

AGM Presentation

# **Polar Capital Global Financials Trust (PCFT)**

**29 April 2015**

# Award-winning Financial Team

- 18+ year track record of running financial sector funds (approx. \$1bn under management)
- Strong and stable investment team (4 fund managers, 3 analysts)
- Excellent long-term track records in diverse subsectors
- Winner of Lipper Fund Awards for past 6 years

## Current funds managed by the financials team<sup>1</sup>

	Relative performance since inception
Polar Capital Asian Financials Fund USD (December 1996)	+144.02% <sup>2</sup>
Polar Capital Global Insurance Fund GBP R Acc (October 1998)	+236.46% <sup>3</sup>
Polar Capital Income Opportunities Fund GBP I Acc (October 2009)	+64.33% <sup>4</sup>
Polar Capital Financial Opportunities Fund USD R (May 2011)	+6.39% <sup>5</sup>
Polar Capital Global Financials Trust GBP (July 2013)	-2.87% <sup>6</sup>



Source: Polar Capital, 31 March 2015.

Past performance is not indicative or a guarantee of future returns. Returns are reported in the stated currency and are net of fees. **1.** Prior to 15 September 2010, the Funds were managed by HIM Capital. Whilst the investment management team and strategy for the funds are substantially similar to the funds managed at HIM Capital, please note not all terms are consistent, including fees. Please refer to the fund offering memorandum for a full explanation of the strategy for each Fund. **2.** The Polar Capital Asian Financials Fund was launched on 5 December 1996, originally as the Hiscox Far East Financial Fund. This was merged into the Polar Capital Asian Financials Fund on 1 July 2011. **3.** The Polar Capital Global Insurance Fund was launched on 27 May 2011 (the Hiscox Insurance Portfolio Fund, launched 19 October 1998, was merged into the Polar Capital Global Insurance Fund on 31 May 2011). Prior to the amalgamation of both funds, the benchmark was the Datastream World Insurance Index (£). The benchmark was changed at the launch of the Polar Capital Global Insurance Fund to the MSCI Daily Net TR World Insurance Index (£) as it is the benchmark upon which performance fees are calculated. Outperformance data since 30 October 1998, the date at which the MSCI World Insurance Index commenced publishing daily index figures and therefore enabling daily performance comparison. **4.** The Polar Capital Income Opportunities Fund was launched on 15 October 2009, originally as the HIM Income Fund. The Fund merged into the Polar Capital Financial Income Fund on 1 July 2011, and was then renamed on 13 June 2014. **5.** The Polar Capital Financials Opportunities Fund was launched on 3 May 2011. **6.** The Polar Capital Global Financials Trust was launched on 1 July 2013 and performance is based on the opening Net Asset Value (NAV) on this date. The inception NAV was 98.0p per ordinary share based on the subscription price of 100.0p per ordinary share and launch costs of 2.0p per ordinary share.

# PCFT's Shares Have Fallen To Discount

- It's not just about banks and it's not just about Europe
- Undiluted NAV total return **+18.4%**, share price total return **+10.0%** since launch
- Bought back 3.35m shares so far

## Polar Capital Global Financials Trust (PCFT LN Equity)



Source: Bloomberg, 20 April 2015. Past performance is not indicative or a guarantee of future results.

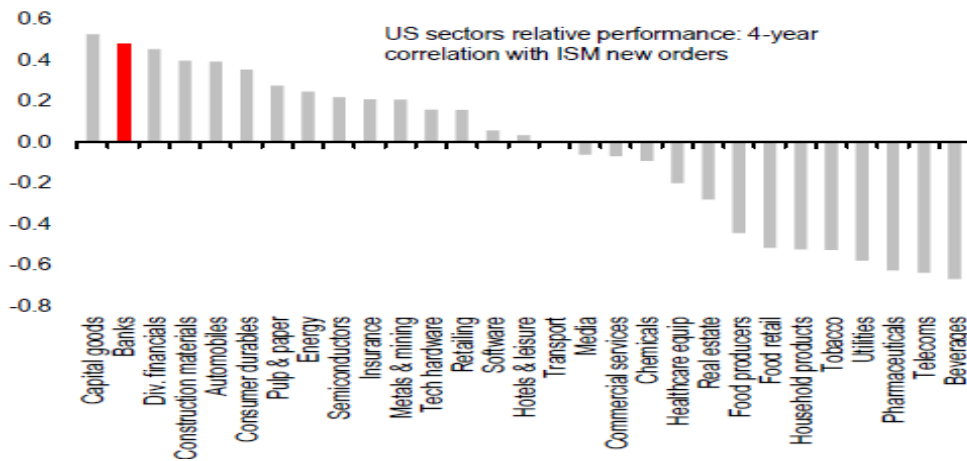
- Launched 1 July 2013 with fixed life to May 2020
- Issued 153m ordinary shares and 30.6m subscription shares
- The Trust has issued a further 24.2m ordinary shares post launch
- Met target dividend of **3.1p** for financial year ending November 2014
- Since August, Trust has bought back 3.35m ordinary shares for cancellation
- £10m drawdown on ING loan facility
- Unquoted investment in Atom Bank

It should not be assumed that recommendations made in future will be profitable or will equal performance of the securities in this document. A list of all recommendations made within the immediately preceding 12 months is available upon request.

