



EXCELSIA EDGE

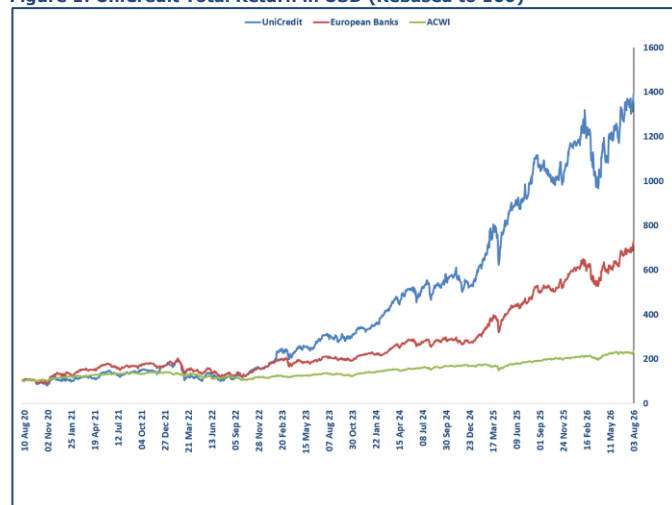
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Banking on Good Returns

by Andrew Bishop

The Excelsia Global Equity strategy has benefited from being invested in European banks since mid-2020, when these shares were unloved and unpopular to own. One of the European banks invested in was UniCredit, a large Italian bank which was trading at less than half its book value at the time. The share has had spectacular returns since this point, delivering a total return of c1,293% over the past 6 years. The graph below (Figure 1) shows the return of UniCredit in USD relative to a European Banks index (EURO STOXX Banks SX7E) as well as the MSCI All Country World Index (ACWI). The bank comfortably outperformed these two indices over the 6-year period.

Figure 1: UniCredit Total Return in USD (Rebased to 100)

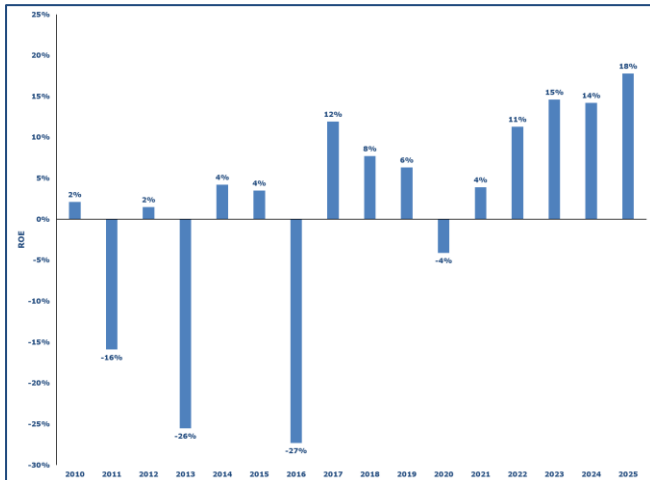


Source: Bloomberg, 3 August 2026

These strong returns are a relatively recent phenomenon. For more than a decade following the 2008 Global Financial Crisis (GFC), European banks significantly underperformed broader equity markets before turning around in about 2021. The banking sector was burdened by weak macroeconomic conditions, increased regulatory and capital requirements introduced in the aftermath of the GFC, and other structural headwinds that reduced returns. This is well illustrated by UniCredit's return on equity

(ROE), which remained low and volatile between 2010 and 2021, as shown in Figure 2. The bank's inability to consistently earn its cost of equity during this period explains why its shares traded at a substantial discount to book value and why investor sentiment towards the sector remained so negative.

Figure 2: UniCredit's ROE

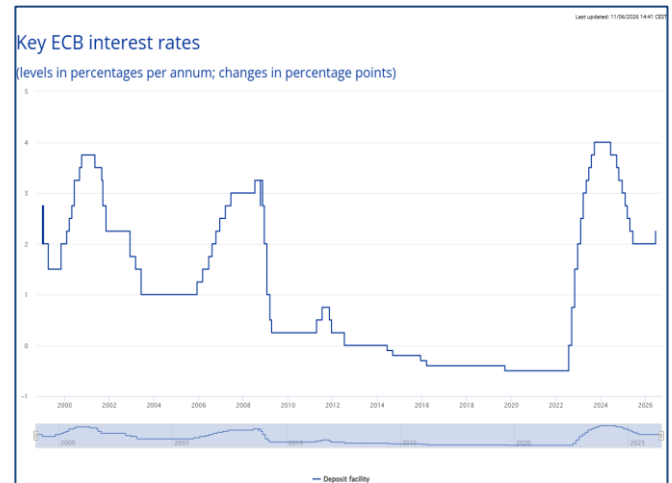


Source: Bloomberg, 28 July 2026

One of the most significant macroeconomic headwinds facing European banks was the prolonged period of exceptionally low interest rates. In the years following the GFC, policy rates across Europe remained at historically low levels, with the European Central Bank maintaining negative interest rates between 2014 and 2022 (see Figure 3). This limited the banks' ability to generate attractive returns.

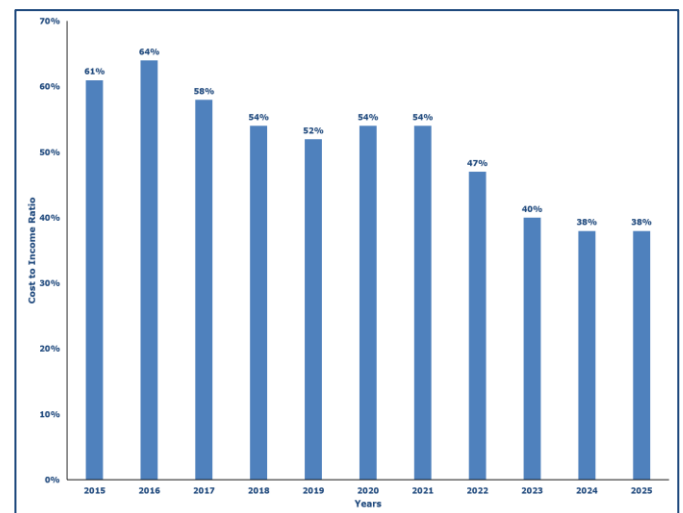
The environment shifted materially in 2022 as inflation surged following Russia's invasion of Ukraine. Although inflation has since moderated, interest rates have remained well above the exceptionally low levels that prevailed after the GFC. This more normalised rate environment has improved banks' earnings power resulting in a marked recovery in profitability and return on equity (ROE).

Figure 3: European Interest Rates



The recovery in European banks has not been driven by the macroeconomic environment alone. Banks have also looked inward to improve profitability and shareholder returns. At UniCredit, Andrea Orcel was appointed CEO in 2021 and launched the "UniCredit Unlocked" strategy, which focused on driving revenue growth while improving operational efficiency through disciplined cost management. The strategy has delivered impressive results, with the bank's cost-to-income (CTI) ratio improving from 54% in 2021 to 38% in 2025 (see Figure 4), underpinning the improvement in profitability.

Figure 4: UniCredit's Cost to Income Ratio



Source: Company Results



The successful outcome of Excelsia's investment in UniCredit highlights both our global equity capabilities and the consistent application of Excelsia's investment philosophy and process. In this instance, that meant investing in an unpopular and unloved stock trading at low valuation levels relative to history.

Excelsia launched its Global Equity Strategy on 1 June 2020 to complement its established local equity offering by extending the same disciplined, valuation driven investment philosophy to global markets.

For more information on Excelsia's Global Equity Strategy and our global equity capabilities, please contact us at info@excelsia.co.za.

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