Market Update

March 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.

February 2018	+ 0.54%
YTD 2018	+ 5.34%
2017	+ 30.08%
2016	+ 5.71%
2015	- 6.46%
2014	+ 3.01%
2013	+ 18.64%
2012	+ 32.34%
Latest 12 months Distribution	+ 4.28%

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

February 2018	+0.46%
YTD 2018	+0.78%
2017	+8.79%
2016	+ 12.37%
2015	- 1.02%
2014	+ 7.26%
2013	+ 5.32%
2012 (June launch)	+ 5.55%

USD Share Class

February 2018	+0.56%
YTD 2018	+1.17%
2017	+11.83%
2016	- 5.27%
2015	- 6.17%
2014	+ 2.20%
2013 (April launch)	+ 7.15%

EUR Share Class

February 2018	+ 0.38%
YTD 2018	+ 0.62%
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

February 2018	+ 0.32%
YTD 2018	+ 0.58%
2017	+ 3.60%
2016	+ 1.43%
2015	- 0.03%
2014	+ 1.69%
2013	+ 0.95%
2012 (March launch)	+ 4.63%

USD Share Class

February 2018	+ 0.38%
YTD 2018	+ 0.92%
2017 (September launch)	+ 1.03%

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Athena's Strong 2017 Performance Recognised

Prytania is delighted to report that its Athena Fund's 2017 performance has been recognized by a number of leading publications and industry rankings. The Athena Fund returned +30.08% net of fees and expenses in 2017.

- Alternative Investment Database provider Barclayhedge ranked Athena 1st in its 2017 annual ranking in the category Fixed Income – Long-only Credit.
- Leading industry publication Creditflux currently ranks Athena 1st in its Structured Finance category (rolling 12-months performance) and also ranked the fund 2nd in its Top 10 credit hedge funds in 2017 category.
- Well-known alternative asset industry data and intelligence provider Preqin ranked Athena 2nd in its Special Report Top Performing Hedge Funds in 2017 in the Credit Strategies category contains 256 funds.

The Athena Fund also significantly outperformed the HFRI RV Fixed Income-Asset Backed Index (2017 YTD +7.70%) as a constituent fund.

Prytania's CIO Mark Hale commented: "Active asset allocation has allowed Athena to outperform its peers in 2017. The rotation out of US CLOs and into less followed themes in European structured credit was particularly accretive. Europe is at a more attractive part of the credit cycle versus the US, and European structured credit can be more inefficiently priced than its US counterpart. While we significantly outperformed our 10% target return in 2017, I have cautioned investors that a repeat of that level of outperformance cannot be assumed. However, Athena is off to a good start this year at +5.34% YTD February 2018. "

European Politics: Markets Ignore Negative News Again

The CDU/CSU and SPD parties finally reached a coalition agreement after the elections in early autumn 2017. Angela Merkel was elected the new Chancellor to continue for a 4th legislature period which, if completed, would make her the longest standing German chancellor after Count Otto von Bismarck.

The SPD only agreed to the coalition after being promised a surprisingly strong list of cabinet positions, including the powerful Finance Ministry, as well as policy initiatives including €12bn outlays into family and social measures and concessions on more contentious points such as the lowering of retirement age, legislation for national minimum wage and immigration caps. The apparent strength of the SPD hand in spite of their poor poll performance has left some suggesting a much weaker Merkel may well fail in her role as unifying influence across Europe, especially in the face of rising populist parties in Italy, France and eastern European EU member states. That said, all parties seem to support Germany paying more into EU finances although the "how and why" are still up for discussion; while the SPD would like to move towards a transfer union, the CDU/CSU insist on stricter budget rules.

