January 30th, 2020

Dear investors,

Although the calendar year is not always the most appropriate time-interval to reflect on performance cycles or investment opportunities, when working in the asset management industry, we are used to treating the “end of December” as a reset for the New Year, like starting from a “blank page”. At Chenavari, we use this time to collectively and individually review our objectives, with a view to achieving excellence in what we do in the new year ahead.

Our ambition remains to make Chenavari the preferred choice for investors across the liquidity spectrum in the broad European credit space, including long/short corporate and financials, ABS and CLOs, specialty finance and private credit. We continue to invest in technology and enhance our investment and other processes, as well as striving to make Chenavari an exciting and diverse place to work to retain and attract the best talents in our industry. In 2019, we continued to strengthen Chenavari’s operational platform, with the full implementation of Clark – a new real time proprietary risk system, and further developed institutional investment solutions focused on alpha generation in European credit markets.

Looking across our industry, there was a notable amount of developments last year, with a number of high-profile fund managers deciding to retrench (e.g. Blue Mountain, Moore Capital). Others closed (e.g. Arrowgrass) or were affected by reputational issues, sometimes triggered by apparent liquidity mismatches.

2019 was not a very discriminating year in terms of long-only performance, as most of the asset classes delivered positive-to-strong returns. At the beginning of 2020, while liquidity is still abundant, we think that the forthcoming quarters will show greater dispersion of returns and active management will become even more important.

We are convinced that **European markets continue to offer both significant pockets of fundamental value** (across European CLOs, Greece & Ireland in the recovery phase, select segments in the UK Real Estate post Brexit) **and investment opportunities, driven by long-term drivers** such as bank regulatory capital constraints or persistent and accommodative European monetary environment.

Given where we are in the credit cycle, **after a fairly benign year** (almost eventless if we put aside the noise of populist politicians)**, we believe it is essential to remain focused on our core investment principles:**

- **Fundamentals and tangible collateral matter a great deal:** as credit investors seeking alpha, and/or in some cases smart beta, we are highly selective when assessing investment opportunities across different segments.
    - In *Tradable Credit*, we view some mezzanine European CLOs, select AT1s in European Financials and shorter-maturity corporate trades as providing potential trading opportunities in early 2020.
    - In *Private Credit*, we think performing bank loan acquisitions and Specialty Finance are the themes that offer attractive relative value. Most of these asset-backed transactions are typically self-amortising or structured with short duration. These characteristics are essential and much more resilient than traditional EV-based direct lending, especially in a downturn.

- **Market "technicals"** (e.g. supply/demand imbalance, investment sizing, liquidity mismatch, complexity) **are both pitfalls and possible sources of alpha**, as differentiated value can be sought in sometimes more 'complex' securities or credit origination situations, in contrast to the limited value currently available to traditional credit investors. We believe being nimble is equally important in both evaluating an investment and managing risks as opportunities in one segment rarely last in perpetuity. This nimble relative value approach has consistently earned Chenavari within the top 5 positions in the ranking of European managers by Citibank's periodic CLO Scorecard by annualised Price-Adjusted Par Build since first payment date[1].

- **Long-term drivers** act as a source of uncorrelated alpha, such as opportunities deriving from bank deleveraging, change in bank regulations, and central bank distortions. Retreat of traditional lenders and market-makers is now highly noticeable in several market segments including trade finance, real asset finance and consumer finance.

In 2020, we will increasingly pursue relative value **long/short strategies in our most liquid funds**, seeking to take advantage of dispersion and volatility, particularly in corporate credit. **In funds with a longer liquidity profile, we will combine long positions on "strong fundamentals" assets while seeking decorrelated alpha in short-term Specialty Finance loans**, such as trade finance and short-term real asset bridge finance. Finally, **our close-ended funds will benefit from their longer time horizon to pursue private credit strategies focused on highly collateralised lending** (specialty corporate loans with tangible collateral assigned to the benefit of our funds, real asset-backed loans) **and on granular loan pools** (e.g. residential mortgage loans, consumer loans). The latter will focus on market segments exhibiting strong collateral risk-adjusted performance, where we would be able to sustain a deterioration of market environment and where we would also possibly benefit from a very valuable source of uncorrelated alpha, with the ability to "transform/securitise" whole loan pools into ABS securities. Our investment team's breadth of expertise across the liquidity spectrum in the European markets allows us to gain greater depth of understanding of these opportunities and value drivers.

