



EDMOND
DE ROTHSCHILD

Lo Scenario del Debito Finanziario Subordinato

Bologna - Annual meeting Assicurazioni - GIUGNO 2019

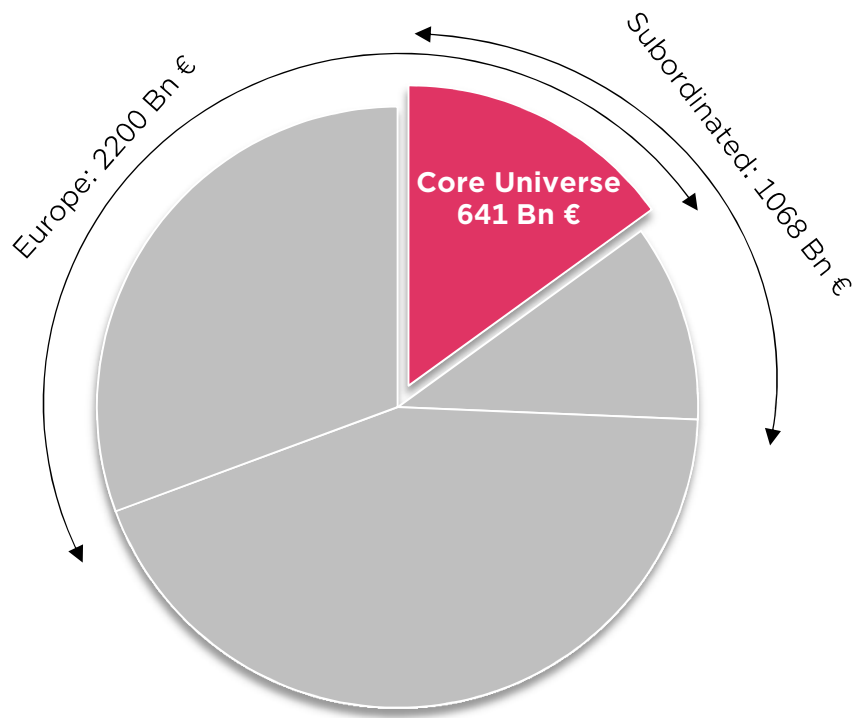
EDMOND DE ROTHSCHILD ASSET MANAGEMENT (France)

This document is intended for professional investors only, as defines under the relevant laws of France and is not intended to non-professional investors. Edmond de Rothschild Asset Management (France) declines any liability for the use that could be made of the information indicated in this document.

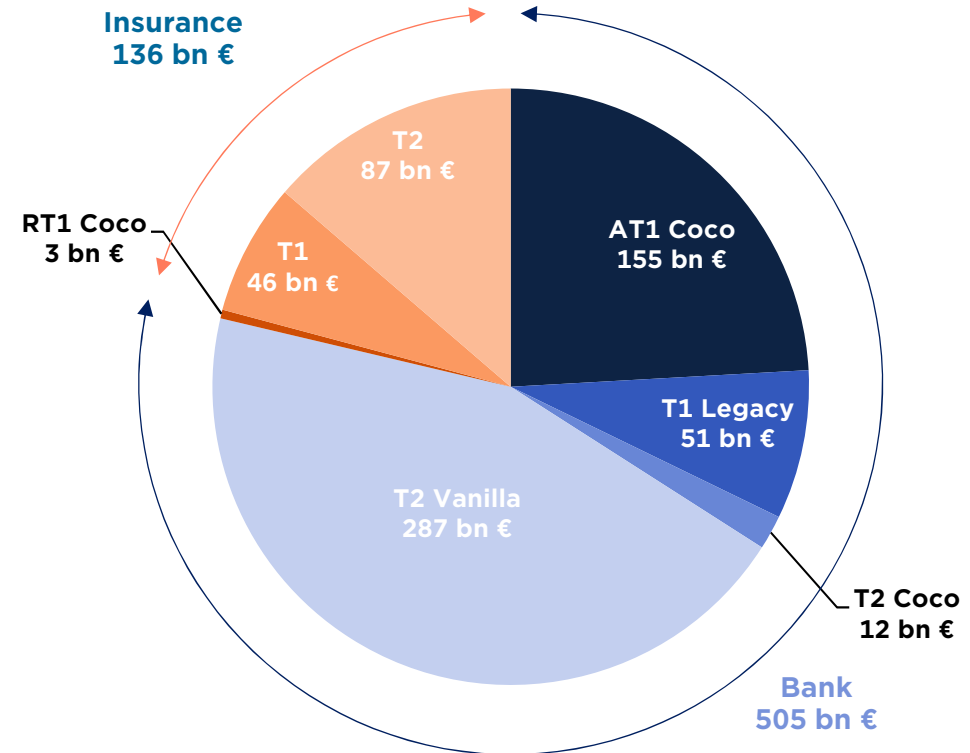
EDMOND DE ROTHSCHILD, BOLD BUILDERS OF THE FUTURE.

