Market Update

October 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.

September 2015	- 3.38%
2015 YTD	- 0.08%
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

September 2015	- 0.04%
2015 YTD	- 1.41%
2014	+ 7.26%
2013	+ 5.32%
2012, from June launch	+ 5.55%

USD Share Class

September 2015	- 1.73%
2015 YTD	- 4.09%
2014	+ 2.20%
2013, from April launch	+ 7.15%

EUR Share Class

September 2015	+ 0.33%
2015 YTD	+ 5.16%
2014, from April launch	+ 7.04%

Metreta

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

September 2015	- 0.38%
2015 YTD	- 0.53%
2014	+ 1.69%
2013	+ 0.95%
2012, from March launch	+ 4.63%

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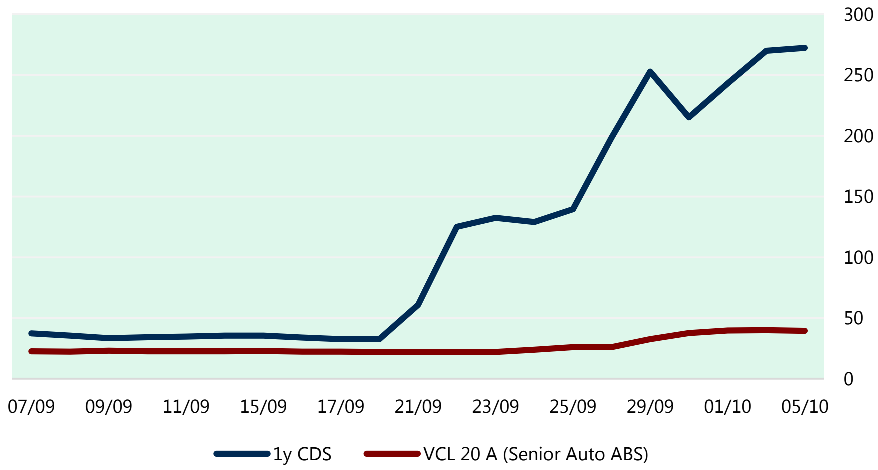
If only everything in life was as reliable as ABS bonds!

The benefits to investors of the relative safety of secured ABS versus unsecured bonds or equities was highlighted once again by the Volkswagen scandal in September. Confirmation that Europe's largest auto maker had cheated on its vehicle emission tests in the US set off turmoil in the markets and its CEO had to resign. VW is still assessing how deep the related losses will be, with the damage likely to extend at least two years. The fines and recall costs that will follow in the US are only the tip of the iceberg. Class action lawsuits from angry customers for misselling might follow, especially if the fraud also implies higher fuel consumption for each vehicle. Moreover, various actions have also been launched in Europe from regulators and courts to see how far the fraud went and how widespread the problem is within the industry. The latest research on that situation estimates that Volkswagen might suffer between €25bn (the entirety of its current cash position) and €68bn of losses directly related to the scandal.

Volkswagen has been a regular issuer of ABS backed by Auto loans or leases in various jurisdictions. Below is an example of the relative stability of the ABS investment compared to the corporate risk: the 1-year CDS spread on the senior unsecured corporate debt and the spread on the German Auto leases senior ABS debt started the month respectively at 37 bps and 23 bps, and ended it at 272 bps and 39 bps. ABS structures work as they are supposed to, isolating the collateral risk that investors are exposed to from the corporate risk itself. Paradoxically, one side effect of this performance differential might be an increase in Auto ABS issuance, given the much cheaper cost of funding for the company.

Volkswagen spreads over the last month
Source: Prytania Investment Advisors, October 2015



