PRYTANIA ASSET MANAGEMENT

Market Update

December 2017

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.

November 2017	+ 0.92%
2017 YTD	+ 28.17%
2016	+ 5.71%
2015	- 6.46%
2014	+ 3.01%
2013	+ 18.64%
2012	+ 32.34%
Latest 12 months Distribution	+ 4.47%

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 EURIBOR+400 bps p.a.

GBP Share Class

November 2017	+0.88%
2017 YTD	+8.33%
2016	+ 12.37%
2015	- 1.02%
2014	+ 7.26%
2013	+ 5.32%
2012 (June launch)	+ 5.55%

USD Share Class

November 2017	+1.05%
2017 YTD	+11.23%
2016	- 5.27%
2015	- 6.17%
2014	+ 2.20%
2013 (April launch)	+ 7.15%

EUR Share Class

November 2017	+ 0.83%
2017 YTD	+ 6.32%
2016	- 1.08%
2015	+ 5.18%
2014 (April launch)	+ 7.04%

Metreta

An actively managed senior structured credit fund, seeking stable net returns of 7-Day GBP LIBOR+125bps p.a.

GBP Share Class

November 2017	+ 0.28%
2017 YTD	+ 3.41%
2016	+ 1.43%
2015	- 0.03%
2014	+ 1.69%
2013	+ 0.95%
2012 (March launch)	+ 4.63%

USD Share Class

November 2017	+ 0.35%
2017 YTD (September launch)	+ 0.79%

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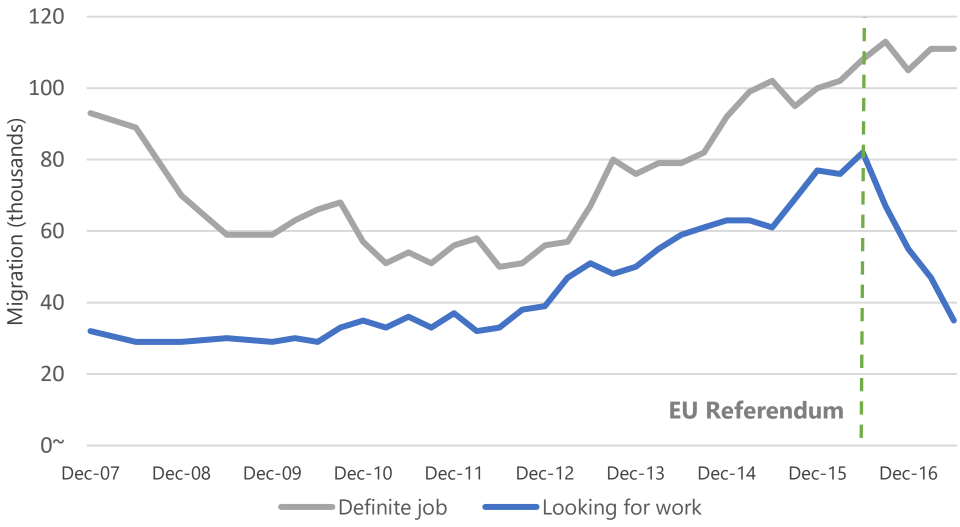
Tightening labour market to the rescue for the UK?

The gloom over UK prospects continues to contrast markedly with the growing optimism around the world. The latest GDP growth forecast of the Office for Budget Responsibility (OBR) was lowered by 0.5% p.a. on average over the next few years, on a downward revision of their productivity estimate. These projections do not take into account any potential slowdowns in investment, consumption or exports due to heightened political uncertainty that many economists and observers think are likely, especially given the problems seen to date with the Brexit negotiations and the weakness of Prime Minister May.

The latest underwhelming Budget from Chancellor Hammond used an accounting subterfuge (housing association debt was taken out of the overall public sector borrowing) to help mask further fiscal largesse. The most significant announcement, particularly for ABS markets, was the elimination of Stamp Duty for first time buyers on properties up to a £300,000 price threshold. This measure should help compensate for the end of mortgage guarantees provided by the Help-To-Buy Scheme and the end of cheap bank funding available through the Term Funding Scheme until Q1 2018. Part of that exemption will also be financed by the end of the indexation for Buy-To-Let (BTL) investors holding their properties in a company structure. This is yet another step in the long list of financial and regulatory actions aiming to reduce the appeal of BTL investing in the U.K., although the sharp increase in the proportion of properties held in corporate form since the previous tax increases for individuals was bound to attract the taxman's attention.

