East Lodge Capital

Investor Letter February 2015

East Lodge Capital Credit Opportunities Fund

East Lodge Capital Partners LLP ("East Lodge") is a London based investment management firm founded by Alistair Lumsden in August 2013. The East Lodge Capital Credit Opportunities Fund ("The Fund") is focused on opportunities across the global structured finance and direct lending markets, with a particular focus on investments in the European space.

Performance Since Inception[1]

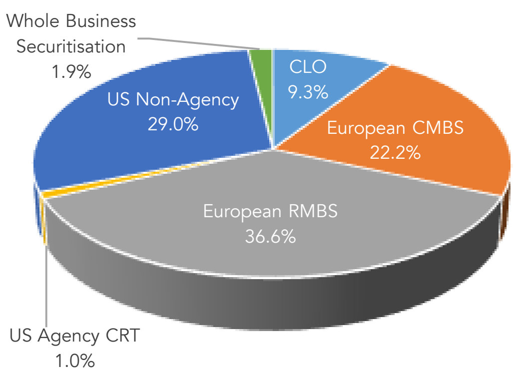
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD*
2014				4.27%[2]	1.21%	1.81%	0.54%	-0.42%	1.05%	-0.55%	-0.39%	-0.48%	7.15%
2015	0.97%	0.10%											1.07%

*Fund launched in April 2014

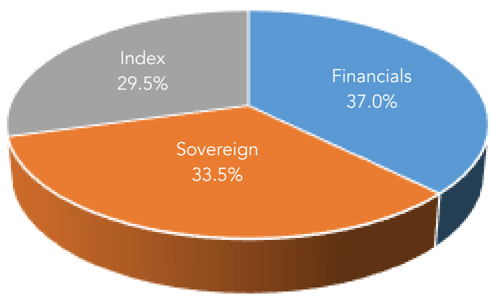
Assets Under Management

Fund AUM as at 28th February 2015	Firm AUM as at 28th February 2015
$605,766,000	$605,766,000

Long Credit Exposure (LCE)



Short Credit Exposure (SCE)



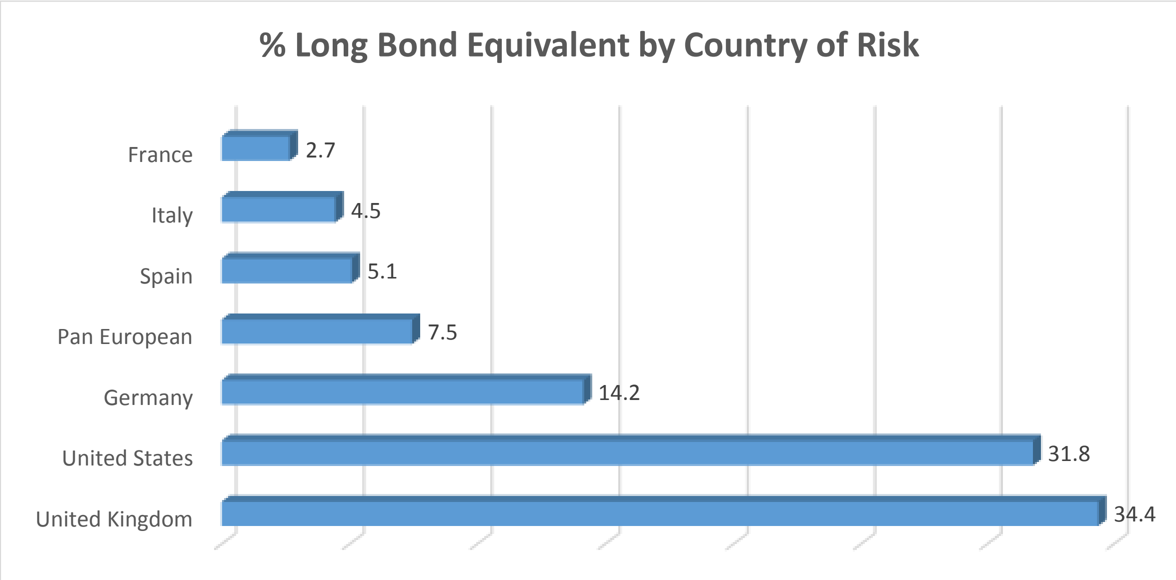
Portfolio Summary as at 28th February 2015

