East Lodge Capital Investor Letter June 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.

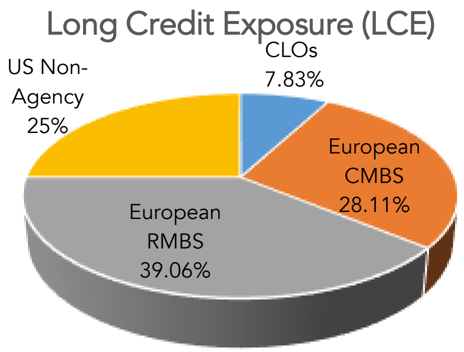
Performance since Inception[1]

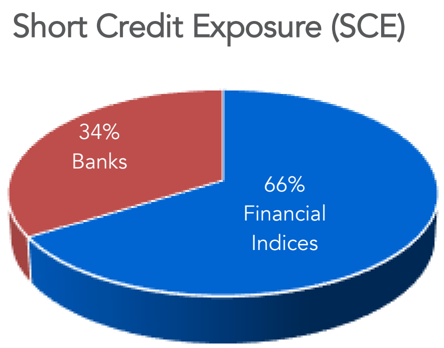
April 2014	May 2014	June 2014	2014 YTD Return (April 2014 inception)
4.27%[2]	1.21%	1.81%	7.45%