INVESTMENT UNIVERSE

GLOBAL BANK & INSURANCE BONDS : 4900 Bn €



o/w EUROPEAN SUBORDINATED BONDS : 641 Bn €



- Our universe is big, sustainable and deep enough to allow for selectivity

Source: Edmond de Rothschild Asset Management (France), Bloomberg, 31/12/2018. Assumptions: Banks and insurance companies, all zones, more than EUR 150m; currencies €, US\$, CHF, GBP, excludes ABS/Covered. NB: T2 insurance: dated bonds, including T3.

KEY RISK FEATURES OF BANK BOND

BASEL 3 RULES RETAINED UNDER CRD IV

► Subordinated debt: equity features packaged in a fixed-income asset

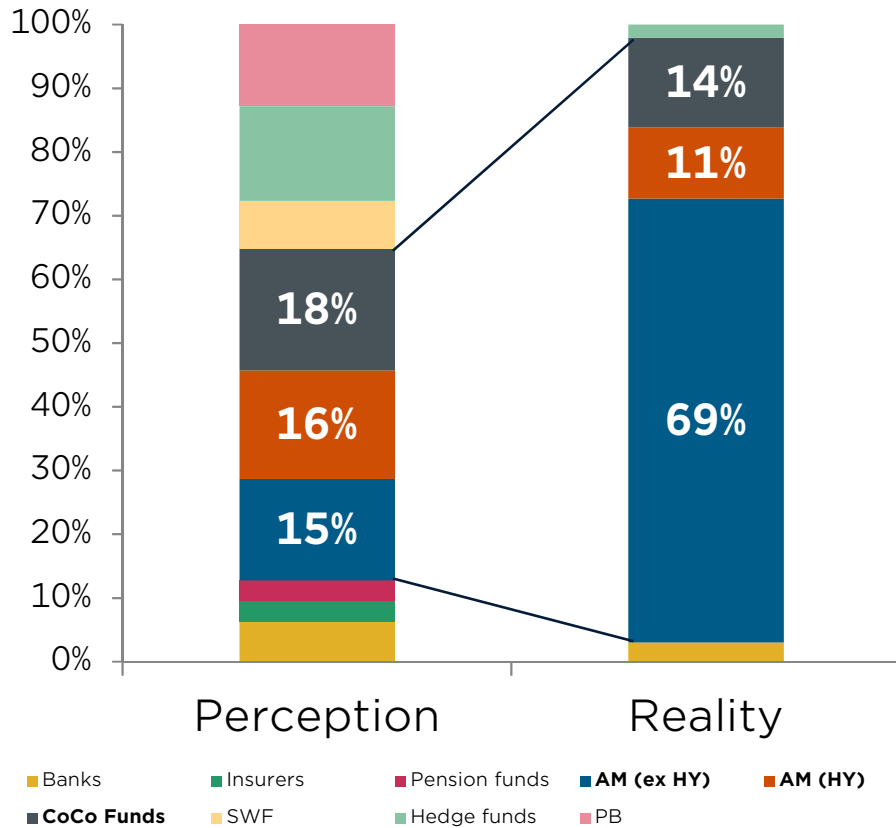
| INSTRUMENTS | RISK | | | |
|---------------------------------------|---|--|--|---|
| | DEBT | SUBORDINATED DEBT | | CAPITAL |
| | SENIOR DEBT | T2 | AT1 | EQUITY |
| Maturity | <ul style="list-style-type: none"> Fixed 1yr calls on SNP ? | <ul style="list-style-type: none"> Fixed Possible issuer calls No step-up | <ul style="list-style-type: none"> Perpetual Possible issuer calls No Step-up | <ul style="list-style-type: none"> Perpetual |
| Coupon | <ul style="list-style-type: none"> Mandatory | <ul style="list-style-type: none"> Mandatory | <ul style="list-style-type: none"> Can/may/must be suspended No pusher/stopper Subject to MDA | <ul style="list-style-type: none"> Optional dividend Amount not fixed |
| Loss absorption (prior to bankruptcy) | <ul style="list-style-type: none"> Bail-in | <ul style="list-style-type: none"> Bail-in/PONV | <ul style="list-style-type: none"> Bail-in/PONV Contractual COCO trigger | <ul style="list-style-type: none"> Yes |
| Recovery in bankruptcy | <ul style="list-style-type: none"> Senior | <ul style="list-style-type: none"> Sub | <ul style="list-style-type: none"> Junior Sub | <ul style="list-style-type: none"> Equity |

Source: Edmond de Rothschild Asset Management (France)