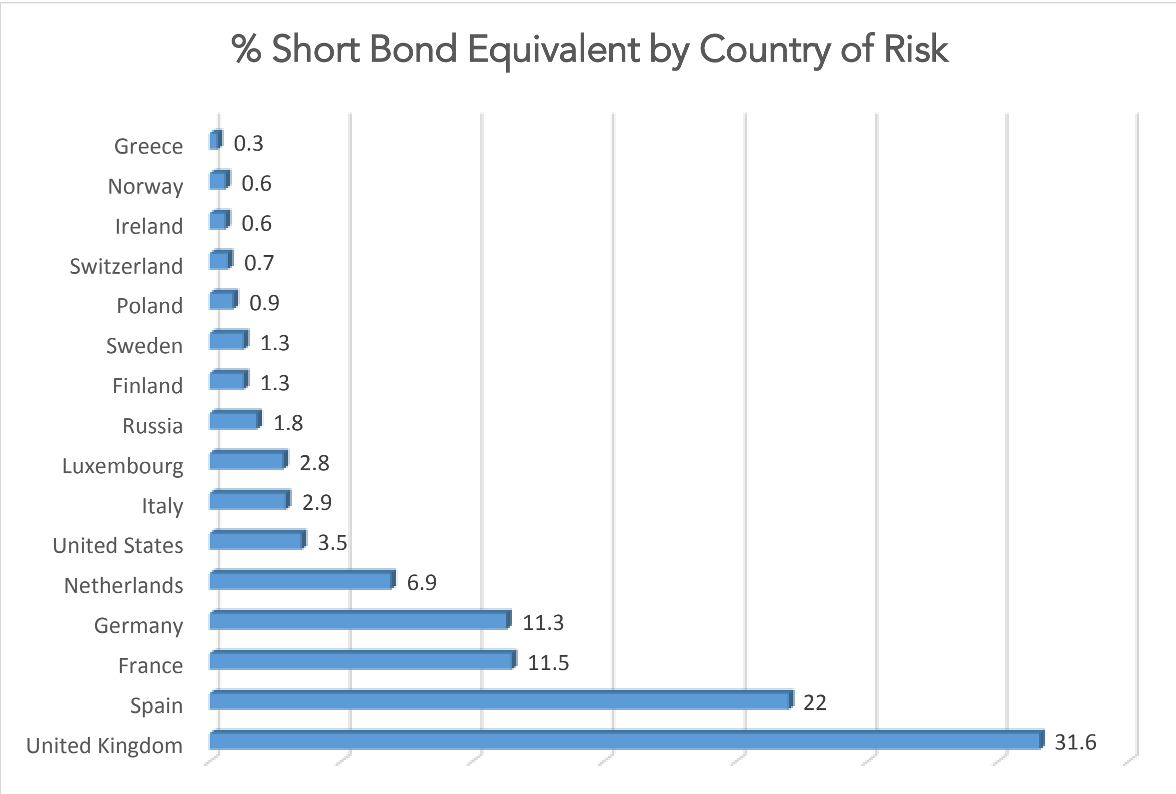
Total Long Credit Exposure as % of NAV	Total Short Credit Exposure as % of NAV
169.9%	46.9%

[1] Performance shown is the weighted average return of the Class A Shares of the East Lodge Capital Credit Opportunities Fund, Ltd. (the Offshore Fund) for April 2014 – June 2014, and the weighted average return of the Class B Shares (USD Non-side pocket share class) of the Offshore Fund for July 2014 onwards. Performance is shown net of fees and expenses and the returns are unaudited. Please see disclaimer for further details.

