



# Algebris Financial Income Fund (UCITS)

I EUR (Accumulating)

August 2018

Terms	
Size (€):	588m
Fund Inception:	13 August 2013
Fund Domicile:	Ireland
Fund Base Currency:	EUR
Dealing Frequency:	Daily
ISIN:	IE00BCZNWT08
Management Fee:	0.9%
Incentive Fee:	0%

Fund Information	
No. of Bonds/ No. of Issuers	76/34
No. of Stocks	46
Effective Duration of Bond Allocation	4.0 yrs
Avg. Rating of Bond Allocation	BB+
Bonds: Yield to Worst (Gross)	5.1%
Equity: Dividend Yield (Gross)	3.8%
Fund: Yield (Gross)	5.0%

Performance Analytics	
Return Since Inception	37.9%
Annualised Return	6.8%
Annualised Volatility	10.1%
Sharpe Ratio	0.7
2017 Annual Distribution	4.5%

Note: Fund gross yield reflects current yield for the bonds and dividend yield for the equities in the portfolio. The Avg. Credit Rating is calculated using the average of the top two credit ratings from S&P, Fitch and Moody's and includes all rated bonds and cash.

Source: Bloomberg LP, Algebris (UK) Limited

Note: Figures are based on returns for the I EUR (Accumulating) share class, net of management fees and operating expenses and excluding ADL (Anti-Dilution Levy – currently 12.5bps). The actual price at which an investor subscribes or redeems shares depends on the ADL applied on the relevant dealing day. Further information is contained in the Prospectus. Past performance is not a guarantee of future results.

Annual Distribution refers to the equivalent distributing share class (Id EUR).

Share class inception date: 9 October 2013

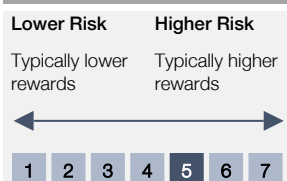
Source: HSBC Securities Services (Ireland) DAC, Morningstar

## 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. 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.

## Risk Profile



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 5 means the Fund's historic volatility is between 10% and 15%.

## Performance History (Net) % - I EUR (Accumulating)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2013										3.89	2.05	2.29	8.45
2014	0.45	2.86	1.28	-0.31	0.45	0.32	-0.29	1.19	-1.16	0.46	1.53	-0.69	6.20
2015	0.80	4.44	1.88	1.04	1.11	-1.92	1.52	-3.29	-4.35	3.06	1.01	-2.43	2.51
2016	-6.79	-2.84	3.04	2.99	1.90	-8.03	5.84	3.25	-1.76	4.86	1.44	3.32	6.26
2017	1.44	1.05	3.16	2.28	-0.20	1.83	2.05	-1.46	3.48	0.75	0.08	1.17	16.68
2018	4.71	-2.26	-3.08	1.57	-5.01	-1.27	4.00	-4.10					-5.78

Note: Returns are net of management fees and operating expenses but exclude ADL (Anti-Dilution Levy – Currently 12.5bps). The actual price at which an investor subscribes or redeems shares depends on the ADL applied on the relevant dealing day. Further information is contained in the Prospectus. Prices are published daily on Bloomberg. Past performance is not a guarantee of future results.

