



CAPITAL MARKETS PERSPECTIVES

THIRD QUARTER 2018

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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.



Maureen D'Alleva
Portfolio Manager

PERFORMING CREDIT

The leveraged loan market extended its streak of positive performance for a tenth consecutive quarter, as the Credit Suisse Leveraged Loan index returned 0.78% in the second quarter. With year-to-date returns of 2.38%, the loan market continues to meaningfully outperform high yield returns of 0.20%. Last quarter's macro themes remain relevant, with equity market volatility, an interest rate hike from the U.S. Federal Reserve and the escalating threat of a trade war affecting the markets and investor sentiment. Given the floating rate, secured nature of the loan market, these challenges have been more easily absorbed by loan investors than by high yield investors.

Although gross loan issuance declined roughly 8% over the first two quarters of the year, net supply has resulted in the loan market growing to approximately \$1.1 trillion. The quarter ended on a strong note with June's net institutional loan issuance (ex refi/repricing) exceeding the previous record set in February 2007. On the demand side, gross CLO issuance of \$86.4 billion was the highest quarterly total on record. During the first six months of the year the market has absorbed nearly \$150 billion of gross supply and although this represents a decline of roughly 3% on last year, it marks a significant increase of over 30% in net supply (approximately \$70 billion versus \$52 billion in the first half of 2017). As a result, CLO spreads widened in June. Rising interest rates continue to drive investor demand for floating rate assets. Loan fund flows were positive in each month of the quarter and now total nearly \$12 billion for the year, which equates to 8.5% of loan fund AUM. The strong levels of inflows are in stark contrast to the significant outflows high yield funds have experienced this year: through the end of the quarter, high yield funds had suffered outflows of nearly \$24 billion. This equates to over 7.5% of AUM and exceeds total 2017 outflows of \$20.6 billion.

On balance, despite continued positive fund flows and CLO issuance, supply weighed on the market into quarter-end. At \$98.40 the average price of the J.P. Morgan index is near its lowest level since late 2017 and, at 20.1%, the percentage of loans trading above par is near its lowest level in close to two years. It is important to note that as loan spreads were repriced lower over the last several quarters, the natural outcome is a decline in loan price as it moves back to par. Therefore, we believe today's market, with 20% of loans trading above par, represents a healthy, balanced market versus earlier this year when 70+% of loans were trading above par. There should also be less risk of spread tightening in today's environment, so the average spread investors are earning should remain relatively constant throughout the third quarter of 2018. During the second quarter, investors were sporadically able to take advantage of pockets of softness to garner better pricing and terms. At this stage of the credit cycle we continue to believe that there are attractive opportunities to invest in both the first and second lien loan markets.



Trevor Clark
Portfolio Manager

MIDDLE MARKET DIRECT LENDING

Middle market syndicated loan issuance picked up steam in the second quarter, reaching \$48 billion and resulting in first half issuance of just over \$90 billion, the highest tally since 2014. In a theme reminiscent of the broadly syndicated loan market, refinancings accounted for over 60% of issuance in the first half of the year. Sponsored syndicated issuance of \$20.9 billion declined 4% versus the first quarter but first half sponsored issuance was up 14% versus last year. Add-on acquisitions accounted for more than a third of new money sponsored lending in the quarter.

With respect to generic market pricing, while over 90% of first lien middle market loans came to market priced at 99.5 or higher, all-in yields, including LIBOR and spread, have increased over the course of the year, in no small part due to the 60+ basis point increase in three-month LIBOR. Unitranche spreads, however, tightened for the fourth consecutive quarter to 615 basis points. With regard to lender protections, covenant-lite loans, once strictly seen in the broadly syndicated loan market, continue to gain prevalence. According to a Thomson Reuters survey, over 65% of lenders are willing to do cov-lite loans versus last year when 60% of lenders said they would not do cov-lite loans. In both instances, however, lenders want a minimum EBITDA of at least \$40 million. EBITDA adjustments have also become more widespread; a majority of lenders indicated that only sometimes do these adjustments come to fruition. Despite the willingness of lenders to give on some protections they are far less willing to go lower in the capital structure or do significantly higher leverage deals.

Given its vast scope, the middle market is far from uniform and we believe lenders can differentiate themselves in numerous fashions, including sourcing, diligence process, industry focus, seniority in the capital structure, and experience in direct lending. Although today's competitive dynamics may compel lenders to stray from their historical approach we believe that credit discipline will ultimately reign supreme.

PORTFOLIO MANAGERS' OVERVIEW *(continued)*



Todd Dittmann
Portfolio Manager

ENERGY

WTI remains above \$65, as strong global demand coupled with declining inventories have provided support. Despite concerns regarding tariffs and rising commodity prices, the IEA forecasts continued demand growth through 2019. OPEC has agreed to increase production, however, dysfunction in Venezuela and pending U.S. sanctions against Iran effectively create a ceiling for incremental supply, although it now appears likely that a more measured approach to a full wind-down of Iranian crude purchases may occur. While rising U.S. production – now approaching 11 million barrels/day – will help augment OPEC production, global spare capacity is contracting and the ability to respond to market shocks is limited. These multiple moving parts combine to suggest that volatility in prices may be the new norm.

After a slow start, energy equities benefited from a strong second quarter, with the XOP index now outpacing the broader market year-to-date. Recent performance notwithstanding, oil and gas valuation multiples continue to trade at a two-turn discount to the five-year average and the divergence in energy equities versus oil prices remains severe. Permian producers have been scrutinized by investors, as takeaway capacity constraints are arising amidst accelerating production and should persist through late 2019. Once the beneficiaries of premium valuations, producers within the basin have generally underperformed the XOP. Oil and gas equity issuances are down sequentially and year over year.

During the quarter, the Credit Suisse Energy High Yield Index tightened from 7.2% to 7.0%, following the uptick in crude. The leveraged finance markets priced \$19 billion of supply during the quarter, approximately half of which was loan issuance – the highest level since 2014.

Producer capital discipline remains intact. Reinvestment rates have fallen below 100% of free cash flow, resulting in a continuing deleveraging trend across the oil and gas subsector. Such discipline has suppressed public company acquisition appetites, resulting in an historically high backlog of privately held assets seeking buyers. Compounded by an inactive IPO market, energy private equity now has an exit problem as both the sale and IPO paths are blocked.

With a growing need for working capital from oilfield services borrowers and the continued de-risking of oil and gas borrowers, demand for non-bank term debt has increased. We also expect the private equity exit conundrum to further enhance demand for debt financing, including DrillCo's and dividend recapitalizations. Finally, as the high yield markets are open only to larger deal sizes, we continue to see attractive opportunities to anchor club-syndicated senior secured term loans.



David Kamin
Co-Portfolio Manager

DISTRESSED DEBT

The second quarter of 2018 was largely benign for large cap stressed and distressed companies as capital markets remained open (at least for loan issuers) and trailing default levels were subdued. In fact, with no defaults in June and the second quarter of 2018 seeing the second lowest quarterly default total in almost five years, it appears that maturity extension is the norm, credit is priced to near-perfection, and creditor protection is a thing of the past. In fact, covenant-lite is so pervasive it is now approaching 80% market share in the U.S. and 75% in Europe. The ravenous appetite for primary loan product among CLOs and other rate-biased buyers is quickly absorbing near-record loan issuance driven by a feverish recent [U.S./global] M&A environment.

However, despite the benign default environment, there are some distinct signs of market cracks and re-pricing. While global year-to-date loan issuance is up a modest 2% from 2017, weak investor demand has dampened the appeal of high yield product, and has notably translated into secondary market re-pricing. Against the backdrop of a receding ECB floor, the European primary market has seen a number of deals hung on dealer balance sheets. In fact, for the first time in more than three years, we are seeing deals either failing to price or pricing with changes to terms with discount. This trend is pushing the secondary market wider and lower in the context of macro concerns related to Brexit, Italy, Germany, Spain and U.S./China trade. What this clarifies for risk market participants is that the secondary market has not been reflecting current demand for risk. While we do not expect near-term severe pain (or liquidation), the primary market is effectively re-pricing the secondary market which has now corrected materially since its fourth quarter 2017 tightness.

In the U.S., we are closely monitoring the continued flattening of the Treasury yield curve, the inversion of which typically carries ominous predictions for the global economy. We are also increasingly seeing the rapid negative market pricing behavior to companies that even slightly miss earnings or report unexpected developments. With technology- or behavior-driven change disrupting several sectors, intra-industry dispersion continues to run cyclically high and has been driving single name price volatility. With total debt multiples for large cap names at or near all-time highs (10 years for Europe), there is less and less room for the slightest hiccup.



Dan Pound
Co-Portfolio Manager



PORTFOLIO MANAGERS' OVERVIEW *(continued)*



David Kamin
Portfolio Manager

MERGER ARBITRAGE

Announced U.S. M&A volume continued its robust pace for 2018 as second quarter deal value was up 69% from 2017 and 16% sequentially. The second quarter figure followed the strongest first quarter for M&A since 2000 and puts the 2007 high within reach. While global regulatory uncertainty and the U.S.-China trade dispute continued to weigh on merger arbitrage trading, it has yet to materially impact corporate growth via M&A. Highlighting this trend was Takeda's acquisition announcement of Shire plc during the second quarter. Shire would be Takeda's largest acquisition in its corporate history and one that will re-orient the pharmaceutical company focus from primarily Japan to global. Following on the influence of corporate tax reform on M&A that commenced in the first quarter, the second quarter saw a number of energy MLPs simplify their corporate structures by collapsing their respective GP/LP.

Early in the second quarter merger arbitrage spreads widened in response to the escalating U.S.-China trade dispute. While both countries have made efforts to approve deals during the dispute, there remain a few deals hanging in the balance that are an overhang for investors. This has led arbitrageurs to rotate money from deals that require Chinese antitrust approval to those that do not. This rotation trade, along with the closing of the Monsanto / Bayer and Time Warner Inc. / AT&T deals, helped merger arbitrage spreads narrow during the quarter from 12% annualized to approximately 9.5%. It remains to be seen how the DOJ will react to its court defeat in its attempt to stop AT&T from acquiring Time Warner Inc., but arbitrageurs will be watching closely to see if the DOJ will retreat as they have done subsequent to other defeats or if the directive continues to be in active antitrust enforcement.



Gary Wolf
Portfolio Manager

CONVERTIBLE ARBITRAGE

During the second quarter global equity markets managed to reverse their first quarter losses, even as trade tensions and geopolitical concerns remained omnipresent. This reversal brought the MSCI World Index to an approximate flat total return for the first half on a local currency basis. Volatility levels initially declined with equity markets recovering, but they finished the quarter well off last year's lows.

The overall weakness in global credit markets continued during the second quarter. Global convertible bonds returned 1.6% in the second quarter on an outright basis, increasing the year-to-date performance to 3.7%. Convertible bond valuations, however, continued to be pressured with long-only investors reducing exposure to protect gains, meet redemptions and create liquidity to absorb the strong primary market supply. As a result, a delta-hedged convertible index is now down 2.7% for the year.

A conducive market environment of rising interest rates and higher volatility allowed the primary market to accelerate further and the \$57.8 billion of new convertibles issued so far this year represents the strongest first half since 2008. The U.S. (\$34.2 billion) and Asian (\$12.1 billion) markets drove the increase in deal volumes, while Europe (\$9.5 billion) and Japan (\$2.0 billion) issuance declined. We expect the primary market to remain very active and a source of opportunities throughout the second half of the year. We have also witnessed several brief periods to date in 2018 during which market liquidity was tested by selling pressure from long-only investors. More pronounced and longer episodes of risk reduction will, in our view, lead to meaningful adjustments to currently still lofty valuations and create opportunities for investors.

PORTFOLIO MANAGERS' OVERVIEW *(continued)*



Michael Liebman
Co-Portfolio Manager

LIQUID CREDIT

Average investment grade bond spreads widened approximately 25 basis points during the second quarter stemming from both elevated M&A-driven supply and increasingly expensive FX hedging costs. CVS's \$40 billion mid-March financing of the Aetna acquisition kicked off a supply overhang that repriced secondary trading levels to two-year wides. The DOJ's June approval of the AT&T/Time Warner deal and Comcast/Disney's debt financed bidding war for Fox's media portfolio only added to investor concerns around future M&A-related supply. On the hedging front, Italian political risk drove global financial spreads wider and rising FX hedging costs limited overseas demand for U.S. corporates.

High yield bond spreads finished the second quarter relatively unchanged, indicating strong performance relative to investment grade. Spreads tightened substantially in early April due to a quiet primary market and historically low dealer inventories. However, the market began to notice high yield's outperformance relative to investment grade and spreads widened accordingly into quarter end. New supply continues to expose weak investor demand, consistently repricing secondary spreads wider.

Energy-related credits continued to outperform, as WTI marched higher, closing the quarter north of \$74. Retailer bonds struggled with benchmark names like JC Penney and L Brands, Inc. posting weaker than expected earnings. Cable bonds remained under pressure due to cord cutting concerns and Veritas unsecured bonds dropped 10 points following the announcement of an accounting deficiency.

Amidst strong waves of technicals and intra-sector dispersion, we continue to see pockets of volatility in U.S. liquid credit markets.



John Rudic
Co-Portfolio Manager

RESIDENTIAL AND CONSUMER DEBT (RMBS/ABS)

During the second quarter, spread performance was mixed across mortgage- and asset-backed sectors. Legacy RMBS spreads, which were already at or near all-time highs coming into the quarter, were relatively flat. The credit-risk transfer (CRT) market saw spread-tiering in the mezzanine and subordinate tranches as investors favored seasoned deals with comparatively better underwritten collateral versus new issue deals. However, the new issue collateral continues to be underwritten under historically tight lending criteria. Asset-backed securities remained well-bid during the quarter, although spreads for some of the highest credit tranches in benchmark sectors were somewhat wider. On the other hand, spreads for esoteric sectors were modestly tighter as investors continued to see attractive relative value for this part of the sector.

Quarterly new issuance of RMBS rose 11% year-over-year to \$23.8 billion, while ABS issuance fell by 5.5% year-over-year to an otherwise robust \$64.5 billion. The second quarter's activity brings year-to-date new issuance to \$39.2 billion of RMBS and \$131.8 billion of ABS, a rise of 12.6% and 2.8%, respectively, compared to the first half of 2017.

Rising home prices and stable collateral fundamentals continued to support and draw interest to the mortgage markets during the quarter. According to the latest reading by CoreLogic Case-Shiller, national home prices rose year-over-year by 6.4% and now sit about 50% above the crisis-era trough set in February 2012. Home prices have recorded year-over-year gains of 5% to 7% over the last several years as persistently tight supply of homes across the nation has put a floor on growth. Rising home prices have also lent support to strong collateral fundamentals as nearly 77% of legacy borrowers have made at least 12 consistent, on-time payments in the prior year. By comparison, this figure stood at 61% at the February 2012 home-price trough.

Agency MBS finished the second quarter flat to marginally tighter versus the swap curve. While the continued reduction of the Federal Reserve's holdings of agency MBS poses a headwind to the sector, net origination so far in 2018 is running at roughly 70% of 2017's pace and most forecasts for 2018. Hedged carry remains strong as the curve continues to flatten, and interest rate volatility during the quarter was muted. Banks and overseas investors have been largely absent so far this year, but money managers have supported the sector as they have experienced inflows and increased their portfolio weighting of agency MBS versus other fixed-income products.

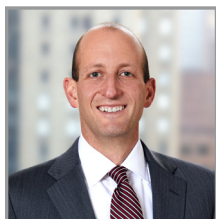


TJ Durkin
Co-Portfolio Manager



Yong Joe
Co-Portfolio Manager

PORTFOLIO MANAGERS' OVERVIEW *(continued)*



Andrew Solomon
Portfolio Manager

COMMERCIAL REAL ESTATE DEBT (CMBS)

The slow and steady positive performance in the CMBS market continued during the second quarter of 2018. One interesting trend in the market has been the flattening of the credit curve this year, with new issue 10-year AAA rated bonds about 10 basis points wider and BBB- securities approximately 60 basis points tighter. We attribute this to two primary factors. At over \$47 billion, private label new issue volume exceeded expectations and finished the first half of the year about 34% ahead of 2017 pace. BBB- tranche sizes are significantly smaller than AAA tranche sizes and thus the supply coming to market affects the tranches in different manners. In addition, risk retention structures are reducing the availability of lower rated classes even further.

With respect to new issue, the breakdown by deal type is worth noting. Traditional multi-borrower conduit issuance, typically the largest component of new issue (and the largest component of the overall private label CMBS market) is down slightly from last year. Single asset/single borrower deal volume is up by more than 60%. Issuance of bonds included in the Other category is primarily driven by CRE CLOs. The pace of issuance in this portion of the market has skyrocketed this year and more than doubled first half volumes from 2017.

New issue conduit deals have been challenging. Pricing levels are at the tighter end of the range witnessed over the past three years. These levels may have been attractive if overall loan quality had improved by a commensurate amount, however we believe overall loan quality has actually moved in the opposite direction. Current LTVs, DSCRs and overall debt yields are all marginally worse compared to 2017, although this is not surprising given the increased competition CMBS lenders are facing. Banks have loosened commercial real estate lending standards and insurance companies have been more willing to compete on price (i.e. lower spreads).

Notwithstanding the above, deal level metrics do not always tell the complete story and investors with the ability to analyze the real estate underlying these transactions should continue to be able to source and identify interesting investment opportunities.



Gordon J. Whiting
Portfolio Manager

NET LEASE REAL ESTATE

As of the second quarter of 2018, the trailing 12-month U.S. single-tenant transaction volume totaled \$54 billion, according to Real Capital Analytics. Since the second quarter of 2017, office and retail volumes declined by 30% and 6%, respectively, while industrial volume increased by 18%. The demand for industrial is also exhibited in cap rates, with industrial cap rates compressing 8% since the second quarter of 2017. Public REITs in most property sectors have suffered prolonged trading discounts to private market values, according to HFF. This dynamic, coupled with record levels of "dry powder" from private real estate funds and global capital, as well as an attractive financing environment, has resulted in significant M&A levels. The average 10-year interest rate increased from 2.3% in the second quarter of 2017 to 2.9% in the second quarter of 2018. Since the 1990s, the 10-year Treasury has risen by 30+ basis points within a calendar seven times. During these years, private and public real estate indexes (NCREIF and SNL U.S. REIT Index) have delivered positive returns, except for one year in 1999, according to HFF.

