



Algebris Financial Income Fund (UCITS)

I EUR (Accumulating)

October 2018

Terms	
Size (€):	543m
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	79/34
No. of Stocks	45
Effective Duration of Bond Allocation	4.8 yrs
Avg. Rating of Bond Allocation	BB+
Bonds: Yield to Worst (Gross)	6.4%
Equity: Dividend Yield (Gross)	4.0%
Fund: Yield (Gross)	5.7%

Performance Analytics	
Return Since Inception	31.8%
Annualised Return	5.6%
Annualised Volatility	10.1%
Sharpe Ratio	0.6
2017 Annual Distribution	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

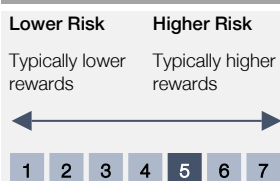
Note: Figures are based on returns for the I EUR (Accumulating) share class, net of management fees and operating expenses and excluding ADL (Anti-Dilution Levy – currently 12.5bps). The actual price at which an investor subscribes or redeems shares depends on the ADL applied on the relevant dealing 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 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 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)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2013										3.89	2.05	2.29	8.45
2014	0.45	2.86	1.28	-0.31	0.45	0.32	-0.29	1.19	-1.16	0.46	1.53	-0.69	6.20
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			-9.93

Note: Returns are net of management fees and operating expenses but exclude ADL (Anti-Dilution Levy – Currently 12.5bps). 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

- October was a difficult month for assets across the board with sharply negative returns for both risk assets and traditional safe havens. Fed Chair Jerome Powell said that interest rates were still “a long way from neutral” implying continued rate hikes and tighter financial conditions which precipitated the selloff in the US. In Europe, the rejection of the Italian budget by the EU Commission kept the concerns around the country's fiscal plans in the spotlight, bringing the BTP-Bund spread to 304bps (+36bps MoM) and causing major losses across the domestic market. The FTSE MIB, Italy's main index, was down 7.1%, with banks leading the sell-off at -13.3%
- After a rebound last month, AT1s fared poorly in October given the weak backdrop. EC officials rejected the first draft Italian budget proposal, asking the Italian government to review its 2.4% deficit target and arguing that the GDP growth targets assumed by the government are too optimistic (2019: +1.5%). This was later confirmed by the weak GDP print for Q3, showing an annualised growth of <1% for 2018. Meanwhile, S&P and Moody's announced their rating review on the country, with fears of more severe downgrades not realized. Nevertheless, BTP spreads moved modestly wider over the month
- Results from the EBA Stress Test, released in early November, were positive, revealing continued capital build-up in line with our expectations. 48 banks from 15 countries participated in the test, which assumed a combination of severe stress conditions over a period of three years (2018-20). More severe macro assumptions compared to the 2016 test included a -2.7% fall in GDP, unemployment growing up to 9.7%, residential and commercial real estate prices down by -19% and -20%, respectively. Credit losses, increased by the application of IFRS 9 which serves to front load life of loan credit costs, represented the main capital drawdown at €358bn (-4.3% of CET1). Despite the above, average CET1 and leverage ratios were higher than the last test, at 10.3% (vs. 9.4%) and 4.4% (vs. 4.2%) respectively. No subordinated bond was triggered in the adverse scenario, which is supportive to our investment case. Moreover, it is worth noting that the banks that came out weaker in the test have completed a significant de-risking over the past ten months, which would mitigate the exercise's drawdown.
- Towards the end of the month, the European bank equity index zeroed in towards the lows of the global financial crisis in March 2009. We find this inconsistent with the (finally) recapitalised sector, a positive credit cycle and the highest RoTEs post crisis - and climbing. Dividend yields on average for the sector are now 6% and we have only just started an earnings/dividends upgrade cycle. Our analysis shows Eurozone banks can benefit with 20% earnings upgrades when/if the ECB begins hiking rates off the current -40 bps level. But whilst we wait, volumes are going up and provisions are falling, meaning earnings are going up regardless of rates rises...and a swathe of European banks already are in double digit RoTE territory, with cautious payout ratios and share prices trading often well below tangible book value.
- In recent months, we have often discussed the recovery plays in Europe with >100% upside, but perhaps it is worth a few lines on a more 'boring' stock that we now own. ING, a Dutch bank that had a very tough crisis. Government ownership, recaps, massive reorganisation...fortunately we have come out the other side of the tunnel. The company is growing its balance sheet again, has started to pay dividends, removed the government from its ownership structure and is increasing its RoTE to 11% - and that is with interest rates still at -40bps and a capital ratio (CET1) at 14%. As at the month end, we have 60% upside, a P/TBV of 0.75x and a dividend yield next year of close to 7%. To us, this is compelling, and ING is hardly atypical of a lot of sensibly run European bank stocks at the moment.

