ANGELO GORDON

CAPITAL MARKETS PERSPECTIVES

THIRD 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 $39 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 half of 2020 was a tale of two markets. Initial reactions to the global outbreak of COVID-19 brought about massive risk-off flows and extreme market volatility, which were followed by asset prices stabilizing and rallying as global central bank intervention renewed investor confidence that liquidity would improve and asset prices would be supported. As a result, the second quarter saw a strong recovery in risk assets worldwide.

Despite pandemic-related shutdowns and unemployment taking a massive and continuing toll on many businesses and the health of the consumer, dual-pronged monetary and fiscal support sent public equity markets soaring. The S&P 500 posted a 20.5% return during the second quarter, its best since 1998, while the Euro Stoxx 600 posted a 12.6% return, a five-year high. In corporate credit, high yield and leveraged loan markets had their strongest quarters in over a decade – posting 9.5% and 9.8% gains, respectively – and the energy market saw a solid recovery.

The Fed's liquidity backstops also reversed liquidity tightening across capital markets, reopening primary markets. Corporate issuers came to the capital markets *en masse* to secure their liquidity runways, with both U.S. investment grade and high yield bond markets posting record quarterly issuance of $900 billion and $146 billion, respectively. Meanwhile, quarterly global convertible bond issuance totaled $71 billion, bringing first half 2020 issuance to $92 billion – on track to reach the highest annual level since the global financial crisis. Structured credit markets lagged, as almost $40 billion in ABS and over $10 billion in RMBS new issue priced in the quarter. While structured credit markets sequentially improved over the course of the quarter, a slower primary market resulted in muted secondary trading volumes and stubbornly wide bid-ask levels relative to pre-pandemic levels. Data on U.S. consumers has thus far been better than expected, with mortgage and credit card payment remittance data stronger than anticipated.

However, market uncertainty is far from behind us, and we believe that several pandemic-related and geopolitical factors on the horizon portend heightened risk and support a cautious approach to credit selection. Yet many credit markets are trading close to pre-COVID-19 levels, and we believe investors across markets have been shunning fundamentals in favor of following the rising tide. We expect this dynamic will lead to future price volatility and a transition to an environment in which credit selection, guided by detailed fundamental analysis, will be key to identifying value opportunities and downside protection.

The effects of the pandemic have also begun to take shape in the global real estate market, though government support and accommodating lenders have delayed the onset of widespread distress. Transaction volume is down significantly across all regions, as both buyers and sellers have had difficulty assessing the global economic slowdown's true impact on asset values, with notable uncertainty around rent collections, rental rates, and growth prospects. As challenges to fundamentals flow through to rent and interest payments, we expect increasing distress to lead to loan sales and asset recapitalizations in varying degrees. However, interest rates are at spectacularly low levels, and impaired income streams may still support annual debt burdens. As global rates appear destined to remain at these ultra-low levels, yields are likely to decrease for assets with cash flows that are deemed stable, thereby bolstering asset values.

The U.S. public REIT market rebounded substantially in the second quarter, though significant corrections in private market valuations are expected once transaction volumes normalize. Shrinking economic activity has weakened property fundamentals broadly, and the trajectory of the recovery in hard hit sectors – such as retail and hospitality – remains uncertain, as does the long-term impact on the office sector.

In Europe, the economic slowdown caused a 25% decrease in GDP, though government subsidy programs have allowed unemployment levels to remain stable. However, the expiration of these programs – most of which are set to expire before the end of 2020 – coupled with an undecided UK-EU Brexit deal could lead to a prolonged recovery for the region. Public real estate indices in continental Europe have declined over 20% year-to-date, and evidence of increased vacancy and ongoing rent defaults have driven further uncertainty in private market valuations.

Turning to Asia, while logistics real estate predominantly remained strong, economies contracted across the region and office fundamentals softened in several geographies. The Japanese REIT Index saw a recovery similar to that of the U.S. and Europe, but expectations of further economic contraction spurred the government to approve a record stimulus package. China and Hong Kong experienced significant economic contractions, and office fundamentals generally weakened, as office vacancy remained flat or increased and rents declined year-over-year. In South Korea, accommodative economic policies provided economic support, but a decrease in private consumption and exports led to a decline in growth, and a slowdown in leasing activity is expected given current market uncertainty.

Through these unprecedented times, we hope that you, your families, and your colleagues are remaining safe and healthy.

Michael Gordon
Chief Executive Officer,
Co-Chief Investment Officer

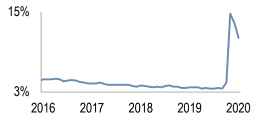
Josh Baumgarten
Co-Chief Investment Officer,
Head of Credit

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

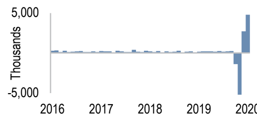
Economic Dashboard & Market Indices

JOB MARKET
Five-Year Trend

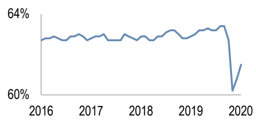
U.S. – Unemployment Rate	*As of 6/30/2020*
Latest Level	11.1
Change from Prior Period	(2.2)
Frequency	Monthly



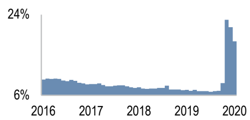
U.S. – Non-Farm Payroll	*As of 6/30/2020*
Latest Level	4,800.0
Change from Prior Period	2,101.0
Frequency	Monthly



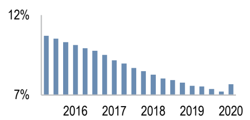
U.S. – Labor Participation Rate	*As of 6/30/2020*
Latest Level	61.5
Change from Prior Period	0.7
Frequency	Monthly



U.S. – U-6 Unemployed & Margin & Part-Time as Percent of Labor Force & Margin	*As of 6/30/2020*
Latest Level	18.0
Change from Prior Period	(3.2)
Frequency	Monthly

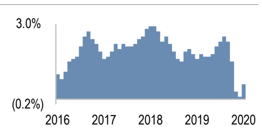


Eurozone Unemployment Rate	*As of 6/30/2020*
Latest Level	7.7
Change from Prior Period	0.4
Frequency	Quarterly

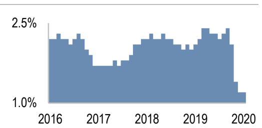


INFLATION
Five-Year Trend

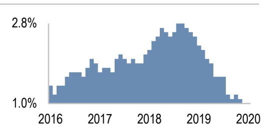
U.S. Consumer Price Index (CPI) Y-o-Y (%)	*As of 6/30/2020*
Latest Level	0.6
Change from Prior Period	0.5
Frequency	Monthly



U.S. CPI Goods Less Food & Energy Y-o-Y (%)	*As of 6/30/2020*
Latest Level	1.2
Change from Prior Period	0.0
Frequency	Monthly

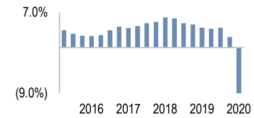


U.S. Producer Price Index (PPI) Y-o-Y (%)	*As of 6/30/2020*
Latest Level	1.0
Change from Prior Period	0.0
Frequency	Monthly

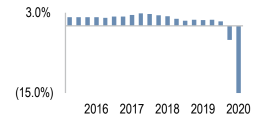


GDP GROWTH
Five-Year Trend

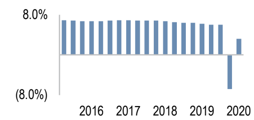
U.S. – GDP Y-o-Y (%)	*As of 6/30/2020*
Latest Level	(9.0)
Change from Prior Period	(11.1)
Frequency	Quarterly



Eurozone – GDP Y-o-Y (%)	*As of 6/30/2020*
Latest Level	(15.0)
Change from Prior Period	(11.9)
Frequency	Quarterly

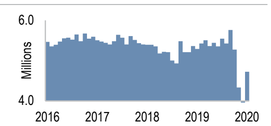


China – GDP Y-o-Y (%)	*As of 6/30/2020*
Latest Level	3.2
Change from Prior Period	10.0
Frequency	Quarterly

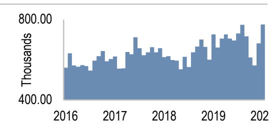


HOUSING
Five-Year Trend

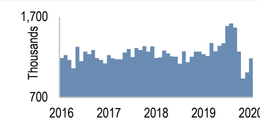
Existing Home Sales	*As of 6/30/2020*
Latest Level	4.7
Change from Prior Period	0.8
Frequency	Monthly



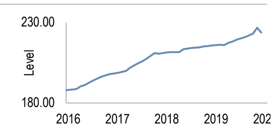
New Home Sales	*As of 6/30/2020*
Latest Level	776.0
Change from Prior Period	94.0
Frequency	Monthly



Housing Starts	*As of 6/30/2020*
Latest Level	1,186.0
Change from Prior Period	175.0
Frequency	Monthly



Case-Shiller Index of Home Value in 20 Cities	*As of 5/31/2020*
Latest Level	223.8
Change from Prior Period	0.1
Frequency	Monthly



Source: Bloomberg (All).

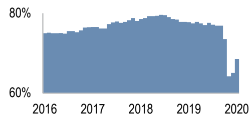
Economic Dashboard & Market Indices *(continued)*

ECONOMIC & MARKET CONFIDENCE

Five-Year Trend

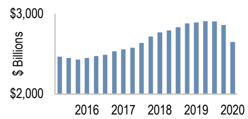
Capacity Utilization as a Percent of Capacity — *As of 6/30/2020*

Latest Level	68.6
Change from Prior Period	▲ 3.5
Frequency	Monthly



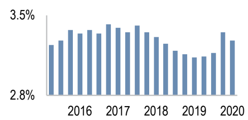
Private Fixed Investment Nonresidential SAAR — *As of 6/30/2020*

Latest Level	2,647.6
Change from Prior Period	▼ (211.7)
Frequency	Quarterly



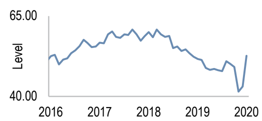
Residential Fixed Investment as a Percent of GDP — *As of 6/30/2020*

Latest Level	3.3
Change from Prior Period	▼ (0.1)
Frequency	Quarterly



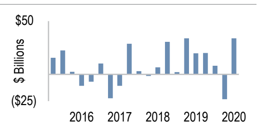
ISM Manufacturing Index — *As of 6/30/2020*

Latest Level	52.6
Change from Prior Period	▲ 9.5
Frequency	Monthly



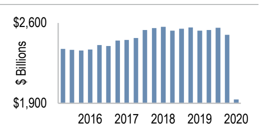
Manufacturing Inventory Change Q-o-Q ($) — *As of 6/30/2020*

Latest Level	33.6
Change from Prior Period	▲ 56.8
Frequency	Quarterly



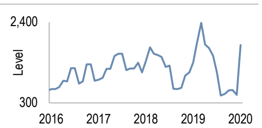
Exports of Goods/Services — *As of 6/30/2020*

Latest Level	1,932
Change from Prior Period	▼ (564)
Frequency	Quarterly



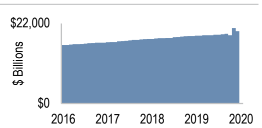
Shipping Rates — *As of 6/30/2020*

Latest Level	1,799
Change from Prior Period	▲ 1,164
Frequency	Quarterly



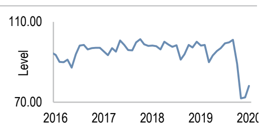
Personal Income Level — *As of 5/31/2020*

Latest Level	19,839
Change from Prior Period	0
Frequency	Monthly



Michigan Consumer Confidence Sentiment — *As of 6/30/2020*

Latest Level	78.1
Change from Prior Period	▲ 5.8
Frequency	Monthly

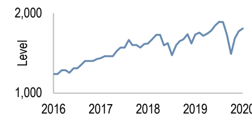


EQUITY

Five-Year Trend

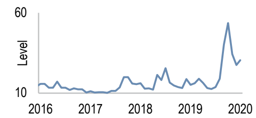
U.S. Equity Markets – Russell 3000 — *As of 6/30/2020*

Latest Level	1,809.2
Change from Prior Period	▲ 124.3
Frequency	Monthly



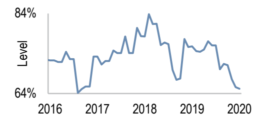
U.S. Equity – VIX — *As of 6/30/2020*

Latest Level	30.4
Change from Prior Period	▼ (3.7)
Frequency	Monthly

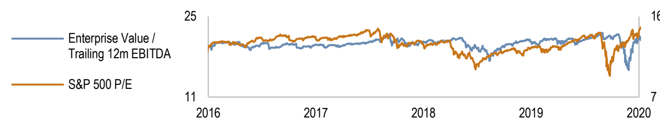


S&P 500 Percentage Exceeding Earning Estimates — *As of 6/30/2020*

Latest Level	65.2
Change from Prior Period	▼ (2.4)
Frequency	Monthly

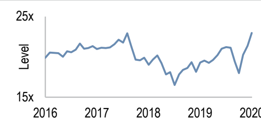


S&P 500 Historical Valuation Levels — *As of 6/30/2020*



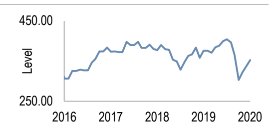
Trailing P/E on S&P 500 — *As of 6/30/2020*

Latest Level	23.2
Change from Prior Period	▲ 2.9
Frequency	Monthly



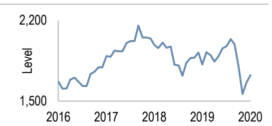
Equity Markets – Euro Stoxx — *As of 6/30/2020*

Latest Level	352.8
Change from Prior Period	▲ 30.6
Frequency	Monthly



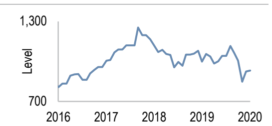
Equity Markets – MSCI EAFE — *As of 6/30/2020*

Latest Level	1,780.6
Change from Prior Period	▲ 122.9
Frequency	Monthly

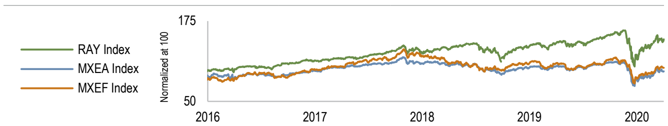


Equity Markets – MSCI EM — *As of 6/30/2020*

Latest Level	995.1
Change from Prior Period	▲ 70.2
Frequency	Monthly



Russell 3000 & MSCI EAFE & MSCI EM — *As of 6/30/2020*

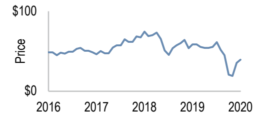


Source: Bloomberg (All).

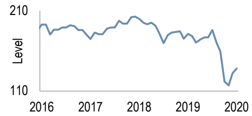
Economic Dashboard & Market Indices *(continued)*

COMMODITIES
Five-Year Trend

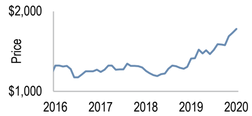
WTI Crude Oil Price	*As of 6/30/2020*
Latest Level	39.3
Change from Prior Period	▲ 20.4
Frequency	Monthly



Reuters/Jefferies Commodity Index	*As of 6/30/2020*
Latest Level	138.0
Change from Prior Period	▲ 20.8
Frequency	Monthly

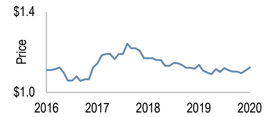


Gold	*As of 6/30/2020*
Latest Level	1,781.0
Change from Prior Period	▲ 94.5
Frequency	Monthly

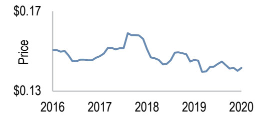


FOREIGN EXCHANGE RATES
Five-Year Trend

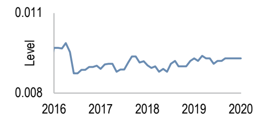
Euro Spot Rate vs. 1 USD	*As of 6/30/2020*
Latest Level	1.12
Change from Prior Period	▲ 0.03
Frequency	Monthly



Yuan Spot Rate vs. 1 USD	*As of 6/30/2020*
Latest Level	0.1415
Change from Prior Period	▼ (0.0001)
Frequency	Monthly

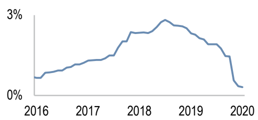


Yen Spot Rate vs. 1 USD	*As of 6/30/2020*
Latest Level	0.0093
Change from Prior Period	▼ (0.0001)
Frequency	Monthly

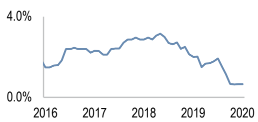


RATES
Five-Year Trend

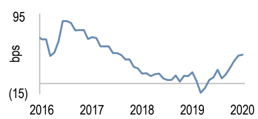
Libor 3M	*As of 6/30/2020*
Latest Level	0.30
Change from Prior Period	▼ (0.25)
Frequency	Monthly



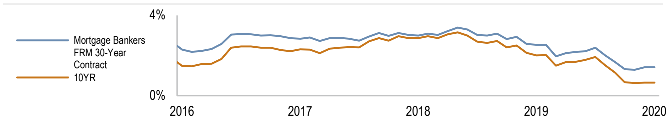
Treasury 10-Yr Yield	*As of 6/30/2020*
Latest Level	0.66
Change from Prior Period	▲ 0.02
Frequency	Monthly



Swaps 2-Yr vs. 10-Yr	*As of 6/30/2020*
Latest Level	41.31
Change from Prior Period	▲ 8.94
Frequency	Monthly



30-Yr Mortgage & 10-Yr Treasury *As of 6/30/2020*



Source: Bloomberg (All).

