

# In Brief

May 2020

**Past performance is not necessarily indicative of future results. No assurance can be given that any investment will achieve its objectives or avoid losses. Select risks include:** *macroeconomic risk, liquidity risk, manager risk, capital markets risk, credit risk and interest rate risk. Additional risks that result in losses may be present.*

## Seeking to Capitalize on Market Dislocation through Flexible Multi-Asset Class Investing

The global spread of COVID-19 has impacted public health and capital markets in a significant, multifaceted, and ongoing manner. As the dislocation evolves, compelling opportunities emerged across assets, including credit, equities, and sub-segments of the private capital markets. We share how a flexible, multi-asset class approach seeks to capitalize on current and future dislocations and deliver attractive risk-adjusted returns.

### DISLOCATIONS ARE DRIVING OPPORTUNITIES

As the pandemic spread, health and economic fears contributed to a historic surge in volatility in the month of March and a sharp sell-off in equities markets. While central banks responded with unprecedented levels of stimulus, the continued effects of a prolonged "stay-at-home" economy remain unknown. As risk-aware investors, we viewed the initial rapid spread widening, decline in liquidity, and capital outflows across capital markets as a compelling opportunity, which continues to evolve with the market. While we believe it will be critical to remain flexible given the myriad opportunities across different pockets of the market, we in particular see four distinct multi-asset class opportunity sets covering the following liquid and illiquid strategies:

+ Corporate credit
+ Structured credit
+ Structured equity
+ Niche strategies / specialist equities

#### Corporate and Structured Credit

The speed and magnitude of the credit market's dislocation and the resulting deleveraging observed were historically significant. As evidenced through the Global Financial Crisis ("GFC") and its aftermath, returns have been generated in credit strategies following periods of market distress. Based on our analysis, we are seeing yield spreads and volatility levels signaling an opportunity to purchase credit investments at attractive prices – just like after the last financial crisis.

> *We believe a flexible, multi-asset class approach can capitalize on the current and future dislocations and deliver attractive risk-adjusted returns.*

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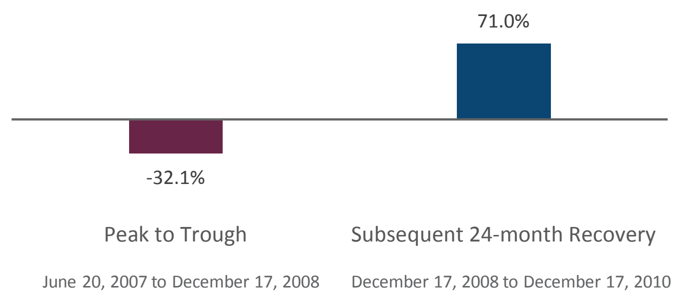
(continued)

*We've seen attractive returns following periods of market stress*

## Leveraged Loans Returns During and After GFC

S&P / LSTA Leveraged Loan Total Return Index



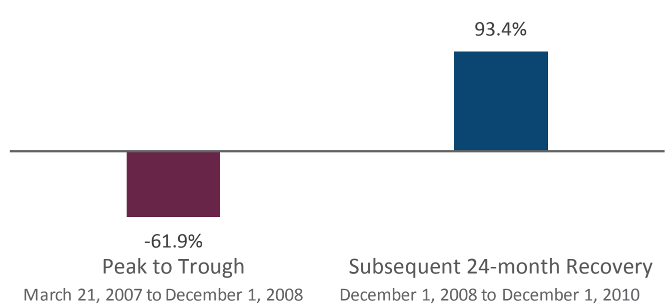

## Leveraged loan downgrades have increased recently

12-month trailing leveraged loan downgrade rate as of March 31, 2020


Data as of May 4, 2020, unless otherwise indicated. Data source: Bloomberg Finance, L.P.

## Structured Credit Returns During and After GFC

Bloomberg Barclays U.S. Universal Structured Credit Total Return Index




## Structured credit saw significant volatility in March 2020 and we anticipate further and prolonged dislocations across the asset type


Data as of May 4, 2020, unless otherwise indicated. Data source: Bloomberg Finance, L.P.

