Market Update

October 2013

PRYTANIA INVESTMENT ADVISORS LLP

Athena

An actively managed global opportunities fund, exploiting exceptional value across the structured finance universe, targeting a return of 15% p.a. over 3 years.

September 2013	+ 1.53%
2013 YTD	+ 12.07%
2012	+ 32.34%
2011*	- 10.97%
2010	+ 45.82%
2009	+ 30.25%

* Fund restructured in Aug' 2011

Galene

Actively managed global fund focusing on investment-grade structured finance assets, targeting returns in excess of 1M€L+450bps p.a.

GBP Share Class

September 2013	- 1.51%
2013 YTD	+ 3.27%
2012, from June launch	+ 5.55%

USD Share Class

September 2013	+1.60%
2013 YTD, from April launch	+ 3.68%

Metreta

Senior AAA structured finance assets, seeking low, yet stable, returns with daily liquidity.

September 2013	+ 0.47%
2013 YTD	+ 0.65%
2012, from March launch	+ 4.60%

Marketing Contacts

Lexie Hope +44 (0)207 073 0481
lexiehope@prytaniagroup.com

Garry McDougall +44 (0)207 073 0489
gmcdougall@prytaniagroup.com

Julie Lohrmann (US Advisor)
+ 1 (312) 303 0244
jlohrmann@prytaniagroup.com

Portfolio Management

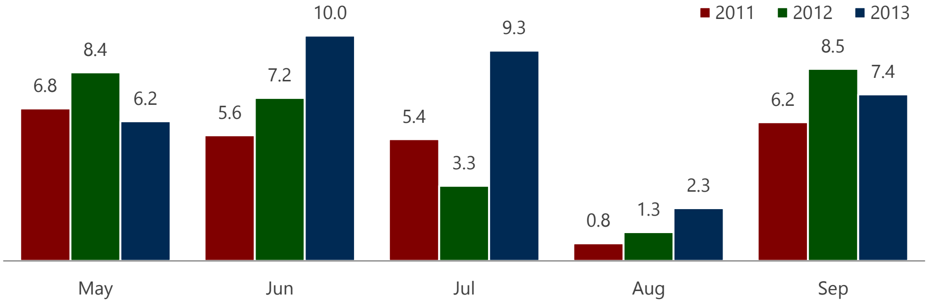
Mark Hale +44 (0)207 073 0477
mark.hale@prytaniagroup.com

Healthy European new issue calendar

The increasingly wide range of issuance reveals an evolving strength and depth of the structured credit markets.

The European new issue calendar looks healthy, with issuance including a Swedish non-conforming RMBS, German auto deal and more run-of-the-mill Dutch RMBS. New deals are also coming out of Norway and Finland, in addition to UK Buy-to-Let RMBS.

Summer European placed issuance, 2011 – 2013 (€bn) Source: Deutsche Bank



Interestingly, we are also seeing a number of Aussie RMBS deals being marketed to (and bought by) European accounts, despite the fact that tranches are coming in AUD rather than being swapped into EUR, as was the norm pre-2008. Although we agree that adding Aussie residential lending risk to a portfolio certainly aids diversity, we are less convinced that, at the senior end at least, investors are being rewarded for what is probably the best example of "distance lending" you could ever find.

On a slightly different note, we cannot ignore the start of the US Government shutdown, which started on the 1st October.

Interestingly, we see that yields in the structured finance universe are holding up well as concerns over the negative US economic impact and/or potential derailment of the global economic recovery fail to override investor appetite for structured finance risk. That said, it seems that other credit markets have not fared so well, with Bloomberg reporting that corporate bond sales in the US fell 81% for the week ended 4th October, following the busiest month on record (*Borrowers Paralyzed by Impasse Curb Bond Issues, Credit markets 4th Oct*).

As equity markets carry on regardless, it seems churlish to raise the spectre of the US Debt Ceiling, which gets hit on the 17th October. So far, Congress hasn't done much to reassure us they have an appetite to resolve differences. We have been building cash in the anticipation of US Government-related volatility, with an eye to finding cheaper opportunities towards the end of the month.

