ANGELO GORDON

CAPITAL MARKETS PERSPECTIVES

FOURTH 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 $48 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

During the third quarter, investors saw volatility driven by China risk, supply chain issues, and inflation pressures from energy and wage inflation. Performance of the various asset classes across the credit and arbitrage landscape varied depending on factors such as rate exposure, seniority, and supply pipeline, which are juxtaposed against broadly positive fundamentals.

In corporate credit, U.S. high yield saw 15 basis points of spread widening versus 3 basis points of widening in European leveraged finance. The markets ended September at 385 basis points and 355 basis points, respectively. Defaults continue to fall, with the U.S. posting the lowest quarterly volume since 2013 and Europe witnessing no defaults. As of September 30th, the high yield default rates in the U.S. and Europe stood at 0.99% and 1.5%, respectively. Elevated issuance continued in the U.S., with five of the seven largest quarterly new issue volumes in U.S. high yield occurring since the second quarter of last year. Meanwhile, European high yield saw a drop in third quarter issuance after a record-setting second quarter.

In residential and consumer debt, favorable collateral fundamentals, record-high home prices, demand for yield, and continued employment gains kept spreads firm. CRT spreads tightened by 10-20 basis points, while non-QM and legacy asset spreads changed little. In consumer ABS, the AAA tranche saw spread widening, while the subordinate tranches saw spread tightening, as bids remained strong. In commercial real estate debt, despite late summer doldrums and concerns surrounding the Delta variant, conduit and SA/SB new issuances saw record volume during the quarter, with the percentage of loans going to a special servicer continuing to decline.

Convertible bond issuance took a breather, as a sense of caution permeated the equity market late in the quarter and valuations were softer, and the HFRX Relative Value Fixed Income Convertible Arbitrage Index gave back a small amount of the gains from earlier in the year. Meanwhile, SPAC issuance picked up from the prior quarter. Together, SPACs that have yet to announce a combination and those that have announced a combination but not yet closed represent a total of $34.8 billion of capital and $318 billion of enterprise value—an opportunity that provides downside protection via trust value with upside optionality.

In merger arbitrage, the Department of Justice's lawsuit against Aon plc and Willis Towers Watson created widespread deleveraging; however, arbitrage spreads stabilized as M&A announcements continued to surge against the backdrop of higher regulatory uncertainty from the DOJ, FTC, and the White House. Investors in the space can add alpha via a highly selective approach to merger transactions.

Turning to real estate, the global economic recovery has continued to drive improved fundamentals in the commercial real estate market. Broadly speaking, transaction activity and pricing have now returned to pre-pandemic levels across most geographies. Further the relative value of real estate as compared to corporate bonds continues to drive more capital to the space. However, the bifurcation of the 'have' and 'have not' sectors that has been persistent since the onset of the pandemic has become even more pronounced. A record amount of capital is being deployed in the more favored sectors, such as multifamily and industrial, which has driven yields to all-time lows. Out-of-favor sectors—like gateway office, retail, and certain segments of hospitality—continue to lag in their recovery, as the rise of the Delta variant has slowed down and spurred questions about the prospect of a return to 'normal' usage of those property types across the globe. Niche asset classes—such as life sciences, medical office buildings, self-storage, and data centers—have benefited from real estate investors that have sought to deploy capital in growth-oriented property types and away from out-of-favor sectors.

In the U.S., the economy continues to demonstrate a significant recovery from the depths of the pandemic. Transaction volumes were up 151% year-over-year and are now on pace for the highest yearly volumes on record. From a geographic perspective, transaction activity has been significantly more robust in growth markets, such as Atlanta and Dallas, while investors have been slow to return to gateway markets. With regard to valuations, the Green Street Commercial Property Price Index increased 18% year-to-date and is now 8% higher than pre-pandemic levels.

In Europe, GDP recovery has been strong across most of the region. Unemployment levels in Europe have been buoyed by government-funded furlough programs, which are set to expire in the coming months and will test employment levels across the region. Real estate activity has continued to be somewhat stagnant across the region, with investors most focused on multifamily and industrial assets. Leasing activity has increased substantially in office, with many tenants focused on identifying high-quality space that will provide employees with attractive amenities and flexible arrangements upon a full-time return to the office.

Economic growth across Asia—which had slowed earlier this year due to a lag in vaccination rollouts—is now back on track to be robust through 2021, as the region has been able to aggressively inoculate its population over the last several months. Real estate transaction volumes have generally recovered to pre-pandemic levels, and fundamentals are particularly strong in office and logistics assets across the region.

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

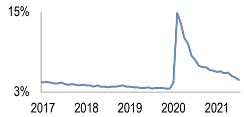
Adam Schwartz
Co-Chief Executive Officer
Co-Chief Investment Officer
Head of Real Estate

Economic Dashboard & Market Indices

JOB MARKET
Five-Year Trend

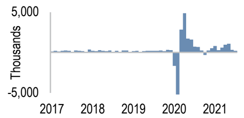
U.S.—Unemployment Rate
As of 9/30/2021

Latest Level	4.8
Change from Prior Period	▼ (0.4)
Frequency	Monthly



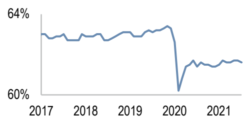
U.S.—Non-Farm Payroll
As of 9/30/2021

Latest Level	194.0
Change from Prior Period	▼ (172.0)
Frequency	Monthly



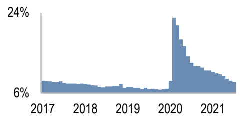
U.S.—Labor Participation Rate
As of 9/30/2021

Latest Level	61.6
Change from Prior Period	▼ (0.1)
Frequency	Monthly



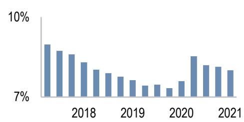
U.S.—U-6 Unemployed & Margin & Part-Time as Percent of Labor Force & Margin
As of 9/30/2021

Latest Level	8.5
Change from Prior Period	▼ (0.3)
Frequency	Monthly



Eurozone Unemployment Rate
As of 6/30/2021

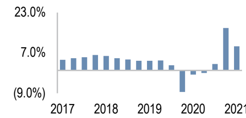
Latest Level	8.0
Change from Prior Period	▼ (0.1)
Frequency	Quarterly



GDP GROWTH
Five-Year Trend

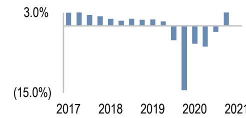
U.S.—GDP Y-o-Y (%)
As of 9/30/2021

Latest Level	9.6
Change from Prior Period	▼ (7.2)
Frequency	Quarterly



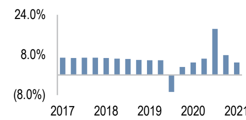
Eurozone—GDP Y-o-Y (%)
As of 6/30/2021

Latest Level	14.2
Change from Prior Period	0.0
Frequency	Quarterly



China—GDP Y-o-Y (%)
As of 9/30/2021

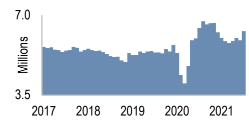
Latest Level	4.9
Change from Prior Period	▼ (3.0)
Frequency	Quarterly



HOUSING
Five-Year Trend

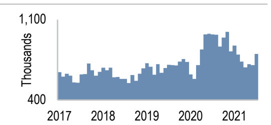
Existing Home Sales
As of 9/30/2021

Latest Level	6.3
Change from Prior Period	▲ 0.4
Frequency	Monthly



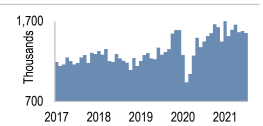
New Home Sales
As of 9/30/2021

Latest Level	800.0
Change from Prior Period	▲ 98.0
Frequency	Monthly



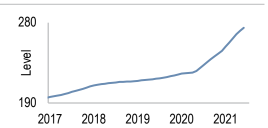
Housing Starts
As of 9/30/2021

Latest Level	1,555.0
Change from Prior Period	▼ (25.0)
Frequency	Monthly



Case-Shiller Index of Home Value in 20 Cities
As of 8/31/2021

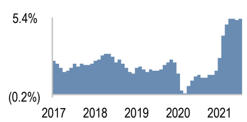
Latest Level	274.1
Change from Prior Period	▲ 3.2
Frequency	Monthly



INFLATION
Five-Year Trend

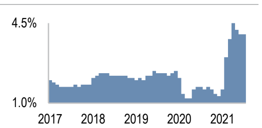
U.S. Consumer Price Index (CPI) Y-o-Y (%)
As of 9/30/2021

Latest Level	5.4
Change from Prior Period	▲ 0.1
Frequency	Monthly



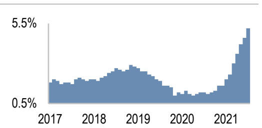
U.S. CPI Goods Less Food & Energy Y-o-Y (%)
As of 9/30/2021

Latest Level	4.0
Change from Prior Period	0.0
Frequency	Monthly



U.S. Producer Price Index (PPI) Y-o-Y (%)
As of 9/30/2021

Latest Level	5.2
Change from Prior Period	▲ 0.6
Frequency	Monthly



Source: Bloomberg (All).

Economic Dashboard & Market Indices *(continued)*

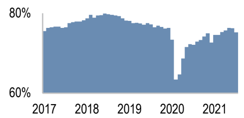
ECONOMIC & MARKET CONFIDENCE

Five-Year Trend

Capacity Utilization as a Percent of Capacity

As of 9/30/2021

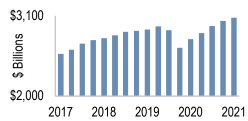
Latest Level	75.2
Change from Prior Period	▼ (1.0)
Frequency	Monthly



Private Fixed Investment Nonresidential SAAR

As of 9/30/2021

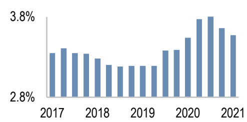
Latest Level	3,073.9
Change from Prior Period	▲ 44.7
Frequency	Quarterly



Residential Fixed Investment as a Percent of GDP

As of 9/30/2021

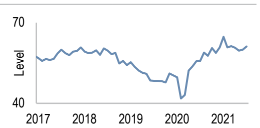
Latest Level	3.6
Change from Prior Period	▼ (0.1)
Frequency	Quarterly



ISM Manufacturing Index

As of 9/30/2021

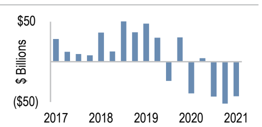
Latest Level	61.1
Change from Prior Period	▲ 1.2
Frequency	Monthly



Manufacturing Inventory Change Q-o-Q ($)

As of 9/30/2021

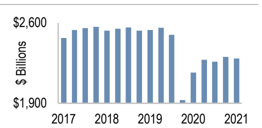
Latest Level	(42.8)
Change from Prior Period	▲ 17.5
Frequency	Quarterly



Exports of Goods/Services

As of 9/30/2021

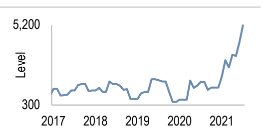
Latest Level	2,290
Change from Prior Period	▼ (14.7)
Frequency	Quarterly



Shipping Rates

As of 9/30/2021

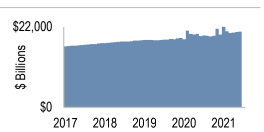
Latest Level	5,167
Change from Prior Period	▲ 1,035
Frequency	Quarterly



Personal Income Level

As of 8/31/2021

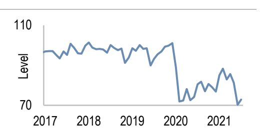
Latest Level	20,717
Change from Prior Period	▲ 36
Frequency	Monthly



Michigan Consumer Confidence Sentiment

As of 9/30/2021

Latest Level	72.8
Change from Prior Period	▲ 2.5
Frequency	Monthly



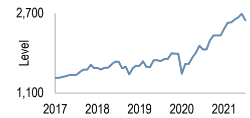
EQUITY

Five-Year Trend

U.S. Equity Markets—Russell 3000

As of 9/30/2021

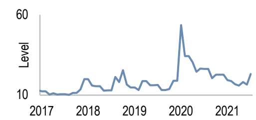
Latest Level	2,559.7
Change from Prior Period	▼ (123.1)
Frequency	Monthly



U.S. Equity—VIX

As of 9/30/2021

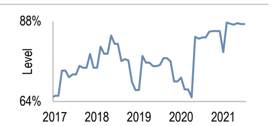
Latest Level	23.1
Change from Prior Period	▲ 6.7
Frequency	Monthly



S&P 500 Percentage Exceeding Earning Estimates

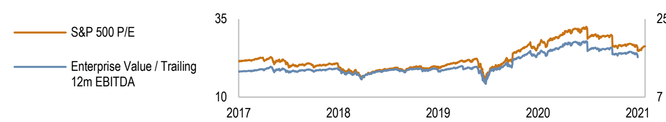
As of 9/30/2021

Latest Level	87.2
Change from Prior Period	0.0
Frequency	Monthly



S&P 500 Historical Valuation Levels

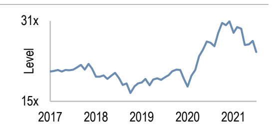
As of 9/30/2021



Trailing P/E on S&P 500

As of 9/30/2021

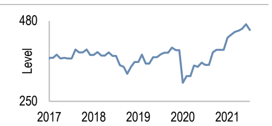
Latest Level	24.8
Change from Prior Period	▼ (2.2)
Frequency	Monthly



Equity Markets—Euro Stoxx

As of 9/30/2021

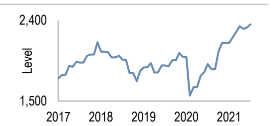
Latest Level	453.7
Change from Prior Period	▼ (16.3)
Frequency	Monthly



Equity Markets—MSCI EAFE

As of 9/30/2021

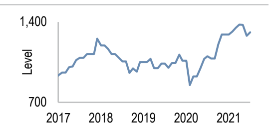
Latest Level	2,281.3
Change from Prior Period	▼ (75.1)
Frequency	Monthly



Equity Markets—MSCI EM

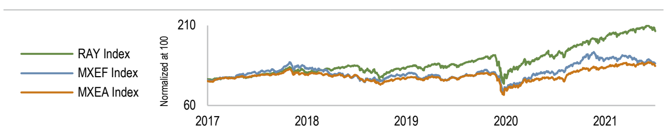
As of 9/30/2021

Latest Level	1,253.1
Change from Prior Period	▼ (55.6)
Frequency	Monthly



Russell 3000 & MSCI EAFE & MSCI EM

As of 9/30/2021



Source: Bloomberg (All).

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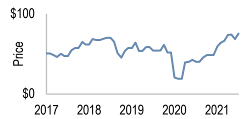
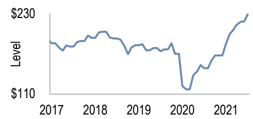
Economic Dashboard & Market Indices *(continued)*

COMMODITIES
Five-Year Trend

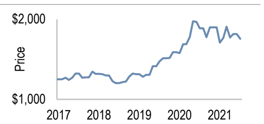
WTI Crude Oil Price	*As of 9/30/2021*
Latest Level	75.0
Change from Prior Period	▲ 6.5
Frequency	Monthly



Reuters/Jefferies Commodity Index	*As of 9/30/2021*
Latest Level	228.9
Change from Prior Period	▲ 10.8
Frequency	Monthly

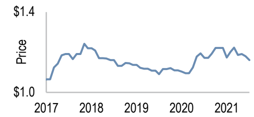


Gold	*As of 9/30/2021*
Latest Level	1,757.0
Change from Prior Period	▼ (56.7)
Frequency	Monthly

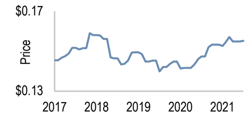


FOREIGN EXCHANGE RATES
Five-Year Trend

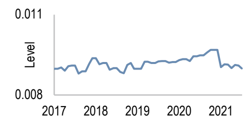
Euro Spot Rate vs. 1 USD	*As of 9/30/2021*
Latest Level	1.16
Change from Prior Period	▼ (0.02)
Frequency	Monthly



Yuan Spot Rate vs. 1 USD	*As of 9/30/2021*
Latest Level	0.1552
Change from Prior Period	▲ 0.0004
Frequency	Monthly

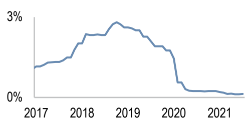


Yen Spot Rate vs. 1 USD	*As of 9/30/2021*
Latest Level	0.0090
Change from Prior Period	▼ (0.0001)
Frequency	Monthly

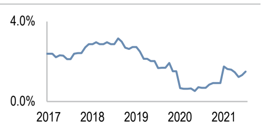


RATES
Five-Year Trend

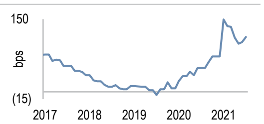
Libor 3M	*As of 9/30/2021*
Latest Level	0.13
Change from Prior Period	▲ 0.01
Frequency	Monthly



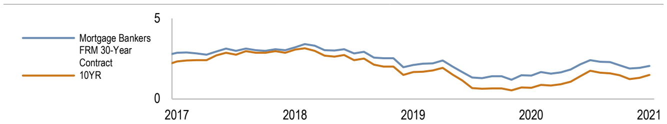
Treasury 10-Yr Yield	*As of 9/30/2021*
Latest Level	1.49
Change from Prior Period	▲ 0.18
Frequency	Monthly



Swaps 2-Yr vs. 10-Yr	*As of 9/30/2021*
Latest Level	112.61
Change from Prior Period	▲ 10.04
Frequency	Monthly



30-Yr Mortgage & 10-Yr Treasury *As of 9/30/2021*



Source: Bloomberg (All).

Performing Credit

The U.S. leveraged loan market posted another strong quarter, with a quarterly gain of 1.18%. The J.P. Morgan U.S. Leveraged Loan Index ended the third quarter at a 4.77% yield and 414-basis point spread, reflecting 7 basis points of spread compression during the quarter. September was notable because leveraged loans provided their strongest performance since January despite September's equity losses. The combination of record CLO origination and an expectation of rising rates drove retail inflows, leading to strong demand for new issue loans and allowing secondary prices to remain firm.

