

July 21, 2017

**Financial Services Separately Managed Account Program (FS SMAP)
June 2017 Update**

The Financial Services Separately Managed Account Program continued to perform positively in the second quarter ended June 30, 2017.

The M&A landscape continues to evolve as the second quarter saw 63 bank acquisitions. Scarcity value is increasing for banks in the southeast between Washington DC to Florida where we have dominant positions. The land grab is being driven by a few factors including the need or desire to be in a certain growth market before the opportunity to acquire in those markets disappears. Specifically, to acquire deposit rich banks, build scale for the efficiency as well as to become more relevant to the highest paying acquirers in markets that are heavily dominated by distracted big banks. One market is Atlanta where we expect to see some M&A activity over the next 12 months.

This quarter, we would like to highlight Carolina Alliance Bank (CRLN), a community bank headquartered in Spartanburg, SC. CRLN, in its current form, is the result of the merger between banks in Asheville, NC and Spartanburg, SC. It has 8 branches along the I-85 and I-26 corridors. Current assets are \$670mm and the bank would like to gain scale by expanding its footprint further up I-85 towards Charlotte, NC and Greensboro, NC. There are not many targets left in this area, so the bank must expand organically or could find itself as a target for a larger acquirer looking to enter/expand into these attractive markets. It should also be noted that the holding highlighted in our last quarterly report, Xenith Bancshares, Inc. (XBKS) was acquired by Union Bancshares, Inc. (UBSH) on May 22nd, 2017.

In conclusion, we remain very enthusiastic about the upside in this “niche area” and appreciate your support.

Paul Elliot, CFA

Dan Tulis, CFA

James Elliot, CFA

Paul Doran

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