ANGELO GORDON

CAPITAL MARKETS PERSPECTIVES

FIRST QUARTER 2020

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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 $38 billion. We seek to generate absolute returns with low volatility by exploiting inefficiencies in selected markets and capitalizing on situations that are not in the mainstream of investment opportunities. We creatively seek out new opportunities that allow us to remain a leader in alternative investments.

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

Angelo Gordon's Capital Markets Perspectives ("CMP") reports can now also be accessed online at cmp.angelogordon.com

Co-CIO Overview

The equity markets delivered strong performance globally in 2019. In the U.S., the S&P 500 Index returned 31.5% for the year, while internationally, the Euro Stoxx 50, FTSE 100, and MSCI Emerging Markets Indexes all ended with meaningful gains, returning 26.1%, 17.2%, and 18.5%, respectively. Credit markets also rose in 2019, with U.S. and European leveraged loan indices generating mid- to upper-single digit performance, and the U.S. and European high yield indices recording returns of 14.1% and 11.4%, respectively. Slowing global growth, the escalation of trade tensions, falling interest rates, and commodity price volatility all contributed to market swings throughout the year, but a strong fourth quarter – driven in part by news of progress on a U.S.-China trade deal – ensured that capital markets around the world ended the decade sharply higher.

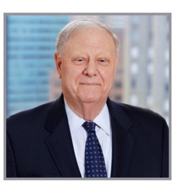
However, sentiment underlying the corporate credit markets feels disconnected from what may be implied by last year's returns. Investors strive for yield but remain challenged by a substantial universe of negative-yielding debt globally, spreads that continue to trend tighter, and yields in many segments that are approaching their all-time lows. Two notable statistics: the yield on BB-rated bonds in the U.S. fell to less than 4% at year-end – only 5 basis points off the historical low – and approximately 60% of the U.S. high yield market currently yields less than 5%. Inflows to passively managed credit funds are growing, banks and brokers continue to reduce their activities in the markets, and low net issuance barely covers coupon reinvestment into the loan and bond asset classes. These and other pressures – in both supply and demand – have led to difficult liquidity and yield dynamics for investors in public corporate credit.

In contrast, certain segments of the non-corporate credit markets are experiencing more constructive trends. In the structured credit space in the U.S., the tailwinds of a strong consumer, solid housing fundamentals, and a healthy commercial real estate market have underpinned a steadier and deeper investment environment. While still early in 2020, the demand for private debt strategies appears robust, as investors continue their search for alternative sources of yield and favor the strategy's limited mark to market volatility.

With so many uncertainties, conflicting signals, and competing dynamics in today's credit markets, we continue to rely on our deep fundamental credit capabilities and decades of market experience to identify idiosyncratic, company-specific opportunities to generate alpha. Given current market levels, we must be comfortable with positioning portfolios prudently – being aware of risks, not taking excessive exposure, and maintaining minimal expectations of market beta to produce gains – and have confidence in our ability to find value opportunities in individual names and situations.

Turning to real estate, despite U.S. public equity markets closing in on a nearly 30% run and REITs rallying over 28% in 2019, private real estate had a more modest year, concluding with a single digit price increase. New supply levels moderated and fundamentals remained solid on an absolute basis, while valuations were attractive on a relative basis. With rates low and decreasing throughout 2019, real estate continues to look attractive as a yield generating asset class and capital flows to the industry have remained abundant. What was lost due to decreasing investment activity in 2019 was more than made up for with robust lending markets and owners and buyers looking to lock in long-term financing in the current low interest rate environment.

While global tensions and episodes may ease over the course of this year, with Brexit and China seemingly heading in a more positive direction, we will likely see decreased leasing and transaction activity in the U.S. due to the upcoming election and divisive political environment. Tensions overseas have driven investment transactions down across China and – in particular – Hong Kong, which saw total transaction volume for commercial properties decline over 60% year-over-year in the most recent quarter. However, across those regions as well as Japan and South Korea, government support and spending have continued to bolster the economy and lead to continued corporate spending. In turn, real estate fundamentals have been strengthened by what continue to be ultra-low vacancy rates, particularly across Japan, where rental rates improved; however, low vacancies in Hong Kong were not enough to prevent a modest softening in rental rates. Similarly, low levels of new supply and low vacancy rates have allowed overall fundamentals in Europe to improve despite a fairly widespread weak macroeconomic condition and still elevated levels of non-performing loan real estate assets.



Michael Gordon
Chief Executive Officer,
Co-Chief Investment Officer

Josh Baumgarten
Co-Chief Investment Officer,
Head of Credit

Adam Schwartz
Co-Chief Investment Officer,
Head of Real Estate

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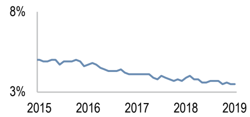
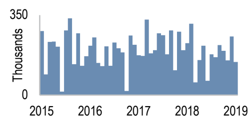
Economic Dashboard & Market Indices

JOB MARKET
Five-Year Trend

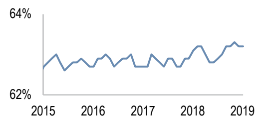
U.S. – Unemployment Rate	*As of 12/31/2019*
Latest Level	3.5
Change from Prior Period	0.0
Frequency	Monthly



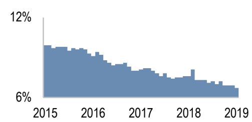
U.S. – Non-Farm Payroll	*As of 12/31/2019*
Latest Level	145.0
Change from Prior Period	(111.0)
Frequency	Monthly



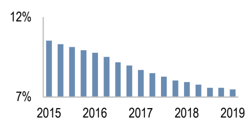
U.S. – Labor Participation Rate	*As of 12/31/2019*
Latest Level	63.2
Change from Prior Period	0.0
Frequency	Monthly



U.S. – U-6 Unemployed & Margin & Part-Time as Percent of Labor Force & Margin	*As of 12/31/2019*
Latest Level	6.7
Change from Prior Period	(0.2)
Frequency	Monthly

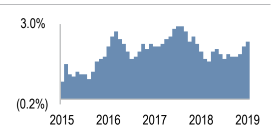


Eurozone Unemployment Rate	*As of 12/31/2019*
Latest Level	7.5
Change from Prior Period	(0.1)
Frequency	Quarterly

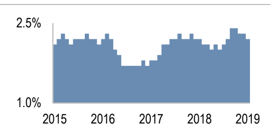


INFLATION
Five-Year Trend

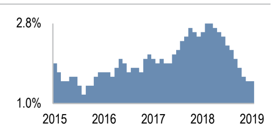
U.S. Consumer Price Index (CPI) Y-o-Y (%)	*As of 12/31/2019*
Latest Level	2.3
Change from Prior Period	0.2
Frequency	Monthly



U.S. CPI Goods Less Food & Energy Y-o-Y (%)	*As of 12/31/2019*
Latest Level	2.2
Change from Prior Period	(0.1)
Frequency	Monthly

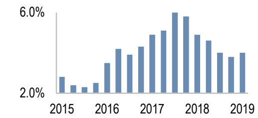


U.S. Producer Price Index (PPI) Y-o-Y (%)	*As of 12/31/2019*
Latest Level	1.5
Change from Prior Period	0.0
Frequency	Monthly

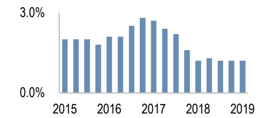


GDP GROWTH
Five-Year Trend

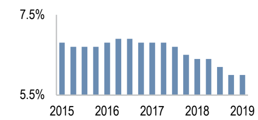
U.S. – GDP Y-o-Y (%)	*As of 12/31/2019*
Latest Level	4.0
Change from Prior Period	0.2
Frequency	Quarterly



Eurozone – GDP Y-o-Y (%)	*As of 12/31/2019*
Latest Level	1.2
Change from Prior Period	0.0
Frequency	Quarterly

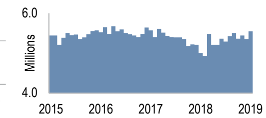


China – GDP Y-o-Y (%)	*As of 12/31/2019*
Latest Level	6.0
Change from Prior Period	0.0
Frequency	Quarterly

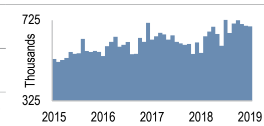


HOUSING
Five-Year Trend

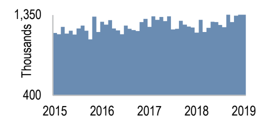
Existing Home Sales	*As of 12/31/2019*
Latest Level	5.5
Change from Prior Period	0.2
Frequency	Monthly



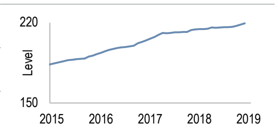
New Home Sales	*As of 12/31/2019*
Latest Level	694.0
Change from Prior Period	(3.0)
Frequency	Monthly



Housing Starts	*As of 12/31/2019*
Latest Level	1,608.0
Change from Prior Period	233.0
Frequency	Monthly



Case-Shiller Index of Home Value in 20 Cities	*As of 11/30/2019*
Latest Level	219.2
Change from Prior Period	2.0
Frequency	Monthly



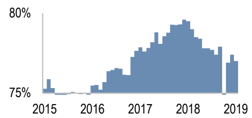
Source: Bloomberg (All).

Economic Dashboard & Market Indices *(continued)*

ECONOMIC & MARKET CONFIDENCE
Five-Year Trend

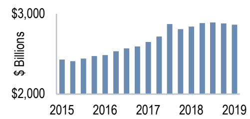
Capacity Utilization as a Percent of Capacity
As of 12/31/2019

Latest Level	77.0
Change from Prior Period	▼ (0.4)
Frequency	Monthly



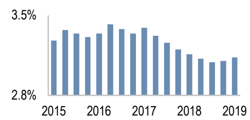
Private Fixed Investment Nonresidential SAAR
As of 12/31/2019

Latest Level	2,864.9
Change from Prior Period	▼ (12.3)
Frequency	Quarterly



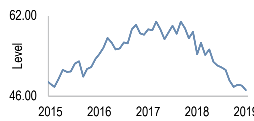
Residential Fixed Investment as a Percent of GDP
As of 12/31/2019

Latest Level	3.1
Change from Prior Period	0.0
Frequency	Quarterly



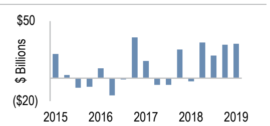
ISM Manufacturing Index
As of 12/31/2019

Latest Level	47.2
Change from Prior Period	▼ (0.9)
Frequency	Monthly



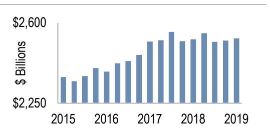
Manufacturing Inventory Change Q-o-Q ($)
As of 12/31/2019

Latest Level	30.0
Change from Prior Period	▲ 0.8
Frequency	Quarterly



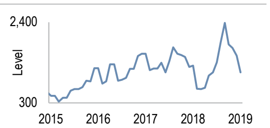
Exports of Goods/Services
As of 12/31/2019

Latest Level	2,532
Change from Prior Period	▲ 9
Frequency	Quarterly



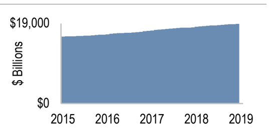
Shipping Rates
As of 12/31/2019

Latest Level	1,090
Change from Prior Period	▼ (641)
Frequency	Quarterly



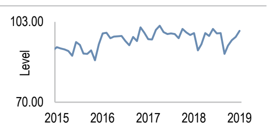
Personal Income Level
As of 11/30/2019

Latest Level	18,911
Change from Prior Period	0.0
Frequency	Monthly



Michigan Consumer Confidence Sentiment
As of 12/31/2019

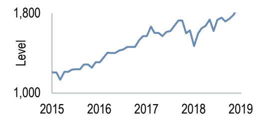
Latest Level	99.3
Change from Prior Period	▲ 2.5
Frequency	Monthly



EQUITY
Five-Year Trend

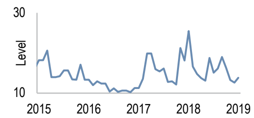
U.S. Equity Markets – Russell 3000
As of 12/31/2019

Latest Level	1,892.2
Change from Prior Period	▲ 114.0
Frequency	Monthly



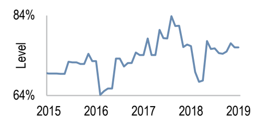
U.S. Equity – VIX
As of 12/31/2019

Latest Level	13.8
Change from Prior Period	▲ 0.6
Frequency	Monthly

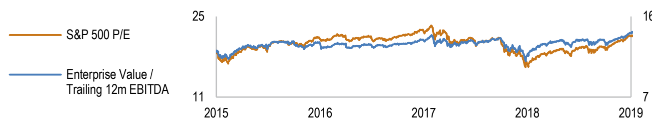


S&P 500 Percentage Exceeding Earning Estimates
As of 12/31/2019

Latest Level	76.0
Change from Prior Period	▼ (1.0)
Frequency	Monthly

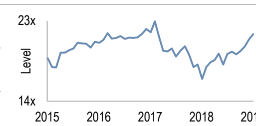


S&P 500 Historical Valuation Levels
As of 12/31/2019



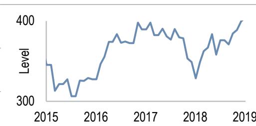
Trailing P/E on S&P 500
As of 12/31/2019

Latest Level	21.5
Change from Prior Period	▲ 1.4
Frequency	Monthly



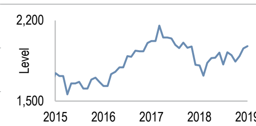
Equity Markets – Euro Stoxx
As of 12/31/2019

Latest Level	403.9
Change from Prior Period	▲ 15.2
Frequency	Monthly



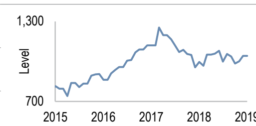
Equity Markets – MSCI EAFE
As of 12/31/2019

Latest Level	2,036.9
Change from Prior Period	▲ 81.5
Frequency	Monthly

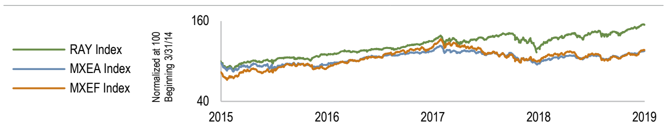


Equity Markets – MSCI EM
As of 12/31/2019

Latest Level	1,114.7
Change from Prior Period	▲ 72.7
Frequency	Monthly



Russell 3000 & MSCI EAFE & MSCI EM
As of 12/31/2019



Source: Bloomberg (All).

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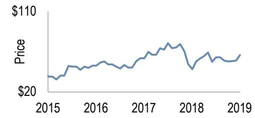
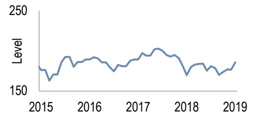
Economic Dashboard & Market Indices *(continued)*

COMMODITIES
Five-Year Trend

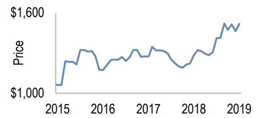
WTI Crude Oil Price	As of 12/31/2019
Latest Level	61.1
Change from Prior Period	▲ 6.9
Frequency	Monthly



Reuters/Jefferies Commodity Index	As of 12/31/2019
Latest Level	185.8
Change from Prior Period	▲ 8.9
Frequency	Monthly

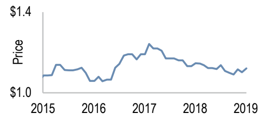


Gold	As of 12/31/2019
Latest Level	1,517.3
Change from Prior Period	▲ 4.3
Frequency	Monthly

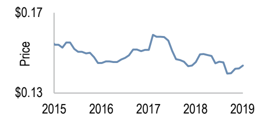


FOREIGN EXCHANGE RATES
Five-Year Trend

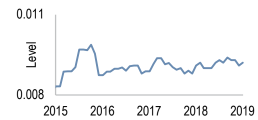
Euro Spot Rate vs. 1 USD	As of 12/31/2019
Latest Level	1.12
Change from Prior Period	▲ 0.01
Frequency	Monthly



Yuan Spot Rate vs. 1 USD	As of 12/31/2019
Latest Level	0.1436
Change from Prior Period	▲ 0.0015
Frequency	Monthly

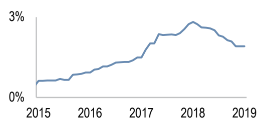


Yen Spot Rate vs. 1 USD	As of 12/31/2019
Latest Level	0.0092
Change from Prior Period	▼ (0.0001)
Frequency	Monthly

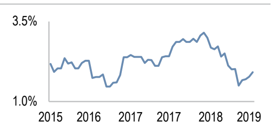


RATES
Five-Year Trend

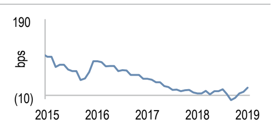
Libor 3M	As of 12/31/2019
Latest Level	1.91
Change from Prior Period	▲ 0.01
Frequency	Monthly



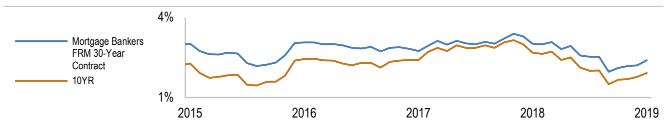
Treasury 10-Yr Yield	As of 12/31/2019
Latest Level	1.92
Change from Prior Period	▲ 0.23
Frequency	Monthly



Swaps 2-Yr vs. 10-Yr	As of 12/31/2019
Latest Level	19.80
Change from Prior Period	▲ 14.75
Frequency	Monthly



30-Yr Mortgage & 10-Yr Treasury *As of 12/31/2019*



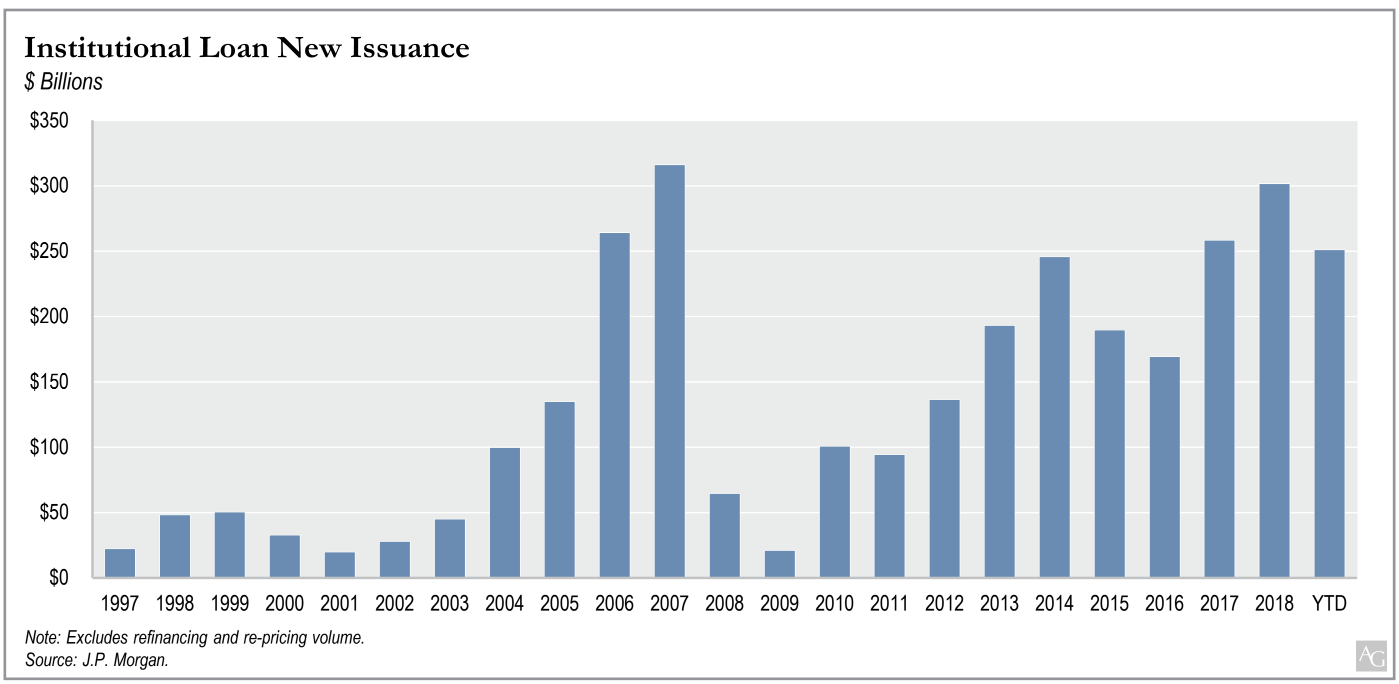
Source: Bloomberg (All).

