

September 24 – September 30

This report presents our most-read research reports over the last 7 days, ordered based on readership.

Trust Bank Initiation — Initiating Coverage on BK, STT & NTRS

North America | Diversified Banks

Initiating on trust banks. Investors seem generally negative on the asset servicing business, but we came away very positive on the outlook for the scale players and we see superior mid 20% ROTE, above average growth and low risk profile. STT is a BUY and very clearly our top pick as we believe it is ahead of the curve and well positioned to deliver positive operating leverage. This is the most attractive long term investment in our space.

Keith Horowitz, CFA

Weekly REIT and Lodging Strategy — Aloha Hawaii, the “Other” U.S. Pacific Coastal Market

North America | REITs

Aloha and Mahalo — Hawaii is a very important market for over 10 publicly-traded real estate companies and current projects serve as a potential inflection point for a number of them. The old adage “seeing is believing” was an important part of the trip. The local community, its culture, its way of life, and the significant impact of tourism are keys to the market. Meeting with local reps and senior management teams provided considerable insight and we came away with a bullish bent and incrementally more positive on regional mall landlord General Growth (GGP) and office REIT Douglas Emmett (DEI), 2 Buy-rated stocks. We are incrementally more concerned on the potential for cost increases for Taubman's (TCO) project.

Michael Bilerman | Nicholas Joseph | Emmanuel Korchman | Christy McElroy | Kevin J Varin

Consumer Finance: Card Networks & Issuers — Visa (V): Apple Pay, A Look Under The Hood

North America | Consumer Finance

Highlights From Visa Senior Management Meeting – We recently hosted investor meetings in San Francisco with members of Visa's senior mgt team including; Byron Pollitt (CFO), Jim McCarthy (Global Head of Innovation & Strategic Partnerships), Antonio Lucio (Chief Brand Officer) and Jack Carsky (IR). We came away from our meeting feeling incrementally more comfortable around Apple Pay's potential impact on Visa and the current payment ecosystem, particularly given networks integral role around tokenization. In this 6-page note, we provide investors with detailed answers to Apple Pay related questions around tokenization mechanics, PayPal/Google, debit implications, impact to banks, MCX, etc. On fundamentals, we sensed a slightly better tone on cross

1 October 2014

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This Week's Most Read Report

Trust Bank Initiation — Initiating Coverage on BK, STT & NTRS

24 September 2014 | 100 pages

Citi Research
Equities

Diversified Banks
North America

Trust Bank Initiation

Initiating Coverage on BK, STT & NTRS

■ **STT a Buy, Neutral on BK & NTRS** – Investor sentiment is cautious on the trust banks due to a combination of valuation and concerns about the business model. In contrast, we view asset servicing as a very attractive business. STT is our top pick, because while scale is a big advantage in providing commodity-like bank and middle office functions, we believe STT is at the forefront of leveraging its technology and data to provide real value-added services to their clients to help them evaluate risk exposures and performance in order to satisfy increased regulatory and investor requirements, which can be a key differentiator. BK seems to be headed in the same direction as STT, but progress will likely be slower as it needs to address its system inefficiencies. We see it as a neutral, but could look at a putback as an opportunity due to an attractive outlook. NTRS has an attractive wealth management business, but its asset servicing is subacute. While a breakup would make sense, it's hard to see significant value creation since its asset servicing piece seems to be already valued for a potential sale. We rate NTRS a Neutral, but believe it should offer the least attractive long-term outlook of the three banks.

■ **Business mix has superior returns, above average growth and lower risk profile** – We estimate normalized returns for STT and BK asset servicing businesses are in the mid 20% ROTE range, and found that NTRS seems to suffer from lack of scale and a heavy mix of the lower-margin pension business, which puts their returns sub-15%. The businesses have always been well positioned against strong secular trends, but lack of strong discipline came apparent recently as the new lending and FX businesses were added. We are seeing real change in how these businesses are managed, and expect to see more pricing discipline going forward. Asset/servicing management is the other piece to the story. We did a deep dive for each bank, valued each one separately and came away most impressed with the NTRS franchise.

■ **...And trust banks are a better play on higher rates** – We believe the trust banks are a better rate play than regional banks due to: 1) shorter duration balance sheets; 2) 70% of benefits come in the first 100 bps; 3) sensibly estimates have a narrower range of outcomes vs regional banks, where deposit beta are influenced by less predictable consumer behavior; and 4) no offset from higher credit costs. Also, given the trust banks are constrained on capital by SLR, we make the argument that higher rates will free up capital as excess deposits run off.

Company	Ticker	Rating	Old Price	Target Price	Current Price
Bank of America	BA	Hold	1A	USD\$20.00	USD\$19.00
Bank of New York Mellon	BK	Hold	2A	USD\$20.00	USD\$19.00
State Street	STT	Buy	1A	USD\$20.00	USD\$20.00

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.
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border rev's, as the CVIX FX volatility has picked up (though the USD has strengthened). We now expect V to provide 2015 guidance during the upcoming earnings call. Reiterate our Buy rating.

