PRYTANIA INVESTMENT ADVISORS LLP

Market Update

March 2014

Athena

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

February 2014	+ 0.44%
2014 YTD	+1.93%
2013	+ 18.64%
2012	+ 32.34%

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	
February 2014	+0.28%
2014 YTD	+ 2.07%
2013	+5.32%
2012, from June launch	+ 5.55%

USD Share Class	
February 2014	+ 0.66%
2014 YTD	+ 3.25%
2013, from April launch	+ 7.15%

Metreta

Senior structured finance assets, seeking stable returns of L+150bps p.a.

February 2014	+ 0.16%
2014 YTD	+ 0.24%
2013	+ 0.95%
2012, from March launch	+ 4.60%

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Strong performance sees further Athena fund inflows

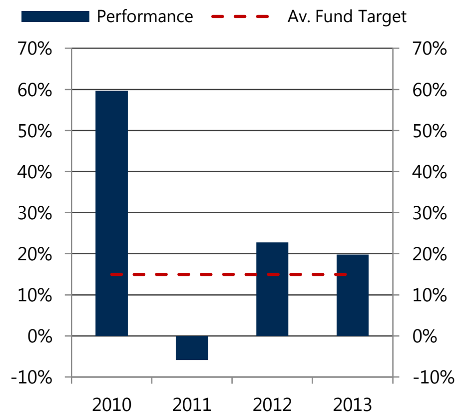
We are pleased to receive a significant order from a US Pension Fund for Athena, our long-running opportunities fund, increasing total fund AUM by 18%. The potential for further gains in structured finance assets in 2014 should continue to attract investors given the high risk-adjusted returns still available compared to other asset classes.

Fund & Trading Activity Updates

Athena – In February, Athena purchased an original BBB-rated Spanish SME CLO position along with an original BBB European CLO position, both of which provide appealing returns to maturity from generally clean portfolios of risk with the convexity potential if an early call was exercised. We added to an existing European CLO position at an attractive price and also committed to a new issue single-B US CLO position from a strong manager with relatively high credit enhancement and a high running yield. Throughout we continued to bid actively on robust TRUPS and CRE CDOs tranches in the US and continue to find enticing opportunities in these two sectors.

Athena CLO Total Return

Source: Prytania Investment Advisors, Mar '14

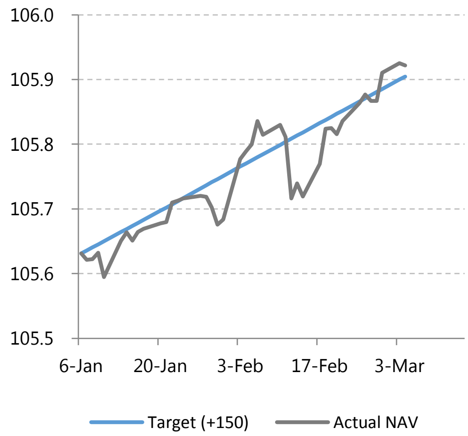


Galene – February saw a range of purchases to capture value in the secondary market, across UK and European ABS, a Spanish SME CLO and CLOs from both Europe and the US. We took profits in an original single A rated European CLO after a strong rally captured most of the upside we had projected. With the new issue pipeline picking up, some interesting switch opportunities may develop as secondary spreads continue to tighten.

Metreta – after a flurry of buying following January's large fund inflows, February was still very active, with 12 trades settling in the month. Portfolio optimisation continued, taking profits on seasoned paper that no longer offered sufficient yield after prices had risen, taking advantage of attractive new issues as the market reopened. Management of short dated positions also allowed us to deploy expected redemption proceeds across a wider range of collateral, increasing returns and adding diversity without increasing credit risk within the portfolio. Such activity has allowed us to hit the revised target return of 7 day LIBOR + 150bp p.a.

Metreta NAV, Jan 2014 - Present

Source: Prytania Investment Advisors, Mar '14



ABS liquidity as good as Covered Bonds

An AFME (Association of Financial Markets in Europe) research report, published this month, uses bid-offer spreads to demonstrate how some non-residential-mortgage-backed ABS have been more liquid than Covered Bonds (CBs).

