ANGELO GORDON

CAPITAL MARKETS PERSPECTIVES

SECOND QUARTER 2018

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ANGELO GORDON is a privately-held registered investment advisor dedicated to alternative investing. The firm was founded in 1988 and currently manages approximately $28 billion. We seek to generate absolute returns with low volatility by exploiting inefficiencies in selected markets and capitalizing on situations that are not in the mainstream of investment opportunities. We creatively seek out new opportunities that allow us to remain a leader in alternative investments.

We have expertise in a broad range of absolute return strategies for both institutional and high net worth investors. Our dedicated team of employees seeks to deliver consistent, positive returns in all market environments. We have built our name on our breadth of talent, intensive research and risk-averse approach to investing. Our long-term experience gives us the insight and patience to turn our vision into profitable, stable businesses.

ANGELO GORDON

PORTFOLIO MANAGERS' OVERVIEW

MAUREEN D'ALLEVA
Portfolio Manager

Performing Credit

The leveraged loan market extended its streak of positive performance for another quarter, with the Credit Suisse Leveraged Loan index returning 1.58% in the first quarter. All industries, including the pressured retail sector posted positive returns for the quarter. Of note was the meaningful outperformance of this asset class versus high yield, which delivered -0.85% returns in the first quarter - the second consecutive quarter of outperformance versus high yield. Equity volatility, a steep sell-off in technology stocks, an interest rate hike from the U.S. Federal Reserve and the escalating threat of a trade war all negatively affected the high yield market.

Loan issuance remained strong. Gross quarterly issuance of $242 billion, while a sharp decline from the first quarter of 2017, is still the third highest tally on record. Re-pricing and refinancing activity remained robust, as was the case throughout much of 2017, and resulted in net new issue of roughly $76 billion and demand remained robust with roughly $30 billion of net new CLO issuance. Rising interest rates fueled investor appetite for floating rate assets and loan fund inflows reached almost $4 billion over the first three months of 2018, compared to outflows in the later part of 2017 and high yield fund outflows eclipsing $19 billion over the same period. These two dynamics have resulted in a loan market that continues to favor issuers, and asset spreads have declined accordingly. However, while the ongoing repricing and refinancing in the market have resulted in loan spreads compressing, this has been more than offset by the increase in LIBOR and has resulted in higher coupons and yields for loan investors. To put this in historical context, less than 30% of the loan index trades had an asset spread of less than 250 basis points versus nearly 65% in 2007, according to JP Morgan.

Of note during the quarter the regulations requiring risk retention for U.S. CLO issuers was overturned, thereby allowing managers to issue CLOs without locked-up risk retention capital in place. While this development is still being absorbed by the market, most participants expect issuance to increase with more managers coming to market with transactions.

TREVOR CLARK
Portfolio Manager

Middle Market Direct Lending

Middle market syndicated loan volume declined by nearly $12 billion in the first quarter of 2018 to $32.2 billion. Much of the decline versus the fourth quarter's $44 billion was due to a meaningful drop-off in new money transactions. Both sponsor and non-sponsor issuance fell off, with non-sponsored issuance declining to its lowest quarterly level in eight years. While loan spreads may have compressed during the quarter, yields increased due to the rise in LIBOR which accelerated during the first quarter.

One of the trends we have commented on in the last several quarters is the growing popularity of middle market CLO issuance and this theme has persisted into 2018. First quarter issuance of $3.8 billion from six different managers is more than double the post-crisis quarterly average. Interestingly, the spread difference between similarly rated debt tranches for broadly syndicated CLOs and middle market CLOs has compressed, with the AA differential at 30 basis points and the single A differential at 40 basis points, versus three-year averages of over 70 and 90 basis points respectfully.

A recent survey of middle market direct lenders offers numerous insights into the market. While some lenders cited concern about their ability to find enough deals, they remain optimistic about a pick-up in M&A related deal flow in the sponsored market. Likewise, the majority of lenders believe they will meet their lending goals this year and from a fundamental perspective 40% of respondents believed the economy would outperform in 2018. While survey respondents also indicated that they expect willingness to stretch on leverage and documentation will be the largest factor in winning a deal, many respondents also indicated that reputation, relationships and the strength of their origination platform would also be critical factors. With respect to credit performance, nearly all lenders expect default rates to end the year between 2% and 4%. As we have often commented, the proliferation of new lenders in the middle market will continue to have a variety of implications for the market, some of which will be felt only when the credit cycle turns. At that point, we would anticipate that default rates and ultimately loss or recovery rates will vary meaningfully by lender.

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TODD DITTMANN
Portfolio Manager

Energy

Oil prices have found a new home, with WTI now in a $55 to $65 range, supported by increasing demand and somewhat curtailed supply growth. Economic development, driven by China and India, has driven demand expansion. On the supply side, U.S. producers remain responsive to investor pressure with capital expenditure growth expected to slow considerably to just 6% year-on-year. Although U.S. production has accelerated past the 10 million barrels per day threshold, OPEC continues to set new compliance records with its production cuts. Global crude inventories are finally approaching the five-year average level, OPEC's stated target.

While the general pace of oil and gas acquisition and divestiture activity has slowed after a torrid 2017, average deal sizes have grown larger: Concho Resources' proposed $9.5 billion acquisition of RSP Permian, if closed, would be the largest U.S. upstream transaction since 2012.

Equity investor sentiment towards the sector is indifferent, at best, as improving sector fundamentals have yet to entice net fund flows into E&P equities. In reply to investor demands, shareholder distributions will increase by $6 billion this year, as management teams announced significant dividend increases and/or share repurchases during fourth quarter earnings season. Although these distributions have provided some lift, overall oil and gas valuation multiples remain at significant discounts to historical levels.

During the quarter, the Credit Suisse Energy High Yield Index widened from 6.6% to 7.2% as Treasuries climbed. Unlike the equity market, the high yield market remains accommodative of new energy issuance at these rates, with over $20 billion of supply priced year-to-date. This market recently opened for smaller and higher quality issuers, for debt transactions in the $200+ million range.

Certain banks are slowly demonstrating an appetite for select E&P credit, as the sector has de-risked through incremental cash flow generation, debt reduction, and increased hedging. The traditional bank market remains largely unavailable for oilfield service companies.

In this environment, we expect lenders will find the most attractive opportunities in new originations of illiquid senior secured loans to oil and gas and oilfield service borrowers and in a growing supply of somewhat larger broadly syndicated senior secured term loans. In both cases, the financings fund both growth and bank debt replacement. With significant maturities looming through 2019, this trend should continue.

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DAVID KAMIN
Co-Portfolio Manager

DAN POUND
Co-Portfolio Manager

Distressed Debt

The striking return of equity market volatility during the first quarter has finally begun to dislodge pockets of corporate credit from their price highs. While corporate leveraged loans stayed remarkably resilient in the face of increased VIX, high yield generally took hits in parallel with equities (and rates). Having recently endured several potentially destabilizing macro events (impending rate hikes, wavering global growth, ongoing trade war threats and U.S. deficit funding), on-the-run corporate defaults remain soft. The main contributor to the weak default pipeline dynamic has been a relatively healthy economy and continued low – albeit rising – rates that have allowed levered companies to successfully refinance maturing debt. Other contributors are below-average issuance of lower quality paper (CCCs, second liens) and muted LBO-backed bond and loan issuance. Broad corporate defaults are therefore hovering around 2%, capital markets remain largely open, and rates remain low in an historical context. However, we are undoubtedly seeing signs of late stage credit cycle behavior, even if an identifiable catalyst for a broad correction remains unclear. As past opportunity sets have taught, liquidity pressure tends to drive overall distressed activity. Though we are already seeing liquidity-vacuums in certain opportunistic situations (sectors described below), we are also optimistic that rising rates will force issuers to pay to borrow. Loan issuers in particular are likely to remain resilient to 100 basis points of incremental rate hikes, but we expect that rates above that will elevate funding vulnerabilities, especially for lower quality issuers. As the Fed seeks to normalize rates over the coming 12 to 18 months, issuers may face a significantly different refinancing environment than of the past few quarters.

The market has clearly become accustomed to quantitative easing suppressing volatility, and that led to an almost universally adopted "buy-the-dip" mentality. But with recently higher volatility, market participants appear to be increasingly embracing "sell-the-dip." Additionally, credit markets during easing experienced favorable technicals (hunt for yield and too much money effectively chasing too few credits). As we enter the tightening phase, that trend has begun to reverse. Specific issuer credit fundamentals have also tended to play muted roles during easing while directional bets largely won. However, in today's increasingly volatile environment, even one earnings hiccup can cause a sell off and further dispersion between the haves and have nots.

The actions of the ECB in the next 12 months will simply be unprecedented as it has dominated secondary market activity for almost two years accounting for upwards of 80% share. We cannot therefore precisely predict the euro-denominated impact of expected ECB tapering on market behavior or risk asset prices. We should, however, be prepared for more volatility, regardless of the amount of telegraphing.

Despite the lack of a compelling "headline" macro cycle, specific micro cycles in sectors experiencing headwinds due to secular or cyclical causes still exist. There are several that remain disruptive in the retail, wireline, energy, and healthcare industries (among others). An abundance of individual issuers and situations still abound with operational challenges compounded by excess leverage or capital structure complexity. In the face of this late cycle environment, investors could be expected to focus on shorter dated maturities, near-term catalysts, and an overall reduction of subordination risk where possible.

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DAVID KAMIN
Portfolio Manager

Merger Arbitrage

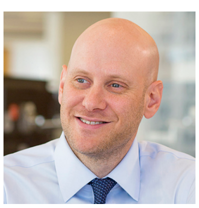
While the first quarter of 2018 did not set a current-cycle high for M&A activity, it was the strongest first quarter for global M&A volume since 2000 and built upon the surge in activity from the fourth quarter. The main contributing factors for this strong start were U.S. corporate tax reform, continued synchronized global growth, and tech disruption. While many regulations are still undrafted, the tax reform bill has provided long-term tax planning clarity and a cash boost to corporations. Global growth has brought more geographies and industries into the M&A fold and continued tech disruption has pushed CEOs to extend their business beyond their current markets. While the general equity market was turbulent during the quarter, CEOs continued to openly talk about the need to grow their respective companies via M&A and project confidence in the current business cycle.

The strong start to the year for both M&A volumes and performance was largely overshadowed by legacy deals that dominated trading and sentiment. Time Warner, NXP Semiconductors and Monsanto have all encountered extended delays in their respective deals. Global regulatory uncertainty and the U.S.-China trade discord continued to weigh not only on those three deals but others viewed as analogous. This led to spread widening during the quarter to an average of 12% annualized from 8% at the start of the year. Investors have also had few data points to guide them on the current environment as numerous deals were announced during the quarter but far fewer closed. The second quarter should provide answers as the respective outcome in the three deals mentioned above come to a resolution.

GARY WOLF
Portfolio Manager

Convertible Arbitrage

Volatility finally returned to financial markets during the first quarter of 2018. Rising uncertainty stemming from reduced liquidity support from central banks and intensifying rhetoric over global trade and protectionism caused global equity markets to sell off (MSCI World Index fell 2.7% during the first quarter in local currency terms). Volatility spiked from historically extremely depressed levels and the moves were at times exacerbated by technical flows related to hedging transactions for short volatility products. Global convertible bonds outperformed, generating a positive return of 2.1%, however a delta hedged convertible index dropped 1.9% during the same period as long-only investors reduced exposure in a more volatile environment driving valuations of benchmark constituents lower. The increase in volatility, coupled with expectations for interest rates to rise further, had a positive impact on convertible new issuance in the first quarter. The primary market experienced the strongest quarter for new supply since the second quarter of 2014, adding to pressure on secondary market valuations with benchmarked investors reducing existing positions to make room for new issues. Looking ahead, we maintain our constructive view on opportunities for hedged convertible strategies as volatility enters a new regime and the primary market remains active.



MICHAEL LIEBMAN
Co-Portfolio Manager

JOHN RUDIC
Co-Portfolio Manager

Liquid Credit

The first quarter of 2018 began on a strong note in the performing credit markets on the heels of tax reform and rising earnings expectations. Credit spreads tightened in January to post-crisis tights, despite a 40-basis point backup in 10-year Treasury yields. Then, in February, spreads significantly widened following a spike in equity volatility and tightening financial conditions (with LIBOR-OIS spreads widening by 33 basis points during the quarter). A spike in funding costs shook through to the front end of the corporate market as risk-free rates became an alternative to corporates and the high yield market.

In high yield, credit dispersion remains our focus. The bifurcation which we began to witness during the second half of 2017 continued into the first quarter of 2018 as long only investors continue to seek "sleep at night" bonds and shun names with perceived credit risk. In investment grade, we are focused on primary issuance. March was a very large supply month lead by CVS's $45 billion acquisition of Aetna. The new CVS bonds have performed exceptionally well after pricing during a period of market stress. The market remains concerned regarding regulatory approval of this transaction plus the AT&T/Time Warner and Cigna/Express Scripts deals. Going forward, we expect diminished M&A until more clarity appears regarding vertical integration acquisitions, which we expect to see after a decision in the AT&T/TWX trial.

TJ DURKIN
Co-Portfolio Manager

YONG JOE
Co-Portfolio Manager

Residential and Consumer Debt (RMBS/ABS)

Ongoing investor demand for mortgage- and asset-backed securities supported the sector during the first quarter of 2018, although there were some pockets of spread widening. Credit-risk transfer (CRT) spreads widened in sympathy with the widening in the high yield market. On the other hand, spreads for pre-crisis securities continued to tighten due to persistently strong net-demands – that is, demand more than offsets secondary supply – and the resolution of certain rep and warranty litigation. During the periodic bouts of equity market volatility, asset-backed bid-ask spreads widened modestly, but more broadly, the ABS market remained relatively well-bid as market participants continue to favor the sector, given its fundamental characteristics, certain structural protections and attractive relative value.

New-issue activity started strongly in 2018, with many of the same themes from 2017 carrying into the new year. During the quarter, new issuance of RMBS and ABS totaled $15.1 billion and $67.3 billion, respectively, and increasing 12% to 13% versus Q1 2017. Market participants clearly sought newly-issued RMBS and ABS as most deals were well-oversubscribed, particularly in the first half of the quarter.

National home prices continued to climb and now sit 7.6% above their prior peak set in February 2007, according to CoreLogic Case-Shiller. Over the last several years, home prices have recorded year-over-year gains of 5% to 7% as the national supply of homes remains tight. Further, CoreLogic reports that 4.9% of all mortgaged properties were underwater as of the latest reading, down considerably from the peak of 26% in the fourth quarter of 2009. Legacy mortgage collateral fundamentals continued to oscillate within their multi-year ranges, and delinquency rates in CRT collateral affected by the hurricanes continued to recover. Credit card delinquencies saw modest upticks which, as we noted last quarter, is an expected trend as lenders gradually expand lending criteria.

Agency MBS began the quarter well supported by start of year yield buying, a still robust Federal Reserve purchase schedule and manageable supply. This gave way to modest spread widening of 5 to 6 basis points versus the swap curve over the balance of the quarter as interest rate volatility picked up, rates peaked and the Federal Reserve continued to curtail its monthly reinvestment of paydowns. While some further spread widening over the course of this year is possible, relative tightness of valuations across competing spread products and moderating interest rate volatility remains generally supportive of valuations while defensive positioning among market participants continues to mitigate the risk of a sudden and sharp widening of spreads.

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ANDREW SOLOMON
Portfolio Manager

Real Estate Debt (CMBS)

Despite a significant uptick in volatility in the broader markets, the CMBS market was relatively calm. Spreads tightened in January following an annual industry conference where the tone was quite bullish. The need to invest new capital allocated to CMBS to start the year almost certainly helped push prices higher.

The positive tone was short-lived as February saw numerous 1,000 point daily drops in the Dow with selloffs in the equity markets driven by a combination of inflation concerns and equity valuations following an extended period of meaningful increases. While we noted very little (if any) forced or panicked selling in the CMBS market, we believe that had the broader market sell-off persisted a few more days, we would likely have witnessed some selling pressure. In the end, the markets instead reversed course and "risk on" sentiment held. Anecdotally, there's reason to believe the sell-off did temper CMBS investor optimism somewhat: certain CMBS investors who started the month indicating no interest in selling any of their bonds were several weeks later at least willing to consider trading out of positions in order to pare back risk.

Equities posted another lackluster month in March on concerns about tariffs and potential trade wars as well as weakness in the technology sector. During the month we also noticed an interesting dynamic in the CMBS market, namely that the highest rated bonds tended to perform the worst while the lowest rated securities performed best. At the top of the capital structure, new issue supply and the cheapening of alternative fixed income products pushed spreads on recent vintage deals wider by approximately 10 basis points, from swaps +70 to swaps +80. However, at the BBB- level spreads were largely unchanged. This is not to suggest that all BBB- bonds are priced at the same level. Deal pricing will vary based upon credit quality and risk retention structure. We continue to find value in conduit deals issued prior to 2017 based upon our view of credit quality and the value of purchasing slightly seasoned deals. Due to the fact that other investors in the market associate risk retention with better credit quality these seasoned deals often trade at wider spreads (i.e. lower prices) than newly originated deals. Also of note during the quarter, there was a significant amount of activity in below investment grade CMBS securities. Because these bonds trade infrequently and each have idiosyncratic risk it is difficult to quote price changes with a high level of precision. But generally speaking, these bonds traded at prices that we would consider to be very aggressive. This bifurcated market – with AAA rated securities widening and lower rated securities tightening – reflects a bifurcated buyer base with opportunistic investors displaying a strong reach for yield while more risk-averse buyers invest with increased caution.