Last, but not least: as Australia bushfires rage on and environmental activists increasingly gain prominence and audience, we are relieved to note that the world has finally woken up to the urgent issue of climate change. At Chenavari, we are taking incremental steps towards different aspects of ESG: our first ESG policy was introduced in late 2017; our internal environmental policy was introduced in the summer of 2019; and TCLO 6, our first CLO vehicle implementing ESG parameters, was priced in July 2019 (Chenavari is one of the early adopters of ESG investment criteria into the CLO prospectus). We are extremely excited by the collaborative efforts we have been witnessing in our industry and believe such cooperation is the way forward.

As ever, we thank you for your continued trust in Chenavari and we remain committed to earn the confidence you have placed in us by managing your assets with our intense focus on relative value, risks and downside. On behalf of Chenavari, we once again wish you a healthy, happy and successful 2020 and look forward to the opportunity to working with you over the next decade.

With our very best regards,

Loïc Féry, CEO & Co-CIO   **Fréderic Couderc,** Co-CIO

Should you wish to arrange a follow-up discussion, please do not hesitate to contact us:

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NB: See next pages for our detailed Perspectives

Perspectives

2019 ended on a positive tone, with reduced tail risks on both the geopolitical and macro fronts. Firstly, the expected implementation of the Phase One deal between the U.S. and China has removed near-term downside risk from further escalation on tariffs, while the victory of the Conservative Party in the UK also somewhat reduced near-term uncertainty. Secondly, global recession fears have abated as the global economic outlook has brightened, with the continued improvement of the PMIs, especially in EM economies, which are more exposed to trade. While early indicators are pointing to a stabilisation and modest rebound in growth in the coming quarters, the outlook remains fragile and dependent on late cycle dynamics and various macro and long-term risks. Growth in the Eurozone is forecasted at 1.1% for 2020[2], while the ECB is highly likely to keep rates unchanged at -0.5% and continues its asset purchase program throughout 2020. The U.S. Federal Reserve should also keep rates on hold throughout the year, as inflationary pressures are likely to remain muted. Such a benign macro backdrop with stabilising GDP growth should support credit spreads, as credit fundamentals are likely to improve, especially in cyclical credits, which should benefit the most from a trade war de-escalation and recovery in manufacturing.

Nevertheless, 2020 will continue to be another year very much intertwined with geopolitical events, with the U.S. presidential election in November (and the key primaries and caucuses) and the U.K. Prime Minister implementing Brexit by 31 December 2020. Some new leaders will be formally tested for their abilities, not least the new president of the European Central Bank, Christine Lagarde, the new European Commission president, Ursula von der Leyen, and the new Governor of the Bank of England, Andrew Bailey. Any of the known and unknown geopolitical and other events, such as a volatile U.S. election campaign, further deterioration of the Iran situation or the coronavirus outbreak, could tip the markets into our tail "Double Red Pill" scenario, deteriorating the credit matrix with higher risk of a recession happening.

