AXIOM LUX

Société d'Investissement à Capital Variable

Audited annual report

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Management and Administration

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Mr. Laurent Surjon, Directeur Général, ADDAX Holding

Mr. David Ben Amou, Managing Partner, Axiom Alternative Investments

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* CACEIS Bank, Luxembourg Branch starting from January 1, 2017

Management Report

Annual Management Report – 2016 – Axiom Obligataire Lux

The Compartment is a Feeder Compartment of the class Z shares of Axiom Obligataire, a French Mutual Investment Fund authorised by the *Autorité des Marchés Financiers* as a UCITS (the "**Master Fund**") and will invest at least 85% of its assets in units of the Master Fund. In general Feeder is invested at 100% of its assets in units of the Master Fund or close to. So the Feeder's performance is directly derived from the performance of the Master, the management report of which follows:

January

Within a context of strong market correction, the underperformance of the financial sector is mainly explained by three reasons.

First, an uncertain macro-economic environment: economic downturn in China, credit risk in the Oil &Gas industry and the increase in American interest rates (impact for the carry trade on emerging countries);

Secondly, the decision to transfer arbitrarily 5 bonds from Novo Banco to BES sharpened fears about senior debt bail-in and reopened the debate on the arbitrary nature of bail-ins especially in peripheral countries. We think that the risk of a forced bail-in has sharply decreased since the Single Resolution Board is the only entity able to rule on bail-ins in Europe (1st January 2016).

Finally, a poor communication from the ECB (it has since been corrected by M. Draghi), gave markets the impression that the ECB will compel Italian banks to sell their NPLs at huge discounts leading to an impact on capital ratios and a major bail-in risk. Those fears have been expressed through a massive sell-off on Italian bonds: some senior and hybrid bonds lost 30 to 40 figures in a few days before recovering by 20 figures. We believe that the market deeply overreacted. It is admitted that the NPL rate of Italian banks is higher than the European average (20% vs 6%) but as the ECB reiterated, Italian banks have already been subject to AQR and stress-tests and have now set aside enough provisions regarding their non-performing exposures. Even if those positions continue to depress profitability and loans growth, they would not be likely to trigger additional capital requirements.

Within this context, the AT1 market was down too. Prices are at their lowest levels (Banco Popular Espanol 11.5% felt below its par value for the first time). Even if, in a few situations, this price decrease can be explained by insufficient capital ratios or fears about coupon payments (Deutsche Bank), we believe that this is first and foremost the complexity of capital requirements calculation and articulation between different capital buffer requirements that rekindled often baseless concerns.

The performance of Axiom Obligataire was particularly affected by 1) the decrease in the Italian banking sector (10% exposure). However, we remain positive on the sector because we don't expect any new surprises about Italian NPLs and we believe that these banks offer a very attractive risk/return profile following the agreement of the European Commission on bad banks. 2) A decrease in some floating rate bonds with good credit quality (BNPS, Barclays, BFCM) that does not question the credit risk or the catalyst events of these securities but can be explained by the communication of the ECB suggesting that the QE program could be increased in March. We kept these positions that could benefit from a strong rebound.

We took advantage of this market downturn to increase the portfolio turnover and the yield to call

Management Report (continued)

February

The market crashed at the beginning of February and concerns that caused a market turmoil in January erupted again. The market was still worried about oil prices, NPLs, negative interest rates, MDA mechanism and increased Brexit risk after Boris Johnson's statement. These concerns brought back the yields to maturity of AT1s to the levels last seen on Legacy securities in 2011, close to 8%.

Yet, there were significant reasons for the trend to be reversed: banks earnings season is coming to an end with profits slightly higher than expected and continued increase in CET1 ratios (RBS, Lloyds, Credit Agricole…).

On the regulatory front, the ECB tried to clarify the rules by publishing a booklet in which it explains the SREP methodology. During these last weeks, the ECB multiplied announcements to reassure the market regarding the sufficient level of capital of European banks and proposed to revise the mechanism of coupon payments by making it discretionary even if banks do not follow their capital buffer requirements (hence modifying the automatic mechanism of MDA).

Unfortunately, this very positive announcement for hybrid debt was relatively unnoticed. However, the second half of February gave way to a significant market rebound but it was not strong enough to make up for the loss.

All eyes are now on the ECB: the market is waiting for new measures that could be announced at the next ECB meeting in March. These measures could be very positive for banks (new LTRO, changes in the QE distribution key, extension of eligible assets, tiering of the deposit facility etc.). Answer on March 10th.

RZB stood out as as good performer in a deep market turmoil: the results showed that the restructuring plan is progressing better than expected and that pushed the Tier 1 from 75 to 83 this month. Delta Lloyd gave more details on its recapitalization plan and confirmed that the regulator agreed on several key points (especially the DTA) which will facilitate the long-awaited capital increase. Last but not least, the announcement of the re-organization of Credit Agricole was very positively welcomed by the market. Indeed it simplifies the group structure and improves CASA's ratios.

Within the portfolio, we took advantage of this market downturn to increase the AT1 pocket (+10%) at the expense of the fix to fix pocket and we wish to keep an important cash pocket in order to be able to seize opportunities that will come in this highly volatile context.

March

After two months of sharp decrease, the market finally reacted very positively to the ECB's announcements at the beginning of March, erasing part of the drawdown since the beginning of the year.

Indeed, the ECB's announcements have been healthy for the banking sector. Firstly, the TLTRO (Targeted longer-term refinancing operations) with negative rates will allow banks to increase their interest margins, even if its implementation is subject to lending growth criteria; then the ECB will buy investment grade corporate bonds on the market. This was supportive for the IG market that outperformed the high yield one (the portfolio is mainly invested on the latter and should benefit

from the rebalancing effect). Lastly, during its speech, Mario Draghi called for a more favorable treatment of AT1 bonds regarding the hierarchy between dividends and AT1 coupons and for a greater flexibility of the MDA mechanism, thus paving the way for positive regulatory developments for those invested in AT1 debt.

We believe it will take time for these announcements to deeply impact the market even if they are highly positive for the banking sector.

Some banks and insurance strengthened their balance sheets: in Netherlands, the 650m€ capital increase of Delta Lloyds has just been approved; in the United Kingdom, Old Mutual announced that it would break-up the group into four major entities; in Italy, Popolare and Milano finally agreed with the ECB on the terms of their merger and announced a capital increase as well as substantial badwill recognition. Crédit Agricole and Standard Chartered launched opportunistic tenders on covered, senior and subordinated bonds (some of which are in the portfolio).

BNP and UBS took advantage of the rally at the beginning of the month to reopen the primary market and issued 3bn of AT1 with premiums between 30 and 50bps compared to the secondary market spreads.

The whole portfolio bounced back in March; SOCGEN 7 7/8 (+23bps), RBS 6 (+19bps) and BFCM (+18bps) were the main positive contributors. However, some legacy bonds were still a drag to performance: Fortis Cashes (-11bps), mostly because it remains a complex bond with a long term catalyst, and Banca Carige (-8bps) penalized by its NPLs.

April

Following on from last month's momentum, the market continued to improve throughout April. The ECB issued its purchasing programme which drove down corporate bond yields. Those bonds excluded from the programme, with the exception of insurance bonds, benefited from portfolio reallocations especially in the investment grade sector.

This improved market sentiment was also felt throughout the primary market. We saw numerous Tier 2 issuances and three new AT1 deals: Rabobank and BBCA issued spreads of 670bp and 911bp, whereas Bankinter issued its inaugural AT1 at 890bp (we participated in all three).

On the regulatory side, one must note the ad-hoc committee meeting chaired by the European Commission which aims to propose new legislation for the payment mechanism of AT1 coupons, however no further information on this topic has been leaked. The Basel Committee ruled in favour of the bank lobby which significantly reduced the impact of its proposal accounting for the interest rate risk in the prudential ratios.

The onset of the Q1 2016 results season has displayed similar trends to the previous quarter. Due to the pressure from volatile markets and low interest rates we have seen improving capital ratios and mediocre, albeit unsurprising results.

April's performance was also affected by updates from Italy. There was renewed interest in Atlante, the government-orchestrated banking fund, which was endowed with €5bn. Even though this amount is modest in comparison to stock of Italian NPLs, Italy is demonstrating a serious attempt to restructure its banking sector given their promise to amend the deadline for collection in the case of

bankruptcy (currently the longest in Europe) as well as the consolidation process. Axiom Obligataire benefited from this with the following contributions: +14bp on Vicenza, +12bp on Unicredito and +11bp on Monte dei Paschi.

May

The market context remained buoyant in May, favoring the catching-up process of March and April. The AT1 segment had the best performance in the asset class, allowing Erste Bank (9% in EUR for its first issue) or HSBC (6.875 % in USD) to issue on the primary market. We participated in the first issue however, in our opinion, the second did not offer a satisfactory premium compared to the secondary market.

The market was also marked by several banks' capital increases (Banco Popolare in order to support its merger with Banca Popolare di Milano, Banco Popular in Spain in order to increase its coverage ratio) realized or likely to come (Unicredit after the formalized departure of its CEO M. Ghizzoni). These announcements were favorable to our positions (+9bp contribution on Unicredit cashes, +3bp on Banco Popular AT1 8 ¼).

In some countries, we benefited from clarity given by regulators besides the ECB on MREL/TLAC rules, to ensure that banks' liability structures provide sufficient total loss absorbing capacity (TLAC) or (in the EU) minimum own funds and eligible liabilities (MREL) to absorb losses and facilitate the recapitalization of the bank in resolution. The Swiss published the final text, confirming especially the transitional rules of non-eligible securities. It led to a wave of calls (Barclays, RBS, UBS), some of them were not expected by the market because these bonds were traded far from par value. The fund benefited from this effect, especially on RBS bonds (contribution of +10bp). The articulation of the different rules (equity, TLAC, MREL, BRRD review, etc.) remains a key issue for banks and provides opportunities in identifying securities that became useless from an economic point of view.

June

June 2016 will remain in history as the month when the UK decided to leave the EU.

We chose to approach this event carefully because we felt pools were volatile and not reliable. We kept a high amount of cash (17%), a very liquid exposure to markets via a CDS index and an important bucket of fixed-to-fixed bonds.

The outcome of the referendum took most analysts by surprise and the market correction was violent, but concentrated on only two days and especially on AT1s. We took advantage of this by investing our cash on AT1s from banks that we consider very resilient (SEB, BNP, Intesa, Unicredit, Lloyds, Barclays) and some of them should benefit from a new favorable regulatory framework applicable to MDA. This point has been confirmed by the EBA at the end of the month. The AT1 pocket is 30% at the end of the month.

