Financials Credit: Banks, Digitalization and AT1 bonds

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JUPITER
ASSET MANAGEMENT

Fund overview

Jupiter Financials Contingent Capital Fund – I USD Inc share class

Fund objective	The fund aims to generate a total return comprised of income and long-term capital growth. The Fund will seek to achieve its investment objective through a combination of income and capital growth from a portfolio of primarily fixed and variable rate debt securities issued by financial institutions with minimum capital requirements, such as insurers and banks
Benchmark	Bloomberg Barclays Contingent Capital Western Europe (USD Hedged)
Structure	ICVC
Investable universe	Other Bond

- **Investment risk** – there is no guarantee that the Fund will achieve its objective. A capital loss of some or all of the amount invested may occur.
- **Strategy risk** – investments in Contingent Convertible bonds may result in material losses to the Fund based on certain trigger events. The existence of these trigger events creates a different type of risk from traditional bonds and may more likely result in a partial or total loss of value or alternatively they may be converted into shares of the issuing company which may also have suffered a loss in value.
- **Credit risk** – the issuer of a bond or a similar investment within the Fund may not pay income or repay capital to the Fund when due. Bonds which are rated below investment grade are considered to have a higher risk exposure with respect to meeting their payment obligations.
- **Interest rate risk** – investments in bonds are affected by interest rates and inflation trends which may affect the value of the Fund.
- **Liquidity risk** – some investments may become hard to value or sell at a desired time and price. In extreme circumstances this may affect the Fund's ability to meet redemption requests upon demand.
- **Derivative risk** – the Fund uses derivatives to generate returns and/or to reduce costs and the overall risk of the Fund. Using derivatives can involve a higher level of risk. A small movement in the price of an underlying investment may result in a disproportionately large movement in the price of the derivative investment. Derivatives also involve counterparty risk where the institutions acting as counterparty to derivatives may not meet their contractual obligations.
- **Currency risk** – the Fund is denominated in USD and may use hedging techniques to try to reduce the effects of changes in the exchange rate between the currency of the underlying investments and the base currency of the Fund. These techniques may not eliminate all currency risk. The value of your shares may rise and fall as a result of exchange rate movements..
- **Capital erosion risk** – the Fund takes its charges from the capital of the Fund. Investors should be aware that there is potential for capital erosion if insufficient capital growth is achieved by the Fund to cover the charges. Capital erosion may have the effect of reducing the level of income generated.
- The fund may be subject to various other risk factors, please refer to the latest sales prospectus for further information. The prospectus is available from Jupiter on request.

Synthetic Risk Reward Indicator (SRRI)

LOWER RISK ⟷ HIGHER RISK

1 2 3 4 **5** 6 7

TYPICALLY LOWER REWARDS — TYPICALLY HIGHER REWARDS

The SRRI is based on past data, may change over time and may not be a reliable indication of the future risk profile of the fund. The lowest category does not mean 'no risk'. Please see the KIID for further information.

Summary Risk Indicator (SRI)

LOWER RISK ⟷ HIGHER RISK

1 2 **3** 4 5 6 7

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Financials Credit: Banks, Digitalization and AT1 bonds

Key topics of today's session

Understanding the current state of the banking sector and the impact of digitalization on banks

Revisiting Financials Credit with a focus on Additional Tier 1 / CoCos

Evaluating the opportunity offered today by subordinated bank debt

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Current state of the banking sector and the impact of digitalization on banks

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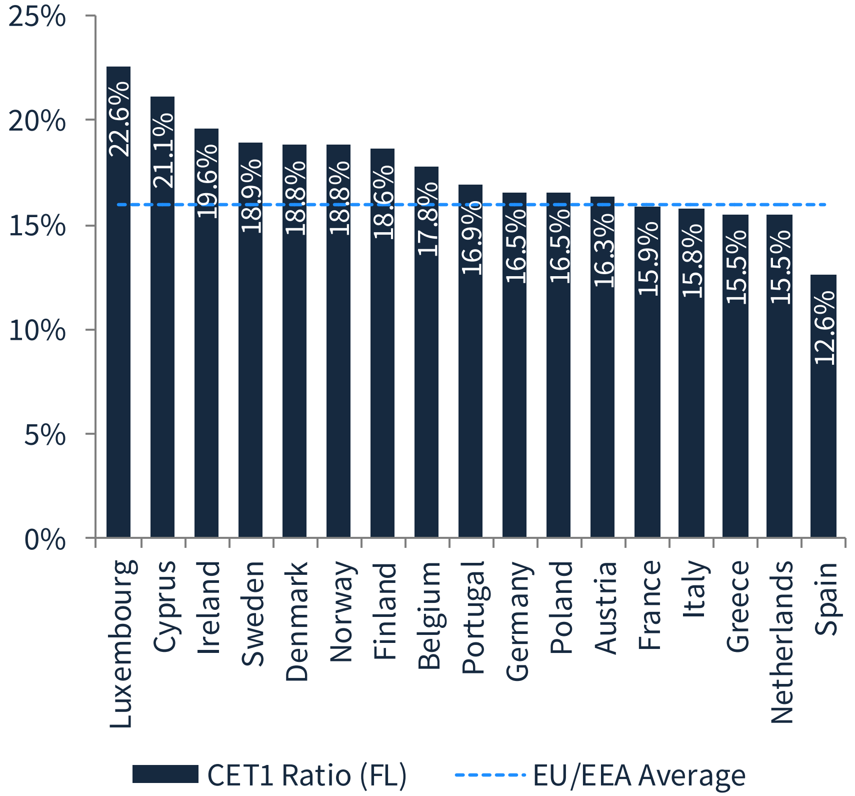
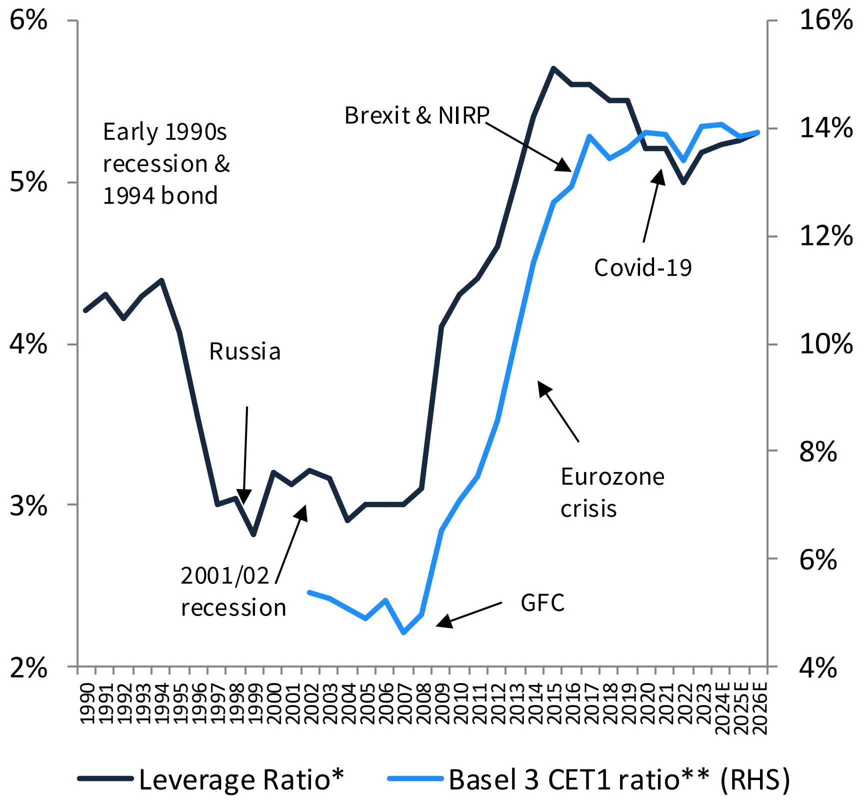
State of the banking sector

Capital: decade-long improvements

European Banks – CET1 Ratios



European Banks' – Historical capital levels



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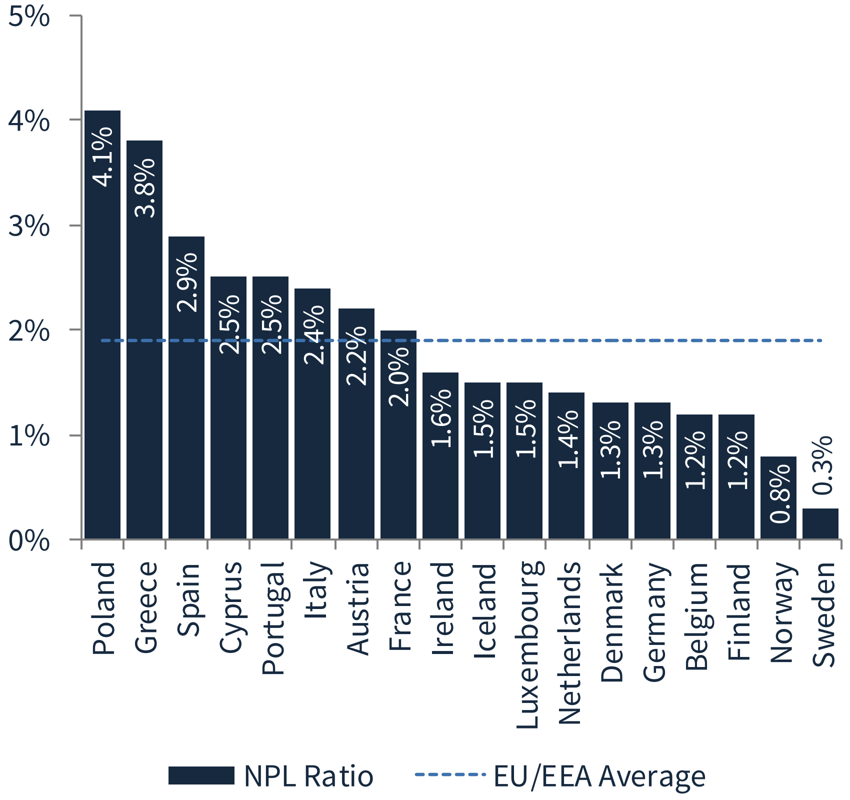
Source: ECB Risk Dashboard Q1 24 and Autonomous Research, Much Improved With More to Come 21.03.24

