ANGELO GORDON

CAPITAL MARKETS PERSPECTIVES

SECOND 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 $35 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

The first quarter of 2020 will likely be characterized as one of the most challenging and volatile market periods that many investors have ever experienced, and certainly the most dramatic since the onset of the global financial crisis. Uncertainty around the global spread of COVID-19, in combination with oil pricing/production tensions between Saudi Arabia and Russia, led to sharp declines across risk assets worldwide. Major equity indices generally fell 20% or more during the quarter, while non-investment grade loan and bond indices ended with percentage losses in the mid-teens in both the U.S. and Europe. The frequency, magnitude, and velocity of the market swings were notable, with several of the largest daily price movements on record occurring in the month of March.

Not surprisingly, these dynamics—coupled with widespread work from home orders in major centers globally—created significant and unprecedented challenges for a number of credit strategies. The corporate loan and high yield markets fell precipitously in March, with U.S. high yield bonds experiencing their second-largest monthly decline ever behind October 2008. In structured credit, technical market factors created severe liquidity disruptions; for example, a sudden volume of redemptions from ETFs and 40 Act mutual funds led to indiscriminate selling in higher-quality tranches by investors needing immediate liquidity. Oil was particularly hard hit, with WTI declining 66.5% in the first quarter, as demand destruction due to the pandemic outweighed coordinated production cuts. Convertible bond and arbitrage indexes traded down, and convertible primary market activity slowed in the face of increased volatility. In the private debt space, origination volume dropped sharply in March, as both lenders and sponsors focused on managing their existing portfolios through unchartered waters. Although central bank intervention and government stimulus programs provided some relief near quarter-end, we expect that market volatility will remain elevated and challenges across the credit landscape will persist, as there continues to be significant uncertainty around the course of this pandemic, the duration of the economic slowdown it has caused, and the shape and timing of recovery.

With millions of jobs lost and the way people shop, travel, work, and play massively impacted, real estate will also undoubtedly see significant challenges globally in 2020. The extent of these challenges will depend largely on the duration of the COVID-19-related lockdown measures in place around the world. The longer the lockdown, the greater the job losses, and the more financial damage inflicted on corporations and individuals, the longer and harder the recovery will be.

April has been a month for the real estate industry to focus on rent collections and how to manage potential loan defaults. Across sectors, the percentage of rent received was in the high 80s to low 90s on average, with the exception of retail, where it was much lower. Loan defaults will begin to increase accordingly.

Capital markets activity—across both debt and equity—has plummeted, causing a lack of transparency on asset values as the impact of COVID-19 on real estate fundamentals and investor risk premiums is still unknown. The limited transactions taking place are reportedly seeing 5-15% price declines as a result of the uncertainty. This is largely consistent with the value declines witnessed in public REIT markets globally, which saw significant declines to a trough in late March and subsequent recoveries—ending the quarter with net declines of around 20% from the prior peak earlier in the first quarter. Significant variation exists between asset classes, with data center, industrial, and self-storage down the least, retail and lodging down the most, and office and apartments in the middle.

With travel restrictions in place, physical assets will remain hard to utilize, buy, sell, or finance. Therefore, we will not witness the real impact of COVID-19 until such restrictions are eased. Longer term, we expect a slow recovery back to prior usage and valuation levels, with questions remaining on any enduring pattern changes in how tenants use real estate. Industrial and manufacturing should see the quickest recovery, and consumption will follow, though may be challenged by corporates' and individuals' compromised balance sheets. Leisure and travel will likely be last to recover. Apartments will remain well occupied, as people always need places to live, but tenants' financial strength will become increasingly challenged as the pandemic-related shutdowns persist.

Europe has begun to ease restrictions, while Asia is in various phases, with China being the earliest country to experience COVID-19 and results consistent with the reopening patterns described above.

Through these challenging and unprecedented times, we hope that you, your families, and your colleagues have stayed and will remain healthy and safe.

Michael Gordon
Chief Executive Officer, Co-Chief Investment Officer

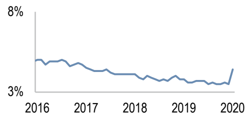
Josh Baumgarten
Co-Chief Investment Officer, Head of Credit

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

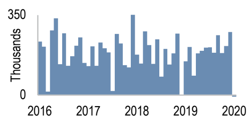
Economic Dashboard & Market Indices

JOB MARKET
Five-Year Trend

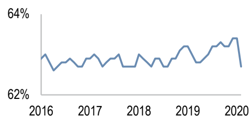
U.S. – Unemployment Rate	*As of 3/31/2020*
Latest Level	4.4
Change from Prior Period	▲ 0.9
Frequency	Monthly



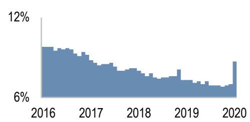
U.S. – Non-Farm Payroll	*As of 3/31/2020*
Latest Level	(701.0)
Change from Prior Period	▼ (976.0)
Frequency	Monthly



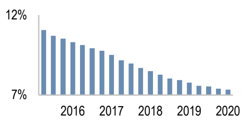
U.S. – Labor Participation Rate	*As of 3/31/2020*
Latest Level	62.7
Change from Prior Period	▼ (0.7)
Frequency	Monthly



U.S. – U-6 Unemployed & Margin & Part-Time as Percent of Labor Force & Margin	*As of 3/31/2020*
Latest Level	8.7
Change from Prior Period	▲ 1.7
Frequency	Monthly

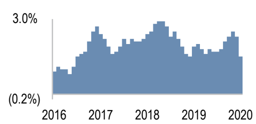


Eurozone Unemployment Rate	*As of 3/31/2020*
Latest Level	7.3
Change from Prior Period	▼ (0.1)
Frequency	Quarterly

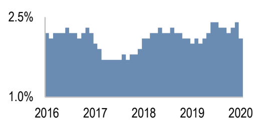


INFLATION
Five-Year Trend

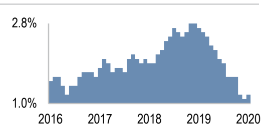
U.S. Consumer Price Index (CPI) Y-o-Y (%)	*As of 3/31/2020*
Latest Level	1.5
Change from Prior Period	▼ (0.8)
Frequency	Monthly



U.S. CPI Goods Less Food & Energy Y-o-Y (%)	*As of 3/31/2020*
Latest Level	2.1
Change from Prior Period	▼ (0.3)
Frequency	Monthly

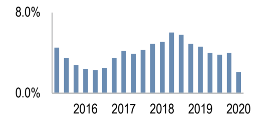


U.S. Producer Price Index (PPI) Y-o-Y (%)	*As of 3/31/2020*
Latest Level	1.2
Change from Prior Period	▲ 0.1
Frequency	Monthly

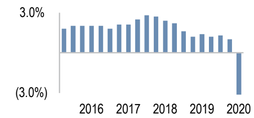


GDP GROWTH
Five-Year Trend

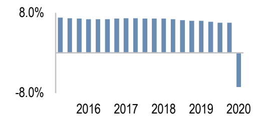
U.S. – GDP Y-o-Y (%)	*As of 3/31/2020*
Latest Level	2.1
Change from Prior Period	▼ (1.9)
Frequency	Quarterly



Eurozone – GDP Y-o-Y (%)	*As of 3/31/2020*
Latest Level	(3.3)
Change from Prior Period	▼ (4.3)
Frequency	Quarterly

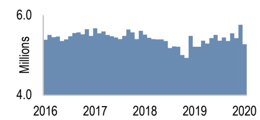


China – GDP Y-o-Y (%)	*As of 3/31/2020*
Latest Level	(6.8)
Change from Prior Period	▼ (12.8)
Frequency	Quarterly

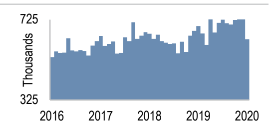


HOUSING
Five-Year Trend

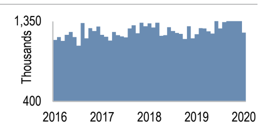
Existing Home Sales	*As of 3/31/2020*
Latest Level	5.3
Change from Prior Period	▼ (0.5)
Frequency	Monthly



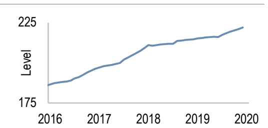
New Home Sales	*As of 3/31/2020*
Latest Level	627.0
Change from Prior Period	▼ (114.0)
Frequency	Monthly



Housing Starts	*As of 3/31/2020*
Latest Level	1,216.0
Change from Prior Period	▼ (348.0)
Frequency	Monthly



Case-Shiller Index of Home Value in 20 Cities	*As of 2/29/2020*
Latest Level	222.0
Change from Prior Period	▲ 1.0
Frequency	Monthly



Source: Bloomberg (All).

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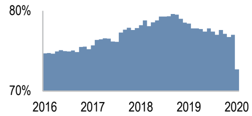
Economic Dashboard & Market Indices *(continued)*

ECONOMIC & MARKET CONFIDENCE
Five-Year Trend

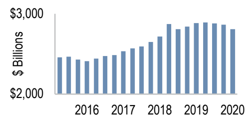
Capacity Utilization as a Percent of Capacity
As of 3/31/2020

Latest Level	72.7
Change from Prior Period	▼ (4.2)
Frequency	Monthly



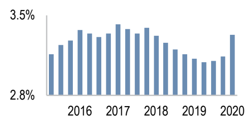
Private Fixed Investment Nonresidential SAAR
As of 3/31/2020

Latest Level	2,806.8
Change from Prior Period	▼ (55.7)
Frequency	Quarterly



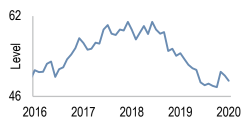
Residential Fixed Investment as a Percent of GDP
As of 3/31/2020

Latest Level	3.3
Change from Prior Period	▲ 0.2
Frequency	Quarterly



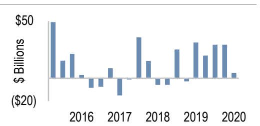
ISM Manufacturing Index
As of 3/31/2020

Latest Level	49.1
Change from Prior Period	▼ (1.0)
Frequency	Monthly



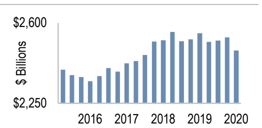
Manufacturing Inventory Change Q-o-Q ($)
As of 3/31/2020

Latest Level	4.4
Change from Prior Period	▼ (24.8)
Frequency	Quarterly



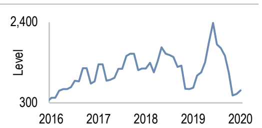
Exports of Goods/Services
As of 3/31/2020

Latest Level	2,480
Change from Prior Period	▼ (57)
Frequency	Quarterly



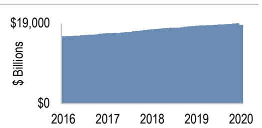
Shipping Rates
As of 3/31/2020

Latest Level	626
Change from Prior Period	▲ 139
Frequency	Quarterly



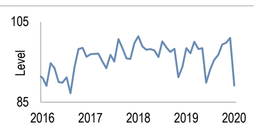
Personal Income Level
As of 3/31/2020

Latest Level	18,696
Change from Prior Period	▼ (382)
Frequency	Monthly



Michigan Consumer Confidence Sentiment
As of 3/31/2020

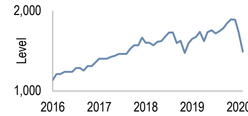
Latest Level	89.1
Change from Prior Period	▼ (12.0)
Frequency	Monthly



EQUITY
Five-Year Trend

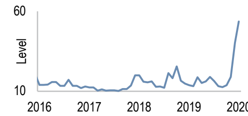
U.S. Equity Markets – Russell 3000
As of 3/31/2020

Latest Level	1,489.6
Change from Prior Period	▼ (398.5)
Frequency	Monthly



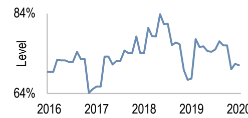
U.S. Equity – VIX
As of 3/31/2020

Latest Level	53.5
Change from Prior Period	▲ 34.7
Frequency	Monthly

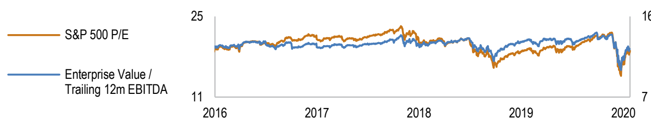


S&P 500 Percentage Exceeding Earning Estimates
As of 3/31/2020

Latest Level	71.1
Change from Prior Period	▲ 1.1
Frequency	Monthly

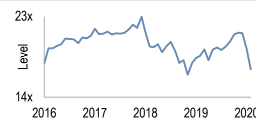


S&P 500 Historical Valuation Levels
As of 3/31/2020



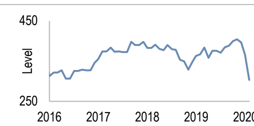
Trailing P/E on S&P 500
As of 3/31/2020

Latest Level	17.4
Change from Prior Period	▼ (3.8)
Frequency	Monthly



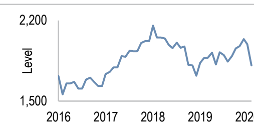
Equity Markets – Euro Stoxx
As of 3/31/2020

Latest Level	303.2
Change from Prior Period	▼ (93.5)
Frequency	Monthly



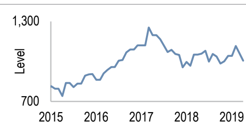
Equity Markets – MSCI EAFE
As of 3/31/2020

Latest Level	1,559.6
Change from Prior Period	▼ (434.1)
Frequency	Monthly

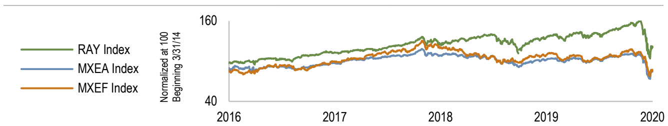


Equity Markets – MSCI EM
As of 3/31/2020

Latest Level	848.6
Change from Prior Period	▼ (213.8)
Frequency	Monthly



Russell 3000 & MSCI EAFE & MSCI EM
As of 3/31/2020

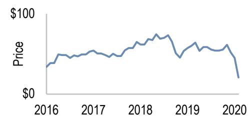


Source: Bloomberg (All).

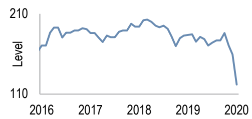
Economic Dashboard & Market Indices *(continued)*

COMMODITIES
Five-Year Trend

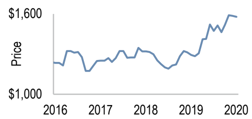
WTI Crude Oil Price	*As of 3/31/2020*
Latest Level	20.5
Change from Prior Period	▼ (31.1)
Frequency	Monthly



Reuters/Jefferies Commodity Index	*As of 3/31/2020*
Latest Level	121.8
Change from Prior Period	▼ (48.5)
Frequency	Monthly

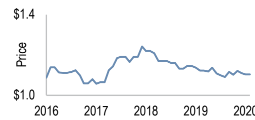


Gold	*As of 3/31/2020*
Latest Level	1,577.2
Change from Prior Period	▼ (12.0)
Frequency	Monthly

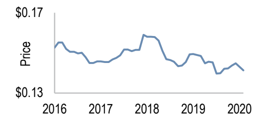


FOREIGN EXCHANGE RATES
Five-Year Trend

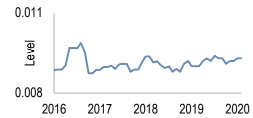
Euro Spot Rate vs. 1 USD	*As of 3/31/2020*
Latest Level	1.10
Change from Prior Period	▼ (0.01)
Frequency	Monthly



Yuan Spot Rate vs. 1 USD	*As of 3/31/2020*
Latest Level	0.1412
Change from Prior Period	▼ (0.0035)
Frequency	Monthly

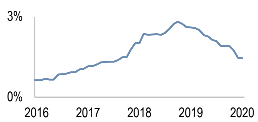


Yen Spot Rate vs. 1 USD	*As of 3/31/2020*
Latest Level	0.0093
Change from Prior Period	▲ 0.0001
Frequency	Monthly

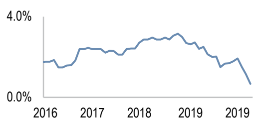


RATES
Five-Year Trend

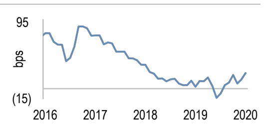
Libor 3M	*As of 3/31/2020*
Latest Level	1.45
Change from Prior Period	▼ (0.30)
Frequency	Monthly



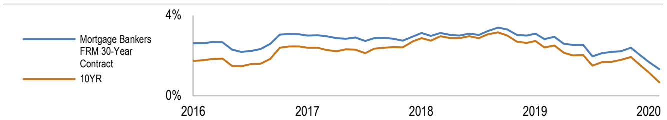
Treasury 10-Yr Yield	*As of 3/31/2020*
Latest Level	0.67
Change from Prior Period	▼ (0.84)
Frequency	Monthly



Swaps 2-Yr vs. 10-Yr	*As of 3/31/2020*
Latest Level	22.53
Change from Prior Period	▲ 15.06
Frequency	Monthly



30-Yr Mortgage & 10-Yr Treasury *As of 3/31/2020*



Source: Bloomberg (All).

