www.researchdistressed.com **Independent Credit Research LLC**
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Results of 2016 Recommendations

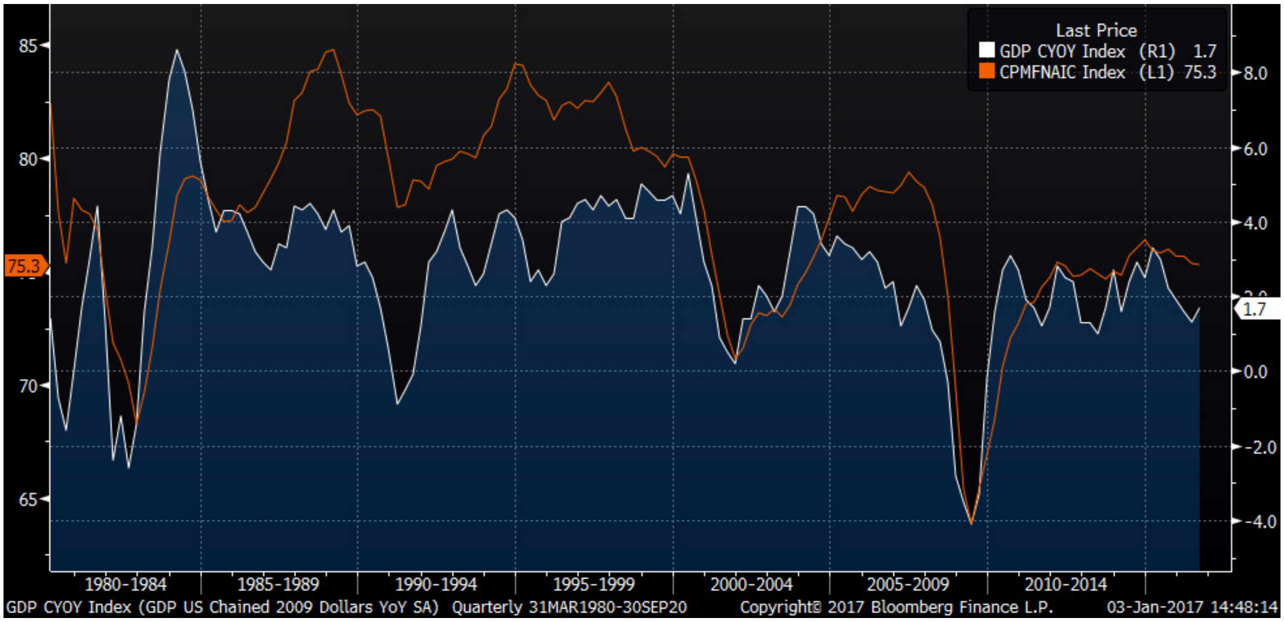
On January 4, 2016, we wrote the following: *"What we think about 2016? We believe that overall, 2016 will be a materially better year for distressed investors, compared to 2015, however, mainly because the market has been oversold and not because we expect to see any material improvements in the global economy. Absent the debacle in the oil and gas business and metals industry, there are no signs of the U.S. falling into recession in 2016. The U.S. capacity utilization manufacturing index remains healthy; and consumer lending have been normalizing. The interest rate policy is unlikely to result in any material changes for credit availability, since the recent interest rate increase, in our opinion, has reflected only a political step aiming to show the government control of the economy, rather than a proof of the sustainable path of the GDP growth trend. Due to its reserve currency, the U.S. has been relatively immune to the global economy crisis. However, any speculations of a dynamically growing economy still belong to the classification of fairy tales."*

Despite the fundamental focus of our research, we cannot attribute 42.9% return of our portfolio of recommendations in 2016 entirely to the quality of our due diligence. It is clear that total 17.5% return of the high yield index in 2016 has positively contributed to the performance of our recommendations. However, the stressed and distressed segment of the high yield market is blessed by lower participation of non-professional investors typically trading market volatility, rather than fundamentals of individual companies. We have always been trying to limit our focus to those securities with the low market correlation. However, each year market technical issues have contributed higher contribution to overall returns of stressed and distressed portfolios. Nonetheless, the best returns in our portfolio have been delivered by idiosyncratic stand-alone ideas, including payday lenders, Affinion and Codere stock. Fortescue Metals and Hexion 9.0% notes have also generated returns well above average expectations. Since January 2009, total average annual return on our recommendations is 24.7%. This return assumes equal investment in each of our recommended securities and timely exit from positions, commensurate with our suggestions. This report contains the summary of our 2016 calls below and the list of names that we still find attractive on a risk/adjusted basis.

