE SELLING ASSETS



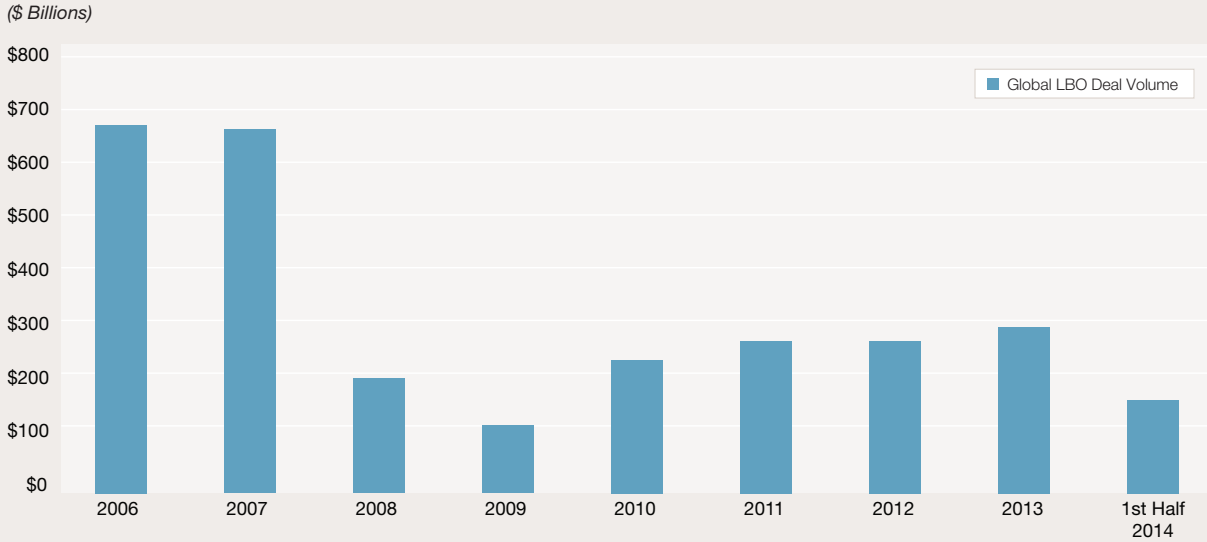
Source: Publicly available information, PWC information, estimate and analysis

Note: Based on the location of the head office of the bank selling the assets

European banks are expected to sell significant amounts of additional corporate credit in the next 18-24 months

PRIVATE EQUITY

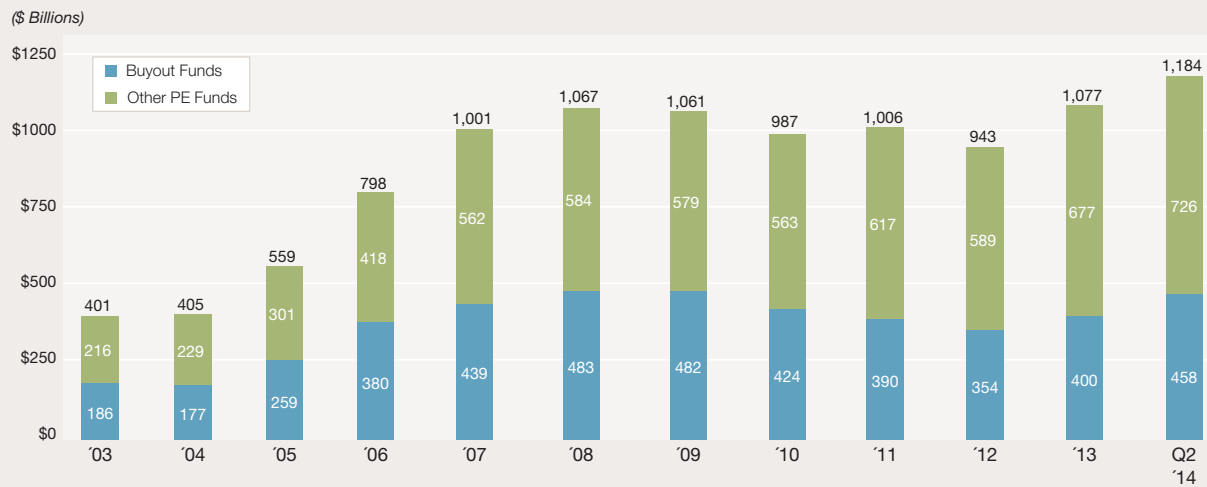
GLOBAL LBO DEAL VALUE



Source: Preqin

Global LBO volume in 2014 is on pace to achieve similar levels to those of last year

GLOBAL PRIVATE EQUITY DRY POWDER



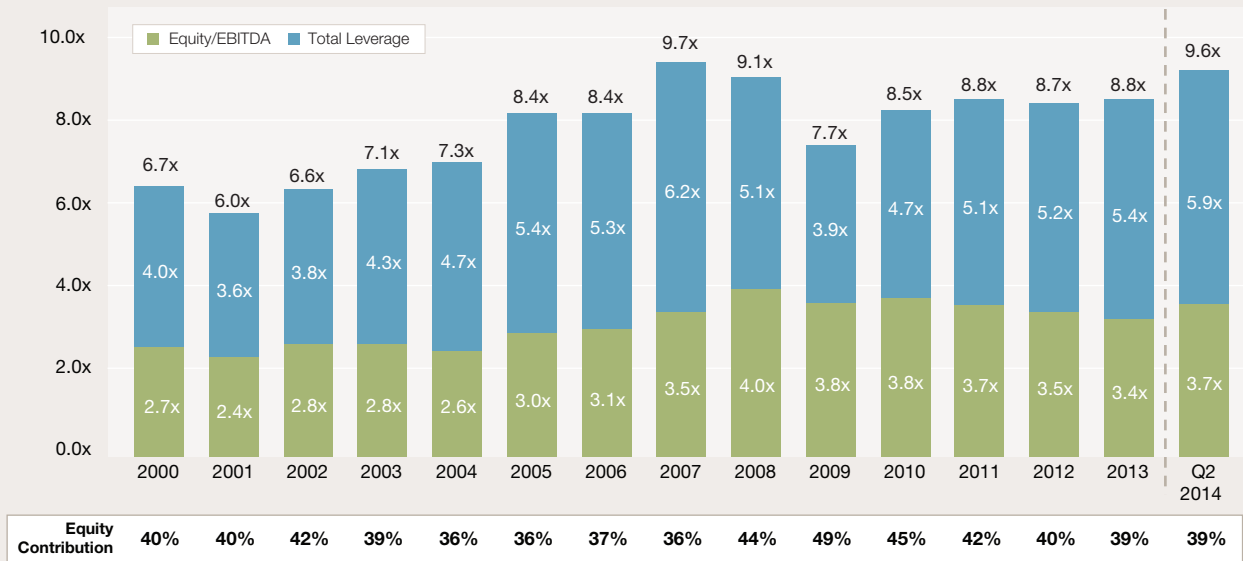
Source: Preqin

Other PE Funds: Real Estate, Venture, Infrastructure, Growth, Distressed, Mezzanine, Other

Buyout dry powder of \$458 billion in Q2 2014 is approaching peak 2008 and 2009 levels

PRIVATE EQUITY (continued)

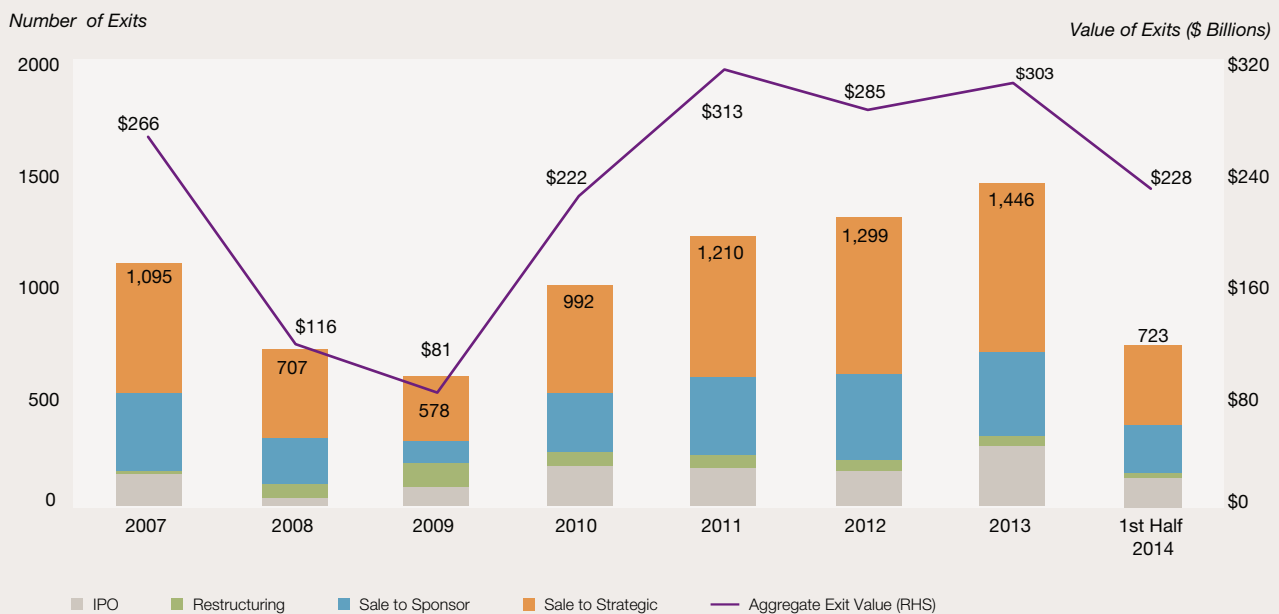
LBO CAPITALIZATION



Source: Goldman Sachs, S&P Capital IQ

LBO purchase price multiples for the first half of 2014 are consistent with 2007-08 levels. Driving factors include a robust financing market and continued need by private equity firms to deploy capital

PRIVATE EQUITY EXITS

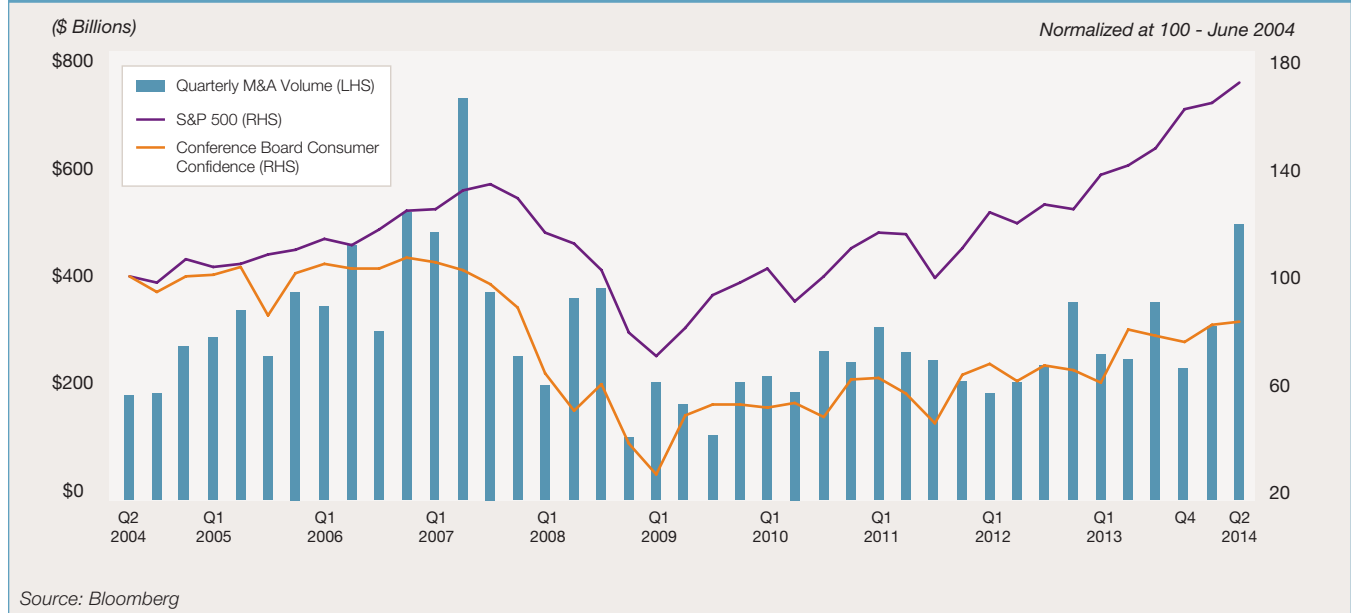


Source: S&P Capital IQ

Private equity exits are on track to set records for both dollar volume and quantity