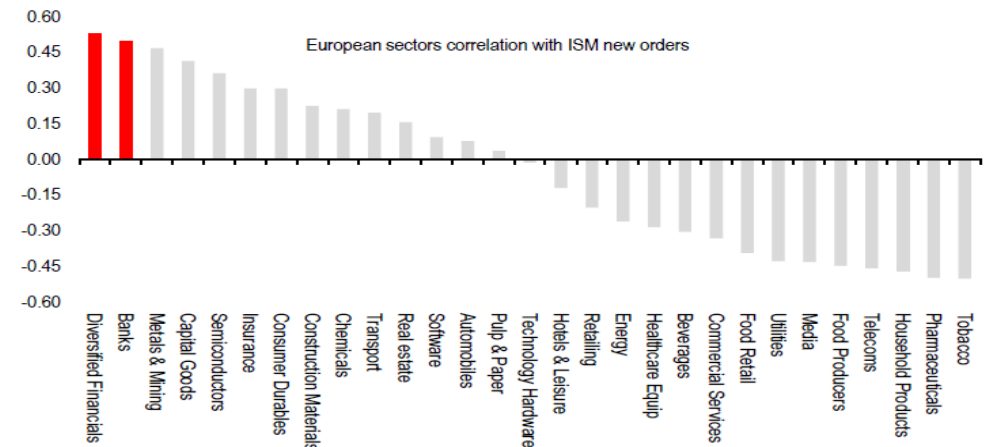
# Financials Remain A Play On Economic Recovery

- Financials geared play on economic growth and financial markets
- Increased fee income
- Higher loan growth
- Lower loan losses

