Axiom European Financial Debt Fund

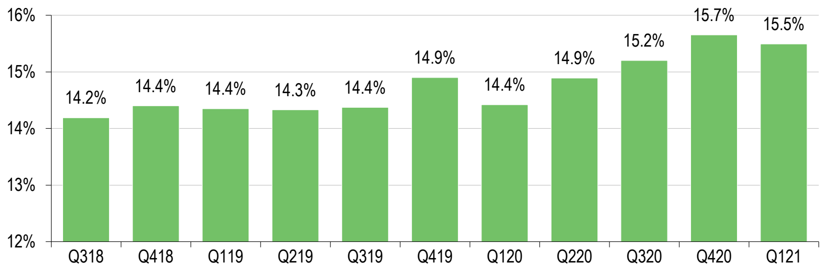
Investment update

Resilience and regulatory changes driving returns

Investment companies

Axiom European Financial Debt Fund (AXI) has made a 21% total return over the last 12 months, well above the average of its debt investing closed-end funds peers. AXI's investment space, European financials regulatory capital debt, has remained buoyant. Bank capital equity ratios remain high, NPLs are falling, balance sheet liquidity is comfortable and profitability is growing (eurozone banks' average ROE was 7.2% in Q121). Rising interest rates (if not excessive) should be good news for banks' margins and profitability at this stage of the cycle. AXI's portfolio has a 7.8% running yield; 8.3% to perpetuity. AXI is trading on an 11% discount to NAV with a covered 6.4% dividend yield.

EU banks' common equity tier 1 ratios (CET1) continue to rise



Source: European Central Bank, European Banking Authority

Why invest in bank regulatory capital now?

Although the bank regulatory debt market has been robust in 2021, it continues to offer yields that are usually above similarly rated debt. We expect these instruments to do well as banks demonstrate good balance sheet resilience in the face of ongoing reductions in government and central bank support. Moreover, there is still much legacy regulatory debt that needs to be called in by the banks and replaced with debt that is regulatory-wise more efficient under new, stricter rules; this is good news for niche investors such as AXI that use their expertise to position themselves.

The analyst's view

Our view remains that there will be no cliff-edge economic scenario, as central banks and governments will be pragmatic and careful as support measures are tapered off. Potentially higher than expected (and generally elevated) loan impairments are mainly an equity story. Banks now tend to have strong equity bases and de-risked business models due to stricter regulatory requirements. For the sizeable majority of banks, the regulatory capital instruments that AXI invests in will not be called upon to absorb asset losses, allowing AXI to benefit from their premium yields.

Valuation: Dividend 6.4%, NAV discount 11%

AXI is trading at an 11% NAV discount (this has ranged 3–14% in recent quarters), with a trailing dividend yield of 6.4%. The dividend has been stable since 2016.

17 November 2021

Price	**94.4p**
Market cap	**£86.8m**
NAV*	**£96.9m**

NAV per share*	105.7p
*As at end of September 2021	
Discount to NAV	10.6%
Annualised current yield	6.4%
Ordinary shares in issue	91.9m
Free float	85.1%
Code	AXI
Primary exchange	LSE Specialist Fund Segment
AIC sector	Sector Specialist: Debt

Gearing

Net cash as % NAV 30 September 2021	3%

Fund objective

Axiom European Financial Debt Fund is a Guernsey-domiciled, London-listed, closed-end fund investing in regulatory capital securities in Europe. It seeks opportunities presented by Basel III and Solvency II transitions. It has a diversified approach across a broad range of subordinated debt issued by financial services companies. It uses five sub-strategies to obtain attractive current income and capital gains. AXI has a target return of 10% pa over seven years.

Bull points

- Investment niche requiring expertise allows for relatively good returns.
- Bank regulatory capital instruments carry premium yields and should remain resilient as government and central banks support is tapered.
- Further capital optimisation means more investment opportunities for Axiom.

Bear points

- Bank equity and debt securities have been out of favour since the financial crisis.
- Rising interest rates could affect debt prices.
- Macro shocks can affect risk perception.

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Edison profile page

Axiom European Financial Debt Fund is a research client of Edison Investment Research Limited

Why invest in bank regulatory capital?

Banks and insurance companies are allowed to issue debt instruments that have sufficient equity-like features for them to be considered also regulatory capital. They are a form of loss-absorbing capital that only suffers losses or modification once equity is wiped out or drops below certain thresholds. To qualify, instruments typically will be subordinated to secured debt, unsecured, offer variable non-cumulative coupons and be perpetual or very long duration.

Although cheaper for the banks to issue than equity, these instruments typically command relatively higher yields than regular debt. The European regulatory capital debt market is a relatively sizeable one at an estimated €800bn (Bloomberg).