Performing Credit

Leveraged loans ended 2019 on a strong note, with the J.P. Morgan index posting a 1.65% total return for December, the best monthly performance since January 2019. On the year, loans returned 8.64%, with split BBB, BB, and split BB loans all delivering returns north of 9%. Meanwhile, split B/CCC loans lagged significantly, with returns of 1.45%. The price rally in the fourth quarter of 2019 was broad-based, with all sectors generating positive returns, except for energy, which was essentially flat. Aside from metals and mining, all industries enjoyed positive returns during 2019. Notably, retail was the strongest performer with total returns of 11.39%.

As we enter 2020, we believe loans offer attractive relative value versus high yield. As of mid-December 2019, over 40% of the high yield bond universe was trading inside a 4% yield, while over 80% of the leveraged loan universe was trading with a yield in excess of 4%. In addition, loan yields decreased 184 basis points in 2019, while yields in high yield plunged 232 basis points over the course of the year. Our outlook for the overall leveraged finance market remains positive, as a recession is unlikely to occur in 2020 and Treasury yields should remain relatively rangebound. A benign interest rate environment should result in a more balanced outlook for retail loan fund flows versus 2019, when declining interest rates helped fuel over $35 billion of outflows from loan funds. A decline in loan issuance coupled with robust demand due to CLO issuance more than counterbalanced loan fund outflows. While new issue activity picked up in the fourth quarter of 2019, gross issuance volume was down nearly 45% year-over-year, and net issuance of $192 billion was 36% lower than the $302 billion of issuance in 2018. Fourth quarter CLO gross issuance of $34.9 billion was the lightest of 2019, but total net issuance of $118.8 billion provided continued support to the loan market. European CLO issuance of €41.3 billion was roughly on par with 2018's total of €43.6 billion. CLO issuance is expected to remain healthy in 2020, with many analysts anticipating approximately $100 billion of net issuance.

Finally, as we reflect on 2019, we would be remiss not to comment on the market dynamics that have been widely followed – namely the weak structuring and documentation that are now prevalent in the loan market. For the last several years, loans with financial maintenance covenants have been the minority of issuance, with approximately 80% of outstanding loans being covenant-lite. We believe investors should be selective and utilize fundamental analysis, including a thorough review of legal documentation as the starting point for all loan investments. Within this framework, we believe attractive opportunities to invest in loans persist.

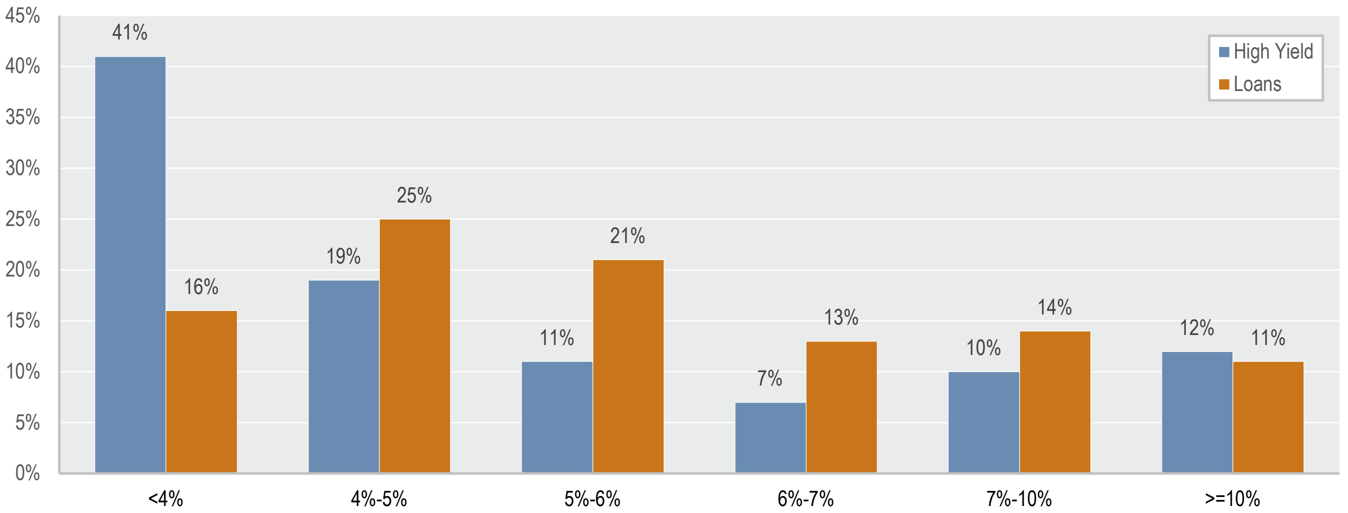


2019 was the third-strongest year for institutional loan issuance post-crisis.

Performing Credit *(continued)*

U.S. High Yield and Loan Yields

% of Universe

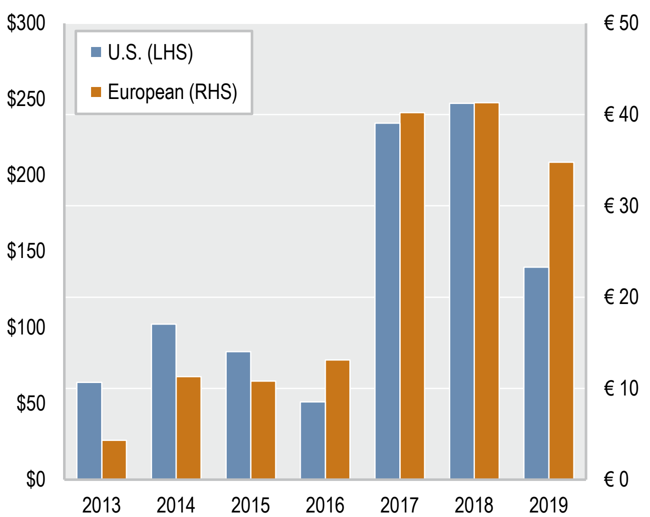


Source: J.P. Morgan.

A larger portion of the loan universe is offering more attractive yields than the high yield universe, as over 40% of high yield bonds are generating a yield of 4% or below.

CLO Issuance

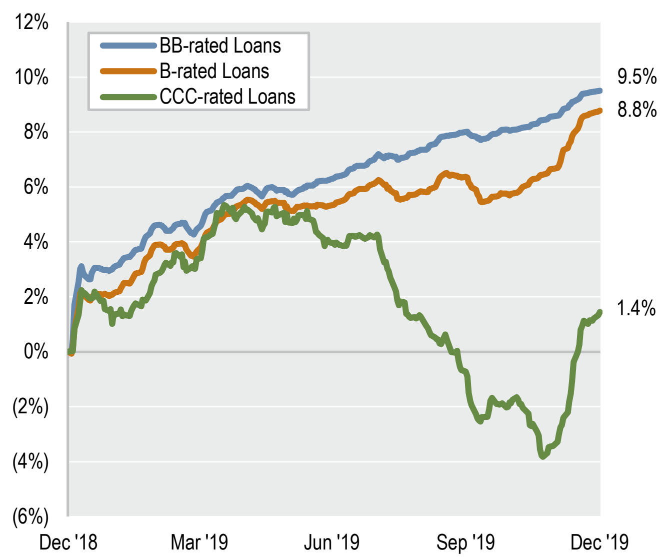
$ Billions *€ Billions*



Note: Reissues counted as resets.
Source: S&P LCD, Intex, Barclays Research.

U.S. and European CLO issuance remain strong, providing steady demand for leveraged loans from both U.S. and European investors.

Leveraged Loan Returns



Source: J.P. Morgan.

CCC loans underperformed both BB-and B- rated loans, but B3/CCC-rated loans rebounded sharply in November and December.

Maureen D'Alleva
Portfolio Manager

For more information on Performing Credit, visit angelogordon.com/strategies/credit/performing-credit/

Distressed Debt

The U.S. and European high yield markets both gained in the fourth quarter of 2019 and finished the year with strong performance. U.S. high yield rose 2.9% for the quarter, increasing its full-year return to 14.1%, while euro-currency high yield delivered a 2.2% gain in the fourth quarter and 11.4% for the year.

In the U.S., BB-rated bonds returned a strong 15.6% for the year, outperforming the 11.3% annual return for CCC-rated bonds. The themes of higher-quality, larger size, more liquid, and lower-yielding continued their relative outperformance through most of the fourth quarter into November. However, after trailing higher-rated bonds for the majority of the year, CCCs gained 5.1% in December versus 1.4% for BBs – a sharp reversal, primarily in reaction to progress on a U.S.-China trade deal. With this move, yields on the U.S. high yield index fell below 6% for the first time since January 2018.

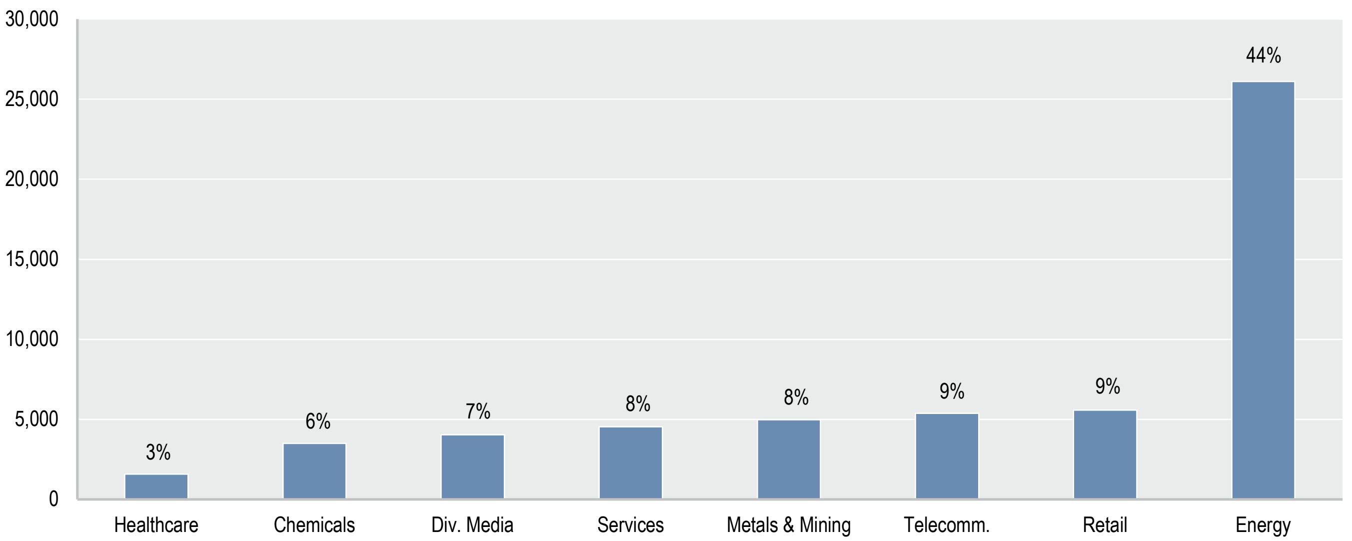
In Europe, the return dispersion across ratings was more traditional, with CCCs outperforming BBs by approximately 400 basis points in 2019. Spreads tightened to approximately 350 basis points at year-end, and yields settled at just above 3%. Interestingly, spreads for BB- and B-rated bonds compressed while spreads widened for CCCs.

Default activity rose for the second consecutive year in 2019 but remains low and below long-term averages. In the U.S., 53 companies defaulted or completed exchanges, totaling nearly $60 billion, in comparison to 32 companies and approximately $43 billion in 2018. Energy was the most prominent sector, accounting for 44% of the year's volume, and its loan and bond default rate ended 2019 at 11.8% – elevated but below the 14.2% rate of 2016. For perspective, the year-end 2019 high yield default rate of 2.9% compared to the long-term average of 3.5%; however, excluding commodities, the 2019 rate dropped to 1.3%.

U.S. high yield new issuance was active in the fourth quarter, totaling $78 billion across 124 issuers. Full-year new issue volume was $287 billion, a more than 50% increase over the $187 million of new issues in 2018, and December marked the 35th consecutive month that refinancing accounted for the majority of activity. In Europe, new issuance reached €87 billion in 2019, representing the second-highest level of activity over the past decade, while the fourth quarter ranked as the third-highest quarterly volume of all time.

U.S. high yield mutual funds reported $18.9 billion of inflows in 2019, the largest annual intake since 2012 and a significant reversal from the nearly $47 billion of outflows experienced in 2018. In contrast, U.S. loan funds experienced outflows every month of 2019, recording total outflows of over $37 billion for the year. In Europe, high yield funds took in more than €7.5 billion of capital during the year, with all four quarters registering inflows.

U.S. High Yield Defaults



Note: Figures include distressed exchanges.
Source: J.P. Morgan.

Defaults remain below the long-term average despite elevated activity in the energy sector, which accounted for 44% of defaults in 2019.

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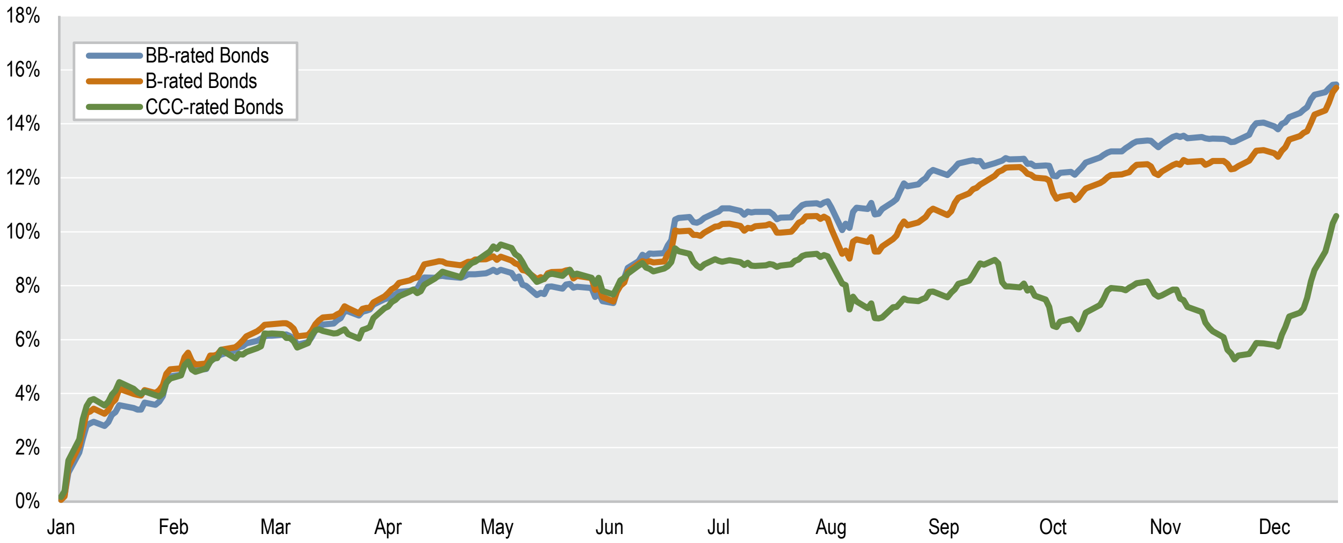
Distressed Debt *(continued)*

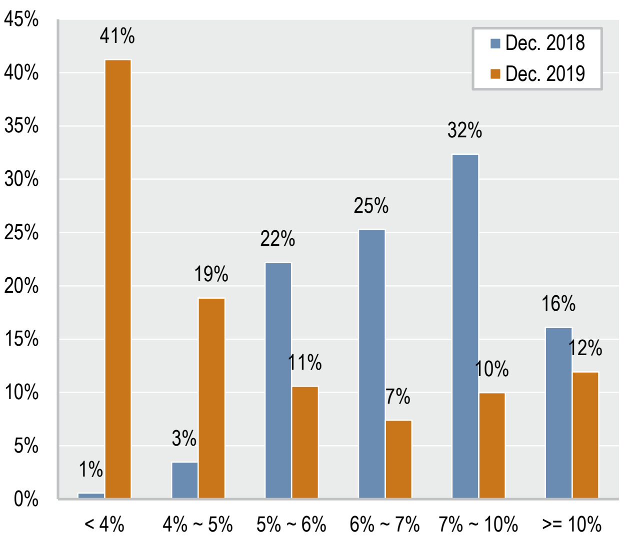
2019 High Yield Total Returns



Source: J.P. Morgan.

After significantly underperforming higher-rated bonds since June, CCCs rallied sharply in December.

Y-o-Y Changes in the U.S. High Yield Universe

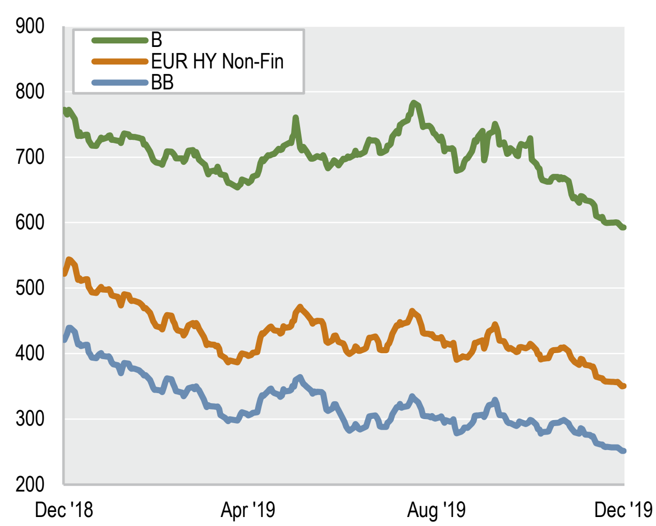


Note: High yield market represents non-defaulted domestic $ high yield bonds.
Source: J.P. Morgan.

