CAPITAL MARKETS PERSPECTIVES

SECOND QUARTER 2021

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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 $43 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 "January effect" was in full swing across credit markets in the first quarter, as investor thirst for yield, improving fundamentals, and supportive technical factors drove continued spread compression across many areas.

In corporate credit, the U.S. leveraged loan and high yield indices returned 1.9% and 1.4%, respectively, while the loan and high yield default rates ended the quarter at 3.9% and 5.4%, respectively. First quarter U.S. high yield default volume was $3.4 billion—the lowest it has been since $2.3 billion defaulted in the third quarter of 2018—and further downward pressure on the default rate is expected over the months ahead. Meanwhile, S&P Global Economics raised its real U.S. GDP growth forecast for 2021 and reported falling leverage and increasing interest coverage for borrowers. Improving fundamentals coincided with outperformance in the lowest-rated cohort in the high yield index, with the CCC bucket strongly outperforming the B and BB cohorts during the quarter.

In the structured credit market, the search for yield and improving fundamentals drove spreads lower. The S&P CoreLogic Case-Shiller U.S. National Home Price NSA Index rose to over 11% in January, after increasing more than 10% annually in 2020. Despite some softening at quarter-end, assets with longer duration or more credit risk generally outperformed, and only select sectors—like aircraft ABS—continued to trade wide of pre-pandemic levels. Spread compression was also seen in the CMBS market, where the relatively wider spreads attracted investors seeking yield pickup. The continued rollout of COVID-19 vaccines and improved delinquency numbers, in addition to light issuance, provided support to CMBS bonds.

Reflecting a continuation of 2020's robust primary market activity, the convertible bond market saw $58.3 billion of new issuance globally in the first quarter, with the issuer cohort being dominated by technology companies seeking to opportunistically boost balance sheet liquidity. The SPAC market saw record IPO volume in January and February, and investors adjusting their exposure to make room for new issues led to premium compression and presented opportunities to capture attractive names trading on positive yields.

M&A momentum continued into 2021, as U.S. volume increased 100% year-over-year, reaching an all-time first quarter high. As of the end of the quarter, the HFRX Merger Arbitrage Index posted a 2.3% gain, aggregate deal value stood at $420 billion, the average annualized spread stood at 13%, and the total arbitrage profit pool stood at $22 billion. Looking ahead, we believe the stage is set for a robust year of M&A.

Turning to global real estate, the market has seen a modest increase in activity as the global economy has started to show signs of recovery, albeit varied by region. Although uncertainty remains in the marketplace, fiscal support coupled with accommodative lending practices has suppressed what was feared to be a period of widespread distress across real estate. Globally, industrial and multifamily properties have continued to demonstrate strong fundamentals, while most hospitality and retail assets remain challenged. Office continues to face uncertainty, and secular headwinds have weighed on fundamentals as users reconsider their space usage in light of hybrid work models.

Financial market exuberance surrounding the reopening of the economy may mask the lasting secular impacts on certain property types and geographies. However, the combination of low absolute yields, moderately elevated inflation, and significant dry powder is broadly supportive of real estate values. We believe that elevated operating headwinds across property types and geographies should create more investment opportunities.

In the U.S., the rapid response of the Fed and Congress largely restored liquidity in the market, and consumer sentiment has continued to improve, with household savings and disposable income at record highs. Transaction volumes continued to increase month-over-month, but still declined 28% year-over-year in the first quarter. Although loan delinquency rates have improved, there has been increased activity in recapitalizations and forced sales as borrowers seek solutions to perceived long-dated recoveries for certain investments. With regard to valuations, the Green Street Commercial Property Price Index increased 2.6% quarter-over-quarter in the first quarter, but with significant variation by property type.

In Europe, another series of lockdowns has continued to put pressure on economies across the region. Current estimates indicate that GDP growth will be muted across the eurozone in the first and second quarters of 2021. The economic strain has limited both real estate transaction volume and leasing activity in Europe, though fundamentals and transaction volumes for industrial properties have demonstrated resilience. Retail properties continue to be challenged, with annual net store closures reaching a record high in 2020.

Asian economies have led the global recovery, with strong economic growth exhibited in Japan, South Korea, and China. Notably, office fundamentals have demonstrated relative stability in certain Asian markets; cap rates for prime South Korean office assets have compressed to historical lows, while rents and occupancy levels have remained stable in Japan. The logistics sector remains an outperformer across the region, with the growth of the e-commerce industry driving leasing and investment momentum.

Josh Baumgarten
Co-Chief Executive Officer
Co-Chief Investment Officer
Head of Credit

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

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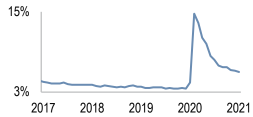
Economic Dashboard & Market Indices

JOB MARKET
Five-Year Trend

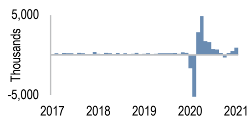
U.S.—Unemployment Rate
As of 3/31/2021

Latest Level	6.0
Change from Prior Period	▼ (0.2)
Frequency	Monthly



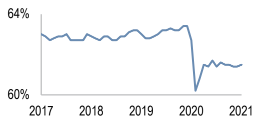
U.S.—Non-Farm Payroll
As of 3/31/2021

Latest Level	916.0
Change from Prior Period	▲ 448.0
Frequency	Monthly



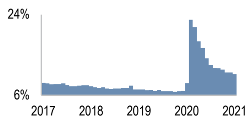
U.S.—Labor Participation Rate
As of 3/31/2021

Latest Level	61.5
Change from Prior Period	▲ 0.1
Frequency	Monthly



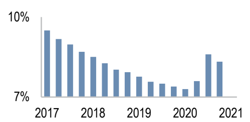
U.S.—U-6 Unemployed & Margin & Part-Time as Percent of Labor Force & Margin
As of 3/31/2021

Latest Level	10.7
Change from Prior Period	▼ (0.4)
Frequency	Monthly



Eurozone Unemployment Rate
As of 12/31/2020

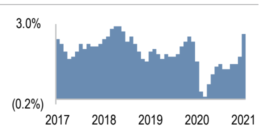
Latest Level	8.3
Change from Prior Period	▲ 0.3
Frequency	Quarterly



INFLATION
Five-Year Trend

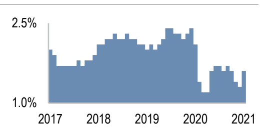
U.S. Consumer Price Index (CPI) Y-o-Y (%)
As of 3/31/2021

Latest Level	2.6
Change from Prior Period	▲ 0.9
Frequency	Monthly



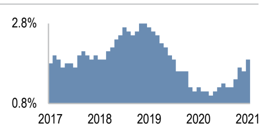
U.S. CPI Goods Less Food & Energy Y-o-Y (%)
As of 3/31/2021

Latest Level	1.6
Change from Prior Period	▲ 0.3
Frequency	Monthly



U.S. Producer Price Index (PPI) Y-o-Y (%)
As of 3/31/2021

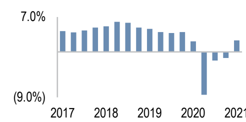
Latest Level	1.9
Change from Prior Period	▲ 0.3
Frequency	Monthly



GDP GROWTH
Five-Year Trend

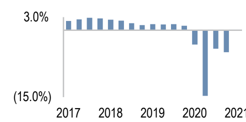
U.S.—GDP Y-o-Y (%)
As of 3/31/2021

Latest Level	2.3
Change from Prior Period	▲ 3.5
Frequency	Quarterly



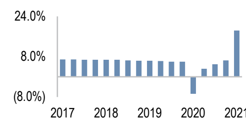
Eurozone—GDP Y-o-Y (%)
As of 12/31/2020

Latest Level	(4.9)
Change from Prior Period	0.0
Frequency	Quarterly



China—GDP Y-o-Y (%)
As of 3/31/2021

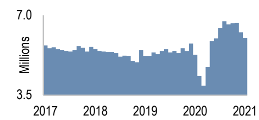
Latest Level	18.3
Change from Prior Period	▲ 11.8
Frequency	Quarterly



HOUSING
Five-Year Trend

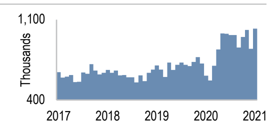
Existing Home Sales
As of 3/31/2021

Latest Level	6.0
Change from Prior Period	▼ (0.2)
Frequency	Monthly



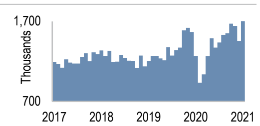
New Home Sales
As of 3/31/2021

Latest Level	1,021.0
Change from Prior Period	▲ 175.0
Frequency	Monthly



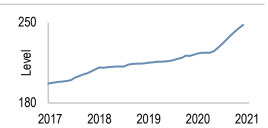
Housing Starts
As of 3/31/2021

Latest Level	1,739.0
Change from Prior Period	▲ 282.0
Frequency	Monthly



Case-Shiller Index of Home Value in 20 Cities
As of 2/28/2021

Latest Level	248.0
Change from Prior Period	▲ 2.9
Frequency	Monthly



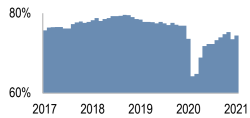
Source: Bloomberg (All).

Economic Dashboard & Market Indices *(continued)*

ECONOMIC & MARKET CONFIDENCE
Five-Year Trend

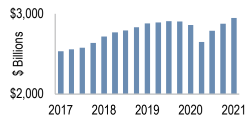
Capacity Utilization as a Percent of Capacity
As of 3/31/2021

Latest Level	74.4
Change from Prior Period	▲ 1.0
Frequency	Monthly



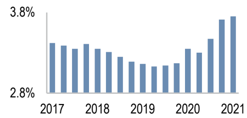
Private Fixed Investment Nonresidential SAAR
As of 3/31/2021

Latest Level	2,948.3
Change from Prior Period	▲ 72.4
Frequency	Quarterly



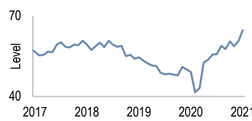
Residential Fixed Investment as a Percent of GDP
As of 3/31/2021

Latest Level	3.8
Change from Prior Period	0.0
Frequency	Quarterly



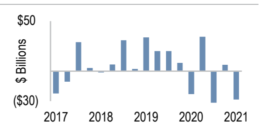
ISM Manufacturing Index
As of 3/31/2021

Latest Level	64.7
Change from Prior Period	▲ 3.9
Frequency	Monthly



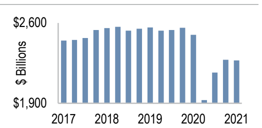
Manufacturing Inventory Change Q-o-Q ($)
As of 3/31/2021

Latest Level	(28.5)
Change from Prior Period	▼ (34.6)
Frequency	Quarterly



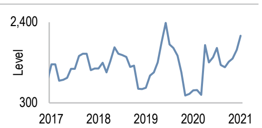
Exports of Goods/Services
As of 3/31/2021

Latest Level	2,272
Change from Prior Period	▼ (6.0)
Frequency	Quarterly



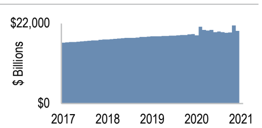
Shipping Rates
As of 3/31/2021

Latest Level	2,046
Change from Prior Period	▲ 680
Frequency	Quarterly



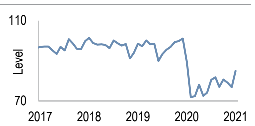
Personal Income Level
As of 2/28/2021

Latest Level	19,946
Change from Prior Period	▼ (1,517)
Frequency	Monthly



Michigan Consumer Confidence Sentiment
As of 3/31/2021

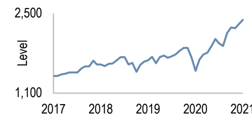
Latest Level	84.9
Change from Prior Period	▲ 8.1
Frequency	Monthly



EQUITY
Five-Year Trend

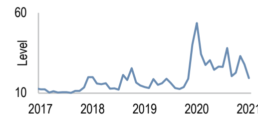
U.S. Equity Markets—Russell 3000
As of 3/31/2021

Latest Level	2,382.7
Change from Prior Period	▲ 134.3
Frequency	Monthly



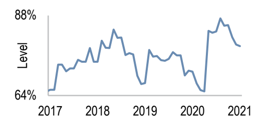
U.S. Equity—VIX
As of 3/31/2021

Latest Level	19.4
Change from Prior Period	▼ (3.4)
Frequency	Monthly

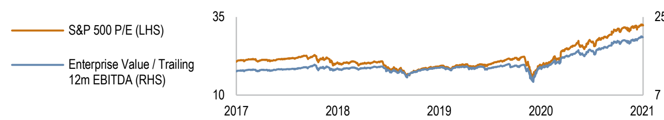


S&P 500 Percentage Exceeding Earning Estimates
As of 3/31/2021

Latest Level	78.8
Change from Prior Period	▼ (6.3)
Frequency	Monthly

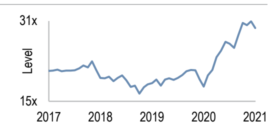


S&P 500 Historical Valuation Levels
As of 3/31/2021



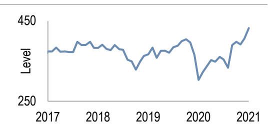
Trailing P/E on S&P 500
As of 3/31/2021

Latest Level	29.6
Change from Prior Period	▼ (1.0)
Frequency	Monthly



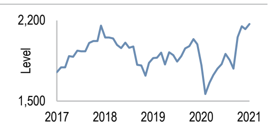
Equity Markets—Euro Stoxx
As of 3/31/2021

Latest Level	432.1
Change from Prior Period	▲ 34.5
Frequency	Monthly



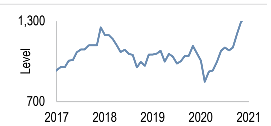
Equity Markets—MSCI EAFE
As of 3/31/2021

Latest Level	2,208.3
Change from Prior Period	▲ 60.8
Frequency	Monthly

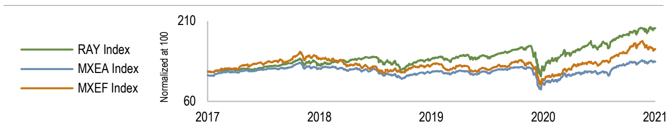


Equity Markets—MSCI EM
As of 3/31/2021

Latest Level	1,316.4
Change from Prior Period	▲ 25.2
Frequency	Monthly



Russell 3000 & MSCI EAFE & MSCI EM
As of 3/31/2021

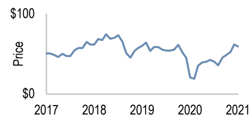


Source: Bloomberg (All).

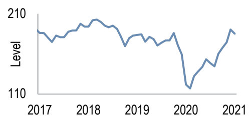
Economic Dashboard & Market Indices *(continued)*

COMMODITIES
Five-Year Trend

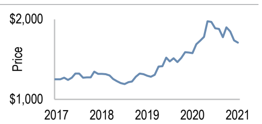
WTI Crude Oil Price	*As of 3/31/2021*
Latest Level	59.2
Change from Prior Period	▲ 10.6
Frequency	Monthly



Reuters/Jefferies Commodity Index	*As of 3/31/2021*
Latest Level	185.0
Change from Prior Period	▲ 17.2
Frequency	Monthly

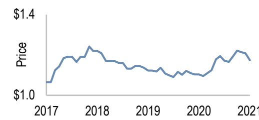


Gold	*As of 3/31/2021*
Latest Level	1,707.7
Change from Prior Period	▼ (190.7)
Frequency	Monthly

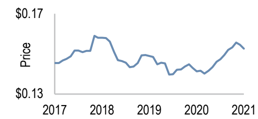


FOREIGN EXCHANGE RATES
Five-Year Trend

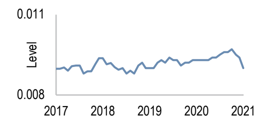
Euro Spot Rate vs. 1 USD	*As of 3/31/2021*
Latest Level	1.17
Change from Prior Period	▼ (0.05)
Frequency	Monthly



Yuan Spot Rate vs. 1 USD	*As of 3/31/2021*
Latest Level	0.1526
Change from Prior Period	▲ 0.0006
Frequency	Monthly

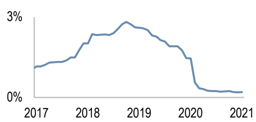


Yen Spot Rate vs. 1 USD	*As of 3/31/2021*
Latest Level	0.0090
Change from Prior Period	▲ 0.0006
Frequency	Monthly

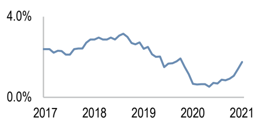


RATES
Five-Year Trend

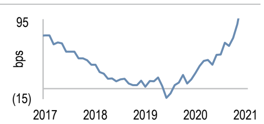
Libor 3M	*As of 3/31/2021*
Latest Level	0.19
Change from Prior Period	▼ (0.04)
Frequency	Monthly



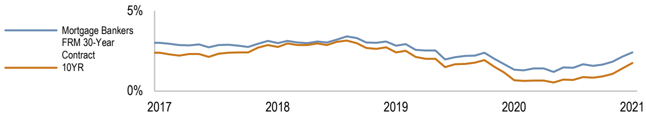
Treasury 10-Yr Yield	*As of 3/31/2021*
Latest Level	1.74
Change from Prior Period	▲ 0.83
Frequency	Monthly



Swaps 2-Yr vs. 10-Yr	*As of 3/31/2021*
Latest Level	148.98
Change from Prior Period	▲ 76.18
Frequency	Monthly



30-Yr Mortgage & 10-Yr Treasury *As of 3/31/2021*



Source: Bloomberg (All).

Performing Credit

The U.S. leveraged loan market started the year strong, with a first quarter gain of 1.88%. The J.P. Morgan U.S. Leveraged Loan Index ended the quarter with a 4.89% yield and 439 basis point spread, down 21 basis points and 47 basis points, respectively, from year-end. The European loan market posted a 1.9% return, outperforming the high yield market, which returned 1.5%. However, since the European loan market is dominated by B-rated issues, the performance gap between loans and bonds is closer than it appears, with B-rated European high yield returning 2.1%. Meanwhile, U.S. investors focused on lower rated credit, with split B/CCC loans—up 6.66%—strongly outperforming B and BB loans, which ended the quarter up 1.60% and 0.83%, respectively.