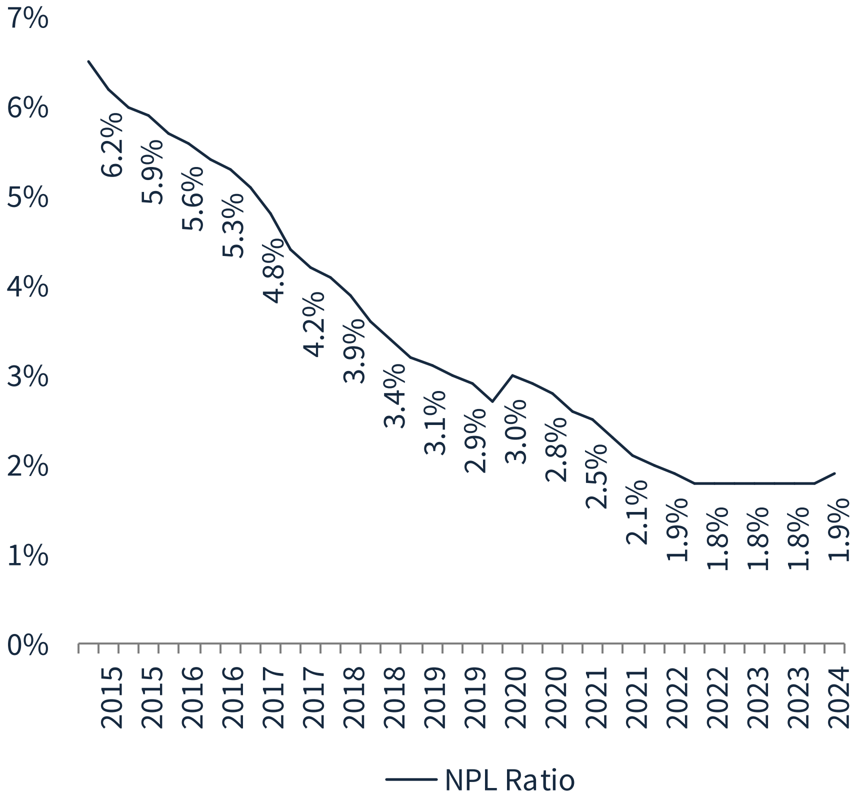
State of the banking sector

Asset quality: decade-long improvements

European Banks – Non-Performing Loans (averages)



European Banks – Non-Performing Loans (evolution)



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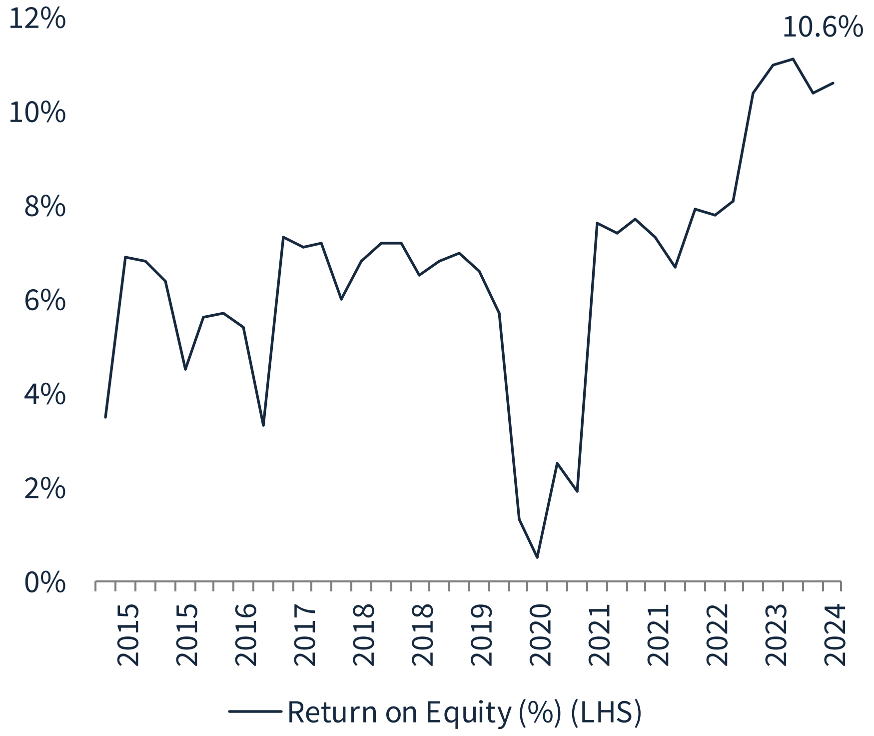
Source: ECB Risk Dashboard Q1 24.

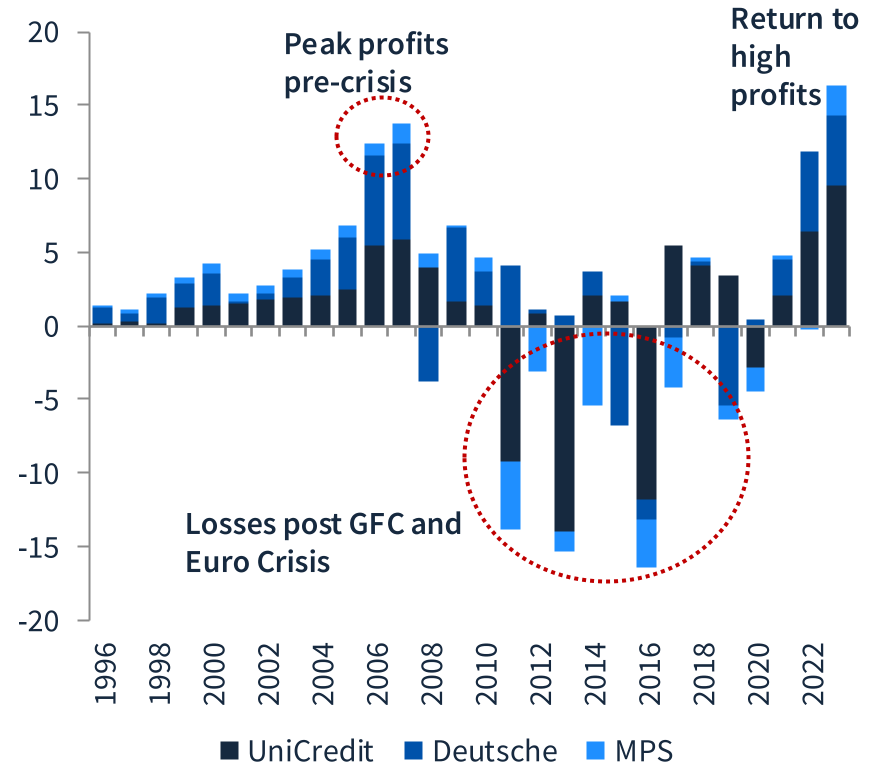
State of the banking sector

Evolution of banks' profitability

Profitability (RoE) only slightly off the decade level highs of 2023.



Historical profitability (€bn annual net income)



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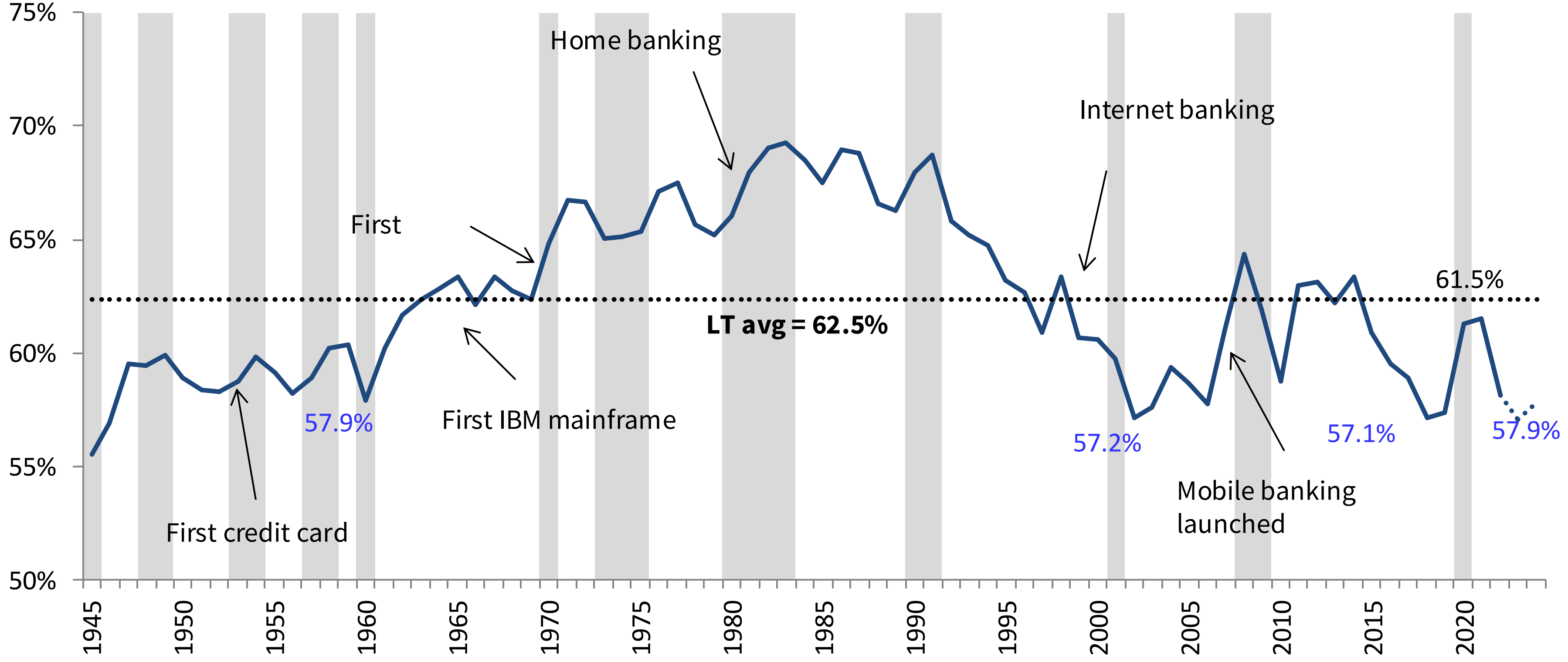
Any holdings examples are used for illustrative purposes only and should not be viewed as investment advice.
Source: ECB Risk Dashboard Q1 24 and Autonomous Research, Much Improved With More to Come 21.03.24

State of the banking sector

Can digitalization help bank improve cost / income ratios?

Evolution of US Banks' Cost/Income ratio



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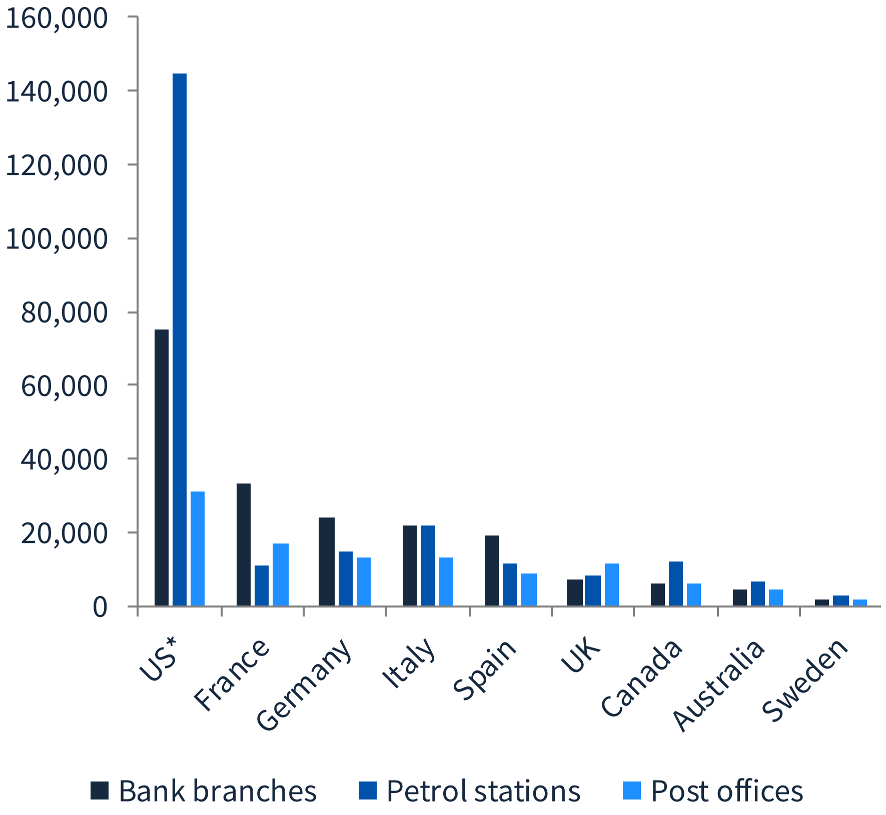
Source: Autonomous Research, Bankosaurus Techs: Slow Progress 13.06.23

