Athena

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

August 2017	+ 1.67%
2017 YTD	+22.58%
2016	+ 5.71%
2015	- 6.46%
2014	+ 3.01%
2013	+ 18.64%
2012	+ 32.34%
Latest 12 months Distribution	+ 4.66%
Inception Date: May 2008	Currency: USD

Galene

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

GBP Share Class

August 2017	+0.51%
2017 YTD	+6.08%
2016	+ 12.37%
2015	- 1.02%
2014	+ 7.26%
2013	+ 5.32%
2012 (June launch)	+ 5.55%

USD Share Class

August 2017	+0.62%
2017 YTD	+7.73%
2016	- 5.27%
2015	- 6.17%
2014	+ 2.20%
2013 (April launch)	+ 7.15%

EUR Share Class

August 2017	+ 0.42%
2017 YTD	+ 4.40%
2016	- 1.08%
2015	+ 5.18%
2014 (April launch)	+ 7.04%

Metreta

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

August 2017	+ 0.06%
2017 YTD	+ 2.60%
2016	+ 1.43%
2015	- 0.03%
2014	+ 1.69%
2013	+ 0.95%
2012, from April launch	+ 4.63%

Currency: GBP

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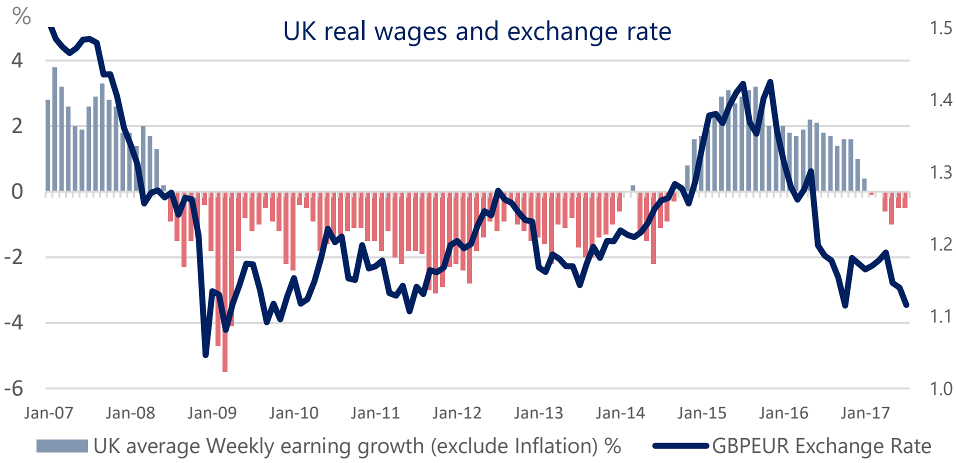
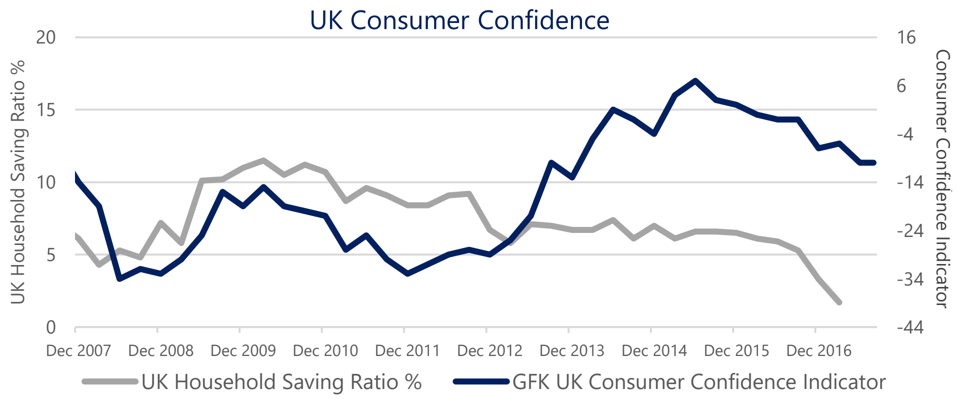
The rise and fall of the UK Consumer

Between 2010 and 2015, the UK consumer experienced dramatic improvements in their economic situation, with the unemployment rate dropping from 8% to 4.5% (the lowest since the 70s), house price increases generating large wealth effects, along with a low but stable GDP and wage growth. Together with a savings rate consistently above 6%, this helped reduce the average debt-to-income ratio by close to 15% from its 2008 peak of 137% to 123% in 2014. The stronger Pound in 2015 helped to decrease import prices by 10% on average, reducing core inflation below 1% and providing positive real wage growth for the first time since the crisis, and driving consumer confidence indexes in positive territory for the first time in over a decade. Given that backdrop, we had been confident in the fundamental credit performance of these borrowers over this period, maintaining strong overweight positions in the parts of the markets most exposed to that trend.



