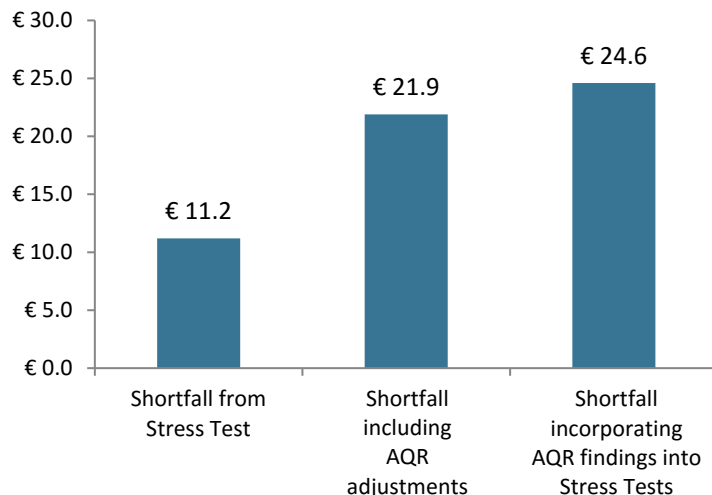


Overview

In late October the European Central Bank (“ECB”) released the results of the Asset Quality Review (“AQR”), a widely anticipated review of the financial health of 130 of Europe’s largest banks. The headline number, as illustrated below, was an aggregate capital shortfall of €25 billion across 25 participant banks as of December 2013.¹ Following capital raises, restructurings and other measures in 2014, the number of “failed” banks declined to 8 which represented an aggregate capital shortfall of €6 billion.² While the details of the review continue to be digested by the market, its impact to date has been significant as the total amount of balance sheet strengthening from July 2013 to August 2014 was €203 billion.³

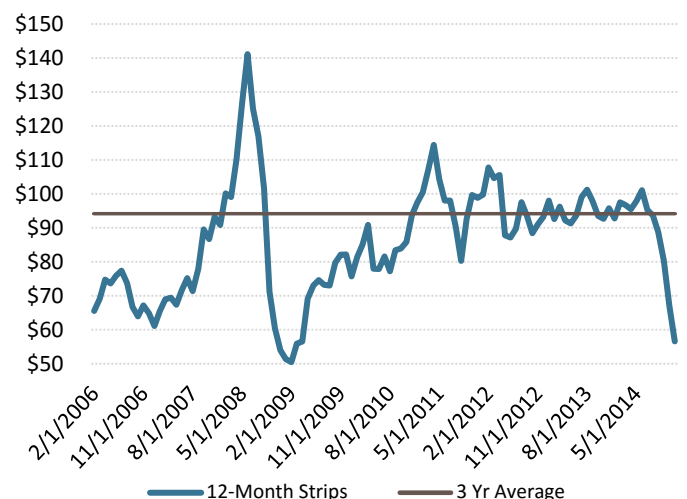
New issuance volume in the middle market declined significantly during the quarter as private equity sponsors pulled back. However, Silver Creek’s investment partners, particularly those focused on the larger end of the middle market, did not experience as significant of a slow-down. Volume in the U.S. small balance commercial loan market continued to be strong with cash collections robust. Pricing in the consumer insolvency market did not meaningfully change during the quarter with nascent market offering returns upwards of 20%.⁴ Silver Creek, like all market participants, spent significant time focused on the energy markets (as shown below) during the quarter, exploring potential opportunities in the distressed market.

Graph 1 – AQR /Stress Test Capital Shortfalls (€ billion)



Source: European Central Bank

Graph 2 – Crude Oil Prices (WTI 12-Month Strip Prices)