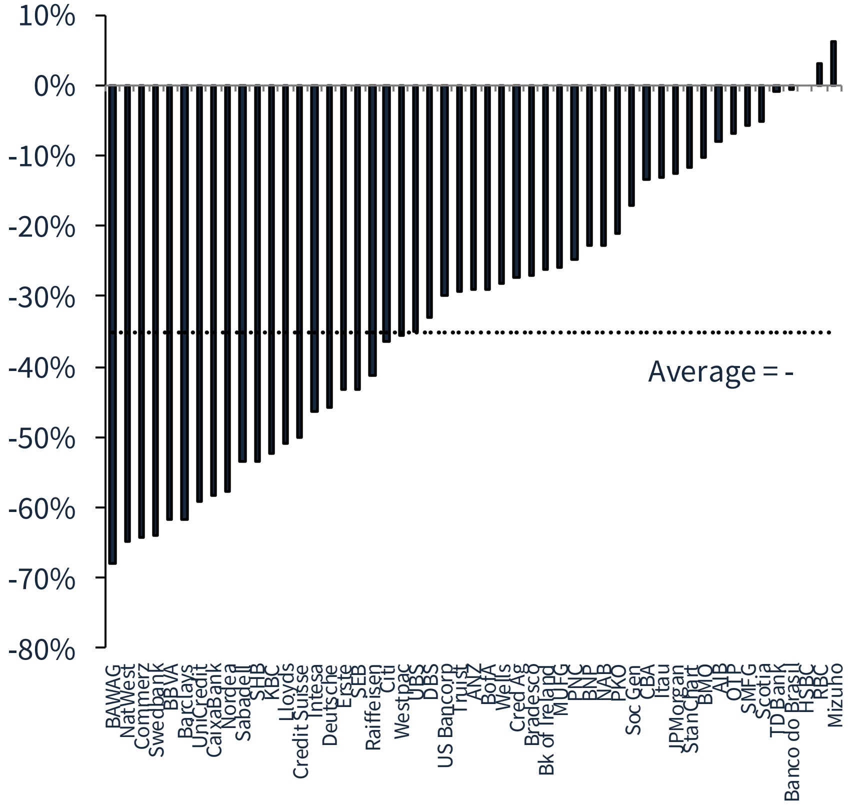
Potential benefits of digitalization

Branches reduction – still work to be done

Bank branches across key regions



Percentage of domestic branch closures, 2007 - 2022



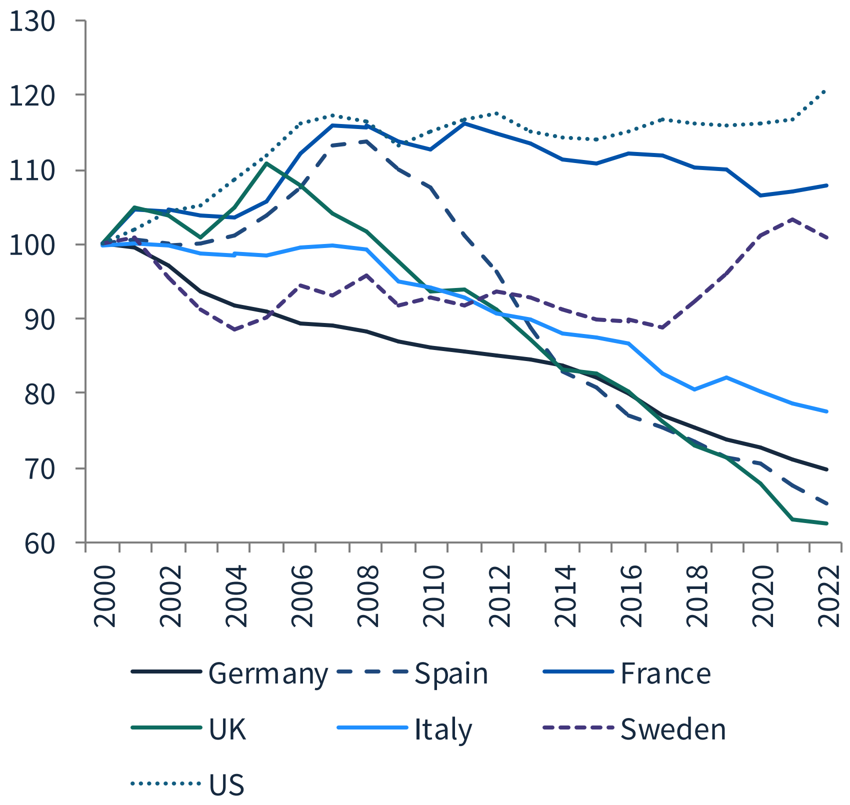
Any holdings examples are used for illustrative purposes only and should not be viewed as investment advice.

Source: FDIC, ECB, ONS, APRA, CBA, Fuels Europe, IBIS World, Eurostat. Latest data available.
Autonomous Research, Bankosaurus Techs: Now or Never 15.06.22 and Bankosaurus Techs: Slow Progress 13.06.23

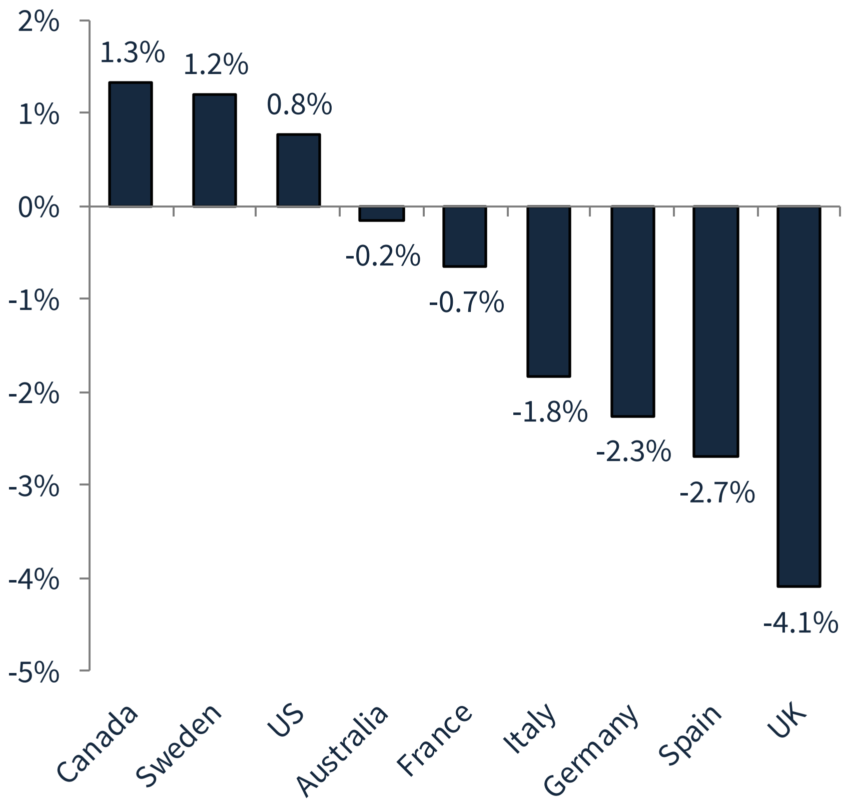
Potential benefits of digitalization

Headcount reduction – divergence amongst Countries

Domestic banking system headcount (indexed to 100 in



CAGR in headcount for banking systems, 2016 – 2022



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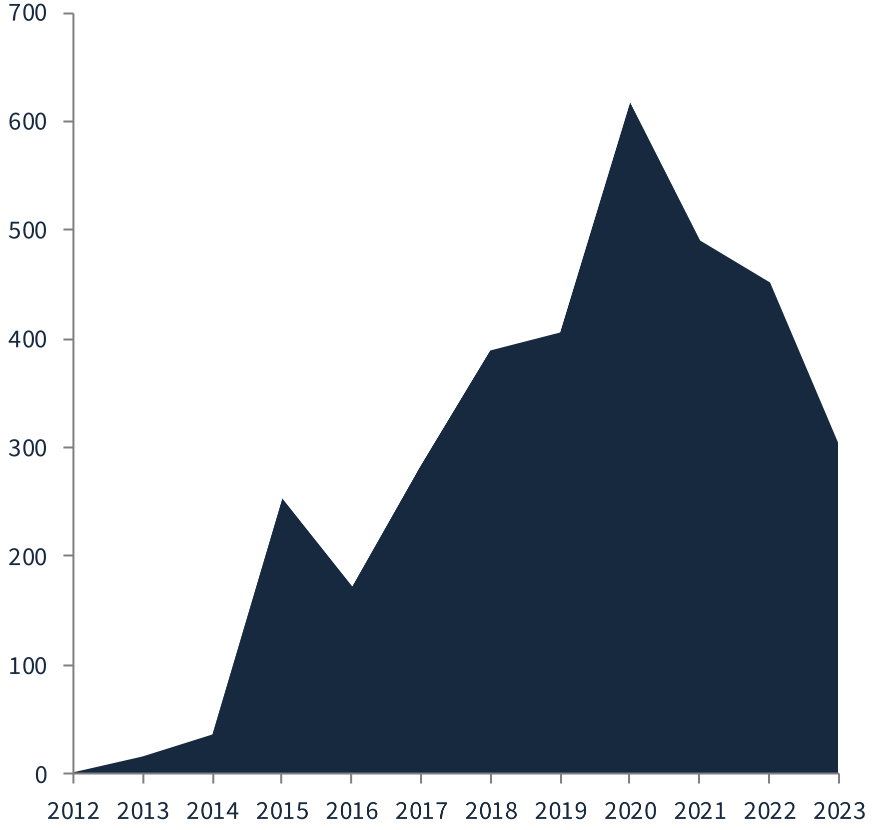
Source: Autonomous Research, Bankosaurus Techs: Slow Progress 13.06.23

