ANGELO GORDON
CELEBRATING 30 YEARS

CAPITAL MARKETS PERSPECTIVES

FOURTH 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 $32 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.

CO-CIO OVERVIEW

Welcome to Angelo Gordon's Capital Markets Perspectives for the fourth quarter of 2018.

Credit markets continued to enjoy solid technicals in the third quarter of 2018. Structured credit remained largely immune from the volatility in other markets. CMBS spreads generally continued to tighten, especially lower in the capital structure while the RMBS market continued to benefit from a strong housing market. Broader ABS issuance continued to be easily absorbed by yield-seeking investors who want exposure to a solid-to-improving U.S. consumer. In traded corporate credit the story is more nuanced. Leveraged loans have benefited from strong tailwinds all year as investors have flocked to floating rate product both directly in leveraged loan funds and CLOs, while other parts of the leveraged finance markets, particularly interest rate sensitive, fixed rate debt, have suffered from spotty weakness. Certain high yield and investment grade issuers have come under pressure due to micro-themes, especially in unsecured risk in sectors facing secular headwinds such as retail, auto and specialty consumer. In middle market private credit, while overall sector deal volume was down, lower-middle market volume actually increased, and saw higher first-lien spreads and modestly lower leverage levels. Last, in energy lending, we continue to see the broader capital markets all but closed to anyone other than the largest borrowers which has led to significantly growing demand for capital from the small and midsized energy sector.

In the real estate space, overall yield continues to drive strong performance. In the US, activity remains robust, assisted by growth in M&A transactions in the public markets, while private markets investors are taking a more tactical approach navigating primary versus secondary locations and asset class biases. Fundamentals are still good but we are keeping our eyes on an increasing supply pipeline and leverage levels as debt funds continue their push for AUM and market share; so far disciplined lending remains the theme. In Europe, deleveraging is still continuing especially in southern Europe, notably Spain and Italy. The eurozone shows improving market fundamentals driven by solid take up figures and limited speculative supply pipelines which suggests continued rental rate growth and occupancy gains. The UK is seeing strong employment gains and robust international demand for property investments despite Brexit concerns. In Asia, the Japanese economy is performing quite well supporting increasing real estate volumes due to values which remain below prior peak levels and financing terms which continue to be very attractive and accretive. In China, continued escalation in trade tensions weigh on investor sentiment with corresponding declines in public markets. Markets continue to watch for an increase in event driven special situations and forced sales. Hong Kong continues to experience strong demand from occupiers in mainland China, pushing vacancy rates to low levels and rental rates to peaks. Lastly, net lease sales volumes remain stable - although office and retail activity is suffering at the benefit of industrial - while pricing remains relatively stable despite interest rate increases.

Michael Gordon
CEO, Co-CIO

Josh Baumgarten
Co-CIO, Head of Credit

Adam Schwartz
Co-CIO, Head of Real Estate

ANGELO GORDON
CELEBRATING 30 YEARS

Maureen D'Alleva
Portfolio Manager

PERFORMING CREDIT

We enter the fourth quarter of 2018 with what we believe are strong tailwinds in the leveraged loan market. The third quarter recorded its strongest quarter since the fourth quarter of 2016 and the Credit Suisse Leveraged Loan index returned 1.93% in the third quarter, while technicals remain firm. With year-to-date returns of 4.36%, the loan market continues to meaningfully outperform high yield, which has posted year-to-date returns of 2.52%.

Demand for loans remained robust during the quarter. Several large new issues priced tighter than originally expected and a new wave of refinancing transactions were launched as spreads fell toward quarter end. As we review the various sources of demand, we see strength in each market segment, Loan Funds, Separately Managed Accounts and CLOs. In term of Loan funds, inflows have eclipsed $15 billion, which represents an annual high since 2013's $63 billion. The main area of demand, CLOs, has continued to grow and CLOs have maintained a roughly 50% share of outstanding loans in the leverage loan market. On the supply side, the loan market is now over $1.1 trillion and issuers continue to benefit from demand for floating rate assets. Year-to-date issuance (ex-refi/reset) has topped $100 billion. Gross loan issuance declined quarter-over-quarter to approximately $95 billion, the lowest quarterly total in two and a half years. Year-to-date gross issuance is just shy of $600 billion versus over $730 billion for the first three quarters of 2017. Net volume however continues to run ahead of last year's pace, at $238 billion through the end of September compared to approximately $195 billion over the first nine months of 2017. Although second lien issuance remains a fraction of overall new issue (approximately $20 billion issued this year), the par amount of second liens outstanding has doubled since the beginning of 2013 and returns have been strong.

Positive market sentiment led to a rebound in the average dollar price for the JP Morgan Loan index. Roughly 65% of the index trades above par and as a result much of the go-forward return is likely to come from coupon income as opposed to price appreciation. Although investors are carefully monitoring credit quality and debt leverage, leverage loans continue to offer attractive risk-adjusted returns for disciplined, selective investors.

Trevor Clark
Portfolio Manager

MIDDLE MARKET DIRECT LENDING

Despite a decline in total middle market issuance in the third quarter to $40 billion, total issuance in the first three quarters of the year of nearly $140 billion is not only on track to surpass 2017 annual issuance but is also the highest for the period since 2014. Heading into the final quarter of the year sponsored lenders expect issuance to increase 5% to 15% given the light third quarter and a seasonally strong fourth quarter in most years. Second lien issuance continues to decline as unitranche issuance reached $8.8 billion, the highest quarterly tally tracked thus far. Lenders continue to vie for market share, contributing to the ongoing march lower in unitranche spreads to below 600 basis points, a decline of over 100 basis points since early 2017. Non-regulated lenders stole further market share from banks despite bank willingness to push leverage levels higher as a result of looser leverage lending guidance.

Interestingly, although overall deal volume declined, a closer look reveals that loan volume for deals of less than $20 million in EBITDA actually increased quarter-over-quarter versus a significant decrease of over 20% for those transactions involving companies with over $20 million in EBITDA. Furthermore, first lien spreads for these smaller deals were higher (510 basis points versus 470 basis points) and leverage levels modestly lower (4.12x for first lien versus 4.40x). A recent report on private transactions indicated that deals backed by companies with less than $15 million in EBITDA not only carried an additional 100 basis points of yield, but also typically featured lower leverage levels than the core and upper middle markets.

Covenant-lite transactions continue to garner investor focus and concern. Although this concern is justified, we believe that investors should go one step further into the strength of the covenants a lender typically provides. With EBITDA adjustments and add-backs prevalent in the market, not all covenants are created equally. We believe that disciplined lenders who, due to their experience and relationships, have been able to maintain their credit standards and investment discipline, will continue to find attractive opportunities in the middle market.

Todd Dittmann
Portfolio Manager

ENERGY

WTI has traded within a $65 to $75 band since the spring. With impending U.S. sanctions, Iranian crude exports have declined significantly, however, OPEC has quietly increased production to help offset lost barrels. Global crude markets should remain tight over the near-term with limited spare capacity and dwindling Venezuelan production. Global demand forecasts for 2019 project healthy growth, though concerns over elevated crude prices, trade tensions and increasing interest rates have recently resulted in downward revisions.

With production in excess of 11 million barrels/day, the U.S. is now one of three top global producers of oil. That said, the Brent-WTI spread has widened as takeaway constraints in the Permian should persist through mid-2019 and inventories build at Cushing. Henry Hub natural gas prices have appreciated considerably over the last month, breaching the key $3 level. With inventories at multi-year lows headed into heating season, market volatility may arise if a colder than normal winter develops.

Although energy equities have outperformed the broader market, with the XOP index generating an 11% return, energy equities have substantially underperformed crude. Second quarter earnings season was a disappointment as a stream of misses and increasing capital budgets was met with dismay – and worse, disinterest – from investors still demanding producer capital discipline. Compounded by heightened concern regarding potential peak shale productivity, generalists will likely continue to avoid sector exposure.

The Credit Suisse Energy High Yield Index has widened 100 basis points year-to-date and currently offers a 7.3% yield. With investors focused on liquidity, larger producers are accessing the high yield markets to reopen and upsize existing notes, with proceeds used to pay down revolvers. These issuers typically boast strong credit profiles with demonstrable free cash flow, operate in key basins, and seek to raise $400+ million with new issues. For smaller producers, the liquid debt markets remain inaccessible.

The energy private equity exit problem persists. During the third quarter, U.S. producers announced $32 billion of acquisition and divestiture ("A&D") transactions, a marked increase versus the $9 billion announced during the second quarter. However, of this total, the largest ten deals comprised 89% of the overall market, with the two largest accounting for well over half. The number of announced transactions decreased sequentially from 126 to 95, which represents the lowest number of transactions in the last two years. As a result, smaller asset packages continue to be shelved as the A&D markets remain blocked for all but the largest deals. With the IPO markets also remaining shut, private equity sponsors should continue to view non-bank financing as a solution for their exit problem.

David Kamin
Co-Portfolio Manager

Dan Pound
Co-Portfolio Manager

DISTRESSED DEBT

Across Europe, a central theme of third quarter primary credit volume was favorable technicals and continued strong demand for floating rate risk. Slowing M&A-driven supply over the period was likely in response to unusually high new-issue volumes from prior quarters, rather than any reduction in investor appetite. Demand remained so robust that European credit appetite stayed notably buoyant in the face of Italy risk, with certain European bond deals 7.5x oversubscribed. In the U.S., a deceleration of loan issuance during the quarter was driven by higher spreads and a declining need to refinance outstanding paper: Capital markets have granted so much recent runway that 2019 loan maturities declined by 70% from year-end 2017 and 88% from 2016. Further, 2020 maturities (now at approximately $30 billion) were down almost 50% from 2017 - and almost 80% from 2016. After enduring several post-crisis years of rising debt levels, U.S. corporate balance sheets seem to have finally turned the corner on net leverage and interest coverage. A slim 5% minority of publicly traded index filers currently maintain coverage of less than 1.5x, compared to peak crisis conditions that saw 18% running this low. Average debt to EBITDA across a similar index of outstanding loans was also down during the third quarter to a weighted average of 5.4x, its lowest level since 2007. Additionally, the ratio of U.S. loans outstanding trading below 80 cents, commonly deemed the distressed ratio, was only 1.4% as of quarter end, the lowest since November 2014 and even lower compared to the post-crisis high of 12% in February 2016.

It has become increasingly clear, however, that the sunset of the current business cycle is approaching. Compelling, coordinated global growth rates are largely in the rearview, and both U.S. and European market participants appear to be progressively challenging the remaining runway of this cycle's stage. We continue to see increasing single-name volatility with the ECB signaling the end of its asset buying program. With an expansion that has lasted nearly 10 years and abundant signs of overheating loan and BBB markets, there are plenty of reasons for caution. In fact, more than 50% of the currently traded investment grade universe sits in BBB-rated debt, the lowest ratings tier possible within IG. In a post-QE world, factors that generally paper over rich valuations and flexible capital markets are strong fundamentals and healthy cash flow margins. The ratings and price markets are beginning to incorporate doubts that these metrics can continue to deliver. Consumer and retail corporates, facing myriad secular threats, currently carry elevated concentrations of bonds trading at distressed levels. Price action in some of these names has become volatile, with notably levered specialty consumer products issuers especially weak this past quarter.

Facing secular headwinds and declining advertising budgets, certain unsecured bonds were down almost 15 points, and others as much as 40 points after poor results, intensive liquidity management alerts, or shareholders voting down M&A. In energy, which follows consumer/retail in relative distress ratios, there were certain issuers with unsecured bonds that traded down 10 to 30 points following weak operating results announcements.

With total European loan leverage on the rise (at 5.6x, the highest market average since early-2008) and U.S. purchase price multiples approaching 11x, there is increasingly little doubt that a future distressed pipeline is building. In fact, the third quarter of 2018 produced the third largest quarter ever for leveraged buyouts, with more than $100 billion of deals announced. While accommodative conditions have aligned for this vast volume (cash flow growth, tax law clarity, accommodative financing conditions), we cannot ignore a potential inflection point. Tellingly, while backward-looking default rates remain low, downgrade/upgrade ratios (which historically have been forward indicating) are rising, pointing more to a twilight phase in the credit cycle than the defaults alone reflect.

David Kamin
Portfolio Manager

MERGER ARBITRAGE

U.S. M&A volumes slowed notably in the third quarter, down 20% sequentially but up 18% year-over-year and consistent with third quarter volumes since 1999. This relative slowdown can most likely be attributed to a few factors including a very robust start to 2018, a typical summertime M&A lull, and escalating U.S.-China tensions. This last factor will require significant merger arbitrage investor attention going forward, as it has the potential to materially slow the pace of M&A. Global mega-deals have propelled this current M&A bull cycle and recently these deals have experienced increasing time delays, and in some cases, political road blocks. As completing these deals has become more laborious and protracted, and management teams are forced to prioritize their respective global supply chains, companies might pause from such transformational deals and focus more on mid-sized transactions.

Notwithstanding the rising U.S.-China tensions which caused Qualcomm to abandon its pursuit of NXP Semiconductors, merger arbitrage spreads tightened during the quarter to an average of approximately 8.5% annualized. The termination of the deal did not result in a wide spread selloff of arbitrage deals as, unfortunate and painful as it was for the arb community, investors had been preparing for this potential outcome for months. While China has approved a few deals since NXP was terminated, merger arbitrage investors are trading the outstanding Chinese-affected deals with an abundance of caution. Although arbitragers await more antitrust data points out of China, the U.S. DOJ picture has become clearer. With the approval of Cigna's acquisition of Express Scripts and CVS Health's purchase of Aetna, both vertical mergers, the failed suit to block the Time Warner / AT&T deal appears to be an exception and not the rule for the DOJ.

Gary Wolf
Portfolio Manager

CONVERTIBLE ARBITRAGE

The U.S./China trade dispute and emerging market jitters continued to dominate headlines in the third quarter. The political situation in Europe also remained at the forefront of investors' minds as Brexit negotiations hit an impasse and Italy's new government challenged EU budget rules with aggressive spending plans late in September, bringing volatility back to a market that had been reasonably calm during the summer. Global equity markets remained strong, led by the U.S. and Japan, with the MSCI World Index adding 4.8% during the third quarter, in local currency terms. While bond markets were somewhat softer, credit had a fairly solid quarter, particularly in European and U.S. high yield. Global convertible bonds returned 2.5% in this supportive market context, taking their year-to-date performance to 6.4%. However, the environment remained challenging for convertible arbitrage strategies, with one delta hedged U.S. index losing 3.5% in the third quarter and now stands at -5.2% year-to-date.

The primary market for convertibles re-opened in September after a quiet summer, bringing the new issue total to $16 billion for the full quarter. This was once again led by the U.S. while the other regions lagged significantly. Total deal volume for 2018 year-to-date now stands at $74 billion, well ahead of the $75 billion for the full year 2017, with the U.S. accounting for the lion's share of issuance.

PORTFOLIO MANAGERS' OVERVIEW *(continued)*

Michael Liebman
Co-Portfolio Manager

John Rudic
Co-Portfolio Manager

LIQUID CREDIT

High yield primary issuance during the third quarter of 2018 remained light, with supply down approximately 40% year-over-year. This decline, along with lower volatility in both equities and interest rates, drove high yield average spreads tighter by approximately 60 basis points over the course of the quarter. By quarter-end, one index's average option adjusted spread touched post-crisis tights at 315 basis points. With a continued anemic calendar and the S&P touching new highs, we expect spread volatility to remain relatively contained into the end of the year.

That said, we continue to see significant volatility on a more micro basis. Some notable themes during the quarter included (i) higher oil prices driving outperformance in energy bonds, with particularly strong performance coming from offshore drillers; and (ii) the introduction of a ballot initiative in Colorado contemplating a fracking ban on more than 80% of non-federal land. This drove significant weakness in the bonds of several oil producers with outsized exposure to Colorado.

Some notable single-name themes included (i) Intelsat bonds moving higher on the anticipation that the company will be able to monetize its C-Band spectrum at a deleveraging price in the coming years; (ii) JC Penney bonds dropping approximately 20 points on expectedly weak 2Q results, despite tailwinds from tax reform; (iii) Tesla's capital structure remaining volatile as improving Model 3 production stats were clouded by the announcement that the SEC would investigate and subsequently sued Chairman and founder, Elon Musk; and (iv) Diebold Nixdorf facing an unexpected liquidity crisis as the company's ATM machine sales and margins slipped dramatically in the second quarter of 2018 and its bond price dropped 25 points on the news.

The investment grade primary market went into full gear later in the third quarter after a quiet August. A total of $146 billion of new supply was issued, led by Cigna's financing of its Express Scripts transaction, with $20 billion of new debt. Contrary to prior periods in 2018, the secondary IG market rallied through supply as investors began to realize that the forward calendar was materially smaller than earlier. The LQD index rallied approximately 15 basis points to end the quarter, as Treasury yields rose and led to more investors putting cash to work in IG as yield bogeys were achieved. On the single name IG front, the big news was around Comcast winning the auction for SKY over Disney, and Fox actually selling its stake to Comcast post-auction.

TJ Durkin
Co-Portfolio Manager

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Co-Portfolio Manager

RESIDENTIAL AND CONSUMER DEBT (RMBS/ABS)

Mortgage- and asset-backed sectors performed well during the third quarter. Legacy RMBS spreads were roughly unchanged and remain at or near all-time tights, benefitting from a steady supply/demand dynamic. The credit-risk transfer (CRT) market saw broad-based spread tightening. In a continuation from the second quarter, investors generally favored seasoned CRT deals with comparatively better underwritten collateral versus new issue deals, although new issue collateral continues to be underwritten under historically tight lending criteria. Strong demand for asset-backed securities, particularly those with incrementally higher spreads, led spreads to tighten during the quarter. Along those lines, the investor base for esoteric ABS continued to broaden as market participants sought deeper credit and less liquid opportunities to generate yield.

