Diversified Structured Credit Pool

INVESTMENT LETTER
Q3-2018

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DEAR INVESTORS,

Please find below the investment results of the Diversified Structured Credit Pool ('DSCP') for the third quarter of 2018 ('Q3-18').

						ANNUALIZED	
	JUL-18	AUG-18	SEP-18	Q3-2018	YTD	1-YEAR	INCEPT[1]
DSCP Class A – USD	0.60%	0.63%	0.29%	1.52%	4.70%	6.41%	6.28%
50/50 US HY/Loans[2]	0.97%	0.57%	0.63%	2.19%	3.44%	4.05%	4.87%
Barclays Global Agg[2]	0.03%	0.31%	-0.38%	-0.05%	0.02%	0.44%	1.73%

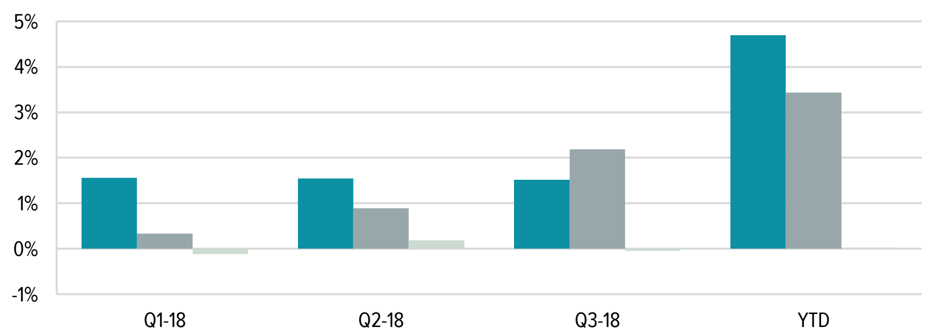
[1] Inception date April 3rd, 2017

[2] Reference indices: US High Yield/Leveraged Loans: 50% ICE BofAML US HY Master II Index (TR, USD), 50% Credit Suisse Leveraged Loan Index (TR, USD), Barclays Global Aggregate Bond Index (TR, USD-hedged)

In Q3-18, DSCP (Class A-USD) produced a net return of +1.5%, outperforming the Barclays Global Aggregate Index (0.0%), but underperforming the 50/50 Mix of US High Yield and Leveraged Loans that gained +2.2%. YTD, DSCP is still ahead of both reference indices (see table above). Over the quarter, the 10-year US Treasury yield climbed from 2.86% to 3.06% while HY spreads (ICE BofAML US HY Master II Index) rallied from 330bps to 292bps.

In October 2018, DSCP (Class A-USD) returned +0.1% bringing the 2018 YTD return to +4.8%.

2018 YTD RETURNS DSCP CLASS A-USD VS. REFERENCE INDICES



Source: Kempen, Bloomberg

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MARKET UPDATE

Structured Credit posted solid results in Q3-18 and held up well in the October sell-off

In Q3-18, Structured Credit markets experienced solid performance. Healthy underlying fundamentals coupled with favourable supply-demand characteristics led to positive results. Having said that, the Structured Credit market couldn't entirely keep up with US High Yield this quarter (+2.4%) as HY credit spreads tightened by almost 40bps easily offsetting the move higher in US Treasuries. Outside of the quarter, but well worth noting, is the fact that, in October, when risk-off sentiment prevailed and equities had a tough time, US High Yield fell by -1.6% and DSCP was marginally positive (+0.1%) underlining its defensive posture compared to US High Yield.

While DB research shows that 89% of asset classes (in USD) are showing negative YTD returns, Structured Credit is in the black

A recent publication from Deutsche Bank Research showed that on a YTD basis through October 89% of the asset classes Deutsche Bank tracks had a negative total return (in USD). This is the highest percentage on record eclipsing 1920 when 84% of the asset classes were down. We are glad to see that in this environment Structured Credit isn't just holding up but is delivering respectable performance with all major sectors (CLOs, CMBS, Consumer ABS, and RMBS) up for the year. While the year is not over yet and other asset classes hopefully rebound into positive territory as well, DSCP has been able to demonstrate added value in a portfolio context.

Looking at the quarter, managers in DSCP benefited from strength in residential mortgage backed securities (RMBS) both in legacy bonds as well as in more recently issued paper such as Credit Risk Transfer notes and Single Family Rental securitizations. In the latter category, bonds are backed by rental income streams on residential real estate portfolios. In addition to RMBS, several more off-the-run investments in bonds backed by assets with improving credit characteristics added to performance.

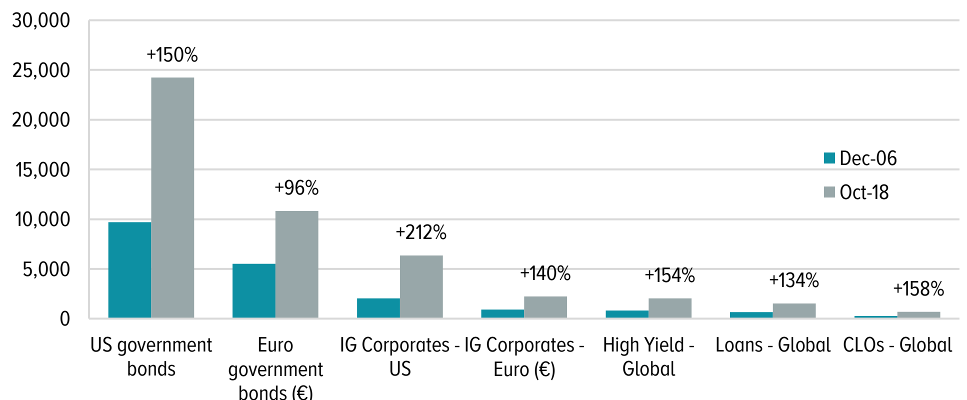
DEVELOPMENTS IN LEVERAGED LOAN & CLO MARKETS

Concerns around the growth and credit quality of leveraged loans are rising

In recent months, there has been quite some attention for the leveraged loan markets with major institutions and reputable market participants voicing concerns about the growth of the market as well as the eroding covenant packages of new issue loans. We too share some of that concern, but want to put things in context by looking at some of the facts. From the start of 2007 through the end of Oct-2018, the global leveraged loan markets have grown by 134%. While this is a spectacular number, its growth is not too dissimilar to other major fixed income markets; see below. In fact, the size of BBB Corporates in the US grew by +337% from $715bn to $3,121bn.