Comparing the equity and fixed income markets' performances, there is no doubt that the market considered the Brexit more as a profitability risk than a solvability one.

The end of the month was also marked by the resurgence of concerns on Italian NPLs. The government has already started to address this problem, especially through GACS (Garanzia

Management Report (continued)

Cartolarizzazione Sofferenze), a NPLs securitization framework with State guarantees, the Atlante fund which will participate in recapitalizations and purchase of NPLs and finally an ongoing reform of legal proceedings in order to shorten recovery delays and thus improve expected returns on NPLs portfolios.

Opportunistically, the government of Mr. Renzi used the shock triggered by the Brexit, but also the uncertainty about the upcoming Italian referendum, to try to impose to European authorities a recapitalization and cleaning-up of Italian banks, especially Monte Dei Paschi. The deadline represented by the stress tests (results to be announced on July 29th) suggests that the outcome of the negotiation is very close. We keep an important amount of cash that can be used in this complex environment.

July

After the outcome of the British vote, we didn't expect a positive month in July. But the Brexit calendar will extend over at least two and a half years and the outlines of an agreement remains very vague - the market will have plenty of time to focus on this issue more closely, possibly in January when real negotiations could begin.

Performance was mainly driven by AT1s (the Coco index rose by 3.88% over the period). The communication of the ECB, echoed by many publications, has reduced the risk of non-payment of coupons by splitting the capital requirements under Pillar II into a mandatory component and an indicative one. The ECB also pushed the introduction of the capital conservation cushion and raised the distance to distribution restrictions. In the yield desert that we are facing, this is more than enough to trigger a sustainable upward trend.

Italian banks were again at the center of investors' attention during the month, with a new CEO at UniCredit, Jean-Pierre Mustier, and a (another!) recapitalization plan for Banca Monte dei Paschi. Mr. Mustier has focused his strategy on strengthening solvency ratios, immediately launching the sale of several assets. The AT1s reacted very well contribution of +16bp. Regarding BMPS, several rumors circulated in the press with the Renzi government obviously struggling to come up with a solution that satisfied both Brussels and Italian voters. Finally an ambitious plan was announced on July 29th with a 5bn€ capital increase and a massive sell-off of bad loans. Subordinated bonds rallied substantially following the announcement. The next important step remains the constitutional referendum, expected in late October, with Matteo Renzi's leadership probably at stake.

The Q2 earnings season kicked off with no significant surprise. The market was more focused on the stress tests published in late July. If areas of weakness remain, such as Austria or Ireland, the results confirm the resilience of the European banking sector. In a sample of 51 banks, there was only one "fail" - Monte dei Paschi, widely expected - despite a significantly more conservative methodology.

August

August was a quiet month. Fueled by more easing from the Bank of England (key rate cut to 0.25%, increased asset buyback program to £60bn), markets continued their positive trend that started in July.

Management Report (continued)

The month started with the analysis of the stress tests results published on the last day of July. They revealed no surprises and the situation of Banca Monte dei Paschi had been treated beforehand. Thirty-seven banks supervised by the ECB participated and they had an average CET1 ratio of 13%. Under the adverse scenario, the average decrease in the CET1 ratio was 3.9%, thereby maintaining equity post-stress test at a level of 9.1%, higher than in the 2014 stress test, despite a more demanding/rigorous methodology.

This favorable environment has allowed the reopening of the primary AT1 market for the first time since the Brexit referendum with four successive deals for a record amount of €6bn (UBS, Standard Chartered, Barclays and RBS). RBS also printed the largest European issue ever ($2,6bn).

We participated in those deals; premiums were interesting as shown by the post primary rise (1%-2%). This market activity also led to the call at par of several legacy bonds, $750M for Barclays and $1.53bn for RBS.

The fund's performance benefited both from good performance of AT1s, supported by the announcement of an important regulatory project with the potential prioritization of AT1s coupons over dividends, but also from the good performance of legacy bonds.

In particular, the redemption at par of a bond issued by Erste Bank bond that was trading at 55% caused a renewed interest in all similar bonds (low coupon floating rate bonds) that will be disqualified in 2022. Our positions on BFCM CMS or Barclays Discos have greatly benefited from this movement.

September

After a positive summer, September saw a reversal of the trend on the banking sector, with a disappointing press conference from the ECB and negative headlines on Deutsche Bank.

The German bank is once again in the spotlight after announcing that the US Department of Justice had proposed a fine of $ 14bn on the RMBS issue, which resulted in speculation and rumors about a state aid from the German State sent the prices into a downward spiral. We commented this a lot in the media, but our opinion can be summarized as follows: the bank has huge profitability and capital issues, but we remain confident that the credit is robust (NPLs are very low, liquidity is ample, solvency ratios are well above regulatory thresholds, etc.).

Monetary innovation came from Japan, where the BOJ has announced a policy of yield curve control very favorable to banks' profitability, creating a spirit of optimism in Europe. The road is still long until the next rate rise from the ECB, but recent speeches make us think that a turning point may have been reached. Mr. Draghi has indeed suggested that the next meetings of the ECB should focus on the technical details of QE.

The restructuring of the southern European banking landscape continues: the important saga of the takeover of Portugal's BPI by CaixaBank finally seems to have ended, BCP should open its capital to a Chinese strategic investor, Fosun, and Monte dei Paschi moves toward a voluntary exchange into equity of its subordinated debt in order to reduce the total needs for its capital increase of € 5 billion. The terms are not yet known but the exchange could be a pleasant surprise for debt holders.

Management Report (continued)

Finally, the portfolio benefited from a tender offer by Barclays on its discos bonds, with premiums up to 12%. We held these bonds (the disco bond was one of the main positions in the fund) and the contribution is +25 bps. These tender offers triggered a renewed interest in discounted bonds, especially for the Fortis Cashes we have in portfolio (+15 bps positive contribution).

Despite these very positive news, the fund ended the month down -0.42%, penalized by its position on DB (-8bps contribution) and by widening spreads on the AT1s and Itraxx Sub Fin.

October

October was a positive month in the overall banking sector.

The highlight this month is the general rise in sovereign rates (+26 bps for the German 10-year rate, +50 bps for the UK 10 year-rate and +22bps for the US 10-year rate). The reasons are many but we think we are at the end of a period of decline; this inflection is supported by a majority who are increasingly critical at the negative consequences of a low rate cycle in the long term.

This favorable increase in interest rates for the banking sector, resulted in a rise in bank stocks (the banking index ended the month up 8%) and AT1s in its wake. We took advantage of these movements to reduce our exposure to AT1s by 2%.

Despite this positive climate for the sector, the primary market remained quiet with only one issue by the Norwegian bank DNB. The bank issued $750m AT1 with a coupon of 6.50% (BBB rating from S&P). Anecdotally and to highlight the differences in yields that remain on the market between two instruments with similar rating, CNP launched the first issue of Tier 3 in EUR (Tier 3 is a new subordinated debt instrument positioned between Tier 2 and senior debt and it is used to cover additional capital requirements for European insurers). This issue of EUR 1 billion with a coupon of 1.875% was subscribed successfully.

On the regulatory front, no major developments, only the quarrels around Basel 4 continue to make headlines, the Germans have threatened to use their veto if in its current form, the project did not change.

In this environment, the fund performs well. Our low modified duration has indeed protected us against a rise in rates and we were able to take full advantage of positive developments on several investment cases, especially on Italy with a rise in Monte dei Paschi and Unicredit bonds. Italian banks have benefited from the emergence of an alternative plan (proposed by M Corrado Passera, former Minister of Industry) in the project of Monte Dei Paschi's restructuring plan, but above all, the market has integrated the fact that the fate of Matteo Renzi and his government was not related to the outcome of the referendum on the 4th of December.

November

Interest rates kept rising in November, held by the surprising result of the American presidential election. In Europe, the Q3 quarterly results season-end confirmed the trend: banks have published increasing capital ratios thanks to profits higher than expected.

Management Report (continued)

Nonetheless, the market remained focused on Italy with the referendum approaching and the fear of Monte dei Paschi's recapitalization plan failure. As a reminder, Monte dei Paschi's recapitalization plan is ambitious because it combines a tender offer of subordinated instruments and a €5Bn capital increase, precondition for a sell-off of Monte dei Paschi's non-performing loans stock. The market fear turned into a BTP/BUND spread widening of about 25 bps with a spike of 40 bps during the month.

The European Commission published its final draft revision of the current directive and regulation (CRD4 and CRR). This final version which should be adopted in 2017 is positive for subordinated debt holders because it reduces banks' capital requirement in Pilar 2 and strengthens subordinated creditors over shareholders and employees regarding coupon payment in case of difficulties.

This proposal also clarifies rules for instruments eligible to Minimum Required Eligible Liabilities (MREL) ratio in case of bail-in. Instruments issued by Special Purpose Vehicles (SPV) are excluded, as well as bonds which have less than a year remaining to maturity or a step-up clause. In France, a new category of non-preferred senior securities should theoretically be introduced.

We have built on these elements to buy securities non eligible to MREL, so likely to be called, which are a major part of our global strategy.

We also took advantage of the interest rates rise to reduce our positions on floating-rate bonds (Fortis BNP and CMS BFCM) and over performing AT1s (AIB, Barclays and Lloyds).

The fund ends the month down by 1.34% due to fears on the Italian referendum. However, we remain confident in the strategy's potential because new MREL rules published by the end of the month are going to create lots of calls and generous tender offers on deeply discounted bonds that we hold in the portfolio.

December

In keeping with these last six months, December's performance was driven by positive momentum.

The anticipated failure of the Italian referendum which resulted in Matteo Renzi's resignation did not disrupt the markets any more than the Brexit result or the surprise election of Donald Trump. On the contrary, the market has reacted well to the double movement of the American (25 bps rate increase) and European (restriction of its purchasing policy) central banks. Investors consider these decisions as signs of a favorable economic environment and most importantly as a strong support to the banking sector.

There has been a wealth of financial news in Italy. Unicredit has announced a massive recapitalization plan and the Italian state look to explore new territory with the precautionary recapitalization of Monte di Paschi. Both have reduced the systemic risk weighing on the country. At the end of the month, Deutsche Bank announced that it had reached an agreement with the US Department of Justice on the subprime securitizations affair. The German bank will now have to pay 7.2 billion dollars (as opposed to 14 initially claimed) of which only 3.1 billion correspond to a civil fine (the remaining 4.1 are tax deductible).

