East Lodge Capital Investor Letter October 2014

East Lodge Capital Credit Opportunities Fund

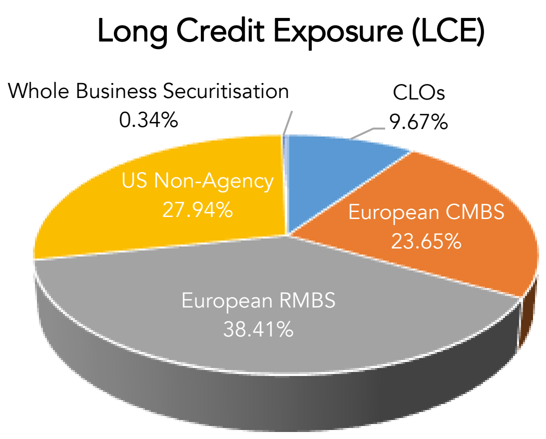
East Lodge Capital Partners LLP ("East Lodge") is a London based investment management firm founded by Alistair Lumsden in August 2013. The East Lodge Capital Credit Opportunities Fund ("The Fund") is focused on opportunities across the global structured finance and direct lending markets, with a particular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

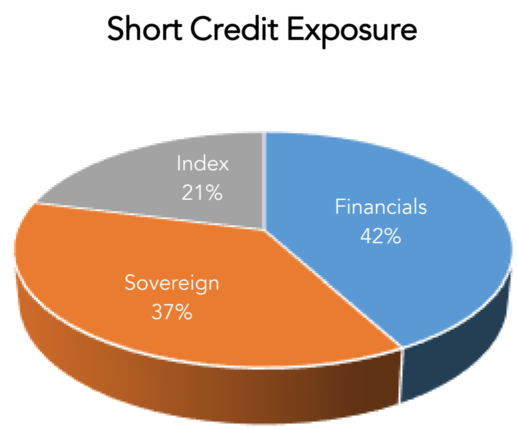
Performance since Inception[1]

April 2014	May 2014	June 2014	July 2014	August 2014	September 2014	October 2014	2014 YTD Return (April inception)
4.27%[2]	1.21%	1.81%	0.54%	-0.42%	1.05%	-0.55%	8.09%

Assets Under Management

Fund AUM as of 1 October 2014	Firm AUM as of 1 October 2014
$523,968,000	$523,968,000





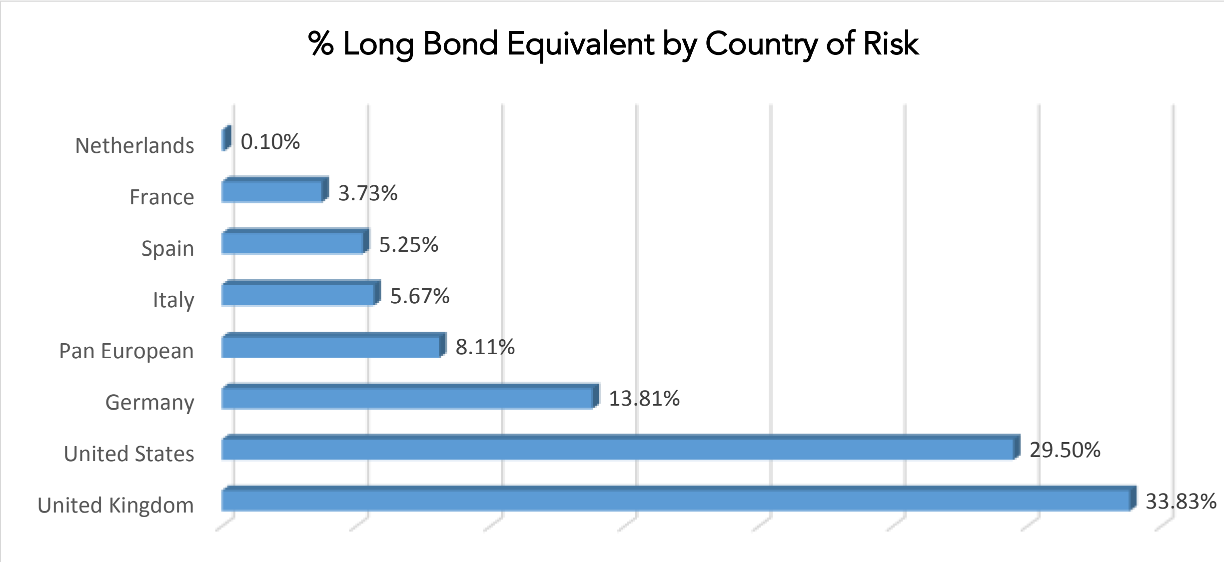
Portfolio Summary as at 31st October 2014

