East Lodge Capital

Investor Letter March 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.

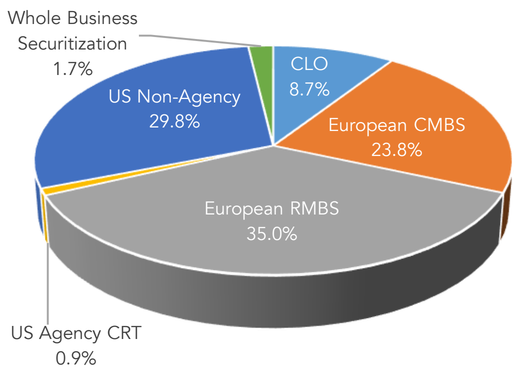
Performance Since Inception – Class B[1]

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD
2014				4.27%	1.21%	1.81%	0.54%	-0.42%	1.05%	-0.55%	-0.39%	-0.48%	7.15%
2015	0.97%	0.10%	0.43%										1.51%

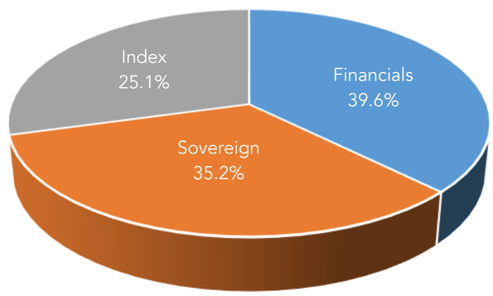
Assets Under Management

Fund AUM as at 31st March 2015	Firm AUM as at 31st March 2015
$611,007,000	$611,007,000

Long Credit Exposure (LCE)



Short Credit Exposure (SCE)

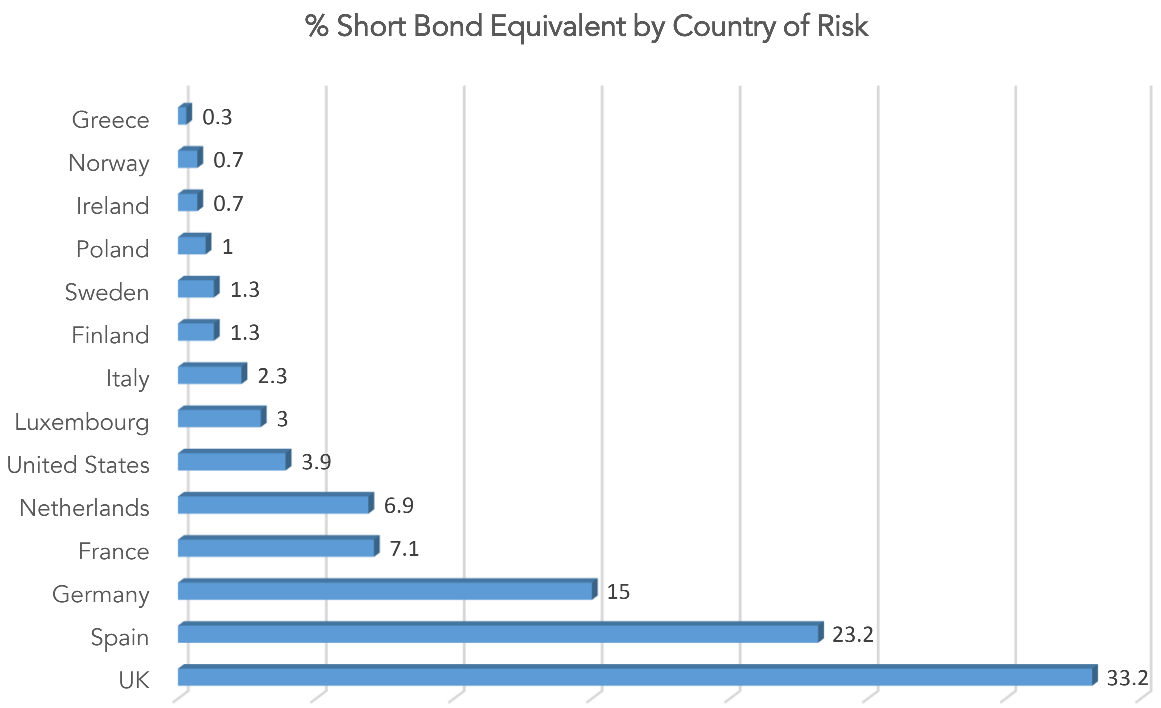


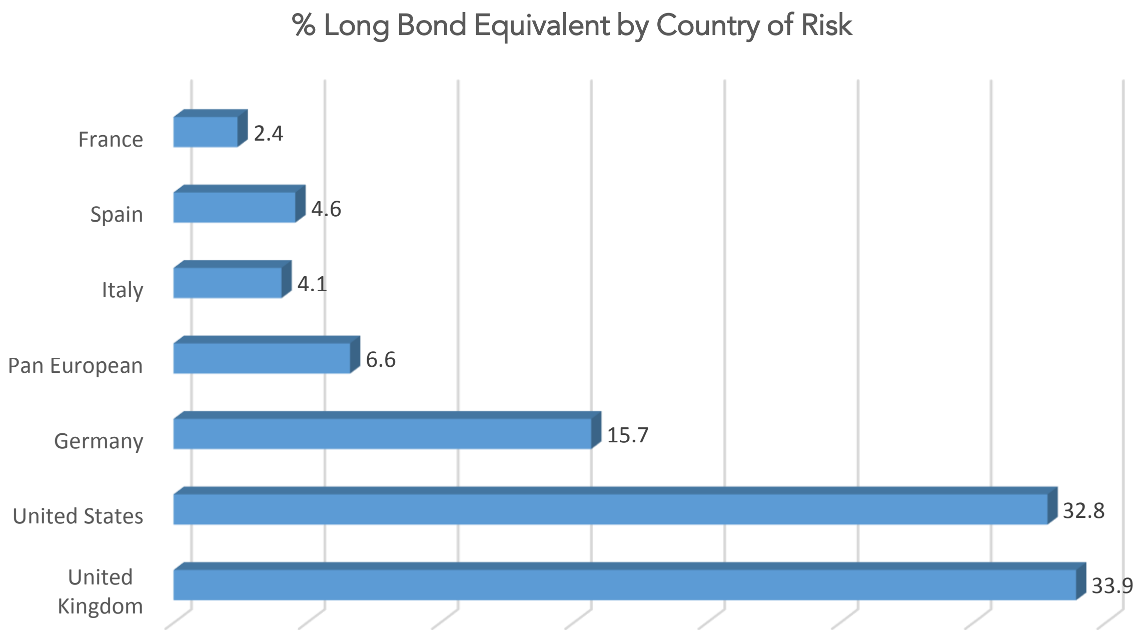
Portfolio Summary as at 31st March 2015

Total Long Credit Exposure as % of NAV	Total Short Credit Exposure as % of NAV
179.5%	41.8%

[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. 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. Please see disclaimer for further details.

