Financial Institutions Group, Industry Review

February 16th, 2015

From Chinese Shadow Banking to U.S. Government Institutions, with Some Insurance In Between

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Disclaimer

Financials Industry Overview
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Holdings Review

INTESA SANPAOLO

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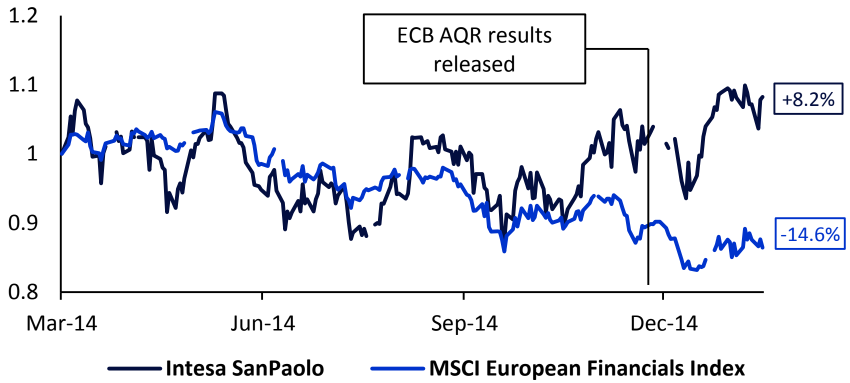
Holdings Review

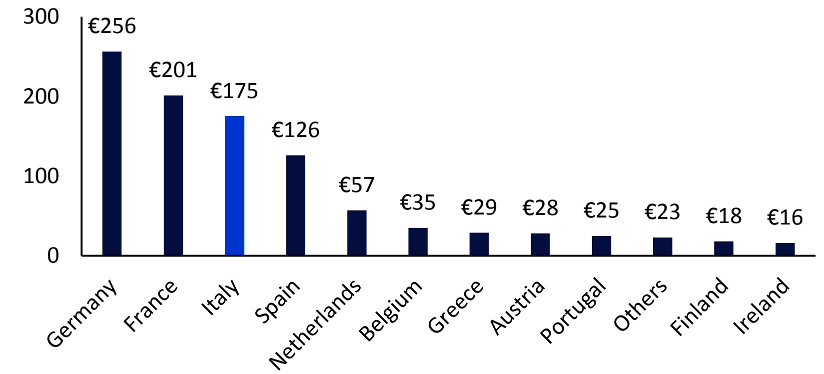
Intesa SanPaolo: Price Target Under Review

INTESA SANPAOLO

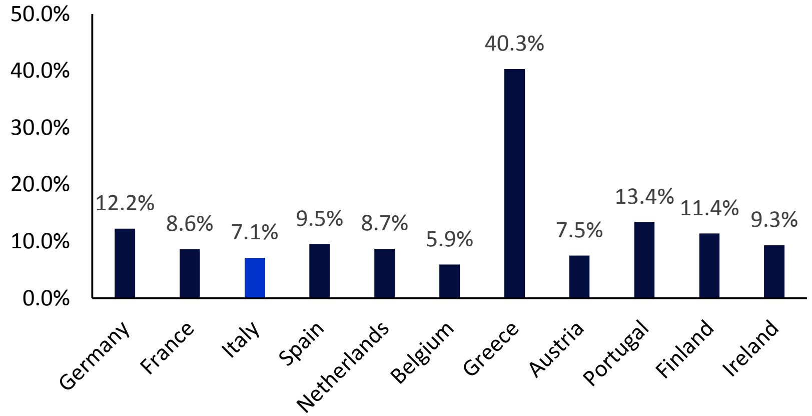
Relative Performance vs. Benchmark



ECB QE Bond Purchases (billion €)



Stimulus as % of Sovereign Debt



Source: Bloomberg Business, Forbes, Wall Street Journal

Select European Commentary

Raoul Ruparel, Forbes (Jan 23rd, 2015):
"Italy is the country that will see the **lowest amount of its debt market purchased** (around 10%), since it is so high relative to GDP (and therefore its share of the ECB capital key). Likely the impact will be short of what many hoped, ultimately the impediments to growth here are structural, **serious reform needed.**"

Giada Zampano, Wall Street Journal (Dec 29th, 2014):
"Powerful lobbies and vested interests have **defanged the government's push to reduce the country's bloated public spending**, revamp its rigid labor laws, and rewrite electoral rules to create more political stability."

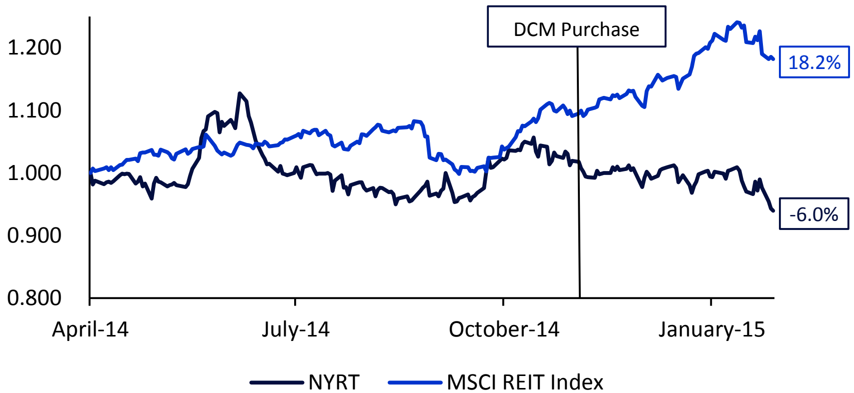
Holdings Review

NYRT
NEW YORK REIT

Holdings Review
New York REIT

NYRT
NEW YORK REIT

Relative Performance vs. Benchmark



Causes of Underperformance

- On October 29th, American Realty Capital Properties (NYRT's parent company) replaced two executives following errors in its financial statements
  - The blunder has sparked an investigation by the SEC. The company only slightly overstated AFFO by 3%, leading to a sever market overreaction
- Nicholas Schorsch's resignation from ARCP in December worsened the situation, as the share price dropped ~5% the following week
  - This had been news since June 2014, and happened to coincide with the accounting scandal

Investment Thesis Revisited

Significant Room for Growth	• Option still in place to acquire remaining 51% of Worldwide Plaza • Company continues to expand portfolio to market rent prices
Attractive Valuation	• Lower share price makes current valuation even more attractive • Accounting mishap has minimal effects on the financials of NYRT
Strong Near-Term Catalysts	• The company continues to explore strategic alternatives • Recent devaluation makes it an extremely attractive buyout target

Near-Term Catalysts

- **Recent signing of KPMG as the company's auditor:** Given the recent accounting faux-pas with ARCP, the addition of an industry leader as an auditor should lead to regained confidence in NYRT's reporting practices

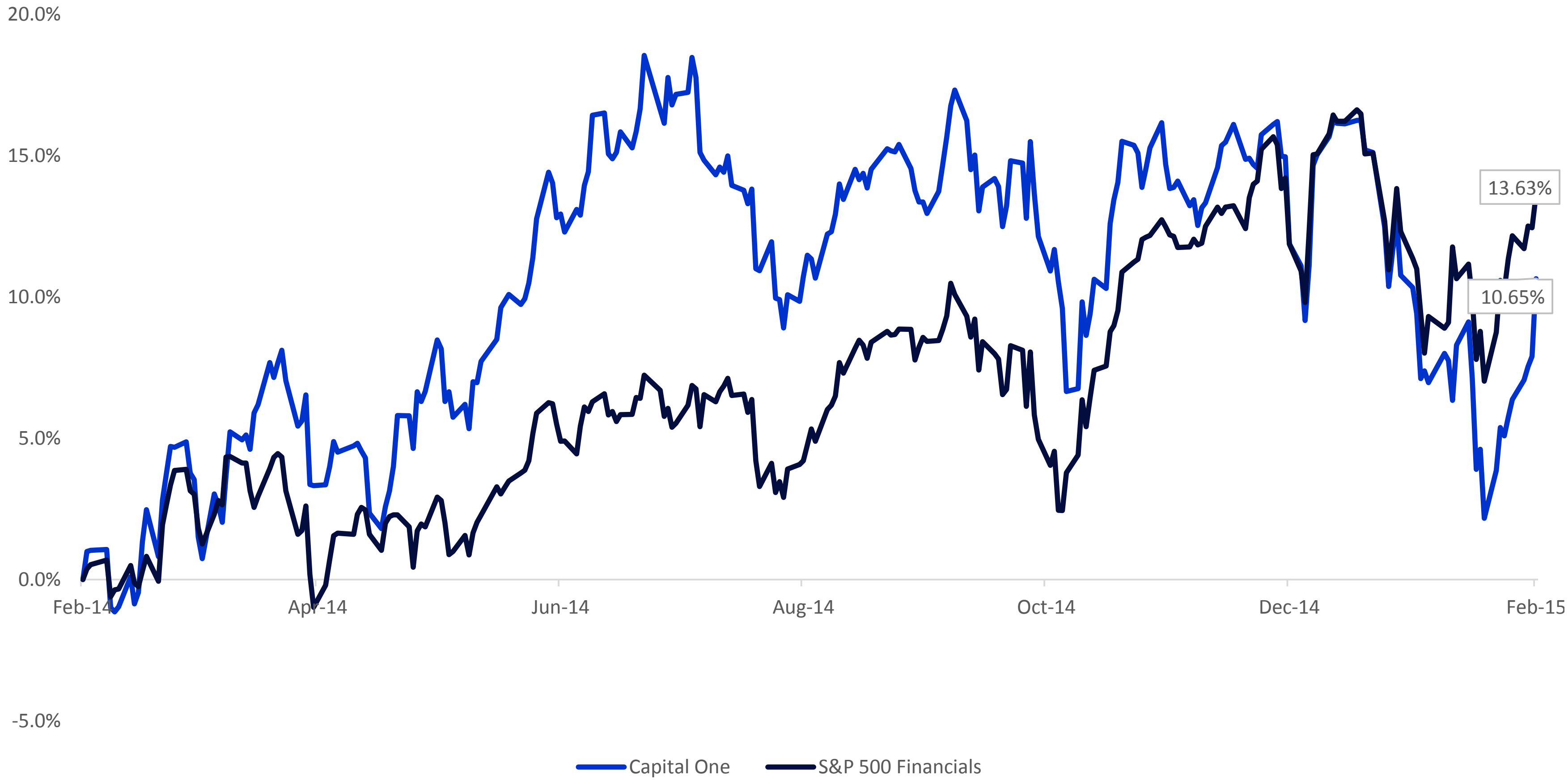
- **M&A Activity:** Management has continued to reiterate that it is exploring its strategic alternatives
  - Given the recent decline in share price over the last 2 months, NYRT is now an even more attractive acquisition target, given its strong lease portfolio and discount to Net Asset Value

Holdings Review

Capital One

Holdings Review: Capital One Financial
Revised Investment Thesis

Recent Miss In Earnings Resulted In Underperformance



Source: Bloomberg as of 2/12/2015.

Holdings Review: Capital One Financial
Revised Investment Thesis

Last Two Quarter Earnings Hiccups Don't Undermine COF's Fundamental Strength

Continued Return of Capital

- **Original Thesis:**
  - COF successfully integrated two of the largest financials acquisition since 2007 and shift its focus away from growth toward a traditional financial institution strategy of returning capital to shareholders
- **Update:**
  - Announced $2.5B share repurchase over 2014-2015 (~5.3% of float)
  - Repurchase program is expected to continue in 2015-16, with a possible increase to $2.6B from $2.5B

Underrated Fundamental Strength

- **Original Thesis:**
  - Best in class capital ratios, NIMs and loan quality combined with ambitions on their commercial banking book and revenue diversification speak to the fundamental strength of the bank
- **Update:**
  - Shift in funding strategy as total deposits make up ~81% of liabilities, up from less than 50% pre-2008
  - COF increased provision for loan losses to $1.109B, in light of an expected increase in NCOs
  - Basel III Common Equity Tier 1 capital of 12.4%, vs estimated requirement of 8%

Valuation

- **Original Thesis:**
  - Forward P/E and P/B ratio should expand to comparable average, also approach 5-year average multiples
  - Shift in focus from growth to return of capital warrants valuations inline, or even superior to, banking peers
  - 94% of 2013 revenues come from domestic business, which means greater exposure to the bullish U.S. economy as opposed to the more volatile global economy
- **Update:**
  - N/A

Section II

Insurance

Insurance Industry Review

The ABC’s of Property & Casualty (P&C) Insurance

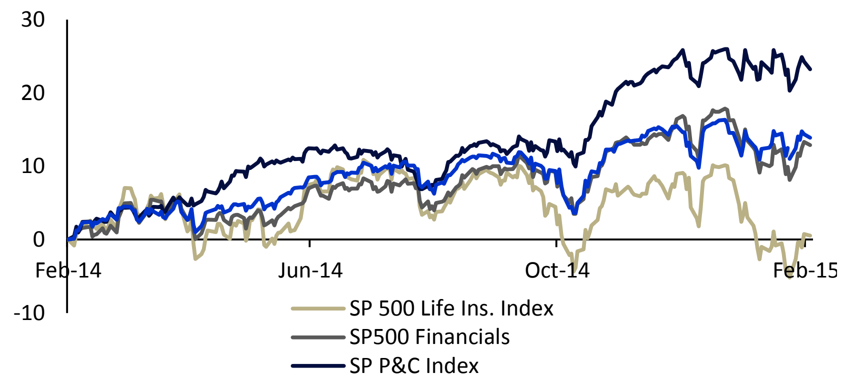
DESAUTELS Capital Management
Gestion de capitaux

The Broader Picture
P&C Has Long Track Record of Outperformance

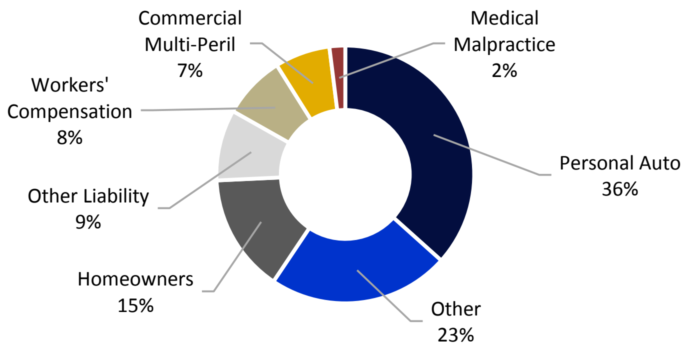
P&C Business Model

Underwriting	Investment Income	Realized Gains
• Revenue generated through premiums that come from new policies • Net premiums = Gross premiums – ceded premiums	• As premiums are collected, they are invested into securities to generate the funds needed to pay claims • Represents the most profitable segment for P&C	• Companies occasionally sell securities before maturity to realize a gain on the sale • Realized gains are often removed from earnings to arrive at operating income

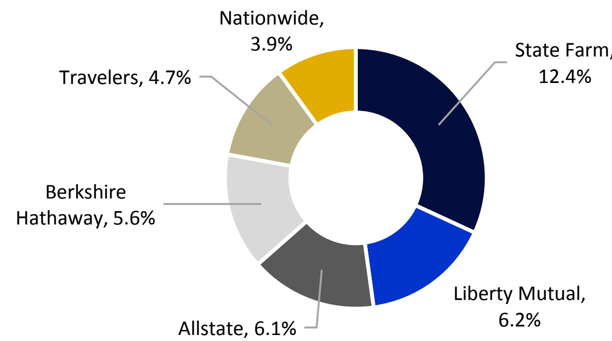
Relative 1Y Trading Among Industry



P&C Industry Premium Mix



The Major Players in P&C



Source: Merrill Lynch Insurance Primer, July 2014

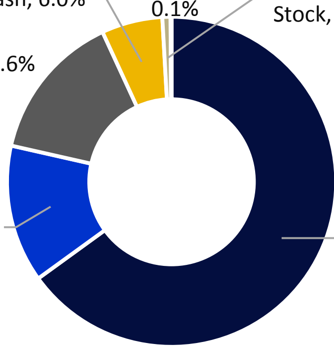
P&C Business Model

Everything You Ever Wanted to Know, But Were Too Afraid to Ask

Underwriting: Key Terms

- **Net Premiums Written:** Gross Premiums – Ceded Premiums = Net Premiums Written
  - When an insurance company writes a policy, the premium collected is called the gross premium. It then takes out a reinsurance policy against the original policy. The premium on this policy is a Ceded Premium
- **Incurred Losses:** Paid claims + Reserve Change = Incurred Losses
- **Combined Ratio:** Expense Ratio + Loss Ratio = Combined Ratio
  - **Expense Ratio:** Underwriting Expense / Premiums
  - **Loss Ratio:** Losses / Premiums

