

## 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

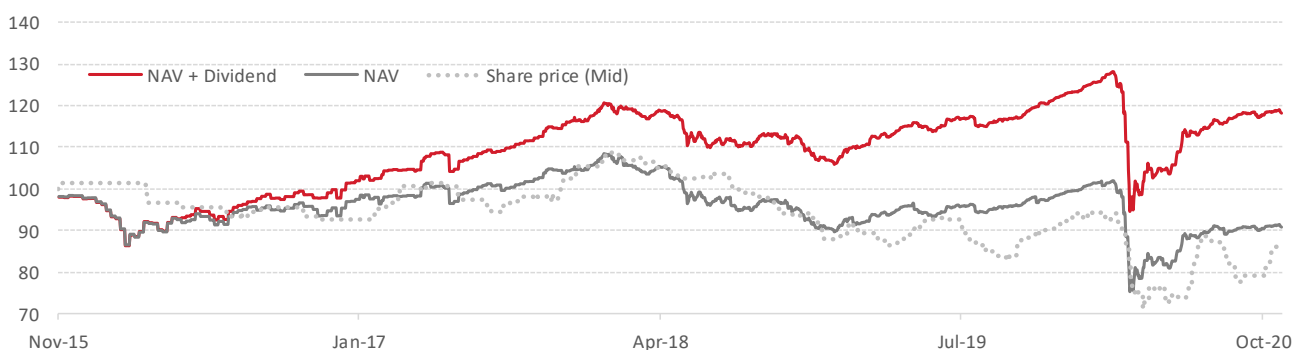
Share price (mid) (GB pence)	87.50	Modified duration	3.95
NAV per share (daily) (GB pence)	90.65	Sensitivity to credit	5.50
Dividends paid over last 12 months (GB pence)	6.00	Positions	83
Shares in issue	91 852 904	Average price at end of the month <sup>1</sup>	102.23
Market capitalisation (GBP mn)	80.37	Running yield (GBP)	6.43%
Total net assets (GBP mn)	83.27	Yield to perpetuity (GBP) <sup>2</sup>	7.97%
Premium / (Discount)	(3.47)%	Yield to call (GBP) <sup>3</sup>	10.91%

### Top 10 Holdings

Security	Strategy	% NAV
Shawbrook 7.875% Perp	Midcap Orig.	3.43%
Van Lanschot 6.750% Perp	Midcap Orig.	3.43%
Cofinga 1.180% Perp	Special situation	3.15%
eSure 6.750% Perp	Midcap Orig.	3.10%
Onesav 9.125% Perp	Midcap Orig.	2.86%
Fincobank 5.875% Perp	Liq. RV	2.80%
Just Group 8.125%	Rest.	2.55%
Coventry Building Society 12.125% Perp	Less Liq. RV	2.49%
BCP 9.250% Perp	Rest.	2.44%
Commerzbank 6.125% Perp	Liq. RV	2.33%

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

Performance since inception (rebased at 100)



### Net Annualized Returns

1 month	3 months	6 months	1 year	3 years <sup>5</sup>	Since launch <sup>5</sup>
0.53%	2.09%	12.32%	-1.42%	1.36%	3.73%

	Jan	Feb	Mar	April	May	June	Jul	Aug	Sep	Oct	Nov	Dec	Total
<b>2015</b>											0.19%	-1.48%	<b>-1.29%</b>
<b>2016</b>	-4.02%	-4.59%	3.57%	1.16%	2.62%	-1.97%	2.83%	1.69%	-0.21%	2.06%	-1.60%	1.91%	<b>3.10%</b>
<b>2017</b>	2.67%	0.93%	1.12%	2.01%	1.72%	-1.41%	1.86%	0.58%	1.76%	2.72%	1.31%	0.23%	<b>16.14%</b>
<b>2018</b>	3.12%	-0.70%	-1.95%	1.14%	-5.84%	-0.72%	1.60%	-1.26%	2.43%	-1.54%	-2.68%	-1.44%	<b>-8.00%</b>
<b>2019</b>	3.36%	2.30%	0.29%	2.53%	-1.59%	2.29%	0.30%	0.75%	0.97%	2.22%	1.77%	1.12%	<b>16.98%</b>
<b>2020</b>	1.99%	-0.87%	-19.95%	5.24%	3.68%	4.27%	1.90%	1.88%	-0.32%	0.53%			<b>-4.26%</b>

<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 since inception of the unit.

 MARKET COMMENTARY


**Gildas Surry**  
Portfolio Manager

### Market commentary

After a new round of lock-downs for several European countries, endless Brexit negotiations, and uncertainty about the presidential elections in the United States, the SubFin index widened by +10 bps reaching 154 bps. Financial debt continued to hold up well, on the back of a set of solid quarterly results that beat expectations.

