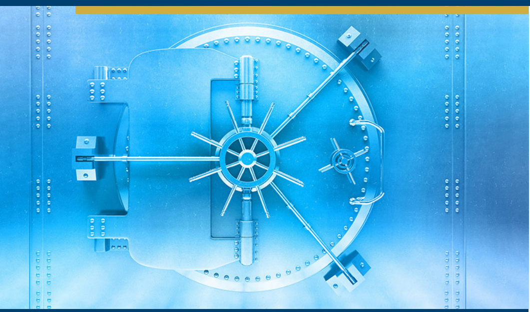
POLAR CAPITAL

# Polar Capital Global Financials Trust plc

29 February 2024



## Trust Fact Sheet

### Ordinary Shares

| | |
|---|---|
| Share Price | 157.60p |
| NAV per share | 171.96p |
| Premium | - |
| Discount | -8.35% |
| Capital | 306,160,205 shares of 5p* |

*Excluding Ordinary shares held in treasury

### Assets & Gearing [1]

| | |
|---|---|
| Total Net Assets | £526.5m |
| AIC Gearing Ratio | 7.01% |
| AIC Net Cash Ratio | n/a |

### Fees

| | |
|---|---|
| Management | 0.70% |
| Performance | 10.00% |
| Ongoing Charges | 0.87% |

### Historic Yield (%) [2] 2.89

### Dividends (pence per share)

| | |
|---|---|
| February 2024 | 2.10 |
| August 2023 (Paid) | 2.45 |
| February 2023 (Paid) | 2.05 |
| August 2022 (Paid) | 2.40 |

### Fund Managers

**Nick Brind**
Fund Manager
Nick has co-managed the Trust since launch, he joined Polar Capital in 2010 and has 30 years of industry experience.

**George Barrow**
Fund Manager
George has co-managed the Trust since 2020, he joined Polar Capital in 2010 and has 16 years of industry experience.

## Trust Profile

### Investment Objective

The Company's investment objective is to generate for investors a growing dividend income together with capital appreciation.

### Key Facts

- The only UK-listed Investment Trust solely focused on financials
- Twin objectives of growing investors' dividend income and capital
- A broad, global multi-cap remit
- Large dedicated investment team with over 95 years of experience in the sector

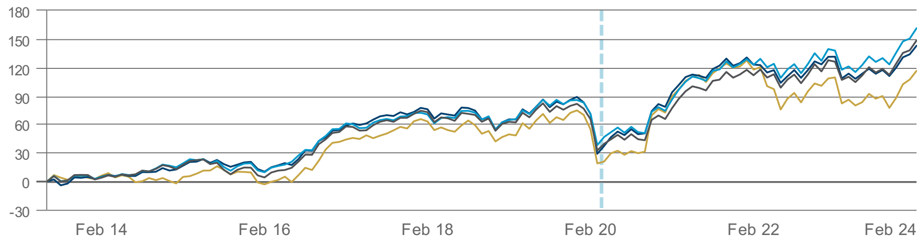
### Investment Policy

The Company will seek to achieve its objective by investing primarily in a global portfolio consisting of listed or quoted securities issued by companies in the financials sector operating in the banking, insurance, property and other sub-sectors.

## Performance

### Performance Since Launch (%)

Ordinary Share Price (TR) [3] NAV per Share (TR)
Benchmark (NTR) [4] MSCI ACWI Financials (NTR) [5]




| | 1m | 3m | YTD | 1yr | 3yrs | Since Tender[6] | Since Launch |
|---|---|---|---|---|---|---|---|
| Ordinary Share Price (TR) | 4.44 | 15.12 | 6.96 | 3.28 | 14.16 | 80.75 | 116.27 |
| NAV per Share (TR) | 3.87 | 10.51 | 5.28 | 4.99 | 25.38 | 85.98 | 142.86 |
| Benchmark (NTR) | 4.36 | 10.91 | 5.57 | 9.89 | 40.30 | 85.95 | 161.26 |
| MSCI ACWI Financials (NTR) | 4.36 | 10.91 | 5.57 | 9.89 | 40.30 | 85.95 | 148.40 |

### Discrete Annual Performance (%)

| | Financial YTD | 28.02.23 29.02.24 | 28.02.22 28.02.23 | 26.02.21 28.02.22 | 28.02.20 26.02.21 | 28.02.19 28.02.20 |
|---|---|---|---|---|---|---|
| Ordinary Share Price (TR) | 15.12 | 3.28 | -3.81 | 14.90 | 22.45 | 3.48 |
| NAV per Share (TR) | 10.51 | 4.99 | 3.75 | 15.11 | 13.33 | 3.38 |
| Benchmark (NTR) | 10.91 | 9.89 | 6.75 | 19.61 | 8.88 | 3.87 |
| MSCI ACWI Financials (NTR) | 10.91 | 9.89 | 6.75 | 19.61 | 7.03 | 1.66 |