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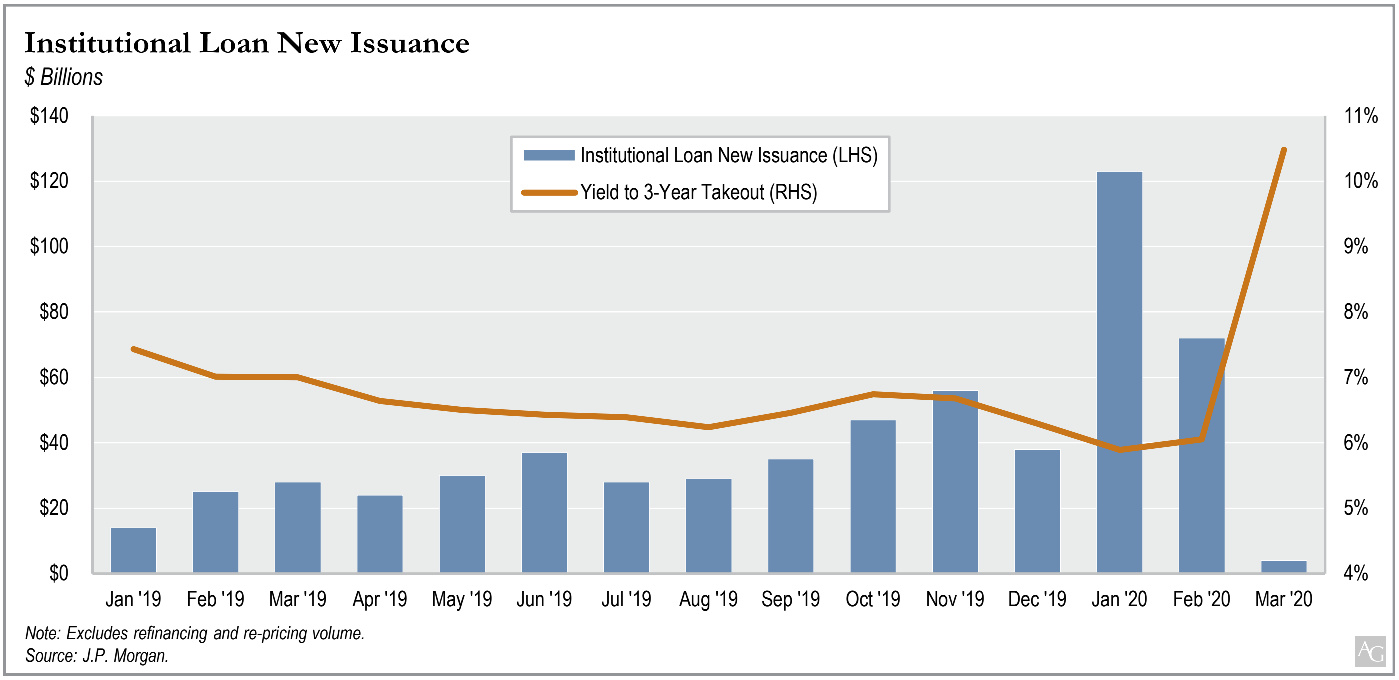
Performing Credit

As COVID-19 negatively impacted economies and capital markets around the globe, price volatility in leveraged loans hit a record level in the first quarter of 2020. The J.P. Morgan U.S. Leveraged Loan Index began the year with a weighted average price of $97.29 and yield to a 3-year takeout of 6.29%. As concerns about the COVID-19 pandemic intensified, leveraged loan prices declined dramatically to $77.01, bringing the year-to-date return to -20.04% through the last week of March. The drivers of price volatility were both technical and fundamental; redemptions from retail funds put pressure on price, and investors pushed prices lower as they demanded a higher yield for loans that were inherently riskier. The longer social distancing guidelines remain in place, the harder it becomes for management teams and investors to forecast earnings for the balance of 2020. When we start to see economic activity recover, many companies' balance sheets will have more leverage due to the incurrence of incremental debt—in an abundance of caution, companies have been drawing down on their credit facilities—and the lack of cash flow being generated in a large number of industries.

After bottoming on March 23rd, the J.P. Morgan Leveraged Loan Index quickly began to rally. At quarter-end, the weighted average price was $83.70, and leveraged loans have continued to rebound since then. As of April 15th, the weighted average price was $87.17, and the index was down 10.40% year-to-date—coming back from the March low of -20.04%. There is uncertainty regarding budgets for 2020, and rating agencies have been actively downgrading companies and placing ratings on negative watch. The pace of these downgrades has exceeded the pace experienced during the global financial crisis, and downgrades can add another level of selling pressure from CLOs—the largest holders of leveraged loans. CLOs are ratings-based vehicles and heavily reliant on passing tests—tied to the ratings of the underlying assets—to make distributions to equity investors. The rapid increase in CCC-rated debt has made trading more restrictive for CLO managers. In part due to the investment limitations on CLOs, there has been a bifurcation between BB, B, and CCC loans. The year-to-date return for Ba3-rated loans was -6.75% on April 21st, versus -9.9% for B2 and -22.9% for Caa1.

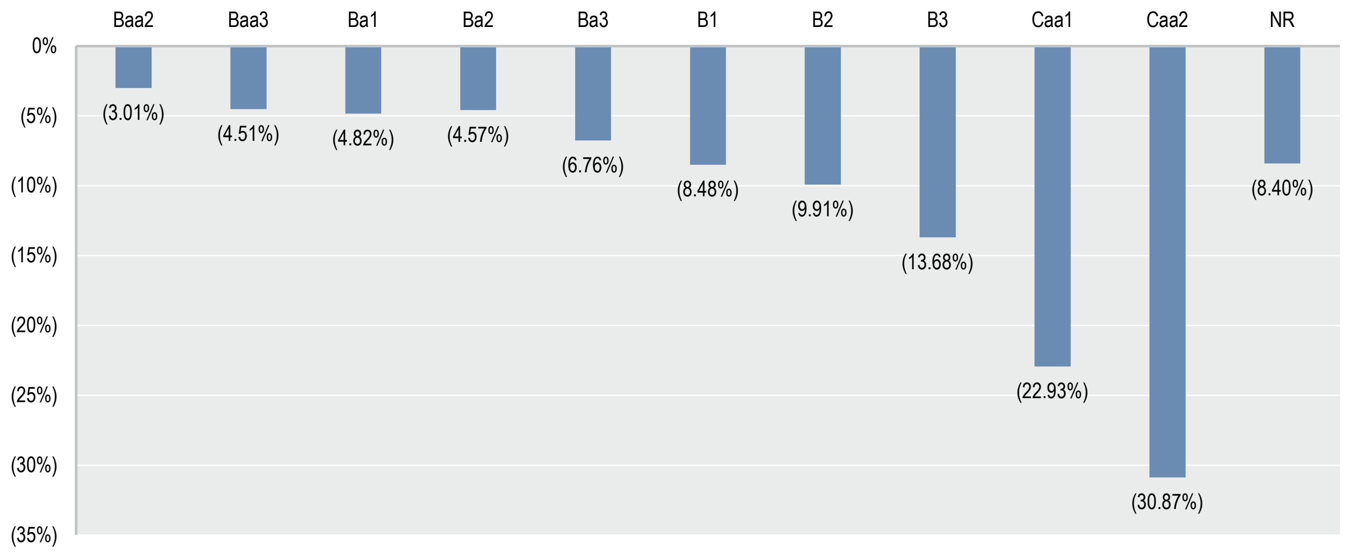
In this environment, we believe prudent leveraged loan investors are focused on monitoring the liquidity in their underlying assets so they can identify companies that will face a liquidity squeeze and help those management teams get through the financial challenges they are facing.



In March, loan issuance ground to a halt as yields skyrocketed.

Performing Credit *(continued)*

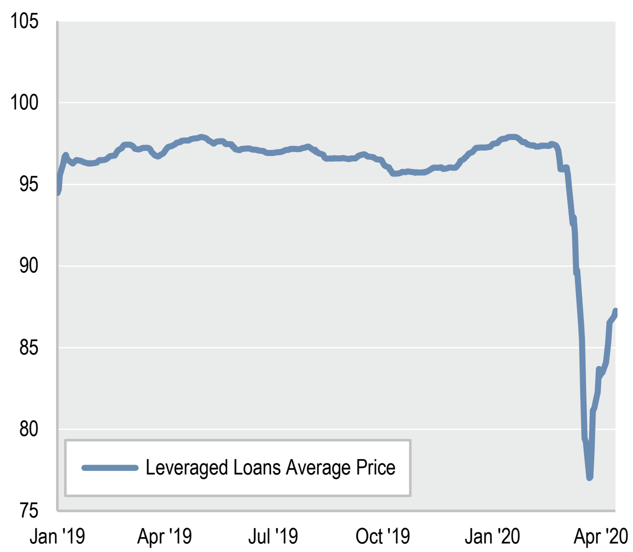
Moody's Rated Loan Year-to-Date Returns



Source: J.P. Morgan, Moody's.

Lower-rated loans underperformed investment grade-rated loans in Q1.

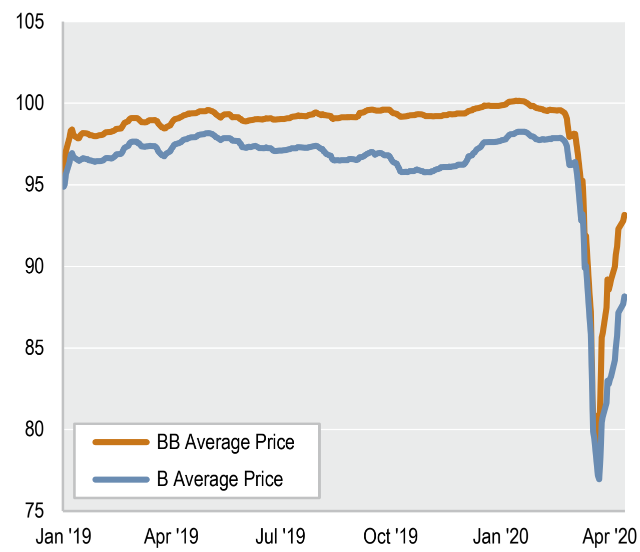
J.P. Morgan Leveraged Loan Index



Source: J.P. Morgan, Bloomberg.

Leveraged loan prices have started rebounding after a sharp decline in March.

J.P. Morgan Leveraged Loan Index - B vs. BB



Source: J.P. Morgan, Bloomberg.

BB-rated loans experienced a sharper recovery than B-rated loans in April.

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 declined sharply in the first quarter of 2020 in reaction to the global COVID-19 outbreak and plummeting oil prices. U.S. high yield fell 14.3% over the first three months of the year, led by a 12.6% drop in March, which was the second-largest monthly decline ever behind October 2008. Euro-currency high yield fared worse, delivering a 16.0% loss for the quarter following a -14.5% return in March. The results in both regions came despite a recovery off the year-to-date lows, as reaction to central bank intervention and government stimulus programs drove prices higher in the final week of the quarter.

In the U.S., spreads widened from 424 basis points at the start of the year to a peak of 1,139 basis points on March 23rd, before retracing modestly and ending the quarter at approximately 950 basis points. Several of the largest daily spread movements of all time occurred in March, highlighting the magnitude and velocity of daily volatility throughout the month. Yields in Europe trended similarly, rising 565 basis points over the quarter to settle at 941 basis points on March 31st. The performance underlying the U.S. and European markets was similar. Higher-rated BB bonds fell less dramatically than lower-quality CCCs, and energy, gaming, and transportation were the bottom performing sectors in both regions.

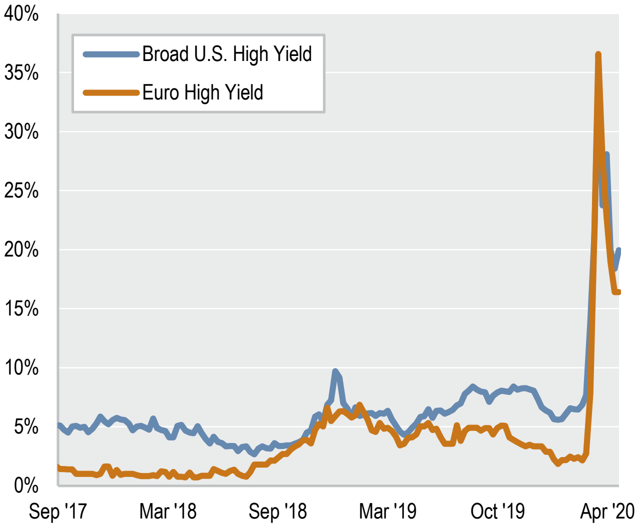
In the first quarter, 195 high yield bonds were downgraded, led by 51 in the energy sector and 27 in the gaming industry. March produced the second-largest number of U.S. bond downgrades on record, with 124 issuers dropping in rating. The U.S. high yield default rate rose slightly to 3.5% at the end of March, effectively matching the long-term average. Conversely, in Europe, the high yield default rate actually declined modestly to 1.3% at quarter-end.

U.S. high yield new issuance began the quarter strong, with $64.8 billion of volume in January and February. However, only five bonds totaling $4.2 billion were issued in March, and four of those priced within the first three business days of the month. In Europe, high yield new issuance came in at €24 billion for the quarter, with supply reaching new records for both January and February before the primary markets closed completely for the month of March.

U.S. high yield mutual funds reported $16.7 billion of outflows in the first quarter of 2020, a significant reversal from the $18.8 billion of inflows to the asset class in 2019. The majority of the year-to-date outflows occurred in March; the $13.0 billion in withdrawals was the second-largest monthly outflow on record. European high yield funds lost nearly €8 billion in the first quarter, mostly in March as well, which offset the entire inflow of capital achieved in all of 2019.

Distress Ratios

Price <80

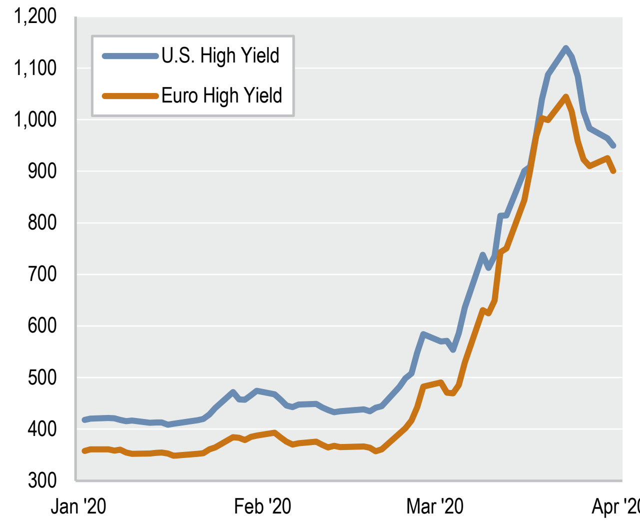


Source: Credit Suisse.

After remaining generally consistent over the past three years, high yield distress ratios jumped to 35% (U.S.) and 37% (Euro) in the last week of March.

High Yield Spreads

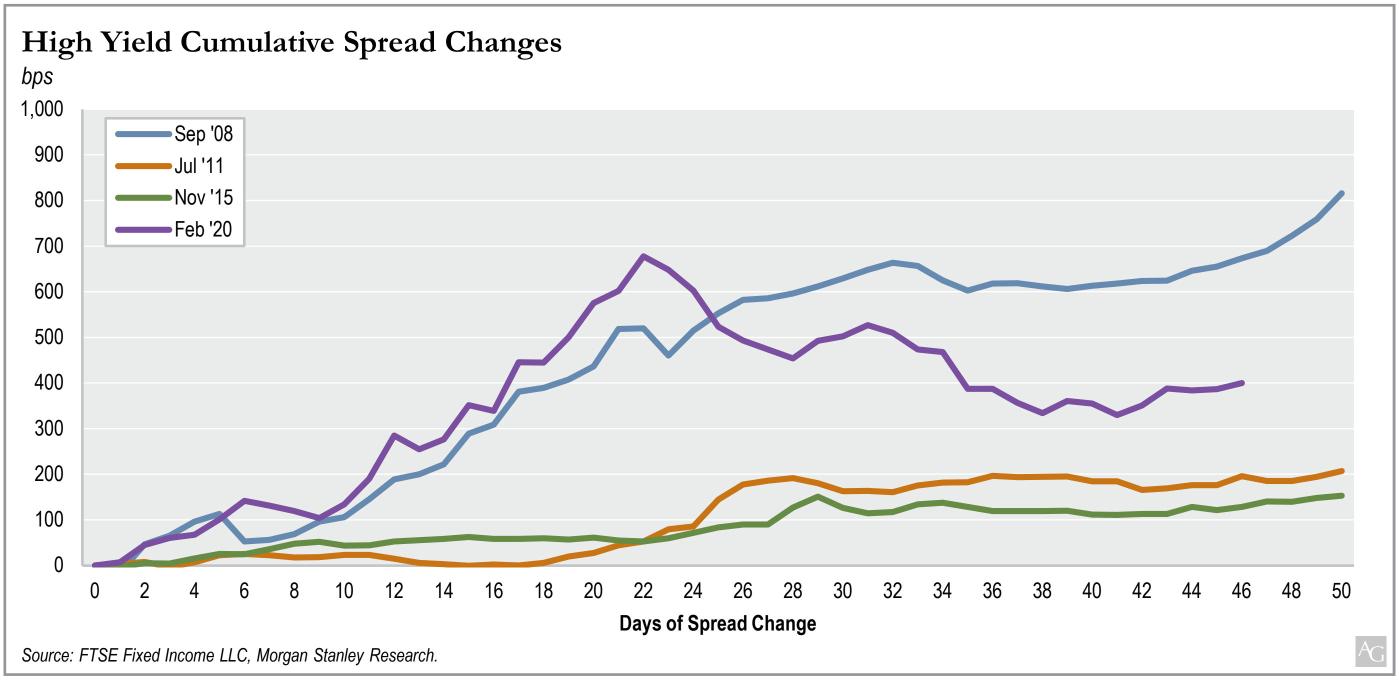
Spread to Worst (bps)



