AXIOM
ALTERNATIVE INVESTMENTS

26 March, 2015

Axiom Alternative Investments launches fund dedicated to new Basel III securities

Axiom Alternative Investments, a specialist in instruments issued by financial institutions, today announces the launch of Axiom Contingent Capital, a French-regulated investment fund dedicated to Additional Tier 1 and Tier 2 Contingent Convertibles, or 'CoCos', the new generation of bank subordinated debt instruments.

The implementation of Basel III requirements gave birth to a new generation of bank subordinated bonds, which amounted to 100 billion euros as at the end of 2014 and could reach several hundred billion euros in the coming years. Additional Tier 1 and Tier 2 CoCos were created to replace legacy bonds, which did not fully serve their purpose as capital instruments for banks.

The new fund will take advantage of the high yields offered by this new asset class through the careful selection of issuers and the close monitoring of conversion risk and potential coupon suspension.

Axiom Contingent Capital will aim to outperform its benchmark, the Bank of America Merrill Lynch Contingent Convertible Index, through a focus on bonds from the large systemic European banks (c.90% of the Fund's exposure).

The Fund's investment process is based on a dual approach:

1. Fundamental analysis to identify long-term positive and negative views:
   - Risk analysis: credit risk (in-house stress tests, buffer calculations, assessment of issuer credit risk), coupon risk (MDA calculation, volatility analysis, etc), market risk (relative value model, tracking error)
   - Legal and regulatory analysis (prospectus, regulatory catalysts, etc)
2. In-house relative value model: identifying buy/sell zones based on market prices
   - Buy/sell signals

David Benamou, Managing Partner, Axiom Alternative Investments, commented:

"We see a significant opportunity in this new generation of subordinated debt which is emerging as a result of Basel III with the aim of replacing legacy bonds by 2022. We are aware that some investors, particularly those in the wealth management sector, are struggling to access this asset class, so believe that our UCITS-compliant offering will provide an effective solution.

"These instruments offer high yields compared to other asset classes and, with a focus on instruments issued by large European banks, we are confident of delivering attractive long term returns to investors."

- ENDS -

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Notes to Editors:

AXIOM ALTERNATIVE INVESTMENTS

Axiom Alternative Investments was founded in 2006 as an independent asset management company specialising in instruments issued by financial institutions. The company currently has 500 million euros in assets under management invested across different strategies (equity, subordinated debt issued by European financial institutions, short-term bonds, and special situations).

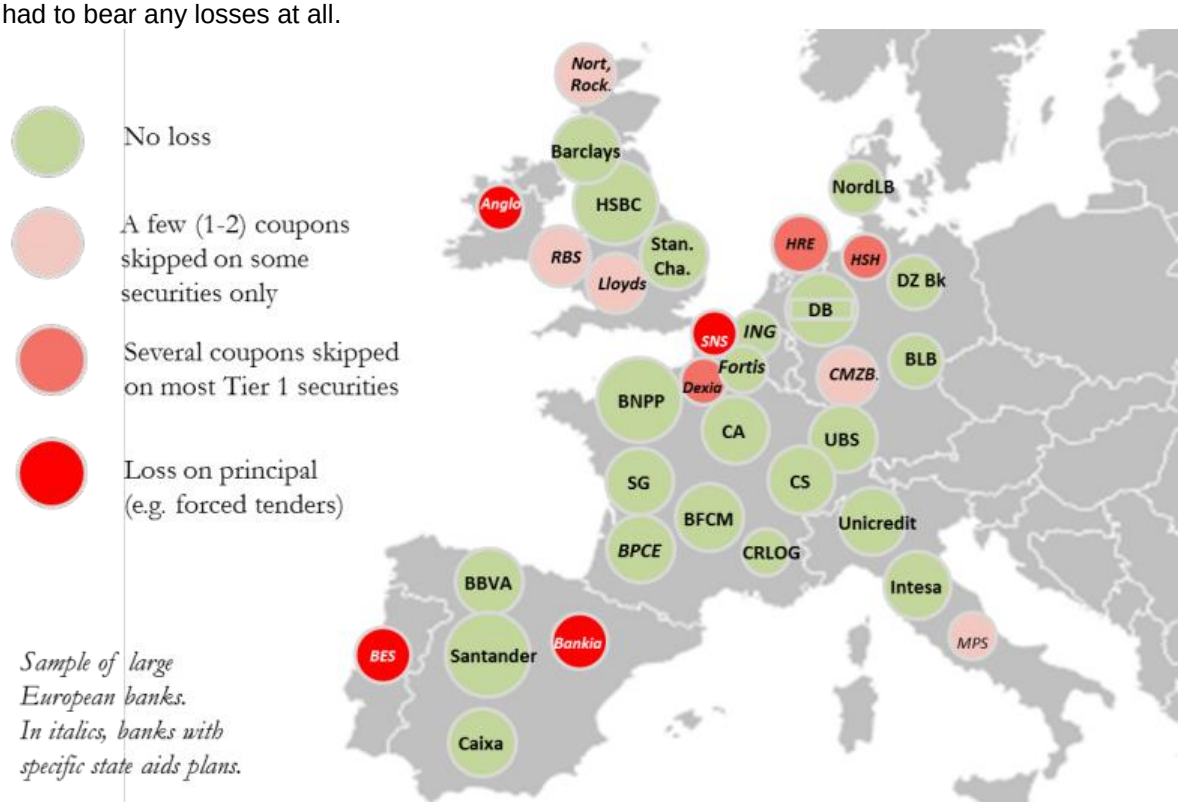
The company offers 5 open-ended UCITS funds (Axiom Obligataire, Axiom Premium, Axiom 2018, Axiom Equity, and Axiom Contingent Capital), as well as managed accounts and contractual funds.