[2] As only principal capital was invested in the Fund during the month of April 2014, no management or performance fees were charged. In addition, due to the relatively small amount of capital in the Fund as of April 2014, the amount of organization fees and expenses that would have otherwise been charged to the Fund for such month were capped and performance figures reflect such capping. Such fees and expenses, had they been charged, would have had the effect of reducing the returns shown.

Country Analysis as at 28th February 2015





Commentary

Overview

February was a month of competing forces within Europe with market participants eagerly anticipating the start of QE in March offset by several macroeconomic concerns that led to volatility around certain events. Continuing the upward trend we saw in January, February was another month of positive contribution from the long side of the portfolio, particularly so in Europe. The dialogue between Germany and Greece was closely watched and markets reacted positively when a bailout extension was finally requested and approved subject to conditions. At the same time, leaders met in Minsk and agreed a package of peacekeeping measures paving the way to a ceasefire in Ukraine on February 17th. A fairly acute move tighter in Crossover followed, with fears allayed and market participants shifting their focus to the impending QE. As a result, we experienced negative attribution in our Crossover hedge, amongst other more minor detractors in the US portfolio and a small negative attribution from an option position. The fundamentals of such political issues remain fragile, however, and we remain committed to maintaining what we believe is an appropriate hedge against more wide scale credit spread widening in the portfolio.

More granularly, on the long side, European RMBS contributed 32bps to performance driven by our Spanish Senior exposure moving higher in price on the back of renewed focus on the Spanish recovery story combined with a compression in credit spreads. The CLO portfolio contributed 21bps to performance coming mainly from a sharp move tighter in our US CLO BBB exposure that had lagged the European rally in January.

The European CMBS and Whole Business Securitization portfolios contributed 26 bps to performance. This was primarily driven by one of our pub exposures moving higher in price on the back of increased interest from a relative value perspective to other investment grade corporates and following a rating upgrade in the profile.

US RMBS contributed 14bps to performance driven by substantial tightening in the Credit Risk Transfer market and overall firmness in the non-agency space. Most notably, subprime mezzanine bonds had a good month as investors priced in more positive assumptions going forward.

The hedge portfolio detracted 53 bps from performance. The bulk of this was driven by a tightening in Crossover, as mentioned above, however we also experienced some losses in financials, with one bank in particular, Standard Chartered.

European RMBS

Rising like a phoenix from the ashes: Credit conditions have finally thawed for first-time buyers in the UK. Statistics released this month by the Council of Mortgage Lenders (CML) show that lending to first-time buyers in 2014 reached the highest annual level since 2007 with 676,900 loans taken out and £112.7bn advanced in total. In 2015 there are signs of novel products being introduced to help first-time buyers such as the 10 year fixed rate 95% LTV mortgage from TSB – the retail bank spun out of Lloyds in 2014 – and we expect to see more product innovation as the number of credit providers continues to grow and mortgage rates look set to stay low throughout 2015. CML also released data regarding repossessions in 2014 (21,000 in total) and mortgage arrears at the end of 2014 (116,800 loans) - both numbers are the lowest they have been since 2006.

Apparently Blue Unicorns exist: February may be a short month but this year a rare beast was seen in the market – the portfolio backing the Proventus CDO of European ABS. The significance of this liquidation was the release of nearly $600mm in market value, predominantly mezzanine tranches, including many blocks of Dutch Non-conforming and Spanish Mezzanine paper that had not been seen trading for some time. The market gladly accepted the supply, indeed it was a challenge to buy the paper in certain jurisdictions, as the focus started to come back to Europe ahead of the ECB QE program set to begin in March. During February, the speed of purchases under the ABS Purchase Program (ABSPP) continued to underwhelm but the price action remains stable on eligible assets. This has created a 'two-tier' market of assets that are eligible and those that are not, however the first signs of further spread compression in the credit curve can be seen which will likely benefit the ineligible assets far more than the eligible ones.