Private label new issue CMBS totaled $19.4 billion during the first quarter of 2018, an increase of 55% from the same period last year when the market was still dealing with the newly implemented risk retention rules. Volumes were split evenly between traditional conduit deals and single-borrower transactions. SASB deal issuance has become a growing part of the CMBS market. From our perspective this is a welcome development as we often find these deals to be inefficiently priced for a variety of reasons.

GORDON J. WHITING
Portfolio Manager

Net Lease Real Estate

As of the first quarter of 2018, the trailing 12-month U.S. single-tenant transaction volume totaled $56 billion, according to Real Capital Analytics. First quarter office and retail volumes declined by 17% from the prior year, whereas industrial volume increased by 5%. The bifurcation in volume is also exhibited in cap rates, with office and retail cap rates increasing modestly, as compared to industrial cap rates which have continued to compress. The compression in industrial cap rates has been driven by the large growth in e-commerce and the corresponding demand for warehouse space, among other factors.

During the first quarter, the average 10-year interest rate increased to 2.8%, vs. 2.4% in the prior quarter. Although interest rates increased, lending spreads have compressed and there are various lending options available. Following recent tax reform, interest expense deductions are now capped at 30% of EBITDA for corporations, whereas rent is 100% deductible, which could increase the demand for sale leasebacks in the coming years. After 2021, the cap becomes even more restrictive and is capped at 30% of EBIT.

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ADAM SCHWARTZ
Portfolio Manager
Head of Real Estate

REID LIFFMANN
Co-Portfolio Manager
U.S. Real Estate

ANUJ MITTAL
Co-Portfolio Manager
Europe Real Estate

Real Estate

United States

At the end of the first quarter of 2018, we find ourselves paying close attention to where the economy goes (grows?) from here. February 2018 nonfarm payrolls beat expectations by a wide margin, with upward revisions to December and January numbers. The unemployment rate remained at 4.1%, the lowest since December 2000. GDP rose 2.2% over a trailing 12-month period in February 2018, the ninth straight month with a rate of change over 2%. Household formation saw a nice bump at the end of 2017, as the homeownership rate seemed to find a floor after 13 years of declines; there were 1.5 million more owner households and 76,000 fewer renter households at the end of 2017 than one year earlier.

Among real estate sectors, there is a consensus that operating fundamentals are stable, with rent growth of 1% to 2% (i.e., below inflation) the norm in many sectors. But this top-line figure belies a spectrum, with a strong outlook for industrial at one end, followed by apartments and office, and with retail at the other end. Much of the concern regarding retail is the growth of e-commerce at a much faster pace than bricks and mortar. According to the U.S. Census, e-commerce sales increased 16% from 2016, whereas total retail sales increased 4% from 2016.

REITs overall are down 10% while high yield bonds are up 3% for the quarter, making public market real estate appear relatively more attractive. Meanwhile, appreciation in the private indices has largely flattened. Real Capital Analytics CPPI (a transaction-based index of properties over $2.5 million in value) reported a 0.5% increase in U.S. National Prices in February, and an 8.1% increase on a year-over-year basis, but noted that the Central Business District Office index dipped 0.8% in February from January, and gained only 1.7% from a year prior, the smallest annual increase among property types. Green Street CPPI (based on estimates of private market value for REIT portfolios across the five major property sectors) is down 1% on a year-over-year basis ending March 2018.

As for interest rates: while we rode the roller coaster upwards for the first 45 days of the first quarter, with the 10Y UST increasing from 2.46% to 2.90%, 16 basis points of this gain was given up by quarter-end. The overall increase from one year ago seems unlikely to dampen lenders' positive outlook for commercial real estate; 2017 was reported by the Mortgage Bankers Association as a record year for borrowing and lending backed by commercial real estate properties.

Europe

UK indicators continue to suggest concern among consumers. Specifically, the GfK NOP consumer confidence indicator dipped to minus 10 points in February 2018, remaining in negative territory, where it has been since April 2016, even before the June 2016 BREXIT vote. This dip came despite a decrease in unemployment in February to 4.2%, the lowest since 1975. In contrast, in the eurozone, the headline consumer sentiment index - at 0.1 in February 2018 after soaring to 1.4 in January - remains comfortably ahead of the long run average of minus 12, reflecting a drop in the jobless rate to 8.5%, the lowest since January 2009.

Commercial property investment in the eurozone is sharply higher over the last six quarters recording a 14.0% increase in rolling four quarter total, while average prime property yields are lower by about 11.0% for prime office, industrial and multifamily properties. Net new supply of office is projected to be far less than net absorption, driving vacancy rates to 7.0% across the eurozone, with vacancy forecast to decline to 6.0% by the end of 2020, according to Capital Economics. Vacancy rates dipped lower in London City as well, ending 2017 at 5.6%, according to Savills, 1.10% below the 10-year average. This dip is accompanied by a marked decline in the percentage of unleased office space under construction as a proportion of existing stock: 57% of new supply set to deliver in 2018 has been pre-let, as well as 27% of the space expected to deliver between 2019 and 2021.

We believe that 2018 will be another robust year for sales of non-performing loans and bank-owned real estate. According to the latest report from Evercore REPS, European banks currently hold an estimated €528 billion of gross non-core real estate exposure, measured by the face value of the loans and REO, with Southern Europe accounting for 80% of this amount. Italy presently holds the largest amount of non-core real estate assets across Europe, with a gross face value of about €210 billion, or 40% of the total. In 2017, banks or asset management agencies sold €104 billion of European real estate NPLs and REO. This surpassed the previous peak of €88 billion in 2015. While the first quarter of 2018 was off to a slow start, with only €4.6 billion of reported closings, there is an immediate pipeline of nearly €35 billion of transactions. 2018 is likely to be another very significant year for European bank deleveraging.

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WILSON LEUNG
Portfolio Manager
Head of Asia Real Estate

STEVEN CHA
Co-Portfolio Manager

Asia Real Estate

Japan

Japan's economy grew at an annualized rate of 1.7% in 2017, its longest quarterly streak in 28 years. Corporate earnings are at historic highs, unemployment remains at a historical low of 2.4% and many large Japanese corporations have started increasing wages. In March, Haruhiko Kuroda was reappointed as governor of the Bank of Japan ("BoJ") for a new 5-year term. Given that the 2.0% inflation target has not yet been achieved, the BoJ is expected to maintain its monetary easing program. In the stock market, while the TOPIX 300 Index surged to its highest level in 26 years in January, the overall market during the first quarter has been volatile, mainly due to concerns over U.S. monetary policy and a protectionist shift in its trade policy. The Japanese REIT ("J-REIT") Index outperformed the TOPIX in the first quarter, but the index is still 9% lower than a year ago. Due to lagging share prices, J-REITs may be encouraged to dispose of older properties requiring renovation, which could represent attractive buying opportunities.

In addition to the Government Pension Investment Fund's announcement to start real estate investing, core offshore investors are actively pursuing investment opportunities in Japan due to the country's extremely low financing costs. Despite the unstable performance of the J-REIT Index, real estate fundamentals have remained robust. Strong tenant demand, propelled by a robust economy, has pushed the Grade-A office vacancy down to 1.8% in Tokyo and to 0.3% in Osaka in the fourth quarter of 2017. Vacancy levels for Grade B properties have also remained low at around 1.5% in Tokyo and 2.4% in Osaka. Although large scale of Class A office supply is scheduled to come on line in Tokyo in 2018, strong pre-leasing activities thus far suggest that real estate fundamentals are likely to remain stable during 2018. In Osaka, limited new office stock is expected over the next few years which should lead to growth in office rents in the coming year. In addition, inbound tourism hit a record high of 29 million, a 19% increase from the previous year, which is on track to meet the government's target of 40 million visitors by 2020 – the year of the Olympics in Tokyo. This should offer a significant boost to the growing hotel industry.

China

In 2017, the Chinese economy performed better than most forecasts with GDP growth at 6.9% exceeding the 6.5% target set at the beginning of the year. Similar to global markets, the Chinese stock market experienced significant volatility in the first quarter of 2018. The Shanghai Stock Exchange Composite Index rose as much as 7.6% in January, followed by 11.0% in February, and ultimately finished the quarter down 4.2%. Hong Kong's Hang Seng Index rose 10.8% in January to an all-time high, only to pare virtually all gains by quarter-end. The Chinese RMB gained another 3.6% and finished the quarter at 6.27 per USD, a two-year high.

On the real estate front, the investment market for commercial properties in tier one cities, such as Shanghai and Beijing, remained active and liquid. Shanghai has consistently been one of Asia's most active investment markets with transaction volume of over US$29 billion in the last two years. The real estate fundamentals in large cities remain robust, underpinned by a strong economy and a rapidly growing tertiary sector. We see sustained demand for office space in tier one cities while vacancy remained at healthy levels.

The beginning of 2018 was marked with the Chinese government's continued and strengthened credit-tightening measures, leading to a series of solvency and liquidity concerns at some of China's once high-flying conglomerates. AnBang Insurance, for example, was taken over by China Insurance Regulatory Commission, and Hainan Airlines (HNA) and CEFC China Energy have been forced to sell a portion of their assets. China's deleveraging efforts are expected to continue and we believe that there will be an increasing number of attractive event-driven special situation opportunities in the next few years.

South Korea

Following the exchange of envoys between South Korea and North Korea during and after the Pyeongchang Winter Olympics, President Moon Jae-in of South Korea and President Kim Jong Un of North Korea are scheduled to meet for a historic summit in late April, on the southern side of the Demilitarized Zone. The summit will be the third ever held between leaders of South and North Korea, and the first in more than a decade. It is still premature to surmise the end of tensions and North Korea's denuclearization at this stage, considering discussions have only just begun; however, we view the upcoming summits as positive incremental steps towards easing geo-political tensions. We will continue to closely monitor the situation.

The South Korean economy grew 3.1% in 2017, expanding at the fastest pace in three years. The Bank of Korea ("BoK"), IMF and OECD all forecast annual GDP growth at 3.0% in 2018, on the back of steady growth in private consumption, facilities investment and robust exports driven by a recovery in global economy. The BoK kept its benchmark policy rate unchanged at 1.50% in February this year, but emphasized that potential rate increases could be under consideration with changes in the global macroeconomic environment. The spread between prime office cap rates and the Korean government bond yield (i.e. 5-year treasury bond) contracted approximately 20 basis points to 240 basis points. Prime office vacancy rate in Seoul rose slightly by 0.2% points to 11.7% in 4Q17. Analysts expect overall office leasing absorption to pick up in the near future with relatively limited future supply in comparison to prior years. The housing market in Seoul continues to be robust, with Seoul apartment prices rising 8.7% year-on-year as of March 2018. In Gangnam, the prime residential district in Seoul, apartment prices have increased by 13.7% year-on-year as of March 2018.

ARTHUR PEPONIS
Portfolio Manager

Private Equity

The private equity industry is off to a robust start in 2018 with deal volume materially stronger in the first quarter of 2018 relative to 2017. In North America, there were $50 billion of transactions in the first three months of this year as compared to $27 billion from the prior year's first quarter and global deal volume through the first three months increased 48% year on year to $90 billion. There were several multi-billion dollar buyouts in the quarter, most notably Blackstone's $17 billion acquisition of Thomson Reuters' Financial and Risk business. Dry powder continued the five-year upward trend and set another all-time high of $642 billion, a 2% increase from the $628 billion at December 31, 2017. As stated previously, in each of the quarters for the past five years, dry powder has set an all-time record only to be eclipsed in the subsequent quarter.

Transaction multiples in the first three months of 2018 were slightly lower than calendar 2017 though higher than calendar 2016. Through the first three months, average multiples paid were 10.2x EBITDA versus the 10.7x paid in 2017 and the 10.0x paid in 2016. Given the nature of the M&A and private equity markets, one can't infer a quarter of performance as the beginning of a trend. However, within a historical context, multiples paid remain robust and while there may be some slight downward pressure on transaction multiples, they are still within the range of the four-year historical average of 10.2x EBITDA. Average leverage for buyouts in the first three months of 2018 increased to 5.9x multiple of EBITDA which is consistent with 2017 levels. Equity contribution as a percentage of total capitalization was at 39% which is in line with historical averages. The number of exits decreased in the first three months of 2018 from the prior year's first three months by approximately 11%, although the dollar volume increased 15% reflecting larger dollar monetizations. Given the increase in deal volume (supply) and the lower increase in dry powder (demand) seen so far in 2018, the upward pressure on multiples paid may diminish somewhat. Barring exogenous factors, we expect the private equity market to remain strong in 2018 in terms of deal volume, dollar volume of exits, and multiples paid.

ANGELO GORDON

ECONOMIC DASHBOARD

MARKET INDICES

Second Quarter 2018

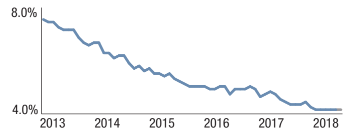
JOB MARKET

Macro Economics | Five-Year Trend

US – Unemployment Rate

As of 3/31/18

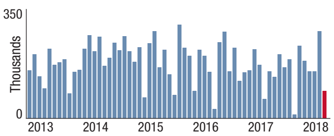
Latest Level	4.1
Change from Prior Month	0.0
Latest Direction	No Change
Frequency	Monthly



US – Non-Farm Payroll

As of 3/31/18

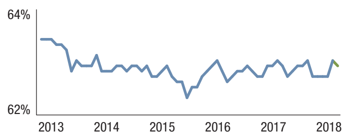
Latest Level	103.0
Change from Prior Month	(223.0)
Latest Direction	Deteriorating
Frequency	Monthly



US – Labor Participation Rate

As of 3/31/18

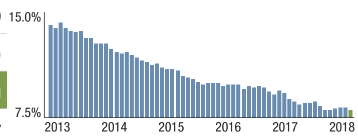
Latest Level	62.9
Change from Prior Month	(0.1)
Latest Direction	Deteriorating
Frequency	Monthly



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

As of 3/31/18

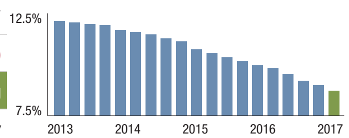
Latest Level	8.0
Change from Prior Month	(0.2)
Latest Direction	Improving
Frequency	Monthly



Eurozone Unemployment Rate

As of 12/31/2017

Latest Level	8.7
Change from Prior Quarter	(0.3)
Latest Direction	Improving
Frequency	Quarterly



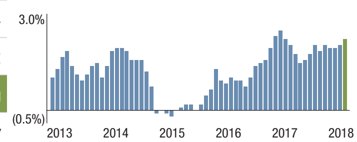
INFLATION

Macro Economics | Five-Year Trend

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

As of 3/31/18

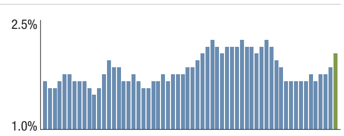
Latest Level	2.4
Change from Prior Month	0.2
Latest Direction	Increasing
Frequency	Monthly



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

As of 3/31/18

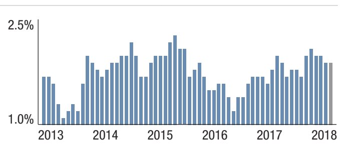
Latest Level	2.1
Change from Prior Month	0.2
Latest Direction	Increasing
Frequency	Monthly



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

As of 3/31/18

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



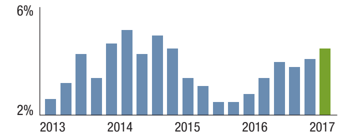
GDP GROWTH

Macro Economics | Five-Year Trend

US – GDP Y-o-Y %

As of 12/31/2017

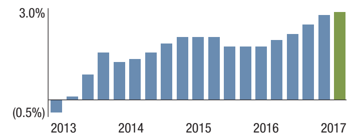
Latest Level	5.6
Change from Prior Quarter	0.1
Latest Direction	Improving
Frequency	Quarterly



Eurozone – GDP Y-o-Y %

As of 12/31/2017

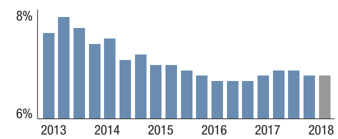
Latest Level	2.8
Change from Prior Quarter	0.1
Latest Direction	Improving
Frequency	Quarterly



China – GDP Y-o-Y %

As of 3/31/18

Latest Level	6.8
Change from Prior Quarter	0.0
Latest Direction	No Change
Frequency	Quarterly



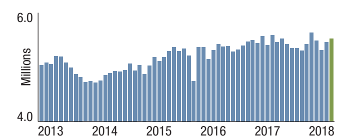
HOUSING

Macro Economics | Five-Year Trend

Existing Home Sales

As of 3/31/18

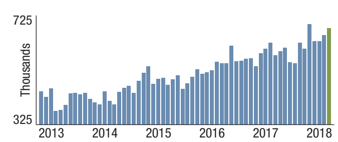
Latest Level	5.6
Change from Prior Month	0.1
Latest Direction	Improving
Frequency	Monthly