Assets Under Management

Fund AUM as of 1 June 2014	Firm AUM as of 1 June 2014
$111.8 mn	$111.8 mn

Portfolio Summary as at 30th June 2014

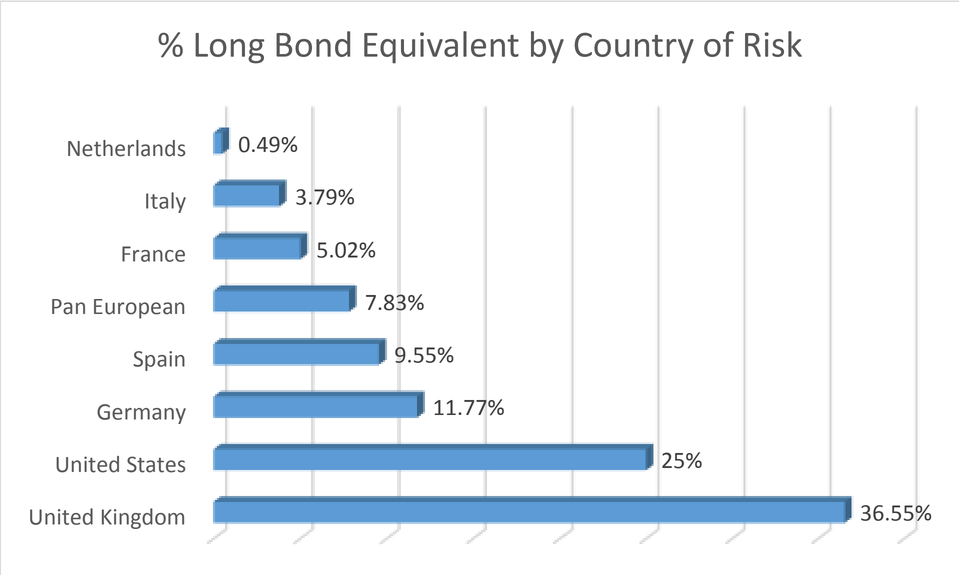


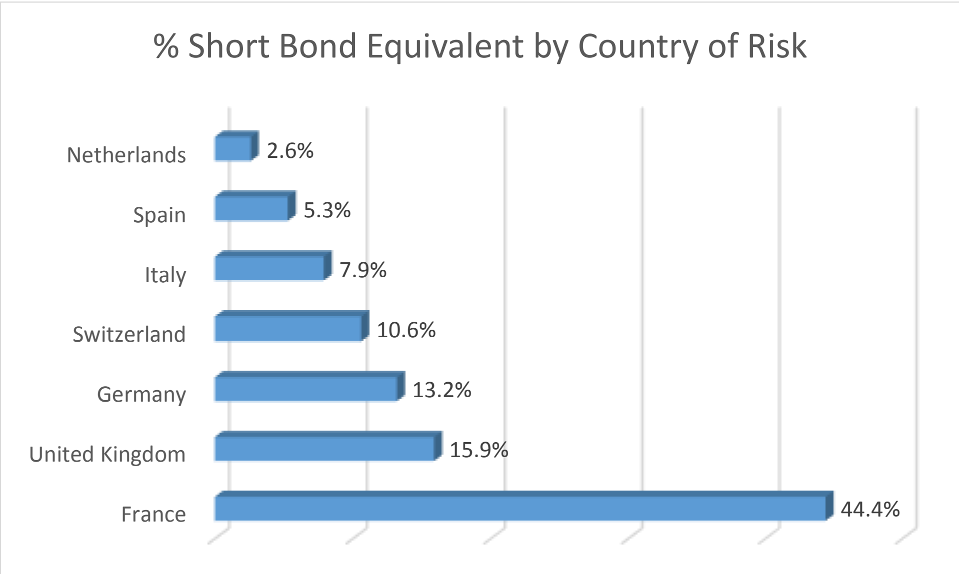


1Returns are shown net of fees and expenses, please see disclaimer for further details

2 Performance shown is that of the Offshore Fund and is unaudited and reflects the capping of certain Fund expenses by the investment manager. 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 30th June 2014

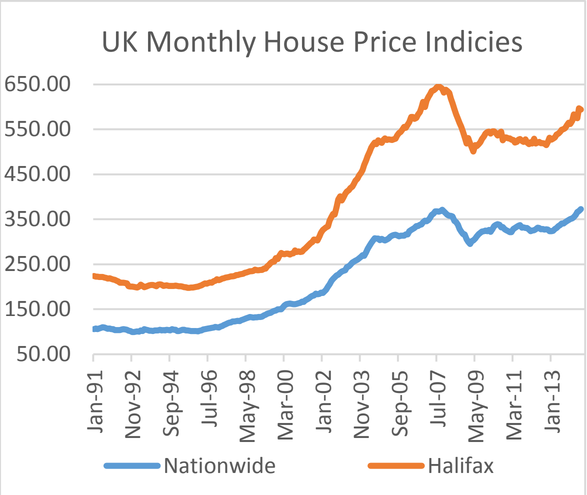




Commentary

RMBS European Markets

UK



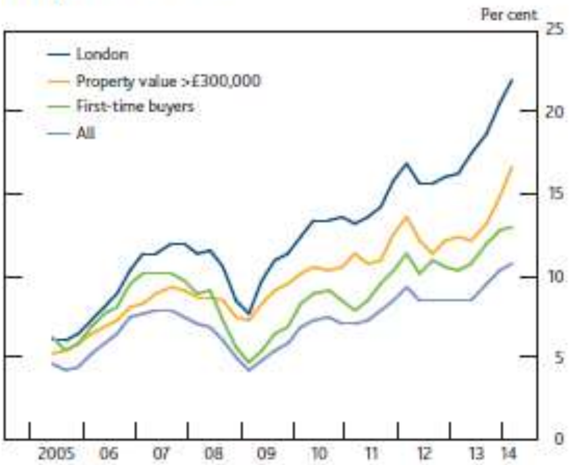
Jun-14	Halifax	Nationwide
Annual Change	8.80%	11.80%
Quarterly Change	2.30%	2.60%
Month Change	-0.60%	1.00%
Average Price	183,462	186,512
From Peak:	-8.08%	0.29%

Q2 2014	
Best Performing Region	London (+7.6%)
Worst Performing Region	Scotland (+0%)

The Halifax House Price Index finally abated from its steady creep upward in June, however the Nationwide index rose to new highs, up +0.29% from its 2007 peak. Quarterly numbers were also available for Nationwide, showing that no region dropped in value during Q2, and that London remained the outperformer with a rise of +7.6%. In terms of the transmission of the "wealth effect" into the broader UK economy, the Knight Frank and Markit Economics House Price Sentiment Index (HPSI) showed its 14th consecutive month of households reporting a perceived rise in the value of their home. A record 30.6% of the 1,500 households surveyed across the UK said that the value of their home had risen over the last month, compared to just 4.3% who reported a fall, giving the HPSI a new record high reading of 63.2 (versus 62.7 in April 2014.)