Source: HSBC Securities Services (Ireland) DAC, Morningstar

## Commentary

- After a solid rebound in July, financial hybrids had mixed performance in August. EU and EM bonds were broadly weaker, due to rising geopolitical concerns. Spread widening on EU AT1s averaged +40bps, led mainly by peripherals. The performance in equity markets was also mixed, with the S&P 500 up +3.0%, while Europe (Stoxx 600) and Emerging Markets (MXEF) were down -2.4% and -2.7% respectively. Banks underperformed wider markets across the US (+0.6%) and Europe (-8.1%)
- European bank performance was driven by a combination of Italian political fears and negative developments in Emerging Markets. In Italy, contradictory headlines around the government's willingness to respect EU budget rules have kept markets on edge. Despite the controversial spending plans from Lega and M5S party leaders, we remain comfortable that the end result will be a compromise that respects Italian and EU laws while leaving some more room for increased discretionary spending. With the current level of BTP/Bund spreads, we believe there is substantial room for spreads in Unicredit and Intesa to compress
- Within emerging markets the sharp depreciation of the Turkish Lira, coupled with the large amount of USD corporate lending in the country raised concerns of a deterioration in banks' asset quality. The erratic political and monetary response has not helped calm markets. The sell-off in the Lira and Turkish assets affected BBVA, Unicredit, ING and BNP, which have exposure to the country. We think that European banks' exposures to Turkey look manageable, and believe the spread widening for European AT1s on the back of Turkey concerns is likely overdone even if fundamentals in Turkey continue to deteriorate. The weakness in Brazil and Argentina has had less of a direct impact on the portfolio but would point out that Santander Brazil remained profitable despite a recessionary backdrop back in 2015-2016
- Primary activity picked up in August, with two new deals from BNP and Barclays, while the US remained quiet. BNP issued a \$750m low-trigger write-down bond with first call in 10 years, carrying a 7% coupon and 3.98% backend. Both coupon and backend compare well to the \$5.125% bond (2.84% backend) issued in November 2017. Barclays came out with a \$2.5bn high-trigger write-down bond with first call in 5 years, carrying a 7.75% coupon and 4.84% backend. Demand was strong on both deals. Barclays increased the size of the deal from the original \$2bn to \$2.5bn on the back of \$12bn of demand. We expect Barclays to use the proceeds of this deal to call the 8.25% bond in December of this year.
- Turning to equities, valuations/prices in the European bank sector are getting very close to crisis level lows, such as March 2009, or the Eurozone crisis. European banks have been recapitalised to the new global and European standards and have started to act like normal companies for the first time in a decade. Headwinds have inflected to tailwinds and it is clear profits are finally benefiting, and in fact we have revised our earnings higher for the majority of our companies in the aftermath of 2Q results. With the credit cycle having turned positive, credit costs are falling rapidly and are likely to continue on this trend for the next 5-10 years. This is especially the case for the peripheral countries. Recovery is here.
- But of course, it is not all about improving individual company fundamentals. Banks do not operate in a vacuum. There is the macro and political environment. GDP is improving, property prices are going up, unemployment is falling but...and there is always a but, interest rates are still negative in Europe – and everyone knows negative rates are not good for banks. Interest rates are still at -0.4% and yes, when unemployment was last at 8% in Europe, the ECB had interest rates at 3%. We are not going to get to 3% anytime soon, but with the ECB having pre-announced the next raise 12 months from now, interest rates in Europe are going up...slowly...but up, nonetheless. Countering some of the market's wider worries, continental banks are still making sensible, and improving, ROTEs in this negative rate environment.

## Contact Details

Call: +44 (0) 203 196 2450  
 Email: [algebrisIR@algebris.com](mailto:algebrisIR@algebris.com)  
 Visit: [www.algebris.com](http://www.algebris.com)



# Algebris Financial Income Fund (UCITS)

I EUR (Accumulating)

August 2018

## Commentary - continued

- Taking a proxy for European banks in BNP, last year BNP claimed an 11% RoTE before exceptional items (and 10.5% after them). These are not the results of a banking sector in total crisis, that valuations would suggest. The European banking sector is not just a trade on a tightening monetary cycle but with the cycle having clearly turned, look over to the US to see what can happen to a bank sector which sees a turn. US banks doubled.
- As we assess the violent up and down moves in European bank stocks this year (average monthly move has been ~7%), perhaps it is useful to recall the volatility that characterized the US banks at their respective bottoms in 2009 and again in 2016. Though US banks did in fact bottom in March 2009, there was extreme two-way volatility throughout the year, with the BKX index experiencing up or down monthly moves of >10% in eight of 12 months that year. More recently, US banks hit a local low in February 2016 (from which they are up over 100%), and yet in that year as well, volatility reigned with monthly moves of >5% in ten of 12 months. Simply put, with European banks in the midst of a multi-year bottoming process, we should not be surprised and in fact should expect significant up and down volatility as investors cling to stale narratives. Similarly to the US banks, we do not expect the path to necessarily be smooth but in the medium term, it should be significantly profitable.

### Top 5 Equity Holdings

Rank	Issuer name
1	Prudential Financial
2	CaixaBank
3	Société Générale
4	Danske Bank
5	BNP Paribas

Source: Algebris (UK) Limited

### Top 5 Bond Holdings

Rank	Issuer name
1	Santander
2	Unicredit
3	Barclays
4	CaixaBank
5	Intesa Sanpaolo