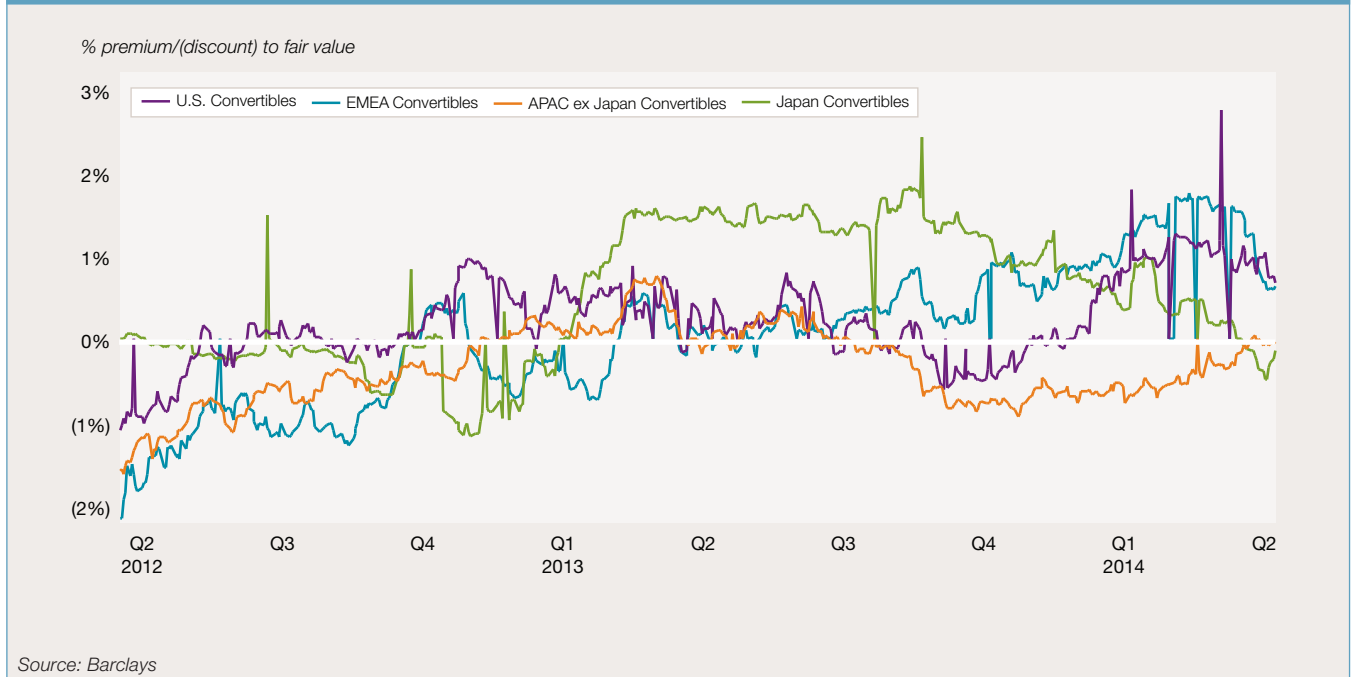
MERGER & CONVERTIBLE ARBITRAGE

QUARTERLY NORTH AMERICAN M&A VOLUME VS S&P 500 AND CONSUMER CONFIDENCE



Transformational ‘mega-deals’ have been the major contributor in the M&A surge. Twenty-one such deals have been announced YTD, surpassing the full-year total in each of the last four years.

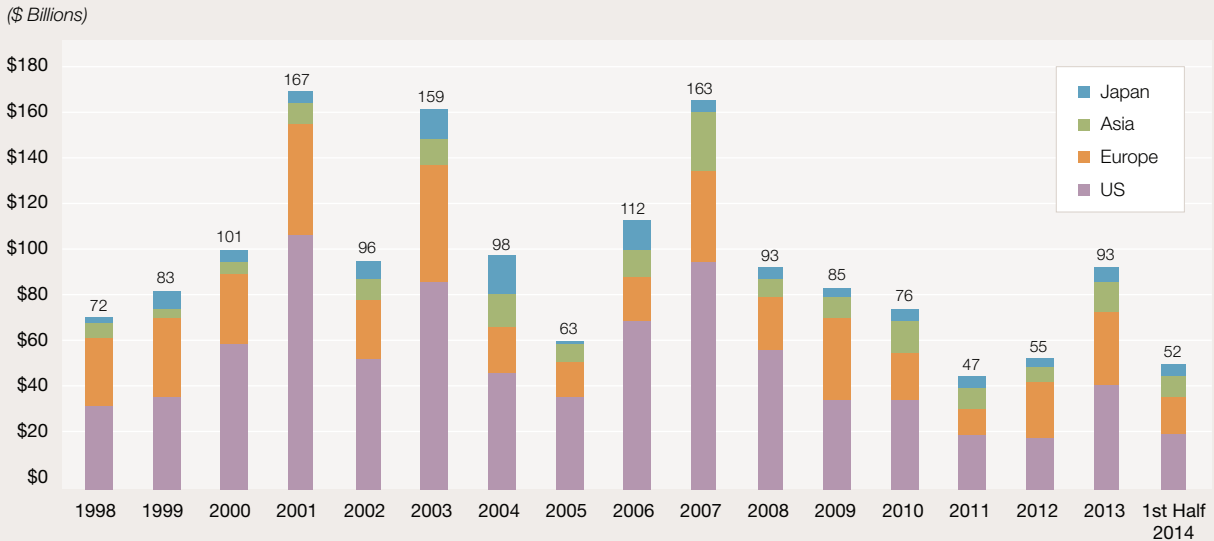
PREMIUM/DISCOUNT TO FAIR VALUE BY REGION



Valuations corrected during 2Q 2014, primarily as a result of strong new issuance. This was particularly pronounced in Europe and Japan, providing selective attractive entry points

MERGER & CONVERTIBLE ARBITRAGE *(continued)*

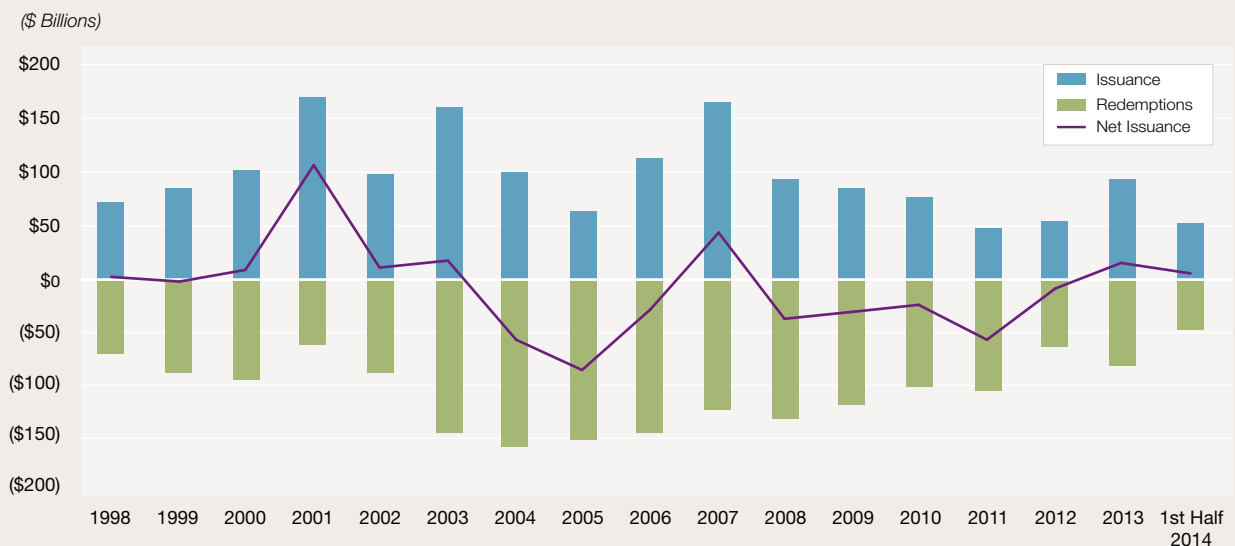
CONVERTIBLE BONDS ANNUAL GLOBAL ISSUANCE BY REGION



Source: BofA Merrill Lynch

New supply has been strong in the first half of 2014 driven by rising interest rates, M&A, and general refinancing needs with all regions on track to surpass 2013 issuance levels

CONVERTIBLE BONDS GLOBAL NET ISSUANCE

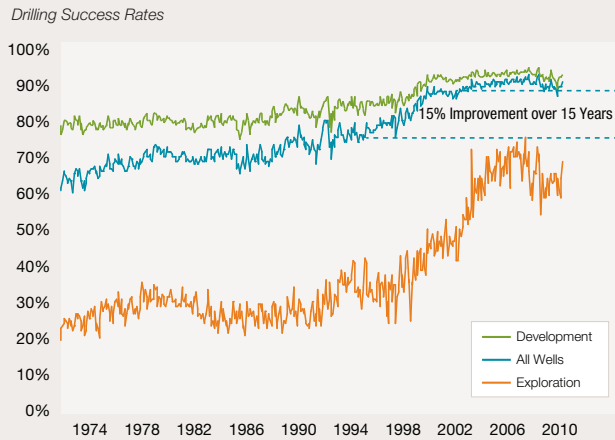


Source: BofA Merrill Lynch

The convertible bond market is growing again after several years of net contraction

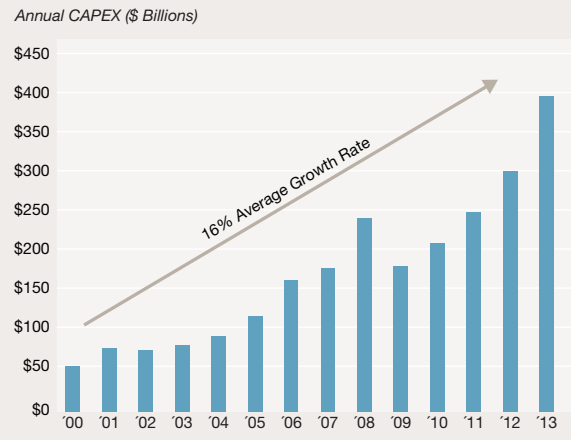
ENERGY DIRECT LENDING

US DRILLING SUCCESS RATES



Source: EIA

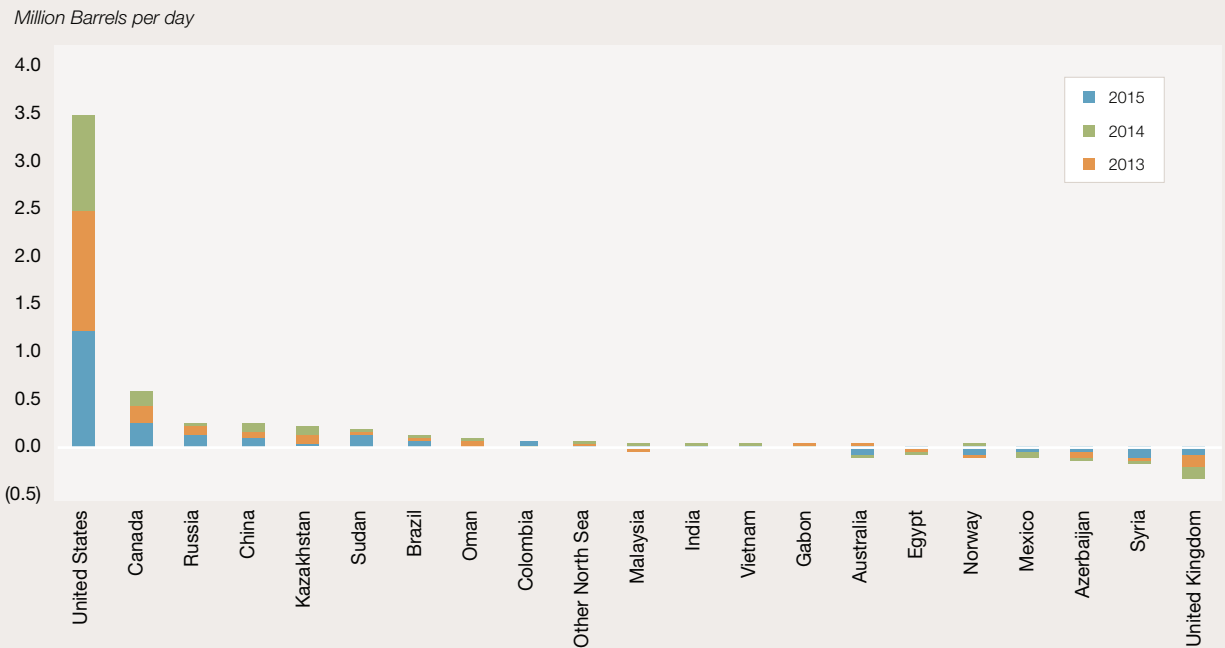
OIL & GAS COMPANY CAPITAL SPENDING



Source: S&P Capital IQ; Wall Street Research. Acquisitions excluded

Across major sectors, the energy industry has maintained a robust multi-year spending trajectory

