Dear Investors,

Gathering thoughts for a year-end review and outlook is often an instructive exercise, not least in reminding ourselves of how much has occurred in the year just gone. For Chenavari, this included a major evolution as we moved offices for only the second time in our 10-year history. Our new space on 80 Victoria Street has brought many advantages, but most important is the chance to further enhance the cohesiveness of our team and our transparency as an organisation - we continue to believe in the power of these values to improve our overall performance. **We warmly invite you to visit our new London offices, if you have not already done so**. We regard the attractive returns of our flagship funds in 2017 as further demonstration of the team's commitment to these goals.

Major political developments were again significant drivers of asset markets in 2017. In Europe, the ebb and flow of the Brexit negotiations continued to command attention after the UK triggered Article 50 in March. The contradictions of the UK's approach will become increasingly clear, and the associated uncertainty leads us to a bearish outlook for the domestic economy. The French election in April and May of last year also prompted concern for investors; however Macron's decisive victory lifted sentiment, in a blow to the global populist phenomenon, and buttresses our positive view on the outlook for a stronger Europe. In the US, President Trump's key policies initiatives were stymied at first, but markets were more focused on the tax reform package, which was finally approved at the end of the year. The legislation will have a differentiated impact on both US corporates and European multinationals, where our fundamental credit research can again provide an edge in identifying potential winners and losers. Furthermore, the nomination of Jerome Powell as the new Chair of the US Federal Reserve, together with new rotating members, increases the hawkish contingent of the FOMC and raises the probability of more interest rate hikes than are currently priced into markets.

The ECB also remained a key influence, particularly with the announced 'tapering' of their asset purchase programme and associated extension to the life of the programme to the end of September 2018 "or beyond, if necessary"[1]. Data further confirmed the strengthening of economic momentum in Europe, with a 'Goldilocks' environment of strong growth with contained inflation. ECB forecasts[2] for real GDP growth in the euro area in 2018 were increased from 1.7% to 2.3%, while the projected HICP inflation rate was revised down from 1.6% to 1.4%.

Given this strong economic environment in Europe, and the impact of regulations on European banks' business models, **we consider ourselves fortunate with the current opportunity set available to our investment strategies, across the liquidity spectrum**, in the coming year. During this period of prevalent low or negative yields, particularly in Europe, we can find value by unearthing distinctive investments that can offer attractive, diversifying sources of income and potential capital gains. With the application of our proprietary pan-European origination network, fundamental credit research abilities, structuring expertise, and leveraging of strong relationships, we can also look to add potentially significant value to these investments.

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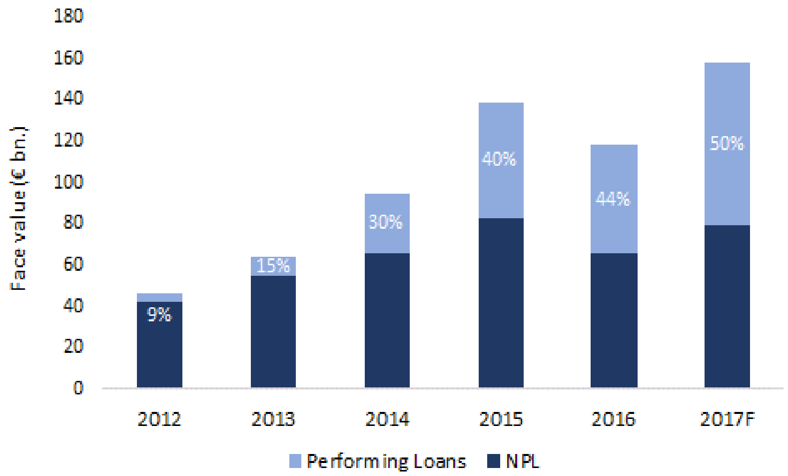
[1] ECB, "Monetary policy decisions" press release, 26 October 2017

[2] ECB & Eurosystem staff macroeconomic projections for the euro area, 9 March 2017 & 14 December 2017

European banks still have €2tn of unresolved non-core assets on their balance sheets[3], providing an ongoing source of opportunities for our strategies focused on **Private Credit and particularly in the European Specialty Finance sector**. Both 2017 and 2018 are expected to see volumes in excess of €100bn of portfolio transactions in Europe, with Italy likely to see increased activity as attention turns to disposals of non-core performing loan portfolios. Chenavari continues to source attractive portfolios of loans for acquisition, with interesting deals in the area of specialty finance, trade finance, leasing and receivables finance. For example, **Chenavari recently acquired Creditis, the consumer finance portfolio and operations of Banca Carige in Italy**[4]. In addition, the increased activity that we saw in capital relief transactions during Q3 and Q4 should see continued momentum as banks continue to feel pressure on their balance sheets and business models.

