There is no shortage of challenges facing institutional investors in today's market environment, particularly for those investing in fixed income and credit. Three primary challenges include:

1. **LOW YIELDS**
   Investors continue to be faced with a historically low rate environment.

2. **RISING INTEREST RATES**
   Investors are also exposed to significant interest rate risk.

### DEFINING: Opportunistic Credit

Opportunistic credit investments include a variety of fixed income instruments that seek to capitalize on dislocations in credit markets and mispriced/misunderstood credits. Opportunistic credit strategies often complement, or serve as a substitute for, traditional fixed income investing, and may enhance investment returns and increase total portfolio diversification.

### Countering Today’s Headwinds with Opportunistic Credit Strategies

There is no shortage of challenges facing institutional investors in today’s market environment, particularly for those investing in fixed income and credit. Three primary challenges include:

1. **LOW YIELDS**
   Investors continue to be faced with a historically low rate environment.

   ![Graph showing U.S. 10-year Treasury Note Yield from 2000 to 2018]
   - Average since 2000: 3.5%
   - Data as of March 31, 2019, unless otherwise indicated. Data sources: Federal Reserve. Bloomberg Finance L.P.

2. **RISING INTEREST RATES**
   Investors are also exposed to significant interest rate risk.

   **One year total return scenarios for U.S. 10-year Treasury Notes:**
<table>
<thead>
<tr>
<th>One-year yield scenarios (increase)</th>
<th>One-year total return</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.4% (Flat)</td>
<td>-1.7%</td>
</tr>
<tr>
<td>2.9% (+50bps)</td>
<td>-5.7%</td>
</tr>
<tr>
<td>3.4% (+100bps)</td>
<td>-13.2% Total return given 2% yield increase</td>
</tr>
<tr>
<td>4.4% (+200bps)</td>
<td></td>
</tr>
</tbody>
</table>

**Unless apparent from context, all statements herein represent GCM Grosvenor’s opinion.**
Investors are receiving less compensation for taking broad credit risk. Other risks include decelerating global growth, macroeconomic risks, and duration risk, to name a few. We believe there is a wide range of attractive opportunities in the non-traditional portions of global credit markets that can help counter these challenges and markedly improve the risk-adjusted profile of fixed income and credit portfolios.

THE CASE FOR OPPORTUNISTIC CREDIT

Opportunistic credit strategies can create value due to a number of attributes:

+ Both secular and structural changes can drive opportunities
+ Ability to invest across strategies and geographies
+ “Complexity premium” that is inherent in many opportunistic credit investments
+ Many are niche strategies, with fewer competitors and less crowded positioning
+ Low to modest interest rate sensitivity
+ Typically focus on absolute returns that are capital structure and ratings agnostic
+ Low to modest market beta to both credit and equity indices through geographic and strategy diversification, along with a focus on strategies that focus on idiosyncratic situations

KEY INVESTMENT THEMES FOR OPPORTUNISTIC CREDIT

Deleveraging and Recapitalization of the Financial Sector

Amid an increasingly constraining regulatory environment, global banks are selling certain types of assets, engaging in risk-transfer transactions, and reducing their involvement in capital-intensive lending strategies in seeking to improve their capital ratios. These actions are creating opportunities for alternative credit investors, and the supply of available investments continues to be robust a decade after the financial crisis. However, the types of attractive investments have evolved, and now include:

+ Purchasing loan portfolios from banks (underlying collateral is varied, and may include residential or commercial mortgage loans, unsecured consumer debt, student loans, or corporate debt). Some of this debt may be performing, while some may be non-performing.
+ Entering into a risk sharing (“regulatory capital”) transaction with a financial institution. Unlike a loan portfolio purchase, in a regulatory capital transaction, the assets remain on the bank’s balance sheet. These transactions generally involve corporate loans where the bank involved is looking to maintain and grow its relationships with corporate borrowers, but does not possess the required level of risk capital to accommodate such growth.

1 Data as of March 31, 2019, unless otherwise indicated. Data sources: Federal Reserve. Bloomberg Finance L.P. Unless apparent from context, all statements herein represent GCM Grosvenor’s opinion.
+ Commercial real estate lending. Filling the void left by banks that have exited the market, opportunities exist to originate commercial real estate loans, particularly in Europe.

+ Specialty lending. We focus on niche strategies in residential and consumer finance, as well as in certain corporate sectors such as healthcare, restaurants, and student lending.

Why we find these strategies attractive
These strategies generally have a “ballast” profile as they tend to provide a return stream that is quite steady in a variety of market environments. Many of the investments have a relatively short duration, which can further mitigate risk. Additionally, the number of managers that are well-suited to exploit these strategies is somewhat limited.

Emerging Markets Stressed and Distressed Credit
Opportunities in emerging markets stressed and distressed corporate and sovereign credit have continued to evolve. These opportunities are diversified across sectors and geographies, including Latin America, Eastern Europe, and Asia, where commodity-related opportunities have also been important themes. Additionally, many of these opportunities are related to small or mid-corporate companies, in which managers will often take an active role in the debt negotiations and/or restructuring. The opportunities can result from several factors including geopolitical issues, idiosyncratic issues, China-related volatility, investor flows, and market liquidity.

