

## AXIOM EUROPEAN FINANCIAL DEBT FUND LIMITED

Closed-end Guernsey fund invested in regulatory capital securities in Europe. Seeking opportunities presented by the Basel III and Solvency II transitions. A diversified approach across subordinated debt issued by financials, investing in 5 sub-strategies. Target return of 10% p.a. over 7 years.

### KEY METRICS AND RISK ANALYSIS

Share price (mid) (GB pence)	83.00
NAV per share (daily) (GB pence)	89.73
Dividends paid over last 12 months (GB pence)	6.00
Shares in issue	91 852 904
Market capitalisation (GBP mn)	76.24
Total net assets (GBP mn)	82.42
Premium / (Discount)	(7.50)

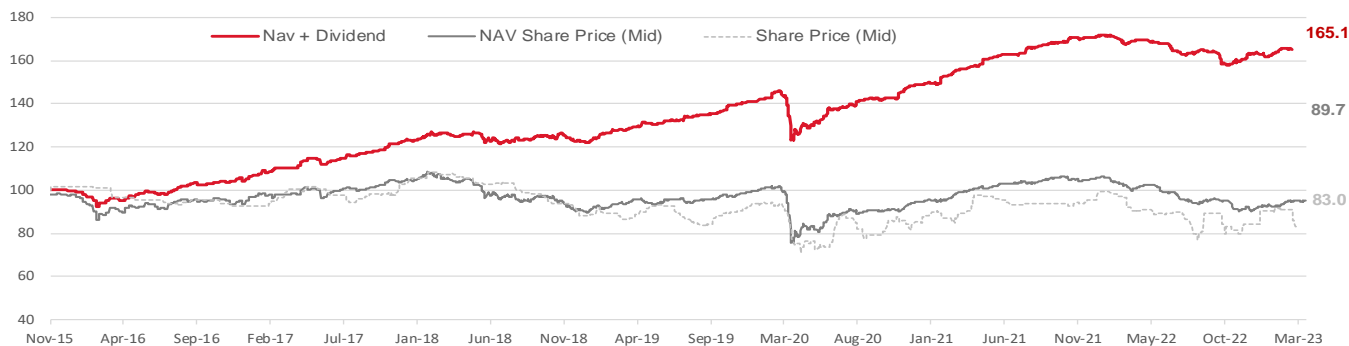
Modified duration	0.32
Sensitivity to credit	3.89
Positions	84
Average price at end of the month <sup>1</sup>	85.12
Running yield (GBP)	9.30%
Yield to perpetuity (GBP) <sup>2</sup>	12.23%
Yield to call (GBP) <sup>3</sup>	14.90%

### Top 10 Holdings

Security	Strategy	% NAV
Intesa Sanpaolo SpA 7.75% Perp (Var)	Liq. RV	2.58%
Deutsche Bank AG 4.625% 10/30/27 Perp (Var)	Liq. RV	2.46%
eSure Group PLC 6.000% Perp (Var)	Midcap Orig.	2.42%
Barclays PLC 6.375% Perp (VAR)	Liq. RV	2.36%
Volksbank Wien AG 7.750% Perp (Var)	Less Liq. RV	2.15%
Shawbrook Group 12.103% 12/08/27 Perp (Var)	Midcap Orig.	2.11%
Novo Banco SA 8.500% 07/06/28 (Var)	Rest.	2.04%
KBC Group NV 4.25% Perp (Var)	Liq. RV	1.99%
International Personal Finance PLC 9.750% 11/12/25	Rest.	1.95%
Aareal Bank AG 7.321% Perp (Var)	Liq. RV	1.87%

### RETURNS EVOLUTION SINCE INCEPTION<sup>4</sup>

Performance since inception (rebased at 100)