## US banks geared to economic recovery<sup>1</sup>



## European banks geared to economic recovery<sup>2</sup>

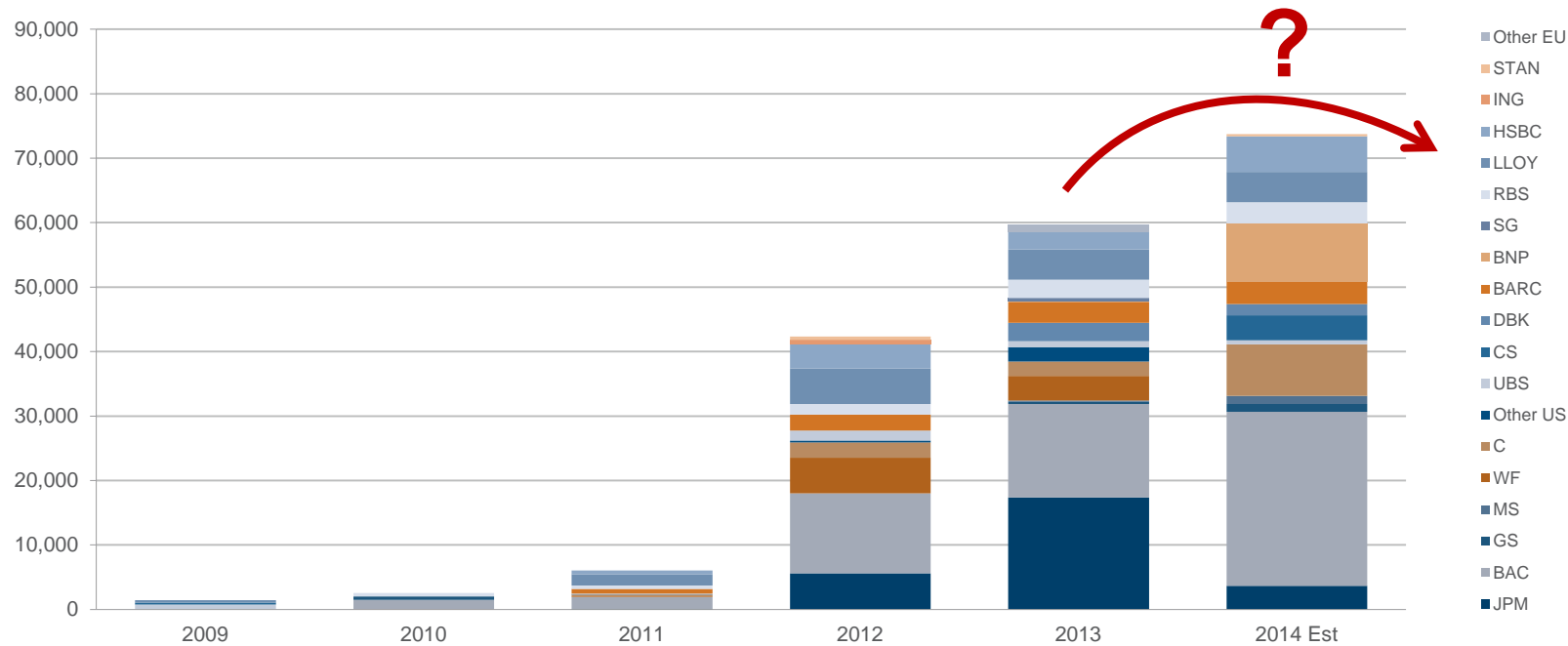


1. Source: Credit Suisse, 25 July 2013. 2. Source: IMF Credit Suisse Research, 25 July 2013.

# Fines And Settlements

- Approx. \$185bn so far
- FX settlements
- Mortgage mis-selling
- PPI to fall

## Regulatory/legal settlements (\$m)



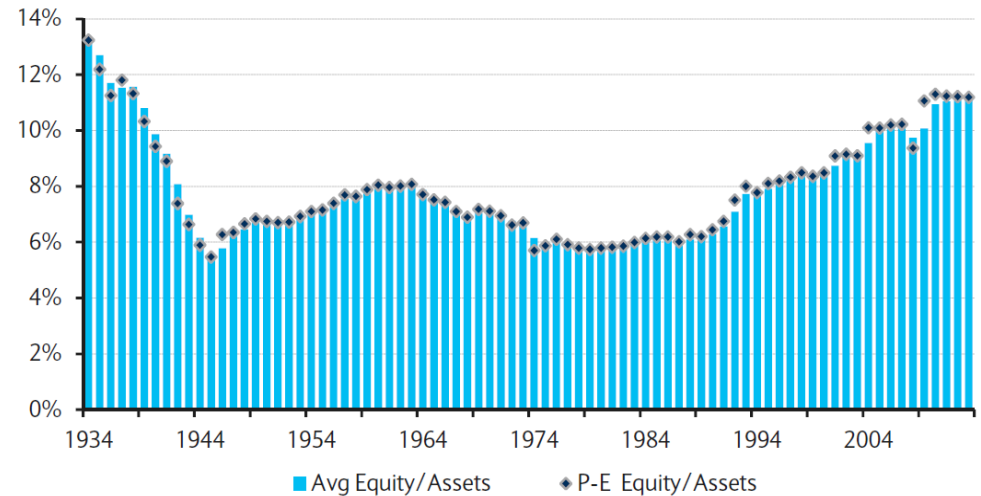
**Source:** Company data, Macquarie Research and Polar Capital, December 2014. It should not be assumed that recommendations made in future will be profitable or will equal performance of the securities in this document. A list of all recommendations made within the immediately preceding 12 months is available upon request.

# Balance Sheet Strength Key To Investment

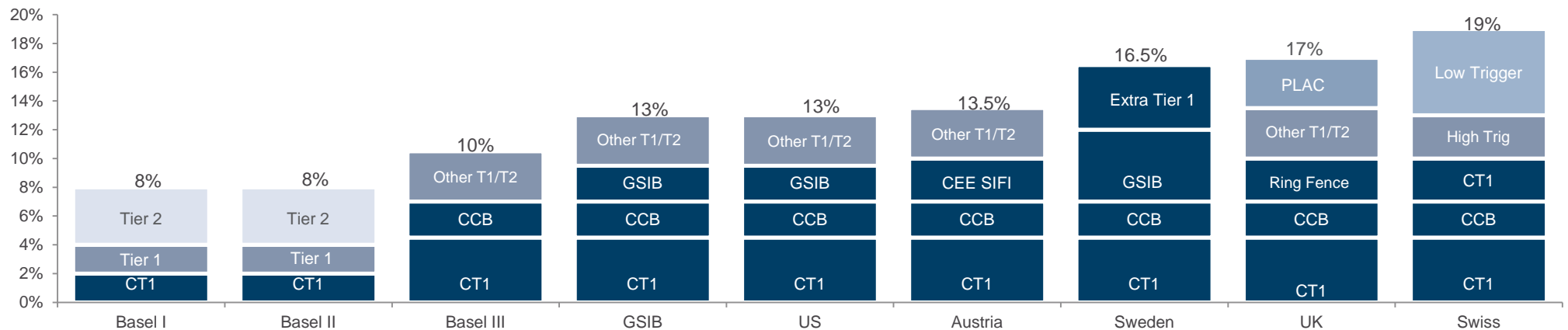


- Significant capital raised
- Deleveraging
- Non-core divestments
- Organic capital generation
- Annual stress tests

## US Banks Equity/Assets Ratio<sup>1</sup>



## Capital Arms Race



**Source:** Polar Capital unless otherwise stated. **1. Source:** Barclays (US Large-Cap & Mid-Cap Banks report, 18 March 2014). It should not be assumed that recommendations made in the future will be profitable or will equal the performance of securities in this document. A list of all recommendations made within the immediately preceding 12 months is available up on request.

# As A Result Capital Return Could Be Significant

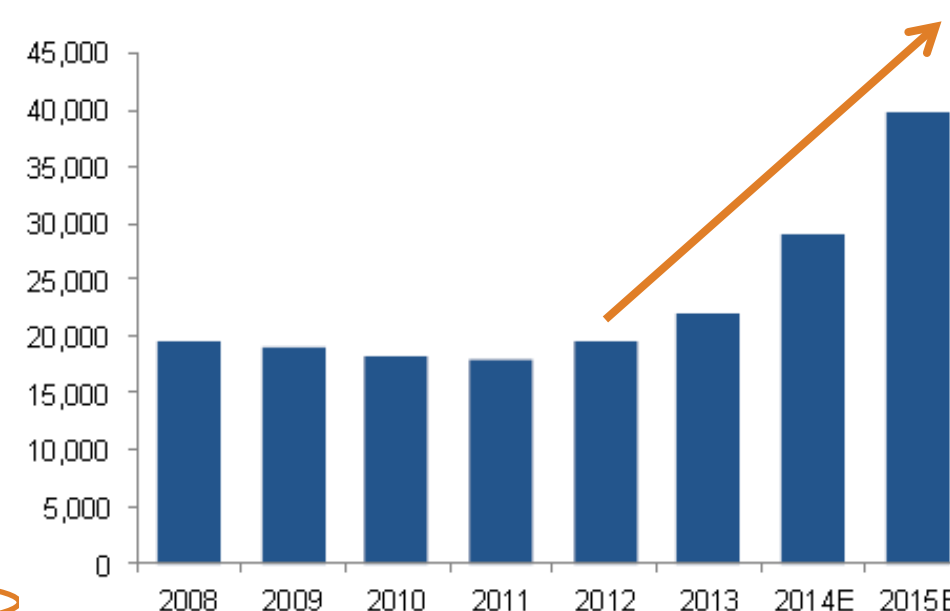


- Little loan growth means banks returning cash
- Payout ratios low but rising
- Earnings recovering
- Will lead to strong dividend growth

