

# Polar Capital Global Financials Trust (PCFT)

April 2016

AGM Presentation

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# Award-winning Financial Team

## Financials are the largest sector at 20.4% of the MSCI World Index

- 19+ year track record of running financial sector funds (approx. \$1bn under management)
- Strong and stable investment team (4 fund managers, 2 analysts, 1 senior adviser)
- 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)	+142.8% <sup>2</sup>
Polar Capital Global Insurance Fund GBP R Acc (October 1998)	+274.0% <sup>3</sup>
Polar Capital Income Opportunities Fund GBP I Acc (October 2009)	+77.5% <sup>4</sup>
Polar Capital Financial Opportunities Fund USD R (May 2011)	+5.0% <sup>5</sup>
Polar Capital Global Financials Trust GBP (July 2013)	+0.5% <sup>6</sup>

**Source:** Polar Capital, as at 31 March 2016. 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 (the Hiscox Far East Financial Fund, launched December 1996, 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 (the HIM Income Fund, launched October 2009, was merged into the Polar Capital Financial Income Fund on 1 July 2011 and changed name to the Polar Capital Income Opportunities Fund 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.



- Launched 1 July 2013 with fixed life to May 2020
- Issued 153m ordinary shares and 30.6m subscription shares
- The Trust then issued a further 24.2m ordinary shares post launch
- Met target dividend of 3.1p for financial year ended November 2014
- Dividend increase of 4.0% for financial year ended November 2015
- Revenue reserves of 0.8p per ordinary share
- Since launch, the Trust has bought back 4.2m ordinary shares for cancellation
- £15m drawdown on ING loan facility
- Unquoted investment into Atom Bank

Source: Polar Capital, as at April 2016.

# Discount Largely Unchanged Over Last Year

## Driven by sentiment and performance

- Narrowed in middle of 2015
- Since widened as sector underperformed
- Selectively bought back shares
- Fixed wind up date in May 2020

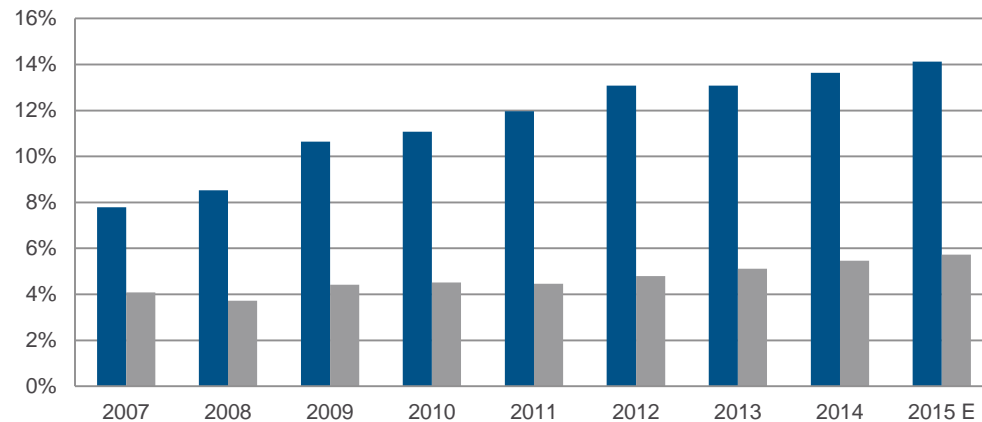


1. Source: Bloomberg, as at 18 April 2016. Past performance is not indicative or a guarantee of future results.

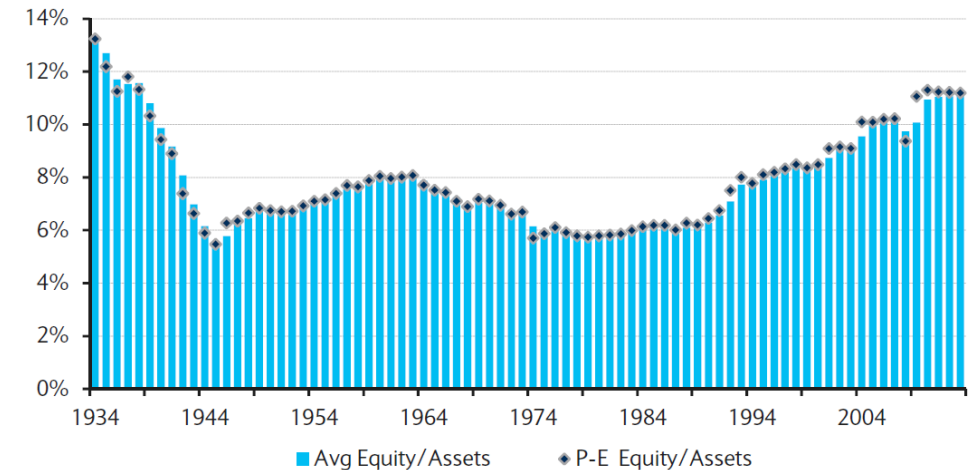
## More capital reduces risk

- New regulatory environment close to completion
- Capital ratios continue to rise
- Some tweaking of regulations