CLO

It's hard to make an omelet without eggs: The primary market for leveraged loans is running slowly on both sides of the Atlantic (about 50%) versus the same period in 2014. This has resulted in a continued weak pipeline for new issue CLOs. It is hard to create a new CLO when your primary ingredient is in short supply, leaving managers with a choice of two unappealing angles: 1) picking the credits nobody wants at lower prices, or 2) chasing loans in secondary markets and driving the prices up until the new issue arbitrage no longer works. Those managers currently coming to market in Europe tend to be first time or niche managers who have typically had to have their warehouses open for longer so have been able to accumulate collateral when there was greater supply. Supply in Europe YTD stands at €2bn vs €15bn for the full year in 2014, however we expect to see more deals as the year progresses driven by leverage loan creation on the back of M&A activity. In light of this supply dynamic, it is unsurprising that spreads in secondary markets continue to grind tighter benefitting our existing exposure.

European CMBS

Special servicer behavior…more important than they realize: Since the financial crisis, special servicers in the CMBS market have at times come under criticism for their actions. There is a view amongst many market participants that special servicers often fail to understand the importance of their role to the investor, or to appreciate the impact the notices and publications they release to the market have on the price of the underlying deals they are responsible for servicing. There are some special servicers who, to their credit, have come to recognize this, and who have implemented improvements such as holding regular investor calls and providing more detailed information to ensure they are fulfilling their stated role as the servicer or special servicer. Of course there still remain a few who don't give the appropriate amount of credit to their role in servicing the underlying loans, having a direct negative effect on the bonds. We experienced this first hand during February, with one of our largest CMBS senior positions negatively impacted. In this case, the special servicer released a notice with a new valuation for a portfolio of properties secured under the largest loan in the transaction that reflected a fall in value of 27% from their previous valuation that had been done in October 2013. The new valuation was released in February 2015, and the notice that was released with the valuation failed to include the date of the updated valuation (August 2014). It took 6 months for this new valuation to be released and the special servicer could not explain why. This caused the market to panic and we saw a significant drop in price. As regular readers of our commentary will be aware, we have consistently referenced the tighter yields associated with a recovering commercial property market throughout Europe. In a market such as the one we are currently in, it is clear that a valuation conducted in August 2014 is likely to be lower than one conducted in February 2015. To be certain, however, we decided to visit several of the largest assets, located in towns throughout Germany, to ensure there was nothing that we may have missed. We came away from this site visit with the view that the assets offered good relative value, there were clear improvements, such as new tenants taking down dark space, that had not been reported to investors, and that even the special servicer (upon being asked) was unaware of. The bond price has since stabilized and we were able to benefit by adding at the lows.

Prepayment shocks continue: Positive momentum continues across the Commercial Real Estate markets in Europe. During February we saw Patrizia buy a portfolio of 107 German retail supermarkets and discount retail properties for €286mm from Eurocastle – a level greater than we have seen previously for a portfolio of assets such as these. Included in this was a portfolio of properties that served as collateral for the largest loan in a transaction for a second pay position that we owned. The unexpected early prepayment was above the portfolio's 2014 valuation and caused strong price appreciation in the underlying bond.

German multi-family: German multi-family has historically been a big proportion of the CMBS universe, but this may be about to change. In December 2014, Deutsche Annington agreed to buy rival landlord Gagfah for €3.9bn in a deal that would create a new German residential property giant in Europe's largest rental market. Gagfah currently have €4.5bn of CMBS bonds outstanding and it is understood that as part of the acquisition, Deutsche Annington plan to repay the debt, although the exact timing remains unknown. This month they closed with a syndication of lenders on €6.25bn, which we understand will be utilized to refinance the debt, among other things.

