Athena

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

December 2015	-2.01%
2015 YTD	- 6.46%
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+400 bps p.a.

GBP Share Class

December 2015	+2.25%
2015 YTD	- 1.02%
2014	+ 7.26%
2013	+ 5.32%
2012, from June launch	+ 5.55%

USD Share Class

December 2015	+ 0.50%
2015 YTD	- 6.17%
2014	+ 2.20%
2013, from April launch	+ 7.15%

EUR Share Class

December 2015	- 2.24%
2015 YTD	+ 5.18%
2014, from April launch	+ 7.04%

Metreta

Senior structured credit assets, seeking stable returns of EURIBOR+175bps p.a.

December 2015	+0.54%
2015 YTD	- 0.03%
2014	+ 1.69%
2013	+ 0.95%
2012, from March launch	+ 4.63%

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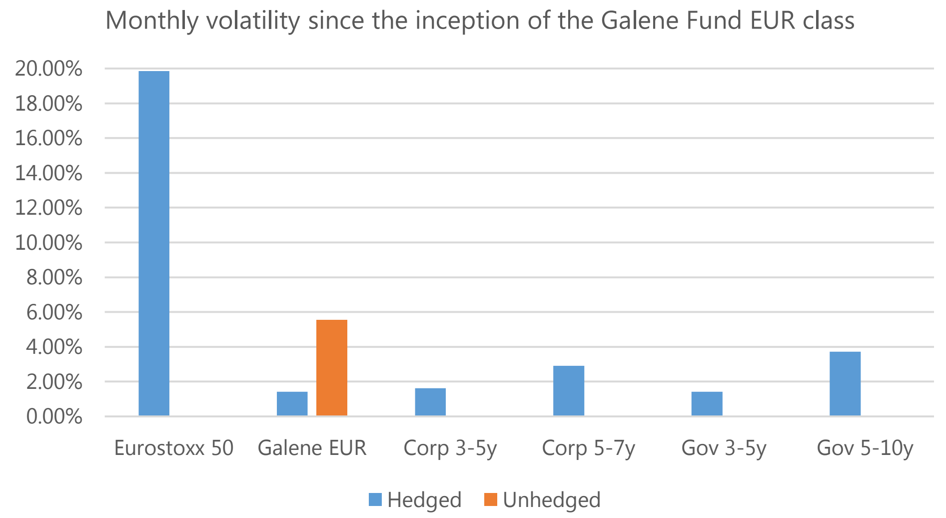
Structured Credit's Triumvirate: Low Volatility, Low Correlation and High Returns

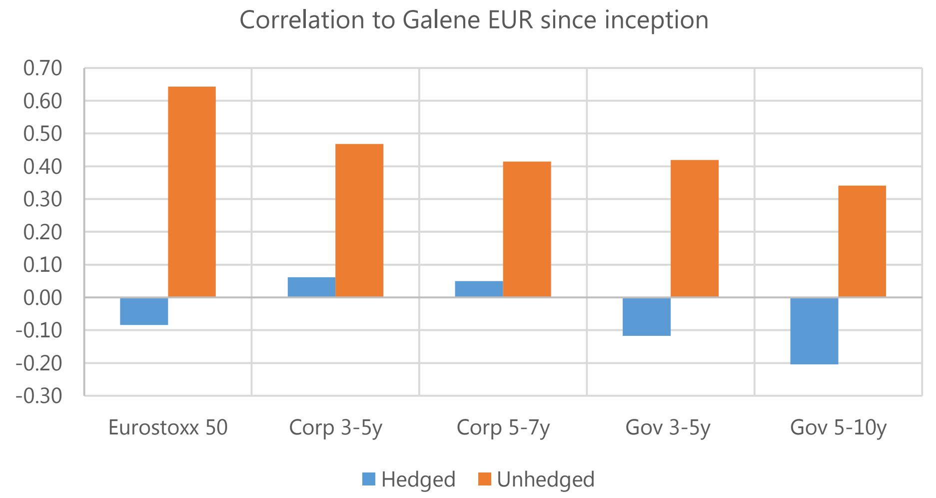
Following the widening of spreads on structured credit assets, we have been able to increase the target returns on our suite of active funds to L+175bps for Metreta (from L+100bps), L+400bps for Galene (from L+300bps) and 10% for Athena (from 8-10%). This widening has largely occurred on the back of a technical supply-demand imbalance rather than actual credit concerns, as illustrated by the fact that rating agencies upgraded twice as many bonds as they downgraded last year.

Volatility has also been one of the lowest across all major asset classes (see below for the Galene EUR share class as one example), in line with short dated IG-rated corporate and government bonds, while spreads are significantly higher. This should be a strong driver of excess risk-adjusted returns going forward.