### European Bank Tier 1 & Equity/Assets<sup>1</sup>



### US banks equity/assets ratio<sup>2</sup>

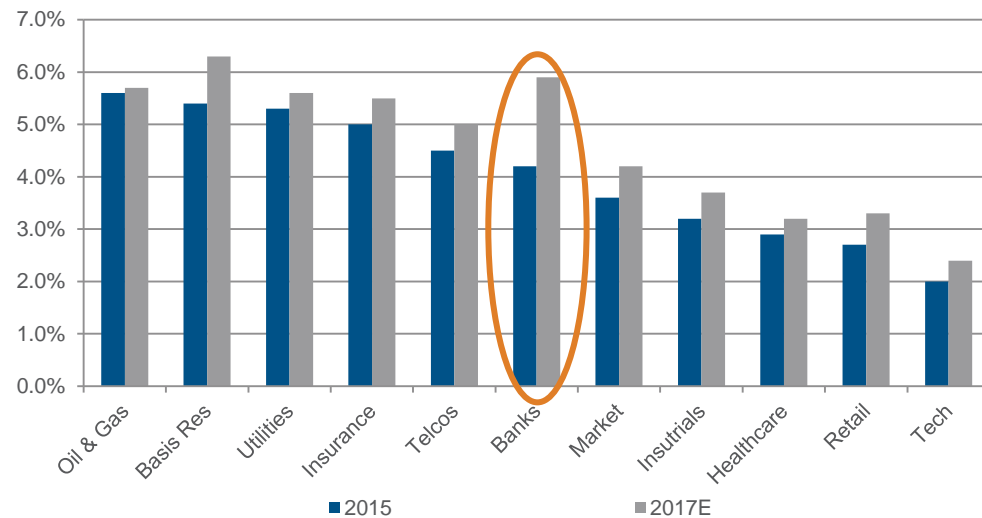


1. Source: Polar Capital. 2. Source: Barclays (US Large-Cap & Mid-Cap Banks report, 18 March 2014). It should not be assumed that recommendations made in the future will be profitable or will equal the performance of securities in this document. A list of all recommendations made within the immediately preceding 12 months is available up on request. All opinions and estimates constitute the best judgment of Polar Capital as of the date hereof, but are subject to change without notice, and do not necessarily represent the views of Polar Capital.

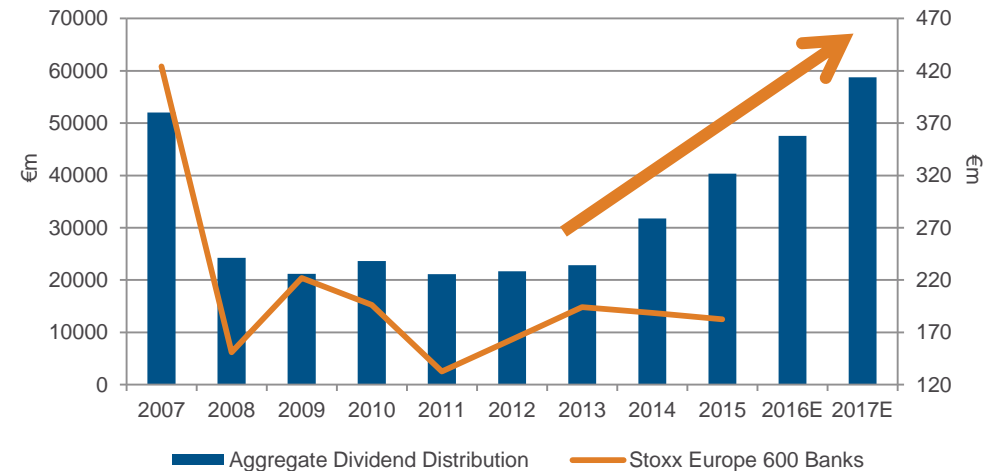
## Little loan growth means banks returning cash

- Third-highest yielding sector
- Payout ratios rising
- Other high yielding sectors under pressure
- Further restructuring ahead

### Capital return expectations<sup>1</sup>



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

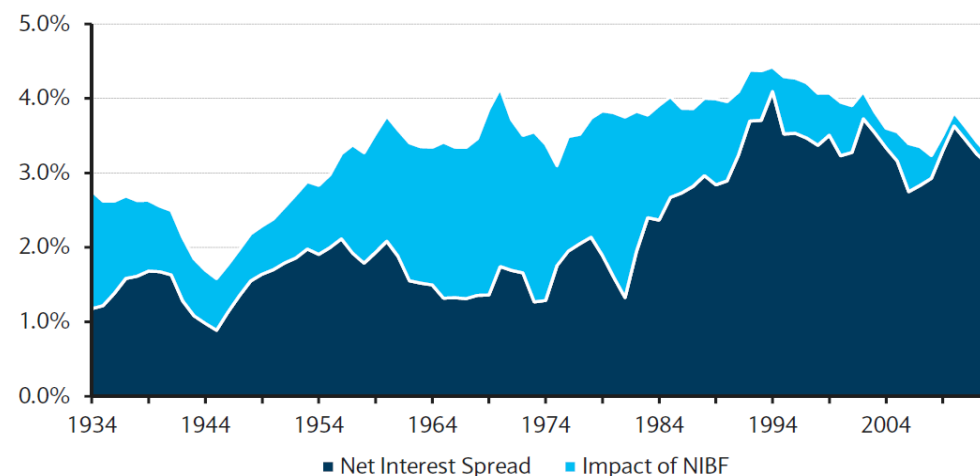


**Source:** Polar Capital. **1. Source:** Bloomberg, Nomura Research. **2. Source:** Soc Gen, 13 January 2015. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of securities in this document. A list of all recommendations made within the immediately preceding 12 months is available up on request. All opinions and estimates constitute the best judgment of Polar Capital as of the date hereof, but are subject to change without notice, and do not necessarily represent the views of Polar Capital.