NON-OPEC OIL AND LIQUIDS PRODUCTION GROWTH

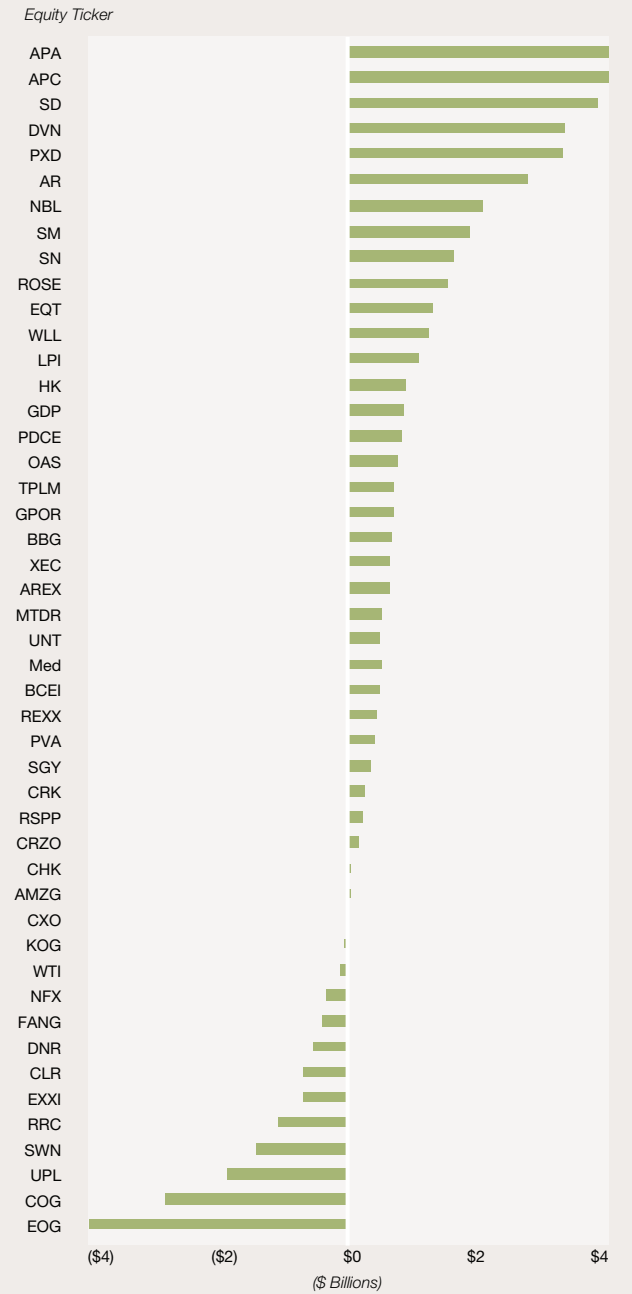


Source: EIA Short-Term Energy Outlook, June 2014

The energy industry is highly focused on North America, and specifically the US, growth opportunity

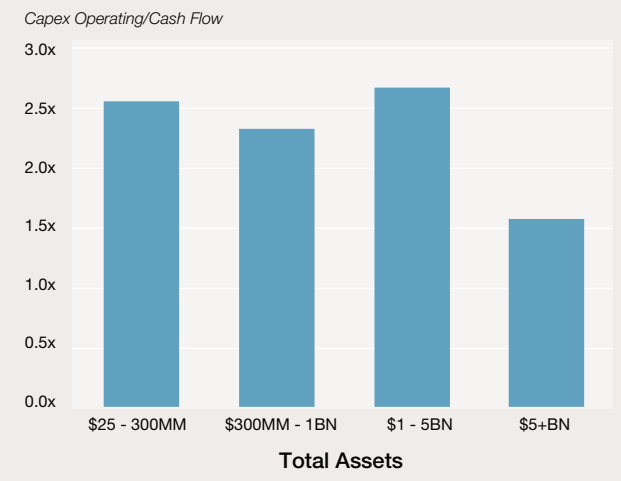
ENERGY DIRECT LENDING (continued)

US OIL AND GAS COMPANY INCREMENTAL NET DEBT (2014E-2018E) - LARGER PUBLICS



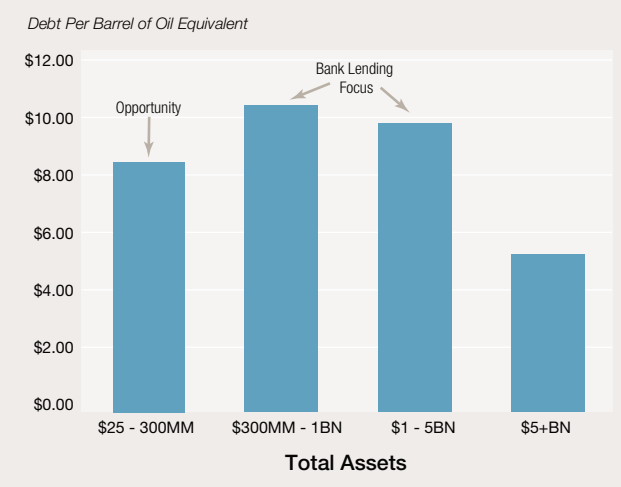
Source: KLR Group Research, June 19, 2014
 Note: EOG: (\$12), SD \$4.2, DVN \$4.5, APC \$5.5, APA \$5.5

OIL & GAS COMPANY NEED FOR THIRD PARTY CAPITAL BY SIZE



Source: S&P Capital IQ
 Note: Values displayed are 2.5% truncated means. Income statement and cash flow statement figures are for the most recent reported quarters, as of 6/6/14.

OIL AND GAS COMPANY LEVERAGE BY ASSET SIZE



Source: S&P Capital IQ
 Note: Values displayed are 2.5% truncated means. Income statement and balance sheet figures are for the most recent reported quarter and proved reserves are for last reported annual period; as of 6/6/14.

Oil and gas companies of all sizes continue to meaningfully outspend operating cash flow (top right chart). Larger public companies are expected to fill a portion of this funding gap with debt (left hand side chart). Nonetheless, a large number of smaller oil & gas companies which lack access to traditional funding sources offer superior credit risk profiles (lower right chart).



RESIDENTIAL AND CONSUMER DEBT (RMBS/ABS)

SUBPRIME INDEX

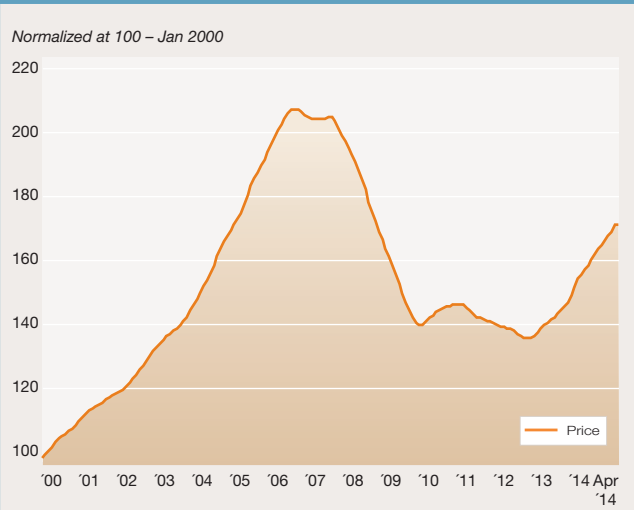


Source: Nomura - ABX 2006-2 AAA

The Index represents a basket of reference obligations of twenty originally rated AAA subprime bonds issued in the first half of 2006 and is treated as a benchmark for similar vintage bonds

Trading remains light and has flattened out after reaching a 6 year high

S&P/CASE-SHILLER COMPOSITE - 20 HOME PRICE INDEX

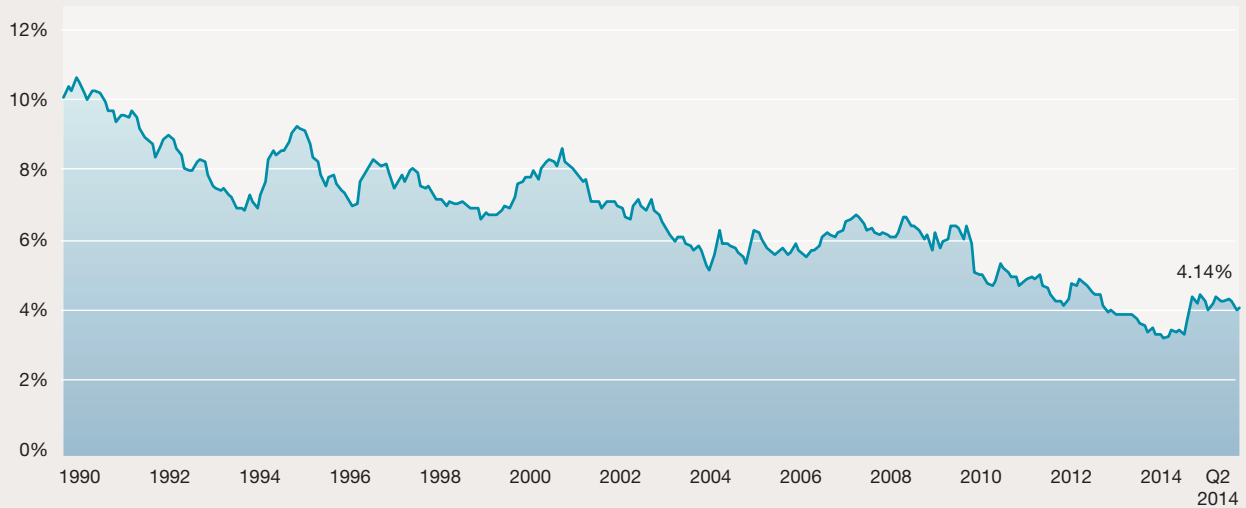


Source: Bloomberg

The S&P/Case-Shiller Composite of 20 Home Price Index is a value-weighted average of the 20 metro area indices. These metro areas include: Boston, Chicago, Denver, Las Vegas, Los Angeles, Miami, New York City, San Diego, San Francisco, Washington, DC, Atlanta, Charlotte, Cleveland, Dallas, Detroit, Minneapolis, Phoenix, Portland, Seattle and Tampa.

After a brief pause in the 4th quarter of last year, home prices continue to appreciate

30-YEAR MORTGAGE FIXED RATE



Source: Bloomberg - Freddie Mac US Mortgage Market Survey 30-year homeowner Commitment Ratio.

