JOHN W. ROSENTHAL CAPITAL MANAGEMENT, INC.

2019 Annual Letter to Investors

Headlines:

- **2019 Was an Excellent Year for Our Funds – Capped off by Terrific Q4 Results! (See Tables Below)**
- **The Yield Curve Steepened During Q4. The Spread between the 10 yr. UST vs. the 2 yr. UST has Increased from 0.17% a year ago, to 0.32% as of Dec. 31, 2019. The Shape of the Yield Curve Continues to Influence Bank Stocks**
- **Economy Remains Solid and Trade Tensions Ease**
- **EPS Growth at our Community Banks Remains Stellar**

Summary Data Tables (Results): The first table below presents our performance this quarter – by month and cumulatively. In some months we outperformed our benchmarks or broader market indices; and in others we did not. This is normal and variances will always occur. The second table presents our year-to-date returns – by quarter and cumulatively. The third table presents our 2-year return for the period beginning January 1, 2018 and ending December 31, 2019. **Please see the Appendices for more detailed information regarding our Q4 '19 and historical results.**

Q4 2019 Results

4th Quarter '19	Fund 1[1]	Fund 2[1]	Fund 3[1]	Russell 2000[2]	BANK[2]
October	4.12%	3.06%	0.78%	2.57%	2.70%
November	2.38%	3.04%	0.85%	3.97%	3.11%
December	2.91%	2.72%	2.65%	2.71%	3.36%
Cumulative Q4	9.69%	9.08%	4.33%	9.52%	9.45%

1. Average monthly net rate of return after fees/expenses
2. Russell 2000 is a small-cap stock market index and "BANK" is the Nasdaq Small Cap Bank Index

Full Year 2019 Results

2019	Fund 1[3]	Fund 2[3]	Fund 3[3]	Russell 2000	BANK
Q 1	4.59%	3.11%	2.68%	14.18%	11.15%
Q 2	3.37%	7.49%	2.31%	1.74%	2.59%
Q 3	-1.14%	1.49%	0.04%	-2.76%	1.19%
Q 4	9.69%	9.08%	4.33%	9.52%	9.45%
Cumulative YTD	17.42%	22.70%	9.65%	23.72%	21.23%

3. Average quarterly net rate of return after fees/expenses

Two Year Cumulative Results

	Fund 1	Fund 2	Fund 3	Russell 2000	BANK
Cumulative 2 Year[4]	-0.20%	0.40%	3.90%	8.66%	-0.47%

4. Average 2-year net rate of return after fees/expenses between January 1, 2018 and December 31, 2019

What a Difference a Year Makes: Our Funds delivered a strong rebound in 2019 recuperating from broader market deterioration in 2018 – especially Q4 '18. This year too, had its various ups and downs – but the profound lessons reinforced by this year's recovery of stock prices has been and will always be: *stay focused on individual company performance for the long run!* Our portfolio holdings consist of superior performing community banks and their stock prices will always find their proper equilibrium over time. Our companies delivered again this year and their stock prices reflected this.

Now What? As noted in the headline, the yield curve has steepened and the spread between the 10 and 2 year UST is positive – hovering around +20 to 30 basis points. Loan growth remains steady, mortgage activity and all the related fees generated by banks from extending home loans remains strong. Additionally, banks aggressively lowered deposit rates as macro rates came in, which should be a good thing for the all-important net interest margin at our banks. But, as usual, investors can still find causes for worry. International tensions have escalated recently, GDP growth is positive but not robust, and of course, it's an election year.

So, what should investors do? You've read my letters often enough that you already know my answer: stay the course! These United States of ours have been bestowed with so many blessings it's sometimes hard to fathom. Innovation abounds! We are the technology leader of the world – and we must defend this position vigorously! We have natural resources/energy in abundance. Fixing the immigration challenge could unleash untold economic growth. Here's hoping Washington will tackle this issue once and for all and come up with a humanitarian and responsible solution! Undoubtedly, there will be volatility! That's simply part of the investing business. But, as we visit with the management teams of our banks, we remain impressed and comfortable that they are attuned to their challenges and have excellent strategies, tactics and most importantly good PEOPLE in place to continue producing growth and profits.