### Calendar Year Performance (%)

| | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|
| Ordinary Share Price (TR) | 0.81 | -9.24 | 25.38 | 0.85 | 23.02 | -13.01 | 16.16 | 28.52 | 8.94 | -3.21 |
| NAV per Share (TR) | 3.33 | -0.57 | 23.77 | -3.98 | 22.07 | -10.59 | 12.85 | 27.23 | 8.22 | 6.49 |
| Benchmark (NTR) | 9.03 | 1.52 | 25.50 | -4.05 | 20.21 | -10.14 | 10.97 | 30.07 | 2.22 | 9.58 |
| MSCI ACWI Financials (NTR) | 9.03 | 1.52 | 25.50 | -6.75 | 18.49 | -10.42 | 13.34 | 31.94 | -1.07 | 8.43 |

**Performance relates to past returns and is not a reliable indicator of future returns.**
Source: Bloomberg & HSBC Securities Services (UK) Limited, percentage growth, Net of Fees in GBP terms.
The Net Asset Value (NAV) at launch 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.
1. Gearing calculations are exclusive of current year revenue.
2. The Historic Yield reflects distributions declared over the past twelve months as a percentage of the share price, as at the date of this fact sheet. It does not include any initial charge and investors may be subject to tax on their distributions.
3. Ordinary share price (TR) is calculated by reinvesting dividends at relevant ex-dividend dates, not taking into account returns shareholders would have received from the subscription shares issued at launch. Please note subscription shares were subject to a single exercise date being 31 July 2017.
4. 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 (£).
5. The performance of the MSCI ACWI Financials Net Total Return Index (£) excluding Real Estate prior to August 2016 is shown for illustrative purposes only.
6. The tender offer carried out on 22 April 2020 following approval to extend the Company's life indefinitely is represented by the blue 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.

**Risk Warning** Your capital is at risk. You may not get back the full amount you invested. Please note the Risks and Important information at the end of this document, and the Investment Policy and full Risk Warnings set out in the Prospectus, Annual Report and/or Investor Disclosure Document.

# Portfolio Exposure

As at 29 February 2024

## Top 10 Positions (%)

| | |
|---|---|
| JPMorgan | 6.7 |
| Mastercard | 5.6 |
| Visa | 4.1 |
| Chubb | 3.6 |
| Berkshire Hathaway | 3.4 |
| Wells Fargo | 2.9 |
| Munich Re | 2.4 |
| Citigroup | 2.3 |
| Marsh McLennan | 2.2 |
| Goldman Sachs Group | 2.1 |
| **Total** | **35.3** |

| | |
|---|---|
| **Total Number of Positions** | **88** |
| **Active Share** | **71.34%** |

## Market Capitalisation Exposure (%) [1]

| | |
|---|---|
| Mega Cap (>USD$ 102.04 bn) | 40.4 |
| Large Cap (USD$ 37.32 bn - 102.04 bn) | 29.0 |
| Mid Cap (USD$ 13.47 bn - 37.32 bn) | 10.0 |
| Small Cap (USD$ 4.64 bn - 13.47 bn) | 9.2 |
| Smallest Cap (<USD $ 4.64 bn) | 11.5 |

## Trust Characteristics

| | |
|---|---|
| Launch Date | 01 July 2013 |
| Year End | 30 November |
| Results Announced | Late Jan/Feb |
| Next AGM | March-May |
| Trust Term | No fixed life; 5 yearly tender offers |
| Next Tender Offer | 30 June 2025 |
| Listed | London Stock Exchange |

## Benchmark

MSCI ACWI Financials Net Total Return Index (in Sterling)

## Codes

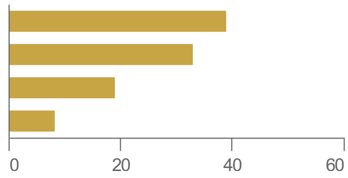
**Ordinary Shares**

| | |
|---|---|
| ISIN | GB00B9XQT119 |
| SEDOL | B9XQT11 |
| London Stock Exchange | PCFT |

**Discount Warning** The shares of investment trusts may trade at a discount or a premium to Net Asset Value for a variety of reasons including market sentiment and market conditions. On a sale you could realise less than the Net Asset Value and less than you initially invested.