Regulatory rules have been becoming stricter over time and as some instruments have seen their regulatory value banks decline. This can encourage banks to redeem those instruments that offer poor value for their regulatory value. In our initiation note Capital opportunities (13 April 2021) we summarise the changes in regulatory capital, including the regulatory grading of these instruments, in the appendix on page 13.

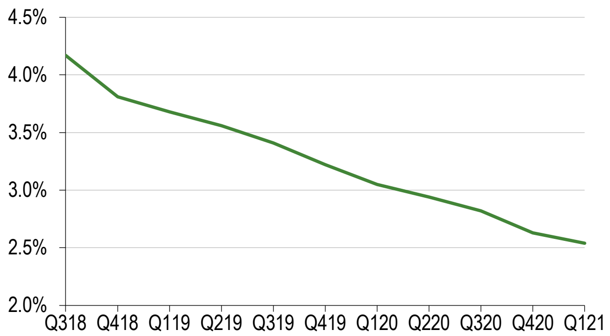
It is niche segment, where understanding not only banks but the trends in bank regulation can allow for attractive investment opportunities. Bank balance sheets are now usually more robustly capitalised and business models de-risked since the 2008–09 financial crisis (the Global Financial Crisis, GFC).

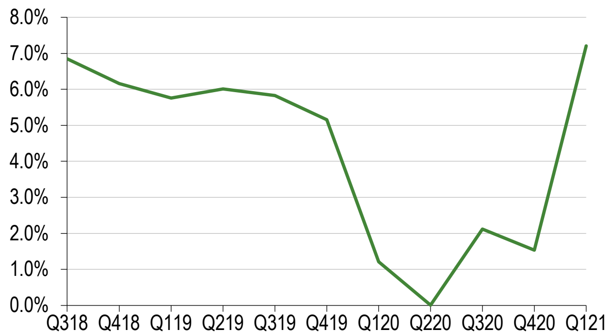
Axiom (the manager of AXI) has a proprietary model that looks at various bonds to determine where opportunities exist, which ones are most likely to be redeemed and at what prices. Axiom uses five investment strategies, which we detail in the asset allocation section (page 6). These combine to generate good steady income through coupons and upside by AXI investing in special situations as well as restructuring (in terms of business model and operations rather than the debt itself) stories.

Market outlook

European banks' balance sheets have been strengthening and profitability rising as the European economies continue to recover. As we pointed out in our initiation note, the COVID-19 crisis was a useful test to the banking sector which in general they passed quite well. Eurozone return on equity (ROE) was 7.2% in the first quarter of 2021, the highest since the first half of 2018. The average sector non-performing loan (NPL) ratio is now 2.5%, significantly lower than pre-pandemic levels. The sector common equity Tier 1 (CET1, shown on the front page) ratios are close to historical peak levels at 15.5%.

Exhibit 1: Eurozone banks – NPL as % loans (left hand side) and ROE (%) quarterly progression (right hand)





Source: ECB

A good deal of this success was due to regulation, changed business models (such as de-emphasising some activities like proprietary trading or investment banking) and greater levels of capital on the balance sheets. It was also due to pragmatic and quick support from central banks and governments. Lessons have been clearly learnt from the GFC.

Support measures are being tapered off (eg the UK furlough system recently ended on 30 September) and this could present some challenges to the banks. However, central banks and governments are expected to remain vigilant and we do not see a cliff-edge scenario where economies plunge into recessions deep and long enough to create significant problems to regulatory capital debt investors.

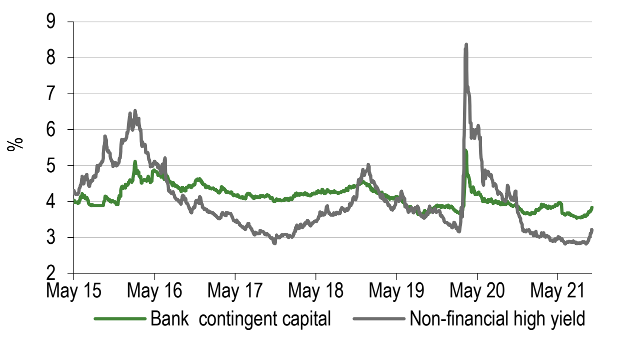
Bank profitability may be affected by unfavourable macro shocks and challenged by the continued low interest rates (although rates are now expected to start an upward trajectory) or the up-and-coming fintech companies. Loan impairments could increase due to some factors such as the end of loan moratoriums in some countries. However, bank asset losses are unlikely to be of a scale big enough to pierce through the significant equity cushions that banks currently have to the point that regulatory capital debt instruments will be called to absorb some of the losses as well. Therefore, we think that while earnings forecasts may suffer downgrades and dividend payments may be cut, regulatory payments should continue as they did during the pandemic.