## US Banks (Payout Ratio)<sup>1</sup>

	Dividends (%)				Repurchase (%)				Total Payout (%)			
	12A	13A	14E	15E	12A	13A	14E	15E	12A	13A	14E	15E
Large/Mid-Cap												
BAC	16%	4%	13%	20%	0%	31%	44%	47%	16%	36%	57%	67%
BBT	29%	42%	33%	31%	1%	0%	22%	38%	30%	42%	55%	69%
C	2%	1%	12%	18%	0%	7%	23%	43%	2%	8%	35%	61%
CMA	20%	22%	25%	25%	59%	51%	56%	70%	79%	73%	81%	95%
FITB	20%	22%	28%	28%	40%	45%	53%	52%	60%	67%	81%	80%
HBAN	23%	26%	31%	30%	25%	20%	37%	47%	47%	47%	68%	77%
JPM	23%	33%	27%	28%	8%	29%	22%	44%	31%	62%	49%	72%
KEY	20%	22%	22%	23%	30%	53%	62%	69%	50%	75%	84%	92%
MTB	37%	33%	38%	32%	0%	0%	0%	0%	37%	33%	38%	32%
PNC	29%	23%	27%	27%	8%	1%	28%	51%	37%	24%	55%	78%
RF	5%	13%	22%	28%	0%	32%	29%	45%	5%	45%	51%	73%
STI	6%	15%	23%	26%	0%	8%	31%	45%	6%	23%	54%	71%
USB	27%	29%	31%	29%	35%	44%	47%	53%	62%	73%	78%	83%
WFC	26%	30%	32%	32%	21%	23%	36%	36%	47%	53%	68%	68%
ZION	4%	8%	16%	19%	0%	0%	13%	43%	4%	8%	29%	62%
Average	19%	22%	25%	26%	15%	23%	34%	46%	34%	45%	59%	72%

## Europe – Aggregate dividend distribution (€m)<sup>2</sup>



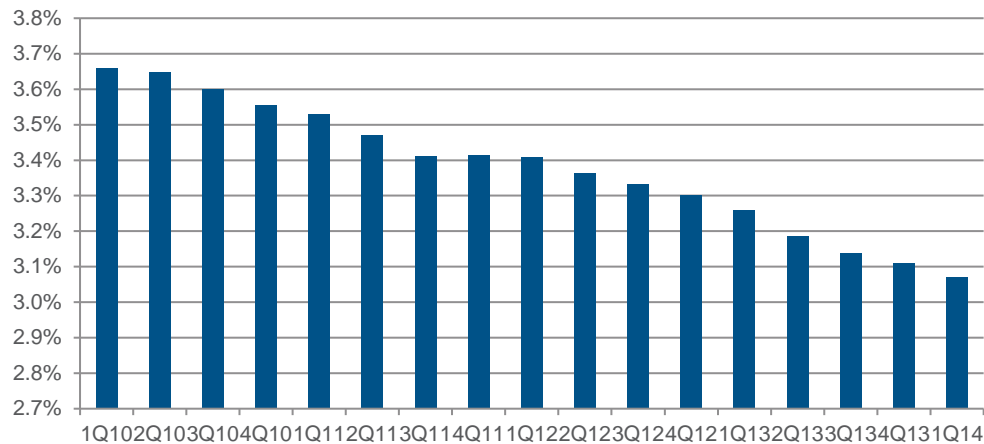
1. Source: Barclays (US large-cap & mid-cap banks report, 18 March 2014). 2. Source: Bloomberg, SG Cross Asset Research/Equity. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of securities in this document. A list of all recommendations made within the immediately preceding 12 months is available up on request.



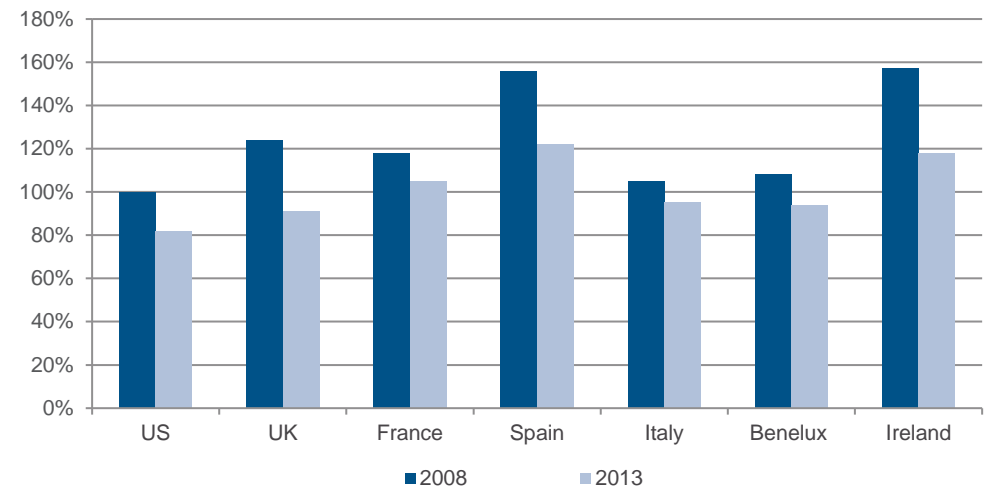
# Beneficiaries Of Rising Rates

- Much less exposed to wholesale funding
- Improvements to margins ahead
- Underlying improvements in Europe
- US biggest beneficiary

## US bank margins under pressure



## Loan/deposit (2008 vs 2013)



Source: Polar Capital.