PORTFOLIO MANAGERS' OVERVIEW *(continued)*



Adam Schwartz
Portfolio Manager
Head of Real Estate



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Anuj Mittal
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Europe Real Estate

REAL ESTATE

United States

Transaction volume continues at a moderate pace, with year-to-date deal volume roughly in line with the first half of 2017, according to preliminary data from Real Capital Analytics. Given the length of the recovery to date, and uncertainty of its continued duration, it is little surprise that the apartment sector, with its attractive cash flow and aggressive agency debt, bucked the overall trend with a strong increase in transaction volume in May. It appears that interest rate increases have not had a measurable effect on real estate pricing – yet. Broad pricing for the five major property sectors has plateaued, with the Green Street CPPI index roughly flat over the past 12 months and close to 2016 levels.

Hiring, a key driver for real estate demand, has remained strong with an increase of 213,000 in total nonfarm payroll employment in June, and revisions upward for April and May, resulting in job gains averaging 211,000 per month over the last three months. Job growth over the last year has been robust in professional and business services (i.e. 50,000 jobs in June; 521,000 over the year), manufacturing and health care. Real estate fundamentals appear to reflect these gains, with Green Street's forecasted operating fundamentals index largely unchanged versus the prior quarter. Top-line rent growth is forecast to be at or a step below inflation across sectors, though there are exceptions – with industrial expected to outperform and retail to underperform, based on changing consumer preferences.

Supply growth has been restrained for most product types since 2007, below the 1.3% long-term average of new completions versus existing stock, according to Green Street. General economic uncertainty, lower rates of inflation, and stricter lending standards have contributed; however, lending standards have begun to loosen, according to a recent Federal Reserve Survey. While office and apartment demand appear to be keeping pace generally, significant new supply in some urban markets has dampened rent growth for these property types. On the other hand, active development pipelines in industrial and student housing appear to be manageable per Green Street's forecasted demand.

The yield for long-term corporate bonds (i.e., Moody's Baa), has increased significantly year-to-date, reaching 4.8% at the end of June. Green Street's proprietary valuation model estimates the unleveraged return available on core real estate is approximately 6.0%, indicating a slightly tighter than historical spread, suggesting that private real estate is modestly overvalued relative to investment grade bonds. Moving further out on the risk spectrum, real estate is priced to deliver a return about 47 basis points less than high-yield bonds, in line with historic averages and indicating real estate is fairly-priced relative to high-yield. After a terrible start to the year, REITs rebounded strongly in the second quarter, generating a total return of 1.2% for the first half of 2018, compared to approximately 3.0% for the S&P 500. Despite a better second quarter, REITs have underperformed the broader equity market for more than two years, decoupling from their historic correlation with the S&P. Accommodative equity and debt capital markets, combined with perceived discounts in the public market valuations, has resulted in REIT M&A volume beginning to pick up, mirroring the growth in global M&A activity.

Europe

In the first half of 2018, €45.9 billion of real estate loans and owned real estate were sold by euro-zone banks. This total surpassed transaction volume in the first half of 2017 by 60%, with the latter period having set the previous record. The trend of banks from continental Europe accelerating efforts to deleverage continued in 2018, and while UK and Irish bank transactions have slowed down, they have not stopped. In the first half of 2018, about 36% of transactions came from Spanish lenders, 27% from Italian lenders and 28% from UK and Ireland-based lenders. In aggregate, portfolios of €33.4 billion are currently being formally marketed and, with a future pipeline of circa €62.5 billion, the deleveraging cycle likely has multiple years to run.

From a direct real estate perspective, new supply remains very limited in the major European cities. The overall vacancy rate has fallen from nearly 10% to 7%, the lowest level since 2003. New office supply was below 1.5% from 2011 until 2017 and although it rose slightly to 1.8% in 2018 (approximately 34 million square feet), much of that is pre-leased. Coupled with the withdrawal of supply of 0.7% per annum between 2013 and 2017, virtually no net new supply has been created. In parallel, office leasing has accelerated, with more than 20 million square feet leased per quarter over the last year. The resulting supply/demand imbalance has led Capital Economics to project 8% rental growth across Western European cities between 2018 and 2020.

Turning away from the continent, although much about the UK's future relationship with the European Union still remains unknown, the UK property markets continue to appear robust despite the political uncertainty. The Bank of England recently revised downwards their estimates for total financial job relocations to 5,000, which is approximately 1% of the financial sector workforce in London. The level of investment in London real estate was £8.2 billion in the first half of 2018, which is in line with volumes in 2017. Interestingly, international interest has been at all-time highs - over the last 12 months, overseas investors have accounted for 86% of the market, the highest proportion for any 12-month period on record. Occupancy remained strong as well, as office space under offer reached 4.3 million square feet in the second quarter of 2018, up 39% over the quarter. This figure is the highest quarterly level since the third quarter of 2000, suggesting that, for now, occupiers and investors alike are taking Brexit uncertainty in their stride.



PORTFOLIO MANAGERS' OVERVIEW *(continued)*



Wilson Leung
Portfolio Manager
Head of Asia Real
Estate



Steven Cha
Co-Portfolio Manager

ASIA REAL ESTATE

Japan

In the first quarter of 2018, Japan's real GDP contracted slightly at -0.2% quarter-on-quarter which is the first decline since 2015. It is, however, expected to recover towards an annual growth rate of 1.3% in 2018. Aggregate net profit for nonfinancial businesses grew roughly 30% to ¥28.78 trillion (\$262 billion), according to full-year earnings releases from 257 companies and forecasts for many other firms. Major Japanese companies agreed to raise monthly employee pay by ¥8,539, or 2.53%, on average for unionized workers in this year's spring labor-management talks. Average pay increases have topped 2% five years in a row and exceeded ¥8,000 for the first time since 2015. The real consumption activity index rose 2.4% month-on-month in April, the highest level since 2014 when there was a spike in consumption ahead of the impending consumption tax hike. Finally, transaction volume by Japanese REITs ("J-REIT") recorded a quarterly high as the J-REIT index outperformed the major Japanese index (TOPIX) by 8%.

Offshore, core-focused investors continue to actively pursue investment opportunities in Japan as asset values remain below prior peak levels and financing terms remain very attractive. Strong tenant demand, propelled by a robust economy, has pushed Grade-A office vacancy to 0.2% in Osaka, while in Tokyo vacancy is 2.3% as the result of new supply. Vacancy levels for Class B properties have also declined to 1.2% in Tokyo and 1.7% in Osaka. With large scale Class A office supply scheduled to come on line in Tokyo in 2018, gradually rising Class A office rents may reach a plateau later this year. Strong pre-leasing activities, however, suggest that Tokyo office fundamentals may remain stable in 2018. In Osaka, very limited new office stock is expected over the next few years which should lead to growth in office rents in the coming year.

With regards to the hotel market, inbound tourism hit a record high of 29 million visitors in 2017, a 19% increase from the previous year. The visitor arrivals trend is on track to meet the government's target of 40 million visitors by 2020 – the year of the Summer Olympics in Tokyo. This should offer a significant boost to the growing hotel industry. The rapidly growing number of inbound tourists has had a positive impact on hotel performance, as measured by revenue per available room (RevPAR). The average daily room rate (ADR) in the Tokyo hotel market reached \$242 in 2017, which is the highest among major cities in Asia. Inbound tourists spent a record \$40 billion in 2017, a 17.8% increase over the previous year. Year-to-date arrivals of 13.2 million outpace last year's figures by 16%, presenting a strong growth trajectory for 2018.

China

Chinese economic growth topped expectations in the first quarter of 2018 at 6.8%, exceeding the 6.5% target set at the beginning of the year. However, in the second quarter, the looming trade war continued to weigh on investor sentiment. The Shanghai Stock Exchange Composite Index finished the quarter down 10.1%, near its lowest level in two years. Hong Kong's Hang Seng Index finished the quarter down 3.8%. The Chinese RMB lost 5.4% against the dollar and finished the quarter at RMB6.62 per USD, a level not seen since the end of last year.

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. 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 remains at healthy levels.

The second quarter was dominated by headlines on the escalating trade war. However, an advisor to the People's Bank of China was quoted saying that the 25% tariffs on US\$50 billion worth of Chinese goods would trim China's economic growth by 0.2%. While the currently announced tariffs would not affect economic fundamentals significantly, the possibility of further escalation has created uncertainty on economic growth. On the other hand, deleveraging continues in China as debt-laden companies like Hainan Airlines (HNA) sell more assets to repay their loans. We believe that the market volatility and the potential for event-driven special situations may present attractive buying opportunities for investors in the coming months.

PORTFOLIO MANAGERS' OVERVIEW *(continued)*

Hong Kong

The Hong Kong economy delivered robust growth of 4.7% year-over-year in the first quarter of 2018, beating the full-year target of 3-4%. Unemployment remained at a 20-year low of 2.9%. Due to the scarcity of available land in Hong Kong, a long-term supply shortage has underpinned the property market. On the demand side, mainland Chinese companies are increasingly expanding overseas and have created strong incremental demand for office space, particularly in Central, the city's CBD. In fact, in 2017 34% of the new office take-up in Central was attributable to mainland Chinese firms. The demand has been driven in part by Chinese banks and financial services firms who look to service clients actively investing in Hong Kong and in overseas markets.

As a result of the supply shortage and increasing demand, office vacancy remains tight at 1.4% in Central as of the first quarter of 2018. Strong office fundamentals have lifted office rents in Central significantly and increased the rental gap between Central and decentralized office areas. The office decentralization trend will continue as cost-conscious tenants are pushed out of Central and are forced to move to less expensive decentralized areas which may present attractive opportunities for investment. That said, price expectations are high and investors should remain cautious as the market appears to be quite late in the investment cycle.

South Korea

In the past three months, we witnessed two historic summits take place. First, in April, President Moon Jae-in of South Korea met with Chairman Kim Jong Un of North Korea. This was followed in June by U.S. President Donald Trump's summit with Chairman Kim. While we still maintain our view that it is premature to conclude the end of tension with North Korea at this stage, we believe the summits were important first steps and we will continue to monitor the situation closely.

The South Korean economy grew 1.0% quarter-on-quarter in the first quarter of 2018, on the back of robust exports and capital investments. The Bank of Korea ("BoK") maintained its 3.0% annual GDP growth forecast for 2018. Furthermore, the BoK kept its benchmark policy rate unchanged at 1.50% in May of this year. The spread between prime office cap rates and the Korean government bond yield (i.e. 5-year treasury bond) contracted 10 basis points to 230 basis points, which is still higher than the prior 10-year average of approximately 215 basis points. Prime office vacancy rate in the major business districts in Seoul rose by 2.2% points to 13.8% in the first quarter of 2018 with the relocation of a number of Korean conglomerates. Analysts expect vacancy rates to drop in 2018 with the positive pick-up in net absorption due to the growth of the financial and IT industries. The residential market in Seoul continues to be robust, with Seoul apartment prices rising 6.6% year-on-year as of June 2018. In certain prime residential submarkets such as Gangnam, apartment prices have experienced an even more significant increase of 13.1% year-on-year as of June 2018.



Arthur Peponis
Portfolio Manager

PRIVATE EQUITY

The private equity industry continued to be robust through the first half of the year. Deal volume was significantly higher for the first six months in 2018 versus 2017. In North America, there were \$136 billion of transactions through June 30, 2018 as compared to \$99 billion from the prior year's first half. Global deal volume through the first six months increased approximately 25% year-on-year to \$214 billion. Notably, the deal volume in the second quarter of 2018 was materially higher compared to the first quarter. In North America, second quarter deal volume was \$86 billion compared to \$50 billion in the first quarter of 2018. Global deal volume was \$124 billion in the second quarter versus \$90 billion in the first quarter of 2018. The increased dollar volume was driven by numerous multi-billion-dollar buyouts in the quarter, consistent with first quarter activity. A potentially significant statistic is that dry powder decreased to \$621 billion at June 30th which is a decline from the \$642 billion all-time record set at March 31st. This bucks the five year quarterly upward trend.

Transaction multiples in the first six months of 2018 were lower than calendar 2017 and on par with calendar 2016. Through the first six months, average multiples paid were 9.8x EBITDA versus the 10.7x paid in 2017 and the 10.0x paid in 2016. As stated previously, while one or two quarters can't be defined as a trend in the private equity sector, it will be interesting to see if we have seen the peak of dry powder and multiples paid. To provide some context, dry powder is certainly still high by historical standards and multiples paid are within the range of the four-year historical average of 10.2x EBITDA. Average leverage for buyouts in the first six months of 2018 declined to 5.6x multiple of EBITDA from the 5.9x seen in the first quarter of 2018 but well within the range seen over the past few years. Equity contribution as a percentage of total capitalization in the second quarter remained unchanged at 39%. Another metric which reversed trend in the second quarter is the number of exits. The number of exits increased in the first six months of 2018 from the prior year's first six months by approximately 7%, with a commensurate dollar volume increase of 45% reflecting larger dollar monetizations. The number and dollar volume of exits are both well within ranges from prior years. Time will tell as to whether the first half of 2018 will prove to be a period when stability prevailed in terms of multiples paid and dry powder or was a temporary respite before continuing an upward trajectory.



ECONOMIC DASHBOARD

Market Indices: Third Quarter 2018

JOB MARKET

Macro Economics Five-Year Trend

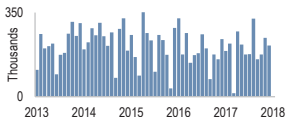
US – Unemployment Rate As of 6/30/2018

Latest Level	4.0	8%
Change from Prior Month	0.2	
Latest Direction	Deteriorating	
Frequency	Monthly	



US – Non-Farm Payroll As of 6/30/2018

Latest Level	213.0	350
Change from Prior Month	(31.0)	
Latest Direction	Deteriorating	
Frequency	Monthly	



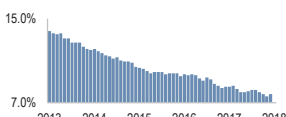
US – Labor Participation Rate As of 6/30/2018

Latest Level	62.9	64%
Change from Prior Month	0.2	
Latest Direction	Improving	
Frequency	Monthly	



US – U-6 Unemployed & Margin & Part-Time as % of Labor Force & Margin As of 6/30/2018

Latest Level	7.8	15.0%
Change from Prior Month	0.2	
Latest Direction	Deteriorating	
Frequency	Monthly	



Eurozone Unemployment Rate As of 6/30/2018

Latest Level	8.3	12.5%
Change from Prior Month	(0.3)	
Latest Direction	Improving	
Frequency	Quarterly	

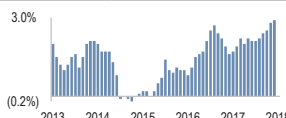


INFLATION

Macro Economics Five-Year Trend

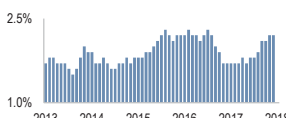
US Consumer Price Index (CPI) Y-o-Y % As of 6/30/2018

Latest Level	2.9	3.0%
Change from Prior Month	0.1	
Latest Direction	Increasing	
Frequency	Monthly	



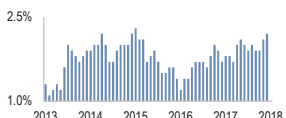
US CPI Goods Less Food and Energy Y-o-Y % As of 6/30/2018

Latest Level	2.2	2.5%
Change from Prior Month	0.0	
Latest Direction	No Change	
Frequency	Monthly	



US Producer Price Index (PPI) Y-o-Y % As of 6/30/2018

Latest Level	2.2	2.5%
Change from Prior Month	0.1	
Latest Direction	Increasing	
Frequency	Monthly	



GDP GROWTH

Macro Economics Five-Year Trend

US – GDP Y-o-Y % As of 6/30/2018

Latest Level	5.4	6.0%
Change from Prior Quarter	0.8	
Latest Direction	Improving	
Frequency	Quarterly	



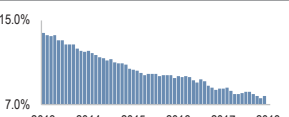
Eurozone – GDP Y-o-Y % As of 6/30/2018

Latest Level	2.1	3.0%
Change from Prior Quarter	(0.4)	
Latest Direction	Deteriorating	
Frequency	Quarterly	



China – GDP Y-o-Y % As of 6/30/2018

Latest Level	6.7	15.0%
Change from Prior Quarter	(0.1)	
Latest Direction	Deteriorating	
Frequency	Quarterly	

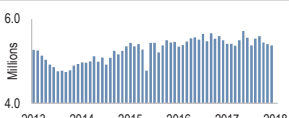


HOUSING

Macro Economics Five-Year Trend

Existing Home Sales As of 6/30/2018

Latest Level	5.4	6.0
Change from Prior Month	0.0	
Latest Direction	No Change	
Frequency	Monthly	



New Home Sales As of 6/30/2018

Latest Level	631.0	725
Change from Prior Month	(10.0)	
Latest Direction	Deteriorating	
Frequency	Monthly	



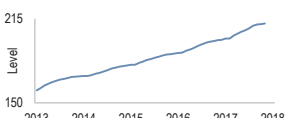
Housing Starts As of 6/30/2018

Latest Level	1,173.0	1,350
Change from Prior Month	(164.0)	
Latest Direction	Deteriorating	
Frequency	Monthly	



Case-Shiller Index of Home Value in 20 Cities As of 5/31/2018

Latest Level	211.2	215
Change from Prior Month	0.8	
Latest Direction	Improving	
Frequency	Monthly	



Source: Bloomberg (All).