Currently, approximately 60% of the U.S. high yield universe is generating 5% or less in yield. At year-end 2018, approximately 50% was yielding 7% or greater.

Euro High Yield Spreads in 2019

bps



Source: Deutsche Bank, Markit Group, S&P LCD.

European high yield spreads consistently trended tighter throughout 2019.


Ryan Mollett
Global Head of Distressed & Corporate Special Situations


Dan Pound
Co-Portfolio Manager

For more information on Distressed Debt, visit angelogordon.com/strategies/credit/distressed-debt/

Commercial Real Estate Debt

In the CMBS market, the fourth quarter of 2019 was all about new issuance volume. After a somewhat sluggish first half, new issue deal flow picked up significantly into year-end. 2019 U.S. Non-Agency issuance of $97.8 billion – 50% of which was traditional conduit deals – was a 27% increase versus 2018 and the highest amount since 2007. Single-asset/single-borrower (SA/SB) issuance increased 32% year-over-year and, at $46.1 billion, represented 47% of 2019 U.S. Non-Agency issuance. Agency CMBS deals totaled $102.8 billion, marking an 8% increase from 2018 and the 11th consecutive year of record volume in this sector.

2020 issuance is expected to remain strong, with many analysts forecasting private label issuance in excess of $110 billion. The increase in volume is largely driven by the fact that nearly $400 billion of commercial real estate loans are set to mature in 2020, compared to just over $350 billion in 2019. Like 2019, we again expect single-borrower issuance to be roughly on par with conduit issuance.

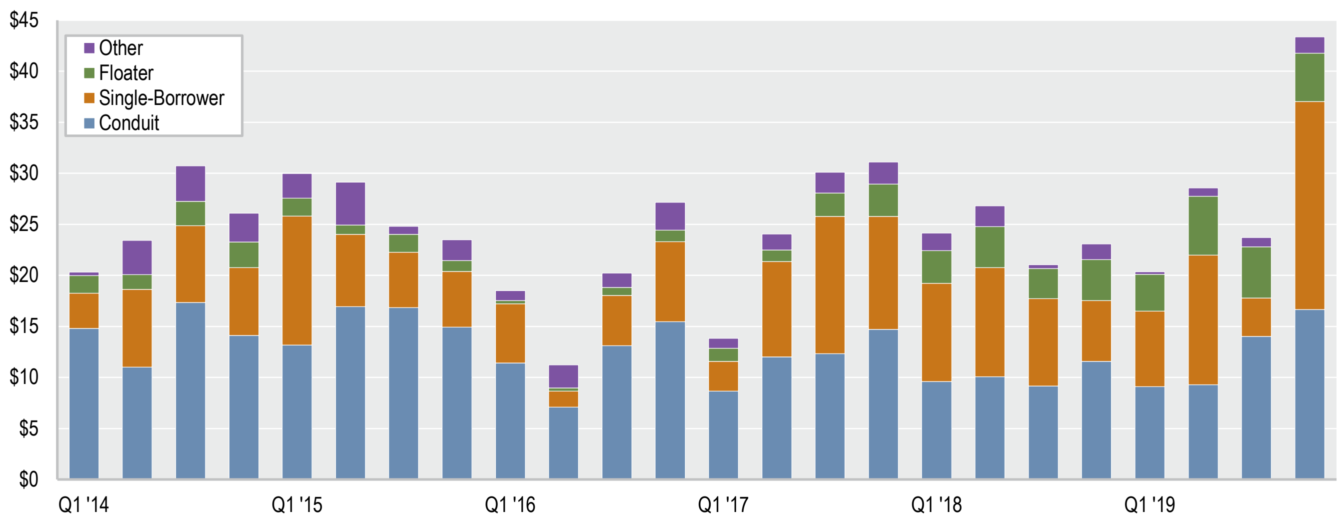
Commercial real estate collateralized loan obligations (CRE CLOs) have experienced the most significant growth within the securitized CRE debt market, with issuance increasing from $14.3 billion in 2018 to $20.4 billion in 2019. Despite this growth, we believe it can be difficult to underwrite CRE CLOs with years of reinvestment flexibility and that present pricing does not adequately compensate investors for the risk embedded in these transactions. Although deal performance has been strong to date, with problem loans typically removed from the pool by the issuers over time, we expect this market to be the first to show signs of distress.

Although 10-year swap spreads increased during the fourth quarter, they ended the year nearly 100 basis points lower than at the start of 2019. This – in addition to numerous types of lenders offering attractive terms – encouraged commercial property owners to lock in financing, even if refinancing existing loans resulted in pre-payment or defeasance costs. An uptick in M&A activity also contributed to the surge in commercial real estate financing. The market share of financial lenders such as debt funds, REITs, and other non-bank institutions has increased, with much of their lending focused on riskier segments of the market.

The wider than typical dispersion in new issue conduit AAA pricing that we noted at the end of the third quarter moved to conduit BBBs and SA/SB bonds in the fourth quarter, though this is unlikely to persist in the new year. Over time, the markets often misprice the dispersion in longer-term deal performance and instead consider more simplistic averages. The underlying commercial real estate markets generally remain sound, and conduit 2.0 deals have performed well to date. However, deals will ultimately take losses, and we believe investors will be well-served to differentiate transactions, even within the same vintage.

Quarterly Private Label Issuance

$ Billions

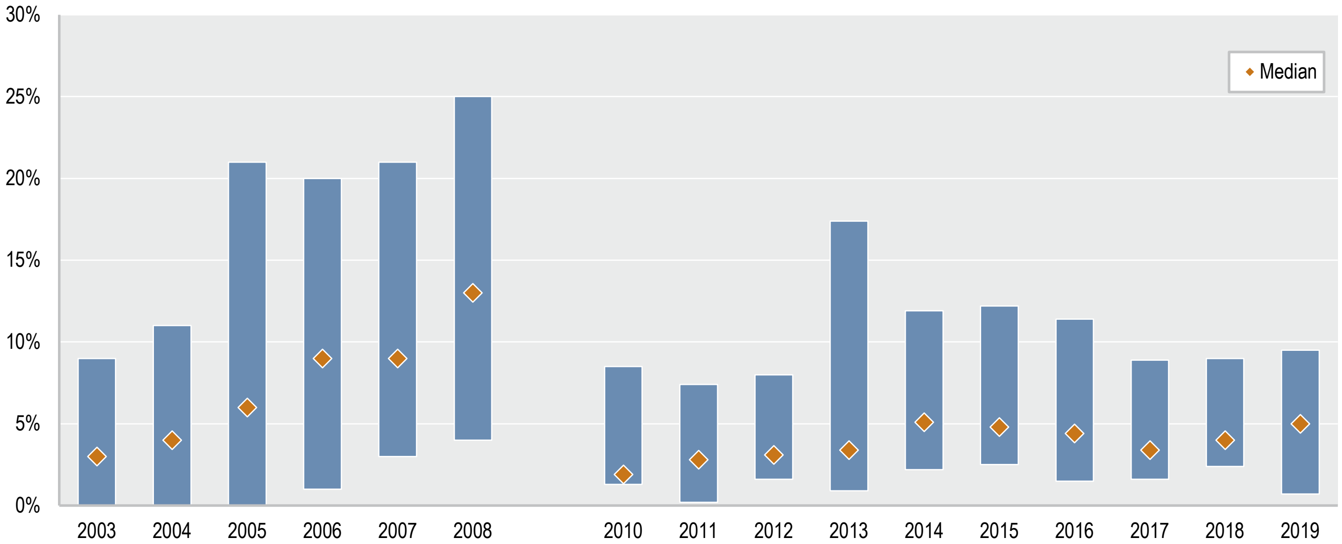


Source: Credit Suisse, Commercial Mortgage Alert.

Very strong fourth quarter issuance helped full-year 2019 issuance surpass 2018 by over 20%.

Commercial Real Estate Debt *(continued)*

CMBS Loss Projections

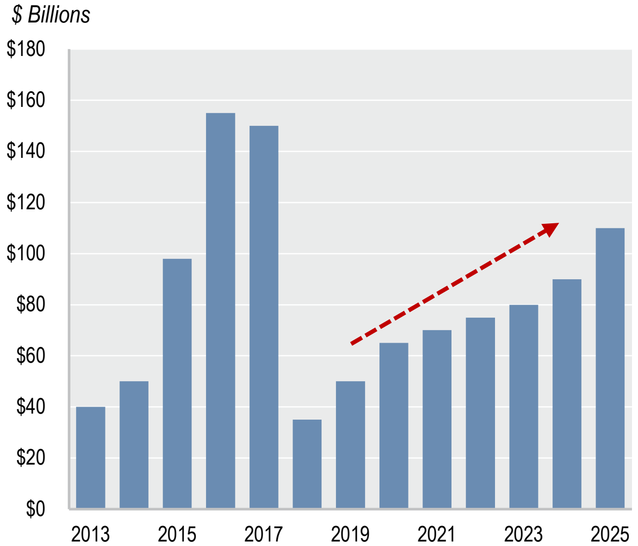


Note: Morgan Stanley's expected loss projections for each CMBS 2.0 vintage based on a weighting of 50% for base, 15% for bull, and 35% for bear case.
Source: Trepp, Bloomberg, Morgan Stanley Research.

Conduit 2.0 performance to date has been strong, but deal losses will ultimately disperse within vintages.

Scheduled Maturities of CMBS Loans

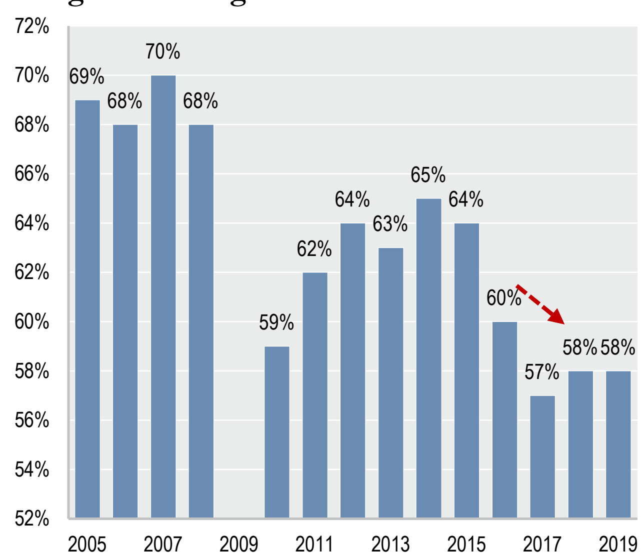
$ Billions



Source: Trepp, Goldman Sachs Global Investment Research.

The increasing volume of CMBS loans maturing over the coming years should act as a tailwind for new issue supply.

Weighted Average LTVs for Conduit CMBS



Source: Trepp, Goldman Sachs Global Investment Research.

Weighted average loan-to-value metrics for conduit CMBS loans have remained stable at conservative levels.

Andrew Solomon
Portfolio Manager

For more information on Commercial Real Estate Debt, visit angelogordon.com/strategies/credit/real-estate-debt/

Residential & Consumer Debt (RMBS/ABS)

Mortgage- and asset-backed sectors were broadly unchanged during the fourth quarter of 2019, though specific profiles saw modest spread movement in both directions. Credit-risk transfer (CRT) spreads were relatively unchanged, but a little tighter in some instances. Supply was well-absorbed, and strong investor demand continuously reduced dealer balance sheets during the quarter; however, CRT bonds that trade at large price premiums to par faced some moderate spread pressure before relief set in due to higher rates. Strong demand for legacy RMBS continued, and clean-up call activity was elevated, as one issuer redeemed over 45 deals in November. Asset-backed sectors were a little more mixed. Whole-business ABS continued to garner strong interest, while spreads for certain seasoned student loan ABS indexed to Libor continued to widen where deal documents did not contemplate Libor's discontinuance.

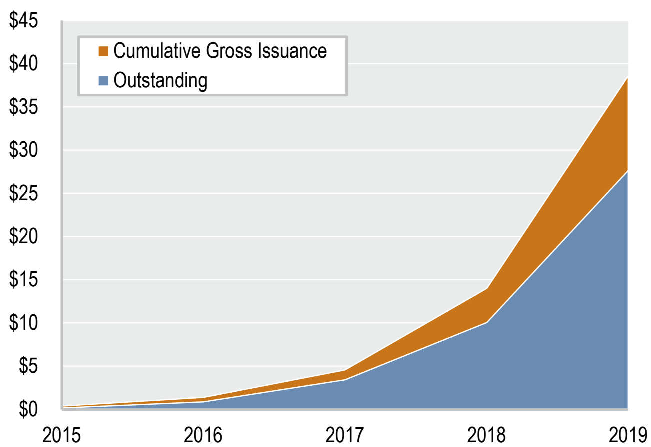
Quarterly new issuance of U.S. RMBS rose by $5.1 billion to $34.6 billion, up 17% from the previous quarter. Higher quarterly issuance was mainly driven by non- and re-performing loans, followed by CRT. Fourth quarter activity brought full-year 2019 issuance to $121 billion, a small decline from $124 billion in 2018. The story for 2019 has been the material growth of the Non-Qualified Mortgage (Non-QM) sector, with annual issuance increasing to $24.2 billion, up from $9.5 billion in 2018. The Non-QM market remains well-positioned to grow as credit availability modestly expands to underserved, creditworthy borrowers whose profiles may not conform to agency and government mortgage underwriting criteria. Additionally, housing finance reform and other regulatory changes may further open this market. U.S. ABS new issuance was $55.2 billion in the fourth quarter, roughly in-line with the previous quarter and year-ago volumes. Total U.S. ABS issuance for the year came to $241.8 billion, a slight decrease from 2018.

Annual home price appreciation remained firmly positive during the quarter. S&P CoreLogic Case-Shiller reported a 3.3% increase in national home prices year-over-year, up slightly from 3.2% in the previous quarter and down from 5.3% a year ago. New and existing home sales oscillated during the quarter, as limited supply – particularly in the lower- and middle-price tiers – and affordability headwinds from rising prices continued to challenge homebuyers. On the other hand, a monthly survey of homebuilder sentiment reached its highest level since June 1999, as relatively low mortgage rates, limited housing stock, and a strong job market increased builders' confidence.

Agency MBS spreads tightened sharply in the fourth quarter, as headwinds from the prior two quarters turned to tailwinds. Higher rates, decreased origination, lower implied volatility, and favorable seasonals all helped improve valuations versus both benchmark interest rates and investment grade corporate credit. The Federal Reserve's successful efforts to stabilize funding during the quarter further supported valuations through an improved carry profile.

Non-QM Securitizations Issued and Outstanding

$ Billions

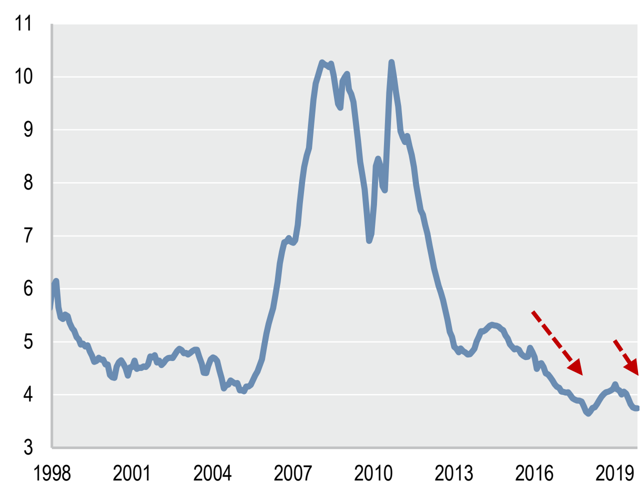


Note: Outstanding as of latest remittance cycle. Issuance as of November 21, 2019. Last period outstanding subject to change as new issuance deals load.
Source: Intex, Bloomberg.

Non-QM issuance saw significant growth in 2019.

Homes Available for Sale

Months Supply



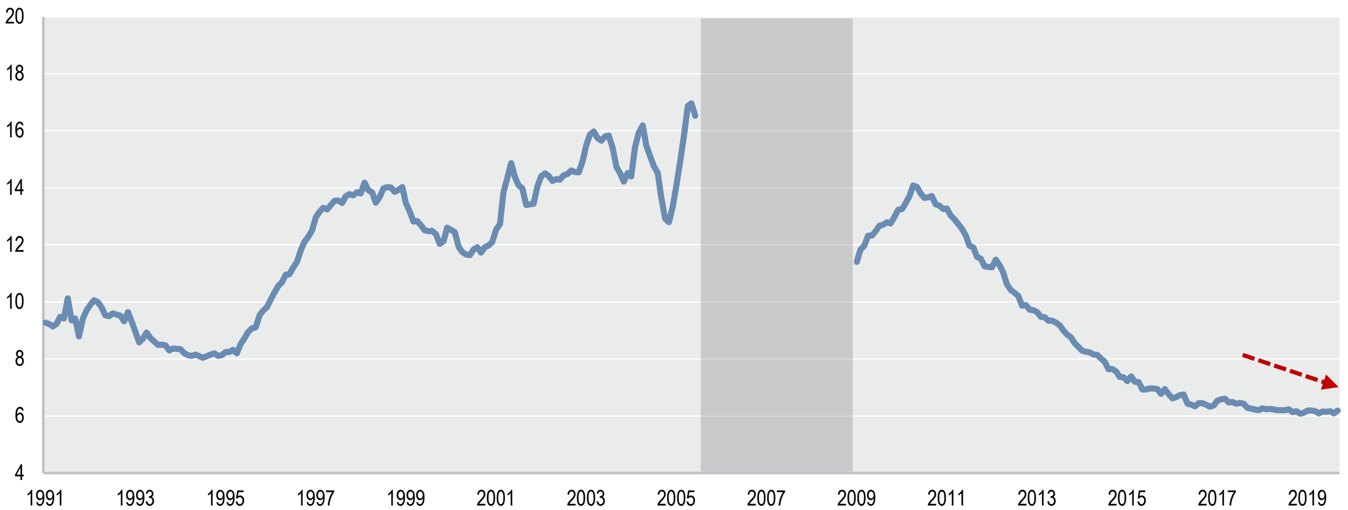
Note: Months supply of homes listed for sale (number of listings divided by monthly sales volume), seasonally adjusted.
Source: Haver Analytics, NAR, Goldman Sachs Global Investment Research.

The inventory of homes available for sale is near all-time low levels.