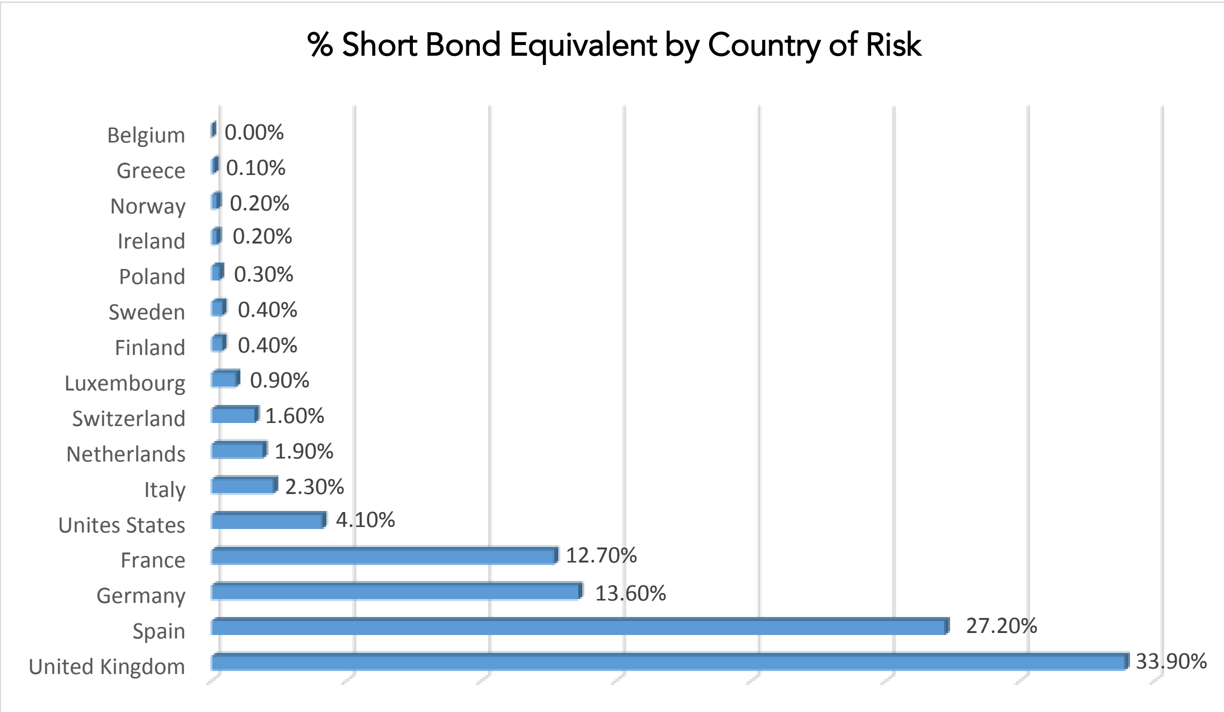
Total Long Credit Exposure as % of NAV	Total Short Credit Exposure as % of NAV
154.9%	46.9%

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

[2] Performance for April 2014 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 (which fees, had they been charged, would have had the effect of reducing the returns shown).

Country Analysis as at 31st October 2014





Commentary

European RMBS

- Size opens eyes. A clichéd trading term for sure, but it has a ring of truth for October which was one of the busiest months in terms of both primary and secondary markets. Primary was dominated by UK mortgage product issuance with ~£3bn of loans bought from UK Asset Resolution (UKAR) – the merged entity of the two nationalized UK banks – placed into the securitization markets. In secondary it was the busiest month of the year with a lot of supply coming in BWIC format during the last week of the month as BayernLB disposed of their $8.3bn portfolio of European and US ABS. The extra supply weighed heavily on the markets pushing spreads wider than the September tights, however the paper was digested between client and dealers demonstrating there remains a deep bid for ABS.

