

Overview

At the beginning of June the Canada Pension Plan Investment Board (“CPPIB”) won a competitive bidding process to buy GE Antares, the middle market direct lending arm of GE Capital. The division, which has been described by competitors as “the 800-pound gorilla” in direct lending, accounts for approximately 25% of all loans made to companies with revenues between \$25 million and \$500 million.

GE Antares is one of several divisions within GE Capital, the financial services division of General Electric, that management announced plans in April to sell. Seeking to shed its status as a “Systematically Important Financial Institution,” GE Capital outlined the sale of approximately \$200 billion in assets (Exhibit 1) with further plans to dispose of \$500 billion over the next two years.

While some market participants believe that the transaction will not meaningfully impact the market -- Antares is now free of leverage restrictions but will likely face a higher cost of capital without the assistance of GE Capital’s balance sheet – others view the deal differently. Jonathan Bock, the widely followed Wells Fargo BDC senior analyst, summarized the transaction as follows: “Overall, what we believe CPPIB has created is a best in class lending platform that may once again become a category killer in middle market sponsor finance.”

Exhibit 1 – GE Capital Divestiture – Retained Assets, Planned and Announced Sales



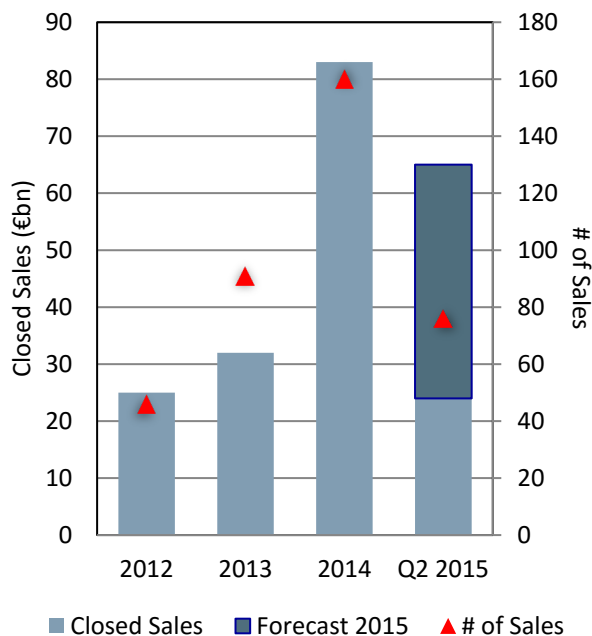
Source: GE company estimates, Wall Street Journal

Strategy Updates

NON-PERFORMING LOANS

The sale of commercial real estate (“CRE”) loan portfolios in Europe slowed significantly in the second quarter with approximately €9.5 billion of sales occurring. Following a slow first quarter, the year-to-date total of €23.5 billion represents a decline of 42% over the first half of the year in 2014 (Exhibit 2).

Exhibit 2 – European CRE Closed Transactions



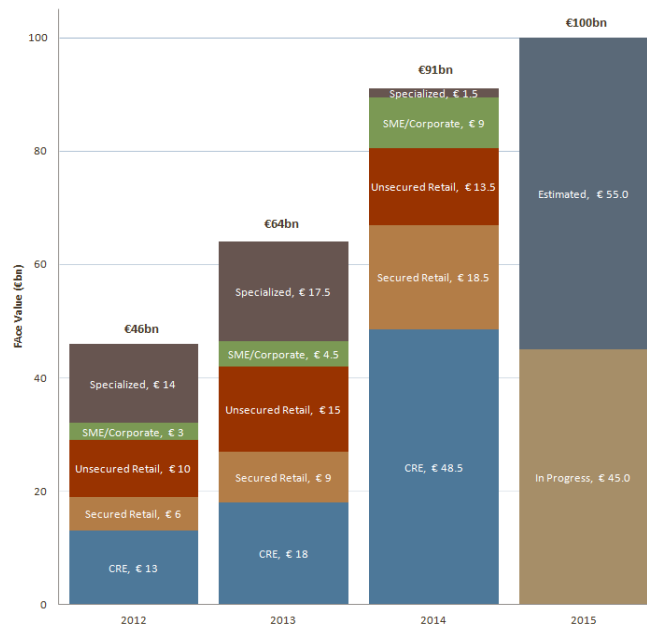
Asset sales are expected, however, to pick up significantly during the second half of the year as PricewaterhouseCoopers (PwC) continues to predict that total Non-Performing Loan (“NPL”) sales will eclipse 2014 levels (Exhibit 4). Consistent with that expectation, Cushman & Wakefield (“C&W”) is currently tracking over €99 billion in live and planned deals, the highest level of live transactions that it has been recorded. A handful of those live deals are highlighted below (Exhibit 3).