Residential & Consumer Debt *(continued)*

Personal Bankruptcy Filings Per Household

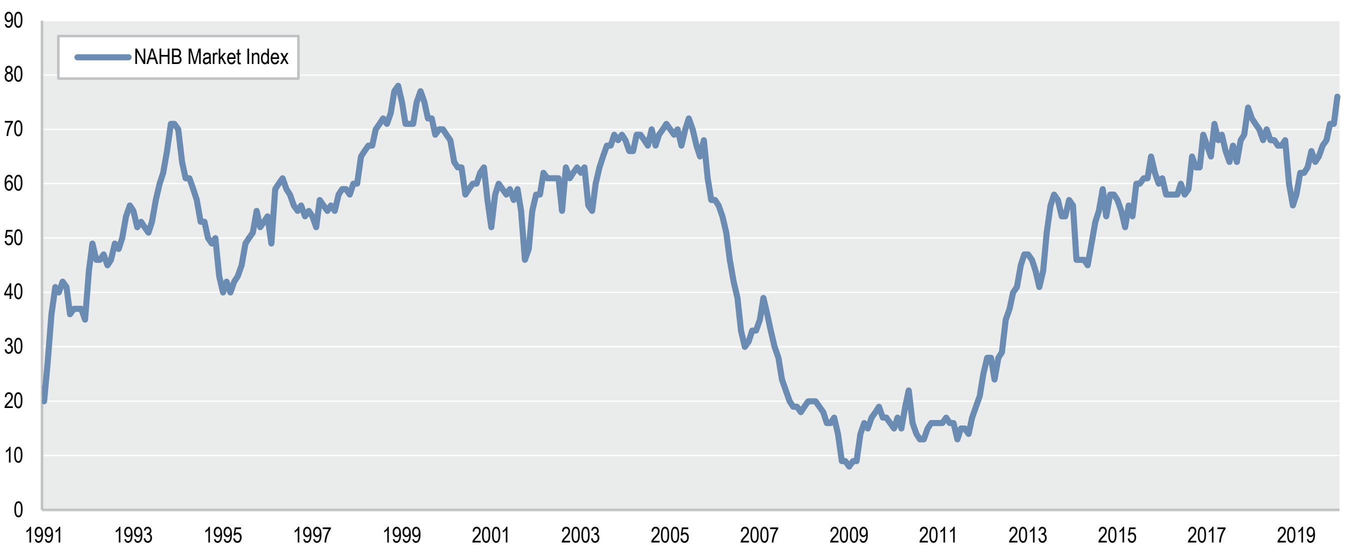
Per Thousand



Note: 2005-2009 data excluded due to distortions following enactment of the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005.
Source: Admin Office of the US Courts, Census Bureau, Goldman Sachs Global Investment Research.

Low bankruptcy filings demonstrate the ongoing health of the U.S. consumer.

Home Builder Sentiment



Source: National Association of Home Builders, Bloomberg.

Home builder sentiment is at a post-crisis high.

TJ Durkin
Co-Portfolio Manager

Yong Joe
Co-Portfolio Manager

For more information on Residential & Consumer Debt, visit angelogordon.com/strategies/credit/residential-consumer-debt/

Energy

Volatility in crude prices persists. The commodity's December rally continued into the new year, as heightened geopolitical concerns in conjunction with deeper production cuts by OPEC briefly spurred WTI well above $60. As tensions de-escalated, the Iran-related bump fully unwound.

For the preponderance of 2019, the high yield market was closed to energy issuers. Oil and gas producers only executed seven transactions totaling $3.7 billion in 2019 – the lowest level in over a decade. By early December, energy yields widened to multi-year highs at 10.5%; however, as crude rallied, so too did the sector, with yields tightening by approximately 160 basis points by mid-January.

In early January, larger energy issuers returned to the high yield market, though new money has remained scarce, particularly for oil and gas producers. Range Resources priced its most recent offering at a coupon more than 300 basis points higher than the rate on its previous unsecured issue, while Laredo Petroleum – with a $1.6 billion enterprise value – paid a similarly wide premium for its access to debt capital. These bonds, newly purchased at par just three weeks ago, now trade at 90.25 and 91.5, respectively. These data points suggest an expensive capital scarcity for the many oil and gas producers that are smaller than Laredo, at a time when banks are significantly tightening senior secured credit.

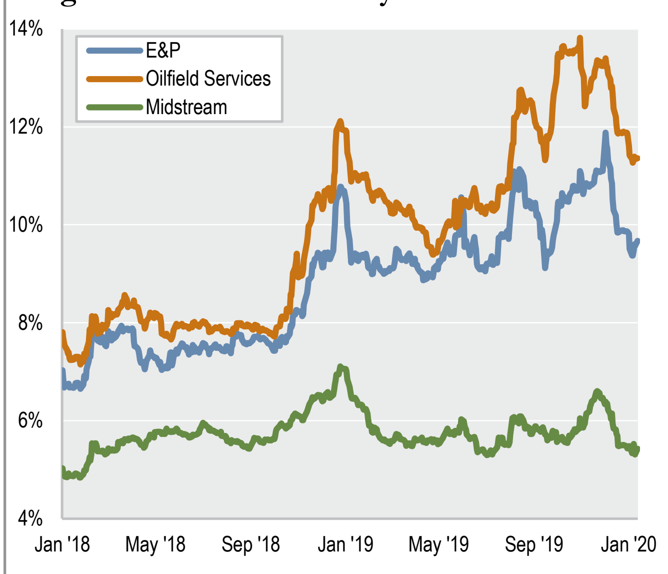
The wall of maturities is approaching. With approximately 30% of the exploration and production (E&P) high yield complex maturing through 2022, the industry's need for capital must soon be addressed.

While energy equities also benefited from the broader sector's year-end bounce, median valuations for mid-cap oil and gas producers remain depressed at 4-4.5x 2020 EBITDA – well below historical averages – and largely out of favor. As a result, generalist investors remain sidelined.

Banks are warning reserve-based lending (RBL) borrowers to clean up balance sheets in advance of April, when downward adjustments are expected. Anecdotally, one public borrower has been advised by its banks that come 2020, any borrowing base deficiency will require a cure payment within one day, as compared to a more typical one- to six-month cure period. With median RBL utilization approaching 84%, a mad search for senior secured liquidity seems inevitable. Banks are exiting the sector with increasing frequency, with both banker layoffs and loan sales mounting.

The current market environment provides significant bank debt replacement opportunities as borrowers seek to extend maturity profiles and create runway.

High Yield Index Yields by Sub-Sector

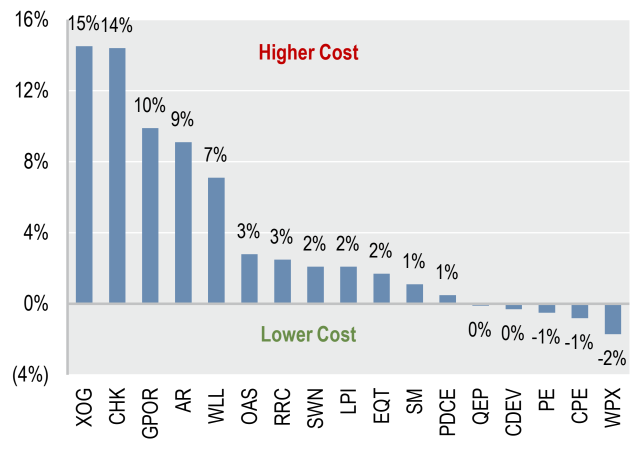


Source: Credit Suisse.

Energy yields have tightened considerably since early December, though remain significantly wider than the broader high yield market.

Increasing Cost of Debt: Difference Between Current Long-Dated Bond Yield vs. Average Coupon Rates

Potential Change in Financing Cost

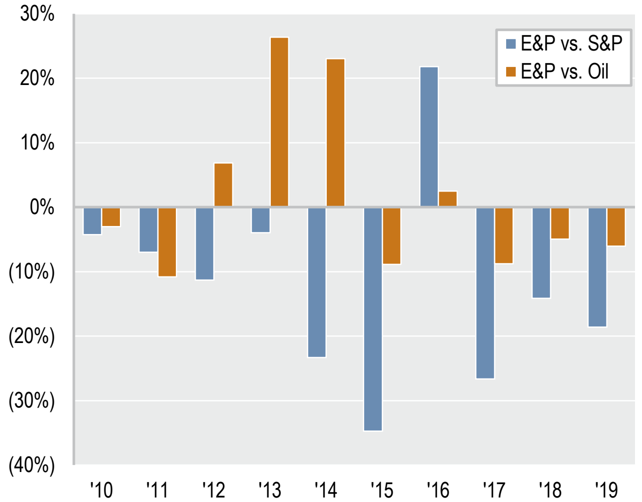


Source: Credit Suisse.

Access to scarce capital will come with a significant increase in cost.

Energy *(continued)*

E&P Equities Underperforming S&P 500 and WTI

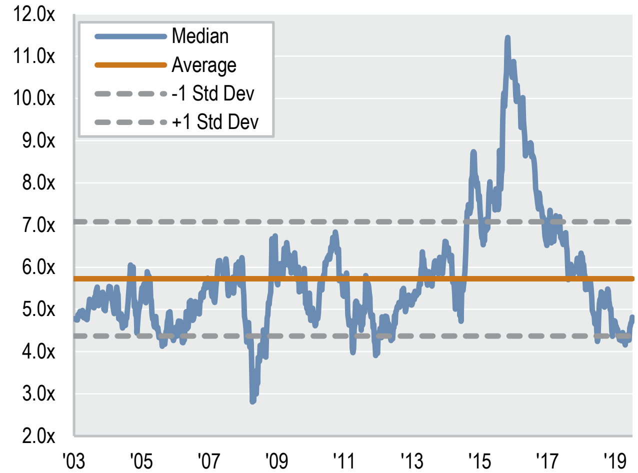


Source: BMO Capital Markets.

Over the last decade, E&P equities have consistently underperformed the broader market as well as the commodity.

E&P Valuation Multiples Remain Well Below Historical Averages

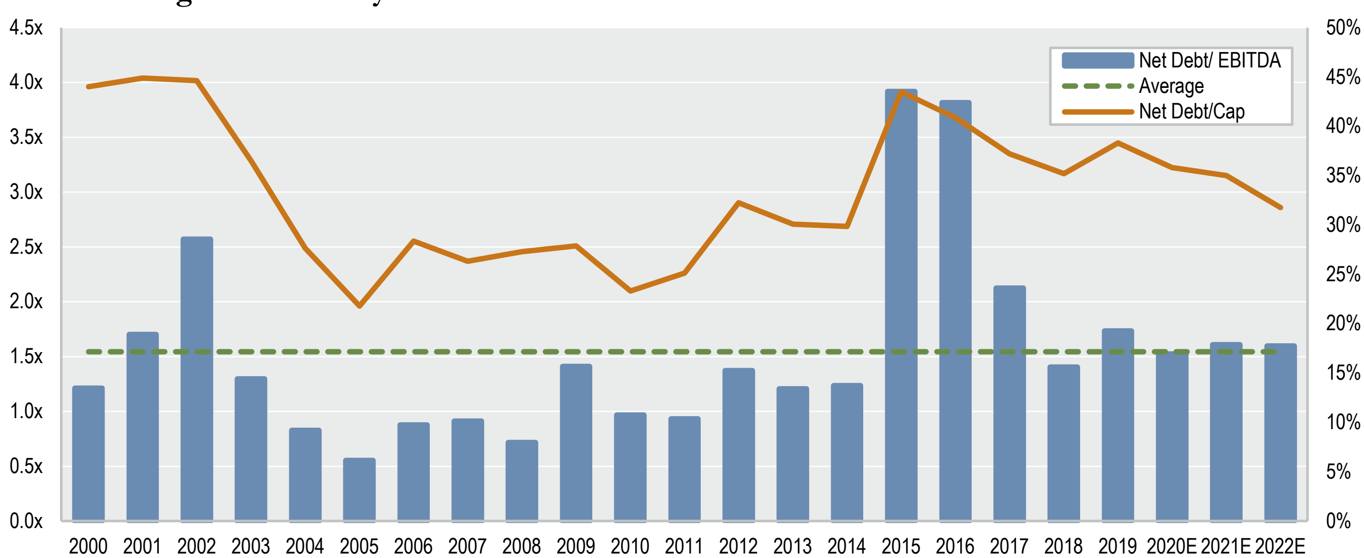
EV / NTM EBITDA



Source: BMO Capital Markets.

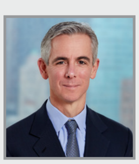
Valuation multiples remain at multi-year lows.

E&P Leverage Has Steadily Declined Since 2015



Source: BMO Capital Markets.

Credit profiles for oil and gas producers have improved considerably over the last five years.



Todd Dittmann
Portfolio Manager

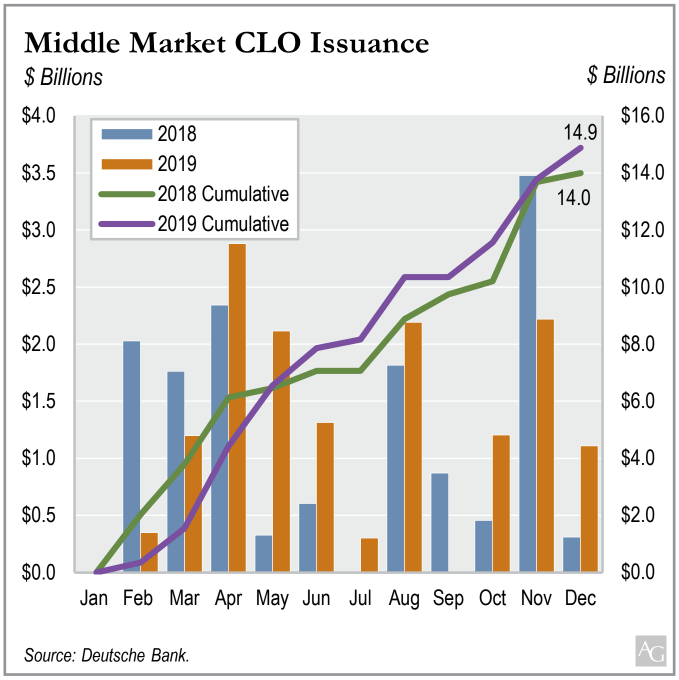
For more information on Energy, visit angelogordon.com/strategies/credit/energy-credit/

Middle Market Direct Lending

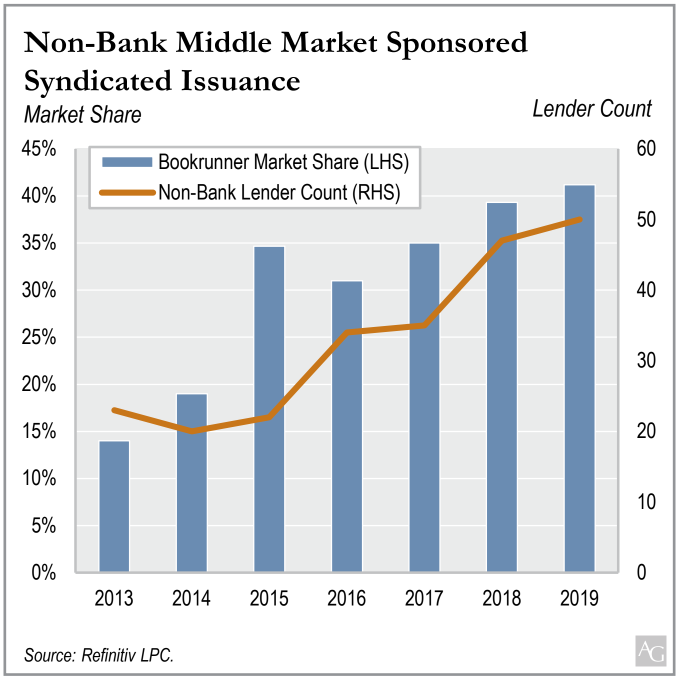
Syndicated middle market loan issuance fell 21% year-over-year to $144 billion in 2019. The majority of this decline came from a 31% drop in refinancing volume, as new money lending of $67 billion represented only a 6% decline versus 2018. Throughout 2019, banks continued to lose market share to non-regulated lenders, who are more frequently being selected as bookrunners or lead arrangers on syndicated transactions. Over the last five years, non-regulated lender market share has increased from just under 15% to over 55%, with the number of non-regulated lenders more than doubling. In a recent lender survey, respondents indicated that they expect this theme to persist in 2020, with direct lenders continuing to take larger hold sizes and market share from banks. According to Refinitiv LPC, direct lenders closed 19 mega-transactions with loan sizes in excess of $500 million in 2019, two of which were over $1.5 billion. Traditionally, these deals would have been financed in the broadly syndicated loan market.

Looking back on 2019, lenders surveyed revealed several factors that surprised them, including the ongoing deterioration of terms and aggressive price competition. Notably, an increasing number of lenders indicated that they are willing to accept 500-525 basis points as their minimum spread for unitranche loans. On the upside, lenders were also surprised by the resilience of the economy, which most expect to persist, as they don't believe a recession is likely to occur during 2020. Finally, lenders noted that projected synergies from transactions completed in 2016 and 2017 have largely failed to materialize.

With respect to expectations for 2020, like in previous quarters, portfolio health will remain a key focus for lenders. We believe that in-depth underwriting and vigilant portfolio management should be critical components of any direct lender's strategy, regardless of where we are in the economic or credit cycle. Survey respondents also indicated that they anticipate an uptick in consolidation among direct lenders this year, including BDCs. This highlights a theme we have frequently commented on, namely that the middle market is large and diverse, and lenders active in that part of the market are similarly diverse, with varying levels of relevant experience, team sizes, workout expertise, sourcing advantages, sponsor relationships, risk appetite, and portfolio management approaches. While these differences manifest themselves in many fashions today, the most notable is the ability to source transactions and deploy capital. Over time, we believe these differences will also manifest themselves in performance, with experienced, disciplined managers outperforming in the long run.



Middle market CLO issuance surpassed last year's total.



Non-bank lenders continue to gain market share of syndicated middle market issuance.

