Market Update

April 2017

Athena

An actively managed global credit opportunities fund, exploiting exceptional value across the structured credit universe, targeting future returns of 10% p.a. over 3 years.

March 2017*	+ 3.39%
2017 YTD*	+12.21%
2016	+ 5.71%
2015	- 6.46%
2014	+ 3.01%
2013	+ 18.64%
2012	+ 32.34%
Lastest 12 months Distribution (net)	+ 3.06%

Inception Date: May 2008 Currency: USD

*Note: Indicative Performance

Galene

An actively managed global fund focusing on investment-grade structured credit assets, targeting returns in excess of 1M LIBOR+400 bps p.a.

GBP Share Class

March 2017	+1.67%
2017 YTD	+3.07%
2016	+ 12.37%
2015	- 1.02%
2014	+ 7.26%
2013	+ 5.32%
2012 (June launch)	+ 5.55%

USD Share Class

March 2017	+1.08%
2017 YTD	+4.06%
2016	- 5.27%
2015	- 6.17%
2014	+ 2.20%
2013 (April launch)	+ 7.15%

EUR Share Class

March 2017	+ 0.91%
2017 YTD	+1.44%
2016	- 1.08%
2015	+ 5.18%
2014 (April launch)	+ 7.04%

Metreta

Senior structured credit assets, seeking stable returns of 7-Day LIBOR+125bps p.a.

March 2017	+ 0.44%
2017 YTD	+ 1.30%
2016	+ 1.43%
2015	- 0.03%
2014	+ 1.69%
2013	+ 0.95%
2012, from April launch	+ 4.63%

Currency: GBP

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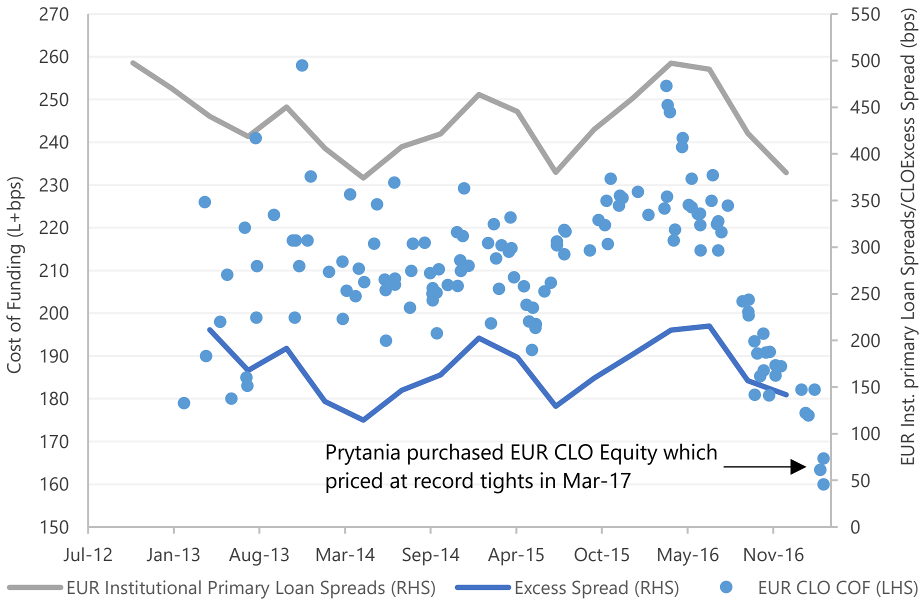
European CLO Equity: Locking in liabilities at post-2009 tights has long term value

In March 2017 Prytania saw renewed value in the European CLO equity market, which we had long avoided given the lack of clear risk-adjusted value. With liability spreads tightening aggressively on the back of low supply, the average cost of debt funding reached post-crisis tights at L+163 for the latest deal, some 50bps tighter than where EUR CLOs had been pricing since the market reopened in 2013. 50bps on a 10x levered CLO reflects 5% additional excess spread so this is significant in offsetting the drag from underlying loan spreads declining to post-crisis lows. In the long term, CLO equity returns are driven by liability costs and portfolio performance and not by the arbitrage at issuance that tends to dominate mindsets. Recent Deutsche Bank research showed that the leveraged loan market saw 200bps of spread movement intra-year every year over the past 10 years. Therefore, it does not make sense to assume current WAS for the life of the deal and locking in current liabilities to benefit from asset spreads when they eventually gap out again over the next few years makes this European CLO equity opportunity attractive for our Athena Fund. This is particularly true given the higher quality portfolio selection and careful risk management we have seen from the manager, Spire Partners, in their two previous deals where we have invested in several of the debt tranches.

