ROSENTHAL INCOME STRATEGIES FUND LP ("FUND 3")

1st Quarter 2018 "*Bank Performance*" Newsletter

- **Key Operating Takeaways from Q1:**
  - **YOY Adjusted EPS* up 12%!**
  - **Net Interest Margin Slips Modestly**
  - **Stellar Loan Quality Continues**
  - **Capital Remains Very Strong at our Banks**

* See detailed explanation in General Commentary on Q1. This is pre-tax core earnings and makes quarterly comparisons "apples-to-apples".

General Commentary on Q1: I apologize for the following lengthy preamble. But, it's necessary. As highlighted in the Q4 Bank Performance Newsletter, we've had to modify how to best and most clearly present comparative quarterly earnings data. Our goal is to put forth the most precise and accurate assessment of how our banks have done. We are again presenting earnings data on an "adjusted basis". Why? Well, it tells the most complete and correct story. In my 2017 Annual Letter to Investors, I highlighted that most banks revalued the benefit of their deferred tax assets ("DTA's") to lower levels precipitated by the lower corporate tax rates now in effect. This one-time, non-cash hit to the income statements of banks in Q4 '17, will be more than offset over time by the absolute reduction in corporate taxes due in the future. The revaluation of DTA's affects banks more than other industries because of the nature of the banking business and how timing differences between the "provision for loan loss expense" and actual "loan charge-offs" are treated on a GAAP (generally accepted accounting principles) vs. tax basis. So, we've "normalized" earnings using a standard industry approach which adds net interest income and non-interest income; subtracts non-interest expenses and then taxes the resulting net revenue with an implied 35% tax rate. This approach neutralizes the one-time non-recurring valuation adjustments to the DTA's taken by banks last quarter as well as the lower tax rates in effect during Q1 '18. We've done this across the board and for all comparable periods – thereby making comparisons meaningful and relevant.

With that lengthy explanation, what you should know is that **"core" pre-tax Q1 income at our banks increased an impressive 12% YOY!** This is very good and we are pleased. Happily, it is a key reason why our portfolio has risen in value since the end of Q1. We only send account valuations to you quarterly. But Fund 3 has enjoyed a nice pop since your Q1 statement – **rising roughly 4%**. Performance drives stock price. It has again this quarter. Assuming margins expand as rates rise, we expect an even greater increase in stock prices in the future.

The cause of the very nice increase in core earnings this period was multifaceted. Net Interest Income remains strong as loan volumes have grown nicely, which have offset the small decline in net interest margins; expenses are in check, and loan losses remain low. Overall, our banks are performing well. I'm satisfied.

I'd like to share another critical piece of data regarding the performance of our banks. A very important tool I use to monitor our banks is a proprietary Portfolio Scoring System we developed at the outset of this venture. This tool provides a numerical score based on a wide variety of quantitative metrics which bank analysts typically use to monitor results. The "calibration" of how we award points in our scoring system remains constant. So we can see trends emerge over time. This is quite important to our macro-management of the portfolios. Bottom line: using the weighted average ranking of our portfolio as a whole, the cumulative score has improved at our banks from 58.8 at 3/31/17 to 60.4 at 12/31/17. The improving strength of our banks since we began is solid and we are gratified by this outcome.

As you study the chart on the following page, you'll note that the weighted average size of the banks in our portfolio is $1.2 billion. The Beta of our portfolio is 0.23% compared to the S&P 500 and 0.19% compared to the SNL Bank Index. This means that in the event of a downturn in the market for bank stocks, it is highly unlikely that the decrease in Fund 3 would be as much as the SNL Bank Index taken as a whole. This "significant downside protection" is a hallmark of Fund 3 and something we are purposefully trying to achieve on your behalf.

We hope this information is helpful to you. As always, if you have any questions or comments, I welcome your call or email to me at 574-243-6501 or john@rosenthalpartners.net

With warmest personal regards,

John

Legend: Our color coded legend below gives an overview of GREAT, GOOD and BELOW PAR – but oftentimes does not tell the whole story. We do NOT adjust earnings for one-time events such as acquisition costs. So, a "red" in one quarter may end up being a bit misleading. Furthermore, given the lines of business for certain of our banks, there is some seasonality to income; which makes quarterly comparisons difficult. Green is outstanding and represents banks which have posted EPS increases of more than 5%, whose Net Interest Margin is up and whose Non-Performing loans are down. Yellow is good and represents banks which have posted EPS gains within a range of up or down by 4.9%. Red represents banks which have posted EPS declines of greater than 5%, had a decrease in their Net Interest Margin or an increase in Non-Performing Loans.

