

Algebris Financial Income Fund (UCITS)

May 2018 Factsheet

Fund Terms

Size (€):	592m
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 31.05.2018

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

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%.

Fund Information

No. of Bonds/ No. of Issuers	71/ 32
No. of Stocks	46
Duration of Bond Allocation	4.5 yrs
Avg. Rating of Bond Allocation	BBB-
Bonds: Yield to Worst (gross)	4.8%
Equity: Dividend Yield (gross)	3.5%
Fund: Yield (gross)	4.1%

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	42.9%
Annualised Return	7.7%
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								-4.15

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 Fund was down -4.99% during the month. Top contributors included Apollo Global Management, KKR and Carlyle, while key detractors were Credito Valtellinese, Santander and Intesa
- The European bank sector (the SX7E index) fell more than 15% during May. With both the equity and credit portions of the fund rather heavily weighted towards Europe, performance was negatively impacted during the month. We saw some significant short-term volatility over the final 12 trading sessions of the month and although we repositioned ourselves more cautiously in Italy, the recovery themes are still very evident in Europe - just with 15%-20% additional upside – on-top of our 30% - 150% upside that we thought there was prior to the sell-off. We have maintained our positions for the grind back up. In short, our overarching view of a recovering macro-economy, the beginning of the tightening monetary cycle and a strong positive turn in the provision cycle has not changed
- The market managed to get itself caught up in a short re-run of the Eurozone crisis. In the end, it lasted barely a week but certainly caused a whiff of market panic as the institutional muscle memory of losses from the Eurozone crisis in 2011 led to a 'sell now, think later mentality' amongst investors
- The proximate cause was the escalation of Italian risk as the Five Star Movement and Lega Nord came together in an attempt to form a populist government. Markets feared Euro exit, despite a recent poll showing that more than 70% of Italians want to remain in the Euro. BTP yields took off, the market sold anything Italian and it was left to the two inexperienced parties to sooth market nerves with a more market friendly choice of finance minister and protestations of their desire to stay in the Euro/EU. For us, the issue is more that the parties want to deficit spend too large an amount. Reality/power collided somewhat with their plans. But even here they were quick to respond with staggered spending and tax raising ideas
- With >70% of Italians wanting to stay in the Euro, we see a very low chance to Italy 'leaving'. In the meantime, the risk off mentality should ultimately unwind but there are certainly enough pressure points such as the end of QE and Italian politicians wanting Europe to 'relax' about deficit spending to cause volatility to remain at least reasonably high in Italy for the time being.
- European GDP growth is strong, unemployment is falling, property prices are rising...the banks are normalising. They are growing their top-line (volumes and liability margins up), provisions down. EPS and DPS are finally in an up cycle following 9 years going the wrong way. We can expect the bank sector which already yields north of 5% (and individual banks such as Intesa yielding 8.4%) continue to see earnings and cashflow increase
- As a matter of context, May was the third worst month for the European bank stock index (SX7E) in the past 20 years in a month when the S&P 500 was up (lagging only the Russian default in 1998 and Brexit in 2016). While history may well not repeat, it is notable that in the subsequent six months following those periods, performance of the SX7E was +30% and +41%, respectively
- In the US, financials outperformed the carnage in Europe but were still weak in the month of May, down 1% as a group. This was the fourth consecutive down month for US financials after a strong January, leaving them down a bit more than 1% for the year through May
- In a tough market overall for Financials, perhaps the only subsector more hated than European banks right now is US life insurance. US life stocks fell anywhere from 5-20% in May, bringing YTD performance in the group to -12%. This is especially surprising given the favourable macro backdrop (US bond yields and equity markets both up)

Contact us

Call: +44 (0) 203 196 2450
Email: algebrisIR@algebris.com
Visit: www.algebris.com



Algebris Financial Income Fund (UCITS)

May 2018 Factsheet

Commentary - continued

- While valid micro concerns exist – in particular in the troubled long term care space – we see the baby getting thrown out with the bathwater in this case as most companies enjoy strong balance sheets and relatively stable operating earnings which benefit from higher rates and inflation. Quality companies with diversified business mixes and little to no exposure to LTC have been punished to the point where they are trading at double digit payout yields and mid-single digit earnings multiples.
- Return of free cash flow has been increasingly important for the sector, with companies such as Ameriprise and Voya having returned 100-125% of operating earnings to shareholders via dividends and buybacks over the past five years. This growing and significant cash return belies the commonly held view of lifecops as “black boxes”. It is also higher than the average US bank, which tends to trade at ~2x the valuation.
- The degree of selling this year has gotten so extreme, the entire listed market cap of US life insurance (which has earnings power of nearly \$30 bn) is now less than \$240 bn. For context, that is only slightly more than Netflix (whose earnings power, according to Bloomberg, is ~\$2bn) and just 60% of the market cap created by Amazon in the last eight months alone (Amazon made all of \$3bn in the last 12 months). Sentiment is dire, valuations are simply too cheap to ignore, cash flow is improving, fundamentals remain strong, and M&A buyers are lurking. This is typically a powerful combination for go-forward stock performance, and as such we have significantly increased our exposure to the US life space this month
- Finally, within credit, despite the short-term volatility associated with BTPs, we maintain a positive view on our core Italian names, Intesa and Unicredit, and the asset class more broadly. We expect comments from politicians and headlines that may drive spreads wider over the next few months but ultimately both the ability and willingness of this government to drive Italy out of the Eurozone is low. In our view, the recent credit sell-off may offer an attractive entry point for a long-term performance, particularly on high quality Italian, Spanish and French names. We have consistently maintained significant cash buffers and are in good position to benefit from the increasingly compelling opportunities in the financial hybrids space, with bonds in some cases 15+ points off of levels seen just in January of this year
- In 2013 some of the first AT1's such as the Barclays and SocGen 8.25% bonds were issued with initial spreads in the +650-675 range and, despite the improvements in capital and liquidity ratios and a clearer regulatory framework over the last 5 years, bonds like the new CaixaBank AT1 offer spreads of +675 over today. A lot of hard won progress made over the last 5 years has been unwound in a short period of time. There have been several bouts of volatility in this asset class over that time period but in a backdrop of low policy rates and good fundamentals, we remain very comfortable with the portfolio and will continue to opportunistically deploy capital if volatile markets create opportunities.

