ANGELO, GORDON & CO.

CAPITAL MARKETS PERSPECTIVES

SECOND QUARTER 2016

TABLE OF CONTENTS

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.

MAUREEN D'ALLEVA
Portfolio Manager
Non-Investment Grade
Corporate Credit

As the quarter began we were optimistic the worst of the dislocation in the loan market may be behind us. This indeed proved to be the case as the leveraged loan market experienced a healthy price rebound in the second quarter, with the CS Leveraged Loan index posting total returns of 2.86%. First half returns of 4.23% outpaced the prior two years (2014 total returns were 2.06% and 2015 total returns dipped below zero to -0.38%). The improvement in technicals that began in the later part of the first quarter gained steam as the negatives from paltry CLO issuance and steady outflows from loan funds both showed signs of abating. Although CLO issuance remains well below comparable year-to-date levels, monthly issuance has increased after an anemic start to the year. CLO issuance in June of roughly $7 billion marked a year-to-date high. While fund flows remain negative on the year at roughly $6.7 billion, outflows moderated during the second quarter. The asset class benefitted from inflows in May and, on a net basis, outflows increased by only ~$1 billion during the quarter. As investors continued to deploy pent-up cash and paydowns, the market shifted in favor of issuers. Repricings increased and June gross loan issuance topped $70 billion, one of the highest issuance months on record.

The ongoing rally in WTI resulted in strong performance for the Energy sector, which was among the top performing sectors in the market, behind only Metals & Mining. Performance for Energy High Yield was even stronger, as this sector represents one of the highest beta plays in the corporate credit market. According to J.P. Morgan, Energy High Yield returned 22.4% and Energy Leveraged Loans returned 10.83% in the first half of the year.

As quarter-end approached the unexpected outcome of the Brexit vote roiled the markets and uncertainty and volatility returned to the forefront. For the loan market, however, the instability proved to be temporary and the loan market enjoyed a very strong start to July. As we look ahead we expect the market to return to taking its cue from company specific fundamentals and believe any bouts of uncertainty will likely prove to be buying opportunities.

TREVOR CLARK

CHRIS WILLIAMS
Portfolio Managers
Middle Market
Direct Lending

Middle market leveraged loans remained insulated from market volatility during the second quarter. While Brexit shook most markets into the end of the quarter, the middle market all but shrugged off the decision by the UK to exit from the European Union. Unlike the rebound in issuance in the broadly syndicated loan market, issuance remained muted in the middle market, with Q2 volumes of $26.6 billion essentially unchanged versus the first quarter. At $52.7 billion, first half issuance is down more than 25% from the first half of last year. Refinancing activity picked up off of the first quarter's volumes, but overall refi volume in the first half of the year was down more than 30% versus last year. Interestingly, issuance picked up for both smaller and larger middle market deals, but dropped for deals sized between $100 million and $250 million. Most lenders appear to believe that volumes should improve modestly during the third quarter

With respect to pricing and leverage, we expect to continue to see levels dependent on the size and credit worthiness of the borrower. Overall leverage levels in the middle market remained below those in the broadly-syndicated loan market and debt to EBITDA levels have declined year-to-date in the middle market. At the same time, equity contributions have increased.

As we contemplate the multiple challenges facing investors today – including ongoing low yields across the global fixed income markets, and the many sources of uncertainty that have affected the market for the last 18-24 months (the ultimate impact of Brexit, oil, global growth, Fed policy, the credit cycle, etc.), we believe that the middle market will continue to offer investors protection against the volatility that this heightened uncertainty may continue to bring.

TODD DITTMANN
Portfolio Manager
Energy Direct Lending

Both oil and gas posted impressive gains in the second quarter. Oil prices rose 26%, logging the biggest quarterly increase in seven years, Brexit and a two-year rout notwithstanding. Demand is out pacing supply. Oil production in the lower 48 states fell 800,000 barrels/day from the peak and oil stockpiles are dropping. The natural gas inventory surplus fell for 12 straight weeks, helping natural gas futures rise over 50% to log the second-best quarterly gain in 16 years.

Of course, the risk that the rally has played out is real. A stronger dollar, post-Brexit declines in the demand for oil, the resolution of wildfires and other supply outages, and the commencement of refinery maintenance season, might all contribute to another fall in prices. However, the prevailing sentiment presumes stability in a $40–50/barrel range.

As a result, optimism has reappeared and the industry is again planning for growth. During the quarter, the rig count increased and the Dallas Fed reported that 20% of 152 surveyed oil and gas companies boosted capex and 11% began hiring. Similarly, oil service management teams report increased customer inquiries, although these inquiries are leading indicators that have not yet translated into increased work. We believe that drilling and completion activity will resume meaningfully at a sustained oil price in the $50-$60/barrel range. How that activity affects and potentially slows the recent supply decline is a key question, the answer to which will most likely determine whether oil prices decline, remain range-bound at $40-$55/barrel or proceed northward.

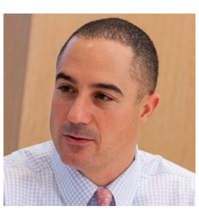
Nonetheless, the $26/barrel, lower for longer hangover remains. Eighty-one North American oil and gas producers have filed for bankruptcy since the beginning of 2015, involving $52.6 billion in cumulative secured and unsecured debt. Despite the recovery in oil and gas prices, we anticipate more filings should occur during 2016.

The energy capital markets were more complicated. The markets for traded debt and equities surged, with the JP Morgan Energy HY index and the S&P 500 Oil and Gas index increasing nearly 22% and 17%, respectively, over the quarter. While new issue high yield remained largely closed to oil and gas issuers (with only one new issuance year-to-date), the equity markets were wide open for companies seeking to re-equitize overleveraged balance sheets. Year-to-date, oil and gas company equity issuances have exceeded $14 billion, with $5.3 billion issued in the second quarter. These issues were typically very dilutive events, involving 10-25% new share issuance, but hardly surprising given that E&P companies are trading at an average of 12x EBITDA – twice historical levels. Management teams clearly deem the dilution a cheap price to pay for survival should another downturn occur.

In stark contrast to the equity markets, the bank lending market is functionally non-existent. Bankruptcies and new regulatory guidelines that were imposed on lenders by the OCC in March 2016 have changed the landscape of secured energy lending for the foreseeable future. The guidelines have caused the widespread withdrawal of new bank capital from the sector and prompted certain banks to altogether shutter long-standing energy groups.

In this environment, we see debt investment opportunities with varying sensitivity to oil prices. At one end of the spectrum lie opportunities to purchase deeply discounted distressed positions in both oil and gas, and oil service companies that are well-positioned for a rebound and offer significant returns in the case of such a rebound. At the other end are secured bank debt replacement transactions, either via bank debt refinancing or growth financing by way of acquisitions or new development drilling. These growth financings have just begun to appear now that buyer, seller and driller price decks are all converging around $45-$55/barrel.

Of these opportunities, we believe the return potential is greatest for deeply distressed investments and least for over-collateralized growth financings. Bank debt refinancings, effectively well-covered rescue finance, occupy the middle ground.



GAVIN BAIERA
Portfolio Manager
Distressed Debt

After nearly four consecutive months of upwardly trending prices, the recently revived global leveraged credit markets hiccuped in June with the surprise UK referendum announcement. Potential ramifications of the vote for distressed investors – expected to evolve over the coming years – include downward revised UK, European and global growth forecasts, and therefore softer earnings and eventual credit weakness. In the near term, however, technicals appear to be supportive of European markets grinding higher and tighter as investors, going into Brexit, were long cash and generally haven't been subject to material redemptions. Encouraging risk tolerance are the coordinated, supportive global central bank policies seeking equity market equilibrium and asset inflation. The effects have been a continued, persistent hunt for yield as increasing amounts (more than 25% at last count) of global government debt trade with negative yields.

A significant market risk today is the state of the European banks, which face increased regulatory challenges and competition (direct lenders and fintech) and a dangerously narrow spread environment. With rates moving lower and into negative territory, and further flattening yield curves, their ability to achieve any margin has diminished considerably. These factors have combined to depress recent Eurozone bank market capitalizations to levels reminiscent of 2008 and 2011.

In the U.S., sound economic data, recently rallying commodity prices and relative political calm, have shrunk corporate distressed levels to the smallest actionable opportunity set in months. However, defaults continued to hit in commodity sectors, with twenty energy companies alone having defaulted YTD through June 30, and commodities representing more than 80% of 2016's total default volume.

ARTHUR PEPONIS
Portfolio Manager
Private Equity

During the second quarter, the volatility in the financial markets, in general, had a dampening effect on private equity activity. Although North American volumes increased over 20% in the second quarter of 2016 from one year ago, ($55 billion versus $45 billion), global deal volume in the second quarter of 2016 was down approximately 15% from year ago levels ($88 billion versus $102 billion). Continuing a long-term trend, dry powder increased from $494 billion at March 31, 2016 to $518 billion at June 30, 2016, setting a new record. Leverage levels as a multiple of EBITDA for the first half of 2016 stood at 5.4x, lower than the 5.8x multiple for 2014 and 2015, and consistent with levels seen in 2013. While banks demonstrated an increased willingness to provide financing commitments in the second quarter, their level of aggressiveness remained materially less than in prior years. One notable trend seen in the first half of this year was that the average multiple paid by private equity firms was 10.1x EBITDA, which was less than the 10.3x multiple paid in calendar 2015. This is the first time since 2012 that we have seen a decline in average multiples paid. However, to keep this number in perspective, it still represents the second highest level in history. As stated in prior notes, the competition for assets and the high level of dry powder in the marketplace has resulted in an increased level of equity contribution by private equity firms to secure assets. The 43% of equity contribution as a percent of total capitalization seen in the first half of 2016 is the highest level since calendar 2009. Finally, while the number of exits was slightly higher in the first half of 2016 from one year ago (769 vs. 743), overall volume declined 30% in large part due to a continued weak IPO environment.

DAVID KAMIN
Portfolio Manager
Merger Arbitrage

While merger activity continues to come off its 2015 highs, the second quarter marked the tenth consecutive quarter of robust volume. Deal announcements increased to multi-year highs, reaching the highest level since Q3 2007, and activity shifted away from mega-cap to mid-cap M&A. This was the first significant shift away from the large deals that has driven this M&A bull cycle; activity for $5 billion+ deal volume has declined significantly year-over-year. However, some deals have bucked this trend: Abbot Laboratories acquired St. Jude Medical and Microsoft purchased social networking website LinkedIn. Both deals have an equity value of over $20 billion.

Merger arbitrage spreads began the quarter at an average of ~12% and ended the quarter at an average spread of ~7%. The initial effect of Britain's vote to leave the EU was relatively modest in relation to the spread-widening seen in other markets, especially considering that merger arbitrage spreads had recently narrowed to their tightest levels since July 2014. While the quarter saw four deals terminate, only Allergan caught the market by surprise. Allergan plc and Pfizer mutually walked away from their deal after Treasury announced a third round of anti-inversion rules. Unlike the Treasury notices in 2014 and 2015 which were broad in nature and impacted all those seeking to invert equally, this notice showed that this Administration and Treasury are willing to directly attack a single deal if they deem it unacceptable. Additionally, U.S. antitrust regulators continued to hold a hard line on mergers they deemed unacceptable. After months of failing to convince the Department of Justice to approve (with significant remedies), Haliburton terminated their deal with Baker Hughes when they were sued. Staples fought the FTC in court after being sued; however, a Federal Judge ruled against them, ending a 15-month battle with the U.S. regulator. Energy Transfer Equity fortuitously escaped its deal with The Williams Companies after months of seeking an out.

Deal terminations and a Brexit vote were overcome as announced total deal values were unable to keep pace with deal closures. This caused arbitrageurs to re-invest and grow positions, therefore tightening spreads. The three core merger arbitrage positions – Charter Communications acquiring Time Warner Cable, Shire plc purchasing Baxalta, and Western Digital buying SanDisk, all closed during the quarter and provided ample cash for arbitrageurs to re-invest. These three deals totaled $76 billion in total equity value. Additionally, and in general, pending deals have below-average duration risk, are below average in size and have moderate antitrust risk. These characteristics helped tighten spreads throughout the quarter. While organic growth has been elusive, sizeable cash balances and historically low global interest rates continued to provide fuel for this M&A bull market. However, the rise of global political uncertainty and M&A valuation multiples – which exceed the highs set in 2005-07 – could dampen merger activity.

GARY WOLF
Portfolio Manager
Convertible Arbitrage

Markets remained volatile during the second quarter, especially as the UK's surprise vote to leave the European Union led to widespread risk reduction at the end of June. Global equity markets still managed to turn in a modestly positive performance of 0.58% (MSCI World) for the quarter. On an outright basis, global convertibles outperformed, returning 2.11% in local currency terms. As an indicator for hedged convertible returns, the HFRX FI-Convertible Arbitrage Index gained 2.58% in Q2, resulting in a 1.47% year-to-date return, as valuations were supported by the rise in volatility and largely stable credit spreads. Global convertible new issuance picked up steam towards the end of Q2, with June being a particularly strong month. Total primary volume amounted to $21.2 billion for the quarter, compared to $24.3 billion for the same quarter last year. The U.S. market accounted for $11.6 billion of deals and Europe contributed $7.4 billion. Issuance in Asia and Japan remained lacklustre. The largest transactions included the $6.6 billion Softbank/Alibaba mandatory exchangeable, the Airbus/Dassault exchangeable, and convertibles from Weatherford International and Steinhoff. According to UBS, YTD issuance has now reached $37.8 billion. With the repercussions of the Brexit vote adding another layer of uncertainty to an already fickle market, the probability of dislocations in the convertible market has increased, in our view, potentially to be triggered by redemptions from long-only funds. We believe the environment remains favourable for an opportunistic approach to convertible hedge investing.

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

The market rebound in March extended through the second quarter and the "risk-on" sentiment was in full force until the June 23rd Brexit referendum. The rally was broad-based and affected nearly all securitized credit sectors while volatility remained muted. Mortgage and asset-backed securities regained most, if not all, of the losses suffered in the prior two quarters and are currently poised for further near-term tightening. Despite the Brexit turbulence, risky assets fared well. Legacy mortgage assets, in particular, proved to be especially resilient due to supportive technicals and stable underlying fundamentals. To that point, U.S. mortgage credit and housing have no direct exposure to Brexit. Home prices continued to generate mid-single digit year-over-year returns, supported by tight inventory and quick sales times. Credit card delinquencies continued to trend to lower levels, whereas auto delinquencies were driven by collateral type. For example, the delinquency rate for non–prime autos trended higher, while the same for prime autos has been more stable. Despite this, net loss rates for prime and non-prime autos remained well below crisis peaks. Bottom line: securitized credit assets made it through Brexit rather unscathed. In June, Bank of America distributed most of its $8.5 billion cash settlement with investors, bringing an additional positive technical to the RMBS market. Primary issuance has been under expectations, further supporting the net supply technical, and primary dealer holdings continued to fall to the lowest level since at least April 2013. However, liquidity was far better in the second quarter than during January and February, as market participants continued to search for yield while risk-free rates rallied.

ANDREW SOLOMON
Portfolio Manager
Real Estate Debt (CMBS)

After the dramatic price declines that CMBS experienced to start the year, the second quarter felt downright placid. While the results of the June 23rd Brexit vote injected uncertainty into the market, trading volumes going into quarter end were minimal, and by June 30 the market was generally back to pre-Brexit levels.

Private label new issuance volumes in Q2 were light. This is largely the result of the volatility in the market during late Q4 2015, as price declines and illiquidity adversely affected originators' willingness and ability to quote new loans. Total first half 2016 private label CMBS issuance totaled $25.2 billion, a 49% drop from the same period in 2015. Early indications are that issuance volumes are poised to pick up again during the third quarter. It is worth noting that during the first half of this year, agency CMBS issuance increased by 41% compared to the prior year. Through June 30, Fannie Mae and Freddie Mac issuance, which is backed by 100% multifamily properties, exceeded $50 billion.

Given the positive technical created by limited new issue, CMBS spreads generally tightened during the quarter. At the top of the capital structure new issue AAA bonds were 10-15 basis points tighter. At the BBB- level, the idiosyncratic nature of the deals being issued and limited number of data points make specific numbers challenging, but the tone of the market improved, especially for transactions perceived to be of high credit quality. Interestingly, during the period the cash and synthetic markets moved in opposite directions, with CMBX BBB- indices ending the quarter approximately 30 basis points wider.

GORDON J. WHITING
Portfolio Manager
Net Lease Real Estate

As of the second quarter of 2016, the trailing 12-month U.S. single-tenant transaction volume totaled $51 billion, according to Real Capital Analytics. While overall transaction volume remains robust, volume declined by 9% in Q1 2016 and by an additional 19% in Q2 2016. The declines in transaction volume can be attributed to a number of factors, including cap rates at decade lows and a more volatile financing market. During the quarter, single-tenant cap rates across retail, office, and industrial assets hit their lowest levels in 10 years, at an average cap rate of 6.5%. Cap rates have compressed alongside declining Treasury rates as investors look for yield. The current environment presents an attractive time for sellers and well-capitalized buyers with access to various sources of financing. The CMBS market remains volatile due largely to the impending implementation of risk regulation standards in 2017. As we look forward to the remainder of 2016, it is an opportune time for corporate owners of real estate to sell their properties and lease them back, due to the low cap rate environment. In addition, while there is volatility in the corporate credit markets, sale-leaseback financing could be viewed as an alternative source of financing, particularly for sub-investment grade companies.

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

United States Real Estate: While the UK referendum originally caused some indigestion in the U.S., markets have largely corrected and contagion fears subsided. The consensus view seems to be that the U.S. could actually benefit from higher allocations to our perceived safe haven assets. Goldman Sachs recently wrote "…Brexit and the consequences for European geopolitics further reaffirm our view of U.S. preeminence and higher strategic allocations to U.S. assets."

With the volatility in the financial markets in the first half, unsurprisingly transaction volume in U.S. commercial real estate was down 20% for the first half of the year as was financing activity, largely a result of CMBS originations declining nearly 50% vs. 2015. We expect the flow of foreign investment to accelerate, as the recent legislative changes to the FIRPTA law take hold. Lending from banks has been robust but generally prudent, with lending standards tightening as compared to 2015 and 2014.

Despite reduced capital markets activity, prices were up 1% in June and while the pace of appreciation has slowed, values have risen 2.5% year-to-date, according to Green Street's CPPI. At the same time, the U.S. REIT index was up 7% in June and 14% YTD, notching 24% on a twelve-month basis. With this recovery, REIT prices are implying a 3% discount to private market net asset values, a much more benign forecast than in November when low REIT prices and high bond yields both implied a potentially significant repricing of private market CRE values. With both REITS and bonds recovered since November, consensus projections are flattish for private market values.

Fundamentals remain attractive. The U.S. office market witnessed solid tenant demand in the second quarter, outpacing deliveries. Tenants absorbed 15 million square feet in the 2nd quarter, bringing the first half total to 24 million square feet, up from 19 million in the first half of 2015. The office construction pipeline currently totals 87 million square feet, down from 92 million square feet in Q1. Office vacancy dropped by 30 bps to 13.5%, the lowest level in eight years. Sublease space ticked up although still remains below average, with the highest concentrations in Houston and San Francisco. Office rents were up .4% in the quarter and 4.3% y/y, with suburbs gaining 4.7% y/y and CBDs slower at 3.4%.

Europe Real Estate: Even though the UK referendum on staying in the EU came at the end of the quarter, anticipation and speculation of the outcome colored the real estate markets for the entire quarter. Public markets bore the brunt of the volatility in the month of June, the EPRA Pan-European Index fell 10.2% as compared to the YTD decline of 10.5%. The UK accounted for most of the drop, falling 16.0% in June and 15.9% YTD. Directly after the vote, most UK open-ended funds closed to redemption requests, which surpassed existing liquidity reserves. These funds accounted for approximately £25 billion of assets, or roughly 3% of the UK commercial real estate market. For perspective, UK transaction volumes average £15 billion per quarter. These funds are forced sellers – not because of solvency issues, but due to a mismatch of promising daily liquidity for an illiquid asset class.

On the occupational side, many UK occupiers deferred leasing decisions while they determined how a potential exit from the EU would change the 'rules' under which they could operate their businesses and employ their staff. Not surprisingly, post referendum, these questions are not answered and it is too early to draw any conclusions from occupiers. What can be said about the London market is that vacancy levels are at all-time lows, with the West End at 2.8% vacancy (2.3 million square feet) and City at 3.8% (2.8 million square feet). While there is office supply on the horizon, levels remain below previous cycles and 45% of the under construction supply is pre-leased, leaving 6.7 million square feet of space that is being built on speculation. Even if all of this space were to remain unoccupied, total vacancy across London would only rise by between 2-3%. The 10-year average for annual take-up is 12 million square feet, and in the midst of the financial crisis London saw take-up of 7.1 million square feet. Take-up should not be confused with net-absorption, which is not tracked in the UK, but given the low vacancy levels it will not take much normal tenant churn to fill the remaining vacancy and the portion of supply which is speculative.