New Home Sales

As of 3/31/18

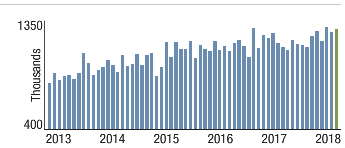
Latest Level	694.0
Change from Prior Month	50.0
Latest Direction	Improving
Frequency	Monthly



Housing Starts

As of 3/31/18

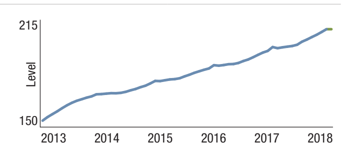
Latest Level	1,319.0
Change from Prior Month	24.0
Latest Direction	Improving
Frequency	Monthly



Case-Shiller Index of Home Value in 20 Cities

As of 2/28/2018

Latest Level	209.3
Change from Prior Month	3.4
Latest Direction	Improving
Frequency	Monthly



Source: Bloomberg (All)

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

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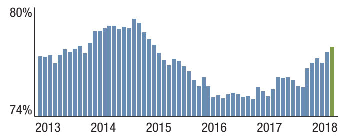
ECONOMIC DASHBOARD *(continued)*

ECONOMIC & MARKET CONFIDENCE

Macro Economics — Five-Year Trend

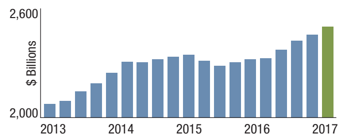
Capacity Utilization as a % of Capacity
As of 3/31/18

Latest Level	78.0
Change from Prior Month	0.3
Latest Direction	Improving
Frequency	Monthly



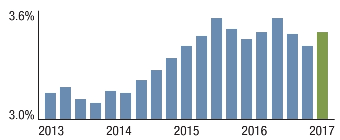
Private Fixed Investment Nonresidential SAAR
As of 12/31/17

Latest Level	2,513.0
Change from Prior Quarter	44.6
Latest Direction	Improving
Frequency	Quarterly



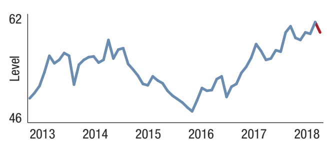
Residential Fixed Investment as a % of GDP
As of 12/31/17

Latest Level	3.5
Change from Prior Quarter	0.1
Latest Direction	Increasing
Frequency	Quarterly



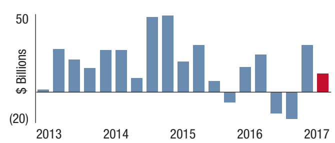
ISM Manufacturing Index
As of 3/31/118

Latest Level	59.3
Change from Prior Month	(1.5)
Latest Direction	Deteriorating
Frequency	Monthly



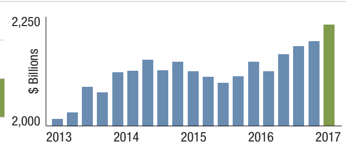
Manufacturing Inventory Change Q-o-Q $
As of 12/31/17

Latest Level	11.3
Change from Prior Quarter	(17.9)
Latest Direction	Decreasing
Frequency	Quarterly



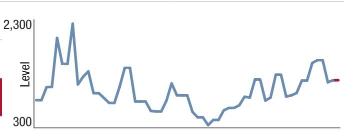
Exports of Goods/Services
As of 12/31/17

Latest Level	2,230
Change from Prior Quarter	37
Latest Direction	Improving
Frequency	Quarterly



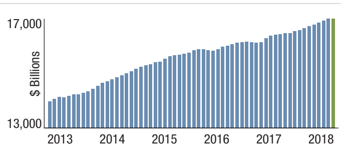
Shipping Rates
As of 3/31/18

Latest Level	1,055
Change from Prior Quarter	(137)
Latest Direction	Deteriorating
Frequency	Quarterly



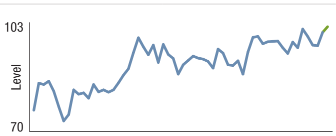
Personal Income Level
As of 2/28/18

Latest Level	16,861
Change from Prior Month	67
Latest Direction	Improving
Frequency	Monthly



Michigan Consumer Confidence Sentiment
As of 3/31/18

Latest Level	101.4
Change from Prior Month	1.7
Latest Direction	Improving
Frequency	Monthly

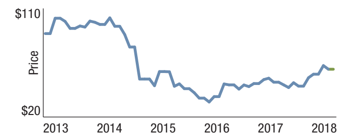


COMMODITIES

Macro Economics — Five-Year Trend

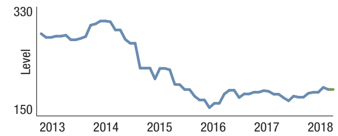
WTI Crude Oil Price
As of 3/31/18

Latest Level	64.9
Change from Prior Month	3.3
Latest Direction	Increasing
Frequency	Monthly



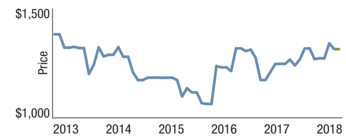
Reuters/Jefferies Commodity Index
As of 3/31/18

Latest Level	195.4
Change from Prior Month	1.4
Latest Direction	Increasing
Frequency	Monthly



Gold
As of 3/31/18

Latest Level	1,325.5
Change from Prior Month	7.2
Latest Direction	Increasing
Frequency	Monthly

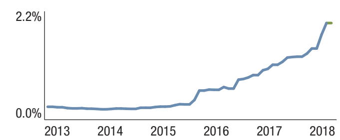


RATES

Macro Economics — Five-Year Trend

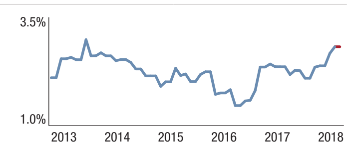
LIBOR 3M
As of 3/31/18

Latest Level	2.31
Change from Prior Month	0.29
Latest Direction	Increasing
Frequency	Monthly



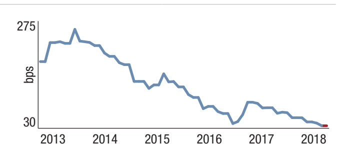
Treasury 10 Yr Yield
As of 3/31/18

Latest Level	2.74
Change from Prior Month	(0.12)
Latest Direction	Decreasing
Frequency	Monthly

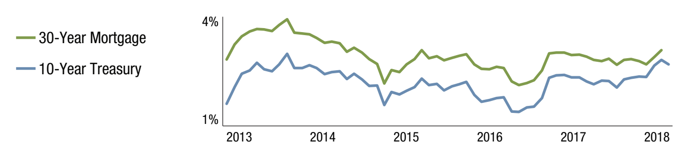


Swaps 2Y vs. 10Y
As of 3/31/18

Latest Level	19.50
Change from Prior Month	(14.87)
Latest Direction	Flattening
Frequency	Monthly



30 Yr Mortgage and 10 Yr Treasury



Source: Bloomberg (All)

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

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ECONOMIC DASHBOARD *(continued)*

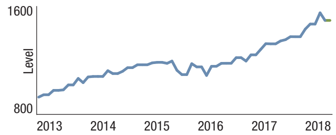
EQUITY

Macro Economics — Five-Year Trend

US Equity Markets – Russell 3000

As of 3/31/18

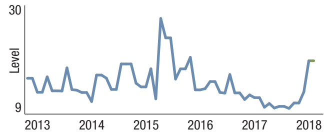
Latest Level	1,565.60
Change from Prior Month	(34.6)
Latest Direction	Sell-off
Frequency	Monthly



US Equity – VIX

As of 3/31/18

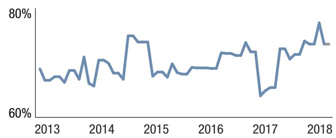
Latest Level	20.0
Change from Prior Month	0.1
Latest Direction	Increasing
Frequency	Monthly



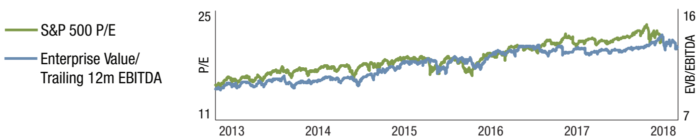
S&P 500 Percentage Exceeding Earning Estimates

As of 3/31/18

Latest Level	73.9
Change from Prior Month	0.0
Latest Direction	No Change
Frequency	Monthly



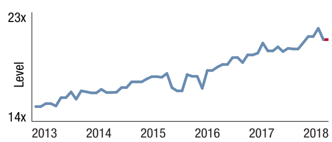
S&P 500 Historical Valuation Levels



Trailing P/E on S&P 500

As of 3/31/18

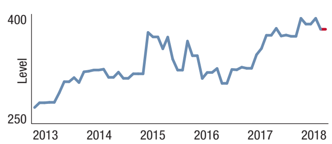
Latest Level	20.9
Change from Prior Month	(1.0)
Latest Direction	Decreasing
Frequency	Monthly



Equity Markets – Euro Stoxx

As of 3/31/18

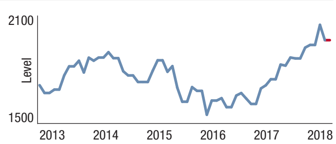
Latest Level	374.0
Change from Prior Month	(8.4)
Latest Direction	Decreasing
Frequency	Monthly



Equity Markets – MSCI EAFE

As of 3/31/18

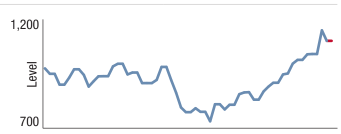
Latest Level	2,005.7
Change from Prior Month	(46.1)
Latest Direction	Decreasing
Frequency	Monthly



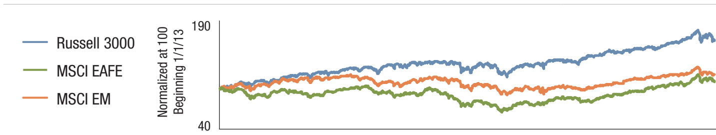
Equity Markets – MSCI EM

As of 3/31/18

Latest Level	1,170.9
Change from Prior Month	(24.3)
Latest Direction	Decreasing
Frequency	Monthly



Russell 3000 – MSCI EAFE – MSCI EM



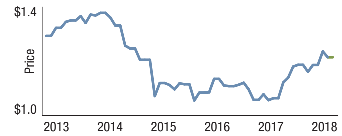
FOREIGN EXCHANGE RATE

Macro Economics — Five-Year Trend

Euro Spot Rate vs. 1 USD

As of 3/31/18

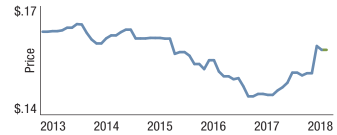
Latest Level	1.23
Change from Prior Month	0.01
Latest Direction	Improving
Frequency	Monthly



Yuan Spot Rate vs. 1 USD

As of 3/31/18

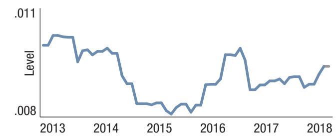
Latest Level	0.1590
Change from Prior Month End	0.0010
Latest Direction	Improving
Frequency	Monthly



Yen Spot Rate vs. 1 USD

As of 3/31/18

Latest Level	0.0094
Change from Prior Month	0.0000
Latest Direction	No Change
Frequency	Monthly



Source: Bloomberg (All)

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

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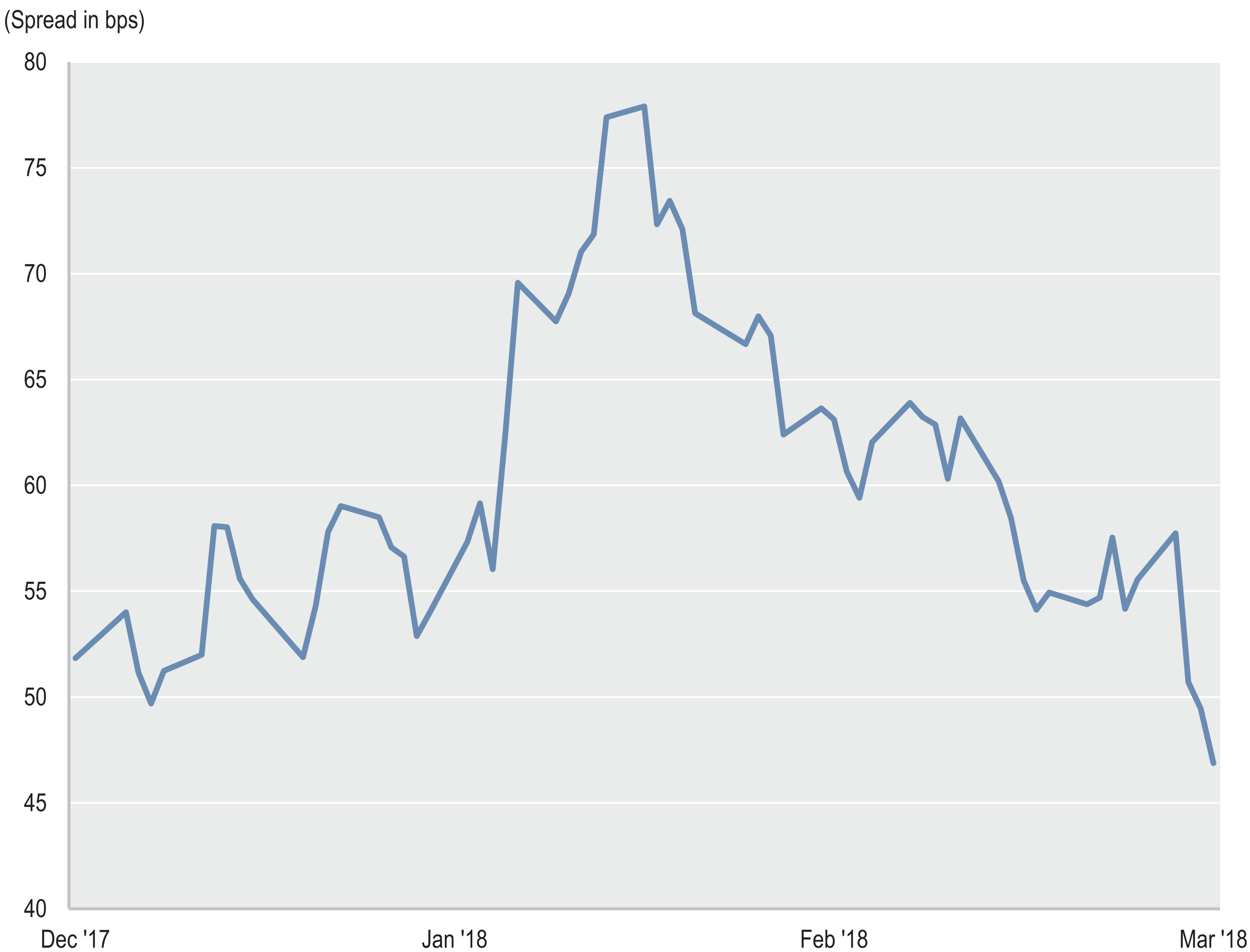
U.S. GOVERNMENT 2-YEAR VS. 10-YEAR YIELD SPREAD COMPRESSION

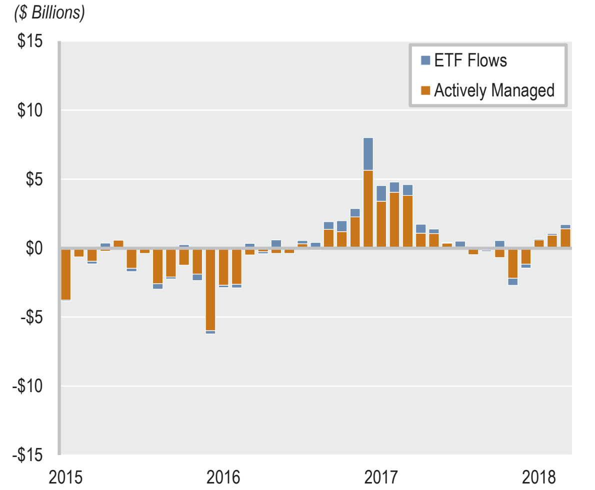


Source: Bloomberg.

Yield curve flattening has forced the spread between the two year and ten year U.S. treasury yields to its tightest level in over a decade.

PERFORMING CREDIT

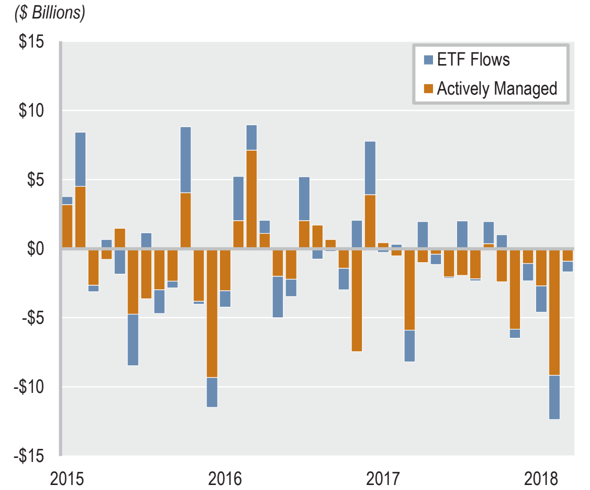
LEVERAGED LOAN FUND FLOWS



Source: J.P. Morgan.

Inflows into loan funds reflect increased investor demand for floating rate assets and have contributed to the strong tone in the leveraged loan market.

