Market Update

January 2014

Athena

An actively managed global opportunities fund, exploiting exceptional value across the structured finance universe, targeting a future returns of 12% p.a. over 3 years.

December 2013	+ 0.92%
2013	+18.64%
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

December 2013	+0.69%
2013	+5.32%
2012, from June launch	+ 5.55%

USD Share Class

December2013	+ 1.06%
2013, from April launch	+ 7.15%

Metreta

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

December2013	+ 0.05%
2013	+ 0.95%
2012, from March launch	+ 4.60%

Chief Investment Officer

Mark Hale +44 (0)20 7002 1520
mark.hale@prytaniagroup.com

Marketing Contacts

Lexie Hope +44 (0)20 7002 1526
lexiehope@prytaniagroup.com

Garry McDougall +44 (0)20 7002 1532
gmcdougall@prytaniagroup.com

Hayley Stewart +44 (0)20 7002 1527
hstewart@prytaniagroup.com

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

Strong Year End Sees Total AUM Just Under $1bn

2013 ended on a further high for Prytania, having increased AUM by some 36% over the year, taking total AUM to just under $1bn.

Athena had another strong month in December, rising 0.92%, to finish the year with a gain of 18.64% versus a target 15% return net to investors in 2013. Galene saw a rise of 0.69% and 1.06% in the £ and $ classes respectively, on the month, which delivered a return of 5.32% and 7.15% for the year. Metreta's NAV was up 0.05% on the month, with the gain for the year at 0.95%.

A common theme across the funds was a continued rise in the mark to market levels of our bonds and profits from amortisations. In December, Prytania took advantage of year end conditions to add three new issue CLOs at appealing levels and acquired further attractive Portuguese paper, both autos and RMBS, from the secondary market.

2014 Outlook

The bullish sentiment in the securitisation market remains undiminished after strong gains and we expect another positive year in 2014. The combination of improving fundamentals, negative net supply and the increase in investor asset allocations to the sector is likely to be supportive again in the new year. The most serious challenge looks likely to come once again from policymakers. The threat comes in two main forms; macro-economic policy levers and micro regulatory changes, with the storms gathering ominously in December in both the US and Europe on the latter.

The consensus for 2014 remains positive given further signs of improved economic conditions in the US, the UK and much of Europe. The effects of the ongoing monetary stimulus remain significant in maintaining a positive sentiment even if some comments from the Fed and the Bank of England (BoE) appear to be turning towards our view that the efficacy of quantitative easing now is questionable.

Concerns that had hung over the markets from impasse of US fiscal policy were eased somewhat by the budget deal reached before Christmas by Paul Ryan and Patty Murray.

The worries over central bank support have also dissipated in a number of G10 countries. The long-awaited first sign of tapering bond purchases to $75bn per month by the Fed in December did not produce the turmoil seen in May to July when first mooted by Chairman Bernanke. The slow pace of tapering and the continued low level of the Fed Funds rate have reassured investors there is little threat to the bull market from the FOMC.

Similarly, BoE Governor Carney and the MPC meeting in December has assuaged market concerns that rising growth and falling employment would lead to a tightening of monetary policy.

We believe the consensus regarding both the Fed and the BoE is too complacent through 2014-2016. This may present buying opportunities provided by further bouts of volatility, as seen between May and July 2013.

Our optimism that the ECB would be more stimulative than the consensus was reinforced by the rate cut in November last year. We would not rule out further assistance in 2014 to ensure the recovery gains momentum and assists the rebuild of the financial sector.

Fundamentals may be steadily improving but the low level of inflation across the Eurozone and the strength of the Euro give the ECB room for manoeuvre.

Any damage to sentiment from further adverse political or fundamental developments may therefore be offset by additional help from Frankfurt, so opportunistic buying on any weakness may have to be swift.

The principal threat remains from the unceasing volume of regulatory measures, with a stream of papers being issued in December on both sides of the Atlantic. The authorities continue to show that they have an insufficient understanding of the issues and implications of measures to restrict the structured credit markets. The response of market volatility, lawsuits and frantic lobbying was sadly inevitable.