On Continental Europe sentiment indicators for the quarter fell, which is important given the high correlation with GDP. The gradual labor recovery has continued, with unemployment down to 10.1%, the lowest since July 2011. While the European trend is positive, the lethargy of the European recovery is highlighted when you compare the recovery of jobs in each of the Eurozone, the UK and the U.S. The Eurozone is approximately half-way to its pre-crisis unemployment levels, while both the UK and U.S. are back at pre-crisis levels. Average rents across the Eurozone are still below pre-crisis and yields above, with the exception of high-street shops. The office segment offers the most consistent data and here we can see gradual net-absorption finally making a dent in vacancy, bringing the vacancy rate to 9.1%, the lowest seen since 2009. Looking more closely, one sees that Western Europe vacancy rates have been falling for 8 consecutive quarters while there has been great volatility in Eastern Europe.

WILSON LEUNG
Portfolio Manager
Asia Real Estate

Although the immediate impact of Brexit on the Asian markets was relatively muted in comparison to the UK and the EU, the shakeup was more keenly felt in the equity and currency markets. Japan's TOPIX fell ~7% and Hong Kong's Hang Seng Index fell ~3% the day after Brexit; although, both indices have since recovered as of this update. With Brexit adding to global uncertainty, the Japanese yen has strengthened ~15% against the U.S. dollar from the beginning of the year, as investors have moved into safe haven currencies. Although it is still early to predict the ultimate impact of Brexit on Asia given the current ambiguity, analysts expect the medium-to-long-term effect on Asian property markets to be limited.

In the near term, we believe that this continued global uncertainty will lead to a 'lower interest rates for longer' scenario where central banks such as the Bank of Japan will be encouraged to maintain today's low rate environment. As a result, Asian real estate is likely to be positively impacted in the short-term as real estate yields become more attractive alongside lower borrowing costs.

In Japan, government bond yields continue to fall into negative territory with the 10-year bond at -.29% (as of July 19). This has improved the yield spread on grade A properties to nearly 400 bps – making it even more attractive to domestic and global investors seeking core, cash flowing assets. We continue to seek opportunities to sell our stabilized assets into this deep pool of buyers. That said, unlike other global gateway cities, asset values in Tokyo on price-per-square-foot basis are still 20%-25% below the prior peak in 2008, further enhancing the attractiveness of the Japanese property market.

The Bank of Korea has lowered its economic growth forecast from 3.0% at the beginning of this year to 2.7% as of July. In addition, with further monetary easing, we have seen 5-year Korean Treasuries fall to a record low of 1.2% from 1.8% at the beginning of 2016. We may see property cap rates compress further in light of this low rate environment. Large domestic buyers of core property continue to be active in the marketplace with a few office properties trading in the mid-4.0% cap rate range, which is on the low end of what we have seen in Korea. Seoul office vacancy remains stubbornly high at 10.8%. Fortunately, the office 'supply wave' is over, which should give the market time to recover. Residential prices in core areas continue to climb, with the average pre-sale price of new apartments in Gangnam (a highly desired submarket) reaching $980 per square foot.

Although China's GDP growth may be slowing to the mid-6.0% range, the property markets continue to perform well. The weighted average residential price (across 100 cities in China) has increased 11.2% year-over- year as of June 2016. If we break this down by tiers, we can see that the market is quite polarized, with the prices in tier 1 cities such as Shanghai and Beijing having increased an incredible 25.7%. This is in contrast to the tier 2 and tier 3 cities which are only up 6.2% and 3.6% respectively. We are also seeing strong demand for commercial office properties with cap rates today of 3.8 – 4.2%, which is 25 to 50 bps lower than the cap rates achieved two years ago. This amount of cap rate compression appears to be reasonable given that the People's Bank of China one year benchmark lending rate has fallen 165 bps over the same period. With interest rates trending lower and limited investment options for China's growing middle class, we may continue to see more capital flow into the real estate market as investors search for yield.

ECONOMIC DASHBOARD

MARKET INDICES

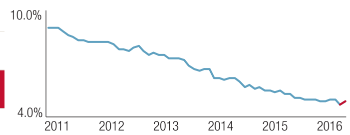
Second Quarter 2016

JOB MARKET

Macro Economics		Five-Year Trend

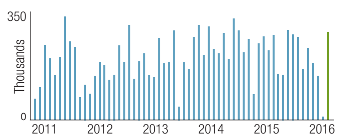
US – Unemployment Rate
As of 6/30/2016

Latest Level	4.9	
Change from Prior Month	0.2	
Latest Direction	Deteriorating	
Frequency	Monthly	



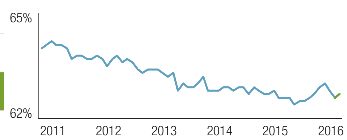
US – Non-Farm Payroll
As of 6/30/2016

Latest Level	287.0	
Change from Prior Month	276.0	
Latest Direction	Improving	
Frequency	Monthly	



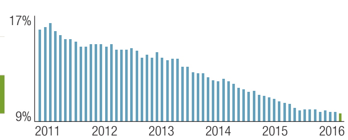
US – Labor Participation Rate
As of 6/30/2016

Latest Level	62.7	
Change from Prior Month	0.1	
Latest Direction	Improving	
Frequency	Monthly	



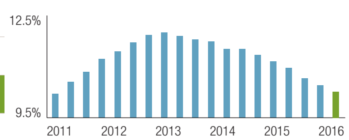
US – U-6 Unemployed & Margin & Part-Time as % of Labor Force & Margin
As of 6/30/2016

Latest Level	9.6	
Change from Prior Month	(0.1)	
Latest Direction	Improving	
Frequency	Monthly	



Eurozone Unemployment Rate
As of 3/31/2016

Latest Level	10.3	
Change from Prior Quarter	(0.2)	
Latest Direction	Improving	
Frequency	Quarterly	

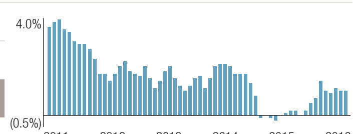


INFLATION

Macro Economics		Five-Year Trend

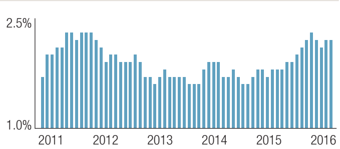
US Consumer Price Index (CPI) Y-o-Y %
As of 6/30/2016

Latest Level	1.0	
Change from Prior Month	0.0	
Latest Direction	No Change	
Frequency	Monthly	



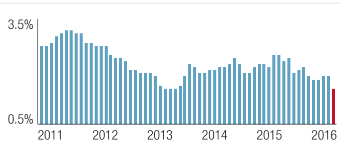
US CPI Goods Less Food and Energy Y-o-Y %
As of 6/30/2016

Latest Level	2.2	
Change from Prior Month	0.0	
Latest Direction	No Change	
Frequency	Monthly	



US Producer Price Index (PPI) Y-o-Y %
As of 6/30/2016

Latest Level	1.2	
Change from Prior Month	(0.4)	
Latest Direction	Decreasing	
Frequency	Monthly	

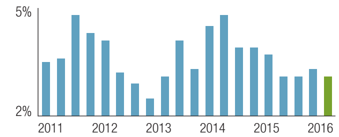


GDP GROWTH

Macro Economics		Five-Year Trend

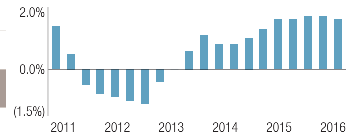
US – GDP Y-o-Y %
As of 3/31/2016

Latest Level	3.3	
Change from Prior Quarter	0.2	
Latest Direction	Improving	
Frequency	Quarterly	



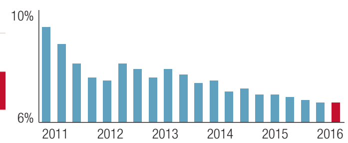
Eurozone – GDP Y-o-Y %
As of 3/31/2016

Latest Level	1.7	
Change from Prior Quarter	0.0	
Latest Direction	No Change	
Frequency	Quarterly	



China – GDP Y-o-Y %
As of 6/30/2016

Latest Level	6.7	
Change from Prior Quarter	(0.1)	
Latest Direction	Deteriorating	
Frequency	Quarterly	

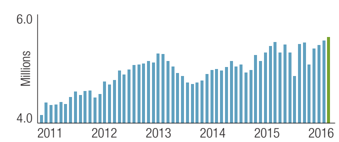


HOUSING

Macro Economics		Five-Year Trend

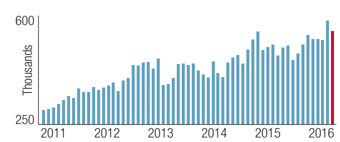
Existing Home Sales
As of 6/30/2016

Latest Level	5.6	
Change from Prior Month	0.1	
Latest Direction	Improving	
Frequency	Monthly	



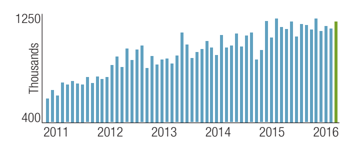
New Home Sales
As of 5/31/2016

Latest Level	551.0	
Change from Prior Month	(35.0)	
Latest Direction	Deteriorating	
Frequency	Monthly	



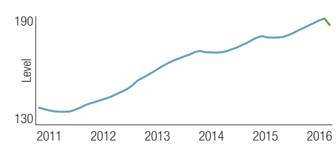
Housing Starts
As of 6/30/2016

Latest Level	1,189.0	
Change from Prior Month	54.0	
Latest Direction	Improving	
Frequency	Monthly	



Case-Shiller Index of Home Value in 20 Cities
As of 4/30/2016

Latest Level	189.0	
Change from Prior Month	0.8	
Latest Direction	Improving	
Frequency	Monthly	

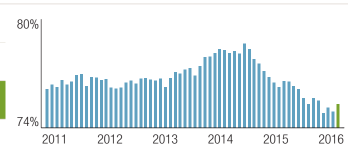


ECONOMIC & MARKET CONFIDENCE

Macro Economics		Five-Year Trend

Capacity Utilization as a % of Capacity
As of 6/30/2016

Latest Level	75.4	
Change from Prior Month	0.4	
Latest Direction	Improving	
Frequency	Monthly	



Source: Bloomberg (All)

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

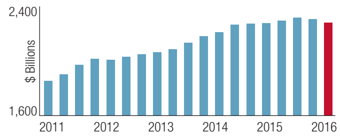
ECONOMIC DASHBOARD *(continued)*

ECONOMIC & MARKET CONFIDENCE *(continued)*

Macro Economics | Five-Year Trend

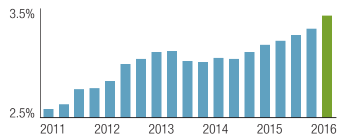
Private Fixed Investment Nonresidential SAAR
As of 3/31/2016

Latest Level	2.284.4
Change from Prior Quarter	(25.1)
Latest Direction	Deteriorating
Frequency	Quarterly



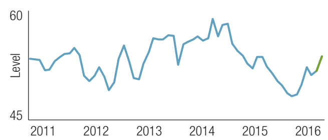
Residential Fixed Investment as a % of GDP
As of 3/31/2016

Latest Level	3.4
Change from Prior Quarter	0.1
Latest Direction	Increasing
Frequency	Quarterly



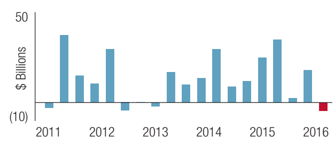
ISM Manufacturing Index
As of 6/30/2016

Latest Level	53.2
Change from Prior Month	1.9
Latest Direction	Improving
Frequency	Monthly



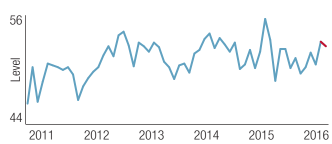
Manufacturing Inventory Change Q-o-Q $
As of 3/31/2016

Latest Level	(4.5)
Change from Prior Quarter	(22.1)
Latest Direction	Decreasing
Frequency	Quarterly



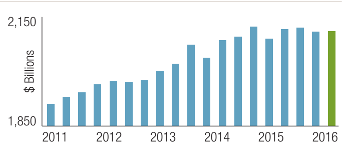
Architecture Firms Billings Index
As of 6/30/2016

Latest Level	52.6
Change from Prior Month	(0.5)
Latest Direction	Deteriorating
Frequency	Monthly



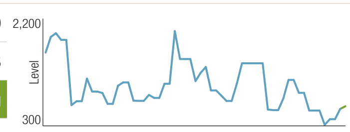
Exports of Goods/Services
As of 3/31/2016

Latest Level	2,112
Change from Prior Quarter	2
Latest Direction	Increasing
Frequency	Quarterly



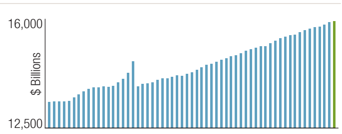
Shipping Rates
As of 6/30/2016

Latest Level	660
Change from Prior Quarter	48
Latest Direction	Improving
Frequency	Quarterly



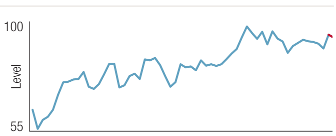
Personal Income Level
As of 5/31/2016

Latest Level	15,897
Change from Prior Month	37
Latest Direction	Improving
Frequency	Monthly



Michigan Consumer Confidence Sentiment
As of 6/30/2016

Latest Level	93.5
Change from Prior Month	(1.2)
Latest Direction	Deteriorating
Frequency	Monthly

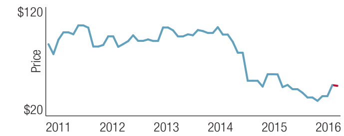


COMMODITIES

Macro Economics | Five-Year Trend

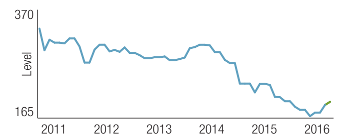
WTI Crude Oil Price
As of 6/30/2016

Latest Level	48.3
Change from Prior Month	(0.8)
Latest Direction	Decreasing
Frequency	Monthly



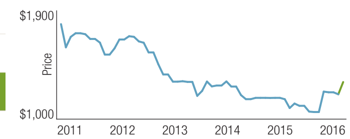
Reuters/Jefferies Commodity Index
As of 6/30/2016

Latest Level	192.6
Change from Prior Month	6.4
Latest Direction	Increasing
Frequency	Monthly



Gold
As of 6/30/2016

Latest Level	1,321.9
Change from Prior Month	106.6
Latest Direction	Increasing
Frequency	Monthly

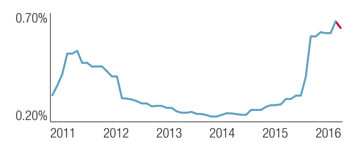


RATES

Macro Economics | Five-Year Trend

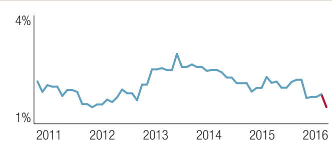
LIBOR 3M
As of 6/30/2016

Latest Level	0.65
Change from Prior Month	(0.03)
Latest Direction	Decreasing
Frequency	Monthly



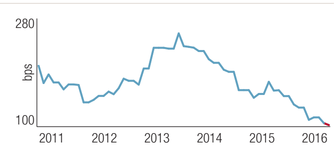
Treasury 10 Yr Yield
As of 6/30/2016

Latest Level	1.47
Change from Prior Month	(0.38)
Latest Direction	Decreasing
Frequency	Monthly

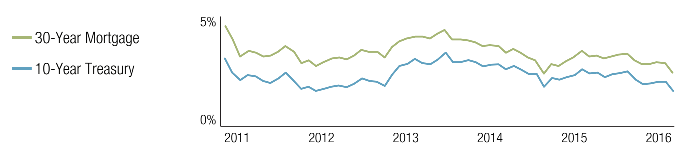


Swaps 2Y vs. 10Y
As of 6/30/2016

Latest Level	63.10
Change from Prior Month	(4.35)
Latest Direction	Flattening
Frequency	Monthly



30 Yr Mortgage and 10 Yr Treasury

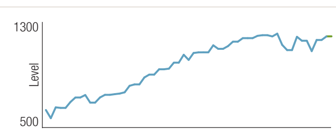


EQUITY

Macro Economics | Five-Year Trend

US Equity Markets – Russell 3000
As of 6/30/2016

Latest Level	1,236.6
Change from Prior Month	0.4
Latest Direction	Rally
Frequency	Monthly



Source: Bloomberg (All)

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

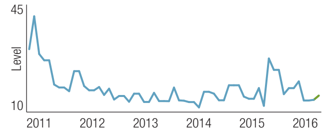
ECONOMIC DASHBOARD *(continued)*

EQUITY *(continued)*

Macro Economics | Five-Year Trend

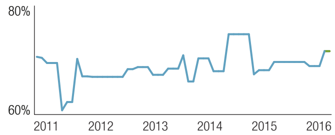
US Equity – VIX
As of 6/30/2016

Latest Level	15.6
Change from Prior Month	1.4
Latest Direction	Increasing
Frequency	Monthly

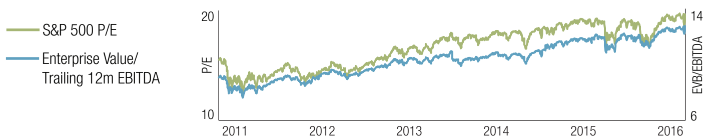


S&P 500 Percentage Exceeding Earning Estimates
As of 6/16/2016

Latest Level	72.3
Change from Prior Month	2.9
Latest Direction	Increasing
Frequency	Monthly

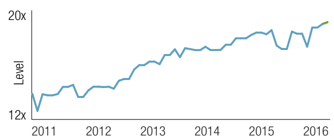


S&P 500 Historical Valuation Levels



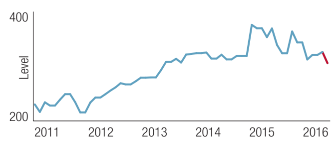
Trailing P/E on S&P 500
As of 6/30/2016

Latest Level	19.5
Change from Prior Month	0.1
Latest Direction	Increasing
Frequency	Monthly



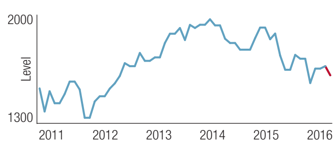
Equity Markets – Euro Stoxx
As of 6/30/2016

Latest Level	306.2
Change from Prior Month	(21.0)
Latest Direction	Decreasing
Frequency	Monthly



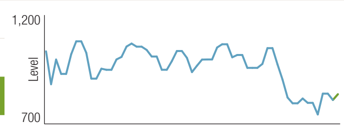
Equity Markets – MSCI EAFE
As of 6/30/2016

Latest Level	1,608.5
Change from Prior Month	(59.4)
Latest Direction	Decreasing
Frequency	Monthly

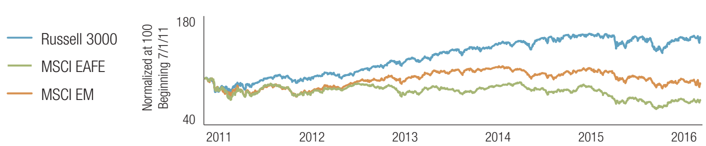


Equity Markets – MSCI EM
As of 6/30/2016

Latest Level	834.1
Change from Prior Month	26.7
Latest Direction	Increasing
Frequency	Monthly



Russell 3000 – MSCI EAFE – MSCI EM

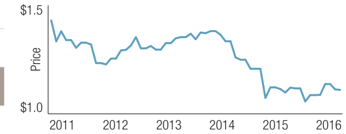


FOREIGN EXCHANGE RATE

Macro Economics | Five-Year Trend

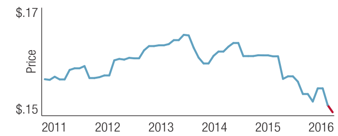
Euro Spot Rate vs. 1 USD
As of 6/30/2016

Latest Level	1.11
Change from Prior Month	0.00
Latest Direction	No Change
Frequency	Monthly



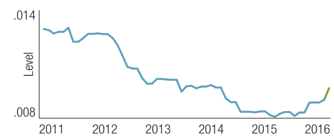
Yuan Spot Rate vs. 1 USD
As of 6/30/2016

Latest Level	0.1506
Change from Prior Month End	(0.0013)
Latest Direction	Deteriorating
Frequency	Quarterly



Yen Spot Rate vs. 1 USD
As of 6/30/2016

Latest Level	0.0097
Change from Prior Month	0.0007
Latest Direction	Improving
Frequency	Monthly

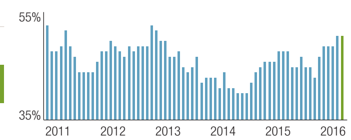


POLITICS

Macro Economics | Five-Year Trend

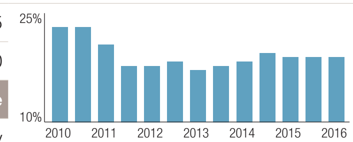
NBC NEWS/WSJ Poll Obama Approval Rating[(1)]
As of 6/30/2016

Latest Level	51
Change from Prior Month	2
Latest Direction	Increasing
Frequency	Monthly



CBS News/NY Times Congressional Approval Rating[(2)]
As of 6/30/2016

Latest Level	15
Change from Prior Level	0
Latest Direction	No Change
Frequency	Semi-Annually



Source: Bloomberg (Except where noted)
(1) NBC News/Wall Street Journal Survey
(2) CBS News/NY Times
(3) Fox News Poll
"Latest Direction" is from the last "Frequency" measurement

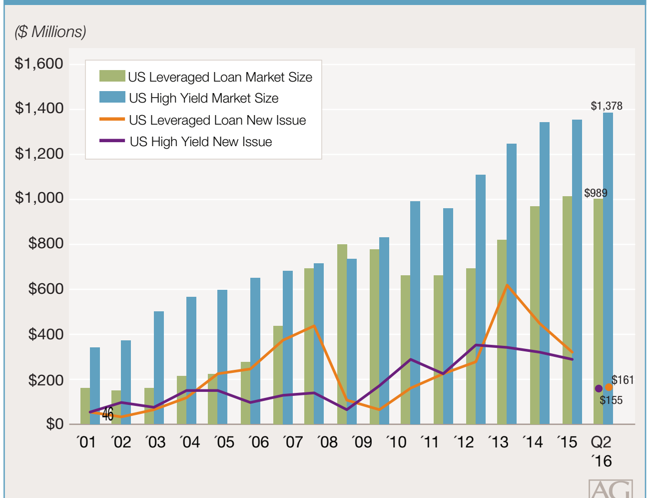
POUND STERLING / U.S. DOLLAR EXCHANGE RATE

Source: Bloomberg

The unexpected outcome of June's Brexit vote sent the pound plunging versus the dollar. The ultimate implications will evolve over the next several years and may include slowing global growth and weaker corporate earnings.

