ZAIS Insights

March 2025

"Whatever it takes" 2.0

Bernhard Eschweiler, PhD
Senior Economic Advisor

Bernhard advises ZAIS on macroeconomic risks and prospects related to credit markets and is a regular contributor to ZAIS Insights.

Summary

- Germany's plan to ease off the debt-brake and boost military and infrastructure spending is a paradigm shift …
- … but is it a game changer?
- Much will depend on the ability to forge a powerful defense system in Europe and …
- … push supply-side reforms in Germany to unshackle the economy
- If successful, the fiscal deficit and debt implications are probably manageable …
- … and Bund yields may not rise much further while EUR/USD could rally to 1.20

On March 4th, CDU/CSU and SPD, the two parties that are planning to form Germany's next government, agreed to overhaul borrowing rules and create a 500€ billion infrastructure fund to revamp the military and boost the economy.[1]

To highlight the sense of urgency and determination, Friedrich Merz, the leader of the CDU and likely next chancellor, said they are prepared to do "whatever it takes," following a similar line that former ECB President Mario Draghi used in July 2012 when he said that "the ECB is ready to do whatever it takes to preserve the euro."[2]

We leave it open whether the German government has the same resources as the ECB to do "whatever it takes," but there is no question to us that this plan is a two-dimensional paradigm shift: first, Germany and its European allies taking defense matters into their own hands independent of the United States and, second, a radical overhaul of the constitutional borrowing rules to boost military and infrastructure spending.

Whether the plan will pass parliament and become a real game-changer is less clear. In our view, money alone is not the solution for Germany's and Europe's problems. Broader reforms are needed to avoid that the outcome will only boost public debt and inflation.

Details and constitutional hurdles

The plan by CDU/CSU and SPD aims to boost both defense and infrastructure spending. For defense, spending in excess of 1% of GDP is to be exempted from the constitutional debt brake.[3] That would allow theoretically unlimited defense spending without having to cut outlays elsewhere or hike taxes.

For infrastructure, a special off-budget fund that bypasses the debt brake is to be set up to spend 500€ billion over ten years on transportation, energy, digital and environmental infrastructure as well as on education and research.[4] Twenty percent of the infrastructure fund is to be directly allocated to the 16 Federal States.[5]

Finally, the States, which are required by law to balance their budget, are to be allowed to run a fiscal deficit of 0.35% of GDP.[6]

These proposals require changes to the basic law, which have to be approved in both houses of parliament (Bundestag and Bundesrat) with two-thirds majorities.[7]

CDU/CSU and SPD plan to push the constitutional changes through the outgoing Bundestag before the end of March, as it is unlikely that they will get a two-third majority in the incoming Bundestag. That requires support from the Green party, which demands amendments.

If the Greens can be brought on board, which currently appears difficult, we think the chances are good that the constitutional changes will pass in the Bundesrat (assembly of the States) as well. The States controlled by CDU/CSU, SPD and Greens have a two-thirds majority and the changes give the States more fiscal resources and flexibility.

Money alone is not a strong defense

Germany is not the only country in Europe that has recognized the need to boost defense spending. EU leaders have agreed on an 800€ billion defense package that allows member states to either borrow directly for defense spending or provide member states with special loans for defense programs.[8]

In our view, providing the funding is a necessary, but not sufficient, condition to build an independent and forceful European defense system. Much will depend on how European countries cooperate, including the UK, especially in areas like nuclear deterrence, air defense and intelligence and build up an efficient defense industry. Furthermore, it will be critical to work closely with the US for some time until Europe has built sufficient military capabilities.

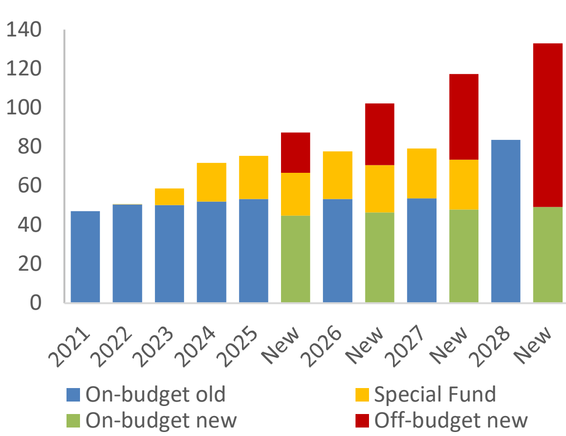
In the case of Germany, we think it will take at least five years to push defense spending from currently around 2% of GDP to 3.5% of GDP[9] due to practical constraints, and it will probably take a few more years at that level, before Germany is in a position to play a critical role in the European defense system.