Country Analysis as at 31st March 2015





Commentary

Overview

The first quarter of 2015 was characterized by significant macroeconomic and political events, setting the stage for a very interesting year in global markets. With the backdrop of the ECB's €60 billion/month Quantitative Easing program that was announced on January 22nd, global structured credit markets continued their march tighter, and asset performance was generally positive throughout the quarter. European events seemed to dominate economic and political headlines, and while there were important developments in the U.S. around interest rate policy (the U.S. Federal Reserve's removal of the word 'patient' from its post-meeting statement, for example) it was no match for the more newsworthy interactions between political leaders across the Eurozone, giving us plenty to think about during the quarter.

Elections in Greece at the start of the year brought in the first of what is likely to be more anti austerity populist governments to Europe. The quarter was characterized by political tennis between Germany and Greece with discussions of working together followed by comments such as "it's over" and even a raking up of a demand for WWII war reparations leaving the market very unclear as to how the situation would unfold. We remain very cautious about Greece's ability to work its way out of the current financial malaise without any additional austerity, and recognizing that Syriza has all but backed itself into a corner on this front, we have been positioned for continued negative news on the Greek front. Regional elections in Spain saw strong showings for Podemos, another far left populist party aligned with Syriza. We believe that how the Greek situation plays out is extremely relevant to Spain, and likely to impact other member countries of the EU who have been experiencing their own economic difficulties and subsequent austerity measures. In the UK, it is becoming more unlikely that any party will have a clear majority in elections to be held on May 7th, with our expectation of an historic 'double-hung' parliament appearing ever more likely at this stage, and the likelihood of a home grown anti austerity party having significant influence in the shape of the Scottish Nationalist Party. All of this has created an opportunity-rich environment for the fund, but one in which hedging remains crucial given the multitude of potential risks and outcomes in the coming months.

On the long side of the portfolio, European RMBS contributed 36 bps to gross attribution in March, with the largest contribution coming from our UK Non-Conforming Residual position which saw its quarterly distribution and is continuing to perform ahead of our base case expectations. On the negative side, one of our mezzanine European RMBS positions detracted from performance with the dealer providing the mark having taken a negative stance on the UK ahead of the election.

Following from a weak fourth quarter of 2014, CLOs have staged a strong recovery in Q1. The CLO portfolio contributed 30 bps to gross attribution on the month, and we believe technicals in this market are improving, with larger allocations moving to the sector. No specific positions are worth particular note as it was a general move tighter, but our expectations are that April will be another positive month.

The European CMBS portfolio contributed 24 bps to gross attribution led by some good news regarding one of our CMBS mezzanine positions in which news was issued that one of the loans was to be repaid in full. Although this was in-line with our expectations following the renewal of a lease to a single tenant, it was not the market expectation at the time we acquired the position. With only one other lowly levered loan in the transaction, the result should be full recoveries to a bond that we acquired last year with a mid-40's cash price. In March we did see the bid from dealers on other CMBS mezzanine positions increase somewhat during the month, specifically in one senior and one mezzanine position, which added to the positive performance.

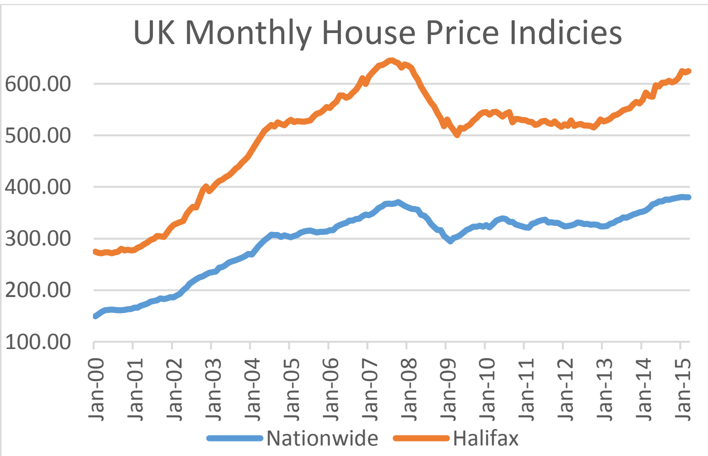
Detracting from performance in the European CMBS portfolio was our exposure to one European CMBS Senior bond consisting of German retail properties, where an August valuation was released by the special servicer on February 6th a full 15% below the previous valuation. We instigated a site visit to inspect the underlying shopping centers, and returned with a renewed sense of conviction that not only was the valuation dated and underlying prices had already picked up since August, but there were some strong mitigating factors to suggest that the valuation was too low. We added to this position both in February and in March.

US RMBS contributed 2 bps to gross attribution. Some of our second lien positions traded higher in March, and due to their leverage to improving conditions, second lien deals have seen a more aggressive bid lately. We experienced moderate losses in US Pay Option Arms and Monoline wrapped bonds, but the position which showed a significant loss in March was a subprime mezzanine bond. The bond has a fairly stable profile and we consider the risk of principal loss to be very low. The collateral has, since we bought it, outperformed our expectations, with higher prepayments and lower liquidations than forecast. Delinquencies have declined while modification activity has been below our forecasts. We see nothing in the bond performance which should have created a drop in price, and our view is that the decline in price is tied to quarter end dealer balance sheet pressures. The last week or two of March showed a distinct decline in liquidity on the US side as several dealers faced similar concerns. The dealer providing the primary mark on this position sold a piece of the bond into a low bid just to lighten inventory for quarter end. We have since sold down part of the position in April, achieving a price over 4 points north of where the dealer sold.

The hedge portfolio contributed -3 bps to gross attribution in March and while our position in Crossover was a detractor on the month, we saw some strong performance from our short GBP/USD position in anticipation of UK asset volatility around the expectation of a messy election in May.