Donald Fandetti, CFA | Ashwin Shirvaikar, CFA | Philip Stiller, CFA | Jim Suva, CPA

Southern Comfort with Camden (CPT) — CPT Headquarters Visit and Houston Multifamily Property Tour

North America | REITs

We hosted a 2-day “deep dive” in Houston, TX with CPT's senior management team. At corporate HQ, CPT senior management discussed Camden's unique culture, development, acquisitions, dispositions, revenue management systems, and marketing and social media programs. Additionally, we toured assets in the Houston area with CPT, PPS, and MAA.

We came away from the trip incrementally more positive on Houston and even more impressed with CPT and its unique culture.

Herein we discuss takeaways on CPT's development, dispositions, acquisitions, revenue management and marketing & social media. Additionally, we provide property tour recaps and pictures.

Michael Bilerman | Nicholas Joseph

Janus Capital Group (JNS) — Jolt Of Lightning – Thinking Through Stunning News Of Bill Gross Hire – Upgrade To Neutral + Close TROW/JNS Pair

North America | Brokers & Asset Managers | Neutral

Jolting News — In a clearly surprising development, JNS announced Mr. Bill Gross will join JNS on Monday, September 29 as a Portfolio Manager. The news has gapped up JNS's stock 30%+. Using back of the envelope math, we estimate the move in the stock discounts \$25B to \$50B in incremental AUM over the next 12+ months.

Upgrade To Neutral — As we believe high short interest plus the “fear of how much money Mr. Gross can attract from his former employer” (PIMCO) will more than offset structural pressures on JNS's fundamental equities platform, in our view. Close TROW/JNS pair trade.

Raising Price Target — To \$14.50 versus \$10 prior as we shift methodology to consider today's news. New target assumes ~\$0.90 in base 2016 EPS (ex Bill Gross impact) + assumes ~\$0.30 EPS accretion from new flow upside – all at a 13x target P/E discounted one year.

William R Katz

European Bank Equity Issuance Tops \$50bn — Global Banks Insights

Global | Diversified Banks

European Banks have been raising capital levels ahead of the ECB AQR and Stress-test to be reported in late October. 2014 is already a post 2008-09 record for European banks equity issuance. The \$53bn of equity capital raised YTD is 20% higher than the amount raised in entire 2013 and about half of the 2008 peak. By contrast, US based banks have raised only \$8bn of equity YTD, or a mere 7% of their 2009 peak levels. Between 2007 and 2014YTD, European banks have raised much more equity compared to the US peers: a total of \$435bn vs. the US' \$260bn. At a country level, the UK has been the largest driver of European bank issuance since 2007 (\$124bn). For 2014 YTD, the Italians and Greeks are the largest bank equity issuers, which is unsurprising given the upcoming AQR/Stress Test.

Ronit Ghose | Rahul Bajaj

Greek Banks — Greek Parliament Passes DTA Law Change, Large

Potential Capital Benefit

EMEA | Diversified Banks

Greek Parliament passed the legislation that will allow the conversion of a material amount of a bank's deferred tax assets (DTAs) to deferred tax credits (DTCs), hence reducing the deduction made from core capital calculations.

78%-90% of the DTA balances on the balance sheet of the banks will benefit from conversion to DTCs. In terms of fully loaded B3 CET1, the conversion of DTAs to DTCs as per today's Greek law will benefit Greek banks by 360-600 bps.

Click for more on how each bank is affected.

[Ronit Ghose | Yafei Tian](#)

Janus Capital Group (JNS) — With Euphoria Behind; A Look at the Practicalities

North America | Brokers & Asset Managers | Neutral

What Is Now Priced In? Triangulating stock price moves in JNS, natural beneficiaries, and Allianz (PIMCO's parent) on 9/26, we estimate investors already discount \$300B+ in AUM shifting away from PIMCO.

What Is The Correct Target Multiple? Some investors bristled at our move to raise our target multiple to 13x versus 10x prior, arguing for a higher multiple. However, we note BEN's FTM PE multiple held about 14x at a time of outsized Global Bond fund inflows at an earlier/more favorable part of the rate cycle, we believe.

Where Do We Stand? Following 132M shares traded on 9/26, or nearly 50 times the daily average YTD, we suspect short interest has dropped sharply. On the one hand, we think much ST good news is well discounted. On the other hand, the equity book is in disarray and there are some cross currents to FI dynamics. We maintain our Neutral rating.

[William R Katz](#)

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Appendix A-1

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<i>Data current as of 30 Sep 2014</i>	12 Month Rating			Relative Rating		
	Buy	Hold	Sell	Buy	Hold	Sell
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<i>% of companies in each rating category that are investment banking clients</i>	66%	63%	56%	0%	64%	0%

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