While the pandemic's impact continues to be seen worldwide, the market was focused on positive news regarding vaccines and falling default rates. As of March 31st, the U.S. loan default rate—which has fallen for six straight months—was 3.34% and on-trend to continue falling toward a long-term rate of 2.9%. LCD predicts $30.8 billion will exit the rolling default number by July, putting downward pressure on the default rate. European high yield recorded no defaults in March, and the 12-month trailing default rate as of March 31st fell by 25 basis points to 3.35%. Rating upgrades also continued to outpace downgrades in terms of issuer count and par amount outstanding. The volume of ratings upgraded outpaced downgrades by more than 2x as of quarter-end.

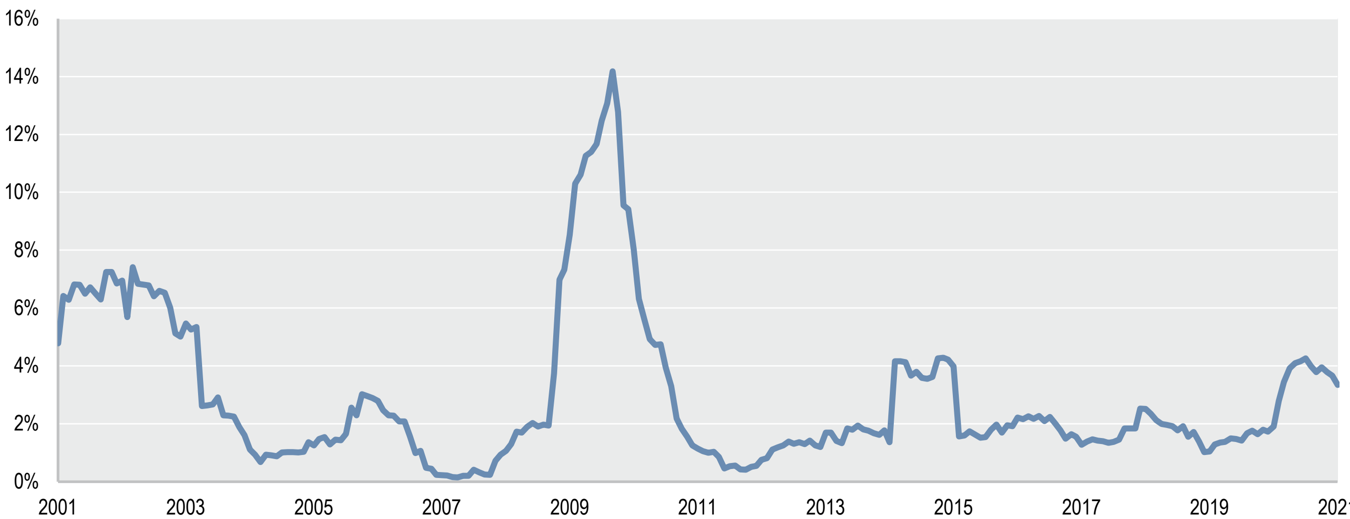
The market saw economic improvement, as S&P Global Economics increased its real U.S. GDP growth forecast for 2021 from 4.2% to 6.5%. At the borrower level, the trend saw leverage falling and interest coverage rising, further reducing future default pressure.

The first quarter of 2021 marked the first reversal of outflows since 2018, with leveraged loan funds experiencing inflows of $25.5 billion. We expect demand for loans to remain robust in the near term, as CLOs—the largest buyers of loans—are actively ramping, as illustrated by the $37.8 billion of primary CLO issuance. In the U.S., first quarter 2021 primary issuance volume was the second-highest on record.

Looking ahead, we believe loan demand will remain strong in 2021, as floating rate products have historically experienced an increase in investor focus in a stable-to-rising rate environment. The global economic outlook is improving due to the expanding availability of COVID-19 vaccines, as is the default outlook, due to roll-off and improvement in borrowers' credit fundamentals. Demand for CLO debt and equity remains robust, as CLOs benefit from low spreads, and locking in low spreads is the current environment will position CLOs well given that they typically have a 5-year investment period.

Leveraged Loan Default Rate

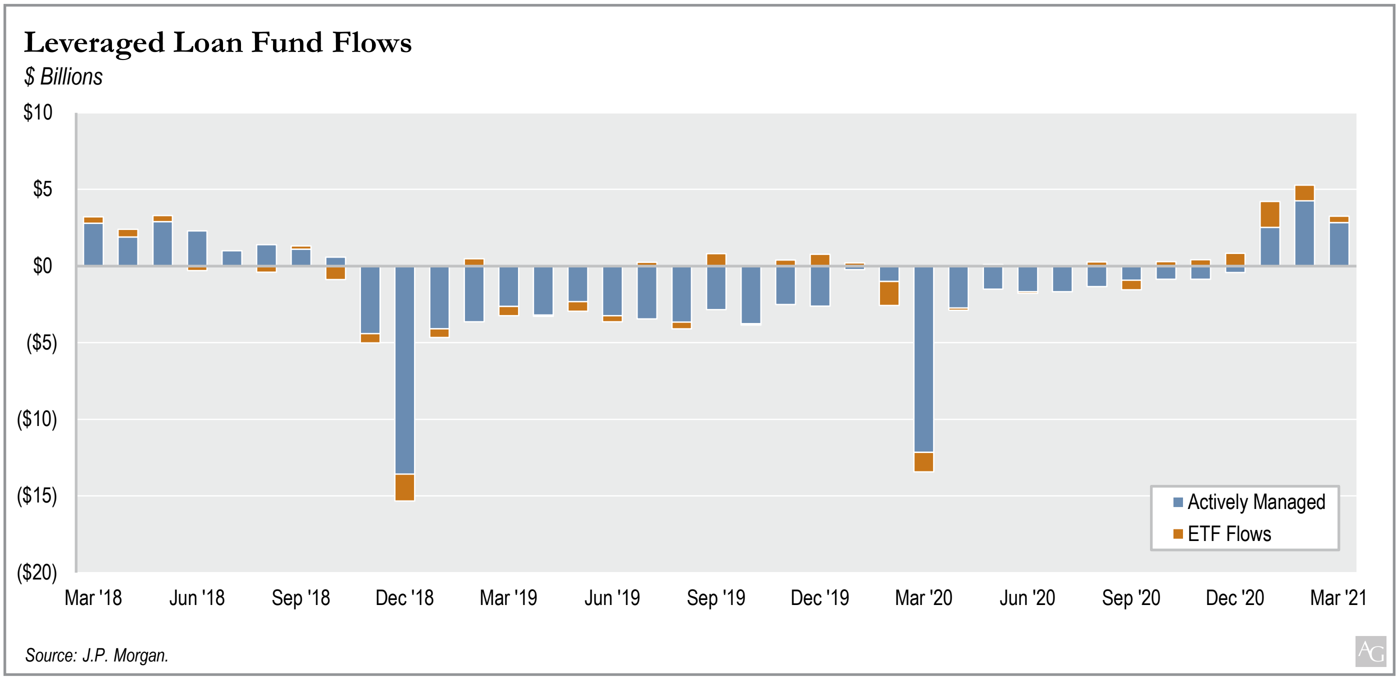
Par-Weighted Default Rate



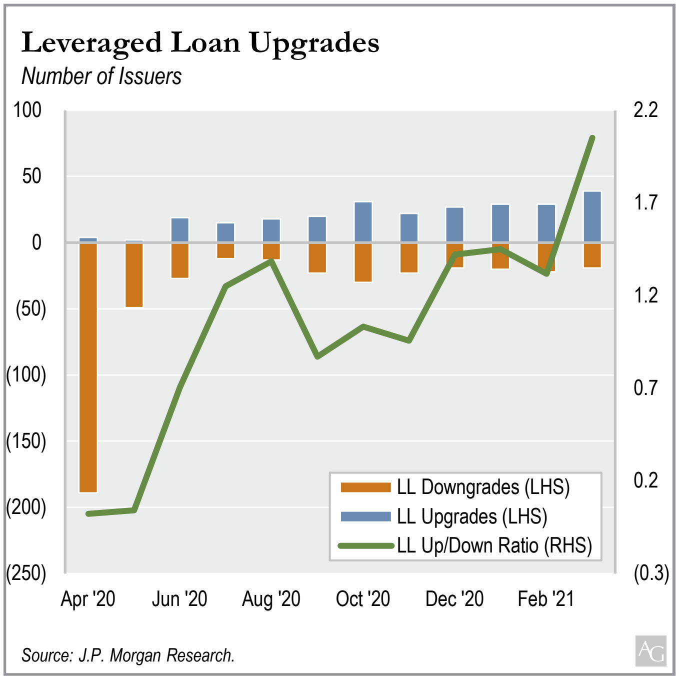
Note: Represents the last twelve-month default rate.
Source: J.P. Morgan.

Default rates continue to decline from the spike in 2020 and remain well below historical highs.

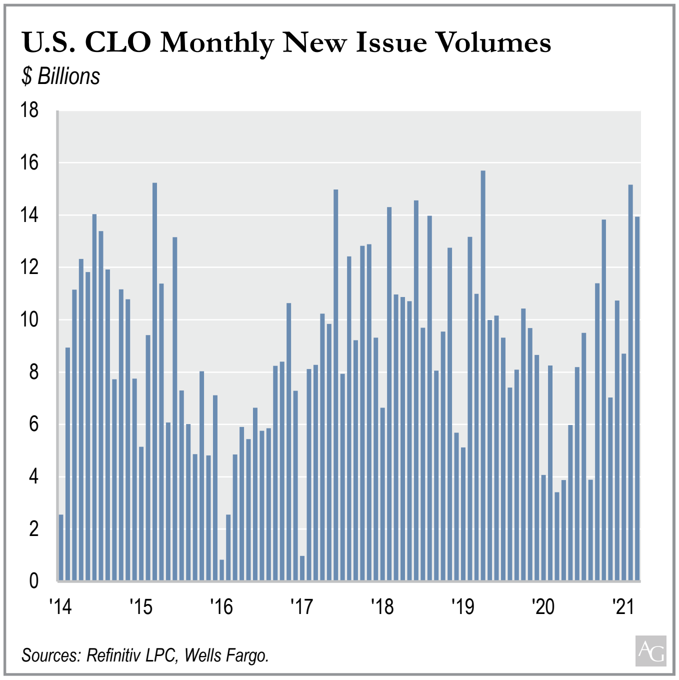
Performing Credit *(continued)*



Leveraged loan fund outflows, which began at the end of 2018, have started reversing course in 2021.



Leveraged loan upgrades are outpacing downgrades as it relates to both issuer count and par amount outstanding.



March had the highest monthly CLO issuance on record, making Q1 2021 the second-highest quarter on record.

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 produced modest gains in the first quarter, delivering 1.4% in the United States and 1.9% in Europe for the three-month period ended March 31, 2021. High yield's positive return was in contrast to the negative performance of most fixed income sectors, which were weighed by rising interest rates, heightened expectations for economic growth, recovering commodity prices, and the introduction of a nearly $2.0 trillion fiscal stimulus package in the United States.

In the U.S., high yield bond spreads returned to 2018 levels, declining 38 basis points during the quarter to end at 406 basis points, while yields touched a record low of 4.53% in mid-February before closing March at 4.72%. Spreads in Europe trended similarly, compressing 33 basis points over the three-month period to settle at 325 basis points at quarter-end. In both regions, lower-quality outperformed during the quarter: CCC-rated bonds returned 3.8% in the U.S. and 4.9% in Europe, while BBs returned -0.3% in the U.S. and 1.1% in Europe. Energy and pandemic-sensitive sectors such as transportation and gaming/leisure led performance in the U.S. market.

Following more than $140 billion of defaulted high yield debt during 2020, which ranked as the second-highest annual total on record, only six companies defaulted on a combined $3 billion of debt in the first quarter of 2021, the third-lowest quarterly total in the past five years. With this, the U.S. high yield default rate declined to 5.4% including energy, and fell further to 3.1% excluding energy. In Europe, only two companies defaulted during the quarter, resulting in a trailing 12-month default rate of 3.5% at the end of March.

U.S. high yield issuance reached a record $159 billion in the first quarter of 2021, exceeding the prior peak of $146 billion achieved in the second quarter of last year. Of note, March produced the highest monthly volume of all-time, while January was the third-highest level on record. Refinancing represented more than 75% of primary volume and was the largest use of proceeds for the eleventh consecutive month, as borrowers continued to take advantage of strong investor demand for new issuance. In Europe, after setting a calendar-year record in 2020, high yield primary issuance marked a quarterly record in the opening three months of the year, with new supply of €45 billion topping the previous peak by approximately €12 billion.

Following more than $44 billion of new capital inflows in full year 2020, U.S. high yield funds reversed trend in the first quarter of 2021, recording over $10 billion of outflows during the three-month period, as credit investors shifted new capital deployment toward floating-rate loan funds. European high yield retail fund flows declined €1.4 billion over the quarter.

Developed Market High Yield

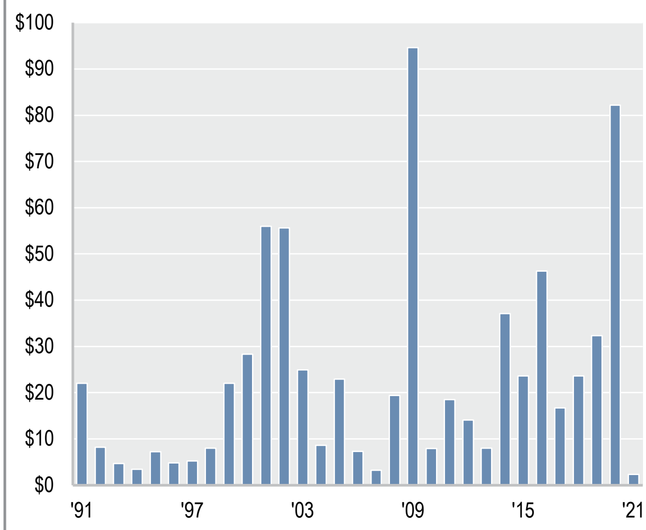
Yield to Worst

Sources: Deutsche Bank, Bloomberg Finance LP, ICE Indices.

Developed market yields declined to 20-year lows.

U.S. High Yield Defaults

$ Billions



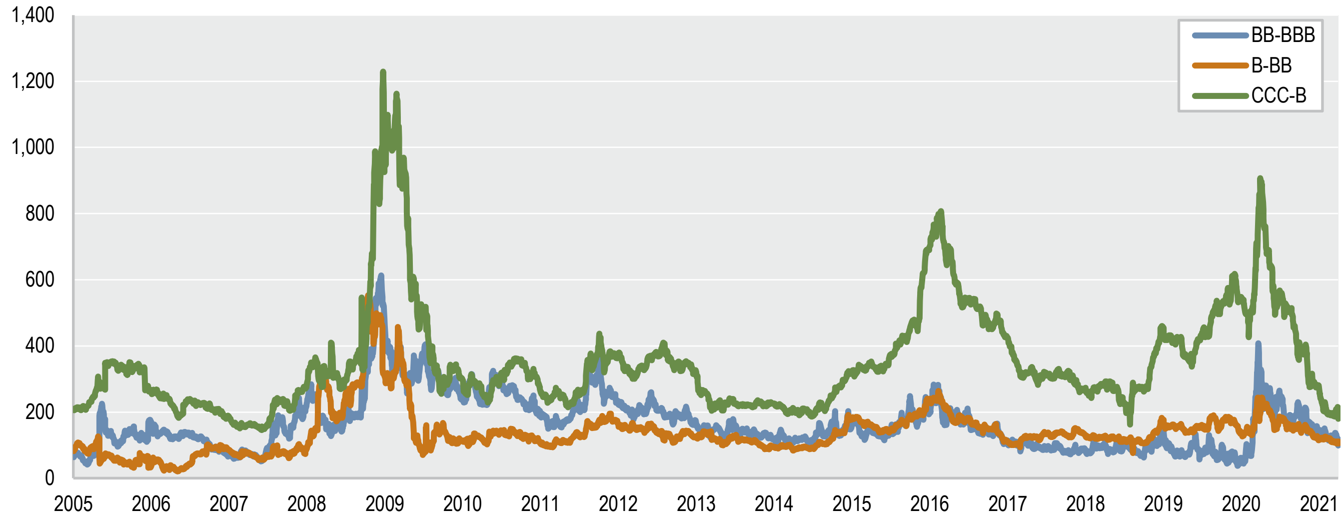
Sources: J.P. Morgan, Moody's Investor Services.

Volumes are down significantly from 2020 levels.

Distressed Debt *(continued)*

Bond Rating Spread Differentials

bps

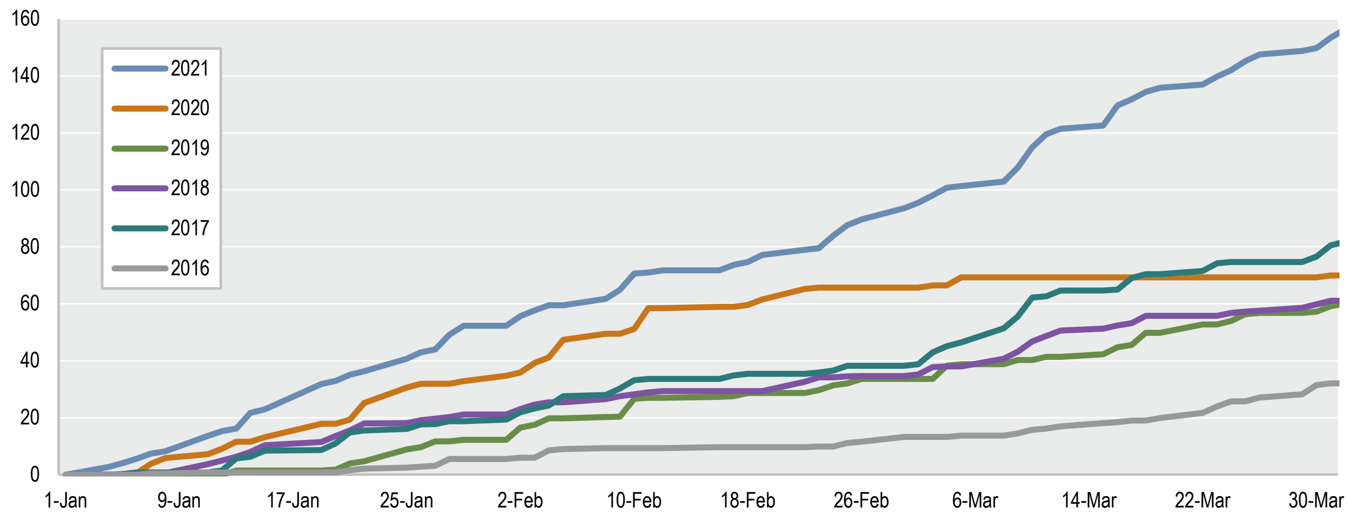


Sources: Bloomberg, Morgan Stanley Research.