Regulatory capital prices

The European regulatory capital market has remained buoyant since our initiation note in April. For example, the ICE BofA bank (investment grade only) contingent capital bonds index yield fell from 3.9% in March 2021 to 3.8% on 13 October. The ICE BofA non-financial high yield index (typically not investment grade) was yielding 3.2% on 27 September (Exhibit 2). Investment-grade bank contingent capital debt continues to offer a decent premium over theoretically riskier non-financials companies. The yield on the ICE BofA euro financial index (regular debt) was only 0.5% on the same date.

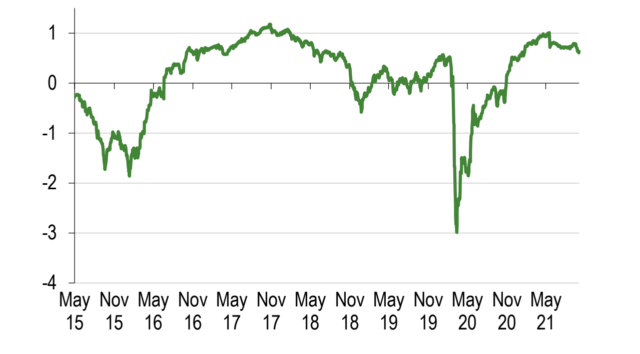
If European bank balance sheet capital positions remain resilient (as we believe they will), the relatively high yields of their regulatory capital debt instruments should allow for good returns in coming quarters in many cases.

Exhibit 2: Yields – European bank (investment grade) contingent capital vs non-financial high yield*



Source: Refinitiv. Note: *ICE BofA indices, yield to maturity, euros.

Exhibit 3: Yields – European bank (investment grade) contingent cap spread vs non-financial high yield* (%)



Source: Refinitiv. Note: *ICE BofA indices, yield to maturity, euros.

The fund manager: Axiom Alternative Investments

The manager's view

AXI continues to be positive on the market and believes there are plenty of opportunities. It sees the central banks continuing their asset buying, albeit with less volume than in the past. It feels the support for the economy will remain and see a shift from supporting consumers to supporting businesses. Indeed, AXI noted in its latest investor note (September) that 'the EC sent a draft proposal to extend the State aid Temporary Framework to 30 June 2022, emphasizing the need to avoid any cliff-edge effects'.

It also noted that European Commission insisted that the new rules in the upcoming Basel IV will not result in a significant increase in capital requirement for eurozone banks. AXI are expecting that the total impact of new Basel IV rules could possibly result in about an average 150bp hit to banks' CET1 ratios and that this would be booked over eight years. This looks quite manageable for the banks in AXI opinion (and we would agree).

AXI sees a steeper yield curve due to inflation pressures, but believes, as we do, that higher rates are good for banks in general at this stage of the cycle.

AXI expects the market activity to remain high, especially ahead of the Basel III grandfathering period deadline of December 2021. At this date, some of the older capital adequacy products will cease to have regulatory value.

Axiom Alternative Investments continued to see bank and insurance company balance sheets as being well capitalised and regulatory capital bonds valuations as relatively attractive, providing premium levels of income with relatively low risks of the being required to absorb losses in financial service companies' balance sheets. Axiom points out that a BB+ rated bank AT1 bond will yield 3.0–3.5%, while a similarly rated non-financial company will only yield 1.5%, a very significant spread. It expects to see these bonds reprice upwards as we exit the pandemic, support programmes taper off and the impairment story plays out.

Asset allocation

Current portfolio positioning

AXI increased the weight of tier 1 debt instruments in its portfolio from 58% in February 2021 to 64% in September. These bonds are Axiom's core and largest investment space and include legacy (Basel 1–2) and Basel 3 compliant (AT1) bonds.

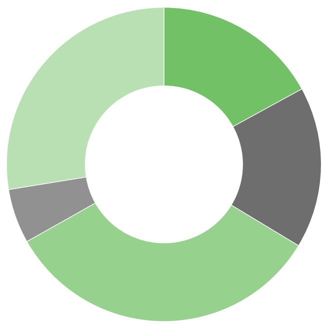
AXI also has 18% in tier 2 debt and 13% in straight senior debt. Finally, there is 5% in equity investments. All of the invested companies are financial services companies and banks.

The UK continues to be the largest geography, accounting for 49% of the portfolio in September (42% in February). The remainder is diversified across several European countries as shown in Exhibit 9. Euro exposure is 47% (it was 58% in February), but foreign exchange (FX) exposure is substantially hedged to the pound sterling through FX forward agreements.

The portfolio split between strategies is shown in Exhibit 4. There has been an increase in mid-cap investments from 26% to 36%, while restructuring stories have fallen from 45% to 27%. Relative value strategies account for 30% of the portfolio. The various strategies are described on page 9.