Source: Bloomberg

Strategy Updates

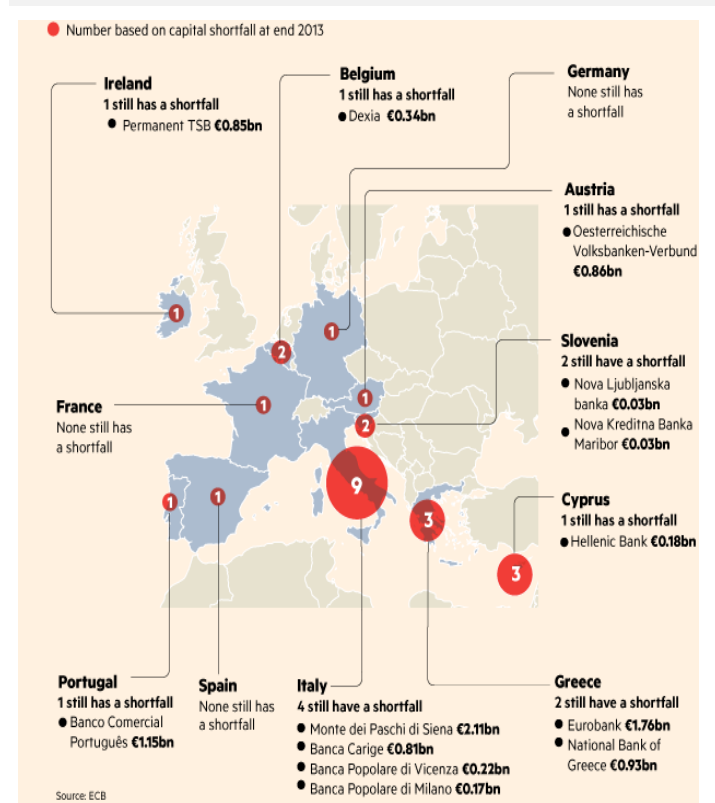
NON-PERFORMING LOANS

Investor attention in Q4 was focused on the release of the key findings of the AQR and accompanying stress tests. While the results were different than market expectations -- the number of bank "failures" (illustrated below) turned out to be higher than expected while the aggregate capital shortfall was notably lower than predicted -- the short-term market reaction was muted. The implications since the announcement of the comprehensive assessment in July 2013 have been significant with NPL sales forecasted to reach €87 billion in 2014.⁵ An additional €136 billion in NPLs were identified in the review, bringing the total across the European banking system to €879 billion.⁶

Silver Creek's investment partners continued to actively deploy capital during the quarter, sourcing mixed collateral NPL portfolios both at the large end of the spectrum and at the smaller, off-the-run end. Current opportunities offer an expected net of fees IRR in the high teens.

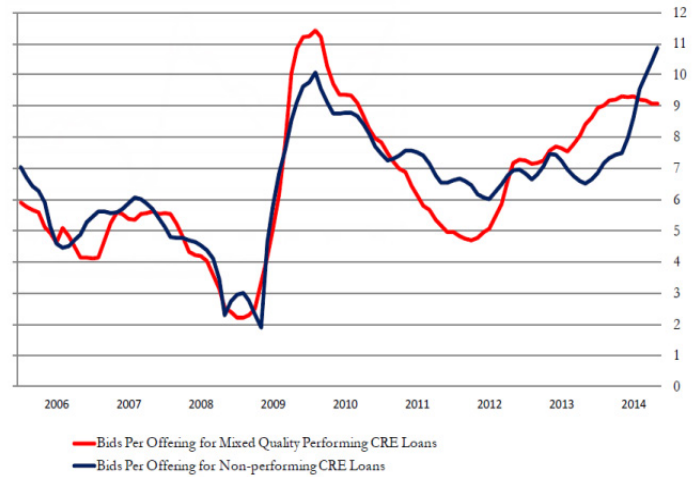
Silver Creek published a white paper during the fourth quarter providing further detail and commentary on the AQR: *Asset Quality Review: Key Findings and Potential Implications*. If interested, a copy is available on our website (www.silvercreekcapital.com).

Graph 3 – Stress Test Results – Bank Failures by Country



Source: Financial Times

Graph 4 – Number of Bids on Mixed Quality Performing and Non-Performing Commercial Real Estate Loan



Source: DebtXData

U.S. SMALL BALANCE COMMERCIAL LOANS

Supply in the U.S. small balance commercial loan market continued to be robust, dominated by smaller deals and performing loans. Pricing in performing loans continued to be in the 8% to 10% range as cross-over buyers have driven the yields down. Refinancings and real estate sales also continued to strengthen, while sales of whole loans by the Federal Deposit Insurance Corporation continued to increase.