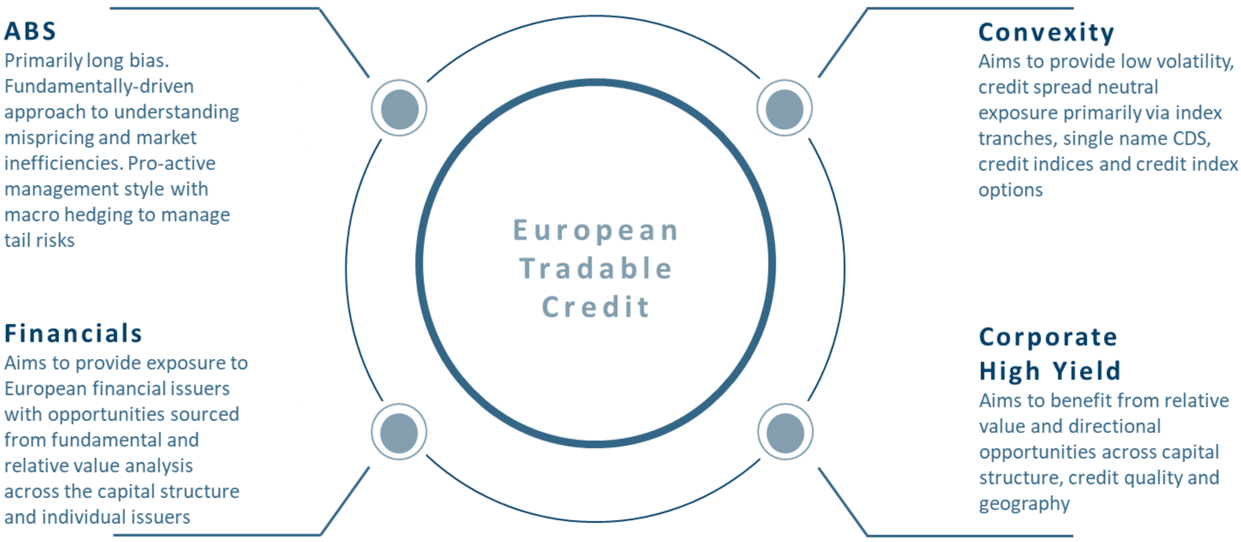
From Single Blue Pill to Double Red Pill

As the market rally in 2019 and early 2020 continued to reduce the available market beta significantly and valuations remain expensive for most assets, weak market technicals such as poor liquidity and unsuitable investment vehicles with asset/liability imbalances (e.g. ETFs) remain a concern in Tradable markets. In the Private Credit market, jumbo size funds in excess of €5bn and direct lending dry powder of $111.6bn[3] meant some market segments could become quite crowded.

Single Blue Pill Growth stabilises or slightly recovers whilst there is no deterioration of trade tensions		**Double Red Pill** A tail scenario of further downward pressure on growth, with the credit matrix deteriorating and higher risk of a recession happening
► No fiscal spending in Europe		► No fiscal spending in Europe
► Smooth election campaign in the US		► Volatile election campaign in the US
► Rates remain stable		► Rates lower - 10Y treasuries 0%
► Credit spread stable to grind tighter	⟷	► Credit spreads wider by 50% to 100%
► Credit and equity outperform rates		► Credit and equity underperform rates
► Carry and quality are king		► Default rates increase more than 2x
► Default rates stabilise from current levels		► Decompression HY versus IG
► Dispersion remains elevated		► Dispersion diminishes pushed by contagion to BB/BBB

Tradable Credit

Strategy Overview



Within **European ABS/CLOs**, the market in 2019 was characterised by a gradual widening amidst a lack of volatility. We observed an increasing dispersion, especially on the junior tranches, while spreads across the whole capital structure decompressed[4], making CLO arbitrage unattractive at the weighted average cost of debt of c. 200bps (at c. 185bps at the time of writing). Despite such widening, European CLOs had a record issuance of over 70 transactions reaching c. €30bn (+10% year-on-year). Heading into early part of 2020, we believe junior mezzanine debt should offer the best risk-adjusted value, after having experienced significant widening in 2019 and potentially benefitting from technical tailwinds as the unattractive CLO arbitrage, and limited loans supply should weigh on new CLO formation. From a fundamental perspective, European CLOs compare favourably to U.S. CLOs.

