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.

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