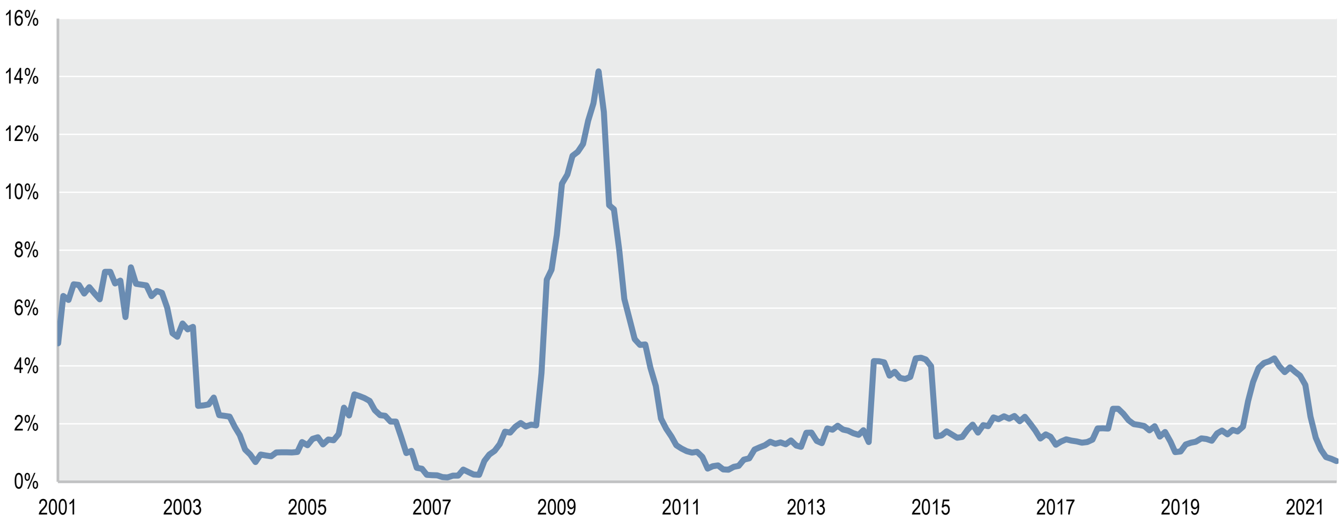
In Europe, the leveraged loan market posted a gain of 1%, while the high yield market posted a gain of 0.7%. The J.P. Morgan European Leveraged Loan Index ended the third quarter at a 4.3% yield and 385-basis point spread, while the J.P. Morgan European High Yield Index ended September at a 2.57% yield and 311-basis point spread—reflecting 4 basis points of spread widening during the quarter. It was generally an uneventful quarter, with valuation levels unchanged versus the second quarter. Leveraged loans were immune from the latest rates-induced wobble, with dollar high yield underperforming in spread terms but generating a superior total return due to a greater all-in yield.

U.S. high yield funds, including ETFs, posted inflows of $2 billion and leveraged loan funds posted inflows of $7.1 billion. In conjunction with strong demand, default rates continue to steadily decline; including distressed exchanges, defaults during the quarter totaled $1.1 billion, the lowest level since the fourth quarter of 2013. Including distressed exchanges, the trailing 12-month default rate as of September 30, 2021 was 0.99% for high yield and 0.89% for loans, as compared to 6.36% and 4.27%, respectively, as of September 30, 2020. In Europe, there were no defaults in the third quarter, and the trailing 12-month default rate fell 60 basis points to 1.5% as of the end of September.

While the 'default deflation' may be transitory, we believe loan demand will remain strong, as floating rate products have historically experienced an increase in investor focus in a stable-to-rising rate environment. Additionally, the global economic outlook is improving as COVID-19 vaccine distribution continues to expand and people begin returning to workplaces. Demand for CLO debt and equity remains robust, as CLOs benefit from low spreads, and locking in low spreads in the current environment will position CLOs well, as they typically have a 5-year investment period.

Leveraged Loan Default Rate

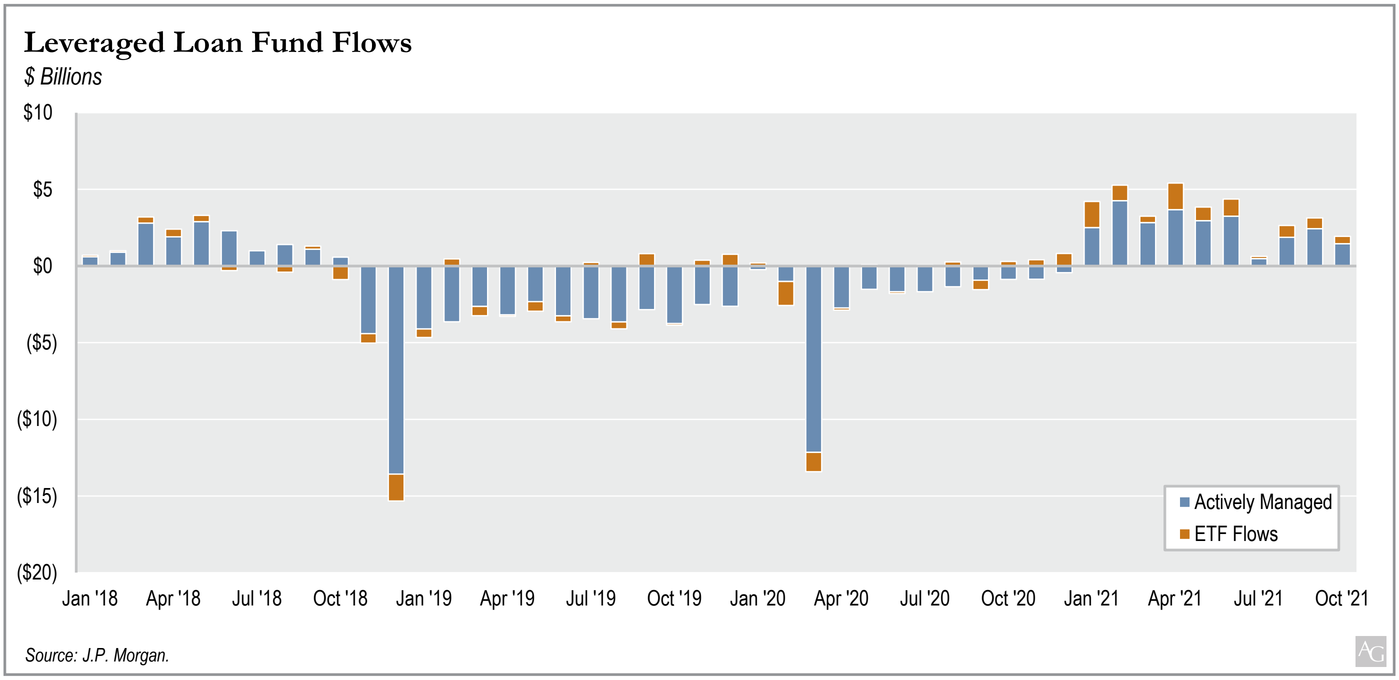
Par-Weighted Default Rate



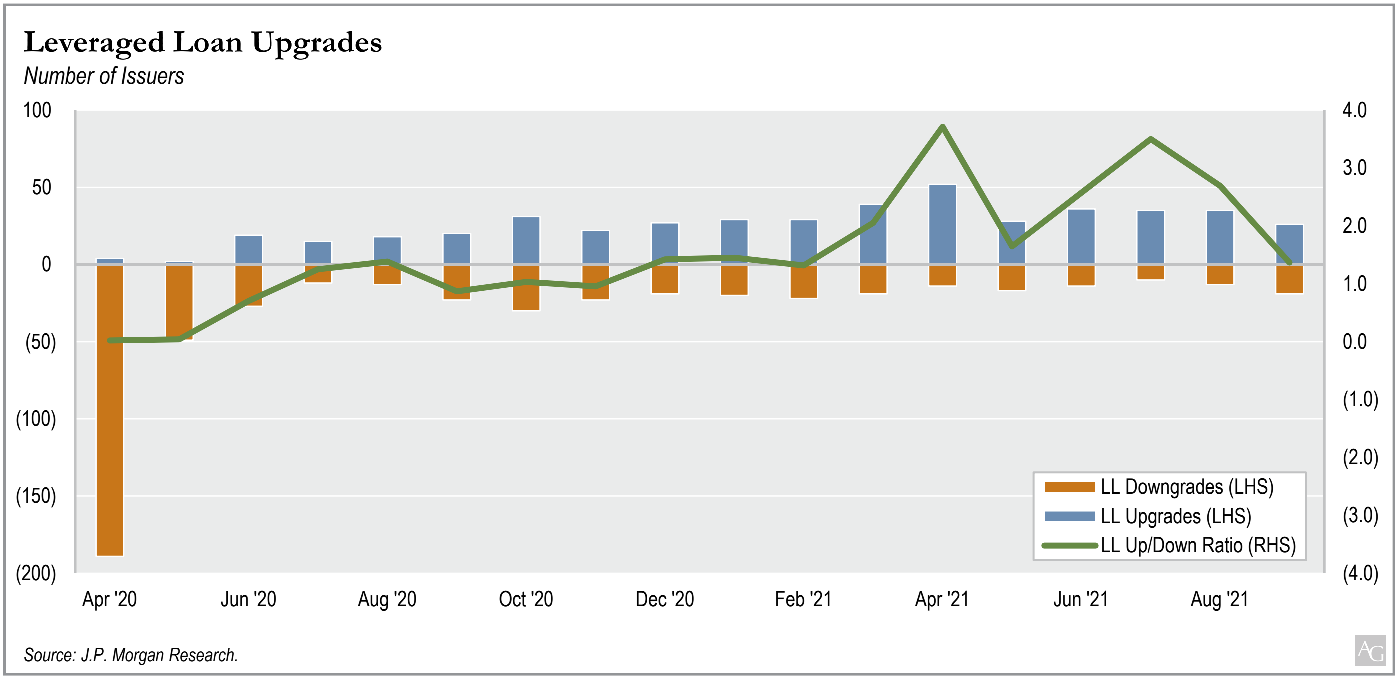
Note: Represents the last 12-month default rate.
Source: J.P. Morgan.

The default rate continues to fall, with the trailing 12-month default rate falling just under 1%.

Performing Credit *(continued)*



Amid concerns about inflation and interest rate increases, floating rate assets—including leveraged loans—saw continued investor interest.



Rating upgrades still outweigh downgrades, albeit more moderately than the strong ratio of upgrades to downgrades seen earlier in 2021.

Maureen D'Alleva
Portfolio Manager

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

Distressed Debt

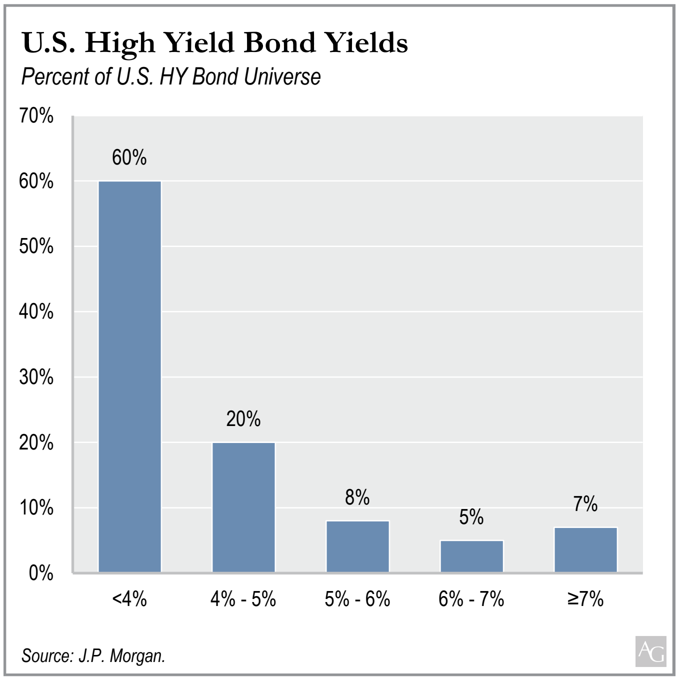
The U.S. and European high yield markets delivered modest positive performance in the third quarter, with gains of 1.0% in the United States and 0.9% in Europe for the three-month period ended September 30, 2021. With these results, U.S. high yield returns increased to 5.2% through the first three quarters of the year, while returns for euro-currency high yield rose to 4.6% year-to-date.

High yield bond spreads generally remained steady quarter-over-quarter, increasing 15 basis points in the U.S. to end September at 385 basis points, while widening 3 basis points in Europe to close the third quarter at 355 basis points. In July, spreads touched a multi-year low of 369 basis points, and yields reached a record-low 4.22%. There was minimal dispersion among ratings during the quarter, so lower-quality maintained its year-to-date outperformance compared to higher-rated segments; in the first three quarters of 2021, CCC-rated bonds returned 8.4% in the U.S. and 7.8% in Europe, while BBs returned 3.5% in the U.S. and 2.1% in Europe. Sector returns in the third quarter were generally banded, with no material overperformance or underperformance across industries.

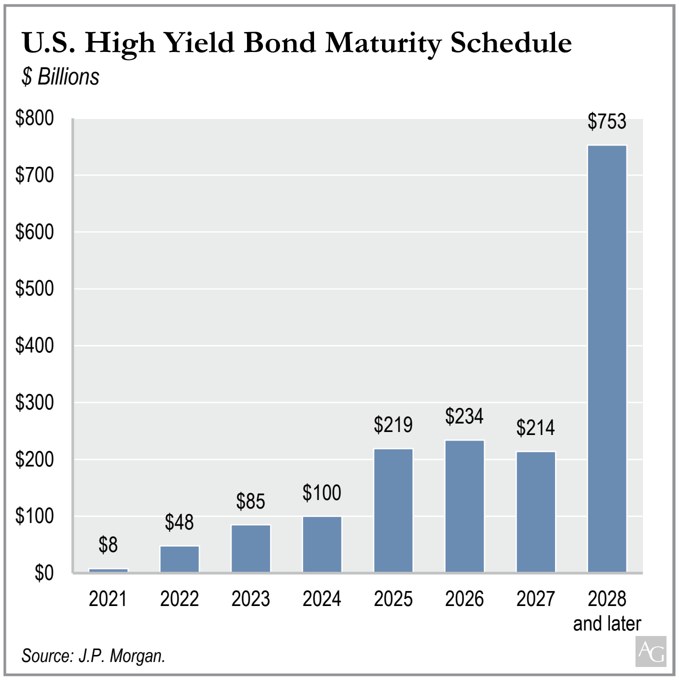
There were $1.1 billion of defaults and distressed exchange transactions in the third quarter—the lowest quarterly volume since the fourth quarter of 2013—bringing the year-to-date total to 16 companies that defaulted on a combined $9.7 billion of debt. The U.S. high yield default rate declined to 0.99%, the lowest level since March 2014. In Europe, there were no defaults in the high yield bond market in the third quarter; this caused the trailing 12-month default rate to decline to 1.5% as of the end of September.

U.S. high yield added over $108 billion of new pricings in the third quarter, the seventh-highest quarterly level. Of note, five of the seven largest quarterly new issue volumes have occurred since the second quarter of last year. While acquisition financing experienced an uptick in activity, refinancing again represented the majority of primary volume during the quarter and was the largest use of proceeds for the 17th consecutive month. In Europe, high yield primary issuance decreased to €26 billion in the third quarter, down from the record €48 billion set in the previous quarter.

After two quarters of outflows, U.S. high yield funds recorded $1.9 billion of inflows in the third quarter, bringing year-to-date withdrawals to approximately $12 billion, as compared to $35 billion of inflows in the first nine months of 2020. Similarly in the European market, inflows increased, pushing the year-to-date flows back into positive territory at €650 million through September.

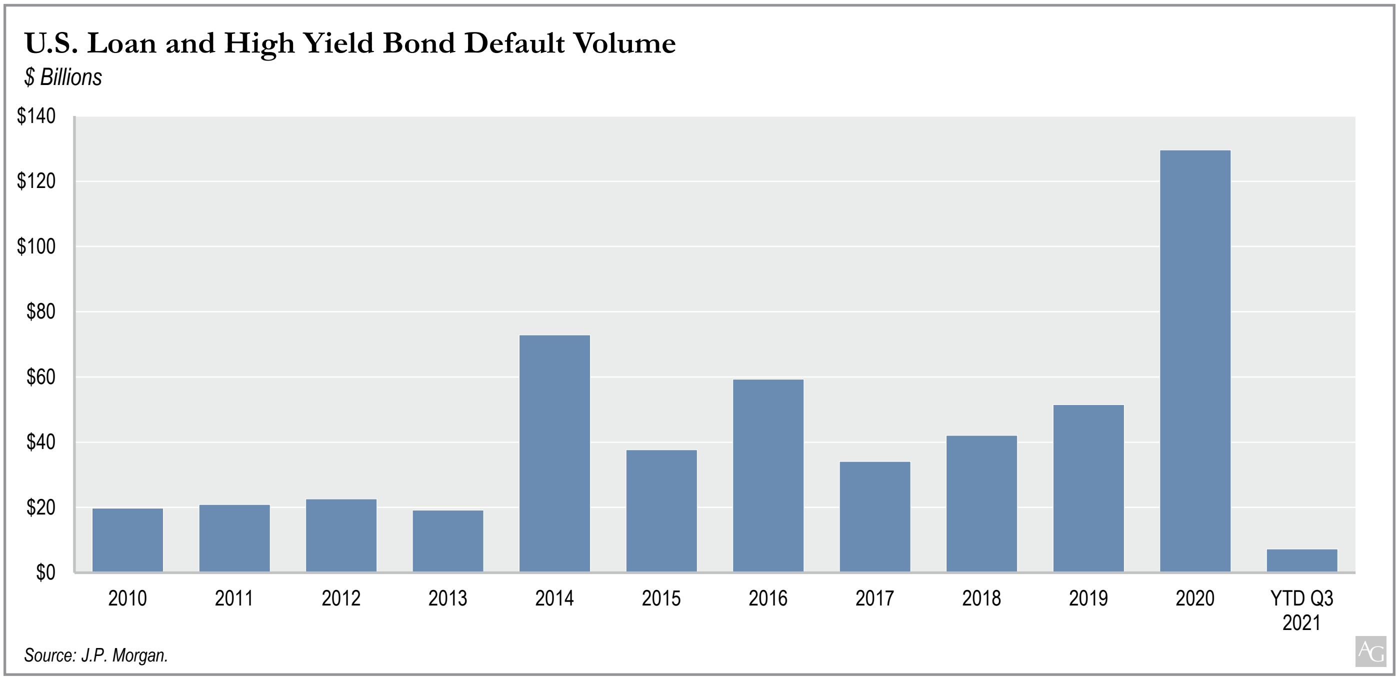


80% of the U.S. high yield market trades inside 5%.