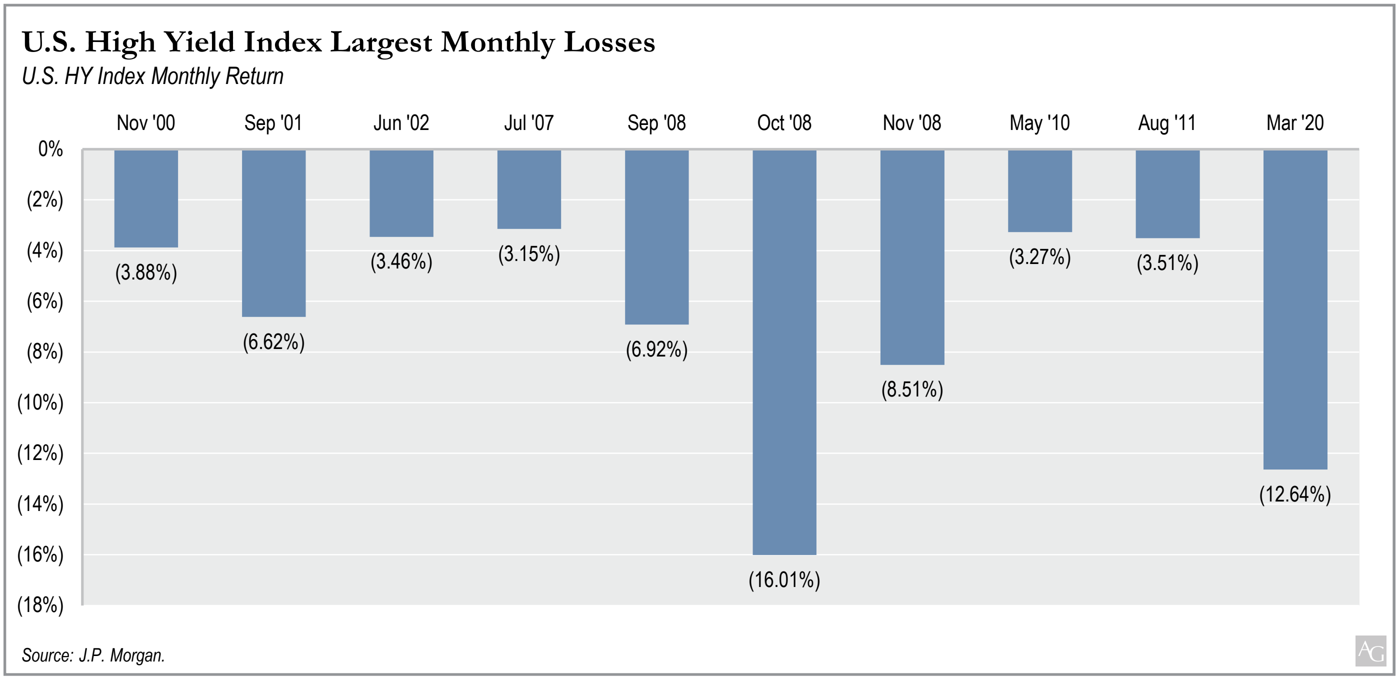
Source: J.P. Morgan.

High yield spreads widened considerably over Q1, with U.S. and European high yields, respectively, jumping from 420 and 360 basis points to peaks of 1,139 and 1,044 basis points and then settling at 949 and 901 basis points at quarter-end.

Distressed Debt *(continued)*



Cumulative high yield spreads changed at a faster rate in Q1 than during the global financial crisis.



March 2020 was U.S. high yield's second-largest monthly loss on record, only behind the global financial crisis in October 2008.

Ryan Mollett
Global Head of Distressed & Corporate Special Situations

Dan Pound
Distressed & Corporate Special Situations, Europe

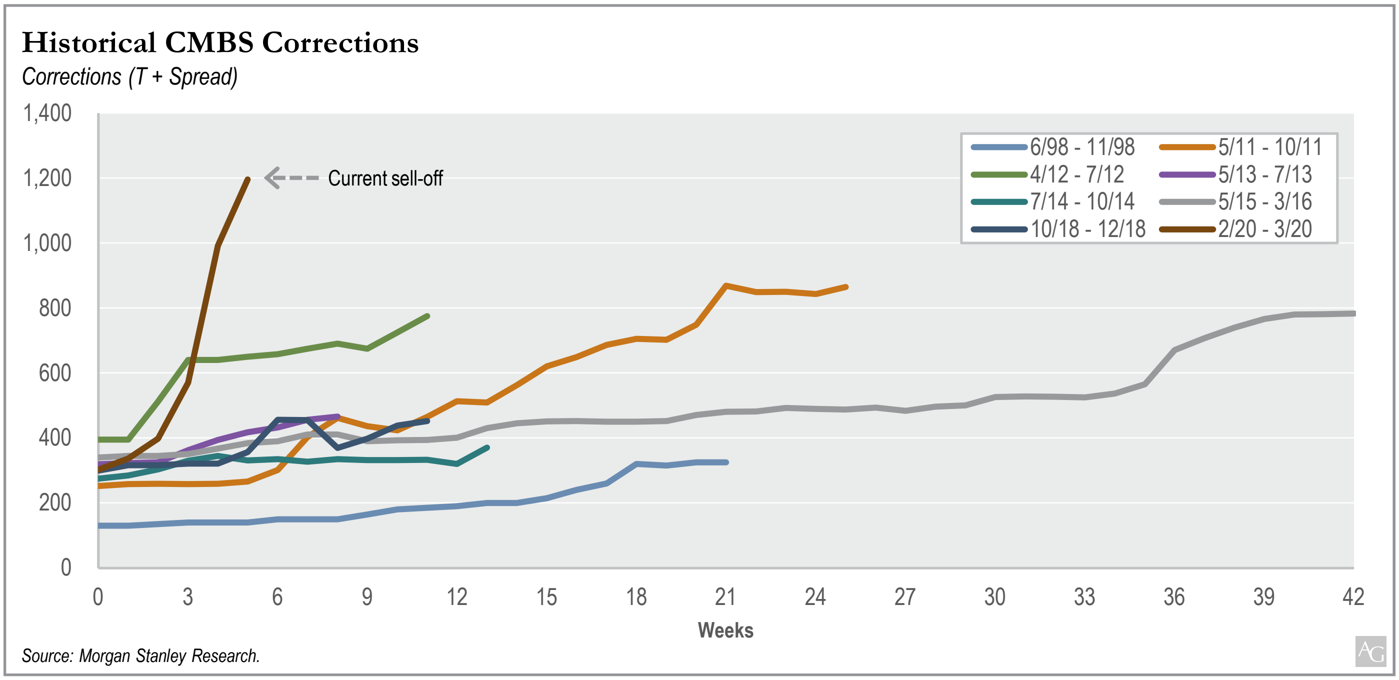
For more information on Distressed Debt, visit angelogordon.com/strategies/credit/distressed-debt/.

Commercial Real Estate Debt

Although the commercial real estate debt markets started the year with a positive underlying tone from both a fundamental and technical perspective, they cracked under extreme strain from forced selling into an increasingly illiquid market during March. Numerous types of investors sold, including both levered investors and daily liquidity 40 Act funds. Bond fund outflows totaled in excess of $215 billion in a three-week span. Dealer balance sheets at quarter-end could not absorb the sheer volume of selling, and market prices moved down in a sharp and often violent fashion. Bid list volume spiked and reached nearly ten times the normal amount as forced sellers sought liquidity in order to meet redemptions. As a result, the CMBS market ended the first quarter at its most distressed levels in years. Conduit AAA spreads ended February at swaps plus 90 basis points and traded as wide as swaps plus 325 basis points before tightening into the low 200s at the very end of March. Further down in the capital structure, the move was much more significant, with BBB bonds widening from swaps plus 340 at the end of February to swaps plus 1,200 at the end of March. BBB bonds did not enjoy the same stabilization into month-end as bonds at the top of the capital structure.

While the CMBS market traditionally trades on spread and it is informative to consider spread movements, these movements were so extreme that the credit-centric tranches of the capital structure shifted to trading on dollar price. What these spread movements fail to fully capture is the wide bid-offer spread in the market as well as the dispersion in bond pricing based upon specific deal characteristics. Although most conduit deals are diversified by geography and property type, those with higher hotel and retail exposure are facing greater pressure. The retail sector has already been in the spotlight for the past several years and the immediate impact of stay-at-home orders on that sector and the hotel sector reverberated throughout the CMBS market. Furthermore, Single-Asset/Single-Borrower deals collateralized by hotel properties are under substantial pressure. There is also significant uncertainty around the duration of the current economic slowdown and the shape and timing of the ensuing recovery.

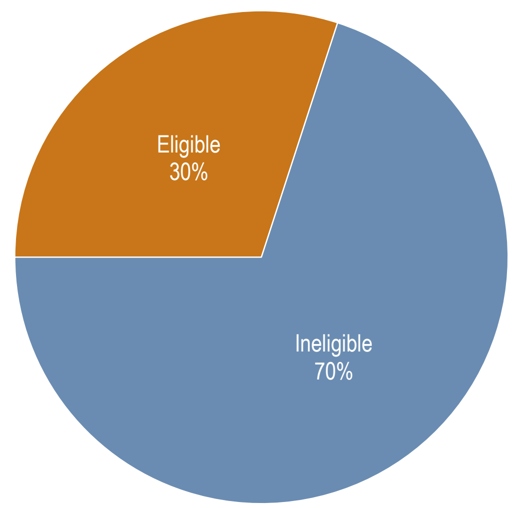
Although March was the most challenging month for CMBS investors in many years, we believe it also created an opportunity for experienced managers that can properly assess the underlying real estate fundamentals in today's new economic reality. While delinquencies, defaults, and ultimately losses will all rise, we believe that astute managers should be well-positioned to generate attractive returns through diligent underwriting and careful asset selection.



Both the speed and magnitude of this sell-off exceeded the previous seven historical corrections of more than 100 basis points in CMBS BBB-.

Commercial Real Estate Debt *(continued)*

Agency CMBS Eligible for Fed Purchase

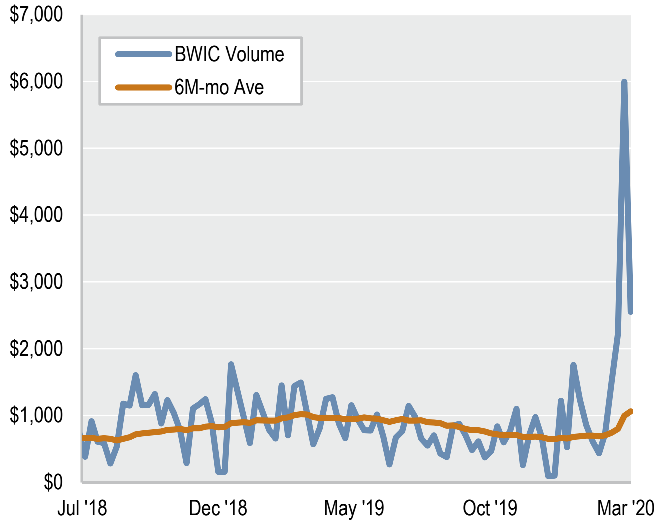


Source: Morgan Stanley Research, Federal Reserve, Fannie Mae, Bloomberg, Trepp.

Approximately 30% or $223 billion of outstanding Agency CMBS is eligible for purchase in the Fed's open market purchase operations.

Historical BWIC Weekly Volumes

$ Millions

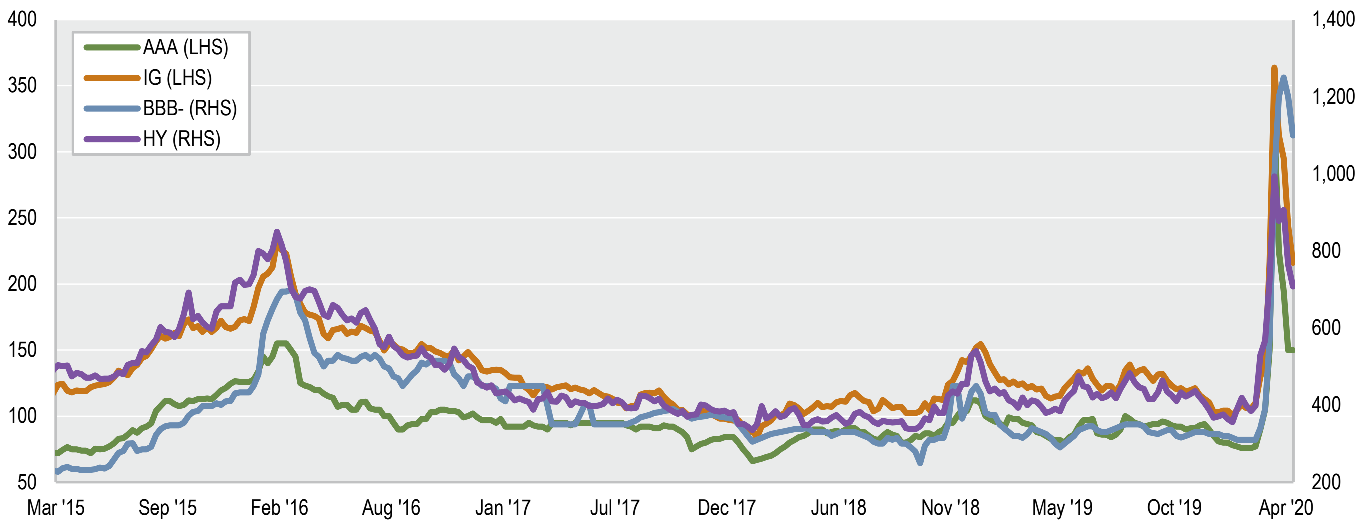


Source: Deutsche Bank.

March saw a sharp spike in CMBS bid list volume.

Cash CMBS and Corporate Spreads

Spread (S + bps)



Source: The Yield Bank, Morgan Stanley (closing spreads as of April 17, 2020).

The spread widening experienced by CMBS was much more violent than the widening experienced by the corporate credit market.

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)

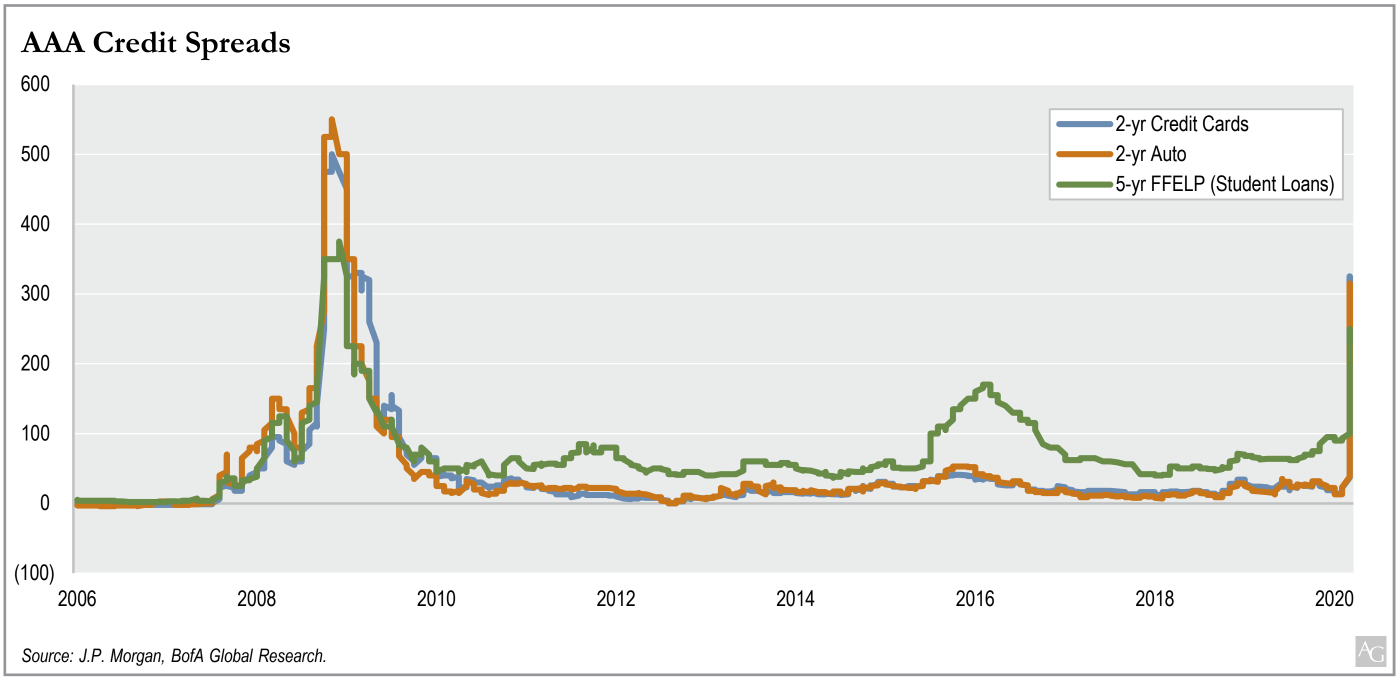
The sell-off in securitized credit was triggered by considerable redemptions out of daily liquidity funds, which created a run on high-quality fixed income markets and pressured spreads at the top of the securitized capital structure. In early March, short-duration AAA ABS were trading around 15-25 basis points over Libor but quickly widened to as much as 350 basis points. Eventually, forced sellers had few short-duration AAA assets left to sell and looked to other asset classes, including Credit Risk Transfer—given its historically high liquidity and market pricing transparency—and Agency MBS, which saw spreads violently widen to levels not seen since the global financial crisis (GFC). The scale of the redemptions and need to de-lever forced sellers to liquidate positions over a weekend for Monday settlement. Throughout this period, dealers were largely sidelined because of already heavy balance sheets heading into quarter-end, and an initial surge in gross origination overwhelmed tepid demand at all-time lows in U.S. benchmark yields.

