

July 25, 2019

**Financial Services Separately Managed Account Program (FS SMAP)
June 2019 Update**

The Financial Services Separately Managed Account Program continued to perform positively for the quarter ended June 30, 2019.

Buybacks and M&As appear to be gaining momentum as lower security prices have triggered a rash of stock buybacks reflecting good cash flows and ‘bargains’ according to managements. Recent purchases in our portfolio have been focused on Texas, an area of population and economic growth. Noteworthy, Texas is characterized by the same fundamentals we saw in the South Central part of the United States, a region of much too many small banks and the need for consolidation. See below for an example of a recent purchase.

Veritex Holdings, Inc. (VBTX) - A position we would like to highlight this quarter is Veritex Holdings, Inc. This Dallas, TX Texas-based bank is the result of a merger of equals with Houston-based Green Bancorp, Inc., creating an \$8 billion asset bank with offices in Dallas and Houston. We think highly of management, noting that it’s CFO, prior to joining, was CFO at Green Bancorp and Yadkin Financial Corporation, both of which were sold.

Shares trade at ~10x 2020 estimates (relative to its forward ROTCE of 16-17% and 34% YoY earnings growth). We like the company’s strong TX demographics, franchise, organic growth profile, management team and valuation. We believe the company has optionality in its future, which could include selling before \$10 billion in assets is reached.

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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