# EM: Financials Are Much More Profitable

- Stronger and cheaper funding structures in Asia
- Growth prospects are slowing but remain good
- Profitable (stronger revenue generation and lower-cost structures)
- Well capitalised and low non-performing loans

2014	Revenues/assets (%)	ROA (%)	ROE (%)	Loan growth (%)	Equity/assets (%)	Loans/deposits (%)
Europe	3.64%	0.42%	4.93%	3.14%	8.03%	104.90%
<b>Emerging Europe</b>	<b>5.52%</b>	<b>0.98%</b>	<b>6.33%</b>	<b>6.14%</b>	<b>11.28%</b>	<b>103.00%</b>
Developed Europe	2.34%	0.30%	5.48%	1.44%	5.75%	106.00%
Asia	3.76%	1.26%	13.29%	9.40%	8.80%	86.10%
<b>Emerging Asia</b>	<b>4.92%</b>	<b>1.58%</b>	<b>14.91%</b>	<b>11.18%</b>	<b>9.84%</b>	<b>84.40%</b>
Developed Asia	2.44%	0.75%	10.10%	7.33%	7.18%	88.10%
<b>LatAm</b>	<b>7.95%</b>	<b>2.65%</b>	<b>20.53%</b>	<b>12.88%</b>	<b>11.01%</b>	<b>108.10%</b>
<b>US (L/M-cap)</b>	<b>4.62%</b>	<b>1.01%</b>	<b>10.10%</b>	<b>2.80%</b>	<b>10.63%</b>	<b>80.80%</b>

Source: Polar Capital, 2014 estimates, January 2015.

Developed includes: Western Europe/Australia/Hong Kong/Japan/Singapore/Taiwan/Korea/US.

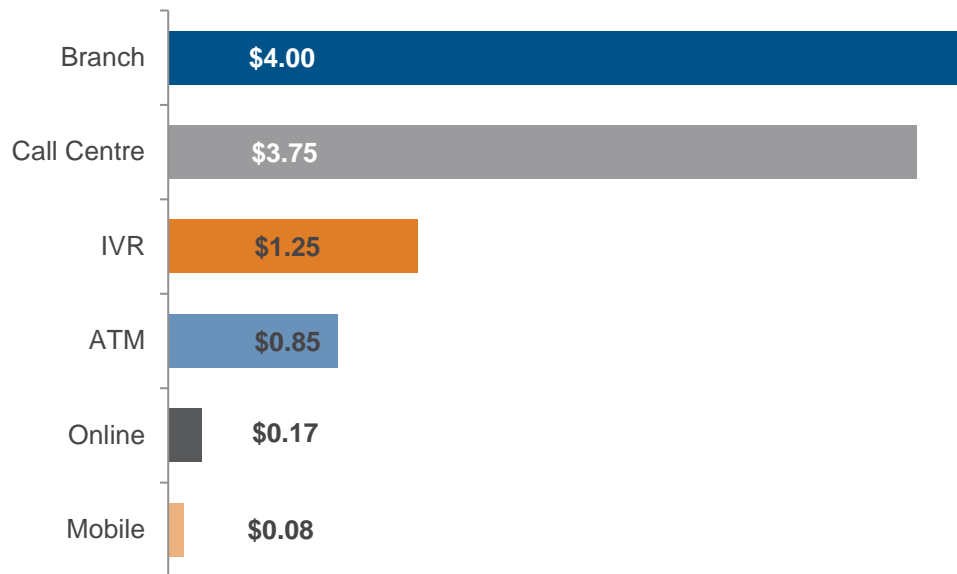
Emerging includes: Eastern Europe/China/Indonesia/India/Malaysia/Philippines/Thailand/Latin America.

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# Potential To Cut Costs

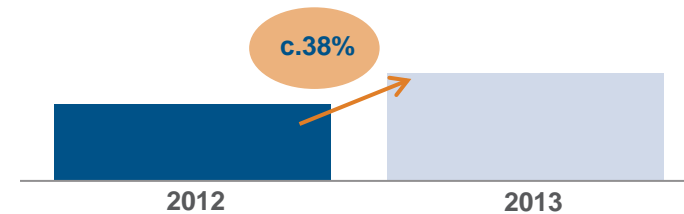
- Move to online and mobile banking
- Expect branches to be cut
- 7% cut in cost/income opportunity

## Per-transaction costs by banking channel<sup>1</sup>

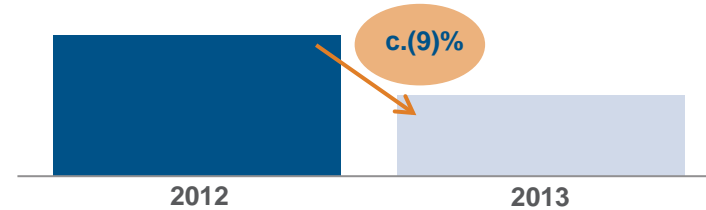


## Customer are using different channels<sup>2</sup>

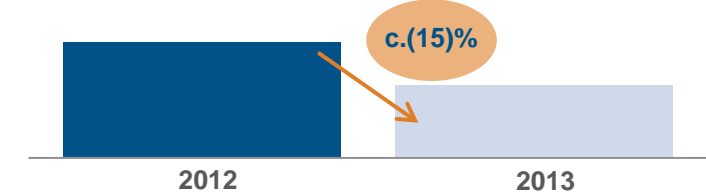
More customers are using mobile to stay in touch with their money...