The extended timescales involved in many initiatives at least give the opportunity for discussion and gradual adjustments. In some instances, however, rules were promulgated with insufficient consultation and almost no time to adjust before year end accounts were imminent, as detailed in the example below.

US Regulatory Uncertainty

The market awaits further clarification on the Volker rule definition of 'ownership interest' which is expected on Jan 15th. Current interpretations might mean that a large number of senior tranches in TruPS CDOs and CLOs with exposure to fixed rate bonds or structured finance securities will no longer be viable investments for US banks.

We have seen some softness in the prices of senior TruPS and CLO bonds but price volatility could create good buying opportunities for our funds in due course.

UK RMBS

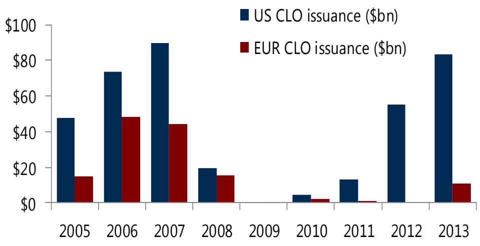
In view of the upswing in the real estate market and growing fears of overheating, the BoE recently changed the eligibility criteria for the Funding for Lending Scheme (FLS) to exclude new residential loans from the calculation of the amounts that can be borrowed. As this measure has started in January, British banks' use of the FLS could be reduced through 2014. The BoE now focuses on encouraging banks to finance British SMEs and corporates. Even though one pound in financing of an SME can generate three pounds in FLS drawdowns, it is very unlikely that this will be sufficient to finance the £23bn in securities that must be refinanced in 2014. We expect to see more issuance from British issuers into the RMBS markets as reliance on central bank support fades, mortgage volumes continue to rise and issuers have to refinance their expiring RMBS deals (e.g. Paragon and Lloyds Bank are addressing the imminent funding requirements from some £5bn of PARGN and PERMM bonds).

CLO Market Rebound to Continue

2013 global CLO issuance represented the 3rd largest year in history behind 2006 and 2007. Total year-end issuance reaching $93.9bn globally, equivalent to 171% of 2012 total issuance.The European market contributed some €7.8bn, or $10.7bn, of this total.

US & EUR CLO Issuance ($bn)

Source: Prytania Investment Advisors, Jan '14



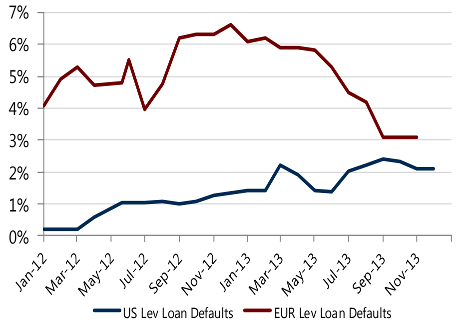
We expect to see a marginal reduction in the US to circa $70bn in 2014, tougher arbitrage conditions and access to attractive loan collateral being some of the main constraints above the impact of new regulation here.

In Europe, the market revival since its post-crisis reopening in February 2013, may continue with some $10bn of issuance in 2014 but higher volumes are possible if the AAA funding problems ease and loan availability improves.

Default volumes in 2013 were concentrated among pre-2008 loans to issuers who were unable to bounce back from the 2008-09 recession.

US vs. EUR Default Rate ($/€ amount)

Source: Prytania Investment Advisors, Jan '14



The US leveraged loan default rate was up 2.1% in 2013 up from 1.3% in 2012, but still below the historical average (3.2%). Default rates are expected to remain benign for up to the next 24 months sitting at circa 2% (excluding TXU which already priced as a default,once it finally files, will increase the default rate by 3 percentage points such is its size in the index).

Prytania Solutions

If you'd like to receive the new Prytania Solutions quarterly update please [click here to subscribe].