

Financials: positioned for a rising interest rate environment

As inflation and the cost of living mounts, financial stocks are typically one of the few beneficiaries from rising rates.

This large and diverse sector, which includes banks, insurance companies, asset managers, stock exchanges and fintech companies, offers a compelling investment case today. Can investors afford to overlook this long-term opportunity?



Trust Facts

Launch Date
1 July 2013

Active share
75.6%

AMC
0.70%

Performance fee
10% subject to annual hurdle¹

Dividend yield²
2.54%

Total net assets
£475.6m

Legal structure
**Closed Ended
Investment Company**

Domicile
United Kingdom

Listed
London Stock Exchange

Ticker
PCFT

¹ The performance fee is on any outperformance over a hurdle of the index +1.50% compounded annually paid end of fifth year.

² **Source:** Polar Capital, 31 December 2021. Past performance is not indicative or a guarantee of future results.

Trust Highlights

- The only UK-listed investment trust focused solely on financials
- A dual focus on dividend and capital growth
- Dividend growth of 5.1% pa³
- Actively managed and not benchmark-driven
- Broad global, multi-cap remit; typically 90% ex UK exposure
- Managed by a team of 5 sector specialists with almost 100 years' investment experience



Nick Brind
Fund Manager



John Yakas
Fund Manager



George Barrow
Fund Manager

"PCFT is capturing the benefit of the (financial) sector's good fortune. Its globally-diversified portfolio offers exposure to much better-quality financial stocks than are commonly available to UK investors."

Head of Investment Company Research, Marten & Co

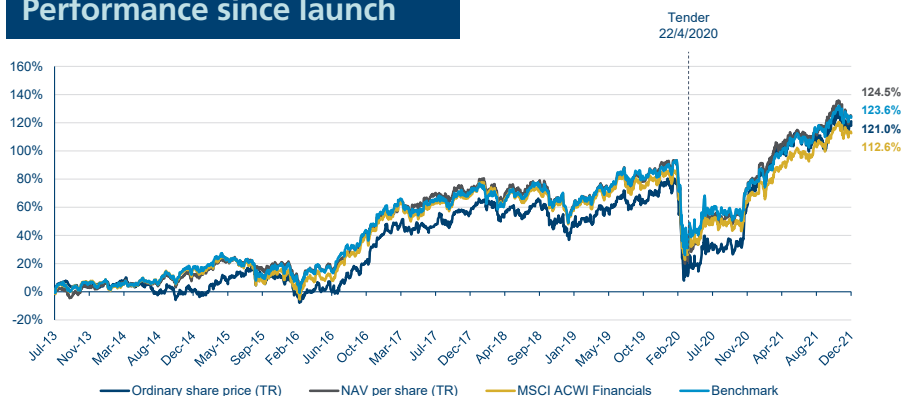
³ **Source:** Polar Capital, Bloomberg. Yield as at 30 April 2021. Yield reflects distributions declared over the past twelve months as a percentage of the share price. It does not include any initial charge and investors may be subject to tax on their distributions. The annualised dividend growth figure represents the average annual growth in distributions from 2014 to 2020. Yields and dividends may fluctuate and past performance is not indicative or a guarantee of future results. FE Alpha Manager Ratings do not constitute investment advice offered by FE and should not be used as the sole basis for making any investment decision. © 2021 FE. All rights reserved.

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A proven track record

Performance since launch



Source: Bloomberg & HSBC Securities Services (UK) Limited, percentage growth, Net of Fees in GBP as at 31 December 2021. The Trust was launched on 1 July 2013. The Net Asset Value (NAV) as at 1 July 2013 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. **Past performance is not indicative or a guarantee of future results.** Benchmark data above illustrates linked performance of the following benchmarks utilised by the Trust: Launch to 31 August 2016: MSCI World Financials Index; 1 September 2016 to 22 April 2020: MSCI World Financials + Real Estate Index; and since 23 April 2020: MSCI ACWI Financials. All indices are net total return (£). The tender offer carried out on 22 April 2020 following approval to extend the Company's life indefinitely is represented by the grey dotted line on the performance graph. From 23 April 2020 the performance fee is calculated on outperformance of the benchmark index +1.5% per annum, compounded annually. Ordinary share price (TR), calculated by reinvesting dividends at relevant ex-dividend dates, does not take into account returns shareholders would have received from the subscription shares that they were issued with at launch. Please note that the subscription shares issued at the time of launch were subject to a single exercise date being 31 July 2017.