Trevor Clark
Portfolio Manager

For more information on Middle Market Direct Lending, visit angelogordon.com/strategies/credit/middle-market-direct-lending/

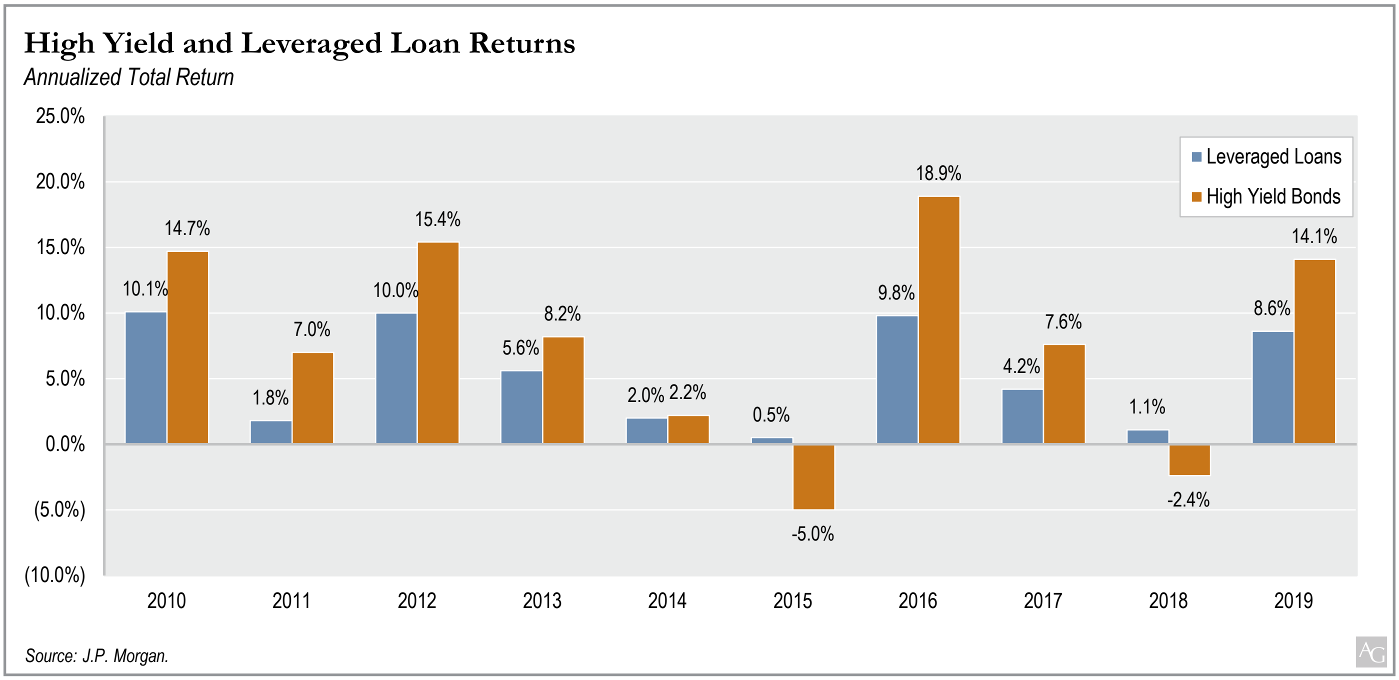
Liquid Credit

High yield closed 2019 with a strong December, as sentiment received a boost from the pending phase one China trade deal and spreads tightened 54 basis points to close the year at 372 basis points. High yield ended December at a 5.4% yield to worst – below 5.5% for the first time since October 2017, but above the record low of 4.8% from June 2014. Overall, high yield returned 2.1% in December and 2.6% for the fourth quarter, as CCC-rated bonds meaningfully outperformed B-rated and BB-rated bonds after the spread between CCCs and BBs had widened meaningfully through the year. 2019's 14.1% total return marked high yield's fourth-best total annual return since the global financial crisis. High yield new issue activity totaled $287 billion for 2019 or $93 billion excluding refinancing activity – up 52% and 28% year-over-year, respectively. After starting 2019 at 530 basis points, the B/CCC spread closed the year at 638 basis points.

Investment grade markets had a strong quarter, as spreads closed 25 basis points tighter, driving roughly half of the total spread tightening in 2019. Investment grade spreads tightened 53 basis points in 2019, the most since 2012, leading to a total return of 14.0% – the second-best annual performance since the over 18.5% return in 2009. BBB bond spreads ended the year at 125 basis points, with the BBB/BB spread closing at 74 basis points at year-end, as compared to 158 basis points on January 1, 2020.

High yield energy outperformed the broader high yield index by 30 basis points. BB and B energy outperformed CCC energy by 2x, as passive money managers continued to gravitate towards large and liquid issuers with good balance sheets. In exploration and production (E&P), Chesapeake Energy launched a set of liability management transactions that were well-received by the market and should lay the groundwork for other stressed issuers to pursue similar strategies.

Metals & mining performed well in the fourth quarter, as the market and underlying commodities rallied. In single names, Cleveland-Cliffs made an all-stock offer for AK Steel in early December, as the company sought to consolidate the U.S. steel sector and vertically integrate into a key customer. Industrials also performed well, with sub-sectors trading particularly well in December. The broader healthcare sector – heavy with CCC-rated issuers – was the best performing sector for the fourth quarter. Highly levered issuers with opioid-related liabilities rallied sharply on continued optimism around a global settlement, while hospitals and other healthcare services rallied as legislative risk and Medicare for All fears subsided. The telecom & media sector was among the worst performers, as it was generally dominated by higher-quality, lower-yielding large issuers – such as T-Mobile, Charter, and Netflix – that were already trading very tight, and therefore underperformed the risk-on rally during the quarter. The most notable underperformer was Intelsat, which saw a sharp decline due to an unexpected change in the regulatory path to free up excess wireless spectrum assets.



High yield and leveraged loans annual total returns post-global financial crisis.

Liquid Credit *(continued)*

J.P. Morgan U.S. Liquid Index
Spreads vs. Yields

	Spreads				Yields			
	Current	Δ Dec '19	Δ 4Q '19	Δ 2019	Current	Δ Dec '19	Δ 4Q '19	Δ 2019
JULI Overall	127	-14	-25	-53	3.28	0	-4	-129
Financials (ex EM)	106	-12	-26	-65	2.98	-1	-8	-142
Non-Financials (ex EM)	129	-14	-25	-49	3.33	1	-3	-125
CDX.IG	45	-5	-14	-56	-			-
CDX.HY	277	-22	-45	-152	-			-

Source: J.P. Morgan.

There has been significant yield and spread compression in liquid credit in 2019.

J.P. Morgan U.S. Liquid Index
Total vs. Excess Returns

	Total Return			Excess Return		
	Dec '19	Q4 '19	2019	Dec '19	Q4 '19	2019
JULI Overall	0.28%	1.14%	14.04%	1.07%	2.29%	6.05%
Financials (ex EM)	0.30%	1.25%	12.43%	0.76%	1.93%	5.65%
Non-Financials (ex EM)	0.24%	1.09%	15.01%	1.22%	2.53%	6.26%
CDX.IG	0.27%	0.84%	3.38%		-	-
CDX.HY	1.33%	2.95%	10.63%		-	-

Source: J.P. Morgan.

There has been significant yield and spread compression in liquid credit in 2019.

R Christian Wyatt
Head of Multi-Strategy Research

For more information on Liquid Credit, visit angelogordon.com/team/investment/liquid-credit/

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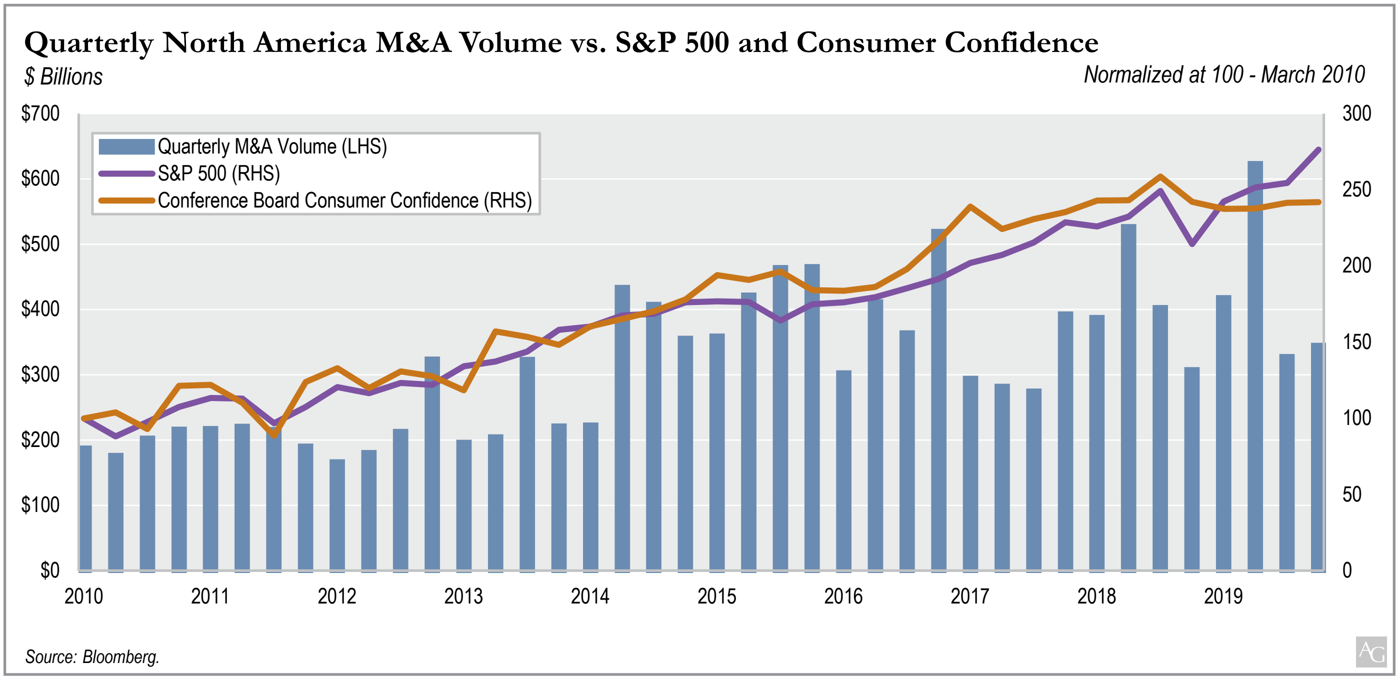
Merger Arbitrage

2019 finished as the fourth-best year ever for the global M&A market, falling only 4% shy of 2018's total. In the U.S., mega-deals – particularly in the first half of 2019 – helped propel the year to a 17% year-over-year increase in deal value. In many ways, 2019 felt like a repeat of the prior year – first half M&A was very robust, with nine of the ten largest deals of the year announced during that period; the third quarter saw a slowdown; and M&A activity rebounded in the fourth quarter, as deal value increased both sequentially and year-over-year.

The fourth quarter was the strongest of the year for merger arbitrage investors. The quarter saw Bristol-Myers Squibb close its acquisition of Celgene Corporation, and the Allergan Plc/AbbVie arbitrage spread tightened significantly on the heels of positive deal progress. As mentioned above, the quarter saw a flurry of deal activity, highlighted by the announcements of Charles Schwab Corporation's agreement to acquire TD Ameritrade and LVMH's agreement to purchase Tiffany & Co. Overall, spreads tightened during the quarter, as market volatility remained low, equity markets continued to rise, and – for the most part – the new deals announced during the quarter were mid-sized and carried potential overbid expectations by investors.

Disruptive technologies' impact on industries has been a theme mentioned in our past commentary, and the pending 5G revolution will continue the trend of driving CEOs to look beyond their current market for acquisition targets. Companies will continue to feel pressure from shareholders, as a record 147 investors launched campaigns in 2019 – 43 of whom saw it has their first activist campaign. A record 99 of these campaigns were M&A related. Furthermore, credit market conditions continue to be supportive, and economic growth appears to have stabilized with some help from the U.S. Federal Reserve. With the U.S.-China trade dispute heading towards a phase one resolution, President Trump's desire to start phase two talks, and Brexit looking more certain with Boris Johnson's historic win, some of the uncertainty that has caused many companies to remain on the sidelines could dissipate in 2020. Opportunity lies in the fact that while M&A deal value has been robust the past few years, the number of deals announced has declined. A subset of this is cross-border M&A into the U.S., which – although improved year-over-year – remains well below the historical average. The U.S.-China trade dispute has been the main culprit in slowing not only cross-border M&A, but also deals that require a U.S. company to gain Chinese antitrust approval. Time will tell if the phase one trade deal alleviates that consternation. Collectively, these factors suggest that the current M&A cycle will continue into 2020.



U.S. M&A volumes slowed towards the end of 2019 but still performed well.

Dave Kamin
Co-Portfolio Manager

For more information on Merger Arbitrage, visit angelogordon.com/strategies/multi-strategy/arbitrage/merger-arbitrage/

Convertible Arbitrage

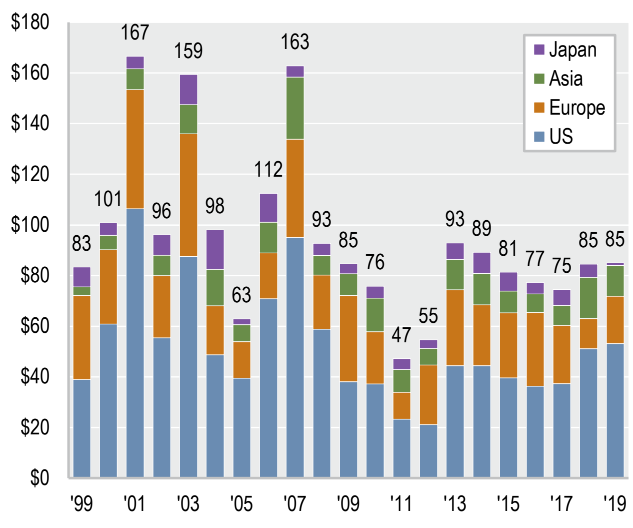
Most risk assets performed very well in the final quarter of 2019. Global equities, as measured by the MSCI World Index, returned 7.11% in local currency terms, taking the annual gain to 24.86%. Combined with supportive credit markets, this led to strong returns for convertibles on a long-only basis, with the ICE BofA Global 300 Convertible Index rising 3.89% in the fourth quarter and 13.74% in full year 2019. Hedged convertible strategies benefited as well, as valuations rebounded from the modest correction seen following the heavy primary market activity in the third quarter. The HFRX Relative Value Fixed Income Convertible Arbitrage Index added 2.19% in the fourth quarter and 5.52% in full year 2019.

Convertible new issuance slowed slightly following the very strong third quarter. However, the $14.2 billion of supply in the fourth quarter brought annual deal volume to $85 billion, surpassing 2018's $84.6 billion. The U.S. primary market continued to be the most active, with $8.7 billion of new convertibles priced in the fourth quarter and $53.1 billion priced in full year 2019. The U.S. was followed by Europe – with $2.7 billion in the fourth quarter and $18.8 billion for the full year – and Asia, excluding Japan, with $2.2 billion in the fourth quarter and $12.1 billion for the full year. New issuance in Japan was negligible throughout 2019. With high equity markets, tight credit spreads, and upside risk to rates, we believe the case for an active primary market remains intact entering 2020.

Convertible bond valuations are still stretched in large parts of the asset class given its unabated popularity among long-only investors. However, competition in convertible arbitrage strategies declined during 2019, and our opportunistic approach to capital deployment is well-suited to the environment we find ourselves in today. Equity markets have recorded new highs and credit spreads reached new tights, as several downside risks – including escalating trade wars and a hard Brexit – have so far been avoided. Geopolitical concerns, however, appear to be on the rise. Against this backdrop, we continue to identify select opportunities to own volatility and convexity at the right levels for what promises to be an eventful 2020.

Annual Convertible Issuance by Region

$ Billions

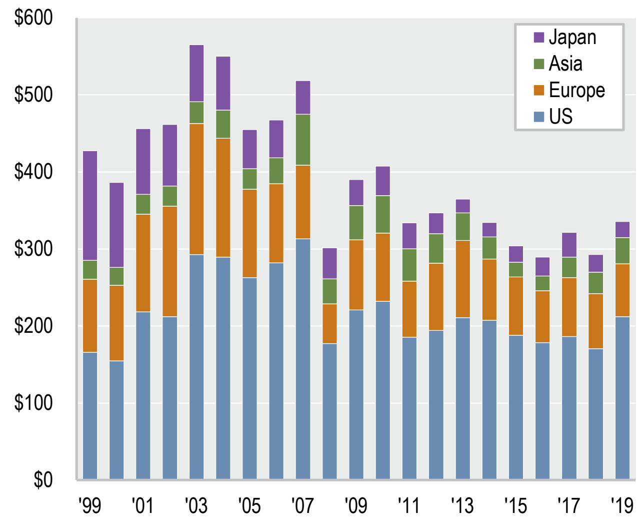


Source: Bank of America Merrill Lynch.

2019 global new issuance matched last year's strong level.

Market Size by Region

$ Billions



Source: Bank of America Merrill Lynch.

The global convertible market cap remains above $300 billion.

Gary Wolf
Portfolio Manager

For more information on Convertible Arbitrage, visit angelogordon.com/strategies/multi-strategy/arbitrage/convertible-arbitrage/

U.S. Real Estate

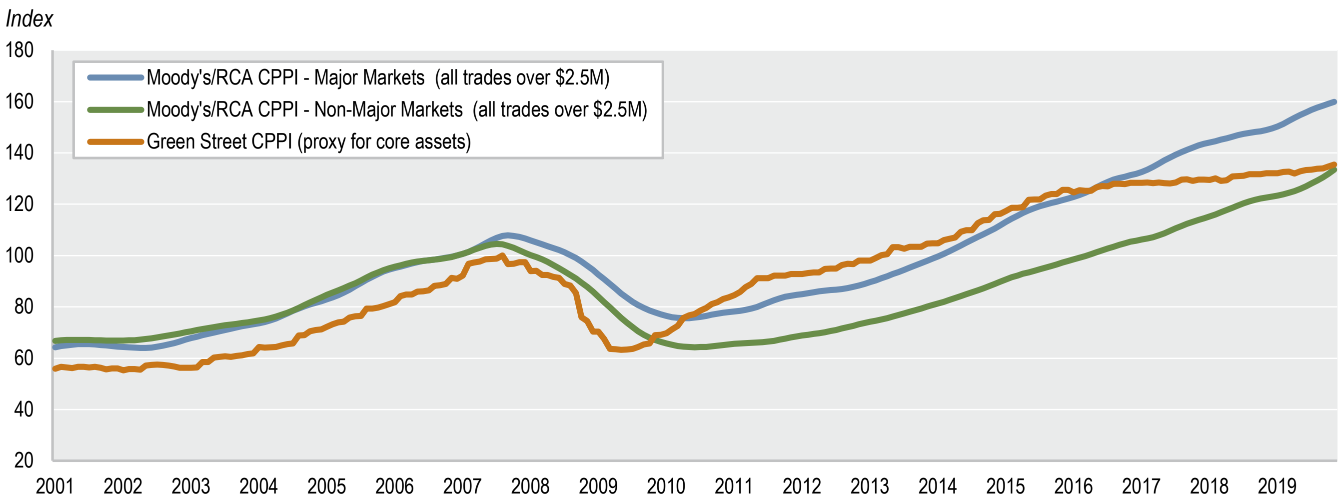
Preliminary numbers for fourth quarter and full-year 2019 commercial property transactions were lower year-over-year – lagging by 7% and 2%, respectively – primarily due to reduced entity-level and portfolio sales. Entity-level transactions faced difficult year-over-year comparisons, as 2018 was the peak year post-financial crisis, and represented only 2% of activity in 2019 – a deviation from the average 8% of volume they have accounted for from 2005 to 2018. The rally in REIT shares in 2019, which reduced net asset value (NAV) discounts to underlying property values, has likely muted much of the motivation for public entity-level deals. Transaction volume fell 11% in the top six major metros, while sales fell a more modest 1% in non-major metros, as defined by RCA.

