

March 24, 2014

Financial Services Separately Managed Account Program (SMAP) Update

We started the separately managed account bank program over four years ago. The program primarily seeks to capitalize on the anticipated consolidation in community banks and thrifts with some focus too on banks that could benefit from unconventional drilling, and the associated infrastructure build, particularly shale, due to a rise in economic activity in these regions. We believe we are in the early stages of the two game changers for this sector.

The SMAP continued to perform positively in 2014. Bank deal activity was somewhat subdued in February after a strong fourth quarter into January. The market has rewarded acquirers, applauding M&A as a favorable strategic path to overcome the current headwinds for organic earnings growth. The SMAP's core investments should either benefit by creating franchise value through acquisitions (with the intent of potentially selling longer term) or are attractive candidates for the buyers. Yadkin Financial Corporation and 1st United Bancorp, to name a couple, were among the top performers in February and represent this thesis. Yadkin, as previously highlighted, has agreed to merge with VantageSouth Bancorp creating a significant presence in the Carolina's, and 1st United Bancorp has been a serial acquirer.

In line with our theme of a manufacturing renaissance brought about by low cost energy, BMW recently announced a major expansion of its Spartanburg, N.C. assembly plant. It has been reported that this facility might become the largest plant BMW has in the entire world. Other foreign auto makers having assembly plants on U.S. soil include Mercedes, Audi, Honda, Toyota and Nissan. The regional banks that are in our portfolio and located close to the BMW facilities that might benefit include ASB Bancorp, BNC Bancorp, Hometrust Bancshares, Palmetto Bancshares and Southcoast Financial.

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.