



Algebris Financial Income Fund (UCITS)

I EUR (Accumulating)

June 2020

| Terms | |
|---------------------|----------------|
| Size (€): | 289m |
| 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 | 48/25 |
| No. of Stocks | 33 |
| Effective Duration of Bond Allocation | 5.1 yrs |
| Avg. Rating of Bond Allocation | BBB- |
| Bonds: Yield to Worst (Gross) | 5.7% |
| Equity: Dividend Yield (Gross) | 4.1% |
| Fund: Yield (Gross) | 4.9% |

| Performance Analytics | |
|--------------------------|-------|
| Return Since Inception | 30.3% |
| Annualised Return | 4.0% |
| Annualised Volatility | 13.5% |
| Sharpe Ratio | 0.4 |
| 2019 Annual Distribution | 5.3% |

Note: Fund gross yield reflects yield to worst for the bonds and dividend yield for the equities in the portfolio. The Avg. Credit Rating is calculated using an internal model 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 – up to 50bps). 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

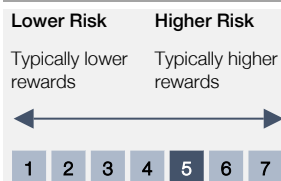
Source: HSBC Securities Services (Ireland) DAC, Morningstar

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 preference shares and hybrid capital instruments (e.g. Additional Tier 1 securities), 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 (SRR) 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) 2015 - Present

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Year |
|------|-------|-------|--------|------|-------|-------|------|-------|-------|-------|-------|-------|--------|
| 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 | 1.07 | -5.41 | -2.31 | -6.37 | -17.61 |
| 2019 | 6.65 | 3.27 | -1.75 | 5.68 | -5.15 | 3.94 | 0.46 | -1.71 | 3.80 | 2.05 | 2.96 | 2.36 | 24.28 |
| 2020 | -1.73 | -1.57 | -23.11 | 8.22 | 3.64 | 4.20 | | | | | | | -13.08 |

Note: Returns are net of management fees and operating expenses but exclude ADL (Anti-Dilution Levy – up to 50bps). 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

Despite growing geopolitical tensions and a rise in COVID-19 contagion rates, June was another positive month across risk assets as lockdowns eased, monetary policy remained conducive and economic data surprised to the upside. The recovery in global manufacturing activity and production was particularly beneficial to commodities, pushing up Brent +16.5% and copper +11.9%. Across equities, Europe outperformed the US with the Eurostoxx closing +6.5% against a +2% in the S&P 500, and European banks particularly outperforming in June, +9.3%, as one of the sectors that had lagged the broader market recovery.

In contrast to past crises, European policymakers have responded to the rapid onset of COVID swiftly and in a coordinated manner. Such widespread suspension of economic life is unprecedented, and the actions taken to keep the economy on life support have risen to the occasion.

In fact, in our view, we are witnessing a watershed in Europe. Austerity has been abandoned for aggressive fiscal expansion. The ECB is now paying banks to lend, and governments are pre-emptively absorbing banks' credit losses. Banks are being encouraged to consolidate by their regulator. The speed and chaos of the crisis has obscured the full impact of these policies. But behind all the numbers and complex programs, COVID has accelerated the transition to a New Policy Regime. We believe banks will be beneficiaries in the following aspects:

- Enhanced fiscal firepower at the EU and national government levels – will lead to falling risk premia, reduced credit losses, lowered borrowing costs, and rising profits
- New paradigm in monetary policy in which the ECB pays banks to lend – will lead to increased net interest margins, and rising profits
- Loan guarantee schemes which shift loan losses to governments – will lead to higher revenues, reduced credit losses, and rising profits
- Banks being encouraged to consolidate – will lead to higher efficiency, reduced costs, rising profits, and enhanced financial stability as weaker players are merged into stronger.

The ultimate impact that COVID will have on the economy is still unclear. However, the impact that the New Policy Regime will have on banks could not be clearer. Trading at less than 0.5x of tangible book value, we believe European bank equities offer a highly compelling risk-reward proposition. These valuations and the corresponding upside more than reflect the uncertain economic outlook. But they have yet to account for the New Policy Regime that is emerging in Europe, and the inflection in bank performance that will become clear as the peak of the COVID crisis falls further into the past.

In credit, compression across European rates and tighter spreads drove credit performance in June with higher beta securities lagging better-quality assets as flight to quality dominated. Spreads rallied up to 30bps across AT1, T2 and Senior, closing June on average at 670bps, 240bps, and 130bps, respectively. These outright spread levels remain well above pre-Covid ones and therefore continue to be relatively attractive, especially so for higher quality entities given all the efforts undertaken by regulators and Central Banks.

Regulatory pragmatism continues to be a key tailwind for credit investors across the financials landscape. To mitigate the economic consequences of COVID-19, the EU Parliament approved several changes to the capital requirement regulation (CRR), including the favourable treatment of SME and infrastructure loans, as well as those backed by pensions and salaries. In addition, banks will see a capital uplift from lower deduction of software intangibles. Importantly, the possibility of potential restrictions on AT1 coupons proved to be unsubstantiated; in fact, statements and references by regulators to the appropriateness and resiliency of bank capital buffers remains supportive not only to AT1s but the more broader financials' credit space.