Debt markets in the US and Europe have seen significant growth since 2007

SIZE AND GROWTH MAJOR DEBT MARKETS SINCE 2007



Source: Citigroup, Credit Suisse, ICE

Leveraged loan markets have grown in sympathy with broader markets but also because of investor demand for floating rate instruments in a rising rate environment. A large part of that investor demand is coming from collateralized loan obligation (CLO) managers with Deutsche Bank estimating that in 2007 US CLO buyers represented 57% of the buyer base for US leveraged loans, a number that increased to 65% today. The CLO buyer base has also changed quite dramatically from one where the main buyers of AAA tranches were off-balance-sheet Structured Investment Vehicles (SIVs) to one where the main buyers are cash institutional investors demanding a higher spread (AAA spread has increased from circa 25-30bps to around 100bps). We believe this trend has fortified the investor base in CLOs and this is also underlined by Citigroup who calculate that asset managers, insurance companies, and pension plans now represent 63% of the AAA CLO market while asset managers' presence continues to grow across the 'stack' (all tranches from AAA to equity). Finally, CLO equity enjoys a stable bid from real money investors, which together represent over 80% of CLO equity demand (source: Citigroup, US CLO Primer and 2018Q4 Outlook).

Growth of the leveraged loan market has been fuelled by demand from CLOs that have a much more stable buyer base today than pre-crisis

While the growth of the leveraged loan market itself might not be a problem, the quality of the credit underwriting might be as we are seeing deals getting done (mostly to facilitate M&A or leveraged buyouts) with higher leverage and looser covenants. Although leverage has been increasing (ballpark from ~4.5x to ~5.5x EBITDA) it is not reminiscent of 2006-2007. By way of comparison, the most levered deal in 2006 (Univision being acquired by a consortium of private equity funds) had total leverage of 12.1x whereas the most levered deal in 2018 (Renaissance Learning being acquired by Francisco Partners) had total leverage of 7.8x. Although LBO acquisition multiples are up quite a bit, most of that has been financed by a larger *'equity check'* from private equity sponsors. While private equity firms hardly injected 30% of equity in 2006-2007, that number today is closer to 40-45% which means that there is a large buffer underneath the leveraged loan investor. Given that there is literally so much at stake for private equity sponsors they will do whatever they can to keep a company afloat as they will be the first one to suffer losses. What leveraged loan investors need to consider though is the fact that more often than in the past financing packages today are loan-only and do not contain junior unsecured high yield bonds. This means that the leveraged loans represent a larger part of a company's capital structure and that investors might face lower recoveries in case of defaults. Staying with the theme of potentially lower recoveries, it is undeniable that covenant packages have been eroded in recent years and the bulk of new issue broadly syndicated loans can be considered *'cov lite'* today. While historically *'cov lite'* loans have not underperformed the broader market -one could even argue that strong companies do not need covenants (e.g. most investment grade corporate bonds do not have covenants)- we think today's trend in leveraged finance is concerning and will ultimately lead to lower recoveries in the next credit cycle. As such, the specialist manager we work with that has the highest allocation to leveraged loans (through CLOs) is not expecting to recover the historical rate of around 70% in case of defaults but rather has adjusted down that number to around 55%. At this point loan defaults are still hovering near their lows; according to J.P. Morgan the leveraged loan default rate ended October 2018 at 1.92% while the bank forecasts a 1.5% default rate by year-end. Having said that, a recession or a decline in an industry that is over-represented in the loan universe (e.g. Cable & Telecom in 2001-2002) could alter that picture going forward.

The most concerning development in leveraged loan issuance has not been the growth per se. It has been the deterioration of covenant packages and this is expected to lead to lower recoveries in case of defaults during the next credit cycle

What is interesting in 2018 is that leveraged loans have performed very well (Credit Suisse Leveraged Loan Index +4.4% YTD through October) while CLOs that invest in secondary loans have experienced some mild spread widening, albeit more than offset by carry as according to J.P Morgan BBB bonds on average have returned +3.3% YTD. Spread widening of CLO liabilities is hurting the CLO equity arbitrage, because it means the cost of financing is going up and if the cash flow on the assets (leveraged loans) is not growing in sync then distributions to the equity holder will be lower. If this problem persists then new formation of CLOs will slow down and we have seen some of that happening already in September/October when heavy new supply of deals was expected but some of that got postponed. The good thing for DSCP is that CLO spreads are now wider than at the beginning of the year which means CLO bonds offer higher return potential.

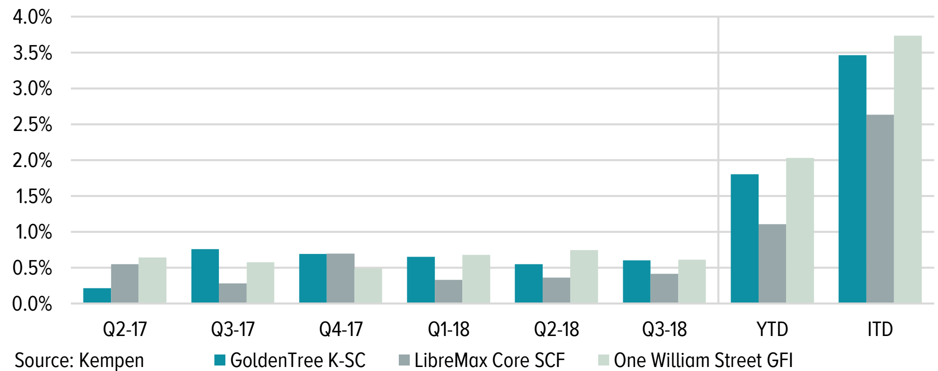
Leveraged loans have outperformed BBB CLO bonds on a YTD basis as BBB CLO bonds have seen their spreads widening

PERFORMANCE REVIEW

DSCP gained +1.5% (net of fees) in Q3-18 as all 3 underlying managers enjoyed a positive quarter with net performance ranging from +1.3% to +1.8%. GoldenTree and One William Street both gained +1.8% while LibreMax was up +1.3% leading to the following manager contributions for DSCP.