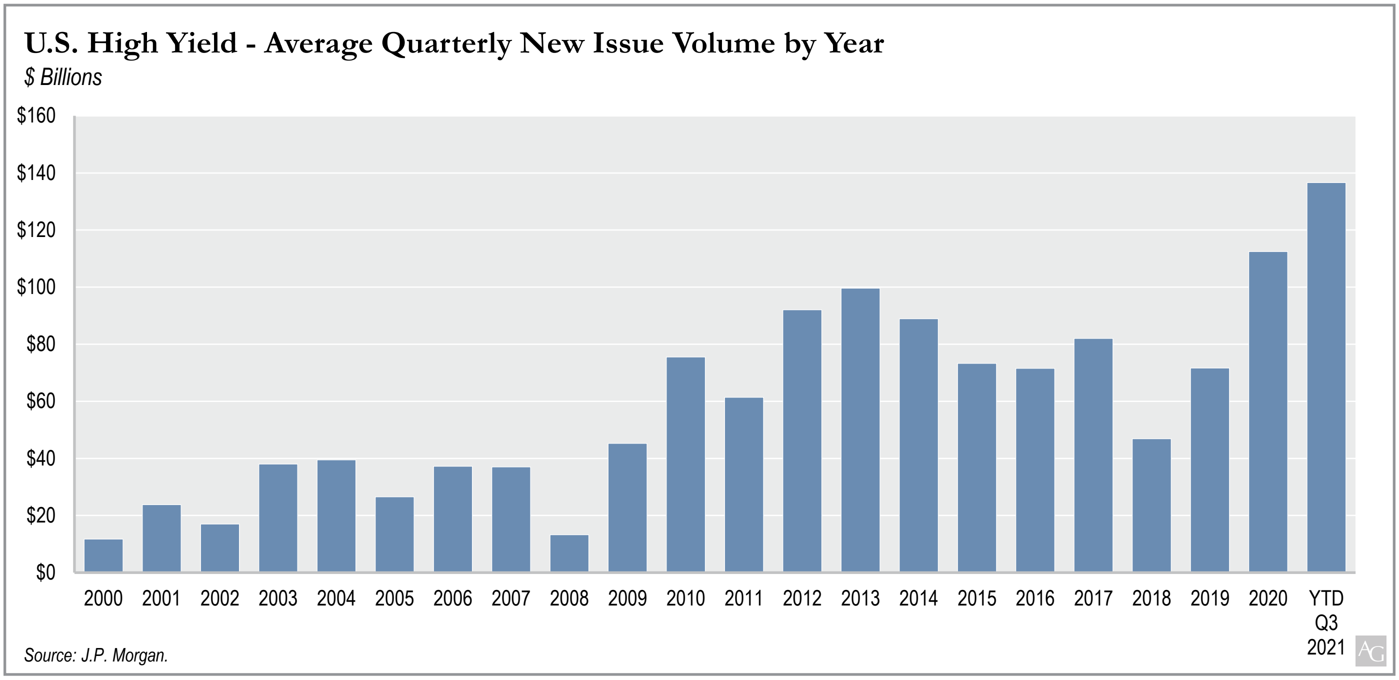


Maturities are minimal in the near term but begin to rise mid-decade.

Distressed Debt *(continued)*



Annualized default volume is at a decade low.



Five of the seven largest quarters for new issuance have occurred since March 2020.

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

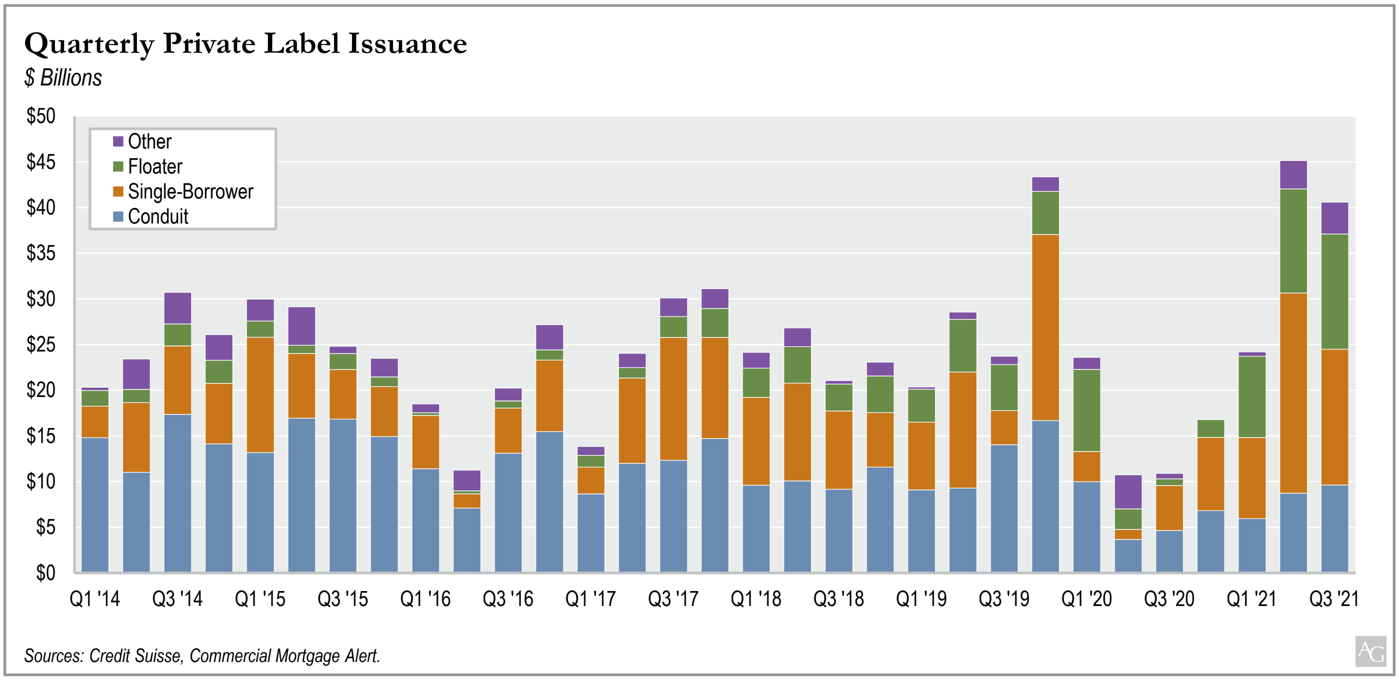
Sentiment in the third quarter took a step back, with the Delta variant surge, slower economic growth, supply chain problems, geopolitical concerns, and inflation worries all weighing on markets. The 10-year U.S. Treasury yield dropped by nearly 30 basis points before reversing course and ending the period slightly higher. Regarding inflation, we'd like to reiterate our view that commercial real estate (CRE) can show improved performance in an inflationary environment. The question is whether the increase in CRE cashflows is enough to make real estate ownership attractive in an environment when other assets are also offering higher yields. For CRE debt, higher rates also make a fixed yield less compelling.

The CMBS market did not show much conviction during the third quarter due to both the aforementioned broader macroeconomic concerns as well as normal late summer doldrums. We estimate new issue 10-year fixed-rate AAA spreads were unchanged during the period, with BBBs approximately 25 basis points wider. Secondary markets for these assets showed similar trends. The Single-Asset/Single-Borrower (SA/SB) portion of the market continued to trade with a positive tone, with new deals well received across the capital structure.

SA/SB new issue volume continued to maintain an impressive pace, with $45.4 billion of deals pricing year-to-date—approximately three times the amount sold during the same period in 2020. Conduit issuance of $23.5 billion represents a 17% increase from 2020. Taken together and combined with Agency, Lease, and CLO deals, the volume of CRE debt securitizations is on track to record its highest levels in over a decade. The prior record was reached just before the global financial crisis; however, we are not witnessing anything remotely close to the level of aggressive underwriting from that period.

According to Trepp, the percentage of CMBS loans with a special servicer (a more inclusive measure of distress than a simple delinquency rate) declined for the twelfth consecutive month in September, decreasing to 7.48%. This represents a decline of 224 basis points from the start of the year and a drop of 300 basis points from the prior year peak of 10.48%. Once again, the hardest hit sectors in 2020 led the recovery in the third quarter, with the specially serviced rate in the hotel sector dropping from a peak of 26.04% to 16.84% and retail declining from 18.32% to 13.97%. Office special servicing rates dropped by 33 basis points during the quarter to 2.68%, while the industrial sector continued to shine, ending the quarter at less than 1.00%. Loans secured by multifamily properties also experienced stable specially serviced rates, ending the quarter at 2.53%.

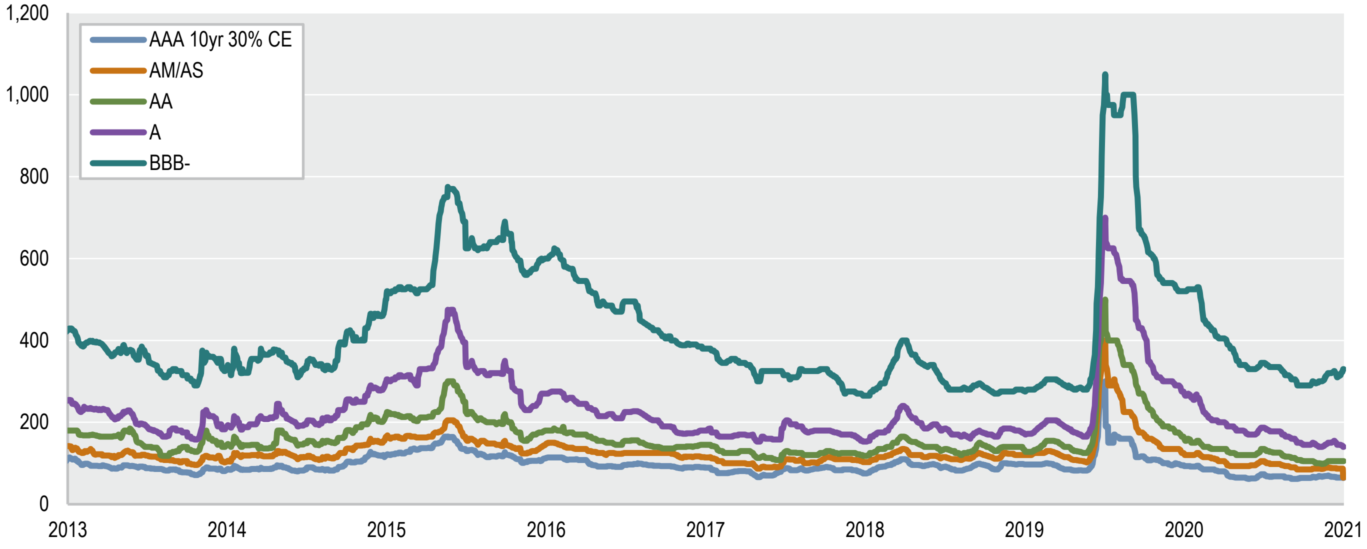
As we move closer to the end of the year, we are expecting increased choppiness.



While issuance fell slightly during Q3 2021, it remains near the highest levels witnessed over the past seven years.

Commercial Real Estate Debt *(continued)*

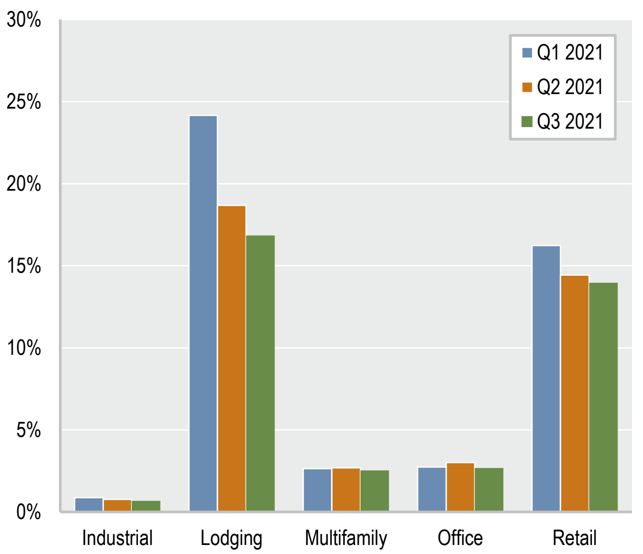
CMBS New Issue Spread



Sources: Trepp, Goldman Sachs Investment Research.

CMBS new issue spread changes were mixed in the third quarter but remain significantly narrower than several quarters ago.

CMBS Special Servicing Rate

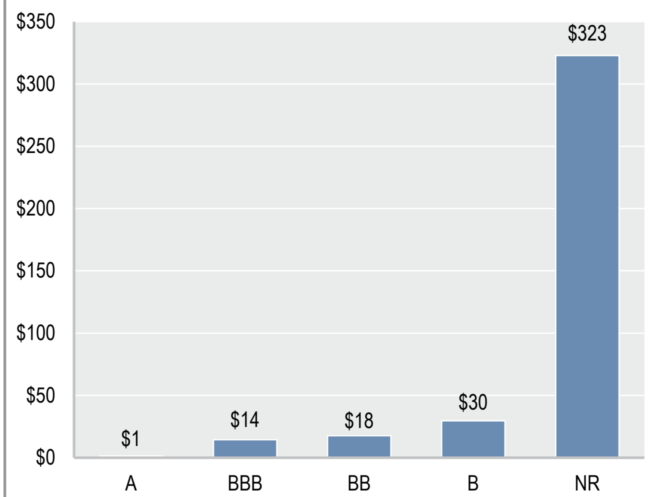


Note: As of September 30, 2021.
Source: Trepp.

Delinquency rates continue to decline, led by curing in the hotel and retail sectors.

Interest Shortfall by Rating

$ Millions



Note: CGCMT 2016-P5 revised its June 2021 remit to remove the interest shortfall to classes A and B. Ratings have been clubbed to letter.
Sources: Intex, Trepp.

Interest shortfalls in conduit CMBS are concentrated in the non-rated, first-loss 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/

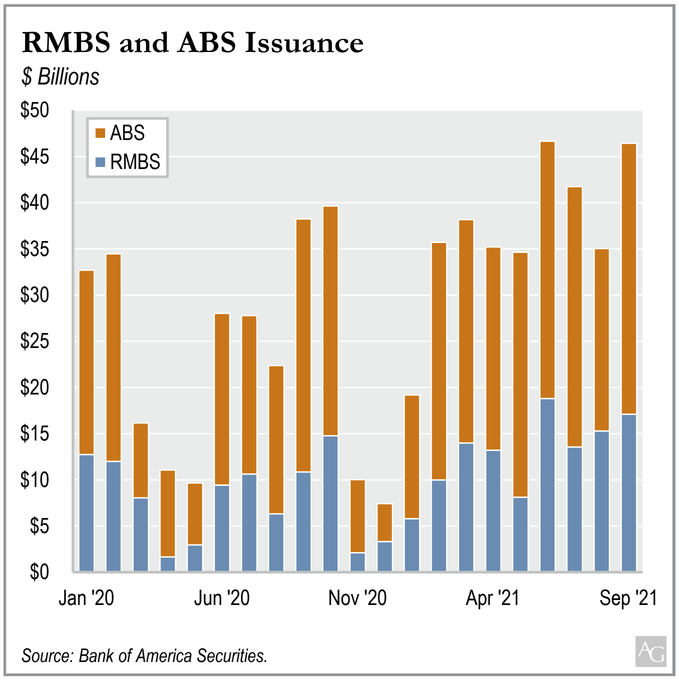
Residential & Consumer Debt (RMBS/ABS)

Spreads for securitized residential debt sectors were firm during the third quarter, as most Credit Risk Transfer (CRT) tranches tightened 10-20 basis points and other sectors—such as non-QM and legacy mortgages—were mostly little changed. Consumer spreads were more varied, as AAA tranches were unchanged to a little wider, while subordinate tranches remained well-bid and tightened during the quarter. Despite relatively contained spread movement, many of the same themes that have supported RMBS and ABS persisted during the quarter, including favorable collateral fundamentals, record-high home prices, demand for yield, and continued employment gains. Year-to-date, residential and consumer sectors are mostly tighter, led by legacy mortgages, down-in-credit CRT, and lower-credit or esoteric asset-backed sectors.

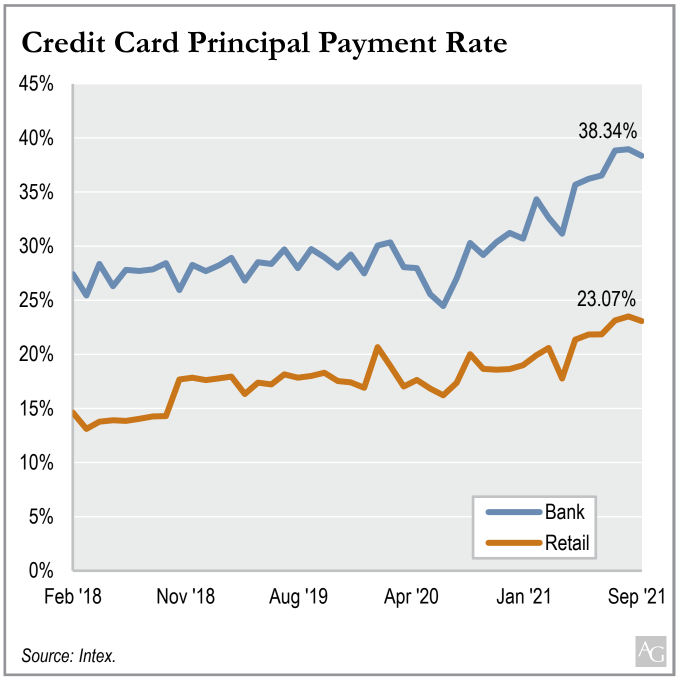
Issuance of new RMBS fell approximately 15% from the second quarter to $46 billion, mostly due to a decline in re-performing securitizations, which offset a sharp increase in agency-eligible securitizations. The latter rose from $3.3 billion in the second quarter to nearly $10 billion in the third quarter, and non-QM issuance moderately increased to $6.9 billion. Quarterly issuance of ABS was $77 billion, in line with the prior quarter but comprised of a different mix of sectors, with more auto and student loan issuance. Year-to-date RMBS issuance totaled $140 billion, rising 66% from year-ago levels and 43% from the first nine months of 2019. Year-to-date issuance of ABS came to $217 billion at the end of the quarter, up nearly 50% from year-ago levels and 16% higher than year-to-date 2019. Comparisons to 2020 are considerably skewed by the issuance lull immediately following the outbreak of the pandemic.

Favorable mortgage and consumer debt collateral fundamentals have helped sustain strong demand for the sectors. In particular, the accrual of excess savings from various federal stimulus payments have aided debt service. Additionally, the crossover effects of payment accommodations on other consumer debts and strong collateral prices have limited losses.

Home prices continued to reach higher levels during the quarter, setting a record high in both the absolute level as well as annual appreciation—the latter of which was nearly 20% in July, according to S&P/CoreLogic Case-Shiller. That reading was mirrored by the Federal Housing Finance Agency's index, which rose 19.2% in July versus year-ago levels. As noted last quarter, persistently strong demand against limited supply of available homes has been the driving factor for rising home prices. Mortgage credit availability has tightened around 30% from 2019 and is more consistent with underwriting during 2014, according to the Mortgage Bankers Association. Used vehicle prices, as measured by the Manheim indices, rose 27% year-over-year to reach a record high in September, benefitting from limited new inventory and supply chain disruptions.



