ORANGE, APRICOTS & Co.

CAPITAL MARKETS PERSPECTIVES

FIRST QUARTER 2018

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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.

ORANGE, APRICOTS & Co.

PORTFOLIO MANAGERS' OVERVIEW

MAUREEN D'ALLEVA
Portfolio Manager

Non-Investment Grade Corporate Credit

Leveraged loans ended 2017 with another strong quarter, with the Credit Suisse Leveraged Loan index returning 1.17% in the fourth quarter, resulting in full-year returns of 4.25%, and outperforming high yield in each of the final three months of the year. Most industries – including retail – posted positive returns during the fourth quarter although consumer durables ended the year on a weak note.

2017 can best be described as an extremely active year in the loan market as investor appetite for yield and floating rate assets fueled strong loan issuance. Full year gross new issue loan volume of $974 billion not only doubled last year's volume but also easily eclipsed the prior record of $670 billion in 2013. Re-pricing accounted for nearly $450 billion of issuance in 2017, which also handily exceeded 2013's previous record of $242 billion. Refinancing activity accounted for another $275 billion of issuance; after factoring in re-pricing and refinancing net issuance totaled close to $260 billion, which still represented a 50% year-over-year increase. On the CLO front, U.S. gross issuance of over $280 billion was a single-year record was broken down into $165 billion of reset/refinancings and $117 billion of new CLOs; net issuance of over $115 billion was second only to 2014's record of $124 bililion. This is notable as it comes in the first full year of the new risk retention regime for CLO managers, and given the tightening trend in the loan market over the course of the year. This decrease in loan spreads, however, has been offset by a tightening in debt spreads which has allowed CLO arbitrage to remain conducive to issuance. On a relative basis, CLO AAAs, which comprise the majority of the capital structure, remain attractively priced and could tighten further as demand for floating rate assets remains robust. Loan funds suffered outflows in the last five months of the year but overall funds experienced $13.5 billion of inflows on the year versus less than $10 billion of inflows in 2016 and in stark contrast to over $20 billion of outflows in high yield funds and ETFs.

As we look ahead to 2018 we remain constructive on fundamentals. While growth in the U.S. may be described as lackluster, we are seeing stable to positive performance across many credits in the market and we expect the overall default rate to remain low. There will of course be idiosyncratic, company specific challenges for investors to contend with and the secular change underway in retail will continue to play out with more casualties along the way. At the same time however, we recommend caution to those who "buy the market" as structures have weakened in the prevailing issuer friendly market. While we do not rely upon covenants to save an otherwise poor credit we believe that lenders have too frequently sacrificed spread and lender protections while at the same time potentially extending too much leverage to borrowers. Looking ahead, we are hopeful that the market will display discipline and force issuers to continue to rationalize terms in 2018.

TREVOR CLARK
Portfolio Manager

CHRIS WILLIAMS
Portfolio Manager

Middle Market Direct Lending

Middle market syndicated loan volume picked up in the fourth quarter with $44.1 billion of issuance over the period and full year 2017 syndicated volume totaled $170 billion, an increase of 22% versus 2016. While overall syndicated loan volume remained below peak levels of over $200 billion in both 2013 and 2014, sponsored transaction volume of over $75 billion surpassed 2007's previous record of $71 billion. New money (versus refinancing) transactions accounted for $90 billion of the total and sponsored transactions accounted for approximately 64% of all new money deals.

One of the trends we continue to comment on is the growing popularity of middle market CLO issuance. Issuance increased 70% in 2017 to $14 billion and middle market CLO issuance as a percent of overall CLO issuance hit a post crisis high. This represents a departure from historical trends, where during periods of strong overall CLO issuance middle market deals decreased as a percent of total volume. Sixteen middle market CLO managers issued deals, also a post-crisis high. As investors continue to deploy capital into the middle market and the demand for floating rate assets remains strong, we would expect middle market CLO issuance to potentially grow further and more issuers to come to market.

As middle market direct lending has grown in popularity the supply of capital and the new lenders in the market have also increased. It is important to note that middle market direct lending is not defined universally and that lenders have different approcahed to evaluating. For example, the risk profile to a lender of a true first dollar, first lien loan is quite distinct from the risk profile of a last out unitranche loan. The proliferation of managers in the middle market has had many implications for the market. As many of the new entrants have targeted larger companies and larger deals, borrower friendly terms from the broadly syndicated loan market have increasingly appeared in traditional middle market deals, including cov-lite loans (which hit record volumes in the middle market in 2017) and significant EBITDA add-backs. This has likely also contributed to the 50-75 basis points spread compression in unitranche loans over the course of 2017.

TODD DITTMANN
Portfolio Manager

Energy Credit

WTI opened 2018 above $60/barrel – its highest level in nearly three years – due largely to strong global demand, high compliance with OPEC's continuing production cuts, falling crude inventories and an increased geopolitical risk premium. These factors have helped to somewhat offset a 16% rise in U.S. oil production since its July 2016 trough, hitting 9.75 million barrels per day in December. We are at a point at which capital discipline by U.S. producers, or the lack thereof, will be a key driver of future oil prices. If recent increases in oil prices result in broadly expanded capital budgets, a new U.S. supply response would likely overtake demand and result in falling oil prices. Interestingly, a recent Dallas Fed survey of 125 industry executives found that 42% would expand drilling with prices between $61 to $65, and an incremental 31% would increase investment if prices went above $66. This is a cyclical business.

The stable and improving commodity backdrop has increased the pace of acquisition and divestiture ("A&D") activity: 487 transactions were announced in 2017, representing a 17% uptick on 2016. Though the Permian remained the most active play, the second half of the year provided significant A&D diversity across many other basins.

Moribund investor sentiment slowed 2017 E&P equity issuance considerably and capital remains sidelined while investors evaluate returns, capital budget discipline and production growth. Midstream MLP's are undergoing similar scrutiny over leverage, capital discipline and ability to self-fund – the days of raising cheap equity to fund capex and payout 100% of distributable cash flow appear to be over.

The high yield markets reopened during the third quarter with strong issuance volumes, as issuers sought to capture historically low rates. Issuers across the high yield ratings spectrum have been well received, with many deals pricing inside talk, upsized, and/or trading well in the secondary. These issues were primarily for larger issuers, ranging most commonly from $500 million to $1 billion. The Credit Suisse Energy High Yield Index tightened considerably since its June high of 8.5%, closing December near 6.6% and nearing parity with the broader high yield market.

Banks remain selective about adding new first lien exposure, generally only making capital available to operators in select basins and only to those with clean and minimally levered balance sheets. Through December 2019, there is an estimated $114 billion of E&P, oil service, midstream and refining bank lines coming due, many of which will likely not be high yield eligible, based on borrower size. We expect that a large number of borrowers will seek to refinance these maturities in 2018.

Finally, though most energy companies do not expect to be cash taxpayers over the near-term given operating losses incurred during the recent cyclical downturn, we expect the December Tax Cuts and Jobs Act to be broadly positive for the sector, as it maintains existing tax incentives for producers, opens additional government-owned land for potential drilling, and provides for incremental depreciation and immediate expensing of capital projects.

DAVID KAMIN
Co-Portfolio Manager

DAN POUND
Co-Portfolio Manager

Distressed Debt

The fourth quarter of 2017 capped off a year of strong global equity market rallies and continued spread tightening in U.S. and European corporate credit. In December, the S&P 500 completed its 14th consecutive month of positive total returns and 12th in a calendar year (for the first time on record), and the FTSE 250 finished up almost 15% for the year, indisputably rewarding risk taking at the bottom of the capital structure. Whether equity performance was due to U.S. tax reform optimism or to anticipated global growth, advancing equities were a difficult asset class to beat. Despite Eurozone equities somewhat shrinking at the end of the year – likely due to profit-taking and latent political risk – economic data on the continent remained positive. In the fourth quarter, the FOMC raised benchmark rates and the ECB indicated QE tapering beginning in September 2018. The U.S. yield curve was indirectly pushed up at the front end while the long end remained in place, flattening to post-financial crisis levels. Credit spreads tightened, also to levels not seen since the financial crisis (U.S. High Yield by 66 basis points during 2017 and Eurozone by 64 basis points), with nearly 50% of the U.S. index trading below 250 basis points (relative to 58% in mid-2007).

Despite strong equity growth and positive rate technicals, an increasing number of weaker issuers (accompanied by shaky secondary market prices) have emerged in several sectors. These companies have been increasingly unable to mask worsening fundamentals with what was previously easy access to debt capital markets characterized by loose standards and a voracious global demand for yield. Refi and repricing markets have been so strong that, according to LCD, more than half of U.S. loans outstanding in January 2017 were repriced by December. In Europe, net high yield issuance was at a four-year low. This trend has clearly pushed out maturity walls for most index participants and keeps the trailing default count well under historical norms. In fact, not only are trailing defaults still below long-term averages, forward looking default rates do not appear to offer anything substantial for passive distressed investors.

However, within sectors there are distinct signs of distress. With colossal input price weakness or categorical changes in supply and demand even the strongest issuers in a space can be hit hard, as was demonstrated in the U.S. energy sector in 2015. However, as slow moving technological shifts disrupt consumption and distribution patterns, the weaker players are usually hit first. For example, as the shift to wireless and online consumption penetrates more households, weakness has emerged in several TMT names (specifically radio, print, and landline sub-sectors). Within healthcare, hospital chains and specialty pharma issuers have been damaged by fluctuating regulatory demands and incessant rising costs. In oil, gas and power, not only has advanced technology enabled fracking to shift marginal cost bearing, the sub-sectors face threats from clean energy and a prohibitive regulatory environment. In metals and mining, lingering low prices and fluctuating demand patterns continue to exert downward price pressure. In autos, ride sharing has already deeply impacted traditional rental car providers. Future moves to electric and driverless will cause more pain. And, of course, many retail and apparel companies – in both the U.S. and across Europe – have been overwhelmed by the advance of online shopping, fast fashion, and general changing consumer habits. In the U.S. alone, nearly 7,000 retailers closed last year and more chains hit distressed levels or filed for Chapter 11 protection in 2017 than during the 2008-09 financial crisis.

In addition to sector-specific themes described above, where there is potential for opportunistic and restructuring trades, investors should cautiously monitor the broader corporate default and distress pipeline. With rising LBO valuations (now firmly above 10x for the large cap space), increasing costs of debt capital, impending tapering of QE, and a growing influence of retail technicals, the potential for more secondary market volatility (as we saw in November) will only grow.

ARTHUR PEPONIS
Portfolio Manager

Private Equity

This year we saw a continuation of many private equity industry trends from prior years, making 2017 a solid year for the industry. Since 2014, deal volume both on a Global and North American basis has been relatively flat. Typically, year-over-year changes have been less than 10%, and 2017 was no exception. For North America, there were $175 billion of transactions in 2017 compared to $187 billion from the prior year, or a decline of 6%. Global deal volume in 2017 increased 2% year-on-year to $348 billion.

Dry powder continued the upward trend which began in 2013, and at year end set another all-time high of $628 billion, a 12% year-over-year increase. With deal volumes essentially flat for the last several years and dry powder materially increasing, transaction multiples have been trending upward. Average multiples paid in 2017 were at an all-time record 10.7x EBITDA versus the 10.0x paid in 2016 and, by way of historical comparison, the 8.8x paid in 2013. Essentially, we are seeing the situation where there is increased demand (dry powder) chasing stable supply (deal flow) and this is resulting in higher prices being paid for assets. Average leverage for buyouts in 2017 increased to 5.8x multiple of EBITDA which is higher than the 5.5x level for 2016 but consistent with both 2014 and 2015. Equity contribution as a percentage of total capitalization was at 41% of total capitalization which is roughly in line with prior year averages. The number of exits decreased in 2017 from 2016 by approximately 10%, although the dollar volume decreased nearly 30% reflecting smaller dollar monetizations.

As we enter 2018, the equity, debt and M&A markets are strong, which should allow sponsors ample opportunity to both acquire and monetize assets. These favorable market conditions when coupled with the increase in dry powder should result in multiples paid remaining at these historically high levels, perhaps even increasing.

DAVID KAMIN
Portfolio Manager

Merger Arbitrage

While total U.S. deal volume was down 13% from 2016's robust levels, volumes were still 4% higher than the historical average. The surge in activity in the fourth quarter was the strongest for 2017 and the highest quarterly level since the fourth quarter of 2015, lending hope that the current M&A cycle will extend. Further, the Tax Cut and Jobs Act Bill should continue to positively impact M&A going forward. Corporate tax reform is expected to grant companies flexibility to enter more complicated deal structures, such as Disney's acquisition of $52 billion of assets from Twenty-First Century Fox. Additionally, a lower corporate tax rate, repatriated cash and access to future overseas' income should be used for capex, wage increases, debt repayment, dividend increases, share repurchases and M&A.

In prior communications, we have discussed how merger spreads tightened just after the U.S. presidential election as investors were anticipating this administration's antitrust policy to be similar to that of prior Republican administrations. This belief sustained during the first eight months of 2017 as investors awaited the nomination and appointment of Makan Delrahim to head the DOJ's antitrust division. As Mr. Delrahim's confirmation dragged past the summer, deal spreads started to widen as the average HSR duration hit an all-time high. Spreads jumped wider in early November after the DOJ surprised investors by filing a suit to block AT&T's acquisition of Time Warner Inc. After investors repositioned themselves after the Time Warner Inc. news, spreads tightened into year-end as strong economic data and rising equity markets improved standalone valuations. The passage of time and announcement of additional deals will answer the central question of whether this is a major shift in U.S. merger policy or just an antitrust anomaly related to this particular merger. As investors work to answer this question, opportunities should present themselves in merger arbitrage spreads to reflect this ambiguity.

GARY WOLF
Portfolio Manager

Convertible Arbitrage

The fourth quarter provided a solid finish to an overall very strong year for most asset classes. Global equity markets, as measured by the MSCI World Index, added another 4.9% during the fourth quarter, taking the annual return to 16.3% in local currencies. Credit and bond markets also extended their gains. Against this backdrop, global convertible bonds performed very well and the G300 Index returned 2.2% in the fourth quarter and 13.1% in 2017.

The environment, however, remained less conducive for hedged convertible strategies, as the year was perhaps the least volatile on record. The ICE BAML Delta Hedged U.S. Convertible Index, for example, lost 0.6% in the fourth quarter and 0.25% for 2017. Global convertible new issuance also slowed down somewhat at the end of last year, reaching $11.5 billion in the fourth quarter, bringing the full year figure to $74.5 billion, just under the $77.3 billion completed in 2016. The shortfall can largely be attributed to Europe, where only $23 billion of deals were priced during 2017, compared to $29 billion in the previous year. All other regions recorded a modest increase in issuance volumes, as the U.S. added $37.2 billion of new convertibles, Asia $7.8 billion and Japan $6.4 billion.

Looking ahead, an increase in global issuance is expected in 2018, with research forecasting $75 billion to $90 billion in new issues ($45 billion to $50 billion in the U.S., $20 billion to $25 billion in Europe, $6 billion to $9 billion in Asia, and $4 billion to $6 billion in Japan) and U.S. tax reform providing a possible tailwind. Volatility is also expected to pick up from extremely depressed levels in the context of global central banks increasingly paring back stimulus, the credit cycle reaching its later stages, historically high equity market valuations and geopolitical risks remaining elevated.

MICHAEL LIEBMAN
Co-Portfolio Manager

JOHN RUDIC
Co-Portfolio Manager

Liquid Credit

The latter half of 2017 revealed increased dispersion, based on credit quality, in the U.S. High Yield bond market. Prior to the summer, new record highs in U.S. equity indices (led by growth stocks such as Facebook, Amazon, Netflix, and Google) suggested similar trends would emerge in the High Yield market. However, market participants had increasingly observed a significant number of such growth companies such as these actually cannibalizing leading High Yield issuer market shares (e.g., that of Staples and Cablevision). The potential negative impact of such market share erosion to fundamentals (i.e., in cash flows, pricing strength, customer retention, etc.) began to reveal itself later in the year in bond market prices where the "haves" and "have nots" experienced very different price environments.

On the technical front, the incessant global bid for yield continued into the fourth quarter of 2017 as investors opted for safe credits at low single digit coupons. Issuers with some form of perceived execution risk, likely in the 7%+ yield bucket, were largely ignored, and in many cases cast into the "bad bucket" and accompanied by dramatic downward price movement in their securities. A 10 or greater point move has not been uncommon. As the safe investable universe of High Yield securities shrinks, the highest quality names continue to experience new spread tights. And, as the market continues to grind tighter towards all-time tights (in both yield and spreads), the likelihood of a reversal in sentiment-driven flows (and other daily liquidity money) could easily and quickly appear. Such a move could result in outflows that, once started, don't enjoy much credit spread cushion for protection.

TJ DURKIN
Co-Portfolio Manager

YONG JOE
Co-Portfolio Manager

Residential and Consumer Debt (RMBS/ABS)

During the fourth quarter, spreads for most mortgage-backed credit sectors were flat to modestly tighter due to strong demand and stable fundamentals. For pre-crisis mortgage securities, spreads were either unchanged or tighter depending on the structure and credit enhancement of the specific bond. Strong demand for new-issue credit-risk transfer (CRT) securities drove both primary and secondary spreads tighter and nearly all CRT finished the fourth quarter at or near all-time tights. Asset-backed markets rallied across sectors, particularly in government guaranteed student loan ABS and esoteric ABS sectors as participants continued to reach for yield. Esoteric ABS, which includes a variety of asset classes such as whole business or franchise securitizations, timeshare securitizations and aircraft financing, have continued to gain sponsorship in the last several years as cash-heavy investors seek to deploy capital into higher yielding opportunities.

