



Algebris Financial Income Fund (UCITS)

June 2017 Factsheet

Fund Terms

Size (€):	181m
Domicile:	Ireland
Share Classes:	R (Accumulating) Rd (Distributing)
Liquidity:	Daily
Management Fee:	1.80%
Incentive Fee:	None
Bloomberg Ticker:	AFIREUR ID / AFCIRDE ID
ISIN (R/Rd EUR Share Classes):	IE00BCZQ7T48 / IE00BCZNX202
Data as of:	30.06.2017

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

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 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%.

Contact us

For questions regarding the Algebris Financial Credit Fund
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Fund Information

No. of Bonds/ No. of Issuers	47/ 24
No. of Stocks	35
Duration of Bond Allocation	3.9yrs
Av. Rating of Bond Allocation	BB+
Bonds: Yield to Worst (gross)	4.9%
Equity: Dividend Yield (gross)	3.0%
Fund: Yield (gross)	4.6%

Source: Bloomberg LP, Algebris (UK) Limited

Note: Fund gross yield reflects current yield for the bonds and dividend yield for the equities in the portfolio.

Performance Analytics

Return Since Inception	40.2%
Annualised Return	9.1%
Annualised Volatility	10.6%
Sharpe Ratio	0.9

Note: Figures based on net returns for B EUR (Accumulating) class assuming admin, management and excluding ADL (Anti-Dilution Levy – currently 12.5bps). This Share Class is used as it provides the longest track record. The returns of the R or Rd EUR Share Classes may differ from the B EUR (Accumulating) Share Class. 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 (UK) Limited

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

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	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	0.48	0.35	-0.25	1.23	-1.13	0.50	1.58	-0.66	6.63
2015	0.82	4.48	1.91	1.08	1.14	-1.89	1.55	-3.27	-4.31	3.09	1.05	-2.40	2.92
2016	-6.76	-2.81	3.07	3.02	1.92	-8.00	5.88	3.29	-1.72	4.88	1.47	3.35	6.68
2017	1.48	1.07	3.20	2.31	-0.16	1.87							10.14

Note: Figures are available on Bloomberg, daily. The B EUR (Accumulating) Share Class is used as it provides the longest track record. The returns of the R or Rd EUR Share Classes may differ from the B EUR (Accumulating) Share Class. The B EUR (Accumulating) Share Class charges a 0.50% management fee.
 Source: HSBC Securities Services (Ireland) DAC, Algebris (UK) Limited

Commentary

- The fund was up +1.87% in June, bringing year-to-date performance to +10.14%. Top contributors to performance include equity positions in Italian and US banks, while the primary detractor was our credit position in Banco Popular
- Markets in June were driven by a broad selloff in government bond markets across geographies into month-end, as all major central banks adopted a more hawkish stance. The German 10-yr government bond yield reached 0.47% (+15bps), while the yield on 10-yr Gilt was up +21bps to 1.26% after Mark Carney indicated that the MPC may need to begin removing stimulus. The US 10-yr yield rose by +10bps to 2.3%. The yield moves benefitted financials, up +4.6% (global Financials ETF), while the S&P 500 rose just 0.6% and Eurostoxx 50 fell by 2.9%.
- June was an important month for the medium term outlook for the global Financial sector from both a monetary and regulatory policy perspective. First, the glacial but very clear trend towards hawkishness at central banks across the globe appears to have accelerated. The Fed was the first to move towards a tightening bias, and it has surprised in the past several months with rate hikes in both March and June – which the bond market had ascribed just a one-in-four probability of happening at the beginning of this year and one-in-ten prior to the Trump election. The Fed has clearly surprised with its hawkishness – but perhaps the bigger surprise has been central banks in Europe, Canada, and even the UK communicating a shift away from monetary accommodation
- Whether or not this all leads to another taper tantrum remains to be seen. It was interesting to us that if anything there was a “reverse taper tantrum” for much of the past quarter with the yield curve flattening as economic data in the US softened, the inflation outlook disappointed and the market began to question whether the Fed tightening was not a policy mistake. Our view was and remains the flattening yield curve was not so worrisome but instead rather typical of a Fed hiking cycle – the curve flattened considerably in both 1994 and 2004 during the early stages of the Fed tightening before steepening as the cycle matured. We have constructed the equity portion of the portfolio to take advantage of what we believe will be a continued trend towards tighter monetary policy over the next several years. As we have discussed in previous letters, banks and insurers in the US, Japan, and Europe all stand to benefit significantly from reflation after 8+ years of bearing the brunt of QE
- There were also encouraging developments in the regulatory backdrop and an accelerating capital return/deployment story across US and European financials. In the US, while all the political talk on regulation focuses on helping the smaller community banks, we find it encouraging that the changes proposed by Treasury in June stand to uniquely benefit the largest financial institutions (CCAR changes, softening of Volcker rule, amending the leverage ratio and operational RWA calculations). While these rules are yet to be adopted, it was an important set of proposals that in some cases may have significant positive impact on stocks in our portfolio if and when they are pushed through by the various regulatory agencies. We had our first taste for what a softer regulatory backdrop looks like with the results from the CCAR test in June, with the largest US banks being permitted to return on average 100% of earnings (and a chunky 125% for perennial regulatory patsy Citigroup). On today's market cap, that implies a payout yield of 7.5% for US banks, and well over 10% for Fund holdings such as Citigroup and Discover. In Europe, while the dividend story has been around for the past couple of years already, we saw M&A come into play with two of the strongest banks on the continent, Santander and Intesa, both taking advantage of distressed situations in their home markets with compelling accretive deals. We would expect M&A to continue to be a theme both in the US and Europe.