### Net Annualized Returns

	3 months <sup>6</sup>			6 months <sup>6</sup>			1 year <sup>6</sup>			3 years <sup>6</sup>			Since launch <sup>6</sup>	
	-1.61%			1.89%			-6.44%			10.97%			4.80%	
	Jan	Feb	Mar	April	May	June	Jul	Aug	Sep	Oct	Nov	Dec	Total	
2015											0.19%	-1.48%	-1.29%	
2016	-4.02%	-4.59%	3.57%	1.16%	2.62%	-1.97%	2.83%	1.69%	-0.21%	2.06%	-1.6%	1.91%	3.1%	
2017	2.67%	0.93%	1.12%	2.01%	1.72%	-1.41%	1.86%	0.58%	1.76%	2.72%	1.31%	0.23%	16.14%	
2018	3.12%	-0.7%	-1.95%	1.14%	-5.84%	-0.72%	1.6%	-1.26%	2.43%	-1.54%	-2.68%	-1.44%	-8.00%	
2019	3.36%	2.30%	0.29%	2.53%	-1.58%	2.29%	0.30%	0.75%	0.97%	2.22%	1.77%	1.12%	16.98%	
2020	1.99%	-0.87%	-19.95%	5.24%	3.68%	4.27%	1.90%	1.88%	-0.32%	0.53%	5.03%	1.48%	1.73%	
2021	-0.16%	3.78%	2.45%	2.15%	1.65%	1.27%	0.83%	1.19%	1.97%	0.18%	-0.45%	1.23%	16.87%	
2022	0.33%	-1.80%	0.03%	-0.85%	-0.95%	-4.15%	0.41%	1.64%	-4.41%	0.95%	1.98%	0.60%	-6.32%	
2023	2.26%	1.38%	-5.09%										-1.61%	

<sup>1</sup> Bonds only <sup>2</sup> The yield to perpetuity is the yield of the portfolio converted in GBP with the hypothesis that securities are not reimbursed and kept to perpetuity. <sup>3</sup> The yield to call is the yield of the portfolio converted in GBP at the anticipated reimbursement date of the bonds. <sup>4</sup> Past performance does not guarantee future results. <sup>5</sup> Annualized performance dividends reinvested. <sup>6</sup> Performance with dividends reinvested

## MARKET COMMENTARY



**Antonio Roman**  
Portfolio Manager



**Gildas Surry**  
Portfolio Manager

### Market commentary

US regional bank failures and the write-down of Credit Suisse AT1s triggered a sharp drawdown across European banks' capital structure. Equities and convertible securities were down almost 20% from their previous highs at the climax of the volatility episode. We see structural differences between US regionals, Credit Suisse and European banks: the latter are liquid, well-capitalized, tightly supervised, and display very low bank run risk due to sticky, granular and diverse deposit bases. We do not expect any spill over to the cost of deposits. If anything, national champions with stronger deposit franchises could benefit. The latest data shows that deposit betas stayed low, currently at 13% on average in the retail side, and 23% on the corporate side. Spain, Ireland, and Italy offer the lowest average deposit rates, while France offers the highest. The SX7R ended the month at -13.20% vs. -0.32% for the SXXR. The Coco Index was down -10.75%. Bund yields decreased by 30 bps while the Subfin Index widened by 32 bps.

Overall, we see the recent volatility episode as a byproduct of the banking fears originated from US regional banks with limited read-across for European banks. While the same applies for Credit Suisse, the latter was already suffering a wave of deposit outflow, and market action exacerbated panic, which led to a fire sale to UBS. European banks are liquid, capitalized, and aren't seeing deposit outflows. Over 70% of retail deposits are guaranteed and over 60% of corporate deposits are either operational (i.e. necessary to cover transaction cycles such as salary or supplier payments) or term deposits. The speed of the outflows seen at SVB, Signature Bank and Credit Suisse certainly sets a new precedent and may lead regulators to apply new liquidity stress factors to unstable deposits such as large private bank accounts or corporate demand savings accounts.

Regulators vocalised their confidence in the strength of European banks. SRB Chair Dominique Laboureix said, "we wanted to tell it very clearly to the investors, to avoid being misunderstood: we have no choice but to respect this hierarchy." ECB supervisory board Chair, Andrea Enria, confirmed that he is comfortable with the level of dividends and buybacks. He also called for better transparency in the single-name CDS market. Unicredit announced the ECB approved its €3.34bn share buyback. The bank will be distributing €5.25bn to shareholders this year with CET1 fully loaded ratio down 14.9% post distribution.

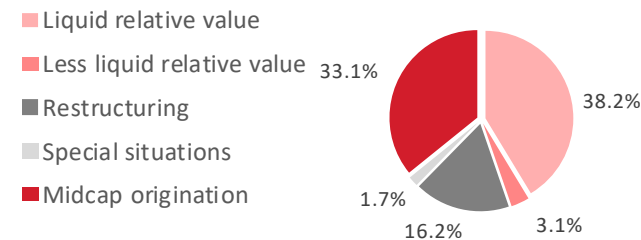
On the macro front, the Fed hiked rates by 25bps to the 4.75-5% range while the ECB proceeded with a 50 bps hike following the recent banking sector turmoil. Yet, Powell surprised the market with dovish guidance pointing to an end to the hiking cycle. The statement read that "additional policy firming may be appropriate", a downshift from previous guidance that "ongoing hikes will be appropriate". Central bankers want to assess whether the bank volatility episode will result in funding stress and have an impact on credit conditions before proceeding with further rate rises.