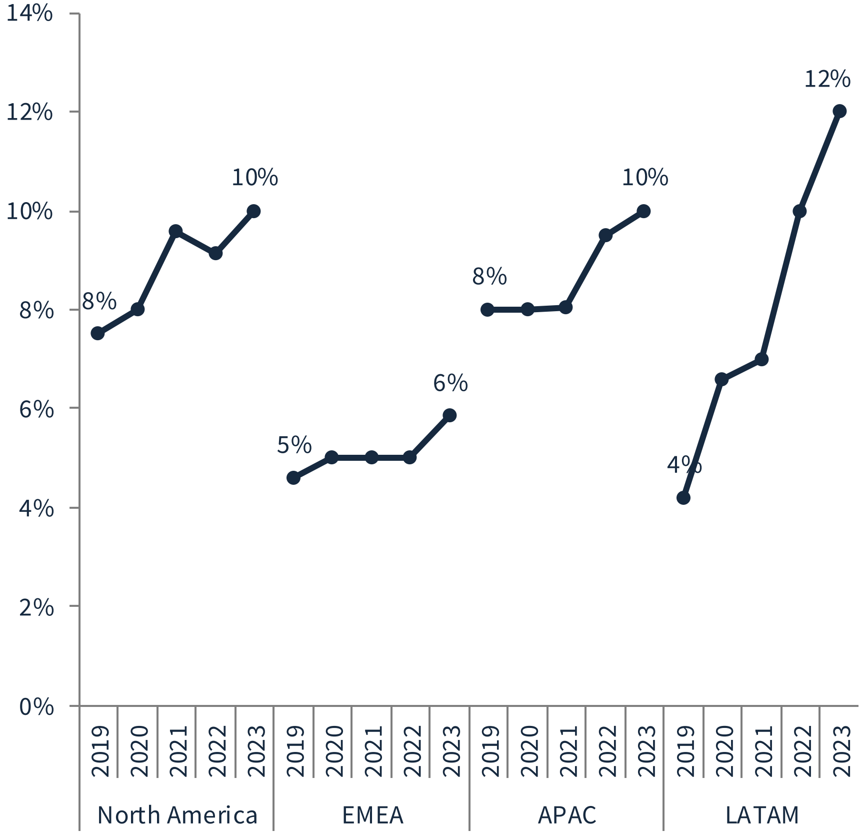
Cybersecurity and IT investments

Cybersecurity and Cyber Insurance

Reported cyberattacks, finance sector



Cybersecurity spend as a percentage of IT budget, by region



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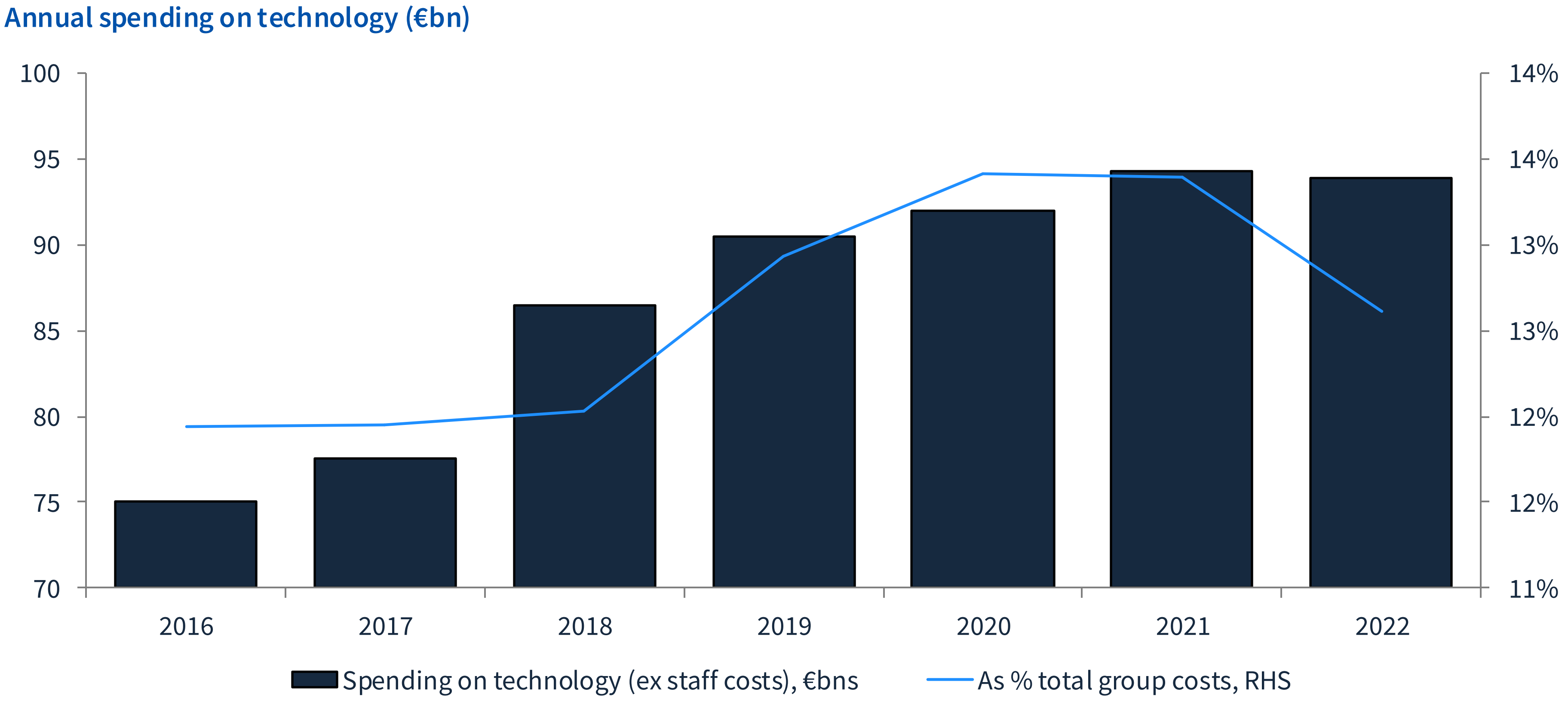
Source: Moody's 2023 Cyber Survey - Escalating cyberthreats drive up budgets as banks fortify defence's 20.03.24.

IT spending continues to increase

Cybersecurity and Cyber Insurance



- Tech spending is approx. 10% of banks' revenues or 12-15% of total costs

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Source: Autonomous Research, Bankosaurus Techs: Slow Progress 13.06.23.

ECB's first "cyber resilience" stress test

Supervisor's increased focus on cyber risk

Stress test gauged how banks would respond to and recover from severe but plausible cybersecurity incident

109 banks tested, of which 28 underwent more extensive testing

Stress test showed that banks have response and recovery frameworks in place, but areas for improvement remain

No impact on capital requirements but will be used for the wider 2024 SREP

ECB monitoring will add a layer of protection against the main downside risk for the sector

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Source: European Central Bank, As of 26.07.24. ECB concludes cyber resilience stress test (europa.eu).

Summary: impact on Banks' credit and equity valuations

EQUITY

Small valuation premium for Digital Leaders v Digital Laggards. Analysts' consensus expects the leaders to show marginally better "JAWS" in next 2 years

CREDIT

Financials Bonds' performance for the time being mostly uncorrelated to digital advances but driven mostly by fundamental improvements to capital and liquidity position

Cyber risk is becoming an emerging area of concern and increasingly important to financial stability

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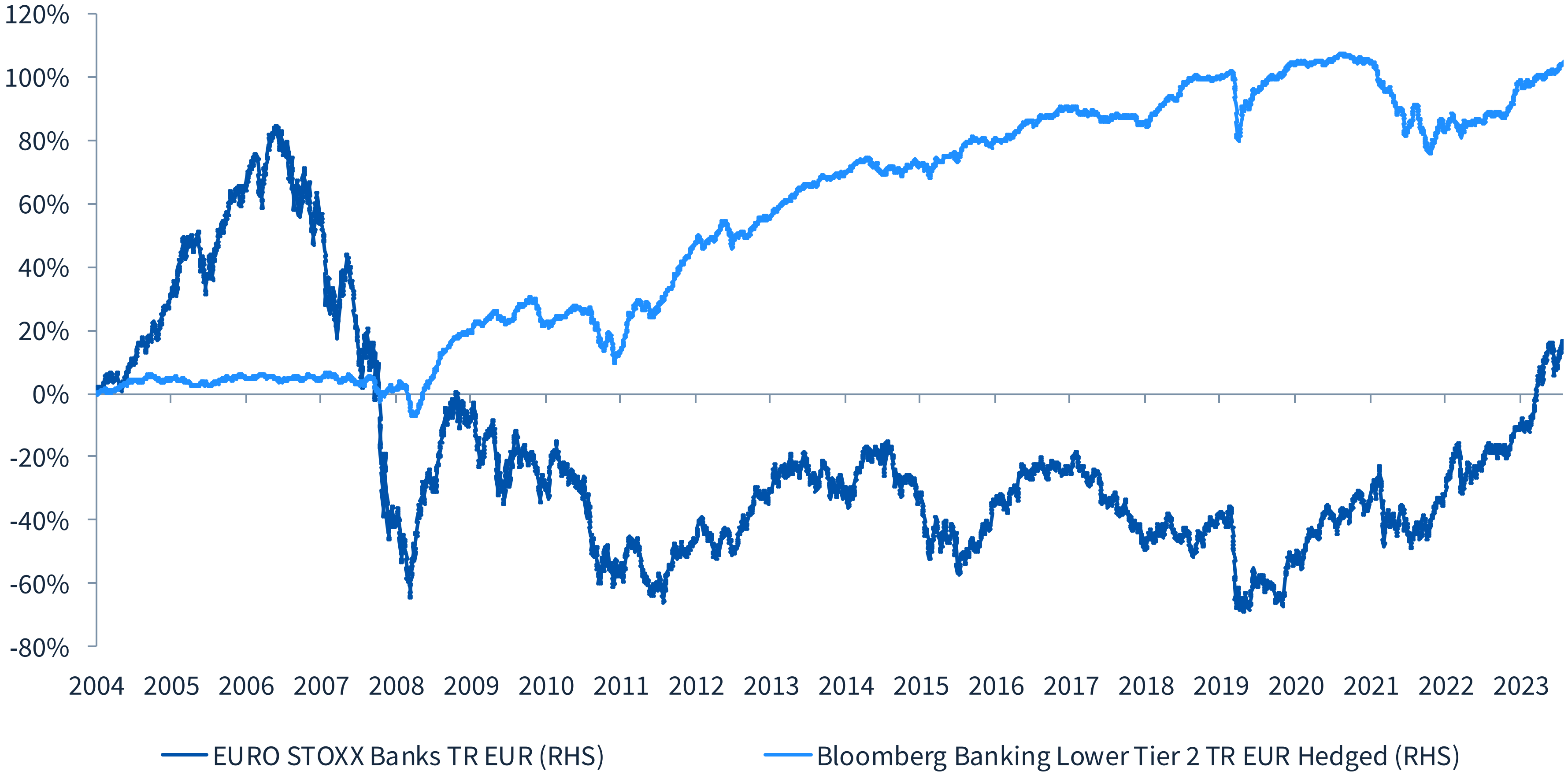
Summary: impact on Banks' credit and equity valuations

Banks Equity v Banks Credit: different dynamics

Bank equity vs. bank debt – index performance



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Source: Bloomberg. As of 31.07.24.