NON-INVESTMENT GRADE CORPORATE CREDIT

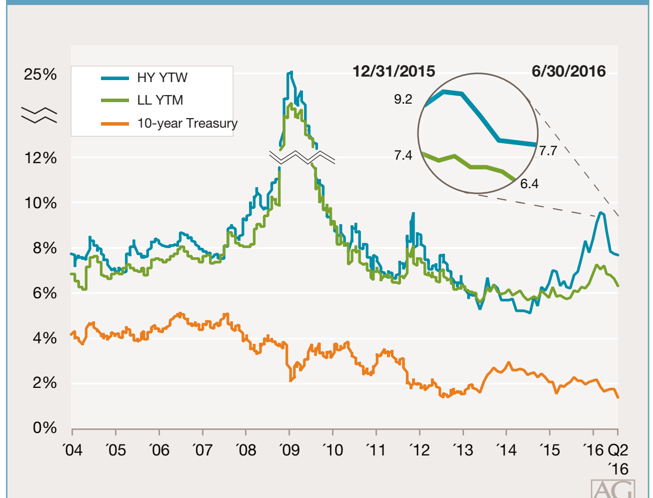
LEVERAGED LOAN AND HIGH YIELD BOND MARKET SIZE AND NEW ISSUE VOLUME



Source: Credit Suisse, BofA Merrill Lynch, JPMorgan

Leveraged loan and high yield Issuance picked up dramatically after a very quiet first quarter.

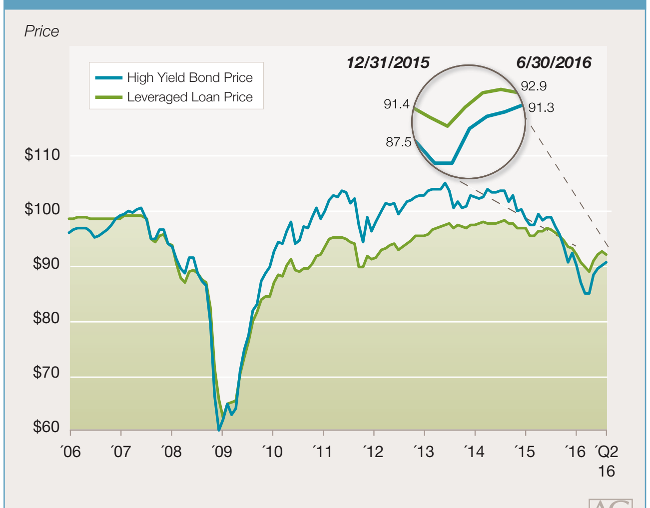
LEVERAGED LOAN VS. HIGH YIELD BOND VS. 10-YEAR TREASURY YIELDS



Source: Credit Suisse, Bloomberg

Loan and bond yields continued their move down during Q2 as investor risk appetite was strong.

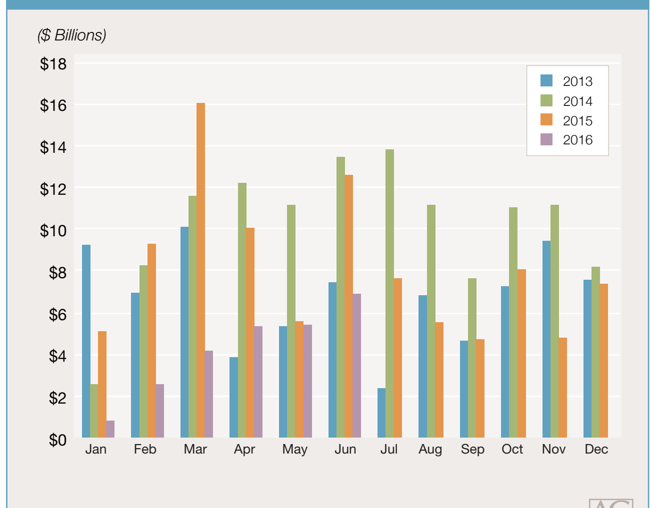
LEVERAGED LOAN AND HIGH YIELD BOND AVERAGE PRICE



Source: Credit Suisse

High yield bond prices surged almost 4 points during Q2; loan prices increased as well, albeit at a slower pace.

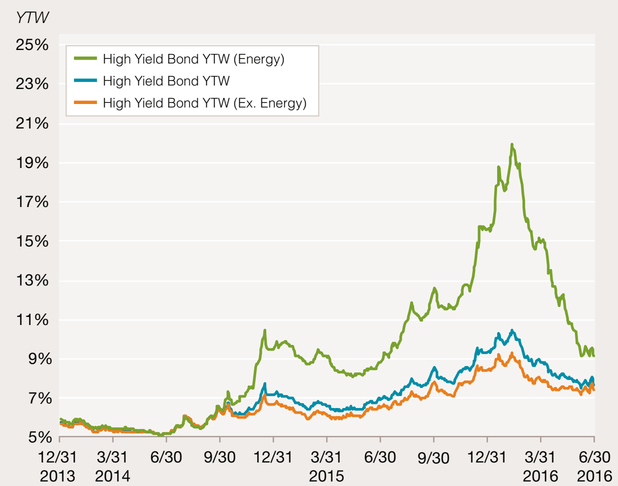
US CLO MONTHLY VOLUMES



Source: JP Morgan

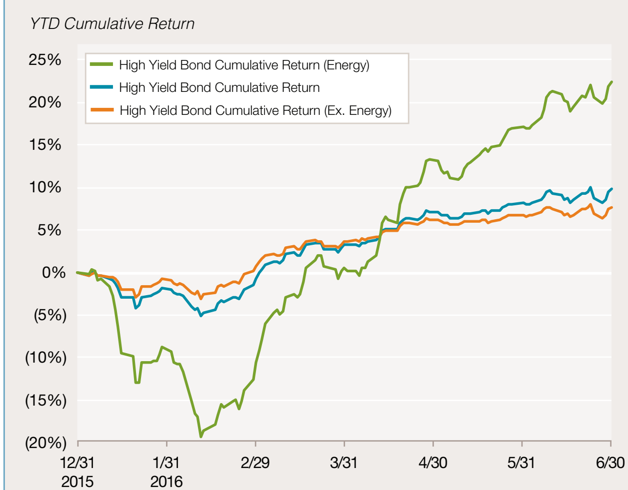
CLO issuance has increased although, on an annual basis, volumes remain well off the pace of the last several years.

HIGH YIELD BOND YIELDS WITH AND WITHOUT ENERGY



Source: JPMorgan Domestic High Yield Index

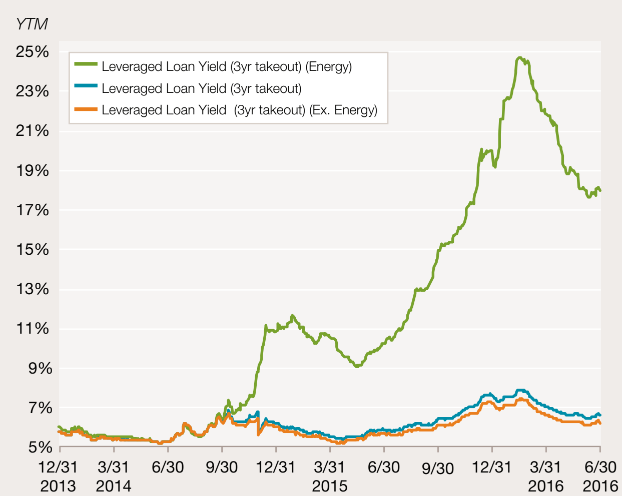
2016 HIGH YIELD BOND RETURNS WITH AND WITHOUT ENERGY



Source: JPMorgan Domestic High Yield Index

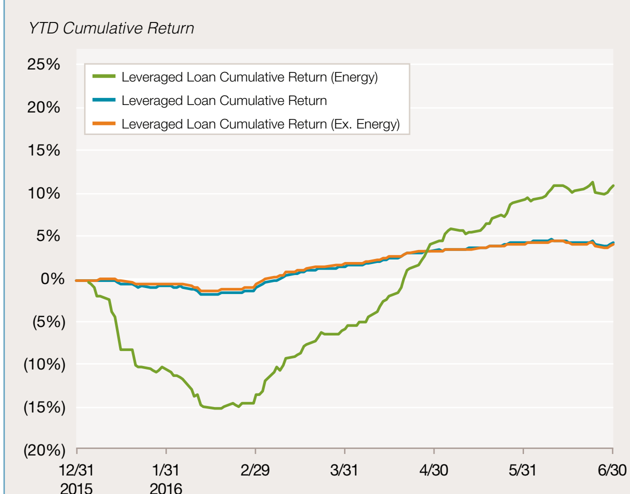
Yield compression in energy continued to outpace the decline in yields seen in the broader leveraged finance markets. The spread tightening in energy led to strong returns for the energy sector in both high yield bonds and leveraged loans. (*Applies to charts above and below.*)

LEVERAGED LOAN YIELDS WITH AND WITHOUT ENERGY



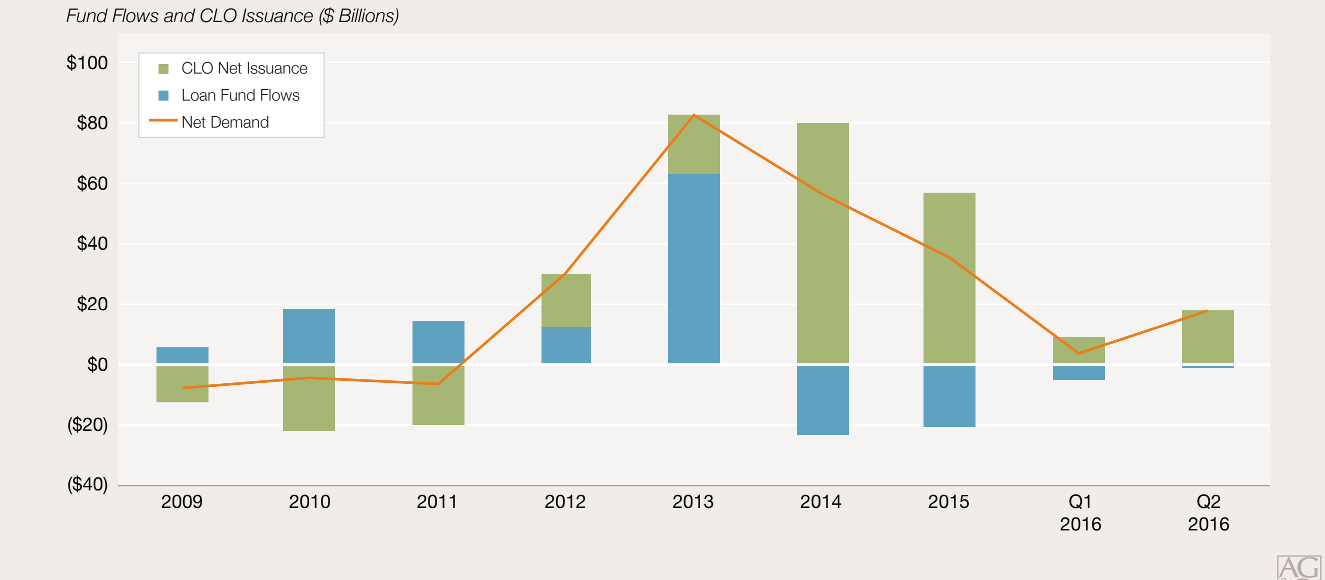
Source: JPMorgan Leveraged Loan Index

2016 LEVERAGED LOAN RETURNS WITH AND WITHOUT ENERGY



Source: JPMorgan Leveraged Loan Index

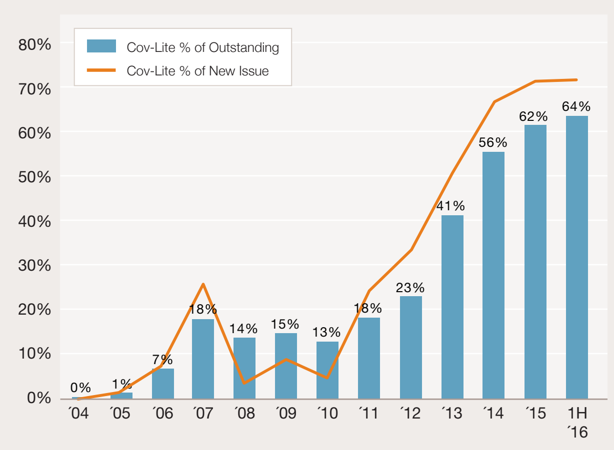
LOAN MUTUAL FUND FLOWS AND CLO ISSUANCE



Source: JP Morgan, Wells Fargo

Net demand improved during Q2 as CLO issuance picked up and loan fund outflows moderated substantially.

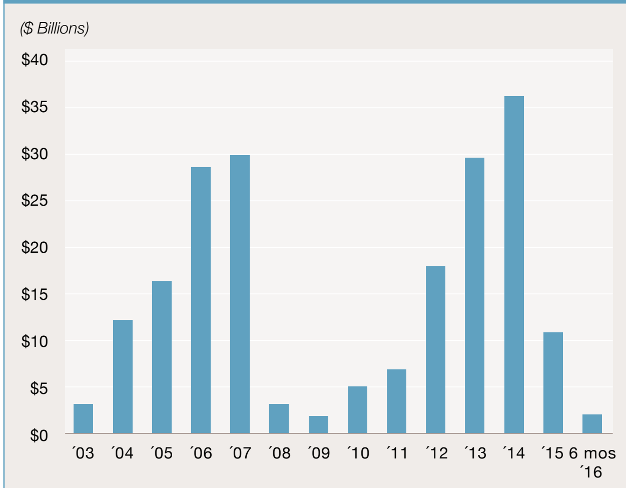
COV-LITE PERCENTAGE OF NEW ISSUE LOANS AND PERCENTAGE OF OUTSTANDING LOANS



Source: JPMorgan, Credit Suisse

Cov-lite loans still represent the majority of new issues.

SECOND LIEN LOAN NEW ISSUANCE

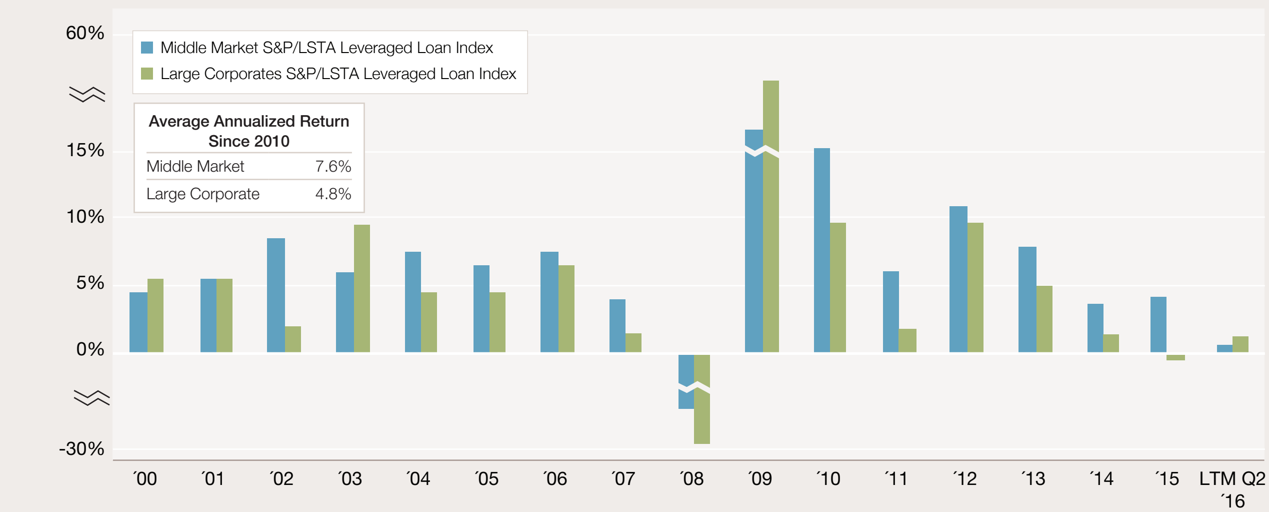


Source: S&P CapitalIQ LCD

Second lien loan issuance remains muted YTD despite the improvement in market tone.

MIDDLE MARKET DIRECT LENDING

ANNUAL RETURNS: MIDDLE MARKET VS. LARGE CORPORATES

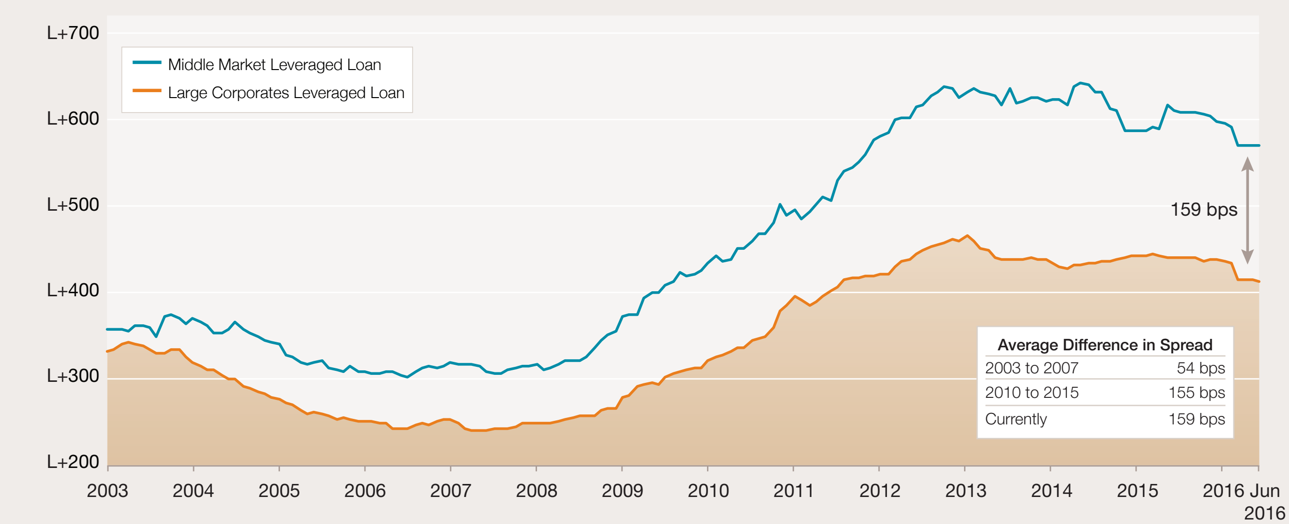


Middle market leveraged loan includes issuers with less then $50m EBITDA

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

Middle market loans have delivered positive annual returns every year since 2000 with the exception of 2008. Over the last 12 months the asset class has again enjoyed positive performance, albeit slightly underperforming returns in the large corporate market.

AVERAGE LOAN SPREAD: MIDDLE MARKET VS. LARGE CORPORATES



Middle market leveraged loan includes issuers with less than $50m EBITDA

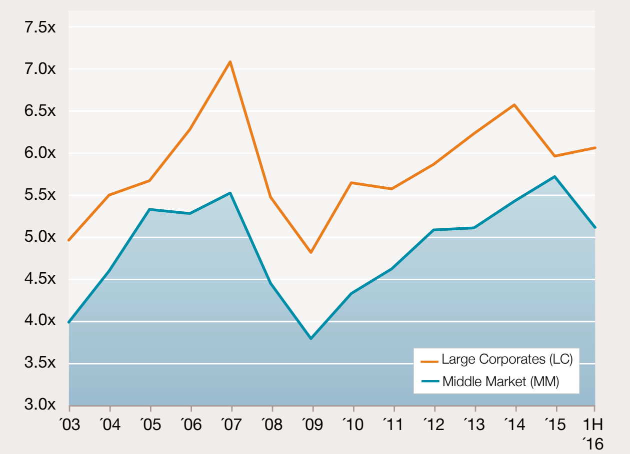
Average spread includes any LIBOR floor benefit

Source: S&P CapitalIQ LCD

Middle market borrowers have historically had a higher funding cost than large corporate borrowers, with the gap between the two tripling in the post-financial crisis era. The spread differential at the end of 2Q was in line with the average of the last five years.