Spreads between bond qualities have declined to pre-pandemic levels.

U.S. High Yield New Issuance

Cumulative Issuance ($ Billions)



Source: Credit Suisse.

Primary volume reached record levels in the first quarter of 2021.

Ryan Mollett
Global Head of Distressed & Corporate Special Situations

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

Commercial Real Estate Debt

In the CMBS market, 2021 started with a "January effect" on steroids. In addition to the factors that typically push CMBS spreads tighter to start the year, such as the need to invest newly allocated capital into the market, we believe overall market dynamics in the first quarter were supplemented by a few additional considerations this year. One factor is that the recovery in CMBS has tended to lag other product types, so the space offered some yield pickup. Additionally, with the COVID-19 vaccination rollout gaining momentum, property valuation uncertainty has been mitigated to some degree. Finally, given a limited amount of maturities in 2021, issuance volumes are expected to remain light by historical standards.

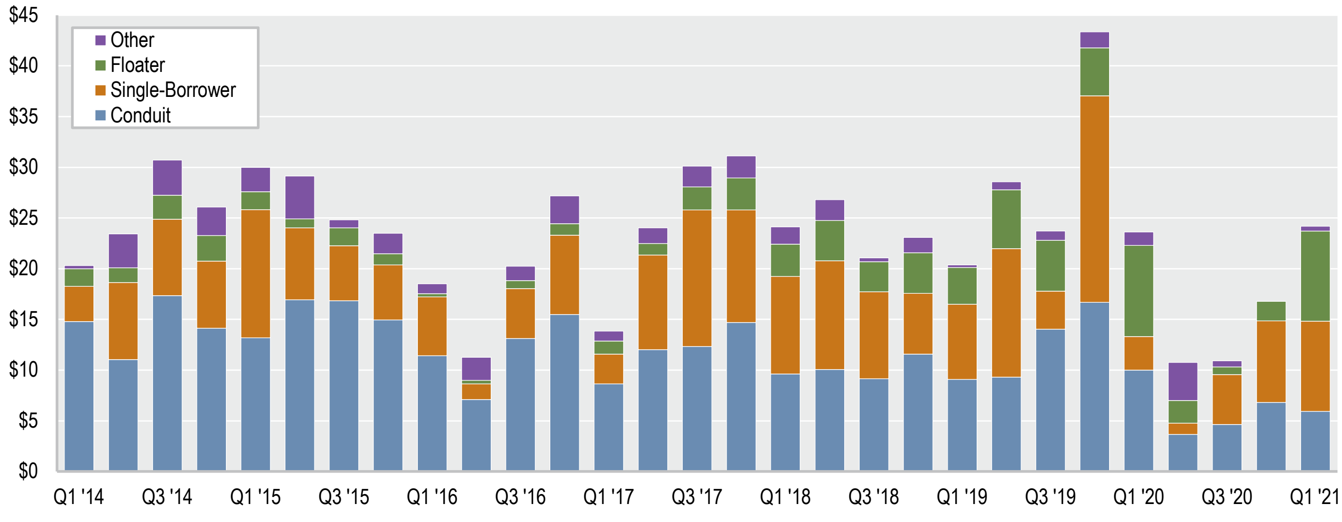
The positive momentum continued into February and early March, albeit at a slower pace. By the end of the quarter, a bit of softness started to be seen in the market, with several new issue transactions needing to widen spreads from initial guidance in order to clear; however, this felt more like a pause than an actual reversal in sentiment.

The overall CMBS delinquency rate continues to trend lower, with March becoming the ninth consecutive month of improved loan performance. According to Trepp, the overall delinquency rate declined from 7.81% to 6.58% during the quarter. Not surprisingly, the hardest-hit sectors in 2020 led the recovery this year, with the delinquency rate in the hotel sector dropping from 19.80% to 15.95% and retail declining from 12.94% to 10.89%. Office delinquency rates held steady at just over 2.00%, while the industrial sector continued to shine, ending the quarter at less than 1.00%. Loans secured by multifamily properties experienced a 39-basis point, or 0.39%, increase in delinquency—rising from 2.75% to 3.14%. We believe this is a trend that warrants ongoing focus, particularly as eviction moratoriums eventually sunset.

In our opinion, the greatest area of uncertainly in the commercial real estate markets relates to the office sector and the long-term impacts of more remote or work-from-home options for employees. These trends are going to play out over years, and the dispersion of potential outcomes is huge. Fitch Ratings recently published a research report that projected 45-54% declines in office property values based on what they referred to as moderate and severe work-from-home scenarios. We believe this headline-grabbing result is somewhat misleading because it combines cash flow declines with a significant increase in capitalization rates. We think the aforementioned severe downside scenario is highly unlikely, but these will be trends to watch closely for years to come. Not all markets and properties will be impacted to the same degree, which is why we believe taking a loan-by-loan approach to analyzing each transaction is key.

Quarterly Private Label Issuance

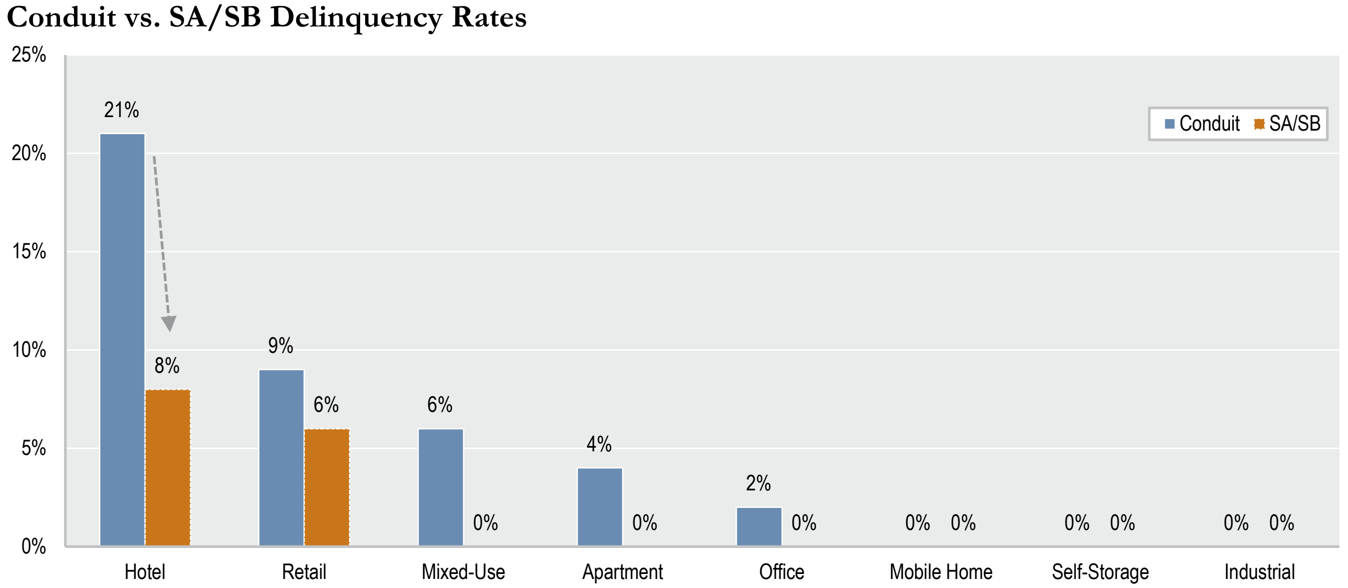
$ Billions



Sources: Credit Suisse, Commercial Mortgage Alert.

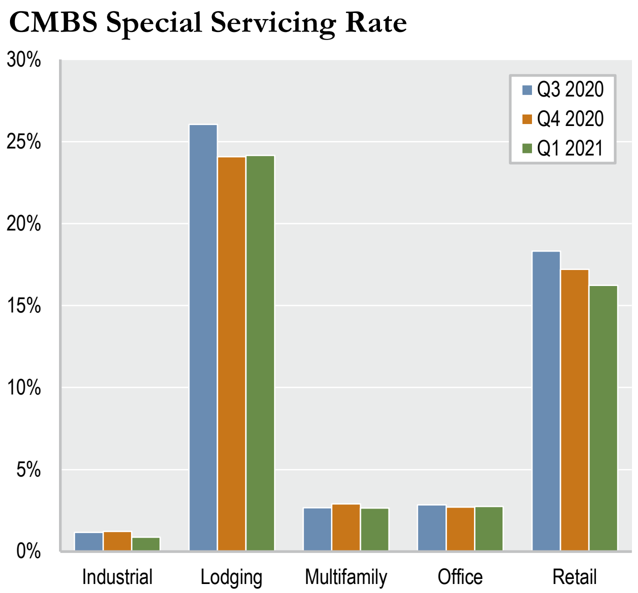
Total quarterly issuance returned to pre-pandemic levels.

Commercial Real Estate Debt *(continued)*



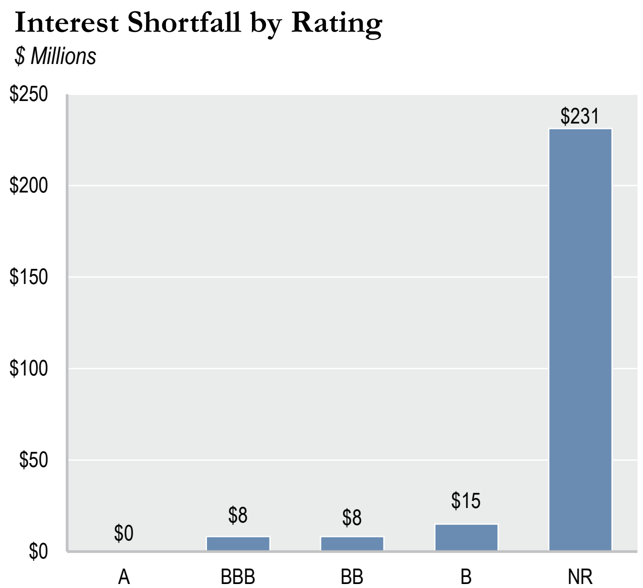
Note: 30+ day delinquency rate by sector and property type. 2012-2021 CMBS transactions.
Sources: Trepp, Goldman Sachs Investment Research.

Single-Asset/Single-Borrower (SA/SB) delinquency rates are noticeably lower than conduit delinquency rates across property types.



Note: As of March 31, 2021.
Source: Trepp.

Special servicing rates have been gradually declining over the past six months.



Note: Data as of February 2021 remit. Ratings have been clubbed to letter.
Source: Intex.

Interest shortfalls in conduit CMBS are concentrated in the non-rated portion of the capital structure.

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)

The spread recovery for securitized residential and consumer debt persisted during the first quarter of 2021, supported by many of the same themes we have noted in our prior commentaries, such as demand for yield, strong collateral fundamentals that have benefited from stimulus, rising home prices, and the ongoing job recovery. Assets with longer duration or more credit risk—which are generally those with the widest spreads—outperformed during the quarter, leading to a flatter credit curve before front-pay, senior tranches, and legacy RMBS reversed some of their gains toward the end of the quarter.

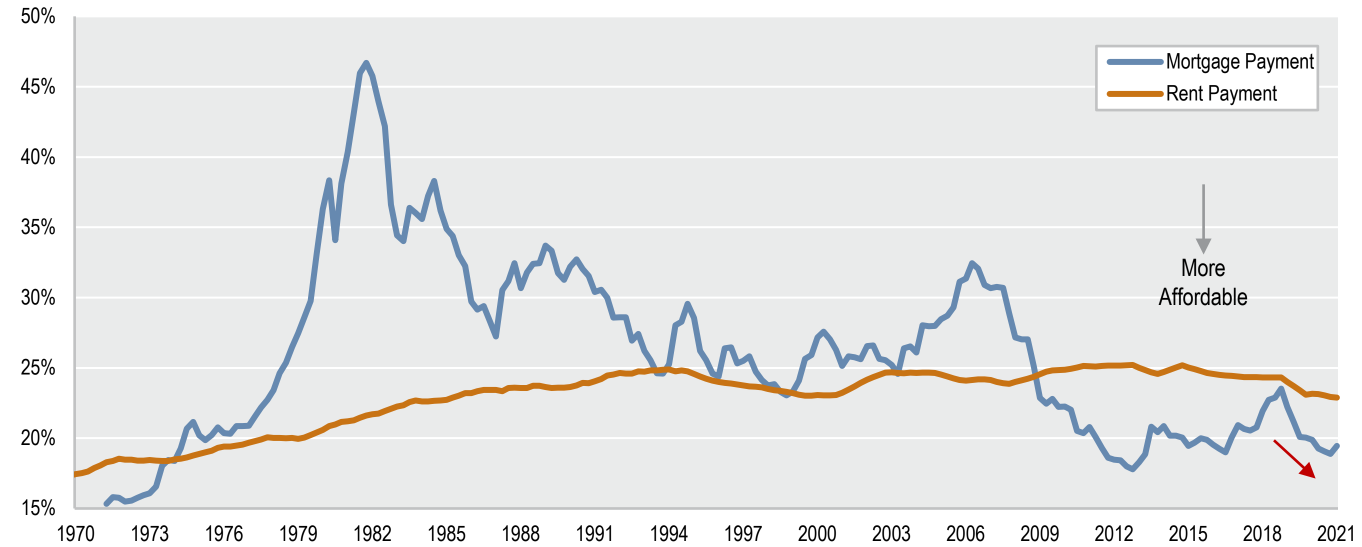
At the end of the quarter, most mortgage sub-asset classes were up to 50-100 basis points wide of February 2020 levels, though a few pockets—such as newly issued AAA tranches of re-performing loans and non-qualified mortgages as well as certain subordinate tranches of single-family rental deals—ended the quarter inside of pre-pandemic spreads. Most consumer sub-asset classes finished the quarter inside of February 2020 levels, though certain sectors—such as aircraft ABS—remain outside of pre-pandemic levels.

New issue volume was notably stronger compared to the fourth quarter of 2020. The supply was well-absorbed by the market, as offerings were often well-oversubscribed—particularly at the beginning of the year. Compared to the prior quarter, RMBS new issues grew 38% to nearly $30 billion, and ABS issuance rose 71% to over $63 billion. Growth was more mixed year-over-year, as RMBS fell 14% due to Fannie Mae's absence from the Credit Risk Transfer new issue market and less non-performing loan/re-performing loan RMBS issuance activity. On the other hand, ABS increased by 25%, led by auto and other/esoteric sectors.

Ongoing pandemic-related risks for the mortgage- and asset-backed sectors have been balanced against collateral fundamentals that have generally exceeded the market's expectations from last March and April. As discussed in prior quarters, this was certainly supported by multiple recovery packages consisting of enhanced unemployment support, federal stimulus payments, and payment relief from mortgages and other consumer debts.

At the end of 2020, home price indices from S&P CoreLogic Case-Shiller and the Federal Housing Finance Agency pointed to an annual increase of over 10% for national home prices, and in its first reading of 2021, the Case-Shiller index rose to over 11%. The same factors we have often cited—such as limited supply of new and existing homes against strong demand—continued to drive home prices higher. However, underwriting remains markedly tight and consistent with levels in 2014, according to the Mortgage Bankers Association. This contrasts with the global financial crisis, during which loose underwriting was a key component of home demand.

Payments as a Percent of Household Income



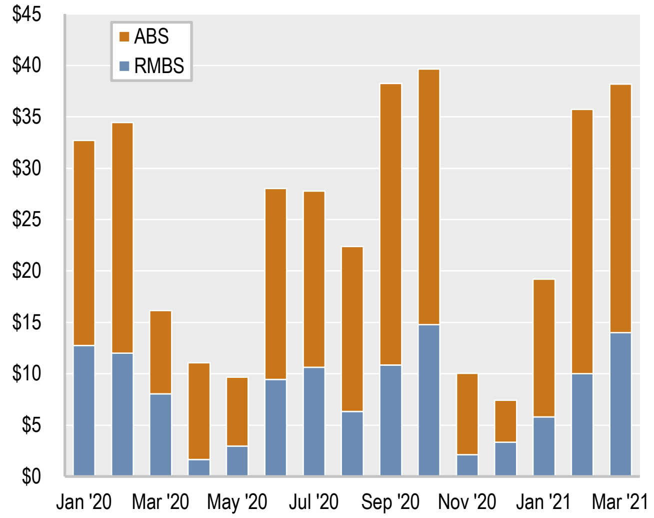
Sources: BLS, Census Bureau, Freddie Mac, Zillow, Goldman Sachs Global Investment Research.

Mortgage payments as a percent of household income have continued to decline since last year.

Residential & Consumer Debt *(continued)*

RMBS and ABS Issuance

$ Billions

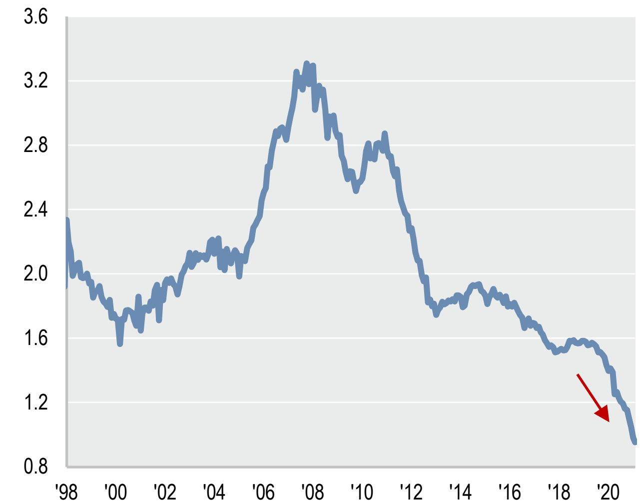


Source: Bank of America Research.

New issuance volume returned to the elevated levels seen in Q3 2020.