On the regulatory front, Crédit Agricole and Société Générale opened up the "senior non-preferred" debt market eligible for the TLAC and MREL ratios. These issuances of €1.5 billion and €1 billion,

Management Report (continued)

respectively, were strongly subscribed and offer a premium of almost 50 bps compared to senior debt. As a reminder, these new debts, inserted between T2 and senior debts, will serve as an absorption buffer in case of any losses, thereby further protecting senior creditors.

Finally, the announcement by several banks of their CET1 requirement (SREP) for 2017 has clearly confirmed the trend towards a reduction of 100 to 200 bps of regulatory requirements.

Logically, AT1 contributed significantly to our performance in December.

Management Report (continued)

Annual Management Report November & December 2016 – Axiom Equity Lux

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The January effect didn't exactly happen this year with one of the worst **January** ever.

All markets suffered large drawdowns but financials underperformed sharply (-8% vs. Euro Stoxx 50). This underperformance can be explained by two factors:

First, an uncertain macroeconomic environment with the slowdown in China, the credit risk on the Oil & Gas industry and the rise in US rates – with its potential impact on the emerging market carry trade. Banks are now seen as potential victims of the deterioration of the credit risk of the Oil & Gas industry. However, we believe a clear distinction should be made between low-risk assets (loans to investment grade companies, short-term trade finance with market hedge, etc.) and high-risk assets (oil servicers mainly). European banks have mostly trade finance exposure (75% of SG's exposure) or exposure on clients in a nearby country (Africa, Nordics, etc.) where production costs are lower than in the US - in sharp contrast to US banks.

Second, a disastrous communication from the ECB (later corrected by Mr. Draghi) created a market fear that the ECB would force Italian banks to sell their NPLs with large haircuts, with large capital and P&L impacts. This has resulted in massive sales on shares of Italian banks which are now almost at their lows since 2009. True, the NPL ratios of Italian banks remain too high compared to the European average (20% vs. 6%) but this is not a new topic, very far from it. The stock of non-performing was evaluated within the framework of the Asset Quality Review 2014 and Mr Draghi explicitly reiterated that no additional capital is required.

In this context, we maintained a country allocation in line with the index with a slight overweight on French banks (14% against 10% in the index).

The outperformance vs. the index resulted from a careful selection of securities. In Spain we had a long bias on Bankinter and a shorts bias on Liberbank and Banco Popular which generated an outperformance of +0.88%. In Italy, we had a long bias on Intesa Sanpaolo and a short bias on UBI Banca and Unicredit that generated an outperformance of 0.41%.

As the earnings season continued, the banking sector went through further rounds of volatility on **February**. Despite rather decent and encouraging earnings and profit metrics, market sentiment stayed negative. In addition to NPLs, oil exposures and China slowdown, investors added negative interest rates to their list of concerns for the sector. The STOXX Europe 600 Banks Index dropped 15% before recovering and closing February at -5%.

Regulatory bodies did their part to allay concerns.

Management Report (continued)

Mrs Nouy, Head of Single Supervisor, reiterated that banks can count on capital requirements staying at current levels as the regulatory requirements have reached "steady state". In a remarkable initiative of disclosure and transparency, the ECB published a booklet detailing its approach towards SREP go-to capital ratios. As a number of uncertainties lie ahead like the quantum of adjustments to SREP from the EBA stress tests results in Q3 and the scope of the SREP requirements by 2017. We took note of the suggestion by the ECB to change the legislation, in particular Article 141 that defines the MDA restrictions in CRD4. Although this is primarily very supportive of the AT1 market, we view this also positive for European bank stocks.

Over the month, we continued to adjust positions in the UK to reduce the portfolio sensitivity to the Brexit noise, reducing our Lloyds weight to the index and adjusting Barclays 2% below. While we maintain a strong overweight in Italy, we adjusted our position in Banco Popolare di Milano (PMI) due to its announced potential merger with BP which was underweighted in our portfolio. We also overweighed RBI by 1% after their positive annual release evidencing the strong RWA dynamic reduction.

The main positive performance contributors over the month are Lloyds (overweighed), Banco Popolare (underweighted) and Liberbank (underweighted).

The European banking sector ended the month of **March** with a slight drop despite a strong rally after the ECB's announcements.

Indeed, Mario Draghi announced new measures at the beginning of the month: lowering of the main refinancing rate to 0% and implementation of a new long term refinancing facility (TLTRO) at -0.4% (the deposit rate of the ECB), subject to credit growth constraints. Spanish banks (Banco Popular, Banco Sabadell) and Italian banks (Banca Monte dei Paschi) will be the main beneficiaries of this new TLTRO.

In Italy, Banca Popolare di Milano and Banco Popolare finalized the terms of their merger, thus paving the way for the consolidation of the Italian popolari banks. Banca Popolare di Bari announced the launch of the first NPLs securitization under the new structure approved by the European Commission. The success of this operation will be milestone for the Italian banking sector for which NPLs are a key issue. In France, Crédit Agricole SA confirmed its restructuring plan and the reduction of its participation in regional banks. In Switzerland, Credit Suisse announced that it will accelerate its restructuring plan which consist in reducing its investment banking activities and a recruitment campaign in Asia.

We modified the balance of the portfolio by increasing our exposure to French banks (+3.31%) because we believe they have a low sensibility to negative rates. We maintained an overweight on Italy (+5.13%), a neutral exposure to Spain (-0.38%) and a strong underweight on English banks (-10.59%) on the eve of the official launch of the Brexit referendum campaign.

We also did several individual adjustments. In Switzerland, we continued to reduce our exposure to Crédit Suisse (-1%) due to concerns about its restructuring plan, in order to increase our overweight on Julius Baer (+2%) which has a business model (wealth management and asset management) that seems to us more efficient in the current context. In Spain, we increased our exposure to Banco Popular and are now back at an index weight, we overweighed Bankinter (+1%) and underweighted Caixa Bank (-1%). In Italy, we temporarily reduced our exposures on Italian popolari banks in order to

Management Report (continued)

invest on Poste Italiane (+1%). In the United Kingdom, we reduced our positions on Barclays (-3%), HSBC (-1%), Lloyds (-1%) and RBS (-1%).

April ended on a high despite a slow start.

Overall the sentiment towards the banking sector improved as crude oil traded above $40 a barrel, fears surrounding the impact of China's economic slowdown on the global economy settled, polls indicated the likelihood of Brexit declined and banking lending surveys revealed an increase in net demand for loans across Europe.

On the whole, the Q1 results season was reminiscent of the previous quarter: improved capital ratios, a decline in revenues alongside lower loan losses and earnings ultimately beating depressed consensus.

Once again, Italy was under the spotlight. Atlante, the sector-wide fund set up to recapitalize smaller banks and to securitize non-performing loans, was endowed with €4.35bn of capital. Obviously, the amount remains modest in comparison to the stock of Italian NPLs, but the fund will be leveraged and together with the reform on bankruptcy proceedings and the Popolari consolidation, it shows that Italy is committed to restructuring its banking sector.

On the regulatory front, we have witnessed a significant change in the regulators' tone with greater clarity and flexibility in the application of new legislation. Following the statement of Daniele Nouy, Chair of the ECB's Supervisory Board in March, the Secretary General of the Basel Committee, William Coen, declared: "While we do NOT intend to significantly increase overall capital requirements, this does not mean avoiding any increase for any bank."

Transforming words into action: on April 22nd the Basel Committee published the final rules relative to the interest rate risk in the banking book, which are clearly more flexible than initially expected. No binding Pillar 1 capital requirement will be applied and Pillar 2 requirements will be left to the appreciation of the regulator on a case by case basis.

Those developments confirmed our initial thoughts: regulatory changes will be primarily discriminatory and will favour some types of banks over others.

We remained overweight in Italy and France and underweight in the UK and Spain. We also increased our exposure to Standard Chartered and HSBC. Both banks benefited from the lessening concerns surrounding China's growth and published strong results for the first quarter. We reduced our exposure to RBI and Crédit Agricole, as new elements regarding their restructuring are lacking. Our best monthly contributors to performance are MPS and Standard Chartered.

"Sell in may and go away" hasn't been the best trade this year as the month of **May** ended with a rather stable +1.59% performance of the European Banks index. Despite this newly found stability, YTD performance remains very low, at -13.87%, due to the Q1 performance.

The market context has been supported by higher oil prices (now close to 50$) which eased funding constraints of oil driven countries. Many oil sovereign funds reportedly hold significant positions in European Financials and any improvement in their financial condition could alleviate the pressure on bank shares. On a similar note, Qatar issued a record $9Bn Eurobonds to bridge its $12.8Bn deficit.

Management Report (continued)

Echoing that effort, Saudi Arabia, under pressure to reduce its $98Bn deficit, was said to plan a large international bond issuance as well as a Public-Private Partnership initiative.

On the regulatory front, we had a set of mixed headlines. In a draft regulation on Minimum Required Eligible Liabilities, the EC softened the Single Resolution Board's requirement and stopped short of including the 8% level as a hard minimum. On a more painful note, Ms Nouy (Head of the SSM), outlined in a speech in Madrid, that NPLs are as a supervisory priority: “we still have a lot of work to do to address legacy assets, particularly non-performing exposures…and we will fast come with certain proposals”. This, combined with the recent amendment to the Bank of Spain's circular on provisioning practices, probably does a lot in explaining why Banco Popular announced a €2.5Bn capital raise.

The portfolio's activity was mainly focused on country re-balancing and tactical adjustments.

Still cautious on political risks, while being under-weighted on UK and Spanish banks, we continued reducing the gap vs the index (25.4% vs 29.01% for the UK and 13.65% vs 15.06% for Spain).

In Italy, we sold Poste Italiane, a very good performer until then, as we fear it might be asked to contribute to the “Italian consolidation”. There are persistent rumors around Italy planning a larger version of Atlante and Poste could be a potential "investor" into a “New Atlante”. Remaining in Italy, we bought Azimut. The company received the supervisory approval to transform itself into an asset management company, outside of the full scope of the CRR/CRDIV package, which should trigger a significant capital relief.

The month of **June** 2016 has entered into financial crisis history. The two subsequent sessions of Brexit day resulted in a decline of the pound and European stock indexes (more than 10%). The already low valuations of banking sector shares fell nearly 18% this month to regain March 2009 pricing.

June had started off well. On the regulatory front, the interventions of Danièle Nouy and Sabine Lautenschläger, respectively President and Vice- President of the European Central Bank Supervisory Board confirmed the relaxation of rules restricting the payment of dividends and coupons on hybrid securities.

The two major regulatory projects expected for the second half of the year also appeared to show signs of progress. The rules introducing MREL (Minimum Required Eligible Liability), an additional protection mechanism for depositors, should be finalized by the end of the year. The non-performing loan management rules should also be homogenized in Europe. This is one of the projects undertaken by the ECB in February, which had at the time unsettled the markets.