Robust new-issue activity of RMBS and ABS propelled both sectors to their highest new-issue levels since 2007, and with strong investor interest in ABS led multiple new deals to be several times oversubscribed. During the fourth-quarter, new issuance of RMBS totaled $18.3 billion, up 21.4% quarter-over-quarter and 76% year-over-year. New issuance of ABS totaled $61.5 billion in the fourth quarter, up 25.6% quarter-over-quarter and nearly 50% year-over-year. For the full year, RMBS new issuance rose 36.4% to $68.2 billion, and ABS new issuance rose 21.4% to $238.6 billion. Looking ahead to 2018 many market participants expect comparable, if not higher, issuance levels.

The housing market remains supportive to the residential debt markets, with national home prices record year-over-year increases of 6%-7% during the fourth quarter and limited supply, particularly in lower-priced tiers, often cited as the driving force. From a fundamental performance perspective, legacy mortgage collateral mostly remained within well-established ranges with steady prepayments and liquidations. Delinquencies, however, sharply rose in areas affected by the 2017 hurricanes but were otherwise generally unchanged across the rest of the country. The delinquency spike is expected to be temporary. Credit card performance continued to modestly weaken, an expected trend as lenders gradually open the credit box. Subprime auto delinquencies increased largely due to the lender mix of the sector, while prime auto delinquencies continued to sit near post-crisis lows.

During the quarter, the Federal Reserve began to shrink its holdings of agency MBS by curtailing its monthly reinvestment of paydowns. Despite this, agency MBS continued to outperform benchmark rates, tightening by an additional 10 basis points nominally versus both Treasuries and swaps. The combination of rangebound interest rates, subdued implied volatility and modest supply continued to support valuations for the sector, while defensive positioning among market participants mitigates the risk of a sudden and sharp widening of spreads.

ANDREW SOLOMON
Portfolio Manager

Real Estate Debt (CMBS)

The quarter began with a small widening in new issue CMBS spreads, partially driven by supply concerns as several issuers were eager to close deals in 2017, but the weakening was short-lived. Demand for securities more than offset supply and spreads tightened for the seventh consecutive quarter. In addition, unlike in some previous years, we did not witness a meaningful pick-up in trading volumes going into year-end. We saw no forced selling pressure driven by the need to raise cash and despite the overall trend of tighter spreads, many investors seem to be driven by a "fear of missing out" and have thus far been unwilling to part with their existing positions. We believe that experienced investors with a long-term horizon will maintain their discipline and sell when securities no longer offer attractive value.

With respect to retail, early indications were that the winter holiday shopping season results appeared to be better than feared and the most retail-heavy CMBX indices appreciated approximately 1% during the quarter.

In early January the CMBS industry had its annual conference in Miami. The tone could best be described as somewhere between cautiously optimistic and exuberant. From our perspective, consensus thinking is that the historical fears - the implementation of risk retention, the delinquency spike that would presumably follow the 2016-2017 maturity wall, and the inevitable mass retail bankruptcies - have largely failed to materialize and that without any compelling obvious new reasons for concern, spreads have nowhere to go but tighter. The fact that those who put on trades to express a negative view have significantly underperformed their more bullish peers over the past two years also helped to reduce the volume of any potential bearish sentiment. We are not so sure – many who would confidently say now that in the absence of an identifiable, specific risk factor, markets must move higher, also failed to anticipate the market corrections of 2008, 2011, 2013 and 2015. In our opinion, only time will tell.

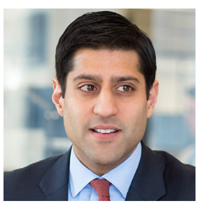
GORDON J. WHITING
Portfolio Manager

Net Lease Real Estate

As of the fourth quarter of 2017, the trailing 12-month U.S. single-tenant transaction volume totaled $52 billion, according to Real Capital Analytics. In the fourth quarter, volume declined compared to the prior year and the prior quarter by 9% and 16%, respectively. The decline in volume is likely due to an increase in 10-year interest rates late in the third quarter and the fourth quarter of 2017, as well as uncertainty surrounding tax changes. While tax changes may have created uncertainty, ultimately REIT investors should benefit, particularly those that invest in REITs geared towards income generation (as opposed to capital gains) such as net lease REITs. According to Nareit, shareholders of REITs who previously paid the top income-tax rate of 39.6% on dividends will see that rate drop to 29.6% as the new tax plan permits up to a 20% deduction for pass-through income (including income that flows to REIT investors through dividends). While volume declined in the final quarter of 2017, cap rates remained flat (office) or continued to compress (industrial and retail). The most notable cap rate compression can be found in industrial, with cap rates declining by 7% since the fourth quarter of 2016, compared to a 3% decline for office and a 2% decline for retail.

ADAM SCHWARTZ
Portfolio Manager
Head of U.S. and Europe Real Estate

REID LIFFMANN
Co-Portfolio Manager
U.S. Real Estate



ANUJ MITTAL
Co-Portfolio Manager
Europe Real Estate

Real Estate

United States

With 2017 now in the history books, one of the defining attributes has been transaction volume, or rather the lack thereof. According to Real Capital Analytics (RCA), Commercial property transactions were down approximately 8% over 2016, which was itself off 10% from 2015. Overseas buyer activity was a culprit in declining transaction volume: in the 12 months through the third quarter of 2017, the pace of cross-border acquisitions in the US fell 38% from a year earlier, led by a 57% decline in Chinese investor activity. However, overall foreign demand still remains healthy relative to long term averages. Against a backdrop of robust equity gains over the year - NASDAQ up 30%, DJIA up 26%, S&P up 20% - the MSCI US REIT Index (RMZ) posted just a 6.8% total return (price appreciation and dividends). On a relative basis, real estate is becoming more attractive. GDP growth remains stable and positive around the 2% level; per Green Street Research, the consensus forecast for 2018 is 2.5%, declining to 2% by 2021. Rounding out a solid macro-economic background are high consumer confidence and steady job growth, albeit at the lower wage segment of the economy. The recent tax reform act should provide additional stimulus to the overall economy and provide incremental demand for real estate utilization.

Across the top 50 markets in the US in 2017, apartment cap rates expanded by 15 basis points, office by 10 basis points and strip center by 30 basis points, with only industrial cap rates tightening, by 20 basis points (per Green Street). Over the year, the composite commercial property price index (CPPI) fell by 1% - notably, industrial gained 9% and malls fell 11%. Increases in net operating income mostly offset cap rate expansion; industrial was the exception, where incomes increased along with cap rate declines. Unlevered total returns for real estate currently exceed returns for both high yield and corporate bonds, signaling property values are slightly under-valued. Overall, we expect property prices to remain flattish over the next 6 to 12 months, albeit with slightly higher cap rates and yield profiles.

While transaction volume has flagged and valuations are static, property fundamentals are stable and modestly positive. Per Reis, rental rate growth for the four major property sectors is holding positive at just above the rate of inflation, with industrial making significant real gains. Financing is generally plentiful (save for construction financing) and accretive to deal returns, helping support current pricing levels despite reduced sales volume. Importantly, overall lending remains quite reasonable from a risk perspective.

Europe

At the end of 2017, we observed that London's occupational and investment markets were stronger than most people expected, and that the Eurozone economy grew faster than most predictions. In the UK, commercial property investment volumes for 2017 were £56 billion, an 8.6% increase over 2016. This level was only ever surpassed by exceptional years in 2006, 2014 and 2015. Leasing in the City Core reached 3.6 million square feet, slightly above the long-term average, and the year finished with approximately 5% market-wide vacancy (Class A office is below 3%). There have been some concerns about office supply under construction; however, even if all new supply (approximately 3 million square feet) were delivered vacant, the overall vacancy rate would only increase to 7.5%, which is in line with the City's long-term average. Demand was also strong in the West End, where 2017 office take-up was 4.5 million square feet; the highest since 2007. Brexit relocations have so far fallen short of fears; research from the Financial Times shows that revised estimates of potential relocations are less than 5,000 workers, far less than initial claims in the tens of thousands. In the Eurozone Composite, the Purchasing Managers' Index ("PMI") reached 58.1, an eighty-two month high. Manufacturing PMI was at 60.6, a new record, and Services PMI rose to the highest level since May 2008. All of this suggests fourth quarter GDP growth for the Eurozone will be quite positive. As of November, the Eurozone overall unemployment rate had dropped to 8.7%, with still some major disparities among countries. There has been limited new commercial real estate development in major Eurozone markets: 2017 saw the completion of approximately 3 million square feet, less than 1.5% of existing office stock. 2018 is expected to see a similar level of deliveries; based on 2017 absorption, office vacancy rates across the Eurozone could dip below 7% for the first time since 2008, propelling meaningful rental growth.

WILSON LEUNG
Portfolio Manager
Head of Asia Real Estate

STEVEN CHA
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Asia Real Estate

China

China's Premier Li Keqiang, recently issued a statement that he expected the economy to perform better than forecast in 2017 with annual GDP growth of around 6.9%, far exceeding the 6.5% target set at the beginning of the year. Chinese equities also had a spectacular year with the FTSE China A50 Index, representing China's blue chip large caps in the onshore A-share market, returning 35.7% in 2017 and the Hang Seng China Enterprises Index, representing the largest and most liquid Chinese stocks trading on the Hong Kong Stock Exchange, returned 29.6%. With regards to currency, in a somewhat surprising move, the RMB edged up from RMB 6.94 per USD to RMB 6.51 per USD in 2017, and at one point, reached 6.48 per USD, near the two-year high. On the real estate front, residential sales seem to have cooled down a bit in red-hot first- and second-tier cities due to strong government intervention through more stringent policy measures while conversely, the overall de-stocking trend in third- and fourth-tier cities maintained its strong momentum. The government recently conceptually introduced a "long-term housing mechanism" which aims to increase the weight of rental and social housing to 30% to 40% of supply in first- and second-tier cities, which may, as a result reduce land supply to the private for-sale market. We expect a tighter credit environment in 2018 in light of the government's "financial supply side reforms" aimed at clamping down on excessive leverage in the financial system, including the shadow banking industry incorporating wealth management products, mortgage and land credit/finance. While the economy continues to perform well and real estate fundamentals remain solid, a tighter credit environment and a deleveraging of the financial system may present interesting event-driven distressed or special situation opportunities.

Japan

Japan's economy grew at an annualized rate of 2.5% in the third quarter of 2017, its longest streak in 16 years. While corporate earnings growth slowed down to 5.5% on a year-on-year basis, corporate earnings are still at historic highs while unemployment remains at a historical low of 2.7%. The Japanese government predicts 1.8% GDP growth in 2018, an upward revision from 1.4% predicted in July due to expected growth in personal consumption and corporate capital investment. With the recovery of the global economy, the TOPIX 300 Index surged to its highest level in 26 years, while the Japanese REIT ("J-REIT") Index has weakened from the beginning of 2017. A 10% decline in the J-REIT Index in 2017 was a result of capital outflows from J-REIT mutual funds. Due to lagging share prices J-REITs may be encouraged to dispose of older properties requiring renovation, which could represent attractive buying opportunities. Core offshore investors are actively pursuing investment opportunities in Japan due to Japan's extremely low financing costs and are continuing to drive strong liquidity in the market. Despite the lackluster performance of the J-REIT Index, real estate fundamentals have been robust. Strong tenant demand propelled by the robust economy has pushed third quarter Grade A office vacancy down to 2.5% in Tokyo and to 0.3% in Osaka. Vacancy levels for Grade B properties have also remained low at around 1.4% in Tokyo and 2.5% in Osaka. Although Class A supply is scheduled to come on line in Tokyo in 2018, strong pre-leasing activities thus far suggest that real estate fundamentals are likely remain stable in 2018. In Osaka, limited new office stock is expected over the next few years which should lead to growth in office rents in the coming year.

South Korea

The Korean economy grew 1.5% quarter-on-quarter in the third quarter this year, expanding at its fastest pace in seven years, led mainly by exports and equipment investment. The Bank of Korea ("BoK") forecasts annual GDP growth at 3.0% in 2017 and 2.9% in 2018 and forecasts continuing growth for the Korean economy as private consumption is expected to improve gradually, driven by positive spillover from an export recovery and the government's policy initiatives for income-led growth. For similar reasons, the International Monetary Fund revised upward Korea's 2018 GDP growth outlook in October from 2.8% to 3.0%. In November, the BoK raised its benchmark policy rate by 25 basis points from 1.25% to 1.50% – the first rate hike since June 2011. The rate hike decision was driven by improved growth forecasts and a slowly rising inflation rate, however the BoK stressed that it will be taking a conservative approach in assessing further rate hikes going forward. The spread between the prime office cap rate and the Korean government bond yield (i.e. 5-year treasury bond) contracted approximately 20 basis points to 261 basis points, as market yields rose in anticipation of the benchmark rate hike. Prime office vacancy rate in Seoul rose slightly by 0.3% to 11.5% in the third quarter although analysts expect overall leasing demand to pick up in the near term with relatively limited future supply versus prior years. Demand in the housing market in Seoul continued to grow with Seoul apartment prices rising 5.3% year-on-year as of December 2017. Despite the government's real estate policies on controlling speculative investment activities, apartment prices in Seoul have continued to rise, increasing 1.9% since the latest policies were introduced in August of 2017. Specifically in Gangnam, which is one of the most highly desired residential areas, there is little to no unsold housing units of newly developed projects.

ORANGE, APRICOTS & Co.

ECONOMIC DASHBOARD

MARKET INDICES

First Quarter 2018

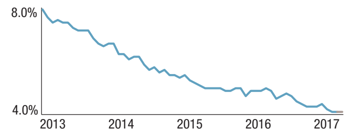
JOB MARKET

Macro Economics — Five-Year Trend

US – Unemployment Rate

As of 12/31/2017

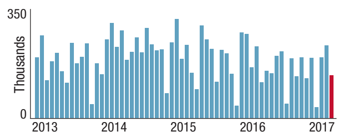
Latest Level	4.1
Change from Prior Month	0.0
Latest Direction	No Change
Frequency	Monthly



US – Non-Farm Payroll

As of 12/31/2017

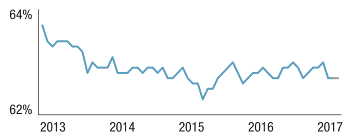
Latest Level	148.0
Change from Prior Month	(104.0)
Latest Direction	Deteriorating
Frequency	Monthly



US – Labor Participation Rate

As of 12/31/2017

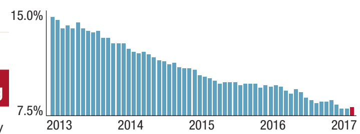
Latest Level	62.7
Change from Prior Month	0.0
Latest Direction	No Change
Frequency	Monthly



US – U-6 Unemployed & Margin & Part-Time as % of Labor Force & Margin

As of 12/31/2017

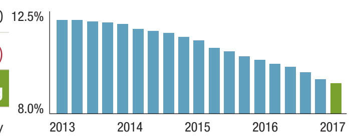
Latest Level	8.1
Change from Prior Month	0.1
Latest Direction	Deteriorating
Frequency	Monthly



Eurozone Unemployment Rate

As of 9/30/2017

Latest Level	9.0
Change from Prior Quarter	(0.2)
Latest Direction	Improving
Frequency	Quarterly



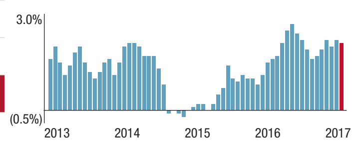
INFLATION

Macro Economics — Five-Year Trend

US Consumer Price Index (CPI) Y-o-Y %

As of 12/31/2017

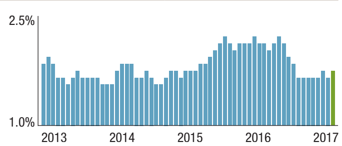
Latest Level	2.1
Change from Prior Month	(0.1)
Latest Direction	Decreasing
Frequency	Monthly



US CPI Goods Less Food and Energy Y-o-Y %

As of 12/31/2017

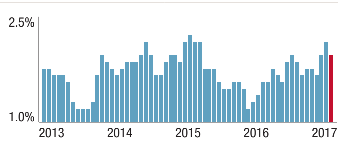
Latest Level	1.8
Change from Prior Month	0.1
Latest Direction	Increasing
Frequency	Monthly



US Producer Price Index (PPI) Y-o-Y %

As of 12/31/2017

Latest Level	2.0
Change from Prior Month	(0.2)
Latest Direction	Decreasing
Frequency	Monthly



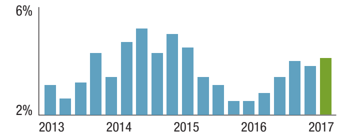
GDP GROWTH

Macro Economics — Five-Year Trend

US – GDP Y-o-Y %

As of 9/30/2017

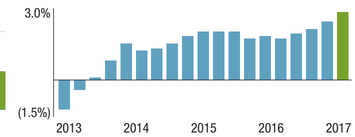
Latest Level	4.1
Change from Prior Quarter	0.3
Latest Direction	Improving
Frequency	Quarterly



Eurozone – GDP Y-o-Y %

As of 9/30/2017

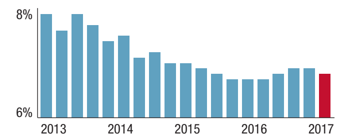
Latest Level	2.8
Change from Prior Quarter	0.4
Latest Direction	Improving
Frequency	Quarterly



China – GDP Y-o-Y %

As of 12/31/2017

Latest Level	6.8
Change from Prior Quarter	(0.1)
Latest Direction	Deteriorating
Frequency	Quarterly



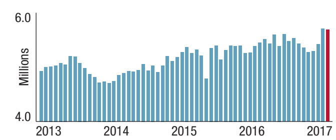
HOUSING

Macro Economics — Five-Year Trend

Existing Home Sales

As of 12/31/2017

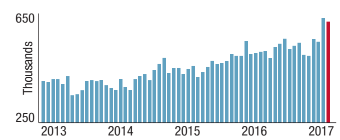
Latest Level	5.6
Change from Prior Month	(0.2)
Latest Direction	Deteriorating
Frequency	Monthly