Branch counter transactions are reducing...



Telephony volumes fall as other channels are used...



1. Source: TowerGroup, Fiserv/M-Com Data: Mobile transaction costs based on actual data from M-Com, the international mobile banking and payments solutions provider and Fiserv partner. 2. Source: LBG analysis.

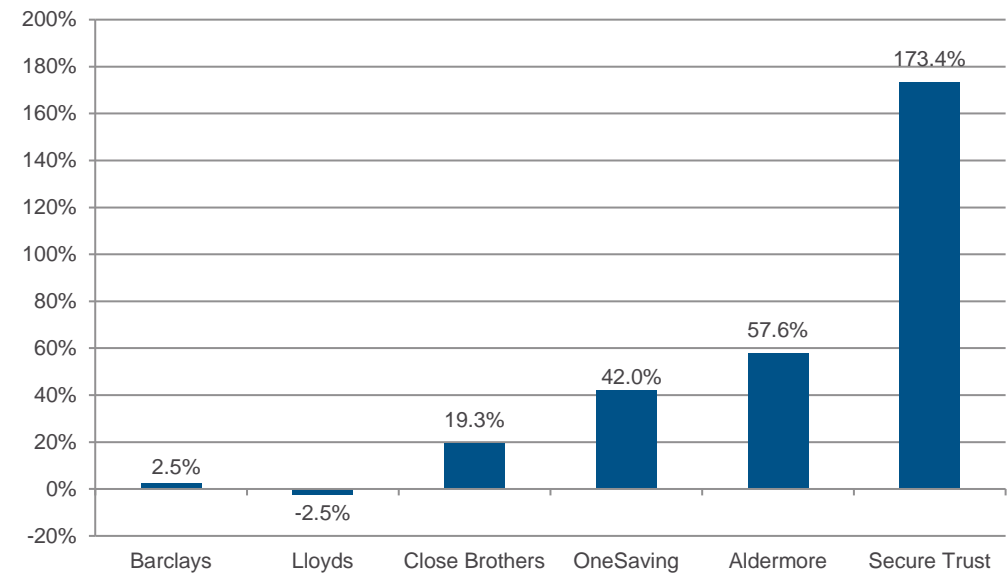
## Dodd Frank Act nicknamed 'Financials Services Protection Act'

Regulation Act/policy document	Number of pages	Number of words
<b>Basel Capital Accord 1988 – Basel I</b> International Convergence of Capital Measurement and Capital Standards	30	10,271
<b>Basel II</b> International Convergence of Capital Measurement and Capital Standards – A Revised Framework	347	150,238
<b>Basel III</b> A global regulatory framework for more resilient banks and banking systems	77	32,638
<b>ICB</b> Independent Commission on Banking – Final Report	363	146,266
<b>EU Solvency II</b> Directive and EIOPA Report on the fifth Quantitative Impact Study (QIS5)	326	137,327
<b>US</b> Dodd-Frank Wall Street Reform and Consumer Protection Act	<b>849</b>	<b>368,926</b>

Source: Bank of International Settlements, The Library of Congress, Independent Commission on Banking, FCA.

- Potential for faster growth and/or more profitable
  - TSB (Banco Sabadell?)
  - Virgin Money (Northern Rock)
  - Williams & Glyn (RBS)
  - One Savings (Kent Reliance BSoc)
  - Aldermore
  - Shawbrook
  - Metro Bank
  - Secure Trust
  - Atom Bank

UK bank loan growth (2014 – 2016e)<sup>1</sup>

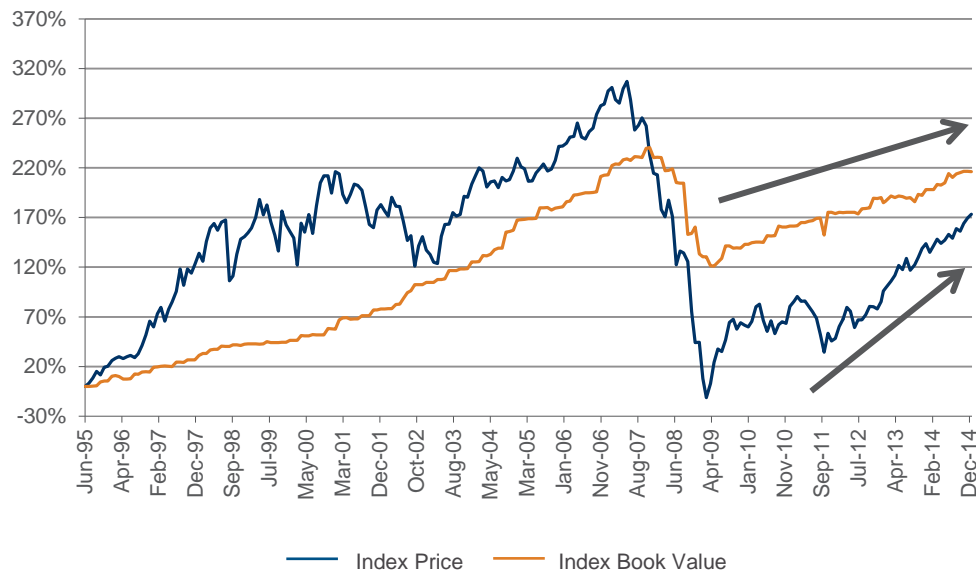


1. Source: Polar Capital, 27 February 2015. Internal estimates for indicative purposes only and should not be relied upon. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of securities in this document. A list of all recommendations made within the immediately preceding 12 months is available up on request.