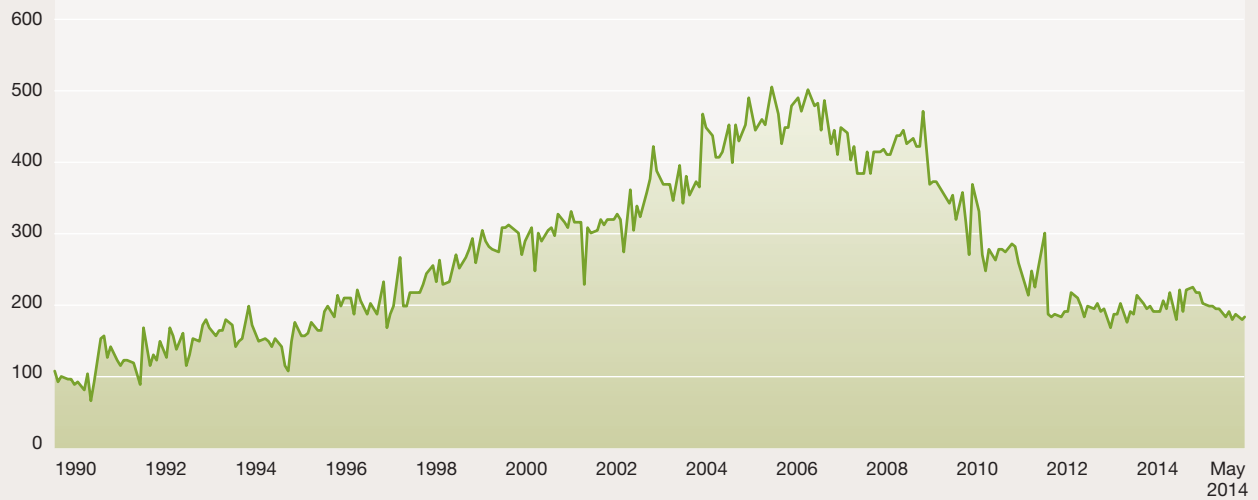
This concept measures movements of interest rates on residential real estate loans that are usually secured by a mortgage.

Despite increasing from below 4%, 30-year mortgage rates are still near all-time lows

RESIDENTIAL AND CONSUMER DEBT (RMBS/ABS) *(continued)*

MORTGAGE APPLICATION INDEX

Normalized at 100 - Jan 1990



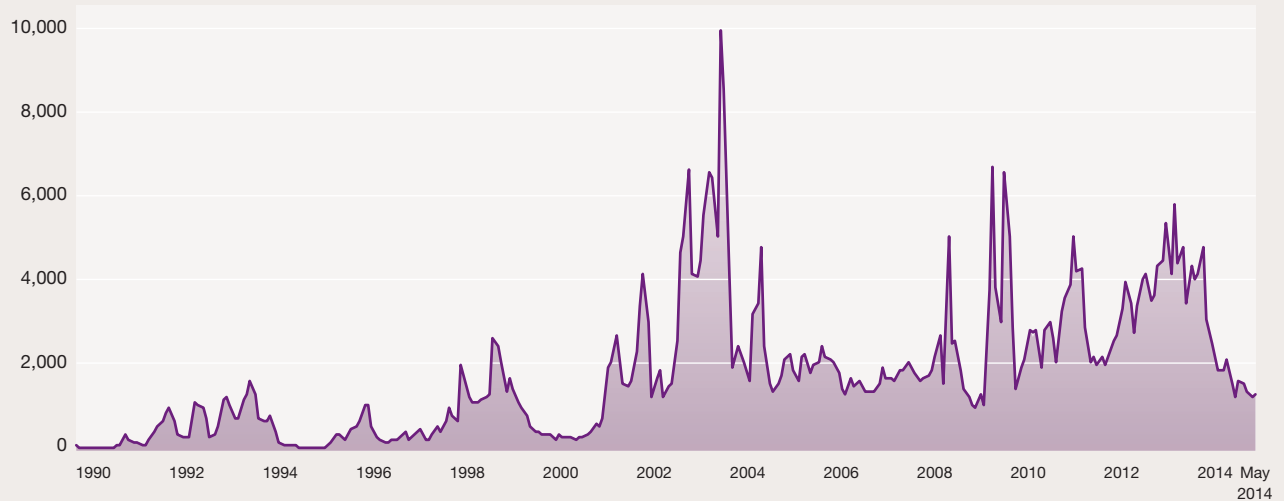
Source: Bloomberg – Mortgage Bankers Association – Seasonally readjusted

The index tracks the volume of mortgage loan applications that have been submitted to lenders

New mortgage applications continue to lag due to stringent underwriting guidelines that only allow pristine credit borrowers to qualify

MORTGAGE REFINANCING INDEX

Normalized at 100 - Jan 1990



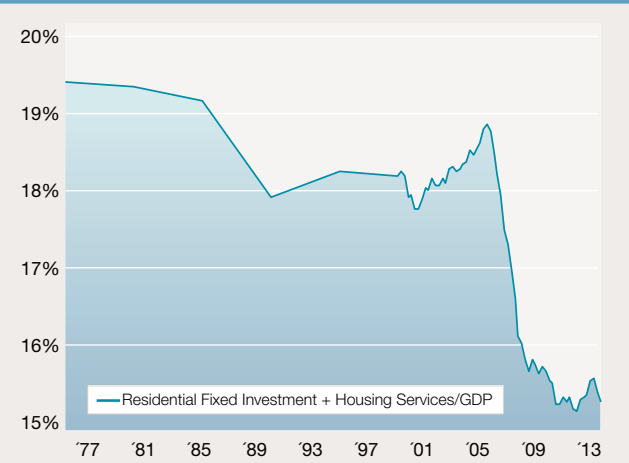
Source: Bloomberg – Mortgage Bankers Association – Seasonally readjusted.

The index tracks the volume of mortgage loan applications for refinancing that have been submitted to lender

As mortgage rates rose from their historic lows, refinancing activity dropped off commensurately

RESIDENTIAL AND CONSUMER DEBT (RMBS/ABS) *(continued)*

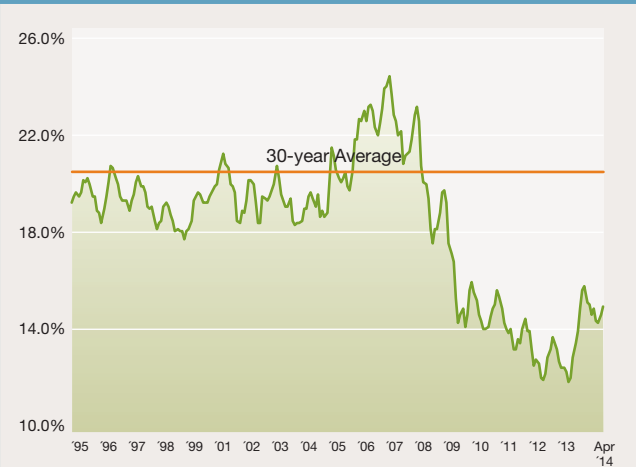
HOUSING AS A PERCENTAGE OF GDP



Source: National Association of Home Builders, Bloomberg

Residential Fixed Investment includes fixed investment in structures, equipment and software that contribute to production, as well as private business investment in inventories and new housing sales. Housing services are primarily rent but also include utility costs.

MORTGAGE PAYMENT AS A PERCENTAGE OF INCOME

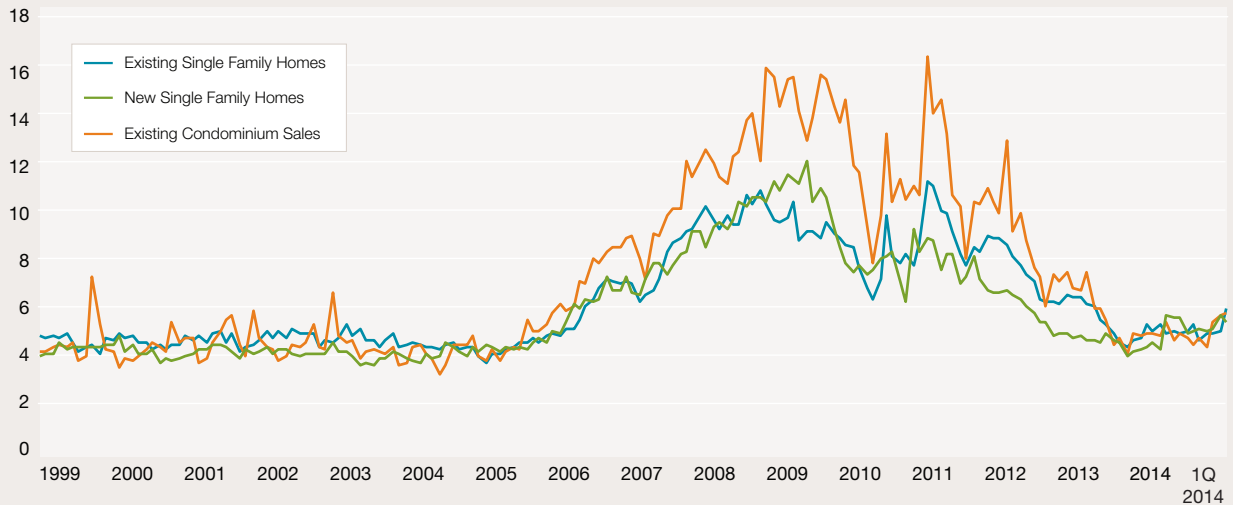


Source: NAR, DB Global Markets Research

Mortgage payments are at a historically low percentage of income

After an initial rise, housing's contribution to GDP has stalled

MONTHS SUPPLY OF HOUSING

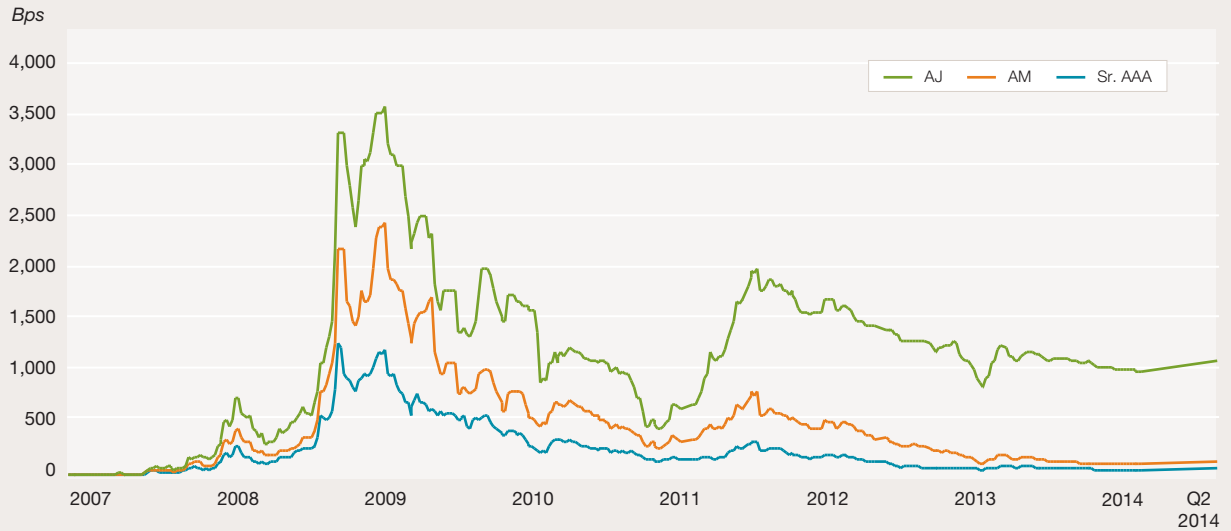


Source: Bloomberg

Housing supply returning to normalized levels

COMMERCIAL REAL ESTATE DEBT (CMBS)