The ratings distribution is shown in Exhibit 6. Due to the loss absorbing and subordinated nature of regulatory capital debt, most of it is not rated as investment grade. This is true if the institution's senior debt is investment grade. For example, Deutsche Bank is rated A3 (Moody's) and BBB+ (S&P) for long-term senior debt. However, the AT1 bonds (similar to what AXI holds in its portfolio) are only rated B1 and BB-, respectively. As such, only 7% of AXI's portfolio is in investment-grade bonds and compares to 17% in February.

Exhibit 4: Portfolio breakdown by strategy (Sep 2021)

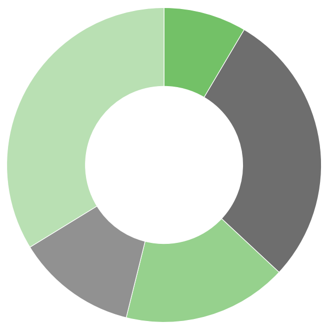


Source: Axiom

Exhibit 5: Portfolio currency breakdown (Sep 2021)

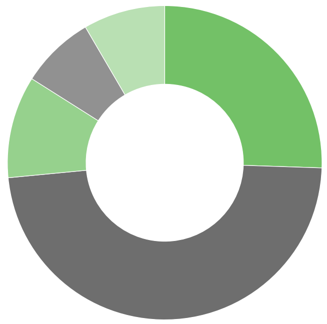
Source: Axiom

Exhibit 6: Portfolio ratings breakdown (Sep 2021)



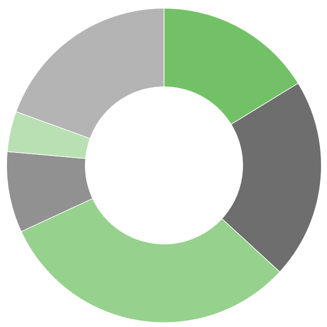
Source: Axiom

Exhibit 7: Portfolio subordination (Sep 2021)



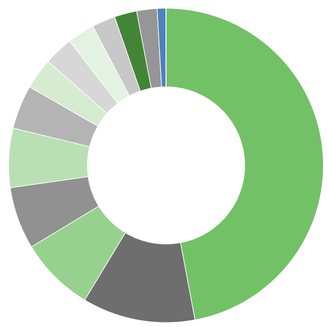
Source: Axiom

Exhibit 8: Portfolio term breakdown (Sep 2021)



Source: Axiom

Exhibit 9: Portfolio geography breakdown (Sep 2021)



Source: Axiom

Exhibit 10: Top 10 portfolio holdings (30 Sep 2021)

Security	Strategy	% NAV	Business description	Country
Shawbrook Group PLC 7.875% Perp	Midcap origination	4.1%	Retail and commercial bank	UK
Promontoria MMB SASu 8.000% Perp	Midcap origination	3.9%	Sole shareholder limited company	France
West Bromwich Building Society 3.000% Perp	Restructuring	3.8%	Building society	UK
International Personal Finance 9.750% 11/12/25	Restructuring	3.7%	Home credit and digital bank	UK
Ulster Bank Ireland DAC 11.750% Perp	Restructuring	3.4%	Retail and commercial bank	UK
Deutsche Bank AG 7.125% Perp	Restructuring	3.3%	Investment bank and financial services	Germany
Coperative Bank Finance 9.500% 04/25/29	Restructuring	3.2%	Retail co-operative bank	UK
Cassa di Risparmio di Asti SpA 9.250% Perp	Midcap origination	3.1%	Savings bank	Italy
Piraeus Bank SA 9.750% 06/26/24	Restructuring	3.0%	Retail and commercial bank	Greece
OneSavings Bank PLC 9.125% 05/25/22	Midcap origination	2.9%	Retail and commercial bank	UK

Source: Axiom

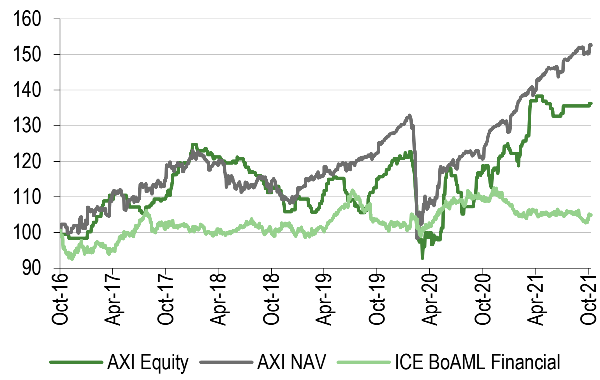
Performance

Although AXI is not benchmarked against any index, the managers use the ICE BofA European Financials Index as a reference point. AXI's shares and net asset value (NAV) have significantly outperformed the over the last five years as shown in the exhibits. The outperformance over the last 12 months is notable; AXI's NAV is up 19%, the index is down more than 4%, implying a total c 24% outperformance.