In the **Corporate High Yield** market, single name dispersion became prevalent in 2019, especially within the higher beta B rated segment, and we observed large recorded price moves in response to corporate events and idiosyncratic developments with a large number of issuers trading in a 10 or even 20 points range. Although market sentiment has turned to become “Fear of Missing Out”, large price moves on weak fundamentals credit continue. We believe deep dive fundamental research, coupled with agnostic long/short trading of corporate credit, should continue to generate significant alpha for investors in 2020.

Within **European Financials**, we believe there continues to be attractive relative value investment opportunities across the different parts of the capital structure, between issuers, both on the long and short side. This would nonetheless require expertise and focus on understanding the complex and changing regulations and technical events which are driving alpha generation. We continue to favour AT1s given the strong fundamentals of European banks, having increased CET1 capital by more than 50% since 2011[5] at an average CET1 ratio of 14%[6]. The tightening in AT1s observed in 2019 has been accelerated and is still supported by large inflows in financial funds in the last four months of the year (of €3bn)[7]. The asset class remains attractive considering its low volatility amongst the investable universe and yield pickup relative to high yield corporates:

Chart 1: Current Yield vs 1Y Volatility[8]

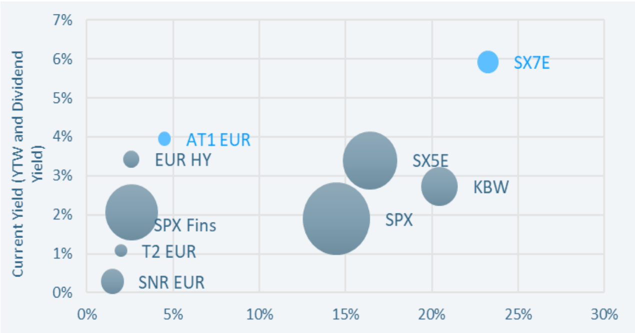
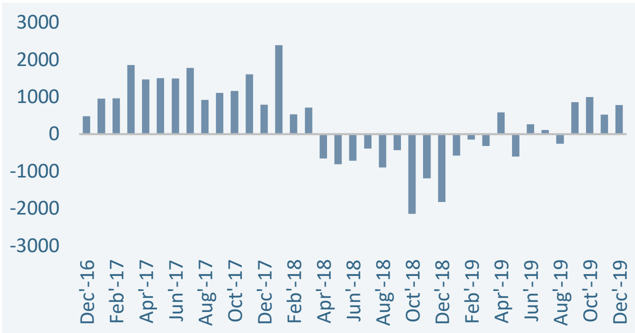


Chart 2: European Financials Funds Flows (€m)[7]



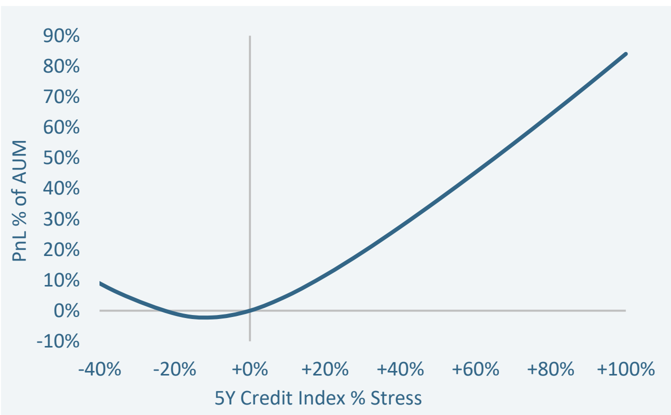
On the technical front, AT1 & T2 valuations should be supported by modest issuance needs in 2020 which is expected to be roughly similar to the past year[9]. Further supply of AT1 and T2 could arise if the ECB were to follow the lead of the UK regulators by allowing a mix of CET1, AT1 and T2 to comply with Pillar 2 requirement[10]. Regulation could provide catalysts for AT1s, with the probable release of the draft CRR3 in the second quarter of the year that could include an increase in the trigger requirement.[11]

Within **Convexity**, after a sharp decline of implied correlation at the end of 2018, we were able to capture some cheap sources of convexity through credit index tranche trading. Potential value is observed on positions with shorter maturities, where implied correlation and dispersions within the granular portfolios of credit indices remain relatively low. Further, there has been no credit default within the first 3 years of the indices in the last 10 years. We view this as an investment providing attractive risk-adjusted return or as an efficient hedge for tail scenarios.