(Return to Table of Contents) *(Return to PM Corner)*

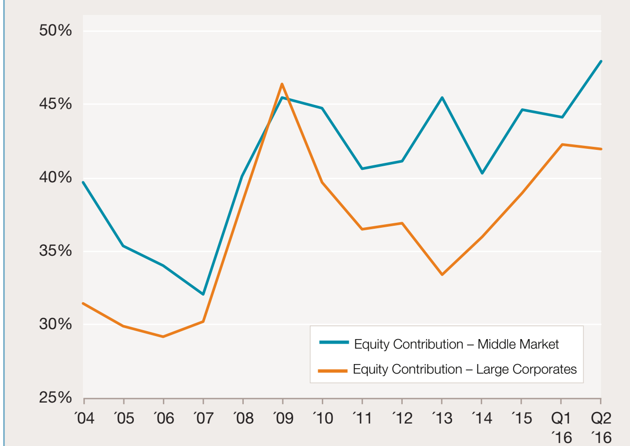
LBO DEBT TO EBITDA: MIDDLE MARKET VS. LARGE CORPORATES



Source: Thompson Reuters

The debt-to-EBITDA multiple differential between the middle market and the large corporate market widened during the first half of the year as even more conservative capital structures prevailed in the middle market despite increasing leverage in the large corporate market.

AVERAGE EQUITY CONTRIBUTION FOR LBO'S: MIDDLE MARKET VS. LARGE CORPORATES

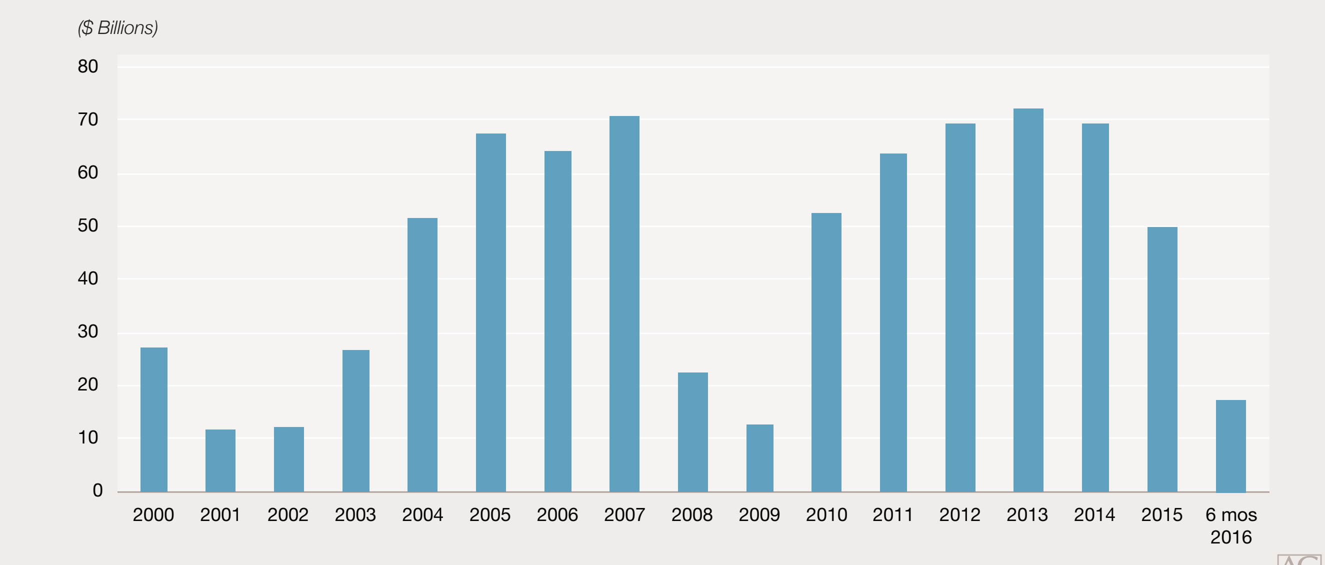


Middle market leveraged loan includes issuers with less than $50m EBITDA. Average spread includes any LIBOR floor benefit.

Source: S&P CapitalIQ LCD

Sponsor equity contributions on average increased during the second quarter in contrast to the slight decline seen in sponsor equity contributions in the large corporate market.

MIDDLE MARKET SPONSORED ISSUANCE



Source: Thompson Reuters

Despite a decline in the pace of issuance versus last year the opportunity set in the middle market remains consistent and robust.

WEST TEXAS INTERMEDIATE (WTI) CRUDE OIL PRICING

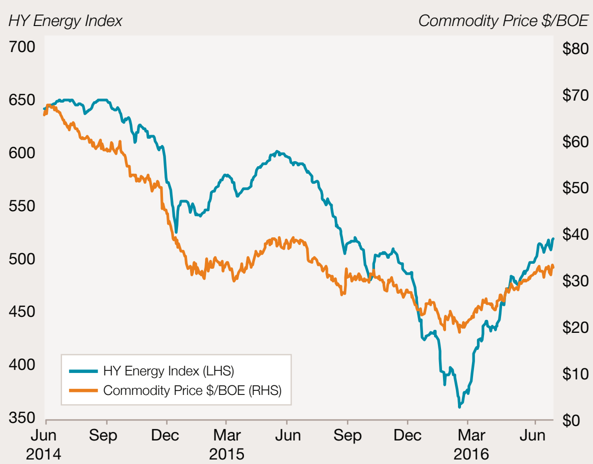
Source: Bloomberg

HENRY HUB (HH) NATURAL GAS PRICING

Source: Bloomberg

Following steep declines in 2014 & 2015, both oil & gas prices rallied sharply during Q2 2016…

COMMODITY PRICES VS. HIGH YIELD ENERGY



Note: Commodity Price based on average of WTI and HH (6:1 conversion ratio)

Source: Bloomberg

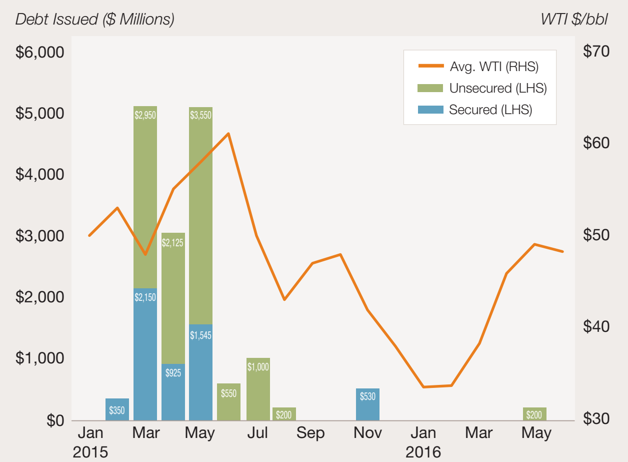
COMMODITY PRICES VS. E&P EQUITY

Note: Commodity Price based on average of WTI and HH (6:1 conversion ratio)

Source: Bloomberg

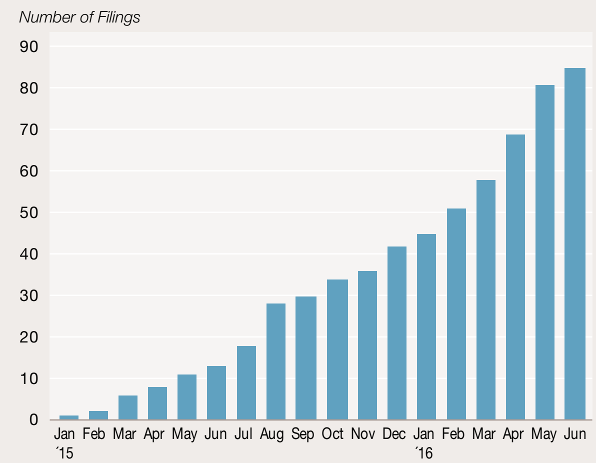
...resulting in similarly steep increases in the secondary prices of both energy debt and equity.

NEWLY ISSUED SYNDICATED E&P DEBT BY MONTH



Source: KeyBanc, Seaport

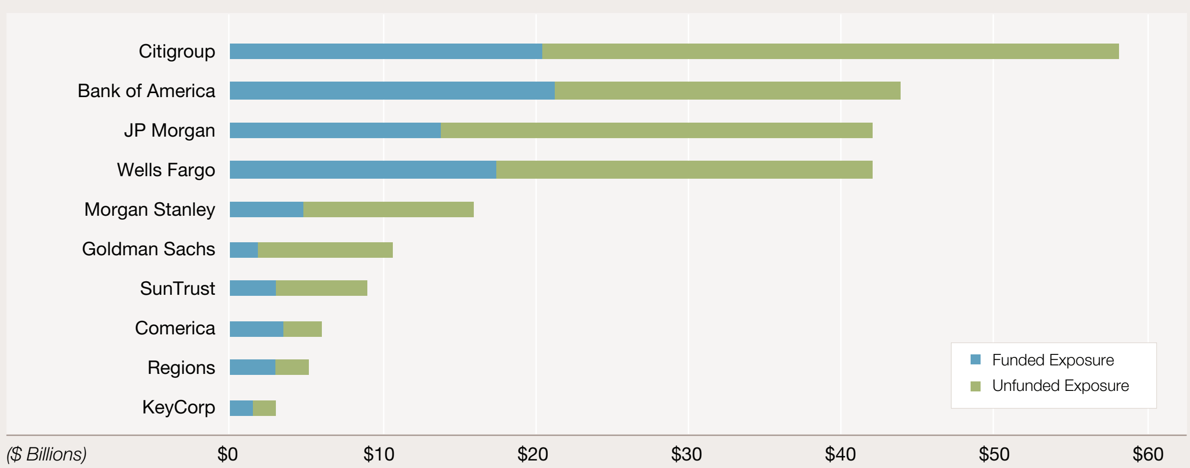
2015-16 CUMULATIVE NORTH AMERICAN E&P BANKRUPTCIES



Source: Haynes and Boone, LLP, as of June 30, 2016

However, the scars left by the price drop remain, especially on the credit side. Syndicated E&P debt issuances have been nearly absent from the market and an ever increasing number of E&P bankruptcies continue to cause pain across capital structures.

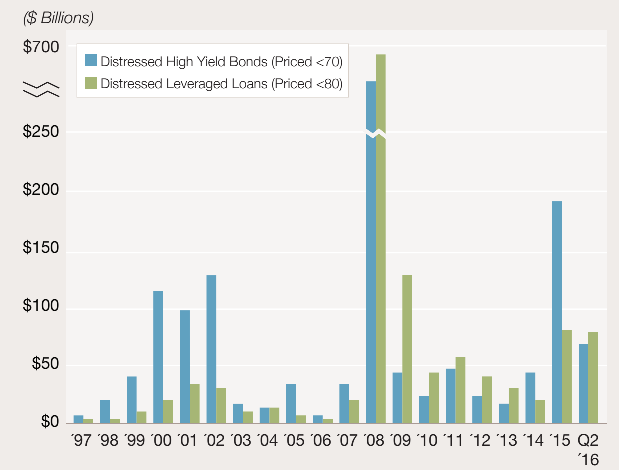
BANKS HAVE LARGE LOAN EXPOSURE TO ENERGY COMPANIES



Source: Barclays

Given the sheer size of banks' exposure to the energy space, this retraction of capital will continue to stretch E&P companies as a rebound in prices has not been met with similar enthusiasm from the new issue debt markets.

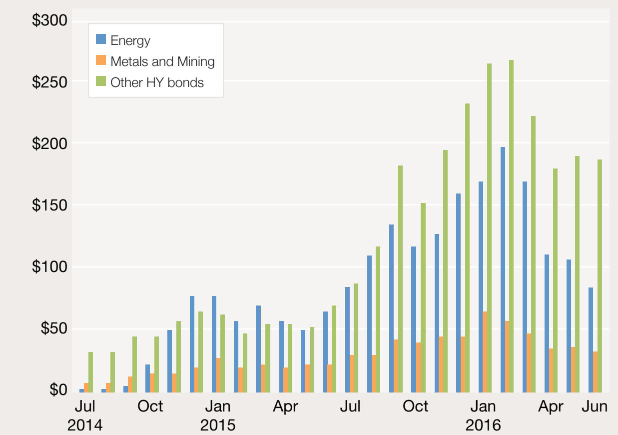
SIZE OF DISTRESSED DEBT MARKET



Source: JPMorgan, Credit Suisse (leveraged loans 1995–2009)

Since mid-Q1, sustained by retail inflows and continued central bank stimulus, credit markets have experienced a broad recovery, depleting distressed credit inventories.

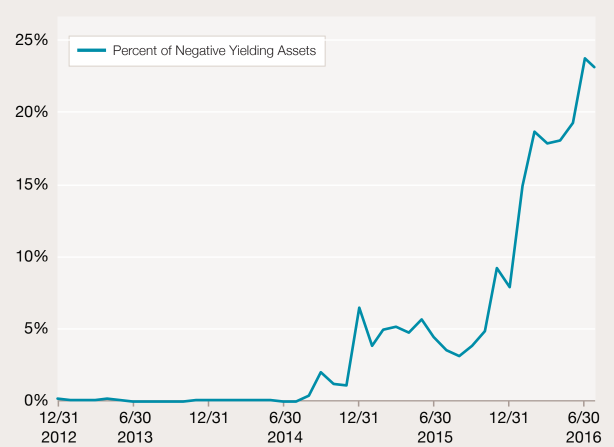
ENERGY & METALS/MINING REPRESENT LARGE PORTION OF SUB $90 HIGH YIELD BONDS



Source: JPMorgan

Technicals continue to support credit markets which have grinded higher and tighter as investors desperately search for yield.

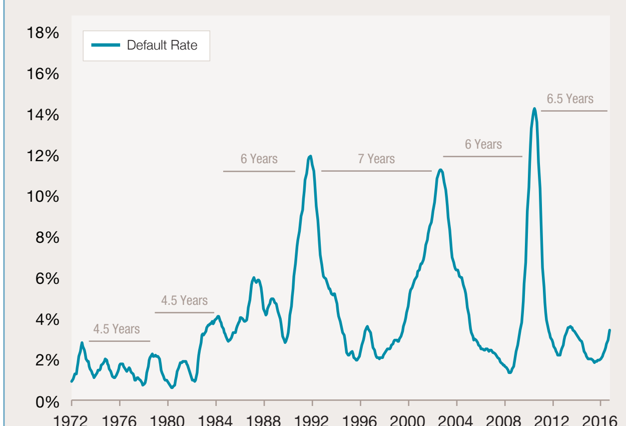
THE ABSENCE OF YIELD IN GLOBAL FIXED INCOME MARKETS



Source: BofA Merrill Lynch

The global hunt for yield has compressed rates to the point that negative yielding assets now account for ~25% of global fixed income

THE AVERAGE CREDIT CYCLE IS 6 YEARS



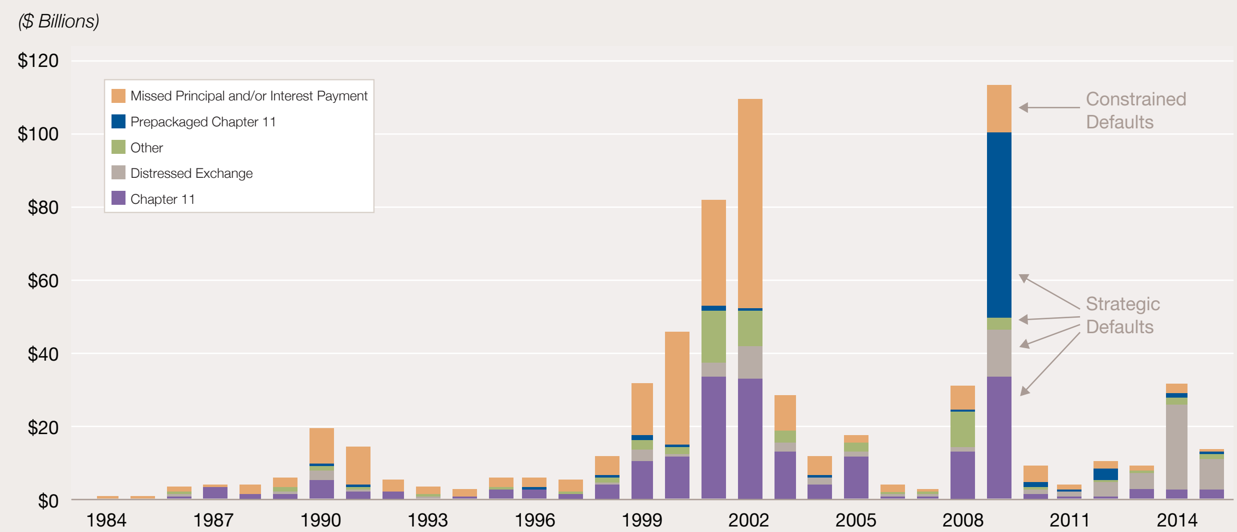
Default Rate: U.S. speculative grade 12-month trailing default rate (6-month average)
Source: Moodys, BofA Merrill Lynch

While in a late stage domestic credit cycle, we believe we are in the early stages of a default cycle.

(Return to Table of Contents) (Return to PM Corner)

DISTRESSED DEBT – U.S. *(continued)*

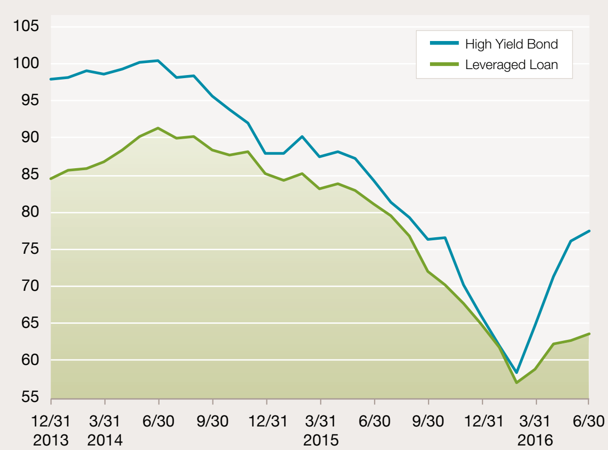
THE INABILITY TO REFINANCE DEBT IS NOT THE ONLY DRIVER OF DEFAULTS



Source: Goldman Sachs, Moodys

Exchanges and other forms of technical defaults comprise the majority of recent restructurings.

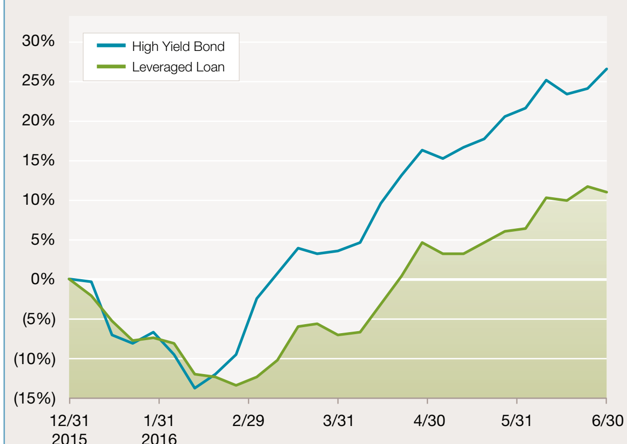
AVERAGE PRICE: LOWER TIER LEVERAGED LOAN AND HIGH YIELD BOND



Lower tier leveraged loan: Rated CCC/Split, CCC and D
Lower tier high yield bond: Rated CCC1 and lower
Source: Credit Suisse, BofA Merrill Lynch

Since the middle of Q1 2016, low-rated assets have staged a remarkable rally...

2016 DISTRESSED LEVERAGED LOAN AND HIGH YIELD RETURN

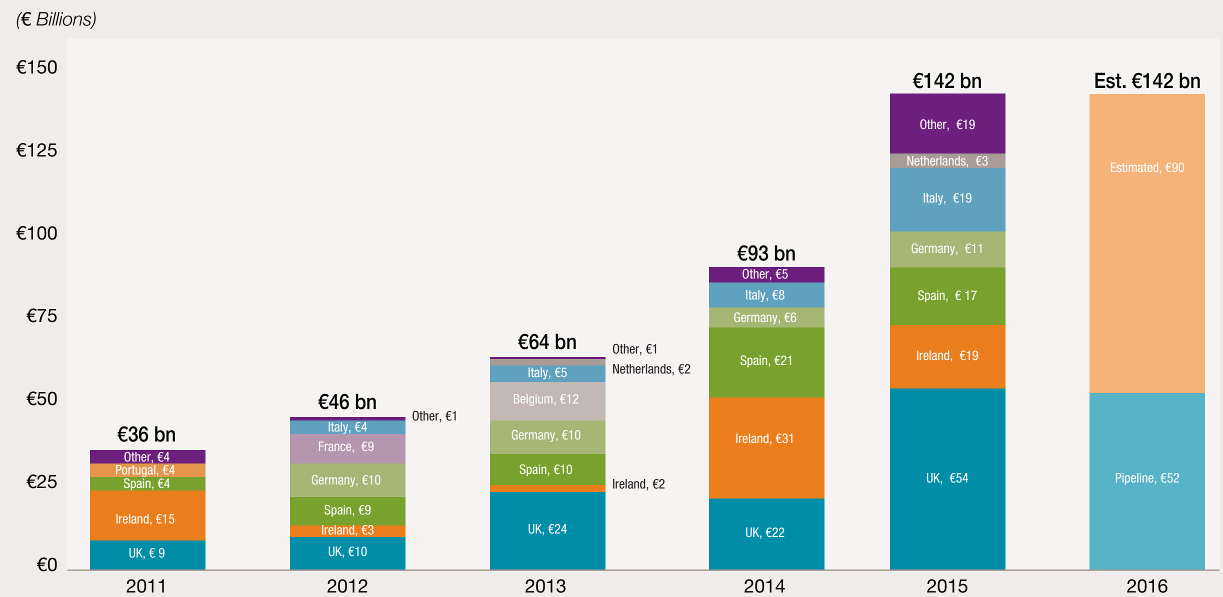


BofA Merrill Lynch U.S. Distressed High Yield Index, CS Leveraged Loan Distressed Index
Source: Credit Suisse, BofA Merrill Lynch, Bloomberg

...with Q2 2016 experiencing a continuation of inflated credit prices; high yield distressed indices gained 25% YTD.