European RMBS

UK



Mar-15	Halifax	Nationwide
Annual Change	8.10%	5.70%
Quarterly Change	2.60%	0.50%
Monthly Change	0.40%	-0.10%
Average Price	192,970	189,454
From 2007 Peak:	-3.33%	2.50%
Q1 2015		
Best Performing Region	Yorkshire (+5.2%)	North (+2.5%)
Worst Performing Region	N. Ireland (-9.0%)	Scotland (-0.6%)

There are many themes that could be said to drive home prices in the UK, but few are felt more keenly than the prevailing credit conditions. In March, the Prudential Regulation Authority (PRA), a division of the Bank of England, and the FCA, released statistics on lending derived from the Mortgage Lenders & Administrators Return (MLAR) for

Q4 2014, which removes any potential sample bias from choosing a single lender. The report shows that average mortgage rates are continuing to fall, with the average rate on a 2-year fixed mortgage at 75% LTV, now down by a total of 67 bps since mid-2014, and with high LTV (90%+) loans down by 80 bps in the same period. Even though the Bank Rate is constant, monetary stimulus continues to expand, providing an extra boost to housing and the economy as a whole. The data also shows that new lending is, for now, targeted at higher quality credit customers and products. For example, the share of loans written without income verification dropped to 0.4% (vs. 23% in mid-2007). Similarly the share of loans that were high LTV (90%+) and written at a high loan-to-income multiple (3.5x or more) dropped to 2.5% (vs. 7% in mid-2007) and the total lending at a high LTV (90%+) was only 3.8% (vs. peak of 15% in mid-2007). The regulatory changes introduced in 2014 under the Mortgage Market Review (MMR) banner, will no doubt have driven lending "up in credit" however there are more participants trying to write new business, so we would not be surprised to see these statistics flex a little higher in the future.

The change in credit landscape since the crisis has led to a continued drop in the home ownership rate in the UK. Home ownership now stands at 64.6% down from 70% in 2005, with younger potential first time buyers being forced to rent given the size of deposit that is typically required to get a mortgage. Further pressure on the prices of starter homes is looming on the horizon from a "curveball" that is set to come into effect on Apr 7th 2015. This date will represent "Pension Freedom Day", when Pensioners across the UK gain control over their pension savings rather than being forced to buy an annuity, which could see savings directed into the housing market. This phenomenon has been labelled the "Silver pound" and would likely put even more pressure on prices of First-Time-Buyer suitable properties, if a swathe of "silver landlords" replaced their annuity purchase with an investment property portfolio instead.

When it comes to the UK economy, the current data generally paints a rosy picture. There is real GDP growth (in the context of 2-3% year-on-year), de minimis inflation and falling unemployment (5.7% in March 2015) despite the participation rate being at an all-time high according to the Office for National Statistics (ONS). Of course, from the perspective of anyone outside the UK, this relies on avoiding the subject of the current account deficit, the proverbial "elephant in the room", which grew to 5.6% in the final quarter of 2014. If the market decides this deficit is getting out of hand then it would likely be expressed as pressure on Sterling in the currency markets and a pick-up in the Gilt yield curve. At this point in time it is something to watch rather than "sound the alarm" over, however such a scenario can be positioned for with hedges to aid a positive outcome for the long book in the UK were it to come to pass.

Looking forward to the next quarter it feels appropriate to flag the forthcoming UK General Election that will be held on May 7th. While it is beginning to gain more traction in terms of newspaper column inches, the market appears to have shrugged off any potential uncertainty throughout Q1. It looks like it will be a very tight race with the most likely outcome of a hung, or indeed double hung, parliament leading to a weak minority government, a complicated coalition or even a second round of elections. Thankfully, despite their attempt to have it appear otherwise, much of the fiscal planning is simply to believe the economy, as it affects the consumer, will remain on track, and the chronic undersupply of housing will continue to see home prices trend higher over time. Of course, this could be "the straw that breaks the camel's back" and bring about concerns on Sterling and Gilts as mentioned previously.

Investment assets in the UK have received renewed focus in 2015 on a combination of a healthy new issue pipeline and access to European risk in a more predictable legal jurisdiction. The activity of new investors in the market can be felt, although there is a tiering between spreads on discount legacy assets vs. new issue par bonds as the market clears the cobwebs in its memory about a time past when assets were generally at or above par. Prices on our UK

Non-Conforming mortgage assets have risen from the lows of December 2014, but are yet to recapture the high point last seen in September, which means it has, thus far, underperformed the tightening in credit markets on the back of ECB QE. The fundamental performance continues to be strong and there are signs of, albeit slowly, rising prepayment speeds on the back of better credit availability at lower rates. Once the General Election is out of the way, we expect the outlook to be positive, as this should coincide with the technical of a pause in the primary pipeline given supply appears to be front loaded. The largest return during the quarter came from our residual risk position that we added to in January. We saw an ahead of expectation distribution and expect it to continue to perform favorably in the current "lower for longer" rates environment, however this piece was selected for its underlying mortgage characteristics as we would expect it to outperform other residuals in event of rising rates.

Spain

Signs of the housing market recovery in Spain are slowly showing up in the securitization reports. Most deals are seeing a drop in arrears and an increase of excess spread, often from liquidation proceeds that are topping up the reserve fund. This is complimented by data from Instituto Nacional de Estadística (INE) that shows the number of foreclosures of first residences initiated in 2014 is 7.4% above the 2013 figure. We see Foreclosures as a lagging indicator, given that you need at least 90 days of arrears to initiate the judicial process, so we would expect the rate of foreclosure to rise further as the Non-Performing Loans on bank balance sheets and inside securitizations are addressed; we expect this to lead to greater recovery proceeds to securitizations that we hold.

The rise in repossessed properties is also driving banks to offer more "novel" products to help clear their inventories. One such product that caught our eye is the new 113% mortgage from Banco Popular for Spanish holiday homes. In a bid to shift repossessed new-build apartments, Banco Popular is offering a zero-deposit mortgage that also gives "cashback" to buyers up to 13% of the property's value.

The rating agencies have been busy in Q1 2015 as well, with a host of rating upgrades occurring for Spanish RMBS in both senior and mezzanine profiles. This wave of upgrades has had the most impact on mezzanine bonds where many have found themselves catapulted to an investment grade rating again. This, combined with the lack of yield-y EUR denominated paper, thanks to the impact of ECB buying, opens them up to a strong asset manager bid. By the same token there has been a renewed focus on the clean-up calls of legacy deals, with the market now viewing their execution as inherently more likely, which has boosted mezzanine pricing.