### Fund activity

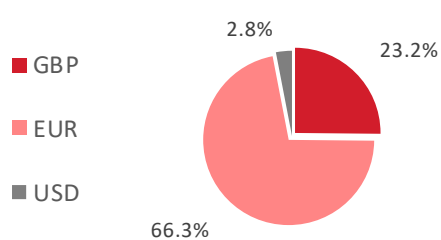
In Liquid Relative Value, we bought Santander, Aareal, EFG International, de Volksbank and Deutsche Bank AT1s as well as Unicredit Cashes. We reduced our positions in BCP and Piraeus Bank.

In Midcap Origination, we sold Together Finance, Cooperative Bank and Sainsbury Bank.

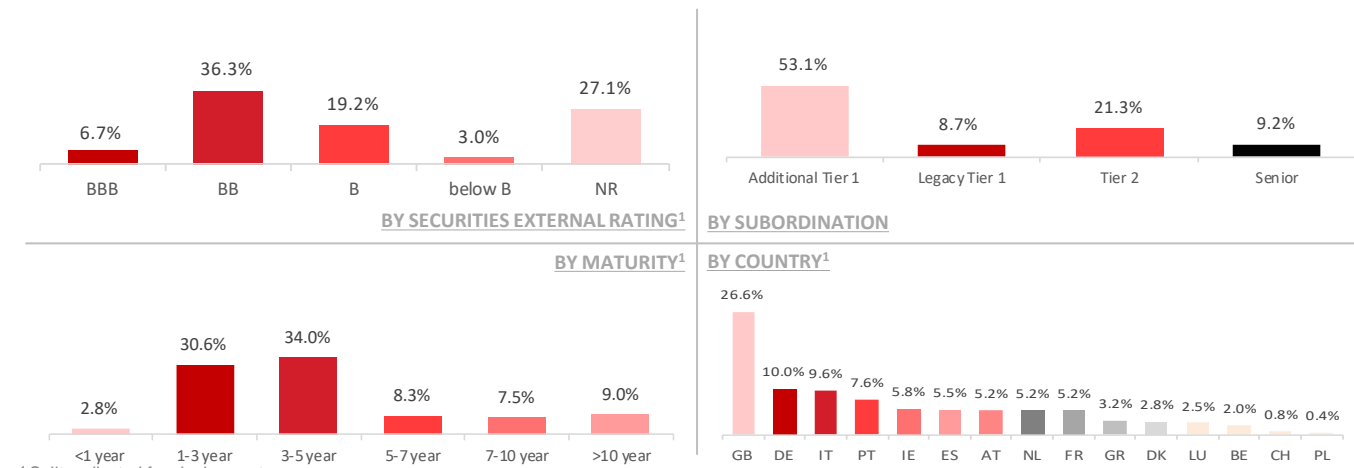
STRATEGY ALLOCATION (as % of total net assets)<sup>1</sup>



DENOMINATION (as % of total net assets)<sup>1</sup>



PORTFOLIO BREAKDOWN (as % of total net assets)



<sup>1</sup> Splits adjusted for single assets

INFORMATION ON THE FUND

ISIN / Ticker:	GG00BTC2K735 / AXI LN Equity
Currency <sup>2</sup> :	GBP
Countries:	UK
Fund type:	Guernsey closed-end fund
Fund inception date:	5 November 2015
Minimum initial subscription:	1 share
Subscription / repurchases conditions <sup>3</sup> :	Under CREST settlement procedure
Management fees <sup>4</sup> :	1% p.a. of NAV, subj. to 1.5% TER cap
Performance fees <sup>4</sup> :	15% p.a. of Total Shareholder Return in excess of 7% p.a.

<sup>2</sup> Currency exposure is systematically hedged. <sup>3</sup> CREST is the computerized settlement system operated by Euroclear UK and Ireland Limited which facilitates the transfer of title to shares in uncertificated form. <sup>4</sup> All details of the expenses incurred by the fund are available in the Prospectus.

RESEARCH AND MANAGEMENT TEAM

**David Benamou**  
Managing Partner  
Chief Investment

**Jérôme Legras**  
Managing Partner  
Head Of Research  
Department

**Antonio Roman**  
Portfolio Manager

**Adrian Paturle**  
Partner  
Portfolio Manager

**Gildas Surry**  
Partner  
Portfolio Manager

**Gilles Frisch**  
Portfolio Manager

**Paul Gagey**  
Portfolio Manager

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