Source: Bloomberg, September 2017

Even before the Brexit referendum in June 2016, we were already becoming more cautious on the macro picture. The easier monetary stance taken by the BoE since has only been able to cushion the blow to business and consumer confidence, but has driven the currency sharply lower, with the resulting increase in imports costs of 10% helping to push core inflation higher (from 1% in 2015 to 2.5% now). The savings rate moved sharply lower: from the relatively stable level of 6-7% it had been anchored on recently to an abysmal sub-2% level not experienced since the 1960s. Thanks to this willingness to draw down savings and take on further consumer credit, GDP growth has held up better than expected but we have long warned that this was unsustainable: either the inflation spike would be short lived and some positive real wage growth subsequently helps the savings rate rebound to a more durable level, or the consumer will eventually stop being able to drive growth on their own.



Source: Bloomberg, September 2017

Going forward, two factors will likely drive the resolution path of that conundrum: the monetary reaction of the BoE to higher inflation expectations and lower GDP growth, and the impact on confidence of the ongoing negotiations with the EU. Our current investment stance remains much more cautious, especially towards exposures to very recently originated consumer credit, where laxer underwriting to weaker borrowers could be the seed of future losses.

Diamond financing is not forever

The continued hunt for yield and the tougher regulatory banking regimes have seen more unusual collateral emerge in the ABS market. In August, Guggenheim brought the $155m diamond transaction SHINY 2017-1 financing Diarough's diamond inventory at 4.95% (single A) and 5.93% (single A) for 4 years and 7 years, respectively.

Polished natural diamond prices have fallen by 44% since their peak in 2011. Demand from Asia is expected to support diamond prices in the medium-term, but technological advances and changing consumer behavior are providing a strong counter current. It is unclear in the longer term if diamonds will remain a girl's best friend.

Debut Dutch BTL adds to the ABS variety

The recent Dutch mixed buy-to-let deal, DPF 2017-1 (AAA:+68, AA: +130, A+: 180, A-: 210, BBB: 290 bps), has attracted significant interest across the capital stack with all mezzanine tranches 2.0x to 5.4x oversubscribed. We are pleased to see interesting EU ABS deals coming to the market again. This was the first European buy-to-let deal RMBS (BTL), highlighting the shift from bank mortgage lending to specialist financial service providers. Unlike the typical UK BTL deal, which consist of 100% residential investor properties, the DPF 2017-1 deal contained commercial properties as well. This mix will have contributed to the wider spreads on offer. On the positive side, at 56%, the LTVs are considerably lower than for a typical prime Dutch RMBS, a welcome peculiarity of the market.

Infrastructure CLO to provide a helping hand for Trump?

An inaugural infrastructure CLO financing loans secured against existing US infrastructure is currently being marketed. Notwithstanding the inevitable comparisons with conventional corporate CLOs, we see the risk of the infrastructure loans in this deal as more idiosyncratic. Depending on the ultimate pricing and structural features, the transaction could be an interesting portfolio diversifier. Clearly liquidity is unproven and a healthy premium should be required. With infrastructure creaking in the US and even many EU states requiring upgrades to their infrastructure, could this sector become more mainstream? Demand from issuers exists, demand from CLO/ABS investors needs to be proven but we do see the potential for further issuance.

German Election – An unfilled victory

The year of key EU government elections has come to a close with Angela Merkel securing a fourth term as Chancellor on the 24th September General Election. The results showed the ruling party CDU/CSU at 33% (-8.5%), ahead of former coalition partner SPD (20.5%, -5.2%), followed by AfD (12.6%, +7.9%), FDP (10.7%, +5.9%), Linke (9.2%, +0.6%), Green (8.9%, +0.5%). The results were the worst for both CDU/CSU and SPD since WWII.

Forming a stable coalition will be a hard task for the Chancellor. The SPD has ruled out a renewed 'Grand Coalition' for now. The current consensus favours a 'Jamaican coalition' of CDU (black), FDP (yellow) and Green (green) for the first time at the national level, although already a relality at federal state level. The liberal party, the FDP, might induce a more pragmatic tilt towards Brexit and away from French President Macron's grander EU integration ideas, while the Green party will demand more climate friendly policies, like the end of fossil fuel cars by 2030. The Greek programme review is due in Q1 '18 and we would expect a tougher stance taken by such a 'Jamaica coalition.'

Attention will now switch to the Lower Saxony elections on 15th October and then the Italian elections in 2018. Political uncertainty complicates the ECB's task in normalising monetary policy in the Eurozone. We have long argued that an early clarification of the timetable for tapering can help the markets even if a return to positive policy rates unfortunately remains on the far horizon.