With this encouraging regulatory environment and the British polls favourable to Remain since mid-June, the banking index, on the eve of the British vote, had risen to its late May levels (-14.76% versus -28.74% in February).

The vote in favour of Brexit caused a crash on June, 24 and 27. The new European geopolitical context has led us to change the country breakdown as well as many fundamental positions.

We reduced the UK exposure of the portfolio to nearly 20% versus 30% for the index, underweighting banks that will be most sensitive to a slowing economy and declining real estate (Lloyds, Royal Bank

of Scotland, Bank of Ireland). We increased our positions in France (15.46% versus 11.29%), Italy (12% versus 6%), Spain (16% versus 15%) avoiding banks exposed to the UK economy (Santander, Sabadel) and Italian banks subjected to capital increase risk (Monte Paschi, Unicredit). We kept overweight in Danish banks (5.03% versus 3.03%) and Sweden (+13.88% versus 9.98%).

Brexit Hangover... The atmosphere in **July** was heavy: political crisis in the UK, assessment of the political consequences of Brexit for the rest of Europe, rating downgrade and lower economic forecasts for the UK, etc. In that context, central banks showed their willingness to intervene if required. The kickoff of the Q2 earnings season remained relatively inaudible despite good overall performance.

Once again, Italian banks dominated the news flow. The ECB's request for a balance sheet cleanup and the results of stress tests led, once again, to a new capital plan for the oldest bank in the world, Monte dei Paschi. The bank will sell a 27.7bn€ portfolio of non-performing loans and will compensate the loss with a 5bn€ capital increase that triggered a standoff between the European Commission and the Italian government regarding the application of bail-in and state aid rules. For now, the epilogue seems to be a private raise, without government money, since the planned capital increase has been "soft underwritten", but execution risk remains significant. Staying in Italy, Jean-Pierre Mustier has been appointed as new head of Unicredit and he refused to rule out a capital increase (€ 5-7 billion according to our estimates). These two potential capital increases, despite being widely expected, shed a negative light on the whole banking sector, partly because others could follow (perhaps BCP, Raiffeisen, etc.).

On the regulatory front, the results of the stress tests confirmed that the banking sector is generally very resilient, despite a significantly more conservative methodology, even if areas of weakness persist (Austria and Ireland.) The ECB also softened its position on the capital conservation buffer, giving flexibility to some banks' capital position.

The Q2 earnings season has been positive so far: of the 36 banks that already published results, only two did not achieve consensus expectations.

In this context of complex and contrasting news, we largely maintained the portfolio balance: underweight on the UK, overweight in France, Sweden, the Netherlands and Italy.

For once, **August** has been quite and even positive for European financial stocks, who ended the month 8.66% higher, outperforming non-financial indexes by more than 7% during the same period.

The positive set of Q2 results which saw only Credit Suisse and Deutsche Bank missing their revenue targets among the members of the European banks Index, eased the market recovery post buoyant July stress tests. Although 2017 EPS consensus has in average been reduced post Brexit, with negative rates worries still there, European banks' profitability looks solid and valuations remain attractive in both absolute and relative value.

On the regulatory front, the watering down trend continues. The BOE announced in early August it would temporarily suspend the incremental inclusion of certain types of deposits in the Leverage Ratio. This is positive for UK banks as it relieves capital needs but also gives a positive read across for

Management Report (continued)

Euro-zone banks. Later in the month the EC approved the Portuguese state capital injection in Caixa Geral de Depositos without bailing in bondholders. Although the statement says the recap will be carried out on market terms, this is a positive read across for restructuring cases.

Portfolio activity was mainly focused on technical adjustments, while the portfolio's equilibrium remained unchanged during the month. We kept our underweight on the UK, Germany and Portugal and our overweight on Italy, France and Sweden.

Major contributors this month have been ING, KBC, and ABN.

After a positive summer, this fall saw a reversal of the trend on bank shares, with negative headlines on Deutsche Bank. The banks SX7R index ended **September** at -2.92%, underperforming the non-financial index by -2.3%.

In the July ECB conference, Mario Draghi had shared clearly its concerns towards European banks' profitability and equity valuation: "The trajectory of bank equities is important for the ECB because a persistent and strong decline implies a higher cost of capital and lower lending growth". Later in September, when the BOJ announced its policy of yield curve control, there was renewed optimism in Europe that the ECB Zero Interest Rate Policy and its negative effects on banks' profitability would not be there forever.

Deutsche Bank's confirmation that the DOJ had initially proposed a $14bn settlement on the RMBS litigation proved to be a harsh wake-up call: litigations will continue to weigh on the capacity of many systemic banks to execute their strategic plan.

On the regulatory front, we witnessed further forbearance, as the Bank of Italy aligned the phasing in of buffers with other European countries, conceding a 1.25% capital relief for Italian banks. But the most important topic remains the so-called "Basel 4" package, where we saw a fierce battle between the EU and the US. EC Vice President Vladis Dombrovskis stood firm by declaring: "At a time when we are focused on supporting investment, we want to avoid changes which would lead to a significant increase in the overall capital requirements shouldered by Europe's banking sector."

Overall, beyond the Deutsche Bank story, we view the regulatory and monetary developments as positive. In that context, portfolio activity was mainly focused on technical adjustments while the portfolio's equilibrium remained largely unchanged during the month. We kept our underweight on the UK, Germany and Portugal and our overweight on Italy, France and Sweden.

Major positive contributors this month have been BCP, RBS, DB, all three net short positions and LLOYDS which is significantly underweighted. Negative contributions came from UBI, Delta Lloyds and Banco Popular.

Axiom Equity ends September with a performance of -2.65% over the month.

October has been a very positive month for European Financial Equities. The banks SX7R index ended October at +8.82%, outperforming the non-financial indexes by 7% in average.

Management Report (continued)

This positive sentiment was driven by the general wake up on DB (finally not going bankrupt any time soon!), the change in perspective on interest rates following BOJ's Policy change and the very positive Q3 results.

On the Monetary policy front, rumors in early October around the ECB debating internally on Taper, although not confirmed, is a new indication that Zero Interest Rates for ever in Europe seems now very unlikely.

In parallel, the Q3 2016 saw a very positive set of release in both revenues and capital resulting in many consensus for 2016 and 2017, reverting the previous quarter depressing trend.

On the regulatory front, more forbearance again! The October ECOFIN meeting saw EU Finance Ministers again expressed their support for the banks in the battle over Basel 4. Later in the month the Basel committee published a long awaited review of the capital impact of IFRS 9 and is now proposing to introduce a transition period of 3-5 years to smooth the hit. As a reminder this could hit European bank CT1 ratios by -0.7% on average. Finally, on Operational Risk, Bank of England Governor Mark Carney said in front of UK Lawmakers he expected the Basel proposals to be "substantially reduced" with the result that "supervisory discretion is back with the home supervisor". This would again be a very positive development as Op-Risk changes are in the current version one of the greatest factor of RWA inflation.

In that context, fund's activity was again mainly focused on technical adjustments while the portfolio's equilibrium remained largely unchanged during the month. We kept our underweight on the UK, Germany and Portugal and our overweight on Italy, France and Sweden.

Major positive contributors this month have been BBVA, BPER, BANKINTER and BNP. Important negative contributions came from RBS, Delta Lloyds and CAIXABANK.

November has been a positive month for European Financial Equities. The banks SX7R index ended November at +4.12%, outperforming the non-financial indexes by 4% in average.

Following the US elections, a rally started in financials, driven by sharp increases in interest rates and a strong Q3 results.

Despite any updates from central banks on their monetary policies, whether on potential tapering or rate hikes, rates continued their progress over the month, resulting in a new rate environment ahead of the December ECB meeting. In parallel, the strong earnings season led to numerous earning upgrades and a complete outlook change on the sector.

On the regulatory front, more positive noise again on Basel 4! Just before the two-day meeting of the Basel committee in Chile, Mr Enria, Chairman of the European Banking Authority, said he was confident of "significant revisions" and that "the final proposals will be much closer to what we think they should be". Post meeting, the Basel Committee's secretary general, William Coen, announced "great progress" had been made, raising hopes of an acceptable deal (for European Banks) being agreed by mid-January.

The political context tempered the enthusiasm for financial stocks before the end of the month, as the prospect of Matteo Renzi's resignation progressively brought clouds over the Italian banking system.

Management Report (continued)

In that context, the fund's activity was again mainly focused on technical adjustments while the portfolio mix remained largely unchanged during the month. We kept our underweight on the UK, Germany and Portugal and balanced our overweight on Italy with less sensitive names such as Poste Italiane. France and Sweden remained overweight as the improving conditions in the new rate environment are not sufficient yet to switch into the banking sectors that are more geared to interest rates.

Major positive contributors this month have been BANCO POPULAR, BPER, and BNP. Important negative contributions came from RBS, BCP and CAIXABANK.

December has been a strong month for European Financial Equities. The banks SX7R index ended December at +7.12%, in line with non-financial indexes in average.

The rally that had started post US elections has been still on despite Mateo Renzi's defeat and resignation. Interest rates, earning estimate re-rating, regulatory tail wind bring back focus on the sector.

The December ECB meeting confirmed Taper was now on the horizon. Although the mix set of measures announced rather sounded as a soft and slow policy adjustment, investors clearly bought the higher rate thesis. In parallel, numerous earning upgrades published during the month showed a significant outlook change on the sector.

On the regulatory front, there has been significant progress on the Basel 4 negotiation, which all in all seem positive for European banks. The prospect of an agreement seem however still far as German and Swedish still oppose the so called "output floors" as it would cause significant capital needs for these banks.

In parallel, December saw the epilogue of many topical stories. UniCredit announced its 2019 strategic plan with a Eur 13bn rights issue. Deutsche Bank and Credit Suisse settled finally their litigation with the US authorities over RMBS on favourable terms and Delta Lloyd and NN agreed to merge. The Monte Paschi market solution combining a NPL securitization and LME to get her with a capital raise ultimately failed, leaving the State negotiating a precautionary recapitalization with the European authorities.

In that context, the fund's activity has been focused on adjusting the portfolio to the potentiall Basel 4 changes and the rate context. We kept our underweight on Germany and Portugal, reduced our exposure to Sweden and Belgium on Basel 4 concerns. We balanced our overweight on Italy with more beta geared names, selling Poste Italiane for INTESA. France and Spain remained overweight.