Loan portfolio sales[3]



Continuing trends also provide a strong environment for our strategies, as ***banks continue to withdraw from activities deemed as non-strategic or with associated high cost of capital.*** Even basic features can drive this dynamic: for example, risk weightings are calibrated on one-year maturities that typically penalise shorter-duration transactions such as Trade Finance. Similarly in Real Estate, key drivers include the rise of co-working, demonstrated as WeWork accounted for close to 6% of all central London lease take up in 2017. Strong rental growth in the Residential sector also continues to attract investment, and we anticipate continued strong demand for assets with these yields as key European cities see housing shortages.

Market trends can also be exploited though the ability to bridge the frequent gaps between private and public markets. The cost of financing for some investments has declined significantly in the face of low interest rates and the enormous central bank purchase programme in Europe. This enables us to structure, or restructure, investments with attractive performance characteristics, and provides an option for Chenavari to use the team's expertise to securitise suitable assets and lock-in attractive returns. **Transforming private credit pools into public ABS is a significant potential alpha contributor for the performance of our private credit funds.**

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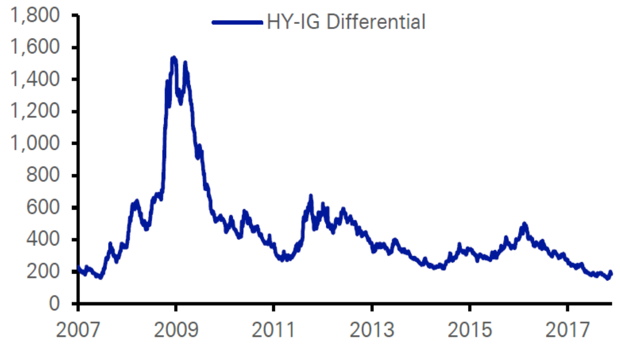
[3] PWC, "Portfolio Advisory Group Market Update Q4 2016", March 2017 & PWC, "Opportunity for investors and vendors alike – Q1 2017 market update", June 2017
2017F calculated using Q1 2017 data releases and adjusted for a number of delayed transactions which were to be completed at the time of calculation
[4] Reuters, "Italy's Carige to sell consumer credit arm to Chenavari", 5 December 2017

For public markets, a notable feature of last year was low volatility. However, ***toward the end of 2017, we saw more differentiation appear in credit markets, particularly in High Yield***. Investor concerns focused on extended capital structures such as Altice and Astaldi, plus companies in consumer sectors facing strong competitive pressures, such as Retail and parts of the Energy sector. At tight levels of credit spreads, and with reduced support from central bank asset purchases, we anticipate the themes of dispersion and decompression may be key drivers for European credit markets going forward. For example, ***the relative levels of IG and HY index spreads in Europe indicate the potential for such decompression over time***:



Source: Deutsche Bank, as of November 2017

In this context, **we see strong potential in relative value trades and reaffirm our belief in the benefits of our opportunistic, long/short approach to tradable credit markets**. Our affinity with the use of derivatives is also important, as we believe they are likely to outperform cash instruments as the central bank tapers asset purchases. The lack of duration in CDS also enables an expression of pure credit views, and liquidity is abundant in index products in particular.

Areas of value remain, such as European ABS and Financials assets, where we continue to source opportunities based on our credit research through identifying attractive relative valuations and identifying key market technical drivers. Within the European ABS space, we see value in CLOs that are benefitting from record low default rates and supply growth. Lower-rated BB and B tranches have lagged broader moves tighter, while we believe the equity is also likely to benefit from improved arbitrage dynamics. We also believe Leveraged Loan issuance should benefit from any increase in corporate M&A activity and investments from private equity firms.