We believe that from the fundamental perspective, 2017 will mark the transitional effort to migrate to the higher interest rate environment and to the higher GDP growth economy. This effort will likely coincide with the vicious trading stand-off between aggressive long aspirations of equity traders and conservative stance of credit traders. We think that the interest rates hike will likely prove unsustainable in the short-term. We think also that the likely equity markets' growth will prove to be short-lived. Managing the sustainable U.S. economy turnaround will represent a long-term challenge and will be accompanied by somewhat insurmountable challenges in 2017. It will take at least 2-3 years of consistent and thoughtful efforts to accommodate higher GDP growth, in our view. Currently, all speculations related to the quick economy fix are related to the art of making deals. Unfortunately, it takes significantly more than deal making expertise to recreate the sustainability of the U.S. economy competitive advantage. "Investors became convinced the U.S. economy is back on a long-term growth path" – Wall Street gurus are promulgating. Well, there is a still a tiny detail to be added to support this profound analysis: "The U.S. economy has yet to live up to these expectations". And we are concerned that investors will have to take a raincheck. "Perception is reality" slogan that has worked so well to boost equity markets by the intensity of media effort will likely work for a limited amount of time in 2017.

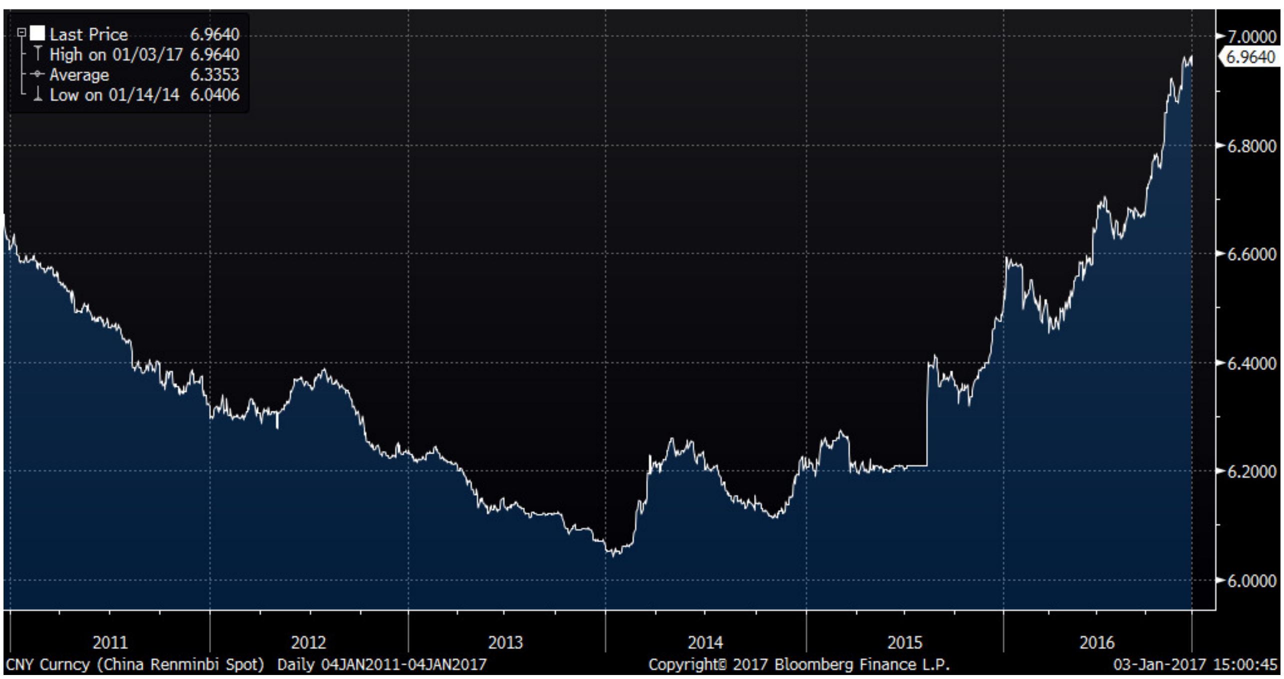
The chart below shows high correlation between the capacity utilization manufacturing index and the U.S. GDP growth rates since 1980. This correlation leads to the conclusion that chances of the quick ascend of the GDP growth in the U.S. are slim…

In addition, one of the most important reasons for the attractive market opening in the beginning of 2016 was related to the ubiquitous market fear that the economy growth in China – a major contributor to the sustainability of the global economy growth – was in danger. These fears were exacerbated by the high country leverage and the lack of transparency of the Chinese banking system. Investors have also been concerned that further devaluation of the currency in China will present an insurmountable pressure on global commodities' markets, including chemicals, coal, metals, etc.