The majority of the quarterly results exceeded expectations mainly due to lower-than-expected provisions, rising capital ratios and lower than expected RWAs. Based on their good fundamentals, several issuers such as Santander and Erste announced their intentions to pay dividends for 2019. Indeed, Rabobank will pay a distribution of additional certificates equal to approximately €1.625 per certificate to compensate investors for the four missed quarterly distributions. These announcements remain conditional on the withdrawal of the ECB's ban on distributions, which is expected to be reconsidered in December.

On the regulatory side, the EBA published its long-awaited opinion on Legacy instruments on the 21st of October. The opinion was very clear on the need to clean up the stock of Legacy bonds as soon as possible. Depending on the instruments, three options were presented to manage the so called "inflection risk", i.e. the risk of the legal and regulatory rankings being completely mixed up, which could threaten eligibility:

Option 1: redemption of the bonds when a call date is available or bond buyback;

Option 2: modification of the terms and conditions of the bonds;

Option 3: in exceptional cases, when options 1 and 2 are not available, keeping the bonds but without using them as capital or MREL. The general philosophy of the EBA's opinion is clear, and should accelerate the number of calls and buybacks but, as always with Legacy bonds, the devil is in the detail and some caveats apply. The Company's investment adviser has published its analysis on that matter, available via <https://mailchi.mp/axiom-ai.com/axiom-monthly-report-2616092>.

Finally, issuers continue calling their regulatory securities that are no longer eligible as capital or no longer economically viable. AIB announced the call of its AT1 Opco and Santander of its USD prefs with a floor whose coupon non-payment mechanism could have been an obstacle to the resumption of dividend payments. Rabobank announced a buyback offer on its 6.91% bond callable in 2038. Finally, the primary market saw the first RT1 issued in Italy by UnipolSai (EUR 500 million at 6.375%). At the beginning of the month, Caixa Bank (EUR 750 million at 5.875%), Nykredit (EUR 500 million at 4.125%), Credit Agricole (EUR 750 million at 4%) and Quintet Private Bank Europe SA (EUR 125 million at 7.5%) issued on the market.

### Fund Activity

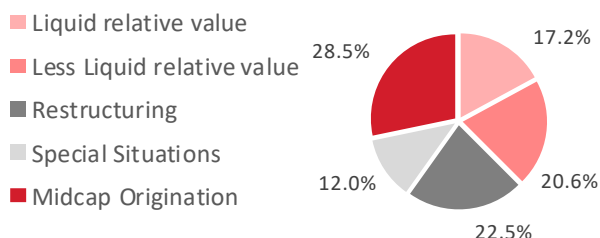
In absence of any clear direction for valuations, the Fund reduced portfolio risk by selling some discos into the EBA opinion publication in Less Liquid Relative Value, while adding on its Cofinoga holding at a yield to call of more than 10% (in Special Situations).

The Fund redeployed risks selectively in Liquid Relative Value on UnipolSai's inaugural RT1, Banco BPM and Aareal Bank AT1s.

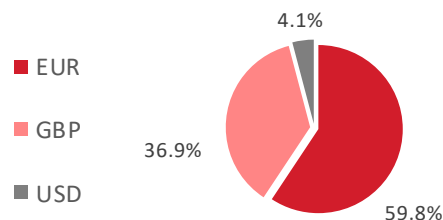
In Restructuring, the Fund sourced some short-dated Tier 2 issued by the first portfolio company of Gamalife insurance consolidator while increasing its holding of Cajamar T2.

Finally, in Midcap Origination the Fund subscribed to the inaugural AT1 issue by Quintet Private Bank at an attractive yield of 7.5% in Euros.

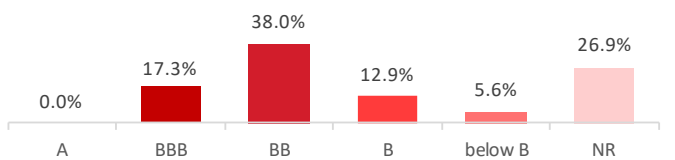
## STRATEGY ALLOCATION (as % of total net assets)<sup>1</sup>



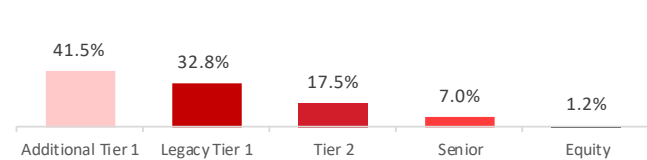
## DENOMINATION (as % of total net assets)<sup>1</sup>



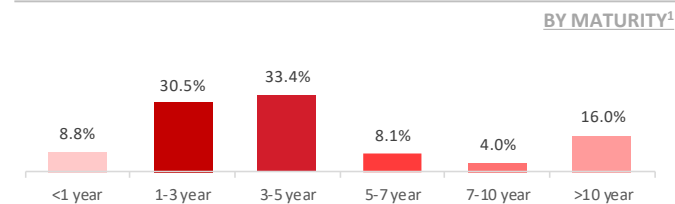
## PORTFOLIO BREAKDOWN (as % of total net assets)