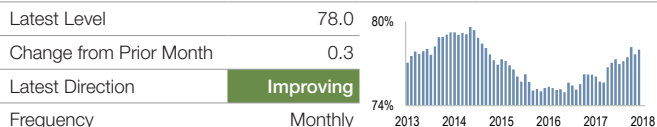
"Latest Direction" is from the last "Frequency" measurement.

ECONOMIC DASHBOARD *(continued)*

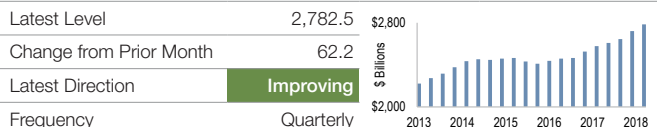
ECONOMIC & MARKET CONFIDENCE

Macro Economics Five-Year Trend

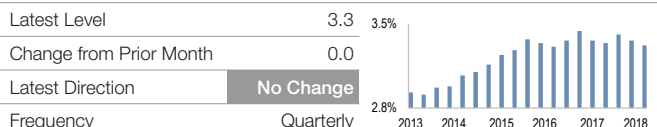
Capacity Utilization as a % of Capacity As of 6/30/2018



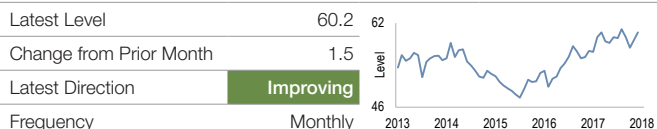
Private Fixed Investment Nonresidential SAAR As of 6/30/2018



Residential Fixed Investment as a % of GDP As of 6/30/2018



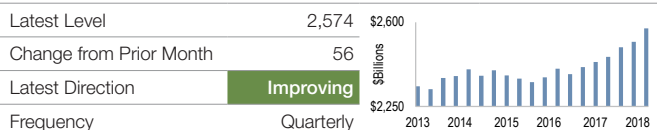
ISM Manufacturing Index As of 6/30/2018



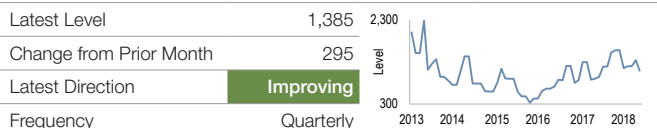
Manufacturing Inventory Change Q-o-Q \$ As of 6/30/2018



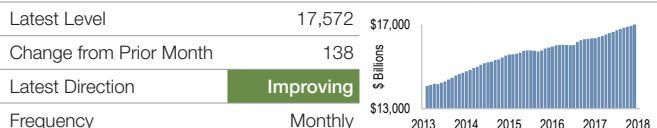
Exports of Goods/Services As of 6/30/2018



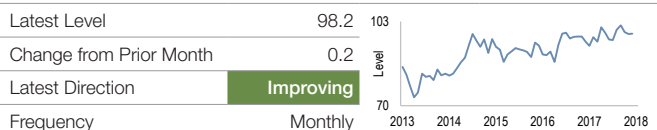
Shipping Rates As of 6/30/2018



Personal Income Level As of 6/30/2018



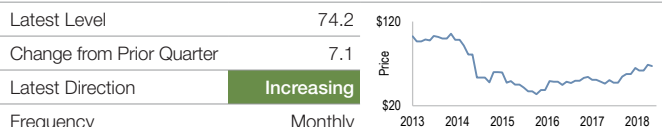
Michigan Consumer Confidence Sentiment As of 6/30/2018



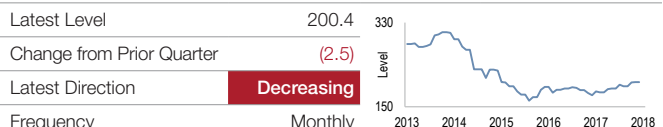
COMMODITIES

Macro Economics Five-Year Trend

WTI Crude Oil Price As of 6/30/2018



Reuters/Jefferies Commodity Index As of 6/30/2018



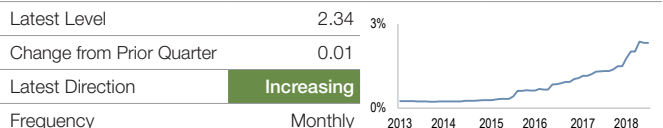
Gold As of 6/30/2018



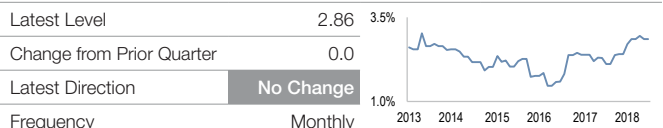
RATES

Macro Economics Five-Year Trend

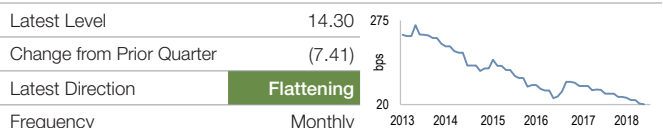
LIBOR 3M As of 6/30/2018



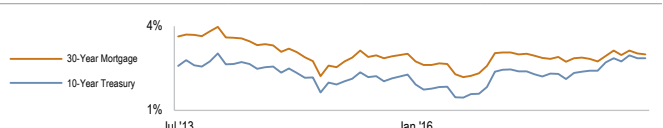
Treasury 10 Yr Yield As of 6/30/2018



Swaps 2Y vs. 10Y As of 6/30/2018



30 Yr Mortgage and 10 Yr Treasury As of 6/30/2018



Source: Bloomberg (All).

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



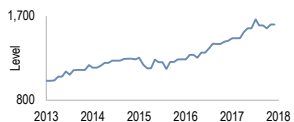
ECONOMIC DASHBOARD *(continued)*

EQUITY

Macro Economics Five-Year Trend

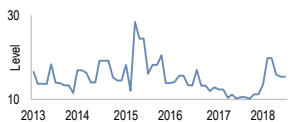
US Equity Markets – Russell 3000 As of 6/30/2018

Latest Level	1,619.0	1,700
Change from Prior Month	8.3	
Latest Direction	Rally	
Frequency	Monthly	



US Equity – VIX As of 6/30/2018

Latest Level	16.1	30
Change from Prior Month	0.7	
Latest Direction	Increasing	
Frequency	Monthly	



S&P 500 Percentage Exceeding Earning Estimates As of 6/30/2018

Latest Level	78.2	80%
Change from Prior Month	(0.1)	
Latest Direction	Decreasing	
Frequency	Monthly	



S&P 500 Historical Valuation Levels As of 6/30/2018



Trailing P/E on S&P 500 As of 6/30/2018

Latest Level	20.0	23x
Change from Prior Month	(0.5)	
Latest Direction	Decreasing	
Frequency	Monthly	



Equity Markets – Euro Stoxx As of 6/30/2018

Latest Level	376.9	400
Change from Prior Month	(3.9)	
Latest Direction	Decreasing	
Frequency	Monthly	



Equity Markets – MSCI EAFE As of 6/30/2018

Latest Level	1,958.6	2,200
Change from Prior Month	(27.5)	
Latest Direction	Decreasing	
Frequency	Monthly	

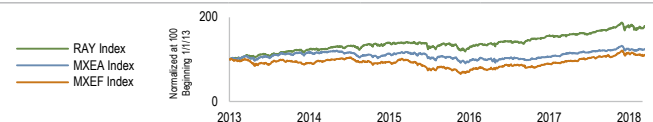


Equity Markets – MSCI EM As of 6/30/2018

Latest Level	1,069.5	1,300
Change from Prior Month	(51.2)	
Latest Direction	Decreasing	
Frequency	Monthly	



Russell 3000 – MSCI EAFE – MSCI EM As of 6/30/2018

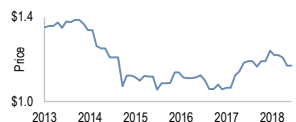


FOREIGN EXCHANGE RATE

Macro Economics Five-Year Trend

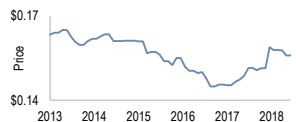
Euro Spot Rate vs. 1 USD As of 6/30/2018

Latest Level	1.17	\$1.4
Change from Prior Quarter	0.00	
Latest Direction	No Change	
Frequency	Monthly	



Yuan Spot Rate vs. 1 USD As of 6/30/2018

Latest Level	0.1510	\$0.17
Change from Prior Quarter	(0.0050)	
Latest Direction	Deteriorating	
Frequency	Monthly	



Yen Spot Rate vs. 1 USD As of 6/30/2018

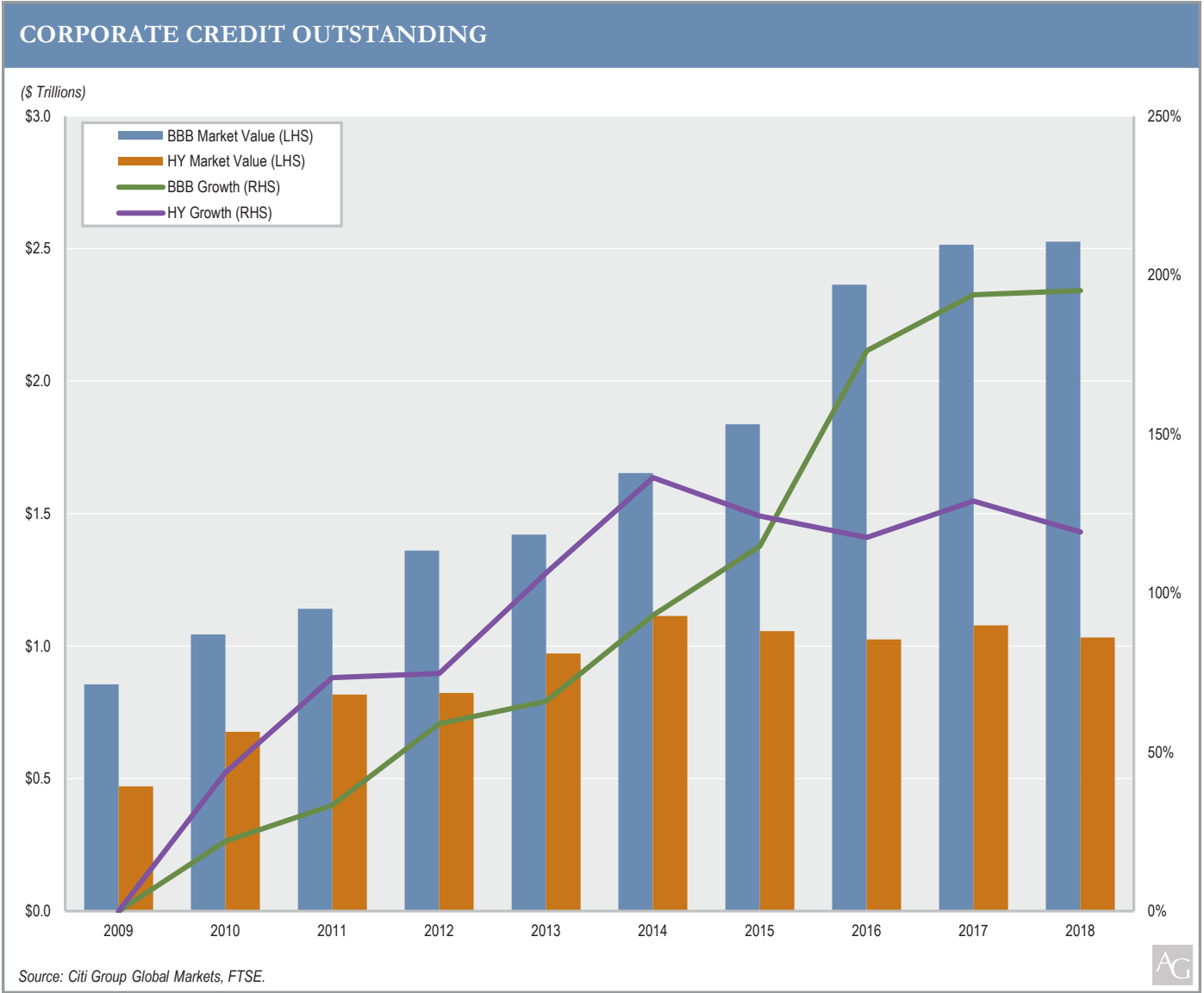
Latest Level	0.0090	0.011
Change from Prior Quarter	(0.0002)	
Latest Direction	Deteriorating	
Frequency	Monthly	



Source: Bloomberg (All).

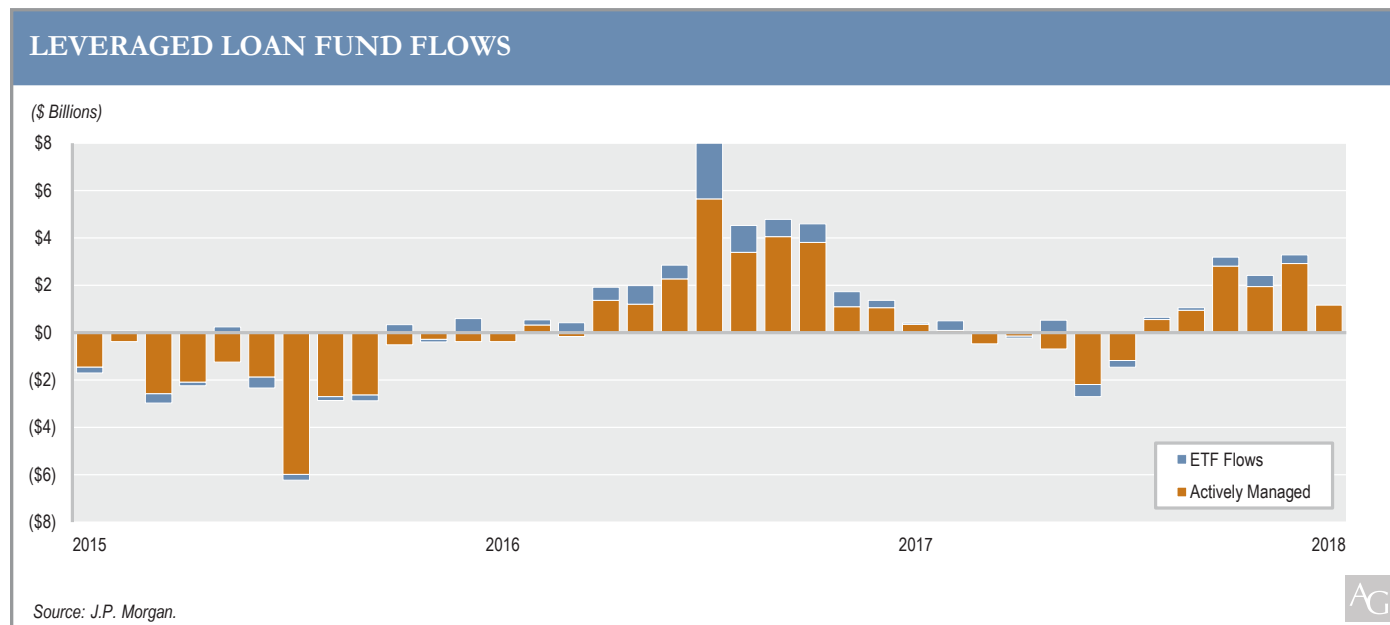
"Latest Direction" is from the last "Frequency" measurement.



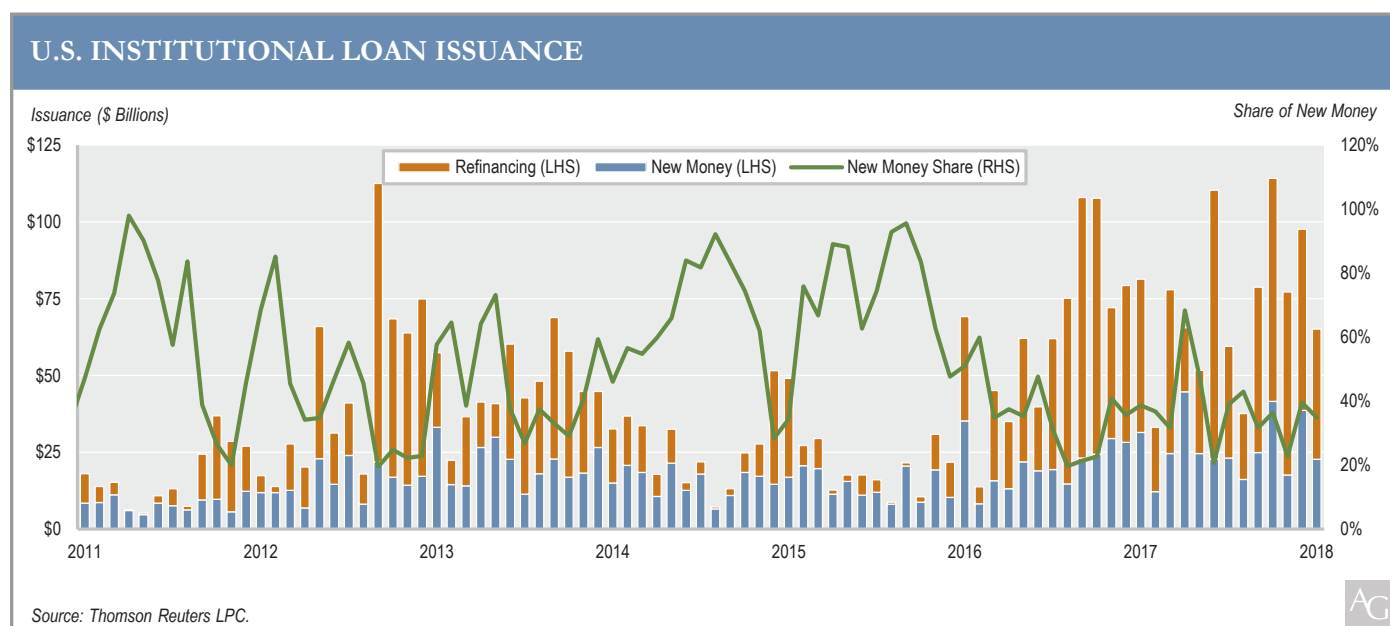


BBB debt outstanding in the U.S. has increased by almost 3x the amount that HY has since 2009.