Top 5 Equity Holdings

Rank	Issuer name
1	Prudential Financial
2	Blackstone
3	CaixaBank
4	Commerzbank
5	Société Générale

Source: Algebris (UK) Limited

Top 5 Bond Holdings

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

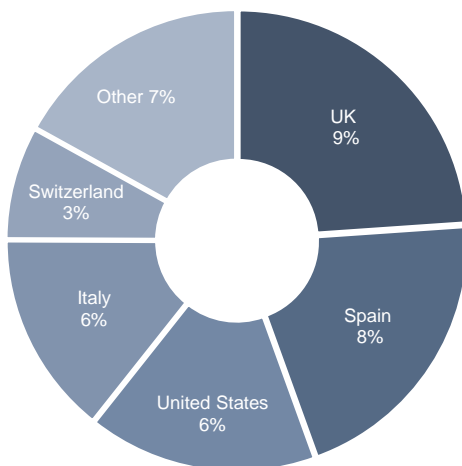
Source: Algebris (UK) Limited

Portfolio Composition (Asset Allocation)

	Allocation
Equities	53.1%
Bonds	38.8%
Hedges (delta)	-7.9%

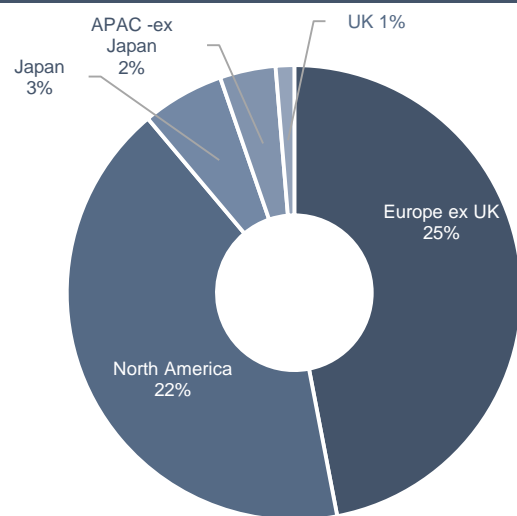
Exposure is calculated on a delta adjusted basis for option positions and on a full notional basis for all other instruments. Excludes bond futures used for hedging duration. Source: Algebris (UK) Limited

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 12.0bn AUM (inclusive of committed capital), split between credit and equity investments (data as of 31 May 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.



Algebris Financial Income Fund (UCITS)

May 2018 Factsheet

Contact Us

London Algebris (UK) Limited 4th Floor, 1 St James's Market London SW1Y 4AH Tel: +44 (0) 203 196 2450 Email: algebrisIR@algebris.com Visit: www.algebris.com	Singapore Algebris Investments (Asia) Pte. Ltd 50 Raffles Place #38-07 Singapore Land Tower Singapore 048623	Boston Algebris Investments (US) Inc. 699 Boylston Street Boston MA 02116 United States of America	Milan Algebris (UK) Limited – Milan Branch Via Fatebenefratelli10 20121 Milano, Italy	Luxembourg Algebris Investments (Luxembourg) S.a.r.l. 40 Avenue Monterey L-2163 Luxembourg	Tokyo Algebris Investments K.K. Yusen Building 1F, 2-3-2 Marunouchi Chiyoda-ku, Tokyo 100- 0005 Japan
---	--	--	--	---	---

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

Private & Confidential

This document has been prepared and is provided by Algebris (UK) Limited who is the Investment Manager to the Algebris Financial Income Fund. Algebris (UK) Limited is authorised and regulated by the Financial Conduct Authority. 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 Algebris (UK) Limited. 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. 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. The information included herein and other materials provided to you are intended only for discussion purposes. This information is not intended to provide, and should not be relied upon for, accounting, legal or tax advice or investment recommendations. 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 transaction 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. This document is being issued by Algebris (UK) Limited and is for private circulation only. 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 Algebris (UK) Limited in each such instance is prohibited. Notwithstanding anything to the contrary herein, each shareholder (and each employee, representative, or other agent of such shareholder) may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of (i) Algebris (UK) Limited and (ii) any of its transactions, and all materials of any kind (including opinions or other tax analyses) that are provided to the shareholder relating to such tax treatment and tax structure. This document is being communicated by Algebris (UK) Limited only to persons to whom it may lawfully be issued under The Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 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. The strategy employed may result in the NAV exhibiting a high level of volatility and so is suitable for professional investors only. The current document is intended for information purposes only and shall not be used as an offer to buy and/or sell shares. The performance shown does not take account of any commissions and costs charged when subscribing to and redeeming shares. Past performance may not be reliable guide to future performance. 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 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.