Commentary on Fund-Specific Performance and RISK: *A fundamental tenet of our firm has always been to produce solid returns while taking below-average risk.* For years now, we have shown, (in graphic form) that our banks have a lower risk profile as measured by standard deviation and/or beta. Our banks are simply more stable and less risky than comparable indices. This has not and will not change. But given the maturity of our Funds, we no longer deem it necessary to present the standard deviation data since inception on a quarterly basis. Therefore, we trust that you will *trust us* and our absolute representation to you that we are undertaking less risk in our portfolios compared to relevant bank indices and will appreciate that we've decided to eliminate the graphs highlighting the lower risk profile of our holdings. (Less reading for you – phew!)

Each of our Funds are unique and different. The following is a short recap of the approach/investment objectives of each:

- **Fund 1:** Very high-quality Community Banks generally between $5 - $10 billion in assets located in economically stable environments (with a focus on college towns); superior asset quality metrics; some modest dividends; and a history of solid profitability. Our target CAGR for Fund 1 is roughly 10-11%. Since inception, the CAGR for banks in this portfolio has been 9.7%.
- **Fund 2:** High quality Community Banks generally between $2 - $7 billion in assets located in economically stable environments (with a focus on college towns) with very strong asset quality metrics. This Fund is less focused on dividends and tends to invest in banks that are growing faster than the industry as a whole. The risk profile is slightly higher than Fund 1; but still low compared to bank indices. Companies in Fund 2 have produced a good history of profitability. Our target CAGR for Fund 2 is 11-13%. Since inception, the CAGR for bank in this portfolio has been 14.1%.
- **Fund 3:** High quality Community Banks generally between $0.5 - $2 billion in assets with strong asset quality metrics and above-average dividends. The focus of this Fund is stability! The beta of Fund 3 is the lowest of any of our Funds. The amplitude of the swings in stock prices is lower than Fund 1 and/or 2. As such, in 2018, while the bank stock market declined by 17.9% Fund 3 was down a much more modest 5.2%. However, this year, while bank indices increased 21.2% Fund 3 increased 9.7%. Our target CAGR for banks in this portfolio is 7-9%. Since inception, the CAGR for banks in this portfolio has been 4.0%.

Conclusions: This time last year, you may have picked up on our befuddled demeanor as we touted the solid, consistent EPS growth of our portfolio holdings in the face of indiscriminate selling due to various macro-factors seizing the market. As we now reflect on the past 15 months of market activity, much of the sage old investment advice comes to mind and rings true: "*Price is what you pay. Value is what you get.*" "*The stock market is designed to transfer money from the active to the patient.*" "*Buy low and sell high.*" And of course, as the great Warren Buffet once said, "*Remember the stock market is manic depressive.*"

In concluding last year's annual letter, we stated with confidence, our prediction that the outperformance of our holdings would soon be rewarded as we stayed the course, because as you know – our philosophy and approach is one of *value* investing. And as the year played out, rewarded we were. We are not "market-timers" but as we review our portfolios today, we still see favorable valuations and upside potential as the market continues to catch up to reported bank performance.

Miscellaneous Details Regarding the Logistics of your Investment

1) **Your Annual Year-End Statement(s) have been mailed to you and you should receive them shortly.**
2) **Your K-1(s) will be mailed to you around March 10th.**
3) **Adding to Your Investment.** Included at the end of this letter is a simple form for you to complete in order to begin the process. Or, you may just pick up the phone and call me at 574-243-6501 and we'll take it from there.

4) **<u>Audited Financial Statements.</u>** The annual audited statements for our Funds will be emailed to you in late February. Also attached to that message will be a copy of our Privacy Policy and a link to our Form ADV.
5) **<u>Annual Investor Meeting:</u>** We will hold our annual investor meeting when the snowbirds return in June. We'll email your invitation with the specifics of this meeting in April.

