# PRYTANIA ASSET MANAGEMENT

# Market Update

January 2018

## 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.

| | |
|---|---|
| December 2017 | + 1.49% |
| 2017 | + 30.08% |
| 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+300 bps p.a.

**GBP Share Class**

| | |
|---|---|
| December 2017 | +0.42% |
| 2017 | +8.79% |
| 2016 | + 12.37% |
| 2015 | - 1.02% |
| 2014 | + 7.26% |
| 2013 | + 5.32% |
| 2012 (June launch) | + 5.55% |

**USD Share Class**

| | |
|---|---|
| December 2017 | +0.54% |
| 2017 | +11.83% |
| 2016 | - 5.27% |
| 2015 | - 6.17% |
| 2014 | + 2.20% |
| 2013 (April launch) | + 7.15% |

**EUR Share Class**

| | |
|---|---|
| December 2017 | + 0.37% |
| 2017 | + 6.72% |
| 2016 | - 1.08% |
| 2015 | + 5.18% |
| 2014 (April launch) | + 7.04% |

## Metreta

An actively managed senior structured credit fund, seeking stable net returns of 1-Week GBP LIBOR+100bps p.a.

**GBP Share Class**

| | |
|---|---|
| December 2017 | + 0.19% |
| 2017 | + 3.60% |
| 2016 | + 1.43% |
| 2015 | - 0.03% |
| 2014 | + 1.69% |
| 2013 | + 0.95% |
| 2012 (March launch) | + 4.63% |

**USD Share Class**

| | |
|---|---|
| December 2017 | + 0.24% |
| 2017 (September launch) | + 1.03% |

## Marketing Contacts

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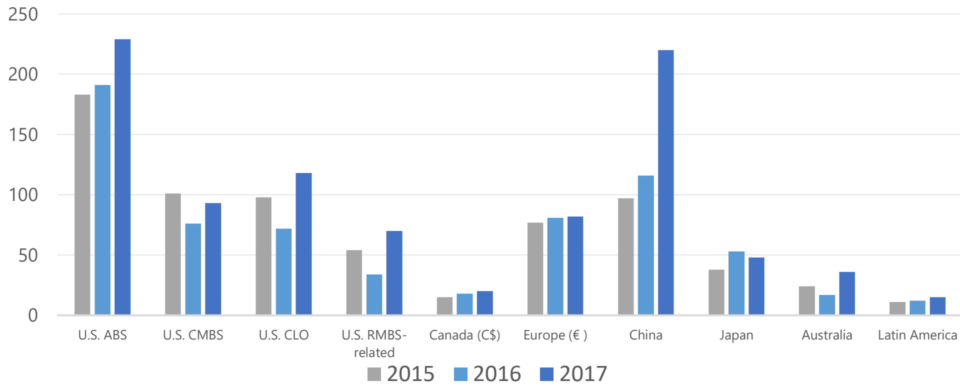
## Global Structured Credit : 2018 Expected to be Another Good Year

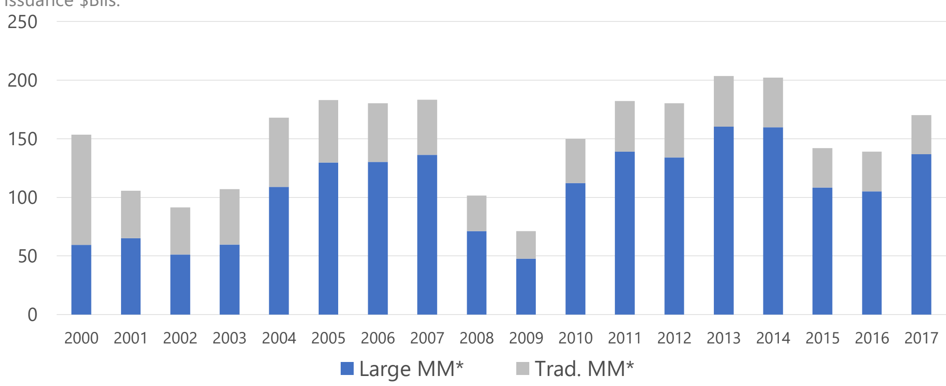
2017 was a good year for ABS Funds. Globally, according to Standard and Poor, the market issuance increased around 39% to $930 bn, which was largely driven by the US markets ($510 bn issuance) as shown in the graph below. In Europe, ABS funds were supported by the fact that in the current low interest rate environment, and compared to fixed-income products, floating rate instruments are more attractive to investors searching for yield. In China, market issuance expanded by almost 90% and delinquency rates for Auto ABS, RMBS and CLOs remained low, reflecting the economic environment of solid growth.

