PRYTANIA INVESTMENT ADVISORS LLP

Market Update

June 2015

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.

May 2015	+ 3.31%
2015 YTD	+ 3.11%
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

May 2015	- 0.03%
2015 YTD	- 1.63%
2014	+ 7.26%
2013	+ 5.32%
2012, from June launch	+ 5.55%

USD Share Class

May 2015	- 0.98%
2015 YTD	- 3.79%
2014	+ 2.20%
2013, from April launch	+ 7.15%

EUR Share Class

May 2015	- 0.12%
2015 YTD	+ 8.12%
2014, from April launch	+ 7.04%

Metreta

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

May 2015	- 0.11%
2015 YTD	+ 0.25%
2014	+ 1.69%
2013	+ 0.95%
2012, from March launch	+ 4.60%

Marketing Contacts

London Office: +44 (0) 207 002 1555

U.S. Office: +1 312 303 0244

investorrelations@prytaniagroup.com

Surge in Athena NAV highlights ongoing value in structured credit

The relative value of structured credit in a world of generally high prices and/or volatility across most conventional sectors has been reinforced over recent months. The 3.31% gain in the Athena Fund's NAV in May was partly driven by realised profits on a number of bond sales as we significantly changed the asset allocation of the portfolio to reflect the evolving risk/reward in ABS and CDO markets in the US, UK and Europe and the liquidity needs of our investors.

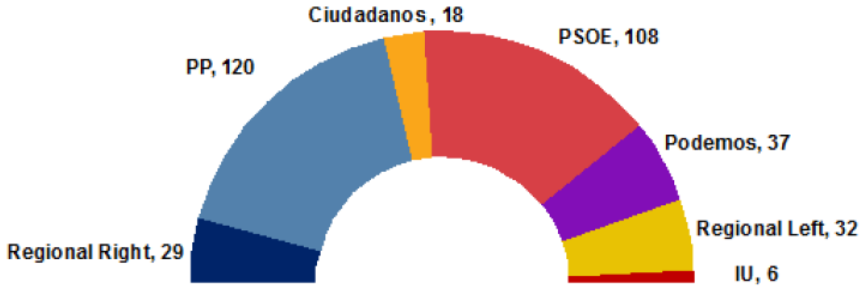
The portfolio rebalancing included taking profits in a number of the smaller positions in areas such as US student loans and European SME CLOs. While we still like both sectors fundamentally, prices had risen so close to par that the forward projected returns were no longer as attractive given Athena's yield targets. Similar considerations led us to book gains in some of more senior CRE CDO tranches but we remain optimistic for further strength in US property markets so the Fund retains a high allocation to the sector. We have also raised weightings to US CLO mezzanine debt to reflect the appealing risk and reward still available and expect that there will be more opportunities to deploy the cash reserves we have generated in this area into the summer. In European CLOs, by contrast, we took profits on our debt tranches as values had risen some 10% in a few weeks since our opportunistic purchases at the wide point of spreads over the winter. Finally, we rebalanced our TruPS holdings to maintain diversity, optimise the risk adjusted yields and, in particular reduce weightings in super senior tranches which had performed well.

Spanish regional and municipal elections

On 25th May Spain went to the polls to elect their mayors and, in 13 out of 17 regions, their regional representatives. The most striking aspect of the elections was the growth of the two political newcomers: Podemos (far-left) and Ciudadanos (centre-right). One of the manifestations of this rise was the election of Ada Colau – an anti-eviction activist close to Podemos – as Barcelona's mayor. Rises in cases of borrowers that "can pay but won't pay" their mortgages as they know that they will keep their houses might increase, negatively affecting the performance of RMBS with large collateral concentration in Catalonia that we have avoided as much as possible.

Projected national election outcome based on recent local election results

Source: El País, RBS



The PP (right) lost a lot of support but it remained the party with the most votes, with a small lead over the PSOE (left). The two-party system is clearly under threat, as no one party will be able to govern in many of the regions and the alliances that will have to be formed at the local level will be interesting to watch to infer possible scenarios for the upcoming national election in Q4 this year. Despite having belligerently criticised both the PP and the PSOE, Podemos seems likely to choose the "lesser of two evils" and accept forming alliances with PSOE in a leftish bloc. The influence that the far left party could have on Spanish politics will be seen as negative for Spanish assets and the added volatility might hinder the economic recovery. Ciudadanos has a very liberal and business-friendly line, in addition to their anti-establishment and anti-corruption stance. Should their influence grow further in the next six months, they would be a much more market-friendly 'kingmaker', whether they support the right or the left to form a national government.