All 3 managers have contributed positively to DSCP performance in all 6 quarters since the launch of DSCP

QUARTERLY, YTD, AND ITD CONTRIBUTIONS PER MANAGER (GROSS)



Source: Kempen

Year-to-date, the highest performance contribution is from One William Street (+203bps), closely followed by GoldenTree (+180bps). LibreMax has lagged the 2 other managers but has still contributed meaningfully to overall DSCP performance with a +111bps contribution.

GOLDENTREE

GoldenTree 2017 K-SC, Ltd. ("GoldenTree K-SC") gained +1.9% in Q3-18 taking 2018 YTD returns to +5.7%. In Q3-18, positive contributions came from monoline related exposures (+120bps), CLOs (+61bps), and Consumer ABS (+17bps). In Consumer ABS, performance has been driven by 2 private positions in mezzanine notes backed by credit card receivables from major international consumer banks. In CLOs, the fund has done quite well despite the spread widening YTD (ca. 50bps for generic USD BBBs and 75bps for generic European BBBs) evidenced by a 219bps YTD contribution (of which 61bps in Q3-18). High carry and security selection has helped the fund while the CLO allocation has come down all the way to 48% in Q3 compared to 57% per the end of last quarter and 73% per year-end 2017. In Q3-18, 59% of the fund's performance came from carry (~40bps/month).

GoldenTree saw solid performance in its monoline related exposure and in CLOs

In the category monoline wrapped exposures, GoldenTree made most money in bonds backed by VAT revenues of Puerto Rico and guaranteed by one of 2 monoline insurers; Ambac or MBIA. These are the so-called COFINA bonds that rallied on the announcement that a debt restructuring plan was agreed upon by all parties under the Puerto Rico Oversight, Management, and Economic Stability Act (Promesa). COFINA bonds will be the first Puerto Rico instruments to get restructured and, according to oversight board director Natalie Jaresko, the terms agreed to by the parties provide for more than 32% reduction in COFINA debt, gives Puerto Rico ~$17.5 billion in debt service savings, enables local retail bondholders in Puerto Rico to receive a significant recovery and paves the way for achieving a consensual restructuring of COFINA debt by the end of 2018. Puerto Rico's revised fiscal plan (much more positive than a year ago) added to the positive sentiment. While most of GoldenTree's COFINA exposure is in monoline-wrapped paper, they have also started accumulating unwrapped bonds (i.e. bonds without a monoline guarantee) following the positive sequence of events and while still a modest position at this point, they expect to convert these COFINA unwrapped bonds in a new security at a premium upon restructuring.

Bonds backed by Puerto Rico's VAT revenues and guaranteed by one of the major monolines (Ambac, MBIA) rallied as parties agreed on terms of a restructuring

Positions related to Puerto Rico (and their guarantors) drove performance in Q3-18

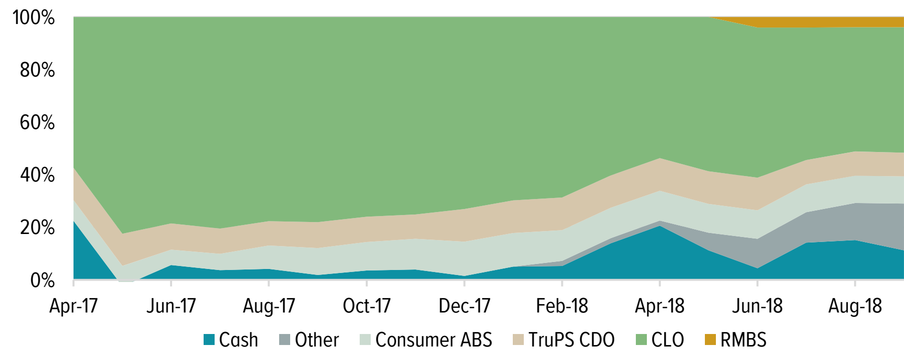
Return contribution of Europe and the US has been in favour of the US in Q3-18, with US investments contributing +166bps and European investments +36bps. Note that all the monoline wrapped exposure (includes Puerto Rico complex) is classified under US investments and that the US book has been significantly larger than the European book. Having said that, the IRR of the US investments has also outpaced the IRR of investments made in Europe. YTD, US investments have contributed +459bps with European investments adding +161bps to performance.

GoldenTree's proprietary X/X/5 measure stood at 29.1% per the end of Q3-18

On average, GoldenTree's CLO investments which in Q3-18 have dropped below 50% of the fund for the first time since its inception in April 2017 and can now withstand 29.1% defaults in year 1 and year 2 followed by 5% defaults per annum thereafter before one dollar of principal and coupon is impaired (this is GoldenTree's proprietary X/X/5 methodology). In a bear case scenario (e.g. lower recoveries), the X/X/5 of today's CLO book would still be 23.4%.

In August, CLO exposure dipped below 50% for the first time since launch of the fund

SECTOR BREAKDOWN GOLDENTREE K-SC



Source: GoldenTree

Stefano Loreti joined GoldenTree as partner and Head of European Structured Products

Organizationally, it is worthwhile noting that GoldenTree made a senior hire in their London office with Stefan Loreti. Stefano joins from Hayfin Capital as Head of European Structured Products and has been added to the GoldenTree partnership as well. GoldenTree currently has 28 partners, 50% of them have been internally promoted. It is expected that Stefano will build a small team in London and will contribute to idea flow in European ABS markets.

ONE WILLIAM STREET

Strong carry and strength in its RMBS book saw One William Street gain +1.8% in Q3-18

One William Street Global Fixed Income Fund (USD-Hedged), Ltd. ("OWS GFI") gained +1.8% in Q3-18 and with that it was up +6.2% for the first 9 months of 2018. In Q3-18, RMBS was the strongest performing sector as it contributed +86bps followed by CLOs (+49bps), Consumer ABS (+35bps), and CMBS (+26bps). Carry (between 50-60bps/month) represented 83% of the gains in the quarter and 71% YTD.