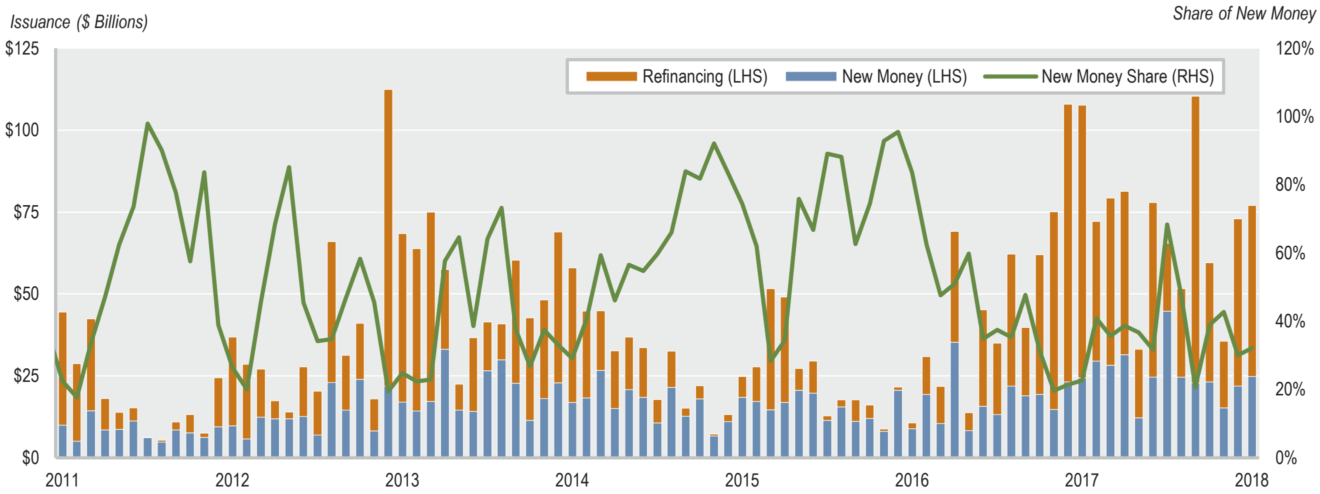
HIGH YIELD FUND FLOWS



Source: J.P. Morgan.

High yield funds experienced strong outflows in Q1 as investors sought our floating rate assets in a rising rate environment.

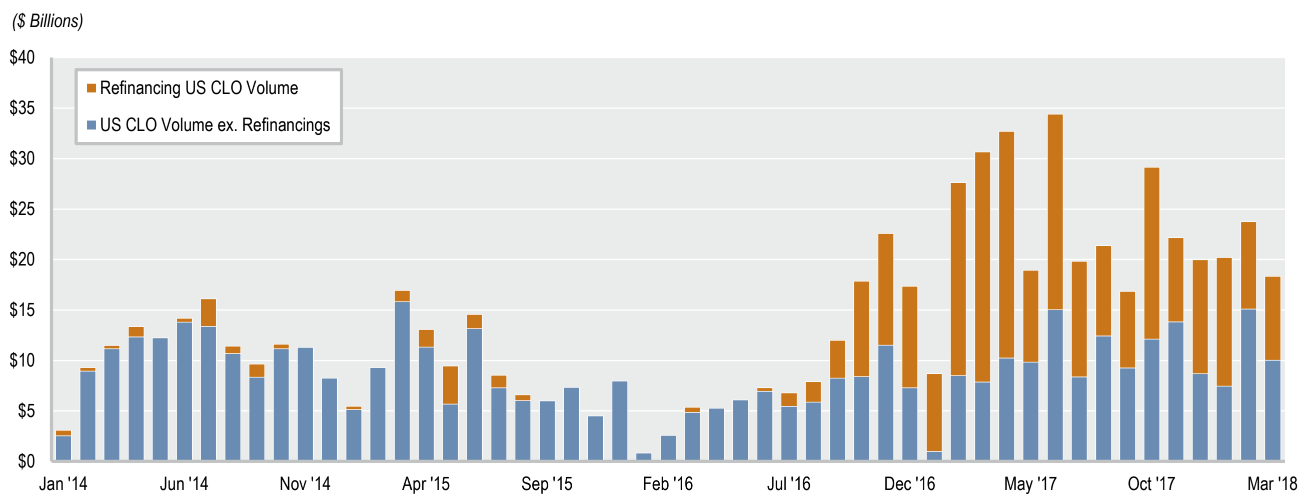
U.S. INSTITUTIONAL LOAN ISSUANCE



Source: Thomson Reuters LPC.

Gross and net loan issuance remained robust in Q1.

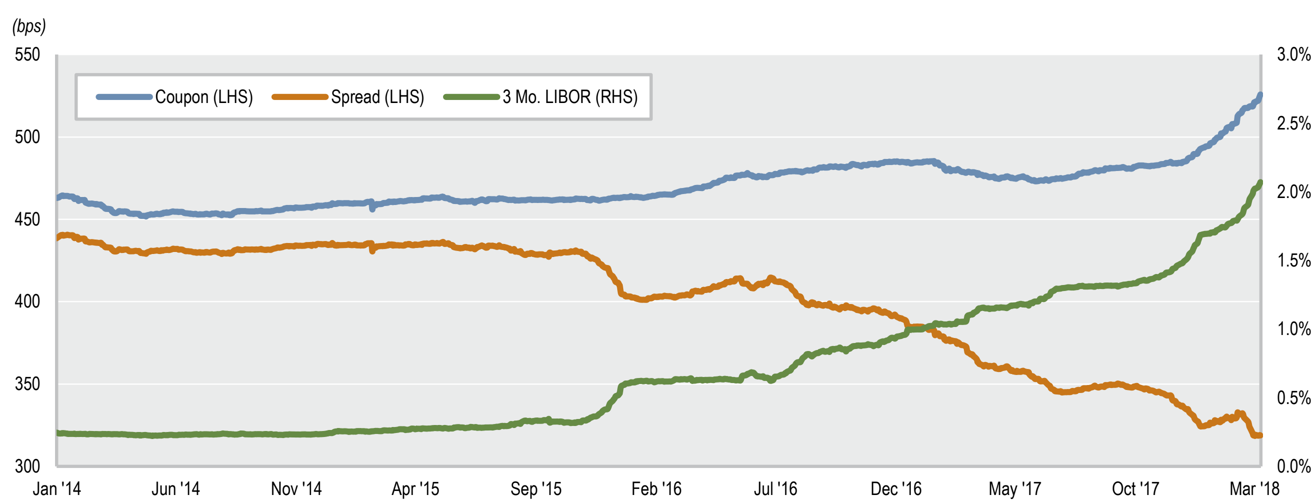
MONTHLY CLO ISSUANCE



Source: J.P. Morgan and S&P LCD.

CLO issuance also remained strong during the quarter.

LOAN SPREADS, COUPONS AND LIBOR

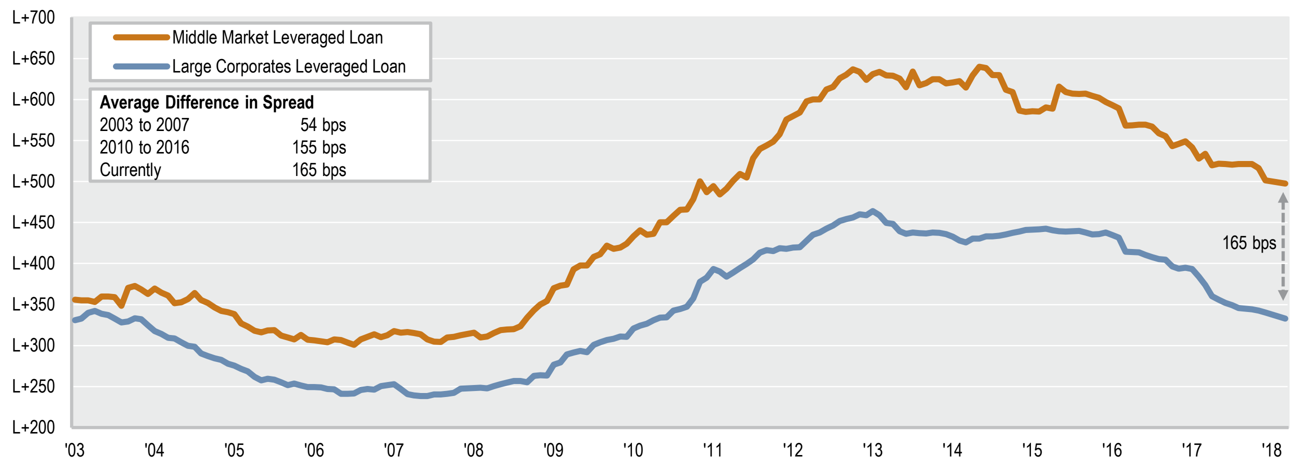


Source: J.P. Morgan, S&P LCD, and Bloomberg.

Although loan spreads compressed, the rise in LIBOR more than offset this, resulting in high coupons.

MIDDLE MARKET DIRECT LENDING

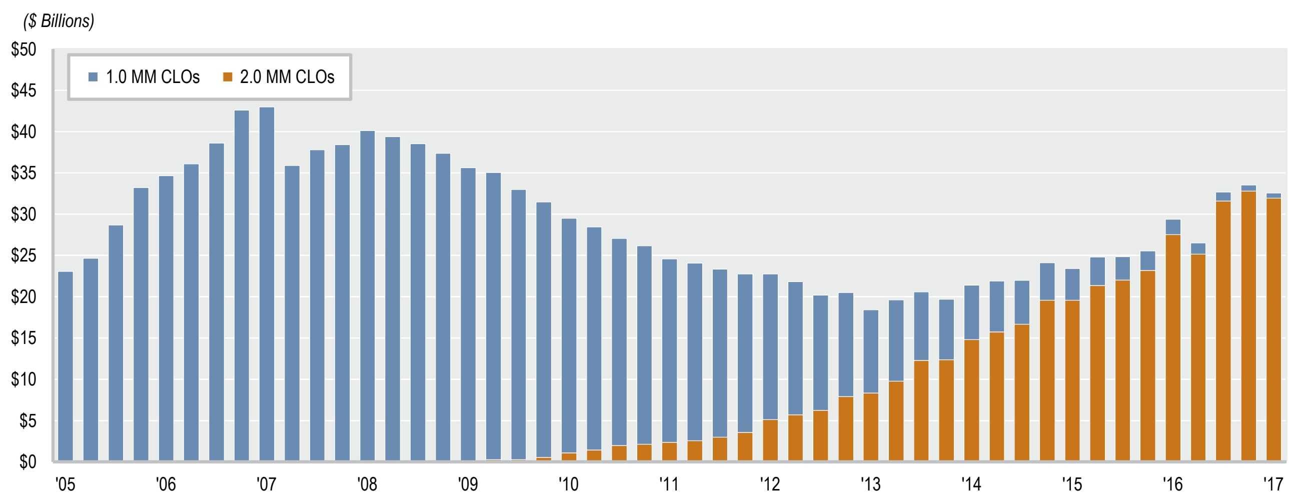
AVERAGE LOAN SPREAD: MIDDLE MARKET VS. LARGE CORPORATES



Middle market leveraged loan includes issuers with less than $50m EBITDA
Average spread includes any LIBOR floor benefit
Source: S&P LCD.

The middle market continues to offer a spread premium versus the large corporate market.

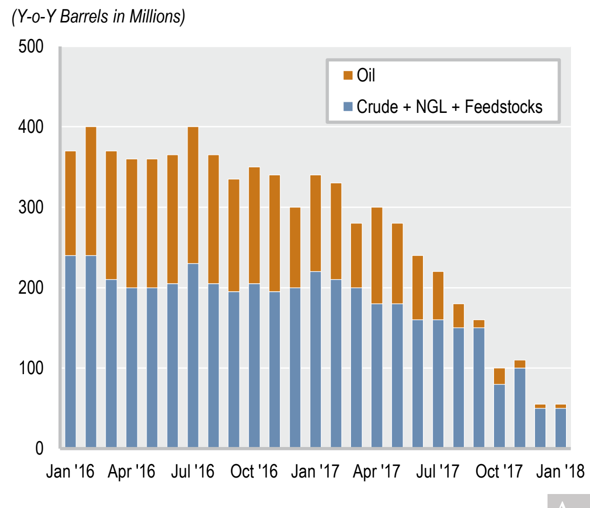
OUTSTANDING MIDDLE MARKET CLO BALANCE



Source: Intex, Wells Fargo Securities.

Middle market CLO issuance has steadily increased over the last several years.

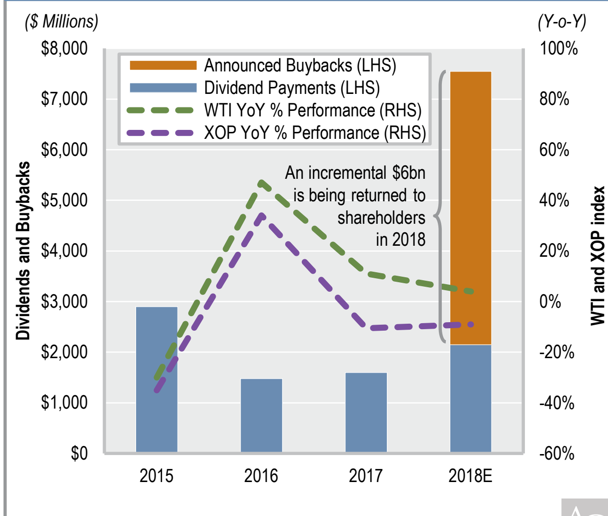
OECD INVENTORIES VS. 5-YEAR AVERAGES



Source: Imperial Capital.

Amidst continued strong compliance with its production cuts, OPEC has steadily reduced the global inventory surplus towards its target – the five-year average.

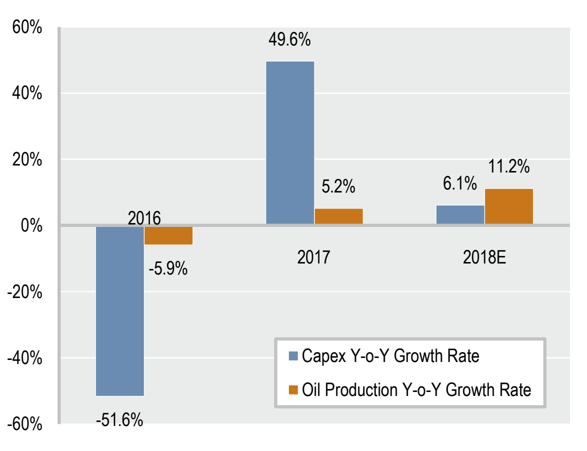
E&P SHAREHOLDER DISTRIBUTIONS GROWING CONSIDERABLY



Source: Evercore ISI Research.

As equity investors demand capital discipline from U.S. producers, higher crude prices have led to a significant increase in shareholder distributions – particularly share repurchases.

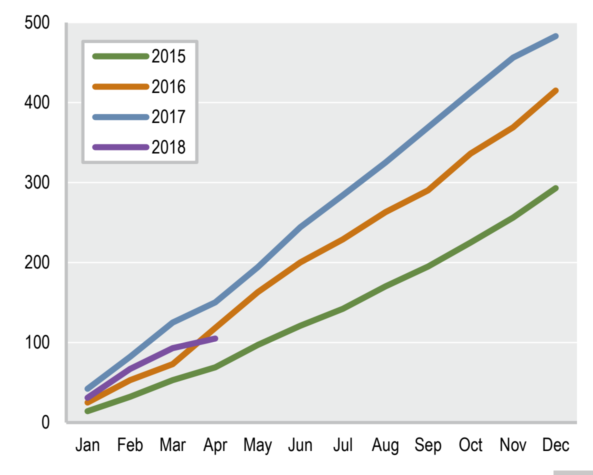
U.S. CAPEX GROWTH DECELERATING



Source: Imperial Capital.

After a nearly 50% increase from 2016 to 2017, E&P capex growth is expected to decelerate considerably this year. While U.S. production continues to rise, lower spending in 2018 may lead to lower production growth in 2019.

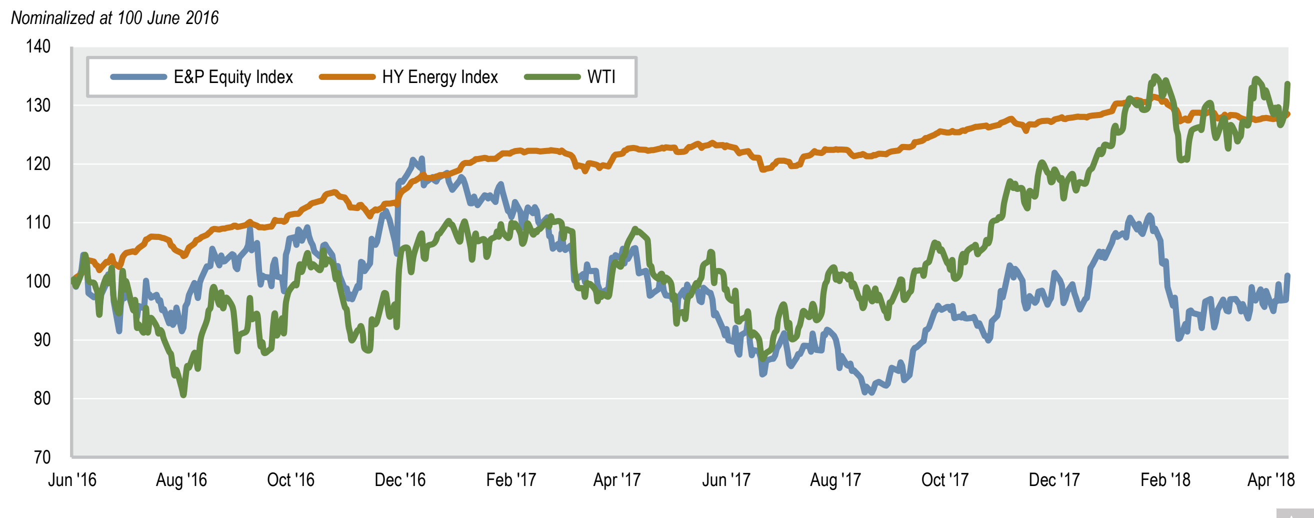
MONTHLY CUMULATIVE A&D DEAL COUNT



Source: PLS and 1Derrick.