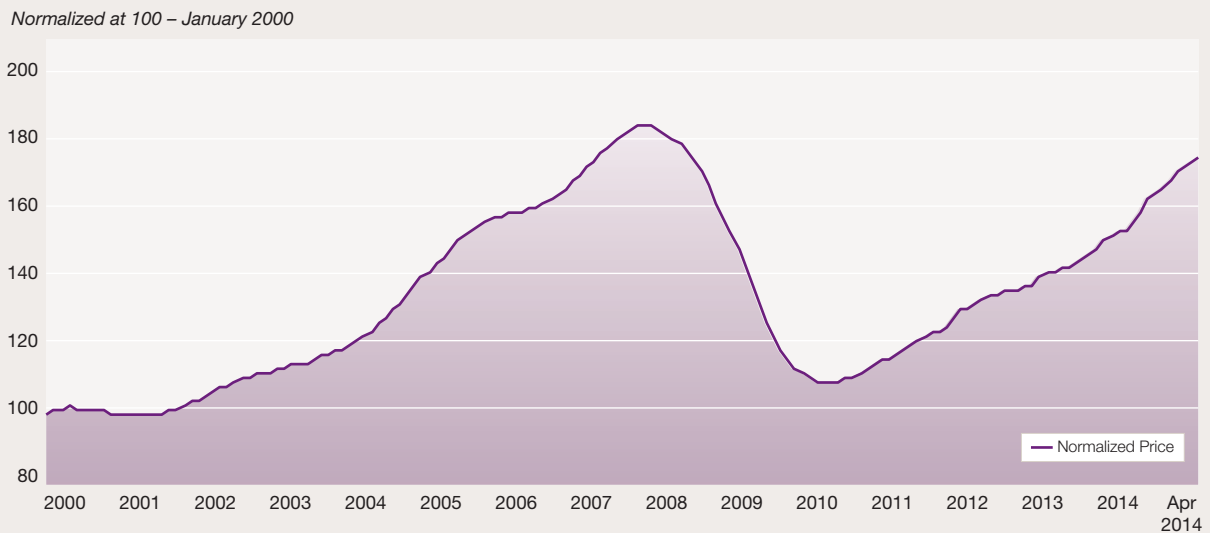
HISTORICAL CMBS SPREADS



Source: Bank of America (Merrill Lynch)

Spreads on senior AAA bonds have returned to pre-crisis levels while AJ spreads have remained elevated

COMMERCIAL PROPERTY PRICE INDEX - ALL PROPERTY



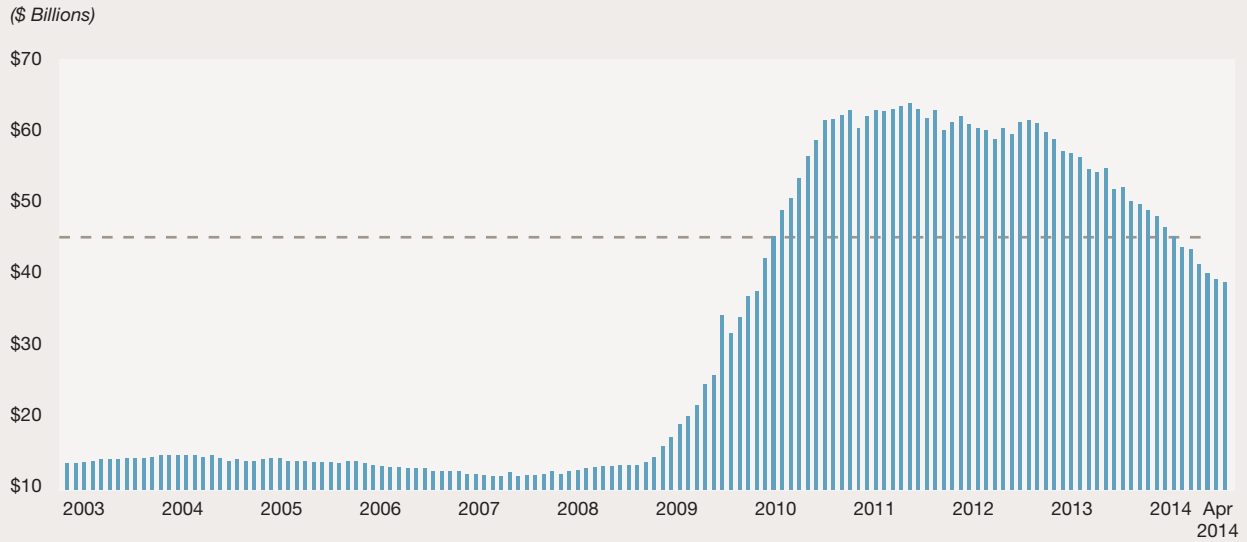
Source: Bloomberg

The Moody's/RCA Commercial Property Price Indices are transaction based indices that measure property prices at a national level. Indices cover Apartment, Retail, Office and Industrial sectors

Commercial property values continued to increase and are rapidly approaching peak levels

COMMERCIAL REAL ESTATE DEBT (CMBS) *(continued)*

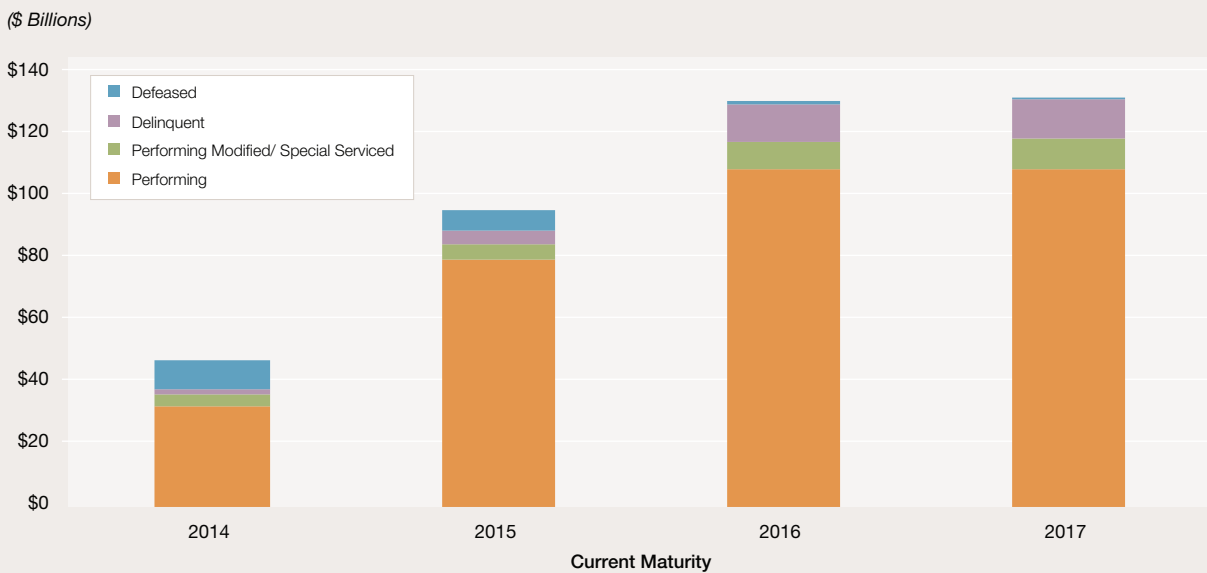
HISTORICAL CMBS DELINQUENCY BY UNPAID BALANCE



Source: Morningstar

Delinquency rates are declining as problem loans are being resolved

CMBS LOAN MATURITY PROFILE



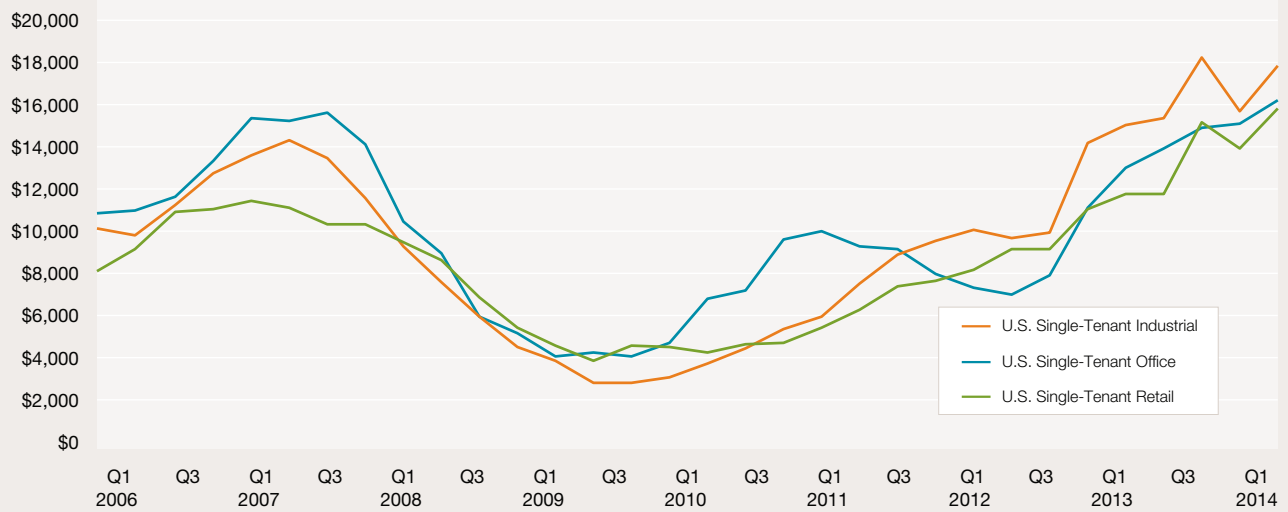
Source: JPMorgan

Loan maturities will pick up substantially in 2015 and will remain elevated for several years

NET LEASE REAL ESTATE

12-MONTH ROLLING SINGLE-TENANT DEAL VOLUME

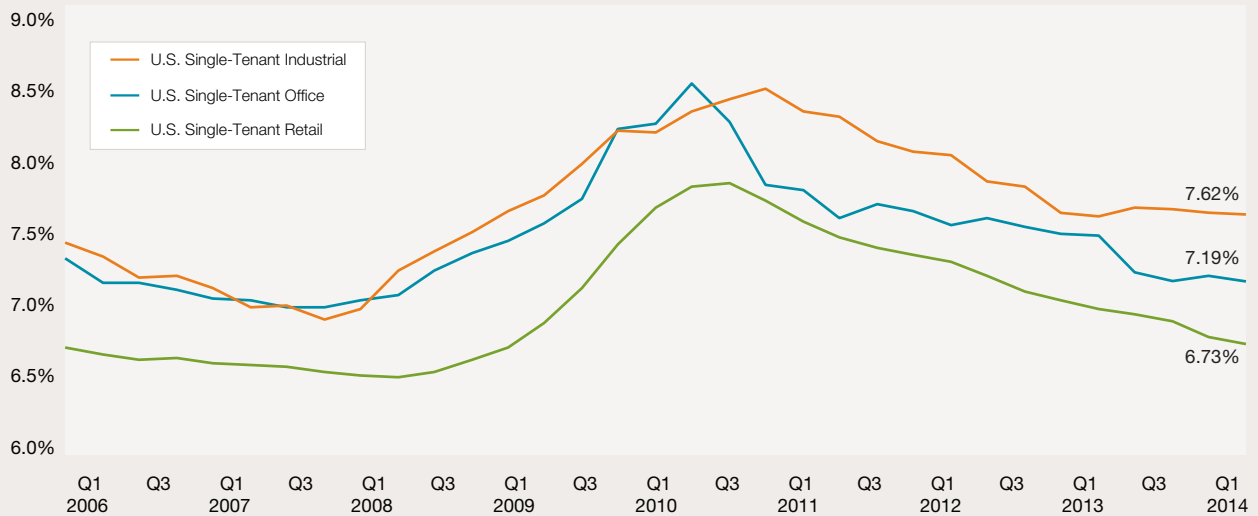
Annual Volume (\$ Millions)