March marked the start of "full blown" European QE, as the ECB started buying European Government debt under the Public Sector Purchase Programme (PSPP) to add to the Covered Bond and ABS equivalents (CBPP3 and ABSPP respectively). The three programs are designed to buy €60bn per month which, as expected, came predominately from the PSPP where approximately €51bn was purchased in the inaugural month. Given the average duration of purchases (7 to 8 years), it is not surprising to see the German Bund yield curve reduce to produce negative returns out to the 7 year tenor; many market participants are anticipating the 10 year tenor will eventually follow into negative territory. This definitely qualifies as uncharted territory and is a supportive environment for risk assets in general. Although the available yield may not look that exciting on paper, there is Central Bank induced pressure to send yields tighter which, putting aside for a moment a potential messy accident with Greece - a 'Graccident' as it is now being referred to – is likely to succeed in the near term and when swapped back to USD can still make for interesting opportunities.

CLO

The path of returns for the CLO sector in 2015 can be explained via the words "supply" and "arbitrage". In terms of supply there has been a relative shortage of available paper to buy, in both primary and secondary markets, as demand grew due to an increase in the number of market participants involved in the sector. The underlying leveraged loan product too has been in shorter supply in primary markets, the most fertile hunting ground for CLO managers to buy assets for deals, leading to a rally in secondary prices above par which impacts the arbitrage, meaning new deals are tougher to print. There is of course a natural feedback mechanism in place when the environment is like this. As CLO debt tightens, given the rapacious investor demand, it improves the arbitrage allowing more new issue deals to be created. Deals are then able to buy the underlying assets at tighter spreads, and thus the leveraged loans begin to refinance. We have yet to see this wave of refinancing of loan margins (when a loan is redeemed and a new security issued at a tighter spread is issued given the lack of call protection on loan instruments) but it was common in Q2 2014. What is ideally required is the creation of new assets via M&A activity, including disposals of non-core business units, to increase the pool of available leveraged loan investment opportunities rather than simply chasing the same credits tighter; M&A activity is still expected by the market in 2015, but it has taken longer to materialize than was initially hoped for.

Given the backdrop of a record low (and still dropping) Euribor curve, it comes as no surprise that asset prices in credit performed well in the first quarter of 2015. In fact it is hard to think of a credit story in either leveraged loans or high yield bonds that is lower at the end of March than where it began the year. One exception to this observation is a story that has been discussed here in the past, that of Van Gansewinkel Group (VGG), the Dutch waste management company previously known as AVR, which has been owned by many of the 2013 and early 2014 vintage European CLOs. The fundamentals have continued to deteriorate, and there is likely to be a breach of its December 2014 covenants that were deferred for testing until the end of March. That said, it is the market technical that drove prices lower when a creditor to VGG, holding significant size in the asset and previously part of the three-lender coordinating committee, sold into the distressed debt bid which will complicate the eventual recovery. It is likely the new distressed owners will look to equitize as much of the debt as possible taking their recovery through a new money facility which creates a stronger short term return for them, but is detrimental to a CLO's ownership as the equity portion will be carried at zero price and there may be no free cash to invest in the new facility. Another potential restructuring situation in 2015 is Maxeda, a Dutch DIY firm with KKR as the sponsor, which continues to struggle on the back of weak growth prospects in Holland. This situation is rather different as it is the PIK'ing mezzanine loan, predominately owned by the sponsor that is causing problems. The mezzanine loan is likely to be exchanged for equity in any restructuring, while the 1st lien senior secured that is held by CLOs is likely to stay whole and simply be extended in exchange for a higher facility margin.

A surprise in the legacy CLO 1.0 landscape in 2015 has been the number of deals that have been called, seven already, more than in any other full year to our knowledge. The increase in call frequency is likely driven by the rally in underlying asset prices, the high repayments and the fact that even more deals have now exited their reinvestment periods. It is worth noting that the called deals span many vintages, even 2006 and 2007 issuance, suggesting the speed at which the CLO 1.0 market will shrink is set to continue to surprise to the upside. The end result of this is even more market participants will be pushed to look at 2.0 issuance to maintain their asset class exposure suggesting a healthy technical for spreads.

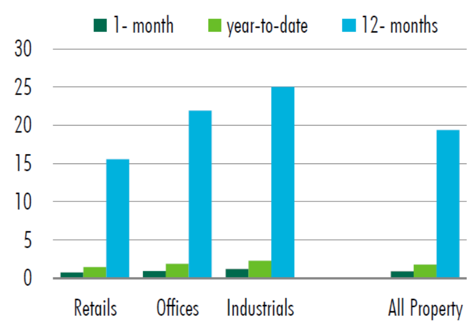
During the quarter we have seen a dramatic tightening in spreads in the mezzanine debt of CLOs helping this part of the portfolio outperform. In the US, we have seen BBBs tighten 50 bps and BBs 37 bps. In Europe, we have seen

BBBs tighten a more modest 35 bps while BBs have come 105 bps tighter, reversing all the weakness experienced in Q4 2014. Given the increase in investors looking at this sector and the tougher supply conditions, we expect the tightening bias to continue as the year develops.

European CMBS

Commercial property consultants DTZ recently reported that prices for all European commercial real estate grew by a record 7.8% quarter-on-quarter in Q4 2014. This was supported by the highest quarterly volume of investment with €65 billion invested across Europe in Q4 2014. The positive momentum throughout Europe has continued in Q1 2015. Average capital value growth for all UK commercial property increased by 0.5% in February resulting in a 0.9% total return YTD through the end of February.

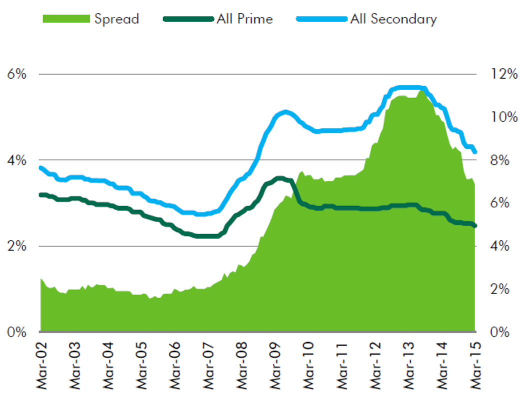
Figure 1: Total Return on UK Commercial Property (%)



Source: CBRE Monthly Index , February 2015

One of the constant themes that we have discussed in our monthly investor letters is the decline in the spread differential between secondary and prime assets. As commercial real estate investors are becoming more comfortable with the fundamentals, they are beginning to take greater risks, with a particular compression in secondary spreads. The chart below highlights this for the UK, and we are seeing the same pattern beginning to take shape across Europe.