- To be or not to be (eligible). That is the question. October saw clarity over what would be eligible for the upcoming ABS Purchase Program (ABSPP). The market had seen assets tighten somewhat uniformly up until that point as participants guessed at what might be eligible. Much of the expectation was met, but a significant number of assets fell foul to more subtle requirements, for example, a lack of a back-up servicer in lower investment grade-rated bonds. The master list of eligible assets is available on the ECB website [https://www.ecb.europa.eu/home/html/index.en.html] which saw some removals after the October eligibility announcements causing a wave of selling, only for those same bonds to be added back onto the list a few days later. In general, eligible bond spreads were stable on the month (65-75DM) which was expected, however non-eligible bonds drifted out +40-50bps to settle in the 120-130DM range. Wider seniors and mezzanine paper moved out ~25bps, but were much more stable.

CLO

- All quiet on the CLO front. October began as an unremarkable month for CLOs despite the underlying leveraged loans and high yield bonds experiencing significant pricing weakness. As the month ended, the underlying assets had seen much of the price drops erased, but spreads on CLOs felt pressure as the specter of heavy supply from a large primary pipeline into year-end reared its head.

European CMBS

- October was the quarterly interest payment date (IPD) for a significant proportion of European CMBS transactions. Several bonds repaid in line with our initial assumptions, while other transactions we have exposure to received principal receipts above our expectations. The market is now awaiting the servicer reports that shortly follow the IPD's through which investors can determine if there have been improvements in occupancy, valuation and lease expiry terms to the underlying real estate.

- Bond prices were broadly flat by month end having recovered well following the extreme volatility experienced earlier in the month. In general, CMBS investors held firm through the volatility and very few bonds traded during this period. We believe that investors in the space are fully aware of the value offered by these bonds and how difficult it is to replace paper, and as such didn't sell into the weakness. In fact, we saw some opportunistic buying by investors from dealer inventories where prices softened to attractive levels. We were able to add an interesting mezzanine position to the portfolio during this period.

- London continues to dominate the headlines in the UK commercial real estate market. CBRE reported that "London City" office take-up in Q3 2014 hit its highest level ever in a single quarter. 2.32 million sq ft of space taken, surpassed the previous high of 2.24 million sq ft in Q3 2000 taking the year-to-date total to 4.84m sq ft. The landscape within the City is beginning to change with non-financial sectors taking an increasing share of available space. Creative industries accounted for 29% of all deals, surpassing the traditionally dominant banking and finance sectors which accounted for 22%.

US Non-Agency

- October saw some mid-month volatility, although the market was relatively calm versus price action in equities and high yield credit. By the end of the month prices were back to unchanged. The market was buoyed by $4.6 billion of US assets coming out of Bayern LB late in the month, while the CAS/STACR deals suffered through another rough month of pricing. Spreads at the bottom of the credit stack widened 50-60 bp.

- The 20 City Case-Shiller Home Price Index showed a 0.2% monthly gain while the year-over-year change dropped from 6.7% to 5.6% in the September report (which includes data through August 2014.) As we leave the normally robust summer months, house prices are expected to remain flat to down through the fall and winter months. While the US economy continues to assist borrower performance and many borrowers have moved back to having positive equity in their homes, we do expect seasonal factors to have their usual negative impact on housing metrics as we go through the winter months.

- Collateral performance was slightly better in the October remittance reports. Voluntary prepayments increased in POAs and Alt-As and remained flat in subprime. Liquidations were marginally down in POAs and marginally up in subprime and Alt-As. Severities edged up in POAs and subprime but remained flat in Alt-As. Early delinquencies declined across all sectors. There was a small increase in modifications this month across all sectors.

- On the settlement front, several objectors to the JP Morgan settlement surfaced including Triaxx and FHLB Boston, with the latter requesting a three month extension to file its objection. The same two investors had objected to the Countrywide settlement before later withdrawing their opposition. With the bank facing several securities fraud suits, it is possible the list of objectors will expand. According to a letter from the trustee, the "Confidential Percentage" (trusts declining the offer), which would allow JP Morgan to leave the settlement, had not been reached. On the Citi settlement, the trustees extended the acceptance deadline to December as the experts had not completed their evaluations.