PERFORMING CREDIT



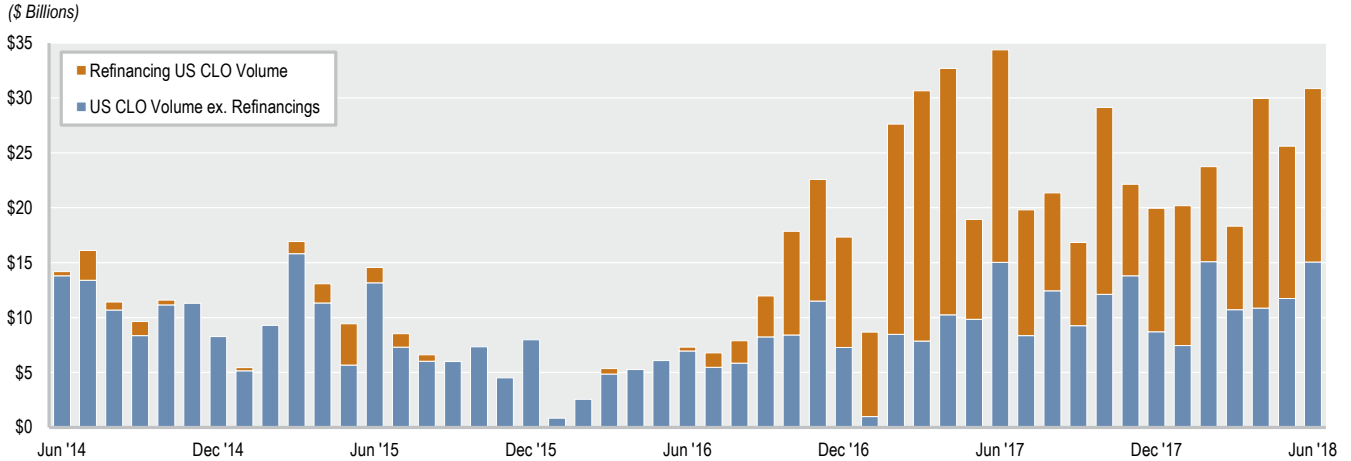
Positive flows into loan funds continued in the second quarter; inflows YTD have reached nearly \$12 billion.



Although gross issuance declined in the first six months of the year net issuance has been strong, with June marking the highest month on record.

PERFORMING CREDIT *(continued)*

MONTHLY CLO ISSUANCE

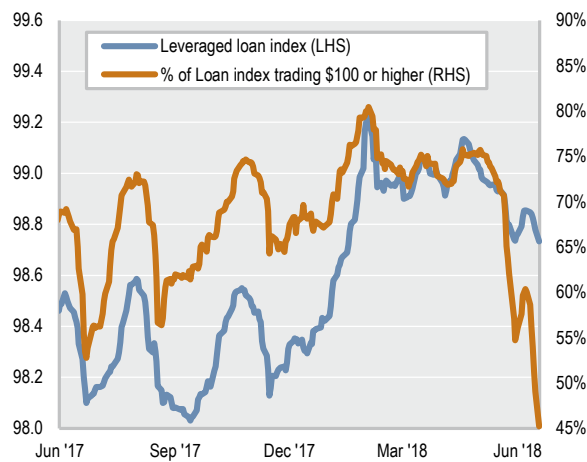


Source: J.P. Morgan and S&P LCD.



Gross CLO issuance in Q2 of over \$86 billion was the highest on record.

LOANS TRADING ABOVE PAR

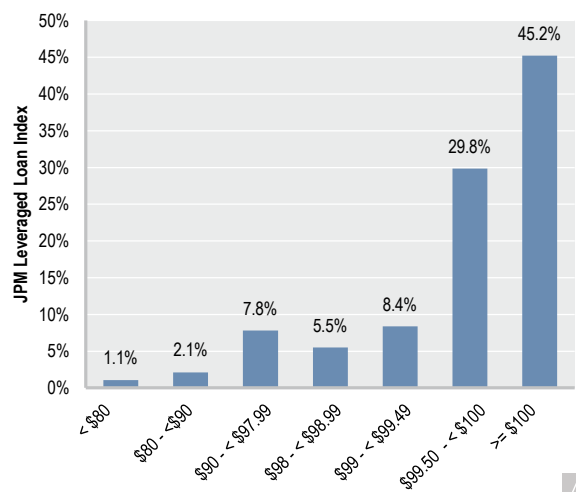


Source: J.P. Morgan.



The percent of loans trading above par dropped significantly during the quarter.

LEVERAGED LOAN PRICE BUCKETS

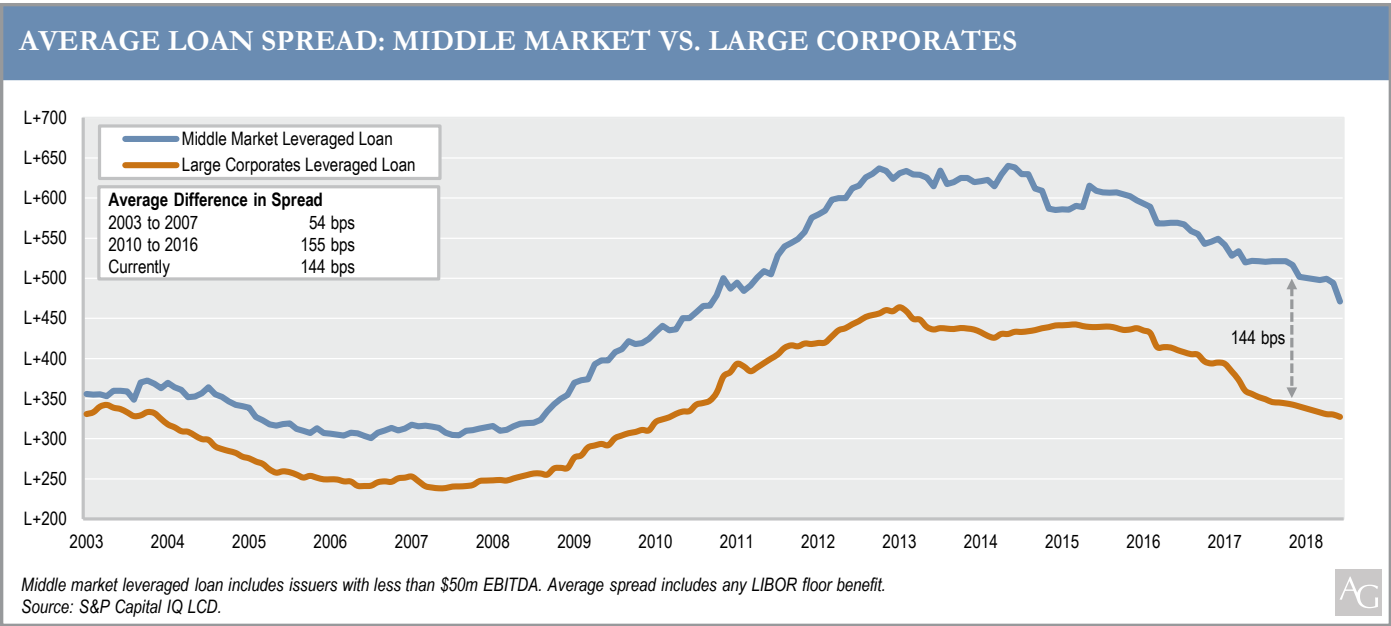


Source: J.P. Morgan.

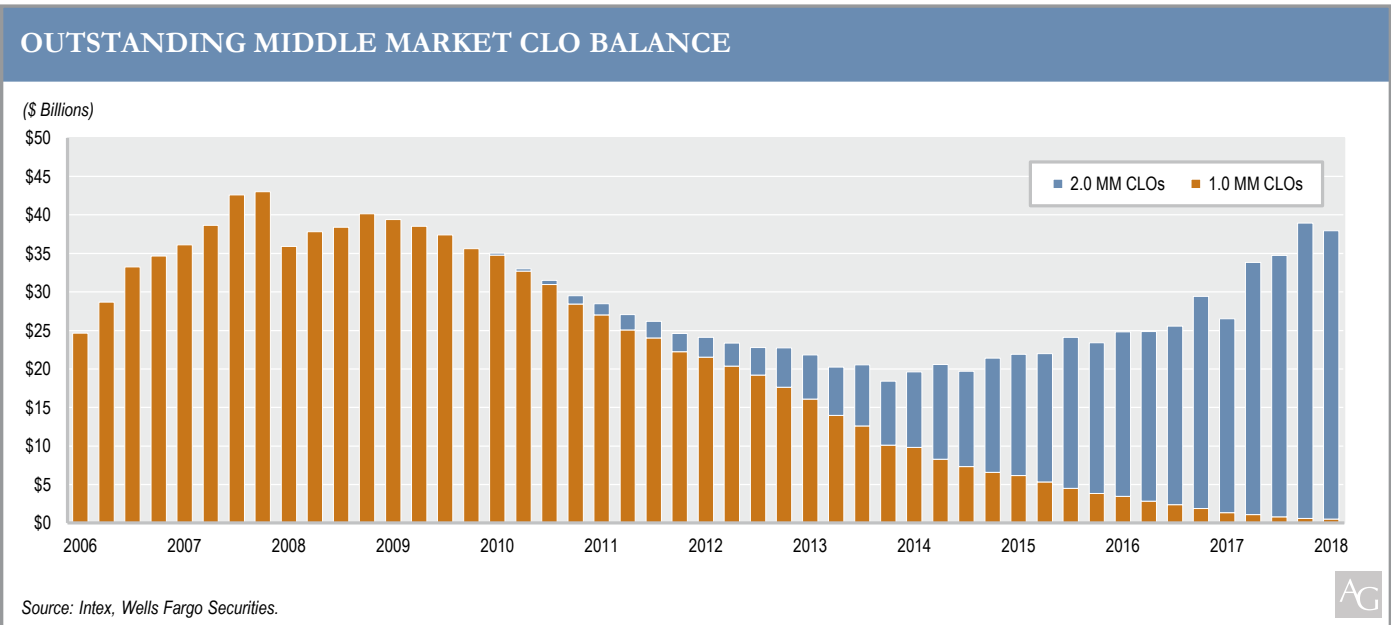


Despite the aforementioned drop in loans trading above par, 75% of the loan market still trades at or above \$99.5.

MIDDLE MARKET DIRECT LENDING



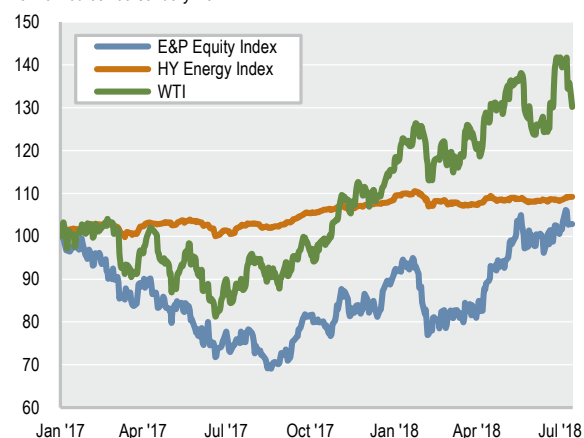
Middle Market loans continue to command a large spread premium over large corporates.



The outstanding Middle Market CLO market has grown significantly over the last several years.

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

Normalized at 100 January 2017

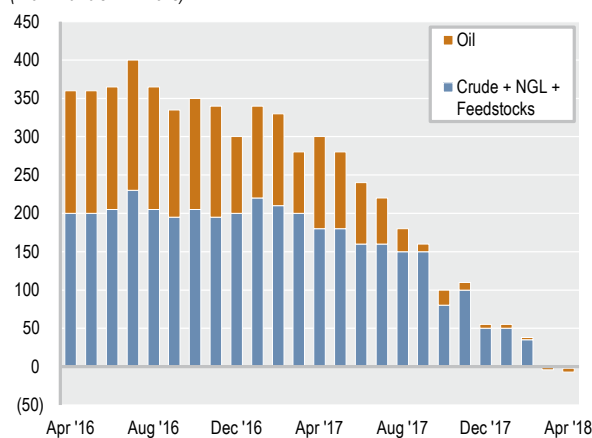


Source: Bloomberg.

After a dismal start to the year, energy equities benefitted from a strong second quarter and are now outperforming the broader market.

OECD INVENTORIES VS. 5-YEAR AVERAGES

(Y-o-Y Barrels in Millions)

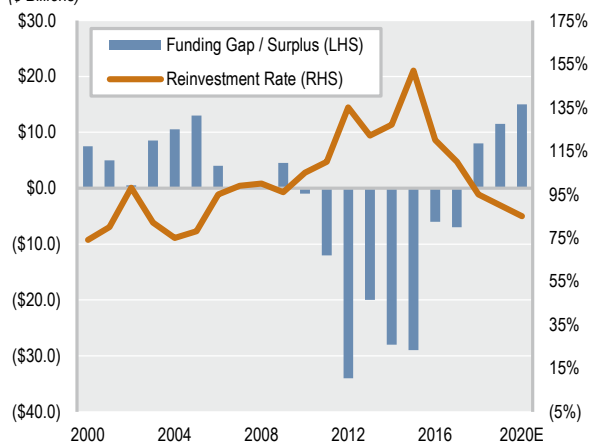


Source: IEA.

Strong demand in concert with OPEC's production cuts have successfully reduced global inventories below the five-year average.

HISTORICAL FUNDING GAP VS. REINVESTMENT RATE

(\$ Billions)

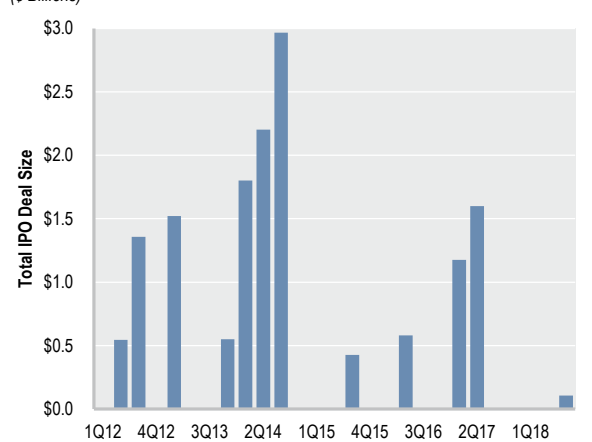


Source: Goldman Sachs.

Producer capital discipline has reduced reinvestment rates, creating significant positive free cash flow. Proceeds have been used to reduce debt and improve credit profiles.

OIL AND GAS PRODUCER INITIAL PUBLIC OFFERINGS

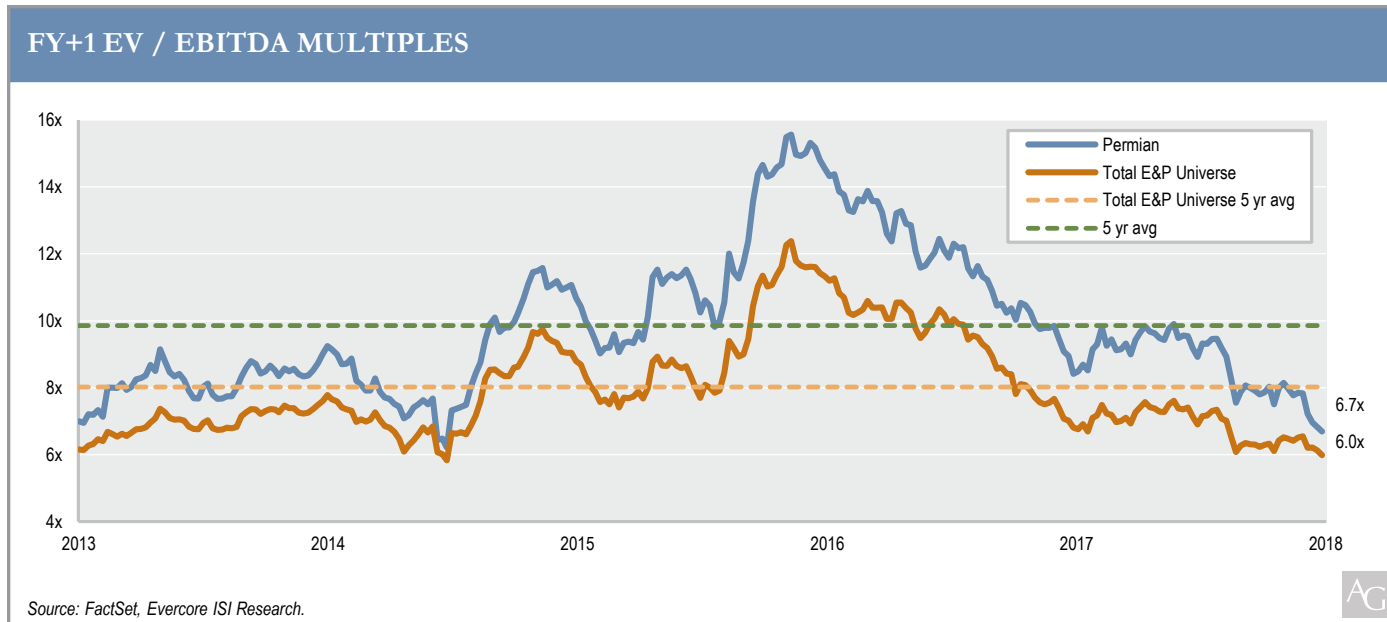
(\$ Billions)



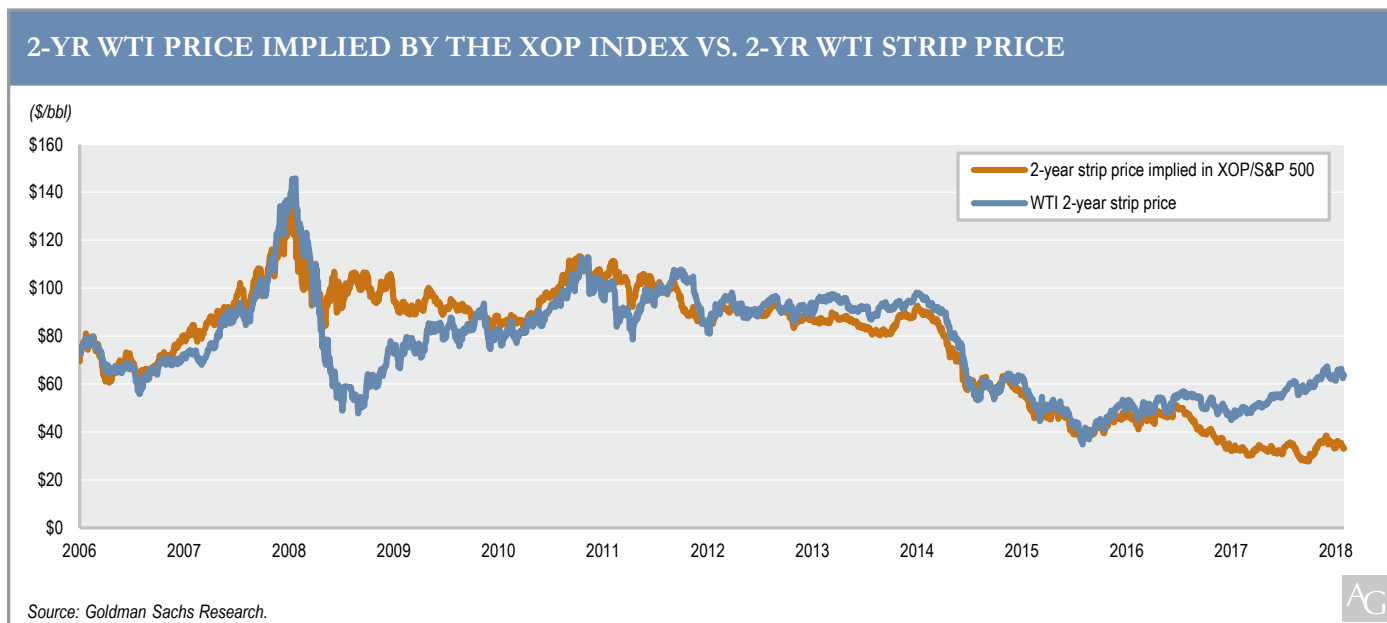
Source: Bloomberg.