The report examined the European Banking Authority's analysis and highlighted the lack of focus on bid-offer spreads as a liquidity measure, concluding that in fact

ABS bonds do not differ in liquidity, certainly in recent years, to CBs and, thus, should be included in the definition of liquid assets for calculating the Liquidity Coverage Ratio (LCR).

We must highlight some uncertainty around the quality of some of the data used in both reports (e.g. the AFME study uses indicative prices) but still hope reports like this will aid a much called for change to the rules.

Coincidentally, markets also heard news of a European Commission report that they might consider "future increases in liquidity of a number of securitisation products" when they review the LCR standards.

Actions by the authorities across the world since the US sub-prime bubble burst in 2007 continue to penalise the ABS markets. While our funds have benefitted from the opportunities this creates, we foresee some gradual normalisation of the more perverse rulings that were introduced post the crisis as the authorities reflect both strong fundamentals and the important role that securitisation plays in financing economic activity. Spreads may tighten closer to the pre-crisis levels eventually but liquidity should also improve if officials reverse some of the adverse regulations in time.

Regulatory uncertainty remains for US CLOs…

In the US, the market is still waiting for additional signs that the turmoil from the latest regulatory tightening has promoted a necessary reconsideration. In the absence of further clarity from the regulators on December's Volcker rule bombshell, CLO participants have placed increased hopes on politicians to solve the problems. Statements emerging from Capitol Hill, especially from the House Financial Services Subcommittee, have been encouraging with respect to such issues as the grandfathering of all pre-2014 CLOs and ensuring that banks are not inadvertently caught in language governing a 'control provision' if there is an ability to replace the CLO manager.

…but market activity revives

After the hiatus induced by the Volcker Rule, the US CLO primary market picked up strongly in February. We recorded 19 deals in our database, with total volumes exceeding $9bn, one of the highest months ever since the credit crisis.

We still discussing possible levered and unlevered versions of a senior CLO fund with clients to take advantage of the widening of spreads as a result of the uncertainty created for US banks following the ongoing clarification of Volcker rule.

The European market continued to see strong demand for both new issue and existing CLOs. We still expect total issuance of circa €10bn this year despite the constraint of loan collateral supply and the risk retention rules. New issue spreads are now tighter than US deals, an anomaly that is mainly a technical phenomenon given that US fundamentals are still stronger.

We continue to favour the better value available in primary US deals, however, and are very selective when buying European broadly syndicated CLOs.

Europe shrugs off adverse news

Our warnings of the potential dangers in the junior tranches of European paper from adverse credit migration and low granularity in comparison to US CLOs, have been more readily understood in recent weeks in the wake of the shockwaves emanating from the suspension of interest payments by Vivarte. The long-awaited denouement for this struggling French retailer caused a sharp sell off in distressed names, with several more widely-held obligors under pressure from such problems as covenant breaches, declining business and refinancing needs.

Despite turmoil in the Ukraine, the high yield volatility and, specifically, the heavy concentrations of Vivate in many European CLOs (e.g. in excess of 2% in some cases), there was little flagging in the demand for junior tranches from SF investors.

However overall credit conditions are improving in Europe as the continent climbs out of recession. The turmoil in Ukraine may be the next obstacle hindering risk assets from any significant tightening.

Praise for Spanish reform

Moody's upgraded Spain's rating to Baa2 with a positive outlook.

Spain's efforts to clean up its banking system have paid off with funding costs reducing and valuations improving. In 2012, it implemented financial sector reforms which included identifying troubled loan exposure and stress tests, using 'bail-in' on subordinated debt to partially recapitalise banks, and transfer the most problematic real estate assets to Sareb (the company responsible for managing assets from the four nationalised Spanish financial institutions).

The increased transparency has encouraged foreign investors to return to Spain in substantial numbers. Both Athena and Galene have bought SME CLO assets since last year in anticipation of ongoing improvements in fundamentals. A higher sovereign rating should also give more headroom for SF deals to be upgraded.