Source: Real Capital Analytics

Activity has increased

AVERAGE SINGLE-TENANT CAP RATES



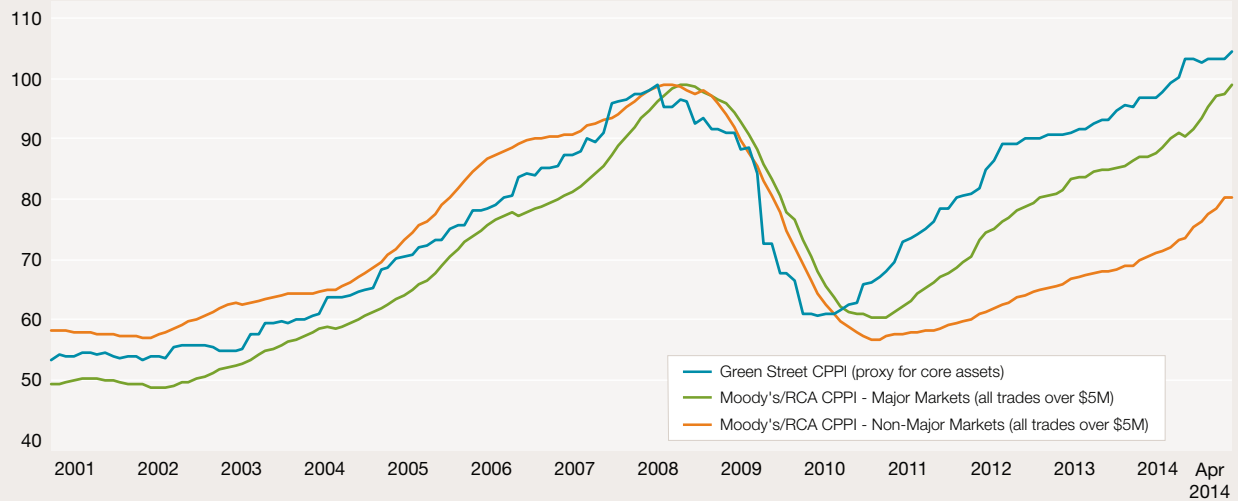
Source: Real Capital Analytics

Pricing has strengthened

UNITED STATES REAL ESTATE

COMMERCIAL REAL ESTATE PRICE INDICES

Index (Each set to 100 at 2007 Peak)

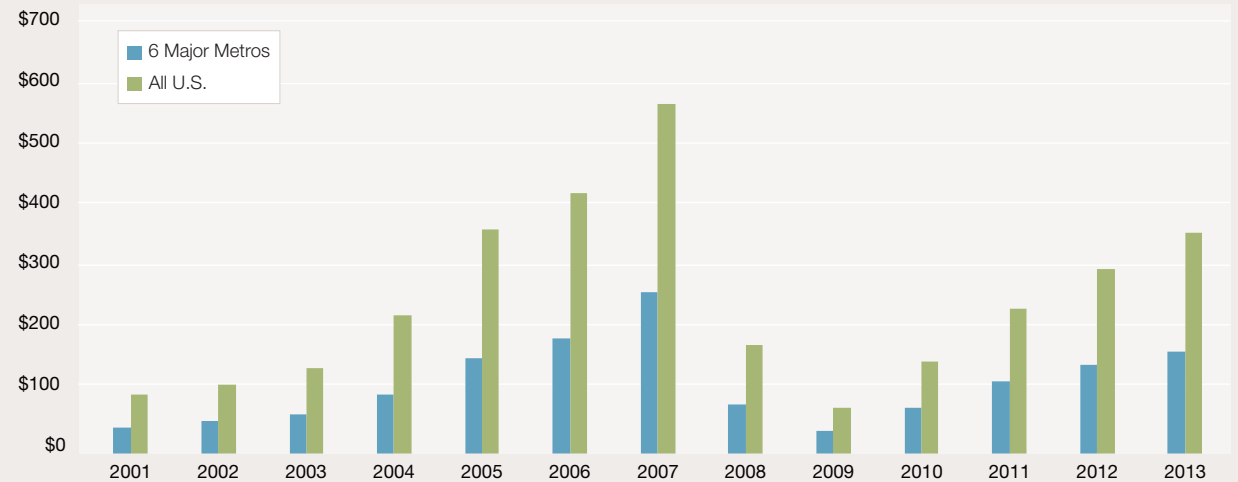


Source: Moody's/RCA and Green Street

Prices continue to accelerate but bifurcation by market and by type of asset remains

US INVESTMENT SALES VOLUME OF APARTMENTS, HOTELS, INDUSTRIAL, OFFICE, RETAIL AND DEVELOPMENT SITES

(\$ Billions)

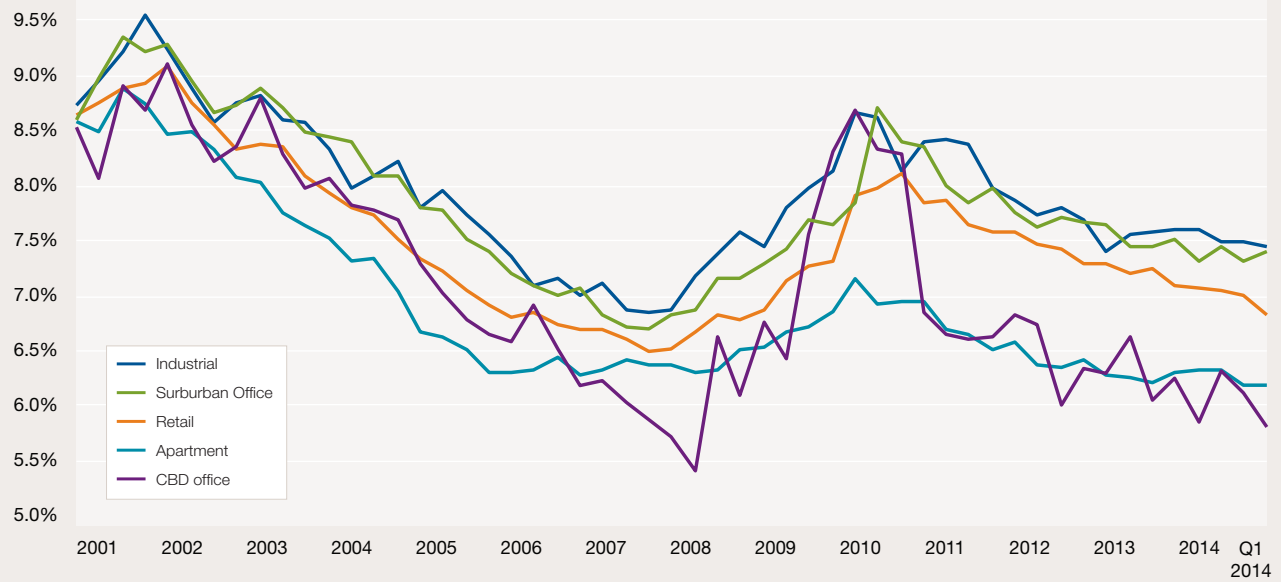


Source: Real Capital Analytics

Sales volume continue to accelerate, driven by capital flows

UNITED STATES REAL ESTATE *(continued)*

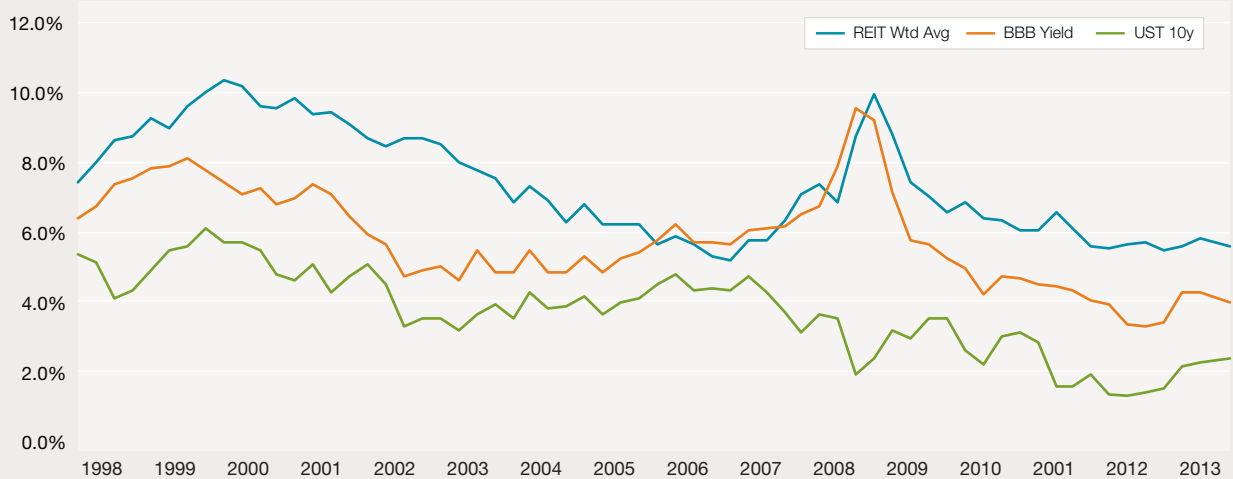
AVERAGE CAP RATES BY REAL ESTATE SECTOR



Source: Real Capital Analytics

Cap rates trending to historically low levels...

REIT IMPLIED CAP RATE VS BBB YIELD VS UST 10-YEAR YIELD



Source: Company Documents, Data Stream, SNL Financial, Morgan Stanley Research

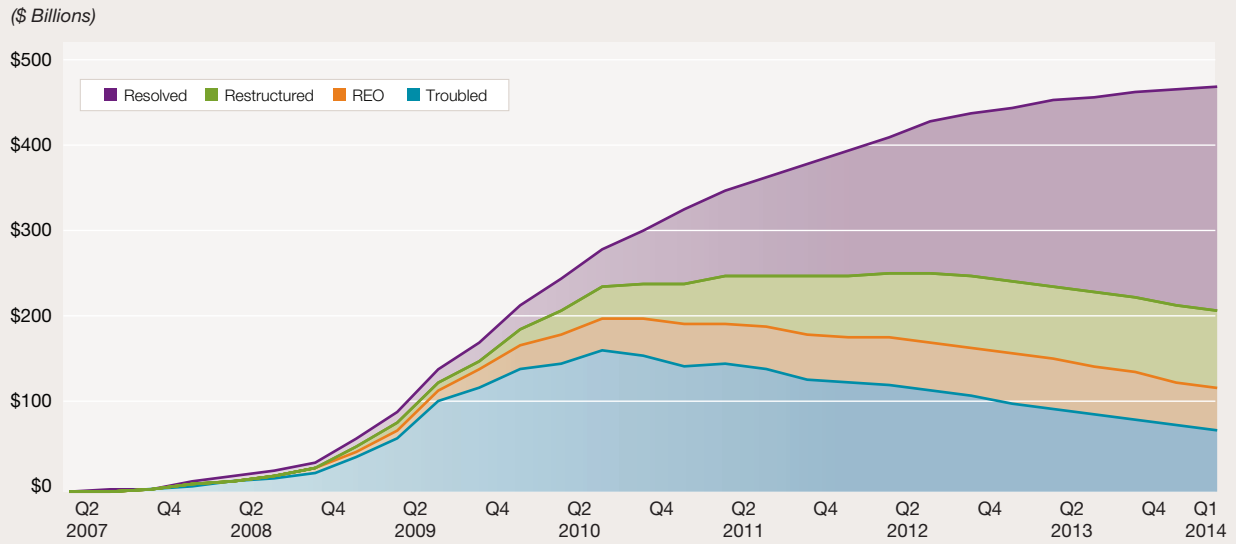
Note: REIT implied cap rates are calculated as the market cap-weighted average of companies' NOI/EV, where EV = Price

