



# Algebris Financial Equity Fund (UCITS)

I EUR

August 2020

## Terms

<b>Size (€):</b>	45m
<b>Fund Inception:</b>	07 January 2011
<b>Fund Domicile:</b>	Ireland
<b>Fund Base Currency:</b>	EUR
<b>Dealing Frequency:</b>	Daily
<b>ISIN:</b>	IE00BWW56Y06
<b>Management Fee:</b>	1.25%
<b>Incentive Fee:</b>	15%

## Fund Objective

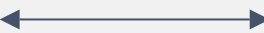
The Algebris Financial Equity Fund invests primarily in financial stocks with a global remit.

It has the ability to be both long and short, use options where appropriate and employ prudent leverage.

The objective of the Fund is to generate superior risk adjusted returns over an investment cycle by identifying mispricing opportunities through systematic analysis of a company's intrinsic value; the inherent complexity of financial stocks provides fertile ground for our team of specialist financial analysts.

The macro environment and single stock analyses are synthesized in the overall portfolio construction.

## Risk Profile

<b>Lower Risk</b>	<b>Higher Risk</b>
Typically lower rewards	Typically higher rewards
	
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Note: The synthetic risk and reward indicator (SRRRI) is based on the historical data and may not be a reliable indication for the future. It is calculated using the volatility of the Fund's weekly performance over a five-year period. A score of 7 means the Fund's historic volatility is above 25%.

## Performance History (Net) % - I EUR 2015 - Present

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year	Index
<b>2015</b>	5.25	8.59	3.77	2.11	1.91	-1.47	1.48	-1.08	-5.75	3.63	2.02	-3.39	17.52	-2.71
<b>2016</b>	-10.17	-2.82	-0.51	7.81	3.59	-14.35	10.28	5.75	-2.90	11.08	2.97	2.74	10.53	13.27
<b>2017</b>	-0.13	-2.54	9.62	3.46	-0.84	4.58	2.72	-0.25	2.68	-4.96	0.97	3.34	19.43	23.48
<b>2018</b>	7.43	-0.68	-4.72	2.07	-9.26	-2.63	7.29	-11.60	4.52	-8.03	-0.92	-12.73	-27.73	-16.42
<b>2019</b>	8.44	4.09	-4.42	9.71	-7.85	1.70	-0.90	-4.30	6.69	2.82	4.17	3.76	24.72	26.48
<b>2020</b>	-6.26	-3.76	-30.51	8.60	2.71	4.65	-5.07	9.12					-24.20	-16.59

Note: Performance figures are based on returns for the I EUR share class. Returns are net of management fees, incentive fees and operating expenses, and are reflective of the Fund's "predecessor" : MS Algebris Global Financials UCITS Fund share class I EUR from 22nd October 2013 to 23rd June 2015 and Algebris Financial Equity Fund (UCITS) share class I EUR thereafter. The MS Algebris Global Financials UCITS Fund and the Algebris Financial Equity Fund (UCITS) merged on the 5th February 2016. Prices are published daily on Bloomberg. MSCI World Financials Index is used as a reference index for the Algebris Financial Equity Fund. The performance figures of the reference index are in USD, include dividends reinvested and do not consider any costs of investing in the index. The Fund does not necessarily invest in securities comprising the reference index and is subject to various restrictions and requirements not applicable to the index, but this index is considered to provide a meaningful comparison. Past performance is not a guarantee of future results. Source: HSBC Securities Services (Ireland) DAC, Morningstar

