Algebris Financial Equity Fund (UCITS)

I EUR — **March 2019**

Terms

Size (€): 85m

Fund Inception: 07 January 2011

Fund Domicile: Ireland

Fund Base Currency: EUR

Dealing Frequency: Daily

ISIN: IE00BWY56Y06

Management Fee: 1.25%

Incentive Fee: 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

Lower Risk	Higher Risk
Typically lower rewards	Typically higher rewards

1 2 3 4 5 **6** 7

Note: The synthetic risk and reward indicator (SRRI) 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 6 means the Fund's historic volatility is between 15% and 25%.

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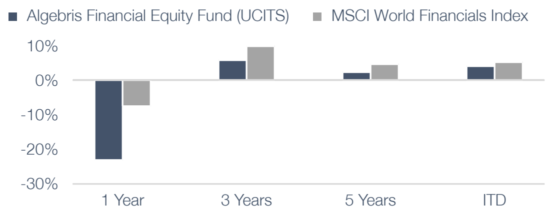
Performance Analytics - I EUR

	Returns	Volatility	Sharpe Ratio
1 Year	-23.3%	20.1%	-1.2
3 Years	5.8%	20.9%	0.4
5 Years	2.4%	20.6%	0.2
ITD	3.8%	20.0%	0.3

Performance Vs Reference Index



Note: Returns and volatility numbers are annualised. Performance figures are based on returns for the I EUR share class, net of management fees, incentive fees and operating expenses, and are reflective of the fund's "predecessor" (see related note below for details). 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 follows L/S strategy, 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

Performance History (Net) % - I EUR 2014 - Present

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2014	0.94	0.71	-1.65	-4.36	-4.19	-0.45	-1.82	0.34	1.49	0.97	-0.65	1.53	-7.13
2015	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
2016	-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
2017	-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
2018	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
2019	8.44	4.09	-4.42										7.88
										Return Since Inception			22.50

Note: 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 5th February 2016. Prices are published daily on Bloomberg. Past performance is not a guarantee of future results.
Source: HSBC Securities Services (Ireland) DAC, Morningstar

Commentary

- In March, dovish commentary from both the ECB and the Fed sparked a sell off of financials stocks relative to the market. Chairman Powell once again surprised markets with a marked shift in sentiment, causing rates to rally and the yield curve to invert. Indeed, the market is now expecting a significant likelihood that the Fed cuts rates by the end of 2019. As a result, the BKX was down 6.5% in March. Specifically, the week of March 18th was the 11th worst week (out of 1400 weeks) of financial stock relative performance since BKX inception, with all but one of the top 10 being in the financial crisis. In Europe, prevailing Brexit uncertainty and more dovish commentary out of the ECB saw European banks giving back some of January and February performance, as the SX7E was down 5% in March.
- Given the concerns around inverting yield curves and potential rate cuts in the US, we thought it would be useful to review how Financials have performed historically in similar scenario. The results, in our view, are encouraging: there have been five periods since 1989 (89, 95, 97, 00, 06) when the Fed hiking cycle has peaked; in these 5 periods, bank stocks posted positive returns in each of the 6- month periods following the last Fed hike (+24% on average), and up four of five times on a 12 month basis (+14% on average), with the one down period a decline of just -1%. Similarly, in four out of the last five yield curve inversions, financials outperformed the S&P 500 following 6 months (in the one instance it didn't - Nov-1978 - it underperformed by 130bps). On an absolute basis, Financials returned +10.7% in the 6 months following yield curve inversion and +5.8% on a 12 month basis. In other words, the end of a Fed hiking cycle does not (as many commentators seem to want to assume) necessarily mean the onset of Financials underperformance. In fact, today we sit at relative levels of Financials versus Technology stocks not seen since the peak of the dotcom bubble in 2000, and bank dividend yields are higher than the US 10 year for the first time since 2016, so it is certainly not as if bank stocks are loved and over-owned at this point.
- Clearly, the Fed hiking cycle has been a tailwind for many asset sensitive US financial stocks over the past 3+ years. Our message is simply that the fact this tailwind may be receding does not mean the sector becomes uninvestable – and in fact history suggests quite the opposite. Stock selection, perhaps, becomes more important but this is where we tend to excel judging from our ability to generate alpha over the past seven years in our Long Only fund. So in our view this is an opportunity much more so than a threat.
- In Europe, banks were not helped by the backdrop of a more dovish Feb and falling US bank share prices which then combined with a weak German manufacturing PMI print and a more dovish ECB. It quickly looked like an over-reaction by the market. It wasn't as though the market wasn't expecting weaker growth following the market's performance in Q4 last year, or lower for longer rates. Other European PMIs and the service sector readings look fine with the ZEW expectations (the most forward looking German indicator) moving up. Europe's 'hard' versus 'soft' data gap is at an all-time high. We would tend to fade both the extremes but would also not focus exclusively on the soft data either. Even the ECB quickly started to fly the kite of tiering bank reserves as Draghi expressed the view that 'we may need to mitigate side effects of sub-zero rates' on bank profitability which currently cost Eur 8bn pa for European banks. But with the bank sector PE relative to the market back at 2009 lows, investors are totally switched off the sector and the 'Japanification' of European banks is now consensus.