Cash collections by Silver Creek's investment partners remained strong during the quarter with underlying cash flows faster than projected, boosting realized IRRs. Mixed collateral pools of both distressed and restructured loans continue to currently offer the most attractive opportunities.

DIRECT LENDING

Middle market deal volume declined significantly during the third quarter, falling from \$58 billion in Q2 to \$38 billion in Q3.⁷ This was driven largely by the pull-back from private equity sponsors who expressed concerns over valuation. Sponsored-backed deal volume fell to \$9.5 billion with LBO volume at \$2.0 billion.⁸ New issuance volume in the broader leveraged loan market also declined during the quarter, while re-financing volume fell to a three-year low (as shown below) as nearly 90% of loans as proxied by the S&P/LSTA Index were bid below par.⁹ This decline in new issuance was against a mixed backdrop of record retail outflows (\$9.4 billion in outflows as of September 30th)¹⁰ and record CLO issuance for the year (\$124.1 billion across 234 deals as of December 31st).¹¹

After remaining largely unchanged during the middle of the year, yields increased modestly through the end of the year with both spreads and

OID expanding. Leverage levels also trended higher, increasing to 4.8X.¹² Leverage in the broadly syndicated market inched higher yet to 7.0X.¹³

A widely followed regulatory report, the 2014 Shared National Credits (“SNC”) review, which is jointly produced by the Federal Reserve, Office of the Comptroller of the Currency and the FDIC, was released in November. The report assesses the risk of what the agencies describe as the “largest and most complex credits shared by multiple financial institutions” and reports on “criticized assets” (which are defined as any asset rated special mention, substandard, doubtful or loss).¹⁴ Of note, the SNC found “serious deficiencies in underwriting standards and risk management of leveraged loans.”¹⁵

CONSUMER INSOLVENCIES

In a reversal from previous quarters, the U.S. Chapter 13 market presented the most compelling opportunities in the consumer insolvency market, particularly bankruptcy loans secured by residential real estate loans. This strategy has a two-year expected time frame for exit and a projected IRR in the low teens. Cash collections in select jurisdictions came in ahead of underwriting expectations with sizeable early recoveries being seen in Italy and Germany.

Overall, pricing in the consumer insolvency market did not meaningfully change during the quarter. Collections on existing pools within the mature U.K. Individual Voluntary Arrangement market remained steady, while new transactions in the U.K. were bid to cash yields in high single digits. Newer European and Asian markets, which are typically highly relationship driven, continue to offer compelling returns, upwards of 20%.

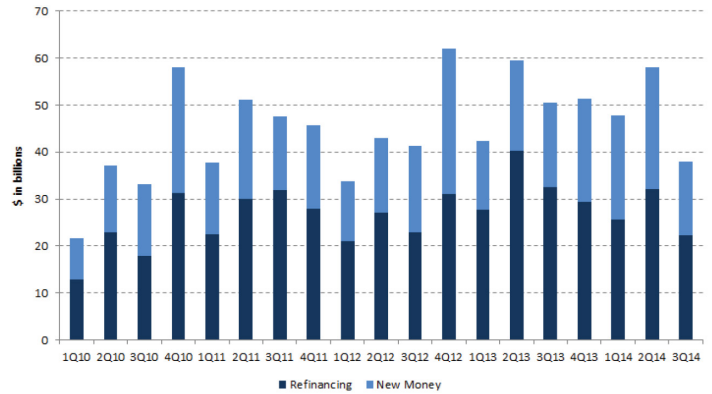
Opportunistic

BUSINESS DEVELOPMENT COMPANIES

Business Development Companies (“BDCs”) continue to garner investor interest, though they represent a small percentage of the overall leveraged finance market. Totalling approximately \$65 billion, BDCs represented less than 10% of total leveraged loan issuances in 2013.¹⁶ As shown below, the segment is dwarfed by the high yield and leveraged loan mutual funds and ETFs. While still small on a relative basis, BDCs have grown 3-fold over the past 10 years relative to the leveraged loan market at par.¹⁷