Quarterly new issuance of RMBS rose a very robust 80.1% year-over-year to $31.5 billion, while ABS issuance rose by 15.1% year-over-year to $57 billion, led by the auto sector. The third quarter's activity brings year-to-date new issuance to $84.7 billion of RMBS and $188.9 billion of ABS, a rise of 26.7% and 6.3%, respectively, compared to the first three quarters of 2017. For comparison. full year issuance in 2017 was $90 billion for RMBS and $239 billion for ABS.

Home prices continued to climb during the quarter, and the latest reading by CoreLogic Case-Shiller shows that national home prices rose 6.0% year-over-year while other measures of home prices pointed to year-over-year gains of 5%-7%. Over the last few years, strong home-price appreciation and borrower deleveraging have brought substantial home-equity gains to borrowers. We estimate that as of the February 2012 trough, the average pre-crisis mortgage borrower owed 115% of the underlying home's value, and as of the latest data, that figure has improved to 61%. Home prices have benefitted from the persistently tight supply of homes across the nation. However, there are indications of potentially slower home price growth ahead as mortgage rates have risen and new and existing homes sales have slowed somewhat.

Agency MBS widened modestly as benchmark rates rose during the third quarter in response to a more robust consensus outlook for the economy. The uptick in rate volatility was accompanied by a marginal increase in origination and a further reduction of the Federal Reserve's support of the sector, all of which weighed on market technicals. This should improve over the next two quarters as interest rates are at post crisis highs and winter seasonals depress supply and keep prepayments benign. Money managers continue to provide the primary source of support for agency MBS, but rising yields should entice banks and other global yield buyers to increase their support.

Andrew Solomon
Portfolio Manager

COMMERCIAL REAL ESTATE DEBT (CMBS)

In the third quarter of 2018 spreads continued to tighten at the bottom of the CMBS capital structure and the credit curve flattened even further with 10-yr BBB-rated CMBS trading 100 basis points tighter than at the start of the year, while 10-yr AA spreads are largely unchanged. The demand for higher-yielding debt has been both broad and deep, with a wide range of buyers, including money managers, hedge funds and dealers positioning the bonds for re-sale at presumably even tighter spreads. For yield-focused buyers, the BBB- spread tightening is not dramatic because a 72 basis point increase in ten-year swap spreads has offset much of this spread tightening. On balance, all-in yields going forward are approximately 30 basis points tighter.

Although private label issuance declined modestly quarter-over-quarter, year-to-date issuance of approximately $67 billion is still ahead of last year's pace. In addition, single-asset/single-borrower issuance remains roughly on par with conduit issuance, in contrast to historical issuance patterns where multi-borrower deals accounted for the majority of issuance. We attribute this partially to the fact that conduit deals today are typically less than $1 billion in size which makes it more difficult for issuers to include very large loans in a single conduit transaction due to diversification concerns. Splitting these large loans into multiple conduit transactions also has drawbacks for issuers. Single-asset/single-borrower deals tend to be less standardized than conduit deals and these transactions are not included in the CMBX indices. For these reasons certain investors tend to stay away from this portion of the market while other more real-estate focused investors may often find attractive relative value in these transactions.

With respect to fundamentals, according to Real Capital Analytics, commercial property prices in the U.S. increased by 1.18% during the second quarter of 2018, down slightly from 1.75% during the first quarter. Looking specifically at individual property types, multifamily assets are continuing to show year-over-year increases in effective rents of approximately 4% while vacancy rates continue to grow as a result of years of new development, ending the second quarter of 2018 at over 4.8%. Similar trends exist in the office sector where vacancy rates ticked up slightly to 16.55% while effective rents were up 2.6% year-over-year. In the retail sector vacancy rates at neighborhood and community shopping centers increased slightly to 10.2% while effective rents increased by 0.20% from the prior quarter. The lack of any meaningful new supply is helping prevent further deterioration in the performance of the asset class. Hotel RevPAR growth is expected to remain in line with 2017, at approximately 3%. Demand growth is expected to increase by approximately 2.0% in 2018, consistent with the long-term demand growth increase of 1.8%. The new hotel supply pipeline increased steadily from 2011 to 2016 but has leveled off over the past three years and is now near the long-term average of 2.0%. While these numbers indicate that on a nationwide basis commercial property might be in the later stages of this cycle, there is nothing glaring on the horizon that leads us to believe a price correction is imminent.

Gordon J. Whiting
Portfolio Manager

NET LEASE REAL ESTATE

As of the third quarter of 2018, the trailing 12-month U.S. single-tenant transaction volume totaled $58 billion, according to Real Capital Analytics. Since the third quarter of 2017, office and retail volumes declined by 33% and 22%, respectively, while industrial volumes increased by 20%. While volumes have fluctuated across property type, cap rates have remained fairly stable. Office and retail cap rates have shown little movement in recent quarters and industrial cap rates compressed by 5% since the third quarter of 2017. Although average cap rates are at multi-year lows, there is still a spread of approximately 130 basis points for assets in a tertiary market as compared to an asset in a primary market, according to Marcus & Millichap ("MM"). MM further states that the U.S. commercial real estate market is forecast to remain in a healthy supply/demand balance with vacancies falling across asset types since 2010; retail, office and industrial vacancies are projected to finish 2018 at 4.8%, 13.6% and 4.8%, respectively. The 10-year treasury rate surpassed 3.0% briefly in April, May and June 2018 with a longer stretch beginning in September 2018. With higher treasury rates, lending spreads have started to compress allowing for comparable all-in rates that remain attractive to investors.

PORTFOLIO MANAGERS' OVERVIEW *(continued)*

Adam Schwartz
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REAL ESTATE

United States

Headline commercial property transactions for the third quarter were up 17% year-over-year with entity- level deals accounting for $29.8 billion of $152.7 billion total transaction volume. Geographical focus continues to shift somewhat, with volume in the Gateway Markets growing by 5%, compared to 20% year-over-year growth in secondary and tertiary markets. Retail transaction activity was up 90% for the quarter, partly driven by Brookfield's acquisition of GGP . Office and multi-family sector activity was up double digits, with industrial transaction volume down just slightly, despite the $8.5 billion August acquisition of DCT by Prologis. Nevertheless, investment sentiment around industrial remains bullish, with the asset class poised to likely finish the year at record level transaction activity.

Throughout the first half of 2018 investor composition changed with cross-border buyers accounting for approximately 14% of transaction volume, up 29% year over year. Listed REIT activity was down over 30% while institutional/fund activity increased 13% and private buyers remained most active overall with approximately 50% of volume. Robust re-financing markets continue to offer a viable alternative option to selling assets with refinancing transactions taking an increasing share of the overall lending market. Refinancing accounted for just 31% of activity in 2015 compared to 40% in 2017 and 38% YTD 2018. Debt funds have been gaining market share and, on the margins, moving up the risk spectrum by increasing their relative share of value-add and higher LTV loans. For the year private label CMBS issuance was down approximately 5% through the third quarter while Agency CMBS issuance was up 5%.

Fundamentals remain solid across most property types, but new supply in office, industrial and multi-family has moved closer to long-term trend levels, and there are pockets of overbuilding. As supply growth has normalized, rent growth has moderated, and aggregate occupancy levels have likely peaked for this cycle.

On the valuation front, Green Street has prices up approximately 1% over the past three months and up about 2% over 12 months with some significant variability by product type. Outliers include Manufactured Housing up 16%, Industrial up 11% with Malls down 9%. Green Street Advisors model, which tracks the relative value relationship between real estate and fixed income (investment grade and high yield), pegs real estate at about 2% overvalued.

Europe

Ten years on from the Global Financial Crisis, European bank deleveraging is still continuing rapidly. In the third quarter a further €32.6 billion of real estate NPL and REO sales was recorded across 57 transactions, bringing the total sold by eurozone banks in 2018 to approximately €77.1 billion. "Mega-deals" - those with a face value greater than €1 billion - stood at eighteen through the third quarter, more than double the number that traded in 2017. Nearly 43% of the total European volume of closed RE loan and REO transactions have been from Spain, with another 21% attributable to Italy. There is an estimated €45 billion of live and planned transactions identified for the final quarter of 2018, with €28 billion of live deals from 23 different vendors in six European countries.

Commercial property occupier market indicators show solid office take-up across the eurozone, at more than two million square meters year-to-date. Solid demand and limited speculative supply pipelines have resulted in the tightening of most eurozone office markets. According to JLL, European office vacancy overall decreased by 30 basis points to 6.5% in the third quarter or 2018, the lowest level since 2002. Across Europe, 22 of 24 Index markets recorded a decline in vacancy in the third quarter - the exceptions being Dublin (+20 basis points to 8.7%) and Edinburgh (stable at 3.5%). Low vacancy rates are expected to support further rent growth, along with a favorable supply outlook, largely due to a lack of available funding, as well as the substantial impact of the conversion of office to residential in a number of markets, including Germany, Nordics and Amsterdam. Unemployment is down to its lowest rate since November 2008 and the rise in wage growth over the past year has been encouragingly broad-based. August's 0.3% fall in German industrial production was much weaker than expected, but forward-looking production indices are typically consistent with annualized growth of around 2%, and forward-looking survey indicators are positive as well.

Since the Brexit referendum, the Central London office market has beaten expectations, with evident demand from non-financial companies. The breadth and pace of office job creation has improved, with London office-based employment increasing by 2.2% year-over-year, double the pace seen a year ago, and above the national rate of 0.5% year-over-year. This has translated to 64,000 new office jobs created year-to-date in London, painting a picture of steady occupier demand. According to JLL, total office occupier demand of 9.5 million square feet is running above the 10-year average of 8.3 million square feet. London's business-friendly policies and diversity seem to have insulated it from any substantive challenge to its dominance as the financial capital of Europe, and overseas investors have taken a long-term view and found that London office offers fair return prospects and deep liquidity. Both occupancy and rents are holding up better than expected, with West End vacancy of 4.1% unchanged and rental growth expected to return over the medium-term. Overseas investment continues to be attracted to London, with 50% of UK transactions closed by Asian investors year-to-date, with another 15% of UK transaction closed by investors from North America.

Wilson Leung
Portfolio Manager
Head of Asia Real Estate

Steven Cha
Co-Portfolio Manager

ASIA REAL ESTATE

Japan

In the second quarter of 2018, Japan's economy grew at its fastest pace since 2016. Real GDP achieved an annualized rate of 3.0%, rebounding after a temporary slowdown in the previous quarter. The growth is mainly due to increased corporate investment in industries including logistics and electronics. Unemployment remained at a historical low of 2.4%. In July, the results of this year's spring labor management talks revealed that the average wage increase for major Japanese companies was 2.53%, the highest increase in the last 20 years. In August, Prime Minister Shinzo Abe was re-elected as leader of the Liberal Democratic Party, paving the way for three more years of Abe as Prime Minister, and a government that is expected to continue the current economic stimulus program, as inflation indicators remain low.

The Japanese REITs ("J-REIT") index increased 7% over the last three quarters, outperforming the TOPIX index. In addition, real estate investment volume increased by 7% year-on-year, which was mainly driven by J-REITs and offshore investors. Offshore, core-focused investors continue to actively pursue investment opportunities in Japan as asset values remain below prior peak levels and financing terms continue to be very attractive. Strong tenant demand, propelled by a robust economy, has pushed Grade-A office vacancy down to 1.4% in Tokyo, and 0.2% in Osaka. Vacancy levels for Class B properties have also declined to 0.9% in Tokyo and 1.6% in Osaka. In Osaka, very limited new office stock is expected over the next few years which should lead to rent growth over the next few years. In addition, the market for large-scale multi-tenant logistics facilities continues to see strong demand on the back of growth in e-commerce and third-party logistics. Demand for industrial space has kept pace with new supply and vacancy remains below 5% in the Greater Tokyo Area. In the Osaka market, several large facilities were completed over the past couple years creating a temporary rise in vacancy. However, demand in Greater Osaka is also at a historical high, and the new supply is gradually being absorbed with vacancy dropping from 12.8% in the fourth quarter of 2017 to 11.6% in the second quarter of 2018. As a general trend, tenants across Japan continue to vacate older, outdated warehouses and are moving into large-scale multi-tenant facilities. These modern facilities still only make up less than 5% of the total warehouse stock suggesting continued demand for such facilities is likely in the coming years.

China

The third quarter continued to be dominated with headlines on the escalating trade war. On September 17, President Trump announced an additional 10% tariff on US$200 billion worth of Chinese imports and threatened to impose tariffs on another US$267 billion of Chinese imports. China responded the next day with retaliatory measures to impose an additional duty of 5%-10% on US$60 billion of US imports. The additional rounds of tariffs suggest a further escalation in trade tensions; however, the impact on China's macroeconomy remains manageable, helped by policy easing measures on domestic demand such as fiscal stimuli, tax cuts and rebates, reduction of the required reserve ratio, and other tools that Beijing has in hand.

Overall, China's economic growth in the first half of 2018 topped expectations at 6.8%, exceeding the 6.5% target set at the beginning of the year. However, the escalation in trade tensions continued to weigh on investor sentiment. The Shanghai Stock Exchange Composite Index is down 15% since the beginning of the year, near its lowest level in two years. Hong Kong's Hang Seng Index finished the quarter down another 4%, bringing total losses to over 7% year to date. The Chinese RMB lost another 4% against the USD and finished the quarter at RMB6.87 per USD, a level not seen since 2016.

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 strong, underpinned by a rapidly growing tertiary sector. We see sustained demand for office space in tier one cities while vacancy remains at healthy levels.

On the other hand, debt-laden companies, including a number of developers, accelerated sales of their real estate 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.

Hong Kong

The Hong Kong economy delivered robust growth of 3.5% year-over-year in the second quarter of 2018, in line with the full-year target of 3%-4%. Unemployment remained at a 20-year low of 2.8%. 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 1.6% in Central as of June 2018. Strong office fundamentals have lifted office rents in Central significantly by almost 5% since the beginning of this year and increased the rental spread between Central and decentralized office areas. The office decentralization trend should continue as cost-conscious tenants are pushed out of Central and are forced to move to less expensive decentralized areas. This trend 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

During the quarter, the third Inter-Korean Summit of 2018 took place in September in North Korea's capital, Pyongyang. President Moon Jae-in of South Korea visited for three days with his delegation, which included the heads of Samsung, SK Group, LG Group and other major South Korean conglomerates. The summit holds significance because it was the first visit to Pyongyang by a South Korean president in 11 years. In addition, North Korea made new commitments towards denuclearization, which included the permanent dismantlement of North Korea's primary nuclear facility in Yongbyon.

The South Korean economy grew 0.6% quarter-on-quarter in the second quarter of 2018, on the back of solid consumption and exports. However, it is anticipated the economic growth rate could moderate in 2019 from the previously forecasted 2.9% to 2.6% based on the latest IMF forecasts. This slowdown is largely due to the global trade tensions and negative effects of the recently imposed trade measures by the US. The Bank of Korea ("BoK") kept its benchmark policy rate unchanged at 1.50% in August this year. However, the BoK has cautiously hinted that it may raise rates by 25 basis points by the end of this year to moderate the widening interest rate gap between the US and Korea.

The spread between prime office cap rates and the Korean government bond yield (i.e. 5-year treasury bond) widened 5 basis points from the previous quarter to 235 basis points, which is above the past 10-year average of approximately 215 basis points. Real estate capital values did not experience significant price movements in light of a possible benchmark interest rate increase by year-end. Commercial office transactions in Seoul remain robust as evidenced by the record high investment volume in the first half of 2018, which amounted to US$ 6 billion or 70% of 2017 full year record high transaction volume. Prime office vacancy rates in the major business districts in Seoul dropped by 1.4% points from the previous quarter to 12.4% in the second quarter of the year. Analysts expect vacancy rates to decline in the second half of 2018 with positive pick-up in net absorption driven by demand from new businesses, as well as increased needs from tenants looking to upgrade or relocate. That said, there is significant supply expected over the next few years in certain business districts in Seoul which should result in weaker market fundamentals. The residential market in Seoul continues to be robust with Seoul apartment prices rising 9.6% year-on-year as of September 2018. In Gangnam, the prime residential district in Seoul, apartment prices have increased by 16.6% year-on-year as of September 2018.

Arthur Peponis
Portfolio Manager

PRIVATE EQUITY

The private equity industry gained strength in the third quarter building on a solid first half of the year. Deal volume was higher for the first nine months in 2018 versus 2017. In North America, there were $174 billion of transactions through September 30, 2018 as compared to $150 billion from the prior year's first nine months. Global deal volume through the first nine months increased approximately 7% year-on-year to $318 billion. Global and North American deal volume are on pace to have the strongest year since 2007, driven by several multi-billion dollar transactions. Most notably for the third quarter, both dry powder and multiples paid increased. For the first time in five years, dry powder declined in the second quarter, however, in the third quarter, dry powder increased 3% to $640 billion, just shy of the all-time high of $642 billion set at March 31, 2018 and continuing the long-term upward trend.

Transaction multiples in the third quarter increased for the first time since the fourth quarter of 2017. Average multiples paid through the first nine months were 11.0x EBITDA versus the 9.8x EBITDA through June 30 of 2018 and the 10.7x paid in 2017. While there were some anomalies in the data over the last quarter or two, dry powder and transaction multiples paid are both poised to set yearly all-time highs. Average leverage for buyouts increased to 5.8x for the first three quarters of 2018 versus 5.6x for the first six months of 2018. These leverage levels remain consistent with prior years. Equity contribution as a percentage of total capitalization in the third quarter increased slightly to 41%. The number of exits also increased in the first nine months of 2018 from the first nine months of the prior year by approximately 26%, with a commensurate dollar volume increase of 29% driven largely by sales to strategic acquirers. Barring an unforeseen economic or exogenous event, 2018 looks to be one of the strongest years for the private equity industry in recent memory.