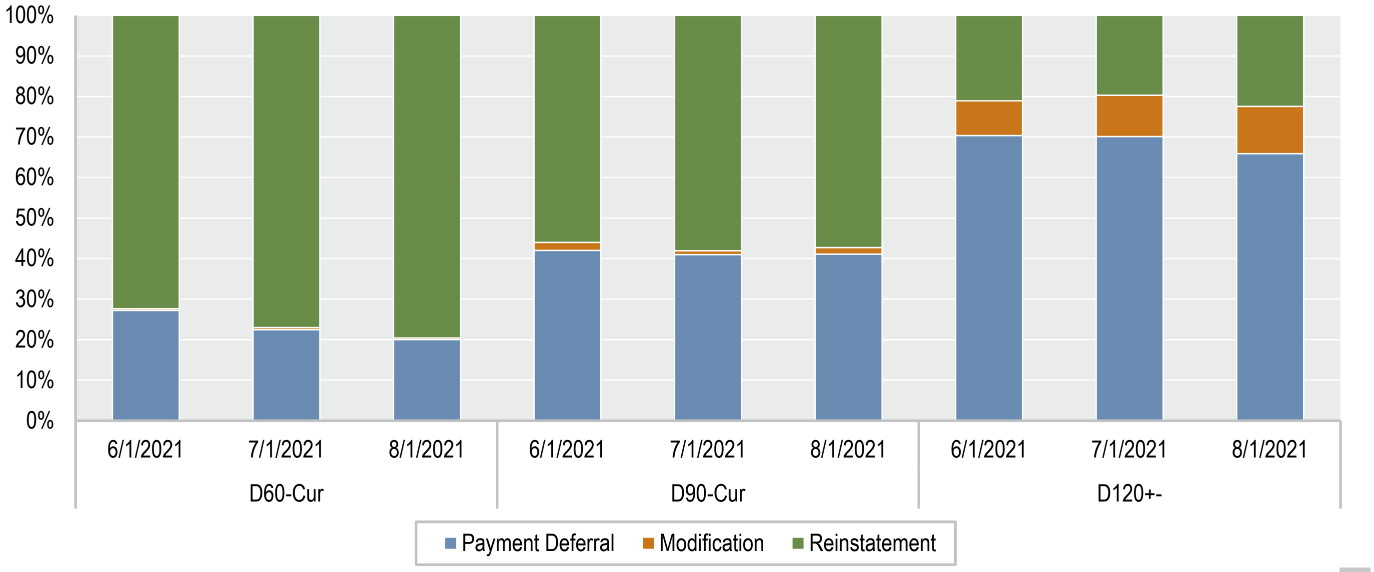
Mortgage and consumer new issue markets were active during the third quarter of 2021.



Monthly credit card payment rates rose during the pandemic and remain at elevated levels.

Residential & Consumer Debt *(continued)*

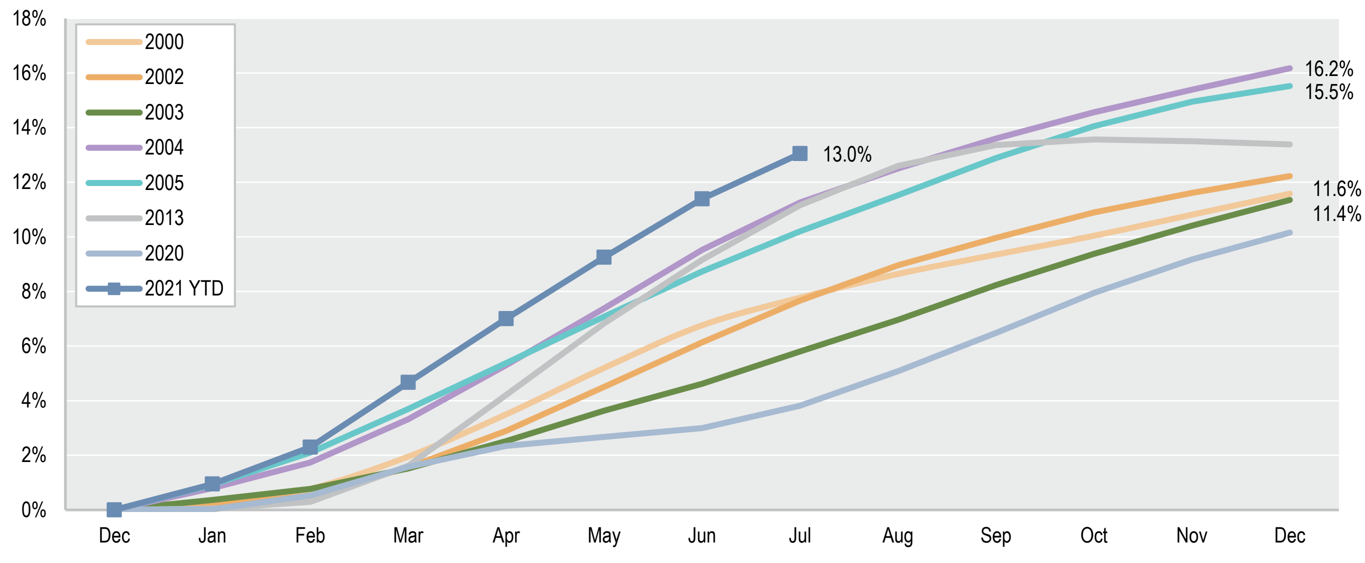
CRT Forbearance Cures by Resolution



Sources: Freddie Mac, 1010data.

Modifications are expected to comprise a greater share of forbearance workouts as GSE forbearances reach their 18-month expiration.

Annual Home Price Appreciation



Source: CoreLogic Case-Shiller.

Home price appreciation through 2021 has been more accelerated than any year since 2000.

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

Rising inflation has emerged as a principal risk to the global economy and commodity price recovery has been a significant driver thereof. Energy inflation has soared and reflects a scarcity across all physical markets. The reverberation throughout the supply chain has only begun.

Crude markets continue to rapidly rebalance while OPEC gradually unwinds its production cuts and U.S. producers adhere to capital discipline-driven supply restraint. WTI now trades above $80, its highest level since late 2014. Below average inventories, rising LNG exports, and supply constraints have pushed Henry Hub natural gas prices near $6/MMBtu, while European and Asian gas prices are at record highs. With heating season approaching, a colder than normal winter may exert further upward pressure on prices. Higher natural gas prices typically spur gas-to-coal switching by power generators; however, recent mine closings have decreased supply by 40% over the last six years, and the accelerated retirement of coal-fired power plants continues. Instead, a pivot from gas to oil may add an incremental 500,000 barrels per day of demand through the winter.

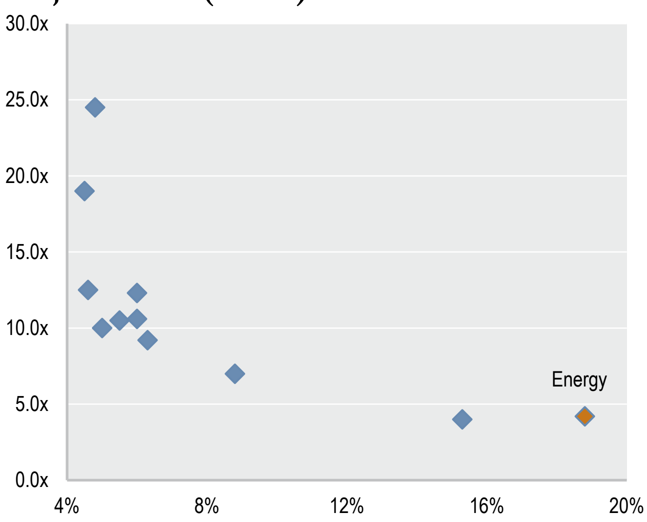
Capital discipline has considerably reduced oil and gas capital expenditures. For 2021, total capex is projected to be $56 billion, the lowest for the sector since 2004 and significantly below 2014's record $184 billion. Even with an expected 15-20% boost next year, spending would still be well below pre-pandemic levels.

Renewables growth continues unabated. Solar had a record second quarter and accounted for nearly 60% of all new electric capacity additions in the U.S., while wind provided substantially all the balance. Supply chain challenges have caused significantly higher input costs; for the first time ever, costs are up both quarter-over-quarter and year-over-year across every solar sub-sector. Looking forward, the pathway to net zero emissions by 2050 could cause the prices of cobalt, lithium, and nickel—key inputs for both solar panels and batteries—to rise several hundred percent from 2020 levels.

Year-to-date, traditional energy equities continue to significantly outperform both the broader market and transitional energy equities, with the XLE Index generating a 52% return through October 27th. While valuations have slowly improved, oil and gas producers continue to trade at a material discount to historical averages. As a result, public equity issuance has largely been muted. Private equity investment in traditional energy has decelerated at an astonishing pace: Since 2018, available capital has shrunk from $90 billion to $22 billion, while the number of active firms has declined from 29 to nine.

The liquid bond markets remain accommodative for most energy issuers. The Credit Suisse Energy High Yield Index offers a yield of 5.27%, within 15 basis points of July's all-time low. Quarterly issuance volumes for traditional energy issuers have declined sequentially each quarter this year, though year-to-date issuance well surpasses annual volumes in both 2019 and 2020. Through October 27th, 2021 global green and sustainability bond issuance has exceeded $600 billion, a new record. China and the U.S. are the most active markets for issuers, together accounting for over a quarter of issuance volumes. The Bloomberg U.S. Green Bond Index offers a current yield of 1.74%.

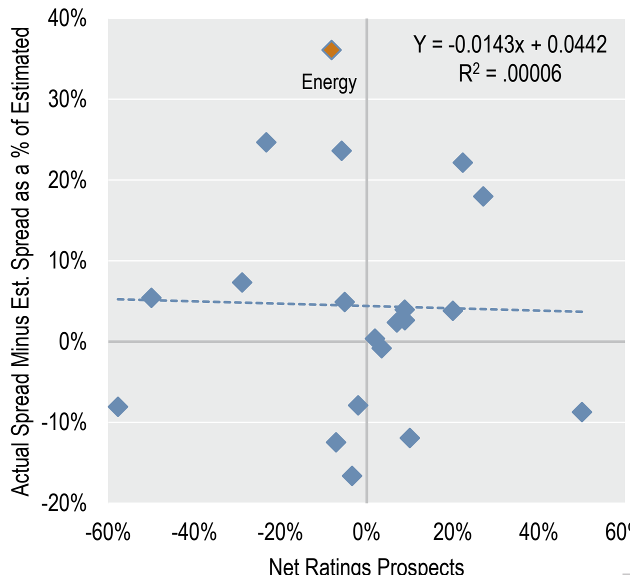
Enterprise Value/EBITDA vs. FCF Yield: Major Sectors (2022E)



Source: BMO Capital Markets.

Despite rising commodity prices, traditional energy equities trade at a meaningful discount versus all other sectors. Improving free cash flow yields may help spur multiple expansion into 2022.

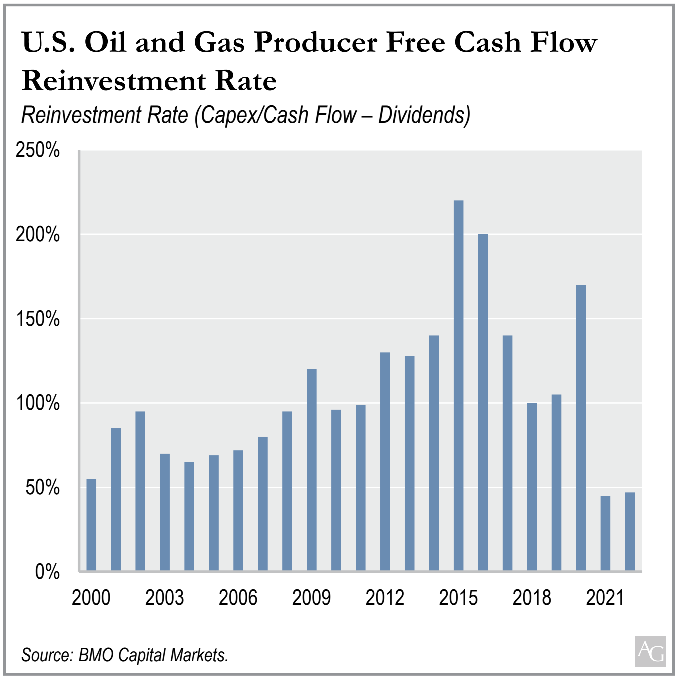
Relative Value Analysis for HY Industries



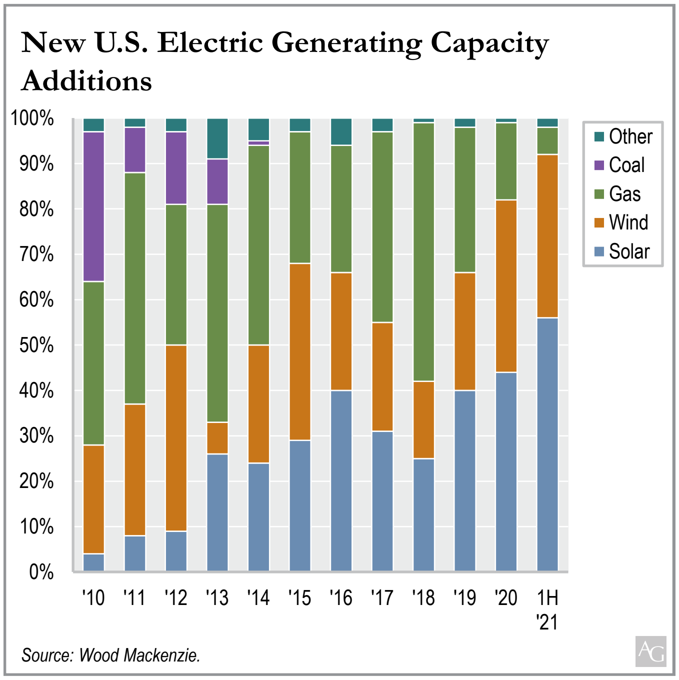
Source: S&P Global.

Energy high yield remains undervalued versus other sectors on a rating-for-rating basis.

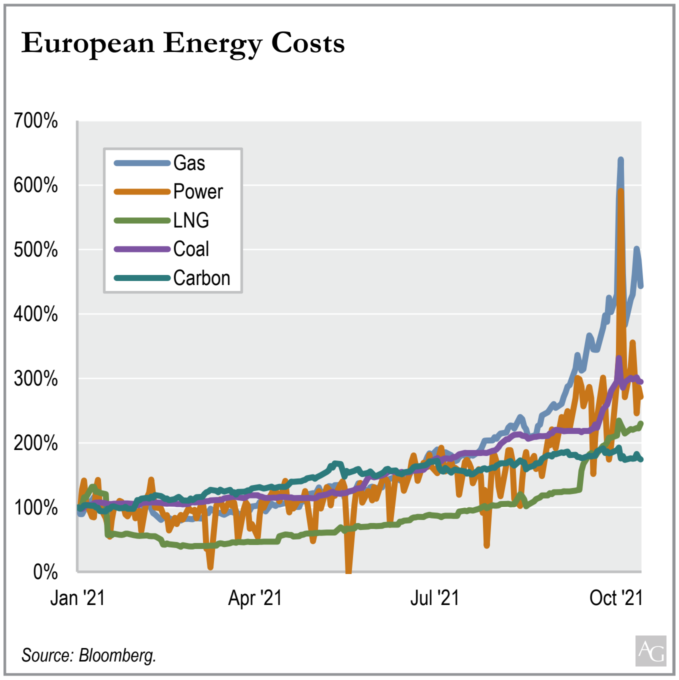
Energy *(continued)*



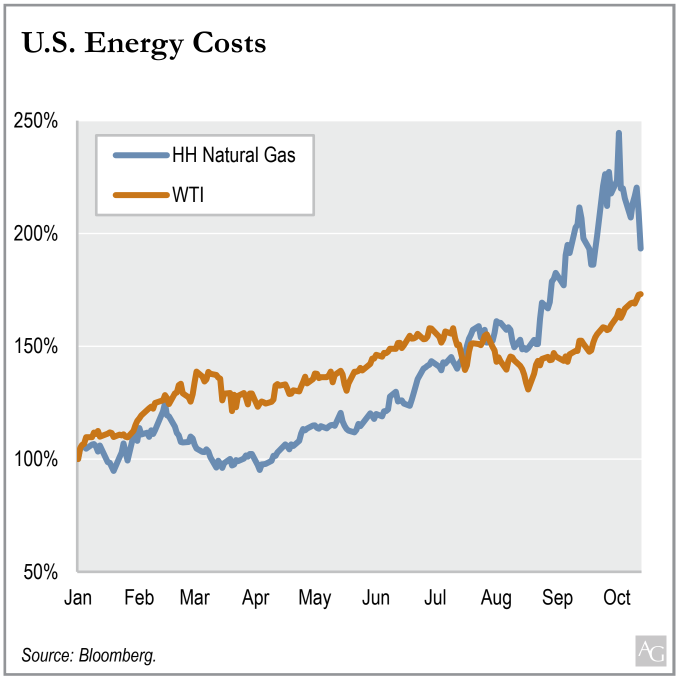
The reinvestment rate is poised to reach new lows in 2021-2022 as oil and gas producers generate record free cash flow and prioritize debt reduction and the return of capital to shareholders.



Solar and wind projects that have been placed into commercial operation this year account for virtually all new U.S. capacity.



European energy prices have skyrocketed this year, creating a dire situation heading into the winter heating season.



In the U.S., commodity price recovery has accelerated over the last quarter, particularly for natural gas.

Todd Dittmann
Portfolio Manager

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

Middle Market Direct Lending

Total U.S. middle market loan volume across the syndicated and direct lending markets, including non-sponsored activity, amounted to $203 billion in the first nine months of 2021—18% above full year 2020 levels and only 12% behind full year 2019. Sponsor-backed middle market lending totaled $48 billion in the third quarter of 2021—up 14% quarter-over-quarter—making it the second-busiest quarter recorded, trailing only the $50.2 billion originated in the second quarter of 2018. The third quarter also saw a record-high 401 sponsored middle market deals.

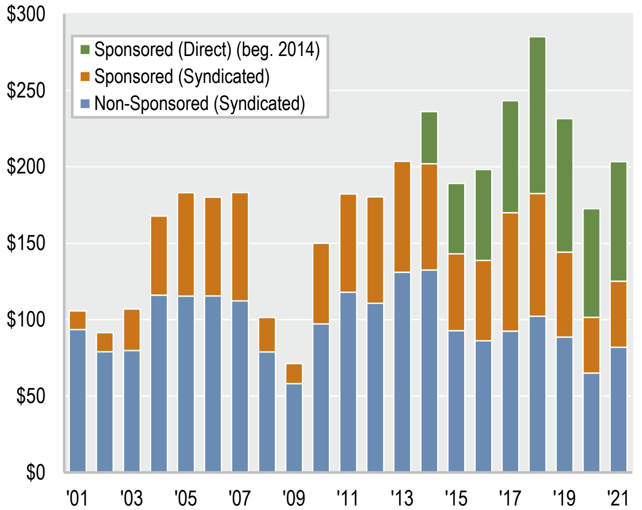
Increased competition is readily evident in loan pricing and acceptable leverage. In the third quarter, the spread on unitranche loans decreased for the fifth consecutive quarter; at 5.83%, the spread was lower than the average spreads seen in 2018 and 2019. While the 55% of lenders accepting borrowers with leverage greater than 5.5x EBITDA is lower than last quarter's 69% figure, the percentage of managers willing to lend at leverage multiples above 7.0x EBITDA remains elevated at 23%. At the end of 2019, only 4% of lenders would go above 7.0x on a total debt-to-EBITDA basis.