The IPO market for producers has been inactive for the last year, with only one deal priced since April 2017.

ENERGY (continued)

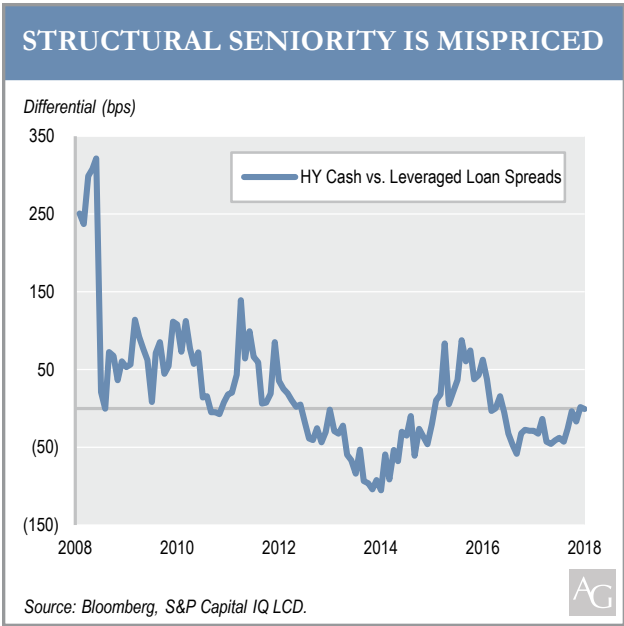


Permian producers have long enjoyed a valuation premium; however, with takeaway concerns lingering through 2H 2019, recent underperformance has compressed multiples towards convergence with the broader sector.



The divergence in energy equities versus oil prices is the widest in over a decade.

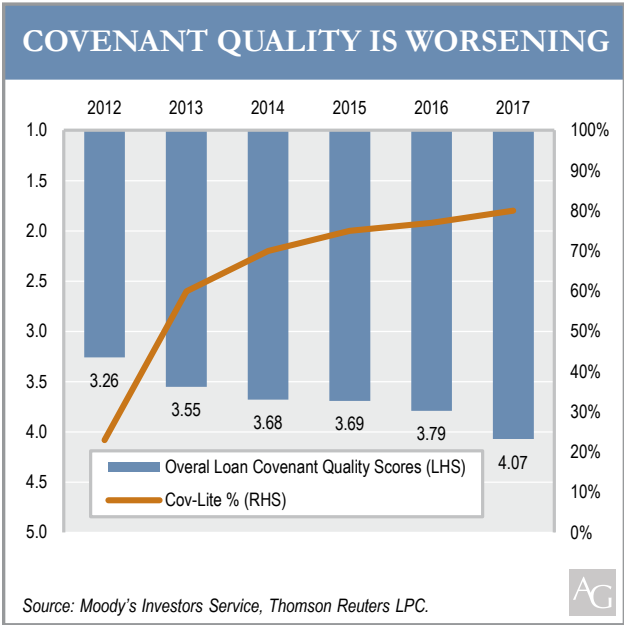
DISTRESSED DEBT – UNITED STATES



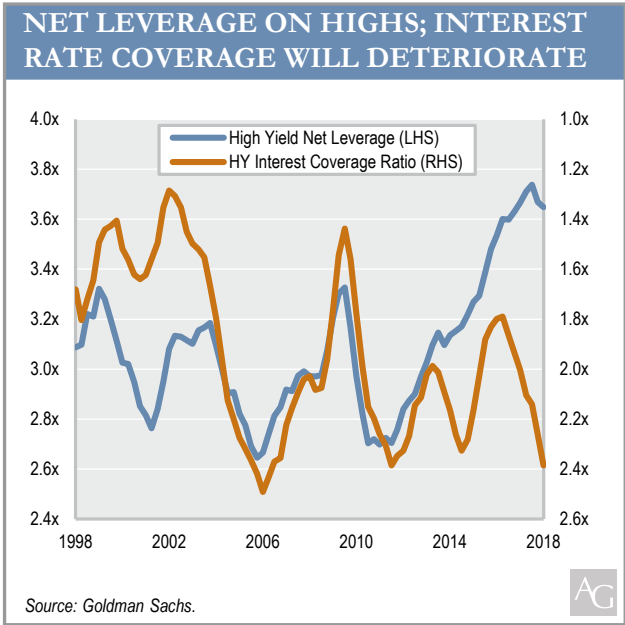
Capital structure seniority appears to be incorrectly compensated.



Rate-conscious buyers have an insatiable appetite for floating risk.



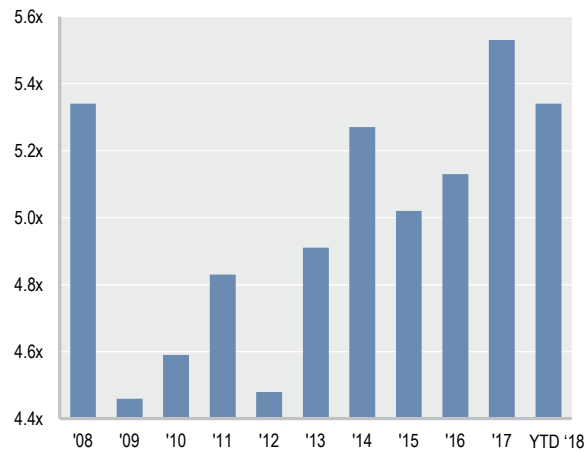
Covenant quality is worsening by the year.



Interest coverage will seemingly continue to deteriorate as rates rise and debt remains outstanding.

DISTRESSED DEBT – EUROPE

TOTAL DEBT/EBITDA

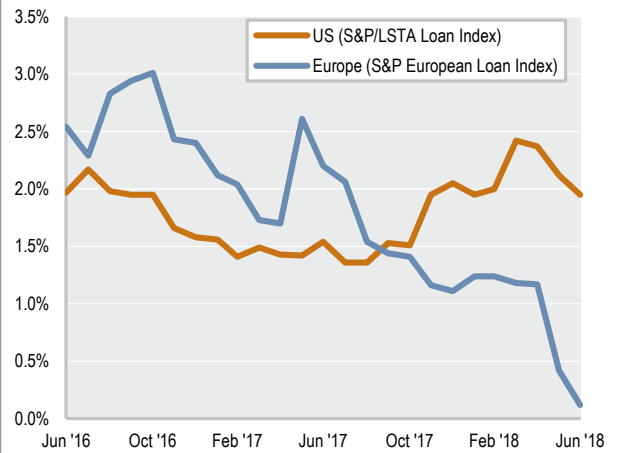


Note: EBITDA of €/\$50M or more.
Source: S&P Capital IQ LCD.



Corporate leverage, along with the prevalence of loose covenants, has been steadily rising post crisis.

TRAILING 12 MONTH DEFAULT RATE

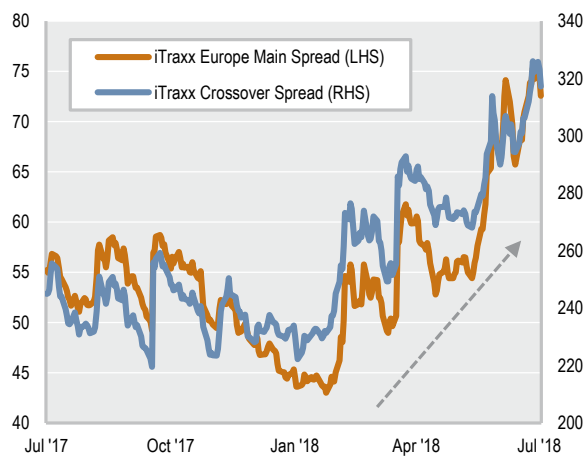


Note: Based on Principal Amount.
Source: S&P Capital IQ LCD.



Central bank easing and the global hunt for yield has depressed default rates.

EUROPEAN STRESS BUILDING

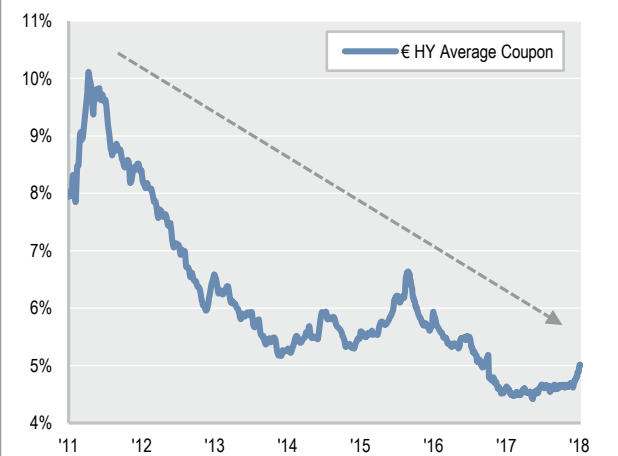


Source: Credit Suisse.



Distinct signs of market cracks and re-pricing are occurring, with the secondary market now materially corrected since its 4Q 2017 tights.

AVERAGE COUPON CONTINUES TO DROP

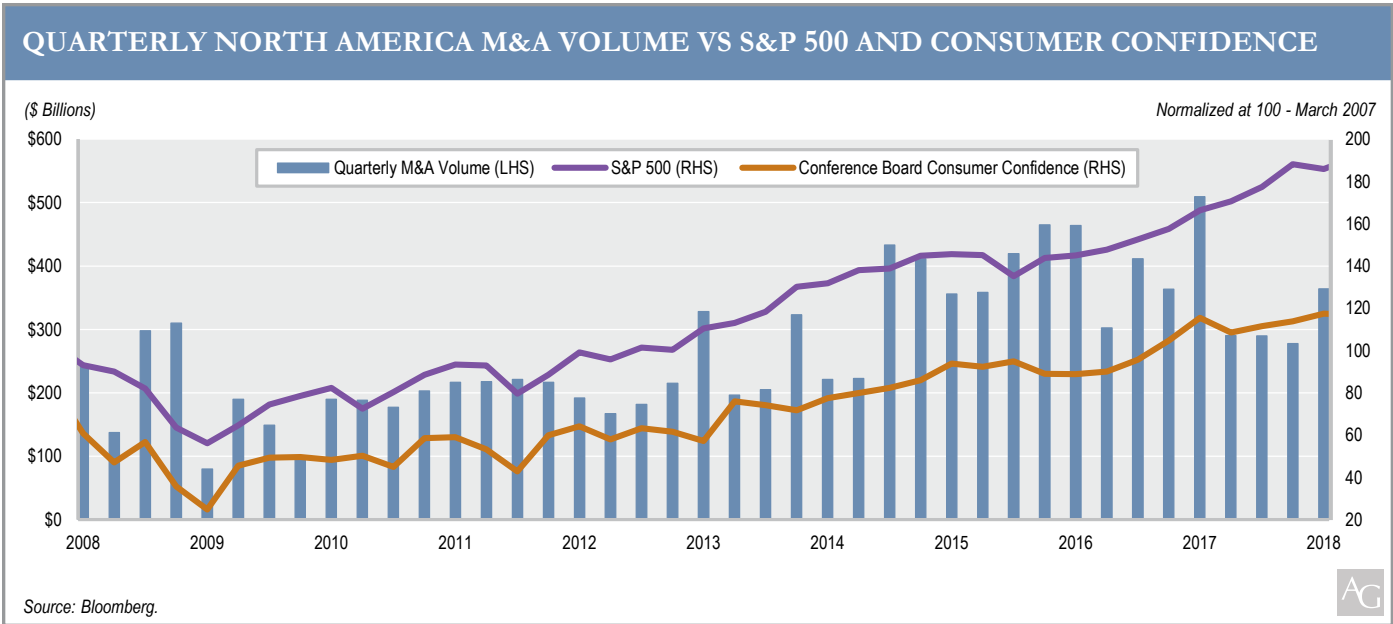


Note: Western European Leveraged Loan Index.
Source: Credit Suisse.

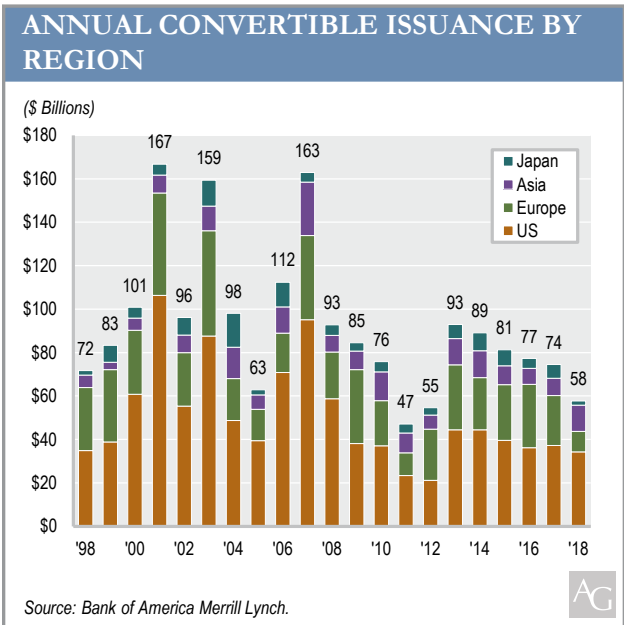


Market participants only recently required higher coupons off of cyclically low rates.

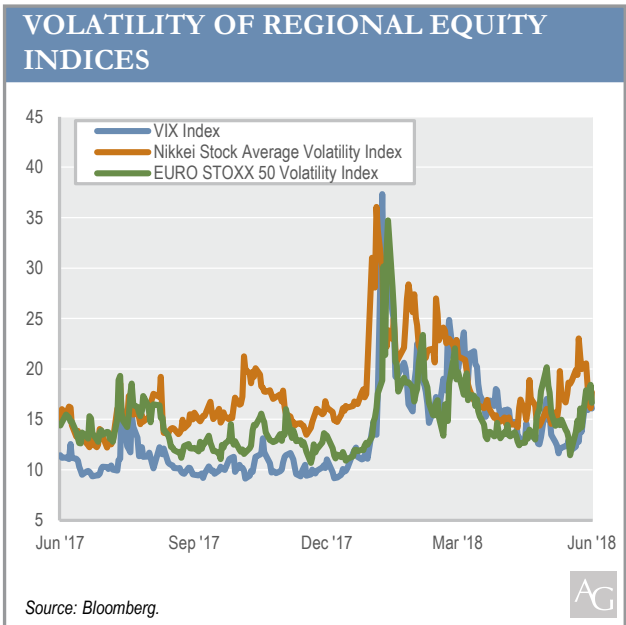
MERGER & CONVERTIBLE ARBITRAGE



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

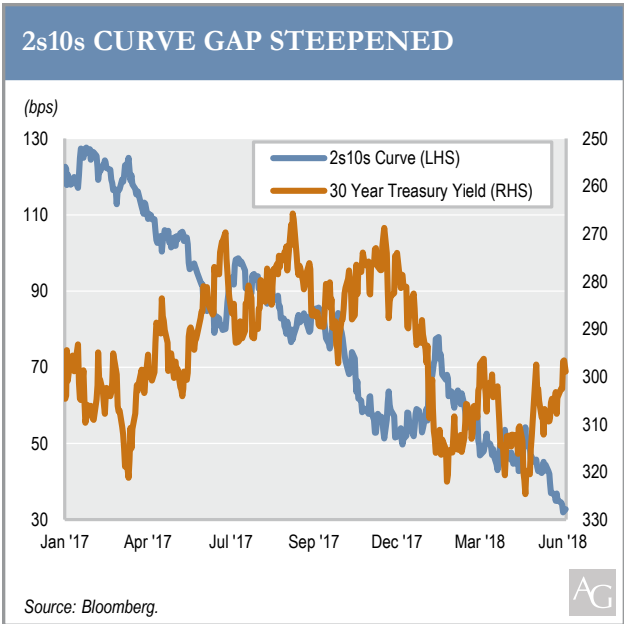


The primary market has had the strongest 1H deal volume since 2008.



