PRYTANIA ASSET MANAGEMENT

Market Update

July 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.

June 2017	+ 0.88%
2017 YTD	+17.78%
2016	+ 5.71%
2015	- 6.46%
2014	+ 3.01%
2013	+ 18.64%
2012	+ 32.34%
Latest 12 months Distribution	+ 3.65%
Inception Date: May 2008	Currency: USD

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

June 2017	+0.58%
2017 YTD	+5.11%
2016	+ 12.37%
2015	- 1.02%
2014	+ 7.26%
2013	+ 5.32%
2012 (June launch)	+ 5.55%

USD Share Class

June 2017	+0.75%
2017 YTD	+6.46%
2016	- 5.27%
2015	- 6.17%
2014	+ 2.20%
2013 (April launch)	+ 7.15%

EUR Share Class

June 2017	+ 0.53%
2017 YTD	+ 3.59%
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.

June 2017	+ 0.28%
2017 YTD	+ 2.21%
2016	+ 1.43%
2015	- 0.03%
2014	+ 1.69%
2013	+ 0.95%
2012, from April launch	+ 4.63%

Currency: GBP

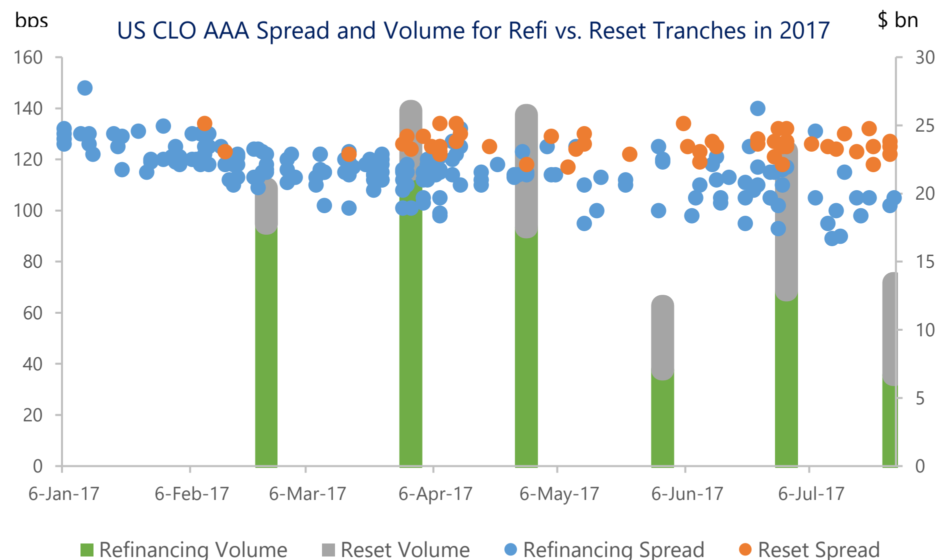
Marketing Contacts

London Office: +44 (0)20 7796 8715
U.S. Office: +1 312 303 0244

investorrelations@prytaniagroup.com
www.prytania.com

US CLOs: is there value in refi or reset paper?

The relentless grind inwards of CLO spreads through 2017 has occurred despite a strong headline rate of issuance. There has been $52.5bn of US CLO issuance by end June 2017, which is double the amount issued at that point in 2016. On top of that has been the emergence of a significant and sustained refinancing/reset issuance programme which has added a further $117bn of issuance. Interestingly, whilst we would expect transactions to reset as they get closer to the end of their reinvestment period, recent research has suggested CLO managers (and equity holders) are relatively agnostic to refinancing versus resetting. That said, issuance volumes would suggest resets are becoming a far more frequent method in recent times. Resetting a CLO is approximately 3 times the cost of refinancing given the differential in fees and the costs of repaying BB/B tranches issued at a discount, however, managers (and equity) can extend control of the collateral pool over the same time as though they were printing a new CLO.



Source: Prytania Asset Management, July 2017

Furthermore, the differential in AAA spreads is not as wide as one might expect given the significant differential in WAL. A refinanced AAA tranche which may have less than 3 years of WAL remaining was printing at L+110 in June, whilst a reset AAA tranche which has a 5 year reinvestment period and a 6 year WAL could come just 15-20bps wider at L+125~130. From the perspective of an AAA investor looking for certainty and an assured timeline for the return of capital one can argue that there is more value in the shorter dated refinancing AAA tranches on a risk-adjusted basis. We continue to buy selected new issue AAA and AA tranches with conservative managers, clean portfolios and sufficient compensation for the WAL exposure taken.

The attractions of senior US CLO paper are also enhanced by their short duration/floating rate characteristics. This was recently highlighted in a much-heralded speech from former Fed Chairman Greenspan, who warned that “By any measure, real long-term interest rates are much too low and therefore unsustainable. When they move higher they are likely to move reasonably fast. We are experiencing a bubble, not in stock prices but in bond prices. This is not discounted in the marketplace.” The ongoing political turmoil in Washington, tensions over North Korea and some weaker data releases have distracted attention in recent times from the stark reality that Fed policy remains too stimulatory. While spreads have tightened in many sectors of structured credit, the risk adjusted returns at this point in the policy cycle still look appealing against most conventional asset classes.

