



Algebris Financial Income Fund (UCITS)

I EUR (Accumulating)

November 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	46/23
No. of Stocks	31
Effective Duration of Bond Allocation	4.8 yrs
Avg. Rating of Bond Allocation	BBB-
Bonds: Yield to Worst (Gross)	4.6%
Equity: Dividend Yield (Gross)	3.6%
Fund: Yield (Gross)	4.1%

Performance Analytics	
Return Since Inception	51.9%
Annualised Return	6.0%
Annualised Volatility	13.9%
Sharpe Ratio	0.5
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. Avg. Credit Rating is calculated using internal methodology based on major agency ratings and includes all rated bonds and cash. Source: Bloomberg LP, Algebris (UK) Limited

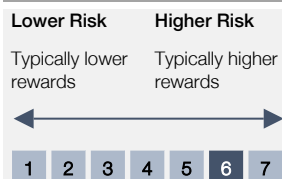
Note: Figures are based on returns for the I EUR (Accumulating) share class, net of management fees and operating expenses and excluding ADL (Anti-Dilution Levy – up to 25bps). The actual price at which an investor subscribes or redeems shares depends on the ADL applied on the relevant dealing day. Further 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 (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 6 means the Fund's historic volatility is between 15% and 25%.

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	-1.20	5.93	-4.69	-1.37	18.55		1.38

Note: Returns are net of management fees and operating expenses but exclude ADL (Anti-Dilution Levy – up to 25bps). 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

- On the heels of the worst ever month for European bank stocks in March (-36%), we saw the best ever month in November with an index return of +38%. In a month of extreme risk-on moves following the US election and positive vaccine data, European banks were the best performing asset class, handily outperforming US and Japanese banks (+17% and +5%, respectively) as well as the broader MSCI AC Financials index (+18.7%). Our fund was well positioned with over half of the equity portfolio in European banks coming into the month, and with several core positions up 40-50%. We also benefited from very strong performance in the US book with key positions such as Athene, Citigroup and Wells Fargo all up in the 30-40% range, well outperforming peers.
- After such momentous volatility, we think it is prudent to take a step back and ask, where are we now? When we zoom out, we see that even after the strong November rally, Financials are still suffering the worst relative performance versus the broader markets in over 25 years (the global Financial sector is underperforming the MSCI World by 18% in 2020). The market cap of the entire Eurozone banking index sits at less than €400 bn, or roughly the market cap of Visa. When looking across the European bank capital structure, current credit spreads imply that bank equities should trade ~80% higher than current levels. And the move higher in European banks has only brought the sector back to 0.55x tangible, which is where the sector *troughed* in prior crises including the GFC, Eurozone crisis, and Brexit. Subsequent 12-month returns from those troughs ranged from +60% to +140%.
- Similarly on a price/earnings basis, we find that European banks have simply reverted back to the very bottom end of the two decade pre-Covid range of 60-90% of the market multiple. So we sit at the bottom of the valuation range, and yet forward earnings are actually getting upgraded at the highest pace in over three years. Much of this has been provision-led (as cost of risk estimates got excessively bearish over the spring/summer) but we are starting to finally see an upward bias in top line trends as well with Euribor stabilizing, the forward rate curve steepening, and inflation breakevens now back up to 18-month highs.
- In the midst of all the big macro catalysts that November brought, we also saw two significant M&A announcements in the sector, both of which we discussed in our October white paper on European bank M&A. First, BBVA sold its US bank (Compass) at a very attractive price of 1.35x tangible book, which upon closing in 2021 will create a significant pile of excess capital. Interestingly, the same day the disposal was announced, the market learned that BBVA and Sabadell were in discussions to merge. We find the strategic and financial rationale for a domestic acquisition to be highly compelling, and while the two banks have since announced they could not agree to a price, we would be surprised if this deal was not revived at some point (notably, two other Spanish banks, Unicaja and Liberbank, agreed an exchange ratio during the month after having called of merger talks last year). Secondly, in Italy we saw Credit Agricole bid on Credito Valtellinese, a mid-sized regional lender with a ~€25 bn asset base. Again, we see this as a win-win and would expect a deal to be consummated at or above the existing bid at some point in 2021. In our view, consolidation across the sector is a positive catalyst for both credit and equity as it further improves asset quality, and strengthens profitability. Importantly, and unlike the Global Financial Crisis, recent regulatory and fiscal measures granted by relevant authorities, i.e. 100% badwill recognition, minimise capital headwinds and therefore encourage M&A.
- Despite a clear pivot towards improving fundamentals and with valuations sitting at trough levels, we find that positioning remains light and sentiment negative. There is likely some reluctance among investors to chase a sector that has rallied hard. But this seems misplaced with European banks still down nearly 25% year-to-date and with history showing that previous quick, sharp (15%+ in a week) rallies have been followed by positive 12-month returns 87% of the time, with a median subsequent return of +26%. There is also possibly some angst about the question of what the ECB will do with bank dividends. In our view, the focus here is unsurprising but perhaps a bit excessive, as it is very likely that on a 6-12 month view we will see a resumption of dividends and that the strongest banks, which is where we are focused, will be well-positioned to start returning significant amounts of capital via dividends, buybacks, or highly accretive inorganic deals.