Volatility returned to equity markets in the first half of the year, supporting hedged convertible strategies.

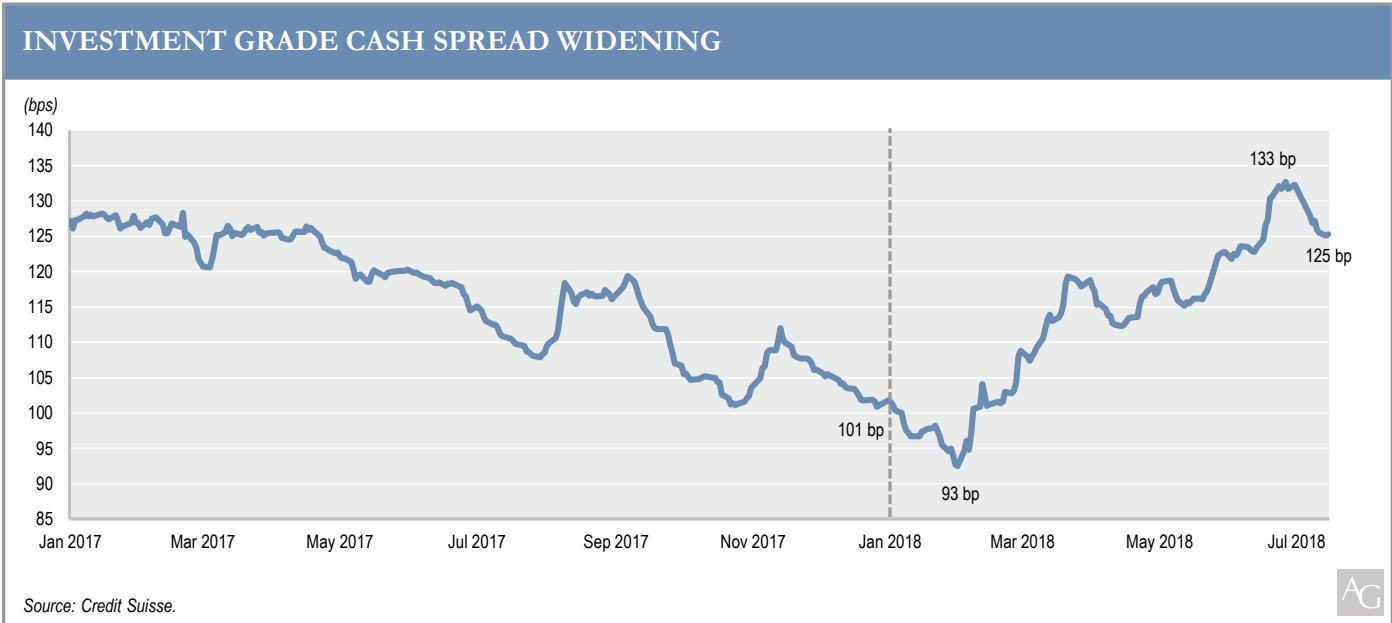
LIQUID CREDIT



We closely monitor the continued flattening of the Treasury yield curve...

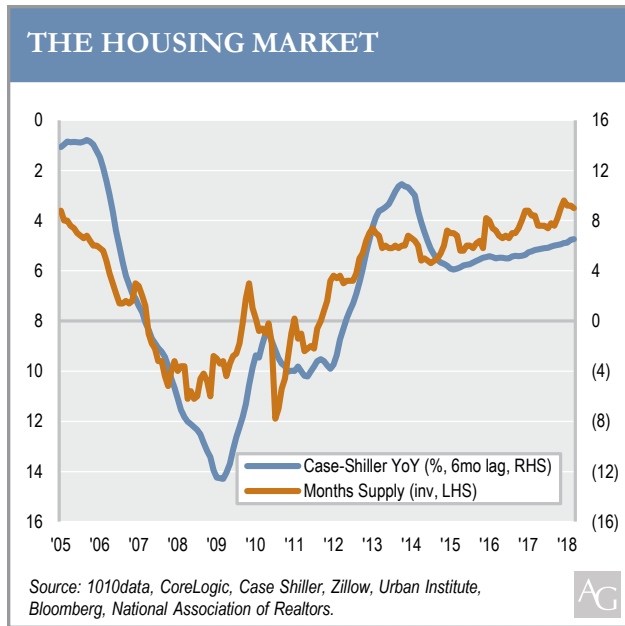


...with the delta of investment grade/high yield spreads at a generational low...

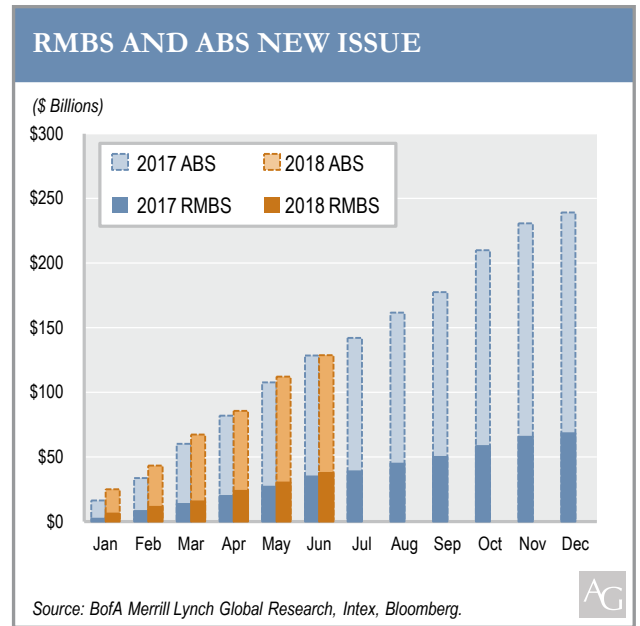


...duration risk has notably widened investment grade spreads YTD.

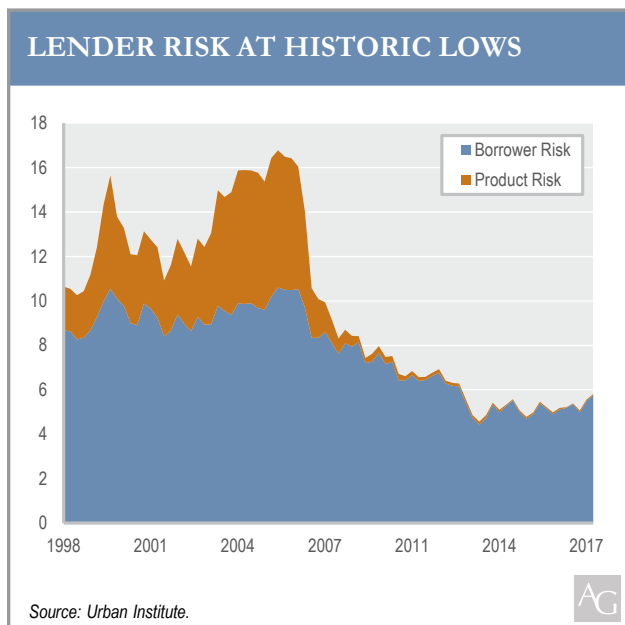
RESIDENTIAL AND CONSUMER DEBT (RMBS/ABS)



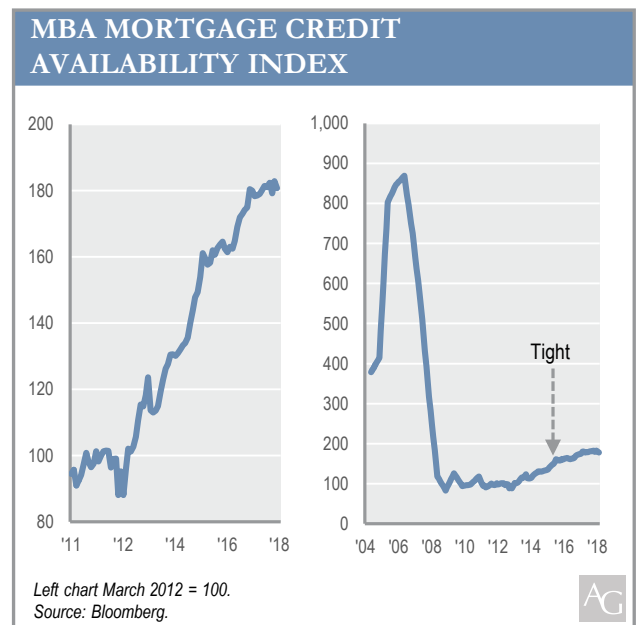
Tight supply supports higher home prices.



New issue is on track to meet or exceed 2017 levels.



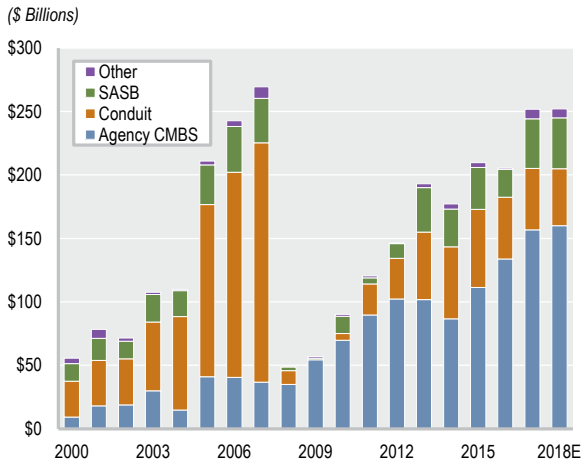
The availability of riskier mortgage products, like negative amortization loans and interest only loans, has all but disappeared.



Although mortgage credit availability has picked up in recent years, it remains very tight by historical standards.

COMMERCIAL REAL ESTATE DEBT (CMBS)

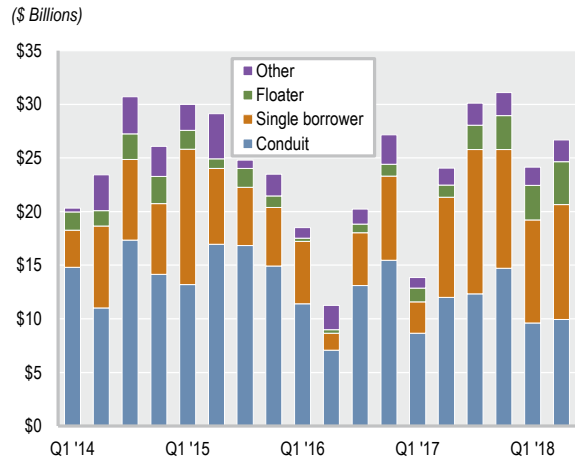
CMBS SUPPLY



Source: BofA Merrill Lynch Global Research, Intex.

CMBS supply in 2018 is expected to meet or exceed last year's total.

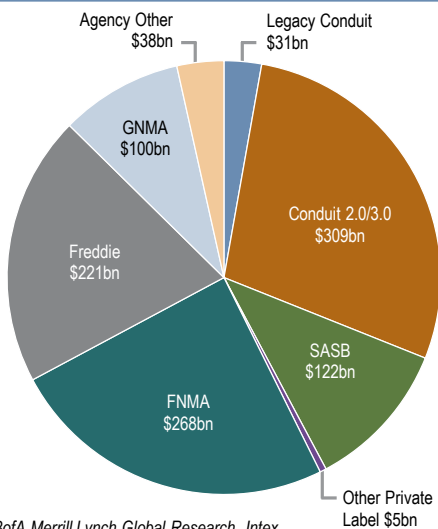
QUARTERLY PRIVATE LABEL ISSUANCE



Source: Credit Suisse, Commercial Mortgage Alert.

CMBS issuance remained strong in Q2, with single borrower deals continuing to represent a large share of issuance for the fourth consecutive quarter.

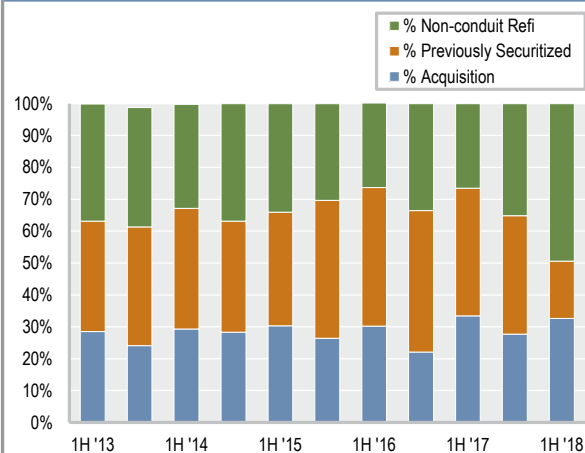
U.S. CMBS OUTSTANDING



Source: BofA Merrill Lynch Global Research, Intex.

The overall CMBS market is over \$1 trillion in size.

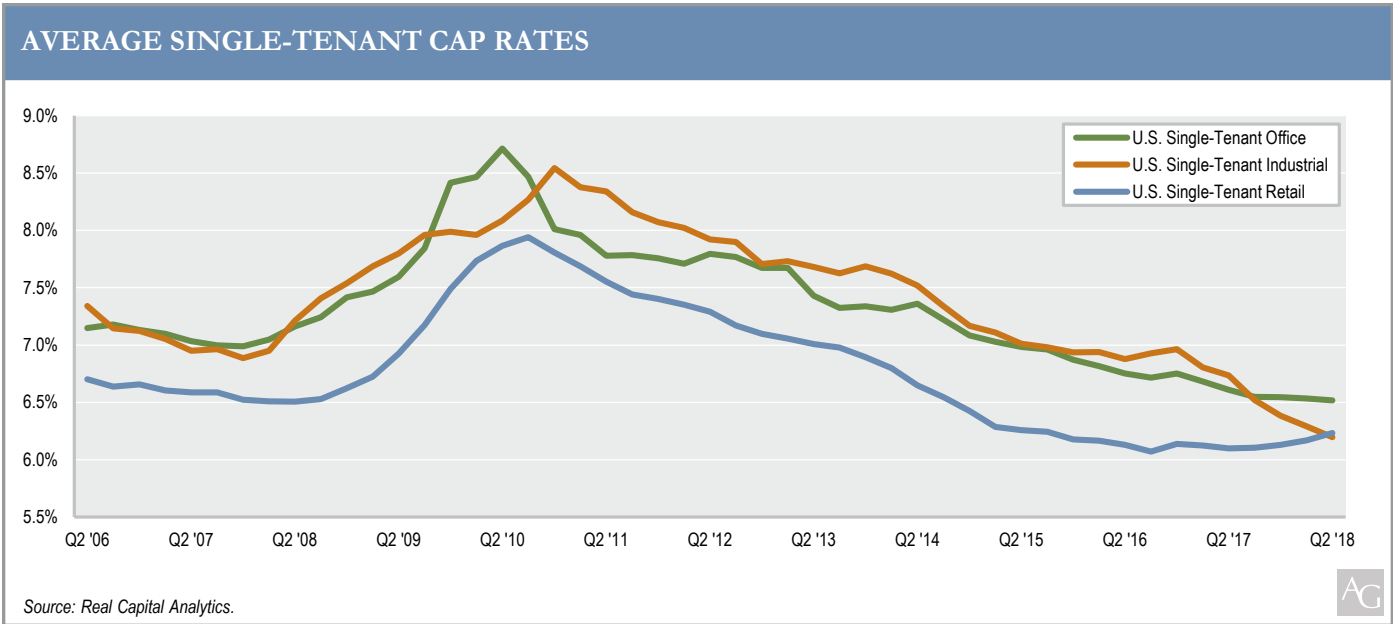
SOURCES OF COLLATERAL



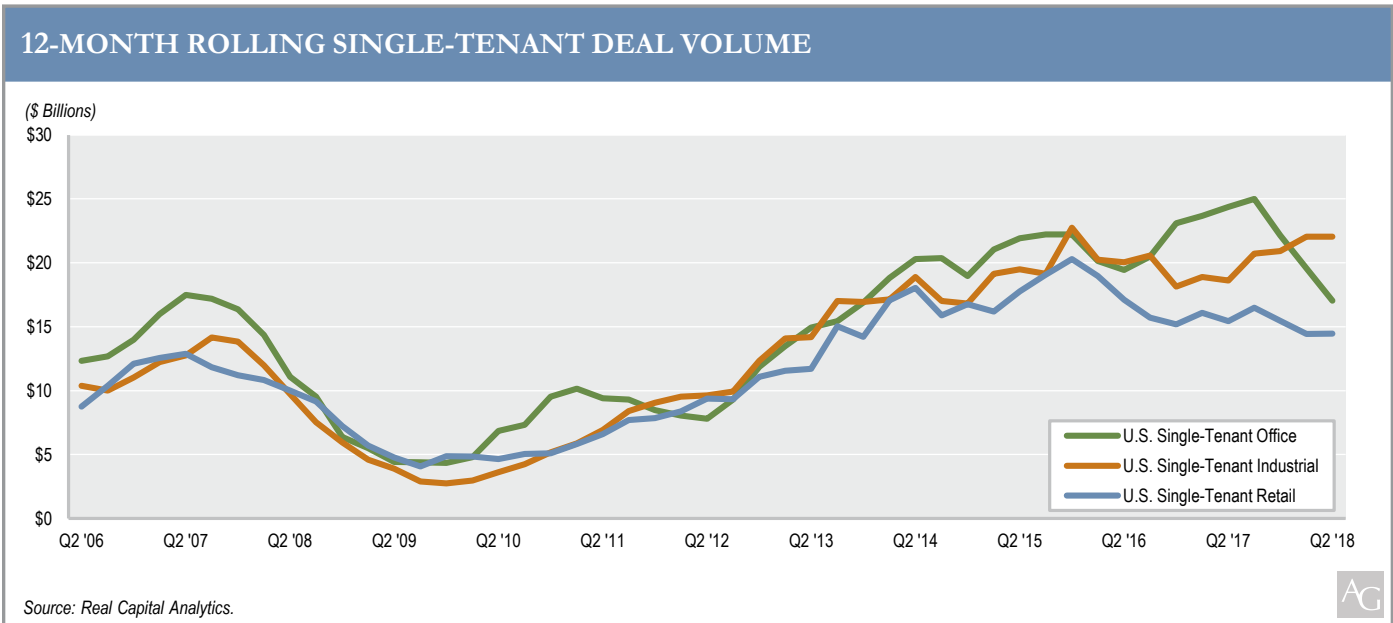
Source: BofA Merrill Lynch Global Research, Intex, deal documents

Non-conduit refinancings and acquisition loans represent the majority of loans securitized in CMBS deals.