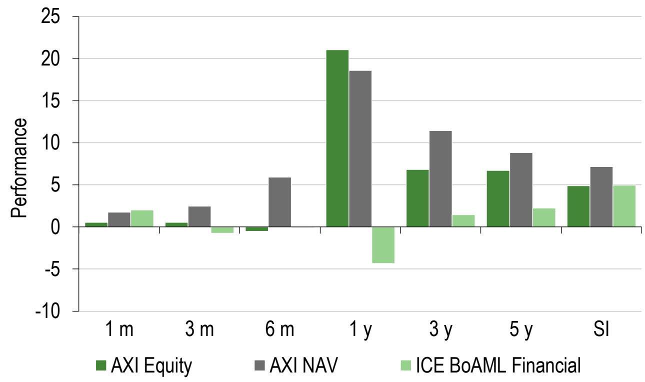
Exhibit 12 compares the performance of AXI versus two other bond indices: the ICE BofAML European financials subordinated debt and ICE BofAML general European high yield index. AXI's NAV has outperformed these two indices as well.

Exhibit 11: Investment company performance to 11 November 2021

Price, NAV and benchmark total return performance, five-year rebased



Price, NAV and benchmark total return performance (%)



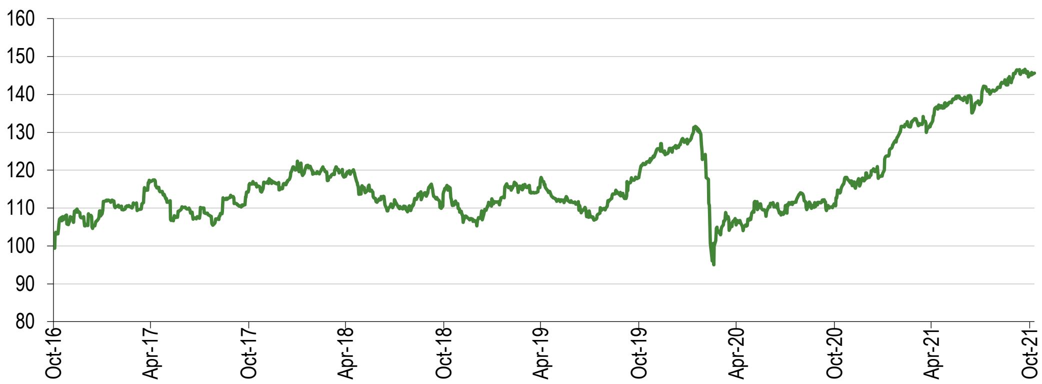
Source: Refinitiv, Edison Investment Research. Note: SI=since inception. Inception date is 30 September 2015.

Exhibit 12: Share price and NAV total return performance relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years
Price relative to ICE BofAML European Financial	(1.5)	1.3	(0.4)	26.6	16.7	23.9
NAV relative to ICE BofAML European Financial	(0.3)	3.3	6.0	24.0	32.5	36.8
Price relative to ICE BofAML Europ. Subord. Financials	(1.4)	1.5	(0.6)	24.8	10.1	13.1
NAV relative to ICE BofAML Subord. Financials	(0.2)	3.5	5.8	22.3	25.0	24.8
Price relative to ICE BofAML European High Yield	(1.4)	0.9	(1.2)	21.3	7.1	10.6
NAV relative to ICE BofAML European High Yield	(0.2)	2.9	5.2	18.8	21.5	22.0

Source: Refinitiv, Edison Investment Research. Note: Data to end-August 2021. Indices and prices in £. Geometric calculation.

Exhibit 13: NAV total return five-year performance relative to ICE BofAML European Financials



Source: Refinitiv

Peer group comparison

Outperformer at a discount

Exhibit 14 shows a comparison of AXI with a selected peer group of funds from the AIC Sector Specialist: Debt and AIC Sector Specialist: Financials sectors that have significant holdings in high-yield lending or similar investments. We note that there is not a pure European regulatory capital debt peer; AXI is unique. For investors seeking exposure to this asset class, AXI is clearly a more focused play than any of its peers.

The most comparable peers in the table are CQS (47% of fund is financials, but mostly UK), TwentyFour (35% banks), City Merchants (one-third financial) and EJFI (fully financial, but exposure is mostly through collateralised loan obligations). Henderson Diversified is about 20% financials, albeit it has significant US exposure.

We compare the performance over one year. We have also added longer time periods for the peers, to give greater context to the short-term performance data. AXI has performed significantly above average despite the lowest net gearing. Despite this, and having a good dividend, it is trading at the second highest discount to NAV.