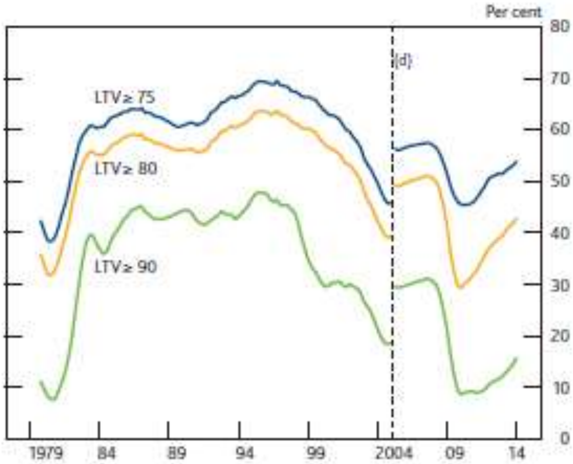
This month, the Bank of England's Financial Policy Committee (FPC) took action, announcing plans to limit the proportion of firms' mortgage books that is lent at greater than 4.5x income to 15%. In addition, the FPC gave guidance on the sizing of an appropriate interest rate stress during the first five years of the mortgage: 3% for the Bank Base rate. The consultation period on these proposed changes runs until August 31st, and they come into effect on October 1st. This move is likely targeted at the London housing market where Loan to Income multiples at or above 4.5x have crept above 20% (as illustrated below). However in the context of a National mortgage book, these restrictions will not impact the current level of risk being taken in lender's books, even though their appetite for risk is clearly increasing.

New mortgages advanced for house purchase at loan to income multiples at or above 4.5



Sources: FCA Product Sales Data and Bank calculations.

New mortgages advanced for house purchase by LTV



Sources: Council of Mortgage Lenders (CML), FCA Product Sales Data (PSD) and Bank calculations.

The UK Non-Conforming mortgage market was buoyed further this month by improving fundamentals and a strong technical demand that took over after comments from the ECB at their June meeting. Dealing with the fundamental improvement first, many deals continue to see their serious arrears drop from a combination of improving borrower behaviour and credit burn-out as some arrears cases hit the end of the court process. In many deals this move was significant, and in excess of 1% of the serious delinquencies left the pool, bringing pro rata cashflow triggers closer to being in the money. In terms of technicals, the statement from Mario Draghi that "the Governing Council decided to intensify preparatory work related to outright purchases in the ABS market" provided a strong back drop for risk in general helping bonds tighten, especially where the optionality remained evident.

Spain

According to the economists at the International Monetary Fund, the downward trend in the property market in Spain is drawing to a close and it is unemployment that is hindering a full recovery. With unemployment hovering around the mid-twenties, a move to full recovery mode will be challenging, however the report's author, James Daniel, head of the IMF's Spain mission, pointed out that the country's economy has "turned the corner" after economic improvements took hold in the second half of last year and continued in the first quarter of 2014. This month also saw an announcement from the Sociedad Gestora, which manages a number of Spanish securitisations, regarding the sale of foreclosed properties that have already been provisioned for in a number of deals. The details on the proportion of the foreclosed balance up for sale has yet to be released, but a resolution is expected in July and any increase in clarity of clearing levels will be beneficial to the market in uncovering true value.

On the back of Mr. Draghi's comments, Peripheral ABS saw a boost as market participants positioned ahead of a new buyer potentially entering the market. Clean senior cashflows tightened 5-20bps and less clean seniors moved in 50-100bps. The rush for mezzanine paper continued unabated, and the expectations for clean-up calls to be executed and rating migration to feel upward pressure (given the higher Sovereign ratings) were felt by the market. It remains to be seen what the follow through will be, but given these improving fundamentals and strong technicals, selective purchases in Spanish ABS remain attractive.

