

July 20, 2020

**Financial Services Separately Managed Account Program (FS SMAP)
July 2020 Update**

Our holdings in the ELCO Regional Banks Separately Managed Account program were severely challenged by the COVID-19 pandemic. Regional and community bank stocks have been pressured due to the unprecedented hardship from the pandemic-induced slowdown due to skyrocketing unemployment that has increased the default risk across loan portfolios. In addition, low rates have created headwinds by reducing spread revenues. As such, according to Bloomberg, the KBW Regional Banking Index is trading near the biggest discount to the broader market since at least 2005.

With that said, not all banks are alike. While the majority of regional banks have sold off based on fear of loan losses and credit defaults, many of these banks are financially healthy. The change in the Dodd-Frank regulations (raising the asset threshold for subjection of increase regulatory requirements) makes M&A a more viable option. These banks have also been the originators of the government backed SBA loans, lending money to small businesses across the country. We believe this is a near term earnings catalyst during these challenging times.

Thus, with these banks now trading well below their book values and at one of the greatest valuation discounts in history, we believe this could be a unique investment opportunity.

If you have any questions, please feel free to contact us directly.

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