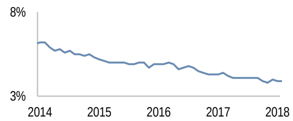
ECONOMIC DASHBOARD

Market Indices: Fourth Quarter 2018

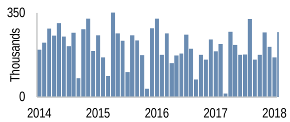
ANGELO GORDON
CELEBRATING 30 YEARS

JOB MARKET

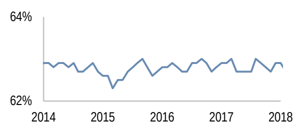
Macro Economics		Five-Year Trend
US – Unemployment Rate		As of 9/30/2018
Latest Level	3.7	
Change from Prior Month	(0.2)	
Latest Direction	Improving	
Frequency	Monthly	



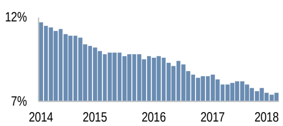
US – Non-Farm Payroll		As of 9/30/2018
Latest Level	134.0	
Change from Prior Month	(136.0)	
Latest Direction	Deteriorating	
Frequency	Monthly	



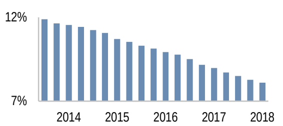
US – Labor Participation Rate		As of 9/30/2018
Latest Level	62.7	
Change from Prior Month	0.0	
Latest Direction	No Change	
Frequency	Monthly	



US – U-6 Unemployed & Margin & Part-Time as % of Labor Force & Margin		As of 9/30/2018
Latest Level	7.5	
Change from Prior Month	0.1	
Latest Direction	Deteriorating	
Frequency	Monthly	

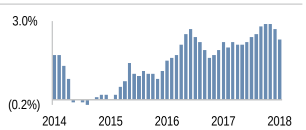


Eurozone Unemployment Rate		As of 9/30/2018
Latest Level	8.1	
Change from Prior Month	(0.2)	
Latest Direction	Improving	
Frequency	Quarterly	

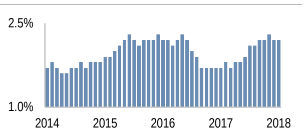


INFLATION

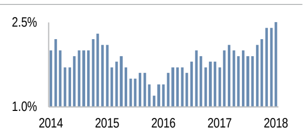
Macro Economics		Five-Year Trend
US Consumer Price Index (CPI) Y-o-Y %		As of 9/30/2018
Latest Level	2.3	
Change from Prior Month	(0.4)	
Latest Direction	Decreasing	
Frequency	Monthly	



US CPI Goods Less Food and Energy Y-o-Y %		As of 9/30/2018
Latest Level	2.2	
Change from Prior Month	0.0	
Latest Direction	No Change	
Frequency	Monthly	

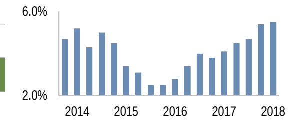


US Producer Price Index (PPI) Y-o-Y %		As of 9/30/2018
Latest Level	2.6	
Change from Prior Month	0.2	
Latest Direction	Increasing	
Frequency	Monthly	

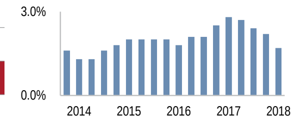


GDP GROWTH

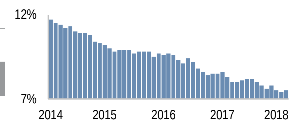
Macro Economics		Five-Year Trend
US – GDP Y-o-Y %		As of 9/30/2018
Latest Level	5.5	
Change from Prior Quarter	0.1	
Latest Direction	Improving	
Frequency	Quarterly	



Eurozone – GDP Y-o-Y %		As of 9/30/2018
Latest Level	1.7	
Change from Prior Quarter	(0.5).	
Latest Direction	Deteriorating	
Frequency	Quarterly	

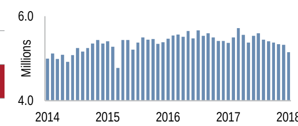


China – GDP Y-o-Y %		As of 9/30/2018
Latest Level	6.5	
Change from Prior Quarter	0.0	
Latest Direction	No Change	
Frequency	Quarterly	

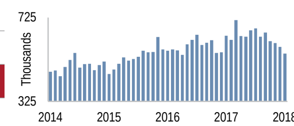


HOUSING

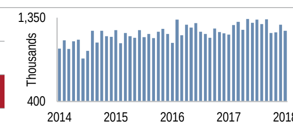
Macro Economics		Five-Year Trend
Existing Home Sales		As of 9/30/2018
Latest Level	5.2	
Change from Prior Month	(0.2)	
Latest Direction	Deteriorating	
Frequency	Monthly	



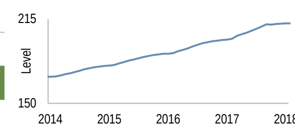
New Home Sales		As of 9/30/2018
Latest Level	553.0	
Change from Prior Month	(32.0)	
Latest Direction	Deteriorating	
Frequency	Monthly	



Housing Starts		As of 9/30/2018
Latest Level	1,201.0	
Change from Prior Month	(67.0)	
Latest Direction	Deteriorating	
Frequency	Monthly	



Case-Shiller Index of Home Value in 20 Cities		As of 9/30/2018
Latest Level	211.7	
Change from Prior Month	0.3	
Latest Direction	Improving	
Frequency	Monthly	



Source: Bloomberg (All).

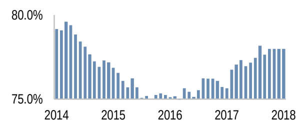
"Latest Direction" is from the last "Frequency" measurement.

ECONOMIC DASHBOARD *(continued)*

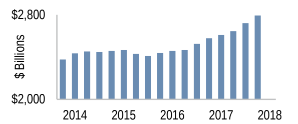
ECONOMIC & MARKET CONFIDENCE

Macro Economics	Five-Year Trend

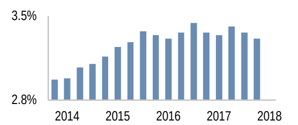
Capacity Utilization as a % of Capacity	As of 9/30/2018
Latest Level	78.1
Change from Prior Month	0.1
Latest Direction	Improving
Frequency	Monthly



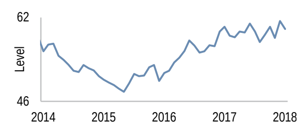
Private Fixed Investment Nonresidential SAAR	As of 9/30/2018
Latest Level	2,807.4
Change from Prior Month	16.0
Latest Direction	Improving
Frequency	Quarterly



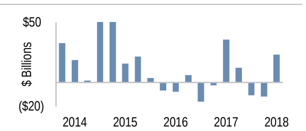
Residential Fixed Investment as a % of GDP	As of 9/30/2018
Latest Level	3.3
Change from Prior Month	(0.1)
Latest Direction	Decreasing
Frequency	Quarterly



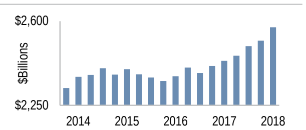
ISM Manufacturing Index	As of 9/30/2018
Latest Level	59.8
Change from Prior Month	(1.5)
Latest Direction	Deteriorating
Frequency	Monthly



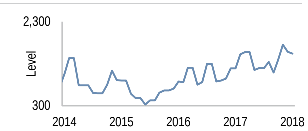
Manufacturing Inventory Change Q-o-Q $	As of 9/30/2018
Latest Level	23.0
Change from Prior Month	34.9
Latest Direction	Increasing
Frequency	Quarterly



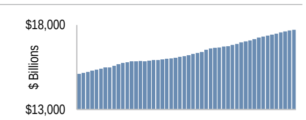
Exports of Goods/Services	As of 9/30/2018
Latest Level	2,551
Change from Prior Month	(23)
Latest Direction	Improving
Frequency	Quarterly



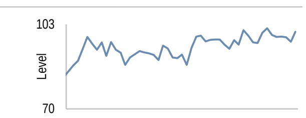
Shipping Rates	As of 9/30/2018
Latest Level	1,540
Change from Prior Month	(39)
Latest Direction	Deteriorating
Frequency	Quarterly



Personal Income Level	As of 9/30/2018
Latest Level	17,726
Change from Prior Month	103
Latest Direction	Improving
Frequency	Monthly



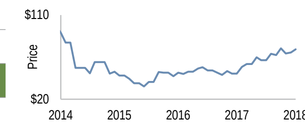
Michigan Consumer Confidence Sentiment	As of 9/30/2018
Latest Level	100.1
Change from Prior Month	3.9
Latest Direction	Improving
Frequency	Monthly



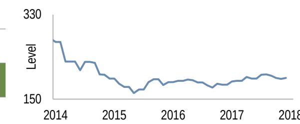
COMMODITIES

Macro Economics	Five-Year Trend

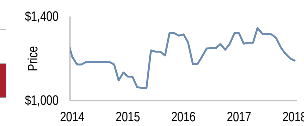
WTI Crude Oil Price	As of 9/30/2018
Latest Level	73.3
Change from Prior Quarter	3.5
Latest Direction	Increasing
Frequency	Monthly



Reuters/Jefferies Commodity Index	As of 9/30/2018
Latest Level	195.2
Change from Prior Quarter	2.2
Latest Direction	Increasing
Frequency	Monthly



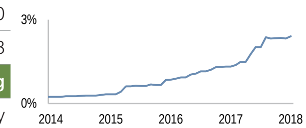
Gold	As of 9/30/2018
Latest Level	1,190.9
Change from Prior Quarter	(10.3)
Latest Direction	Decreasing
Frequency	Monthly



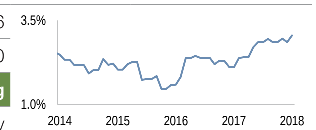
RATES

Macro Economics	Five-Year Trend

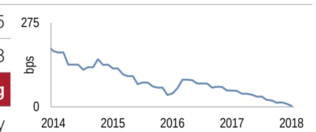
LIBOR 3M	As of 9/30/2018
Latest Level	2.40
Change from Prior Quarter	0.08
Latest Direction	Increasing
Frequency	Monthly



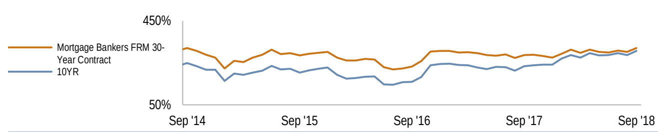
Treasury 10 Yr Yield	As of 9/30/2018
Latest Level	3.06
Change from Prior Quarter	0.20
Latest Direction	Increasing
Frequency	Monthly



Swaps 2Y vs. 10Y	As of 9/30/2018
Latest Level	13.05
Change from Prior Quarter	2.48
Latest Direction	Steepening
Frequency	Monthly



30 Yr Mortgage and 10 Yr Treasury	As of 9/30/2018



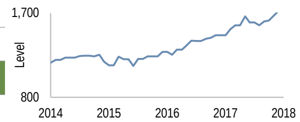
Source: Bloomberg (All).

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

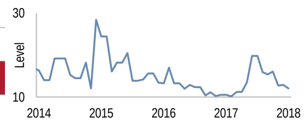
ECONOMIC DASHBOARD *(continued)*

EQUITY

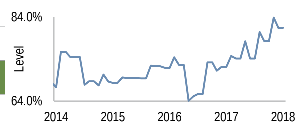
Macro Economics		Five-Year Trend
US Equity Markets – Russell 3000		As of 9/30/2018
Latest Level	1,726.5	
Change from Prior Month	0.4	
Latest Direction	Rally	
Frequency	Monthly	



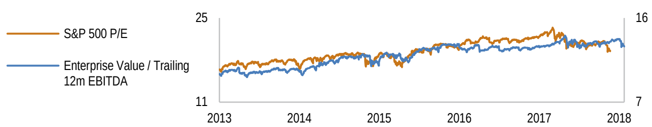
US Equity – VIX		As of 9/30/2018
Latest Level	12.1	
Change from Prior Month	(0.7)	
Latest Direction	Decreasing	
Frequency	Monthly	



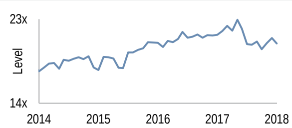
S&P 500 Percentage Exceeding Earning Estimates		As of 9/30/2018
Latest Level	81.4	
Change from Prior Month	0.1	
Latest Direction	Increasing	
Frequency	Monthly	



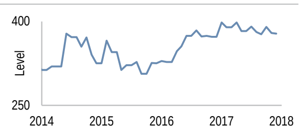
S&P 500 Historical Valuation Levels — As of 9/30/2018



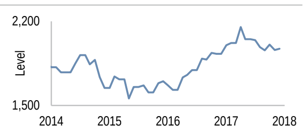
Trailing P/E on S&P 500		As of 9/30/2018
Latest Level	20.4	
Change from Prior Month	(0.6)	
Latest Direction	Decreasing	
Frequency	Monthly	



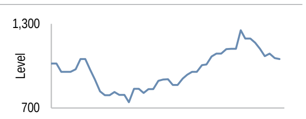
Equity Markets – Euro Stoxx		As of 9/30/2018
Latest Level	378.3	
Change from Prior Month	(1.1)	
Latest Direction	Decreasing	
Frequency	Monthly	



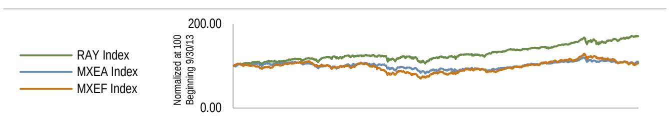
Equity Markets – MSCI EAFE		As of 9/30/2018
Latest Level	1,973.6	
Change from Prior Month	11.6	
Latest Direction	Increasing	
Frequency	Monthly	



Equity Markets – MSCI EM		As of 9/30/2018
Latest Level	1,047.9	
Change from Prior Month	(8.0)	
Latest Direction	Decreasing	
Frequency	Monthly	

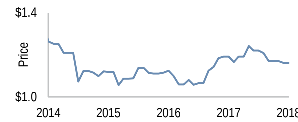


Russell 3000 – MSCI EAFE – MSCI EM — As of 9/30/2018

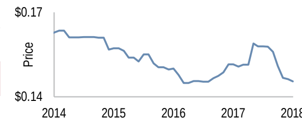


FOREIGN EXCHANGE RATE

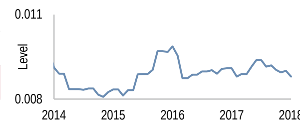
Macro Economics		Five-Year Trend
Euro Spot Rate vs. 1 USD		As of 9/30/2018
Latest Level	1.16	
Change from Prior Quarter	0.00	
Latest Direction	No Change	
Frequency	Monthly	



Yuan Spot Rate vs. 1 USD		As of 9/30/2018
Latest Level	0.1456	
Change from Prior Quarter	(0.0008)	
Latest Direction	Deteriorating	
Frequency	Monthly	



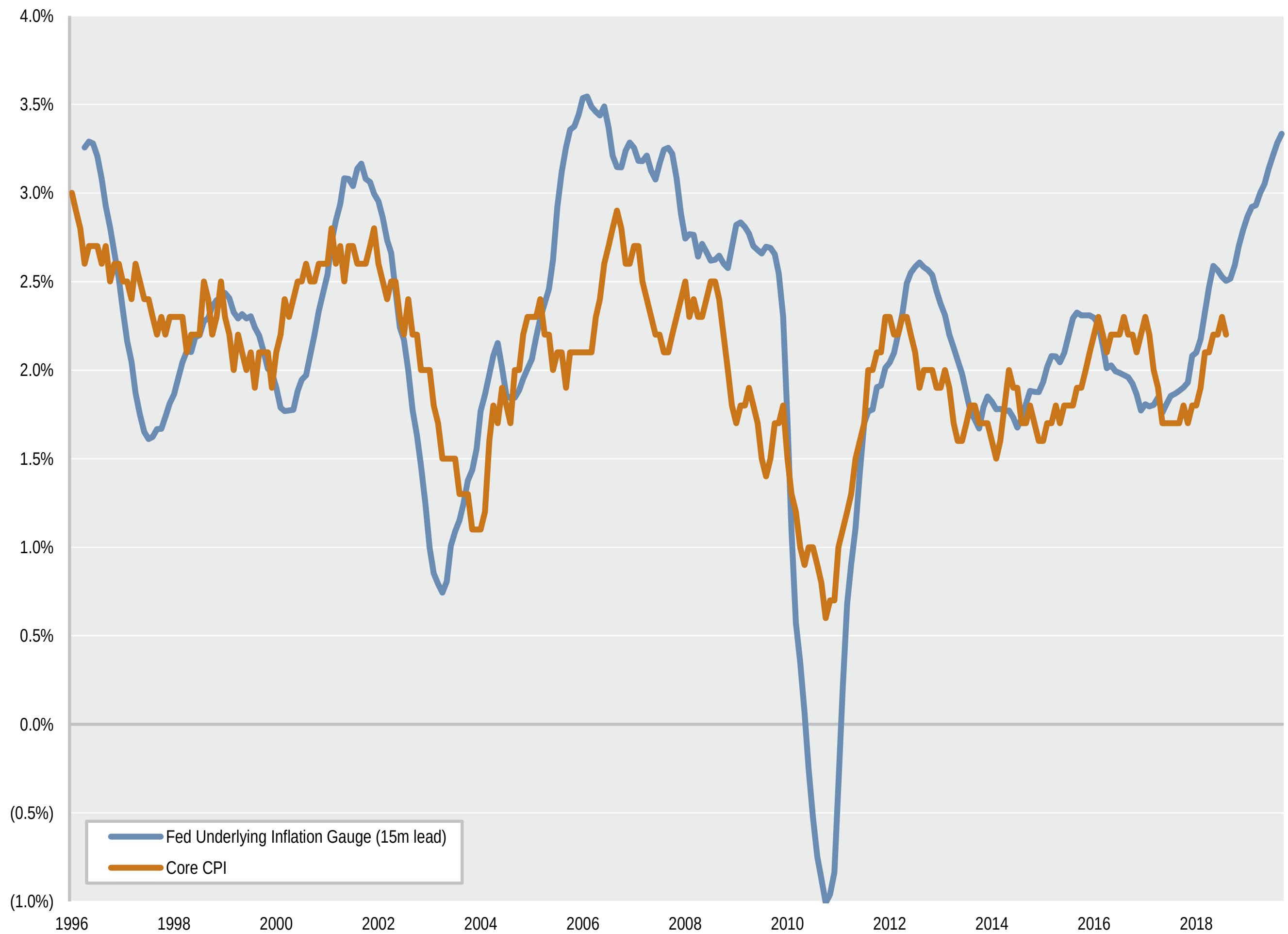
Yen Spot Rate vs. 1 USD		As of 9/30/2018
Latest Level	0.0088	
Change from Prior Quarter	(0.0002)	
Latest Direction	Deteriorating	
Frequency	Monthly	



Source: Bloomberg (All).

