

# Big bank investing not for the faint of heart

December 15, 2014

By Jack Chen and Joe Mantone

While some of the biggest investors in the largest U.S. banks have been maintaining exposure to the space, the latest regulatory call for the systemically important institutions to hold more capital shows just how confounding investing in the group can be.

The Federal Reserve proposed Dec. 9 a risk-based capital surcharge for systemically important bank holding companies and noted that JPMorgan Chase & Co. could face a shortfall. In the wake of the announcement, JPMorgan's stock price closed down 2.10% on Dec. 11 from its Dec. 9 closing price. During the same time span, all banks with more than \$10 billion in assets were down 1.65% while the S&P 500 was down 1.19%.

Neuberger Berman LLC Chief Investment Officer Joseph Amato said the evolving regulatory regime is part of the reason that his company's portfolio managers are underweight the large banks when it comes to long-term investing. Amato said it is difficult to project earnings for the large banks because the increasing of their capital levels or exiting of businesses affects returns on equity.

"Generally, we've been cautious," he said.

Indeed, at the end of the third quarter, Neuberger Berman did not appear among the top 25 largest institutional investors in U.S. banks and thrifts with more than \$10 billion in assets, based on a review of Form 13-F filings with the SEC. But that's not to say the company has avoided banks completely. Neuberger Berman ranked as the 17th largest institutional investor in U.S. banks and thrifts with \$1 billion to \$10 billion in assets.

Amato also noted that the largest banks have provided some opportunities at times for his company's portfolio managers. "Lots of banks have been interesting trading vehicles over the course of the past two or three years because they tend to be a risk-on trade," he said. "Risk on, you buy the banks. Risk off, you're selling banks."

For much of 2014, large banks have been outperforming smaller peers, according to SNL indexes. For example as of the Dec. 11 close, U.S. banks with more than \$10 billion in assets were up 8.87% in 2014 while U.S. banks with \$5 billion to \$10 billion in assets were down 2.36%, U.S. banks with \$1 billion to \$5 billion in assets were down 0.88%, and U.S. banks with \$500 million to \$1 billion in assets were up 6.55%.

The increase in stock prices may have helped drive up the portfolio market value for the biggest investors in the large banks. Based on

## Top 25 institutional owners of US banks & thrifts

Includes ownership of banks & thrifts with assets greater than \$10 billion as of Sept. 30, 2014

Holder name	Sept. 30, 2014			Sept. 30, 2013			YOY change in market value (%)
	Rank by market value	Market value of investments (\$M)	No. of investment positions	Rank by market value	Market value of investments (\$M)	No. of investment positions	
Vanguard Group Inc.	1	71,273.63	68	1	56,664.41	68	25.78
SSgA Funds Management Inc.	2	60,616.92	68	2	52,044.58	68	16.47
BlackRock Fund Advisors	3	53,410.48	69	3	45,245.86	68	18.05
Fidelity Management & Research Co.	4	38,442.56	54	4	32,145.02	52	19.59
Berkshire Hathaway Inc. Investment Management	5	28,958.89	4	5	23,377.34	4	23.88
Wellington Management Co. LLP	6	22,489.46	49	6	20,552.51	50	9.42
Capital World Investors	7	21,966.29	20	7	18,612.48	21	18.02
T. Rowe Price Associates Inc.	8	20,826.57	68	8	18,210.08	66	14.37
Northern Trust Investments Inc.	9	19,250.23	69	9	16,919.28	68	13.78
Dodge & Cox	10	15,047.99	12	10	11,708.95	10	28.52
Massachusetts Financial Services Co.	11	13,431.70	27	14	9,824.68	22	36.71
J.P. Morgan Investment Management Inc.	12	13,255.62	67	15	9,817.39	65	35.02
Barrow Hanley Mewhinney & Strauss LLC	13	12,542.06	15	13	10,215.75	13	22.77
BlackRock Advisors LLC	14	11,915.78	69	11	10,729.55	68	11.06
Invesco Advisers Inc.	15	11,623.15	47	12	10,429.17	54	11.45
Norges Bank Investment Management	16	10,136.87	67	16	9,521.58	66	6.46
Geode Capital Management LLC	17	9,825.27	68	18	7,919.04	68	24.07
Harris Associates LP	18	9,027.12	11	NA	NA	NA	NA
Mellon Capital Management Corp.	19	8,678.38	68	20	7,133.56	68	21.66
Dimensional Fund Advisors LP	20	8,492.62	68	19	7,386.71	67	14.97
AllianceBernstein LP	21	7,923.20	68	22	6,402.23	68	23.76
Columbia Management Investment Advisers LLC	22	7,830.28	68	17	8,004.85	68	-2.18
Robeco Investment Management Inc.	23	7,610.36	23	25	5,316.67	24	43.14
TIAA-CREF Investment Management LLC	24	7,095.22	68	21	6,758.81	68	4.98
BNY Asset Management	25	6,397.65	68	23	6,342.52	68	0.87

Data compiled Dec. 4, 2014.