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Performing Credit

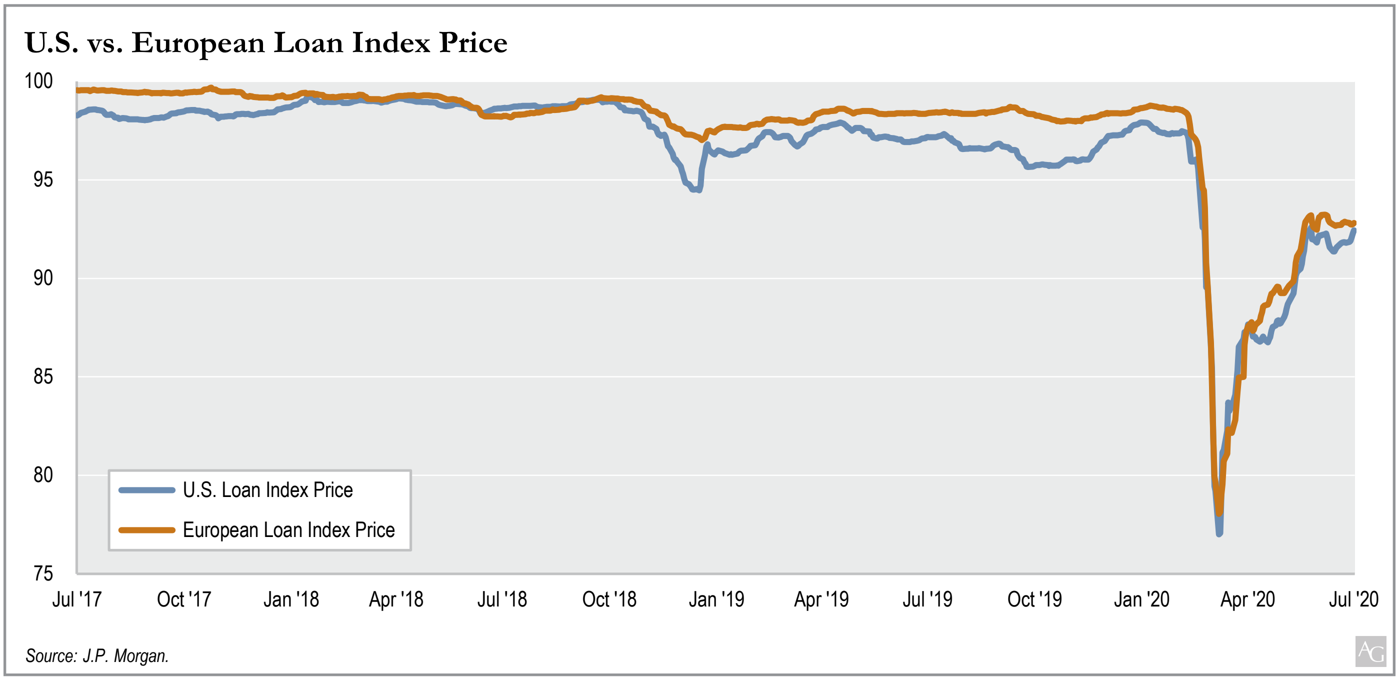
In the second quarter of 2020, the leveraged loan market rebounded sharply from the record lows experienced in March. In the U.S., the impact of government fiscal and monetary support as well as a slowdown in the pace of rating agency downgrades were positive drivers for the leveraged loan market. The J.P. Morgan U.S. Leveraged Loan Index ended the quarter with a weighted average price of $91.37, posting a 9.78% gain, the strongest quarterly return in over a decade. The European leveraged loan market experienced a similar snapback, ending the quarter with a weighted average price of $92.73.

The second quarter began with a wave of COVID-19-related rating downgrades, with S&P downgrade volume in excess of $60 billion during the first week of April. The pace of rating downgrades moderated, falling to slightly below $10 billion during the last week of June. Although more downgrades are to be expected, the pace is likely to slow. However, the $450 billion of debt outstanding with a negative outlook remains a concern and presents an overhang on the leveraged loan market. As social distancing guidelines led to a shutdown of parts of the global economy, the par-weighted default rate in the leveraged loan market ended June at a five-year high of 3.96%.

Looking to new issuance, the second quarter painted a very different picture from the first, with only $46 billion of new issue. The loan market reopened much more slowly than the bond market, with borrowers showing a preference for fixed-rate debt. Limited primary issuance has coincided with weak retail demand, with retail loan funds seeing $640 million of outflows in June, the 21st consecutive monthly outflow of more than $79 billion. A lack of supply in the loan market should benefit secondary prices.

The CLO market – an important source of demand for loans – showed signs of reopening in June. In the U.S., there were 79 new issue deals totaling $35 billion in the first half of 2020, representing a 44% year-over-year decrease in new issue volumes. In Europe, 30 new issue deals totaling $10.1 billion have printed year-to-date through June – a 38% decline year-over-year. The speed at which new CLO creation takes place will partially depend on the cost of CLO spreads, as well as the volume of new loan issuance.

In June, hopes for a gradual reopening of the economy were met with an uptick in new COVID-19 cases in certain parts of the U.S. In this environment, we believe prudent leveraged loan investors are focused on monitoring the liquidity runway of underlying borrowers. Companies that can manage their cost structure and have access to capital will have the flexibility needed to navigate the COVID-19 crisis. Furthermore, we believe a focus on avoiding challenged sectors, such as retail or energy, can help mitigate risk and improve capital preservation.

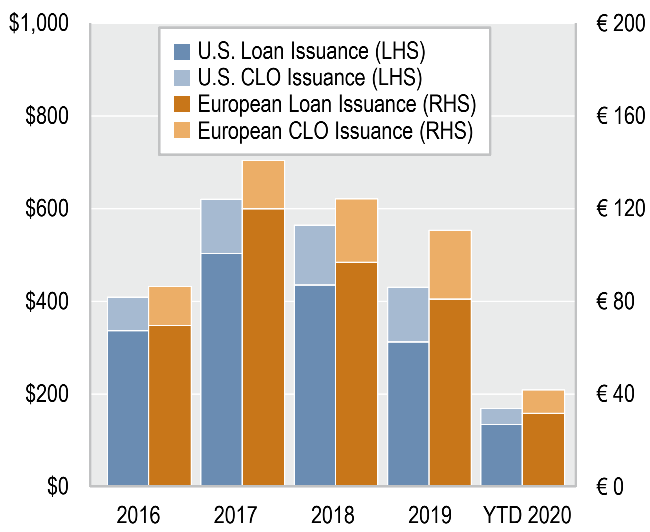


Leveraged loans in the U.S. and Europe have rebounded sharply from the lows seen in late March.

Performing Credit *(continued)*

Leveraged Loan and CLO Issuance

Issuance ($ Billions) *Issuance (€ Billions)*

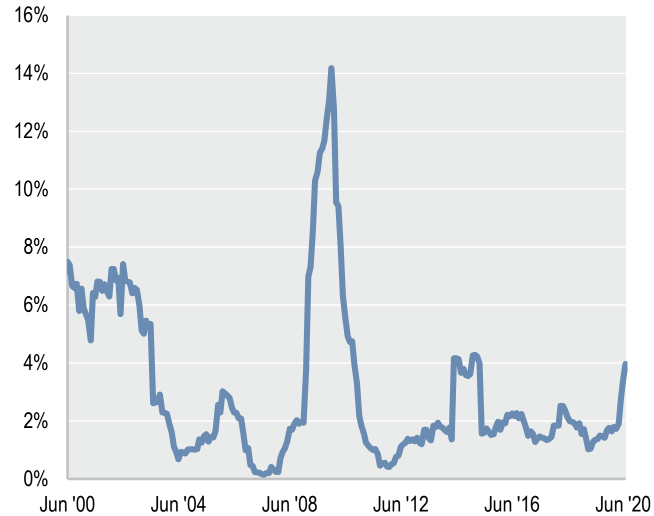


Sources: Morgan Stanley, S&P LCD.

Although the loan market reopened much more slowly than the bond market, a lack of supply should benefit secondary prices.

Leveraged Loan Default Rate

Par-Weighted Default Rate

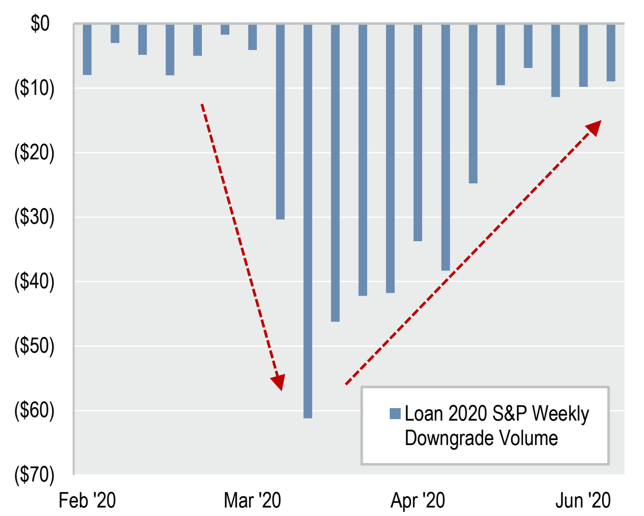


Note: Represents the last twelve month default rate.
Source: J.P. Morgan.

The leveraged loan default rate hit a five-year high in June.

Leveraged Loan Downgrade Volume

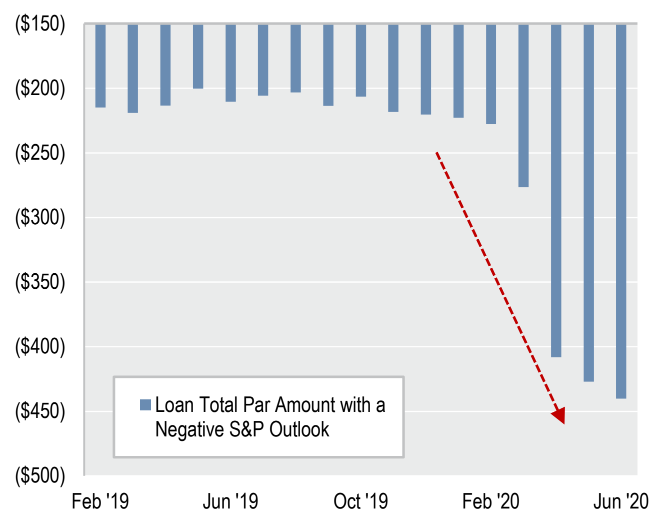
$ Billions



Source: Credit Suisse.

Outstanding Debt with Negative S&P Outlook

$ Billions



Source: Credit Suisse.

Although the pace of rating downgrades has moderated, the $450 billion of debt outstanding with a negative outlook remains a concern and presents an overhang on the leveraged loan market.

Maureen D'Alleva
Portfolio Manager

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

Distressed Debt

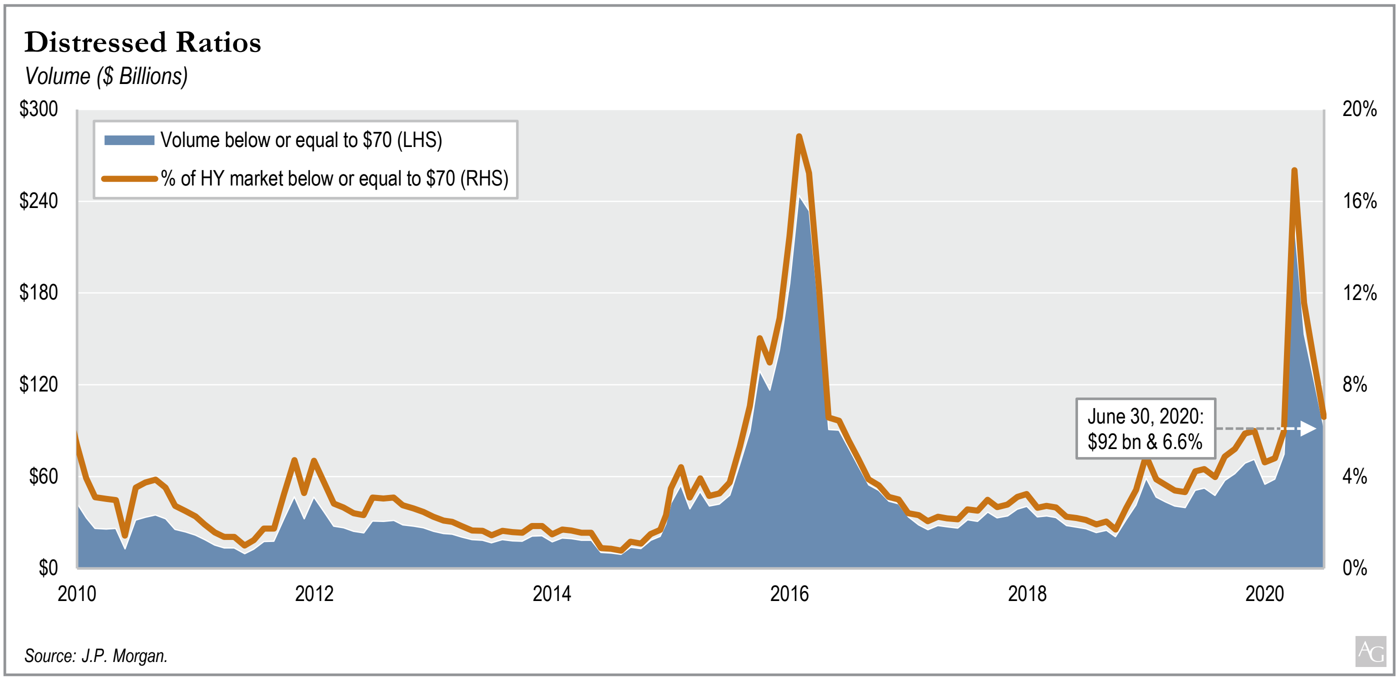
The U.S. and European high yield markets generated strong gains in the second quarter amid increased investor optimism about a V-shaped recovery and market support from governments and central banks, notably the Federal Reserve's corporate bond purchasing programs. U.S. high yield rose 9.5% in April through June, producing the largest quarterly gain since the third quarter of 2009, while euro-currency high yield rebounded 12.2% in the second quarter. With these strong results, year-to-date performance retraced to -6.2% in the U.S. and -5.8% in euro-currency.

In the U.S., spreads tightened 227 basis points, from 949 basis points in March to 722 basis points at the end of June. Spreads in Europe trended similarly, compressing 290 basis points to close the quarter at 611 basis points. While higher-rated bond segments outperformed early in the quarter in reaction to government asset purchase programs, CCCs led the quarter with a 11.6% return, though BB-rated bonds still had the smallest year-to-date losses at -3.3%. Energy, gaming & leisure, and housing were the top performing sectors in the quarter.

At the end of June, the U.S. high yield default rate reached a 10-year high of 6.6%. During the quarter, 47 companies defaulted, filed for bankruptcy, or completed a distressed exchange; the $82 billion of bonds affected surpassed the prior record of the first quarter of 2009, and the six-month total already ranks as the second highest annual default amount on record behind 2009. Energy, retail, and consumer were the most impacted sectors. In Europe, high yield default rates remained muted during the quarter, ending at 1.5% as of June.

U.S. high yield new issuance set records in the second quarter, with gross volume of $146 billion eclipsing the prior high of $121 billion in the second quarter of 2014. Of note, June was the most active month of all time, with $62 billion of new issues, and several of the sectors most impacted by the effects of COVID-19 – such as casinos, energy, and automotive – were among the most active in raising capital through the primary market. Conversely, in Europe, new high yield supply was slow to recover in the second quarter, with primary issuance limited to €20 billion.

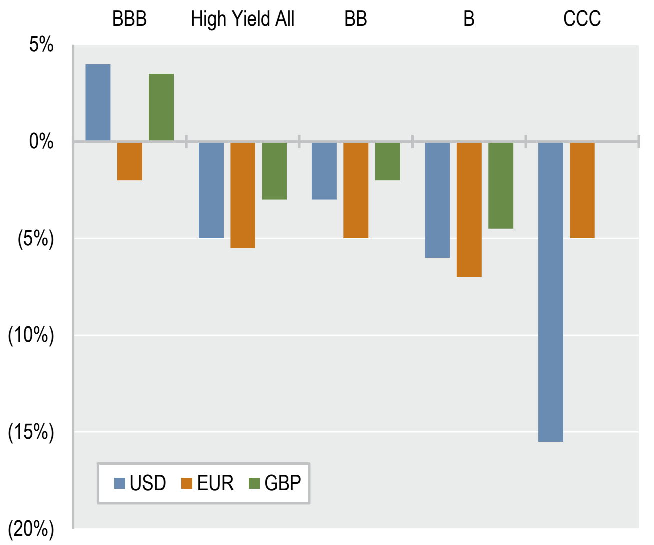
After nearly $12 billion of outflows in March alone, U.S. high yield mutual funds reported record inflows of $47 billion in the second quarter of 2020. April, May, and June represented three of the four highest monthly inflows of all time. In contrast, U.S. loan funds experienced their 21st consecutive month of outflows in June, bringing the total capital redeemed to approximately $80 billion over this period. European high yield funds took in approximately €5 billion in April through June, partially offsetting the nearly €8 billion lost in the first quarter.



Less of the high yield market is trading at distressed levels since spiking in March.

Distressed Debt *(continued)*

Year-to-Date Total Return By Rating

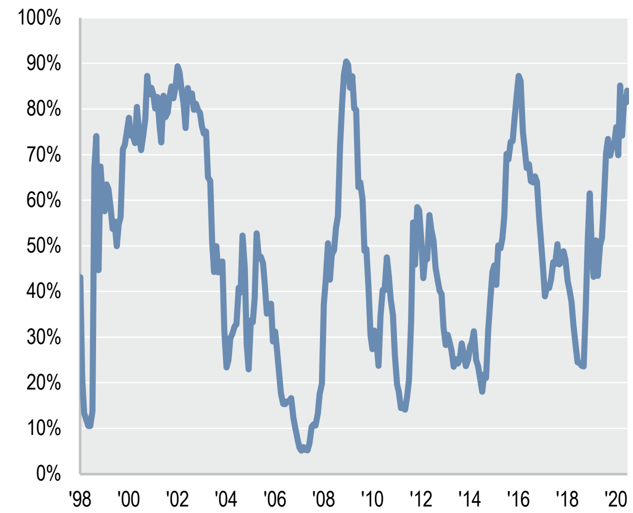


Sources: Deutsche Bank, Markit.