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

SIGNS OF INFLATIONARY PRESSURE BUILDING

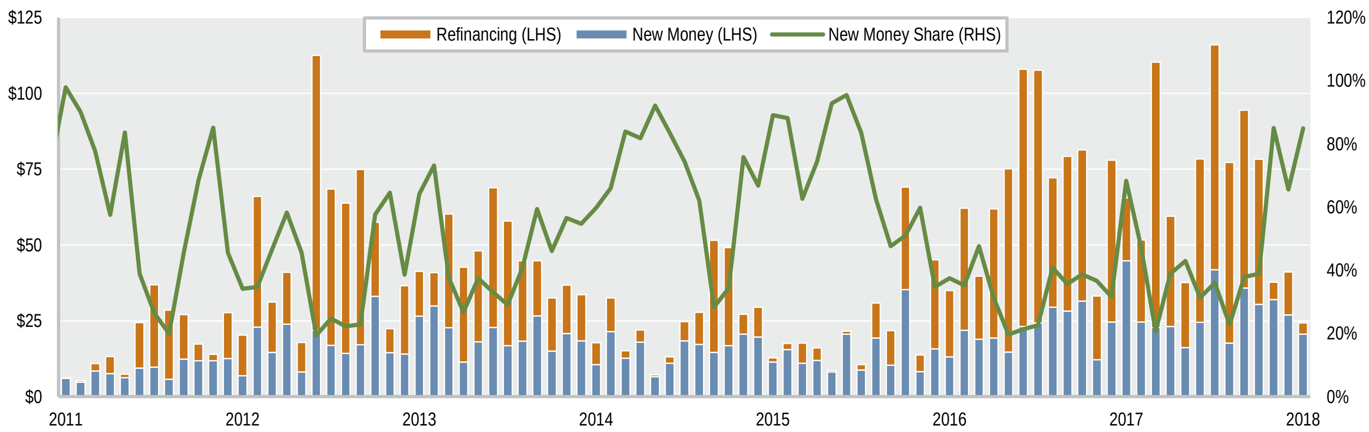


Source: FRBNY, BLS, Haver Analytics, DB Global Research.

Fed measure of underlying inflation points to more upward pressure on CPI.

PERFORMING CREDIT

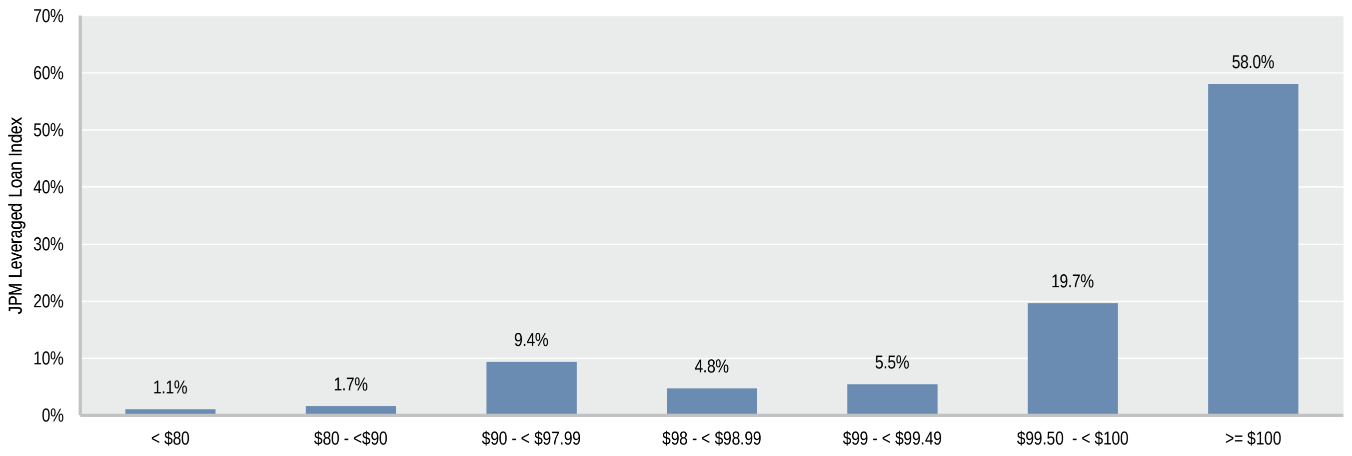
U.S. INSTITUTIONAL LOAN ISSUANCE



Source: Thomson Reuters LPC.

Gross loan issuance has declined year-over-year but net issuance is up.

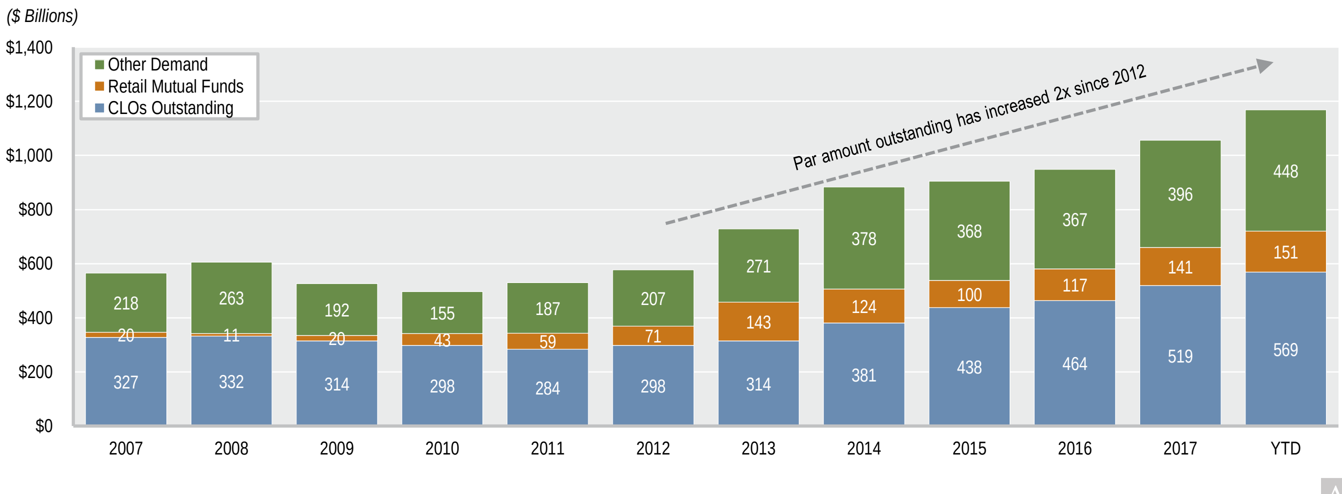
LEVERAGED LOAN PRICE BUCKETS



Source: J.P. Morgan.

Leveraged loan prices rallied in Q3, resulting in nearly 60% of the market trading at or above par.

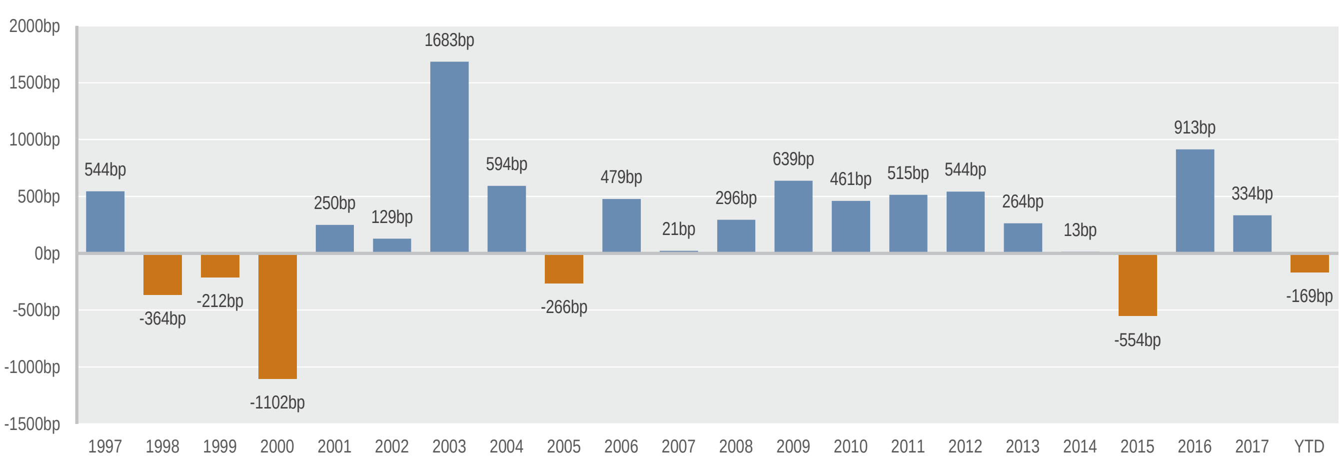
PAR AMOUNT OF LOANS OUTSTANDING IS AT AN ALL TIME HIGH



Source: J.P. Morgan.

The leveraged loan market has doubled in size over the last 6 years on the heels of strong demand, especially from CLOs.

TOTAL RETURN DIFFERENCE OF HY VS. LOANS

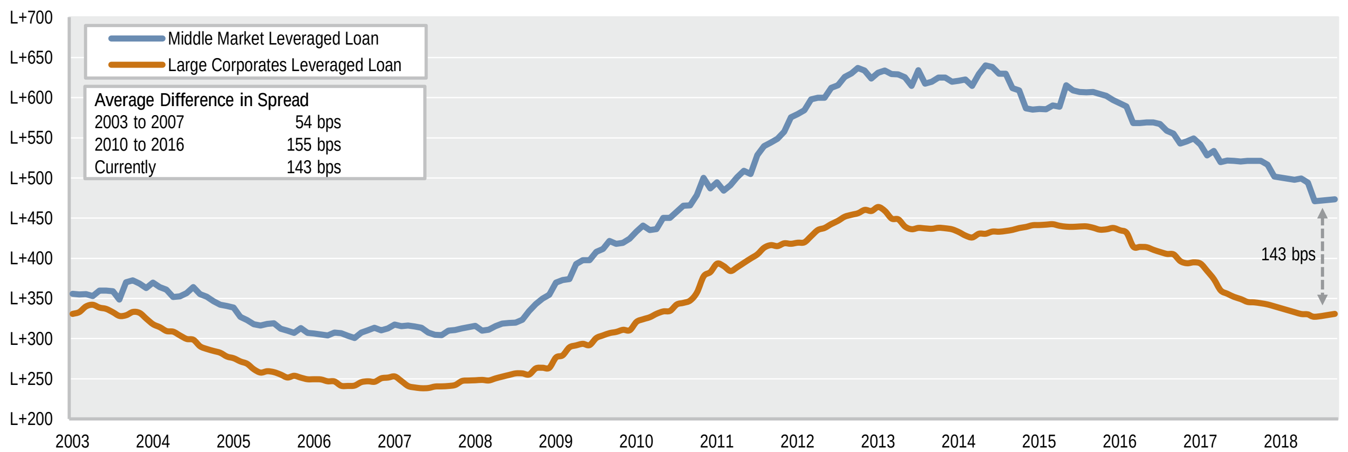


Source: J.P. Morgan.

Leveraged loans are sharply outperforming high yield this year as investors have increased their exposure to floating rate securities.

MIDDLE MARKET DIRECT LENDING

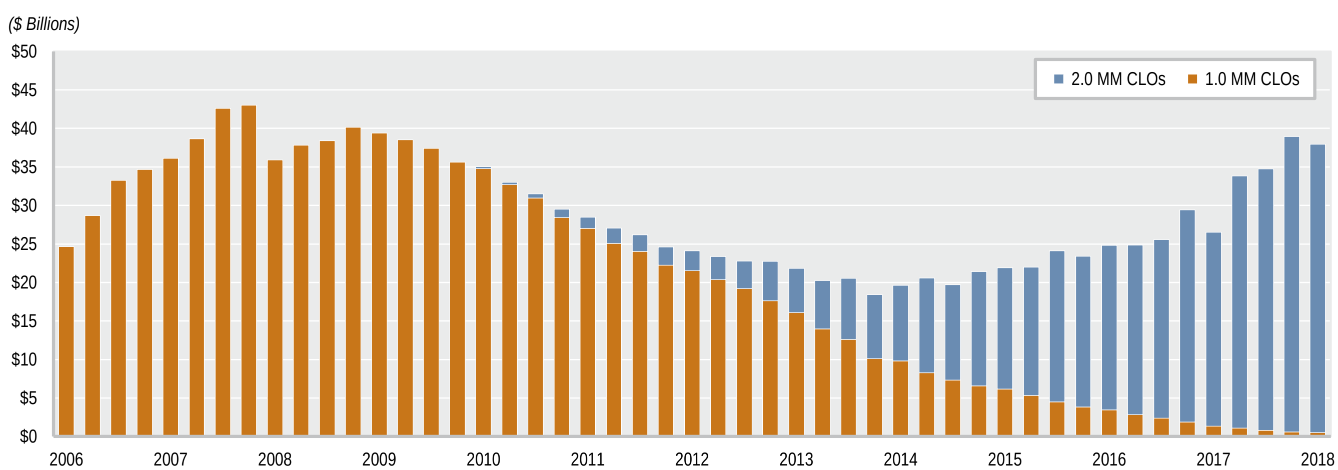
AVERAGE LOAN SPREAD: MIDDLE MARKET VS. LARGE CORPORATES



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

Middle market loans continue to command a premium of over 140 basis points to large corporate loans.

OUTSTANDING MIDDLE MARKET CLO BALANCE

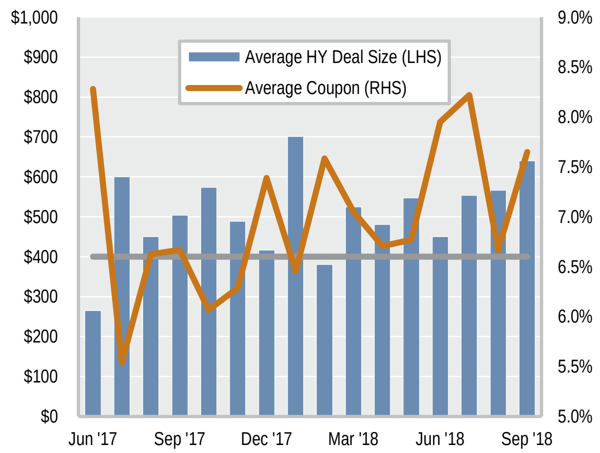


Source: Intex, Wells Fargo Securities.

Middle market CLO issuance has remained strong this year, resulting in a market size of nearly $40 billion.

ENERGY

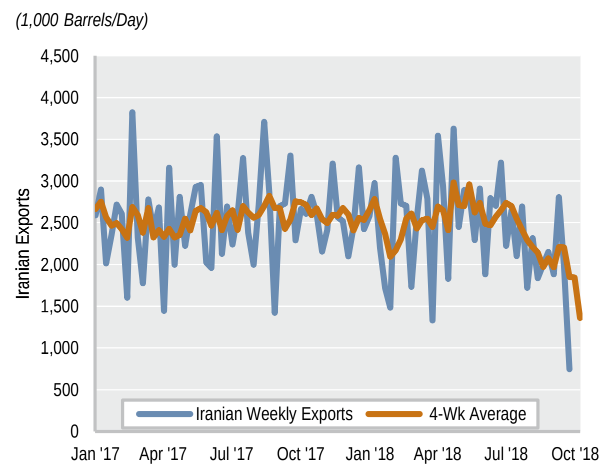
NEW ISSUE ENERGY HIGH YIELD-ELIGIBLE DEAL SIZES REMAIN LARGE



Source: Credit Suisse.

The energy high yield markets are generally only open for larger borrowers offering larger deal sizes – typically $400+ million.

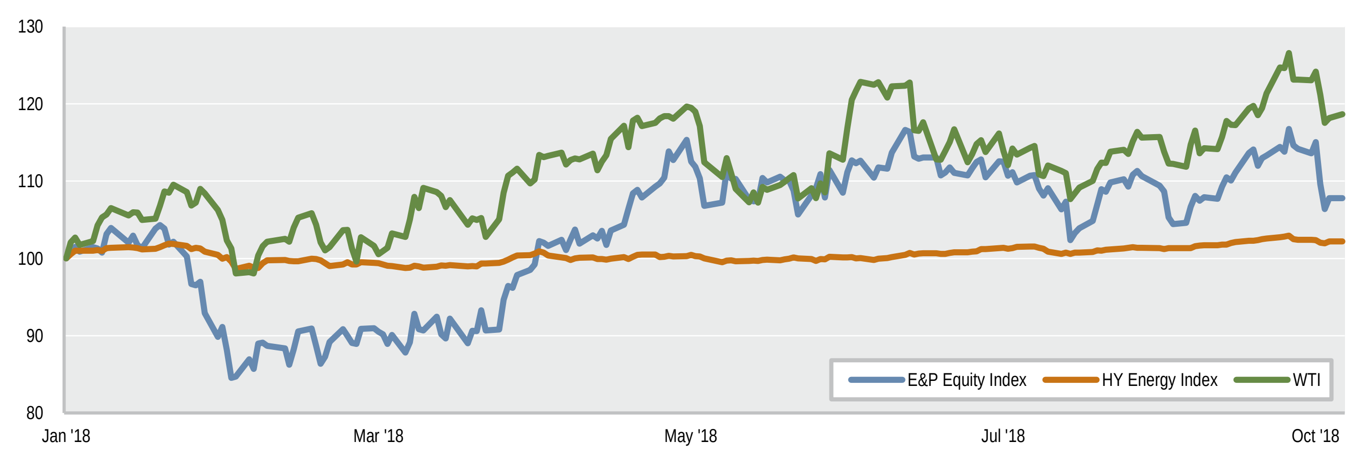
U.S. SANCTIONS IMPACT IRANIAN CRUDE EXPORTS



Source: Goldman Sachs Research.