We encourage you to look at the Appendices which apply to you. As you review your statements, we warmly invite you to reach out with questions you have about our investment strategy and market outlook. You may reach us by replying to this email or by calling the office at 574-243-6501, John's cell at 574-276-1128, or Adam's cell at 440-667-5974.

With warmest personal regards,

John Adam

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. Additionally, Form ADV Part II for John W. Rosenthal Capital Management, Inc., filed with the Secretary of State of Indiana, is available on line at www.rosenthalpartners.net - or if you would like to receive a paper copy of our Form ADV Part II and/or information regarding the firm's proxy voting policy you may contact us at the number provided above and we will mail them to you immediately.

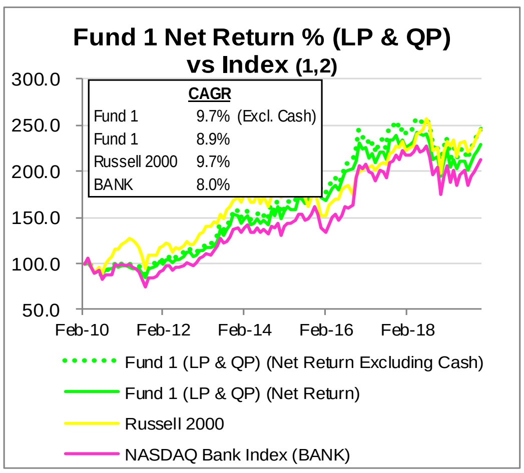
Appendix A – Fund 1 Performance Data

Prologue: 2019 was a very good year! Supplementing the info in our letter, we are pleased to share more details below. In a continuing attempt to make this letter as useful, relevant and as succinct as possible, we've made some enhancements to our format and presentation. We are retaining many of the tables and charts you've come to know. But, we are eliminating some data and adding certain other information in order to provide the most important statistics in a more concise and crisp manner. These changes are in direct response to constructive feedback we've received from many of you. We can't thank you enough for your interest and suggestions. You'll note we've modified our benchmarks to make them as relevant as possible. We continue to show our performance against ^BANK – the Nasdaq Small Cap Bank Index – as we have since inception. We've changed our broader market benchmark to the Russell 2000. Since our community banks fall into the category of small to micro-cap stocks, the Russell 2000 is far more relevant than the Dow, S&P or Nasdaq Composite indices – as they are dominated by large cap companies.

As our Funds mature, and each individual investor adds to or redeems portions of their investment, (i.e. each investor's results are more *customized and dependent* on the timing of when an investor joined/added or partially redeemed from the Fund) "aggregate" data may be less relevant. Nonetheless, it is still somewhat useful to see this information on a cumulative, Fund-wide basis. Said another way, the data presented below isn't necessarily identical to what is shown on your statement.

Finally, as a reminder, our goal as stewards of your assets is to preserve and grow them in a prudent manner. We are happy that this conservative approach has historically produced results that have beaten our benchmarks. But whether we beat the benchmark isn't as important to us as whether we stay *true* to our stated philosophy of good risk-adjusted returns over time. Our Funds are not so much "wealth creation" mediums (although we have increased your net worth since inception) as they are "wealth preservation" channels.

Chart 1:



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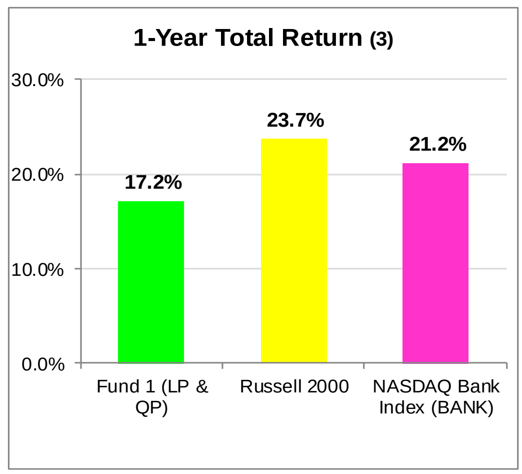