Fourth quarter sales activity was mixed across the major property sectors, though individual asset sales in all sectors except hotels were higher than a year earlier. Industrial was up 14% year-over-year, as several portfolio deals propelled the sector and individual transactions rose 13%. Apartments remained the leader in dollar volume, but activity grew a more modest 4% year-over-year.

The decline in transaction volume is occurring against a backdrop of investor concern over the absolute length of this economic expansion and ongoing geopolitical uncertainties. The combination of declining deal activity and increasing price suggests that potential buyers and sellers are moving apart on price. However, the Federal Reserve Board has firmly signaled that it is on hold, which continues to be generally supportive for commercial real estate pricing. Fundamentals remain stable across most property types and supply growth – as measured by starts relative to existing inventory – has been declining for over a year, though there continues to be pockets of overbuilding.

On the valuation front, the Green Street Commercial Property Price Index was up 1.1% over the last three months and 2.5% over the trailing 12 months. The usual suspects continue to perform well, with manufactured housing up 16% and industrial up 13% on a trailing 12-month basis. Further separation occurred in retail, with malls losing 11% of value and strip retail increasing 1% over the trailing 12 months. Green Street Advisor's model, which tracks the relative value relationship between real estate and fixed income (investment grade and high yield), pegs real estate at about 8% undervalued. Fair value, however, varies significantly across sectors. Following a weak fourth quarter of 2018, listed real estate equities performed well in 2019 and currently trade at a premium to NAV of 8%, though the core sectors of apartment, industrial, retail, and office are priced at a 6% discount.

Commercial Real Estate Price Indices



Note: For this chart, Green Street CPPI was indexed to 100 at it's 2007 peak (Aug 2007) and Moody's CPPI was indexed at 100 in Dec 2006. Major markets include Boston, Chicago, Washington D.C. Metro, Los Angeles Metro, New York City Metro and San Francisco Metro.
Sources: 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 May '19), Green Street Advisors – Commercial Property Price Index (Green St CPPI); (data through May '19).

Across the major sectors, industrial and apartments have led the way in price growth, while retail continues to lag.

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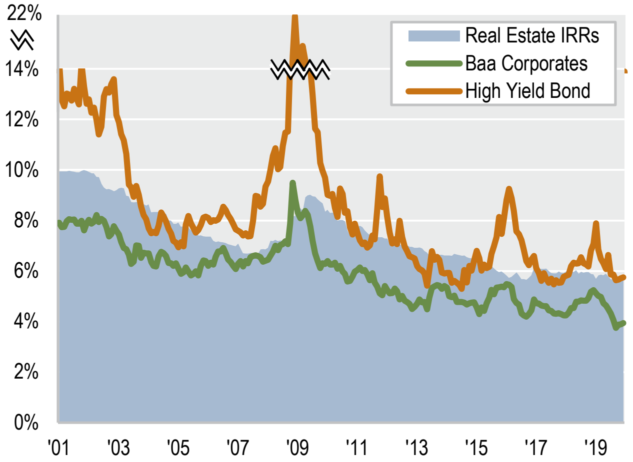
U.S. Real Estate *(continued)*

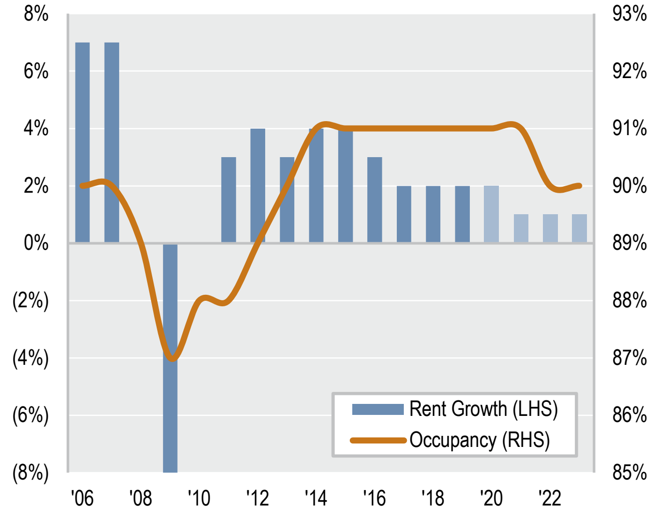
Unlevered Total Return Expectations on Real Estate vs. Corporate Bond Yields



Note: 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 (Jun '19), Moody's (Baa Corporates), BAML (High Yield Bonds).

Unlevered real estate has historically offered a return between investment grade and high yield bonds, and currently appears cheaper on a relative basis versus debt.

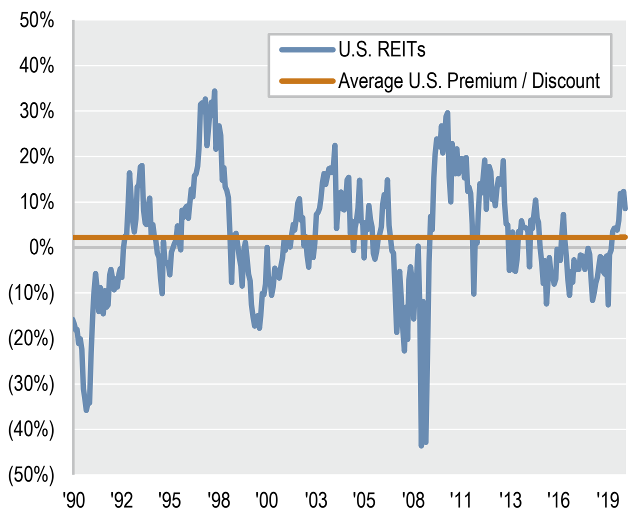
Occupancy and Rent Growth: Major Sector Average



Source: Green Street Advisors.

As new deliveries have ramped up, the pace of rent growth has slowed and occupancy has peaked.

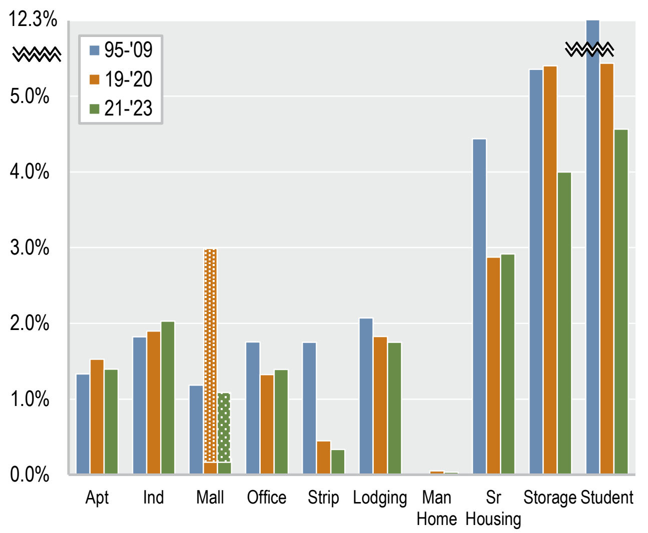
Synchronized Public-Private Pricing Validation



Source: Green Street Advisors.

After a period of sustained discounts to NAV, current premium pricing reflects a return to cycle trend growth and renewed patience as it relates to monetary policy.

Supply by Sector



Note: Shaded area represents new supply from anchor closures. Strip retail faces similar dynamic. Estimates are not shown because impact has not been quantified. Source: Green Street Advisors.

New deliveries are at cycle peak but leveling off, and senior, student, and storage have seen the heaviest new supply as a percentage of existing stock.

Adam Schwartz
Portfolio Manager
Head of Real Estate

Reid Liffmann
Co-Portfolio Manager
U.S. Real Estate

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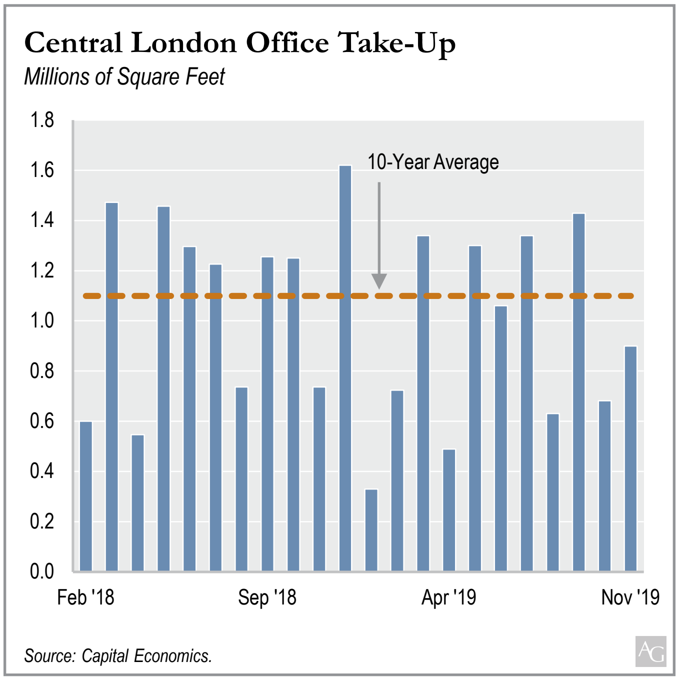
Europe Real Estate

European GDP growth slowed in the fourth quarter of 2019, increasing by a modest 0.1% quarter-over-quarter. German industrial production was down 5.3% year-over-year in October, the steepest year-over-year drop since 2009. The country's vehicle production declined by 14% year-over-year, and the manufacturing PMI remained exceptionally low. The German economy accounts for 30% of the eurozone's GDP, and this economic drag will inevitably have negative consequences for the entire region. In contrast, PMIs in France and Spain suggest healthier economies, with year-over-year expansion expected to be close to 1% in 2020. European banks held an estimated €600 billion of non-performing loan real estate assets at year-end 2019, which is down from the 2014 peak of €1.2 trillion, but is still an extremely high figure.

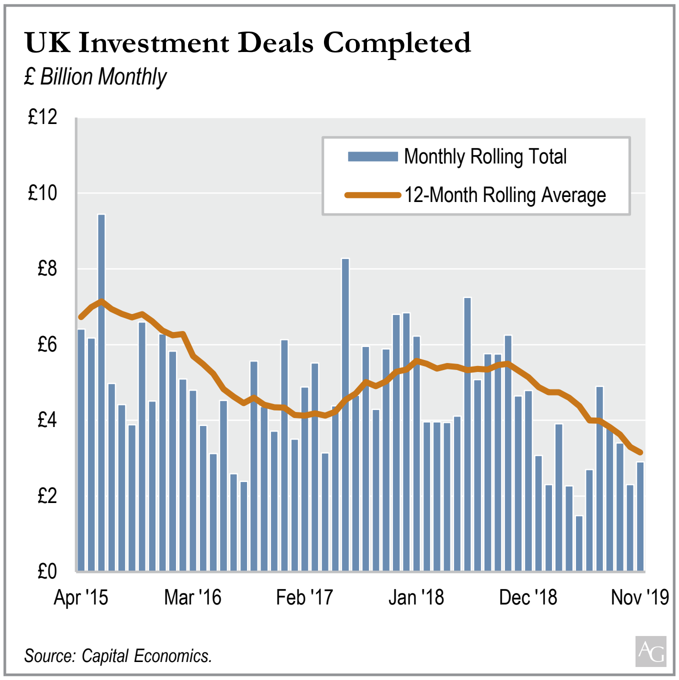
European office leasing is expected to reach 9.2 million square meters for 2019, down slightly from 2018. Average vacancy rates across Europe's central business districts dropped from 6.1% to 5.4% in 2019; however, with real economic recovery nowhere in sight, eurozone office vacancy may have reached its floor. Meanwhile, office completions are expected to reach their highest level since 2009, but in cities such as Berlin, as much as 70% of the new supply is already pre-leased.

As a result of the Brexit deal that was finally passed in December, the UK left the European Union (EU) on January 31st and has entered a status quo transition period that will last until the end of 2020. While the decision brought some answers, the UK's future relationship with the EU still poses many uncertainties. Economic activity in late 2019 was sluggish; the all-sector PMI weakened, and fourth quarter GDP growth remained flat quarter-over-quarter. Annual employment growth remained at 1% as of October 2019, with the unemployment rate unchanged at 3.8%. However, wage growth dropped from 3.7% year-over-year in September to 3.2% in October, the slowest pace since September 2016.

Real estate has not been completely immune to political drama. Investment activity dropped in 2019, with monthly investment value totaling £3 billion in November, nearly 40% less than the same time in 2018. However, office leasing in London held up late in the year, with office vacancy in the City of London dropping to 4.9%, its lowest rate in three years, according to Colliers. Pre-leasing exceeded three million square feet in 2019 – compared to two million square feet in 2018 and more than double the 10-year average – and rental growth in core offices rose 5%.



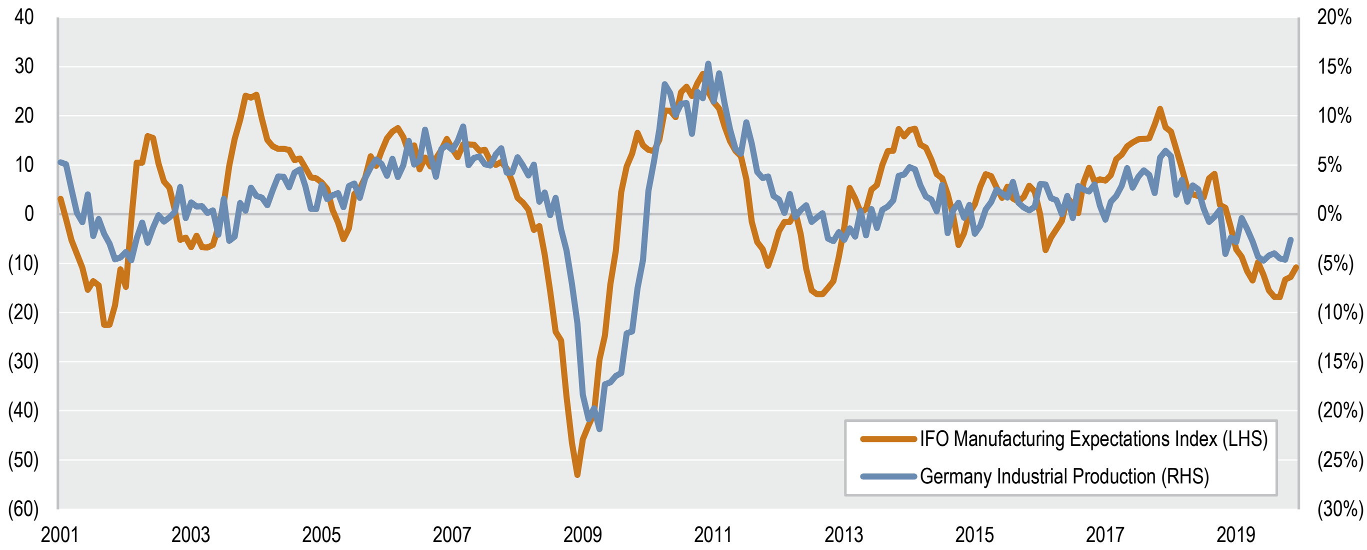
London office leasing has held up despite Brexit disturbance.



Investment sales in the UK have been impacted by Brexit, with November 2019 monthly investment value declining 40% year-over-year.

Europe Real Estate *(continued)*

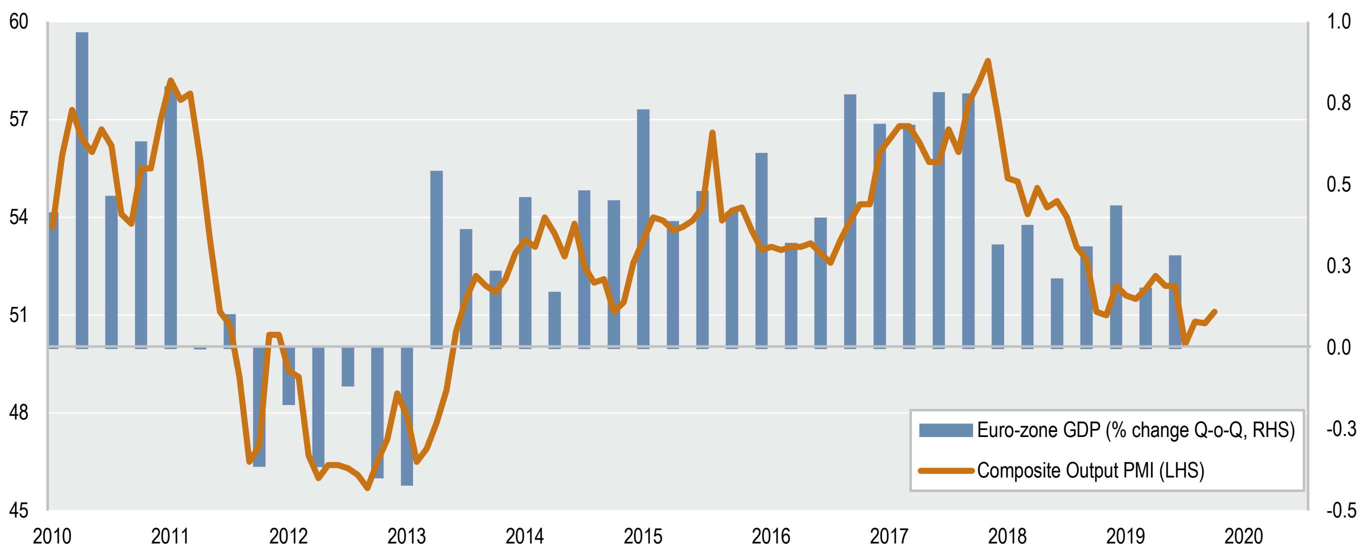
German Industrial Production & IFO Manufacturing Expectations Index



Source: Capital Economics.

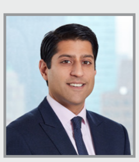
German production continues to decline and sentiment remains low.

Eurozone Composite PMI & GDP



Source: Capital Economics.

Eurozone GDP growth continues to stall and outlook suggests growth will remain slow.