*Past performance may not be indicative of future results. Therefore, no current or prospective client should assume that the future performance of any specific investment, investment strategy (including the investments and/or investment strategies recommended by the advisor), will be profitable or equal to past performance levels.

Fund 3 Q1 2018 Recap

Fund 3 – March 31, 2018

Ticker	Quarterly Record Pre-Prov. EPS?	Total Assets ($bils)	Pre-Provision EPS (1)			Tangible CE / Tangible		Net Interest Margin		NPAs + Loans 90+ Days PD / Assets		Reserves / Total Loans		Beta vs. Index	
				% Change from										S&P 500	SNL Bank
			1Q '18	4Q '17	1Q '17	1Q '18	4Q '17	1Q '18	4Q '17	1Q '18	4Q '17	1Q '18	4Q '17		
A		$1.6	$0.58	-2%	48%	8.4%	8.4%	3.72%	3.32%	0.69%	0.77%	1.08%	1.12%	0.39	0.32
B		$1.4	$0.35	-15%	-2%	11.5%	11.9%	3.19%	3.48%	0.34%	0.38%	1.44%	1.45%	0.80	0.56
C		$0.8	$0.49	1%	4%	10.2%	10.2%	3.25%	3.37%	0.41%	0.40%	1.06%	1.04%	0.05	0.01
D		$0.6	NA	NA	NA	11.4%	11.4%	4.71%	4.77%	NA	1.20%	0.98%	0.97%	0.10	0.06
E		$3.0	NA	NA	NA	NA	11.1%	NA	3.35%	NA	0.74%	NA	0.88%	0.06	0.02
F		$0.7	$0.71	5%	29%	9.5%	9.3%	3.90%	3.88%	0.66%	0.68%	1.06%	1.08%	0.03	0.03
G		$2.0	$1.24	8%	22%	7.7%	7.6%	3.23%	3.29%	NA	0.07%	1.14%	1.13%	0.13	0.07
H		$0.6	$0.39	2%	-4%	10.1%	7.5%	4.11%	3.63%	0.61%	0.01%	1.10%	1.06%	0.01	0.01
I		NA	NA	NA	NA	NA	11.3%	NA	4.10%	NA	0.86%	NA	1.12%	0.05	0.05
J		$0.8	$0.60	15%	40%	10.7%	10.9%	3.97%	4.03%	1.20%	1.41%	0.78%	0.78%	0.04	0.04
K	Yes	$0.9	$0.58	61%	12%	9.7%	10.1%	3.63%	3.68%	0.79%	0.73%	1.46%	1.44%	0.07	-0.03
L		$3.6	NA	NA	NA	13.5%	13.6%	3.61%	3.58%	NA	0.87%	NA	0.97%	0.10	0.05
M		$1.0	$0.79	-3%	14%	8.3%	8.3%	3.50%	3.70%	0.32%	0.36%	1.21%	1.19%	0.03	0.01
N		$1.3	$0.26	-14%	-8%	9.2%	9.2%	3.54%	3.77%	1.03%	1.04%	0.41%	0.40%	0.46	0.45
O		$1.1	$0.66	-8%	23%	17.0%	17.1%	7.89%	7.96%	NA	0.74%	1.65%	1.60%	0.86	0.52
P		$1.1	$0.66	-26%	-5%	9.4%	9.4%	3.77%	3.95%	1.63%	1.23%	0.81%	0.78%	0.04	0.07
Q		$1.2	$0.72	7%	8%	8.2%	8.6%	3.17%	3.11%	0.71%	0.80%	1.07%	1.07%	0.10	0.07
R		$0.6	$0.27	75%	66%	9.7%	9.2%	3.75%	3.75%	0.74%	0.71%	1.21%	1.18%	0.04	0.08
S		$2.1	$0.45	19%	-5%	11.3%	11.7%	3.13%	3.11%	0.18%	0.28%	0.17%	0.17%	0.43	0.66
T		$0.5	$0.17	-14%	8%	9.1%	9.6%	3.86%	3.87%	0.36%	0.42%	0.57%	0.58%	-0.12	-0.09
Wtg. Avg.		**$1.2**		**2%**	**12%**	**9.8%**	**10.3%**	**3.74%**	**3.98%**	**0.53%**	**0.66%**	**0.95%**	**1.01%**	**0.23**	**0.19**