P&C Investment Assets



Source: Merrill Lynch Insurance Primer, July 2014

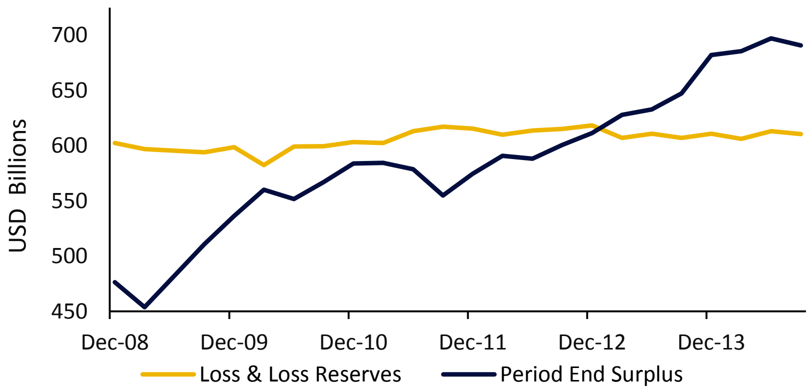
Illustrative Example: Investment Income

	Year 1	Year 2	Year 3	Year 4	Year 5
Long-Tail Portfolio					
Premiums	100	105	110	116	122
Paid Losses	15	31	47	65	83
Increase in Loss Reserves	60	48	35	22	8
Losses Incurred	75	79	83	87	91
Expenses	25	26	28	29	30
Underwriting Income	-	-	-	-	-
Investments	200	274	341	401	451
Investment Income	**14**	**19**	**24**	**28**	**32**
Net Income	14	19	24	28	32
Equity	100	119	143	171	203
ROE	**14.0%**	**16.1%**	**16.7%**	**16.4%**	**15.6%**

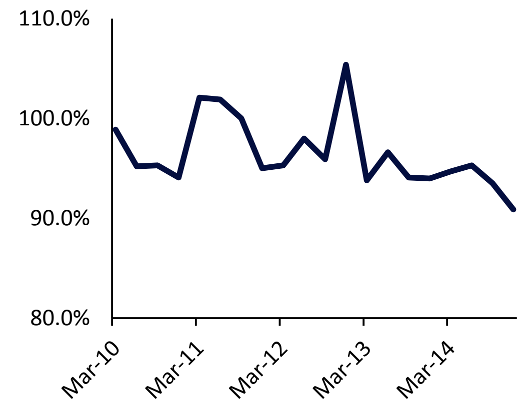
	Year 1	Year 2	Year 3	Year 4	Year 5
Short-Tail Portfolio					
Premiums	100	105	110	116	122
Paid Losses	60	78	82	86	90
Increase in Loss Reserves	15	1	1	1	1
Losses Incurred	75	79	83	87	91
Expenses	25	26	28	29	30
Underwriting Income	-	-	-	-	-
Investments	200	229	246	264	283
Investment Income	**14**	**16**	**17**	**19**	**20**
Net Income	14	16	17	19	20
Equity	100	116	133	152	172
ROE	**14.0%**	**13.8%**	**12.9%**	**12.2%**	**11.6%**

2014 Property & Casualty Review
Only the Strong Will Survive

P&C Loss Reserves & Surplus



P&C Combined Ratio



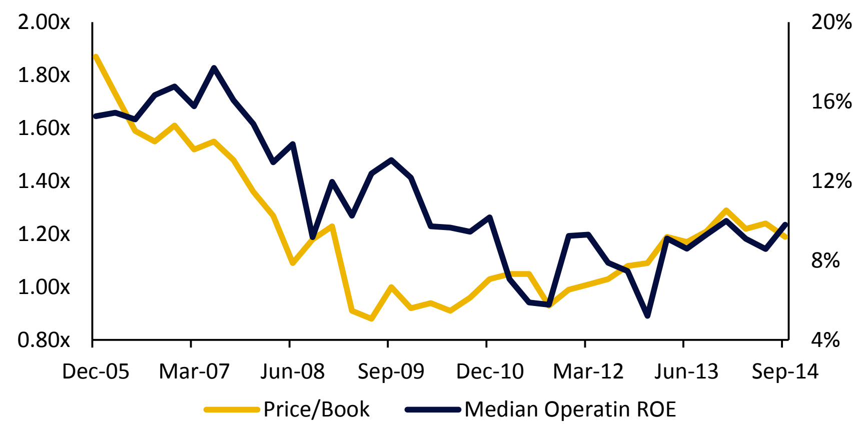
- Stable retention levels and the ability to reprice underperforming accounts may lead to better margins throughout 2015
- The industry reached its lowest combined ratio since 4Q09

2015 Outlook

- In 2015, a number of challenges may face P&C insurers, including:
  - **Margin compression** due to the progression of the price cycle. In 3Q14, 29% of brokers reported 1% to 10% price decreases for commercial property coverage
  - **Lower Investment portfolio yields** coming from a material change in the interest rate environment. Magnitude of effect will depend on duration of investment portfolio for each company

Companies with profitable underwriting practices as well strong efficiency practices will fare better in 2015 than competitors

P&C ROE & Price/Book Multiple



Source: Bloomberg

Mini Pitch: National General Holding Corp.

National General Holdings Corp.

Mini Pitch: National General Holding Corp.

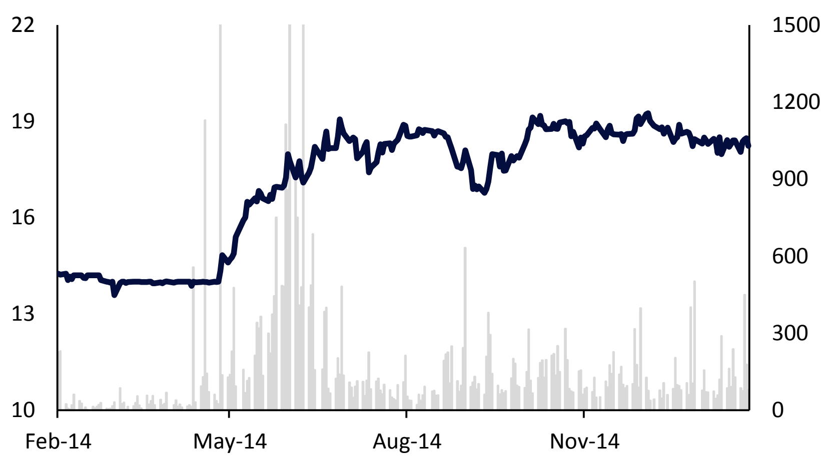
Company Overview

National General Holdings Corp.

Pure-Play P&C

- Specialty personal lines company that provides personal and commercial auto insurance, health insurance, and other niche insurance products.
  - The company is made up of two segments: Property & Casualty and Accident & Health; the P&C segment accounts for 98% of Gross Written Premiums
- NGHC was founded in 2009 to acquire the private passenger auto business from Ally Financial.

1-Yr Price Chart



Source: Bloomberg

Public Market Overview

Public Market Overview	
(values in $M, as of Dec. 31, 2014)	
Share Price	$18.23
S/O (mm)	93.4
Market Cap.	**$1,702.7**
+ Total Debt	$300
+ Minority Interest	$0
+ Preferred Shares	$91.7
- Cash	$118
Enterprise Value	**$1,976.5**
Beta	0.723
Dividend Yield	0.27%
Return on Common Equity	8.01%
52-Week High	$19.25
52-Week Low	$13.58

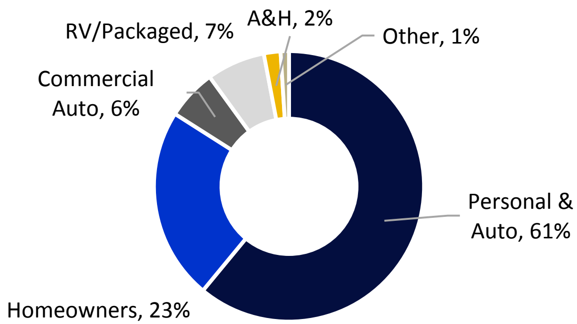
		FY2015	FY2016

Financials & Multiples	LTM	FY2015E	FY2016E
(values in $M)			
Revenue	$1,864	$2,198	$2,497
% Growth		*18%*	*14%*
Operating Income	$54	$154	$186
% Margin		*183%*	*21%*
Adjusted EPS	$1.35	$1.64	$1.89
% Growth		*21%*	*15%*
Combined Ratio	*11.38%*		
P/E	*14.27x*	*11.12x*	*9.7x*
P/B	*1.71x*	*1.45x*	*1.28x*

Mini Pitch: National General Holding Corp.

Company Overview

Business Mix by Segment



Relationships with Affiliates

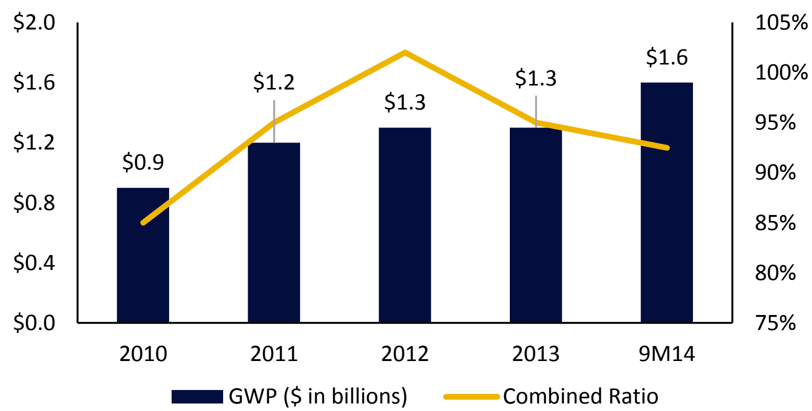
National General Holdings Corp.

AmTrust Financial	Maiden Holdings	ACP Re
• AmTrust provides IT systems development & asset management to NGHC • Karfunkel family ownership of 59%	• Reinsurance company focused on non-cat lines • Karfunkel family ownership of 28%	• Bermuda based Reinsurance company • Privately owned by Karfunkel family

Top-Notch Management Team

- The Karfunkel family owns over 62% of shares of NGHC. Michael Karfunkel acquired GMAC in 2010, restructured it, and has since made 12 acquisitions to grow the business
  - **Michael Karfunkel, CEO** has 40+ years experience in the financial services industry, and also serves as Chairman of AmTrust Financial Services.
  - **Michael Weiner, CFO** 19+ years of experience in the financial services and insurance industry, including time at KPMG, Citigroup, and Bankers Trust Co.

Improving Premiums & Efficiency



Source: NGHC 3Q14 Investor Presentation

Mini Pitch: National General Holding Corp.

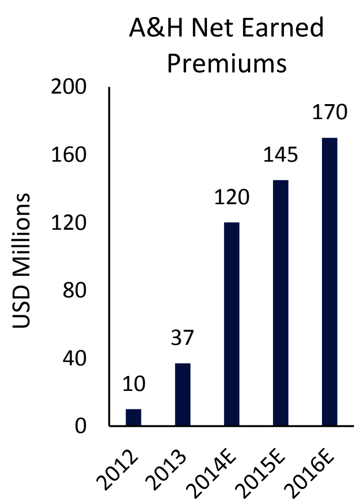
Proven Track Record for Acquisitions & Runway for Growth

National General Holdings Corp.

Total Acquisition Value of ~$155 million

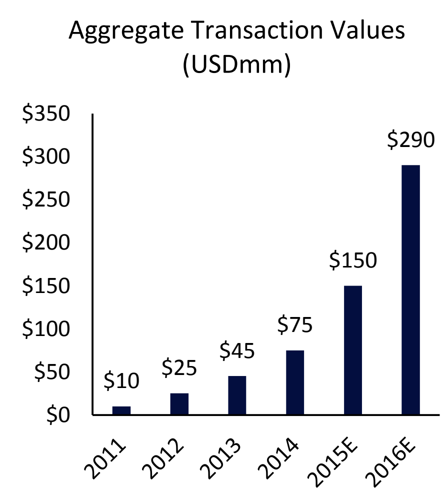
- **September 2011:** Acquisition of Agent Alliance
- **December 2011:** Acquisition of ClearSide General
- **November 2012:** Acquisition of National Health Insurance Company
- **November 2012:** Acquisition of National Health Insurance Company
- **April 2013:** Acquisition of Euro Accident
- **June 2014:** Acquisition of Imperial
- **September 2014**: Tower Group Personal Lines transaction

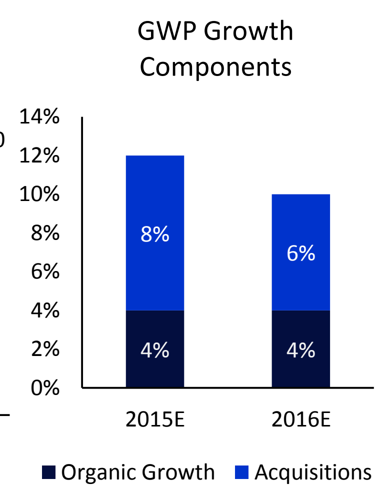
Growth from Multiple Segments…



- **Homeowners' growth potential is high:** A relatively new line for the company, homeowners' insurance helped drive the combined ratio from 96% in 2013 to 92% in 2013.
- **Accident & health business is gaining scale:** GWP increased from $8 million in 2012 to $125 million in 2014. As this segment gains scale, underwriting margins are expected to increase

…Aided by Continued Acquisitions





Source: NGHC 3Q14 Investor Presentation; William & Blair Equity Research

Mini Pitch: National General Holding Corp.

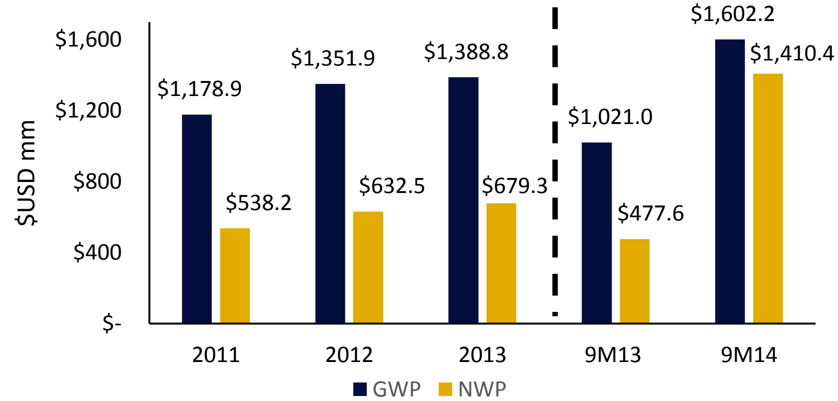
Superior Technology Gives Way to Industry Best Efficiency

National General Holdings Corp.