Management Report (continued)

Annual Management Report 2016 – Axiom Contingent Capital Lux

The Compartment is a Feeder Compartment of the class Z shares of Axiom Contingent Capital, a French Mutual Investment Fund authorised by the *Autorité des Marchés Financiers* as a UCITS (the "**Master Fund**") and will invest at least 85% of its assets in units of the Master Fund. In general Feeder is invested at 100% of its assets in units of the Master Fund or close to. So the Feeder's performance is directly derived from the performance of the Master, the management report of which follows:

Within a context of strong market correction, the underperformance in **January** of the financial sector is mainly explained by three reasons.

First, an uncertain macro-economic environment: economic downturn in China, credit risk in the Oil &Gas industry, the increase in American interest rates (impact for the carry trade on emerging countries) and fears on the Brexit referendum.

Regarding the European Banking sector, the decision to transfer arbitrarily 5 bonds from Novo Banco to BES sharpened fears about senior debt bail-in. We think that the risk of a forced bail-in has sharply decreased since the Single Resolution Board is the only entity able to rule on bail-ins in Europe (1st January 2016).

Finally, a poor communication from the ECB as single supervisor (it has since been corrected by M. Draghi), gave markets the impression that the ECB will compel Italian banks to sell their NPLs at huge discounts leading to an impact on capital ratios and a major bail-in risk. Those fears have been expressed through a massive sell-off on Italian bonds: some senior and hybrid bonds lost 30 to 40 figures in a few days before recovering by 20 figures. We believe that the market deeply overreacted. It is admitted that the NPL rate of Italian banks is higher than the European average (20% vs 6%) but as the ECB reiterated, Italian banks have already been subject to AQR and stress-tests at the end of 2014. Even if those positions continue to depress profitability and loans growth, they would not be likely to trigger additional capital requirements.

Within this context, the AT1 market was down too. Prices are at their lowest levels (Banco Popular Espanol 11.5% felt below its par value for the first time). Even if, in a few situations, this price decrease can be explained by insufficient capital ratios or fears about coupon payments (Deutsche Bank), we believe that this is first and foremost the complexity of capital requirements calculation and articulation between different capital buffer requirements that rekindled often baseless concerns. Once again the authorities' communication was erratic: the ECB contradicted the EBA's opinion formulated in December that SREP requirements should be communicated to investors.

Despite this difficult context, Intesa Sanpaolo and Credit Agricole came to the market for AT1 transactions, each one for 1.25 billion, Intesa Sanpaolo in EUR and Credit Agricole in USD. In the light of its capital buffer above the MDA and the simplicity of its business model we participated in Intesa's deal that has a coupon of 7%.

Management Report (continued)

The underperformance of the fund versus the Coco index this month is mainly explained by its bias on Italian banks (13% vs 3.5% for the index) and Banco Popular (negative contribution of 16 bp). The market penalized this bank for its NPLs portfolio. To us, the bank continued to pay its quarterly coupons on AT1 and is still, in an extreme scenario, able to make a capital increase.

The underperformance of Deutsche Bank inside the index (-35 bp) should also be noted. The bank pre-announced a loss of 2.1 billion in Q4 and new provisions, exposing its coupons at an even higher risk. We had no exposure on the German bank.

The market crashed at the beginning of **February** and concerns that caused a market turmoil in January erupted again. The market was still worried about oil prices, NPLs, negative interest rates, MDA mechanism and increased Brexit risk after Boris Johnson's statement. These concerns brought back the yields to maturity of AT1s to the levels last seen on Legacy securities in 2011, close to 8%.

Yet, there were significant reasons for the trend to be reversed: banks earnings season is coming to an end with profits slightly higher than expected and continued increase in CET1 ratios (RBS, Lloyds, Credit Agricole…).

On the regulatory front, the ECB tried to clarify the rules by publishing a book let in which it explains the SREP methodology. During these last weeks, the ECB multiplied announcement store assure the market regarding the sufficient level of capital of European banks and proposed to revise the mechanism of coupon payments by making it discretionary even if banks do not follow their capital buffer requirements (hence modifying the automatic mechanism of MDA).

Unfortunately, this very positive announcement for hybrid debt was relatively unnoticed. However, the second half of February gave way to a significant market rebound but it was not strong enough to make up for the loss.

All eyes are now on the ECB: the market is waiting for new measures that could be announced at the next ECB meeting in March. These measures could be very positive for banks (new LTRO, changes in the QE distribution key, extension of eligible assets, tiering of the deposit facility etc.). Answer on March 10th.

Within the portfolio, we took advantage of this market downturn to buy securities that had suffered a lot like Banco Popular 11.5 or Deutsche Bank AT1s that we never had in the portfolio before. At these prices we think the coupon risk is well compensated. We also strengthened our position on Intesa 7 %, as the bank issued better results than expected, and on Irish banks (AIB 73/8 and BKIR 73/8) due to their strong capital generation capacity, sharp decrease in NPLs and a growing Irish economy.

We also strengthened our positions on Swissbanks (the exposure increased from 0.5 % to 5.8 %); we believe they benefit from clear and favorable regulations.

After two months of sharp decrease, the market finally reacted very positively to the ECB's announcements at the beginning of **March**, erasing part of the drawdown since the beginning of the year.

Management Report (continued)

Indeed, the ECB's announcements have been healthy for the banking sector. Firstly, the TLTRO with negative rates will allow banks to increase their interest margins, even if its implementation is subject to lending growth criteria; then the ECB will buy investment grade corporate bonds on the market. This was supportive for the IG market that outperformed the high yield one (the portfolio is mainly invested on the latter and should benefit from the rebalancing effect). Lastly, during its speech, Mario Draghi called for a more favourable treatment of AT1 bonds regarding the hierarchy between dividends and AT1 coupons and for a greater flexibility of the MDA mechanism, thus paving the way for positive regulatory developments for those invested in AT1 debt.

This last regulatory evolution is a major catalyst for Axiom Contingent Capital. Indeed, we believe that risks associated to AT1 will be significantly reduced and it is not impossible to see the implementation of a dividend stopper (impossibility to pay dividends if AT1 coupons are not paid) and a modification of the MDA mechanism that would become more flexible (no automatic suspension) and less impacted by Pillar 2 requirements (distinction between a constraining Pillar 2 and a Pillar 2 "guidance"). AT1 would get closer to old Legacy bonds.

On a medium term basis, we believe that these regulatory changes offer a high potential for performance.

On the market, BNP and UBS took advantage of the rally at the beginning of the month to reopen the primary market and issued 3bn of AT1 with premiums between 30 and 50bps compared to the secondary market spreads.

Within the portfolio, the main contributors to the positive performance are ACAFP 6 5/8, BACR 6 1/2 and POPSM 8 1/4.

Following on from last month's momentum, the market continued to improve throughout **April**. The ECB issued its purchasing programme which drove down corporate bond yields. Those bonds excluded from the programme, with the exception of insurance bonds, benefited from portfolio reallocations especially in the investment grade sector.

This improved market sentiment was also felt throughout the primary market. We saw numerous Tier 2 issuances and three new AT1 deals: Rabobank and BBCA issued spreads of 670bp and 911bp, whereas Bankinter issued its inaugural AT1 at 890bps (we participated in all three).

On the regulatory side, one must note the ad-hoc committee meeting chaired by the European Commission which aims to propose new legislation for the payment mechanism of AT1 coupons, however no further information on this topic has been leaked. The Basel Committee ruled in favour the bank lobby which significantly reduced the impact of its proposal to take account of the interest rate risk in the prudential ratios.

The onset of the Q1 2016 results season has displayed similar trends to the previous quarter. Due to the pressure from volatile markets and low interest rates we have seen improving capital ratios and mediocre, albeit unsurprising results.

Concerns surrounding Brexit have heavily influenced the fund's performance. After a challenging start to the year, British banks managed to outperform in April. Barclays, Lloyds and Abbey respectively contributed +21bp, +13bp and +10bp to the fund's performance. Paradoxically, it was the Irish banks (Permanent TSB -8bp and AIB -3bp) who suffered the most. This reflects the fact that

Management Report (continued)

these banks are amongst those who would be most affected by a Brexit scenario, given their close ties to the United Kingdom.

The market context remained buoyant in **May**, driven by English banks that caught up (+60bp) after months of underperforming due to Brexit concerns. Erste Bank (9% in EUR for a first issue) or HSBC (6.875 % in USD) benefited from this positive environment to issue on the primary market. We participated in the first however, in our opinion, the second did not offer a satisfactory premium compared to the secondary market.

The market was also marked by several banks' capital increases (Banco Popolare in order to support its merger with Banca Popolare di Milano, Banco Popular in Spain in order to increase its coverage ratio) realized or likely to come (Unicredit after the formalized departure of its CEO M. Ghizzoni). These announcements were bullish, especially for our position on Banco Popular AT1 8 ¼ (+8bp). Allied Irish Bank should also be mentioned as it is one of the best market performers, it benefited from good quarterly results and from decreasing concerns about the impact of a whistleblower's claims concerning its NPL allowances.

During the month, Swiss regulatory activity was heightened: the eligibility period for low trigger Cocos (5.125%) has been shortened to 2019 thus favouring securities trading below par value like a bond issued by CS (+15bp).

June 2016 will remain in history as the month when the UK decided to leave the EU.

We chose to approach this event carefully because we felt polls were volatile and not reliable. We built up a 20% cash cushion and a very liquid market exposure via a CDS on the Tier 2 banking index of 25 % of the fund nominal.

As the result took most analysts by surprise, the correction was violent but concentrated on only two days (7% average decline AT1).

We took advantage of this by investing on resilient banks securities (Skandinaviska Enskilda, Société Générale, Intesa, Unicredit, Lloyds, Barclays and Banco Popular) which should benefit from a new favorable regulatory framework applicable to MDA, confirmed by the EBA at the end of the month.

We participated in the ANZ issuance (Australian bank) due to a dividend stopper and a high coupon (6.75 % in $) for an investment grade issuance. The issuance currently trades at 104.

The market strongly rallied in late June erasing half of the drawdown.

Relative to equity markets' performances, the market considered the Brexit more as a profitability risk than one of solvability and the AT1 resilience reflects a reduced perception of coupon suspension risk.

Our hedges, still modest on the dividend swaps (2017 dividend sale to cover the risk of non-coupon payment for some banks) have allowed us to offset the fall (+ 15bp).

Another topic is the resurgence of the Italian non-performing loans problem.

Management Report (continued)

Opportunistically, the government of Mr. Renzi used the shock triggered by the Brexit, but also the uncertainty about the upcoming Italian referendum, to try to impose European authorities to a recapitalization and cleaning-up of Italian banks, especially Monte Dei Paschi. The deadline represented by the stress tests (results to be announced on July 29th) suggests that the outcome of the negotiation is very close.