NET LEASE REAL ESTATE



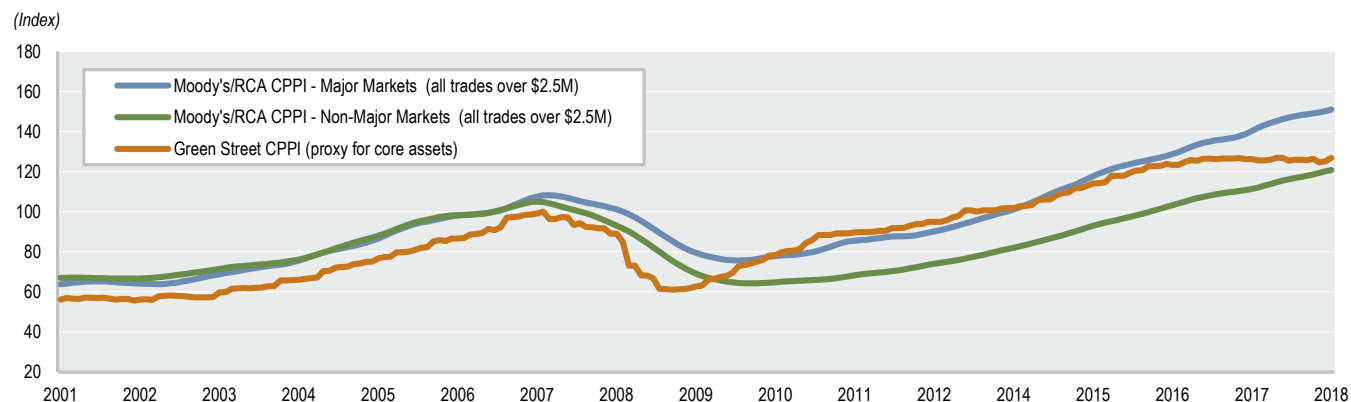
Office cap rates have started to flatten and retail cap rates have increased, while industrial continues to compress.



Office and retail volumes declined.

REAL ESTATE – UNITED STATES

COMMERCIAL REAL ESTATE PRICE INDICES



Source: 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)

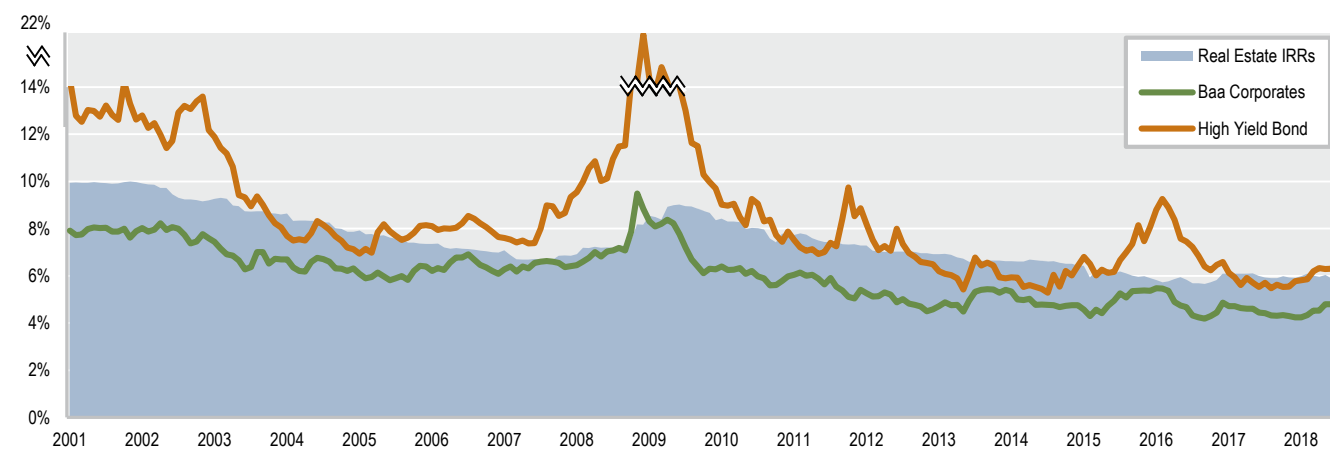
(data through May '15). Note: For this chart, Green St CPPI was indexed to 100 at its 2007 peak (Aug 2007) and Moody's CPPI was indexed at 100 in Dec 2006.

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 asset values remaining flat while broader market values continue to increase; the performance of property sectors continues to diverge as well, as industrial and apartment assets continue to increase, while office and retail property values stagnate or fall.

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



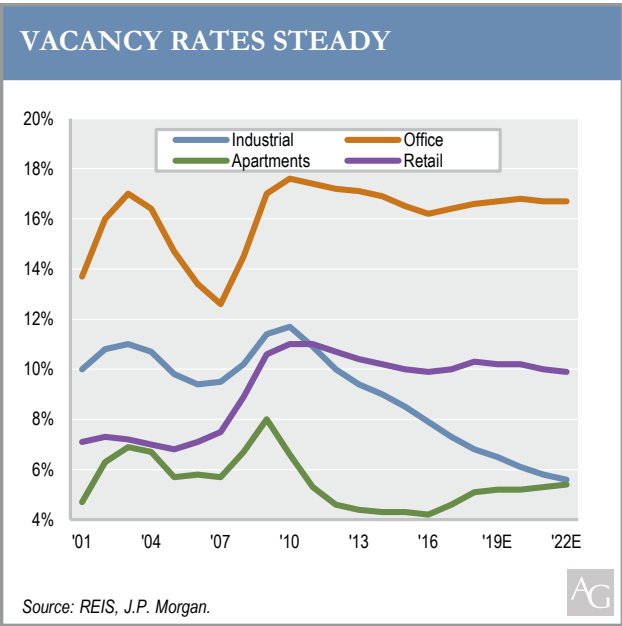
Real Estate IRRs is an equal-weighted average of the asset-weighted averages for the five major property sectors (apartment, industrial, mall, office, and strip center).

Source: Green Street Advisors (Mar '17), Moody's (Baa Corporates), BAML (High-Yield Bonds).

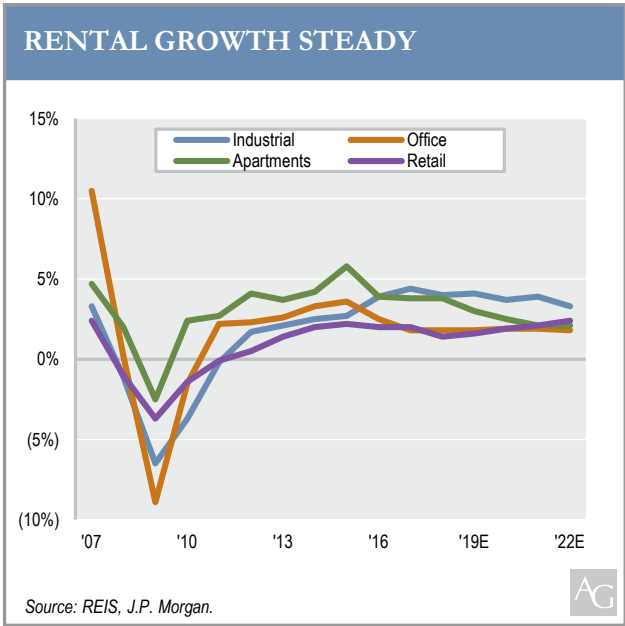


Real estate remains fairly-priced relative to high yield bonds; real estate's spread to investment grade bonds has narrowed as yields for Baa Corporates increased significantly year-to-date. A reversion to the historical spread between real estate returns and Baa Corporate yields would require a decrease in property prices.

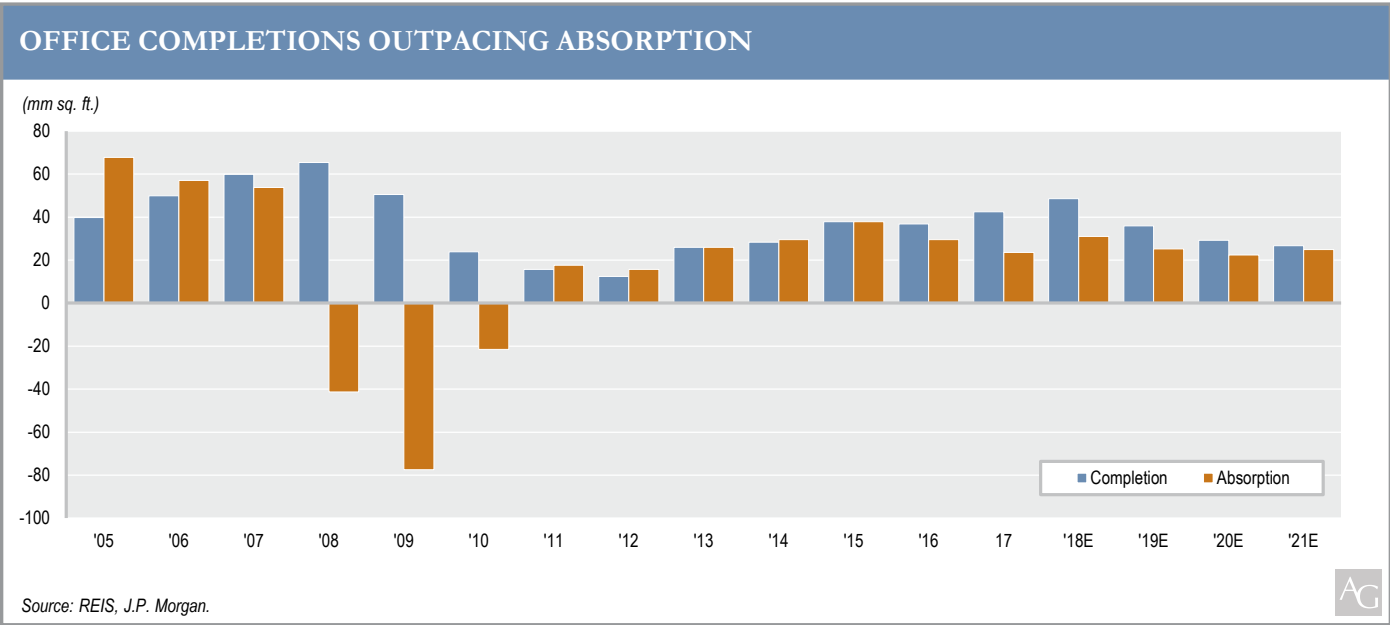
REAL ESTATE – UNITED STATES (continued)



Forecasts for vacancy rates remain largely unchanged, with continued strong demand for industrial due to changing consumer preferences and slight expansion of apartment vacancy due to new supply.

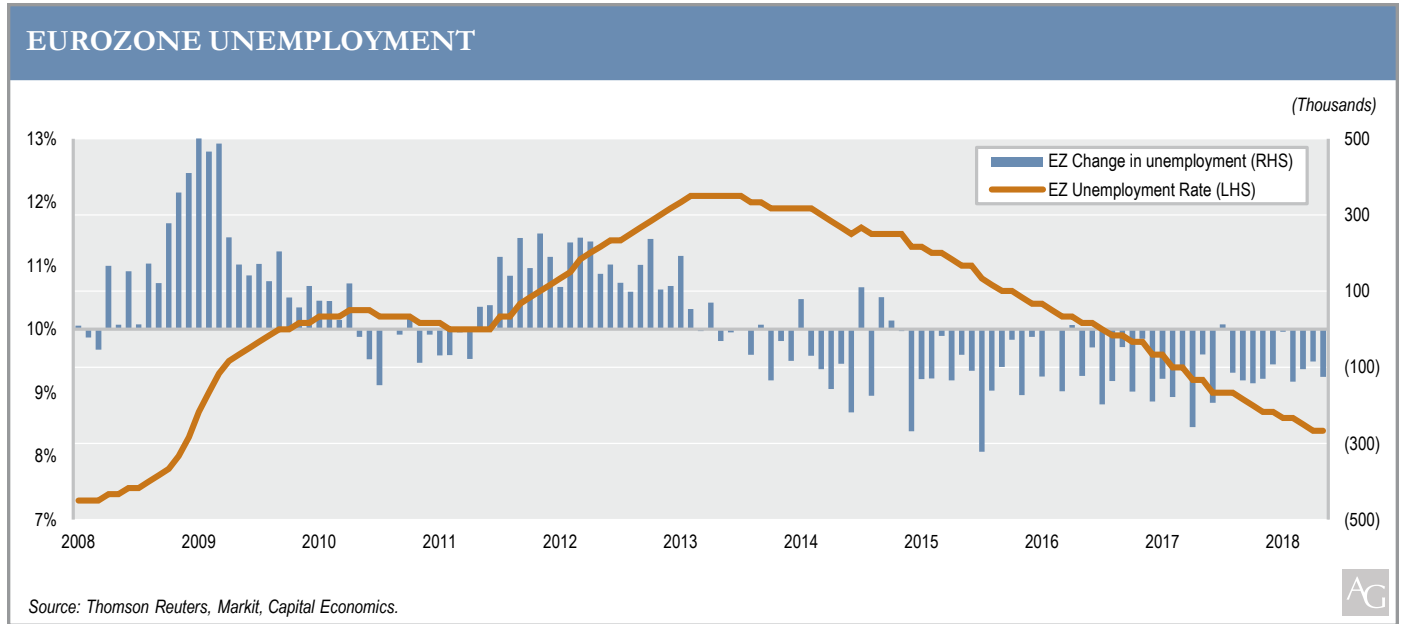


Rental growth remains largely steady and positive for all property types, reflecting moderate new supply on an overall basis.

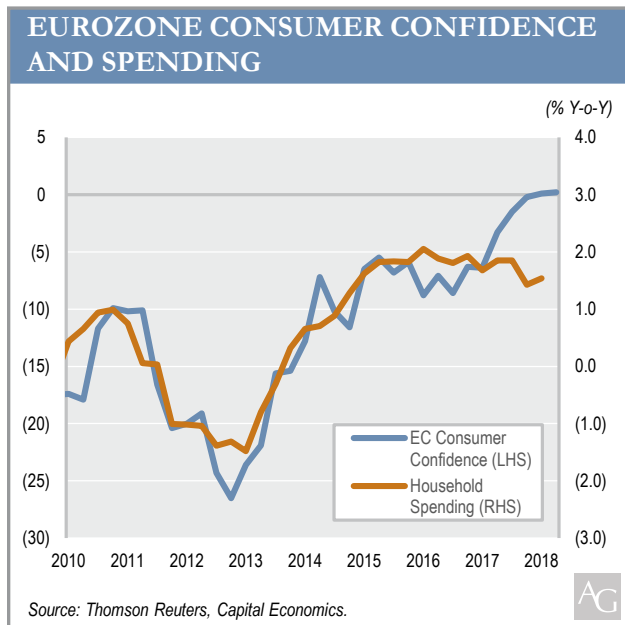


Office completions projected to peak in 2018, with new deliveries providing a wider range of options for tenants; positive absorption will maintain a stable overall vacancy rate. Rising labor and materials costs may call into question the feasibility of some of the out-year deliveries.

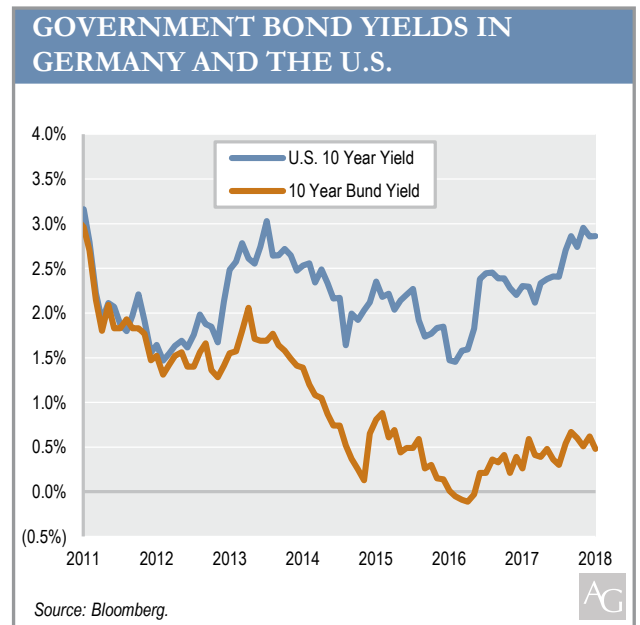
REAL ESTATE – EUROPE



Eurozone unemployment rate at 8.4%, its lowest since December 2008.

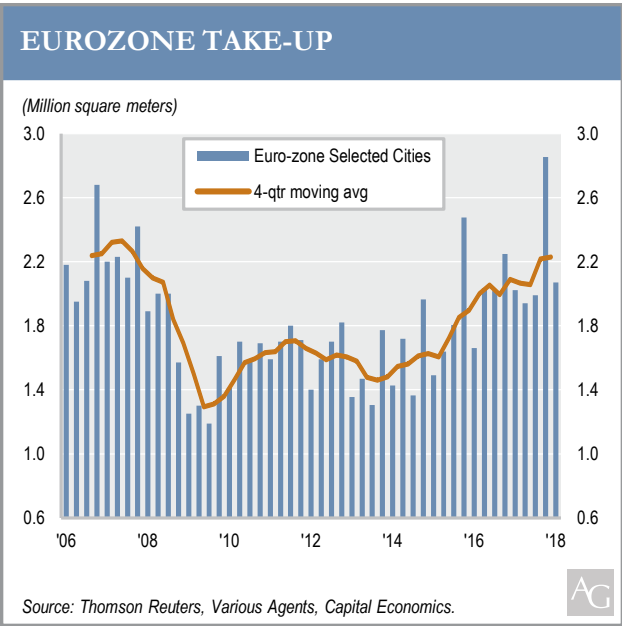


Outlook for consumption remains bright, though household spending growth slowed in Q2.