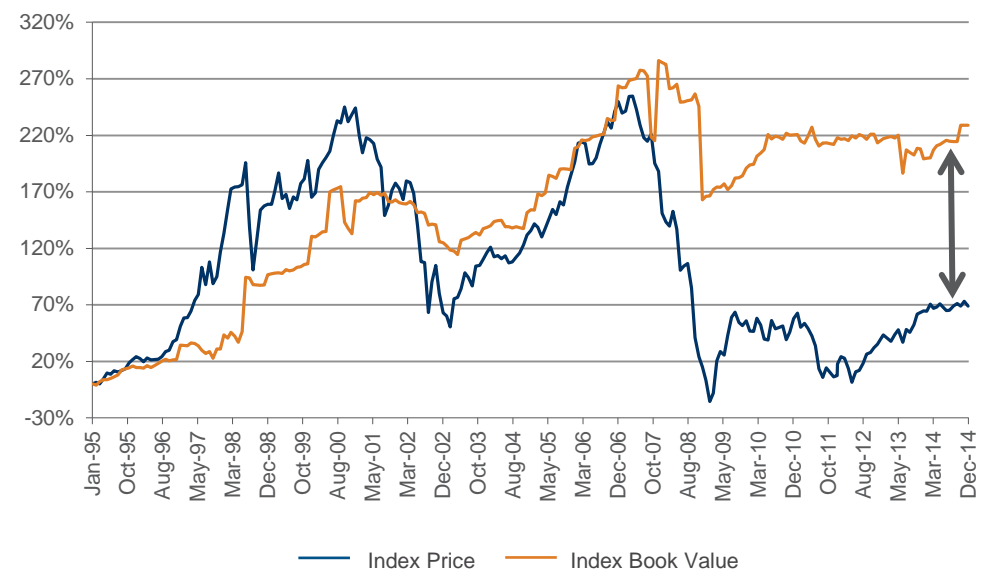
# Sector Remains Cheap

- US has re-rated but remains at a discount to underlying market
- Europe offers most value trading at a significant discount to history

## MSCI US Financials



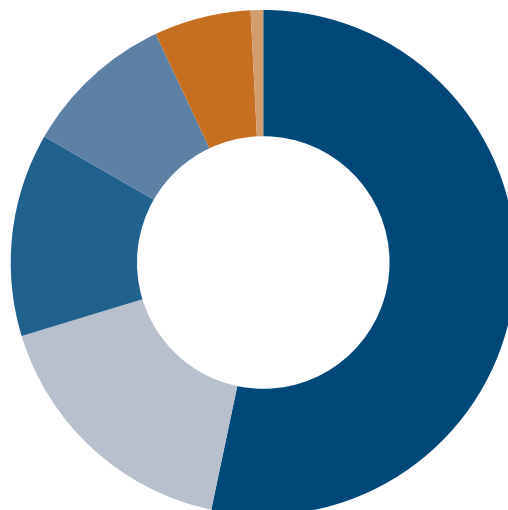
## MSCI European Financials



Source: Bloomberg, 31 December 2014.

## Sector exposure

■ Banks	53.3%
■ Diversified Financials	17.0%
■ Insurance	13.0%
■ Fixed Income	9.7%
■ Real Estate	6.2%
■ Cash*	0.8%



## Geographic exposure

Europe	32.0%
North America	28.0%
Asia Pac (ex-Japan)	13.3%
Fixed Income	9.7%
UK	9.5%
Eastern Europe	2.7%
Japan	2.1%
Latin America	1.8%
Cash*	0.8%

## Top 15 holdings

JPMorgan	2.8%
Wells Fargo	2.8%
PNC	2.7%
ACE	2.5%
ING Groep	2.5%
Sampo	2.3%
Intesa Sanpaolo SpA	2.3%
Azimut Holding	2.1%
Sumitomo Mitsui Financial	2.1%
Discover Financial Services	2.1%
KBC Groep	2.1%
UBS Group AG	2.1%
Société Générale	2.0%
Citigroup	2.0%
US Bancorp	1.9%

**Source:** Polar Capital, 31 March 2015. \*AIC Gearing Ratio = 4.3%, as at 31 March 2015. Totals may not sum due to rounding. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of securities in this document. A list of all recommendations made within the immediately preceding 12 months is available up on request.

# Appendices





## John Yakas – Fund Manager

John Yakas joined Polar Capital in September 2010 and is the Manager of the Polar Capital Asian Financials Fund, Polar Capital Financial Opportunities Fund and Co-Manager of the Polar Capital Global Financials Trust Plc. John has 26 years' experience in the financial services industry. Previously, he worked for HSBC as a banker based in Hong Kong and was the head of Asian research at Fox-Pitt, Kelton. In 2003 he joined Hiscox Investment Management which later became HIM Capital. John has won Lipper awards in the Equity Sector Banks and Other Financials Sector in 2010, 2011, 2012 and 2013 for the performance of the Asian Financials Fund. He has an MBA from London Business School and studied at the London School of Economics (BSc Econ).