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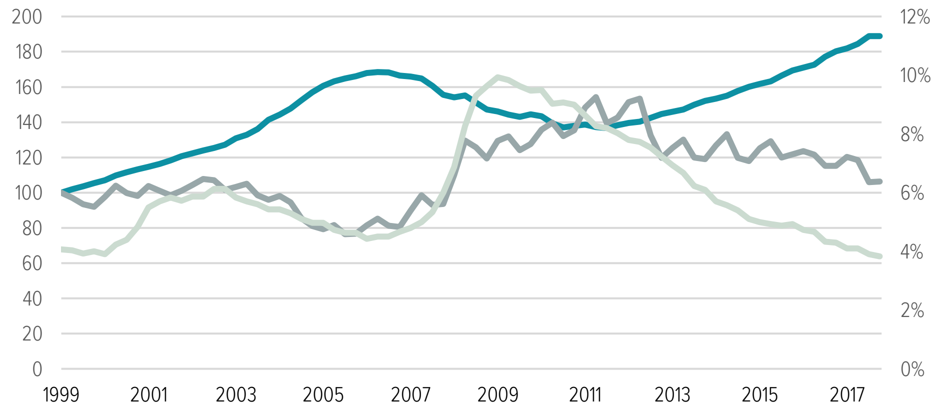
The best performing asset class in the quarter and consistent with all of 2018 was non-agency RMBS as strong fundamentals have attracted several investors to the sector which has remained well bid during every volatility episode we have witnessed in 2018. The fact that these bonds amortize and that the market organically shrinks that way (there is little new issuance to speak of in non-agency RMBS) also creates a positive technical for non-agency RMBS as investors that want to keep exposures to the asset class constant need to reinvest cashflows.

In the US, home prices continue to rise, unemployment continues to fall while housing affordability is better than pre-crisis

US HOUSING FUNDAMENTALS CONTINUE TO BE SUPPORTIVE



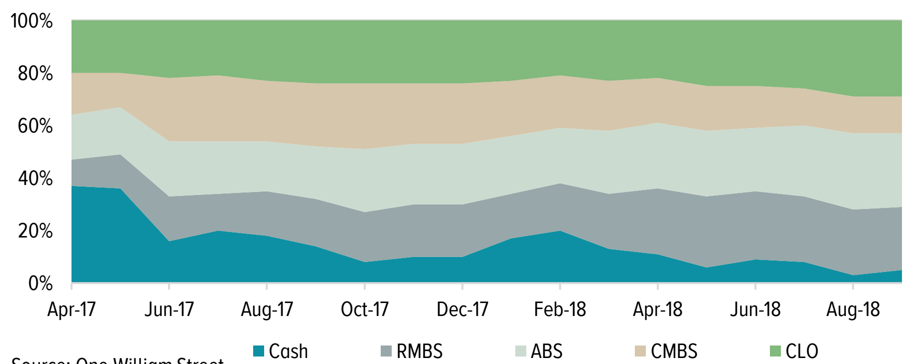
Source: Bloomberg, FHFA, NAR

Altogether, Q3-18 was a relatively quiet quarter for the market (little trading activity tends to take place in August) and the fund. Sector allocations remained stable while the biggest delta was the reduction in cash (from 9% to 5%) and the increase in Consumer ABS (from 24% to 28%). One of the bonds OWS GFI purchased here was a bond backed by consumer and small business loans originated by Enova International. This bond has 18% original credit enhancement and was priced at a 7.5% yield with an expected weighted average life of just over 2 years. The bond's yield is relatively lofty for its profile because the tranche was not rated hence it attracted a smaller buying audience. Because the bond is not rated it also cannot be easily financed rendering the bond unsuitable for most hedge funds, but it perfectly fits an unlevered home like OWS GFI.

OWS GFI got more fully invested and increased it Consumer ABS exposure as cash fell to 5% of NAV

4 big blocks in OWS GFI are RMBS (24%), CLO (29%), ABS (28%), and CMBS (14%)

SECTOR BREAKDOWN ONE WILLIAM STREET GFI



Source: One William Street

LIBREMAX

All sectors contributed to performance in Q3-18 led by RMBS

LibreMax Core Securitized Credit Offshore Fund, Ltd. ("LibreMax Core SCF") was up +1.3% in Q3-18 bringing the YTD number at +3.3%. Performance for the quarter was largely the result of strong carry of 40-45bps per month (carry was 84% of Q3-18 performance and 95% of YTD performance). All sectors delivered modestly positive contributions to quarterly performance led by RMBS (+52bps), and followed by CLOs (+34bps), Consumer ABS (+33bps), and CMBS (+32bps).

Kempen reduced its position size in LibreMax Core SCF at the end of Q3-18 and LibreMax had no problem meeting that redemption

Per quarter-end, LibreMax satisfied a partial redemption of slightly more than half of DSCP's position. We took this decision to make room in the portfolio for a 4th manager (will be discussed below). The reason we redeemed from LibreMax rather than GoldenTree and One William Street is a matter of relative conviction. While we think of LibreMax as a high-quality manager and are grateful of the risk-adjusted performance they have achieved so far in Core SCF (+8.3% cumulative return for the first 18 months with 16 positive months and just 2 down months), on balance we have been more impressed with how the other 2 managers have been managing their portfolios for DSCP. We recognize that ultimately this is a matter of taste but felt that with 18 months' live experience of investing in these funds this was the right thing to do. As a testimony to the strong liquidity in the market LibreMax had no problems meeting Kempen's partial redemption. It didn't take long and was a non-event for the portfolio. Looking at sector allocations per the end of Q3-18, LibreMax reduced RMBS (from 35% to 28%) and Consumer ABS (from 21% to 17%) while allocations to CLOs (constant at 26%) and CMBS (from 17% to 15%) hardly changed.