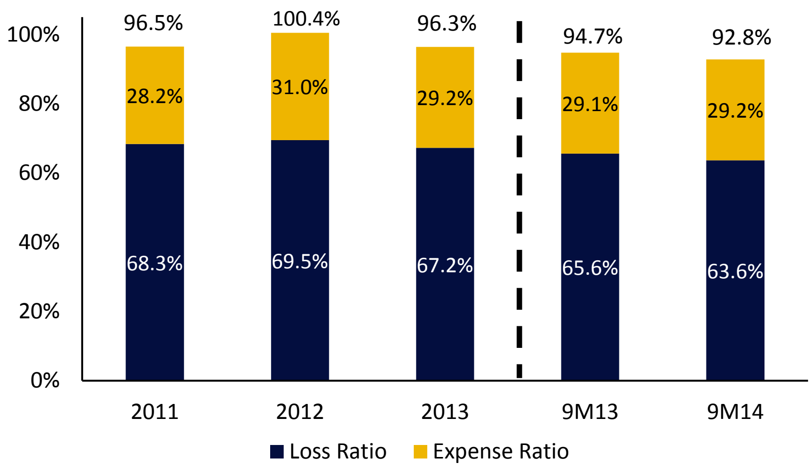
Industry-Leading Technology Platforms…

NPS	RAD 5.0	EPIC
• Scalable, state of the art admin system which allows agents to more quickly sell products • Scalability will results in future cost savings moving forward	• Underwriting pricing tool developed internally, which more accurately prices specific risk exposures • Provides advantage in pricing products	• Siebel-based claims system providing workload & document management • Recently upgraded to the latest Siebel platform

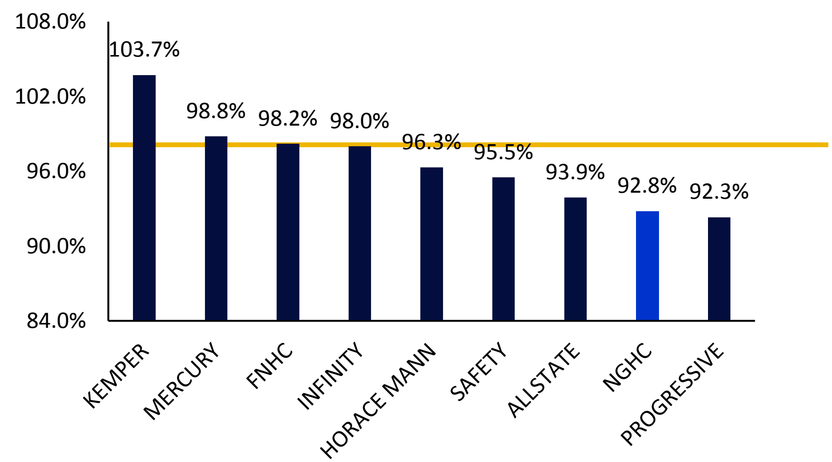
…Allows for Profitable Underwriting



And Declining Loss & Expense Ratios



Leading to Industry Best Efficiency

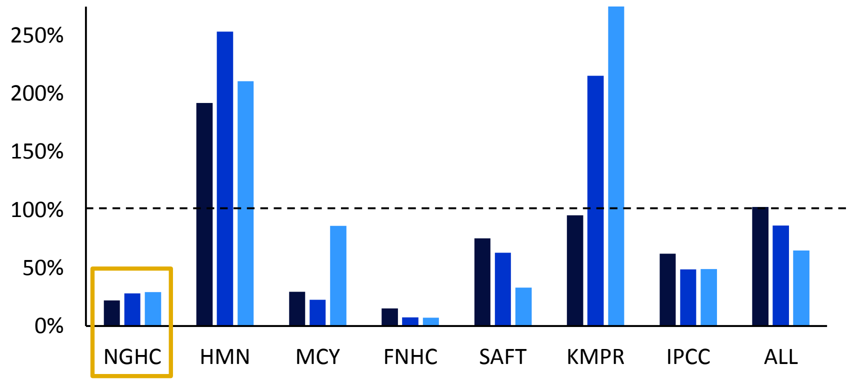


Source: NGHC 3Q14 Investor Presentation

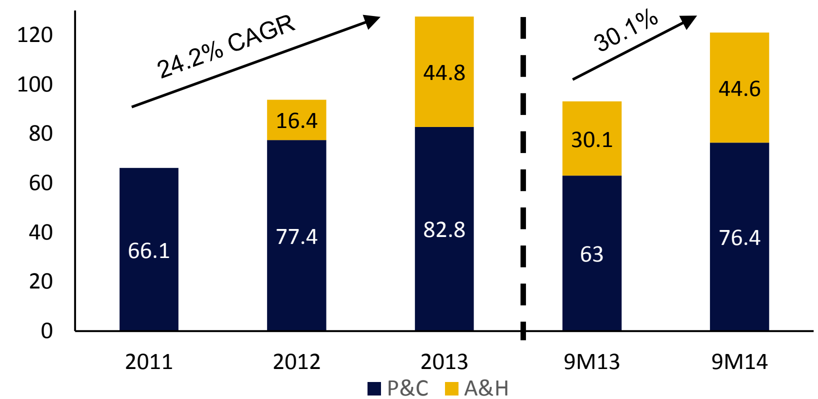
Mini Pitch: National General Holding Corp.

Diversified, Conservative & Sustainable Income Streams

Investment Income as % of Op. Income



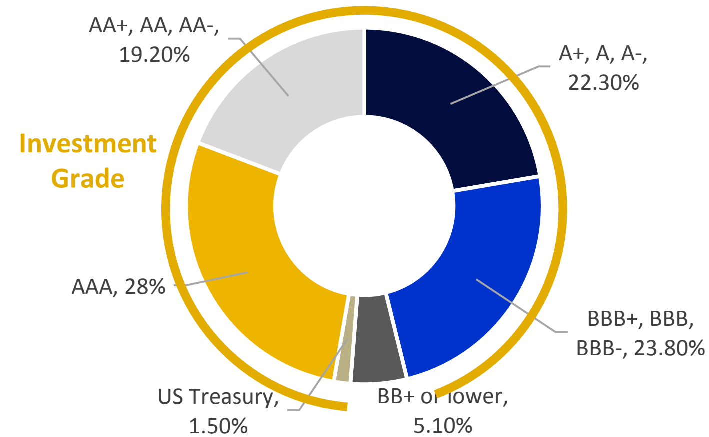
Service & Fee Revenue ($USD mm)



Disciplined Expense Management

- NGHC has an intense focus on disciplined expense management, and seeks to leverage technology to create operational efficiencies which result in reduced expenses. Near term expense-ratio drivers include:
  - **Tower Personal Lines:** After the acquisition closes, the expense ratio will likely be a blend of Tower's historical run-rate and NGHC's P&C segment expense ratio
  - **Systems:** The move of 100% of NGHC policies to NPS and the retirement of 3 legacy systems will benefit the expense ratio at the start of 1Q15

Fixed Income Composition by Ratings



Source: NGHC 3Q14 Investor Presentation; Bloomberg

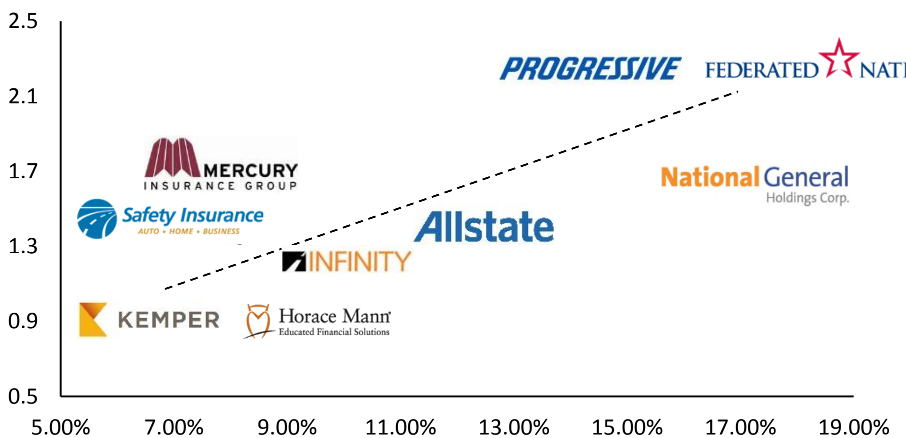
Mini Pitch: National General Holding Corp.

"Yes! Valuation!" – Belal Yassine

Comparable Valuation

Ticker	Name	Mkt Cap (USD)	Last Px (USD)	Net Debt/ Equity	ROE 2014	ROE 2015E	Price/Earnings 2014	Price/Earnings 2015E	Price/Book 2014	Price/Book 2015E
HMN	HORACE MANN EDUCATORS	1,670	31.40	15.27	9.12%	9.28%	13.7	13.0	0.9	0.9
FNHC	FEDERATED NATIONAL HOLDING CORP	415	29.64	-21.56	21.40%	16.96%	11.4	13.3	2.1	1.9
IPCC	INFINITY PROPERTY & CASUALTY CORP	850	73.93	26.46	7.10%	9.04%	18.3	15.9	1.2	1.2
SAFT	SAFETY INSURANCE GROUP	952	63.44	-4.02	8.10%	8.16%	16.3	16.2	1.4	1.3
KMPR	KEMPER CORP	1,900	36.87	32.33	5.53%	6.84%	20.5	14.3	0.9	0.9
MCY	MERCURY GENERAL CORP	2,970	53.93	0	7.50%	7.67%	20.8	19.7	1.6	1.6
Select Comp Average		**1459.5**	**48.20**	**8.08**	**9.79%**	**9.66%**	**16.8**	**15.4**	**1.4**	**1.3**
ALL	ALLSTATE CORP	29,970	71.46	20.34	12.90%	11.37%	12.5	11.5	1.4	1.3
PGR	PROGRESSIVE CORP	15,970	27.11	31.24	17.76%	15.24%	12.5	15.0	2.3	2.1
NGHC	**NATIONAL GENERAL HLDGS**	**1,980**	**18.23**	**16.74**	**12.10%**	**16.20%**	**14.3**	**10.9**	**1.7**	**1.5**

ROE vs. P/B Regression



Based on a regression analysis of ROE vs. P/B, a suggested P/B multiple of 2.04x implies an ~36% upside from NGHC's current 2015E P/B multiple of 1.5x

Mini Pitch: National General Holding Corp.

Summarized Thesis

National General Holdings Corp.

✓ Experienced Management With Strong Acquisition Track Record

- NGHC's tuck-in strategy is to acquire small P&C companies with high expense ratios
- By adding its superior technology platform, NGHC is able to reduce their expense ratio
- Past acquisitions have added scale, new product lines, geographic diversification, and revenue synergies

✓ Significant Room For Growth In Both Internally and Externally

- Expense ratio: As the newly acquired Tower Group is fully integrated into NGHC's systems, it's expense ratio should contract towards to 28% from its current 40%, as its old systems are retired and upgraded
- Premium Growth: Through growth of A&H segment, cheaper reinsurance, and collapsed quota share, NGHC will see significant premium growth in the next 2-3 years

✓ A High Growth Runway Being Discounted by the Market

- NGHC is one of the few growth-oriented insurance stocks in a challenging low-growth/low-interest rate environment. The company's superior growth profile and improving margins should translate into materially higher EPS growth rates and multiple expansion

Section III

Chinese Financials

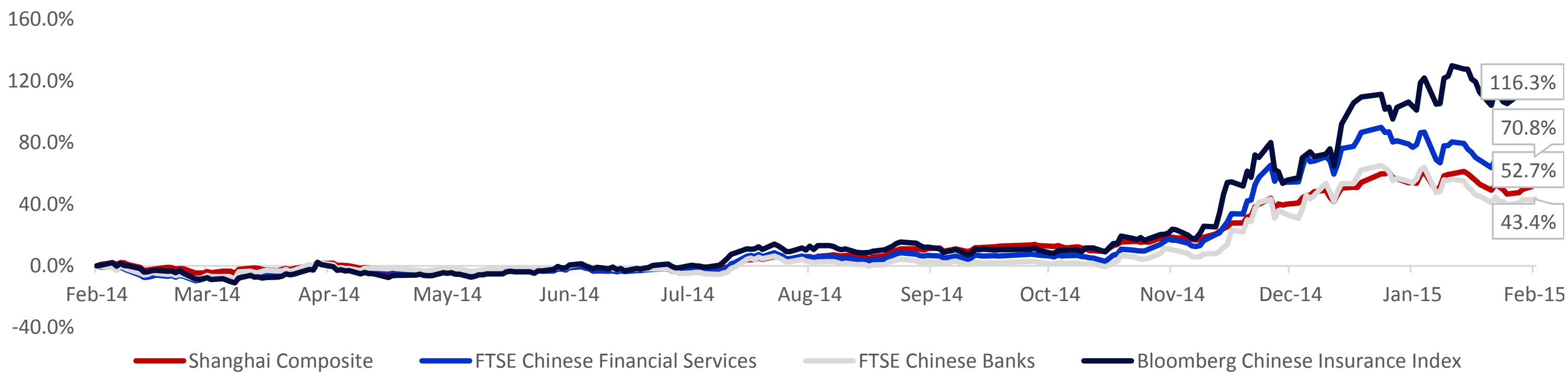
Chinese Financials

Chinese Shadow Banking Overview

DESAUTELS Capital Management Gestion de capitaux

Chinese Financials Performance Overview
Strong Performance Across the Board

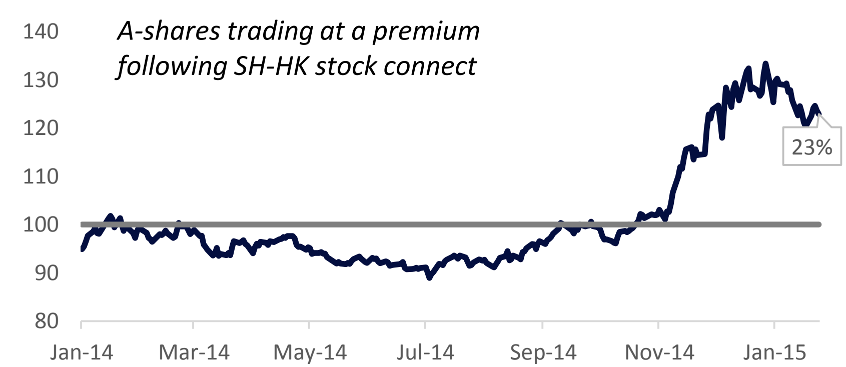
Non-bank Financials Outperformed Bank Counterparts



Main Drivers of 2H 2014 Rally

- Central bank has switched to looser monetary policy
  - $1 Trillion yuan in December
  - Reserve requirement ratio cut in February 2015
- Hong Kong –Shanghai exchange link opened in Nov 2014, leading to outperformance of A-share vs H-shares
- Pent up demand for equities driven mainly by retail investors, who make up 80% of investors

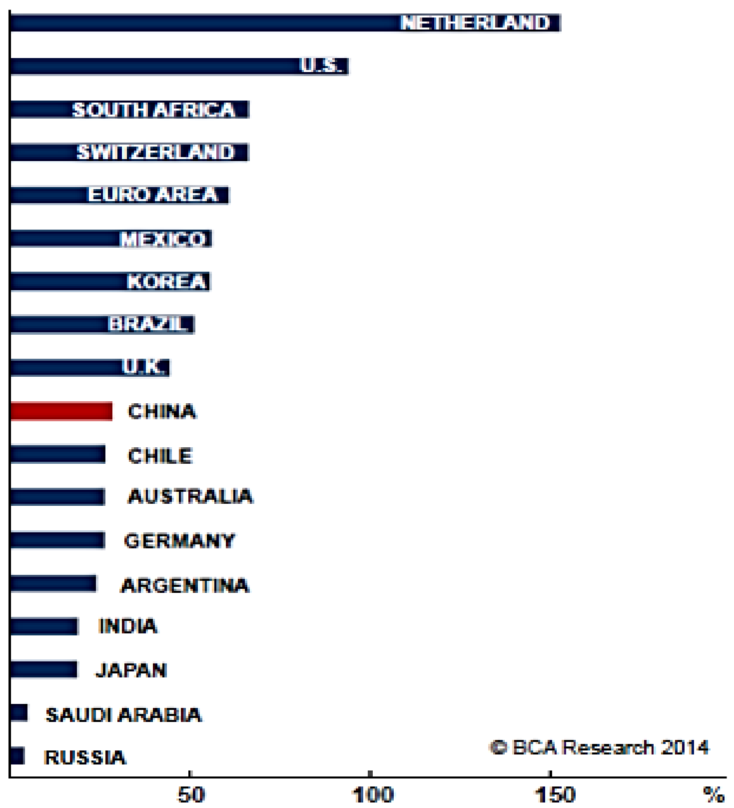
Hang Seng China AH Premium Index



Shadow Banking – The Grey Area of Finance

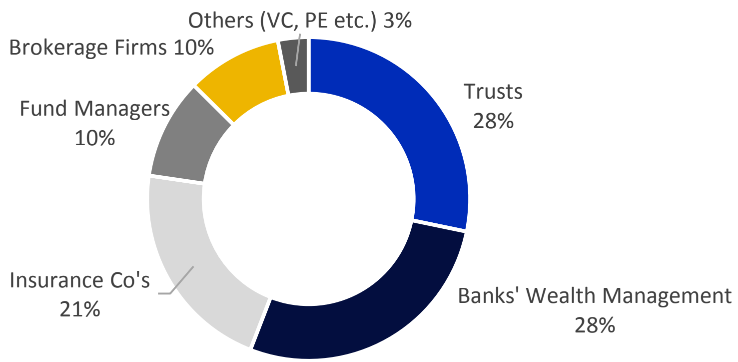
China's Shadow Banking Sector is Relatively Small

Shadow Banking as a % of Official Banking



Not All Shadow Banking Is Risky…

Wealth Management Products by Manager



Source: BCA Research, DB BoAML, BNPP IP compiled research, http://www.international-economy.com/TIE_Su13_Lo.pdf

Mini-Pitch: China Cinda Asset Management Co.

