JOHN W. ROSENTHAL CAPITAL MANAGEMENT, INC.

PRESENTS:

"Bank Insights"

Volume 1: Issue 5: December 2019

Banks Have MANY Ways to Make Money But Only One Way to Lose It!

This letter will be short. The Holidays are very busy, and we don't want to intrude. We wish you and your family a joyous season and hope it holds all the magic you could ever wish for!

Our Funds are doing very well this year. **Through November, Fund 1 is up an average of 13.8%, Fund 2 is up 19.4% and Fund 3 is up 6.8%.** Happily, the values of our portfolios have increased even more in December and are on track to meet or exceed our yearly targeted returns. The so-called "Christmas Rally" appears to be well underway. We remain bullish about community banks *and invite you to make or add to your investment with us*. P/E's are still at historic lows, and the old adage, buy low, still works! Please contact us by reply to this email or send in the attached form if you wish to increase your investment. As it has in the past, we believe our long-term value-oriented approach will continue to serve our investors well over time.

As stated in the headline, the topic of this Newsletter is to highlight the fact that banks derive *revenue* in a multitude of ways but really only *lose money* one way – by making bad loans. The primary business of most banks is to make loans. If after extending credit the borrower becomes unable to repay the loan, the bank must incur a charge-off or write down of that loan. For this reason, the #1 hot-button for us as we make investment decisions is to evaluate the loan underwriting processes of a bank and their "track record" of loans made. Given our direct background and experience as superior underwriters of credit during the time we operated St. Joseph Capital Bank, we know the right questions to ask in order to determine if a bank has the proper controls and approach throughout its loan making process. We also maintain a low threshold for the historical performance of a bank's loan charge-off experience allowing us to say with confidence that the banks in our portfolios have excellent overall asset quality. As we've said before, loan underwriting and asset quality are the most important factors in our investment decision, and based on asset quality metrics, the banks in our portfolios are safer than most!

Now, let's look at the myriad other ways banks make money. Virtually all of you are customers of a bank. As such, you are probably well aware of the variety of ways banks make money from their customers: service charges on retail deposit accounts; overdraft charges; ATM fees, cash management products and services for businesses; trust services; investment management products and services; traveler's checks; lock boxes; insurance services; mortgage loan origination and servicing fees; interest rate swaps; merger advisory services; etc…you get the idea! Bankers are "resourceful" at coming up with ways to charge for "adding value" to client's relationships.

The largest revenue stream for most banks comes from the difference between what they charge on loans and pay on deposits. This is referred to as "net interest margin." While a great deal of focus has been put on the shape of the yield curve (i.e. a graphic representation of the cost of borrowing for different lengths of time) and the absolute level of rates, it is crucial to understand that most community banks have a minimum interest rate or "floor" regarding the price/rate at which they will extend a loan. So, community banks tend to be somewhat more insulated from the low level of rates and the shape of the yield curve than larger banks. Regardless, the shape of the yield curve has recently steepened and that is a wonderful thing for ALL banks.

At the end of the day, we like to see banks which have a larger proportion of their total revenue from non-interest bearing sources than average. Banks like this have a more dependable and predictable earnings stream which we find very attractive.

So, there you have it: banks make money in a lot of different ways and primarily lose money only one way. Our focus is on achieving higher long-term returns by investing in banks with a proven track record in loan underwriting and which have diverse and robust revenue streams from a variety of activities.

It seems to us that folks tend to do some planning and make certain investment decisions at this time of year. Therefore, again, we warmly invite you to join our partnership or add to your investment. As always, if you have any questions or comments we welcome your call or email. You may reach us at 574-243-6501 or simply reply to this email.

With warmest personal regards,

John Rosenthal
Chief Executive Officer & Chief Investment Officer

Adam Henry
General Counsel & Senior Portfolio Manager

New/Additional Investment Form

I wish to make or increase my investment by:___________________________________

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

PLEASE DO NOT SEND CASH NOW

We will Invoice You at the Proper Time

Questions Please Call 574-243-6501

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