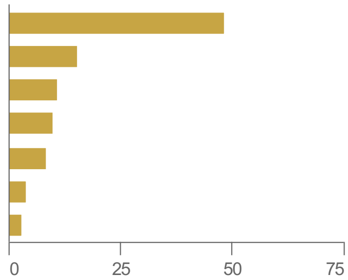
## Sector Exposure (%)

| | |
|---|---|
| Financial Services | 39.3 |
| Banks | 33.2 |
| Insurance | 19.3 |
| Fixed Income | 8.3 |




## Geographic Exposure (%)

| | |
|---|---|
| North America | 48.3 |
| Europe | 15.7 |
| Asia Pac (ex-Japan) | 10.8 |
| UK | 10.0 |
| Fixed Income | 8.3 |
| Japan | 4.0 |
| Latin America | 2.8 |




The entire investment portfolio is published in the annual and half year report as well as being announced to the London Stock Exchange on a quarterly basis.

Note: Totals may not sum due to rounding. 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.

[1] Market capitalisation ranges are defined by Polar Capital and are subject to change.

# Investing in the Trust and Shareholder Information

## Market Purchases

The ordinary shares are listed and traded on the London Stock Exchange. Investors may purchase shares through their stockbroker, bank or other financial intermediary.

## Share Dealing Services

Details of the different ways of dealing in the company's shares are given on the website. Equiniti, the company's registrars provide an internet share sale service.

**Telephone** 0800 876 6889
**Online** www.shareview.co.uk

## Corporate Contacts

Registered Office and Website
16 Palace Street, London SW1E 5JD
www.polarcapitalglobalfinancialstrust.com

Registrar
Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA
www.shareview.co.uk

Custodian
HSBC Plc is the Depositary and provides global custody of all the company's investments.

# Fund Managers' Comments

**Market review**

February was another good month for equity markets, as resilient economic data and higher than expected inflation pushed both recession worries and interest rate cut expectations further into the future. Against that background, financials slightly lagged wider equity markets rising 4.4%, as illustrated by our benchmark index, the MSCI All Country World Financials Index, with the net asset value of the Trust rising by 3.9%, held back by a couple of our European holdings.

We have been cautious on the commercial real estate (CRE) sector over the past few years, seeing banks with a significant exposure to it as high risk due to where we are in the property cycle. In *Business Cycles* by Lars Tvede, he describes the property cycle as the "Mother of all Cycles" and highlights *One Hundred Years of Land Value in Chicago*, a PhD written by Homer Hoyt in 1933, a real estate broker, which first provided detailed analysis of such a cycle. The analysis has been backed up by others, including no less than Arthur Burns in 1954, who would become better known as the Fed Chair in the 1970s, criticised for not raising interest rates quickly enough in the face of inflationary pressures.

The conclusion was that, on average, property cycles last around 18 years, albeit with some variation. With property prices peaking in 2007, this would suggest the next peak would be in 2025, all things being equal, with financial markets likely starting to discount this risk a year or two beforehand. While arguing for caution, due to the size of the property correction in 2008-09, and the impact it had on the banking sector, we thought the downturn would be milder in its impact this time around. In particular, as over the past decade, banks have significantly reduced their lending to CRE and loans have been underwritten on much lower loan-to-values.

However, no cycle is the same. This one has been characterised not only by extremely low levels of interest rates that were in place prior to the pandemic leading to very low cap rates, followed by a very sharp and sudden rise, but also by structural changes to retail and office-working habits, following the growth of Amazon and the pandemic, respectively. This has made for a particularly difficult investment environment, with office and retail properties suffering significant falls in price, albeit while the so-called 'Beds, Sheds and Meds'[1] have performed relatively well.

Recent announcements by New York Community Bancorp (NYCB) and Aozora Bank, a Japanese lender, that both would be taking larger than expected CRE provisions brought the potential risks of the sector sharply into focus. An unlikely name to be associated with US CRE, Aozora reported a $2.3bn US CRE portfolio as of the end of December 2023, with 74% classified as office and, crucially, 37% as non-performing, leading to a fall of over 35% in its shares before they saw a partial recovery, albeit with limited impact on its bonds.

This had a knock-on effect at several German CRE-focused lenders, including Deutsche Pfandbriefbank, with its AT1 bonds falling around 60% to deeply distressed levels and its share price falling a further 30% over the month. Part of the former Hypo Real Estate group, which coincidentally failed in 2008 on the back of commercial property stress, 15% of the bank's c€30bn CRE portfolio is concentrated in New York City office and retail properties.

This has been further compounded by the bank's sizeable exposure to development properties, which makes up 11% of its CRE loans, which are considered riskier than lending on investment properties, and also its concentration to German offices, with the sector suffering the sharpest drop on record in year-on-year prices in the fourth quarter of 2023. Despite several efforts by management to reassure investors during the month, with communications around funding requirements and deposit balances, the bank's subordinated bonds saw no recovery.