New Home Sales

As of 12/31/2017

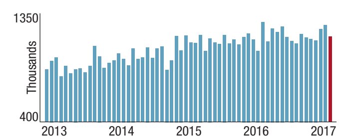
Latest Level	625.0
Change from Prior Month	(64.0)
Latest Direction	Deteriorating
Frequency	Monthly



Housing Starts

As of 12/31/2017

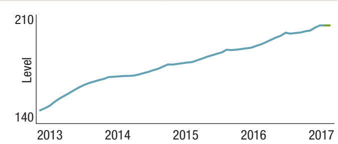
Latest Level	1,192.0
Change from Prior Month	(107.0)
Latest Direction	Deteriorating
Frequency	Monthly



Case-Shiller Index of Home Value in 20 Cities

As of 10/31/2017

Latest Level	03.1
Change from Prior Month	1.4
Latest Direction	Improving
Frequency	Monthly



Source: Bloomberg (All)

"Latest Direction" is from the last "Frequency" measurement

ECONOMIC DASHBOARD *(continued)*

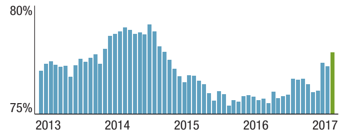
ECONOMIC & MARKET CONFIDENCE

Macro Economics | Five-Year Trend

Capacity Utilization as a % of Capacity

As of 12/31/2017

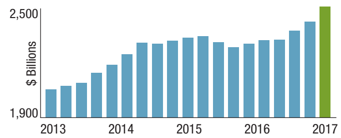
Latest Level	77.9
Change from Prior Month	0.6
Latest Direction	Improving
Frequency	Monthly



Private Fixed Investment Nonresidential SAAR

As of 12/31/2017

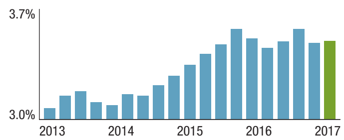
Latest Level	2,513.0
Change from Prior Quarter	44.6
Latest Direction	Improving
Frequency	Quarterly



Residential Fixed Investment as a % of GDP

As of 12/31/2017

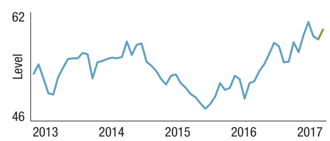
Latest Level	3.5
Change from Prior Quarter	0.1
Latest Direction	Improving
Frequency	Quarterly



ISM Manufacturing Index

As of 12/31/2017

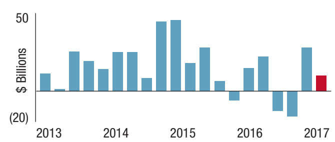
Latest Level	59.7
Change from Prior Month	1.5
Latest Direction	Improving
Frequency	Monthly



Manufacturing Inventory Change Q-o-Q $

As of 12/31/2017

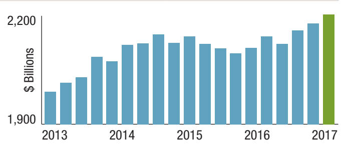
Latest Level	10.5
Change from Prior Quarter	(18.7)
Latest Direction	Decreasing
Frequency	Quarterly



Exports of Goods/Services

As of 12/31/2017

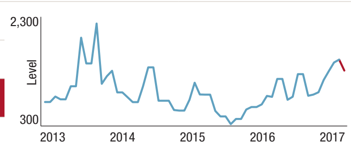
Latest Level	2,230
Change from Prior Quarter	37
Latest Direction	Improving
Frequency	Quarterly



Shipping Rates

As of 12/31/2017

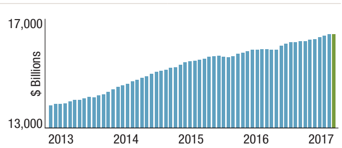
Latest Level	1,366
Change from Prior Quarter	(212)
Latest Direction	Deteriorating
Frequency	Quarterly



Personal Income Level

As of 11/30/2017

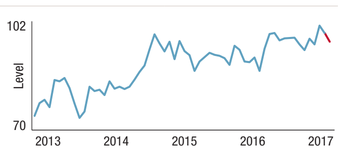
Latest Level	16,429
Change from Prior Month	54
Latest Direction	Improving
Frequency	Monthly



Michigan Consumer Confidence Sentiment

As of 12/31/2017

Latest Level	95.9
Change from Prior Month	(2.6)
Latest Direction	Deteriorating
Frequency	Monthly



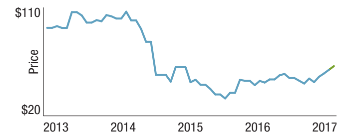
COMMODITIES

Macro Economics | Five-Year Trend

WTI Crude Oil Price

As of 12/31/2017

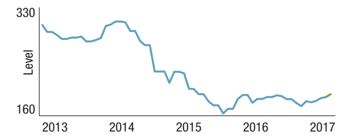
Latest Level	60.4
Change from Prior Month	3.0
Latest Direction	Increasing
Frequency	Monthly



Reuters/Jefferies Commodity Index

As of 12/31/2017

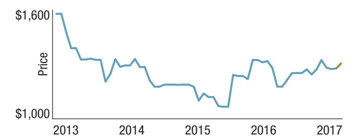
Latest Level	193.9
Change from Prior Month	4.7
Latest Direction	Increasing
Frequency	Monthly



Gold

As of 12/31/2017

Latest Level	1,302.8
Change from Prior Month	27.8
Latest Direction	Increasing
Frequency	Monthly



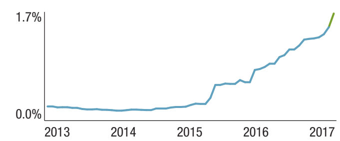
RATES

Macro Economics | Five-Year Trend

LIBOR 3M

As of 12/31/2017

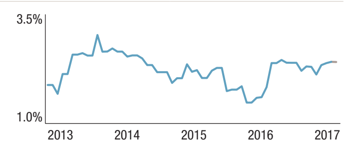
Latest Level	1.69
Change from Prior Month	0.21
Latest Direction	Increasing
Frequency	Monthly



Treasury 10 Yr Yield

As of 12/31/2017

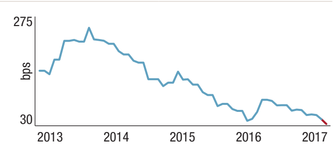
Latest Level	2.41
Change from Prior Month	0.00
Latest Direction	No Change
Frequency	Monthly



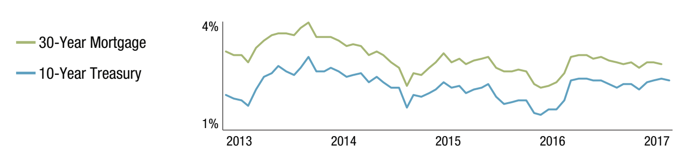
Swaps 2Y vs. 10Y

As of 12/31/2017

Latest Level	32.00
Change from Prior Month	(11.39)
Latest Direction	Flattening
Frequency	Monthly



30 Yr Mortgage and 10 Yr Treasury



Source: Bloomberg (All)

"Latest Direction" is from the last "Frequency" measurement

ECONOMIC DASHBOARD *(continued)*

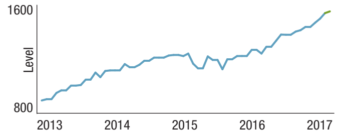
EQUITY

Macro Economics — Five-Year Trend

US Equity Markets – Russell 3000

As of 12/31/2017

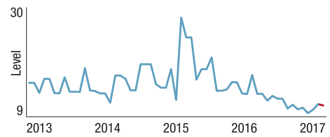
Latest Level	1,582.8
Change from Prior Month	13.5
Latest Direction	Rally
Frequency	Monthly



US Equity – VIX

As of 12/31/2017

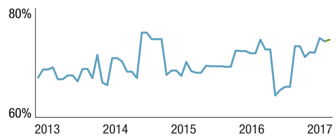
Latest Level	11.0
Change from Prior Month	(0.2)
Latest Direction	Decreasing
Frequency	Monthly



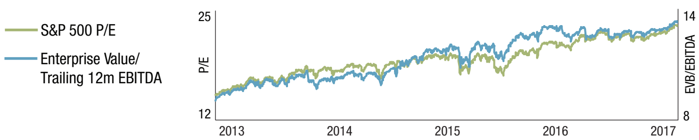
S&P 500 Percentage Exceeding Earning Estimates

As of 12/31/2017

Latest Level	74.4
Change from Prior Month	0.3
Latest Direction	Increasing
Frequency	Monthly



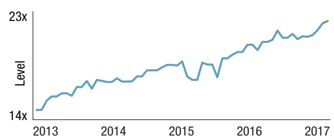
S&P 500 Historical Valuation Levels



Trailing P/E on S&P 500

As of 12/31/2017

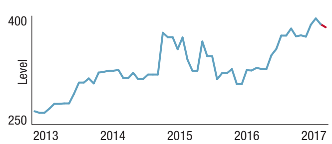
Latest Level	22.3
Change from Prior Month	0.2
Latest Direction	Increasing
Frequency	Monthly



Equity Markets – Euro Stoxx

As of 12/31/2017

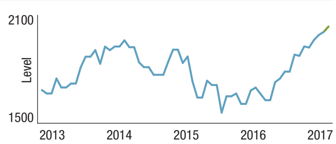
Latest Level	385.5
Change from Prior Month	(4.2)
Latest Direction	Decreasing
Frequency	Monthly



Equity Markets – MSCI EAFE

As of 12/31/2017

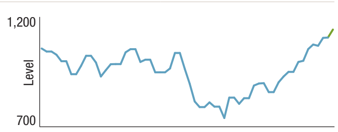
Latest Level	2,050.8
Change from Prior Month	30.7
Latest Direction	Increasing
Frequency	Monthly



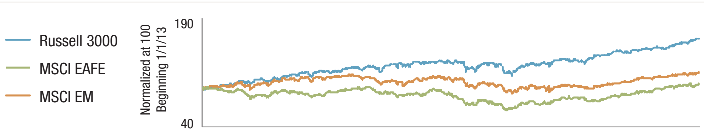
Equity Markets – MSCI EM

As of 12/31/2017

Latest Level	1,158.5
Change from Prior Month	37.7
Latest Direction	Increasing
Frequency	Monthly



Russell 3000 – MSCI EAFE – MSCI EM



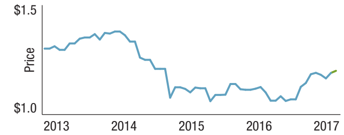
FOREIGN EXCHANGE RATE

Macro Economics — Five-Year Trend

Euro Spot Rate vs. 1 USD

As of 12/31/2017

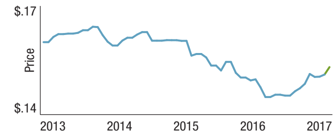
Latest Level	1.20
Change from Prior Month	0.01
Latest Direction	Improving
Frequency	Monthly



Yuan Spot Rate vs. 1 USD

As of 12/31/2017

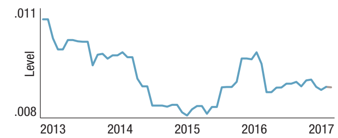
Latest Level	0.1536
Change from Prior Month End	0.0021
Latest Direction	Improving
Frequency	Monthly



Yen Spot Rate vs. 1 USD

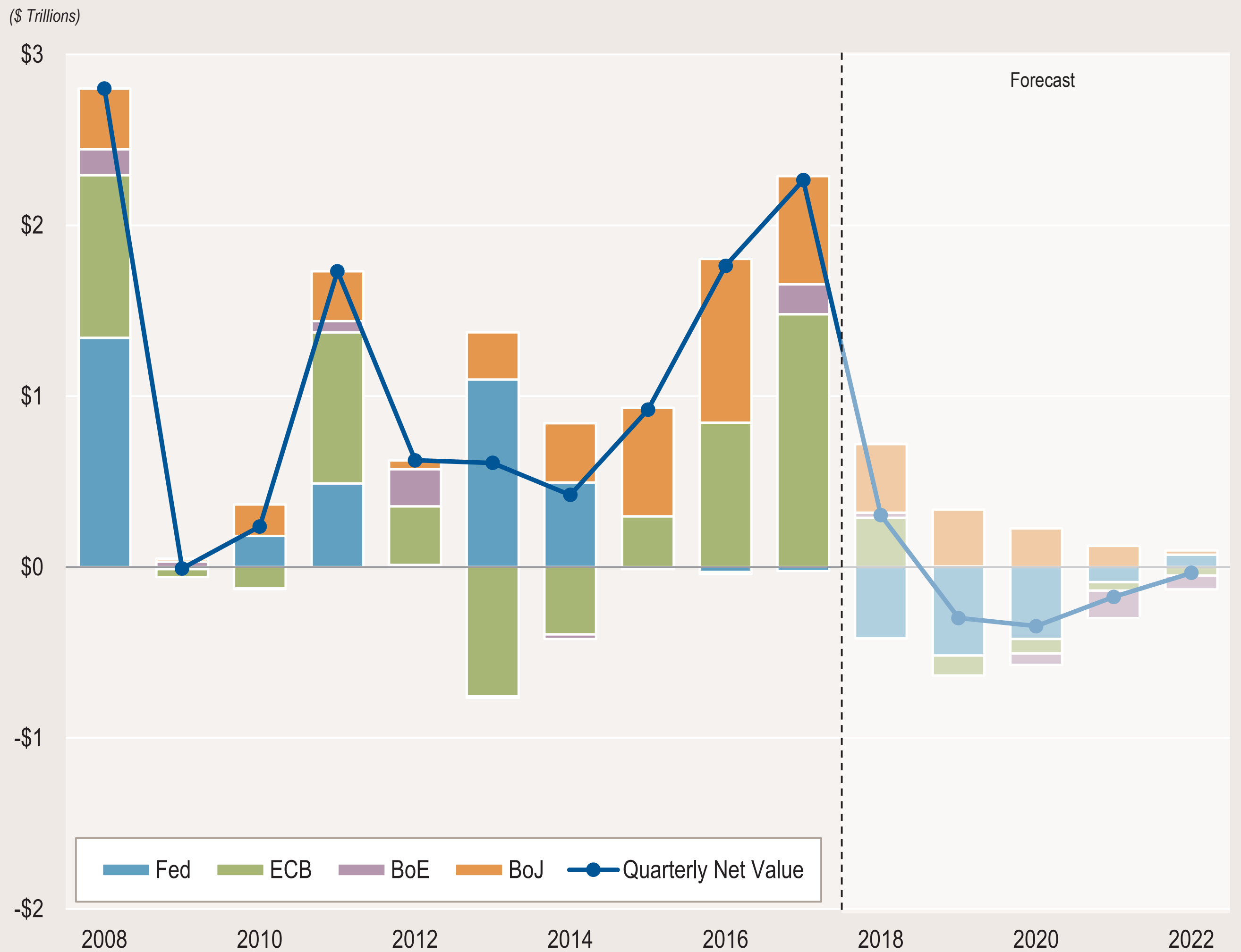
As of 12/31/2017

Latest Level	0.0089
Change from Prior Month	0.0000
Latest Direction	No Change
Frequency	Monthly



Source: Bloomberg (All)
"Latest Direction" is from the last "Frequency" measurement

QE EXPECTED TO SLOW AND BALANCE SHEETS TO RUN OFF

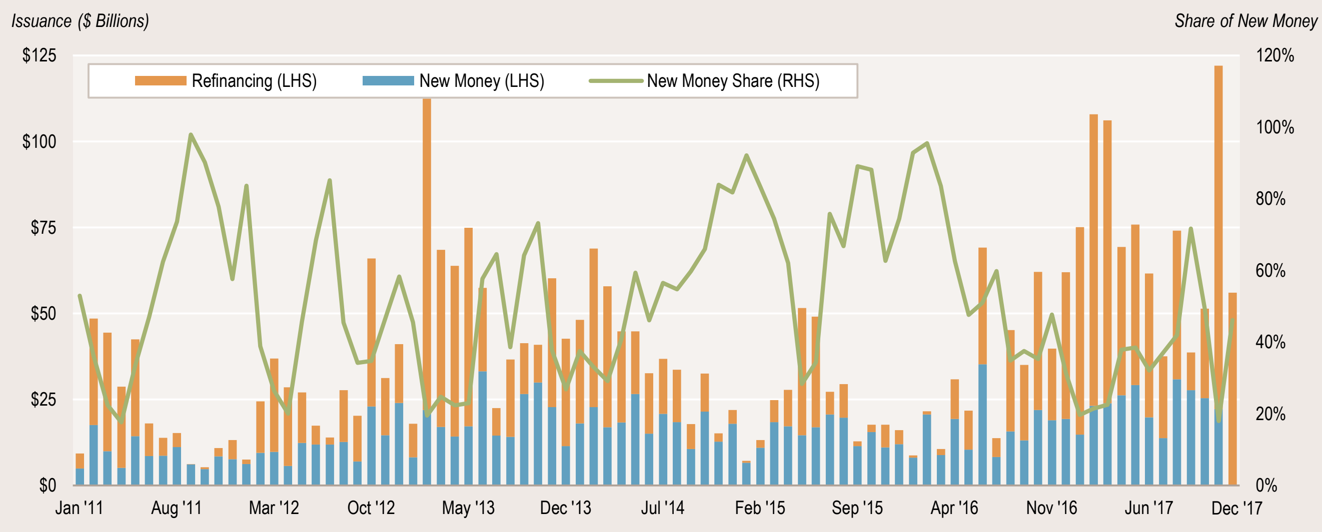


Change in balance sheet used as proxy for QE.
Source: J.P. Morgan.

As global central banks collectively pare back their balance sheets, significant sources of demand will retreat from the market.