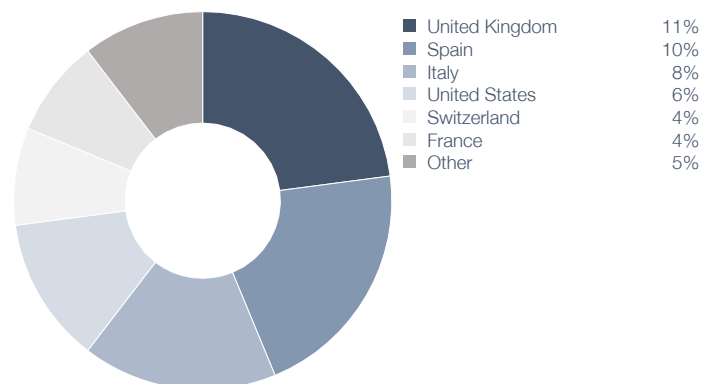
Source: Algebris (UK) Limited

### Asset Allocation

	Allocation
Equity	61.3%
Bonds	46.1%
Hedges (delta)	-8.9%

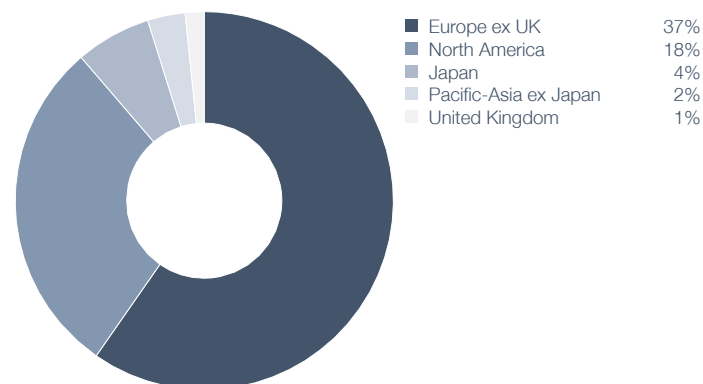
Exposure calculated on a delta adjusted basis for option positions and on a full notional basis for all other instruments. Excludes bond futures used for hedging duration.  
Source: Algebris (UK) Limited

### Bonds - Exposure by Country



Exposure includes long bond holdings.  
Source: Algebris (UK) Limited

### Equities - Exposure by Region



Exposure includes long equity holdings.  
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 23 investment professionals and manages EUR 11.7bn AUM (inclusive of committed capital), split between credit and equity investments (data as of 31.08.2018).

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.

## Contact Details

**London**  
Algebris (UK) Limited  
4th Floor,  
1 St James's Market  
London SW1Y 4AH

**Singapore**  
Algebris Investments  
(Asia) Pte. Ltd  
9 Straits View, #05-08  
Marina One West Tower  
Singapore 018937

**Boston**  
Algebris Investments (US) Inc.  
699 Boylston Street  
Boston MA 02116  
United States of America

**Milan**  
Algebris (UK) Limited -  
Milan Branch  
Via Fatebenefratelli 10  
20121 Milano, Italy

**Luxembourg**  
Algebris Investments  
(Luxembourg) S.a.r.l.  
40 Avenue Monterey  
L-2163 Luxembourg

**Tokyo**  
Algebris Investments K.K.  
JA Building 12F, 1-3-1  
Otemachi, Chiyoda-ku  
Tokyo 100-0004 Japan

Tel: +44 (0) 203 196 2450  
Email: [algebrisIR@algebris.com](mailto:algebrisIR@algebris.com)  
Visit: [www.algebris.com](http://www.algebris.com)



# Algebris Financial Income Fund (UCITS)

I EUR (Accumulating)

August 2018

Fund Details				
Share Classes			Identifiers	
Class	Currency	Minimum Initial Investment	ISIN	BBG ticker
I	EUR	€500,000	IE00BCZNWT08	AFIEUR ID
	GBP	GBP equivalent of €500,000	IE00BCZNWW37	AFCIIGB ID
	USD	USD equivalent of €500,000	IE00BCZNXW44	AFCIUS ID
	CHF	CHF equivalent of €500,000	IE00BCZNNW20	ALGFIC ID
	SGD	SGD equivalent of €500,000	IE00BYYJYN11	ALGFIS ID
	JPY	JPY equivalent of €500,000	IE00BD71WT90	ALGFIJ ID
Id	EUR	€500,000	IE00BCZNNWY50	AFIDEU ID
	GBP	GBP equivalent of €500,000	IE00BCZNX087	AFCIDGBP ID
	USD	USD equivalent of €500,000	IE00BCZQ7R24	AFCIDUS ID
	CHF	CHF equivalent of €500,000	IE00BCZNNWZ67	AFCIDCH ID
	SGD	SGD equivalent of €500,000	IE00BYYJYP35	ALGFIDS ID
	JPY	JPY equivalent of €500,000	IE00BD71WW13	ALFIIDJ ID
R	EUR	€10,000	IE00BCZQ7T48	AFIREUR ID
	GBP	GBP equivalent of €10,000	IE00BCZNX194	AFCIRGB ID
	USD	USD equivalent of €10,000	IE00BCZNXN11	AFIRUSD ID
	CHF	CHF equivalent of €10,000	IE00BCZQ7S31	AFIRCHF ID
	SGD	SGD equivalent of €10,000	IE00BYYJYJ74	AFIRSGD ID
	JPY	JPY equivalent of €10,000	IE00BD71WW20	ALGFIRJ ID
Rd	EUR	€10,000	IE00BCZNX202	AFCIRDE ID
	GBP	GBP equivalent of €10,000	IE00BCZNX319	AFCIRDG ID
	USD	USD equivalent of €10,000	IE00BCZNX426	AFCRDUD ID
	CHF	CHF equivalent of €10,000	IE00BD3D0179	AFCRDCH ID
	SGD	SGD equivalent of €10,000	IE00BYYJYM04	AFIRRDS ID
	JPY	JPY equivalent of €10,000	IE00BD71WX37	ALFIRDJ ID