DISTRESSED DEBT – EUROPE

EUROPEAN BANKS ARE SELLING ASSETS

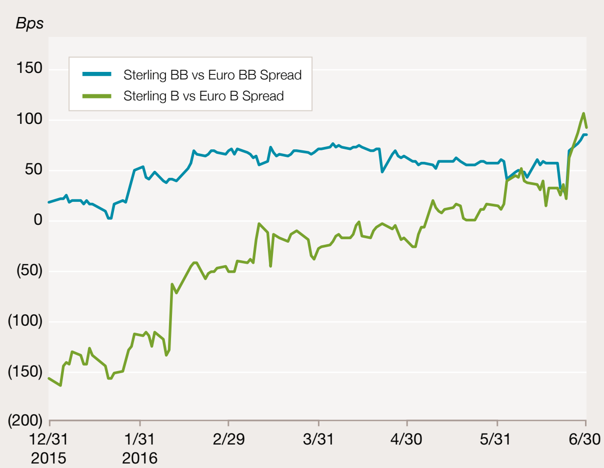


Note: Based on the location of the head office of the bank selling the assets

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

Recent technicals appear to be supportive of European markets grinding higher and tighter, and banks are expected to continue selling non-core assets.

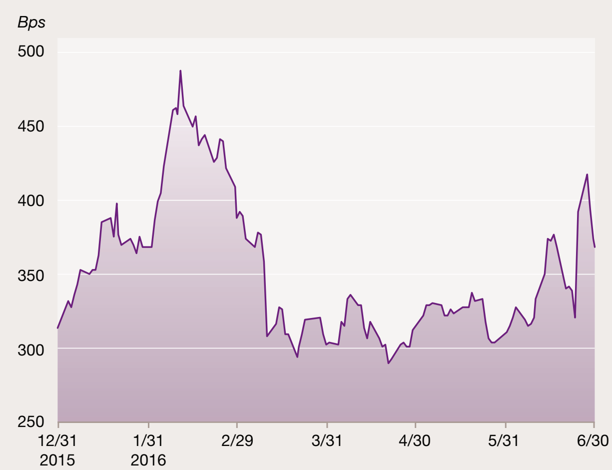
STERLING BOND VS. EURO BOND SPREAD DIFFERENTIAL



Source: JP Morgan High Yield Index

While GBP-corporate spreads have widened materially relative to broader Euro baskets...

EUROPEAN HY CREDIT 5YR SPREAD

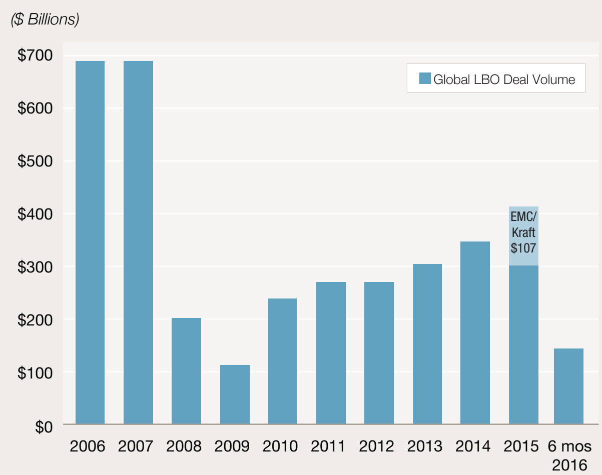


Source: Markit iTraxx Europe Crossover 5-year Sub-investment Grade Corp Index

...Euro corporate spreads also widened sharply late in the quarter.

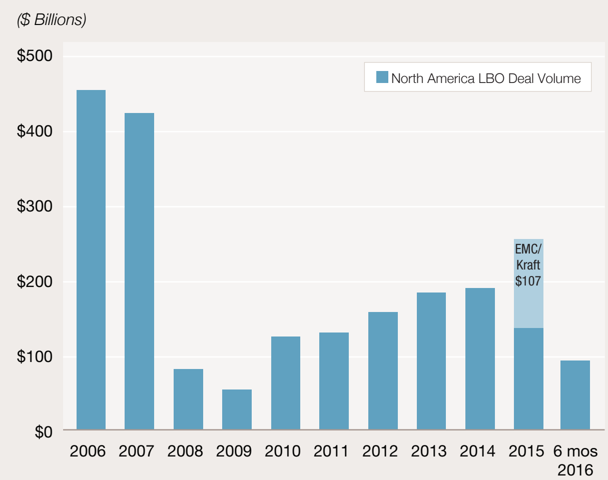
PRIVATE EQUITY

GLOBAL LBO DEAL VALUE



Source: Preqin

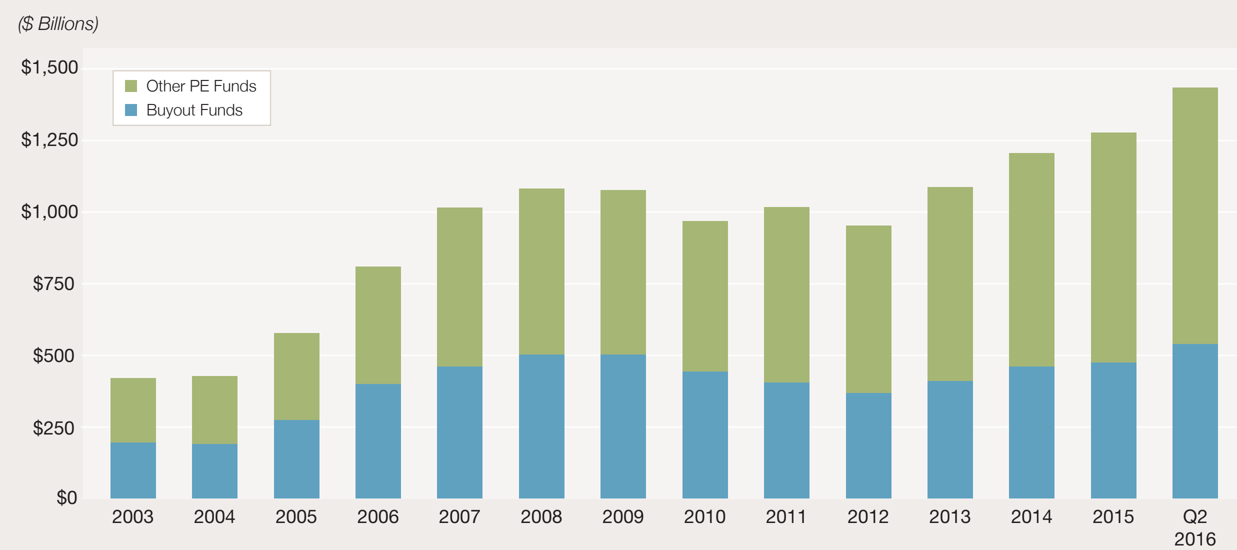
NORTH AMERICA LBO DEAL VALUE



Source: Preqin

After normalizing 2015 for the anomalous EMC and Kraft deals which represented $107 billion of transaction value, global deal volume in the first half of 2016 is behind the pace of 2015 while North American deal volume remains ahead of last year's level.

GLOBAL PRIVATE EQUITY DRY POWDER

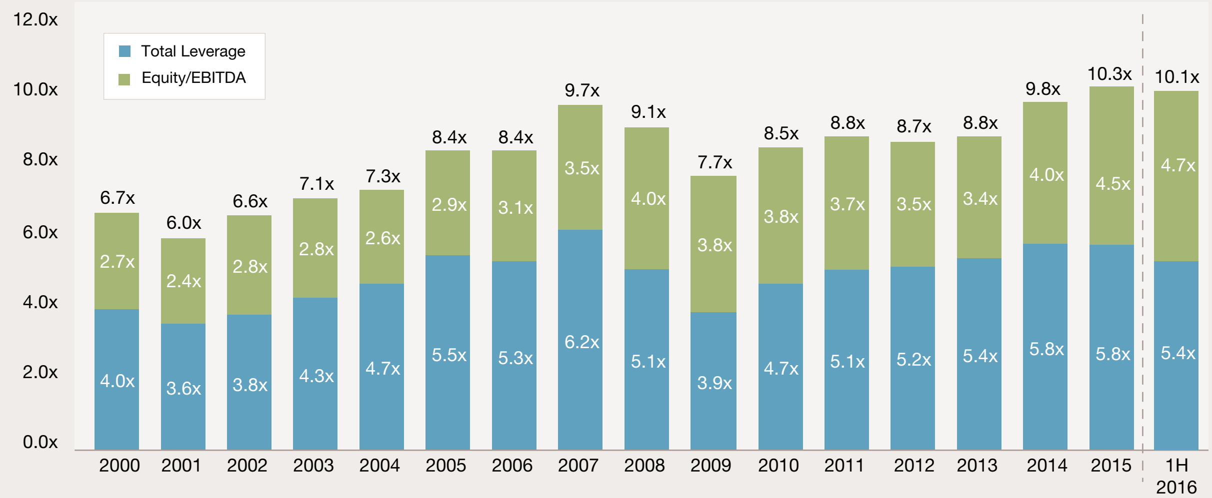


Other PE Funds: Real Estate, Venture, Infrastructure, Growth, Distressed, Mezzanine, Other

Source: Preqin

Buyout dry powder ended June 30, 2016 at $518 billion, an all-time record, eclipsing the prior record of $494 billion set in March.

LBO CAPITALIZATION

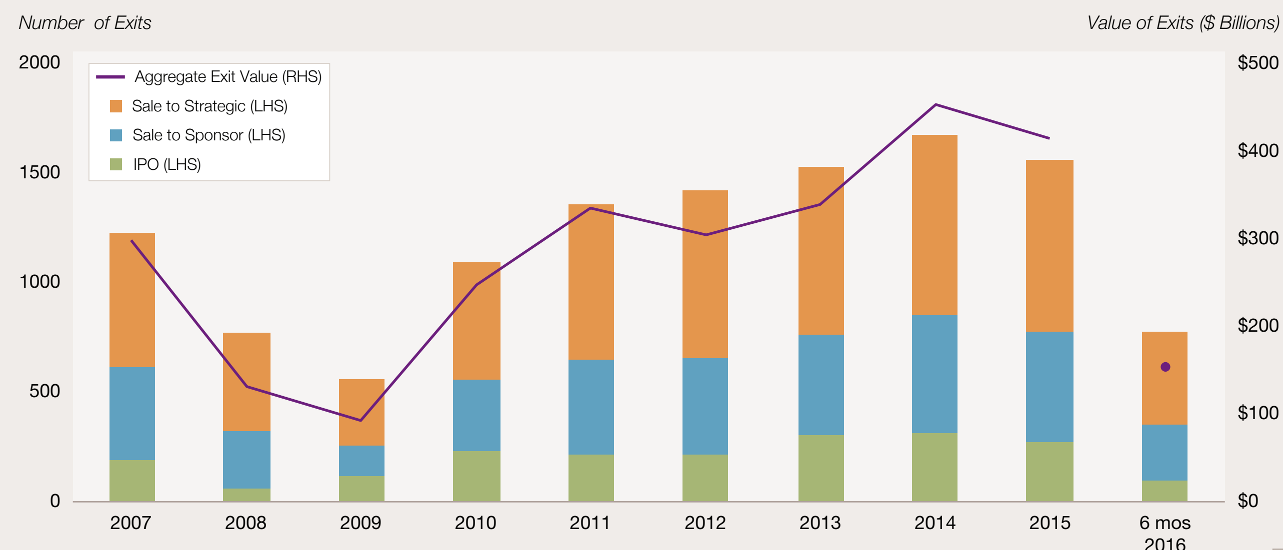


Equity Contribution	40%	35%	37%	35%	33%	30%	31%	31%	39%	46%	41%	38%	38%	36%	37%	40%	43%

Source: S&P CapitalIQ LCD

LBO Multiples in the first half of 2016 were 10.1x EBITDA, which was a slight decrease from 10.3x EBITDA seen in 2015. However, the 10.1x multiple is still the second highest level in history. Equity contribution as a percentage of total capitalization for the first half of 2016 increased to 43%, reflecting both lower leverage levels provided by banks and the continued competitive environment to acquire assets.

PRIVATE EQUITY EXITS

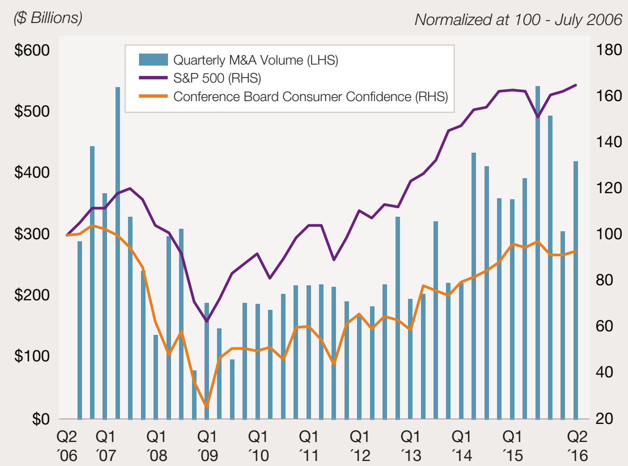


Source: Preqin

Although the number of exits in the first half of 2016 are on pace with calendar 2015, the dollar volume is significantly lower, reflecting a weak IPO environment.

MERGER & CONVERTIBLE ARBITRAGE

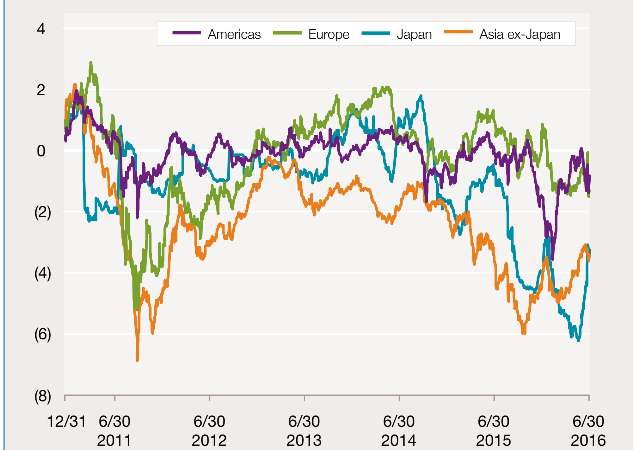
QUARTERLY NORTH AMERICAN M&A VOLUME VS. S&P 500 AND CONSUMER CONFIDENCE



Source: Bloomberg

YTD M&A volume is tracking lower despite 2Q momentum.

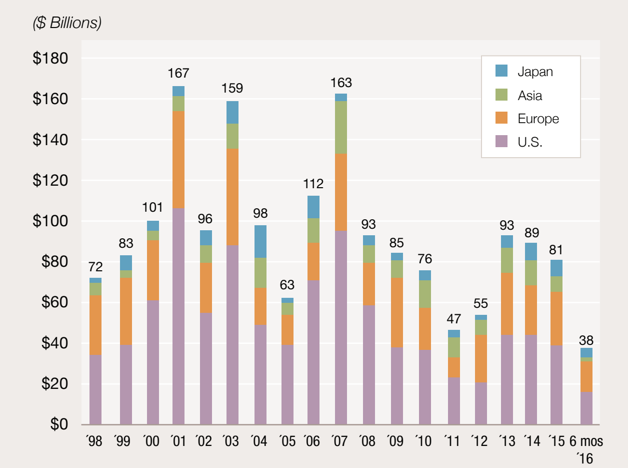
CONVERTIBLE BOND – RICH / (CHEAPNESS) TO FAIR VALUE (%)



Source: Nomura

Convertible valuations remain compelling across all regions.

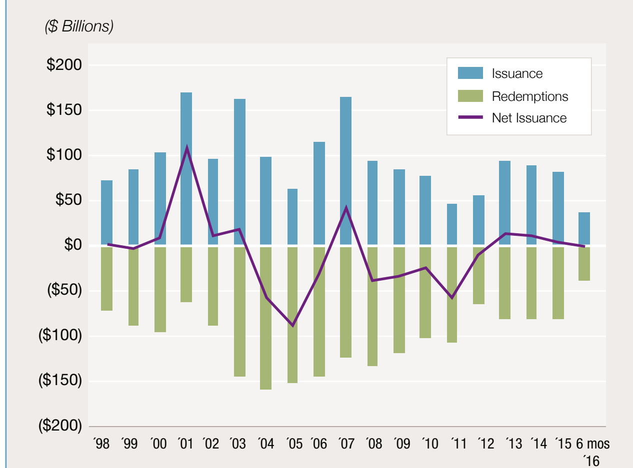
CONVERTIBLE BONDS ANNUAL GLOBAL ISSUANCE BY REGION



Source: BofA Merrill Lynch

New issuance started the year slowly, but picked up strongly in Q2.

CONVERTIBLE BONDS GLOBAL NET ISSUANCE

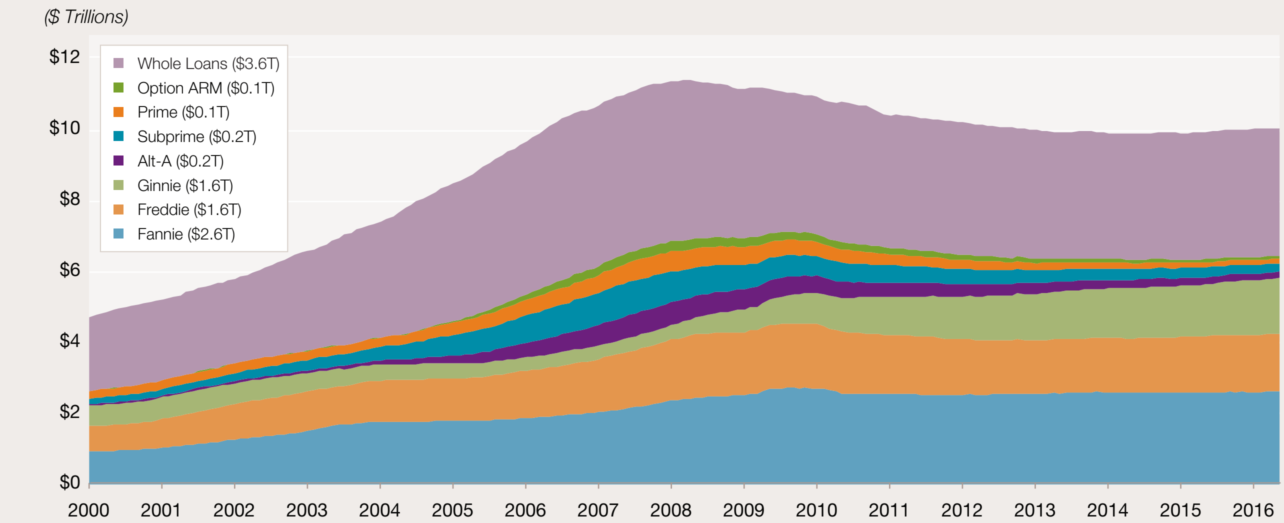


Source: BofA Merrill Lynch

The moderate pace of expansion supports valuations in the secondary market.

RESIDENTIAL AND CONSUMER DEBT (RMBS/ABS)

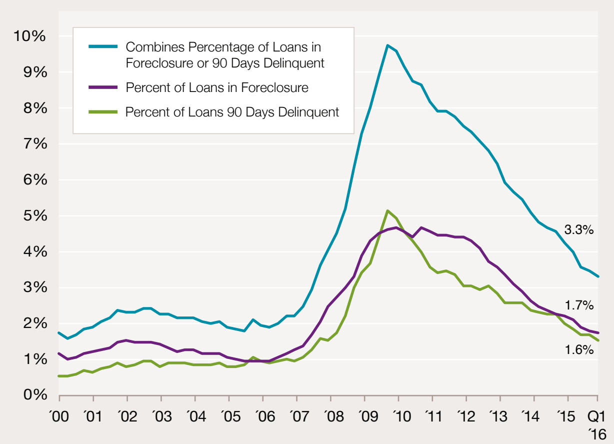
SIZE OF U.S. RESIDENTIAL MORTGAGE MARKET



Source: BofA Merrill Lynch

Although mortgage debt has decreased from 2007, the mortgage market remains vast and at $10 trillion, shows signs of stabilization.