# Macro Support – Rising US Rates

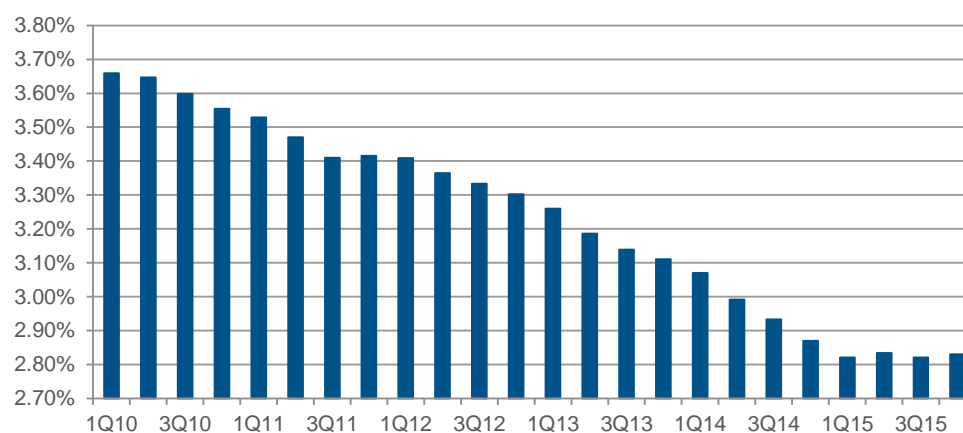
- Much less exposed to wholesale funding
- High proportion of non-interest bearing deposits
- Positive expectations reduced
- Flattening yield curve is a worry
- But now market overly negative

## Net interest spread and impact of non-interest bearing funds (NIBF) <sup>1</sup>



Source: Polar Capital unless otherwise stated. 1. Source: Barclays, 18 March 2014.

## US bank margins under pressure



## Undermined sentiment

- Texan banks most exposed and seeing deterioration
- Type of exposure is material
- Derivatives exposure
- Large banks will raise provisions impacting quarterly earnings but not capital

## Exposures to oil and gas/commodity sectors is not high

US Banks <sup>1</sup>	Funded Energy exposure as % of Loans
Bank of America	2.4
BB&T	1.0
Citigroup	2.7
JPMorgan	1.7
PNC Financial Services	1.3
Regions Financial	3.1
Suntrust Banks	2.2
US Bancorp	1.2
Wells Fargo	1.9

European Banks <sup>2</sup>	Total Potential Commodity EaD % of total exposure
HSBC Holdings	1.1
Lloyds Banking Group	1.8
Société Générale	6.1
BNP Paribas	3.4
ING Groep	5.2
KBC Groep	0.3
ABN Amro	1.2
Intesa Sanpaolo	0.3

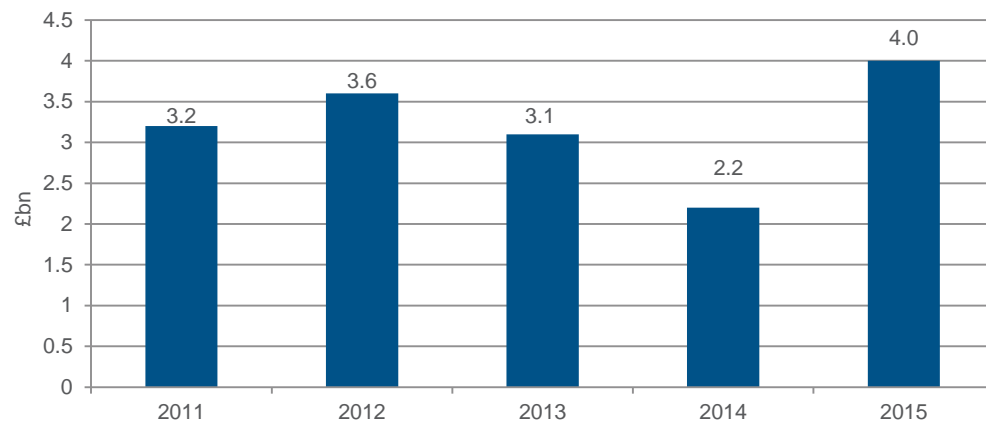
**Source:** Alliance Bernstein, Bank of America and Polar Capital, December 2015. 2. Alliance Bernstein, Bank of America and Polar Capital, September 2015. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of securities in this document. A list of all recommendations made within the immediately preceding 12 months is available up on request



## Mortgage misselling, LIBOR, FX, London whale, PPI etc.

- Between 2010 and 2014 banks have paid out in excess of US\$300bn
- PPI has cost UK banks over £25bn in payment and provisions
- Bank of America has paid out or put aside over US\$90bn
- Estimated over 90% of fines etc. relate to less than 20 banks

