

RMB Mendon Financial Funds

Commentary: January 2019

Following a broad selloff in December, we witnessed a much narrower snapback during the month. Looking at the Nasdaq Bank Index (CBNK), roughly half of its return was generated by 5% of its underlying companies, and most financial ETFs had material reductions in share counts versus higher share prices. In late January, while we attended and spoke at *Bank Director* magazine's "Acquire or Be Acquired" conference, a transaction was announced between TCF Financial Corp. (TCF) and Chemical Financial Corp. (CHFC), creating a \$45 billion institution in IL, MI, and MN. What makes this transaction notable is that it was a true merger of equals (MOE) without a premium to market. Both management teams are staying on and therefore foregoing the usual change-in-control provisions of their employment contracts that would entitle them to three times their most recent year's income. Cost savings are projected to be 11% of the combined entity's expense base, proving that scale is, in fact, of value. On the day of the announcement, TCF was up +5.28% and CHFC was up +5.37%. We thought at the time that this type of transaction would be a precursor of things to come; little did we know how quickly this would come true and at what size.

As we write this letter, BB&T Corp. (BBT) and SunTrust Banks Inc. (STI) announced a merger of equals, representing the third-largest bank deal in U.S. history and creating what will now be the sixth-largest bank in the country with roughly \$450 billion in assets concentrated in the country's fastest-growing region. Importantly, the institution will have the ability to simultaneously cut costs, build its technology infrastructure, and invest in growth opportunities so it can compete more effectively with the likes of Bank of America Corp. (BAC), JPMorgan Chase, Inc. (JPM), and Wells Fargo & Co. (WFC). With over 740 branches within two miles of each other, this deal has always looked attractive on paper, but we were pleasantly surprised by the announcement and structure.

The ramifications of this transaction are material for our portfolio, which is geographically concentrated in the Southeast and Southwest. When we look back to the large mergers of the recent past with sizable market overlaps (NationsBank/BAC, BankOne/FirstChicago, Wachovia/First Union, Wachovia/SouthTrust, AmSouth/Regions, etc.), we find that each deal created massive organic growth opportunities for community banks that gained employees and customers from the market dislocation. KBW analyst Brady Gailey wrote the following after the announcement:

As with any merger, there will be an opportunity for STI and BBT competitors to pick off talent and customers. While almost all of our SE/SW coverage will be advantaged to some extent by the dislocation, we believe the biggest winners throughout the Southeast to be SNV, FHN, PNFP, CSFL, ABCB, CADE, SSB, UCBI, RNST, ACBI, TOWN, and UBSH. Names specifically in Atlanta that stand out as winners include ABCB/LION, CADE/STBZ, CSFL/NCOM, UCBI, SNV, RNST (who recently bought Brand Bank) and ACBI (which is the only publicly traded bank headquartered in Atlanta). Florida's winners include BKU, CSFL, ABCB, and IBKC. Texas names that could benefit nicely include TCBI, CFR, LTXB, IBTX, and VBTX. Banks in the Carolinas that could benefit include PNFP, SSB, CARO, UCBI, and FBNC. Lastly, we highlight UBSH, TOWN, SASR, EGBN, and UBSI in the MidAtlantic/DC area.*

A deal like this and the subsequent positive reaction opens the door for similar deals going forward, puts more pressure on management and boards, gives cover to the regulators, and—potentially more importantly—begins to create more acquirers for the midsize banks in the \$10-\$50 billion asset range and will create additional transactions for banks under \$10 billion to enter that range.

As always, we welcome your feedback, comments, and questions.

*ABCB: Ameris Bancorp; ACBI: Atlantic Capital Bancshares Inc.; BKU: BankUnited; CADE: Cadence Bancorp; CARO: Carolina Financial Corp.; CFR: Cullen/Frost Bankers Inc.; CSFL: Centerstate Bank Corp.; EGBN: Eagle Bancorp Inc.; FBNC: First Bancorp; FHN: First Horizon National Corp.; IBKC: IBERIABANK Corp.; IBTX: Independent Bank Group Inc.; LION: Fidelity Southern Corp.; LTXB: LegacyTexas Financial Group Inc.; NCOM: National Commerce Corp.; PNFP: Pinnacle Financial Partners; RNST: Renasant Corp.; SASR: Sandy Spring Bancorp Inc.; SNV: Synovus Financial Corp.; SSB: South State Corp.; STBZ: State Bank Financial Corp.; TCBI: Texas Capital Bancshares Inc.; TOWN: TowneBank; UBSH: Union Bankshares Corp.; UBSI: United Bankshares Inc.; UCBI: United Community Banks Inc.; VBTX: Veritex Holdings Inc.

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All investing involves risk including the possible loss of principal. The RMB Mendon Financial Services Fund and the RMB Mendon Financial Long/Short Fund are sector funds. These types of funds may be susceptible to factors affecting their industries, and the funds' net asset values may fluctuate more than a fund that invests in a wider range of industries. Because these funds concentrate their investments in one sector of the economy (financial services) and invest in derivative securities (currently RMB Mendon Financial Long/Short Fund engages in short sales of equities), investors should consider the risk that the funds may experience greater volatility than funds that invest across several sectors.

An investment cannot be made directly in an index. The index data assumes reinvestment of all income and does not bear fees, taxes or transaction costs. The investment strategy and types of securities held by the comparison index may be substantially different from the investment strategy and types of securities held by your account.

The KBW Bank Index [BKX; PHLX/KBW Bank Index] is an unmanaged index comprised of 24 geographically diverse stocks representing national money center banks and leading regional institutions. One may not invest directly in an index. The KBW Bank Index performance data quoted above are total return numbers.

The NASDAQ Bank Index includes securities of NASDAQ-listed companies classified according to the Industry Classification Benchmark (ICB) Banks. The NASDAQ Bank Index performance data quoted above are total return numbers.

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