PRYTANIA ASSET MANAGEMENT

Market Update

February 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.

January 2018	+ 4.77%
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

January 2018	+0.33%
2017	+8.79%
2016	+ 12.37%
2015	- 1.02%
2014	+ 7.26%
2013	+ 5.32%
2012 (June launch)	+ 5.55%

USD Share Class

January 2018	+0.61%
2017	+11.83%
2016	- 5.27%
2015	- 6.17%
2014	+ 2.20%
2013 (April launch)	+ 7.15%

EUR Share Class

January 2018	+ 0.25%
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

January 2018	+ 0.26%
2017	+ 3.60%
2016	+ 1.43%
2015	- 0.03%
2014	+ 1.69%
2013	+ 0.95%
2012 (March launch)	+ 4.63%

USD Share Class

January 2018	+ 0.53%
2017 (September launch)	+ 1.03%

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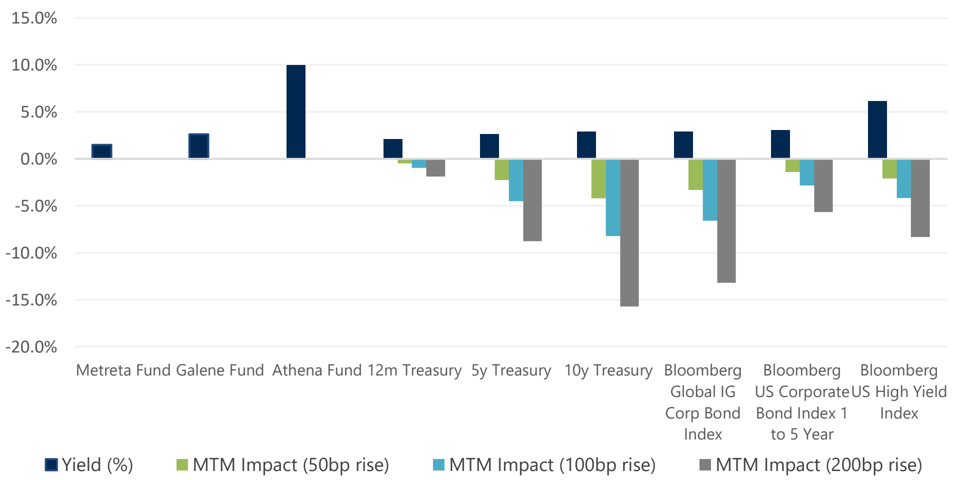
Structured to withstand storms: the positive impact of rising rates on our funds

The dramatic outbreak in volatility after a unusually long period of calm has left many participants confused and nervous. The rapid rebound in equity markets after the 'flash crash' and moderation in the VIX has encouraged the optimists to see this as another small blip in the long bull market while the pessimists have seized upon the plunge as an early warning signal of impeding implosion. We prefer to look beyond the frenzy in pricing, the outflows in mutual funds and ETFs and the media headlines to assess whether there are clearer signs of an underlying shift underway. The starting pistol for the sell off was fired by the US January employment report, which signalled stronger wage growth, which we have been expecting for some time (and, frankly, have been wrong). Further releases confirmed higher core inflation pressures, which can also be seen in other countries, and reinforced our belief that the risks to our forecasts of FOMC tightening in 2018 and 2019 lay to the upside. The drop in equity prices would have to be more severe, and long-lasting, in our view to deflect the Fed from its trajectory of normalising monetary policy. Further challenges emerged from Washington, for US Treasuries in particular, in the form of a deal on the budget in Congress that was even more generous in its increase in spending than we feared. In the wake of this deal and the recent tax reforms, investors were left contemplating the substantial increase in bond supply over many years, with a diminishing benefit from the Fed's Balance Sheet holdings of Treasuries and Agency MBS over time. US 10-year yields have now almost reached our long-standing 3% target and have doubled from the recent cycle low.

The structured credit markets remained relatively resilient in the face of the turmoil, although some softness was observable in the sub-investment grade tranches (e.g. of CLOs) as risk appetite diminished. We continue to emphasise the benefit of the short duration, floating rate assets we have in our portfolios as rates rise in the US (and similar, if less well-developed pressures are emerging in the UK and then Europe). The potential for volatility in the less liquid, longer dated, more junior tranches of our sector, however, is still worth reiterating. We will remain cautious towards the significant part of our market that is fixed rate, especially where we also have credit concerns (e.g. US conduit CMBS), awaiting further declines in prices. Our defensive stance in the funds in recent months leaves us comparatively well-placed to exploit improved opportunities that may emerge from official sector politics and volatility across global markets in the future.