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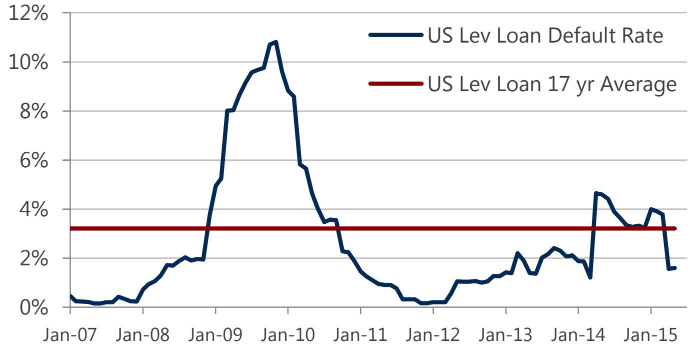
Benign default environment for CLOs

The US leveraged loan default rate has dropped significantly from 4.0% to 1.6% due to the removal of Energy giant, TXU from the 12-month default calculation. Away from TXU ($18.4bn) and other default giant Caesars ($17.8bn), default volume has remained benign, averaging $1.2bn per month excluding Caesars over the last 13 months. This benign environment is expected to continue over the next few years albeit we do expect defaults to pick up in the Energy and Coal sector. Default activity through 2015 has been dominated by these sectors, with 7 Energy companies and 2 Coal companies having defaulted and accounted for 53% of the YTD default volume. An interesting development over the last 3 months has been the increase in distressed exchange activity particularly across the Energy sector and which are incorporated in default rate statistics. In May for example 3 Energy companies completed distressed exchanges in which bond/loan holders received less than par.

Away from Energy, loan default rates are expected to range around 1.5% for 2015 and 2016, well below the long term average. Default risk however continues to rise in the Energy sector and therefore a 2% default rate going forward seems a prudent assumption. Worthy of note is the insulation appreciated by the loan market given Energy's small 4% market weighting which contrasts to the 15% market weighting Energy enjoys in the HY market.

US Leveraged Loan Default Rate ($ amount)

Source: Prytania Investment Advisors, June '15

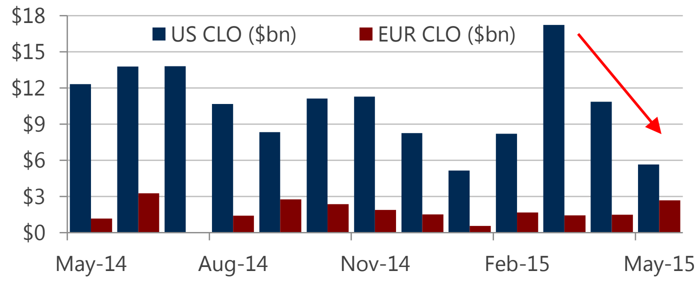


Weak leveraged loan issuance tightens CLO spreads

As mentioned in previous editions, the over-riding concern Prytania experienced with US CLO managers away from risk retention was that of the weak leveraged loan issuance pipeline. As we predicted, low loan issuance volume has transpired into a reduction in US CLO new issue supply, which consequently has already, and should continue to, serve as a precursor to CLO spread tightening. Spreads have already come in up to 60bps in the mezz with further room to run and CLO AAAs have been seen as tight as L+139, in from L+150 at the turn of the year. Market forecasts are resetting with a view that US CLO AAAs find a bid at L+135 which makes the current levered AAA focus Prytania is employing at L+150 an attractive opportunity.

US & EUR Monthly CLO Issuance ($bn)

Source: Prytania Investment Advisors, June '15



Regulators support alternative lenders

EBA, FCA and EC all participated in the inaugural alternative finance & marketplace conference in London this May. The message those three regulators are sending is simple and clear: firstly they want a capital markets union (CMU), secondly they would like to see more SME financing, and thirdly P2P marketplaces will be lightly regulated until their behaviour is egregious or provides a meaningful share of overall financing. At the current growth rate of the marketplaces, more regulation or guidance is likely in three years' time. The FCA will bring out further guidance by early 2016.

Some banks have teamed up with marketplaces to put forward any SME rejected by them for possible financing through the P2P network and the UK government is currently investigating a mandatory referral scheme. With the government allowing tax free returns for the first £1,000 on peer-to-peer earnings from April 2016 onwards, larger retail inflows into the marketplace platforms are tp be expected according to Blackrock. Moody's recently discussed their thought piece on how to rate marketplace originated SME ABS. With Funding Circle likely to bring the first marketplace originated SME ABS, more structured finance issuance is likely in the future.