## Commentary

- With the world full of long duration assets (megacap tech bubble, \$14.5 trillion of negative yielding debt etc), it is worth noting that very few asset classes will perform well if inflation returns – especially those most well-owned. Financials are an exception. In particular, insurance companies will benefit massively from both an earnings and balance sheet perspective if we see higher discount rates and steeper curves – even if central banks hold firm and keep policy rates low. We are fortunate that the market is not currently charging a premium for the optionality these stocks provide, and in fact many high quality names trade in mid-single digit PEs with safe dividends in the 4-8% range. These are truly inflation hedges with yield (and significant upside potential, as well) – a unique combination that in our view could prove to be very valuable in the months and quarters to come.
- Will we see reflation? It is notable that on a percentage basis, the 30 year UST yield had the largest monthly move up in August since early 2009. This was driven largely by an increase in long-term inflation expectations (which are currently ~170 bps vs 100 bps in March). Intriguingly, 30 yr bonds are also starting to disconnect from the rest of the curve, with the 30 yr/10 yr gap now at ~75 bps, up from 40 bps at the beginning of the year and just 10 bps back in 2018. It does appear that the long end of the bond market is getting whiffs of inflation even as the short end is firmly under the control of the Fed. And with huge fiscal stimulus (and possibly more to come), a monetary policy of massive balance sheet expansion, a restructuring of supply chains globally, a weakening of the dollar, and possible good news on the vaccine front in the next couple quarters, it is perhaps not surprising that this is the case. In fact we are already seeing inflation on the ground with the price of lumber soaring, suburban housing markets on fire, used car prices at all-time highs, and key consumer expenditures like education and medical care seeing 10 year highs in y/y price growth. In short, early signs of inflation appear to be emerging in both the real world and the bond market while deflation assets continue to monopolize investor interest and inflation hedges (notably cheap Financial equities) languish. We believe this apathy is setting up a compelling opportunity in the latter.
- European banks concluded their Q2 earnings season in August, delivering pre-provision profits 8% ahead of expectations. Loan losses rose as expected but were in-line with management guidance. As a result, the median bank saw its consensus FY2021 EPS *upgraded* by 2.4% during the month. This is the highest monthly EPS upgrade for the sector since the spring of 2017, when the global economy was in the midst of a synchronized upswing. More importantly, we believe 2021-22 EPS estimates have substantial further upside to come. While the strength this quarter came from fees and trading income, we believe lower-than-expected loan losses could drive further earnings upgrades of ~40% in the coming months for our high conviction names. New accounting rules, extraordinary government support, and the rapid economic sudden-stop/recovery means that most banks will frontload the bulk of their loan losses in 2020. This stands in contrast to consensus loan loss estimates which appear to simply extrapolate management guidance for 2020, and we believe will be a persistent source of EPS upgrades in the coming months. Distressed valuations (all time low price / tangible book) and earnings upgrades are typically a very good mix for significant equity upside.
- Finally, M&A is making a comeback in the European banking sector. Generalist investors seem reluctant to invest in the sector until they see more clarity but it looks like bank managements, with regulator encouragement, are pressing ahead. Intesa just completed the first strategic hostile deal in the sector for over a decade - and at a 45% premium. At the beginning of September, the ECB's deputy president De Guindos, said he expected Eurozone banks to begin consolidating (a theme the regulator continues to push) and four days later it was leaked that Caixa bank and Bankia were in advanced talks. Encouragingly both stocks rose double digit and we would expect mid-teen EPS accretion. We have a basket of stocks in the fund which will benefit from this theme over the coming months.

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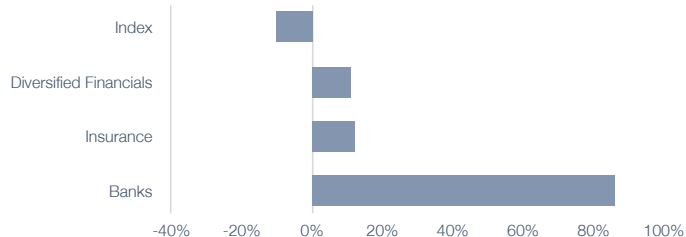


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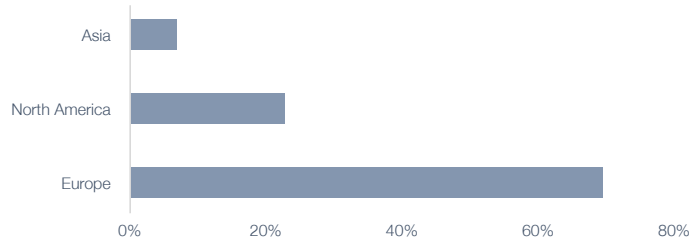
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## Sector Exposure



Exposure shown above is calculated on a delta adjusted basis for option positions and on a full notional basis for all other instruments. Source: Algebris (UK) Limited.