- Ocwen was prominently in the news in October. The New York State Department of Financial Services sent a letter to the company accusing them of deficient systems and processes including "backdating potentially hundreds of thousands of letters" to distressed borrowers relating to modification denial letters and foreclosures notices. New York State's Department of Financial Services Superintendent, Benjamin Lawsky, demanded a quick response from the company which provides the opportunity to remedy the problems.

Financials/Short

- Rolling, rolling, rolling: The launch of itraxx indices series 22 finally occurred on 6th October after a painful couple of weeks in a drawn out roll scenario. The itraxx Crossover is now a 75-name index with a significant number of previously illiquid names.

- The ECB and financial regulation continued to dominate. The answers to speculation as to who would fail and the size of capital shortfalls finally came on 26th October with 25 banks showing gross capital shortfalls totaling €24.6bn and net shortfalls of circa €8.5bn. We reiterate some of our earlier commentary on the AQR (Asset Quality Review) below.

- In the AQR there were significant write downs (€136bn), but they need not be taken by banks just yet. The Italian banks suffered as it became apparent that the treatment of NPAs (Non-Performing Assets) was inadequate with a 103bps reduction versus an average of 66bp. Greece also had large adjustments (287bps), but Common Equity Tier 1 (CET1) ratios were higher to begin with.

- CET1 ratios were most in focus, however they are simplistic in isolation. 12 more banks would have failed had fully loaded Basel III ratios been used. We also think that leverage ratios are key going forward as European banks are weak in this area and leverage ratios were not part of the tests. 14 banks would have failed on a 3% minimum leverage ratio prior to any AQR adjustment (albeit calculated on CET1 as opposed to Tier1) and, notably, only five of these institutions failed the tests.

- The AQR and stress test produced results that didn't result in any major surprises or overall capital gaps of magnitudes regarded as problematic. The aim of the Comprehensive Assessment was, in the ECB's own words, to "assure all stakeholders that banks are fundamentally sound and trustworthy"; more important is what happens next. A case in point is Monte de Paschi (MPS) with its €2.1 billion shortfall. This name performed particularly badly and a short selling ban on MPS equity was imposed several times; this could be a challenge to solve.

- The market is closely following ECB policy and any signs of QE-like action in the context of an economic recovery which is taking incredibly long to haul itself back. Avoiding deflation and structural issues are increasingly important, and geopolitical factors remain. This was seen in the loss of confidence mid-month as Greece scared credit and equity markets (its 10-year bond reaching 9%.) A week later we had recovered, after comments on policy from US politicians, declining Greek haircuts and rumors of ECB corporate bond buying. With respect to the AQR itself, market reaction seemed to reflect the reversal of some pre-test long positions, putting the uncertainty of the outcome behind us but replacing it with a focus on key issues like the weak macro environment.

- Looking forward, the stress tests remove one area of uncertainty for the banks but fail to answer other questions. We note there was no deflationary scenario in the stress tests, and in deflationary environments banks are less inclined to lend. Litigation and conduct (i.e. fines for FX and libor manipulation) costs were not factored into the tests, but are an ongoing feature of the industry. Banks still need to grapple with a new supervisory regime, the Total Loss Absorbency Capacity (TLAC) framework, the finalization of countercyclical buffer levels, as well as prospective minimum leverage ratios. We are also mindful of the diversity of risk-weight density among European banks.

- Earnings. US banks began earnings season with some strong results such as Morgan Stanley, with net income of $1.3bn, 21% above consensus and with FICC revenues up 19% YoY to $997mn from securitized products and FX. The Europeans started reporting in earnest straight after AQR, and although Bankia and Caixa showed decent earnings before the tests, loan growth was still lacking with total loans at Caixa declining by 3% QoQ to €194.4bn.