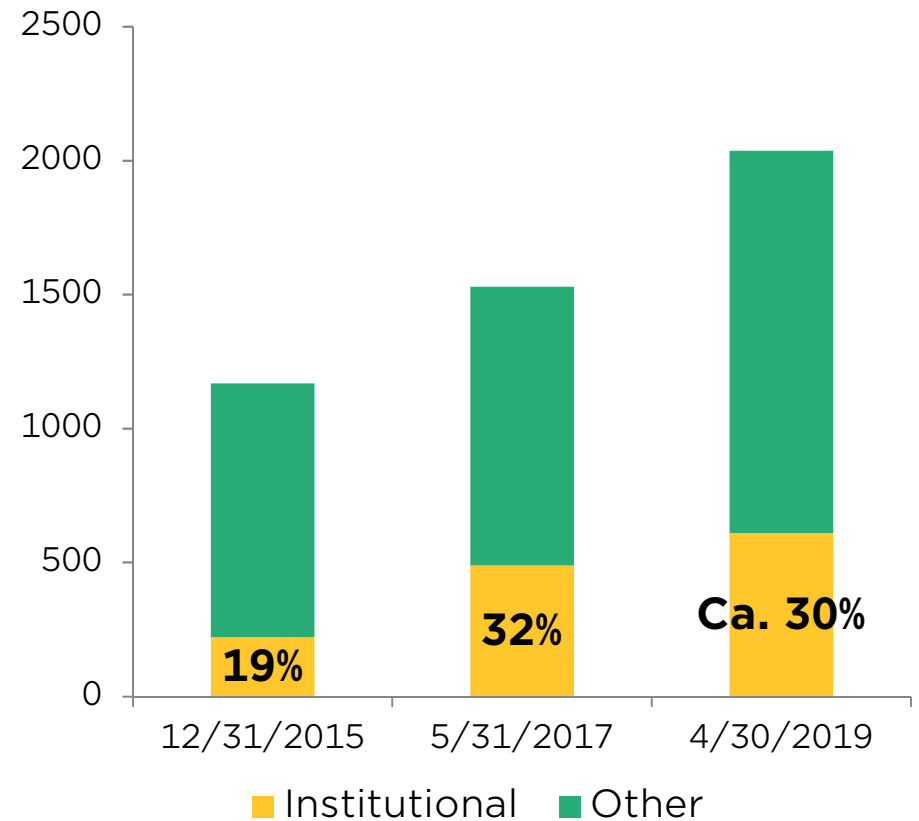
OWNERSHIP OF SUBORDINATED BONDS

INSTITUTIONALS INVOLVED, DIRECTLY AND INDIRECTLY

MORGAN STANLEY AT1 OWNERSHIP SURVEY



OWNERSHIP OF EDR FINANCIAL BONDS (mEUR)



Source: Morgan Stanley AT1 May 2019 Survey, Edmond de Rothschild Asset Management (France)

ATTRACTIVENESS OF SUBORDINATED BONDS

▶ **Solid fundamentals**

- › High and increasing solvency levels
- › Liquidity provision by ECB

▶ **Supportive regulation for creditholders**

- › Key driver for increased strength, though hurting profits and shareholders
- › Systemic contagion less likely post bail-in

▶ **Attractive valuation on an absolute and relative basis**

- › Central Banks pushing hunt for yield again at this time of the cycle
- › Spreads back at attractive levels vs. history and vs. other « spread » segments

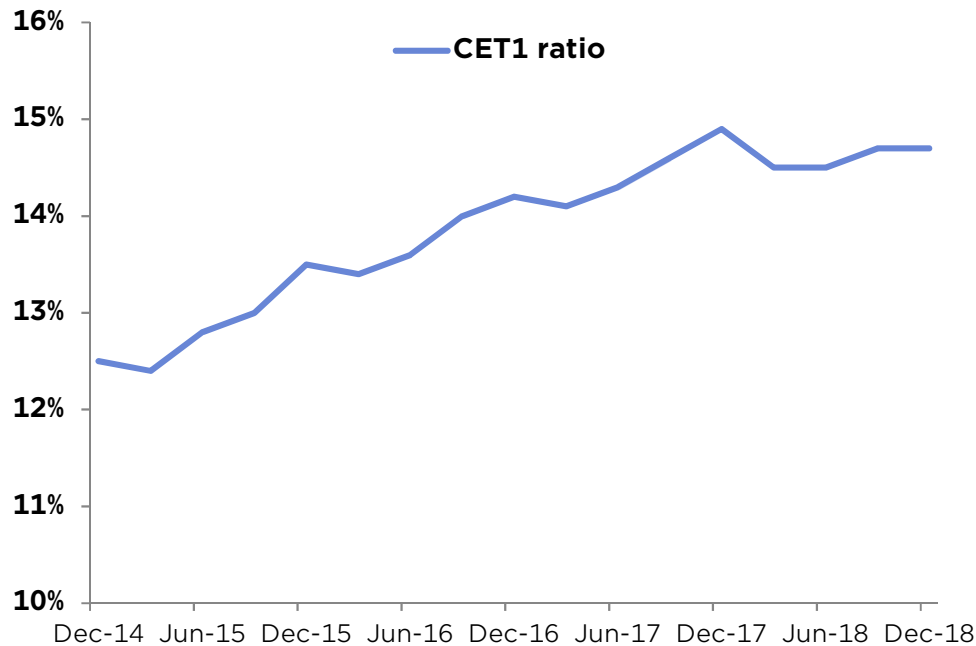
▶ **Political risks here to stay, but tail-risks unlikely to materialise**