The pace of acquisition and divestiture activity has slowed somewhat versus 2017; however, average deal sizes are growing larger.

COMMODITY PRICES VS. HIGH YIELD ENERGY VS. E&P EQUITY



Source: Evercore ISI Research.

Improving sector fundamentals underpinned by the rise in WTI prices have yet to entice meaningful net fund flows into E&P equities.

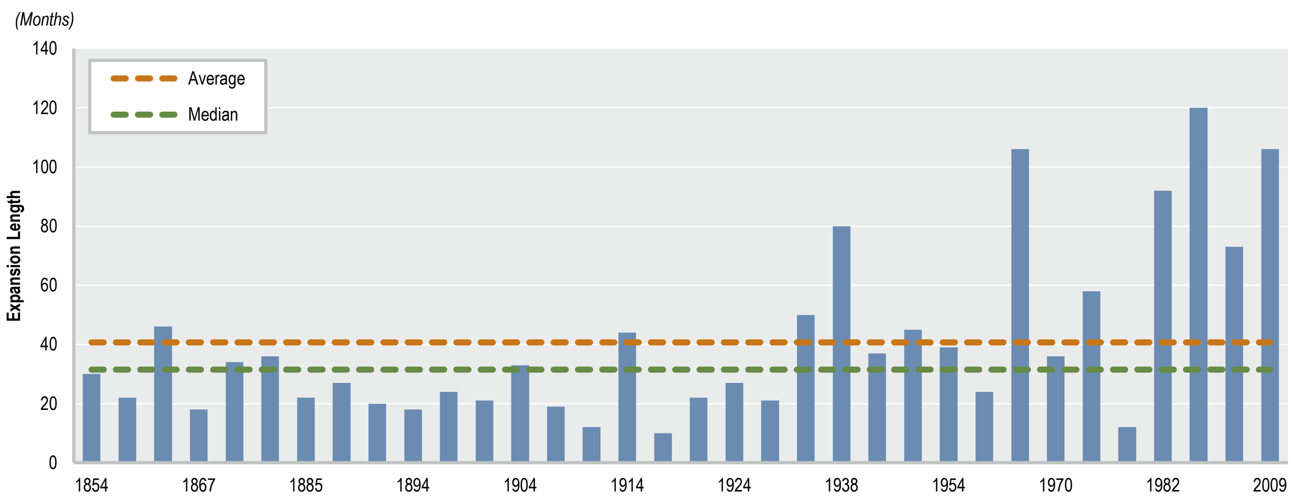
A NEW PRICE BAND FOR WTI

Source: Bloomberg.

Supported by increasing demand and somewhat curtailed supply growth, WTI has found a new home above $55.

DISTRESSED DEBT

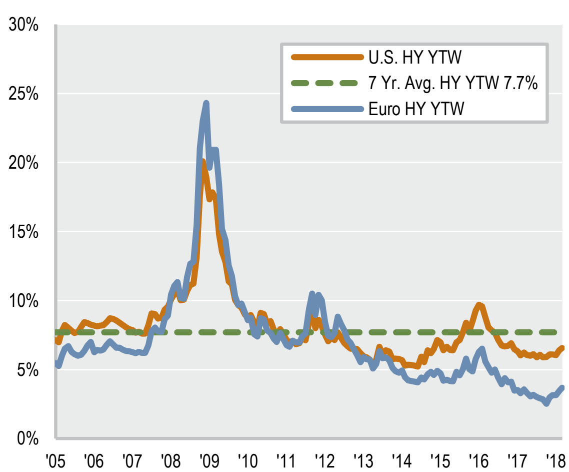
U.S. BUSINESS CYCLE EXPANSIONS



Source: Deutsche Bank, National Bank of Economic Research.

The current business cycle is the second longest on record.

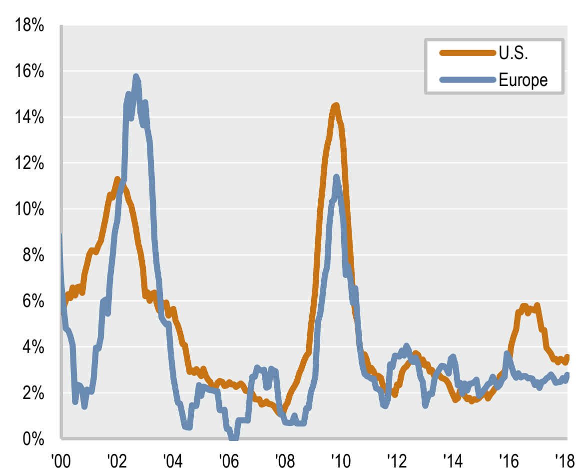
U.S. AND EUROPEAN HY BONDS YTW



Source: Bloomberg, J.P. Morgan indices.

Save for periodic bursts upward, European and U.S. HY spreads have been narrowing for some time.

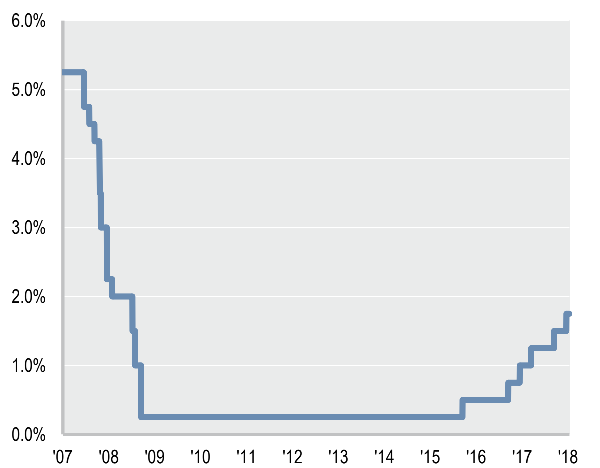
TRAILING 12 MONTH HY DEFAULT RATE



Source: Morgan Stanley, Moody's.

While on-the-run default rates remain subdued…

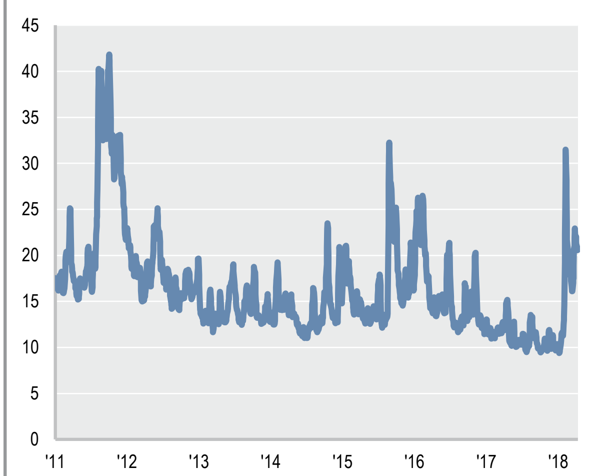
U.S. FEDERAL FUNDS RATE



Source: Bloomberg.

…rising rates could place pressure on corporate cash flow.

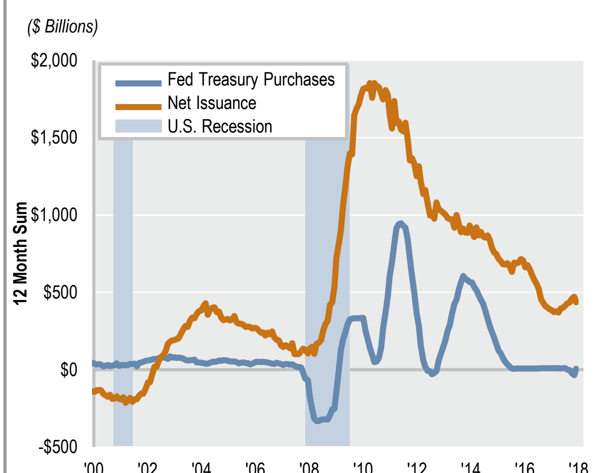
VIX FIVE DAY AVERAGE



Source: Bloomberg.

The recent return of volatility has created price and spread movement.

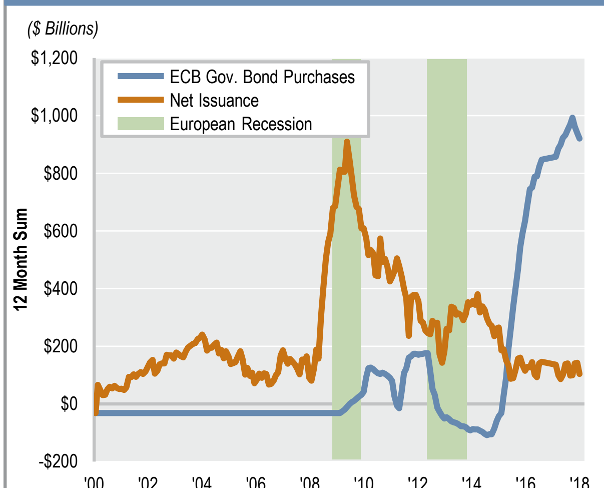
FED TREASURY PURCHASES NEVER EXCEEDED NET ISSUANCE



Source: Deutsche Bank, IMF.

While the Fed purchase programs remained well within supply…

ECB PURCHASES ARE 7x NET ISSUANCE

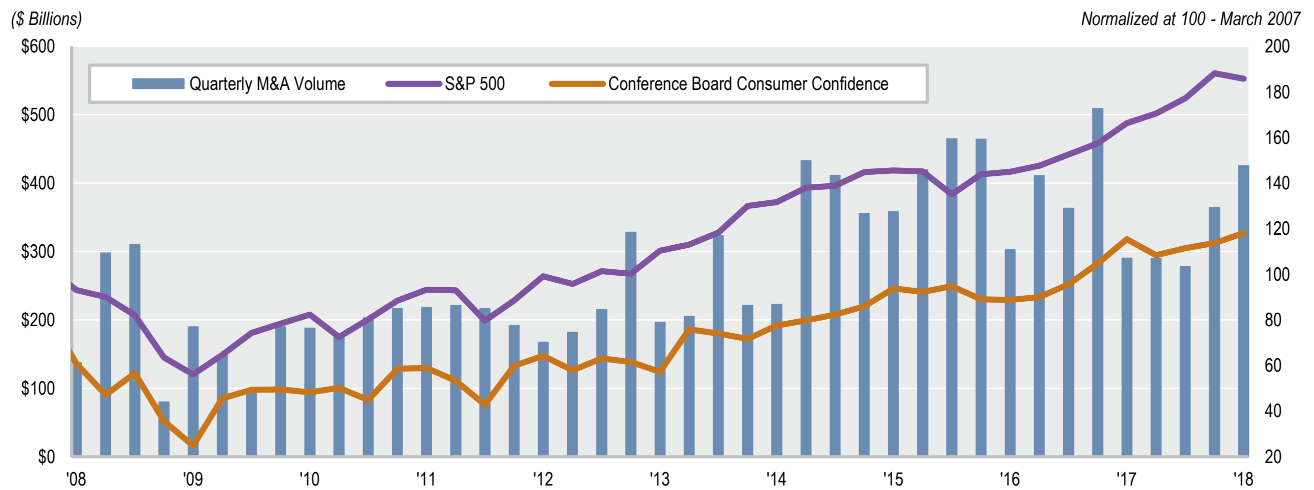


Source: Deutsche Bank, IMF.

…the ECB has truly distorted the secondary market.

MERGER & CONVERTIBLE ARBITRAGE

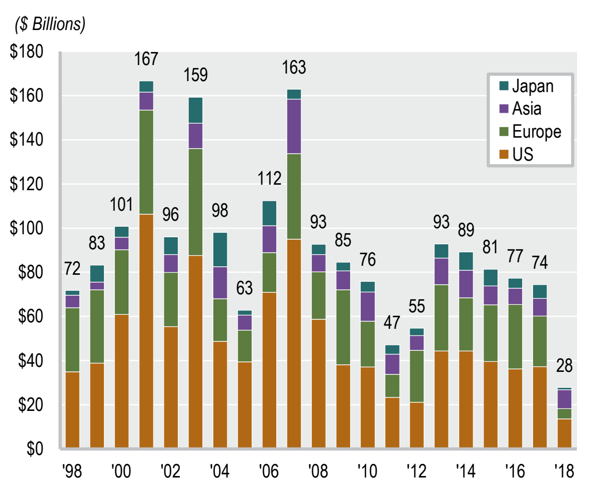
QUARTERLY NORTH AMERICA M&A VOLUME VS S&P 500 AND CONSUMER CONFIDENCE



Source: Bloomberg.

M&A volumes have not kept pace with the S&P 500 but still remain highly correlated to Consumer Confidence.

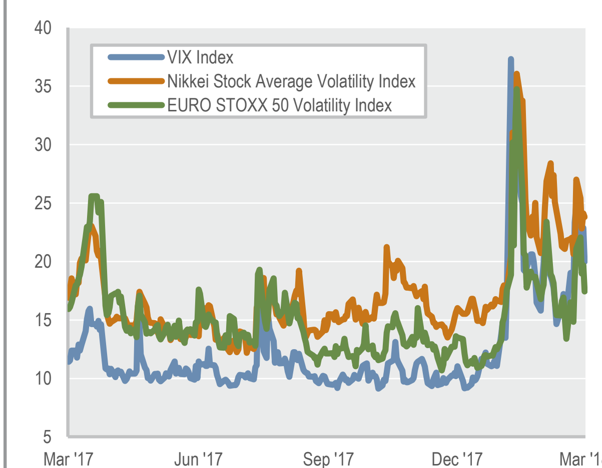
ANNUAL CONVERTIBLE ISSUANCE BY REGION



Source: Bank of America Merrill Lynch.

New issuance has had a very strong start to the year, particularly in the US.

GLOBAL CONVERTIBLE BONDS PERFORMANCE

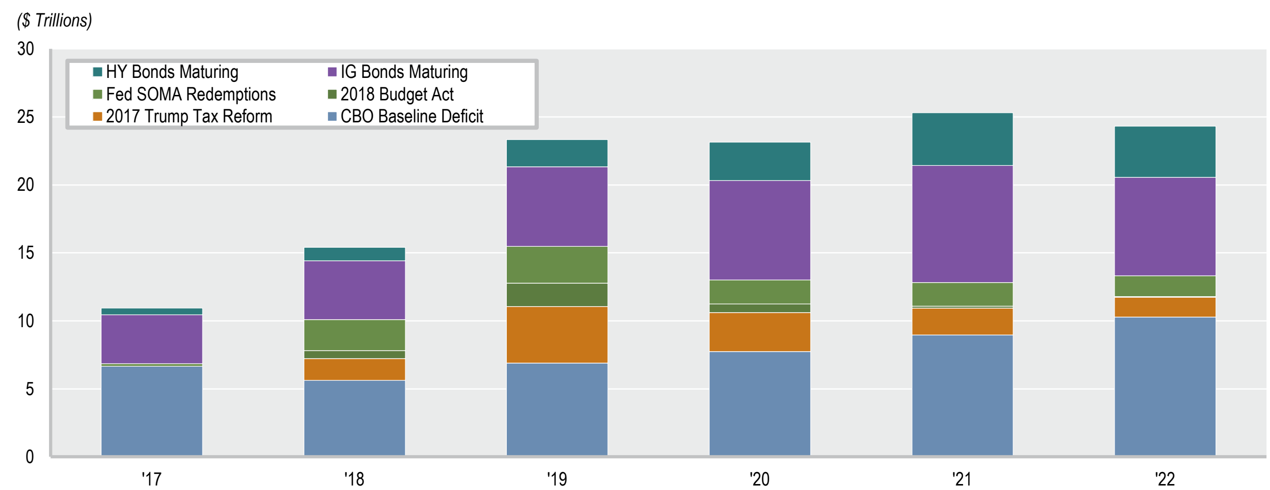


Source: Bloomberg.

Volatility returned to equity markets in Q1, supporting hedged convertible strategies.

LIQUID CREDIT

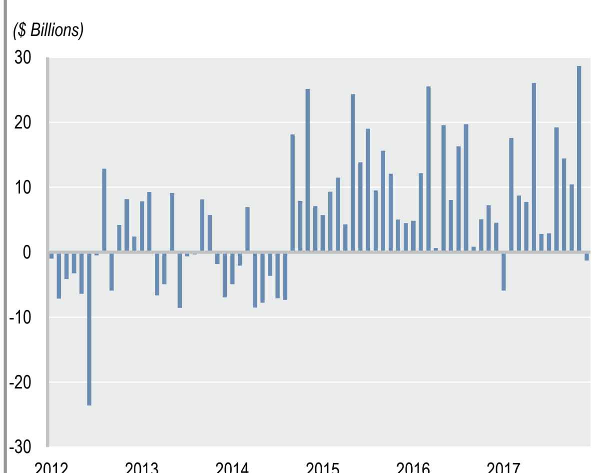
U.S. FIXED INCOME SUPPLY CONTINUES TO PUSH RATES HIGHER



Source: Deutsche Bank.

