Athena

An actively managed global opportunities fund, exploiting exceptional value across the structured credit universe, targeting future returns of 8-10% p.a. over 3 years.

April 2015	+ 1.18%
2015 YTD	- 0.19%
2014	+ 3.01%
2013	+ 18.64%
2012	+ 32.34%

Galene

Actively managed global fund focusing on investment-grade structured credit assets, targeting returns in excess of 1M EURIBOR+300bps p.a.

GBP Share Class

April 2015	- 1.74%
2015 YTD	- 1.59%
2014	+ 7.26%
2013	+ 5.32%
2012, from June launch	+ 5.55%

USD Share Class

April 2015	+ 1.95%
2015 YTD	- 2.84%
2014	+ 2.20%
2013, from April launch	+ 7.15%

EUR Share Class

April 2015	+ 0.39%
2015 YTD	+ 6.86%
2014, from April launch	+ 7.04%

Metreta

Senior structured credit assets, seeking stable returns of EURIBOR+100bps p.a.

April 2015	- 0.06%
2015 YTD	+ 0.36%
2014	+ 1.69%
2013	+ 0.95%
2012, from March launch	+ 4.60%

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Anglo-Saxon growth chilled so easy money (over) heating to continue?

The latest GDP data releases in the US and the UK caused a collective shiver across the markets as expectations that these economies would continue to dominate the leading countries' growth tables through 2016 shrivelled in the icy blast of poor Q1 statistics.

US GDP growth in Q1 of only 0.2% was much lower than consensus estimates of 1%. We still believe that a number of temporary factors suppressed Q1 activity, not least the severe weather. Growth will accelerate closer to 3% in the remainder of 2015, including higher business and housing investment, as well as personal consumption, contributing.

In the UK, Q1 growth of 0.3% was far weaker than expected and caused a significant retracement in expectations for 2015. We have consistently argued against excessive gloom around UK growth for several years now, including an observation that we often felt the GDP numbers were understating the true underlying momentum in activity. The initial indicators for Q2 have shown a mixed picture, with a slowdown in manufacturing balanced by the booming services sector. The PMI survey for the latter confounded expectations of a drop to hit 59.5 in April, the highest in eight months, from 58.9 in March.

The stunning victory of the Conservative Party in the elections on 8th May has removed many of the short-term fears that may have retarded growth and we expect stronger momentum through the rest of the year in excess of an annual rate of 2.5%.

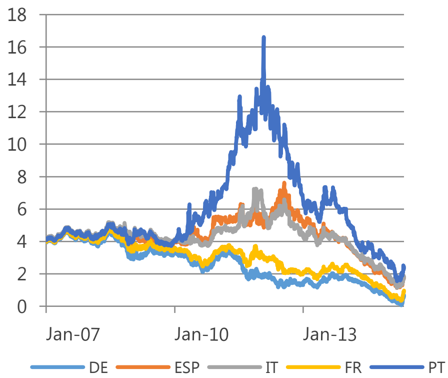
Weak growth, low inflation and a tighter fiscal stance has lessened fears of tightening from the Fed and the BoE. We continue to stress the risks that may stem from short-term rates in the next year and a half increasing by more than is currently expected in both countries. Even a modest 25bp hike by the FOMC in September, for example, has a symbolic element that helps to herald the end of the long run bull market in bonds.

Eurozone bond rout highlights the strengthening recovery

By contrast, optimism about the Eurozone recovery has strengthened steadily despite some uninspiring data releases in many countries and the ongoing concerns of a Greek default. The European Commission has just raised its forecast for the growth in the Eurozone in 2015 to 1.5% despite slashing its projection for Greece, from 2.5% in February to 0.5%, buoyed by the "significant impact" the ECB's QE programme is having on financial markets, easier fiscal policy, lower oil prices and the depreciation of the euro. Significantly, the forecast of deflation in February has been revised up to +0.1% in 2015 and to 1.5% in 2016. The latter is still comfortably below the ECB's target of just under 2 percent. The sharp jump in Government Bond yields despite substantial central bank QE support has caught markets by surprise. Technical factors may have exacerbated the recent moves, as in commodities, but the longer run need for many investors to reduce the sensitivities to higher rates along the curve in the medium- to long run is increasingly clear.