Anuj Mittal
Co-Portfolio Manager
Europe Real Estate

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Asia Real Estate

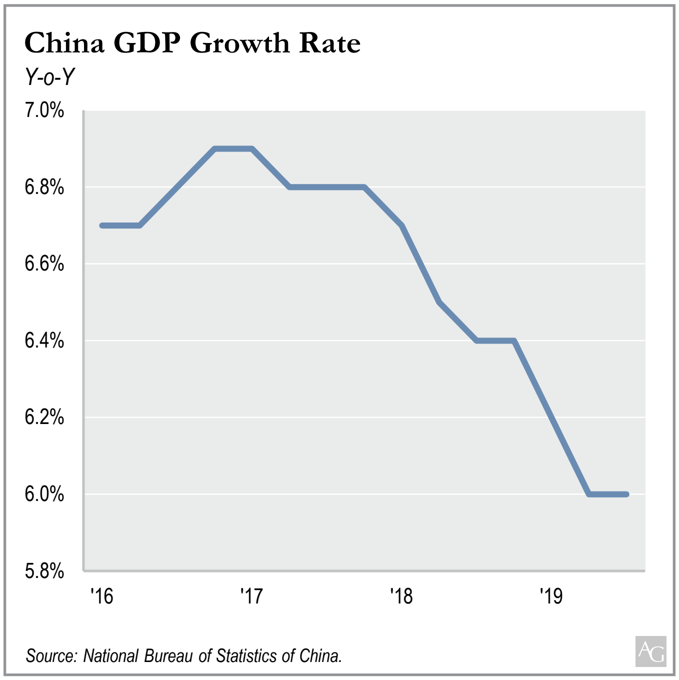
China

In the third quarter of 2019, China's economy grew 6% year-over-year. This was a 0.2% decline from the previous quarter, as U.S-China trade tensions, slowing exports, and industrial output growth continued to weigh on the economy. However, the domestic stimulus program – which includes individual income tax and value-added tax cuts worth RMB 2 trillion as well as local infrastructure investments – has started to benefit the economy. Despite the economic slowdown, China created 10.97 million urban jobs in the first three quarters and met its full-year target for 2019. Monetary policy continued to be accommodative as the People's Bank of China lowered the required reserve ratio for banks in September, marking its third and final reduction of 2019.

On the real estate front, office fundamentals in large Chinese cities continued to be positive, underpinned by relatively high growth in the services and technology sectors. However, trade tensions continued to affect the leasing market, resulting in a softer leasing environment. In the third quarter, Shanghai continued to see subdued demand for office space, as large-size tenants and multinational corporations became more cautious about expansions. In Beijing, the office market remained relatively stable thanks to sustained demand from state-owned enterprises, domestic financial firms, and technology, media, and telecom (TMT) companies. Overall commercial real estate transaction volume in China was RMB 176 billion for the first nine months of 2019, down 8% year-over-year.

Hong Kong

Down 2.9% in the third quarter of 2019, Hong Kong's economy posted negative year-over-year growth for the first time since the global financial crisis, but the unemployment rate edged up to 2.9% from 2.8%. With ongoing trade tensions and escalated social unrest, Hong Kong's property investment market slowed significantly in the third quarter. Residential unit transaction volume fell a dramatic 40.3% quarter-over-quarter. Sellers, however, are relatively well-capitalized and have therefore been unwilling to cut prices. Residential prices dropped 1.8% year-over-year and 4.3% from their historic high in June 2019. Total transaction volume for commercial properties dropped to HK$37.4 billion in the third quarter, a 63.7% year-over-year decline. Office leasing demand continued to soften, as tenants held off on committing to relocations or expansions. Nevertheless, the office market remained tight, with Grade A office vacancy at 2.9% in Central, Hong Kong and 3.8% in Hong Kong overall. Office rents, however, recorded a slight decline of 2.9% quarter-over-quarter in Central and 1.7% quarter-over-quarter across Hong Kong.



China's GDP growth has fallen to 6.0% due to trade tensions but remains in the expected range of 6.0 – 6.5%.

China's currency grew stronger, as the U.S. Treasury Department removed China's "currency manipulator" label.

Asia Real Estate *(continued)*

Japan

In the third quarter of 2019, Japan's real GDP increased by 1.8%, driven by stronger capital investment and private consumption ahead of October's consumption tax increase. Although the consumption tax increase has negatively impacted private consumption, several government support measures have been put in place to limit the overall effect. Additionally, in December, the government announced a new ¥26 trillion ($239 billion) stimulus package – one of the largest in recent history. The package is aimed at supporting growth amid a potential slowdown in the global economy as well as maintaining momentum after the 2020 Tokyo Olympics. Meanwhile, the Bank of Japan has kept its monetary policy unchanged, holding 10-year Japanese government bond yields at 0%.

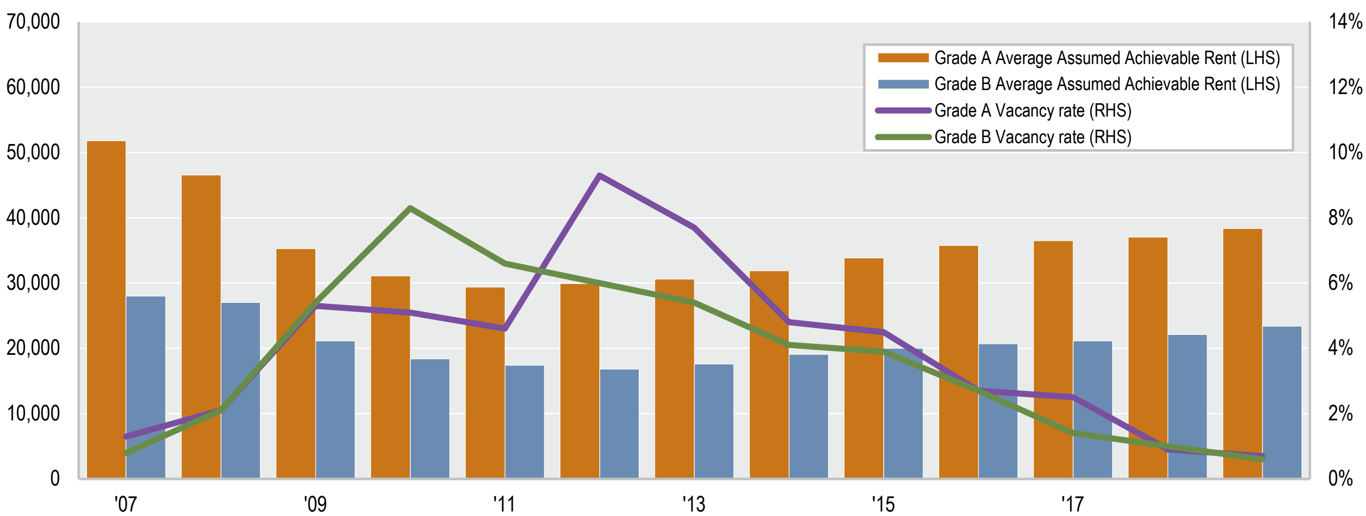
Japan's office market continued to exhibit strong fundamentals, as tenants competed for limited available space. As a result, Tokyo All-Grade office rents rose 5.1% year-over-year. Fundamentals are equally strong in Osaka, where vacancy is below 1% and there is very little new supply until 2021. This trend continued in regional cities, where rents surpassed previous peaks to reach record levels. Much of the strong demand can be attributed to companies upgrading workplaces in order to attract workers in a very tight labor market.

Logistics demand also remained strong, as the third-party logistics (3PL) and e-commerce markets continued to grow. Recent global trade tensions appear to have had an immaterial effect on overall demand. Japanese developers continue to enter the logistics space, and competition for developable sites has pushed up industrial land prices significantly across the country. In the Greater Osaka and Greater Nagoya areas, developers are venturing further from population centers in search of developable land. As rents increase in prime areas, demand is also creeping outward to more affordable sites in less established submarkets. Investor interest in the sector also continues to grow, from both domestic and overseas buyers. While cap rates for assets in prime areas of Greater Tokyo have approached or fallen below 4%, we have started to see high-grade facilities in less-desirable locations trade at similar cap rate levels as buyers chase a limited number of investment opportunities.

As several large transactions close in the fourth quarter of 2019, overall investment volume is expected to increase year-over-year. Notably, investment volumes in regional cities continue to increase as a share of total transactions, with 51% of Japanese REIT ("J-REIT") purchases taking place in regional cities in the third quarter. With banks continuing to demonstrate an appetite for real estate lending, transaction volume is expected to be strong in 2020.

Tokyo's 23 Wards Grade A & B Office Rent And Vacancy

JPY/tsubo/mon



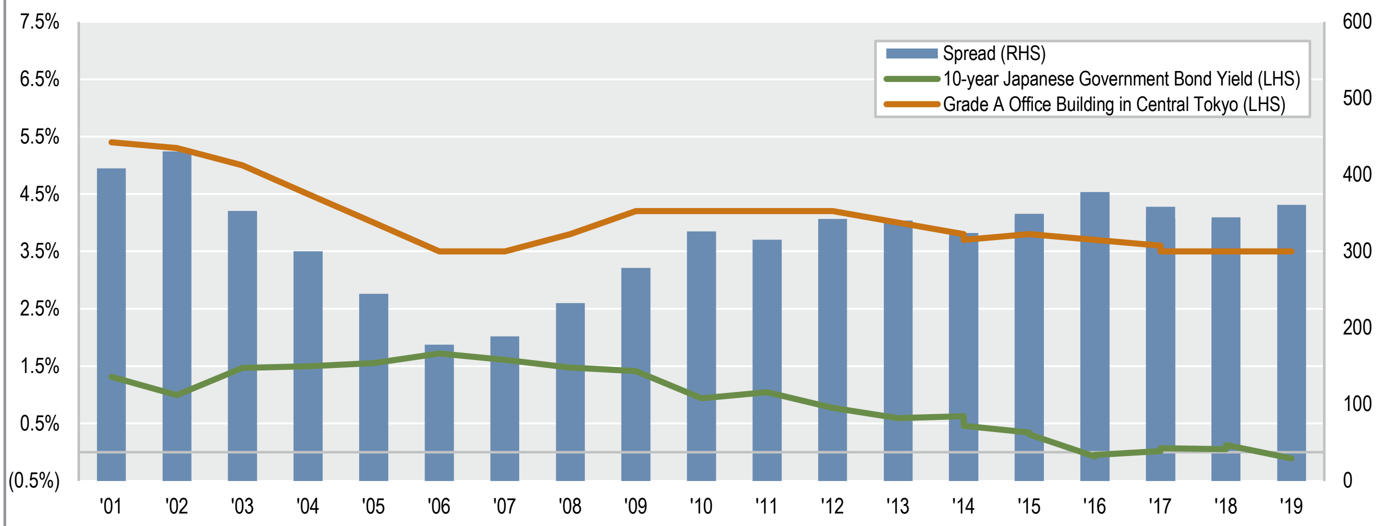
Note: One tsubo is equal to approximately 3.3 square meters.
Source: CBRE (September 2019).

Tokyo office fundamentals show continued strength, with vacancy at nearly 0% and rents rising.

Asia Real Estate *(continued)*

Tokyo Grade A Office Cap Rates vs. Borrowing Costs

bps

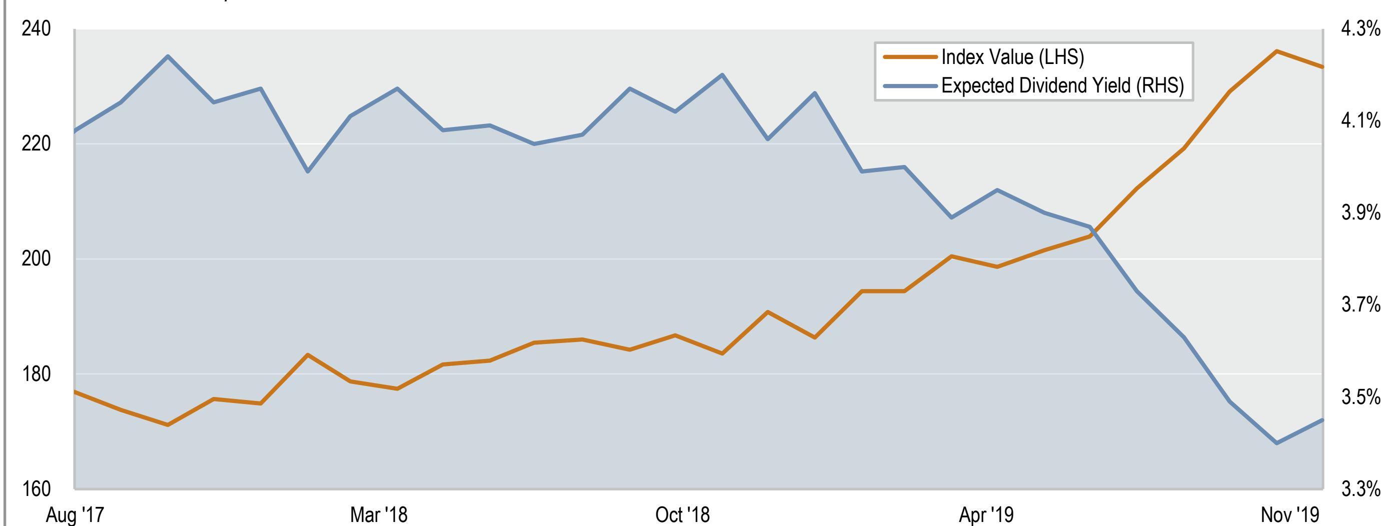


Source: Japan Real Estate Institute.

Cap rate spreads widened by over 10 basis points in the last quarter to 361 basis points.

Japanese Real Estate Investment Trust (J-REIT) Index And Dividend Yield

Normalized at 100 - September 2001



Source: Sumitomo Mitsui Trust Research Institute Co.

The J-REIT index continued to outperform, with yields compressing to 3.45%.

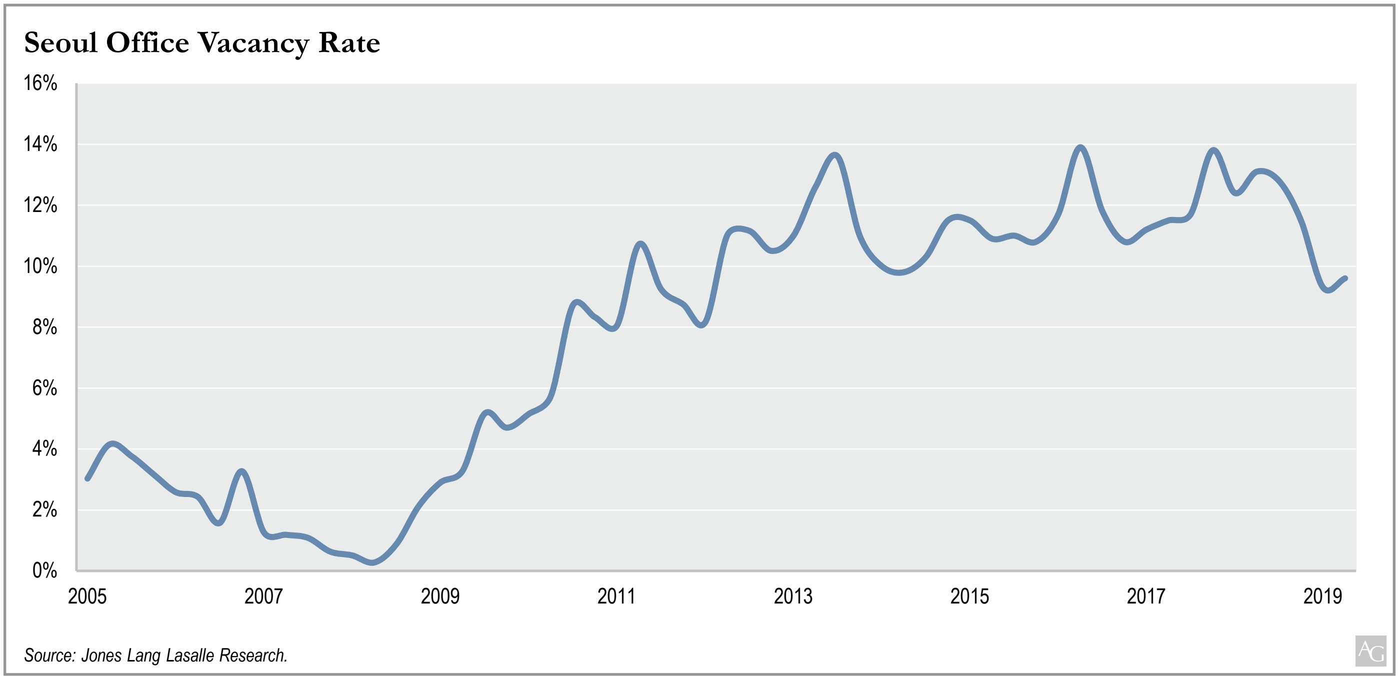
Asia Real Estate *(continued)*

South Korea

In the third quarter of 2019, South Korea's economy grew 0.4% quarter-over-quarter, mainly led by increased government expenditure and exports. The Bank of Korea ("BoK") forecasts that the Korean economy will grow 2.0% in 2019 – an estimate that has been revised downwards three times in 2019 due to economic headwinds. However, the BoK also forecasts that the Korean economy will recover in 2020 and 2021 – growing at 2.3% and 2.4%, respectively – on the back of improved exports and investments. The BoK lowered its benchmark policy rate from 1.50% to 1.25% – a 25-basis point reduction – in October 2019 and continued its monetary easing policy. In addition, the BoK stated that it will maintain its accommodative monetary policy as a means to boost the moderate growth trajectory of the Korean economy.

On the real estate front, the spread between prime office cap rates and Korean government bond yields (i.e. 5-year treasury bond) widened approximately 40 basis points to 330 basis points, which is above the 10-year average of approximately 240 basis points. Investment activity in the commercial office sector remains robust. Transaction volume through the end of the third quarter of 2019 was $8 billion, which exceeded that of the same period last year, when commercial office transactions reached a record high of $10 billion for the full year. We continue to expect strong demand for stabilized core properties as Korean institutions ramp up their investment portfolios with yield-generating real assets.

The prime office vacancy rate in the major business districts in Seoul was 9.6% in the third quarter, representing only a slight change from the previous quarter, when vacancy dropped to the lowest level in seven years at 9.3%. There is strong tenant demand for vacant space in the three major business districts, which is driven by expansionary and relocation demand. The residential market in Seoul has slowed moderately, with Seoul apartment prices rising 2.9% year-over-year as of December 2019. The current government has implemented new policy measures aimed at curbing speculative investments in the residential sector, including tighter regulations on mortgage lending. Although publicly traded REITs in Korea are still in nascent stages, the market is witnessing tremendous demand for them, as evidenced by the unprecedented competition for the public offering of Lotte REIT. Lotte REIT's shares were oversubscribed 318:1. The emergence and growth of a public REIT market in Korea could provide even greater liquidity in the core space.



Seoul office vacancy remained high as new supply weighs on the market.