In 2018, we foresee that political risk could be the main driver for volatility. In spite of the potential for the upcoming Brexit to bring an earlier than expected turn in the UK credit cycle, we remain positive on the 2018 outlook and expect both a steady growth of market issuance and that trading opptunities will arise globally, even against a backdrop of monetary policy tightening. While spreads have continued to decline over the past year, and are significantly less attractive than some years back from an investment perspective, this should encourage more supply from issuers this coming year.




Source: Standard & Poor Structured Finance Research, January 2018

CLO issuance alone in the US reached $118 bn in 2017, 62% higher than in 2016 while Europe finished the year at €19 bn representing a 14% increase YOY. Since June 2016, the market saw $165 bn and €26 bn combined refinancing and reset volume in US and Europe, respectively. During 2017, we focused increasingly on CLO Equity and Middle Market CLOs, as the graph below shows, US Middle Market Loan issuance ended 2017 at $170 bn, 23% higher YoY, primarily based on activity in the segment of the market for larger obligors.




*Traditional MM: Deal Size <=$100M, Large MM: Deal Size >$100M to $500M,
Source: Thomson Reuters, January 2018

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## US Tax Reform Act and Impact

As the US tax reform bill has been signed into law, the change in interest deductibility dominated headlines since interest expense is now capped at 30% of EBITDA for 2018-2021, and at 30% of EBIT after that. The amount of net operating losses that can be carried forward and used to offset the pretax income has also declined from 100% to 80%. On the other end of the spectrum, the tax bill included a reduction in the corporate tax rate to 21% (from 35%) and the ability to fully deduct capex spent each year for the next six years. The net effect of this reform bill is estimated to be supportive for most US corporates as the reduction in the corporate tax rate outweighs most of the other changes. The typical borrower in the High Yield/Leverage Loan space, with leverage currently around 5x Debt/EBITDA, is also expected to be a net beneficiary of these tax changes and published research shows that only one-in-five borrowers in the single-B bucket is expected to be worse off after the signing of this bill.

The real estate sector will also benefit as it is excluded from the interest deductibility restriction, while Section 1031 Tax-Free Exchange treatment retained for real property exchanges and the current depreciation levels will remain unchanged.

## MIFID II – Expensive Transparency

The latest European financial markets regulation came into action at the start of the year, with both profound and more superficial consequences on market participants. The main goal of increasing transparency is certainly laudable, although the all-encompassing nature of the text can sometimes make the application more complex in our market. Some relatively minor improvements in market structure - like some positive steps in post-trade price transparency – can cause some substantial additional reporting burden. Overall, the regulation is applied in a sensible manner, and the implementation takes into account the differences between the various sub-sectors and market participants. Nonetheless, the direct costs in time and money for market participants caused by this new piece of regulation far outweigh the limited transparency benefits on day one, and the impact on market liquidity is still uncertain in both is magnitude and direction.

**With regard to research, Prytania will pay all external research costs directly for both its MiFID and AIFMD activities.**

## Prytania Funds - Strong Gains in 2017

Athena Fund +30.08%

Athena ranked No.1 in its category based on 2017 performance in a number of publications, including Preqin and Creditflux.
Active asset allocation and a focus on underappreciated opportunities allowed Athena to outperform in 2017. We remain optimistic that there will be ongoing opportunities to generate our net target return of 10% p.a. over the next three years

Galene Fund GBP Share Class +8.79%

Galene enjoyed a strong 2017 as improving fundamentals, modest supply and strong demand continued to outweigh the variety of risks across the world, especially from political and central bank policies. There was a focus on the opportunities outside mainstream sectors. The growth in esoteric / non-standard collateral classes, as "alternative" issuers opportunistically use structured credit to finance pools of collateral including peer-to-peer loans, NPLs and other more exotic receivables, looks to remain a notable feature of the primary market in 2018.

Metreta Fund GBP Share Class +3.60%

In 2017, Metreta diversified its sector and regional exposures actively. In September 2017, we launched a USD share class, which has returned +1.03% in the three months since launch.

## Prytania on the Road

Prytania's Investment Team will present at SFIG Vegas 2018 Conference during 25th-28th February 2018. Also Prytania CIO - Mark Hale and Julie Lohrmann will be in Austin, Houston, and Atlanta the week of 5th February.

Please click here to book a meeting with us.