中国信达资产管理股份有限公司
CHINA CINDA ASSET MANAGEMENT CO., LTD.

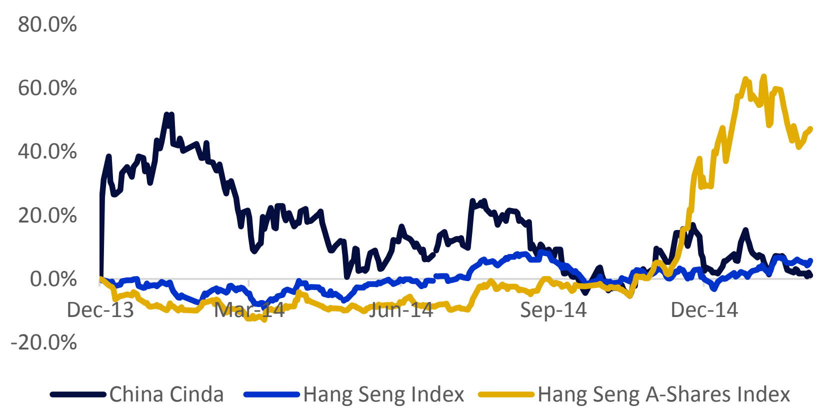
Company Overview
Not Your Traditional "Asset Manager"

中国信达资产管理股份有限公司
CHINA CINDA ASSET MANAGEMENT CO., LTD.

Description

- Invests, disposes and manages non-performing assets and equity
- Provides consulting, investment, financial, and risk management services to individuals and businesses
- Est. in 1999 by Chinese Government to deal with state-owned commercial bank's non-performing loans
- 31 branches in 30 regions

Performance Since IPO



Public Market Overview	
Share Price (HKD[1])	$3.62
S/O (mm)	36257.0
Market Cap.	**$131,250.3**
+ Total Debt (RMB)	$280,619
+ Minority Interest (RMB)	$6,970
+ Preferred Shares (RMB)	0
- Cash (RMB)	$66,998
Enterprise Value (RMB)	**$326,438.4**
Dividend Yield	--
52-Week High	$5.17
52-Week Low	$3.31

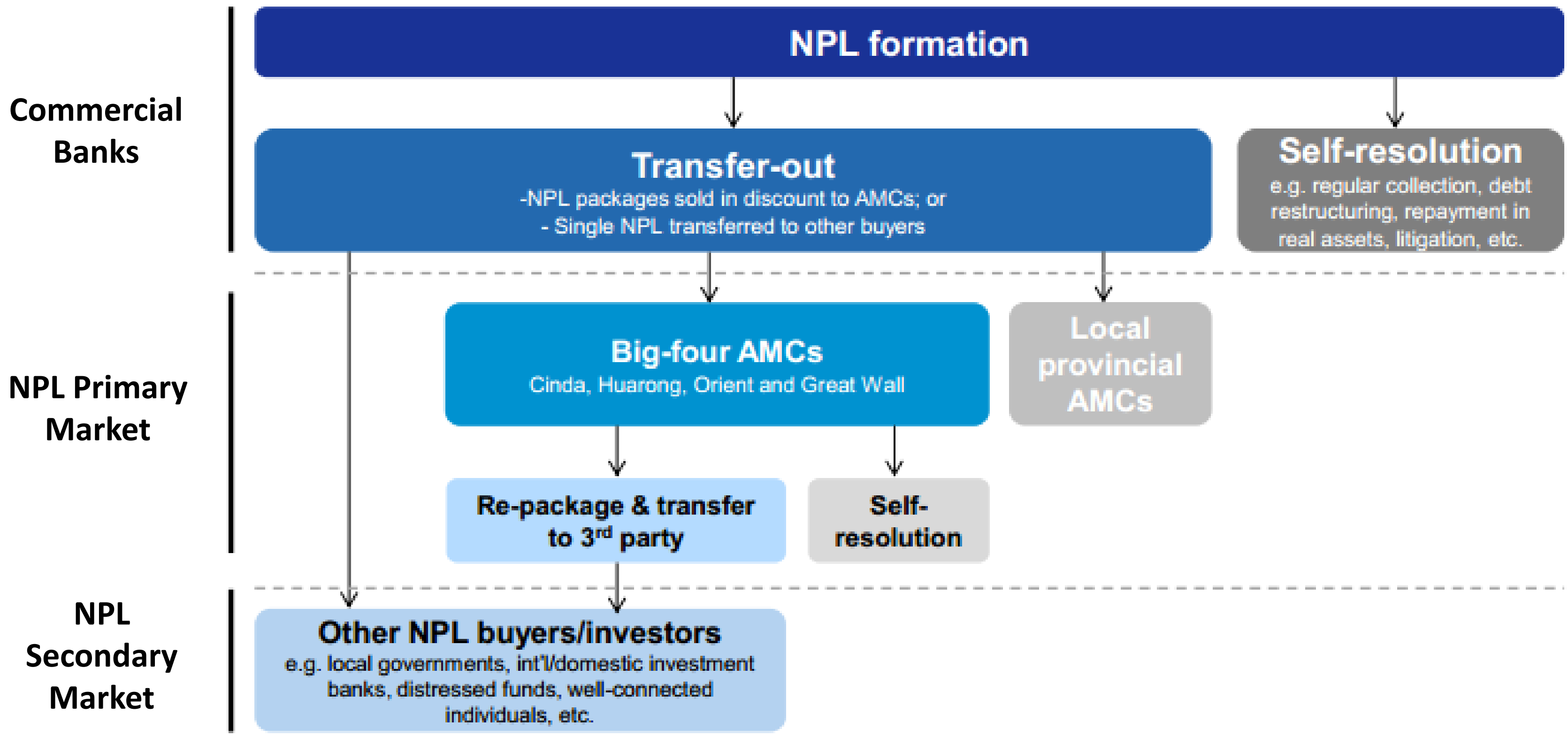
Financials & Multiples	LTM	FY2015E	FY2016E
(values in RMB Millions[2])			
Revenue	$48,241	$67,654	$80,402
% Growth		*40%*	*19%*
Operating Profit	$15,742	$19,930	$23,487
% Margin		*29%*	*29%*
EPS	$0.31	$0.40	$0.44
% Growth		*29%*	*10%*
EV/EBITDA	*14.9x*	*16.0x*	-
P/E	*9.7x*	*7.1x*	*5.9x*
P/B	*1.4x*	*1.1x*	*1.0x*

Source: Bloomberg; company website; (1) HKD/USD = 7.75 (2) RMB/USD = 6.24 as of 2/13/2015.

Business Model Overview

Distressed Asset Management

Specialized Business & Oligopoly With High Barriers to Entry

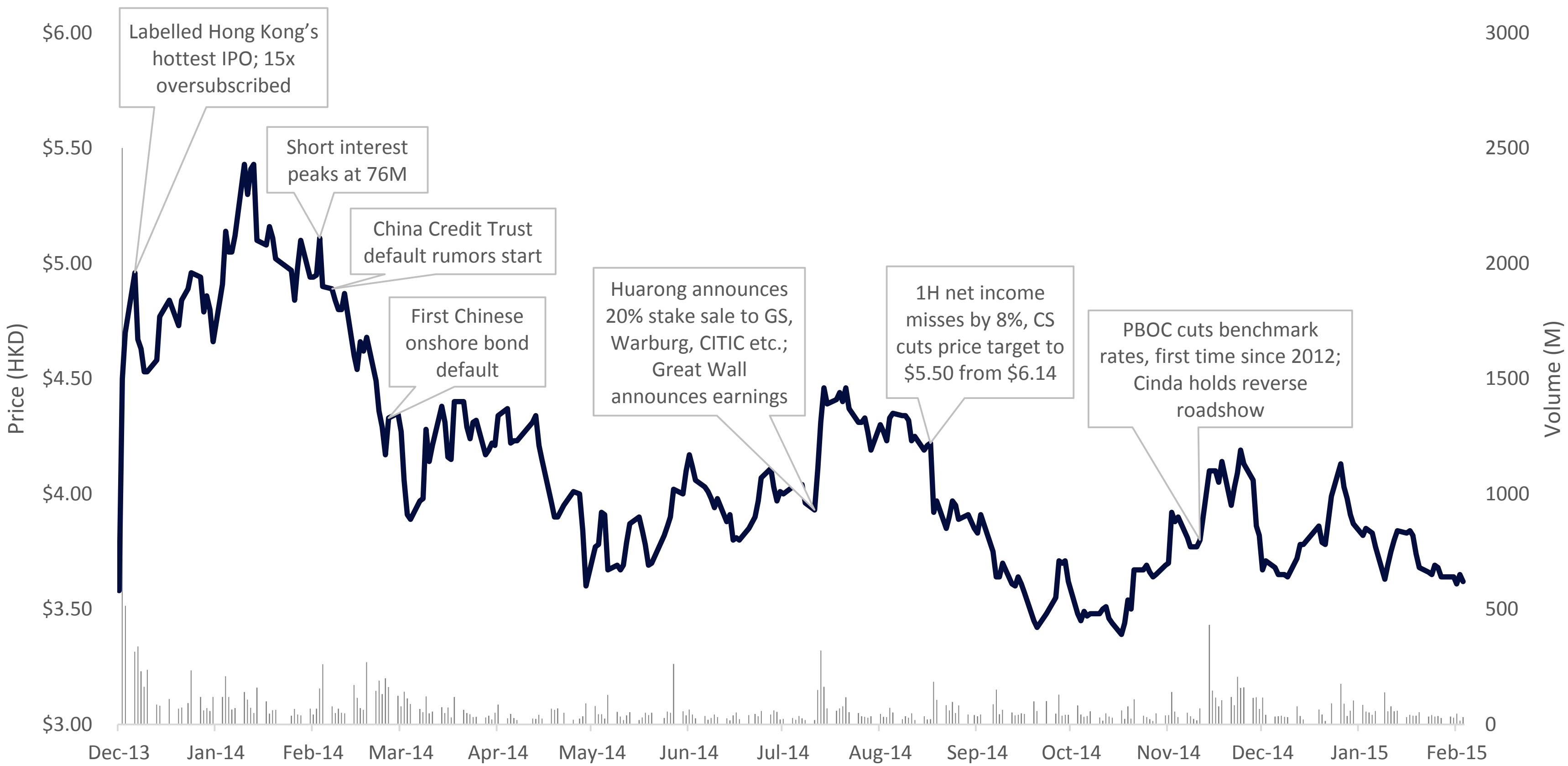


Source: Company documents.

Cinda Asset Management

Price movements partially driven by peer and Chinese financial news

Interest In Cinda Has Fizzled Since The Much-anticipated IPO



Source: Bloomberg as of 02/13/2015.

Investment Thesis

Adequate Supply Of Distressed Assets With Extended Disposal Period From Slowdown

✓ Largest And Most Efficient AMC With Unrivaled Expertise

- 15 years of operation yields unmatched expertise in debt repackaging and restructuring
- Best cash recovery and profitability among China's four asset management companies with highest capital adequacy ratio
- Cheaper funding costs expected due to monetary easing Cinda's and diversification of capital sources

✓ Long-term Macro Investment Themes: Regulatory Boost, SOE Reform, Financial System Deleveraging

- Increase in NPLs and pressure for banks to lower NPL ratios will decrease Cinda's acquisition costs
- Banks more likely to outsource NPL servicing to AMCs as regulatory conditions tighten
- Growth expected from NPLs from 2009-2012 credit boom

✓ Attractive Valuation

- No comps, but inexpensive compared to expected growth
- Market's concerns on real estate and coal exposure seems priced in and overblown

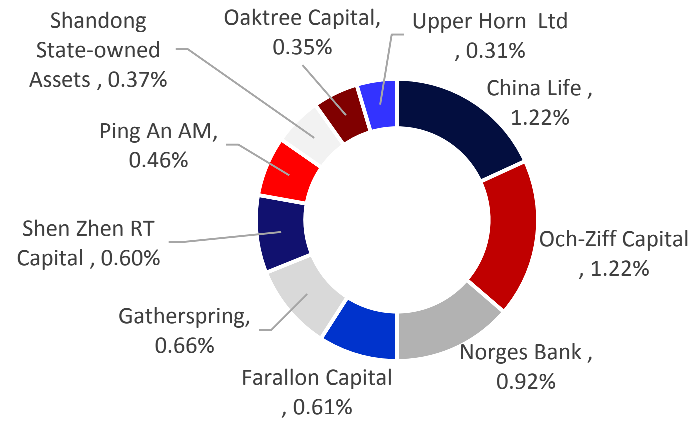
Organizational Structure

Shift Towards Commercialization Has Drawn In Foreign Investor Interest

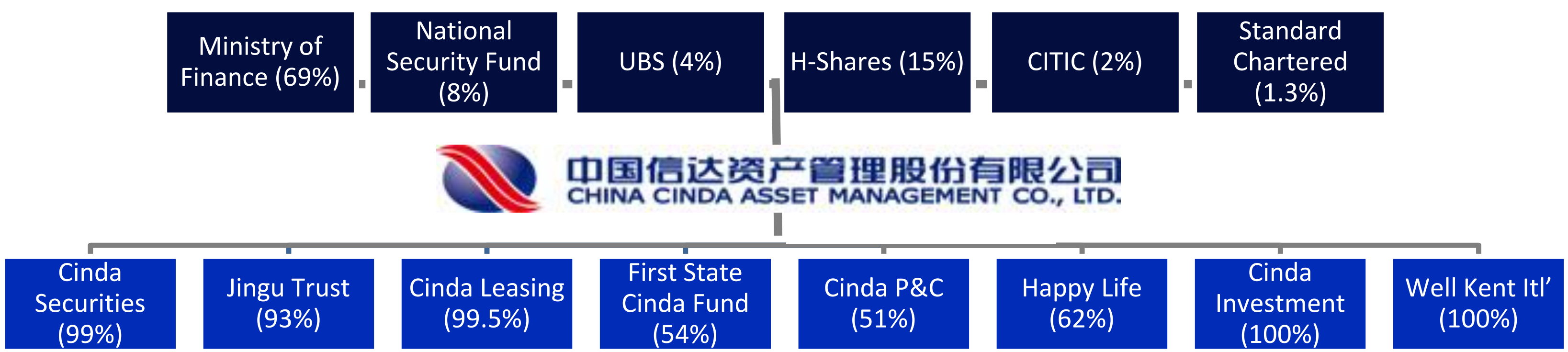
History

- 1980's bad loans in banks from government's shut down of inefficient SOEs
- AMCs were created to acquire "policy distressed assets (PDAs), arranged and priced by the government
- Started acquiring commercial distressed assets in 2004
- Converted into a joint-stock company in 2010; PDAs and associated losses were dealt with by the government
  - Gov't injected $15B RMB upon conversion
- $10B RMB injection from strategic investors in 2012

