

Algebris Financial Income Fund (UCITS)

June 2018 Factsheet

Fund Terms

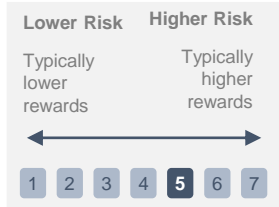
Size (€):	594m
Fund Inception:	13 August 2013
Domicile:	Ireland
Share Classes:	R (Accumulating) Rd (Distributing)
Liquidity:	Daily
Management Fee:	1.80%
Incentive Fee:	None
Bloomberg Ticker:	AFIREUR ID / AFCIRDE ID
ISIN (R/Rd EUR Share Classes):	IE00BCZQ7T48 / IE00BCZNX202
Data as of 30.06.2018	

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 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%.

Fund Information

No. of Bonds/ No. of Issuers	75/ 33
No. of Stocks	48
Duration of Bond Allocation	4.1 yrs
Avg. Rating of Bond Allocation	BB+
Bonds: Yield to Worst (gross)	4.8%
Equity: Dividend Yield (gross)	3.5%
Fund: Yield (gross)	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

Performance Analytics

Return Since Inception	41.1%
Annualised Return	7.3%
Annualised Volatility	10.0%
Sharpe Ratio	0.8

Note: Figures based on net returns for B EUR (Accumulating) class assuming admin, management and excluding ADL (Anti-Dilution Levy – currently 25bps). 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. Past performance is not a guarantee of future results. Inception date: 13 August 2013.

Source: Bloomberg LP, Algebris (UK) Limited

Performance History (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	8.74
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	2.08	-1.43	3.52	0.79	0.10	1.20	17.14
2018	4.75	-2.23	-3.06	1.61	-4.99	-1.25							-5.35

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. Past performance is not a guarantee of future results. Source: HSBC Securities Services (Ireland) DAC, Algebris (UK) Limited

Commentary

- The Algebris Financial Income Fund was down 1.25% in June as both Financial credit and equities were soft following a dovish ECB taper and escalating fears of a trade war. The global Financials ETF (IXG) was -2.32%, US Financials (XLF) were -1.75% and European banks (SX7P) were -0.57%. Spreads on financial hybrids continued to widen in June, affected by the broad credit weakness.
- Winners during the month included US alternative asset managers KKR and Apollo, European banks Sberbank and CaixaBank, Wells Fargo, and our hedge book. Detractors included a handful of European banks and US life insurers.
- In the US, we viewed CCAR as a positive event for the banks. The major surprise (to some) was Wells Fargo passing the qualitative portion of the exam and instituting a massive share buyback of \$24.5 bn. Wells' total payout yield now represents over 11% of market cap and the share buyback could approach roughly 15% of average daily volume. US banks now boast a total payout yield of 9%, still very compelling even after a strong run post election. We are focused on the larger universal banks as well as select regional banks where we see high and growing dividend yields, ample buybacks, asset sensitive balance sheets with strong deposit franchises, and idiosyncratic catalysts including potential M&A.
- The 2/10 yield curve in the US continues to flatten. Every newspaper is talking about it and seemingly every macro fund is pointing to a flattening curve as justification to sell the banks, despite the positive micro trends noted above. A few points here. First, bank net interest margins are highly positively (0.8-0.9) correlated to the absolute level of rates; the correlation with the slope of the curve is in fact slightly negative. But does a flatter curve portend recession, or at least that we are getting increasingly late cycle in the US? Perhaps, although flattening yield curves have been terrible predictors of recession outside the US (ie in Japan, UK, and Germany). If anything, the curve that we focus on is at the short end – eg 3 month/3 year. This portion of the curve is just as predictive historically of US recessions as the 2/10 and much less influenced by the global QE (Fed, ECB, BOJ) that is suppressing long end yields everywhere. This portion of the curve has shown no signs of flattening even as 2/10s have compressed meaningfully. And finally, how have Financials traded in prior bear flatteners? Looking at the past four cycles, macro funds may be surprised to learn that Financials have actually outperformed four out of four times. Simply put, the curve flattening story is one to monitor but in and of itself, an unconvincing reason to sell Financials. And perhaps particularly so at a time when US inflation just hit 6 year highs, global nominal GDP growth is looking to be close to 6% this year, and real policy rates remain negative for developed markets. A 9% (and growing) free cash flow yield seems more compelling by the day.
- In Europe, where nominal as well as real policy rates are still negative, June saw the ECB deliver a 'dovish' tapering. Had it been 'hawkish', yes, it would have given an immediate boost to bank share prices but earnings are going up and the index is not that far above the March 2009 levels in Europe. After 10 years, we are finally getting there. Eurozone PMIs stabilised in June, politics is taking a back seat, or at least the same seat it always takes. We are comfortable in our positions and being vigilant but for now there seems to be a lot more to be content with. The end of QE benefits one sector, and that is the financials.

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Commentary - continued

- In credit, despite the year-to-date weakness, we maintain a strong conviction on our core, high quality credit names as the recent sell-off, combined with unchanged fundamentals, offers increasingly attractive entry points. There is an overhang of possible supply that has prevented the market from rallying strongly on days where risk assets have rebounded but this has set up a situation where we think supply that comes over the next few months should be a very good combination of reset spreads and all in yields.
- Regulation continues to be a tailwind for financial hybrids in Europe. All European banks subject to the US stress test (CCAR), except DB, passed this year's exercise, despite harsher adverse assumptions. Meanwhile, the higher countercyclical buffer applied by French (+25bps) and Danish (+50bps) regulators, also considered by the Central Bank of Ireland, had little impact as banks maintain ample capital buffers. Finally, the ECB's focus on NPL is on the path to achieving the intended results. Italian banks have accelerated NPL disposals, with BAMI in particular well on track to over-deliver on its de-risking plan. Meanwhile, Sabadell received offers for €10.8bn of real estate assets (NPL and foreclosed) that once concluded should meaningfully improve the bank's asset quality. CaixaBank also surprised the market with an announcement to sell its entire real estate portfolio which contributed to the improved performance of the bonds.
- Supply picked up in June, as banks and insurers lined up to issue ahead of the Q2 earnings black-out period. In Europe we had one AT1 from Danske as well as Tier 2s issued by Caixa Geral and Novo Banco. Danske issued a \$750m equity conversion callable in 7 years and every 6 months thereafter, carrying a 7% coupon and 4.13% backend. So far this year we have seen gross supply of €13bn in both AT1 and Tier 2, against a €25bn expectation for the full year.