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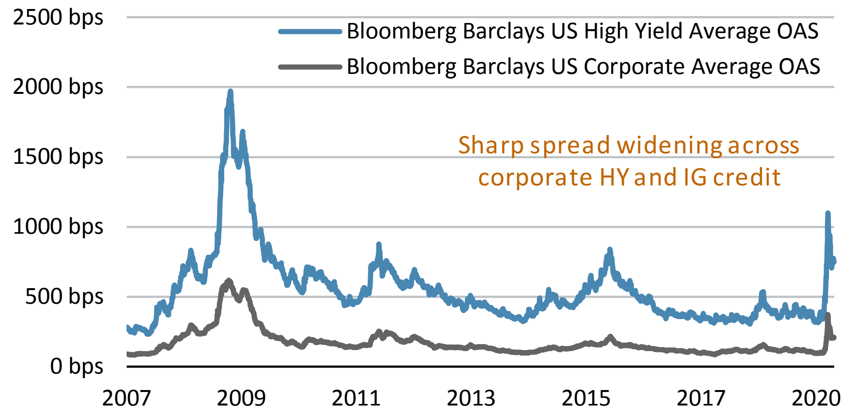
We believe corporate credit has been impaired by sellers overestimating the market impact of COVID-19 on operations of high-quality companies, creating potential opportunities for buyers with dry powder and stable platforms to seek higher returns at the top of the capital structure, especially as pandemic-induced corporate defaults begin to rise.

## Dislocation in Corporate Credit

### U.S. High Yield and Investment Grade Credit Spreads

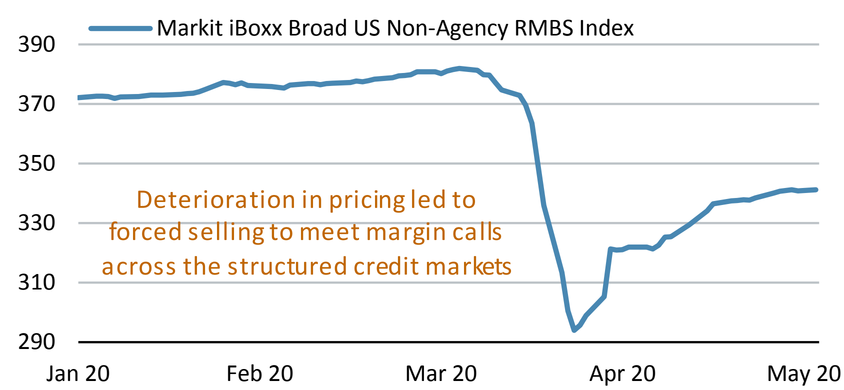



Data as of May 4, 2020. Data source: Bloomberg Finance, L.P.

Across structured credit investments, a combination of forced sellers exiting investments in order to meet margin calls and investor redemptions caused assets to significantly reprice. The buying power of natural purchasers declined as NAVs and leverage declined in the system. This has created a dislocation that is broad-based across RMBS, CMBS, CLOs, consumer ABS and whole loan pools. We see this as an opportunity to use security selection and sponsor relationships to potentially generate alpha.

## Dislocation in Structured Credit

### U.S. Non-Agency RMBS Index

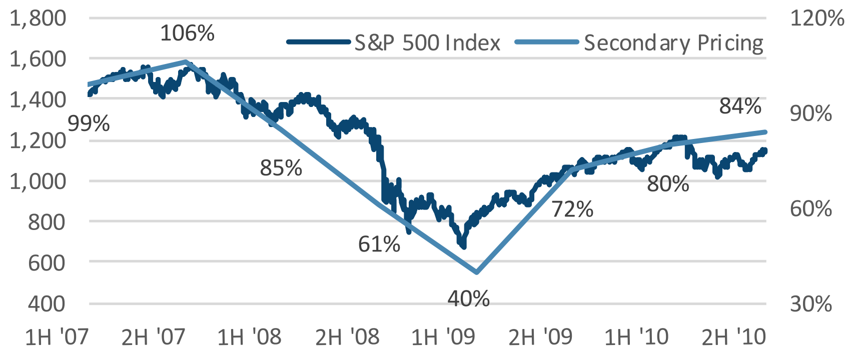



Data as of May 4, 2020. Data source: Bloomberg Finance, L.P.

**Structured Equity**

Similar to what we saw after the Global Financial Crisis (see chart on following page), we expect the current crisis will result in a return of deeply discounted private equity secondaries. The expected dislocation will speed up the traditional investment execution, leading to cycle opportunities (Read more in our recent post: *Finding Opportunity in the Secondary Market Amid Dislocation*). We believe structured secondary investments are an opportune way to facilitate quick liquidity transfers that may unlock these near-term opportunities. In later stages of economic recovery, opportunities typically take place in the form of hybrid debt investments. For instance, investments in the post-reorg equities of private companies emerging from bankruptcy with clear catalysts may be attractive.