Iranian crude exports have declined significantly in advance of the November 4th U.S. oil sanctions.

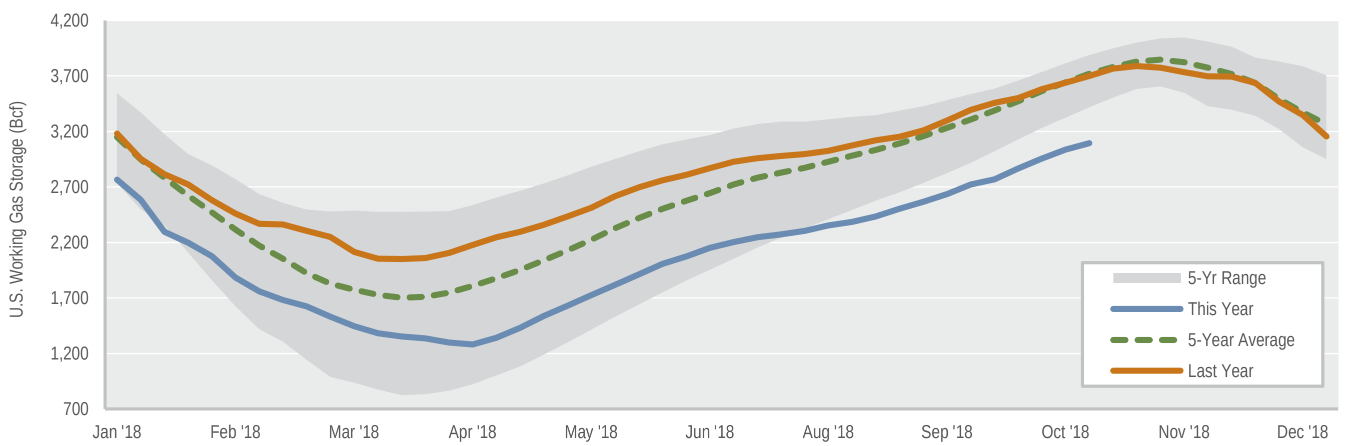
WTI VS. HIGH YIELD ENERGY VS. E&P EQUITY



Normalized at 100: January 2018.
Source: Bloomberg.

Though outperforming the broader market, energy equities have underperformed crude throughout 2018.

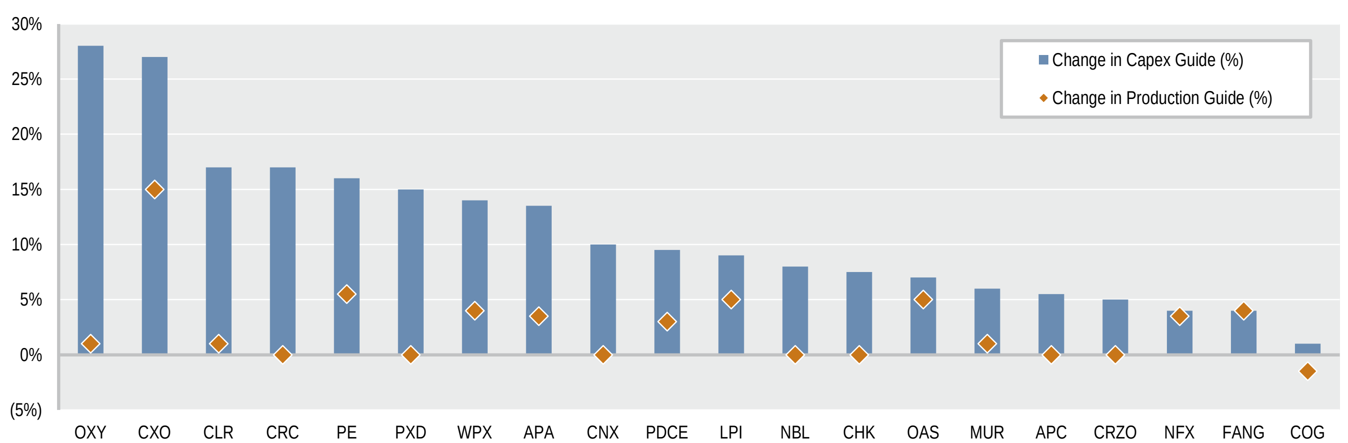
NATURAL GAS STORAGE DEFICIT LOOMING AHEAD OF WINTER



Source: U.S. Energy Information Administration.

U.S. natural gas inventories are down 20% from this time last year and are at a deficit of approximately 624 Bcf to the five-year average. As a result, prices have breached the key $3 level ahead of heating season.

E&P CAPEX INCREASES NOT MET WITH PRODUCTION INCREASES

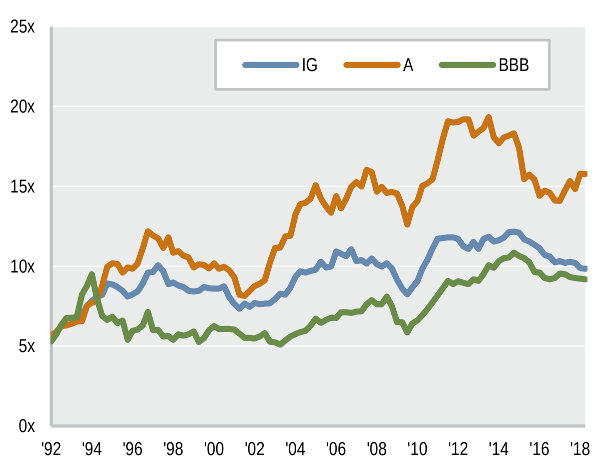


Source: Reorg Research.

Investors are increasingly cautious toward Permian producers, as increases in CAPEX have not translated to similar improvements in production. Concerns are growing that the basin's capital requirements may be larger than expected.

DISTRESSED DEBT – UNITED STATES

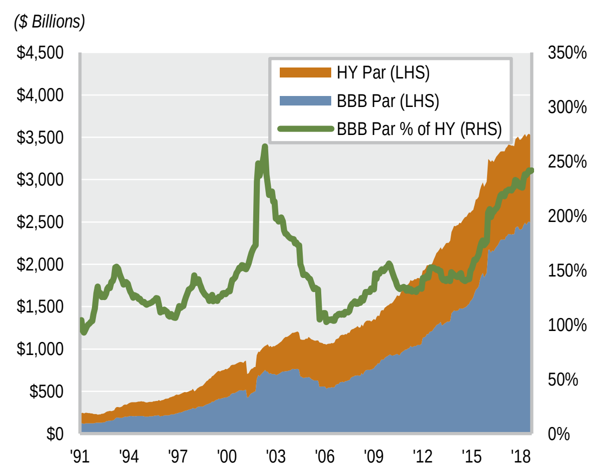
BBB AND A INTEREST COVERAGE CONTINUES TO DIVERGE



Source: Morgan Stanley Research, FTSE Fixed Income LLC, Bloomberg.

Diverging interest coverage rates among differently rated issuers.

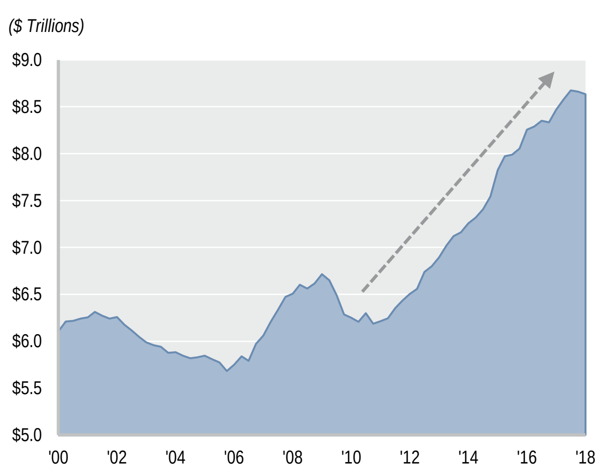
BBB PAR VS. HY PAR



Source: Morgan Stanley Research, FTSE Fixed Income LLC.

Explosion of BBB issuance over the last several years.

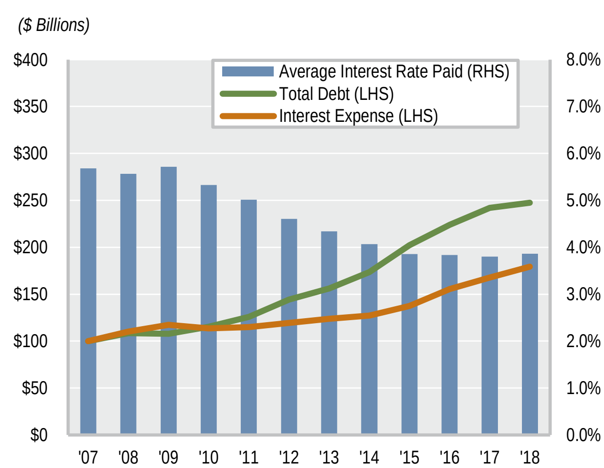
CORPORATE DEBT HAS GROWN MEANINGFULLY



Note: Non-Financial Corporate Debt
Source: Goldman Sachs.

While total corporate debt has surged.

INCREASING INTEREST COSTS

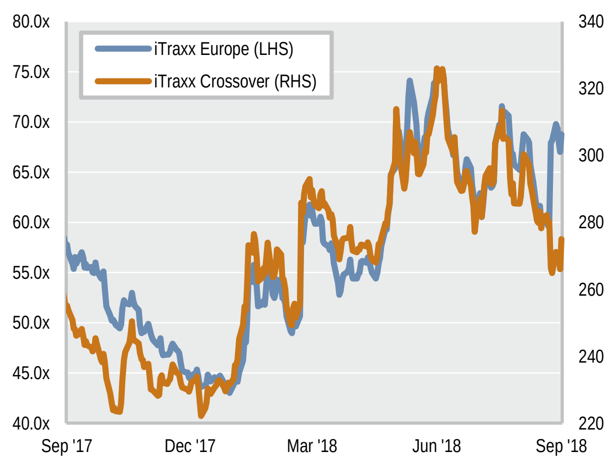


Source: Goldman Sachs Global Investment Research.
As of September 19, 2018.
Only Includes companies with Sufficient Financial History

With fed rates inflecting up, average interest rates have begun to rise as well.

DISTRESSED DEBT – EUROPE

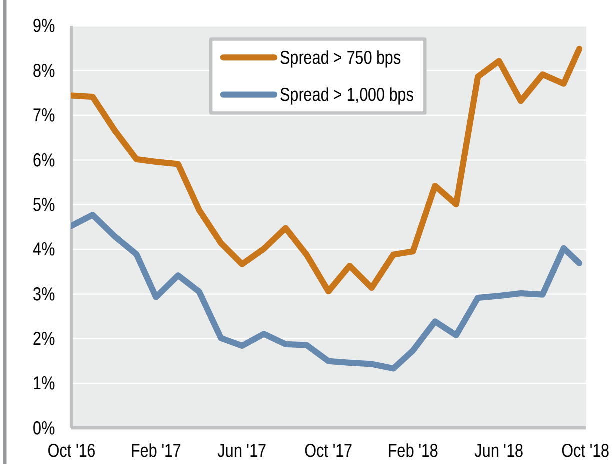
EUROPEAN STRESS IS BUILDING



Source: Credit Suisse.

Stressed names in Europe are clearly increasing in volume.

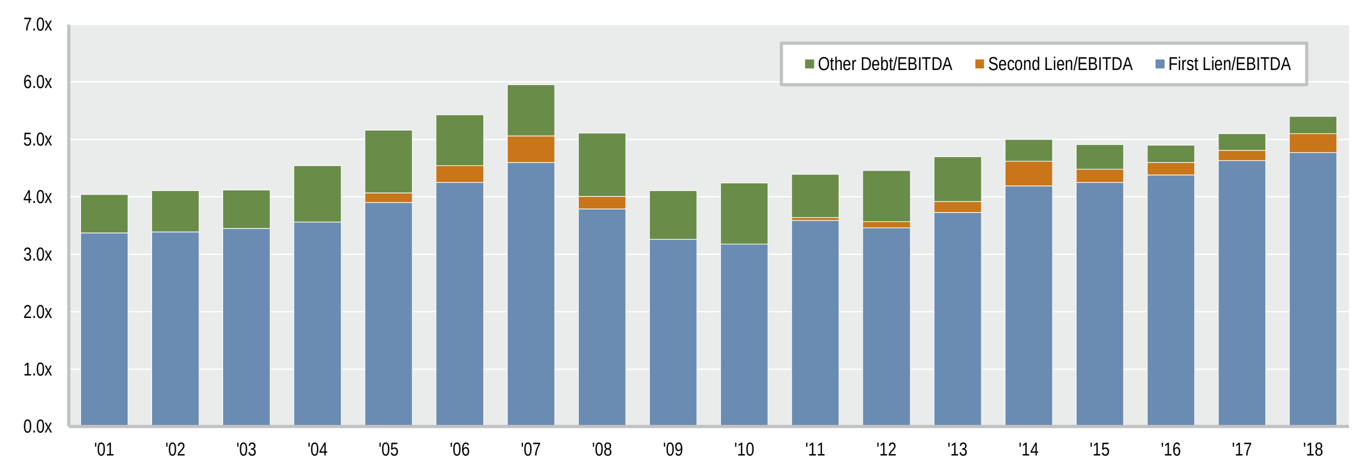
BONDS TRADING ABOVE 750 BPS AND 1,000 BPS



Source: J.P. Morgan.

While the average bid of flow names has dropped.

DEBT AT HIGHEST LEVELS SINCE 2007

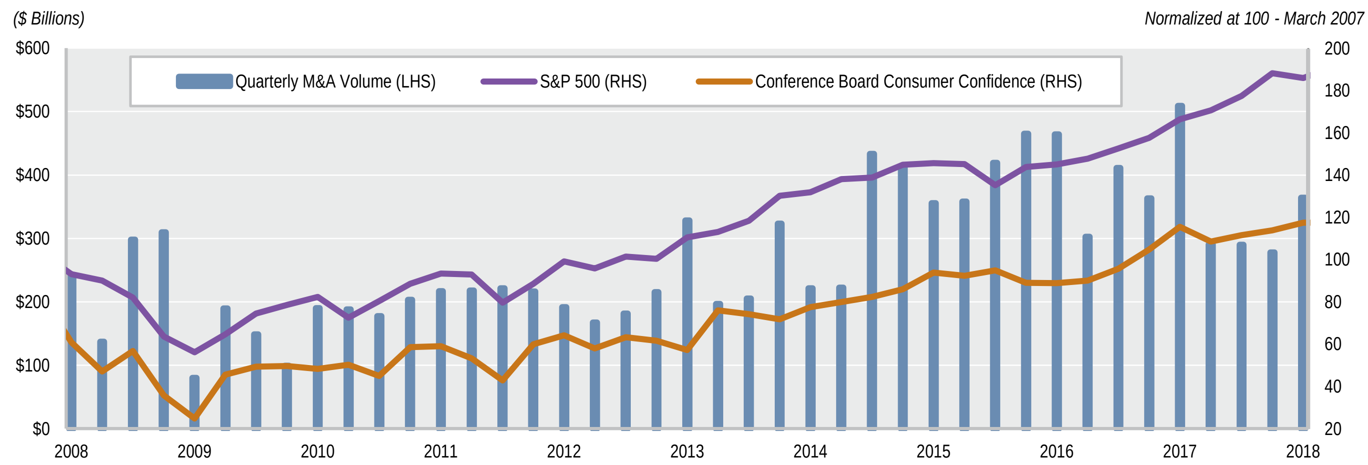


Source: S&P LCD.

Corporate leverage near pre-financial crisis highs.

MERGER & CONVERTIBLE ARBITRAGE

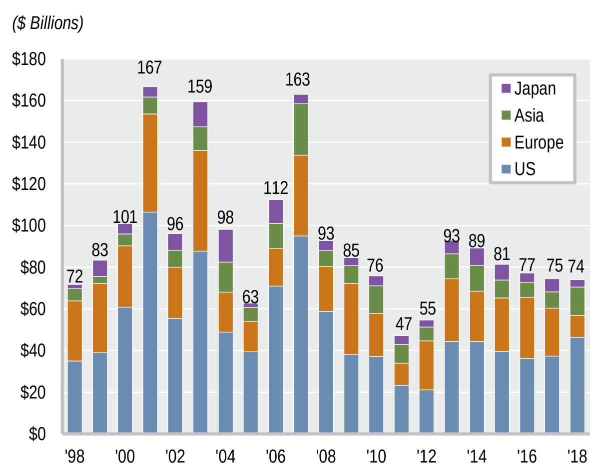
QUARTERLY NORTH AMERICA M&A VOLUME VS S&P 500 AND CONSUMER CONFIDENCE



Source: Bloomberg.

U.S. M&A volumes displayed a typical summertime slowdown while still maintaining a strong YTD performance.