### Lloyds Banking Group PPI provisions

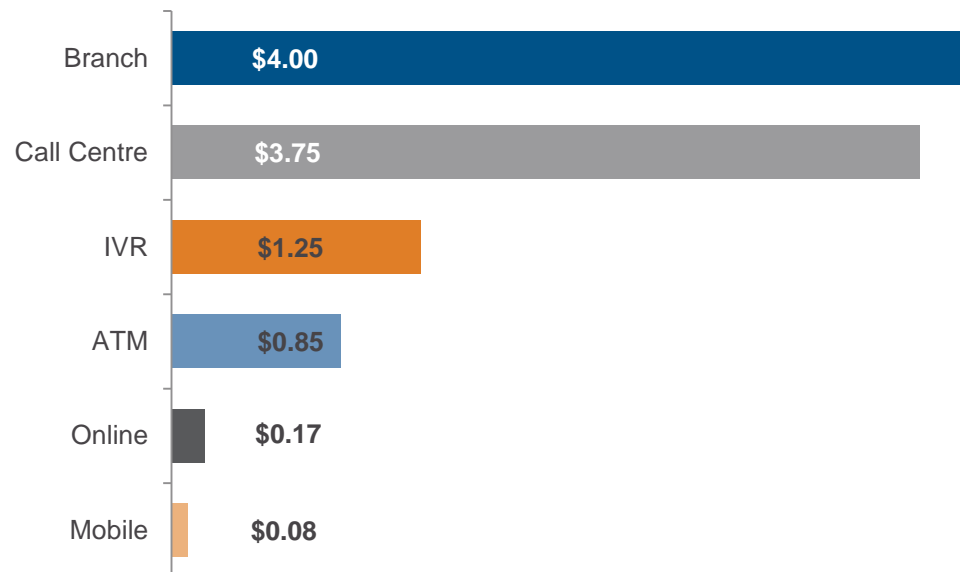


**Source:** Polar Capital, and CCP Research Foundation CIC's Conduct Cost Project. Past performance is not indicative or a guarantee of future results. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of securities in this document. A list of all recommendations made within the immediately preceding 12 months is available up on request.

“Our busiest branch in 2014 was the 7.01 from Reading to Paddington”<sup>1</sup>

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

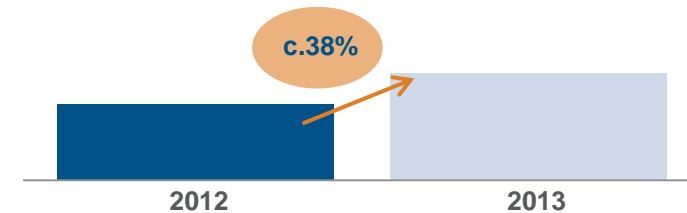
## Per-transaction costs by banking channel<sup>2</sup>



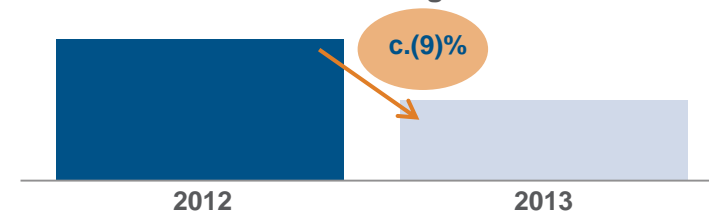
1. Source: Ross Mc Ewan, Royal Bank of Scotland CEO. 2. Source: TowerGroup, Fiserv/M-Com Data: Mobile transaction costs based on actual data from M-Com, the international mobile banking and payments solutions provider and Fiserv partner. 3. Source: LBG analysis.

## Customers are using different channels<sup>3</sup>

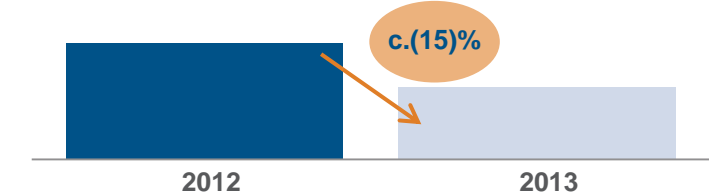
More customers are using mobile to stay in touch with their money...



Branch counter transactions are reducing...



Telephony volumes fall as other channels are used...