We maintain that rising rates will counter the persistent global bid for yield.

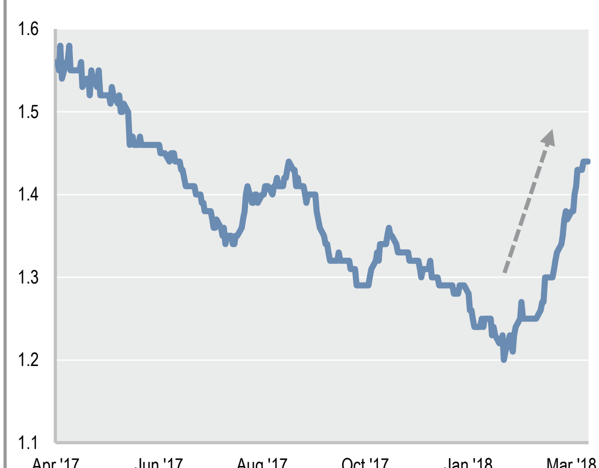
NET FOREIGN PURCHASES OF U.S. CORPORATES



Source: Deutsche Bank.

Demand technicals have played a tremendous role supporting asset prices over the last three years.

BBB SPREAD WIDENING

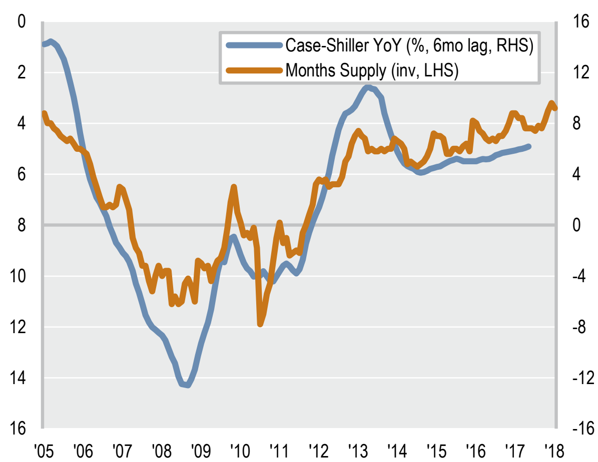


Source: Bloomberg.

Volatility returned to equity markets in Q1, supporting hedged convertible strategies.

RESIDENTIAL AND CONSUMER DEBT (RMBS/ABS)

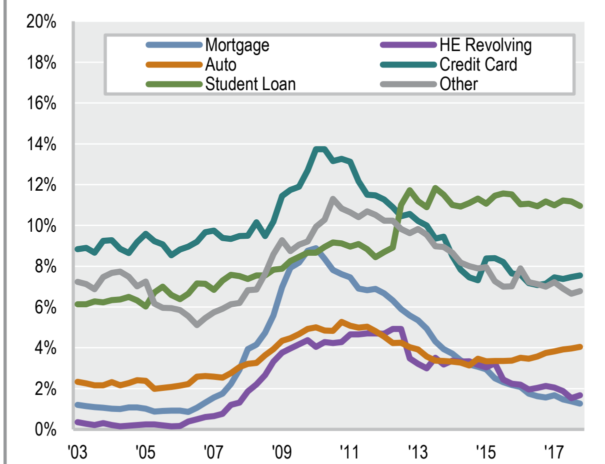
TIGHT SUPPLY SUPPORTS HIGHER HOME PRICES



Source: 1010data, CoreLogic, Case-Shiller, Zillow, Urban Institute, Bloomberg, National Association of Realtors.

Home price appreciation remained steady, a reflection of limited supply.

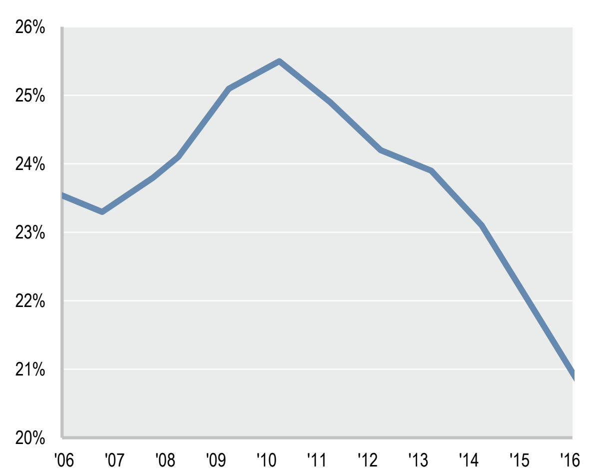
PERCENT OF BALANCE 90+ DAYS DELINQUENT, BY LOAN TYPE



Source: New York Fed Consumer Credit Panel/Equifax.

Overall residential and consumer debt delinquency levels remain contained, with the auto sector being the only one to experience increased delinquencies due in part to looser underwriting in the subprime market.

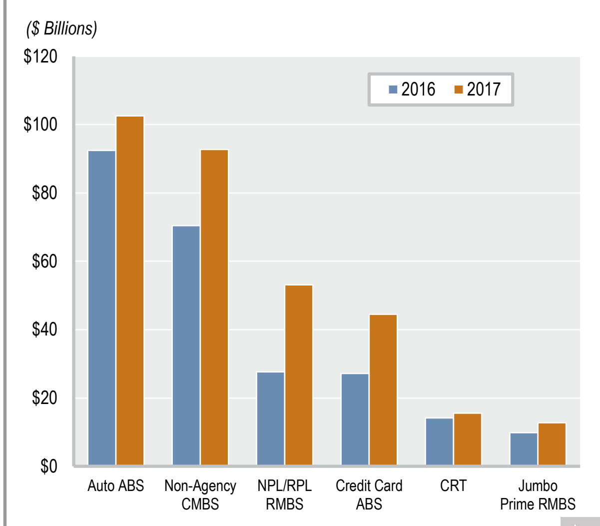
SHARE OF SUBPRIME FICO SCORES (BELOW 640)



Source: DB Global Research, FICO, Fannie Mae.

The share of subprime borrowers has steadily declined over the last 7 years.

U.S. STRUCTURED PRODUCT ISSUANCE

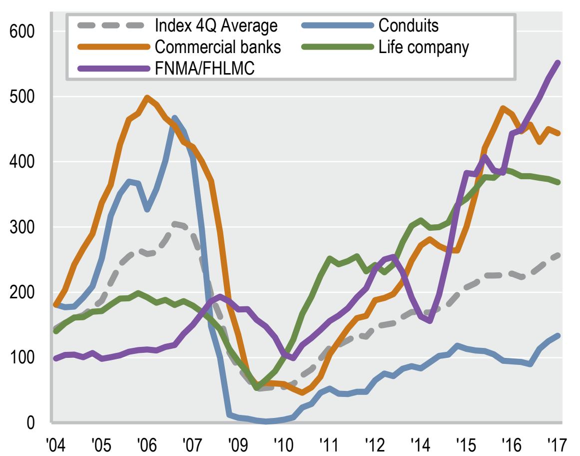


Source: Bloomberg, Intex, SIFMA, Goldman Sachs Global Investment Research.

Issuance increased across all market sectors in 2017.

COMMERCIAL REAL ESTATE DEBT (CMBS)

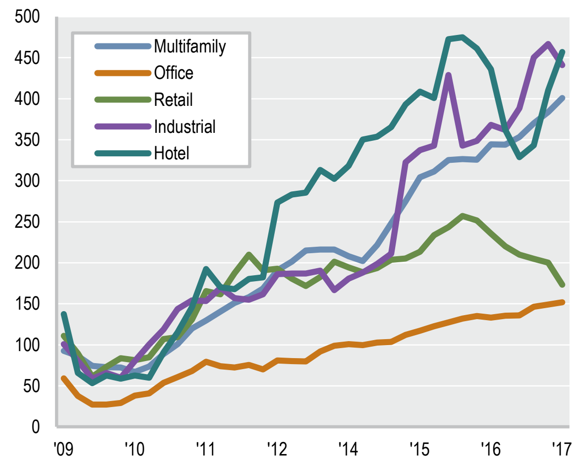
CONDUIT AND GSE LENDING CONTINUES TO RISE



Source: Credit Suisse, MBA.
Note: The index is benchmarked such that 100 equals the average origination quarter in 2001. The lines represent the four quarter moving average.

Overall CMBS lending has increased, with Fannie Mae, Freddie Mac and private label conduit issuance all increasing.

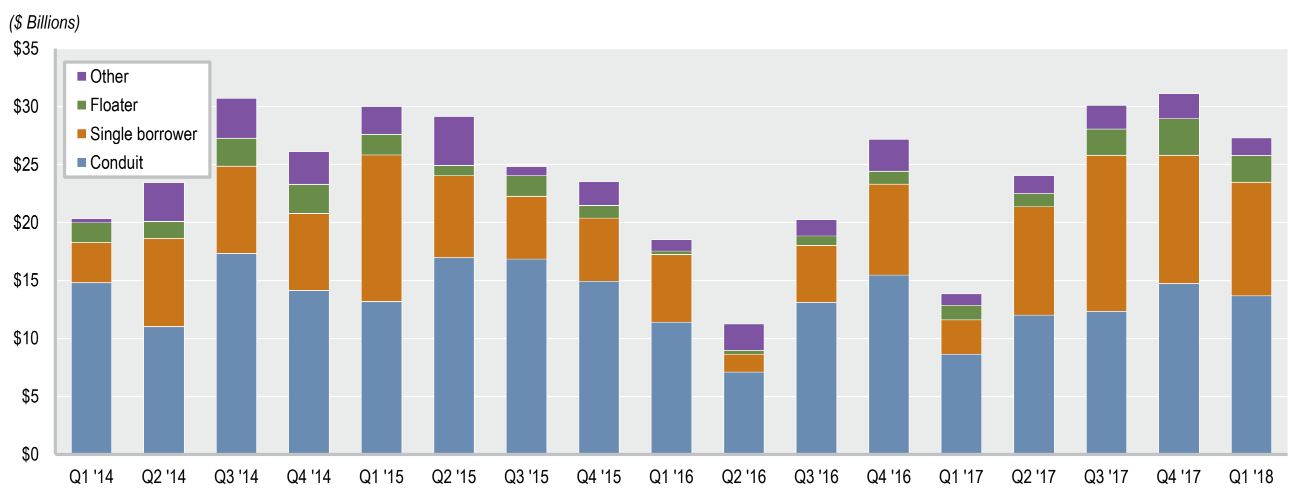
RETAIL LENDING HAS SLOWED, WHILE HOTEL LENDING HAS PICKED UP



Source: Credit Suisse, MBA.
Note: The index is benchmarked such that 100 equals the average origination quarter in 2001. The lines represent the four quarter moving average.

Retail lending has continued to decline while hotel lending sharply increased in 2017.

MONTHLY PRIVATE LABEL ISSUANCE

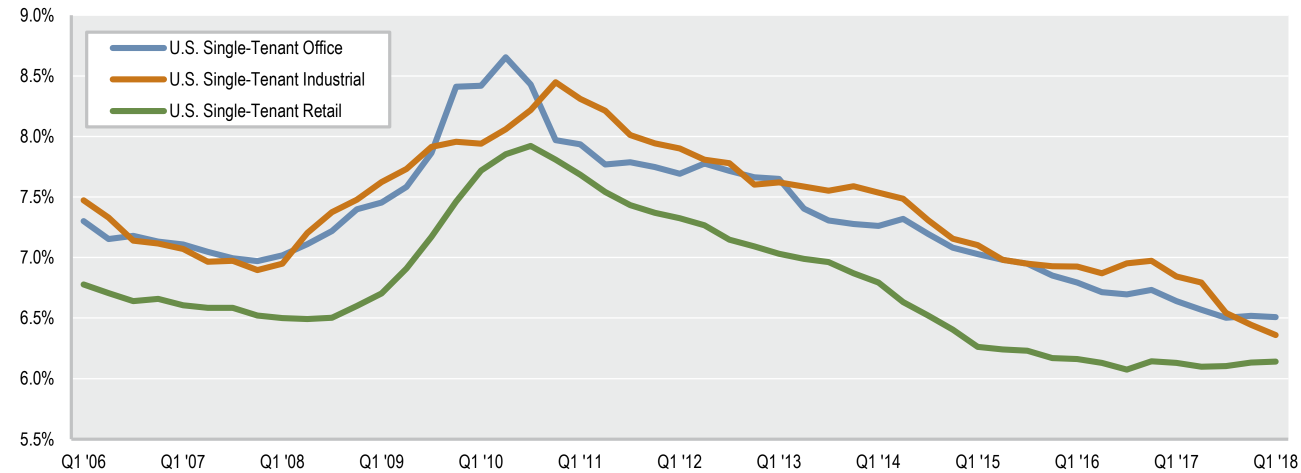


Source: Credit Suisse, Commercial Mortgage Alert.

Year-over-year issuance increased substantially versus Q1 2017 with Single Borrower issuance remaining strong.

NET LEASE REAL ESTATE

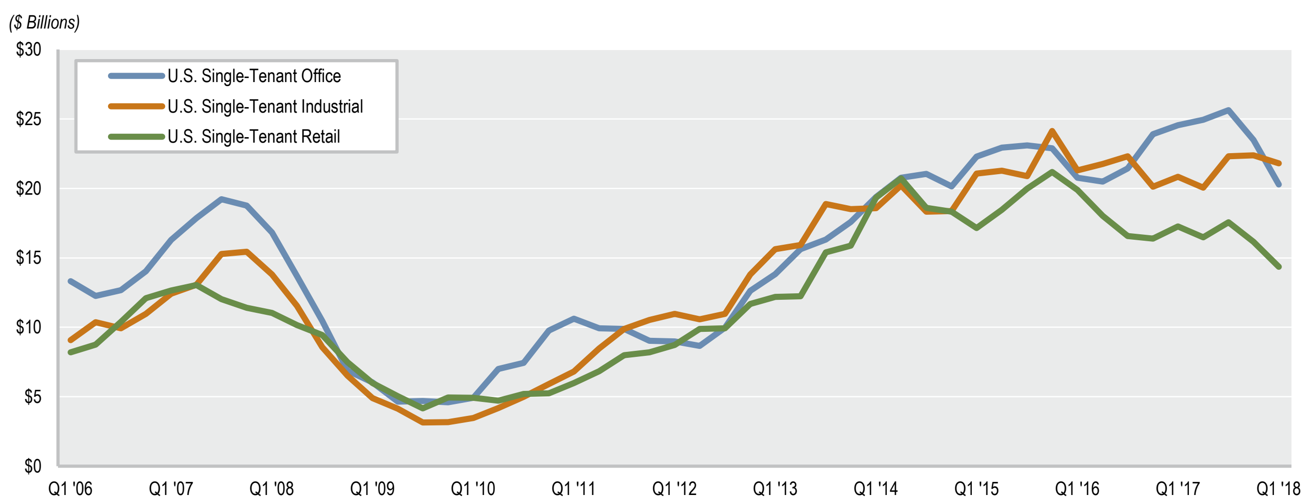
AVERAGE SINGLE-TENANT CAP RATES



Source: Real Capital Analytics.

Office and retail cap rates have started to increase from recent lows, while industrial continues to compress.

12-MONTH ROLLING SINGLE-TENANT DEAL VOLUME

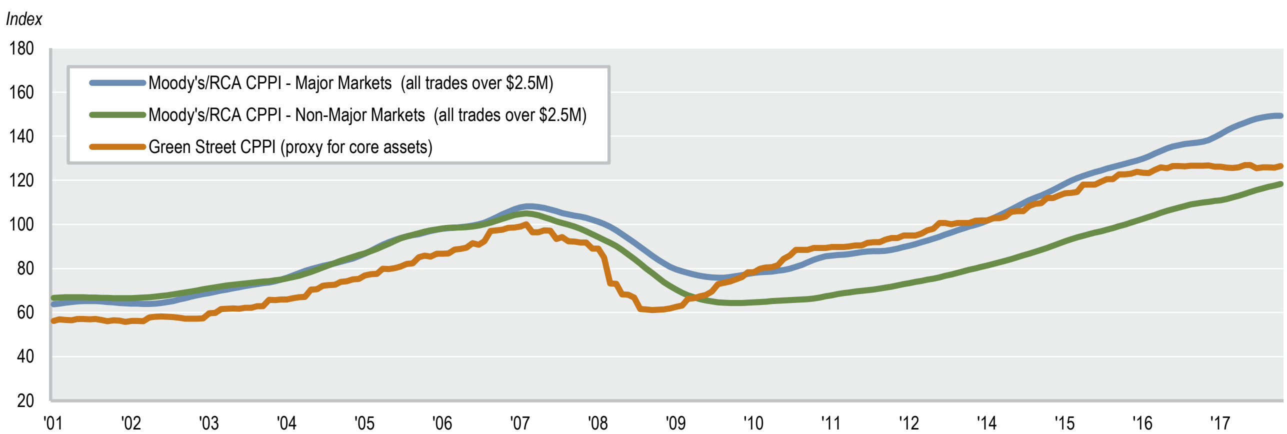


Source: Real Capital Analytics.