As we started the year with tight spreads, low rates and persistent single name dispersion, potential alpha opportunities abound for disciplined fundamental long/short players. Coupled with positive convexity and laser focus on liquidity, this should provide investors with much-needed protection against surprises which cannot be ignored.

Our dedicated Liquid Alts team are active in the most liquid part of the credit spectrum (mainly corporate and financials), aiming at generating alpha, and/or in some cases smart beta, both on the long and short side, whilst ensuring that performance is protected should market conditions turn. Our other funds and mandates have been set up to capture the best ideas across the whole Tradable Credit spectrum, allowing the team to dynamically adjust the focus depending on where we see relative value. Since 2015, Chenavari has also implemented a short bias strategy to manage tail scenario for our clients.

Chart 3: Short Bias Strategy's Stress Scenario Profile[12]

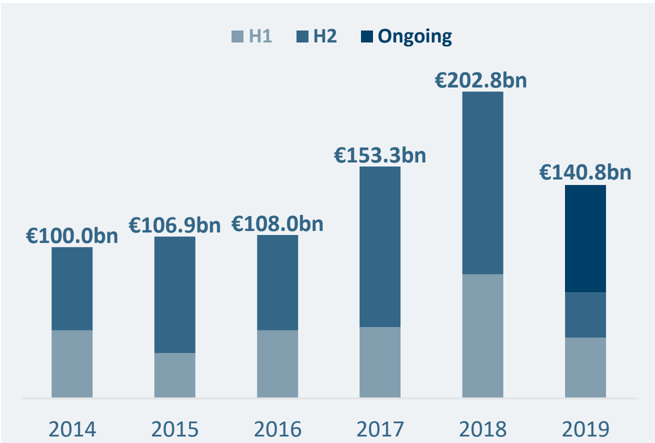


Private Credit – Continued Focus on Specialty Finance

Throughout 2019, multiple long-term factors driving investment opportunities in Private Credit continued to be at play. With less than two years before the finalisation of Basel III reforms taking effect in early 2022, regulatory adoption of several core Basel III elements such as the leverage ratio and the Net Stable Funding Ratio (NSFR) have yet to be adopted by all jurisdictions[13]. We view the acquisition of portfolios of revolving credit bank facilities as attractive investments in 2020, as they tend to be uneconomical for banks from a commercial standpoint. In addition, Basel III requires banks to apply a multiplier to the Asset Value Correlation (AVC) for exposures to large regulated financial institutions and unregulated financial institutions. As a result, they hold more capital against these exposures than under earlier rules. For trade finance, this is significant because many Letters of Credit result in bank-to-bank exposures and so will attract relatively more capital. These are just a few examples which require specialist teams to understand, capture, price and structure potential niche investment opportunities driven by evolving and complex regulations driving the behaviour of European banks.

In European loan portfolio sales, after a record of more than €200bn in 2018, 2019 is forecast to finish the year at €140bn. 2020 is anticipated to continue at a similar pace as banks are under pressure to work through the last stages of Basel III implementation as well as further regulatory and other requirements.

Chart 4: European Loan Portfolio Market Activity, by year[14]



With the reduction of NPLs from €1tn in 2014 to €587bn in March 2019[14], we expect 2020 to be a year marked by a more diversified mix of loan portfolio sales. Our investment team continues to favour performing loan portfolios as the acquisition of a set of contractual cash flows "fit" for financing and, eventually, for a return to the banking system. Throughout 2019, the team successfully completed several securitisations, including those of personal loans and salary-backed loans for an aggregated amount of c. €500m, achieving the first of its kind in many respects. The former transaction was the first Italian ABS deal where the full capital structure was placed in the market since the crisis and offering an excess spread-backed note, both of which were well received by investors. For the second transaction, thanks to the high quality of the underlying collateral, 99% of the capital structure was rated investment grade. These transactions showcased the team's ability to analyse data in a forensic manner, leverage on its structuring expertise, and achieving attractive financing in the capital markets.