NON-INVESTMENT GRADE CORPORATE CREDIT

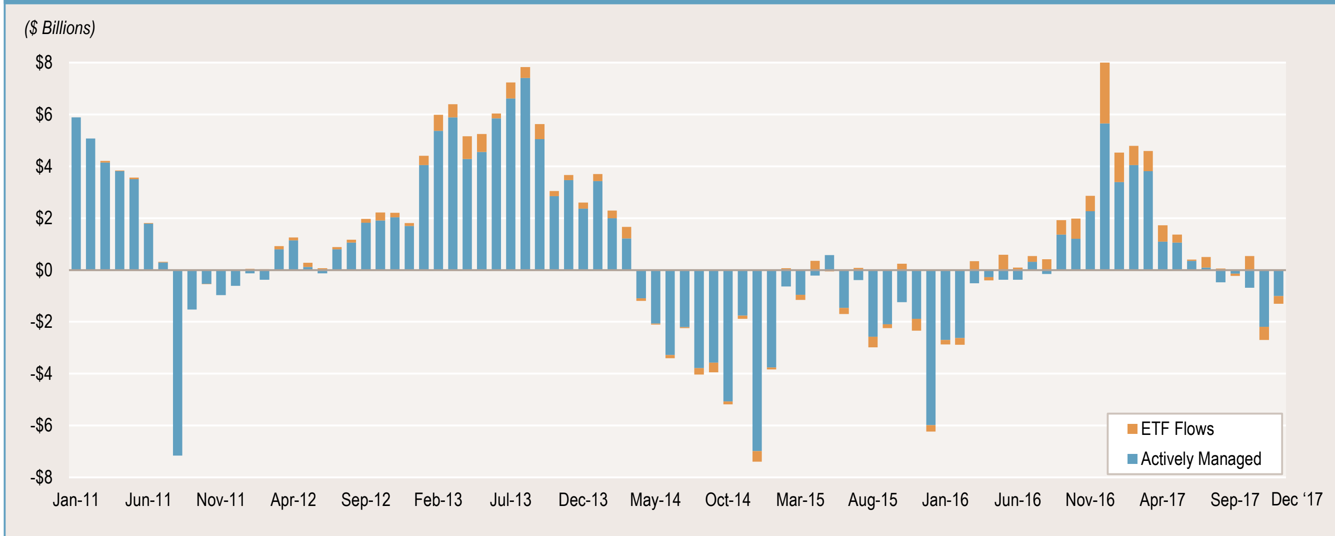
U.S. INSTITUTIONAL LOAN ISSUANCE



Source: Thomson Reuters LPC

Gross Loan issuance touched a record of over $900 billion, however refinancing activity was significant.

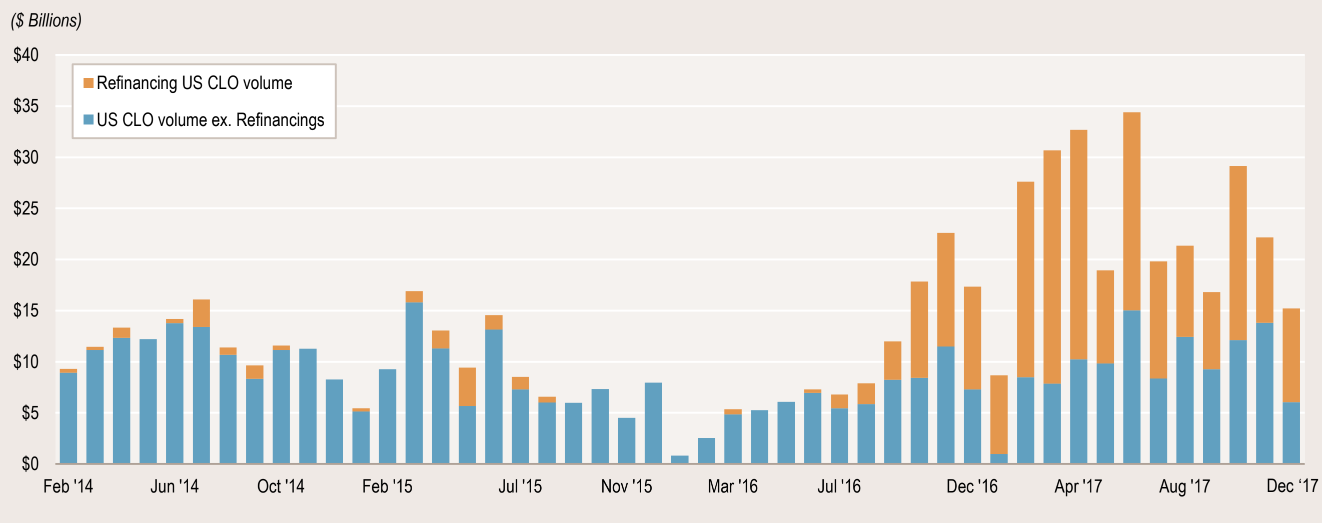
LEVERAGED LOAN FUND FLOWS



Source: J.P. Morgan

Loan funds experienced inflows of over $13 billion in 2017, but outflows occurred in the second half of the year.

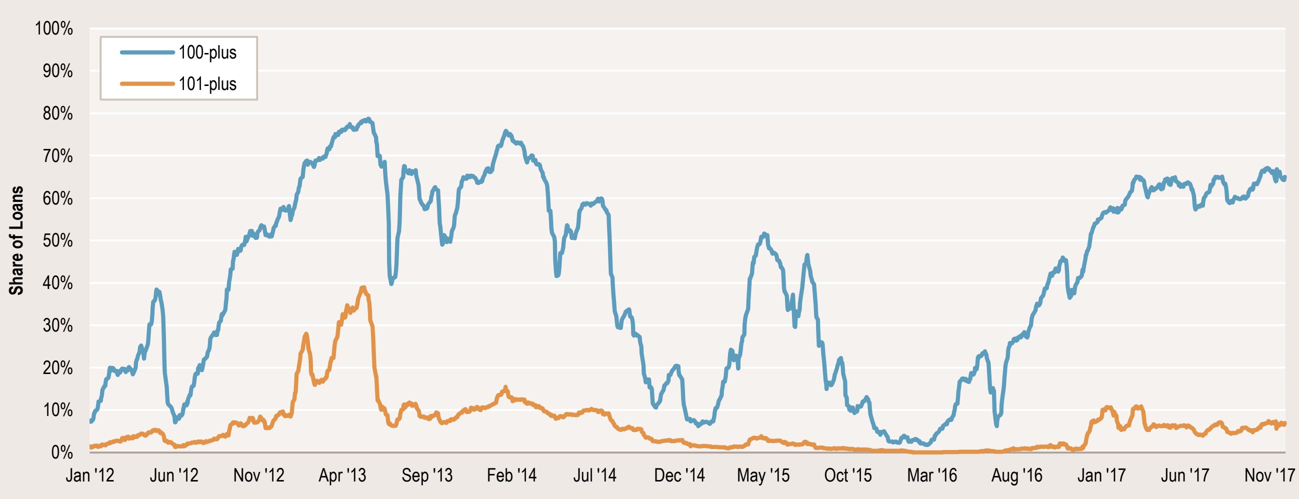
MONTHLY CLO ISSUANCE



Source: J.P. Morgan and S&P LCD

New CLO issuance topped $100 billion in 2017 and was a driving force of loan demand.

PAR-PLUS LOAN MARKET SHARE

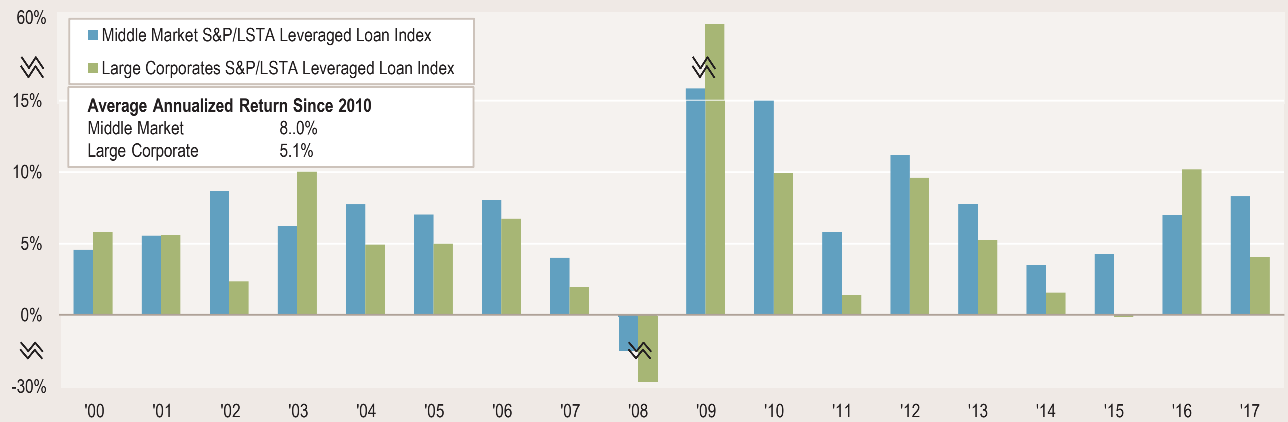


Source: Thomson Reuters LPC

Much of the loan market traded at a premium to par throughout 2017.

MIDDLE MARKET DIRECT LENDING

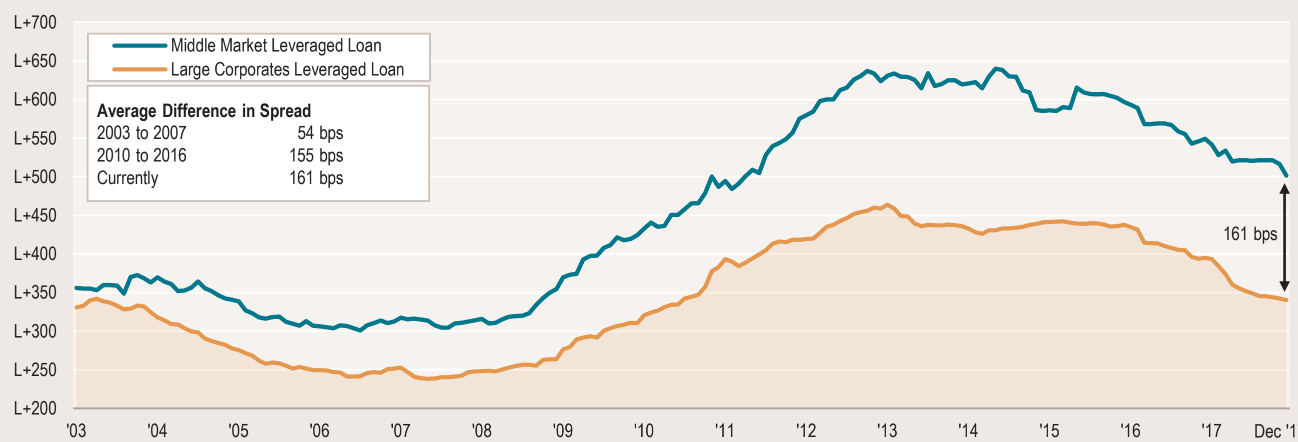
ANNUAL RETURNS: MIDDLE MARKET VS. LARGE CORPORATES



Middle market leveraged loan includes issuers with less then $50m EBITDA
Source: S&P LCD, S&P/LSTA Leveraged Loan Index

Middle market loans continued to outperform large corporate loans in 2017.

AVERAGE LOAN SPREAD: MIDDLE MARKET VS. LARGE CORPORATES

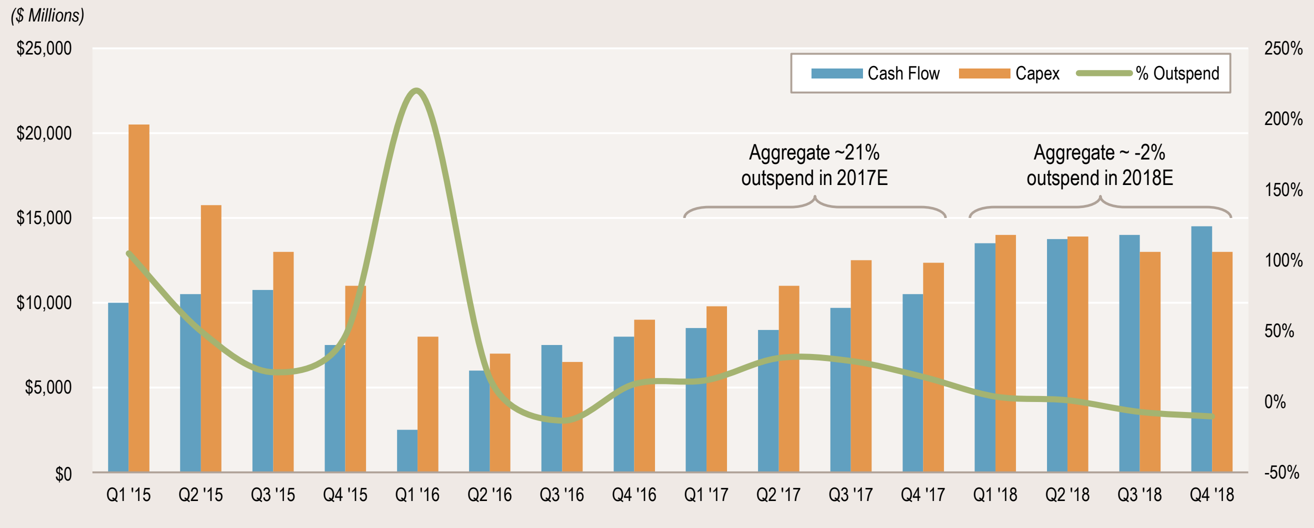


Middle market leveraged loan includes issuers with less than $50m EBITDA
Average spread includes any LIBOR floor benefit
Source: S&P LCD

Spreads in the middle market remain comfortably above those in the large corporate market.

ENERGY CREDIT

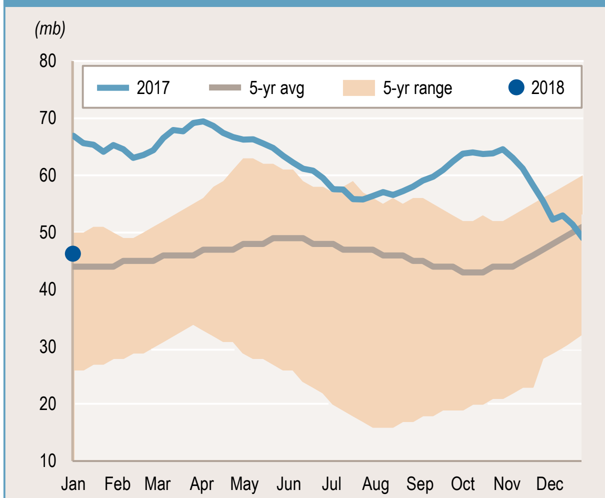
"FUNDING GAPS" SET TO NARROW IN 2018



Source: Evercore ISI Research

In response to investor sentiment, E&P's are pledging to narrow their funding gaps by bringing 2018 capex into closer alignment with cash flow generation.

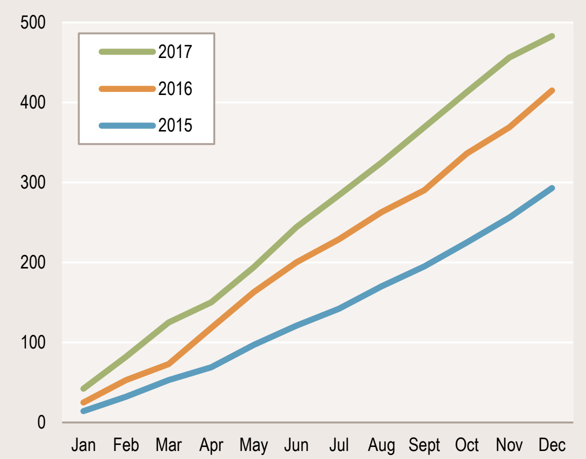
CUSHING CRUDE INVENTORIES



Source: EIA, J.P. Morgan

Cushing, Oklahoma crude inventories are trending downward, with strong demand helping to push U.S. stocks towards the five-year average.

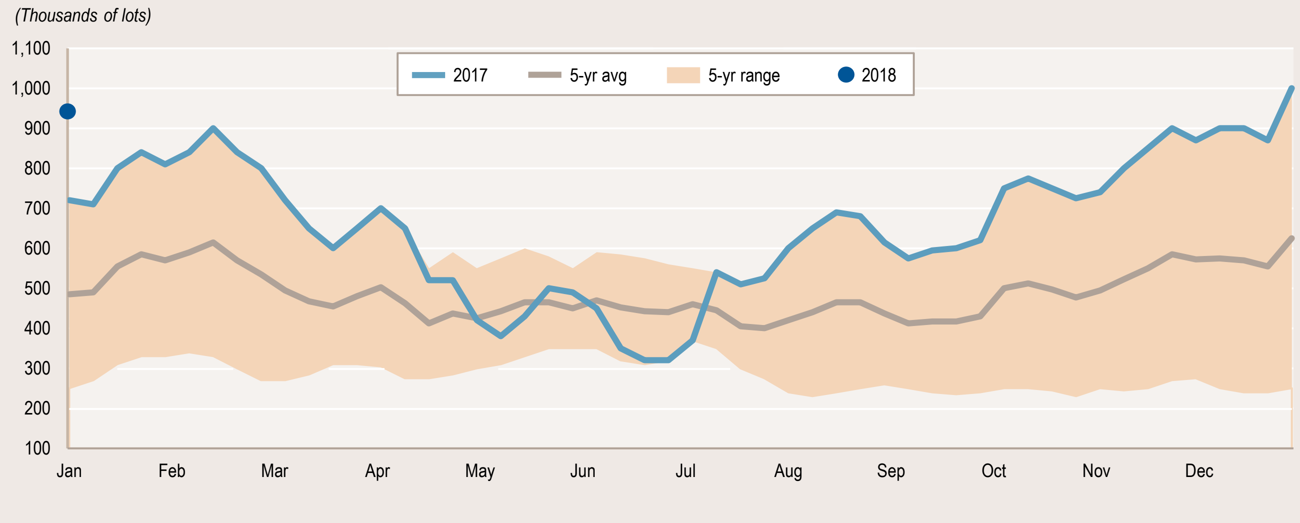
MONTHLY CUMULATIVE A&D DEAL COUNT



Source: PLS

Acquisition and divestiture activity remains robust, with nearly 500 transactions announced in 2017 – a 16% increase over 2016.