Falling Lending Margins and the inflows into the market continue: Cushman & Wakefield reported this month that prime margins at the end of 2014 stood between 1.2% and 2% in the UK, versus 1.75%-2.5% a year ago. A similar level of spread tightening is being seen across secondary assets. We continue to hear anecdotes about the competitiveness of the market throughout Europe, and despite continued spread tightening, money continues to flow into the sector. Axa REIM raised over €1.5bn at the first closing of its most recent pan-European real estate debt fund. The fund raising, which followed shortly after they were awarded a separate €250mm commercial real estate investment mandate from a Dutch insurance company, brings total commitments received by Axa real estate for its debt platform in 2014 to €3.7bn.

US RMBS

Continued strong performance in the US: Spreads were firm on fairly typical volume throughout February, carrying over the positive tone from January. Customers bought an average of about $670mm per day during the month, consistent with the average for 2014. Bid lists traded competitively with many bonds trading into a re-securitization bid, where the underlying bond is split into a more stable front end and a more leveraged back end (the so called re-remic trade where leverage is effectively added to US non-agency trades without the necessity of expressing this as leverage in overall portfolio statistics).

Ocwen troubles continue: One notable exception to the positive momentum related to deals serviced by Ocwen. As the company's legal issues continue to develop, Ocwen serviced bonds traded at a slight discount as investors demanded some concession for the uncertainty. The trustee on two SABR deals was instructed to terminate the servicing agreement with Ocwen while Ocwen also announced the sale of $9.8bn of agency servicing to Nationstar.

CRT no longer an orphan: Spreads in FNMA and FHLMC credit risk transfer (CRT) tightened substantially leading up to and after the pricing of the CAS 2015-C01 transaction. The lowest tranche of the CAS/STACR deals tightened up to 50-60 bps month-on-month, and 70-75 basis points to intra month tights, before softening going into month end as some investors looked to take profits. Prepayment speeds on existing CRT deals declined slightly in February while delinquencies continue to be lower than expectations. After stumbling badly in the fourth quarter of 2014, spreads on the unrated tranches are 100 bps (or more) tighter than their wides in December.

Not 2013, but still good: The final numbers for 2014 Case-Shiller home prices showed a gain of 4.5% on the 20-City Composite index. While the final number was below the consensus forecast through much of the year, it was still well above the rate of inflation. All twenty cities showed gains for the year although the growth was higher in the western and southern states. San Francisco, Miami and Denver led the gains, with each up over 8% on the year. The weakest growth areas were Chicago, Cleveland, Washington, Minneapolis and New York, which each posted between 1% and 2% growth. The monthly result was a 0.1% gain, on a non-seasonally adjusted basis. December is generally a weak month so a positive value for the month is a good sign for the current state of home prices.

Short term noisy, long term positive: Deal performance was unremarkable in February, with voluntary prepayments falling from January levels (1.3 CPR in Alt-A, 0.1 CPR in POA and 0.9 CPR in subprime) and 60+ delinquencies declining as well[1]. Delinquencies fell 15 bps in Alt-A, 33 bps in POA and 7 bps in subprime. Liquidations were generally lower and severities generally higher. Looking at monthly numbers can leave one feeling lost in the weeds. From a broader perspective, delinquencies as of February stood at 19.34% in Alt-A, 24.10% in POA and 27.06% in subprime. These figures represent a decline of 264, 370 and 275 bps respectively, over the past year. Compared to a year earlier, voluntary prepayments are about 0.9 CPR higher averaged across the three collateral groups. Liquidations are about 0.7 CDR lower and severities are up slightly. The longer term trend of improving borrower performance remains in place.

Financials / Shorts

Waiting Games: Mr Draghi's seemingly ace serve of QE was blunted by the Greek government lobbing in some hefty rhetoric such as Tsipras' statement that the EU would accept Greece's proposals and that no bailout extension would be requested. This, together with Greek Finance Minister Varoufakis' meeting tour of various Eurozone ministers, precipitated a period of headline tennis as the market lurched from gapping tighter on statements such as "working together" to wider as German Finance Minister Schaeuble volleyed back with "it's over" and that Greece could "expect no further concessions." In addition, effective 11th February, the ECB stopped accepting Greek government debt as collateral, forcing the banks to rely on Emergency Liquidity Assistance (ELA). The ELA is 200 bps more expensive and is reviewed every two weeks. The ECB has continued to raise the ELA ceiling since the start of the Greek crisis this time around, reaching €63.8bn so far (by comparison it reached €107bn in 2012) and is a powerful tool to keep up the pressure on Greece.