As touched on above, another positive development for the European financial sector was a publication by the ECB around the topic of M&A. Although this theme has been softly touched upon by key members as banks struggle to remain as profitable (and viable) in a lower-for-longer rate world, this new guide is the clearest indication yet that there is a growing willingness for consolidation to take place, most likely within national borders first. M&A is always an idiosyncratic thorny quagmire with several degrees of complexity beyond what regulators can ultimately facilitate but having clarity around combined capital requirements, favourable treatment of goodwill, and bridge period for internal models should foment other transactions like Intesa's purchase of UBI.

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Commentary - continued

The combination of the aforementioned clarity around AT1 coupons, ongoing central banks' asset purchasing programs compressing spreads, impeding blackout periods ahead of second quarter results, and upcoming calls into what could be a more geopolitically uncertain period for financial markets led to a significant uptick in financial issuance. At EUR35bn, June's new issuance by leading European banks was the third highest month over the past 12 months. This was especially the case with subordinated instruments which accounted for almost 25%, in line with some of the strongest months over the past few years and ahead of the YTD cumulative percentage of c15%. Senior issuance was equally as robust from a relative standpoint with primary deals printing very close to secondary fair value and we expect ongoing demand to keep driving spreads tighter over the next months. Considering the above, we maintained a very disciplined stance on new deal participation given what we believe to be some low risk premia starting to get priced in once again for more challenged banking franchises.

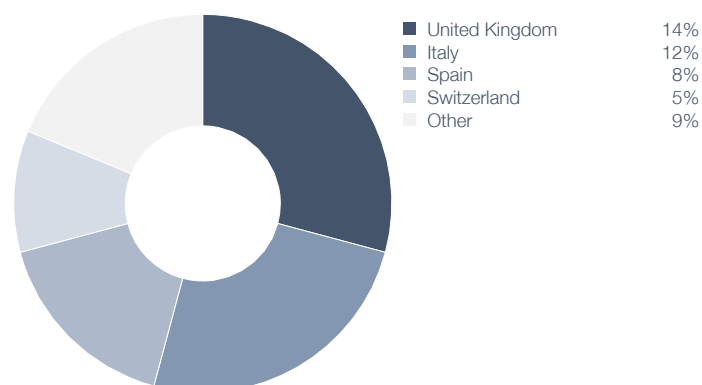
| Top 5 Equity Holdings | | Top 5 Bond Holdings | | Asset Allocation | |
|-----------------------|----------------------|---------------------|-----------------|------------------|------------|
| Rank | Issuer name | Rank | Issuer name | | Allocation |
| 1 | Credito Valtellinese | 1 | Unicredit | Bonds | 48% |
| 2 | BNP Paribas | 2 | Caixabank | Equity | 46.8% |
| 3 | ING | 3 | Intesa Sanpaolo | Hedges (delta) | -11.5% |
| 4 | Crédit Agricole | 4 | Santander | | |
| 5 | Unicredit | 5 | Lloyds | | |

Source: Algebris (UK) Limited

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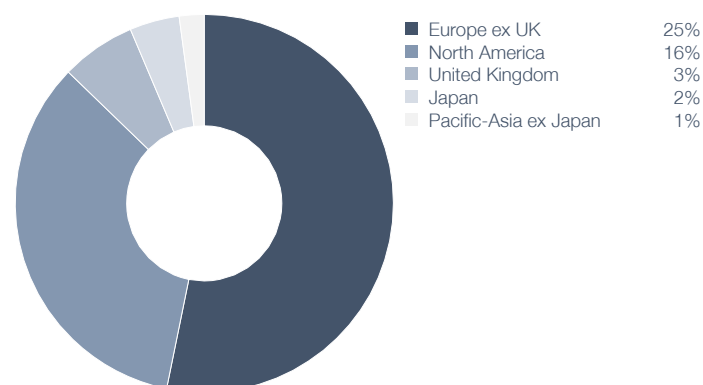
Exposure is calculated on a delta adjusted basis for option positions and on a full notional basis for all other instruments. Excludes bond futures used for hedging duration. Source: Algebris (UK) Limited

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 26 investment professionals and manages EUR 11.8bn AUM (inclusive of committed capital), split between credit and equity investments (data as of 30.06.2020).

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| 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 | IE00BCZNWX44 | AFCIUS ID |
| | CHF | CHF equivalent of €500,000 | IE00BCZNWV20 | ALGFIC ID |
| | SGD | SGD equivalent of €500,000 | IE00BYYJYN11 | ALGFIS ID |
| | JPY | JPY equivalent of €500,000 | IE00BD71WT90 | ALGFIJ ID |
| Id | EUR | €500,000 | IE00BCZNWY50 | 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 | IE00BCZNWZ67 | 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 |

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The strategy employed may result in the NAV exhibiting a high level of volatility. This Fund may invest in contingent convertible securities. These securities 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 the securities may fluctuate. Additional risk factors associated with contingent convertible securities 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, Leutschenbachstrasse 50, CH-8050 Zurich, whilst the Paying agent is Vontobel Ltd, Gotthardstrasse 43, CH-8022 Zürich. The basic documents of the Fund as well as the annual and, if applicable, semi-annual report may be obtained free of charge from the Representative.