- › Key driver of market volatility for european banks
- › Volatility is an inherent feature given the embedded optionality

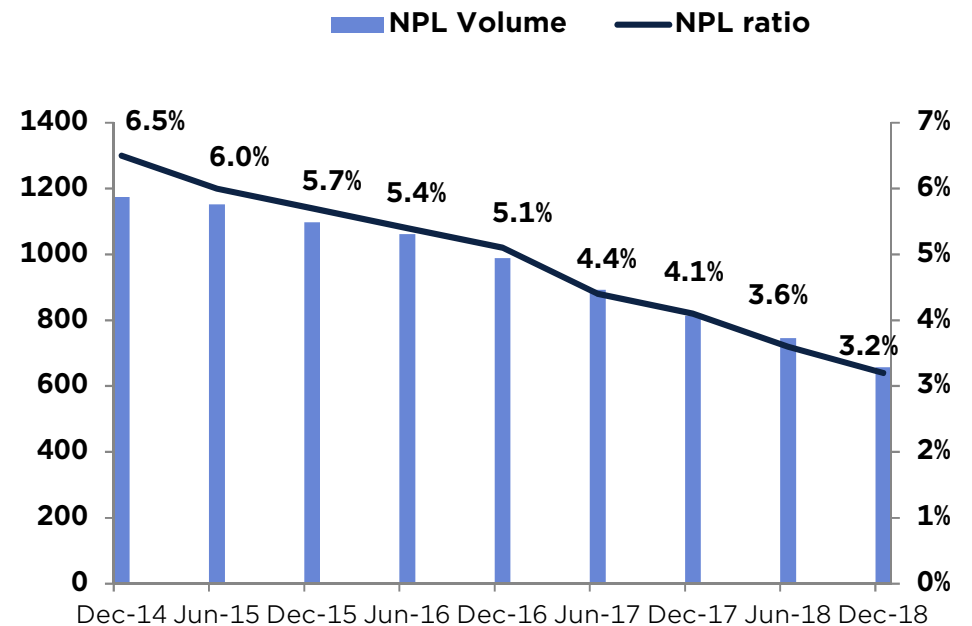
ATTRACTIVENESS OF SUBORDINATED BONDS

WHAT DOES NOT KILL YOU MAKES YOU STRONGER !

EUROPEAN BANKS CET1 RATIOS



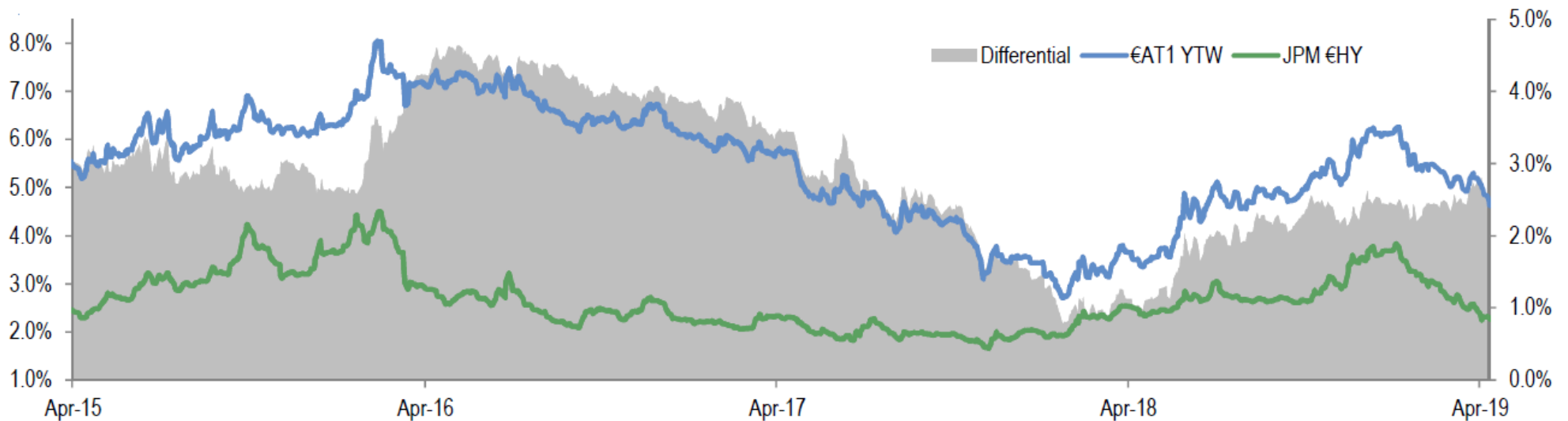
EUROPEAN BANKS NON PERFORMING LOANS RATIOS (volume in BnEUR AND IN %)



