

October 12, 2017

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

The Financial Services Separately Managed Account Program continued to perform positively for the quarter ended September 30, 2017.

The merger and acquisition environment remained healthy in the quarter. Through the first nine months of 2017, there were 183 transactions announced with an aggregate value of \$22.18bn and a median price-to-tangible book value of 162.17%. This compares to the same time period in 2016 where there were 178 transactions announced with an aggregate value of \$20.98bn and a median price-to-tangible book value of 127.9%.

Most recently we saw the likes of Toyota, Volvo and Mercedes continuing their expansion in the South Atlantic region. A region where we historically have forecast to have above average economic activity and secular growth.

Tailwinds on this space, in addition to the M&A consolidation and economic expansion, is the possibility of higher interest rates by year-end, deregulation of the smaller banks and the likelihood of a lower tax rate. It has been reported that the banks would enjoy earnings upside of 5-8% for each 5% reduction in the corporate tax rate.

This quarter we are highlighting First Bancorp (FBNC), another North Carolina-based bank. What makes this bank interesting is with the recent merger activity in North Carolina, FBNC has become the largest community bank headquartered in the state. It has historically been a rural franchise, but has over time entered into attractive metro areas organically and via acquisition. This allows the bank to fund its balance sheet with sticky, low-cost deposits and lend in North Carolina's higher growth markets. We think the above factors result in a low risk, high reward outcome and a bank that could be extremely attractive to others, both in and out of the market, over time.

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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