Exhibit 14: Selected investment peer group as at 11 November 2021* in sterling terms

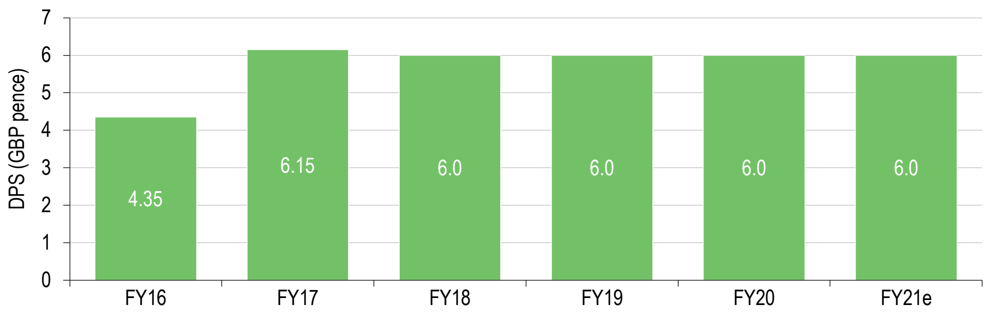
% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	Premium/ (discount)	Ongoing charge	Perf. fee	Net gearing	Dividend yield
Axiom European Financial Debt Ord	86.8	22.8	29.7	50.1	-10.6	1.4	Yes	97.2	6.4
CQS New City High Yield Ord	252.1	26.3	15.0	35.5	5.5	1.3	Yes	107.5	8.1
CVC Credit Partners Euro Opps EUR	95.2	11.7	5.7	28.0	-7.5	1.5	Yes	101.9	5.2
CVC Credit Partners Euro Opps GBP	163.9	19.7	12.9	34.6	-6.0	1.5	Yes	101.9	4.8
Henderson Diversified Income Ord	156.6	7.6	25.6	32.3	-7.9	0.9	Yes	116.2	5.3
Invesco Bond Income Plus Ord	309.3	12.6	24.0	37.6	-4.8	1.0	Yes	111.2	6.0
TwentyFour Select Monthly Income Ord	185.5	10.7	24.0	48.6	5.4	1.1	Yes	98.9	6.8
EJF Investments Ord	78.6	8.1	10.8		-23.6	2.3	Yes	116.9	8.3
Simple Average	**165.8**	**14.9**	**18.5**	**38.1**	**-6.2**	**1.4**		**106.5**	**6.4**
Rank	7	2	1	1	7	4		8	4

Source: Morningstar, Edison Investment Research. Note: *Performance to end-September 2021. TR = total return in sterling terms. Net gearing is total assets less cash and equivalents as a percentage of net assets (100 = ungeared).

Dividends

AXI pays dividends quarterly in April, July, October and January. AXI has maintained its dividend during the pandemic and has been paying 1.50p per quarter since 2017. There have been years that the dividend has been covered (eg 2019) by cash income and years when it has not (eg 2018).

Exhibit 15: Dividends per share history

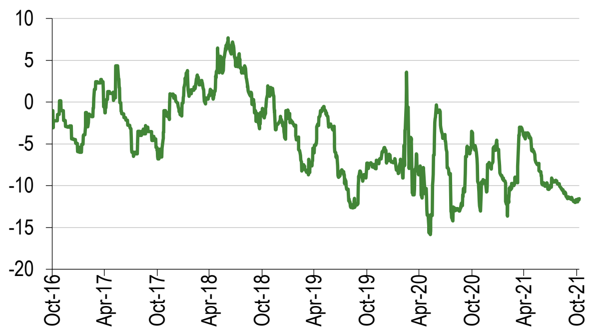


Source: Axiom

Discount: 11% below NAV

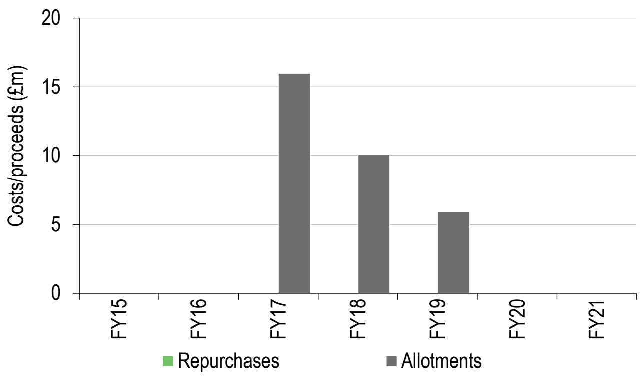
AXI is currently trading at an 11% discount to NAV even though its investment instruments are all accounted on actual market value (level 1) assets and not priced according to a financial model.

Exhibit 16: Five-year discount (%) diluted NAV cum income



Source: Refinitiv

Exhibit 17: Buybacks and issuance



Source: Morningstar

Fund profile: Bank debt specialist

AXI launched in September 2015 and is a Guernsey domiciled, London-listed, closed-end fund investing in regulatory capital securities in Europe. It seeks opportunities presented by Basel III and Solvency II transitions. It has a diversified approach across a broad range of subordinated debt issued by financial services companies. It uses five sub-strategies to obtain good current income and capital gains. AXI has a target return of 10% pa over seven years.