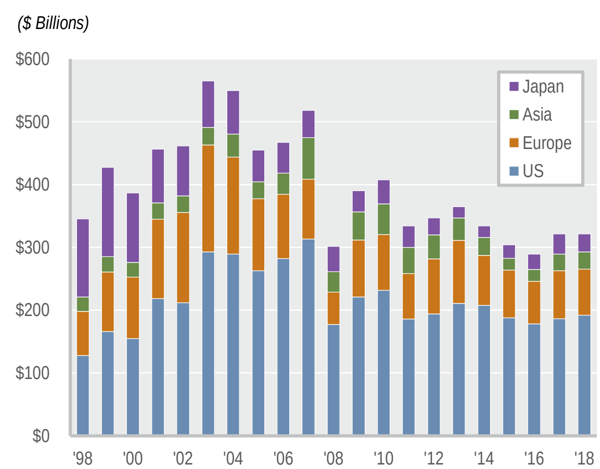
ANNUAL CONVERTIBLE ISSUANCE BY REGION



Source: Bank of America Merrill Lynch.

Global YTD issuance is already close to 2017's total volume.

MARKET SIZE BY REGION

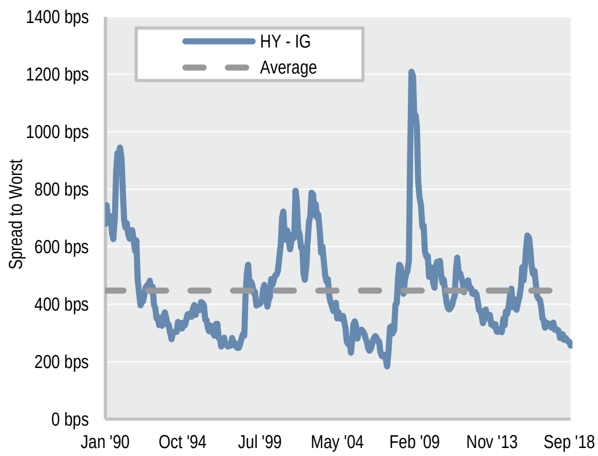


Source: Bank of America Merrill Lynch.

The global convertibles market is expanding again.

LIQUID CREDIT

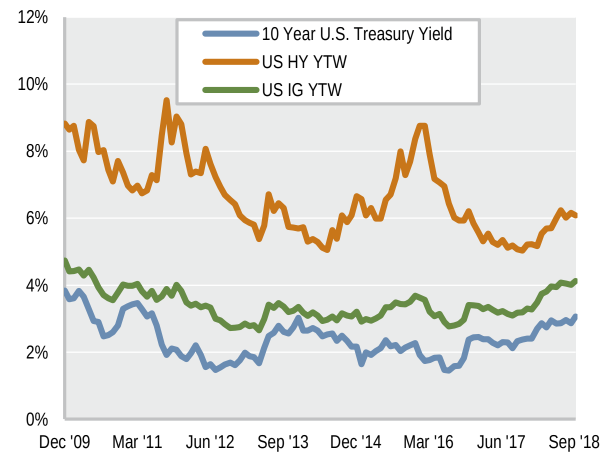
HIGH YIELD VS. INVESTMENT GRADE SPREADS



Source: Bloomberg.

The search for yield has compressed spreads and provides asymmetric opportunities to express bearishness via decompression trades.

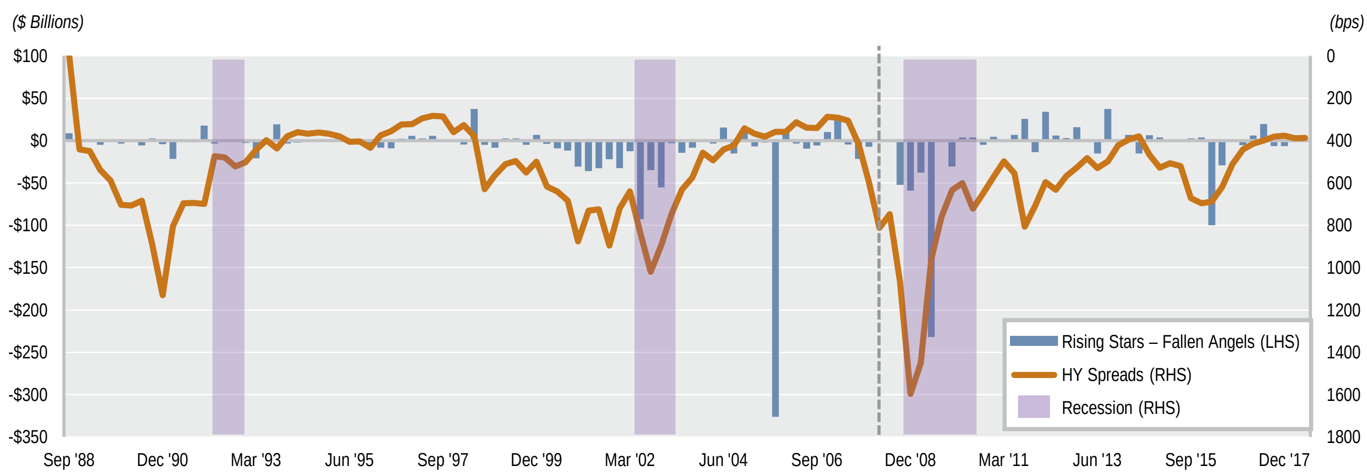
HIGH YIELD AND INVESTMENT GRADE YIELDS MOVING HIGHER



Source: Bloomberg.

And yields are rising in both investment grade and below-investment grade corporate bonds.

SPREAD WIDENING PRE-EMPTING INCREASES IN FALLEN ANGELS

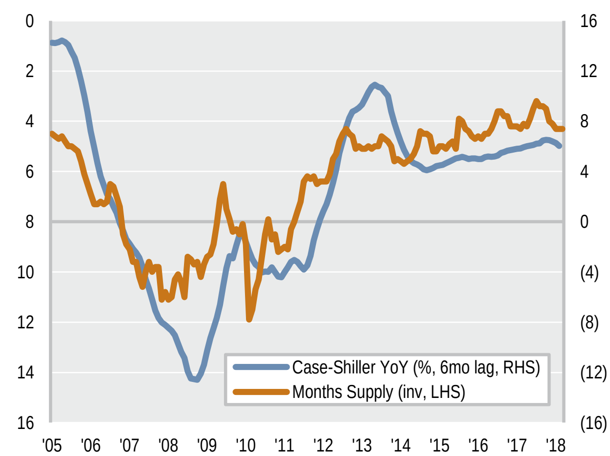


Source: Morgan Stanley Research, Moody's, FTSE Fixed Income LLC.

While default rates remain low, downgrade/upgrade ratios may be pointing more to an advanced phase in the credit cycle.

RESIDENTIAL AND CONSUMER DEBT (RMBS/ABS)

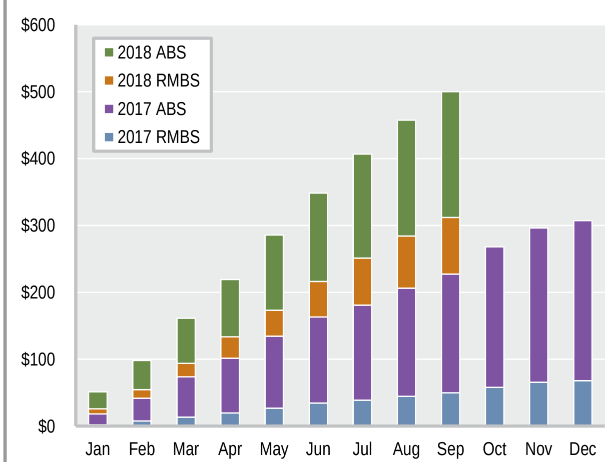
THE HOUSING MARKET



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

Home price appreciation remains positive, buoyed by tight supply.

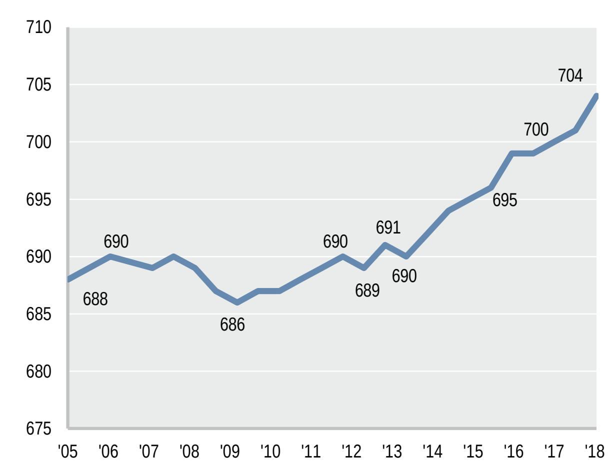
RMBS AND ABS NEW ISSUE



Source: BofA Merrill Lynch Global Research, Intex, Bloomberg.

RMBS and ABS issuance is on pace to exceed 2017's full year total.

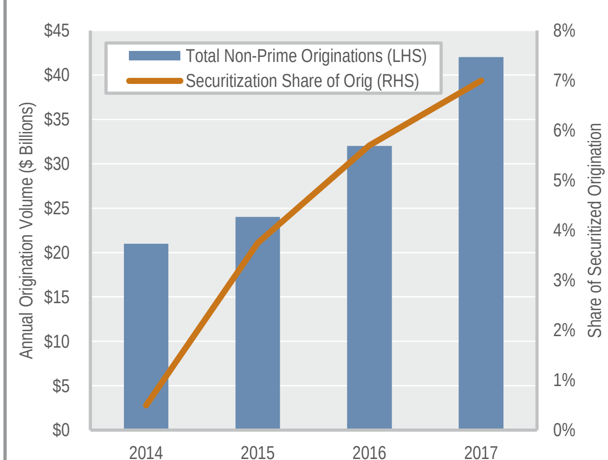
AVERAGE FICO SCORE



Source: FICO Blog.

The improved health of the U.S. consumer is evidenced by significantly improved FICO scores since the financial crisis.

ISSUANCE AND ORIGINATION VOLUME HAS DOUBLED

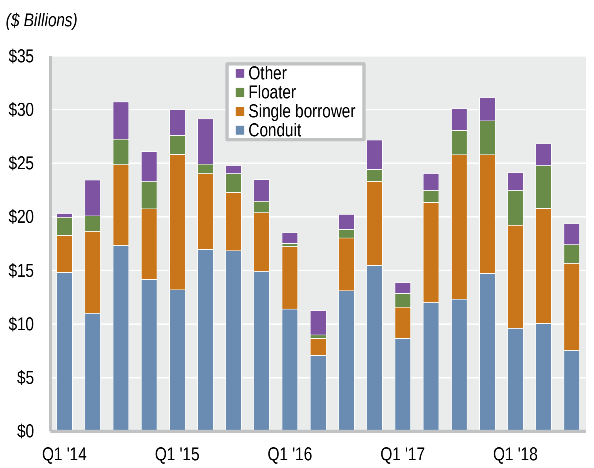


Source: Inside Mortgage Finance, CoreLogic, Citi Research.

Expanded credit origination volume and issuance has increased significantly over the last 4 years.

COMMERCIAL REAL ESTATE DEBT (CMBS)

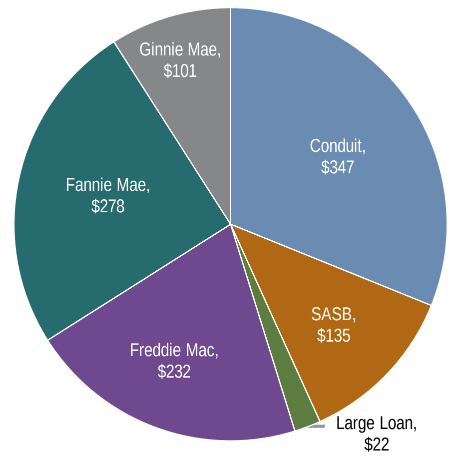
QUARTERLY PRIVATE LABEL ISSUANCE



Source: Credit Suisse, Commercial Mortgage Alert.

Although overall issuance declined quarter-over-quarter, Single-Asset/Single-Borrower issuance remained strong.

OUTSTANDING CMBS



Source: Commercial Mortgage Alert.

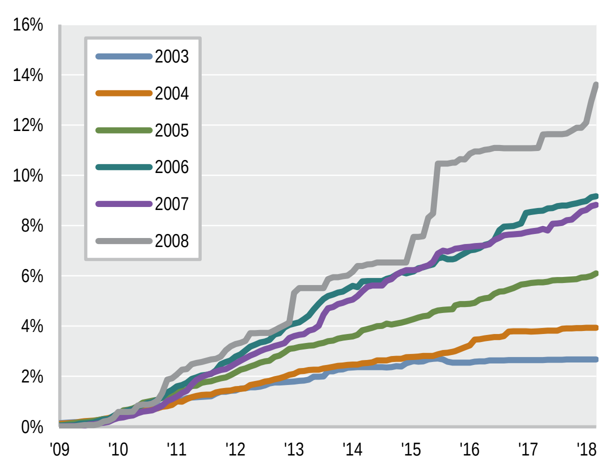
The CMBS market remains large and diverse across both Agency/Government Guaranteed securities and private label securities.

CMBS CREDIT CURVE FLATTENING

Source: Credit Suisse LOCUS.

The CMBS credit curve continued to flatten this year as yield-hungry investors drove BBB- spreads tighter.

LEGACY CONDUIT CUMULATIVE LOSSES

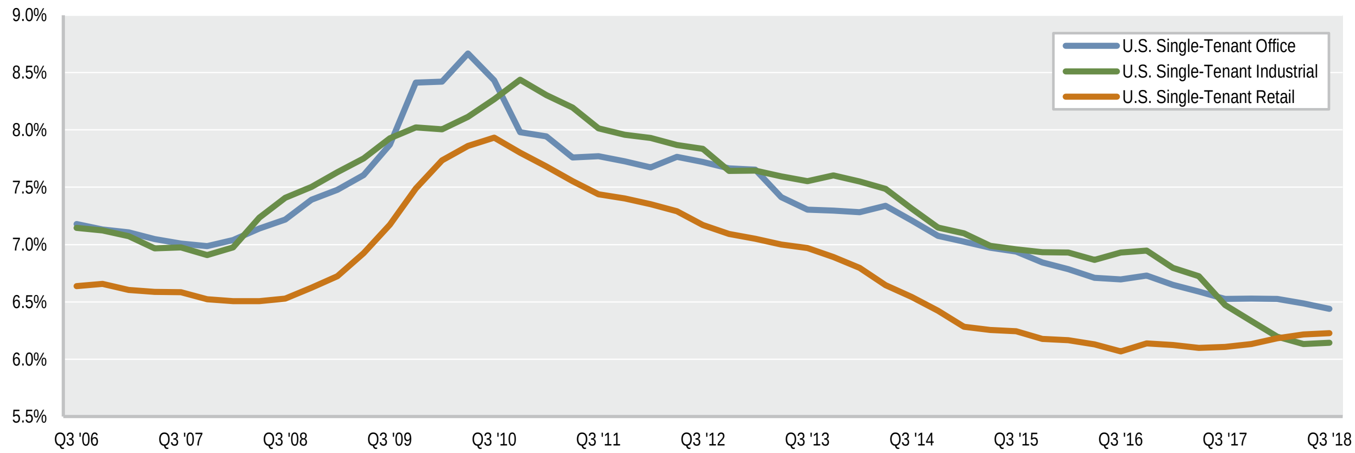


Source: Trepp, Morgan Stanley Research.

Higher cumulative losses for the 2006-2008 vintages reflect underwriting standards at the time.

NET LEASE REAL ESTATE

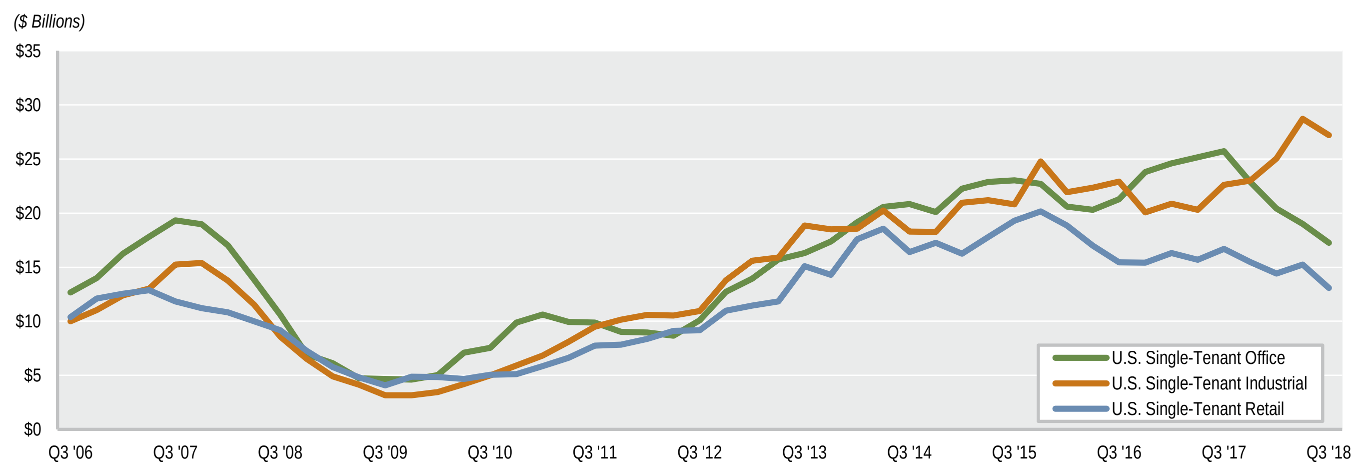
AVERAGE SINGLE-TENANT CAP RATES



Source: Real Capital Analytics.

Office and retail cap rates have remained fairly flat, while industrial continues to compress.