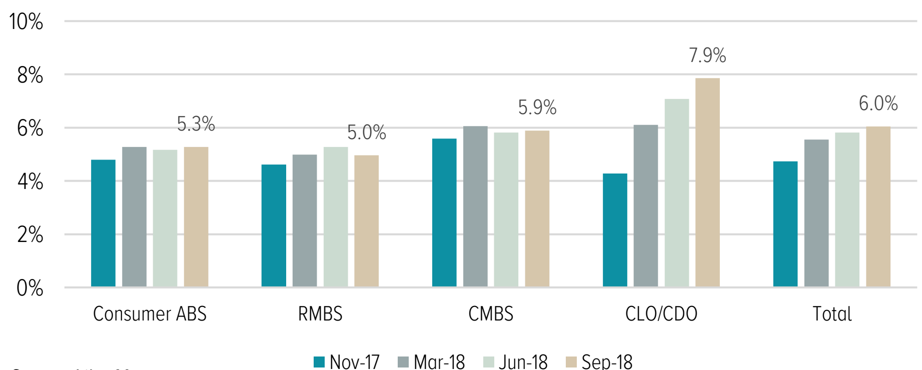
Solar ABS is a newer allocation within the Consumer ABS book

In Consumer ABS, LibreMax has recently initiated investments in Solar ABS bonds. These are bonds backed by payments of leases and power purchase agreements from US consumers that have opted for a solar system on their roof but have chosen to pay in instalments rather than upfront. The credit profile of these consumers tends to be relatively strong (average FICO of 745 in a recent Tesla Energy deal) while deals also benefit from overcollateralization, subordination (for senior tranches), excess spread, liquidity reserve accounts and a reserve account for broken inverters (the most expensive hardware item in a PV system). In addition to the fact that LibreMax believes these Solar investments have attractive risk-adjusted returns, there is a positive ESG angle too.

The fund's yield is the highest it has been since launch at 6.0% currently

The yield of the fund's long book finished Q3-18 at 6.0% with sub-sectors ranging from 5.0% (RMBS), to 5.3% (Consumer ABS), 5.9% (CMBS), and 7.9% (CLOs). At the fund level (LibreMax Core SCF) this is the highest running portfolio yield since the start of the fund in April 2017.

YIELD BREAKDOWN LIBREMAX CORE SCF



Source: LibreMax

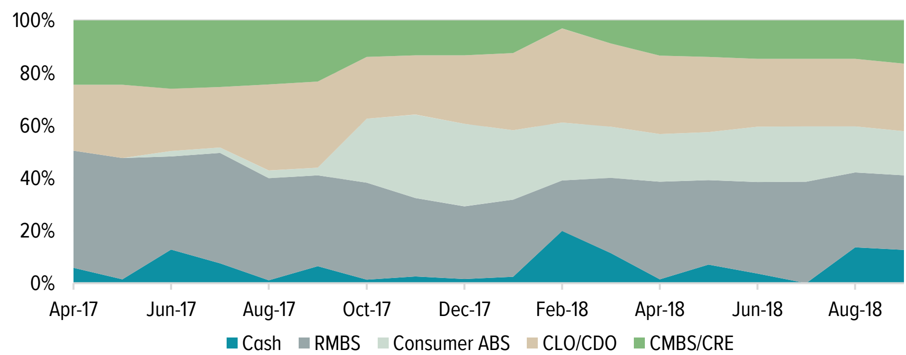
2 corporate events were announced; Dyal taking a minority stake in LibreMax and LibreMax buying US CLO manager Trimaran

Organizationally, two significant (related) events occurred post quarter-end. First, it was announced on 10 October that Dyal Capital Partners, a Neuberger Berman affiliate that takes private equity stakes in alternative asset managers, would be acquiring a minority stake in LibreMax Capital. Then, on 12 November, it was announced that LibreMax Capital had entered into an agreement to acquire Trimaran Advisors, a US CLO manager with ca. $3 billion in AUM across six CLOs. This further diversifies LibreMax as an alternative credit manager.

At quarter-end the portfolio was 63% invested in instruments with a floating rate, interest rate duration was 1.4 years and spread duration 3.4 years while the average mark on the book was $98 cents.

4 big blocks in LibreMax Core SCF are RMBS (28%), CLO (26%), Consumer ABS (17%), and CMBS (17%)

SECTOR BREAKDOWN LIBREMAX CORE SCF



Source: LibreMax

PORTFOLIO UPDATE

DSCP reduced its position in LibreMax by over half and added East Lodge to the grid

Going into Q4-18, we made one significant change to the portfolio by redeeming slightly over half of the exposure of DSCP to LibreMax Core SCF. Most of those proceeds (received near the end of October) have been reinvested in a 4th manager, a European Structured Credit specialist based in London called East Lodge Capital Partners ("East Lodge"). East Lodge Long Structured Opportunities Fund (ELLSO) started trading in early November. Kempen has known East Lodge's founder Alistair Lumsden since 2008 and we have always been impressed with his analytical rigour and investment acumen. As such, we are very excited about this new partnership.

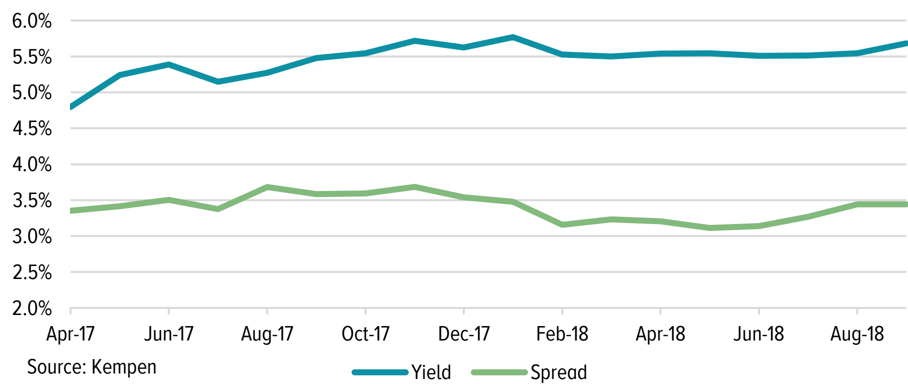
East Lodge is one of the few pure Structured Credit specialists in Europe with a strong track record and a solid infrastructure