If the constitutional changes are passed, we expect that the funding mix for defense will already shift in 2025, but the total is unlikely to make a huge jump. Under the old fiscal plan, 53€ billion were meant to come from the budget and an additional 22€ from a 100€ billion special fund that was set up in 2022.[10]

Under the new plan, on-budget defense spending would decline to 44€ billion plus the 22€ billion from the special fund and another 21€ billion from off-budget borrowing.[11] Chart 1 shows the compositional change of defense funding until 2028. By 2028, when the 100€ billion special fund is expected to run out, 63% of defense spending would be funded off budget and total spending would exceed the prior plan by 60%.

Chart 1: German defense spending

€ billion



Source: Deutscher Bundestag und ZAIS estimates[12]

Part of the reason why Germany will need time to build up its military capabilities is the relatively small size of its own defense industry (see Table 1). That implies that Germany will have to import a fair amount of new defense equipment and that the economic multiplier effect of defense spending will initially be moderate.

Table 1: Location of largest defense firms

% of total defense revenues of top 100 companies

US	54.5	Netherlands	0.6
UK	6.9	Norway	0.4
France	3.8	Spain	0.3
Italy	2.4	Poland	0.2
Airbus*	2.1	Ireland	0.2
Germany	1.7	Finland	0.1
Sweden	0.7	Luxembourg	0.1

*France and Netherlands

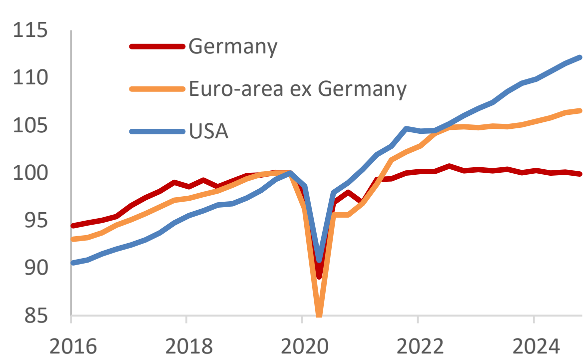
Source: Defense News[13]

The need to revive growth

Easing the debt brake is a clever way to fund the defense buildup but it is not sustainable if the economy stagnates and the debt burden becomes unsupportable. Unfortunately, Germany's economy is in trouble. The economy was already slowing before COVID and has gone nowhere since then, falling way behind the US and most other European countries (see Chart 2).

Chart 2: Real GDP trends in perspective

2019-Q4=100

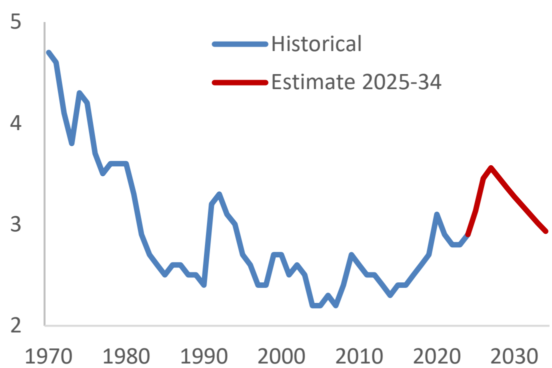


Source: EUROSTAT, US Bureau of Economic Analysis [14]

The aim of the 500€ billion infrastructure fund is to fix and modernize the infrastructure itself and stimulate the economy through additional spending. Germany had already lifted government investment by nearly 1% of GDP from the lows in the mid-2000s, but that was not enough to maintain and modernize the infrastructure (see Chart 3).