Higher quality bonds have outperformed lower quality bonds in the U.S., but returns by rating are less differentiated in Europe.

Dispersion of CCC Spreads

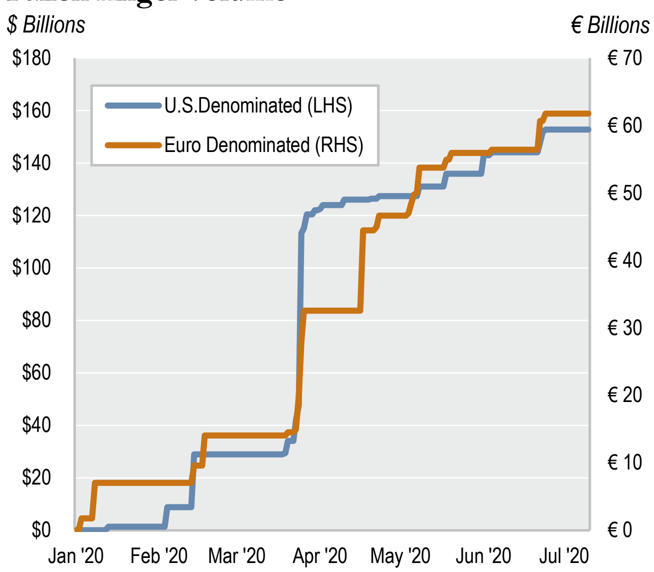
Percent Trading Outside +/- 400bps vs. CCC Index



Note: Spread to worst (bps).
Source: BofA Global Research.

Spread dispersion in the lower-quality CCC segment continues to increase.

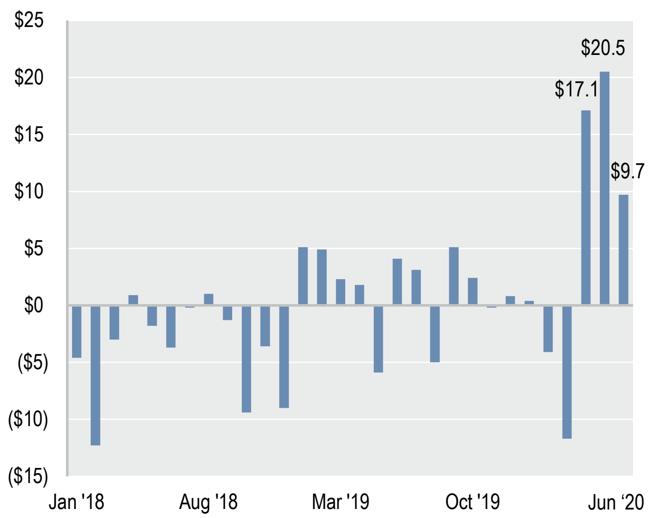
Fallen Angel Volume



Sources: Deutsche Bank, ICE Indices.

Downgrades from investment grade to high yield have grown significantly in 2020.

Quarterly Inflows



Sources: J.P. Morgan, Lipper FMI.

U.S. high yield inflows hit a record $47 billion in Q2 2020 after $17 billion of outflows in Q1 2020.

Ryan Mollett
Global Head of Distressed & Corporate Special Situations

Dan Pound
Distressed & Corporate Special Situations, Europe

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

Commercial Real Estate Debt

Within CMBS, the senior parts of the capital structure that led the market wider in March also led the market tighter during the second quarter. After trading as wide as swaps plus approximately 3.25%, AAA conduit CMBS spreads ended the quarter at approximately swaps plus 1.10%, roughly 20 basis points wide to pre-COVID-19 levels.

The tightening in AAA spreads improved economics enough to restart the new issue market. Although quarterly CMBS issuance was the lowest it's been in eight years at $7 billion and a far cry from the $23 billion issued in the first quarter, it allowed banks to move commercial real estate debt exposure and free up some of their balance sheets, which were severely constrained at the end of March.

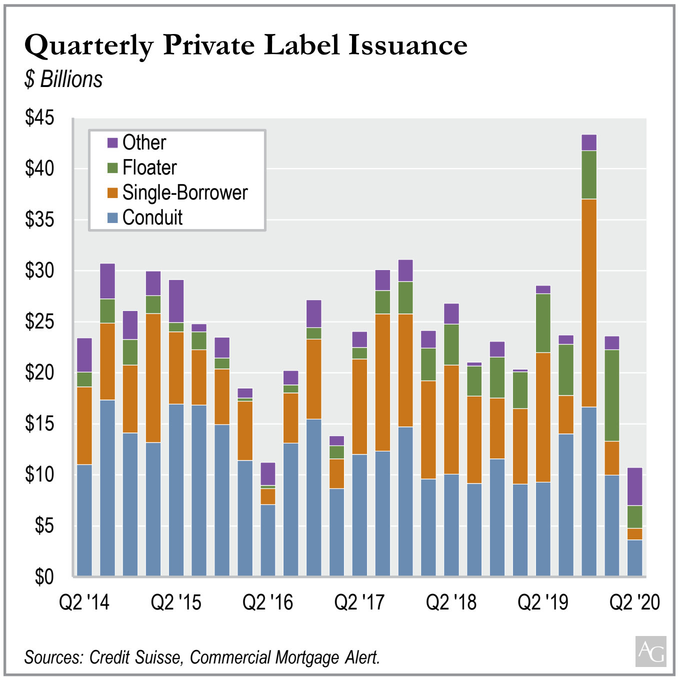
After AAA CMBS recovered, AA-rated securities were quick to follow. Eventually, we saw a similar dynamic in single A-rated bonds. In June, the rally extended to BBB-rated conduit CMBS. We are skeptical regarding the depth and long-term viability of these recent BBB conduit CMBS buyers. The more we hear buyers refer to CMBS as "cheap to corporates or CMBX," the more we believe they are not focused on fundamental real estate risk and, therefore, the quicker selling pressure could increase should the broader markets grow cautious.

The one market segment that has seen more volatility than conduit CMBS credit tranches has been mezzanine CMBX tranches. As uncertainty persists, so could volatility in CMBX, which will likely influence trading levels for cash CMBS securities.

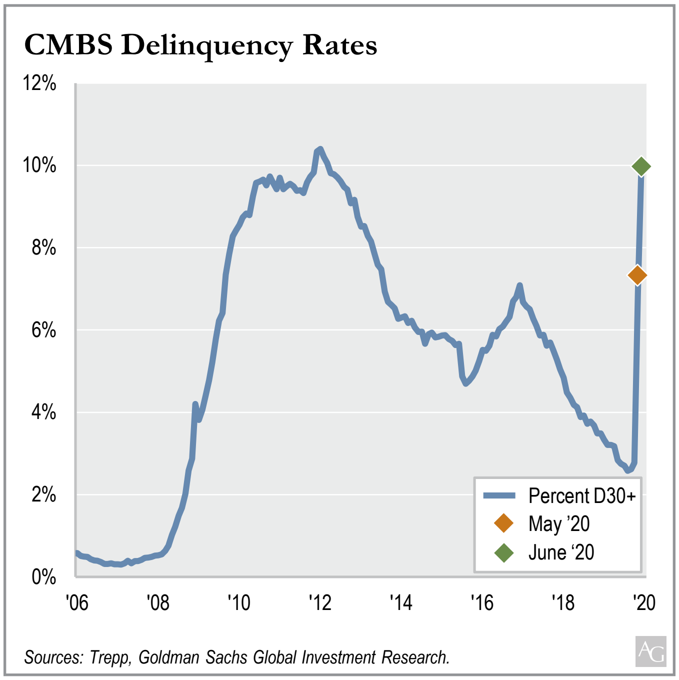
It is more challenging to generalize the Single-Asset/Single-Borrower (SA/SB) market because of the unique nature of each transaction. Unlike more complicated conduit deals, SA/SB transactions tend to be fairly straightforward, and a variety of new buyers – including traditional real estate private equity investors, family offices, and hedge funds – have moved into the space. This new capital improved prices quickly given limited overall bond availability.

Much of our concern regarding the viability of the run-up in prices is based on fundamentals. Property sales and leasing volume have cratered, leaving a significant amount of uncertainty relating to the magnitude of COVID-19's impact on real estate valuations. This will take time to play out, but we already know that challenges exist. The conduit CMBS delinquency rate rose to 10.32% as of June 30th, two basis points below the record high set in July 2012. An additional 4.1% of loans are in their grace period; unsurprisingly, hotel (24.3%) and retail (18.1%) backed loans are showing the highest delinquency rates. In addition, rating agency downgrades have already begun and are likely to accelerate, putting further stress on prices for certain bonds.

We believe these factors continue to create an environment where investors with the ability to look through bonds and assess fundamental commercial real estate value can thrive.



Q2 2020 saw the lowest quarterly private label issuance total in eight years.



The aggregate CMBS delinquency rate has reached GFC levels and is expected to hit a record high in the coming months.

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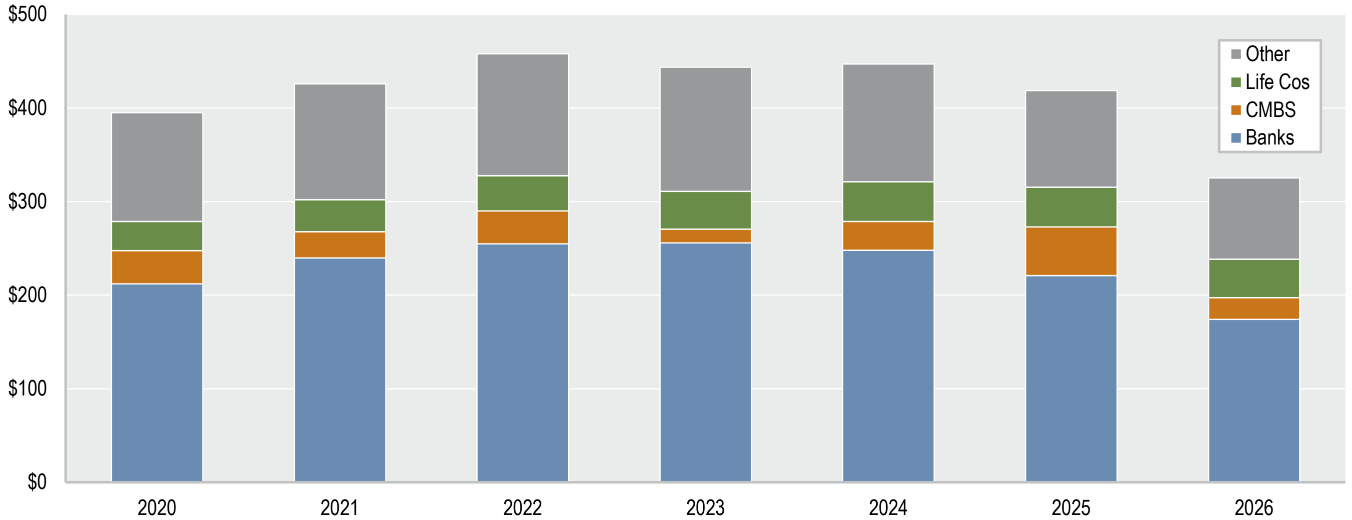
Commercial Real Estate Debt *(continued)*

Commercial Real Estate Debt Maturities

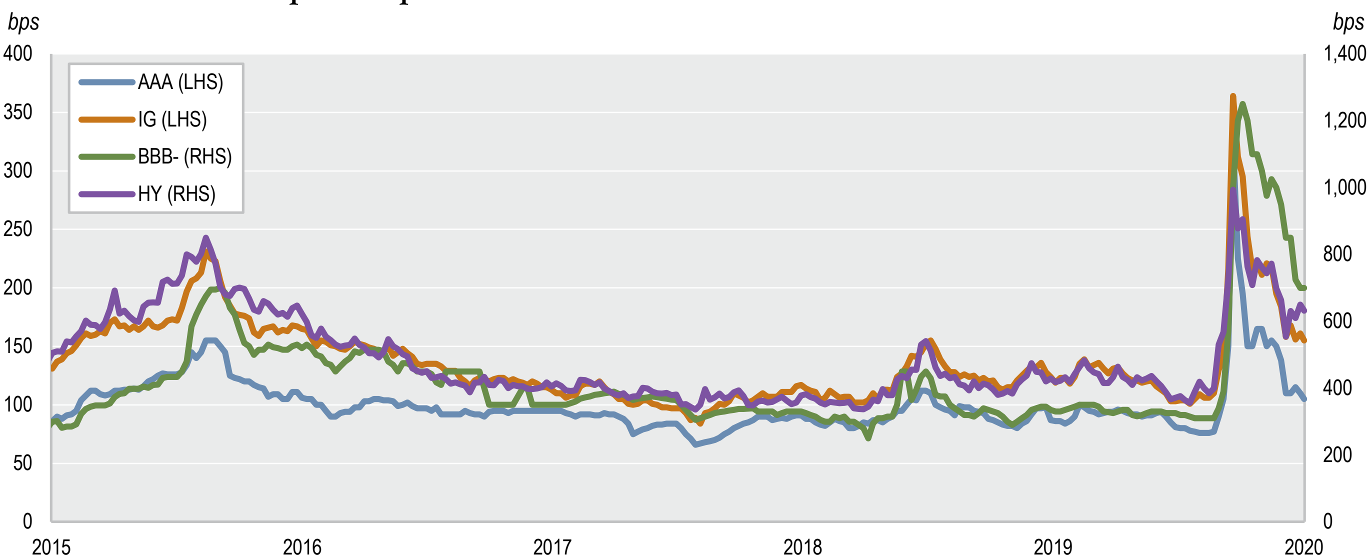
$ Billions



Sources: Trepp, Goldman Sachs Global Investment Research.

$2.1 trillion of commercial real estate debt is set to mature over the next five years.

Cash CMBS and Corporate Spreads



Sources: Trepp, Goldman Sachs Global Investment Research.

Although spreads have tightened from their peak March levels, they remain wide of pre-COVID-19 levels.

Andrew Solomon
Portfolio Manager

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

Residential & Consumer Debt (RMBS/ABS)

After recording the widest spreads since the global financial crisis (GFC), the mortgage- and asset-backed sectors rebounded considerably from late March due to increased liquidity and better-than-expected data through the second quarter, along with relatively broad-based risk-on sentiment across the financial markets. At the end of June, spreads had tightened significantly but remained wide of pre-COVID-19 levels, reflecting the ongoing uncertainty around regional reopening plans and federal stimulus as well as their impact on employment.

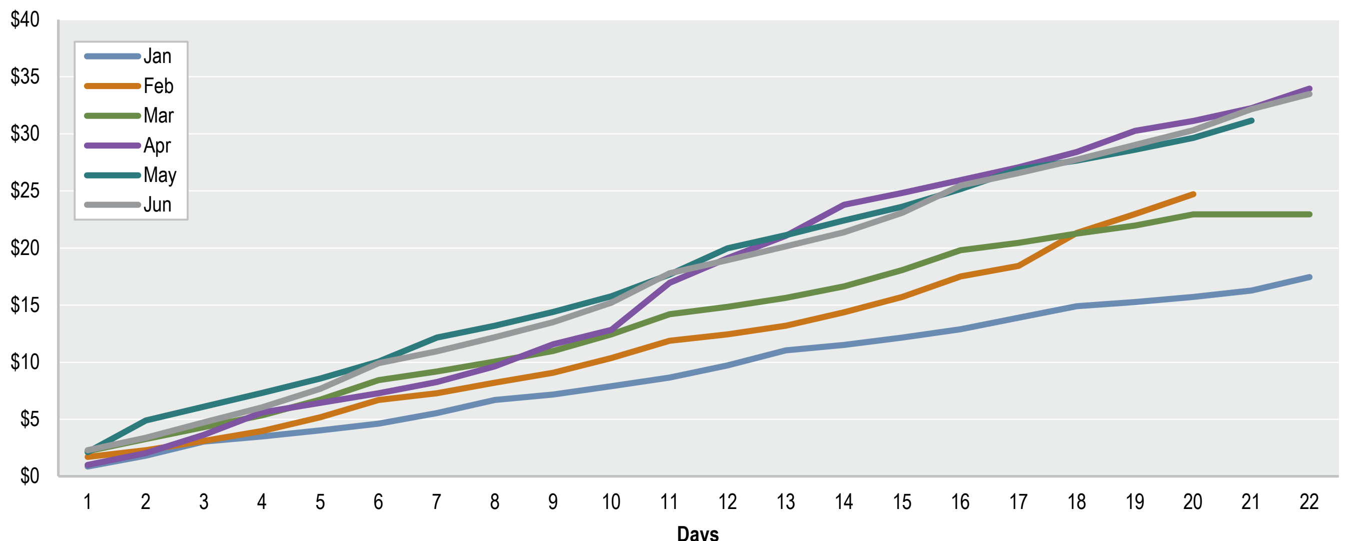
In the RMBS sectors, including Credit Risk Transfer (CRT), the spread recovery began in April at the top of the capital structure, and by June, spreads for assets lower in structure had materially tightened as well. Similarly, senior ABS tranches were the first to rally, particularly on the heels of the Federal Reserve's announcement of TALF, a GFC-era lending facility for some senior ABS. By the end of the quarter, demand was visible lower in the capital structure, as participants were looking for yield in the ongoing low interest rate environment.

Tighter secondary spreads brought issuers to market beginning in May across a range of residential sub-sectors: Non-QM, Non-/Re-Performing, Prime Jumbo, Single-Family Rental, and CRT. Non-QM accounted for the bulk of the RMBS issuance, as issuers sought to capitalize on rebounding spreads and investor demand. CRT issuance included the first benchmark deal from Freddie Mac since March and a deal from a mortgage insurer; both were well oversubscribed. The quarter's RMBS issuance totaled $8.2 billion, well below first quarter and year-ago levels of around $30 billion. ABS new issuance was mostly comprised of Auto ABS followed by Equipment and Student Loans, and like RMBS, deals were often well oversubscribed given limited supply. New issue ABS activity totaled $34.9 billion in the second quarter, far less than $50.5 billion in the first quarter and $69.4 billion a year ago.