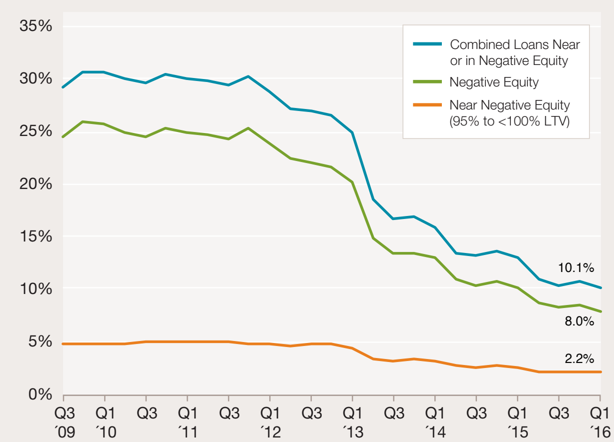
U.S. RESIDENTIAL MORTGAGES IN SERIOUS DELINQUENCY/FORECLOSURE



Source: Mortgage Bankers Association and Urban Institute

Serious delinquencies and foreclosures continue to decline as the housing market and economy improve. Loans that are 90 or more days delinquent or in foreclosure fell to 3.3% in Q1.

U.S. RESIDENTIAL MORTGAGES WITH NEGATIVE EQUITY



Negative Equity: LTV greater than 100%
Near Negative Equity: LTV between 95% and 100%
Source: Corelogic and Urban Institute

Mortgage borrowers with negative equity benefit from sustained home price appreciation. As a share of all residential borrowers, the share of those underwater or near underwater continued to drop from 30% in 2009 to about 10% in Q1.

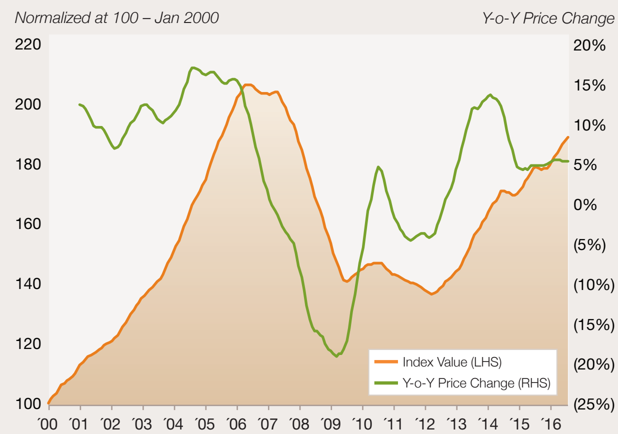
SUBPRIME INDEX

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

Index prices on subprime RMBS have remained stable.

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

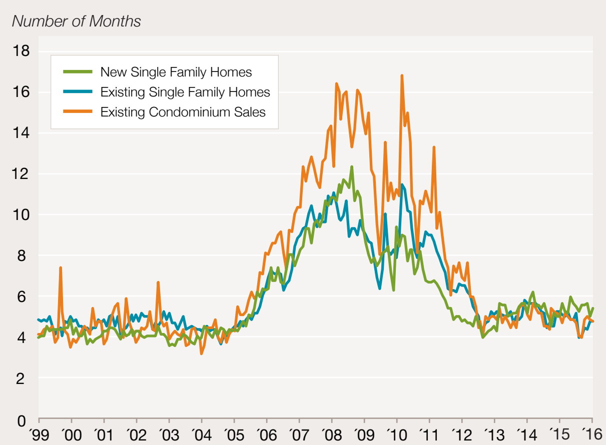


The S&P/Case-Shiller Composite of 20 Home Price Index is a value-weighted average of 20 metro area indices. These metro areas include: Boston, Chicago, Denver, Las Vegas, Los Angeles, Miami, New York City, San Diego, San Francisco, Washington, DC, Atlanta, Charlotte, Cleveland, Dallas, Detroit, Minneapolis,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

Source: Bloomberg

The pace of home price appreciation has moderated but remains positive.

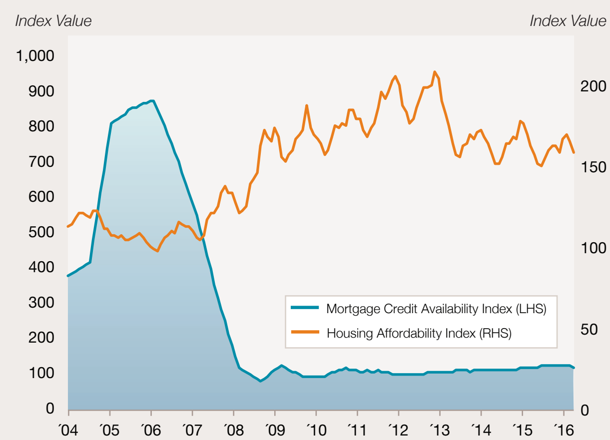
MONTHS SUPPLY OF HOUSING



Source: Bloomberg

Housing supply has returned to more normalized levels as the housing market recovers.

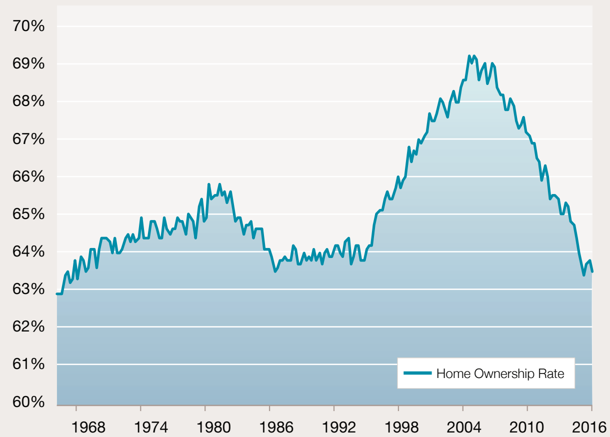
MORTGAGE CREDIT AVAILABILITY INDEX VS. HOUSING AFFORDABILITY



Source: BofA Merrill Lynch, Bloomberg

Although near historic lows, mortgage credit availability has trended higher. Housing affordability remains above levels seen during the crisis.

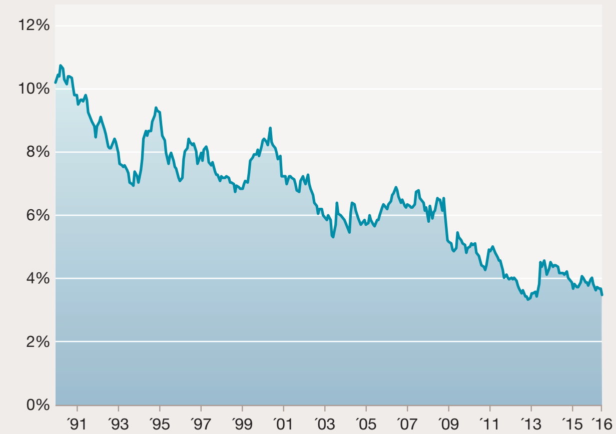
HOMEOWNERSHIP RATE SHOWING SIGNS OF STABILIZATION



Source: Bloomberg

Fallout from the crisis amid historically tighter credit conditions and continued home price appreciation have limited homeownership to approximately 63.5%.

30-YEAR MORTGAGE FIXED RATE



Freddie Mac U.S. 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

The 30-year mortgage rate fell to 3.41% at the end of the second quarter from 4.01% at the end of 2015.

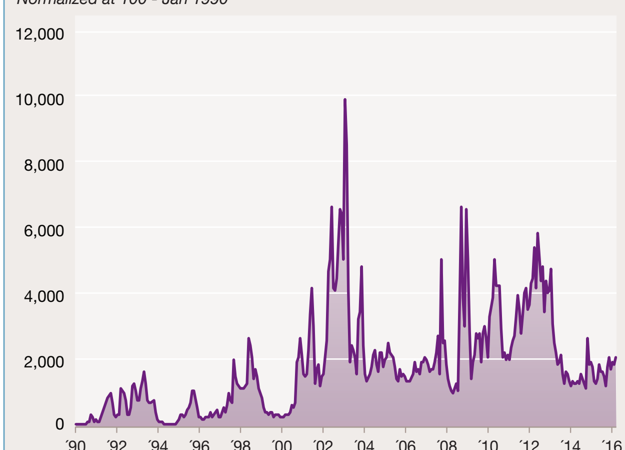
MORTGAGE APPLICATION INDEX

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

Source: Bloomberg

MORTGAGE REFINANCING INDEX

Normalized at 100 - Jan 1990

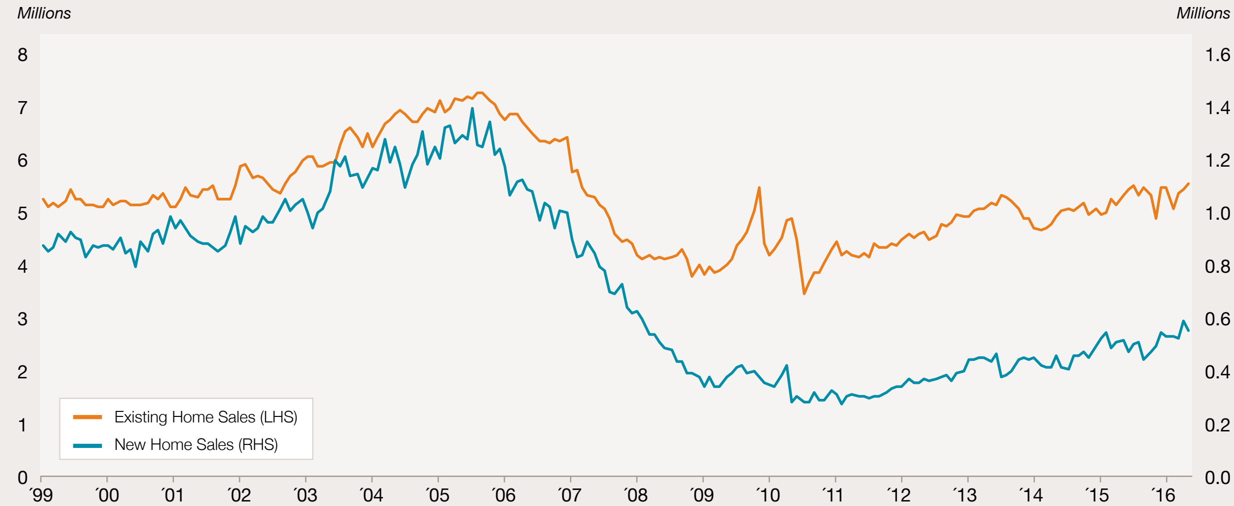


This concept tracks the volume of mortgage refinancing loan applications that have been submitted to lenders. Seasonally readjusted.

Source: Bloomberg

Though mortgage credit has slightly expanded, mortgage applications continue to be hampered by stringent underwriting standards but have been on the rise since the end of 2014.

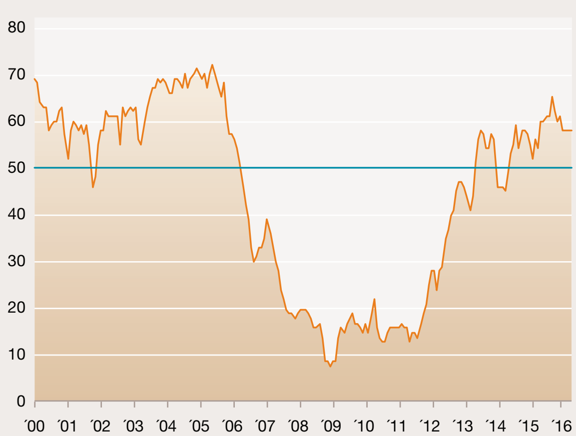
NEW AND EXISTING HOME SALES



Source: Bloomberg

Sales of new and existing homes oscillated through 2015 and 2016 but have advanced since the crisis.

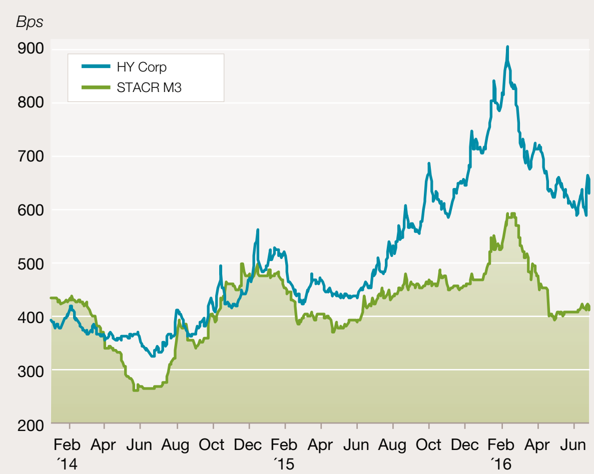
HOMEBUILDER INDEX



Source: Bloomberg

Standing at 60 in June, the Homebuilder Index has remained above 50 for 24 months. A reading above 50 indicates that a majority of builders see favorable market conditions.

CREDIT RISK TRANSFER VS. HIGH YIELD CORPORATES

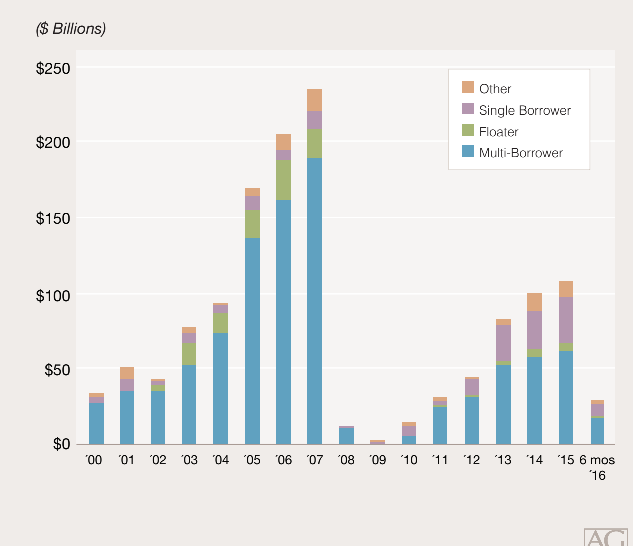


Source: BofA Merrill Lynch Global Research

Risk transfer spreads have generally tracked high yield corporates but there was comparatively less volatility in the second quarter.

COMMERCIAL REAL ESTATE DEBT (CMBS)

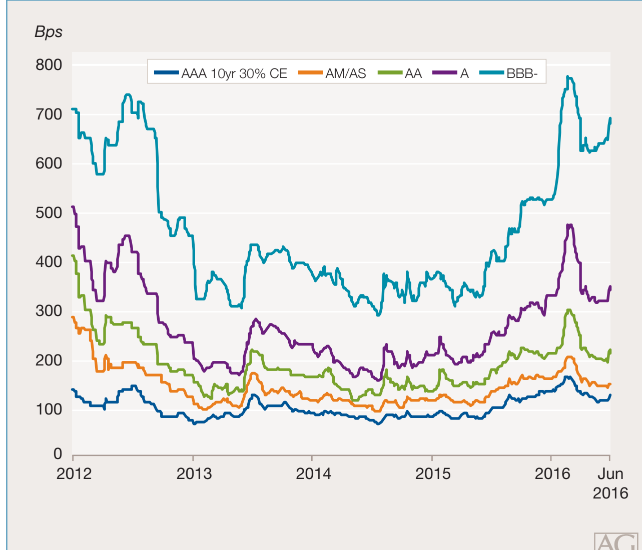
U.S. CMBS ANNUAL ISSUANCE



Source: Credit Suisse

After steadily increasing for the last several years, CMBS issuance dropped steeply in the first half of the year as volatility in the markets hampered new CMBS loan origination.

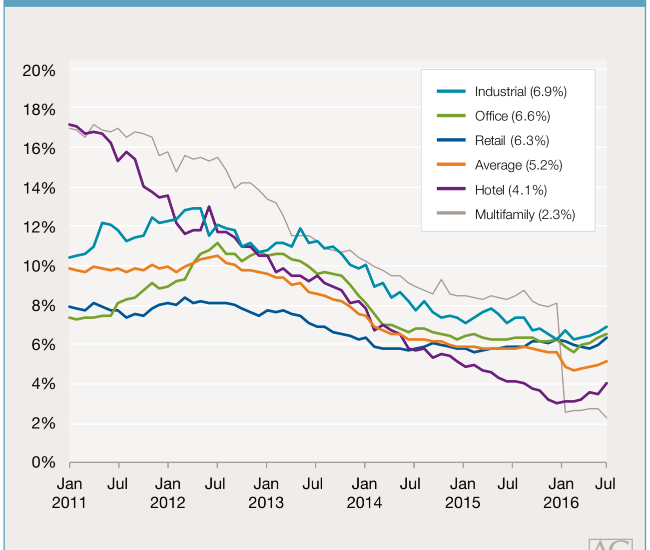
NEW ISSUE CMBS SPREADS



Source: Credit Suisse

Although spreads remain tighter than they were early in the year, they did widen towards the end of the quarter as Brexit surprised the markets.

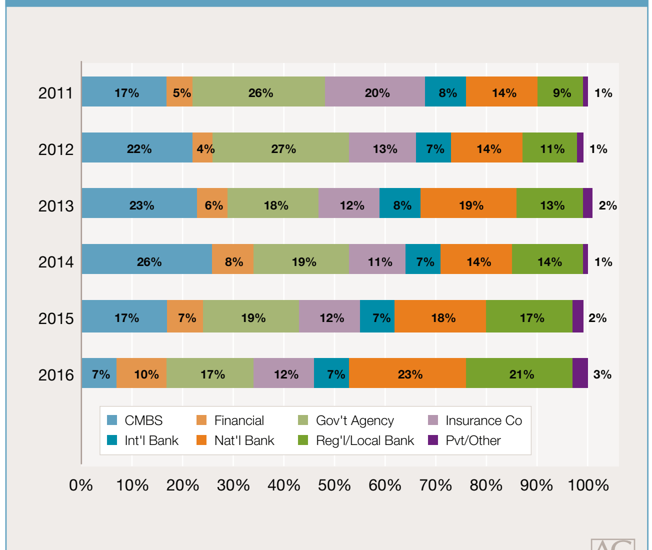
CMBS FIXED-RATE DELINQUENCY RATE



Source: Trepp, Citi Research

The CMBS delinquency rate ticked up in June, reaching 5.2%. Only the Multifamily sector experienced a decline in delinquencies during the quarter.

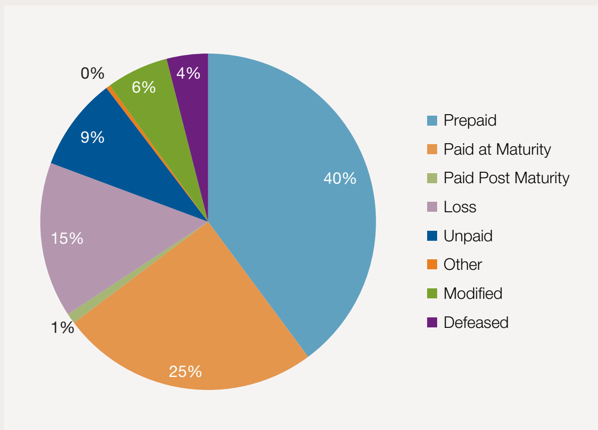
CMBS LENDERS HAVE LOST MARKET SHARE



Source: BofA Merrill Lynch as of June 2016

CMBS lenders lost market share in the first half of the year as market volatility impeded new issuance.

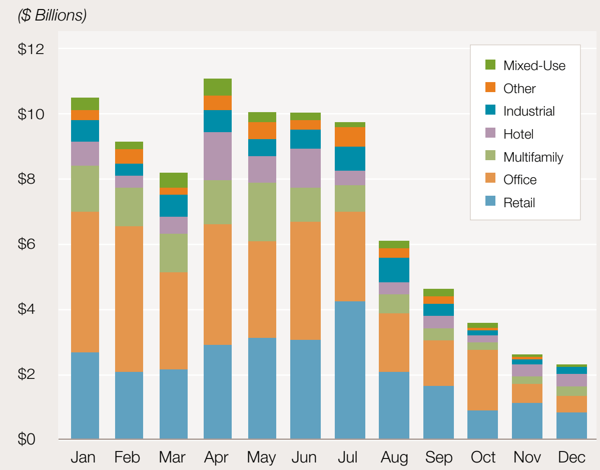
PAYOFF PROFILE OF LOANS MATURED 1H 2016



Source: Citi Research

Roughly 71% of ten-year loans originally scheduled to mature during the first six months of the year have repaid in full.

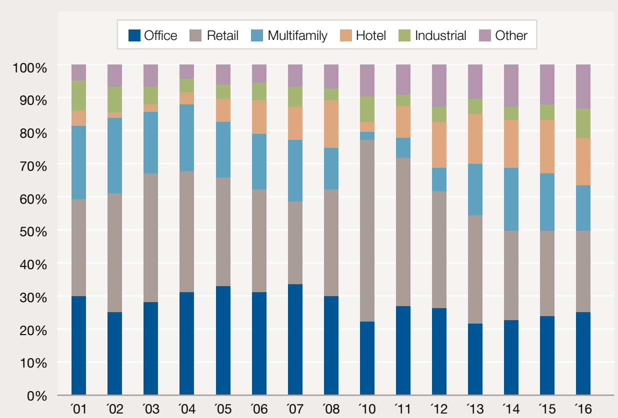
2017 MONTHLY MATURITIES



Source: Intex, Wells Fargo

Beginning in January 2017, over $8 billion a month is scheduled to mature.

