ANGELO, GORDON & CO.

CAPITAL MARKETS PERSPECTIVES

THIRD 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.

PORTFOLIO MANAGERS' CORNER

BRUCE MARTIN
Portfolio Manager
Non-Investment Grade
Corporate Credit

Speculative investments took a step backward in the third quarter of 2014. Most dramatically, the Russell 2000 dropped 7.4% and the high yield bond market fell approximately 2%, which brought high yield returns to 3.5% through September. The ten-year Treasury bond yield ended the quarter at 2.49%, four basis points below where it started and returned 0.74% for the quarter. The leveraged loan market lost 33 basis points, and was up 2.4% for the first nine months of the year. There was no single or obvious reason for the sell-off in the Russell 2000 or for the large amount of high yield bond and loan mutual fund outflows during the quarter. Mutual fund flows were steadily and meaningfully negative throughout the period while large amounts of new bond and loan deals created more investments for sale than buyers could purchase and, hence, lower prices and negative returns. On a fundamental basis, retailers had poor quarterly earnings, causing their loans and bonds to trade at lower levels; weak oil prices pressured the trading levels of energy related equities and credits as well. The credit markets felt unsettled at quarter-end and became more volatile in the first two weeks of the fourth quarter. The bulk of the new issue sales appear to be behind the market which should provide technical support. However, the demand side will continue to be driven by investor sentiment as market participants try to figure out the direction of U.S. short- and long-term interest rates as well as the quality of third quarter earnings.

THOMAS FULLER
Portfolio Manager
Distressed Debt

After many months operating at full throttle, the high yield capital markets finally experienced a period of indigestion. Institutional investors were asked to absorb record levels of new issuance while trying to sop up supply both in loan form from maturing CLO's as well as in bond form from retail outflows. While the pressure was more acute in certain industries, such as retail and metals & mining, the decline in pricing was relatively minor making this period look more like a buying opportunity for par-market players rather than the onset of a new distressed cycle. In Europe, the number of potential investments coming to our attention continued to grow. Pressure on commercial banks to sell down non-core assets continued unabated with market participants estimating the volume of sales from bank balance sheets to be in excess of €100 billion in 2014. Well-experienced investors were able to effectively pick from a surfeit of deals across the continent.

ARTHUR PEPONIS
Portfolio Manager
Private Equity

The overall private equity market remained active during the third quarter. Deal volume was on pace to have its best year since 2007 and "dry powder" continued to increase and is currently approaching record levels. The terms and amounts that private equity funds received from banks and the debt market were consistent with those received pre-financial crisis as investors searched for yield. Leverage multiples continued to increase and issuer friendly terms such as "covenant-lite" represented 67% of total issuance through the third quarter, a noteworthy increase from last year's 51%. Multiples achieved by sellers thus far in 2014 continued to move upwards as the 9.7x EBITDA purchase price equaled the record multiple paid in 2007. Further, sponsors contributed greater equity as a percentage of purchase prices from the prior peak of the market. Year-to-date, the average equity contribution was 36% compared to 31% for 2007. It remains an attractive time for sponsors to monetize assets. Through the end of September, the dollar volume of private equity exits already eclipsed the record volume achieved for the entirety of 2013. The number of exits was on pace to set a record as well. The debt, equity, and M&A markets all remained open for sponsors to provide liquidity to their investors.

DAVID KAMIN
Portfolio Manager
Merger Arbitrage

Merger activity continued to be strong in the third quarter with M&A deal volumes up over 30% year-over-year. After a slow start, the quarter saw a steady flow of large-cap transactions where event-driven investors were able to deploy a substantial amount of capital. Deal spreads were attractive throughout the quarter as various geopolitical concerns, combined with deal specific characteristics – long deal duration, above average anti-trust and regulatory risk – weighed on arbitrageurs. Additionally, on August 6th, dubbed Arbageddon, a confluence of events occurred which widened deal spreads further. On this day, Twenty-First Century Fox and Sprint Corp abandoned their respective pursuit of acquisitions, Walgreens stunned investors when it decided to acquire Alliance Boots GmbH but eschewed a move offshore, and President Obama pledged to introduce unilateral measures to dis-incentivize the highly politicized 'corporate inversions.' Arbitrage spreads have recovered somewhat since then but uncertainty and anxiety were still present at the quarter's end leading to attractive entry points in certain deals.

GARY WOLF
Portfolio Manager
Convertible Arbitrage

Global convertible bonds returned -2.87% in the third quarter, versus -4.09% for global equities, with overall risk reduction dominating the month of September. Convertible arbitrage returns were approximately flat during the period albeit with notable weakness in Europe and Asia taking its toll during the final weeks of the quarter, eventually spilling over to the U.S. market. Primary market activity was mixed with strong issuance in the U.S. over the summer months, weaker issuance out of Europe, then a global acceleration after Labor Day. Approximately $20.9 billion of new deals priced during the quarter. This issuance was enough to cause cash strapped long-only investors to reduce existing positions in order to accommodate new issues. Secondary market valuations came under pressure as a result. The correction was overdue and there is scope for valuations to decline further and potentially overshoot on the downside, thus creating opportunities to put capital to work. The largest transactions in the quarter included convertibles from Twitter, Alcoa, Tyson Foods, Telefonica, and Priceline (with their third deal). The global year-to-date issuance total now stands at $73.2 billion, compared to $55 billion at the same time last year. With interest rates still low, credit spreads tight, equities near all time highs, and demand for product at reasonable prices still strong, issuance should continue in the coming months.

TODD DITTMANN
Portfolio Manager
Energy Direct Lending

The shale drilling boom continued unabated in the third quarter despite a weaker economic picture across much of the world. Oil prices were down, and yet production was up and companies drilled for more. A look at field-level economics explains the continued oil-focused spending in the face of weaker commodity prices. Drilling returns are robust and break-even prices are well below the quarter-end WTI front month of $91.16 per barrel. Of the major plays, the Eagle Ford shale, at $55-60 per barrel break-even drilling cost, is the lowest cost oil supplier; whereas the Mississippian and Uinta shales at $70-80 per barrel, are the marginal cost suppliers. For natural gas, the wet Marcellus shale, at about $2.50/million Btu break-even drilling cost, is the lowest cost supplier; while the Fayetteville shale, at about $4.50/million Btu, is the marginal cost supplier.

Field-level economics improve even further once drilling costs are absorbed and production is established; public company production and G&A costs average below $25 per barrel. For these reasons, and in spite of both a three month pullback in energy stocks and numerous loans and bonds being priced wide of talk, oil and gas companies persistently outspent cash flow to develop acreage in many basins. We saw similar enthusiasm in the M&A markets, on the oil and gas side with Encana's recent $7.1 billion/9x EBITDA bid for Athlon; on the oil service front, with Siemens' recent $7.6 billion/12x EBITDA bid for manufacturer Dresser Rand; and on the midstream side, with Enterprise Products' $6 billion/25x EBITDA bid for Oiltanking Partners. However, as we went to press, oil prices had further dropped to $85.82 per barrel. This prompted downward revisions in senior lender price decks, further contractions in energy capital markets, and an emerging scarcity of lower priced financing alternatives.

JONATHAN LIEBERMAN
Portfolio Manager
Residential and Consumer Debt (RMBS/ABS)

For the past twelve months, RMBS and ABS markets continued to deliver strong and solid investment returns across all strategies and sectors. Credit, Agency, and ABS experienced modest 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 purchases proved unfounded. Trading volumes did experience material declines in August before significantly rebounding in September. Negative net issuance for RMBS and ABS coupled with real money demand for higher yielding assets remains a positive technical going into the final quarter of the year. With respect to borrower performance, the trend of improving consumer and mortgage credit quality continued to hold. Home sale volume remained below historical averages but appeared to be settling into a new normalized level reflective of subdued wage growth. Whole loan sales by depositories and legacy holders continued to be robust throughout the summer with over $12 billion of supply having come to market in legacy whole loans offering attractive yields and favorable risk profiles.

ANDREW SOLOMON
Portfolio Manager
Real Estate Debt (CMBS)

After a benign first half of the year volatility returned to the CMBS market in the third quarter. The consistent spread tightening witnessed in the first half of the year up and down the capital structure for both new issue and seasoned securities paused in July. By early August, prices began to drop, with legacy junior AAAs ("AJs") down approximately a point although other parts of the CMBS market weakened to lesser degrees. New issue deals had difficulty clearing partially due to concerns about credit quality and partially in response to broader macro-economic worries. With a post-financial crisis record amount of CMBS scheduled to come to market in September, the market felt primed for a meaningful correction. However, before that could happen, trading activity ground to a virtual halt as the majority of market participants took their summer vacations. Investors returned from their respite with a seemingly renewed risk appetite. Despite less than pristine overall collateral quality, September's new issue deals were well received by the market and the overall supply was easily absorbed. Although quarter-end forced selling appeared to be less meaningful than in prior periods, we still witnessed several dealers repositioning their inventory.

GORDON J. WHITING
Portfolio Manager
Net Lease Real Estate

Lower interest rates in the third quarter continued to drive cap rate compression in real estate valuations. Industrial production and manufacturing activity strengthened during the quarter, driving accelerated demand for industrial space. Net absorption of industrial space jumped to 34.7 million square feet ("MSF") in the period, about five MSF greater than the post-recession average. The recovery in the fundamentals of the industrial segment continued to improve during the quarter across both warehouse/distribution and flex/R&D assets, with national vacancy rates falling by 20 basis points for both property types. National vacancy rates for warehouse/distribution now stand at 11.3% and vacancy rates for flex/R&D are at 13.2%. Both property types saw positive growth in rents with the pace of improvement in the warehouse/distribution space accelerating compared to the first quarter's rate, while year-over-year rental growth in the flex/R&D space hit a new post-recession high. U.S. industrial rents were up 3% and cap rates in the sector compressed roughly 20-30 basis points since May 2013.

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

The flow of capital into U.S. real estate remained robust during the third quarter. Turmoil throughout the Middle East and weak economic news from Asia continued to drive investment into U.S. hard assets. A recent purchase of a 49% interest by a European sovereign wealth fund in a portfolio of N.Y. and Boston office buildings priced at an ultra low 3.8% cap rate. Easing lending standards provided additional momentum to capital flows. Private market values in the core space (Green Street Commercial Property Prince Index) were up 7% over the prior 12 months with all asset classes now pricing above their prior 2007 peaks with the exception of hotels. Operating fundamentals continued to improve as well, led by the multi-family asset class which experienced the strongest quarterly rent growth since the early 2000s and record low vacancy levels as a result of the improved job growth and a slowing for-sale housing market. Despite heavy CMBS issuance in September, investors continued to snap up offerings, driving spreads lower.

In Europe we began to see a divergence between the growth prospects for the U.K. economy and those on the Continent. Growth in the U.K. has been solid, with 2014 GDP projected to expand by over 3%, and estimates for 2015 and 2016 anticipated at similar levels. Meanwhile, the major economies of the continent continued to stagnate with low, if any, GDP growth, high unemployment, high public debt, and virtually no inflation. The impact of this divergence can be seen in office vacancy. London City vacancy fell from a peak of 15% to 7% today while vacancy in La Défense in Paris climbed from 4% in 2009 to 12%, and the top six German cities went from 9% vacancy in 2009 to a current 10%. The historic ECB rate cut to 0.05% and the prospect of further asset purchases contributed to a deflating Euro, which is perhaps the best way for the ECB to jump start the European economies and avoid deflation. Banks in both the U.K. and Continent persist with commercial real estate deleveraging plans, with over €50 billion to be sold in 2014 and over €550 billion identified for disposal or workout. However, many buyers are ignoring the economic fundamentals between the U.K. and the Continent. We believe that the U.K. continues to provide opportunity as debt capital is improving but still not readily available for transitional assets. Current net new lending remains at 2000 levels, although we do see signs of acceleration.

WILSON LEUNG
Portfolio Manager
Asia Real Estate

China residential sales volume and pricing continued to be anemic in the second quarter of the year. Residential sales volume fell 7.8% in the first half of 2014 and national pricing fell an estimated 1.5% over the same period. As we had discussed in our previous quarterly update, local developers have cut prices to improve sales volume. In addition, the government has begun to loosen credit tightening policies as well as home purchase restrictions that were put in place to limit excessive housing price growth. We expect that these changes should have a positive impact on the market but it may take some time for the measures to take effect. We continue to closely monitor this market for attractive investment opportunities during this down cycle.

As we had expected, vacancy in the Tokyo office sector continued its decline below 7%. Rents, as a result, rose 2.5% in the first half of 2014 – the first increase in over five years. Core real estate buyers including Japanese REITs and foreign investors actively pursued stabilized assets, which began to push down cap rates. That said, the Japanese real estate market is still in an early recovery stage as office asset values remain 25% to 30% below 2007 peak levels. We continue to see significant opportunity to buy transitional assets that need capital improvements, a new leasing, or professional asset management. In Korea, the Seoul office market remained stable with vacancy at 10% and flat office rent growth for the quarter. The market for core investment properties continued to be strong – primarily driven by domestic institutions seeking yield. The lack of opportunistic capital in the marketplace continues to offer the opportunity to buy distressed assets from motivated sellers with limited options for liquidity.

ANGELO, GORDON & CO.

ECONOMIC DASHBOARD

MARKET INDICES

Third Quarter 2014

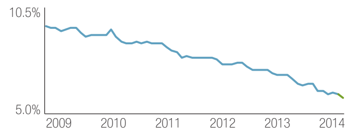
JOB MARKET

Macro Economics | Five Year Trend

US – Unemployment Rate

As of 9/30/2014

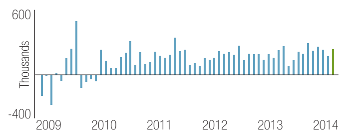
Latest Level	5.9
Changes from Prior Month	(0.2)
Latest Direction	Improving
Frequency	Monthly



US – Non Farm Payroll

As of 9/30/2014

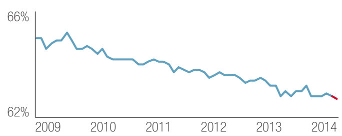
Latest Level	248.0
Changes from Prior Month	68.0
Latest Direction	Improving
Frequency	Monthly



US – Labor Participation Rate

As of 9/30/2014

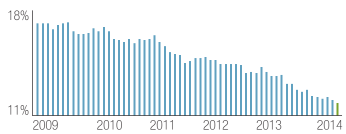
Latest Level	62.7
Changes from Prior Month	(0.1)
Latest Direction	Deteriorating
Frequency	Monthly



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

As of 9/30/2014

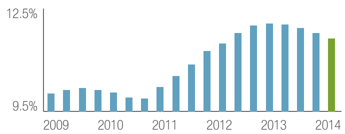
Latest Level	11.8
Changes from Prior Month	(0.2)
Latest Direction	Improving
Frequency	Monthly



Eurozone Unemployment Rate

As of 6/30/2014

Latest Level	11.6
Changes from Prior Quarter	(0.2)
Latest Direction	Improving
Frequency	Quarterly



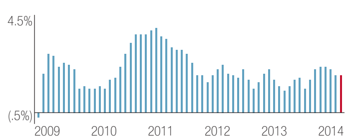
INFLATION

Macro Economics | Five Year Trend

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

As of 8/31/2014

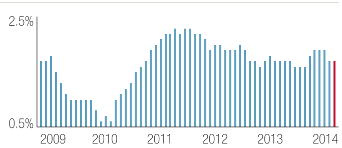
Latest Level	1.7
Changes from Prior Month	(0.3)
Latest Direction	Decreasing
Frequency	Monthly



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

As of 8/31/2014

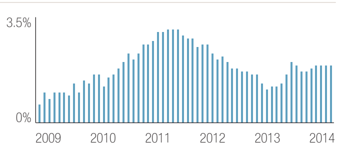
Latest Level	1.7
Changes from Prior Month	(0.2)
Latest Direction	Decreasing
Frequency	Monthly



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

As of 8/31/2014

Latest Level	1.9
Changes from Prior Month	0.0
Latest Direction	No Change
Frequency	Monthly



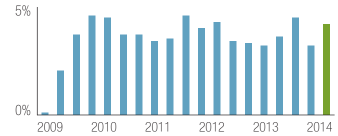
GDP GROWTH

Macro Economics | Five Year Trend

US – GDP Y-o-Y %

As of 6/30/2014

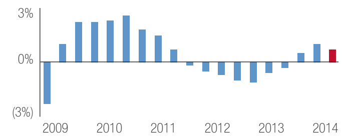
Latest Level	4.3
Changes from Prior Quarter	1.0
Latest Direction	Improving
Frequency	Quarterly



Eurozone – GDP Y-o-Y %

As of 6/30/2013

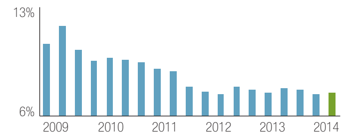
Latest Level	0.7
Changes from Prior Quarter	(0.3)
Latest Direction	Deteriorating
Frequency	Quarterly



China – GDP Y-o-Y %

As of 6/30/2014

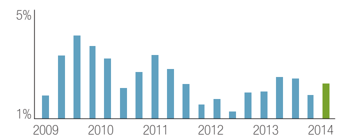
Latest Level	7.5
Changes from Prior Quarter	0.1
Latest Direction	Improving
Frequency	Quarterly



World – GDP Y-o-Y %

As of 6/30/2013

Latest Level	2.4
Changes from Prior Quarter	0.5
Latest Direction	Improving
Frequency	Quarterly



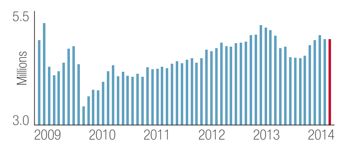
HOUSING

Macro Economics | Five Year Trend

Existing Home Sales

As of 8/31/2014

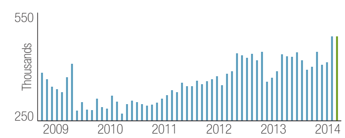
Latest Level	5.1
Changes from Prior Month	(0.1)
Latest Direction	Deteriorating
Frequency	Monthly



New Homes Sales

As of 8/31/2014

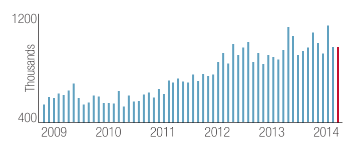
Latest Level	504.0
Changes from Prior Month	77.0
Latest Direction	Improving
Frequency	Monthly



Housing Starts

As of 8/31/2014

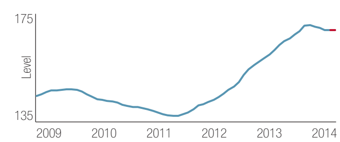
Latest Level	956.0
Changes from Prior Month	(161.0)
Latest Direction	Deteriorating
Frequency	Monthly



Case-Shiller Index of Home Value in 20 cities

As of 7/31/2014

Latest Level	169.7
Changes from Prior Month	(0.9)
Latest Direction	Deteriorating
Frequency	Monthly



Source: Bloomberg (All)

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

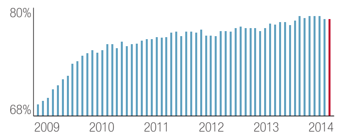
ECONOMIC DASHBOARD *(continued)*

ECONOMIC & MARKET CONFIDENCE

Macro Economics		Five Year Trend

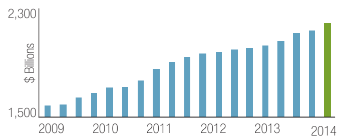
Capacity Utilization as a % of Capacity
As of 8/31/2014

Latest Level	78.8	
Changes from Prior Month	(0.3)	
Latest Direction	Deteriorating	
Frequency	Monthly	



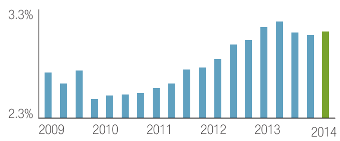
Private Fixed Investment Nonresidential SAAR
As of 6/30/2014

Latest Level	2,191.2	
Changes from Prior Quarter	57.6	
Latest Direction	Improving	
Frequency	Quarterly	



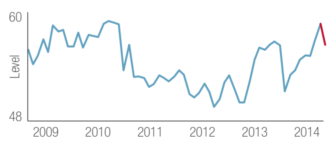
Residential Fixed Investment as a % of GDP
As of 6/30/2013

Latest Level	3.1	
Changes from Prior Quarter	0.03	
Latest Direction	Increasing	
Frequency	Quarterly	



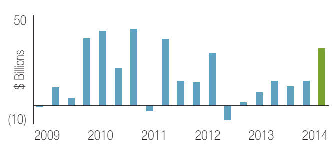
ISM Manufacturing Index
As of 9/30/2014

Latest Level	56.6	
Changes from Prior Quarter	(2.4)	
Latest Direction	Deteriorating	
Frequency	Quarterly	



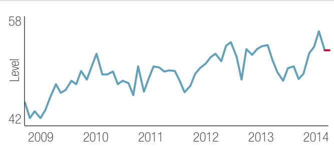
Manufacturing Inventory Change Q-o-Q $
As of 6/30/2014

Latest Level	31.7	
Changes from Prior Quarter	17.9	
Latest Direction	Increasing	
Frequency	Quarterly	



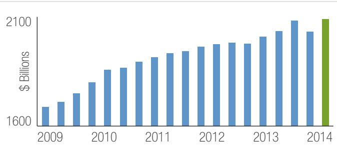
Architecture Firms Billings Index
As of 8/31/2014

Latest Level	53.0	
Changes from Prior Month	(2.8)	
Latest Direction	Deteriorating	
Frequency	Monthly	