The fund is only invested in the two largest Italian banks, Intesa and Unicredit (yield to call between 8.4% and 12.8%).

Fund assets increased in June (+3.8M €) reflecting the attractiveness of AT1 today in terms of risk / reward.

After the outcome of the British vote, we didn't expect a positive month in **July**. But the Brexit calendar will extend over at least two and a half years and the outlines of an agreement remains very vague - the market will have plenty of time to focus on this issue more closely, possibly in January when real negotiations could begin.

AT1s were the best performers on the market. The communication of the ECB, echoed by many publications, has reduced the risk of non-payment of coupons by splitting the capital requirements under Pillar II into a mandatory component and an indicative one. The ECB also pushed the introduction of the capital conservation cushion and raised the distance to distribution restrictions. In the yield desert that we are facing, this is more than enough to trigger a sustainable upward trend.

This positive trend should reopen the primary market closed since May. UBS, BNP and HSBC will surely be among the first to return.

The second quarter earnings season kicked off with no significant surprise. The market was more focused on the stress tests published in late July. If areas of weakness remain, such as Austria or Ireland, the results confirm the resilience of the European banking sector. In a sample of 51 banks, there was only one "fail" - Monte dei Paschi, widely expected - despite a significantly more conservative methodology.

The fund's performance over the month is 4.16%, driven by its iTraxx exposure (45bps), Italian banks (48bps) and British banks that had been suffering.

August was a quiet month. Fueled by more easing from the Bank of England (key rate cut to 0.25%, increased asset buyback program to £60bn), markets continued their positive trend that started in July.

The month started with the analysis of the stress tests results published on the last day of July. They revealed no surprises and the situation of Banca Monte dei Paschi had been treated beforehand. Thirty-seven banks supervised by the ECB participated and they had an average CET1 ratio of 13%. Under the adverse scenario, the average decrease in the CET1 ratio was 3.9%, thereby maintaining equity post-stress test at a level of 9.1%, higher than in the 2014 stress test, despite a more demanding/rigorous methodology.

Management Report (continued)

This favourable environment has allowed the reopening of the primary AT1 market for the first time since the Brexit referendum with four successive deals for a record amount of €6bn (UBS, Standard Chartered, Barclays and RBS). RBS also printed the largest European issue ever ($2,6bn).

We participated in those deals; premiums were interesting as shown by the post primary rise (1%-2%).

The fund's performance benefited of the announcement of an important regulatory project with the potential prioritization of AT1s coupons over dividends.

In the portfolio, the performance was particularly driven by the outperformance of Permanent TSB (17bps), Erste Bank after the call of all its legacy bonds (reassuring on the strength of its ratios because some bonds were still counted in the Tier 1 ratio) and the good performance of English banks which lost ground in June.

After a positive summer, **September** saw a reversal of the trend on the banking sector, with a disappointing press conference from the ECB and negative headlines on Deutsche Bank.

The German bank is once again in the spotlight after announcing that the US Department of Justice had proposed a fine of $ 14bn on the RMBS issue, which resulted in speculation and rumors about a state aid from the German State sent the prices into a downward spiral. We commented this a lot in the media, but our opinion can be summarized as follows: the bank has huge profitability and capital issues, but we remain confident that the credit is robust (NPLs are very low, liquidity is ample, solvency ratios are well above regulatory thresholds, etc.).

We were underweighted on Deutsche Bank and took advantage of the low price on its AT1 (back to its February level) to buy.

Overall, rising Itraxx indexes (+15bps) and our exposure to Italian banks (Intesa and Unicredit) have penalized the portfolio this month.

These movements have led us to increase our Itraxx Sub exposure as well as our position on Banca Intesa. The Italian bank, despite its solidity, suffers from a negative climate on the Italian banking sector.

The publication of SREP ratios (capital requirement) will occur probably in the fourth quarter. We will pay special attention to this publication, in fact, the introduction of a “guidance part” (non-binding for coupon payments) should be positive for the asset class.

October was a positive month in the overall banking sector.

The highlight this month is the general rise in sovereign rates (+26 bps for the German 10-year rate, +50 bps for the UK 10 year-rate and +22bps for the US 10-year rate). The reasons are many but we think we are at the end of a period of decline; this inflection is supported by a majority who are increasingly critical at the negative consequences of a low rate cycle in the long term.

This favorable increase in interest rates for the banking sector, resulted in a rise in bank stocks (the banking index ended the month up 8%) and AT1s in its wake.

Management Report (continued)

Despite this positive climate for the sector, the primary market remained quiet with only one issue by the Norwegian bank DNB. The bank issued $750m AT1 with a coupon of 6.50% (BBB rating from S&P). We participated in this issue because the spread was attractive for an investment grade bond and it should be the last issue for DNB, which makes it rare. The bank has indeed finished filling its AT1 ratio (1.5% of RWA). The price is now 102.

In this environment, the fund performs well. Our low modified duration has indeed protected us against a rise in rates and benefit from spreads tightening. Our exposure to the Itraxx subordinated financial index contributed positively (+26bps). Italian bonds also had strong performances with a contribution of 40 bps supported by the emergence of an alternative plan (proposed M Corrado Passera, former Minister of Industry) for the project of Monte Dei Paschi's restructuring plan, but above all, the market has integrated the fact that the fate of Matteo Renzi and his government was not related to the outcome of the referendum on the 4th of December.

Interest rates kept rising in **November**, held by the unexpected result of the American presidential election. AT1 universe is mostly in USD (65%) but we have underweighted this currency in the portfolio (40%) for many months because the probability of a rate rise is higher in this zone, and this is confirmed by Donald Trump's inflationist policy.

The market remained focused on Italy with the referendum approaching and the fear of Monte dei Paschi's recapitalization plan failure. The market fear turned into a BTP/BUND spread widening of about 25 bps with a spike of 40 bps during the month.

Concerning Italian banks, we remain invested on Intesa whose spreads are undervalued compared to the quality of the bank, and Unicredit while the recapitalization plan is pending (investors day will take place on Dec, 13th).

The European Commission published its final draft revision of the current directive and regulation (CRD4 and CRR). This final version which should be adopted in 2017 is positive for subordinated debt holders because it reduces banks' capital requirement in Pilar 2 and strengthens subordinated creditors over shareholders and employees regarding coupon payment in case of difficulties. These developments are very positive for AT1s.

The Irish banks in the portfolio have performed well (+10bps contribution) after they abnormally suffered from the Brexit while bonds with a high beta suffered in a decreasing market (BBVA, SocGen, Unicredit).

In keeping with these last six months, **December**'s performance was driven by positive momentum.

The anticipated failure of the Italian referendum which resulted in Matteo Renzi's resignation did not disrupt the markets anymore than the Brexit result or the surprise election of Donald Trump. On the contrary, the market has reacted well to the double movement of the American (25 bps rate increase) and European (restriction of its purchasing policy) central banks. Investors consider these decisions as signs of a favourable economic environment and most importantly as a strong support to the banking sector.

Management Report (continued)

There has been a wealth of financial news in Italy. Unicredit has announced a massive recapitalization plan and the Italian state look to explore new territory with the precautionary recapitalization of Monte di Paschi. Both have reduced the systemic risk weighing on the country. Italian names performed well within the portfolio (Contribution of +23 bp for Intesa and +22 bp for Unicredit).

At the end of the month, Deutsche Bank announced that it had reached an agreement with the US Department of Justice on the subprime securitizations affair. The German bank will now have to pay 7.2 billion dollars (as opposed to 14 initially claimed) of which only 3.1 billion correspond to a civil fine (the remaining 4.1 are tax deductible). The contribution of DB is +10 bp.

On these investment cases, we benefited from their good performance to reduce exposure in the portfolio.

Finally, the announcement by several banks of their CET1 requirement (SREP) for 2017 has clearly confirmed the trend towards a reduction of 100 to 200 bps of regulatory requirements.

Logically, the AT1 market has risen this month. The fund ended December with a performance of +3.26% and 2017 promises to be under the best auspices as we now benefit from a favourable environment marked by interest rate movements and regulatory flexibility conducive to the banking sector.

Management Report (continued)

AT1	Additional Tier 1 is a new format under Basel 3 of hybrid debt eligible as regulatory capital, both for the solvency ratio and (partially) the leverage ratio. Coupons must be discretionary, and principal can be reduced either with a conversion (CoCo) or a principal write-down that can be subsequently written up
CET1, CET1 ratio	Under Basel 3, Common Equity Tier 1 is the strongest form of regulatory capital, comprising mainly share capital and retained earnings with some deductions as compared to accounting capital (such as deferred tax assets). The CET1 ratio is the ratio of CET1 capital to risk weighted assets.
QE	Quantitative easing (QE) is a monetary policy used by central banks to stimulate the economy when standard monetary policy has become ineffective. A central bank implements quantitative easing by buying financial assets from commercial banks and other financial institutions, thus raising the prices of those financial assets and lowering their yield, while simultaneously increasing the money supply. This differs from the more usual policy of buying or selling short-term government bonds to keep interbank interest rates at a specified target value.
NPL	A non-performing loan is a loan that is in default or close to being in default. Many loans become non-performing after being in default for 90 days, but this can depend on the contract terms
FSB	The Financial Stability Board (FSB) is an international body that monitors and makes recommendations about the global financial system. It was established after the 2009 G-20 London summit in April 2009 as a successor to the Financial Stability Forum (FSF). The Board includes all G-20 major economies, FSF members, and the European Commission. It is based in Basel, Switzerland
CMS	Constant maturity swap (CMS) is a variation of the regular interest rate swap. In a constant maturity swap, the floating interest portion is reset periodically according to a fixed maturity market rate of a product with a duration extending beyond that of the swap's reset period
MREL / RTS / BRRD	These draft Regulatory Technical Standards (RTS) aim to specify the criteria to set the minimum requirement for own funds and eligible liabilities (MREL) laid down in the Bank Recovery and Resolution Directive (BRRD).

Audit Report

To the Shareholders of
AXIOM LUX

We have audited the accompanying financial statements of AXIOM LUX and of each of its sub-funds, which comprise the Statement of Net Assets and the Securities portfolio as at December 31, 2016 and the Statement of Operations and Changes in Net Assets for the year then ended, and a summary of significant accounting policies and other explanatory notes to the financial statements.