After a nervous waiting period, a bailout extension request emerged mid-month which retained some of its pre-election positions. This request was swiftly rejected, and finally on the 24th of February, a version much closer to the original bail out agreement was approved by the Eurogroup. Greece's ASE index jumped to end at 937.96, closing at the highest level since December despite the proposal being described as "not very specific" by the IMF and the ECB's comments that it lacked specific reform measures. The Eurogroup has set an end of April deadline for reforms to be set out with a final deadline of June for these reforms to be ratified by the Greek parliament.

Beyond this, focus moved towards the launch of QE and discussions around the ECB meeting. Markets have rallied, but this has the potential to be a marathon match and negotiations could be difficult. There is still no clear strategy to fund Greece for the months of March and April and there is tension within the coalition and within Syriza itself.

The Greek Treasury faces the following requirements in March and April:

- March 6: €1.225bn T-bills, €300m IMF
- March 13: €1.6bn T-bills, €336m IMF
- March 16: €560m IMF
- March 20: €1.6bn T-bills, €336m IMF
- April 9: €448m IMF
- April 14: €1.4bn T-bills
- April 17: €1bn T-bills

While there is scope for resolution, event risk has increased even in the context of QE and the reduction in private sector exposure to Greece. Market levels appear increasingly optimistic with the peripheral 10 year bonds at historic lows. Itraxx indices and CDS have seen some significant changes in the last 6 months with changes to definitions and constituents, but with adjustments for changes in ratings, February ended at tighter levels still. The new Itraxx series scheduled for March sees even further changes, and the financials indices will be expanded from 25 to 30 names. Despite these changes, the constituents of Main will remain at 125 by reducing the number of non-financials to 95 and limiting consumer sector names to 25 (currently at 30). Finally, Crossover will now only require members to have an average spread of 1.5 times those in the Markit iTraxx Non-Financial Index to be eligible. As a result, Crossover S23 will be broadly the same as S22 and avoids limiting the number of members to 70 thereby reducing liquidity.

CAPITAL in Capital Letters. February saw a plethora of European bank results and pre-results announcements. Non-performing assets look to have reached a peak in Spain during 2014 and Italy finally saw slowing NPA formation. Elsewhere, asset quality may have peaked but generally remains solid with notable exceptions in Russia, commodities and pockets of emerging market exposure. Points of note include: dividend resumption at Lloyds, Societe Generale finally being more conciliatory regarding its Russian operations and management changes at Standard Chartered. Overall, banks are improving capital at the expense of profitability and this looks to set to continue as a 10+% fully loaded Common Equity Tier 1 (CET1) ratio is being established as a minimum expectation from the market. The ECB is warming up to its supervisory role and has commented on the quality of capital in addition to issuing bank-specific capital letters regarding minimum ratios. The ECB has also made recommendations on dividends, stating that banks that already meet their fully loaded capital requirements should only pay dividends in a 'conservative manner' so that they are resilient in a downturn. Those that still have a capital shortfall under the stress tests should not pay dividends. On a related note, the Swiss TBTF (too big to fail) Evaluation Report was published calling for higher leverage ratios, but didn't specify targets. Of more interest is its commentary on risk weighted assets (RWA) and a recommendation to review these in certain circumstances, potentially imposing RWA floors. This highlights to us the increased scrutiny in this area and the potential for inflation of risk weighted assets going forward. Periphery banks spreads could demonstrate volatility on political noise, but as of the end of February, the market is more mindful of the power of QE, viewing the interconnectedness of Eurozone and Greece as low.

