



Algebris Financial Income Fund

Monthly Factsheet: April 2014

Fund Objective

The Algebris Financial Income Fund can invest in the capital structure of financial companies globally, in both equities and fixed income. The objective of the Fund is to maximise income and generate superior risk adjusted returns over an investment cycle by investing in high dividend yielding stocks and bonds. Furthermore the Investment Manager aims to identify mispricing opportunities to generate capital appreciation of the Fund through fundamental bottom up analysis of a company's intrinsic value. The Fund invests in equities and subordinated debt capital instruments of financial institutions globally, including hybrid capital instruments, preference shares and contingent convertible bonds (CoCos), with fixed and variable interest rates, which may be rated investment grade or below investment grade.

Investment in the Fund may be suitable for investors with a medium to long term investment horizon.

Fund AUM (\$):

203m

Domicile:

Ireland

Institutional Share Classes:

I (Accumulating), Id (Distributing)

Liquidity:

Daily

Management Fee:

0.90%

Incentive Fee:

None

Bloomberg Ticker:

AFIIEUR

ISIN (I EUR Share Class):

IE00BCZNWT08

Data as at 30th April 2014

Fund Information

| | |
|-----------------------------------|---------|
| No. of Bonds/ No. of Issuers | 35/24 |
| No. of Stocks | 56 |
| Duration of Bond Allocation (OAD) | 5.2 yrs |
| Av. Rating of Bond Allocation | BB+ |
| Bonds: Gross Yield to Worst | 5.9% |
| Equity: Gross Dividend Yield | 4.5% |
| Fund: Gross Yield | 4.6% |

Source: Bloomberg LP, Algebris Investments (UK) LLP

Performance Analytics

| | |
|------------------------|-------|
| Return Since Inception | 13.6% |
| Annualised Return | 19.6% |
| Annualised Volatility | 5.8% |
| Sharpe Ratio | 3.1 |

Note: Figures based on net returns for B EUR (Accumulating) class assuming admin, management and excluding ADL (Anti-Dilution Levy – currently 25bps). The actual price at which an investor subscribes or redeems shares in the fund will vary, depending on the swung price based on the ADL applied on the day in question. Further information is contained in the Prospectus.

Inception date: 13 August 2013.

Source: Bloomberg LP, Algebris Investments (UK) LLP

Performance Information (Net) % – B EUR (Accumulating)

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sept | Oct | Nov | Dec | Year |
|------|------|------|------|-------|-----|-----|-----|-------|------|------|------|------|------|
| 2013 | | | | | | | | -1.41 | 1.48 | 4.05 | 2.08 | 2.32 | 8.69 |
| 2014 | 0.49 | 2.89 | 1.32 | -0.28 | | | | | | | | | 4.46 |

Please see note above. Figures are available on Bloomberg, daily.

Source: HSBC Securities Services (Ireland) Ltd, Algebris Investments (UK) LLP

Commentary

The Algebris Financial Income Fund returned -0.28% in April and has a running gross yield of 4.6%.

Volatility was pronounced particularly in momentum names, and by 11th April the Nasdaq Composite had lost -4.6%, its worst 3-day loss since 2011, and ended the month down -2.1%. As discussed in March's commentary the unwinding of many popular/crowded positions continued in the market into April particularly across technology and biotech, while the mega-cap S&P 100 index closed up 1% for the month, just below all-time highs. In the credit space, broad credit markets had a very strong month due in large part to the continued strength of rates markets globally. In spite of widespread expectations of selloffs in the US and UK, particularly as unemployment falls and central banks move closer to rate hikes, treasuries and gilts turned in another strong month. European government bonds continue to price in expectations of further easing by the European Central Bank. US economic data has turned more positive after the winter freeze but rates markets have not reacted to the pickup in economic activity.

With this as the backdrop, the Income Fund benefited from stronger credit markets while the equity portion of the book had a small negative contribution. In equities, US banks pulled back on the rally in the bond market and on somewhat soft quarters reported by the likes of JP Morgan, Bank of America, and US Bancorp. Whilst we are not surprised by the moves in some of the US bank positions, given small cuts to forward estimates, we are not overly concerned on what were primarily trading misses and we retain conviction that they represent among the best plays on higher short-term interest rates moving forward. What is more puzzling is the recent underperformance of select alternative asset manager holdings including Blackstone and KKR; the companies continue to make excellent progress in monetizing gains, raising assets, and generating robust cash flows to return to share (unit) holders. In the meantime, valuations have come off and some trade at negative implied value of potential carry (factoring in a mid-teens multiple on management fee earnings and the value of cash and investments on the balance sheet) – this is a level that historically has been a very attractive entry point for the sub-sector. We have used the recent pull back to add to these names and others in the group. In our view, this sub-sector is one of the very few in all of financials which are true growth companies – and with dividend yields between 5% and 10%, we feel the risk-adjusted return profile remains compelling.



In the financials credit world, new issuance slowed down in April as companies were in quiet periods around first quarter earnings reports but European financials continued to perform well. Top contributors to bond performance in the fund included positions in BBVA, Lloyds and Barclays. The end of the month saw the announcement of the long awaited Additional Tier 1 ('AT1') transaction from Deutsche Bank (DB) and a second AT1 announced by Santander. DB announced a multi-tranche transaction with bonds issued across three currencies and multiple maturities. Building up the AT1 bucket is crucial for DB as they try to improve their reported leverage ratio. Due to the low risk-weighting of the assets held by the bank, DB has strong reported capital ratios despite the high leverage. It is these regulatory capital ratios that will drive the triggers and there is substantial cushion above the 5.125% trigger. Santander announced a similar transaction to the one issued in March; equity converting at the 5.125% trigger, but it will be denominated in Dollars rather than Euros. European banks are expected to continue to restructure their hybrid capital stack in order to meet Basel 3 standards, driving an ongoing supply of CoCo's.

Top 5 Bond Holdings

| Rank | Issuer Name |
|------|---------------|
| 1 | Credit Suisse |
| 2 | BBVA |
| 3 | Santander |
| 4 | Lloyds |
| 5 | Barclays |

Source: Algebris Investments (UK) LLP

Top 5 Equity Holdings

| Rank | Issuer Name |
|------|---------------------------|
| 1 | Banco Popolare |
| 2 | Unipol |
| 3 | Banque Cantonale Vaudoise |
| 4 | Zurich |
| 5 | CBL & Associates |

Source: Algebris Investments (UK) LLP

Portfolio Composition (Asset Allocation)

| | Allocation |
|----------------|------------|
| Equities | 55% |
| Bonds | 37% |
| Hedges (delta) | -16% |
| Cash | 9% |

Source: Algebris Investments (UK) LLP

Geographical Exposure

Bonds

| Country | Allocation |
|-------------|------------|
| Spain | 8% |
| US | 8% |
| UK | 6% |
| Switzerland | 6% |
| Ireland | 3% |
| France | 2% |
| Italy | 2% |
| Netherlands | 1% |
| Germany | 1% |

Allocation may not add up to 100% due to rounding.
Source: Algebris Investments (UK) LLP

Equities

| Region | Allocation |
|--------------|------------|
| US | 25% |
| Europe ex UK | 22% |
| UK | 3% |
| Japan | 3% |
| LatAm | 2% |

Allocation may not add up to 100% due to rounding.
Source: Algebris Investments (UK) LLP



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