Office and retail volumes declined.

REAL ESTATE – UNITED STATES

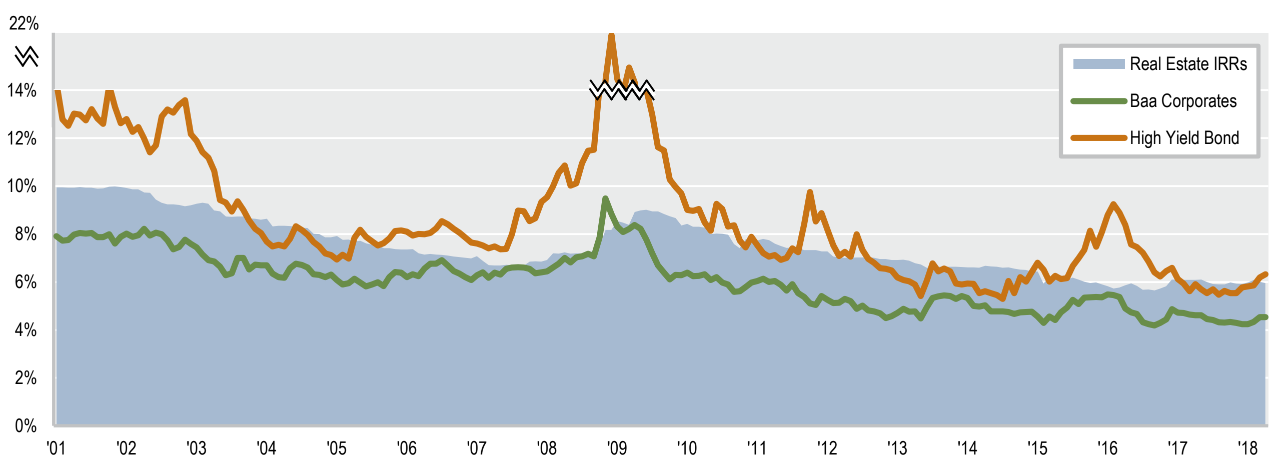
COMMERCIAL REAL ESTATE PRICE INDICES



Moody's CPPI = Moody's/RCA All Property Types
Green Street CPPI = Major Sectors
Sources: Moody's – Commercial Property Price Index (Moody's CPPI) (data through April '15), Green Street Advisors – Commercial Property Price Index (Green St CPPI) (data through May '15). Note: For this chart, Green St CPPI was indexed to 100 at it's 2007 peak (Aug 2007) and Moody's CPPI was indexed at 100 in Dec 2006.
Note: Major markets include Boston, Chicago, Washington D.C. Metro, Los Angeles Metro, New York City Metro and San Francisco Metro.

Price indices show differing results, with core market values leveling off while the broader market continues to see increases; performance of asset classes diverging as industrial and apartments continue to increase while office and retail stagnate or fall.

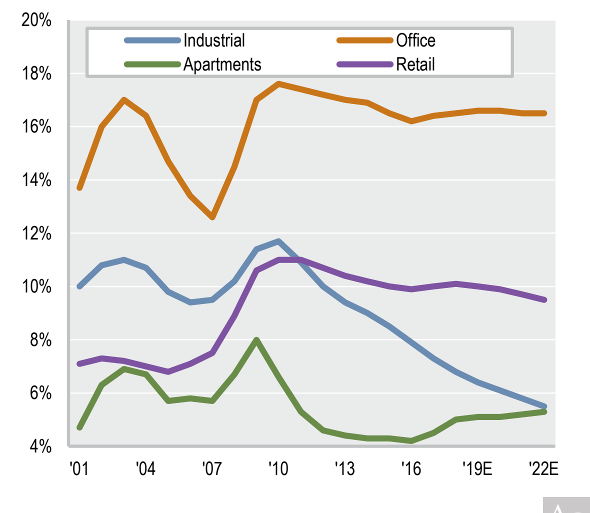
UNLEVERED TOTAL RETURN EXPECTATIONS ON REAL ESTATE VS. CORPORATE BOND YIELDS



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).

Comparing the historic relationship of expected returns for real estate to corporate and high yield bonds indicates that real estate is attractively priced on a relative basis.

VACANCY RATES STEADY



Source: REIS, J.P. Morgan.

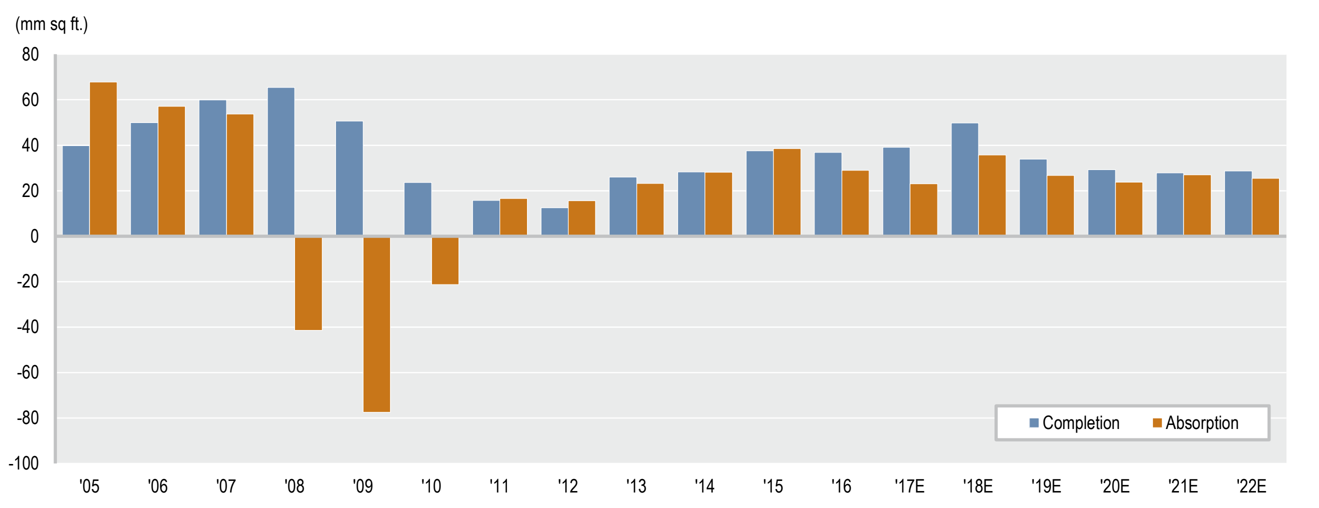
Sharp drop projected for industrial vacancy on e-commerce demand.

RENTAL GROWTH IS STEADY

Source: REIS, J.P. Morgan.

Rental growth remains largely steady and positive for all property types.

OFFICE COMPLETIONS OUTPACING ABSORPTION

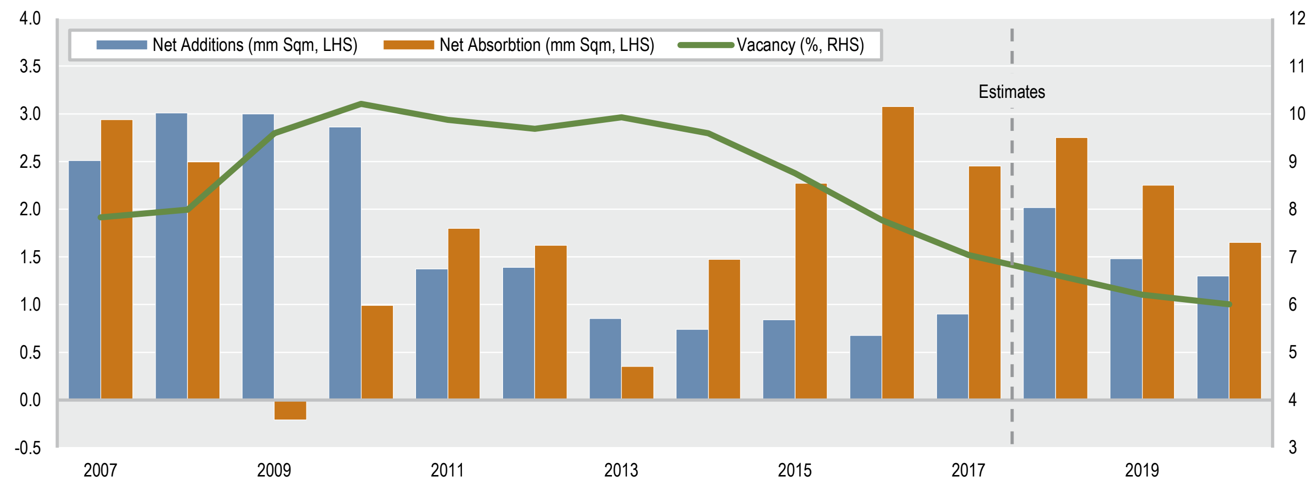


Source: REIS, J.P. Morgan.

Office completions projected to peak in 2018 at 1.2% of existing supply, but positive absorption will maintain a stable overall vacancy rate.

REAL ESTATE – EUROPE

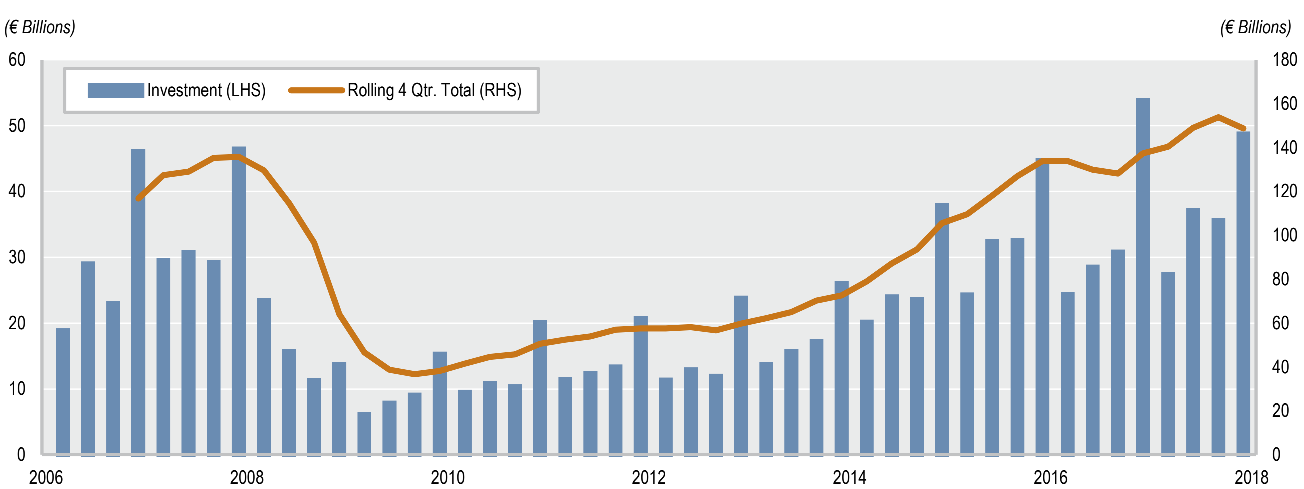
EUROZONE OFFICE SUPPLY & DEMAND INDICATORS



Source: Capital Economics March, 2018.

Vacancy is expected to decline significantly in the wake of strong demand.

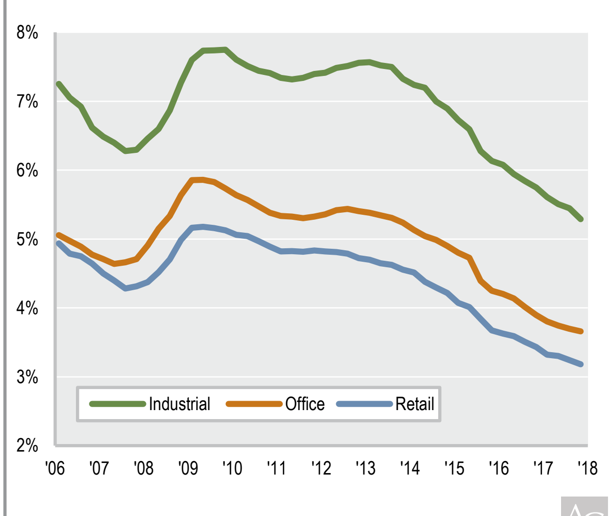
EUROZONE COMMERCIAL PROPERTY INVESTMENT



Source: Capital Economics March, 2018.

European commercial property investment up 14% over last four quarters.

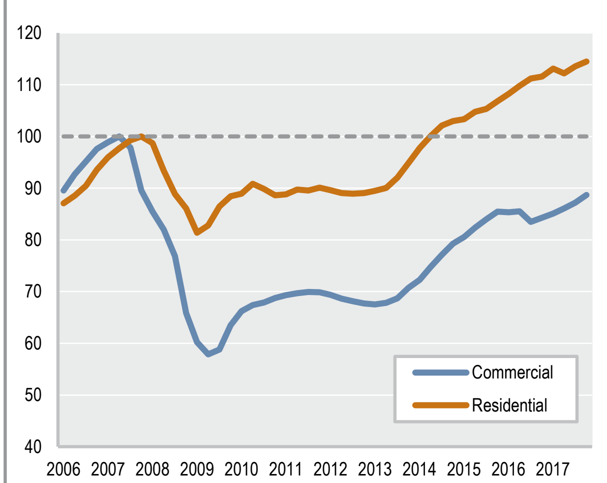
WEIGHTED AVERAGE EUROZONE PRIME PROPERTY YIELDS



Source: Capital Economics March, 2018.

Weighted average prime property yields dropped circa 11% year-over-year.

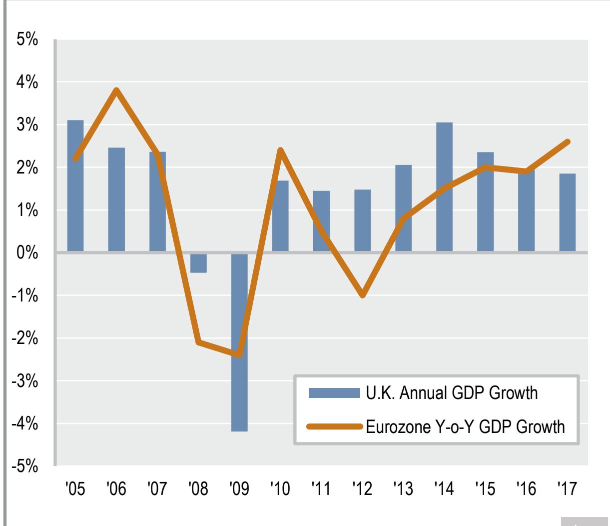
U.K. RESIDENTIAL AND COMMERCIAL PROPERTY PRICES



Source: Thomson Datastream, MSCI, and Capital Economics (Dec 2017). 2007 Peak = 100

U.K. commercial real estate prices still below their 2007 peak.

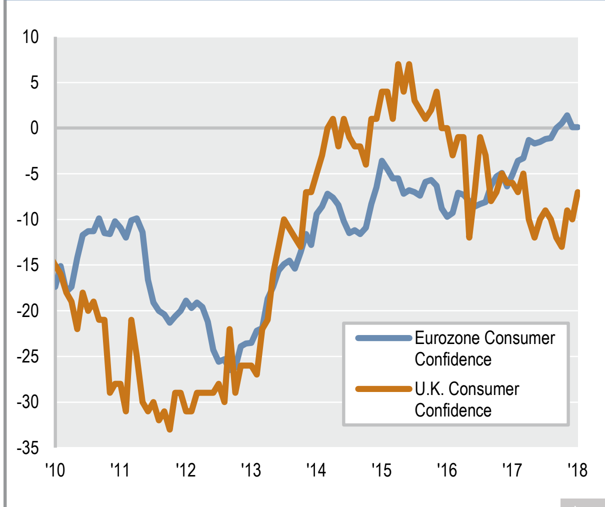
U.K. & EUROZONE GDP GROWTH



Source: Bloomberg.

Eurozone GDP growth continues to accelerate and now exceeds UK growth levels.

U.K. & EUROZONE CONSUMER CONFIDENCE

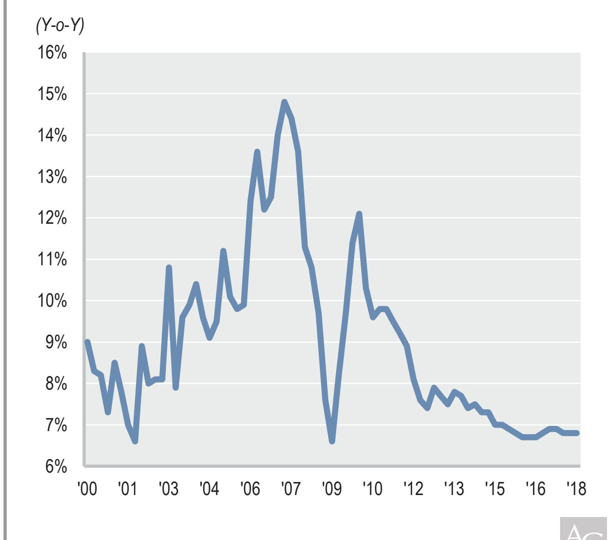


Source: Bloomberg.

U.K. confidence remains in negative territory, where it has sat since BREXIT.