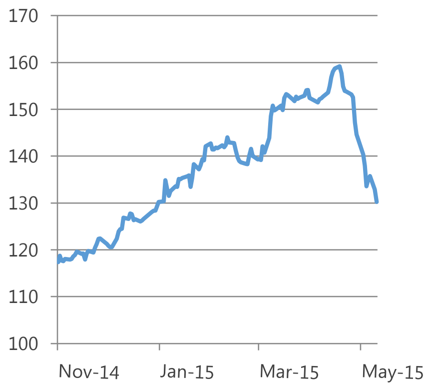
10yr Government Yield (%)

Source: Bloomberg, Prytania



Price of 30yr Bund

Source: Bloomberg, Prytania



PRYTANIA INVESTMENT ADVISORS LLP

Collateral risk properly assessed?

Since last year, all new-issue EU and UK CMBS deals have been in great demand. This is especially true of the junior part of the capital structures as they remains one of the few areas outside the CLO sector that still offers high spreads. We were, thus, not surprised that TAURUS 2015-DE2 securitisation, backed by a prime, hotel/office building located above the railway station at Frankfurt Airport, attracted significant investor interest. Senior bonds were over-subscribed over two times and the junior bonds over three times, with the whole capital structure attracting above-par bids the day after closing. We bought the Class B, C and D notes for our funds. The demand for mezzanine bonds was also evident in another CMBS deal, ANTARES 2015-1, which was backed by an office/retail portfolio in Northern Britain, with the junior bonds over subscribed two times. We had several concerns relating to the collateral and the structure of the deal, however, and declined the transaction.

It was interesting to see subsequently that worries such as the large proportion of office properties located in Aberdeen and let to oil and gas majors, led to investors in the senior part of the capital structure being cautious. The bank eventually had to pull the deal as spreads deemed sufficient to compensate investors properly for the risk probably appeared unattractive to them. This pushback is a clear sign that the European CMBS recovery has not impeded its efficiency in pricing new issue risk.

UK non-confirming RMBS new issues

Two new issue UK non-conforming transactions were placed in the market, ALBA 2015-1 and WARW 1. The Co-operative Bank securitised £1.5bn of their non-core optimum portfolio. This is one of the largest UK non-conforming transactions, including pre-crisis deals, seen. Pricing the tranches below par and the 8 years mortgage seasoning, among other factors, attracted significant investor appetite across the capital stack. UK non-conforming assets remain one of the widest priced asset classes, in particular for senior tranches, in ABS.

High demand for European Mezz CLOs causes aggressive tightening

The over-riding concern Prytania experienced at CLO conferences attended in New York (IMN) and London (Creditflux) through April and May 2015, away from risk retention, was the weak pipeline for leveraged loan issuance on both sides of the Atlantic. A sharp decline in LBO and M&A activity, dropping below 30% of new loan originations for the first time in 10 months, is just one example of the restricted universe of new loans CLOs are currently able to buy.

The resultant low supply and high demand has meant that 63% of performing US leveraged loans are now bid above par at the end of April 2015 and similarly, in Europe about 55% of loans in the index. The surge in prices brings the embedded call option in leveraged loans more in-the-money and hence should fuel more loan repricings. Coupled with the ongoing impediment from CLO manager risk retention, this points to a reduced level of CLO issuance through the remainder of the year.

Given loan spreads are so tight, CLO liabilities have to tighten further otherwise the market faces a bottleneck with an arbitrage that does not work for equity tranche investors. A portfolio of highly priced loans generating a spread that is poised to reduce further and call risk which can erode par is not a compelling risk/reward for new equity investors. We continue to look to mezzanine debt for better risk adjusted value. We have already seen US and, especially, European CLO junior mezz tranches tighten aggressively in recent times even more rapidly than we had hoped for. We continue to project further spread tightening in the months ahead and lower liability costs for the senior parts of the capital structure in particular would make a significant contribution in ensuring a stronger supply of new issues in the year ahead barring any macro shocks.

The rise and rise of P2P lending

UK P2P lenders received a significant boost in April, Funding Circle, which originates SME loans, raised $150m at a $1bn valuation. A bank is providing warehouse financing with the view to securitise Funding Circle's assets. Landbay received a £250m warehouse line to originate UK BTL mortgages with the view of selling the assets or securitising them. The dearth of low yields and little issuance is pushing investors into alternative assets. More P2P originated whole loans pools or securitisations are to be expected over the next 18 months. With the ECB pushing ABS issuance to facilitate a transition from bank based financing to capital markets based financing, P2P/direct lending could partially fill the gap left by deleveraging banks.