Prytania Funds vs Traditional Credit Risk/Return



Source, Bloomberg, Prytania Asset Management, February 2018; Please note the analysis is based on forecast rate and is not necessarily indicative of future results and historic returns shall not constitute any representation or warranty as to the future performance of the fund.

Regulatory Relief for US CLO Managers

On 9th February, the LSTA prevailed in its lawsuit against the SEC and the Fed with an appeals court ruling that US CLO managers should not come under the definition of securitizers and, as such, are not subject to Dodd-Frank Risk Retention laws. Unless the government appeals the decision, exemption from the rules will come into effect on 2nd April 2018.

New issue CLO projections in the US were immediately increased with this removal of a barrier to entry which required significant capital requirement from the CLO managers themselves. Increased issuance from a likely more numerous manager base (smaller/newer managers expected to return to the primary market) could also create some spread widening in CLO debt tranches.

In terms of equity supply this is also expected to rise in both primary and secondary markets. CLO managers will no longer be required to retain the 5% risk retention piece through the equity (which typically resulted in over 51% of equity being retained), something that was done in 57% of 2017 vintage CLOs. A higher proportion of equity tranches could therefore be available in the primary market whilst the secondary market could see increased supply given managers no longer need to retain the retention pieces they already hold (where not specifically documented otherwise).

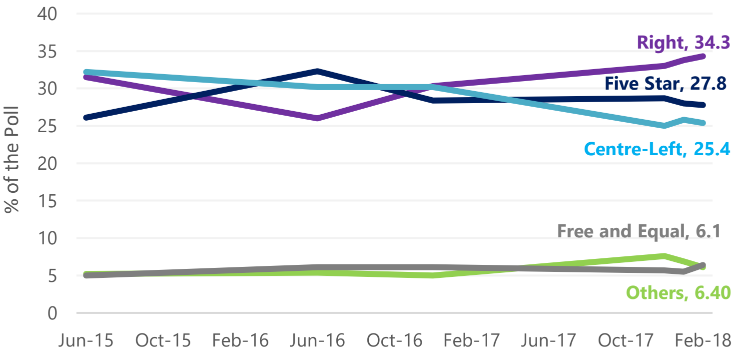
Whilst we anticipate increased CLO equity availability, there has been a significant amount of money raised for risk retention strategies from a new and longer-term investor base and we do not expect all CLO managers to dramatically change their strategy in the near- to medium-term given the benefits being enjoyed in this new partnership (e.g. a clearer and more visible CLO/AUM programme, a more coordinated view to long term equity returns over numerous CLOs rather than the manager having to maintain relationships and strategies with a larger number of equity investors over multiple CLOs). We expect far fewer US BS CLOs to seek dual-compliance status for both US and European risk retention which is likely a positive for European CLOs in that it reduces the size of investible CLOs for EU investors. We do not expect to see any repeal of risk retention for European CLOs.

Italian elections: Going nowhere fast

National elections are due on March 4th in Italy and uncertainty is higher than ever. Under a new voting system introduced last year, just above a third of the seats will be allocated on a 'first-past-the-post' basis, while a fully proportional method will be used on the rest. In that context, despite voting intentions for the right wing coalition led by Silvio Berlusconi is at 34% only, it can still hope for a majority of seats. In particular, a relatively limited number of constituencies in the south where they are in contention with the populist 5-Star movement could decide on the election's outcome. Both this movement and the Lega (part of the right-wing coalition) have strong Eurosceptic tendencies and seeing such parties in power would certainly create some volatility on both Italian and European assets by contagion.

The most probable outcomes remain a Right/Left coalition, a relatively weak Right-wing government, or new elections later in 2018. None of these outcomes are likely to derail the improving performance of the Italian economy, but no particular boost or structural reforms should be expected either. Direct consequences for our markets should be limited, as long as the possibility of either an outright M5S majority or a "populist" far-left/far-right coalition appears limited.

Italian Election Poll Tracker - 14 Feb 2018



Source: demos.it, Prytania Asset Management, 14th February 2018

Prytania on the Road

Prytania's Investment Team will be present at SFIG Vegas 2018 Conference during 25th-28th February 2018. Please click here to book a meeting with us.