Responsibility of the Board of Directors of the SICAV for the financial statements

The Board of Directors of the SICAV is responsible for the preparation and fair presentation of these financial statements in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the financial statements and for such internal control as the Board of Directors of the SICAV determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the "Réviseur d'entreprises agréé"

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the judgment of the "Réviseur d'entreprises agréé", including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the "Réviseur d'entreprises agréé" considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors of the SICAV, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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T: +352 494848 1, F:+352 494848 2900, www.pwc.lu

Cabinet de révision agréé. Expert-comptable (autorisation gouvernementale n°10028256)
R.C.S. Luxembourg B 65 477 - TVA LU25482518

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of AXIOM LUX and of each of its sub-funds as of December 31, 2016, and of the results of their operations and changes in their net assets for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the financial statements.

Emphasis of matter

We draw attention to the fact that the audited financial statements of AXIOM EQUITY, being the Master Fund of AXIOM LUX-AXIOM EQUITY LUX included a paragraph of attention informing that the total value of the transferable securities held by the Master Fund in the issuing bodies in each of which it invests more than 5% of its assets exceeded 40% of the value of its assets during the year. Our opinion is not qualified in respect of this matter.

Other information

The Board of Directors of the SICAV is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our audit report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

PricewaterhouseCoopers, Société coopérative
Represented by

Luxembourg, April 11, 2017

Fanny Sergent

AXIOM LUX

Combined

Financial Statements as at 31/12/2016

Statement of Net Assets as at 31/12/2016

Expressed in EUR

Assets		**3,942,884.32**
Securities portfolio at market value	Note 2	3,898,157.88
Cost price		*3,747,891.87*
Unrealised profit on the securities portfolio		*150,266.01*
Cash at banks and liquidities		12,960.54
Formation expenses	Note 2	31,765.90
Liabilities		**21,783.79**
Bank overdrafts		1,250.23
Other liabilities		20,533.56
Net asset value		**3,921,100.53**

Statement of Operations and Changes in Net Assets from 01/01/2016 to 31/12/2016

Expressed in EUR

Expenses		**79,976.27**
Amortisation of formation expenses	Note 2	8,198.49
Management Company fee	Note 4	11,932.63
Depositary fees	Note 5	177.20
Taxe d'abonnement	Note 3	1,531.52
Administrative fees	Note 5	932.84
Performance fees	Note 4	64.64
Professional fees	Note 7	37,773.40
Bank interest on overdrafts		703.59
Legal fees		1,900.09
Transaction fees	Note 6	449.54
Other expenses	Note 8	16,312.33
Net loss from investments		**(79,976.27)**
Net realised profit / (loss) on:		
- sales of investment securities		(35,388.94)
Net realised loss		**(115,365.21)**
Movement in net unrealised appreciation / (depreciation) on:		
- securities		177,381.36
Increase in net assets as a result of operations		**62,016.15**
Subscription capitalisation shares		1,658,818.95
Redemption capitalisation shares		(1,105,526.55)
Increase in net assets		**615,308.55**
Net assets at the beginning of the year		**3,305,791.98**
Net assets at the end of the year		**3,921,100.53**

The accompanying notes form an integral part of these financial statements

AXIOM LUX

- AXIOM OBLIGATAIRE LUX

Financial Statements as at 31/12/2016

Statement of Net Assets as at 31/12/2016

Expressed in EUR

Assets		**1,347,316.72**
Securities portfolio at market value	Note 2	1,315,550.82
Cost price		*1,265,218.47*
Unrealised profit on the securities portfolio		*50,332.35*
Formation expenses	Note 2	31,765.90
Liabilities		**13,297.00**
Bank overdrafts		1,250.23
Other liabilities		12,046.77
Net asset value		**1,334,019.72**

Changes in number of shares outstanding from 01/01/2016 to 31/12/2016

	Shares outstanding as at 01/01/2016	**Shares issued**	**Shares redeemed**	**Shares outstanding as at 31/12/2016**
Class C EUR				
Capitalisation shares	2,456.0000	0.0000	1,125.0000	1,331.0000

Key figures

Year/Period ending as at:		**31/12/2016**	**31/12/2015**
Total Net Assets	EUR	1,334,019.72	2,462,608.53
Class C EUR		EUR	EUR
Capitalisation shares			
Number of shares		1,331.0000	2,456.0000
Net asset value per share		1,002.27	1,002.69

AXIOM LUX - AXIOM OBLIGATAIRE LUX

Securities portfolio as at 31/12/2016

Expressed in EUR

Quantity	Denomination	Quotation currency	Market value	% of net assets
Units in investment funds			1,315,550.82	98.62
France			**1,315,550.82**	**98.62**
704.94	AXIOM OBLIGATAIRE *-Z-*	EUR	1,315,550.82	98.62
Total securities portfolio			**1,315,550.82**	**98.62**

The accompanying notes form an integral part of these financial statements

Statement of Operations and Changes in Net Assets from 01/01/2016 to 31/12/2016

Expressed in EUR

Expenses		**47,533.13**
Amortisation of formation expenses	Note 2	8,198.49
Management Company fee	Note 4	5,546.47
Depositary fees	Note 5	56.89
Taxe d'abonnement	Note 3	564.61
Administrative fees	Note 5	297.56
Professional fees	Note 7	22,189.04
Bank interest on overdrafts		569.79
Legal fees		1,102.21
Transaction fees	Note 6	222.27
Other expenses	Note 8	8,785.80
Net loss from investments		**(47,533.13)**
Net realised profit / (loss) on:		
- sales of investment securities		(31,318.38)
Net realised loss		**(78,851.51)**
Movement in net unrealised appreciation / (depreciation) on:		
- securities		22,995.20
Decrease in net assets as a result of operations		**(55,856.31)**
Redemption capitalisation shares		(1,072,732.50)
Decrease in net assets		**(1,128,588.81)**
Net assets at the beginning of the year		**2,462,608.53**
Net assets at the end of the year		**1,334,019.72**

AXIOM LUX

- AXIOM EQUITY LUX

Financial Statements as at 31/12/2016

Statement of Net Assets as at 31/12/2016

Expressed in EUR

Assets		**1,435,927.39**
Securities portfolio at market value	Note 2	1,424,114.37
Cost price		*1,446,821.26*
Unrealised loss on the securities portfolio		*(22,706.89)*
Cash at banks and liquidities		11,813.02
Liabilities		**7,742.50**
Other liabilities		7,742.50
Net asset value		**1,428,184.89**

Changes in number of shares outstanding from 01/01/2016 to 31/12/2016

	Shares outstanding as at 01/01/2016	**Shares issued**	**Shares redeemed**	**Shares outstanding as at 31/12/2016**
Class C EUR				
Capitalisation shares	850.0000	780.0000	45.0000	1,585.0000

Key figures

	Year/Period ending as at:	**31/12/2016**	**31/12/2015**
Total Net Assets	EUR	1,428,184.89	793,132.67
Class C EUR		EUR	EUR
Capitalisation shares			
Number of shares		1,585.0000	850.0000
Net asset value per share		901.06	933.10

AXIOM LUX - AXIOM EQUITY LUX

Securities portfolio as at 31/12/2016

Expressed in EUR

Quantity	Denomination	Quotation currency	Market value	% of net assets
Units in investment funds			1,424,114.37	99.71
France			**1,424,114.37**	**99.71**
1,551.07	AXIOM EQUITY -Z-	EUR	1,424,114.37	99.71
Total securities portfolio			**1,424,114.37**	**99.71**

The accompanying notes form an integral part of these financial statements

Statement of Operations and Changes in Net Assets from 01/01/2016 to 31/12/2016

Expressed in EUR

Expenses		**17,625.47**
Management Company fee	Note 4	6,386.16
Depositary fees	Note 5	26.35
Taxe d'abonnement	Note 3	422.55
Performance fees	Note 4	64.64
Professional fees	Note 7	6,682.15
Bank interest on overdrafts		81.55
Legal fees		295.14
Transaction fees	Note 6	133.98
Other expenses	Note 8	3,532.95
Net loss from investments		**(17,625.47)**
Net realised profit / (loss) on:		
- sales of investment securities		(5,151.07)
Net realised loss		**(22,776.54)**
Movement in net unrealised appreciation / (depreciation) on:		
- securities		31,803.61
Increase in net assets as a result of operations		**9,027.07**
Subscription capitalisation shares		658,819.20
Redemption capitalisation shares		(32,794.05)
Increase in net assets		**635,052.22**
Net assets at the beginning of the year		**793,132.67**
Net assets at the end of the year		**1,428,184.89**

AXIOM LUX

- AXIOM CONTINGENT CAPITAL

Financial Statements as at 31/12/2016

Statement of Net Assets as at 31/12/2016

Expressed in EUR

Assets		**1,159,640.21**
Securities portfolio at market value	Note 2	1,158,492.69
Cost price		*1,035,852.14*
Unrealised profit on the securities portfolio		*122,640.55*
Cash at banks and liquidities		1,147.52
Liabilities		**744.29**
Other liabilities		744.29
Net asset value		**1,158,895.92**

Changes in number of shares outstanding from 01/01/2016 to 31/12/2016

	Shares outstanding as at 01/01/2016	Shares issued	Shares redeemed	Shares outstanding as at 31/12/2016
Class C EUR				
Capitalisation shares	50.0000	1,098.4180	0.0000	1,148.4180

Key figures

	Year/Period ending as at:	**31/12/2016**	**31/12/2015**
Total Net Assets	EUR	1,158,895.92	50,050.78
Class C EUR		EUR	EUR
Capitalisation shares			
Number of shares		1,148.4180	50.0000
Net asset value per share		1,009.12	1,001.02

AXIOM LUX - AXIOM CONTINGENT CAPITAL

Securities portfolio as at 31/12/2016

Expressed in EUR

Quantity	Denomination	Quotation currency	Market value	% of net assets
Units in investment funds			1,158,492.69	99.97
France			**1,158,492.69**	**99.97**
1,102.35	AXIOM CONTINGENT CAPITAL -Z-	EUR	1,158,492.69	99.97
Total securities portfolio			**1,158,492.69**	**99.97**

The accompanying notes form an integral part of these financial statements

Statement of Operations and Changes in Net Assets from 01/01/2016 to 31/12/2016

Expressed in EUR

Expenses		**14,817.67**
Depositary fees	Note 5	93.96
Taxe d'abonnement	Note 3	544.36
Administrative fees	Note 5	635.28
Professional fees	Note 7	8,902.21
Bank interest on overdrafts		52.25
Legal fees		502.74
Transaction fees	Note 6	93.29
Other expenses	Note 8	3,993.58
Net loss from investments		**(14,817.67)**
Net realised profit / (loss) on:		
- sales of investment securities		1,080.51
Net realised loss		**(13,737.16)**
Movement in net unrealised appreciation / (depreciation) on:		
- securities		122,582.55
Increase in net assets as a result of operations		**108,845.39**
Subscription capitalisation shares		999,999.75
Increase in net assets		**1,108,845.14**
Net assets at the beginning of the year		**50,050.78**
Net assets at the end of the year		**1,158,895.92**

AXIOM LUX

Notes to the financial statements

Notes to the financial statements

Note 1 - General

AXIOM LUX (the "Company") is an open-ended collective investment company ("*société d'investissement à capital variable*" or "SICAV") established under the laws of the Grand Duchy of Luxembourg and registered under part I of the Luxembourg law of 17 December 2010 concerning undertakings for collective investment. The Company qualifies as an Undertaking for Collective Investment in Transferable Securities under the Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities. The Company was initially incorporated on March 27, 2015 and is managed by Axiom Alternative Investments on the basis of freedom of services pursuant to chapter 15 of the law.