Renewed primary issuance and tighter spreads are welcome developments, but spreads for most RMBS and ABS sub-sectors remain wide of pre-COVID-19 levels, as uncertainty hangs over the market, reflecting a wide range of potential outcomes. In the months following the outbreak of COVID-19, mortgage payment forbearances and consumer relief have largely been within the market's initial expectations, helping fuel the spread rally. Home prices have been well supported given very strong demand and limited supply in the marketplace. Government stimulus through the CARES Act and various payment relief programs has helped maintain a level of continuity that has been critical to the performance of consumer assets in particular. As of the time of this writing, the risks created by the expiration of government stimulus, i.e., enhanced unemployment benefits, at the end of July are certainly priced into the markets.

Daily Credit Card Collection

$ Millions



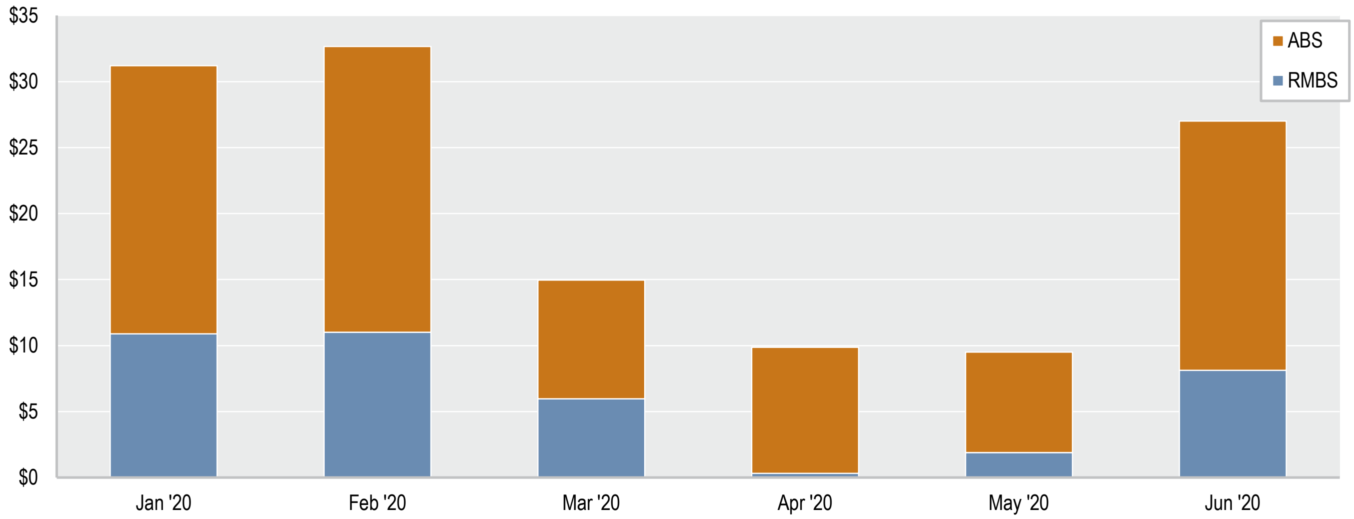
Source: Partner credit card servicer.

In June, credit card borrower payments exceeded levels in each of the prior two months, which had already been year-to-date bests.

Residential & Consumer Debt *(continued)*

New Issue Volume

$ Billions

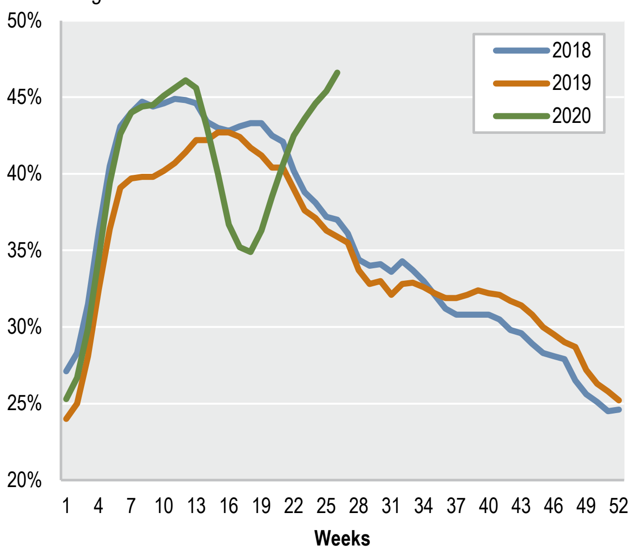


Source: Bloomberg.

The new issue markets have come back to life, with almost $40 billion in ABS and over $10 billion in RMBS pricing in Q2.

Pending Home Sales Off Market in Two Weeks

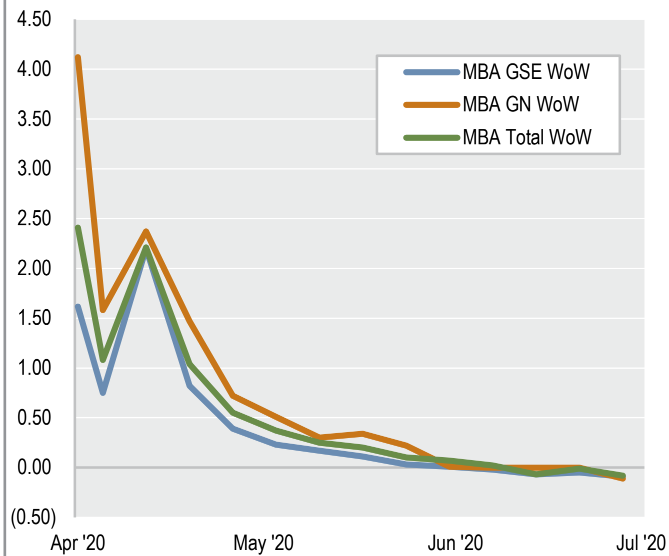
% Pending Sales



Source: Redfin.

Through the end of June, the percentage of pending home sales that were delisted within two weeks soared past 2018 and 2019 levels to over 45%.

MBA Forbearance Change Week-Over-Week



Source: MBA.

Total forbearance usage started to inch lower at the end of June, with third-party data providers suggesting that some of the forbearances are in the process of being worked out into deferrals and modifications.

TJ Durkin
Co-Portfolio Manager

Yong Joe
Co-Portfolio Manager

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

Energy

WTI has doubled since March to settle at $40. OPEC production is currently at lows last realized in 1991, while U.S. crude production has declined by over two million barrels per day. Global crude demand is slowly recovering from second quarter troughs; however, it appears that the pandemic may permanently reduce demand by three million barrels per day, or 3-5% of total demand, absent a return to pre-COVID-19 levels of commuting and business travel. Additionally, as COVID-19 cases spiked this summer – typically peak demand season – U.S. gasoline consumption declined for the first time since lockdowns began in March.

Production cuts by OPEC+ will begin to taper in August, eventually totaling one to two million barrels per day. U.S. rig count remains near all-time lows, though frac spread count has begun to slowly tick up, suggesting completion activity has resumed in certain basins.

Regulatory risk increased materially, as a U.S. District Court ordered the shutdown of the Dakota Access Pipeline. An administrative stay was granted, and the pipeline will continue to operate pending appeal. Separately, the abandonment of the Atlantic Coast Pipeline project was announced after ongoing permitting delays significantly increased the project's cost. New large-scale energy infrastructure now reliably faces permitting and litigation challenges that are additive to the capital shortage hurdles that have developed over the last few years.

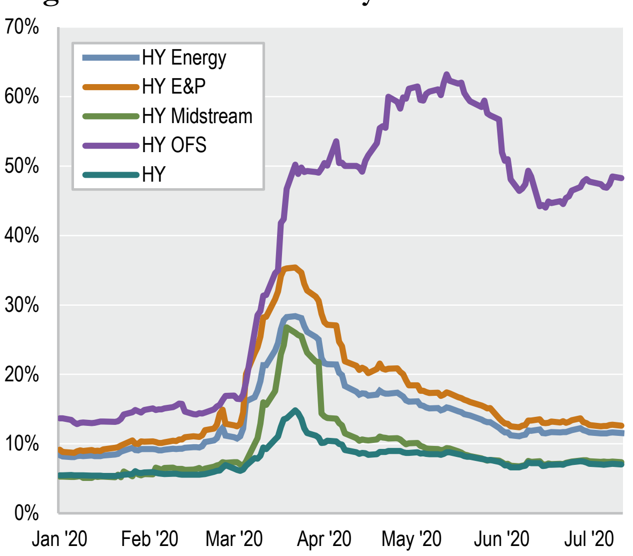
Energy credit spreads have narrowed from March peaks, now offering a 12-13% yield. Nonetheless, spreads remain 300 and 500 basis points wide, respectively, of pre-pandemic levels and the broader high yield market.

Pressure on banks is mounting from all sides, and efforts to exit individual and portfolios of first lien loans are underway. As a recent example, a U.S. regional bank announced the sale of its energy loan portfolio at a deeply discounted price to par. Banks are keen to clean up balance sheets in advance of year-end stress tests, so selling will continue and likely accelerate.

Additionally, energy equity market sentiment is dismal, with valuations challenging 25-year lows: The S&P 500 and the XOP Index are down 1% and over 45% year-to-date, respectively.

In energy land, there are the capital haves and the capital have nots, the latter being far more numerous. Most companies and formerly active issuers are unable to access reasonably priced debt capital, as the company size needed to access the market with a new issue is larger than ever. Recent activity validates this, with WPX and Endeavor Energy pricing $1.1 billion in new bonds in late June, but smaller, less well-rated oil producers nowhere to be seen. Not surprisingly, the volume of bankruptcy filings has escalated, as the number of oil and gas producers filing during the second quarter increased significantly. With recent announcements from California Resources and Denbury Resources, 2020 filings are likely to surpass levels experienced during the 2015-2016 downturn.

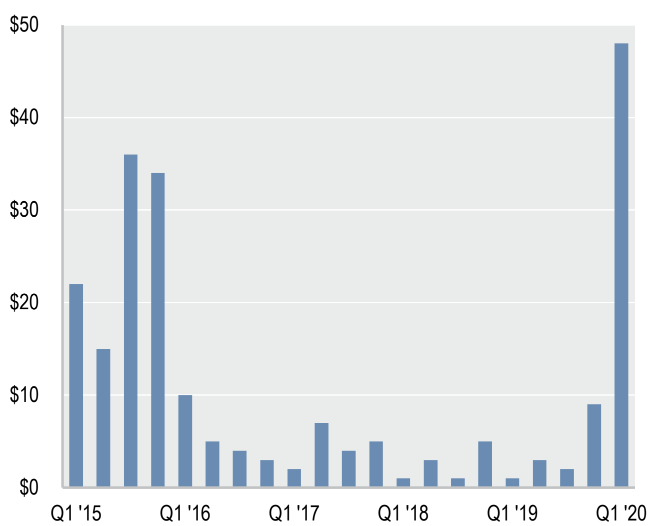
High Yield Index Yields by Sub-Sector



Source: Credit Suisse.

Energy credit spreads continue to narrow from March peaks, though remain substantially wide of the broader market and elevated when compared to pre-COVID trading levels – a bond picking opportunity.

Quarterly Asset Writedowns Among Top 40 U.S. Producers

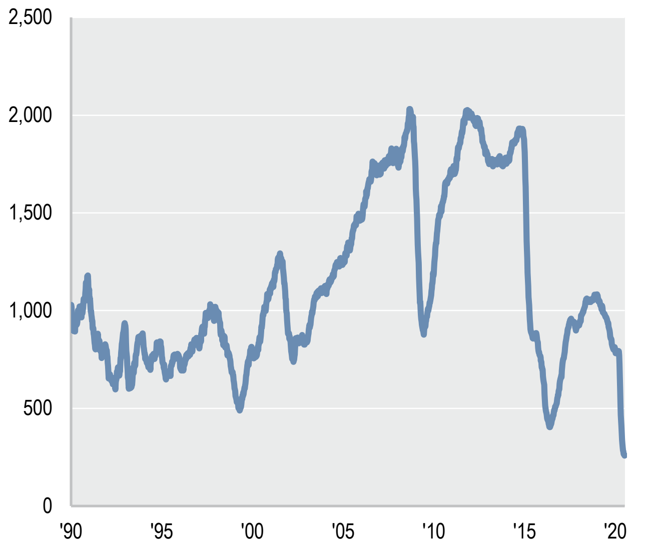


Source: U.S. Energy Information Administration.

U.S. crude producers collectively wrote down $48 billion worth of assets in Q1 2020, the largest quarterly adjustment in the last five years and an indication of the distress to come.

Energy *(continued)*

U.S. Rig Count

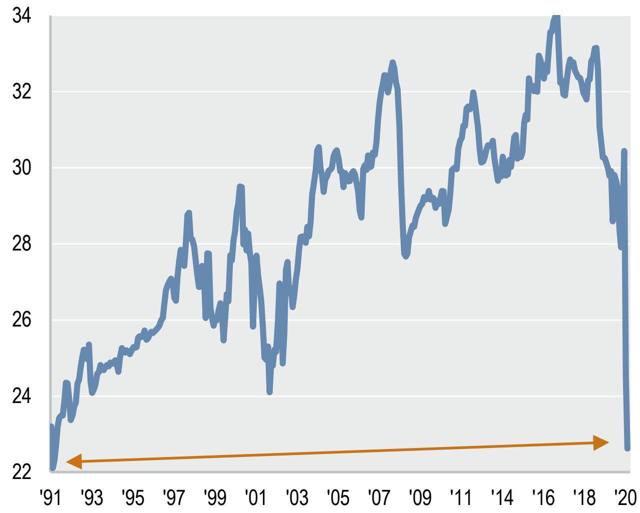


Source: Baker Hughes.

Indicative of the switch from growth to value strategies, rig count is at the lowest level since data began being collected in 1940. Despite the recent rally in WTI, current pricing does not support new drilling activity in the U.S.

OPEC Crude Production

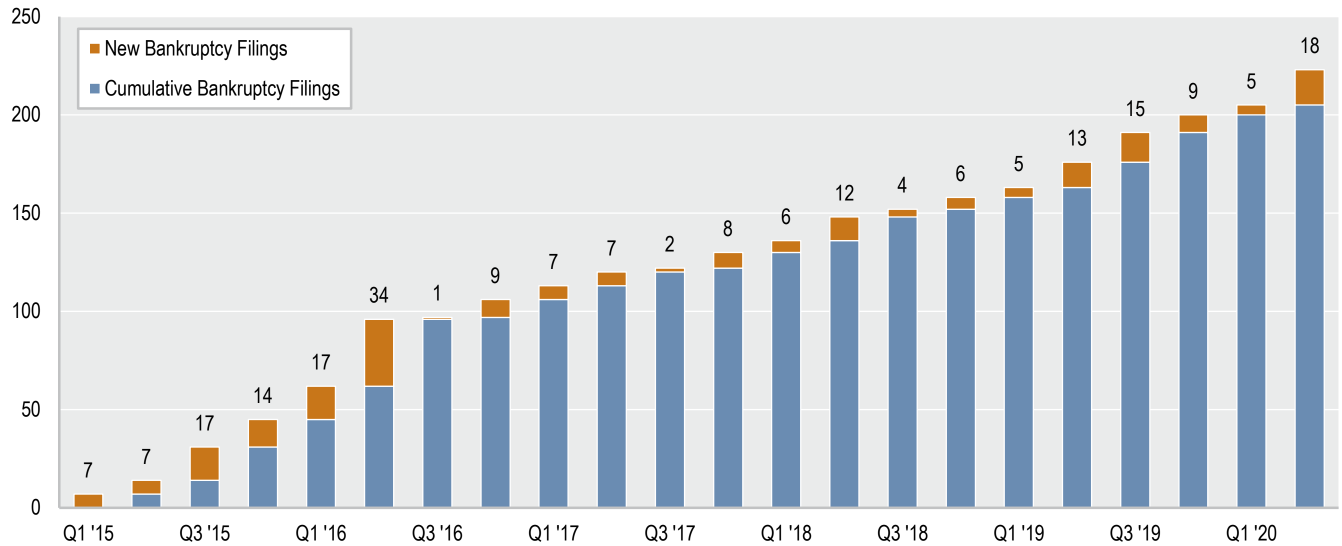
Million Barrels per Day



Source: Bloomberg.

After the devastating Saudi-Russian price war in early March, OPEC has undertaken historic production cuts to help rebalance the market, and crude production is at 30-year lows.

Cumulative North American E&P Bankruptcy Filings



Source: Haynes and Boone, LLP.

As crude prices tumbled during Q2, the number of new bankruptcy filings spiked to the highest level since Q2 2016. 2020 filings are now poised to exceed a record 2016.

Todd Dittmann
Portfolio Manager

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

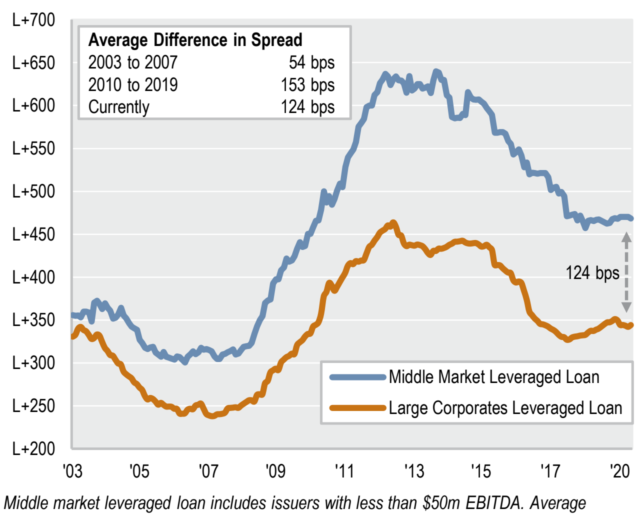
Middle Market Direct Lending

The near-shutdown in economic activity due to COVID-19 took its toll on transaction volumes in the middle market, with quarterly syndicated middle market loan volume amounting to just over $14 billion – the lowest quarterly total since early 2009. As communicated last quarter, the origination outlook was dim, as lenders and sponsors alike turned their focus to their existing portfolios; however, a recent lender survey indicated that most expect to devote 50% or more of their time to new deal flow in the third quarter. At the same time, most lenders do not expect their pipelines to return to normal until the first half of next year. We believe that sourcing advantages will become increasingly apparent over the coming months, as lenders with strong, direct relationships and existing portfolios that create add-on acquisition opportunities will have a distinct edge when it comes to deploying capital versus managers that have relied on others to source deal flow.