Housing Inventory

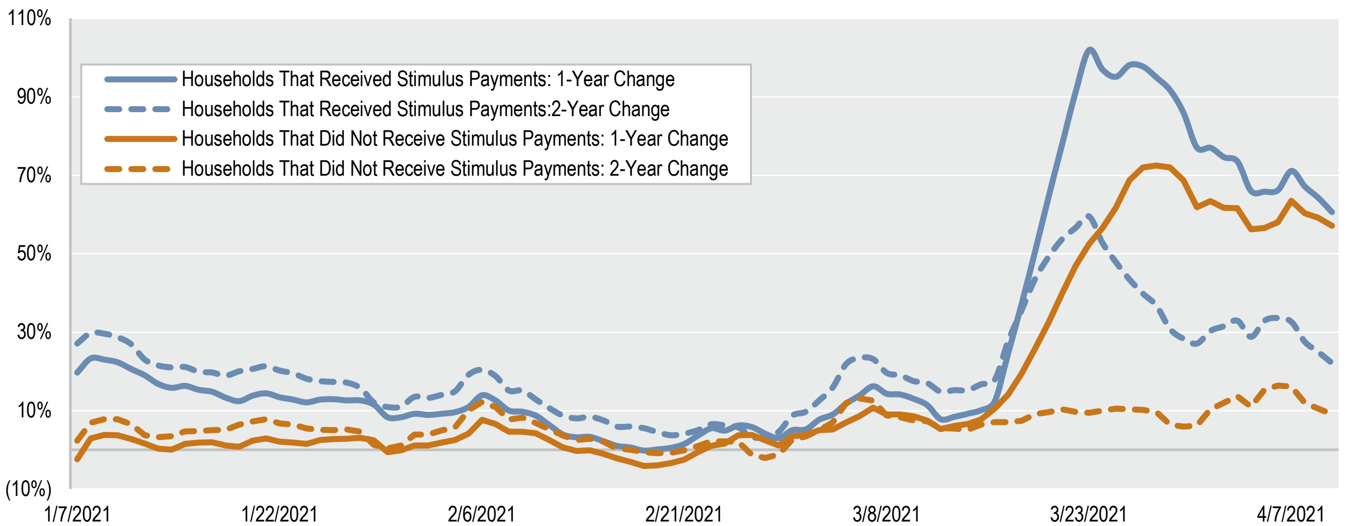
Single-Family Homes for Sale (Millions), Seasonally Adjusted



Sources: NAR, Goldman Sachs Global Investment Research.

Outstanding housing inventory continues to decrease, offering further support to housing prices.

Total Credit Card Spending



Note: Percent change in 7-day moving average of spending levels. Households that received stimulus payments include all households that received the one-time payment on through direct deposit. Some in the "Households that did not" categories could be receiving payments through checks, which the data does not track, or could be receiving stimulus after March 17, 2021.
Source: Bank of America Research.

Spending of stimulus recipients has outpaced that of non-recipients over the previous one- and two-year periods.

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

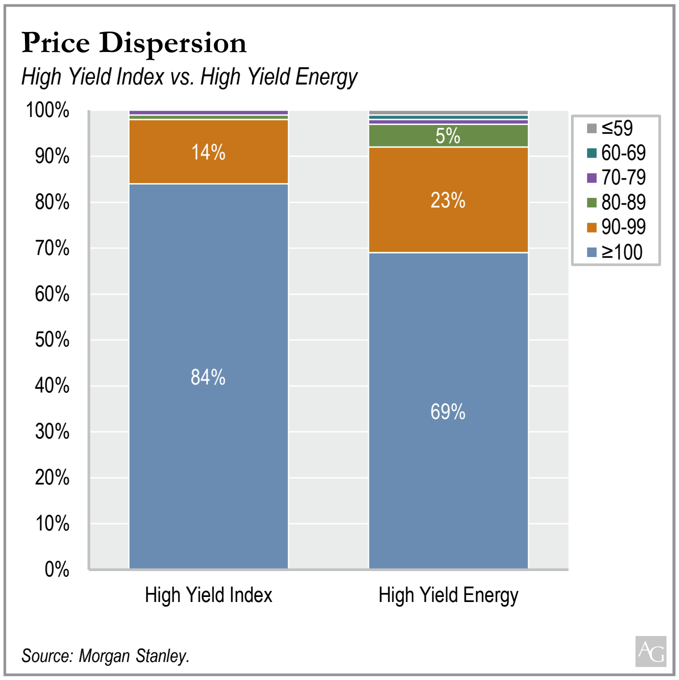
Following its 30% increase to start the year, WTI has range traded in a $5 band around $60 since mid-March. Demand is normalizing and is expected to attain pre-pandemic levels by early 2022. At its April meeting, OPEC agreed to modestly increase production in May. Natural gas continues to find support at $2.50.

Despite higher prices, U.S. crude supply remains constrained. 2021 public company guidance indicates continued adherence to capital discipline, and those few producers that sought to materially raise production and/or capex were punished by investors and analysts alike. The majors have cut spending on oil and gas and, instead, are forging ahead with investments in energy transition. The current commodity price environment has prompted several producers to pay dividends, and announcements of those dividends have been well-received.

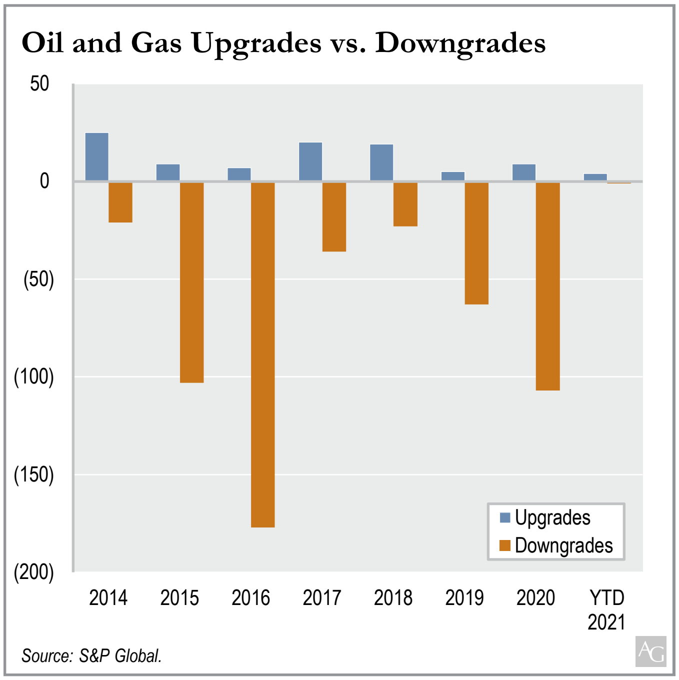
Traditional energy equities have significantly outperformed both the broader market and transitional energy equities, returning nearly 30% year-to-date versus 10% for the S&P 500 and -17% for the S&P Global Clean Energy Index. As a result, the sector has increased its weighting within the index to 3%, though still lingers well below its 2014 peak of 10%. Market performance notwithstanding, recent equity issuance has been light, with only three follow-on offerings for oil and gas producers pricing thus far in 2021. Vine Energy's March IPO may portend the reopening of the energy IPO market.

Energy credit spreads continue to grind tighter and, with the Credit Suisse High Yield Energy Index offering a yield of 5.8% as of April 26th, are again approaching lows last realized in 2014. In a complete reversal from last year, ratings agencies have upgraded 14 energy issuers while downgrading only two. High yield issuers have capitalized on the accommodative markets: Issuance in the first quarter reached its highest level since 2014. Thus far in 2021, the sector represents a quarter of all new issuance activity, and of that figure, oil and gas producers represent nearly 50%.

In contrast, banks continue to retreat, creating more senior secured investment opportunities in the form of discounted reserve-based loans—both single names and larger portfolios—and new senior secured originations. Access to senior secured credit is generally rationed for all but the largest and best debt issuers that offer significant bank product cross-sell and ancillary revenue opportunities. The banks that remain are tightening lending standards, by way of increased interest rates and reductions in both advance rates and value ascribed to anything other than proved developed producing reserves.



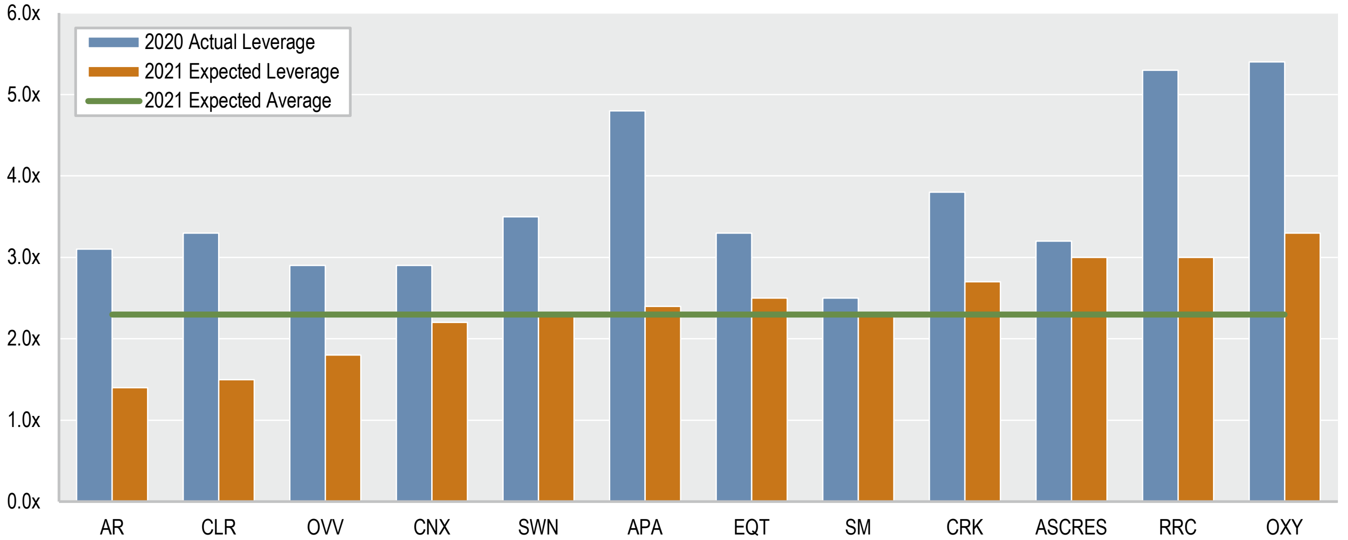
Dispersion is substantially greater in high yield energy than in the broader index, potentially providing more opportunity for deep research and individual bond selection.



Year-to-date, S&P has only upgraded energy issuers—a significant change following a multi-year downgrade cycle and reflective of a significant, industry-wide de-levering.

Energy *(continued)*

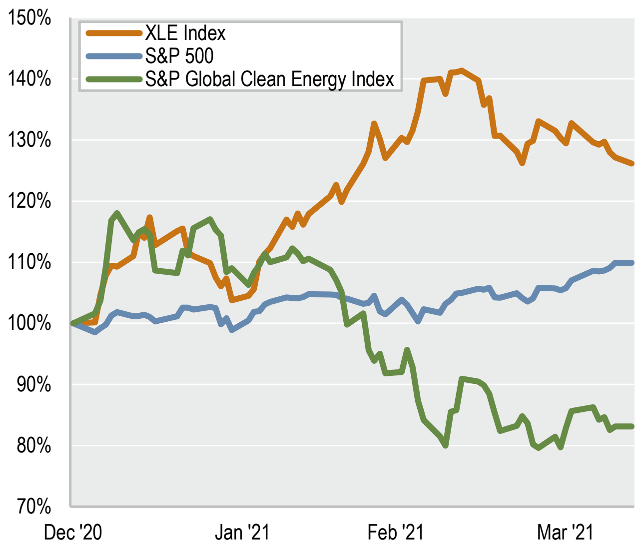
Sector Leverage Ratios



Source: Morgan Stanley.

With capital discipline firmly entrenched, companies will apply free cash flow toward debt reduction this year. This will result in meaningfully improved leverage metrics for most issuers; less than two-times leverage is increasingly common.

YTD Equity Relative Performance

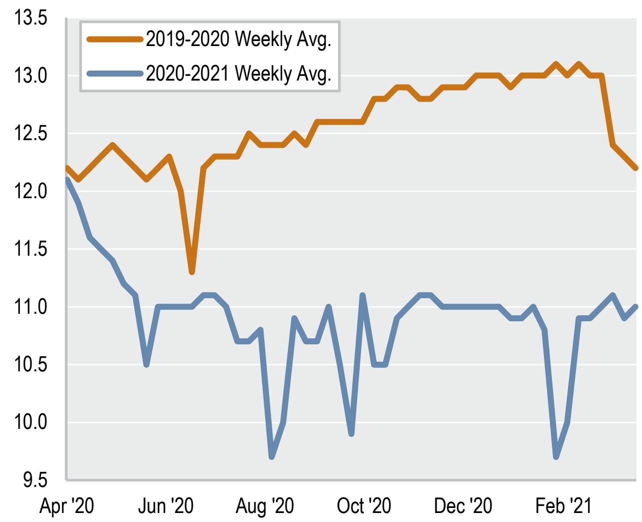


Source: Bloomberg.

Traditional energy equities have significantly outperformed both the broader market and renewables year-to-date.

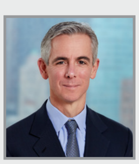
U.S. Crude Oil Production

Million Barrels Per Day



Source: U.S. Energy Information Administration.

Capital discipline continues to keep production growth in check. U.S. crude output has stabilized around 11 million barrels per day.



Todd Dittmann
Portfolio Manager

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

Middle Market Direct Lending

At $27 billion, quarterly syndicated middle market loan volume in the first quarter of 2021 was down 20% quarter-over-quarter and 15% year-over-year. The lower volume was partially a result of lenders recovering from the frenetic fourth quarter of 2020, during which $33 billion of loans were originated. Deal volumes picked up over the course of the first quarter, and March accounted for almost 60% of the quarterly loan volume. Deal volume is expected to remain healthy, as the middle market pipeline of $3 billion is in line with 2019's level.

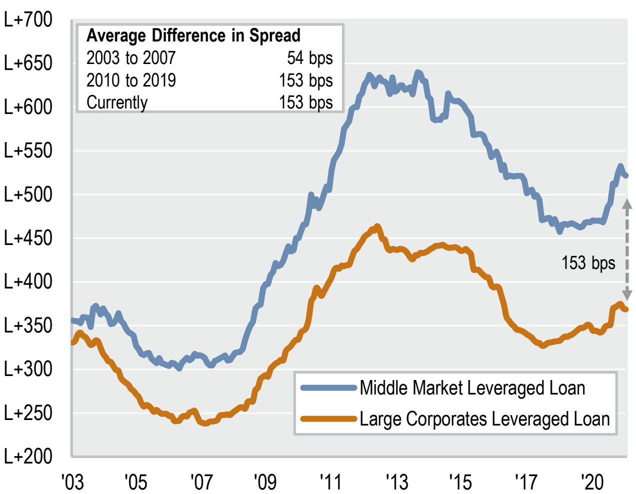
Only 44% of lenders surveyed were able to meet their lending targets in the first quarter given the lower level of originations, but the sentiment of banks and direct lenders differs significantly. 88% of banks were unable to meet their lending goals, while the level for direct lenders was 48%. Lenders that were able to meet their lending targets spoke to wide sourcing funnels, strong relationships with sponsors, and deal flow on par with the fourth quarter. Lenders that were unable to meet their targets spoke of competition for deals, aggressive lending terms, and competition from syndicated loans.

As borrowers continue to adjust to and recover from pandemic-induced business disruptions, lenders are continuing to see healthier portfolios. The share of non-bank lenders with 10-20% of their portfolios on a watchlist is down to 19% from 32% just a quarter before, and 32% reported that only 0-5% of their portfolio was on a watchlist—up from 12% a quarter earlier.

Given the pace of fundraising in the direct lending space in recent years, the supply of capital continues to outweigh opportunities for deployment, which has resulted in weaker lender protections in portions of the market. Two areas that reflect competitive pressures are LIBOR floors and maximum leverage. With 3-month LIBOR trading in its recent range, over 20% of the market has been willing to drop LIBOR floors to 0.50% from 1.00%. 50% of lenders are willing to lend at total leverage of 6.0x or more, whereas only 30% were willing to do that two quarters ago.

As we have long espoused, the direct lending market is extremely diverse, and performance will vary based upon manager approach, including EBITDA focus, position in the capital structure, sourcing avenues, and targeted industries. Looking ahead, we believe established managers that have consistently maintained healthy portfolios and stringent underwriting standards—particularly through the pandemic—and that have wide sourcing funnels, strong sponsor relationships, and robust deal flow will be well-positioned to grab market share during the period of lender consolidation that is expected over the coming quarters.

Average Loan Spread: Middle Market vs. Large Corporates

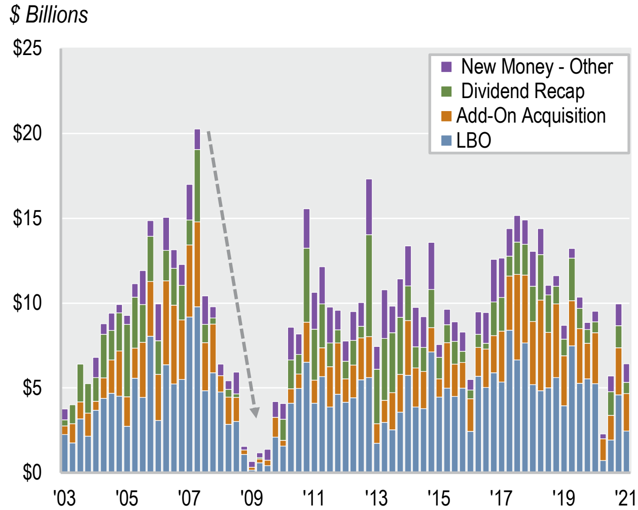


Note: Middle market leveraged loan includes issuers with less than $50m EBITDA. Average spread includes any LIBOR floor benefit. Excludes all facilities in default.
Source: S&P Capital IQ LCD.

Middle market loans continue to 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 further in 2021 after two strong consecutive quarters.