### Average annual secondary pricing vs. S&P 500 Index during GFC
June 30, 2007 to June 30, 2011

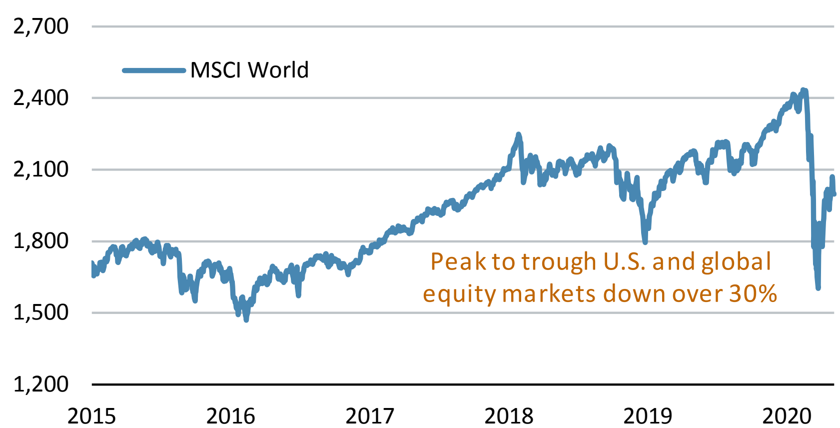



Data as of April 14, 2020. Data sources: Bloomberg Finance, L.P. and Greenhill for secondary pricing.

**Niche Strategies / Specialist Equities**

While massive Fed intervention has propped up the broader equity market for the time being, we believe there is a tremendous and growing opportunity to invest in high-quality businesses with low liquidity concerns, modest financial leverage, and insulation from COVID-19 impact. Traditional equities' volatility may enable attractive entry points to companies with lower long-term risk from the current economic downturn.

### Dislocation in Equity Markets
MSCI World Index




Data as of May 4, 2020. Data source: Bloomberg Finance, L.P.

We believe the capital infusion to companies in defensive sectors that seek to limit the downside provide the opportunity to invest in assets through structures that we think are compelling.

While certain investment opportunities are similar to prior dislocations, niche strategies emerged as a result of the general market selloff and market response. This includes the government re-launching the TALF program to address a dislocation in the securitized market, along with significant forced selling in the SPAC market.

These opportunities are dynamic, given the ever-changing market, and we believe the right structure and flexibility provide the best way to navigate during this environment.

## CAPITALIZING ON MARKET DISLOCATION THROUGH A MULTI-ASSET INVESTING APPROACH

The ability to provide investors a single point of entry to capture the multitude, diversity, and fast-changing nature of the current opportunities has intuitive appeal. As we explain in our post *Multi-Asset Investing: As Alternative Approach*, a multi-asset strategy typically has an unconstrained mandate, allowing managers the freedom to invest capital more seamlessly and opportunistically in response to changes in the market. We believe this type of strategy best takes advantage of the full opportunity set, across sectors, industries, geographies, and positions in the capital structure, presented by the dislocation.

Amidst the current market dislocation and evolving opportunity set detailed above, a flexible, multi-asset strategy uniquely positions managers to survey the broad investable universe and deploy capital to opportunities like the ones we're observing in credit, equity, and other sub-segments of the private capital markets. This flexible model is strengthened by the ability to deploy various implementation types, including direct investments, co-investments, and custom fund investments.

### Multi-Asset Class Investing

GCM Grosvenor's open architecture platform enables it to execute multi-asset investment portfolios in a variety of ways. In addition, the firm's Strategic Investments Group ("SIG") is a dedicated investment team that assesses the relative value of opportunities across full range of the firm's global investment platform and executes what it believes to be the best opportunities.