While we continue to highlight the political risks to the UK, if the worst scenarios are avoided, it can also be argued that growth can be higher than the OBR projections in the next few years. The housing market may find better support than the current plethora negative views may amid from a tight – and tightening – labour market. With the unemployment rate, at 4.3%, already at the lowest rate since 1975. Despite the UK Government's concessions to the several million EU nationals already here, the drop in immigration since the Brexit vote could actually help push wages higher. This may help many consumers pay their bills but, for the more overstretched borrowers trying to meet their mortgage payments, any pick up in underlying inflation from higher wages may force the BoE to hike rates faster than the markets currently expects.

EU citizens coming to the UK for work reasons (Dec 2007 - Jun 2017)



Source: Long-term International Migration (LTIM) estimates, ONS, December 2017

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Deregulation and rate hikes to boost US financials

The deregulation effort expected by the Trump Administration continues to take shape as further progress was made last month in replacing the heads of two major US federal agencies. In November, President Trump appointed Mick Mulvaney as acting head of the Consumer Financial Protection Bureau (CFPB), a US government agency responsible for consumer protection in the financial sector. The current expectation is that the agency will soften its criteria for qualified-mortgages.

President Trump also confirmed former bank executive Joseph Otting as the head of Office of the Comptroller of the Currency (OCC), the top federal agency responsible for supervising all national banks and thrift institutions as well as the federal branches and agencies of foreign banks in the United States. Otting was the president and CEO of OneWest Bank and a vice chairman at U.S. Bancorp before that; part of his current agenda is to help implement the Trump Administration's plans to tailor aspects of the Dodd-Frank Act and also to contribute to a review of the "Volcker Rule" on proprietary trading.

Jerome Powell was nominated to serve as the next Chairman of the Federal Reserve and, in a statement to the Senate Banking Committee ahead of his confirmation hearing he signalled broad support to the Fed's current interest rate outlook. We expect that the appointment of a continuity candidate like Mr Powell – and other Fed changes due next year – will not materially alter the trajectory of Fed policy.

We still believe, however, that absent any shocks, the balance of risks is skewed towards higher rates than current forward curves suggest. A year ago, we predicted three 25bps hikes in the Fed funds rate for 2017, which has now been confirmed. For 2018, our forecast is for a further 75bps increase, with some chance of a total rise of 100bps.

The Administration's efforts to push for further deregulation in the financial sector, combined with further interest rate hikes, are expected to offer broad support to the profitability of US banks and also further improvement in the MTM of their junior debt instruments. As the MTM of those instruments is moving closer to par, the probability of a successful auction call in some TruPS CDOs shifts materially. Last month we saw one of our TruPS positions being successfully called given these factors.

CRE CLO - positive outlook for issuance through 2018

CRE CLO new issuance rebounded in 2017 with $5.4bn of new deals issued by November and total issuance for the year is now expected to exceed $6bn. This compares favourably to the $2bn of total issuance in 2016 whilst our current visibility for 2018 is supportive of further growth in the market. We are aware of specific credit platforms considering making an entrance to this market in 2018 while some of the existing CRE CLO managers are also planning to accelerate their rate of issuance in the coming year. Notwithstanding the increase in the opportunity in this sector, we have been very selective in our purchases in 2017, reflecting a more challenging fundamental outlook and tight mezzanine debt spreads.

Prytania Athena Fund outperformance

Prytania was again featured at the top of the league tables after further strong increases in its Athena Fund's NAV recently. Athena featured as leading fund in the Creditflux magazine for October 2017, following being ranked No.1 by Preqin as at September 2017. The Athena Fund generated a net return of +28.17% YTD, after a gain in November of +0.92%.

Mark Hale, CIO, commented there were three underlying factors that made Athena's performance especially strong in October: one of the biggest TRuPs positions in the Fund, that we had long considered undervalued, saw a strong execution on a BWIC earlier in the month and drove up the MTM of that bond by almost 19%. In addition, the successful trading of a number of non-conforming European RMBS bonds contributed large realised profits, while a new issue European CLO equity tranche purchased in March made its first payment, which came in at an annualised IRR of 19.5%. Further gains were also recorded in TRUPS and CRE CDO investments.