## Private & Confidential

This document has been prepared and is issued by Algebris (UK) Limited (the "Firm") who is the Investment Manager to the Algebris Financial Income Fund. The Firm is authorised and regulated by the Financial Conduct Authority. This document and information included herein is intended for information purposes only.

This document is intended for persons to whom it may lawfully be issued under The Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 including persons who are authorised under the Financial Services and Markets Act 2000 of the United Kingdom (the "Act"), certain persons having professional experience in matters relating to investments, high net worth companies, high net worth unincorporated associations and partnerships, trustees of high value trusts and persons who qualify as certified sophisticated investors.

This document is exempt from the prohibition in Section 21 of the Act on the communication by persons not authorised under the Act of invitations or inducements to engage in investment activity on the ground that it is being issued only to such types of person. Investing in financial markets and securities involves risk. Past performance is not a guarantee of future results. Investment losses may occur from time to time and investors could lose some or all of their investment.

This information is not intended to provide, and should not be relied upon for, accounting, legal or tax advice or investment recommendations. This document does not constitute or form part of any offer to issue or sell, or any solicitation of an offer to subscribe or purchase any investment nor shall it or the fact of its distribution form the basis of, or be relied on, in connection with, any contract therefore.

You should consult your tax, legal, accounting or other advisors about the issues discussed herein. A potential investor expressing an interest to invest in the fund will be provided with an offering memorandum and subscription agreement (together, the "Fund Documents") for the investment and an opportunity to review the documentation relating to the investment. Prospective investors must review the Fund Documents, including the risk factors, before making a decision to invest and should rely only on the information contained in the Fund Documents in making their investment decision and where necessary consult an advisor.

No representation, warranty or undertaking, express or implied, is given as to the accuracy or completeness of the information or opinions contained in this document by any of Algebris (UK) Limited, its directors or employees and no liability is accepted by such persons for the accuracy or completeness of any such information or opinions.

Distribution of this information to any person other than the person to whom this information was originally delivered and to such person's advisors is unauthorised and any reproduction of these materials, in whole or in part, or the divulgence of any of their contents, without the prior consent of the Firm in each such instance is prohibited.

This document is intended for Professional Investors only. All figures, unless stated otherwise, are as at the last business day of the relevant month showing above. Some of the figures shown in the tables are estimates, provided by the Firm. The performance shown does not take account of any commissions and costs charged when subscribing to and redeeming shares. Past performance may not be a reliable guide to future performance.

The strategy employed may result in the NAV exhibiting a high level of volatility. This fund may invest in contingent convertible securities ('CoCos'). CoCos have unique risks, for example, due to equity conversion or principal write-down features which are tailored to the issuing entity and its regulatory requirements, which means the market value of CoCos may fluctuate. Additional risk factors associated with CoCos are set out in the fund's prospectus.

The State of the origin of the Fund is Ireland. In Switzerland, the Representative is ACOLIN Fund Services AG, Affolternstrasse 56, CH-8050 Zurich, whilst the Paying agent is Vontobel Ltd, Gotthardstrasse 43, CH-8022 Zürich. The basic documents of the Fund such as the prospectus, the key investor information document (KIID), the articles of association as well as the semi-annual and annual reports may be obtained free of charge at the office of the Swiss Representative.

© 2018 Algebris (UK) Limited. All Rights Reserved. 4th Floor, 1 St James's Market, SW1Y 4AH.