# Polar Capital Global Financials Trust plc
# A play on a discounted sector on a discount
## September 2014

In light of the recent fall in Polar Capital Global Financials Trust's (PCFT's) share price, especially relative to its net asset value, is it time to increase exposure?

The sector has underperformed this year, driven, in particular, by the underperformance of European banks which have fallen 0.6%.

To the end of August, the MSCI World Index had risen by 7.2%, while the MSCI World Financials Index had lagged this rising by only 5.2%.

Sentiment has been hit by a wave of litigation/regulatory fines, the collapse of Banco Espirito, weaker economic data, Ukraine and concern in the run up to the ECB's asset quality review and stress tests.

In August, the latest Bank of America Merrill Lynch Fund Manager Survey showed that the net percentage of fund managers overweight relative to underweight European banks had collapsed 45 percentage points taking it from one of the four most owned sectors to the second most under owned.

The performance of the PCFT is not solely reliant on the performance of European financials, but this is where the largest portion of its assets are invested. We would argue that although the outlook is not without risk, this is an overreaction and it is time to buy as:

- **Results have largely come in better than expected, with capital ratios continuing to rise despite litigation/fines etc.**
- **More banks have started to write-back loan loss provisions, which are significant, boosting profitability.**
- **The asset quality review/stress tests should be a significant boost to confidence, as banks will provide more disclosure.**
- **Lending surveys have all picked up, which is a good indicator for loan growth going forward as this may well have been held back in the lead-up to the asset quality review.**
- **The first TLTRO[1] will come available this month – the scheme is linked to lending, incentivising banks to lend more.**
- **Litigation is cyclical, largely concentrated on a small number of banks, and will fall substantially in due course.**
- **Management are increasingly talking about raising payout ratios/dividends substantially over the next couple of years.**

Finally, financials are, at their core, cyclical businesses and reflect the operating performance of the underlying economies in which they operate and so is a key determinant of share price performance. With Mario Draghi having shown his willingness to dip into his monetary tool box to support the economy, the financials sector should be one of the biggest beneficiaries.

With valuations remaining very attractive and sentiment having turned sharply negative, the PCFT has drawn down £10m of its £18m ING facility and invested it across the equity portfolio taking gearing to 3.7%. Both Fund Managers have bought more stock personally.

Reflecting the sharp widening of the discount to net asset value, the Company has also began buying back its shares for cancellation which will be accretive to net asset value.

**Nick Brind and John Yakas**
**Fund Managers**
**Polar Capital Global Financials Trust**

**1.** Targeted Longer Term Refinancing Operation.

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