Exhibit 3 – Live CRE Loan Sales (as of July 2015)

Seller	Volume	Country	Project
UKAR	€ 17,550	UK	Granite Mortgage Portfolio
GE Capital	€ 10,395	UK	UK Home Mortgages
NAMA	€ 7,200	Ireland & UK	Project Arrow
Bankia	€ 4,200	Spain	Project Big Bang
LBG	€ 4,200	Ireland	Project Poseidon
Aviva	€ 3,645	UK	Project Churchill
Erste Group	€ 3,550	Romania	Project Neptune

Source: Cushman & Wakefield Corporate Finance

Exhibit 4 – European Loan Portfolio Sales by Collateral



Source: PwC

Like the broader market, Silver Creek’s investment partners had a quiet start to the year in terms of closed transaction volume. However, activity levels remain high with a number of first round bids being submitted; expectations are those transactions will close in the next few quarters. Return expectations remain unchanged with current opportunities offering an expected net of fees IRR in the high teens.

DIRECT LENDING

Leverage levels in middle market loans trended downward during the quarter, hitting their lowest levels in two and a half years. Multiples on the senior part of the capital structure in particular declined, falling to 4.3X from 4.8X at the end of 2014 (Exhibit 5).

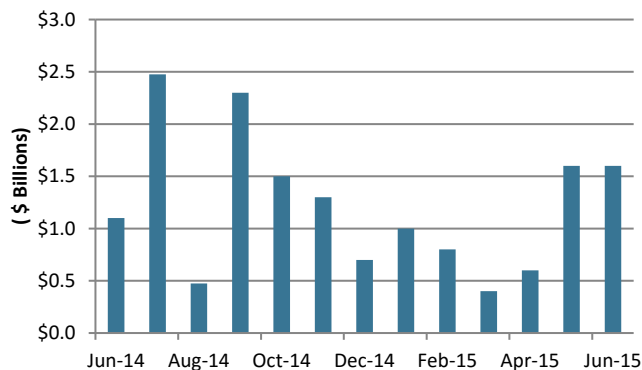
Exhibit 5 – Middle Market Leverage Statistics

	1H 15	2Q 15
Leverage through first lien	3.9X	3.8X
Leverage through second lien	4.2X	4.1X
Senior debt/EBITDA	4.3X	4.1X
Debt/EBITDA	4.6X	4.5x

Source: S&P Capital IQ LCD

Deal volume rebounded in the second quarter, increasing to \$3 billion from \$2.2 billion in the first quarter. However, the year-to-date volume remained roughly 20% below the same time period from 2014 (Exhibit 6).¹

Exhibit 6 – Issuance Volume for Middle Market Loans (\$50M or less)



Source: S&P Capital IQ LCD

Yields trended downward during the second quarter for the broader middle market, falling 77 bps according to S&P LCD to 6.29% with spreads at L+425-450 bps. Silver Creek’s investment partners did not see similar spread compression (Exhibit 7). Spreads continued to average L+800 bps on first lien paper and approximately 100 bps wider on second lien paper. Managers continued to be able to secure LIBOR floors of roughly 1% with around 3% on average of Original Issuer Discount.

Exhibit 7 – Recent Middle Market Transactions

Silver Creek Direct Lending Managers: 15 Recent MMDL Loans				
		EBITDA (\$M)	Debt/EBITDA	Cash Spread (bps)
Mar-15	Consumer Services	113.8	1.96x	L+550
Mar-15	Technology	120.4	5.28x	L+850
Feb-15	Business Services	42.0	5.4x	L+950
Jan-15	Technology	27.0	3.09x	L+900
Jan-15	Telecom	88.2	3.83x	L+600
Dec-14	Hotel & Gaming	13.8	3.50x	L+875
Dec-14	Government Services	19.9	4.30x	L+800
Dec-14	Oil & Gas	162.6	2.40x	L+1000
Nov-14	Industrials	25.0	2.42x	L+850
Nov-14	Industrials	90.9	3.82x	L+700
Oct-14	Software	8.1	5.50x	L+1000
Oct-14	Industrials	55.6	1.64x	L+700
Oct-14	Financials	9.5	2.75x	L+825
Oct-14	Oil & Gas	68.9	3.87x	L+750
Sep-14	Consumer Services	40.0	1.5x	L+675
AVERAGE		59.0	3.53x	L+801

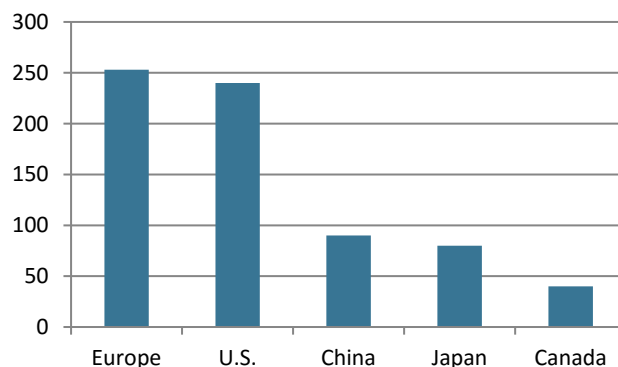
The Business Development Company (“BDC”) industry received positive news during the quarter on the legislative front. The U.S. House Subcommittee on Capital Markets was constructive during its hearing in mid-June on the idea of increasing the leverage cap to 2:1 from 1:1 for BDCs, while earlier in the month the U.S. House Small Business Committee voted unanimously to approve the Small Business Investment Company (“SBIC”) Capital Act, which expands the SBIC facility from \$225 million to \$350 million.