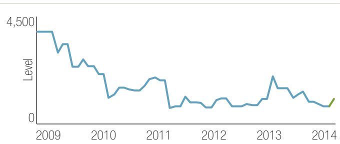
Exports of Goods/Services
As of 6/30/2014

Latest Level	2,081	
Changes from Prior Quarter	54	
Latest Direction	Improving	
Frequency	Quarterly	



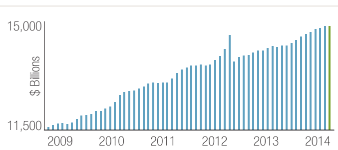
Shipping Rates
As of 9/30/2014

Latest Level	1,063	
Changes from Prior Quarter End	213	
Latest Direction	Improving	
Frequency	Quarterly	



Personal Income Level
As of 8/31/2014

Latest Level	14,861	
Changes from Prior Month	47	
Latest Direction	Improving	
Frequency	Monthly	

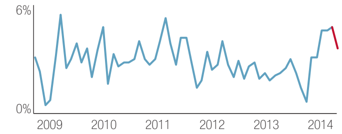


ECONOMIC & MARKET CONFIDENCE *(continued)*

Macro Economics		Five Year Trend

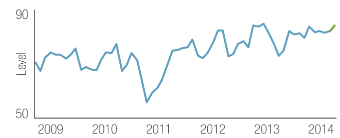
US Retail Chain Store Sales Y-o-Y
As of 9/30/2014

Latest Level	3.6	
Changes from Prior Month End	(1.2)	
Latest Direction	Deteriorating	
Frequency	Monthly	



Michigan Consumer Confidence Sentiment
As of 9/30/2014

Latest Level	84.6	
Changes from Prior Month	2.1	
Latest Direction	Improving	
Frequency	Monthly	

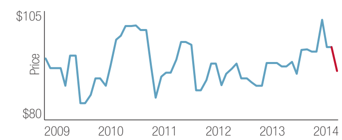


COMMODITIES

Macro Economics		Five Year Trend

WTI Crude Oil Price
As of 9/30/2014

Latest Level	91.2	
Changes from Prior Month End	(3.9)	
Latest Direction	Decreasing	
Frequency	Monthly	



Reuters/Jefferies Commodity Index
As of 9/30/2014

Latest Level	278.6	
Changes from Prior Month End	(14.2)	
Latest Direction	Decreasing	
Frequency	Monthly	

Gold
As of 9/30/2014

Latest Level	1,208	
Changes from Prior Month End	(79)	
Latest Direction	Decreasing	
Frequency	Monthly	

RATES

Macro Economics		Five Year Trend

LIBOR 3M
As of 9/30/2014

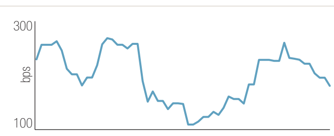
Latest Level	0.24	
Changes from Prior Month End	0.00	
Latest Direction	No Change	
Frequency	Monthly	

Treasury 10 Yr Yield
As of 9/30/2014

Latest Level	2.49	
Changes from Prior Month End	0.15	
Latest Direction	Increasing	
Frequency	Monthly	

Swaps 2Y vs 10Y
As of 9/30/2014

Latest Level	182.15	
Changes from Prior Month End	3.78	
Latest Direction	Steepening	
Frequency	Monthly	



Source: Bloomberg (All)

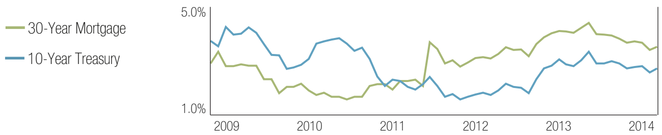
"Latest Direction" is from the last "Frequency" measurement

ECONOMIC DASHBOARD *(continued)*

RATES *(continued)*

Macro Economics — Five Year Trend

30 Yr Mortgage and 10 Yr Treasury



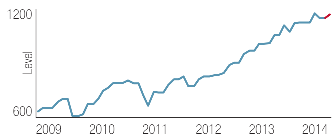
EQUITY

Macro Economics — Five Year Trend

US Equity Markets – Russell 3000

As of 9/30/2014

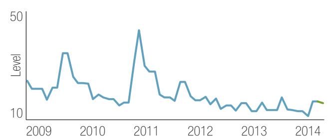
Latest Level	1,168.7
Changes from Prior Month End	(26.7)
Latest Direction	Sell Off
Frequency	Monthly



US Equity – VIX

As of 9/30/2014

Latest Level	16.3
Changes from Prior Month End	4.3
Latest Direction	Improving
Frequency	Monthly



S&P 500 Percentage Exceeding Earning Estimates

As of 9/11/2014

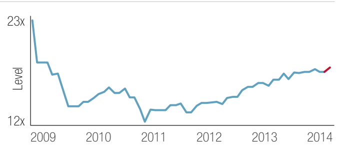
Latest Level	67.3
Changes from Prior Quarter End	(0.2)
Latest Direction	Decreasing
Frequency	Quarterly

S&P 500 Historical Valuation Levels

Trailing P/E on S&P 500

As of 9/30/2014

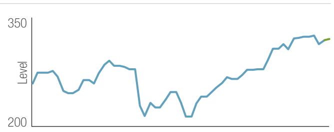
Latest Level	17.9
Changes from Prior Month End	(0.3)
Latest Direction	Decreasing
Frequency	Monthly



Equity Markets – Euro Stoxx

As of 9/30/2014

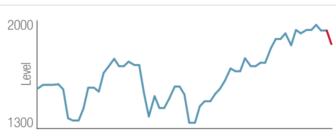
Latest Level	322.0
Changes from Prior Month End	2.3
Latest Direction	Increasing
Frequency	Monthly



Equity Markets – MSCI EAFE

As of 9/30/2014

Latest Level	1,846.1
Changes from Prior Month End	(78.5)
Latest Direction	Decreasing
Frequency	Monthly



EQUITY *(continued)*

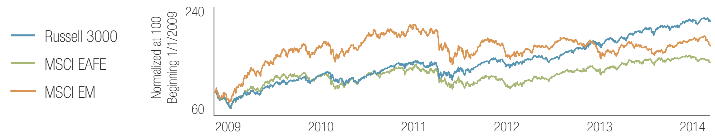
Macro Economics — Five Year Trend

Equity Markets – MSCI EM

As of 9/30/2014

Latest Level	1,005.3
Changes from Prior Month End	(82.6)
Latest Direction	Decreasing
Frequency	Monthly

Russel 3000 - MSCI EAFE - MSCI EM



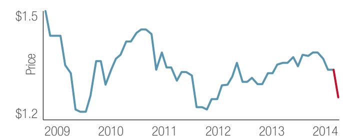
FOREIGN EXCHANGE RATE

Macro Economics — Five Year Trend

Euro Spot Rates vs 1 USD

As of 9/30/2014

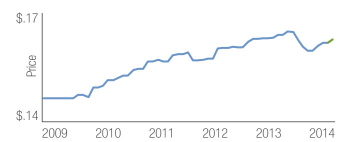
Latest Level	1.26
Changes from Prior Month End	(0.05)
Latest Direction	Deteriorating
Frequency	Monthly



Yuan Spot Rate vs 1 USD

As of 9/30/2014

Latest Level	0.1692
Changes from Prior Month End	0.0002
Latest Direction	Improving
Frequency	Monthly



Yen Spot Rates vs 1 USD

As of 9/30/2014

Latest Level	0.0091
Changes from Prior Month End	(0.0005)
Latest Direction	Deteriorating
Frequency	Monthly

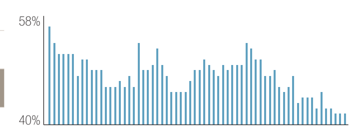
POLITICS

Macro Economics — Five Year Trend

NBC NEWS/WSJ Poll Obama Approval Rating(1)

As of 9/14/2014

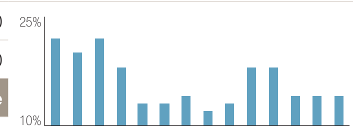
Latest Level	40.0
Changes from Prior Month	0
Latest Direction	No Change
Frequency	Monthly



NBC NEWS/WSJ Poll Congress Approval Rating(1)

As of 6/22/2014

Latest Level	14.0
Changes from Prior Level	0
Latest Direction	No Change
Frequency	Semi-Annually



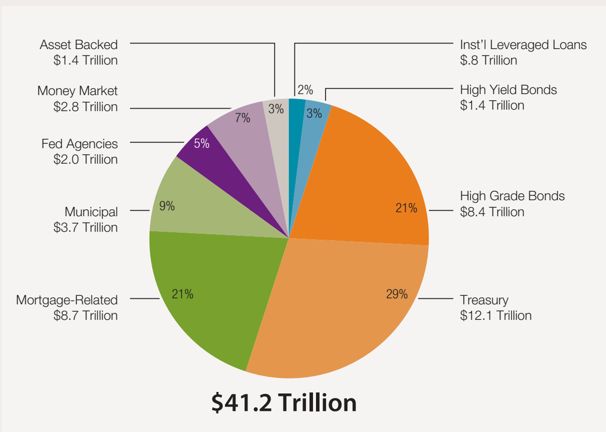
Source: Bloomberg (Except where noted)

(1) NBC News/Wall Street Journal Survey

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

NON-INVESTMENT GRADE CORPORATE CREDIT

TOTAL SIZE OF THE FIXED INCOME MARKET

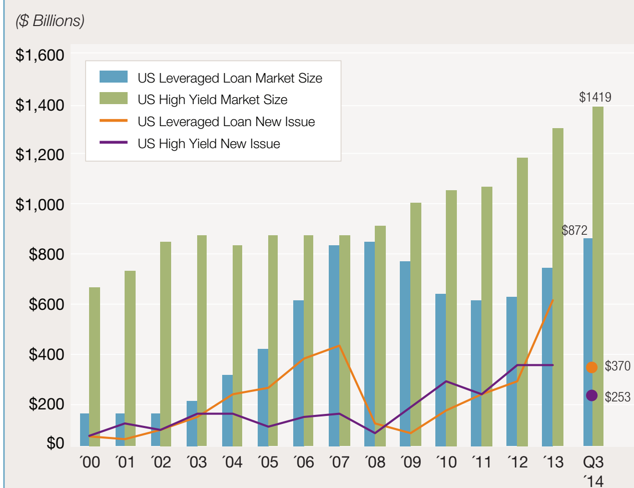


As of 3/31/2014

Source: Credit Suisse

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

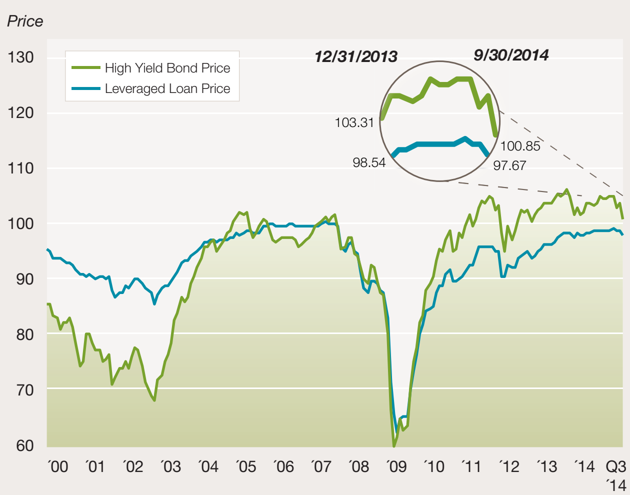
HIGH YIELD BOND & LEVERAGED LOAN MARKET SIZE AND NEW ISSUE VOLUME



Source: Credit Suisse

High yield bond and leveraged loan markets continue to expand, albeit at a reduced rate. If current weaker credit markets persist, watch for new issue supply to slow further

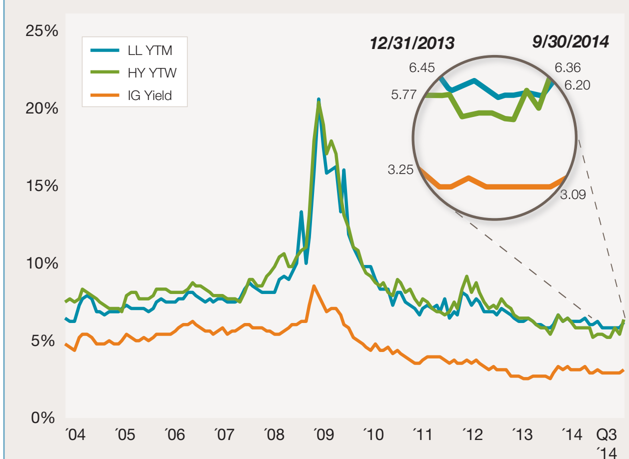
LEVERAGED LOAN & HIGH YIELD BOND AVERAGE PRICE



Source: Credit Suisse

Mutual fund outflows coupled with large new issuance pressured prices in Q3

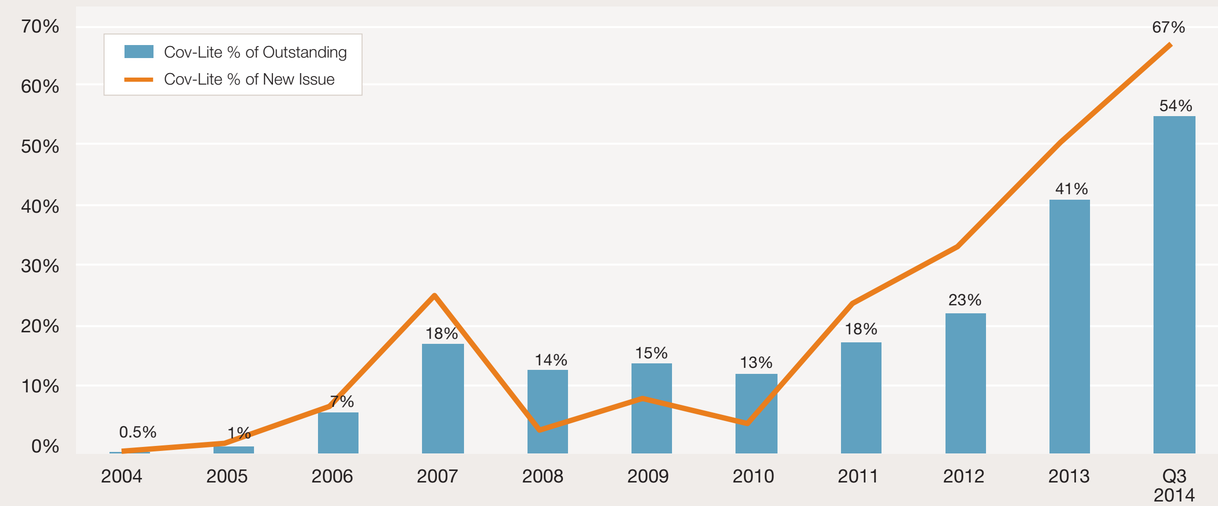
INVESTMENT GRADE VS HIGH YIELD BOND VS LEVERAGED LOAN YIELDS



Source: Credit Suisse

Recent price drops have resulted in increased yields

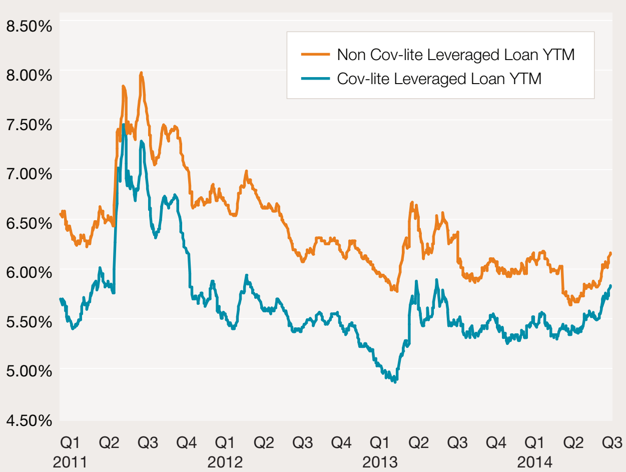
COV-LITE PERCENTAGE OF NEW ISSUE LOANS & PERCENTAGE OF OUTSTANDING LOANS



Source: JPMorgan, Credit Suisse

This trend has yet to top out

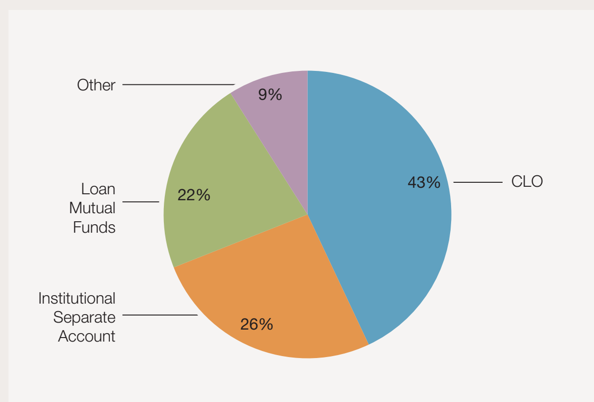
COV-LITE VS NON-COV-LITE LEVERAGED LOAN YIELD



Source: JPMorgan

Recent market move not differentiating between deals with and without covenants

HOLDERS OF LEVERAGED LOANS

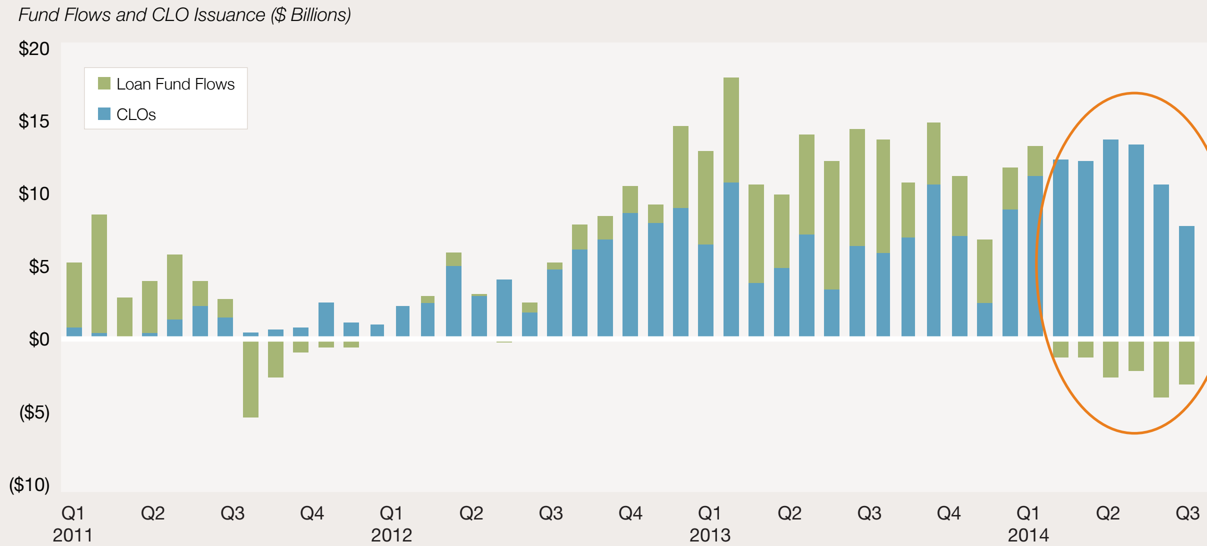


As of 6/30/2014

Source: JPMorgan

Leveraged loans are held by a diverse group of investors

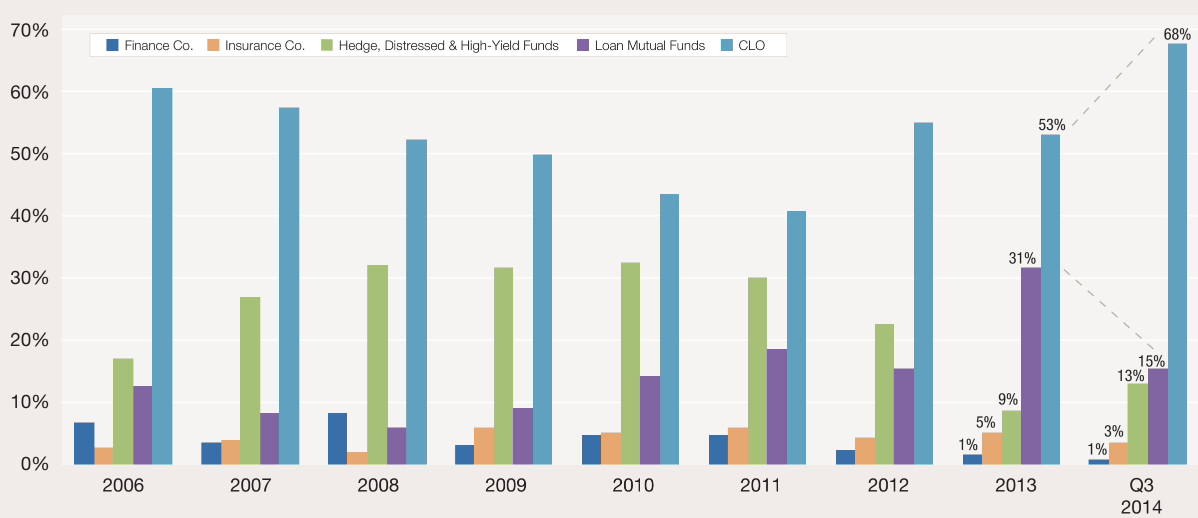
LOAN MUTUAL FUND FLOWS AND CLO ISSUANCE



Source: S&P Capital IQ LCD

Third quarter CLO issuance of $32B offset the estimated $9B that exited the loan market via loan mutual funds. Not included in the CLO issuance figure, an estimated seventy-five CLOs are ramping in the pipeline.