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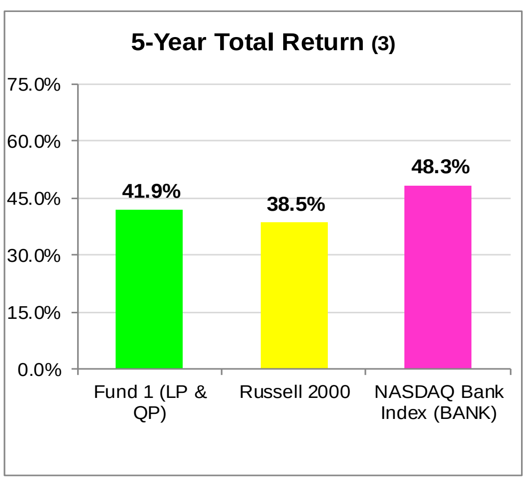

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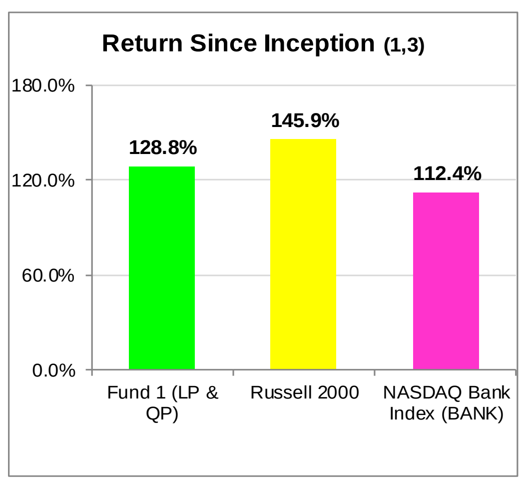

(1) For comparison purposes, inception date for Fund 1 uses March 2010 monthly statement from LICCAR.
CAGR = Compound Annual Growth Rate
(2) Net return (excluding cash) for Fund 1 = Fund 1 Total Return divided by prior month end market value of bank/security investments.
(3) Total return for Fund 1 (LP & QP) based on monthly statements compiled by LICCAR net of all management fees and expenses; Russell 2000 and NASDAQ Bank Index based on data provided by S&P Global Market Intelligence. (Based on ending index value, not total return).

Appendix B – Fund 2 Performance Data

Prologue: 2019 was a very good year! Supplementing the info in our letter, we are pleased to share more details below. In a continuing attempt to make this letter as useful, relevant and as succinct as possible, we've made some enhancements to our format and presentation. We are retaining many of the tables and charts you've come to know. But, we are eliminating some data and adding certain other information in order to provide the most important statistics in a more concise and crisp manner. These changes are in direct response to constructive feedback we've received from many of you. We can't thank you enough for your interest and suggestions. You'll note we've modified our benchmarks to make them as relevant as possible. We continue to show our performance against ^BANK – the Nasdaq Small Cap Bank Index – as we have since inception. We've changed our broader market benchmark to the Russell 2000. Since our community banks fall into the category of small to micro-cap stocks, the Russell 2000 is far more relevant than the Dow, S&P or Nasdaq Composite indices – as they are dominated by large cap companies.

As our Funds mature, and each individual investor adds to or redeems portions of their investment, (i.e. each investor's results are more *customized and dependent* on the timing of when an investor joined/added or partially redeemed from the Fund) "aggregate" data may be less relevant. Nonetheless, it is still somewhat useful to see this information on a cumulative, Fund-wide basis. Said another way, the data presented below isn't necessarily identical to what is shown on your statement.