Chart 3: German government investment

% of GDP



Source: Bundesbank and ZAIS estimates [15]

We do not expect that the entire 500€ billion will be spent on physical infrastructure and we think the spending will not be equally spread over the next 10 years. Still, we believe the total spending size and pattern will be similar to what we saw in the early 1990s during German unification (see Chart 2 again).

Reforms are needed even more than infrastructure spending

Infrastructure spending that parallels the boom during German unification could be a game changer, but implementation success and economic multiplier effects will depend on far-reaching reforms.

Table 2 shows the changes in German real GDP by its main expenditure components and economic sectors over the last five years.

Table 2: German real GDP by expenditure components and economic sectors

% change 2019-Q4 to 2024-Q4

By expenditure components	
Private consumption	0.0
Government consumption	+13.0
Priv. & gov. equipment investment	-4.2
Priv. & gov. construction investment	-10.6
Exports of goods & services	-1.4
Imports of goods & services	+6.5
By economic sectors	
Manufacturing	-7.3
Construction	-19.0
Trade, transportation & hospitality	-3.9
Information and communication	+14.0
Financial and real estate	+3.4
Business and other services	+4.7
Government services	+9.3

Source: Bundesbank[16]

On the expenditure side, private consumption is depressed, investment and exports are contracting and only government consumption contributes to growth. The manufacturing sector, the hallmark of the German economy,[17] is contracting, and so is construction. The only private-sector bright spot is information and communication services, but that is not sufficient to revive the overall economy.

In our view, the problems of Germany's manufacturing and export-based growth model and its failure to strengthen the transition into new growth sectors are based on several factors:

- Increased competition from low-cost producers like China in key manufacturing sectors like automobiles.
- A rise in energy costs due to the discontinuation of cheap Russian gas and the transition to renewable energies.
- Overreliance of traditional sectors like automobile and chemicals on old business models and demand/supply conditions.

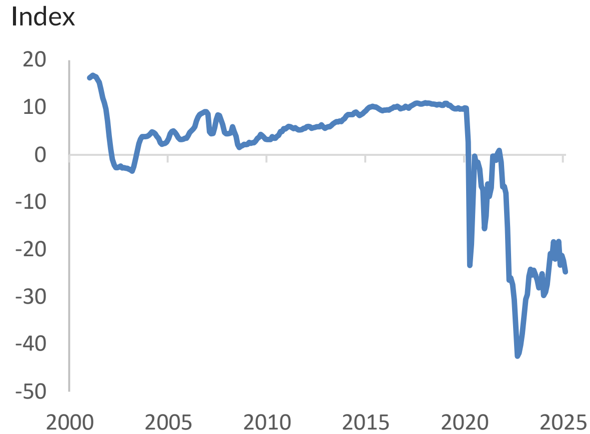
- A shortage of skilled labor (demographics) and rising incidental labor costs due to social security revenue shortfalls.
- Overburdening bureaucracy and regulation that slow business processes and prevent new business formations.
- A fractured and risk-averse financial system that is not able to provide sufficient risk capital to new businesses.
- Bottlenecks and shortages in transportation, energy and digital infrastructure, as well as in education and research.

It would be wrong to blame the government for all these problems, and new challenges like tariffs could make matters worse, but we believe that success of the infrastructure program will depend critically on labor market and social security reforms, the reduction of bureaucratic obstacles and a restructuring of the energy system to reduce inefficiencies that raise energy costs.

The next weeks will show whether CDU/CSU and SPD, who are currently negotiating the policy agenda for the new government, will recognize the need for broader change and not just rely on wasteful deficit spending.

If they succeed, we expect not only that businesses will invest again but that consumer sentiment will recover from its five-year depression and boost private consumption (see Chart 4).

Chart 4: German consumer climate



Source: GfK[18]

The deficit will widen but perhaps less

Whether the next government is able to engineer broad economic change will also determine the fiscal implications of the proposed policy changes.