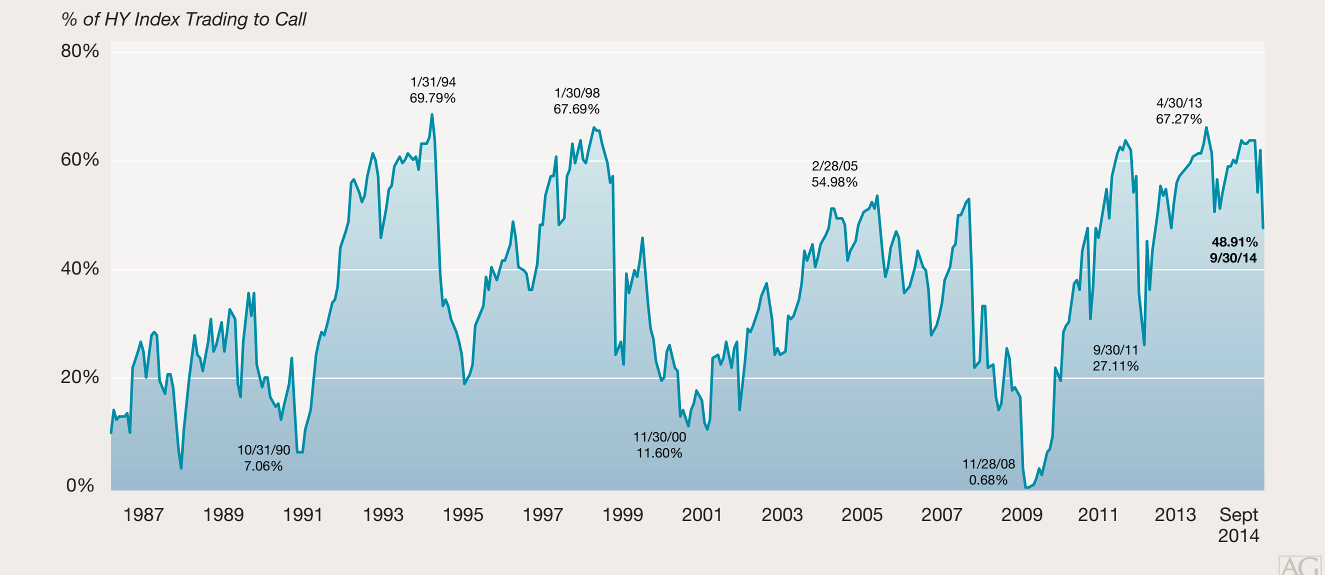
BUYERS OF NEW ISSUE LEVERAGED LOAN BY INVESTOR TYPE



Source: S&P Capital IQ LCD

CLOs have regained their position as the dominant buyer of new issue loans

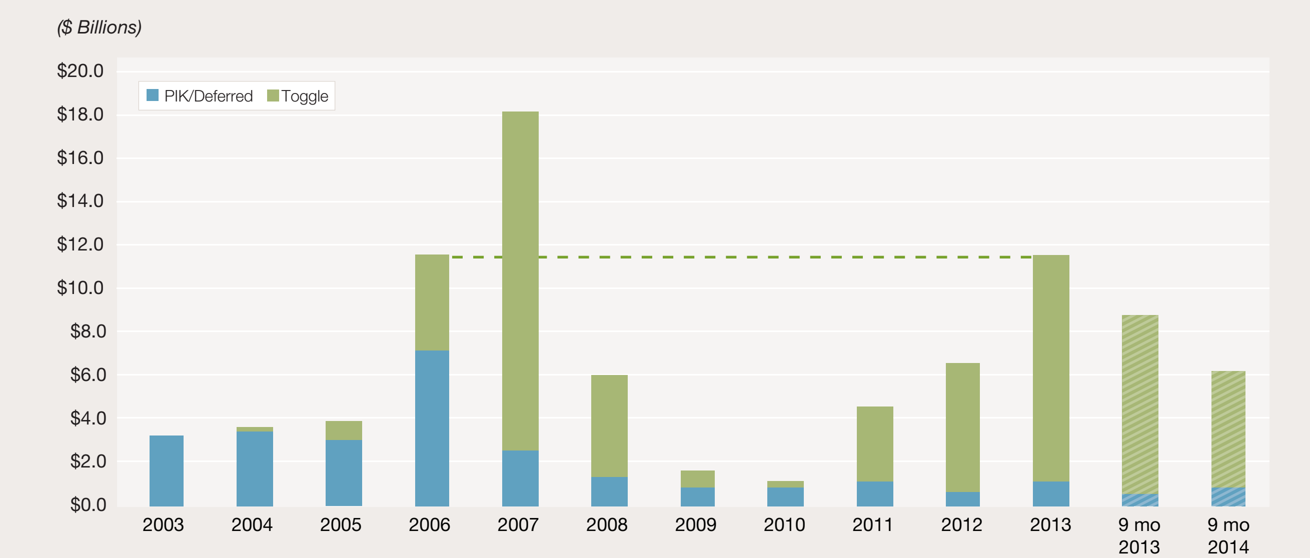
PERCENTAGE OF HIGH YIELD BONDS TRADING AT OR ABOVE CALL PRICE



Source: Credit Suisse

Recent sell-off reduced the percent of high yield bonds trading at or above their call price to a level closer in line with historical trends

AMOUNT OF PIK AND PIK TOGGLE ISSUANCE

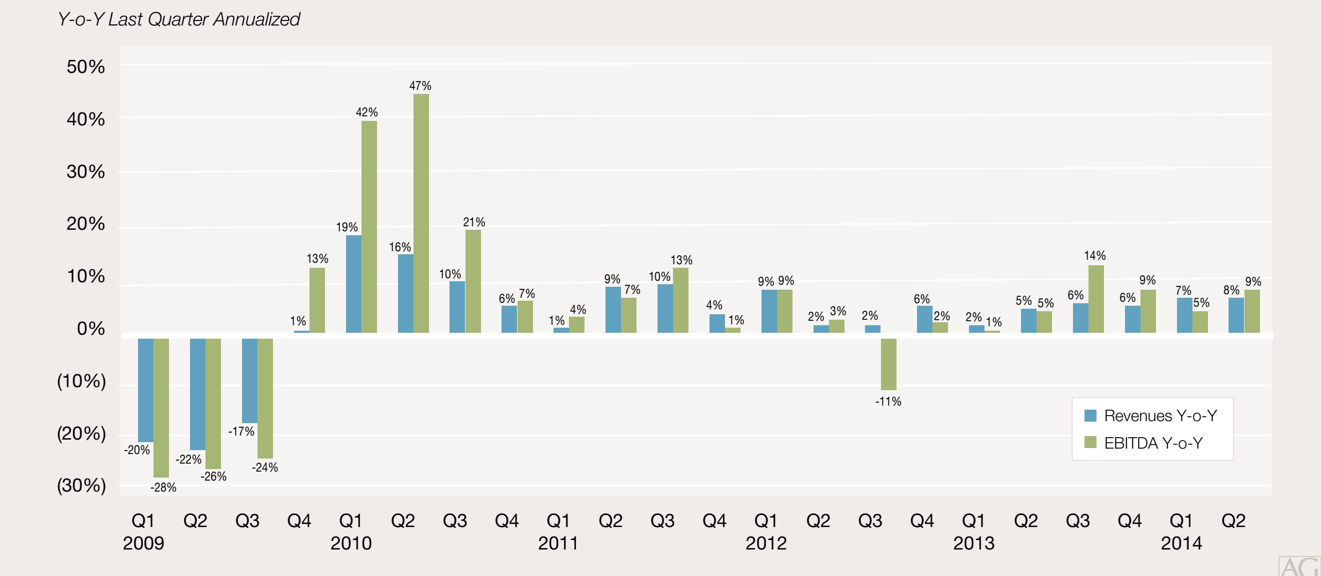


PIK Payment-in-kind

Source: JPMorgan

Aggressive capital structures may have peaked in 2013

HIGH YIELD REVENUE AND EBITDA GROWTH



Source: JPMorgan, S&P Capital IQ, BofA Merrill Lynch

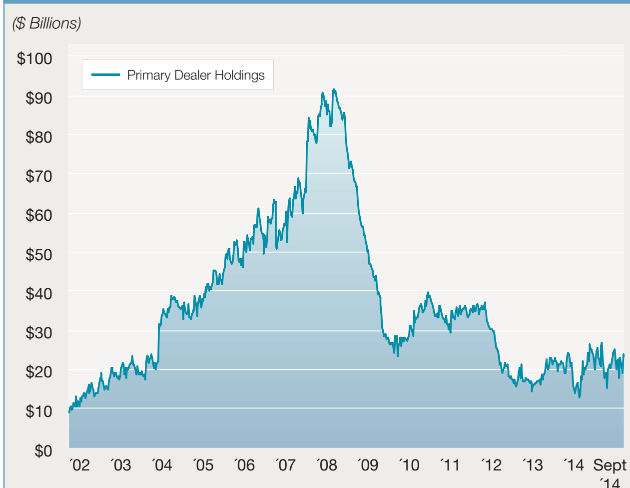
Non-investment grade borrowers continue to increase revenues and EBITDA as economy improves

UPGRADE-TO-DOWNGRADE RATIO

Source: JPMorgan

Corporate balance sheets continue to strengthen

PRIMARY DEALER POSITIONS – HY AND IG CORPORATE SECURITIES

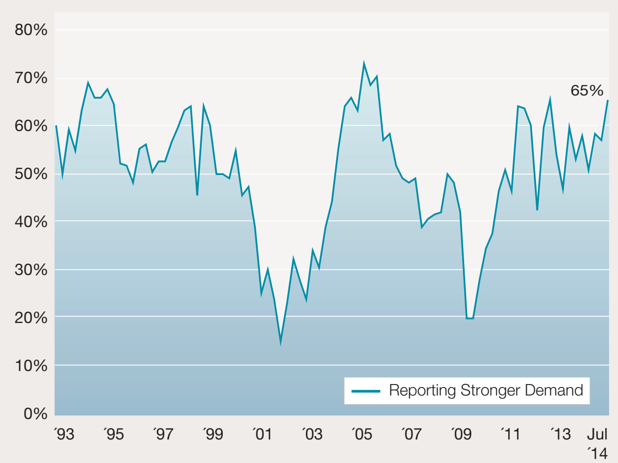


Note: In the above chart, pre-March 2013 figures are adjusted to track IG and HY bonds, notes and debentures. Post-April 2013 figures track IG and HY bonds, notes and debentures. As of March 2013, there was a reporting change in the series. Pre-March 2013 reported figures track IG and HY bonds, notes and debentures, and include commercial paper. Adjusted numbers pre-March 2013 haircut the data by the same proportion as the jump in April 2013.

Source: Bloomberg, Morgan Stanley, Federal Reserve Bank of New York

Reduced bank balance sheets will increase volatility in periods of market sell-offs as seen in September and October 2014.

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

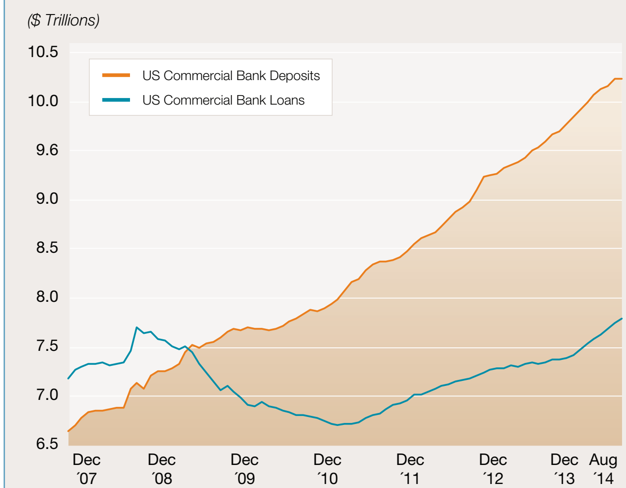


Bank Lending Surveys are sometimes referred to as "Senior Loan Officer Surveys"

Source: Bloomberg

Credit demands expanding as economy grows

US BANK DEPOSITS VS US BANK LOANS



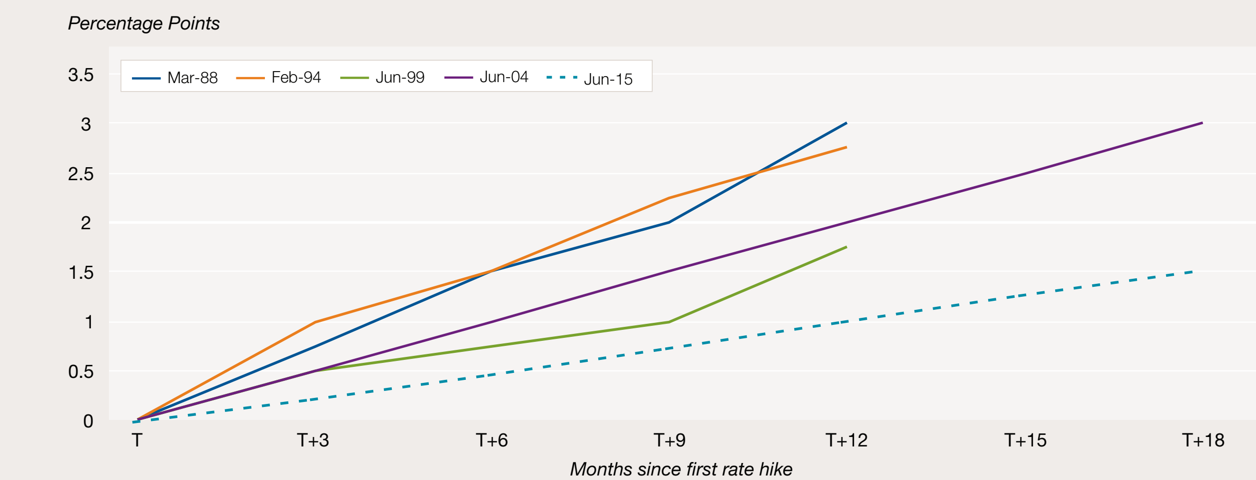
US Commercial Bank Loans and Leases include commercial and industrial loans, loans secured by real estate, loans to finance agriculture production, and loans to individuals including credit card loans

Deposits include bank liabilities deposits

Source: Bloomberg

Bank deposits have steadily increased since 2008 and are up approximately 40%. Bank lending surpassed its 2008 peak level for the first time in July 2014.

FED POLICY - HOW "SHALLOW" A HIKING CYCLE?

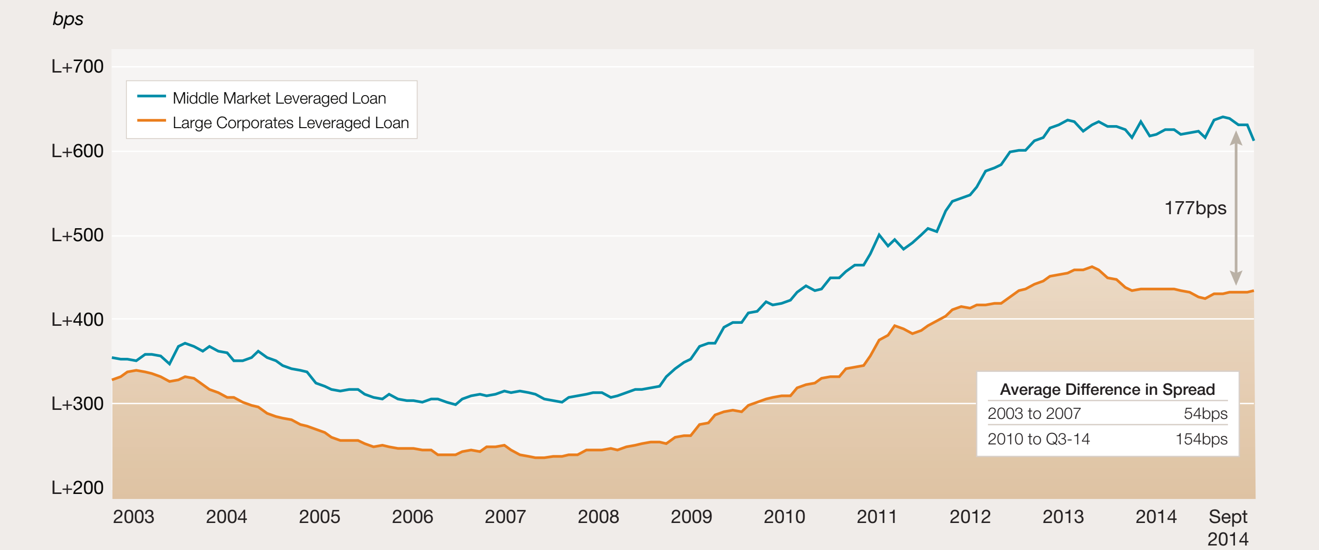


June 2015 rate hike expectation determined using futures data on October 10, 2014

Source: Bloomberg, Goldman Sachs

The market expects a more gradual increase in the Federal Funds rate than in past cycles

MIDDLE MARKET VS LARGE CORPORATE LEVERAGED LOAN AVERAGE SPREAD

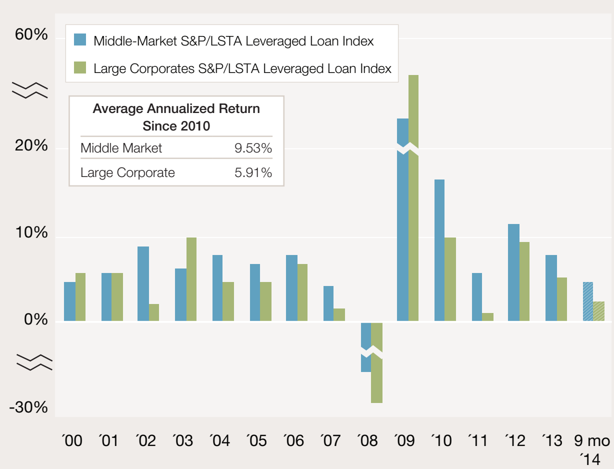


Middle market leveraged loan includes issuers with less than 50m EBITDA
Average spread includes any LIBOR floor benefit

Source: S&P Capital IQ LCD

Middle market borrowers have historically had a higher funding cost than large corporate borrowers. The gap has tripled in the post-financial crisis era.