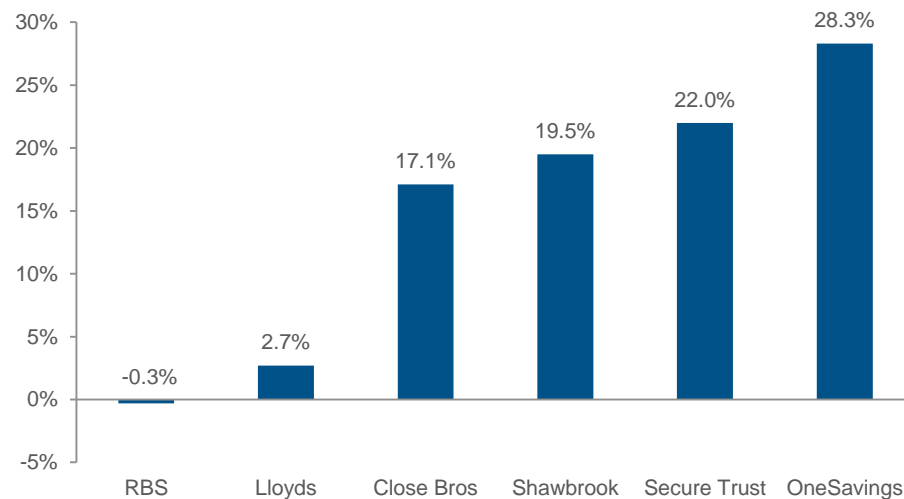


# Challengers – Highly Profitable

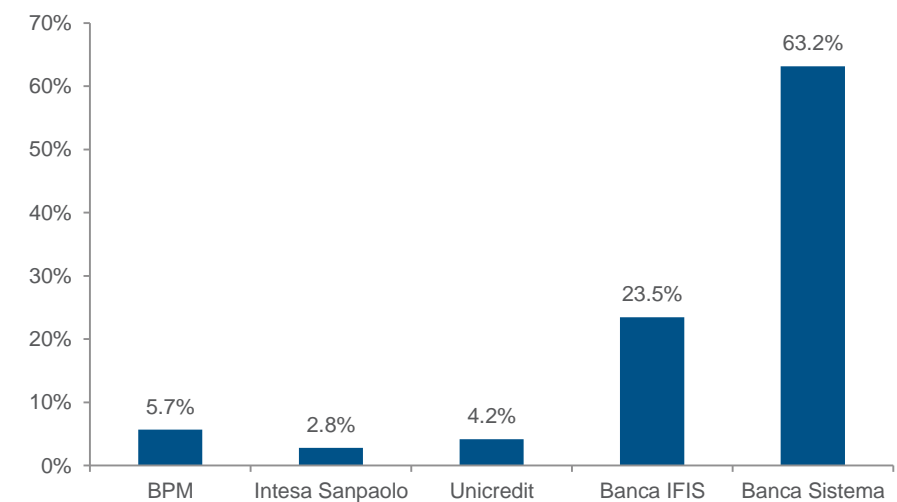
## Small, very profitable, growing with no legacy issues

- Focus on niches provides high returns
- Lack of competition provides cyclical advantage
- Strong capital positions to fund growth
- Funding infrastructure is key weakness
- Recent regulatory pressures (UK)

### UK large-cap/challenger 2014 ROE



### Italian Incumbents/Challenger 2014 ROE

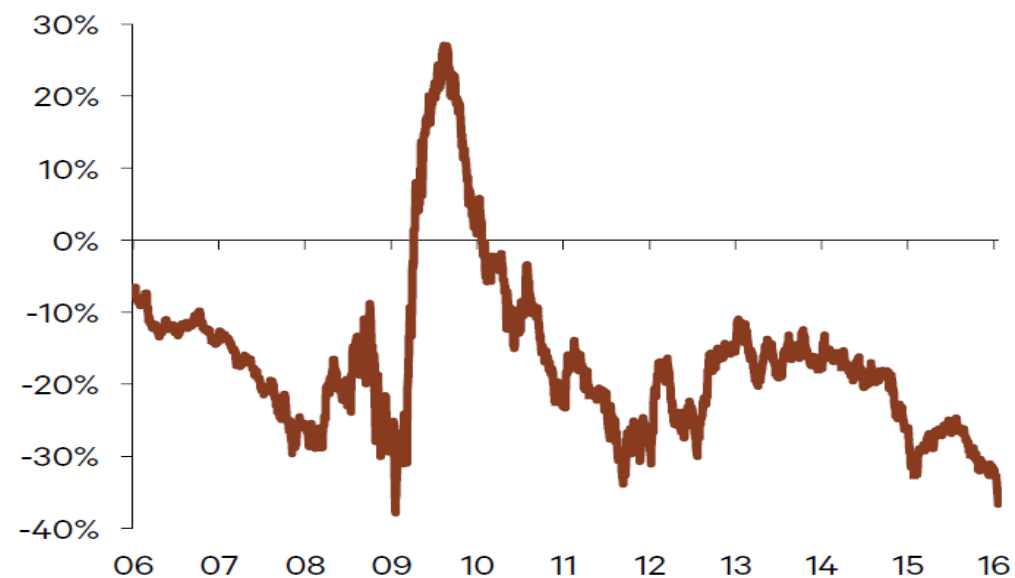


**Source:** Polar Capital analysis and company reports. Past performance is not indicative or a guarantee of future results. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of securities in this document. A list of all recommendations made within the immediately preceding 12 months is available up on request.

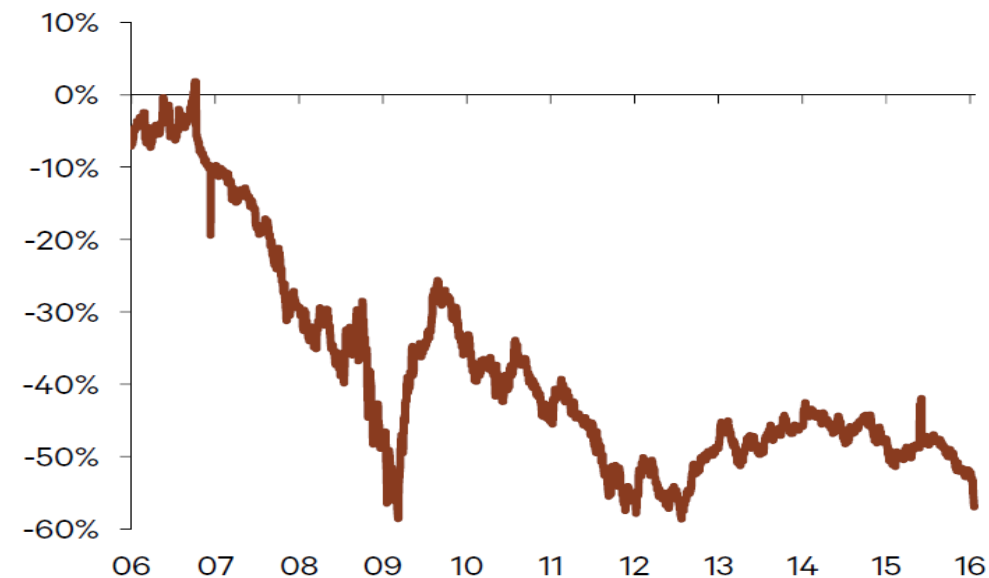
# European Banks Valuations

- Significant fall in valuation
- Similar to previous crises
- Italian NPL concerns
- Oil and gas exposure
- Lower interest rates