Introduction to Financials Credit & CoCos/AT1s

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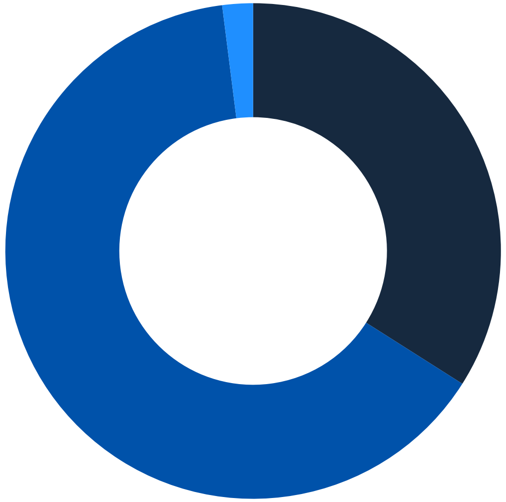
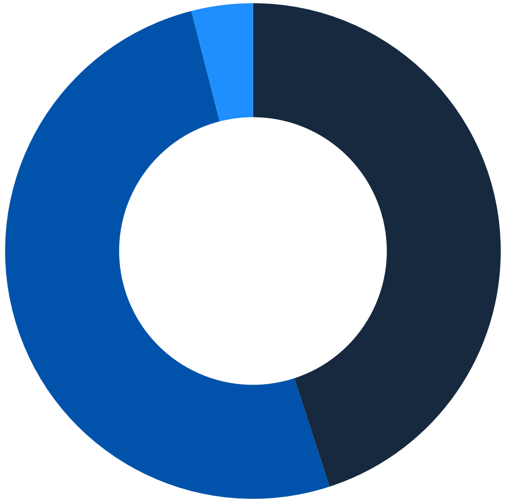
Financials credit v Corporate credit

Outstanding debt: Financials credit is approx. 1/3 of total corporate debt

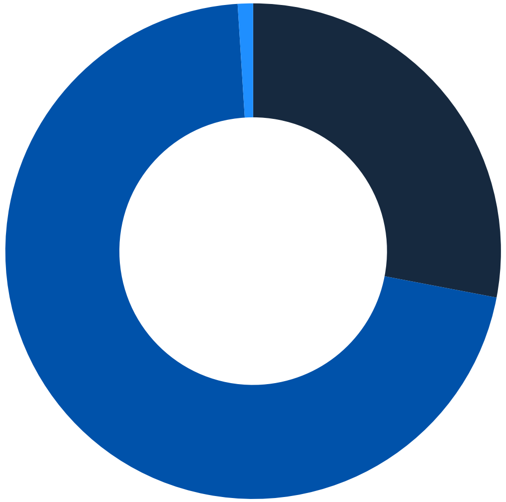
EUR denominated issuance, $3.87tn



GBP denominated Issuance, $577bn



USD denominated Issuance, $10.36tn



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Source: ICE Bofa, Morgan Stanley Research, MarketiBoxx. As of 07.07.24.

Financials credit – main instruments' features

CoCos: Key features and ranking

Decreasing quality of capital

	Equity	AT1/CoCo	Tier 2	Bail-In Senior	Senior Pref
Seniority	Junior Subordinated	Deeply Subordinated	Subordinated	Senior Subordinated	Senior
Maturity	Perpetual	Perpetual, Typically NC5	Typically 10NC5	Usually > 5y	Usually 3-5y
Payments	Discretionary	Discretionary Non-cumulative	Must Pay	Must Pay	Must Pay
Loss absorption	Going concern	Contractual Trigger PoNV (Statutory)	PoNV (Statutory)	In resolution upon use of Bail-In tool	N/A

Increasing risk due to subordination

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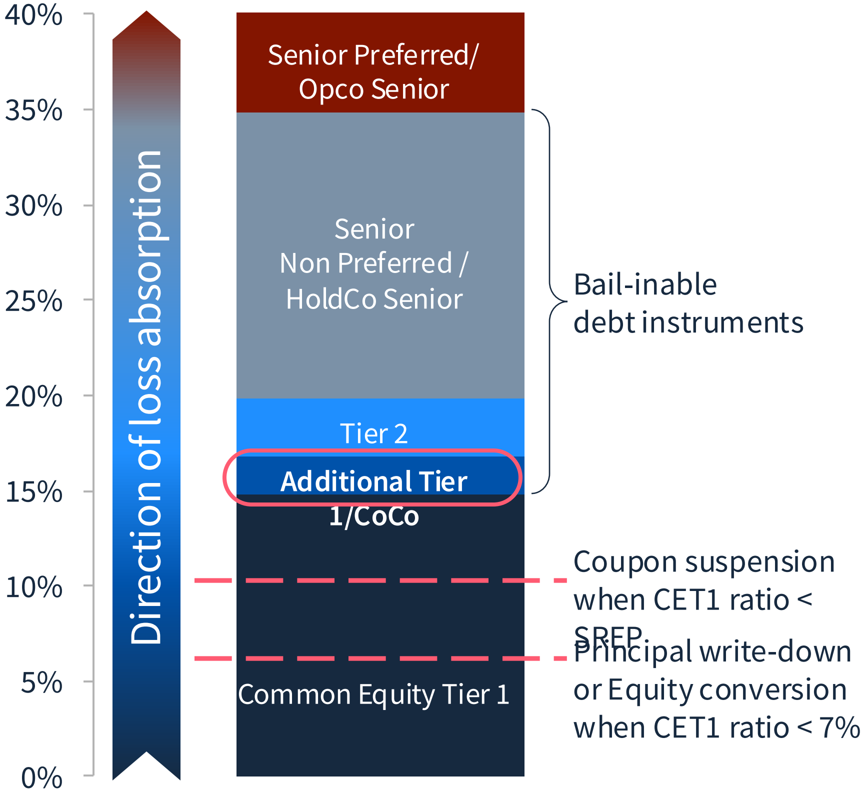
Source: JP Morgan Research, as at 31.08.24.

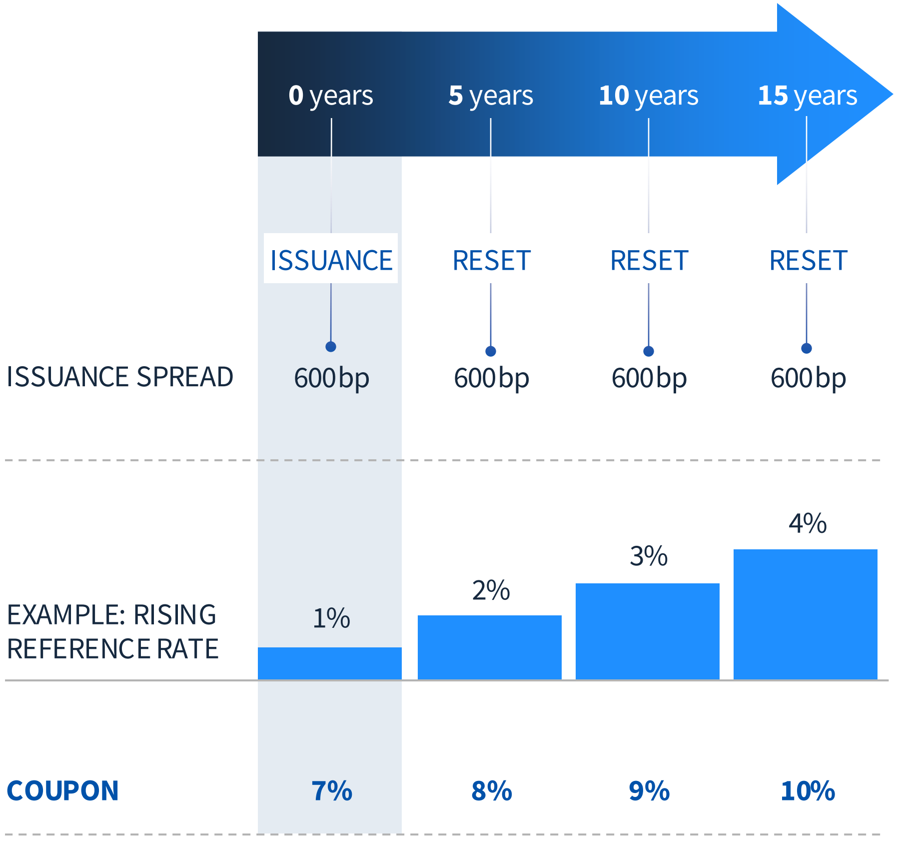
Contingent capital (CoCos) / AT1s

Position in capital structure and coupon reset mechanism

CoCos: ranking in insolvency[1]



Coupon reset mechanism[2]



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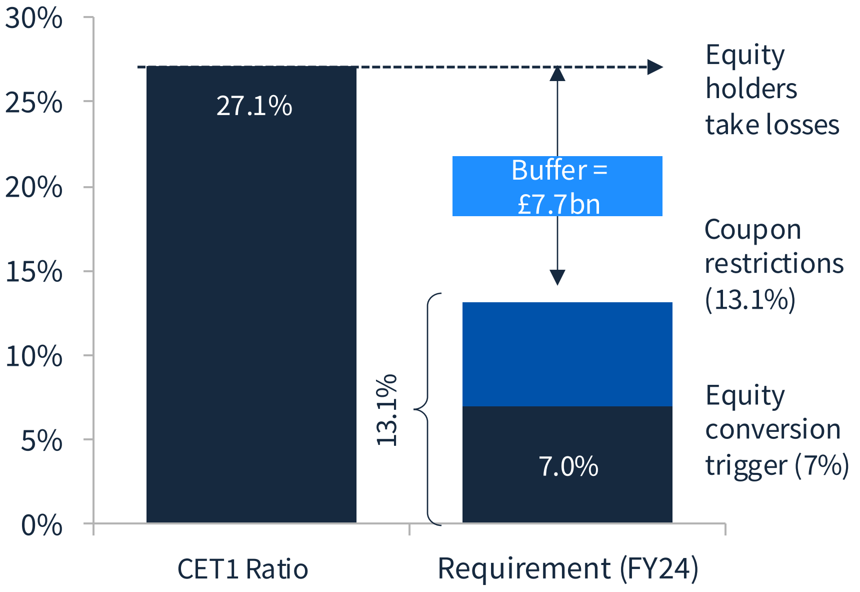
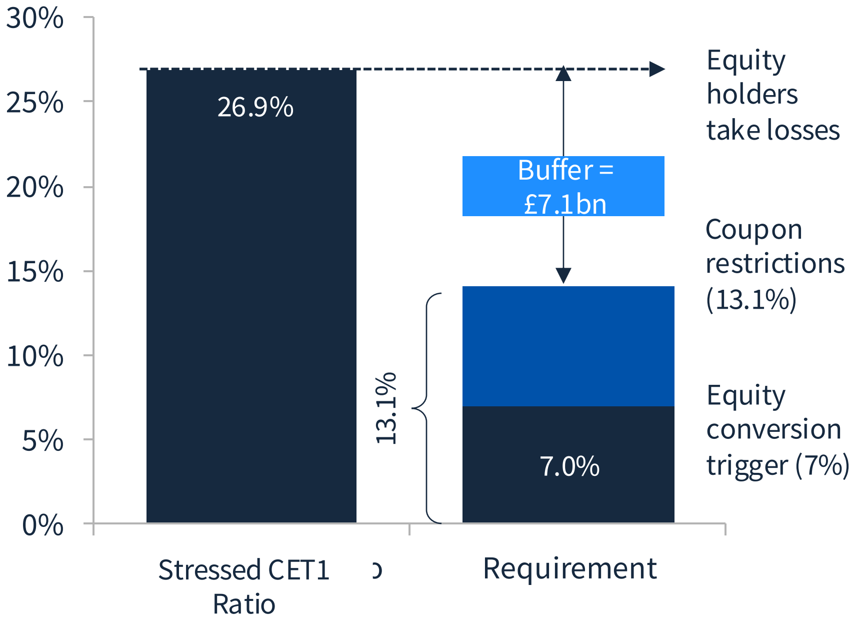
[1] Source: JP Morgan Research , as at 31.08.24.
[2] For illustrative purposes only, to show effect of a hypothesized rising rate scenario.