Source: EBA supervisory reporting data

ATTRACTIVENESS OF SUBORDINATED BONDS VS. HY NON-FINANCIAL

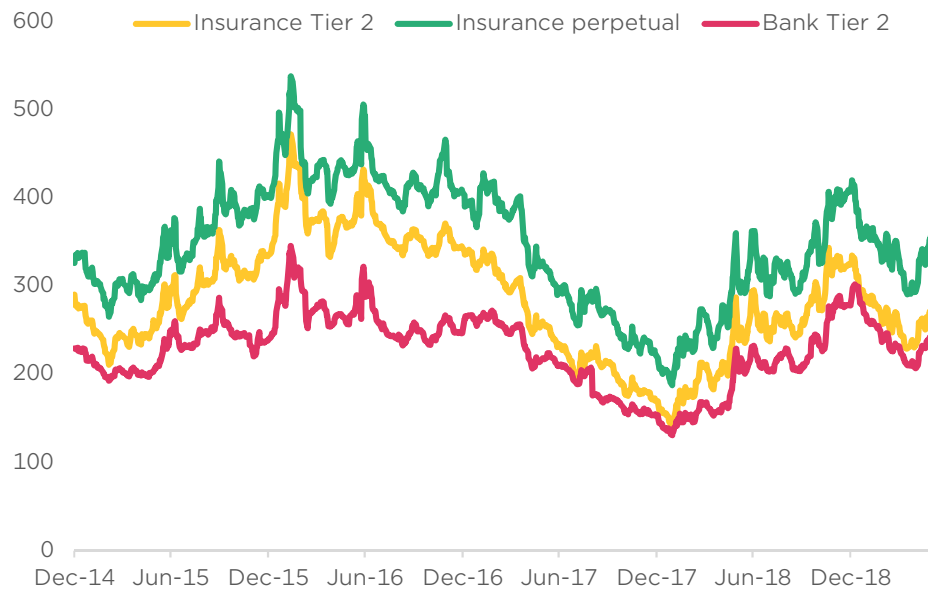
YIELD COMPARISON between EUR AT1 (to Worst) and EUR HY



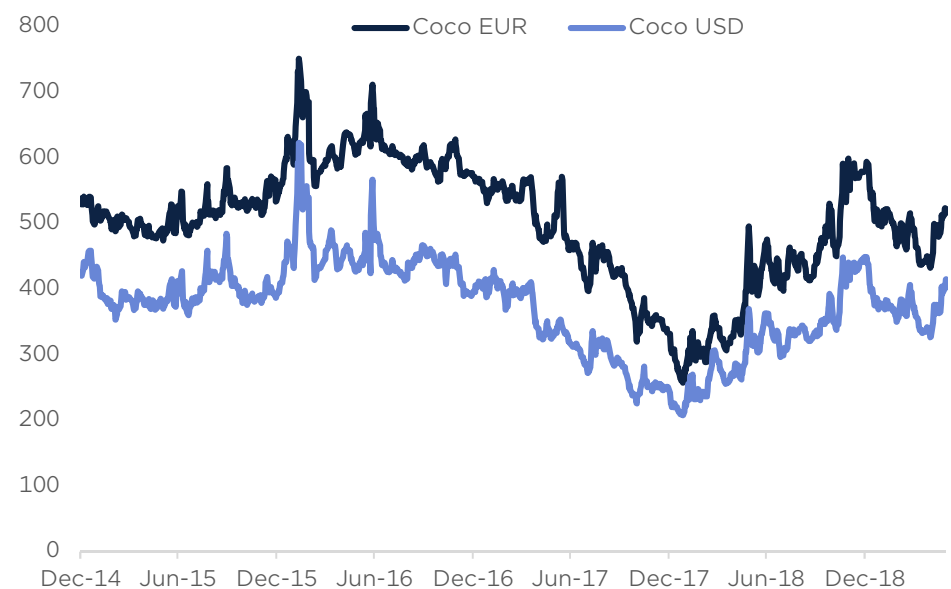
Source: JP Morgan Credit Research, as of 20 May 2019