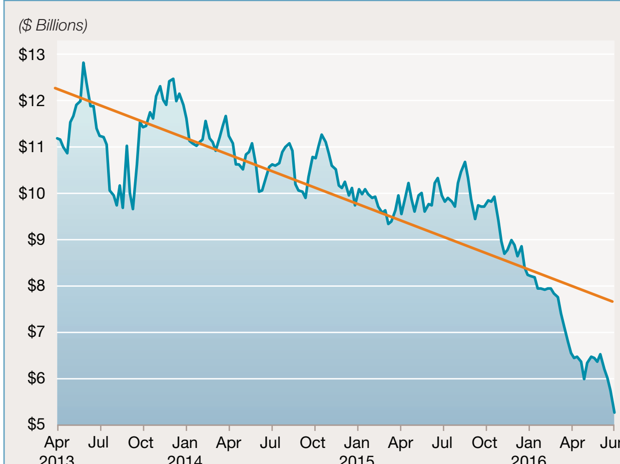
CONDUIT MARKET: PROPERTY TYPE BREAKDOWN



Source: BofA Merrill Lynch

CMBS conduit deals remain diversified across major property types, although hotels represent a larger portion of the collateral backing deals today than pre-crisis.

PRIMARY DEALER POSITIONS: PRIVATE LABEL CMBS

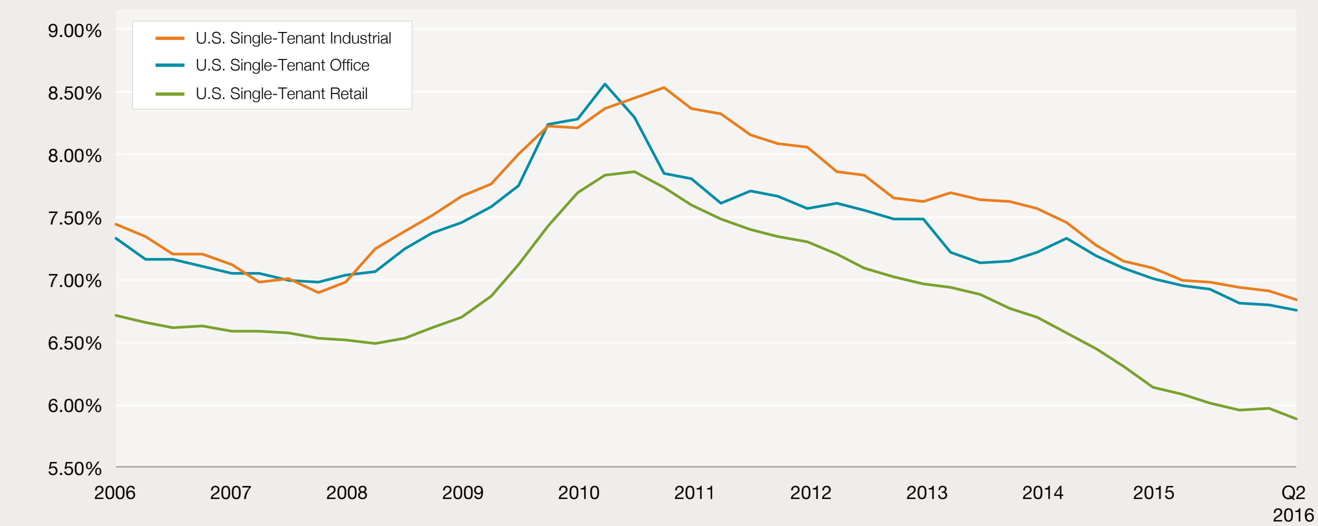


Source: Bloomberg, Federal Reserve Bank of New York

Dealer holdings of private label CMBS plummeted again during the quarter, remaining at multi-year lows.

NET LEASE REAL ESTATE

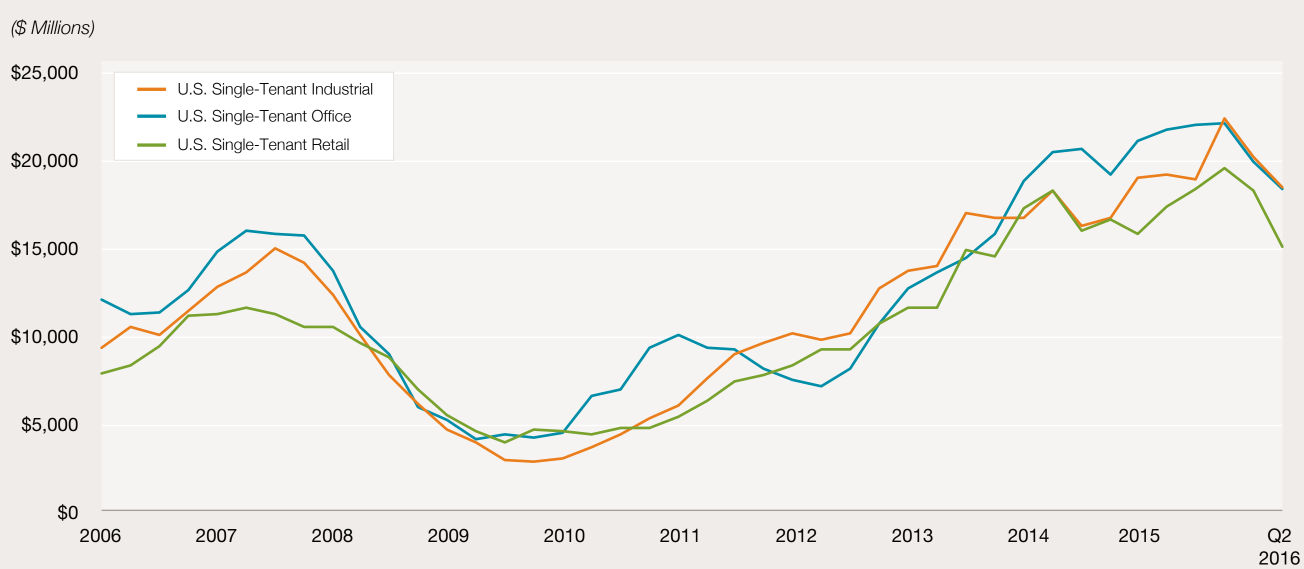
AVERAGE SINGLE-TENANT CAP RATES



Source: Real Capital Analytics

Pricing continues to strengthen across all three asset classes.

12-MONTH ROLLING SINGLE- TENANT DEAL VOLUME

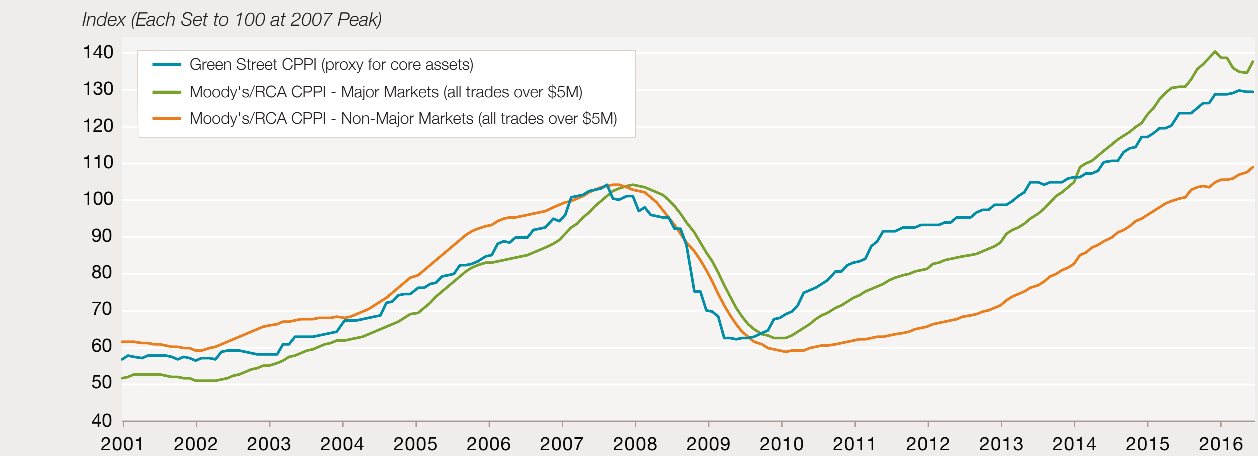


Source: Real Capital Analytics

Transaction volume has declined across asset classes in 2016, particularly in retail.

UNITED STATES REAL ESTATE

COMMERCIAL REAL ESTATE PRICE INDICES



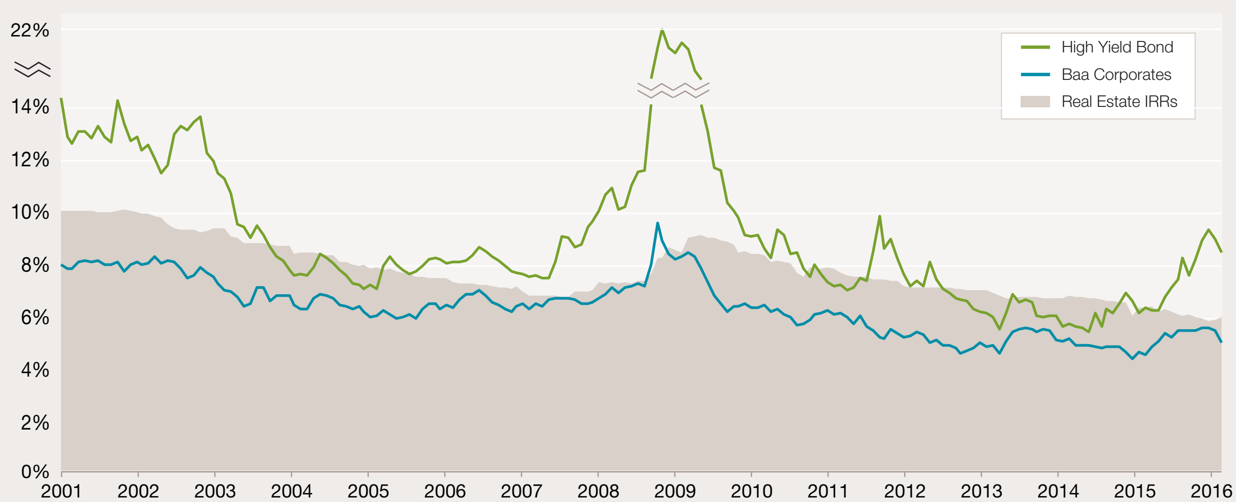
Moody's CPPI = Moody's/RCA All Property Types

Green Street CPPI = Major Sectors

Sources: Moody's/RCA - Commercial Property Price Index (Moody's CPPI) (data through May '16), Green Street Advisors - Commercial Property Price Index (Green St CPPI) (data through May '16). Note: For this chart, both indices were indexed to 100 at their 2007 peaks: Green St CPPI (Aug '07) and Moody's CPPI (Dec '07 - Major Markets and Sep '07 - Non-Major Markets). Note: Major markets include Boston, Chicago, Washington D.C. Metro, Los Angeles Metro, New York City Metro and San Francisco Metro.

After a decline in Q1, prices continued their upward march, up 2.5% YTD.

UNLEVERED TOTAL RETURN EXPECTATIONS ON REAL ESTATE VS. CORPORATE BOND YIELDS

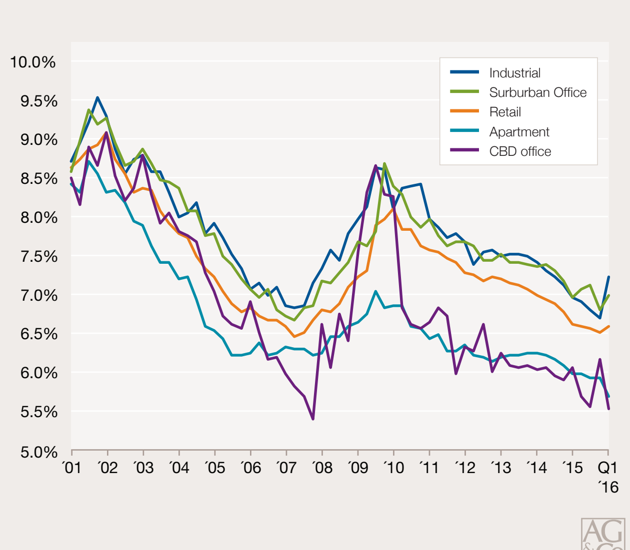


Real Estate IRR is an equal-weighted average of the asset-weighted averages for the five major property sectors (Apartment, Industrial, Mall, Office and Strip Center).

Source: Green Street Advisors (Apr '16), Moody's (Baa Corporates), BAML (High-Yield Bonds)

CRE returns relative to Baa corporates and high yield look more in line than just a few months ago, suggesting stability for pricing.

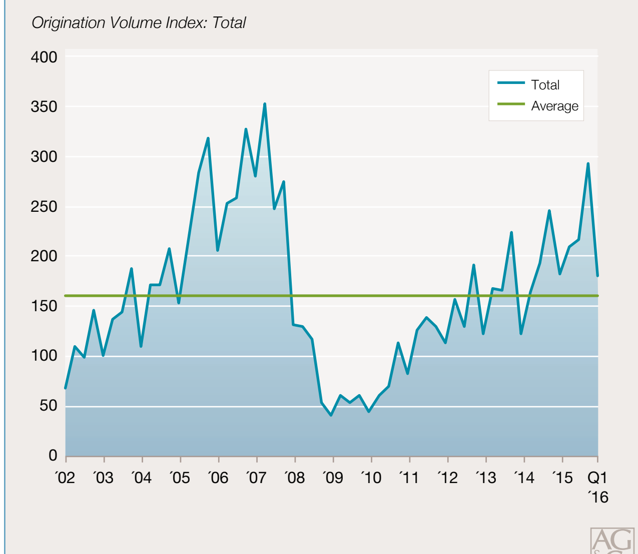
AVERAGE CAP RATES BY REAL ESTATE SECTOR



Source: Real Capital Analytics

In the meantime, cap rates remain low...

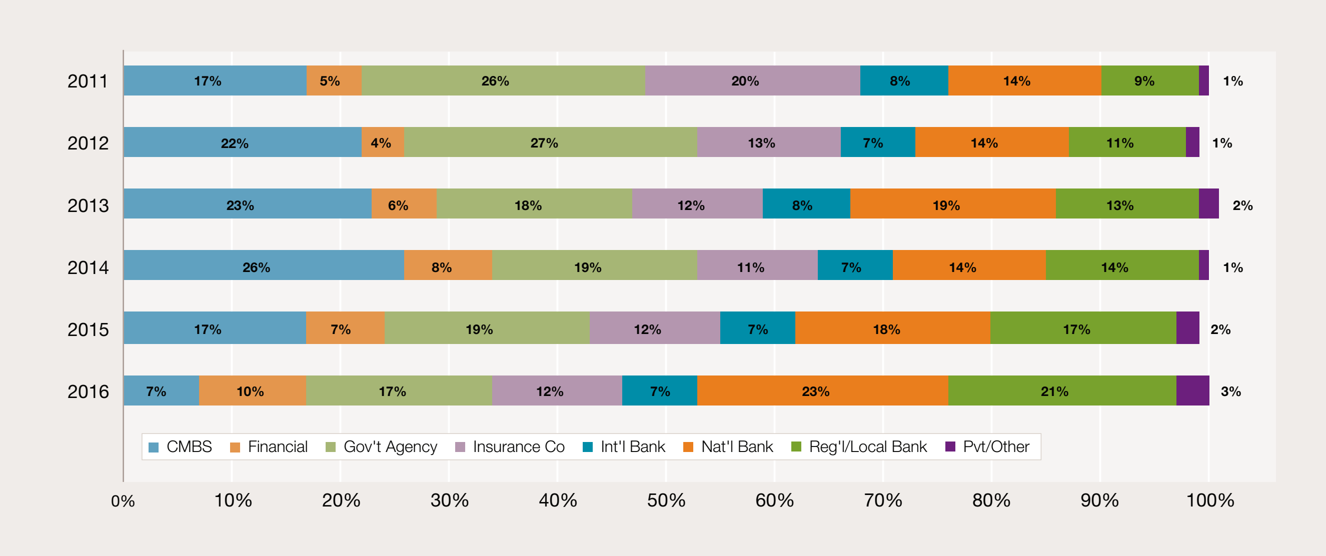
ORIGINATIONS VOLUME VS. HISTORICAL AVERAGE



Source: MBA, Morgan Stanley Research

...and debt originations remain robust...

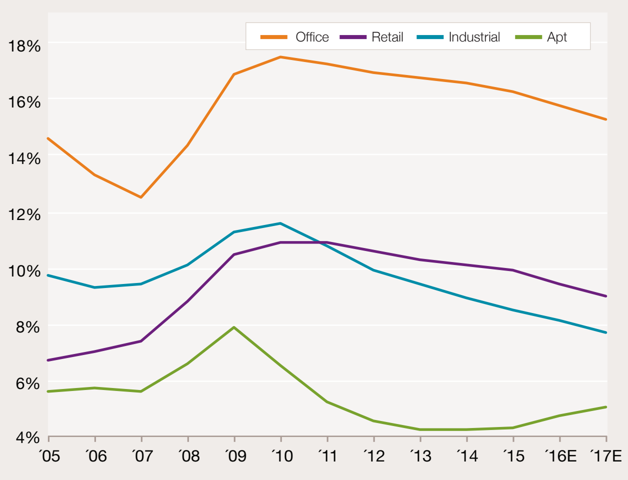
LENDER COMPOSITION



Source: BofA Merrill Lynch as of June 2016

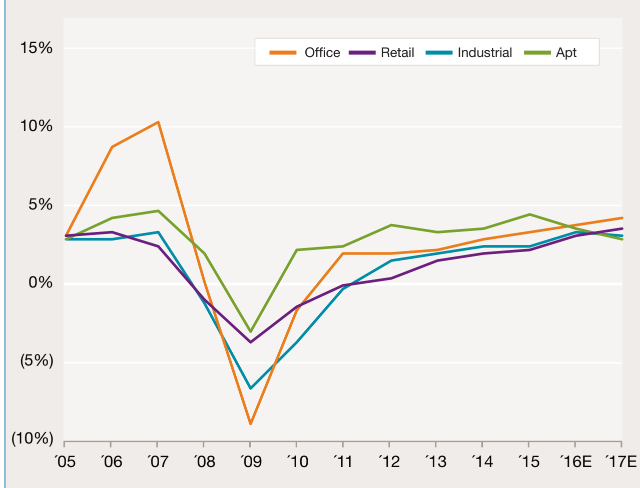
...with the CMBS shortfall being picked up by alternate providers.

VACANCY RATES ARE DOWN



Source: REIS, JP Morgan

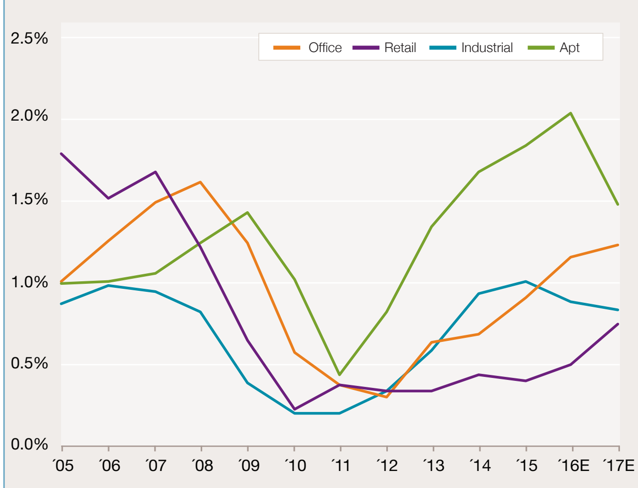
RENT GROWTH IS UP



Source: REIS, JP Morgan

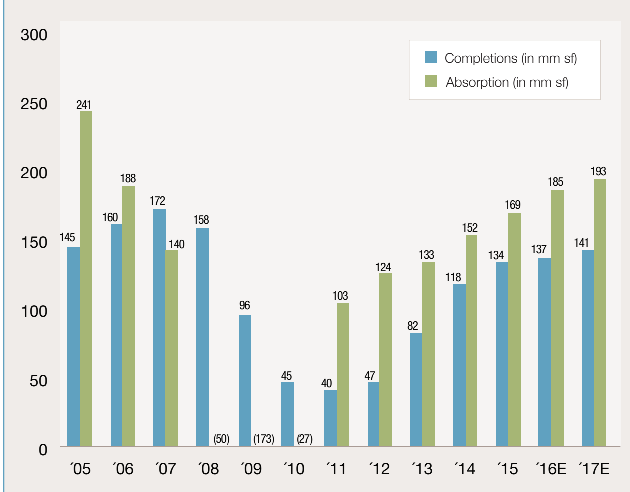
Property fundamentals continue to improve *(applies to all charts on page).*

DEVELOPMENT HAS PICKED UP...