Cumulative Performance

	1 Year	3 Years	Since Tender	Since Launch
Ordinary Share price (TR) %	25.4	55.6	84.7	121.0
NAV per Share (TR) %	23.8	45.1	71.9	124.5
Benchmark %	25.5	44.7	59.1	123.6
MSCI ACWI Financials (NTR) %	25.5	38.7	59.1	112.6

Discrete Performance

	Oct 20 - Oct 21	Oct 19 - Oct 20	Oct 18 - Oct 19	Oct 17 - Oct 18	Oct 16 - Oct 17
Ordinary Share price (TR) %	25.4	0.9	23.0	-13.0	16.2
NAV per Share (TR) %	23.8	-4.0	22.1	-10.6	12.9
Benchmark %	25.5	-4.1	20.2	-10.1	11.0
MSCI ACWI Financials (NTR) %	25.5	-6.8	18.5	-10.4	13.3

Source: Bloomberg, 1 July 2013 to 31 December 2021. Performance of the MSCI ACWI Financials Net Total Return Index (excluding Real Estate, in Sterling) from the Trust's inception is used for illustrative purposes only. This data was sourced from Lipper on the 29 October 2021 (data quoted from 1 July 2013 through 29 October 2021). Based on Polar Capital Global Financials Trust NAV per share, net of fees in GBP terms. Sector: Lipper Global Equity Financials (mutual Funds). **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 upon request.

Financials: coming in from the cold

Central banks globally have started raising interest rates at the fastest rate since prior to the global financial crisis. Against this background, financials, particularly bank shares, have been outperforming as they are one of the biggest beneficiaries of rising interest rates as it boosts their profitability. If interest expectations continue to rise, then we would expect the sector to follow.

In the meantime, absolute valuations remain low, relative valuations even more so. Investors are only just starting to price in the improving outlook for interest rates while positive earnings revisions and the removal of restrictions on capital return should all underpin a pick-up in the sectors relative performance.

"After nearly 15 years in the wilderness and very much out of favour, conditions are coming together where structural and cyclical factors should combine to re-rate Global Financials on both an absolute and relative basis. Indeed, the Board and I believe that an allocation to this large, diverse sector should be a core investment consideration in a portfolio, especially when you take into account that they are the main beneficiary of an economic recovery and a rising interest rate environment."

Robert Kyprianou,
PCFT Chairman



Financials: the deep recovery play

Highly leveraged to global economic growth and rising interest rates, financials have begun to recover and are positioned to further benefit as 2022 continues.

Despite the recent rotation, valuations in the sector remain attractive with bank stocks still trading near historic lows relative to the broader market.

- One of the largest sectors globally but under-owned in the UK
- An attractive entry point for a sector trading close to relative lows vs the broader equity market
- Deeply correlated to any pick up in global economic growth
- Reform and balance sheet strengthening has structurally transformed financials, enabling them to weather the pandemic

“As the most sensitive sector to the reflationary trade, financials would be a prime beneficiary of an upward shift in inflation and interest rate expectations. As the largest constituent of value indices, it provides diversification from growth sectors that have benefitted from ultra-low rates in recent years.”

George Barrow Fund Manager

Six financials themes for a post coronavirus world

The financials sector was particularly impacted by the coronavirus pandemic. But it has recovered as economies reopened, and now looks set to benefit further from rising interest rates. Over the longer term, we see there are being six key themes set to dominate the sector over the next decade.



Banks

Fifteen years on from the start of the global financial crisis, banks have materially lagged the underlying equity market. But they remain the largest subsector globally, encompassing far more than the UK's underperforming banks. Banks are structurally stronger and offer geared exposure to a continued recovery in global growth – and are the Trust's largest overweight.



Emerging Markets

There are significant opportunities in emerging markets, reflecting the low penetration of financial services in the economies of many countries. The Trust was originally launched with over 20% of the portfolio in emerging markets and this was reduced to low single-digits in favour of increasing exposure to the US. We remain positive on the long-term opportunity in emerging markets with the Trust's exposure currently at c15%.



Non-life insurance and specialist underwriters

Non-life insurance remains a good counterbalance to the more cyclical parts of the portfolio and an area where the team has significant expertise, investing in companies with exposure to personal lines, commercial insurance and reinsurance or a combination, as well as insurance brokers and risk consultants. The recent increasing in insurance rates at above loss cost inflation provides a more favourable outlook for the sector.



Fintech

There remains a significant opportunity for both incumbents and new entrants in the sector. In the short term the opportunity is mostly in payments, where companies continue to benefit from the switch from cash to card payments and growth in e-commerce. But we also expect incumbents to start to see more of the benefit of their tech investments to their cost structure and operating profitability.



Small and mid caps

We have historically generated significant value investing in smaller or mid-cap financials. These include regional banks in the US, small specialist banks in the UK and elsewhere in Europe as well as specialty lenders in emerging markets. The opportunity is for smaller, focused banks and other financials to grow faster and take market share from their larger peers.



Credit

We invest across the debt capital structure of banks, insurance and life assurance companies and expect to see continued attractive opportunities to invest in bonds issued by companies which will include those that are temporarily out of favour where we believe the fundamentals are mispriced or below benchmark size and so offer a higher yield to compensate for illiquidity.

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