

AXIOM EUROPEAN FINANCIAL DEBT FUND LIMITED (GBP)

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.

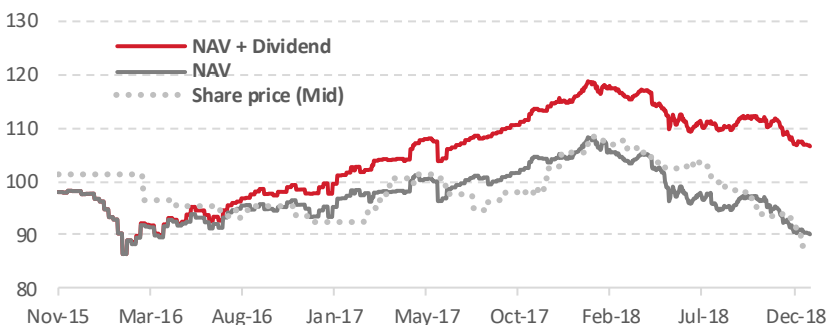
KEY METRICS AND RISK ANALYSIS

| | |
|------------------------------------|------------|
| Share price (mid) | 88.00 |
| NAV per share (daily) | 90.08 |
| Dividends paid over last 12 months | 6.00 |
| Shares in issue | 85 452 024 |
| Market capitalisation (GBP mn) | 75.198 |
| Total net assets (GBP mn) | 76.976 |
| Premium / (Discount) | -2.3% |

| | |
|----------------------------------|-------|
| Modified duration | 1.63 |
| Sensitivity to credit | 7.76 |
| Positions | 91 |
| Average price | 95.40 |
| Running yield | 7.52 |
| Yield to perpetuity ¹ | 8.12 |
| Yield to call ² | 10.06 |

RETURNS EVOLUTION SINCE INCEPTION³

Performance since inception (rebased at 100)



Top 10 Holdings

| Security | Strategy | %NAV |
|-----------------------|--------------------|-------|
| Achmea 6% 2049 | Less Liq. RV | 6.64% |
| BNP Paribas 4.9% PERP | Less Liq. RV | 6.46% |
| Shawbrook PERP | Midcap Orig. | 5.80% |
| Casers 8% 2026 | Midcap Orig. | 3.33% |
| CXGD Float PERP | Special situation | 3.26% |
| BNP Fortis PERP | Special situation | 3.10% |
| HBOS 6.9% PERP | Less Liq. RV | 3.05% |
| Banco BPM 9 % PERP | Less Liq. RV | 2.72% |
| Onesav 9.1% PERP | Midcap origination | 2.61% |
| Saxobank 9.75% PERP | Midcap origination | 2.21% |

Net Return

| | 1 month | | 3 months | | | 6 months | | 1 year | | 3 years | | Since launch ⁴ | |
|------|---------|--------|----------|-------|--------|----------|-------|--------|--------|---------|--------|---------------------------|--------|
| | -1.43% | | -5.53% | | | -2.88% | | -8.00% | | N/A | | 2.69% | |
| | Janv | Feb | Mars | 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% | -1.60% | 1.91% | 2.92% |
| 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% | -0.70% | -1.95% | 1.14% | -5.84% | -1.14% | 1.60% | -1.26% | 2.43% | -1.54% | -2.68% | -1.44% | -8.00% |

¹ The yield to perpetuity is the yield of the portfolio with the hypothesis that securities are not reimbursed and kept to perpetuity. ² The yield to call is the yield of the portfolio at the anticipated reimbursement date of the bonds. ³ Past performance does not guarantee future results. ⁴ Annualized performance since inception of the unit.

MARKET COMMENTARY



Gildas Surry
Portfolio Manager

Market commentary

The month of December ended a challenging year shaped by increased political and economic fear: Brexit, Italy, US trade war with China, falling oil prices. Investors' perception has gradually deteriorated and a risk-off sentiment finally materialized at the end of the year. Over the year, the spreads of subordinated debt have widened by more than 100 bps year-to-date: from 104 bps to 227 bps.

We believe the decline in financial valuations is not justified given the strong fundamentals. The latter have not stopped improving since the crisis (average capital level significantly increased to 14.70% in September 2018, four times as much as in 2007) and we have seen a number of favourable developments throughout the year confirming the continuous normalisation of European bank balance sheets: ongoing improvement in credit metrics alongside a steady reduction in stocks of non-performing bank loans (average NPL ratio down to 3.4% in September 2018), strong quarterly results, sustained momentum in credit rating upgrades and stress tests passed with success on historically severe assumptions.

Only Italian banks remain under close surveillance. As expected, at the end of December, the ECB decided to place Banca Carige under supervision and temporary administrators were appointed. The bank had to carry out a capital increase or find a buyer before the end of 2018.

We believe this dichotomy between fundamentals and valuations offers very attractive entry points: the underlying credit quality has not changed, and prices should recover as soon as the negative sentiment reverses.