## Regional Exposure



Exposure shown above is calculated on a delta adjusted basis for option positions and on a full notional basis for all other instruments. Source: Algebris (UK) Limited.

## Top 5 Equity Issuers

Name	% Exposure
BNP Paribas	5.9%
ING	5.8%
Credit Suisse	5.4%
Credit Agricole	4.9%
Barclays	4.7%

Source: Algebris (UK) Limited

## Top 5 Monthly Contributors

Name
ING
ABN Amro
Unicaja Banco
Credito Valtellinese
BNP Paribas

Source: Algebris (UK) Limited

## Bottom 5 Monthly Contributors

Name
Equity Index Hedge
North American Equity
Equity Index Hedge
S&P 500 Index
North American Equity

Source: Algebris (UK) Limited

## About Algebris

Algebris (UK) Limited is a global investment manager with a historical focus on the financial sector across the capital structure. Founded in 2006, Algebris has gradually expanded its expertise and entered the global credit and Italian securities space to capture a broader set of value opportunities. Algebris has a team of 27 investment professionals and manages EUR 12.2bn AUM (inclusive of committed capital), split between credit and equity investments (data as of 31.08.2020).

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Fund Details				
Share Classes			Identifiers	
Share Class	Currency	Minimum Initial Investment	ISIN	BBG ticker
B	EUR	€10,000	IE00BTLJYM89	FAGFUBE ID
	GBP	GBP equivalent of €10,000	IE00BTLJYN96	FAGFUBG ID
	USD	USD equivalent of €10,000	IE00BTLJYQ28	FAGFUBU ID
	CHF	CHF equivalent of €10,000	IE00BTLJYP11	FAGFUBC ID
	SGD	SGD equivalent of €10,000	IE00BTLJYR35	FAGFUBS ID
	JPY	JPY equivalent of €10,000	IE00BD71X526	ALGFEBJ ID
I	EUR	€500,000	IE00BWW56Y06	FAGIEUR ID
	GBP	GBP equivalent of €500,000	IE00BWW57036	FAGIGBP ID
	USD	USD equivalent of €500,000	IE00BWW56Z13	FAGIUSD ID
	CHF	CHF equivalent of €500,000	IE00BWT6GB54	ALGFEIC ID
	SGD	SGD equivalent of €500,000	IE00BWT6GD78	ALGFEIS ID
	JPY	JPY equivalent of €500,000	IE00BD71X302	ALGFEIJ ID
R	EUR	€10,000	IE00BWW56V74	FAGREUR ID
	GBP	GBP equivalent of €10,000	IE00BWW56X98	FAGRGBP ID
	USD	USD equivalent of €10,000	IE00BWW56W81	FAGREUR ID
	CHF	CHF equivalent of €10,000	IE00BWT6GC61	ALGFERC ID
	SGD	SGD equivalent of €10,000	IE00BWT6GF92	ALGFERS ID
	JPY	JPY equivalent of €10,000	IE00BD71X419	ALGFERJ ID

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The State of the origin of the Fund is Ireland. In Switzerland, the Representative is ACOLIN Fund Services AG, Leutschenbachstrasse 50, CH-8050 Zurich, whilst the Paying agent is Vontobel Ltd, Gotthardstrasse 43, CH-8022 Zürich. The basic documents of the Fund as well as the annual and, if applicable, semi-annual report may be obtained free of charge from the Representative.

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