ROSENTHAL | HENRY
CAPITAL ADVISORS

August 2023 Quick Overview Summary

Summary Results Table: The table below presents our performance for 2023 by quarter/month and YTD as of 8/31/2023; as well as the last 4 years.

Results Table

	Fund 1[1]	Fund 2[1]	^BANK[2]	KRE[2]	Russell 2000[3]
YTD[4]	-17.9%	-6.8%	-21.1%	-24.1%	7.9%
August '23	-4.5%	-2.3%	-8.0%	-8.5%	-5.2%
July '23	10.1%	12.4%	15.6%	19.3%	6.1%
2Q2023	-6.2%	-14.9%	-5.0%	-6.9%	4.8%
1Q2023	-17.2%	-12.9%	-21.9%	-25.3%	2.3%
2022	-13.0%	-11.2%	-18.4%	-17.1%	-21.6%
2021	37.7%	32.7%	39.7%	37.0%	13.7%
2020	1.9%	-6.1%	-10.6%	-9.0%	18.4%
2019	17.4%	22.7%	21.2%	27.1%	23.7%

1. Average monthly net rate of return after fees/expenses
2. BANK is the Nasdaq Small Cap Bank Index and KRE are regional bank stock ETF's
3. Russell 2000 is a small-cap stock market index; S&P 500 tracks performance of 500 large companies
4. Year to date results January 1, 2023 – August 31, 2023

In August we saw a pullback from the strong rebound in the financial sector that started in July. While the volatility is slightly higher than we originally forecast, this retrenchment is still in line with our prediction at the Annual Meeting that banks would "trade sideways" while we sort out the Feds rate decisions and keep an eye on various inflation and recession indicators.

We spent September 5th through 7th at the Raymond James U.S. Banking Conference in Chicago. During that time, we had extensive meetings with management teams from 15 different banks, and numerous conversations with other banking professionals. Here is a summary of our thoughts following that conference:

2023 Raymond James U.S. Banking Conference:

- **Certain fundamentals remain under some pressure:** Some fundamentals (net interest margin) are under varying degrees of "pressure", (from a super strong starting point) but banks are doing their best to "control what they can". That said, many of the challenges are well known and already reflected in current valuations – which remain below historical averages/medians due in part to subdued profitability expectations through next year.
- **Rate cuts:** 35% of investors anticipate a Fed rate cut in 2Q24 and 32% of management teams anticipate cuts in 3Q24. In the meantime, Fed Funds futures suggest the Fed will "pause" again at their upcoming meeting.
- **M&A conversations picking up:** Following a subdued 2022, bank M&A activity YTD in 2023 remains at historic lows reflecting rising interest rates, AOCI (Accumulated Other Comprehensive Income) impacts (primarily marks against unrealized bond declines), recession fears, credit concerns, ongoing geopolitical uncertainty, and, most recently, the impacts from recent bank failures. But we believe that a variety of market factors will begin to drive some banks "to the altar" – or, at a minimum, result in increased conversations. Additionally, with regulatory "costs" expected to move higher, scale and the need for greater efficiency will become ever more important and lead to increased consolidation over time.
- **Credit metrics/trends:** Across our meetings with management teams at the conference, most expressed confidence around credit and believe a major recession is unlikely. But given their long-standing conservativism, along with whispers of headwinds on both the consumer and commercial front, we expect provision for possible loan losses to continue to migrate modestly higher as economic projections (per Moody's baseline scenarios) have softened in recent months. While non-cash "provision" expense is likely to build the allowance for loan loss account for a while, the REAL telltale sign of credit will be in the level of *actual loan charge-offs* over time. Stay tuned.

- **DC Policy Outlook**: We were reminded that it is important to incorporate political calculations as well as economic indicators for the Feds path forward on monetary policy – in which case we may see a "higher for longer" interest rate environment.
- **Investor interest in attending the conference was up significantly with registrations 25% higher than last year:** We believe this foretells of an increased interest in the sector by generalist investors and bargain hunters and may drive up bank stock prices in the near future.

Again, we encourage you to add to your investment with us (if you are inclined to do so) and participate in what may be a meaningful increase in bank stock prices over time. Buy low…is still a proven investment technique that has borne good results over time.

As always, you may reach us by calling the office at 574-243-6502, John's cell at 574-276-1128, or Adam's cell at 440-667-5974. Or by email: john@rosenthalpartners.net or adam@rosenthalpartners.net

With warmest personal regards,

John and Adam