East Lodge was founded in August 2013 by Alistair ("Ali") Lumsden as a dedicated Structured Credit specialist with a focus on Europe. The firm launched its flagship hedge fund East Lodge Credit Opportunities Fund in April 2014. AUM for the firm surpassed the $1 billion milestone in July 2017 and are currently at $1.4 billion. Based in London, East Lodge employs 21 people today and is majority owned by Alistair Lumsden while 10 other partners share in the ownership of the firm as well. There is a high level of continuity at East Lodge as 7 partners have worked with Ali at prior firms (Abbey National, Rabobank, and CQS) in one instance dating back to 1993. Before moving to long/short investing at CQS (2006-2012) where he built an excellent track record throughout the crisis, Ali obtained experience as a long-only ABS investor during his tenures at Abbey National (1993-2001) and Rabobank (2001-2006). At Rabobank, Ali established and ran the bank's $10 billion Structured Investment Vehicle (SIV) called Tango. In managing ELLSO, Ali will receive strong backing and support of senior portfolio managers Richard Skeet (ex-Citigroup) and Rob Riley (ex-CQS) who look after RMBS/CLO and CMBS respectively at East Lodge.

East Lodge Long Structured Opportunities Fund (ELLSO) launched in early November 2018 as a higher quality, long-only fund. ELLSO will solely invest in European Structured Credit, will have a minimum allocation of 75% to investment grade bonds, and targets initial allocations of 45% in RMBS and CLO, and 10% in CMBS. While interest rate duration is expected to be close to flat, the book -which is expected to be comprised of 35-50 positions- will carry spread duration of ca. 5 years. ELLSO's base currency is USD, which means all EUR investments will be hedged back to USD, and East Lodge targets 5-7% net returns in USD for the fund. In addition to DSCP, East Lodge's founder Alistair Lumsden has also contributed part of his liquid net worth into ELLSO on Day 1. Early bird investors (up to $100 million) in ELLSO will enjoy a discounted management fee of 0.5% p.a. (standard fee is 0.75%) in exchange for a 1-year soft lock (3% penalty).

Portfolio yield increased from 5.5% to 5.7% while the spread over risk-free went from 3.1% to 3.4% in Q3-18

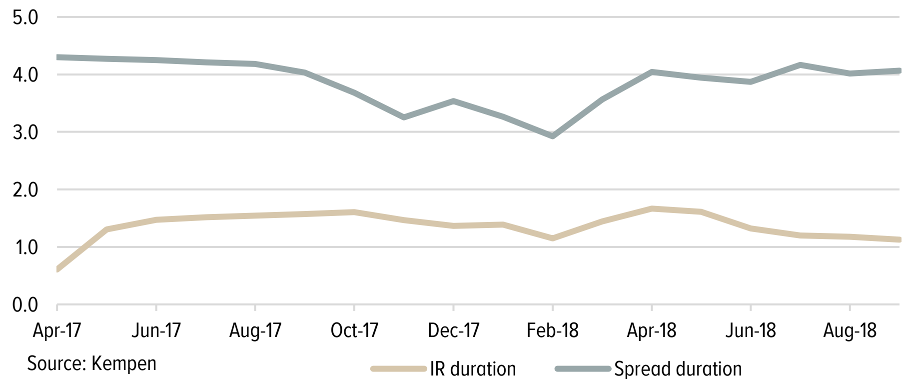
PORTFOLIO YIELD AND SPREAD



Source: Kempen

Interest rate duration dropped from 1.3 years to 1.1 years and spread duration increased from 3.9 years to 4.1 years per the end of Q3-18

PORTFOLIO INTEREST RATE AND SPREAD DURATION



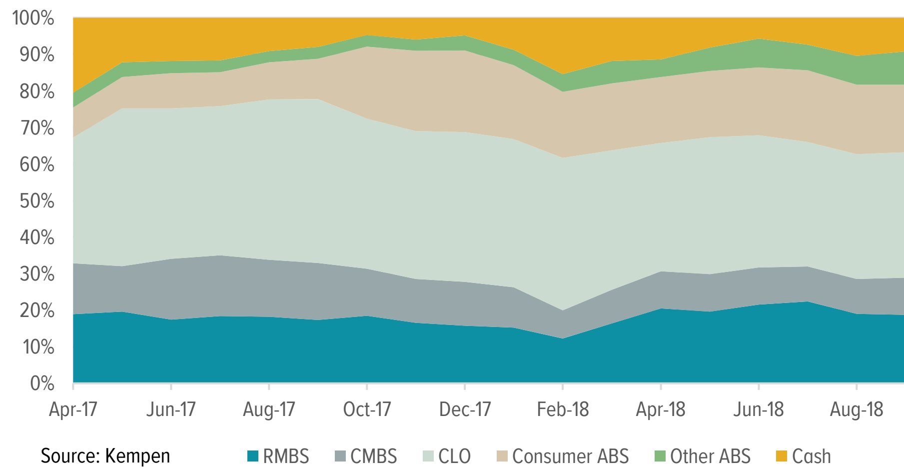
Source: Kempen

From a sector allocation perspective, on a look-through basis, cash increased by 3.6% in Q3-18 finishing the quarter at 9.2%. This higher cash position was the result of modestly shrinking RMBS (-2.8%), and CLO (-1.8%) books which were 18.7% and 32.3% of NAV respectively per quarter-end. CMBS (10.2%) and Consumer ABS were constant (18.5%) while the category Other grew by +1.1% (from 7.9% to 9.1%). The latter book captures the fund's monoline-wrapped exposure in Puerto Rico that grew through a combination of performance and some additional purchases.

The addition of ELLSO (at the expense of LibreMax Core SCF) will not lead to major changes for the DSCP portfolio characteristics (yield, spread, duration, sector and credit quality breakdown will not change materially) with one exception being the regional breakdown. Europe is 11% of DSCP today and is expected to go to around 27-28%.

DSCP Is well diversified across the various sectors of the Structured Credit market

PORTFOLIO SECTOR ALLOCATION



Source: Kempen

Per the end of Q3-18, ~70% of investments were floating rate in nature, which explains the fund's low interest rate sensitivity. DSCP's interest rate duration of 1.1 years compares to 7 years for US investment grade corporates and 4 years for US high yield corporates (source: ICE BofAML). Regionally, 89% of the portfolio was allocated to the US and 11% to Europe. The number of bonds in the portfolio continued to go up to 312 (from 274 last quarter) and portfolio diversification is only expected to rise with the addition of East Lodge as 4th manager in DSCP. Finally, excluding the fund's investment in non-rated bonds (10.7%) and counting the cash exposure (9.6%) as AAA, the average rating of the securities in DSCP was BB+ at the end of Q3-18 in line with last quarter.