While the direct lending market is competitive, investors continue to allocate to the asset class. In the trailing 12 months ended September 30th, managers raised $53.5 billion for U.S.-focused direct lending strategies, according to Preqin. That figure is $17 billion above the pre-pandemic high of $40.2 billion seen in the third quarter of 2018. Allocations have continued to flow to a smaller number of funds; 34 funds closed in the 12-month period ended September 30th, 2021, which is 11 fewer than the 45 funds closed in the peak twelve-month period ended June 2019. The average size of closed direct lending funds has increased 94% to $1.575 billion over that time.

As the amount of direct lending capital raised has increased, so has dry powder in the lending market. The amount of dry powder in the direct lending market, however, continues to trail the volumes found in the U.S. buyout market. Preqin's recent numbers suggest that there is almost $600 billion of dry powder in the U.S. buyout market, while the amount of dry powder in U.S.-focused direct lending is approximately $80 billion.

Annual Middle Market Loan Volume

$ Billions

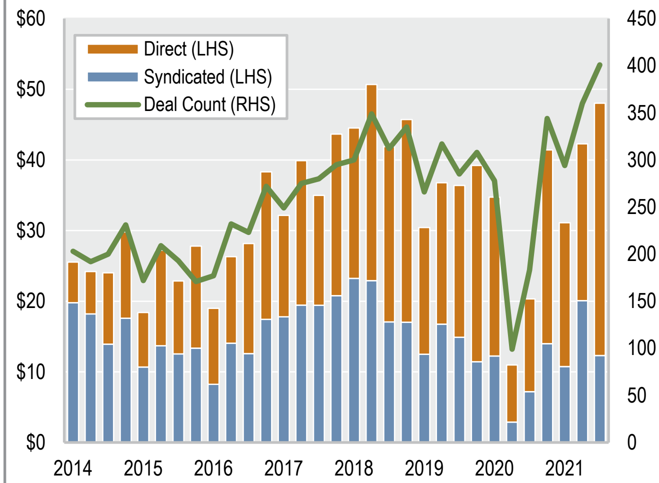


Source: Refinitiv LPC's 3Q21 Sponsored Middle Market (October 2021).

Middle market loan volumes through September have surpassed full year 2020, and non-syndicated deals represent more than 60% of the sponsor market.

Quarterly Middle Market Sponsored Loan Volume and Deal Count

$ Billions

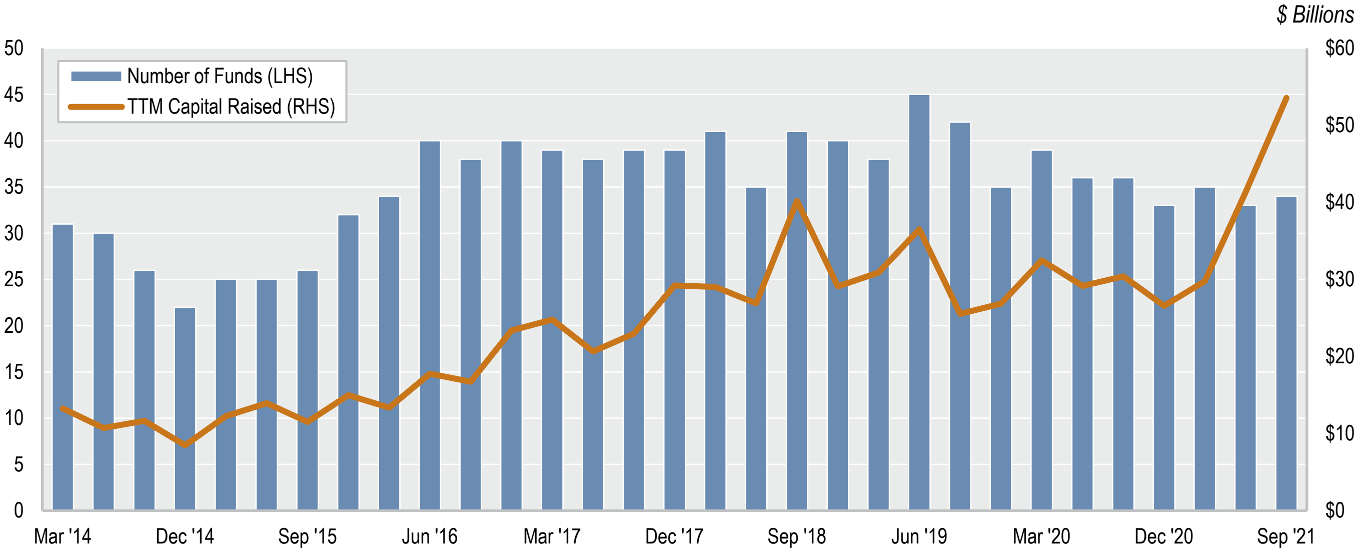


Source: Refinitiv LPC Middle Market Connect, Corporate Loan Market Analysis (September 2021).

The number of sponsor-backed deals reached record levels in Q3 2021, and loan volumes hit levels not seen since Q2 2019.

Middle Market Direct Lending *(continued)*

U.S. Direct Lending Fundraising

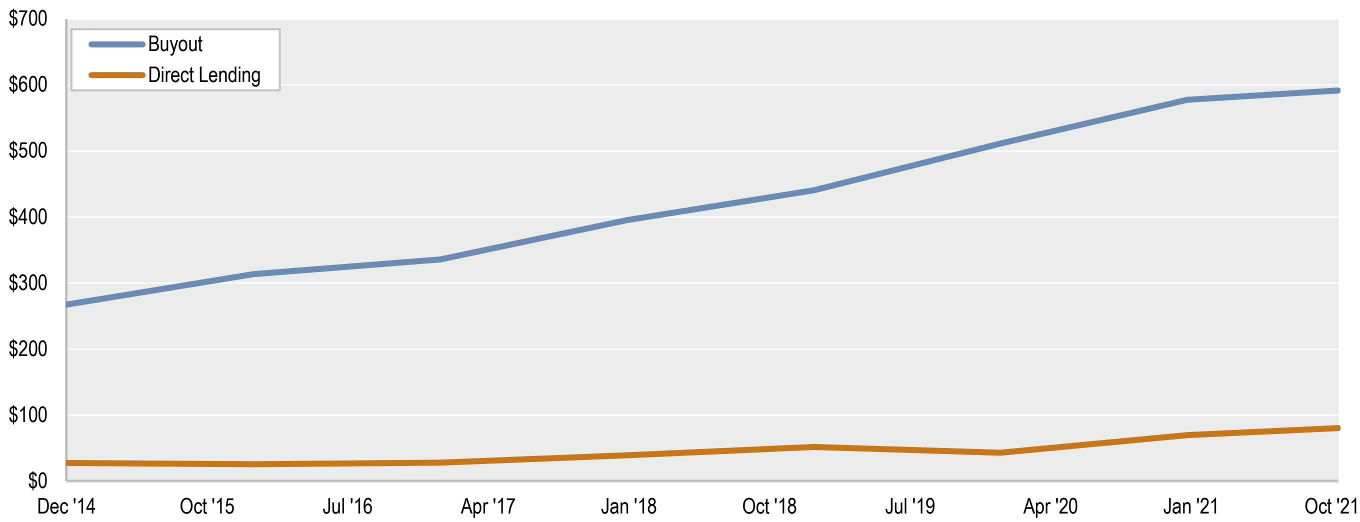


Source: Preqin (October 2021).

On a trailing 12-month basis, the amount of capital raised has increased every quarter since Q4 2020, but capital has been raised by fewer managers.

Private Equity and Direct Lending Dry Powder

$ Billions



Source: Preqin (October 2021).

Dry powder in direct lending is approaching $100 billion, but it trails the dry powder in U.S. buyout funds by over $500 billion.

Trevor Clark
Portfolio Manager

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

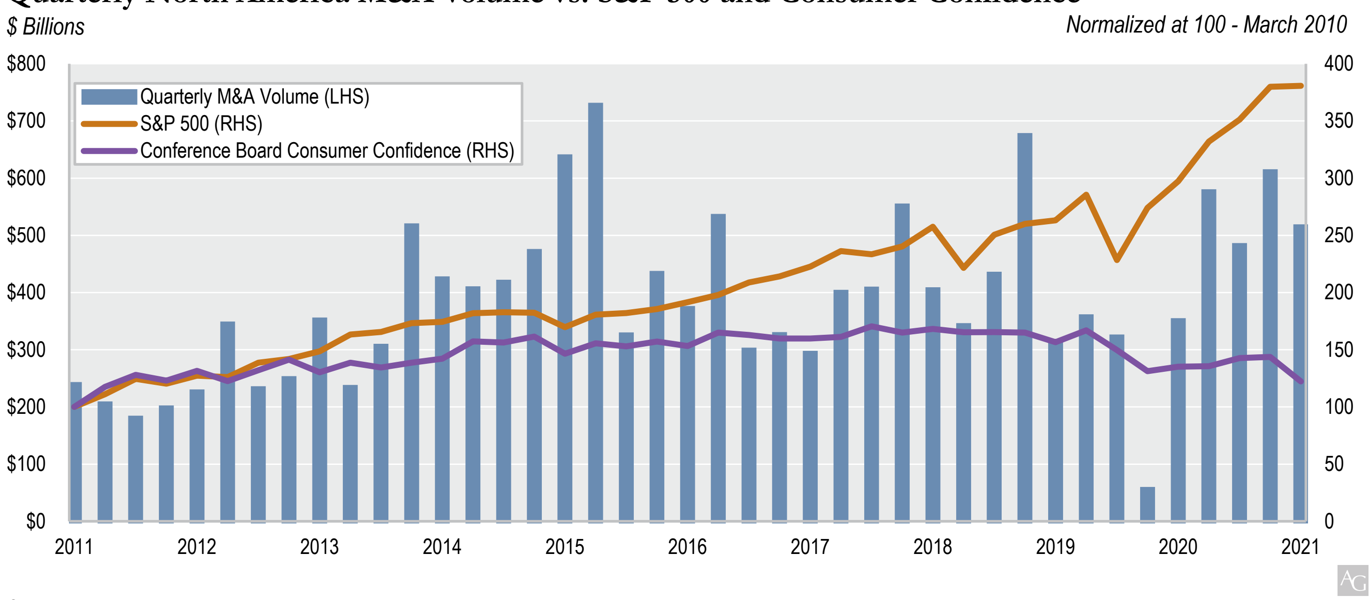
Merger Arbitrage

The key themes of the first half of the year continued into the third quarter, leading to an active summer of M&A. Deal activity in the $1-5 billion market capitalization range continued to be robust, and some of the record-high $150 billion of U.S. private equity dry powder was put to work, as reflected by financial sponsors' above-trend share of M&A volumes. Announced deal value increased 2% sequentially and 50% year-over-year, as the 'work-from-anywhere' culture allowed companies and bankers to avoid the typical summer slowdown. At quarter-end, the deal universe had an average annualized spread of 14.5%, aggregate deal value declined to $377 billion, and the total arbitrage profit pool declined to $20.7 billion.

Risk arbitrage investors began the quarter playing defense given the Department of Justice (DOJ) lawsuit filed against Willis Towers Watson and Aon plc in June. The companies terminated the deal in July, creating a de-leveraging event that continued into early August. Large stock-based deals, in particular, were impacted, as the group's average gross spread began the quarter at 11% and peaked at 21%; however, spreads eventually began to tighten, and such deals normalized with an average gross return of 13% by quarter-end. Beyond the volatile trading, other notable events during the quarter included the close of Salesforce's purchase of Slack Technologies, Inc. and Alexion Pharmaceuticals' sale to AstraZeneca plc.; the protracted battle for Kansas City Southern also finally came to an end. Although activity was heavily skewed to mid-sized deals, the quarter saw announcements of Merck's acquisition of Acceleron Pharma Inc. and Baxter International's purchase of Hillrom.

The continued surge in M&A comes against a backdrop of opposing forces. Low interest rates and normalizing global growth are leading companies to not only focus on plugging holes found during the pandemic-related shutdowns, but also on finding alternative sources of topline growth. While the fixed-income market has been incredibly accommodating, leaders at the DOJ and Federal Trade Commission (FTC) seem to be less enthusiastic about the continued pace of M&A. President Biden's expansive Executive Order issued in July—which directed every government agency to think of new applications for current antitrust legislation—appears to be influencing some of the FTC's recent actions, as the agency has removed guidelines and failed to complete investigations prior to HSR expiration in some cases. This has yet to deter companies from announcing and closing deals; however, the quarter saw fewer +$10 billion deals announced than usual, and arbitrage investors must be conscious of the uncertainty being sowed as longer deal timelines and the possibility that more companies may have to defend their transactions in court become considerations. This environment is likely to present opportunities for arbitrage investors to create alpha, as the potential exists for similar looking M&A transactions to have different outcomes based upon their respective sizes and legal approaches to the FTC.

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



Source: Bloomberg.

Powered by mid-sized deals, Q3 2021 was the strongest summer quarter since 2015.

Mark Wojtusiak
Head of Merger Arbitrage

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

Convertible Arbitrage

Global equity markets finished the third quarter in risk-off mode, as a number of concerns—ranging from Chinese real estate debt to a spike in energy prices and the corresponding inflationary pressures—led to the first monthly decline in the MSCI World Index since January, down 3.83% in local currency terms. Nevertheless, the index remained roughly flat on a quarterly basis, up 0.24% in local currency terms. Similarly, corporate credit markets suffered in September but stayed in moderately positive territory for the third quarter. Global convertible bonds, however, lost 0.94% in the quarter, partially explained by a weaker bond market, underperforming underlying equities, and somewhat softer convertible valuations. The softer valuations contributed to convertible arbitrage strategies giving back some of the year's gains, with the HFRX Relative Value Fixed Income Convertible Arbitrage Index losing 0.23% in the third quarter.

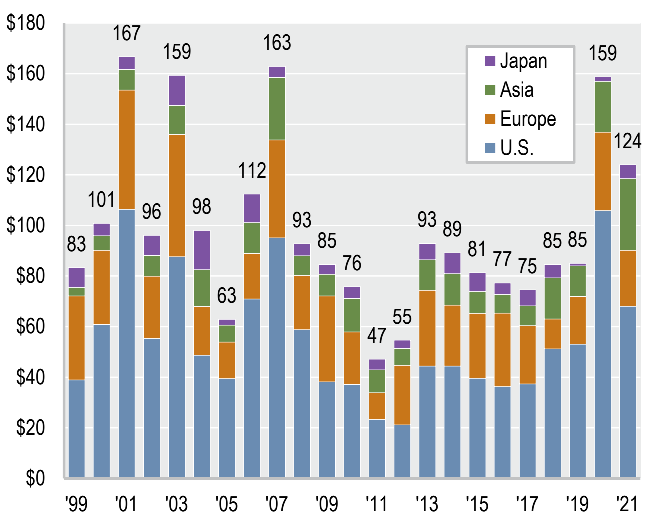
Unsurprisingly, convertible new issuance slowed down during the summer period. A total of $25 billion of new deals were priced in the third quarter, of which $12.1 billion came from U.S. issuers, $6.1 billion came from Asia excluding Japan, and $3.2 billion came from Europe. Encouragingly, Japan accounted for $3.6 billion of supply, which represented the first meaningful showing from the region in several years.

SPAC issuance increased from the second quarter but was still well below the record pace set in the first quarter. There were 88 SPAC IPOs in the third quarter, generating proceeds of $15.9 billion. In addition, there are currently 120 SPAC business combinations that have been announced but not yet closed; this is equivalent to $34.8 billion of capital, and assuming they all close, represents a pro forma enterprise value of $318 billion. The euphoria of SPACs early this year has morphed into a market that presents low-risk opportunities for solid yields backed by U.S. Treasuries in trust accounts with upside optionality.

Significant supply chain disruptions and a surge in energy prices are fueling inflation, while several central banks have turned more hawkish. COVID-19, the U.S. fiscal debate, and China, among other challenges, also remain on investors' minds moving into the fourth quarter. Against this more uncertain backdrop, volatility may rise and support hedged convertible portfolios.

Annual Convertible Issuance by Region

$ Billions

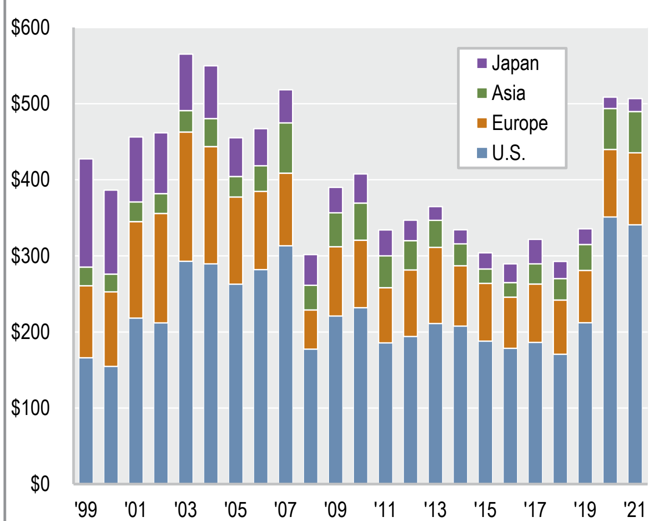


Source: Bank of America Merrill Lynch.

The convertible primary market is on track to reach last year's strong issuance level.

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 convertible market.

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

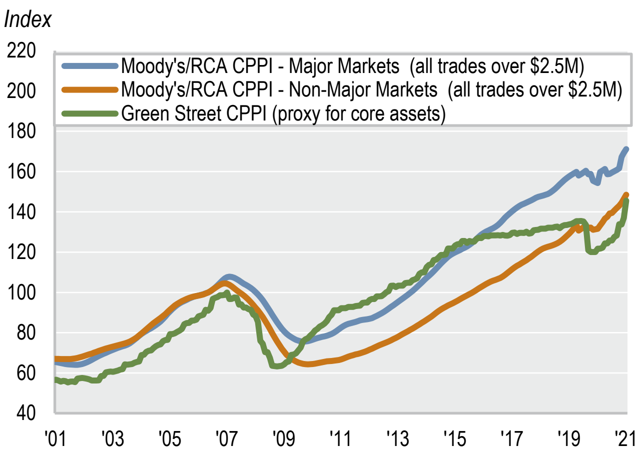
The third quarter of 2021 benefited from favorable year-over-year comparisons given the severity of the pandemic's impact during 2020. As such, commercial property transactions surged—up 151% year-over-year—and are on pace to set an annual record. While the return of entity-level deals is contributing to overall volumes, individual asset sales are driving the expansion, suggesting a very healthy transaction market. Property sales activity continues to be bifurcated, though laggards like office are seeing increased activity, albeit skewed to suburban locations, central business districts, and markets specific to tech, life sciences, and education. Lodging continues to experience an outsized recovery in transaction volumes, posting the highest growth rate year-over-year of any property type. The geographic mix of transaction volumes year-to-date has shifted meaningfully; Manhattan was the fifth most active market in 2019 and is now ranked fourteenth, while Phoenix went from seventh to fourth and Dallas rose from third to first. Foreign investment activity rose 48% year-over-year in the second quarter, but foreign investors' share of transaction volume has declined, as domestic capital has been more active in currently favored property types.