Source: Prytania Investment Advisors, January 2016

In addition, correlations between structured credit (illustrated by Galene's EUR share class below) and equities, bonds or rates have been relativey low too, in particular when hedging the FX element of the Fund's performance.



Source: Prytania Investment Advisors, January 2016

PRYTANIA INVESTMENT ADVISORS LLP

Political Risk Rises in Portugal

Portugal was one of the worst affected countries by the debt crisis in peripheral Europe in 2010-2012, and the government was forced to seek a bailout from the EU/IMF. After a series of difficult reforms, GDP is now growing at levels close to the 2000 and 2007 peaks. Unemployment has decreased from 18% in 2013 to less than 12% now, a level not dissimilar to core countries such as France while the Current Account has improved from a deficit of 10% in 2010 to a surplus of 2% of GDP.The budget deficit has been cut from 10% in 2010 to 3% of GDP now, well inside both France and the UK. The country has successfully regained market access and exited EU/IMF supervision last year.

Despite the improved fundamentals and policy adjustment, there can be no complacency when it comes to investing in Portuguese assets given the challenges ahead. Spreads have been volatile recently on the back of the October general election: although the centre-right party has remained the largest individually, the left and far left gained sufficient support to allow them to form a government. This involvement of the extreme left was seen as an unlikely and negative outcome, increasing risks and uncertainty. This volatility has been tamed for now by the strong macroeconomic environment and by the pledge from the new centre-left PM to commit to a minimum of fiscal discipline. A number of fundamental divergences within the coalition could make this government very unstable, and any significant reform seems unlikely to gather enough support in the short-term.

The other main remaining issues are the large public and private stock of debt – respectively 130% and 200% of GDP – along with the poor asset quality and capitalisation of the banks. The first issue can be resolved over the years by growing GDP and maintaining surpluses, and the accommodative policy of the ECB is definitely helping that effort. The banks have been a long standing source of concern but substantial steps have finally been taken in 2015. The government recapitalised Banif and Novo Banco/Banco Espirito Santo and the Bank of Portugal also forced their shareholders and bondholders to realise losses before the new bank resolution rules would come into force in 2016. In particular, some senior bondholders in Novo Banco recently saw their claims transferred back from the 'good bank' to the 'bad bank', and the price of their bonds drop from par to the single digits. That type of action - and the associated loss – does not affect RMBS bonds, such as those we own in Galene, issued by bankruptcy remote vehicles.

Relative Value in US SFR Bonds

With the market now largely pricing the US Single Family Rental deals (SFR) to full extension, instead of to their initial 2 year call period, the volatility in the senior is likely to be lower going forward as the downside of no call being priced in that we have long been concerned about is now better appreciated. AAA seniors are currently traded at an attractive 170 DM per JPM's SFR index. Only legacy UK Non-confroming RMBS deals provide a similar discount margin for such collateral. Relatively cheap leverage is available which allows returns in the 5% to 10% region depending on the chosen haircut. While the deals do not have a hard amortisation and, thus, refinancing risk remains in the deal, the increase in house prices should reduce the ultimate refinancing risk. Exit options are a portfolio sale to a competitor and sale to new home owners. Given typical house price appreciation in the range of 5-12% nationally since the SFR deals were issued, the effective AAA LTV will have dropped to 25-32%, which will shelter AAAs tranches from any significant house price declines in the future. With AAA SFR tranches yielding more than single A rated tranches of the US agency risk retention deals, we consider this a good entry point for generating consistent returns paired with significant downside protection.

The Impact of Fed Tightening on Prytania Funds

The recent increase of the Fed Funds rate by a quarter of a point in December was a well anticipated move but the Fed's forecasts are currently guiding the market towards four additional quarterly increases in 2016 (we continue to project a maximum of three hikes if recent stresses subside). If this is to materialize, then the cumulative Fed hikes will have a significant impact on the MTM of long-duration US fixed rate securities. The Prytania managed funds currently hold only floating rate bonds so their investors stand to benefit from such rate hikes. As a case in point, we were looking to increase the exposure in Galene on a floating rate security in late December at a cash price in the low 60s. The coupon on this relatively senior and seasoned bond is 3mL+0.45% but if Fed increases rates in 2016 by an additional 1% then by the end of this year the running yield on this bond will be close to 3%, which is pretty generous for a IG-rated bond with over 55% hard subordination. The other side of the coin is the long-dated fixed rate US CMBS market, which has already seen material weakness in 2015 but Prytania's funds have zero exposure to that asset class since we have identified both the direct risks in CMBS and that the floating-rate CRE CLO bonds as a safer and better value proposition.