There were a number of other interesting takeaways from the survey. After several years of lenders competing on size, there was a steep decline in the number of lenders that can hold $100+ million, dropping from 40% of respondents in 2019 to only 20% of respondents at present. With respect to unitranche loans – which have historically accounted for many of the larger middle market transactions and larger lender hold sizes – there was a divergence among lenders in terms of spread tolerance for new deals, with some still willing to price a unitranche transaction at L+500, many looking for at least L+700, and L+600-675 ranking as the most common response. A bit less surprising is the renewed focus on LIBOR floors, with nearly all lenders requiring a floor of at least L+100. Finally, as it pertains to the expected default rate, nearly 70% of respondents indicated that the peak 12-month default rate will be 5-10%, although another 23% were less sanguine, expecting a default rate of 10-15%.

As noted in the past, we believe that manager differentiation will be key to performance in this cycle. Over the coming quarters, we believe experienced managers that have extensive workout expertise and have maintained stringent underwriting standards will be well-positioned to weather the current environment and also take advantage of the attractive pricing and terms for new loans.

Average Loan Spread: Middle Market vs. Large Corporates

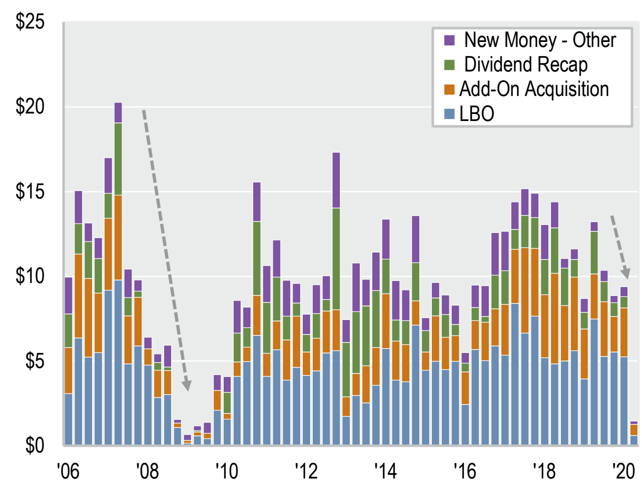


Middle market leveraged loan includes issuers with less than $50m EBITDA. Average spread includes any LIBOR floor benefit. Excludes all facilities in default.
Source: S&P Capital IQ LCD.

Middle market loans still offer an attractive spread premium 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 rebound into 2020 after falling to its lowest level since 2009.

Trevor Clark
Portfolio Manager

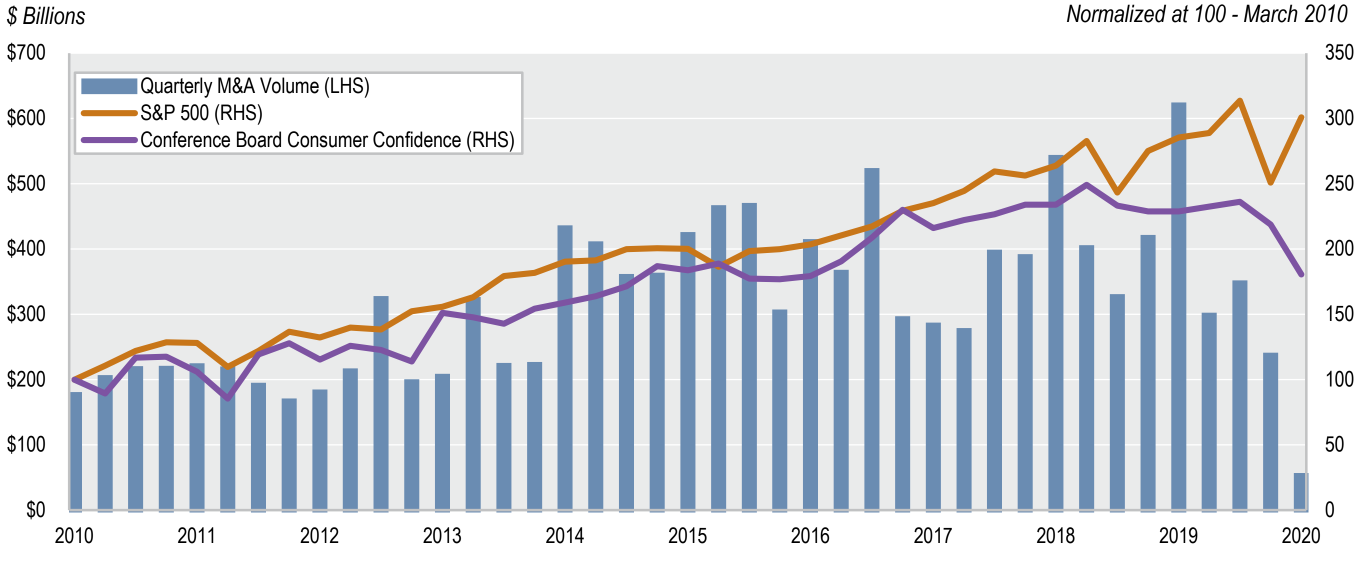
For more information on Middle Market Direct Lending, visit www.angelogordon.com/strategies/credit/middle-market-direct-lending/

Merger Arbitrage

Unsurprisingly, M&A volumes registered one of the worst quarters since the first quarter of 1998. Announced deal value declined almost 80% sequentially and 90% year-over-year. As countries around the world and states across the U.S. essentially shut down in response to the spread of COVID-19, CEOs shifted their focus to managing their companies and maintaining adequate liquidity instead of inorganic growth. Spreads narrowed during the first half of the quarter, as numerous deals closed and equity markets recovered. The closing of AbbVie's acquisition of Allergan, NVIDIA's purchase of Mellanox, and Raytheon's merger with United Technologies helped continue the tightening of deal spreads from the end of the first quarter into the middle of the second quarter. However, beginning in mid- to late May – with economies closed longer than originally expected – several deals ran into headwinds, which caused spreads to temporarily widen before recovering and finishing the quarter with an average 10% annualized net spread.

In the short term, companies will primarily reassess what the post-pandemic world will look like and focus on paying down debt and rebuilding their balance sheets. However, there are reasons to believe that M&A will return in the second half of the year. Banks are better capitalized than they were during the global financial crisis, the Federal Reserve is providing enormous support to the credit markets, and progress on multiple COVID-19 vaccine candidates are just a few key factors. While uncertainty around earnings potential can lead to a valuation gap between an acquirer and target, the use of stock may become more prevalent in strategic deals to bridge that gap.

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



Source: Bloomberg.

As countries and economies around the world shut down, M&A activity declined to levels not seen since Q1 2003.

Mark Wojtusiak
Head of Merger Arbitrage

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

Convertible Arbitrage

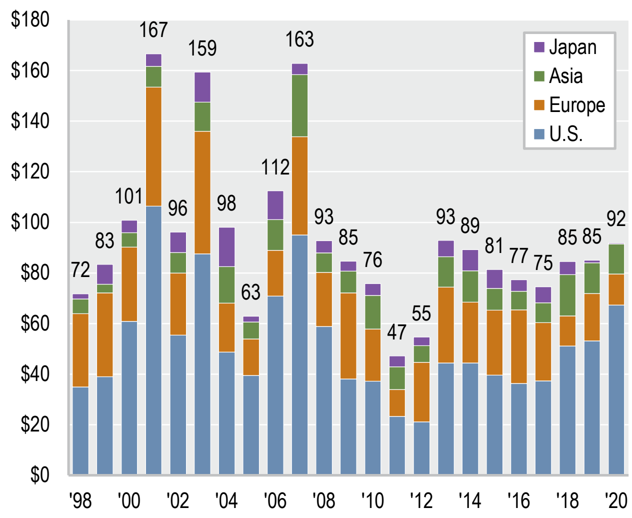
The second quarter of 2020 presented a stark contrast to the first, which had been one of the weakest first quarters in history for global equities. The MSCI World Index climbed 17.95% in the second quarter, completing one of the strongest quarters in decades. Rising investor confidence as pandemic-related lockdown measures were eased and economies began to reopen, central banks injecting liquidity, growing optimism around the development of potential vaccines and treatments for COVID-19, and some encouraging economic data led to a 35% rally from the March lows. Most credit markets also performed very well. Against this backdrop, global convertible bonds clawed back their first quarter loss and moved into positive territory for the year, with the ICE BofA Global 300 Convertible Index – a performance indicator for long-only strategies – gaining 16.41% in the second quarter. Convertible arbitrage strategies benefitted from tighter credit spreads, high volatility levels, and a surge in primary market activity, with the HFRX Relative Value Fixed Income Convertible Arbitrage Index rising 9.23% in the second quarter.

Global convertible new issuance amounted to a stellar $70.5 billion in the second quarter, which – combined with the solid first quarter total of $21.4 billion – brings first half 2020 deal volume to $91.9 billion. To put this in context, annual convertible new issuance has only risen above $90 billion once in the last decade. Recording this level of primary market activity halfway through the year suggests we may achieve an annual level not seen since the global financial crisis. With new issue valuations generally having been very attractive, the primary market has solidly re-established itself as a recurring source of alpha for convertible bond investors.

We also remain constructive on secondary market valuations. Equity market volatility is expected to remain elevated for some time, as the global count of COVID-19 cases remains on the rise and significant geopolitical tensions continue to build, with the events of the second half of the year slated to include the U.S. presidential election, the UK's exit from the European Union, and China's implementation of its national security law for Hong Kong, among other items. In our view, this environment – marked by high equity volatility and stable credit spreads supported by central bank asset purchasing programs – will provide ample opportunities for convertible arbitrage strategies.

Annual Convertible Issuance by Region

$ Billions

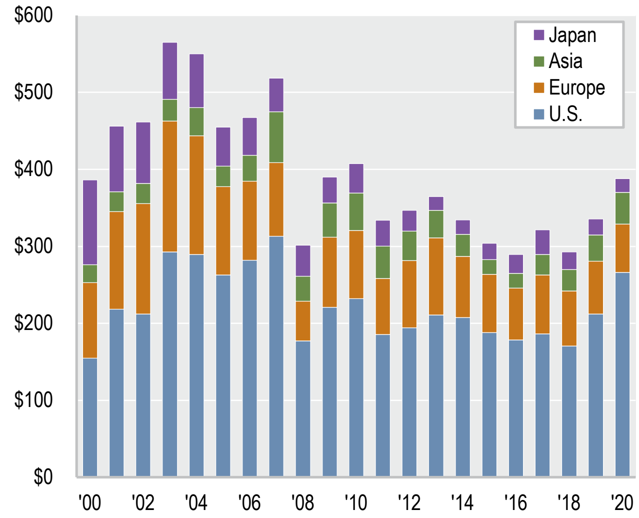


Source: Bank of America Merrill Lynch.

New issuance is set to reach levels not seen since 2007.

Market Size by Region

$ Billions



Source: Bank of America Merrill Lynch.

Global convertible market value is approaching $400 billion.

Gary Wolf
Head of Convertible Arbitrage

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

U.S. Real Estate

Commercial property transactions in the second quarter plunged 68% year-over-year, as transaction sizes shrank amid a sharp pullback in institutional buyer activity and entity-level deals were non-existent. Limited clarity around rent collections, rental rates, and growth prospects in the intermediate term is suppressing investor appetite, though signs that pipelines are picking up for property types that appear less impacted on a relative basis – such as industrial and multifamily – are emerging. Financing markets present an additional challenge to a recovery in transaction volumes, as some large bank lenders are effectively sitting on the sidelines, and all lenders are hesitant to finance asset classes with less certain recovery profiles, including retail, hotel, and office. While many COVID-19-related state lockdowns were lifted in June, a recovery in deal activity is not expected to begin until there is more stability around the economic reopening.

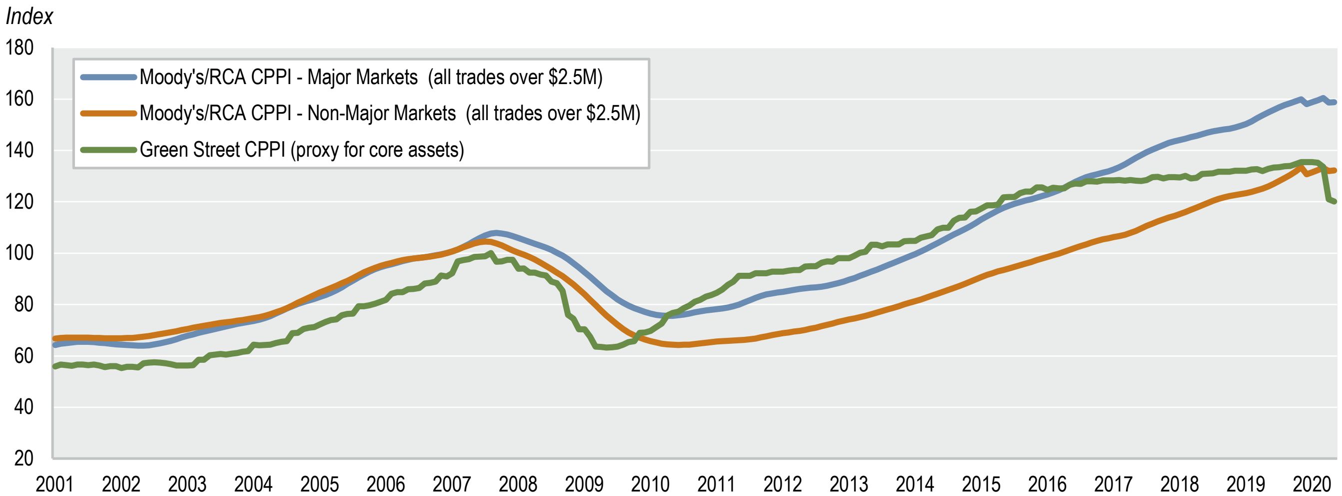
The Trepp CMBS delinquency rate rose to 10.32% in June, with approximately half of that number representing loans in the 30 days delinquent bucket. For context, CMBS delinquencies have already reached global financial crisis (GFC) levels in a span of just 3 months and are expected to rise further. An additional wave of maturity-related defaults is also likely. To date, lenders have largely accommodated defaults by forbearing from enforcing remedies; however, such cooperation will eventually cease, and recapitalizations and forced sales will likely ensue.

Nevertheless, generic comparisons to the GFC are misplaced. Superior balance sheets and capital structures and relative lending prudence distinguish this cycle, and those factors paired with the rapid response of the Fed and Congress resulted in liquidity being largely restored and damage limited, at least for the time being. The combination of a low growth and low rate environment is challenging the traditional relationship between interest rates and real estate. Shrinking economic activity is weakening property fundamentals, and recovery trajectories remain murky, particularly for hard-hit sectors like lodging, retail, and senior housing.

Publicly listed markets have been more focused on liquidity than cash flow and are hoping for continued stimulus adequate to make up for the economic impact of pandemic-related changes to the way people live, work, and play. To date, fiscal policy has done a reasonable job of replacing lost income but hasn't comparably restored spending.

On the valuation front, the Green Street Commercial Property Price Index declined 11% from pre-COVID-19 levels. Meanwhile, the REIT market posted a sharp recovery, though company valuations imply that large corrections in private market property valuations are still to come. Listed REITs in core sectors ended the quarter at a discount to NAV of 14%, though NAV revisions remain likely. Green Street Advisor's model, which tracks the relative value relationship between private real estate and fixed income (investment grade and high yield), pegged real estate at about 2% undervalued.

Commercial Real Estate Price Indices

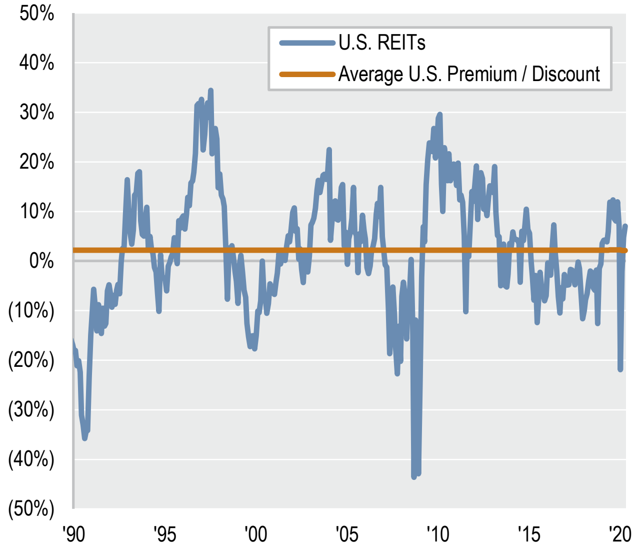


Note: For this chart, Green Street CPPI was indexed to 100 at its 2007 peak (Aug 2007) and Moody's CPPI was indexed at 100 in Dec 2006. Major markets include Boston, Chicago, Washington D.C. Metro, Los Angeles Metro, New York City Metro, and San Francisco Metro.
Sources: Moody's CPPI = Moody's/RCA All 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); (June '20).

Private commercial real estate pricing has begun to correct.