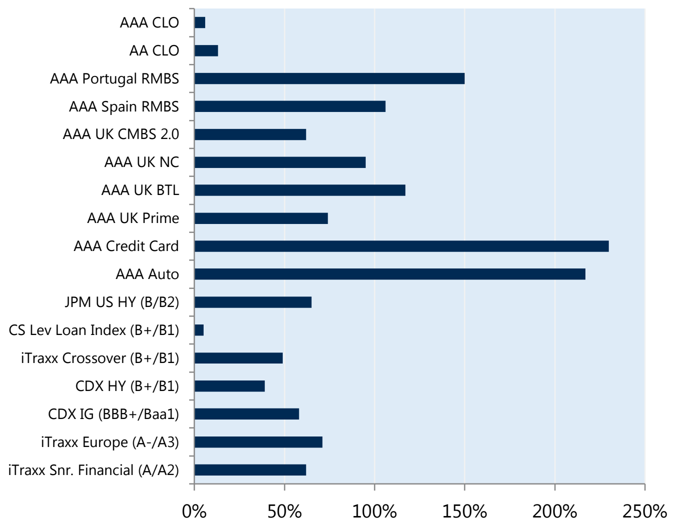
CLO Stability

Few risk assets in the market have weathered the storm of volatility as well as AAA CLOs. September 2015 was a spectacularly volatile month for markets across the globe, one which saw a nervous Fed, weakness in credit and deterioration in liquidity. The headlines were made by idiosyncratic risks such as the VW emissions scandal or the collapse in sentiment towards leading mining companies but we believe investors should focus on the underlying risk environment. The evidence of violent swings in the markets or the further slowdown in China damaging growth in the US or European economies is mixed to date. Such vital signs of weakness that have been observed, such as poor September US non-farm payrolls, and the more dovish statement of Janet Yellen after the FOMC meeting, have reinforced the spread of the global risk-off sentiment and bolstered expectations of interest rates remaining low for a longer period of time.

PRYTANIA
INVESTMENT ADVISORS LLP

Against this backdrop and given the pressure that has increased on the ECB and the Bank of Japan to be more stimulatory in their policies it is interesting to observe which asset classes have weathered the storm better than others.

Percentage change in spreads from 2 year tights
Source: Prytania Investment Advisors, October 2015



AAA CLO spreads have proven their resilience compared to those of similar structured finance assets. The modest 5-10bps widening in senior CLO spreads compares favourably with peripheral RMBS, UK non-conforming RMBS, credit card and auto spreads which have seen a more than doubling in spreads. Technical reasons are primarily responsible, particularly the impact of the ECB's ABS purchase programme (ABSPP). Upon the announcement of the programme, spreads dropped sharply as significant buying occurred amongst dealers and hedge funds. As the disappointing level of actual ECB purchasing transpired over the year, combined with the recent global risk-off sentiment, ABS spreads gapped out. CLOs on the other hand have never been eligible for the ABSPP and so never enjoyed the initial spread tightening. The reduction in CLO issuance since April amidst good fundamentals in most sectors has also helped CLO seniors to be a clear outperformer in terms of volatility. Prytania continues to invest in this part of the capital structure, where credit risk is all but non-existent, there remains liquidity and volatility is likely to remain lower.

Regulatory reforms to boost European SC

The European Commission has, once again, affirmed its intention to streamline regulation in the European structured credit market, this time by announcing a tripartite dialogue with the European Parliament and European Council. Even more aggressively - given the pace at which European political and regulatory bodies move - a finalised proposal is due to be submitted to the European Council for approval into law by the end of 2016.

There are a number of policy statements that address discrepancies across regulatory regimes, the most relevant to us, for now, being those focused on Due Diligence and Grandfathering. In short, proposed revisions increase the due diligence burden on an investor, a potentially material additional cost for those without existing infrastructure. One solution would be the outsourcing of the investment and monitoring process to specialised managers.

Grandfathering has also been addressed, with a clearer statement saying the new regulations will not be applied retrospectively. We see this as a very positive move, eliminating investor uncertainty around seasoned secondary paper thereby improving liquidity and, potentially, driving yields tighter.

The Re-emergence of the TruPS market?

At the end of September, the first post-crisis US 'TruPS' CDO was sold, a seminal event for a market that remained closed since the crisis. The transaction, rated by Moody's, has a simple two-tranche structure with a fixed rate coupon on the senior notes and is backed solely by subordinated bank debt. While slightly different in format to the previous generation of TruPS deals, the emergence of paper from a previously dormant sector has generated considerable interest.

There are discussions about another originator who is possibly working on a similar transaction but it remains to be seen if those rumours will materialise given previous disappointment. The reopening of this market could potentially, over a period of time, help increase the prepayment speeds in the pools of the legacy transactions that our funds own while it could also attract attention from new investors who have appetite for senior IG-rated notes offered at a fixed coupon north of 5%.