OPPORTUNISTIC – LEASING

The European leasing market (passenger cars, equipment, commercial vehicles) offers the potential from attractive return prospects. Given the built-in security frequently afforded by retaining ownership of a physical asset and the “mission critical” nature of most of these assets to the lessors, leases can offer strong down-side protection and are cash flow generative.

Banks or bank-related entities dominate this market, which is the largest in the world (Exhibit 8). Typically considered “non core” to parent companies, banks are beginning to dispose of these performing assets and business units.

Exhibit 8 – European New Business Volume (€ billion)



Silver Creek has sourced a number of prospective opportunities in the European leasing market. A small sub-set includes the following:

- Spanish bank seeking a partner to acquire a majority interest of a €2 billion auto finance platform;
- Spanish bank spin out of a €300 million per year auto leasing business;
- Italian bank seeking to sell a €7 billion leasing business.

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 below (Exhibit 9).

Exhibit 9 - Public Specialty Finance Company Representative Universe

As of June 30, 2015

	Ticker	Market Capitalization (\$ Millions)	Forward Dividend	Price to Book	PE Ratio	Price
Middle Market Lending BDCs						
American Capital	ACAS	\$ 3,726.07	0.0%	0.67x	20.64	\$ 13.55
Apollo Investment Corporation	AINV	\$ 1,676.13	11.3%	0.87x	7.72	\$ 7.08
Ares Capital Corporation	ARCC	\$ 5,176.15	9.5%	0.98x	11.43	\$ 16.46
BlackRock Kelso	BKCC	\$ 683.45	9.2%	0.86x	12.93	\$ 9.14
Fifth Street	FSC	\$ 1,004.38	14.4%	0.71x	7.50	\$ 6.55
Golub Capital BDC	GBDC	\$ 848.33	7.7%	1.06x	13.41	\$ 16.56
Main Street Capital Corporation	MAIN	\$ 1,590.56	8.0%	1.46x	15.30	\$ 31.91
Prospect Capital	PSEC	\$ 2,644.31	17.2%	0.72x	7.27	\$ 7.37
Solar Capital	SLRC	\$ 764.37	8.9%	0.82x	11.99	\$ 18.00
Triangle Capital Corporation	TCAP	\$ 778.81	11.1%	1.50x	11.56	\$ 23.44

	Ticker	Market Capitalization (\$ Millions)	Forward Dividend	Price to Book	PE Ratio	Price
Mortgage REIT's/Mortgage Servicing Rights						
Annaly Capital	NLY	\$ 8,709.46	13.1%	0.71x	N/A	\$ 9.19
American Capital Agency Corp	AGNC	\$ 6,480.73	14.3%	0.72x	N/A	\$ 18.37
Chimera Investment Corporation	CIM	\$ 2,818.52	13.4%	0.80x	4.81	\$ 13.71
Colony Financial	CLNY	\$ 2,530.03	6.5%	1.23x	26.67	\$ 22.65
Invesco Mortgage Capital	IVR	\$ 1,763.27	13.3%	0.74x	N/A	\$ 14.32
MFA Financial	MFA	\$ 2,737.19	10.8%	0.91x	9.11	\$ 7.39
Nationstar Mortgage	NSM	\$ 1,835.22	0.0%	1.08x	9.08	\$ 16.80
Ocwen Financial	OCN	\$ 1,278.12	0.0%	1.14x	N/A	\$ 10.20
Starwood Property Trust	STWD	\$ 5,136.40	8.9%	1.25x	10.40	\$ 21.57
Two Harbors	TWO	\$ 3,570.45	10.7%	0.88x	6.55	\$ 9.74

	Ticker	Specialty Focus	Market Capitalization (\$ Millions)	Forward Dividend	Price to Book	Price
Specialty						
AerCap Holdings	AER	Aircraft	\$ 9,013.98	0.0%	1.19x	\$ 45.79
American Homes 4 Rent	AMH	REO-to-Rental	\$ 3,392.25	0.9%	0.99x	\$ 16.04
Navient	NAVI	Student Loans	\$ 7,084.08	3.3%	1.73x	\$ 18.21
NorthStar Realty Finance	NRF	CRE Lending	\$ 5,515.00	10.7%	1.41x	\$ 15.90

Source: Bloomberg

ABOUT SILVER CREEK

Silver Creek Capital Management is an alternative investment boutique with a focus on private credit and hedge fund strategies. Silver Creek specializes in developing tailored alternative credit solutions for investors, utilizing highly structured exposures to niche credit opportunities as well as core private debt alternatives. With a history beginning in 1994, we have been investing in private credit since before the Global Financial Crisis and manage approximately \$5.3 billion on behalf of our clients.¹

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¹ 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 founders of Silver Creek Capital in 1994.

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