MIDDLE MARKET VS LARGE CORPORATE LEVERAGED LOAN ANNUAL RETURNS

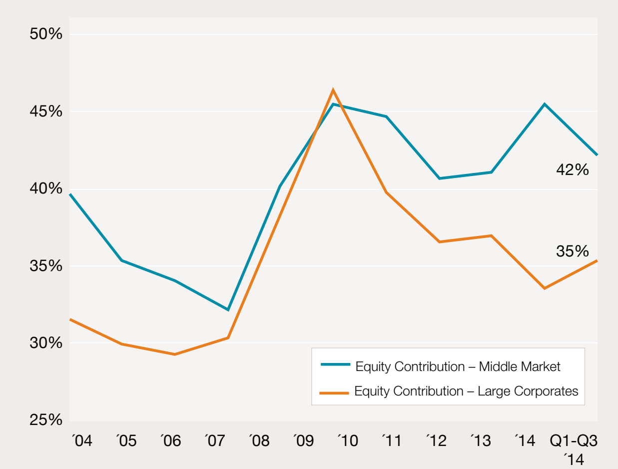


Middle market leveraged loan includes issuers with less then 50m EBITDA

Source: S&P Capital IQ LCD, S&P/LSTA Leveraged Loan Index

With the exception of 2008, middle market loans have had positive annual returns in each period

AVERAGE EQUITY CONTRIBUTION FOR LBO'S



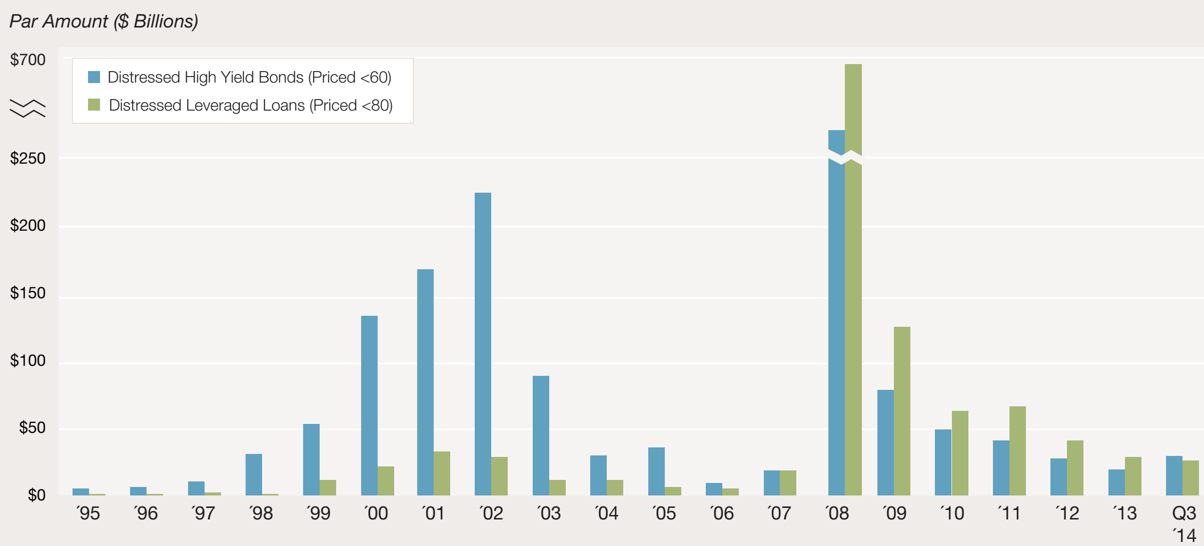
Middle market leveraged loan includes issuers with less than 50m EBITDA
Average spread includes any LIBOR floor benefit

Source: S&P Capital IQ LCD

Middle market buyouts, on average, require larger sponsor equity contributions

DISTRESSED DEBT – US

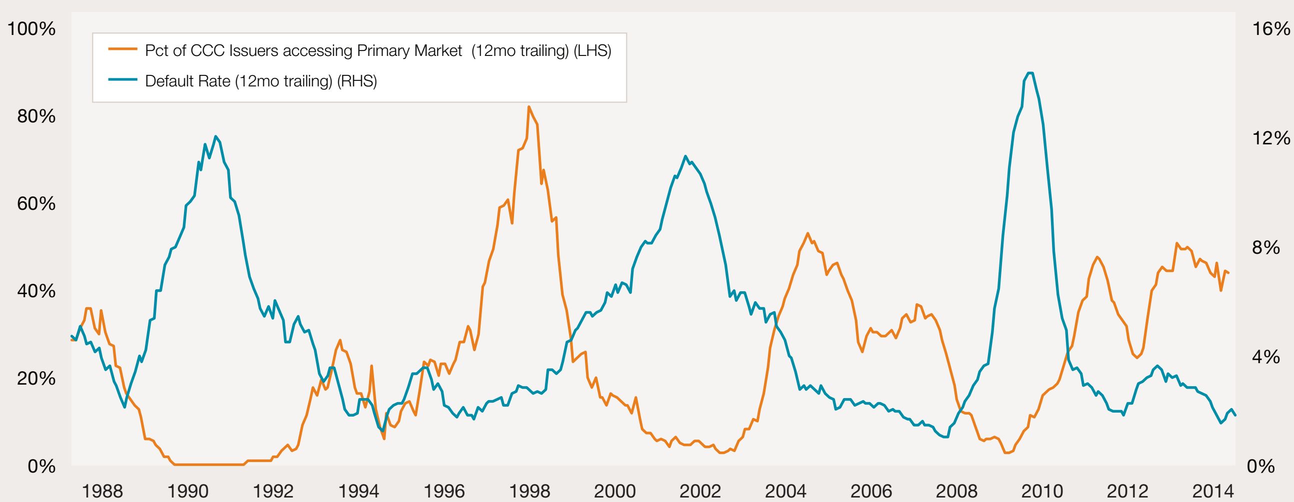
SIZE OF DISTRESSED DEBT MARKET



Source: Credit Suisse

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

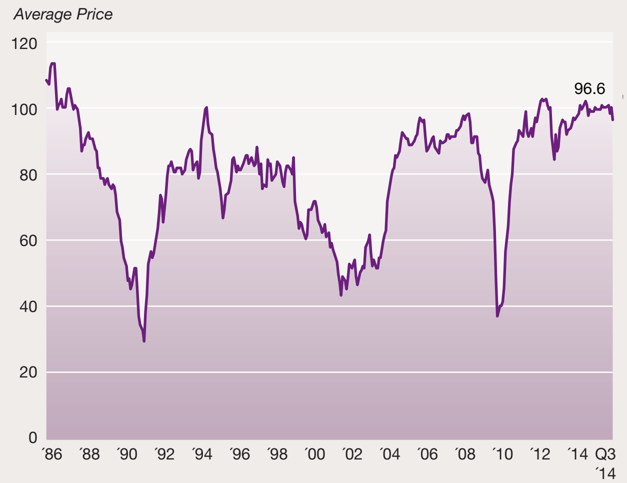
PERCENTAGE OF CCC ISSUERS ACCESSING PRIMARY MARKET VS DEFAULT RATE



Source: BofA Merrill Lynch, Moodys

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

CCC HIGH YIELD BOND AVERAGE PRICE

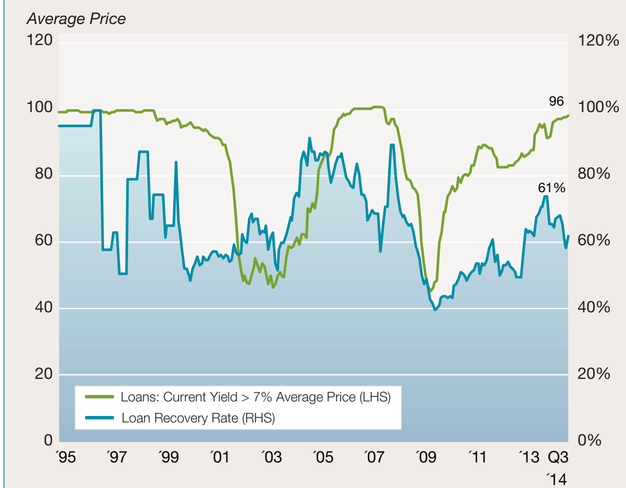


CCC/Split CCC High Yield Bond

Source: Credit Suisse

Continued search for yield regardless of credit quality

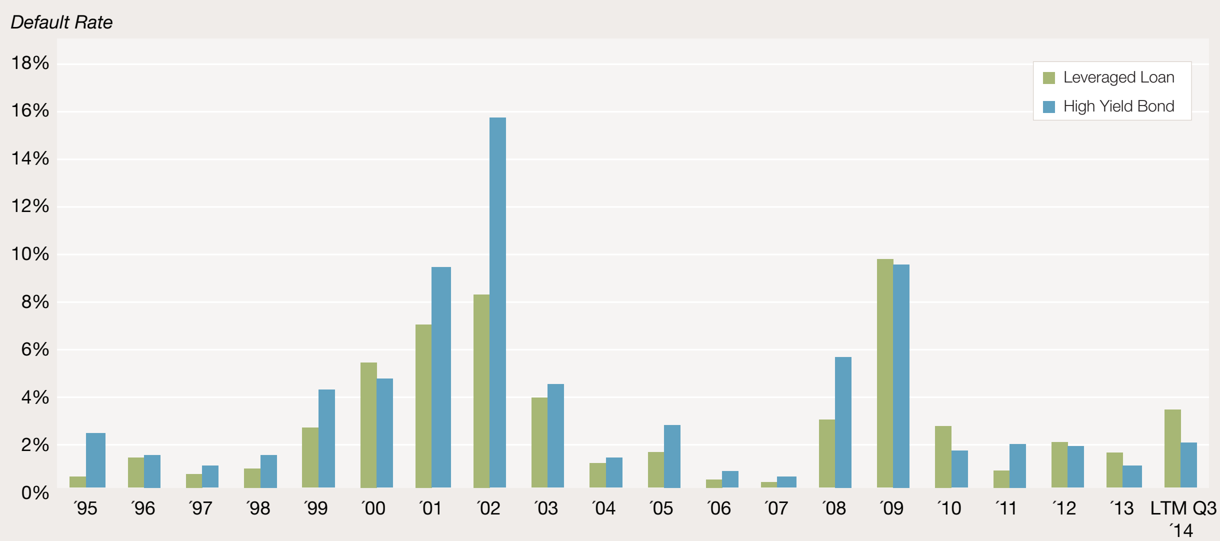
AVERAGE PRICE OF STRESSED LOANS VS LOAN RECOVERY RATE



Source: Credit Suisse

Defaulted loan "recovery rate" is highly influenced by broad market prices

DEFAULT RATES – HIGH YIELD BOND & LEVERAGED LOAN

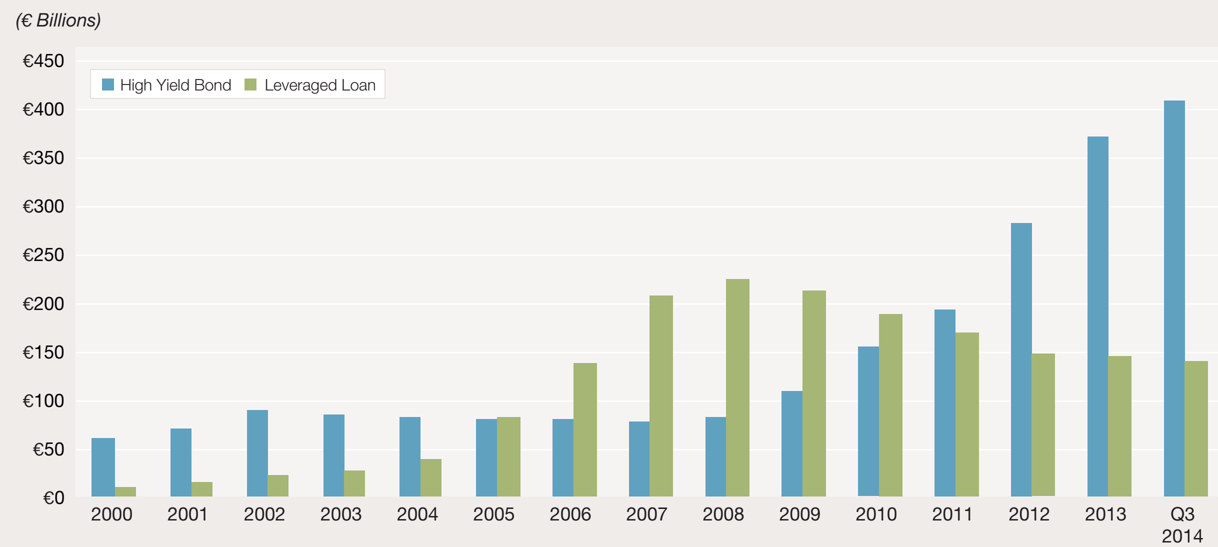


Source: Credit Suisse

LTM 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

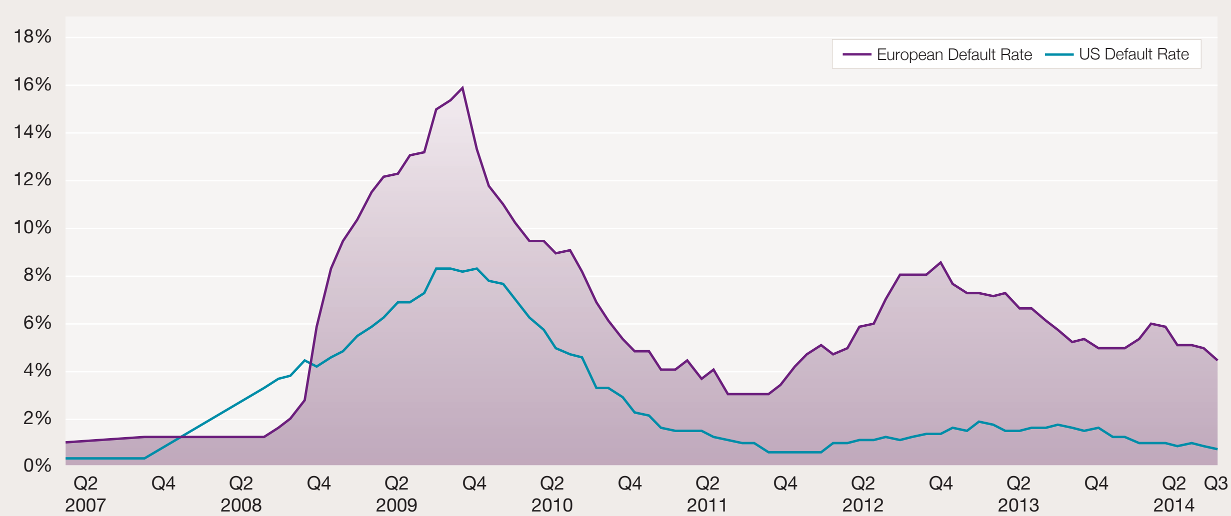
EUROPEAN HIGH YIELD BOND AND LEVERAGED LOAN MARKET



Source: Credit Suisse

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

US AND EUROPEAN LEVERAGED LOAN DEFAULT RATE



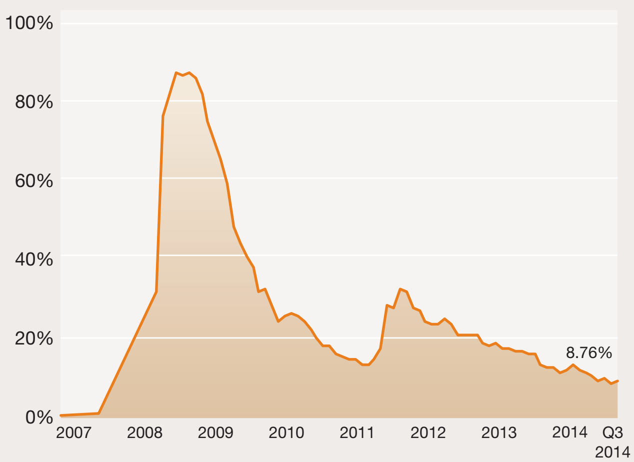
Issuer based default rates

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)*

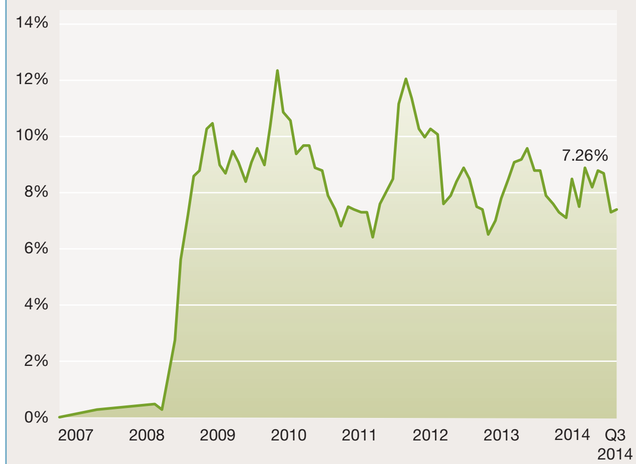
PERCENTAGE OF EUROPEAN LEVERAGED LOANS TRADING BELOW 80 CENTS ON THE DOLLAR



Source: S&P European Leveraged Loan Index

A sizeable amount of European leveraged loans remain at distressed prices

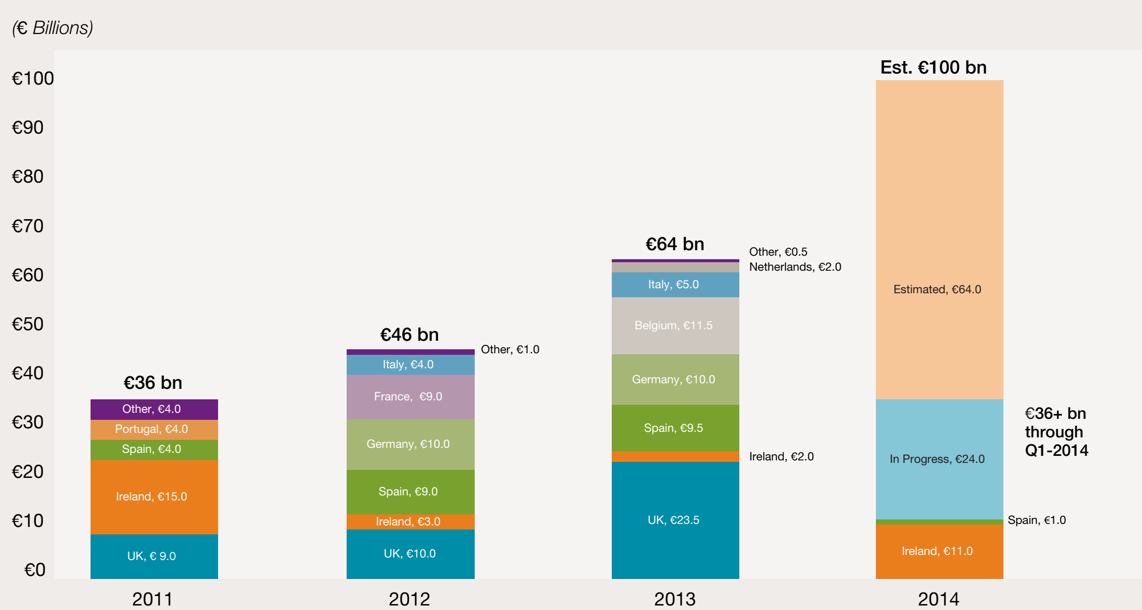
PERCENTAGE OF EUROPEAN LEVERAGED LOANS RATED CCC+ OR LOWER



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



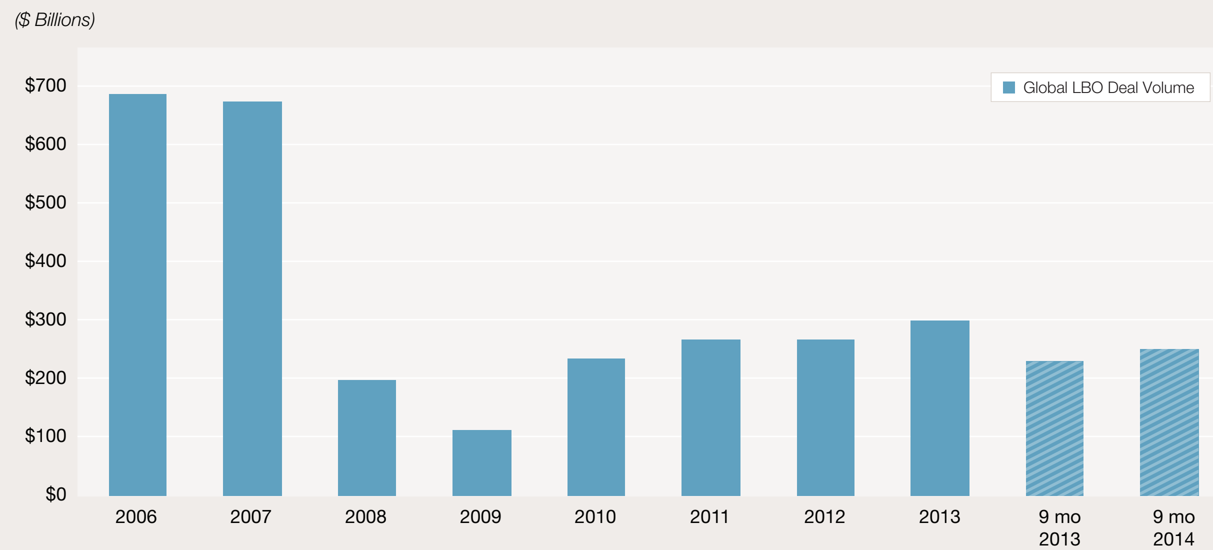
Note: Based on the location of the head office of the bank selling the assets

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

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

PRIVATE EQUITY

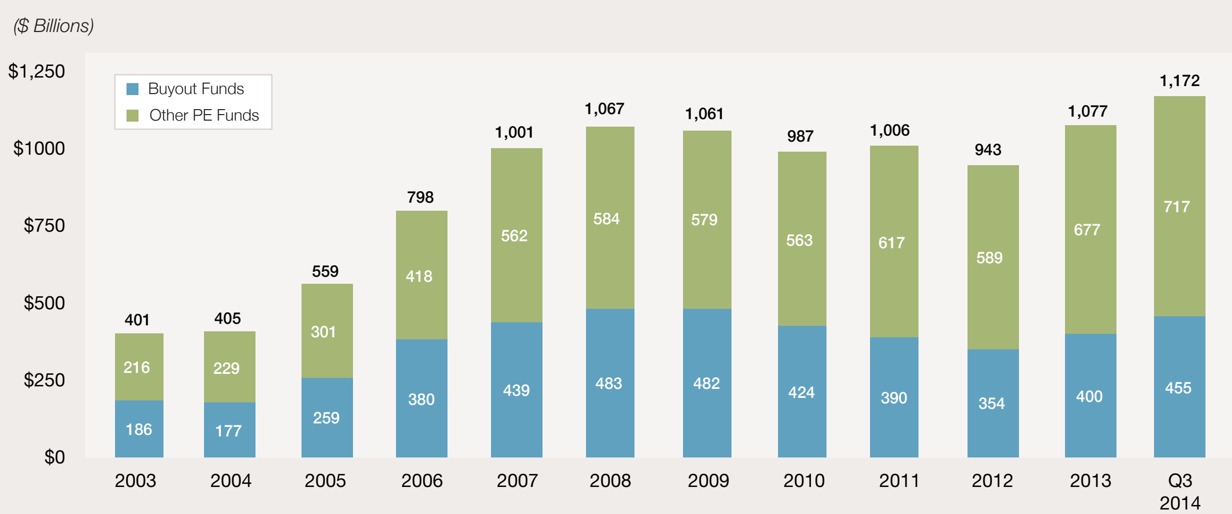
GLOBAL LBO DEAL VALUE



Source: Preqin

Global LBO volume in 2014 is on pace to achieve the strongest year since 2007

GLOBAL PRIVATE EQUITY DRY POWDER

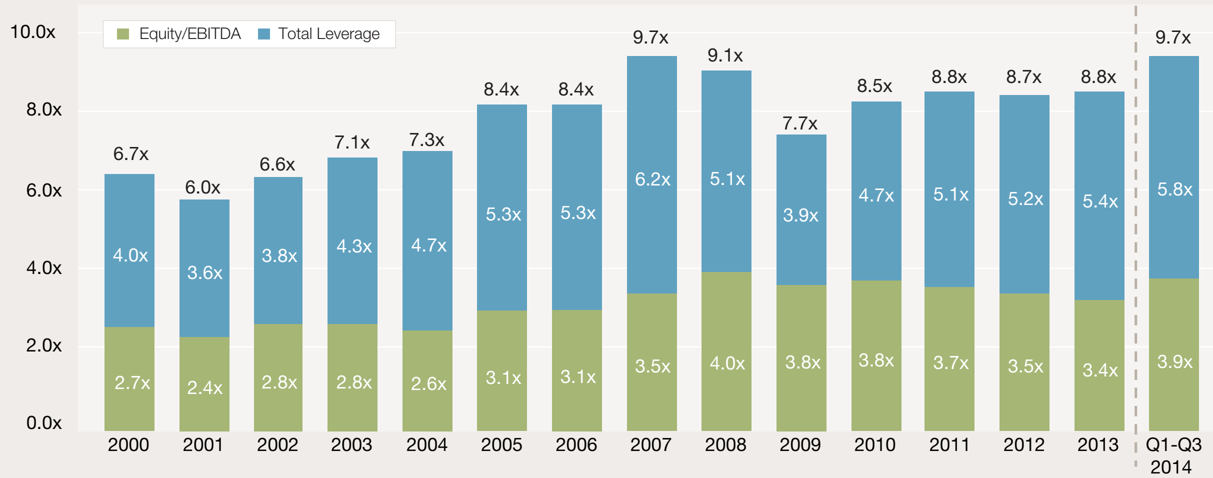


Other PE Funds: Real Estate, Venture, Infrastructure, Growth, Distressed, Mezzanine, Other