The Trepp CMBS delinquency rate stood at 5.25% in September, a little over half the level seen at the peak of the pandemic last year. Maturity-related defaults remain likely to persist for certain sectors, but lenders are still generally accommodating defaults by providing forbearance measures. Meanwhile, credit markets are robust, with CMBS issuance surpassing $100 billion year-to-date through September and on track to eclipse the current full-year record.

Real estate markets remain bifurcated. Apartments, industrial, and most niche property types have more than fully recovered, while retail, office, and some lodging lag behind with more questionable prospects for a complete recovery. The rise of the Delta variant challenged some reopening and normalization progress, including return to office plans, but economic activity is largely still heading in the right direction. The Federal Reserve Board is signaling a near-term start to tapering, as employment markets are strong enough despite some recent slippage in growth. Meanwhile, the Fed has shifted its posture to acknowledge transitory inflation is likely to linger and will maintain its low-rate stance, although pressure from inflation could cause rates to be raised sooner than anticipated.

On the valuation front, the Green Street Commercial Property Price Index has increased 18% year-to-date and is now 8% above pre-pandemic levels. U.S. REIT shares have continued to rally alongside ongoing liquidity, market rent growth, and recovering occupancy. Company valuations vary by property type, but on average, core property types imply a leveling off in private market property valuations. Attractive pricing in the private market has translated into larger-than-average premiums for non-core sectors. 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 22% undervalued.

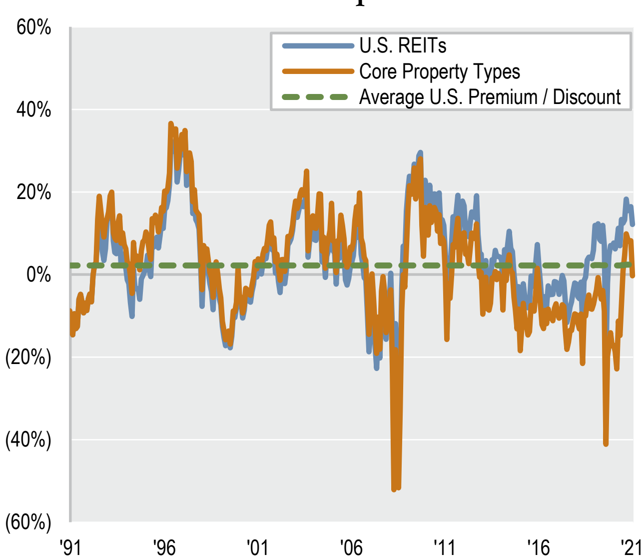
Commercial Real Estate Price Indices



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 surged ahead of pre-pandemic levels, but with significant variation by property type. Note, the Moody's CPPI Index reflects an upward bias due to capturing executed transactions as opposed to contemplated and attempted transactions.

Public-Private Price Comparison

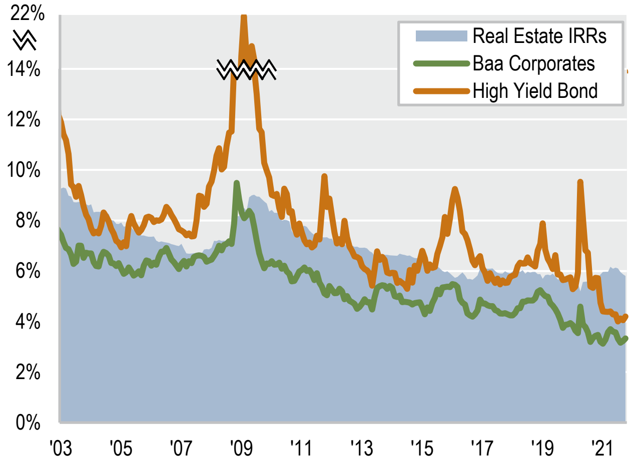


Note: Core Property Types include Office, Retail, Apartment, and Industrial. Source: Green Street Advisors.

U.S. REIT valuations vary by property type, with premiums for favored sectors and discounts for those facing greater uncertainty. Strong private markets have translated into larger-than-average premiums for non-core sectors.

U.S. Real Estate *(continued)*

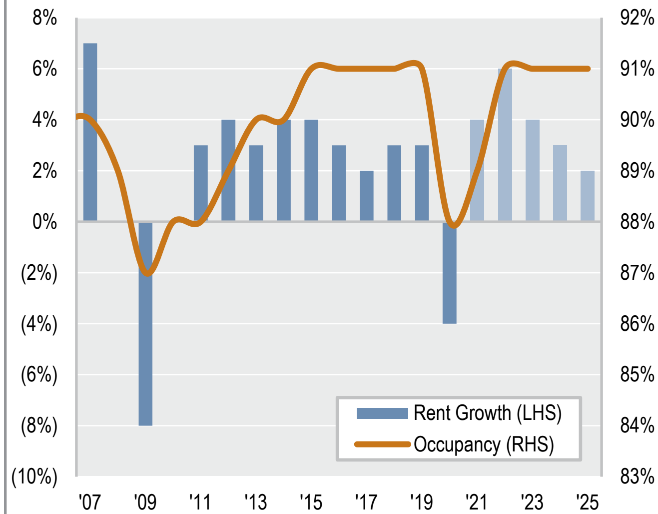
Unlevered Total Return Expectations on Real Estate vs. Corporate Bond Yields



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 undervalued on a relative basis compared to debt.

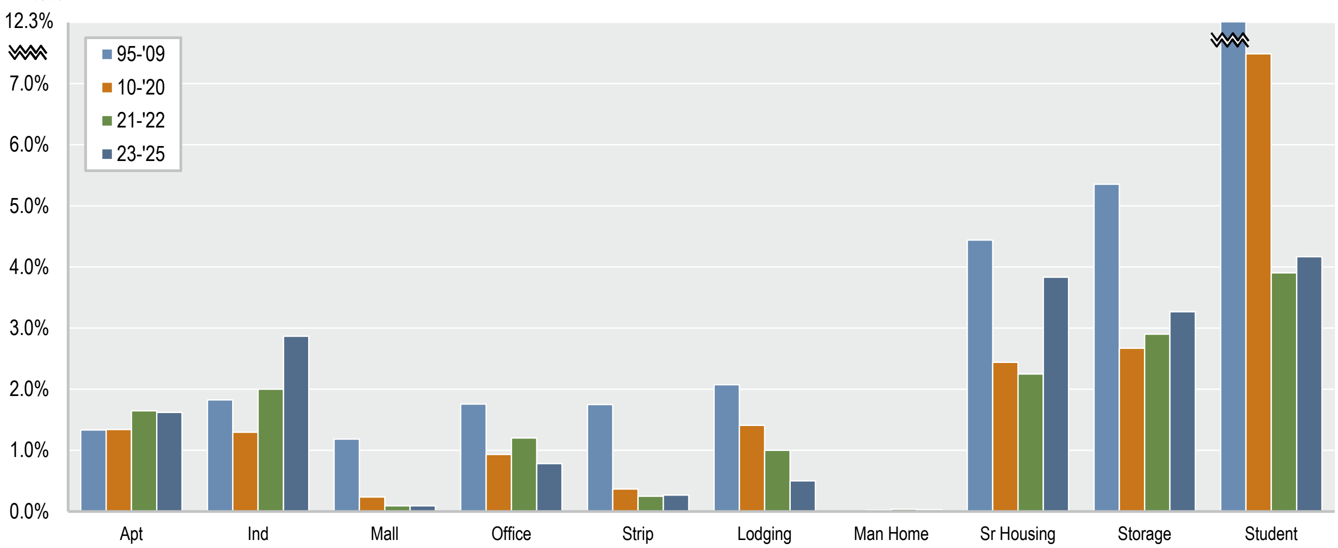
Occupancy and Rent Growth: Major Sector Average



Source: Green Street Advisors.

Following the 2020 demand shock, multifamily, industrial, and several niche sectors have surpassed pre-pandemic levels, while office, retail, and lodging remain in a slower recovery.

Supply by Sector



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

New deliveries are generally peaking for property types with more questionable outlooks, but apartments, industrial, and several niche property types are experiencing surging supply alongside elevated levels of demand.

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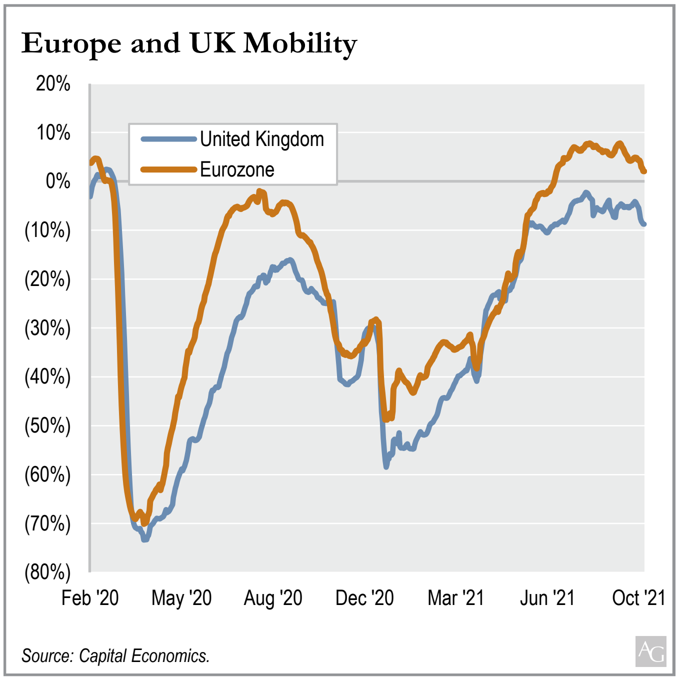
Europe Real Estate

Similar to the rest of the developed world, European economies have made a remarkable recovery. GDP growth has been strong, though there are significant differences across countries. France and Germany have nearly reached their pre-pandemic levels, while southern European countries are still lagging by 5% to 8%. Southern Europe relies more heavily on tourism, manufacturing, and construction, which have not yet fully rebounded. Regarding unemployment, Europe attempted to discourage employers from laying off employees by offering furlough programs, whereas the U.S. directly paid unemployment benefits to workers that lost their jobs. In the coming months, after these programs have expired, the success of these programs and the real unemployment rates will emerge. However, given the strong economic growth, it is possible unemployment holds steady at 7.3%, according to Capital Economics. In fact, some markets—notably the UK—are facing significant labor shortages as consumer demand continues to grow.

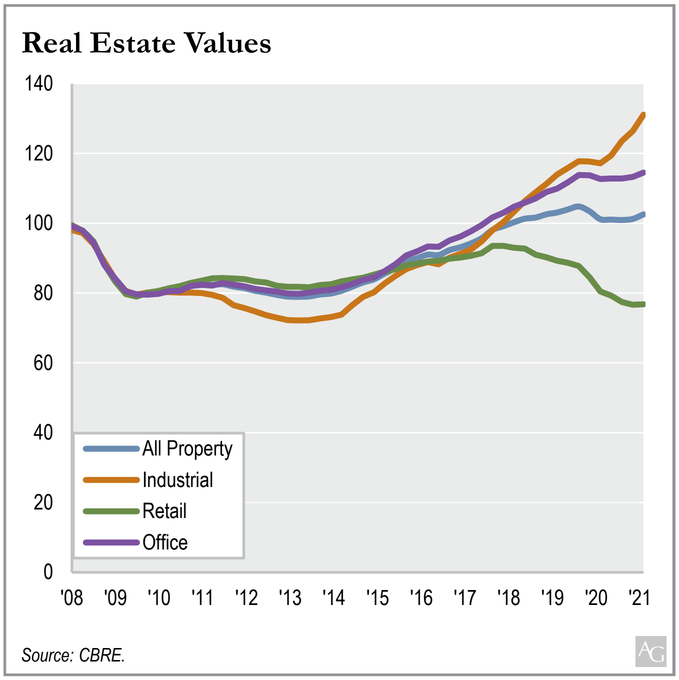
Inflation has been a key topic of conversation. The International Monetary Fund recently raised its inflation forecasts, increasing them from 1.6% to 2.8% for 2021 and 1.7% to 2.3% for 2022. These increases are significant and hard to justify as transitory, especially when several workers' unions have been asking for higher wages. Higher prices can be seen in Angelo Gordon's own real estate projects, with the cost for construction work up 5% to 10% from previous levels. Some inflation, however, is good for real estate—especially in Europe, where many leases have indexation clauses.

Even as vaccination rates increase and restrictions are lifted, lingering behavioral changes from the pandemic—including an increase in online shopping and part-time remote work—have impacted real estate values. Industrial property values increased more than 10% since late 2019, retail values decreased approximately 12.5% from pre-pandemic levels, and office values have rebounded to 2019 levels.

Real estate transaction volume has remained generally unchanged in 2021. Investor appetite for industrial and multifamily assets is strong, while demand for office has flatlined and demand for retail has decreased. Net absorption in European office space dropped dramatically in 2020—falling to less than 500,000 square meters as compared to 2.5 million square meters in 2019. Despite the impacts from COVID-19, tenant interest in office space has started to increase in the second half of 2021. The region faces limited supply of office space, so as employers implement return-to-office policies, companies must find adequate space from the existing supply. Office viewings have increased dramatically over the past few months, with tenants now requesting more flexible and amenitized workspaces.



European mobility has reached its pre-pandemic levels, as most employees returned to work after the summer months.



The industrial sector continues to outperform, the office sector has improved since 2020, and the retail sector remains weak.

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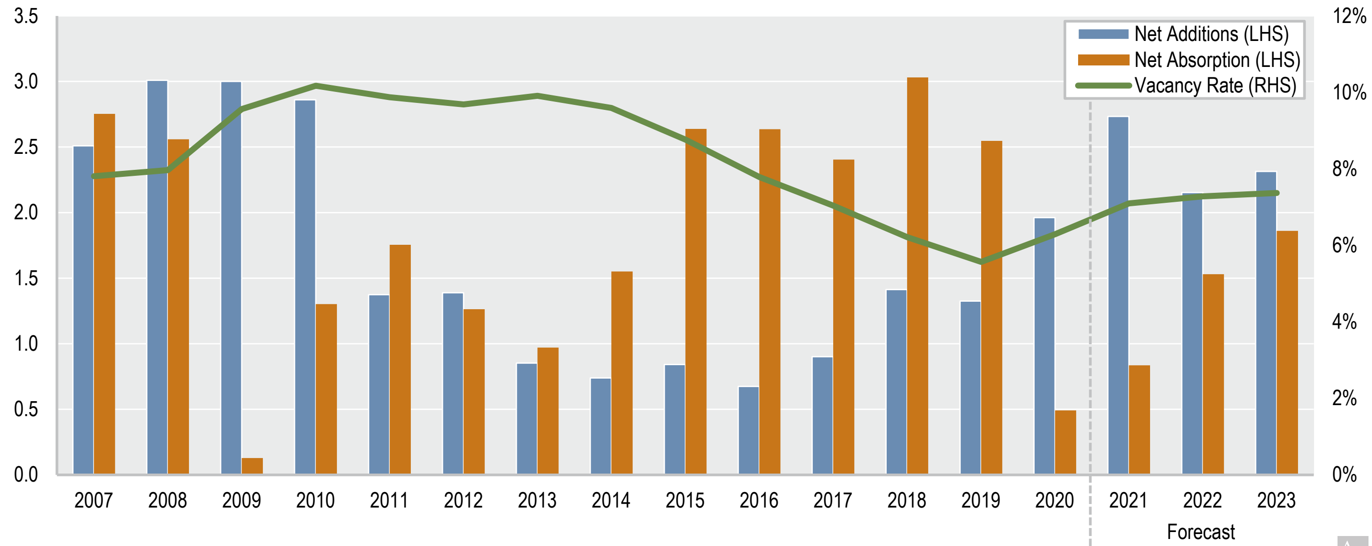
Europe Real Estate *(continued)*

Eurozone Office Supply & Demand

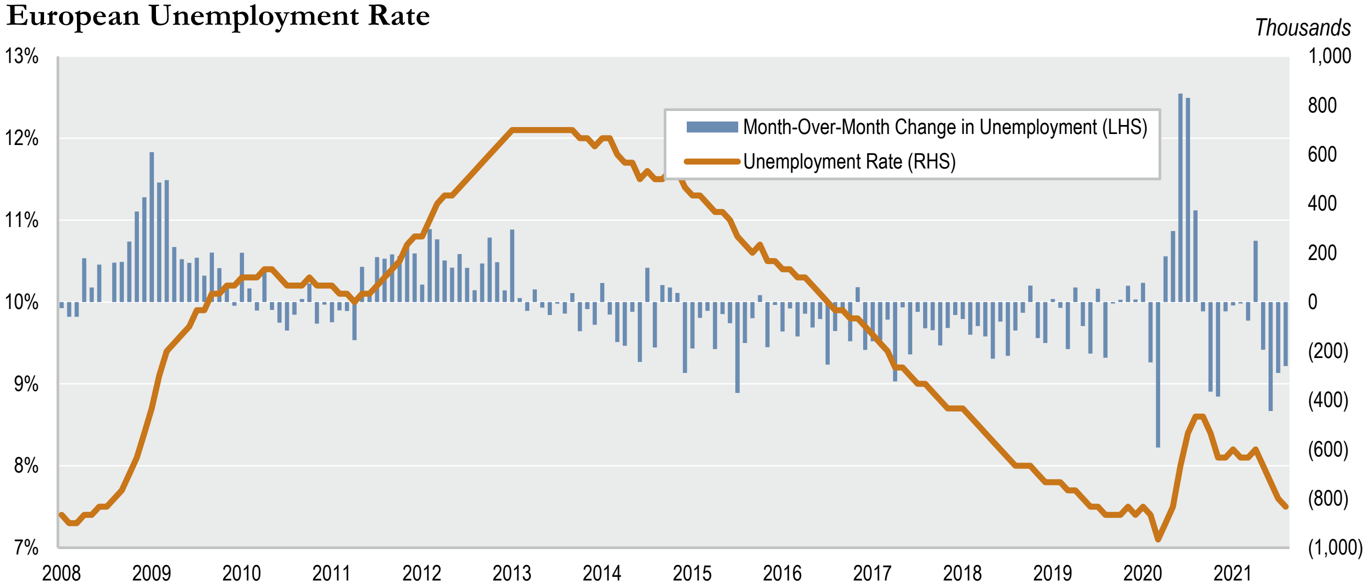
Square Meters (Millions)



Source: Capital Economics.

With limited new supply in the European office market over the past decade, tenants must choose from the existing space as they return to the office.

European Unemployment Rate



Source: Refinitiv.

While government employment benefits are pulled back across the continent, strong economic growth has kept the unemployment rate relatively stable.