Prytania® All rights reserved.
To be read in conjunction with Important Disclaimer

PRYTANIA ASSET MANAGEMENT

ECON Agreement on Securitisation and STS

As part of a concerted effort to revive the securitisation market in Europe, the European Parliament, the Council and the ECB came to a provisional agreement in June. This discussion had two aims: setting-up a generic framework for securitisation in Europe, and defining criteria for a securitisation to earn the “Simple, Transparent and Standardised” designation. STS securitisations could benefit from preferential capital treatment when compared to other deals. By aiming at two targets at once, regulators and politicians seemingly have blurred the delineation in objectives between the two types of deals.

As was largely expected, significant sectors like CLOs, RMBS backed by non-conforming and non-performing mortgages or mixed pools will not be eligible to use the STS designation. But, in a last minute addition to the document - that almost seems misplaced in the final version - the text could also ban altogether new securitisations that include any residential loans that have been extended without proper income verification by the lender. Most pools of non-conforming residential – and some Buy To Let (BTL) - mortgages originated pre-2008 include loans that have been self-certified, and the universe of loans with “low” income verification is even wider. Banning the origination of self-certified loans could be seen as useful for financial stability but banning securitisation as a means of funding mortgages that borrowers have been repaying for 10 years seems like a strange policy objective.

Leaving that wording where it is would open endless questions around the type of mortgages concerned, the treatment of BTL mortgages and, more importantly, of NPLs, where the ECB seemed to think that securitisation was a part of the solution to this very real problem. It would also be a serious issue for a large part of the market that has recently used securitisation to fund pools of seasoned mortgages - especially in the UK - and would, therefore, put some doubts around the callability of the existing transactions backed by collateral originated pre-crisis (as they could not be refinanced into a new deal).

Liquidity dried up in parts of the market following the announcement although it came back quickly given the current ongoing level of demand for yield from bonds in our universe. At present, a large part of the potentially impacted universe trades at a premium as well, so investors would be better off if the deals were not called, but the situation could change if spreads were to widen materially before the call date.

The market was hoping for more regulatory and legal clarity from this provisional agreement as it is the main issue hindering a more broadly-based revival in securitisation and in helping European banks deleverage. As it stands, STS can be seen as a welcome small step in the right direction for the use of securitisation as a funding tool for new origination, but the changes seen so far are actually detrimental to its wider risk-transfer role. Although market-participants are hoping for a change in the final agreement in October, this is another example of the potentially significant and unforeseen impact of regulators and politicians in our market that we have long warned about.

Prytania announces Eudora’s successful conversion

Prytania is pleased to announce that its AIFMD fund structure, Eudora Investment Funds plc, has successfully converted into an Irish Collective Asset-management Vehicle (“ICAV”) as at 18 July 2017, under the new name Eudora Investment Funds ICAV (“Eudora”). The ICAV provides a number of key benefits including transparent tax status for US investors, the availability of financial statements prepared at sub-fund level, which has proved popular with fund-of-one investors and the opportunity to dispense with the requirement to hold an annual general meeting.

Please click here to read more.

Metreta launches new USD share class

Following the conversion to an ICAV, we are now launching a new share class in US Dollars.

Ahead of the uncertainties around politics and central banks’ monetary policy tightening timetables, Metreta’s focus on high quality, relatively liquid, floating rate collateral has been in increasing demand from investors. Metreta has a target return at present of 7-Day Libor plus 125 bps per annum. As at the end of June 2017, Metreta GBP share class has delivered 2.21% net return YTD and 11.33% since inception.

This document provides information about the Prytania Athena Fund (‘Athena’), Galene Fund (‘Galene’), Metreta Fund (‘Metreta’) and the services provided by Prytania Investment Advisors LLP (‘the manager’) as well as a general market update. Opinions, forward looking statements and projections expressed represent the views of the contributor at the time of preparation. The Manager does not accept any liability whether direct or indirect arising from the use of the information contained in this newsletter, which, to the knowledge of the Manager is reliable and accurate but cannot be guaranteed. The Manager is authorised and regulated by the Financial Conduct Authority (“FCA”). The Manager is registered as an Investment Advisor with the United States Securities and Exchange Commission. This document must not be construed as investment advice or offer to invest in any Prytania fund and has been provided to you solely for your information and may not be copied, reproduced, further distributed to any other person or published, in whole or in part for any purpose. Any other person receiving this document should not rely upon its content. This document is intended for use by Professional Clients, Eligible Counterparties and accredited investors, as defined under Regulation D of the United States Securities Act of 1933, as amended (the “Securities Act”) only. Past performance is not necessarily indicative of future results and nothing contained herein shall constitute any representation or warranty as to the future performance of the fund, any financial instrument or other market or economic measure. All returns are net of fees. Only year-end returns are audited. The representative of Athena and Galene in Switzerland is Hugo Fund Services SA, 6 Cours de Rive, 1204 Geneva. The Paying Agent in Switzerland is Banque Cantonale de Genève, BCGE. The distribution of Shares in Switzerland must exclusively be made to qualified investors. The place of performance and jurisdiction for Shares in the Fund distributed in Switzerland are at the registered office of the Representative.