Ten Cornerstone Investors in IPO



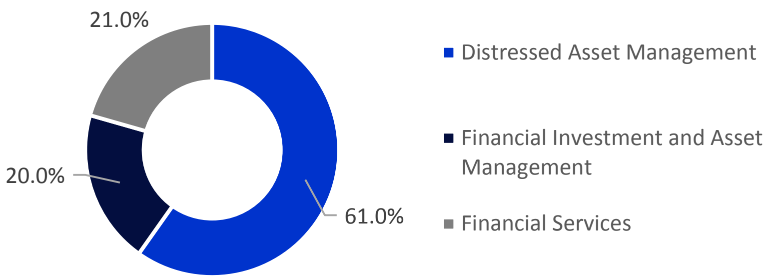
Organizational Structure after IPO



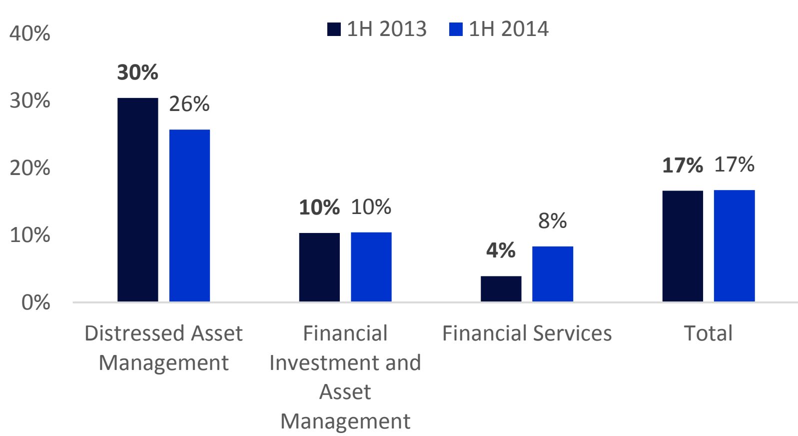
Business Segments

Distressed Asset Management is core business, but diversification has started

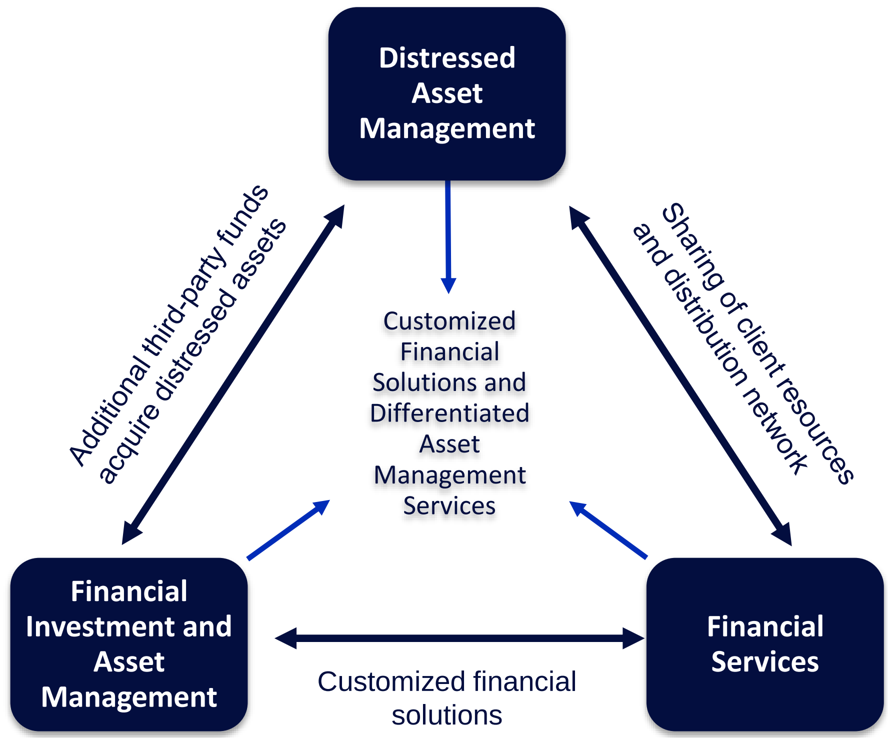
Asset Breakdown by Segment



Pre-tax ROAE (Annualized)



Synergistic Business Model

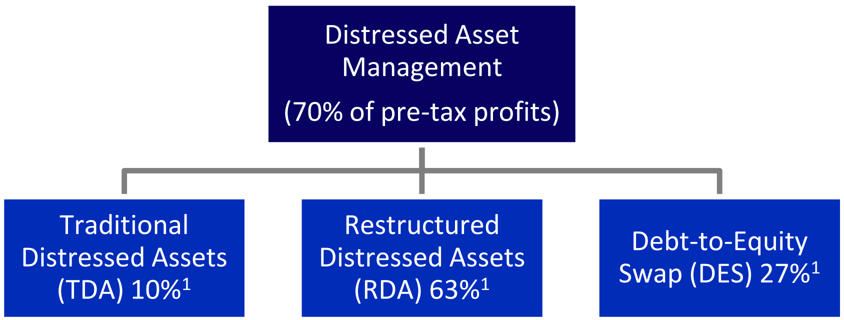


Source: Bloomberg; China Cinda Prospectus 12/2013, Cinda 2014 Interim Update.

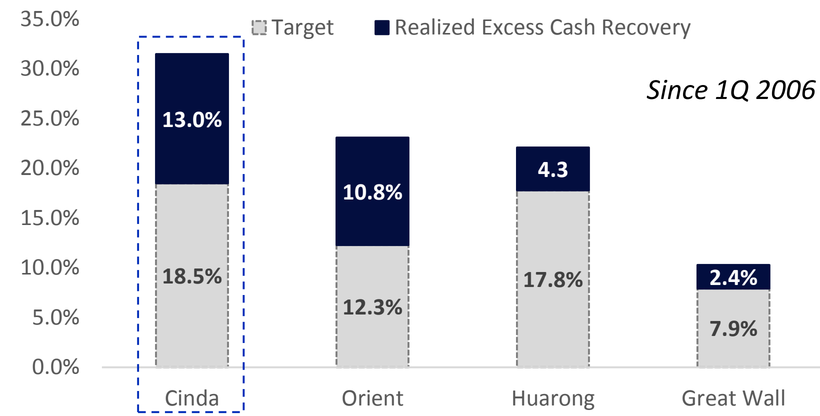
Distressed Asset Management
Damn, that DAM is outperforming peers

CHINA CINDA ASSET MANAGEMENT CO., LTD.

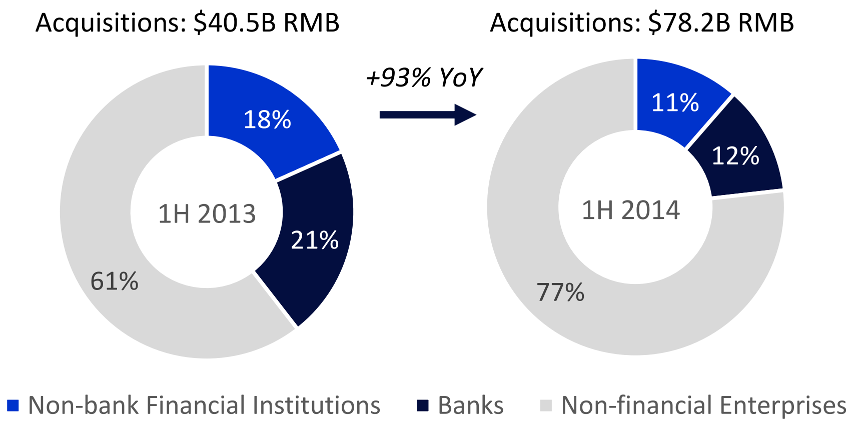
Distressed Asset Management



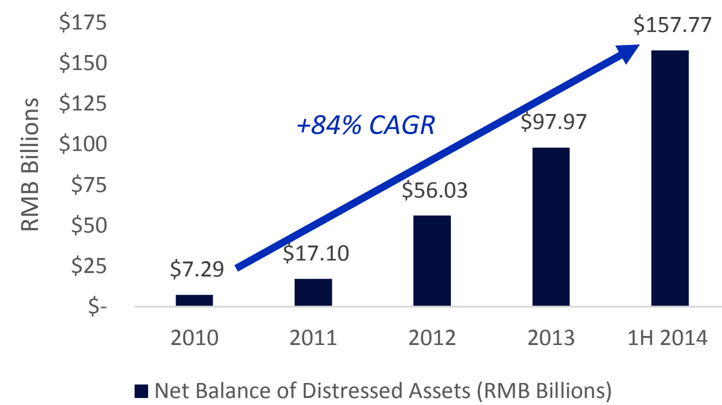
Achieved Highest Excess Cash Recovery



New Sources of Distressed Assets



Volume Growth to Drive Value Creation



Source: Deutsche Bank Research, CBRC, MOF, Data from FY 2013; (1) % of assets.

Funding Sources

Expected Funding Cost Declines As PBOC Eases Monetary Policy

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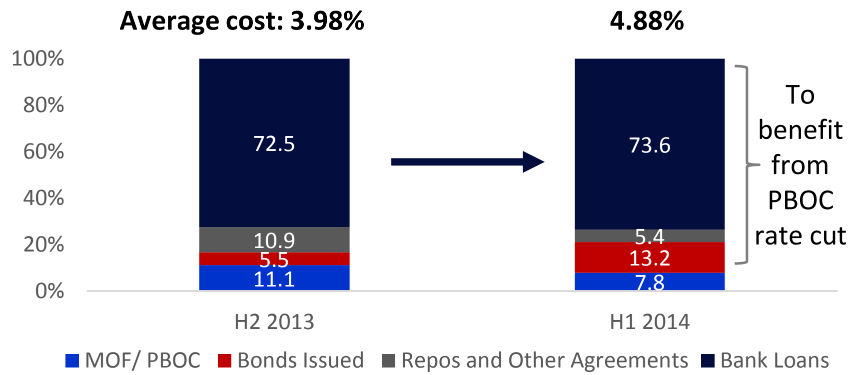
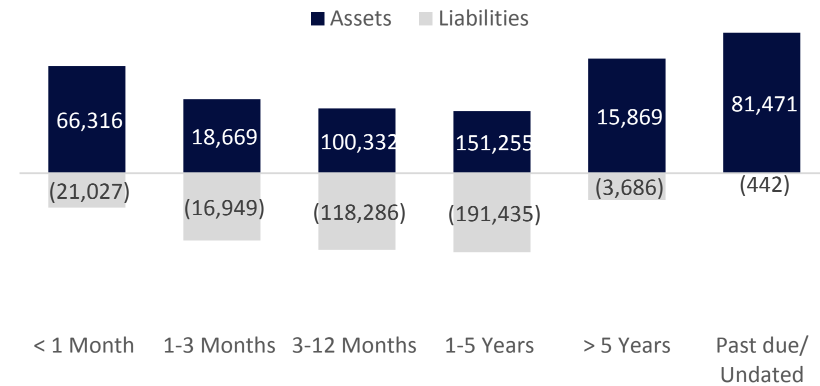
CHINA CINDA ASSET MANAGEMENT CO., LTD.

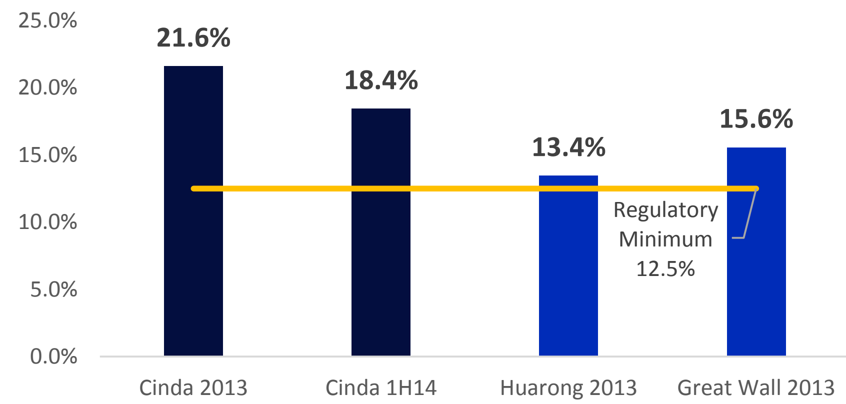
Diversifying Interest Bearing Liabilities…



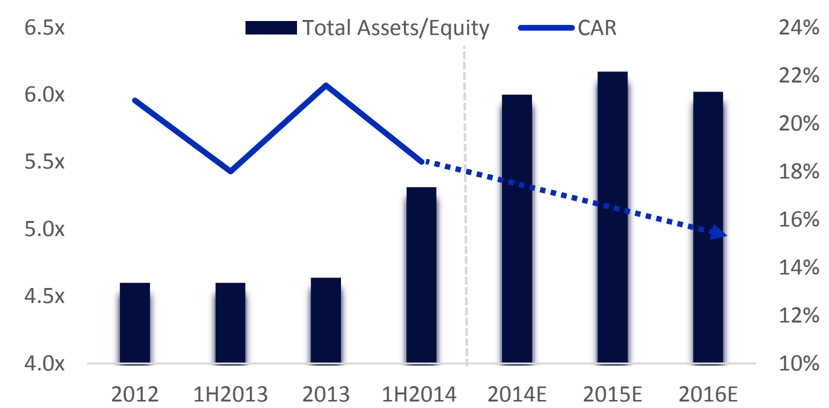
Improves Credit Profile w/ A/L Matching



Strongest Capital Position Among AMCs…



Opens Capital to Grow A/E Multiplier



Source: Credit Suisse, Deutsche Bank, Cinda Interim Results 2014.

Industry Outlook
Expected Growth In NPLs Should Lower Cost Of Acquisition

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CHINA CINDA ASSET MANAGEMENT CO., LTD.

Structural Reform Of Economy and SOEs

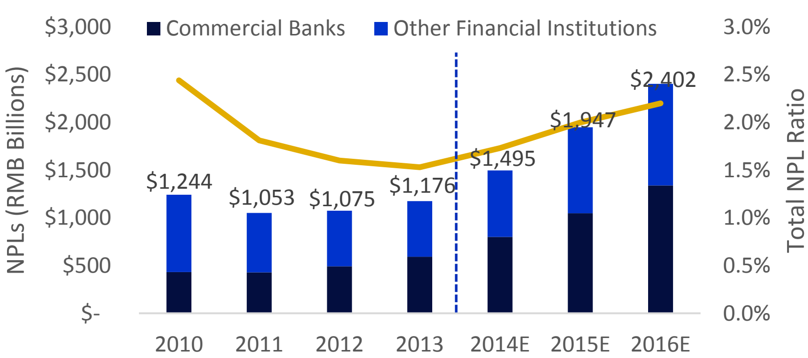
- Gov't encouraging removal of NPLs to open up balance sheet for lending and credit growth
  1. Total assets of the Chinese banks >100x of total assets of the four AMCs
  2. Non-financial enterprise restructuring market to expand, as government limits financing to SOEs
  3. M&A in SOE dominated industry to increase

Regulatory Reforms

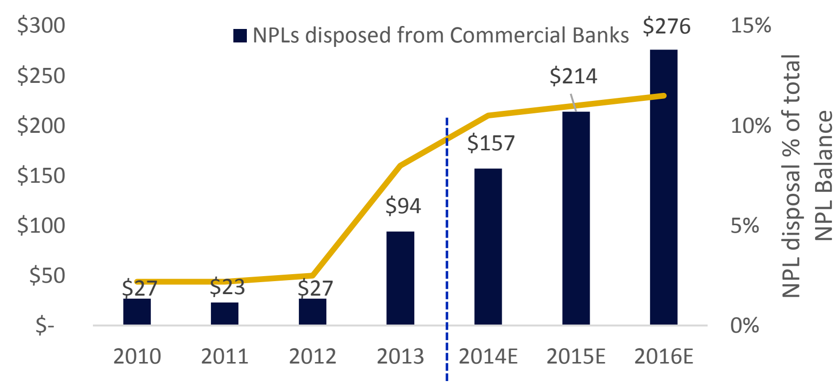
- 2006 Bankruptcy Law enacted in China allowed AMC to take creditor rights for banks
- Dec 27 2014 PBOC's new rules of interbank deposits from other financial institutions (FI)
  - To be included in the loan-to-deposit ratio, increasing pressure to remove NPLs from B/S

Management Outlook: "As the reform of real estate, manufacturing and other industries deepens, there would be significant demand for liquidity solutions, providing significant market potential for NFE distressed assets"

Growing Market of Distressed Assets…



With Pressure For Banks To Lower NPLs



Source: Deutsche Bank Research; company website.

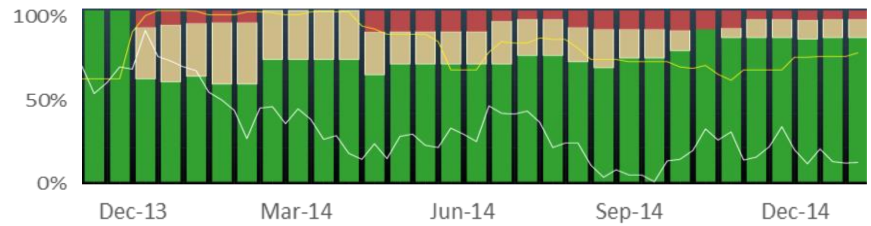
Why Has Cinda Underperformed?
All Concerns Seem Priced In

中国信达资产管理股份有限公司
CHINA CINDA ASSET MANAGEMENT CO., LTD.