The Company is registered with the *Registre de Commerce et des Sociétés, Luxembourg*, under number B196052 and is established at 5, allée Scheffer, L-2520 Luxembourg.

The Management Company was incorporated as a French Private Limited Liability Company (*société à responsabilité limitée*). The Management Company is registered with the Registre de Commerce et des Sociétés de Paris under number RCS 492.625.470. The Management Company is authorised and supervised by the Autorité des Marchés Financiers as a Portfolio Manager under Licence number GP 0600039 since December 1, 2006.

As at December 31, 2016, three Compartments are active:

Compartments	Currency
AXIOM OBLIGATAIRE LUX	EUR
AXIOM EQUITY LUX	EUR
AXIOM CONTINGENT CAPITAL	EUR

The Compartment Share Classes have been issued in registered from:
- Class of Shares C is dedicated to all investors,
- Class of Shares R will be dedicated to all investors for whom distribution, promotion and subscription to the fund is done primarily through the network of distribution platforms dedicated to wealth management advisors and financial advisors,
- Classes of Shares BC, M and E will be dedicated to all investors wishing to have full and systematic hedging against currency risk.

Note 2 - Summary of significant accounting principles

The Company's financial statements have been prepared and presented in accordance with the Luxembourg regulations relating to undertakings for collective investment in transferable securities.

1. Valuation policy for the Master Funds

Units of the Master Funds are valued at their last determined and available Net Asset Value.

2. Conversion of items expressed in foreign currencies

The Company's financial statements are expressed in EUR.

Transaction and acquisition costs denominated in foreign currencies are converted into the accounting currency of each Compartment based on the exchange rate in force on the date of the transaction or acquisition. Assets and liabilities denominated in foreign currencies are converted into the accounting currency of each Compartment based on the exchange rate in force at the end of the financial period. Any resulting gains or losses are recognised in the Statement of Operations and Changes in Net Assets.

Notes to the financial statements (continued)

Note 2 - Summary of significant accounting principles (continued)

3. Combined statements

The various items appearing in the combined financial statements of the Company are equal to the sum of the corresponding items in the financial statements of each Compartment and are drawn up in EUR.

4. Formation expenses

Set-up costs and expenses are charged to the Company and are written off over a period of five years.

Note 3 - Taxation

Under current law and practice, the Company is not liable to any Luxembourg income tax, nor are dividends paid by the Company liable to any Luxembourg withholding tax.

However, any Class reserved to retail investors is liable in Luxembourg to a "*taxe d'abonnement*" of 0.05% per annum of its net assets and those reserved to institutional investors is liable in Luxembourg to a "*taxe d'abonnement*" of 0.01% per annum of its net assets. Such tax being payable quarterly and calculated on the total net asset value of each Class at the end of the relevant quarter.

Note 4 - Management Company and Performance fees

The Management Company is entitled to receive from the Company a Management Company fee calculated and accrued on each valuation day as a percentage of the net assets attributable to the relevant Class of Shares and payable monthly in arrears.

Compartments	Class of Shares	Maximum rate (per annum)
AXIOM OBLIGATAIRE LUX	C	2.00%
AXIOM EQUITY LUX	C	2.00%
AXIOM CONTINGENT CAPITAL	C	0.80%

In 2015, the Management Company decided to waive Management Company fee until further notice.

As at January 4, 2016, the Board of Directors decided to restore a Management Company fee of 0.75% on AXIOM OBLIGATAIRE LUX and of 1.00% on AXIOM EQUITY LUX effective as of February 15, 2016.

As at December 5, 2016, the Board of Directors decided to waive the Management Company fee on AXIOM OBLIGATAIRE LUX from July 1, 2016 an until further notice.

In addition, the Management Company may also be entitled to receive a performance fee for each Class of Shares, accrued on each valuation day and payable at the end of the performance period (i.e. year). The performance fees are based on a comparison between the performance of the Compartment and its benchmark index over the reference period.
In the event that a shareholder redeems prior to the end of a performance period, any accrued but unpaid performance fee relating to those shares shall be paid.

Compartments	Class of Shares	Performance Fee
AXIOM OBLIGATAIRE LUX	C	20% of the performance over iBoxx Euro T1 index
AXIOM EQUITY LUX	C	20% of the performance over Stoxx Europe 600 Banks Net Return
AXIOM CONTINGENT CAPITAL	C	None

The Classes Z of the Master Funds in which the Company is invested are not subject to performance fees.

The Compartment AXIOM EQUITY LUX is subjected to a performance fee for the year ended December, 31, 2016 for a total amount of EUR 64.64.

Notes to the financial statements (continued)

Note 5 - Depositary and Administrative fees

The Depositary and the Administration agents receive remuneration from the Company on the basis of business practice in Luxembourg. These fees are calculated on the basis of the daily net assets of the Compartments and are payable monthly in arrears.

As at January 4, 2016, the Board of Directors decided that these fees, previously paid directly by the Company, are to be paid by the Management Company as from January 7, 2016 for AXIOM EQUITY LUX and AXIOM CONTINGENT CAPITAL, and as from February 15, 2016 for AXIOM OBLIGATAIRE LUX.

Note 6 - Transaction fees

The Depositary is entitled to be reimbursed by the Company for transaction fees and expenses in relation with the buying and selling of securities and financial instruments.

Note 7 - Professional fees

Professional fees are made of audit fees.

Note 8 - Other expenses

As at December 31, 2016, the other expenses include mainly Directors fees and Registrar fees.

Note 9 - Changes in portfolio composition

The details of the changes in portfolio composition for the year ended December 31, 2016 are at the disposal of the Shareholders at the registered office of the Company and are available upon request free of charge.

Note 10 - Master-Feeder structure

The Compartments AXIOM OBLIGATAIRE LUX, AXIOM EQUITY LUX and AXIOM CONTINGENT CAPITAL are Feeder Compartments of the classes Z shares of respectively AXIOM OBLIGATAIRE, AXIOM EQUITY and AXIOM CONTINGENT CAPITAL, French Mutual Investments Funds authorised by the *Autorité des Marchés Financiers* as a Master UCITS under Directive 2009/65/EC, meaning that they invest in practice substantially all of their assets (at least 85%) into Master Funds and will therefore hold virtually no or very low percentage (up to 15%) of their assets in ancillary liquid assets.

Feeder Compartments	Master shares	% of Z shares
AXIOM OBLIGATAIRE LUX	Class Z shares of Axiom Obligataire	98.62
AXIOM EQUITY LUX	Class Z shares of Axiom Equity	99.71
AXIOM CONTINGENT CAPITAL	Class Z shares of Axiom Contingent Capital	99.97

All the Master Funds were launched in the form of a French collective investment fund (Fonds Commun de Placement, FCP) managed by the Management Company Axiom Alternative Investments, being also the Management Company of the Feeder Compartments.

- The Master Fund AXIOM OBLIGATAIRE was launched on July 23, 2009 and its investment objective is to achieve, over a minimum 3-year investment horizon, a return (net of management fees) similar to or greater than that of its benchmark (iBoxx Euro Tier 1 Index).

- The Master Fund AXIOM EQUITY was launched on March 25, 2014 and its investment objective is to achieve, over a minimum 5-year investment horizon, a return (net of management fees) similar to or greater than that of its benchmark (Stoxx Europe 600 Banks Net Return Index).

- The Master Fund AXIOM CONTINGENT CAPITAL was launched on February 13, 2015 and its investment objective is to achieve, over a minimum 3-year investment horizon, a return net of management fees equal to or greater than that of its benchmark, the BofA Contingent Capital Index (with coupons reinvested), by taking advantage of major opportunities in the international bond market.

Notes to the financial statements (continued)

Note 10 - Master-Feeder structure (continued)

At the level of the Master Funds, the fees, charges and expenses associated with the investments are an annual management fee and other expenses of the Master Funds, as described in their respective prospectus.

As at December 31, 2016, the maximum management fees charged by the class Z shares of the Master Funds in which the Feeders invest is 0.05%.

As at December 31, 2016, the total fees of the Feeder and Master Funds are as follows:

Feeder Compartments	Total fees	Currency	% average NAV
AXIOM OBLIGATAIRE LUX	47,533.13	EUR	1.43
AXIOM EQUITY LUX	17,625.47	EUR	0.53
AXIOM CONTINGENT CAPITAL	14,817.67	EUR	0.44

Master Funds	Total fees	Currency	% average NAV
Class Z shares of AXIOM OBLIGATAIRE	339.37	EUR	0.02
Class Z shares of AXIOM EQUITY	833.70	EUR	0.12
Class Z shares of AXIOM CONTINGENT CAPITAL	603.42	EUR	0.05

Complete information about Master Funds, including prospectus, statutes, annual and semi-annual reports and KIIDs can be obtained free of charge at the Company's and Management Company's registered office.

These documents are also available on the website: www.axiom-ai.com

Note 11 – Securities Financing Transactions and of Reuse Regulation ("SFTR")

The Company does not use any instruments falling into the scope of SFTR.

Note 12 – UCITS V

European Directive 2014/91/EU amending Directive 2009/65/EC on undertakings for collective investment in transferable securities, which is applicable to the fund, came into force on 18 March 2016. It is implemented in national law under the Luxembourg Act of 10 May 2016 implementing Directive 2014/91/EU. Due to these new regulations, the fund is required to publish information relating to the remuneration of identified employees within the meaning of the Act in the annual report. The management company will have such remuneration-related information by the time of the next annual financial statement, so that this information will be included in the fund's next annual report. It is expected that the management company's remuneration policy will be available on the website: http://www.axiom-ai.com

Global exposure calculation method (unaudited information)

All the Compartments of the Company use the commitment approach in order to monitor and measure the global exposure.