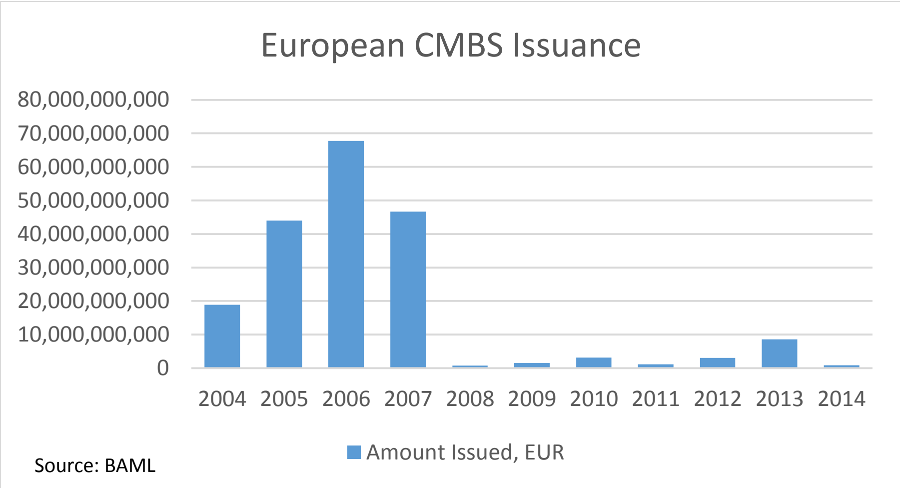
CLO

The European loan market saw an upside surprise this month as the Netherlands based retailer Hema B.V. announced plans to refinance its existing loan based capital structure by issuing a series of bonds. This was a credit that was on the watch list for many and demonstrates how, with give-up of additional reporting requirements to enable bond issuance, debt that was a potential concern can be successfully repaid. It also highlights how hungry the high yield bond market remains. The end of the month saw three European CLO Managers pricing deals, all taking a slightly different tack in order to appeal to different investor types. From the Dryden deal of Pramerica which focused on the use of fixed rate bonds to ensure a larger weighted average spread in the initial portfolio, to the more flexible covenant-lite loan bucket of the new Ares 2.0 CLO that was well sought after given the manager's track record. The third and final deal was a more standard affair from GSO/Blackstone. The net result of the jostling to print was AAA issuance tightening again 5bps, the mezzanine and equity remaining stable whilst the junior (BB/B rated) notes widened a further 50bps given the supply technicals at quarter end. This leaves European CLO spreads in the junior capital stack much closer to their US counterparts whilst the AAA and mezzanine remains much tighter.

CMBS European Markets

As we mentioned in our May Investor letter, new issue promised to be the theme for the European CMBS market for June. Per our expectations, we saw the announcement and pricing of two new transactions, a major positive for the market, with these being the first European CMBS deals of 2014. One deal was secured by a secondary/tertiary retail portfolio located throughout the UK, and the second deal was actually the first conduit deal to have priced since the crisis in 2007 with three loans secured by a mixture of office, hotel, industrial and shopping centres located in Northern Italy. Demand levels for both transactions were strong, the deals were many times oversubscribed and they priced at tighter spreads to levels initially indicated. The main differences between these deals and those issued at the peak were the conservative underwriting standards and several positive tweaks to the structure.

We are of the opinion that the new issue market is not only an added fillip to the CMBS market, but also to the commercial property markets in the UK and throughout Europe which now have an alternative and viable funding platform for the larger or non-prime assets. This may well be beneficial to our secondary European CMBS exposure as it should increase the level of demand by investors, causing a rise in values and, ultimately, a fall in losses at the CMBS level. Given the success of these two transactions and the level of demand, we anticipate that the investment banks will continue to look to issue more deals with several already believed to be in the pipeline.



This month we continued to add positions throughout the capital structure including senior, "2nd" pay and mezzanine positions. Not only did we invest in secondary markets, we also invested in the new issue deals. The market continues to rally, and like other ABS sectors, the CMBS market benefited in spread tightening from the comments made during the month by Mr. Draghi at the ECB. On the back of this, we were also able to make some trading gains in certain senior bonds where we felt that the bonds had rallied significantly compared to the risk return profile.