Trevor Clark
Portfolio Manager

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

Merger Arbitrage

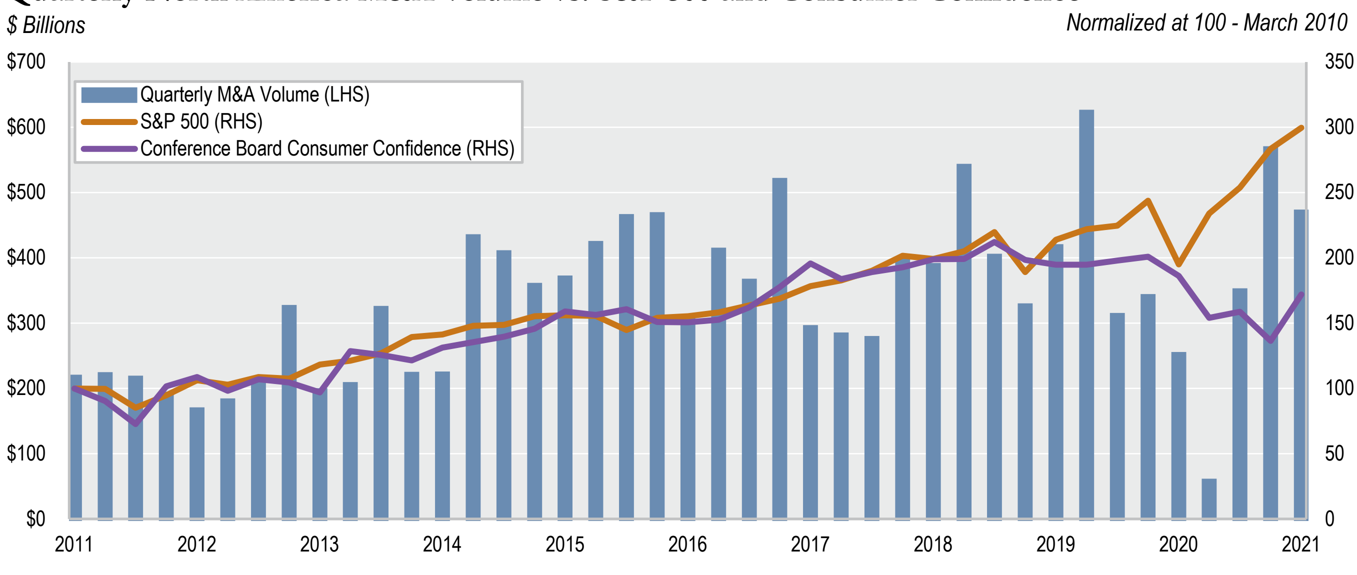
Continuing the momentum from the final months of 2020, U.S. M&A volumes hit an all-time first quarter high, increasing 100% year-over-year. U.S. M&A regained its dominance, representing 54% of global volume, but the strength was widespread, as global M&A also hit an all-time first quarter high. Driven by the Federal Reserve's easy monetary policies, trillion-dollar government spending bills, and states reopening, economies are quickly rebounding, and confidence has returned to the C-suite and boardrooms. In a recent PwC survey, 53% of U.S. CEOs said they plan to increase M&A spending in 2021. Following the 2008 global financial crisis, companies that were proactive and focused on long-term value creation through strategic M&A saw their stock prices rewarded. It appears the same playbook is being used this time around, but with more companies participating.

Merger arbitrage investors had a solid start to the year, posting a 2.3% gain for the quarter, as measured by the HFRX Merger Arbitrage Index. At quarter-end, the deal universe had an average annualized spread of 13%, aggregate deal value grew from $330 billion to $420 billion, and the total arbitrage profit pool expanded from $14.5 billion to $22 billion. The quarter's headline deal announcement was Canadian Pacific's $25 billion acquisition of Kansas City Southern, which hopes to be the first Class 1 rail transaction completed in over 20 years. Despite a robust equity market and a benign credit market, the deal universe saw the average annualized spread widen during the quarter. Competing bids, bumps, and shareholder opposition were all at record highs in the first quarter, causing spreads for impacted deals to trade negative and fall out of the average data set. Additionally, the explosion of SPACs caused a portion of investors' time and money to shift away from merger arbitrage, which helped keep gross spreads steady while annualized returns widened.

U.S.-China relations have been a major theme in M&A over the past few years. The Alaska summit seemed to be an inauspicious start to the Biden-Xi era, but in late March, Marvel received Chinese regulatory approval for its acquisition of Inphi Corporation months ahead of schedule. Investors and companies will be watching to see if this marks the end of Chinese delay tactics employed during the Trump era.

All the pieces are in place for a robust year of M&A. Most companies believe the worst is behind them and can now focus on deploying capital to accelerate growth, increase scale, and—most importantly—digitize their businesses. As companies seek to get ahead of changes in how people work, shop, and receive services such as healthcare, M&A will play a pivotal role. Furthermore, we expect visibility and predictability will increase in industries hit hardest by COVID-19, allowing M&A to occur out of strength or necessity.

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



Source: Bloomberg.

U.S. M&A volumes hit an all-time first quarter high as consumer and CEO confidence rebounded.

Mark Wojtusiak
Head of Merger Arbitrage

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

Convertible Arbitrage

COVID-19 vaccination drives and the prospect of more stimulus, particularly in the U.S., continued to boost global equity markets in the first quarter. The MSCI World Index gained 5.74% in local currency terms, and in contrast to most of last year, Europe outperformed the U.S. Not all risk assets managed to remain on an upward trajectory, as sovereign bonds sold off in the U.S. and Europe, contributing to volatility in equities. Despite the rise in yields, the backdrop remained generally supportive for convertible bond strategies, as the ICE BofA Global 300 Convertible Index—an indicator for outright performance—rose 2.44% during the quarter, and the HFRX Relative Value Fixed Income Convertible Arbitrage Index returned 2.18%.

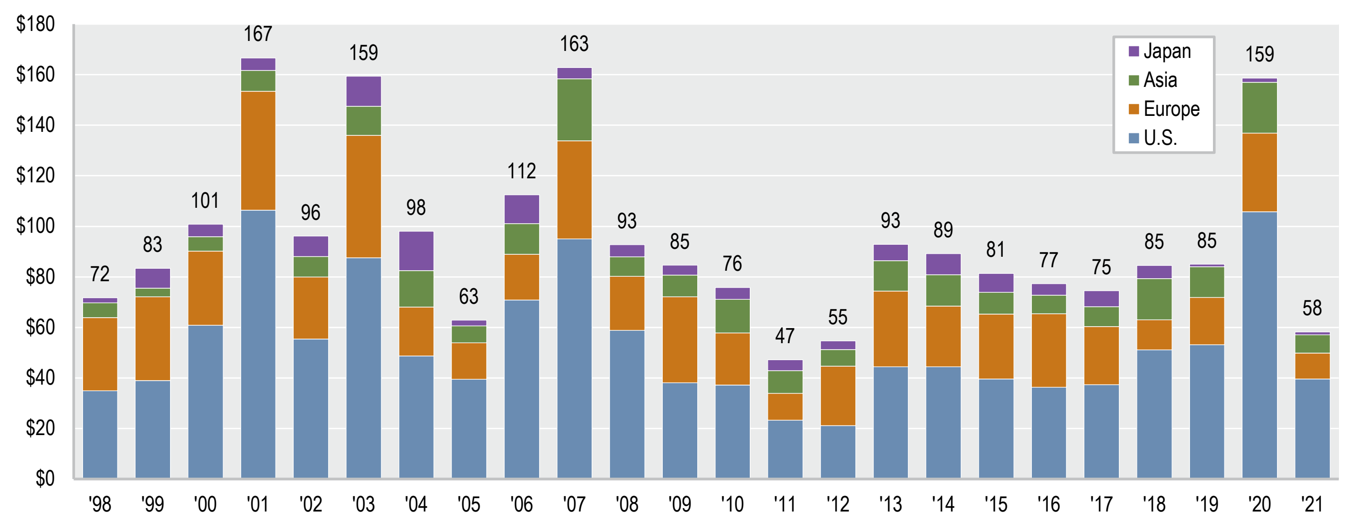
Convertible bond valuations suffered somewhat, particularly in March, as the U.S. market saw a surge of primary market activity and investors struggled to absorb $23.9 billion of new deals. On a global basis, new issuance of convertible securities reached $58.3 billion in the first quarter, marking the strongest start to a year on record. In terms of volume, there is a clear continuation of the strong primary market trend witnessed in 2020. However, there has been a noticeable change in the type of issuers seeking convertible bond financing and the pricing achieved. While last year was dominated by industries that were hard hit by the COVID-19 pandemic, including travel and retail, the first quarter of 2021 saw largely young tech companies come to market in a more opportunistic move. Deal terms have been less investor-friendly, with generally less value on offer.

The U.S. SPAC market also logged a record amount of new issuance. Investors readjusted exposures to accommodate the new deal flow, leading to a significant amount of premium erosion in the secondary market. The IPOX SPAC Index, a performance indicator for the broader SPAC market, lost 1.21% during the first quarter. This created opportunities to accumulate attractive names on a positive yield.

The first quarter results blackout period should bring a welcome pause for new convertible issuance, during which investors can reassess their positioning. More aggressive deal pricing has led to weaker secondary market performance, and we believe opportunistic issuance may need to slow somewhat as a result. The primary market for SPACs has already slowed dramatically, almost coming to a complete stop, allowing market participants to focus on the attractive existing opportunity set.

Annual Convertible Issuance by Region

$ Billions

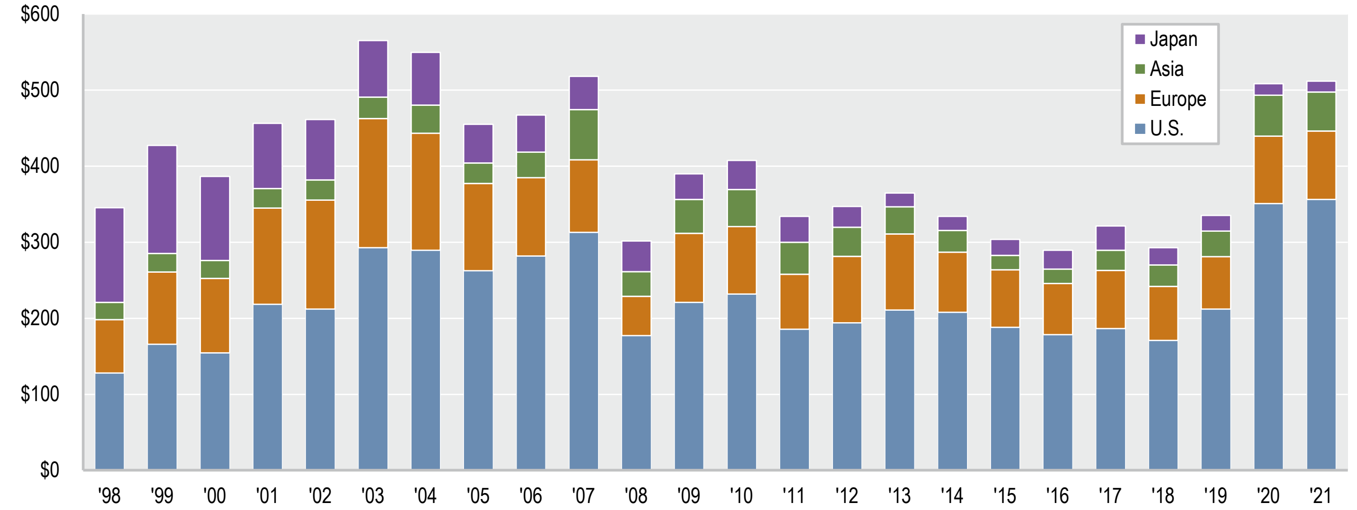


Source: Bank of America Merrill Lynch.

The convertible primary market had its strongest start to a year on record.

Convertible Arbitrage *(continued)*

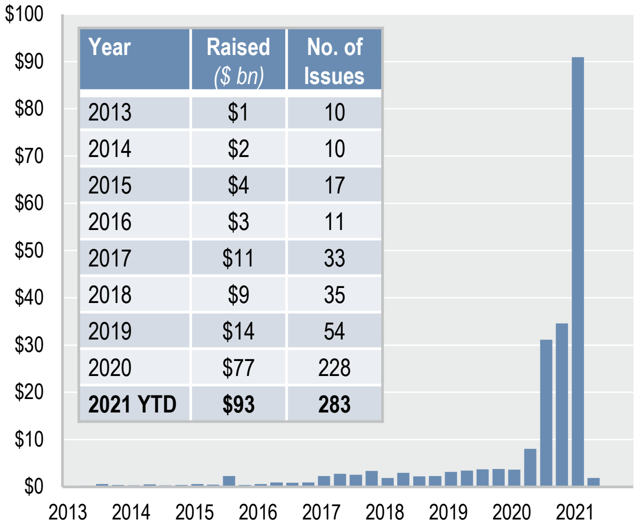
Market Size by Region
$ Billions



Source: Bank of America Merrill Lynch.

The U.S. and Europe continue to make up the vast majority of the convert market.

U.S. SPAC Capital Raised
$ Billions

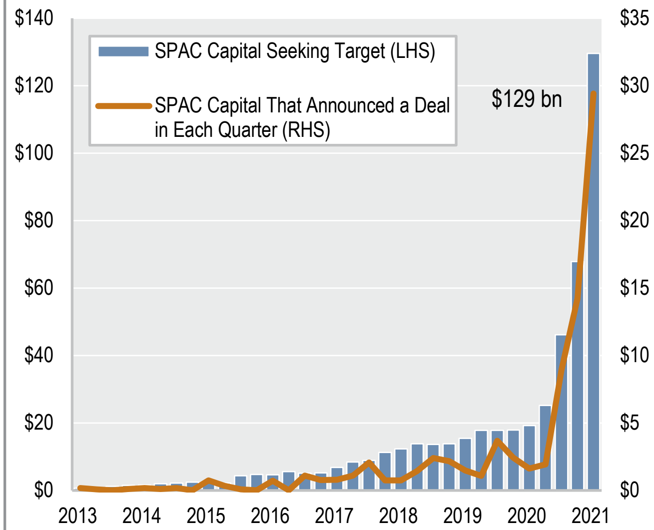


Year	Raised *($ bn)*	No. of Issues
2013	$1	10
2014	$2	10
2015	$4	17
2016	$3	11
2017	$11	33
2018	$9	35
2019	$14	54
2020	$77	228
2021 YTD	**$93**	**283**

Sources: Dealogic, Goldman Sachs Investment Research.

SPAC issuance hit record levels in Q1 2021.

SPAC Capital Seeking Target
$ Billions *$ Billions*



Sources: Dealogic, Goldman Sachs Investment Research.

SPAC capital seeking targets may drive record M&A.

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

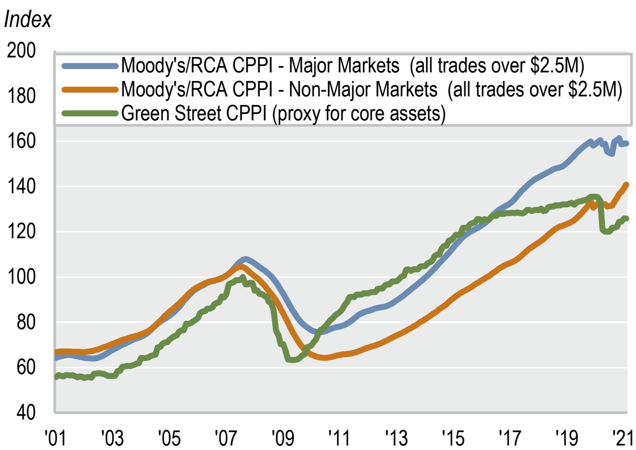
Deal flow accelerated alongside year-end dynamics, but commercial property transactions declined 28% year-over-year in the first quarter, as economic uncertainty continued to suppress the transaction market. The lack of entity-level deals, specifically in industrial, was also a drag in comparison to the first quarter of 2020. Property sales activity continues to be bifurcated, with property types that have been less impacted by the pandemic on a relative basis—such as industrial and multifamily—experiencing lower declines than lodging, office, and retail. The largest declines were seen in the retail sector (down 42%), followed by industrial (down 41%), then office (down 36%), hotels (down 21%, excluding a large portfolio transaction), and apartments (down 12%). Major gateway markets and central business districts are typically a driver of transaction volumes; however, despite some emerging green shoots, investors remain tentative about the outlook for urban areas and the magnitude at which households and companies are considering and moving to more affordable Sun Belt and secondary markets.

The Trepp CMBS delinquency rate stood at 6.58% in March, down from 7.81% in December and a peak of 10.3% in June. Although the rate declined materially due to loan modifications and rent abatements, which have reduced distress, maturity-related defaults are likely to persist. Loans with a special servicer decreased to 9.39%, the sixth consecutive monthly decline. Meanwhile, 24.2% of lodging loans remain in special servicing, less than 1% off the peak. Lenders have largely accommodated defaults by providing forbearance measures; however, such cooperation has intermittently waned, and recapitalizations and forced sales have ensued.

Real estate markets are not yet out of the woods, but some of the worst outcomes were not realized thanks to the unprecedented and coordinated central bank and fiscal policy response. With COVID-19 vaccinations providing a path to recovery, investors have taken advantage of significantly reduced borrowing costs. The Federal Reserve Board has maintained its low-rate stance and willingness to tolerate the potential for increased inflation. However, as economic indicators continue to track a sawtooth path higher, longer-term interest rates have risen off the lows, compressing the spread to cap rates.

On the valuation front, the Green Street Commercial Property Price Index—which is still approximately 5% below pre-pandemic levels—increased 2.6% in the first quarter, but with significant variation by property type. A continued rally in U.S. REIT shares has been instigated by ongoing liquidity, sustained stimulus, vaccine penetration yielding a reorientation of behaviors, and the prospect of a full reopening seemingly being in sight. Company valuations now imply improvement in private market property valuations. Listed REITs in core sectors ended the quarter at a premium to NAV of 5%. Green Street Advisors' model, which tracks the relative value relationship between private real estate and fixed income (investment grade and high yield), pegged real estate at 17% undervalued.

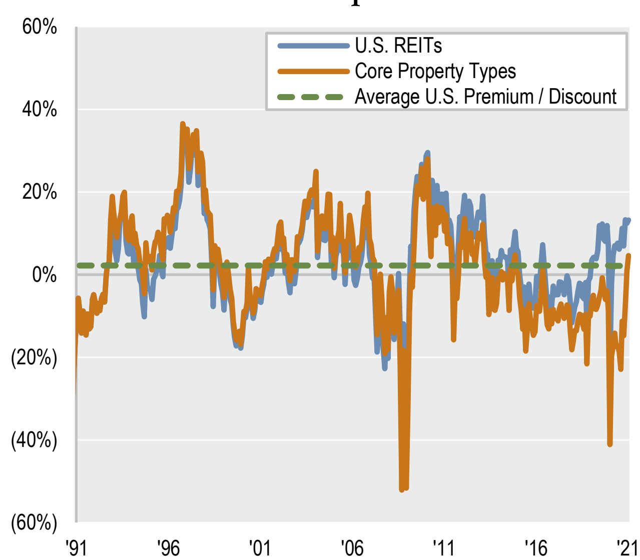
Commercial Real Estate Price Indices



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)

Private real estate pricing has begun to correct, but with significant variation by property type. Note, the Moody's CPPI Index reflects an upwards bias due to activity in property types that have been less impacted on a relative basis (e.g., industrial and multifamily).