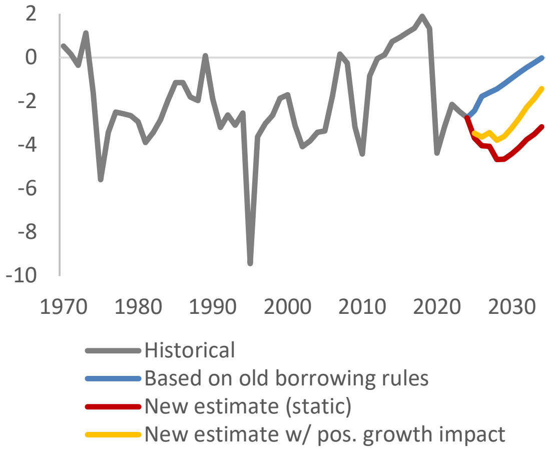
Despite all the talk of restrictive borrowing rules, Germany's general government, which includes the federal, state and local governments and social security and other government institutions, currently already runs a deficit of 2.8% of GDP, which is just shy of the EU 3% of GDP deficit limit (see Chart 5).

We estimate that the already sizeable deficit reflects several factors: a large cyclical component of over 1% of GDP and deficits attributable to special funds (defense and climate change) as well as deficits outside the core government institutions.[19]

Under current borrowing rules, the deficit is projected to shrink gradually towards zero over the next 10 years (see Chart 5 again).

Chart 5: German general government fiscal balance

% of GDP



Source: Bundesbank and ZAIS estimates [20]

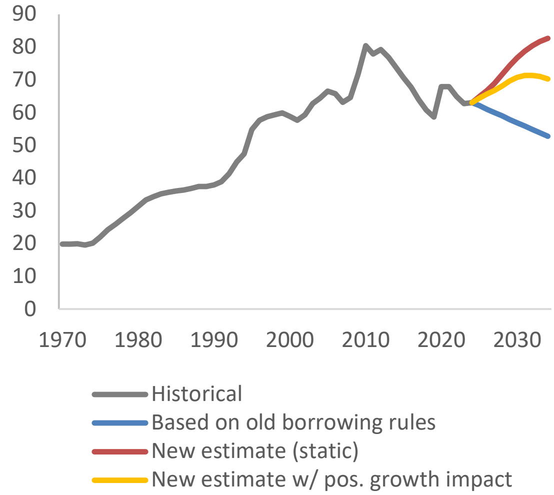
Under changed borrowing rules, we expect the fiscal deficit to rise over the next five years to around 5% of GDP. We think the deficit will decline subsequently but may not fall back inside the 3% of GDP EU deficit limit. If the new government succeeds with reforms and lifts growth sustainably, we think the deficit will widen less and subsequently decline to a permanent range between 1% and 2% of GDP.

The risk is that the economy remains stagnant, which would mean that the fiscal deterioration is worse and unlikely to recover at all with all the extra government spending only boosting inflation.

Correspondingly, we expect general government debt to rise if the borrowing rules are changed. If the new government succeeds in improving broad growth conditions, however, we anticipate that the debt-GDP ratio will initially rise from currently 63% of GDP to around 73% but subsequently will start to gradually decline (see Chart 6). Here again, the risk is that growth conditions remain unfavorable. In that scenario, we expect the debt-GDP ratio to rise to 80% within five years and remain on an upward trajectory afterward.

Chart 6: German general government debt

% of GDP



Source: Bundesbank and ZAIS estimates [21]

Financial market implications

Financial markets' first reaction to the announcement was positive. The DAX rose 5% in the 48 hours after the news[22] and the EUR gained 2.5% versus the USD.[23] However, 10-year German Bund yields jumped from 2.50% to 2.88% within the first 48 hours after the news.[24]

Market reaction is likely to change, taking in more news from the coalition talks between CDU/CSU and SPD as well as discussions with the Greens to secure the two-thirds majority needed to change the basic law. Furthermore, markets will respond to other developments, such as global growth, monetary and financial market developments and the possibility of new tariffs or a cease-fire in Ukraine.

It is interesting to compare this impact to the market reaction during German reunification. Back then, 10-year Bund yields rose by more than 200 bps and the DM rallied 24% versus the USD.[25] In our view, a market reaction of this magnitude is unlikely.