Figure 7: UK Prime vs. Secondary All Property Yield (excl. Central London)



Source: CBRE Monthly Investment Yields, March 2015

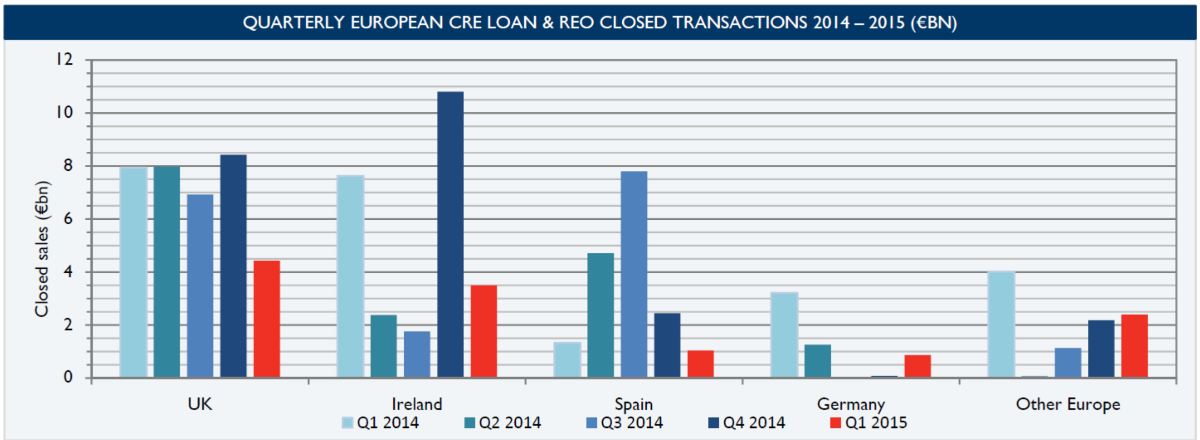
The strong positive momentum seen in European commercial real estate lending throughout 2014 showed no signs of abating during the first quarter of 2015. In March, the CBRE Capital Advisors' Four Quadrants report showed that prime lending margins were as low as 130 basis points and had arguably reached a point of stabilization, partly as a result of capital adequacy regulations. Borrowers entered 2015 in a favorable position, the research found, with the total cost of debt falling by 29% during 2014, due to margin compression and a decrease in swap rates. UK senior debt margins for prime property reached a low of 110 bps during the first quarter and as tight as 60 bps in Germany, according to Debtwire's pricing index. Lenders polled by this news service said LTVs for UK senior debt were found at 60-65%, while in Germany senior LTVs could go as high as 80%.

The CMBS market started off strongly in January with early price appreciation through spread compression and a "New Year" vibrancy to the market. This theme continued throughout the first quarter, with CMBS strongly bid, and February and March experiencing positive performance in the sector. Towards the end of the quarter we saw an uptick in supply in senior and mezzanine paper from legacy accounts. This was well absorbed and the spread compression continued across all tranches, particularly pronounced in the mezzanine that sit just one tranche above those expected to take losses. The mezzanine is considered "money good," and as more market participants have recognized this, the more aggressive their bids have become.

In February, one of our larger exposures experienced a hiccup following a new valuation and the lethargic actions of the special servicer in the timing of the release of this report. As mentioned in our February letter, a new valuation was released on a portfolio of commercial real estate assets located throughout Germany securing the largest loan in the deal. The investor notice failed to mention that the "new" valuation was actually dated August 2014, and pricing moved back significantly following the initial release. We had a similar view to the value released back in August at the time, however the market has moved quickly (to the positive) and we believe the value was vastly different (read: higher) by mid Q1 2015. To this end, we now expect the portfolio of assets to be sold at a level above the August valuation, however to be certain, we flew to Germany to do an in-person visit of a number of the underlying assets (over 50% by value) following the notice.

At the end of 2014, we were hearing of a strong pipeline of new issue CMBS and we expected this to be the dominant theme for Q1 2015. In January, we saw the pricing and placing of two Italian deals, TAURS 2015-IT1 and one other, the former of which was privately placed. Nevertheless, the early activity did not continue into February, and Q1 turned out to be somewhat muted. We saw a third deal come to market in March, DECO 2015-HARP, which consists of three loans, secured by a mix of residential and commercial properties predominantly located in and around Dublin and is the first Irish CMBS to come to market since 2006. This deal is a financing of assets acquired as part of the Irish bank asset sell-off that we have been seeing. The deal had a cut-off LTV of 62.8% at day 1, and an interest coverage ratio of 2.28x. The deal size was relatively small at €175 million, and as a result investor demand was strong with the books over-subscribed. The BBB tranche of this transaction priced at 240 bps compared to the 250 bps that the BBB tranche priced at in January for TAURS 2015-IT1. Given volumes haven't been significant, it is still early days to see if the re-pricing of the tranche will continue to grind tighter.

Loan sale activity continues to spread across Europe with Italy recording over €1bn of closed transactions in the first three months of the year. To put this into perspective, this is over 2.5x the volume witnessed in the entirety of 2014. Despite lower closed volumes in the UK and Ireland, these two countries continue to lead the way, together accounting for almost two thirds of closed transactions in Q1 2015.



Source: C&W Corporate Finance

CMBS issuance is being dominated by those jurisdictions where the arbitrage between CMBS and bilateral lending is most pronounced, i.e. where financing is not readily available, or is not available in size. Italy is proving to be one of these geographies, and hence the setting for two new deals during the quarter.

Whole Business Securitization

One of our best performers for February gave back some of its gains in March. This was mainly a result of a large forced seller having to dispose of their position. On the plus side, the seller was able to exit his position, however it did cause negative pricing pressure. Our overall view of the position is that despite this spurt in volatility the bond offers good relative value, and once the over-hang is cleared we anticipate renewed performance to the upside. There is very little to report on the performance of the underlying until we get updated trading figures from the pub sector during April and May.

US RMBS

After showing robust activity for most of the quarter, trading volumes trailed off substantially heading into quarter end. Customer buying averaged just over $700 million per day for most of the quarter and then dropped by roughly 40% in the last two weeks of March. Continuing the theme from January and February, spreads remained firm through most of March, but softened at the end of the month due to some dealer balance sheet pressure. The US market continues to show a strong fundamental and technical picture with solid house price appreciation and an improving job market. The improvement in asset performance broadens the investor base to one that looks for a stable, albeit lower yield profile. While we expect to see a pick-up in performance as we move into the spring selling period, we are also cognizant that particularly in the subprime space, there may be a counter move as investors become more concerned around lift off. Prepayments and liquidations continue to shrink the outstanding supply which will be aided when rep and warranty payments finally come through, again leading to an expectation of spread tightening, and the active re-remic bid is providing a solid floor on values.