U.S. Real Estate *(continued)*

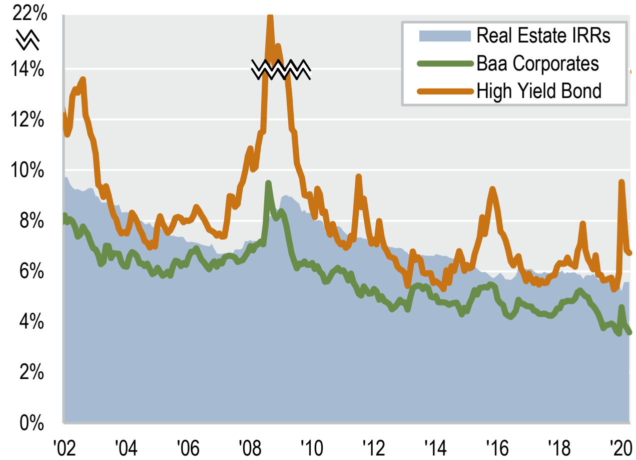
Public-Private Price Divergence



Source: Green Street Advisors.

U.S. REIT valuations imply large corrections in private market property valuations.

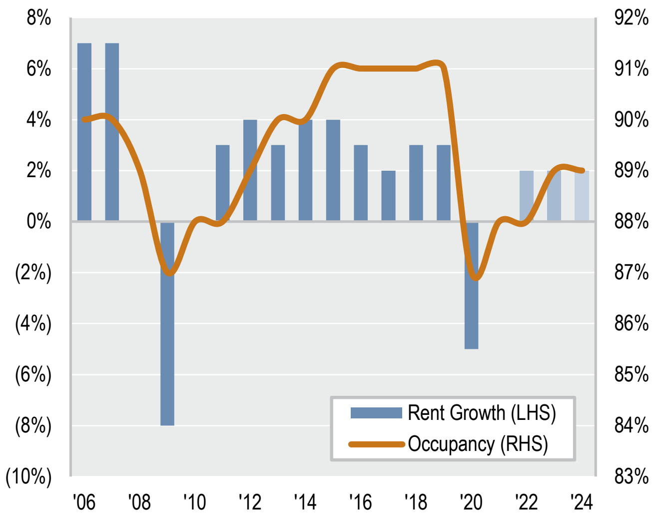
Unlevered Total Return Expectations on Real Estate vs. Corporate Bond Yields



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).
Sources: Green Street Advisors (June '20), 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 currently appears slightly undervalued on a relative basis compared to debt.

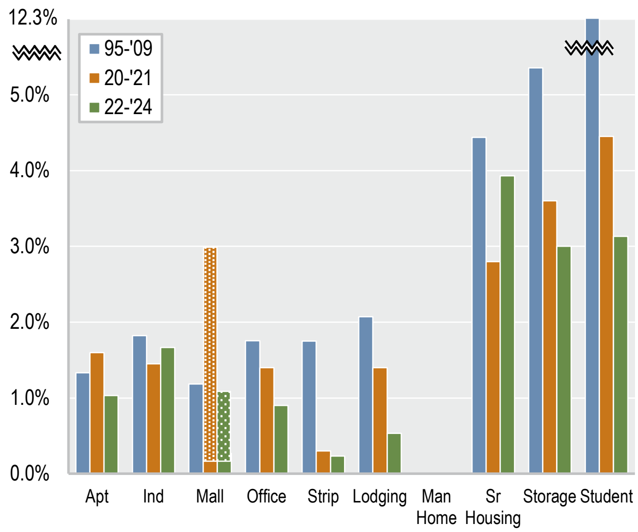
Occupancy and Rent Growth: Major Sector Average



Source: Green Street Advisors.

The combination of development deliveries and a demand shock is expected to drive rent and occupancy declines.

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 and are expected to decline.

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Europe Real Estate

In the second quarter, European countries focused on the progressive and calculated reopening of their economies. During the shutdown phase, most countries used employment schemes that allowed nearly all employee costs to be passed to governments. These programs allowed the unemployment rate to remain stable in the eurozone; however, most of these schemes are expected to expire before the end of 2020. Capital Economics estimates that nearly 30% of the continent's workforce relies on these programs. The shutdown phase saw a 25% collapse in GDP, and without government support, unemployment would surely be significantly higher. Some recent data suggests a quicker, or V-shaped, recovery from this crisis. For example, construction production in the eurozone grew 28% month-over-month in May, just 12% below its February level. Other data suggests a longer recovery; exports in the region rose by nearly 8% month-over-month in May, 25% below their pre-COVID-19 levels. Government programs have provided short-term relief to employees, so real unemployment levels and their economic severity will not be clear until late 2020.

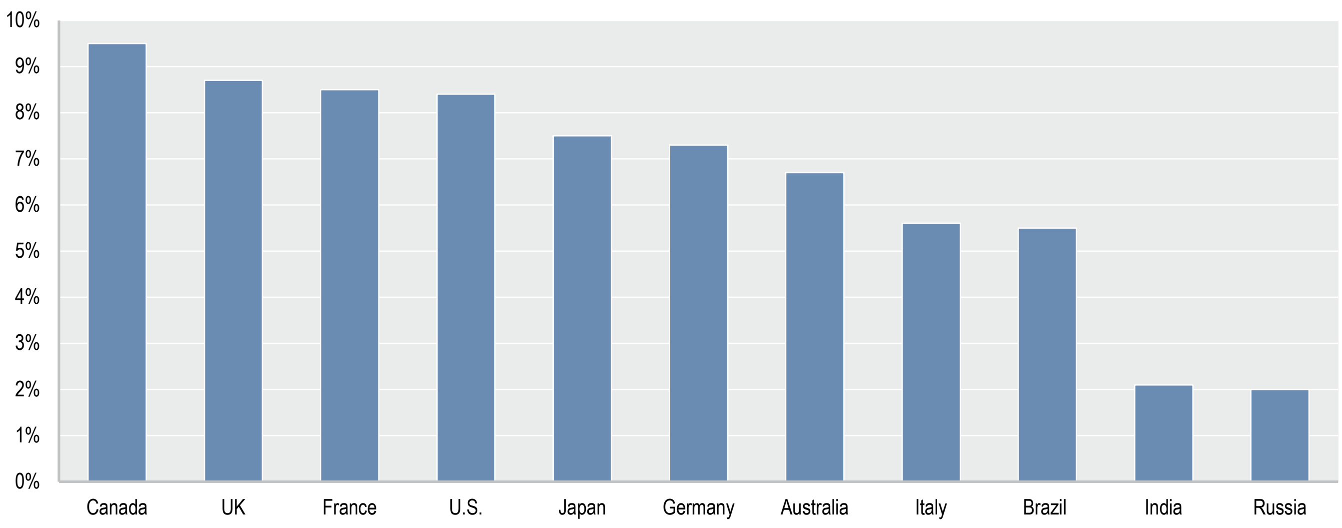
The UK may see a slower recovery, as its government unemployment support ends in the next few weeks and an undecided UK-EU Brexit deal is creating added uncertainty. The UK must negotiate a detailed economic and political plan with the EU by December. Major topics are still under negotiation, and it appears unlikely that the UK will meet its deadline. Until recently, another area of government standstill was the EU's €750 billion recovery fund, which was finally approved but only after a protracted debate that highlighted the divergent views of countries that support direct, no-strings-attached stimulus versus those that prefer stimulus loans or grants contingent on economic reforms. It would not be surprising if there are renewed criticisms as the fund is administered, again highlighting the lack of consensus on recovery strategy among EU members.

Amid this slow and uncertain recovery, UK real estate investment activity unsurprisingly fell 10% month-over-month in May to its lowest value since April 2009. However, preliminary data from Colliers suggests that June investment activity has picked up. CBRE reported that Central London office take-up was the lowest on record in May, resulting in a vacancy increase from 4.6% in April to 4.8% in May. Although retail stores could reopen starting on June 15th, Knight Frank reported that less than 50% did so in that first week, indicating increased rent payment delays – or defaults – and possible upcoming vacancies.

Continental Europe's real estate markets have not been immune to the global crisis either, with public real estate indices declining over 20% year-to-date. Real estate investment reached €43 billion in the second quarter, a 39% year-over-year decline. In this uncertain environment, corporations appear to prefer renewing or extending existing leases instead of searching for new space. Renewals as a share of leasing grew to 51%, up from 29% pre-COVID-19.

Direct Fiscal Support

% of 2019 GDP

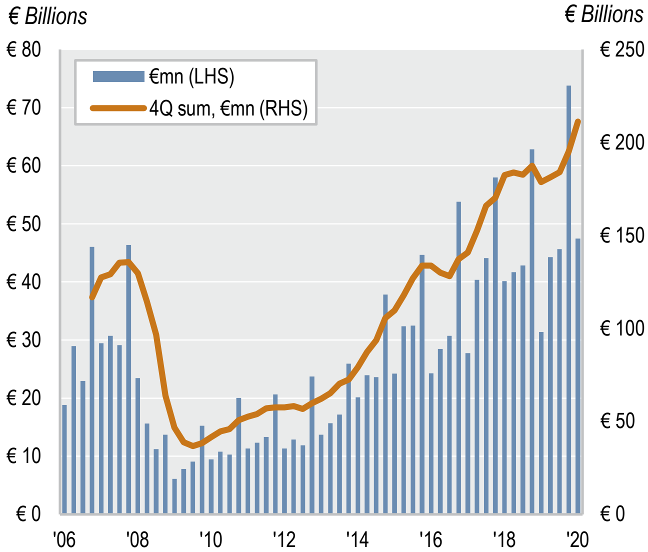


Sources: Refinitiv, National Governments, CE.

Similar to the U.S., European countries have put forward massive government support to fund the economy.

Europe Real Estate *(continued)*

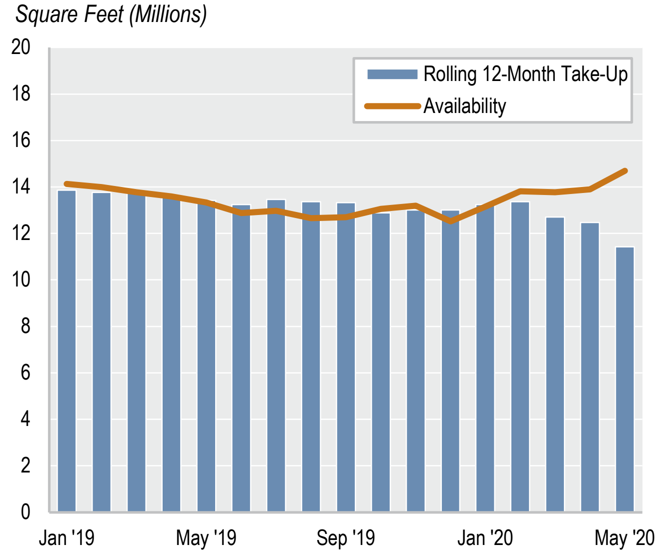
Eurozone Investment



Sources: Refinitiv, CBRE, CE.

Sales activity will slow considerably; Q2 data suggests a 39% drop in volume compared to the same period last year.

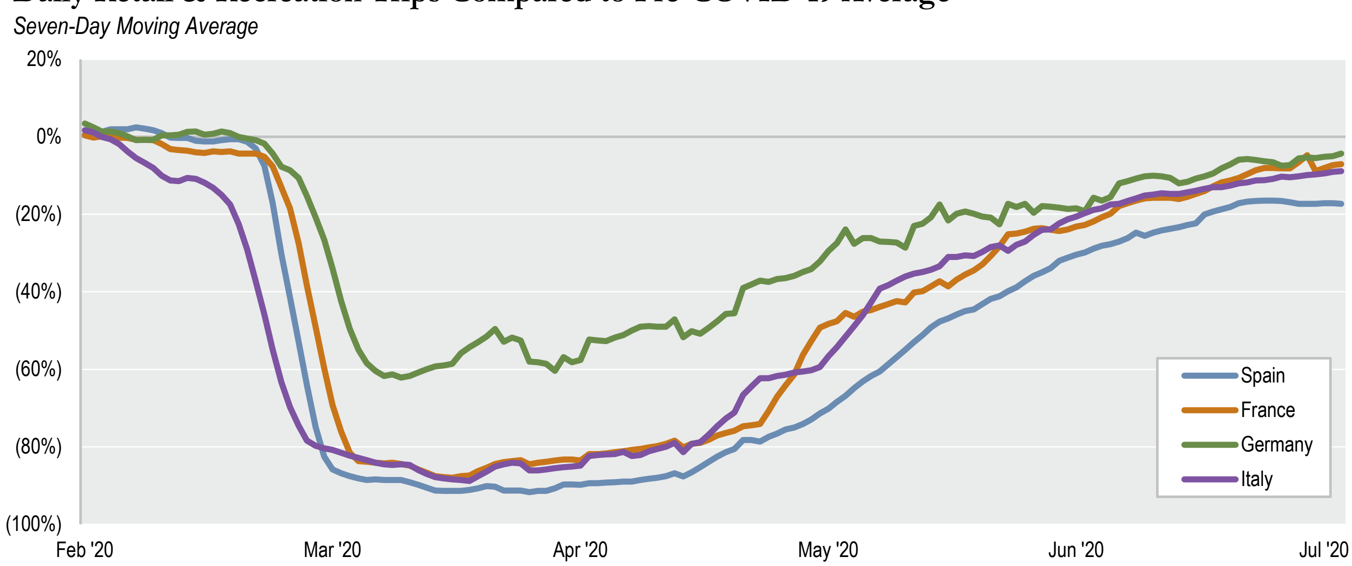
London Office Take-Up and Availability



Source: CBRE.

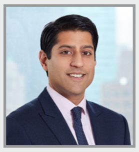
Office take-up in Central London was its lowest on record in May, pushing vacancy rates higher in the city.

Daily Retail & Recreation Trips Compared to Pre-COVID-19 Average



Sources: Capital Economics, Google.

Recovery is likely to be gradual, as both consumers and businesses remain cautious and are limiting spending.



Anuj Mittal
Co-Portfolio Manager
Europe Real Estate

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

Asia Real Estate

China

As a result of the COVID-19 outbreak, China's economy contracted 6.8% year-over-year in the first quarter of 2020, the largest and most significant decline since 1992. Monthly data suggests that activity improved in March, as efforts to contain COVID-19 were relaxed. The contraction in industrial production eased from -13.5% year-over-year in January and February to -7.3% in March. The services production index similarly improved, rising from -13.0% to -9.1%. In response to the ongoing weakness, the Chinese central bank implemented new monetary policy supports, including lowering the 1-year and 5-year prime rates by 20 basis points and 10 basis points, respectively.

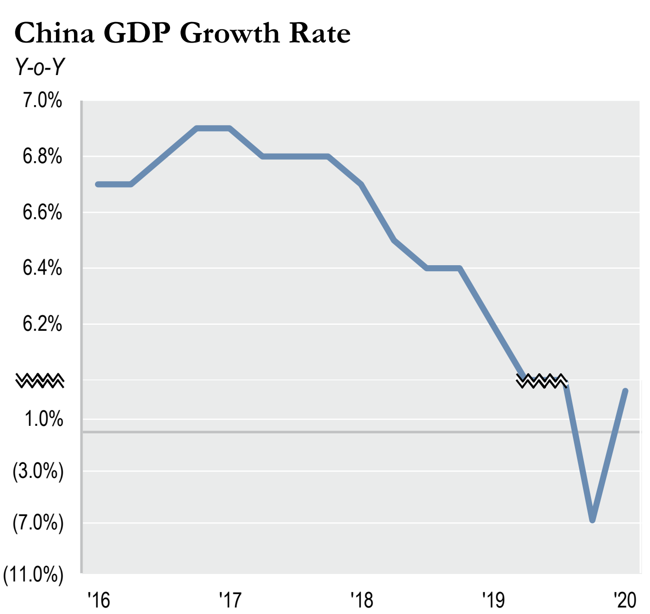
Shelter-in-place orders in many Chinese cities and concerns about economic uncertainty created additional downward pressure on office leasing demand. Most tenants put expansion plans on hold, driving a sharp decline in leasing activity. In Beijing, net absorption was negative in the first quarter, and leasing activity declined 60% year-over-year. Overall, rents decreased 5.0% year-over-year, while vacancy stood at 11.3%, unchanged from the previous quarter. Demand from tech companies remained strong, as many of the Chinese internet giants continued to grow. For example, in the Zhongguancun submarket of Beijing – also known as "China's Silicon Valley" – rents remained unchanged quarter-over-quarter and vacancy edged up modestly to 1.8%, up 0.5 percentage points.

Industrial and logistics real estate remained resilient in major submarkets due to limited supply and strong leasing demand from fresh food e-commerce and third-party logistics (3PLs) companies. In Shanghai, industrial rentals rose 0.9% quarter-over-quarter, while vacancy dropped 1.3 percentage points to 5.3%.

In terms of overall market activity, the commercial investment market continued to soften in the first quarter, with total transaction volume at only RMB 58 billion, down 30% quarter-over-quarter.

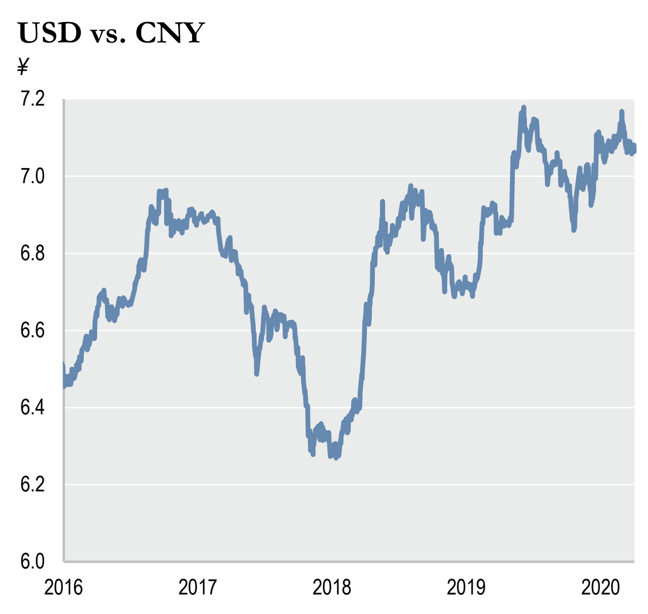
Hong Kong

In the first quarter, Hong Kong's economy shrank 8.9% year-over-year – the largest contraction on record – as tourism collapsed, trade flows slowed sharply, and social distancing weighed on domestic spending. Unemployment hit a new high of 4.2%, the highest level in more than nine years and up from 3.3% in the last quarter. With limited supply, residential unit prices remained firm and declined by only 1.4% year-over-year, while transaction volume fell by 31%. The commercial investment market continued to be anemic in the first quarter – down 37% year-over-year – and we expect that to persist for the rest of 2020. As of March, Hong Kong's office vacancy was 7.5% and rents declined 7.7% year-over-year, driven by softening leasing demand in the core submarkets of Central and Tsim Sha Tsui.