What Investors Are Seeing

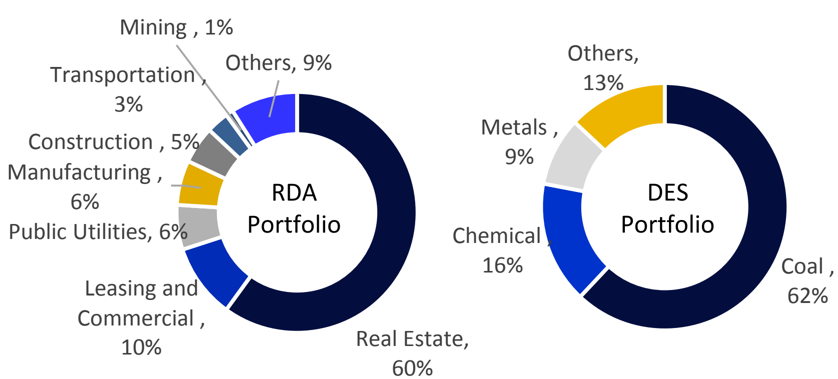
- Sketchy and opaque due to 6-mo reporting cycle, little disclosure on asset book
- General fears of "rising debt" and "slowdown" in China
  - Increase in NPLs is positive rather than negative
- Exposure to real estate as well as coal industry through RDA and DES portfolio, as well as subsidiaries
  - Cinda's real estate exposure is concentrated in Tier 1 and 2 cities
  - Most property overcapacity is concentrated in Tier 3 & 4 cities

Institutional Investors & Street Optimism



Howard Marks, Oaktree Capital[1]:
" Our Cinda investment [included]… strategic aspects of building up relations with an important player in China. The corporate debt market has grown a lot…in tougher times there will be plenty of distress."

Cinda's Portfolio Sector Breakdown



Cinda Unmoved by Property Recovery

Source: Bloomberg as of 2/15/2015, The Conference Board, "The Long Soft Fall in Chinese Growth", (1) Nov 2014.

Valuation

No Comparables (Yet), But Looks Undervalued On SOTP

中国信达资产管理股份有限公司
CHINA CINDA ASSET MANAGEMENT CO., LTD.

Business Segments	ROA	2015E Gearing	Normalized ROE	COE	Growth Rate	P/B	Equity	Value (RMB M)
Distressed Asset Management	3.7%	6.70x	24.8%	14.0%	6.0%	2.35x	$ 57,647	$ 135,398
Financial Investments and Asset Management	2.4%	3.60x	8.6%	12.5%	5.0%	0.49x	$ 26,600	$ 12,910
Financial Services	1.5%	9.10x	13.7%	12.5%	3.0%	1.12x	$ 13,814	$ 15,486
Cinda Group	3.3%	6.50x	21.7%	13.7%	5.6%	2.00x	$ 98,061.00	$ 163,794

Target Price ($HKD)	**$ 5.71**
Implied Upside	57.62%
Implied P/E 2014E	9.2x

Due Diligence Points: "Cross the river by feeling the stones" – Deng Xiao Ping

- ❑ **Measure property bubble risk and macro sensitivity**
- ❑ **Model Out Bull-Base-Bear Cases for a more clear valuation**
- ❑ **Analyze Huarong's prospectus for more transparency on AMC industry**

Recommendation: Risk-to-reward ratio remains attractive, and Cinda is a good play on the long-term SOE restructuring and financial sector development

Possible Pair Trade: Put option on property developers with long position in Cinda

Wait for: March H2 2014 Earnings for more clarity on profitability trends and wait to see market reaction to Huarong's IPO, which will likely occur in Q3 2015

Section IV

Financials Special Situations

Who's The Master: the Forger or the Artist?

Mini Pitch: Why DCM Should Copy Ackman's Bet on Fannie & Freddie

Stock Pitch: Fannie & Freddie

Company Overview

Description

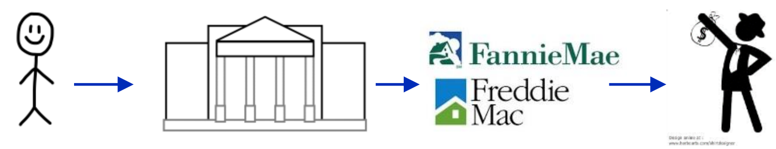
- Fannie & Freddie are mortgage guarantors, and serve an essential link in the U.S. Mortgage Market chain
- Cash generative business where payment is received up-front for promise to pay potential losses in the future
- Asset-light, high ROE business
- Does not rely on funding from the capital markets or derivatives

Business Model

U.S. Homebuyer gets a loan from his/her bank

Bank sells the mortgage to Fannie & Freddie

GSEs guarantee the loan, securitize them into MBS, and sell to investors



Public Market Overview

Fannie Mae ($US)		
US$ in Millions		
Current Market Price as of 15/2/15		$2.75
52-Week High	$6.35	43%
52-Week Low	$1.51	182%
Diluted Shares Outstanding (mm)		1,116.00
Equity Value		3,069

Freddie Mac ($US)		
US$ in Millions		
Current Market Price as of 15/2/15		$2.59
52-Week High	$6.00	43%
52-Week Low	$1.44	180%
Diluted Shares Outstanding (mm)		650.04
Equity Value		1,684

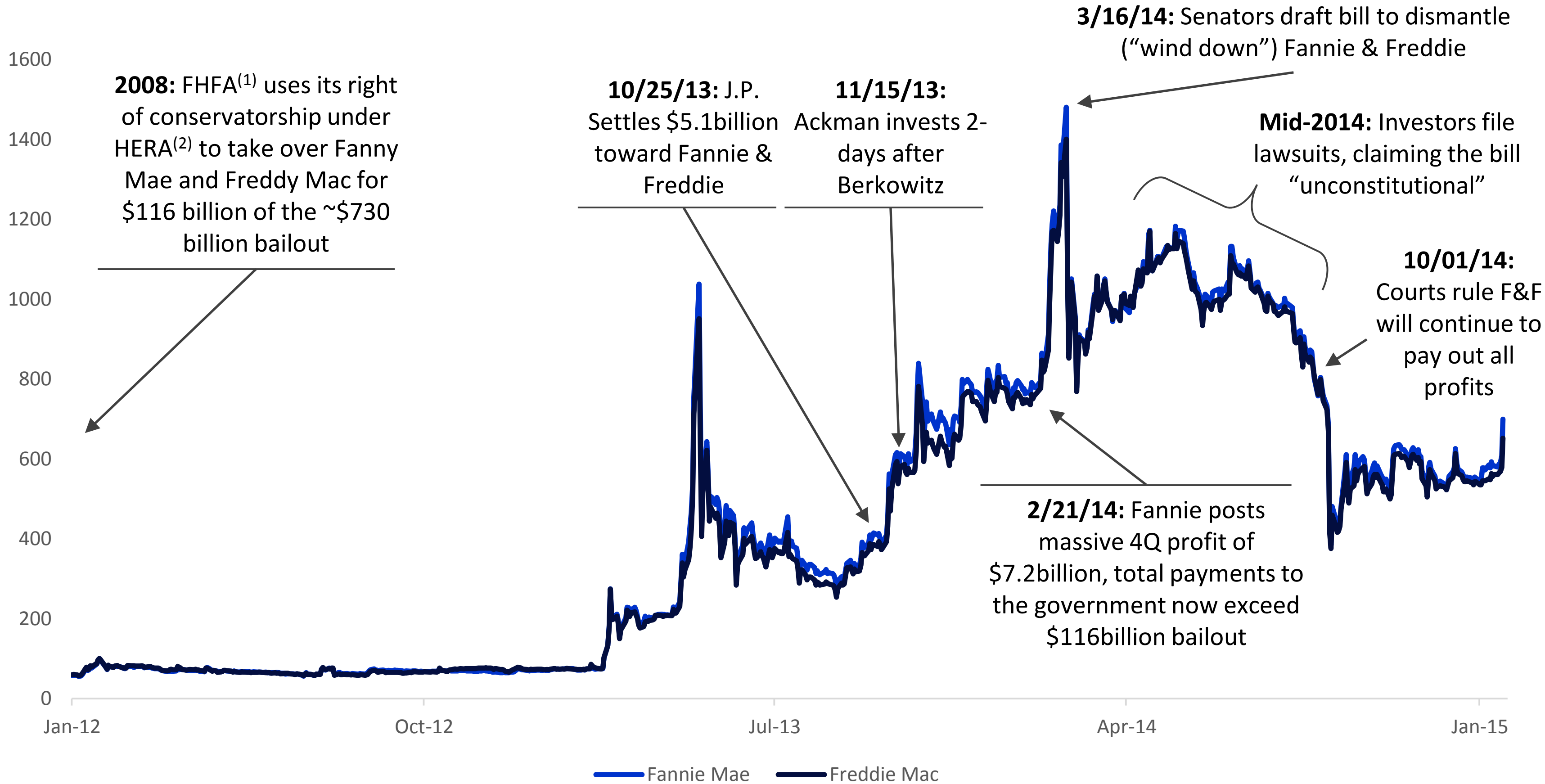
Bill Ackman, Pershing Square (12th February 2015):

"The potential return is tenfold. […] It's the most interesting risk-reward that I'm aware of in the capital markets right now."

Source: Bloomberg; company website.

The Story
Is This Healthcare? No – Just Involves A lot of Litigation

L3Y Price Performance



Source: Bloomberg as of 2/15/2014.
FHFA = Federal Housing Finance Agency
HERA = Housing and Economic Recovery Act

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The Story
A Battle of Titans

U.S. Government

FHFA

- Placed the GSEs into ‘conservatorship’ with the objective of “returning the entities to normal business operations”
- FHFA amends the terms and requires the GSEs to pay dividends equal to ***100%*** of their earnings, called the “Net Worth Sweep”
- **What the U.S. Wants:**
  - Return of capital to taxpayers
  - Housing Market Reform

FannieMae
Freddie Mac

Activist Investors

Bruce Berkawitz, Fairholme Fund

Bill Ackman, Pershing Square

Carl Icahn, Icahn Partners

- **November 2013:** Berkawitz invests ~15% of the value of Fairholme (~$1bn position)
- **November 2013:** Ackman buys 10% of both F&F (~$1bn)
- **June 2014**: Icahn invests $50 million
- **What Investors Want:**
  - Repeal of the Net Worth Sweep
  - No “wind-down”

Recent Developments

- Fannie & Freddie dividends now exceed bailout
- Investors file lawsuits, claiming the Net Worth Sweep is unconstitutional
- Senators draft bill to dismantle Fannie & Freddie
- Court rules in favor of the Net Worth Sweep
- Berkowitz “wages expensive advertising campaigns to derail the bill”
- Icahn presents a 111-page slide-deck on the debate
- Investorsunite publishes an academic paper claiming the FHFA’s actions violate HERA

Source: Bloomberg, News Releases, Pershing Square investor presentation, Investorsunite academic paper.

Stock Pitch: Fannie & Freddie

All The Exposure of A Financial Stock, Without the Hassle

✓ Theme #1: Naturally Oligopolistic, Low Risk, High Profit Business Model

- A look at 2008 shows that losses were actually not as bad as they seemed to be, with high loan loss reserves able to fuel future profits
- Natural oligopoly creates substantial economies of scale
- Government mandated fee increases and normalization of credit losses provides future earning growth

✓ Theme #2: FHFA Will Revise Its Stance on the Net Worth Sweep

- Disbursements from Fannie and Freddie to the U.S. Government now exceed the bailout amounts, and yet the Net Worth Sweep (payout of 100% of earnings to the Government) is still in effect
- Activist investors are putting pressure, claiming the sweep to be "unconstitutional"

✓ Theme #3: "Wind-Down" is Unlikely

- With the current proposed Housing Reform (i.e. a wind-down of Fannie and Freddie), the private sector would have to raise over $500mm either through capital markets, banks, or Private Label MBS which is unprecedented
- The wind-down eliminates an essential chain in the U.S. Mortgage Market, launching the industry in uncharted land

✓ Theme #4: Valuation Stands Tall At $13 a share, or Liquidation Value

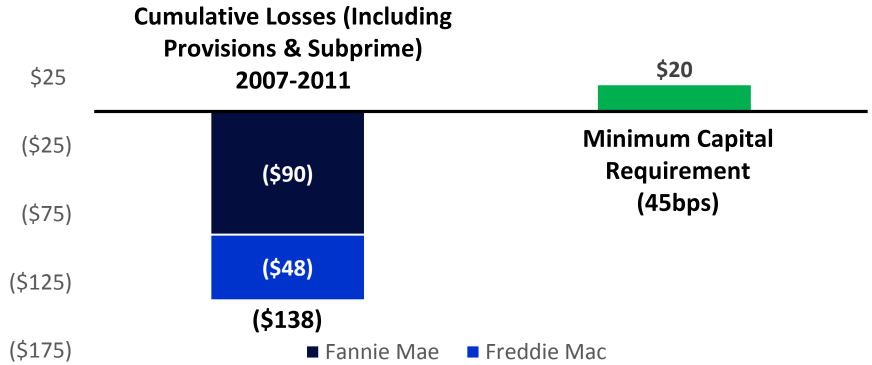
- A Repeal of the Net Worth Sweep or an alternative in the Housing Reform involving Fannie and Freddie would see share price appreciate between 200% – 600%
- That being said, if status quo maintains, it is unclear how much downside we can suffer, dependent on how/when/for how much the U.S. Government decides to liquidate Fannie & Freddie

***Bonus:* A Case Study of Sallie Mae's Wind-Down Shows Upside Even if Fannie & Freddie are Liquidated**

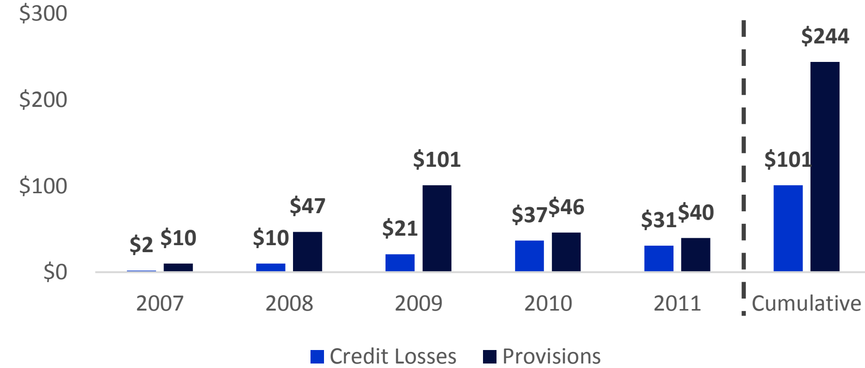
Theme #1: Low Risk, High Profit Business Model

Honestly, How Bad Was 2008?

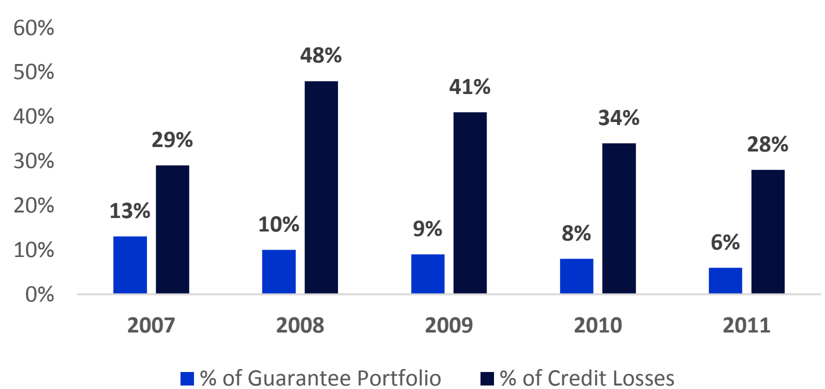
At First Glance, Pretty Bad



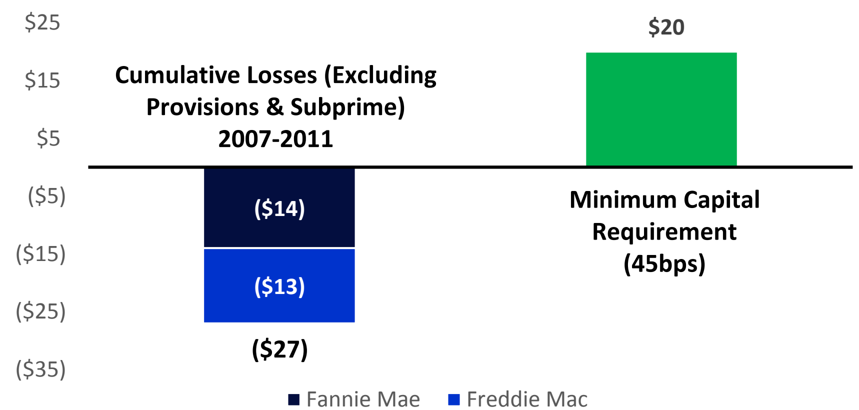
Losses Exacerbated by Provisions[1]...