After widening through the middle of March by 15-20 bps, spreads in the FNMA and FHLMC credit risk transfer (CRT) deals tightened back in after the issuance of STACR 2015-HQ1, finishing about 5 bps wider on the month. CRT spreads continue to show significant volatility, and after reaching their tightest levels of about 100 bps tighter during February, spreads on the lowest tranches ended the quarter 60-80 bps tighter than year end. Unlike the dramatic widening witnessed on new deal issuance in the second half of 2014, spreads have tightened following new deal pricing in 2015. Prepayment speeds spiked on some of the STACR deals, particularly those with a higher average coupon, and this spike corresponded to the drop in mortgage rates seen in January. With continued low rates in the US, prepayments should continue at an elevated level in the short term. These speeds have the greatest impact on the more senior, front pay bonds. Elevated prepayments have and will cause additional tiering in CRT pricing.

The Case-Shiller 20 City Home Price Index was essentially unchanged (non-seasonally adjusted) in the latest report (January data). Since January is generally a more negative month, unchanged is a fairly good number. Year over year, home prices are up 4.6%. The west and south continue to show stronger home price growth with Denver (8.4%), Miami (8.3%), Dallas (8.1%) and San Francisco (7.9%) leading the way. The Northeast and Midwest continue to lag with Washington (1.3%), Cleveland (1.6%), New York (2.1%) and Minneapolis (2.2%) showing the weakest growth. Over the past three months of data (November through January), prices are down 0.2% on an absolute basis, however, with the seasonal adjustment, this shifts to up 2.6% (not annualized).

Over the quarter, prepayment and default changes were mixed, but delinquencies continued their steady decline. Voluntary prepayments were down slightly in Alt-A and POA but up in subprime. Liquidation rates were up across the board, with small changes in subprime and Alt-A, and a sharper rise in POA. Delinquencies declined by 70, 125 and 69 basis points in Alt-A, POA and subprime respectively. Viewed over a one year period, the trend of improving performance is clearer. Despite marginally higher liquidation rates, voluntary prepayments are higher across the board in all three products (0.7 VPR in Alt-A, 0.6 VPR in POA and 1.6 VPR in subprime). 60+ delinquencies are lower by 275 bps in Alt-A, 389 bps in POA and 279 bps in subprime. Delinquencies currently stand at 19.08% in Alt-A, 23.58% in POA and 26.63% in subprime. Last year at the same time, they stood at 21.83%, 27.47% and 29.42% respectively. Continued low mortgage rates and solid HPA growth should provide a decent foundation for mortgage performance as the spring approaches.

Ocwen responded to various allegations in March and this seems to point to a contentious path towards resolution. Early this year, Ocwen faced legal challenges on several fronts. The first was a challenge from the California Department of Business Oversight concerning information requests, representing a threat to Ocwen's servicing license in California, however they negotiated a resolution to this. Next came a challenge from a hedge fund investor in the HLSS Servicer Advance Receivables Trusts. Ocwen has stated that it will "vigorously defend itself against the allegations in the letter." Third, there was a Notice of Non-Performance from Gibbs & Bruns on 119 trusts. Ocwen's response this month was that it has not suffered an event of default and it has resolved potential conflicts of interests among its various entities. Due to the size of Ocwen's role in servicing the non-agency universe and the shortage of alternatives, a significant disruption to Ocwen's platform could have an adverse effect on the market. That said, the general market view seems to be that a serious disruption is unlikely and that, in the worst case, a transfer of servicing could cause short term disruptions in principal cash flows.

Financials / Shorts

"Just receiving the money without any action: it's not going to happen." The victory of Syriza in the Greek elections in January, led to greater uncertainty around the country's economic situation. In February, the ECB kept up the pressure as it refused to continue to accept Greek debt as collateral, forcing the banks, who have seen deposit flight of 15% in the three months to February, to rely on more expensive Emergency Liquidity Assistance (ELA). There were some conciliations as the ELA ceiling was raised multiple times during the quarter albeit sometimes below the amounts requested. At the end of March, ELA stood at €71.1 billion after an increase of €1.2 billion which matched the amount denied to Greece that it wanted back after originally paying into the European Financial Stability Facility using cash reserves from its own bank bailout fund.

A bailout extension was finally approved at the end of February with an end of April deadline for reforms to be specified. Since then little progress has been made; politicians' proclamations ranged from hard ball posturing, including World War II reparations talk, to joint conciliatory statements. The Syriza government is managing a tightrope walk balancing the need to deliver on election promises while also receiving a further debt package from the Eurogroup. In the Eurogroup, feelings are also running high and we saw the resignation of Peter Gauweiler, the deputy leader of the Christian Social Union (CSU), an important German coalition partner, in protest against his government's support of the Greek bailout. He sees Greece as a 'bankrupt state' and said he could not continue [in the position] while his dissention against bailout extension was ignored.

We are still awaiting a precise list of reforms, to include revenue raising measures such as controversial privatizations, income tax hikes and certain product levies, as well as addressing tax evasion. The Greek press report that this will still fall short of the 3% surplus target in the existing bailout program. Meanwhile, Greece stumbles through payments as they fall due paying the IMF and refinancing T-bills but with low bid to cover ratios (the most recent at 1.3x) and limited demand from foreign investors. The Greek government have been working to attract funds from Russia and China to help cover shortfalls, and local investment has fallen as the government has increased payment delays to state procurers. Greece has a cap of €15 billion on the amount of T-bills it can issue, and the banks are restricted in adding to government debt holdings. Tsipras, (Greece's newly elected prime minister), said Greece can fund itself in the short-term, but highlighted the long-term unsustainability of the debt as it runs out of options into April and May.

Since 2012, banks have massively cut their exposure to Greece. Risks are reduced but not removed, and the situation is deteriorating rapidly and should not be underestimated. We have actively managed our short positions over the quarter, taking shorts as high as 47% of NAV. Additionally, political risks in other countries remain with Podemos, who share many of Syriza's views, remaining a serious contender in the 2015 elections in Spain.

