

July 26, 2018

**Financial Services Separately Managed Account Program (FS SMAP)
June 2018 Update**

The Financial Services Separately Managed Account Program continued to perform positively for the quarter ended June 30, 2018.

The outlook for the FS SMAP program continues to be very constructive. The drivers of deregulation, an improving economy, rising rates and tax reform remain strong to improving. Furthermore, we believe that we could be at the cusp of an M&A “super-cycle,” prompted by the signing of the Crapo Bill. The Crapo Bill allows for super-community and regional banks to re-engage in M&A, prompting an increase in scarcity value. We believe the ELCO portfolio is uniquely positioned to benefit from this environment as it owns companies that are of a size that can make meaningful acquisitions at value-creating multiples, or conversely, may be targets themselves at higher premiums.

An example of the opportunistic slant of our program is our position in Triumph Bancshares, Inc. (TBK). Although the bank is headquartered in Texas, it differs from more traditional community banks in that it funds its balance sheet by owning banks in the slower growth parts of the US, which have less loan demand and therefore less price competition for deposits. TBK then utilizes these low cost deposits to fund the bank’s specialty finance endeavors in the trucking/freight industry.

Recently, the company announced the acquisition of two rural banks in Colorado plus one competing transportation company factoring company. As a result of the transaction, the acquired banks’ deposits costs of 0.21% will fund transportation receivables yields approaching 26%. This is the type of opportunity the program seeks, rather than worrying about why various externalities are narrowing the 2-10 year Treasury spread.

Noteworthy, the positive environment for small and regional banks have enabled us to participate in the following IPOs:

- FIRST WESTERN FINANCIAL
- COAST FINANCIAL
- MACKINAC FINANCIAL
- ORIGINAL BANCORP
- SPIRIT OF TEXAS BANCSHARES
- BAYMCOM
- BRIDGEWATER BANCSHARES

Program description:

In December 2009, ELCO Management Co., LLC (“ELCO”) entered into a joint venture with Mendon Capital Advisors Corp (“Mendon”), a registered investment adviser whose principal, Anton Schutz and team focus their efforts on the Financial Services sector. Mendon will primarily provide ELCO with their recommendations of selected financial institutions, which, in their opinion, are positioned to principally benefit from mergers and acquisitions, IPOs and secondaries. ELCO is offering separately managed accounts for investors seeking investment opportunities in this niche space. We believe that over the next three to five years, with the proper selections, substantial capital appreciation is possible. ELCO will also provide positive demographic intelligence on various geographic locations which we believe will serve as a catalyst to positive economic activity. Mendon has focused on the financial services industry since 1996. Mr. Schutz is quoted often in the Wall Street Journal and Barron’s. He also appears frequently as a guest on CNBC, Fox and Bloomberg.

Mendon Capital will focus primarily on regional and larger community banks rather than the major money centers. In the United States there are roughly 7000 banks many of which can be considered either acquirers of other bank, or sellers, or both. We believe this is a unique opportunity in both, the timing of new positive regulations and the strengthening economy. Noteworthy, is that Mendon is one of the most experienced and knowledgeable money managers to be able to capitalize on this significant industry development that is emerging. The emphasis is on institutions that have strong and or improving balance sheets with access to the capital markets, seasoned managements, acquisition know-how and minimal credit quality issues. From time to time, Mendon will also select other banks that offer capital gains as a result of mispricing in secondary offerings.

ELCO, acting as the Investment Advisor, will provide total transparency and 30-day liquidity to these separately managed accounts. Pershing, LLC acts as custodian.

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

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

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