

## March 31, 2024

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## Return on Investment

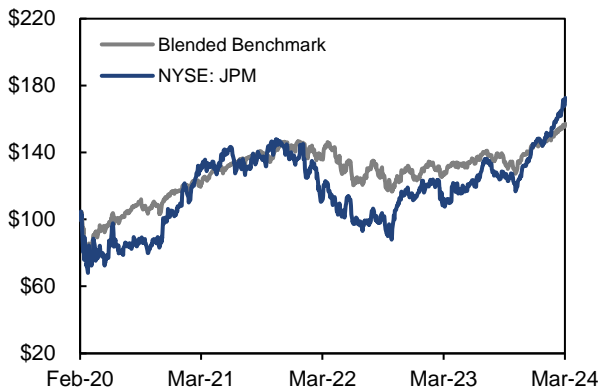
Current Share Price	\$200.30
Target Price	\$208.00
Dividend Yield	2.30%
Implied Return	6%
Conviction Rating	2

## Market Profile

52-Week Range	\$126.22 - \$200.72
Market Capitalization (US\$B)	\$588
Total Book Value of Equity (US\$B)	\$328
Tier 1 Capital (US\$B)	\$277
Beta (5-Year Monthly)	1.13

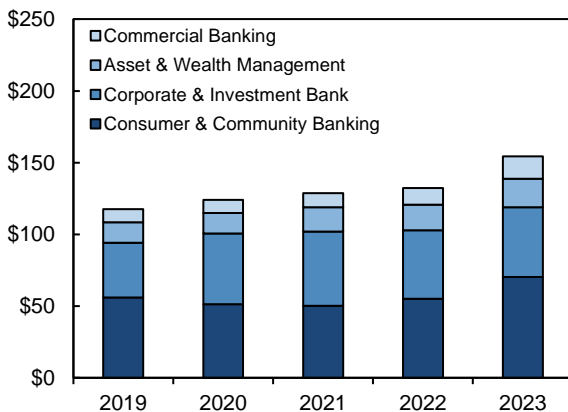
Metrics	2024E	2025E	2026E
Revenue (US\$B)	\$162	\$167	\$173
Net Interest Income (US\$B)	\$90	\$92	\$95
EPS	\$16.53	\$17.19	\$17.10
P/E	12.1x	11.7x	11.3x

## Holding Period Trading Performance (Indexed to \$100)



Source: S&P Capital IQ

## Figure 1: Revenue Segmentation (US\$B)



Source: Company Filings

## Business Description

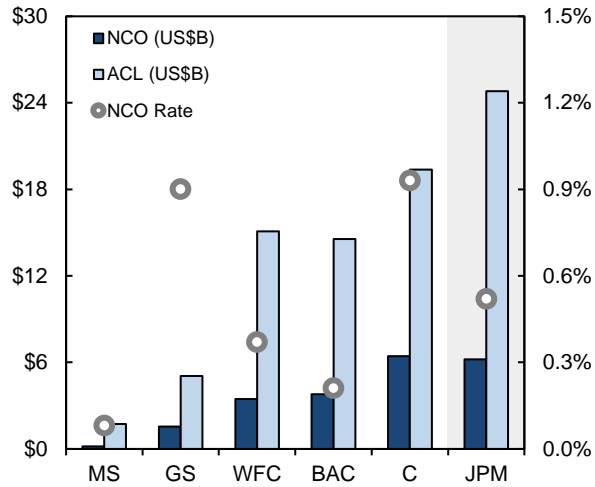
JPMorgan Chase (NYSE: JPM) is a leading global financial services firm with US\$3.4T in assets and operations in over 100 countries. The Company operates under four segments: (1) Consumer & Community Banking, (2) Corporate & Investment Banking, (3) Asset & Wealth Management, and (4) Commercial Banking. JPM is the world's largest bank by market capitalization, fifth largest by total assets, and the largest U.S. bank by total assets.

## Industry Overview

The U.S. banking industry is highly fragmented due to the variety of operators that provide a wide range of financial products and services. Banks are categorized by operational scale and scope as either large-cap, super-regional, regional, small and mid cap, consumer finance, custody, or investment banks. JPM competes closely with other large-cap and investment banks: Bank of America (NYSE: BAC), Morgan Stanley (NYSE: MS), Goldman Sachs (NYSE: GS), Wells Fargo (NYSE: WFC), and Citigroup (NYSE: C). Large-cap banks offer financial products and services that span the entire value chain, consisting of retail banking, commercial banking, capital markets, and wealth management. Despite commanding a significant market share, large-cap banks face intense competition from smaller players specializing in specific financial products and services, rather than the entire value chain. These players can more easily streamline their business models, with increased capacity to focus on the quality and affordability of products and services. In turn, this attracts the most creditworthy customers and optimizes operating costs to improve profitability. As a result, significant optionality for financial products and services drastically lowers customer switching costs, thereby increasing bargaining power.