ATTRACTIVENESS OF SUBORDINATED BONDS VS. RECENT HISTORY

SPREAD OF SUBORDINATED INDICES



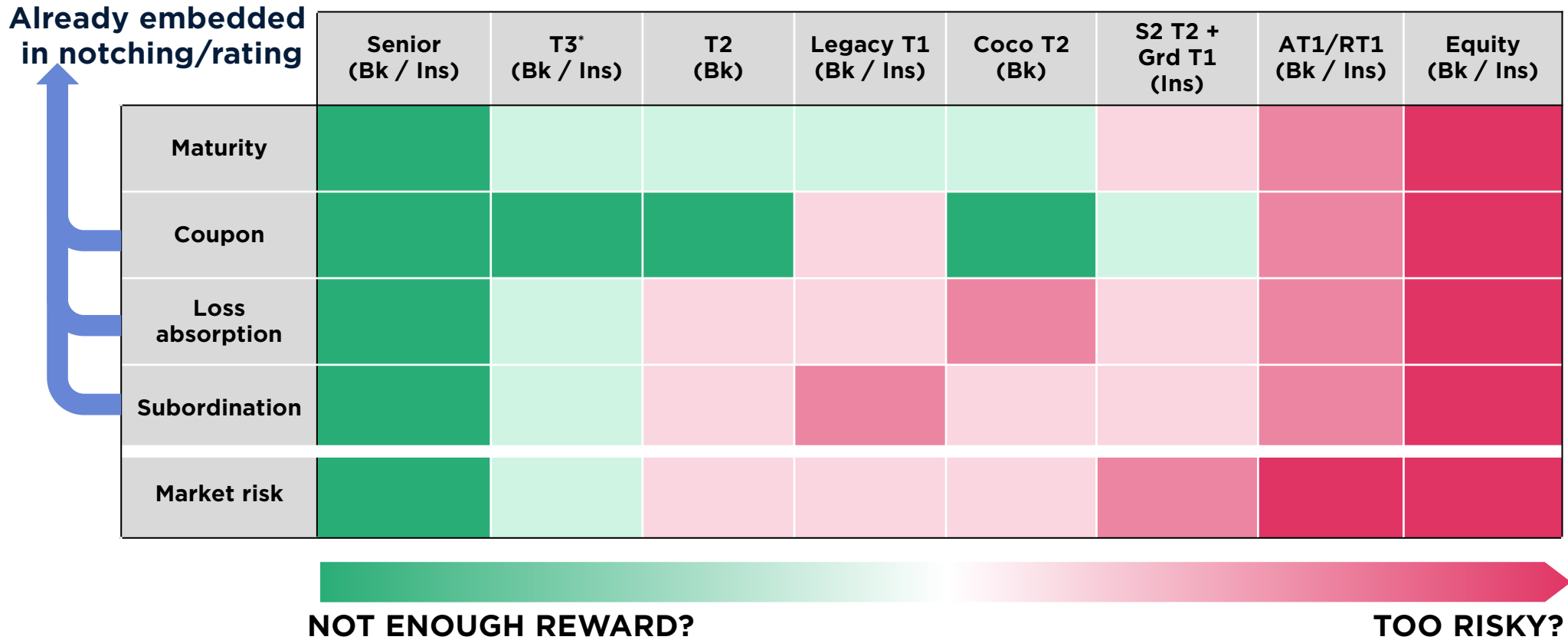
SPREAD OF COCO INDICES



- **Back to attractive valuation levels, in particular on insurance where extension risk is minimal**

Source: Edmond de Rothschild Asset Management (France), Bloomberg, Crédit Suisse. Data available only from 31/12/2014 to 31/05/2019.

RISK MAPPING BY SEGMENTS



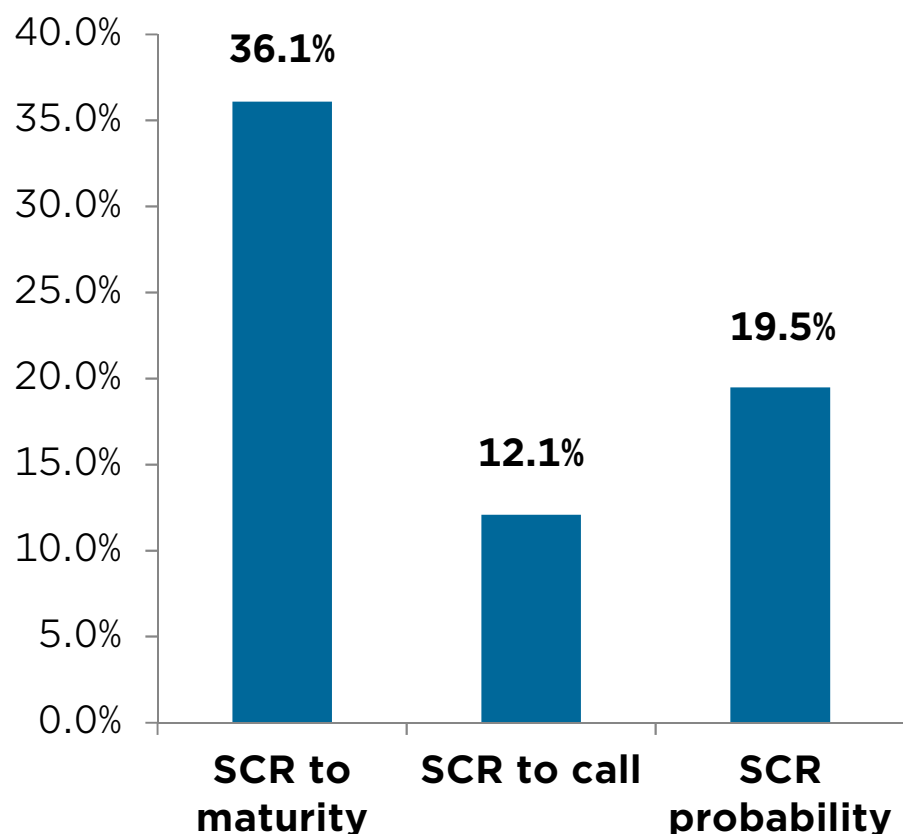
- Uncertainty on effective maturity is a hindering factor for institutional demand