...And Exposure to the Subprime Market



At Final Glance, Not Bad at All



Source: Company Filings.

(1) Combined Fannie & Freddie. Provisions and Losses include foreclosed property expense.

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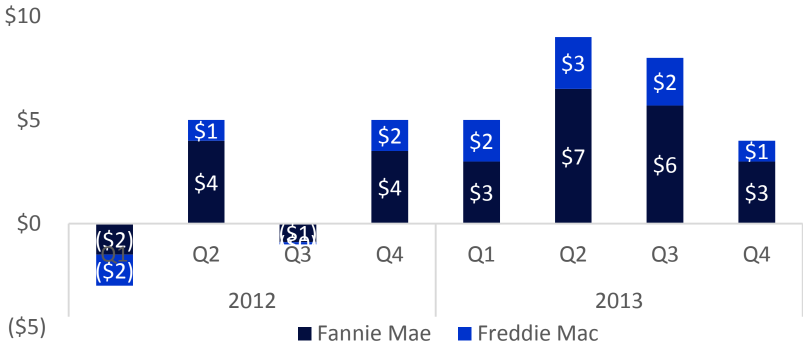
Theme #1: Low Risk, High Profit Business Model
What About Now?

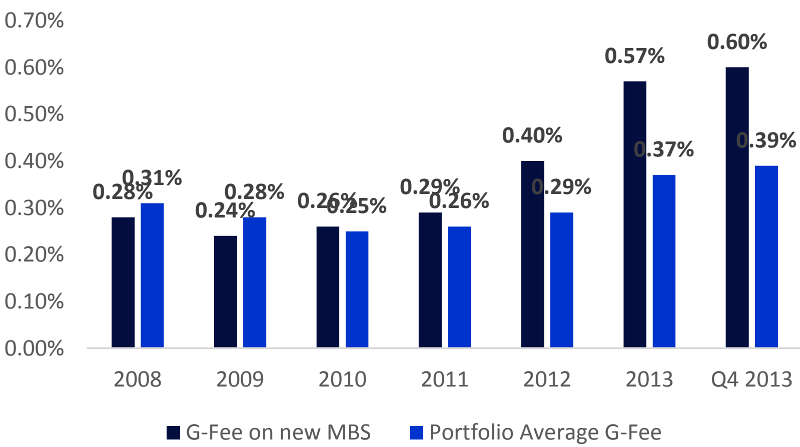
GSE's Guarantee Business is Profitable



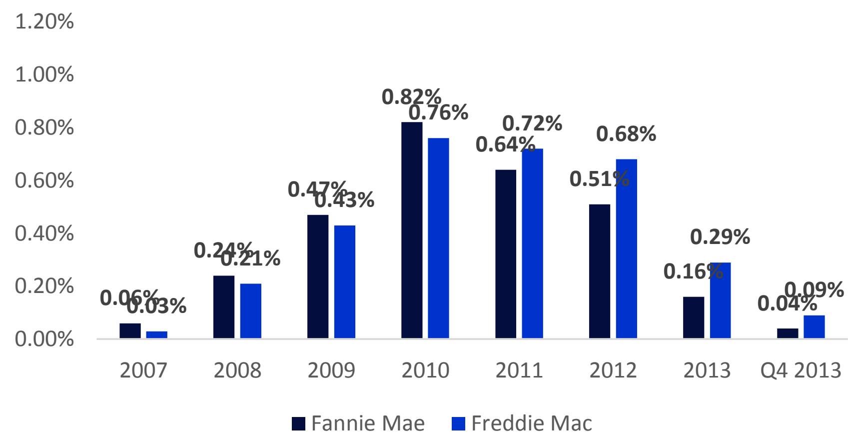
With Enormous Economies of Scale

- Oligopolistic, essential chain-link in the Mortgage Market
- Large MBS issuances are highly liquid
- Portfolios are geographically diverse, which reduce risk
- Economies of scale lower operating costs, which in turn allow for lower mortgage rates
- Flight-to-quality dynamics reduce cyclicality

Government Mandated Fee Increase…



… With Normalizing Loss Levels

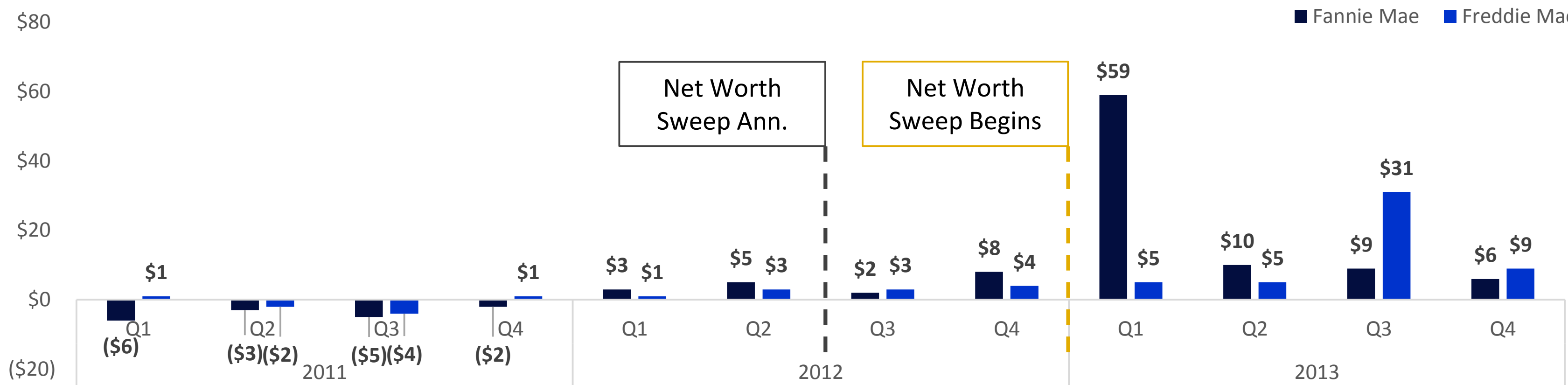


Source: Company Filings.

Theme #2: The Net Worth Sweep

Constitutional or Unconstitutional?

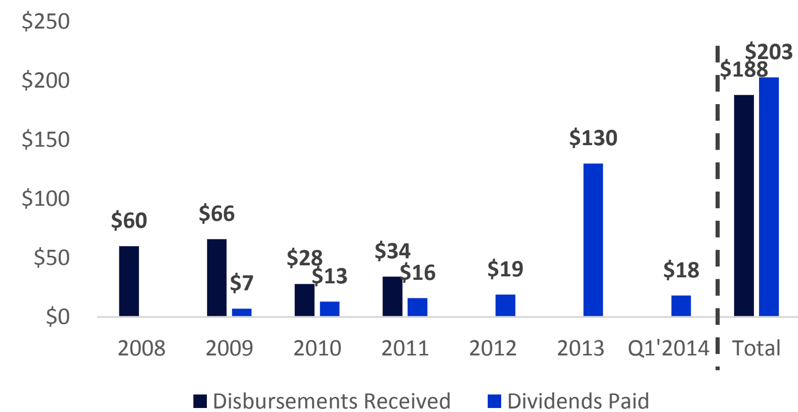
Net Worth Sweep Announced Just After GSEs Return to Profitability



Okay… But Why is it illegal?

1. **Amounts to "unconstitutional taking without just compensation" – Violates the 5th amendment**
2. **Exceeds the scope of the FHFA's authority**
   - Basically effects a "wind-down," which is inconsistent with the responsibility to preserve and stabilize F&F
3. **Exceeds the Treasury's investment authorization**
   - The authorization to purchase new securities ended on Dec. 31, 2009

Disbursements Received & Divs Paid



Source: Pershing Square investor presentation, May 2014.

Theme #3: The "Wind-Down" is Unlikely

Housing Market Reform: Sound Principles, But The Math Just Doesn't Work

The Current Proposal

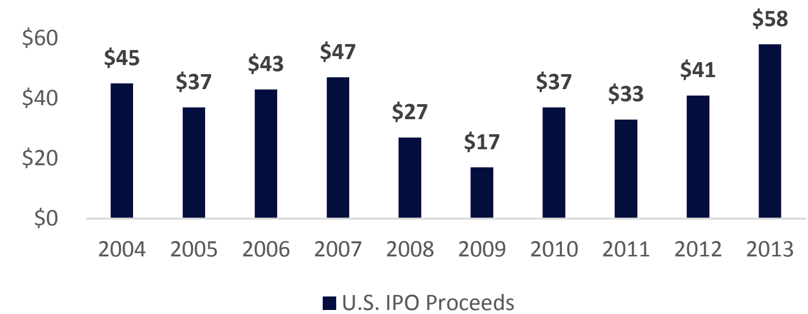
- Capital from **Private Sector** serves as 10% first-loss buffer for eligible MBS
- U.S. Government guarantees the rest of the credit loss after first-loss private capital is exhausted
- Fannie & Freddie are wound-down and their role is eliminated

The proposal removes the taxpayers liability in a downturn, and allows the private market to shoulder the risk

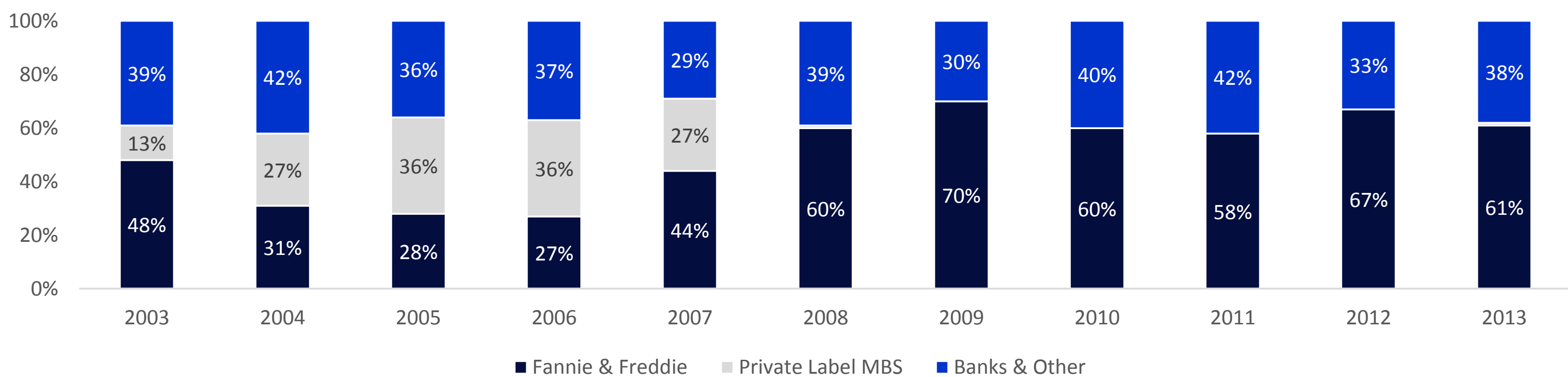
Wait… We Need How Much?!

Total MBS Private Sector Funding Need: ***~$500mm***

Total U.S. IPO Proceeds in the last Decade: ***~$385mm***



Share of Residential Mortgage Originations Since 2003



Source: Pershing Square investor presentation, May 2014.

Theme #4: Valuation Stands at $13 a share, or Liquidation Value

Fannie & Freddie Valuation: A Win-Win for Shareholders & The Government?

Valuation Summary: Upside Any Way You Spin It

	40bps G-Fee	60bps G-Fee	80bps G-Fee	100bps G-Fee
Net Income	$11 bn	$17 bn	$23 bn	$29 bn
Less: Junior Preferred Dividend	($2)	($2)	($2)	($2)
Net Income to Common	**$9**	**$15**	**$21**	**$27**
P/E Multiple	13.00x	14.00x	15.00x	16.00x
Illustrative Future Value	$117 bn	$210 bn	$315 bn	$432 bn
Diluted Shares (bn)	9	9	9	9
Future Value of the GSEs, per share	**$13**	**$23**	**$35**	**$48**
Appreciation from Current Price	*236%*	*424%*	*636%*	*873%*
Future Value of Treasury Warrants	$93 bn	$168 bn	$252 bn	$345 bn

Illustrative Total Return Potential For Taxpayers

Preferred Stock Dividends to Date	203	203	203	203
Plus: Future Preferred Stock Procee	76	76	76	76
Plus: Future Value of Treasury Warr	93	168	252	345
Total Value For Taxpayers	**$372 bn**	**$447 bn**	**$531 bn**	**$624 bn**
Total Cash Investment	187	187	187	187

Assumptions

- Assumes the GSEs are not wound-down
- Assumes G-fees remain at current, elevated levels (~60bps) given the government mandate to increase private sector appeal
- Assumes the GSEs are required to build capital to achieve a 2.5% equity ratio within 7-10 years, as opposed to current minimum requirement of 0.45%
- Assumes the reversion of built-up reserve releases, adding to profits

Of course, should the GSEs be wound down as per current housing sector reform, the shares could be worth substantially less

Shares at current levels provide an attractive risk-return proposition; As well, the U.S. Government can generate an enormous profit for taxpayers by monetizing its equity ownership in a fully-capitalized Fannie Mae and Freddie Mac

Source: Pershing Square investor presentation, May 2014.

Outcome Possibilities
The Return Proposition Far Outweighs the Risks Involved

Alternative	Considerations	Price if Realized
Status Quo (Wind-Down)	▪ Unlikely scenario given the unprecedented size of the private sector capital needed (~500mm vs. ~385mm raised in past decade) to fund new entrants, Banks continued focus on boosting capital ratios, Private Label MBS collapse since 2008 ▪ The wind-down would attempt to eliminate an essential chain of the U.S. Mortgage Market; and this, at a time when the recovery is still nascent ▪ The wind-down also returns an undetermined amount to taxpayers, dependent on the liquidation value of Fannie and Freddie	**Unclear** *(mostly downside)*
Repeal of the Net Worth Sweep	▪ Settlement of the current lawsuit with activist investors, repealing the 'Net Worth Sweep' and allowing investors to participate in the ownership of earnings ▪ **Catalyst: Activist investors continue to fight in the interest of shareholders and lobby in Washington, with several recent positive developments**	**\$13-\$23** *(200%-400%) Upside*

Change in Housing Market Reform Proposal	▪ Change in the current proposal for Housing Market Reform (which calls for the winding-down of Fannie and Freddie) for something similar to Ackman's Proposal:
	    ▪ Calls for GSEs to continue their role with a much more significant reserve ratio to support the guarantees (2.5% vs. 0.45%)
	    ▪ Calls for the government to monetize its 79.9% position in the GSEs (est. \$93bn - \$252bn in value) to help fund Affordable Housing
	▪ Total proceeds to taxpayers would be between \$372bn - \$531bn
		\$13-\$23 *(200%-400%) Upside*

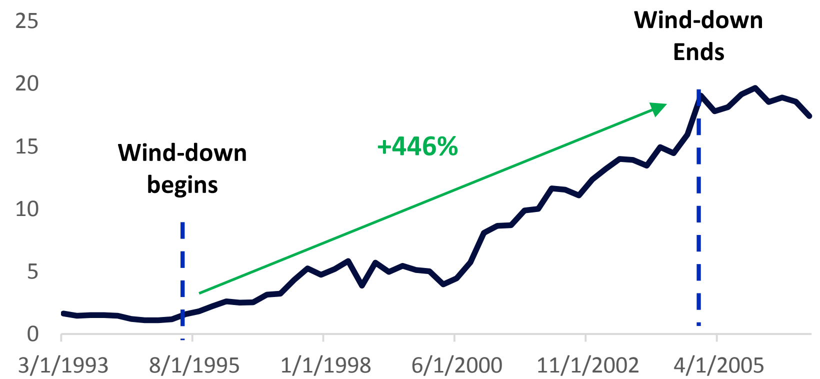
Source: Street research, company investor presentation August 2014.

Outcome Possibilities
Case Study: What Happened When Sallie Was "Wound-Down" in 1997?

Overview of the Situation

- Sallie Mae was wound-down from 1997-2004 following a shareholder vote on the subject (i.e. not government forced)
- Sallie Mae's main holding company, SLM, purchased some of the company's assets as well as made some acquisitions in the sector to grow its student loan portfolio
- SLM now offers products such as private education loans, Upromise rewards, college financial planning tools, and insurance

Price Chart



What Does a "Wind-Down" Mean?

