Market Update

December 2013

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.

November 2013	+ 2.85%
2013 YTD	+ 17.56%
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

November 2013	- 0.56%
2013 YTD	+ 4.60%
2012, from June launch	+ 5.55%

USD Share Class

November 2013	+ 0.64%
2013 YTD, from April launch	+ 6.03%

Metreta

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

November 2013	+ 0.09%
2013 YTD	+ 1.10%
2012, from March launch	+ 4.60%

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A strong close to a strong year at Prytania

With one month of the year to go, Athena has pushed past its target of a net 15% return, with a further rise of +2.85% in November, bringing the YTD net figure to 17.56%. November's trading activity included taking profits on CRE CDOs in the US and UK CMBS and RMBS, and adding to our junior mezz US CLO exposure.

Depending on December's outcome, both Galene and Metreta look set to finish the year having executed their mandates well, averaging over their target returns

In Galene, we switched out of a portion of consumer ABS and RMBS to take profits on price appreciation over the last few months, and into assets including a new issue European CLO position.

Metreta began investing in short-dated second pay consumer and RMBS assets following a change in mandate agreed with investors to increase the underlying yield of the portfolio and to raise the potential for capital gains.

2014 Outlook

Following the first post-crisis Italian CMBS issue, we expect a pickup in European CMBS issuance. We see the revival of the European CLO market continuing despite regulatory headwinds. In 2013, we have seen 20 European CLO deals totalling €7.5bn issued so far, and expect this figure to double to around €15bn in 2014.

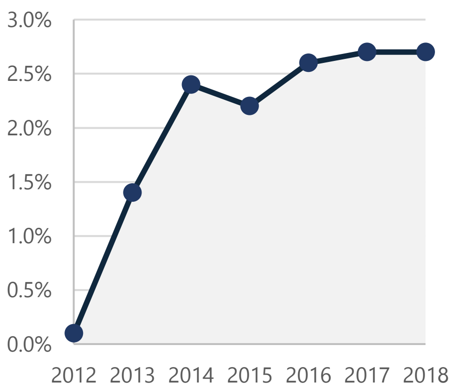
The European SME market is also expected to gain pace. Barclays estimates as much as €7.5bn new issues in 2014, up from €1bn in 2013.

In the US, new issue CLO activity is expected to replicate the strong year we've just experienced, and CRE CDO and US CMBS issuance is expected to continue growing.

UK Autumn Statement

The UK Autumn Statement was generally optimistic for the economy, boosted by the OBR's positively revised statistics.

UK GDP forecast, percentage change on a year earlier. Source: OBR, Dec. 2013



One of the notable features of George Osborne's Autumn Statement was his plan to impose capital-gains taxes on home sales made by owners living outside of the U.K.

From 2015, foreign property investors will have to pay capital-gains tax at the same rate as UK residents with a second home.

"Britain welcomes investment from overseas, but it's not right that those who live in this country have to pay capital-gains tax when they sell a second home, but whose who are non-residents do not", said the Chancellor.

The move is being marketed as a tactic to prevent a housing bubble by slowing down London's booming housing market.

Funding for Lending to wind down

Mark Carney announced at the end of November that the Bank of England would be ceasing to offer banks incentives for mortgage lending, first introduced in June 2012.

The Governor sighted a strong turnaround in the market and the risk of a housing bubble.

"Given the access to credit for households now [...] it would no longer be appropriate or necessary for us to have our foot on the accelerator."

Two likely implications are:

i. More RMBS issuance.
ii. Higher coupons, because the banks will not be borrowing from the BoE at very low rates compared to their depositors.

Attention will be turned instead to helping small firms to borrow.

For the meantime, Help to Buy looks to be staying with us. As opposed to FLS, which directly looks to assist the whole housing market, HTB is directly targeted at:

i. New homes, to encourage development and address the issue of a lack of supply.
ii. Enabling people who can clearly afford repayments, but do not have the large deposits needed to buy property in the UK.

The scheme will be reviewed every September, starting in 2014.

Portuguese real estate ABS resilience in the crisis

A very stringent regulatory regime in favour of tenants limited house price appreciation in Portugal in the run-up to 2008. It also reduced the supply significantly, preventing a decrease in prices through the crisis.

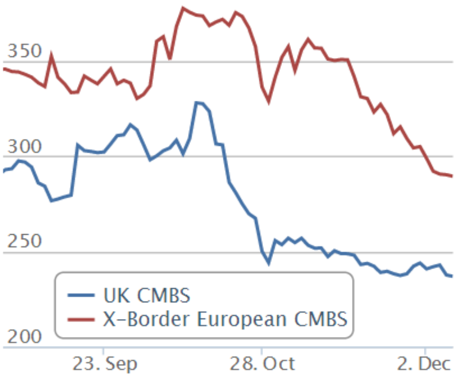
Although the state of the economy affected the affordability factor for mortgage borrowers, this long-lasting lack of supply helped to maintain price evolution on a sustainable path.

First Southern Europe CMBS

The market witnessed the closing of the first Southern European broadly-syndicated CMBS in November, Gallerie 2013 S.r.l.

The deal is backed by non-"trophy" retail assets across Italy. Following this, we are expecting to see issuance of EU CMBS to pick up materially in 2014.

Mean investment-grade CMBS spreads Sep. '13 – Dec. '13. Source: Prytania Solutions



EIB and Santander set up an SME asset securitisation fund

Santander will transfer €235m of SME loans in the vehicle, and the EIB will purchase a senior tranche of bonds issued by this securitisation fund.

Santander will have to use the proceeds of this sale to fund new SME lending on more favourable terms.

This operation is one of the first steps to re-open the SME ABS market in Europe.

Barclays estimates that the sales of these types of bonds in Europe will increase from €1bn in 2013 to €7.5bn in 2014.

CLOs across the capital structure

US CLO issuance now represents the second largest year in history.

As the market continues to soar, it is important not to get carried away and lose sight of absolute values. Detailed analysis of both the structure and the underlying loans should always be sustained to ensure credit quality and that one is not buying CLOs filled with the same collateral and correlated risks.

Stringent manager evaluation and robust stochastic analyses to gather a full loss distribution picture of potential outcomes remain key priorities of Prytania's analyses.

Senior

AAAs remain wide to most other structured finance assets. The new issue AAA market is thin at 140-160 DM, with some tiering between managers.

Given the bullet-proof nature of these tranches, AAAs are one of the most attractive risk-reward opportunities we can currently see across all asset classes.

Mezzanine

There is ongoing demand for mezzanine paper, particularly in secondary trading.

New issue BBBs with 6%+ yield target remain attractive, and there continues to exist the convexity play in European pre-crisis mezz deals as prepayments have picked up and loan prices have risen towards par.

Equity

New issue US equity remains somewhat on hold until AAA liabilities tighten in back to the L +120-130bps area. At that point, US equity can still be attractive from the right deals from the best managers.