Why we find these strategies attractive
Emerging markets are not homogenous; each region has its own unique political and economic dynamics. Frequent change, both political and economical, can create opportunities for managers with a local presence and/or jurisdictional expertise. Unlike the financial deleveraging opportunities discussed above, which are more ballast in nature, opportunistic credit investments in emerging markets offer the possibility to earn higher returns, albeit with higher risk. This is also a sector that requires specialized expertise that we believe few managers possess.

Small and Mid-Corporate Stressed and Distressed Credit (U.S. and Europe)
Idiosyncratic stress and distress occur fairly frequently at mid-corporate companies, and there tends to be less competition for these investments. Similar to emerging markets strategies, managers often have an active role in driving the outcome of a restructuring process.

Why we find these strategies attractive
These strategies require specialized “process-driven” expertise to maximize outcomes. We focus on managers who invest a relatively modest amount of capital, such that individual positions can be meaningfully sized within the portfolio. We also focus on managers who have sector expertise, such as in technology, which may be underfollowed by many distressed-focused managers, and where significant barriers to entry exist.

Asian Private Credit
The primary geographic areas of focus in Asia include China, India, and Australia. Each region offers unique opportunities. In China, smaller and mid-sized companies generally have reduced access to credit, creating opportunities in situations that involve restructuring or acquisitions. In India, recent changes to the bankruptcy code have created the beginning of what may become an interesting distressed opportunity. In Australia, a reduction in bank lending to real estate borrowers in more complicated situations has created an opening for non-bank lenders.
Why we find these strategies attractive

Many of these opportunities have been created by the decline in risk-taking abilities of various banks. We believe these opportunities have the potential to provide compelling risk/reward profiles.

Complex Asset Classes

While many sectors of the credit markets have recovered since the financial crisis, certain asset-backed securities, structured credit, and residential and commercial mortgage-backed securities markets remain attractive. For example, opportunities can be created by purchasing whole loans at attractive prices, and subsequently using the securitization markets to finance the portfolio at accretive levels.

Why we find these strategies attractive

These securities often have a complexity premium, and many provide meaningful downside mitigation in stressed scenarios while offering an attractive yield and, in many cases, opportunities for principal appreciation.

ABOUT GCM GROSVENOR

GCM Grosvenor is a global alternative asset management firm with approximately $50 billion in assets under management in hedge fund strategies, private equity, infrastructure, real estate and multi-asset class solutions. It is one of the largest, most diversified independent alternative asset management firms worldwide.

GCM Grosvenor has offered alternative investment solutions since 1971. The firm is headquartered in Chicago, with offices in New York, Los Angeles, London, Tokyo, Hong Kong and Seoul, serving a global client base of institutional and high net worth investors.

BIOGRAPHY

Craig H. Goldsmith, Managing Director

Mr. Goldsmith focuses on opportunistic credit strategies and serves on the Global Investment Council. He is also a Portfolio Manager for various credit-focused portfolios and a member of the Strategic Investments Investment Committee. Prior to joining GCM Grosvenor, Mr. Goldsmith worked at Banc One Capital Markets in a variety of capital markets and corporate banking positions from 1989 to 1991 and again from 1993 to 2004. From 2003 to 2004, he was a Director in the Hedge Fund Credit Group. From 1998 to 2002, he was a Director in the Asset-Backed and Credit Products Groups. Prior to 1998, he worked in corporate banking, middle market lending, and commercial real estate. He received his Bachelor of Business Administration in Finance from the University of Michigan in 1989 and his Master of Business Administration from the Kellogg School of Management at Northwestern University in 1998.

CONTACT

Headquarters
Chicago
900 North Michigan Avenue
Suite 1100
Chicago, Illinois 60611
+1 312 506 6500

New York
+1 646 362 3700

Los Angeles
+1 310 651 8270

London
+44 (0) 20 3727 4450

Tokyo
+81 3 5573 8110

Hong Kong
+852 3420 1777

Seoul
+82 2 2158 8500

For more information:
inquiries@gcmlp.com
gcmgrosvenor.com

GCM Grosvenor®, Grosvenor®, Grosvenor Capital Management®, GCM Customized Fund Investment Group™, and Customized Fund Investment Group™ are trademarks of Grosvenor Capital Management, L.P. and its affiliated entities. This document has been prepared by Grosvenor Capital Management, L.P. and GCM Customized Fund Investment Group, L.P. ©2019 Grosvenor Capital Management, L.P. and GCM Customized Fund Investment Group, L.P. All rights reserved.

Investments in alternatives are speculative and involve substantial risk, including strategy risks, manager risks, market risks, and structural/operational risks, and may result in the possible loss of your entire investment. Past performance is not necessarily indicative of future results. The views expressed are for informational purposes only and are not intended to serve as a forecast, a guarantee of future results, investment recommendations or an offer to buy or sell securities by GCM Grosvenor. All expressions of opinion are subject to change without notice in reaction to shifting market, economic, or political conditions. The investment strategies mentioned are not personalized to your financial circumstances or investment objectives, and differences in account size, the timing of transactions and market conditions prevailing at the time of investment may lead to different results. Certain information included herein may have been provided by parties not affiliated with GCM Grosvenor. GCM Grosvenor has not independently verified such information and makes no representation or warranty as to its accuracy or completeness.