* Reported Shares + Debt - Other Net Assets

...But provide attractive spread to alternative assets

UNITED STATES REAL ESTATE *(continued)*

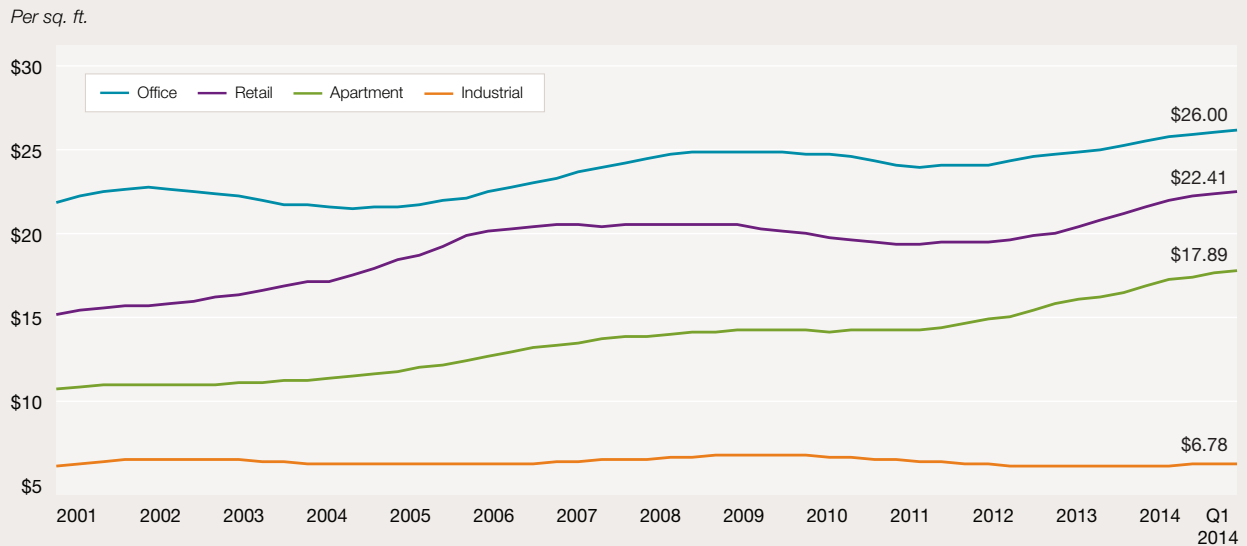
CUMULATIVE DISTRESS FOR ALL PROPERTY TYPES



Source: Real Capital Analytics

Nearly three quarters of distressed assets have been resolved or restructured

RENTAL RATES

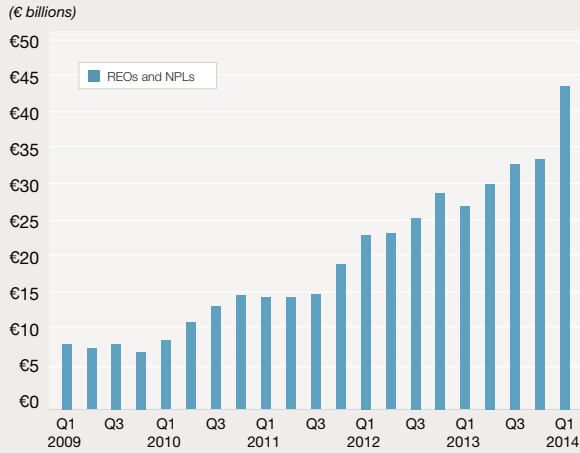


Source: Real Capital Analytics

With limited new supply, rents should accelerate

EUROPE REAL ESTATE

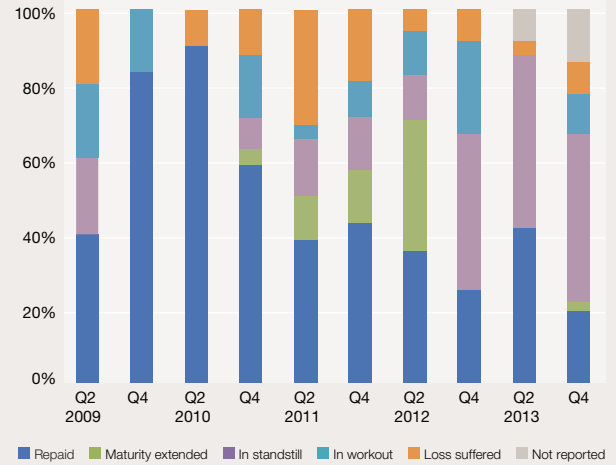
BANK ASSET DISPOSALS



Source: Real Capital Analytics
(rolling 12 month total)

Banks continue to dispose of non-core assets but much more remains

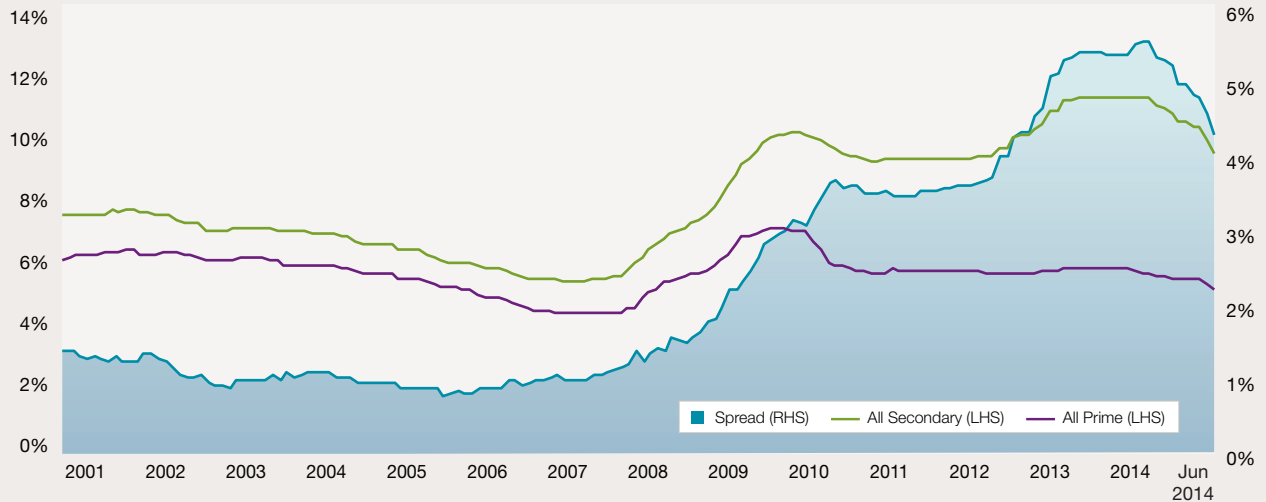
EUROPEAN CMBS MATURITY RESOLUTIONS



Source: Fitch

Loan impairment increasing

YIELD GAP IN THE UK: PRIME VERSUS SECONDARY ALL PROPERTY YIELDS

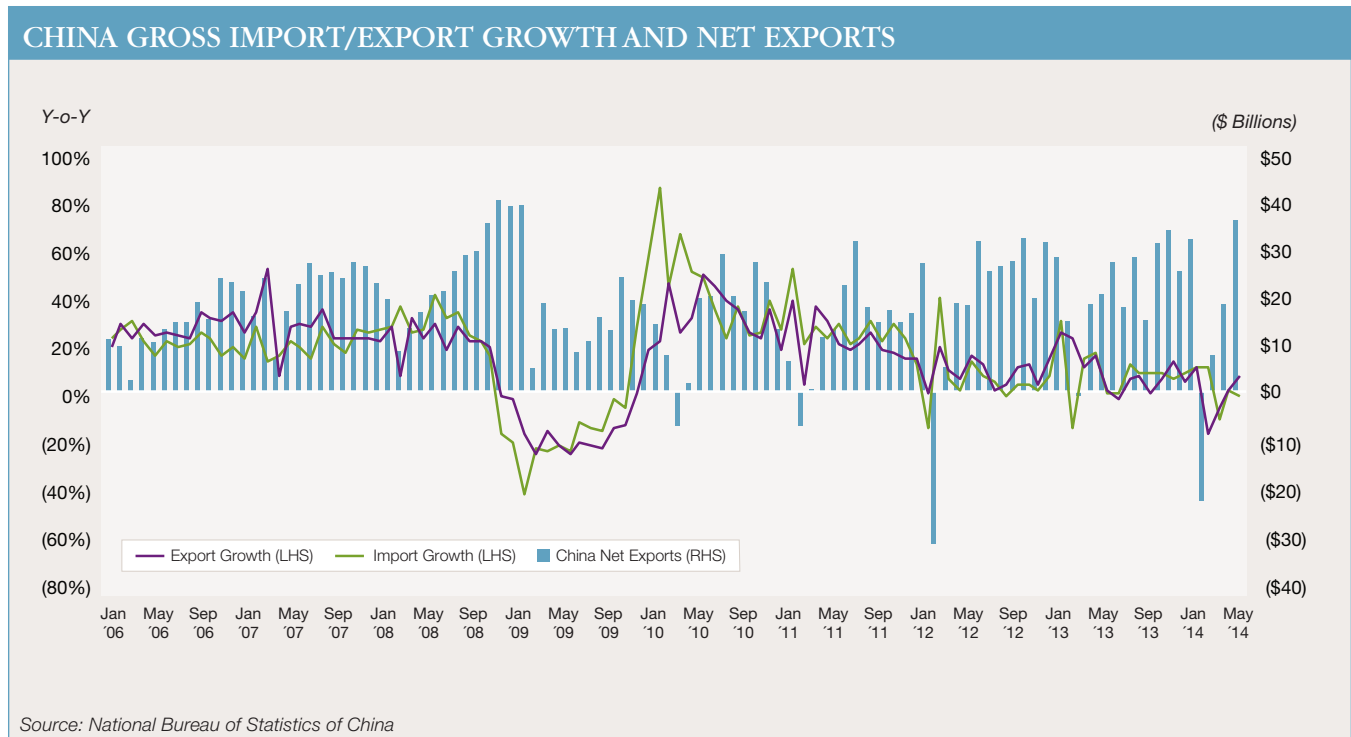


Source: CBRE

Strong demand for stabilized properties; transitional assets offer significant spread premium

ASIA REAL ESTATE

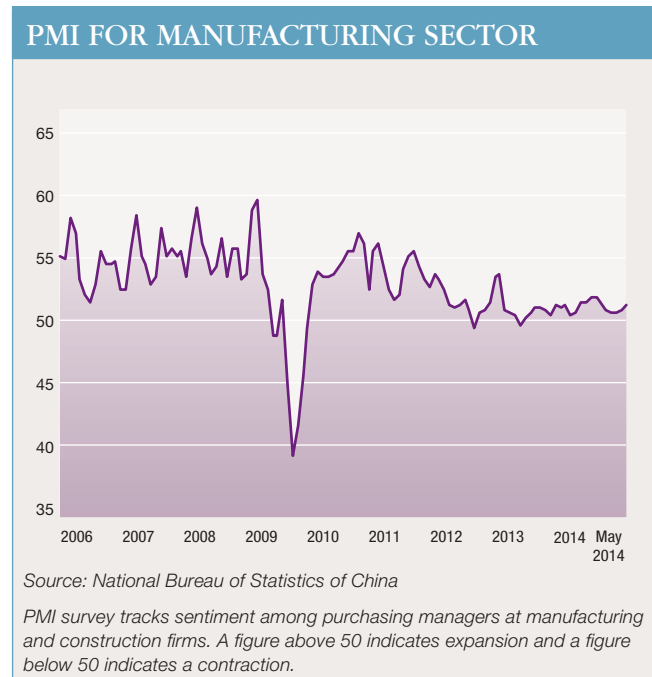
CHINA



Import and export growth continued to be positive



GDP growth maintained at a steady pace



PMI continued to stay in positive territory

NATIONAL PRIMARY RESIDENTIAL SUPPLY AND SALES

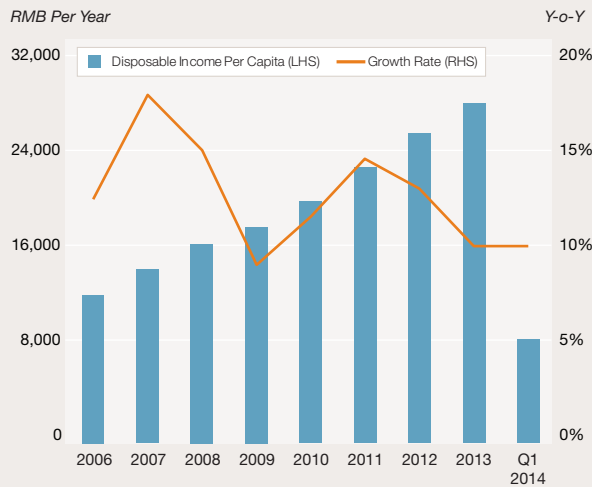
Square Meters (Thousands)