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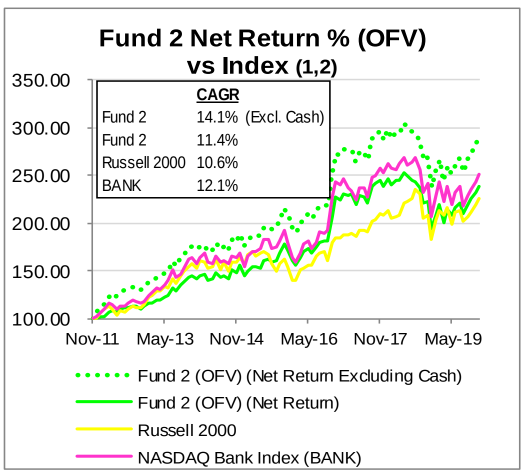

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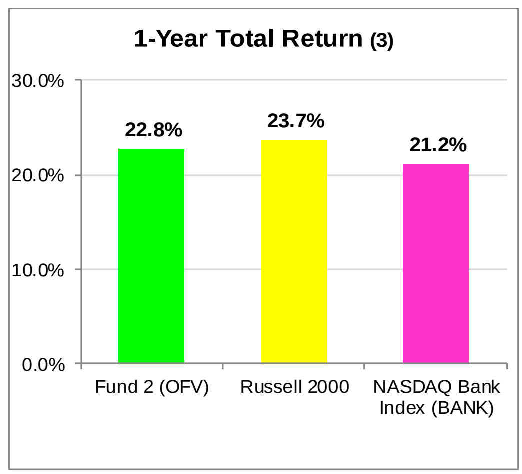

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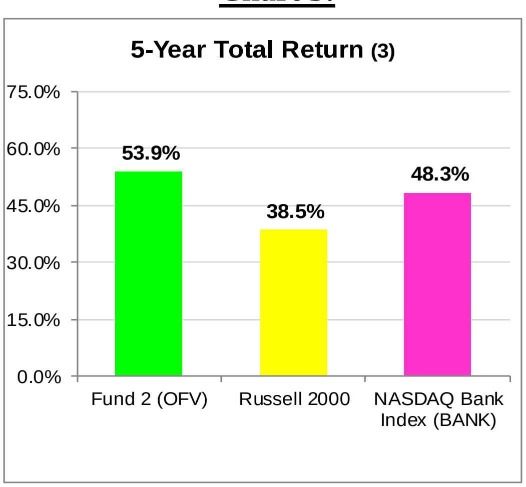

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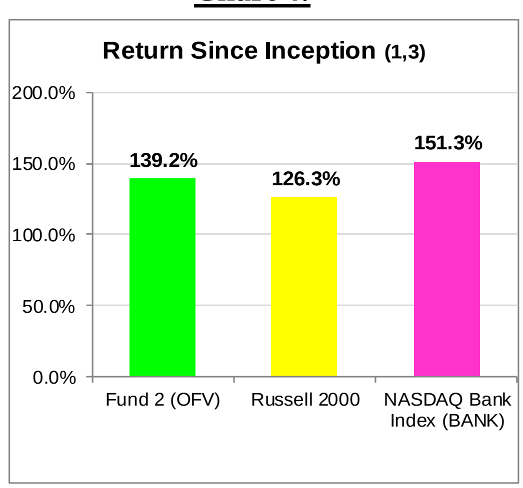

(1) For comparison purposes, inception date for Fund 2 uses November 2011 monthly statement from LICCAR.
CAGR = Compound Annual Growth Rate.
(2) Net return (excluding cash) for Fund 2 = Fund 2 Total Return divided by prior month end market value of bank/security investments.
(3) Total return for Fund 2 (OFV) based on monthly statements compiled by LICCAR net of all management fees and expenses; Russell 2000 and NASDAQ Bank Index based on data provided by S&P Global Market Intelligence. (Based on ending index value, not total return).

Appendix C – Fund 3 Performance Data

Prologue: 2019 was a very good year! Supplementing the info in our letter, we are pleased to share more details below. In a continuing attempt to make this letter as useful, relevant and as succinct as possible, we've made some enhancements to our format and presentation. We are retaining many of the tables and charts you've come to know. But, we are eliminating some data and adding certain other information in order to provide the most important statistics in a more concise and crisp manner. These changes are in direct response to constructive feedback we've received from many of you. We can't thank you enough for your interest and suggestions. You'll note we've modified our benchmarks to make them as relevant as possible. We continue to show our performance against ^BANK – the Nasdaq Small Cap Bank Index – as we have since inception. We've changed our broader market benchmark to the Russell 2000. Since our community banks fall into the category of small to micro-cap stocks, the Russell 2000 is far more relevant than the Dow, S&P or Nasdaq Composite indices – as they are dominated by large cap companies.