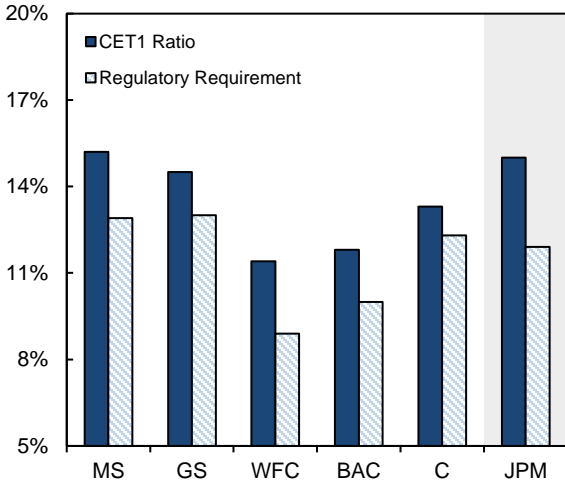
The U.S. Federal Reserve (Fed) is expected to begin lowering the overnight rate in H2 2024, although the frequency and magnitude of rate cuts are yet to be determined. As a result, each operating segment of large-cap banks is expected to experience headwinds and tailwinds from the movement of the overnight rate. Elevated interest rates in 2022 and 2023 prompted significant industry-wide declines in deposit balances from consumers frequently withdrawing savings to fund spending, and deposits flowing into higher yield, non-bank alternative products. Additionally, banks faced rising deposit and funding costs due to the need to build liquidity following the collapse of several U.S. financial institutions in 2023. This trend is expected to persist throughout H1 2024, continuing to pressure Net Interest Margins (NIM) and Net Interest Income (NII) generation. However, NIMs are expected to stabilize in H2 2024 and beyond as deposit betas reach their peaks to close the lag from Fed rate increases. Furthermore, NII generation declines are anticipated to be partially offset by loan growth catalyzed by rate cuts. Falling interest rates are also expected to drive mortgage originations, refinancing, and stability in home equity lending, which could contribute to NIM expansion. High interest rates also led to declining credit quality through higher net charge-offs (NCO) and nonperforming assets on banks' balance sheets. This, coupled with past expectations of a recessionary environment, prompted banks to accumulate significant loan loss reserves in 2022 and 2023. Given the expectation of (cont.)

**Figure 2: FY 2023 NCO Comparison**



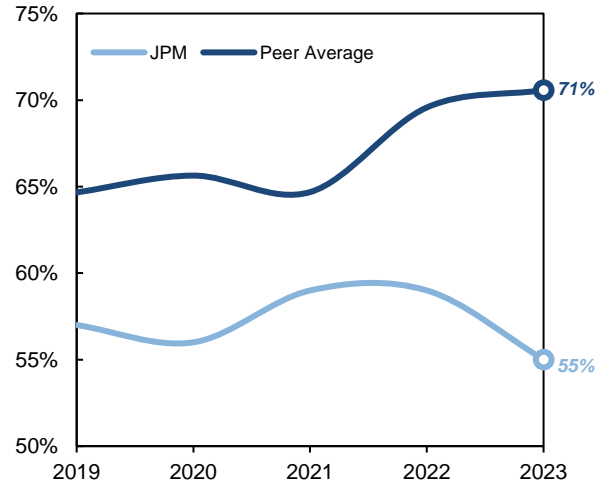
Source: Company Filings

**Figure 3: CET1 and Regulatory Requirement Comparison**



Source: Company Filings

**Figure 4: Efficiency Ratio vs Peers**



Source: Company Filings

a soft landing in 2024, credit quality is expected to normalize as banks gradually realize losses through a steady deterioration of NCOs and loan loss provisions. Recovery in the capital markets segments of banks is expected to be primarily driven by rate cuts, further stimulating Equity Capital Markets, Advisory, and M&A activity. Debt Capital Markets are also expected to recover slightly as companies look to finance acquisitions and capex in a declining interest rate environment. Revenue generation from trading segments is forecasted to remain stagnant or increase slightly, due to the expectation of decreased market volatility in 2024.