While the key investments targets are the regulatory capital instruments issued by European financial institutions, the fund will also invest in other debt instruments, such as senior debt, issued by these companies. AXI also invests in derivatives instruments (such as collaterised debt obligations, securities or derivatives) that are linked to regulatory capital instruments or other financial institution investment instruments. AXI invests in both liquid and less liquid instruments. For those less liquid (for example with mid-cap issuers), AXI will sometimes create a market if it can be done profitably.

Investment process

The investment manager is Axiom Alternative Investments (Axiom) and the investment adviser is the Axiom Alternative Investments UK Branch. Although the investment management agreement is with the investment manager, the investment adviser also provides services and support.

The investment team is led by David Benamou (chief investment officer and managing partner of Axiom) and Jérôme Legras (head of research, managing partner), with Gildas Surry (AXI's portfolio manager, partner) and, more recently, Antonio Roman as portfolio managers. Prior to joining Axiom, David Benamou and Jérôme Legras were managing directors and co-heads of the Capital Structured Finance department at Société Générale Investment Banking. They both designed and implemented many subordinated debt issuances for European banks. Mr Legras also was previously head of quantitative research at Société Générale. Gildas Surry worked at Lazard Freres, Merrill Lynch and Citibank with a focus as an analyst on subordinated debt. Antonio Roman joined Axiom in 2018 having previously worked at JP Morgan AM developing portfolio optimisation tools under insurance regulatory rules and at Goldman Sachs AM as a quantitative analyst focused on client solutions relating to institutional clients with unique economic, regulatory and accounting constraints.

Axiom is focused on the financial services segment and currently manages $2.2bn in assets across nine funds, the first of which was launched in 2009. These funds include one investing only in equity and a long-short debt fund. The team currently has 24 professionals.

AXI follows a three-step process: 1) **identifying the target investment instruments;** 2) **portfolio construction;** and 3) **portfolio monitoring**.

Using in-depth analysis, Axiom looks at **structure**, **regulation** and **risks** when identifying new investments. Structure includes key terms, different types of call and issuer policies. Regulation includes regulatory category of issue, modelling of amortisation profiles and market mispricing. Risks include credit analysis, asset quality review reverse engineering and stress testing analysis.

Portfolio construction is done by the investment manager from the instruments recommended by the investment adviser. Portfolio monitoring looks at both the evolution of regulatory circumstances as the well as the usual company, sector and market trends.

The investment decisions are taken by the investment team and it is not required to, nor does it generally take them to the board, unless there are conflicts of interest or for the application of investment guidelines. David Benamou has veto rights at the investment committee level.

Five investment sub-strategies

AXI uses five investment sub-strategies to obtain the mix of capital gains and current income that it seeks.

These are:

- **liquid relative value (estimated return 7–8%)**: this strategy generates some carry income, as well as providing liquidity to deploy for investment opportunities. The heart of this strategy is not only understanding which securities provide good income for risk, but which ones are likely to be redeemed/called in by borrowers because they are expensive for their value as regulatory capital due to changing legislation. Besides regulation all sorts of factors must be considered, such as the complexity of the coupon payments and call options, local legal constraints, staff bonuses, dividends and the bank's likely available distributable profits. An attractive investment can be made if a security is redeemed sooner than the market expects at a price of par or above. Or a high coupon bond that is being priced as if it is going to be redeemed (ie close to par) can provide an elevated level of income by remaining unredeemed. The complexity of the legacy hybrid debt market in areas such as coupon payments and call options can lead to market mispricing and therefore investment opportunities. Besides price discrepancies, AXI also looks for relative value trades where the spreads are not justified by fundamentals.
- **less liquid relative value (6–16%):** this strategy looks at instruments that are less liquid but generate greater carry income, to help support dividend payments. Investments will be typically bought at a discount and held until maturity.
- **restructuring stories (7–25%):** this strategy is not interested in the debt itself being restructured, but situations where financial companies have faced stressful events that have had an impact on regulatory capital prices (ie the market is pricing that the regulatory capital may have to absorb some losses, eg a skipped coupon payment, a conversion to equity). The aim is to capture remedial and restructuring actions by management and regulators that result in improvements in the financial company's risk profile and outlook and therefore regulatory capital prices. The changes could involve updated business models, cost cutting, capital structure reorganisation and so on. Here the returns targeted by AXI are greater and are expected to be mostly in the form of capital gains.