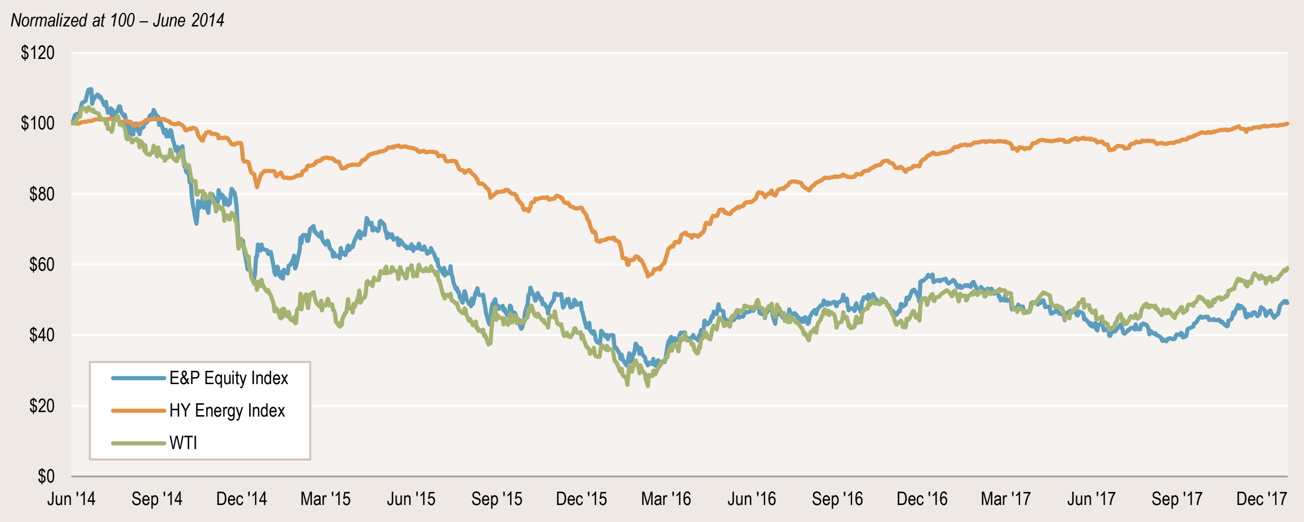
MANAGED MONEY NET LENGTH IN BRENT AND WTI



Source: EIA, J.P. Morgan

Through mid-January, money managers have increased their net long positions in both WTI and Brent to record levels as the rally in crude prices continues.

COMMODITY PRICES VS. HIGH YIELD ENERGY VS. E&P EQUITY

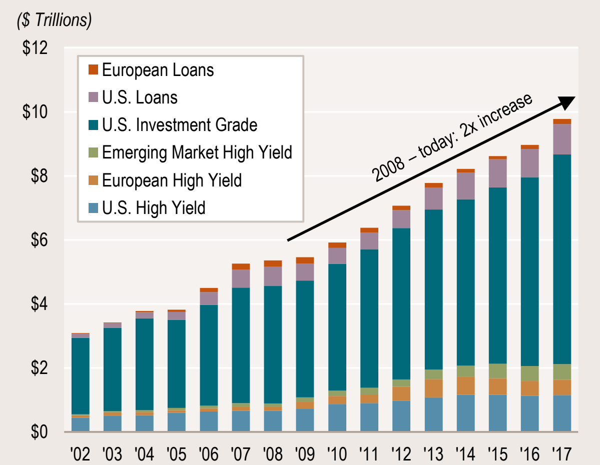


Source: Bloomberg

Despite the uptick in WTI during the second half of 2017, E&P equities continue to underperform, while the energy high yield index has tightened to near 2014 lows.

DISTRESSED DEBT

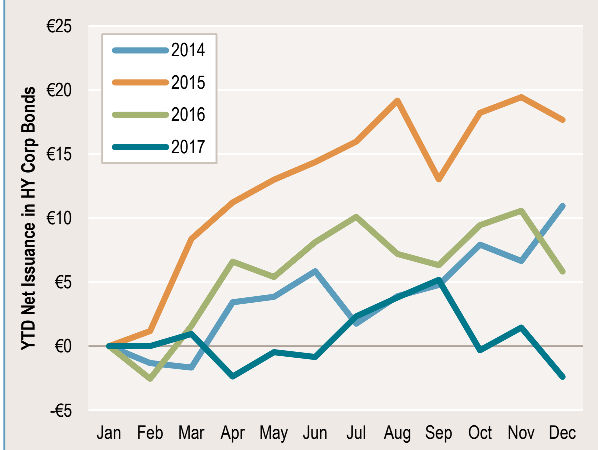
DRAMATIC INCREASE OF DEBT IN THE SYSTEM



Source: Bank of America Merrill Lynch, S&P LCD and J.P. Morgan as of July 31, 2017

Post-crisis, corporate issuance has been dominated by U.S. Investment Grade.

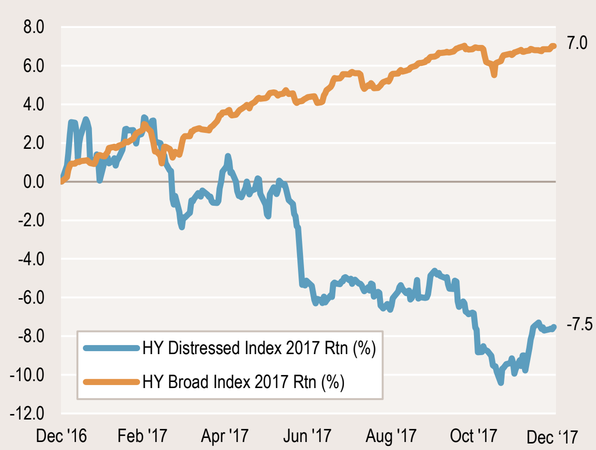
THE HIGH YIELD MARKET IS BARELY GROWING



Source: Credit Suisse

However, with refi's and re-pricings dominating the market, net issuance has barely grown.

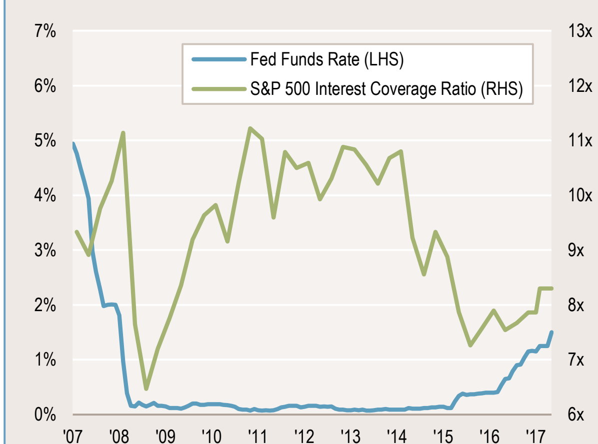
DISTRESSED HIGH YIELD UNDERPERFORMED



Source: Credit Suisse

As increased dispersion grows within sectors, those dominated by large weakened issuers have weighed down the distressed index.

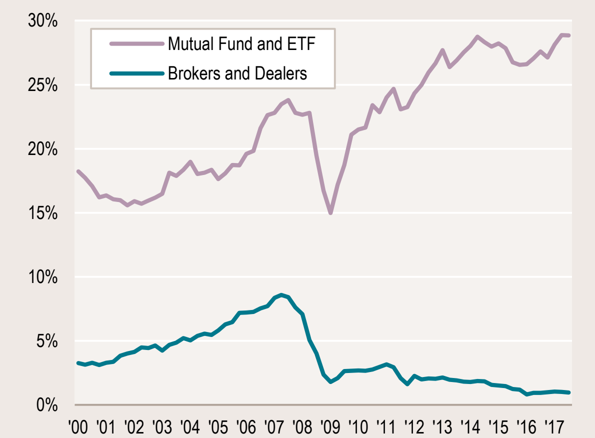
U.S. RATES VS. CORPORATE INTEREST RATE COVERAGE



Source: Federal Reserve Bank of St. Louis and S&P Capital IQ as of December 31, 2017

For most issuers, a spike in rates could trigger the inability to meet interest obligations.

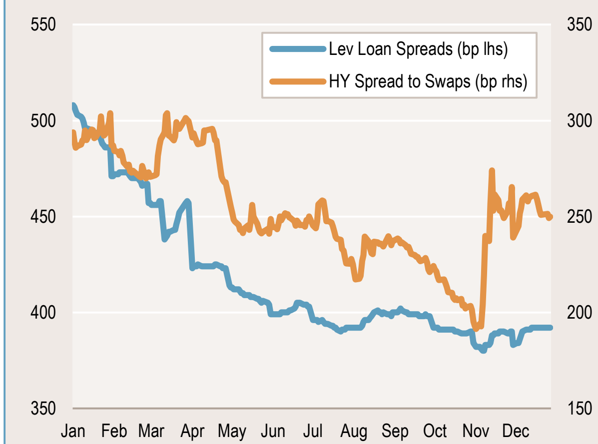
"FAST MONEY" INCREASING OWNERSHIP OF BOND ASSETS



Source: Federal Reserve Bank of St. Louis as of December 1, 2017

The ownership composition of the U.S. high yield asset class has moved – in one direction – towards fast money, with decreasing participation from the broker dealer community.

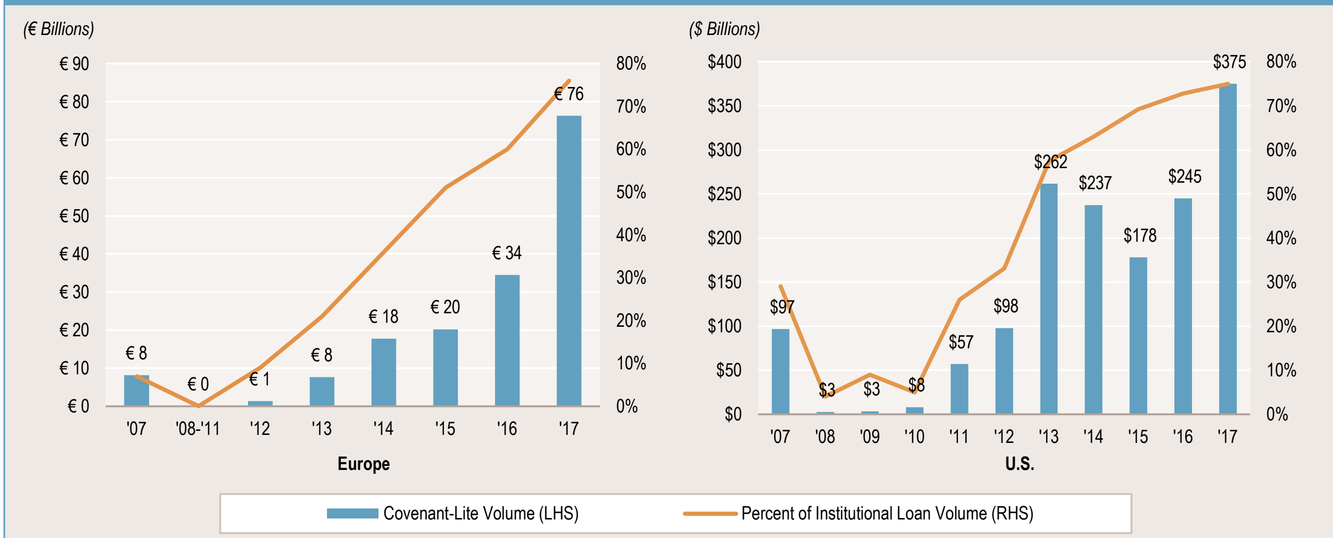
EUROPEAN HIGH YIELD BONDS REPRICED, LOANS DID NOT



Source: Credit Suisse

European loans were largely insulated from the November sell-off as they generally carry higher relative rates protection, more security and excess demand from CLOs.

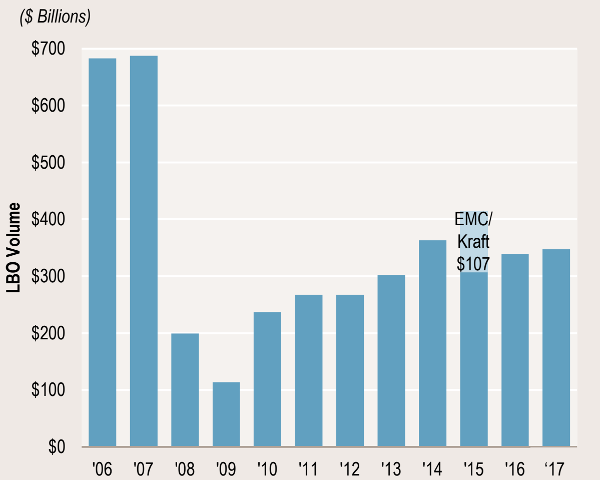
U.S. & EUROPEAN COVENANT LIGHT AS A % OF NEW ISSUE INSTITUTIONAL LOANS



Source: S&P/LCD - Covenant-Lite Loans as a % of New Issue Institutional Loans

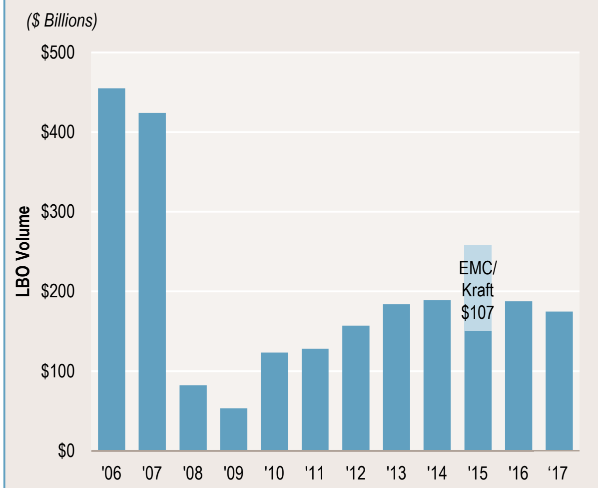
Creditor protection in the form of covenants has gradually eroded in both Europe and the U.S.

GLOBAL LBO DEAL VALUE



Source: Preqin

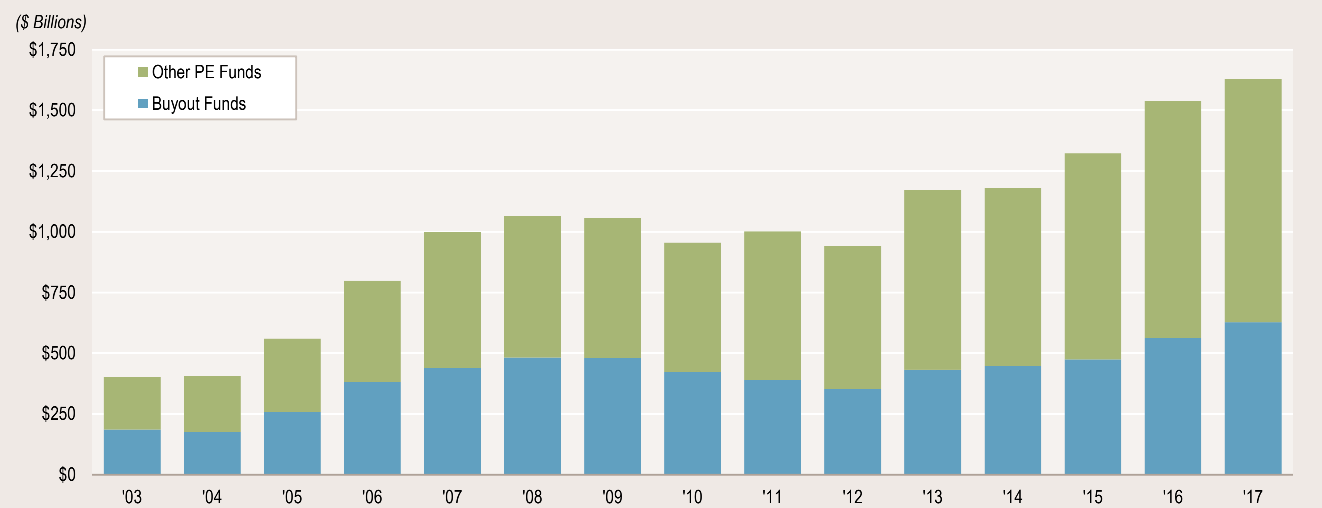
NORTH AMERICA LBO DEAL VALUE



Source: Preqin

Global deal volume in 2017 had a year-over-year increase of 2%, while deal volume in North America declined approximately 6%.

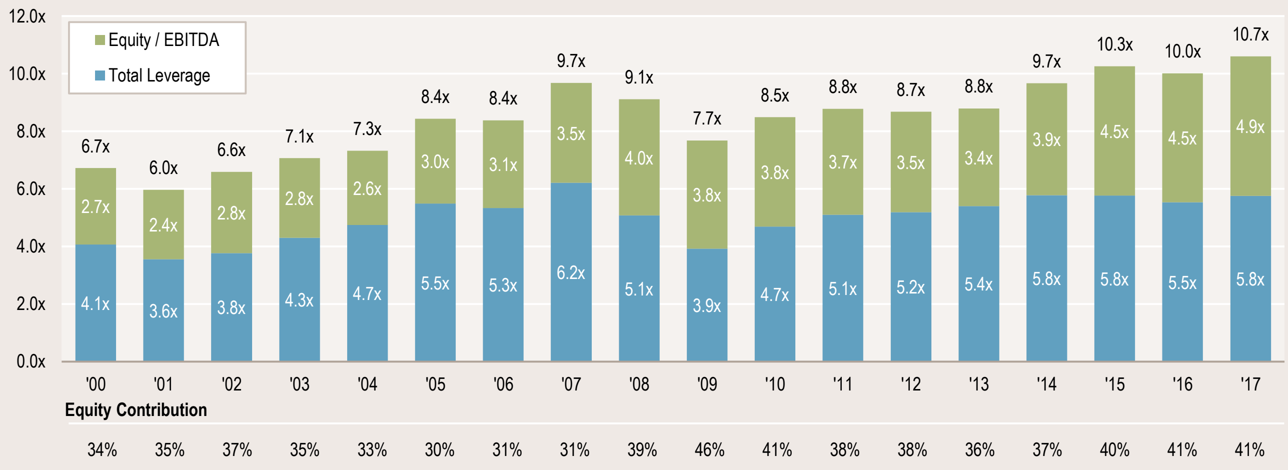
GLOBAL PRIVATE EQUITY DRY POWDER



Other PE Funds: Real Estate, Venture, Infrastructure, Growth, Distressed, Mezzanine, Other
Source: Preqin

Buyout dry powder at December 31, 2017 which stood at an all-time record of $628 billion increased 12% from the end of 2016.