Public-Private Price Comparison



Note: Core Property Types include Office, Retail, Apartment, and Industrial.
Source: Green Street Advisors.

Core property type valuations for U.S. REITs imply a recovery is expected in private market valuations as a whole, with variation by property types. However, the public markets are also signaling that U.S. REIT balance sheets are in good shape and well positioned to be acquisitive.

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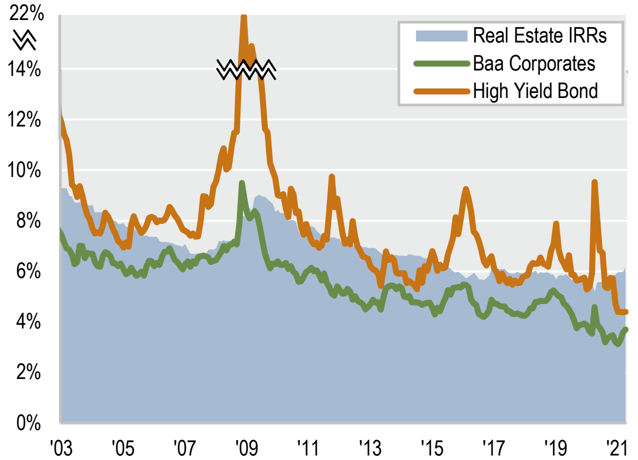
U.S. Real Estate *(continued)*

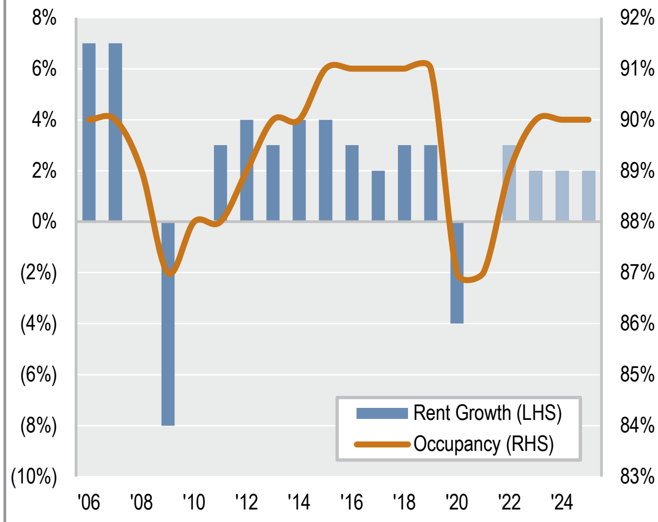
Unlevered Total Return Expectations on Real Estate vs. Corporate Bond Yields



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).
Sources: Green Street Advisors (October '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 significantly undervalued on a relative basis compared to debt.

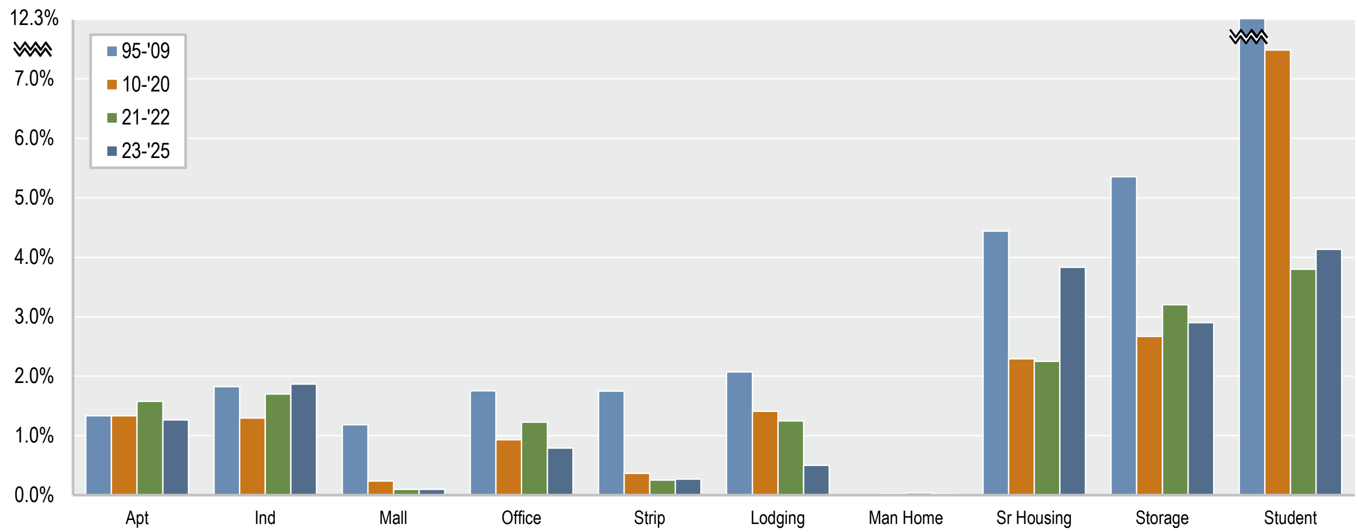
Occupancy and Rent Growth: Major Sector Average



Source: Green Street Advisors.

The combination of development deliveries and a demand shock is driving rent and occupancy declines; however, a recovery is underway for most property types.

Supply by Sector



Note: Estimates are not shown because impact has not been quantified.
Source: Green Street Advisors.

New deliveries are generally at cycle peak and are expected to decline. Apartments, industrial, and storage are notable exceptions.

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U.S. Real Estate

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

Europe Real Estate

With vaccine approval delays and distribution inefficiencies, most European cities remain locked down much like they were in the spring of 2020. Capital Economics estimates the continent will struggle to vaccinate even 40% of the population by the end of the second quarter, suggesting restrictions and economic strain will persist well into the year. Unemployment remains relatively unchanged at an average of 8.3%, but rates vary by country, from over 15% in Spain to below 5% in the Netherlands. Estimates for the first quarter suggest GDP growth will be minimal and still significantly below pre-pandemic levels; as such, second quarter performance will also likely be weak.

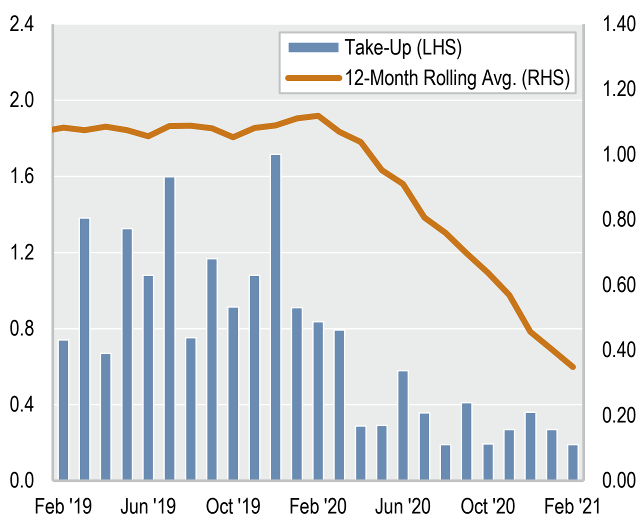
The UK has been more successful in approving and administering COVID-19 vaccines, so it may see recovery sooner than countries on the continent. Retail sales increased by 2.1% month-over-month in February, and the composite PMI saw its highest level in seven months in March. Despite this progress, Capital Economics still estimates GDP will have fallen 2.3% quarter-over-quarter in the first quarter. Similar to the continent, official unemployment figures have remained relatively stable so far this year, at around 5%. However, 4.9 million workers remained on furlough support schemes in January, and Capital Economics estimates the real unemployment rate could be over 10%.

Unsurprisingly, many European real estate markets still face minimal investment activity, sluggish leasing activity, and challenging liquidity. Continental Europe real estate values reportedly dropped 3% in 2020, as compared to growing by almost 5% in 2019, but we question the relevance of this number given reduced trading activity. Retail properties were hit hardest last year, while industrial assets appear to be most resilient. Given the likelihood of a prolonged recovery, 2021 investment volumes are not expected to total much more than the €167 billion transacted in 2020. After office take-up dropped 30% year-over-year in 2020, tenants will likely reassess their office space needs as they embrace hybrid working models this year, with the resulting space adjustments unclear at this point in time.

Overall property values in the UK grew slightly month-over-month in February thanks to the 1% growth of industrial values, and industrial investments were up nearly 50% year-over-year in February. Despite this growth, transaction volumes across all properties totaled only £2.6 billion in February, representing a 34% decline year-over-year, mainly due to a notable fall in office activity. Central London office take-up reached a mere 190,000 square feet in February, approximately 80% lower than February 2020 levels. Retail properties continue to face investment and occupier challenges, with annual net store closures reaching a record high in 2020.

Central London Office Take-Up

Square Feet (Thousands)

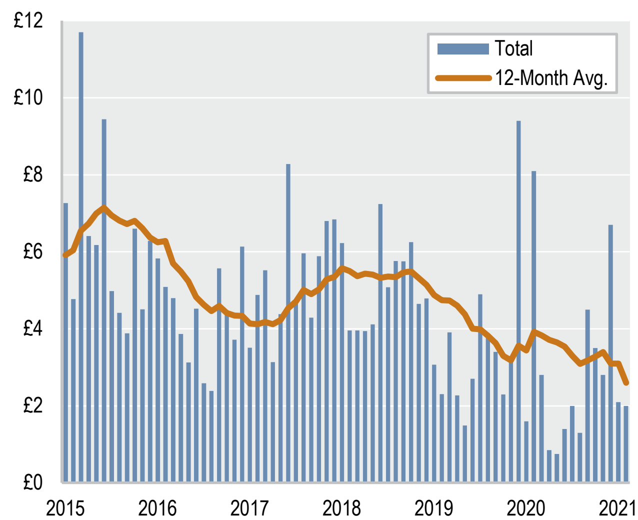


Source: Capital Economics.

Central London office take-up continues to drop as tenants reassess their space needs.

UK Investment Deals Completed

£ Billions, Monthly



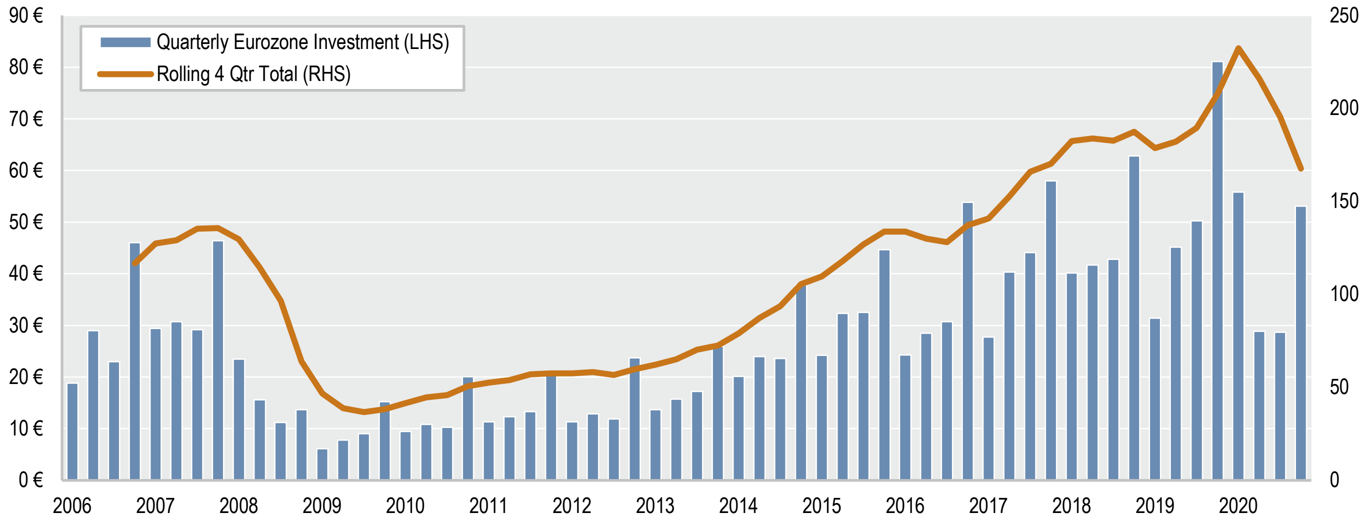
Source: Capital Economics.

UK investment volume remained low in the early months of 2021.

Europe Real Estate *(continued)*

Eurozone Investment Volume

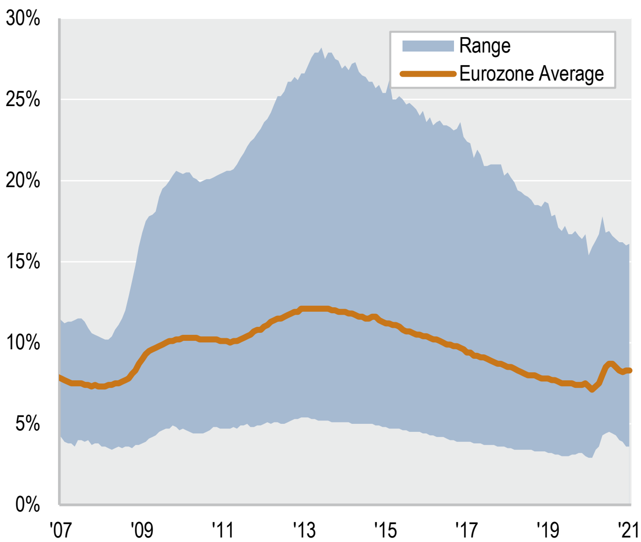
€ Billions



Source: Capital Economics.

Despite the uptick in activity in Q4 2020, 2021 eurozone investment volumes will likely remain low.

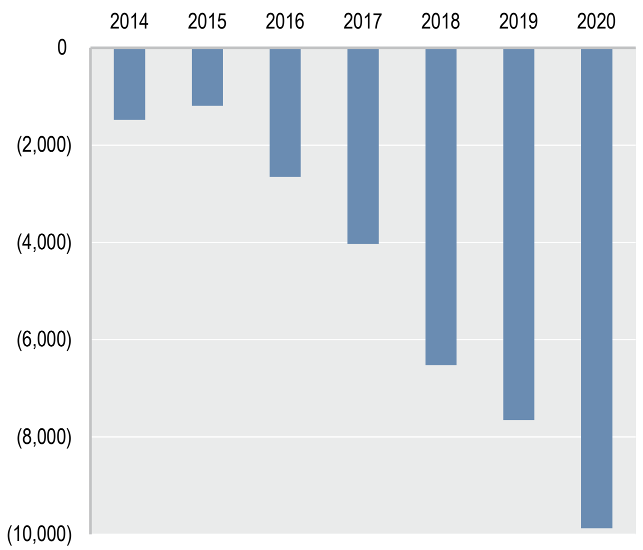
Eurozone Unemployment Rates



Source: Capital Economics.

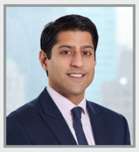
Average eurozone unemployment remains relatively stable, although stark differences persist between countries.

Net Store Closures



Source: Capital Economics.

UK retail properties suffered after 2020 saw record levels of net store closures.



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Europe Real Estate

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Asia Real Estate

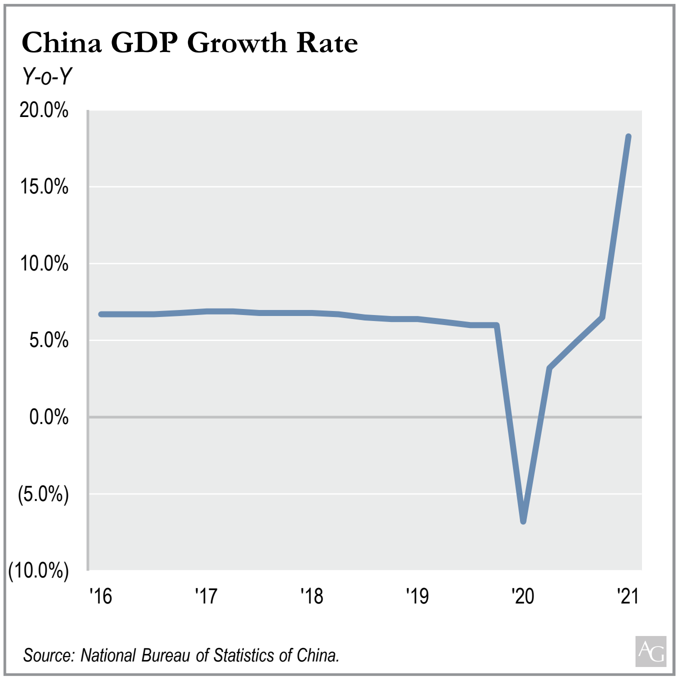
China

China's economy grew 6.5% year-over-year in the fourth quarter of 2020, representing further recovery as compared to the 4.9% year-over-year growth of the third quarter, and registered full-year growth of 2.3%. The swift containment of the COVID-19 outbreak within the nation has supported a quick economic rebound and made China the only major economy in the world to avoid a contraction in 2020. Consumption continued to play a key role in economic growth, with online retail sales of physical goods growing 14.8% year-over-year in 2020. The Chinese central bank has maintained a generally neutral monetary policy but slowed its liquidity injections, as aggregate financing and M2 supply registered weaker growth in the fourth quarter and the loan prime rate (LPR) has remained flat for eight consecutive months.

In Beijing, leasing activity remained subdued due to the economic slowdown, but relocation demand accelerated in the fourth quarter. Net absorption continued to rebound from 8,832 square meters in the third quarter to 60,592 square meters in the fourth quarter, largely driven by relocation demand. Approximately 65% of all leasing transactions came from domestic tenants, as foreign tenants continued to remain cautious. Despite ongoing pressure, tenants from the IT and finance industries remained a steady source of demand, accounting for 43% and 16% of the leased space, respectively. The Grade A office market has recorded rental declines for eight consecutive quarters, as competition between landlords has intensified and tenants have reduced their spending budgets. Overall, rents decreased 7.9% year-over-year or 2.6% quarter-over-quarter, while vacancy edged up to 15.4%, up 1.4 percentage points quarter-over-quarter. In the Zhongguancun submarket of Beijing—also known as "China's Silicon Valley"—rents remained unchanged quarter-over-quarter and vacancy remained tight at 2.8%.