The Fed sought to address the problems quickly and aggressively, announcing multiple rate cuts, unlimited quantitative easing (QE) via purchases of Agency MBS and Treasurys, asset purchase programs, and financing facilities, including a GFC-era program for newly originated ABS. The Fed indicated a willingness to do whatever needed to be done, underscoring the degree to which the fixed income markets were not functioning, and its QE generated an unprecedented $291 billion of Agency MBS purchases in the final two weeks of the quarter, which helped stabilize spreads.

Policymakers also took steps to protect consumers, passing the CARES Act. Most relevant to RMBS and ABS was its relief for homeowners, which largely solidified into law efforts already announced by the GSEs, as well as relief for renters and some federal student-loan borrowers. The Act also expanded unemployment insurance to include workers beyond its eligibility, such as self-employed workers. States announced similar directives, and many other lenders developed relief plans for their borrowers.

In contrast to the GFC, households entered this pandemic on strong footing, systemic leverage is comparatively low, and conservative underwriting in the post-GFC era has largely prevailed. These will prove to be important factors that shape the inevitable rise in delinquency curves across mortgage and consumer sectors.

Mortgage delinquency will rise given expansive payment forbearance programs, but collateral losses are likely to be muted given the ongoing fundamental and technical strength of the housing market. An Urban Institute analysis forecasts an annual shortage of 350,000 units to meet expected new household formations over the next several years. Additionally, foreclosure moratoriums will limit the downward pressure that distressed inventory coming to market would otherwise create. We expect consumers to prioritize loan payments to preserve good standing for high-utility credit, such as credit cards and internet services.

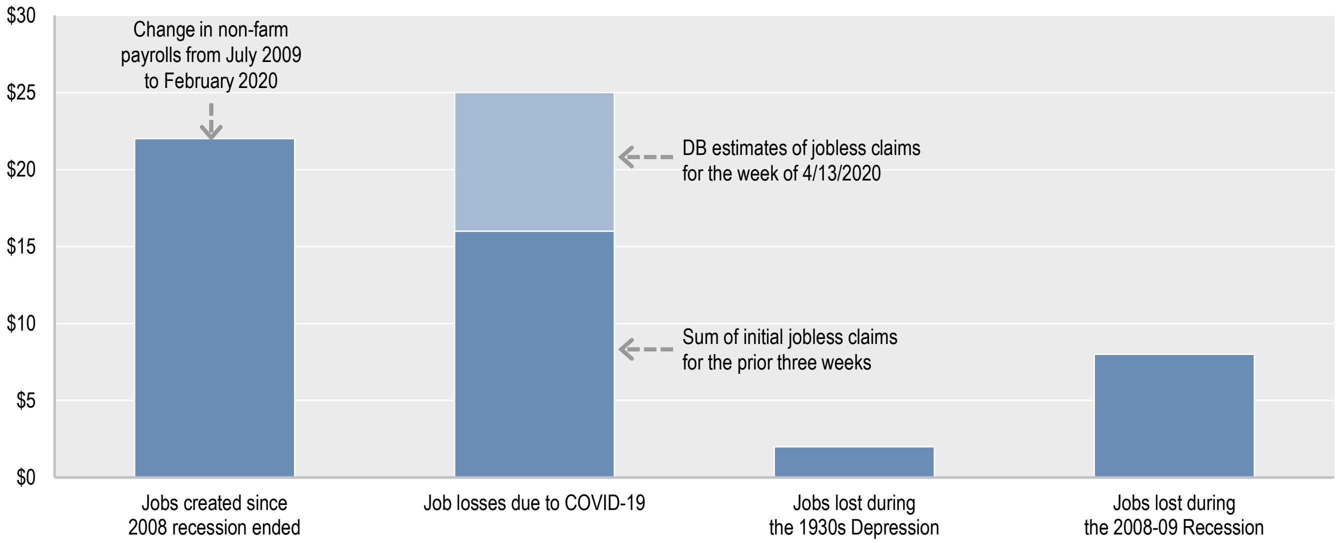


The widening in AAA credit spreads illustrates the violent price volatility in March.

Residential & Consumer Debt *(continued)*

Job Creation and Loss

$ Millions

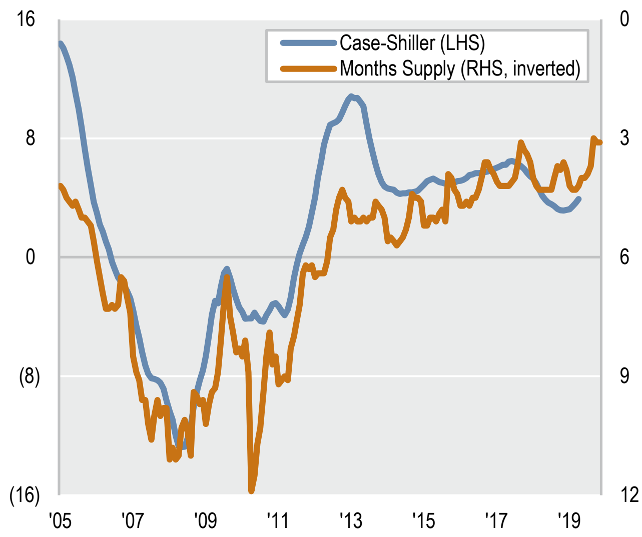


Source: BLS, Dept. of Labor, CRS, Haver Analytics, DB Global Research.

By mid-April, all of the jobs created since the end of the global financial crisis had been lost.

Tight Supply Has Supported Home Prices

Y-o-Y

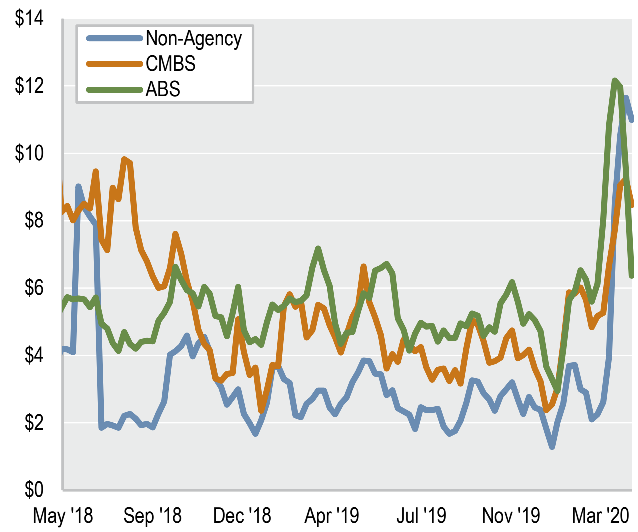


Source: Bloomberg, Case-Shiller.

In stark contrast to the global financial crisis, the housing market is entering this recession on very stable ground.

TRACE Trading Activity

$ Millions



Source: FINRA, BofA Global Research.

In March, weekly trading volumes for securitized products were well above long-term averages.

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

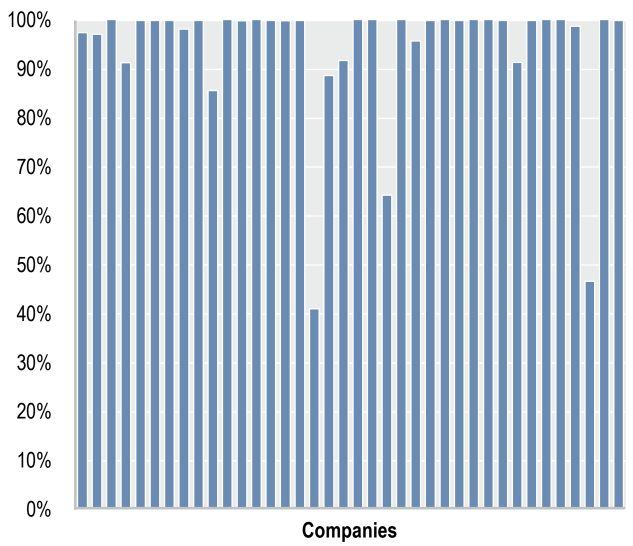
After a brief but intense price war, OPEC and allies agreed to a cut totaling 10% of global crude production, or 9.7 million barrels per day through June, with more modest reductions persisting through April 2022. Despite the largest coordinated reduction in history, WTI tumbled to an all-time low of -$37.63 before recovering to the teens by late April, as the COVID-19 pandemic had already reduced demand by two-to-three times the level of such cuts. It is clear that in the short to medium term, demand destruction will outweigh supply destruction.

In response to the sudden and violent downward shift in commodity prices, and in contrast to a slower reaction to the 2015-2016 dislocation, virtually every U.S. oil and gas producer has been quick to cut both 2020 capex and production—the market-driven domestic contribution to the global production cuts. Rig count is declining rapidly and projections suggest that U.S. crude production could fall by two million barrels per day or more by 2021, if not shut-in at an earlier date by a lack of physical storage or pipeline capacity—both of which will be tested to the limits this quarter. In this environment, it is wise to rotate to credits that have sufficient liquidity to withstand a multi-month revenue shutdown, while avoiding too much reliance on liquidity sourced from nervous, and likely to retrench, commercial banks.

Energy credit spreads have widened considerably this year, though have tightened from late March peaks. The Credit Suisse Energy High Yield Index offers a yield north of 17%, while exploration and production credits yield 21%. Oil and gas producers have experienced over 75 ratings downgrades year-to-date, more than a third of which occurred in April.

Bank borrowing base redetermination season has also begun. In response to falling oil prices, bank price decks have declined precipitously. As many borrowers are already heavily drawn on current lines, any decrease in availability is likely to have a significant impact. Many borrowers will be in breach. It is clear this mismatch of long-term asset bases and short-term bank-funded liabilities will result in numerous bankruptcies. Participant banks are increasingly exiting the space, and lead agent money centers are reportedly preparing independent vehicles with which they can assume direct ownership of assets—a move last seen nearly 40 years ago.

Recent Bankruptcy Filings: RBL Utilization

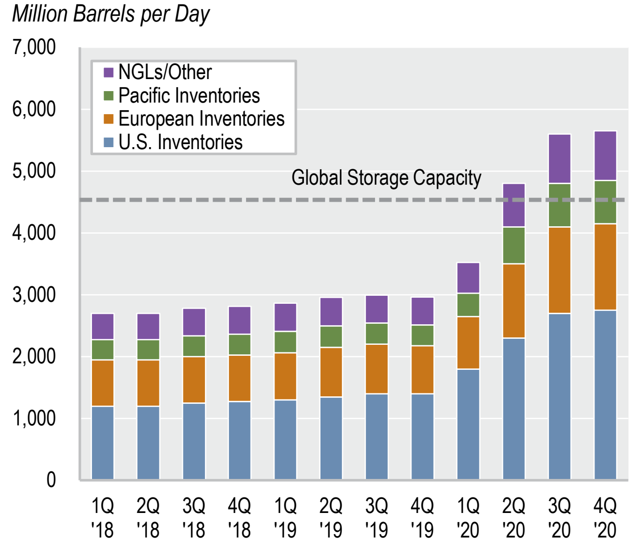


Source: Company Filings.

Excessive borrowing base reliance is a reliable predictor of bankruptcy.

Global Crude Storage Capacity Running Short

Million Barrels per Day



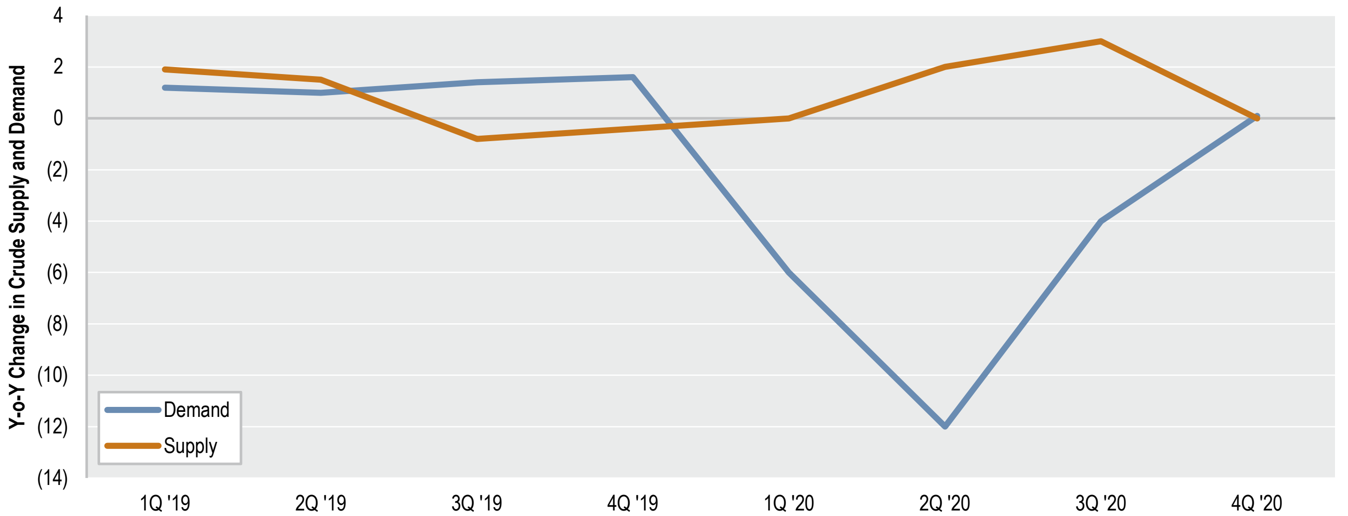
Source: BMO Capital Markets, Bloomberg.

At the projected pace of crude storage additions, inventories may reach and exceed global storage capacity over the next two months.

Energy *(continued)*

Rising Supply and Unprecedented Drop in Demand Roil Crude Markets

Million Barrels per Day

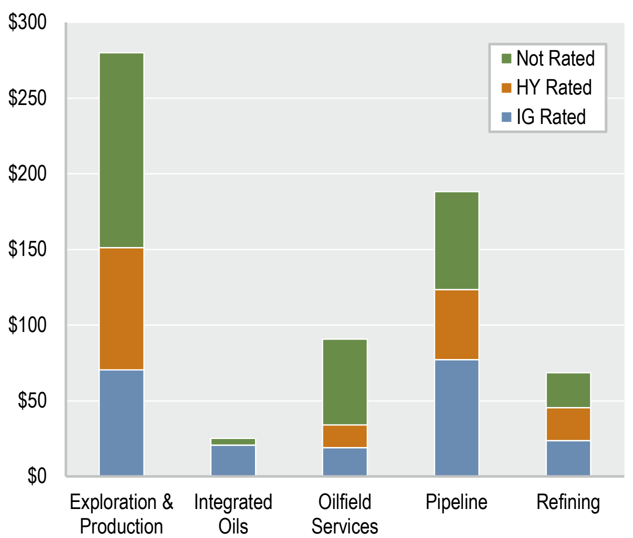


Source: BMO Capital Markets.

The twin specters of oversupply and pandemic-driven demand destruction have caused crude prices to languish at multi-decade lows.

Bank Exposure to the Sector is Significant

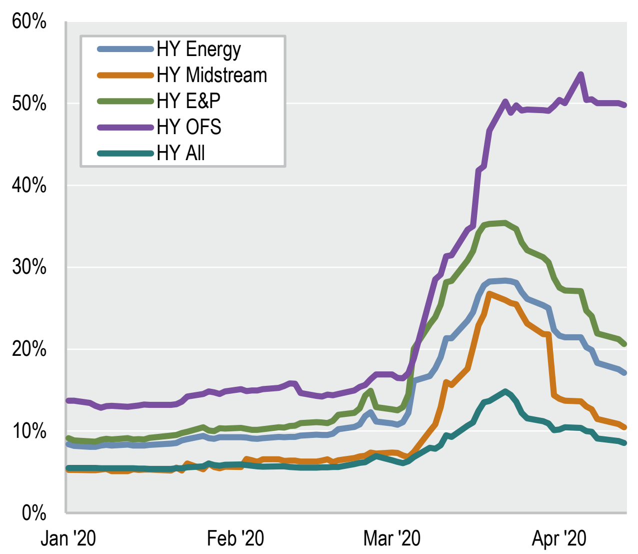
$ Billions



Source: JP Morgan Research.

Banks maintain over $650 billion in exposure to the sector, or 38% of tangible equity for all U.S. depositories. Exposure to high yield and unrated borrowers is significant and will likely weigh on earnings.

Energy Yields Have Widened



Source: Credit Suisse.

Energy credit spreads have widened considerably this year, though have tightened from late March peaks.