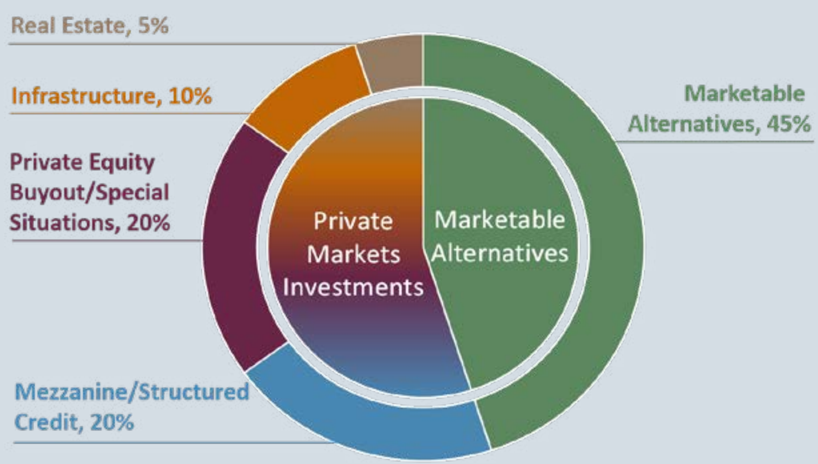
The team:

**+ Assesses relative value across the platform:** unconstrained mandate, with the ability to invest across asset classes, strategies, geographies, sectors, and capital structure

**+ Dynamically invests across the liquidity spectrum:** seek J-curve mitigation by investing in liquid opportunities while targeting illiquidity premiums from less liquid private investments

**+ Employs flexible investment implementation:** seek optimal execution primarily through direct investments and co-investments

### Target Allocation

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## GCM GROSVENOR ADVANTAGE

### Platform to access broad opportunity set

GCM Grosvenor's open architecture, global alternative investment platform has 600+ quality manager relationships to source high conviction investment opportunities. The platform provides the team with broad coverage and extensive relationships across the alternative investments industry. Our market position enables us to effectively source over 2,400 deals annually and access high-quality market intelligence. The scale and depth of resources allows the team to source, underwrite, and structure differentiated direct investments, co-investments, and custom fund investments opportunities for our clients, which we have done successfully as part of our past and ongoing multi-asset class investment activities. We believe there are few firms with the requisite platform and capability to source from such a broad range of investment opportunities as well as execute in both liquid and illiquid markets.

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### Speed of execution and operational depth

Our global investment and operations staff supports the investment professionals on the team throughout all stages of the investment and execution process. The team collaborates with investment professionals across the firm who help source ideas and offer specialized insight on managers and investments. Our deep and experienced team of operations professionals aid the efficient execution of investments. We believe the team can execute specialized opportunities by leveraging the firm's legal, structuring, and operational capabilities. The team's access to the significant resources on the GCM Grosvenor platform provides valuable efficiencies and speed to execution, which is critical within any tactical investment program.

### Experience navigating market dislocations

We have an extensive history of managing multi-asset mandates for large, sophisticated institutional investors across the globe, including several mandates and funds specifically designed to take advantage of dislocations and stressed/distressed credit opportunities. For example, after the Global Financial Crisis our investment team navigated through opportunities that arose from the dislocations in the credit markets, capitalizing on GCM Grosvenor's broad credit expertise.

opportunity evolution following the GFC

| Initial | Intermediate | | Longer Term |
|---|---|---|---|
| + Bank debt<br>+ TALF-related transactions<br>+ Convertible bonds<br>+ CMBS senior tranches | + Distressed corporate credit<br>+ Post-reorg equity<br>+ Capital structure arbitrage<br>+ Non-agency RMBS<br>+ Aircraft backed securities<br>+ Inverse IOs | + Short credit of LBO candidates<br>+ Liquidation claims<br>+ CMBS junior tranches and CRE debt<br>+ Regulatory capital solutions | + LBO deals with near-term maturities<br>+ Distressed municipal bonds<br>+ Portfolio asset sales from financial services firms |

Our deep senior team is experienced working through numerous crises and market cycles, which arms us with the strategies to help capitalize on market dislocations. We believe we are well-equipped with the requisite team, sourcing channels, underwriting, and execution capabilities to deliver attractive returns to investors.



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## ABOUT GCM GROSVENOR

GCM Grosvenor is a global alternative investment firm with $55 billion in assets under management in hedge fund strategies, private equity, infrastructure, real estate, credit, and multi-asset class opportunistic investments. The firm has specialized in alternatives since 1971 and is dedicated to unlocking value for clients by leveraging its cross-asset class and flexible investment platform.

GCM Grosvenor's experienced team of approximately 500 professionals from diverse backgrounds serves a global client base of institutional and high net worth investors. The firm is headquartered in Chicago, with offices in New York, Los Angeles, London, Tokyo, Hong Kong, and Seoul.

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**Data source:** Bloomberg Finance, L.P.

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