2019 was also marked by the launch of jumbo size funds[15]. Direct lending funds accounted for the largest portion (35%) at $263bn as of December 2018 and 90% of all capital raised in Q3 2019 for a total of $20bn[16]. At Chenavari, we have long been concerned about the increase of dry powder and the incredible growth of supply in the "EBITDA-secured" mid-market lending, which in our opinion no longer offers value due to weakening credit fundamentals, increasing leverage metrics, weaker covenants, as well as tighter spreads on these loans.

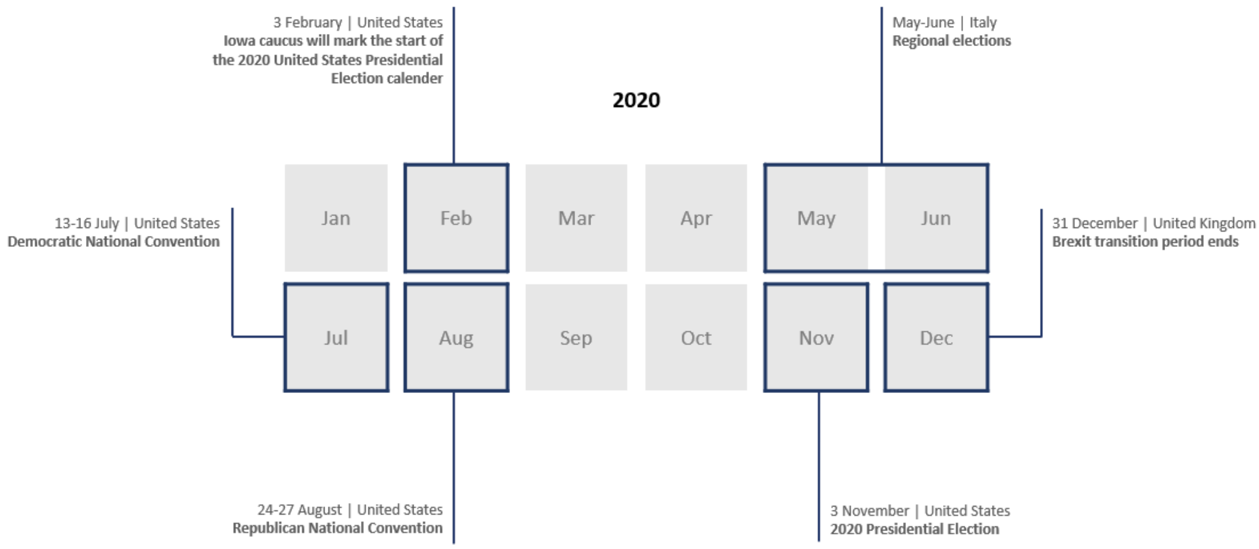
As European banks are poised to accelerate their deleveraging process, whether through loan sales or exiting/reducing capital intensive businesses such as consumer loans or credit cards, and with more than $110bn of dry powder to be deployed in direct lending, we believe **our focus on European Specialty Finance**[17] **segments remains very attractive**.

Specialty Finance tends to be operationally more intensive, thus creating **higher barriers to entry**. Unlike the U.S., European Specialty Finance was once a highly profitable activity within European banks and has become a "de facto orphan business". We believe our ability to originate through our long-established specialty finance origination partners, mostly carved-outs from the banks, have allowed the team to originate better quality loans.