Top 5 Equity Holdings

Rank	Issuer name
1	Prudential Financial
2	Blackstone
3	BNP Paribas
4	CaixaBank
5	Unicredit

Source: Algebris (UK) Limited

Top 5 Bond Holdings

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

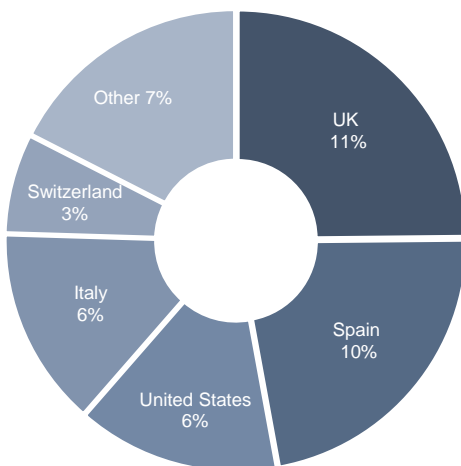
Source: Algebris (UK) Limited

Portfolio Composition (Asset Allocation)

	Allocation
Equities	60.6%
Bonds	42.6%
Hedges (delta)	-14.3%

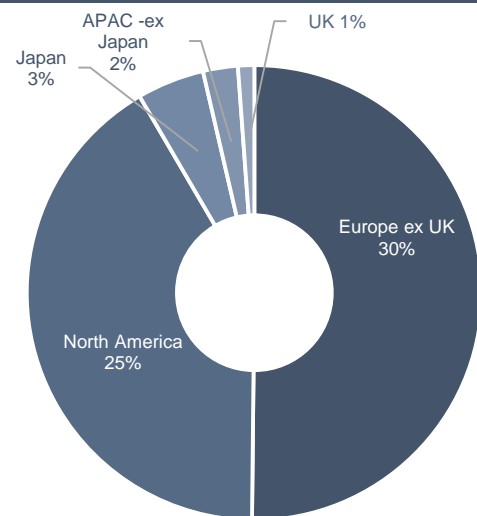
Exposure is calculated on a delta adjusted basis for option positions and on a full notional basis for all other instruments. Excludes bond futures used for hedging duration.
Source: Algebris (UK) Limited

Bonds – Exposure by Country



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

Equities – Exposure by Region

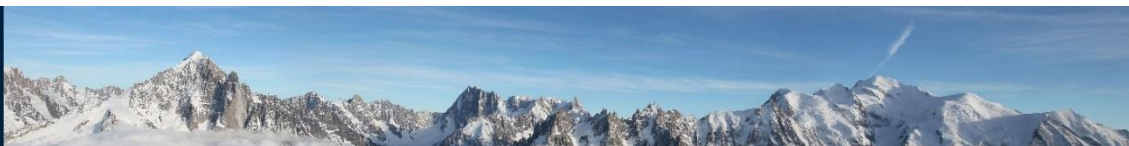


Exposure includes long equity holdings.
Source: Algebris (UK) Limited.

About Algebris

Algebris (UK) Limited is 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 24 investment professionals and manages EUR 11.9bn AUM (inclusive of committed capital), split between credit and equity investments (data as of 30 June 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.



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Fund Details

Share Class			Identifiers	
Class	CCY	Min Investment	ISIN	BBG ticker
I	EUR	€ 500,000	IE00BCZNWT08	AFIIEUR ID
	GBP	GBP equivalent of €500,000	IE00BCZNWW37	AFCIIGB ID
	USD	USD equivalent of €500,000	IE00BCZNWX44	AFCIIUS ID
	CHF	CHF equivalent of €500,000	IE00BCZNWV20	ALGFIC ID
	SGD	SGD equivalent of €500,000	IE00BYYJYN11	N/A
	JPY	JPY equivalent of €500,000	IE00BD71WT90	N/A
R	EUR	€ 10,000	IE00BCZQ7T48	AFIREUR ID
	GBP	GBP equivalent of €10,000	IE00BCZN194	AFCIRGB ID
	USD	USD equivalent of €10,000	IE00BCZN11	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	N/A
ID	EUR	€ 500,000	IE00BCZNWY50	AFIIDEU ID
	GBP	GBP equivalent of €500,000	IE00BCZN087	AFCIDGBP ID
	USD	USD equivalent of €500,000	IE00BCZQ7R24	AFCIDUS ID
	CHF	CHF equivalent of €500,000	IE00BCZNWZ67	AFCIDCH ID
	SGD	SGD equivalent of €500,000	IE00BYYJYP35	ALGFIDS ID
	JPY	JPY equivalent of €500,000	IE00BD71WV13	N/A
RD	EUR	€ 10,000	IE00BCZN202	AFCIRDE ID
	GBP	GBP equivalent of €10,000	IE00BCZN319	AFCIRDG ID
	USD	USD equivalent of €10,000	IE00BCZN426	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	N/A

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The State of 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 Zurich. The Basic documents of the Fund such as the prospectus, the key investor information document (KIID), the articles of association and 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.