## Banks' P/E relative to market



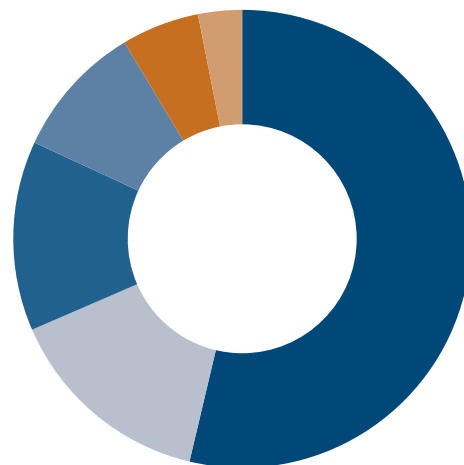
## Banks' relative to market P/BV



Source: Berenberg estimates, Bloomberg as at 22 January 2016. Past performance is not indicative or a guarantee of future results.

## Sector exposure

■ Banks	53.7%
■ Diversified Financials	14.8%
■ Insurance	13.4%
■ Fixed Income	9.5%
■ Real Estate	5.5%
■ Cash <sup>1</sup>	3.1%



## Geographic exposure

North America	32.4%
Europe	27.6%
UK	12.1%
Asia Pac (ex-Japan)	11.0%
Fixed Income	9.5%
Japan	2.0%
Eastern Europe	1.7%
Latin America	0.7%
Cash <sup>1</sup>	3.1%

## Top 15 holdings

JPMorgan	3.3%
Chubb	2.9%
Wells Fargo	2.9%
ING Groep	2.7%
Sampo	2.2%
Bank of America	2.0%
UBS Group	2.0%
BNP Paribas	2.0%
Swedbank	2.0%
Sumitomo Mitsui Financial	2.0%
Marsh & McLennan	1.9%
Toronto-Dominion	1.9%
Fortune Real Estate Investment	1.9%
Direct Line Insurance	1.8%
PNC	1.8%

**Source:** Polar Capital, 31 March 2016. **1.** AIC Gearing Ratio = 5.2%, as at 31 March 2016. 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.

# Key US Large-Cap Portfolio Holdings



## JPMorgan (US)

- Market-leading positions in all four of its divisions
- Resolved majority of high profile litigation
- Attractive valuation compared to other US financials
- Beneficiary of rising rates

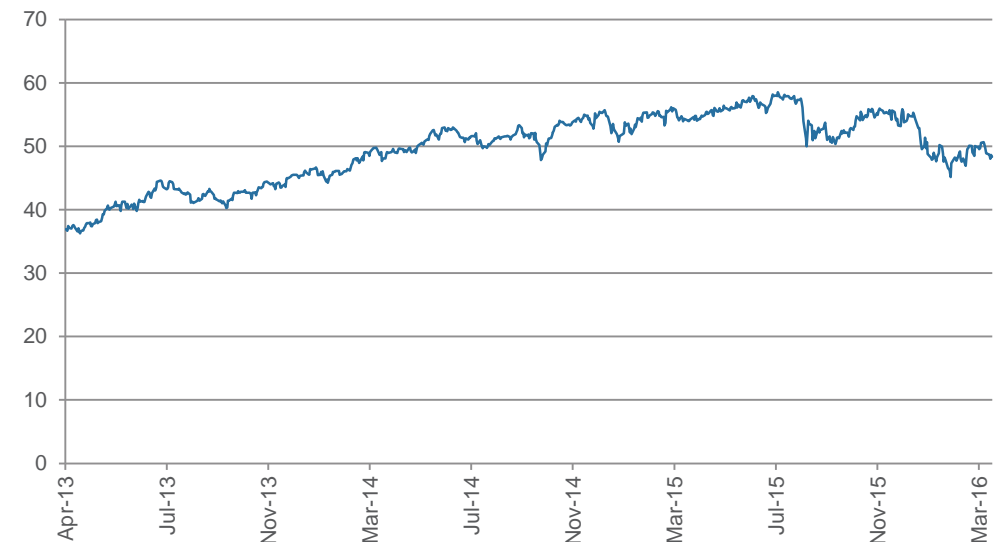
## Share price performance<sup>1</sup>



## Wells Fargo (US – National)

- Super-regional/national player
- Well-regarded management team
- Highly-profitable franchise