First, the geopolitical background was very different then. The fall of the Berlin Wall marked the end of the Cold War. Now, Germany and its European neighbors find themselves beleaguered again. Second, reunification triggered a massive spending boom in Germany, which fueled inflation, forced the Bundesbank to slam the breaks and shifted the current account from a large surplus into a deficit.[26] Third, the fiscal deficit back then was larger (see Chart 5 again).

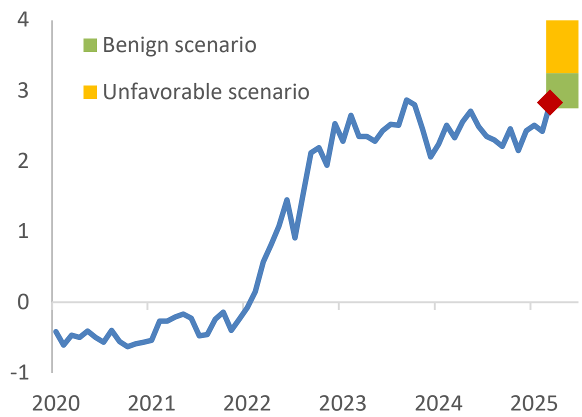
We think the proposed policy changes will increase inflationary pressures, restrain the ECB and reduce Germany's still massive current account surplus,[27] but the magnitudes are likely to be more moderate and will depend on how well the new government implements its broader reform agenda.

If the overall outcome is favorable, we think the equilibrium for 10-year Bund yields is around 3% (see Chart 7). In a less favorable scenario, we think 10-year Bund yields could rise to 4%.

For the EUR, much probably depends on the success of the policy changes, both in terms of the economy as well as the buildup of credible defense capabilities in Europe. In a positive scenario, we think a return of EURUSD to 1.20 is quite possible.

Chart 7: 10-year German Bund yield

% p.a.



Source: Bundesbank and ZAIS scenario estimates[28]

More information

As always, we are available to discuss our views with you. Please contact your Client Relations representative at +1 732 978 9722 or zais.clientrelations@zaisgroup.com

[1] Deutsche Welle (DW); Germany's CDU, SPD agree on major financial package; March 4, 2025.

https://www.dw.com/en/germanys-cdu-spd-agree-on-major-financial-package/a-71828023

[2] See footnote 1 and ECB; Speech by Mario Draghi, President of the European Central Bankat the Global Investment Conference in London, 26 July 2012.

https://www.ecb.europa.eu/press/key/date/2012/html/sp120726.en.html

[3] See footnote 1.

[4] See footnote 1.

[5] See footnote 1.

[6] See footnote 1.

[7] See footnote 1.

[8] European Commission; Press statement by President von der Leyen on the defence package; March 4, 2025.

https://ec.europa.eu/commission/presscorner/detail/sv/statement_25_673

[9] We assume that Germany needs to spend around 3.5% of GDP to achieve its defense goals, which is roughly in line with current US defense spending.

U.S. Bureau of Economic Analysis, Federal Government: National Defense Consumption Expenditures and Gross Investment [FDEFX], retrieved from FRED, Federal Reserve Bank of St. Louis; March 10, 2025.

https://fred.stlouisfed.org/series/FDEFX

U.S. Bureau of Economic Analysis, Gross Domestic Product [GDP], retrieved from FRED, Federal Reserve Bank of St. Louis; March 10, 2025.

https://fred.stlouisfed.org/series/GDP

[10] Deutscher Bundestag; Finanzplan des Bundes 2024-28; August 30, 2024.

https://dserver.bundestag.de/btd/20/124/2012401.pdf

[11] ZAIS estimates based on the proposal from CDU/CSU and SPD on the exemption of the debt brake for defense spending; see footnote 1.

[12] Deutscher Bundestag; Finanzplan des Bundes 2024-28; August 30, 2024.

https://dserver.bundestag.de/btd/20/124/2012401.pdf

ZAIS estimates are based on the proposal from CDU/CSU and SPD on the exemption of the debt brake for defense spending; see footnote 1.