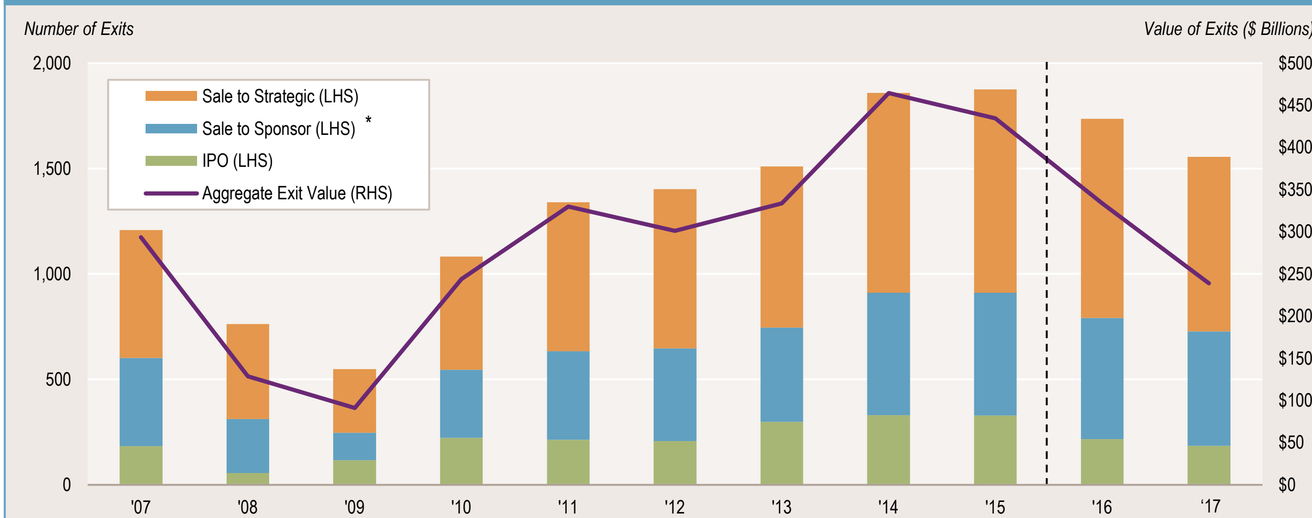
LBO PURCHASE PRICE BREAKDOWN



Source: S&P Capital IQ LCD

LBO multiples in 2017 (10.7x) increased from the 10.0x level of 2016 and set an all-time high.

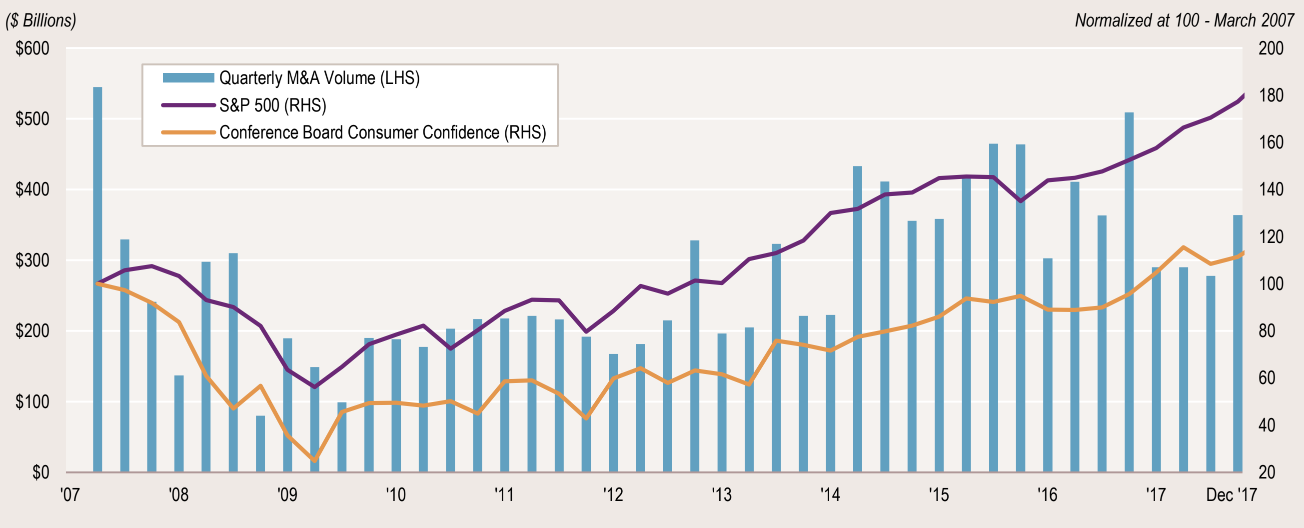
PRIVATE EQUITY EXITS



** Sale to Sponsor includes management-led buyouts*
Source: Preqin

The number of exits in 2017 was lower than in 2016 as was the volume representing smaller dispositions by sponsors.

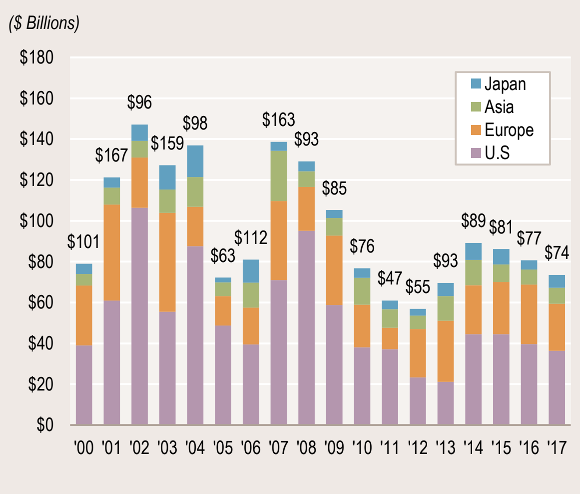
QUARTERLY NORTH AMERICA M&A VOLUME VS S&P 500 AND CONSUMER CONFIDENCE



Source: Bloomberg

The correlation between M&A and the S&P 500 weakened in 2017.

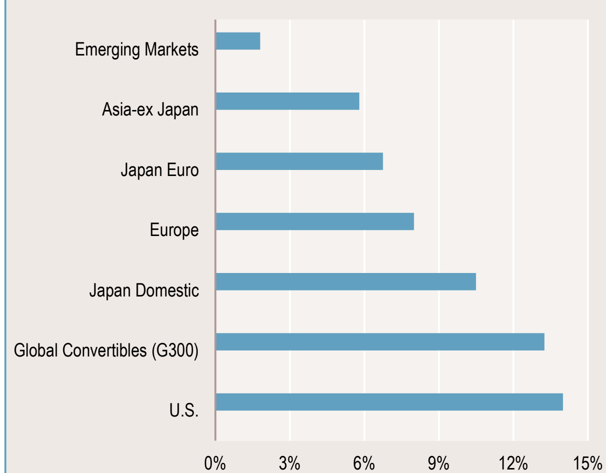
CONVERTS ANNUAL GLOBAL ISSUANCE BY REGION



Source: Bank of America Merrill Lynch

New issuance surpassed the previous year's level in all regions except Europe.

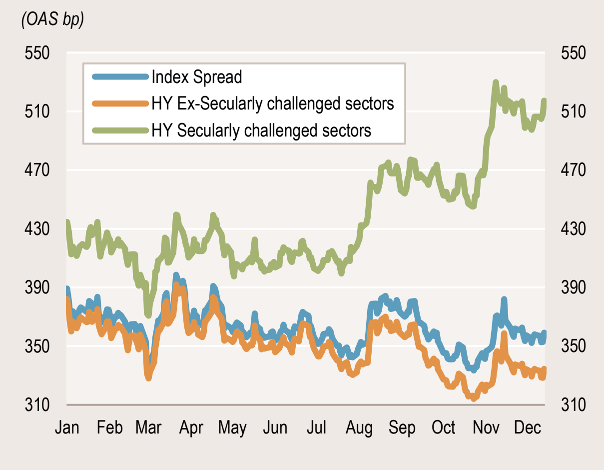
GLOBAL CONVERTIBLE BONDS PERFORMANCE



Source: Bank of America Merrill Lynch

Global convertibles produced strong returns in 2017.

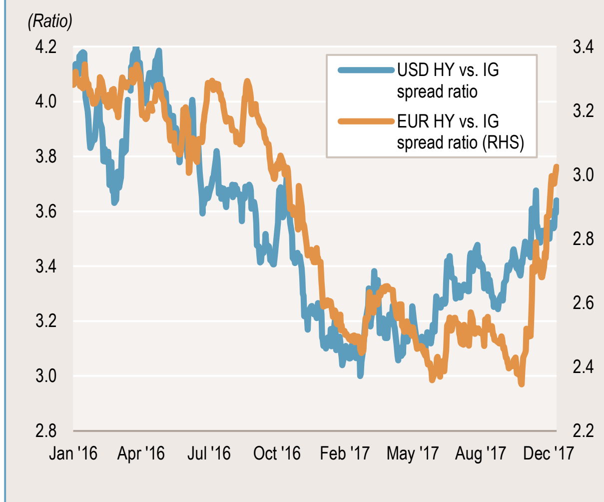
SECULARLY CHALLENGED SECTORS CAUSING SPREAD WIDENING IN HIGH YIELD



Source: iBoxx, Goldman Sachs Global Investment Research

Dispersion has accelerated between secularly challenged sectors and the broader index.

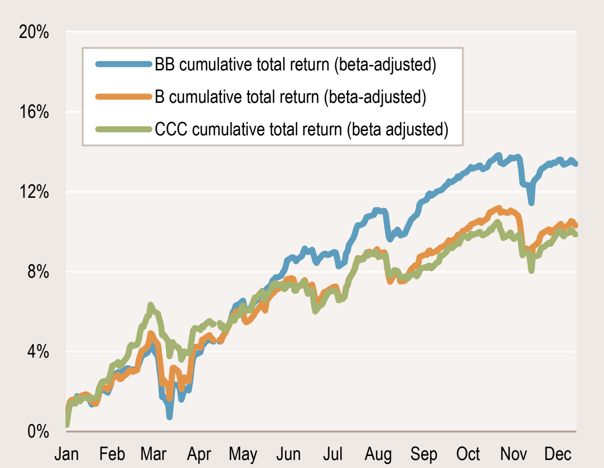
STILL MORE ROOM FOR HIGH YIELD & INVESTMENT GRADE COMPRESSION



Source: iBoxx, Goldman Sachs Global Investment Research

However, further compression between differing levels of credit quality has room to go.

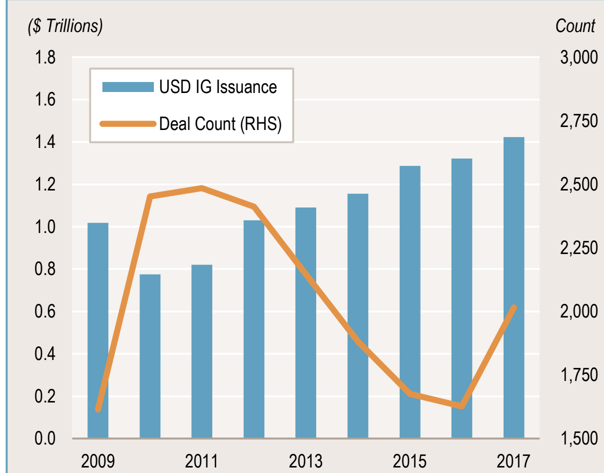
DECOMPRESSION IN HIGH YIELD RATINGS



Source: ICE-BAML, Haver Analytics, Goldman Sachs Global Investment Research

Which is evident even within high yield quality levels.

RECORD INVESTMENT GRADE NEW ISSUE VOLUME

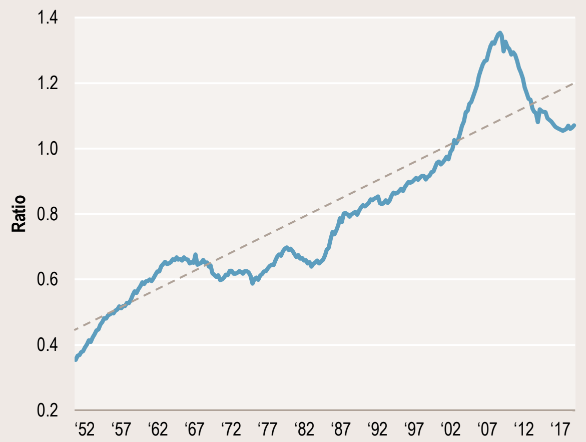


Source: Dealogic, Goldman Sachs Global Investment Research

Thematically, investment grade issuance continues to grow, building a pipeline of supply.

RESIDENTIAL AND CONSUMER DEBT (RMBS/ABS)

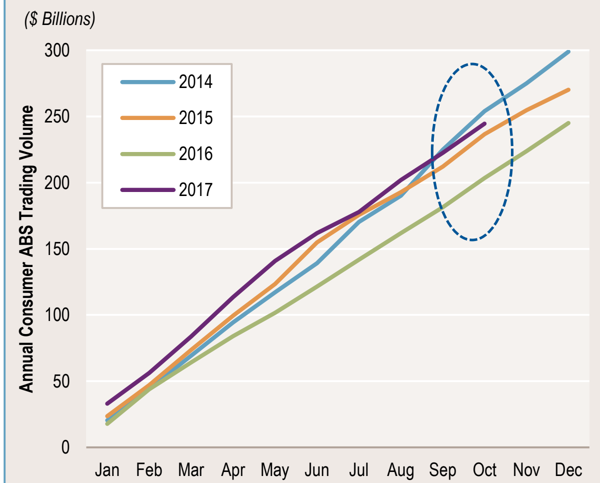
HOUSEHOLD DEBT TO INCOME



Source: FRB, Haver Analytics, DB Global Markets Research

Household debt to income has steadily decreased since the crisis and is now below the historical trend.

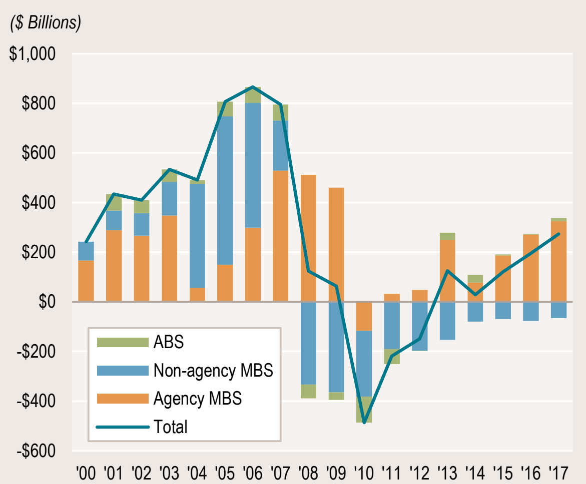
CONSUMER ABS TRADING VOLUME



Source: TRACE, Morgan Stanley Research

ABS trading volumes remain elevated in 2017 and outpaced 2016.

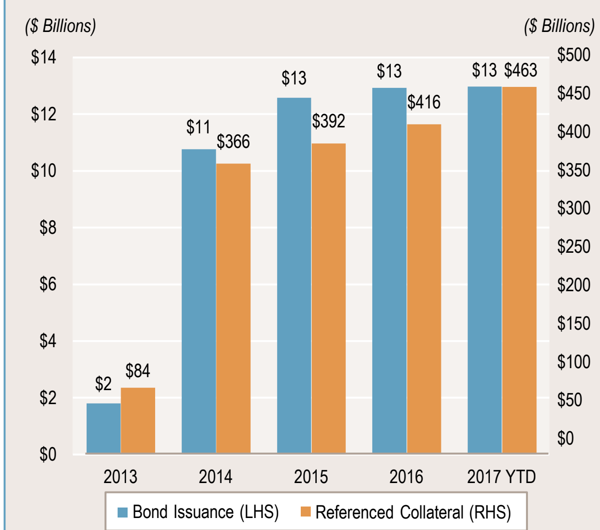
MBS AND ABS NET ISSUANCE



Source: J.P. Morgan, Bloomberg, Fannie Mae, Ginnie Mae, CoreLogic Loan Performance, Commercial Mortgage Alert, Trepp, SIFMA

Net issuance rose for the fourth consecutive year.

CREDIT RISK TRANSFER ISSUANCE

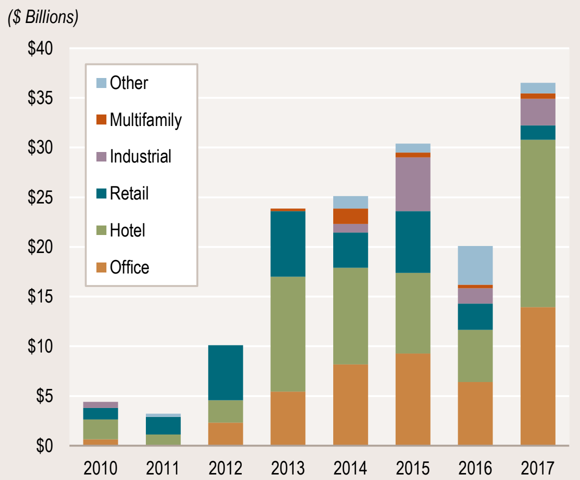


Source: Intex, Morgan Stanley Research

Credit risk transfer issuance remained on pace with 2016 volumes, as did the dollar amount of mortgages referenced by credit risk transfer deals.