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Commentary - continued

- Financial credit performed very strongly during November with spreads tightening 25-100bps across the board. AT1 securities' rose on average by 4pts (yields tightened around 100bps), while Tier 2 and Senior ended the month on average 1-2pts higher. After last month's statement by the EBA around legacy instruments and their potential "infection risk", banks continued to take action on their outstanding legacy securities that might represent an impediment to resolution. With a similar response anticipated from the UK's PRA, Lloyds launched an LME (*Liability Management Exercise*) on five legacy securities (three Tier 1 and two Tier 2), offering a combination of cash and attractive exchange into a new Tier 2 security which received a strong take-up. With Basel 3 grandfathering ending in January 2022, we expect banks to keep acting on legacy instruments, redeeming the remaining bonds over the next two years.
- Primary activity in November picked up after the completion of the third quarter results season. Deals were mainly (c60%) concentrated in the Senior space as banks continue to fill out MREL requirements as part of ongoing funding plans. There were only a handful of Subordinated deals and these were aimed at refinancing instruments due for upcoming calls as financial terms are relatively better. What remains very evident across the capital structure is the insatiable demand for financial credit assets where spreads remain wide vis-à-vis historic tights, both pre-CoVID and March 2018. With bank capital securities remaining outside of the scope of global central bank buying (QE), spreads and yields in our space remain among the most attractive in global fixed income, particularly when adjusted for the fundamental strength of our core holdings across global and domestic systemic national champions.

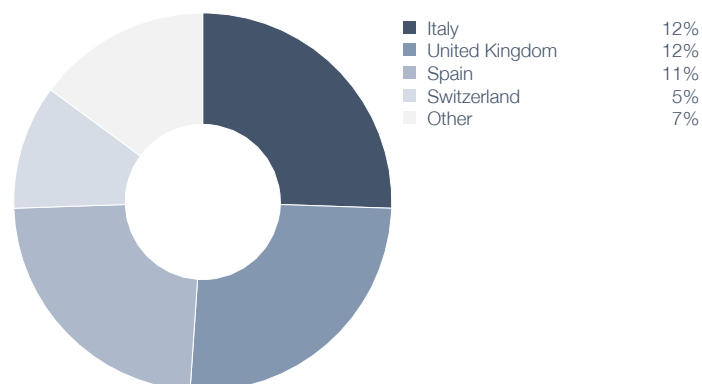
Top 5 Equity Holdings		Top 5 Bond Holdings		Asset Allocation	
Rank	Issuer name	Rank	Issuer name		Allocation
1	Credito Valtellinese	1	Unicredit	Equity	51.5%
2	Santander	2	Santander	Bonds	46.7%
3	BNP Paribas	3	CaixaBank	Hedges (delta)	-8.8%
4	ING	4	Intesa Sanpaolo		
5	Athene Holding	5	Barclays		

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

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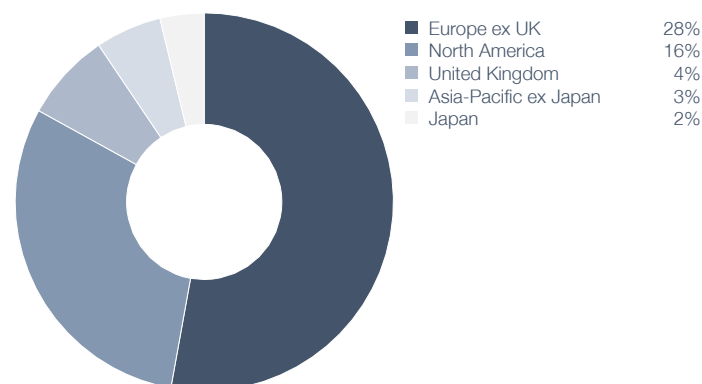
Source: Algebris (UK) Limited

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 28 investment professionals and manages EUR 13.6bn AUM (inclusive of committed capital), split between credit and equity investments (data as of 30.11.2020).

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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	AFCIIUS 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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