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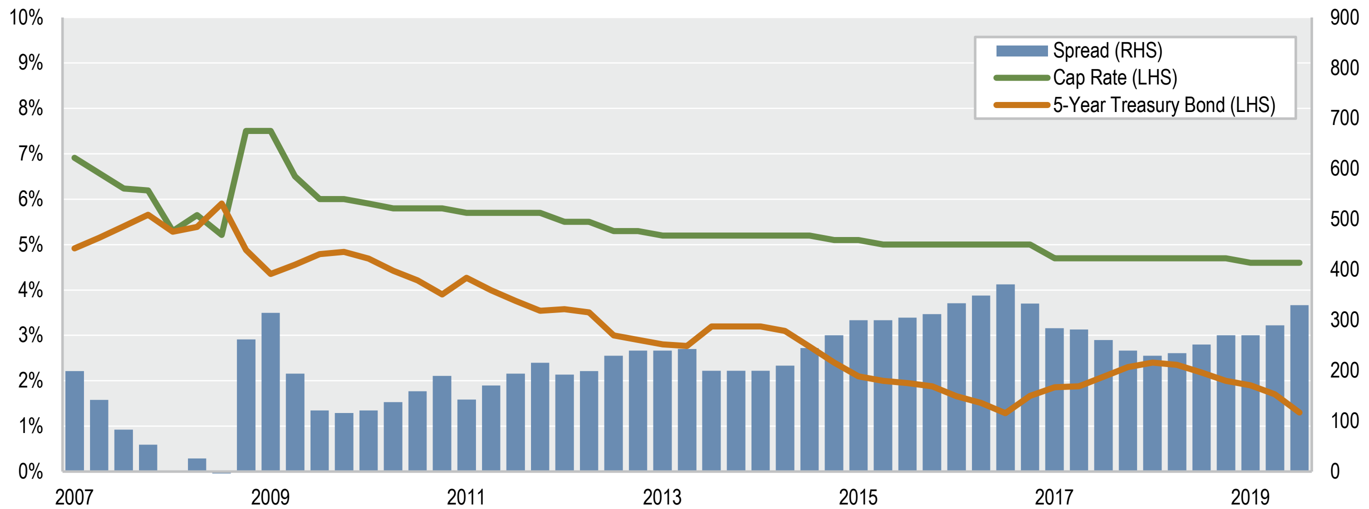
Asia Real Estate *(continued)*

Seoul Prime Office Cap Rate and Spread Over 5-Year Treasury Yield

bps

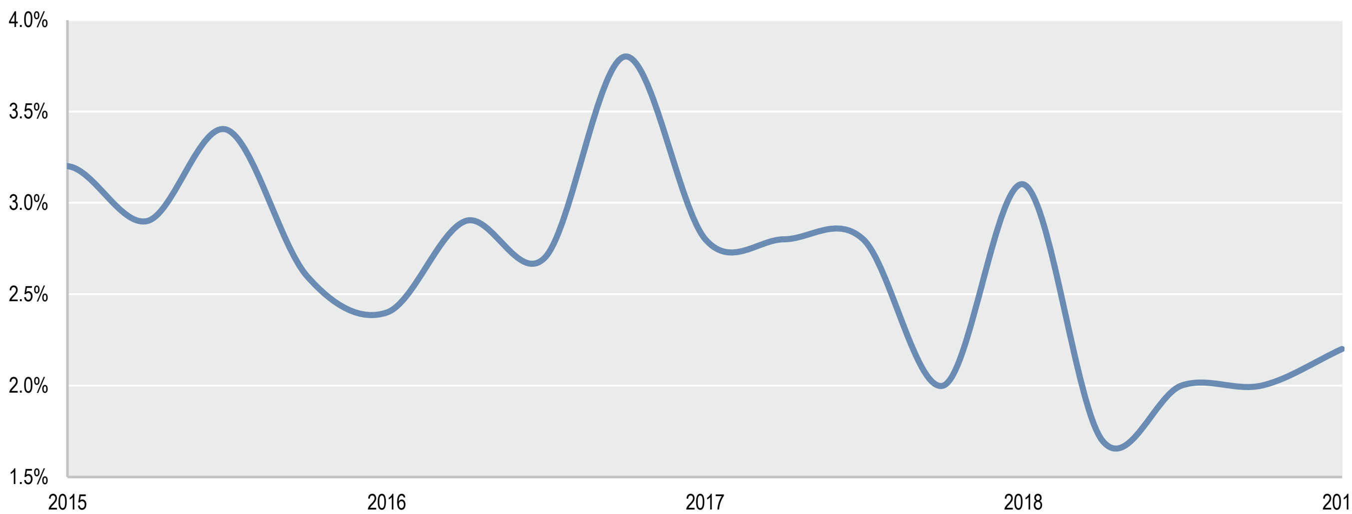


Note: 5-year treasury is average for quarter.
Source: Savills Research.

Cap rate spreads widened as Korean treasury yields declined.

Korea GDP Growth

Y-o-Y



Source: Bank of Korea.

GDP growth remains sluggish as trade tensions rise and global export demand falls.

Wilson Leung
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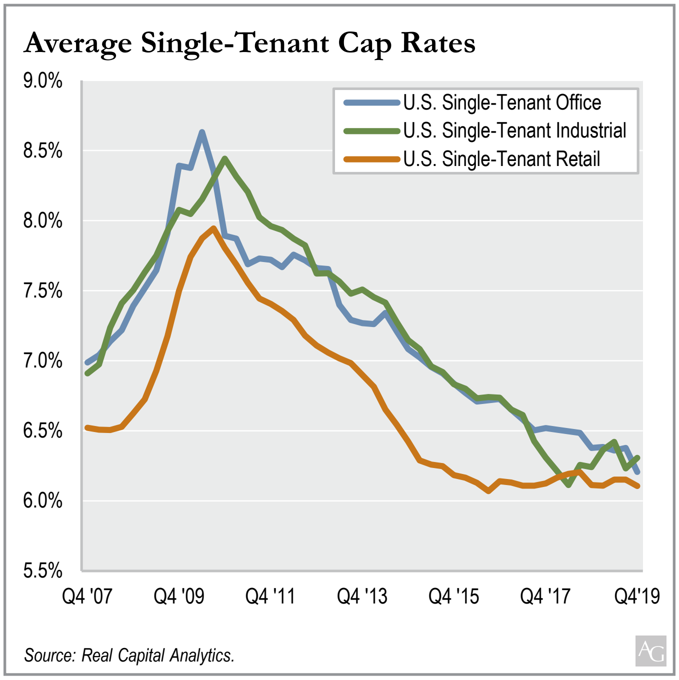
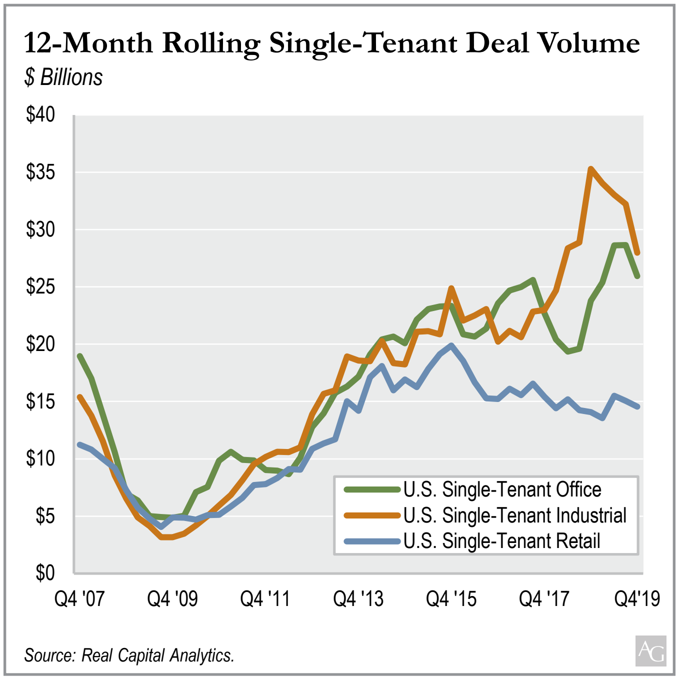
For more information on Asia Real Estate, visit angelogordon.com/strategies/real-estate/asia-real-estate/

Net Lease Real Estate

As of the fourth quarter of 2019, the trailing 12-month U.S. single-tenant transaction volume totaled $68 billion, according to Real Capital Analytics (RCA). After steady growth for most of 2019, with total volume reaching a high of $81 billion in the third quarter, volume declined by 16% in the fourth quarter. This decline in volume could be due to a variety of factors, including timing or a movement in interest rates, with the 10-year Treasury rate bouncing off lows late in the third quarter. In 2018 and 2019, there were a number of large real estate transactions closed or announced, some of which included single-tenant or industrial assets. A few examples include Prologis and Liberty Property Trust's agreement to merge in a $12.6 billion transaction, Prologis's acquisition of Industrial Property Trust (IPT) for $4.0 billion, and Blackstone's agreement to buy Colony Capital's industrial portfolio and operating platform for $5.7 billion, according to JLL. While single-tenant cap rates continued to compress in the fourth quarter of 2019, the overall rate of compression has slowed over the last few years. From the first quarter of 2012 to the fourth quarter of 2015, cap rates compressed 15%, versus only 4% over the comparable period from the first quarter of 2016 to the fourth quarter of 2019. While cap rates across all real estate assets have shown signs of stability at lower levels, the spread to Treasuries is 430 basis points, which is fairly consistent with the 20-year average of 400 basis points, according to Goldman Sachs.



Cap rates have remained fairly steady since 2016.



After growing substantially for most of 2019, single-tenant volume slowed in the fourth quarter.

Gordon Whiting
Portfolio Manager

For more information on Net Lease Real Estate, visit angelogordon.com/strategies/real-estate/net-lease-re/

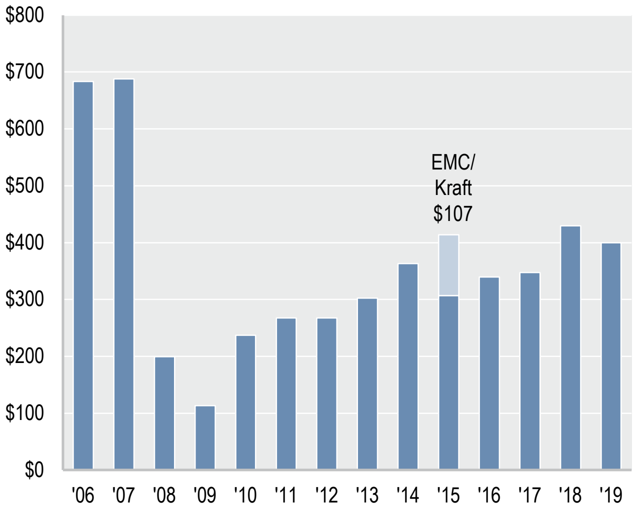
Private Equity

In comparison to 2018, private equity activity was modestly weaker in 2019, with the notable exceptions of multiples paid and dry powder – both of which set all-time records. In 2019, deal volume on both a global and North American basis decreased year-over-year. In North America, there were $214 billion of transactions in 2019, as compared to $238 billion from the prior year – a year-over-year decrease of 10%. Global deal volume in 2019 decreased 7% year-over-year to $400 billion. Dry powder at December 31st stood at a record $759 billion – an increase of 5% from September 30th and a 9% increase year-over-year. The strong fourth quarter reversed the trend seen in the third quarter, when dry powder declined quarter-over-quarter. Interestingly, there has not been a multi-quarter decline in dry powder for well over five years and, as we saw in the fourth quarter, the upward trajectory now continues. As previously stated, average multiples paid in 2019 were quite strong at a record 11.5x EBITDA, higher than the 10.6x achieved in calendar 2018 and the prior record of 10.7x set in calendar 2017. Average leverage for buyouts in 2019 was 5.9x multiple of EBITDA, which is consistent with the 5.8x we have seen over the past several years. Due to the higher transaction multiples paid, 2019 equity contribution as a percentage of total capitalization was at 46%, which ties the all-time record set in calendar 2019. The combination of lower deal volume and a high level of dry powder is a driving factor behind increased deal multiples. The trend of lower exits in both volume and dollars continued from prior periods. In 2019, the number of exits decreased approximately 15% year-over-year, with dollar volume decreasing approximately 13%.

As we turn our attention to 2020, we believe the private equity industry should remain resilient as long as the economy stays reasonably strong and there are few exogenous factors interfering with growth. The increasing supply of dry powder combined with stagnant demand should translate into a high floor for multiples paid.

Global LBO Deal Value

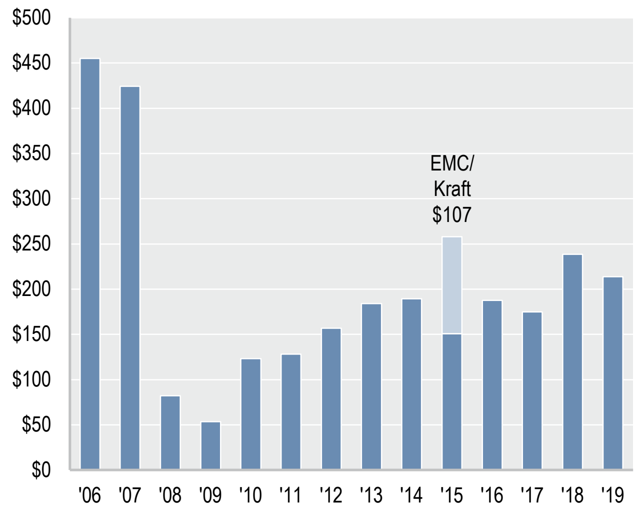
$ Billions



Source: Preqin.

North America LBO Deal Value

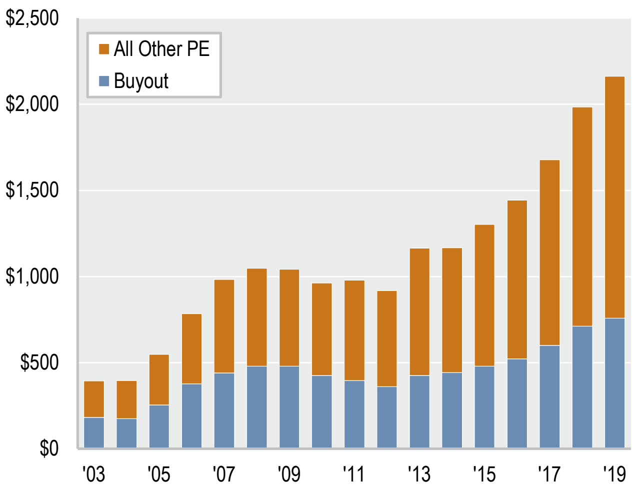
$ Billions



Source: Preqin.

For full year 2019, year-over-year deal volume decreased 10% in North America and 7% globally.

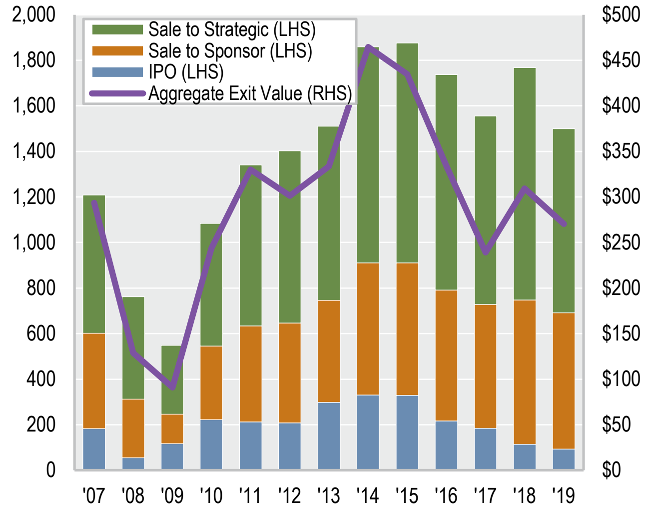
Private Equity *(continued)*



Global Private Equity Dry Powder
$ Billions

Note: All other PE Funds = Real Estate, Venture, Infrastructure, Growth, Distressed, Mezzanine, Other.
Source: Preqin.

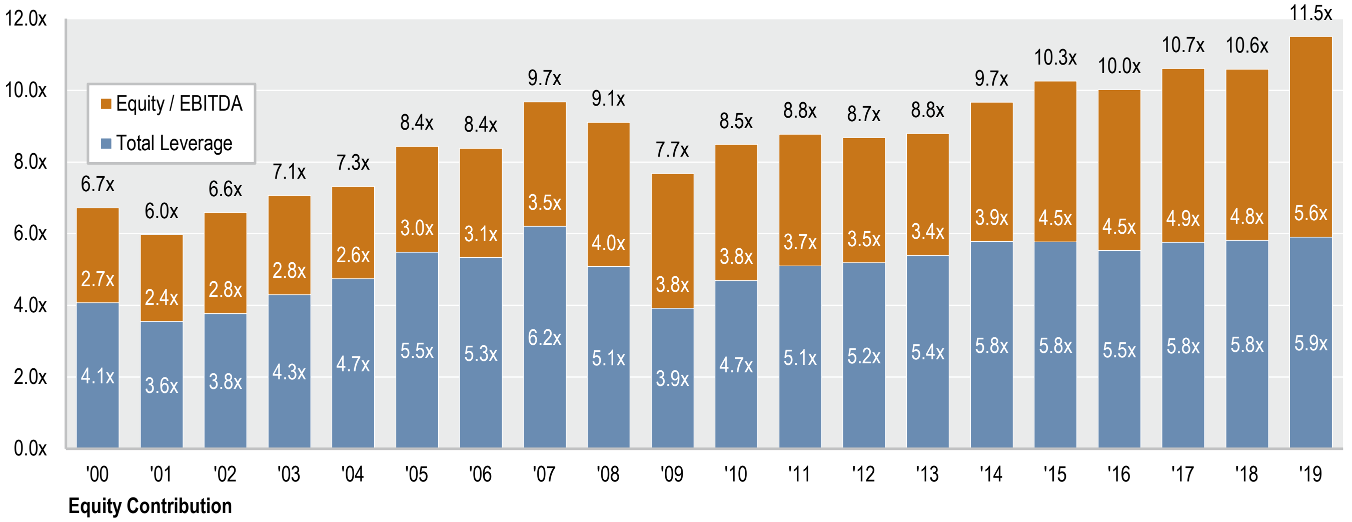
Buyout dry powder at December 31, 2019 stood at a record $759 billion – a 9% increase from 2018.



Private Equity Exits
Number of Exits *Value of Exits ($ Billions)*

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

2019 exits were weaker year-over-year, with the number of exits decreasing 15% and dollar volume down 13%.



LBO Purchase Price Breakdown

Equity Contribution

34%	35%	37%	35%	33%	30%	31%	31%	39%	46%	41%	38%	38%	36%	37%	40%	41%	41%	43%	46%

Source: S&P Capital IQ LCD.

LBO multiples in 2019 set a year-end record of 11.5x, eclipsing the prior mark of 10.7x recorded in calendar 2017.

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For more information on Private Equity, visit angelogordon.com/strategies/real-estate/global-real-estate/

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