

April 18, 2018

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

The Financial Services Separately Managed Account Program continued to perform positively for the quarter ended March 31, 2018.

The highlight for the quarter was the passage of the 2017 Tax and Jobs Act. In addition, legislature to relax some Dodd-Frank rules that would be beneficial to small banks, continues to move forward having passed the Senate and now in the House of Representatives. The likelihood of further interest rate hikes for this year and next are also very beneficial. As stated in our December letter, we are in a new era for the small and mid-sized banks. For the above reasons, we see a potential long runway of upward earning revisions and higher return on capital which we believe will provide significant upside for well-positioned banks over the next 18-24 months.

This month we are highlighting CBTX, Inc. (CBTX), a southeast Texas-based bank operating under the Community Bank of Texas name in its core markets of Beaumont and Houston, TX. By going public in 2017 after ten years of expanding organically and via acquisition, it now has an attractive, liquid currency that can be used to acquire other Texas-based institutions that may be looking for a strong merger partner. What initially drew us to this investment was its quality deposit base, asset-sensitive balance sheet, clean credit quality, strong management, insider ownership and geography. The bank has yet to announce a merger transaction since going public, but continues to grow organically and could itself be viewed as a target by a potential acquirer seeking scale in the Houston MSA.

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

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

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