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

Certain statements contained herein may contain “forward-looking statements” within the meaning of the Private Securities and Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of an SMA account or financial institution to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, risks and uncertainties associated with the timing and costs of financial sector products, demand for prices and returns of financial sector products and investments, the timing and amount of capital spending in the nation and worldwide and general economic factors. This report is not a recommendation nor a solicitation to either buy or sell any specific securities.