Source: National Bureau of Statistics of China.

China's economy displayed a significant recovery in the second quarter, with GDP growth of 3.2%.



Source: Bloomberg.

CNY maintained its relative weakness against USD through the pandemic.

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Asia Real Estate *(continued)*

Japan

In the first quarter of 2020, Japan's real GDP contracted at an annual rate of 2.2%. Many economists predict that the economy will further contract in the second quarter, as the government declared a state of emergency that lasted from early April to late May. To support the economy, the Japanese government has approved a record stimulus package of ¥230 trillion ($2.1 trillion), which is about 40% of GDP. This package includes providing cash payments to all residents of Japan and subsidies to small and medium-sized companies suffering from the impact of COVID-19. As a result, the current unemployment rate has remained at 2.9%, and the number of corporate bankruptcies remains low. Japanese banks are well-capitalized and continue to lend, albeit with slightly more conservative assumptions.

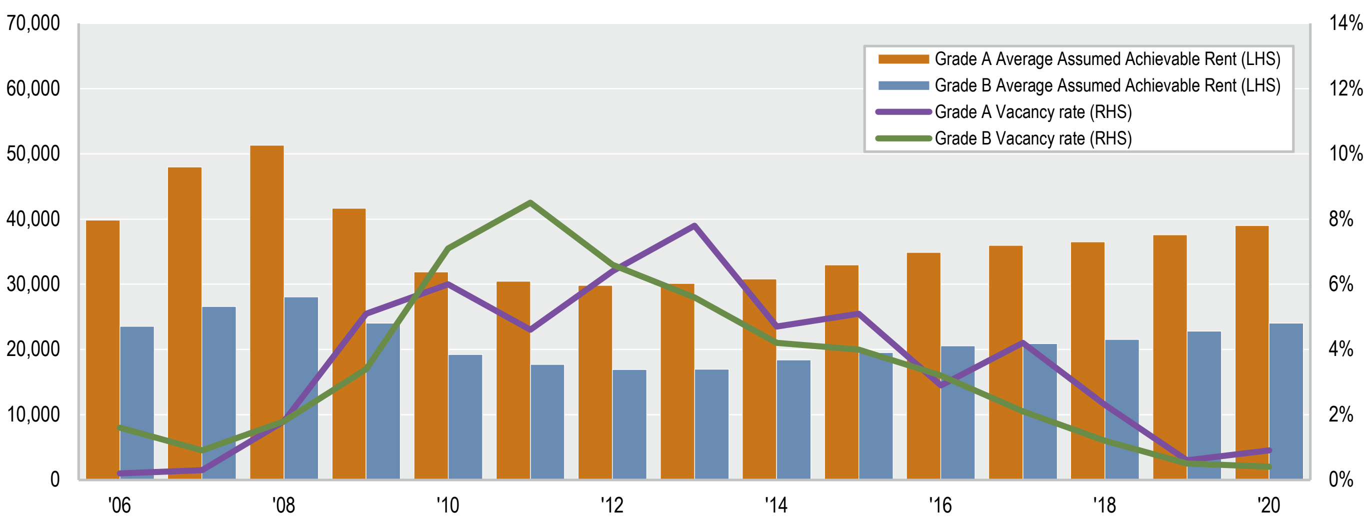
Office real estate fundamentals remained strong during the first quarter of 2020. Vacancy rates for Grade A offices are low, at 0.9% in Tokyo and 0.5% in Osaka, and vacancy rates for Grade B offices in Tokyo and Osaka have fallen to 0.4%. Some research analysts believe that vacancy rates will likely rise slightly due to a global recession and more domestic companies adopting work-from-home measures. However, in the near term, the office market is expected to remain relatively stable, as most of the supply for 2020 and 2021 has been pre-leased, and a sharp increase in unemployment is not expected in Japan.

In the logistics sector, the e-commerce market continues to expand in response to COVID-19. In the first quarter, the vacancy rate for large-scale, multi-tenant facilities was at a record low of 0.5% in the Greater Tokyo area. Given that rents continue to rise in prime areas, tenant demand is expanding to facilities in newer, more affordable submarkets. The supply of modern facilities is still very limited, so there is strong tenant demand to upgrade from older facilities when newly built space becomes available. Supported by robust fundamentals, investor interest in the logistics sector continues to grow, from both domestic and international buyers.

Like other listed REIT markets, the Japanese REIT ("J-REIT") Index plunged approximately 27% in the first quarter, though it has recovered slightly in the second quarter. Notably, logistics J-REITs are trading at a 50% premium to NAV – higher than pre-COVID-19 levels – reflecting investor expectations of growing demand from e-commerce. In contrast, hotel J-REITs are trading at a 50% discount to NAV in response to sharply reduced domestic travel, the ongoing shutdown of inbound tourism, and the postponement of the Tokyo Olympics to 2021.

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

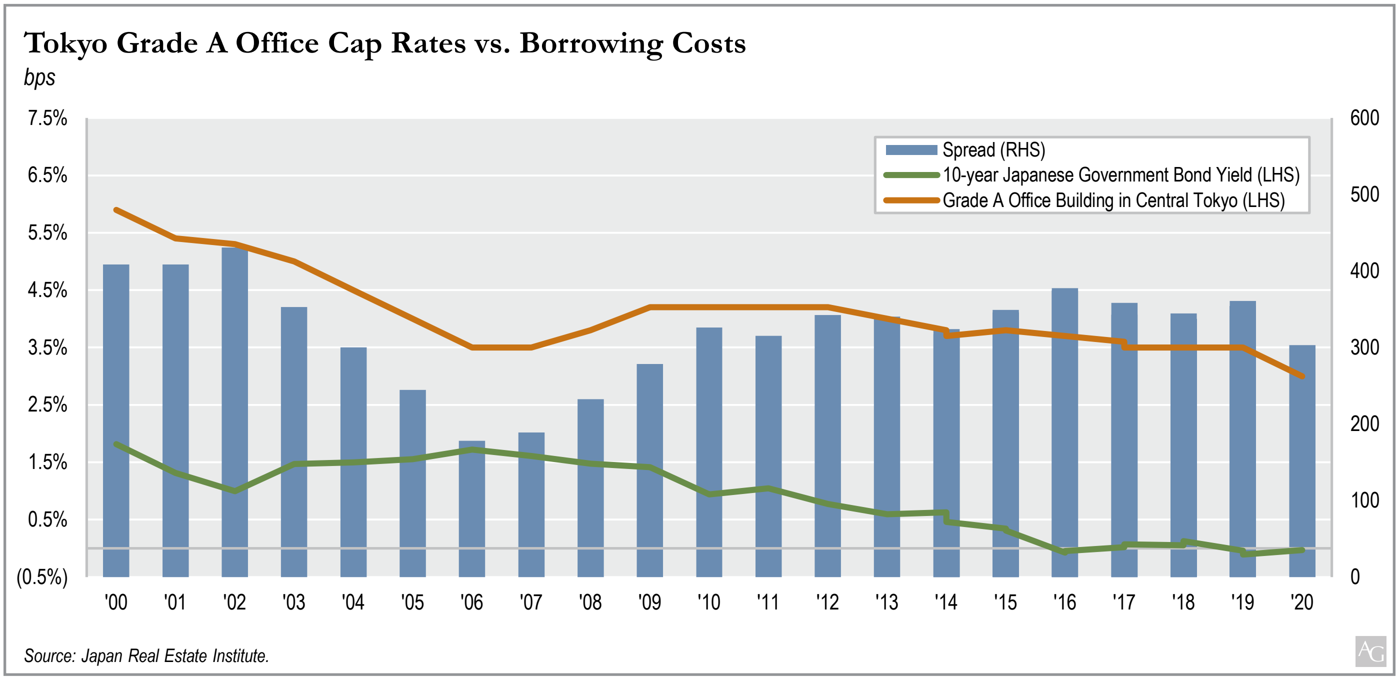
JPY/tsubo/mon



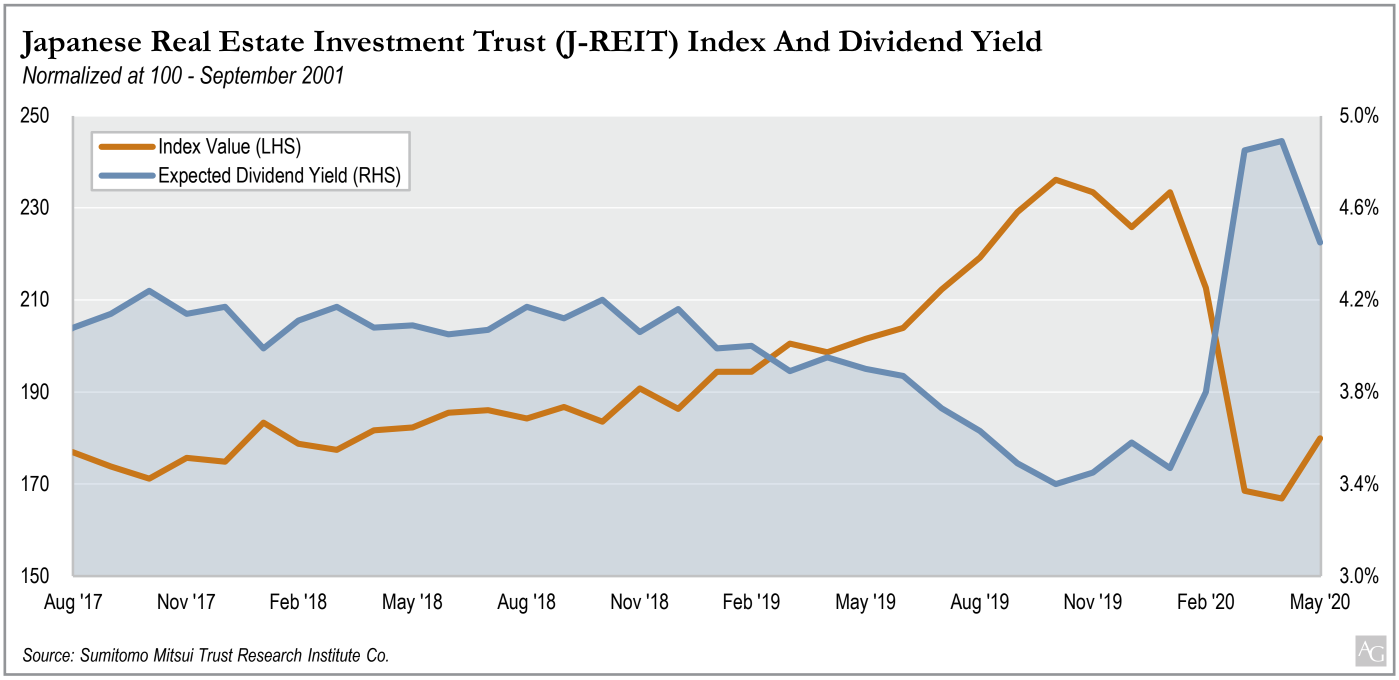
Note: One tsubo is equal to approximately 3.3 square meters.
Source: CBRE (June '20).

Office occupancy remained at record low levels, and rents are still on the rise given strong fundamentals. The impact of COVID-19 has yet to be felt in the office market.

Asia Real Estate *(continued)*



Cap rates compressed in early 2020, as institutional investors continue to seek core properties with yield.



The J-REIT Index – led by industrial REITs – has begun to recover, though hotel REITs have lagged.

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Asia Real Estate *(continued)*

South Korea

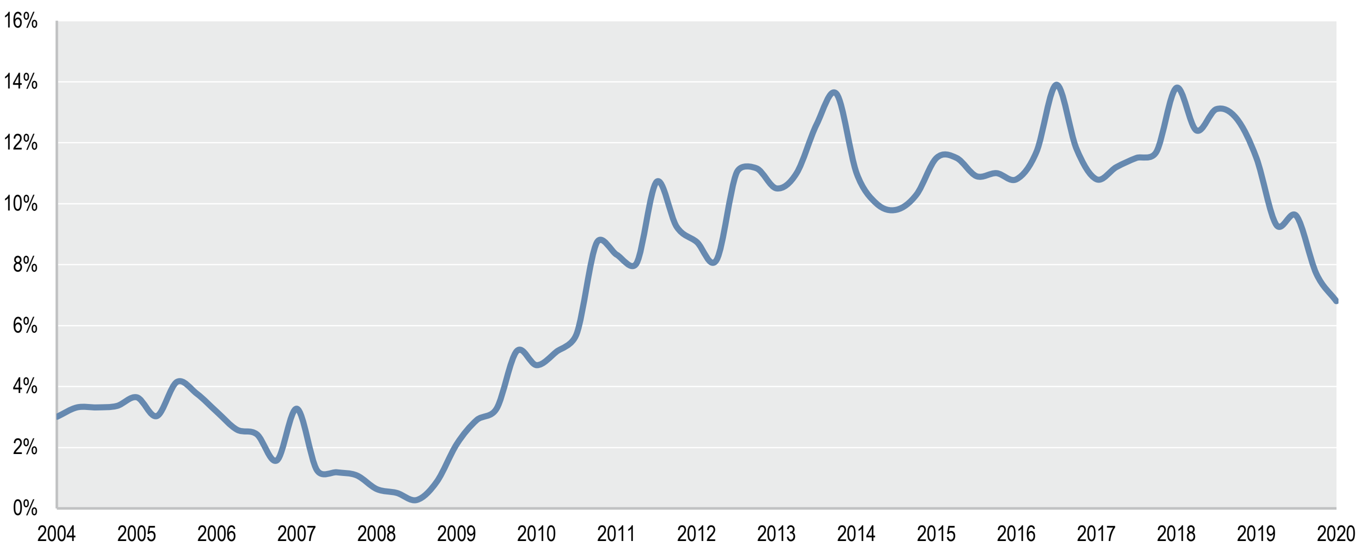
In the first quarter of 2020, economic growth in South Korea declined 1.3% quarter-over-quarter, mainly driven by the drop in private consumption and exports. As expected, the Bank of Korea's (BoK) economic growth forecasts for 2020 are lower, stemming from the impact of the COVID-19 pandemic. The BoK lowered its benchmark policy rate from 1.25% to 0.75% in March 2020, followed by a further rate cut to 0.50% in May – the lowest it has ever been. The rate cut is in-line with the BoK's accommodative monetary policy, which aims to help sustain economic growth.

On the real estate front, the spread between prime office cap rates and Korean government bond yields (i.e., 5-year treasury bonds) stood at 300 basis points, which is above the 10-year average of approximately 250 basis points. Investment activity in the commercial office sector was robust in the first quarter of 2020 at $2 billion, up 14% year-over-year. However, the quarter's robust investment volume can largely be attributed to deals that were signed prior to the outbreak of COVID-19. Prime office vacancy in Seoul's major business districts declined further to 6.8% in the first quarter, down from 7.7% in 2019 and the lowest it's been in ten years. However, most of the leasing activity in this quarter stemmed from lease agreements signed prior to the outbreak of COVID-19, therefore we may witness a slowdown in leasing activity given the current environment.

Residential prices in Seoul continued to rise, with Seoul apartment prices increasing 6.2% year-over-year as of June 2020. The current government is implementing new policy measures aimed at curbing speculative investments in the residential sector, including stringent regulations for mortgage loans, among other items.

Leasing and investment momentum in the logistics space remains robust, with the outbreak of COVID-19 expediting the continued growth of the e-commerce industry. Modern and efficient logistics facilities in the greater Seoul area are nearly fully leased up, with only frictional vacancy. Cap rates for logistics centers have continued to compress; however, a spread of approximately 100-150 basis points still exists for logistics cap rates, as compared to that of prime office cap rates.

Seoul Office Vacancy Rate

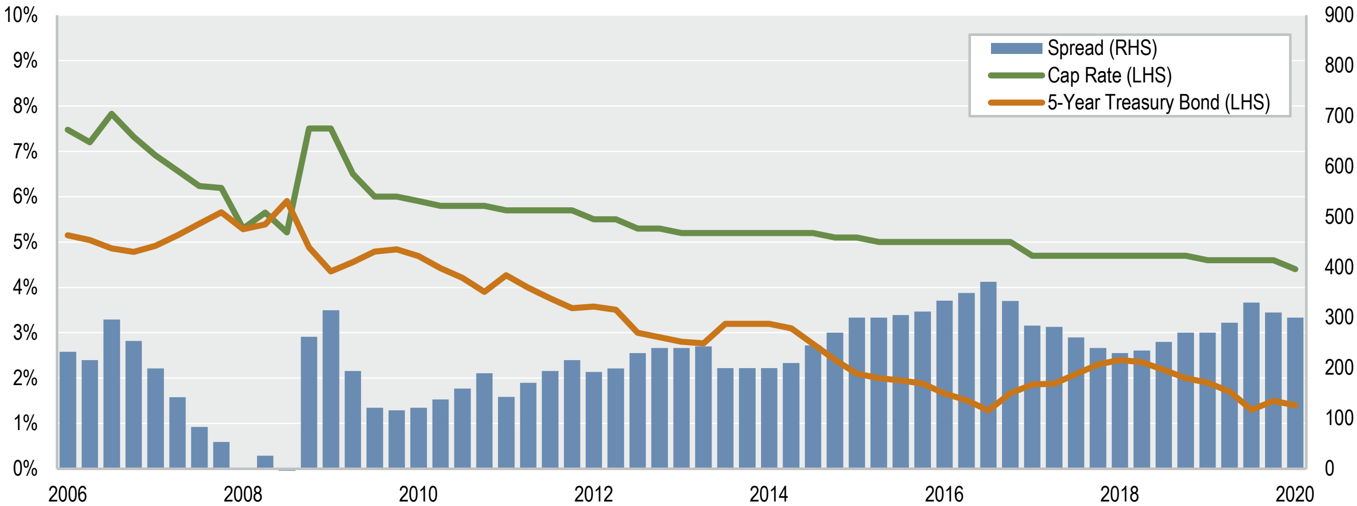


Source: Jones Lang Lasalle Research.