## Nick Brind – Fund Manager

Nick Brind joined Polar Capital following the acquisition of HIM Capital in September 2010 and is manager of the Polar Capital Income Opportunities Fund and Co-Manager of the Polar Capital Global Financials Trust Plc. He has 20 years' investment experience across a wide range of asset classes including UK equities, closed-end funds, fixed-income securities, global financials, private equity and derivatives. Prior to joining HIM Capital, Nick worked at New Star Asset Management. While there he managed the New Star Financial Opportunities Fund, a high-income financials fund investing in the equity and fixed-income securities of European financials companies, which outperformed its benchmark index in all 6 years that Nick managed it. Previously he worked at Exeter Asset Management and Capel-Cure Myers. At Exeter Asset Management, Nick managed the Exeter Capital Growth Fund from 1997 to 2003 which over this period was in the top decile of the IMA UK All Companies Sector. Nick has a Masters in Finance from London Business School.



## George Barrow – Analyst

George Barrow joined Polar Capital in September 2010 and is an Investment Analyst working closely with John Yakas on the Polar Capital Financial Opportunities Fund and the Polar Capital Asian Financials Fund. With over 7 years experience as an analyst and focusing initially on Europe, George has built up an in depth knowledge of the banking sector covering Asia and emerging markets. Prior to joining Polar Capital he was an analyst at HIM Capital from 2008 where he completed his IMC. George has a Masters degree in International Studies from SOAS where he graduated with merit.



## Nabeel Siddiqui – Analyst

Nabeel joined the Polar Capital Financials team as an Analyst in August 2013 working closely with John Yakas and Nick Brind, focusing on the banking sector in the US and Latin America. Prior to this, he worked as an Operations Executive at Polar Capital. Nabeel began his career in August 2008 with Habib Bank, where he worked within a variety of functions. He has a Masters Degree in Money and Banking and has passed all three levels of the CFA.

## Alec Foster – Fund Manager



Alec Foster joined Polar Capital in September 2010 and is manager of the Polar Capital Global Insurance Fund together with Nick Martin. Alec has 47 years' experience in the insurance business, initially as an insurance broker in the London market. He joined Hiscox plc in 1976 where he was the group investment officer until 2005. He was also managing director of Hiscox Investment Management Ltd prior to the management buyout in 2007 when the business was renamed HIM Capital Ltd. Alec launched the Hiscox insurance portfolio fund (now the Polar Capital Global Insurance Fund) in 1998. He was also non-executive chairman of Universal Salvage plc and a non-executive director of Midas Capital Partners. He is currently non-executive chairman of Navigators Underwriting Agencies Ltd and Miton Optimal Guernsey Ltd.

## Nick Martin – Fund Manager



Nick joined Polar Capital in September 2010 and is co-manager of the Polar Capital Global Insurance Fund (previously the Hiscox insurance portfolio fund), working closely with Alec Foster. He has 16 years' experience in the financial services industry. Prior to joining Polar Capital in September 2010 he joined Hiscox plc working with Alec Foster at Hiscox Investment Management Ltd before participating in its management buyout in 2007 when the business was renamed HIM Capital Ltd. He has developed a broad knowledge of the insurance sector during this time and from working for Mazars Neville Russell chartered accountants where he specialised in audit and consultancy work for insurance companies and brokers. Nick has a first class honours degree in Econometrics and Mathematical Economics from the London School of Economics and is a qualified chartered accountant.

## Dominic Evans – Analyst



Dominic Evans joined Polar Capital in October 2012 and is an investment analyst working with Alec Foster and Nick Martin on the Polar Capital Global Insurance Fund. He has 6 years insurance experience having previously worked as part of KPMG's insurance segment which he joined as a graduate trainee. At KPMG Dominic obtained broad experience working on a range of global insurance companies through roles within transaction services, audit and markets. Prior to KPMG he worked for a year in corporate finance focusing on natural resource companies. Dominic is a chartered accountant and member of the ICAEW. He graduated in History with a first class honours degree with distinction from the University of Newcastle upon Tyne.

## In 2014 the team visited companies in:

- New York
- Boston
- Chicago
- Omaha
- Stamford
- Houston
- Bermuda
- Zurich
- Mexico City
- Istanbul
- Barcelona
- Milan
- Moscow
- Dallas
- Athens
- Los Angeles
- Hong Kong
- Mumbai
- Jakarta
- Singapore
- Kuala Lumpur
- Manila
- Bangkok
- Venice
- Miami
- Seoul
- Taipei
- Colombo
- Cardiff

Source: Polar Capital, January 2015.

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**Benchmarks:** The following benchmark indices are used: MSCI World Financials Index, MSCI Asia Ex Japan Finance Index, MSCI Daily Net TR World Insurance Index and STOXX Financial Index. These benchmarks are generally considered to be representative of the Financial equity universe. These benchmarks are broad-based indices which are used for comparative/illustrative purposes only and have been selected as they are well known and easily recognizable by investors. Please refer to [www.msicbarra.com](http://www.msicbarra.com) and [www.stoxx.com](http://www.stoxx.com) for further information on these indices. Comparisons to benchmarks have limitations as benchmarks volatility and other material characteristics that may differ from the Company or Fund. Security holdings, industry weightings and asset allocation made for the Company or Fund may differ significantly from the benchmark. Accordingly, investment results and volatility of the Company or Fund may differ from those of the benchmark. The indices noted in this document are unmanaged, unavailable for direct investment, and are not subject to management fees, transaction costs or other types of expenses that the Company or Fund may incur. The performance of the indices reflects reinvestment of dividends and, where applicable, capital gain distributions. Therefore, investors should carefully consider these limitations and differences when evaluating the comparative benchmark data performance. Information regarding indices is included merely to show general trends in the periods indicated and is not intended to imply that the fund was similar to the indices in composition or risk.

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