IN MEMORIAM: PAUL GERLA

It is with great sadness that we are informing you that Paul Gerla has passed away on November 8th, 2018. Until he stepped down from his duties due to serious illness, Paul was a member of the Executive Board of Van Lanschot Kempen, the CEO of Kempen, and he chaired the Investment Committee of Kempen Hedge Fund Solutions since inception in 2005. Paul was a very amiable and energetic person, engaged in all activities and with everyone on the work floor. Except for East Lodge, Paul met all managers in the DSCP portfolio. Paul was an optimist and a great source of inspiration for his environment, while he was always focused on opportunities. When the original idea for DSCP required management support to go through the hoops of the product approval committee his warm support was always close by and that was no coincidence. Paul empowered his people and entrusted them 100% to do their jobs. Paul will be missed greatly at Kempen and our thoughts go out to his wife, children, family and friends. Staying with the spirit of Paul we want to conclude this letter with a quote from Sir Winston Churchill:

"for myself I am an optimist - it does not seem to be much use to be anything else"

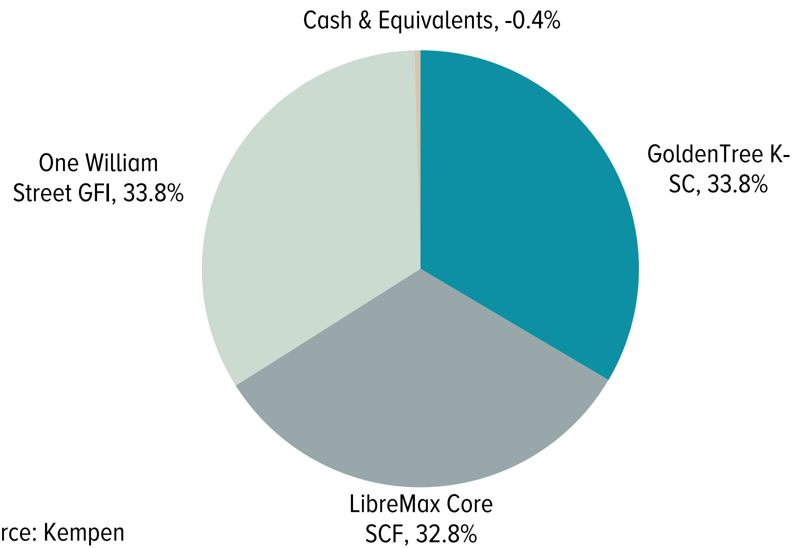
Sincerely,

Kempen Capital Management N.V.

The graphs below are as of September 30tht, 2018 and based on data provided by the underlying managers.

DSCP's position in LibreMax will be reduced by slightly over half of the position size as we enter Q4-18

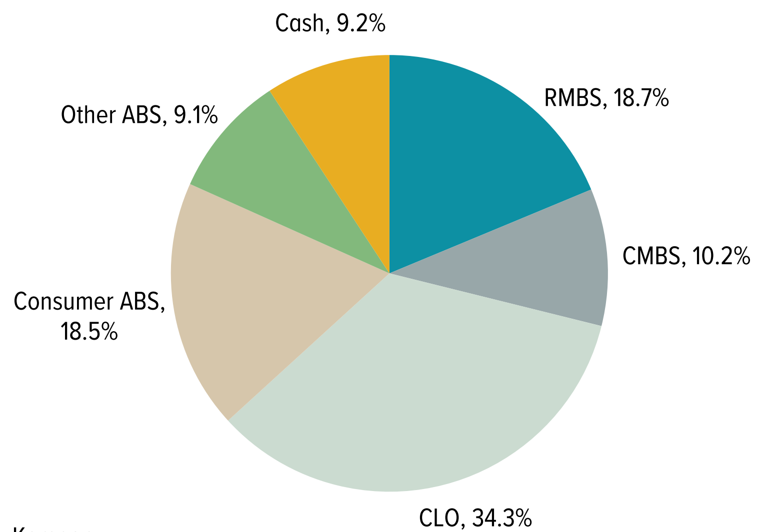
MANAGER WEIGHTS DIVERSIFIED STRUCTURED CREDIT POOL



Source: Kempen

DSCP Is well diversified across the various sectors of the Structured Credit market

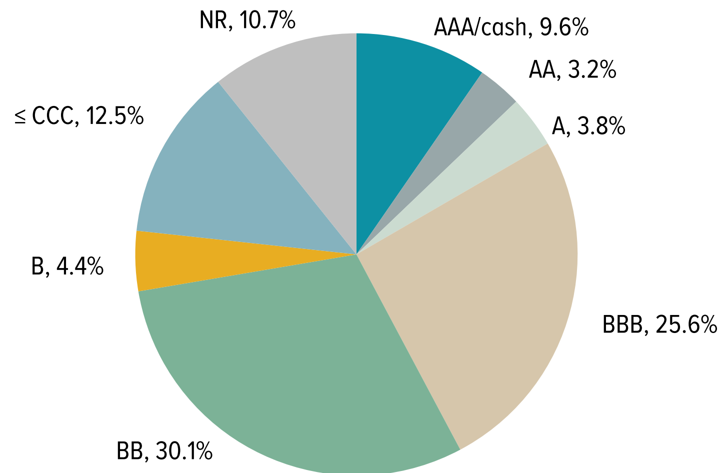
SECTOR BREAKDOWN DSCP (LOOK-THROUGH DATA)



Source: Kempen

RATINGS BREAKDOWN DSCP (LOOK-THROUGH DATA)