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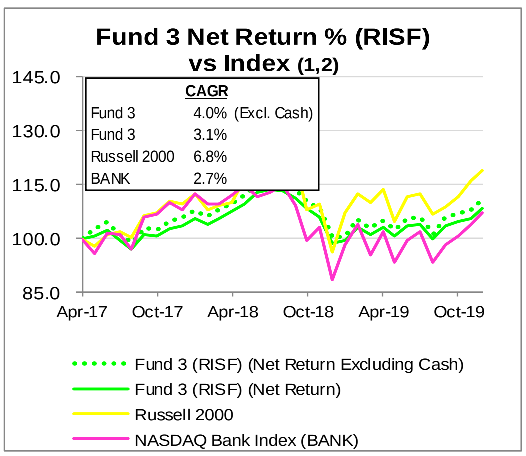

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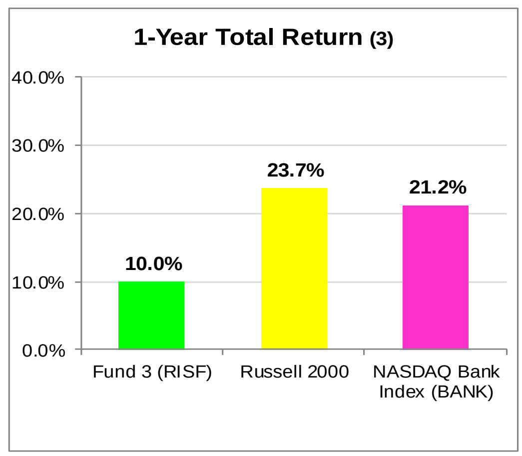

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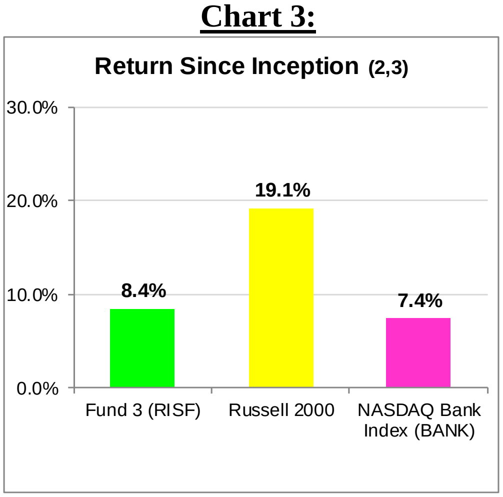

(1) For comparison purposes, inception date for Fund 3 uses April 2017 monthly statement from LICCAR.
CAGR = Compound Annual Growth Rate.
(2) Net return (excluding cash) for Fund 3 = Fund 3 Total Return divided by prior month end market value of bank/security investments.
(3) Total return for Fund 3 (RISF) based on monthly statements compiled by LICCAR net of all management fees and expenses; Russell 2000 and NASDAQ Bank Index based on data provided by S&P Global Market Intelligence.
(Based on ending index value, not total return).

Additional Investment Form

I wish to *increase* my investment by:______________________________________
(Fill in any dollar amount ≥ $10,000)

Fund 1 Fund 2 Fund 3
(Circle the one(s) that you wish to increase your investment)

Name:____

Email:____

Best Phone #:____

I understand you will forward additional paperwork for me to execute which will indicate that I continue to accept ***all*** the terms and conditions of the Limited Partnership Agreement.

Please return this form using any of the following options:

Scan and email to: john@rosenthalpartners.net
or

Fax to: 574-243-4377
or

Mail to:
John W. Rosenthal Capital Management, Inc.
4220 Edison Lakes Parkway
Ste. 310
Mishawaka, Indiana 46545

THERE IS NO NEED TO SEND CASH NOW

We will Invoice You at the Proper Time

Questions Please Call 574-243-6501