2019 was a milestone year for Greece: for the first time in nine years, Greece priced its 10-year government bonds to yield 3.9% in March and has since tightened to 1.4% as of 31 December 2019[18]. Greek Real Estate prices recovered by 9.5% since Q1 2019[19] and the New Democracy (centre-right) party won an absolute majority in the general elections in 2019 with a mandate to foster private investment and attract foreign capital within 18 months. We believe Greece's macro environment will continue to be constructive and compares well in terms of relative value to the other European countries. We will continue to focus on **Greek recovery investment opportunities** such as those allowing for attractive entry points (e.g. Real Estate) or loan origination backed by conservative collateral valuations.

In the UK, the result of the general election in December removed a significant amount of uncertainty, with the Conservative party winning with the largest margin since Margaret Thatcher's 1987 triumph. Markets breathed a sigh of relief as the path to the UK's departure from the EU became a lot clearer, although there still remains a significant number of unresolved details, not least, the actual timing of departure. Investment opportunities around core Real Estate target sectors could offer attractive relative value compared to Europe, and we have already seen an increase in activity including an investment in the £1.25bn Whiteleys redevelopment in West London by Chinese investor CC Land[20]. For sectors such as London Offices and UK Private Rental Sector/Student, supply demand dynamics remain attractive. Given continued low interest rates, the depreciation of Sterling and tightening capitalisation rates on the continent, this makes the UK, and particularly London, attractive to overseas investor[21] and there is no sign of such capital flows abating. We expect a pickup of investment activities in the real estate sector in 2020.

Key Market Events for the Rest of 2020



1 Citi EUR CLO Scorecard, April and November 2019
2 ECB, as of 12 December 2019
3 Preqin, Quarterly Update: Private Debt Q3 2019
4 Chenavari team observed that generic spreads on BBB, BB and B ended up 25bps, 100bps and 125bps wider while AAA closed 2019 10bps tighter
5 Basel III Monitoring Report, October 2019
6 ECB, Supervisory Banking Statistics, Third Quarter 2019
7 Chenavari and Bloomberg, as of 31 December 2019
8 Chenavari and Bloomberg
9 Chenavari, at c. €20bn T2 and €35bn AT1
10 Pursuant to article 104a of CRD5
11 This scenario would likely lead to a grandfathering of low-trigger AT1s (especially 5.125%) and therefore a greater probability of call at first call date on such capital instruments
12 Chenavari, as of 24 January 2020. The results shown represent estimated gross performance of the Short Bias Strategy under the market conditions stated in the chart above. For example, +10% means the current 5Y credit index level increased by 10% and other market data components are moving in line with historical assumptions
Estimates are based on the market conditions at the time of modelling and are therefore, subject to change. Stress Tests present a set of hypothetical scenarios that assume changes for one or more market variable in order to assess the effect on the portfolio. Chenavari has made assumptions that it deems reasonable and uses the best information available to calculate the stress test estimates. If a different set of assumptions were used in this calculation, there could be a material difference in the calculated estimates
13 For example, all 24 FSB jurisdictions have the core elements of the Basel III risk-based capital and liquidity (Liquidity Coverage Ratio (LCR)) rules in force. Source: Implementation and Effects of the G20 Financial Regulatory Reforms: Fifth Annual Report, FSB
14 Deloitte, Deleveraging Europe, October 2019
15 Financial Times, Alcentra and BlueBay raise jumbo-sized 'direct lending' funds, 21 July 2019
16 Preqin, Quarterly Update: Private Debt Q3 2019
17 Specialty Finance includes real-assets finance, consumer finance and collateralised corporate financing, such as receivables finance, trade finance and more generally corporate financing secured by assets (and not just corporate EV).
18 Bloomberg, as of 31 December 2019
19 Bank of Greece, as of 31 July 2019
20 Financial Times, CC Land and Meyer Bergman invest in £1.25bn London property, 20 December 2019
21 The first 3 quarters of 2019 saw an increase in purchases of UK assets by U.S. and Middle East investors of 56% and 15%, respectively

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