COMMERCIAL REAL ESTATE DEBT (CMBS)

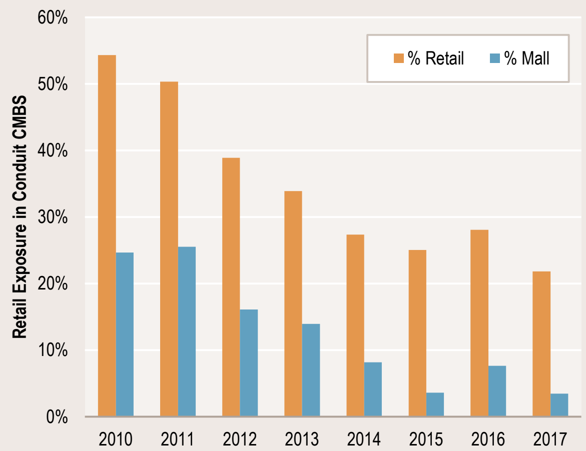
SINGLE BORROWER ISSUANCE



Source: Commercial Mortgage Alert, and Wells Fargo Securities.

Issuance in Single Asset Single Borrower increased by more than 50% year-over-year and reached an all-time high in 2017.

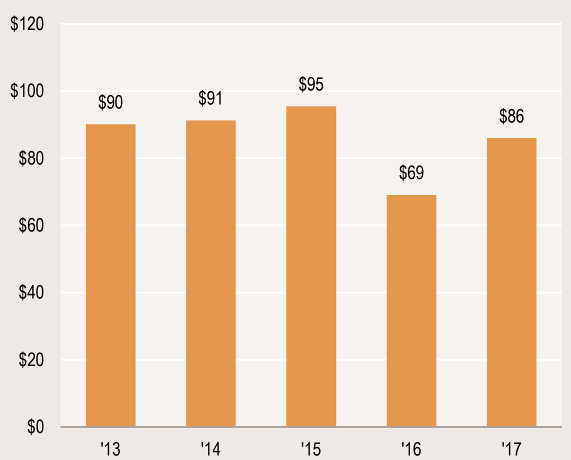
RETAIL AND MALL EXPOSURE



Source: BofA Merrill Lynch Global Research, Intex

Retail and Mall exposure in CMBS has decreased substantially over the last seven years.

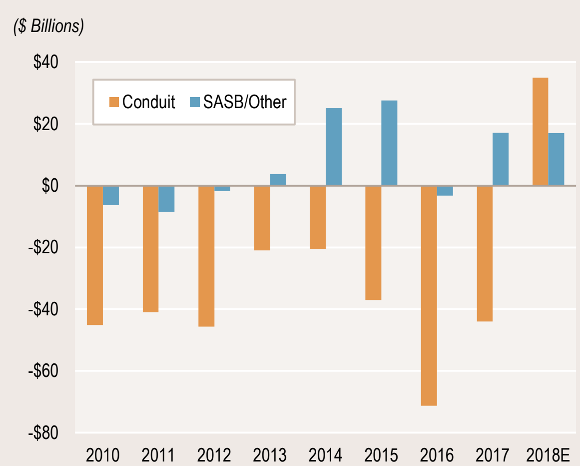
PRIVATE LABEL CMBS ISSUANCE



Source: CMA, Deutsche Bank

Despite fears regarding the effects of risk retention, private label issuance approached $90 billion for the year.

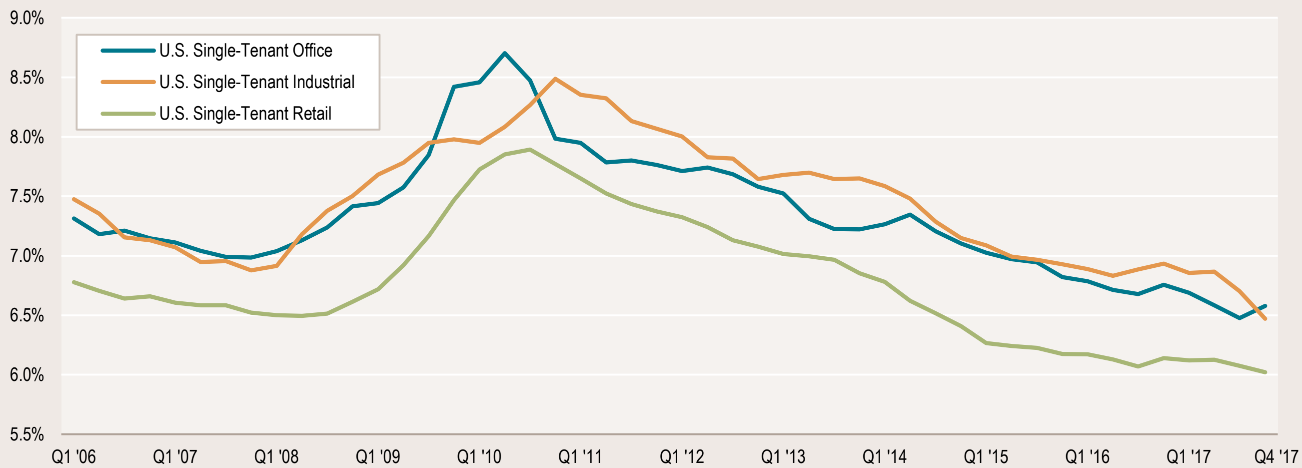
CONDUIT NET ISSUANCE EXPECTED TO BE POSITIVE IN 2018



Source: BofA Merrill Lynch Global Research, Commercial Mortgage Alert

For the first time since the crisis, net conduit issuance is expected to be positive in 2018.

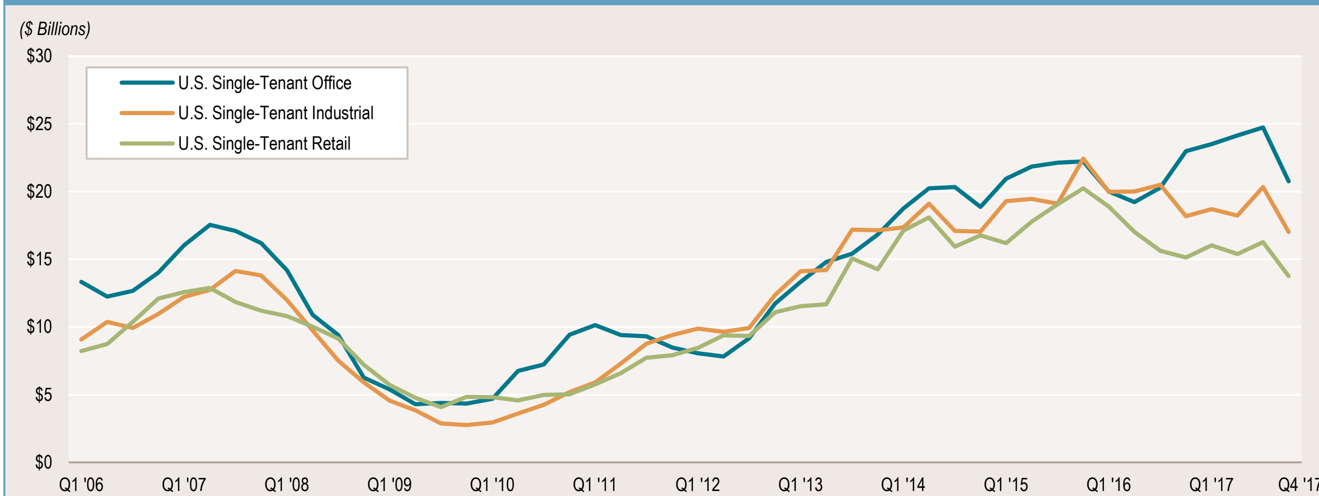
AVERAGE SINGLE-TENANT CAP RATES



Source: Real Capital Analytics

Cap rates have continued to compress.

12-MONTH ROLLING SINGLE-TENANT DEAL VOLUME

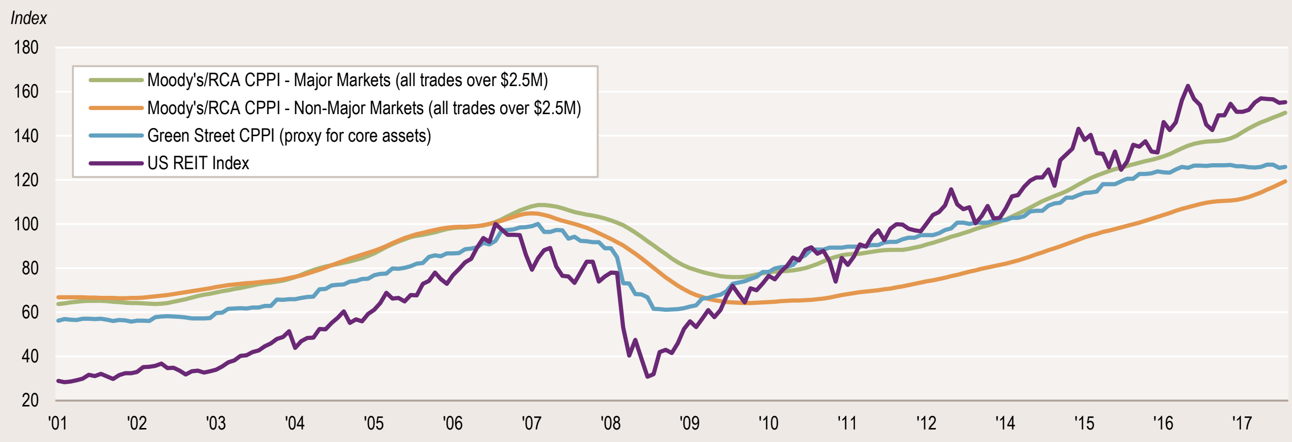


Source: Real Capital Analytics

Volume gains in 2017 reversed with a sharp decline in Q4 2017.

REAL ESTATE – UNITED STATES

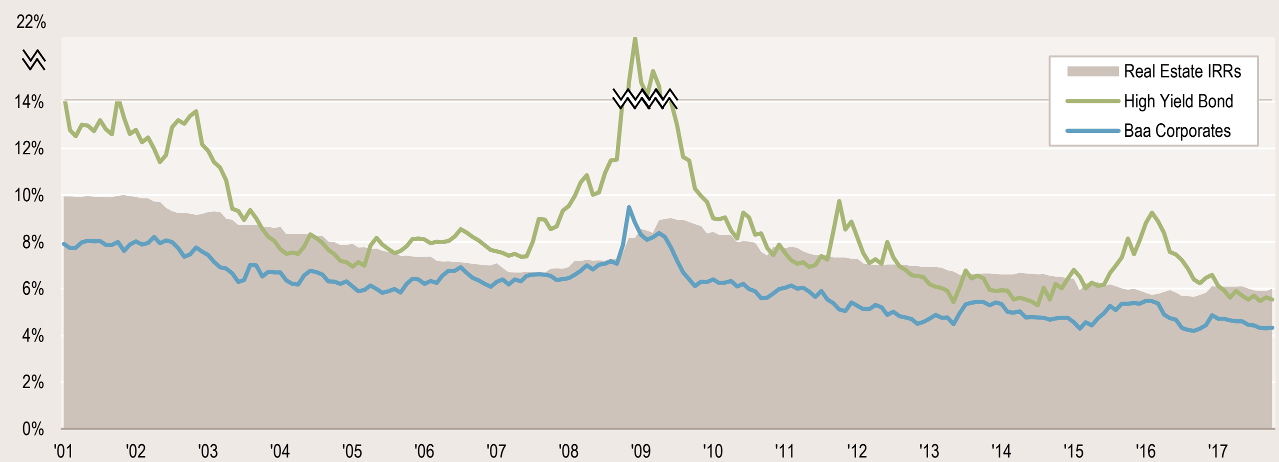
COMMERCIAL REAL ESTATE PRICE INDICES



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 April '15), Green Street Advisors – Commercial Property Price Index (Green St CPPI) (data through May '15). Note: For this chart, Green St CPPI was indexed to 100 at it's 2007 peak (Aug 2007) and Moody's CPPI was indexed at 100 in Dec 2006.
Note: Major markets include Boston, Chicago, Washington D.C. Metro, Los Angeles Metro, New York City Metro and San Francisco Metro.

Real estate values continue their modest upward trajectory although public markets are decelerating relative to private.

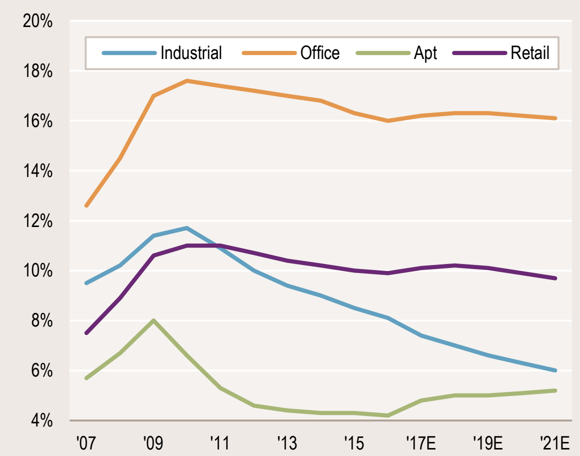
UNLEVERED TOTAL RETURN EXPECTATIONS ON REAL ESTATE VS. CORPORATE BOND YIELDS



Real Estate IRR is an equal-weighted average of the asset-weighted averages for the five major property sectors (Apartment, Industrial, Mall, Office and Strip Center).
Source: Green Street Advisors (Apr '16), Moody's (Baa Corporates), BAML (High-Yield Bonds)

Comparing the historic relationship of expected returns for real estate to corporate and high yield bonds indicates that real estate is attractively priced on a relative basis.

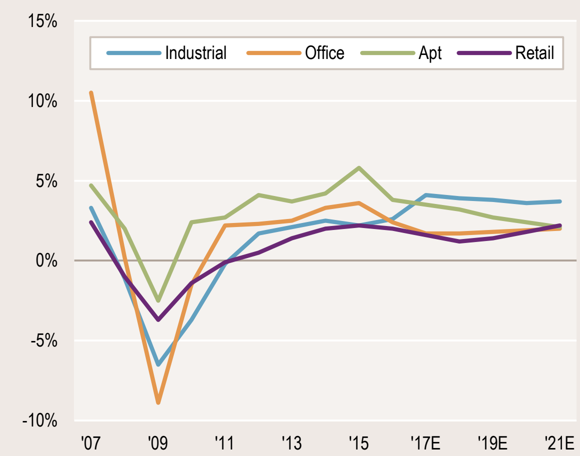
VACANCY RATES STEADY



Source: REIS, J.P. Morgan

Industrial vacancy rates declining while new apartment supply is being felt in its vacancy levels.

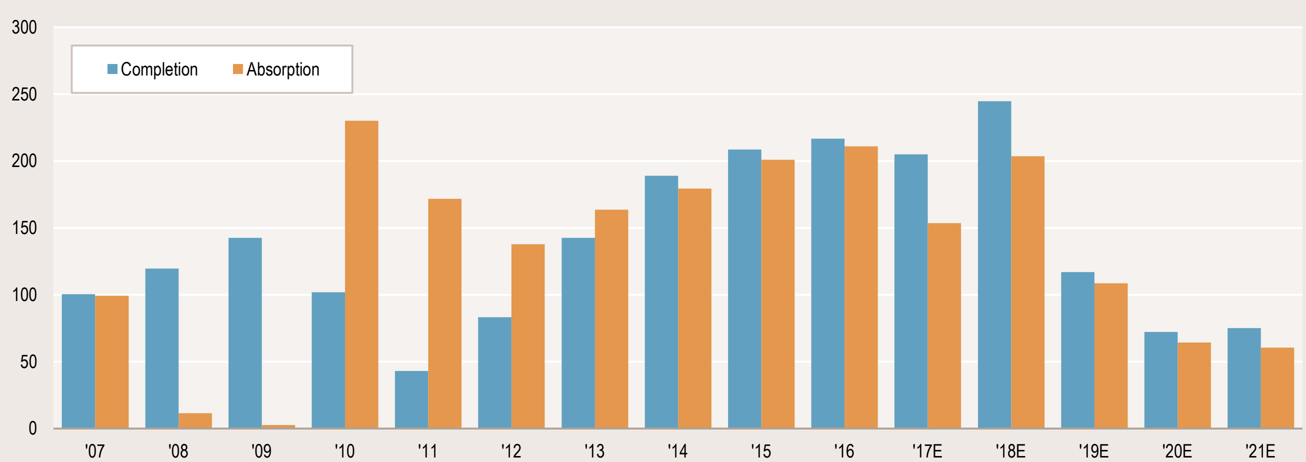
RENTAL GROWTH IS STEADY



Source: REIS, J.P. Morgan

Rental growth remains positive; apartment growth moderating.