12-MONTH ROLLING SINGLE-TENANT DEAL VOLUME

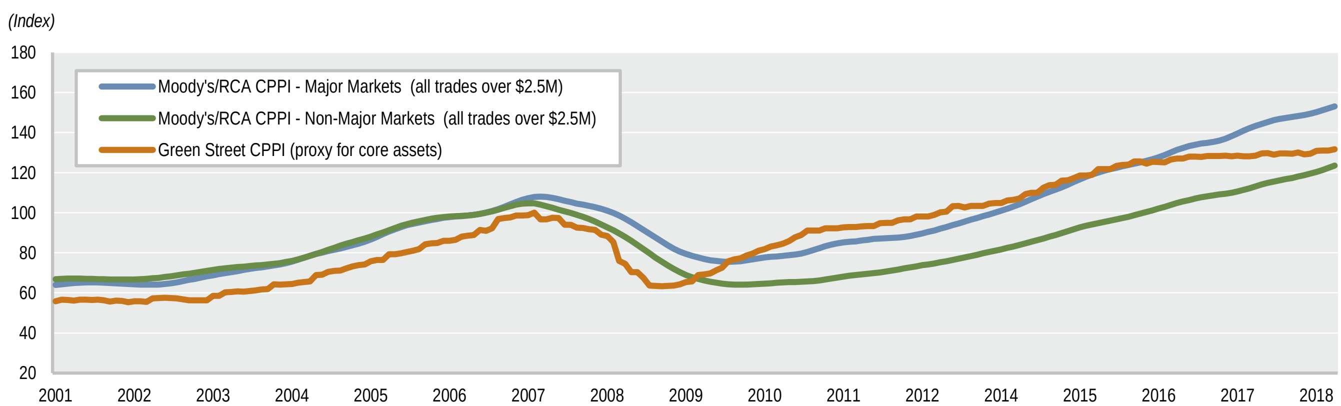


Source: Real Capital Analytics.

Office and retail volumes declined.

REAL ESTATE – UNITED STATES

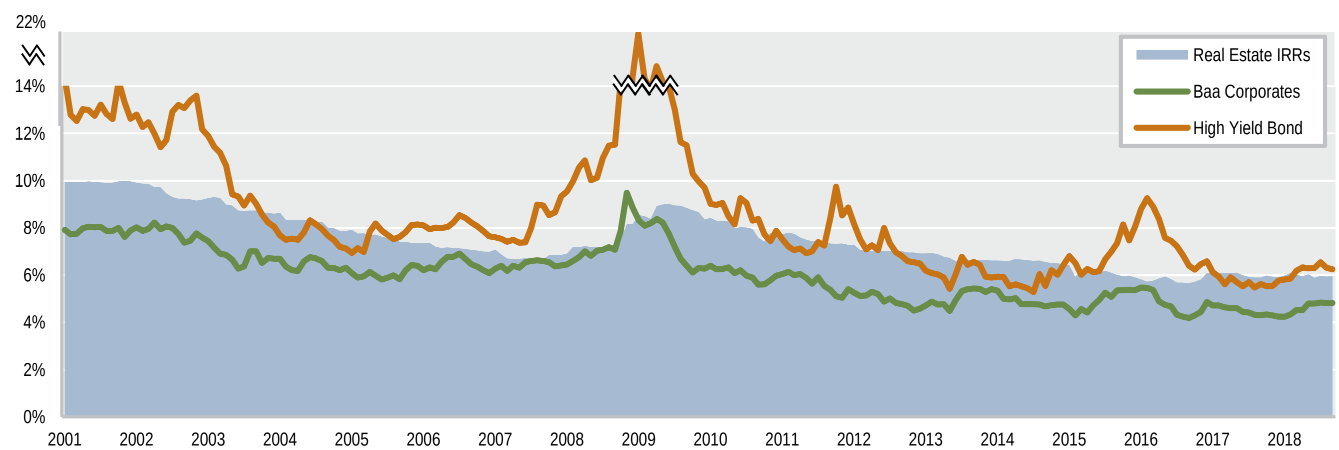
COMMERCIAL REAL ESTATE PRICE INDICES



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 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 gains continue to level off in core markets, while broader market pricing continues its slow upward trend. By sector, apartments have lead in price growth, with retail assets lagging. Industrial price growth has moderated from the double digit pace seen earlier in the year.

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

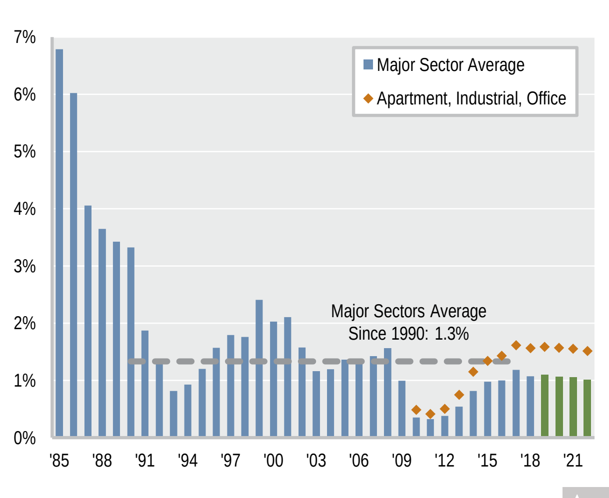


Real Estate IRRs is an equal-weighted average of the asset-weighted averages for the five major property sectors (apartment, industrial, mall, office, and strip center.
Source: Green Street Advisors (Mar' 17), Moody's (Baa Corporates), BAML (High-Yield Bonds).

Unlevered real estate has historically offered a return between investment grade and high yield bonds. Today real estate is a little pricey versus Baa bonds and slightly undervalued versus high yield. Taken together, a reversion to the historical spread would mean a modest decline in property values.

REAL ESTATE – UNITED STATES *(continued)*

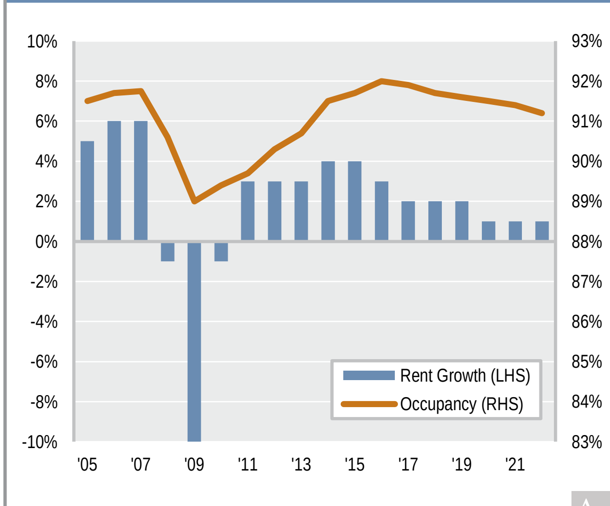
NEW COMPLETIONS AS A PERCENTAGE OF EXISTING STOCK



Source: Green Street Advisors.

Industrial and multi-family deliveries are running at or above the long-term supply average, resulting in overall supply growth that approaches the long-term average despite low new retail supply.

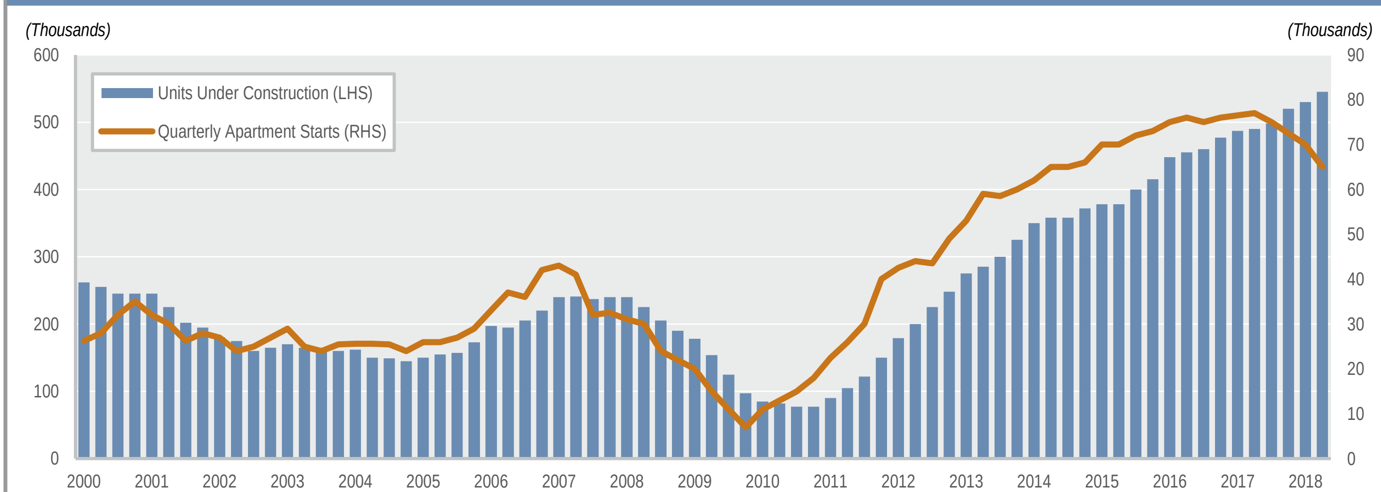
OCCUPANCY AND RENT GROWTH – MAJOR SECTOR AVERAGE



Source: Green Street Advisors.

As supply growth has ramped up, the pace of rent growth has slowed and occupancy leveled off.

STARTS ARE DOWN

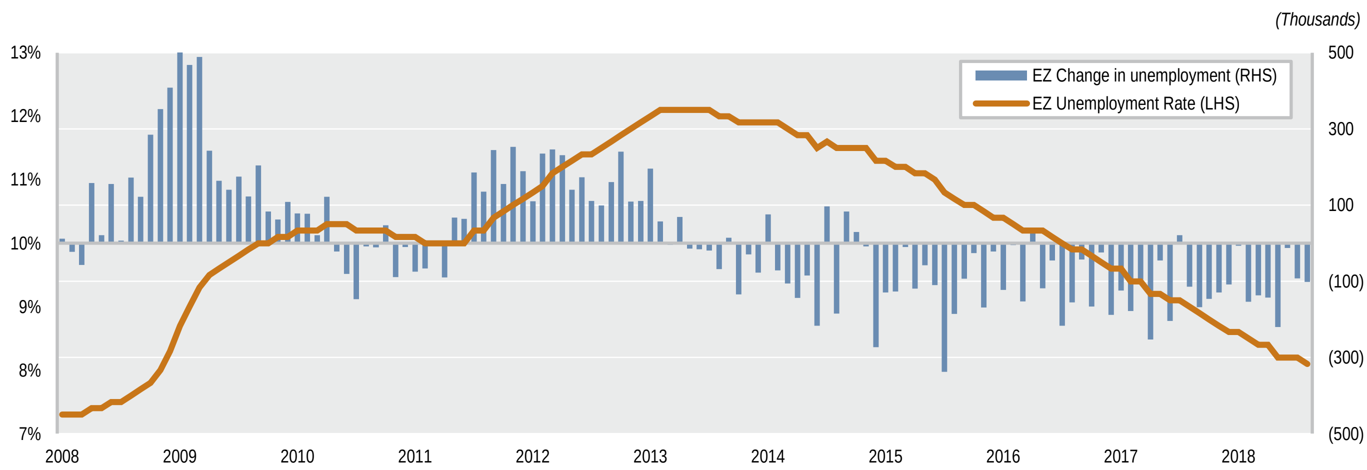


Note: The National Index is an aggregation of 54 major U.S. markets. Starts is a 3-quarter moving average.
Source: CoStar Portfolio Strategy.

While apartments under construction appeared to have peaked and the three month moving average is slightly declining. New deliveries have put pressure on Class A rents in some Gateway markets, but the delivery impact has been buffered by strong economic growth and household formation.

REAL ESTATE – EUROPE

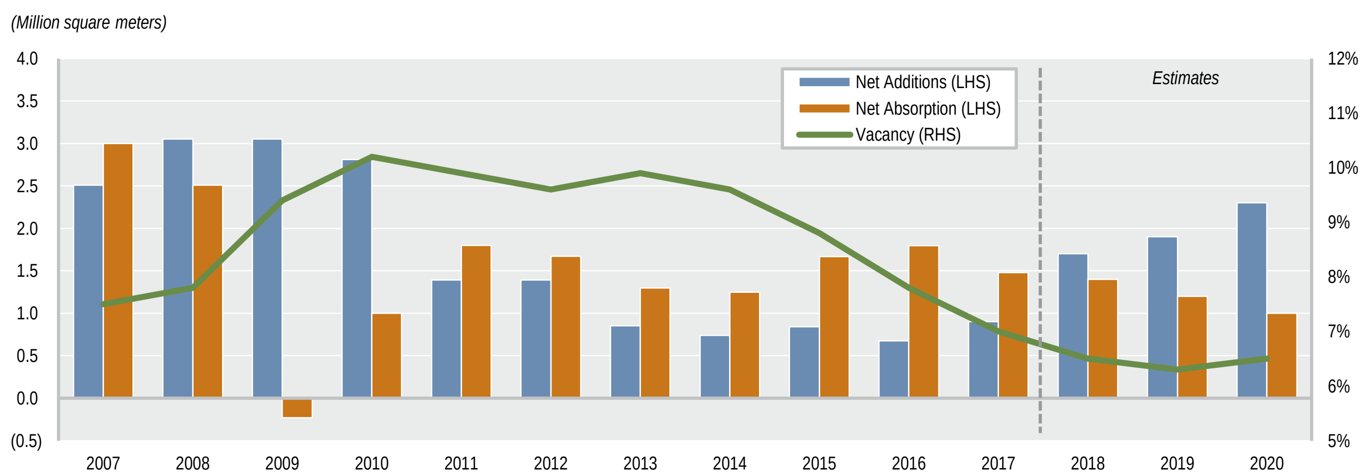
EUROZONE UNEMPLOYMENT



Source: Thomson Reuters, Markit, Capital Economics.

Eurozone economics are improving but not yet back to pre-crisis levels of unemployment.

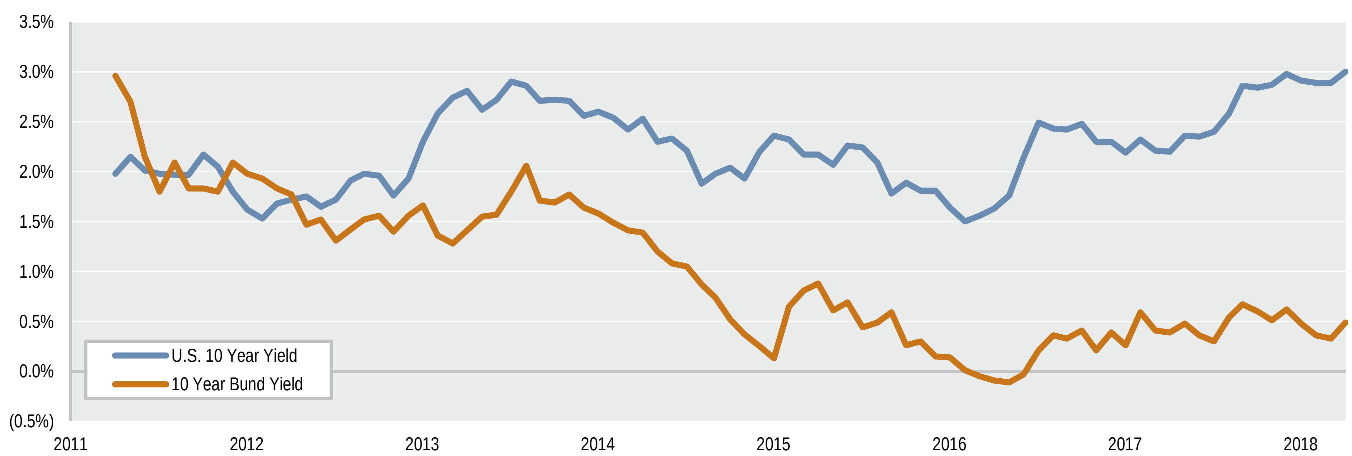
EUROZONE OFFICE DEMAND AND SUPPLY INDICATORS



Source: CBRE, Various Agents, Capital Economics.

Limited new supply and increasing absorption has lead to record low vacancy levels. Estimates of upcoming new supply remain at reasonable levels.

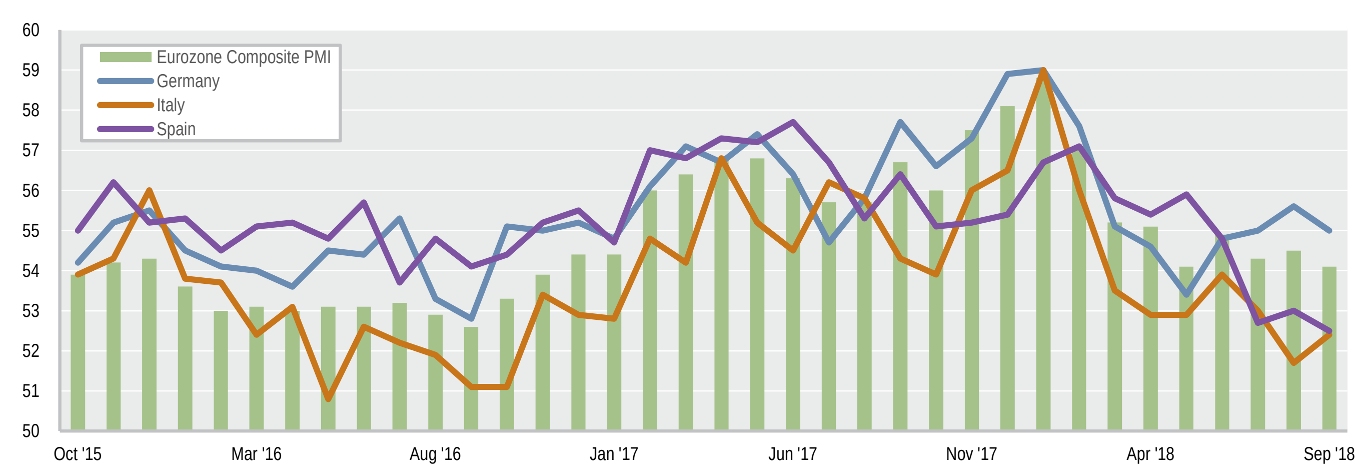
GOVERNMENT BOND YIELDS IN GERMANY AND THE U.S.



