THE ACTIVE BANKING FUND

Annual Performance Report

September 2017

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Fund’s Performance in last 12 months

Performance review period: August 1st 2016 – July 31st 2017	
Fund’s gross performance (after trading commissions)	**+5.5%**
Charges • Investment management fee • Administration fee • Currency hedging costs • Other charges • Net interest paid on excess euro balances* • Trading commission mark-up**	 1.00% 0.60% 0.20% 0.10% 0.15% 0.35%
Net Fund Return **Adjusted Net Fund Return (excluding one-offs)**	**+3.1%** **+3.6%**

* One-off item incurred for 3 months prior to the implementation of the Fund’s new cash management strategy in April 2017
** One-off item charged by sub-broker, to be eliminated as from September 2017

Active Banking Fund key changes since last annual performance report

Active Banking Fund

- June 2016 – Fund converted from an externally managed fund into a self-managed fund managed by its new board of directors; fund no longer part of the cdbbank group; fund further reduces administration fees and cuts performance fee from 20% to 15%
- August 2016 – Fund's new status and new directors approved by the Cyprus Securities & Exchange Commission
- March 2017 – Fund starts investing in select Canadian banks as part of its new investment strategy
- April 2017 – Fund implements new cash management strategy to improve returns on euro cash balances; Fund re-enters investments in European banks as Eurozone political risks subside following result of French election
- September 2017 – Fund opens new foreign broker account to eliminate sub-broker commission mark-ups (which were reintroduced in August 2016)

Fund’s performance by portfolio/geography

The Fund remained invested in US banks throughout the 12-month period; re-entered European banks in April 2017 just after the French presidential election and entered Canadian banks in March 2017

US banks portfolio

- The Fund’s US banks portfolio underperformed its US banks index benchmark during the 12-month period as the Fund scaled back its US positions after Donald Trump’s win in November 2016 (as many US banks started to look expensive).
- The fund re-entered select US banks with lower than average P/Es in March 2017 following a substantial pullback.

European banks portfolio

- The Fund exited European banks in April 2016 (in the run-up to the Brexit vote) and re-entered in late April 2017 following the first round of the French elections. Since then, the Fund’s European banks portfolio has outperformed its European benchmark (Eurozone banks index).

Canadian banks portfolio

- The Fund entered Canadian banks for the first time in early March 2017 as part of its new investment strategy to diversify part of its buy hold positions into less volatile and high dividend yield banks. Since then, the Fund’s Canadian banks portfolio has outperformed its Canadian benchmark (average performance of the share prices of the big four Canadian banks).

Outlook - European banks more attractive in terms of valuation

Active Banking Fund

- Many US banks are no longer cheap following 20% rally after Donald Trump's election win. Many US banks valuation multiples have expanded since November 2016 on the basis of Trump's promises for more fiscal spending (which implies higher interest rates), corporate tax cuts and banking deregulation.
- US banks valuation multiples have gone up mainly because of Trump policy expectations as opposed to a substantial increase in earnings in the last few quarters. To date, the Trump government has not yet delivered on any of its promises.
- With many US banks valuations currently on the expensive side, the Fund has scaled back its aggregate position in US banks until there is more clarity on the implementation of promised government policies; fund remains invested in US banks with below average P/Es (following price pullbacks) and takes short-term positions on the basis of news flows that cause share price volatility.

- The fund has, this year, gradually increased its exposure to select Eurozone banks for a number of reasons:
  - The result of the French election has eliminated Eurozone break-up fears by substantially reducing political risk.
  - Latest Eurozone economic indicators are substantially improved as GDP growth has picked up and European banks have started lending again which boosts their profitability via balance sheet expansion (after years of hardly any loan growth).
  - Eurozone average inflation is now above 1%, moving closer to the ECB's target inflation of 2%; the ECB has indicated it will start scaling back its quantitative easing/asset purchase program later this year and may consider interest rate increases in 2018; this is a positive for European banks profitability as Eurozone interest rates and yields will gradually be going up.
  - Unlike US banks, some European banks still trade at or below their tangible book value per share, which is considered one of the key valuation metrics for banks and is calculated as:

    (Total Equity – Intangible Assets)/Number of Shares
  - On a P/E basis, there are quite a few highly profitable European banks that still trade on a current P/E of 10 and a forward P/E of below 9. This compares to an average current P/E of 14 for US banks.
  - Some European banks (the most profitable ones) have current dividend yields above 4%.

- Canadian banks remain a very attractive long-term investment for a number of reasons:
  - Much lower share price volatility compared to US and European banks.
  - Very high dividend yields (average of 3.9%) which make them attractive to income/yield seeking investors; this is one of the reasons for the low share price volatility as most of their shareholders are conservative institutional investors with a long-term investment horizon.
  - They are extremely profitable, with strong retail and corporate banking franchises in Canada and the US.
  - They are very well regulated and extremely well capitalised.
  - Current P/E multiples are very attractive compared to US banks; following the recent pullback in Canadian banks share prices (partly because of a stronger Canadian dollar and partly because the Trump government is making noises about renegotiating or eliminating NAFTA), the average current P/E of the big four Canadian banks is 11.8, vs 14 for US banks.

Fund’s biggest current holdings (as at 1/9/2017)

ABF
Active Banking Fund

Bank	Country	Percentage of Fund’s NAV	Current P/E	Dividend yield
KBC	Belgium	6.4%	10.4	2.9%
BNP Paribas	France	5.9%	9.7	4.2%
Bank of Montreal	Canada	5.6%	11.0	4.0%
Capital One	USA	4.7%	11.7	2.1%
Discover Financial Services	USA	4.7%	10.3	2.4%
Toronto Dominion Bank	Canada	4.2%	11.6	3.6%
Wells Fargo	USA	4.0%	12.6	3.1%
ING Groep	Netherlands	2.8%	11.7	4.4%
Societe Generale	France	2.2%	11.1	4.7%
SunTrust Banks	USA	2.2%	13.9	3.1%