Focus was also on Yemen which brought oil markets once again to the fore, as air strikes caused oil prices to rise. Responding to requests from the country' s President Hadi, Saudi-Arabia led attacks against Shiite Houthi rebels in the capital Sanaa, who replied by firing rockets into Saudi territory following which President Hadi fled to Saudi Arabia. The country is adjacent to the Bab el-Mandeb strait creating worries of disruption to the significant oil shipments along the Strait although it produces relatively little oil in its own right. The involvement of Iran also complicates matters where Iran take a different strategic view to the situation in Yemen and are opposed to the Saudi/US approach in the area. At the same time, talks between Iran and the US, UK, France, Germany, Russia and China are progressing, despite over running the March 31st deadline. Lifting sanctions could increase Iran's oil exports introducing the potential for more oil price volatility. Iran has the fourth largest proven oil reserves globally, representing circa10% of global reserves, in addition to large gas reserves.

The Russia and Ukraine conflict that had affected the markets for a significant part of 2014 and into Q1 2015 stabilized into March, with the Minsk 2 agreement holding. We took off our Russian sovereign protection as a result. Ukraine's economy is fragile and Finance Minister Natalie Jaresko requested more financial aid for the economy, on top of the $17.5 billion IMF loan agreed earlier in March. The financing throws a lifeline to an economy that is expected to contract by approximately 12% this year.

After months of press conferences we finally saw the €60 billion/month QE program begin on March 9th with the ECB buying €9.8 billion of bonds in the first three days of the Public Sector Purchase Progamme (PSPP). By March 31st this reached €61.7 billion. ABSPP and CBPP figures were €5.3 billion and €63.6 billion respectively since the inception of the programs. 143 Euro area banks took €97.8 billion in the latest TLTRO, indicating improving lending conditions. As markets adjust to the large new buyer, yields have tumbled to historically low levels, with Ireland issuing a 6-month T-Bill at a negative yield (-0.01%) for the first time on record. ECB QE has also precipitated an FX-led boost to exports, however the jury is out on the effects of QE on the real economy. Now we need the reforms that Draghi has so often appealed for. On this theme, there is some good news. The Italian Senate approved the Popolari reform into Law, and once incorporated into regulation, the banks will have 18 months to transform into joint stock companies hopefully leading to much needed consolidation and cost reductions. Italy has also recently passed a series of reforms to its electoral system, labor markets and product markets, some of which require votes from the Senate and finalization, but the progress in notable. France is also tiptoeing towards reforms but has further to go with high unemployment, especially amongst the younger population, and very high costs of labor. That said, France is moving forward with reforms to labor markets (cutting labor taxes to reduce labor costs by 5% as well as changes to working hours and employment tribunals), pro-competition measures (cutting the number of administrative regions from 22 to 13), and a new Government Procurement policy.

Regulation continues to be at the forefront of investor's minds but Q1 2015 is distinctly different to 2014 which spent much of the year grappling with framework proposals and the uncertainties of a new AQR and stress testing regime which is now behind us. The ECB announced in March there would be no 2015 stress test. It was stated that "the 2014 stress test was a very resource intensive exercise" and "there is a need to plan ahead and give some time to prepare for the next exercise, both for the authorities as well as for the banks involved."

The Bank of England did, however, provide details on its 2015 test. Post stresses, banks must still have 4.5% common equity Tier 1 capital ratio and a 3% leverage ratio. Recall Lloyds and RBS leverage ratios were below 3% in the 2014 test. The focus for the 2015 test is on the Eurozone and emerging market economies, especially Asia (impacting HSBC and Standard Chartered.) It also includes deflationary scenarios. The UK's household sector gets away relatively lightly this time around whereas corporates see negative profit growth and equity prices decline by 35% peak-to-trough, compared to around 30% in 2014. Again, required action will be a judgement call by the PRA and not solely on numerical results. The banks included for 2015: Barclays, HSBC, Lloyds Banking Group, Nationwide, Royal Bank of Scotland, Santander UK and Standard Chartered, but not Co-operative Bank.

In the US, March saw the results of DFAST and CCAR process with all banks passing DFAST and just Deutsche Bank and Santander failing CCAR indicating the tough environment for foreign banks in the US. The resolution plans, or "living wills", of HSBC, BNP and RBS were also rejected as not credible, and specific shortcomings will need to be addressed in their 2015 submissions.

The main regulatory unknowns for banks are those items that fall under the banner of creating a "level playing field". By this we mean risk weight floors, treatment of sovereign holdings (non-zero weightings or restricted holdings) and quality of capital, e.g. treatment of DTAs, and the differences across jurisdictions. We recall statements from the ECB around the time of the Asset Quality Review and its takeover as the single supervisor, about the intention to promote stability and confidence in Eurozone financial institutions and thus think that any moves will be phased in gradually to avoid major shocks. Institutions that sail close to the wind on capital, especially where internal generation net of conduct costs is challenging, should still be penalized by markets.

Post AQR and 2014 resolving much regulatory uncertainty, Q1 2015 moved onto the publication of 2014 results. These included the now mandatory fully loaded Basel 3 CET1 Ratios as well as management statements on target levels and buffers. The ECB sent the banks individual letters on minimum CET1 ratios in the quarter. As a result, capital (and leverage) requirements are much clearer and this backdrop allows a renewed focus on strategy. Revenue generation, RoEs, loan growth and cost cutting are key.

There have been a number of high profile management changes as Brady Dougan steps down at Credit Suisse in June to be replaced by Tidjane Thiam from Prudential with investors anticipating sweeping changes and an immediate strategy review. Crédit Agricole's new CEO, Philippe Brassac, arrives in May and has a mandate to change the structure of CASA and the Group. Standard Chartered also needs significant change as it posted underwhelming full-year 2014 profits of $2.51 billion, a sharp fall from the $3.99 billion in 2013. We did, however, underestimate the market reaction to the change of CEO from Peter Sands to Bill Winters (ex-JP Morgan and latterly Renshaw Bay). Winters has little retail banking or Asian experience, but investors believe he can achieve a 13% RoE closer to the 14% generated by Asian peers despite lower management targets. An 11-12% CET1 ratio is targeted with no plans for a capital increase by recycling RWAs and cost cutting which we think will be a challenge. Amongst the strategic reviews, perhaps Deutsche Bank's, due to be unveiled prior to its May 21st AGM, has attracted the most interest. We think that spinning off retail is credit negative, but there appears to be pressure to do so given its low returns and the size of its balance sheet (especially in mortgages) which impacts the leverage ratio. Restructuring is needed, but Postbank was bought to diversify the group, and brings important liquidity through its deposit base. Partial disposal could help leverage, although there are difficulties here too under Basel 3, such as the need to strip out minority capital. We think it makes more sense to trim the investment bank, equity investors are less keen given the cost savings needed to ensure double digit RoE and its hitherto performance on costs, and the large amount of litigation still to settle. Buoyed by QE however, investors seem prepared to give credit for such strategies.