SME lending rates fall in Spain and Italy

The borrowing rates for small corporates in Europe are falling and, perhaps even more importantly, the differential between the rates in core and peripheral countries is easing as well.

According to the ECB, bank interest rates on a 1-5y loan of up to €1mm in Spain dropped from 6.5% a year ago, to 5.46%. Italy experienced a similar rate drop from 6.25% to 5.25%.

Easing credit conditions are expected to increase the prepayment incentive and ability of small corporates to refinance loans at maturity. Partly based on this rationale, Galene recently invested in the mezzanine tranche of a seasoned Spanish SME CLO deal which we believe has strong upside potential, especially if prepayment rates rise even modestly.

Peripheral RMBS

Spanish RMBS has been the asset class in vogue recently. Spreads have tightened across the entire capital stack.

The senior tranches DM has tightened on average by +45bps which results on average in a price appreciation of 2-3 pricing points.

Spanish junior spreads have compressed by 100bps, which equates to price rises of 5-10pts. A similar scale of tightening has been observed for the Portuguese RMBS tranches.

Prytania has been selectively buying senior position in both markets, given the continued strong collateral performance of seasoned deals.

Italian RMBS has tightened as well. However, the recent frailty of the Italian Government has been raising concerns, resulting in the rally falling short of its Mediterranean neighbours.

UK NC RMBS

Continued inflow into UK non-conforming RMBS has been clearly observed, following strong house price appreciation in London and South of England and moderate growth in the rest of the UK.

The expectation is that with the new Government scheme, mortgage availability for high LTV loans with worse credit history will be available.

As a result, repayment rates should increase for several transactions. Although increased repayment rates should benefit deals, particularly mezzanine tranches, we are still cautions of the junior tranches as higher rates could increase delinquencies again.

Help to Buy Scheme

An emergency brake on the Government's Help to Buy scheme, is being considered.

A cap lower than that of the currently targeted £600,000 is being considered. Critics are concerned about rising house prices while the central problem of housing supply shortage is not adequately addressed.

Proponents point towards the sluggish house price performance everywhere else besides the buoyant London and South East.

TruPS CDOs

In September the TruPS CDO market continued to move higher with strong demand across the capital structure.

Front-paying bank paper now trades at levels close to this year's highs, backed by the strong fundamentals of this sector.

According to Fitch, there were 8 new Bank deferrals in 2013 versus 21 over the same period in 2012, while 45 banks have cured so far in 2013 versus 50 banks in 2012 versus and 41 in 2011.

REIT TruPS have also recorded a significant rally and are now at the highs of this year.

CLO market still strong

As traders returned from the summer, trading volumes increased. The Fed's decision not to taper QE, the US governmental shutdown and the political uncertainty in Italy, did little to effect a tightening in the CLO market.

Twelve new issues totalling $5.8bn printed globally, including 1 Euro CLO, compared to sixteen worth $7.8bn in August.

The bottleneck restricting CLO issuance is the lack of AAA investment

Prytania Investment Advisors welcomes Julie Lohrmann to the investor relations team

Prytania Investment Advisors' marketing team has been enhanced by the addition of Julie Lohrmann as our US marketing advisor.

Julie joins us from Grosvenor Capital Management, where she advised clients across a wide range of hedge fund product.

New fund concepts

Prytania has begun to soft market a more liquid variant of the Athena credit opportunities fund for investors who require monthly liquidity, but are unconstrained by ratings. **This fund will be called Minerva and will target returns of 8-10%.**

We are also discussing a pure play CLO investment fund that can invest in mezzanine and equity securities in both the US and Europe. This fund will be able to select investments from both primary and secondary markets.

Prytania is currently the opportunities available for a Metreta fund with a wider investment profile, offering enhanced returns.

Look for us in the new LAPF magazine where Mark Hale will be offering his views on why the structured credit market still offers superior risk-adjusted returns over many other assets classes.