Contingent capital (CoCos) / AT1s

Case Study: Nationwide Building Society





Expected credit losses under 100% severe downside scenario

04.04.24 (£mn)	Reported provision	Severe downside	Drawdown on CET1
Residential mortgages	321	814	493
Consumer banking	436	516	80
Commercial lending	24	24	-
Total	**781**	**1,354**	**573**

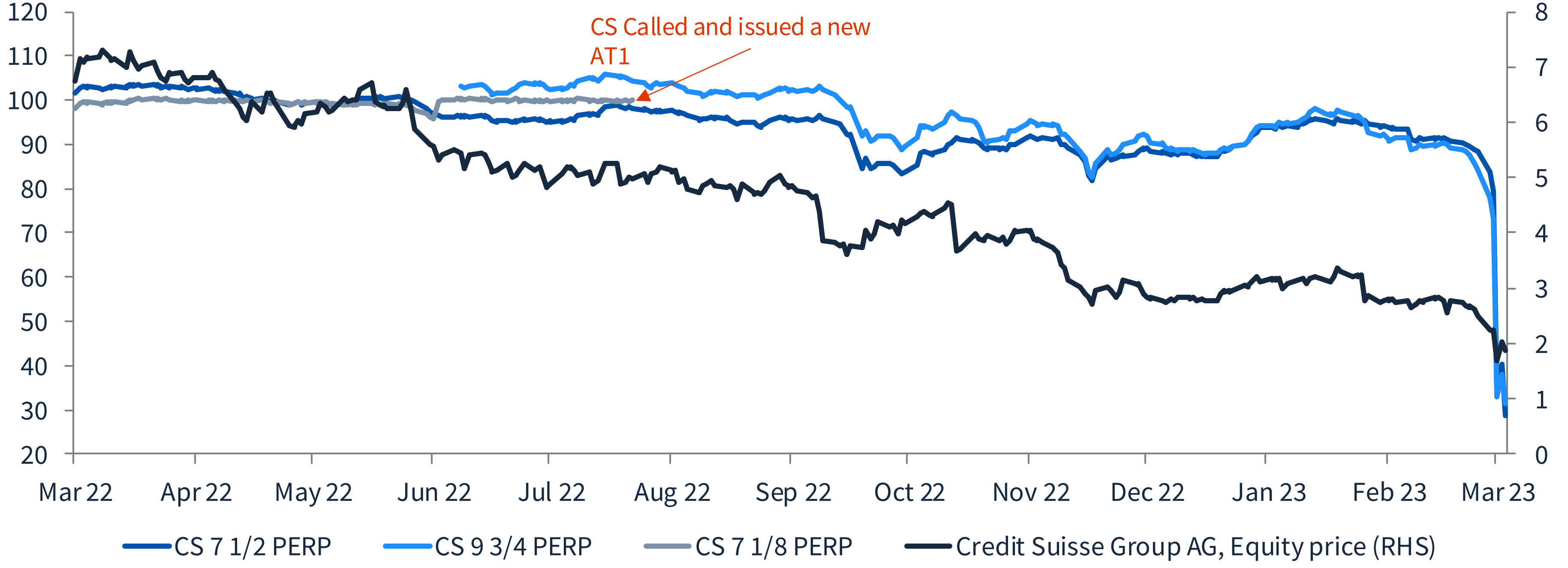
	Stressed CET1 Capital	Stressed Buffer to Req.
CET1/Buffer as of 04.04.24	14,798	7,647
Drawdown due to addl. Provisions	(573)	(573)
Stressed CET1 Capital/Buffer	**14,225**	**7,074**

Any holdings examples are used for illustrative purposes only and should not be viewed as investment advice.
Source: Nationwide Interim (FY-24) Results as of 04 April 2024 and Bank of England 2024 Stress Test Framework.
Note: We use bank's expectation of £573mn of incremental credit losses in a severe downside scenario. According to bank's assumptions, the scenario primarily reflects the change in the bank base rate forecast, with a peak of 7.5% in 2024 (and falling to 6% in 2025) potentially leading to increased losses in the mortgage portfolio, House Price Index (HPI) to fall by 16% and unemployment rate to peak at 8.6% in 2025. While bank only assigns a 15% probability to this severe downside scenario, we use the incremental ECL required for a 100% probability which also appears in line with Bank of England's marco-economic scenarios provided in their 2024 stress test frame-work, in our view.

Going Concern v Gone Concern – The Case of Credit Suisse

Different behavior of credit vs. equity instruments

Credit Suisse – Equity price vs. Additional Tier 1 prices



- CS 7.125% was called on June 2022 and CS 9.75% was issued to replace it at a higher spread (638bps v 510bps)
- Credit Suisse used to pay approx. $1bn in AT1 interest expenses annually

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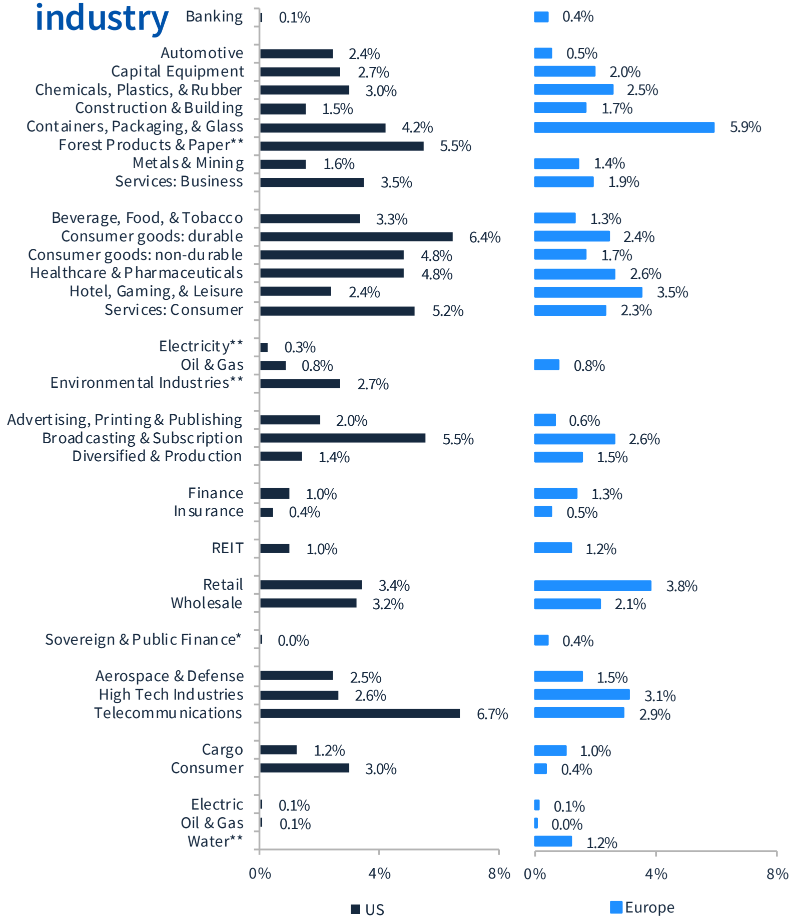
Source: Bloomberg. As of 17.03.23.

Valuations: is Subordinated debt an opportunity?

Default risk – Financials v Corporates

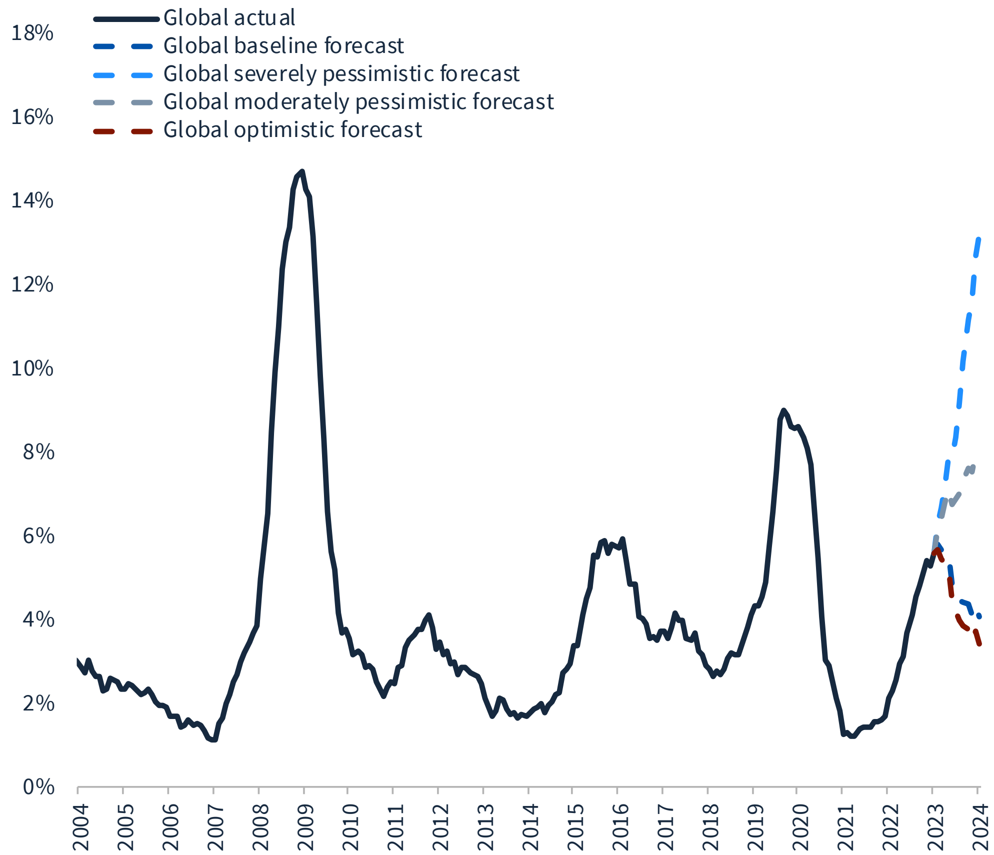
A mis-priced asset class – Corporates vs. Financials defaults

One-year default rate forecasts, by industry



Source: Moody's investors Services, 16.01.24.