European Direct Lending

The first European Direct Lending investment closed during the month of February. The deal involved low-levered funding of a short-term facility to bridge the development sale of a major UK city-center commercial site with planning consent for a new-build office. The term is likely to be around 12-18 months, with anticipated returns (term dependent) of 16-20%. We are actively pursuing additional opportunities within the UK and also in mainland Europe. We continue to see strong interest from sponsors and the broker community in the provision of specialist lending facilities.

[1] JP Morgan

Gross Return Attribution by Strategy as at 28th February:

Strategy	Attribution (%)	LCE (%)
CLOs	0.21	9.3
European CMBS	0.13	22.2
European RMBS	0.32	36.6
US Non-Agency	0.10	29.0
US Agency (CRT)	0.03	1.0
Whole Business Securitisation	0.12	1.9
Hedge	-0.53	N/A
Financing	-0.08	N/A
Total Return (%)	**0.30**[3]	

Largest Positions by Sector as at 28th February:

Position	Sector	Seniority	% of Portfolio
1	European RMBS	Residual	3.55
2	European RMBS	Senior	2.9
3	European CMBS	Senior/Second Pay	2.62
4	European RMBS	Senior	2.36
5	European CMBS	Senior/Second Pay	1.96
6	US Subprime	Mezzanine	1.91
7	US POA	Senior	1.84
8	European RMBS	Mezzanine	1.78
9	US POA	Senior	1.78
10	European CMBS	Senior/Second Pay	1.75

[3] Gross return used for attribution purposes. See disclosure notes that follow.

Stress Tests

Stress Test	Result (% NAV)
Equities -10%	0.09
Equities +10%	-0.09
Corporate Credit Spreads -25%	-0.65%
Corporate Credit Spreads +25%	0.56%
Equity Volatility -5 pts	0.00
Equity Volatility +5 pts	0.00
FX -10%	0.39%
FX +10%	-0.14%

VaR

VaR (1 Day 95%) (% of Nav)	0.35

Long Equity Delta	Short Equity Delta
0%	0%

ASC 820

Category	% LCE
Level 1	0
Level 2	96.5
Level 3	3.6

Estimated Liquidity

Category	% LCE
< 30 Days	35.7
30-60 Days	60.8
>60 Days	3.6

Fund Terms

Minimum Investment ($ mn)	1
High Water Mark	Yes
Side Pocket	Optional (subject to 20% limit)
Redemptions	Quarterly
Redemption Notice	90 days[1]
Gate	25% (Investor-level)
Management Fee	2%[2]
Performance Fee	20%[2]

Lock	1 year soft[1]
Prime Brokers	Bank of America Merrill Lynch Barclays Bank Plc
Administrator	Wells Fargo Global Fund Services LLC
Auditor	EY
US/UK Legal Counsel	Schulte, Roth & Zabel International LLP
Cayman Legal Counsel	Mourant Ozannes

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[1] Redemption notice must be provided in writing no later than 90 days prior to the end of the quarter in which a redemption is requested. In the event a redemption is made from the fund within 12 months following an investor's initial investment, a 4% redemption penalty will be applied

[2] Refers to fees for Share Class B

Legal Disclaimer

This document contains general information on East Lodge Capital Credit Opportunities Fund Ltd. (the "Offshore Fund") and East Lodge Capital Credit Opportunities Fund LP (the "Domestic Fund", each a "Fund", and together with the Offshore Fund, the "Funds") which are managed by East Lodge Capital Partners LLP ("East Lodge").