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Commentary - continued

- From a credit perspective, the bank capital market was clearly focused on these two very different approaches to bank resolutions we saw with the deals in Italy and Spain. Spanish lender Banco Popular was declared "failing or likely to fail" by the ECB and resolved by the Single Resolution Board (SRB) on June 7th. Equity and AT1 bonds were written-off, while Tier 2s were converted into equity and then sold to Santander for €1 (entire consideration). Popular's case has proven that in resolution, AT1 and Tier 2s are likely to have the same risk profile and that there is no real difference between low and high trigger AT1 instruments. Despite an expectation that AT1 securities should trigger well before a failure, they did not absorb losses as going concern capital.
- After Popular's resolution, European authorities turned their attention to Italian troubled lenders, winding up Veneto Banca and Banca Popolare di Vicenza (Veneto/Vicenza), and granting their long-awaited approval to MPS' precautionary recapitalisation. Differently from Popular, Veneto/Vicenza were not resolved but wound-up under normal Italian insolvency law as, after the ECB's declaration of "likely to fail", the SRB determined that the conditions for a resolution had not been met. Therefore, Veneto/Vicenza could access State aid without reaching the minimum loss absorption threshold of 8% of Total Liabilities and Own Funds, preventing the bail-in of senior debt. With the EU Commission's approval, the Italian Government issued a decree (yet to be converted into law) on June 25th to transfer Veneto/Vicenza's good assets to Intesa, sterilising the CET1 impact with a €4.8bn aid and another €12bn in guarantees for potential future losses. Non-performing exposures were migrated into a bad bank.
- In line with our view, the burden sharing on AT1 and Tier 2 bonds did not have negative effects on the broader financial hybrids market in June as the read-across from these banks to our key positions is limited. In spite of these failures, the primary market in Europe remained active with three new AT1s deals from CaixaBank, HSBC and RBI, plus one Tier 2 deal in USD by Unicredit. Overall supply amounted to around €4bn. CaixaBank came out with its first AT1, a €1bn deal carrying a 6.75% coupon and an attractive 6.5% backend. HSBC issued a €1.25bn high-trigger equity conversion AT1 at 4.75%, with first call in 2029 and backend of 3.8%. This marks the lowest coupon we have seen yet in the AT1 space. YTD supply in AT1 reached €17bn in June, against a total of €25-30bn expected for 2017.

Top 5 Equity Holdings

Rank	Issuer name
1	Unicredit
2	Discover Financial Services
3	Intesa Sanpaolo
4	Blackstone
5	Banco Comercial Português

Source: Algebris (UK) Limited

Top 5 Bond Holdings

Rank	Issuer name
1	Intesa Sanpaolo
2	BBVA
3	UBS
4	Santander
5	Lloyds

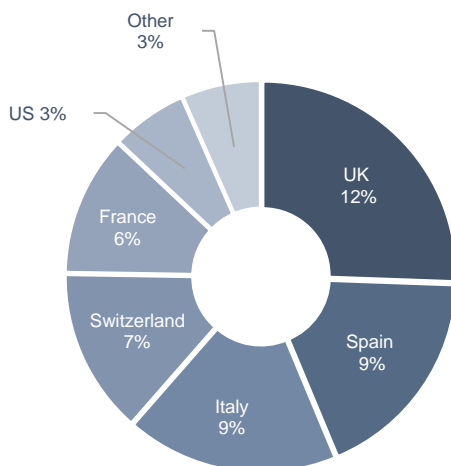
Source: Algebris (UK) Limited

Portfolio Composition (Asset Allocation)