Todd Dittmann
Portfolio Manager

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

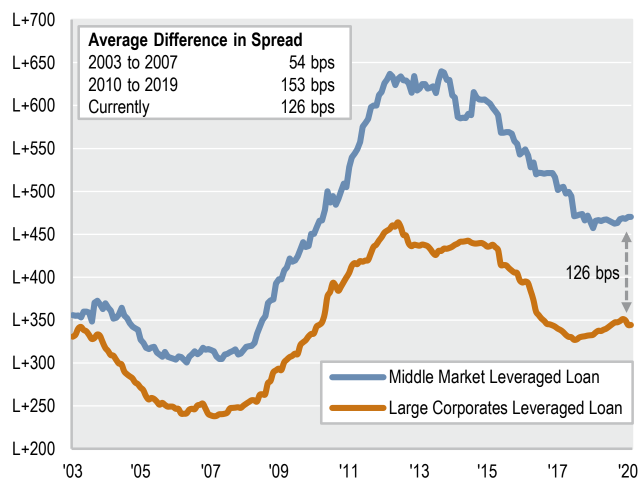
Middle Market Direct Lending

Quarterly syndicated middle market loan issuance declined approximately 21% quarter-over-quarter, which is not unusual, as the first quarter is often the lightest of the year. However, the sharp drop in origination volume in March and the origination outlook going forward were both unprecedented and can be tied to the widely felt impacts of COVID-19. Lenders and sponsors alike have turned their focus to their existing portfolios as they seek to navigate unchartered territory. While a significant decline in deal volume as LBO activity slows dramatically is to be expected, we believe sponsors may pursue more add-on acquisitions as acquisition costs decline and attractive opportunities arise.

In early March, as pandemic fears accelerated sharply in the U.S., borrowers responded by reaching for all available liquidity, resulting in large-scale revolver draws that, for many lenders, far exceeded the level of draws at the height of the global financial crisis. In a late March survey, nearly 20% of lenders indicated that their revolvers were 60-80% drawn, with another 43% indicating that 40-60% of their revolving commitments were drawn down. With the economic fall-out from the crisis ongoing and the depth of the recession and shape of recovery unknown, lenders are now contending with potentially broad-based challenges in their portfolios. While it is natural to look to the last crisis for insight into potential default rates and expected recovery rates, there are several factors that may challenge this comparison. The explosive growth of direct lending as an asset class over the last several years has coincided with, until now, a generally benign credit environment. This has helped contribute to weakening deal structures, looser documentation, and the rise of covenant-lite loans. Without covenants or with covenants that have extremely wide cushions, lenders will lack the fee income associated with amendments and may be forced to wait for a payment default before they are at the table with the borrower, which will likely ultimately result in lower recoveries. Lenders that maintained discipline with respect to covenants, EBITDA adjustments, and cushions will likely enjoy superior recoveries. Sector exposure will also play a significant role in performance, as COVID-19 has effectively shut down many sectors of the economy.

As noted in the past, we have always believed that manager differentiation would be key to performance during a cycle. Over the coming quarters, we believe experienced managers that have extensive workout expertise and have maintained stringent underwriting standards will be better-positioned than those that lack said experience and expertise. Finally, for lenders that successfully navigate the current environment, we believe the pressure on pricing and structure that have grown over the last several years will abate significantly and that market terms will be very lender-friendly.

Average Loan Spread: Middle Market vs. Large Corporates

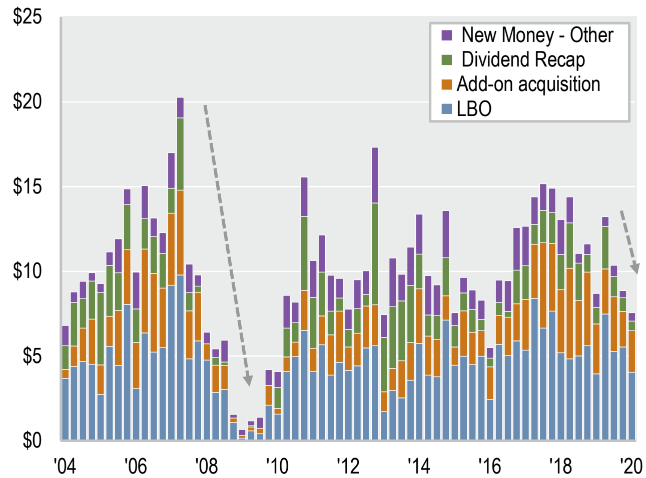


Middle market leveraged loan includes issuers with less than $50m EBITDA. Average spread includes any LIBOR floor benefit.
Source: S&P Capital IQ LCD.

Despite the spread widening seen in corporate credit markets, middle market loans are still offering an attractive spread compared to leveraged loans.

Middle Market Sponsored New Money Issuance

$ Billions



Source: Refinitiv LPC.

Using the global financial crisis as a guide, middle market sponsored issuance is expected to slow in the coming quarters.

Trevor Clark
Portfolio Manager

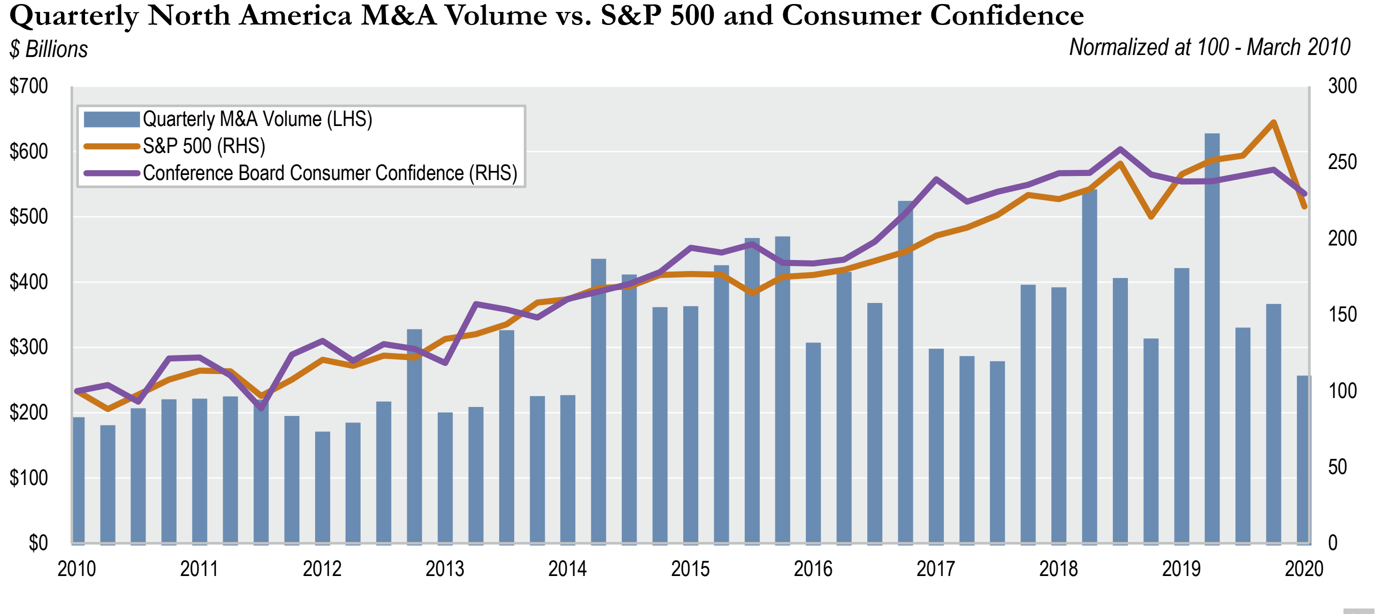
For more information on Middle Market Direct Lending, visit angelogordon.com/strategies/credit/middle-market-direct-lending/.

Merger Arbitrage

Merger arbitrage spreads ended the first quarter with an average gross spread of 8%, which is 1,500 basis points tighter than the widest levels seen in mid-March. This compares to the average gross spread of 4% at the beginning of 2020—a multi-year low. What began as an equity market sell-off quickly turned into a credit crunch. Merger arbitrage investors pay very close attention to the credit market that is used to finance M&A; however, it was non-arbitrage selling, quant arbitrage unwinding, forced de-leveraging, and a few fund liquidations—instead of specific deal and financing concerns—that caused spreads to widen rapidly over a one-week period. Although spreads abruptly widened, they quickly snapped backed as several deals closed in the last four trading days of the first quarter, restoring a level of calmness to the merger arbitrage community. The days of the "set it and forget it" strategy deployed by some arbitrage investors are over, and we believe active managers will now be rewarded for their ability to assess the idiosyncratic aspects of individual deals.

Merger arbitrage continues to prove itself as a steady strategy capable of weathering even the most severe market dislocations. It is important to remember that historically, over 95% of announced mergers and acquisitions have closed. Looking back at the global financial crisis (GFC), only 3.5% of announced deals were terminated by the acquirer and/or financing banks—an astonishingly low percentage given the circumstances. Also accounting for transactions that were terminated due to regulatory issues or target company shareholder opposition, 94% of announced deals during April 2007 through December 2010 closed. While it is difficult to draw parallels between the GFC and the COVID-19 pandemic, it is worth mentioning that the M&A landscape has included far fewer LBOs in recent years, with those still executed being smaller in size and having significantly larger equity checks than those of the GFC-era. Merger agreements and debt commitment letters are more robust and tighter today than they were in 2008. Additionally, the health and outcome of the banks who finance the debt portion of M&A deals are not in question this time around.

Quarterly North America M&A Volume vs. S&P 500 and Consumer Confidence



Source: Bloomberg.

First quarter deal volume was significantly below average, as deal activity was halted in March.

Mark Wojtusiak
Head of Merger Arbitrage

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

Convertible Arbitrage

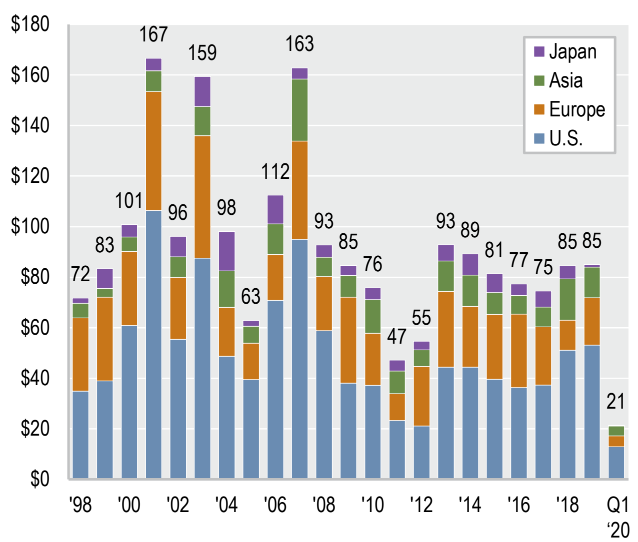
The first quarter of 2020 was one of the worst in history for most equity markets around the world, as affected countries responded to the COVID-19 pandemic by effectively shutting down their economies. The scale of the economic and societal disruption caused by nationwide lockdowns was unprecedented in peacetime. Against this backdrop, the MSCI World Index lost 20.49% in local currency terms during the first quarter. Volatility spiked sharply, with the VIX Index, for example, surging above 80 in March. The distress extended into almost all asset classes. Oil was particularly hard hit, with WTI declining 66.5% in the first quarter. Convertible bonds were no exception, and the ICE BofA Global 300 Convertible Index—a performance indicator for long-only strategies—dropped 10.55%. Convertible arbitrage strategies fared somewhat better, with the HFRX Relative Value Fixed Income Convertible Arbitrage Index losing 5.75% in the first quarter.

Convertible primary market activity unsurprisingly slowed down amidst the rising volatility. However, first quarter deal volume still reached a respectable $21.4 billion, almost in-line with the first quarter of 2019, due to a strong start to the year before the crisis set in. The U.S. primary market recorded $12.9 billion of new convertibles, followed by Europe at $4.2 billion and Asia excluding Japan at $4 billion, while Japan remained quiet.

Convertible bond valuations declined from stretched levels as credit market dislocations fed through and liquidity quickly evaporated. Long-only mandates faced redemption levels not seen since 2011, which forced sellers into an increasingly illiquid market. However, the primary market was quick to reopen, and we are seeing good value on offer from high-quality issuers. Volatility will remain elevated, in our view, as markets cautiously observe the course of the pandemic, assess initial steps to relax lockdowns, and evaluate the implementation and unintended consequences of the unprecedented monetary and fiscal policy responses that central banks and governments have launched to mitigate the economic fallout.

Annual Convertible Issuance by Region

$ Billions

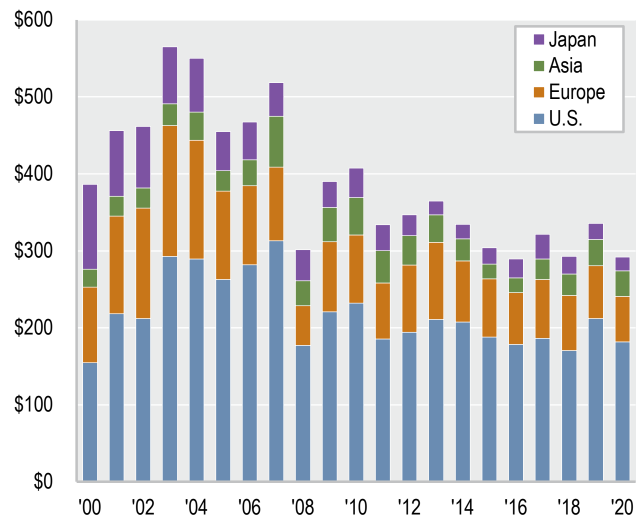


Source: Bank of America Merrill Lynch.

The primary market reopened very quickly in March.

Market Size by Region

$ Billions



Source: Bank of America Merrill Lynch.

The global convertible market cap remains above $300 billion.

Gary Wolf
Head of Convertible Arbitrage

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

U.S. Real Estate

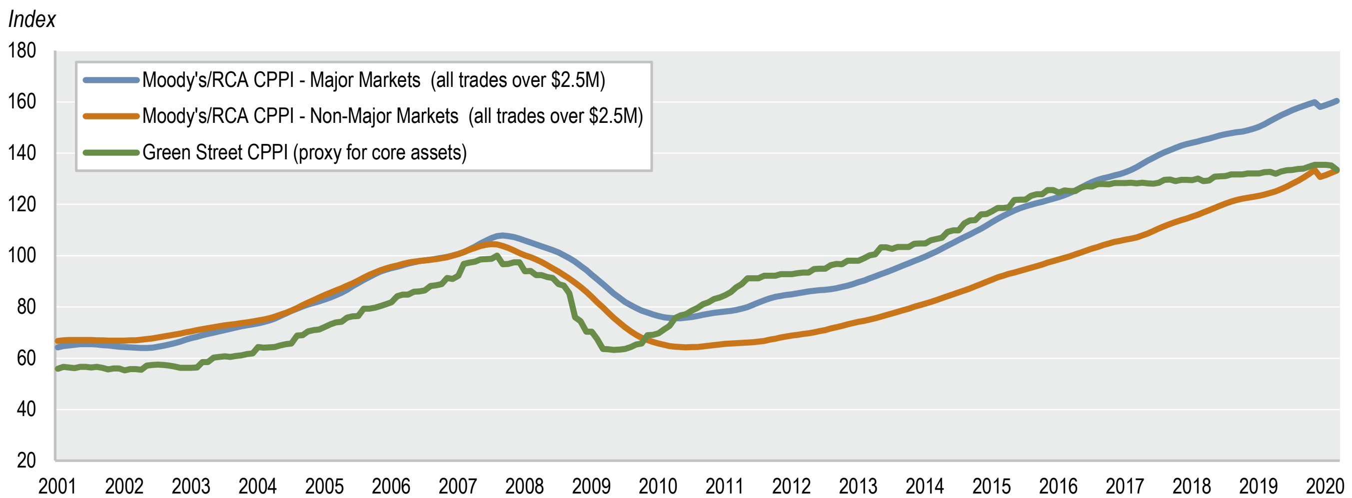
Commercial property transactions in the first quarter were higher by 11% year-over-year, though most of the deals closed were the result of agreements entered in prior quarters. Leading indicators suggest transactions came to a near standstill in mid-March, and recovery is not expected to begin until COVID-19-related state lockdowns are lifted. When transactions resume, entity-level and portfolio sales, excluding loan portfolios, are likely to recover slowly—at least initially—as surgical underwriting will be favored over broad underwriting assumptions and deals dependent on access to debt in large scale.

The concerning trend in international capital flows that existed prior to the pandemic is likely to muddle any broader recovery in sales volume. Cross-border capital represented only 9% of 2019 volume versus the trailing 4-year average of 15.25%, and with a contagion fresh in investors' minds, a home bias will likely persist. Also of note was the industrial sector surpassing the apartment sector and emerging as the most traded asset class in 2020. This trend will likely endure, as one of the longer-term impacts of the current crisis will be the continued evolution and adoption of logistics, causing the asset class to remain sought after. In contrast, lodging transactions and prices were already shrinking, and we expect that to continue as risk premiums expand to encompass a broad set of concerns.

The initial sharp decline in employment and economic indicators prompted the Federal Reserve to take emergency action, which—while generally supportive for commercial real estate long term—is currently a second order input. With a broad slowing of economic activity, fundamentals will soften, to varying degrees, across property types and geographies. The recent slowing of supply growth won't provide much buffer, but new supply will stall quickly, which should be of some assistance once the economy begins to heal.

On the valuation front, the Green Street Commercial Property Price Index declined 1.4% over the last three months, primarily driven by lower values for lodging, senior housing, and malls. The REIT market posted sharp declines in company valuations that imply significantly larger corrections in property valuations are coming. Listed REITs ended the quarter at a discount to NAV of 22%, while the core sectors of apartment, industrial, retail, and office were priced at a 41% discount, though NAV revisions are probable. Green Street Advisor's model, which tracks the relative value relationship between real estate and fixed income (investment grade and high yield), pegged real estate at about 19% overvalued. On the debt side, lenders have tightened standards, lowering LTVs and increasing spreads, and many are effectively on the sidelines.

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, apartments led price growth in Q1, while office, industrial, and strip retail grew modestly. Malls continued their sharp decline.