Source: Bloomberg.

Rate environment in Europe remains accommodative of alternative investments.

COMPOSITE PMI BY COUNTRY

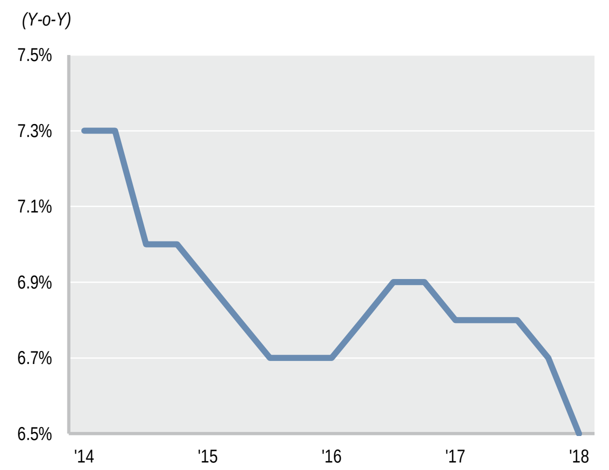


Source: Bloomberg.

Eurozone composite purchasing managers index remains in expansion territory, with some slowdown expected going forward.

REAL ESTATE – ASIA

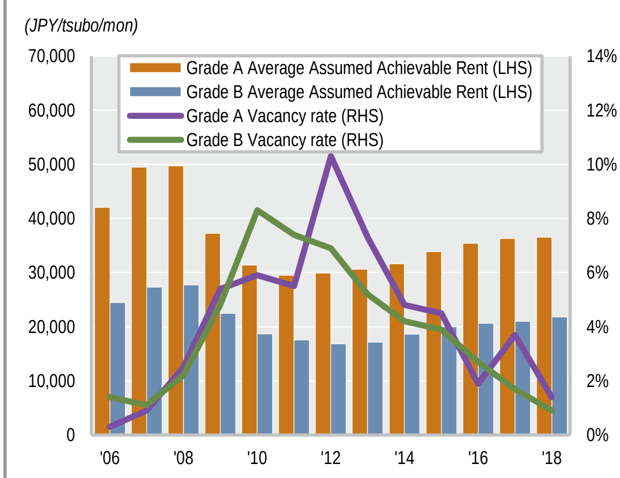
CHINA GDP GROWTH RATE



Source: National Bureau of Statistics of China.

China's GDP growth rate continues to trend towards 6.0-6.5%.

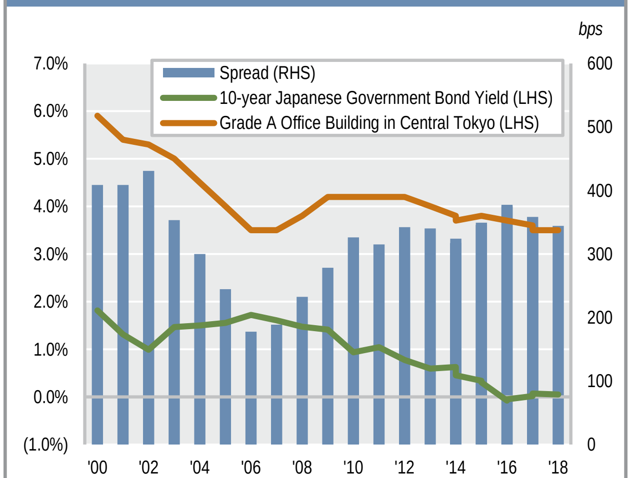
TOKYO'S 23 WARDS GRADE A & B OFFICE RENT AND VACANCY



Source: CBRE (June 2018).

Tokyo office vacancy continues to improve below 2%.

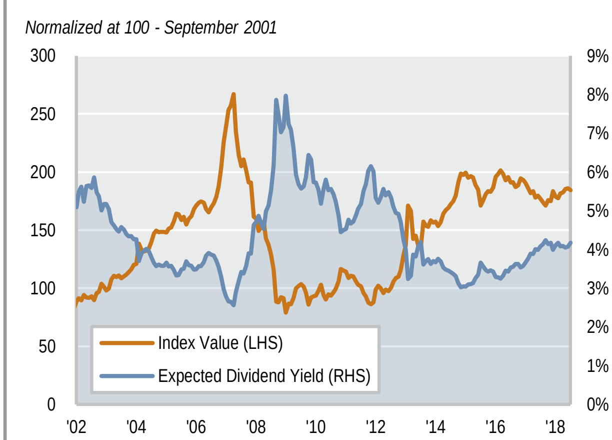
TOKYO GRADE A OFFICE CAP RATES VS. BORROWING COSTS



Source: Japan Real Estate Institute.

Cap rate spreads in Japan remain wide which indicates that the market is not at a cyclical peak.

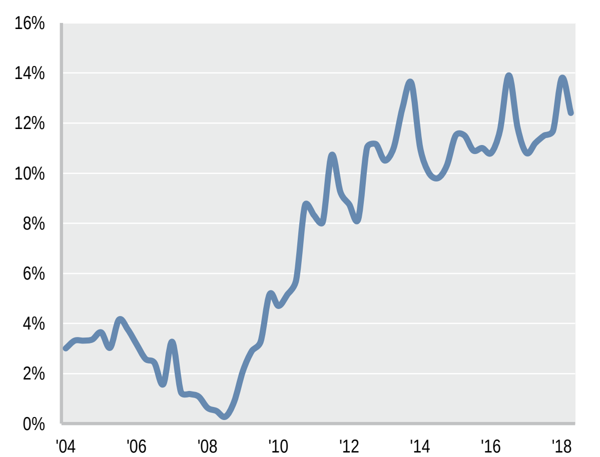
JAPANESE REAL ESTATE INVESTMENT TRUST (J-REIT) INDEX AND DIVIDEND YIELD



Source: Sumitomo Mitsui Trust Research Institute Co.

J-REIT yields remained steady at around 4%.

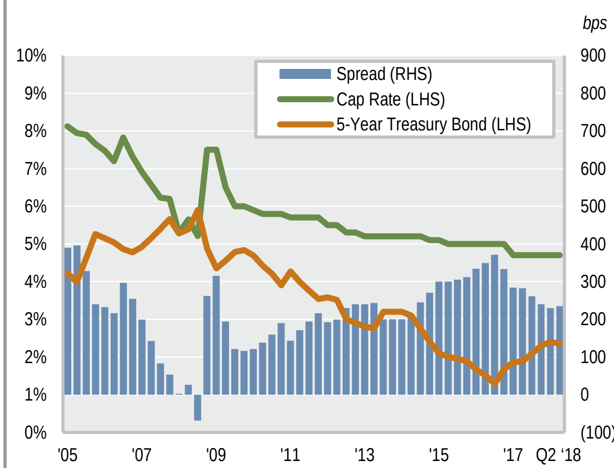
SEOUL OFFICE VACANCY RATE



Source: Jones Lang Lasalle Research.

The Seoul office market continues to be in distress due to the tremendous supply overhang.

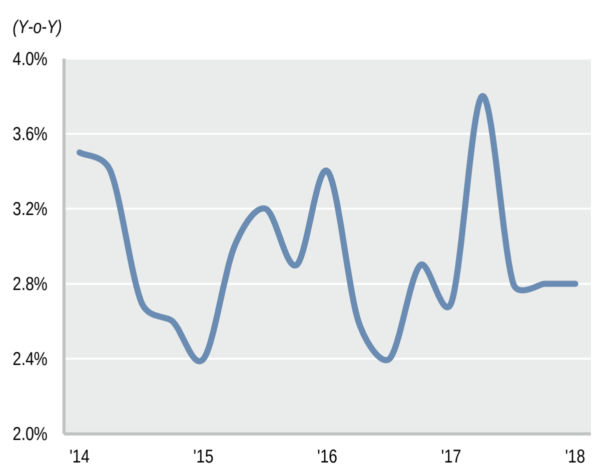
SEOUL PRIME OFFICE CAP RATE AND SPREAD OVER 5-YEAR TREASURY YIELD



Source: Savills Research.

Cap rate spreads in Korea remain at healthy levels.

KOREA GDP GROWTH



Source: Bank of Korea.

Korea's GDP growth rate continues to trend towards 2.5-3.0%.

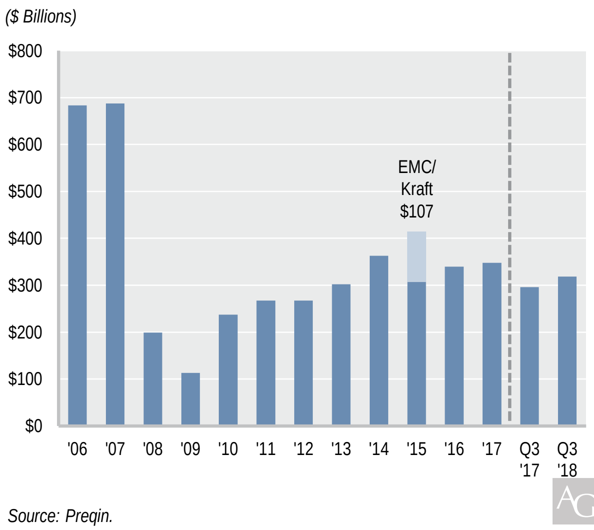
USD VS. CNY

Source: Bloomberg.

USD continues to trade higher against CNY.

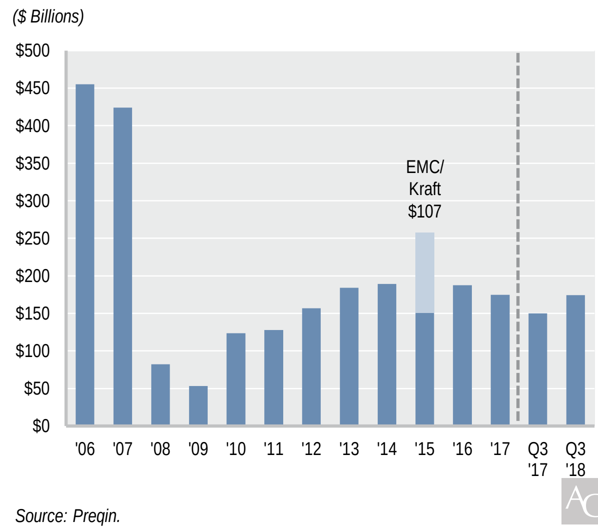
PRIVATE EQUITY

GLOBAL LBO DEAL VALUE



Source: Preqin.

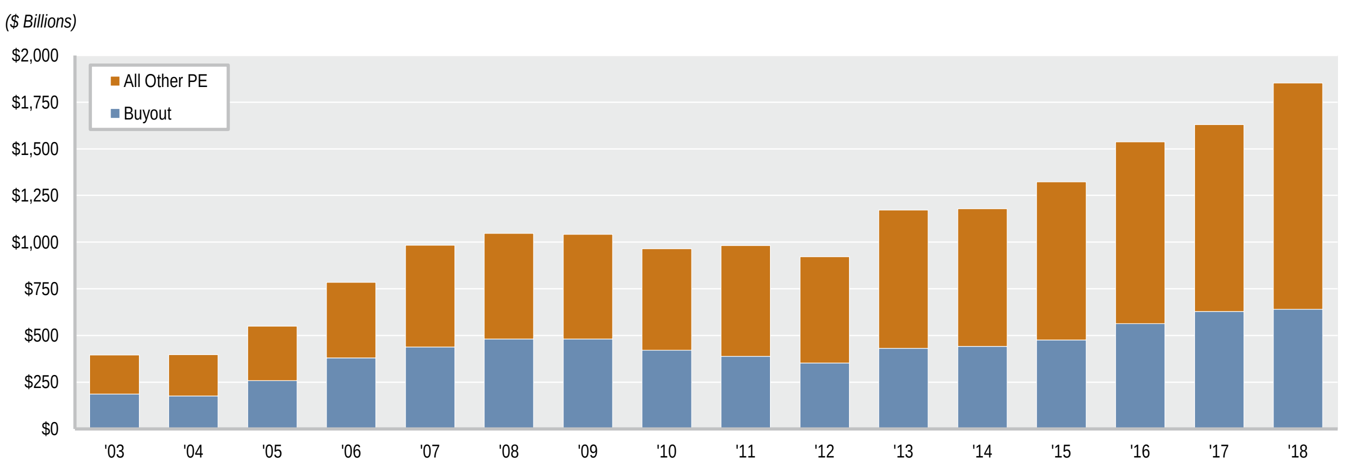
NORTH AMERICA LBO DEAL VALUE



Source: Preqin.

Both Global and North American deal volume are poised to have their strongest year since 2007.

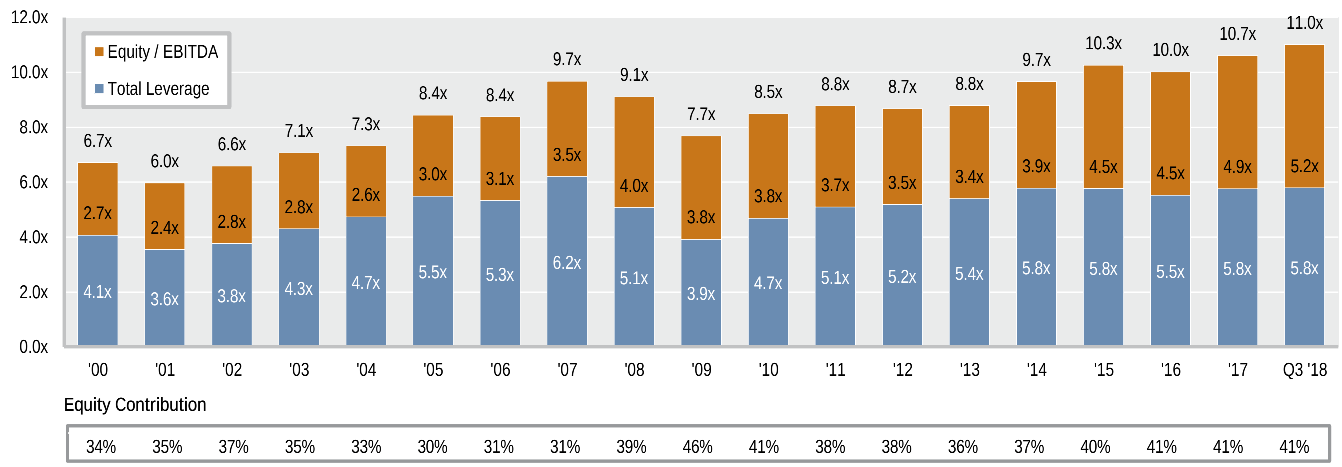
GLOBAL PRIVATE EQUITY DRY POWDER



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

At September 30, 2018, dry powder stood at $640 billion, a 3% increase from June 30, 2018 and just shy of the all-time high of $642 billion set at March 31st of this year.

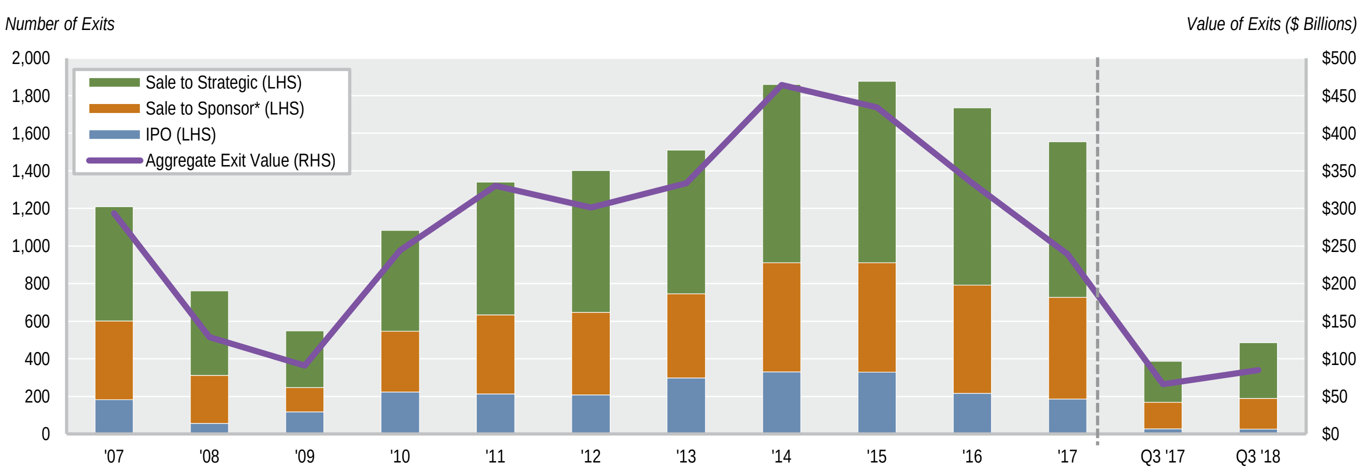
LBO PURCHASE PRICE BREAKDOWN



Source: S&P Capital IQ LCD.

LBO multiples in the first nine months of 2018 (11.0x EBITDA) increased from the 10.7x level of 2017, an annual all-time high.

PRIVATE EQUITY EXITS



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

The number of exits in the first nine months of 2018 was approximately 26% higher than in the first nine months of 2017 and volume increased 29% driven largely by sales to strategic acquirers.

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