Source: National Bureau of Statistics of China

Residential demand is keeping pace with supply although residential sales volumes fell in Q1 2014

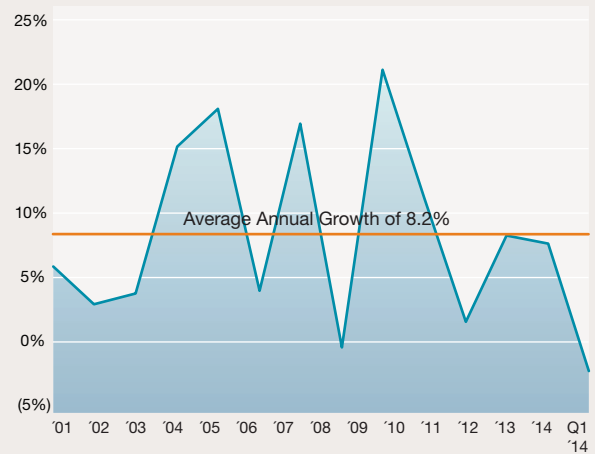
URBAN DISPOSABLE INCOME



Source: National Bureau of Statistics of China

Urban disposable income growth is creating an emerging, wealthy middle class seeking to become homeowners

ANNUAL HOUSING PRICE GROWTH



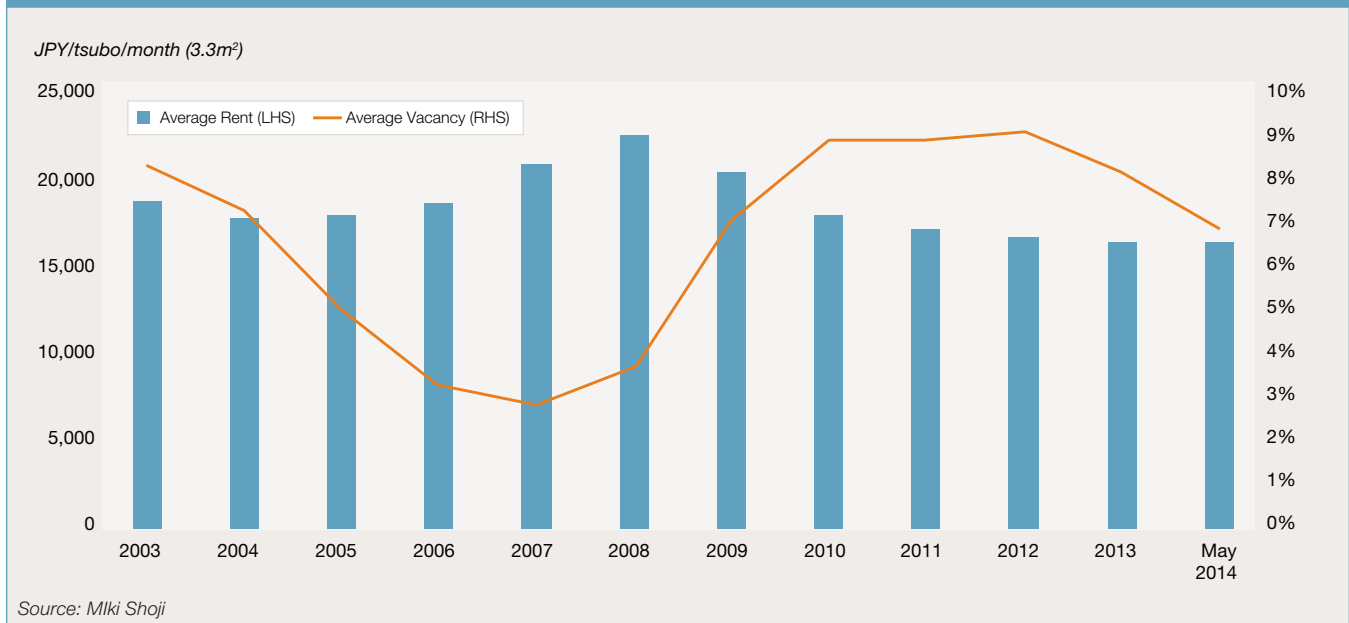
Source: National Bureau of Statistics of China

Housing price growth fell into negative territory for the first time since 2008, which may lead to a significant buying opportunity

ASIA REAL ESTATE (continued)

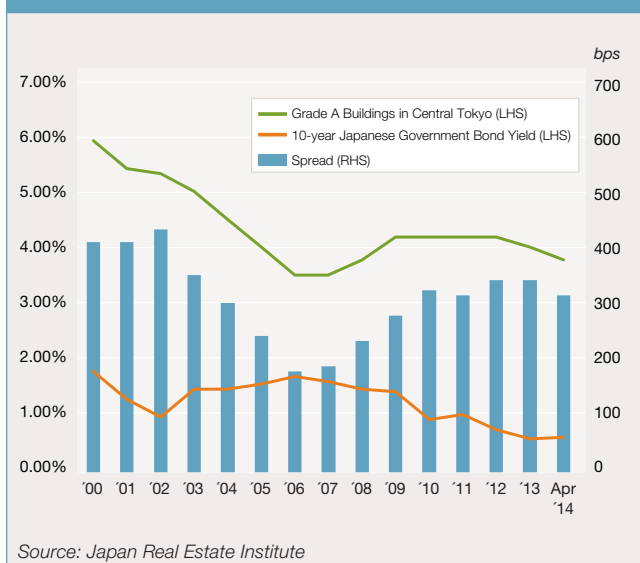
JAPAN

TOKYO'S 5 CENTRAL WARDS GRADE A OFFICE RENT AND VACANCY RATE



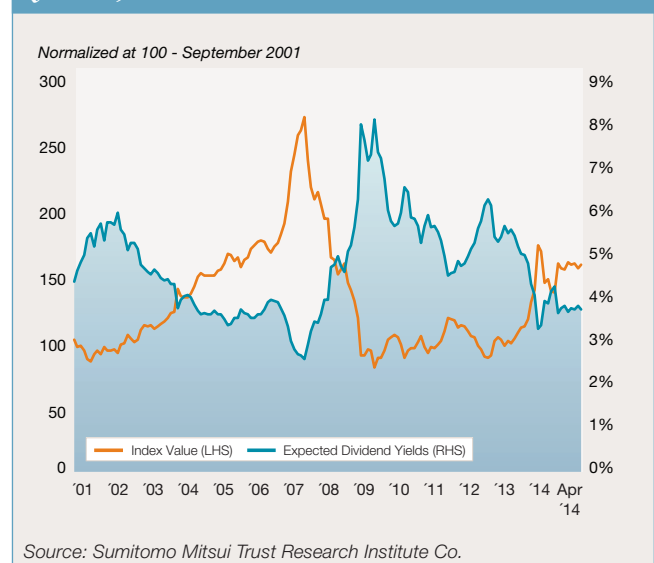
Tokyo's office market is in the early stages of a recovery as the vacancy rate continues to decline

CAP RATES OF GRADE A OFFICE BUILDINGS VS BORROWING COSTS



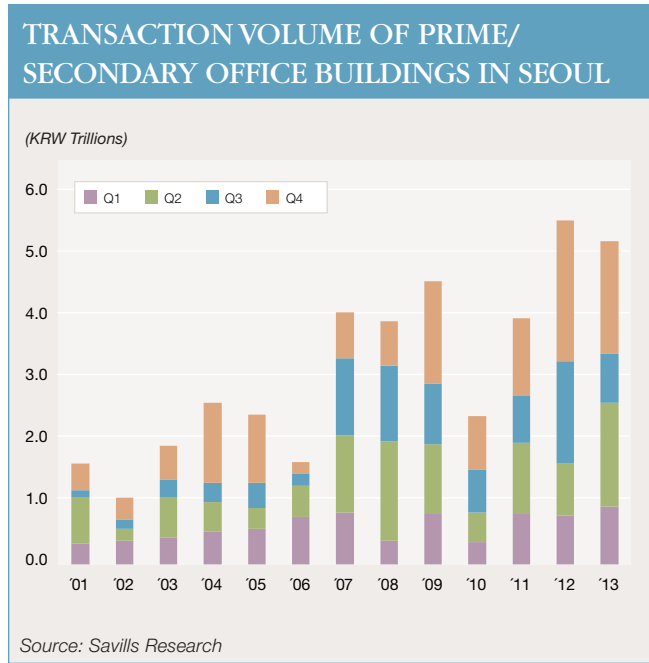
Despite lower cap rates, the spread of over 300 bps continues to be attractive to core investors

JAPANESE REAL ESTATE INVESTMENT TRUST (J-REIT) INDEX AND DIVIDEND YIELD



Strong J-REIT index performance over the past two years has driven down dividend yields (and thereby implied cap rates)

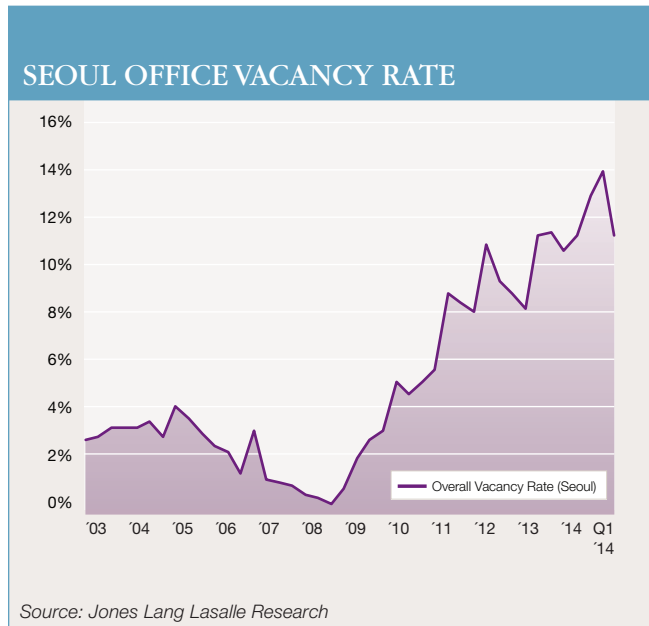
KOREA



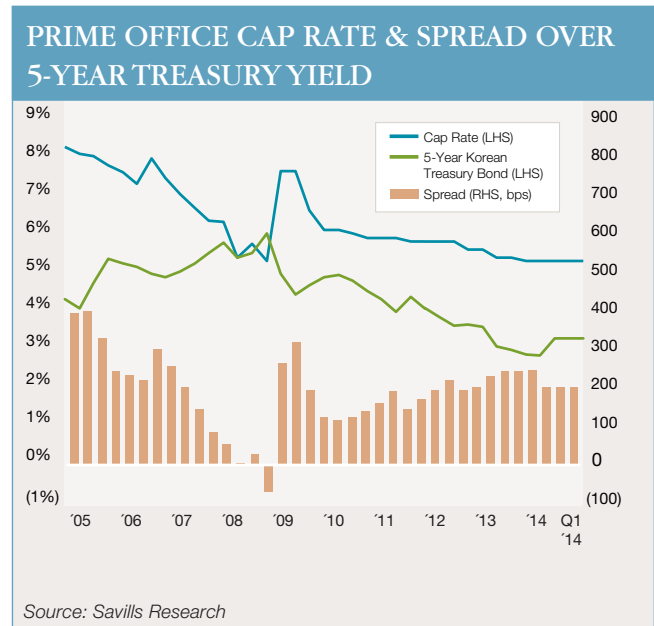
Strong office sales volume driven by aggressive domestic core investors



South Korea GDP growth improving



Seoul office market beginning to recover



Spreads beginning to tighten as domestic core property investors become more aggressive

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