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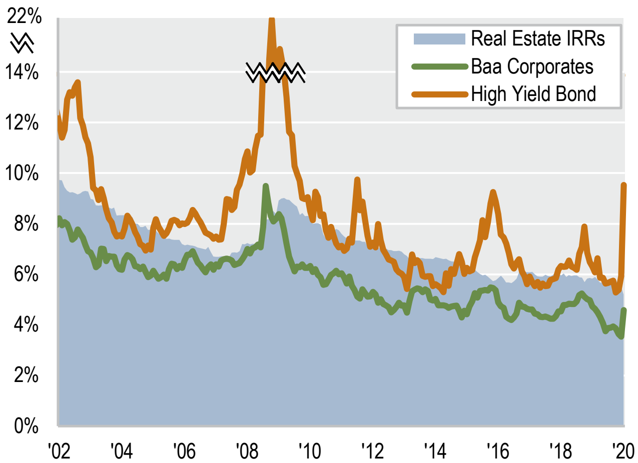
U.S. Real Estate *(continued)*

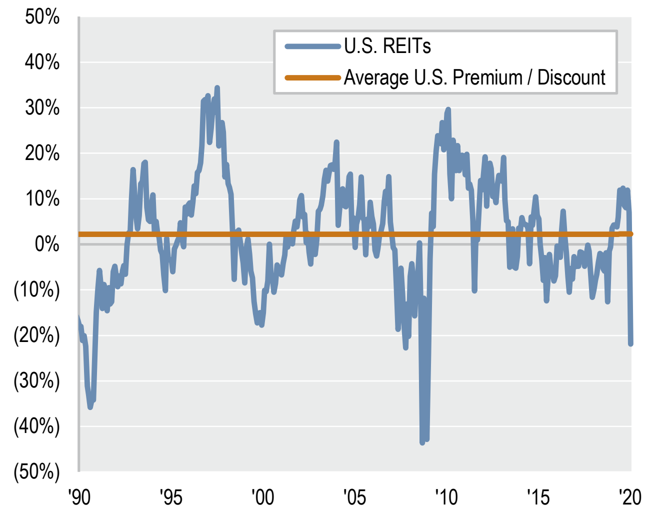
Unlevered Total Return Expectations on Real Estate vs. Corporate Bond Yields



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. Real estate ended the quarter overpriced on a relative basis compared to debt.

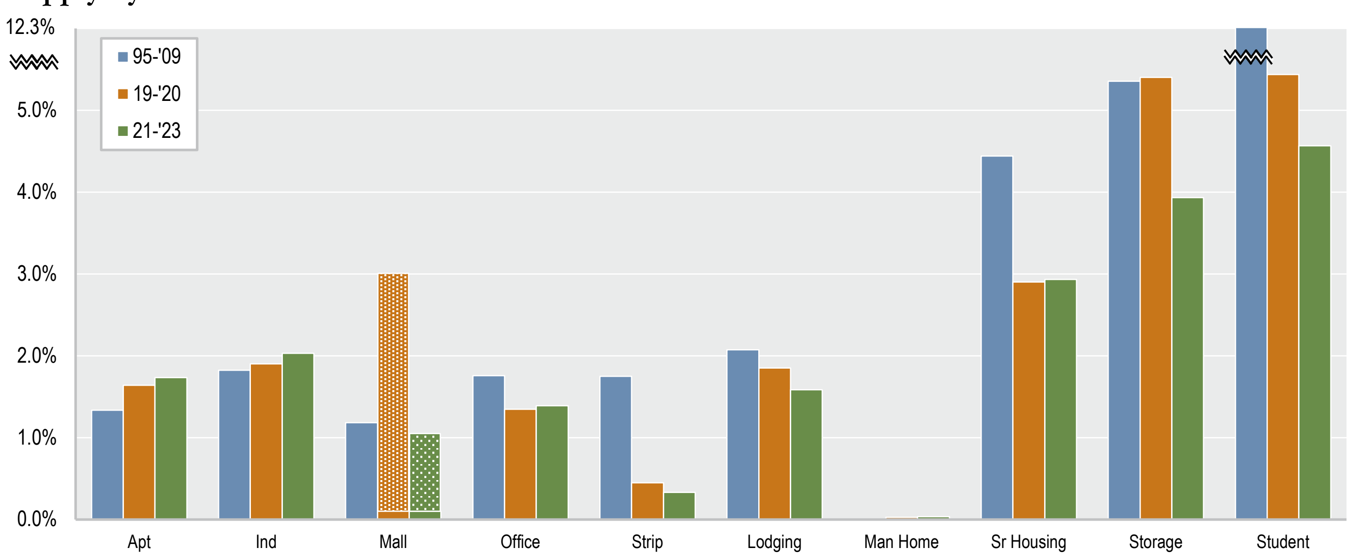
Public-Private Price Divergence Signals Decline in Property Prices



Source: Green Street Advisors.

Discounts and premiums to net asset values—underlying property values—are typically leading indicators of changes in real asset values in the private markets.

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.

Supply estimates are likely to be revised materially lower.

Adam Schwartz
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For more information on U.S. Real Estate, visit angelogordon.com/strategies/real-estate/u-s-real-estate/.

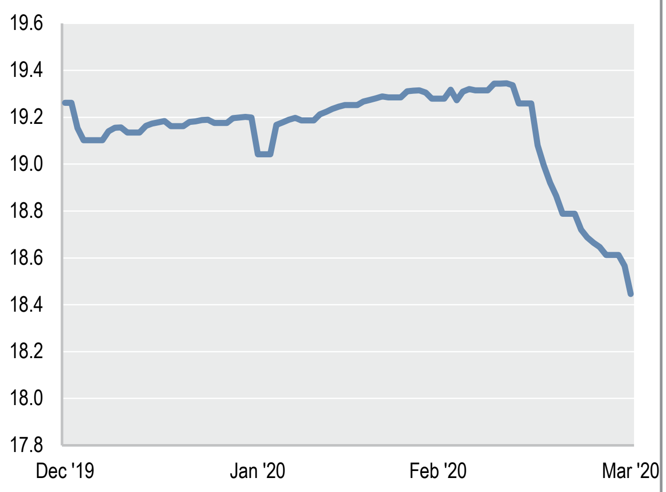
Europe Real Estate

The COVID-19 pandemic has brought the European economy to a halt. Business survey data across Europe has collapsed, and the labor markets are unravelling. Even with government sponsored programs to assist those affected by the economic shock, unemployment is increasing rapidly, and there are predictions that the eurozone unemployment rate will more than double in the coming months to 15%. Spain, one of the continent's hardest hit countries, saw its GDP contract 3% quarter-over-quarter in the first quarter. Additionally, Spanish unemployment rose from 13.8% in February to over 15% in March. Air travel across the continent has plummeted, with London's Heathrow Airport expecting the number of passengers coming through its terminals to fall more than 90% in April and other major European airports reporting similar drops. Capital Economics estimates that economic activity will likely be 25% below fourth quarter 2019 levels for the duration of the lockdown. Each 1% drop in GDP could result in an additional 250 corporate insolvencies per quarter, a harrowing consequence of this unprecedented slowdown. While there will eventually be an end to this health crisis, it is unclear how quickly the economy will be able to recover.

The pandemic is expected to impact demand across all real estate sectors, with hospitality and retail properties suffering the immediate effects most acutely in light of travel restrictions, forced closures, and quarantine measures. *The Financial Times* reported that some UK landlords are already pursuing legal action against retail tenants that have failed to pay rent, while other landlords are offering rent holidays to their hardest-hit tenants. Office, multifamily, and industrial/logistics properties will likely fare better in the near term; however, these sectors are all interconnected. Retailers accounted for the significant majority of UK logistics take-up in 2019. Reduced consumer spending, rising unemployment, corporate insolvencies, and supply chain disruptions will have an impact on demand across all sectors, with repercussions already being felt in the real estate financing market. Consistent data showing the impact to real estate is not yet available, but CBRE produced an initial report that suggests values fell by 3% across UK commercial properties and total returns were down 2.6%. The heightened uncertainty and stay-at-home orders have—not surprisingly—slowed transaction volume as well. Colliers reported that investment volume in the City of London was down 25% year-over-year in the first quarter, and Cushman & Wakefield reported that the first quarter of 2020 was the weakest quarter for UK commercial property sales in seven years.

Spain Employment (Social Security Registration)

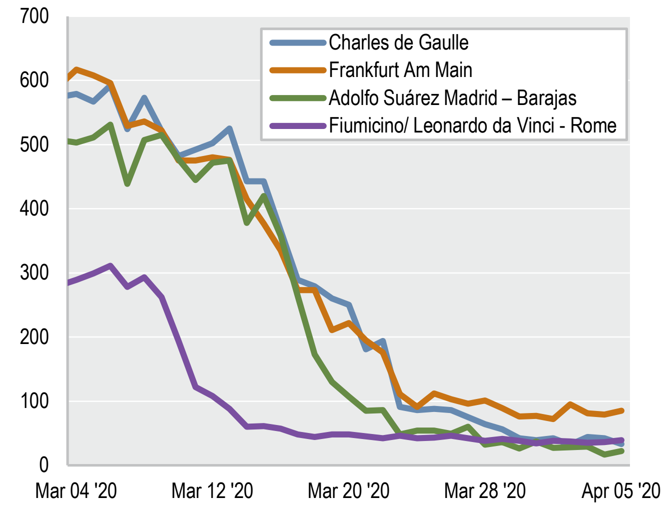
Millions



Source: Spanish Ministry of Labour.

Spanish employment levels plummeted in March.

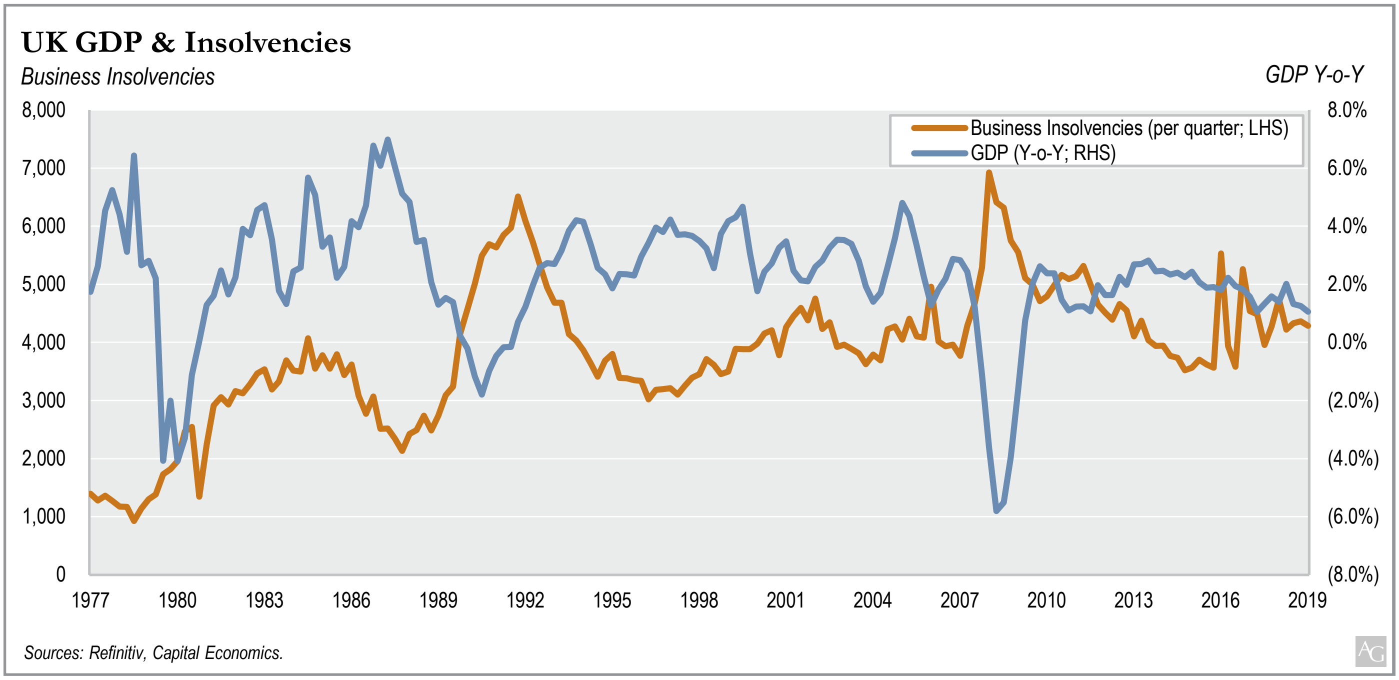
Flight Departures in Largest Airports in Major Eurozone Economies



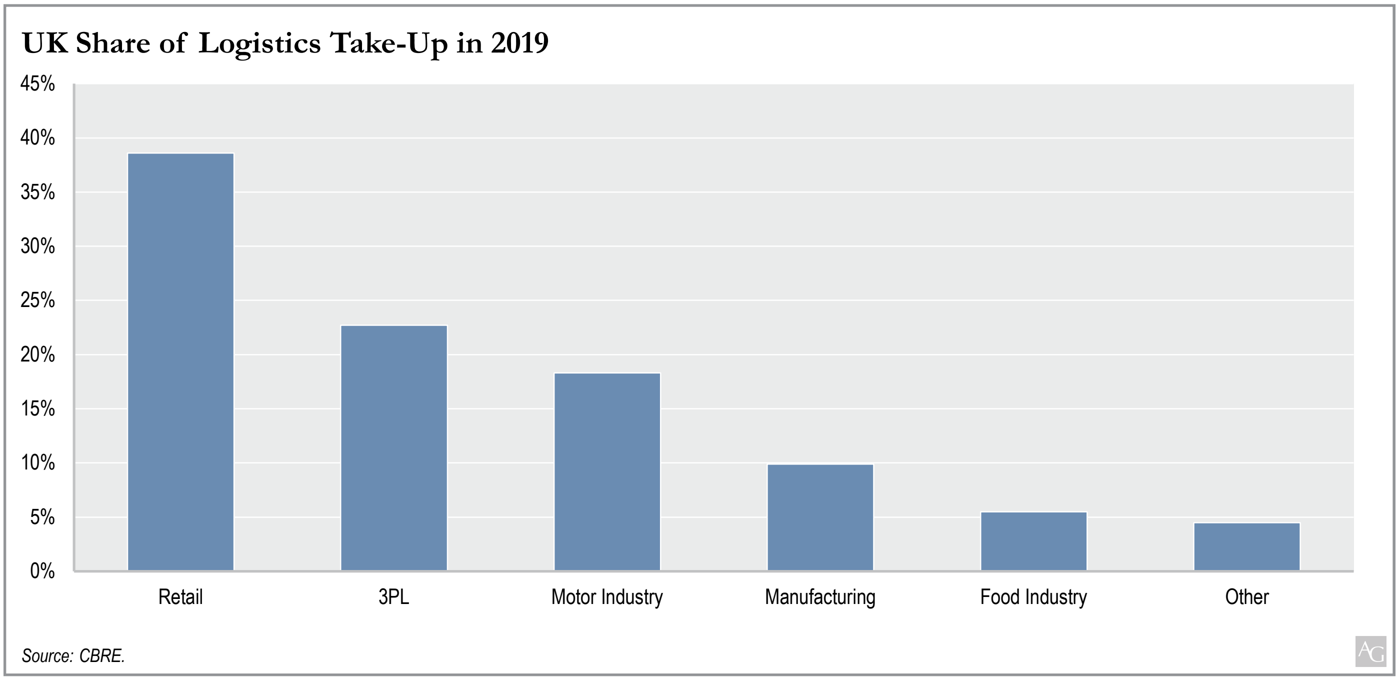
Source: https://www.flightradar24.com/data/airports/mad/statistics.

Airport traffic across major European airports has fallen to historic lows.

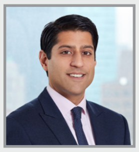
Europe Real Estate *(continued)*



Even small drops in GDP growth can lead to severe corporate solvency issues.



Logistics properties have held up relatively well so far, but struggles in the retail sector will likely cause strain.



Anuj Mittal
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For more information on Europe Real Estate, visit angelogordon.com/strategies/real-estate/europe-real-estate/.

Asia Real Estate

China

In 2019, China's economy grew 6.1% year-over-year, the slowest since 1991 but in-line with the Chinese government's target of 6.0-6.5%. Last year, U.S–China trade tensions, slowing exports, and industrial output growth weighed on the economy. This was countered with a domestic stimulus program, in the form of individual income tax and value-added tax cuts worth RMB 2 trillion as well as local infrastructure investments, which helped to stabilize the economy. However, given the impacts of COVID-19 and the related slowdown in many parts of the country, we expect slower economic growth in 2020.