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Asia Real Estate

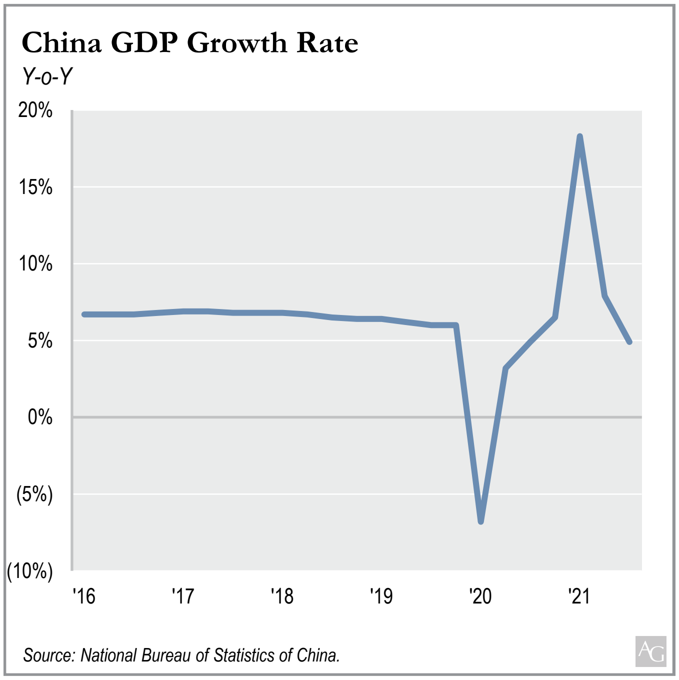
China

In the second quarter of 2021, China's economy grew 7.9% year-over-year and 1.3% quarter-over-quarter, pushing growth in the first half of 2021 up to 12.7%. High value-added industries continued to drive economic growth, as advanced manufacturing and IT services grew by 22.6% and 20.3%, respectively. The global economic recovery also fueled export demand, with export volume increasing by 28%. Retail sales grew by 23% and continued to benefit from strong sales of consumption upgrade products as well as the recovery of food and beverage consumption to pre-pandemic levels. China's central bank cut the required reserve ratio by 0.5 percentage points in early July, which will release approximately RMB 1 trillion to the market to support steady economic growth for the remainder of the year.

In Beijing, there was a soft pickup in office leasing demand, mainly driven by the continuing relocation trend. Three new buildings were delivered in the second quarter, adding 280,000 square meters of office space to the leasing market. Net absorption increased significantly to 300,000 square meters, with the financial sector and TMT companies accounting for the majority of the leasing demand, as funds and securities companies were expanding. The Grade A office market has recorded rent declines for twelve consecutive quarters, but the pace of the decline has slowed. Overall, rents decreased 6.4% year-over-year and 1.0% quarter-over-quarter, while vacancy edged down to 14.2%, falling 0.8 percentage points quarter-over-quarter. In the Zhongguancun submarket of Beijing, rents were flat and vacancy remained at 2.5%, the lowest level in the city.

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 0.8% quarter-over-quarter and recorded 2.0% growth year-over-year; meanwhile, vacancy edged down 0.9 percentage points to 5.9%, due to strong take-up of the newly completed supply in emerging submarkets. Two new completions of 243,000 square meters were delivered to the market, and absorption totaled 286,300 square meters—the highest quarterly level in three years.

In terms of overall market activity, total commercial real estate transaction volume amounted to RMB 152 billion in the second quarter of 2021, a 31% increase year-over-year and above the level of the comparable period in 2019. Institutional investors, which include real estate funds, insurance funds, and REITs, contributed RMB 77 billion of investment volume in the second quarter—an increase of 210% year-over-year—while foreign investors accounted for 20% of the total volume.



China's GDP growth continues to normalize in the third quarter.

CNY remained strong during the quarter.

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Asia Real Estate *(continued)*

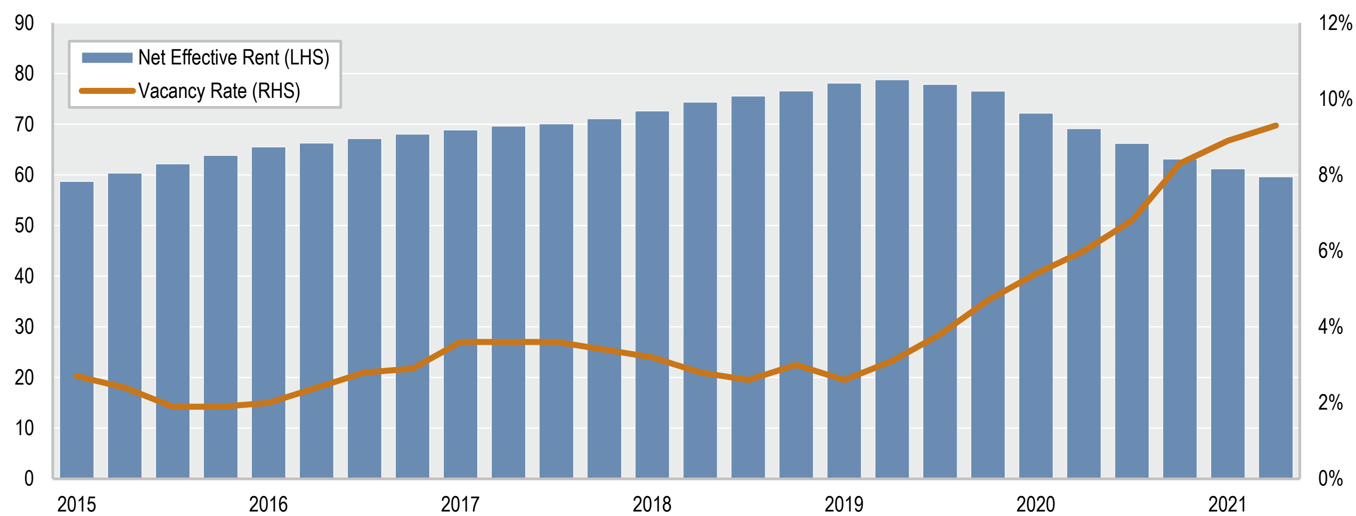
Hong Kong

Hong Kong's economy grew 7.5% year-over-year in the second quarter of 2021. The improvement was attributed to strong export growth alongside a rebound in global demand. However, the economic recovery remained uneven, with exports performing well while inbound tourism remained frozen. Consumption-related activities improved but were still far below their pre-pandemic levels. Total exports of goods saw strong growth, increasing 20.2% year-over-year, underpinned by the revival of external demand and vibrant production activity in the region. Private consumption expenditure grew 6.8% year-over-year as the fourth wave of the pandemic receded and the labor market improved. The unemployment rate declined meaningfully, falling from a peak of 7.2% in December 2020 to 5.5% in the second quarter of 2021, as the retail and food services sectors recovered.

With limited supply, residential prices rose 3% quarter-over-quarter or 4.3% year-over-year—only approximately 1% below the historical high. Commercial real estate investment transaction volume rose 163% quarter-over-quarter to HK$25.3 billion, the second highest quarterly figure since the fourth quarter of 2018. Property funds collectively deployed HK$5.4 billion, 21% of the quarter's total, with all acquisitions involving industrial assets. As of June 2021, Hong Kong's office vacancy climbed to 9.3%—the highest it has been in nearly 16 years—while the decline in rents slowed to 2.6% in the second quarter, following a decline of 3.5% in the first quarter. The rental gap between the central business district (Central) and decentralized office areas narrowed, as some domestic firms returned to Central and leasing demand from mainland Chinese corporates remained resilient.

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 remained high, at 9%, as rents weakened.

Asia Real Estate *(continued)*

Japan

In the second quarter of 2021, Japan's real GDP increased 0.5% quarter-over-quarter due to a recovery in capital expenditure, but consumer spending remained sluggish during the government-imposed states of emergencies. However, many economists predict that the economy will continue to improve in the second half of 2021 due to rising domestic vaccination rates and steady increases in exports. As of late October, 70% of Japan's population had been fully vaccinated. Supported by the government's stimulus packages, the unemployment rate remained low, at 2.8% as of August 2021.

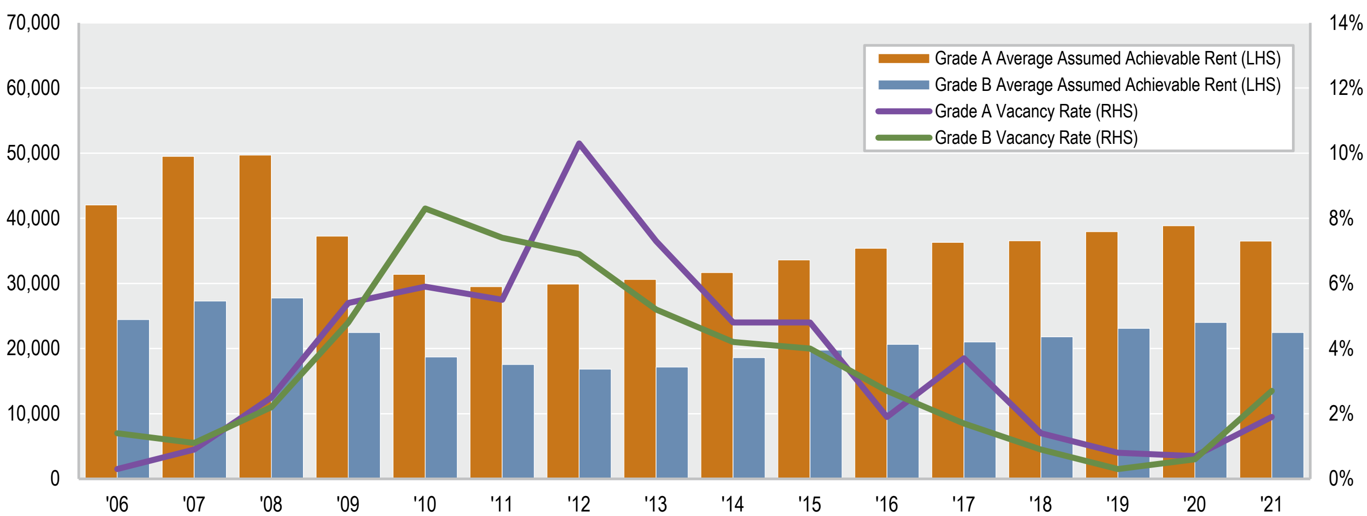
Office real estate fundamentals remained stable during the second quarter, with office vacancy rates in Tokyo rising slightly from 1.5% to 1.9% for Grade A and from 2.0% to 2.7% for Grade B. Osaka office vacancy also remains low, at 1.7% for Grade A and 2.1% for Grade B. Office vacancy rates are expected to rise slightly due to the economic slowdown and the increase in companies seeking to reduce costs. However, tenants looking to expand or consolidate office space have started to consider relocating to higher-quality, well-located office buildings.

In the logistics sector, the pandemic continues to be a catalyst for e-commerce, as tenants continue to expand their warehouse needs. The vacancy rate for large multi-tenant facilities in the Greater Tokyo area remained low, at 1.5% in the second quarter. Given that rents continue to rise in prime areas, tenant demand is expanding to newer and more affordable facilities. Due to the limited supply of such modern facilities, there is robust demand from tenants seeking to upgrade from older facilities.

Real estate transaction volume in the second quarter decreased 37% year-over-year. However, expected yields on office, residential, and logistics assets in prime locations continue to decline as investor demand for such assets increases. Many corporate owners are now contemplating selling non-core assets to improve their balance sheets. Banks continue to be active in real estate lending, and the capital markets are expected to remain healthy.

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

JPY/tsubo/mon

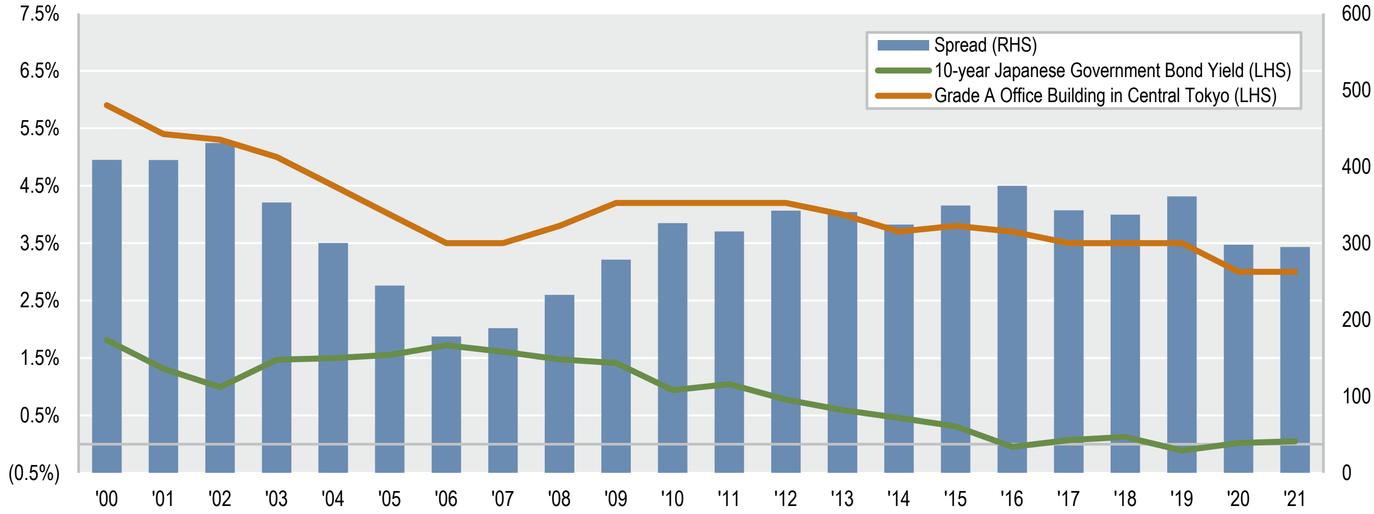


Note: One tsubo is equal to approximately 3.3 square meters.
Source: CBRE (Q2 2021).

Tokyo office fundamentals remained strong and steady.

Asia Real Estate *(continued)*

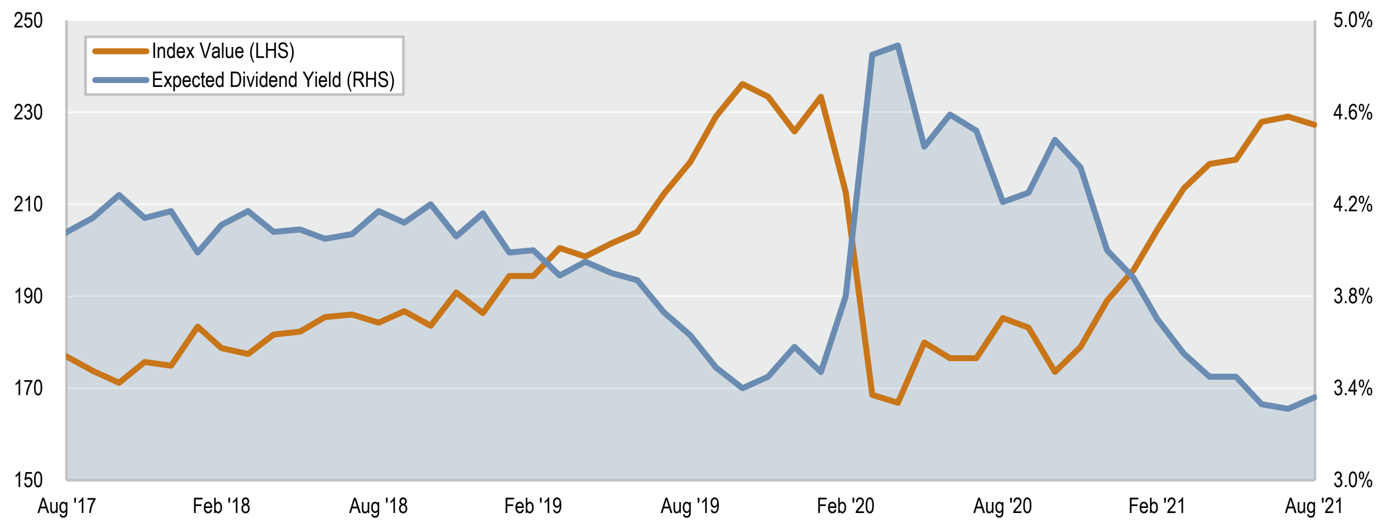
Tokyo Grade A Office Cap Rates vs. Borrowing Costs
bps



Source: Japan Real Estate Institute.

Tokyo Grade A office cap rate spreads remain wide as compared to historical lows.

Japanese Real Estate Investment Trust (J-REIT) Index And Dividend Yield
Normalized at 100 - September 2001



Source: Sumitomo Mitsui Trust Research Institute Co.

J-REIT yields continue to fall to low levels, driving up property values.

Asia Real Estate *(continued)*

South Korea

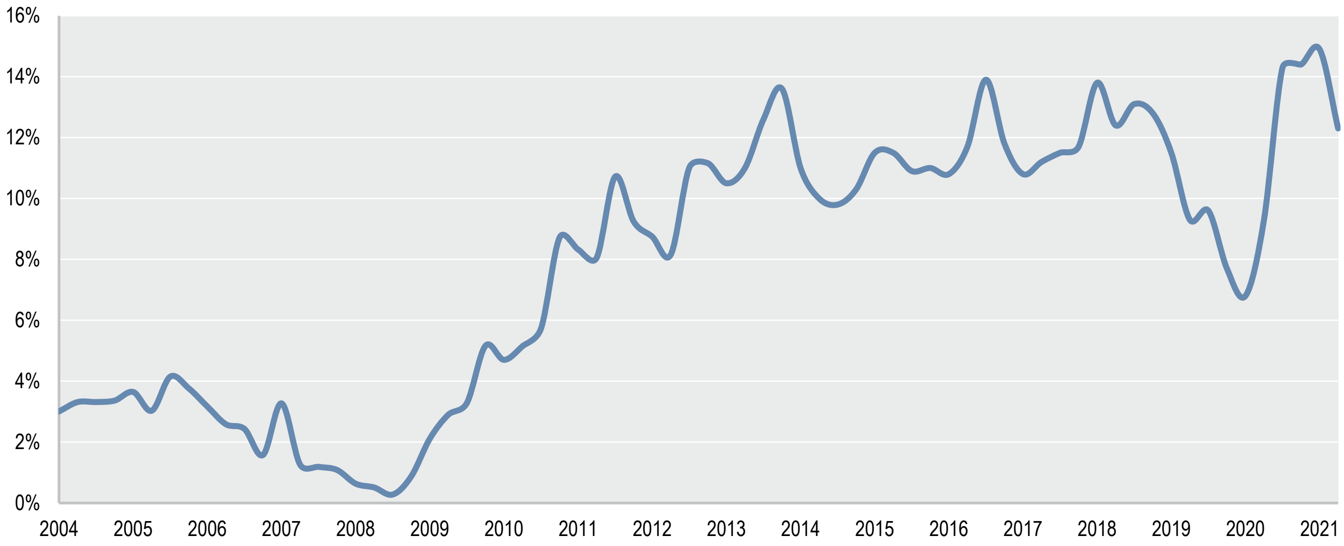
In the second quarter of 2021, South Korea's GDP increased 0.8% quarter-over-quarter, mainly driven by a healthy recovery in consumption across multiple sectors. The Bank of Korea (BoK) revised its GDP growth forecast for 2021 to 4.0%, up one percentage point from its previous forecast. The BoK expects the Korean economy to recover on the back of a robust increase in consumption and exports. In August, the BoK raised its benchmark policy rate for the first time in almost three years, up 25 basis points to 0.75%. Although the BoK is committed to sustaining the economic recovery through monetary policy, it has indicated it will be gradually adjusting its accommodative monetary policy. With the spread of the Delta variant, confirmed cases of COVID-19 in Korea have increased to approximately 2,000 per day; to tackle the recent rise in cases, the Korean government has implemented stricter social distancing rules. The vaccination rollout has been relatively slow, as there has been an insufficient stock of vaccines; however, approximately 37% of the population is fully vaccinated and 61% of people have received first doses.