Our new acquisitions were again dominated by German office and retail exposure, however we also increased our exposure to the UK and periphery locations such as Italy and Spain. There are positive signs for investment volumes in the periphery. As we have seen, funding is now available in the form of CMBS, and investors are now seeing these markets as an opportunity with the wide yields that they offer. We are also seeing large private equity houses making investments in these locations for the first time. In fact, CBRE recently reported that nearly 48% of the €700mm of transactions in Italy made during Q1 of this year came from overseas investors.

US

Spreads remained firm in June with good investor demand for well-structured non agency credit. There continues to be more focus on Rep and Warranty settlements, with more credit being assigned to shelves including those where settlements have already been proposed (Countrywide, JP Morgan). Trading volumes were down slightly from May, particularly in the second half of the month. We are still some way from substantial and attractive new issuance in the non-agency space, but we are starting to see more supply in non-traditional, residential-focused new issues, such as rental securitizations.

Home price growth has slowed somewhat on an annualized basis. The Core Logic Index rose 1.46% in May (the most recent reported month, 3-month average), and 8.77% year on year, the slowest annual pace since December 2012. The FHFA Purchase Only 12-month index moved down from 6.45% in March to 6.00% in April. The Case-Shiller Home Price Indices (3-month average as at April 2014) showed an annual gain of 10.82%, substantially down from the March figure of 12.37%, with 19 of the 20 cities showing lower annual gains in April (Boston being the lone exception.) After some fairly meteoric gains with 13 months over 20%, San Francisco saw its rate drop below 20%. Existing Home Sales have continued to show annualized declines, with May down 9.5% year-on-year. Distressed property sales continue to fall as a percentage of overall transactions, now at 11% versus 18% in May 2013.

Borrower performance continued to improve. Voluntary prepayment speeds were up 0.8 CPR in Pay Option ARMs, 1.0 CPR in subprime and 0.3 CPR in Alt-A. 60+ delinquencies fell 0.31 in Alt-A, 0.40 in POAs and 0.67 in subprime. Nationwide, 60+ delinquencies have fallen to 6% for all loans and 21.2% for non-agency. While subprime liquidations increased 0.5 CDR, liquidations declined 0.4 CDR in Alt-A and POAs. The rate of always current loans becoming delinquent continued to decline.[4]

Modifications continued to decline, with 0.3% of loans modified in the latest month. Of this, 55% were rate modifications, while 14% were principal modifications. Loan modifications will continue to be a focus with the potential for coupon rates to start increasing following the 5 year anniversary of initial modification. Prior modifications are displaying improved performance as well. The percentage of 24-month post modification loans that are still current continued to rise. While still modest (2 CPR), current modified loans are showing some prepayment activity.[4]

In its most recent non-performing loan (NPL) sale, HUD drew 27 bids and a high bid of 77.6% of Broker Price Opinion (a valuation provided by real estate brokers for its $3.0 billion sale). This is the highest price paid since the program started in 2010, and a number of loan sales advisors have been commenting on potential over heating in the NPL market.[5]

Buy to rent transactions remain popular, with issuance expected to be $2 to 5 billion by the end of the year, however it has become clear that S&P and Fitch are not comfortable rating senior tranches AAA, with their place being assumed by Morningstar and Kroll. [4]

4 Source: JP Morgan

5 Source: Bloomberg

Side Pocket

Regarding the side pocket, we continue to work through a number of opportunities within the direct commercial real estate lending sphere, both within the UK and mainland Europe. Following analysis and negotiation, including specialist review and on-site due diligence, we issued a Term Sheet for a facility in support of a UK office development. We are also actively involved in the analysis and negotiation of a facility to support the acquisition of a small number of properties within the Netherlands, as well as several other interesting financing opportunities and partnerships.

Financials/Short

Financials were very strong at the end of May and into June as the market fully embraced the potential for the ECB to announce rate cuts and asset-buying schemes at the June 5th policy meeting. Nevertheless, the economic recovery in Europe has been very drawn out as demonstrated by a disappointing first-quarter growth figure of 0.2% QoQ. Given the possibility of disappointment around the ECB decision, balanced by the possibility of a strong rally, we bought some short dated option protection on S21 Itraxx Fin Snr for which the cost was much lower than had we held a delta equivalent outright position in the underlying.