In Financials, we believe select bank-issued assets should continue to benefit from improving economic fundamentals, increased certainty in the regulatory environment, attractive yields, and technical drivers such as the creation of Total Return Swap products on indices referencing contingent convertible debt. A relative valuation comparison between European AT1 bonds and comparable US trust preferred securities highlights the favourable backdrop for the European instruments. Furthermore, at this more advanced stage of the economic cycle and with potential reflation dynamics, we will also look to selectively increase exposure to equities in this sector. Regulatory changes, such as further efforts to finalise a banking union in Europe, could drive potential upside for this part of the capital structure.

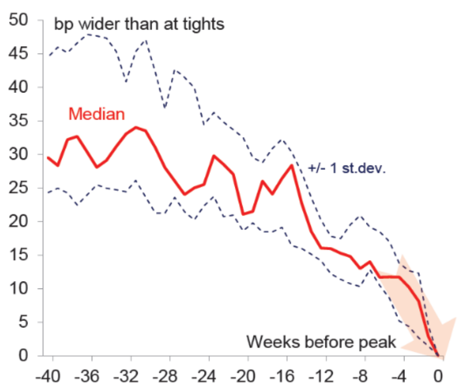
While we can identify a number of attractive opportunities in tradable credit markets, ***we must also be cognisant of the advanced age of the current expansion, with signs of reflation gathering momentum***. This leads us to prefer liquid instruments, such as derivatives over cash bonds. This also points to the benefits of more liquid portfolios; changes in market structure have diminished the capacity to absorb shocks and leave open the possibility of greater volatility than many have become accustomed to expect:

US Dealer inventory versus outstanding size of IG and HY market

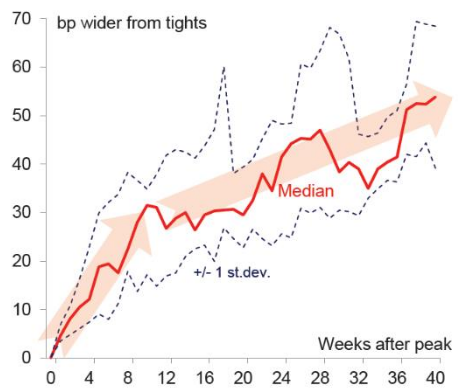
Source: NY Fed, Bloomberg, Deutsche Bank, "Long-Term Asset Return Study" as of 18 September 2017
Note: The inventory series changed from 2013

Potential risks remain, including ***elections in Italy on 4th March***, the ***continuing withdrawal of the ECB's asset purchase programmes, and well-flagged interest rate hikes in the US***. Inevitably there may also be uncertainties which are difficult to predict, where owning convexity will be beneficial – predicting the timing of a turn in the market is very difficult; however, preparing for the consequences need not be.

$ BBB spread performance in 40 weeks before tights, 1962-2017



$ BBB spread performance in first 40 weeks after tights, 1962-2017



Source: Citi Research, "The Anatomy of a Correction", September 2017

We believe the current market opportunities discussed here, are being driven by large scale and long-term factors. These include:

- **Regulatory pressures**; including Basel III, Basel IV and Solvency II
- **Economic fundamentals**; impressively strong performance by European economies
- **Monetary policy**; much reduced costs of financing thanks to central bank asset purchases

At Chenavari, we believe our breadth of expertise allows for a great depth of understanding of these opportunities and driving factors, and our funds have varying mandates to capture these investments as we source them.

Chenavari advises a publicly traded fund with a potentially attractive yield (with a stated dividend target of 8% or greater). Our tradable credit hedge fund offering includes a multi-strategy credit fund and the Lyxor/Chenavari Credit UCITS Fund. New Chenavari launches are focused on private credit markets, including a Private Credit Opportunities strategy, Trade Finance strategy and upcoming latest version of our Real Estate strategy. We would welcome the opportunity to discuss these investments in greater detail with you.

Once again we wish you a healthy, happy and successful New Year. We look forward to the opportunity to work with you and, last but not least, **we thank you for your continued trust in Chenavari**.

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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