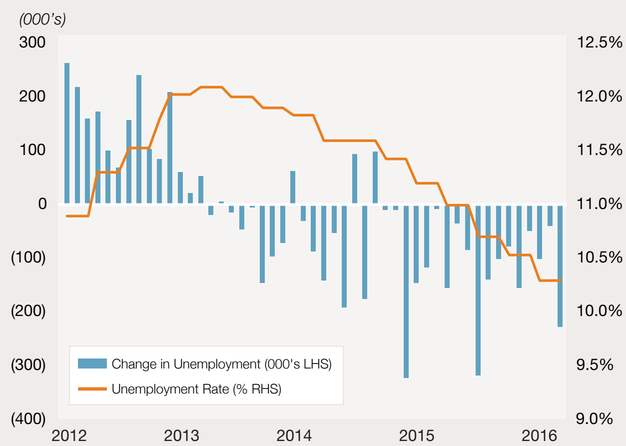
Source: REIS, JP Morgan

...BUT IS STILL BEING ABSORBED



Source: REIS, JP Morgan

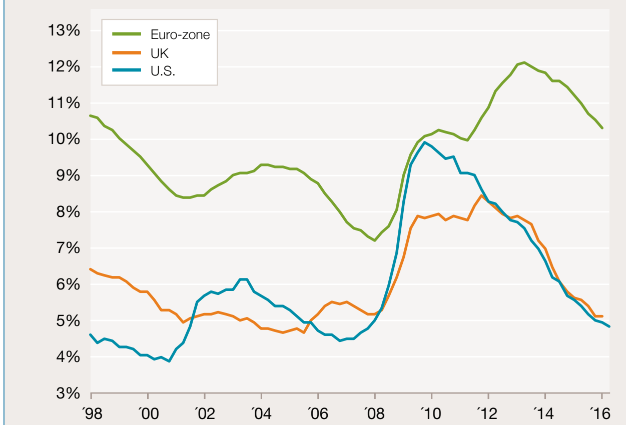
EURO-ZONE UNEMPLOYMENT



Source: Bloomberg

Euro-zone unemployment is at the lowest levels since Q2 2011.

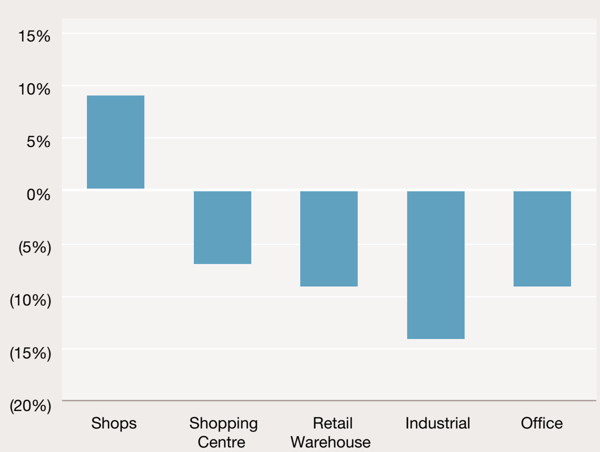
EURO-ZONE, UK AND U.S. UNEMPLOYMENT RATES



Source: Bloomberg

The employment recovery in Europe has lagged the U.S. and UK.

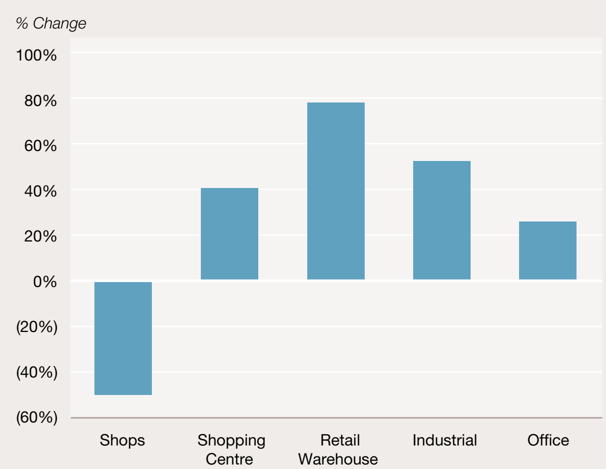
EUROPEAN REAL ESTATE RENT VS. PEAK LEVELS



Peak: Peak before financial crisis
Source: CBRE

With the exception of High Street, average retail rents across Europe are still below pre-crisis levels.

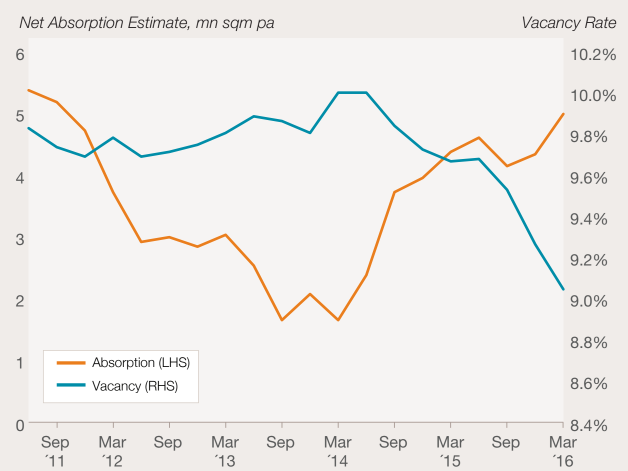
EUROPEAN REAL ESTATE YIELDS VS. PEAK LEVELS



Peak: Peak before financial crisis
Source: CBRE

With the exception of High Street, average retail exit yields across Europe are still below pre-crisis levels.

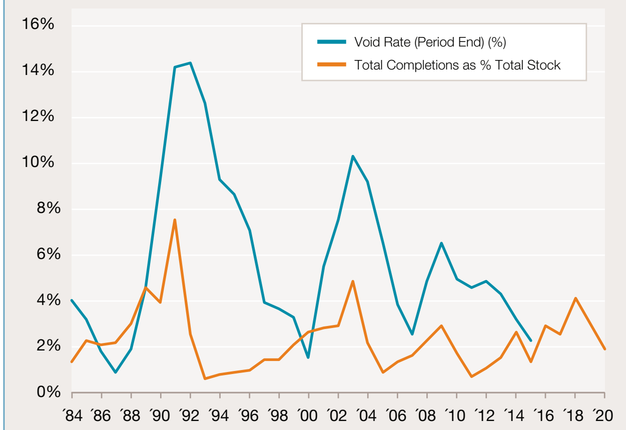
EUROPEAN OFFICE MARKETS NET ABSORPTION & VACANCY RATE



Note: Above covers 33 core European Office Markets
Source: Cushman and Wakefield Research

Gradual net absorption has been eating at vacancy rates.

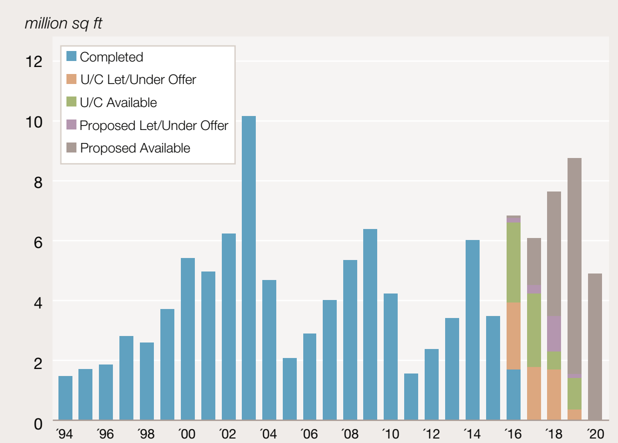
LONDON OFFICE DEVELOPMENT AS % OF TOTAL STOCK



Source: CBRE, BofA Merrill Lynch

Office supply in London is low relative to previous cycles.

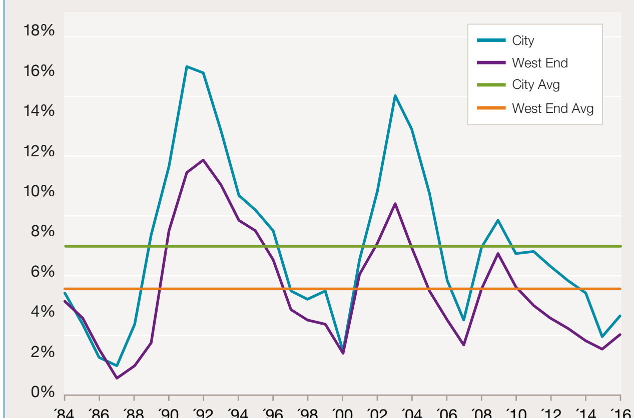
CENTRAL LONDON OFFICE DEVELOPMENT PIPELINE



U/C: Under construction
Let: Letter of intent
Source: CBRE

Forty-five percent of what is being built in London is pre-leased.

WEST END AND CITY OFFICE HISTORICAL VACANCY RATE



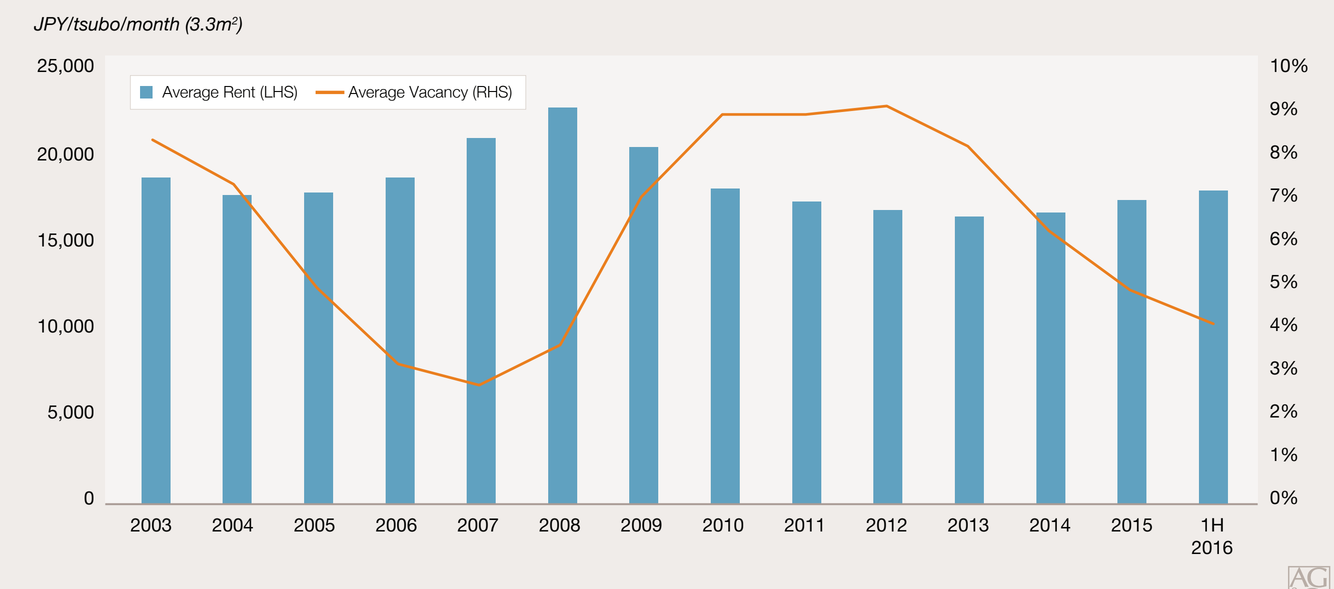
Source: CBRE

London vacancy rates are low.

ASIA REAL ESTATE

JAPAN

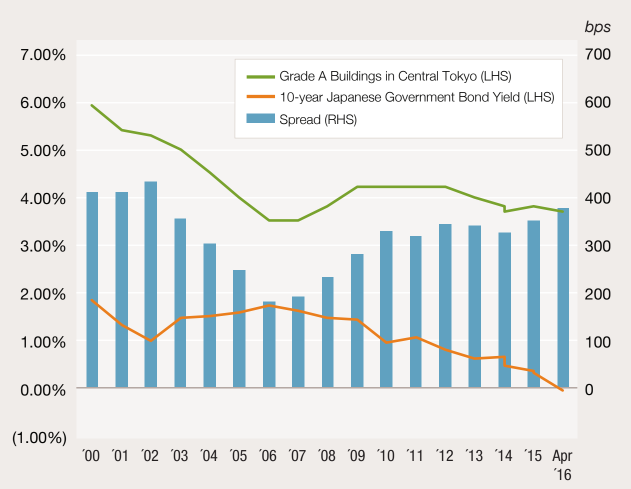
TOKYO'S 5 CENTRAL WARDS OFFICE RENT AND VACANCY RATE



Source: MIki Shoji

Vacancy in the Tokyo office market continued to improve, with rents increasing by 4.5% year-over-year.

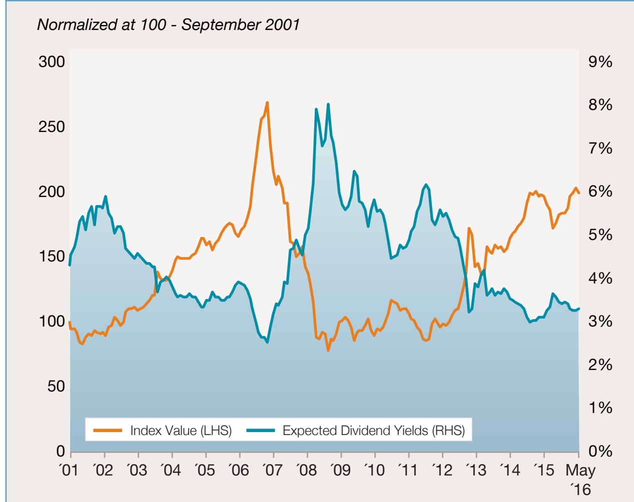
CAP RATES OF GRADE A OFFICE BUILDINGS VS. BORROWING COSTS



Source: Japan Real Estate Institute

Cap rate spreads continued to widen to nearly 400 bps as government bond yields fell into negative territory.

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

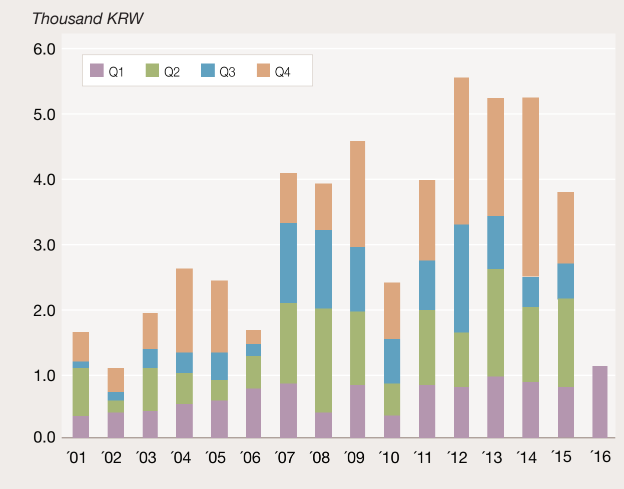


Source: Sumitomo Mitsui Trust Research Institute Co

J-REIT performance continued to improve, driven by Japan's negative interest rates and lower borrowing costs.

KOREA

TRANSACTION VOLUME OF PRIME/ SECONDARY OFFICE BUILDINGS IN SEOUL



Source: Savills Research

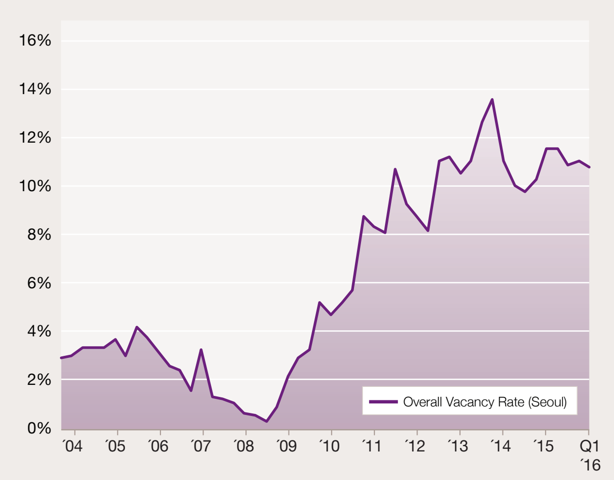
Transaction volume got off to a strong start in 2016.

KOREA GDP GROWTH

Source: Bank of Korea

GDP growth moderated to 2.8% in Q1 2016.

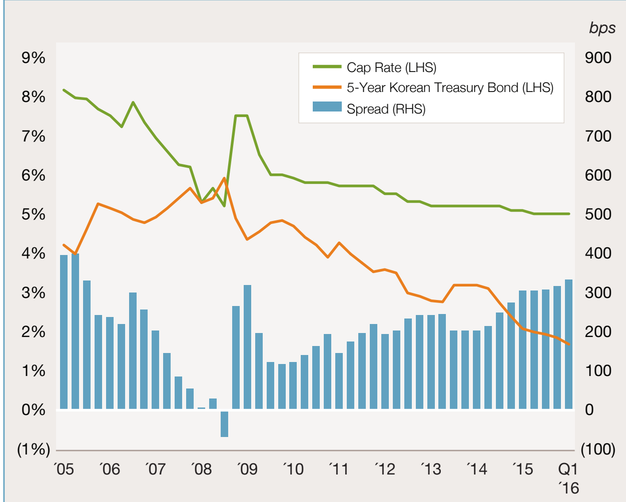
SEOUL OFFICE VACANCY RATE



Source: Jones Lang Lasalle Research

Seoul office vacancy remained high at 11%.

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

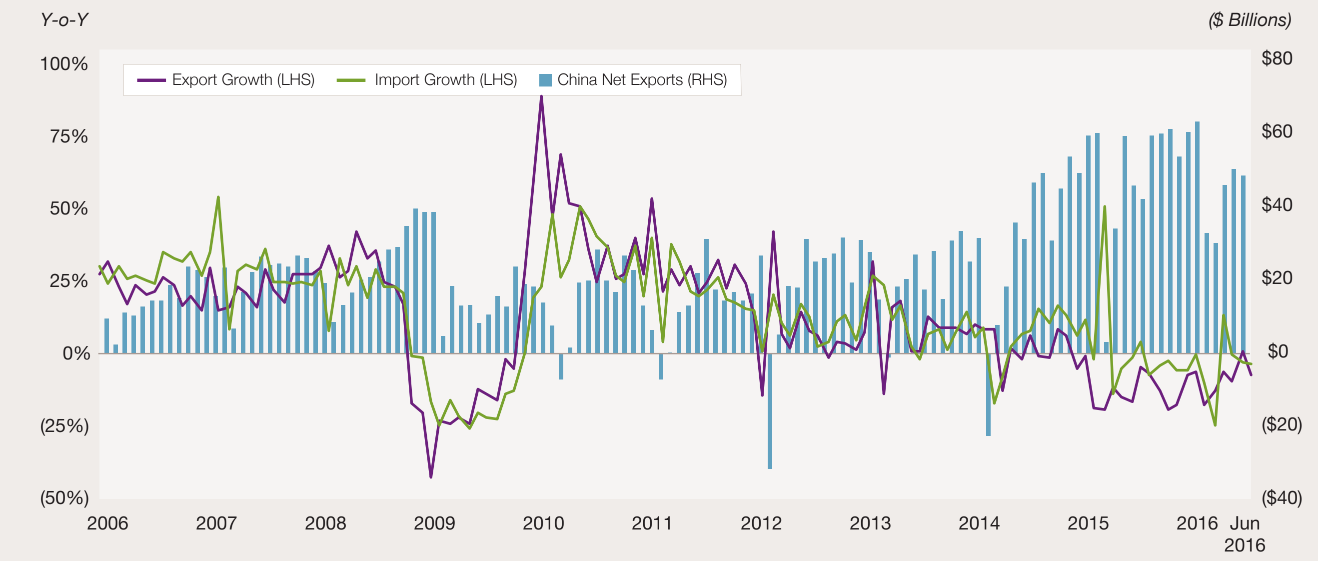


Source: Savills Research

Cap rate spreads widened as government bond yields declined.

CHINA

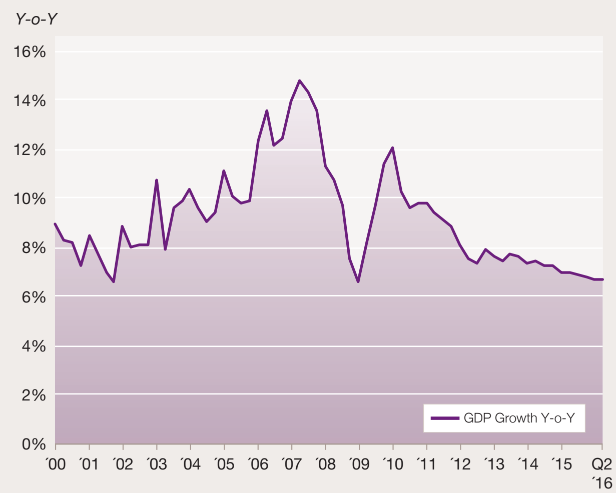
CHINA GROSS IMPORT/EXPORT GROWTH AND NET EXPORTS



Source: National Bureau of Statistics of China

The economy showed continued signs of slowing, with both import and export growth declining.

CHINA GDP GROWTH RATE



Source: National Bureau of Statistics of China

The GDP growth rate measured 6.7% for the second consecutive quarter.

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 figures returned to positive territory in March.

AG &Co

ANGELO, GORDON & CO.

Angelo, Gordon & Co.
245 Park Avenue
New York, NY 10167

tel: +1.212.692.2000
+1.800.805.0024
www.angelogordon.com
email: information@angelogordon.com

LOS ANGELES • SAN FRANCISCO • CHICAGO • HOUSTON • WASHINGTON DC
LONDON • AMSTERDAM • FRANKFURT • HONG KONG • TOKYO • SEOUL