On the real estate front, the spread between prime office cap rates and Korean government bond yields tightened to 240 basis points, slightly below the 10-year average. The spread tightening can be attributed to higher interest rates and compressed cap rates, with cap rates for prime office assets at historic lows. Despite the pandemic, office fundamentals remain robust, with strong tenant demand for office space and heightened investment appetite for stabilized core office assets. Investment activity momentum in the commercial office sector continued in the first half of 2021; transaction volume hit $7 billion, which is 56% of last year's record-high total volume. Prime office vacancy in Seoul was 12.3% in the second quarter, down 260 basis points; the decrease can be attributed to the robust tenant demand for office space. Net absorption of existing office space in Seoul has remained positive since 2020, and vacancy is expected to stabilize, as there is limited new office supply coming in the near term.

Leasing and investment activity in the logistics space remained 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 have only frictional vacancy—2.8% as of the second quarter. Cap rates for logistics centers have compressed sharply over the past three years, decreasing approximately 200 basis points. For the first time, several prime logistics assets have traded at cap rates near prime office cap rates of 4.0%.

Residential prices in Seoul continued to rise, with apartment prices increasing 17.9% year-over-year as of August. The government's restrictive supply measures in core Seoul markets have contributed to price increases in the sector. Hotel and retail sectors have remained sluggish since the eruption of the pandemic, mainly due to the sharp decline in tourists visiting Korea.

Seoul Office Vacancy Rate



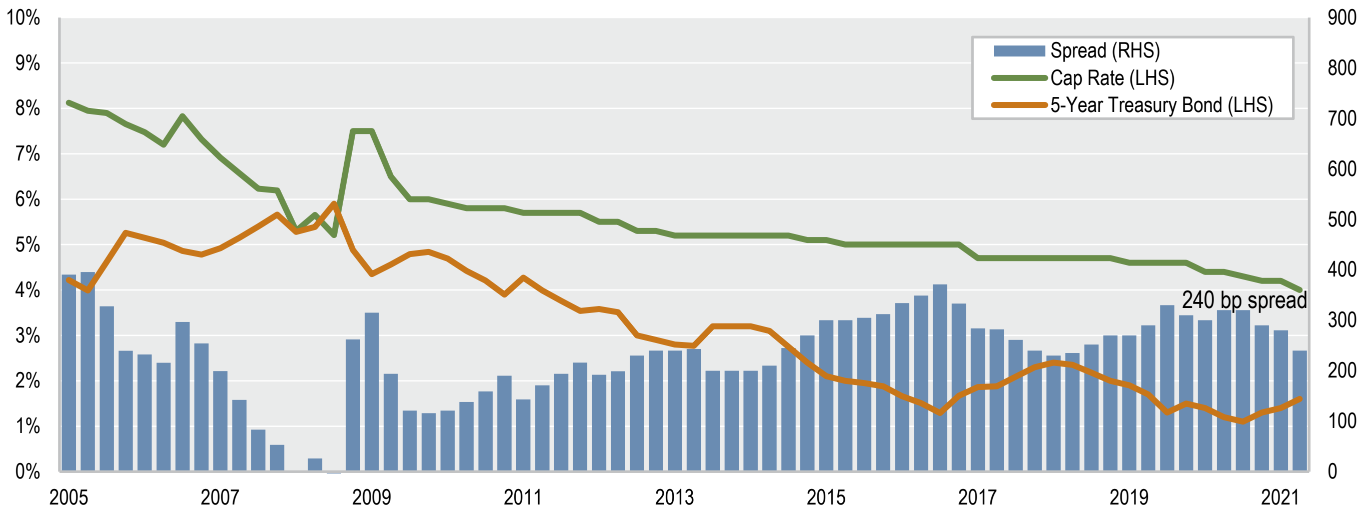
Source: Jones Lang Lasalle Research.

Significant absorption of office space during the quarter helped to reduce vacancy in the Seoul office market.

Asia Real Estate *(continued)*

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

bps

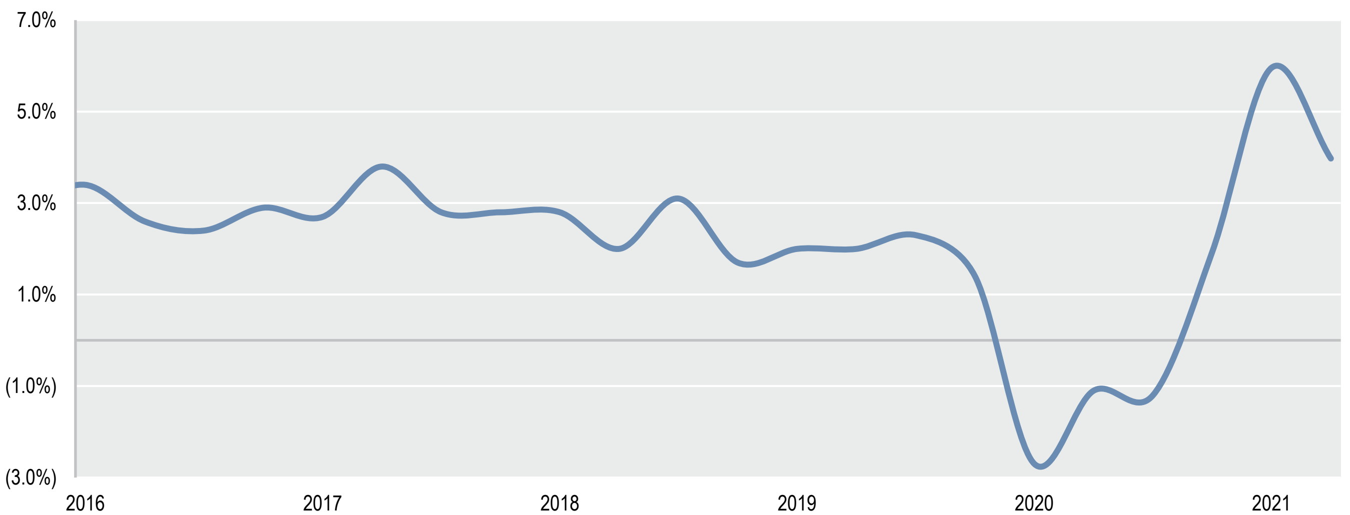


Note: 5-year Treasury is average for quarter.
Source: Savills Research.

Cap rates spreads have tightened as Treasury yields have seen some improvement.

Korea GDP Growth

Y-o-Y



Source: Bank of Korea.

Following sluggish growth in 2020, the Korean economy recovered significantly in the first half of 2021.

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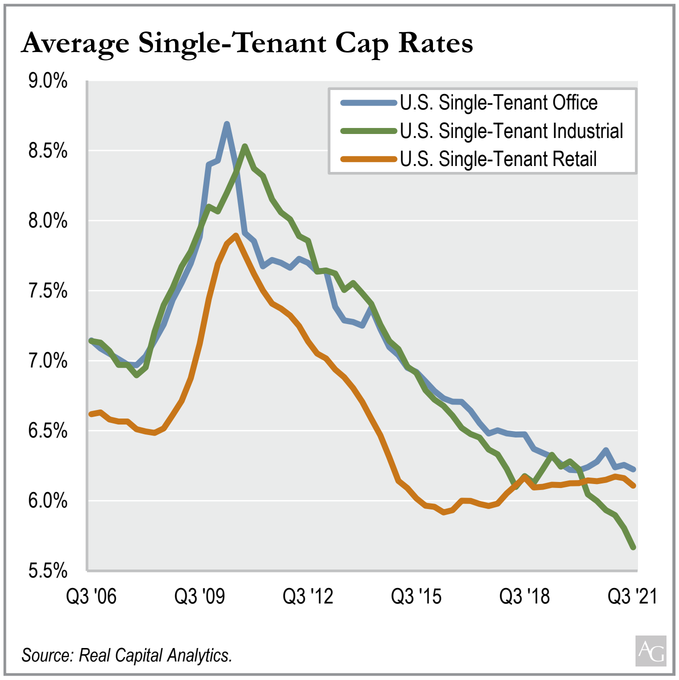
Net Lease Real Estate

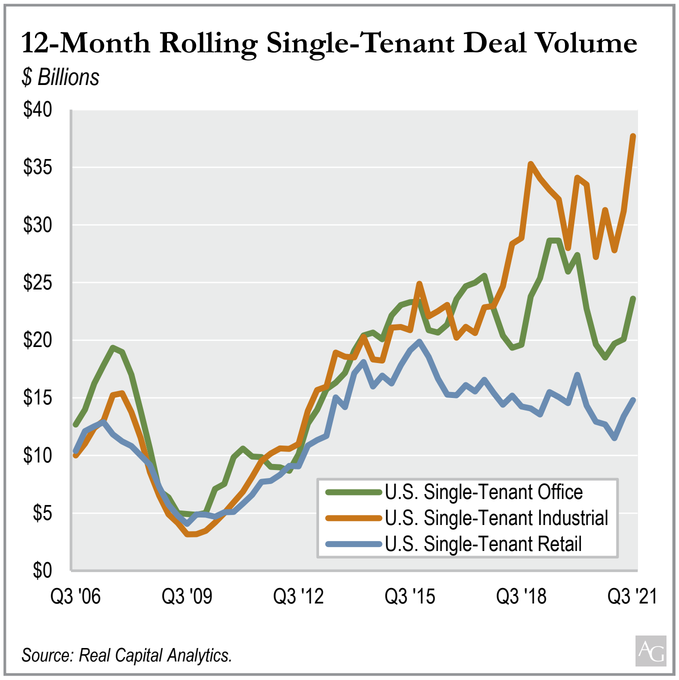
As of the third quarter of 2021, the trailing 12-month U.S. single-tenant transaction volume totaled $76 billion, according to Real Capital Analytics (RCA). The pandemic-driven decline in single-tenant volume in 2020 appears to have been brief, as total volume at the end of the third quarter was nearing the peak witnessed in early 2020. There has been a sharp increase in total volume over the past few quarters, primarily driven by growth in industrial transactions, as well as a lesser increase in office transactions; retail volume growth has lagged the other property types.

In the third quarter of 2021, cap rates reached their lowest levels in recent years. Industrial cap rates have led the compression, while office and retail cap rates have remained far more stable. For reference, since the first quarter of 2019, office and retail cap rates have remained largely flat, while industrial cap rates have compressed by nearly 10%—declining from 6.2% to 5.7%.

The growth in transaction volume and the cap rate compression are attributable to the favorable net lease environment in the third quarter of 2021. There are a number of positive factors that contributed to the net lease environment being favorable, including large-scale vaccine rollouts, high occupancy levels, and higher inflation expectations, which have increased the attractiveness of Consumer Price Index-linked leases.



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



Single-tenant volume quickly increased in Q3 2021.

Gordon Whiting
Portfolio Manager

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

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Private Equity

During the third quarter of 2021, the private equity industry maintained the strong momentum seen over the past several quarters. While the third quarter wasn't as high in deal volume and exits as the second quarter, it was still quite robust relative to historical standards. Third quarter 2021 deal volume in North America totaled $108 billion, as compared to $137 billion in the second quarter—a quarter-over-quarter decrease of 21%. However, to put these volumes in perspective, third quarter deal volume represented the second-highest level of activity in the last 10 years, only surpassed by the record performance in the second quarter of this year. Additionally, although global deal volume in the third quarter decreased to $192 billion—down approximately 15% quarter-over-quarter—it too represented the second-highest level in the past 10 years. Given this level of activity, yearly deal volume is poised to set a record on both a North American and global basis in 2021.

Dry powder at September 30th stood at an all-time high of $893 billion, which was an increase of less than 1% from June 30th levels. While the quarterly trend of setting all-time records for dry powder continues, the quarter-over-quarter increases have become smaller, reflecting a greater equilibrium in fundraising and the deployment of capital. Transaction multiples paid also demonstrated continued strength. Through the first nine months of 2021, average multiples paid stood at 11.3x—slightly below full year 2020's all-time record of 11.6x, but still high relative to historical levels. Average leverage for buyouts year-to-date was 5.8x multiple of EBITDA, which is in line with historical levels. Equity contribution as a percentage of total capitalization was at 47%, consistent with the last several years. Finally, even though the number of exits and dollar volume in the third quarter decreased quarter-over-quarter—down approximately 12% and 26%, respectively—dollar volume has already set an all-time record, and we expect the number of exits will set a record by year-end.

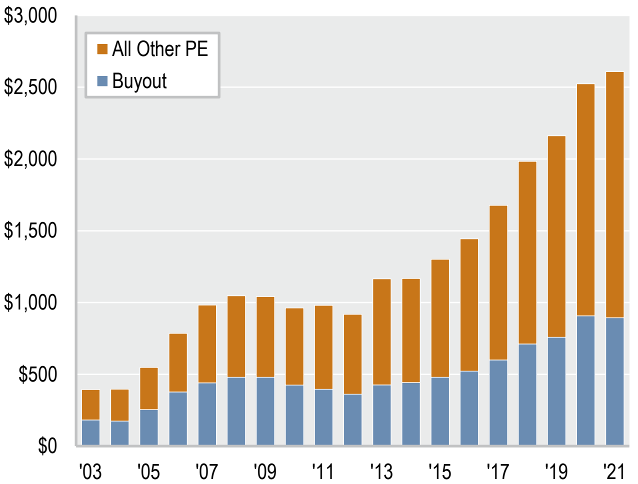
2021 is shaping up to be one of the strongest years in private equity history as measured by numerous metrics. We expect deal and exit volumes will break records set in the 2006-2007 timeframe, while dry powder and transaction multiples will be at or near record levels. Strong earnings performance by portfolio companies buttressed by bullish financing, merger, and equity markets have contributed to the resilience of this asset class over the past year. As stated last quarter, factors such as increased COVID-19 infections, emerging variants, and unforeseen geopolitical risks could derail the momentum in the private equity sector, but barring these events, we believe 2021 will be considered a historic year for the industry.

Given the level of activity during the first nine months of 2021, yearly deal volume is poised to set a record on both a North American and global basis in 2021.

Private Equity *(continued)*

Global Private Equity Dry Powder

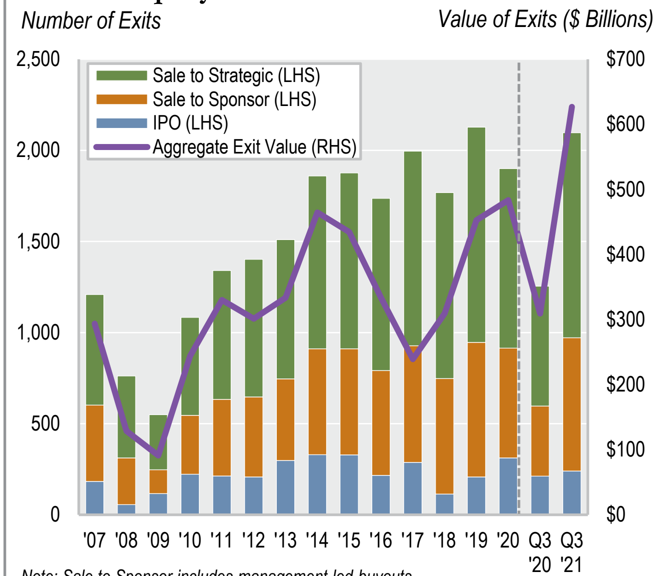
$ Billions



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

Buyout dry powder at September 30, 2021 stood at $893 billion, an all-time record.

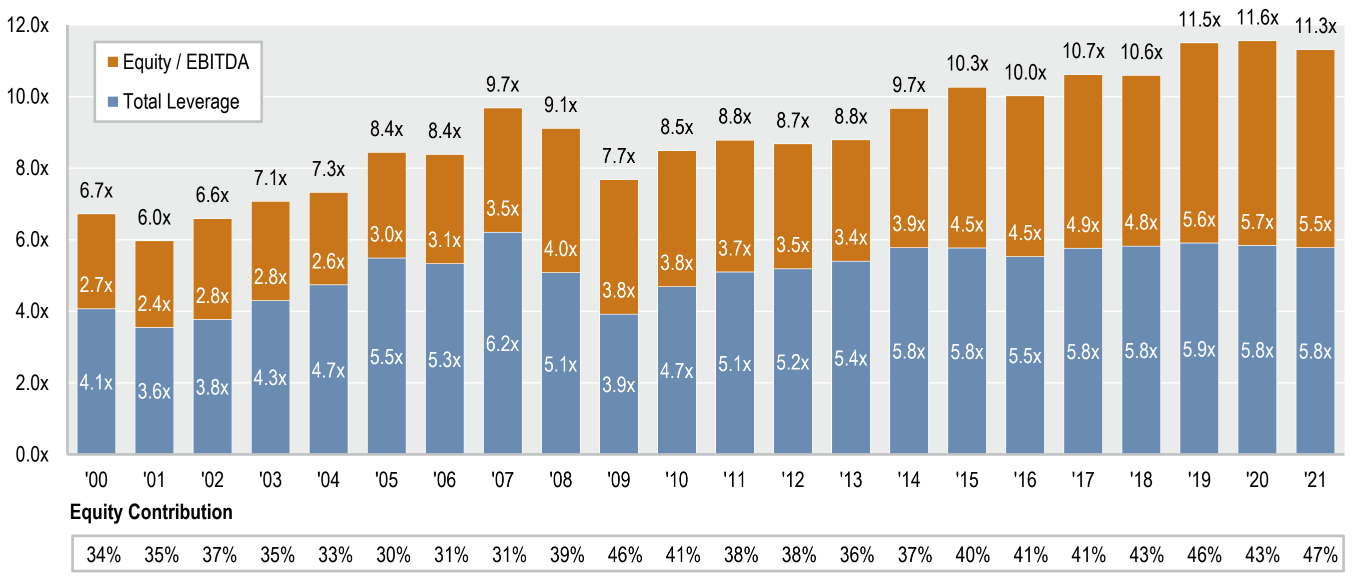
Private Equity Exits



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

Dollar volume of exits has already set an all-time record, and the number of exits is expected to set a record by year-end.

LBO Purchase Price Breakdown



Source: S&P Capital IQ LCD.

Average LBO multiples for the first nine months of 2021 stood at 11.3x, which is consistent with the prior two years.

Art Peponis
Portfolio Manager

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

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