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Commentary - continued

- So, rather than discuss the upside from a recovering bank – though recent data continues to confirm their ongoing recovery – we are going to provide a continental European counter point to this 'Japanification' consensus. KBC is a predominantly Belgium bank assurer with negative interest rates and below average European GDP growth last year in its home country. However, even in this relatively poor environment, the group still produced a 16% RoTE and has a robust 16% CET1 ratio, when the regulator requires only 10.6%. They also generate 270bps of capital per annum and are looking to either use their excess for M&A, or to give back any future excess to shareholders. With a dividend yield >6% and a surfeit of capital, it is more a question of time before we see accretive M&A, share buybacks or additional dividends. Of course, it is true, that not all European banks are KBC, but it is also true that European banks hardly look like an identikit to Japanese banks either. Perhaps the country most closely resembling it though is Germany and we agree with the market about the banking system's limited future prospects. But Germany's banking problems are due to the structural make-up of the market, not the rest of Europe. We see RoTEs continue to improve in European banks, and expect this to continue as we see the banks, after more than a decade, finally getting on top of their legacy issues.

Top 5 Long Holdings

Position	Exposure %
Unicredit	7.2%
ABN Amro	5.7%
Société Générale	5.5%
BNP Paribas	5.1%
Carlyle	5.1%

Net Exposure by Subsector

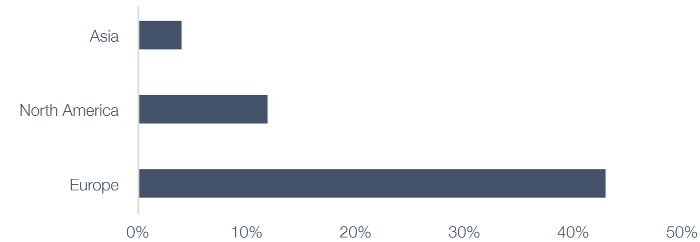
Sector	Exposure %
Banks	78.1%
Insurance	10.9%
Diversified Financials	10.8%
Software & Services	-1.9%
Real Estate	-2.1%
Index	-35.9%
Other	-0.3%
Total Exposure	59.6%

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

Exposure by Region (%)

Region	Long	Short/ Hedge	Net	Gross
Europe	68.8	-25.5	43.3	101.5
North America	54.2	-42.0	12.2	96.2
Asia	6.2	-2.1	4.1	8.2
Total	**129.2**	**-69.6**	**59.6**	**206.0**

Net Exposure by Region (%)



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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. Most recently, Algebris on-boarded a quant team that has embraced a statistical arbitrage strategy based on mean reversion. Algebris has a team of 26 investment professionals and manages EUR 10.5bn AUM (inclusive of committed capital), split between credit and equity investments (data as of 31.03.2019).

Algebris (UK) Limited is authorised and regulated by the Financial Conduct Authority. Algebris Investments (US) Inc is a SEC registered Investment Adviser. Algebris Investments (Asia) Pte Ltd is a Licensed Fund Management Company with the MAS.

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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	IE00BWY56Y06	FAGIEUR ID
	GBP	GBP equivalent of €500,000	IE00BWY57036	FAGIGBP ID
	USD	USD equivalent of €500,000	IE00BWY56Z13	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	IE00BWY56V74	FAGREUR ID
	GBP	GBP equivalent of €10,000	IE00BWY56X98	FAGRGBP ID
	USD	USD equivalent of €10,000	IE00BWY56W81	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