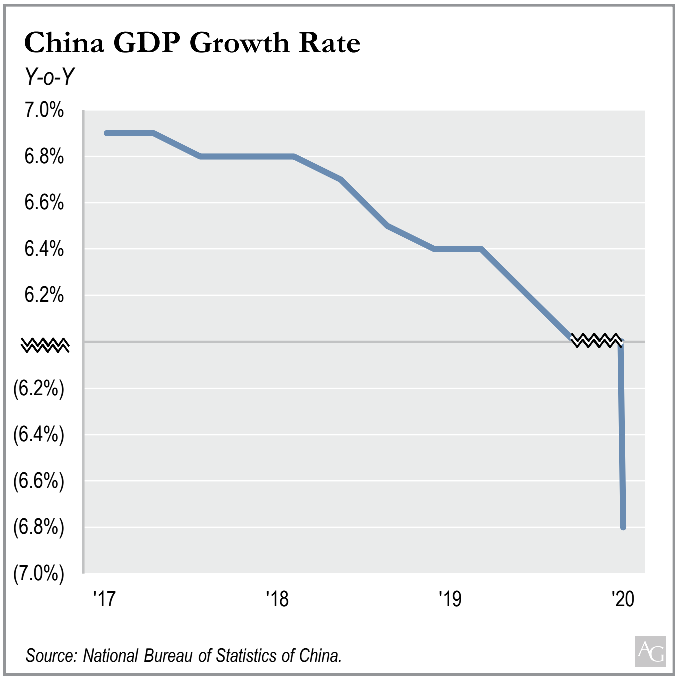
At year-end, trade tensions continued to affect the office leasing market in Beijing and Shanghai, resulting in a softer leasing environment. Year-over-year, office rents in Shanghai's Puxi and Pudong central business districts fell by 1.6% and 9.9%, respectively, though vacancy improved to 12% and 8.4%, respectively. In Beijing, office market performance varied by submarket. Finance Street and Zhongguancun—where the major tenants are domestic finance firms and tech companies—continued to perform well, with vacancy levels of 1% to 2%. In other Beijing markets, office vacancy increased, and rents softened as a result of new supply and weaker leasing demand. Going forward, there will be very limited new office supply in Beijing as there is a moratorium on new office construction within Beijing's 5th Ring Road.

Hong Kong

Last year, Hong Kong's headlines were dominated by the ongoing social unrest triggered by the recent extradition law. The situation became less contentious after the Legislative Council election in September; however, uncertainties continue to linger. Now, with the COVID-19 outbreak, we expect further pressure on the local economy and the real estate sector.

In 2019, Hong Kong's GDP declined by 1.2%, the first full-year negative growth since 2009. Unemployment edged up to 3.3% from the historical low of 2.8%, and this could possibly rise further due to the impact of COVID-19. With social unrest calming towards year-end, residential unit transaction volume recovered in the fourth quarter and full-year volume dropped by a modest 1.9% year-over-year, with prices still up 5.4% year-over-year. The commercial investment market continued to be anemic in 2019—down 63% year-over-year—and we expect that to persist during this health crisis in 2020. As of year-end, Hong Kong's office vacancy was 4.8% and rents declined 4.7% year-over-year. We expect to see further deterioration of fundamentals in the first half of 2020 as tenants hold off on committing to relocations or expansions in this time of uncertainty.

Looking forward over the next few quarters, given the volatility of the political situation and COVID-19 fears, we expect that Hong Kong will be a difficult market, with leasing demand and transaction volumes declining as tenants and buyers take a wait-and-see attitude.



As expected, China's first quarter GDP growth fell dramatically to -6.8% due to COVID-19.

CNY continued to show weakness against USD in Q1 2020.

Asia Real Estate *(continued)*

Japan

In the final quarter of 2019, Japan's real GDP shrunk at an annualized pace of 6.3%, driven by declines in consumer spending following the consumption tax hike from 8% to 10%. In December, the Japanese government announced a new ¥26 trillion ($239 billion) stimulus package—one of the largest in recent history. Considering the COVID-19 outbreak, the government began planning for possible additional measures to underpin economic stability, including financial support to corporates facing cash flow shortages. The Bank of Japan also announced that it will take necessary steps to stabilize markets, growing expectations that fiscal policy will be further loosened.

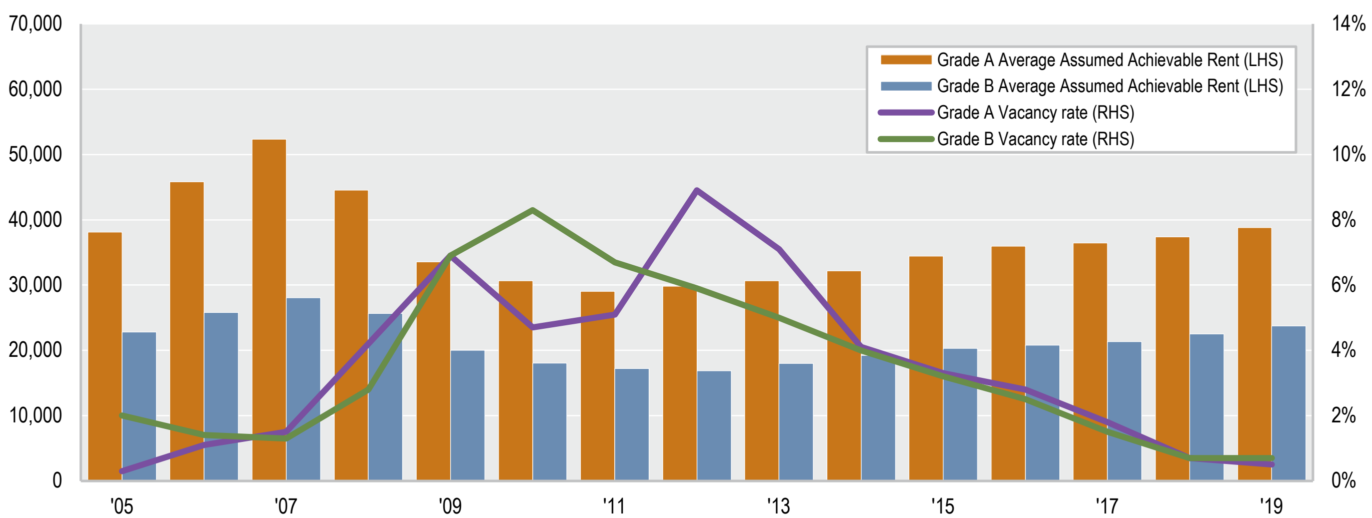
Given the uncertainties around the current COVID-19 outbreak, it is possible that we will see a slowing of tenant demand, particularly in retail; however, Japan appeared to be relatively unscathed as of mid-April. Japan's office market fundamentals continued to be positive as tenants competed for limited available space. As of year-end, strong tenant demand pushed Grade A office vacancy down to 0.5% in Tokyo and 0.2% in Osaka, and we continued to see leasing interest at our office properties in early 2020 despite global COVID-19 concerns. Vacancy levels for Grade B properties have also remained at 0.7% in Tokyo and 0.5% in Osaka. Much of the strong demand is 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 and e-commerce markets continued to grow. As rents increase in prime areas, demand is also creeping outward to more affordable sites in less established industrial submarkets. Investor interest in the sector continues to grow, from both domestic and overseas buyers. While cap rates have approached or fallen below 4.0% for assets in prime areas of Greater Tokyo, we are now seeing high-quality facilities in less desirable locations trade at similar cap rate levels as buyers chase a limited number of investment opportunities. Again, despite the COVID-19 outbreak, we continued to see stabilized assets trade late into the first quarter of 2020.

While investor appetite for Japan real estate continues in 2020, the current COVID-19 situation could dampen that interest and/or encourage a flight to quality in office, logistics, and residential assets. We may also see some distressed opportunities arise in the hospitality sector, which has been hard hit by the sudden decline in foreign and domestic tourism as well as the postponement of the 2020 Tokyo Olympics.

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).

Office occupancy and rent fundamentals were strong through the end of 2019. Early indicators in Q1 2020 show that the office sector has not been significantly impacted by COVID-19, although there is typically a lag.

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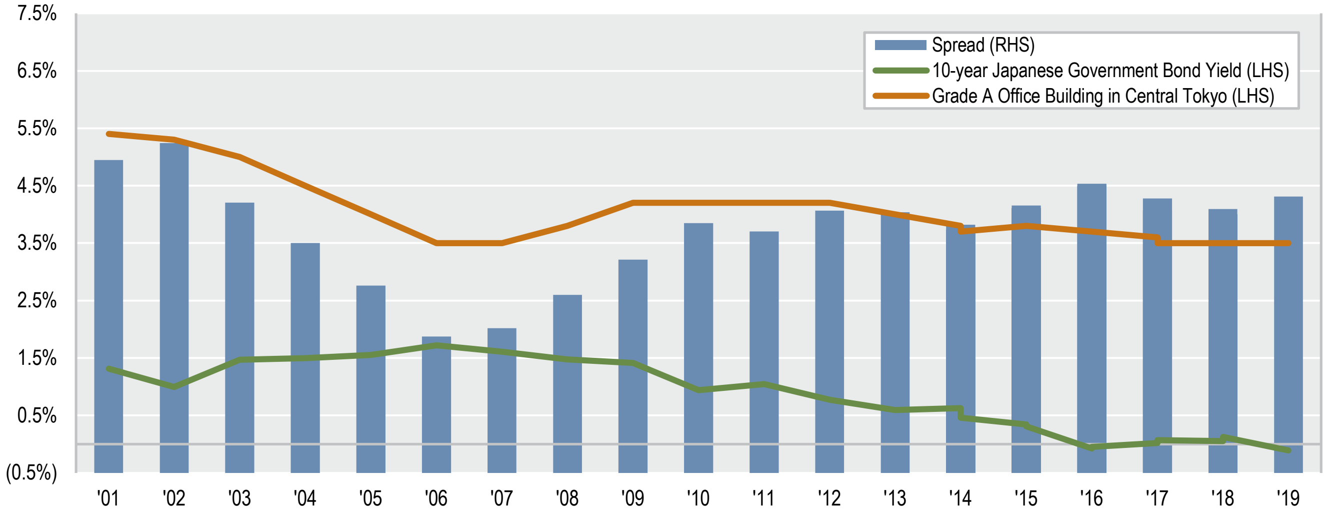
Asia Real Estate *(continued)*

Tokyo Grade A Office Cap Rates vs. Borrowing Costs

bps

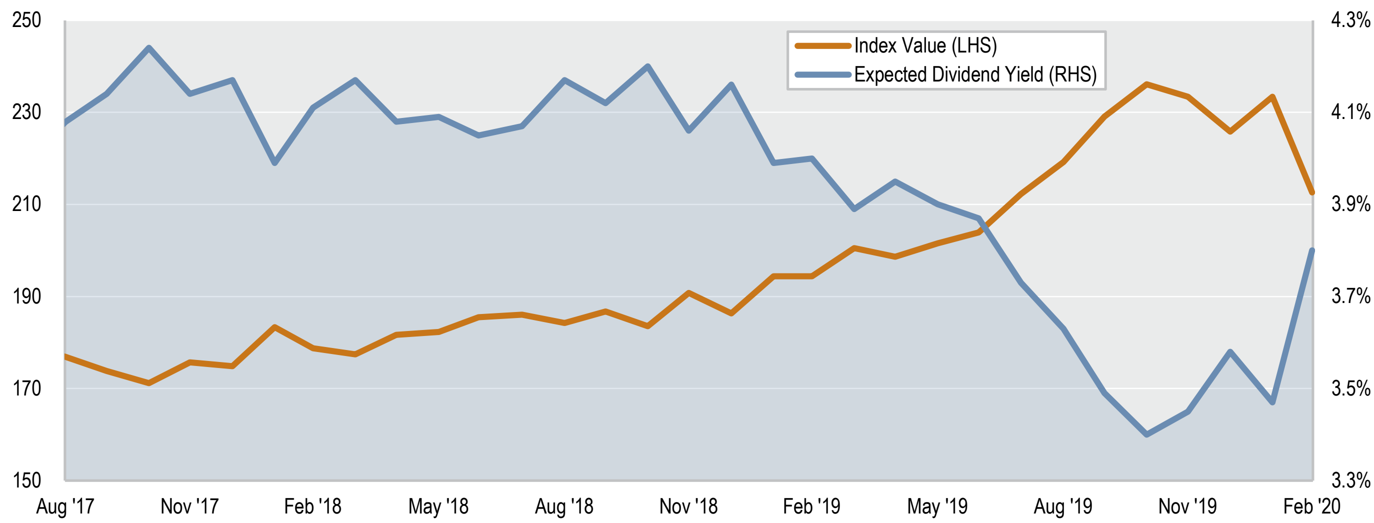


Source: Japan Real Estate Institute.

Cap rate spreads widened by 10 basis points in the last quarter of 2019 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 fell precipitously alongside global equity declines.

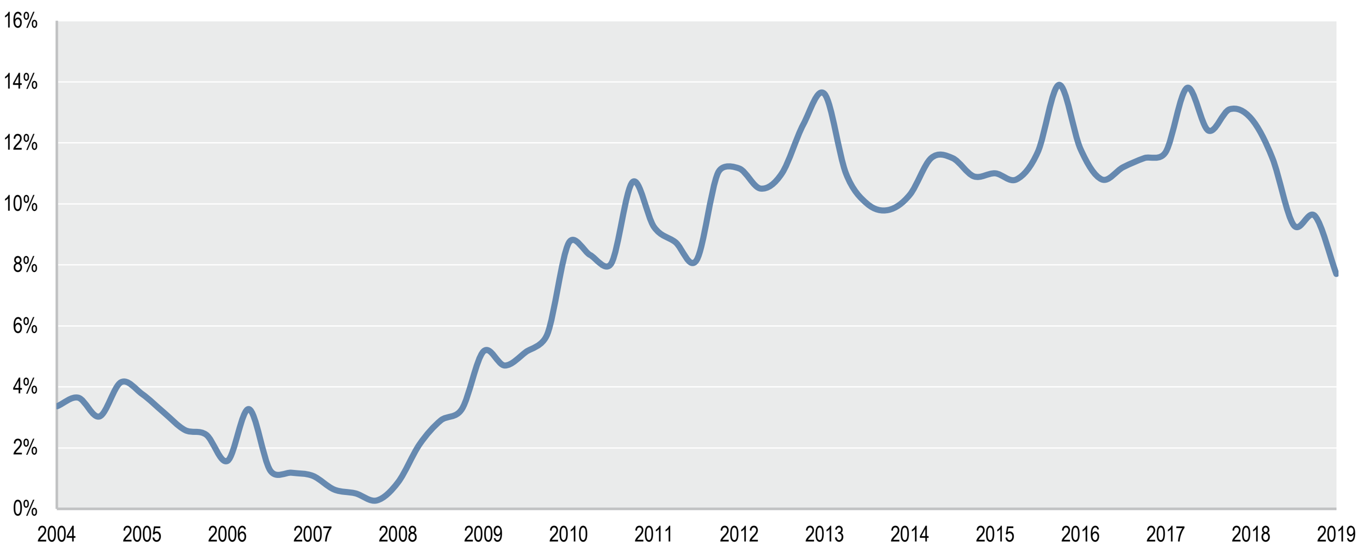
Asia Real Estate *(continued)*

South Korea

In 2019, South Korea's economy grew 2.0%, in-line with the forecast from the Bank of Korea (BoK). As expected, the BoK forecasts for 2020 are much dimmer, stemming from the impact of the COVID-19 outbreak.

At year-end, the spread between prime office cap rates and Korean government bond yields (i.e., 5-year treasury bonds) remained at 290 basis points, which is above the 10-year average of approximately 250 basis points. As of mid-March 2020, the 5-year treasury bond yield had fallen 20-25 basis points due to the COVID-19 outbreak, but there have been no office transactions to gauge the outbreak's effect on cap rates. Investment activity in the commercial office sector was robust in 2019 at $10 billion; however, we expect 2020 to be much slower. Prime office vacancy in Seoul's major business districts declined by nearly 2 percentage points to 7.7% in 2019, the lowest in ten years, but leasing may also slow given current COVID-19 concerns.

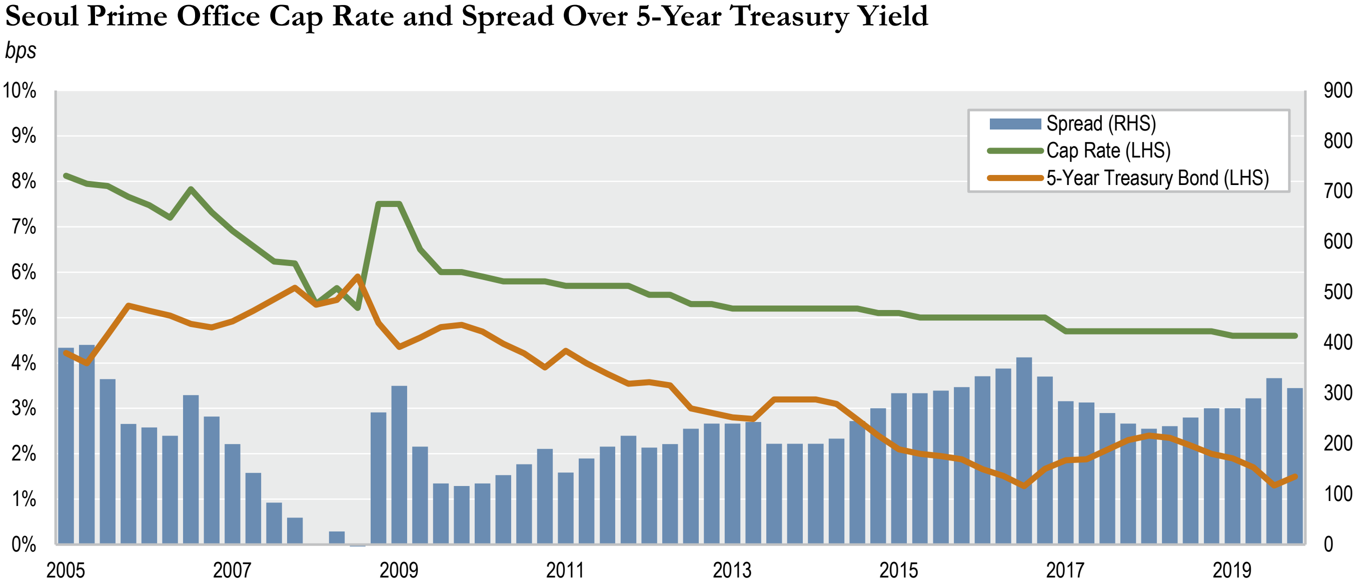
Seoul Office Vacancy Rate



Source: Jones Lang Lasalle Research.