- The term does not mean "to shrink," although that may very well be the outcome: it simply refers to the removal of the GSE status
- In the case of Sallie Mae, this was made successful by the growth of the business during the period
- **In May 2005, BCG ranked highest among U.S. Companies and third in the world in shareholder returns in the 5 years from 2000 to 2004**

Effect on Fannie & Freddie?

- Fannie and Freddie, rather than shareholder vote, would be wound-down by the U.S. government and therefore to whom the assets are sold, at what price, what happens to the common equity, are all ready concerns of the investor
- Basically, if Fannie and Freddie could find an opportunity to operate within the guarantor market through a fully privatized entity, there could be significant downside protection to the share price

Source: News releases, Bloomberg as of 2/15/2015.

Stock Pitch: Fannie & Freddie

All The Exposure of A Financial Stock, Without the Hassle

✓ Theme #1: Naturally Oligopolistic, Low Risk, High Profit Business Model

- A look at 2008 shows that losses were actually not as bad as they seemed to be, with high loan loss reserves able to fuel future profits
- Natural oligopoly creates substantial economies of scale
- Government mandated fee increases and normalization of credit losses provides future earning growth

✓ Theme #2: FHFA Will Revise Its Stance on the Net Worth Sweep

- Disbursements from Fannie and Freddie to the U.S. Government now exceed the bailout amounts, and yet the Net Worth Sweep (payout of 100% of earnings to the Government) is still in effect
- Activist investors are putting pressure, claiming the sweep to be "unconstitutional"

✓ Theme #3: "Wind-Down" is Unlikely

- With the current proposed Housing Reform (i.e. a wind-down of Fannie and Freddie), the private sector would have to raise over $500mm either through capital markets, banks, or Private Label MBS which is unprecedented
- The wind-down eliminates an essential chain in the U.S. Mortgage Market, launching the industry in uncharted land

✓ Theme #4: Valuation Stands Tall At $13 a share, or Liquidation Value

- A Repeal of the Net Worth Sweep or an alternative in the Housing Reform involving Fannie and Freddie would see share price appreciate between 200% – 600%
- That being said, if status quo maintains, it is unclear how much downside we can suffer, dependent on how/when/for how much the U.S. Government decides to liquidate Fannie & Freddie

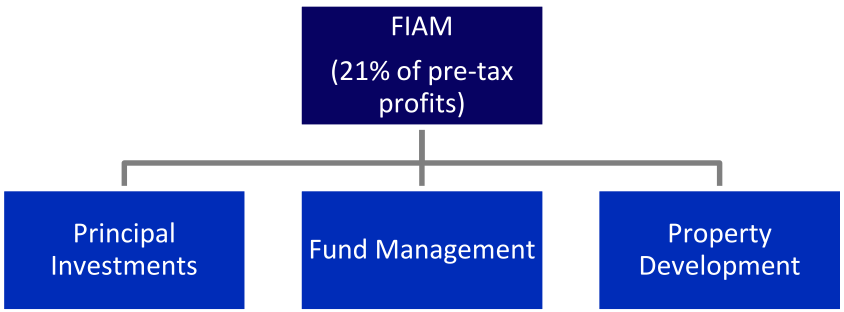
Bonus: **A Case Study of Sallie Mae's Wind-Down Shows Upside Even if Fannie & Freddie are Liquidated**

Section V

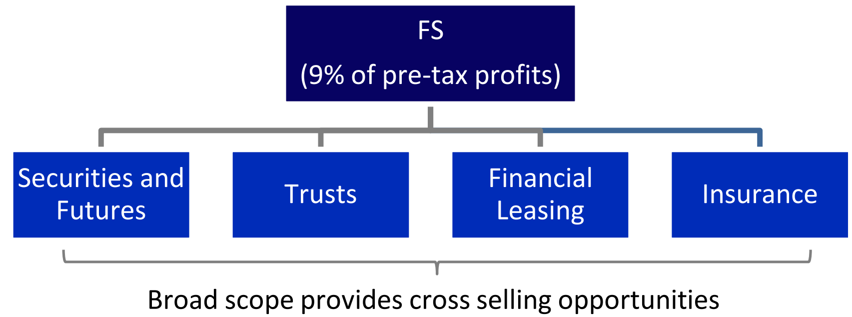
Appendix

Financial Investment and Asset Management & Financial Services

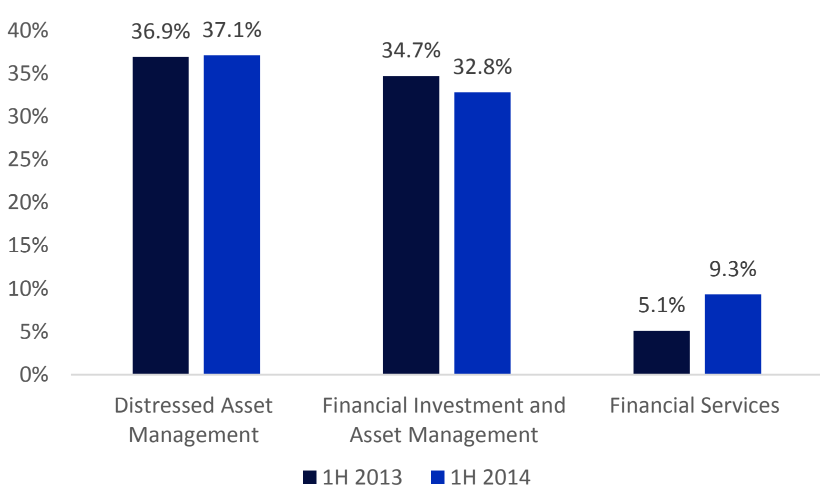
Financial Investment and Asset Mgmt.



Financial Services

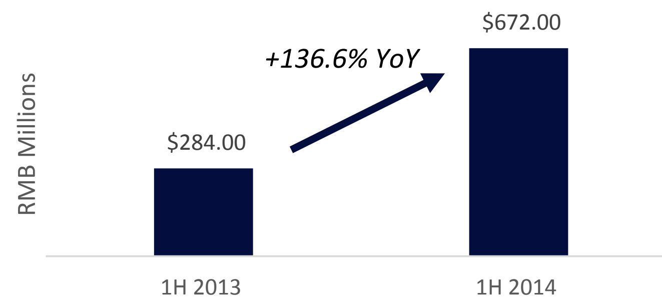


Profit Margins



Improving performance of subsidiaries

- Only 4.3% of pre-tax profits, but recording fast growth across all product categories



Business Segment Overview

Figure 3: Cinda's business book today breaks down into three segments

MOF	NSSF	UBS	CITIC Capital Financial Holding	Standard Chartered Financial Holding	Public shareholders
67.84%	8.19%	4.15%	1.69%	1.26%	16.87%

China Cinda Asset Management Co., Ltd

Segment	Distressed Asset Management	Financial Investment and Asset Management				Financial Services					
Business scope	• Traditional distressed asset mgmt • Restructured asset mgmt • DES asset mgmt • Custody, liquidation and restructuring for distressed entities	• Principal investment • Private equity fund management				• Broker/Futures • Trust • Financial leasing • Insurance • Mutual fund management and others					
Operating entities	The Company	The Company	Cinda Investment	Well Kent International	Zhongrun Development	Cinda Securities	Jingu Trust	Cinda Leasing	Cinda P&C	Happy Life	First State Cinda Fund
% of shareholding by Cinda	100%	100%	100%	100%	100%	99.32%	92.29%	99.56%	51.00%	61.59%	54.0%

Segment financials (2012, RMB mn)

	Distressed Asset Management	Financial Investment and Asset Management	Cinda Securities	Jingu Trust	Cinda Leasing	Cinda P&C	Happy Life	First State Cinda Fund
Revenue as % of total	14,392 45%	7,911 24%	1,691 5.2%	946 2.9%	1,317 4.1%	1,755 5.4%	4,762 14.7%	93 0.3%
Pre-tax profit as % of total	6,234 65%	3,285 34%	273 2.8%	686 7.1%	367 3.8%	-317 -3.9%	-791 -8.2%	1 0.0%
Net assets as % of total	24,778 41%	21,662 36%	5,895 9.7%	2,024 3.3%	2,395 3.9%	28,26 4.6%	478 0.8%	184 0.3%
Pre-tax ROE	31%	17%	4.7%	38.9%	21.1%	-22%	-160%	54.0%

Source: Company, Standard Chartered Research

Financial Services Comparables

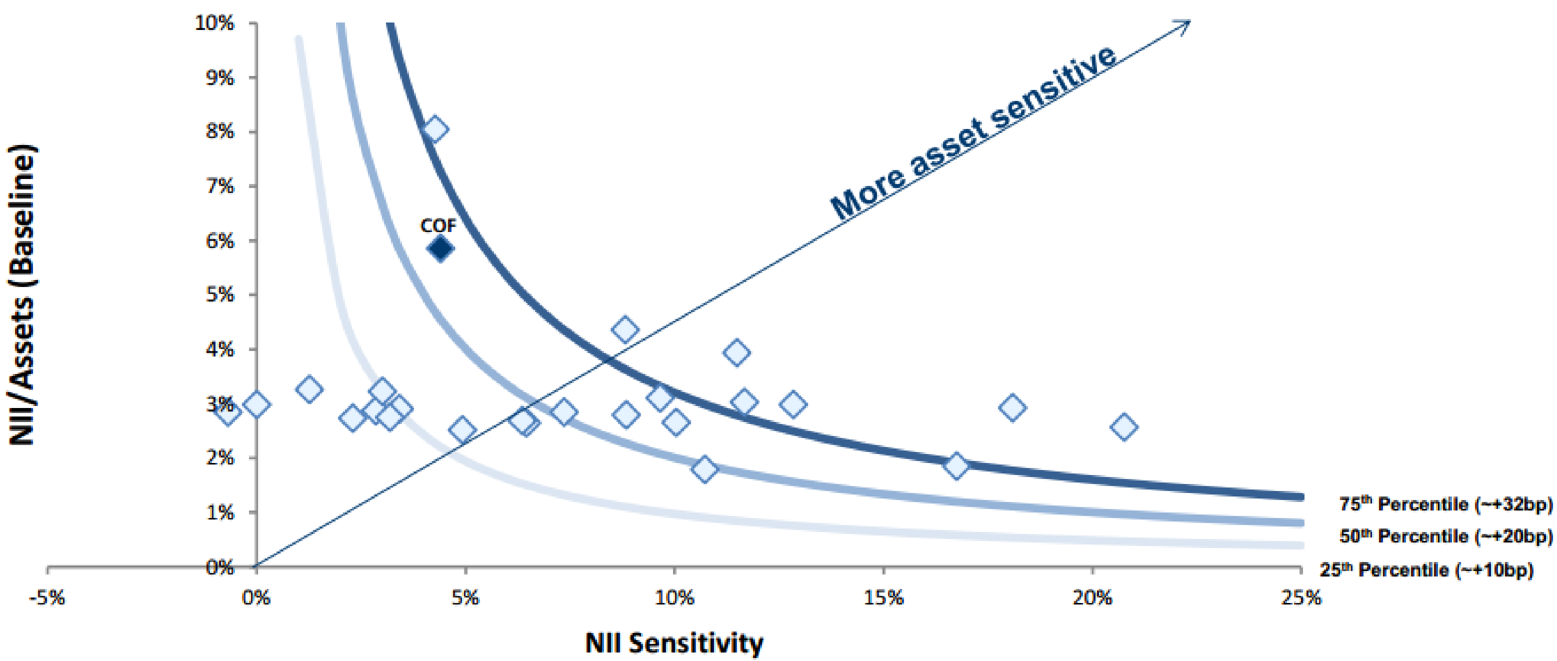
Ticker	Name	Price:D-1	Mkt Cap (HKD)	P/B	P/E	P/TBV	ROA	ROE
1359 HK Equity	**CHINA CINDA ASSET MANAGEME-H**	**$ 3.62**	**$ 131,612**	**1.76**	**9.74**	**1.37**	**2.83**	**13.81**
	Banks							
939 HK Equity	CHINA CONSTRUCTION BANK-H	$ 6.41	$ 1,609,857	1.07	5.68	1.10	1.46	21.38
3988 HK Equity	BANK OF CHINA LTD-H	$ 4.40	$ 1,409,999	0.84	5.89	1.00	1.18	17.95
601288 CH Equity	AGRICULTURAL BANK OF CHINA-A	$ 4.11	$ 1,320,063	1.15	5.95	1.15	1.20	20.88
601398 CH Equity	IND & COMM BK OF CHINA-A	$ 5.52	$ 1,958,174	0.99	5.59	1.09	1.44	21.90
Average				**1.01**	**5.78**	**1.08**	**1.32**	**20.53**
	Insurance							
2318 HK Equity	PING AN INSURANCE GROUP CO-H	$ 85.50	$ 798,291	2.35	17.32	3.36	0.91	16.45
2628 HK Equity	CHINA LIFE INSURANCE CO-H	$ 32.00	$ 1,228,777	2.43	27.20	3.04	1.28	11.22
966 HK Equity	CHINA TAIPING INSURANCE HOLD	$ 24.95	$ 77,234	1.36	21.62	2.80	0.54	8.46
1339 HK Equity	PEOPLE'S INSURANCE CO GROU-H	$ 3.75	$ 161,211	1.73	17.99	1.63	1.12	11.86
Average				**1.97**	**21.04**	**2.70**	**0.96**	**12.00**
	Securities Firms							
1788 HK Equity	GUOTAI JUNAN INTERNATIONAL	$ 5.66	$ 12,759	1.73	12.35	2.23	3.77	14.63
600030 CH Equity	CITIC SECURITIES CO-A	$ 36.20	$ 386,420	1.60	40.24	3.95	2.38	6.02
600837 CH Equity	HAITONG SECURITIES CO LTD-A	$ 26.98	$ 245,777	1.76	39.30	#N/A N/A	2.73	6.71
Average				**1.70**	**30.63**	**3.09**	**2.96**	**9.12**
	Property Developers							
2202 HK Equity	CHINA VANKE CO LTD-H	$ 17.42	$ 174,821	1.35	10.22	2.02	3.52	21.49
917 HK Equity	NEW WORLD CHINA LAND LTD	$ 4.83	$ 42,299	0.70	9.10	0.76	3.89	8.28
Average				**1.02**	**9.66**	**1.39**	**3.70**	**14.88**

Holdings Review: Capital One Financial
Asset Sensitivity Analysis

Capital One is well positioned for rising rates

Pre-tax ROA Impact based on +200bp Instantaneous Shock (in BP)[1,2,3]

2Q14



Investment Idea: National General Holding Corp.

Catalysts & Risks

National General Holdings Corp.

Catalysts

- **Future potential for acquisitions:** Michael Karfunkel has doubled the size of NGHC in the last year, and has a a favourable leverage ratio, as well as cash on hand, to continue growing the business through acquisitions
  - The company has stated that despite the recent acquisitions of Imperial and Tower Personal Lines, they will continue evaluating M&A opportunities
- **A&H Opportunity:** Pending PPACA, there would be a significant increase in demand for supplemental products, which would grow NGHC's A&H segment
  - Growth of this segment would benefit significantly from the scalable technology already in place in the P&C segment
- **Further Reduction in Reliance on Reinsurance:** As the company continues to grow the profitability of its underwriting business, it will have less and less need for reinsurance on its GWP, which will result in further contraction of NGHC's Combined Ratio

Risks

- **Loss of high fee income:** NGHC has a higher mix of fee income than a usual insurer because of the higher non-standard auto mix, which could get affected by adverse regulation
  - **Mitigant:**
- **Loss of Affinity Channel:** National General depends on a relatively small number of affinity partner relationships for a big portion of net premium revenue, and the loss of one partner could have a material adverse affect on the business
  - **Mitigant:** NGHC's exclusive contract with Good Sam runs until January, 2032
- **Pricing Cyclicality:** The P&C industry is cyclical in nature, which could affect NGHC's financial performance if the pricing cycle starts softening
  - **Mitigant:** National General serves a niche market with its unique distribution, which gives it less price-sensitive than its peers

Stock Pitch: Fannie & Freddie
A Battle of Titans

Activist Investors

- **"We are confident that Congress did not authorize the conservator – a Federal agency – to operate a profitable financial institution perpetually, to strip away all of its capital, to pay all its future profits to another Federal agency, to violate the order of priorities of corporate law, to transfer its assets without determining fair price, to replace the organized claims process of receivership with the self-dealing expropriation of private property, or to make corporate governance decisions without a standard of care,"**
- Fairholme

Source: Bloomberg as of 2/15/2014.