Moody's finally published their bank methodology, reflecting the new resolution regime and reduction in government support. Support is partially offset by the lower losses after resolution, as BRRD is expected to bring about more orderly solutions, as will increasing capital buffers. With the market beginning to digest bail-in, we have a real test case that could influence bank resolution in the future as Heta heats up. Austria was one of the first to adopt BRRD allowing senior bail-in, and in March its Financial Market Authority (FMA) has placed Heta Asset Resolution AG into resolution and imposed a debt moratorium until May 2016. Set up to wind down Hypo Alpe Adria's (HAA) assets, Heta notified the FMA that an external Asset Review showed there was a shortfall of between €4 billion to €7.6 billion and that its owner, the Federal Republic of Austria, was not willing to cover this requirement. As Heta is in resolution and not insolvency, the province of Carinthia's guarantees are not triggered, although the FMA has said that they remain valid (as well as federal guarantees for €1 billion). Austria states it is not liable to cover state guarantees, however Carinthia's debt guarantee totals €10.2 billion, and its governor stated this was five times the state's annual budget, and that it "cannot pay that" and indeed doesn't have to until insolvency. It seems the aim is to reduce the Carinthian liability by negotiating with bondholders to buy Heta bonds at a discount during the moratorium period. The FMA, who cannot themselves enter negotiations, will evaluate Heta's assets, create a resolution plan and apply the resulting capital shortfall according to resolution laws. Germany is most affected, with its banks apparently lending €5.5 billion and insurers with circa €1.5 billion exposure at the end of 2014. Bayern LB, the largest lender, has written down half their exposure at a cost of €1.35 billion. Some French and Belgian institutions also have significant exposures. The resolution does not fall under the European Union's (EU) Single Resolution Board (SRB) remit which only takes responsibility for bank resolutions after Jan 1st 2016.

And finally, TLAC decisions are due towards the end of this year, but on March 10, the German Treasury proposed specifically subordinating bank senior debt to both corporate deposits and derivatives. This would make senior unsecured bonds fully TLAC compliant as they'd now be subordinated thus solving TLAC shortfalls. Given that many European banks have operating holding companies, other countries could follow, such as France.

Of note, compensation paid for misconduct (e.g. PPI) will no longer be tax deductible. The UK bank levy was also increased from 16 bps to 21 bps, raising just shy of £1 billion per annum. The Government plans to sell its £9 billion equity in Lloyds Bank, along with the £13 billion loan book of Northern Rock and Bradford and Bingley. Overall, the impact on the UK banks is limited.

European Direct Lending

It was all systems go during the quarter, with our first capital deployment taking place in February, a bridging loan to assist in the purchase of an office building in one of the UK's top five cities. Structured as a one year facility, with an optional extension of six months, we feel that this investment will achieve an attractive return through a combination of fees and coupon accrual.

We continue to focus on the relatively under-served and under-banked sectors of the commercial real estate lending market, and in particular the provision of shorter-term financing solutions to property investors. To this end, we are currently working on several opportunities of a similar profile to the aforementioned investment, and we are optimistic with respect to our ability to source, negotiate and execute such deals going forward.

Gross Return Attribution by Strategy as at 31st March 2015:

Strategy	Attribution (%)	LCE (%)
CLOs	0.30	8.7
European CMBS	0.24	23.8
European RMBS	0.36	35.0
US Non-Agency	0.01	29.8
US Agency (CRT)	0.01	0.9
Whole Business Securitization	-0.06	1.7
Hedge	-0.03	N/A
Financing	-0.11	N/A
Total Return (%)	0.71[3]	

Largest Positions by Sector as at 31st March 2015:

Position	Sector	Seniority	% of Portfolio
1	European RMBS	Residual	3.22
2	European CMBS	Senior/Second Pay	3.08
3	European RMBS	Senior	2.62
4	European RMBS	Senior	2.13
5	US POA	Senior	1.97
6	European CMBS	Senior/Second Pay	1.87
7	European CMBS	Senior/Second Pay	1.78
8	US Subprime	Mezzanine	1.74
9	US POA	Senior	1.73
10	European CMBS	Senior/Second Pay	1.71

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

Stress Tests

Stress Test	Result (% NAV)
Equities -10%	0.26
Equities +10%	-0.02
Corporate Credit Spreads -25%	-0.57
Corporate Credit Spreads +25%	0.52
Equity Volatility -5 pts	-0.01
Equity Volatility +5 pts	0.01
FX -10%	0.45
FX +10%	-0.16

VaR

VaR (1 Day 95%) (% of Nav)	0.36

Long Equity Delta	Short Equity Delta
0%	0.52%

ASC 820

Category	% LCE
Level 1	0
Level 2	96.25
Level 3	3.75

Estimated Liquidity

Category	% LCE
< 30 Days	38.76
30-60 Days	58.02
>60 Days	3.22

East Lodge Capital

Investor Letter March 2015

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

Glossary

ABSPP	Asset Backed Securities Purchase Programme
AGM	Annual General Meeting
AQR	Asset Quality Review
BRRD	Bank Recovery and Resolution Directive
CBPP	Covered Bond Purchase Programme
CCAR	Comprehensive Capital Analysis and Review
CET1	Common Equity Tier 1
CRT	Credit Risk Transfer
DFAST	Dodd-Frank Act Stress Test
DoJ	Department of Justice
DTA	Deferred Tax Asset
ECB	European Central Bank
EFSF	European Financial Stability Facility
ELA	Emergency Liquidity Assistance
FCA	Financial Conduct Authority
FHLMC	Federal Home Loan Mortgage Corporation (Freddie Mac)
FMA	Financial Markets Authority
FNMA	Federal National Mortgage Association (Fannie Mae)
HPA	House price appreciation
HPI	Home Price Index
IMF	International Monetary Fund
INE	Instituto Nacional de Estadística
LTV	Loan to Value
MLAR	Mortgage Lenders & Administrators Return
MMR	Mortgage Market Review
ONS	Office for National Statistics
PIK	Payment In Kind
POA	Pay Option ARMS
PPI	Payment Protection Insurance
PRA	Prudential Regulation Authority
PSPP	Public Sector Purchase Programme
QE	Quantitative Easing
RoE	Return on Equity
SRB	Single Resolution Board
SSM	Single Supervisory Mechanism
TLAC	Total Loss Absorbing Capacity
TLTRO	Targeted longer term refinancing operation
VAT	Value Added Tax

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").

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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 Since Inception – Class B" 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. 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 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. 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.