[13] Defense News; Top 100 Defense Companies.

https://people.defensenews.com/top-100/

[14] Eurostat, Real Gross Domestic Product for Germany [CLVMNACSCAB1GQDE], retrieved from FRED, Federal Reserve Bank of St. Louis; March 8, 2025.

https://fred.stlouisfed.org/series/CLVMNACSCAB1GQDE

Eurostat, Real Gross Domestic Product (Euro/ECU Series) for Euro Area (19 Countries) [CLVMEURSCAB1GQEA19], retrieved from FRED, Federal Reserve Bank of St. Louis; March 8, 2025.

https://fred.stlouisfed.org/series/CLVMEURSCAB1GQEA19

U.S. Bureau of Economic Analysis, Real Gross Domestic Product [GDPC1], retrieved from FRED, Federal Reserve Bank of St. Louis; March 8, 2025.

https://fred.stlouisfed.org/series/GDPC1

[15] Bundesbank; National accounts / Germany / General government expenditure (ESA 2010) / Gross capital formation / % of GDP; March 8, 2025.

https://www.bundesbank.de/dynamic/action/en/statistics/time-series-databases/time-series-databases/745582/745582?tsId=BBGFS1.A.BJ9184&listId=www_v27_web012_11a&dateSelect=2024

ZAIS estimates based on the proposal from CDU/CSU and SPD on the 500€ infrastructure fund; see footnote 1.

[16] Bundesbank; Macroeconomic accounting systems; Gross value added of selected economic sectors and GDP by expenditure components; March 8, 2025.

https://www.bundesbank.de/dynamic/action/en/statistics/time-series-databases/time-series-databases/743796/743796?treeAnchor=GESAMT&statisticType=BBK_ITS

[17] Germany has the 5th highest manufacturing share among the 27 EU countries. Eurostat; Gross value added and income by main industry; March 7, 2025.

https://ec.europa.eu/eurostat/databrowser/view/NAMA_10_A10__custom_1059074/bookmark/table?lang=en&bookmarkId=f3964112-0259-4f4a-9617-9c63c7500da4

[18] German GfK Consumer Climate Index; investing.com; February 26, 2025.

https://www.investing.com/economic-calendar/gfk-german-consumer-climate-359

[19] The IMF estimates that Germany's structural deficit was 1.4 of GDP while the official deficit was 2.8% of GDP, implying a cyclical component of 1.4% of GDP.

IMF; WEO-Database; Germany; General government structural balance, percent of GDP; October 2024.

https://www.imf.org/en/Publications/WEO/weo-database/2024/October/weo-report?c=134,&s=GGSB_NPGDP,&sy=2024&ey=2024&ssm=0&scsm=1&scc=0&ssd=1&ssc=0&sic=0&sort=country&ds=,&br=1

Bundesbank; General government deficit(-) or surplus(+) as defined in the Maastricht Treaty / Germany / General government / As a percentage of GDP; March 8, 2025.

https://www.bundesbank.de/dynamic/action/en/statistics/time-series-databases/time-series-databases/745582/745582?listId=www_v27_web011_11a&tsId=BBGFS1.A.BK9069&dateSelect=2024

[20] Bundesbank; General government deficit(-) or surplus(+) as defined in the Maastricht Treaty / Germany / General government / As a percentage of GDP; March 8, 2025.

https://www.bundesbank.de/dynamic/action/en/statistics/time-series-databases/time-series-databases/745582/745582?listId=www_v27_web011_11a&tsId=BBGFS1.A.BK9069&dateSelect=2024

ZAIS estimates are based on the proposal from CDU/CSU and SPD on the exemption of the debt brake; see footnote 1.

[21] Bundesbank; General government debt as defined in the Maastricht Treaty as a % of GDP - Germany - overall; March 8, 2025.

https://www.bundesbank.de/dynamic/action/en/statistics/time-series-databases/time-series-databases/745582/745582?tsId=BBGFS1.A.BJ9959&listId=www_v27_web011_21a&dateSelect=2023

ZAIS estimates are based on the proposal from CDU/CSU and SPD on the exemption of the debt brake; see footnote 1.