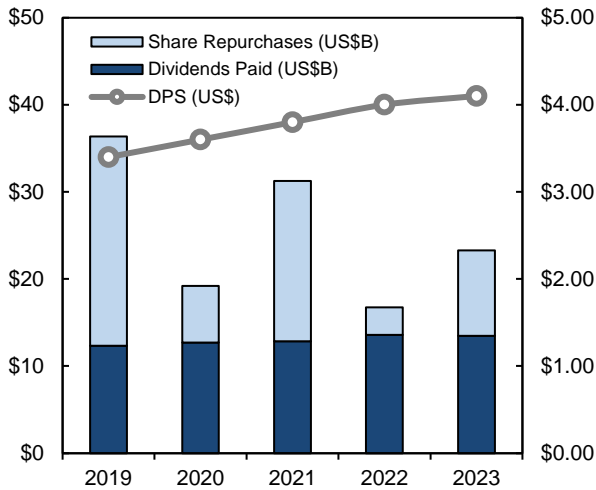
The regulatory environment of U.S. banks is expected to undergo significant changes in 2024, with regulatory bodies encouraged to enact stricter rules and regulations following political pressure and the idiosyncratic failure of several financial institutions in 2023. The Federal Deposit Insurance Corporation (FDIC) enacted a special assessment fee to be charged to large-cap and regional banks to replenish ~US\$16.3B of the Deposit Insurance Fund following the collapse of both Silicon Valley Bank and Signature Bank. The fee will be collected at a quarterly rate of 3.36 bps, applied to the value of a bank's uninsured deposits for a total of eight quarters beginning in 2024. The fee is expected to create slight headwinds to short-term profitability. Additionally, the Office of the Comptroller of Currency, the Board of Governors of the Federal Reserve System, and the FDIC have established the Basel III Endgame (B3E) framework, which most notably includes revisions to the calculation of risk-weighted assets and capital composition. While the exact impact on the capital structure of banks will become clear once B3E takes effect in July 2025, large-cap banks are expected to be required to increase their Common Equity Tier 1 Capital (CET1) ratios to provide additional protection to their loan books.

**Mandate Fit**

**Quality Management:** James Dimon serves as JPM's CEO and has held the position since 2006. Prior to entering the role, Dimon served as CEO and President of Bank One, which later merged with JPM in 2005. Dimon is renowned for his remarkable leadership and strategic vision, fortifying the Company's capital position during the 2008 financial crisis. Amidst the failure of financial institutions in 2023, Dimon strengthened JPM's institutional position with the acquisition of First Republic Bank. Furthermore, management compensation consist of 96% and 94% at-risk pay for CEO and NEOs, respectively.

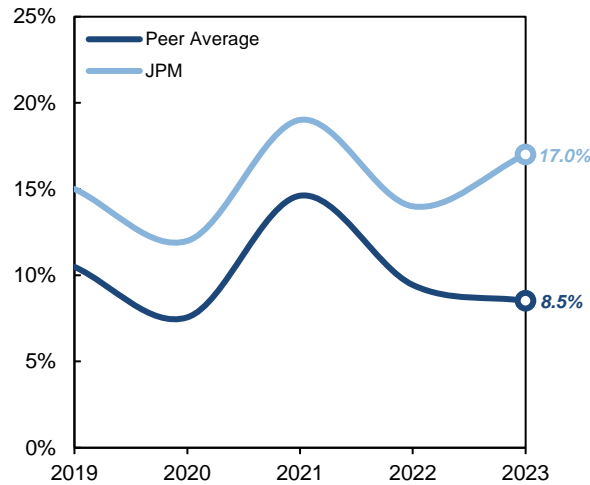
**Competitive Advantage:** JPM dominates the U.S. banking industry, boasting leading positions in capital markets, commercial banking, retail banking, and asset and wealth management franchises. In FY 2023, the Company's retail and commercial deposits totaled ~US\$1.4T, compared to its next largest competitor, BAC, at US\$964B. JPM's corporate & investment banking segment revenue totaled ~US\$49B, relative to its next largest competitor, GS, at ~US\$30B. Finally, the Company's assets under management in its wealth management segment totaled ~US\$3.4T, surpassing its next largest competitor, GS, with ~US\$2.8T. JPM's competitive positioning is fortified by its combination of scale, diversification, and prudent risk management, setting it apart from peers who lack this integrated approach. The Company's comprehensive product and services portfolio facilitates increased cross-selling opportunities, specifically at the retail and commercial banking level. As the leading issuer of credit and debit cards, JPM leverages its scale to offset elevated fixed costs related to the development and maintenance of its payment platforms. Key to the Company's success are its economies of scope and scale, which foster high switching (cont.)