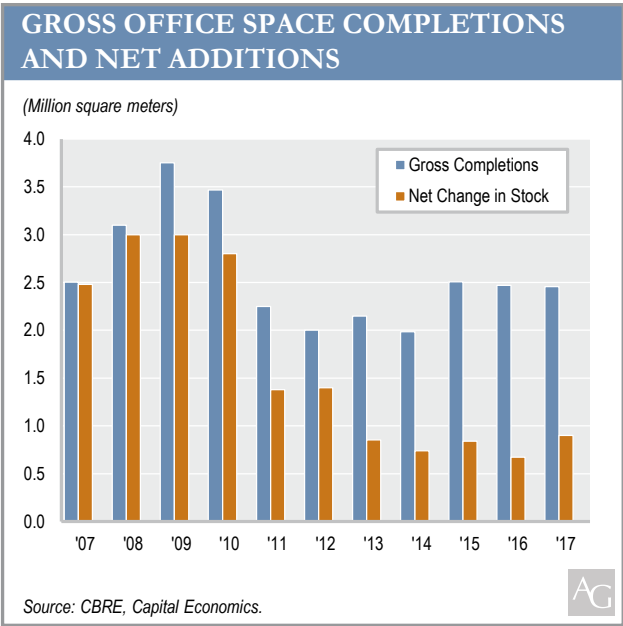


Gap in bond yields expected to widen as U.S. continues tightening and Treasury yield rises.

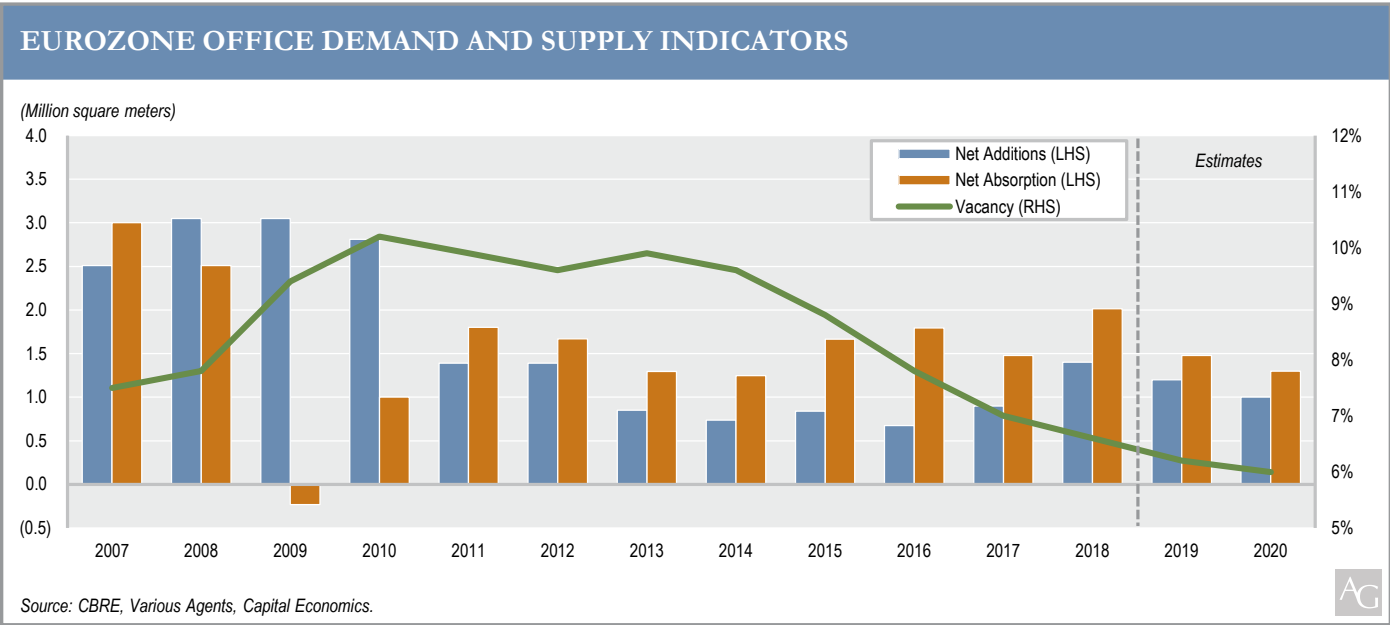
REAL ESTATE – EUROPE (continued)



Consistent growth in GDP and employment bodes well for office occupier demand.



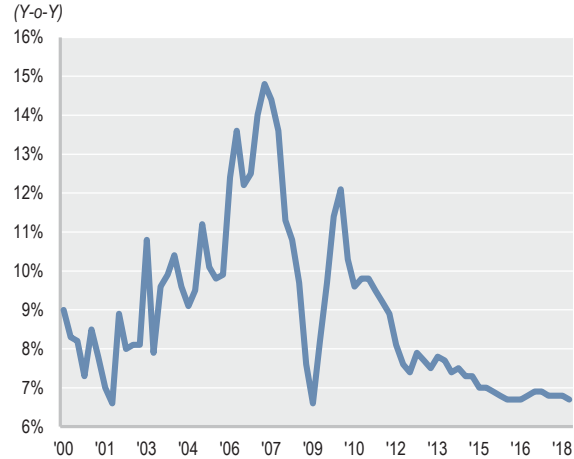
Net additions will be much lower than gross completions alone imply, given the volume of office space expected to be withdrawn for redevelopment.



Solid demand for office space, coupled with measured supply, pushes vacancy lower.

REAL ESTATE – ASIA

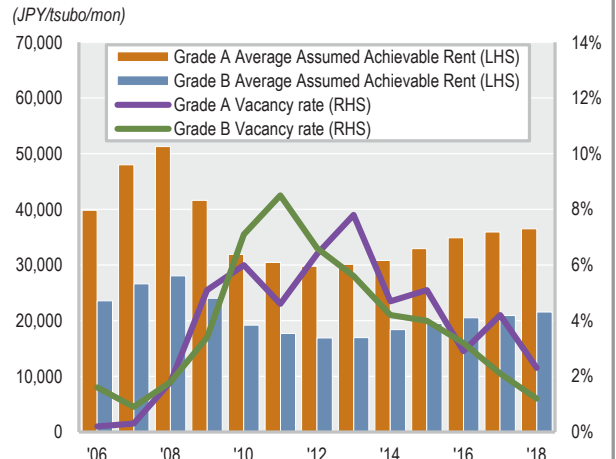
CHINA GDP GROWTH RATE



Source: National Bureau of Statistics of China.

GDP growth continued to track toward 6.5% to 7.0% although a trade war with the U.S. could impact future growth.

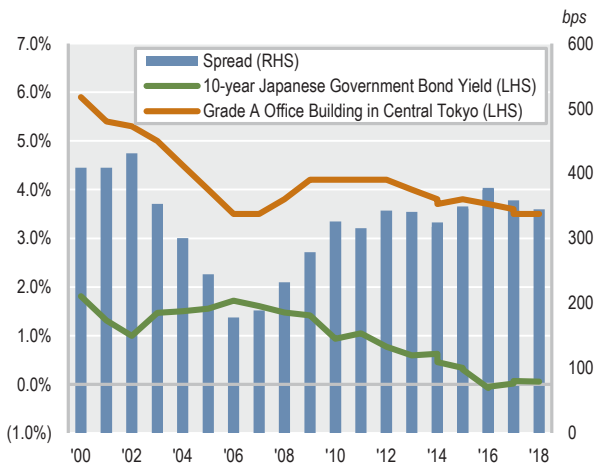
TOKYO'S 23 WARDS GRADE A & B OFFICE RENT AND VACANCY



Source: CBRE (March 2018).

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

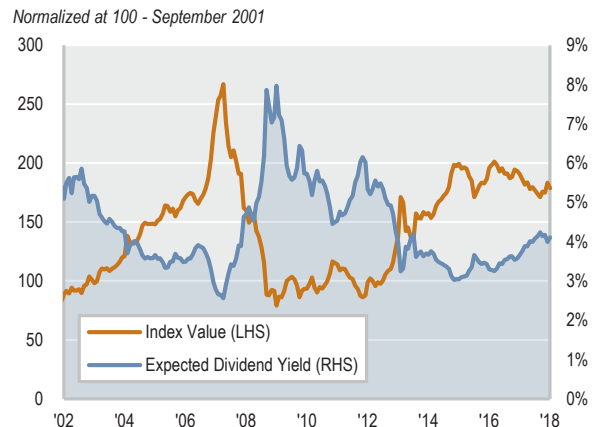
TOKYO GRADE A OFFICE CAP RATES VS. BORROWING COSTS



Source: Japan Real Estate Institute.

Cap rate spreads continue to remain wide.

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

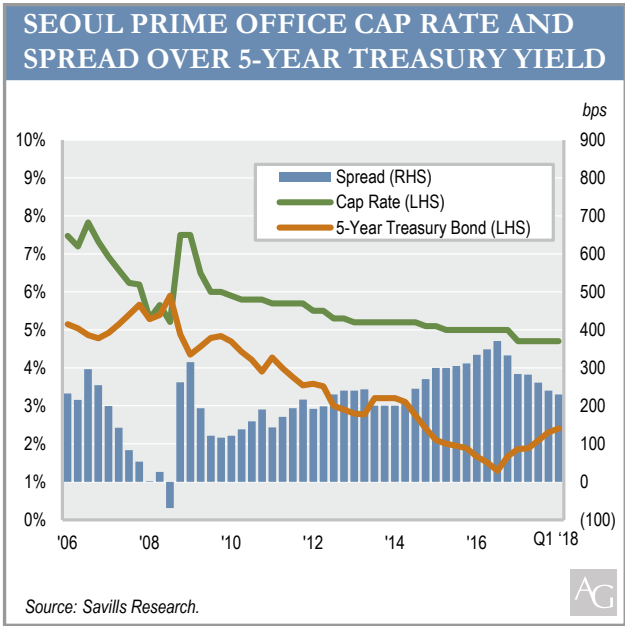


Source: Sumitomo Mitsui Trust Research Institute Co.

The J-REIT index showed signs of improvement in early part of 2018.



Office vacancy remained high at 14% as new supply was delivered to the market.



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



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

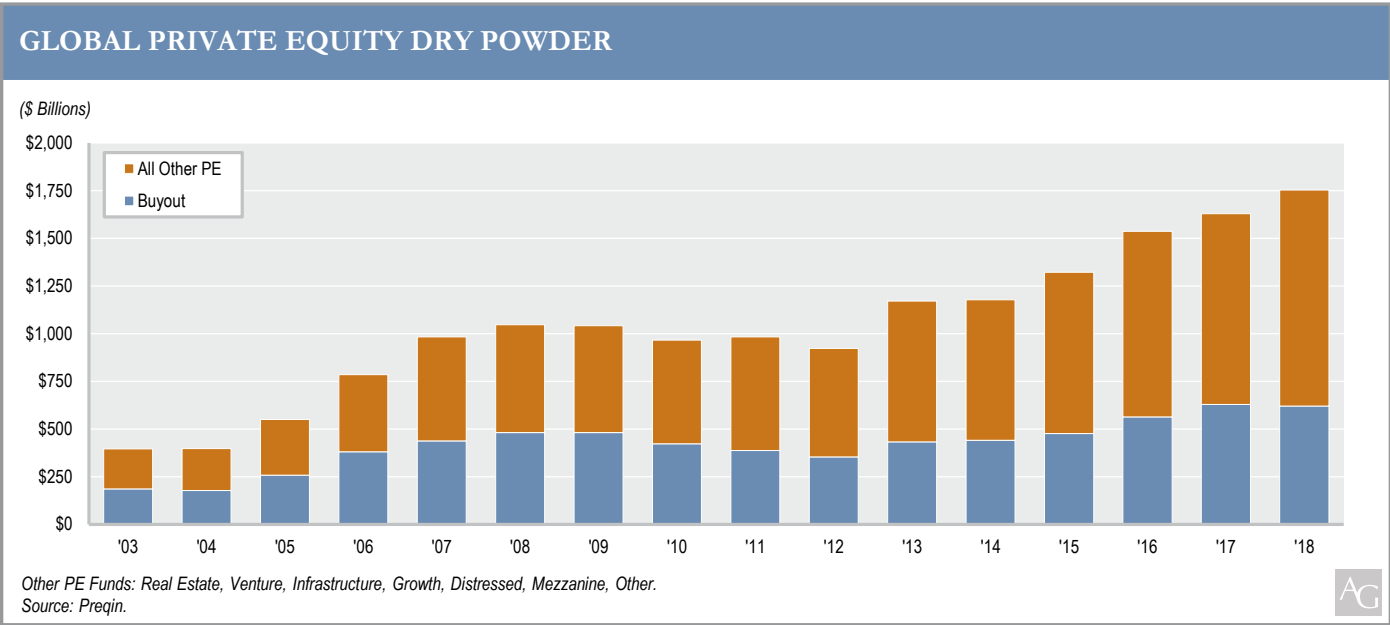


The Chinese RMB continued to show surprising strength in the most recent quarter.

PRIVATE EQUITY



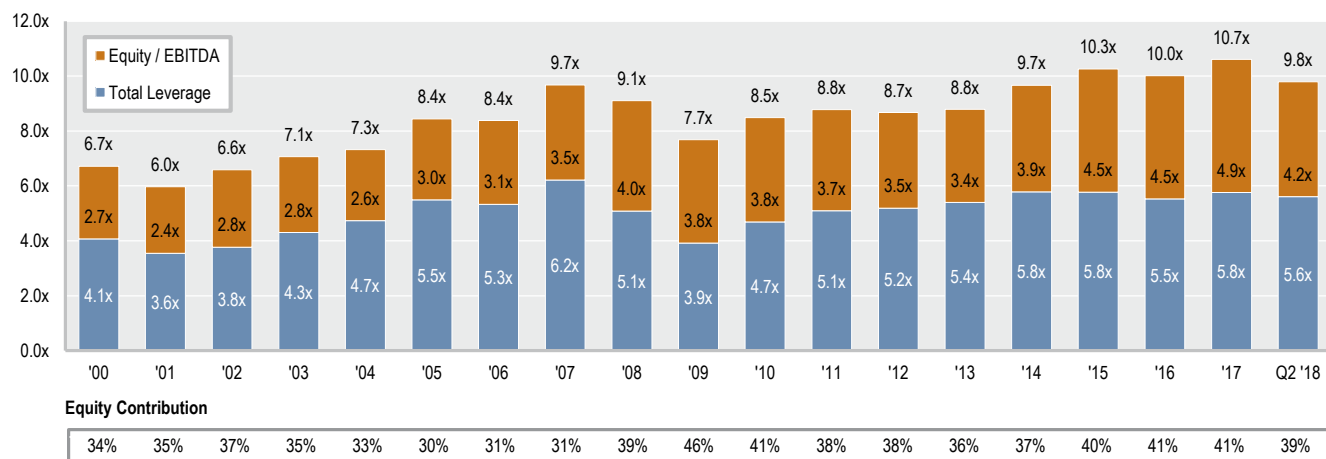
Both global and North American deal volume in the first six months of 2018 increased dramatically, led by several multi-billion buyouts.



For the first time in several years, buyout dry powder declined quarter over quarter. At June 30, 2018 buyout dry powder stood at \$621 billion, a 3% decrease from March 31st, 2018.

PRIVATE EQUITY *(continued)*

LBO PURCHASE PRICE BREAKDOWN

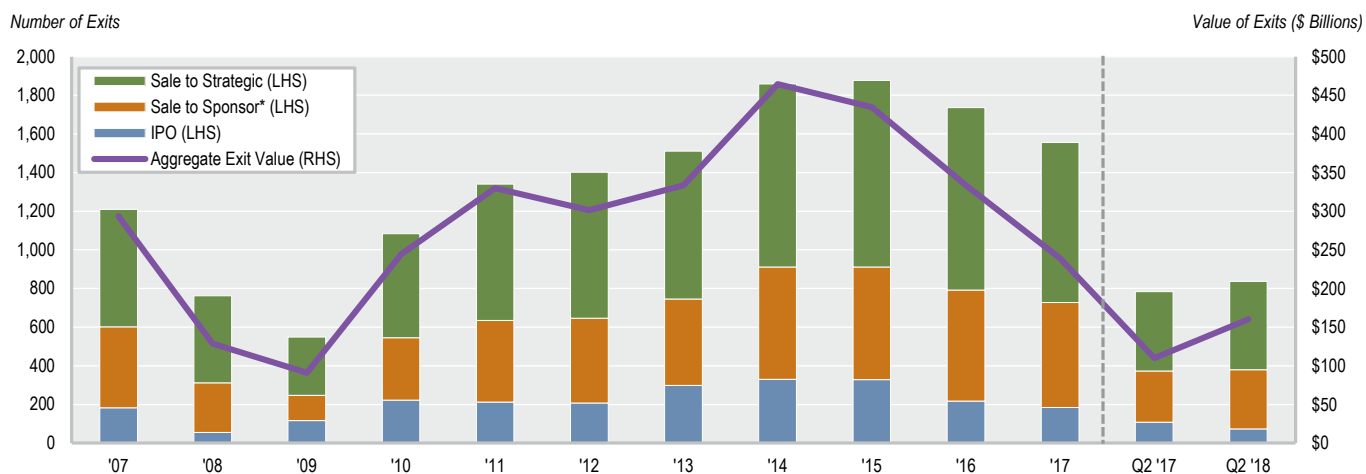


Source: S&P Capital IQ LCD.



LBO multiples in the first six months of 2018 (9.8x) decreased from the 10.7x level of 2017 but are consistent with prior years.

PRIVATE EQUITY EXITS



* Sale to Sponsor includes management-led buyouts.

Source: Preqin.



The number of exits in the first six months of 2018 was approximately 7% higher than in the first six months of 2017 and volume increased 45% reflecting larger dispositions by sponsors.





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