Source: Preqin

Buyout dry powder of $455 billion in Q3 ´14 is approaching peak 2008 and 2009 levels

LBO CAPITALIZATION

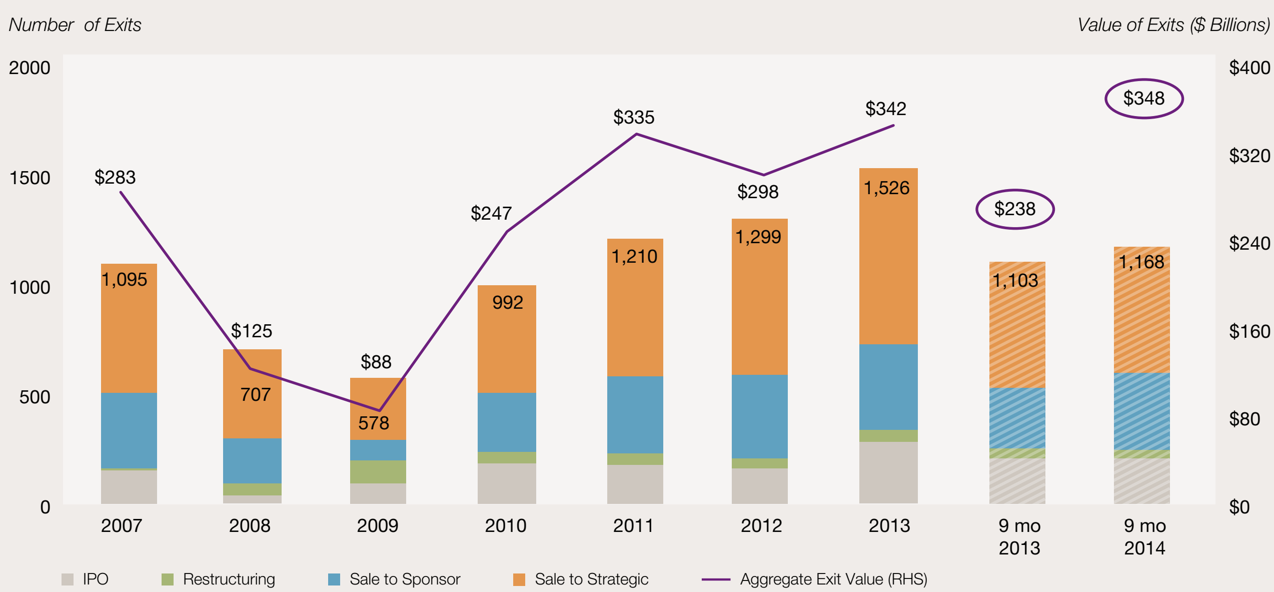


Equity Contribution	40%	35%	37%	35%	33%	30%	31%	31%	39%	46%	41%	38%	38%	36%	40%

Source: Goldman Sachs, S&P Capital IQ LCD

LBO multiples for the first three quarters of 2014 equaled the record set in 2007. Further, equity contributions as a percentage of total capital remains high at 40%.

PRIVATE EQUITY EXITS

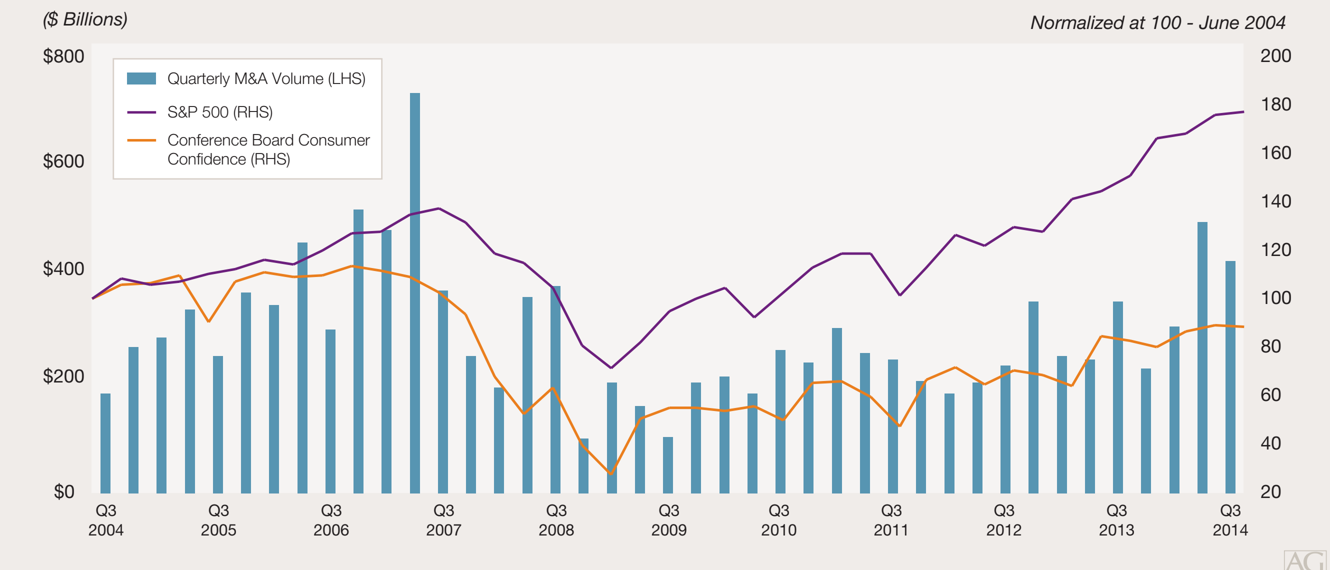


Source: Preqin

2014 dollar volume of private equity exits has already set an all-time record. The number of exits is also on pace to set a record.

MERGER & CONVERTIBLE ARBITRAGE

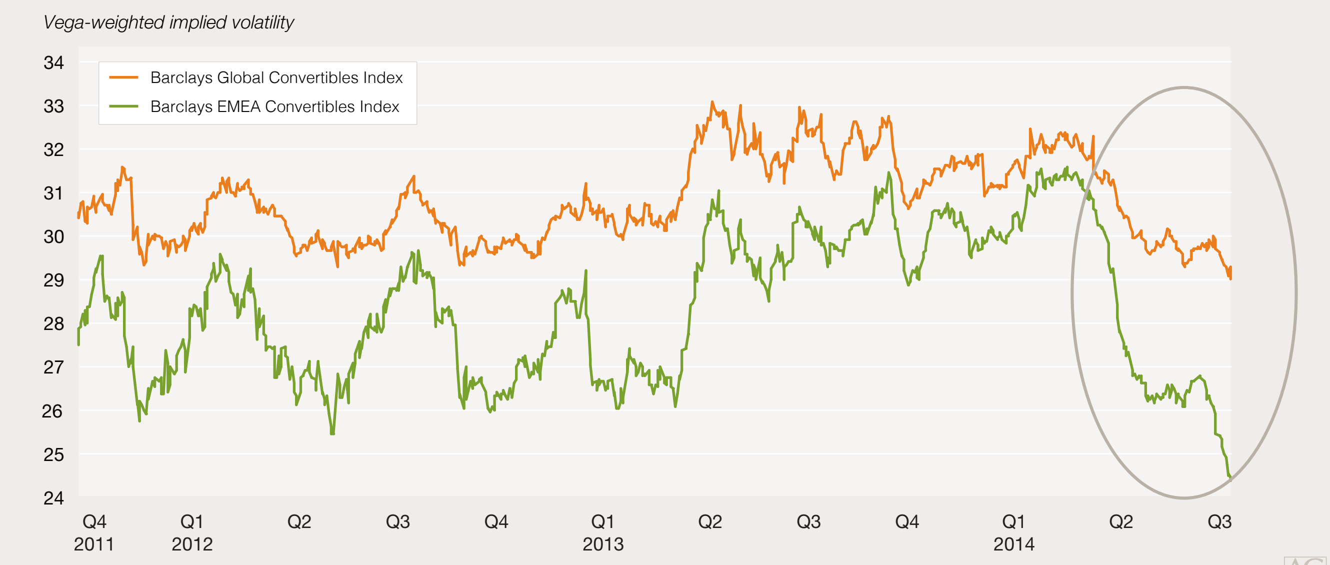
QUARTERLY NORTH AMERICAN M&A VOLUME VS. S&P 500 AND CONSUMER CONFIDENCE



Source: Bloomberg

M&A volume remained robust in Q3 primarily due to the number of announced transactions larger than $5 billion

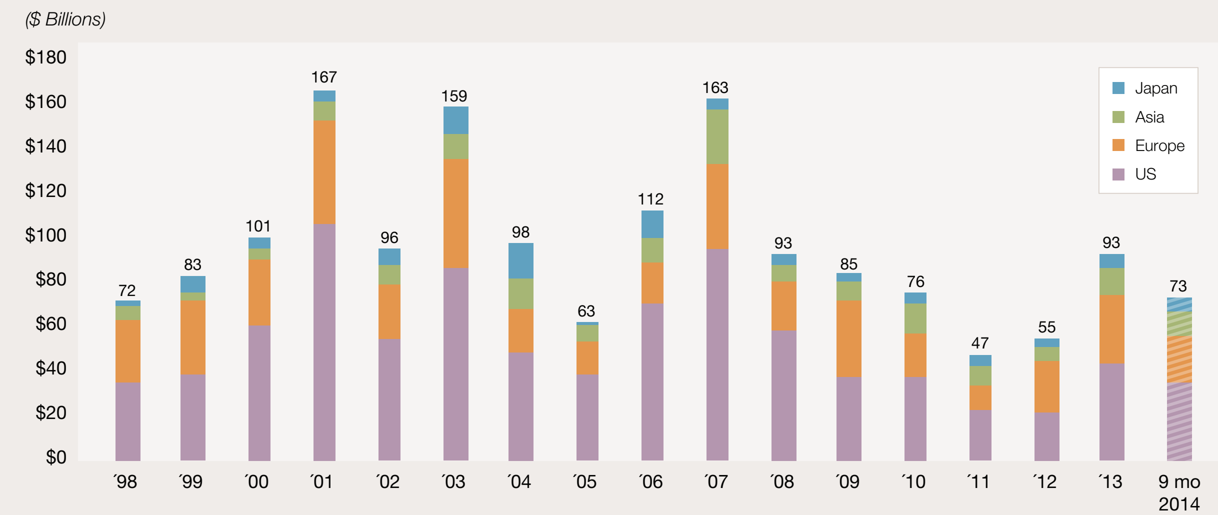
CONVERTABLE BOND IMPLIED VOLATILITY



Source: Barclays

Investment opportunities are gradually unfolding. The vega-weighted implied volatility of global convertible bonds has fallen from 32% to 29% since May. The decline was most pronounced in Europe, where it has dropped from 31% to 24%.

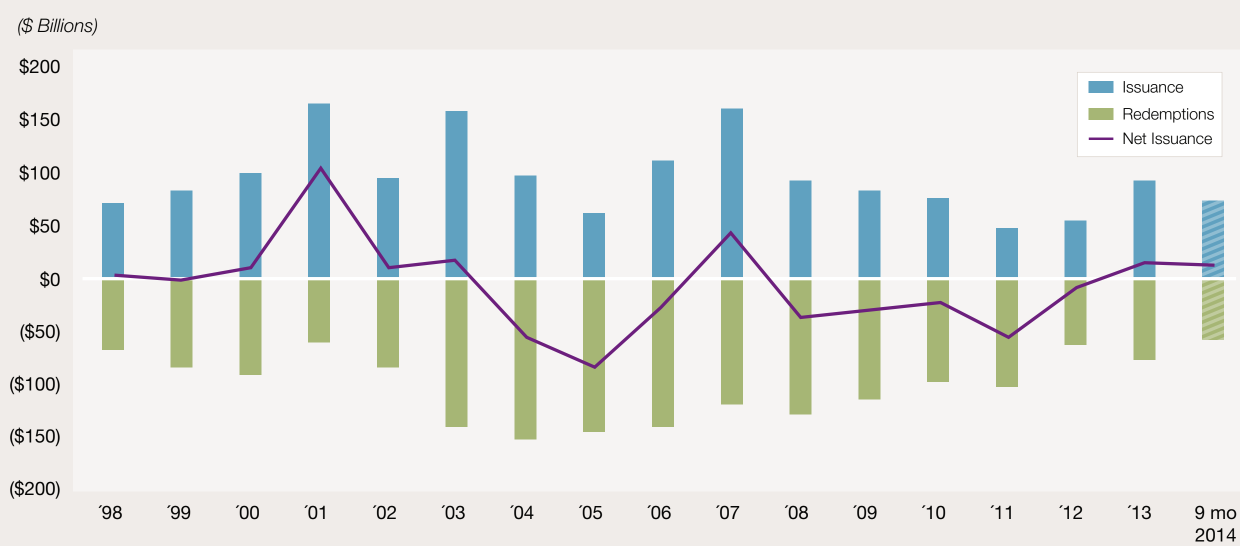
CONVERTIBLE BONDS ANNUAL GLOBAL ISSUANCE BY REGION



Source: BofA Merrill Lynch

New issuance was strong globally, particularly in September

CONVERTIBLE BONDS GLOBAL NET ISSUANCE

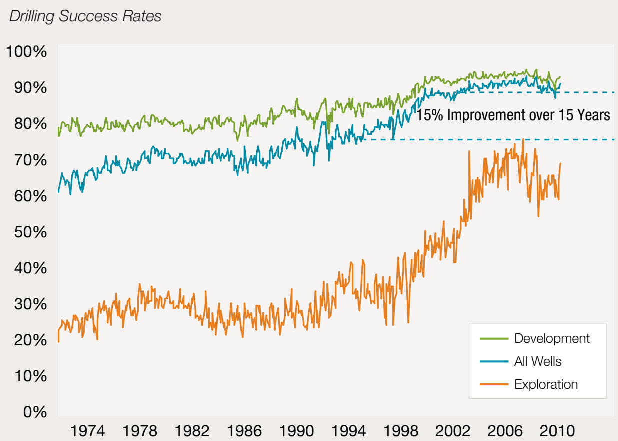


Source: BofA Merrill Lynch

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

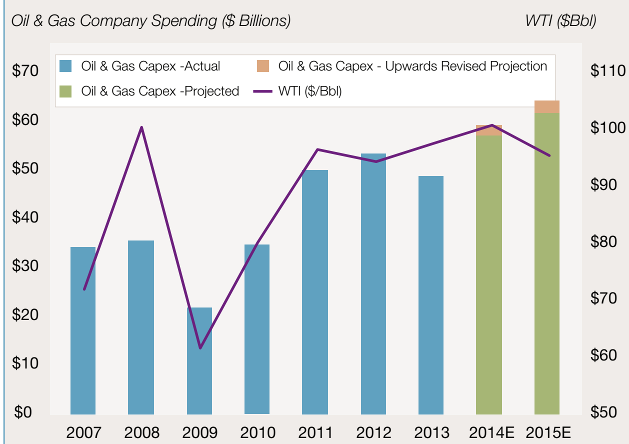
ENERGY DIRECT LENDING

US DRILLING SUCCESS RATES



Source: EIA

OIL & GAS COMPANY SPENDING AND WTI CRUDE OIL PRICING

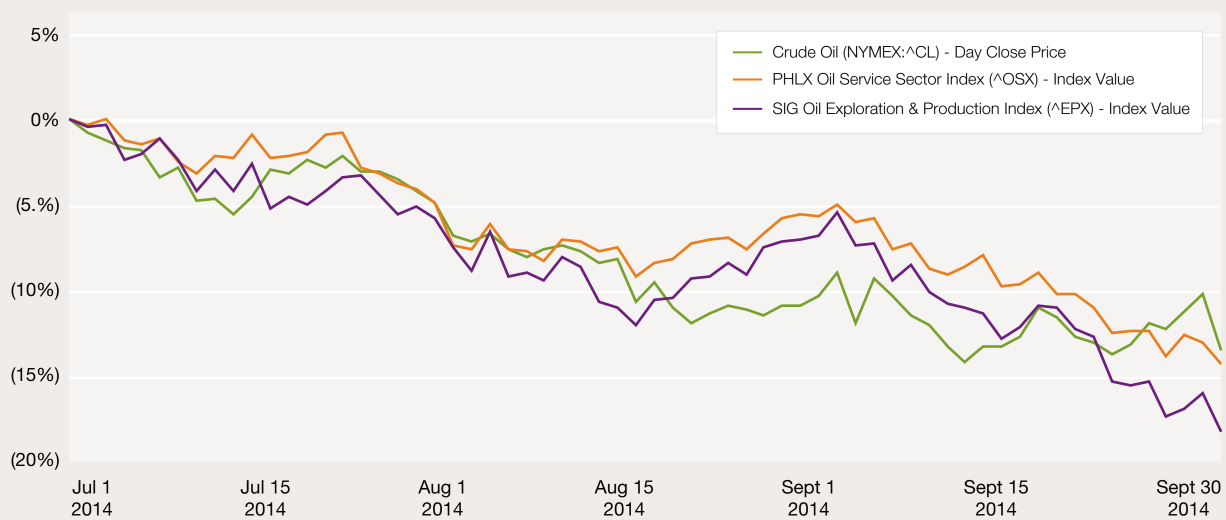


Note: Includes data from 33 North American, onshore-focused independent oil & gas companies. Upwards revisions as of Q2 ´14 earnings calls

Source: GMP Securities Research, as of 9/17/14; Factset.

Driven by improving success rates and reduced drilling costs, oil and gas companies have increased spending over the last decade. Therefore, equity analysts have continued to project spending increases.

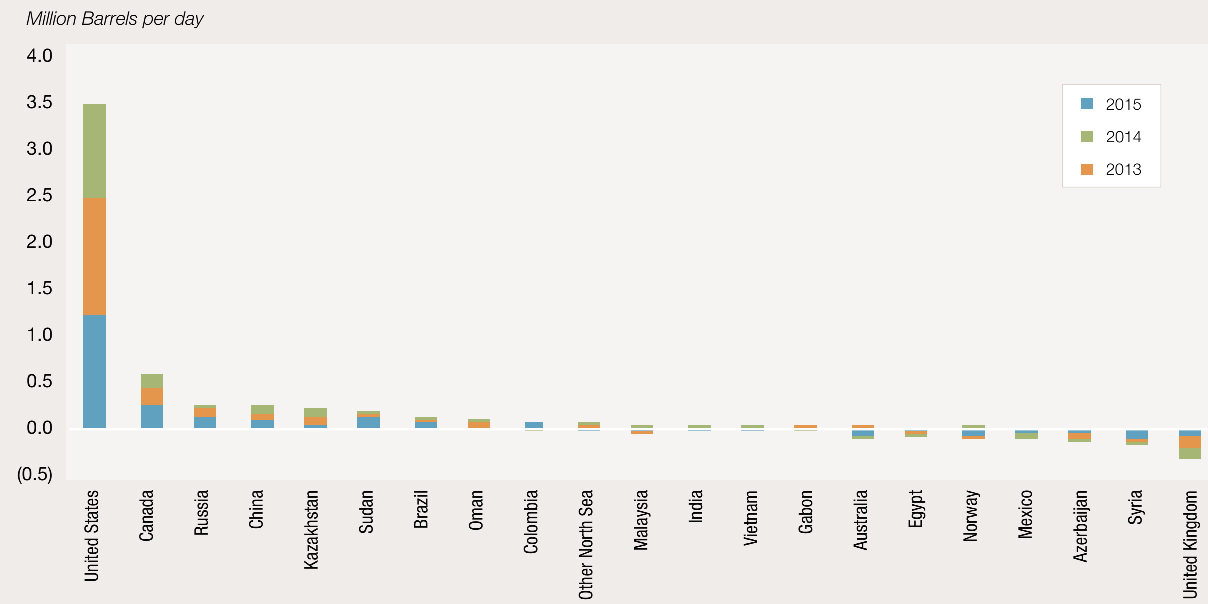
3Q-14 PERFORMANCE – OIL PRICES AND ENERGY STOCKS



Source: S&P Capital IQ

Declining oil prices resulted in a substantial retrenchment in equities over the quarter

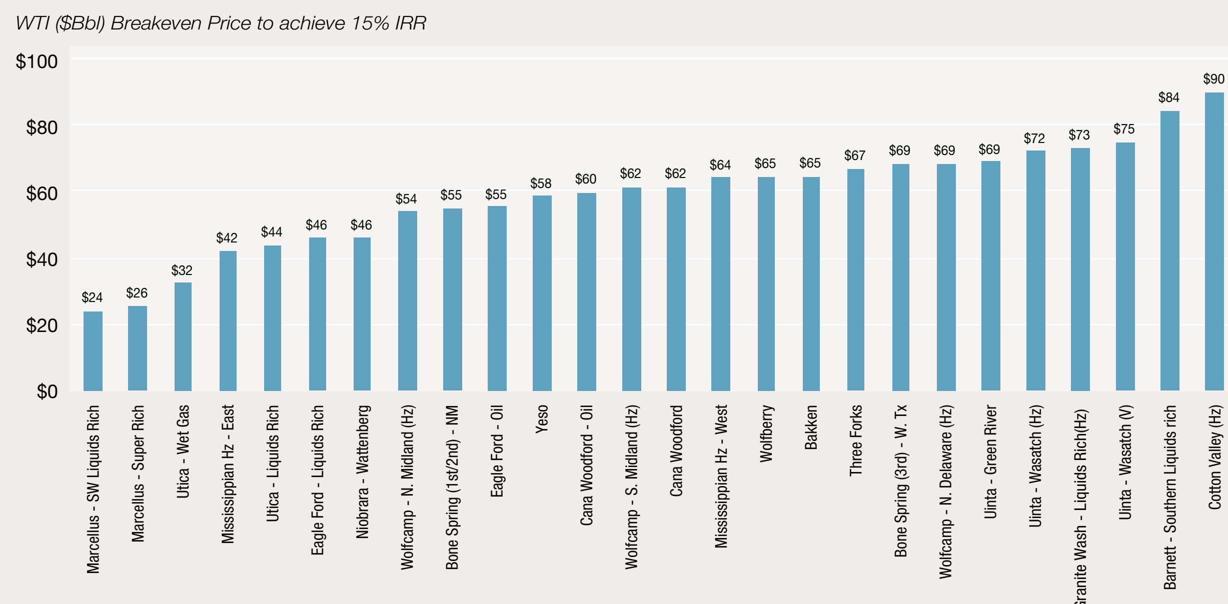
NON-OPEC OIL AND LIQUIDS PRODUCTION GROWTH



Source: EIA Short-Term Energy Outlook, June 2014

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

REQUIRED OIL PRICE TO ACHIEVE A 15% IRR BY PLAY



(Hz) - Horizontal Well, (V) - Vertical Well

Source: Credit Suisse Research, as of 4/14/14.