## Share price performance<sup>2</sup>

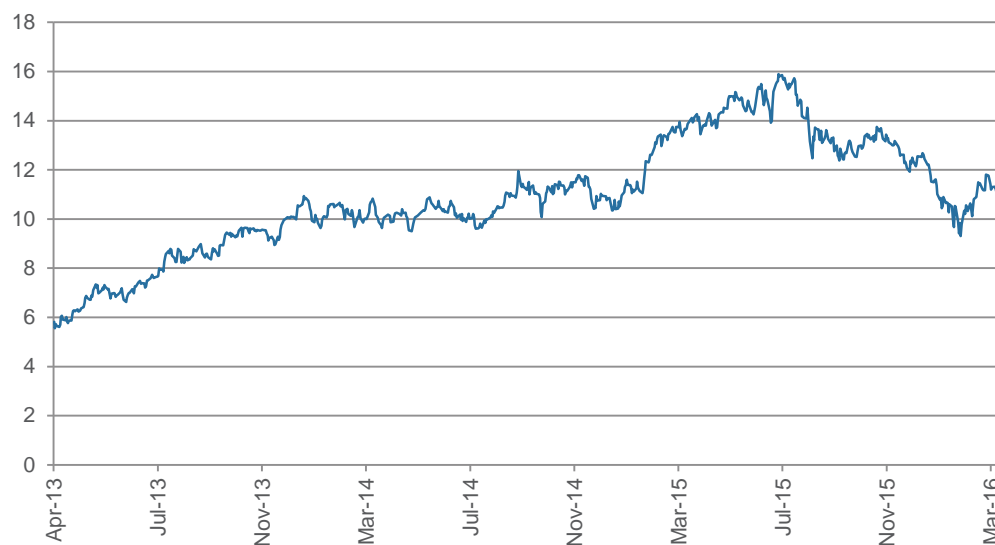


1. Source: Bloomberg in US\$ terms, 31 March 2016. 2. Source: Bloomberg in US\$ terms, 31 March 2016. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of securities in this document. A list of all recommendations made within the immediately preceding 12 months is available upon request.

## ING (Netherlands)

- Improving profitability at ING Bank
- Restructuring momentum
- Significant capital return potential
- Valuation support

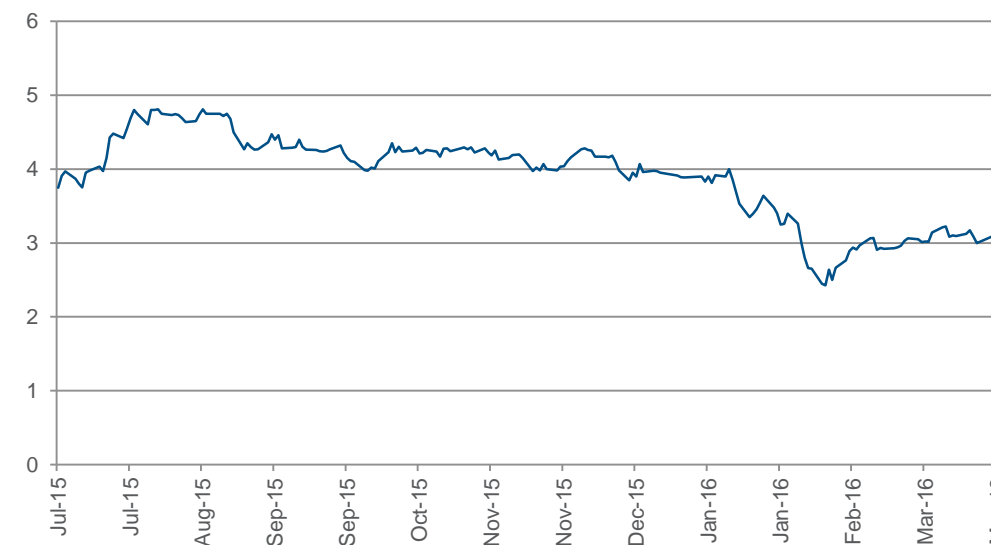
### Share price performance<sup>1</sup>



## Banca Sistema

- Niche speciality finance
- Attractive profitability with low risk obligor
- Long-term growth potential (underpenetration, structural payment delay)
- Attractive valuation

### Share price performance<sup>2</sup>



**1. Source:** Bloomberg in EUR terms, 31 March 2016. **2. Source:** Bloomberg in EUR terms, 31 March 2016. 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 upon request.

## One Savings Bank (UK)

- Former Kent Reliance Building Society
- Profitable franchise with few legacy issues
- Good funding base
- Attractive valuation (23% ROE)

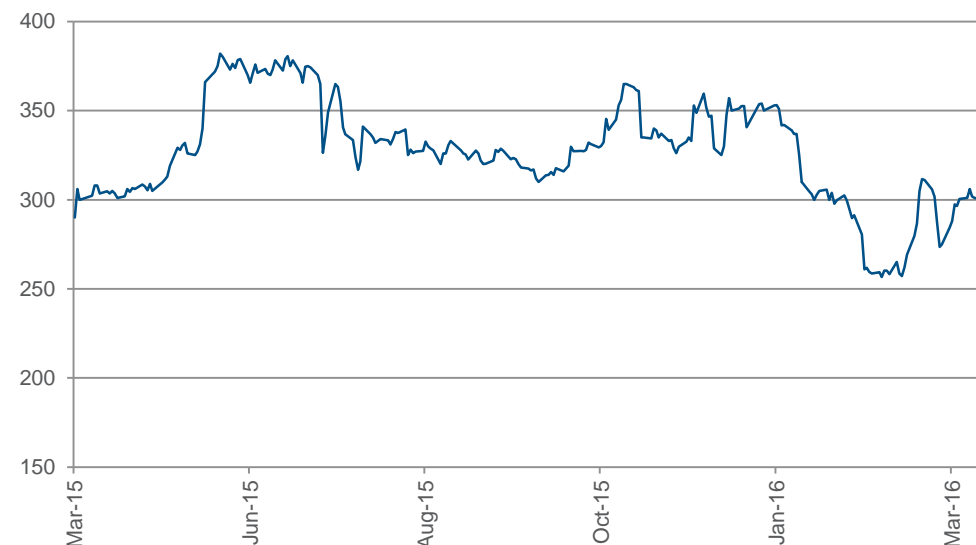
### Share price performance<sup>1</sup>



## Shawbrook (UK)

- Niche UK SME lender
- Highly profitable (23% ROE) with strong growth outlook
- Branch-light strategy (40% C/I Target)
- 90% secured lending, well capitalised