Source: Edmond de Rothschild Asset Management (France). * T3 includes Insurance T3 and new bail-in-able bank debt (SNP, HoldCo)

SCR CALCULATION METHOD FOR CALLABLES

ILLUSTRATION WITH EDR FINANCIAL BONDS

FOR ILLUSTRATION ONLY



► SCR TO MATURITY

- › Duration to maturity considered for each line
- › Most cautious method leading to very high SCR : not used by most clients

► SCR TO CALL

- › Duration to call considered for each line leading to lower SCR : used by some investors but challenged by regulators (e.g. in Belgium)

► SCR Probability

- › Duration Probability = $p \times \text{Duration to Call} + (1-p) \times \text{Duration to Maturity}$. p is the probability of call which can be implied using the standard deviation implied by SCR choc formula (using the fact that SCR choc = VAR 99,5% 1y).

Source: Edmond de Rothschild Asset Management (France), based on the composition of EDR Financial Bonds as of 30/04/2019

ATTRACTIVENESS ON A SCR BASIS

ILLUSTRATION WITH EDR FINANCIAL BONDS

FOR ILLUSTRATION ONLY

| | Expected return | SCR (%) | bps/SCR |
|-----------------------------|-----------------|------------|-----------|
| Equity | 7.0% | 39% | 18 |
| EDR SICAV Fin. Bonds | 4.0%* | 20% | 20 |
| BBB Euro Corp (EN40) | 1.0% | 13% | 8 |
| BB Euro Corp (HE10) | 2.5% | 19% | 13 |

- ▶ Callable subordinated bonds still offer a **decent return on SCR profile** even after accounting for call risks
- ▶ Bullet structures are very rare in subordinated bonds (some bank T2 and specific non S&P-compliant insurance T2)
- ▶ Senior non-preferred (SNP) likely to be allowed on a callable format (1yr prior to maturity)
- ▶ Specific analysis on a bond by bond basis can mitigate extension risks

Source: Edmond de Rothschild Asset Management (France), based on the composition of EDR SICAV Financial Bonds as of 30/04/2019. Expected return for the fund is gross of fees and therefore without taking into account the effect of commissions.

OUR FINANCIAL DEBT EXPERTISE



2.4 bn € under management including:

- › €2.0bn in the open-ended EdR Financial Bonds fund



Our team has an **excellent grasp** of the regulatory and legal environment

- › 3 dedicated fund manager/analysts
- › More than 10 years' experience on average in financial debt

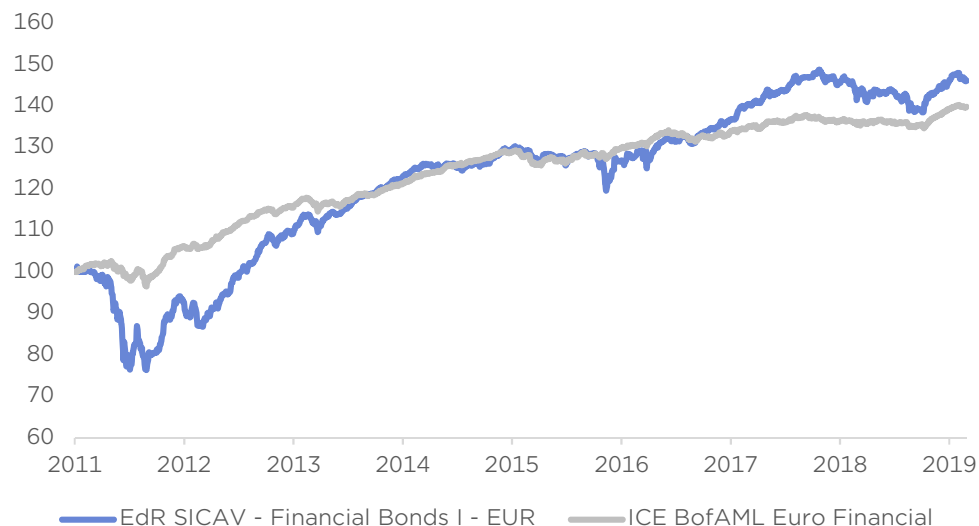


A **recognised expertise** within the industry

Source: Edmond de Rothschild Asset Management (France).