Finally, on the regulatory side, the latest updates in the Banking Package (CRD5 / CRR2 / BRRD2 / SRMR) brought more visibility while confirming the potential performance of our Legacy strategies. The implementation of MREL continues to provide an attractive set of investment opportunities within the asset class and we see the regulatory catalyst as relevant as ever. Regardless of difficult market conditions, 2018 saw a number of calls of non-eligible debt instruments continuously throughout the year: Barclays, RBS, Nordea, AXA, BPCE and tentatively Santander, Aegon, etc.

Fund Activity

As the market conditions deteriorated further towards the turn of the year, the Fund traded carefully and did not add any risk.

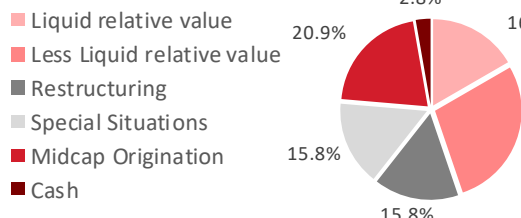
- Liquid Relative Value: The Fund initiated a short in an AT1 that may skip its first call date over the next 12 months.

- Restructuring: The Fund sold its remaining holding in BBVA's subsidiary in Turkey at a gain.

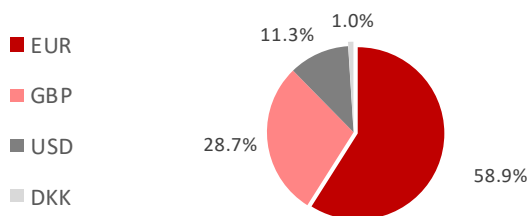
- Midcap Origination: The Fund sold its residual position on a Danish AT1 at a gain to generate capacity for future issuance.

PORTFOLIO ANALYSIS AT 12/31/2018

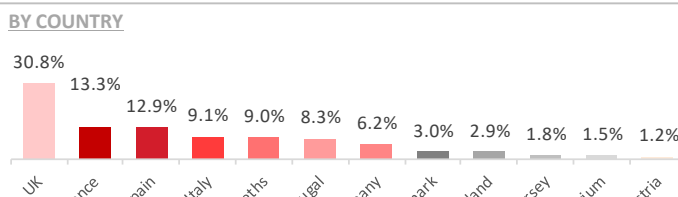
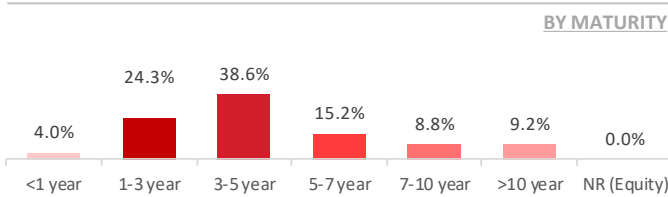
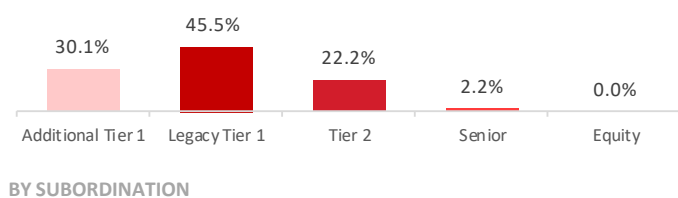
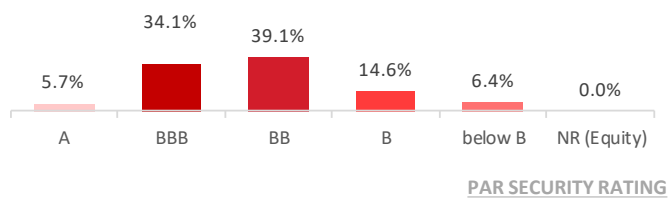
STRATEGY ALLOCATION (as % of investments held) ¹



DENOMINATION (as % of investments held) ¹



PORTFOLIO BREAKDOWN (as % of Investments held) ¹



¹ Percentages may not add up to 100% due to rounding

INFORMATION ON THE FUND

| | |
|--|---|
| ISIN / Ticker: | GG00BTC2K735 / AXI LN Equity |
| Currency ² : | GBP |
| Countries: | UK |
| Fund type and Profit allocation: | Guernsey closed-end fund |
| Fund inception date: | 5 November 2015 |
| Minimum initial subscription: | 1 share / £1 000 |
| Subscription / repurchases conditions ³ : | Under CREST settlement procedure |
| Management fees ⁴ : | 1% p.a. of NAV, subj. to 1.5% TER cap |
| Performance fees ⁴ : | 15% p.a. of Total Shareholder Return in excess of 7% p.a. |

² Currency exposure is systematically hedged. ⁴ CREST is the computerized settlement system operated by Euroclear UK and Ireland Limited which facilitates the transfer of title to shares in uncertificated form. ⁴ 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 | Adrian Paturle Partner Portfolio Manager | Paul Gagey Portfolio Manager | Gildas Surry Partner Portfolio Manager | Laurent Henrio Portfolio Manager | Antonio Roman Research Analyst |
|--|---|---|--|---|--|--|

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