In the face of continued governmental support for the market and high conviction in the credit arena, we remained committed to hedging our tail risk during the month as these are precisely the scenarios that can lead to rapid and unexpected volatility. We have targeted single name shorts both due to their lower cost profile (versus index trades) as well as their potential to demonstrate greater downside protection in tail risk scenarios (geopolitical risks). Focussing on single name shorts also allows us to target companies with specific issues (e.g. US fines/litigation) that might tighten more slowly in a bull market.

It has been highlighted recently in the press that the ECB stress test will consider litigation and regulatory costs, and whilst this is not a new development we have little information as to how this will be implemented. However, stories on litigation and similar types of expenses show no sign of abating. BNP's $8.9 billion fine was widely covered throughout the month, as was a ban on dollar clearing. Investigations are ongoing, with others including Deutsche Bank and Societe Generale. On June 25th, there were allegations of mis-statements with respect to Barclays' dark pool, and Bloomberg reported that Citigroup was being asked for more than $10 billion for its MBS settlement.

We executed some hedging through options where the cost is known and the downside limited in case of sustained tightening. During the month the strength continued with just a few blips along the way in tandem with sovereign spreads. We are cognizant that the peripherals present far cheaper hedge opportunities than they did three months ago, whilst at the same time have an elevated potential for widening in a macro tail event or correction. We are focused on Spain in particular in this regard.

Whilst June was broadly positive, there were some notable headlines in financials, and the end of the month was particularly soft on serious concerns about Espirito Santo Financial Group's financial circumstances and its corporate governance resulting in the suspension of its shares – a story, we believe, that is far from over. S&P downgraded six Austrian banks on the “extraordinary development” of the “Austrian government's announcement that it intends to introduce legislation to bail in holders of Hypo Group Alpe Adria's subordinated debt, even though this debt is guaranteed by the State of Carinthia.” Alongside these developments, Danièle Nouy, head of the Eurozone's Single Supervisory Mechanism, announced that the ECB would be ready and able by the scheduled November 4th deadline when they take over as the Eurozone’s banking supervisor. Until then the national regulators remain in charge.

Gross Return Attribution by Strategy

Strategy	Attribution (%)	LCE (%) as of June 30th 2014
CLOs	0.00%	7.83%
European CMBS	0.41%	28.11%
European RMBS	1.94%	39.06%
US Non-Agency	0.14%	25.00%
Hedge	-0.01%	N/A
Financing	-0.09%	N/A
Total Return (%)	**2.39%[3]**	**100.0%**

ASC 820

Category	LCE (%)
Level 1	0%
Level 2	90.63%
Level 3	9.37%

Estimated Liquidity

Category	% LCE
< 30 Days	40.69%
30-60 Days	49.94%
>60 Days	9.37%

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%	-0.40%
Corporate Credit Spreads +25%	0.56%
Equity Volatility –5 pts	0
Equity Volatility +5 pts	0
FX -10%	-0.14%
FX +10%	0.14%

Stress Tests

VaR (1 Day 95%) (% of Nav)	0.63%

Long Equity Delta	Short Equity Delta
0	0

Fund Terms

Minimum Investment ($mn)	1
High Water Mark	Yes
Side Pocket	Optional (subject to 20% limit)
Redemptions	Quarterly
Redemption Notice	90 days prior written notice (subject to a 4% penalty if made within first 12 months following initial investment)
Gate	25% (Investor-level)

Lock up	1 year soft lock (4% early redemption penalty if redeem within first 12 months)
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

Contacts

Name	Melanie Harington	Nick Gaze
Position	Marketing & Investor Relations	Director: East Lodge Capital Management Ltd.
Telephone	+44 203 540 8430	+1 345 328 0137
Email	melanie.harington@eastlodgecapital.com	nick.gaze@eastlodgecapitalmgmt.com

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 Domestic 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 the Offshore Fund. It is unaudited and is shown net of all fees and expenses, though we note that the April 2014 performance number reflects the capping of certain Fund expenses by the investment manager. 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).

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; the actual portfolio 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.