Declining commodity prices will impact spending in major basins in a selective manner

RESIDENTIAL AND CONSUMER DEBT (RMBS/ABS)

SUBPRIME INDEX

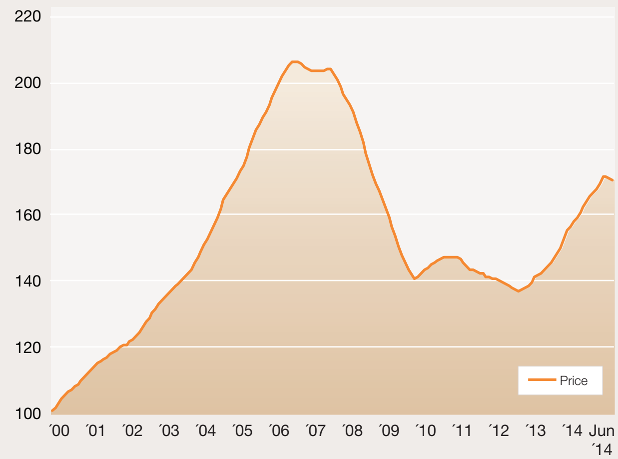
The Index represents a basket of reference obligations of twenty originally rated AAA subprime bonds issued in the first half of 2006 and is treated as a benchmark for similar vintage bonds

Source: Nomura, Credit Suisse

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

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

Normalized at 100 – Jan 2000



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.

Source: Bloomberg

After a strong climb, home price appreciation has stabilized

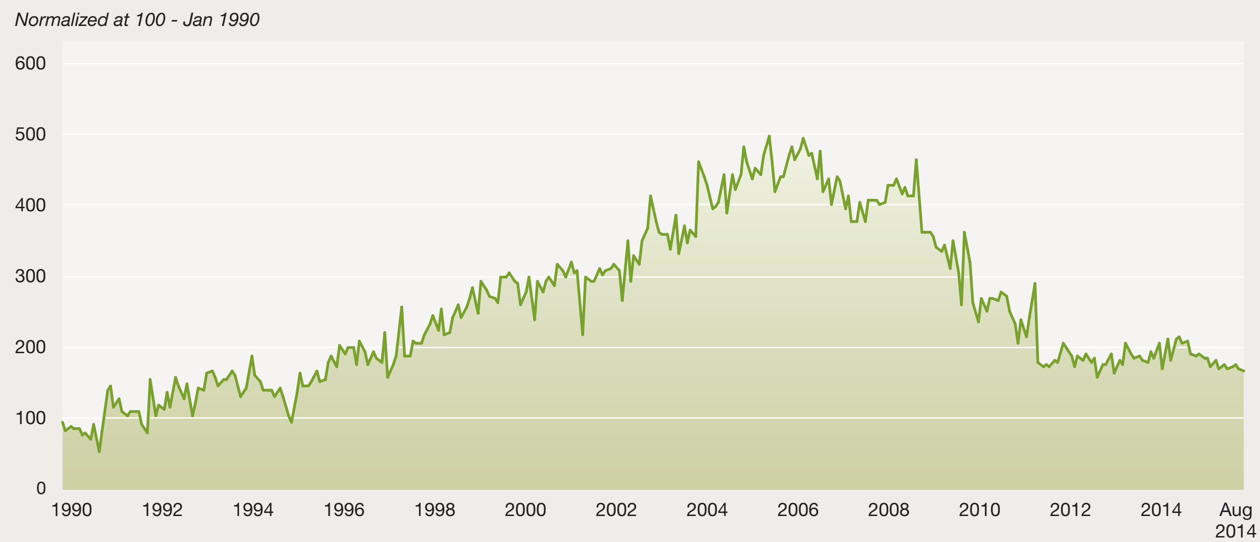
30-YEAR MORTGAGE FIXED RATE

Freddie Mac US Mortgage Market Survey 30 Year Homeowner Commitment National: This concept measures movements of interest rates on residential real estate loans that are usually secured by a mortgage.

Source: Bloomberg

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

MORTGAGE APPLICATION INDEX

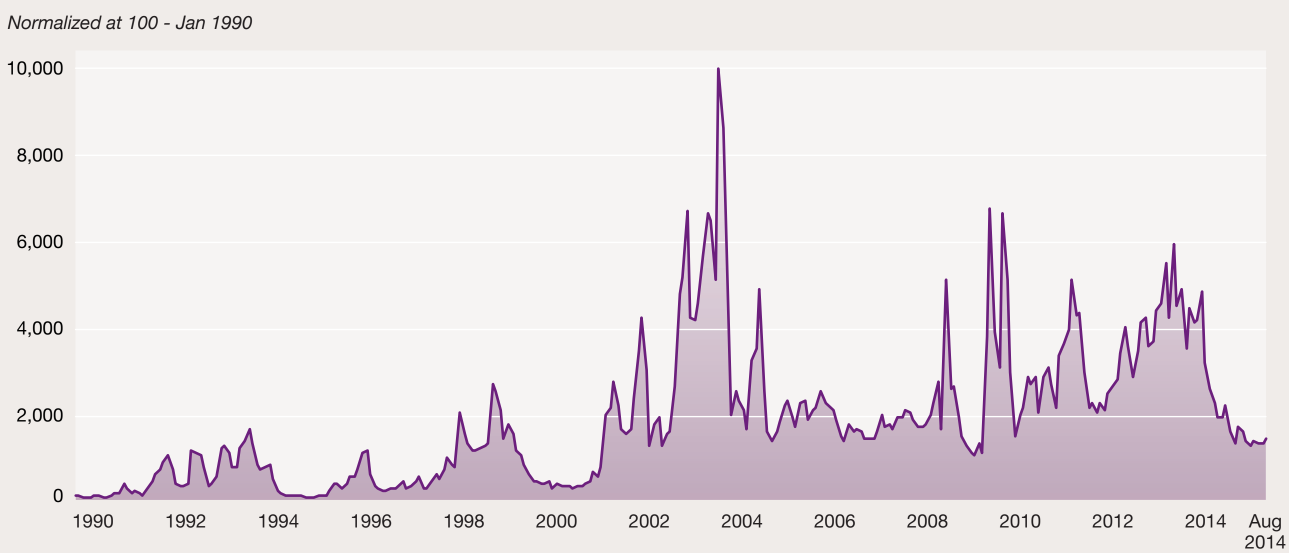


This concept tracks the volume of mortgage loan applications that have been submitted to lenders. Seasonally readjusted.

Source: Bloomberg

Mortgage applications continue to be hampered by stringent underwriting standards

MORTGAGE REFINANCING INDEX

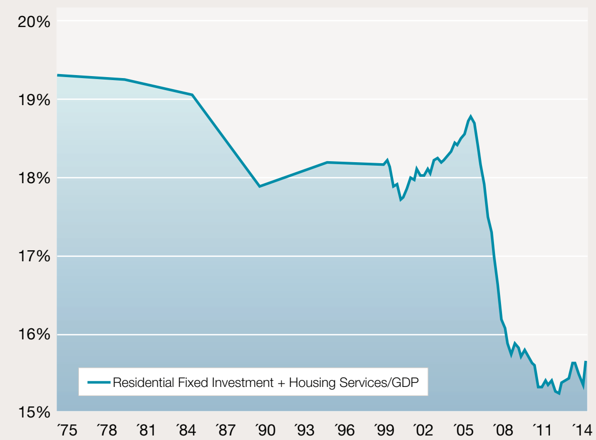


This concept tracks the volume of mortgage refinancing loan applications that have been submitted to lenders. Seasonally readjusted

Source: Bloomberg

Stringent underwriting standards have muted re-financings despite historically low rates

HOUSING AS A PERCENTAGE OF GDP

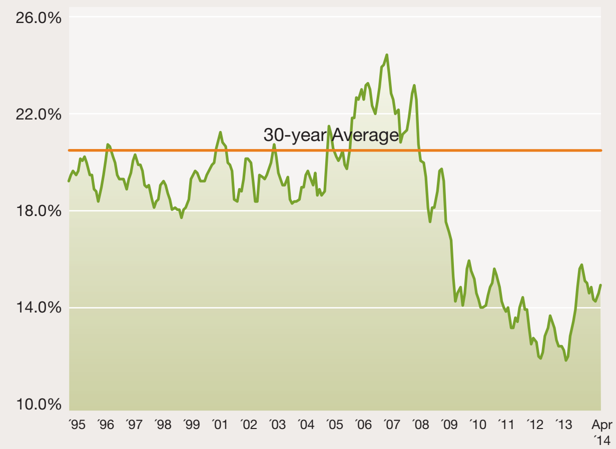


Residential Fixed Investment includes fixed investment in structures, equipment and software that contribute to production, as well as private business investment in inventories and new housing sales. Housing services are primarily rent but also include utility costs.

Source: National Association of Home Builders, Bloomberg

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

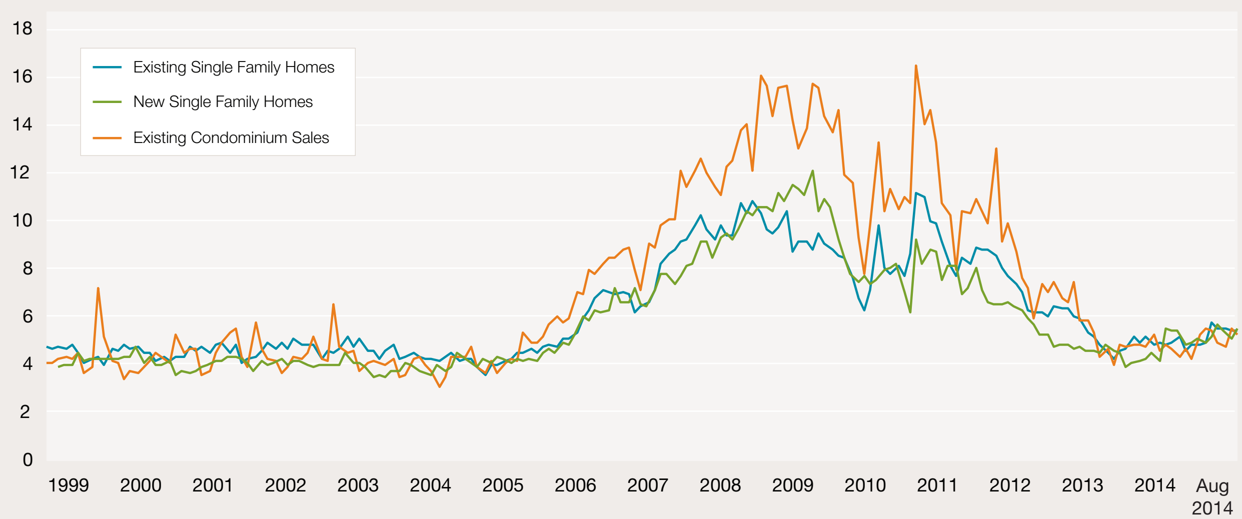
MORTGAGE PAYMENT AS A PERCENTAGE OF INCOME



Source: NAR, DB Global Markets Research

Mortgage payments are at a historically low percentage of income

MONTHS SUPPLY OF HOUSING

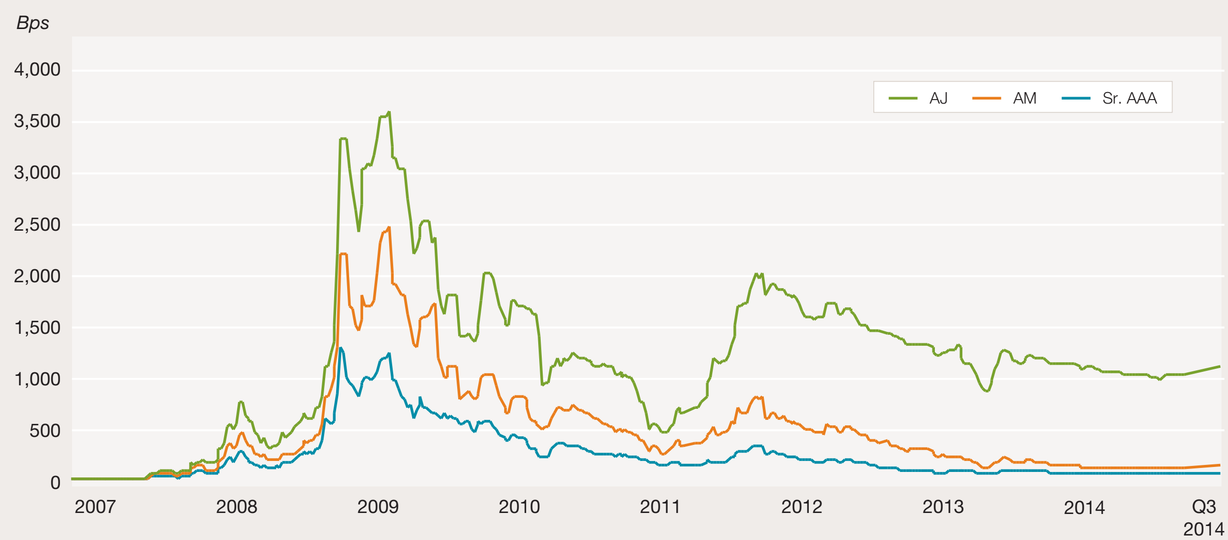


Source: Bloomberg

Housing supply has returned to normalized levels

COMMERCIAL REAL ESTATE DEBT (CMBS)

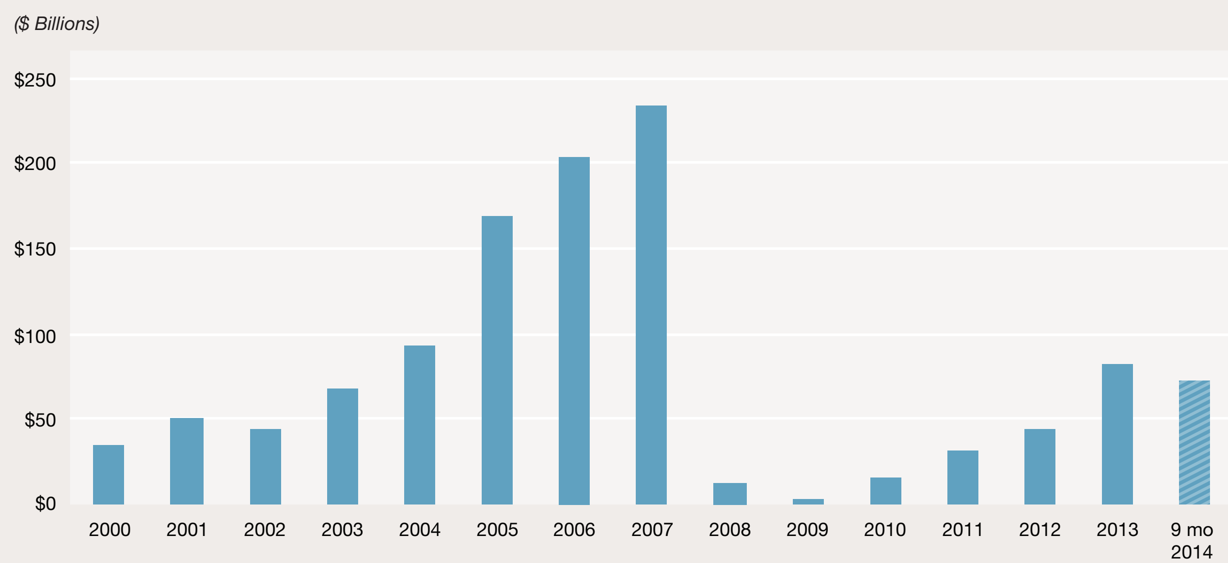
HISTORICAL CMBS SPREADS



Source: BofA Merrill Lynch

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

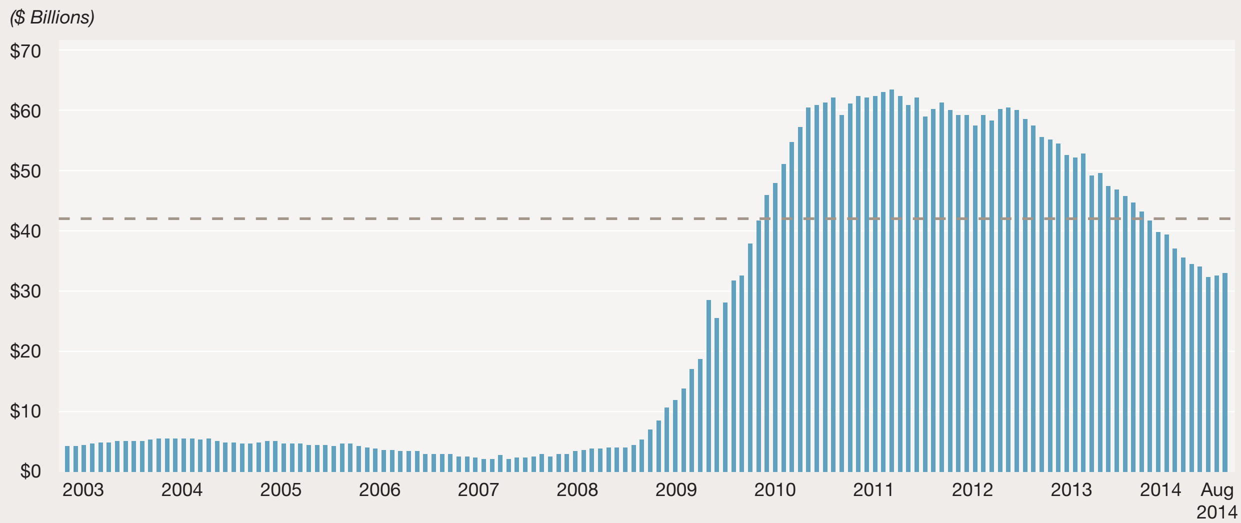
US CMBS ANNUAL ISSUANCE



Source: Credit Suisse

The growing new issue market is beginning to offer some interesting investment opportunities