U.S. manufacturing capacity utilization versus U.S. GDP growth

Currency fears have been more than justified, and the trend supported by the local administration in China will be difficult to deal with in 2017. However, the Chinese bubble that everyone was afraid of has not erupted, and grateful markets had exploded with the sigh of relief:



Chinese currency versus USD

The #1 goal of Chinese administration is to support high local employment rate and high manufacturing capacity utilization. Clearly, the currency will be continuously an easy trading token to accomplish these goals, and it is unclear how easy it will be for the U.S. administration to overcome the existing stance of the China government.

Research Goals

The area of our particular research attention for 2017 includes challenges related to the over-leveraged companies in the power generation industry and in the pharmaceutical/healthcare industries. Due to advances in renewable energy production and outsourcing of various basic industries, electricity demand in the U.S. has been declining. The historical electricity production glut in the U.S. has not disappeared with closures of the large number of old coal-based power generators. All previous successful bankruptcy restructurings of Mirant, Edison Mission, etc. were fueled by the fundamental assumption that the industry fundamentals will improve. Today, we are facing the situation when power generators no longer have this confidence. On the other side of the story, we have an army of hard money investors in bonds of various power producers who are being supported by the army of legal and financial advisors. Both armies operate under the old industry assumption and are prepared to use heavy legal