Post-Crisis EUR CLO Universe Cost of Funding vs. Institutional Primary Loan Spread vs. EUR CLO Excess Spread



Source: Prytania Investment Advisors, April 2017

A wave of Refi's Driving Redemptions

Benign fundamentals and favourable technicals driven by the search for yield and floating-rate product drove 1Q17 leveraged loan issuance and repricing volumes to post-crisis record levels. This in turn drove a record wave of CLO refinancing/reset activity, with much more still likely to occur. With CLO new issuance being held back somewhat by risk retention in the US and collateral availability in Europe, demand for CLO refi/resets from both current investors and new investors has been high. March 2017 saw $7.9bn of new US CLO issuance and €1.6bn of EUR CLO issuance from a combined 18 CLOs. March also saw $22.7bn of US CLO refinancing/resets from 53 CLOs, whilst Europe saw €3.1bn of refinancing/resets from 9 CLOs.

Prytania has tended to roll into refinancings within deals which have performed strongly with no changes being made to the structure or protection of our tranche. We have taken profits and been redeemed at par within other deals where structures are being changed including principal being flushed to equity.

Going forward, the volume to which further refinancing/resets is expected makes for interesting short-term trade opportunities where debt tranches are still available at discounts to par with the potential to be redeemed at par in less than 12 months.

US CMBS and the US Treasury yield Curve

We warned in the last newsletter that the markets were underestimating the degree to which the Fed was behind the curve. Their surprise when a 25bp tightening did happen in March, however, had been reduced in the preceding day by strong data releases and hints from Fed officials that there was a swing towards earlier tightening. The benign forward-looking statements and similar forecasts from the FOMC helped to calm nerves, as observed that the US swap curve for tenors beyond 1 year remained effectively unchanged between the end of February and end of March, but we continue to suggest that the risks to markets' outlook on rates are skewed to the upside absent any exogenous shocks.

In the US CMBS market, spreads have remained more or less unchanged for the month but the CMBX market is an entirely different story. In March, we saw a continuation of the theme that started earlier this year when 'fast money' was shorting the BBB- and BBs of the CMBX.6 series since this is the index with the highest concentration to retail properties. The other theme that has started to emerge is about a potential overbuilding/oversupply of multifamily properties in the US. We have yet to see those fears causing pressure to the CMBS cash markets.

As per our past commentaries, we remain sceptical of the relative value in the sub-IG part of the CMBS cap stack and have kept a zero allocation to this asset class across our funds. We remain poised to move, nevertheless, if prices are badly hit by an escalation in both fundamental and policy-induced fears in the year ahead.

Spring has sprung in ABS markets

March has seen a surge in new issue deals, with the momentum into April also looking strong. Several deals are noteworthy across a broad range of issuers by obligor and by geography.

Latitude is an Australian Credit Card deal coming for the first time to the market following the $8.2bn corporate sale by GE Capital to a consortium comprising Varde Parners, Deutsche Bank and KKR. The deal was significantly oversubscribed: ranging from 3 to 7 times.

The UK's Treasury has generated excitement in recent weeks with a large inaugural UK student loan securitisation (pricing will be after Easter).

Lone Star securitised a cleaner Irish RMBS pool in ELRS 2017-1 and is following shortly after with the Non-Performing Loans (NPL) remainder in ELRS 2017-NPL1.

SRF 2017-1 FT, a Spanish RMBS securitisation by Blackstone, also saw very high demand.

Kabbage brought a small heavily oversubscribed US SME transaction and Marlette, US consumer loan originator, brought the first marketplace originated deal in America following Lending Club's operational issues last year.

The current pipeline of deals in April looks strong with the much-anticipated large volumes of Aire Valley collateral (Bradford & Bingley's BTL RMBS pool) being securitised again.