APARTMENT COMPLETIONS OUTPACING ABSORPTION

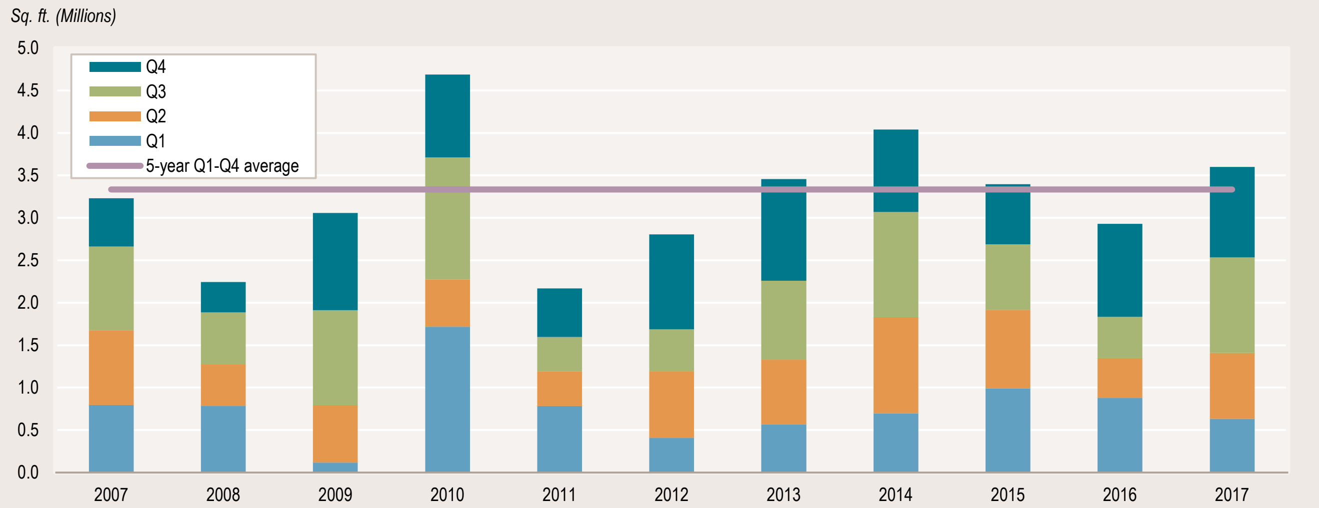


2017 full year estimated figures were calculated using the annualized average of final data provided through Q3 2017.
Source: REIS, J.P. Morgan

Apartment completions outpacing absorptions; 2018 cyclical peak for deliveries.

REAL ESTATE – EUROPE

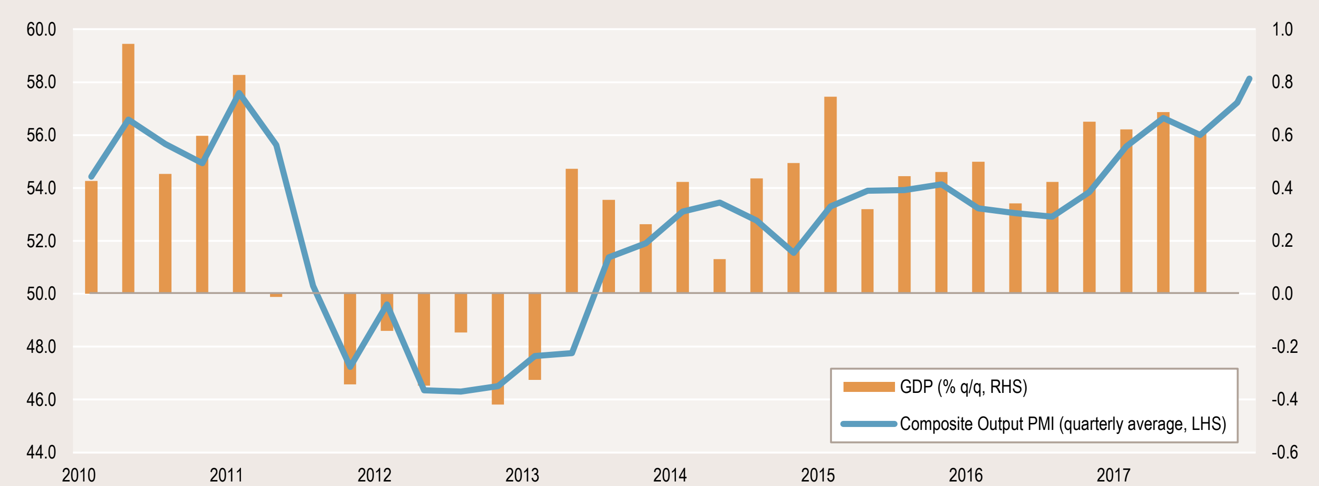
LONDON TAKE-UP



Source: Jones Lang LaSalle and Cushman & Wakefield

Office leasing in London's City Core has rebounded and is in line with trend.

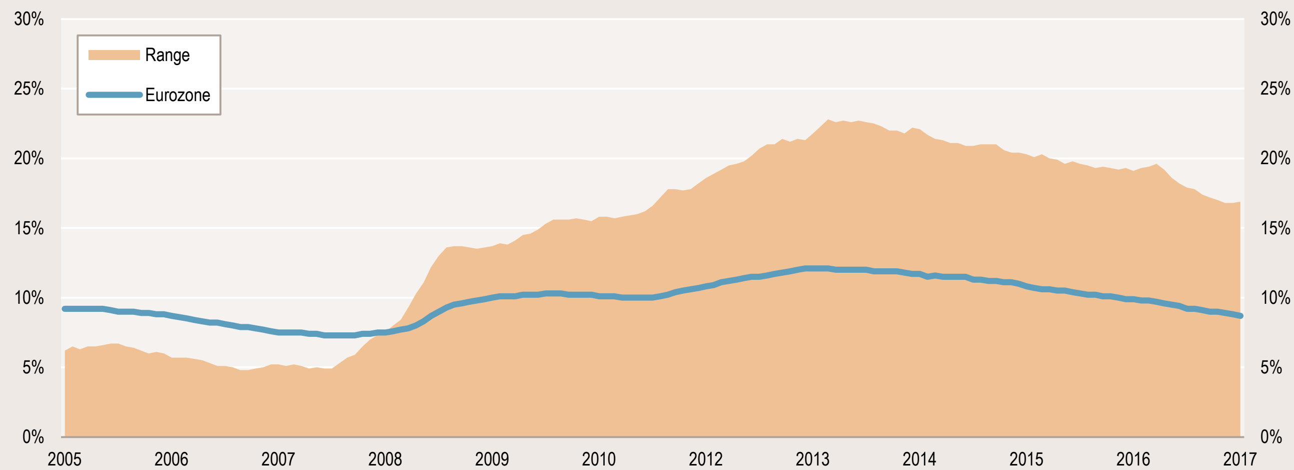
EUROZONE COMPOSITE PMI AND GDP



Source: Thomson Reuters, Markit, Capital Economics

Composite PMI suggests 4Q eurozone GDP will be above trend.

RANGE OF UNEMPLOYMENT RATES

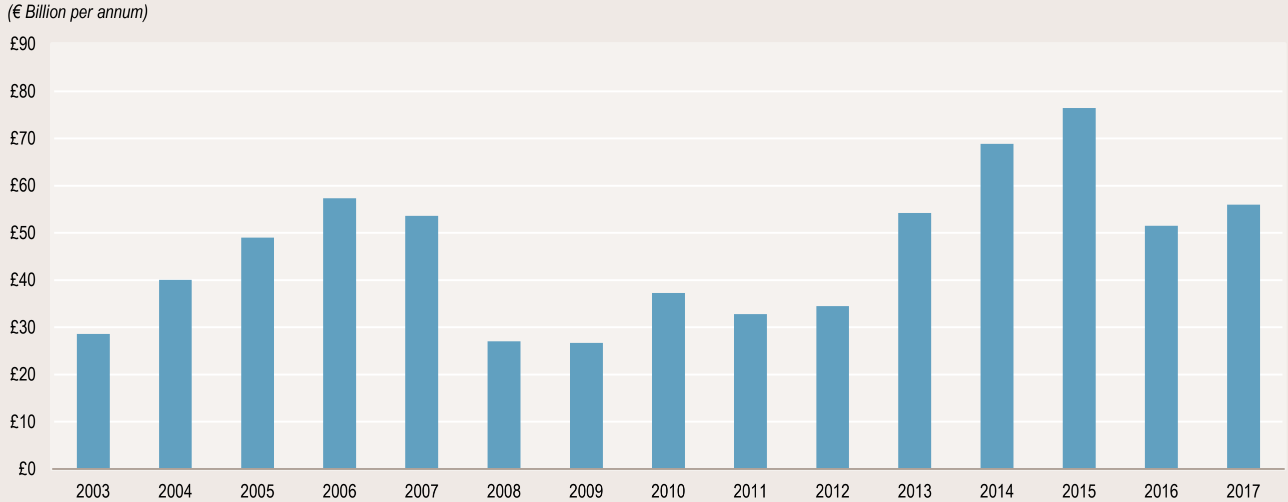


Source: Thomson Reuters, Markit, Capital Economics

Eurozone unemployment is decreasing but with a wide range per country.

U.K. COMMERCIAL PROPERTY DEAL VALUE

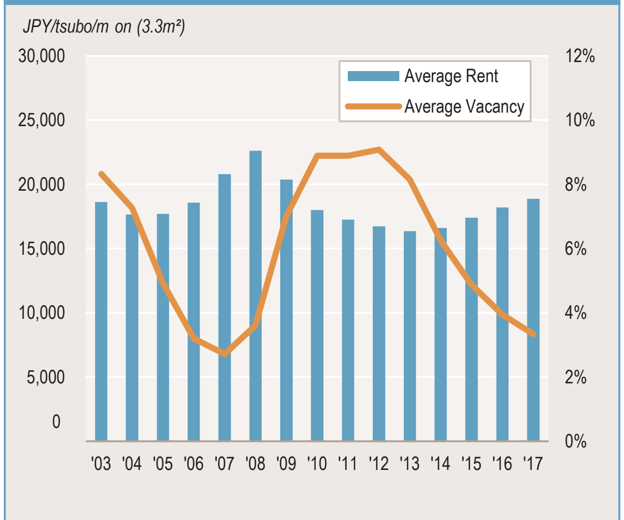
(€ Billion per annum)



Source: Capital Economics, Property Archive

Volumes of UK commercial property have rebounded.

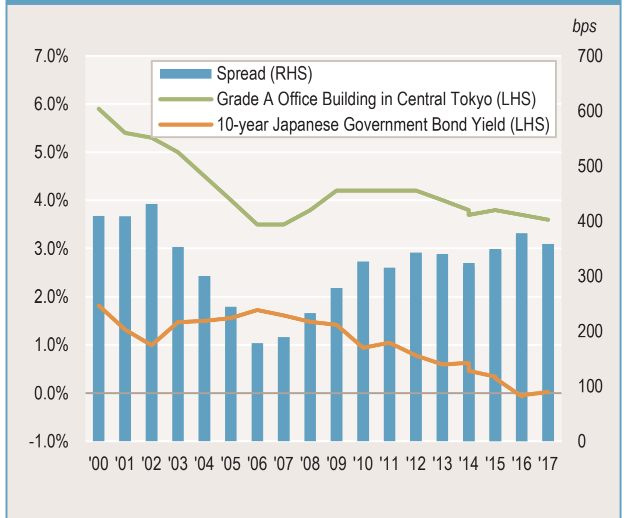
TOKYO'S FIVE CENTRAL WARDS GRADE A OFFICE RENT AND VACANCY RATE



Source: Miki Shoji

Occupancy in Tokyo continues to improve although significant new supply is expected in the coming years.

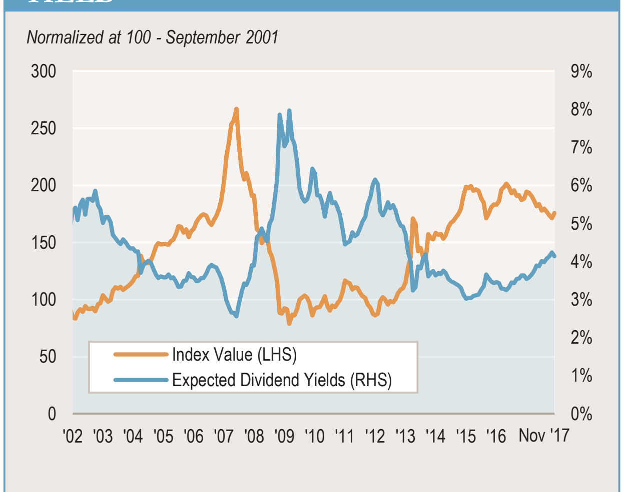
TOKYO GRADE A OFFICE CAP RATES VS. BORROWING COSTS



Source: Japan Real Estate Institute

Although spreads remain wide, cap rates are beginning to tighten.

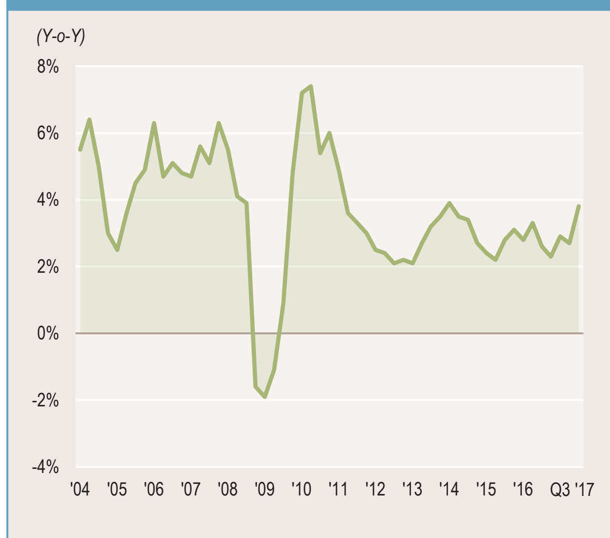
JAPANESE REAL ESTATE INVESTMENT TRUST (J-REIT) INDEX AND DIVIDEND YIELD



Source: Sumitomo Mitsui Trust Research Institute Co

The J-REIT index saw some declines in 2017 due to an ongoing Financial Services Agency investigation into potential improper practices by Japanese mutual funds.

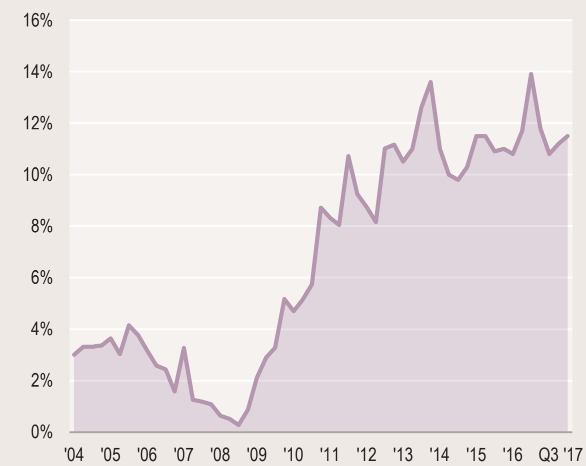
KOREA GDP GROWTH



Source: Bank of Korea

GDP growth continued to improve to 3.8% in the third quarter.

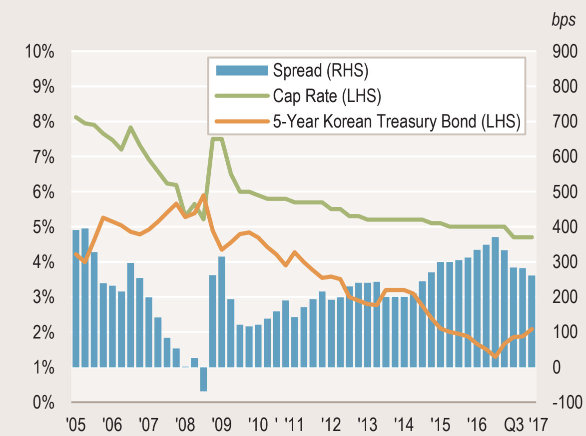
SEOUL OFFICE VACANCY RATE



Source: Jones Lang Lasalle Research

Office vacancy remained high at 11.5% as new supply was delivered to the market.

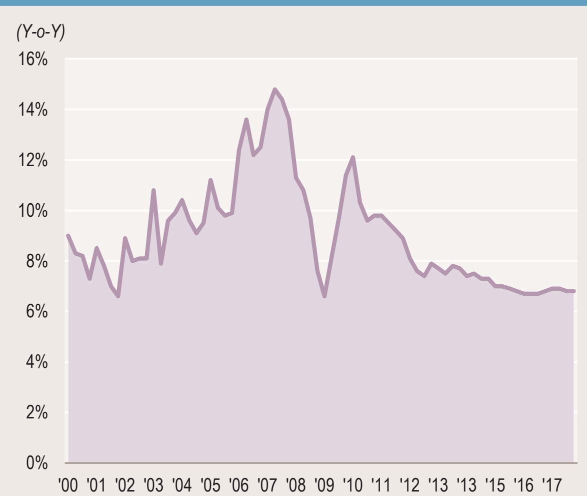
SEOUL PRIME OFFICE CAP RATE AND SPREAD OVER 5-YEAR TREASURY YIELD



Source: Savills Research

Spreads have begun to tighten as the 5 year Korean Treasury Bond has risen.

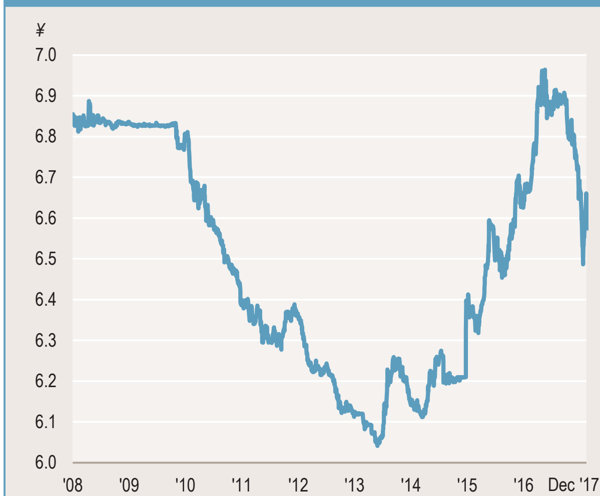
CHINA GDP GROWTH RATE



Source: National Bureau of Statistics of China

GDP growth continued to track towards 6.5%-7.0%.

USD VS. CNY



Source: Bloomberg

The Chinese RMB continued to show surprising strength in the most recent quarter.

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