REAL ESTATE – ASIA

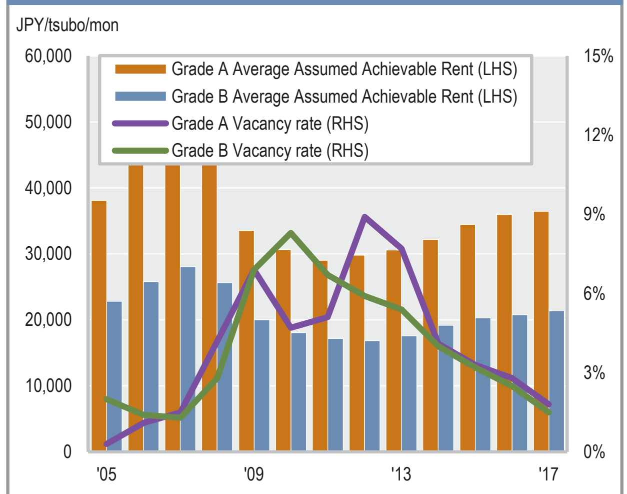
CHINA GDP GROWTH RATE



Source: National Bureau of Statistics of China.

GDP growth continued to track toward 6.5% to 7.0%.

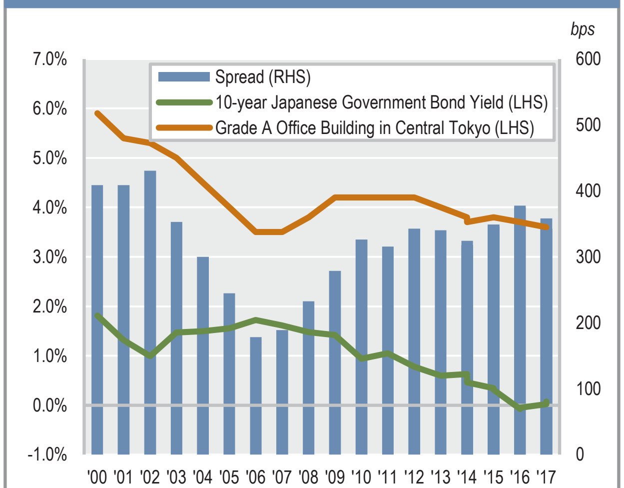
TOKYO'S 23 WARDS GRADE A & B OFFICE RENT AND VACANCY



One tsubo is equal to approximately 3.3 square meters.
Source: CBRE (December 2017).

Office fundamentals in Tokyo continue to improve although significant new supply is expected in coming years.

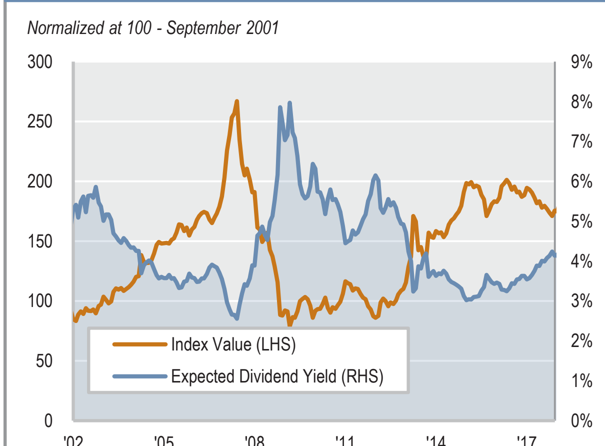
TOKYO GRADE A OFFICE CAP RATES VS. BORROWING COSTS



Source: Japan Real Estate Institute.

Cap rate spreads continue to remain wide.

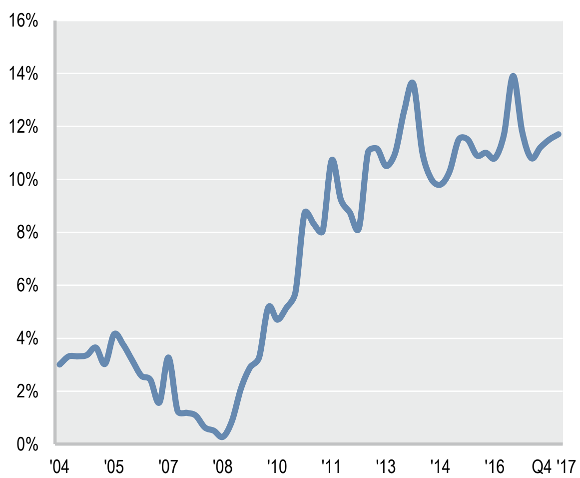
JAPANESE REAL ESTATE INVESTMENT TRUST (J-REIT) INDEX AND DIVIDEND YIELD



Source: Sumitomo Mitsui Trust Research Institute Co.

The J-REIT index saw declines during the ongoing Financial Service Agency investigation into potential improper practices by Japanese mutual funds.

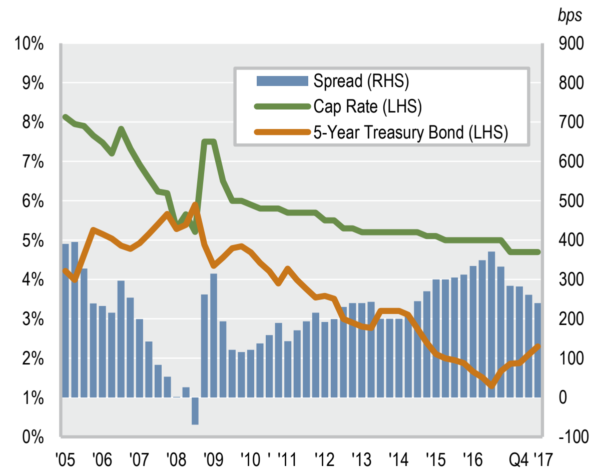
SEOUL OFFICE VACANCY RATE



Source: Jones Lang Lasalle Research.

Office vacancy remained high at nearly 12% as new supply was delivered to the market.

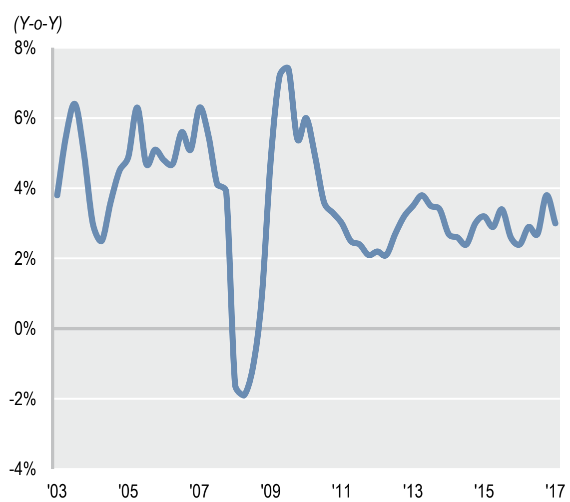
SEOUL PRIME OFFICE CAP RATE AND SPREAD OVER 5-YEAR TREASURY YIELD



Source: Savills Research.

Spreads have begun to tighten as the 5 year Korean Treasury Bond has risen.

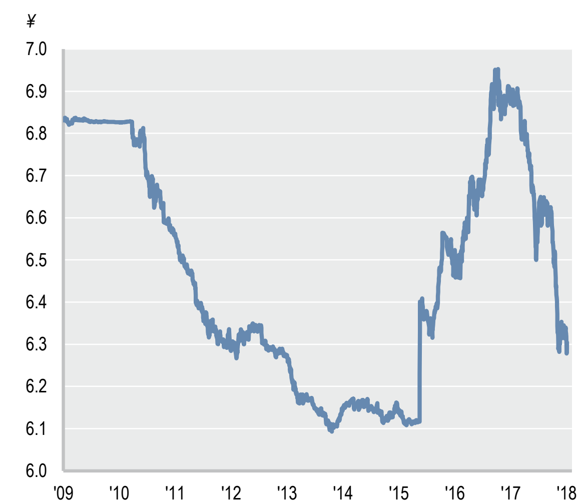
KOREA GDP GROWTH



Source: Bank of Korea.

GDP growth continues to maintain a narrow band around 3%.

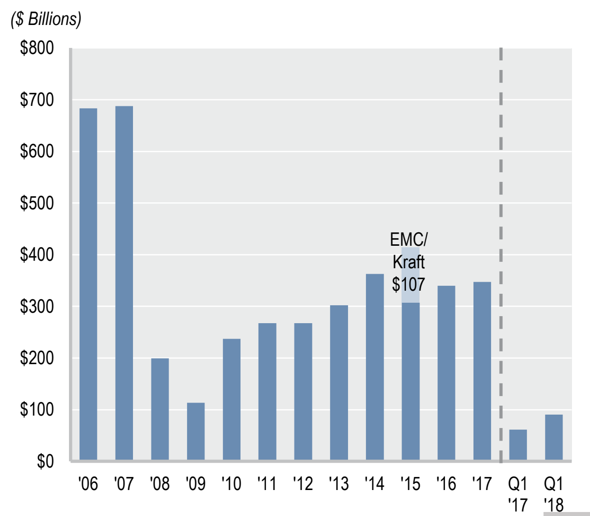
USD VS. CNY



Source: Bloomberg.

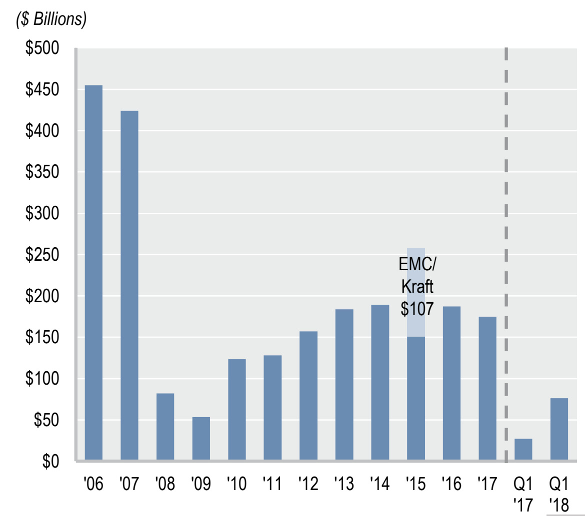
The Chinese RMB continued to show surprising strength in the most recent quarter.

GLOBAL LBO DEAL VALUE



Source: Preqin.

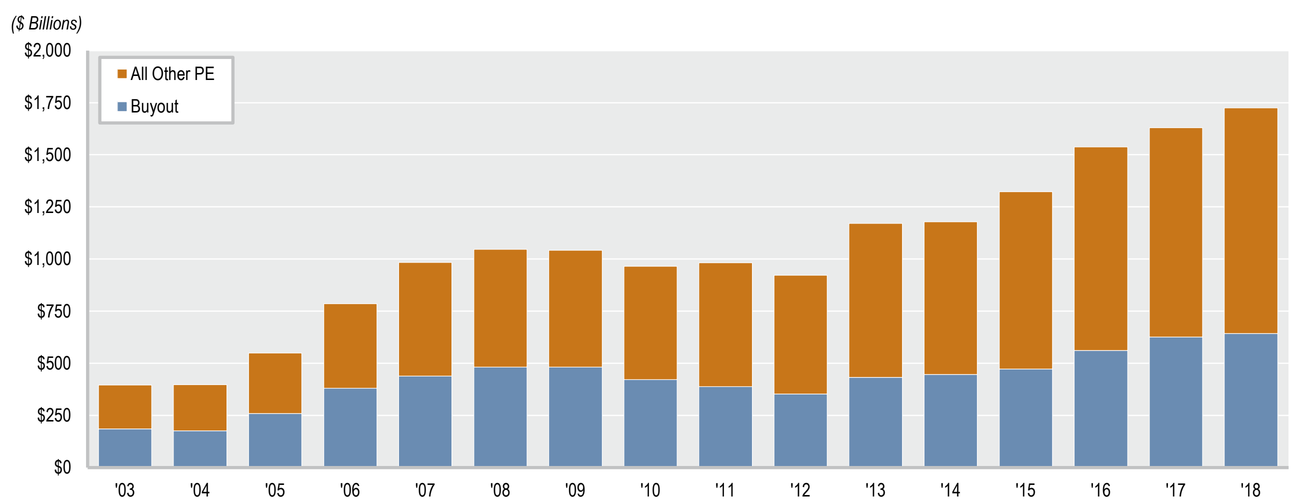
NORTH AMERICA LBO DEAL VALUE



Source: Preqin.

Both global and North American deal volume in the first three months of 2018 increased dramatically, led by several multi-billion dollar buyouts.

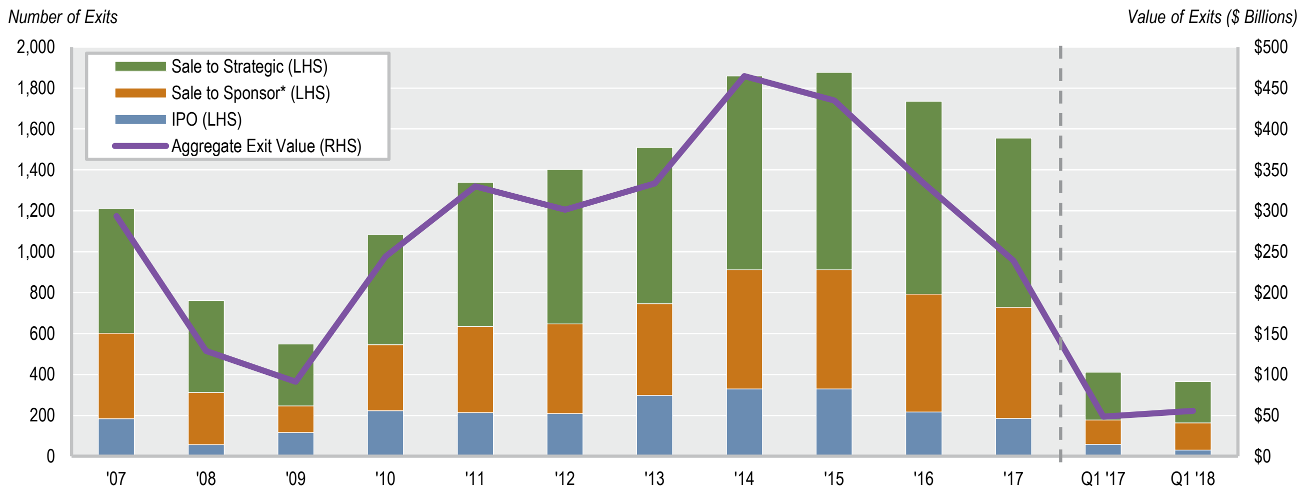
GLOBAL PRIVATE EQUITY DRY POWDER



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

Buyout dry powder at March 31, 2018 which stood at $642 billion increased 2% from the end of 2017, continuing the trend of quarterly all-time highs.

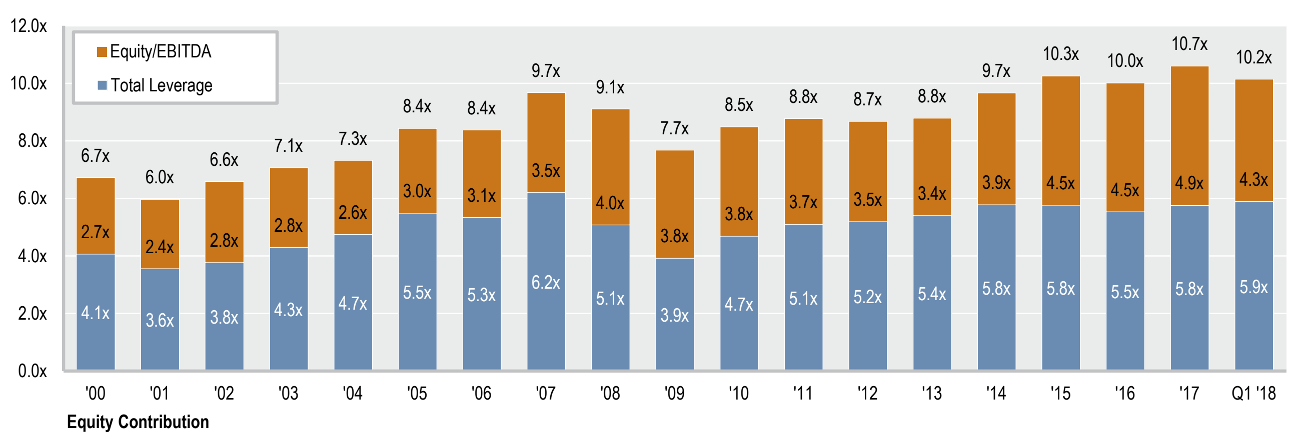
PRIVATE EQUITY EXITS



** Sale to Sponsor includes management-led buyouts*
Source: Preqin.

The number of exits in the first three months of 2018 was lower than in the first three months of 2017 however dollar volume increased 11% representing larger dispositions by sponsors.

LBO PURCHASE PRICE BREAKDOWN



Equity Contribution

'00	'01	'02	'03	'04	'05	'06	'07	'08	'09	'10	'11	'12	'13	'14	'15	'16	'17	Q1 '18
34%	35%	37%	35%	33%	30%	31%	31%	39%	46%	41%	38%	38%	36%	37%	40%	41%	41%	39%

Source: S&P Capital IQ LCD.

LBO multiples in the first three months of 2018 (10.2x) decreased from the 10.7x level of 2017 but are consistent with prior years.

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