Industrial and logistics real estate remained resilient in the major submarkets due to limited supply and strong leasing demand from third-party logistics companies. In Shanghai, industrial rents rose 0.2% quarter-over-quarter and recorded 2.4% growth year-over-year; meanwhile, vacancy edged up 0.8 percentage points to 8.1%, as leasing of newly completed supply in emerging submarkets slowed modestly.

In terms of overall market activity, the commercial investment market continued to recover in the fourth quarter, with total transaction volume at RMB 56 billion—up 23% quarter-over-quarter. Total commercial real estate transactions in 2020 amounted to RMB 194 billion, down 28% year-over-year. Domestic investors dominated the market and accounted for 79% of the total transactions. However, there was an uptick in inquiries and site inspections by foreign investors despite ongoing travel restrictions. Office remained the most popular asset class, accounting for over 50% of the full-year 2020 transaction volume.



China's economy rebounded significantly, witnessing GDP growth of 18.3% in the first quarter as business activity surged.

CNY retreated slightly against the USD.

Asia Real Estate

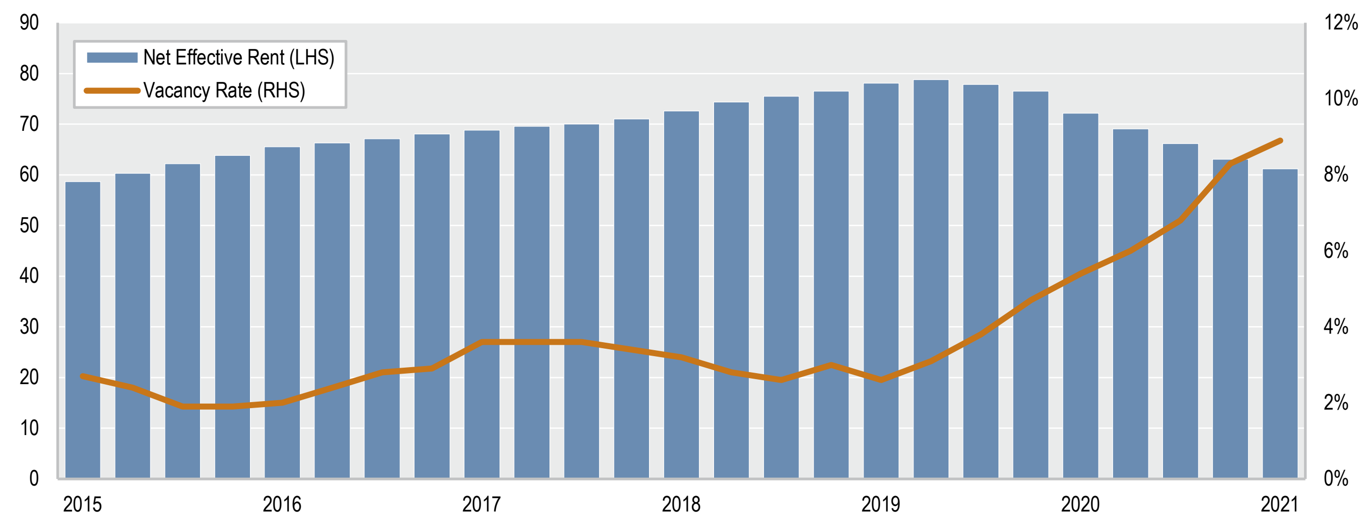
Hong Kong

Hong Kong's economy contracted 6.1% in full year 2020 and 3.0% year-over-year in the fourth quarter, a continued improvement from the 3.5% contraction in the third quarter. The improvement has been attributed to a better external environment and stronger financial market activity. Merchandise export volumes saw moderate year-over-year growth of 5.9% in real terms in the fourth quarter, mainly underpinned by the gradual recovery led by mainland China. Exports of services saw a narrower decline of 29.3% in the fourth quarter, but still recorded a decline of 36.8% in real terms in full year 2020, as inbound tourism remained at a standstill and cross-boundary transport and business services stayed sluggish. Private consumption expenditure posted its steepest ever year-over-year decline, at 10.1% in real terms, but the decline narrowed to 7.2% in the fourth quarter. The unemployment rate continued to deteriorate to 6.6%, the highest level in nearly 16 years and up moderately from 6.4% in the prior quarter.

With limited supply, both transaction volume and residential prices for full year 2020 remained flat despite the economic downturn. The commercial investment market continued to be anemic, totaling only HK$45.5 billion in full year 2020, down 14% year-over-year and hitting its lowest level since 2009. In the fourth quarter, transaction volume doubled to HK$16.8 billion as investment in the office sector picked up significantly, driven by active mainland Chinese buyers and a landmark en-bloc office transaction. As of December, Hong Kong's office vacancy climbed to 8.3%—the highest it has been in 15 years—while rents declined 13% year-over-year; this was driven by soft leasing demand in the core submarkets of Central and Tsim Sha Tsui, while decentralized markets like Kowloon East and Kwai Chung experienced milder rental declines.

Hong Kong Overall Grade A Office Vacancy Rate & Net Effective Rent

HK$ psf



Note: Vacancy rate includes confirmed leasing stock that is currently vacant or becoming vacant over the next 12 months.
Source: Savills (Q4 2020).

Hong Kong's office vacancy climbed to 8.9%, the highest level in 15 years.

Asia Real Estate *(continued)*

Japan

In the fourth quarter of 2020, Japan's real GDP increased 2.8% quarter-over-quarter, driven by a rise in consumption, capital expenditure, and external demand. This is the second consecutive quarter of growth after three quarters of decline. However, many economists predict that the economy will shrink again in the first quarter of 2021, as the government implemented a second state of emergency, which was extended to late March in Tokyo and the three surrounding prefectures. Nonetheless, the Nikkei 225 Index reached over ¥30,000 for the first time since 1990, as central banks around the world—including Japan's—have embarked on significant monetary easing. To help the economy recover from the pandemic, the Japanese government approved a third stimulus package of ¥73 trillion ($0.7 trillion), building on the record stimulus packages totaling ¥230 trillion ($2.1 trillion) from last April and May. The third package includes extensions of subsidy programs to promote domestic travel and help companies maintain employment. As a result, the current unemployment rate remains low at 2.9%.

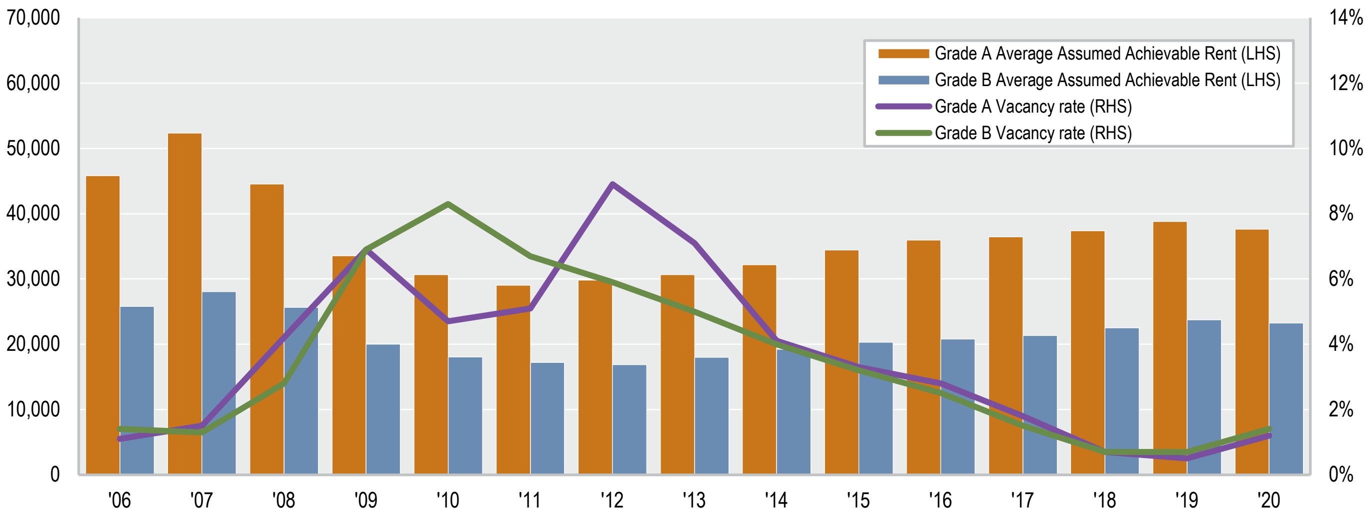
Office real estate fundamentals remained stable during the fourth quarter. Tokyo office vacancy only increased from 0.9% to 1.2% for Grade A stock and from 0.7% to 1.4% for Grade B stock. Office rents declined by 2.7% to ¥37,650 per tsubo for Grade A and by 1.9% to ¥23,250 per tsubo for Grade B. Vacancy rates are likely to rise slightly due to a slowdown of the economy after the second state of emergency and an uptick in companies seeking to reduce expenses.

In the logistics sector, the e-commerce market continues to expand in response to COVID-19. The vacancy rate for large-scale, multi-tenant facilities in the Greater Tokyo area remained historically low at 0.5% in the fourth quarter of 2020. Rent increases in prime areas are driving tenants to newer, more affordable submarkets. Supported by robust fundamentals, investor interest in the logistics sector—from both domestic and international buyers—has continued to increase.

Real estate transaction volume in 2020 increased 5.7% year-over-year to ¥3.8 trillion, mostly driven by large acquisitions from international buyers. J-REIT investment volume remained unchanged during 2020, showing strong liquidity despite the pandemic. While investor appetite is expected to continue in 2021, the current COVID-19 situation is likely to encourage a flight to quality for office, logistics, and residential assets.

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

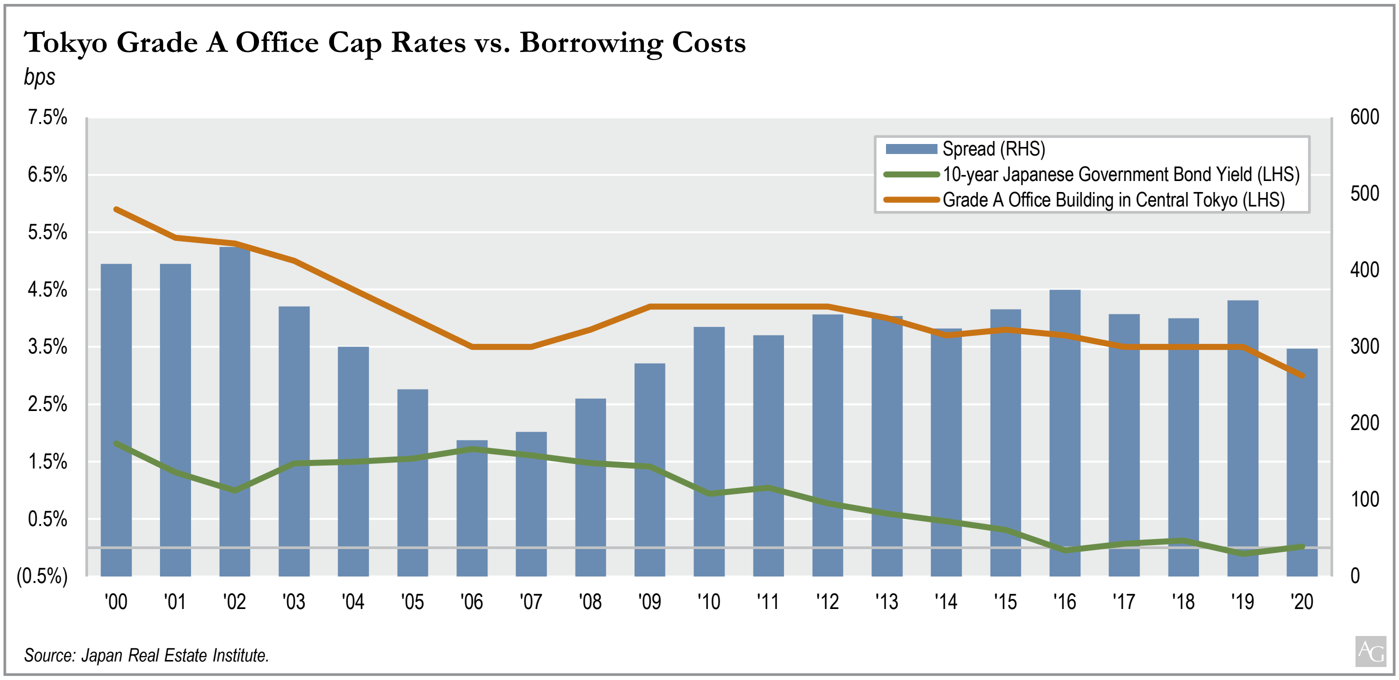
JPY/tsubo/mon



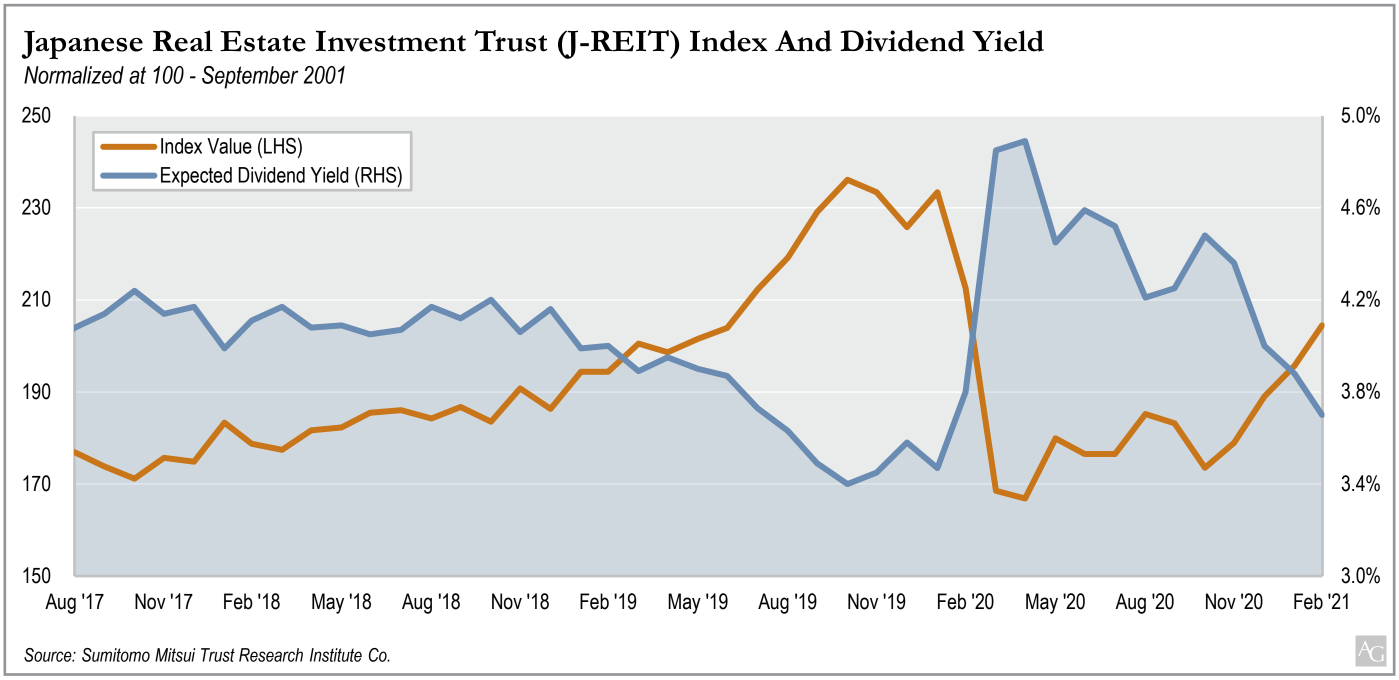
Note: One tsubo is equal to approximately 3.3 square meters.
Source: CBRE (Q4 2020).

Tokyo office fundamentals remain strong despite the pandemic.

Asia Real Estate *(continued)*



Cap rates have tightened, but spreads are still wide as compared to the previous peak in 2006-2007.



The J-REIT index has recovered significantly, driving down yields.

Asia Real Estate *(continued)*

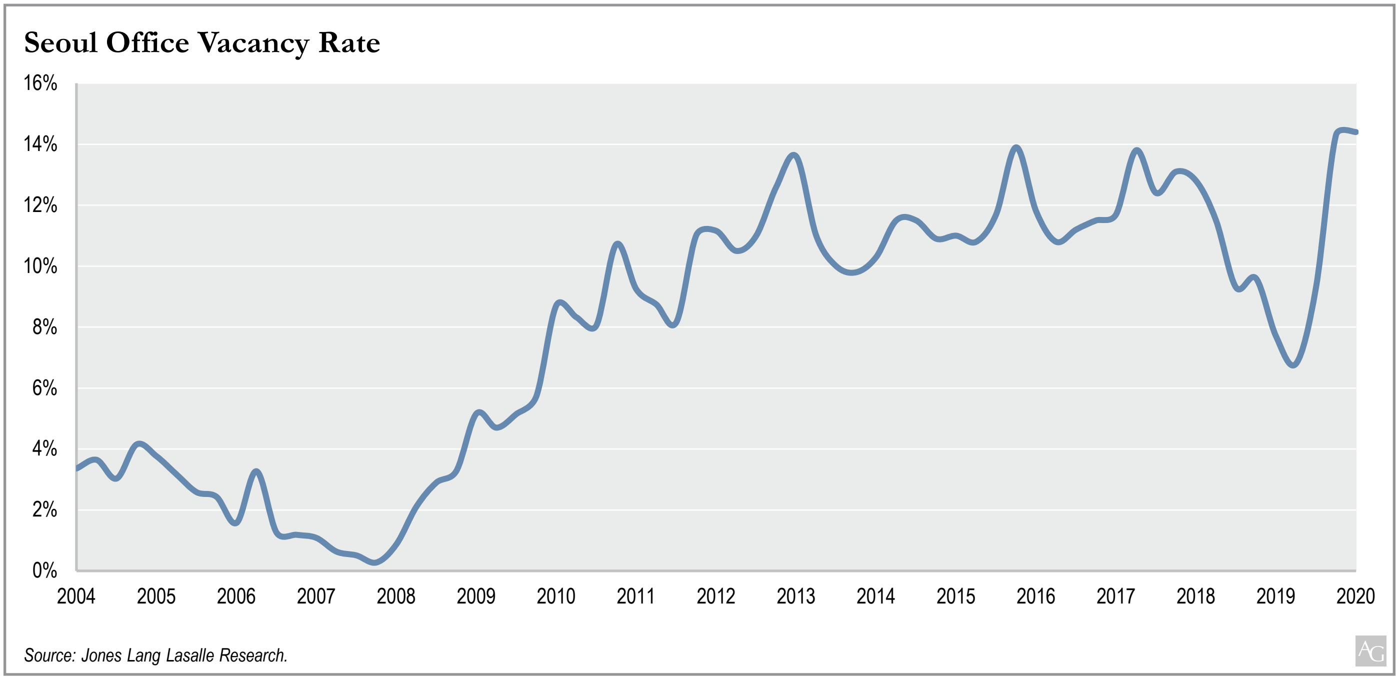
South Korea

In the fourth quarter of 2020, the Korean economy grew 1.2% quarter-over-quarter, mainly driven by increased investments and exports. For full year 2020, the Korean economy contracted 1.0% amid the COVID-19 pandemic. The Bank of Korea (BoK) forecasts that the Korean economy will grow 3.0% year-over-year in 2021, on the back of a global economic recovery. The BoK continues to maintain its accommodative monetary policy, and the benchmark policy rate remains at 0.50%, the lowest it has ever been. The spread of COVID-19 in Korea has been relatively moderate, with new confirmed cases below 700 per day in recent weeks. Vaccinations began in February 2021, and approximately 1% of the population had been vaccinated as of the end of March.