Each Fund invests substantially all of its assets in the East Lodge Capital Credit Opportunities Master Fund, Ltd. (the "Master Fund"). This document, which is being provided on a confidential basis, is not an offer to sell nor a solicitation of an offer to buy interests of either Fund. Offers and sales of interests in the Funds may only be made in those jurisdictions permitted by law and once a qualified offeree receives a Confidential Private Placement Memorandum (a "Memorandum") which describes the risks related to an investment in the Funds. This presentation is qualified in its entirety by reference to such documentation. In the case of any inconsistency between the descriptions or terms in this document and the Memorandum, the Memorandum shall control. While all the information prepared in this documentation is believed to be accurate, East Lodge makes no express warranty as to the completeness or accuracy of such information.

This document may not be reproduced or redistributed in whole or in part. Notwithstanding the foregoing, an investor may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the Funds and all materials of any kind (including opinions or other tax analysis) that are provided to an investor relating to such tax treatment and tax structure.

An investment in either Fund is speculative and involves a high degree of risk and there is no guarantee that the Fund's investment objective will be achieved. Opportunities for withdrawal/redemption and transferability of interests are restricted, so investors may not have access to capital when it is needed. There is no secondary market for the interests and none is expected to develop. The Master Fund's portfolio, which is under the sole trading authority of East Lodge, is a credit strategy with a focus on securitized products and this lack of diversification may result in higher risk. Please see the Memorandum for a more detailed description of the risks involved with an investment in the Funds. An investor should not make an investment unless he/she is prepared to lose all or a substantial portion of his/her investment. The fees and expenses charged in connection with this investment may be higher than the fees and expenses of other investment alternatives and may offset profits.

Past performance of the Funds should not be construed as in indicator of future performance.

Any projections, market outlooks or estimates in this documentation are forward looking statements and are based upon certain assumptions. Other events which were not taken into account may occur and may significantly affect the returns or performance of the Funds. Due to market risks and uncertainties, any projections, outlooks or assumptions should not be construed to be indicative of the actual events which will occur.

Fund Net Performance

Performance shown is that of Class A Shares of the Offshore Fund for April 2014 – June 2014, and Class B (US$ non-side pocket participating) Shares for the Offshore Fund for July 2014 onwards. Returns are unaudited and are shown net of all fees and expenses, though we note that the April 2014 performance number reflects the capping of certain Fund expenses. In addition, as only principal capital was invested in the Fund during the month of April 2014, no management or performance fees were charged during that month. In addition, due to the relatively small amount of capital in the Fund as of April 2014, the amount of organisation fees and expenses that would have otherwise been charged to the Fund for such month were capped and performance figures reflect such capping. Such fees and expenses, had they been charged, would have had the effect of reducing the returns shown. Note that an individual investor's rate of return may vary based on the terms of its subscription and the timing of its investment in the Fund.

Portfolio Statistics

Unless otherwise noted, all portfolio statistical information shown is for the Master Fund and is calculated by East Lodge and is unaudited. Portfolio information is as at the date shown; accordingly, the current portfolio of the Fund may vary, sometimes materially, from that shown.

- Long Credit Exposure (LCE): Shows asset class exposure as a percentage of total long credit exposure at month end mark to market.

- Country Analysis: Shows country of risk for each long credit asset as a percentage of total long credit exposure; where a security has more than one country of risk, the largest country of risk for that security is used.

- Gross Return Attribution by Strategy: Shows an estimate of the gross return attribution of the various long and short fund exposures. Any FX and funding costs are assumed to be distributed pro rata amongst the various asset classes based on profits.

- Estimated Liquidity Profile: reflects the liquidity profile of the long credit portfolio using the following methodology used by East Lodge:
    - < 30 days Senior tranches
    - 30-60 days Large exposures >$50m, 2nd lien senior bonds, mezzanine ABS
    - 60-90 days Residuals, CLO tranches rated below BBB

- ASC 820 classifications are unaudited and are estimates assigned solely by East Lodge. East Lodge makes no representation as to the accuracy of such classifications.

- Stress tests are calculated by East Lodge and reflect estimated impacts due to changes in FX rates and the impact of changes in credit spreads on the Funds' financial holdings.

- VaR is calculated by East Lodge using simulations based on historical portfolio price information derived from Markit Partners.