EDR SICAV FINANCIAL BONDS (I-EUR)

DATA SINCE STRATEGY CHANGE (04/04/2011)



| Risk indicators over 3Y | Volatility | Sharpe Ratio |
|-------------------------|-------------|--------------|
| FUND | 4.5% | 1.02 |
| BENCHMARK | 1.9% | 1.41 |

| Performance (rolling periods) | YTD | 1 Y | 3 Y | 5 Y | Since strategy change | Ann. since strategy change |
|--------------------------------|--------------|--------------|--------------|--------------|-----------------------|----------------------------|
| FUND | 5.0% | 2.6% | 13.2% | 16.7% | 46.1% | 4.8% |
| BENCHMARK | 3.2% | 3.0% | 7.0% | 13.5% | 39.8% | 4.2% |
| Performance (calendar periods) | 2018 | 2017 | 2016 | 2015 | 2014 | |
| FUND | -5.3% | 10.1% | 3.8% | 2.1% | 5.9% | |
| BENCHMARK | -1.2% | 3.2% | 3.7% | 0.6% | 7.4% | |

Past performance and volatility is no guarantee of future performance and volatility which may change over time, and can be separately affected by fluctuating exchange rates. Net Performance Data as of 31/05/2019. Source: Edmond de Rothschild Asset Management (France), Bloomberg. The figures referred to in that document are related to the past. * BofA Merrill Lynch Euro Financial

DISCLAIMER

June 2019. This document is issued by Edmond de Rothschild Asset Management (France).

This document is non-binding and its content is exclusively designed for information purposes. Any reproduction, alteration, disclosure or dissemination of this material in whole or in part without prior written consent from the Edmond de Rothschild Group is strictly prohibited. The information provided in this document should not be considered as an offer, an inducement, or a solicitation to deal, by anyone in any jurisdiction where it would be unlawful or where the person providing it is not qualified to do so. It is not intended to constitute, and should not be construed as investment, legal, or tax advice, nor as a recommendation to buy, sell or continue to hold any investment. EdRAM shall incur no liability for any investment decisions based on this document. This document has not been reviewed or approved by any regulator in any jurisdiction. The regulation concerning marketing conditions of UCITS and AIFs ("Funds" hereafter) varies from country to country. The Funds presented herein may not be registered and/or authorised in your country. You should seek advice from your professional advisor if you are in doubt as to whether any of the Funds mentioned might be suitable for your individual situation. This document is not intended for citizens or residents of the United States of America or "U.S. Persons" as defined by "Regulation S" under the U.S. Securities Act of 1933. No investment product presented herein is registered under the Securities Act of 1933 or any other United States regulation. Then, they cannot be offered or sold directly or indirectly in the United States of America, to or to the benefit of residents and citizens of the United States of America and to "U.S. Persons".

The figures, comments, forward looking statements and elements provided in this document reflect the opinion of EdRAM on market trends based on economic data and information available as of today. They may no longer be relevant when investors read this document. In addition, EdRAM shall assume no liability for the quality or accuracy of information / economic data provided by third parties. Any investment involves specific risks. We recommend investors to ensure the suitability and/or appropriateness of any investment to its individual situation, using appropriate independent advice, where necessary. Furthermore, investors must read the key investor information document (KIID) and/or any other legal documentation requested by local regulation, that are provided before any subscription and available at www.edmond-de-rothschild.com under the "Fund Center" section, or upon request free of charge. Past performance and past volatility are not reliable indicators for future performance and future volatility. Performance may vary over time and be independently affected by, inter alia, changes in exchange rates. Performance data does not include commissions and costs incurred on subscriptions and redemptions of units or shares of the Funds.

"Edmond de Rothschild Asset Management" or "EdRAM" refers to the Asset Management division of the Edmond de Rothschild Group. In addition, it is the commercial name of the asset management entities (including branches and subsidiaries) of the Edmond de Rothschild Group.

GLOBAL DISTRIBUTOR

EDMOND DE ROTHSCHILD ASSET MANAGEMENT (FRANCE)
47, rue du Faubourg Saint-Honoré
FR - 75401 Paris Cedex 08
Société anonyme governed by an executive board
and a supervisory board with capital of 11,033,769 euros
AMF Registration No. GP 04000015 - 332.652.536 R.C.S. Paris

MANAGEMENT COMPANY

EDMOND DE ROTHSCHILD ASSET MANAGEMENT (FRANCE)
47, rue du Faubourg Saint-Honoré
FR - 75401 Paris Cedex 08



EDMOND
DE ROTHSCHILD

EDMOND DE ROTHSCHILD, BOLD BUILDERS OF THE FUTURE
www.edmond-de-rothschild.com