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 290 basis points, which is still above the 10-year average of approximately 260 basis points. Despite the pandemic, cap rates for prime office assets continued to compress and are at historic lows. Investment activity in the commercial office sector was extremely robust, driven by abundant liquidity in the Korean market and heightened investor demand for stable core assets. In 2020, office transaction volume reached a record high of $12 billion, which surpasses the previous record by 13%. Prime office vacancy in Seoul's major business districts was 14.4% as of the fourth quarter, and vacancy increased due to the completion of a few new large office assets in the Yeouido business district.

Leasing and investment momentum in the logistics sector remains robust, with the outbreak of COVID-19 catalyzing the continued growth of the e-commerce industry. Modern and efficient logistics facilities in the greater Seoul area have only frictional vacancy. Cap rates for logistics centers have compressed rapidly over the last three years, decreasing approximately 200 basis points. In fact, for the first time ever, a few prime logistics assets recently traded at cap rates near prime office cap rates of 4.0%.

Despite tight regulations aimed at curbing speculative investments in the residential sector, residential prices in Seoul have continued to rise, with Seoul apartment prices increasing 16.0% year-over-year as of March 2021. Ill-conceived government measures, such as restricting supply in core Seoul markets, have contributed to price increases in the sector.

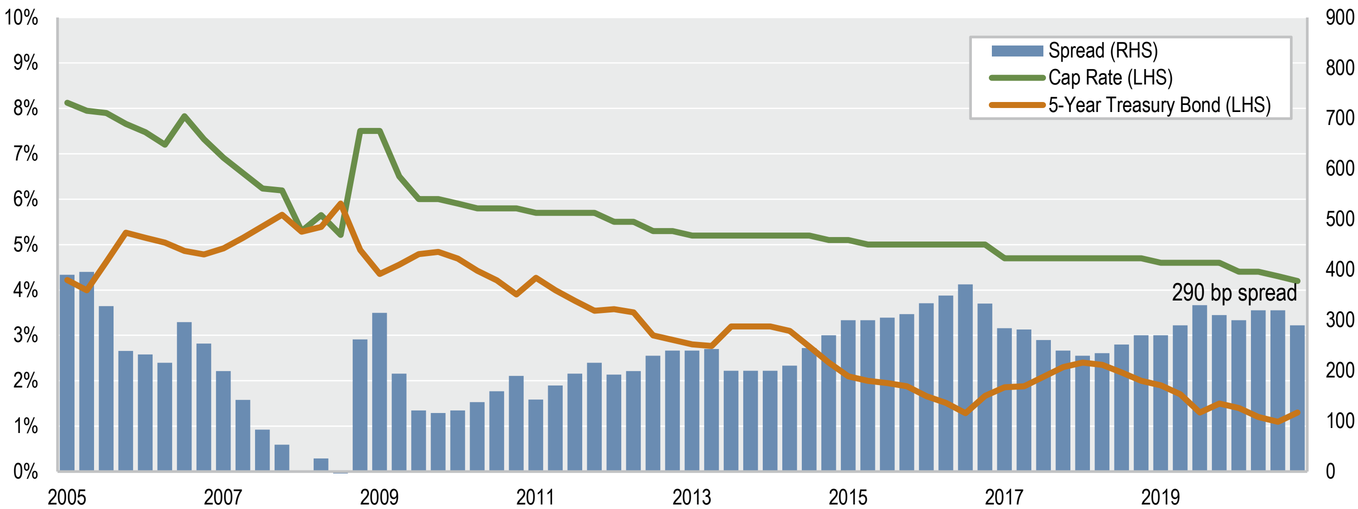


Seoul's office vacancy remained high, as new supply from a few large properties weighed on the market.

Asia Real Estate *(continued)*

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

bps

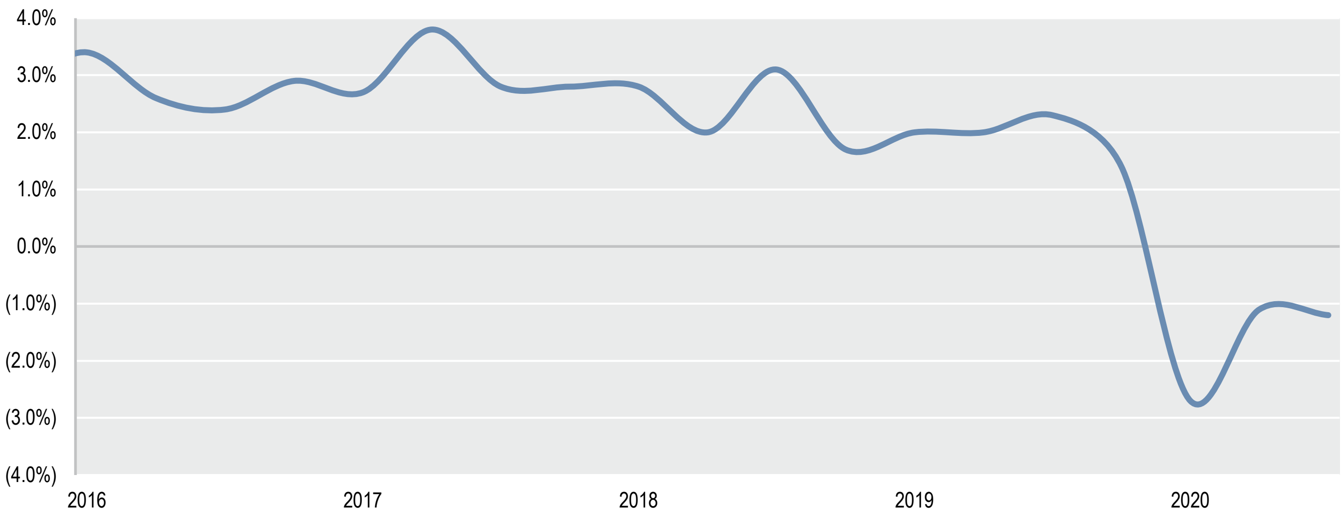


Note: 5-year Treasury is average for quarter.
Source: Savills Research.

Cap rate spreads continue to tighten, although they are wide by historic standards.

Korea GDP Growth

Y-o-Y



Source: Bank of Korea.

The Korean economy is showing early signs of a recovery.

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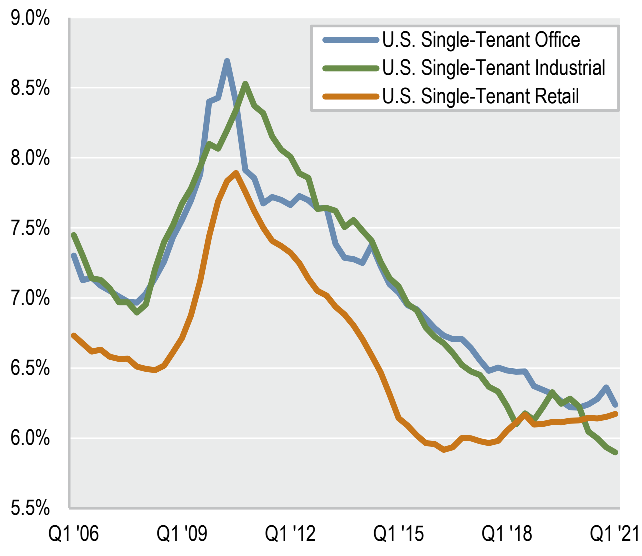
For more information on Asia Real Estate, visit www.angelogordon.com/strategies/real-estate/asia-real-estate/

Net Lease Real Estate

As of the first quarter of 2021, the trailing 12-month U.S. single-tenant transaction volume totaled $59 billion, according to Real Capital Analytics (RCA). Since the peak in the first quarter of 2020, single-tenant volume has declined and is down 30%, or $25 billion, year-over-year as of the first quarter of 2021. The volume declines are most pronounced in retail and office, which were down 37% and 31%, respectively, while industrial was down 24%.

Some market participants have expressed the view that the aforementioned decline in volume is more supply driven versus demand driven, as the limited supply of high-quality assets has resulted in increased competition among investors. This is also reflected in cap rates, which are at record lows despite the recent increase in the 10-year Treasury yield. Over the past year, office and retail cap rates have increased modestly, while industrial rates compressed, pushing overall single-tenant cap rates down to an average of 6.10% as of the first quarter of 2021, according to RCA.

Average Single-Tenant Cap Rates

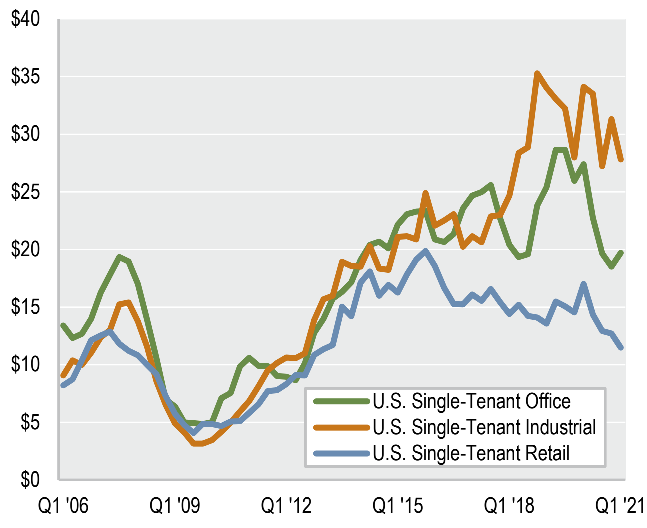


Source: Real Capital Analytics.

Retail and office cap rates have remained flat or expanded, while industrial cap rates compressed.

12-Month Rolling Single-Tenant Deal Volume

$ Billions



Source: Real Capital Analytics.

After a peak in Q1 2020, single-tenant volume has declined over the past 12 months.

Gordon Whiting
Portfolio Manager

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

Private Equity

In the first quarter of 2021, the private equity industry continued the strong momentum seen in the second half of 2020. Many of the major metrics used to assess the sector are quite bullish. While this bodes well for the remainder of 2021, enthusiasm still must be tempered given ongoing uncertainty related to COVID-19 and other economic and geopolitical factors.

First quarter 2021 deal volume was quite robust on both on a North American and global basis. In North America, transactions totaled $85 billion in the first quarter of 2021, as compared to $60 billion in the first quarter of 2020—a year-over-year increase of 42%. Global deal volume in the first quarter increased approximately 30% year-over-year to $139 billion. Although still early in the year, deal volume is on pace to have one of its strongest years in recent memory.

Dry powder at March 31st set an all-time high of $885 billion, an increase of 2% from December 31st levels, continuing the quarterly trend of setting all-time records for dry powder. Also demonstrating strength were the transaction multiples paid. First quarter 2021 average multiples paid stood at 11.9x, slightly higher than full year 2020's all-time record of 11.6x. Average leverage for buyouts year-to-date was 6.3x multiple of EBITDA, which is at the upper end of historical levels. Equity contribution as a percentage of total capitalization was at 43%, consistent with the last several years. Finally, in the first quarter of 2021, the number of exits increased approximately 22% year-over-year, while dollar volume increased 110%, reflecting larger monetizations.

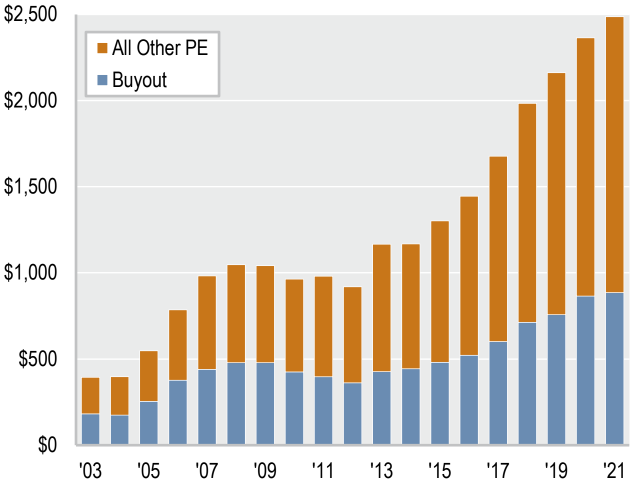
Private equity has proven to be a resilient asset class. Although the pandemic adversely affected deal volumes and transaction multiples in the first half of 2020, the last nine months have demonstrated profound strength. Given bullish economic data, strong public markets, portfolio company financial outperformance, and the continued rollout of COVID-19 vaccinations, private equity managers are generally feeling optimistic about the prospects for 2021. Furthermore, the significant amount of dry powder will ensure that, over the intermediate-to-long term, deal volume will remain high. Barring unforeseen geopolitical conflict, weaker-than-expected economic performance, or a dramatic resurgence of COVID-19 cases, 2021 should prove to be a good year for the industry.

First quarter 2021 deal volume increased 42% in North America and approximately 30% globally on a year-over-year basis.

Private Equity *(continued)*

Global Private Equity Dry Powder

$ Billions

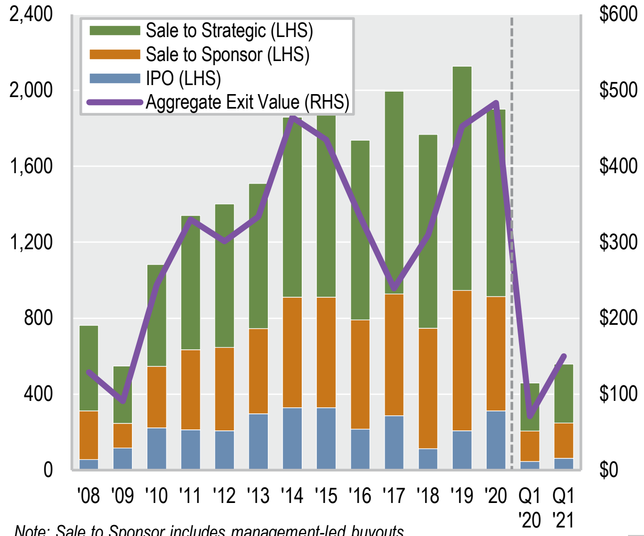


Note: All other PE Funds = Real Estate, Venture, Infrastructure, Growth, Distressed, Mezzanine, Other.
Source: Preqin.

Buyout dry powder at March 31, 2021 stood at $885 billion, an all-time record and a 2% increase from December 31, 2020.

Private Equity Exits

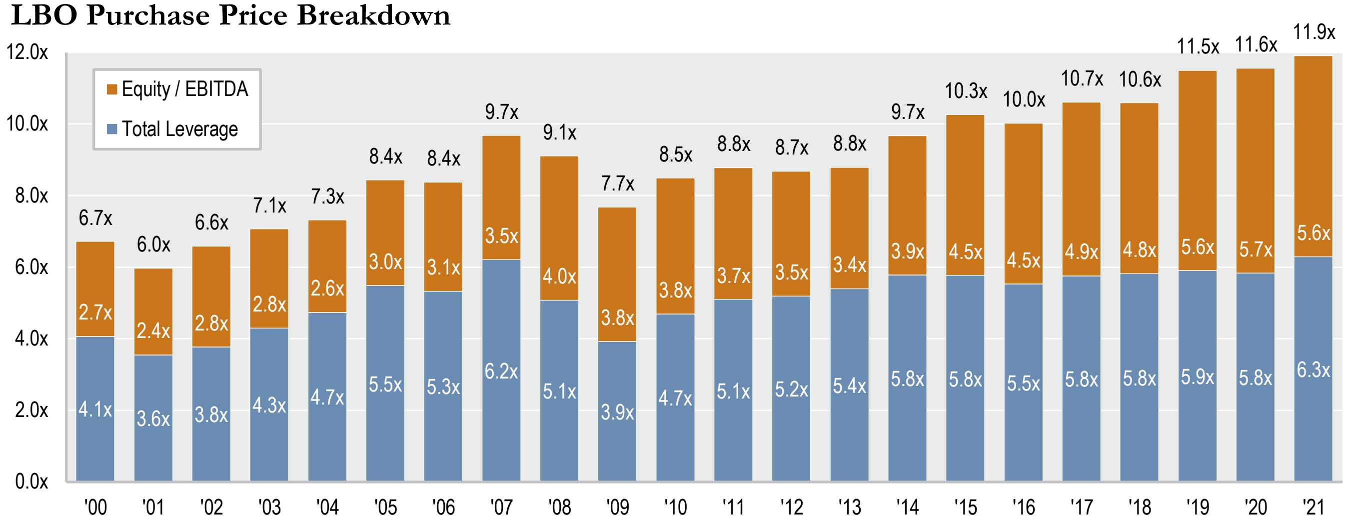
Number of Exits *Value of Exits ($ Billions)*



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

The number of exits increased approximately 22% year-over-year in the first quarter of 2021, while dollar volume increased 110%, reflecting larger monetizations.

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%	43%	43%

Source: S&P Capital IQ LCD.

Average LBO multiples in the first quarter of 2021 stood at 11.9x, which is on pace to eclipse the prior full-year record of 11.6x set in 2020.

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For more information on Private Equity, visit www.angelogordon.com/private-equity

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