New York Community Bancorp's issues are largely idiosyncratic. Having pushed through the $100bn in assets level following the acquisition of assets from Signature Bank, regulators took a dim view of the lower level of reserves it has set aside for loan losses relative to peers. There has also been concern around rent-controlled multi-family lending in New York, which NYCB dominated, due to changes to legislation which made it much harder for landlords to raise rents. Forced by regulators to sell a large loan, part of the jump in its provisions was the mark to market loss on the loan.

Consequently, we have remained cautious on US banks, notwithstanding our main view that this will be an earnings drag for the sector as exposure to office CRE, which has been the main concern, represents a low single-digit percentage of loan books and is already well reserved. Our main holding remains JP Morgan, being one of the few US banks to manage its interest rate risk effectively over the pandemic. We also have large holdings in Wells Fargo and Citigroup, both of which have self-help levers to pull, with the former benefiting from the lifting of one of its consent orders during the month.

Nick Brind & George Barrow

11 March 2024

[1] Apartments, Logistics and Healthcare

*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.*

## Risks

- Investors' capital is at risk and there is no guarantee the Company will achieve its objective.
- Past performance is not a reliable guide to future performance.
- The value of investments may go down as well as up.
- Investors might get back less than they originally invested.
- The value of an investment's assets may be affected by a variety of uncertainties such as (but not limited to): (i) international political developments; (ii) market sentiment; and (iii) economic conditions.
- The shares of the Company may trade at a discount or a premium to Net Asset Value.
- The Company may use derivatives which carry the risk of reduced liquidity, substantial loss and increased volatility in adverse market conditions.
- The Company invests in assets denominated in currencies other than the Company's base currency and changes in exchange rates may have a negative impact on the value of the Company's investments.
- The Company invests in a concentrated number of companies based in one sector. This focused strategy can lead to significant losses. The Company may be less diversified than other investment companies.
- The Company may invest in emerging markets where there is a greater risk of volatility than developed economies, for example due to political and economic uncertainties and restrictions on foreign investment. Emerging markets are typically less liquid than developed economies which may result in large price movements to the Company.

## Glossary

**Active Share,** a measure of how actively a portfolio is managed, is the percentage of the portfolio that differs from its benchmark. It is calculated by deducting from 100 the percentage of the portfolio that overlaps with the benchmark. An active share of 100 indicates no overlap with the benchmark and an active share of zero indicates a portfolio that tracks the benchmark.

**Alpha** is the excess return on an investment in the Company compared to the benchmark and can be used as a measure of performance, where the benchmark is considered to represent the market's movement as a whole.

**Derivates** are instruments whose value is linked to another investment, or to the performance of a stock exchange or to some other variable factor, such as interest rates.

**Discount** is where the share price of an investment company is lower than the net asset value per share.

**Discrete Performance** is the percentage performance of an investment over specific, defined time periods.

**Emerging markets** are countries that are progressing toward becoming advanced, usually shown by some development in financial markets, the existence of some form of stock exchange and a regulatory body.

**Gearing** is all external borrowings of the Company and any subsidiaries.

**Management Fee** is the entitlement of the Investment Manager to an annual management fee. Please see the Explanation of Fee Arrangements available on the Company's website for further information, found at: https://www.polarcapitalglobalfinancialstrust.com/Key-Information/#/Overview

**"NAV"** or **"Net Asset Value"** has the value of all assets of the Company less liabilities to creditors (including provisions for such liabilities) determined in accordance with the Company's accounting policies, applicable accounting standards and the Company's constitution.

**Ongoing Charges** are the measure of what it costs to invest in the Company, including the Management Fee and other operating costs.

**Premium** is where the share price of an investment company is higher than the net asset value per share.

For a complete glossary of investment terms, please refer to the Trust's website: https://www.polarcapitalglobalfinancialstrust.com/Glossary/

## Important Information

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**Performance and Holdings** All data is as at the document date unless indicated otherwise. Company holdings and performance are likely to have changed since the report date. Company information is provided by the Investment Manager.

**Benchmark** The Company is actively managed and uses the MSCI ACWI Financials Net TR Index as a performance target and to calculate the performance fee. The benchmark has been chosen as it is generally considered to be representative of the investment universe in which the Company invests. The performance of the Company is likely to differ from the performance of the benchmark as the holdings, weightings and asset allocation will be different. Investors should carefully consider these differences when making comparisons. Further information about the benchmark can be found www.mscibarra.com.

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**Further Information about the Company** Investment in the Company is an investment in the shares of the Company and not in the underlying investments of the Company. Further information about the Company and any risks can be found in the Company's Key Information Document, the Annual Report and Financial Statements and the Investor Disclosure Document which are available on the Company's website, found at: https://www.polarcapitalglobalfinancialstrust.com