	Allocation
Equities	47.9%
Bonds	48.5%
Hedges (delta)	-9.4%

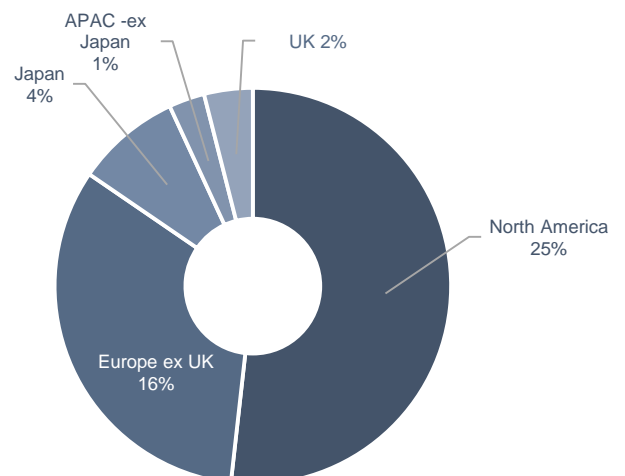
Exposure is calculated on a delta adjusted basis for option positions and on a full notional basis for all other instruments. Excludes bond futures used for hedging duration.
Source: Algebris (UK) Limited

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 an investment manager specialised in the global financial sector. Algebris has traditionally invested in the capital structure of financial institutions across equity and credit. In 2016 we expanded our expertise into macro credit. Algebris has a team of 20 investment professionals and manages ~EUR 8.8bn AUM (inclusive of committed capital and advisory capital), split between credit and equity investments (data as of 30 June 2017).

Algebris (UK) Limited is authorised and regulated by the Financial Conduct Authority. The US office is registered with the SEC and the Singapore office is registered with MAS.



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*Algebris Srl does not conduct any regulated activities, it provides research and analysis services with respect to Italian NPLs to Algebris (UK) Limited.

Fund Details

Share Class				Identifiers	
Class	CCY	Min Investment	Launch Date	ISIN	BBG ticker
I	EUR	€ 500,000	3/10/13	IE00BCZNWT08	AFIIEUR ID
	GBP	GBP equivalent of €500,000	N/A	IE00BCZNWW37	AFCIIGB ID
	USD	USD equivalent of €500,000	N/A	IE00BCZNWX44	AFCIIUS ID
	CHF	CHF equivalent of €500,000	N/A	IE00BCZNWV20	ALGFIIC ID
	SGD	SGD equivalent of €500,000	N/A	IE00BYYJYN11	N/A
R	EUR	€ 10,000	19/9/13	IE00BCZQ7T48	AFIREUR ID
	GBP	GBP equivalent of €10,000	13/1/16	IE00BCZNX194	AFCIRGB ID
	USD	USD equivalent of €10,000	3/12/13	IE00BCZNXN11	AFIRUSD ID
	CHF	CHF equivalent of €10,000	4/12/13	IE00BCZQ7S31	AFIRCHF ID
	SGD	SGD equivalent of €10,000	N/A	IE00BYYJYJ74	N/A
ID	EUR	€ 500,000	3/10/13	IE00BCZNWY50	AFIIDEU ID
	GBP	GBP equivalent of €500,000	N/A	IE00BCZNX087	AFCIDGBP ID
	USD	USD equivalent of €500,000	29/11/13	IE00BCZQ7R24	AFCIDUS ID
	CHF	CHF equivalent of €500,000	N/A	IE00BCZNWZ67	AFCIDCH ID
	SGD	SGD equivalent of €500,000	N/A	IE00BYYJYP35	N/A
RD	EUR	€ 100,000	1/4/14	IE00BCZNX202	AFCIRDE ID
	GBP	GBP equivalent of €100,000	28/4/15	IE00BCZNX319	AFCIRDG ID
	USD	USD equivalent of €100,000	N/A	IE00BCZNX426	AFCRDUD ID
	CHF	CHF equivalent of €100,000	N/A	IE00BD3D0179	AFCRDCH ID
	SGD	SGD equivalent of €100,000	N/A	IE00BYYJYM04	N/A

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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.