[22] DAX (846900); investing.com.

https://de.investing.com/indices/germany-30

[23] EUR/USD; investing.com.

https://de.investing.com/currencies/eur-usd

[24] Germany 10-Year Bond Yield; investing.com.

https://www.investing.com/rates-bonds/germany-10-year-bond-yield

[25] Organization for Economic Co-operation and Development, Interest Rates: Long-Term Government Bond Yields: 10-Year: Main (Including Benchmark) for Germany [IRLTLT01DEM156N], retrieved from FRED, Federal Reserve Bank of St. Louis; March 9, 2025.

https://fred.stlouisfed.org/series/IRLTLT01DEM156N

Federal Reserve Bank of St. Louis, Germany / U.S. Foreign Exchange Rate (DISCONTINUED) [EXGEUS], retrieved from FRED, Federal Reserve Bank of St. Louis; March 9, 2025.

https://fred.stlouisfed.org/series/EXGEUS

[26] Bundesbank; Consumer price index / Germany / Calendar and seasonally adjusted / Overall index.

https://www.bundesbank.de/dynamic/action/en/statistics/time-series-databases/time-series-databases/745582/745582?tsId=BBDP1.M.DE.Y.VPI.C.A00000.I20.L&listId=www_ssb_lr_vpi&dateSelect=2025

Bundesbank; Discount rate of the Bundesbank / End of month / SU0112.

https://www.bundesbank.de/dynamic/action/en/statistics/time-series-databases/time-series-databases/745582/745582?listId=www_szista_mb02&tsId=BBIN1.M.DE.BBK.BBKDIS.DEM.ME&dateSelect=1998

IMF; WEO-Database; Germany; Current account balance, percent of GDP; October 2024.

https://www.imf.org/en/Publications/WEO/weo-database/2024/October/weo-report?c=134,&s=BCA_NGDPD,&sy=1980&ey=2024&ssm=0&scsm=1&scc=0&ssd=1&ssc=0&sic=0&sort=country&ds=,&br=1

[27] The IMF estimates that the German current account surplus was 6.6% of GDP in 2024.

IMF; WEO-Database; Germany; Current account balance, percent of GDP; October 2024.

https://www.imf.org/en/Publications/WEO/weo-database/2024/October/weo-report?c=134,&s=BCA_NGDPD,&sy=1980&ey=2024&ssm=0&scsm=1&scc=0&ssd=1&ssc=0&sic=0&sort=country&ds=,&br=1

[28] Bundesbank; Term structure of interest rates on listed Federal securities (method by Svensson) / residual maturity of 10.0 years / monthly data.

https://www.bundesbank.de/dynamic/action/en/statistics/time-series-databases/time-series-databases/745582/745582?tsId=BBSIS.M.I.ZST.ZI.EUR.S1311.B.A604.R10XX.R.A.A._Z._Z.A&listId=www_skms_it03a&dateSelect=2025

Important Information

Confidentiality

The information presented herein has been prepared and provided by and is confidential and proprietary to ZAIS Group, LLC, ZAIS Group (UK) Limited and their affiliates and subsidiaries (collectively, "ZAIS"). Accordingly, this material is not to be reproduced in whole or in part or used for any purpose except as authorized by ZAIS, is to be treated as strictly confidential and is not to be disclosed directly or indirectly to any party other than the recipient. By accepting receipt of this document, the recipient agrees to comply with this restriction and confirms its understanding of the limitations set forth in these disclaimers.

Source of Information

Unless otherwise noted, the source of information for the charts, graphs, and other materials contained herein is ZAIS. The charts, tables, and graphs contained in this document are not intended to be used to assist the reader in determining which securities to buy or sell or when to buy or sell securities. Additional information is available upon request.

Nature of Information Provided

This information has been prepared solely for informational purposes and is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or instrument or to participate in any trading strategy which may or may not be made available. Any such offer of securities would, if made, be made pursuant to definitive final private offering documents, which would contain material information not contained herein (including certain risks) or material that differs from the information contained herein and to which current and prospective investors are referred. Any decision to invest should be made solely in reliance upon such private offering documents. In the event of any such offering, this information shall be deemed superseded, amended and supplemented in its entirety by such private offering documents. Information contained herein does not purport to be complete and is subject to the same qualifications and assumptions, and should be considered by investors only in the light of the same warnings, lack of assurances and representations and other precautionary matters, as disclosed in an applicable private offering memorandum and subscription agreement. No representation or warranty can be given with respect to the terms of any offer of securities conforming to the terms hereof. There is no guarantee that the strategies set forth herein will be successful. The information should only be considered current as at the date specified herein and is subject to change at any time and without notice. Statements made herein that are not attributed to a third party source reflect the views and opinions of ZAIS.