**Figure 5: LHS Dividends & Repurchases vs RHS DPS**



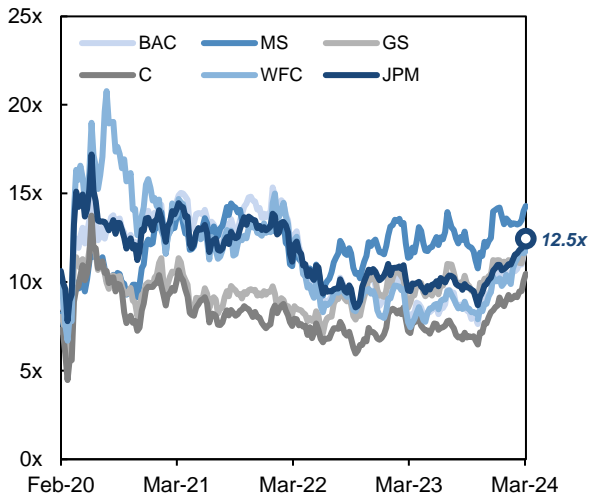
Source: S&P Capital IQ

**Figure 6: ROE vs Peers**



Source: S&P Capital IQ

**Figure 7: Holding Period P/E vs Peers**



Source: FactSet

costs for customers engaging with multiple products. These factors provide significant cost advantages, resulting in low customer acquisition expenses. Additionally, JPM's prominence as a leading investment bank is bolstered by its strong reputation and expansive securities distribution platform, attracting top-tier talent and facilitating global competition. Collectively, the Company effectively competes with other large-cap banks and smaller operators who focus on offering specific financial products and services. As a result, JPM achieved a FY 2023 efficiency ratio of 55% compared to the peer average of 71%. As well, the Company's diversified income stream mitigates the impacts of fluctuating interest rates, reflected in its FY 2023 NIM of 2.7% compared to the peer average of 1.8%.

**Strong Balance Sheet:** JPM maintains a strong balance sheet and remains an industry leader with a CET1 ratio of 15.0%, well above its regulatory requirement of 11.4%. Additionally, the Company has strong deposit quality, with an NCO rate of 0.5%, which is in line with the peer average. JPM has credit ratings of A-, A1, and AA- from S&P, Moody's, and Fitch, respectively. Moving forward, the Company is well-equipped to continue building its CET1 ratio following the implementation of the B3E framework.

**Growing Free Cash Flow:** JPM continues to outperform peers in profitability metrics, with earnings growing at an 8.0% five-year CAGR versus the peer average declining at 3.7%. The Company's exceptional net income generation stems from its diversified business line and economies of scale, reflected in superior NIM and efficiency ratio relative to peers. JPM's earnings generation has allowed the Company to achieve an ROE of 17.0% and an ROA of 1.3%, compared to the peer averages of 8.5% and 0.7%, respectively. Moving forward, large-cap banks are expected to undertake more conservative share repurchase activity, given the uncertainty surrounding the B3E framework. As a result, short-term shareholder return is expected to primarily focus on dividends, with payout ratios held constant or increasing slightly. Given JPM's strong historical earnings metrics, the CPMT is confident the Company will maintain its robust shareholder return through consistent dividend distribution, evident with a five-year dividend CAGR of 4.8%.

**Investment Thesis and Valuation**

JPM was valued at US\$208 using a 10-year DDM with a Cost of Equity of 8.7%. The terminal value was determined through a 50/50 blend of (1) the Gordon Growth method, using a 2.5% terminal growth rate and (2) an average of a P/BV exit multiple of 1.7x and P/E exit multiple of 12.5x.

The CPMT favours JPM's dominant market position and diverse product offering, which have allowed the Company to achieve superior earnings metrics and efficiency ratio compared to peers. JPM's size and scale, combined with its low-cost operating model and cross-selling ability, will enable the Company to continue growing its market share in all operating segments. JPM remains committed to financial strength through its CET1 ratio exceeding its regulatory requirement and is well-positioned to continue fortifying its balance sheet following the implementation of the B3E framework. However, the CPMT believes that the market understands and appreciates the attributes that make JPM such a strong company, which is reflected in its relatively low implied return. Despite this, the Fund is comfortable returning the Company's cost of equity given its experienced management team, unparalleled competitive advantage, and financial strength. The CPMT is confident in JPM's ability to navigate a changing regulatory environment and is comfortable tolerating a short-term reduction in share repurchases.