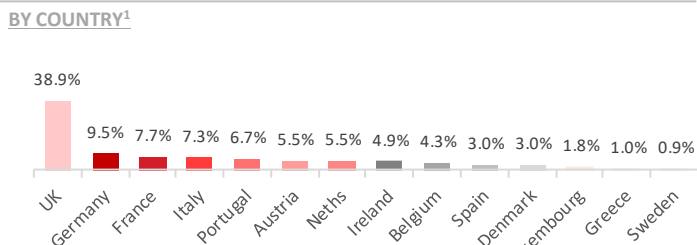
BY SECURITIES EXTERNAL RATING<sup>1</sup>



BY SUBORDINATION



BY MATURITY<sup>1</sup>



BY COUNTRY<sup>1</sup>

<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  
Officer



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



**Antonio Roman**  
Research Analyst



**Adrian Paturle**  
Partner  
Portfolio Manager



**Gildas Surry**  
Partner  
Portfolio Manager



**Gilles Frisch**  
Portfolio Manager



**Paul Gagey**  
Portfolio Manager

## SERVICE PROVIDERS

**Investment Manager**  
Axiom AI SARL  
**Investment Adviser**  
Axiom AI UK Branch  
**Broker**  
Winterflood Securities  
**Registrar**  
Link Market Services (Guernsey)  
Limited  
**Administrator**  
Elysium Fund Management  
**Depository**  
CACEIS France  
**Auditor**  
Ernst & Young LLP

This Report is issued by Axiom European Financial Debt Fund Limited (the "Company") to and for the information of its existing shareholders and does not in any jurisdiction constitute investment, legal or tax advice or an invitation to invest in the shares or any other securities of the Company or any other entity (body corporate or otherwise). This Report is directed only at: (i) persons having professional experience in matters relating to investments who fall within the definition of "investment professionals" in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005; or (ii) high net worth bodies corporate, unincorporated associations and partnerships and trustees of high value trusts as described in Article 49(2) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 and persons who receive this document who do not fall within (i) or (ii) above should not rely on or act upon this Report. Persons into whose possession this Report has come are deemed to have ensured that their receipt of this Report is in compliance with the laws applicable to them. Nothing contained herein shall be deemed to be binding against, or to create any liability, obligations or commitment on the part of, the Company, Axiom Alternative Investments SARL (the "Investment Manager") or any of their respective directors, officers, employees, partners, members, shareholders, advisers, agents or affiliates. Any matters contained in this Report relating to the Company, the Investment Manager or the strategies in which the Company invests have been prepared by the Investment Manager. The Company has relied upon and assumed (without independent verification) the accuracy of such information. This Report has not been approved by any supervisory authority and no regulatory approvals have been obtained. The information contained in this Report has not been independently verified and no representation or warranty, express or implied, is made by the Company, the Investment Manager or any of their respective directors, officers, employees, partners, members, shareholders, advisers, agents or affiliates as to, and no reliance should be placed on, the fairness, accuracy, completeness or correctness of the information or opinions expressed herein. The Investment Manager has, however, taken reasonable steps to ensure that this Report and the information contained herein is not misleading, false or deceptive. The information and opinions contained in this Report, including any forward-looking statements, do not purport to be comprehensive, are provided as at the date of the document and are subject to change without notice. Neither the Company nor the Investment Manager, nor any other person, is under any obligation to update or keep current the information contained herein. No part of this Report, nor the fact of its publication, should form the basis of, or be relied on in connection with, any contract or commitment or investment decision whatsoever. There is no certainty that the models and assumptions used by the Investment Manager can be duplicated with actual trades or investments. There can be no assurance that the strategies described herein will meet the Company's investment objective generally, or avoid losses. Nothing contained herein shall be relied upon as a promise or representation as to past or future performance or otherwise. This Report contains certain "forward-looking statements" regarding the belief or current expectations of the Company and the Investment Manager about the Company's financial condition, results of operations and business. Such forward-looking statements are not guarantees of future performance. Rather, they are based on current views and assumptions and involve known and unknown risks, uncertainties and other factors, many of which are outside the control of the Company and are difficult to predict, that may cause the actual results, performance, achievements or developments of the Company or its strategies to differ materially from any future results, performance, achievements or developments expressed or implied from the forward-looking statements. This Report is not for release, publication or distribution, directly or indirectly, in or into the United States, Australia, Canada, South Africa or Japan or to US Persons as defined in Regulation S under the US Securities Act ("US Persons"). The information contained herein does not constitute or form part of any offer or solicitation to purchase or subscribe for securities in the United States, Australia, Canada, the Republic of South Africa or Japan or any other jurisdiction where to do so might constitute a violation of the relevant laws or regulations of such jurisdiction. The Company has not been and will not be registered under the US Investment Company Act of 1940, as amended (the "Investment Company Act") and, as such, holders of the Company's