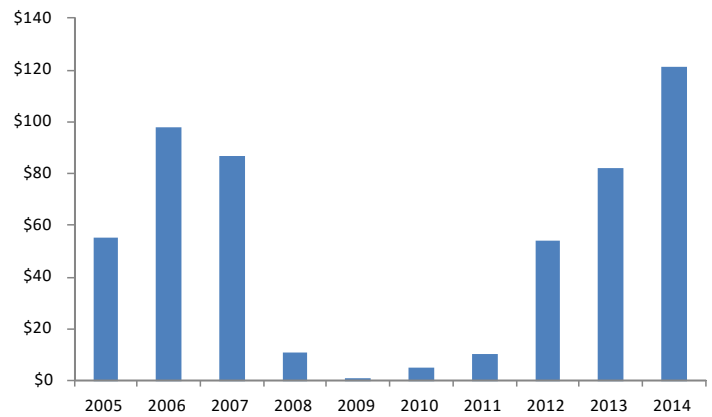
Silver Creek published a white paper on BDCs during 2014: *Public BDCs: An Expensive High Dividend Stock Substitute or a Private Debt “Liquid Alternative”?*. If interested, a copy is available on our website (www.silvercreekcapital.com).

Graph 5 – Middle Market Issuance Volume



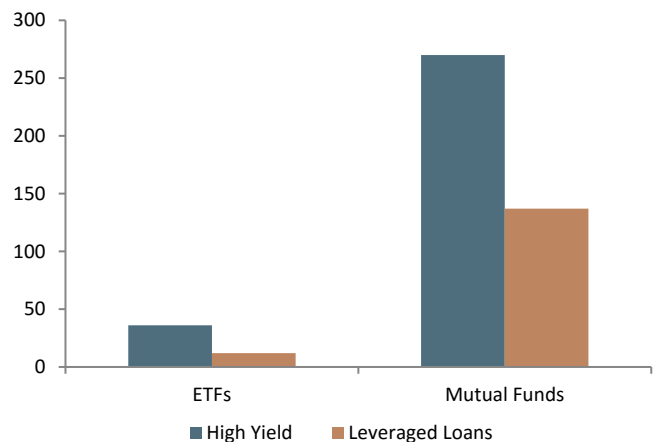
Source: Thomson Reuters; Wells Fargo Securities

Graph 6 – Annual CLO Issuance Volume (\$ billion)



Source: S&P Capital/LCD

Graph 7 – High Yield & Leveraged Loan Assets under Management – ETFs & Mutual Funds (\$ billion)



Source: Wells Fargo Securities

PUBLIC SPECIALTY FINANCE

Silver Creek actively follows a broad universe of public specialty finance companies as a liquid proxy for the private credit markets. A subset of that universe is included in Table 1 below.

Table 1 - Public Specialty Finance Company Representative Universe
As of December 31, 2014

	Ticker	Market Capitalization (\$ Millions)	Forward Dividend	Price to Book	PE Ratio	Price
Middle Market Lending BDCs						
American Capital	ACAS	\$ 3,939.86	0.0%	0.71x	34.11	\$ 14.61
Apollo Investment Corporation	AINV	\$ 1,756.62	10.8%	0.85x	7.93	\$ 7.42
Ares Capital Corporation	ARCC	\$ 4,901.66	10.4%	0.93x	11.06	\$ 15.61
BlackRock Kelso	BKCC	\$ 611.29	11.5%	0.82x	12.07	\$ 8.20
Fifth Street	FSC	\$ 1,228.26	12.5%	0.83x	8.14	\$ 8.01
Golub Capital BDC	GBDC	\$ 844.85	7.1%	1.15x	14.42	\$ 17.93
Main Street Capital Corporation	MAIN	\$ 1,314.19	8.5%	1.39x	14.14	\$ 29.24
Prospect Capital	PSEC	\$ 2,912.45	15.9%	0.79x	7.20	\$ 8.26
Solar Capital	SLRC	\$ 764.80	8.9%	0.81x	11.47	\$ 18.01
Triangle Capital Corporation	TCAP	\$ 667.67	10.9%	1.22x	10.43	\$ 20.29