Axiom Alternative Investments is driven by a management team headed by David Benamou and Jérôme Legras and including Adrian Paturle, Philip Hall, Laurent Surjon, Philippe Cazenave and Francois-Xavier Lénier. The team brings together the complementary expertise of asset managers and former investment bankers specialising in financing solutions, whose technical skills and thorough understanding of banking regulations are of paramount importance when it comes to designing long-term investments within the financials universe.

Axiom Alternative Investments' funds are distributed by independent financial advisors to institutional clients, family offices, and individuals.

Background to the fund launch

The 2008 and 2011 crises revealed the inefficiency of legacy subordinated debt. Shareholder or taxpayer money was often used, respectively, to bail in or bail out ailing banks while subordinated bondholders rarely had to bear any losses at all.



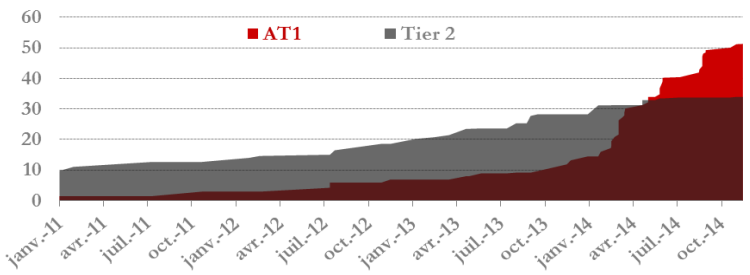
The regulator created this new asset class to replace old instruments which did not fully play their role as capital instruments.

These new Additional Tier 1 and CoCo securities are CRR-compliant subordinated bonds intended to absorb losses (either by being written down or converted into shares) when the bank's capital falls below a predefined trigger level usually situated between 5.125% and 8%.

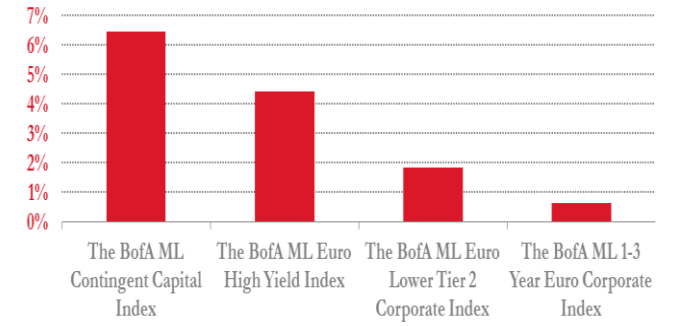
The regulator also defined a new framework where these bonds will play their part. The Bank Recovery and Resolution Directive (BRRD) that entered into force on January 1, 2015 creates a single rulebook for the resolution of banks in all EU member states. The new rules will harmonise and improve the tools for dealing with banking crises across the EU. They will also ensure banks' shareholders and creditors pay their share of the costs through a "bail-in" mechanism.

This new fast-growing asset class currently offers high yields in comparison to other asset classes:

AT1 and Tier 2 instruments issued by European banks (€bn)



Yields across various asset classes



Data as of February 28, 2015

Compared to legacy instruments, two new types of risks are associated with these new instruments:

- Risk of a principal write-down or conversion into shares if regulatory capital falls to a level considered critical by the regulator. Most instruments currently have a conversion trigger of 5.125%, which may be subject to change in the future.

- Risk of coupon suspension if the bank does not hold sufficient distributable reserves or no longer complies with the requirements established by the regulator.

In order to facilitate the emergence of these new instruments, the regulator created a mechanism encouraging banks to replace existing subordinated debt instruments by reducing their eligibility as regulatory capital during a grandfathering period ending in 2022.

By that date, non-CRR compliant legacy instruments will become ineligible as bank regulatory capital.

The AT1 market could be worth as much as 300 billion euros in the coming years as banks could issue AT1 instruments up to 2.5% of their risk-weighted assets.

Main features of the fund

Legal form	UCITS-compliant French collective investment fund (FCP)
AMF classification	International bonds and other debt securities
Inception date	February 13, 2015
ISIN codes	Class C: FR0012419612 / Class R: FR0012419661 / Class E: FR0012417327
Valuation	Daily
Subscriptions/redemptions	Daily before 12:00 p.m.
Minimum subscription	Class C: €50 000 / Class R: €50 000 / Class E: £50 000
Management fees	Class C: max 0.8% incl. taxes / Class R: max 1.3% incl. taxes / Class E: max 0.8% incl. taxes
Performance fees	None