- Results were pretty decent and with no great surprises, although a few disappointed such as Standard Chartered. Litigation and Conduct continued to be a feature as Barclays booked £500m for Forex. Deutsche also took €894m for litigation resulting in a loss of €94 million. Deutsche also has to manage its low leverage ratio for which it received a great deal of scrutiny on its analyst call. Leverage was also a focus for Barclays which reported an increase to 3.5% from 3.4% in Q214 which was extremely pertinent, with the UKs Financial Policy Committee (FPC) publishing recommended leverage ratios for UK institutions the next day.

- Leverage - what's the magic number? The UK's proposals published on the 31st October (effectively, a ratio of 3 to 4.05%, depending on the institution) are not as simple as some had hoped, but the approach is well thought out and demonstrates a balance between theory and pragmatism. Credit spreads and equities reacted favorably, as this was at the low end of expectations, and came out after results that indicated such levels should not cause problems.

Broadly speaking, the ratio comprises:

- A 3% minimum requirement.
- A supplementary buffer of 35% of the corresponding risk weighted systemic buffer rate in four equal increments from 2016 for G-SIBs and from 2019 for other major UK entities. Global Systemically Important Banks (G-SIB) designations are not yet confirmed, but would range between 0.35% and 0.875% (based on capital ratio buffer rates of between 1% and 2.5%.)
- A countercyclical leverage buffer (CCLB) also set at 35% of its risk weighted counterpart, to apply immediately.

Other pertinent points include:

- Financial Conduct Authority (FCA)-only regulated firms are not included.
- The capital measure has restrictions on Additional Tier 1 (AT1) capital of sufficient quality (high trigger > 7%) which would be permitted to comprise up to 25% of the minimum requirement.
- Buffer requirements may only be met with CET1 capital.
- Future stress tests will be based both on risk-weighted and leverage ratio requirements.

European Direct Lending

- Intercreditor negotiations continue on a mezzanine lending opportunity with the senior lender. Aiming to be "on risk" during the course of January.

- Actively pursuing three other commercial real estate lending opportunities, with all at differing gestation points currently.

- Traction being gained in negotiating facilities that have a debt profile with an equity-linked kicker to provide enhanced investor returns.

Gross Return Attribution by Strategy as at 31st October

Strategy	Attribution (%)	LCE (%) as of 31st October
CLOs	-0.17%	9.67%
European CMBS	0.16%	23.65%
European RMBS	-0.30%	38.41%
US Non-Agency	0.00%	27.94%
Whole Business Securitisation	0.00%	0.34%
Hedge	-0.11%	N/A
Financing	-0.08%	N/A
Total Return (%)	**-0.48%[3]**	**100.0%**

Ten Largest Positions by Sector as at 31st October

Position	Sector	Seniority	% of Portfolio as at 31st October
1	European RMBS	Senior	4.05%
2	European RMBS	Residual	2.39%
3	European CMBS	Senior/Second Pay	2.37%
4	US POA	Senior	2.35%
5	US Subprime	Mezzanine	2.34%
6	European RMBS	Senior	2.32%
7	European RMBS	Mezzanine	2.25%
8	European CMBS	Senior/Second Pay	2.23%
9	US POA	Senior	2.19%
10	European RMBS	Mezzanine	1.9%

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

Stress Tests

Stress Test	Result % Nav
Equities -10%	0%
Equities +10%	0%
Corporate Credit Spreads -25%	-0.47%
Corporate Credit Spreads +25%	0.47%
Equity Volatility –5 pts	0%
Equity Volatility +5 pts	0%
FX -10%	-0.08%
FX +10%	0.08%

VaR

VaR (1 Day 95%) (% of Nav)	0.33%

Long Equity Delta	Short Equity Delta
0%	0%

ASC 820

Category	% LCE
Level 1	0%
Level 2	97.61%
Level 3	2.39%

Estimated Liquidity

Category	% LCE
< 30 Days	35.33%
30-60 Days	62.28%
>60 Days	2.39%

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 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 (which fees, had they been charged, would have had the effect of reducing the returns shown). In addition, 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 of 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:
  - < 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.

Direct Lending

Please note that the examples discussed are representative of the investment opportunities that are currently available to the Fund; however, there can be no guarantee that such investment opportunities or similar opportunities will be made by the Fund. The Fund's investments may be materially different than the examples discussed.