Global speculative-grade default rates (actual and forecast)



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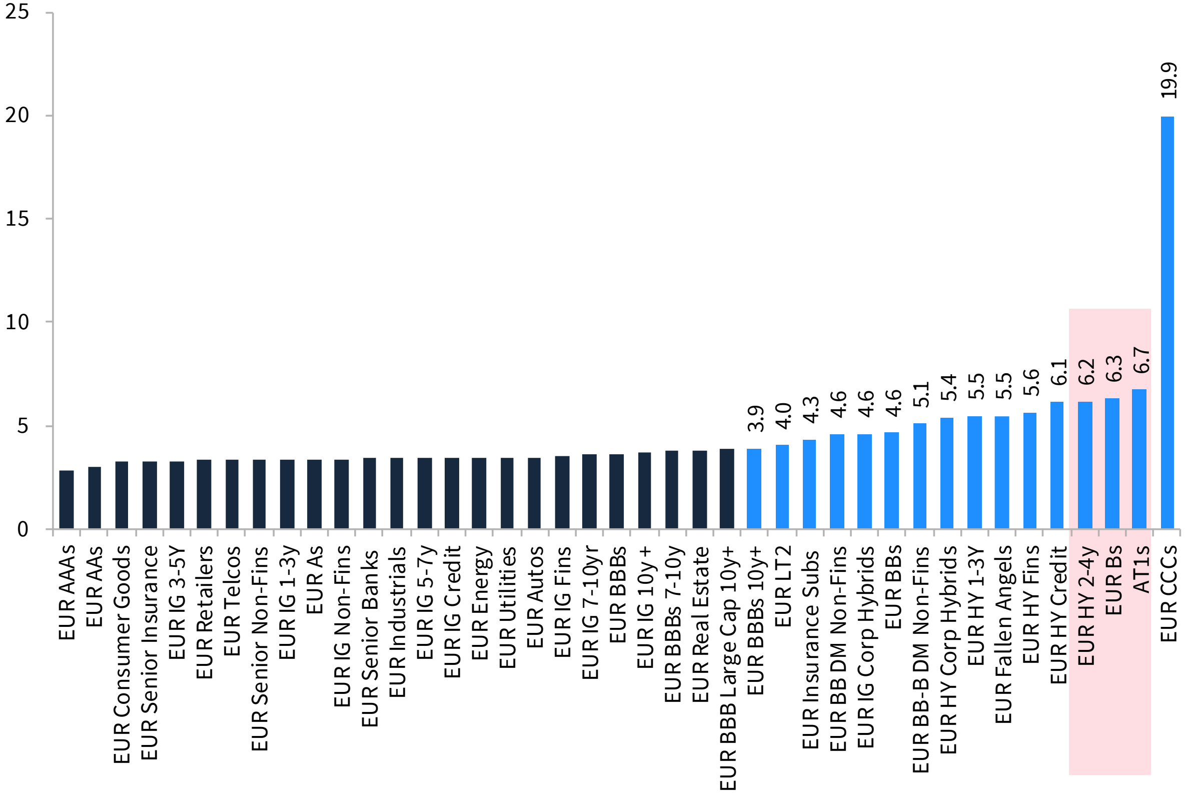
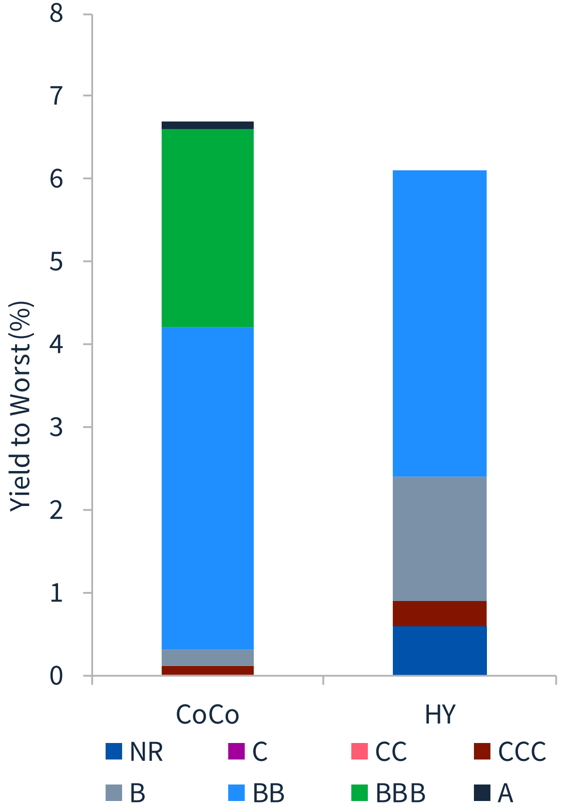
Current market views

CoCos vs other market segments/sectors

Yield comparison across Fixed Income



Yield breakdown by rating class



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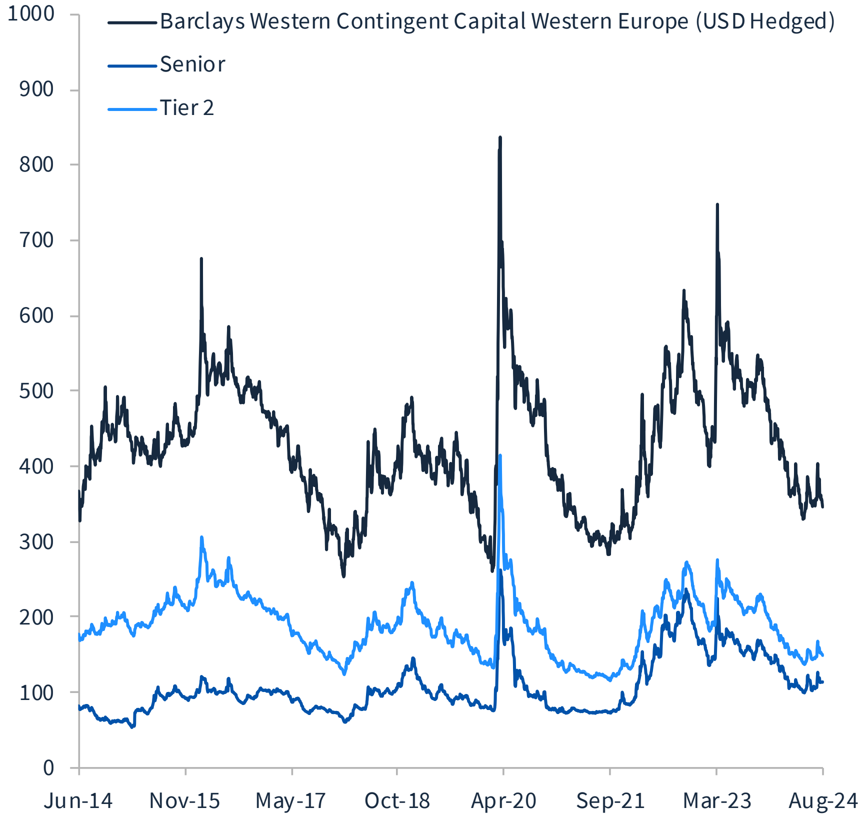
Quoted yields are not a guide or guarantee for the expected level of distributions to be received. The yield may fluctuate significantly during times of extreme market and economic volatility.

Source: ICE Baml indices, as at 31.08.24. EUR HY 2-4y and EUR Bs are HY corporate bonds. The area in red highlights the difference in yield between CoCos/AT1 and HY corporate bonds.

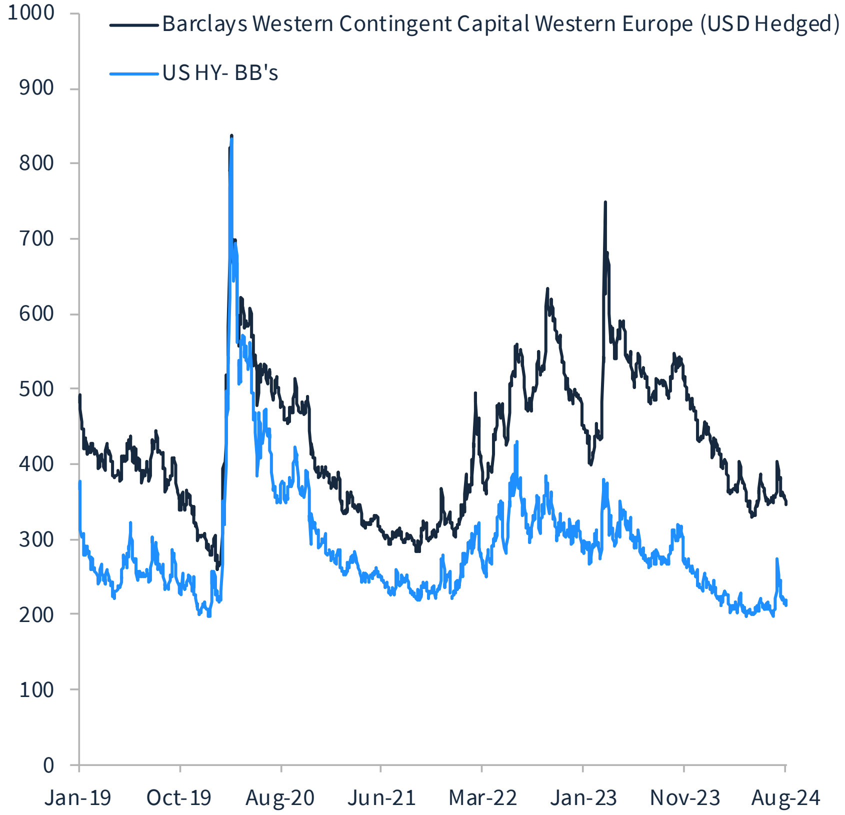
Current market views

Capital structure analysis – CoCos vs. tier 2, Senior and Corporates BBs

CoCos vs. Tier 2 and senior Banks: credit spreads



CoCos vs. BBs Corporates: credit spreads



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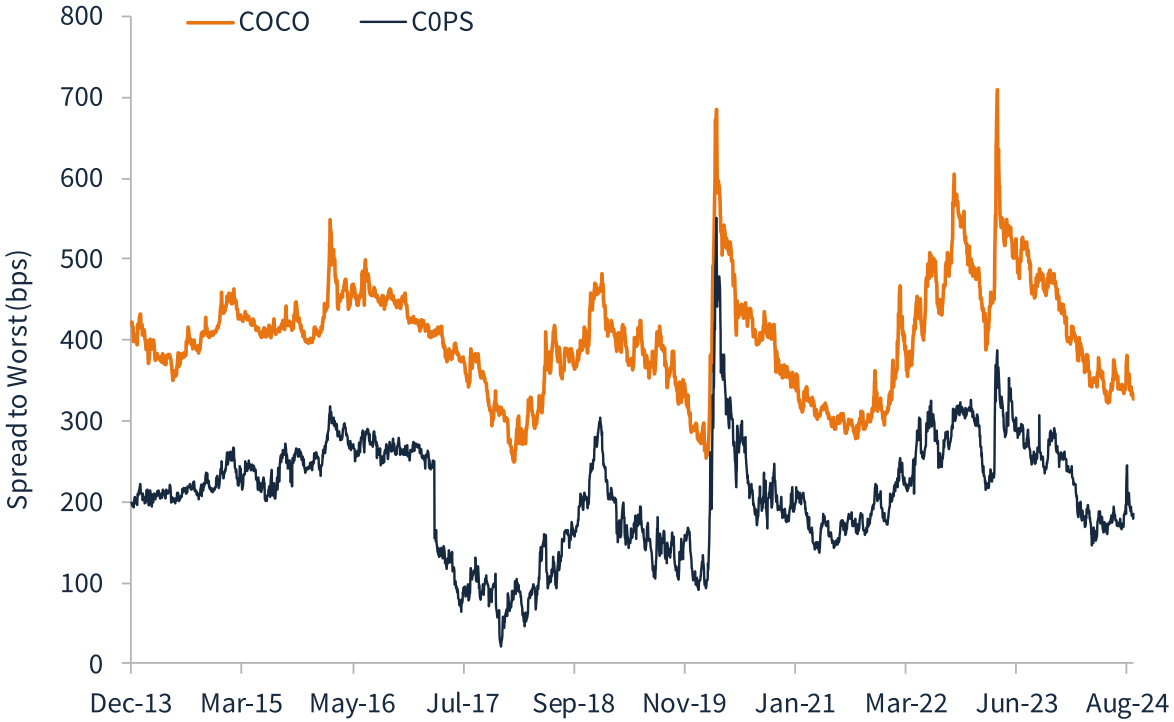
Source: Bloomberg, as at 31.08.24.