YOY = year over year

NA = not available

Investment holdings primarily based on Form 13-F filings at quarter ends. Total positions and market values may not reflect each investor's complete ownership due to unusual filing dates or incomplete reporting.

Data includes only positions held in a company's primary traded common equity.

Market value represents total U.S. dollar value based on respective quarter-end stock prices.

Source: SNL Financial



**Top 25 institutional owners of US banks & thrifts**  
Includes ownership of banks & thrifts with assets between \$1 billion and \$10 billion as of Sept. 30, 2014

Holder name	Sept. 30, 2014			Sept. 30, 2013			YOY change in market value (%)
	Rank by market value	Market value of investments (\$M)	No. of investment positions	Rank by market value	Market value of investments (\$M)	No. of investment positions	
BlackRock Fund Advisors	1	5,220.45	217	1	5,275.08	205	-1.03
Vanguard Group Inc.	2	4,149.47	224	2	3,425.68	213	21.13
Dimensional Fund Advisors LP	3	3,293.53	198	3	2,882.36	190	14.27
Wellington Management Co. LLP	4	2,336.89	136	4	2,096.15	120	11.49
SSgA Funds Management Inc.	5	2,084.63	180	5	1,883.32	182	10.69
Northern Trust Investments Inc.	6	1,503.20	206	6	1,579.23	197	-4.81
T. Rowe Price Associates Inc.	7	1,102.45	100	7	980.14	78	12.48
Fidelity Management & Research Co.	8	1,071.90	46	11	628.36	32	70.59
Banc Funds Co. LLC	9	911.01	130	8	836.87	112	8.86
Goldman Sachs Asset Management LP	10	799.15	54	10	670.63	55	19.16
Basswood Capital Management LLC	11	784.04	69	15	477.73	58	64.12
Columbia Management Investment Advisers LLC	12	774.46	149	9	716.09	183	8.15
Manulife Asset Management (US) LLC	13	665.06	182	14	496.70	168	33.90
Renaissance Technologies LLC	14	664.79	172	13	513.69	159	29.41
J.P. Morgan Investment Management Inc.	15	616.98	120	16	473.29	122	30.36
Forest Hill Capital LLC	16	524.19	22	21	374.11	20	40.11
Neuberger Berman LLC	17	512.74	20	12	607.10	29	-15.54
Geode Capital Management LLC	18	498.43	208	22	374.01	191	33.26
DePrince Race & Zollo Inc.	19	482.00	34	23	347.28	32	38.79
Sandler O'Neill Asset Management LLC	20	427.34	89	18	420.86	76	1.54
American Century Investment Management Inc.	21	405.72	35	20	378.05	30	7.32
Norges Bank Investment Management	22	405.16	49	NA	NA	NA	NA
Russell Investment Management Co.	23	404.46	122	NA	NA	NA	NA
TIAA-CREF Investment Management LLC	24	403.60	174	19	379.50	182	6.35
Kennedy Capital Management Inc.	25	365.60	87	NA	NA	NA	NA

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Source: SNL Financial

market value of positions at the end of the third quarter, the three largest investors in U.S. banks and thrifts with more than \$10 billion in assets were Vanguard Group Inc., SSgA Funds Management Inc. and BlackRock Fund Advisors, and they saw year-over-year market value increases in those holdings of 25.78%, 16.47% and 18.05%, respectfully.

Of course, stock prices as well as position changes can affect market value. Going into the fourth quarter, Vanguard, SSgA and BlackRock showed little sign of pulling back from most of their biggest positions in U.S. banks and thrifts with more than \$10 billion in assets.

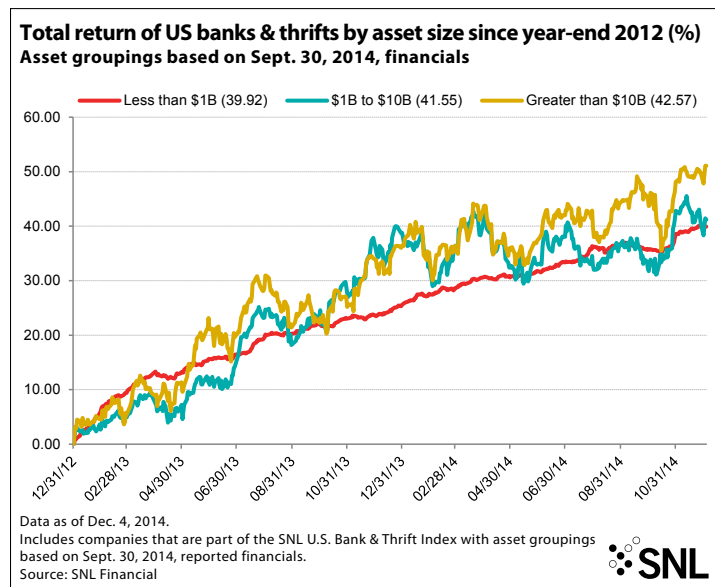
For example, during the third quarter, Vanguard increased each of its positions in its 10 largest holdings of U.S. banks and thrifts with more than \$10 billion in assets. Among that group, Vanguard's largest year-over-year position increase was a 10.78% rise in BB&T Corp., and its largest quarter-over-quarter increase was a 3.4% increase in PNC Financial Services Group Inc.