### Share price performance<sup>2</sup>



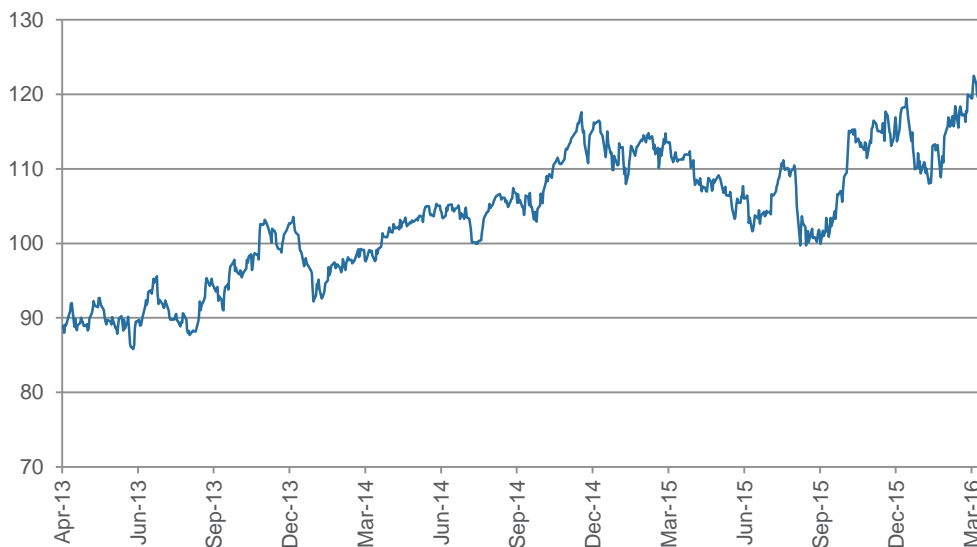
1. Source: Bloomberg in GBP terms, 31 March 2016. 2. Source: Bloomberg in GBP terms, 31 March 2016. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of securities in this document. A list of all recommendations made within the immediately preceding 12 months is available upon request.



## Chubb (US)

- Diversified property & casualty insurer
- Compounded book value by 16% per annum since 2002
- Benefiting from rising insurance rates
- Attractive valuation

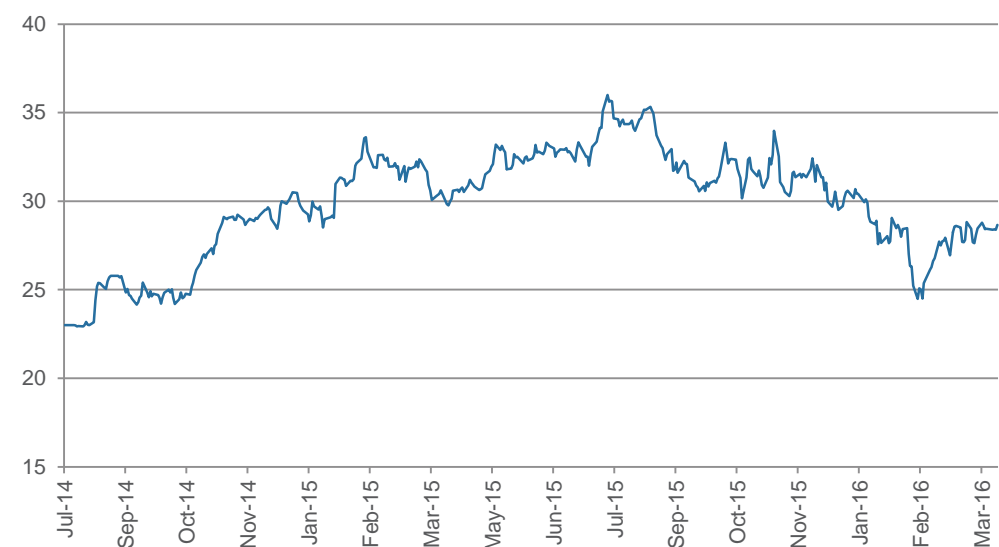
### Share price performance<sup>1</sup>



## Synchrony Financial (US)

- Largest private label credit card issuer in US
- Private label card growth exceeds general purpose card
- Significant excess capital
- Attractive valuation

### Share price performance<sup>2</sup>



1. Source: Bloomberg in USD terms, 31 March 2016. 2. Source: Bloomberg in USD terms, 31 March 2016. 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 upon request.

## UBS (Switzerland)

- Material progress on restructuring IB
- Net inflow trends encouraging
- Significant capital return potential
- Valuation attractive relative to WM peers

### Share price performance<sup>1</sup>



## Azimut (Italy)

- Italian asset manager
- Benefited from very strong new inflows
- Very profitable with potential for capital return
- Making selective investments at minimal costs

### Share price performance<sup>2</sup>



1. Source: Bloomberg in CHF terms, 31 March 2016. 2. Source: Bloomberg in EUR terms, 31 March 2016. 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 upon request.

## Why Polar Capital?

- Strong long-term track record
- Depth of management team
- Strong regional/sector knowledge
- Excellent contacts with the industry
- Detailed valuation/scoring/analytical process

## Why Financials?

- Recovery in developed markets
- Balance sheets much stronger
- Reinforcement of oligopolies
- Capitalising on the insurance cycle
- Attractive income generation
- Under-owned and undervalued

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