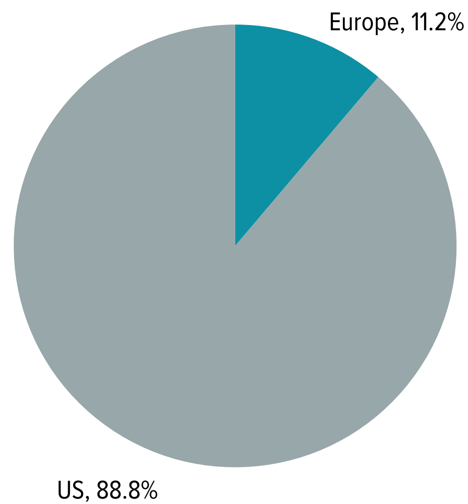
Per quarter-end, 42% of the portfolio was in cash and investment grade securities



Source: Kempen

GEOGRAPHIC BREAKDOWN DSCP (LOOK-THROUGH DATA)

DSCP's European allocation was at 11.2% of NAV at quarter-end but will rise to 27-28% once the partial switch from LibreMax to East Lodge is made in early November



Source: Kempen

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KEY FIGURES PER 30 SEPTEMBER 2018

NET ASSET VALUE	VALUE
Total net assets	$141m
Strategy AUM*	$272m
Class A - USD	$1,095.6404
Class A - EUR	€1,057.6860

MANAGER ALLOCATIONS	WEIGHT
GoldenTree K-SC	33.8%
LibreMax Core SCF	32.8%
One William Street GFI	33.8%
Cash & Equivalents	-0.4%

PORTFOLIO STATISTICS	VALUE
Number of holdings (bonds)	312
Yield-to-worst	5.7%
Spread (bps) over risk-free	344bps
Average price	$90.8
Interest rate duration (years)	1.1
Spread duration (years)	4.1

* Strategy AUM includes capital from a separately managed account for a pension plan that allocates capital to a similar strategy DSCP pursues as part of a broader alternative credit portfolio.

NET RETURNS VERSUS REFERENCE INDICES

							ANNUALIZED	
	Q2-17	Q3-17	Q4-17	Q1-18	Q2-18	Q3-18	1-YEAR	INCEPT[1]
DSCP Class A – USD	1.30%	1.51%	1.77%	1.56%	1.55%	1.52%	6.41%	6.28%
50/50 US HY/Loans[2]	1.45%	1.55%	0.79%	0.33%	0.96%	2.19%	4.05%	4.87%
Barclays Global Agg[2]	0.98%	0.78%	0.80%	-0.12%	0.19%	-0.05%	0.44%	1.73%

[1] Inception date April 3rd, 2017

[2] Reference indices (source: Bloomberg): US High Yield/Leveraged Loans: 50% ICE BofAML US HY Master II Index (TR, USD), 50% Credit Suisse Leveraged Loan Index (TR, USD), Barclays Global Aggregate Bond Index (TR, USD-hedged)

MONTHLY NET RETURNS SINCE INCEPTION (CLASS A – USD, CLASS A – EUR)

A - USD	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD
2017				0.18%	0.85%	0.28%	0.86%	0.32%	0.32%	0.65%	0.62%	0.49%	4.65%
2018	0.81%	0.40%	0.35%	0.50%	0.54%	0.49%	0.60%	0.63%	0.29%				4.70%

A - EUR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD
2017				0.04%	0.68%	0.07%	0.70%	0.13%	0.17%	0.48%	0.45%	0.24%	3.01%
2018	0.64%	0.27%	0.06%	0.29%	0.30%	0.27%	0.36%	0.38%	0.08%				2.68%

Diversified Structured Credit Pool

INVESTMENT LETTER
Q3-2018

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KEMPEN CAPITAL MANAGEMENT NV
IS PART OF VAN LANSCHOT KEMPEN

MANAGEMENT & ADMINISTRATION

Fund Structure	Reserved Alternative Investment fund ("RAIF")
Legal Structure	SICAV
Domicile	Luxembourg
Management company	Kempen Capital Management N.V.
Administrator/custody	J.P. Morgan Bank Luxembourg S.A.
Depositary	J.P. Morgan Bank Luxembourg S.A.
Auditor	PricewaterhouseCoopers
Legal Advisor	Elvinger, Hoss & Prussen
Eligible for	Professional investors only
Registered with	Dutch Authority for the Financial Markets (AFM)
Notified for marketing to professional investors in	Belgium, Denmark, Germany, Finland, France, Italy, Luxembourg, Spain, Sweden, and United Kingdom

SUBSCRIPTIONS & REDEMPTIONS

Subscriptions	Monthly, 3 business days' notice
Redemptions	Quarterly, 92 calendar days' notice
Fund level gate	25% per quarter (full clean-up in 4 quarters)
Minimum investment	€125.000 (or USD/GBP-equivalents), €25.000 for subsequent investments
Subscription charge	Not applicable
Redemption charge	Not applicable

FEES & EXPENSES

Management fee	0.35% per annum
Taxe d'abonnement	0.01% per annum
Service fee	0.09% per annum
Performance fee	Not applicable

The weighted average ongoing charges of the underlying funds are close to 0.85% per annum. This is composed of an average management fee of 0.6% per annum and average other expenses (professional fees, administration fees, organizational expenses, etc.) of 0.25% per annum. The underlying funds do not charge any performance fees.

Diversified Structured Credit Pool ('DSCP') is a sub-fund of Kempen Alternative Markets Fund (the 'Fund'), a Luxembourg established SICAV. Kempen Capital Management N.V. is the Management Company of the Fund. KCM is authorised as a management company and regulated by the Dutch Authority for the Financial Markets (AFM). The Fund is registered under the license of KCM at the AFM and not subject to Luxembourg supervision. The Fund is only available for professional investors. DSCP is registered for offering to professional investors in a limited number of countries. The countries where DSCP is registered can be found on the website (www.kempen.com).

In Switzerland, the Statutes, the Prospectus, the KIIDs, the Annual Report and, if applicable, the Semi-Annual Report and/or any such documents, which are required for the approval in compliance with the applicable foreign law, may be obtained free of charge from the Swiss Representative and Paying Agent, RBC Investor Services Bank S.A., Esch-sur-Alzette, Zurich Branch, Bleicherweg 7, CH-8027 Zurich. In respect of the units distributed in and from Switzerland, the place of performance and jurisdiction is the registered office of the Representative.

Kempen