	Ticker	Market Capitalization (\$ Millions)	Forward Dividend	Price to Book	PE Ratio	Price
Mortgage REIT's/Mortgage Servicing Rights						
Annaly Capital	NLY	\$ 10,243.58	11.1%	0.84x	13.86	\$ 10.81
American Capital Agency Corp	AGNC	\$ 7,701.38	11.9%	0.85x	N/A	\$ 21.83
Chimera Investment Corporation	CIM	\$ 3,267.63	17.6%	0.91x	5.36	\$ 3.18
Colony Financial	CLNY	\$ 2,611.48	6.0%	1.10x	20.10	\$ 23.82
Invesco Mortgage Capital	IVR	\$ 1,903.16	12.9%	0.80x	N/A	\$ 15.46
MFA Financial	MFA	\$ 2,948.94	10.0%	0.96x	9.99	\$ 7.99
Nationstar Mortgage	NSM	\$ 2,564.81	0.0%	2.16x	14.68	\$ 28.19
Ocwen Financial	OCN	\$ 1,899.80	0.0%	1.19x	7.39	\$ 15.10
Starwood Property Trust	STWD	\$ 5,168.64	10.2%	1.34x	9.92	\$ 23.24
Two Harbors	TWO	\$ 3,668.50	10.4%	0.89x	8.21	\$ 10.02

	Ticker	Specialty Focus	Market Capitalization (\$ Millions)	Forward Dividend	Price to Book	Price
Specialty						
AerCap Holdings	AER	Aircraft	\$ 8,242.20	0.00x	1.09	\$ 38.82
American Homes 4 Rent	AMH	REO-to-Rental	\$ 3,601.40	0.01x	1.04	\$ 17.03
Navient	NAVI	Student Loans	\$ 8,864.84	N/A	2.13	\$ 21.61
NorthStar Realty Finance	NRF	CRE Lending	\$ 3,922.29	0.08x	1.79	\$ 17.58

Source: Bloomberg

About Silver Creek

Silver Creek Capital Management (Silver Creek) is an alternative investment boutique with a focus on private credit and hedge fund strategies. Utilizing co-investments, commingled funds, as well as customized fund-of-one structures, Silver Creek develops tailored alternative credit solutions for investors. The firm, whose history began in 1994, is 100% owned by its employees and founders and today manages approximately \$5.2 billion.¹⁸

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¹ Source: *Comprehensive Assessment: Final Results Press Conference*, ECB, October 2014

² Source: Goldman Sachs Global Investment Research, *AQR/test: Sharp improvement in transparency; capital debate unlikely to end*, October 2014

³ Source: *Comprehensive Assessment: Final Results Press Conference*, ECB, October 2014

⁴ Source: Silver Creek Manager

⁵ Source: PwC European Portfolio Advisory Group Market Update, July 2014

⁶ Source: *Comprehensive Assessment: Final Results Press Conference*, ECB, October 2014

⁷ Source: Wells Fargo Securities, *The Q1 2015 BDC Scorecard*, January 2015

⁸ *Id.*

⁹ S&P Capital IQ, *LCD Quarterly Review*, Third Quarter 2014

¹⁰ *Id.*

¹¹ S&P Capital IQ

¹² Source: Wells Fargo Securities, *The Q1 2015 BDC Scorecard*, January 2015

¹³ *Id.*

¹⁴ Source: Shared National Credits Program 2014 Review, November 2014

¹⁵ *Id.*

¹⁶ Source: Wells Fargo Securities, "The 2nd Annual Wells Fargo Middle Market BDC CEO Forum," November 2014

¹⁷ *Id.*

¹⁸ Silver Creek Capital Management LLC ("Silver Creek Capital") was organized in 1999 as the successor entity to offer other fund of fund products in addition to the original fund established by the founder of Silver Creek Capital in 1994. The firm-level AUM figure aggregates the sum of Silver Creek Advisory Partners LLC and its affiliated management company Silver Creek Capital Management LLC. AUM data as of November 30, 2014.