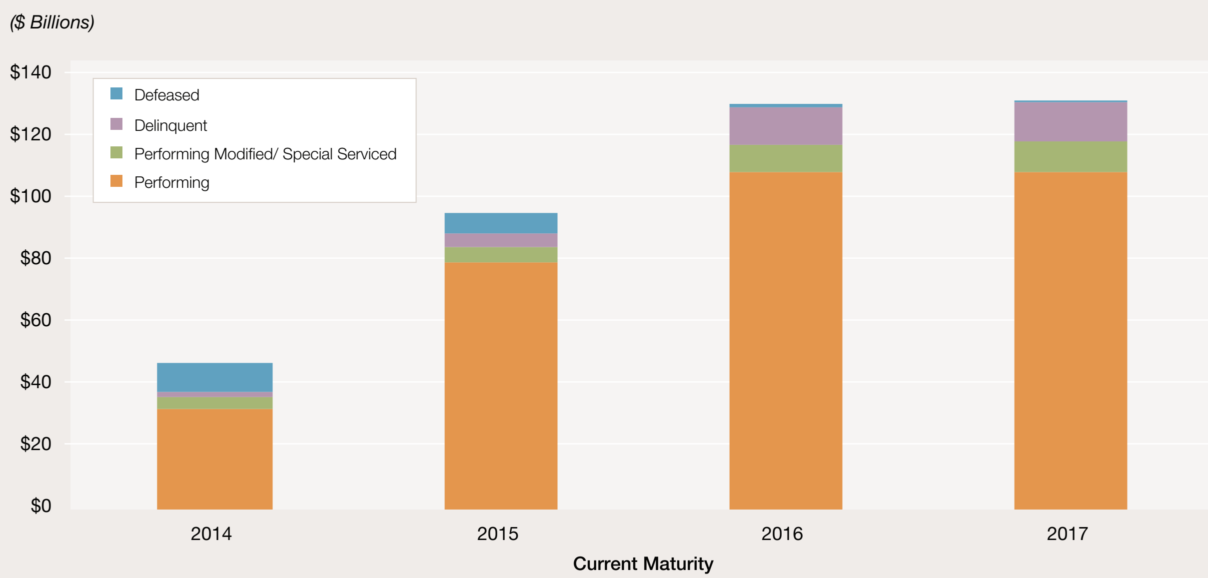
HISTORICAL CMBS DELINQUENCY BY UNPAID BALANCE



Source: Morningstar

Delinquency rates are declining as problem loans are being resolved

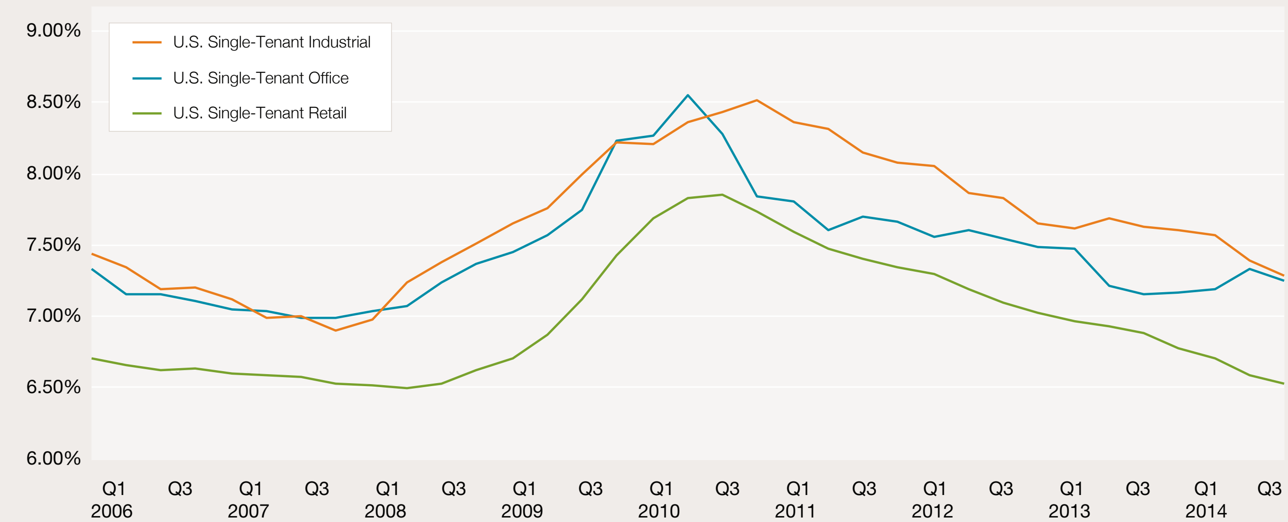
CMBS LOAN MATURITY PROFILE



Source: JPMorgan

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

AVERAGE SINGLE-TENANT CAP RATES

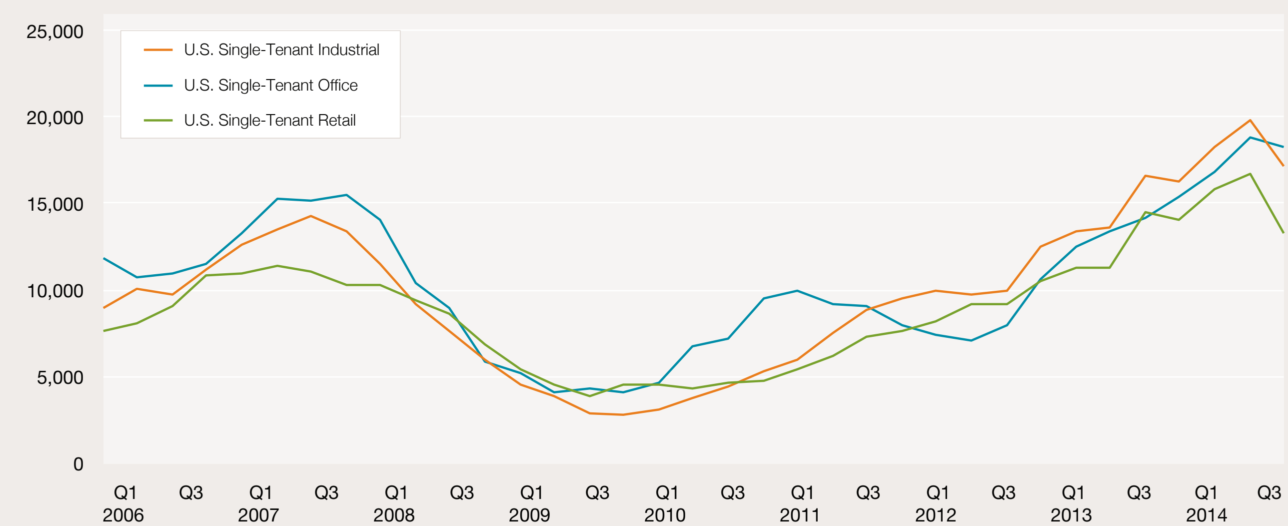


Source: Real Capital Analytics

Pricing continues to strengthen

12-MONTH ROLLING SINGLE TENANT DEAL VOLUME

($ Millions)

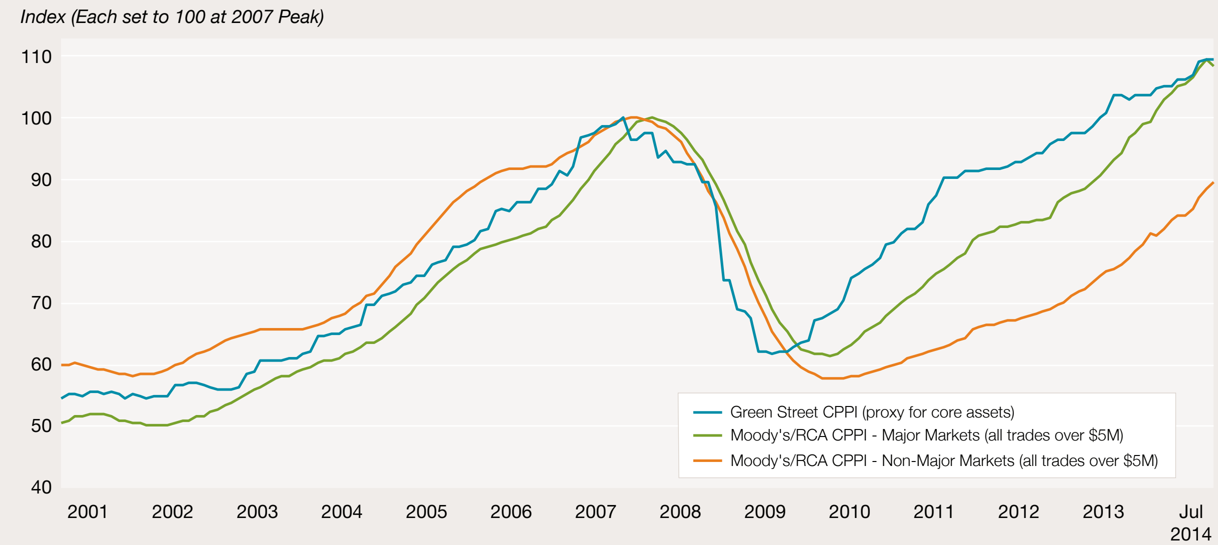


Source: Real Capital Analytics

Transaction volume has slowed as markets have gotten more volatile

UNITED STATES REAL ESTATE

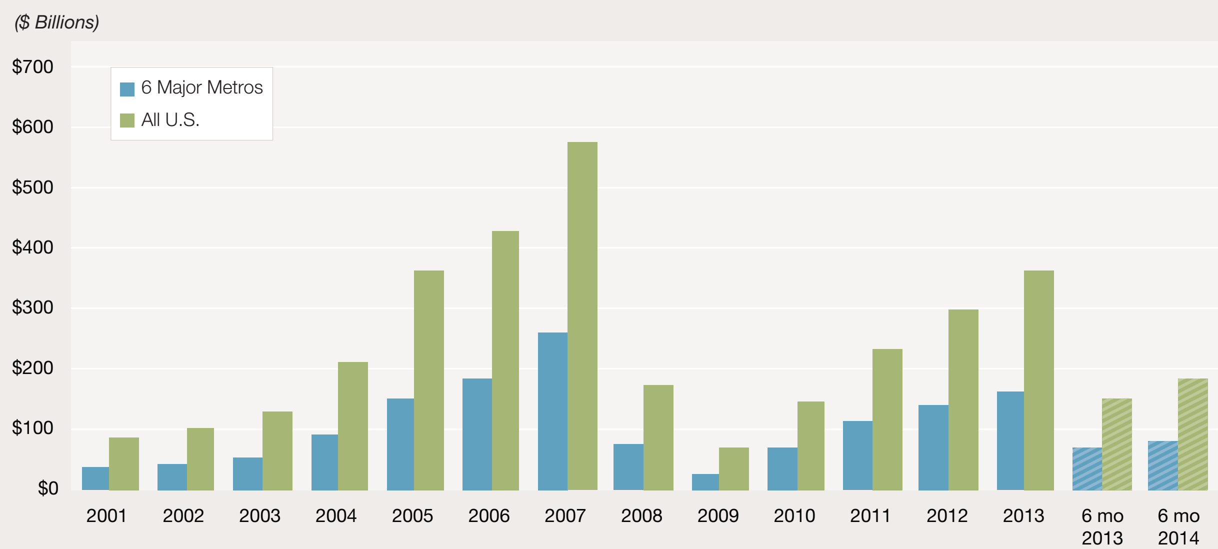
COMMERCIAL REAL ESTATE PRICE INDICES



Source: Moody's/RCA and Green Street

Prices continue their upward trajectory and now exceed prior peaks in major markets and core product

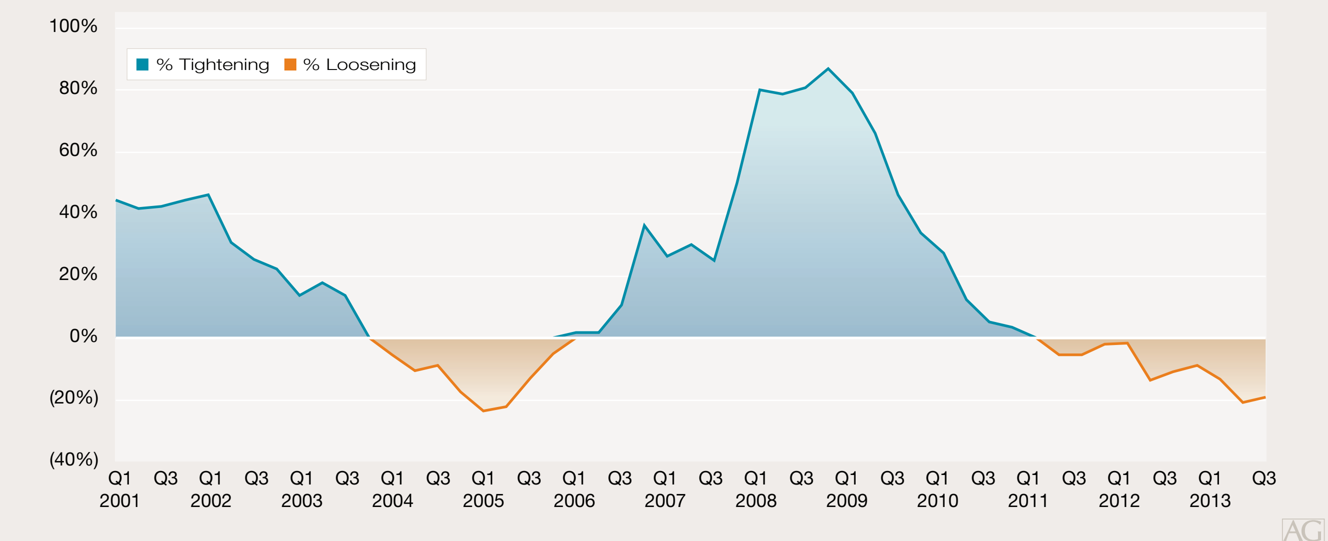
US INVESTMENT SALES VOLUME OF APARTMENTS, HOTELS, INDUSTRIAL, OFFICE, RETAIL AND DEVELOPMENT SITES



Source: Real Capital Analytics

Sales volumes continue to accelerate, driven by capital flows...

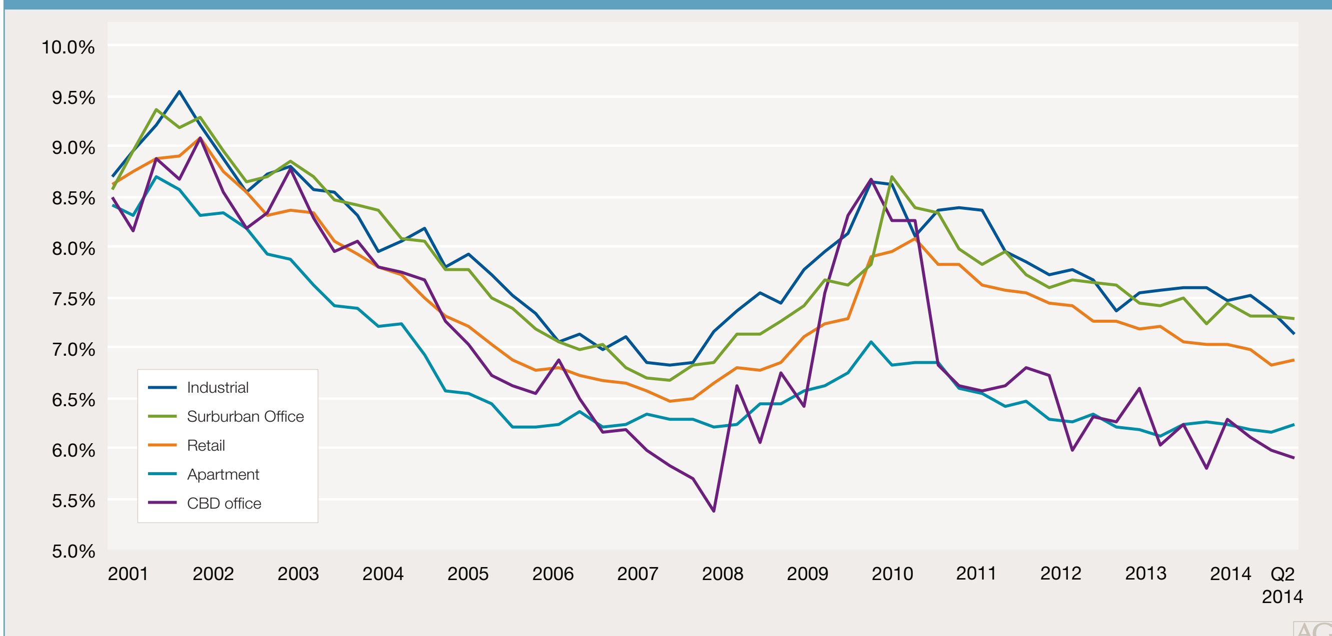
BANK LENDING SURVEY – PERCENTAGE REPORTING TIGHTENING STANDARDS FOR COMMERCIAL REAL ESTATE LOANS



Source: Bloomberg

...and easing, albeit reasonable, lending standards

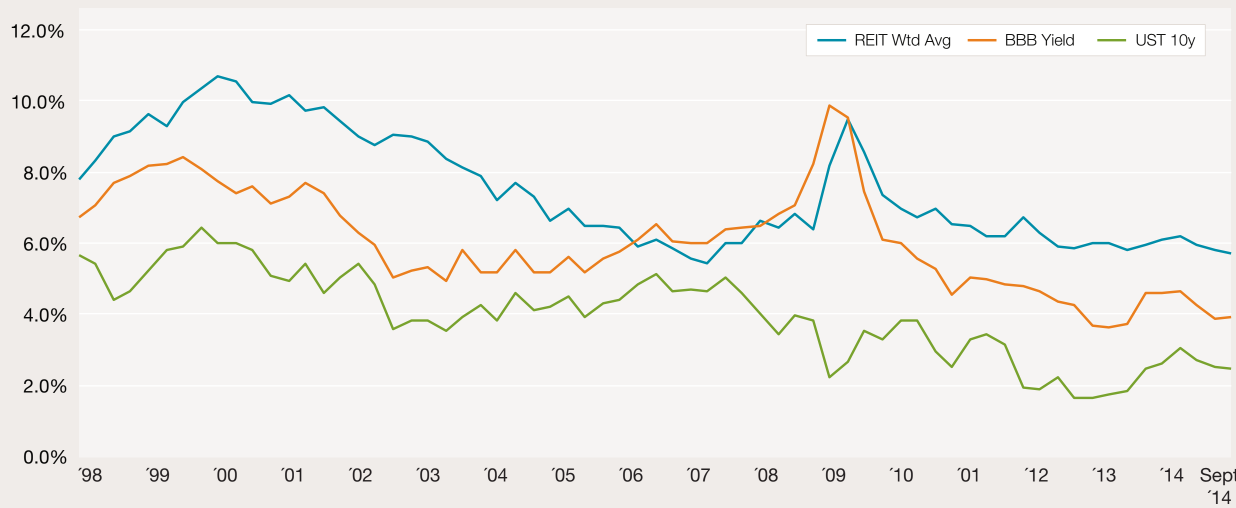
AVERAGE CAP RATES BY REAL ESTATE SECTOR



Source: Real Capital Analytics

Cap rates remain at historically low levels...

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



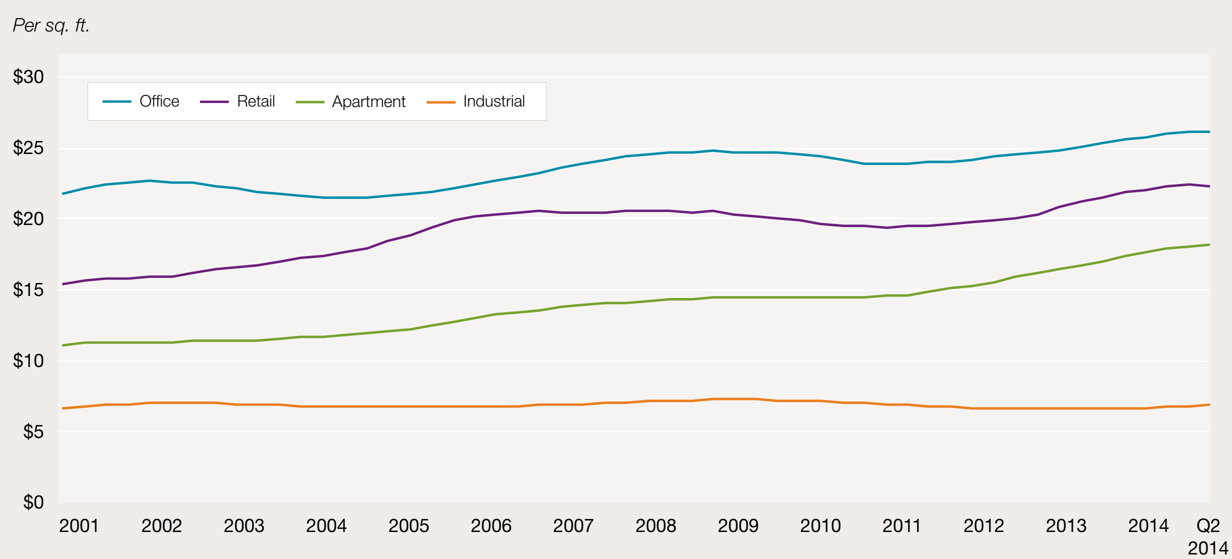
Note: REIT implied cap rates are calculated as the market cap-weighed average of companies' NOI/EV, where EV = Price