For SSgA on a year-over-year basis, the company did trim five of its 10 largest positions in U.S. banks and thrifts with more than \$10 billion in assets with the biggest decrease being a 4.50% drop in its State Street Corp. position. However, quarter over quarter, SSgA increased its positions in all of its 10 largest holdings in the group except for State Street.

BlackRock Fund Advisors showed year-over-year and quarter-over-quarter increases in six of its 10 largest holdings of banks with more than \$10 billion in assets, but the names weren't the same in each case.

For example, BlackRock Fund Advisors increased its position in Wells Fargo & Co. by 4.59% year over year, and that marked its largest

increase during that span among its 10 largest holdings of U.S. banks and thrifts with more than \$10 billion in assets. However, quarter over quarter, its position in Wells Fargo dropped 0.70%. Also, BlackRock Fund Advisors' position in U.S. Bancorp was up 0.25% quarter over quarter but down 1.87% year over year while its position in Capital



### Top 25 institutional owners of US banks & thrifts

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Holder name	Sept. 30, 2014			Sept. 30, 2013			YOY change in market value (%)
	Rank by market value	Market value of investments (\$M)	No. of investment positions	Rank by market value	Market value of investments (\$M)	No. of investment positions	
Wellington Management Co. LLP	1	286.57	69	1	197.90	55	44.80
Banc Funds Co. LLC	2	229.49	116	5	89.80	42	172.03
Sandler O'Neill Asset Management LLC	3	133.31	48	3	132.08	41	-0.79
Stilwell Value LLC	4	120.62	46	2	136.53	46	-11.65
Dimensional Fund Advisors LP	5	106.21	80	4	100.40	80	5.77
FJ Capital Management LLC	6	74.10	30	19	16.30	5	354.70
Vanguard Group Inc.	7	73.22	83	6	51.65	69	41.74
PL Capital Advisors LLC	8	54.91	23	8	45.15	18	21.63
EJF Capital LLC	9	47.18	10	NA	NA	NA	NA
Firefly Value Partners LP	10	44.61	13	7	45.59	15	-2.16
Manulife Asset Management (US) LLC	11	43.52	17	13	25.49	11	70.76
RMB Capital Management LLC	12	41.61	15	NA	NA	NA	NA
Castine Capital Management LLC	13	38.47	10	10	34.63	10	11.11
Seidman & Associates LLC	14	37.16	14	NA	NA	NA	NA
AllianceBernstein LP	15	34.86	57	NA	NA	NA	NA
Elizabeth Park Capital Management	16	32.56	17	NA	NA	NA	NA
The Family Office Co. BSC	17	31.02	2	NA	NA	NA	NA
Clover Partners LP	18	30.94	6	14	22.46	4	36.63
BlackRock Fund Advisors	19	29.51	37	12	31.25	35	-5.58
Jacobs Asset Management LLC	20	27.35	7	15	20.53	6	33.19
Basswood Capital Management LLC	21	26.96	9	NA	NA	NA	NA
Bridgeway Capital Management Inc.	22	24.42	40	22	14.54	32	68.23
Red Mountain Capital Partners LLC	23	23.30	1	11	31.74	1	-26.60
DePrince Race & Zollo Inc.	24	22.15	7	17	19.50	5	13.61
Tontine Management LLC	25	19.47	9	NA	NA	NA	NA

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Source: SNL Financial



One Financial Corp. was down 0.20% quarter over quarter, but up 0.58% year over year.

As for investments in U.S. banks and thrifts with \$1 billion to \$10 billion assets, BlackRock Fund Advisors was the largest institutional investor among those institutions at the end of the third quarter based on portfolio market value and increased its number of positions to 217 from 205 year over year. However, BlackRock's total market value from investments in the group dropped 1.03% during that span.

At the end of the third quarter, Wellington Management Co. LLP, the largest investor in banks with less than \$1 billion assets based on portfolio market value, increased its number of positions in those investments to 69 from 55 during the period, and the market value increased 44.80%.

Going forward, investors in smaller banks may want to focus more on revenue generation, according to Jefferies LLC bank analysts. In a Dec. 10 report, the analysts said smaller banks have reaped "the low-

hanging fruit" from cost saves and will need revenue generation to produce more efficiency and profitability.

"While smaller banks had been somewhat behind their larger counterparts in realizing saves, it appears they too are reaching the end of the runway," the analysts said in the report.

However, when making decisions about bank-stock investments in 2015, Drexel Hamilton LLC analyst David Hilder said three of the biggest issues are "the Fed, the Fed, and the Fed."

In a Dec. 8 report, Hilder said investor decisions about bank-stock positions could be driven largely by judgments about interest-rate increases, higher equity and debt capital requirements for the largest U.S. banks, and, perhaps, even the prospect of distancing the Fed from bank regulation.

"We expect that a great deal of investors' conversation about banks in 2015 will revolve around the Fed, both as the governing authority for monetary policy in the U.S. and now the most powerful regulator of the nation's largest banks," Hilder said in the report *i*