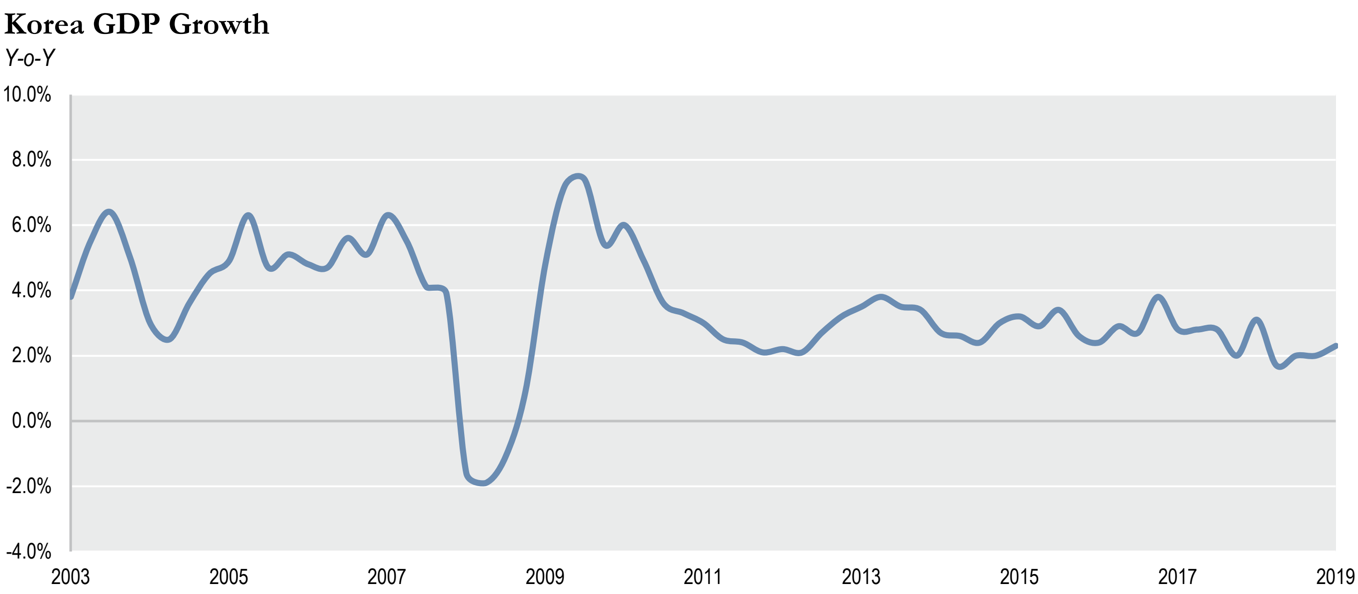
Office absorption continued to increase, driving vacancy levels down to the lowest point in a decade.

Asia Real Estate *(continued)*



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

Cap rate spreads edged down slightly to 310 basis points as Korean treasury yields increased.



Source: Bank of Korea.

GDP is expected to remain sluggish and is likely to turn negative in 2020 due to COVID-19.

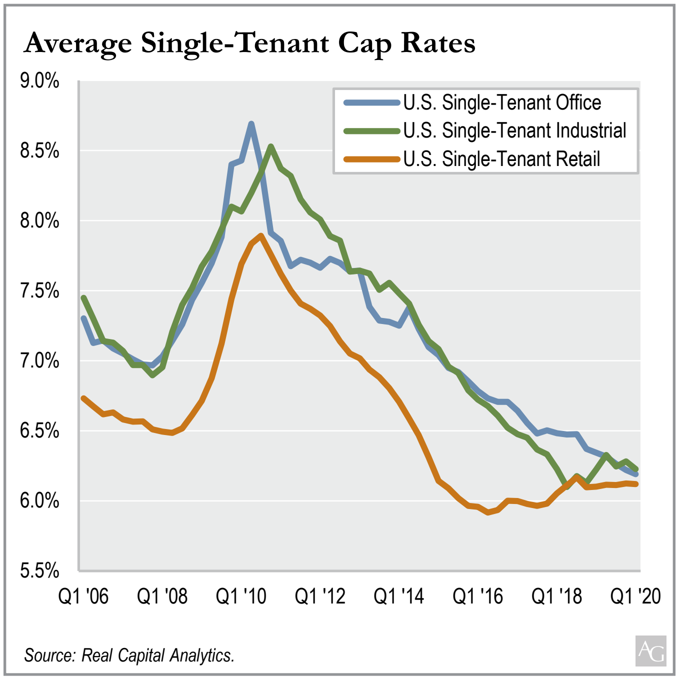
Wilson Leung
Portfolio Manager
Head of Asia Real Estate

Steven Cha
Co-Portfolio Manager
Asia Real Estate

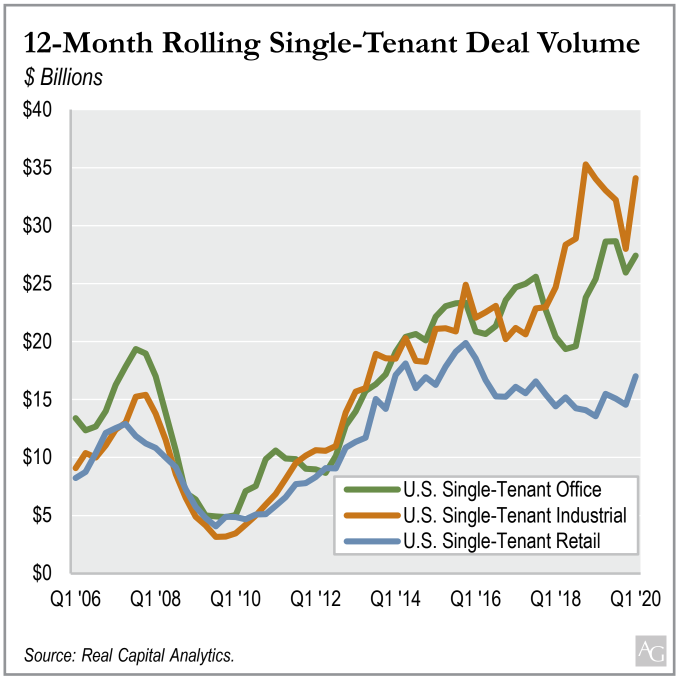
For more information on Asia Real Estate, visit angelogordon.com/strategies/real-estate/asia-real-estate/.

Net Lease Real Estate

As of the first quarter of 2020, the trailing 12-month U.S. single-tenant transaction volume totaled $78 billion, according to Real Capital Analytics (RCA). COVID-19 may have impacted volume in the last few weeks of the first quarter, but overall volume was up modestly compared to the fourth quarter of 2019. Cap rates told a similar story as volume in the first quarter, with industrial and office cap rates tightening slightly and retail remaining flat. The longer-term effects of COVID-19 remain to be seen, but near-term results are starting to unfold. Looking to public REITS, those with retail and entertainment exposure appear to have a larger percentage of tenants requesting rent relief or deferral than those with more office and industrial exposure. For example, single-tenant net lease REITs Spirit Realty Capital (SRC) and Essential Properties (EPRT) reported rent deferral requests equal to 42% and 47% of in-place rents, respectively, compared to more industrial- and office-focused Lexington Realty Trust (LXP) and Stag Industrial (STAG), which both reported deferral requests of less than 5%. Post-COVID-19, we expect to see an increase in sale-leaseback volume from tenants that need to raise capital. Real estate buyers and lenders with available capital will remain selective but will continue to close transactions.



Cap rates remained fairly flat in Q1 2020.



After growing substantially for most of 2019, single-tenant volume remained fairly flat in Q4 2019 and Q1 2020.

Gordon Whiting
Portfolio Manager

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

Private Equity

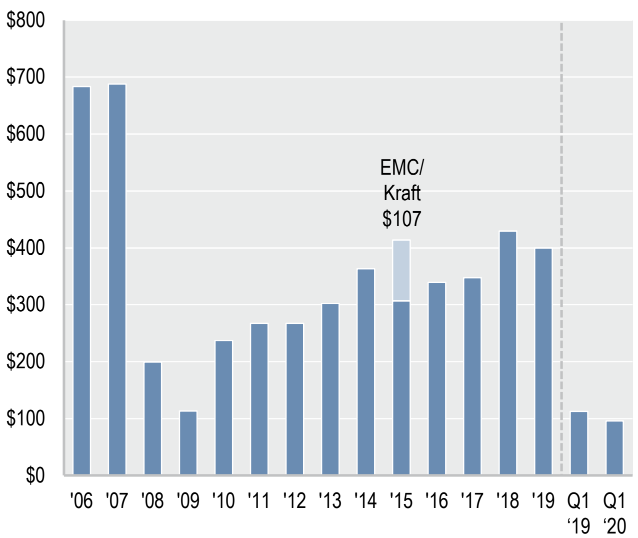
First quarter activity cannot adequately demonstrate the profound effect the COVID-19 pandemic will have on private equity going forward, though we will provide a review for the sake of completeness. First quarter 2020 deal volume, on both a global and North American basis, decreased year-over-year. In North America, there were $53 billion of transactions in the first quarter of 2020, as compared to $74 billion in the first quarter of 2019—a year-over-year decrease of 28%. Global deal volume in the first three months of 2020 decreased 15% year-over-year to $96 billion. Dry powder at March 31st declined 1% to $753 billion—down from the all-time high of $759 billion at December 31, 2019. Average multiples paid in the first quarter of 2020 were strong at 11.2x EBITDA, consistent with the 11.5x level achieved in calendar 2019. Average leverage for buyouts in the first three months of 2020 was 5.3x multiple of EBITDA, which is lower than the 5.8x we have seen over the prior three years. Equity contribution as a percentage of total capitalization was at 47%, which is higher than prior years. In the first quarter of 2020, the number of exits decreased approximately 25% year-over-year, with dollar volume decreasing approximately 33.6%.

As noted before, the global economic destruction resulting from this pandemic will certainly have a significant and long-lasting impact on the private equity industry. With many industries effectively shut down, near-term GDP declines are being projected and U.S. unemployment is at levels not seen since the Great Depression. Earnings for the overwhelming majority of portfolio companies will undoubtedly be materially lower, resulting in covenant defaults with lenders. Furthermore, companies will be suffering liquidity constraints, despite government efforts to provide capital. From a capital deployment perspective, private equity managers will therefore be principally focused on a two-pronged approach of shoring up their existing portfolios by providing equity infusions and opportunistically considering situations where capital can help stabilize companies not in their portfolios; as a result, traditional deal volume will be down considerably for the time being. At present, lenders will likely prioritize current portfolio credits and those borrower needs—including but not limited to add-on acquisitions and working capital lines—over increasing exposure to new borrowers. A risk-off lender mentality will contribute to the aforementioned decline in deal volume and translate into future leverage levels being more moderate than those before COVID-19.

In the near term, all of these factors will result in lower multiples paid, and exits – in terms of volume and dollars—will decrease significantly, as public and private markets need stability and time to recover.

Global LBO Deal Value

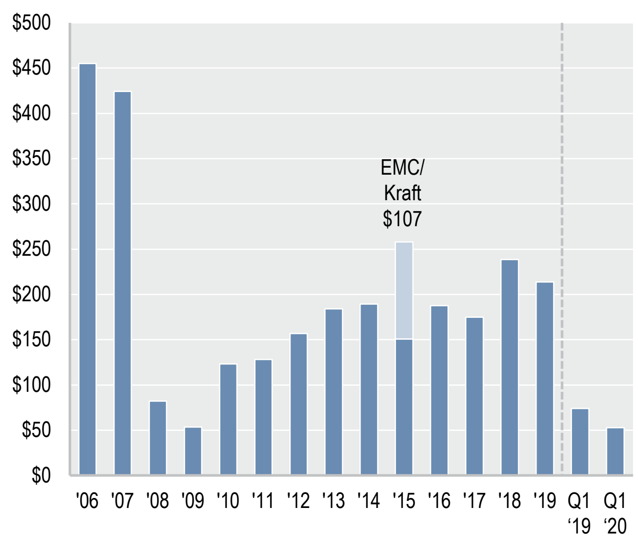
$ Billions



Source: Preqin.

North America LBO Deal Value

$ Billions



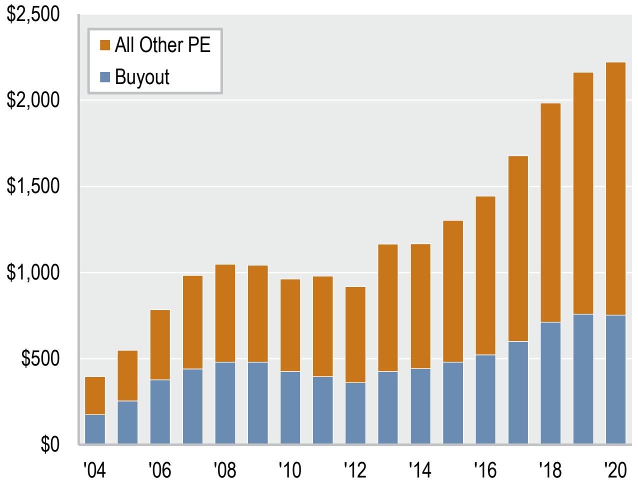
Source: Preqin.

For the first three months of 2020, year-over-year deal volume decreased 28% in North America and 15% globally.

Private Equity *(continued)*

Global Private Equity Dry Powder

$ Billions

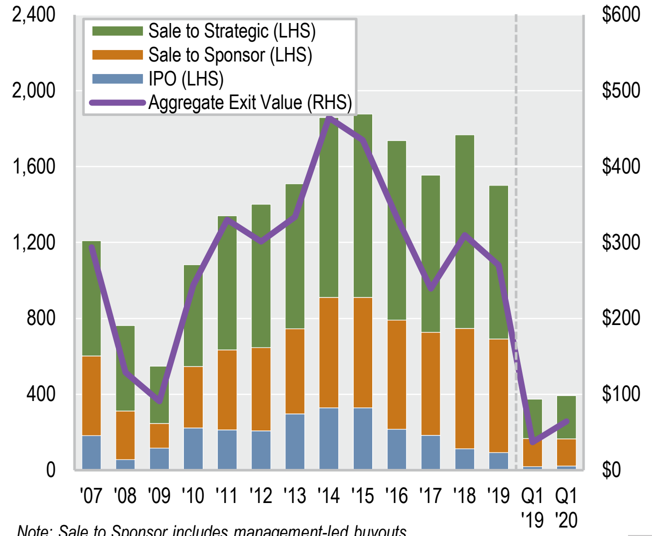


Note: All other PE Funds = Real Estate, Venture, Infrastructure, Growth, Distressed, Mezzanine, Other.
Source: Preqin.

Buyout dry powder at March 31, 2020 stood at $752 billion—a modest 1% decline from the all-time record of $759 billion at December 31, 2019.

Private Equity Exits

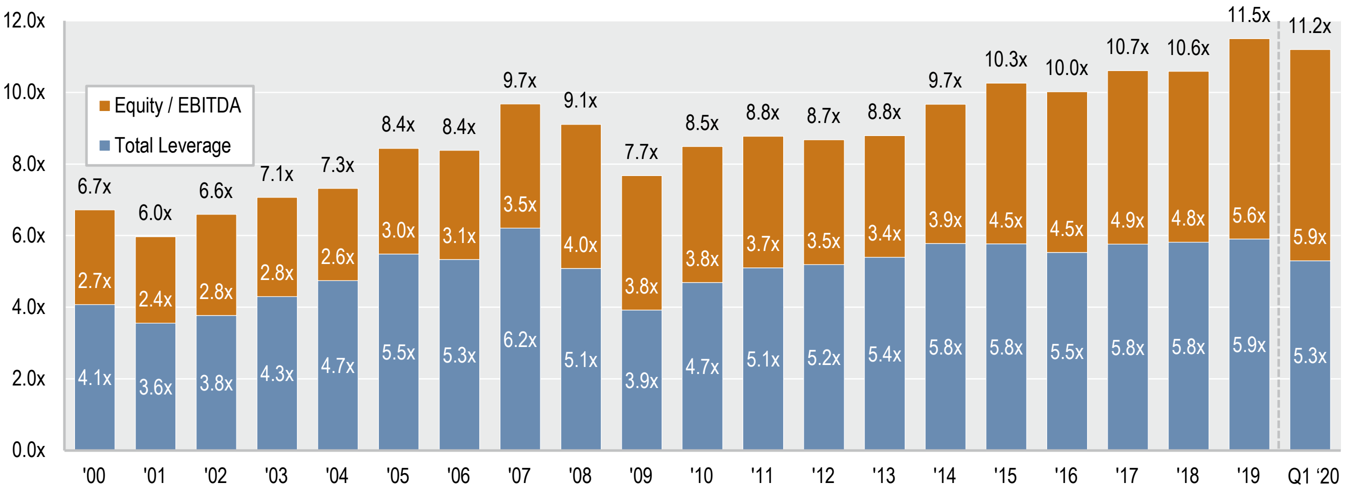
Number of Exits *Value of Exits ($ Billions)*



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

The first three months of 2020 were weaker year-over-year, with the number of exits decreasing 25% and dollar volume down 33.6%.

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%	47%

Source: S&P Capital IQ LCD.

LBO multiples in the first quarter of 2020 stood at 11.2x, which is high from a historical perspective.

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