** Reported Shares + Debt – Other Net Assets*

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

...But provide attractive spread to alternative assets

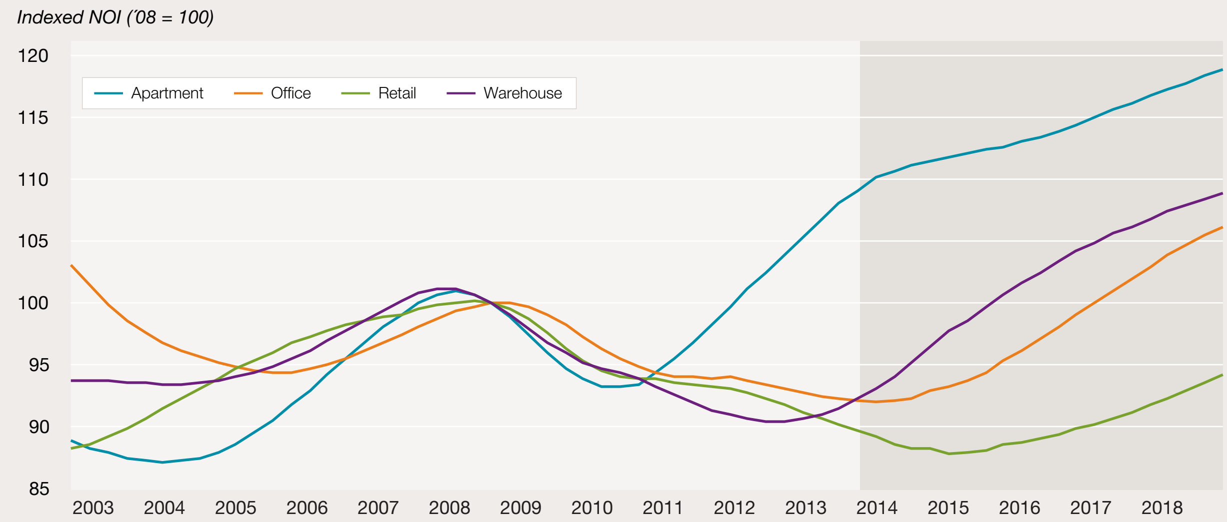
RENTAL RATES



Source: Real Capital Analytics

With limited new supply, rents should gradually accelerate

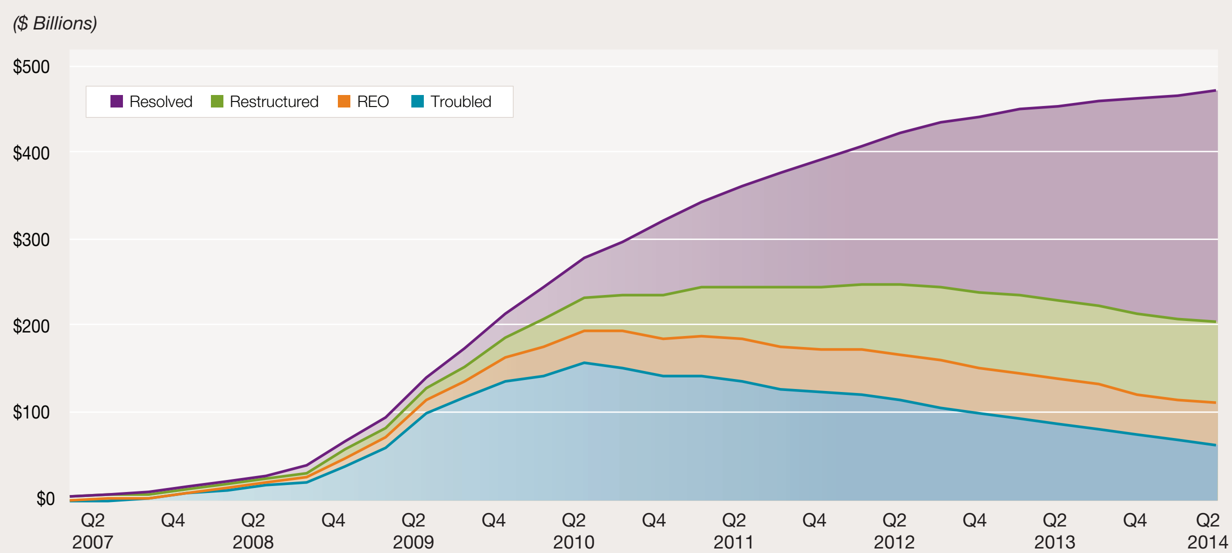
HISTORICAL AND PROJECTED NOI GROWTH



Source: PPR forecasts, Morgan Stanley Research

Expectations for continued property level income growth support current property valuations

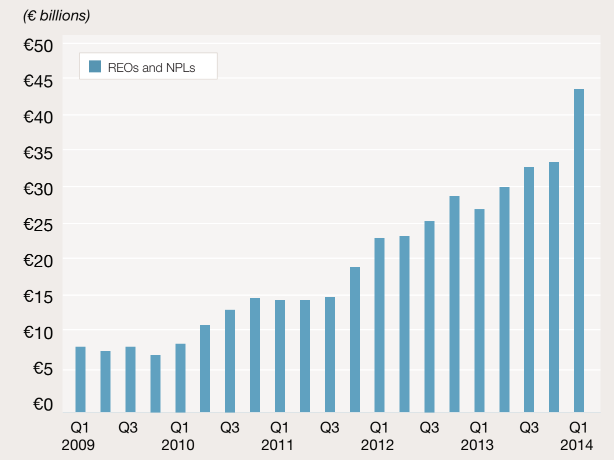
CUMULATIVE DISTRESS FOR ALL PROPERTY TYPES



Source: Real Capital Analytics

As property income grows and asset values accelerate, distressed assets continue to be resolved and restructured

BANK ASSET DISPOSALS

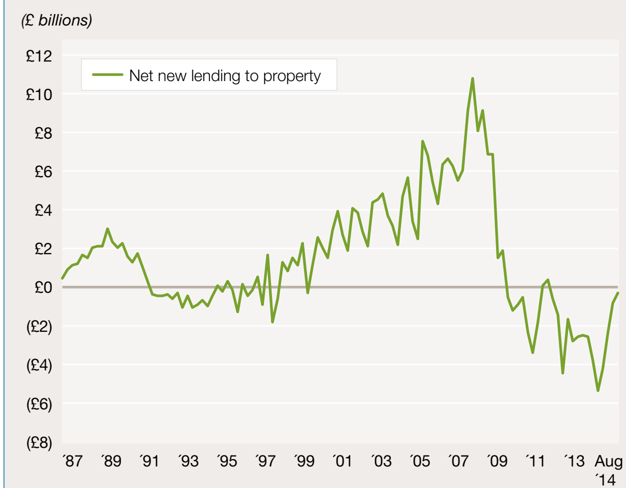


(rolling 12 month total)

Source: Real Capital Analytics

Banks continue to dispose of non-core assets at an accelerating pace, but much more remains

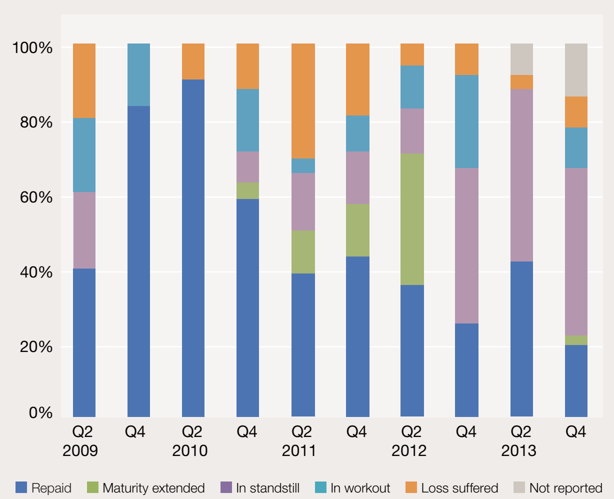
LENDING TO UK COMMERCIAL PROPERTY



Source: Bank of England

Despite asset sales and increased lender liquidity, net lending to property remains negative...

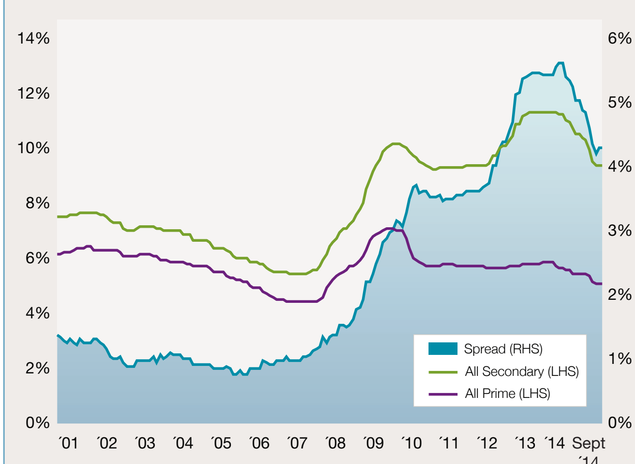
EUROPEAN CMBS MATURITY RESOLUTIONS



Source: Fitch

...likely due to deteriorating loan performance

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



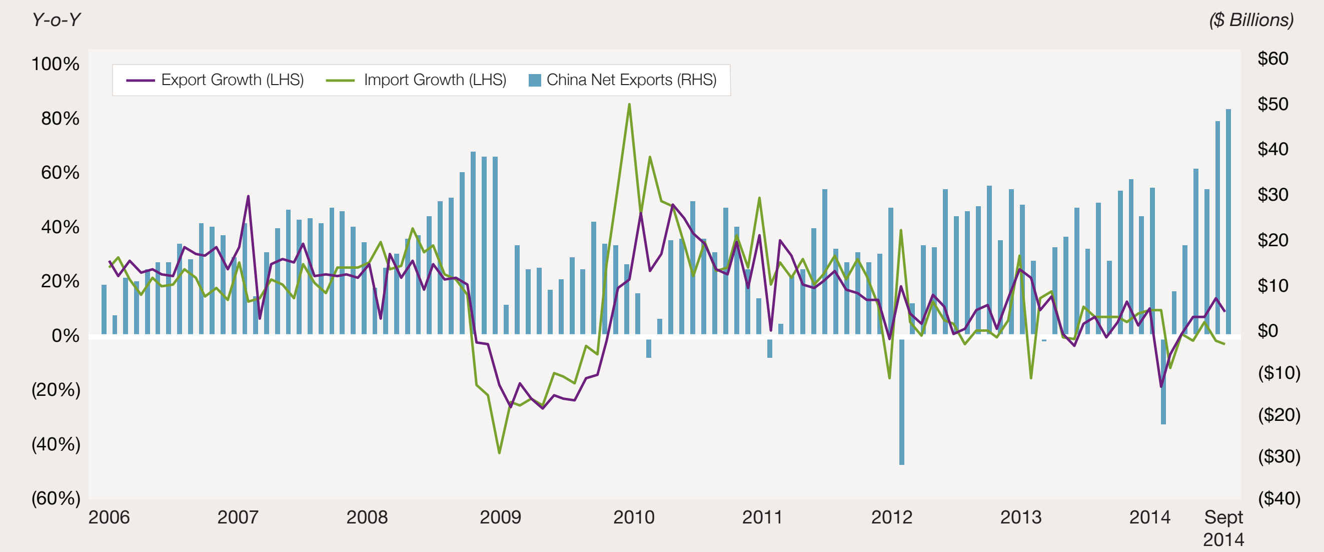
Source: CBRE

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

ASIA REAL ESTATE

CHINA

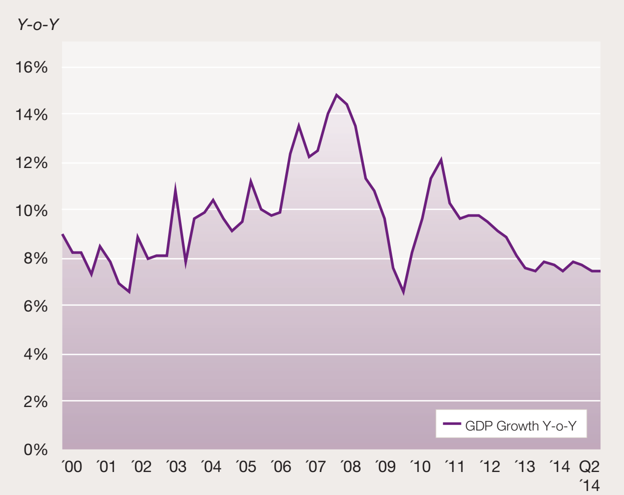
CHINA GROSS IMPORT/EXPORT GROWTH AND NET EXPORTS



Source: National Bureau of Statistics of China

Import growth fell into negative territory while export growth continued to improve

CHINA GDP GROWTH RATE



Source: National Bureau of Statistics of China

GDP growth maintained at a steady pace

PMI FOR MANUFACTURING SECTOR

PMI survey tracks sentiment among purchasing managers at manufacturing and construction firms. A figure above 50 indicates expansion and a figure below 50 indicates a contraction.

Source: National Bureau of Statistics of China

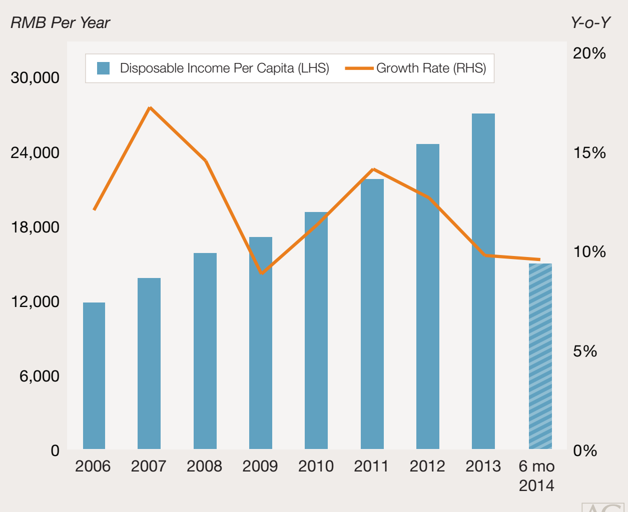
PMI continued to stay in positive territory

NATIONAL PRIMARY RESIDENTIAL SUPPLY AND SALES

Source: National Bureau of Statistics of China

Residential demand is keeping pace with supply although residential sales volumes fell by 7.8% in the 1st half of 2014

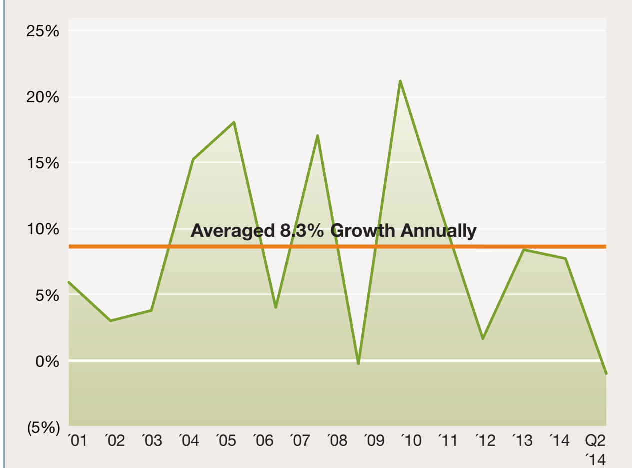
URBAN DISPOSABLE INCOME



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

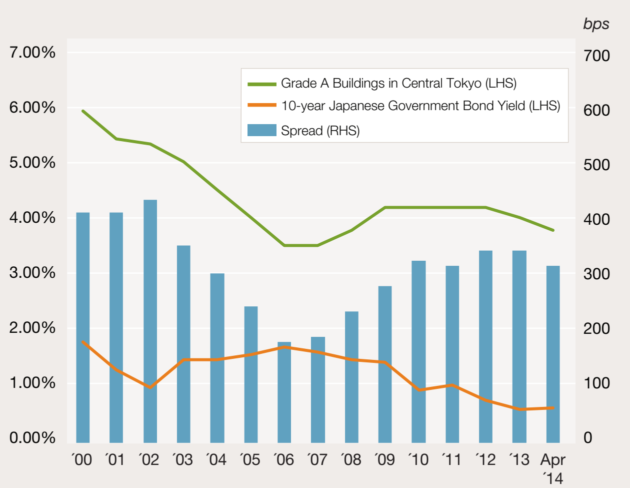
JAPAN

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

Source: MIki Shoji

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

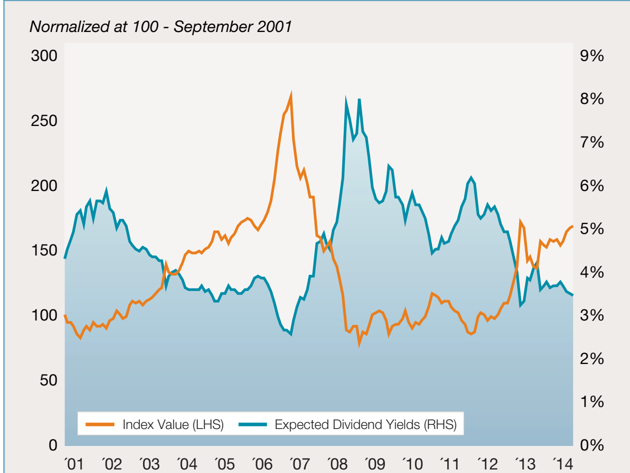
CAP RATES OF GRADE A OFFICE BUILDINGS VS BORROWING COSTS



Source: Japan Real Estate Institute

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



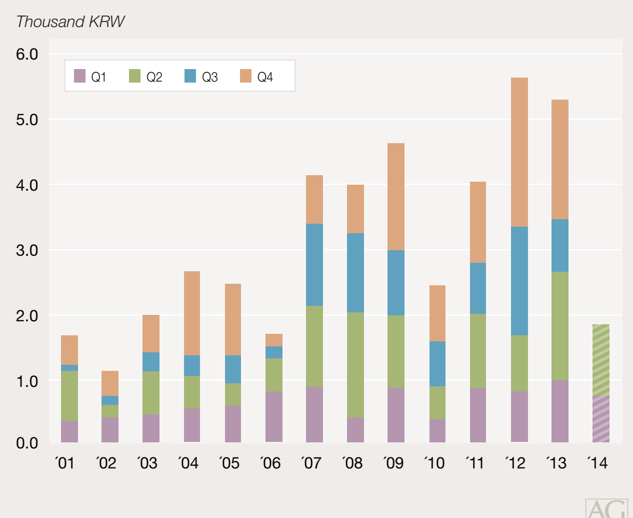
Tokyo Stock Exchange J-REIT Index up over 35% driving down dividend yields (and thereby implied cap rates) by 150 bps over the last 12 months

Source: Sumitomo Mitsui Trust Research Institute Co

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

KOREA

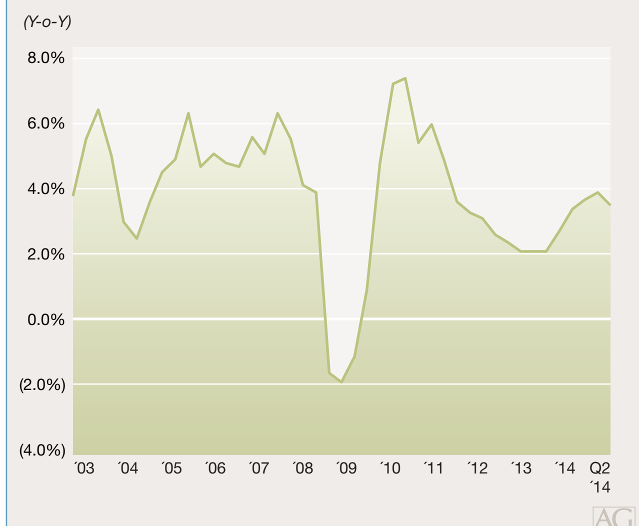
TRANSACTION VOLUME OF PRIME/ SECONDARY OFFICE BUILDINGS IN SEOUL



Source: Savills Research

Office sales volume driven by aggressive domestic core investors

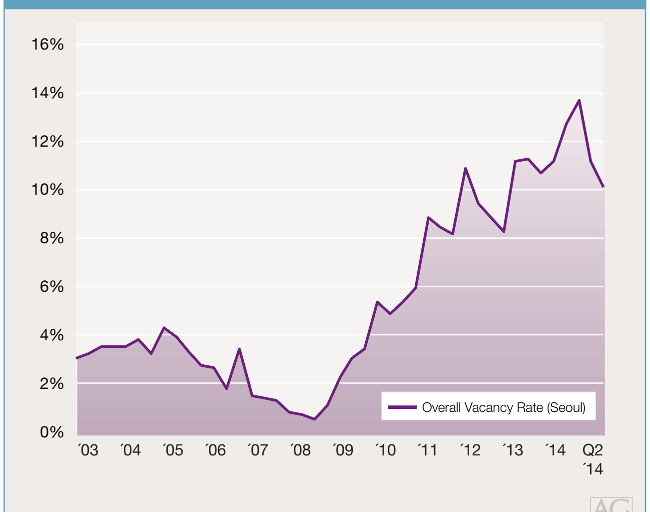
KOREA GDP GROWTH



Source: Bank of Korea

South Korea GDP growth weakened to 3.5% in Q2 ´14

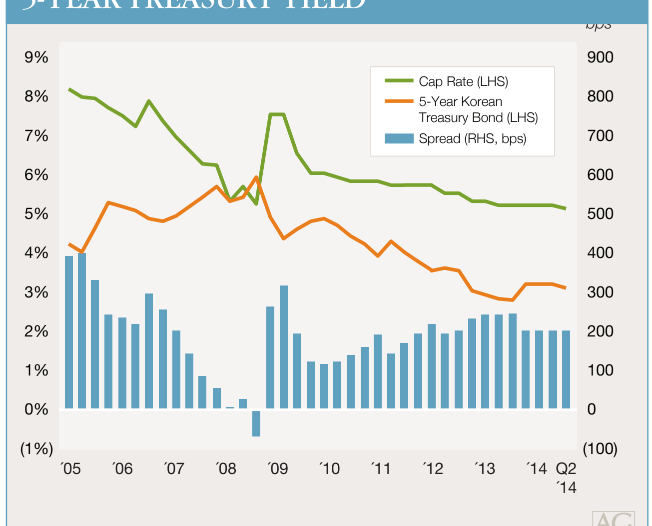
SEOUL OFFICE VACANCY RATE



Source: Jones Lang Lasalle Research

Seoul office market recovering with vacancy at 10% as of Q2 ´14

PRIME OFFICE CAP RATE & SPREAD OVER 5-YEAR TREASURY YIELD



Source: Savills Research

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

AG & Co

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