	Cash Invested	Date Recommended	Coupon	Buy / Sell	Trade Price	Exit Day	Exit Price	Bonds or Stock Purchased	Coupon Accrued	Exit Cash	Still attractive	Absolute Return
Ace Cash Express Notes	$1,000,000	01/01/16	*11.00%*	Buy	36.00	12/31/16	84.00	$2,777,778	$305,556	$2,638,889	Yes	*163.9%*
Affinion 2nd-lien bank debt	$1,000,000	01/01/16	*8.50%*	Buy	87.00	12/10/16	97.00	$1,149,425	$92,002	$1,206,944	No	*20.7%*
Affinion 7.875% notes	$1,000,000	01/01/16	*7.875%*	Buy	65.00	12/10/16	86.00	$1,538,462	$114,087	$1,437,163	No	*43.7%*
Algeco Scotsman 8.5% Sr. Secured 1st-lien	$800,000	01/01/16	*8.500%*	Buy	84.25	08/16/16	89.00	$949,555	$50,445	$895,549	No	*11.9%*
Algeco Scotsman 10.75% Sr. Unses. Notes	$200,000	01/01/16	*10.750%*	Buy	39.75	08/16/16	61.00	$503,145	$33,805	$340,723	No	*70.4%*
Alliance One International	$1,000,000	01/01/16	*9.875%*	Buy	77.00	12/31/16	86.50	$1,298,701	$128,247	$1,251,623	Yes	*25.2%*
Alliance One International	$1,000,000	12/10/16	*8.500%*	Buy	100.50	12/31/16	102.25	$995,025	$4,934	$1,022,347	Yes	*2.2%*
Ausdrill	$1,000,000	01/01/16	*6.875%*	Buy	71.00	06/01/16	93.00	$1,408,451	$40,346	$1,350,205	No	*35.0%*
Avaya 7.0% notes	$1,000,000	05/17/16	*7.00%*	Buy	66.00	12/31/16	88.00	$1,515,152	$65,993	$1,399,327	Yes	*39.9%*
Avaya 7.0% notes	$400,000	01/01/16	*7.00%*	Short	88.00	05/17/16	66.00	$454,545	$12,020	$487,980	No	*22.0%*
Avaya 10.5% notes	$600,000	01/01/16	*10.50%*	Buy	34.00	05/17/16	21.50	$1,764,706	$70,000	$449,412	No	*-25.1%*
Barminco 9.0% notes	$1,000,000	01/01/16	*9.00%*	Buy	82.00	11/01/16	100.00	$1,219,512	$91,463	$1,310,976	No	*31.1%*
Codere stock	$1,000,000	09/26/16	*NA*	Buy	€ 0.45	12/31/16	€ 0.88	$1,974,607	NA	$1,841,913	No	*84.2%*
Community Choice Financial Notes	$1,000,000	01/01/16	*10.75%*	Buy	25.00	12/31/16	83.00	$4,000,000	$430,000	$3,750,000	Yes	*275.0%*
Dyncorp 10.375% notes due 2017	$1,000,000	01/01/16	*10.379%*	Buy	77.00	12/01/16	96.00	$1,298,701	$123,554	$1,370,307	No	*37.0%*
Hexion 8.875% notes due 2018	$1,000,000	01/01/16	*8.875%*	Buy	70.50	08/11/16	93.00	$1,418,440	$76,931	$1,396,080	No	*39.6%*
Hexion 9.0% notes due 2029	$1,000,000	01/01/16	*9.00%*	Buy	39.00	08/11/16	68.50	$2,564,103	$141,026	$1,897,436	No	*89.7%*
Calumet Specialty 6.5% notes due 2021	$1,000,000	01/01/16	*6.50%*	Buy	75.25	12/31/16	84.00	$1,328,904	$86,379	$1,202,658	Yes	*20.3%*
First Bank of Nigeria notes due 2021	$1,000,000	09/20/16	*8.00%*	Buy	74.00	12/31/16	78.50	$1,351,351	$30,330	$1,091,141	Yes	*9.1%*
Fortsecue Metals 9.75% secured notes	$1,000,000	02/08/16	*9.75%*	Buy	88.00	08/01/16	114.00	$1,136,364	$53,243	$1,348,698	No	*34.9%*
Fortescue Metals 6.875% unsecured notes	$1,000,000	02/08/16	*6.88%*	Buy	60.00	08/01/16	100.00	$1,666,667	$55,064	$1,721,730	No	*72.2%*
IAMGOLD Unsecured notes	$1,000,000	05/26/16	*6.75%*	Buy	83.00	08/01/16	97.00	$1,204,819	$14,684	$1,183,358	No	*18.3%*
Tibco Software Loan	$2,000,000	04/21/16	*6.50%*	Buy	90.00	10/01/16	97.25	$2,222,222	$64,198	$2,225,309	No	*11.3%*
Tibco Software Notes	$1,000,000	04/21/16	*11.38%*	Short	82.00	12/31/16	100.25	$1,219,512	$96,333	$681,106	Yes	*-31.9%*
SGMS 10% notes	$1,000,000	01/01/16	*10.00%*	Buy	72.00	12/31/16	98.00	$1,388,889	$138,889	$1,500,000	No	*50.0%*
Iheart 9.0% notes due 2019	$1,000,000	08/11/16	*9.00%*	Buy	80.10	12/31/16	82.50	$1,248,439	$43,695	$1,073,658	Yes	*7.4%*
Iheart 10.0% notes due 2018	$1,000,000	08/11/16	*10.00%*	Buy	56.20	12/31/16	75.00	$1,779,359	$69,197	$1,403,717	Yes	*40.4%*
Iheart Term Loan D due 01/30/2019	$1,000,000	08/11/16	*6.88%*	Buy	76.50	12/31/16	82.00	$1,307,190	$34,949	$1,106,845	Yes	*10.7%*
Total	**$27,000,000**									**$38,585,093**		***42.9%***

arguments to support their current investments. The situation is critical and will find a logical outcome shortly in 2017. We have waited for the beginning of the year to publish our research on Genon Energy complex…

Similar trends have been developing in the pharmaceutical industry, and Concordia International has been under our radar lately. Additionally, iHeartMedia will remain a top priority for us in 2017…

We also continue to pay attention to distressed situations overseas, including emerging markets. Clearly, the uncertainties related to the sustainability of the political structure in Europe will produce the avalanche of deeply distressed and attractive situations. The challenge is not to get involved prematurely.

Finally, we are under the impression that oil prices have reached certain stability point, which will drive our aspirations to start heavy research effort into the largest industry component of the high yield index – something that we have historically thoroughly avoided.

Shortly, 2016 was unusually rewarding for high yield bulls. We think that 2017 will be different and will require more fundamental research than directional trading… We are targeting 14%-15% returns for our calls in 2017 and will spend more time than ever on middle-market, off-the-run opportunities and stressed large-cap securities.

Disclosure Regarding Research Report

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