The Social Democrats need some quick wins. For the first time in history one poll suggested that the AfD (right wing, anti-EU) is ahead of the SPD. The fact that Andrea Nahles, the new SPD party leader, decided not to take a government post, gives her ample of room to oppose Merkel publicly, again suggesting a potential tempestuous relationship. However, with Germany's economic dependence on global car exports and in particular out of favour diesel engines, the economy could be quickly affected if Trump's tariff war is extended, for example, from steel to cars. The initial SPD win to lead the Finance Ministry, might become a hot seat if the economy sours and job losses materialise in the heavily unionised car industry.

While the German coalition forming process took 6 months, it takes even longer in Italy with the potential of a further election in 2019 if no workable coalition or supported minority government is formed. The defeat for the centrist parties and triumph of the anti-EU and populist movements mean policies in Brussels will be more dominanted by France and Germany. On the domestic front, while the manifestos of the Lega and 5 Star parties overlap in many policy areas- cut taxes, increase welfare spending, reject EU austerity and reduce migration – it is far from clear that a majority administration can be formed in the months ahead. Progress on structural reforms to the economy or the revival of the banking sector seem hard to envisage in this environment.

UK Student Loans and PFI

In March, 2017, the UK Government announced the first public sale of its student loan book. The sale was delayed due to an early election and finally concluded successfully in December, with the placement of approximately £1.63bn of rated notes and a further £1.92bn unrated X-notes.. Given the UK Government "owns" around £12 billion of such student debt, we would expect further issuances, more so as the student loan book grows.

The structure of the deal was attractive at the senior end, although we were concerned that sufficient protections against political risk were absent at the Class B level. This risk was highlighted during the election and the aftermath, when Labour (sensing a mood swing across the country's electorate) proposed a number of policy ideas ranging from renationalisation of key industries (water to power to rail) to increased minimum wage, to increased healthcare to the termination of PFI contracts to the cancellation of student debt. Details on how these policies would be implemented were and remain sparse, details on costings even rarer, but as part of the PFI debate, the Shadow Chancellor, John McDonald, suggested that Government debt need not be impacted if investors were not compensated.

Irrespective of whether the policies are Labour gimmicks designed to capture votes, comments from a potential Chancellor to the effect that he would be comfortable seeing private investors take financial losses as a result of Government actions must raise a red flag - no pun intended!

Reflections on SFIG 2018

Prytania joined an impressive – or worrying! -total of 7,000 securitization professionals at this year's Structured Finance Industry Group conference hosted in Las Vegas.

Our own "house view" that 2018 will be more challenging than 2017 may colour our perceptions but we were still surprised by the number of managers / issuers who felt they would achieve ever tighter execution on their deals through 2018.

For CLOs, the main focus was the likely relaxation of the US risk retention requirements from April 2018. This roll back of regulation is seen to be net positive for the US issuance market with new managers able to enter without the need to raise significant risk retention capital. The question here is the number of risk retention vehicles already established, especially by the better managers, who may now become pure equity investors. One question that we asked all managers was whether they will continue with EU risk retention rules. Some said yes, few said an outright "no", but worryingly many sat firmly on the fence.

Loan quality was also a hot topic: widespread loosening is apparent with increasing leverage and EBITDA adjustments the most frequently mentioned loan-based concerns whilst equity-friendly features such as par flush and extended reinvestment periods are becoming a more prominent feature of the CLO structures themselves. Perhaps the most creative change on the structuring side is thought to be a LIBOR switch from 3mL to 1mL on the senior notes to reduce the level of interest paid to the note holders, however this has largely not been taken up by the market as of yet.

On the esoteric front, the solar and PACE markets have enjoyed an uptick in popularity: solar securitisations jumping from $321m in 2016 to $1.4 billion in 2017. We are positive that, given the interest from the US and Asia, this corner of the securitisation market will continue to grow.

Prytania's new hire

Prytania is pleased to announce that Ben Atkinson has joined the firm as a Data Analyst. Ben holds an MSci Physics from Cambridge University and will be working closely with the Middle Office team, developing enhancements to the current data analytics and reporting tools.