Contact Details

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



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Commentary - continued

- In North America, we used the weakness during the month (US regional banks -9%) to add to our modest position in US financials. Primarily we have deployed our dry powder into high quality large- and mid-cap banks, as discussed in last month's commentary. However we have also begun building up exposure to the much maligned asset manager space. Everyone is fully aware of the trend towards passive and the impact this has on flows and revenue yields. But these companies remain highly profitable and huge cash flow generators, with FCF yields in many cases well into the high teens. What is really interesting to us is to see Invesco buy Oppenheimer last month for what we thought was a very rich price of \$5.7 bn, which equates to about 14x earnings and 2.5% of a AUM. Yet even with such a high valuation paid, Invesco is still targeting 27% earnings accretion by 2020. This suggests to us that the private market valuation of many of these companies are significantly in excess of their public market values of 4-7x cash earnings. We do think M&A is going to accelerate in this sector next year and are starting to position for this. Furthermore, we are starting to see management teams aggressively use their excess capital to buy back shares – in some cases we see a quarter of the existing share count likely to be retired in the relatively near term. In our view this is shaping up to be exactly the type of opportunity we look for – strong value, with potential catalysts on the horizon with ample dividend and buyback yields while we wait.

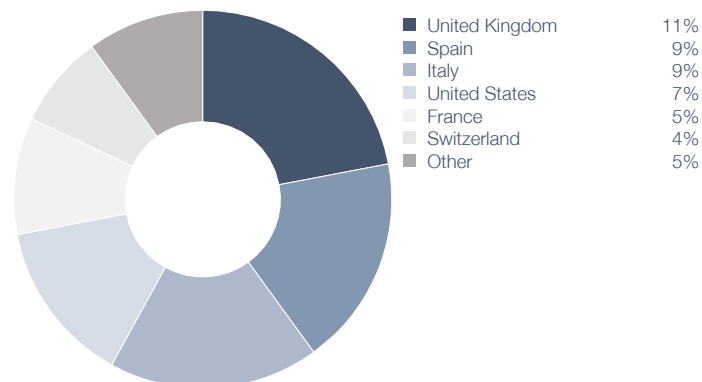
Top 5 Equity Holdings		Top 5 Bond Holdings		Asset Allocation	
Rank	Issuer name	Rank	Issuer name		Allocation
1	Commerzbank	1	Santander	Equity	63%
2	Santander	2	Unicredit	Bonds	50.4%
3	Banco de Sabadell	3	Intesa Sanpaolo	Hedges (delta)	-15%
4	ING	4	CaixaBank		
5	Prudential Financial	5	Barclays		

Exposure 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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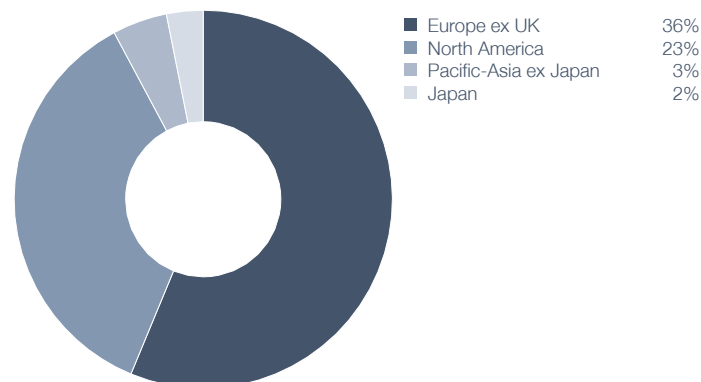
Source: Algebris (UK) Limited

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 21 investment professionals and manages EUR 11.2bn AUM (inclusive of committed capital), split between credit and equity investments (data as of 31.10.2018).

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.

Contact Details

London
Algebris (UK) Limited
4th Floor,
1 St James's Market
London SW1Y 4AH

Singapore
Algebris Investments
(Asia) Pte. Ltd
9 Straits View, #05-08
Marina One West Tower
Singapore 018937

Boston
Algebris Investments (US) Inc.
699 Boylston Street
Boston MA 02116
United States of America

Milan
Algebris (UK) Limited -
Milan Branch
Via Fatebenefratelli 10
20121 Milano, Italy

Luxembourg
Algebris Investments
(Luxembourg) S.a.r.l.
40 Avenue Monterey
L-2163 Luxembourg

Tokyo
Algebris Investments K.K.
JA Building 12F, 1-3-1
Otemachi, Chiyoda-ku
Tokyo 100-0004 Japan

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



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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	IE00BCZNXW44	AFCIUS ID
	CHF	CHF equivalent of €500,000	IE00BCZNNW20	ALGFIC ID
	SGD	SGD equivalent of €500,000	IE00BYYJYN11	ALGFIS ID
	JPY	JPY equivalent of €500,000	IE00BD71WT90	ALGFIJ ID
Id	EUR	€500,000	IE00BCZNNW50	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	IE00BCZNNWZ67	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 ('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 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.

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