Office vacancy continued to improve, although the impact of COVID-19 is likely to curtail demand in the coming year.

Asia Real Estate *(continued)*

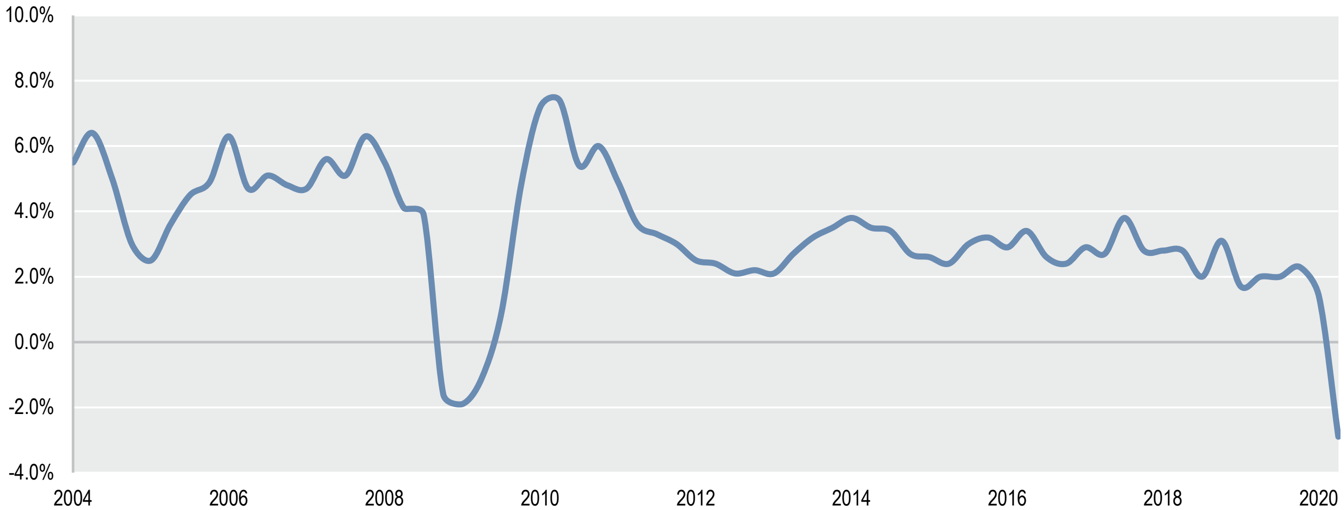
Seoul Prime Office Cap Rate and Spread Over 5-Year Treasury Yield
bps



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

Cap rates have compressed as investors seek yielding assets.

Korea GDP Growth
Y-o-Y



Source: Bank of Korea.

As expected, GDP growth turned negative in the wake of the pandemic.

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Head of Asia Real Estate

Steven Cha
Co-Portfolio Manager
Asia Real Estate

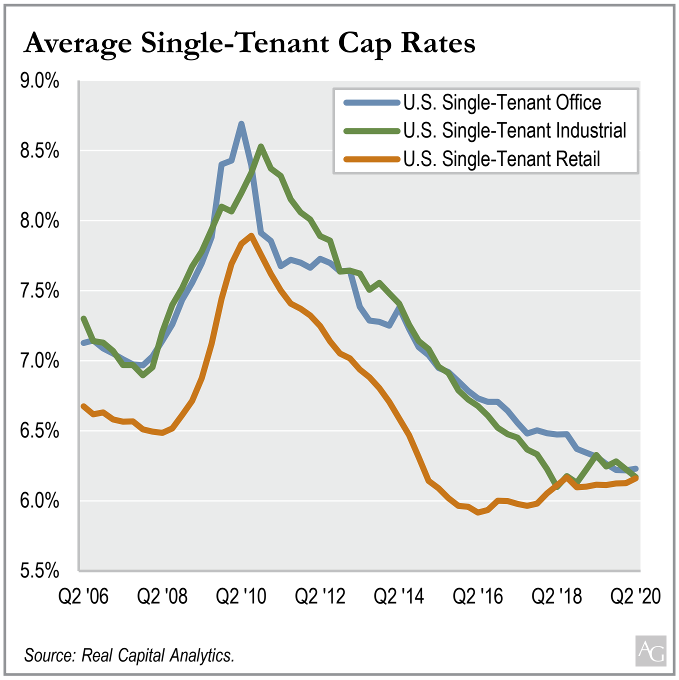
For more information on Asia Real Estate, visit www.angelogordon.com/strategies/real-estate/asia-real-estate/

Net Lease Real Estate

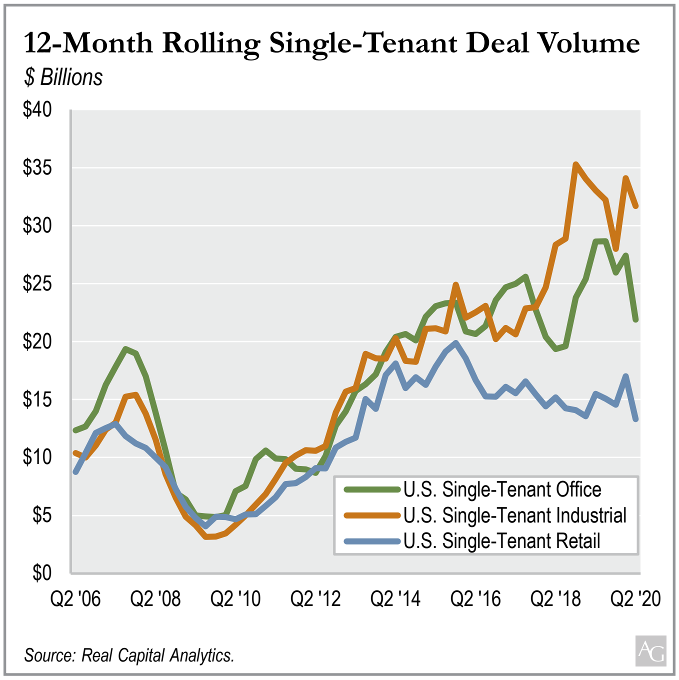
As of the second quarter of 2020, the trailing 12-month U.S. single-tenant transaction volume totaled $67 billion, according to Real Capital Analytics (RCA). In the first quarter, COVID-19's impact on volume was minimal; however, the impact is clear in the second quarter, with volume down 19% quarter-over-quarter. The decrease in volume was more notable in some sectors than others, with office and retail down 22% and 26%, respectively, while industrial was only down 12%. This decline in volume could be due to a number of factors, including site closures, difficulties with due diligence, and a pricing disconnect between buyers and sellers. The sale-leaseback market may see an increase in volume as more companies need capital.

In the second quarter, the pandemic's impact on cap rates was more muted than its impact on volume. Office and retail cap rates increased slightly, while industrial cap rates compressed five basis points. While retail cap rates have slowly increased since the third quarter of 2017, office and industrial rates have largely decreased.

Across the net lease industry, rent collections remain a key topic of focus. On average, public REITs with more retail exposure have been collecting less rent than those with more industrial exposure. According to Green Street Advisors, the average net lease REIT collected 75% of rent in April 2020.



Retail and office cap rates increased in Q2 2020, while industrial cap rates compressed.



After growing substantially for most of 2019, single-tenant volume declined in Q2 2020.

Gordon Whiting
Portfolio Manager

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

Private Equity

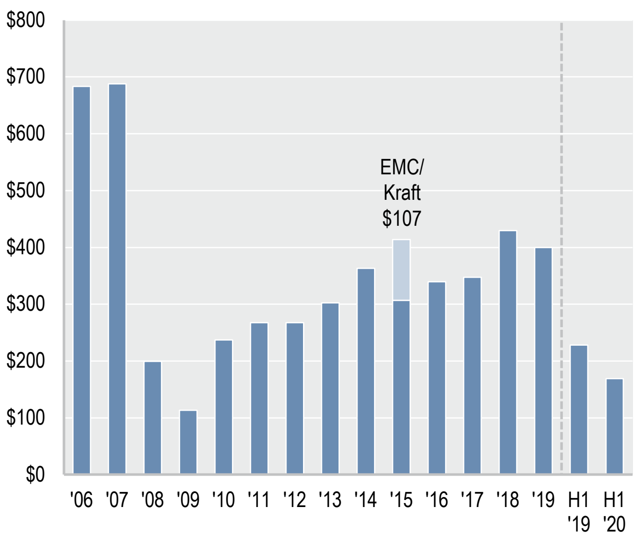
The COVID-19 pandemic continues to have a profound effect on the private equity industry. Not surprisingly, deal volumes, exits, and transaction multiples decreased and dry powder increased in the second quarter, reflecting the volatility and uncertainty surrounding both the economy and financial markets. Traditionally, we have measured private equity activity on a year-to-date basis. However, given recent events, it is more informative to analyze year-over-over second quarter activity, as it provides a better picture of how the pandemic has impacted the industry.

Second quarter 2020 deal volume, on both a global and North American basis, decreased significantly year-over-year. In North America, there were $31 billion of transactions in the second quarter of 2020, as compared to $56 billion in the second quarter of 2019 – a year-over-year decrease of 45%. Global deal volume in the second quarter of 2020 decreased approximately 40% year-over-year to $68 billion. Dry powder at June 30th set an all-time high of $796 billion, an increase of 6% from March 31st levels, reflecting lower deal volume. Average multiples paid in the second quarter of 2020 weakened to 9.3x EBITDA, down from first quarter levels of 11.2x EBITDA. Average leverage for buyouts in the second quarter of 2020 was 4.9x multiple of EBITDA, which was lower than the 5.3x multiple of EBITDA seen in the first quarter. Equity contribution as a percentage of total capitalization was at 46%, which is slightly higher than prior years but consistent with the first quarter. In the second quarter of 2020, the number of exits decreased approximately 49% year-over-year, with dollar volume decreasing approximately 77%.

Although we've seen parts of the U.S. and global economies begin to reopen in recent weeks, weak GDP, poor corporate earnings, and extremely high unemployment will have a long-lasting impact on private equity. While this pandemic is certainly unique – with extraordinary economic destruction – other dislocations have followed a similar long-term pattern, which results in lower deal activity, lower multiples paid, and fewer exits. When it comes to capital deployment for new investments, managers will continue to be cautious given economic uncertainty. When managers do pursue deals, we believe it will typically be at lower prices and valuations. Until we see stability in the markets and some degree of predictability in corporate performance, we expect to see muted activity across the private equity industry.

Global LBO Deal Value

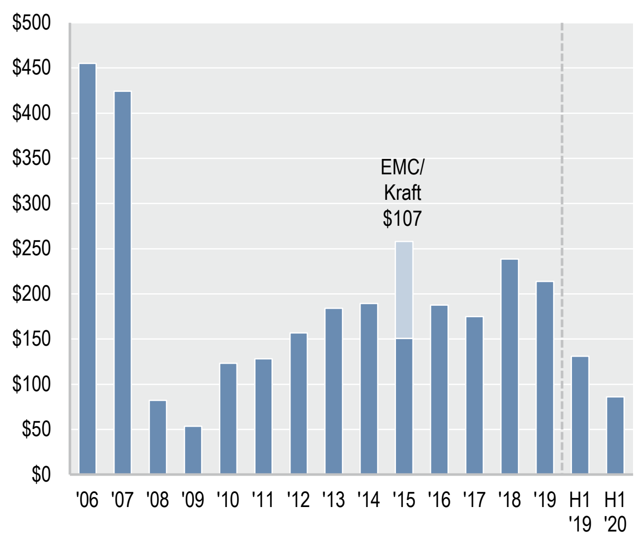
$ Billions



Source: Preqin.

North America LBO Deal Value

$ Billions



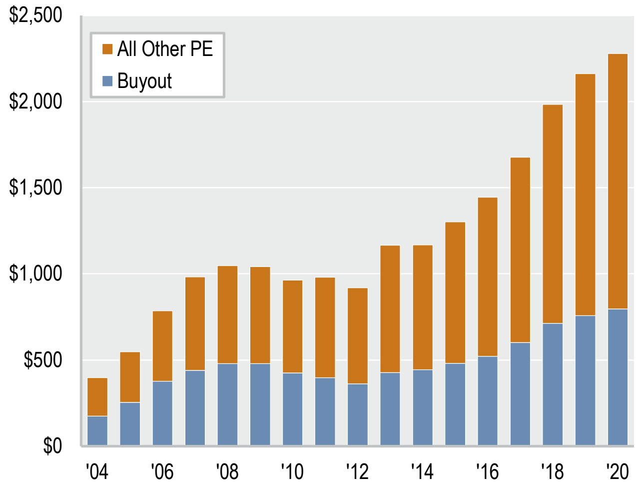
Source: Preqin.

For the first six months of 2020, year-over-year deal volume decreased 34% in North America and 35% globally.

Private Equity *(continued)*

Global Private Equity Dry Powder

$ Billions

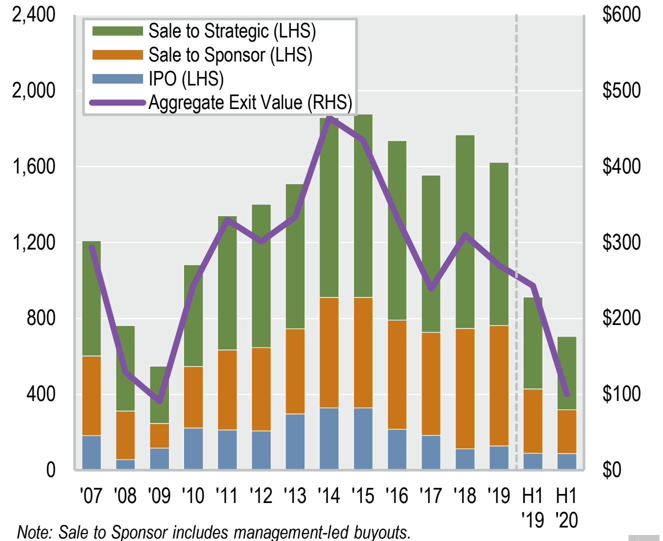


Note: All other PE Funds = Real Estate, Venture, Infrastructure, Growth, Distressed, Mezzanine, Other.
Source: Preqin.

Buyout dry powder at June 30, 2020 stood at $796 billion, an all-time record and a 6% increase from March 31st.

Private Equity Exits

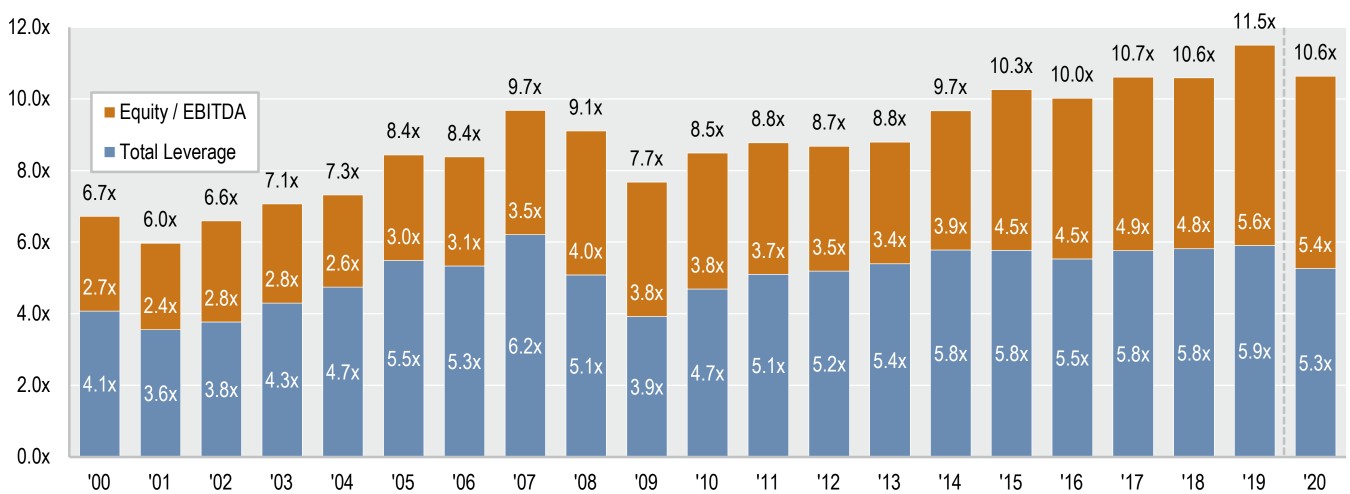
Number of Exits — *Value of Exits ($ Billions)*



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

The first six months of 2020 were weaker year-over-year, with the number of exits decreasing 23% and dollar volume down almost 60%.

LBO Purchase Price Breakdown



Equity Contribution

'00	'01	'02	'03	'04	'05	'06	'07	'08	'09	'10	'11	'12	'13	'14	'15	'16	'17	'18	'19	'20
34%	35%	37%	35%	33%	30%	31%	31%	39%	46%	41%	38%	38%	36%	37%	40%	41%	41%	43%	46%	45%

Source: S&P Capital IQ LCD.

LBO multiples through the first six months of 2020 stood at 10.6x, which is an 8% decline from calendar 2019 levels.

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

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