- **special situations (8–35%):** this strategy is based on events that trigger an improvement in the regulatory capital pricing and that have not yet been priced correctly by the market. Examples include merger and acquisitions, a bank that has been nationalised but is expected to be re-privatised, situations where there is conversion of some hybrid debt (such as contingent capital) into equity. Capital gains also have a greater emphasis in this strategy.
- **midcap origination (9–11%):** this strategy involves smaller issuers paying a premium for the same levels of risk and allowing greater carry income. AXI will typically look at either high credit quality mid-capitalisation banks or a subsidiary of a larger institution with limited access to capital markets and targeting a relatively small bond issuance (between €20m and €100m). AXI aims not to hold more than 10% of any issue, unless an unusually good risk-reward justifies holding more

There is no minimum portfolio weight for each of these strategies but there are caps. These caps are 20% for restructuring and special situations, 25% for liquid relative value and 30% for less liquid relative value and midcap origination. The current weights are shown in Exhibit 4, page 5, and we note that the restructuring sub-strategy at 35.6% is above the stated cap of 11%.

Axiom's approach to ESG

AXI integrates environmental, social, and corporate governance (ESG) criteria in its investment in three ways: (1) an in-house database and tools dedicated to ESG, (2) engagement with management and investor relations for information, and (3) information published in annual reports and other regulatory filings (including sustainability reports and task force on climate-related financial disclosures). The ESG policy is detailed on the company's website. Axiom partners with external consulting firms to assess its portfolio. AXI signed up to the Principles of Responsible Investments (PRI) in 2016. PRI is a UN-supported investor network committed to implement its six investment principles, related to integrating ESG into investment decisions and policies.

Gearing

As set out in its articles of incorporation, AXI is permitted to borrow in any manner. However, the board has limited this to 20% of its direct investments. AXI had £0.2m in bank overdrafts and £6.1m in cash for a net cash position of £5.9m (against a NAV of £94.6m). However, AXI uses derivatives (usually sales and repo contracts) for gearing. The financial statement showed that at the end of H121, AXI had £12.5m of such liabilities with £7.1m in collateral assets used as margin. AXI had a net cash position of 3% of NAV in its latest disclosure.

Fees and charges

AXI has an annual management fee of 1% of NAV that is paid quarterly and in arrears. This fee drops to 0.8% if NAV exceeds £250m on a marginal basis and for the whole amount if NAV exceeds £500m.

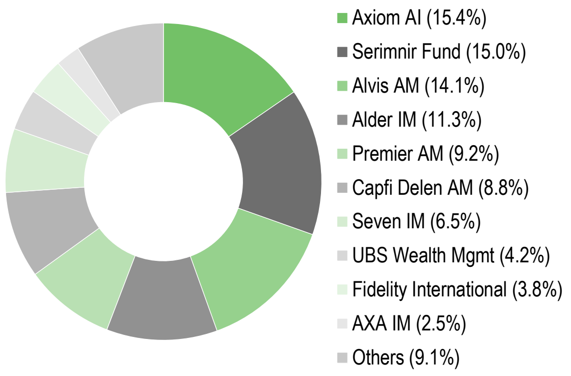
There is a 1.5% cap on total expenses. So, if in the final quarter of an accounting period the total expenses (including management fee) exceed 1.5% of NAV, this is offset by the management fee itself being adjusted downwards.

The performance fees (15% of the total shareholder return in excess of 7% pa) are paid annually and are subject to a high-water mark. The performance fee is not subject to the 1.5% total expenses cap. 50% of the performance fee is in cash; the remainder will be in shares.

Capital structure

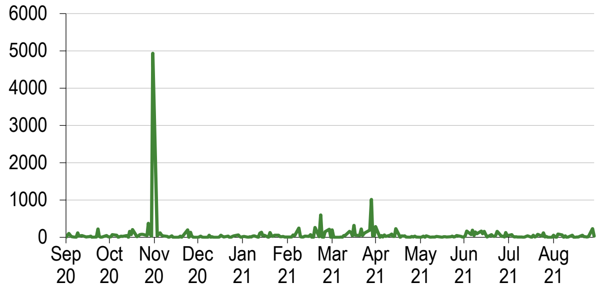
AXI currently has a single share class, with 91.852m ordinary shares in issue trading on the Specialist Fund Segment of the London Stock Exchange. There are no rules restricting the ability of the directors to issue additional shares on a non-pre-emptive basis at any time. The directors may issue additional shares, pursuant to a placing programme or otherwise, if they determine this to be in the best interests of shareholders and Axiom as a whole. Since the IPO in 2015, there have been 30.9m shares allotted with proceeds of £32m as shown in Exhibit 18.

Exhibit 18: Major shareholders (11 November 2021)



Source: Refinitiv

Exhibit 19: Average daily volume (£000s)



Source: Refinitiv

The board

AXI's board is comprised of three non-executive directors, all of them independent. They are William Scott (chairman). John Renouf (audit committee chair) and Max Hilton. The board is unchanged since our initiation note, which includes summarised biographies.

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