Why invest in Contingent Capital?

CoCos vs. US Prefs: Wider spreads and lower duration

CoCos vs. US Prefs – Spread comparison 2014-2024



COCO = ICE BofA Contingent Capital Index

C0PS = ICE BofA US Preferred, Bank Capital & Capital Trust Securities Index

Duration and Yield comparison

	COCO	C0PS (US Prefs)
Duration	3.05	4.69
Spread Duration	5.07	5.49
Yield to Worst	6.72	5.84
Yield to Maturity	7.53	6.56

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Source: ICE Baml indices, as at 31.08.24.

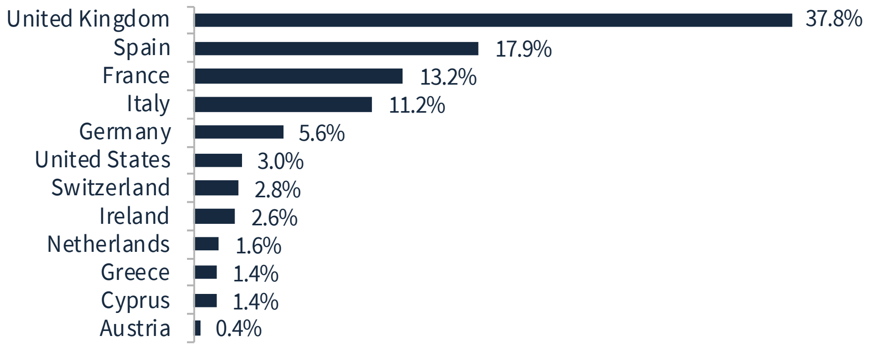
Where we see opportunities at the moment

Jupiter Financials Contingent Capital Fund

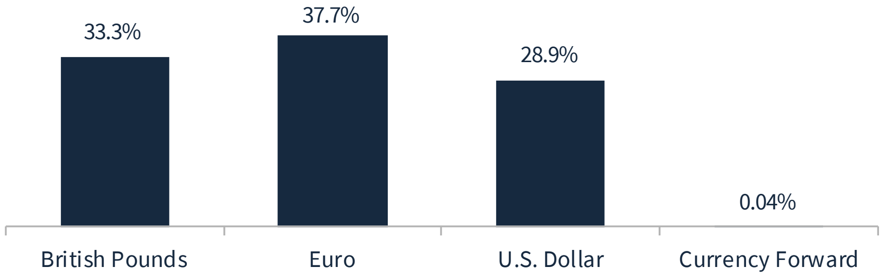
Top ten weights (%)

Banco Santander, S.A.	5.31%
HSBC Holdings Plc	4.89%
Deutsche Bank Aktiengesellschaft	4.87%
UniCredit S.p.A.	4.71%
CaixaBank SA	4.52%
Barclays PLC	4.51%
NatWest Group Plc	4.04%
Lloyds Banking Group plc	4.03%
Intesa Sanpaolo S.p.A.	3.87%
Societe Generale S.A. Class A	3.82%

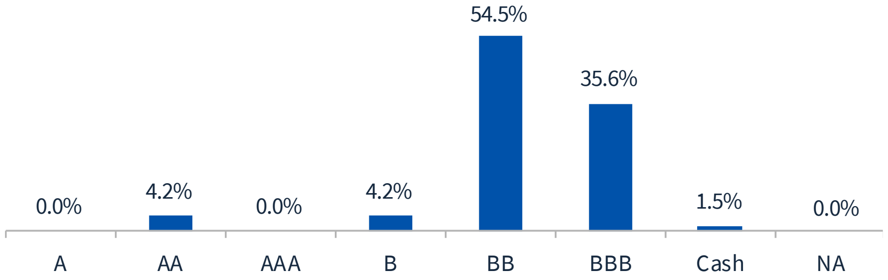
Country breakdown (%)



Currency of bond issues



Credit rating



Number of holdings	74	Yield to maturity (USD %)	8.3	Average issuance rating	BB+	Average issuer rating[1]	A-

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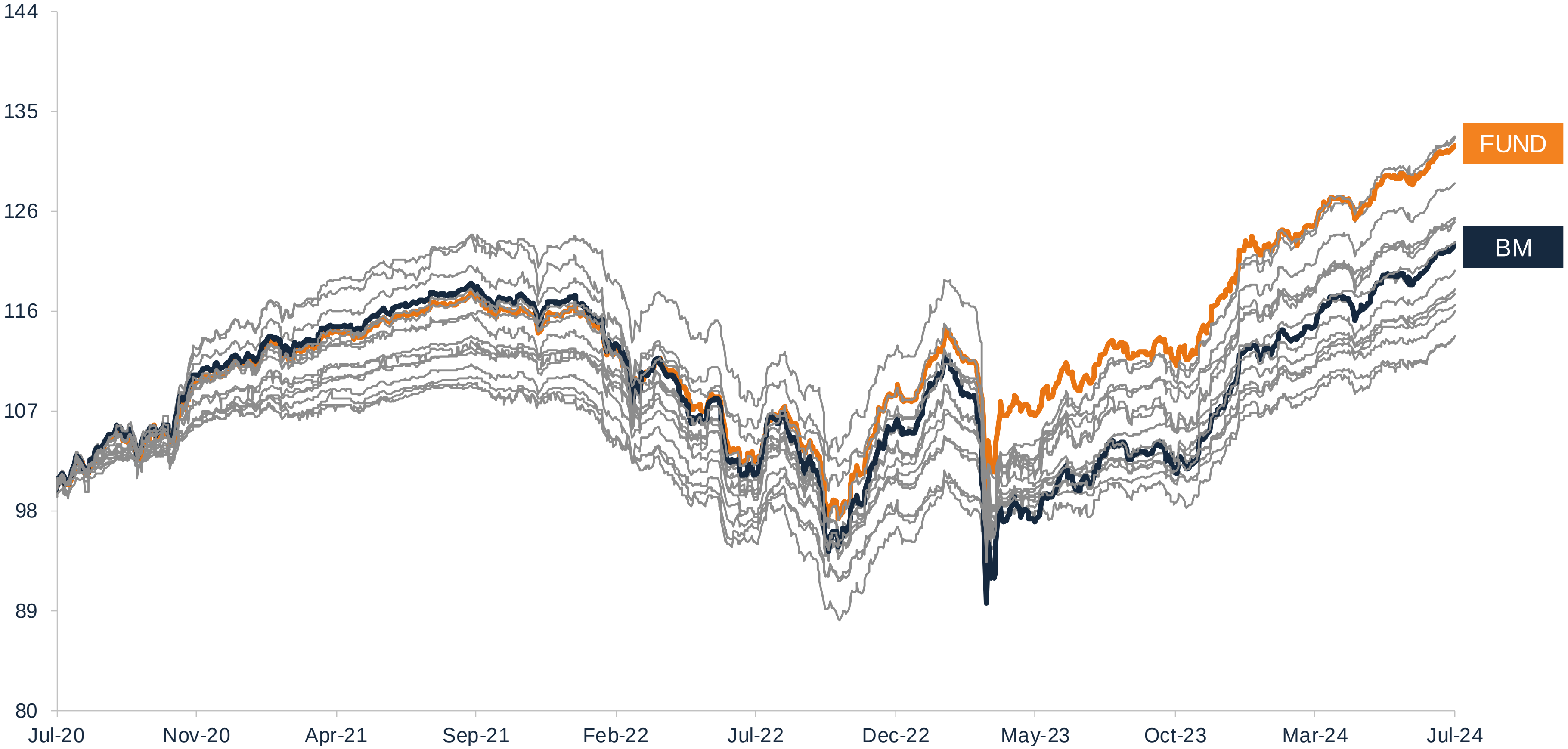
Past performance is not a guide to future performance. The value of investments can go down as well as up and is not guaranteed. Any holdings examples are used for illustrative purposes only and should not be viewed as investment advice.

Source: Jupiter, as at 31.07.24. [1]Average issuer rating does not include non-rated institutions. Numbers may not add up due to rounding.

Performance vs. selected peers

Comparison chart – since fund manager change (2 July 2020)



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Fund is based on Jupiter Financials Contingent Capital - I USD Inc
Source: Morningstar, NAV to NAV, gross income reinvested, net of fees, in USD, to 31.07.24. Bloomberg Barclays Contingent Capital Western Europe (USD Hedged).
This is an internally defined peer group based on the most appropriate characteristics for comparison to the Jupiter Financials Contingent Capital Fund.
Funds that invest in subordinated financials including CoCos selected from the peer group universe Morningstar-Other Bond.
Peers selected on 01.07.20 (since FM inception), based on each fund's mandate and their allocation to Cocos. The peer group is regularly reviewed to ensure that it is accurate.

Performance

Jupiter Financials Contingent Capital Fund

	YTD	3 months	1 year	3 years	5 years
Jupiter Financials Contingent Capital - I USD Inc	7.3	4.3	15.7	12.9	38.0
Bloomberg Barclays Contingent Capital Western Europe (USD Hedged) Index	8.1	4.6	17.1	4.3	26.2
Quartile	1	2	1	1	1

	01 Aug '18 to 31 Jul '19	01 Aug '19 to 31 Jul '20	01 Aug '20 to 31 Jul '21	01 Aug '21 to 31 Jul '22	01 Aug '22 to 31 Jul '23	01 Aug '23 to 31 Jul '24	Since inception*	Since FM inception**
Jupiter Financials Contingent Capital - I USD Inc	9.8	6.6	14.7	-8.6	6.7	15.7	55.1	30.9
Bloomberg Barclays Contingent Capital Western Europe (USD Hedged) Index	9.6	4.8	15.5	-9.3	-1.9	17.1	43.3	22.0

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Past performance is no indication of current or future performance, and does not take into account commissions and costs incurred on the issue/redemption of shares.
Source: Morningstar, NAV to NAV, gross income reinvested, net of fees, in USD, to 31.07.2024. *Since Inception:14.08.2017.** Since FM Inception: 01.07.2020.
Sector: Morningstar EAA Fund Other Bond.

Conclusions

Key takeaways of today's session

Banks fundamentals improving but impact of digitalization is smaller than expected

Financials Credit represents a large part of the corporate bond universe and includes bonds of different seniority

AT1/CoCos offer attractive risk-reward with yield in excess of lower rated corporate HY bonds

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Appendix slides

Important information

This is a marketing communication. Please refer to the latest sales prospectus of the sub-fund and to the Key Information Document (KID) (for investors in the EU) or Key Investor Information Document (KIID) (for investors in the UK), particularly to the sub-fund's investment objective and characteristics including those related to ESG (if applicable), before making any final investment decisions.

This document is intended for investment professionals and is not for the use or benefit of other persons, including retail investors.

This document is for informational purposes only and is not investment advice. Market and exchange rate movements can cause the value of an investment to fall as well as rise, and you may get back less than originally invested. Initial charges are likely to have a greater proportionate effect on returns if investments are liquidated in the shorter term.

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