Opinions

Certain information contained herein represents ZAIS's current reasonable opinion and is based on unaudited and forecast figures which have been derived from multiple sources and have not been subject to specific due diligence. The information has been provided in good faith but is not guaranteed and is subject to uncertainties beyond ZAIS's control and should not be relied upon for the purposes of any investment decision. ZAIS makes no representations or warranties and accepts no liability whether in contract, tort or otherwise for (1) the information not being full and complete, (2) the accuracy of any opinion, (3) the basis on which any comparison has been drawn or the facts selected to make such comparison and (4) the assumptions underlying any opinions. ZAIS does not undertake to update its opinions. No opinion of this nature can be, and this information does not purport to be, full, complete, comprehensive or to contain all relevant information. Statements made herein that are not attributed to a third party source reflect the views and opinions of ZAIS.

Forward-Looking Statements

These materials may contain statements that are not purely historical in nature but are "forward-looking statements". In some cases, you can identify forward-looking statements by terms such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "potential," "should" and "would" or the negative of these terms or other comparable terminology. These forward-looking statements include, among other things, projections, forecasts, estimates or hypothetical calculations with respect to income, yield or return, future performance targets, sample or pro forma portfolio structures or portfolio composition, scenario analysis, specific investment strategies or proposed or pro forma levels of diversification or sector investment. These forward-looking statements are based upon certain assumptions, some of which are described herein. Prospective investors are cautioned not to place undue reliance on such statements. No representation is made by ZAIS as to the accuracy, validity or relevance of any such forward-looking statement and the recipient agrees it is solely responsible for gathering its own information and undertaking its own projections, forecasts, estimates and hypothetical calculations. Actual events are difficult to predict, are beyond ZAIS's control, and may substantially differ from those assumed. All forward-looking statements included herein are based on information available on the date hereof or such date specified and ZAIS does not assume any duty to update any forward-looking statement contained herein. Some important factors which could cause actual results to differ materially from those in any forward-looking statements include, among others, the actual composition of the investment portfolio, any defaults to the investments, the timing of any defaults and subsequent recoveries, changes in interest rates, changes in currency rates and any weakening of the specific obligations included in the portfolio. Accordingly, there can be no assurance that estimated returns or projections can be realized, that forward-looking statements will materialize or that actual returns or results will not be materially lower or higher than those presented. The value of any investment, and the income from it, may fall as well as rise. Accordingly, there can be no assurances that an investor will receive back all or any of the original capital invested. Further, the eligible investments may be leveraged and the portfolio of eligible investments may lack diversification thereby increasing the risk of loss.

ZAIS Group (UK) Limited

ZAIS Group (UK) Limited is a company registered in England with number 08908933 and whose registered office is c/o Dixon Wilson, 22 Chancery Lane, London WC2A 1LS, United Kingdom. ZAIS Group (UK) Limited is an appointed representative of Infinity Asset Management LLP, which is authorized and regulated by the Financial Conduct Authority in the United Kingdom. ZAIS Group (UK) Limited's status as an appointed representative of Infinity Asset Management LLP does not imply a certain level of skill or training. Investors will not benefit from the rules and regulations made under the Financial Services and Markets Act 2000 for the protection of investors, nor from the Financial Services Compensation Scheme in the United Kingdom. Nothing herein excludes any liability which ZAIS is not permitted to exclude by applicable law.

Regulatory Registrations and Authorizations

ZAIS Group, LLC's registrations with the Securities and Exchange Commission (the "SEC") and the Commodity Futures Trading Commission (the "CFTC"), and ZAIS Group (UK) Limited's status as an appointed representative of Infinity Asset Management LLP (which is authorized by the United Kingdom's Financial Conduct Authority ("FCA"), does not imply a certain level of skill or training.